CENTRAL BANK
OF THE REPUBLIC OF AZERBAIJAN

MONETARY POLICY REVIEW

November

2024

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ACRONYMS

AE	Advanced economy
APPI	Agricultural producer price index
BCI	Business Confidence Index
CBA	Central Bank of the Republic of Azerbaijan
CCI	Consumer Confidence Index
CPI	Consumer price index
EME	Emerging market economy
FAO	Food and Agriculture Organization of the United Nations
FDI	Foreign direct investments
FED	Federal Reserve System
FX	Foreign exchange
GDP	Gross domestic product
ILO	International Labor Organization
IMF	International Monetary Fund
IPPI	Industrial Producer Price Index
NDA	Net Domestic Assets
NFA	Net Foreign Assets
NEER	Nominal Effective Exchange Rate
NFA	Net Foreign Assets
OECD	Organization for Economic Cooperation and Development
OPEC	Organization of the Petroleum Exporting Countries
PMI	Purchasing Managers' Index
REER	Real Effective Exchange Rate
RSM	Real sector monitoring
SCC	State Customs Committee
SSC	State Statistics Committee
WEO	World Economic Outlook
Y.o.y.	Year-over-year

EXECUTIVE SUMMARY

Over the period of 2024, the main priority of the Central Bank of the Republic of Azerbaijan was maintaining price stability in the country. The monetary policy environment was shaped by the multifaceted impacts of global economic uncertainties on the national economy.

During the reporting period, the international economic environment was favorable for Azerbaijan. Foreign trade surplus had a positive effect on the increase in strategic foreign exchange reserves and maintained the FX market equilibrium. The dynamics of prices in global commodity markets, supply chain disruptions and international shipping challenges amid geopolitical tensions significantly influenced domestic inflation.

The monetary policy was oriented towards regulating inflation through the monetary condition. Monetary policy tools were applied in response to financial market developments and the banking system liquidity, serving to neutralize the effects of autonomous factors on the monetary condition. Monetary policy decisions were based on a comparison of actual and forecasted inflation with the target range (4±2%), an analysis of domestic and external conditions, and shifts in the balance of inflation risks. Efforts continued to enhance the capacity to impact inflation and strengthen the transmission of interest rate decisions.

RECENT MONETARY POLICY DECISIONS

Date	Floor of the interest rate corridor	Refinancing rate	Ceiling of the interest rate corridor
31 January 2024	*6.5%→6.25%*	**8%→7.75%**	*9%→8.75%*
28 March 2024	*6.25%*	**7.75%→7.5%**	*8.75%→8.5%*
1 May 2024	*6.25%*	**7.5%→7.25%**	*8.5%→8.25%*
21 June 2024	*6.25%*	**7.25%**	*8.25%*
31 July 2024	*6.25%*	**7.25%**	*8.25%*
18 September 2024	*6.25%*	**7.25%**	*8.25%*
1 November 2024	*6.25%*	**7.25%**	*8.25%*

1

GLOBAL ECONOMIC TRENDS

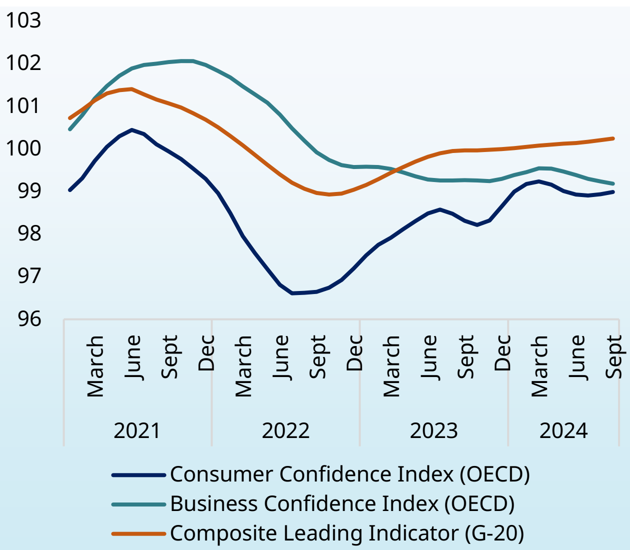
1.1 GLOBAL ECONOMIC ACTIVITY AND INFLATION

Global economic growth continued during the first nine months of 2024, despite rising uncertainties. Geopolitical tensions, particularly trade protectionism and geoeconomic fragmentation, continued to challenge global economic activity and integration. Despite global risks, inflation continued to decrease, and most countries initiated monetary easing.

1.1.1 Global economic activity indicators

During the past period of 2024, the global economy demonstrated resilience. Global economic activity, including indicators encompassing producers' and consumers' behavior, was predominantly stable.

Chart 1. Global economic activity indicators[1]
Source: OECD



The factors that shape the behavior of the Business Confidence Index (BCI)[2] and the Consumer Confidence Index (CCI)[3] include economic uncertainties, risks related to price hikes, geopolitical risks, and supply chain disruptions. The reasons behind the Composite Leading Indicator (CLI)[4] following an upward trend include economic revival, high production and investments, and positive dynamics in trade. These factors reflect signals that enhance future economic development and activity.

Whereas the Purchasing Manager's Index (PMI)[5] started increasing since the beginning of the year, it was prone to decreasing since the mid-year. In September, the PMI dropped to 48.8 (the lowest indicator since November 2023) from 50.0 in early year due to weak growth in production volumes, drop in new orders and the increase in political uncertainties and unemployment. The Index was below the average level of 2015-2019 (51.5). A decline in industrial activity was observed in the US, China, Japan, and EU countries.

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[1] Indicators above 100 in all three indices stand for positive, while figures below 100 for pessimistic expectations.

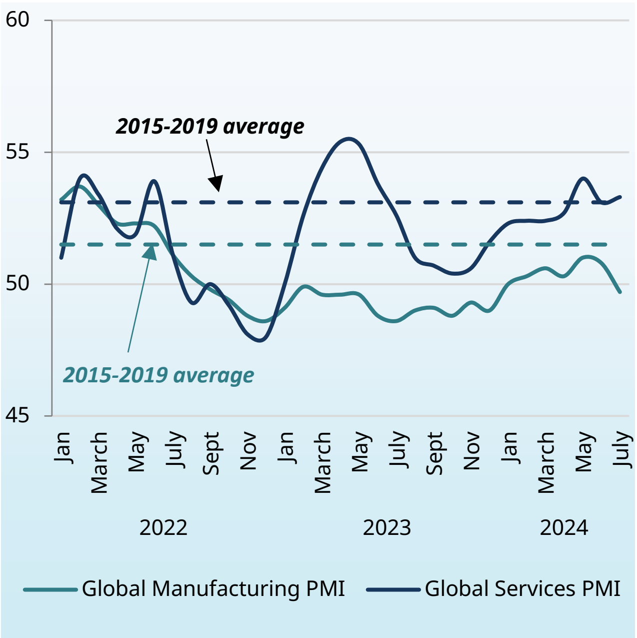
[2] **Business Confidence Index (BCI)** reflects confidence in future business performance based on surveys regarding production and orders.

[3] **Consumer Confidence Index (CCI)** reflects households' consumption and saving expectations.

[4] **Composite Leading Indicator (CLI)** is used to indicate how the economy is expected to develop in the future.

[5] **Purchasing Managers Index (PMI)** is developed based on surveys conducted by S&P Global with private sector enterprises across various countries. The index ranges from 0 to 100: values above 50 indicate growth, while values below 50 signify a decline.

Chart 2. Purchasing Manager's Index (manufacturing and services)
Source: S&P Global



The PMI improved in services over 9 months of 2024 and has been approximating to the level of 2015-2019 (53.1) since May.

1.1.2 Global unemployment trends

Over the past period of 2024, the unemployment rate varied across countries. In September, unemployment level decreased year-over-year in Türkiye, the euro area, Japan and Russia and increased in the USA, China, the UK, and India.

The OECD in Economic Outlook, September 2024 reports that, high post-pandemic employment in the labor market is slowing gradually, which is likely to pave the way to the fall in inflation pressures and monetary easing. Survey indicators of labor shortages have also continued to moderate in many major advanced economies. The number of job vacancies per unemployed worker is now back to the levels observed immediately prior to the pandemic.

Chart 3. Unemployment rate, in %
Source: Trading Economics

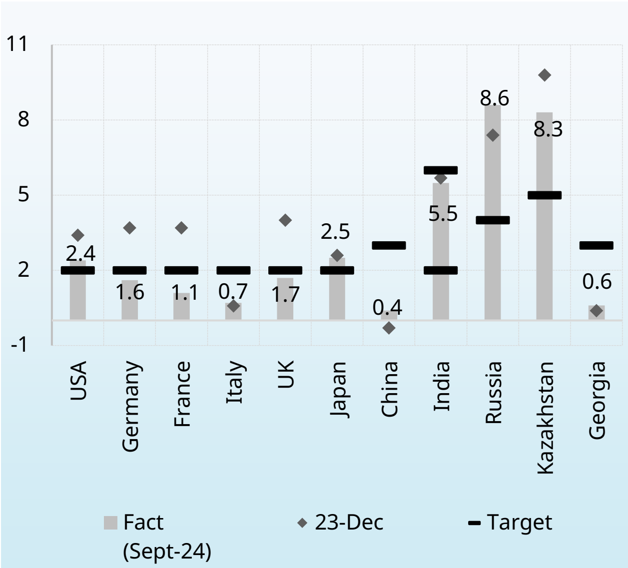
1.1.3 Global inflation

During the past period of the year, significant improvements have been observed in the fight against global inflation, despite persistent price pressures in some countries. The decline in global inflation was a significant turning point amid escalating regional conflicts, a slowdown in economic growth in China, and the rise of protectionist tendencies in global trade.

The key factors of the decline in global inflation varied across countries. According to IMF WEO October 2024, the main driving forces behind the decline in inflation are the tight monetary policies by central banks, declined supply chain disruptions and recovery in the labor market.

While global inflation is decreasing, price stability related risks persist. Prices stabilized across commodities and increased in services. Service inflation was two times higher than the pre-pandemic level.

Chart 4. Dynamics of overall inflation by countries, in %
Source: National Statistic Offices



The political and economic condition in countries weighed on the inflation rate. Annual inflation in the US has been declining for six consecutive months to 2.4% in September 2024, the lowest indicator since February 2021 (1.7%). In the euro area the annual inflation has fallen below the ECB's 2% target (1.8% in September 2024), the lowest level in the past three years. Considering this, since June 2024, central banks in AEs have reduced interest rates, shifting their policy stance towards a neutral direction.

Inflation has also decreased in EMEs. China's annual inflation rate has fallen to its lowest level since June 2024 (0.4%) in September. While there was deflation in China at the end of the previous year (Q4) and in the first month of the current year, inflation has been low over recent eight months.

The inflation rate decreased in Azerbaijan’s trade partners. In Russia, annual inflation decreased from 9.1% in August, the highest level in the last 18 months, to 8.6% in September, the first slowdown since December 2023. Price hikes were the highest in services at 11.6%, followed by food products at 9.1%. Annual inflation for non-food products stood at 5.6%, reflecting a slight decrease.

In Türkiye, annual inflation decreased by 2.59 percentage points to 49.4% in September. Annual inflation on food and alcohol-free beverages decreased by 1.16 percentage points to 43.7%, and annual service inflation decreased by 4.91 percentage points to 72.9%. Energy inflation y.o.y. decreased by 5.51 percentage points to 62.9%.

In Georgia, annual inflation decreased again compared to previous months to 0.6% in September, attributable to low levels of inflation on locally manufactured products and services. Furthermore, low imported inflation also contributed to the drop in inflation.

1.2 GLOBAL COMMODITY PRICES

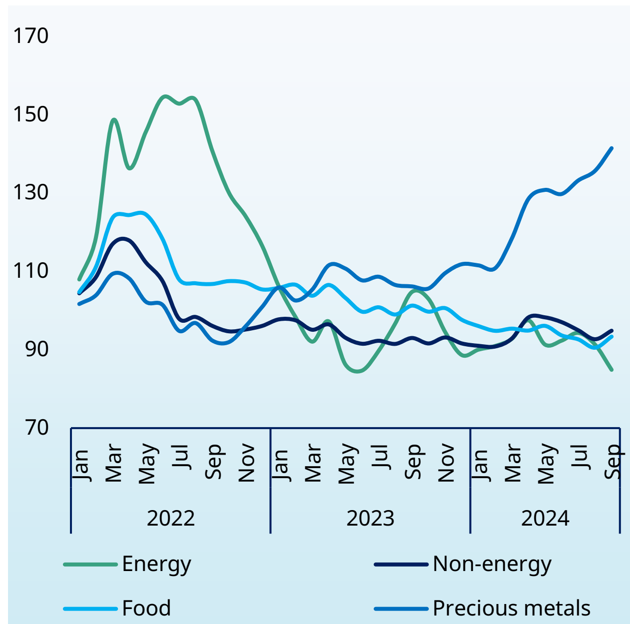
In the past period of 2024, both decrease and increase trends were observed due to the complex interplay of demand and supply, as well as economic and political conditions. In general, over the period, commodity prices were sensitive to climate conditions, geopolitical tensions, policy changes, and other market shocks. All these factors influenced global prices by altering the balance of demand and supply.

1.2.1 Dynamics of global commodity prices

Global commodity prices were very volatile under the influence of various factors over the past period of 2024. The balance of supply and demand in global commodity markets was disrupted, leading to price fluctuations. Amid the intensification of regional conflicts, trade relations deteriorated, which in its turn caused certain increases in food and other commodity prices. The commodity price volatility resulted in higher inflation for commodity importers.

According to the World Bank Commodity Markets Outlook October 2024, the total commodity price index y.o.y. decreased by 12.4% in September. Price indexes increased by 2% on non-energy prices. During the past period of 2024, a significant increase was recorded in the value of precious metals. According to the World Bank report, the precious metals index, driven by gold prices, y.o.y. increased by 33.2% in September, due to high purchases by central banks and rising demand in China. Prices for some industrial metals partially increased in September after declining by 3% monthly in August. The price index of main metals increased as well. In September, the price index on main metals increased by 3.1% monthly and by 9.2% annually. Price indices increased on other commodity groups too. Wood ware increased by 5.9% on annual, and the raw materials price index increased by 2.7%. In September, prices of fertilizers on the contrary decreased by 24.6% year-on-year.

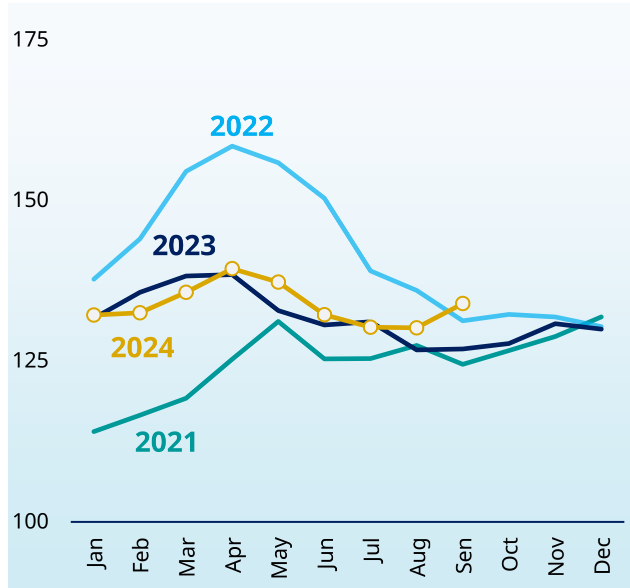
Chart 5. Dynamics of global commodity price indexes (2021 December = 100)
Source: World Bank



1.2.2 Dynamics of global commodity prices

Overall food prices increased compared with the previous years due to rising production cost, supply chain disruptions and climate change. Extremely hot and dry global climate conditions translated to crop yields, increasing pressure on food prices and food security. Because food and energy costs constitute a significant portion of household expenditures, low-income countries have been more severely impacted. The global price of food and beverage index released by the IMF y.o.y. was up by 5.6% in September 2024. According to the IMF's October report, following a slight monthly decline in August, most agricultural prices rose again in September. The food price index increased by 2.4% in September compared to August. While the vegetable oil price index rose by 2.6% monthly in September, it was down by 8.2% year-on-year. Palm oil prices posted the highest monthly growth. The dairy products price index increased by 2.8% in September compared to August and was y.o.y. up by 18.7%. Skimmed milk powder prices increased in Western Europe due to strong domestic demand butter prices also rose. While the sugar price index increased by 10.7% in September compared to August, it was y.o.y. down by 21.6%. The rise in the index in September was attributed to prolonged dry weather and fires end-August that damaged sugarcane fields in Brazil, leading to a reduced supply. The grain price index increased by 5.4% monthly in September and y.o.y. fell by 15.7%. Prices of key cereals, such as wheat and corn were particularly volatile. The meat price index was 13.5% higher in September year-over-year, driven by rising poultry prices. At the same time, after three months of sharp increases, ovine meat prices slightly declined in August, due to reduced imports from China.

Chart 6. Agricultural price index (2016=100)
Source: IMF

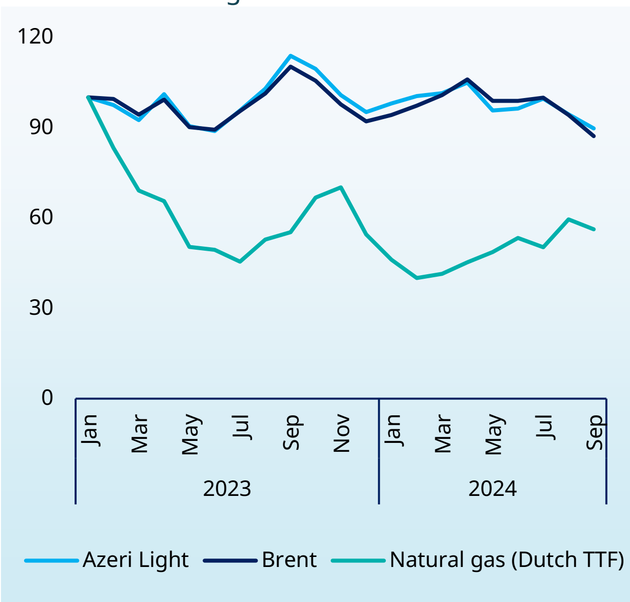


1.2.3 Dynamics of global energy prices

The World Bank reports that, in September energy price indexes decreased by 19% year-over-year.

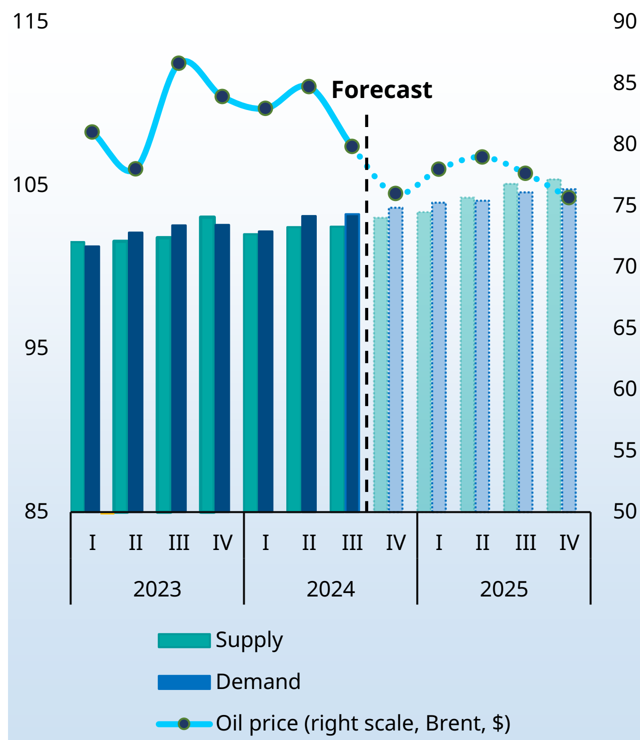
The Brent oil price has slightly dropped since July 2024 due to weak demand in China and the information on the production levels of OPEC+ countries. Lower industrial activity also contributed to oil demand. World oil supply was shifted by 80,000 b/d to 103.5 million b/d in August. The Brent crude oil price slumped to $73/b in mid-September from $81/b in August amid uncertainties related to strong supply and weak demand. However, following military operations in the Middle East, the price of Brent crude oil rose to $79/b in early October. The potential for escalation in the Middle East has recently triggered significant uncertainty and volatility in oil markets.

Chart 7. Monthly price index of Azeri light, Brent oil and natural gas (January 2023=100)
Source: Bloomberg



The US EIA in its October release lowered its forecast for Brent crude oil spot prices through the end of 2025. The report projects an average price of $78/b for Brent crude oil in 2025, down by $7/b from the forecast of the previous month. According to the projection, low crude oil prices are attributable to reduced global oil demand in 2025. However, several international firms, including Standard Chartered Bank, Commerzbank AG, and Bank of America, have issued more optimistic oil price forecasts. Based on September assessments, Standard Chartered Bank projects an average price of $92/b for 2025. The Bank of America and Commerzbank AG forecast average prices of $80/b and $79/b for crude oil in 2025 respectively.

Chart 8. Supply and demand in the world oil market, in million barrels (daily)
Source: US Energy Information Administration (EIA)



At the same time, European natural gas prices, which had risen by 20% in August monthly, declined by 4.8% in September, due to the resumption of supply from Norway and the full replenishment of storage capacities across Europe.

1.3 GLOBAL FINANCIAL MARKET TRENDS

Over 9 months of 2024, the global financial system was highly resilient. Central banks started monetary easing amid low inflation. With the surge of the artificial intelligence sector, stock markets followed positive dynamics. However, rising geo-economical uncertainty might have a negative impact on macro financial stability.

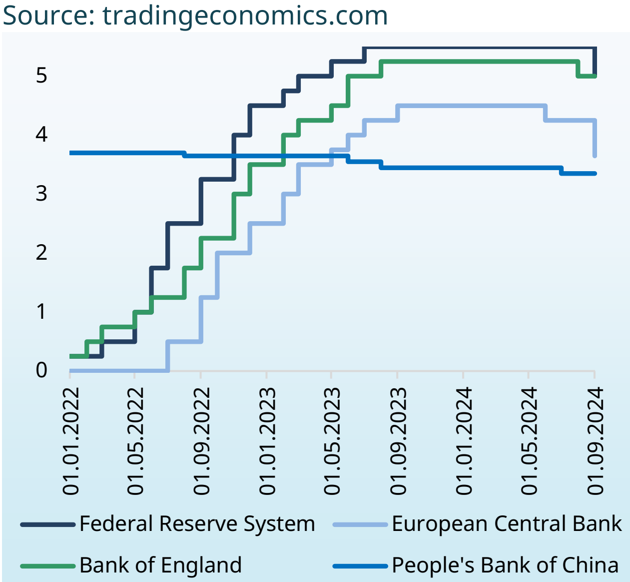
1.3.1 Central banks' monetary policy decisions

Over 9 months of 2024, central banks made monetary easing adjustments on the backdrop of global and national declines in inflation. Overall, the past period of the year is marked with the period of stabilization for AEs. Advanced central banks strived to balance the inflation and economic growth risks.

Amid a significant decline in actual inflation over 9 months and expectations of hitting the target in the following year the FED shifted the policy rate from 5.50% to 5.00%, the Bank of England from 5.25% to 5.00%, and the ECB from 4.5% to 3.65%. The People's Bank of China shifted the policy rate from 3.45% to 3.35% to stimulate economic growth and reduce the deflation risk.

Chart 9. Key policy rates of major central banks, in %

Source: tradingeconomics.com

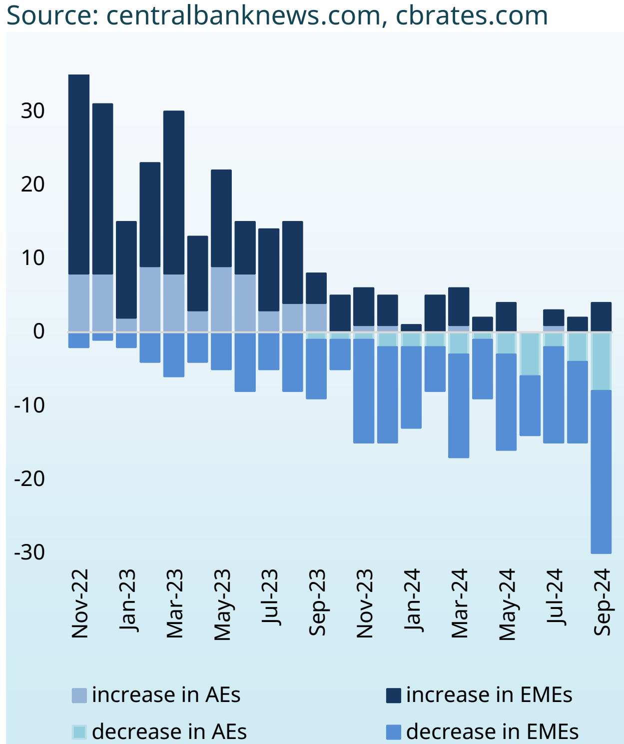


The Bank of Japan abandoned the long lasting negative interest rate policy and increased the policy rate from -0.1% to 0.25% due to the risks of sharp wage increases and further acceleration of inflation.

The gradual normalization of the monetary condition in AEs is leading to a certain reduction in the pressure on the currencies of EMEs. In general, in the coming periods, central banks are expected to continue implementing monetary easing measures, in line with the decrease in actual inflation and the return of projected inflation to the target level.

Chart 10. Change in key policy rates across 83 central banks

Source: centralbanknews.com, cbrates.com

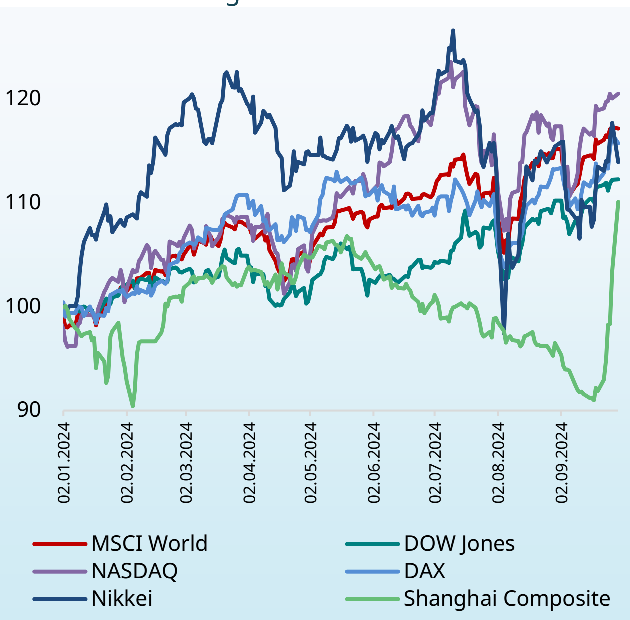


1.3.2 Financial market trends

Over 9 months of 2024, the technology sector surged owing to the rapid development of the AI. The global economy grew, despite high interest rates, and the US economy posted higher than expected growth, resulting in the rise in key stock indexes.

Chart 11. Dynamics of world stock indexes (2023 december = 100)

Source: Bloomberg



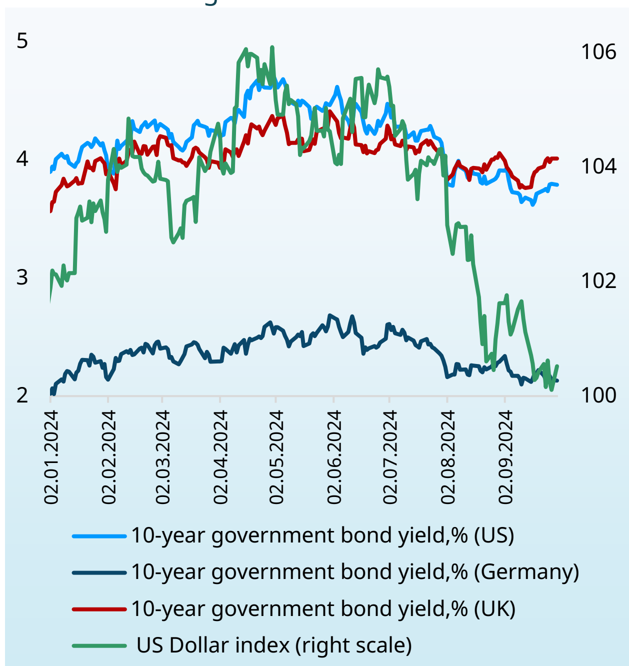
In the first 9 months of the year, NASDAQ appreciated by 20%, Dow Jones by 12%, FTSE Eurotop by 9%, DAX by 16%, Nikkei by 14%, MSCI World by 17%, and XU100 (BİST100) by 31%. The stimulus package unveiled by the Chinese Government to support the economy sparked a positive reaction among investors. As a result, the primarily negatively zoned Shanghai Composite Index sharply rose and increased by 10% by end-September.

The value of Bitcoin increased by nearly 50% amid the approval of the first spot Bitcoin Exchange-Traded Funds in the U.S. and expectations that these funds will boost institutional investment.

The expectation that the FED will ease its monetary policy led to a decrease in bond yields in the US and a nearly 5% drop in the dollar index compared to its peak in April. However, the strong performance of the US economy relative to its key trade partners helped neutralize additional pressure on the dollar.

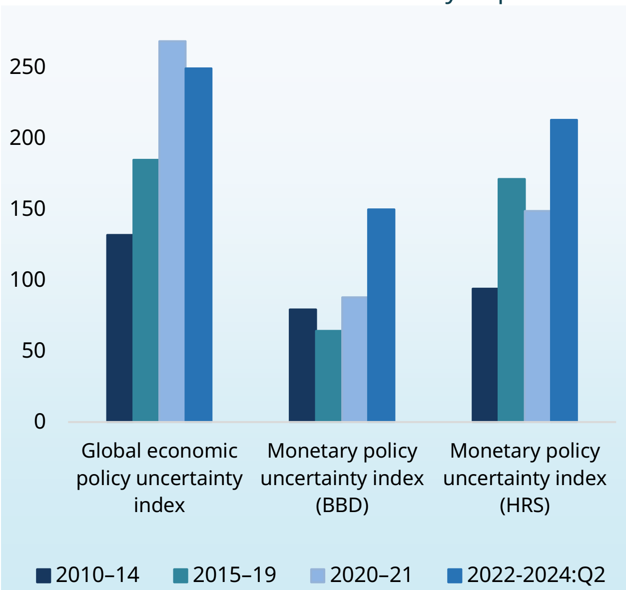
Chart 12. US Dollar index and AEs' 10-year government bond yields

Source: investing.com



The IMF's October 2024 Global Financial Stability Report highlights that the global macroeconomic environment, following the COVID-19 pandemic, remains highly uncertain. The report states that inflation shocks, geopolitical tensions, rapid technological advancements, and increasing climate change risks further exacerbate this uncertainty, which could affect macro-financial stability through financial markets, the real sector, and credit channels.

Chart 13. Global economic policy uncertainty[6]
Source: IMF Global Financial Stability Report



Research suggests that high uncertainty, especially in countries with excessive debt in both the private and public sectors, poses serious risks to economic growth. Although, in the periods of high uncertainty, significant loosening of financial conditions may stimulate short-term growth, it increases financial risks in the medium term. Authorities should establish reliable policy frameworks and effective communication strategies to reduce uncertainty and enhance resilience to macro-financial risks through adequate fiscal and macroprudential policies, along with sufficient foreign exchange reserves.

[6] The World Economic Policy Uncertainty Index is a GDP-weighted index calculated based on the average for the period indicated by Baker, Bloom, and Davis (2016). The monetary policy uncertainty indices are specific to the US and were compiled by Baker, Bloom, and Davis (BBD, 2016) and Husted, Rogers, and Sun (HRS, 2020), respectively.

2

DOMESTIC MACROECONOMIC DEVELOPMENTS

2.1 EXTERNAL SECTOR OF AZERBAIJAN

Over 9 months of 2024, trade conditions remained favorable and foreign trade, the primary balance of payments component, was in surplus. The country remained favorable conditions for investments. Foreign exchange reserves exceeded internationally accepted sufficiency norms.

2.1.1 Foreign trade turnover

According to the SCC, foreign trade turnover amounted to $34.5B – export $19.9B (57.6%), import $14.6 B (42.4%). Foreign trade surplus stood at $5.2B.

The EU accounted for 38.6%, the CIS countries for 14.2% and other countries for 47.2% of total trade turnover. Italy, Türkiye, Russia, China, Germany, the USA, Australia, India, Czechia, and Croatia accounted for over half of trade turnover.

The value of the oil-gas export amounted to $17.4B – $11.3B for crude oil and $6.1B for natural gas.

Non-oil-gas export y.o.y. increased by 1.3% to $2.5B. The main share of total non-oil-gas exports includes fruits and vegetables, plastic and products, chemical products, aluminum and products, cotton fiber, electricity, ferrous metals, alcoholic and non-alcoholic beverages, cement, sugar, cotton yarn, oils, and tea.

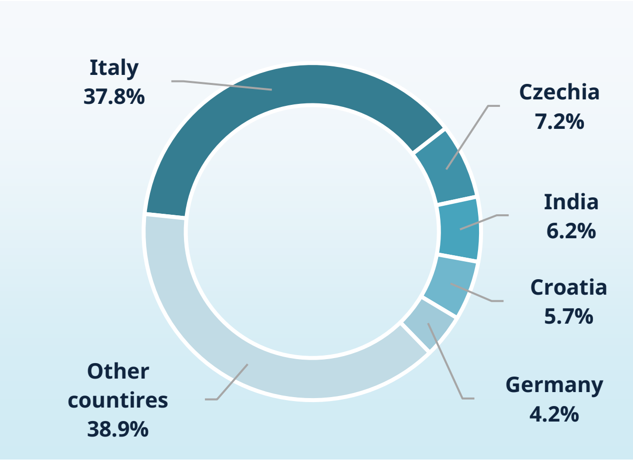
Chart 14. Trade balance in 9 months of 2024, in billion USD

Source: SCC

In general, main export partners included Italy (35.8%), Türkiye (14.7%), Russia (4.3%), Czechia (4%) and India (3.5%).

Commodity imports amounted to $14.6B – the public sector accounted for 26.7%, the private sector for 63.4% and individuals for 9.9% of total commodity import. Import of machinery and equipment, food, vehicles, ferrous metals, plastic, pharmaceuticals, clothes, wood and products, furniture and parts, tobacco products and fertilizers prevailed in total imports.

Chart 15. Countries to which crude oil is exported in 9 months of 2024, in %
Source: SCC



China accounted for 18%, Russia for 18%, Türkiye for 11.6%, Australia for 6.2%, the US for 5.9%, Germany for 4.1%, Iran for 3.1%, Italy for 2.6%, Belarus for 2.1% and the Republic of Korea for 2.1% of total imported products.

2.1.2 Foreign investments

Capital inflows from foreign enterprises and organizations continued. According to the SSC, total investments from external financial sources amounted to AZN2.1B and accounted for 16.8% of total investments.

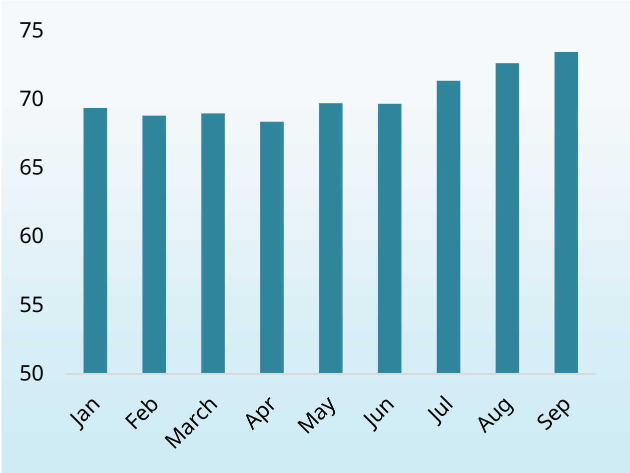
Investor funds from the UK, the USA, Switzerland, Türkiye, Japan, Russia, Norway, Iran, India, the UAE, Kyrgyzstan, and France accounted for 95.9% of total foreign investments. The list of countries from which investments have been attracted demonstrates a high level of interest in Azerbaijan's economy from both traditional trade partners and investors from various regions on the global scale, indicative of the fact that the Azerbaijan's economy is becoming increasingly integrated into the global economy.

2.1.3 Foreign exchange reserves

Strategic foreign exchange reserves increased by 7.3% to $73.5B over 9 months. Central Bank's foreign exchange reserves increased by 1.6% to $11.8B.

Strategic foreign exchange reserves continued exceeding internationally accepted sufficiency norms. As of end-September 2024, strategic foreign exchange reserves were sufficient for 35.5-month worth of import of goods and services (considering the import of goods and services for H1 2024). Strategic reserves surpassed broad money supply in manat (M2) by 3.5 times (M2 money aggregate as of 01.10.2024).

Chart 16. Strategic reserves in 9 months of 2024, in billion USD
Source: CBA



These indicators demonstrate that, the country's resistance capacity against foreign and domestic economic shocks is high.

2.2 AGGREGATE DEMAND

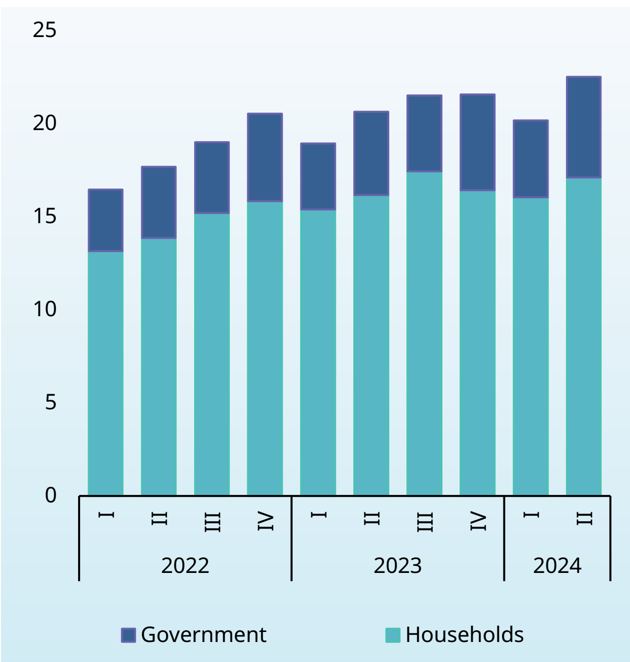
Aggregate demand continued to grow over the past period of 2024, playing a vital role in supporting economic activity. The aggregate demand expansion was driven by consumer demand. Over the period, rising income of the population paved the way to the expansion of consumer demand.

2.2.1 Final consumption expenditures

The growth of domestic consumption weighed on aggregate demand. Over 6 months of 2024, households' final consumption expenditures y.o.y. increased by 5.1% in nominal terms, and those of government institutions increased by 19%.[7]

Chart 17. Quarterly dynamics of consumption and its components, in billion AZN

Source: SSC and CBA estimations

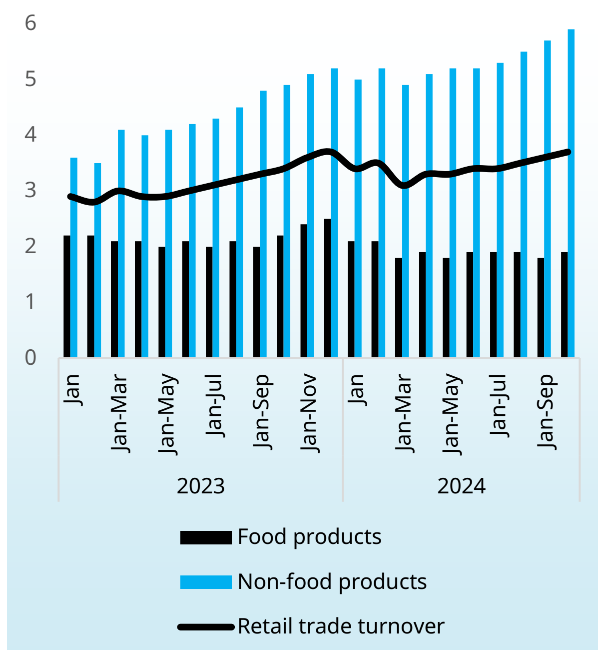


Retail trade turnover y.o.y. increased by 3.6% in real terms over 9 months – 1.8% on food, beverages, and tobacco products and 5.7% on non-food stuff.

Consumers allocated 55% of their retail trade expenditures to food, beverages, and tobacco products, while 45% was spent on non-food products.

Chart 18. Growth of retail trade turnover, year-over-year, in %

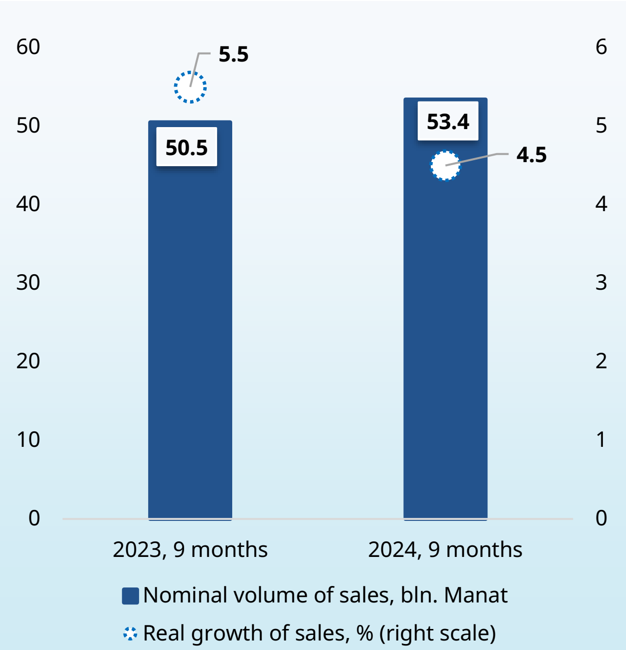
Source: SSC



The value of goods sold, and services supplied to the population over 9 months y.o.y. increased by 4.5% in real terms.

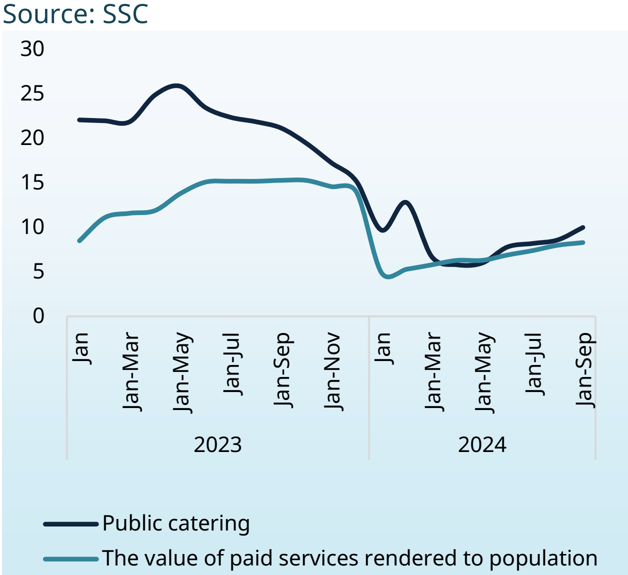
[7] SSC and CBA estimations. The 'GDP use' table was employed in the calculation (H2 2024 /H2 2023 (in %)).

Chart 19. Dynamics of total value of goods sold and services supplied in the consumer market
Source: SSC



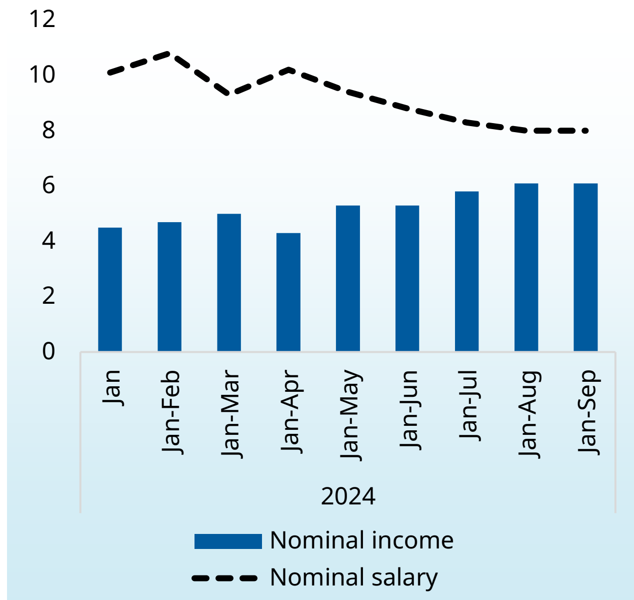
The increase in public catering and paid services to the population confirms the growth in consumer demand activity. During the period, public catering turnover y.o.y. increased by 10% in real terms, while services provided to the population grew by 8.3%.

Chart 20. Real growth of public catering and paid services, year-over-year, in %
Source: SSC



The growth of income of the population both in real and nominal terms was one of the main factors contributing the rise of consumer demand. According to the SSC, nominal income of the population y.o.y. increased by 6.1% to AZN61.5B. Disposable income of the population increased by 5.9% to AZN54.3B. In January-August 2024, the average monthly nominal salary of hired labor increased by 8% to AZN997.1.

Chart 21. Growth dynamics of incomes and salaries, year-over-year, in %
Source: SSC



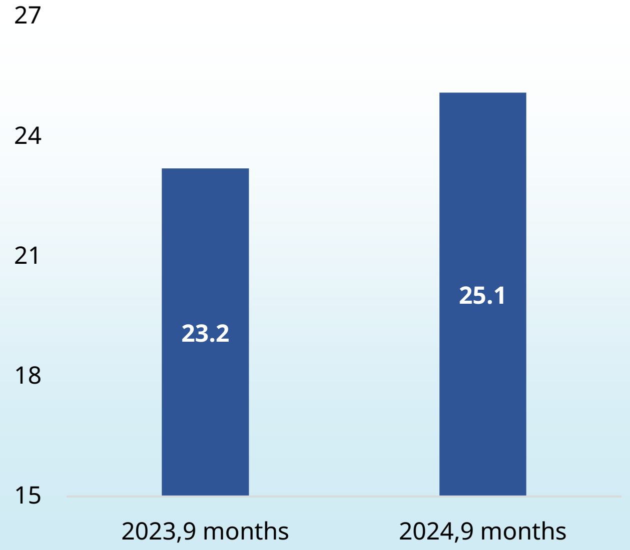
2.2.2 Government spending

Government spending was critical in supporting domestic demand during the period.

Over 9 months 2024, budget expenditures y.o.y. increased by 8.4%, current expenses by 9.5%, and capital expenses by 0.4%. The share of total expenses in GDP was 27.6%. 61.4% of state budget expenditures was channeled to current expenses, 33.4% to capital expenses and 5.2% to sovereign debt service.

Chart 22. Total state budget expenses, in billion AZN

Source: Ministry of Finance



12.2% of state budget expenses was channeled to the funding of social protection and social safeguarding expenses.

2.2.3 Investment expenses

Over 9 months 2024, total investment to the economy amounted to AZN12.7B – 49.6% to production, 37.3% to services and 13.1% to the construction of residential areas.

57.6% of investments were made by public and 42.4% by non-public investors. 72.3% of total investment was spent on construction and installation works.

83.2% of total investments stemmed from internal sources. Funds of enterprises and organizations in total investments made 52.8%, budget funds 38.9%, and other financial sources 8.3%.

2.3 AGGREGATE SUPPLY AND LABOR MARKET

In January-September 2024, the economy continued to grow, driven by the non-oil and gas sector.

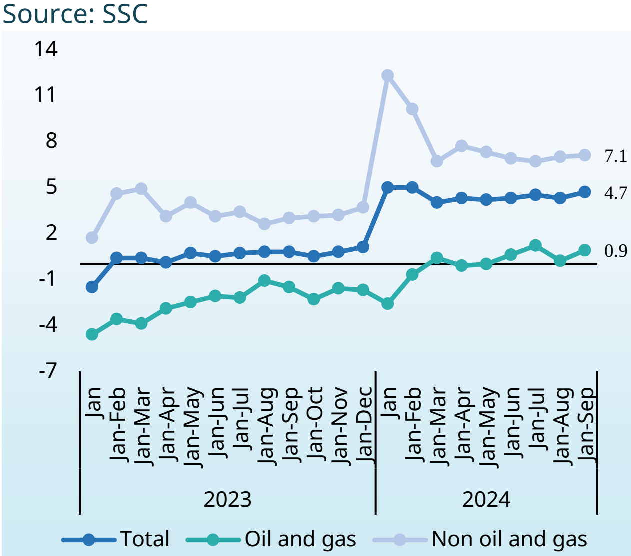
2.3.1 Economic growth

According to the SSC, GDP increased y.o.y. by 4.7% in real terms and to nominal AZN92.8B. Per capita GDP stood at AZN9102.9. In September 2024, non-oil and gas GDP made 66.1% in the nominal GDP structure.

Oil-gas value added increased by 0.9% to nominal AZN31.4B. Crude oil production y.o.y. decreased by 4%, while natural gas extraction increased by 5.2%.

Non-oil-gas value added y.o.y. increased by 7.1% in real terms to nominal AZN61.4B. Production in the non-oil-gas industry increased by 8.7%.

Chart 23. Economic growth, year-over-year, in %
Source: SSC



In the 9 months of 2024, agriculture recorded a 0.7% increase. Livestock products increased by 1.4%, and plant products increased by 0.3%.

The high growth dynamics continued in services sector. Transport and warehousing grew by 16%, freight and passenger transport increased by 4% and 9% respectively. The volume of cargo transported by vehicles owned by the non-public sector increased by 5.5%, the sector accounted for 78.7% of total transported cargo. Freight transportation by road, which holds the largest share in cargo transportation, increased by 8.3% compared to the same period of the previous year. During the period, the value added in the information and communication sector y.o.y. grew by 12.3%, while the tourism and public catering sector increased by 10.6%.

During the period, the construction sector was one of the non-oil and gas industries demonstrating the highest economic growth. In January-September 2024, the construction sector y.o.y. grew by 18.2%, stemming from reconstruction efforts in areas liberated from occupation. Investments to the construction sector y.o.y. increased by 10.7% with comparable prices. Housing investments increased by 2.6 times.

The CBA's real sector monitoring findings suggest that economic activity is continuing. Whereas the BCI varied across sectors, it was positively zoned in general.

Table 1. Dynamics of economic growth by sectors of the economy, year-over-year, in %
Source: SSC

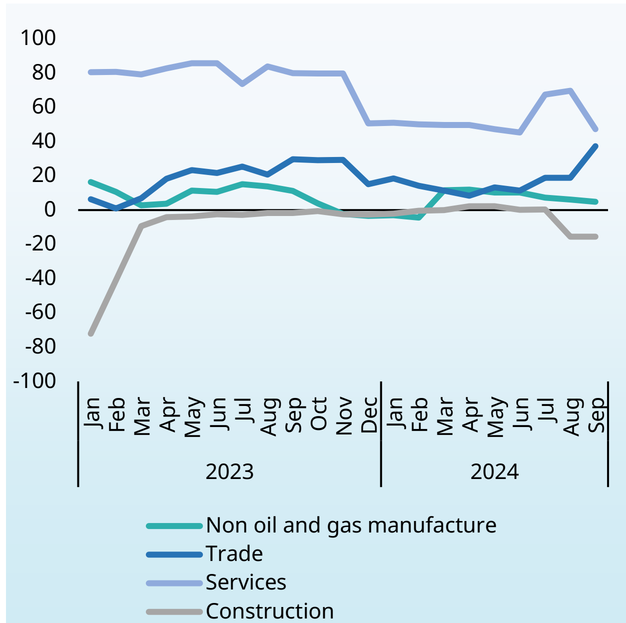
Sectors	2023 (9 months)	2024 (9 months)
Industry	-1.2%	1.3%
Construction	12.5%	18.2%
Agriculture, forestry, and fishery	3%	0.7%
Trade, repair of vehicles	3.3%	3.6%
Transport and warehousing	-11.8%	16.0%
Tourism and public catering	26%	10.6%
Information and communication	14.7%	12.3%
Other	2%	3.2%
Net taxes on products and import	4.9%	8.6%

The non-oil BCI remained in a positive zone in the 9 months of 2024. The Index was particularly high in chemical industry, machine building and sub-sectors of the food industry.

The trade BCI remained on average unchanged year-over-year. The confidence index is observed to be higher in the sub-sectors of electrical household appliances and household goods, while it is relatively lower in the automobile sector.

While the service BCI was relatively low year-over-year, it generally remains high. The BCI was in a positive zone across all sub-sectors of the services sector.

Chart 24. Business Confidence Index across sectors
Source: CBA calculations based on RSM results [8]



Findings of the September survey suggest that the number of employees in enterprises y.o.y. increased by 5.5%, and the capacity utilization by 6 percentage points, indicating an increase in economic activity.

2.3.2 Employment

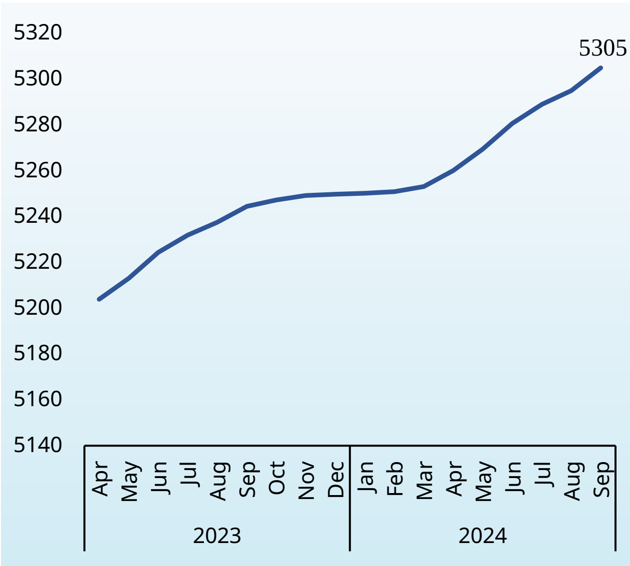
As of 1 October 2024, total labor force was 5304.9 thousand persons (y.o.y. up by 1.2%), employed population numbered 5021.7 thousand persons.

As of 1 September 2024, the number of hired employees 1754.9 thousand persons. Thus, 878.3 thousand persons were engaged in the public sector, while 876.6 thousand persons in the non-public sectors.

[8] Industrial BCI = (output – final goods inventory + production expectations)/3
Services BCI = (business condition + actual demand + demand expectation)/3
Trade BCI = (actual sale – changes in goods inventory+ sale expectations)/3

Chart 25. Number of economically active population, in thousand persons

Source: SSC



As of 1 October 2024, the number of registered unemployed persons was 216.4 thousand persons, out of which 46.9% were women. The number of the unemployed individuals decreased by 0.6% compared to the beginning of the year.

2.4 INFLATION

For 9 months of 2024, the annual inflation rate was volatile. During the last three months of the reporting period, 12-month inflation remained within the target band.

2.4.1 Consumer price index

In September 2024, the CPI for all goods and services y.o.y. increased by 3.5%. Average annual inflation[9] stood at 1.5% according to official statistics. The CBA estimated that government consumption made 0.68 percentage points, household consumption 0.8 percentage points, APPI 1.32 percentage points, inflation in trade partners 6.2 percentage points, regulated prices 0.6 percentage points upward, while the NEER made 4.02 percentage points and other factors 2.08 percentage points downward contribution to annual inflation.

Chart 26. Annual inflation, in %

Source: SSC

Annual food inflation stood at 2.9%, and average annual price hike made 0.4%. Annual non-food inflation stood at 1.9% and average annual inflation stood at 1.4%. The annual and average annual highest growth rate was on services. Annual service inflation was 5.7% in September 2024, and average annual service inflation was 3.3%. Out of the paid services to the population, the price index for telephone communication services and passenger transportation by road posted the highest annual growth. Prices for telephone communication services rose by 27.5%, while the prices for passenger transportation by road increased by 16% year-over-year.

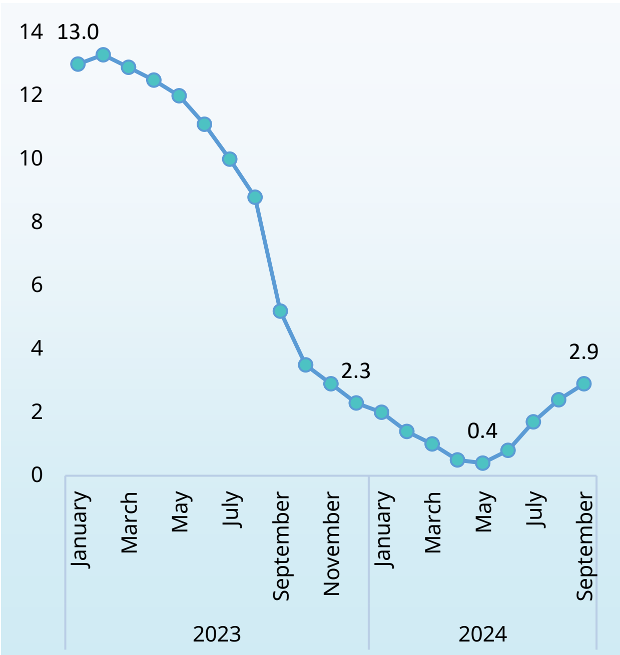
Chart 27. Contribution of CPI components, in %

Source: SSC and CBA estimations

[9] January-September 2024 vs January-September 2023

Annual core inflation calculated by excluding changes in regulated prices and prices for seasonally volatile agricultural products was 2.9% and average annual core inflation was 1.5% in September 2024.

Chart 28. Change of annual core inflation, in %
Source: SSC



Over the reporting period, annual inflation reacted to a number of foreign and domestic factors – average weighed annual inflation in trade partners, global commodity price swings and the appreciation of the NEER of the manat weighed on an annual inflation rate.

2.4.2 Producer price index

According to the SSC, APPI increased by 6.2% in September annually. The price for plant growing products increased annually by 7.2%, and prices for livestock products increased by 5.1% annually.

In September 2024, the IPPI decreased by 13% annually. The oil and gas IPPI decreased by 17.5% and the non-oil and gas IPPI increased by 3.8%.

Producer prices in processing increased by 5.4% on annual, and by 1.9% in food production in September 2024.

Chart 29. Annual change in PPI, in %
Source: SSC

In September 2024, prices for transport and warehousing y.o.y. decreased by 2.1%, the price index for freight transportation services decreased by 3.9%. The price of passenger transportation increased by 0.3% in September 2024. The price index for passenger transportation by air decreased by 6.1% annually, while the price index for passenger transportation by road and metro increased by 18.9% and the price index for intercity passenger transportation rose by 20.6%.

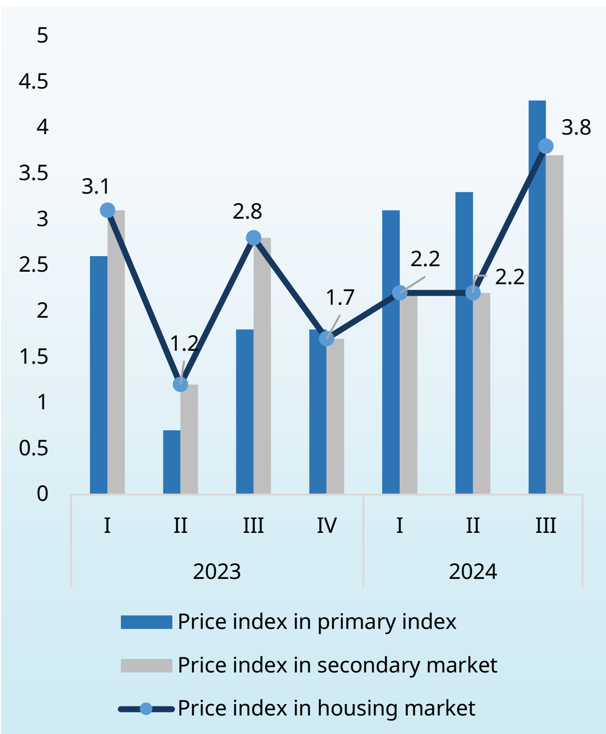
In September, postal and courier service prices increased by 0.4% and advertising services went up by 2.2% annually.

The price index for internet communication services increased by 1.6%, while the price index for ICT rose by 0.5%.

2.4.3 Housing price index

According to the SSC, the housing price index increased by 3.8% in Q3 2024 compared to Q2 2024. Prices in the primary housing market rose by 4.3%, while prices in the secondary housing market increased by 3.7%.

Chart 30. Housing price index, quarter-over-quarter, in %
Source: SSC



The price index y.o.y. increased by 9.2% in the overall housing market, by 10.3% in the primary market and by 9.1% in the secondary market in January-September 2024.

3

MONETARY AND EXCHANGE RATE POLICY

3.1 MONETARY POLICY TOOLS, MONEY MARKET AND EXCHANGE RATE

For 9 months of 2024, the monetary policy was oriented towards regulating inflation through the monetary condition. Monetary policy tools contributed to neutralizing impacts of autonomous factors on the monetary condition. The tools were applied in response to financial market developments and changes in banking system liquidity.

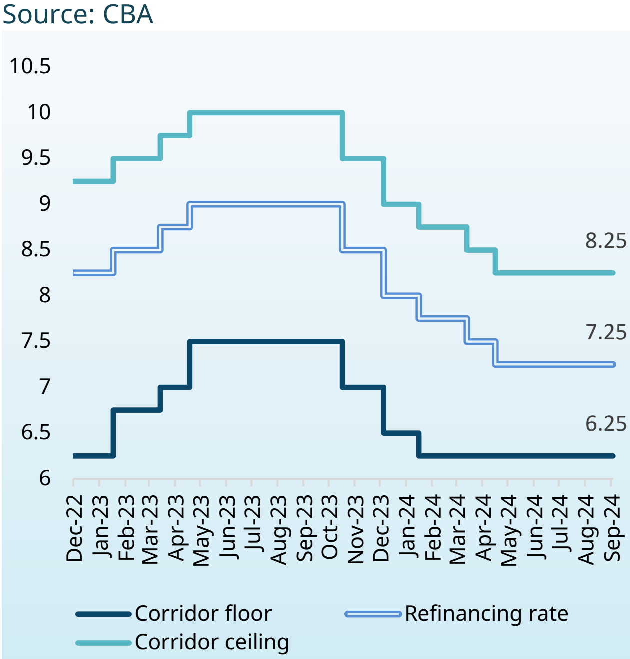
In January-September 2024, appreciation of the nominal effective exchange rate of manat had a downward effect on inflation.

3.1.1 Monetary policy tools

Decisions regarding the parameters of interest rate corridor for CBA operations were made considering the dynamics of inflationary factors, financial market developments and the characteristics of monetary policy transmission.

Chart 31. Parameters of interest rate corridor, in %

Source: CBA



The CBA Management Board has discussed the interest rate corridor parameters 7 times over the past period of 2024. At the first three meetings dedicated to the monetary policy the refinancing rate was decided to be shifted to 7.25% from 8%, the ceiling of the interest rate corridor to 8.25% from 9%, and the floor to 6.25% from 6.5%. At 4 consecutive meetings the interest rate corridor parameters were left unchanged. The CBA made interest rate decisions public under the pre-announced schedule through press releases with appropriate analytical commentary.

The CBA continued monetary operations for liquidity management over the reporting period. The CBA's standing facilities were active, the parameters of open market operations were regularly adjusted.

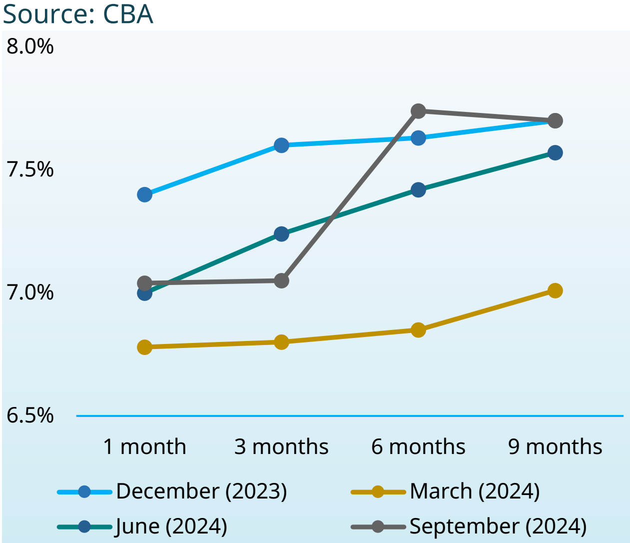
In January-September, average daily amount of one-day deposit operations was AZN579.4M. Banks' demand for CBA's liquidity absorbing standing facility was lower in the third quarter. Average daily amount on the absorbing standing facility was AZN1070.8M in Q1, AZN485.6M in Q2 and AZN258.5M in Q3. Over 9 months average 13 banks participated in one-day deposit operations per operation day (17 banks in Q1, 14 banks in Q2, 9 banks in Q3).

Over the period, regular auctions continued as open market operations on the placement of 28-day (1 month), 84-day (3 months), 168-day (6 months) and 252-day (9 months) notes for liquidity absorbing purposes. Total 92 note auctions have been held in January-September – 27 actions were on 28-day, 21 were 84-day, 20 were 168-day and 24 were 252-day notes. Under favorable liquidity condition, at note placement auctions in general demand prevailed over supply. As of end-September 2024, total outstanding amount of funds absorbed through notes made AZN636.9M, down by 2.1 times compared to the end of 2023.

Yield at recent auctions was 6.1% on 28-day, 7.09% on 84-day, 7.49% on 168-day, and 7.45% on 252-day notes.

Chart 32. Yield on CBA's short-term notes market

Source: CBA



In the 9 months of 2024, 7-day repo operations were conducted 22 times for sterilization purposes to regulate interest rates in the interbank money market and promptly contain the impact of autonomous factors. The yield on this instrument was 6.99% at the last auction.

Quantitative parameters of monetary policy tools were determined based on liquidity monitoring and forecasting. The liquidity monitoring and forecasting system was adjusted considering the recommendations of international organizations.

In addition to sterilization operations, reverse-repo operations were also conducted as a one-day standing facility to meet the liquidity needs of banks. Over nine months of 2024, the average daily volume of these operations amounted to AZN166.3M[10] (AZN10M in Q1, AZN96.7M in Q2, AZN213.4M in Q3).

The implementation of reserve requirements under the averaging regime was one of the factors that had a positive effect on the flexible and effective management of liquidity by banks. Outstanding amount of correspondent accounts of banks in both national and foreign currencies in the CBA exceeded total funds to be maintained as required reserves throughout the reporting period.

Overall, the CBA's monetary operations over the period had a positive impact on more effective liquidity management by banks, activity in the interbank market, and the strengthening of interest rate transmission. In the coming periods, the CBA will adequately use monetary policy tools appropriately, depending on the domestic macroeconomic situation. Decisions regarding the quantitative parameters and duration of these tools will be made based on regular assessments of the banking system's liquidity position. Additionally, efforts to improve the monetary policy operational framework will continue.

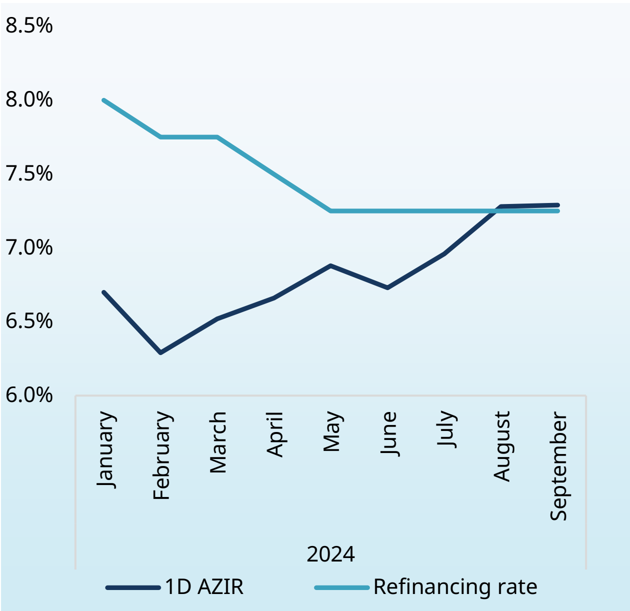
3.1.2 Money market

Short-term interest rates in the money market continued responding to the change in the interest rate corridor, indicative of the fact that the interest rate channel started functioning. In September 2024, the average

[10] Calculated by dividing the total amount of transactions by the number of days on which the transactions were conducted.

interest rate on 1-3-day operations (1D AZIR) in the interbank unsecured money market was within the corridor and amounted 7.29%. The spread between the 1D AZIR index and the refinancing rate has been shrinking recently. The spread was merely 0.04% in September.

Chart 33. Dynamics of the refinancing rate and 1D AZIR, in %
Source: CBA



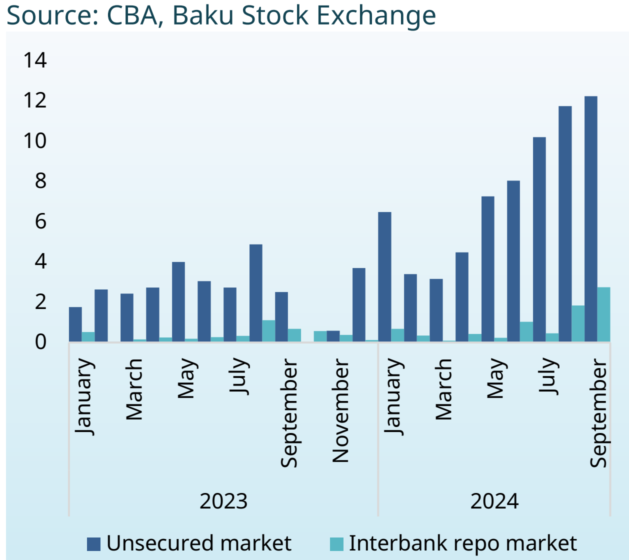
The CBA has been publishing daily analytical data on the 1D AZIR index, including its dynamics, changes since the end of the previous month and year, as well as its maximum and minimum volume and interest rate indicators since 1 April 2024. The specific stress to the 1D AZIR index is attributed to the predominance of unsecured market operations conducted for a duration of 1-3 days.

However, it should be noted that, benchmark interest rate indexes are being shaped in the interbank repo market. In September 2024, the average interest rate on 6-8-day operations in the interbank repo market (1W AINA) made 6.29%, which is within the corridor.

Analyses suggest that for certain bank groups interest rates on manat deposits of legal entities move in the same direction as interbank rates. This signifies that the transmission of monetary policy decisions through the long-term interest rate channel started functioning.

In January-September 2024, banks concluded AZN67.1B worth of 2466 transactions in the platform launched for unsecured operations in the Bloomberg system. 97% of them were 1–3-day transactions. AZN7.9B worth of 541 transactions were concluded at the interbank repo market. 38% of interbank repo operations were 1-3-day transactions, 28% of interbank repo operations were 6-8-day transactions. The volume of transactions concluded both in secured and unsecured market more than doubled year-over-year.

Chart 34. Volume of operations in the interbank money market, in billion AZN
Source: CBA, Baku Stock Exchange



3.1.3 Bilateral and multilateral exchange rates

The official exchange rate of manat against USD was based upon the average exchange rate on interbank transactions (both auction and over-the-counter on the Bloomberg platform). The average official USD/AZN exchange rate was AZN1.7. Buy-sell exchange rates set by banks were close to the official rate. Commercial banks' average daily buy/sell rate differed from the official exchange rate by 0.32% and 0.12%, respectively.

The exchange rate of manat against currencies of trade partners varied over the period. The exchange rate of manat appreciated by 17.1% against the Turkish lire, by 11.2% against the Ukrainian hryvna, and by 5.3% against the Kazakhstani tenge. Manat depreciated by 1.7% against the euro, by 4.2% against the pound sterling, and by 2% against the Swiss franc. The dynamics of bilateral exchange rates translated to that of multilateral exchange rates.

In general, non-oil trade weighted NEER of manat appreciated by 2.9%, while the REER depreciated by 3.3%. Inflation in Azerbaijan is lower than the weighted average inflation in trade partners and it has had a downward impact on the REER.

3.2 MONEY SUPPLY, DEPOSIT AND CREDIT MARKET

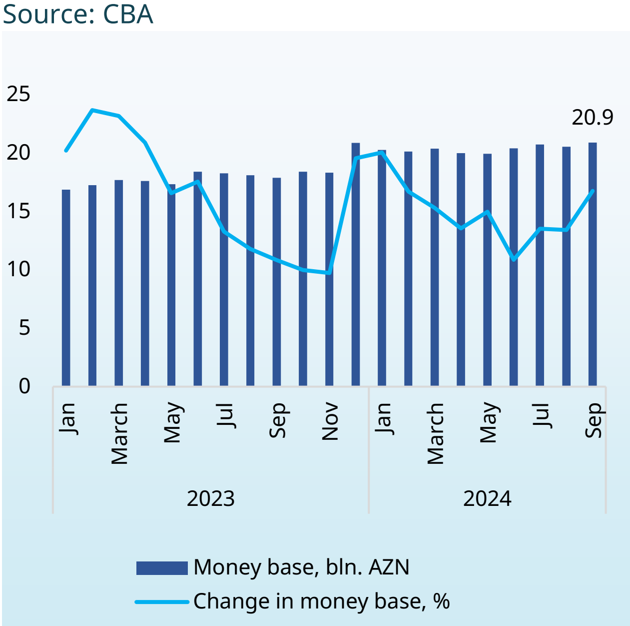
Over 9 months of 2024, money supply was managed in consideration of the monetary policy targets. The rise in the government accounts amid budget surplus over the period had a downward effect on base money. Loans and deposits continued to increase over the reporting period.

3.2.1 Base money and money supply

As of the end of September, base money amounted to AZN20.9B. Over the period the change in government account balance factored in the base money. Cash in circulation, a structural element of base money in manat[11] decreased by 0.4%, and stock of correspondent accounts in manat increased by 1.7%.

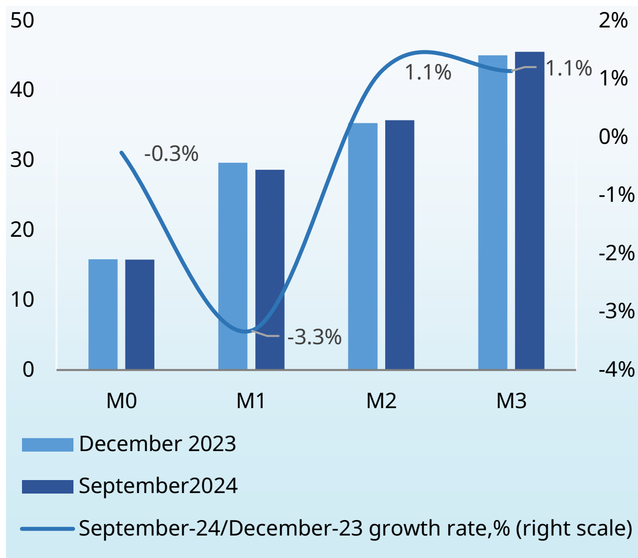
Money multiplier in manat (broad money supply in manat / base money in manat) increased from 1.69 early of the year to 1.71 as of end-September.

Chart 35. Amount of base money and its year-over-year change
Source: CBA



Broad money supply in manat (M2) increased by 1.1% to AZN35.8B. Broad money supply (M3) increased by 1.1% to AZN45.6B.

Chart 36. Amount of money aggregates and their year-over-year change, in billion AZN
Source: CBA



Over the period structural elements of M2 money aggregate changed in different directions. M0 cash money supply decreased by 0.3%, demand savings and deposits decreased by 6.8%, while term savings and deposits increased by 24.4%.

The weight of demand deposits in M2 decreased (down by 3.1 percentage points to 36%), while the weight of term deposits in M2 increased (up by 3.7 percentage points to 19.8%).

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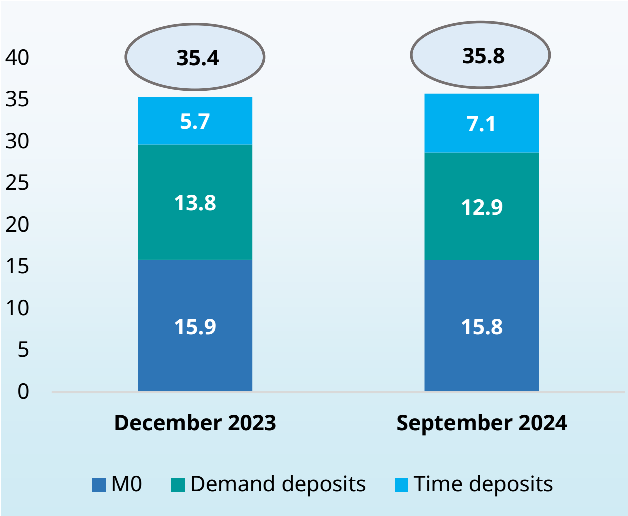
[11] Cash money outside the banking system, cash in bank ATMs and cash offices

Chart 37. Composition of broad money supply, in billion AZN
Source: CBA



The weight of cash (M0) in broad money supply in manat (M2) remained nearly unchanged compared to the beginning of the year, standing at 45%.

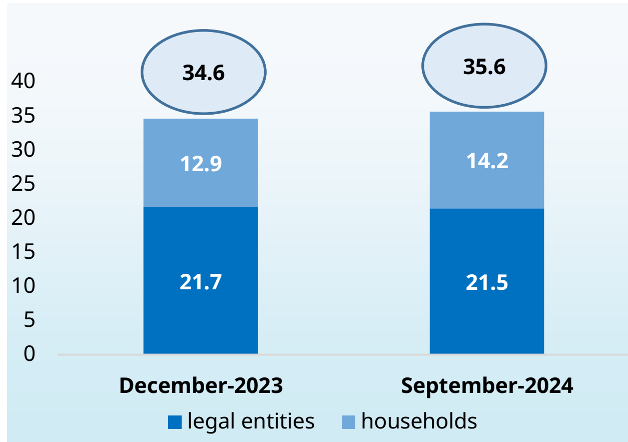
As of the end of 9 months, foreign currency denominated savings and deposits amounted to AZN9.8B equivalent. Its weight in total savings and deposits decreased by 0.2 percentage points during 9 months to 33% as of end-period. The weight of foreign currency denominated savings and deposits in M3 money aggregate has not changed since the early year and stood at 21.5% as of end-period.

3.2.2 Deposit market

Over the reporting period, deposits continued to grow. In September 2024, banks' deposit portfolio increased by 3% to AZN35.6B compared with the end of last year (excluding the financial sector). Term deposits increased by 15.6% to AZN13.8B, and demand deposits decreased by 3.6% to AZN21.8B.

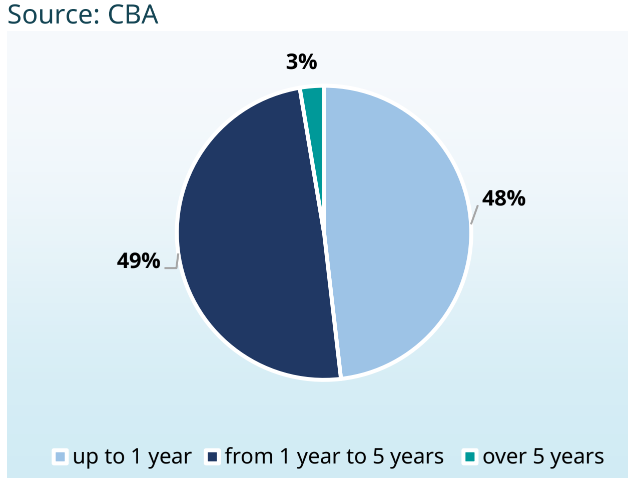
Total deposits of legal entities decreased by 0.8% to AZN21.5B as of end-period. The share of demand deposits in deposits of legal entities decreased by 2.5 percentage points to 74.1% at the end of the period compared to the early year.

Chart 38. Deposits, in billion AZN
Source: CBA



Total deposits of individuals (considering deposits of individuals engaged in entrepreneurial activity) increased by 9.4% to AZN14.2B as of end-period. Term deposits accounted for a major part of total deposits of individuals. Deposits with maturities of 1–5 years dominated in total term deposits portfolio (49.2%).

Chart 39. Structure of term deposits of individuals as of September 2024, in %
Source: CBA

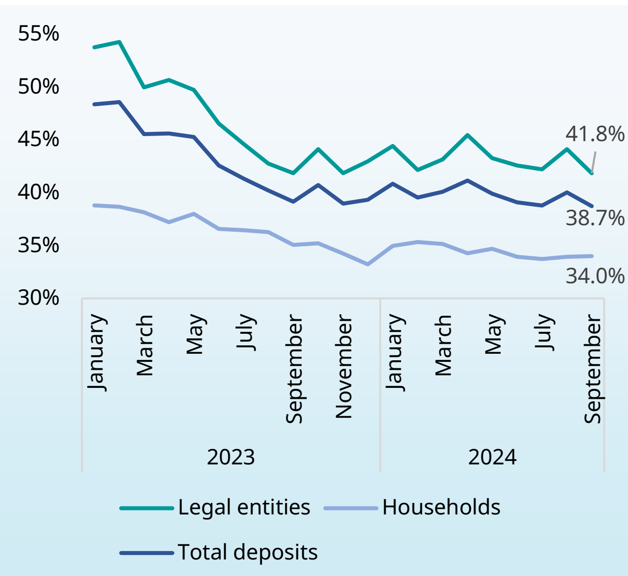


Dollarization remained stable. Manat deposits increased by 4% (AZN0.8B) to AZN21.8B as of end-September, foreign currency deposits increased by 1.4% (AZN0.2B) to AZN13.8B as of end-period.

As of end-reporting period dollarization of savings of individuals stood at 34%. Dollarization of deposits of households made 30.9% as of end-period, less savings of non-resident individuals.

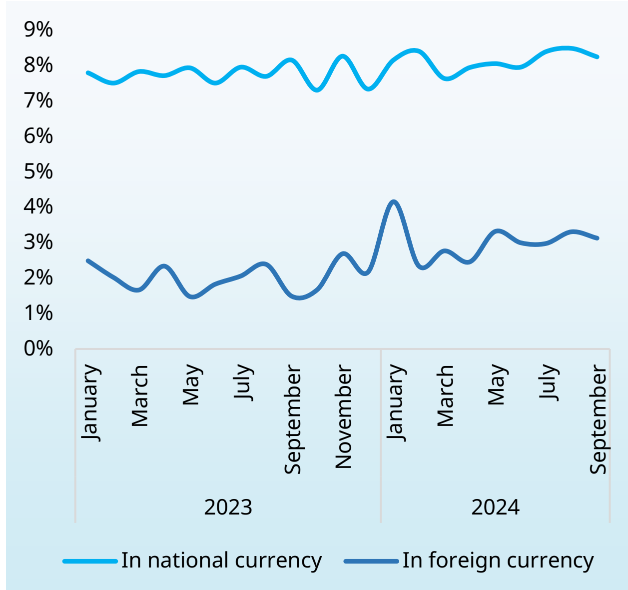
Dollarization of deposits of legal entities stabilized as well. The share of foreign currency in deposits of legal entities decreased by 1.1 percentage points to 41.8% as of end-period.

Chart 40. Dollarization of deposits
Source: CBA



There have not been significant changes in average weighted interest rates on newly attracted deposits over the period.

Chart 41. Average weighted interest rates on newly attracted deposits
Source: CBA



In September, deposit interest rates on newly attracted deposits in manat were 8.3%, and 3.1% on deposits attracted in foreign currency.

3.2.3 Lending market

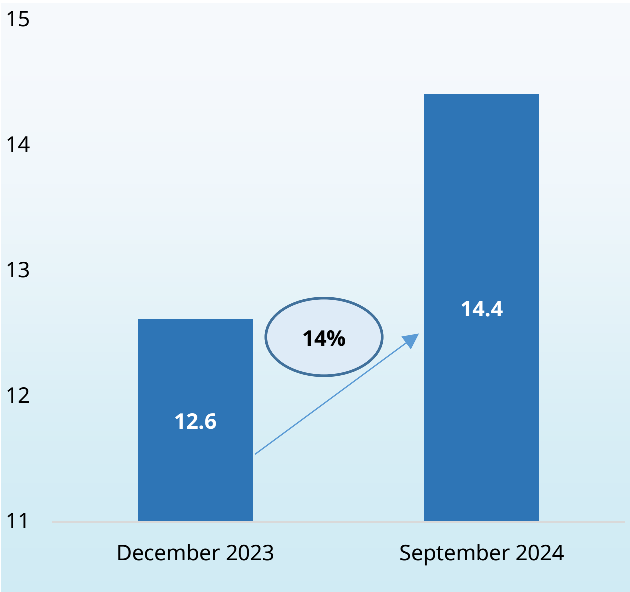
Credit to the economy remained active for 9 months of 2024.

The lending portfolio (banks and non-bank credit institutions) increased by 18.5% to AZN28.4B. As of end-September the share of long-term loans in total loans has increased from 82.9% to 83.9% since the end of last year. As of end-period long-term loans amounted to AZN23.8B. While short-term loans decreased from 17.1% to 16.1%. As of end-period short-term loans amounted to AZN4.6B.

During the reporting period, credit to the economy increased by 14.1% in trade and services, by 80.1% in industry and production, and 6.3% in construction and building, excluding overdue loans.

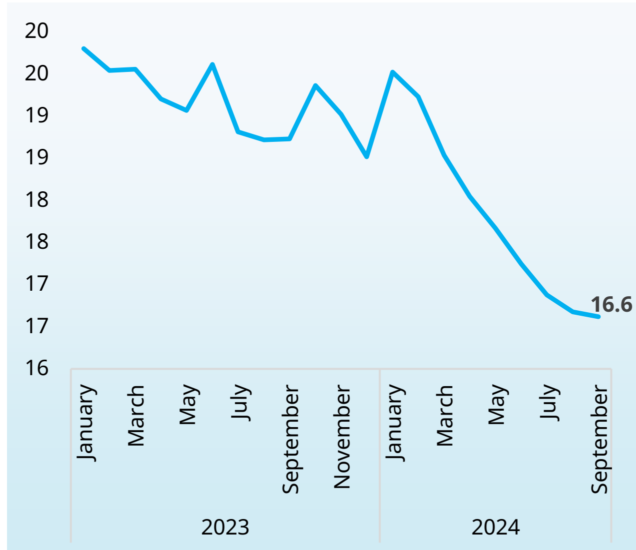
Business loans with the highest share in the structure of banks' lending portfolios increased by 14% compared to the end of the previous year to AZN14.4B.

Chart 42. Banking sector's business loans, in billion AZN
Source: CBA



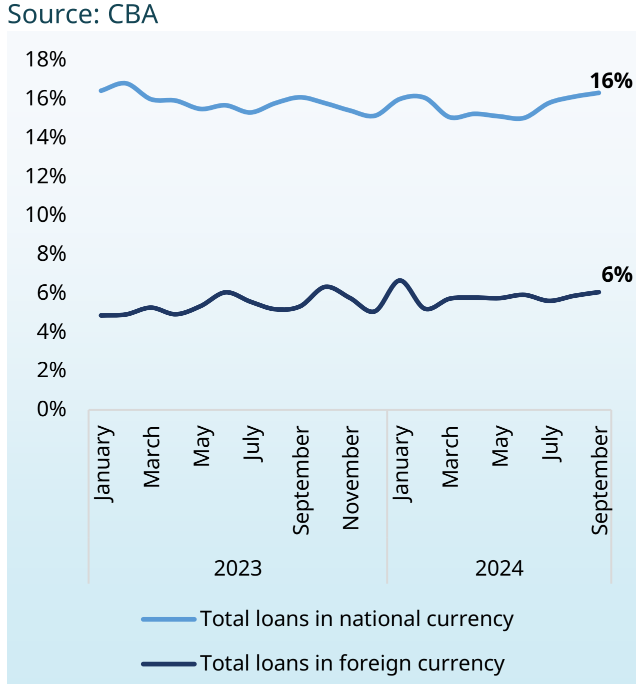
Dollarization of loans continued to decrease. Manat loans increased by 21.2%, and foreign currency loans increased by 6.3%. The share of loans in a foreign currency in total loans decreased by 2 percentage points to 16.6% as of end-September.

Chart 43. Dollarization of loans to the economy, in %
Source: CBA



Average weighted interest rates on newly issued manat loans were 16%, and those on newly issued foreign currency loans was 6%.

Chart 44. Average interest rates on newly issued loans (banking sector)
Source: CBA



4

ECONOMIC PROSPECTS

4.1 FORECASTS AND RISKS FOR THE GLOBAL ECONOMY

In 2024, global economic growth is expected to be stable but subdued. The IMF's October projections did not change significantly compared to July and April forecasts. In general, although forecasts have remained largely unchanged, significant changes have occurred across regions and countries.

Global inflation is also moderating. However, service inflation is still high in most regions. Rising political uncertainties remain a major risk for global economic growth and price stability.

4.1.1 Global economic growth and inflation forecasts

In IMF WEO October 2024 report, economic growth forecast was set at 3.2% for 2024 and 2025. Global economic growth forecast for the current year was left unchanged compared to the previous report and was revised down by 0.1 percentage point for 2025.

The Fund revised the forecasts for Azerbaijan's key trading partners differently compared to the previous report. Economic growth forecasts for AEs were revised upward by 0.1 percentage points for 2024 to 1.8% and were left stable at 1.8% for 2025.

Growth projection for AEs was revised because of upward revision of the growth projection for the US by 0.2 percentage points and for the UK by 0.4 percentage points to 2.8% and 1.1% respectively. At the same time, growth projection for the euro area and Japan were revised down by 0.1 and 0.4 percentage points to 0.8% and 0.3% respectively. Projection for the US was revised up due to high consumption and investments by non-residents. Growth projection was revised up for the UK due to low inflation and the fact that interest rates stimulated domestic demand. Although the projection for the euro area was revised down, growth in 2024 is expected to be higher than in 2023. Expectations were revised down in Japan because of temporary supply disruptions and fading of one-off factors that boosted activity in 2023, such as the surge in tourism.

Economic growth projections for EMEs were left at 4.2% for 2024 and revised down by 0.1 percentage points to 4.2% for 2025.

While projection for the current year was left unchanged, as in AEs, diverse dynamics in among EMEs offset one another. Diverse changes in projections across the regions are affected by various factors. Disruptions in the production and transportation of certain commodities (particularly oil), the increase in regional conflicts, and extreme weather conditions have led to downward revisions in projections for the Middle East and Central Asia, and Sub-Saharan Africa. However, this downward revision has been offset by an improved forecast for emerging Asia, supported by significant investments in AI, as well as growing demand for semiconductors and electronics.

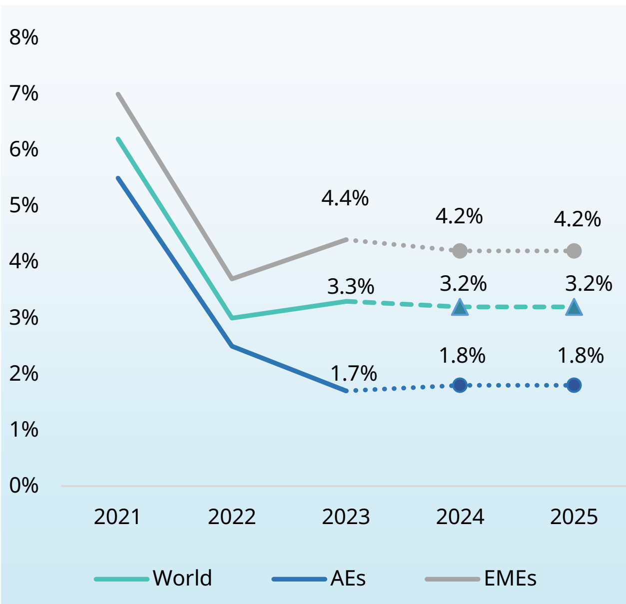
Growth for the key EME – China was revised down by 0.2 percentage points to 4.8% for 2024 and left unchanged at 4.5% for 2025. Despite weaknesses in the real estate sector and low consumer confidence, higher-than-expected net exports are the key factors driving the modest revision of this year's forecast.

Growth forecast for Russia was revised up by 0.4 percentage points to 3.6% for 2024 and down by 0.2 percentage points to 1.3% for

2025. Private consumption and low investments contributed to the downward revision for the next year.

Growth projection was revised down by 0.1 percentage points to 3.0% for Türkiye for 2024 and by 0.5 percentage points to 2.7% for 2025. Lower projection for 2025 is attributed to the tightening of the monetary and fiscal policies.

Chart 45. Global economic growth projections
Source: IMF WEO October 2024

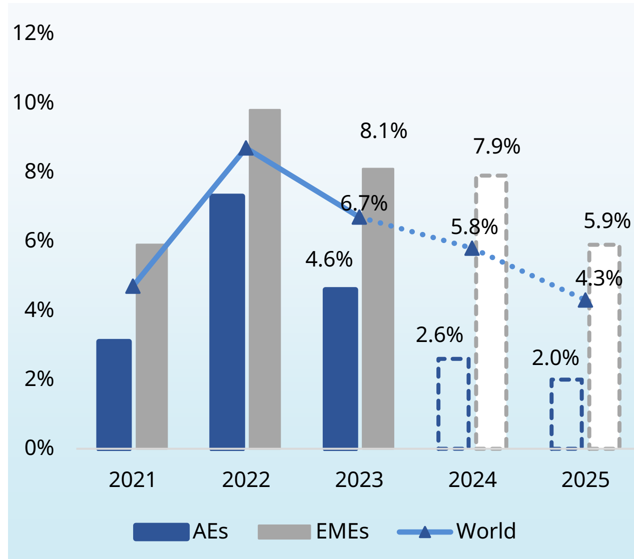


Despite persistent price stability risks, global inflation is slowing down. In IMF WEO October 2024 report, inflation projection was revised down by 0.1 percentage points both for 2024 and 2025 to 5.8% and 4.3% respectively compared to the July forecast.

Inflation in AEs is expected to decrease faster – it is forecasted to decrease from 4.6% in 2023 to 2.6% in 2024 and to 2% in 2025. Inflation is expected to decrease in EMEs, yet it will be higher than in AEs. Inflation is expected to decrease from 8.1% in 2023 to 7.9% in 2024 and to 5.9% in 2025.

According to the IMF's latest report, the continued rise in service sector prices and the slowdown in the decline of commodity prices have delayed the decrease in global inflation. As a result, most central banks were cautious in their decisions to decrease interest rates due to rising risks.

Chart 46. Global inflation projections
Source: IMF WEO October 2024



Negative effects of global climate change, adjustments in administrative prices, and persistently high service inflation driven by rapid wage growth are the main factors behind upward revisions to inflation forecasts.

4.1.2 Global risks

According to the recent release by the IMF, the risks that may adversely affect global growth have been more significant since the first half of the year. In general, available risks are the following:

- More-than-expected impact of monetary tightening.
- Still high indebtedness in AEs and EMEs.
- Lingering contraction in China's property sector.
- Resurge in commodity prices resulting from climate shocks, regional conflicts, and broad geopolitical tensions.

- Social unrest in various regions.

There are also factors that could influence upward revisions to forecasts alongside the adverse risks. Factors such as the rapid growth of investments in AEs and the acceleration of structural reforms under way could contribute to an improvement in global growth forecasts.

4.2 MACROECONOMIC PROSPECTS FOR AZERBAIJAN

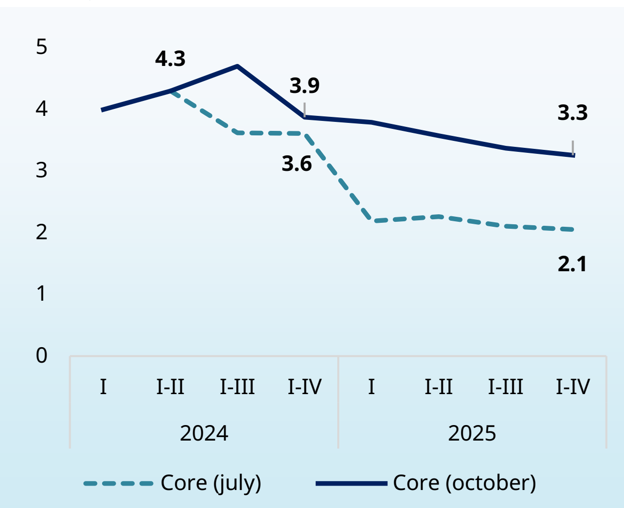
According to projections of October 2024, annual inflation is expected to be within the target band as of end-2024 and in 2025. Economic growth is projected to persist.

4.2.1 Economic growth forecast

According to recent forecasts by the CBA (October 2024), economic growth is expected to stand at 3.9% for total GDP and 6.5% for non-oil GDP in 2024.

The key drivers of non-oil economic growth in the current year are expected to be final consumption expenditures of households and government institutions.

Chart 47. GDP projection, year-over-year, in %
Source: CBA AzIM[12] model



In October, economic growth forecast was revised up by 0.3 percentage points and by 0.8 percentage points for the non-oil sector for 2024 compared to the July forecast.

The reason for upward revision of economic growth for 2024 is the expectation of a higher real growth rate in household consumption (the real growth rate of final household consumption was projected at 4.4% in the October forecast, compared to 4.1% in July) and in government sector consumption (the real growth rate of final government consumption was projected at 7.9% in the October forecast, compared to 6.6% in July).

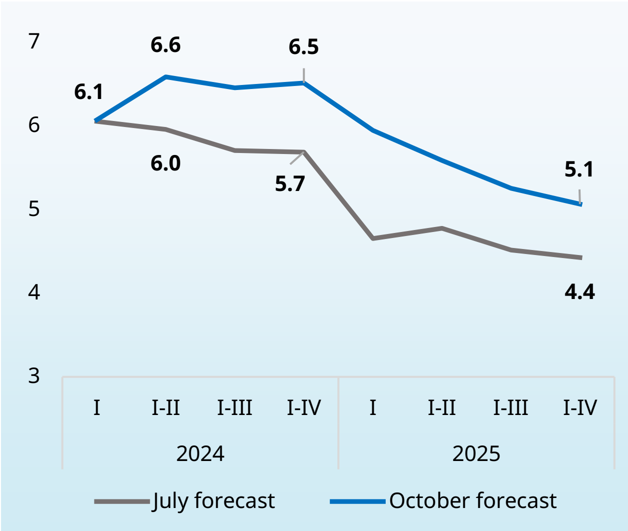
Economic growth is projected 3.3% for total GDP and 5.1% for non-oil GDP for 2025.

In October, economic growth forecast was revised up by 1.2 percentage points, and by 0.7 percentage points on the non-oil sector compared to the previous forecast (July 2024) for 2025.

The upward revision in the 2025 economic growth forecasts is attributable to the expectation of a higher real growth rate in household consumption (the real growth rate of final household consumption is projected at 5.6% in the October forecast, compared to 5.5% in July) and government sector consumption (the real growth rate of final government consumption is projected at 6.8% in the October forecast, compared to 5.7% in July).

[12] The quarterly forecasting model of the Azerbaijan's economy (AzIM) is theoretically a small open economy New Keynesian model. This model is also referred to as a gap model. It measures trend changes, explains deviations, and describes the monetary policy's transmission mechanism. Variables actively respond to shocks in the short term and converge towards their steady-state equilibrium in the long term. AzIM is built on four main equations: aggregate demand, the Phillips curve, the monetary policy rule, and interest rate parity. The model's parameters have been calibrated and subjected to standard econometric tests, including impulse-response analysis, decomposition analysis, and in-sample simulations.

Chart 48. Non-oil GDP, year-over-year, in %
Source: CBA AzIM model



The main risk to economic growth in the next year could be the limitation of exports and foreign investments amid global recession expectations.

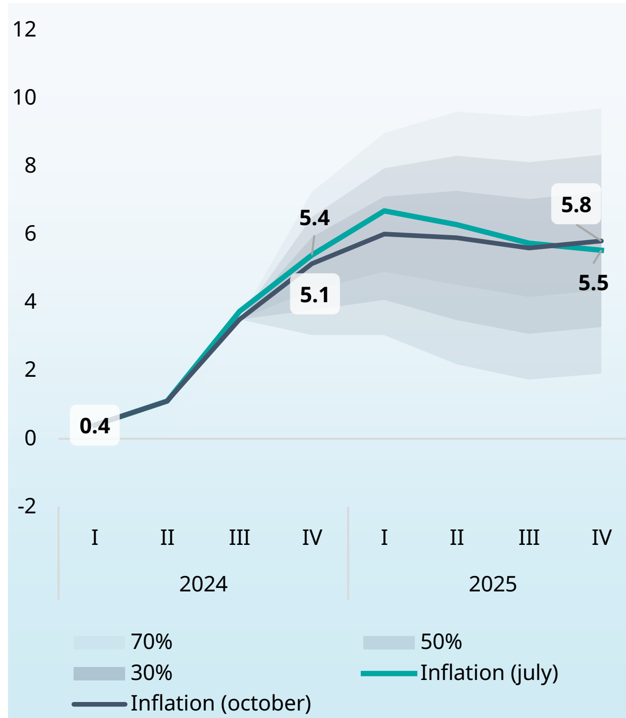
4.2.2 Inflation forecast

According to updated forecasts, in 2024 and 2025 annual inflation is projected to remain within the target band.

The CBA's October forecast for inflation in 2024 is 5.1%. In 2024, regulated prices will make 0.6 percentage points, government consumption 0.42 percentage points, household consumption 0.96 percentage points, APPI 2.25 percentage points, inflation in trade partners 3.82 percentage points upward, while the NEER is expected to make -1.24 percentage points and other factors -1.72 percentage points downward contribution to annual inflation forecast.

The October forecast revised down for 2024 by 0.3 percentage points compared with July forecast, due to the downward revision of the inflation forecast in trade partners. According to the October forecast, as of end-2024 inflation in trade partners is expected to stand at 9.8% (July forecast 10.3%). The impact of this revision on the inflation forecast is -0.2 percentage points.

Chart 49. Annual inflation forecast, in %
Source: CBA AzIM model



The October forecast for 2025 is 5.8%. Government consumption will make 0.41 percentage points, household consumption 1.61 percentage points, APPI 3.33 percentage points, inflation in trade partners 2.42 percentage points, other factors 0.16 percentage points upward, while the NEER will make -2.13 percentage points downward contribution to the annual inflation forecasted for 2025.

The October forecast for 2025 was revised up by 0.3 percentage points compared with the July forecast, due to the downward revision of the projection of the NEER appreciation rate. According to the October forecast, as of end-2025 the NEER is expected to appreciate by 7.9% (July forecast 8.7%). This revision will have a 0.22 percentage point impact on the inflation forecast. Also, the upward revision of the APPI forecast weighs on the annual forecast. According to the October forecast, as of end-2025 the APPI is expected to increase by 6.8% (July forecast 3.3%). This revision will have a 1.72 percentage point impact on the inflation forecast.

The realization of predictions will depend on changes in several external and internal inflation factors. The NEER of the manat, inflation in trade partners, and the prices and tariffs of goods and services regulated by the state are considered key factors. At the same time, climate changes and high production costs may affect inflation through the APPI. Other internal factors that may influence inflation include the dynamics of aggregate demand.

4.2.3 Inflation expectations

Inflation expectations varied across sectors. The findings of the real sector monitoring suggest that, over the past period of the year the highest price hike expectation was in the services sector. Construction and trade expectations have remained in a negative zone for the recent two months. The non-oil sector was volatile, and expectations shifted to the positive zone from the negative one.

Chart 50. Price expectations for upcoming three months across the real sector[13]

Source: Surveys among entities

In the industry the price index stood at 0.07 (y.o.y. 3.88), -14.28 (y.o.y. -2.35) in trade, -0.29 (y.o.y. 5.40) in construction, and 21.59 (y.o.y. 22.79) in services in September.

[13] The index in the graph is calculated as the difference in the weight of positive and negative responses, expressed as a percentage. This index ranges from [-100, +100] and reflects the trend of price expectations for the next three months.

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