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- *Economic growth slowed to 0.5 percent in October as crude oil production tumbled.*
- *Exports fell by 45 percent in October due to falling oil export volumes and prices, and falling gas prices.*
- *Annual inflation fell to 3.8 percent in October and remains within the CBA's target range.*
- *The state budget recorded a surplus amid a marked increase in budget spending.*
- *Credit to the economy slowed in October.*

In October, the economy shrank by 1.7 percent (yoy) due to falling oil production, bringing down economic growth to 0.5 percent for January-October. In October, hydrocarbon GDP fell by 6.3 percent (yoy) due to a 9.2 percent (yoy) drop in oil production, whereas natural gas production rose by 4.2 percent (yoy). Non-hydrocarbon GDP rose by 3.9 percent (yoy), with year-to-date growth at 3.1 percent. Non-hydrocarbon growth was driven by ICT (25.2 percent, yoy), hospitality (12.9 percent, yoy), retail trade (4 percent, yoy), and agriculture (3 percent, yoy). Conversely, the transport and construction sectors contracted by 6.5 percent and 1 percent, respectively, bringing growth down. On the demand side, investments fell by 9.2 percent (yoy) in October, largely driven by a 24.6 percent (yoy) contraction in non-hydrocarbon sector investment as public investment fell (possibly driven by SOEs). Meanwhile, high frequency indicators point to consumption growth in October: small payments rose by 7.9 percent (mom) and credit card operations increased by 13.3 percent (mom), although money transfer inflows fell by 4.9 percent (mom).

Annual inflation continued to fall to 3.8 percent, within the CBAR's inflation target interval of 4+/–2 percent. In October, CPI inflation rose by 0.4 percent (mom), driven by a 0.8 percent increase in food inflation. Annual food inflation moderated to 10.5 percent. The agricultural PPI rose by 0.6 percent (mom), compared to 1.3 percent (mom) in September. Non-food inflation rose by 0.1 percent (mom), whereas service prices remained intact.

In October, the trade surplus moderated, with exports falling further and imports rising. In October, exports fell by 45 percent (yoy), driven by a 48 percent (yoy) fall in hydrocarbon exports. Crude oil exports dropped in both volume and price. Although natural gas exports grew in volume, export prices fell sharply as EU prices stabilized. Non-hydrocarbon exports rose by 3.3 percent (yoy) in October. Imports picked up strongly, rising by 20.5 percent (yoy); principal imports were machinery, metals, and transport vehicles. As a result, the trade surplus narrowed slightly, from 26 percent of GDP in September to 25.6 percent of GDP in October.

Demand for foreign currency remains weak. In November, the State Oil Fund sold USD 234.7 million, 43 percent less than in November 2022. Low FX demand allowed the CBA to build up more reserves, which increased by 1 percent (mom) to USD 10.6 billion (6 months of import), or 18 percent higher than in December 2022.

The state budget recorded a surplus in October. In October, budget revenues fell by 6.3 percent (yoy) due to a fall in hydrocarbon revenues. Taxes paid by energy companies fell by 70 percent (yoy), largely due to a higher base effect, since the first large profit tax payment by the main natural gas field was made a year ago. SOFAZ transfers surged in October, increasing 3.5 times (yoy), due to increased end-of-year spending requiring more funding. Non-hydrocarbon revenues rose by 20.7 percent (yoy), supported by robust tax and import duty collection. Budget spending rose by 25 percent (yoy) in October, driven by capital spending, whereas current spending leveled up. The budget balance turned to surplus, at 0.9 percent of GDP.

The draft budget for 2024 points to moderation in spending. The draft submitted to Parliament assumes a 0.3 percent increase in budget spending in 2024 over 2023. Current spending is projected to rise by 2.5 percent, whereas capital spending is set to fall by 8.9 percent, compared to 2023. Budget revenues are projected to rise by 0.8 percent, driven by a 5.3 percent (yoy) increase in non-hydrocarbon revenues; meanwhile, hydrocarbon revenues are expected to fall by 3.2 percent due to reduced tax payments by energy companies from falling oil and gas revenues. The state budget deficit is projected to be 2.2 percent of GDP in 2024.

Credit to the economy slowed in October. The bank credit portfolio rose by 0.7 percent (mom) in October, lower than the 2.3 percent (mom) growth recorded in September. Business credit and consumer credit rose by 1.3 percent (mom) and 1 percent (mom), respectively. The principal reason for slowing credit growth is the CBA's decision to revoke the Mugan Bank's license because of insufficient capital to meet minimum requirements and subsequently to exclude its credit and deposit portfolios from aggregates. Total deposits rose by 2.2 percent (mom) in October, driven by a rise in FX deposits. Bank profits rose by 18 percent (yoy) in October.

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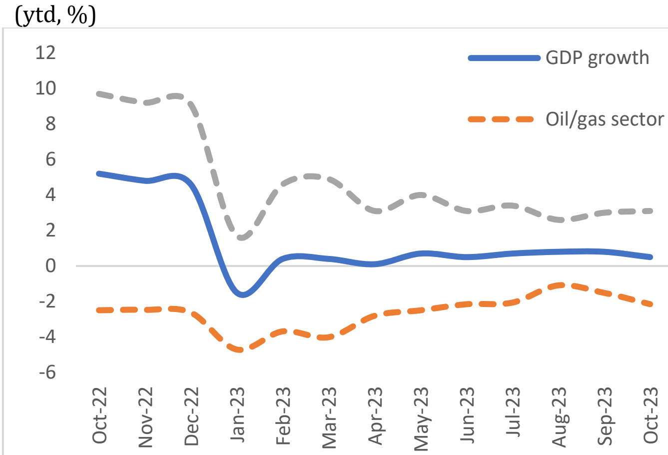
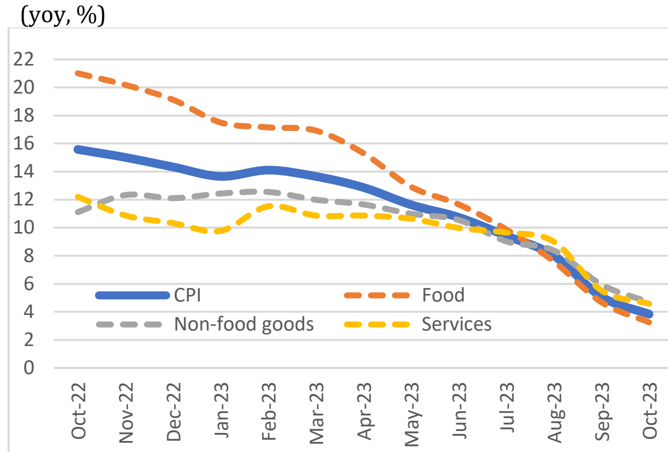
Figure 1. The economy decelerated further in October



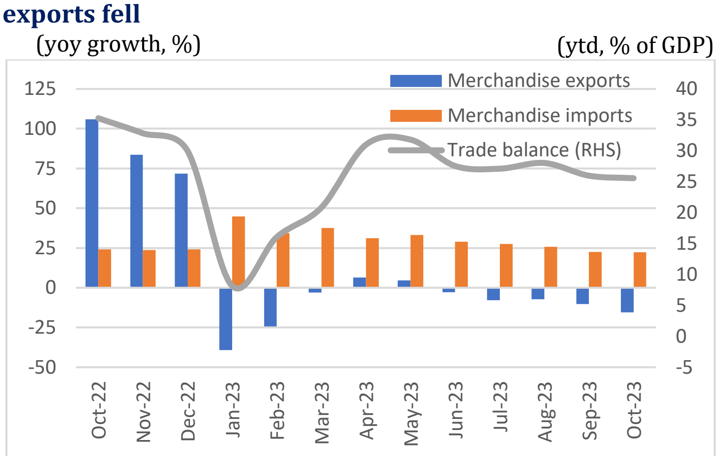
Source: State Statistics Committee

Figure 2. Inflation continued to fall in October



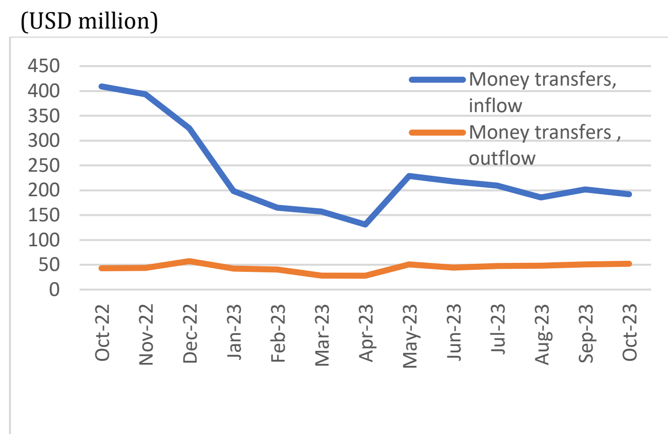
Source: State Statistics Committee

Figure 3. The trade surplus edged down in October as exports fell



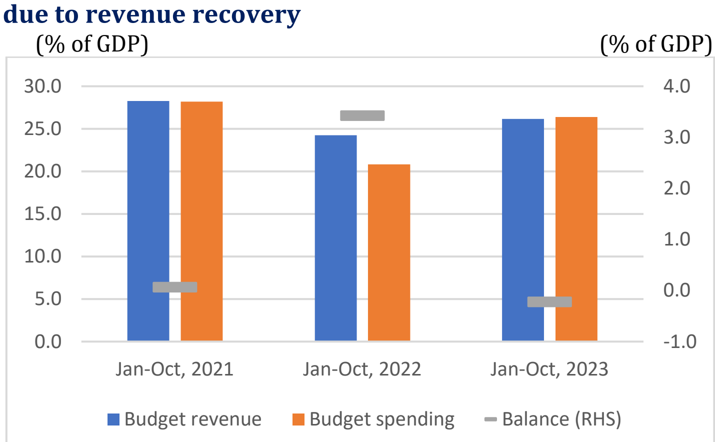
Source: State Customs Committee

Figure 4. Money transfers from abroad continued to ease in October



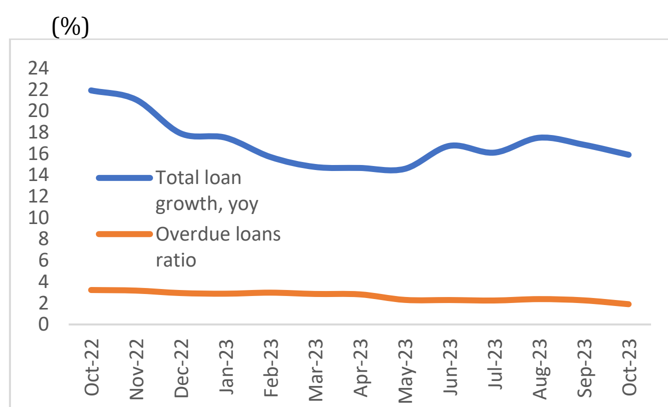
Source: CBA

Figure 5. The state budget recorded a surplus in October due to revenue recovery



Source: Ministry of Finance

Figure 6. Credit to the economy moderated in October



Source: CBA

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