

OGResearch

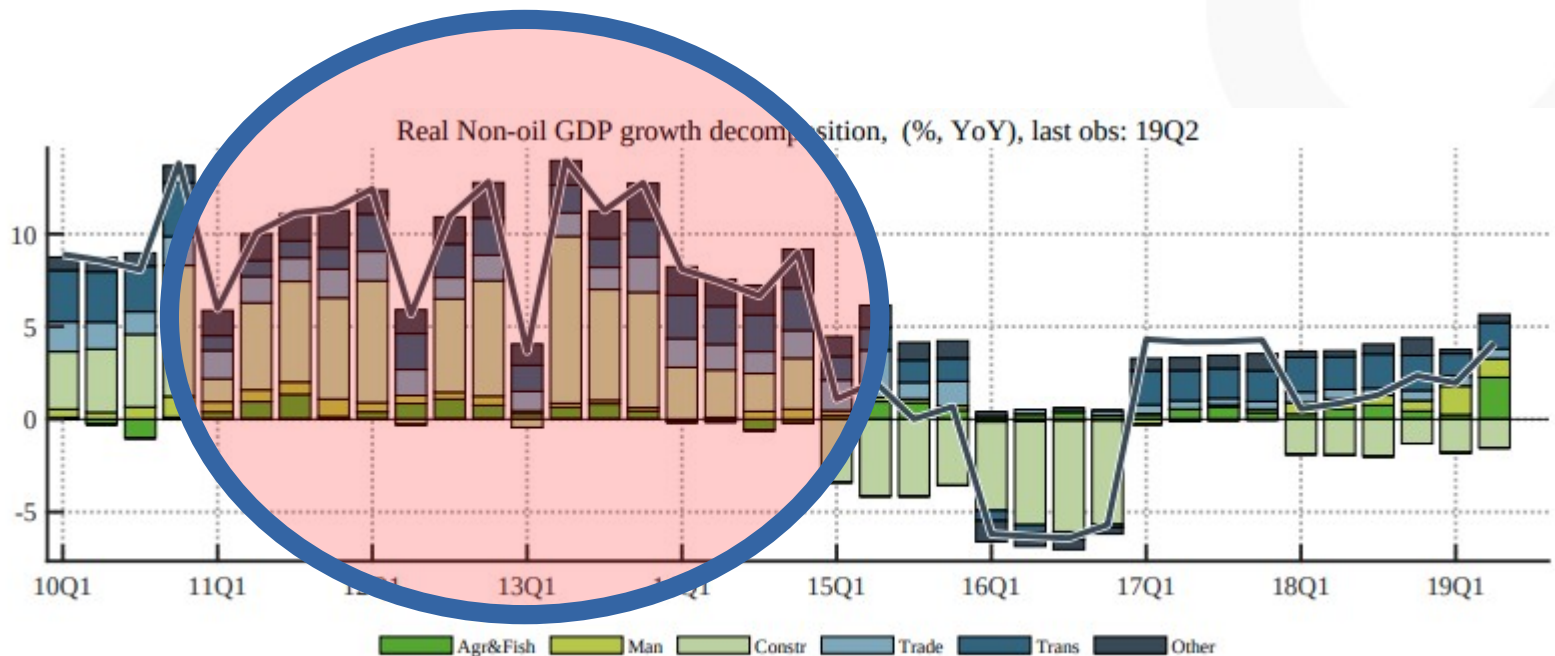
Azerbaijan 2010-2014

Tomáš Motl

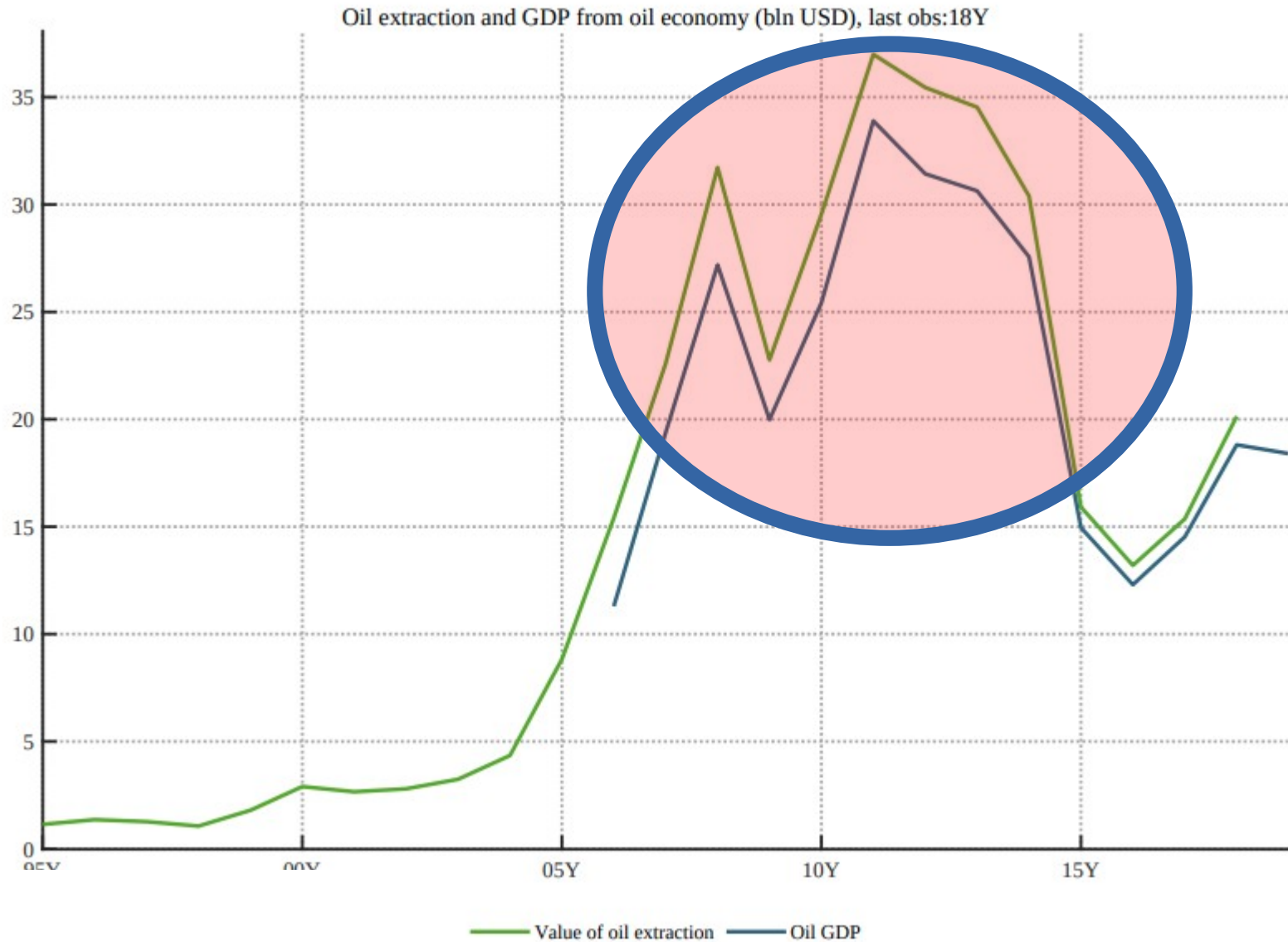
Fast growth, driven by construction

....

- But what was the real driver? Why so much construction?
- How was construction financed?

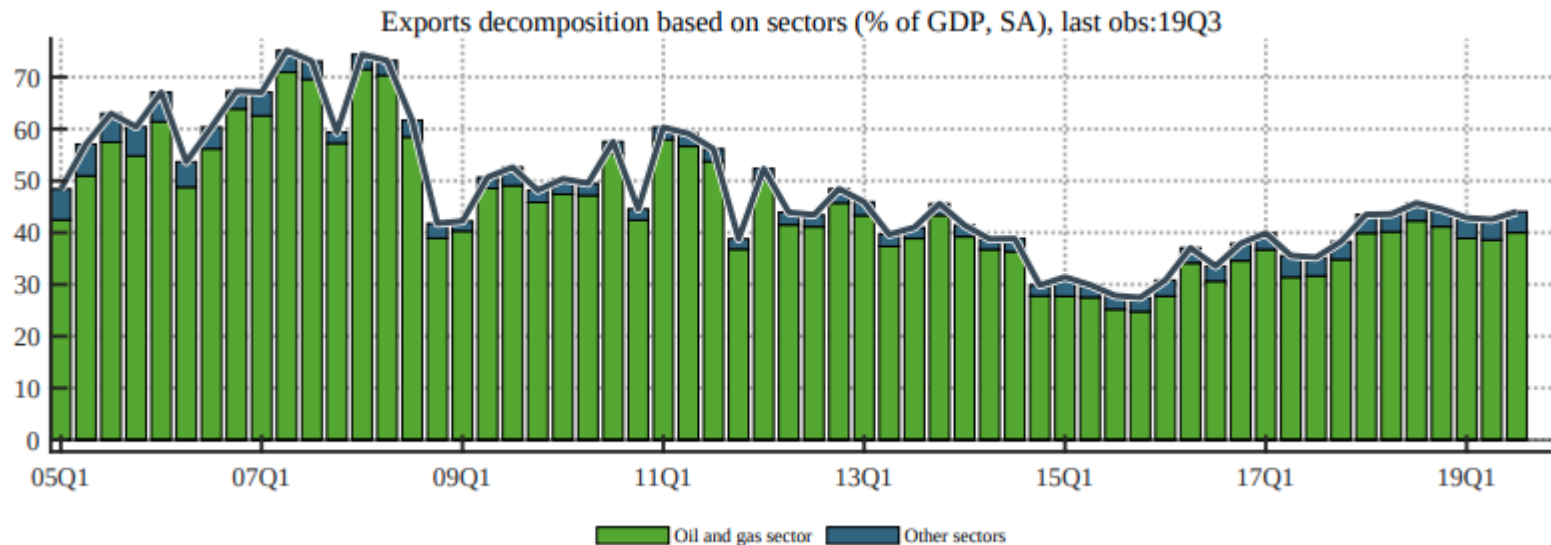


... but financed by oil income



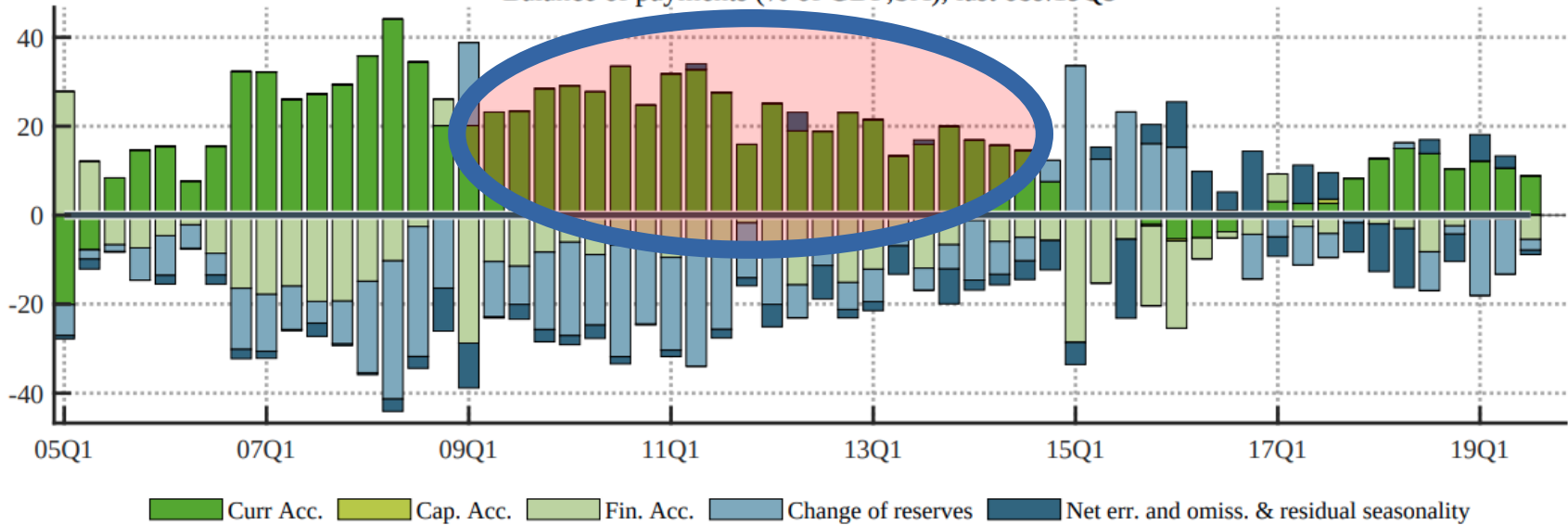
Oil was the key export article

- Azerbaijan could not export anything else than oil
- Their other products were not internationally competitive
 - Why?
 - How is this phenomenon called?

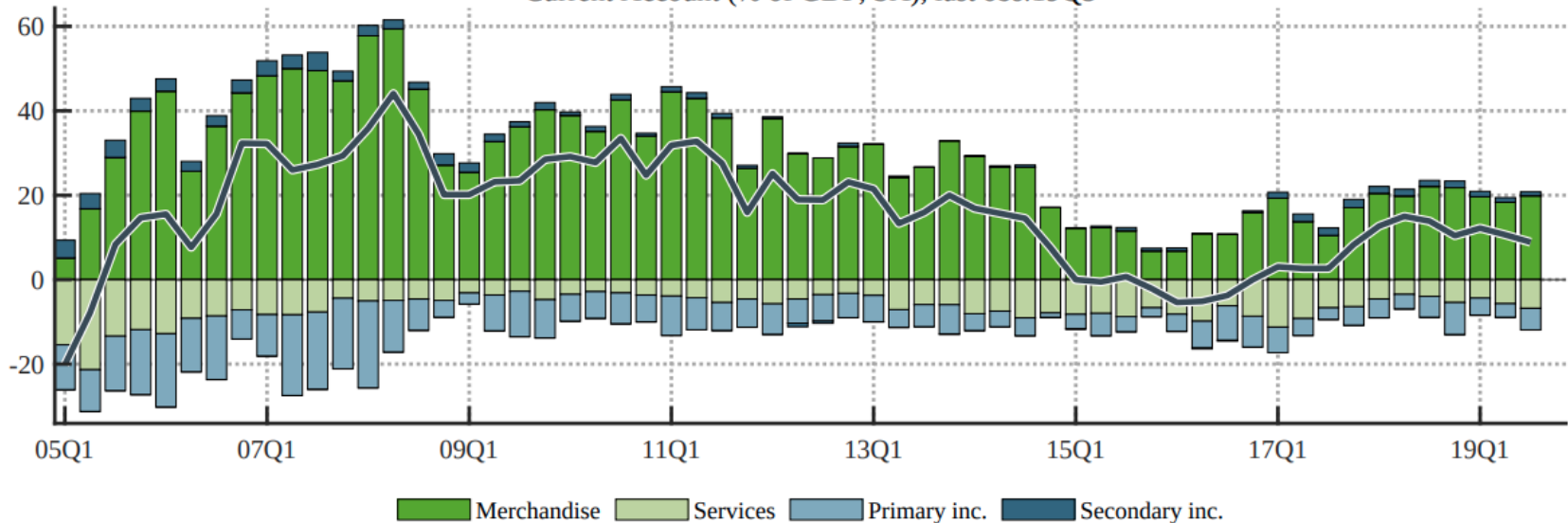


Current account in large surpluses

Balance of payments (% of GDP, SA), last obs:19Q3

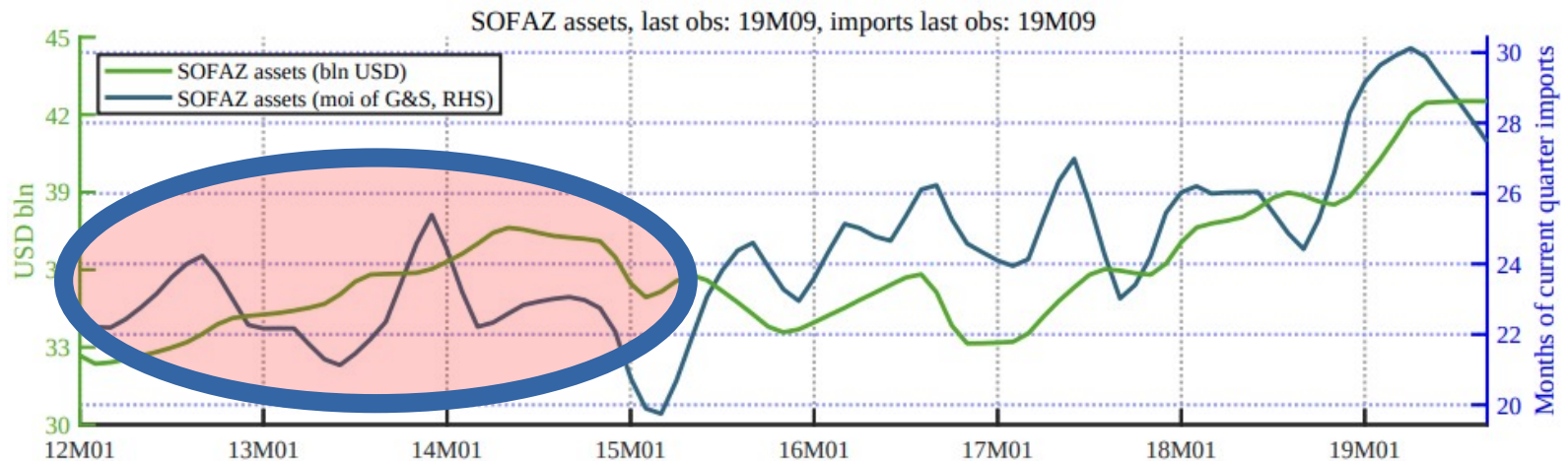
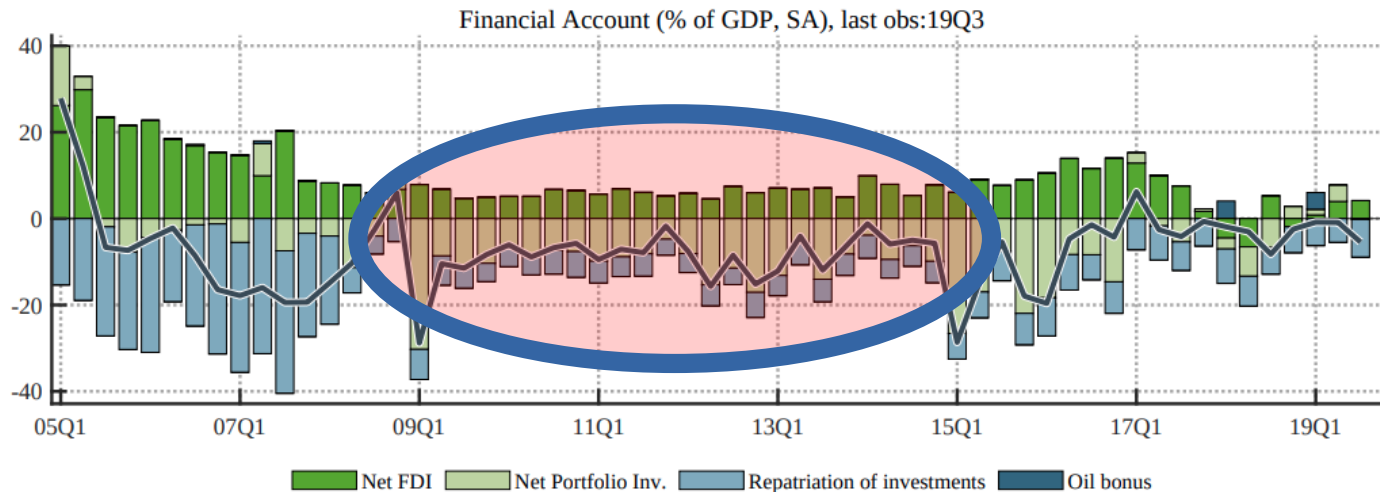


Current Account (% of GDP, SA), last obs:19Q3



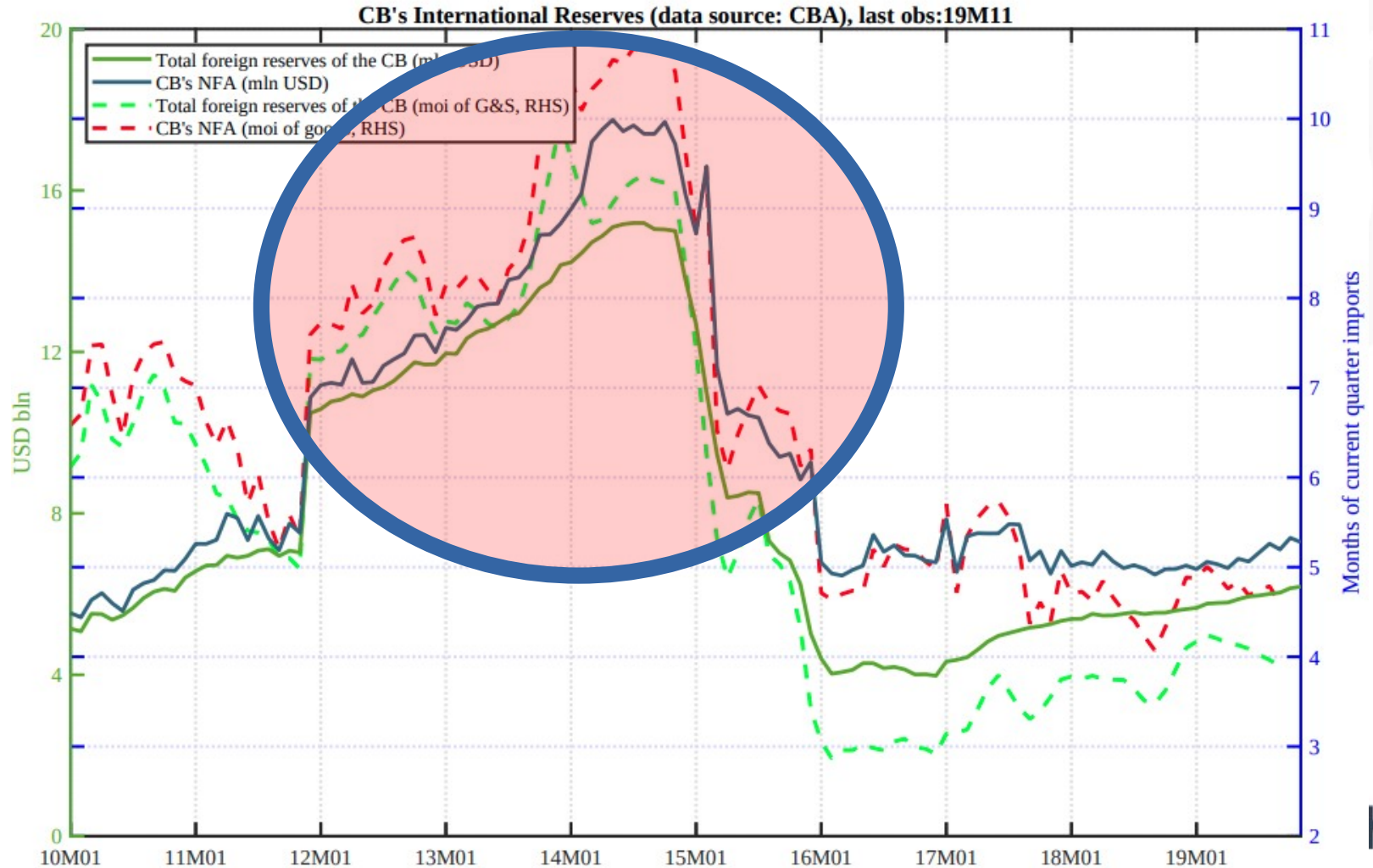
What did they do with the money?

- Constant outward flow of investment



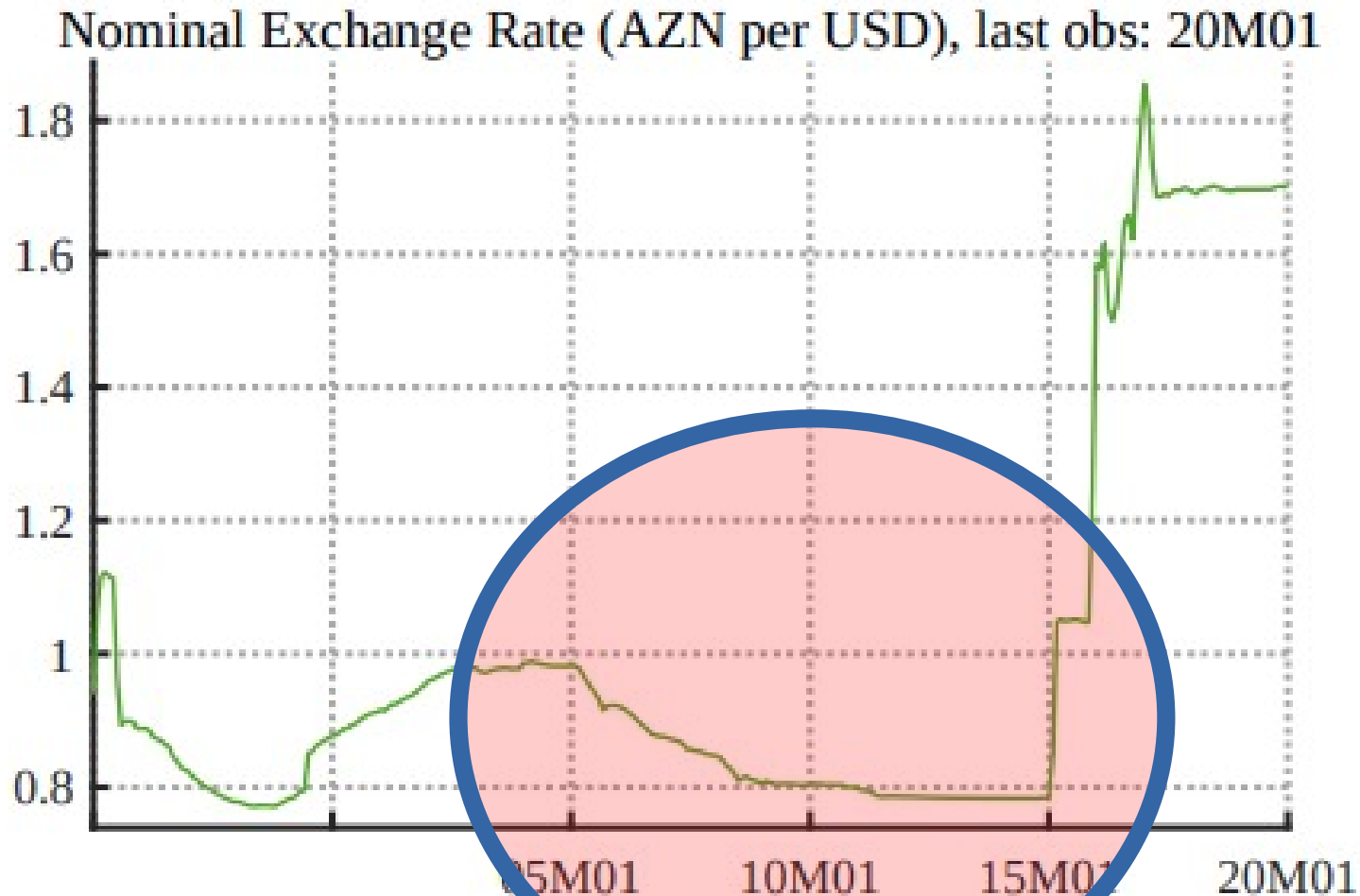
Central bank was accumulating foreign reserves

- But why?



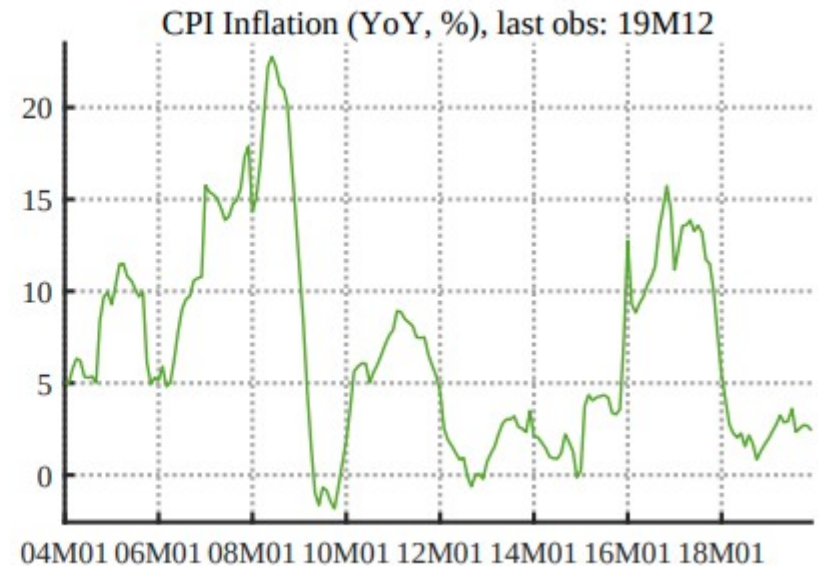
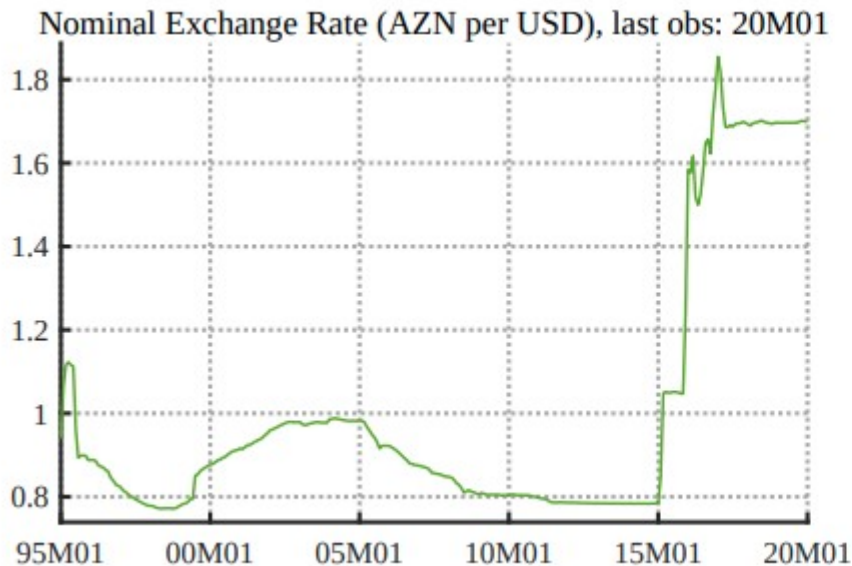
Monetary policy regime?

- The CBA had one main objective – what was that?



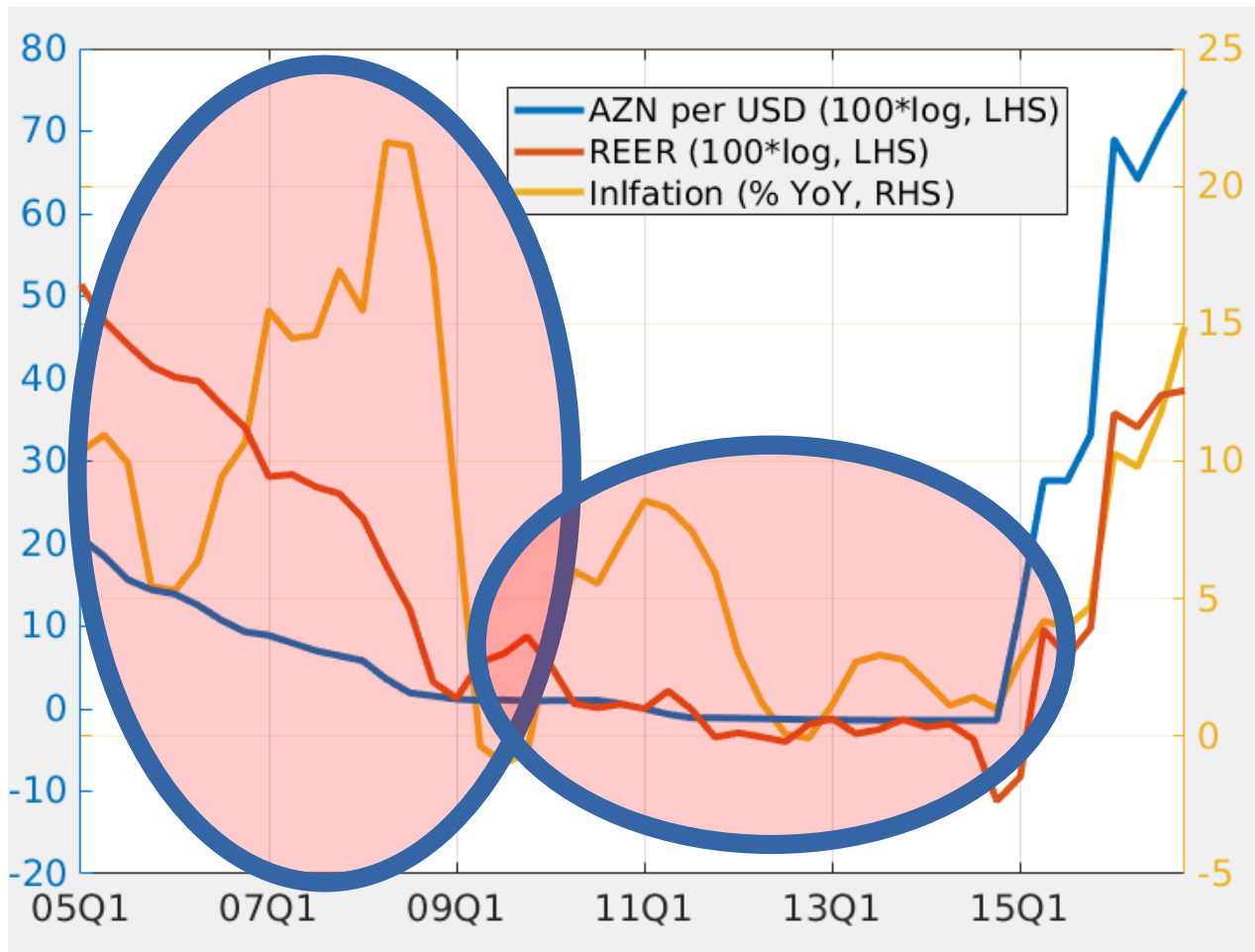
So what happened to inflation?

- Inflation was all over the place because there was no inflation targeting!
- But why jump so much up and down?



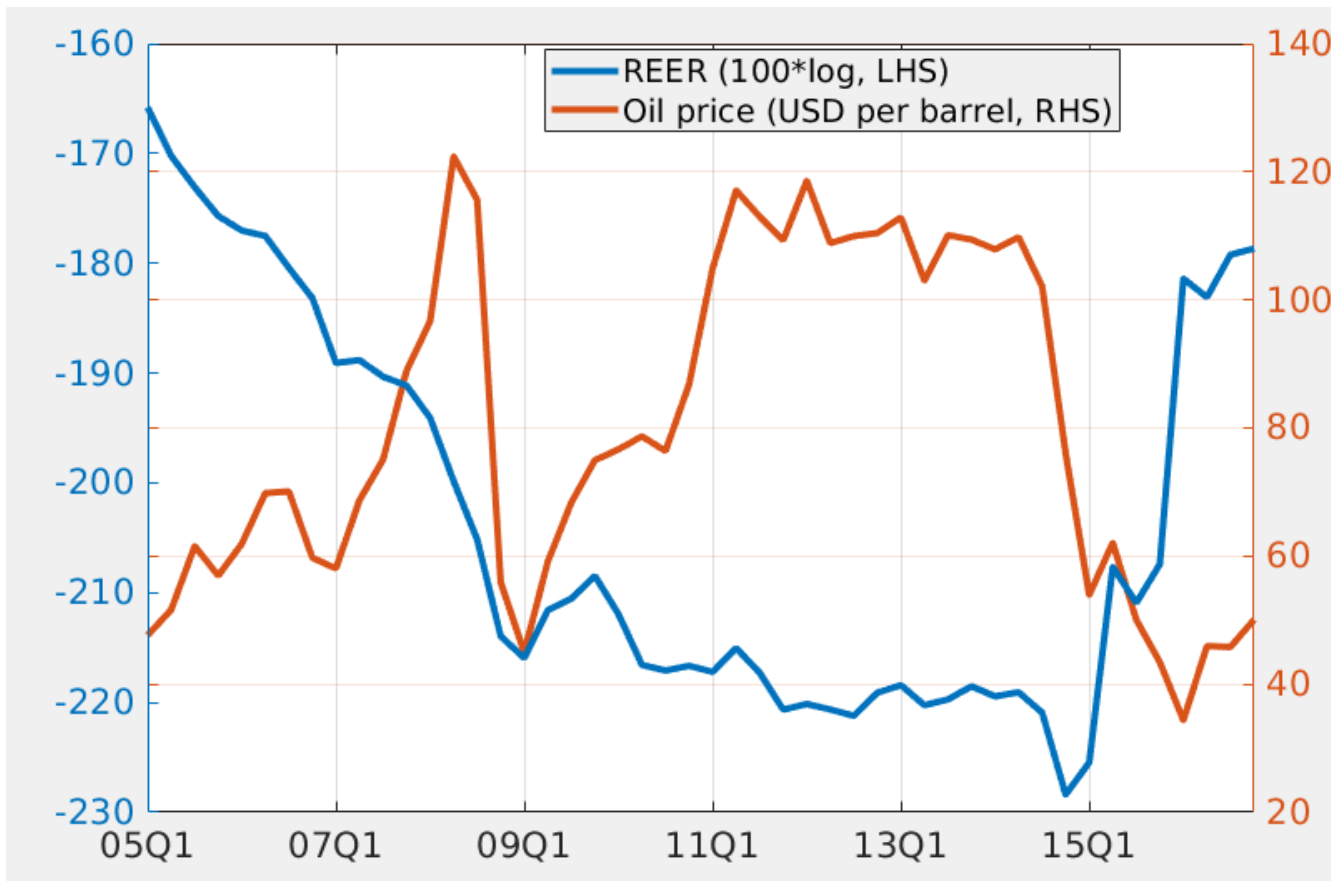
Real effective exchange rate!

- Changes in REER were reflected mainly in the price level, not in the nominal FX rate!



But what drove the REER?

- Dutch disease in real life



Implications for our model

- Key role of oil:
 - GDP growth (domestic demand)
 - REER
- No inflation targeting, heavily managed FX rate
- Small effect of foreign demand on domestic economy (almost no non-oil exports)

Homework for the next block – another presentation

- Goals:
 - Explain what happened in 2015-16
 - Focus on GDP, exchange rate, inflation
 - Focus on the shock (trigger) and how it affected the economy
 - Also focus on the central bank's reaction
 - Be more talkative this time, explain things
- Should be again around 10 slides
 - Should help us to understand which shocks we should use in the forecast