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# **Azerbaijan Economy in 2011**

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Shirin Mirzeyev 76 "a"/33,

Baku, Az1002,

AZERBAIJAN

Phone; (99412) 5970691

(99412) 4975684

Fax (99412) 4975684

Email; [cesd.az@gmail.com](mailto:cesd.az@gmail.com)

[info@cesd.az](mailto:info@cesd.az)

URL; [www.cesd.az](http://www.cesd.az)

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## Azerbaijan Economy in 2011

Government of Azerbaijan (GoA) failed to achieve economic growth forecast for 2011. According to the State Statistic Committee Gross Domestic Product (GDP) increased by 0.1 % and reached to 50.10 billion manat (\$ 64,23 billion) in 2011 although th GoA projected 3,8 % growth for last year. The State Committee reported that GDP per capita without PPP was 5530.6 manat (\$ 7003, 4) in 2011. According to State Committee inflation rate was 7,9 % in 2011 which officially projected only 5,0 %.

It should be added here that for the first time since 1996, the European Bank for Reconstruction and Development (EBRD) announced decline Azerbaijan's GDP by the end of 2011. The EBRD reports that Azerbaijan's GDP decline was 0.8% by the end of 2011; "Economic crisis," predicted by the Bank for the end of 2011, is linked with the fact of phenomenal GDP growth (almost \$ 6,4 billion) registered in December 2010. The EBRD concerns that Azerbaijan will hardly be able to repeat this indicator for the second at a run.

### Main Economic Figures for 2011 in Azerbaijan

Main Economic Figures	Government Report	CESD Report
GDP Growth	0,1 %	- 1,4 %
Non-oil GDP Growth	9,4 %	7,3 %
Agriculture	6,8 %	3,0 %
Inflation Rate	7,9 %	14,0 %
Industrial Production	- 5,0 %	- 7,4 %
Unemployment Rate	5.5%,	22,0 %
Currency Reserve	\$40 billion	N/A
Monthly Salary	\$ 458	\$ 655
Revenues of citizens Increase	% 19,6	% 12,0
Poverty Line	7,6 %	18,5 %
Budget revenues	\$ 20,13 billion	N/A
Budget Expenditure	\$ 19,74 billion	N/A
Exports	\$ 24,7 billion	N/A
Imports	\$ 8,5 billion	# \$12,5 billion

**Source;** State Statistic Committee of Azerbaijan Republic and CESD, January, 2012

*Note; CESD used different methods to calculate macro-economic figures including GDP growth while an aggregation method and a weighting variable are chosen. Reasons how choices of the data source, the aggregation method and the weighting variable create are based on CESD estimation. CESD also used oil production forecast and non-oil import and export, the volume of household and public consumption, capital formation and private and public investment data, as well as the impact of changing inflation on output to forecast GDP. The Center organized focus group discussions including meetings with representatives of different state agencies where estimations of macroeconomic data are included among the subject issues.*

## **Oil GDP Decreased by 9,3 %**

Stat Statistic Committee reported that oil GDP decreased by 9.3 % decreased meanwhile GDP increased by 9.4 % in non-oil sector.

CESD experts mentioned decline in oil production is mainly connected with potential end of oil boom in Azerbaijan: Oil production was peaked in 2010. Starting 2011 oil production in Azerbaijan will dramatically decrease. 51 million tonnes crude oil produced in 2010 and oil production for 2011 was 45,4 million tonnes. Azerbaijani oil production will be kept around 42-44 million tonnes in upcoming 2 years based on Production Sharing Agreement (PSA). Meanwhile, the latest predictions confirm that oil production will be decreased to about 33 million ton in 2015. Even with current prices of crude oil in the world market, SOFAZ's assets will be totally spent within the budget lines if current unbelievable transfers' level kept. Keeping such fantastic transfers can result in negative consequences because of theatrical cutting of budget expenditure lines due to potential lack of financial resources.

At the same time, Azerbaijan's overall export of oil products dropped by 21.6% in 2011. SOCAR exported 155.663 thousand tons of crude oil through Novorossiysk port (Black sea, Russia), 161.697 thousand tons – through Supsa port (Black sea, Georgia), 1,645.230 thousand tons – Jeyhan port (Mediterranean sea, Turkey). Compared to December, 2010, oil export through Novorossiysk port dropped 6%, through Jeyhan port decreased by 49% last month.

SOCAR says 1,988.429 thousand tons of crude oil was exported through Novorossiysk port, 2,652.111 thousand tons through Supsa port, 22,969.480 thousand tons through Jeyhan port in 2011 in total.

The volume of oil exported in Novorossiysk direction decreased by 11.2% in comparison with last year, the volume of oil exported from Jeyhan port decreased by 38.4% .

Reminded that CESD stated in its November 16, 2011 report that the latest forecasting confirm that oil boom in Azerbaijan is doomed to end in a few years. Azerbaijan's high dependence on oil exports poses a potential threat to the economy given the potential volatility in the international oil market. Oil reserves, however, started decreasing in 2011 and last year was pick in oil production. In long term, decreasing of oil output will cause tax revenues decline and budget deficits increase, driving up interest rates.

## **Industry Production Feel 5,0 %**

According to the State Committee, production in Industry field decreased by 5.0 % in 2011 compared to 2010, 77.9 % or 26.9 milliard manat of product output in mining, 17.0 % (in accordance with 5.9 milliard manat) in processing section, 4.5 % (1.6 milliard manat) –distribution and supply of electricity, gas and steam section, 0.6 % (188.5 million manat) – water supply, sewerage, waste management and remediation activities. Industry product output increased by 8.5 % in oil sector and increased by 11.1 % in non-oil sector.

State Committee reported 45.4 million ton oil and 25.7 milliard cubic meters gas production for 2011.

The committee reported that production of food products from the section of processing increased by 5.0 %, 8.4 % - beverage manufacturing, 56.5%- production of clothing, 23.4% - wood processing and wood products industry, 12.8 % - production of printing products, 0.9 % - oil production, 27.1% - production of chemical industry, 4.4% - production of construction materials, 1.9 times - production of metallurgy industry products, 22.8% - manufacture of computers and other electronic equipments, 24.5% - production of furniture. During the year 20.1 milliard kilowatt-hour electricity produced in power station of country.

### **Agriculture Production Increased**

Despite the importance of the agricultural sector in Azerbaijan, its full potential has not been realized. The sector offers opportunities for economic growth both in the medium and high potential. In particular, livestock industry offers vast opportunities for economic growth. A number of reasons have been given as the root causes of poor agricultural performance including: misallocation and under investment in agriculture, disengagement of government from support to agriculture, poor infrastructure, limited access to credit, high cost of farm inputs, among others. In fact, total agriculture production increased in 2011, but the sector still has very low share at GDG which is only 7 %.

State Committee reported that total agricultural products increased by 5.8 % compared to 2010, as well as, plant-growing products- 8.0%, live-stock products-3.5%, in current prices production was 4525.2 million manat.

In primary profits weight 2458.5 thousand tone grain, 938.5 thousand tone potato, 1214.8 thousand tone vegetable, 63.3 thousand tone cotton, 765.8 thousand tone fruit and berry, 478.0 thousand tone market garden crops, 137.0 thousand tone grape, 254.7 thousand tone beet-sugar, 3.6 thousand tone tobacco, 534.1 tone green-tea leaf collected in 2011, and produced 264.7 thousand tone carcass weight meat, 1622.3 thousand tone milk, 1008.1 million unit-egg and 16.2 thousand tone wool. Rest of plant-growing products and live-stock products increased compared to previous year, excluding potato, tea, beet-sugar and egg.

### **Oil Dominate in Azerbaijani export**

Oil and oil products constituted 94 % of Azerbaijan's export in 2011 according to CESD sources. Only 6 % of export was non-oil products. CESD concerned over Azeri export's reliance on oil revenue since oil continued to dominate in Azerbaijan's exports accounting for 94 0% of all exports as of October 01 despite efforts to diversify Azerbaijan's economy away from oil.

According to the State Statistic Committee, the volume of foreign trade turnover was 33.2 milliard US dollars, at the result of exceeding 2.9 times of export-import was created positive foreign trade amount of balance by 16.1 milliard dollars. Volume of foreign trade turnover compared to 2010 increased by 9.2 % in comparable prices, as well as, 46.4 % - import and export decreased by 3.8 %.

**The State Committee reported inflation was 7,9 % meanwhile the figure is 14.0 % in independent calculations**

According to the State Committee price and service tariffs of consumer goods increased by 7,9 % in 2011 compared to 2010. The CESD survey verifies that inflation was 14, 0 in indicated periods. Price increasing observed mainly in food products particularly meats. The center will conclude household survey by the end of December in order to calculate annual inflation for 2011.

*The official exchange rate is 0.7854 manat to \$1 on January, 23, 2012*

*For more information, please contact to Leyla Aliyeva at [leyla.aliyeva@cesd.az](mailto:leyla.aliyeva@cesd.az)*

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