Economic recovery accelerated in September supported by both the energy and non-energy sectors.

Rising COVID-19 cases pose risks, while the pace of vaccination has slowed.

Inflation continued to rise in September, prompting the CBA to increase the policy rate.

External trade surplus stabilized at high levels, bolstered by higher energy prices and robust growth in non-oil exports.

Fiscal balance registered a small deficit in September, as revenues edged down while spending rose moderately.

Credit to economy and bank profits continued to recover in September.

Responding to rising inflation, the Central Bank of Azerbaijan (CBA) increased the policy rate. The CBA increased the policy rate twice, by 25 percentage points (pp) on September 17th and by 50 pp on October 29th, from 6.25 percent to 7 percent, citing mounting inflationary pressures. The CBA has not increased its liquidity absorption operations with the note portfolio remaining stable.

Trade surplus remained stable at a high level in September, boosted by strong performance in exports and slowing imports. Exports more than doubled yoy in September, reflecting a low base in 2020 and rising energy prices. The average export price for Azerbaijani crude oil stabilized at USD 73 per barrel and average natural gas prices jumped to USD 357 per cubic meter, more than 25 percent higher than in August. Non-oil/gas exports also surged in September, recording 82.5 percent yoy growth, with strong performance in exports of plastics, chemical products, and aluminum. Imports, in contrast, fell by 12.2 percent yoy in September, reflecting lower imports of machinery and appliances as well as pharmaceuticals. Cumulatively, in the year-to-September, exports increased 38 percent yoy, while import growth was more subdued at 6.7 percent yoy. Trade surplus rose to 14.6 percent of GDP in September and stabilized at 17 percent of GDP in the year-to-September.

The manat remained stable at 1.7 AZN per USD, with a slight decrease in FX sales. State Oil Fund (SOFAZ) sold USD 1.1 billion of its FX assets during September-October, which represented a 5.3 percent yoy decline in it assets. Both CBA reserves and SOFAZ assets remained solid in September, at USD 7 billion and USD 44 billion respectively.

The state budget recorded a small deficit in September. State budget revenues declined by 3.8 percent yoy in September, due to a 15.1-percent yoy decline in SOFAZ transfers. In contrast, non-oil/gas revenues picked up sharply by 13.8 percent yoy, with strong tax collection supported by economic recovery and rising inflation. State budget spending increased by 7.2 percent yoy in September, driven by a 17.7 percent yoy increase in capital spending and a more modest 3.2-percent yoy increase in current spending. As a result, the state budget registered a deficit of AZN 151 million in September, pulling the year-to-September surplus down to 0.25 percent of GDP, from 0.57 percent of GDP a month earlier. The consolidated budget surplus remained strong, at 6 percent of GDP in the year-to-September, supported by SOFAZ revenues.

Credit to economy picked up in September in line with economic recovery. Loan portfolio expanded by 2.2 percent mom and 7.2 percent yoy, with business lending increasing by 2.2 percent mom and consumer lending by 2.6 percent mom. Deposit portfolio expanded by 3.7 percent mom and 14.3 percent yoy, with the dollarization rate stabilizing at 51 percent. Bank profits improved by 8.9 percent mom, even as year-to-September profits remained 1.4 percent lower yoy.
Figure 1. Economic recovery accelerated in September.
(ytd, %)

Figure 2. Inflation continued to pick up in September
(yoy, %)

Figure 3. Trade surplus was stable in September.
(yoy, %)

Figure 4. CBA reserves and SOFAZ assets stabilized at high levels in September
(USD billion)

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

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