

- *Activity in the non-hydrocarbon sector slowed in March, bringing Q1 growth down to 4 percent (yoy).*
- *Inflation slowed to 0.4 percent (yoy) in March.*
- *The CBAR cut the policy rate amid easing inflation.*
- *The trade surplus narrowed in March, driven by a fall in exports.*
- *The budget recorded a deficit in March, driven by recurrent spending.*
- *Credit to the economy increased at a solid pace.*

Economic growth slowed to 2 percent (yoy) in March, driven by easing activity in the non-hydrocarbon sector.

Growth stood at 4 percent (yoy) in the first quarter, down from 5 percent (yoy) in January-February. Hydrocarbon sector output rose by 2 percent (yoy) in March as crude oil production edged up by 1.1 percent (mom) and natural gas production increased by 13 percent (mom). Non-hydrocarbon sector output increased by 1 percent (yoy) in March, down from the 8 percent (yoy) recorded in February. Sectors that contributed to the slowdown in the non-hydrocarbon sector included construction (-18 percent, yoy) and manufacturing (1 percent, yoy). The fall in construction sector output was driven by moderation in public investment execution following two months of high growth. On the other hand, growth in the agriculture (3 percent, yoy), ICT (12 percent, yoy), and transport sectors (13 percent) supported economic activity.

On the demand side, capital formation dropped by 15 percent (yoy) in March, with both hydrocarbon and non-hydrocarbon sector investments falling by 17 and 11 percent, respectively. High-frequency indicators paint a mixed picture in terms of consumption: small payments and card transactions rose by 7.4 percent and 3.3 percent, respectively, while remittance inflows fell by 2.8 percent.

Annual inflation fell to 0.4 percent (yoy) in March. The CPI increased by 0.2 percent (mom) in March, supported by a 0.4 percent (mom) rise in food prices. The agriculture PPI increased by 1.9 percent (mom) in March, (and by 3 percent yoy). Non-food prices remained flat while service prices edged up by 0.1 percent (mom) in March.

Amid low inflation, the CBAR cut the policy rate. On May 1, the CBAR cut the policy rate by 25 basis points, from 7.5 percent to 7.25 percent. The decision was grounded in declining inflation, stabilizing inflation expectations, and favorable shifts in the risk balance. In the meantime, CBAR revised down its inflation forecast for 2024, from 5.3 percent in January to 3.5 percent in April. Despite cutting the policy rate, the CBAR kept the lower bound of the interest rate (for one-day deposit rate) interval unchanged, at 6.25 percent. From the perspective

of liquidity absorption, this suggests a limited impact of the rate cut on monetary conditions.

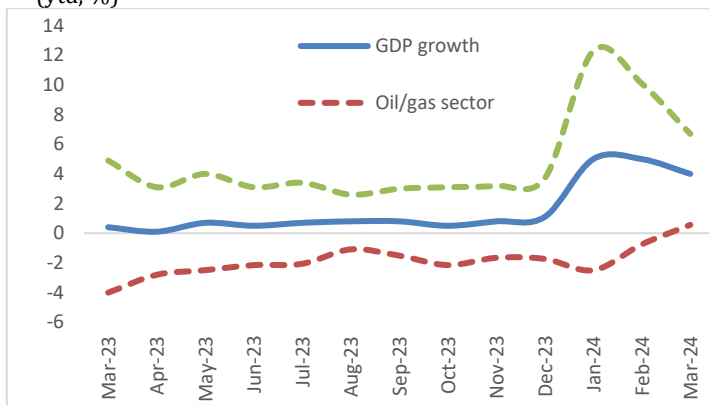
The trade surplus narrowed in March as exports declined. Exports fell by 63 percent (yoy) in March; this was largely driven by the fall in energy prices as natural gas prices fell by 60 percent (yoy) while crude oil prices dropped by 10 percent. Non-hydrocarbon exports increased by 3.4 percent (yoy); the top three export items were cotton, tomatoes, and polymers. Imports fell by 8.3 percent (mom) in March. The trade surplus narrowed from 21.3 percent of GDP in February to 13.3 percent of GDP in March.

The exchange rate remained unchanged at AZN 1.7 per USD, while FX demand picked up. The State Oil Fund sold USD 623 million in March, 25 percent more than in February and 18.5 percent more compared to a year ago. SOFAZ reserves grew by 1 percent by end-March compared to 2023 year-end and amounted to USD 57 billion. CBAR reserves remained flat at USD 11.6 billion, or 5.6 months of imports. The nominal effective exchange rate depreciated by 1.6 percent in the first quarter, while the real exchange rate remained flat.

The budget recorded a deficit in March. Budget revenues increased by 29 percent (yoy) in March, entirely driven by a 55 percent (yoy) rise in hydrocarbon sector revenues (with a similar increase in SOFAZ transfers). In contrast, non-hydrocarbon revenues declined by 6.9 percent (yoy) in March owing to subdued performance in VAT collection from imports (-8.6 percent, yoy) reflecting subdued import performance in the first quarter as well as PIT flows (-1.5 percent, yoy). Budget spending increased by 8.7 percent (yoy) in March, supported by a 16.7 percent (yoy) increase in current spending, while capital spending saw a 20 percent (yoy) decline as execution slowed markedly compared to January and February. A 2 percent of GDP deficit was recorded in March, while the budget balance remained in surplus (2.8 percent of GDP equivalent) in the first quarter. The consolidated budget surplus (including SOFAZ) moderated to 11.5 percent of GDP in March.

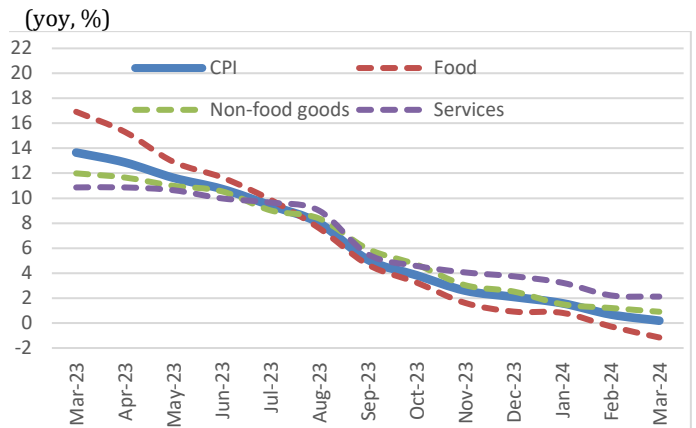
Credit to the economy expanded robustly in March. Banks' loan portfolio grew by 3.3 percent (mom) in March, driven by business loans (10.9 percent, yoy), while consumer loans inched up by 1 percent. In the first quarter, the credit portfolio expanded by 6.1 percent compared to 2023 year-end. The deposit portfolio remained flat in March compared to February, as a 1.5 percent (mom) increase in FX deposits was offset by a 1.1 percent decline in manat deposits. The dollarization rate edged up by 1 percentage point to 41 percent. Bank profits were 16.3 percent higher than a year ago.

Figure 1. Growth slowed in March due to moderating activity in the non-hydrocarbon sector
(ytd, %)



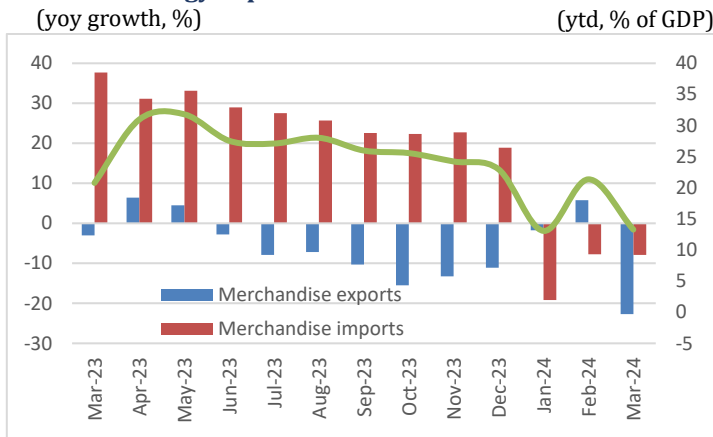
Source: State Statistics Committee

Figure 2. Annual inflation slowed to 0.4 percent
(yoy, %)



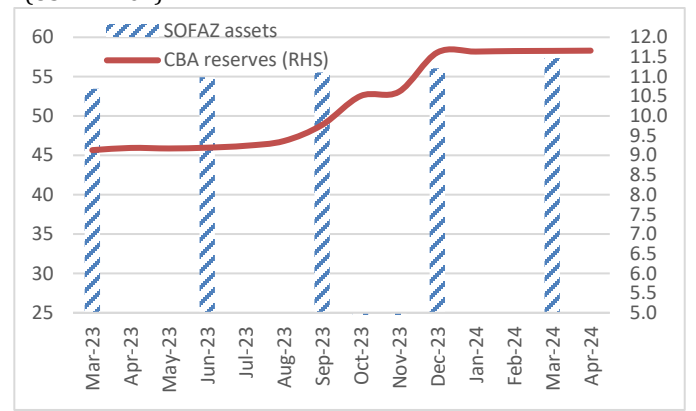
Source: State Statistics Committee

Figure 3. The trade surplus narrowed in March due to a decline in energy exports
(yoy growth, %) (ytd, % of GDP)



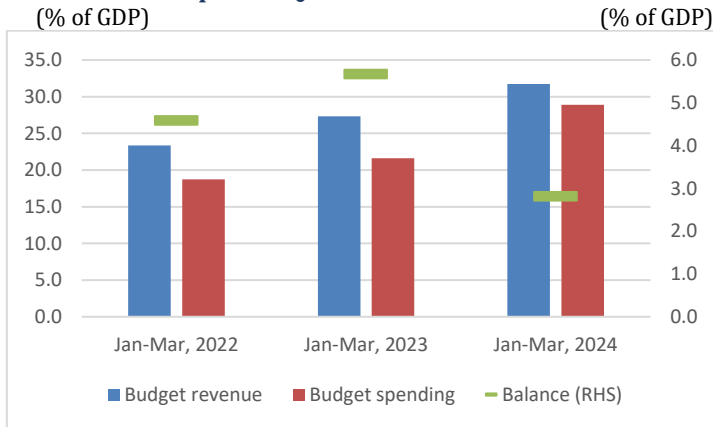
Source: State Customs Committee

Figure 4. CBA reserves plateaued in March, while SOFAZ reserves edged up
(USD million)



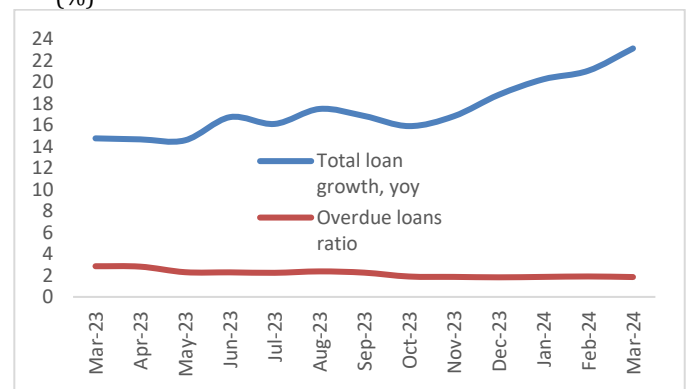
Source: CBA

Figure 5. Despite recording a deficit in March, the budget remained in surplus in Q1 2024
(% of GDP)



Source: Ministry of Finance

Figure 6. Credit to the economy expanded at a solid pace
(%)



Source: CBA

