

- *Growth accelerated to 6 percent in July, supported by the non-hydrocarbon sector.*
- *Inflation rose to 2.5 percent in July, due to increases in some administrative prices, including fuel and waste management tariffs.*
- *The trade surplus edged up, due to a small increase in exports.*
- *The fiscal balance recorded a surplus in July as spending slowed.*
- *Credit to the economy eased in July.*

Real growth rose to 4.5 percent (yoy) in January-July, supported by strong performance in the non-hydrocarbon sector. The economy expanded 6 percent (yoy) on the back of robust growth in the non-hydrocarbon sector (Figure 1). The hydrocarbon sector increased 6 percent (yoy), propelled by a 5 percent (yoy) expansion in natural gas production, whereas crude oil production fell 5.3 percent (yoy). The non-hydrocarbon sector grew 5 percent (yoy) in July, supported by transport (up 20 percent, yoy), ICT (up 15 percent), and hospitality (up 9 percent). However, construction sector growth slowed to 3.2 percent, as public investment growth moderated. On the demand side, investment growth fell 25 percent (yoy), driven by a 24 percent drop in non-oil sector investments. However, growth in small payments (up 19.7 percent, yoy), and credit card transactions (up 28.9 percent, yoy) suggests strengthening consumption.

Following an administrative price hike, annual inflation rose to 2.5 percent in July. The CPI rose 0.9 percent (mom) in July, driven by services (up 2 percent, mom) and non-food inflation (up 0.8 percent, mom), with food inflation edging up 0.2 percent (mom). Increases in services and non-food inflation were due to higher solid waste transportation tariffs and fuel prices. For households, solid waste tariffs increased 3.3-fold; for firms, by 50 percent. Meanwhile gasoline and diesel prices increased 10 percent and 25 percent, respectively. Real estate prices continued to rise in Q2 2024, posting 2.2 percent growth compared with Q1. Overall, real estate prices rose by 8.6 percent in H1 2024 compared to H1 2023. This was a broad-based increase with primary and secondary market prices rising 8.9 percent and 8.6 percent, respectively.

The trade surplus widened in July due to a rise in exports. Exports rose 14 percent (yoy) in July, driven by a 13.7 percent increase in hydrocarbon exports, supported by an increase in crude oil and natural gas

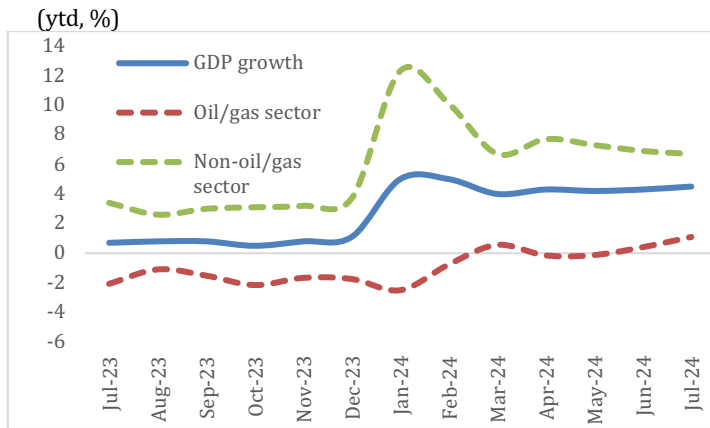
export volumes. Meanwhile, non-hydrocarbon exports grew 19 percent (yoy) in July. Imports surged 41 percent (yoy) in July, largely driven by imports of machinery and vehicles. Overall, the trade surplus widened from 11.5 percent of GDP in June to 12.8 percent in July; however, it remained lower than in the same period in 2023 (27.1 percent of GDP). Money transfers increased 16.5 percent (mom) in July, while remaining 21 percent lower than in July 2023. Tourist arrivals increased 31.4 percent in the first seven months of 2024 (yoy), reaching 1.5 million.

The exchange rate remained unchanged at 1.7 AZN to USD amid a rise in FX demand. In July-August, SOFAZ sold USD 1.5 billion on the FX Market, 2.4 times more than in the same period in 2023, pointing to elevated FX demand. CBAR reserves levelled at USD 11.7 billion in July 2024. The nominal effective exchange rate appreciated by 2 percent in July while the real exchange rate depreciated 1.7 percent, as Azerbaijan's inflation remained lower than that of its trade partners.

The fiscal balance recorded a small surplus in July as expenditures eased. Budget revenues increased 13.8 percent (yoy) in July, supported by a 29 percent increase in hydrocarbon revenues, with SOFAZ transfers 2.3 times higher than in the same period in 2023. Non-hydrocarbon revenues inched up, posting 0.6 percent growth. VAT collection increased 16.1 percent (yoy) and was the main contributor to the non-hydrocarbon revenue flow, whereas customs duties (-2.6 percent, yoy) and corporate income tax (-6.6 percent) dented tax collection growth. In contrast, budget expenditure fell 4.3 percent, due to a 47 percent fall in capital expenditure. The fiscal balance recorded a surplus of AZN 348 million in July, or 0.5 percent of GDP. In the first seven months of 2024, the consolidated budget surplus stood at 11.1 percent of GDP. SOFAZ reserves increased to USD 58 billion in June, up 3.4 percent since December 2023.

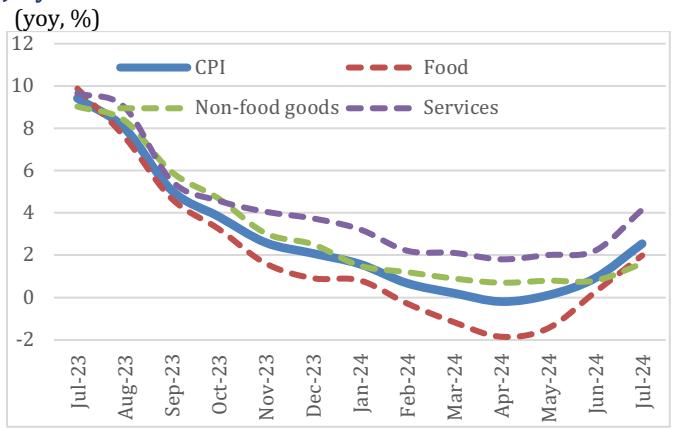
Credit to the economy slowed in July. Bank loan portfolios increased 1 percent (mom) in July, down from 2 percent (mom) growth recorded in June. Consumer loans grew 0.2 percent and loans to businesses rose 1.7 percent. Bank deposits fell 3.3 percent (mom), dragged down by a 2.3 percent fall in AZN deposits, while FX deposits fell 4.7 percent. Nevertheless, deposit portfolios were 8.7 percent higher than in the same period in 2023. The dollarization rate fell to 39 percent in July. Bank profits remained robust, increasing 4.1 percent (yoy).

Figure 1. Hydrocarbon sector growth edged up in July



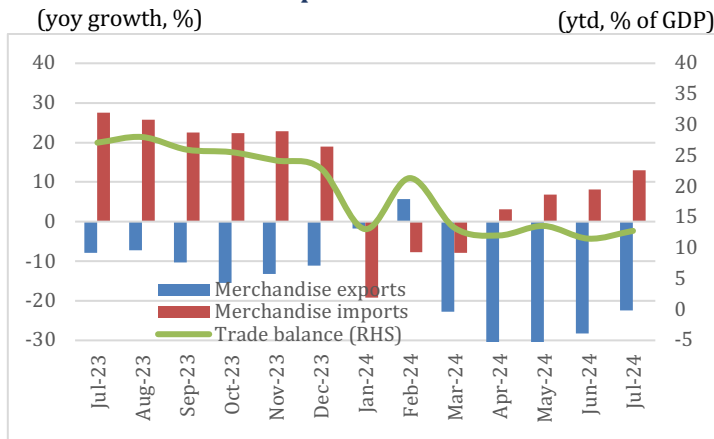
Source: State Statistics Committee

Figure 2. Annual inflation increased to 2.5 percent in July 2024



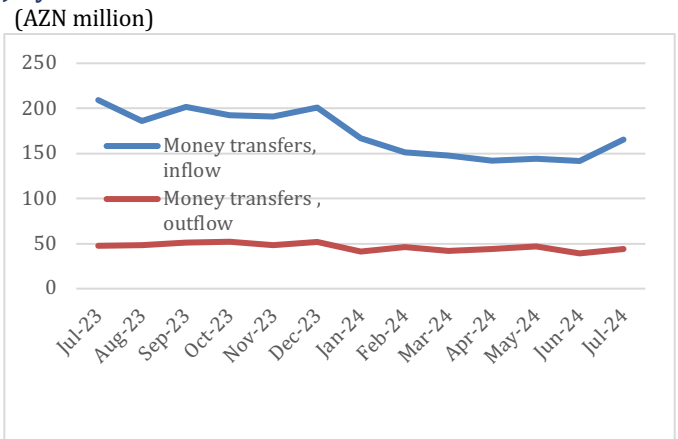
Source: State Statistics Committee

Figure 3. The trade surplus widened in July as the cumulative decline in exports eased



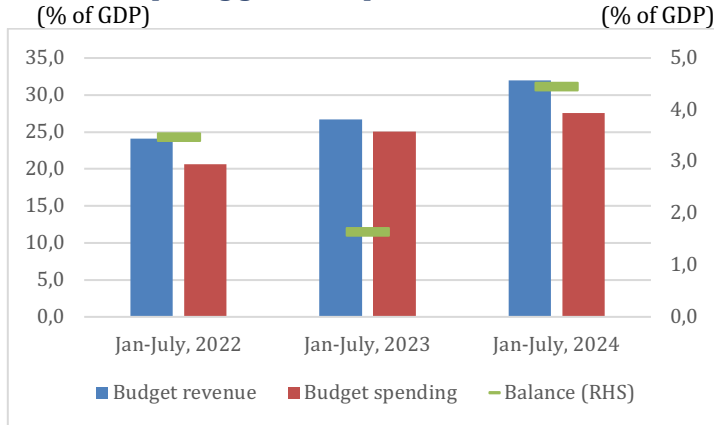
Source: State Customs Committee

Figure 4. Money transfers from abroad increased in July



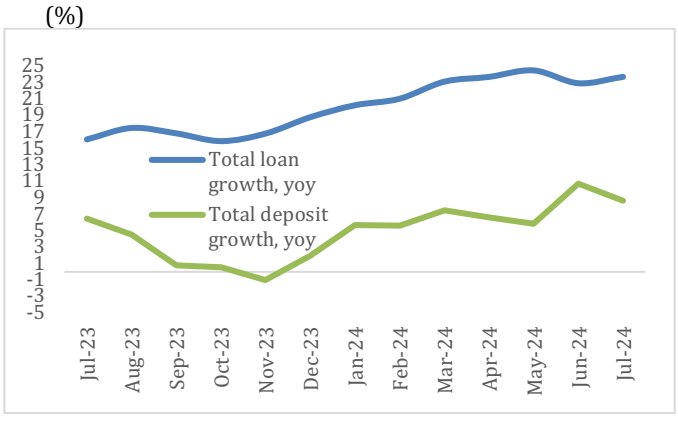
Source: CBA

Figure 5. Budget balances in January–July, with greater revenue outpacing greater expenditure



Source: Ministry of Finance

Figure 6. Credit and deposits eased in July



Source: CBA

