

Azerbaijan economy in the first quarter of 2022

Economic expansion continued driven by the non-oil sector:

- Production of crude oil fell on y-o-y but inclined on m-o-m level. It declined by 3.5% y-o-y, and increased by 12.3% m-o-m, to around 2.9 mln. tonnes on a monthly basis. Meanwhile, natural gas production and manufacturing of oil products increased by 13.7% and 16.2%, respectively;
- Coming to the non-oil GDP, it increased by 10.3%, and mainly driven by manufacturing, transportation and domestic tourism;
- Non-oil manufacturing is the highest growing industry in the economy (25.6%), which is mainly driven by construction materials, food products and chemicals. In the meantime, construction sector expanded by 5.6% y-o-y. Reconstruction work in the liberated territories is expected to support the revival in the construction sector. Transportation and agriculture grew by 20.5% and 3.4%, respectively. Recent developments in relations with neighbour countries promise further development in the transportation sector. In the agricultural sector, water and land resources of the liberated territories will play an important role in driving growth.

Inflation accelerated on the basis of geopolitical tensions and consequent effects on the food prices:

- The price level increased by 1.1% in March compared to the previous month and annual inflation jumped to 12.1%;
- Prices of 90.4% of the products & services (454 out of 502) included in the consumer basket increased on a YoY basis, 2.4% decreased, and the remaining 7.2% did not change. Price change in 71% (364) of the items is less than the headline annual inflation of 12.1%;
- If decomposed into the consumer basket, food prices went up by 16.8%, non-food prices 6.6%, and services by 10.0% y-o-y. The contribution of food, non-food products, and services to the annual headline inflation made 7.3, 1.5, and 3.3 percentage points (total 12.1%), respectively;
- Higher prices in international food and commodity markets had an inflationary effect in the first quarter of 2022.

Exports experienced a strong nominal growth thanks to higher oil and gas prices:

- In the first quarter of 2022, total exports increased by 92.9%, and imports rose by 15.7%. Ultimately, trade surplus increased by 3.1 times and accounted for \$5054 mln.;
- Total exports growth accelerated thanks to the price recovery of crude oil and higher natural gas exports. In spite of the 16.5% fall in the volume (tonne) of crude oil exports, higher prices enabled 38.1% rise in oil export revenues. Meanwhile, natural gas exports increased by 4.0 times in nominal terms;
- The main contributors to the rise in imports were transportation means and spare parts, fuels and chemicals:
 - Automobile imports rose by 10.1% in real terms and 19.8% in value, including 12.1% increase in car imports;

- Imports of chemicals increased by 20.9% y-o-y, constituting more than one-fifth of the total import growth;
- Imports of food products rose by 7.7%, driven by cereals (29.4% ↑), dairies (15.2% ↑) and processed fruits & vegetables (35.0% ↑). The higher value of imports is mainly due to international food prices;
- Pharmaceutical product imports increased by 44.3%.
- During the first quarter of 2022, non-oil exports rose by 45.0% y-o-y, amounting to \$727 mln., equivalent to 24.8% of total imports.
- CBAR reserves increased by 0.9% compared to end-2021 reaching USD 7136.5 mln.;
- The strategic foreign exchange reserves, as of March 2022, increased by 0.6% compared to end-2021 and stood at USD 52.4 bn.

Lending growth is accelerating; insurance premium growth is driven by endowment:

- In the first quarter of 2022, total assets of the banking sector increased by 3.1% y-t-d making ₺39.7 bln. Deposits at financial institutions (2.0 times↑) and loans (5.2%↑) were the main drivers of the rise. In the meantime, accounts at Central Bank (39.0%↓) contracted. Amount of outstanding Central Bank notes rose by 4.0 times compared to end-2021, while Treasury securities expanded by 6.1%;
- Business loan portfolio expanded by 4.5%, including 7.8% rise in loans to individual entrepreneurs - the fastest growing segment of the portfolio. In the meantime, consumer loan growth accelerated to 6.9%. Mortgage loan portfolio expanded by 4.7% in the first quarter of 2022;
- The total NPL ratio stood at 3.8% that is 0.4 p.p. lower than 2021 year-end. Loss provisions rose to ₺60 mln;
- The deposit base experienced a rise of 5.1% in the first quarter of 2022 and made ₺30.5 bln. Demand deposits saw an increase at the rate of 7.0% and time deposits expanded by 1.1%, amounting to ₺9.4 bln. The increase is thanks to NC time deposits, while FC time deposits contracted by 1.1%. Households' deposits were the main driver of the rise in total deposits, which expanded by 12.2%. NFCs' deposits increased by 0.1%;
- The dollarization rate of the total deposit portfolio stood at 51.2% rising by 1.8 p.p. compared to end-2021. The dollarization rate for time deposits fell by 1.3 p.p., while demand deposits dollarization rate increased by 3.4 p.p. compared to end-2021. In the first quarter of 2022, foreign currency sold by CBAR stood at \$1624.4 mln., 9.8% higher YoY;
- Return on equity of the banking sector was 14.1% (2021 Mar: 12.3%), calculated as the ratio of total net profit to Mar 2022 equity. Higher profitability is driven by both interest and non-interest income, while loan loss provisions and higher non-interest expenses balanced the profitability increase. Interest income increased by 22.0% YoY, while non-interest income rose by 32.3% YoY;
- In the first quarter of 2022, total insurance premiums increased by 3.8% y-o-y;

- Gross premiums accounted for ₺129.0 mln. Life insurance premiums constituted 40.5% of the market including 38.2% share of endowment in total premiums. Endowment drove the rise in life insurance growing by 77.4%;
- Non-life insurance contracted by 15.0% mainly due to 39.6% decrease in compulsory segment;
- In the auto-insurance market voluntary segment grew by 12.6%, while premiums from the compulsory segment increased by 4.2%;
- Voluntary health insurance premiums rose by 9.4%.

Central Bank decided to maintain the refinancing rate at 7.75% at the April MPC meeting:

- The lower bound of the interest rate corridor remained stable at 6.25%, while the upper bound stood at 9.25%;
- CBAR stated that the strengthening of the nominal effective exchange rate constrains the inflationary pressure of imports;
- According to the Central Bank's base scenario, annual inflation will approach the target interval ($4\pm 2\%$) in the medium-term;
- CBAR stated that the surplus in balance of payments, current macroeconomic framework and monetary conditions support exchange rate stability;
- According to Central Bank, macroeconomic forecasts for the medium-term, changes in the risk balance and price dynamics will affect the next interest rate decision.

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