Economic recovery continued in October albeit at a slower pace. The economy grew by 5.8 percent year on year (yoy) in October, as compared to 13.7 percent yoy in September. This year-to-October growth rate increased to 4.9 percent yoy as compared to 4.8 percent at end-September. The energy sector grew by 11.7 percent yoy, supported by high global energy demand and steady easing in OPEC+ oil production quotas. Growth in the non-energy sectors decelerated to 3.4 percent yoy, as compared to 9.5 percent yoy in September. Growth was supported by strong performance in manufacturing (24.4 percent yoy growth), transportation (15.2 percent yoy growth), retail trade (7.3 percent yoy growth), ICT (4.8 percent yoy growth), and continued rebound in services including the hospitality sector. However, construction and agriculture contracted in October, by 32.5 percent yoy and 6.2 percent yoy respectively, which dragged down overall growth in the non-energy sectors. On the demand side, investment fell by 30.3 percent yoy in October, driven by a sharp yoy decline in private non-energy investment. In contrast, consumption kept expanding in October, as indicated by high frequency indicators such as small payments (sharp increase by 14.3 percent month on month, mom) and credit and debit card transactions (2.9 percent mom growth).

Recorded COVID-19 infections slowed while the pace of vaccination has been stable. Reported COVID-19 infections were 20 percent lower in the second half of November as compared to the first half of November. Active COVID-19 cases as of first week of December were also 24 percent lower than in mid-November. The pace of vaccination remained stable in November, with a marked increase in administered “booster” shots. By early December, 51 percent of the total population had received the first dose of the vaccine, while 46 percent of the population was fully vaccinated. In addition, 10 percent had received “booster” shots.

Inflation accelerated to 10 percent yoy in October. CPI inflation rose by 1.6 percent mom in October, largely driven by 2.8 percent mom increase in food prices. Annual food prices jumped by 13 percent yoy in October. Non-food and services prices rose by 6.8 percent yoy and 8.3 percent yoy respectively in October. Recovery in domestic demand and rising import prices have driven goods inflation, while a rise in administrative prices contributed to services inflation. Policy rate has remained unchanged at 7 percent since October 29.

Trade surplus improved in October on the back of higher hydrocarbon prices. Exports rose by 34.1 percent yoy in October. Hydrocarbon exports increased sharply by 32 percent yoy, driven by a sharp increase in the price of crude oil, which accounts for 76 percent of country’s hydrocarbon exports, by 46 percent yoy to reach 82 USD/bbl in October. Easing OPEC+ quotas also supported gradual recovery in oil export volumes. Non-oil/gas exports continued to surge, recording 54 percent yoy growth in October with the main exports being fruits, fertilizers, and chemical products. Imports rose by 4.8 percent yoy in October, reflecting a pick-up in domestic demand and higher import prices. Overall trade surplus increased to 24 percent of GDP in October and 17.8 percent of GDP in the year-to-October.

The manat remained stable at 1.7 AZN per USD, with a slight decrease in FX sales. State Oil Fund (SOFAZ) sold USD 540 million of its FX assets in October, slowing by 3.6 percent mom. CBA reserves were stable in October and edged down slightly in November but were comfortable providing 7.8 months of import cover.

Credit to economy picked up in October. Loan portfolio increased by 2.9 percent mom and by 11 percent yoy in October, with business loans expanding by 82 percent mom and consumer lending falling markedly by 29 percent mom. Deposits rose by 1.6 percent mom and by 16.4 percent yoy in October, with the dollarization rate stable at 51 percent. Bank profits improved considerably by 28 percent mom in October.

Budget recorded a deficit in October, as increase in spending outpaced rise in revenues. Budget revenues increased by 5.3 percent yoy in October, largely driven by an 18.9 percent yoy increase in non-hydrocarbon sector revenues especially in higher tax collection. Budget spending also increased, by 18.9 percent yoy in October, due to a 35.8 percent yoy increase in current spending, while capital spending declined by 12.4 percent yoy. Overall budget balance recorded a deficit of AZN 110 million in October, pulling down the year-to-October surplus to 0.1 percent of GDP from 0.25 percent a month earlier. Consolidated budget surplus remained at 6 percent of GDP in the same period, bolstered by high SOFAZ revenues.

The 2022 budget proposal assumes increases in both revenue and expenditure. The 2022 budget proposal, discussed in the Parliament, assumes that both budget revenue and SOFAZ transfers will increase by 4.1 percent yoy in 2022. The benchmark price for oil used is 50 USD/bbl. Budget spending is planned to increase by 4.7 percent yoy, largely driven by a 11.3 percent yoy increase in current spending, with key drivers being the announced increases in minimum wage, pensions, and other social benefits. Capital spending, in contrast, is expected to decline by 3.6 percent yoy. The budget deficit is projected at 3.5 percent of GDP (0.3 pp lower than in 2021), which would be financed by treasury deposits, domestic and foreign borrowing.
Figure 1. Economic recovery slowed in October. (ytd, %)

Source: State Statistics Committee

Figure 2. Inflation accelerated in October. (yoy, %)

Source: State Statistics Committee

Figure 3. Trade surplus increased in October. (yoy, %) (ytd, % of GDP)

Source: State Customs Committee

Figure 4. CBA reserves and SOFAZ FX sales were stable in October. (USD billion)

Source: Central Bank of Azerbaijan

Figure 5. State budget registered a small deficit in October. (% of GDP)

Source: Ministry of Finance

Figure 6. Credit to economy picked up in October. (%)

Source: Central Bank of Azerbaijan