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Azerbaijani Oil Fund`s Confirmed 2015 Budget: Big Decline

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Baku, March 01, 2016

Azerbaijani Oil Fund`s Confirmed 2015 Budget: Big Decline

The assets of the State Oil Fund of Azerbaijan (SOFAZ) for 2015 decreased by 9.5% and as of 1 January 2016 reached \$33.57 billion against \$37.1 billion by 1 January 2015. The SOFAZ press release says that budget revenues for 2015 amounted to AZN 7.7 billion and expenditures AZN 9.187 billion.

Income from realization of oil and gas agreements totaled AZN 7.385 billion, including AZN 7.369 billion received from sale of profit oil and gas, AZN 2.2 million as acreage fees, AZN 2.1 million as bonus payments, and \$11.6 million from transit payments. The revenues from SOFAZ assets management for 2015 amounted to \$335.6 million.

Fund's extra-budgetary revenues related to currency revaluation reached AZN 23.217 billion.

By the end of 2015 SOFAZ transferred AZN 8.1 bn to the State Budget of Azerbaijan.

As for expenditures, SOFAZ directed AZN 150 million to finance the improvement of the socio-economic situation of refugees and internally displaced persons and AZN 90 million for the reconstruction of the Samur-Absheron irrigation system.

Also, AZN 61.5 million were spent on financing of the construction of the railway line Baku-Tbilisi-Kars and AZN 35.5 million on the education of Azerbaijani youth abroad.

In addition, AZN 692.8 million was directed to finance the Southern Gas Corridor Project.

Fund's administrative and operating expenditures for 2015 totaled \$27.9 million.

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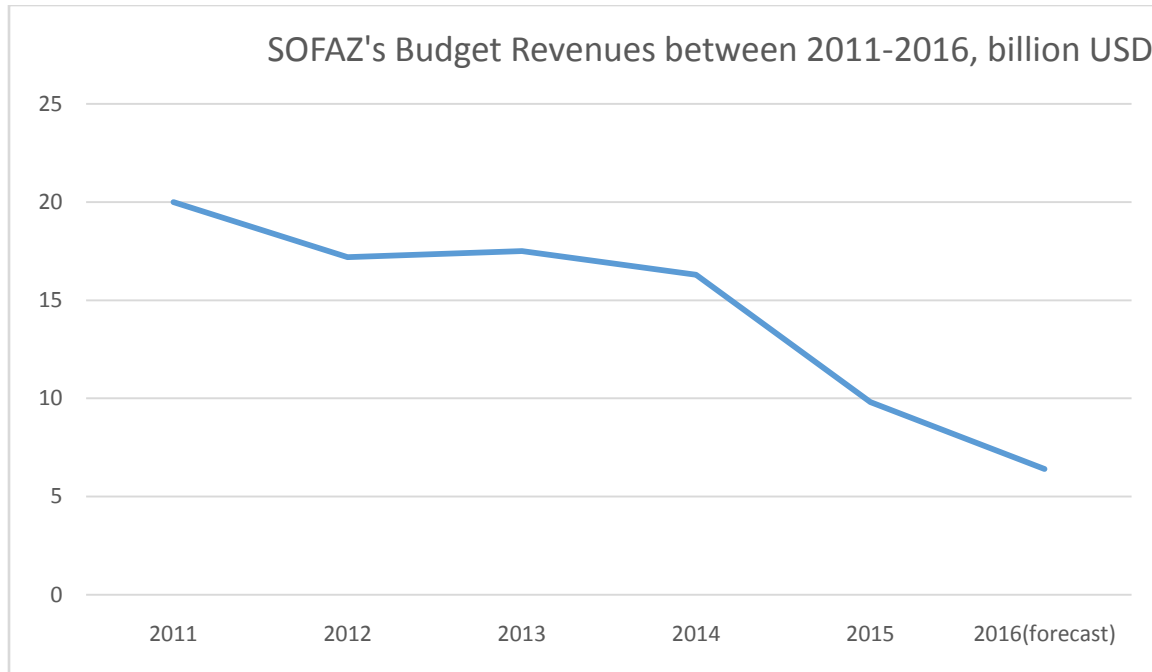
Meanwhile, low oil price has negative impacts on formalization of SOFAZ's income. As much as oil price falls Azerbaijan Oil Fund receives lower income.

SOFAZ's Budget Figures for 2011-2016

Year	Revenue, billion manat	Expenditure, billion manat	Revenue, billion USD	Expenditure, billion USD	Deficit/Surplus, billion USD
2015	7.7	9.2	7.3	8.8	- 1.1
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

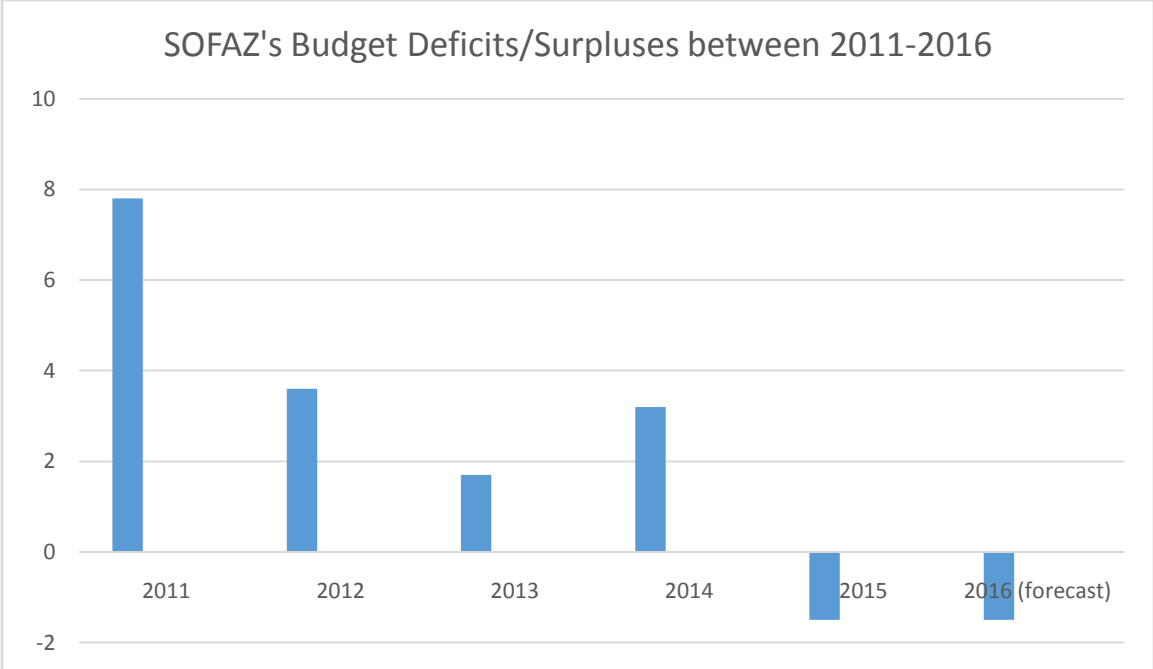
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Source: State Oil Fund of Azerbaijan Republic, 2015

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 41.0 million tones in 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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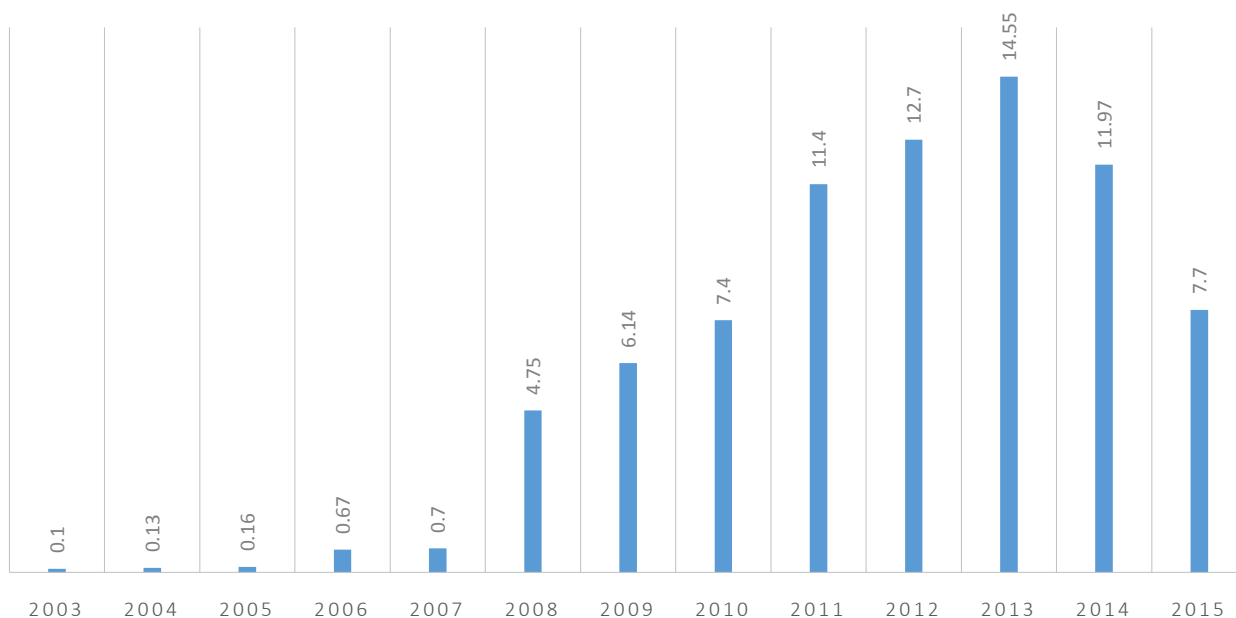


Source: State Oil Fund of Azerbaijan Republic, 2015

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.

Therefore, the amount of transfers to the state budget was reduced by 4.27 billion USD, or by 35.2% in 2015 compared with previous year.

Transfers from the SOFAZ to state budget



Source: The State Oil Fund of the Republic of Azerbaijan, 2016

As presented in the Diagram, starting from 2006, the amount of transfers from the Fund to the state budget rose rapidly, and reached its maximum in 2013. To put it another way, during the period 2005-2013 the volume of transfers increased by 91 times. In 2014 the government reduced the amount of transfers with the purpose of saving. Yet, the sharp decline in fuel prices in 2015 necessitated the reduction.

Based on the information available on 2015 October 1, in the year 2015 the assets of the Fund decreased by 6.38%, being equivalent to 34.7 billion USD¹ (01.01.2015, 37.1 billion USD, SOFAZ, 2016). Taking into consideration that only the transfers to state budget from the Fund constituted 2.35 billion USD in the last quarter of the year the depletion of assets continued in the fourth quarter as well.

¹SOFAZ, "Information on revenues and expenses of the State Oil Fund of the Republic of Azerbaijan for January-September, 2015"

http://www.oilfund.az/az_AZ/hesabat-arxivi/rublukh/2015_1/2015_1_3/, 16.01.2016

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Diagram 7. Assets of the Oil Fund, billion USD

During the period 2005-2015, the assets of the Oil Fund decreased for the first time in 2015. It should be noted that, the CESD recommended reducing transfers to state budget in 2011. According to the CESD, the rapid depletion of oil funds should be avoided to meet the demand in the period of lower oil production of 2010-2025. Moreover, the think tank also underlined that the fuel prices are determined out of the control of Azerbaijan, and therefore any fall in oil prices would have a negative impact on the fiscal policy of the country².

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.

²CESD, "The State Oil Fund may run out of funds by 2015", 26.11.2011 <http://cesd.az/new/?p=1391&lang=az>