Economic growth slowed to 4.8 percent (yoy) by end-November, driven by a decline in energy production.

Inflation eased slightly, while remaining high at 15 percent in November.

The CBA increased the policy rate by 25 basis points to counter inflationary pressures.

Exports grew by 83 percent (yoy) in November, fueled by high energy prices.

The budget recorded a deficit in November due to a pick-up in spending.

Credit to the economy moderated in November.

Economic growth slowed to 1.5 percent (yoy) in November from 2.6 percent (yoy) in October. Year-to-date real growth slowed to 4.8 percent (yoy) in November from 5.2 percent (yoy) as of end-October. The slowdown was driven by a reduction in energy sector output. Oil production declined by 5.6 percent (yoy) in November to 669,000 barrels per day, below Azerbaijan’s OPEC+ quota of 717,000 barrels per day. The non-energy sector expanded more slowly in November, by 4.5 percent (yoy) as compared to 6.8 percent (yoy) in October. Growth in service sectors such as transport, hospitality and retail trade moderated. This partly reflects a base effect, as non-energy sector activity, particularly in services, had picked up significantly in Q4 of 2021 due to the end of COVID-19 restrictions. Manufacturing edged up by 1.5 percent (yoy) in November after contracting in October. The construction and ICT sectors posted robust growth, expanding by 5 percent (yoy) and 12.7 percent (yoy), respectively.

On the demand side, growth was supported by investment, which rose by 8.2 percent (yoy) in real terms. This was driven by strong non-oil investment growth (30.5 percent yoy), particularly public investment, which expanded by 34 percent (yoy) in November. High-frequency indicators show a mixed picture for consumption in November: money transfers fell by 3.9 percent (mom), credit card transactions rose by 2.4 percent (mom), and small payments increased by 4.1 percent (mom).

Annual inflation eased to 15 percent in November but remains well above the Central Bank of Azerbaijan’s (CBA) target of 4 +/- 2 percent. The consumer price index (CPI) rose by 1 percent (mom) in November, down from 1.6 percent (mom) in October, as food and service inflation eased. However, non-food inflation accelerated from 1.3 percent (mom) in October to 1.6 percent (mom) in November.

The CBA raised the policy rate to 8.25 percent to counter inflationary pressures. The CBA increased the policy rate by 25 basis points to 8.25 percent in mid-December. In parallel, the CBA continued to increase the issuance of its notes to reduce liquidity in the banking sector, with the note portfolio increasing by 17 percent (mom) in December to reach 8 percent of monetary base.

The trade surplus moderated slightly in November, while remaining healthy. Exports were 83 percent (yoy) higher, driven entirely by energy exports: oil exports expanded by 50 percent (yoy), while exports of natural gas were 230 percent higher than one year ago in nominal USD terms. In contrast, non-energy exports declined by 1.4 percent (yoy). Imports rose markedly in November, increasing by 20 percent (yoy), with machinery, transport vehicles, and metals being the top three imported items. The trade surplus reached 32.8 percent of GDP by end-November, compared to 35.4 percent of GDP as of end-October. Balance of payment data released for the third quarter reveal a current account balance surplus of 30.7 percent of GDP propelled by high energy exports, as well as a surge in money transfers. Money transfers increased 3.6 times in nine months, with 82 percent of the inflows originating in Russia.

The exchange rate remained unchanged, with some pick-up in FX demand. The State Oil Fund (SOFAZ) sold USD 410 million in FX auctions in November, which is 27.4 percent higher than in October. However, FX sales remained 24 percent lower in nominal terms than one year ago. CBA reserves rose by 2.1 percent (mom) in November to reach USD 7.9 billion (or 5.4 months of imports).

The state budget recorded a deficit in November amid a pick-up in spending. State budget revenues fell by 22 percent (yoy) as energy revenues dropped. This was driven by a 52 percent (yoy) drop in SOFAZ transfers to the budget as part of a government strategy to rely less on SOFAZ transfers amid robust non-energy revenue collection. Non-energy revenues increased by 15 percent (yoy) in November, in line with the solid performance of the non-energy sector. Budget spending rose by 30.3 percent (yoy) in November, driven by a 47.6 percent (yoy) increase in capital spending and a 24.6 percent (yoy) increase in current spending. Expenditure increases drove the fiscal balance to a deficit of 0.7 percent of GDP in November, lowering the fiscal surplus in the year to date to 2.5 percent of GDP.

Credit to the economy moderated in November. Bank loans expanded by 1.9 percent (mom) in nominal terms in November, down from 2.5 percent (mom) in October. Consumer lending rose by 1.3 percent (mom) while business loans expanded by 0.6 percent (mom). The deposit portfolio expanded by 1.9 percent (mom) driven by a 3.6 percent (mom) increase in deposits in foreign currency. Deposit dollarization inch ed up to 49 percent in November from 48 percent in October. Bank profits slightly moderated in November, increasing 11.6 percent (mom) compared to 12.7 percent (mom) in October.

Prepared by: Nadir Ramazanov, Sr. Economist, nramazanov@worldbank.org
Figure 1. Economic growth slowed in November
(ytd, %)

Figure 2. Inflation eased in November
(oy, %)

Figure 3. The trade surplus narrowed in November but remained healthy
(oy, %) (ytd, % of GDP)

Figure 4. CBA reserves continued to pick up
(USD billion) (USD billion)

Figure 5. The state budget recorded a deficit in November
(% of GDP)

Figure 6. Credit growth moderated in November
(%)

Source: State Statistics Committee
Source: State Statistics Committee
Source: State Customs Committee
Source: CBA
Source: Ministry of Finance
Prepared by: Nadir Ramazanov, Sr. Economist, nramazanov@worldbank.org

Source: CBA