- *Growth leveled at 0.8 percent in September, hindered by the persistent fall in oil production.*
- *Annual inflation fell to 5.1 percent, within the target range of 4+/–2 %. The Central Bank (CBA) reduced the policy rate.*
- *The trade surplus narrowed as exports declined and imports edged up.*
- *The budget deficit widened in September as capital spending growth gained momentum.*
- *Credit to the economy increased robustly in September.*

Economic growth slowed further in September as expansion in the non-hydrocarbon sector was offset by a decline in oil exports. The economy grew by 0.8 percent (yoy) in September, compared to 1.4 percent (yoy) in August. The hydrocarbon sector declined by 4.4 percent (yoy), with a 7.2 percent (yoy) fall in oil production outweighing a 4.4 percent growth in natural gas production. On the other hand, the non-hydrocarbon sector expanded by 5.8 percent (yoy). This was driven by construction, which surged by 35 percent (yoy); hospitality (21.8 percent, yoy); ICT (17.6 percent, yoy); and retail trade (4 percent, yoy). Growth in agriculture slowed to 1.6 percent (yoy). On the demand side, investments surged by 73.2 percent (yoy) in September, driven by non-hydrocarbon investment, fueled in turn by public investment (increasing 2.5 times due to low base effect). High frequency indicators are mixed in terms of consumption dynamics. In September, small payments fell by 8.1 percent (mom) and credit card transactions by 3.5 percent (mom), whereas money transfer inflows rose by 8.7 percent (mom).

Annual inflation fell sharply to 5.1 percent in September. CPI inflation rose by 0.3 percent (mom) in September due to a 0.6 percent (mom) increase in food inflation, which was substantially lower than the 3.4 percent (mom) rise recorded a year earlier. This resulted in annual food inflation easing to 4.7 percent in September, down from 7.6 percent in August. Non-food prices increased by 0.1 percent (mom), whereas service prices remained stable.

With inflation returning to the target interval, the CBA lowered the policy rate. The CBA cut the policy rate by 50 basis points in November, to 8.5 percent, citing low inflationary pressures, both domestically and externally. The CBA also updated its medium-term inflation forecast, predicting inflation to decline further, to 3.4 percent by 2025.

Exports fell by 35 percent (yoy), driven by a fall in oil and natural gas exports. In September, oil exports fell by 16 percent in nominal terms due to a fall in both volume and price, whereas natural gas exports fell by 46 percent (yoy) due to a fall in prices. Export price for natural gas was USD 316 in September, compared to USD 1,191 a year ago. Non-hydrocarbon exports fell by 3.2 percent (yoy) in September. Import growth slowed to 2.7 percent (yoy), compared to 16 percent in August. The trade surplus narrowed slightly to 26 percent of GDP in the first nine months of 2023.

The exchange rate remained unchanged in September, at 1.7 AZN/USD, amid sluggish FX demand. The Oil Fund sold USD 203 million in October, 37 percent less than a year ago, pointing to sluggish FX demand. Low FX demand allowed the CBA to prop up its reserves, which rose by 7.5 percent (mom) in September to USD 10.5 billion, a level not reached since February 2015. SOFAZ reserves also increased, reaching USD 55.5 billion by end September, 13.2 percent higher than at year end 2022.

The budget was in deficit in September. Budget revenues declined by 25.8 percent (yoy) in September, largely driven by a fall in hydrocarbon revenues. Hydrocarbon revenues fell by 51.6 percent (yoy), with a 64.5 percent decline in Oil Fund transfers offsetting a 20.7 percent increase in taxes paid by oil and gas companies. Low transfers from the Oil Fund are explained by higher collections from non-hydrocarbon sectors in previous months. However, in September, non-hydrocarbon sector revenue fell by 7.1 percent (yoy), partly due to lower PIT collection (–2.9 percent, yoy) and low non-tax revenue collection. Budget spending increased by 10.6 percent in September owing to a 42.3 percent (yoy) increase in capital expenditure, whereas current spending declined by 1.9 percent (yoy). Overall, the state budget recorded a deficit of 1 percent of GDP in September, with the deficit having widened to 1.25 percent of GDP in the first nine months of the year.

Credit to the economy picked up markedly in September. The portfolio of bank loans expanded by 2.3 percent (mom) in September, with both consumer and business loans recording similar growth rates. Bank deposits edged down by 0.3 percent (mom) in September, largely driven by a 2.1 percent (mom) fall in foreign currency deposits. This helped to reduce deposit dollarization to 40 percent. Bank profits increased by 15 percent (mom) in September and were 22 percent higher than a year ago.

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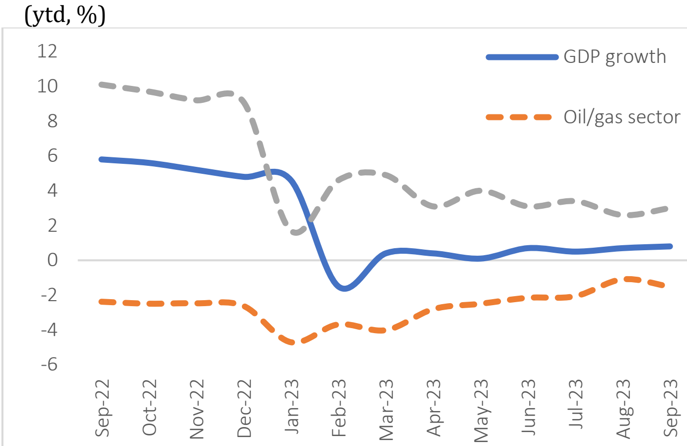
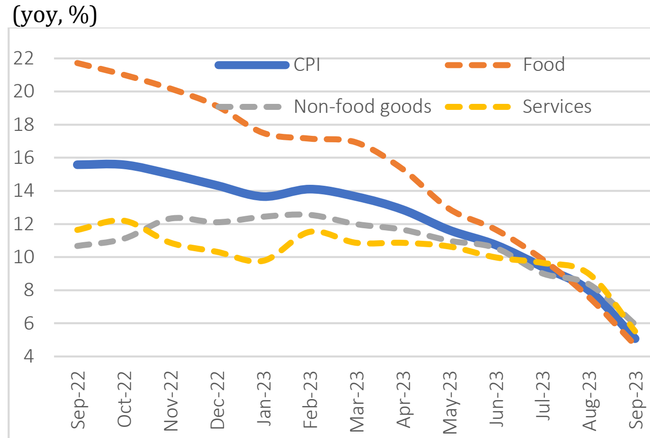
Figure 1. Economy growth leveled in September



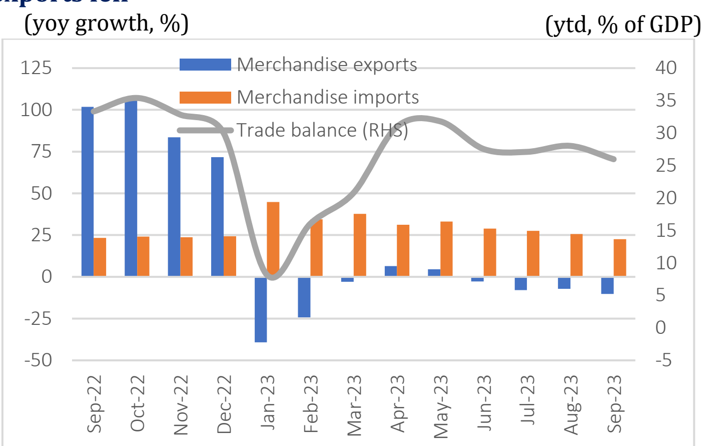
Source: State Statistics Committee

Figure 2. Inflation decelerated sharply in September



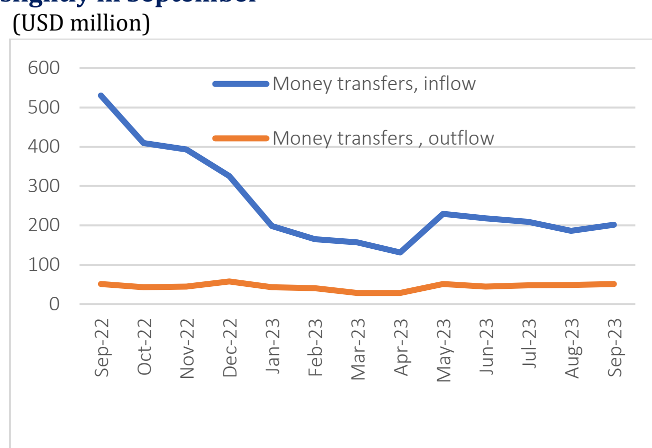
Source: State Statistics Committee

Figure 3. The trade surplus narrowed in September as exports fell



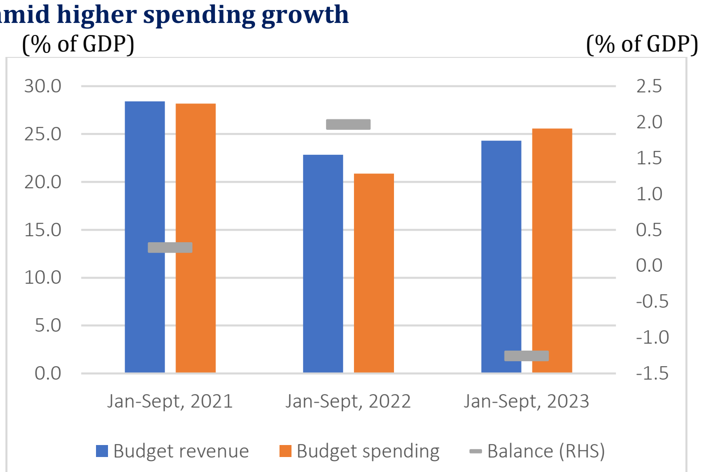
Source: State Customs Committee

Figure 4. Money transfers from abroad increased slightly in September



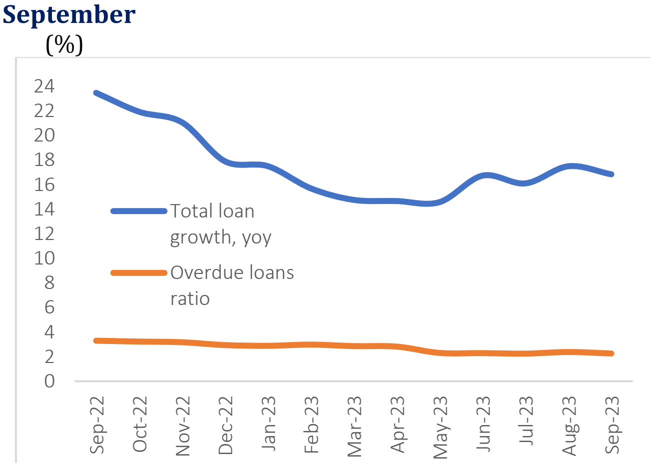
Source: CBA

Figure 5. The state budget recorded a deficit in September amid higher spending growth



Source: Ministry of Finance

Figure 6. Credit to the economy gained momentum in September



Source: CBA

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