

- *Economic growth slowed to 5.8 percent (yoy) in August, as energy contracted, while strong performance of the non-energy sector continued.*
- *Inflation further accelerated in August.*
- *The trade surplus widened as expansion in exports outweighed strong growth in imports.*
- *The nominal effective exchange rate appreciated as some trading partners' currencies depreciated.*
- *The budget recorded a surplus in July, bolstered by a marked rise in taxes paid by energy companies.*
- *Credit to the economy grew at a moderate pace in July.*

The economy expanded at 2.9 percent (yoy) in August, fueled by the non-energy sector.

Economic growth in the first eight months of the year eased to 5.8 percent (yoy) in real terms. Energy sector activity shrunk by 14.8 percent (yoy) in August as oil production slumped while natural gas production expanded. Non-energy sector growth remained strong in August, at 13.2 percent (yoy). Agriculture growth moderated to 3.8 percent (yoy) in August after a strong rebound in July, while non-oil and gas manufacturing maintained the growth at 9 percent (yoy). Construction surged by 55 percent (yoy) in August owing to higher execution of public investment. Services continued growing robustly, with particularly high rates recorded in transport (26.1 percent, yoy), hospitality (55.7 percent yoy), and ICT (13.3 percent yoy). On the demand side, investment climbed by 47 percent (yoy) in August, largely driven by a 79 percent (yoy) increase in non-oil investment which was supported by strong outturn of public investment. On the consumption side, the picture was mixed in July, with steady increases in credit card transactions (1.5 percent, mom) and interbank payment systems (3.1 percent, mom) countered by a slowdown in remittance flows (28 percent, mom).

Annual inflation rose in August. The CPI rose by 0.9 percent (mom), which brought annual inflation to 14.1 percent compared to 13.7 percent in July. Food inflation increased faster in August (1.2 percent mom) while service prices rose by 0.7 percent (mom). Non-food inflation decelerated to 0.7 percent (mom) from 1.4 percent (mom) in July

The Central Bank of Azerbaijan (CBA) reduced liquidity absorption operations in July. The CBA note portfolio declined by 16 percent in July compared to June, amounting to AZN 630 million, or 4 percent of base money. Liquidity provision operations remained largely unchanged.

The trade surplus stabilized at a high level in August on the back of soaring exports.

Exports were 2.3 times higher in nominal terms in August than one year ago. Energy exports rose by 2.6 times (yoy) while non-energy exports dropped sharply by 60 percent (yoy) in nominal terms. Strong energy exports were largely driven by higher prices. Imports also performed strongly in August and were 30.7 percent higher in nominal terms than one year ago. The trade surplus stabilized at 34.6 percent of GDP. The Current Account surplus in the first half of 2022 amounted to 27.7 percent of GDP fueled by strong exports and large inflow of remittances (4.4 percent of GDP), which was 3.1 times higher than year ago, while the outflow remained unchanged. Transfers from Russia accounted for 80 percent of the inflow.

The exchange rate remained stable at 1.7 AZN to the USD, while the CBA increased its reserves.

Oil Fund's FX sales more than doubled in August (mom), albeit remaining 4.6 percent lower than one year ago. CBA reserves edged up by 1.3 percent in nominal terms (mom) in August, amounting to USD 7.5 billion as subdued FX demand enabled reserve build up. The nominal effective exchange rate appreciated by 10.5 percent as some trade partners' currencies depreciated.

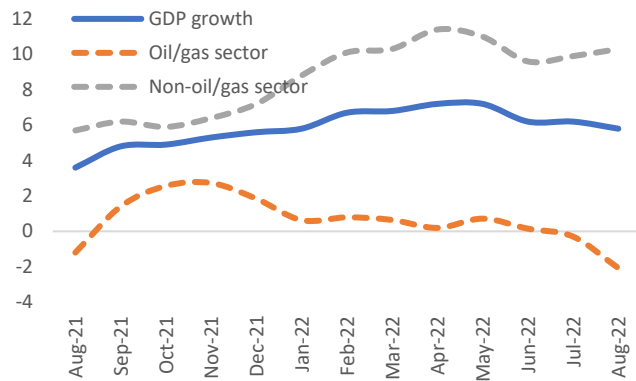
The state budget recorded a surplus in July as a marked rise in revenues outweighed the pick-up in spending.

Budget revenues increased by 61 percent in July on the back of oil and gas revenues, which doubled in nominal terms (yoy). This sharp rise was largely due to tax revenues from energy companies, including the profit tax from the Shah-Deniz natural gas field development. SOFAZ transfers declined by 55 percent (yoy) in nominal terms in July. Non-oil and gas revenues picked up by 20.8 percent (yoy) in nominal terms, in line with robust growth in the non-oil sector. Budget spending increased by 14.6 percent in nominal terms (yoy) in July on the back of capital spending, which doubled in nominal terms compared to one year ago. Current spending fell by 16 percent (yoy). The budget recorded a surplus of AZN 1.3 billion in July, which pushed the surplus in the first seven months of the year to an estimated 3.5 percent of GDP.

Bank loans inched up in July.

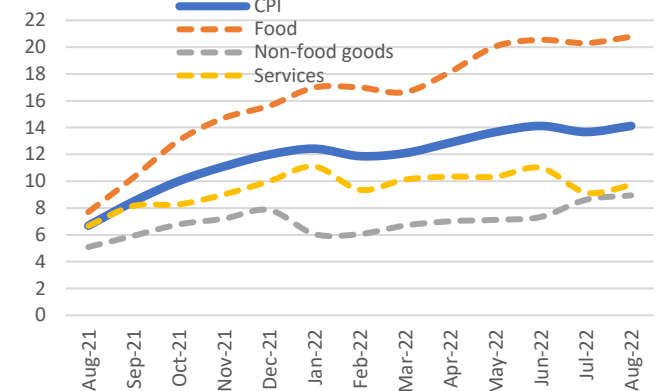
Credit to the economy expanded by 0.8 percent in nominal terms (mom) in July. Overall, the loan portfolio expanded by 23.5 percent (yoy) during January-July 2022. Consumer lending continued to expand at a robust rate, with a 9.4 percent (mom) rise recorded in July, while business loans saw a sharp fall. Non-performing loans leveled off at 3.5 percent of total loans. Deposits declined by 1.1 percent (mom) in July, largely due to a drop in corporate deposits, while household deposits expanded by 2 percent (mom) in July. The dollarization rate remained stable at 50 percent of deposits. Bank profits surged by 23 percent in nominal terms in July (yoy).

Figure 1. Economic growth moderated in August.
(ytd, %)



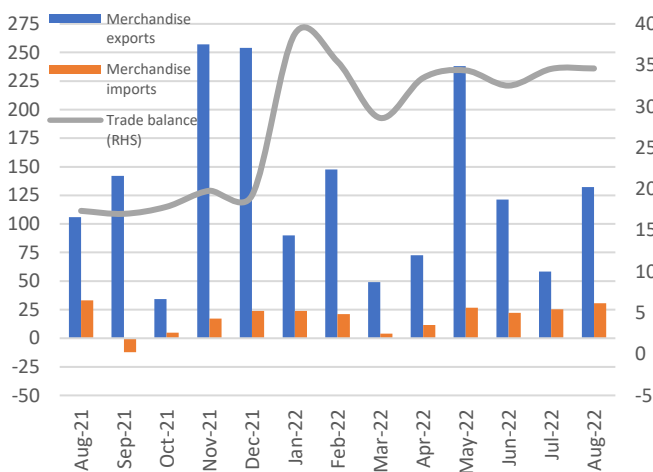
Source: State Statistics Committee

Figure 2. Inflation picked up in August, 2022.
(yoy, %)



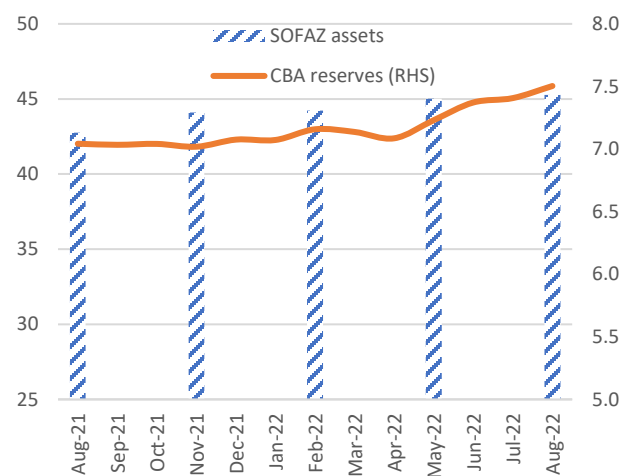
Source: State Statistics Committee

Figure 3. Trade surplus stabilized in August.
(yoy, %) (ytd, % of GDP)



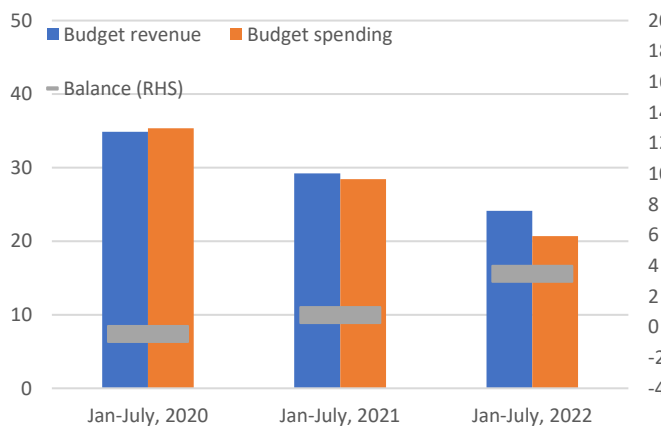
Source: State Customs Committee

Figure 4. CBA reserves picked up in August, 2022.
(USD billion) (USD billion)



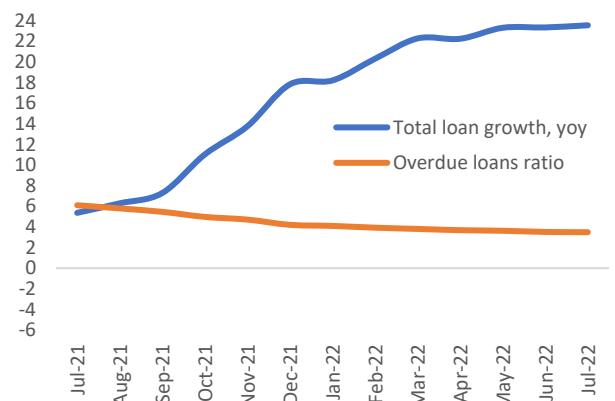
Source: Central Bank of Azerbaijan

Figure 5. The state budget remained in surplus in the first seven months of 2022.
(% of GDP) (% of GDP)



Source: Ministry of Finance

Figure 6. Credit to the economy expanded at moderate pace in July, 2022.
(%)



Source: Central Bank of Azerbaijan