Azerbaijan’s recovery gained momentum in June, supported by robust growth in both energy and non-energy sectors.

The key downside risk to the recovery is the rise in COVID-19 infections in early August.

Inflation moderated in June owing to broad-based deceleration in prices.

Trade surplus widened in June as strong expansion in exports offset pick-up in imports.

Budget balance recorded a small deficit in June.

Banking sector recovery gained momentum in June, supported by recovery in loans and profits.

Broad-based recovery continued in June, with the economy expanding by 7.3 percent year on year (yoy), pushing growth in the first half of 2021 to 2.1 percent. Both energy and non-energy sectors contributed to the recovery. Energy sector expanded by 8.2 percent yoy in June, boosted by higher oil and natural gas production supported by relaxation in OPEC+ production quotas. Looking ahead, the OPEC+ agreement on July 18th to ease cuts will enable gradual expansion of oil production until end-2022. Non-energy sector output growth picked up from 5.8 percent yoy in May to 7.4 percent yoy in June. This was supported by robust growth in agriculture (8 percent yoy), non-oil manufacturing (20.5 percent yoy) and in services, with sub-sectors such as transport (12 percent yoy) and ICT (10.7 percent yoy) performing well. On the other hand, construction sector shrunk by 33 percent yoy in June. On the demand side, investment declined by 18.7 percent yoy in June, dragged down by a 29 percent yoy decline in non-oil investment largely driven by drop in residential construction. High frequency indicators point to a rebound in consumption in June, as compared to May: small transactions increased by 12 percent month on month (mom), remittances by 21 percent mom and debit card transactions by 2.5 percent mom. Cumulatively, the economy grew by 2.1 percent in the first half of the year, with energy output shrinking by 4.7 percent and non-energy output expanding by 5.1 percent. Economic indicators suggest a continued recovery in July: mobility indicators in Baku remained at close to 90 percent of pre-pandemic levels and tracked flights improved when compared to June.

COVID-19 infections picked up in early August posing a risk to the recovery even as the vaccine roll-out accelerated. Daily confirmed COVID-19 cases increased above 1,000, from average of 120 in first half of July, leading to a doubling of active cases in early August compared to mid-July. Meanwhile, vaccination gained momentum in late July and as of August 12th, 33 percent of the population had received at least one dose of the vaccine. The government has introduced several measures to further encourage vaccination, including restrictions for service provision (catering, hotels, and shopping malls) for unvaccinated individuals by October 1 and a requirement that all students above 18 years of age and at least 80 percent of staff in government, health, education, hospitality, and retail trade sectors must be fully vaccinated by October 1.

Inflation moderated in June to 4.7 percent in June from 4.9 percent in May. Food prices declined by 1.4 percent, if compared to May, as the seasonal fall in food prices continued. Non-food prices and service prices also moderated mom in June.

Trade surplus widened in June, as expansion in exports outweighed the pick-up in imports. Exports almost doubled in June yoy, largely owing to a low base, as oil prices were exceptionally low a year ago. Non-oil exports surged in June (31 percent yoy) driven by vegetable and fruit exports. Imports picked up by 21 percent in June yoy. In the first half of 2021, exports expanded by 15 percent and imports by 8 percent, as compared to a year ago. The trade surplus widened to 7.8 percent of GDP in June from 5.2 percent of GDP in May.

The manat remained stable at 1.7 AZN/USD amid decline in FX demand. SOFAZ sold USD 462 million in July, which represented a 10.5 percent yoy decline. CBA reserves remained stable at USD 6.5 billion. CBA continued to slash liquidity mopping up operations in July, slashing the amount of issued notes by 43 percent.

The state budget recorded a small deficit in June. Budget revenues rose by 35 percent yoy in June, as oil revenues increased driven by higher SOFAZ transfers (25 percent yoy increase) reflecting a low base. Non-oil revenues surged by 37 percent yoy, with tax revenues up 13 percent yoy due to strong VAT and excise tax collection. Budget spending fell 5 percent yoy in June, dragged down by a 25 percent yoy decline in current spending and reflecting a high base in 2020 due to increased COVID related spending. In the first half of 2021, budgeted revenue was 2 percent lower and spending was on par with a year ago, while the budget registered a small surplus (0.4 percent of GDP).

Credit to economy gained momentum in June. Credit increased by 1.3 percent mom in June, building on the 0.5 percent mom growth in May. The increase was driven by consumer loans, which accounted for 56 percent of the overall loan portfolio in June. Deposit portfolio, mostly in manat, fell by 3.3 percent mom in June, and the dollarization rate remained at 52 percent. Bank profits increased by 18.5 percent mom in June, as compared to May, and increased by 62 percent yoy. However, as of end-June, the year to date profits remained 1.5 percent lower than in 2020.
AZERBAIJAN MONTHLY ECONOMIC UPDATE – July 2021

Figure 1. Economic recovery continued in June (ytd, %)

Source: State Statistics Committee

Figure 2. Inflation moderated in June (yoy, %)

Source: State Statistics Committee

Figure 3. Trade surplus widened in June (yoy, %) (ytd, % of GDP)

Source: State Customs Committee

Figure 4. CBA reserves were flat and SOFAZ FX sales declined in July (USD billion)

Source: Central Bank of Azerbaijan

Figure 5. State budget recorded a small deficit in June (% of GDP)

Source: Ministry of Finance

Figure 6. Banking sector recovery gained momentum in June (%)

Source: Central Bank of Azerbaijan

Prepared by: Nadir Ramazanov, Sr. Economist
Olena Bogdan, Economist