

- *Economic growth remained robust in April, boosted by the non-hydrocarbon sector.*
- *Annual inflation leveled in April.*
- *The trade surplus narrowed in April as exports fell while imports picked up markedly.*
- *The state budget recorded a surplus in April as spending growth stabilized.*
- *The state budget will be amended to allow for an increase in capital spending.*
- *Credit to the economy continued to grow strongly.*

The economy expanded by 5.2 percent (yoy) in April in real terms, driven by strong growth in the non-hydrocarbon sector. As a result, economic growth in the first four months of 2024 rose to 4.3 percent. The hydrocarbon sector declined by 3 percent (yoy) in April due to a 4.8 percent (yoy) fall in crude oil production, while natural gas extraction increased by 3 percent (yoy). Azerbaijan joined the OPEC+ agreement to maintain current levels of production until the end of 2025, and Azerbaijan's daily quota for oil production remained at 551 thousand barrels per day in April, above the current production of 476 thousand barrels. Activity in the non-hydrocarbon sector grew at 10.7 percent (yoy), while year-to-date growth climbed to 7.7 percent. Growth in non-hydrocarbon sectors was broad-based, with construction (69 percent, yoy), ICT (18 percent), and hospitality (8 percent) as main drivers.

On the demand side, investment expanded by 38 percent (yoy) in April, driven by an 80 percent (yoy) increase in public investment, while private investment edged down by 2.5 percent (yoy). High-frequency indicators also point to some pickup in consumption in April: small payments rose by 17 percent (mom) and credit card transactions increased by 5 percent (mom), while money transfers fell by 3.5 percent (mom).

A slight deflation was recorded in April (-0.2 percent, yoy). The CPI declined by 0.1 percent in April, driven by a 0.4 percent fall in food prices. The agricultural PPI fell by 0.5 percent (mom) in April. Nonfood and service prices expanded by 0.1 percent (mom) in April.

The trade surplus narrowed in April amid a fall in exports and rising imports. Exports declined by 54 percent (yoy) in April, largely due to a 60 percent (yoy) fall in natural gas export prices as the price in Europe, a major export market, declined significantly. Non-hydrocarbon exports similarly declined by 10 percent (yoy) in April, impacted by a reduction in electricity exports to Georgia and Türkiye. Imports grew by 38.3 percent (yoy) in April, largely driven by public

investment. As a result, the trade surplus in January–April narrowed to 12 percent of GDP, compared to the 13.3 percent recorded in the first quarter.

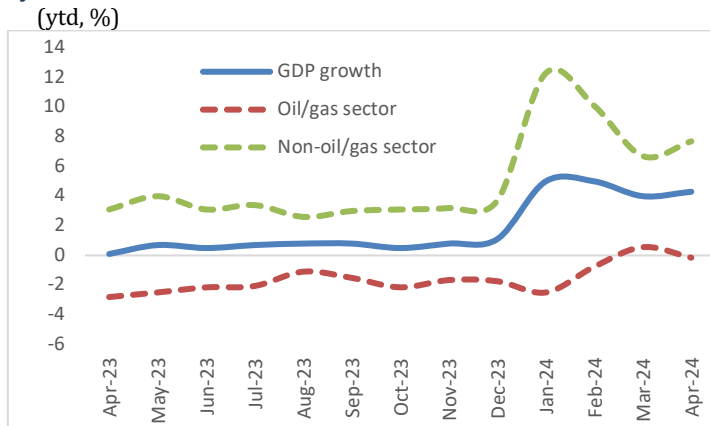
The exchange rate remained unchanged, while foreign exchange (FX) demand moderated in April. The Oil Fund sold USD 559 million in April, 11 percent lower than in March, pointing to some slowdown in FX demand. Subdued FX demand also resulted in a 4.5 percent (mom) rise in reserves in May, which climbed to USD 11.7 billion (5.6 months of imports) as the Central Bank of Azerbaijan (CBA) bought excess foreign currency in the market. The nominal effective exchange of manat appreciated by 1 percent (mom) in April, while the real exchange rate leveled.

The state budget recorded a surplus in April as spending stabilized. Budget revenues increased by 4 percent (mom) in April, largely driven by a rise in SOFAZ transfers, which doubled compared to a year ago. Tax revenues declined by 13 percent (yoy) in April, driven by lower collections from the energy companies as export revenue from hydrocarbons declined. PIT collections increased by 18 percent (yoy), while collections from VAT and customs leveled. Budget spending edged down by 1.2 percent (yoy) in April. The state budget balance recorded a surplus of 4 percent of GDP in April, while in the first four months of the year the fiscal surplus reached 6.6 percent of GDP.

Amendments to the state budget presented to the Parliament envisage an increase in budget spending. The rationale provided for the amendments is the need to allocate more resources to reconstruction, defense, and other infrastructure projects, as well as international events (COP 29). Budget revenues are revised up by 6.4 percent, of which 60 percent will be financed by additional non-hydrocarbon sector revenues enabled by higher-than-projected growth and another 28 percent will come from the increased hydrocarbon revenues as the benchmark oil price in the budget was increased to USD 75 per barrel (from USD 60), allowing additional tax collections from energy companies. On the expenditure side, compared to the approved budget, spending will increase by 8 percent, driven by a 27.4 percent expansion in public investment, while current spending is set to increase by 1.3 percent. The budget deficit is projected to widen to 2.7 percent of GDP in 2024.

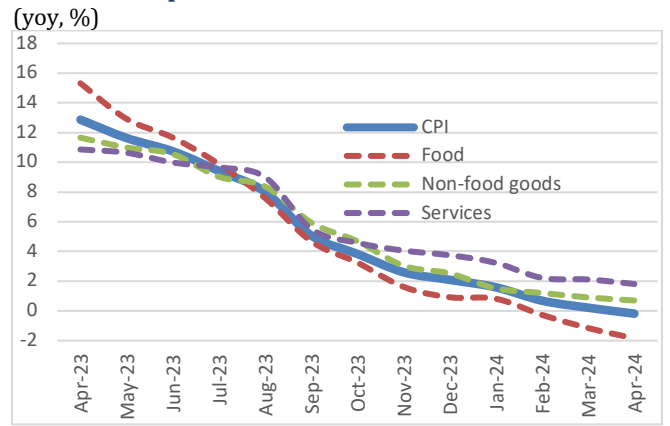
Credit to the economy expanded robustly in April. The loan portfolio of the banks expanded by 2.1 percent (mom) in April, supported by a 2.6 percent (mom) increase in consumer lending, while business loans picked up by 2.1 percent. The deposit portfolio rose by 1.1 percent (mom), bolstered by a 3.5 percent (mom) growth in FX deposits. The dollarization rate edged up to 42 percent. Bank profits rose by 18 percent (yoy) in April.

Figure 1. Growth accelerated in April owing to the non-hydrocarbon sector



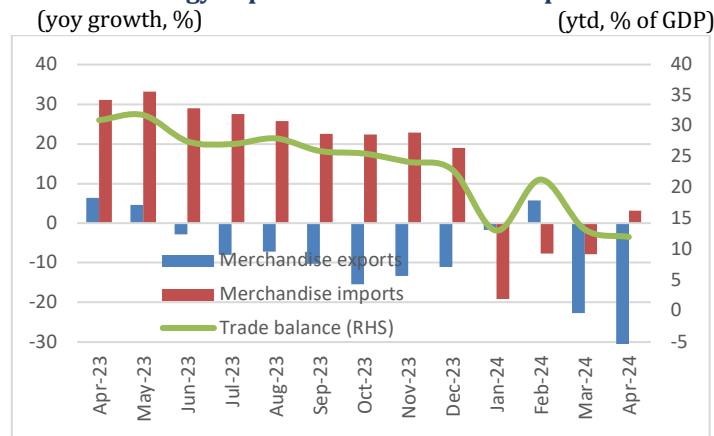
Source: State Statistics Committee

Figure 2. In annual terms, a slight deflation was recorded in April



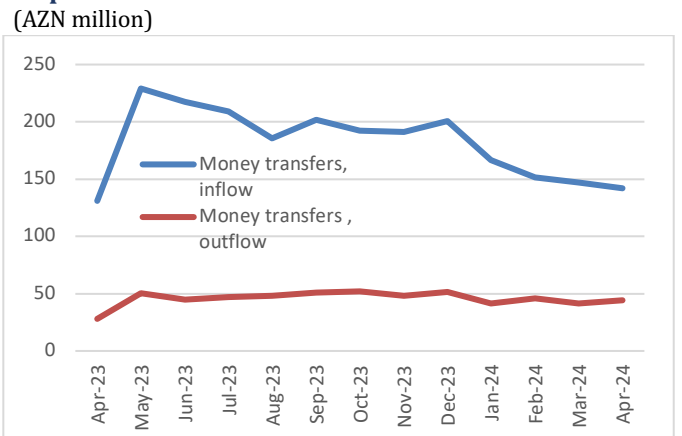
Source: State Statistics Committee

Figure 3. The trade balance was negative in April due to a decline in energy exports and increase in imports



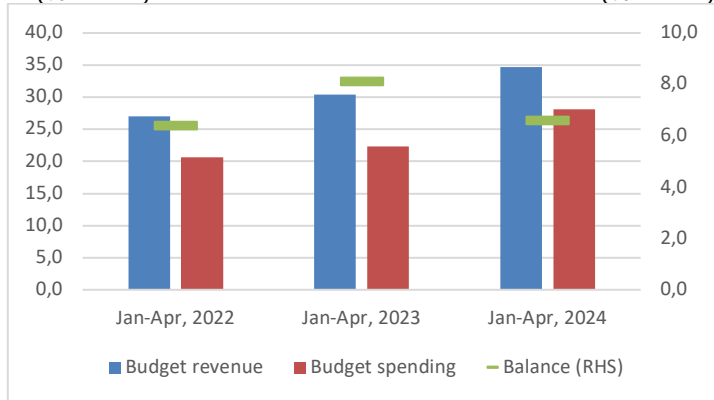
Source: State Customs Committee

Figure 4. Money transfers from abroad continued to fall in April



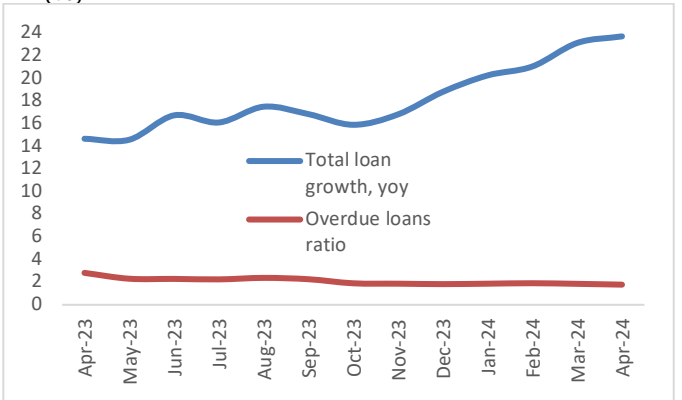
Source: CBA

Figure 5. The budget recorded a surplus in April



Source: Ministry of Finance

Figure 6. Credit to the economy grew strongly



Source: CBA