- *Economic activity eased in August, due to a fall in oil production.*
- *Inflation climbed to 3.4 percent, driven by inflation in services.*
- *The trade surplus narrowed as hydrocarbon exports fell and imports rose.*
- *The budget recorded a small deficit in August.*
- *Credit to the economy gained momentum, bolstered by consumer lending.*

Economic growth edged down in August, bringing growth in the first eight months of the year to 4.3 percent. The economy expanded by 3 percent (yoy) in August, down from 6 percent in July. Activity in the hydrocarbon sector decreased by 8 percent (yoy) in August, due to a 10 percent (yoy) fall in crude oil production. The non-hydrocarbon sector posted 9 percent (yoy) growth in August. The pick-up in growth was broad-based, with the construction sector recording the fastest growth (up 35 percent, yoy). ICT (up 15 percent, yoy), hospitality (up 10 percent, yoy), and non-oil manufacturing (up 7 percent, yoy) also supported economic activity. A notable slowdown was recorded in agriculture, which grew only 0.7 percent (yoy) in August, largely due to subdued crop production. On the demand side, investments inched up by 0.1 percent (yoy), supported by 9 percent (yoy) growth in non-hydrocarbon sector investments, but hydrocarbon sector investments fell. Growth in the retail trade sector increased to 4.8 percent (yoy), pointing to robust consumption growth.

Annual inflation climbed to 3.4 percent in August. The CPI increased 0.4 percent (mom) in August, largely driven by inflation in services, which rose 1.3 percent (mom). Higher internet prices drove telephone communication prices up 12.5 percent (mom). Food prices in August were on a par with July, while non-food prices edged up 0.1 percent (mom).

The trade surplus narrowed in August due to a fall in exports. Exports fell 40 percent (yoy) in August, caused largely by a decline in hydrocarbons due to a high base effect. Crude oil and natural gas exports fell 40 percent (yoy) and 54 percent (yoy), respectively, down from unusually high exports recorded in the same period in 2023. Non-hydrocarbon exports increased 50 percent (yoy) in August. Imports rose 24 percent (yoy). This narrowed the trade surplus from 12.8 percent of GDP in July to 11.5 percent in August.

The exchange rate remained at 1.7AZN/USD as high FX demand persisted. The Oil Fund sold USD 732 million in September, 4 percent down from August but 4.4 times higher than August 2023. CBA reserves remained stable, at USD 11.8 billion in September. In August, the nominal effective exchange rate depreciated 0.4 percent (mom) and the real exchange rate depreciated 0.5 percent (mom).

The current account surplus moderated to 7.5 percent of GDP in H1 2024, due to falling hydrocarbon exports. In H1 2024, the foreign trade surplus fell 39 percent (yoy) as exports fell 19 percent (yoy) and imports increased 0.8 percent (yoy). Compared with H1 2023, the services balance deficit leveled and tourism inflows surged 60 percent in H1 2024. Over the same period, the primary income balance deficit fell 33 percent (yoy), due to a decline in profit repatriation by foreign oil and gas companies; and the secondary income surplus narrowed 43 percent (yoy), due to the sharp fall in remittances from Russia. As regards the financial account, a major outflow channel in H1 2024 was the USD 890 million payment of the outstanding Eurobond coupons.

The budget recorded a small deficit in August. Budget revenues increased 58.5 percent (yoy) as hydrocarbon revenues were 4 times higher than in August 2023. This is explained by the low base effect, as SOFAZ transfers were unusually low in August 2023 and were 7 times greater in August 2024. Non-hydrocarbon revenues increased 4 percent (yoy) in August, supported by VAT (up 13.6 percent, yoy) and PIT (up 8.4 percent, yoy) collection, but dragged down by decreases in revenues from CIT (down 22 percent, yoy) and taxes on imports (down 6.4 percent, yoy). Budget expenditure fell 4.2 percent (yoy) in August, driven by a 12-percent fall in current expenditure, but capital expenditure increased 3.5 percent (yoy). The state budget balance recorded a surplus of 0.3 percent of GDP equivalent in August, and a 3.5 percent of GDP cumulative surplus in the first eight months of the year.

Credit to the economy gained momentum in August. Bank loan portfolios expanded 1.4 percent (mom) in August, supported by a 2.7 percent (mom) rise in consumer loans, and business loans grew 0.6 percent (mom). Deposits increased 1.1 percent (mom) in August, supported by a 4.5 percent (mom) rise in FX deposits, and AZN deposits fell 1.1 percent (mom). Bank profits remained robust, increasing 6.6 percent (yoy) in August.

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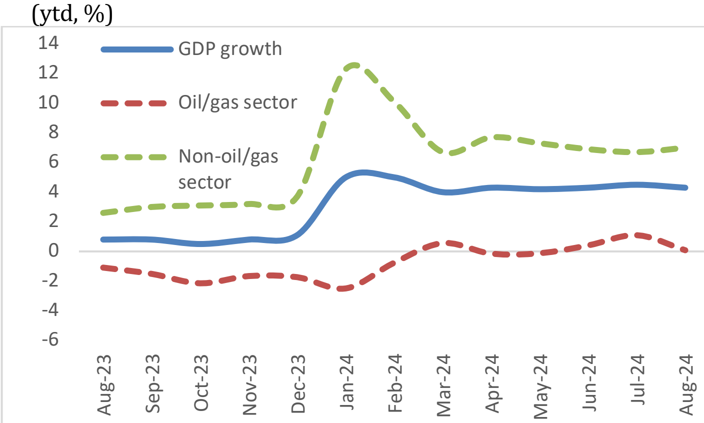
Figure 1. Economic growth moderated in August

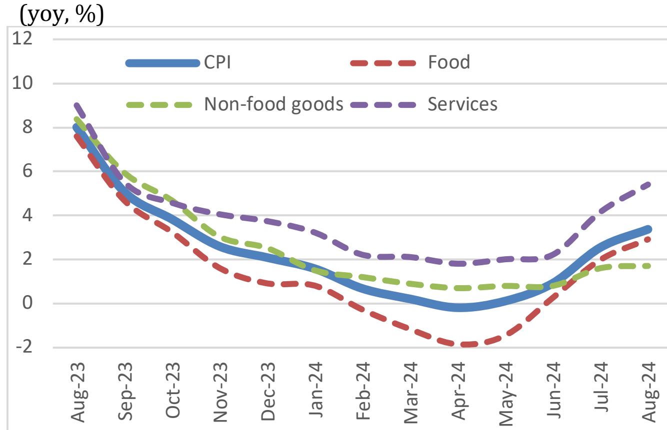
(ytd, %)



Source: State Statistics Committee

Figure 2. Annual inflation rose to 3.4 percent in August

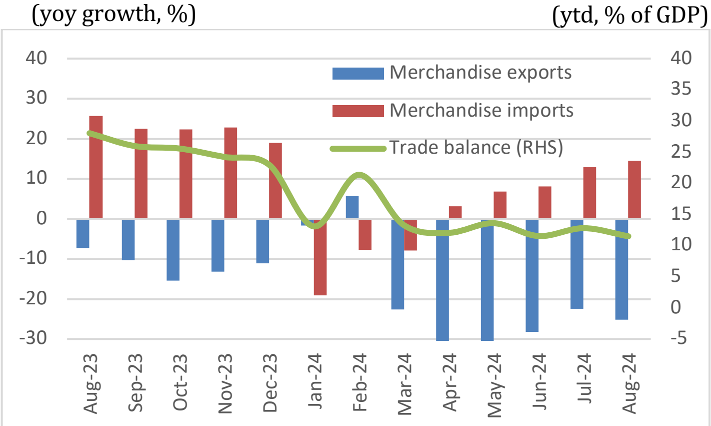
(yoy, %)



Source: State Statistics Committee

Figure 3. The trade surplus narrowed in August as hydrocarbon exports fell

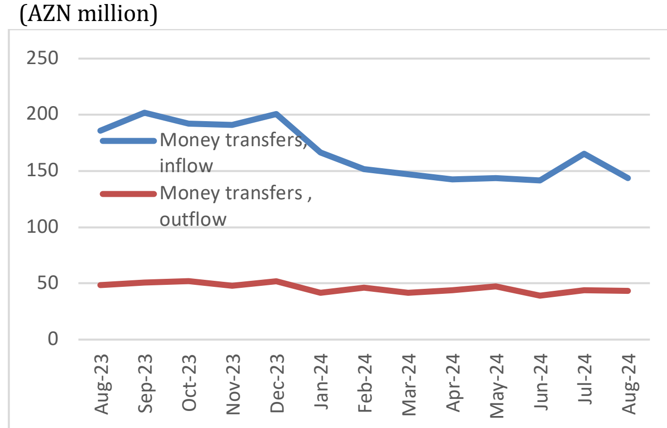
(yoy growth, %) (ytd, % of GDP)



Source: State Customs Committee

Figure 4. Money transfers from abroad fell in August (mom), following a rise in July

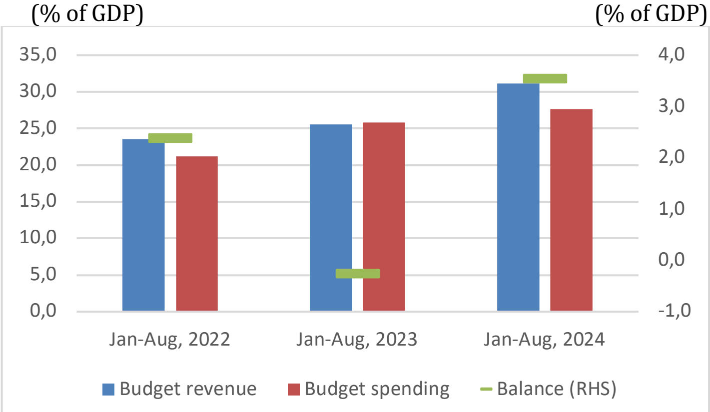
(AZN million)



Source: CBA

Figure 5. The budget recorded a deficit in August amid easing budget expenditure

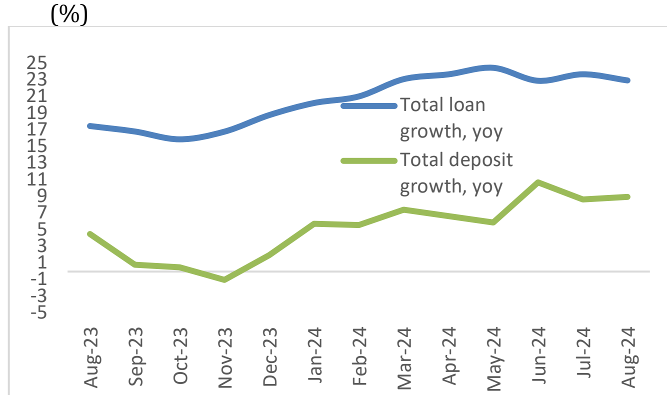
(% of GDP) (% of GDP)



Source: Ministry of Finance

Figure 6. Credit growth remained faster than deposit growth

(%)



Source: CBA

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