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The Road Map of an Anti-Crisis Strategy in Azerbaijan

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The current economic policy, including the monetary policy needs to be compatible with post-oil or crisis period. Presently there are two major priorities in economic policy of government and the Central Bank: to constrain inflation and prevent or delay potential variations in the exchange rate of national currency. These priorities are important, however they are not and should not be, the key targets in times of economic hardship and crisis. Limiting money base via administrative measures may serve the short-term purpose of adjustment, but in medium and long-term may have negative outcomes. Actually, after the first devaluation of national currency, the government should have reversed its contractionary economic policy by stimulating economic activity. Being experienced in planning of anti-crisis measures in several countries, I can state that, the current economic and monetary policies, concentrated on tightening of monetary base and therefore leading to decreasing activity in the real sector, needs to be reconsidered entirely. Such policy is not capable of bringing progress in real sector, in contrast, can lead to closure of even more workplaces. In order to exit the crisis, the economy requires an injection of “hot money”. The contractionary monetary policy does not allow this money to enter the real sector. As a result, this may help to maintain the exchange rate of manat via administrative way, but neither meets the demand for dollar, nor facilitates the creation of new workplaces. The contractionary policy of the Central Bank has a deleterious impact on employment, and that is why, it is essential to replace the prevailing policy with anti-crisis and stimulating measures.

The problem is, currently the monetary policy is based on completing the dollarization process and to commence anti-dollarization. Limiting the supply of manat via administrative way serves this purpose as well. Nonetheless, the dollarization process should not be founded on shortage of dollar and forming “black market”. Unless the demand for dollar is met entirely, the process will prolong and be like ‘pain in the gut’, and the Central Bank will not be able to accomplish its targets. People queueing to get 300 USD is not consistent with a stable exchange rate policy. So, shifting the approach is crucial, and a repudiation of old rules should be the decisive element of the current economic policy. The restriction of dollar sale has created a serious stagnation in the activities of entrepreneurs engaged in import. Since businessmen cannot meet their demand for foreign currency, they have experienced difficulties in foreign trade activities.

All anti-crises theories are founded on expansionary policies, rather than contractionary. Presently, the opposite is the case in our country, the Central Bank restricts monetary base. Consequently, reduced money in circulation discourages investment and decreases purchasing power ability. Monetary base should be shaped not by decreasing the supply of manat artificially though administrative measures, but according to the law on money circulation. Unfortunately, the present policy of the Central Bank has failed the proportionality between money supply and gross domestic product. Of course, new emission is not the answer. That is to say, the Central Bank may be

cautious about injecting new manats into circulation, because they tend to be converted to dollars, and thereby, increasing its intervention costs. But the fact is that, attracting foreign currency into the country can accelerate the dollarization process, and manats in circulation will no longer “seek dollar” but create new economic value-added.

The Central Bank should let the exchange rate of manat to be freely determined in market, though gradually. It is impossible to keep the exchange rate of the national currency stable through administrative measures in the long-term. The Central Bank, being cautious of sharp devaluation of manat, does not pursue exchange rate policy. It may be asked from the Central Bank why our foreign reserves worth 12 billion USD was expended, given the sharp devaluation of the national currency was inevitable. If the Central Bank were unable to maintain the exchange rate during 2015, then the Bank should have switched to the floating exchange rate regime not on 21 December, but on 21 February. During crisis, economic policy changes promptly, and it needs to change in our country as well. Foreign reserves equivalent to aforementioned amount had already been spent, will not return back. We must ensure that, this 12 billion dollar are to be produced by real sector, in other words, by entrepreneurs. For this purpose, expansionary measures in real sector, capable of creating new value, need to be implemented. These measures require the injection of new currency into circulation, and provision of the long-term loans at a very low interest rates for entrepreneurs in sectors of comparative advantage. An entrepreneur should be provided with an opportunity to get a loan transparently at a maximum of 3% for 7 years in order to produce export-oriented goods.

The assets of the State Oil Fund are continuously viewed as “insurance cushion”. When the “cushion” is needed? During an economic hardship and crisis period, that is to say, now. It is interesting why we do not use this cushion? The Norway Pension (Oil) Fund sells its real estate in foreign countries, but the State Oil Fund of the Republic of Azerbaijan invests in the economy of Italy though real estate purchases when our country so desperately needs foreign exchange. However, under present circumstances, foreign currency should be directed into the economy, rather than channelling it abroad. None of crisis theories cannot answer this question: Why should foreign currency be taken away from the country and invested to the economy of other country, provided that there is a demand for it in the economy?

The anti-crisis models unambiguously suggest that, the assets of the State Oil Fund, at the initial stage 4 billion USD, should be brought to the country, and therefore provided for entrepreneurs transparently and without a barrier by banks. In order to ensure transparency in the provision of funds, a commission consisting of civil society representatives, experts, as well as, foreign managers, can be formed. This will facilitate on the one hand an increased flow of foreign exchange and will lower the pressure on manat, on the other hand, will increase foreign exchange reserves of banks, though which an entrepreneurship can be supported. Thus, bringing funds to the

country will have a positive influence both on banking sector and on the development of entrepreneurship.

The reserves of the State Oil Fund are amounted to 33 billion USD, and 80% is invested in fixed-income stocks. Other categories include real estate purchases, investments in gold, and securities respectively 5%, 5% and 10%. The funds of the State Oil Fund will be brought in foreign currency, and banks will promote entrepreneurship through provision of these funds. As stated, the Central Bank refrains from injecting manats into the circulation and decreases monetary base in order to lower money supply and prevent manat to be depreciated even further against dollar. Nevertheless, if the assets of the State Oil Fund valued at 4 billion USD is brought to the country, and enters to the circulation, it will not increase the pressure on manat.

Thus, foreign currency will enter into the circulation, and entrepreneurs will be able to contribute to the non-oil sector by receiving low-interest loans. It is essential to bring the aforementioned funds of the State Oil Fund at the moment. There is a need to support entrepreneurship. If the current difficulties persist, the number of closed workplaces and business entities will reduce. Therefore, in order to meet current foreign exchange demand and to finance entrepreneurship, the country ought to either to turn to foreign borrowing, or to bring some part of the assets of the State Oil Fund and making them available for businessmen through banks. There is a need to make a decision about this at present time. Economic problems can be aggravated if there is a delay in bringing the assets of the Fund.

Thus, current contractionary policy needs to be reversed completely. On the one hand, it can be done using the assets of the state Oil Fund. On the other hand, large-scale reforms (structural and institutional changes, elimination of monopolies and fight against corruption, supporting entrepreneurship) need to be implemented in order to increase the volume of non-oil exports. Unless the aforementioned current and strategic targets are realised, we cannot be insured against the next sharp devaluation.

Vugar Bayramov is a well-known economist in Azerbaijan. He was a visiting faculty member at the Washington University (USA) in 2002/2003. Bayramov has a Ph.D. in economics. His papers/books have been translated into 25 languages. In 2010, Bayramov was named one of the 500 most influential Muslims in the world by The Royal Islamic Strategic Studies Centre (RISSC) in Jordan. Vugar Bayramov is the chairman of Centre for Economic and Social Development (CESD, www.cesd.az). According to the University of Pennsylvania Global Think Tanks Rankings, his centre has been selected as a top think tank in Southern Caucasus and Central Asia last 5 years.