• Economic growth slightly improved in July, supported by an uptick in non-energy sector activity, while energy sector output continued to shrink.
• Inflation decelerated to 9.4 percent in July, the first single-digit inflation in 21 months.
• The trade surplus narrowed slightly in July as exports edged down while imports plateaued.
• The budget recorded a deficit in July amid a public investment-driven surge in spending.
• Credit to the economy eased in July as a slowdown in business loans was offset by an increase in consumer lending.

The economy edged up in July by 1.9 percent (yoy), with growth in the first seven months of 2023 reaching 0.7 percent. The energy sector shrank by 1.5 percent (yoy) in July, driven by a 5.8 percent (yoy) decline in crude oil production, which was partially offset by a 5.5 percent (yoy) increase in natural gas production. Activity in the non-energy sector rebounded in July, with growth reaching 5.2 percent (yoy). This recovery was largely fueled by a surge in construction, which grew by 39.4 percent (yoy) in July, in turn driven by a surge in public investment. The sectors that saw the fastest growth in July included agriculture (2.9 percent, yoy) and ICT (17.9 percent, yoy). At the same time, growth slowed in the sectors of manufacturing (2.5 percent, yoy), hospitality (9.4 percent, yoy), and retail trade (3.1 percent, yoy). On the demand side, investments surged by 86.2 percent (yoy), propelled by a 76.2 percent (yoy) increase in non-energy sector investments (mostly public). Meanwhile, private investment dropped by 8.9 percent (yoy) in July. High-frequency indicators show a pick-up in consumption, as small payments increased by 23 percent (mom) and credit card transactions rose by 21 percent (mom). At the same time, money transfers from abroad fell by 3.9 percent (mom) in July, dragging down the growth in consumption.

Annual inflation continued to decelerate in July, reaching 9.4 percent. Consumer Price Inflation declined by 0.7 percent (mom) in July, as food prices continued to fall. Food prices declined by 1.5 percent (mom) in July as a seasonal fall in agricultural products lingered. The agricultural Producer Price Inflation declined by 2.8 percent (mom), as prices for crop farming dropped by 6 percent (mom). Non-food prices remained flat in July, while service inflation inched up by 0.1 percent (mom).

The trade surplus narrowed slightly in July. Exports declined by 30 percent (yoy) in July, largely driven by dynamics within energy sector exports. In terms of volumes, an increase in natural gas exports (84 percent, yoy) compensated for the fall in oil exports (22 percent, yoy) in July. However, prices for both oil and natural gas remained lower than a year ago (by 30 and 37 percent, respectively). Non-energy exports increased by 4 percent (yoy) in July. Imports leveled in July compared to June but were 19.5 percent higher than a year ago.

The current account balance surplus amounted to 14.5 percent of GDP in H1 2023. Foreign trade (21.1 percent of GDP) and secondary income surplus (1.6 percent of GDP) contributed to this. On the other hand, deficits in the primary income balance (5.1 percent of GDP) due to profit repatriation of foreign companies involved in hydrocarbon production, and in the service balance (–3.1 percent of GDP) reduced the surplus. Remittance inflows in Q2 were 67 percent lower than in the same quarter of 2022. However, remittance inflows still exceed the pre-war quarterly average inflow by 72 percent. The financial account recorded a deficit of 1.4 percent of GDP in H1 2023, driven by net FDI outflows due to capital repatriation of the natural gas companies operating under the profit-sharing agreements.

The exchange rate remained unchanged at 1.7 AZN/USD, while low FX demand persisted. Oil Fund’s FX sales fell further in August, amounting to USD 94 million, three times lower than in July. Low FX demand resulted in further accumulation of reserves, which increased by 1.3 percent (mom) in August to USD 9.4 billion. The nominal effective exchange rate appreciated by 1 percent (yoy) in July, while the real exchange rate depreciated by 1 percent.

The state budget recorded a small deficit in July. Budget revenues fell by 11 percent (yoy) in July, driven by a 30 percent drop in energy sector revenues, while non-energy sector revenues expanded by 19.6 percent (yoy), driven by robust collection of VAT and PIT. Energy sector revenues dropped, largely due to a base effect as last year in July there was a significant jump in profit taxes paid by natural gas companies. Budget spending surged by 48.3 percent (yoy) in July, driven by an 86 percent increase in capital spending, while recurrent spending rose by 18.4 percent. The state budget recorded a small deficit of 0.4 percent of GDP in July, reducing budget surplus for the first seven months of 2023 to 1.6 percent of GDP.

Credit growth moderated in July. Banks’ loan portfolio expanded by 0.3 percent (mom) in July, down from the 3.2 percent (mom) growth recorded in June. Business loans declined by 0.3 percent (mom), while consumer loans rose by 0.8 percent (mom). Overall, the credit portfolio expanded by 9.2 percent during January-July 2023. Meanwhile, deposits edged down by 1.4 percent (mom) in July, largely due to a 5.6 percent (mom) fall in FX deposits, while manat deposits increased by 1.8 percent (mom). As a result, the deposit dollarization rate declined to 42 percent. Banks’ profits continued to grow robustly, increasing by 16.3 percent (mom) in July.

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**Figure 1.** Cumulative growth edged up in July

- GDP growth
- Oil/gas sector

*Source: State Statistics Committee*

**Figure 2.** Inflation further fell in July as fall in food prices persisted

- CPI
- Food
- Non-food goods
- Services

*Source: State Statistics Committee*

**Figure 3.** The trade surplus narrowed further in July amid a fall in exports while imports leveled

- Merchandise exports
- Merchandise imports
- Trade balance (RHS)

*Source: State Customs Committee*

**Figure 4.** Money transfers from abroad continued to fall in July

- Money transfers, inflow
- Money transfers, outflow

*Source: Central Bank of Azerbaijan*

**Figure 5.** The state budget recorded a deficit in July, as capital spending surged

- Total loan growth, yoy
- Overdue loans ratio

*Source: Ministry of Finance*

**Figure 6.** Credit to the economy moderated in July

*Source: Central Bank of Azerbaijan*