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Azerbaijan Economy in the first quarter of 2012

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Decline wave in production sector keep on the first quarter of 2012 in spite of the fact that Government of Azerbaijan has been trying to attain expansion in above mentioned sector. Considering keeping still high portion of oil sector in total GDP, decline in oil sector noticeably reduce economic growth rate in Azerbaijan. Oil sector is still dominant in both GDP and budget revenues based on the results of the first quarter of 2012. In fact, one-sided development of the economy has begun to show its negative symptoms. As a result, the country's economic growth rate both in the first quarter of 2012 and in 2011, for the first time, decreased to its lowest level since 1996. The main cause of this was the decrease in the oil sector by 5.8%. In this respect, even the 7,7% growth in the non-oil sector in the first quarter of 2012 could not counteract this negative impact on economic growth. Fall in the oil sector has also had a negative impact on the whole industry and a 0,3% decrease has already been noticed in this field.

According to State Statistic Committee, GDP was 12.3 billion manat (\$ 15,78 billion) and GDP per capita was 1 346 manat (\$ 1 725) in the first quarter of 2012. 61.3% of GDP was generated in the industry, respectively it was 2.4% in agriculture, forestry and fishing, 4.9% in construction, 6.5% in trade and service fields on maintenance of transport means, 4.5% in transport and warehouse, 1.4% in accommodation of tourists and in the field of catering services, 1.6% in services on information and communication, 10.9% in the field of social and other types of service.

According to the State Committee, production in Industry field decreased by 0.3 % in the first quarter of 2012 compared to the same period in 2011. State reports indicate that share of industry in GDP was 61,3 % in the first quarter of 2012. The main reason of decline in industry was fall in oil production since oil sector is still dominant in industry sphere, too.

Main Economic Figures for the first quarter of 2012 in Azerbaijan

| Main Economic Figures | Government Report | CESD Report |
|-------------------------------|-------------------|--------------------------------------|
| GDP Growth | 0,3 % | - 0,5 % |
| Non-oil GDP Growth | 7,7 % | 5,2 % |
| Agriculture | 5,3 % | 3,0 % |
| Inflation Rate | 3,1 % | 4,7 % |
| Industrial Production | - 0,3 % | - 1,2 % |
| Unemployment Rate | 5.5%, | 18,0 % |
| Currency Reserve | \$43 billion | No Independent Calculation Available |
| Monthly Salary | \$ 515 | \$ 680 |
| Revenues of citizens Increase | % 14,0 | % 12,0 |
| Poverty Line | 7,6 % | 17,5 % |
| Exports | \$ 5,84 billion | No Independent Calculation Available |
| Imports | \$ 2,05 billion | # \$3,0 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 Production Decreased by 5,8 %

Azerbaijan produced 11.3 million tonnes of oil in the first quarter of 2012 and it was 700,000 tonnes or 5.83% down on the equivalent period last year. Production in January was 3.945m tonnes, in February 3.557m tonnes and in March 3.797m tonnes, according figures from state oil company SOCAR.

Reminded that, Azerbaijan produced 45.4m tonnes of oil in 2011 and it was 5.434m tonnes fewer than in 2010. Current production is on track to meet government forecasts for the production of 45.97m tonnes of oil in 2012.

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.

Meanwhile SOCAR oil export declined by 7 % in the first quarter of 2012. The State Oil Company of Azerbaijan exported 5,2 million tonnes of oil via all routes including Baku-Novorossiysk, BTC and Baku-Supsa pipelines in the first quarter of 2012 which is 7,2 % lower than compare with the same period last year. SOCAR exported 5,6 million tonnes in the first three months of 2011 . Sources at the SOCAR mentioned that Baku-Novorossiysk exported 496,8 thousand tonnes of oil in the first 3 months. BTC and Baku-Supsa pipelines exported the profit Azeri Light oil, produced within the framework of the Azeri-Chirag-Guneshli fields development.

SOCAR source added that the oil export by the Baku-Supsa pipeline made 888 thousand tonnes. The BTC pipeline exported 5,1 million tonnes of profit oil in the same period. Profit oil is distributed among shareholders depending on their share in the project of Azeri-Chirag-Guneshli fields development.

Oil Dominate in Azerbaijani export

Oil and oil products constituted 92 % of Azerbaijan's export in the first quarter of 2012, according to CESD sources. Only 6 % of export was non-oil products. State report also confirms that oil remained the dominant export. During the reporting period Azerbaijan exported 5.978 million tonnes of oil worth \$5.019 billion. The export of oil products was \$306.499 million and of gas \$162.52 million.

The country's foreign trade turnover totaled \$7.895 billion for the first quarter of 2012 (including \$2.5 billion in March). The State Customs Committee (SCC) reports that for Jan-March 2012 Azerbaijan exported commodities of 998 names for \$5.84 billion (+7.27% versus the 2011 same term index). Reminded that export reached \$26.57 billion in 2011 against \$21.324 billion in 2010, \$14.698 billion in 2009 and \$47.756 billion in 2008.

Azerbaijan imported goods of 4,684 names for \$2.05 billion (+8.55%) in the first quarter of 2012. In 2011 the figure reached \$9.755 billion since it was \$6.599 billion in 2010, \$6.119 billion in 2009 and \$7.16 billion in 2008. Positive balance on import and export operations for the first quarter of 2012 amounted to \$3.7 billion. In 2011 it was \$26.57 billion against \$14.725 billion in 2010, \$8.578 billion in 2009 and \$40.59 billion in 2008.

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 March, 01, 2012 despite efforts to diversify Azerbaijan's economy away from oil.

The State Committee reported inflation was 3,1 % meanwhile the figure is 4.7 % in independent calculations

According to the State Committee price and service tariffs of consumer goods increased by 3,1 % in the first quarter of 2012 compared to the same period in 2011. The CESD survey verifies that inflation was 4,7 in indicated periods. Price increasing observed mainly in food products particularly meats. The center will conclude price collection survey by the end of February, 2012 in order to calculate annual inflation for the first quarter of 2012.

According to the State Statistic Committee, index of producers' prices of industrial goods on mining was formed 105.2% in March compared to previous month. Producers' prices in this unit on raw oil and natural gas increased by 5.3%, on stone, sand, gravel, salt and output of other mining

industrial products – 0.4%. In February the producer price index on manufacturing industry was formed by 102.0%. Producers' prices in this unit on production of oil products increased by 3.4%, on production of chemistry industry – 2.8%, on production of construction means – 2.6%, on ready metal products besides the machine and equipments – 2.3%, on weaving industry – 0.6% and it is decreased by 9.5% on of tobacco products, 6.7% on manufacture of rubber and plastic products, 2.4% on leather and leather products, manufacture of footwear, 2.0% on metallurgy industry, 1.3% on production of food products, 0.5% on production of pharmacology products, 0.4% on polygraphy, installation and maintains of machine and equipments, 0.2% on beverage production, production of computer and other electronic equipments, production of electrical equipments, manufacture of furniture, 0.1% on production of jewelery art, music, sport and medical equipments.

Oil Export in the first quarter of 2012

The State Customs Committee (SCC) reports that for the country's oil export was 9.274 million tons of oil (data of controlling and measuring appliances) and cargo custom declarations recorded only 5.978 million tons for \$5.01 billion in the first quarter of 2012. Average export price of Azeri oil, according to customs statistics, still makes up \$839.6 per ton in 2012, including \$873.7 per ton in March. For Jan-March 2012 it was carried 7.442 million tons via Baku-Tbilisi-Ceyhan (BTC) named after Heydar Aliyev, 1.095 million tons via Baku-Supsa pipeline, 489.017 tons via Baku-Novorossiysk pipeline and 247.442 tons by rail via Baku-Batumi route.

Over 2011 the country's oil export was 37.45 million tons of oil (data of controlling and measuring appliances) and cargo custom declarations recorded only 27.825 million tons for \$22.911 bn, i.e. 74.3% of overall export. Average export price of Azeri oil, according to customs statistics, made up \$823.39 per ton in 2011. In 2011 it was carried 30.658 million tons via Baku-Tbilisi-Ceyhan (BTC) named after Heydar Aliyev, 3.812 million tons via Baku-Supsa pipeline, 1.996 million tons via Baku-Novorossiysk pipeline and 982.801 tons by rail via Baku-Batumi route. In 2010 the country exported 31.86 million tons of crude oil for \$18.45 million versus 27.829 million tons for \$11.989 million in 2009.

The official exchange rate is 0.7815 manat to \$1 on April, 18, 2012

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