- *Economic growth rose to 4.7 percent by end-September, largely driven by robust non-hydrocarbon sector output.*
- *Inflation stabilized at 3.5 percent in September.*
- *The trade surplus narrowed further to 9.5 percent of GDP, on the back of declining hydrocarbon exports and rising imports.*
- *The budget balance recorded a small deficit in September.*
- *Credit growth strengthened in September.*

Economic growth accelerated to 4.7 percent in September (ytd), supported by strong performance in the non-hydrocarbon sector and a rebound in the hydrocarbon sector. The hydrocarbon sector's value-added increased 7 percent (yoy) in September, primarily driven by higher natural gas production. Daily crude oil production stood at 580,000 barrels, up 3 percent from August but down 4 percent from 2023. Natural gas production grew 5 percent (yoy). The non-hydrocarbon sector expanded by 8 percent (yoy) in September, bringing ytd growth for the first nine months to 7.1 percent. In September, growth was particularly robust in construction (up 19 percent, yoy), transport (up 17 percent, yoy), and hospitality (up 15 percent, yoy). Growth in agriculture was just 0.7 percent (yoy), primarily due to adverse weather conditions hampering crop production.

On the demand side, investments fell 3.1 percent in real terms in September. Non-hydrocarbon sector investments were down 33 percent (yoy), largely due to lower public sector investment. Similarly, hydrocarbon sector investments fell 40 percent (yoy), reflecting normalization from the high levels seen in 2023 during the construction of a major oil platform. High-frequency indicators suggest that consumption moderated in September compared with August. Small payments fell 6.3 percent (mom) and money transfers 9.3 percent.

Annual inflation stabilized at 3.5 percent in September. CPI rose 0.3 percent (mom), driven by a 0.5 percent (mom) increase in food prices. Non-food and service inflation remained at 0.1 percent (mom). Real estate prices continued to rise in Q3, with the housing price index climbing 3.8 percent (qoq), bringing the annual price increase to 9.2 percent.

The trade surplus narrowed further in September as strong import growth persisted. Exports fell 24 percent (yoy), largely due to a 29 percent decline in hydrocarbon exports. The drop in hydrocarbon exports was driven by lower crude oil export volumes compared with 2023 and a sharp decline in natural gas export prices. Non-hydrocarbon exports continued to perform strongly, growing 27 percent (yoy), partly driven by polymers and cotton. Imports also continued to rise rapidly, increasing 24 percent (yoy). The surge in imports was largely driven by the public sector, with 71 percent (yoy) growth over the first nine months, whereas private sector imports rose 4.6 percent. The high growth in public sector imports can be attributed to factors such as the increased rate of reconstruction in liberated areas and the preparatory work for COP29.

The AZN exchange rate remained stable at 1.7 AZN/USD in October and FX demand remained strong. The Oil Fund (SOFAZ) sold USD 174 million in the FX market in October, down 73 percent from September. This slowdown was expected as, by end-September, SOFAZ had already transferred 75 percent of its annual transfer limit to the state budget. To meet the elevated FX demand, the CBAR sold USD 424 million in October, reducing its reserves to USD 11.3 billion. SOFAZ assets rose to USD 61.6 billion, a 10 percent increase compared with December 2023, driven by the appreciation of asset values.

The state budget recorded a small deficit in September. Budget revenues increased 52.7 percent (yoy), primarily due to a higher SOFAZ transfer, which was 3.8 times larger than in 2023. Non-hydrocarbon revenues rose 10 percent (yoy), supported by increases in VAT (up 29 percent, yoy), personal income tax (up 7 percent, yoy), and excise taxes (up 7 percent, yoy). Budget expenditure grew 9.6 percent (yoy), driven by a 16 percent (yoy) increase in current expenditure, whereas capital expenditure fell 1.6 percent (yoy). The budget balance recorded a small deficit of 0.3 percent of GDP in September and the state budget surplus for the first nine months narrowed to 2.8 percent of GDP.

Credit to the economy gained momentum in September. Bank loan portfolios expanded 2.7 percent (mom), with both business and consumer loans (up 2.9 percent and 2.1 percent, mom, respectively) contributing to the increase. Deposits also grew robustly, rising 2.5 percent (mom), boosted by a 4.7 percent (mom) increase in local currency deposits. Bank profits fell slightly, by 0.4 percent (yoy) due to rising interest costs resulting from higher deposits.

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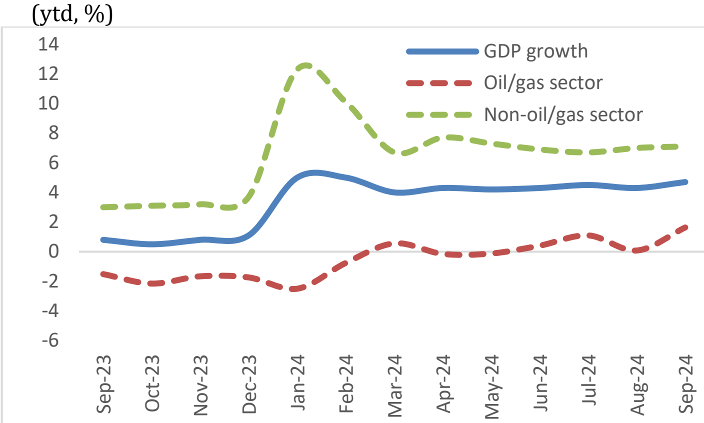
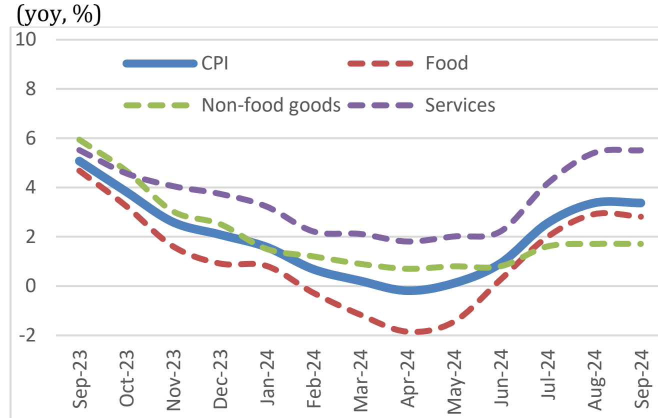
Figure 1. Economic growth accelerated in September



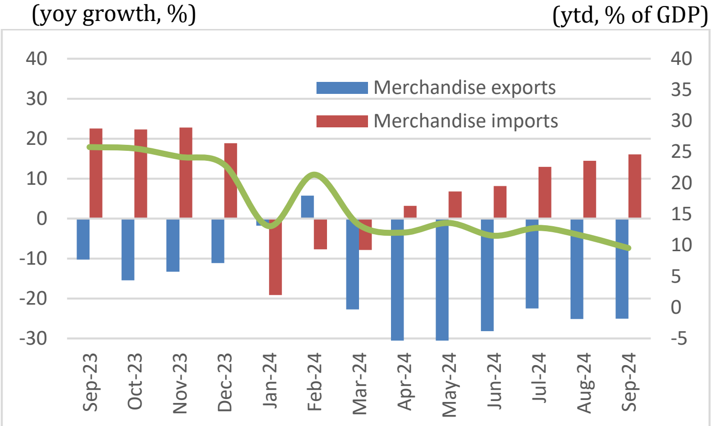
Source: State Statistics Committee

Figure 2. Annual inflation leveled at 3.5 percent in September



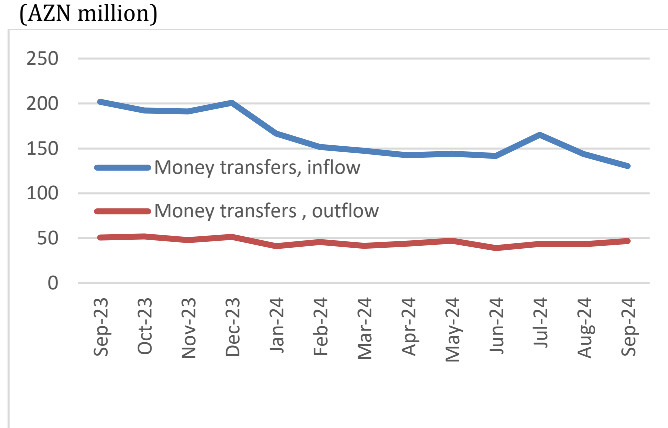
Source: State Statistics Committee

Figure 3. The trade surplus further narrowed in September



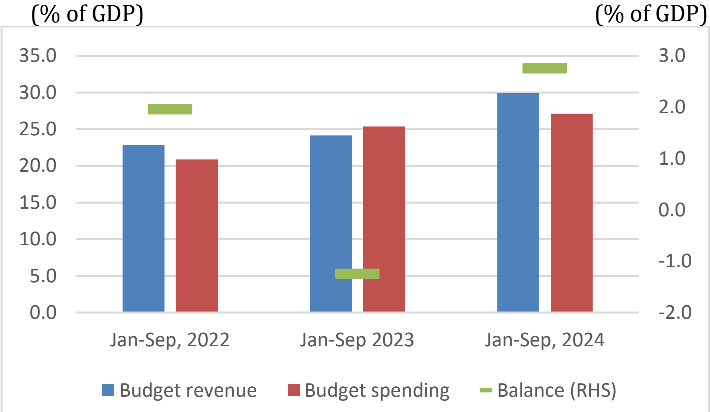
Source: State Customs Committee

Figure 4. Money transfers from abroad fell in September



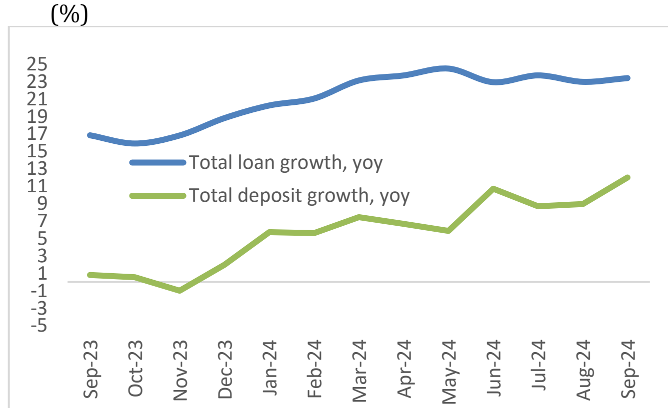
Source: CBA

Figure 5. A small deficit was recorded in September, but the budget remained in surplus



Source: Ministry of Finance

Figure 6. Deposit growth over 12 months accelerated in September



Source: CBA

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