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## **The Azerbaijani economy in the first half of 2018: Brief Overview**

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Baku, July 17, 2018

## **The Azerbaijani economy in the first half of 2018: Brief Overview**

## **The Azerbaijan economy in the first half (January-June) of 2018: Brief Overview**

CESD – the Center for Economic and Social Development – concluded its macro-economic survey results for the first half of 2018. According to the State Statistic Committee of Azerbaijan, Gross Domestic Product (GDP) increased by 1.3 % in January-June 2018 compared with the same period of previous year: The CESD' figure for the same period was 1.0 %. Meanwhile, according to the State Committee, GDP declined 1.3 % in the first half of 2018 compared with the same period of 2016.

The GDP totaled 37,009 billion manat (\$21.77 billion USD) in the first half of 2018.

The State Statistics Committee announced non-oil GDP increased by 2.0 %, while oil GDP increased by 0.1 % in the same period compared with the first half of 2017. According CESD's calculations, it was found that there was not growth in the oil GDP of Azerbaijan in the first half of 2018.

Meanwhile, the construction sector faced sharp decline in the first half of 2018. According to the State Committee, GDP in the construction sector declined by 10.5 % in the first half of 2018 compared with the same period of 2017 in spite of increasing financing from the state budget in the reporting period.

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## Main economic figures for the first half of 2018 in Azerbaijan

Main Economic Figures	Government Report	CESD Report
GDP Growth	1.3 %	1.0 %
Non-oil GDP Growth	2.0 %	1.8 %
Inflation Rate	3.0 %	6.4 %
Oil GDP	0.1 %	0.0 %
Agriculture Production	7.6 %	7.1 %
SOFAZ Assets (June 2018)	\$ 38,036 billion USD	N/A
Monthly Salary (January 2018)	\$305.0 USD	\$355.0 USD
Exports (May 2018)- The State Customs Committee's figure	\$ 8,213,billion USD	N/A
Imports (May 2018)- The State Customs Committee's figure	\$ 3,855 billion USD	N/A
Excess/ Deficit (May 2018)- The State Customs Committee's figure	\$4,358 billion USD	N/A
Budget Revenue	9,821 billion manat (\$ 5.777 billion USD, with the official average rate)	N/A
Budget Expenditure	9,524 billion manat (\$5.602 billion USD with the official average rate)	N/A
Excess/ Deficit	297,3 million manat (\$174.9 million USD with the official average rate)	N/A
Revenues of citizens increase	8.3 %	7.9 %
GDP Per Capita (without PPP)	3.777 manat (\$2.221 USD)	\$2.050 USD

**Source:** State Statistic Committee of Azerbaijan Republic and CESD, June 2018

*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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## **Azerbaijan GDP in the first half of 2018**

Azerbaijan's GDP volume reached almost 37.01 billion manat in January-June 2018 that is 1.3 % more than in January-June 2017, according to a report of the State Statistics Committee.

The volume of GDP per capita stood at 3.77 million manat.

In January-June 2018, the volume of GDP produced in the non-oil sector of Azerbaijan increased by 2.0 % compared to the first half of 2017, while in the oil and gas sector there was an increase of 0.1 percent.

During the reporting period, except for the construction sector, growth was observed in all spheres of the economy. Thus, the sphere of agriculture, forestry and fisheries grew by 7.6 %, accommodation of tourists and catering by 7.4 %, transport and storage - 7.1 %, information and communication services - 4.9 %, trade and repair of vehicles - 2.4 %, industry - 1.2 %, other areas - 0.6 %.

The construction sector decreased by 10.5 %.

## **SOFAZ's Budget for the first half of 2018**

Budget revenues of the State Oil Fund of the Republic of Azerbaijan (SOFAZ) for the period of January-June, 2018 reached 9.137 billion manat, while budget expenditures constituted 4.731 billion manat.

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Revenue of 8.665 billion manat was received from implementation of oil and gas agreements, including 7.889 billion manat from the sale of profit oil and gas, 765.2 million manat as bonus payments, 10.5 million manat as transit payments and 0.5 million manat as acreage fee.

The revenues from managing SOFAZ's assets for January-June 2018 amounted to 508.0 million manat.

As per 2018 budget of the Fund, 4.608 billion manat were transferred to the state budget. The expenditures in the amount of 84.5 million manats were directed to financing the improvement of social-economic condition of refugees and internally displaced persons, 19.1 million manat were used for financing the reconstruction of the Samur-Absheron irrigation system. 7.5 million manat were directed to financing Baku-Tbilisi-Kars railway construction and 2.0 million manat were directed to financing "The state program on the education of Azerbaijani youth abroad in the years 2007-2015". The Fund's administrative and operational expenses for the reporting period were 10.5 million manat.

The Fund's extra-budgetary expenditures related to the revaluation of foreign exchange totalled 838.5 million manat.

The assets of SOFAZ as of July 1, 2018 have increased by 6.22% compared to the beginning of 2018 (US 35.806 billion \$) and stood at US 38.036 billion \$, which was the highest attained level during its activity since its inception. The increase was mainly due to SOFAZ budget revenues and asset management activity.

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## **Azerbaijan Gas Export Declined**

Exports from the first stage of Azerbaijan's giant Shah Deniz gas field stood at 3.654 billion cubic metres (bcm) in the first half of this year, down 3.9 percent from a year earlier, the State Statistics Committee has reported.

Gas from Shah Deniz I is exported through the South Caucasus pipeline.

Export volumes from Shah Deniz I operated by an international consortium led by BP were 7.314 bcm in 2017.

Azerbaijan's gas exports through all pipelines totalled 11.588 bcm in January-June this year.

## **2018 State Budget was amended**

State budget revenues for 2018 are expected to reach 22.1 billion manat after the amendments. This number is 9.9%, or 1 billion and 983 million manat. more than the approved budget revenues of 2018. As a result of the increase, budget revenues will be 5 billion 466 million manat, or 33.9%, more compared to 2017. It should be noted that a significant part of the increase comes from transfers from SOFAZ to the state budget. In the new proposal the amount of transfers is equal to 10 billion 966 million manat, which is 1 billion 750 million manat, or 19%, larger than the approved budget . In other words, the proposed increase in transfers from the oil fund is equal to 88.3% of the total increase in budget revenues. Meanwhile, the tax revenues of the state budget coming from the oil sector will also increase because of the higher price of oil, which means that the increase in budget revenues almost completely comes from the

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oil sector. Given the current situation of the market, authorities will increase their estimates regarding the price of a barrel of oil by 10 USD, to a total 55 USD, when making changes to the state budget. This change can be considered as acceptable considering that the average oil price in the last five months was 67 USD. However, the increase in transfers from the oil fund shows that the government is returning to an expansionary fiscal policy, again, under the existing conditions. This is in contrast to the trend of fiscal consolidation observed after 2015. Revenues from the Ministry of Taxes are reduced by 6.7%, or, in other words, 627 million manat, after the amendments. Decreases in budget revenues from taxes are mainly driven by tax revenues of the non-oil sector, which is 1 billion 27 million less than the approved amount. The increase in oil prices, on the other hand, caused tax revenues from the oil sector to increase by 500 million manat. Taking into the account the fact that an increase in budget expenditures will take place, under the current legislation, the revenues of the state budget from the taxation of the nonoil sector should also increase.

### **Is the inflation rate really 3.0 %?**

Prices for consumer goods and tariffs for services in Azerbaijan stood at 3.0% in January- June 2018, according to the State Statistics Committee.

The prices for food products increased by 3.0 %, prices for non-food items by 3.8 %, and the cost of paid services by 2.4 % during the reporting period. The monthly inflation rate for June 2018 was 0.7 %. The prices for food products decreased by 1.6 %, prices for non-food items remained the same and the cost of paid services by 0.1% in June 2018, compared to the same month of 2017. According to the State Committee, the inflation rate was 12.9% in 2017.

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Meanwhile, CESD price calculations found a 6.4 % annual inflation rate for the same period of 2018.

*The official average exchange rate for June 2018 was 1.70 manat to \$1 according to the Central Bank of Azerbaijan.*

*For more information, please contact us at [info@cesd.az](mailto:info@cesd.az)*

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