

Azerbaijan Economy Analysis

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Azerbaijan before 2014

Economy overview

- ▶ Central Bank conducting exchange rate policy in the fixed mode of the US dollar.
- ▶ The manat exchange rate has appreciated by less than 2 percent relative to the U.S. dollar since November 2010.
- ▶ The oil price is the essential channel linking Azerbaijan to the global economy.

Statistic in 2014

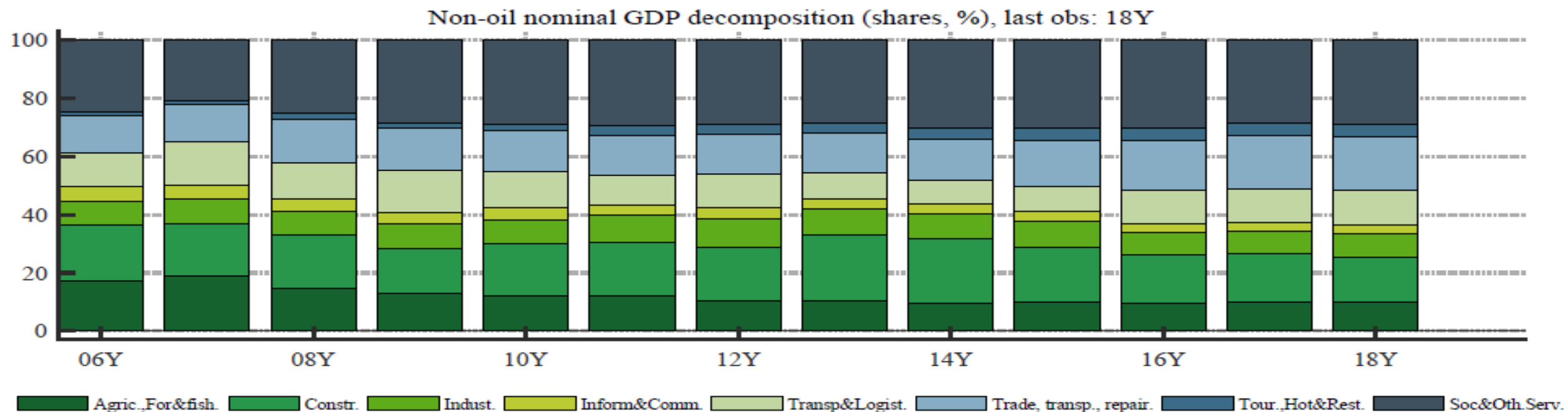
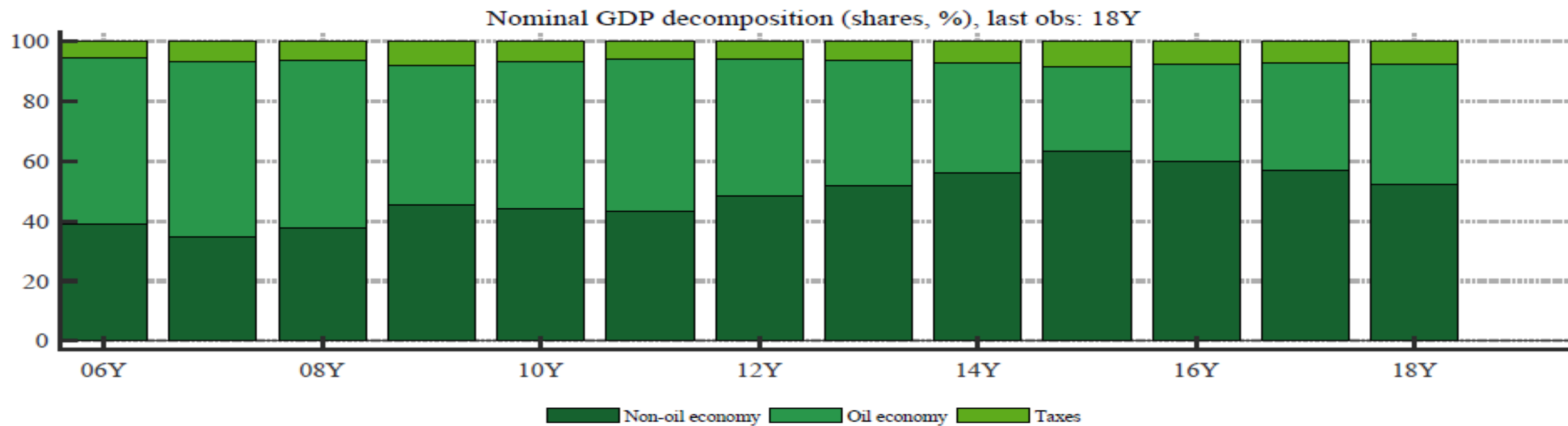
| | | |
|--------------------------|--------|-----------|
| ▶ GDP (mil. USD) | 75 239 | (grow) |
| ▶ GDP (mil. AZN) | 59 014 | (grow) |
| ▶ GDP per capita (USD) | 7 936 | (grow) |
| ▶ GDP growth (%) | 2,8 | (descend) |
| ▶ Public dept (% of GDP) | 10,7 | (descend) |
| ▶ Inflation (%) | 1,4 | (descend) |
| ▶ Unemployment rate (%) | 6 | (stable) |
| ▶ Population (mil.) | 9,6 | (stable) |

Industries in Azerbaijan

- ▶ Energy Industry
 - ▶ Oil -> 40% GDP
- ▶ Mining Industry
 - ▶ gold, silver, iron, titanium, copper, manganese, cobalt
- ▶ Agriculture Industry
 - ▶ 54.9% of the country's total land area

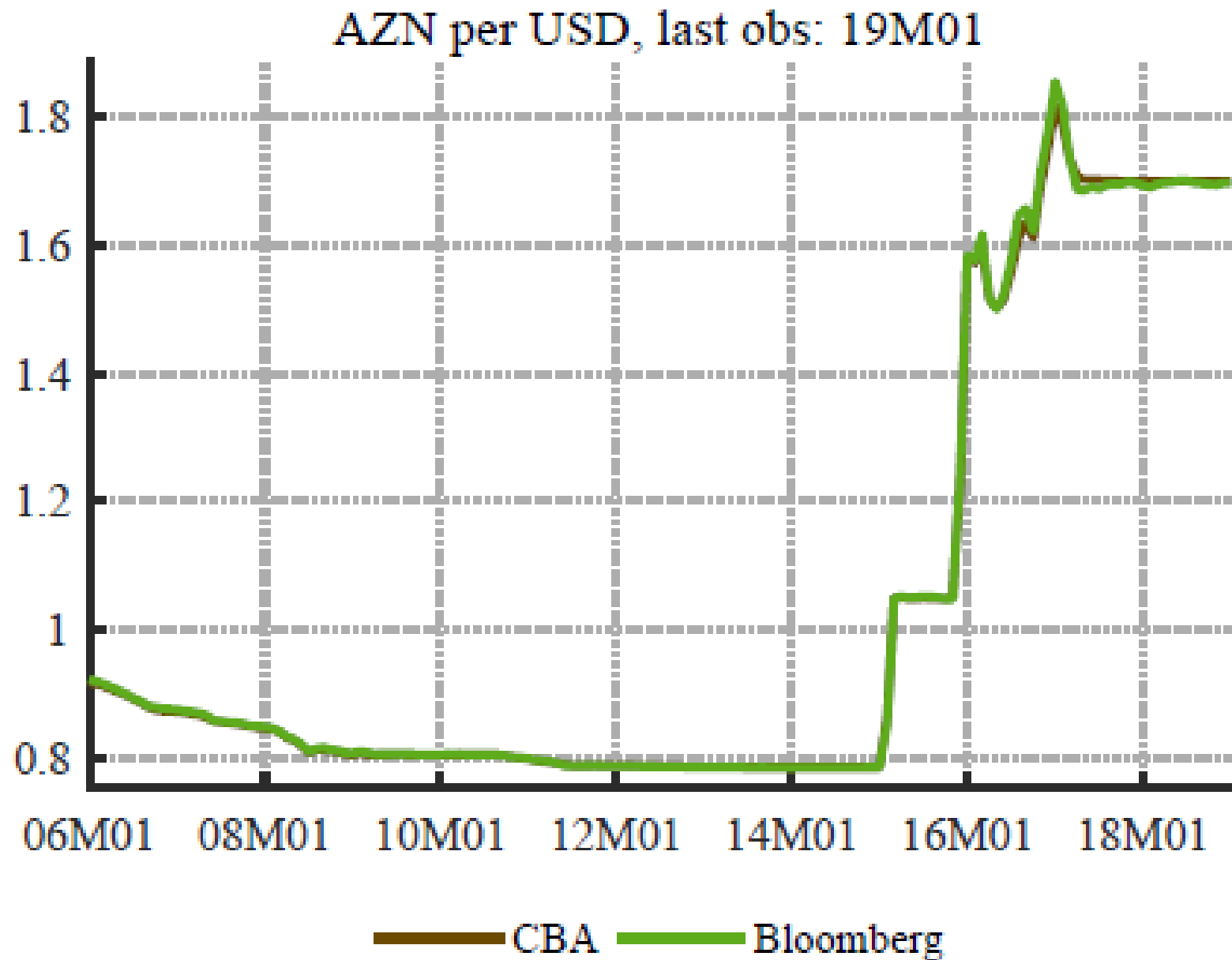
- ▶ Azerbaijan economy can be divided into two sectors: oil and non-oil

Nominal GDP



Exchange rate

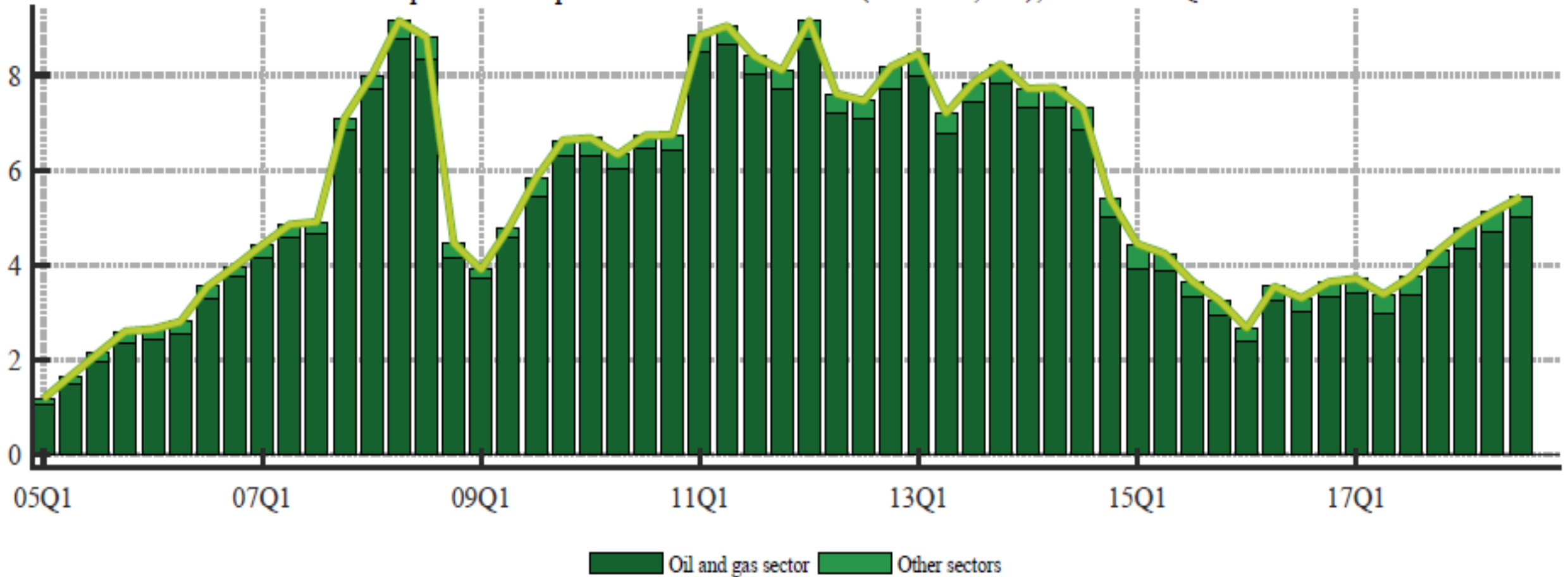
- ▶ stable
- ▶ around 0,8



Export

- ▶ Main export partners
 - ▶ Italy, Turkey, Israel, Russia, Germany

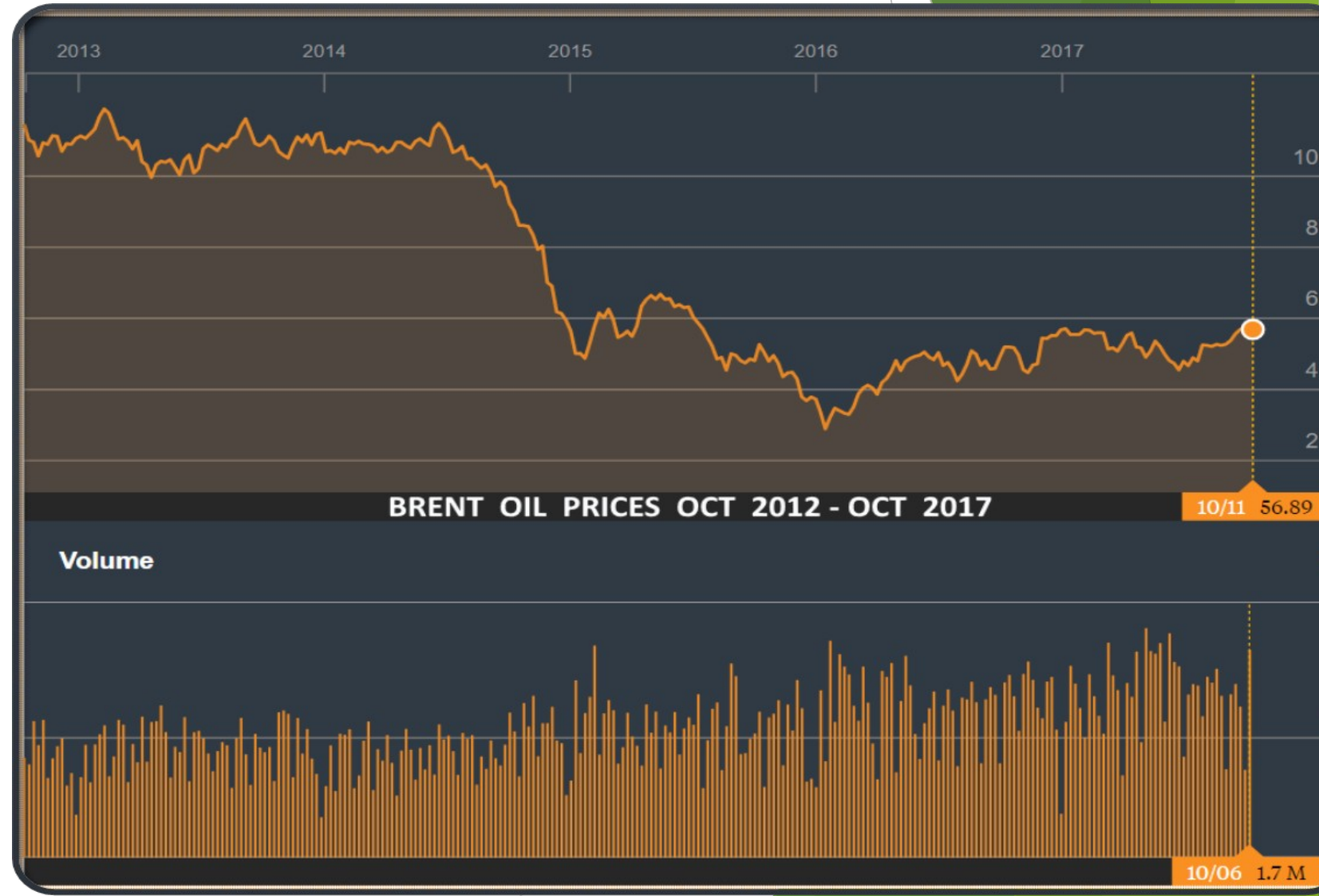
Exports decomposition based on sectors (bln USD, SA), last obs: 18Q3



Why the FX rate depreciated so
much in 2014-2016?

OIL

- ▶ The share of oil and gas exports in total exports of Azerbaijan is 85%.
- ▶ The budget of the Republic of Azerbaijan for 2015 was calculated at \$ 90 per barrel.
- ▶ But Oil Market had another plans...
- ▶ Hard decreasing of oil prices caused p problems in all AZ economy



Floating rate

- ▶ Since February 16, the rate of manat is pegged not to the dollar, but to the currency basket of the dollar and euro (the share of the European currency is 20-30%)
- ▶ The Central Bank of Azerbaijan has decided to switch to a floating rate of manat from December 21
- ▶ Manat was overvalued by the government, and, as a result, collapsed in free swimming

2016 Nagorno-Karabakh clashes

- ▶ The Four-Day War or April War,[b] began along the Nagorno-Karabakh line of contact on 1 April 2016 with the Artsakh Defense Army, backed by the Armenian Armed Forces, on one side and the Azerbaijani Armed Forces on the other.
- ▶ As a result, big spends on military forces
- ▶ Decreasing number of investors because of destabilization

Banks ` Bankruptcy

- ▶ 11 big AZ banks became bankruptcies
- ▶ This caused problems with companies and personal equities

Increased demand on foreign currency

- ▶ After first devaluation many investors decided to convert their manat amounts into dollars
- ▶ This increased inflation and caused the second devaluation of manat

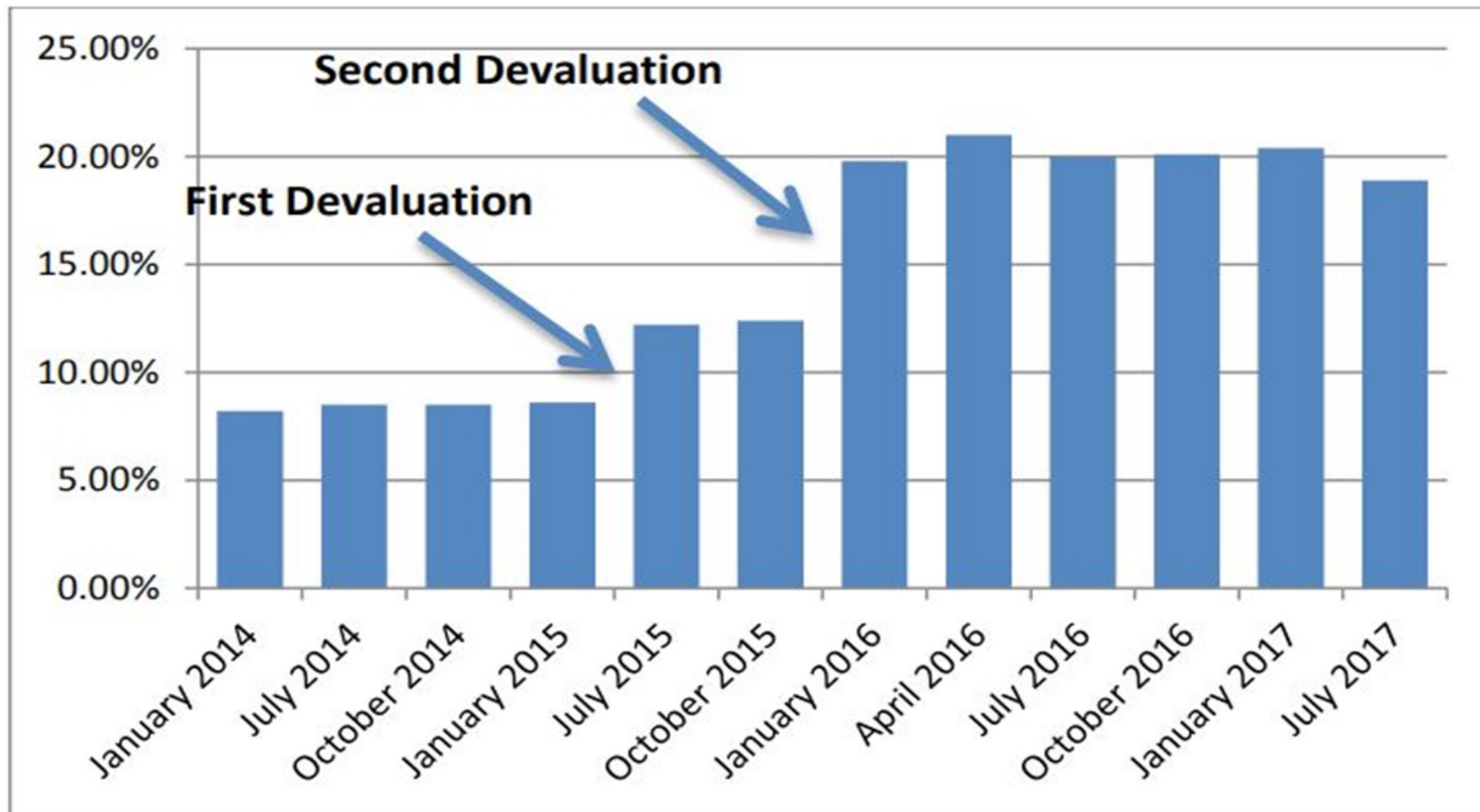
Azerbaijan Economy After 2014

- ▶ **The national currency, the manat, was devalued twice in the 2015. According to the World Bank, Azerbaijan's gross domestic product halved from around €60 billion (\$74.2 billion) in 2014 to just under €30 billion in 2016.**

- ▶ **The devaluation of the national currency led to lower value-added created in the economy, lower per capita income and lower monthly wages in terms of USD. Furthermore, a fall in the income levels of population and the increased debts in terms of foreign currency brought about a crisis in the banking sector**
- ▶ **Simultaneously, the country lost more than 20% of its strategic exchange reserves**

(see following graphes)

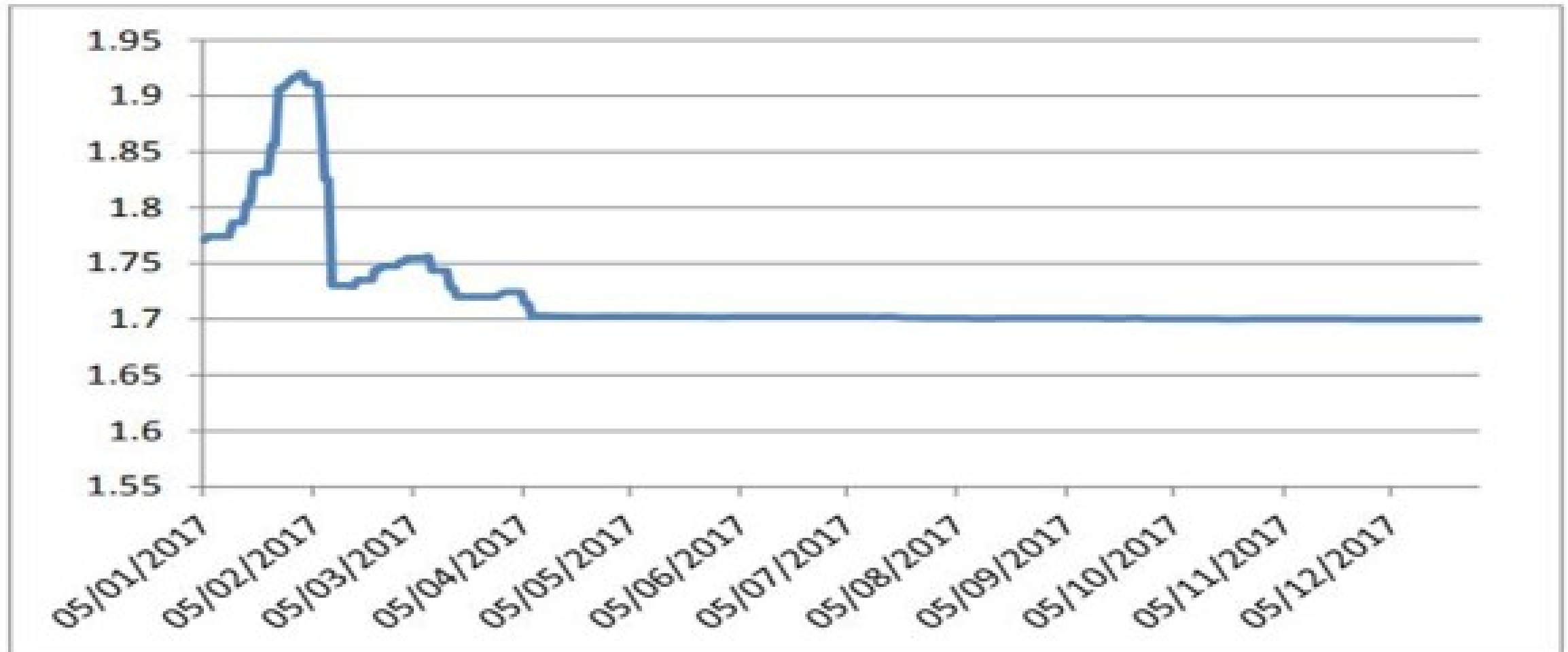
Diagram 3: Foreign Debt of Azerbaijan as share of GDP



Source: Ministry of Finance of Azerbaijan, 2017

Since the announcement of shift to a floating exchange rate in December 2015, the manat started to lose value sharply. The drop was such that, on February 2nd 2017, the USD/AZN rate reached its peak of 1.92

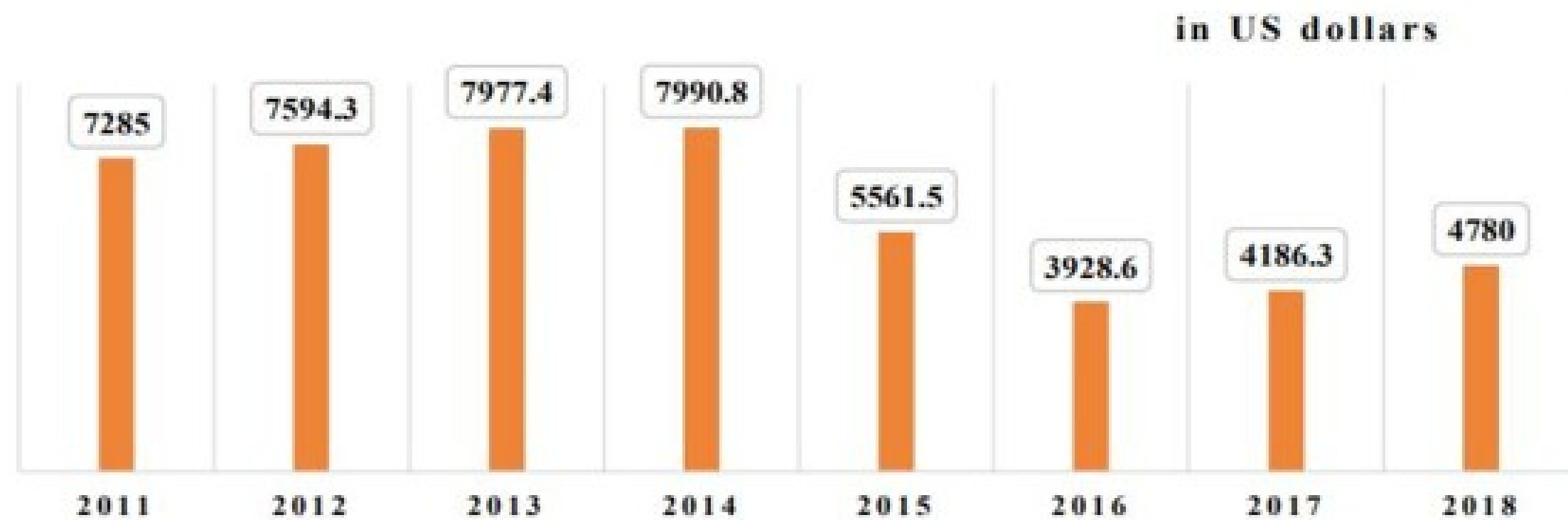
5. Diagram 4: US dollar to manat Exchange Rate



Source: Central Bank of Azerbaijan, 2017

As it can be seen from the diagram below, GDP per capita denominated in US dollars has sharply declined during 2014 - 2016. The decline took place in the background of the economic recession and national currency's depreciation

Figure 4: Dynamics of GDP per capita over 2011 – 2018 period



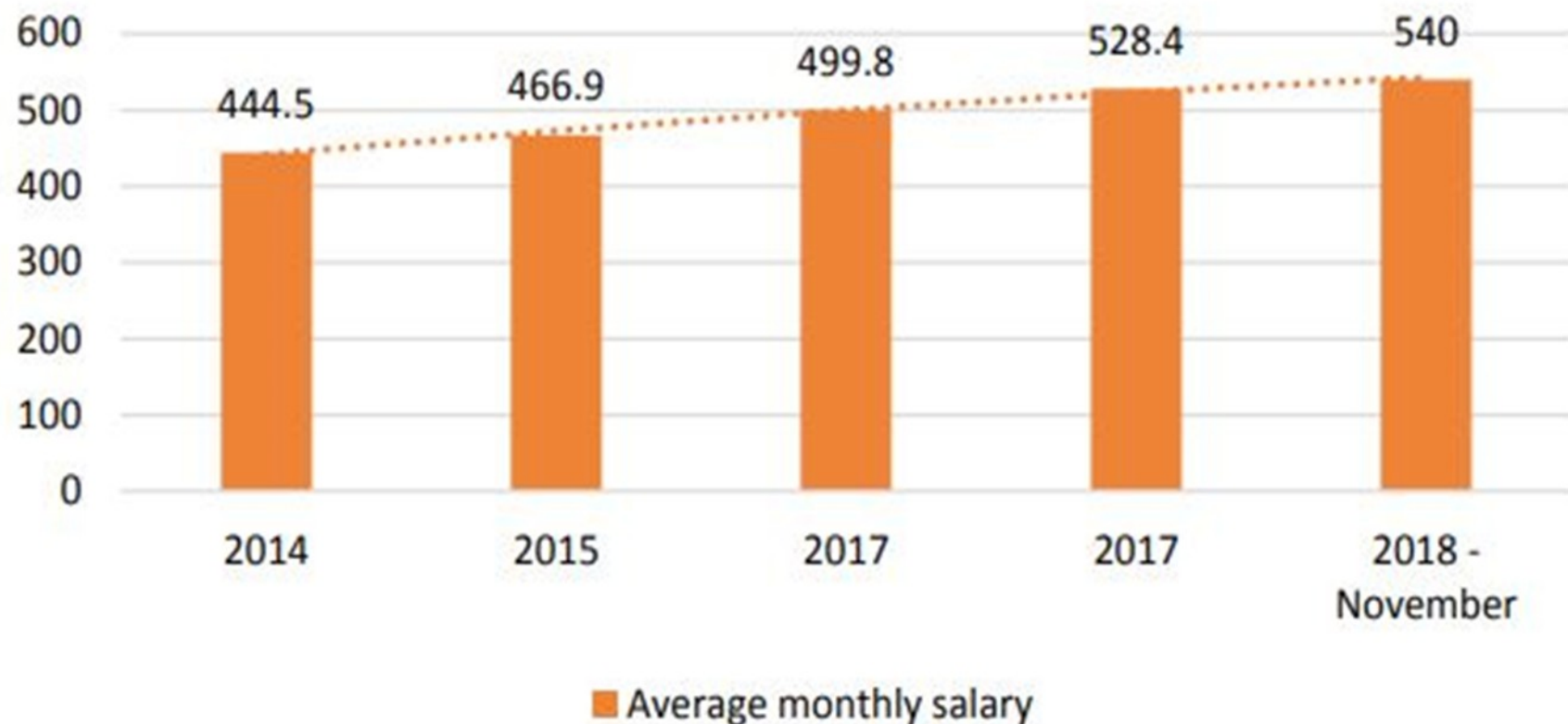
Source: State Statistical Committee of Azerbaijan Republic, 2018

Interest Rate in Azerbaijan averaged 6.75 percent from 2005 until 2019, reaching an all time high of 15 percent in September of 2016 and a record low of 2 percent in December of 200



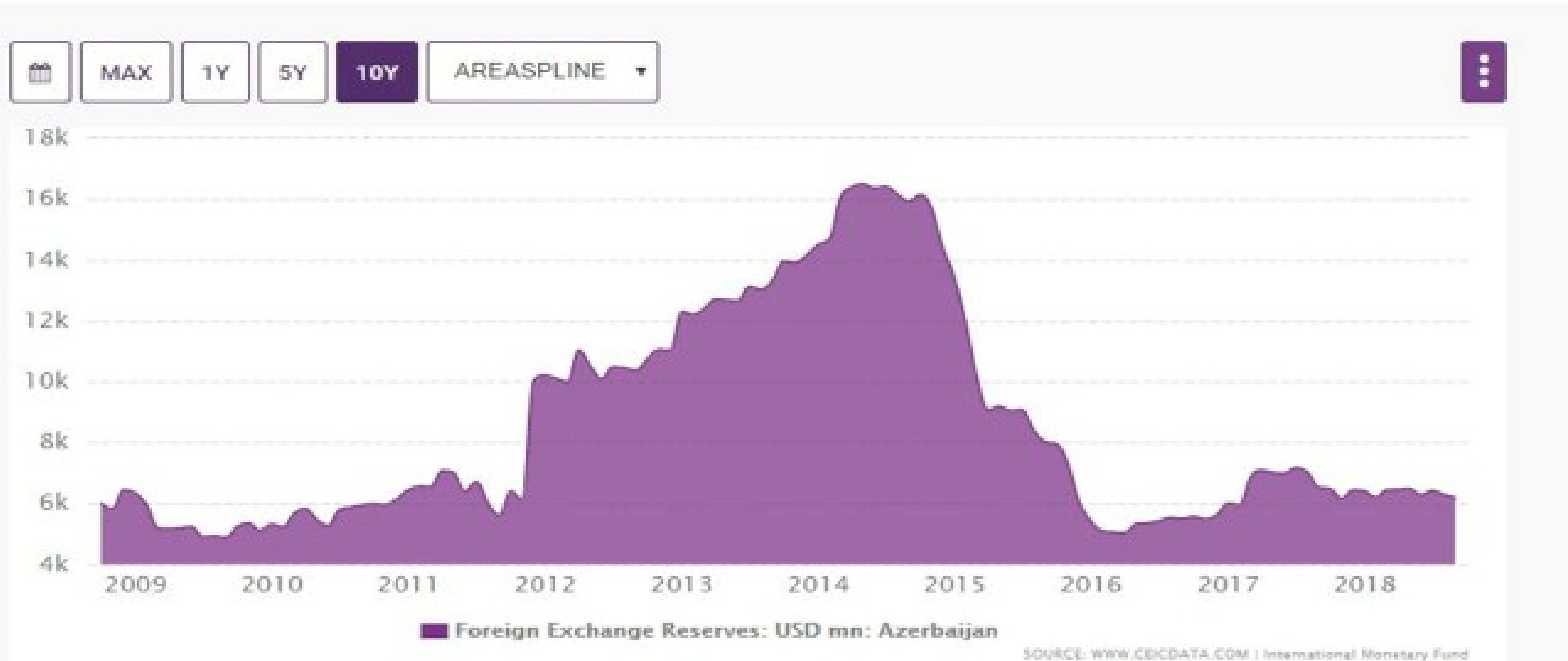
In January-November of 2018, the average monthly wage in Azerbaijan increased by 2.9% and reached 540 manat (317.6 US dollars)²² [see: figure 6].

Figure 6: Average monthly salary, in manat



Source: State Statistical Committee of Azerbaijan Republic, 2018

Azerbaijan's Foreign Exchange Reserves was measured at 6.3 USD bn in Aug 2018, compared with 6.4 USD bn in the previous month. The data reached an all-time high of 16.5 USD bn in May 2014.



Thank you for your attention