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Azerbaijan Economy in the first four months of 2017; Brief Overview

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CESD- Center for Economic and Social Development concluded its macro-economic survey results for the first four months of 2017. Both independent and official reports show that GDP decreased in the reporting period. According to the State Statistic Committee of Azerbaijan, GDP decreased by 1.2 % in the first four months of 2017 compared with the period of 2016 since CESD calculations found out 1.5 % decline in the economy.

The Gross Domestic Product (GDP) made up 20,139 billion manat (\$ 11,846 billion US) in January- April, 2017.

The State Statistics Committee announced 2.8 % growth in non-oil GDP and 6.0 % decline in the industry output for the same period.

Meanwhile, both Azerbaijani oil export and oil output have been dramatically decreased in the first four months of 2017.

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Main Economic Figures in the first four months of 2017 in Azerbaijan

Main Economic Figures	Government Report	CESD Report
GDP Growth	Negative 1.2 %	Negative 1.5 %
Non-oil GDP Growth	2.8 %	2.2 %
Inflation Rate	13.5 %	19.7 %
Industrial Production Increase	- (negative) 6.0 %	- (negative) 6.9 %
Agriculture Production	3.2 %	3.2 %
SOFAZ Assets (April 01 st , 2017)	\$ 33.207 US	N/A
Monthly Salary (January, 2017)	\$ 280.4 US	\$ 330.0 US
Poverty Line	5,6 %	12,5 %
Exports (January, 2017)- The State Customs Committee's figure	1,222 billion US	N/A
Imports (January, 2017)- The State Customs Committee's figure	\$ 450,0 million US	N/A
Excess/ Deficit (January, 2017- The State Customs Committee's figure	\$ 0.77 billion US	N/A
Budget Revenue	2, 370 billion manat (\$ 1.516 billion US, with the official average rate)	N/A
Budget Expenditure	2 191 billion manat (\$ 1.217 billion US with the official average rate)	N/A
Excess/ Deficit	178.8 million manat (\$ 99.33 with the official average rate)	N/A
Revenues of citizens increase	% 4.7	% 4,1
GDP Per Capita (without PPP)	2.075 thousand manat (\$1,221 thousand US)	\$ 1.050 thousand US

Source; State Statistic Committee of Azerbaijan Republic and CESD, May 2017

Note; CESD used different methods to calculate macro-economic figures including GDP growth while an aggregation method and a weighting variable are chosen. Reasons how choices of the data source, the aggregation method and the weighting variable create are based on CESD estimation. CESD also used oil production forecast and non-oil import and export, the volume of household and public consumption, capital formation and private and public investment data, as well as the impact of changing inflation on output to forecast GDP. The Center organized focus group discussions where estimations of macroeconomic data are included among the subject issues.

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GDP declined by 1.2 %

The Gross Domestic Product (GDP) made up 20,139 billion manat (\$ 11,846 billion US) in the first four months of 2017. According to the State Statistics Committee, the decline was caused by decrease in production and processing of oil. The committee has reported, 44.6% of the value added was formed in industry, 11% in trade and repair of transport facilities, 7.3% in transport and storehouse, 8.2% in construction, 3% in agriculture, forestry and fishery, 2.9% in tourist accommodation and catering, 1.7% in information and communication and 14% in other spheres in the indicated period. Net taxes to product and import made up 7.3% of GDP. GDP per capita amounted to 2,075 thousand manat (\$ 1,221 thousand US).

Industrial output declined by 6.0 %

Industrial output declined by 6.0 % in the four months of 2017. According to the State Statistics Committee, 12.6 billion manat (\$ 941.2 million US) industrial out was produced in the indicated period. Non-oil industry increased by 2.8 % meanwhile oil industry declined by 7.5 % in the indicated period. The Committee has reported that 70.5% of production has been realized in mining sector, 23.8% in processing, 5% - energy, gas and steam production, distribution and

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supply, 0.7% - water supply, waste treatment and processing. Oil production in the mining sector declined 9.5%, marketable gas decreased 0.2%. Production rose 2.4% in energy, gas and steam production, distribution and supply, dropped 1.2% in water supply, waste treatment and processing.

CBA's foreign exchange reserves increased

The Central Bank of Azerbaijan (CBA) has reported that its foreign exchange reserves continued increasing in May, as well as in January, February, March, and April of the year. The CBA reports that as of 1 June its foreign exchange reserves amounted to \$4.825 billion US versus \$4.619 billion US by 1 May, \$4.43 billion US by 1 April, and \$3.97 billion US by 1 January 2017 (index was reduced from original estimate of \$4.005 billion US.) and \$5.016 billion US by 1 January 2016. For comparison, the CBA's currency reserves amounted to \$15.19 billion US (absolute record) by 1 August 2014.

Growth of CBA currency reserves in May 2017 totaled \$206.1 million US. This year CBA's currency reserves have increased by \$851.2 million US. From 1 August 2014 to 1 June 2017, the Central Bank's foreign exchange reserves fell by \$10.368 billion US.

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SOFAZ's foreign currency supply increased

The State Oil Fund of Azerbaijan (SOFAZ) has reported that in May during the currency auctions it sold the currency for \$300.3 million US against \$220.8 million US in April, \$250 million in March, \$258.4 million US in February and \$285 million US in January of 2017. The record of SOFAZ direct currency sales accounted for October 2016 (\$371 million US).

For the past 5 months of the year, the Oil Fund already sold the currency for \$1.314 billion US.

Starting from 2017, the Fund's finances are present in the foreign exchange market and indirectly – within the framework of transfers from the SOFAZ budget to the Central Bank for maintenance of financial stability.

Oil export declined by 3.6 %

The SOCAR Marketing & Economic Operations Department announced that its oil export decreased by 3.6% in May versus April 2017. The SOCAR reports that it exported 1.667 million tons of oil in May against 1.726 million tons in April, 1.604 million tons in March, 1.75 million

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tons in February, 1.65 million tons in January 2017 and 2.017 million in October 2016 (the best monthly index for 2016).

At that, May's oil export via Baku-Novorossiysk oil pipeline reached 84,631 tons (versus 84,793 tons in April and 244,635 tons in March - this year's best index to date), Baku-Supsa – 260,380 tons (174,579 tons (178,703 tons in February, also the best index), and Baku-Tbilisi-Ceyhan (BTC) n.a. Heydar Aliyev oil pipeline – 1.322 million tons against 1.467 million tons (this year's best index). "In 2017 Azerbaijan has exported totally 8.409 million tons of oil via the standard routes versus 20.4 million tons of oil in 2016," SOCAR says.

Over Jan-May 2017 export of oil via Baku-Novorossiysk pipeline made up 573,838 tons, Baku-Supsa – 1.139 million tons, and BTC – 6.697 million tons. In 2016 export of oil via Baku-Novorossiysk pipeline made up 1.217 million tons, Baku-Supsa – 2.38 million tons, and BTC – 16.78 million tons. In February it was recorded the export of Azerbaijan's crude oil through the Black Sea port of SOCAR in Georgian Kulevi – 14,946 tons, but for March-December, as well as in January 2017, transshipment of crude oil through it was not carried out.

For comparison, the Department carried out the best oil export in 2011 – 27.609 million tons, and in June of 2011 it registered the peak of monthly export – 2.57 million tons. In 2011 oil transportation via Baku–Novorossiysk totaled 1.988 million tons, via Baku–Supsa – 2.65 million tons, and BTC – 22.969 million tons.

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SOCAR notes that the MEOD exports both its own oil and oil falling on the share of the government within PSA contracts.

Azerlight's price declined

In May 2017 the trend when the cost of a barrel of the main export grade of Azeri BTC FOB Ceyhan oil exceeded the price of standard grade Brent has weakened compared to April of the year.

The State Oil Company of Azerbaijan (SOCAR) reports that in May the cost of a barrel of oil BTC FOB Ceyhan exceeded cost of a barrel of Brent by \$1.12 US versus by \$1.29 US in March and April, \$1.52 US in February, \$0.47 US in January 2017 and \$1.85 US in July 2016 (the best index for 2016). For comparison: in December 2015 it declined to \$0.33 US (historical minimum).

In December 2014 the price difference reached historical maximum - \$5.90 US

"The cost of a barrel of BTC FOB Ceyhan in May 2017 was \$51.33 US. At that, the cost of a barrel of Russian oil mixture Urals (REBCO) was \$49.40 US and Brent grade was \$50.43 US," SOCAR said.

World Bank: Azerbaijan`s economy is expected to remain recession

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Azerbaijan's economy is expected to remain in recession according to the World Bank's "Global Economic Prospects: Europe and Central Asia" report. The reasons are weaknesses in the banking system as well as tight monetary and fiscal policies continue to weigh on growth.

As a result, according to the World Bank, GDP expected to decline by 1.4% this year and grow by 0.6% in 2018.

Strengthening activity indicators suggest Russia continues to expand in the first half of 2017, and modest monetary easing is anticipated to support growth in the near term.

Among other commodity exporters, Kazakhstan's rebound accelerated, helped by fiscal stimulus, and Azerbaijan showed some signs of improvement.

Is inflation rate 13.5 %?

The State Statistics Committee of Azerbaijan has renewed the data on the consumer price index (CPI) in Azerbaijan for 2017. The Committee informs that for the first four months of 2017 the inflation rate amounted to 13.5% against the same term of 2016.

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Meanwhile, CESD price calculations found out 19.7 % annual inflation rate for the first four months of 2017.

The official average exchange rate for June 6, 2017 was 1.72 manat to \$1 according to the Central Bank of Azerbaijan.

For more information, please contact us at info@cesd.az

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