- *The economy contracted by 0.3 percent in June, with both energy and non-energy sector output declining.*
- *Inflation continued decelerating in June, to 10.7 percent (yoy), on the back of a higher-than-expected fall in food prices.*
- *The trade surplus narrowed in June as energy exports fell and imports picked up.*
- *The budget recorded a deficit in June with revenues declining due to a drop in SOFAZ transfers, while capital spending picked up.*
- *Credit to the economy increased in June, supported by business loans.*

**In June, the economy contracted by 0.3 percent, with growth reaching 0.5 percent in H1 2023**. Energy sector output declined by 0.5 percent (yoy), primarily due to a 3.5 percent (yoy) decrease in oil production. This decline was partially offset by a 3 percent (yoy) increase in natural gas production. The energy sector shrunk by 2.2 percent in H1 2023. Meanwhile, the non-energy sector experienced a 0.2 percent (yoy) decline in June. This was largely attributed to a 26.7 percent (yoy) reduction in transport sector value added, driven by a decline in air cargo volumes due to the high base effect recorded last year. Across the non-energy sector, growth rates exhibited a general slowdown, although sectors like ICT (10.3 percent, yoy) and hospitality (26.7 percent, yoy) managed to maintain robust growth rates. On the demand side, investment declined by 9.1 percent (yoy), primarily due to reduced investments in the non-energy sector. Notably, high-frequency indicators signaled a deceleration in consumption: small payments decreased by 2.7 percent (mom), while money transfers and transactions involving payment cards fell by 5 percent (mom) and 7.5 percent (mom), respectively.

**Inflation further slowed in June, reaching 10.7 percent (yoy) in H1 2023.** CPI inflation declined by 0.9 percent (mom) in July, driven by a 2.1 percent (mom) fall in food prices induced by seasonal factors. Annual food inflation decelerated to 11.7 percent in June from 12.7 percent in May. The agriculture PPI declined by 3.6 percent (mom), which contributed to the fall in food inflation. Annual non-food and service inflation edged down to 10.6 percent and 10 percent respectively. Housing prices increased by 1.2 percent (yoy) in Q2 and were 9.9 percent higher in H1 2023 than in H1 2022. Depreciation of Turkish lira and Russian ruble, among key import partners, helped to contain external inflationary pressures.

**The trade surplus narrowed in June as exports fell and imports picked up markedly.** Exports contracted sharply by 40 percent (yoy) in June, largely driven by the fall in crude oil prices (by 38 percent, yoy). Non-energy exports increased by 14.1 percent (yoy), with electricity, tomatoes, cotton, polymers, and gold the top export products. Imports increased by 11.3 percent (yoy). The cumulative trade surplus in 2023 moderated to 27.5 percent of GDP in June, compared to 31.8 percent in May. Tourist arrivals increased by 44 percent in H1 2023, compared to the same period of 2022.

**The Manat remained at 1.7 AZN/USD, amid low FX demand.** FX sales by SOFAZ declined by 70 percent (yoy) in June. Low FX demand allowed the CBAR to further build reserves, which increased by 0.7 percent (mom). At USD 9.2 billion at end June, reserves were 25 percent higher than at end June 2022. SOFAZ reserves also continued to rise in Q2, to USD 54.9 billion (70 percent of 2022 GDP).

**In June, the budget recorded a deficit while the fiscal balance remained in surplus in the first half of 2023.** Budget revenues declined by 14 percent (yoy) in nominal terms, driven by a 55 percent fall in energy sector revenues compared to June 2022. This in turn was induced by a 72 percent (yoy) decline in SOFAZ transfers. Non-energy sector revenues increased by 10 percent (yoy). Budget spending increased by 17.4 percent (yoy). Capital spending rose by 36.5 percent (yoy), with year-to-date growth reaching 14 percent. In H1 2023, about 50 percent of capital spending was allocated to the reconstruction of liberated territories. Meanwhile, current spending increased by 17.5 percent (yoy) in June (and by 6.8 percent in H1 2023). Social transfers and subsidies, up by 28 percent (yoy) and 12.7 percent (yoy), respectively, in H1 2023, were among the main contributors to this increase. The budget recorded a deficit amounting to 2.3 percent of GDP, which led to narrowing of the budget surplus in H1 2023 to 2.4 percent of GDP.

**Credit to the economy picked up markedly in June.** The loan portfolio of banks expanded by 3.2 percent (mom) in June, driven largely by a 4.3 percent (mom) increase in business loans, while consumer loans and mortgage loans edged up by 1.6 percent and 1.7 percent, respectively. The credit portfolio expanded by 16.7 percent (yoy) in H1 2023. The deposit portfolio declined by 2.5 percent (mom) due to a 5.4 percent (mom) fall in corporate deposits, while household deposits rose by 2.8 percent (mom). The deposit portfolio rose by 6.4 percent (yoy) in H1 2023. The dollarization rate of deposits moderated to 44 percent. Bank profits rose by 28.8 percent (mom).

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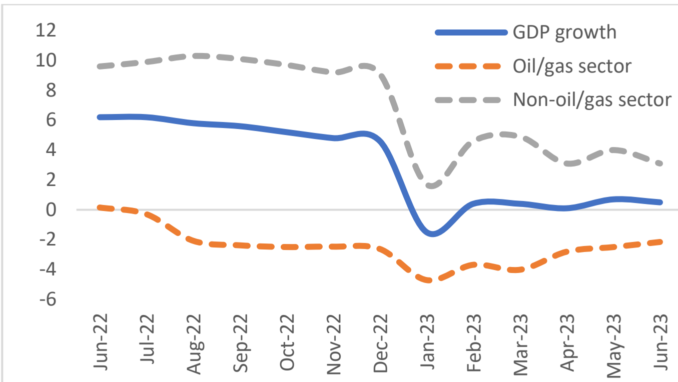
**Figure 1. In June cumulative growth slowed due to contraction**

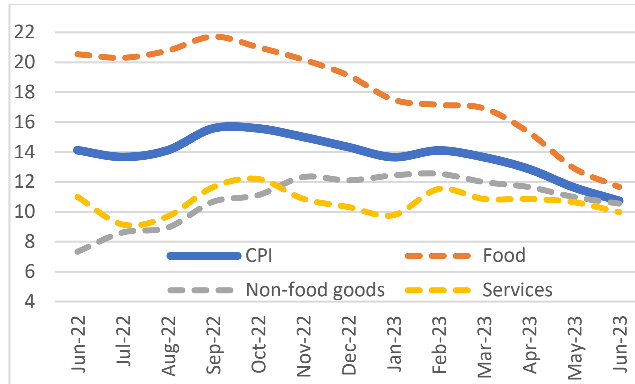
(ytd, %)




*Source:* State Statistics Committee

**Figure 2. Inflation moderated in June due to a marked fall in food prices**

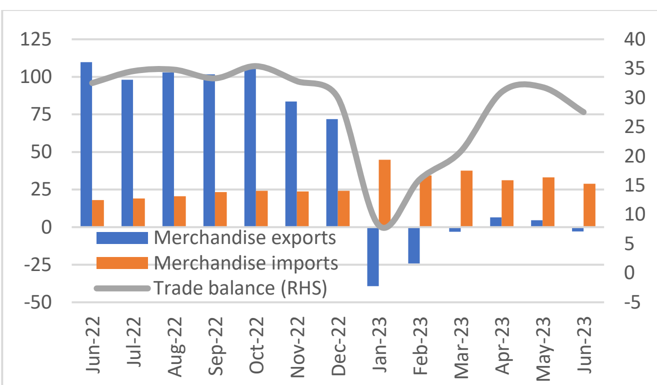
(yoy, %)




*Source:* State Statistics Committee

**Figure 3. The trade surplus narrowed in June amid a fall in exports**

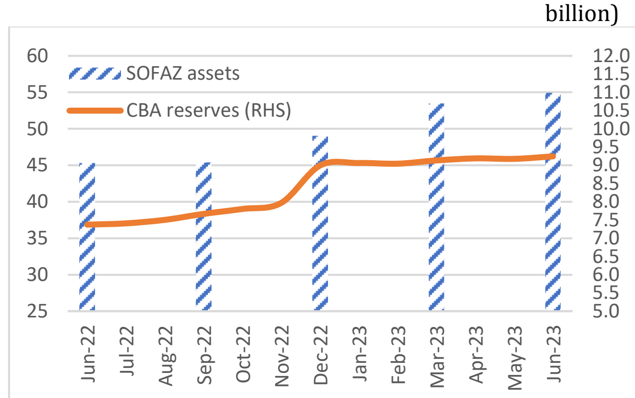
(yoy, %) (ytd, % of GDP)




*Source:* State Customs Committee

**Figure 4. CBA reserves continued to rise in June**

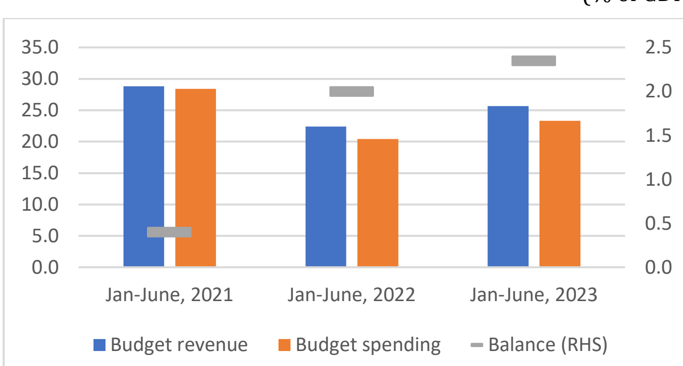
(USD billion) (USD billion)




*Source:* CBA

**Figure 5. The state budget surplus moderated in June and reached 2.4 percent of GDP in H1 2023**

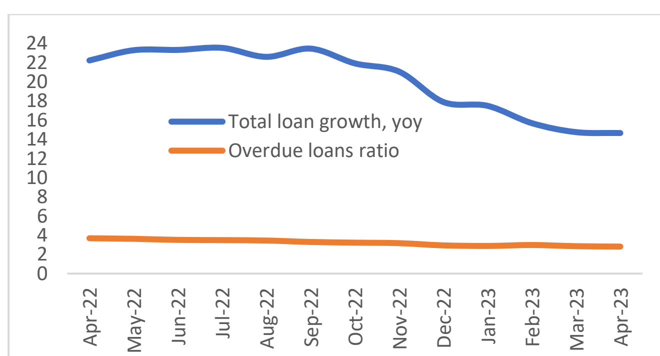
(% of GDP) (% of GDP)




*Source:* Ministry of Finance

**Figure 6. Credit to the economy picked up markedly in June**

(%)




*Source:* CBA

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