

- *Azerbaijan's economic recovery continued in July supported by both the energy and non-energy sectors.*
- *Surging COVID-19 cases since August could hamper activity going forward but acceleration of vaccinations could help mitigate risks.*
- *Inflation rose to 5.9 percent in July, moving closer to the upper limit of the central bank's target range.*
- *External trade surplus widened in July, aided by high energy prices and increased non-energy exports.*
- *Fiscal balance recorded a large surplus in July, as revenue continued to recover and spending slowed.*
- *Credit to economy stalled and banking sector profits fell in July.*

**Broad based recovery continued in July, with the economy recording a 6.1 percent year on year (yoy) growth.** The energy sector expanded by 5.5 percent yoy in July, aided by the relaxation of the OPEC+ oil production quotas. Non-oil/gas sectors continued to grow, at 6.1 percent yoy in July, albeit at a slower pace than in June (7.3 percent yoy growth). This reflected robust growth in agriculture (5.7 percent yoy), manufacturing (15.7 percent yoy growth) and in services, with sub-sectors such as transport (10.6 percent yoy) and ICT (5.8 percent yoy) performing well. Relaxation of pandemic restrictions and increased activity in the summer season helped the recovery in the hospitality sector. On the demand side, investment declined by 29 percent yoy in July, dragged down by slow execution of public investments and a drop in investment in the hydrocarbon sector. High frequency indicators indicate a pick-up in consumption in July compared to June: small payments rose by 22 percent month on month (mom) and card transactions by 11 percent mom in July. Cumulatively, the economy grew by 2.7 percent in the year to July, with energy output contracting by 3.1 percent and non-energy output expanding by 5.3 percent. Economic indicators suggest a mixed picture for the recovery in August: mobility indicators in Baku fell marginally while tracked flights remained stable in August when compared to July.

**COVID infections surged in August despite an acceleration in the pace of vaccination.** Confirmed daily COVID-19 cases and deaths surged in August, reaching levels similar to the previous pandemic waves. Vaccination accelerated in the second half of August and, as of mid-September, about 45 percent of population received at least one dose of the vaccine and about 31 percent were fully vaccinated. Vaccination is expected to remain strong, as the requirement for a COVID-19 passport to access public places became effective from September 1.

**Inflation jumped markedly in July to 5.9 percent from 4.7 percent in June.** This moved inflation closer to the upper limit of the central banks' target range of 4±2 percent. CPI Food prices increased by 0.3 percent mom in July and by 6.3 percent in annual terms, driven largely by the inflation in imported

products. Rising food inflation in July reversed the trend of seasonal deflation observed previously in the summer months. Non-food and service inflation also contributed to the rise in inflation: non-food prices increased by 0.2 percent mom and services inflation surged by 2.1 percent mom as the sector rebounded, supported by the economic recovery. CBA's policy rate remained unchanged and its notes portfolio, used for mopping up liquidity, remained stable in August

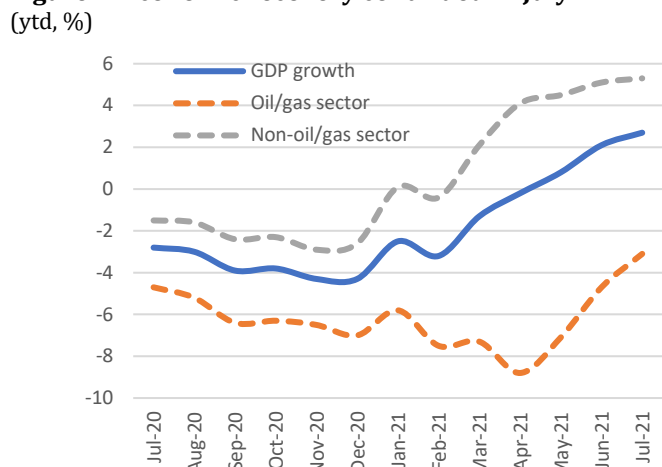
**The trade surplus widened in July, driven by a pick-up in exports and slowing imports.** Exports remained strong in July, increasing by 79 percent yoy, reflecting a 81 percent surge in hydrocarbon exports owing to higher global oil prices. Non-oil/gas exports were also robust, posting a 54 percent growth yoy in July, with plastics and fertilizer exports being the top export items. Import growth was flat yoy in July. In the year-to-July, exports expanded by 25 percent and imports by 6.7 percent as compared to a year ago. The goods trade surplus widened to 18.3 percent of GDP in year-to-July from 13.6 percent of GDP a year earlier.

**The manat remained stable at 1.7 AZN/USD amid an increase in FX sales in August.** State Oil Fund's (SOFAZ) sold USD 512.3 million in August, which represented a 7 percent yoy increase. However, in the year to August, FX sales remain 25 percent lower than a year ago. The CBA reserves increased to USD 7 billion by end-August, supported also by the IMF's Special Drawing Rights (SDR) allocation. SOFAZ assets rose by 2 percent yoy and reached USD 44.1 billion at the end of June 2021.

**The fiscal balance registered a surplus in July, as revenue increased and spending slowed.** State Budget revenues rose by 18 percent yoy in July driven by the strong non-oil/gas revenues (34 percent yoy growth) while transfers from SOFAZ declined (18 percent yoy fall). In line with a broad-based recovery in non-energy sectors, tax collection was a major driver of strong revenue collection: personal income tax collections rose by 10 percent yoy, VAT collections rose by 13 percent yoy, and excises by 29 percent yoy. On the contrary, public spending declined by 13 percent yoy in July, driven by sharp decline fall in capital spending by 34 percent yoy reflecting a high base in 2020. As a result, the budget registered a surplus of AZN 203.7 million in July, while the year-to-July surplus stood at AZN 367.7 million (0.8 percent of GDP). The consolidated balance remained strong, with a surplus of 7.1 percent of GDP in year-to-July, bolstered by strong SOFAZ revenues.

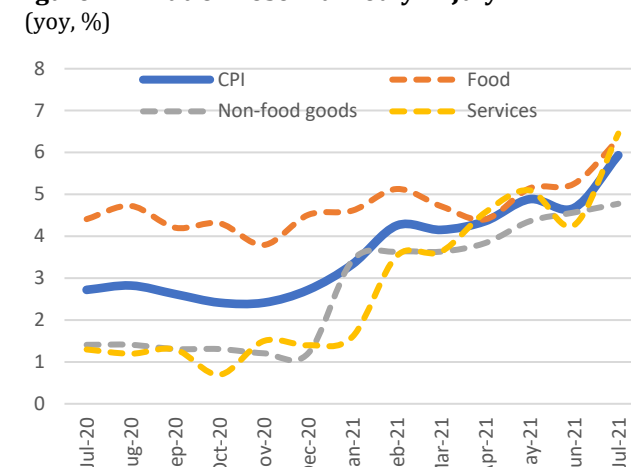
**Credit to economy stalled in July.** Credit portfolio edged up by 0.7 percent mom in July, as the recovery in the sector slowed and credit to businesses stalled. Consumer lending fell by 8.6 percent mom. Overdue loans edged up to 6.1 percent of the overall loan portfolio. Deposit portfolio increased by 3.2 percent mom and by 11 percent yoy in July, driven by increased FX deposits with dollarization rate inching up to 53 percent. Bank profit halved mom and remained 25 percent lower yoy in July.

**Figure 1. Economic recovery continued in July.**



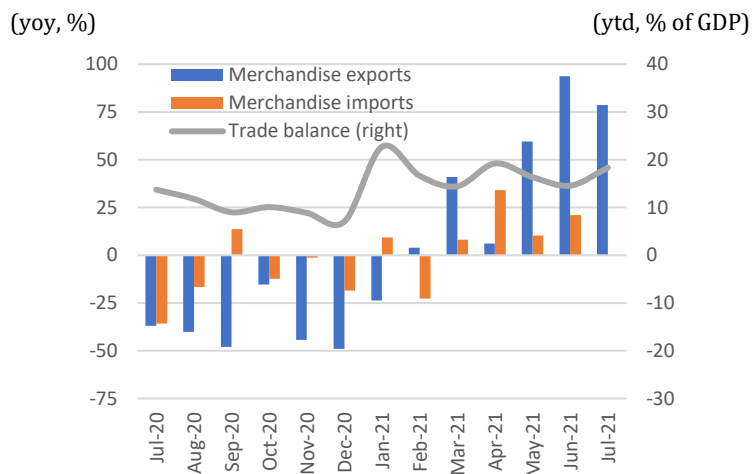
Source: State Statistics Committee

**Figure 2. Inflation rose markedly in July.**



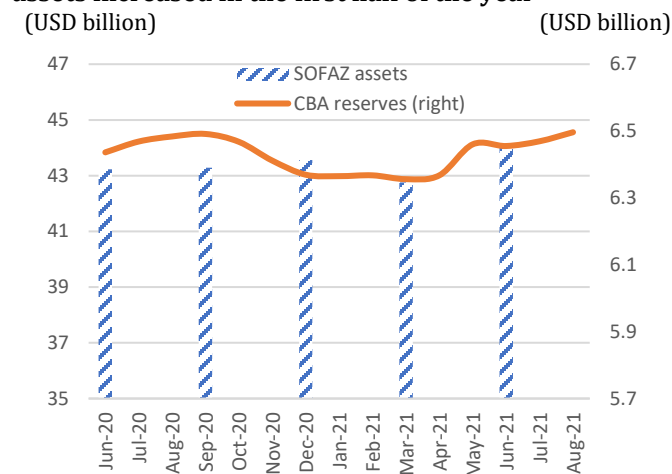
Source: State Statistics Committee

**Figure 3. The trade surplus widened in July.**



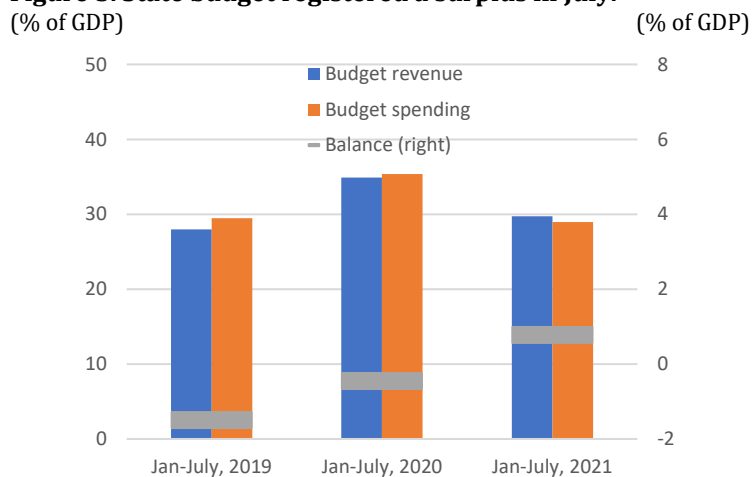
Source: State Customs Committee

**Figure 4. CBA reserves continue to rise and SOFAZ assets increased in the first half of the year**



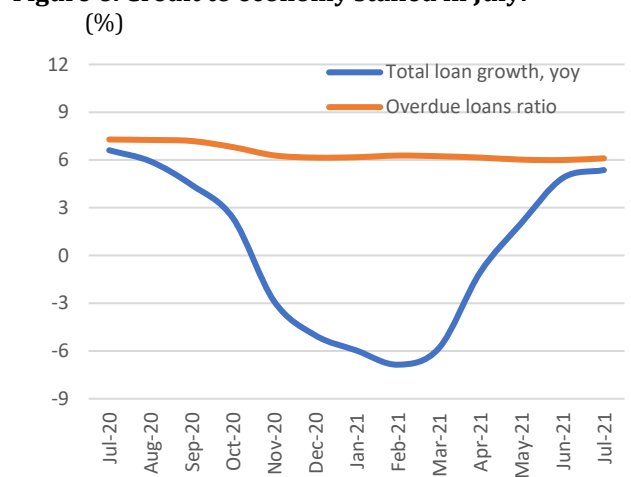
Source: Central Bank of Azerbaijan

**Figure 5. State budget registered a surplus in July.**



Source: Ministry of Finance

**Figure 6. Credit to economy stalled in July.**



Source: Central Bank of Azerbaijan