The economy contracted by 4.3 percent in December 2020, driven by severe decline in energy and construction sectors. Following a sharp (8.4 percent year-on-year (yoy)) contraction in November, GDP slid by additional 4.3 percent yoy in December. Energy GDP fell by 11.7 percent yoy in December, as oil production languished at low levels while expansion of natural gas production slowed, despite the completion of the TAP gas pipeline. In contrast, non-oil/gas GDP unexpectedly recorded only a modest contraction of 0.9 percent yoy in December, despite the strict lockdown. On the demand side, investment plummeted by 28.8 percent yoy in December, reflecting a sharp decline in public non-oil/gas investment. The economy is estimated to have contracted by 4.3 percent in 2020, dragged down by construction (8.7 percent annual contraction) and hospitality sectors (60 percent annual contraction) due to a near collapse in travel and tourism. On the other hand, transportation and logistics and non-energy manufacturing recorded strong growth for the year – 4.6 percent and 12 percent respectively.

Azerbaijan’s merchandise trade recorded a deficit in December as oil exports remained depressed. Merchandise exports fell sharply by 49 percent yoy in December as oil exports nosedived driven by adherence to OPEC+ quotas even as rising prices provided some support. Non-oil/gas exports surged by 24 percent yoy in December driven by gold and cotton exports. Amid weak domestic demand, imports contracted 18.5 percent yoy in December. As a result, the goods trade deficit deteriorated further in December, bringing down the overall merchandise surplus to 7.1 percent of GDP in 2020, its lowest level since 2015.

The exchange rate remained stable at 1.7 AZN/USD, while FX demand increased in January. The State Oil Fund (SOFAZ) sold USD 645 million during January, more than doubling the amount it sold in the same period a year ago and exceeding its monthly limit by 8 percent. CBA also issued more notes to reduce manat liquidity, increasing notes amount to AZN 1 billion by end-January, which is almost 60 percent higher than at end-December 2020. CBA reserves remained stable at USD 6.4 billion by end-January. SOFAZ assets remained at USD 43.6 billion by end-2020, on par with end-2019, as valuation gains offset lower proceeds from oil export.

The fiscal balance deteriorated significantly in December, bringing the deficit to 6.5 percent of GDP in 2020. Consolidated budget revenues dropped by 28 percent yoy in 2020. This reflects plummeting SOFAZ revenues, which halved in 2020, and declining tax revenues (6.4 percent yoy decline), partly driven by lower tax payments by oil companies. Non-oil/gas related revenues remained stable in 2020 when compared to 2019. Consolidated budget spending increased by 10 percent yoy in 2020. Health and social protection expenditure recorded the biggest increase in 2020, with health spending doubling and social protection spending increasing by 36 percent yoy. Public investment, in contrast, was slashed by 24 percent yoy in 2020. The consolidated budget non-oil/gas deficit also widened in 2020, by 3.7 percentage points (pp) compared to 2019, reaching 31.2 percent of non-oil/gas GDP.

The banking sector continues to stagnate. Credit shrunk by 1 percent mom in December, driven by a decline both in corporate and household lending. Mortgage loans, in contrast, grew by 1 percent mom. Overdue loans declined by 3.2 percent mom and their share in the overall credit portfolio slightly dropped (by 0.2 pp) to 6.1 percent. Annual decline in deposits moderated to 4.4 percent by the end of 2020, as FX deposits withdrawals slowed to 11.6 yoy and manat deposits increased by 6.9 percent yoy in December.

Global oil prices continue to recover. By early February 2021, Brent oil price reached over 60 USD/bbl, effectively recovering to pre-COVID levels. The energy market continues to rally, as OPEC+ quotas are likely to keep oil supply constrained for the rest of 2021 and global demand gradually improves.
Figure 1. GDP contracted by 4.3 percent in December 2020
(ytd, %)

Source: State Statistics Committee

Figure 2. CPI inflation edged up by end-2020
(yoy, %)

Source: State Statistics Committee

Figure 3. Goods trade deficit deteriorated in December
(yoy, %)
(ytd, % of GDP)

Source: State Customs Committee

Figure 4. SOFAZ assets were stable and CBA reserves declined by end-2020
(USD billion)

Source: Central Bank of Azerbaijan

Figure 5. Consolidated budget recorded a deficit in 2020
(% of GDP)

Source: Ministry of Finance

Figure 6. Credit to economy fell sharply by end-2020
(yoy, %)

Source: Central Bank of Azerbaijan