

- *Economic activity improved slightly in August.*
- *Inflation increased 0.4 percent (mom), stabilizing in annual terms.*
- *The trade surplus narrowed, as hydrocarbon exports fell.*
- *The budget recorded a small surplus in August.*
- *Credit to the economy gained momentum, bolstered by consumer lending.*

In August, economic growth edged up 1.7 percent, with an uptick in hydrocarbon sector growth offsetting reduction in non-hydrocarbon sector activity. As a result, eight-month growth leveled off at 1 percent. In August, the economy expanded 1.7 percent (yoy), up from July's 2.5 percent contraction. This was driven by a rebound in the hydrocarbon sector, supported by increased crude oil production (up 1.7 percent, yoy), while natural gas production leveled. In contrast, non-hydrocarbon sector activity contracted 0.9 percent (yoy) in August. Contraction in activity was largely driven by the construction sector (down 9 percent, yoy) and agriculture (down 7.7 percent, yoy). However, growth picked up in transport (up 5 percent, yoy), hospitality (up 17 percent, yoy), and ICT (up 7 percent, yoy). On the demand side, investments tumbled 19 percent (yoy), largely due to a 24 percent (yoy) decline in non-hydrocarbon sector investments, and hydrocarbon sector investments fell 3 percent (yoy). August's high-frequency indicators point to weakening consumption, with a decline in small payments (down 6 percent, mom), remittance inflows (down 1.4 percent, mom), and payment card transactions (down 5.8 percent, mom).

In August, annual inflation stabilized at 4.8 percent. The consumer price index (CPI) increased 0.4 percent (mom) in August, largely driven by inflation in services, which rose 0.6 percent (mom). Food prices increased 0.3 percent (mom) and non-food prices edged up 0.1 percent (mom).

In August, the trade surplus narrowed due to a fall in hydrocarbon exports. Exports fell 14 percent (yoy) in August, largely due to a decline in hydrocarbon exports. Natural gas exports edged up 4 percent (yoy), not enough to offset a 32 percent (yoy) decline in crude oil exports, with overall hydrocarbon exports falling 17 percent (yoy); non-hydrocarbon exports inched up 2 percent (yoy). Imports (excluding gold) declined 4.6 percent (yoy) in August. Gold imports fell to USD 2 million, the lowest since January 2024, suggesting that the share of gold in SOFAZ's asset portfolio has reached its target. In the past 18 months, overall gold imports have amounted to USD 7.1 billion. The trade surplus (excluding gold) fell to 6.5 percent of GDP in August, down from 14.1 percent of GDP

in July. During the first eight months of 2025, tourist arrivals reached 1.7 million, a 1.6 percent decline (yoy) driven by a drop in tourists from Russia and India.

In H1 2025, the current account surplus narrowed slightly, to 6.3 percent of GDP, due to falling hydrocarbon exports and higher imports. In H1 2024, the foreign trade surplus fell 10 percent (yoy), with exports down 1.1 percent (yoy) and imports up 4.3 percent (yoy). Compared with H1 2024, the services balance deficit declined 5.8 percent, with tourism inflows leveling. Over the same period, the primary income deficit fell 12.3 percent (yoy), due to reduced profit repatriation by foreign oil and gas companies. The secondary income surplus narrowed 18 percent (yoy), due to lower remittances from Russia. Foreign direct investment (FDI) inflows increased 6.6 percent (yoy) in H1 2025, amounting to 8.7 percent of GDP, with the hydrocarbon sector accounting for 77.2 percent of inflows. The financial balance deficit doubled in H1 2025, largely due to hydrocarbon sector outflows.

The exchange rate remained at AZN 1.7/USD. Azerbaijan's Central Bank (CBAR) reserves increased 0.5 percent (mom) in September, reaching USD 11.8 billion. In August, the nominal effective exchange rate (NEER) appreciated 0.9 percent (mom) and the real effective exchange rate (REER) appreciated 0.8 percent (mom).

In August, the budget recorded a small surplus, as expenditure growth remained subdued. Budget revenue increased 9 percent (yoy), buoyed by a 6.7 percent increase in tax revenue and an 11.3 percent increase in non-tax revenue, driven by a 13.3 percent increase in transfers from SOFAZ. The main drivers of tax revenue growth included personal income tax (PIT), up 6.7 percent (yoy), and corporate income tax (CIT), up 73.6 percent (yoy). VAT collection leveled. Budget expenditure fell 19 percent (yoy) in August as budget execution remained subdued. In the first eight months of 2025, 53.4 percent of the annual budget was spent, compared with 56.4 percent over the same period in 2024. This translated into a budget surplus in August equivalent to 0.6 percent of GDP, with the cumulative surplus in the first eight months reaching 4.9 percent of GDP.

Credit growth gained momentum in August. The bank loan portfolio grew 0.7 percent (mom), supported by a 1.2 percent (mom) rise in consumer loans, with business loans growing 0.2 percent (mom). Deposits plateaued, supported by a 0.5 percent (mom) rise in FX deposits, although AZN deposits fell 1.3 percent (mom). Bank profits inched up 0.2 percent (yoy).

AZERBAIJAN MONTHLY ECONOMIC UPDATE – OCTOBER 2025

Figure 1. Economic growth picked up modestly in August 2025

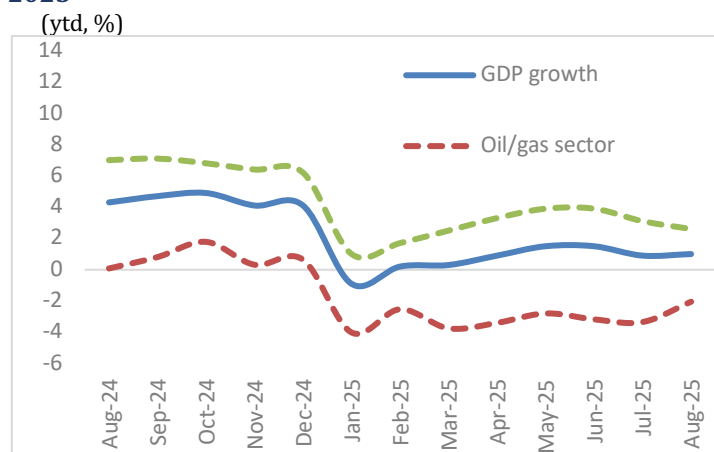


Figure 2. Annual inflation leveled at 4.8 percent in August 2025

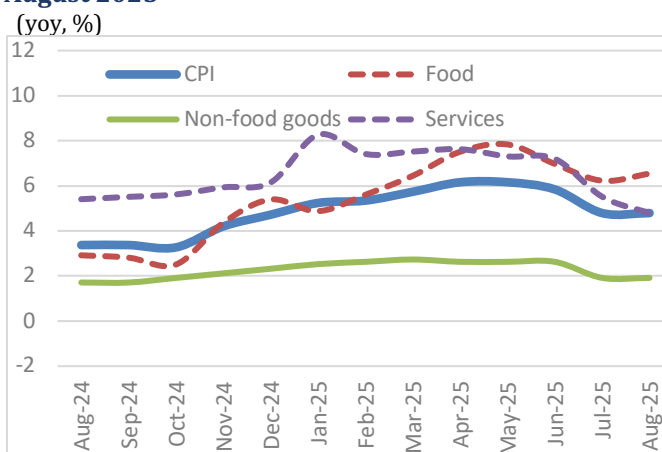


Figure 3. The trade surplus narrowed in August 2025 as hydrocarbon exports fell

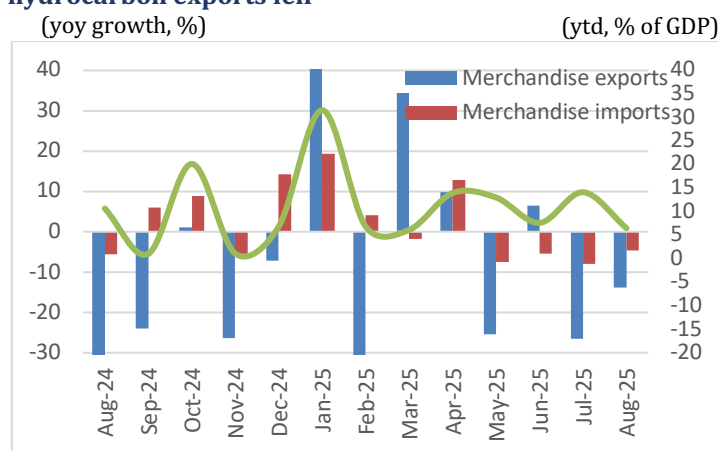


Figure 4. Money transfers from abroad fell in August 2025, following an increase in July

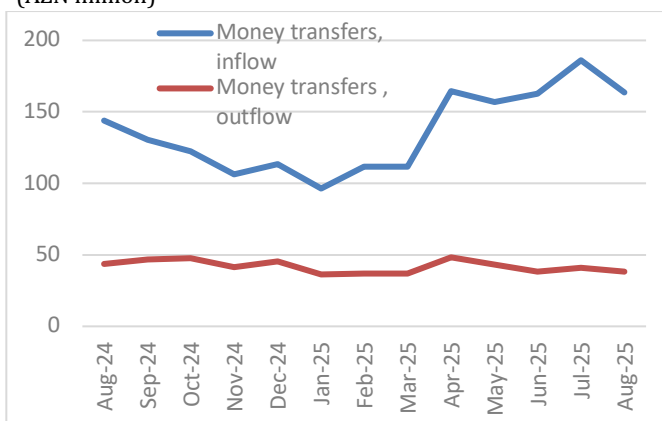


Figure 5. The budget recorded a surplus in August 2025, due to lower budget expenditure execution

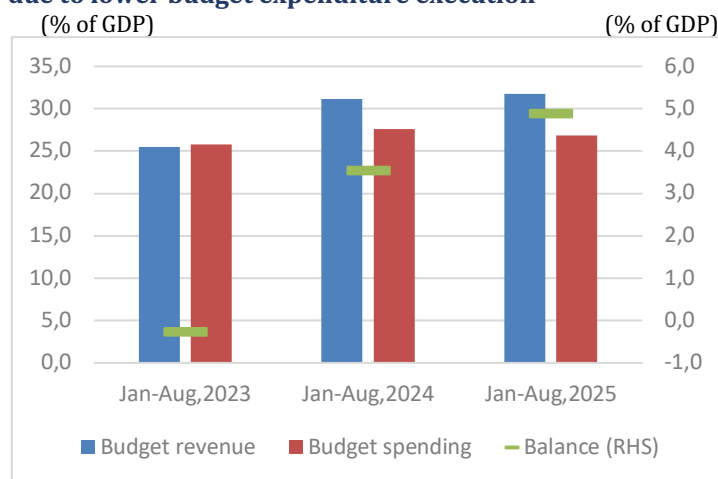


Figure 6. Credit growth edged up while deposit growth fell

