



Quarterly Economic Outlook
(January-March 2022)

Highlights:

- The economy of Azerbaijan showed a strong growth of 6.8% with both the non-hydrocarbon (10.3%) and hydrocarbon (0.6%) sectors in March 2022.
- The CPI inflation rate surged to 12.2% yoy in March 2022, driven mostly by food price inflation and large-scale disruptions in global supply chains;
- Foreign trade turnover accounted for USD 10.9 billion and non-hydrocarbon exports increased by 45.0% yoy in real terms in the first quarter of 2022;
- The state budget surplus amounted to AZN 1.4 billion or 4.6% of GDP in 2021;
- In comparison to the February of 2021 the lending portfolio increased by 20.2% by the February of 2022;
- In comparison to the beginning of 2022 the lending portfolio increased by 2.8% and reached to AZN 17.1 billion.
- On 18 March 2022, the CBA decided to increase the parameters of the interest rate corridor with the refinancing rate increasing from 7.5% to 7.75%, and the ceiling from 9.0% to 9.25%, while the floor of the interest rate corridor from 6.0% to 6.25%.
- In Q1 2022, the unemployment rate remained low at the level of 5.9%;
- Azerbaijan economy is projected to grow by 2.8% (0.5 percentage point above October forecasts) in 2022 and grow by 2.6% in 2023 according to the IMF's latest April "World Economic Outlook" report.

I. Recent Socio-Economic Developments

Azerbaijan's economy grew by 6.8% year-on-year (yoy) during the first quarter of 2022 and amounted to AZN 30.0 billion (USD 17.7 billion). The non-hydrocarbon sector growth was robust by 10.3% yoy driven by the resumption of economic activity, and the hydrocarbon sector grew by 0.6% yoy supported by high oil prices and a boost in gas exports (*Figure 1*).¹

In January-March 2022, the economic growth broadened across the non-oil sectors: the ICT sector grew by 14.7%, the trade sector by 4.0%, the transport-warehousing sector by 20.5%, the industry sector by 2.6%, the construction sector by 5.6%, and the agriculture sector by 3.4% yoy. Although, in 2020 and first half of 2021 tourism sector almost suspended due to Covid-19, now recovery period of Azerbaijan almost finished, tourism sector showed tremendous growth in the first quarter of current year and accounted 120.8 % increase in comparison to the first quarter of 2021.

Inflation continued to rise by 12.2% yoy in March 2022, driven mostly by food price inflation and large-scale disruptions in global supply chains. Food prices increased by 17.0% driven by high global food prices; services increased by 10.1% driven by the dynamics of regulated prices; prices for non-food items increased by 6.2% driven by mostly on construction materials (*Figure 2*). Numerous factors impacted CPI growth, including lingering disruptions in the global supply chain, rebounding domestic demand, rising global commodity prices, geopolitical situation in Ukraine and increasing administrative prices.

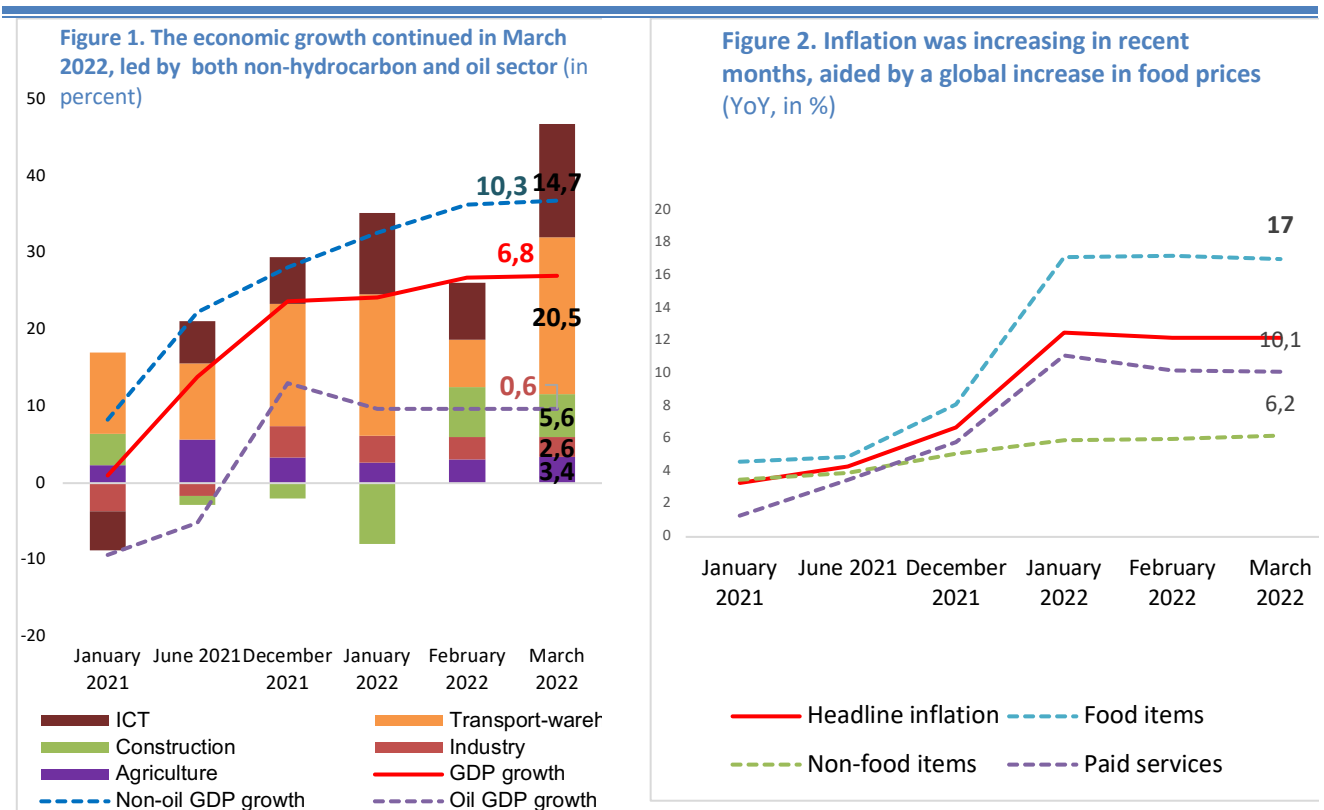
The volume of Azerbaijan's **foreign trade turnover** amounted to USD 10.9 billion by the end

¹ <https://www.stat.gov.az/news/macroeconomy.php?page=1>

of March 2022.² The value of imported goods amounted to USD 2.9 billion, increasing by 15.7% compared to the first quarter of 2021, reflecting a pickup in domestic demand and higher import prices. The value of exported goods amounted to USD 8.0 billion (increased 1.9 times compared to the first quarter of 2021), with non-hydrocarbon exports surging by 45.0% yoy (USD 225.7 million) driven by fruit and vegetables, plastics, chemical industry products and cotton.

In March 2022, daily oil production (including condensate) amounted to 696.4 thousand barrels, including 579.4 thousand barrels of crude oil and 117.0 thousand barrels of condensates³. The main importers of crude oil and condensates were Italy, Ukraine and Israel. In line with an improving global outlook as well as commodity-specific supply factors, the average price for Azeri light oil amounted to USD 117.6 per barrel in March 2022, which constitutes a 42.5% increase compared to beginning of 2022.

In Q1 2022, the unemployment rate remained low at the level of 5.9%. The **nominal average monthly wage** in February 2022 amounted to AZN 768.3 constituting an increase of 11.0% compared to the same period of 2021.



Source: State Statistic Committee

Azerbaijan economy is projected to grow by 2.8% (0.5 percentage point above October forecasts) in 2022 and grow by 2.6% in 2023 according to the IMF's latest April "World Economic Outlook" report.

² https://customs.gov.az/uploads/foreign/2022/2022_3.pdf?v=1650263092

³ <https://minenergy.gov.az/az/xeberler-arxivi/martda-olkede-gundelik-xam-neft-hasilati-5794-min-barrel-olub-5163>

World Bank forecasts GDP growth of 3.1% in 2022 and 2.7% in 2023 in its January issue of “Global Economic Prospects 2022”⁴. As stated in the report, growth is anticipated to decelerate over the forecast horizon but remain above its 2010-19 average rate, supported by an expansion in non-energy sectors, rising public investment, and stable energy sector growth in line with OPEC+ quotas and higher natural gas production. Fitch Ratings forecasts GDP growth of 2.9% and 2.3% in 2022 and 2023 respectively driven by a recovery in the non-hydrocarbon sector and supported by the COVID-19 vaccination rollout⁵.

Azerbaijan’s economy is expected to grow by 2.5% in 2022 according to the Asian Development Bank⁶.

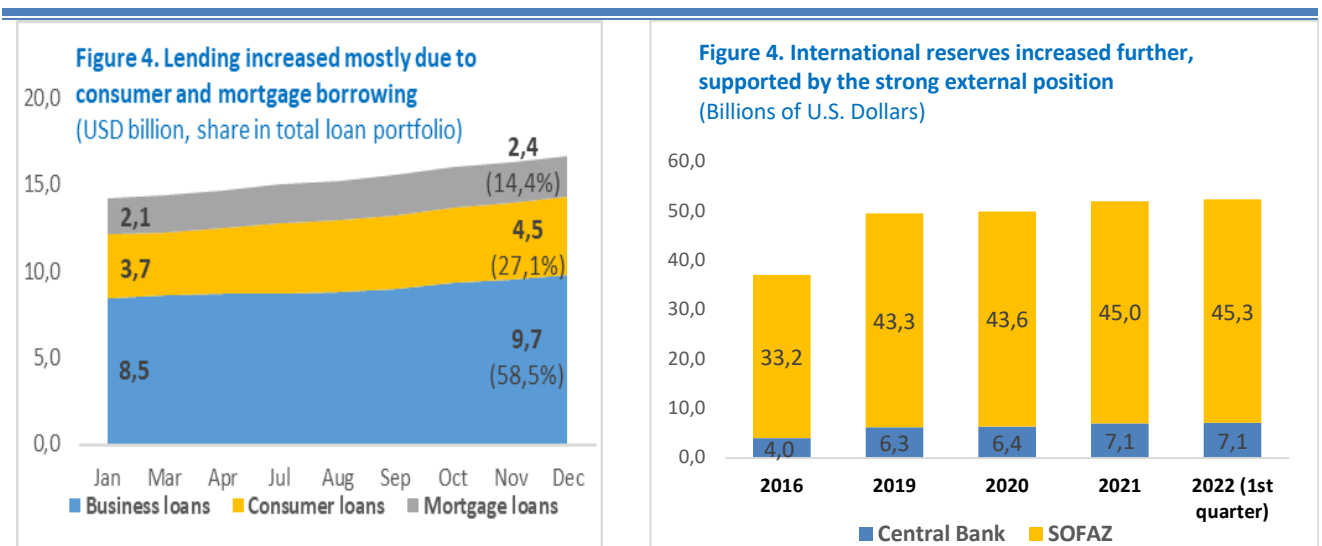
II. Monetary Policy and the Financial Sector

The lending portfolio increased by 2.8% in comparison to the beginning of 2022 and reached to AZN 17.1 billion. Business loans increased by 2.4%; consumer loans and mortgage loans increased by 3.8%, and 2.5% respectively compared to beginning of 2022.

In light of lingering inflationary pressures in the economy, as well as high inflation rates in partner trading countries, the CBA decided on 18 March 2022 to increase the parameters of the interest rate corridor – the refinancing rate increased from 7.5% to 7.75%, the ceiling from 9% to 9.25%, and the floor also increase by 0.25% accounted to 6.25%.⁷

Azerbaijan saw its balance of payments surplus reach 5.6% of GDP (USD 3.1 billion) in 2021, and this upward trend is expected to continue with relatively high oil prices in 2022. From a small deficit in 2020, the current account balance reached a surplus of 15.2% of GDP (USD 8.3 billion) in 2021⁸.

Over 3 months of 2022 strategic foreign exchange reserves of the country increased by 0.6% (296 mln) and surpassed \$52.4B. Foreign exchange reserves of the Central Bank increased by 0.9% or 61 mln and approximated \$7.1B.



Source: CBAR

⁴ <https://openknowledge.worldbank.org/bitstream/handle/10986/36519/9781464817601.pdf>

⁵ <https://www.fitchratings.com/research/sovereigns/fitch-affirms-azerbaijan-at-bb-outlook-stable-12-11-2021>

⁶ <https://www.adb.org/countries/azerbaijan/main>

⁷ https://www.cbar.az/infoblocks/corridor_min

⁸ <https://uploads.cbar.az/assets/6a45b5ea5b5a1e59aa8a126b1.pdf>

III. Fiscal Policy and Public Finance

In the first quarter of 2022, state budget revenues were executed AZN 7.0 billion which is AZN 1.3 billion or 22.2% more than the same period in 2021. During the 1st quarter of 2022, the state budget revenues for the non-oil sector accounted AZN 3.7 billion, which is AZN 1.1 billion or 39.8 percent more than the same period in 2021.

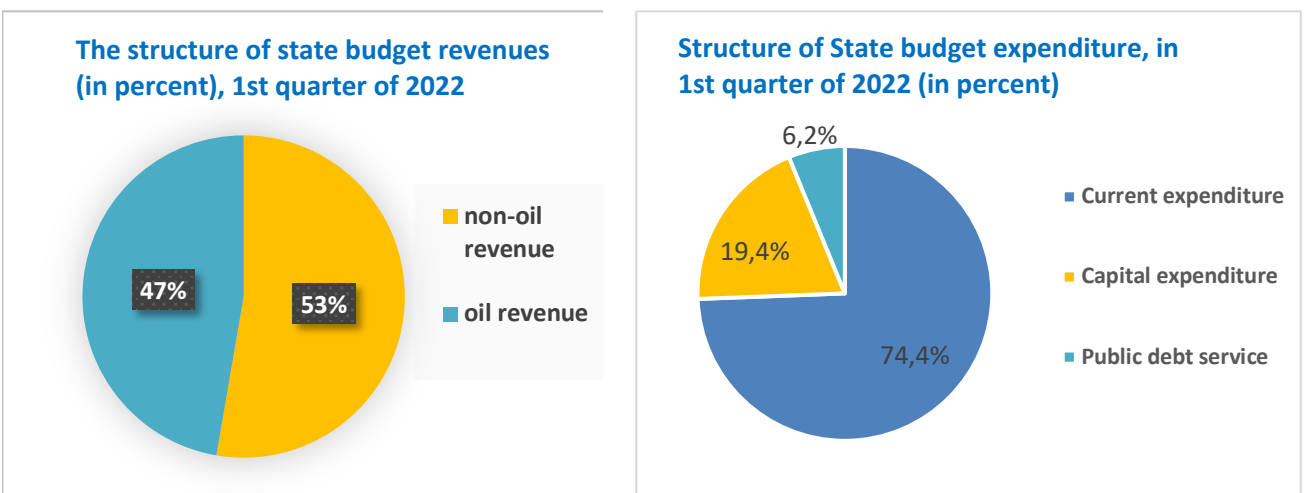
Transfers from the State Oil Fund to the state budget amounted to 39.3% of total revenues or AZN 2.8 billion (13,3 percent less than periodic forecast, which was resulted by higher than budgeted tax and customs revenues of state budget).

In the 1st quarter of 2022, the major part of state budget expenditures (74,4% or 4,2 billion manats) constituted by current expenditures which was 4.1% higher than the same period of 2021. Approximately 1,1 billion manats or 19.4% of state budget expenditures was allocated to capital expenditures. Cost of servicing public debt and liabilities covered 6,2% of state expenditures which amounted to 348.8 million manats (12.3% less compared to the same period of 2021).

During the reporting period, funding in the amount of 346,2 million manats was carried out for the reconstruction and restoration of the liberated territories, which was 15,7% of yearly projected expenditures for the mentioned direction.

Expenditures of the state budget in the 1st quarter of 2022 were executed AZN 5.7 billion, which is AZN 105.8 million or 1.9 percent higher compared to the same period last year.

The state budget surplus amounted to AZN 1.4 billion, exceeding the projected 903.5 million manat by 476.6 million manat.



Source: Ministry of Finance

Revenues of the consolidated budget in the 1st quarter of 2022 amounted to AZN 7.9 billion, which is AZN 991.5 million or 14.2 percent more than the same period last year. Expenditures of the consolidated budget were executed AZN 6.3 billion, which is AZN 387.8 million or 6.5 percent more than the same period last year. During the reporting period, the consolidated budget actually had a budget surplus of AZN 1.7 billion.