Economic activity moderated sharply in October, bringing the growth rate in the ten months of 2019 to 2.1 percent, from 2.5 percent a month earlier. Hydrocarbons output declined by 8 percent year-on-year (yoy) in October, due to maintenance work at the West Chirag oil field, which brought the sector's growth to only 0.2 percent yoy in the year-to-October. Growth in non-oil/gas sectors remained robust at 3.5 percent for the same period. Agriculture expanded by 7.3 percent year-to-date (ytd). Services, such as ICT, trade and hospitality, recorded solid growth, with growth in ICT, 16 percent ytd, outperforming other sectors. Construction, on the other hand, relapsed to negative growth in October. On the demand side, consumption was supported by continued growth in real wages (up 33 percent in October and 9 percent ytd), particularly in the public sector. Investment, on the other hand, posted negative growth as capital formation in the oil/gas sector continued to contract. Investment in the non-oil/gas economy declined in October but remained up by 9 percent ytd.

CPI inflation edged up 0.4 percent in October on month-on-month (mom) basis, due to higher prices of services. As a result, annual inflation inched to 2.8 percent, up from 2.6 percent in September, but remained within the central bank's target of 4±2 percent. Food price growth remained flat at 5 percent yoy, while non-food prices rose by 1.3 percent yoy. Service inflation was 1 percent yoy, up from 0.1 percent a month earlier, due to a seasonal increase in natural gas prices. With inflation within the target range and following considerable easing in the earlier period, the Central Bank of Azerbaijan (CBA) left monetary policy unchanged.

Trade surplus rose in October, as exports recovered, and imports declined. Exports grew strongly in October, by 15.3 percent yoy, bringing the growth rate in the year-to-October to 5.3 percent yoy. Non-hydrocarbon export, mainly fruits, vegetables, cotton, aluminum and gold, grew by 17 percent in October, on par with September. Major destination for non-oil/gas exports were Russia, Turkey, Switzerland, Georgia, and Ukraine. In contrast, monthly imports declined by 20 percent yoy in October as the State Oil Fund (SOFAZ) scaled back its monetary gold purchases. As a result, import growth slowed to 24 percent in the year-to-October (8.8 percent excluding monetary gold). With this, the trade surplus improved to 14 percent of GDP, from 13 percent a month before.

The exchange rate was kept at 1.7 AZN/US$, amid modest FX demand. The real effective exchange rate was also flat yoy. SOFAZ sold US$540 million in November, 17 percent less than in October. Year-to-date, SOFAZ's FX sales were slightly lower than in the same period in 2018. More moderate demand in the FX market allowed the CBA to increase its reserves to US$6.2 billion by end-November.

Budget surplus rose in October, as spending growth remained sluggish. Budget spending had been contracting in the last three months (yoy); as a result, spending in the ten months of 2019 was up by only 3.7 percent yoy. Meanwhile, revenue performance remained solid; as lower SOFAZ transfers were offset by improved VAT and excise revenues. Consequently, the budget surplus improved to 1.3 percent of GDP, from 0.3 percent in September.

Credit to economy continues to recover slowly. In October, credit grew by 16.6 percent yoy, with private banks accounting for 80 percent of the total credit portfolio. Additionally, regulatory changes were introduced to keep the growth of consumer loans manageable and encourage more credit to the real sector. Deposit dollarization remained high at 63 percent in October. The banking sector assets and capital grew by 6 percent and 13 percent yoy, respectively. Return on assets remained stable at 2.4 percent for the sector overall. Separately, on November 28, the President decreed dissolution of the Financial Market Supervisory Authority and entrusted its functions to the central bank.

Brent oil price rose to over 64 US$/bbl in early December, the highest level since September. This reflects the decision by the Organization of the Petroleum Exporting Countries (OPEC) and non-OPEC producers, led by Russia, to extend the oil production cuts as well as potential improvement in global economic growth as a result of an anticipated U.S.-China trade deal. Azerbaijan's budget is based on an oil price of 60 US$/bbl for 2019 and 55 US$/bbl for 2020.
Table 1: Selected macroeconomic indicators

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<tbody>
<tr>
<td>Real GDP growth, in %</td>
<td>2.8</td>
<td>1.1</td>
<td>-3.1</td>
<td>-0.3</td>
<td>1.4</td>
<td>2.5</td>
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<tr>
<td>Inflation, period average, in %</td>
<td>1.4</td>
<td>4.0</td>
<td>12.4</td>
<td>12.9</td>
<td>1.9</td>
<td>2.8</td>
</tr>
<tr>
<td>Current Account Balance, in % of GDP excluding oil</td>
<td>13.6</td>
<td>-0.4</td>
<td>-3.6</td>
<td>4.1</td>
<td>11.4</td>
<td>8.5</td>
</tr>
<tr>
<td>Fiscal balance, in % of GDP</td>
<td>-17.9</td>
<td>-20.4</td>
<td>-25.6</td>
<td>-24.5</td>
<td>-25.8</td>
<td>4.9</td>
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<tr>
<td>SOFAZ assets, in USD billion</td>
<td>37.1</td>
<td>33.5</td>
<td>33.4</td>
<td>36.0</td>
<td>38.5</td>
<td></td>
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<tr>
<td>Central Bank reserves, in USD billion</td>
<td>13.7</td>
<td>5.0</td>
<td>3.9</td>
<td>5.3</td>
<td>5.6</td>
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Source: State Statistics Committee, Ministry of Finance, Central Bank of Azerbaijan, World Bank staff calculations

Figure 1. GDP growth softened to 2.1 percent (year-to-date, in %)

Source: State Statistics Committee

Figure 3. Foreign trade surplus strengthened (yoy, in %) (in % of GDP)

Source: State Customs Committee

Figure 5. State budget surplus increased. (% of GDP) (% of GDP)

Source: Ministry of Finance

Figure 2. CPI inflation edged up (yoy, in %)

Source: State Statistics Committee

Figure 4. CBA reserves reached US$6.2 billion (AZN per 1 USD) (USD billion)

Source: Central Bank of Azerbaijan

Figure 6: Overdue loans continued to decline. (yoy, %)

Source: Central Bank of Azerbaijan