- *Economic growth slowed slightly in May due to moderation in the non-hydrocarbon sector.*
- *Inflation stood at 0.1 percent in May as seasonal food deflation continued.*
- *The trade surplus widened in May as decline in exports eased.*
- *A marked rise in public spending was met by increased SOFAZ transfers.*
- *Credit to the economy continued to increase at a robust pace in May.*

Economic growth slowed to 4 percent (yoy) in May, driven by deceleration in non-hydrocarbon sector output. Economic growth in the first five months was 4.2 percent, slightly lower than the 4.3 percent recorded in April. Hydrocarbon sector output leveled out in May, with a 25 percent (mom) increase in natural gas production offsetting a 5 percent (mom) fall in crude oil extraction. However, non-hydrocarbon sector growth slowed from 10.7 percent (yoy) recorded in April to 5.8 percent (yoy) in May. The construction sector grew 5 percent (yoy) in May, significantly lower than the 69 percent (yoy) reported in April. Other sectors supporting growth included agriculture (6.1 percent, yoy), transport (16 percent, yoy), and hospitality (10 percent, yoy). On the demand side, investments rose by 8 percent (yoy) in May, down from 38 percent (yoy) posted in April. High frequency indicators point to consumption easing in May, with small payments falling by 0.4 percent (mom) and money transfer inflows and credit card payments inching up by 1.1 percent and 1.9 percent, respectively.

Annual inflation stood at 0.1 percent in May. The CPI fell by 0.1 percent (mom) in May, driven by a 0.7 percent (mom) seasonal fall in food prices. The agriculture PPI fell by 0.6 percent (mom) in May, largely driven by a 1 percent (mom) decline in crop prices. Non-food inflation edged up to 0.2 percent (mom) in May, while service inflation rose to 0.5 percent (mom).

The trade surplus widened in May as the decline in exports moderated. Exports fell by 31 percent (yoy) in May, largely driven by a 33 percent fall in hydrocarbon exports. This is explained by a sharp fall in natural gas exports, with export prices tumbling, and a fall in crude oil exports due to reduced production. Non-hydrocarbon exports fell by 14 percent (yoy), dragged down by a sharp decline in electricity exports to Georgia and Türkiye. However, imports rose by 6.8 percent, in line with an expanding economy and rising investment.

The current account surplus narrowed sharply in Q1 2024, due to falling exports. The surplus stood at 10.1 percent of GDP in Q1 2024, down from the 18.9 percent recorded a year earlier. This was largely driven by a 43 percent (yoy) fall in the trade surplus, due to reduced exports. However, the service balance deficit improved by 20 percent (yoy), with service export growth, boosted by transport and tourism services, outweighing service imports. The primary income deficit narrowed substantially as profit repatriation by natural gas companies fell. Remittance inflows declined by 35 percent in Q1 2024, driven by a 51 percent fall in remittances from Russia. The financial account recorded a deficit of 9.3 percent of GDP, 33 percent larger than in the same period in 2023. On the direct investment side, inflows leveled out and outflows fell due to smaller capital repatriations by natural gas companies. There was a marked rise in portfolio investment outflows, with the Government making a bullet payment of USD 900 million for the outstanding amount on the Eurobond. In Q1 2024, reserves increased by USD 116 million, or 0.7 percent of GDP, to 16 percent of GDP, covering 6.8 months of imports.

The exchange rate remained at 1.7 AZN to USD, and FX demand decreased further. The Oil Fund sold USD 405 million in June, 28 percent less than in May, pointing to slow FX demand. CBA reserves edged up 0.2 percent to USD 11.7 billion in June. The nominal effective exchange rate appreciated by 17 percent (yoy) in May, while the real exchange rate depreciated by 1.6 percent (yoy).

The budget was balanced in May. Budget revenues increased by 53 percent (yoy) in May, with transfers 2.3 times higher (yoy) to accommodate higher spending. Non-hydrocarbon sector revenue collection increased by 31 percent (yoy) in May, with VAT (23 percent, yoy), PIT (6 percent, yoy), and the CBA's profit (AZN 250 million) the major sources of the increase. Budget spending increased by 23 percent (yoy), with capital spending increasing 66 percent (yoy) and current spending rising 3.1 percent (yoy). The budget was balanced in May, with the cumulative surplus in the first five months of 2024 at 5.3 percent of GDP. The consolidated budget surplus reached 11 percent of GDP in May, up from 9.5 percent in April.

Credit to the economy increased at a solid pace in May. Bank loan portfolios increased by 2 percent (mom) in May, driven by both business and consumer loans. The deposit portfolio fell by 0.3 percent (mom), due to a 3.1 percent (mom) fall in FX deposits and an increase of 1.9 percent (mom) in AZN deposits. Deposit dollarization edged down to 41 percent. Bank profits remained strong, posting 19 percent (yoy) growth.

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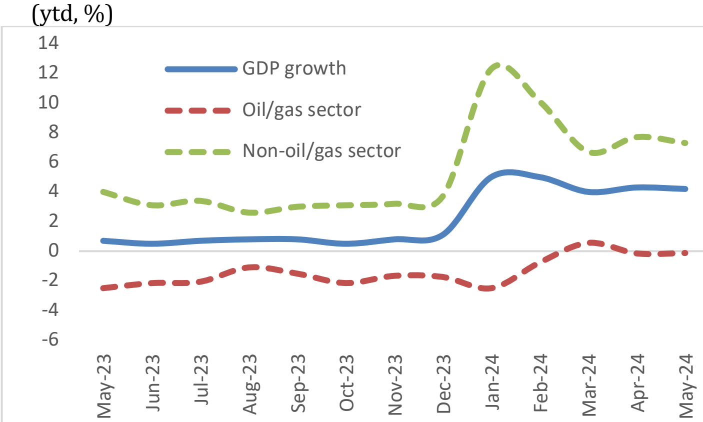
Figure 1. Growth slowed in May owing to moderation in the non-hydrocarbon sector

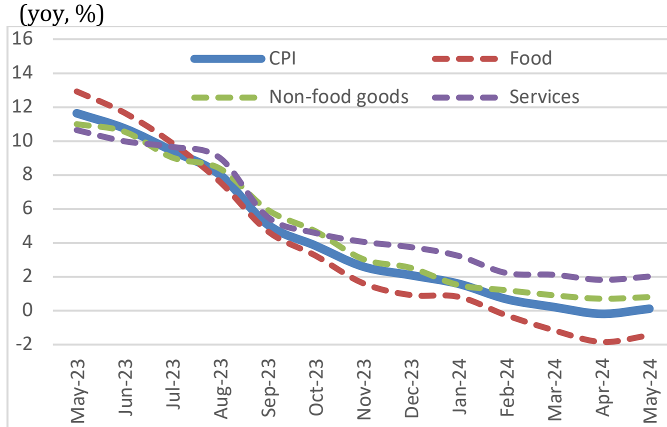
(ytd, %)



Source: State Statistics Committee

Figure 2. Annual inflation stood at 0.1 percent in May

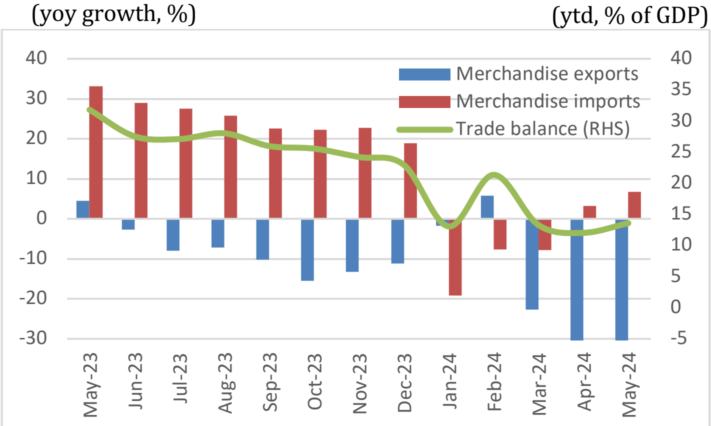
(yoy, %)



Source: State Statistics Committee

Figure 3. The trade surplus widened in May as the fall in exports eased

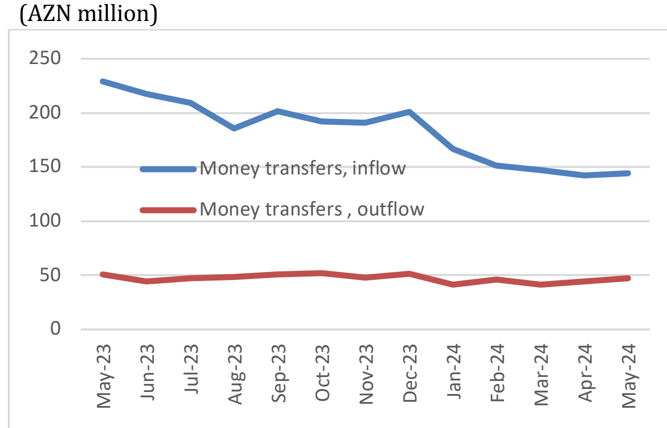
(yoy growth, %) (ytd, % of GDP)



Source: State Customs Committee

Figure 4. Money transfers from abroad inched up in May

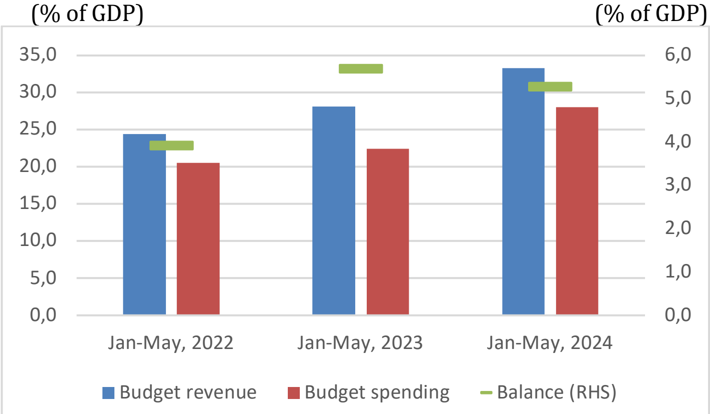
(AZN million)



Source: CBA

Figure 5. Transfers have helped maintain the surplus despite a significant increase in spending

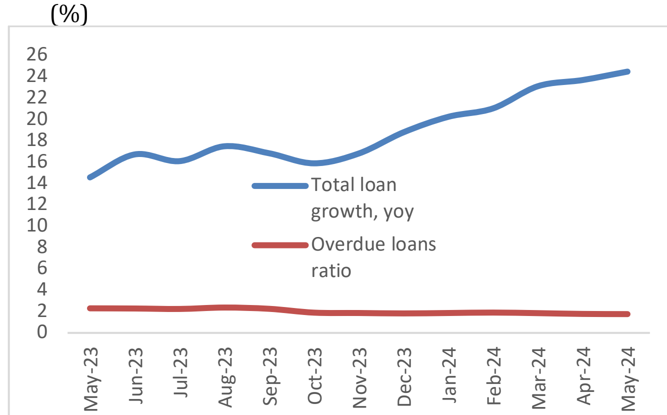
(% of GDP) (% of GDP)



Source: Ministry of Finance

Figure 6. Credit to the economy expanded at a robust pace

(%)



Source: CBA

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