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Azerbaijani Oil Fund Budget for 2016: Brief Historical Review

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The draft budget for 2016 of State Oil Fund of Azerbaijan Republic (SOFAZ) has been discussed by the Supervisory Board of the fund. According to the SOFAZ, the fund's 2016 budget revenues are forecasted as 6.7 billion manat and expenditures at 8.26 billion manat. SOFAZ reported that the Supervisory Board recommended the Fund's 2016 draft budget, including the major directions of its investment policy and projects for the approval by the President of Azerbaijan.

SOFAZ's budget revenues both in manat and dollar terms will be declined in 2016. Meanwhile, the fund's budget deficit will be \$ 1.55 billion US since it is 18.8% of projected costs.

CESD experts underline that declining of crude oil price in the world market dramatically impacts not only on Azerbaijan's total export income but also on SOFAZ's budget revenues. 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.

Oil exports make a large share of Azerbaijan's total export earnings. According to the State Statistic Committee of Azerbaijan Republic, share of oil and oil products export was 95.0 of total export in 2014.

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Meanwhile, low oil price has negative impacts on formalization of SOFAZ's income. As much as oil price falls Azerbaijan Oil Fund receives lower income.

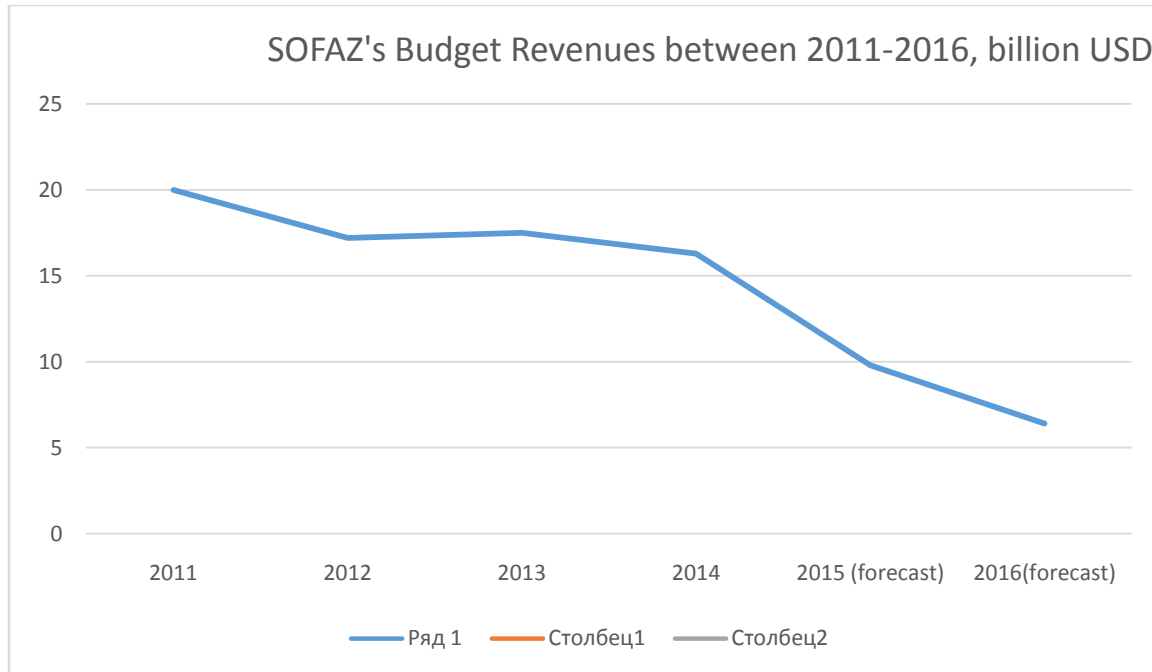
SOFAZ's Budget Figures for 2011-2016

Year	Revenue, billion manat	Expenditure, billion manat	Revenue, billion USD	Expenditure, billion USD	Deficit/Surplus, billion USD
2016 (forecast)	6.7	8.3	6.4	7.9	- 1.5
2015 (forecast)	10.3	11.8	9.8	11.3	- 1.5
2014	12.7	10.2	16.3	13.1	3.2
2013	13.6	12.3	17.5	15.8	1.7
2012	13.4	10.6	17.2	13.6	3.6
2011	15.6	9.6	20.0	12.3	7.8

Source: State Oil Fund of Azerbaijan Republic, 2015

The table shows that SOFAZ's budget revenues have been stable by 2015. The Azerbaijani Oil Fund has kept surpluses for all years by that time oil price in the world market started declining. Since the period SOFAZ was not manage to keep surplus in its budget and the oil fund's revenues has started declining, too.

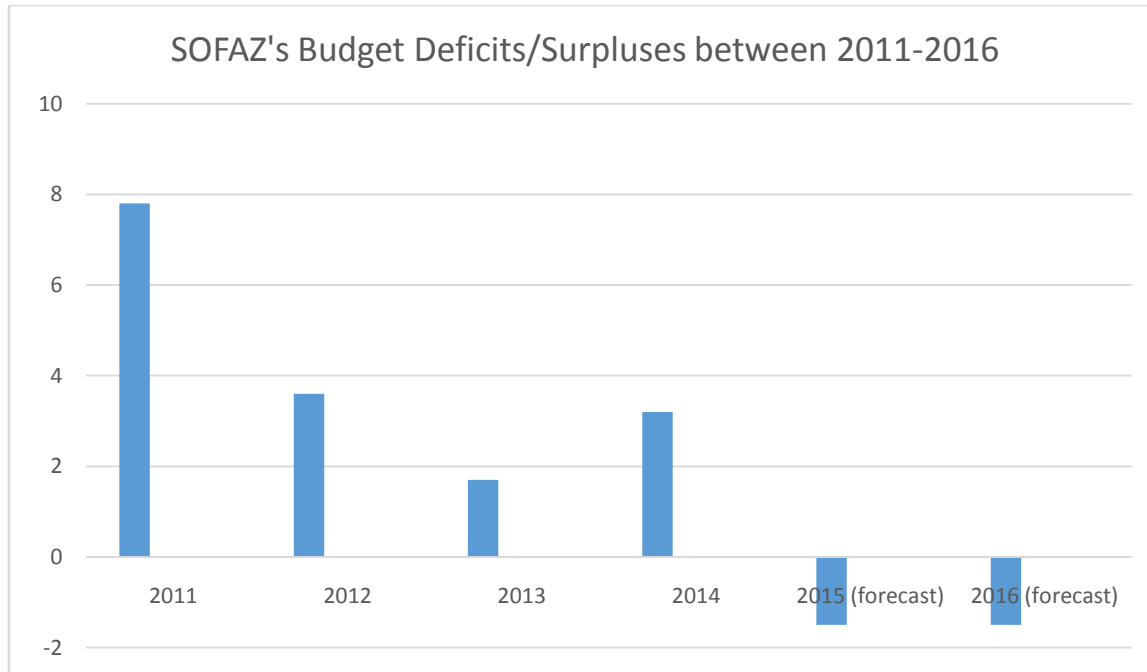
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Source: State Oil Fund of Azerbaijan Republic, 2015

This graph also confirms that SOFAZ has entered the post-oil boom period. SOFAZ's revenue in 2015 was declined more than 2 times compared with 2011. In fact, volume of oil export has been declined in these period, however, income decline was more rapid than oil output. According to the State Oil Company of Azerbaijan Republic, oil output was 45.6 million tones in 2011 and it was declined to 42.0 million tones in 2014. About 42.0 million tones oil, the same volume with 2014, is expected to be produced I 2015. That means that although oil output decline by only 8.0 % last 5 years, the SOFAZ's budget was decreased by more 2.0 times.

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Source: State Oil Fund of Azerbaijan Republic, 2015

This graph clearly shows changes between the fund's revenues and expenditures in the last 5 years. A deficit in the SOFAZ's budget has occurred immediately after oil price in the world market started declining.

CESD experts also recommend that SOFAZ should revise its investment strategy policy in order to increase indirect revenues. The fund still highly depends on direct income from oil export. Meanwhile, the fund should work on increasing amount of income from managing of its revenues.

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