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Foreign Debt in Azerbaijan to widen on low oil prices

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Foreign state debt of Azerbaijan amounted to 7,449 billion US dollars (11,4867 billion manat) as of April 1, 2016. The ratio of external debt to GDP ratio is 21.0 %. According to the Ministry of Finance of Azerbaijan, debt structure includes direct obligations of the state and contingent liabilities on borrowed loans under the state guarantees. Thus, 82.3% of public debt raised from the World Bank, the Asian Development Bank, Islamic Development Bank, the European Bank for Reconstruction and Development, the Japan International Cooperation Agency and other international financial institutions funding for various projects in the country. 17.7% of the funds raised through the placement of securities in the international financial markets.

CESD has underlined that Azerbaijan's foreign debt's share in GDP became as a double digit number in the GDP first time after the second devaluation of the manat of 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 the oil boom

2016	21.0 %
2015	12.4 %
2014	8.6 %
2013	8.5 %
2012	8.3 %
2011	7.6 %
2010	8.1 %
2009	7.9 %
2008	9.1 %

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2007	8.2 %
2006	9.9 %

Source: The Ministry of Finance of Azerbaijan Republic, 2016

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 manat has been depreciated against the dollar by 48.0 % on December 21st, 2015. 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.

The second reason of increasing of public demand for foreign currency since crude oil price fall in the world market. Oil income decreased by 2.5 times since July 2014. In fact, total monthly income is still far behind of last summer's monthly incomes. . If the country received only \$ 460 million US in April 2016, but monthly 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.

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.

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Source: The Ministry of Finance of Azerbaijan Republic, 2016

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 is expected that ratio will be increased due to low oil price and manat's potential devaluation.

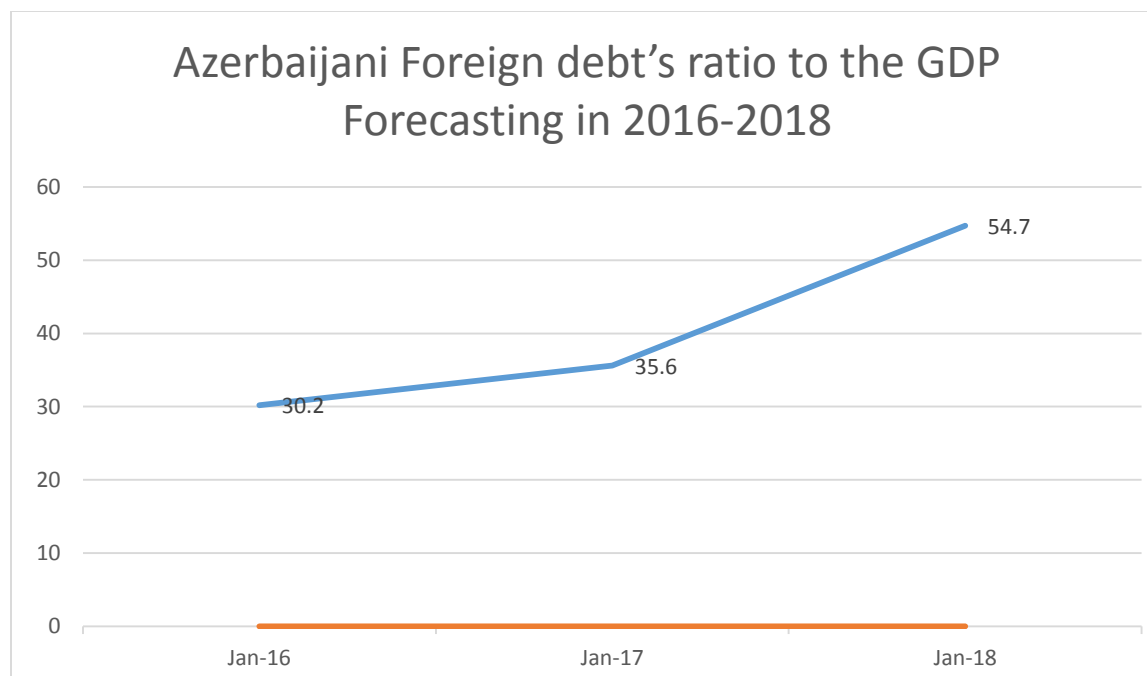
Meanwhile, the State Oil Company of Azerbaijan (SOCAR) has announced that its oil production for Jan-May 2016 decreased by 8.7% compared with Jan-May 2015. According to the Company, by 1 June 2016 it produced 3.16 million tons of oil against 3.46 million tons for Jan-Apr 2015. In January the index reached 647,000 tons, in February 605,000 tons, 646,200 tons in March, 624,500 tons in April, and 639,000 tons in May. Over the past 5 months of 2016 Azerbaijan produced 17.5 million tons of oil against 17.658 million tons a year earlier. In 2015 SOCAR produced 8.159 million tons of oil against 8.3 million tons in 2014. As a whole, country's production for 2015 totaled 41.58 million tons against 42.067 million tons in 2014.

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SOCAR oil production peak in 2014 was registered in March (741,500 tons) and in 2013 (716,200 tons).

According to the SOCAR's reports, the company has cut gas extraction for Jan-May 2016 amid growth of gas production throughout the country. SOCAR informs that by 1 June 2016 it produced 2.65 bn cu m of gas that was by 5.4% less than the Jan-May 2015 index (2.8 bn cu m). Gas extraction in January reached 543.1 million cu m, in February 504.4 million cu m, 547.8 million cu m in March, 519.2 million cu m in April, and 535.6 million cu m in May.

Over Jan-May 2016 gas extraction in Azerbaijan, according to SOCAR data, totaled 12.466 bn that is by 0.9% more versus Jan-May 2015 (12.35 bn cu m). In 2015 SOCAR produced 6.87 bn cu m of gas that was by 4.86% less than the 2014 index (7.2 bn cu m). The last year's peak of extraction was registered in July (605.4 million cu m). In light of declining of oil output and cutting gas extraction as well as low oil price, high demand for foreign debt in Azerbaijan is forecasted.



Source: CESD Calculations based on WB reports, 2016

The CESD calculations based on the World Bank reports forecasts that Azerbaijan' foreign debt to constitute 30.2% of GDP till the end of the year. In 2017 Azerbaijan's debt to make 35.6% of GDP and by 2018 – 54.7% of GDP. The forecast shows that Azerbaijan will get more debt in upcoming years.