Azerbaijan’s economy grew by 4.6 percent year on year (yoy) in May as the economic recovery gained momentum. Non-hydrocarbon sectors continued to grow robustly by 5.8 percent yoy in May, slightly weaker than in April (10.7 percent yoy). Besides the hospitality sector, which remained depressed by the pandemic situation, and construction, which contracted by 7.4 percent yoy in May after robust growth in March and April, all other sectors recorded growth, with non-energy manufacturing (14.5 yoy growth) and agriculture (3.9 percent yoy growth) leading the recovery. Services also grew (though slower than in April), as demand started to recover. Hydrocarbons sector registered its first positive growth rate since April 2020, growing by 0.5 percent yoy, as OPEC+ oil production quotas were gradually relaxed. Still, in the year-to-May, oil and gas sectors were down 7.1 percent, dragging down overall growth to 0.8 percent in the same period. On the demand side, non-energy investment grew by 22 percent yoy and overall investment expanded by 7.9 percent yoy in May. High frequency indicators show a mixed picture in terms of recovery in consumption, with small payments and remittances declining by 11 percent mom and 8.3 percent mom respectively, while debit card transactions increased by 4.4 percent mom in May.

The economic rebound likely continued in June as the COVID-19 epidemic moderated. Daily recorded infections remained low during June but started to edge up by early July. COVID-19 vaccinations, using Sinovac, Sputnik V and AstraZeneca vaccines, increased markedly in June, with about a 16.2 percent of the total population being fully immunized and a further 8.4 percent receiving one dose of the vaccine by early July. Economic indicators suggest a continued recovery: mobility indicators in Baku almost reached pre-pandemic levels in June, flight availability increased sharply, and a monthly survey of firms by the Central Bank of Azerbaijan (CBA) suggests stable or improving business sentiments.

Inflation climbed to 4.9 percent yoy in May, from 4.4 percent yoy in April. This was driven by a pickup in economic activity and higher global prices of food and commodities. Annual food inflation rose by 5.1 percent yoy in May, from 4.4 percent yoy in April, even as seasonal food prices dropped by 0.6 percent month-on-month (mom) in May. Driven by the ongoing broad recovery in demand, non-food and services prices rose by 0.6 percent and 0.5 percent mom in May, respectively. Non-food prices were also adversely affected by a rapid rise in prices of imported construction materials such as steel and wood. This brought annual non-food and services inflation to 4.4 percent and 5.1 percent correspondingly in May. Despite the increase, inflation remained within the CBA’s target range of ±2 percent and the CBA kept the monetary policy rate unchanged on its June 18, 2021 meeting.

The goods trade surplus expanded in May. Exports were up 60 percent yoy in May due to significantly higher hydrocarbon revenues. Oil and gas exports rose by 73 percent yoy in May, largely due to the sharp increase in their prices and slightly relaxed OPEC+ oil production quotas. Non-oil/gas exports also grew by 19 percent yoy in May, as external demand picked up. Imports rose by 10 percent yoy in May, reflecting higher domestic demand as well as higher prices. As a result, the trade surplus in the first five months of 2021 increased to USD 3 billion, or 16.4 percent of GDP, during this period.

The manat remained stable at 1.7 AZN/USD even as FX demand picked up in June. The State Oil Fund (SOFAZ) sold USD 464 million in June, which is 24 percent more than in the same period last year. Overall, in the first half of 2021, SOFAZ’s FX sales were 30 percent lower than a year ago. The CBA reserves plateaued at USD 6.4 billion in June, while SOFAZ assets (USD 42.8 billion in Q1-2021) likely further increased in Q2-2021. The CBA continued to scale back its liquidity mopping activities, slashing the amount of issued notes by 27 percent in early July, as compared to early June.

The State budget balance turned to deficit in May. State budget revenues rose by 57 percent yoy in May, entirely driven by larger SOFAZ transfers which were zero in May 2020. Non-oil/gas revenues were up by 3 percent yoy in May. Budget spending declined by 13 percent yoy in May, largely due to 11 percent yoy decline in current spending, as some anti-crisis support measures expired. Capital spending also dropped by 22 percent yoy in May. As a result, the budget balance recorded a deficit of AZN 338 million in May. This brought the year-to-May budget surplus to 1.2 percent of GDP, as compared to 2.8 percent of GDP surplus at end-April. Strong SOFAZ revenues pushed the consolidated budget surplus to 7.6 percent of GDP in January-May.

Credit to economy continued to recover in May. Credit increased by 0.5 percent mom in May, building on the 1.8 percent mom growth in April and driven by consumer loans, in line with the gradual recovery in domestic demand. The share of overdue loans in total portfolio declined to 6 percent in May, from 6.1 percent in April. Deposit portfolio, mostly in manat, also expanded 3 percent mom in May. This reduced the dollarization rate to 52 percent in May from 54 percent in April. Bank profits jumped in May (up by 70 percent mom), but still were lower by 56 percent yoy.
Figure 1. Economic recovery endured in May

![Graph showing GDP growth, oil/gas sector, and non-oil/gas sector over time with ytd (%).]

Source: State Statistics Committee

Figure 2. Inflation rose in May, led by non-food and services prices.

![Graph showing CPI, food, non-food goods, and services inflation over time with yoy, %].

Source: State Statistics Committee

Figure 3. Foreign trade picked up in May.

![Graph showing merchandise exports, merchandise imports, trade balance (right) over time with yoy, % and ytd, % of GDP].

Source: State Customs Committee

Figure 4. CBA reserves were flat and SOFAZ sales edged up in June.

![Graph showing SOFAZ FX sales, CBA reserves (right) over time with USD billion].

Source: Central Bank of Azerbaijan

Figure 5. Despite registering a deficit in May, state budget remained in surplus in January-May.

![Graph showing budget revenue, budget spending, balance (right) over time with % of GDP].

Source: Ministry of Finance

Figure 6. Banking sector continued to improve in May.

![Graph showing total loan growth, yoy, overdue loans ratio over time with %].

Source: Central Bank of Azerbaijan

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