

Azerbaijan:

Modest Economic Growth



THE WORLD BANK

Azerbaijan Economic Report No.4
October 2013

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Currency Unit = Azerbaijani Manat (AZN)
USD 1.00 = 0.78 AZN
Weights and Measures: Metric System

Abbreviations

AZN	Azerbaijani Manat
AzSTAT	The State Statistical Committee of the Republic of Azerbaijan
BP	British Petroleum
CBAR	Central Bank of Azerbaijan Republic
ECA	Europe and Central Asia
ECAPOV	Poverty in Europe and Central Asia
GDP	Gross Domestic Product
SOCAR	State Oil Company of Azerbaijan Republic
SOFAZ	State Oil Fund of the Republic of Azerbaijan
TAP	Trans-Adriatic Pipeline
TSA	Targeted Social Assistance
VAT	Value Added Tax
YAP	New Azerbaijan Party

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Acknowledgment

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Overview

Economic growth picked up in the first half of 2013 on the back of higher public investment and moderation in the decline in oil production. Since 2010, the non-oil sector has been the engine of growth with significant contributions from construction—financed in large part from earlier saved oil revenues—and services, especially in hotels and communications. The same trend continued in 2013. At the same time, the decline in oil production was stemmed as a result of capital investments undertaken by oil companies. Output expanded by 5 percent in the first half of 2013 from a year earlier compared with only 2.2 percent during 2012 as a whole. Overall growth for 2013 is expected to be around 5 percent.

The continued decline in oil production, even though at a slower pace than in 2012, lowered the fiscal and current account surplus. Fiscal performance was however better than what was budgeted due to higher oil prices and pick-up in growth. A deficit of 6.6 percent of GDP was budgeted for 2013 and the government ran a surplus of 6.3 percent in the first quarter of 2013. A fall in oil exports lowered the current account surplus and net capital outflows from Azerbaijan continued for the sixth year in a row.

Diversification remains high on the policy agenda but the country has a long way to go. The president's vision 2020, adopted in December 2012, outlines the government's diversification strategy to reach a high-income country status. It primarily focuses on the development of assets—physical capital, human capital and institutions. Limited progress has been made on most of the components of human capital and institutions, and a lot more needs to be done.

In the absence of alternate sources of growth, the hydrocarbon sector will continue to determine the economic performance of Azerbaijan over the medium-term. The decline in oil production is expected to be partially offset by an increase in natural gas production. With a fall in oil related fiscal revenues, public expenditures are expected to be scaled back thereby reducing non-oil growth. Hence, economic expansion is estimated at 4.5 percent per year over the medium-term.

A. Recent Political Developments

On the political front, a constitutional amendment in 2009 abolished term limits for presidents, paving the way for a third term for incumbent President Ilham Aliyev. Presidential elections are scheduled for October 2013 and in the absence of any significant opposition, President Aliyev is expected to win. He belongs to the New Azerbaijan Party (YAP) and has been the president since 2003. In the run-up to the elections, Azerbaijan has seen several protests since the beginning of this year and the authorities attribute it to an effort by political opponents to destabilize the country. An alternate argument for these protests has been the frustration among the population, especially the youth, because of lack of jobs and corruption in the government. Since many of these protests were organized through the online media, the government passed an Internet 'Slander' Law on May 14, 2013, which was approved by the President. This law makes defamation over the Internet a criminal offence punishable by imprisonment.

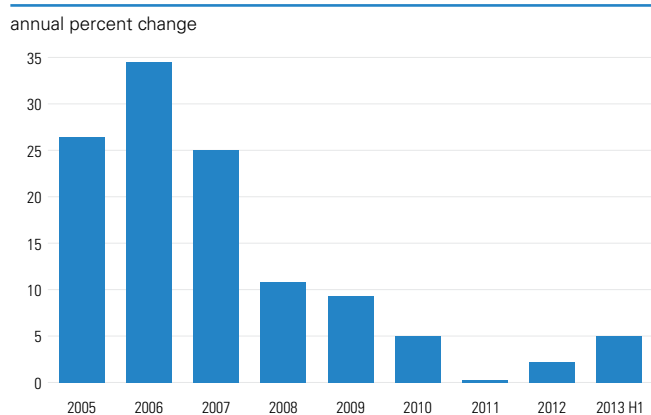
Economic diversification and growth remain high on the policy agenda and the government continued to pursue an expansionary fiscal policy to boost GDP growth. With the decline in oil production continuing in 2013, the government used saved oil revenues to increase public investment, especially in construction. The government's diversification agenda is spelt out in the President's Vision 2020 and it includes all the crucial elements of a successful diversification strategy. It emphasizes the development of assets which includes physical and human capital as well as institutions. It also includes policies to develop specific sectors in an effort towards regional development (through the establishment of industrial estates) and product export diversification (through the development of special economic zones). However, the primary focus is on development of assets. The key challenge going forward will be to focus implementation efforts on the development of assets and restrict sector specific policies to a minimum. It is still early to assess the performance of Vision 2020 since it was adopted only in December 2012. However, two aspects which have gained momentum after the launch of the vision statement include construction of industrial estates and the development of the Information and Communication Technology sector. What will be important in the future will be to steer efforts towards development of assets.

The Shah Deniz gas consortium chose the Trans Adriatic Pipeline (TAP) to transport gas to Europe. The pipeline is expected to be operational by 2019 and will carry Caspian gas to Italy via Turkey, Greece and Albania. The TAP was chosen over the Nabucco-West Pipeline which had greater diplomatic support from the United States and the European Union. The latter would carry gas through Turkey, Bulgaria, Romania, Hungary and Austria. The choice of TAP over Nabucco-West was seen as a win for Russia as the TAP will not cross Russia's interests in Europe.

B. Recent Economic Developments

Economic Growth and Domestic Demand

Figure 1. Growth picked up in the first half of 2013

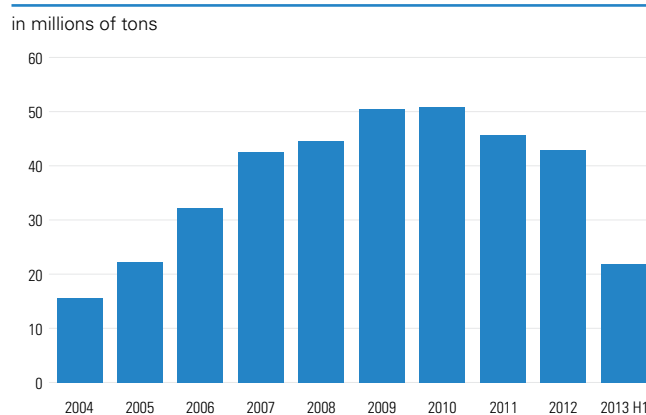


Source: AzSTAT.

A pickup in non-oil expansion combined with moderation in the decline in oil production resulted in a 5 percent output growth in the first half of 2013. This was a significant jump from the 2.2 percent GDP growth in 2012 (figure 1). The decline in oil production reduced significantly in 2013 compared with the past two years. Capital investment undertaken by oil companies helped stem the decline. After a 4.4 percent decrease during the first quarter of 2013, oil production increased by 0.9 percent during the second quarter of the year. Although there was still a 1.8 percent year-on-year decline during the first half of the year, it was much lower than the 7 percent decline in 2012 (figure 2).

The impressive performance of the non-oil sector continued with a growth of 10.9 percent during the first six months of 2013. Construction, driven by public investment, made the largest contribution to non-oil growth, increasing by more than a third from a year earlier. The other significant contributors were hotels and restaurants and services (table 1). The agricultural sector grew by 4.9 percent year-on-

Figure 2. The rate of decline in oil production moderated



Source: SOCAR.

Table 1. Gross domestic product, 2011–2013 H1

	percent change		
	2011	2012	2013 H1
Gross Domestic Product	0.1	2.2	5.0
Oil GDP	-9.3	-5.0	-1.7
Non-Oil GDP	9.4	9.7	10.9
Industry			
Mining and Quarrying	-10.2	-5.1	
Manufacturing	7.4	5.3	
Production and Distribution of Electricity, Gas and Water	11.1	11.6	
Water and Waste Processing	12.0	1.3	
Agriculture	5.8	5.8	4.9
Construction	20.0	18.0	35.5
Services			6.1
Trade	10.2	9.6	
Transportation	-0.8	5.0	
Hotels and Restaurants	22.6	18.8	
Communication	11.8	15.9	
Social and Other Services	5.7	5.4	
Net Taxes on Products and Imports	8.2	7.0	9.3

Source: AzSTAT.

year during the first six months of 2013, mainly driven by the 5.1 percent growth in animal breeding and 4.5 percent growth in crops.

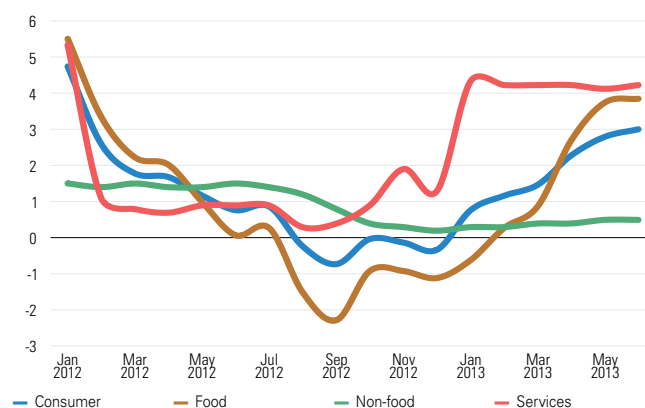
Inflation

Inflation picked up in the first half of 2013 driven by the upward trend in global food prices and the one-time adjustment in notary service fees. After declining during the second half of 2012, food prices started increasing from February 2013. By June 2013, 12-months inflation reached 3.9 percent. The 4.2 percent inflation in services reflected a four-fold one-time tariff increase in prices for notary services in early 2013. The trend in non-food prices remained stable during the first half of 2013 (figure 3).

Figure 3. Inflation went up driven by global food prices

Consumer prices inflation

price index, 12-month percent change



Source: AzSTAT.

Trade and Balance of Payments

Falling oil exports and increasing imports lowered the trade surplus to 35.7 percent of GDP in the first quarter of 2013 compared with 41.5 percent a year earlier. Exports of oil and oil products declined to \$7.8 billion in the first quarter of 2013 compared to \$8.6 billion in the same quarter of the previous year, with most of the decline in export values reflecting lower oil prices. Imports increased modestly.

The non-oil trade deficit improved from 21.5 percent of non-oil GDP in the first quarter of 2012 to 19.7 percent this 2013. This was primarily because of the 15.3 percent increase in the export of food, beverage and tobacco. Among non-food non-oil exports, the main contributors were iron and steel articles and ships, boats and floating structures. Compared to the 28.6 percent overall increase in non-oil exports in Q1 2013, non-oil imports increased only by 8 percent.

Net service receipts and income payments also improved in the first quarter of 2013. Boosted by tourism receipts, service sector inflows increased by 56.8 percent in the first quarter of 2013 compared to the 9.2 percent increase in outflows. As a result, the deficit in services declined from \$0.9 billion in the first three months of 2012 to \$0.6 billion in the current year. At the same time, income repatriations decreased and this resulted in the decline in the income deficit from \$1.3 billion to \$1.2 billion.

Table 2. Azerbaijan: Balance of Payments, 2010–2013 (Q1)

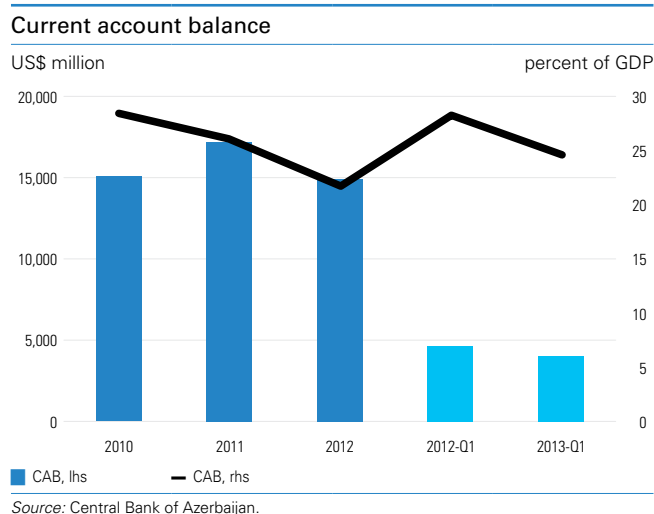
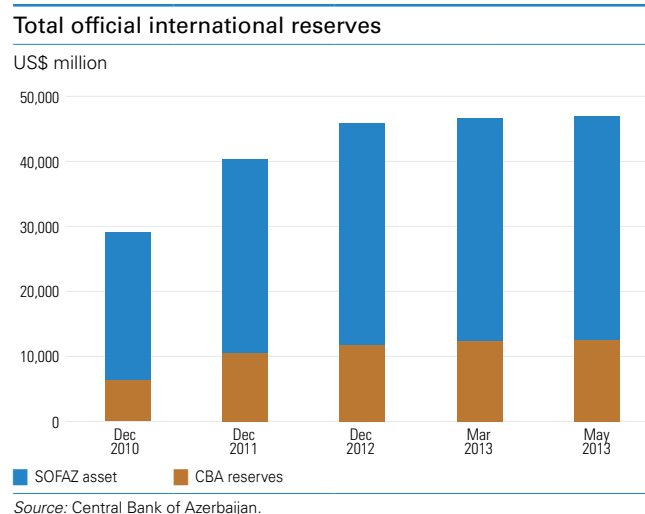
in millions US dollars; unless otherwise specified

	2010 actual	2011 actual	2012 actual	2012-Q1 actual	2013-Q1 actual
Current account	15,040	17,146	14,916	4,635	4,049
Trade of goods	19,730	24,328	22,217	6,816	5,893
Exports f.o.b., of which:	26,476	34,495	32,634	8,970	8,294
Oil and oil products	25,108	32,871	30,701	8,618	7,842
Food, beverages and tobacco	593	717	832	144	166
Metals and metal products	127	233	219	58	57
Plastics and articles thereof.	85	124	109	41	31
Other non-oil products (residual)	564	550	773	109	198
Imports f.o.b.	-6,746	-10,166	-10,417	-2,154	-2,401
Services and income	-5,200	-7,856	-7,250	-2,219	-1,808
Services, of which:	-1,733	-2,996	-2,924	-934	-648
Oil and oil products	-1,240	-1,594	-2,097	-558	-567
Income, of which:	-3,467	-4,860	-4,327	-1,285	-1,160
Oil income repatriation	-3,199	-4,622	-4,128	-1,269	-1,154
Current transfers	509	673	-50	38	-37
Capital and financial account (including E&O)	-4,578	-4,790	-9,961	-2,217	-2,374
Capital account	14	19	12	1	-3
Direct investments, of which:	331	933	812	211	394
Oil sector	-247	238	202	67	284
Portfolio investments	-139	-317	268	459	957
Other investments	-3,796	-4,654	-9,174	-2,436	-3,982
Errors and omissions (E&O)	-989	-770	-1,879	-452	259
Overall balance	10,461	12,356	4,956	2,418	1,674
<i>Memorandum items:</i>					
Total official monetary and fiscal reserves	29,174	40,282	45,824	43,182	46,658
Gross official international reserves	6,408	10,482	11,695	10,823	12,333
SOFAZ assets	22,767	29,800	34,129	32,359	34,326

Sources: Central Bank of Azerbaijan; World Bank staff calculations.

Net capital outflows from Azerbaijan continued for the sixth year in a row. The pace of outflows picked up to \$2.4 billion in the first quarter of 2013 from \$2.2 billion a year earlier, largely thanks to a jump in resident deposits abroad. The resident outflows more than outweighed increased inflows of foreign direct investment—still rather modest as a share of GDP, nonetheless—and portfolio inflows. Unlike 2012, the oil sector accounted for the bulk of the increase in FDI in the first quarter of 2013.

The current account surplus was however high enough to more than offset capital outflows to help boost the country's foreign exchange reserves and the holdings abroad of the SOFAZ. Foreign exchange reserves rose by \$1.7 billion, a pace slower than a year earlier, and the assets of SOFAZ increased by about \$2.2 billion.

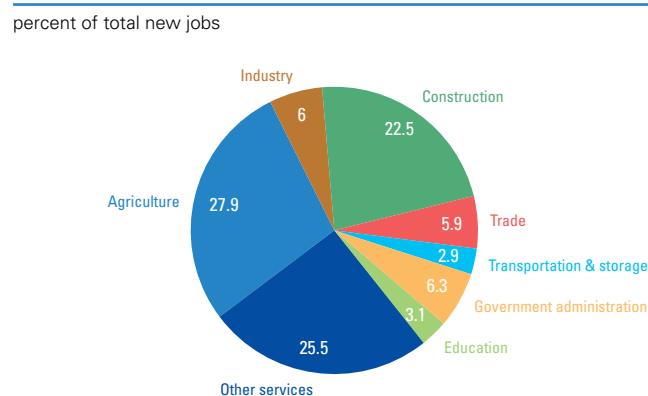
Figure 4. The current account surplus narrowed**Figure 5. The accumulation of reserves continued**

Employment and Labor Markets

Joblessness has fallen significantly in Azerbaijan over the last decade, with the official unemployment rate down from 10 percent in 2002 to 5.2 percent in 2012. A significant portion of the decline has been accounted for by a sharp drop in labor force participation rate and the rest by new job creation. Had the labor force participation remained unchanged since 2002, the unemployment rate would have increased to 20 percent in 2012. In any case, with official unemployment rate of about 5 percent, Azerbaijan ranks much below the Europe and Central Asia (ECA) average of around 7 percent. Agriculture and services remain the main employers in the economy, together accounting for nearly 85 percent of the total. The hydrocarbon sector, which accounts for close to 50 percent of GDP, employs less than 1 percent of the population. Female labor force participation rate has been impressive and has remained constant at around 48 percent since 2002.

Since 2000, more than half a million jobs were created in Azerbaijan. The total number of jobs increased from 3.9 million in 2000 to 4.4 million in 2012, half of which were created in agriculture and construction (figure 6). The industrial sectors created only 36,000 new jobs, mainly in manufacturing with no increase in the mining sector. The rest were in the services sector, particularly public bodies, trade, ICT, and tourism.

The public sector still remains an important employer although its share has declined over the years. Most of the decline happened during the 1990s and continued till 2011. However, 2012 saw an increase in the public sector's share (table 3).

Figure 6. Half a million jobs were created during 2000 to 2012

Source: AzSTAT.

Table 3. Share of the public and private sector in total employment

	1990	1995	2000	2005	2011	2012
Share of public sector	71	56	33	30	26	29
Share of private sector	29	44	67	70	74	71

Source: AzSTAT.

Active labor market policies accounted for only 15 percent of total labor market policies in 2008 and were less than 0.001 percent of GDP. Azerbaijan spends 0.1 percent of GDP on labor market policies, compared with 0.5 percent in ECA and 2.8 percent in EU. The country witnessed an impressive growth in labor productivity over the last decade. This increase was both in the mining and non-mining sectors and happened after the oil-boom. However, labor productivity still lags other countries in the region.

Poverty

Poverty declined from 46.7 percent in 2002 to 6 percent in 2012, an impressive reduction that is probably one of the fastest in the world. There was also a significant decline in inequality from 36.5 percent in 2001 to 14 percent in 2011. The latest World Bank consumption poverty estimate for 2011 was however 14.5 percent—nearly double the official estimate of 7.6 percent for that year. Extreme poverty, measured by the ECA poverty line of \$2.50 per day, fell from 11.5 percent in 2002 to 4.5 percent in 2008. In terms of the share of the country's population living on less than \$5 a day, the decline was from 86 percent in 2002 to 39 percent in 2008.¹ Along with consumption growth, social transfers also played an important role in reducing poverty. Almost 63.2 percent of households in Azerbaijan receive at least one type of social transfer. The type of transfer that has been particularly effective at reducing poverty is pensions which rose from 42 percent of the subsistence level to 95 percent over the past decade.² In 2011 alone, pensions increased by 40 percent. In addition, Targeted Social Assistance (TSA) was found to be particularly effective in reaching the very poor and the poor. The poor also benefitted from higher labor income because average annual real wages grew by 13 percent over the past decade.

¹ World Bank ECAPOV estimates.

² Onder et al., 2012.

C. Economic and Structural Policies

Fiscal Policy

A jump in government spending narrowed the government surplus to 6.3 percent of GDP in the first quarter of 2013 from nearly 19 percent a year earlier. The non-oil deficit, a measure that excludes oil-related revenues, rose because of the same drivers to 26 percent in the first quarter from 13.9 percent a year before (table 4). The policy of boosting economic activity through public spending, which started in 2008 following the drop in oil prices, continued.

Table 4. Azerbaijan: Government Fiscal Accounts, 2010–2013 (Q1)

in percent of GDP; unless otherwise specified

	2010 actual	2011 actual	2012 actual	2012-Q1 actual	2013-Q1 actual
Consolidated revenues	45.2	44.3	40.6	42.5	43.0
Consolidated non-oil revenues	9.9	9.4	10.2	10.1	10.5
Tax revenue (non-oil)	9.4	8.8	9.5	10.1	10.4
Non-tax revenue	0.5	0.6	0.7	0.0	0.1
Consolidated budget expenditure	31.6	33.5	36.3	24.0	36.7
Central Government expenditure	27.7	29.6	31.7	22.0	34.9
Social protection expenditure by SSPF*	1.5	1.4	1.6	1.4	1.1
Domestically financed expenditure by SOFAZ**	1.1	1.2	1.2	0.6	0.7
Externally financed expenditure	1.3	1.4	1.8	n.a.	n.a.
Non-oil deficit	-21.7	-24.2	-26.1	-13.9	-26.2
Oil revenue spent	19.6	23.4	24.7	19.5	27.9
Oil tax revenue of the budget	4.6	5.0	5.1	4.6	5.3
Oil revenue transfers from SOFAZ	13.9	17.3	18.3	14.2	21.9
Domestically financed expenditure by SOFAZ	1.1	1.2	1.2	0.6	0.7
Oil revenue saved in SOFAZ	15.8	11.6	5.7	12.9	4.6
Overall balance	13.6	10.8	4.3	18.5	6.3
Net borrowing	-0.9	0.6	0.3	5.0	1.2
Oil revenue saved in SOFAZ (-)	15.8	11.6	5.7	12.9	4.6
Statistical discrepancy	-1.3	-1.3	-1.8	0.6	0.5

Sources: Azerbaijani fiscal authorities; State Oil Fund of Azerbaijan; World Bank staff calculations.

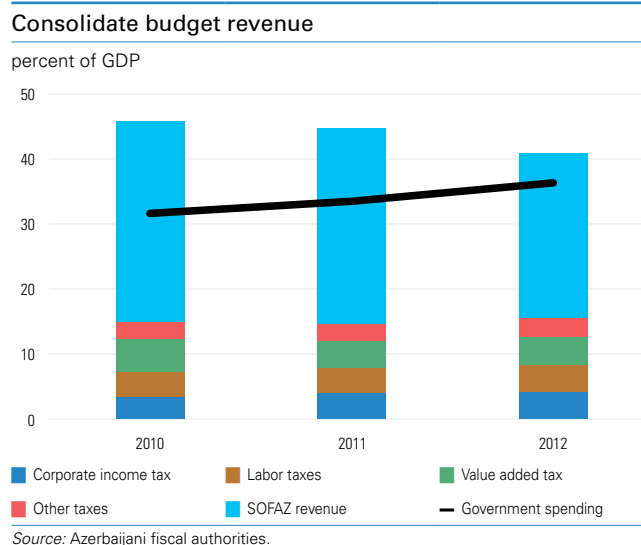
* SSPF: The State Social Protection Fund.

** SOFAZ: The State Oil Fund of Azerbaijan.

Budget dependence on oil revenues increased further in the first quarter of 2013. Direct transfers from the Oil Fund covered 44 percent of total spending in 2010, but they amounted to nearly 60 percent in the first quarter of 2013. Overall, three-fourths of fiscal revenues in Q1 2013 originated in the oil sector. The other significant sources of revenue include value added taxes and corporate income tax (figure 7).

Though consolidated budget expenditures increased significantly, the increase in health and education spending was marginal while expenditure on social protection declined. The consolidated budget expenditures reached 36.7 percent of GDP in the first quarter of 2013, compared to 24 percent of GDP in the same period of the previous year. This was driven by a 58.8 percent increase in expenditures in Q1 2013. The largest expenditure item was categorized as those “directed towards the development of the economy” which essentially includes investment expenditures. Aggregate spending in this category almost doubled from AZN 1.1 billion in the first three months of 2012 to AZN 2.1 billion in 2013. This compares with a 2.1 percent increase in health and education spending and an 8.7 percent decline in social protection spending.

Figure 7. Transfers from SOFAZ continued to dominate fiscal revenues



Only 16.9 percent of the Oil Fund’s revenues were saved in the first three months of 2013 compared to 46.5 percent in 2012. During 2010, the peak year of oil production, the Oil Fund’s revenues reached 30.8 percent of GDP. As oil production declined subsequently, the Fund’s revenues declined as well and in 2012 it stood at 25.3 percent of GDP. However, unlike revenues, expenditures from the Oil Fund continued to increase. As a result, the Oil Fund, which saved more than half of its revenues in 2010, was able to save only 22.7 percent of its revenues in 2012. A similar trend continued in the first quarter of 2013. While revenues of the Fund remained more or less stable at 27.2 percent of GDP in the first quarter of 2013, spending increased to 22.6 percent of GDP compared with 14.9 percent of GDP in the first quarter of 2012.

The ambitious plans of the State Oil Company (SOCAR) raise some concerns. SOCAR, a 100 percent subsidiary of the Government of Azerbaijan, produces oil and gas, operates the country’s two refineries and runs the pipeline system. Though SOCAR is not highly leveraged currently, it has ambitious plans for extensive capital investments over the next few years, most of which would be debt financed. Starting in 2013, SOCAR would invest in four separate projects which will cost a total of \$34 billion (nearly 50 percent of 2012 GDP). Sixty-five percent of this cost will be debt financed, mainly through loans from EXIM Banks, while the remaining 35 percent (\$12 billion) will come from SOFAZ whose reserves at the end of 2012 stood at \$34 billion. The projects include a \$5 billion refinery in Turkey, a \$17 billion oil and gas processing petrochemical complex, an \$8 billion Trans-Anatolian natural gas pipeline project (TANAP), and new drilling rigs in the Caspian Sea worth \$4 billion. SOCAR openly claims state support for its projects and does not foresee any problems on the financing side. Most of these projects will be completed over the medium to long term.

Monetary and Exchange Rate Policies

Monetary policy became more accommodating recently with a decline in the refinancing rate. After maintaining the refinancing rate at 5.25 percent for 1.5 years since mid-2011, the Central Bank of Azerbaijan cut the rate twice (by 250 basis points each time) in December 2012 and in February 2013 (figure 8). Since money and bond markets are not well-developed in Azerbaijan, the monetary transmission mechanism remains relatively weak.

Figure 8. The refinancing rate was adjusted downwards to 4.75 percent

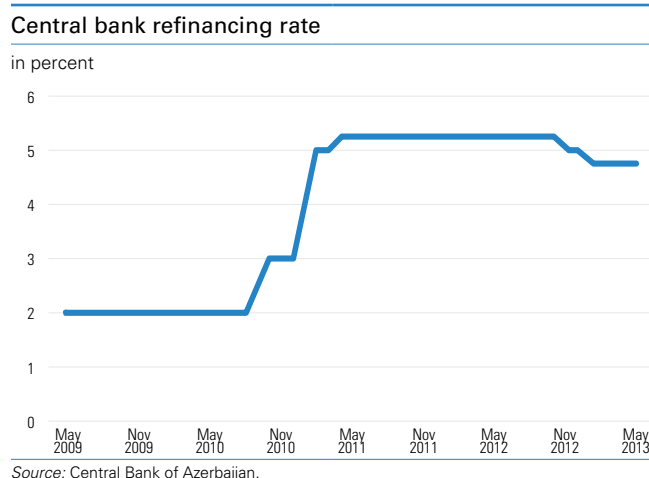
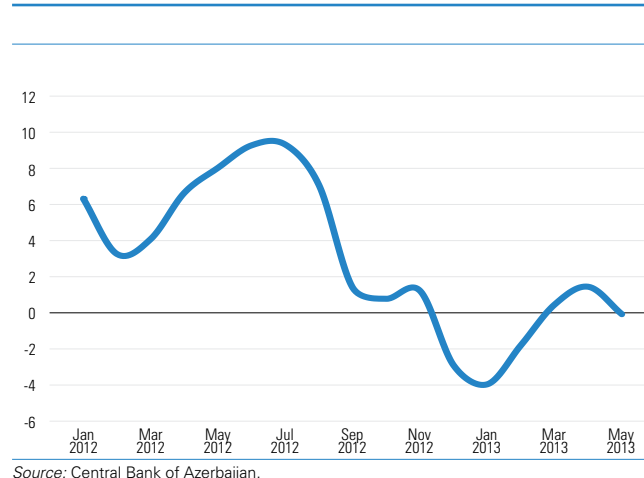


Figure 9. Real effective exchange rate did not change appreciably during 2013 H1



On average, the real exchange rate did not change appreciably in the first half of 2013. The fixed exchange rate regime against the U.S. dollar continued in 2013 and is expected to remain in place over the medium-term. The decline in inflation since 2012 has led to a depreciation of the real exchange rate (figure 9).

Financial depth remains low in Azerbaijan compared to other countries in the ECA region. Despite the important steps taken during the past 10 years to reform the business environment and deepen financial markets, Azerbaijan ranks lower than its ECA peer countries in access to both deposits and bank loans for firms. Credit to the private sector as a share of GDP increased between 2004 and 2011 from 9 percent to 21 percent, but still remains much lower than regional and upper-middle income countries. As a result, nearly 67 percent of investments by enterprises in Azerbaijan are financed through own internal resources.

The financial sector is fragmented, fragile and monopolized by the public sector bank—International Bank of Azerbaijan (IBA). Though there are 43 banks operating in Azerbaijan, the IBA holds 33.4 percent of the assets. Given its size, the IBA poses a systemic risk to the banking system with inadequate provisioning levels and sub-par quality of loans. There have been efforts to restructure and downsize IBA with the aim of eventually privatizing it but there is still some way to go. Another 11 banks hold 35 percent of assets with the share of each being less than 5 percent. Non-performing loans (NPLs) have increased from 5.2 percent in 2008 to 10.9 percent in 2012 while the ratio of loan loss provisions to NPLs stood at 54 percent in 2012. The non-banking financial sector is small in size and accounts for only 2 percent of the total assets of the banking sector.

The insurance sector has seen significant growth since 2011 and the trend continues in the current year. The government introduced mandatory real estate insurance in 2011 and established the Compulsory Insurance Bureau. Since then, the insurance industry has grown significantly. Insurance premiums increased by 61 percent during 2012 and another 17 percent in the first half of 2013.

D. Outlook

The near-term outlook in Azerbaijan is underpinned by the moderation in the decline in oil production, high oil prices and continuation of an expansionary fiscal policy. As a result, growth is estimated at 4.9 percent in 2013. The slight increase in oil production after the completion of Chirag Oil Project and the carry-over from 2013 is likely to bring GDP growth up to 5.3 percent in 2014 before it tapers off in subsequent years. Higher oil prices have also boosted fiscal and export revenues in the current year. Consequently, a lower fiscal deficit and a higher current account surplus are projected for 2013. Expansionary fiscal policy will continue to drive growth in 2013 since it is an election year. Thereafter, there could be some expenditure correction resulting in lower non-oil growth.

Medium-Term Outlook

The medium-term outlook of Azerbaijan will continue to be dominated by developments in the hydrocarbon sector. Based on the current production sharing agreement with the international oil companies, the outlook for the oil sector remains challenging. The Azeri-Chirag-Guneshli (ACG) oil field, on average, accounted for nearly 75 percent of total oil production between 2005 and 2012, catapulting Azerbaijan to the 20th largest crude oil producer in the world in 2011. Production peaked in 2010 and is now in the decline stage wherein oil wells require significant maintenance expenditures. The production sharing agreement (PSA) between the government and the oil consortium ends in 2024 and there has been no move by the government to renew the PSA for an extended period afterwards. No new construction of oil platforms has been initiated so far, and if one were to start now, the existing PSA contractual period would not be enough to recoup investment costs. Consequently, unless there are changes in the PSA, oil production in the ACG oil field is expected to decline further.

Natural gas will provide a boost to growth. At 2.55 trillion cubic meters, Azerbaijan has the 26th largest proven gas reserves in the world as of 2011.³ The completion of the second stage of Shah Deniz gas field is expected to add another 16 billion cubic meters (bcm) per annum to total gas production in Azerbaijan which currently stands at 27 bcm. This gas field is expected to deliver natural gas to Europe by 2019. The downside here is that over the next few years, gas prices could be undermined by the rapidly expanding shale gas production. The US is expected to start exporting shale gas to Europe by 2018 and this could have an adverse impact on the demand for Azerbaijani natural gas.

On diversification, Azerbaijan has got off to the right start by having a vision statement which has all the ingredients for a successful strategy. With a decline in oil production, the government realizes that it will have to develop alternate sources of growth and revenues to help it undertake its functions effectively. Though oil has served Azerbaijan well, it has led to several structural and other deficiencies in the economy. Vision 2020 aims to rectify these weaknesses by focusing on the development of physical and human capital and

3 Source: EIA.

institutions. These are the elements which have helped most of the currently developed countries in the world. While the vision statement also has an element of sector-specific policies, the primary focus is on assets. The crucial factor going forward will be to implement this ambitious agenda and tackle the tougher issues of developing human capital and institutions.

On the development of assets, Azerbaijan has a long way to go. As a result, growth is expected at around 4.5 percent per year over the medium-term. There are limited upsides to the oil sector given the current PSA. The decline in oil production is also expected to adversely impact fiscal revenues and hence the government's capacity to continue with an expansionary fiscal policy. Hence, non-oil growth is estimated to decline from its current level. The average growth per year during 2013–16 is expected at 4.5 percent.

Appendix

Appendix 1. Economic and Social Indicators—Azerbaijan 2006–2016

Selected Indicators	2008	2009	2010	2011	2012	2013	2014	2015	2016
<i>Income and Economic Growth</i>									
GDP growth (percent)	10.8	9.3	5	0.1	2.2	4.9	5.3	4.4	3.5
Oil GDP growth (percent)	6.8	14	1.8	-9.8	-5.0	-0.1	1.2	-0.8	-0.9
Non-oil GDP growth (percent)	15.9	3.7	7.9	9.4	9.7	9.4	7.8	7.3	6.1
GDP per capita growth (percent)	45.9	-10.4	18	20.8	4.4	3.2	5.2	6.8	6.2
GDP per capita (US\$)	5,603	5,018	5,922	7,156	7,471	7,711	8,115	8,667	9,203
Private consumption growth (percent)	17.4	6.4	-15	17.4	2.0	3.3	7.1	9.5	9.7
Gross fixed investment (percent of GDP)	18.7	18.9	18.7	15.4	21.9	24.4	25.3	24.9	22.5
Gross fixed investment - public (percent of GDP)	12.5	12.3	10.9	11.3	8.1	10.0	11.1	11.9	10.4
Gross fixed investment - private (percent of GDP)	6.2	6.6	7.8	4.1	13.8	14.4	14.2	12.9	12.1
Savings (percent of GDP)	61	48.3	52.7	47.9	43.6	43.3	42.2	39.5	34.7
<i>Money and Prices</i>									
Inflation, consumer prices (percent, end of year)	20.8	1.5	5.7	7.8	1.1	..	..	..	..
Inflation, consumer prices (percent, period average)	15.5	0.7	7.8	5.5	1.1	3.2	4.2	5.0	5.0
Nominal exchange rate (end of period)	0.801	0.803	0.798	0.787	0.785	0.8	0.8	0.8	0.8
Real exchange rate index (2000=100)	121.8	115.5	127.7	134.2	130.3	123.7	121.3	118.1	113.7
<i>Fiscal</i>									
Revenues (percent of GDP)	48.4	40.4	45.8	45.4	41.4	36.5	36.4	35.6	35.6
Non-oil revenues (percent of GDP)	10.1	12.1	10.4	9.8	12.6	11.1	11.9	12.8	13.6
Expenditures (percent of GDP)	29.5	33.8	32.1	34.3	37.2	39.2	37.8	38.4	37.3
Current (percent of GDP)	15.1	19.6	19.2	17.7	23.6	24.3	23.4	23.3	22.1
Capital (percent of GDP)	14.1	13.8	12.9	16.6	13.6	14.9	14.4	15.1	15.2
Overall fiscal balance (percent of GDP)	18.9	6.6	13.7	11.1	4.2	-2.7	-1.4	-2.8	-1.7
Primary fiscal balance (percent of GDP)	19.2	7	13.9	11.8	4.6	-2.3	-1.0	-2.4	-1.3
Primary non-oil fiscal balance (percent of GDP)	-19.1	-21.3	-21.5	-23.8	-24.2	-27.7	-25.5	-25.2	-23.3
External debt, total (percent of GDP)	19.2	20.2	20.8	15.4	17.4	18.1	18	18.1	18
(current US\$ million)	9,368	8,960	11,012	9,945	11,927	12,767	13,596	14,333	15,737
Total Public Debt (percent of GDP)	6.9	11.8	11.1	10.2	11.3	11	10.4	10.3	10.2

Selected Indicators	2008	2009	2010	2011	2012	2013	2014	2015	2016
<i>External Accounts</i>									
Export real growth (percent)	7.8	8.1	24.2	-0.6	-8.3	3.4	4.5	2.7	2.2
Import real growth (percent)	14.3	-5.3	1.3	35.6	14.9	7.0	9.3	10.0	9.4
Merchandise exports (current US\$ millions)	30,586	21,097	26,476	34,495	34,496	34,497	34,498	34,499	34,500
<i>of which: oil export</i>	29,143	19,970	25,108	32,871	32,871	32,871	32,871	32,871	32,871
Merchandise imports (current US\$ millions)	7,575	6,514	6,746	10,166	10,167	10,168	10,169	10,170	10,171
Services, net (current US\$ million)	-2,343	-1,613	-1,733	-2,996	-2,996	-2,996	-2,996	-2,996	-2,996
Workers' remittances, net (current US\$ millions)	1,017	659	498	634	..	..	..	..	..
Current account balance (current US\$ millions)	16,454	10,173	15,040	17,146	14,916	13,649	13,034	12,024	10,719
in percent of GDP	33.7	23	28.4	26.5	21.7	18.8	16.9	14.6	12.3
Non-oil current account balance (current US\$ millions)	-4,391	-4,584	-4,823	-8,373	-9,136	-9,490	-10,303	-10,906	-11,581
in percent of GDP	-9	-10.3	-9.1	-12.9	-13.3	-13.1	-13.4	-13.2	-13.2
Foreign direct investment, net (current US\$ millions)	-545	146	329	913	810	1,328	1,074	1,526	1,644
<i>Population, Employment and Poverty</i>									
Population, total (millions)	8.8	8.9	9	9.1	9.2	9.4	9.5	9.5	9.5
Population growth (percent)	1.31	1.33	1.13	1.26	1.36	1.6	0.8	0.8	..
Unemployment rate	5.9	5.7	5.6	5.4	5.2	..	..	..	..
Poverty headcount ratio at national poverty line (percent of population)	13.2	10.9	9.1	7.6	6	..	..	..	..
Income inequality - Gini	30.7	..	..	29	..	..	..	..	..
Life expectancy (years)	73.4	73.5	73.6	73.8	..	..	..	..	..
<i>Other</i>									
GDP (current LCU, billions)	40.1	35.6	42.5	51.2	54.0	57.2	61.2	65.7	70.1
GDP (current US\$, billions)	48.9	44.3	52.9	64.8	68.7	72.5	77.1	82.3	87.4
Doing Business rank ¹	97	38	55	69	66	67	..	..	..
HDI (Human Development Index) rank ²	98	86	67	91	..	..	..	..	..
CPIA (overall rating)	3.8	3.8	3.7	3.7	3.7	..	..	..	..
Economic management	4.5	4.5	4.3	4.3	4.3	..	..	..	..
Structural policies	3.8	3.8	3.5	3.7	3.5	..	..	..	..
Social inclusion and equity policies	3.8	3.8	3.8	3.8	3.8	..	..	..	..
Public sector management and institutions	3.2	3.2	3.1	3.1	3	..	..	..	..

(p) Indicates preliminary data; "..." indicates not available.

1/This indicator is ranked out of 175 countries in 2007, 178 in 2008, 181 in 2009 and 183 in 2010 and 2011.

2/The HDI ranking in 2001 is in relation to 175 countries; from 2005 to 2008, to 177; in 2009, to 181; in 2010, to 169 countries; and, in 2011, to 187 countries.



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