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Foreign debt of Azerbaijan in 2018: realities and perspectives

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Foreign debt of Azerbaijan in 2018: realities and perspectives

Azerbaijani foreign debt reached \$9.398 billion USD, or 15.978 billion manat, on January 1st, 2018, according to the Ministry of Finance of the Republic of Azerbaijan. GDP reached 70.135 billion manat in the reporting period, leading the share of foreign debt in Azerbaijani Gross Domestic Production (GDP) to total 22.8%. According to the Ministry of Finance, foreign public debt consists of the direct obligations of the state as well as contingent liabilities emanating from sovereign guarantees. It is comprised of loans from international financial institutions to finance infrastructure projects and programmes, as well as government bonds issued to international financial markets.¹ 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.

CESD calculations show that the foreign debt of Azerbaijan is higher than the officially reported figure. Based on a survey among CESD's contacts, it can be shown that Azerbaijani real foreign debt is in the double digits of billions of dollars. That also means that the share of foreign debt in GDP is, in reality, much higher than the official figure.

CESD has underlined that the share of Azerbaijan's foreign debt in GDP reached double digits for the first time after the second devaluation of the manat. The country was able to keep the share of foreign debt in GDP as a single digit number from 2005 until 2015.

¹ <http://www.maliyye.gov.az/en/node/2135>

Share of Azerbaijan's foreign debt in the GDP since the oil boom

January 2018	22.8 %
January 2017	20.4 %
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 %

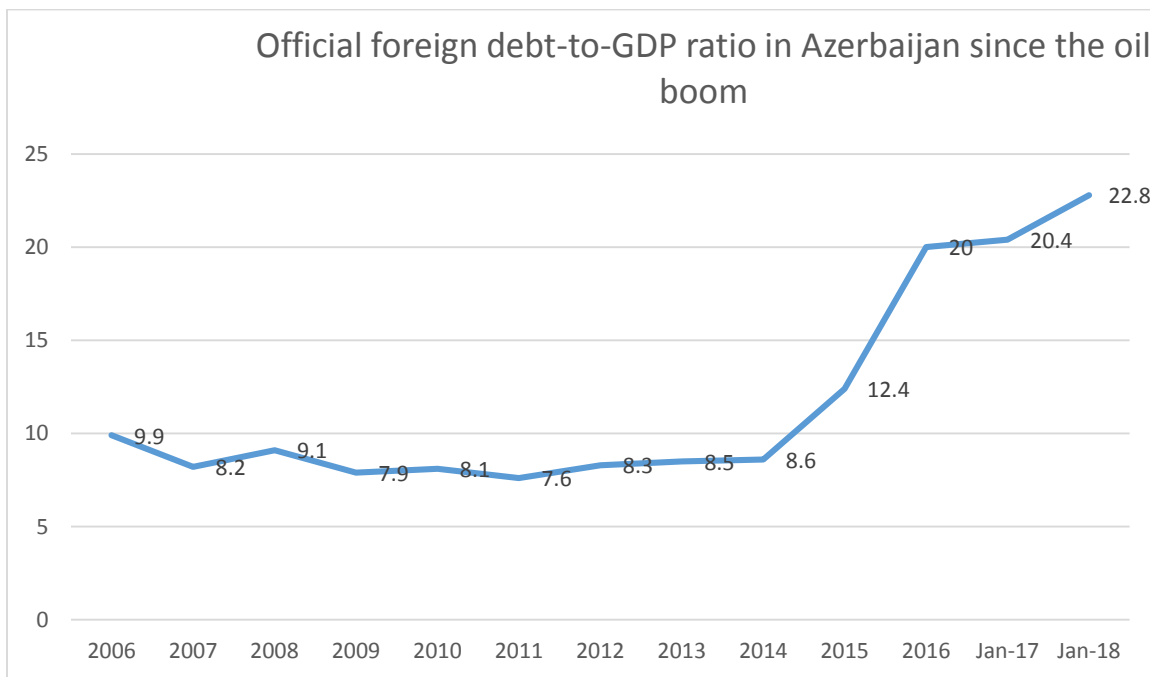
Source: The Ministry of Finance of Azerbaijan Republic and Central Bank of Azerbaijan, 2018

CESD experts believe that there are 2 main reasons for the increasing share of foreign debt in the GDP of Azerbaijan. The first reason is the devaluation of the national currency. Starting on February 21st, 2015, the official exchange rate of the dollar to the manat was set at 1.05 manat, which was 33.86% higher than the exchange rate set prior to the beginning of the weakening of the exchange rate. The manat depreciated 48.0% against the dollar on December 21st, 2015. Since Azerbaijani GDP is calculated in manat but foreign debt is in foreign currencies, mainly in USD, the devaluation increased the foreign debt-to-GDP ratio of the country.

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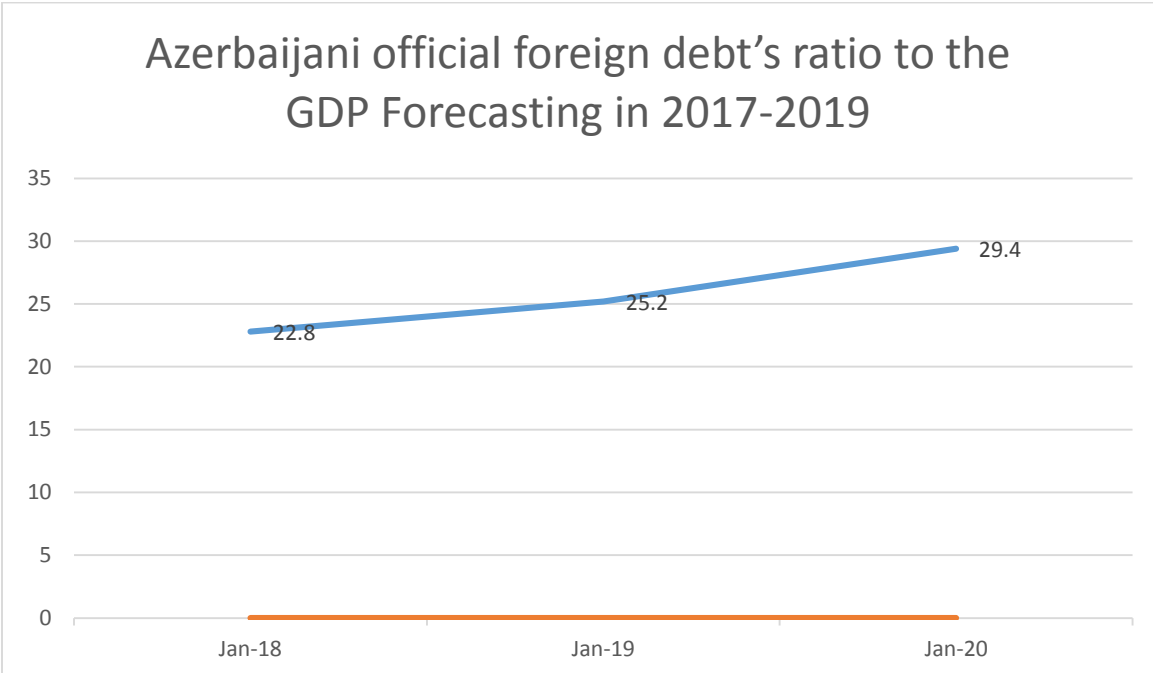
The second reason is increasing public demand for foreign currencies since the fall of crude oil prices in the world market. Oil income decreased by almost 56.0% since July 2014. Due to the decline of income from oil export, the country's demand for foreign debt increased.

Meanwhile, because of the country's commitments, the foreign debt-to-GDP ratio of the country is expected to increase in upcoming years, if crude oil prices remain at low levels. In the case of another sharp depreciation of the manat, the foreign debt-to-GDP ratio of the country will also increase.



Source: The Ministry of Finance of Azerbaijan Republic, 2018

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 of the country is still under control; however, it is expected that the ratio will increase due to low oil prices and the manat's potential further depreciation.



Source: CESD Calculations based on global financial institutes' reports, 2018

CESD calculations – based on global financial institutes' reports – forecasts that Azerbaijan's foreign debt will constitute 29.4% of GDP by the end of next year. However, crude oil price in the world market will be a crucial variable for the volume of Azerbaijani foreign debt. Forecasts show that Azerbaijan will get more debt in upcoming years.