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## **Azerbaijani Economy 2018: Results and Perspectives**

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## Introduction

Following the recession and stagnation of the economy of Azerbaijan in 2015-2017, a growth of 1.4% was recorded in 2018. Economic growth has been mainly driven by the following factors:

- Favorable foreign economic environment for Azerbaijan from the context of oil prices: the initial forecast of the oil prices by the Azerbaijani government at the beginning of 2018 was 45 US dollars per barrel. Then, during the second half of the year, the forecast was adjusted to 55 US dollars per barrel. However, the actual price of one barrel of oil for the reporting period was above 71 US dollars (29% higher than forecasted).
- Radical fiscal expansion: a sharp increase in state budget expenditures has positively affected the volume of aggregate demand. Let us note that the observed fiscal expansion has taken place concurrently with the continuing discussions regarding fiscal consolidation.
- The predicted decline in oil sector not taking place: the main reason supporting the sector was the boost in natural gas production.

The launch of several major projects, such as TANAP (Trans-Anatolian Gas Pipeline), the first phase of the Baku International Sea Trade Port Complex, and SOCAR polymer plant all had positive impacts on the economic growth in the reporting year.

Financial-banking and construction sectors continued to be the weakest parts of the economy. Poor access to financial resources and fiscal burdens have diminished the effectiveness of government policies for the improvement of small and medium-sized businesses.

Over the course of the year there have been several external factors pressuring the economy, particularly the weakening of the national currencies of Russia, Iran, and Turkey, which are key foreign trade partners of Azerbaijan, as well as the increasing uncertainties in the domestic currency market. Although these challenges did not lead to a change in the exchange rate of the national currency of Azerbaijan, it negatively affected the tourism and agricultural sectors of the country and reduced the competitiveness of local production by forming a favorable environment for imports. At the same time, it also had a negative impact on the export environment. The application of the managed exchange rate regime has made it difficult for the economy to respond adequately to changing external factors.

In 2018, Azerbaijan's position on some global ratings advanced. According to the World Bank's "Doing Business" report, the country's position moved by 32 places and reached 25th place<sup>1</sup>. According to the "Global Competitiveness Report 2018" prepared by the World Economic Forum, Azerbaijan ranks 69th out of 140 countries. According to the

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<sup>1</sup>World Bank, Doing Business 2019

<http://www.doingbusiness.org/content/dam/doingBusiness/country/a/azerbaijan/AZE.pdf>

report, the risks for macroeconomic stability in Azerbaijan are high (126th in 140 countries) and the financial system is underdeveloped (96th place among 140 countries)<sup>2</sup>. Global Credit Rating Agencies such as Fitch, Moody's and Standard & Poor's have fixed their sovereign credit rating of Azerbaijan at Ba2 stable level<sup>3</sup>. However, continuation of reforms in several directions, including socioeconomic spheres, and the increase of global ratings of the country did not have a significant impact on the country's economic activity, enhancing foreign interest and the acceleration of foreign investment inflows. In other words, similarly to previous years, reforms were weakly transformed into the economy during 2018.

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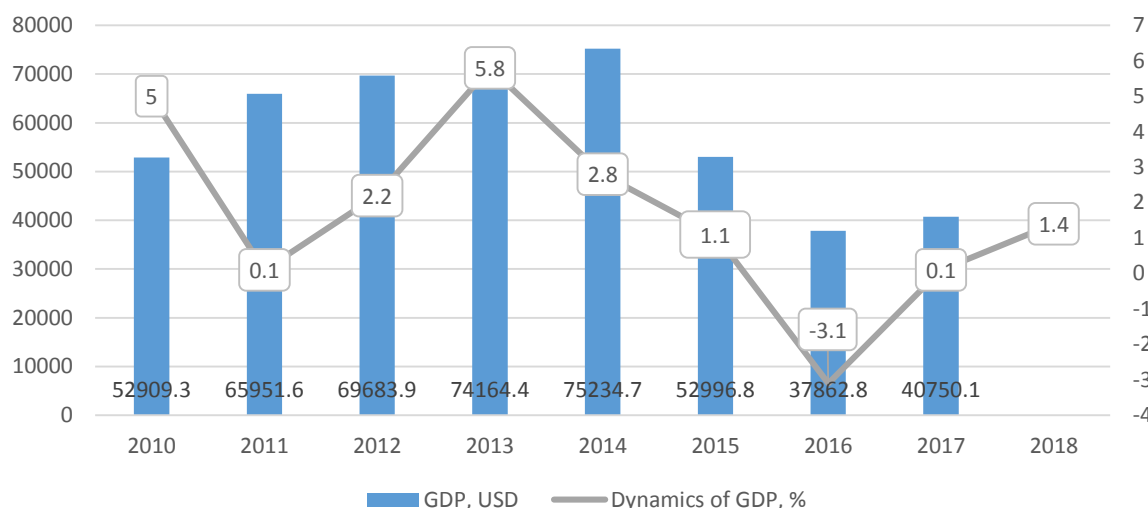
<sup>2</sup> World Economic Forum, The Global Competitiveness Report 2018, səh: 634, baxış tarixi: 23.01.2018  
<http://www3.weforum.org/docs/GCR2018/05FullReport/TheGlobalCompetitivenessReport2018.pdf>

<sup>3</sup> Azerbaijan - Credit Rating, baxış tarixi: 23.01.2019  
<https://tradingeconomics.com/azerbaijan/rating>

## Gross Domestic Product

A 1.4% growth took place in the Azerbaijani economy in 2018 [see: figure 1]. Economic growth has been driven mainly by the non-oil sector, as its growth was equal to 1.8%<sup>4</sup>. Let us note that the government forecasted 1.5% GDP growth for 2018 and 2.9% growth in the non-oil sector<sup>5</sup>. The economic growth took place as a result of a 29.2% increase in state budget expenditures, a smaller-than-expected decline in the oil sector and growing aggregate demand as a result of the stable exchange rate of the manat.

**Figure 1: Dynamics of GDP growth over the years, in percentage**



**Source: State Statistical Committee of Azerbaijan Republic, Azertac, 2018**

Publicly shared information shows that over the course of the year industrial output was 47.7 billion manat (28 billion USD), which is 1.5% more than in 2017<sup>6</sup> - note that the same indicator was -3.4% during 2017<sup>7</sup>.

In the reporting period, 44.2% of the value added in the economy of Azerbaijan belonged to industry. The annual growth in this sector was 1.5%. 73% of industrial production came from the mining industry, 22.2% from the manufacturing sector and 4.8% from the other sectors, including electricity production<sup>8</sup>. However, one of the main reasons for the growth in industry is the 9.1% growth registered in non-oil industry.

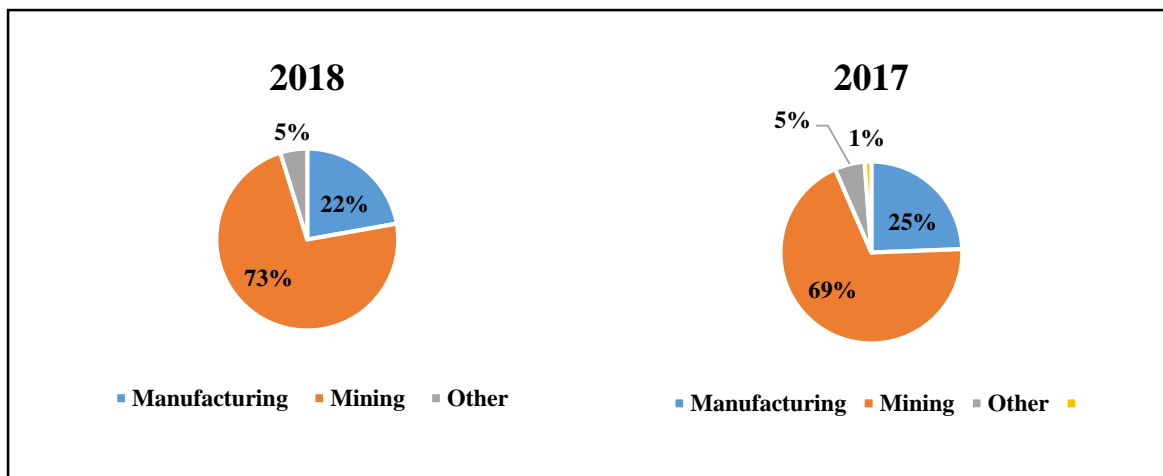
<sup>4</sup> Azertac, Prezident İlham Əliyevin sərəliyi ilə Nazirlər Kabinetinin 2018-ci ilin sosial-iqtisadi inkişafının yekunlarına və qarşıda duran vəzifələrə həsr olunan iclası, 11.01.2019 keçirilib <https://azertag.az/xeber/Prezident-Ilham-Aliyevin-sedrliyi-ile-Nazirler-Kabinetinin-2018-ci-ilin-sosial-iqtisadi-inkisafinin-yekunlarina-ve-qarsida-duran-vezifelere-hesr-olunan-iclas-i-kechirilib-YENILANIB-3-VIDEO-1232332>

<sup>5</sup> ARMB, Azərbaycan Respublikası Mərkəzi Bankının 2018-Ci İl Və Ortamüddətli Dövr Üçün Pul Siyasətinin Əsas İstiqamətləri Barədə Bəyanatı, səh: 4, baxış tarixi: 21.01.2019 <https://uploads.cbar.az/assets/81106f1727e85c6b03cddde90.pdf>

<sup>6</sup> AZSTAT, 2018-ci ildə sənaye istehsalı haqqında”, 15.01.2019 <https://www.stat.gov.az/news/index.php?id=4089>

<sup>7</sup> AZSTAT, 2017-ci ildə sənaye istehsalı haqqında”, 17.01.2018 <https://www.stat.gov.az/news/index.php?id=3731>

<sup>8</sup> AZSTAT, 2018-ci ildə sənaye istehsalı haqqında”, 15.01.2019 <https://www.stat.gov.az/news/index.php?id=4089>

**Figure 2: Structure of industry production**

Source: State Statistical Committee of Azerbaijan Republic, 2018

Despite the growth in non-oil industry, the share of the manufacturing industry in the industrial value added decreased by 2.5 percentage points last year. That is, the share of the manufacturing sector in the industrial sector overall in 2017 was equal to 24.7% [see: figure 2]. The main reason for the increase in the share of the mining industry is the 5.8% growth of gas production.

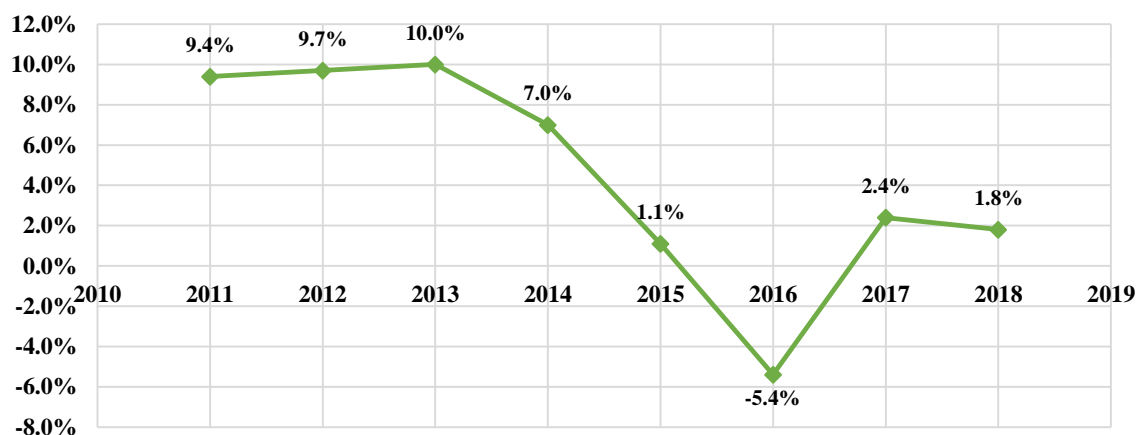
During the year agricultural production grew by 4.6%<sup>9</sup>. It should be noted that the main reasons behind the increase in agricultural production are the formation of various incentive mechanisms (export subsidy, creation of trading platforms, organization of agroparks, forming of mechanisms promoting investments, preferential lending, etc). In 2018, the subsidy and concessional loans to this sector totaled 370 million manat (217.6 million US dollars). In addition, the provision of 200 thousand hectares of land with water in 2017-2018 resulted in an increase in the value added created within this sector<sup>10</sup>.

Economic growth in 2018 occurred as a corollary of expansion in the IT sector (9.3%), transportation sector (7.8%), tourism sector (7.6%), agriculture sector (4.6%) and trade sector (3%). The only sector in which a decline was observed was construction. The value added of the construction sector shrank by 9% throughout the year<sup>11</sup>. The reasons behind the decline are: downturn of purchasing power, deterioration in capital investments by the population as well as the lower investments to the oil sector.

<sup>9</sup> Azertac, Prezident İlham Əliyevin sədrliyi ilə Nazirlər Kabinetinin 2018-ci ilin sosial-iqtisadi inkişafının yekunlarına və qarşıda duran vəzifələrə həsr olunan iclası, 11.01.2019 keçirilib <https://azertag.az/xeber/Prezident-Ilham-Aliyevin-sedrliyi-ile-Nazirlar-Kabinetinin-2018-ci-ilin-sosial-iqtisadi-inkisafinin-yekunlarina-ve-qarsida-duran-vezifelere-hesr-olunan-iclası-kechirilib-YENILANIB-3-VIDEO-1232332>

<sup>10</sup> Azertac, Prezident İlham Əliyevin sədrliyi ilə Nazirlər Kabinetinin 2018-ci ilin sosial-iqtisadi inkişafının yekunlarına və qarşıda duran vəzifələrə həsr olunan iclası, 11.01.2019 keçirilib <https://azertag.az/xeber/Prezident-Ilham-Aliyevin-sedrliyi-ile-Nazirlar-Kabinetinin-2018-ci-ilin-sosial-iqtisadi-inkisafinin-yekunlarina-ve-qarsida-duran-vezifelere-hesr-olunan-iclası-kechirilib-YENILANIB-3-VIDEO-1232332>

<sup>11</sup> Azstat, “2018-ci ilin yanvar-dekabr aylarında ölkənin iqtisadi və sosial inkişafının makroiqtisadi göstəriciləri”, səh: 14, tarix: 21.01.2019 [https://www.stat.gov.az/news/source/2018\\_12ay.zip](https://www.stat.gov.az/news/source/2018_12ay.zip)

**Figure 3: Dynamics of non-oil GDP growth, in percentage**

**Source: State Statistical Committee of Azerbaijan Republic, 2018**

As it can be observed from the figure above, the dynamic of non-oil sector growth has dropped by 0.6 percentage points compared to the same indicator of 2017. The underlying reason is the 9 percent decline in the construction sector. It should be noted that this sector contracted by 1.5% in 2017<sup>12</sup>.

## Oil Sector

Despite high volatility, 2018 can be considered a successful year for Azerbaijan from the point of view of oil prices. That is, the average annual price of one barrel of oil while calculating the state budget was expected to be 45 US dollars<sup>13</sup>, where in reality it was higher than 71 US dollars<sup>14</sup>, which is 35% larger than the oil prices recorded throughout 2017. During the reporting year, the GDP of the oil sector was 33.1 billion manat (19.5 billion US dollars), which is 0.6% more than the previous year<sup>15</sup>.

Growth in the sector was due to a 0.3% increase in oil production and 5.8% increase in natural gas production [see Table 1].

<sup>12</sup> Azstat, “İqtisadi fəaliyyət növləri üzrə ümumi buraxılışın fiziki həcm indeksi, əvvəlki ilə nisbətən faizlə”, baxış tarixi: 21.01.2019

[https://www.stat.gov.az/source/system\\_nat\\_accounts/az/029.xls](https://www.stat.gov.az/source/system_nat_accounts/az/029.xls)

<sup>13</sup> Maliyyə Nazirliyi, 2018-ci ilin dövlət və icmal büdcələri üzrə layihələrin təqdimatı, səh: 10, baxış tarixi: 18.01.2019

<http://www.maliyye.gov.az/scripts/pdfjs/web/viewer.html?file=/uploads/static-pages/files/5aed91215e85a.pdf>

<sup>14</sup> U.S. Energy Information Administration, SHORT-TERM ENERGY OUTLOOK, 15.01.2019

<https://www.eia.gov/outlooks/steo/report/prices.php>

<sup>15</sup> Azstat, “2018-ci ilin yanvar-dekabr aylarında ölkənin iqtisadi və sosial inkişafının makroiqtisadi göstəriciləri”, səh: 14, tarix: 21.01.2019

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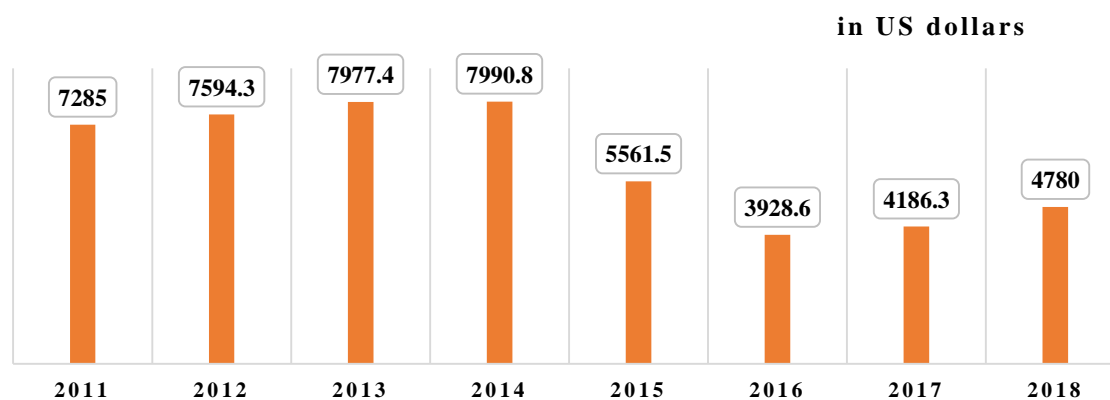
**Table 1: Macro indicators of the oil sector**

	2018	2017	Difference compared to 2018 forecasts, %	Difference to 2017, %
<b>Oil extraction (million tons)</b>	38802	38688.9	+ 2.2	+ 0.3
<b>Oil exports (million tons)</b>	32666	32881.6	-	- 0.7
<b>Gas extraction (billion m3)</b>	30422	28597.9	+ 1.7	+ 5.8
<b>Gas exports (billion m3)</b>	8326.8	7115.0	-	+ 17

Source: State Statistical Committee of Azerbaijan Republic, Ministry of Energy of the Republic of Azerbaijan<sup>16</sup>, 2018

In 2018, the fixed capital investment in the oil sector was 5.9 billion manat (3.47 billion US dollars), which means a decline compared to the previous year. A decrease in investments in this sector was due to completion of the Shah Deniz 2 project.

In 2018, the *value added per capita* increased by 0.5%, resulting in GDP per capita reaching 8,126 manat (4,780 US dollars)<sup>17</sup>.

**Figure 4: Dynamics of GDP per capita over 2011 – 2018 period**

Source: State Statistical Committee of Azerbaijan Republic, 2018

As it can be seen from the diagram above, GDP per capita denominated in US dollars has sharply declined during 2014 - 2016. The decline took place in the background of the economic recession and national currency's depreciation.

In 2018, a total of 17.2 billion manat (10.1 billion US dollars) was invested in fixed capital and 69.7% of which was by domestic sources, 4.4% less than that of 2017. The reason

<sup>16</sup> Azərbaycan Respublikası Energetika Nazirliyi

[http://minenergy.gov.az/upload/files/%C4%B0llik\\_hesabatlar/aren\\_hesabat\\_2018.pdf](http://minenergy.gov.az/upload/files/%C4%B0llik_hesabatlar/aren_hesabat_2018.pdf)

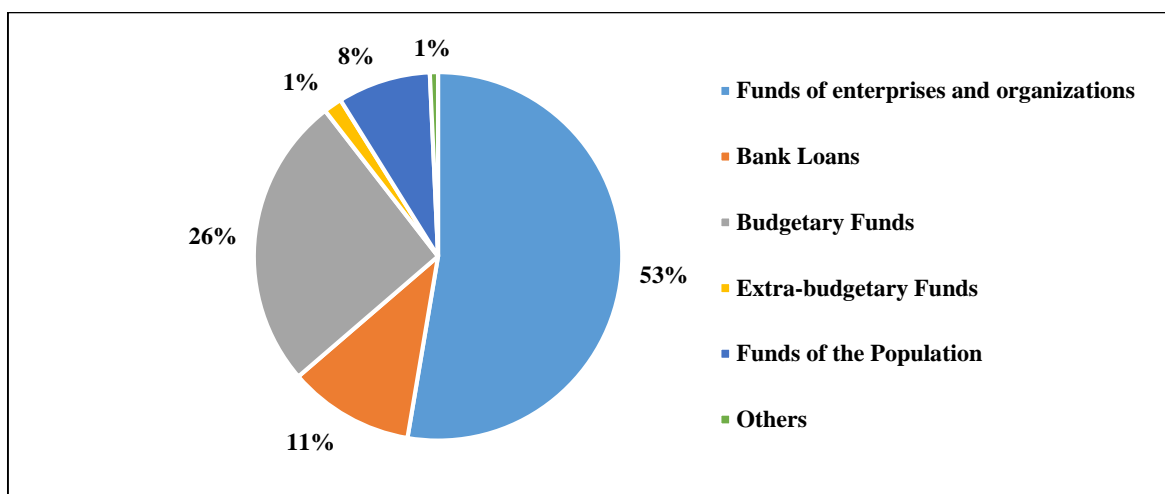
<sup>17</sup> Azstat, "2018-ci ilin yanvar-dekabr aylarında ölkənin iqtisadi və sosial inkişafının makroiqtisadi göstəriciləri", səh: 9, tarix: 21.01.2019

[https://www.stat.gov.az/news/source/2018\\_12ay.zip](https://www.stat.gov.az/news/source/2018_12ay.zip)



for this is the decline in investments to the oil sector. The non-oil sector, on the other hand, has grown by 22% due to budget spending. 67.6% of investments were directed to production sectors and 24.8% to service sectors<sup>18</sup>.

**Figure 5: Structure of investments into fixed capital by sources in 2018**



**Source: State Statistical Committee of Azerbaijan Republic, 2018**

During the year, investment in fixed capital in different sectors of the country's economy had been largely financed from the following sources:

- *Funds by enterprises and organizations: 9,076.9 million manat (5,339 million US dollars);*
- *Bank loans: 1,902.5 million manat (1,119 million US dollars);*
- *Budget and extra-budgetary funds: 4,727.9 million manat (2,781 million US dollars);*
- *Funds of the population: 1,407.8 million manat, (828 million US dollars).*

During the reporting period, investments in fixed capital by budgetary funds increased 80.3%, by extra-budgetary funds 33%, by enterprises and organizations 19.2% and by bank loans 25.4%, while investments by the population's funds decreased by 1.1%. Investments by budgetary and extra-budgetary funds made up 27.4% of total investments<sup>19</sup>.

## Labor market and income of the population

By the end of 2018, the number of employed persons increased by 1.1% and reached 4,879.3 thousand, of which 1,554 thousand, or 31.8%, are employed in temporary work. 57.1% of temporary employees are working in the public sector. It should be noted that the number of employees working in temporary work in the public sector decreased by 0.4%,

<sup>18</sup> Azstat, Əsas kapitalla yönəldilmiş vəsait haqqında, 17.01.2019

<https://www.stat.gov.az/news/index.php?id=4094>

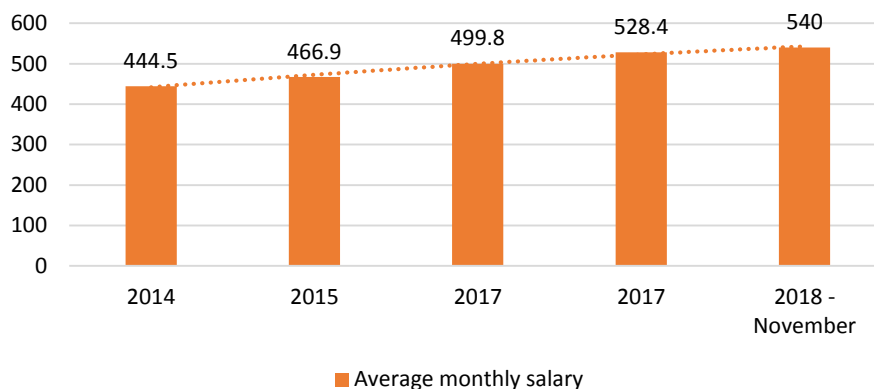
<sup>19</sup> Azstat, "2018-ci ilin yanvar-dekabr aylarında ölkənin iqtisadi və sosial inkişafının makroiqtisadi göstəriciləri", səh: 40-41, tarix: 21.01.2019

[https://www.stat.gov.az/news/source/2018\\_12ay.zip](https://www.stat.gov.az/news/source/2018_12ay.zip)

while those in the private sector grew by 6.8%<sup>20</sup>. The number of employees in temporary employment in the oil sector was 34,000, which equals 2.2% of the total<sup>21</sup>.

In January-November of 2018, the average monthly wage in Azerbaijan increased by 2.9% and reached 540 manat (317.6 US dollars)<sup>22</sup> [see: figure 6].

**Figure 6: Average monthly salary, in manat**



**Source: State Statistical Committee of Azerbaijan Republic, 2018**

During the year, the income of the population was 53.7 billion manat (31.6 billion US dollars), which means an increase of 9.2% in nominal terms. The annual income per capita, on the other hand, equaled 5,467 manat (3,216 US dollars). This indicator is 8.2% higher than that of 2017<sup>23</sup>.

Inflation in the consumer market for the year 2018 was 2.3%. In 2018, unlike previous years, the locomotives of inflation were non-food products (2.6% increase) and services (2.7% increase)<sup>24</sup>. A tough monetary policy limiting the growth of the monetary base, stability in the exchange rate of the manat and decline in prices of imports from Azerbaijan's main trading partners such as Russia, Turkey and Iran (due to the depreciation of their respective national currencies) are the main factors in keeping the domestic inflation rate low. Let us remember that the inflation rate was 12.4% in 2017.

During 2018, the manat's managed exchange rate regime continued and its rate was kept constant against the US dollar (1 USD = 1.7 Manat)<sup>25</sup>.

<sup>20</sup> NOTE: For accessing the relevant information of 2017, please visit the following link Azstat, "Muzdla işləyən işçilərin mülkiyyət növləri üzrə bölgüsü"

[https://www.stat.gov.az/source/labour/az/002\\_10-11.xls](https://www.stat.gov.az/source/labour/az/002_10-11.xls)

<sup>21</sup> Azstat, "2018-ci ilin yanvar-dekabr aylarında ölkənin iqtisadi və sosial inkişafının makroiqtisadi göstəriciləri", səh: 84-85, tarix: 21.01.2019

[https://www.stat.gov.az/news/source/2018\\_12ay.zip](https://www.stat.gov.az/news/source/2018_12ay.zip)

<sup>22</sup> Azstat, "İqtisadiyyatda işləyənlərin sayı və əməkhaqqı barədə", 09.01.2018

<https://www.stat.gov.az/news/index.php?id=4085>

<sup>23</sup> Azstat, "2018-ci ilin yanvar-dekabr aylarında ölkənin iqtisadi və sosial inkişafının makroiqtisadi göstəriciləri", səh: 118, tarix: 21.01.2019

[https://www.stat.gov.az/news/source/2018\\_12ay.zip](https://www.stat.gov.az/news/source/2018_12ay.zip)

<sup>24</sup> Azstat, "İstehlak bazarında qiymətlərin dəyişməsi haqqında", 11.01.2019

<https://www.stat.gov.az/news/index.php?id=4087>

<sup>25</sup> Azərbaycan Respublikası Mərkəzi Bankının 2019-cu il və ortamüddətli dövr üçün pul siyasətinin əsas istiqamətləri barədə bəyanatı, səh: 4, 31.12.2018

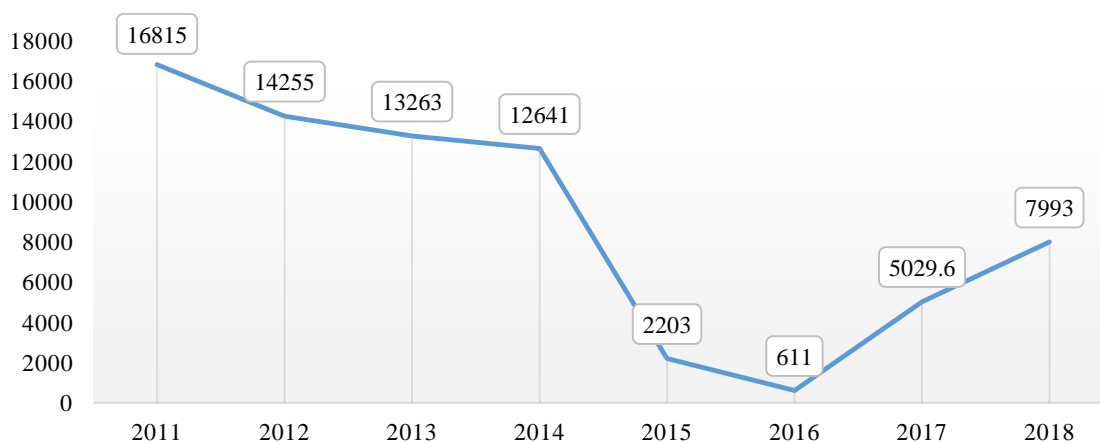
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## Foreign Trade Relations and Balance of Payments

An increase in average annual oil prices in global markets positively impacted the foreign trade turnover volume in 2018. According to the data of the State Customs Committee, total foreign trade turnover in the reporting period was 30.9 billion US dollars (an increase of 34.6%) and exports - 19.5 billion US dollars (an increase of 35.9%). The share of crude oil in total exports was 80.8%, oil products 2.7% and natural gas 7.7%. In other words, the specific weight of the oil/gas sector in exports was 91.1%<sup>26</sup>. It should be noted that the corresponding figure was 89.5% in 2017<sup>27</sup>. The increase in oil prices is the main reason behind the hike in the sector's weight in exports.

During the same period, exports of non-oil products increased by 10.5%. Growth has been driven mainly by sectors such as agriculture, chemical and metallurgical industries and electricity exports<sup>28</sup>. Despite that the share of non-oil exports compared to the country's imports decreased from 10.5% (2017) to 8.9% (2018).

**Figure 7: Trade surplus of the Republic of Azerbaijan, in thousand US dollars**



**Source: State Statistical Committee of Azerbaijan Republic, 2018**

In 2018, the surplus in foreign trade turnover was 8 billion US dollars. This is 59.9%, or nearly 3 billion US dollars, more than the corresponding figure of 2017 [see diagram 7].

It should be noted that in 2018, a significant increase in the volume of imports was observed. While imports in 2017 amounted to 8.8 billion US dollars, in 2018 the corresponding figure became 11.5 billion US dollars. In other words, imports increased by 30.7%. The main driver of growth was the sharp increase in the volume of imports by the public sector. The hike in imports by the public sector alone was equal to 1.45 billion US

<sup>26</sup> Azərbaycan Respublikasının Dövlət Gömrük Komitəsi, “Azərbaycan Respublikası Xarici Ticarətinin Gömrük Statistikaşı-01.01.2018-31.12.2018”, baxış tarixi: 22.01.2019  
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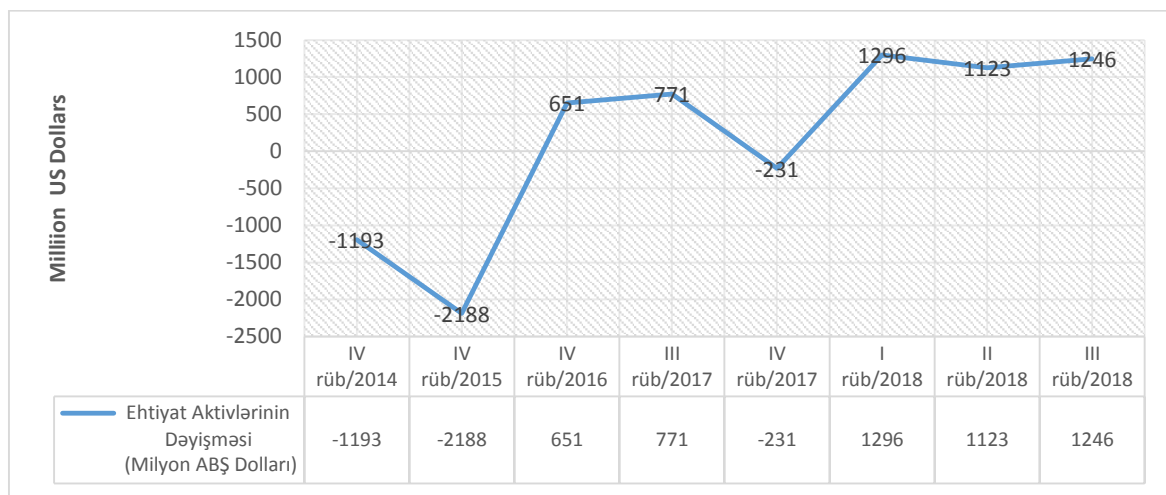
<sup>27</sup> Azstat, “İxracın əmtəə strukturu, ixracda xüsusi çəkisi, faizlə”, baxış tarixi: 23.01.2019  
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<sup>28</sup> İqtisadi İslahatların Təhlili və Kommunikasiya Mərkəzi, “İxrac İcmalı/dekabr 2018”, səh: 7, baxış tarixi: 23.01.2019  
[http://iqtisadiislahat.org/store//media/documents/ixrac\\_icmali/2018/dekabr/ExportReview2018-12.pdf](http://iqtisadiislahat.org/store//media/documents/ixrac_icmali/2018/dekabr/ExportReview2018-12.pdf)

dollars. The elimination of restrictions on imports financed through state budget funds at the beginning of 2018 resulted in an increase of imports by 2.2 times. At the same time, the stable exchange rate of the national currency (manat) for a fairly long period allowed the private sector to increase imports. As a result, imports by private entities increased by 1 billion US dollars, or 14.6%<sup>29</sup>.

The surplus in foreign trade has positively affected the balance of payments. According to publicized information, the surplus of the balance of payments in the reporting period was around 5 billion US dollars<sup>30</sup>. This is 2,5 times more than the corresponding indicator of the previous year.

**Figure 8: Change in strategic reserves**



**Source: Central Bank of the Republic of Azerbaijan, 2018**

As a result of the surplus in the balance of payments, Azerbaijan's strategic currency reserves grew by 7%, or 2.9 billion US dollars. At the beginning of 2019, total strategic currency reserves amounted to 44.8 billion US dollars - enough to import goods and services for 31 months - and is three times higher than the country's foreign debt<sup>31</sup>.

It should be noted that in 2018, foreign public debt equaled 19% of GDP, which is 3.8 percentage points less than the previous year. Let us remember that the corresponding indicator was 22.8% in 2017<sup>32</sup>.

<sup>29</sup> Azərbaycan Respublikasının Dövlət Gömrük Komitəsi, "Azərbaycan Respublikası Xarici Ticarətinin Gömrük Statistikası-01.01.2018-31.12.2018", baxış tarixi: 22.01.2019  
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<sup>30</sup> Azərtac, Prezident İlham Əliyevin sədrliyi ilə Nazirlər Kabinetinin 2018-ci ilin sosial-iqtisadi inkişafının yekunlarına və qarşıda duran vəzifələrə həsr olunan iclası, 11.01.2019 keçirilib  
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<sup>31</sup> Azərbaycan Respublikası Mərkəzi Bankının 2019-cu il və ortamüddətli dövr üçün pul siyasətinin əsas istiqamətləri barədə bəyanatı, səh: 2, 31.12.2018  
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<sup>32</sup> Azərtac, Prezident İlham Əliyevin sədrliyi ilə Nazirlər Kabinetinin 2018-ci ilin sosial-iqtisadi inkişafının yekunlarına və qarşıda duran vəzifələrə həsr olunan iclası, 11.01.2019 keçirilib  
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## Financial Sector

No bank suspended its operations in 2018. Nevertheless, the net profit of the sector amounted to 306 million manat (180 million US dollars) in November<sup>33</sup>, which is 48.4% less than in the same period of the previous year.

In January-November, net foreign assets of commercial banks increased by 38.6% and loan portfolios by 11%, while total foreign liabilities decreased by 19.9%<sup>34</sup>.

The stable rate of the national currency against the US dollar has significantly increased confidence in the manat. As a result, the volume of deposits in manat increased by 37.7% in November, whilst there was a 7% decline in foreign currency denominated deposits. In other words, the process of de-dollarization has accelerated in 2018. In the same period, deposits by the population grew by 6.8%. Growth occurred due to higher savings in the national currency. That is, during the reporting period, the population's savings in the national currency increased by 19.3%<sup>35</sup>.

The level of capitalization of banks increased by 35.3% in the January-November period of 2018 and reached 4,247.5 million manat (2.5 billion US dollars)<sup>36</sup>. Over the course of the year, commercial banks suffered from surplus liquidity. The main reasons behind this development are the tightening of credit policies, weak creditworthiness of the non-commodity and non-public sectors and continued risks in the credit market. The Central Bank continued its deposit auctions in order to weaken the effects of excess liquidity and to eliminate the factors that could create volatility in the currency market.

In the light of 2018's macroeconomic growth and the weakening effects of external factors, the Central Bank reduced its interest rates from 13% to 9.75%<sup>37</sup>.

## Execution of the State Budget

Revenues of the state budget were executed by 101.2%, equaling 22,441.3 million manat (13,183.1 million US Dollars), whilst expenditures were executed by 98.4%, totaling 22,718.9 million manat (13,364 million US dollars) during 2018<sup>38</sup>.

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[tisadi inkisafinin yekunlarina ve qarsida duran vezifelere hesr olunan iclasi kechirilib YENILANIB 3 VIDEO-1232332](#)

<sup>33</sup> Maliyyə Bazarlarına Nəzarət Palatası, "Bank sektorunun icmal göstəriciləri 30 noyabr 2018-ci il tarixinə", səh: 4

<https://www.fimsa.az/assets/upload/files/Bank%20icmal%C4%B1%2030noyabr%202018.pdf>

<sup>34</sup> Azərbaycan Respublikası Mərkəzi Bankı, Statistik bülleten-11/2018, səh: 13

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<sup>35</sup> Azərbaycan Respublikası Mərkəzi Bankı, Statistik bülleten-11/2018, səh: 33

<https://uploads.cbar.az/assets/6abc2a7bbadab7fa1cce69598.pdf>

<sup>36</sup> Maliyyə Bazarlarına Nəzarət Palatası, "Bank sektorunun icmal göstəriciləri 30 noyabr 2018-ci il tarixinə", səh: 3

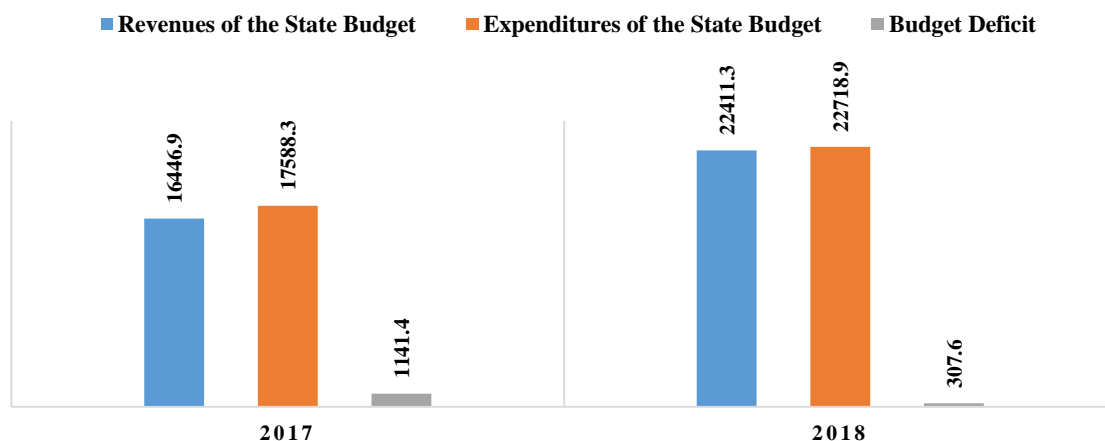
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<sup>37</sup> Azərbaycan Respublikasının Mərkəzi Bankı

[https://www.cbar.az/infoblocks/corridor\\_percent?year=2018](https://www.cbar.az/infoblocks/corridor_percent?year=2018)

<sup>38</sup> Maliyyə Nazirliyi, 2018-ci il üzrə dövlət büdcəsinin icrasına (operativ) dair məlumat, 17.01.2019

<http://www.maliyye.gov.az/news/5302/2018-ci-il-uzre-dovlet-budcesinin-icrasina-operativ-dair-melumat>

**Figure 9: Dynamics of the State Budget**

**Source: Ministry of Finance of Azerbaijan Republic, 2018**

In the reporting period, state budget revenues increased by 36.3% and expenditures by 29.2%.

13,401.1 million manat (7,883 US million) of budget revenues, or 59.8%, was formed by the oil sector. The share of transfers from the oil fund in overall state budget revenues totaled 48.9%.

In 2018, 31.7% of budget expenditures were directed to social expenditures, which means an increase of 7.6% compared to the previous year.

Work on a number of major projects which are of significance for the Azerbaijani economy have been completed in 2018. The commissioning of the Baku International Sea Trade Port Complex, completion of the TANAP gas pipeline and its launch, commencement of the SOCAR Polymer plant, opening of the Masalli Industrial Area in September, as well as the completion of the largest project carried out by SOCAR outside the country, the STAR Refinery, can be included in this list.

## Conclusion and Recommendations

During 2018, the domestic and foreign economic environment has been more favorable for the Azerbaijani economy. The recession and stagnation observed throughout the 2016-2017 period was substituted by 1.4% growth in 2018 – agriculture, IT, tourism and non-oil industry have shown relatively higher rates of growth. Despite the predicted decline in the oil sector, it has experienced a 0.3% growth due to increased national gas production. As such, the weakest part of the economy last year was the construction sector. The reason for this development is the decline in infrastructure investments in the oil sector and shrinking construction spending by private entities.

In global markets, oil prices were 30% higher than the government's forecast, resulting in a surplus in the balance of payments and increase in strategic currency reserves.

In 2018, fiscal policy inclined towards being expansionary. The policy has been carried out by spending the higher-than-expected resource revenues. One out of every two manat in state budget revenues has been formed by transfers from the Oil Fund. In general, state budget expenditures increased by 29.1% during the reporting period.

While there have been some weak spots in the Central Bank's monetary policy, such as a decrease in key interest rates and expanding the monetary base, the policy has been more focused on stable exchange rates and controlling inflation. Therefore, it had no significant effect on employment and economic activity. The continuation of the stable exchange rate policy had positive effects on the consumer price index, de-dollarization process and real growth in incomes, whilst negatively affecting the export potential of the non-oil sector, imports and attractiveness of the tourism sector.

The reforms launched in 2015 have been continued in 2018. According to the World Bank's "Doing Business" report, Azerbaijan is included in the category of the fastest-performing countries in 2018 and the country's global rating in the relevant report has improved by 32 positions compared to the previous year. According to the report, Azerbaijan ranks 25th among 190 countries. However, low speed of structural reforms has had a negative impact on the effects of economic reforms to the non-oil and private sector. As a result, the growth rate in the non-oil sector has been lower than the target. No significant increase in foreign investment has been observed and the economy continues to be vulnerable to foreign fluctuations.

The following reforms would be appropriate in order to increase the effectiveness of reforms and speed up the dynamics of economic growth:

- Successful adjustment of public institutions to new challenges by accelerating institutional reforms, enhancing the effectiveness of incentive mechanisms and expanding implementation opportunities of relevant legislation;
- Accession of Azerbaijan to the WTO in a short period of time and approval of partnership agreements with the European Union, ensuring representation of the country in economic and customs unions;
- Sharp reduction of the tax burden as a result of the legalization of economic activities;
- Further liberalization of the business environment and supporting a competitive environment;
- Creating a suitable environment for the formation and development of alternative financing mechanisms;
- Preparation of the economy, financial sector and foreign exchange markets for a floating exchange rate regime.

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