

- *The economy contracted by 2.8 percent yoy in October, a significant improvement from a 12.3 percent yoy decline in September.*
- *However, a surge of COVID-19 infections since late October threatens the recovery in the last months of 2020.*
- *Trade balance improved in October, aided by higher oil prices and weak import.*
- *Credit to economy stalled and FX deposits continued to decline.*
- *State budget recorded a small surplus in October on account of improved revenue collection.*

**The economic contraction moderated in October, though the improvement has been contained to the energy and few other sectors.**

GDP contracted by 2.8 percent yoy in October, significantly less than the 12.3 percent decline yoy in September, despite a military escalation in Nagorno-Karabakh during the month. This brought year-to-October growth to -3.8 percent. Energy sector output, after contracting by 18 percent yoy in September, was down by smaller 5.2 percent yoy in October, due to a 6 percent yoy decline in daily oil production and a slowdown in natural gas production. Output in the non-oil/gas sectors was down by 1.3 percent yoy in October, as compared to a 9 percent yoy in the previous month. Performance across sectors was mixed: while agriculture (2.6 percent yoy growth) and construction (12 percent yoy growth, driven by public investment) rebounded after a decline in September, ICT sector growth slowed markedly, manufacturing contracted by 9.6 percent yoy and hospitality (hotels and restaurants) sectors continued their weak performance. On the demand side, investment grew by 11 percent yoy in October. Consumption is likely to have slowed down in October, as small payment transactions dropped by 4.2 percent and transactions with payment cards fell by 7 percent month-on-month (mom) in October, wage growth is stagnant and credit is stalled.

**COVID-19 infections surged since end-October, prompting tighter restrictions on social activities at least until the end of the calendar year.** New measures include suspension of all services during weekends, except for grocery stores and pharmacies, and continued curfew during workdays. Consequently, average mobility in Baku declined sharply to 57 percent of pre-COVID level by early December from 71 percent in early November. As a result, economic activity is expected to weaken significantly in the last two months of 2020.

**CPI inflation decelerated in October.** Depressed domestic demand and appreciating currency (in effective exchange rate terms) kept inflation subdued. Annual CPI inflation fell to 2.4 percent in October, from 2.6 percent in September and 2.8 percent in August.

Annual food and non-food inflation plateaued while prices of services further declined.

**The manat remained stable against the USD as FX demand softened.** However, the currency appreciated vis-à-vis the country's trade partners by 5.2 percent yoy in nominal and 4 percent yoy in real terms in October, reflecting local currency depreciations in Turkey, Belarus, and Russia. SOFAZ sold USD 496 million in November, 12 percent less than a month earlier and 8 percent less yoy. Central Bank of Azerbaijan's (CBA) reserves declined slightly by USD 56 million in November, but remained at USD 6.41 billion, which is 3.7 percent higher yoy.

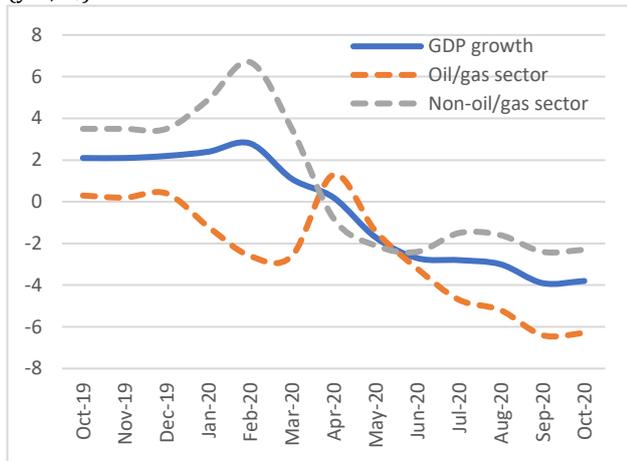
**The trade balance improved in October, as exports recovered slightly.** Even though exports were 15 percent lower yoy in October, this marked a considerable improvement from a sharp 48 percent yoy contraction in September. Energy exports were down by 16 percent yoy and non-energy export fell by 3 percent yoy. Imports (excluding monetary gold), fell by 12 percent yoy in October and 17 percent mom compared to September. As a result, the goods trade balance returned to surplus in October, with the year-to-October surplus increasing to 10.1 percent of GDP, from 9 percent of GDP a month earlier.

**The state budget recorded a small surplus in October, after six months of deficits.** Revenues increased by 11.6 percent in October, as compared to September, but remained 6.7 percent lower yoy. Oil and gas revenues fell 8 percent yoy while non-oil/gas revenues fell 4.9 percent yoy, largely due to a 21 percent yoy drop in revenues collected by customs. Budget spending was 19 percent higher yoy as both current and capital spending surged. Overall, the state budget balance recorded to a surplus of AZN 162 million in October, narrowing the year-to-October deficit to 0.9 percent of GDP. This deficit was financed by treasury deposits.

**Credit to economy stalled.** The loan portfolio declined by 0.6 percent mom in October, bringing down the annual growth rate to 2.4 percent yoy. Business loans edged down by 0.7 percent mom, while consumer loans declined by 1.7 percent mom, even as mortgage loans picked up by 1.8 percent mom. Deposits fell by 4 percent yoy in October as FX deposits were withdrawn. Banking system profits fell 6.8 percent mom in October.

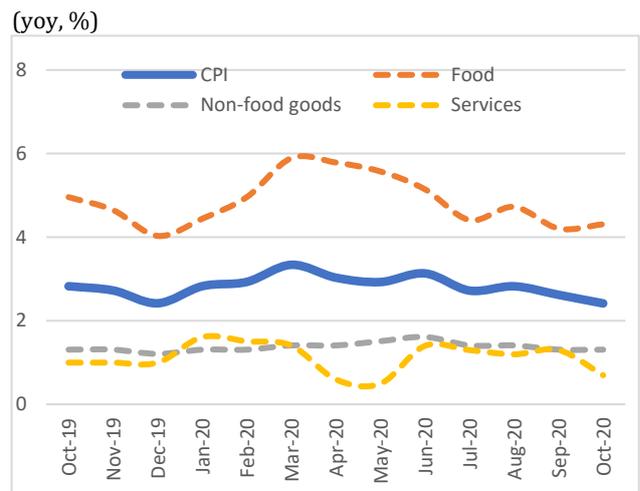
**Global oil markets started to recover amid COVID-19 vaccine news.** Oil prices increased by over 10 percent since end-October and reached 50 USD/bbl by early December. As a result, the OPEC+ countries decided to increase joint crude oil production by 500,000 bbl/day starting in January 2021. Azerbaijan's quota will correspondingly rise by 8,000 bbl/day, to 595,000 bbl/day in 2021.

**Figure 1. Economic activity picked up, amidst easing COVID-19 restrictions in early October (ytd, %)**



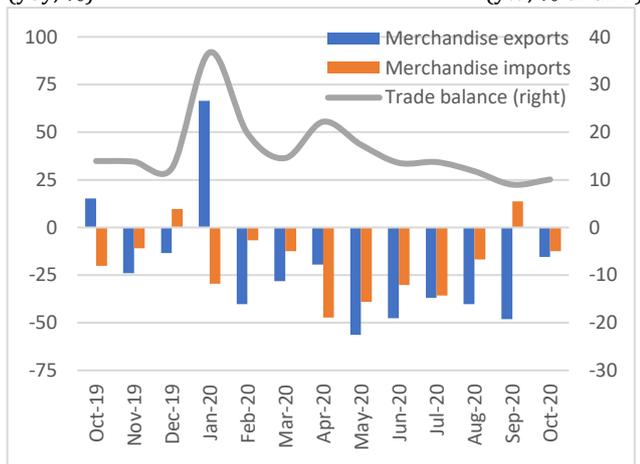
Source: State Statistics Committee

**Figure 2. CPI inflation continued to moderate**



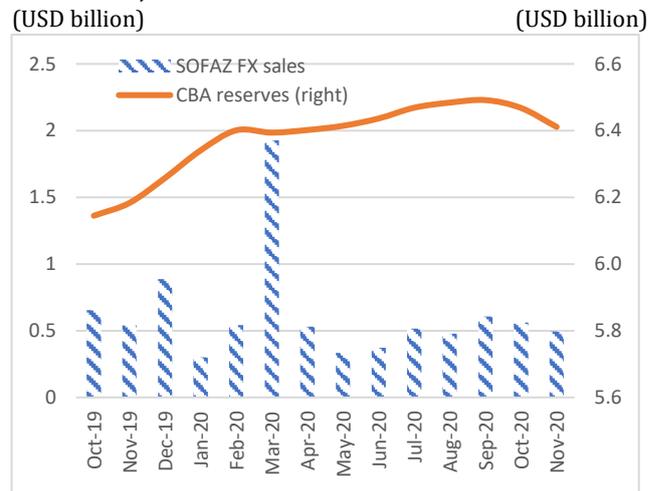
Source: State Statistics Committee

**Figure 3. Trade balance improved in October, as exports recovered slightly and imports fell (yoy, %) (ytd, % of GDP)**



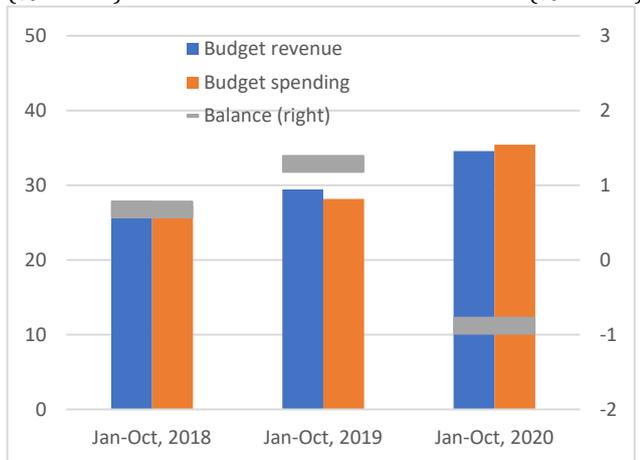
Source: State Customs Committee

**Figure 4. CBA reserves declined in October and November, while SOFAZ FX sales moderated.**



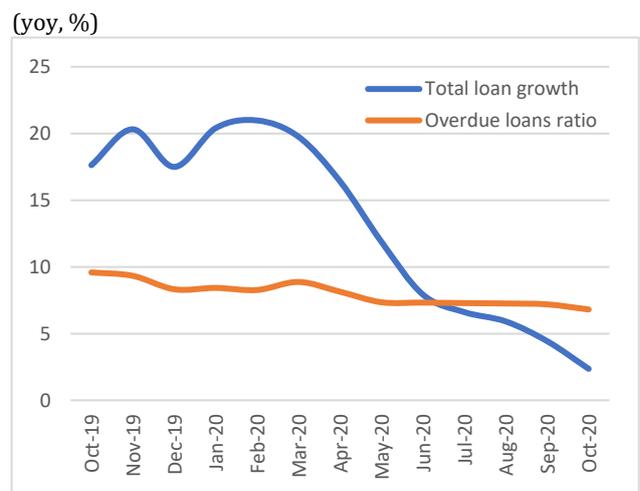
Source: Central Bank of Azerbaijan

**Figure 5. State budget deficit decreased due to improved revenue collection (% of GDP)**



Source: Ministry of Finance

**Figure 6. Credit to economy stalled**



Source: Central Bank of Azerbaijan