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Foreign debt in Azerbaijan: realities and perspectives

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Foreign debt in Azerbaijan: realities and perspectives

According to the Central Bank of Azerbaijan (CBA), the external public debt of the country constituted \$ 9,017 billion US in January 2017 (<http://www.cbar.az/assets/4269/PSI - 2016 - son.pdf>). CBA has announced that the country's foreign reserve is 4.1 time more than the total foreign debt. The external public debt consists of direct obligations of the state as well as contingent liabilities emanating from sovereign guarantees.

Meanwhile, it should be underlined here that the external public debt is predominantly attracted from the World Bank, Asian Development Bank, Islamic Development Bank, European Bank for Reconstruction and Development, Japanese International Cooperation Agency and other financial institutions to finance projects in the economy as well as the issuance of bonds in the international capital markets.

The CESD calculations show that the foreign debt of Azerbaijan is higher than the official figure that has reported . Based on the anonymous survey among CESD's contacts in the government show that Azerbaijani real foreign debt is double digit billions dollar. That also means that the foreign debt's share in the GDP in reality is higher than the official figure.

The 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

January 2017	24.1 %
2016	20.1 %
2015	12.4 %
2014	8.6 %
2013	8.5 %
2012	8.3 %
2011	7.6 %
2010	8.1 %
2009	7.9 %
2008	9.1 %
2007	8.2 %
2006	9.9 %

Source: The Ministry of Finance of Azerbaijan Republic and Central Bank of Azerbaijan, 2017

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 monthly received

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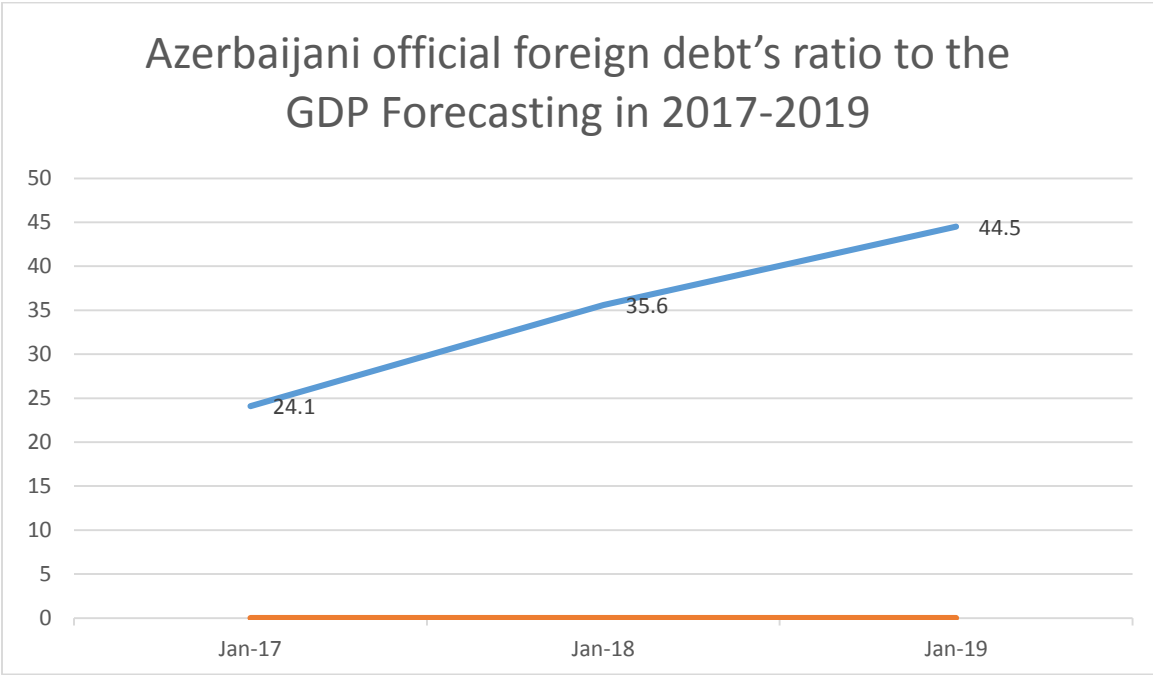
only \$ 772 million US late 2016, but monthly income was \$ 1.76 billion US in June 2014. It confirms that dropped oil price in the world market has dramatically decreased Azerbaijan's revenues. Due to declining of income from oil export, the country's demand for foreign debt has increased.

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.



Source: The Ministry of Finance of Azerbaijan Republic, 2017

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.



Source: CESD Calculations based on global financial institutes' reports, 2017

The CESD calculations based on the global financial institutes' reports forecasts that Azerbaijan's foreign debt to constitute 35.6% of GDP until the end of next year. In 2018 Azerbaijan's debt to make 44.5 % of GDP. The forecast shows that Azerbaijan will get more debt in up-coming years.