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Azerbaijan's foreign debt-to-GDP ratio became to double-digit number the first time in the last decade

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Baku, November 16, 2015

Azerbaijan's foreign debt-to-GDP ratio became to double-digit number the first time in the last decade

Azerbaijan's foreign public debt amounted to 7.05 billion manat which accounts for 12.4 percent of the country's GDP, the Azerbaijani Ministry of Finance has reported. The message said that the statistics on the loans included direct obligations of the state and contingent liabilities on loans under state guarantee. Of the total volume of borrowings, some 8 percent was attracted for up to 10 years, 58.6 percent - for the period from 10 to 20 years, and 33.4 percent - for a period exceeding 20 years.

According to the Ministry of Finance, the currency composition of loans received on the foreign debt is as follows: 9.4 percent of funds were attracted to the SDR (Special Drawing Rights of the IMF), 66 percent - in US dollars, 20.3 percent - in euros, 2.6 percent - Japanese yen, 1.7 percent - in other currencies, including the UAE dirham, the Islamic dinar, Saudi Arabian riyal and Kuwaiti dinar. The ministry has also reported that the funds which were mainly attracted from the World Bank, Japan International Cooperation Agency, the Asian Development Bank, Islamic Development Bank, the European Bank for Reconstruction and Development and other international financial institutions, were sent to support the economic reform programs, rehabilitation and reconstruction of infrastructure, including the construction and rehabilitation of power plants, construction of roads, improvement of water supply of regions, the development of services in the sphere of aviation and railways, as well as industry and energy.

CESD has underlined that Azerbaijan's foreign debt's share in GDP became as a double digit number in the GDP first time in the last decade. The country has been able to keep share of the foreign debt in the GDP as a single digit number by 2015 since 2005.

Share of Azerbaijan's foreign debt in the GDP since 2003

2015	12.4 %
2014	8.6 %

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2013	8.5 %
2012	8.3 %
2011	7.6 %
2010	8.1 %
2009	7.9 %
2008	9.1 %
2007	8.2 %
2006	9.9 %
2005	12.7 %
2004	18.6 %
2003	23.0 %

Source: The Ministry of Finance of Azerbaijan Republic, 2015

CESD experts mentioned that there are 2 main reasons of increasing of share of foreign debt in the GDP in Azerbaijan. The first reason is the devaluation of national currency. Starting on February 21st, 2015 the official exchange rate of the dollar to the manat, the Azerbaijani national currency, has been set at 1.05 manat, which is 33.86 percent higher than the exchange rate set prior to the beginning of the exchange rate weakening process. The Azerbaijani national currency has been depreciated against US dollar for the first time since 2006. Since Azerbaijani GDP is calculated with the manat, local currency, but foreign debt is in foreign currency mainly in USD, devaluation increased foreign debt-to-GDP ratio in the country. Although real GDP increased in the first ten months of 2015 according to the State Statistics Committee of Azerbaijan, nominal GDP is in USD declined by double-digit number.

The second reason of increasing of public demand for foreign currency since crude oil price fall in the world market. Oil income decreased by 22.0 % in October 2015 compared previous month due to increasing of oil output and of the price in the indicated period. In fact, total monthly income is still far behind of last summer's monthly incomes. If the country received only \$ 660 million US in October 2015, but income was \$ 1.76 billion US in June 2014. It confirms that dropped oil price in the world market has dramatically decreased Azerbaijan's revenues. Due to declining of income from oil export, the country's demand for foreign debt has increased.

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Meanwhile, because of the country's commitments, the foreign debt-to-GDP ratio in the country is expected to be increased in up-coming years if crude oil price remains in low level. In case of next devaluation the foreign debt-to-GDP ratio in the country will also increase.



Source: The Ministry of Finance of Azerbaijan Republic, 2015

The graph shows that Azerbaijan was able to control foreign debt dependency between 2005-2015 mainly due to high export income. In fact, the foreign debt-to-GDP ratio in the country is still under control. However, it might be increased due to low oil price and manat's potential devaluation.

Meanwhile, in its updated forecast the Organization of Petroleum Exporter Countries (OPEC) says of the decline in the oil export from Azerbaijan in 2015, in particular, because of competition for Azeri Light. OPEC says that the supply of Azerbaijani oil by the end of 2015 will decrease by 10,000 bpd compared with 2014. "The decline is expected, despite the Jan-Sept oil production on Azerbaijan's oilfield block Azeri-Chirag-Gunashli increased by 4%, compared to the same period of 2014," the OPEC report says.

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According to OPEC, the sale of Azerbaijani oil Azeri Light at the end of 2015 are to face difficulties, in particular in connection with the large supply of alternative oil from the Middle East, sagging refinery margins of European oil refineries buying oil. OPEC forecasts show that Azerbaijan's oil income mostly likely will decrease due to low oil price.

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