The economy expanded at a modest pace in August due to stabilizing output from the energy sector.

Inflation decelerated further in August as the seasonal fall in food prices lingered.

The Central Bank kept the policy rate unchanged amid slowing inflation.

The trade surplus widened in August as exports slowed and imports grew.

The fiscal balance went into deficit as revenues fell in August.

Credit to the economy expanded at a robust pace and was broad based.

The economy expanded by 1.4 percent (yoy) in August as growth in the first eight months inch ed up to 0.8 percent. Growth in August was mainly driven by the energy sector; natural gas production increased by 5.2 percent (yoy), while crude oil production stabilized at 620 thousand barrels per day in August. However, the non-energy sector shrank in August by 2.1 percent (yoy). This was largely driven by a 14.6 percent (yoy) drop in construction after a 39.4 percent (yoy) expansion in July; volatility in the sector is explained by the uneven execution of public investment. The transport sector declined by 22 percent (yoy) in July due to a slump in air cargo after high levels last year. Robust growth rates were recorded in the ICT (18.4 percent, yoy), hospitality (16.1 percent, yoy), retail trade (3.8 percent, yoy), and agriculture (3.3 percent, yoy) sectors. On the demand side, investments declined by 6.3 percent (yoy) in August largely driven by a 12 percent (yoy) fall in public investment. Private sector investments rose by 10 percent in nominal terms in August. High frequency indicators point to a slowdown in consumption in August: small payments fell by 1.3 percent (mom), credit card operations dropped by 11.3 percent (mom), and inflow of money transfers declined by 11.1 percent (mom).

Annual inflation decelerated to 8 percent in August. CPI inflation declined by 0.4 percent in August and was entirely driven by a 0.9 percent fall in food inflation as seasonal decreases in food prices lingered. Service inflation increased by 0.1 percent (mom) in August, while non-food prices remained stable.

Amid declining inflation, the Central Bank of Azerbaijan (CBA) kept policy rates unchanged albeit monetary conditions tightened somewhat. In September, the CBA kept the policy rate unchanged at 9 percent, citing easing inflationary pressures both externally and domestically. CBA’s liquidity absorption operations point to modest tightening in monetary conditions. For instance, CBA’s 1-day deposit facility attracted 43 percent (mom) more liquidity in August while the note portfolio remained unchanged. Also, due to a new rule on mandatory reserve requirements enacted in July, banks held an additional AZN 350 million (2 percent of monetary base) at CBA, which further tightened the monetary conditions.

The trade surplus widened in August. Exports declined by 2.8 percent (yoy) in August, largely driven by a 3.1 percent fall in energy sector exports, while non-energy sectors levelled. Top non-energy sector export items in August included fruit, chemicals, plastics, and hazelnuts. Russia, Turkey, and Georgia were the top destinations for non-energy sector exports. Imports increased by 16 percent (yoy) in August, lower than the 19 percent (yoy) growth recorded in July. The main import products demonstrated high growth (including transport vehicles, machinery, and garments). The trade surplus widened in August to 34.7 percent of GDP, compared to 24.5 percent of GDP recorded in July. The trade surplus in the first eight months stood at 28 percent of GDP.

The exchange rate remained unchanged at 1.7 AZN/USD, amid sluggish FX demand. Oil Fund’s FX sales amounted to USD 165 million in September, three times lower than recorded a year earlier. Amid low FX demand, CBA propped up its reserves, which increased by 4.4 percent (mom) in September, reaching USD 9.8 billion (27.4 percent higher than year ago).

The fiscal balance recorded a deficit as revenues fell, while growth in expenditure moderated. Budget revenues declined by 27 percent (yoy) in August. Energy revenues fell by 66 percent (yoy), while non-energy sector revenues dropped by 2.7 percent. Energy sector revenues declined due to an 80 percent (yoy) reduction in transfers from SOFAZ, while taxes paid by energy companies increased by 9.6 percent (yoy) in August. Non-energy revenues declined due to low collection of excise taxes, customs duties, and VAT on imported goods. Budget expenditures expanded at 7.5 percent (yoy) in August, largely driven by a 12.3 increase in current spending (yoy), while capital spending increased by 3 percent (yoy). The budget recorded a deficit of 1.7 percent of GDP in August, whereas over eight months the budget deficit had been 0.3 percent.

Credit to the economy expanded robustly in August. Bank loan portfolios increased by 2 percent (mom), supported by both consumer and business loans. The deposit portfolio expanded by 0.8 percent (mom), as a 2.8 percent (mom) increase in manat deposits offset a 1.8 percent decline in FX deposits. Deposit dollarization declined to 41 percent. Bank profits increased by 5.1 percent (mom) in September.

Prepared by: Nadir Ramazanov, Sr. Economist, nramazanov@worldbank.org
Figure 1. Economy expanded at moderate pace in August

(ytd, %)

Source: State Statistics Committee

Figure 2. Inflation decelerated further in August as seasonal food price deflation lingered

(yoy, %)

Source: State Statistics Committee

Figure 3. The trade surplus widened moderately in August as the fall in exports slowed

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

Source: State Customs Committee

Figure 4. Money transfers from abroad continued to fall in August

(USD million)

Source: CBA

Figure 5. The state budget recorded a deficit in August as revenues fell

(% of GDP) (% of GDP)

Source: Ministry of Finance

Figure 6. Credit to the economy expanded robustly in August

(%)