The economy contracted by 12 percent yoy in September, as both non-energy and energy sectors were hit hard.

Oil production declined by 11 percent yoy, weighed down by OPEC+ quotas.

The trade balance deteriorated sharply in September, as oil exports continued declining and import increased.

Credit to economy slowed in September, while FX deposits declined and overdue loans ratio remained flat.

The fiscal deficit widened in the third quarter, as revenues fell and spending surged, which was financed by SOFAZ transfers.

CPI inflation edged down in September, reflecting weak economic activity. Annual CPI inflation fell to 2.6 percent from 2.8 percent in August, as food prices, non-food inflation and services prices all moderated. With inflation closer to the lower bound of the central bank's target range of 4±2 percent, the Central Bank of Azerbaijan (CBA) lowered its policy rate by 25 bps, to 6.5 percent, on September 18.

The trade balance remained in deficit in September. Export fell by 48 percent yoy in September, reflecting a 52 percent yoy decline in crude oil exports as both volumes and prices remain depressed. Non-oil/gas exports also fell by 7.3 percent yoy in September, as external demand in the main trading partners remained weak. Import (excluding monetary gold), on the contrary, increased by 14 percent yoy. The trade surplus fell to 9 percent of GDP in the year-to-September, from 11.8 percent of GDP at the end of August.

The fiscal deficit widened in the third quarter as revenues fell and spending surged. Budget revenues declined by 8.1 percent yoy in the third quarter (-2.5 percent yoy in September), due to a 11 percent yoy decline in non-oil/gas revenues, mirroring weak economic activity. State Oil Fund (SOFAZ) transfers to the budget were up by 1.7 yoy in the third quarter and by 17 percent yoy since January. At the same time, taxes paid by energy companies shrank by 6 percent yoy in the third quarter. In contrast, budget spending rose by 20 percent yoy in the third quarter (15.5 percent yoy in September) owing to a 35 percent increase in current expenditure, particularly on health care. Capital spending was on par with the previous year. The year-to-date (ytd) fiscal deficit amounted to 1.3 percent of GDP in January-September, which was financed by treasury deposits.

The manat remained stable. The exchange rate remained at 1.7 AZN/USD in September-October amid relatively modest FX demand. FX sales by SOFAZ in September and October were up compared to August, but remained 8 percent below last year. The official reserves of CBA declined slightly in October, by USD 24 million, reaching USD6.5 billion by end-October. SOFAZ assets equaled USD43.3 billion by end-September, a USD65 million increase compared to the end of the second quarter. This was a result of gains from FX valuations, as operating income was negative due to low oil prices.

Credit to economy slowed in September. The loan portfolio increased by 1.3 percent month-on-month (mom) in September, bringing down the annual growth rate to 4.4 percent yoy. Loans to households and retail firms accounted for most of the new loans. Deposits fell by 1 percent in September, compared to August, driven by withdrawal of FX deposits. Banking sector profits picked up by 17 percent mom in September but remained 2 percent below last year's levels, while overdue loans remained stable.

Economic activity contracted by 12 percent year-on-year (yoy) in September, its sharpest contraction so far this year. This brought growth in January-September to -3.9 percent. Output in the hydrocarbon sector fell by 20 percent yoy in September, reflecting continued decline in daily oil production by 11 percent yoy (as the country adhered to its OPEC+ quota) while natural gas production continued to increase at a more moderate pace. This has led to a 6.4 percent drop in energy GDP in the year-to-September. Activity in the rest of the economy also weakened, with non-energy sector contracting by 9 percent yoy in September, extending the contraction in the year-to-September to 2.4 percent. Output in construction collapsed (-27 percent yoy) while it slowed in non-energy manufacturing (+4.9 percent yoy) and agriculture (-0.3 percent yoy). Additionally, output in services remained subdued, even as pandemic mitigation measures were relaxed in September. On the demand side, slowing wage growth, decline in credit and stagnant remittances continued to weigh on consumption. Furthermore, investment fell sharply (by 28 percent yoy) while net exports was a drag on growth.

Activity may be subdued in the rest of the year in view of rising COVID-19 infections. The number of detected COVID-19 cases has increased rapidly since the relaxation of restrictions in September. By end-October, daily new cases exceeded the previous peak in mid-June and continued to increase in November. As a result, the government re-imposed countrywide special quarantine regime in end-October, which includes movement restrictions. Consequently, weekly average mobility in Baku started to decline again, from 77 percent of pre-COVID-19 levels in mid-September to 71 percent by end-October. This, together with the month and a half long conflict in Nagorno-Karabakh, will likely depress economic recovery in the fourth quarter. High frequency indicators also appear to support this observation, with small payments plateauing and operations with plastic cards declining.
Figure 1. Economy contracted sharply in September (ytd, %)

Figure 2. CPI inflation continued to soften (yoy, %)

Figure 3. Trade balance deteriorated in September, as export continued to fall and imports rose (yoy, %) (ytd, % of GDP)

Figure 4. CBA reserves and SOFAZ assets remained stable in September and October (USD billion)

Figure 5. State budget deficit widened (% of GDP)

Figure 6. Credit to economy slowed while overdue loans ratio leveled (yoy, %)

Source: State Statistics Committee

Source: State Customs Committee

Source: Central Bank of Azerbaijan

Source: Ministry of Finance

Source: Central Bank of Azerbaijan