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Azerbaijan Republic—Recent Economic Developments

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INTERNATIONAL MONETARY FUND

AZERBAIJAN REPUBLIC

Recent Economic Developments

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Approved by the European II Department

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Azerbaijan: Basic Data

Social and demographic indicators (1994)

Area (in sq. km)	86,600
Population (in thousands)	7,420
Urban	4,043
Rural	3,444
Population density (population per square kilometer)	86
Population growth rate (in percent)	1.2
Life expectancy at birth (in years)	71
Infant mortality rate (per 1,000 population)	26
Physicians (per 1,000 population)	3.9
Literacy rate (in percent of population)	97
GDP per capita (in U.S. dollars, at average 1994 exchange rate)	246
GDP per capita in 1993 (at U.S. dollar purchasing power parity)	730

	1993	1994	1995	1996 Proj.
	(In percent of GDP)			
Structure of value added	35	36	35	34
Industry	33	35	35	35
Agriculture	32	29	30	31
Other				

(Percentage change, unless otherwise indicated)

Output and employment				
GDP (in billions of manats)	191	2,685	12,264	14,800
Real GDP	-23.1	-18.1	-11.0	1.2
Employment	-0.2	-1.1	-1.7	-3.9
Prices and costs				
Consumer price index				
Average	1,130	1,664	412	20
End of Period	1,294	1,788	82	7
Average wage	730	631	310	36
Real wage	-33	-59	-23	13

(In millions of U.S. dollars)

External sector				
Exports of goods	697	682	612	849
Imports of goods	819	845	955	1,318
Current account balance	-160	-121	-379	-654
(in percent of GDP)	-12.3	-8.3	-13.3	-19.9

(In percent of GDP)

Government				
Total revenue	33.4	24.5	15.3	16.2
Total expenditure (including net lending)	46.1	36.0	19.5	18.9
Fiscal balance (- deficit)	-12.7	-11.4	-4.3	-2.7
Domestic financing	12.7	11.4	0.2	0.0

(Percentage change)

Financial markets				
Manat reserve money, end of period	1,136.5	642.7	129.7	30.9
Manat broad money, end of period	685.9	486.1	122.2	26.7
Currency in circulation, end of period	1,475.2	552.9	114.7	28.3
Manat velocity (ratio)	5.1	11.5	17.7	13.6

Source: Azerbaijan State Committee of Statistics; and IMF staff estimates.

I. OVERVIEW

1. In 1994, Azerbaijan's economy suffered from serious macroeconomic imbalances. Real GDP had declined to 40 percent of the level prevailing before the breakup of the U.S.S.R., several years of high inflation had eroded real incomes, the exchange rate had weakened, and international reserves were nearly depleted. Several factors had contributed to these negative trends. First, the six-year military conflict over the Nagorno-Karabakh region had resulted in the loss of 20 percent of national territory and a large number of refugees. Second, Azerbaijan's traditional trade and financial links with other CIS countries had collapsed, causing a severe contraction of most manufacturing industries. Third, the terms of trade had deteriorated as suppliers from the former U.S.S.R. had moved to world market pricing. Fourth, progress in structural reforms had been slow which had impeded the restructuring of the enterprise sector. And finally, lax financial policies, characterized by large fiscal deficits financed by central bank money creation had added significantly to macroeconomic instability.

2. In early 1995, the Azerbaijan authorities launched a comprehensive stabilization program aimed at reducing inflation and slowing the decline of output. This program was supported by the IMF under the Systemic Transformation Facility. The authorities began to implement tight fiscal and credit policies accompanied by a number of structural reforms, mainly in the areas of exchange and trade liberalization. These policies quickly showed results: the nominal exchange rate against the U.S. dollar stabilized, monthly rates of inflation dropped from more than 50 percent in late 1994 to low single digits in the second half of 1995, real wages began to recover, and the decline of real GDP slowed down (Figure 1).

3. In November 1995, a successor program was adopted which aimed at the consolidation of macroeconomic stabilization gains and the resumption of economic growth. The new program was supported by a stand-by arrangement (SBA) from the IMF and a Rehabilitation Credit from the World Bank. Its cornerstone was the continuation of prudent monetary and fiscal policies. In addition, the program aimed at accelerating structural reforms, particularly in the areas of privatization and financial sector restructuring.

4. The macroeconomic component of Azerbaijan's new program was implemented very successfully. Indeed--although data are still preliminary--the year 1996 appears to mark a turning point in Azerbaijan's economic development. Inflation during the first 11 months of 1996 has declined to a monthly average of 0.4 percent--one of the lowest rates among the Baltics, Russia and other countries of the former Soviet Union. The nominal exchange rate vis-à-vis the U.S. dollar has begun to appreciate and the purchasing power of the population is

Figure 1. Azerbaijan: Main Economic Indicators

Sources: Azerbaijan authorities; and Fund staff estimates.

1/ Estimates.

2/ Upward movement indicates appreciation.

rising. Finally, in the second half of 1996, officially recorded GDP started to increase--less than two years after the start of macroeconomic stabilization.¹

5. The key for attaining monetary stability in such a short time period was the tight policy stance pursued by both the fiscal and monetary authorities. On the fiscal side, real expenditures were reduced sharply beginning in early 1995 which led to a rapid reduction of the fiscal deficit. The Azerbaijan National Bank (ANB) restrained its credit creation, while at the same time sterilizing capital inflows by actively selling foreign exchange. As a result, monetary expansion slowed down and inflation abated.

6. The scale of Azerbaijan's success in macroeconomic stabilization, in particular the apparent turnaround of real output, cannot be attributed only to financial policies. First, strong inflows of foreign direct investments associated with the development of Azerbaijan's oil fields strengthened economic activity and contributed to the appreciation of the nominal exchange rate which helped bring down inflation. Second, large oil signature bonuses were available as a source of non-inflationary financing of the budget and to support the balance of payments; from January 1995 to September 1996 US\$150 million of such funds were used for budget financing. Third, Azerbaijan's stabilization took place at a time when most of its trading partners in the CIS had already made good progress in achieving monetary stability, which minimized the negative externalities experienced earlier by many countries in the region. It should also be noted that Azerbaijan's prolonged period of economic decline (from 1988 to 1995) had reduced output to such a low level that a rebound was to be expected sooner or later. While macroeconomic policies had been helpful, it appears that the return of growth had little to do with structural reforms, which in general had advanced very slowly.

7. Much of what has characterized Azerbaijan's economic recovery appears familiar from other transition economies. However, some features in this process, such as a strongly appreciating real exchange rate, high wages in the oil sector, as well as a rapid expansion of the non-traded goods sector, suggest that the country may be increasingly facing symptoms of the so-called "Dutch disease," i.e., deteriorating competitiveness and a crowding out of traditional export sectors by a booming oil and non-tradeable goods sectors.

II. REAL SECTOR DEVELOPMENTS

8. *After years of contraction, the decline in output turned around in 1996. A major factor spurring growth has been the development of new oil fields in the Caspian Sea and the spill-over effects from the associated sizable foreign direct investment flows on the*

¹A recent examination of stabilization patterns in transition economies suggests a typical lag from the beginning of the stabilization effort to a recovery of growth of about two years. See Fischer, S., Sahay, R., Végh, C., Stabilization and Growth in Transition Economies. The Early Experience, Journal of Economic Perspectives, 10/2, Spring 1996, pp. 45-66.

construction and service sectors. Agricultural output also increased but production in the non-oil industry continued to fall.

A. Output trends ²

9. Economic activity declined by nearly 60 percent during 1992-1994, reflecting the disruption of trade and financial links with other CIS countries associated with the breakup of the U.S.S.R., the military conflict over the Nagorno-Karabakh region, disruptions of Azerbaijan's trade routes through Georgia and Chechnya, a terms of trade deterioration in 1993-94, as well as inappropriate economic policies (Table 1). In 1995, the decline in production started to slow down, although year-on-year; output still fell by a further 11 percent (Box 1). In 1996, the production decline reversed; output increased by 0.9 percent in the first ten months of 1996 compared with the same period of the preceding year.

Box 1. Gross Domestic Product by Sector of Origin

(Real percentage changes)

	1995 Est.	1996 Proj. 1/
Gross domestic product	-11.0	1.2
Oil and gas production and processing	-5.0	0.8
Oil	-5.8	1.2
Gas	1.0	-4.1
Non-oil GDP	-13.0	1.4
Non-oil, nontraded	-14.1	6.2
Non-oil, traded	-12.0	-1.6
Non-oil industry	-26.1	-10.5
Agriculture	-8.5	2.0

1/ Projection based on data for the first ten months of 1996.

² Several caveats are in place when interpreting real sector developments in Azerbaijan. Macroeconomic statistics remain deficient, despite technical assistance from international organizations, including the IMF, World Bank and the OECD. The calculation of both nominal and real GDP is plagued by deficiencies in terms of methodological accuracy and coverage. Price statistics are virtually nonexistent with the notable exception of the Consumer Price Index (CPI). Labor market data remain inadequate because a systematic recording of the labor force is lacking. Data regarding the emerging private sector are scarce and not systematically collected.

10. The bottoming out and subsequent recovery were mainly supply driven, with the petroleum sector playing a crucial role. Although the production and processing of oil and gas only generated about 20 percent of GDP in 1995, its importance for the economy--in particular, as a source of investment and foreign exchange--is larger than this share would suggest (Box 2). The turnaround of economic activity is largely due to the start of the development of new oil fields in the Caspian Sea in the second half of 1995 and the associated increase in foreign direct investments. The share of foreign direct investments in GDP is estimated to increase from 5 percent in 1995 to 16 percent in 1996 (Table 2). Although these investments also generate high imports, there are significant spill-over effects to related sectors, such as construction and services. The domestic component of foreign direct investments is estimated at 10-20 percent at the early stage of oil fields development, but it is expected to increase to 30-40 percent over time.

Box 2. Relative Importance of the Oil Sector

Several indicators can be used to indicate the relative importance of the oil sector for the Azerbaijan economy:

	1995 Est.	1996 Proj.
Share of oil and gas production and processing in total value added	21.0	20.8
Share of investment in the oil sector in total investment	34.3	74.8
Foreign direct investment in the oil sector (% of GDP)	4.4	13.6
Imports by oil consortia (% of GDP)	3.5	11.6
Export of oil products (% of GDP)	9.2	12.1
In percent of total exports	30.2	41.3

11. The economic turnaround was also helped by recovering agricultural output. With more liberal trade and pricing policies from 1995 onward, as well as large scale leasing of land to private farmers, the volume of agricultural output rose by 2.8 percent in the first ten months of 1996. Output in the non-oil industrial sector, however, continued to decline in 1995 and 1996.

12. On the demand side, investments in the oil sector have surged, but in addition private consumption has increased with a recovery of real wages and an appreciation of the real exchange rate. From end-1994 to November 1996 the real effective exchange rate appreciated by 54 percent when measured using the CPI as a deflator, but based on dollar wage estimates, the real appreciation was 70 percent. A high pent-up demand for consumer goods contributed to a surge in imports of foodstuffs and household goods. While exports have also increased, the foreign balance as a whole contributed negatively to GDP growth in 1996.

B. Sectoral Developments

Petroleum Sector

13. Azerbaijan's oil reserves are currently estimated at 1.3-1.5 billion tons (9-11 billion barrels), of which only about 150 million tons are located in existing fields. By comparison, Nigeria's oil reserves are estimated at 2.8 billion tons, Russia's at 6.8 billion tons, and Kuwait's at 13 billion tons. Oil and gas production from the existing fields, as well as refining, are under the responsibility of the State Oil Company of the Azerbaijan Republic (SOCAR). Crude oil production in Azerbaijan fell from 13.2 million tons in 1989 to 9.2 million tons in 1995 (Table 3) owing to increasing depletion and poor maintenance of the existing fields and declining productivity due to outdated technology. Some of the remaining reserves in these fields could be recovered by using modern technology, and a few projects are under preparation. Most crude oil is currently extracted from shallow water offshore fields (Table 4). While crude oil production declined by 5 percent in 1995, extracted output in the first three quarters of 1996 suggest that for the year as a whole, oil production could be 1 percent higher than in 1995 (9.3 million tons, or about 185,000 barrels per day).

14. All crude oil is processed in one of the two refineries which have a combined capacity of 20 million tons per year, but which are currently operating at less than 50 percent of capacity. These refineries are old and dilapidated, particularly the larger one (Bakinsky), which was built in the 1920s. The smaller refinery (Novobakinsky) contains more sophisticated cracking units that were built in the 1970s. The configuration of these refineries generates mostly fuel oil (mazut) (40-50 percent) and diesel (25-30 percent), but only limited volumes of gasoline (12 percent), kerosine and lubricants. Refinery output was about 9 million tons in 1995 but is estimated to be slightly higher in 1996, based on the results of the first three quarters. About 70 percent of current production is used domestically. The fuel oil is used mainly as input for power plants, substituting for gas imports from Turkmenistan. These imports were reduced in 1993-1994 and altogether ceased in 1995 in response to the rise in Turkmen gas prices to world market levels. Exports consist mainly of diesel oil.

15. More than 95 percent of Azerbaijan's estimated oil reserves are offshore. In late 1994 the first contract was ratified with a consortium of 11 international oil companies to develop three oil fields under the Caspian sea (Box 3). Total production from this project is estimated to peak at 700,000 barrels per day in 201 (35 million tons per year). Another oil contract, for the development of the Karabakh field, was signed in December 1995, while a third one, for the Shakh Deniz field, was signed in October 1996. When production from the fields for which contracts have now been signed is in full swing, oil production could well exceed 1 million barrels per day. By comparison, Kuwait currently produces slightly over 2 million barrels per day.

Box 3. Azerbaijan: Oil Contracts

Several oil fields are being developed or explored by international consortia in the Azerbaijan sector of the Caspian sea. In September 1994, the development rights for the existing Chirag field, and the new Azeri and deep-water Guneshli fields were awarded to a consortium of international oil companies led by British Petroleum. To conduct its operations in Azerbaijan, the consortium created the Azerbaijan International Operating Company (AIOC). Total reserves are estimated at 400 million tons of crude oil, plus an estimated 40-50 billion cubic meter (bcm) of gas. Oil production could peak at 100,000 tons a day in 2012. The production-sharing agreement envisages US\$ 7 1/2 billion in total investments over 15 years to take place in two phases. The first phase involves investments in Chirag ("early oil"), and the second phase covers the development of the two other fields ("big oil"). The early oil production is projected to start in August 1997 and to reach 5 million metric tons in 1999.

Early oil will be transported to the Black Sea through two pipelines with an annual capacity of 25 million tons, one through Russia (Northern route), the other through Georgia (Western route). The AIOC is financing the overall construction of the Western route (US\$250 million), but only the Azeri section of the Northern route. The pipeline route used to transport the production of "big oil" is still undecided. Among the options discussed, two of them lead to a Turkish terminal in the Mediterranean Sea, one through Georgia, and the other through Iran (see Figure 2).

Regarding other oil fields, exploration and development rights for the Karabakh field were awarded in November 1995 to a consortium consisting of SOCAR, Pennzoil, Agip and Lukoil. Total reserves of this field are estimated at 100 million tons of oil equivalent, production is projected to start by 2004, and total investment could amount to US\$2 billion. Exploration and development rights for the Shakh-Deniz field were awarded in October 1996 to a consortium consisting of SOCAR, BP, Statoil, TPAO, Elf, Agip and Lukoil. Total reserves are estimated at 200 million tons of crude oil and gas condensate, and 400 bcm of gas. Production will begin in 2004 and total investment is estimated at some US\$4 billion. Negotiations are under way between SOCAR and foreign companies, including Amoco, Elf, Ramco, Total, and Unocal for the exploration and development of three other offshore gas and oil fields, Lencaran-Deniz, Ashrafi-Danal-Duzu and Umid; and a 140 million tons onshore field, Muradhanli.

16. Gas production from existing fields increased by 2 percent in 1995, due to the one-time effect of the installation of a gas compressor--completed at end-1994. This compressor station--located in the Guneshli field--allows the capture of up to 1.4 billion cubic meters per

Figure 2. Azerbaijan: Oil Pipeline Routes

year of gas, which was previously vented. In 1996, however, gas production has continued to decline, reflecting the increasing depletion of the gas fields. The outlook for domestic supply of gas is not expected to improve until the new offshore fields approach full development after the turn of the century. Most natural gas production comes from offshore fields, generally in the form of associated gas. Onshore fields account for only a small fraction of production (0.2 billion cubic meters of total production of 6.6 billion cubic meters in 1995). SOCAR uses about 1 billion cubic meters for its own operations, while the rest is supplied to the Karadag gas processing plant or directly into the Azerigaz network. About half is used by power plants. Almost all industrial boilers are designed to use gas, and households rely on natural gas for a significant portion of their energy requirements.

Agriculture

17. The volume of agricultural output declined by 13 percent in 1994, following declines of 12 and 25 percent in the two preceding years (Table 5). Yields for grain, cotton, grapes and tobacco dropped by 30 percent or more in these years (Table 6). Apart from the disruption of traditional trade links related to the breakup of the former U.S.S.R., a key factor in explaining the decline in agriculture has been government pricing and procurement policies during 1991-1994. The state order system of compulsory deliveries to the state at low prices relative to world market levels, coupled with the liberalization of most input prices, imposed a considerable squeeze on the domestic terms of trade and the profitability of the sector. Fertilizer consumption and investment in machinery dwindled to almost nothing. In addition, agriculture continued to be organized in collective and state farms and the institutional structures, marketing systems, and decision making apparatus of the old planning system remained largely in place. Agriculture remained a key sector in the economy, however, generating over 30 percent of GDP in 1995.

18. In early 1995 the state order system was discontinued. For the major crops such as cotton and wheat, however, the Ministry of Agriculture continued to exercise significant power in the production and marketing decisions of state and collective farms, as it controlled input distribution and processing enterprises. Such firms included the State Bread Concern, which still purchased the majority of grain marketed in Azerbaijan, and Agroincom which had a virtual monopoly to export cotton, as both Agroincom and the cotton ginneries are under the control of the Ministry of Agriculture. Despite the continuing interference of the government in production and marketing decisions of the main cash crops, the domestic terms of trade for these products improved during 1995 and again in 1996. Domestic prices for wheat and cotton were raised from about 30 to 50 percent of world market prices in 1994 to about 90 percent of world market levels for wheat, and to practically 100 percent of world market levels for cotton in 1996 (Table 7).

19. Privatization and land reform progressed slowly in 1995. However, by late 1996, production on about 5,300 small farms, covering almost 50 percent of arable land, had been de facto privatized through long term lease contracts. Moreover, the difference between

public and private ownership of land had become increasingly blurred. Agricultural lands of state and collective farms were being worked by farm workers to produce and sell agricultural products for their own account. Private production accounts for over 80 percent of the production of vegetables, fruits and potatoes, as well as livestock and animal products such as meat, milk and eggs (Table 8). While a large part of these products is produced for own consumption, they are also sold directly to consumers or retailers, bypassing official channels. This way, products can be sold for cash and for better prices than what can be obtained by selling to state entities.

20. With these developments the decline in agricultural production may have bottomed out. While in 1995 agricultural output fell by 8 percent, preliminary data for 1996 indicate a recovery of production: in the first ten months agricultural production was almost 3 percent higher compared with the same period in the preceding year. Production of both (raw) cotton and grains has been increasing, reflecting higher yields and an increase in the area sown for wheat. In addition, there was a positive supply response to better prices, although the effect of the latter is expected to be more pronounced on next year's harvest. The increase in the production of vegetables, fruits and potatoes appears to have been even greater, with yields of private plots being significantly higher than in the state-owned sector.

Non-Oil Manufacturing Industry

21. Azerbaijan's non-oil manufacturing industry continues to be mainly state-owned and is characterized by a high degree of concentration. The sector is dominated by heavy industries, such as metallurgy, machine building and chemical industries, some of which are very energy-intensive as a result of the underpricing of energy under the old system. The non-oil manufacturing industry has experienced a steeper output decline than other sectors of the economy. The rupture of traditional trade links with the states of the former U.S.S.R. affected non-oil industry particularly severely, notably heavy industry, as it was highly dependent on inputs, such as steel and chemical products, imported from these countries. Moreover, the cost of inputs have risen significantly, as trading partners adjusted their prices toward world market levels. As many industries are characterized by obsolete technologies and associated low productivity, they are unable to compete in non-CIS markets. At the same time, the disruptions of northern trade routes have made it difficult and expensive to sell products to traditional CIS export markets. In 1995, output in the non-oil manufacturing industry is estimated to have fallen by 26 percent. Preliminary data for the first three quarters of 1996 suggest a further decline of 10 percent.

22. Restructuring of the industrial sector is still at an early stage. Privatization has not yet started, but budgetary subsidies and soft bank loans have ceased. A market based change in the structure of the sector is gradually taking place, however, as production in ailing industries such as metallurgy, machine building and chemistry, has continued to decline faster than in the light industry (textiles, air conditioners, refrigerators) (Box 4 and Tables 9 and 10). The less capital and energy intensive lighter industries require less investment and can adjust more

easily to changing demand patterns and transportation difficulties than the heavy industries, in which there appears to be an excess capacity in the region.

Box 4. Real Output in Selected Industrial Sectors

(Index 1992 = 100)

	1993	1994	1995
Total industry	80	60	47
Oil and gas production and processing	86	80	75
Metallurgy	61	17	9
Machine building	86	46	25
Chemical and petro-chemical	72	44	37
Light industry	85	61	54

Construction and Services

23. Construction continued to decline through most of 1995, as the uncertain economic outlook did not favor investments by existing or new enterprises. Numerous construction sites have not seen any activity since independence. Residential construction is limited because of low income levels and a nonexistent mortgage market. With the start of the development of the new oil fields and the associated foreign direct investments, however, construction has been expanding significantly in the first three quarters of 1996. Apart from construction projects directly linked to the development of the oil fields, several projects are underway in related areas, such as office buildings, hotels and high value housing.

24. Further evidence of a recovery can be seen in the service sector, particularly in retail trade, restaurants and hotels, although much of the activity in these sectors is not captured in official statistics. Also, the importance of the retail trade's contribution to output should not be overstated as it has a relatively low value added. Yet, the volume of retail trade has been expanding rapidly since late 1995 and turnover in the first ten months of 1996 was nearly 20 percent higher than in the same period of the previous year. This sector has also absorbed excess labor from other sectors: many individuals sell a minimal inventory from small kiosks or from the curbside.

C. Incomes, Wages, and Prices

Incomes

25. Business sector incomes were buoyant in 1993 and 1994, reflecting high inflation and rapidly falling real wages. The terms of trade shock in 1994 and early 1995, however, resulted

in a sharp decline in business sector profits in 1995. Preliminary data for the first three quarters of 1996 suggest a modest increase in business sector incomes with improved domestic terms of trade in agriculture and higher world market prices for oil product exports.

26. Households' real disposable income fell rapidly in 1994, as inflation imposed a heavy tax on this sector. In 1995, real wages gradually improved during the year with the decline in inflation. However, on a year-on-year basis, they still fell by another 22 percent. In addition, (net) government transfers to the household sector fell in real terms. Household incomes, however, were increasingly supplemented with incomes from sources other than wages and salaries, such as in-kind payments, private farm income, and income from self-employment. In 1995, real disposable income of households is estimated to have declined by about 11 percent, about half of the decline in real wages. Preliminary figures for 1996 indicate that with rising real wages and an increase in real (net) government transfers, households' real disposable income was growing at an annualized rate of about 1 percent.

27. A household survey conducted by the World Bank in November 1995 found that living standards for most people in Azerbaijan are still very low. Over 60 percent of households are poor, in the sense that their actual expenditures for food fall below the cost of a subsistence food basket. Some 20 percent of population were found to be very poor, i.e., with food expenditures less than half of the amount required to purchase the subsistence basket³. Poverty is most severe among the refugees and other internally displaced persons. There are no large poverty differences between the urban and rural population.

Wages

28. As has been the case in most countries of the former U.S.S.R., official real wages in Azerbaijan fell sharply in recent years, by 59 percent in 1994 and by an additional 22 percent in 1995 (Table 11). Official real wages began to recover, however, in the second half of 1995 and in the twelve months up to September 1996 the average real wage was 13 percent higher compared to the preceding twelve month period. In U.S. dollar terms, the monthly average wage dropped from about US\$17 in 1993 to US\$8 in January 1995. Since the start of the stabilization effort the situation has improved, and by August 1996 the monthly average wage had risen to nearly US\$20.

29. Azerbaijan's official wages still remain low compared with other CIS countries (Figure 3). A few factors should be taken into account, however, when assessing living

³ The World Bank survey uses a food-only poverty line based upon the cost of a food basket determined by the Ministry of Labor and Social Protection. This basket may overstate a minimum basket based on required calorie intake. However, sensitivity analysis shows that with the poverty line reduced by 10 percent and 20 percent, 55 percent and 47 percent, respectively, of the population can still be classified as poor,

Figure 3. Azerbaijan: Prices and Wages

Sources: Azerbaijan authorities; and Fund staff estimates.

standards on the basis of official wage data. Recorded wages only represent a fraction of actual pay, because many workers receive additional bonuses and in-kind payments. For example, many state-owned enterprises, instead of releasing workers, divide the available wage bill among the existing number of employees, i.e., they hoard labor. With this practice, employees can continue to receive in-kind benefits such as housing and social services. Certain categories of public sector workers such as teachers, obtain free utilities and public transportation. Many workers who are still on the payroll only show up occasionally at work and earn additional income through other activities--often in the emerging private sector. Moreover, the official employment survey underreports the average economy-wide wage, as it fails to capture adequately the earnings from full or part time employment in the private--formal and informal--sector. This observation is supported by the household survey conducted by the World Bank, as well as by official national accounts data, which suggest that recorded wages and salaries only amount to about 20 percent of national income. Based on the World Bank survey and estimates of GDP adjusted for underreporting, the average monthly labor compensation in Azerbaijan in 1995 was estimated at US\$50, compared to the officially recorded wage of US\$13. Preliminary figures for 1996 indicated an average official monthly wage of US\$20, and an estimated average monthly labor compensation of US\$65.

30. Wages vary considerably among sectors in the economy and the disparity appears to be increasing (Table 12). Wages in the oil sector and in banking and finance are about 4-6 times higher than the economy-wide average wage, and wages in other service sectors, such as hotels and restaurants, are catching up. Wages in the public sector are on average about 75 percent of the economy-wide wage. Public sector wages were raised by 20 percent as of July 1996--the first general wage increase since February 1995, when wages were raised by 37 percent. In October 1996, teachers and social sector employees received another wage increase of 40 percent.

Prices

31. With the liberalization of most prices, and financial policies inconsistent with achieving macroeconomic stability, inflation accelerated dramatically in 1993 and 1994 (Table 14). The consumer price index (CPI) increased by 1,664 percent, year-on-year, in 1994, with monthly inflation reaching over 50 percent by the end of that year. In the face of incipient hyperinflation the authorities fundamentally changed their economic policies in early 1995 and inflation came down rapidly. At the end of the first quarter of 1995, the monthly inflation rate reached low single digits and price increases have remained low throughout the remainder of 1995 and 1996. In the first eleven months of 1996 the average monthly inflation amounted to 0.4 percent. The pressure on import prices was alleviated as the manat remained broadly stable vis-à-vis the U.S. dollar throughout 1995, while appreciating 23 percent against the Russian ruble. In the first eleven months of 1996 the manat has appreciated by about 7 percent against the U.S. dollar, and by 22 percent against the Russian ruble.

32. Overall inflation shows a clear seasonal pattern, with below average inflation during the summer, which can be explained by food which accounts for a large part of the consumption basket and the price of which displays a strong seasonal pattern (Table 15). In 1996, the authorities by raised administered prices of public utilities--water, gas and electricity--as well as public transportation during the summer months, in order not to fuel inflationary expectations. Prices of utilities had not been raised since December 1994 for water and since February 1995 for gas and electricity, and prices had remained well below cost recovery levels. More generally, until the summer of 1996, prices of services had been rising more slowly than prices for food and nonfood goods. Since then, however, prices of services have been rising faster than the general price level, mostly due to the increase in tariffs for public utilities and public transportation. At end-September 1996, though, gas prices for households were still at only about 30 percent of cost recovery levels and electricity prices at 40 percent.

III. PUBLIC FINANCES

33. *Tight fiscal policies played a key role in Azerbaijan's macroeconomic stabilization. In 1995, the government responded to weak revenue performance by drastically cutting expenditures. The fiscal deficit was reduced to 4.3 percent of GDP compared with 11.4 percent of GDP in 1994. The 1996 budget, which was based on further fiscal adjustment, has been largely implemented as planned.*

34. The consolidated Republican Budget consists of the budgets of the local authorities and the State Budget. Local authorities collect local taxes and fees (property and land taxes) and receive from the State Tax Inspectorate: all proceeds from the individual income tax; a share of enterprise profits tax revenues (21 percent); and a portion of VAT revenues (37 percent).⁴ Local authorities have no recourse to domestic bank financing. Until March 1995, revenues from the Unified Foreign Exchange Fund (UFEF)⁵ were consolidated with the State Budget. In addition to the local and Republican budgets there are various extrabudgetary funds, the largest of which is the Social Protection Fund.⁶ This fund receives

⁴The shares of revenues that are attributed to the local budgets vary considerably over time. The above ratios refer to the first three quarters of 1996.

⁵Revenues of the UFEF were primarily derived from the foreign exchange surrender requirement for enterprises. Typically, expenditures for wheat and flour imports, defense and security, refugees and the settlement of foreign debt obligations were funded through the UFEF.

⁶Other funds include the Employment Fund, the Disabled Persons Fund, the Road Fund, the Forest Fund, the Entrepreneur Fund, and the Environmental Fund. The latter four funds were
(continued...)

transfers from the Republican Budget to cover expenditures on cash compensations for pensioners and families with children. Beginning in 1996, the Cabinet of Ministers submitted to Parliament a general government budget in which the operations of the central and local government were consolidated with the operations of the extrabudgetary funds.

**Box 5. Consolidated Operations of the General
Government, 1994-96**

(In per cent of GDP)

	<u>1994</u> 1/ Est.	<u>1995</u> Est.	<u>1996</u> Proj.
Revenue	24.5	15.3	16.2
Direct taxes	4.6	4.3	4.3
Indirect taxes	4.2	2.7	5.4
UFEF	9.4	2.6	—
Strategic export tax	—	1.5	1.0
Royalties	—	—	0.6
Other	6.3	4.2	4.9
Expenditures	36.0	19.5	18.9
Wages and salaries	3.2	3.2	3.3
Purchases of goods	4.5	6.0	6.4
Transfers to households and subsidies	9.8	6.3	7.7
Capital investment	0.6	0.6	0.5
Other	18.5	3.4	1.0
Financial balance	-11.4	-1.0	-2.2
Net lending	...	3.3	0.5
Fiscal balance	-11.4	-4.3	-2.7
Financing	11.4	4.3	2.7
Domestic	...	0.2	—
External	...	4.0	2.8

Sources: Ministry of Finance; State Tax Inspectorate; ANB; and Fund staff estimates.

1/ Expenditure breakdown in 1994 is not fully comparable to that in 1995 and 1996 due to definitional changes.

*(...continued)

emerged with the State Budget in 1996.

A. Fiscal Balance

35. The tightening of fiscal policies in 1995-96 followed a period of a rapidly deteriorating fiscal position in 1992-94 (Table 16). During these years, general government revenue declined⁷ from 49 percent of GDP to 23 percent of GDP, tax and expenditure arrears rose and tax collection deteriorated (Box 5). Expenditures remained high, particularly in defense and social spending, in part reflecting the conflict over the Nagorno-Karabakh. After a failed attempt at fiscal restraint in 1994, the government began to compress expenditures to restore fiscal discipline in early 1995. Expenditure restraint left the budget broadly in balance in the first quarter of 1995, but subsequently, spending increased again. This increase reflected, *inter alia*, the repayment to the International Bank of defaulted government-guaranteed loans, and the settlement of gas arrears to Turkmenistan. For the year as a whole, however, the fiscal deficit declined to 4.3 percent of GDP, compared with 11.4 percent in 1994. Fiscal policy remained tight in 1996, and the 1996 budget has been implemented largely as planned. During the first three quarters of 1996, the overall deficit shrank to only 1.4 percent of GDP, mostly as a result of tight expenditure controls on purchases of goods and services. It is anticipated that a postponement of certain expenditures, notably a disbursement of a liquidity loan to the Savings Bank and payments of pension arrears, will result in a deficit of 2.7 percent of GDP for the year as a whole.

36. The fiscal deficit in 1995 and 1996 has been almost exclusively financed from foreign sources, mainly by drawing down the oil signature bonuses held at a government account at the ANB. Financing from this source accounted for US\$91 million in 1995 and US\$63 million during January-September 1996. Additional foreign funds were provided through a US\$61 million loan from the World Bank, which was also deposited at the ANB. Of this amount, US\$20 million was drawn down for budget financing in 1995 and a further US\$13 million was used during January-September 1996.

37. In sharp contrast to previous years, domestic bank financing played only a marginal role after the start of the stabilization program. In 1995 domestic banks, including the ANB, provided Manat 30 billion (0.2 percent of GDP), and from end-December 1995 to end-September 1996 the general government actually improved its net position vis-à-vis the banking system by Manat 120 billion (1 percent of GDP). However, this low level of domestic bank financing was partly due to payment problems in the domestic banking system. It appears that tax payments deposited in government accounts at commercial banks' branches were passed on to the government's central revenue account--and spent--only with great delays, thus reducing the banking system's net claim position vis-à-vis the government.

⁷It should be noted that prior to 1995 inter-year comparisons are made problematic by shifting accounting procedures and changing classifications in the government accounts.

B. Revenue Developments

38. Azerbaijan's fiscal revenue declined from 25 percent of GDP in 1994 to 15 percent of GDP in 1995 but this decline appears to have come to an end in 1996. The main reason for the deterioration of revenue performance was the elimination of the obligatory foreign exchange surrender requirement mechanism, which had accounted for 40 percent of budgetary revenue in 1994 (Figure 4). A strategic export tax was introduced to compensate for this revenue loss, but yielded only 1.5 percent of GDP to the budget in 1995. In 1996, export tax revenue declined further as domestic prices of most strategic goods approached world market levels. The elimination of the surrender requirement was expected to create more room for profit tax collection. However, profit tax collection slightly declined in relation to GDP as enterprise profits were no longer boosted by high inflation and were squeezed by the deterioration of the terms of trade.

39. **Indirect taxes** (VAT, excises and customs duties) are becoming an increasingly important source of government revenue. In 1996, these taxes are likely to contribute an amount equivalent to 5.4 percent of GDP (33 percent of revenues) to the budget--up from 2.7 percent of GDP (18 percent of revenues) in the previous year. Several measures have been taken to strengthen indirect taxation. First, the coverage of the value-added tax (VAT) was broadened in the 1996 budget by including imports from non-CIS countries in the tax base and removing exemptions for domestically produced foodstuff, including bread. Second, the base of excise taxes was expanded to include non-CIS imports of alcohol and tobacco. Finally, the duty free threshold on imported goods for personal use was reduced in steps from US\$5,000 at the beginning of 1996 to US\$1,000 on September 1, 1996.

40. In the area of direct taxation, the enterprise profit tax still remained the largest individual revenue source although its share of GDP has declined from 7 percent in 1993 to 3.3 percent in 1995. A major reform of profit taxation was initiated in 1996 when the authorities started moving towards the full deductibility of wages from the tax base, thus reducing what was, in effect, an excess wage tax. Effective September 1, 1996 wage payments of Manat 50,000 per worker can be deducted, compared with Manat 22,000 earlier. By reducing the high marginal tax rates on wage income, the authorities aim at reversing (i) the trend of nonpayment of personal income and profit taxes, (ii) the substitution of wages by nonwage benefits, and (iii) the shifting of activity into the informal sector. As a result of this reform, the share of profit taxes in total revenue is likely to decline from 22 percent in 1995 to 18 percent in 1996. The personal income tax generated only 6 to 8 percent of total revenue in 1995-96, mainly because the base for this tax is effectively limited to registered wage payments to the 1.5 million people employed in the budgetary sector and in the state enterprises. Payroll taxes collected by the Social Protection Fund accounted for a relatively stable 13 percent of total revenue in 1994-96. The overall payroll tax rate of 38 percent on wages consists of a 35 percent tax rate on employers, a 1 percent rate on employees, and a further payroll tax of 2 percent is charged to employers to finance the Employment Fund

Figure 4. Azerbaijan: Public Finances 1/

Sources: Azerbaijan authorities; and Fund staff estimates.

1/ 1996 data is January through September.

41. The collection of royalties on crude oil and natural gas, introduced in November 1995, has remained a significant problem for the government. Revenues from this source in the first three quarters of 1996 amounted to only 0.4 percent of GDP. The weak collection was due to widespread nonpayment of energy bills: the State Oil Company (SOCAR) was not paid by the State Fuel Committee (the entity responsible for domestic marketing of petroleum products). The State Fuel Committee, in turn, was not being paid by its customers, mainly consisting of governmental and quasi-governmental entities in the defense and agricultural sectors. In addition, SOCAR continued to pay generous compensations to a large workforce which exacerbated the size of wage arrears and left little residual revenue to cover royalties. In July 1996, the State Fuel Committee was eliminated and SOCAR was made responsible for marketing its own products. Preliminary information suggests that this has already improved SOCAR's cash flow. In addition, the authorities have shifted the tax liability for royalties downstream from the extracting companies to SOCAR's production associations in the hope of gaining access to a larger income base (Box 6).

Box 6: Taxation of the Petroleum Sector in Azerbaijan

	As percent of GDP					Share of Petroleum Revenues in Total Revenue	Share of Petroleum Sector in GDP	Relative tax Burden
	VAT	Profits Tax	Royalties	Other	Total			
Azerbaijan (1995)	0.3	0.7	0.0	2.1	3.1	25.4	21.0	1.2
Kazakhstan (1995)	0.6	0.3	0.0	0.8	1.8	15.0	11.5	1.3
Kuwait (1995)	0.0	0.0	0.0	36.5	36.5	76.7	39.1	2.0
Russia (1994)	...	...	...	...	3.4	13.8	12.5	1.1
Turkmenistan (1994)	0.8	0.3	0.0	0.8	1.9	18.3	65.9	0.3
Venezuela (1995)	0.0	4.4	3.3	0.3	8.0	49.4	16.4	3.0

Source: IMF, Technical Assistance Reports and Recent Economic Developments

Petroleum revenues in Azerbaijan derive mainly from four sources: the enterprise profit tax, excises on petroleum products, the strategic export tax, and royalty revenue. Enterprises in the petroleum sector are subject to the regular enterprise profit tax and VAT; however, production sharing arrangements with oil consortia provide for special profit tax schemes at lower nominal rates. Excises apply to domestic sales of petroleum products at tax inclusive rates between 24 and 57 percent. The strategic export tax is a 70 percent charge on the difference between domestic and contracted price for oil products which are exported. Finally, a royalty on crude oil and gas is applied at a rate of 25 and 20 percent respectively. Currently actual revenue is below its potential because the state oil concern (SOCAR) runs considerable arrears in the payment of both royalties and profit.

As the comparison in the above table suggests, the relative size of revenue from the petroleum sector in Azerbaijan compares unfavorably with that of petroleum producing countries outside the FSU. The relative tax burden on oil versus the non-oil economy is 1.2 whereas for Kuwait and Venezuela the figure is much higher. Turkmenistan however receives relatively little revenue from its gas sector in large part due to arrears on export payments (prior to these arrears problems gas accounted for over 60 percent of budget revenue); Russia and Kazakhstan have relative petroleum tax burdens similar to Azerbaijan.

In the case of Azerbaijan looking at tax revenues only does not provide a complete picture of revenue flows. Azerbaijan has received considerable up-front bonus payments from the foreign oil consortium for development of its oil reserves (of which US\$ 154 million has been used for budget financing by September 1996). Moreover, the consortium is meeting the full costs of investments necessary to develop the new fields. The production sharing contract stipulates that oil revenues net of costs, financing charges and capital recovery is to be split with the government receiving between 20 and 80 percent depending on the world oil price and the costs of transporting the oil to market.

42. Despite these measures, and the overall increase in revenue from 15.3 percent of GDP in 1995 to a projected 16.2 percent of GDP in 1996, revenue performance has remained

below potential. By international standards, Azerbaijan's revenue to GDP ratio is low relative to its per capita GDP (Figure 5). Largely this is due to severe weaknesses in the country's tax administration which mostly relies on collecting taxes through automatic debiting of enterprises' settlement accounts in banks. This practice has stimulated the shadow economy with financial transactions increasingly moving outside the banking system and the tax net because enterprises avoid holding their transaction balances in banks. In addition, the State Tax Inspectorate's (STI) tax assessment capacity is poor and there is a lack of enforcement procedures. The latter is evidenced by an increase in the stock of tax arrears estimated by the STI from Manat 635 million (5.2 percent of GDP) on January 1, 1996 to Manat 1,639 million (11.1 percent of GDP) by end-September 1996, including the above-mentioned nonpayment of petroleum royalties.⁸

C. Expenditure Developments

43. Tight control of overall expenditure⁹ played a key role in the fiscal adjustment process in 1995-96. In 1994 total expenditures had reached 32 percent of GDP--well in excess of the available revenue. In an attempt to regain control over public finances, the authorities sharply restrained spending in 1995, mainly through cuts in purchases of goods and services and capital outlays. However, this tight fiscal stance was occasionally relaxed in order to resolve government wage arrears and make payments to the International Bank to cover defaulted government guaranteed loans. A renewed effort to cut public spending in late 1995 was partly offset by an emergency lending operation to rescue the Savings Bank. However, for 1995 as a whole, expenditure restraint was successful and the ratio of expenditure to GDP fell to 19.5 percent of GDP.

⁸These figures should be treated with caution as it is not clear whether the tax liabilities reported by the STI accurately represent legitimate tax obligations.

⁹Information on the execution of expenditure policies generally remains weak in the absence of a functioning treasury system. A program to build up a treasury has been started but progress has been limited (Box 7).

Figure 5. Government Revenue and Gross Domestic Product

Govt Revenue as Percent of

Sources: International Financial Statistics Yearbook (1996); and Government Finance Statistics Yearbook (1995).

Box 7: The New Treasury System

The current system of budget execution in Azerbaijan suffers from a number of shortcomings. There are limited accounting and reporting systems which do not generate sufficiently timely or economically meaningful data for monitoring and control. Forecasting and an overall macroeconomic framework for making fiscal decisions remain largely undeveloped and financial operations on cash, debt and asset management are absent.

To correct these deficiencies the authorities are in the process of establishing a Treasury system to take over key budget execution, accounting, and reporting functions from the banking system. As a key component of reform the authorities intend to establish a Single Treasury Account at the ANB that will receive all revenues and pay all expenditures effected by government agencies. In addition, the authorities intend to introduce a cash management system to set monthly credit limits for specific agencies, develop budget forecasting capabilities, and concentrate debt management in a central unit.

Progress in implementing the Treasury reforms has been slow although some organizational changes have been made: a Central Treasury Unit has been established and departments dealing with budget implementation, debt management, and internal audit have been brought under the control of the Director of the Treasury. Regional Treasury offices are being opened with pilot Treasury systems being implemented in some regions. Also a new classification structure close to Government Finance Statistics standards has been developed for the 1997 budget.

44. During the first nine months of 1996, expenditure controls were further tightened. In part this restraint was achieved by the deferral of budgeted further liquidity support to the Savings Bank and the postponement of payments of pension and cash compensation. Wages and salaries were increased broadly in line with GDP while low expenditures on goods and services in the first quarter were offset by considerably higher levels in the second and third quarter. Assuming a full catch up of budgetary outlays to those envisaged in the 1996 budget, total expenditure as a percent of GDP (including net lending) is likely to be slightly lower in 1996 than in 1995.

45. Despite rigid expenditure policies the authorities were successful in reducing budgetary wage and social benefit arrears which had occurred because notional benefit levels were increased without adequate funding. The stock of arrears to the Social Protection Fund (SPF) shrunk over the course of 1996 from Manat 151 billion at end 1995 to Manat 90 billion by September 1996 and arrears in wages and salaries were fully settled by April 1, 1996. However, until October 1, 1996 Manat 30 billion of new cash compensation arrears had been accumulated. These were due to an increase in cash compensation benefits for families with children and pensioners which became effective in May 1996 without being backed by an increase in the SPF's revenues or improvements in the targeting of social expenditures.

46. **Public sector wages** had fallen to very low levels in 1995 although the erosion in real wages slowed down when inflation started declining rapidly. In 1995, nominal wages were raised once, by 37 percent in February. Following a 20 percent increase in July 1996 and another 40 percent increase in October for teachers and social sector workers, real wages are now about at the level that prevailed in December 1994. The low level of average wages and the compressed pay structure have resulted in the departure of many workers with marketable skills from public service. This has distorted the composition of the government workforce and hampered the efficiency of administration. Low real wages are also responsible for government employees holding multiple positions and seeking other means to supplement their incomes, including by collecting informal user charges and unofficial side payments.

47. A counterpart of low wages in the government sector is the large size of government employment. At end-September 1996, total employment in the budgetary sector stood at 447,606, excluding most of the defense establishment. However, the size of government in practice is considerably larger since many organizations are not formally part of the consolidated government, but are based on the monopoly rights and regulatory status conferred to them by the government. Even with a narrow definition of government employment, there are 6 government employees per 100 inhabitants, which is large if compared with other transition countries. Employment in education and health, which accounts for 70 percent of government employment, is particularly high. The high level of government employment contrasts with the relatively small size of the government as measured by either expenditure or revenue as a share of GDP. There is evidence that, despite relatively low wages in the government, the share of wages in total expenditures has continued to rise at the expense of outlays critical for providing public services. This is a direct consequence of a view--still widespread in Azerbaijan--that government employment should be a mechanism to provide income support for the country's population.

48. **Subsidies** are difficult to identify due to deficiencies in the public expenditure statistics. Direct identifiable subsidies have declined substantially, but indirect subsidization of selected social groups and enterprises continues to play an important role. For example, many categories of consumers, such as pensioners, teachers, and invalids--amounting to 18 percent of the population--are exempted or pay concessional communal charges. The budgetary cost of such subsidies for communal services is small because of high tariffs charged to enterprises, which impose an additional tax on the business sector. In addition to direct subsidies there are also a number of implicit subsidies (often included in the expenditure category "national economy", 1.6 percent of GDP in 1995) such as payments to the Irrigation Committee which in turn provides water to farmers at no charge.

D. Social Safety Net

49. After a steep decline in 1994, social safety net spending accounted for 4.5 percent of GDP in 1995. In 1996, these expenditures are likely to rise temporarily to 5.7 percent of

GDP, reflecting the repayment of pension arrears. Transfers through the Social Protection Fund cover 30 percent of total government expenditure consisting of pensions, child, sickness and maternity allowances (Table 17). About two thirds of these outlays are for pensions and cash compensations to pensioners and families with children.

50. In February 1995, the authorities eliminated bread price subsidies and at the same time introduced a cash compensation scheme for the most vulnerable groups of population. Direct bread subsidies had amounted to 1.1 percent of GDP in 1994, and in addition, 1.8 percent of GDP were paid as implicit subsidies to the State Bread Complex. The cost of providing cash compensations was estimated at 2.7 percent of GDP in 1995. Benefit levels were raised by 20 percent as of May 1, 1996 and for the year as a whole, cash compensations are estimated to amount to 2 percent of GDP. This decline relative to GDP largely reflects improvements in targeting of the benefits although compensations still cover a wide range of the population. All pensioners are eligible and cash appropriations to families with children continue to cover about 1.5 million people. Nonfood subsidies, largely FOR public transportation, amounted to 0.7 percent of GDP in 1995.

51. Unemployment benefits are paid through the Employment Fund which receives the bulk of its revenue from employers' social insurance contributions. The ratio of the average unemployment benefit to the average wage stood at only 6 percent in 1995. With increases in the benefit level during 1996, the replacement ratio has risen to 12 percent of the average wage. The role of the Employment Fund in promoting job search and providing employment services has remained limited.

52. The financial position of the pension system has remained weak as reflected in a decline of pension payments from 6.6 percent of GDP in 1993 to only 1.7 percent of GDP in 1995. A substantial fall in payroll tax compliance (particularly in agriculture and oil sectors), and arrears in transferring funds from the Republican budget to the SPF, have contributed to a significant decrease in the size of pension benefits both in real terms and relative to wages. By 1995, the real average pension had fallen by 90 percent relative to its level in 1992 while the replacement ratio had dropped from 80 percent to less than one-third. Statutory pension levels were raised by 20 percent in September 1995 followed by a further increase of 15 percent in January 1996. However, these increases were not sufficiently funded, resulting in an accumulation of pension arrears to 1.2 percent of GDP by end-1995. With partial repayment of these arrears, pension expenditures rose to 2.2 percent of GDP in the first three quarters of 1996. While the statutory rate of the payroll tax is 36 percent the effective tax rate has been only close to 15 percent, indicating severe problems in collecting payroll taxes. Efforts to move the pension system to a more sustainable footing by reducing benefit levels for working pensioners and increasing the retirement age have been delayed as they have met significant political resistance.

IV. FINANCIAL SECTOR DEVELOPMENTS

53. *From early 1995 onwards the ANB successfully reduced financial imbalances by pursuing prudent monetary policies. As a result, inflation declined sharply, interest rates turned positive in real terms, and the nominal exchange rate started to appreciate. However, the ANB's cautious credit policy also revealed severe weaknesses in the commercial banking sector, notably among the four state-owned banks.*

A. Monetary and Exchange Rate Developments

Monetary Policy

54. In early 1995 monetary conditions were tightened significantly (Figure 6). After increases of some 500 percent during 1994 and earlier years, the growth of **manat broad money** slowed to 122 percent during 1995, and to only 17 percent during the first nine months of 1996. The monetary stabilization was a result of the ANB's tight credit to the government and banks--policies which were in sharp contrast to those in previous years when large fiscal deficits and generous bank lending were financed by central bank credit creation. The containment of monetary growth was also helped by a gradual decline of the **money multiplier** throughout 1995 and 1996, reflecting a deterioration of the commercial banking sector's financial position.

55. Part of the strategy was also to stabilize reserve money growth by sterilizing capital inflows through selling foreign exchange at the Baku Interbank Currency Exchange (BICEX). As a result, reserve money growth receded markedly--from 643 percent during 1994 to 130 percent during 1995, and to 21 percent during the first nine months of 1996 (Box 8 and Tables 28, 19, and 20).

Box 8. Annual Changes in Money Aggregates

(End of period percentage changes)

	1994	1995	1996 Jan.-Sept.
Manat Broad Money	486.1	122.2	16.6
Manat Reserve Money	642.7	129.7	20.7
Currency in Circulation	552.9	114.7	21.0

Figure 6. Azerbaijan: Monetary Indicators

Sources: Azerbaijan Goskomstat; Ministry of Finance; Azerbaijan National Bank; and Fund staff estimates.

1/ Deflated by actual annualized inflation in the preceding six months.

56. In 1995-96, the growth of manat reserve money was mainly driven by rising net international reserves (NIR) (Box 9). This effect was particularly strong during the first two quarters of 1995 because the ANB did not fully sterilize the drawdown of the oil bonus counterpart funds by the government. During this period, such foreign financing of the budget amounted to US\$76 million, while the ANB sold only about US\$36 million at the BICEX. However, starting in September 1995 sales of foreign exchange were stepped up markedly, as base money growth was exceeding its target and signs of rekindling inflation became evident. Another brief episode of incomplete sterilization followed in May-June 1996, when the ANB's foreign currency sales at the BICEX were reduced again, apparently because the level of NIR was considered to be declining excessively. However, foreign exchange sales picked up in the summer, and NIR accounted for less than half of base money growth in the third quarter of 1996.

Box 9. Contributions to Manat Reserve Money and Broad Money Growth, 1995-96

	1995				1996		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
(Percentage change in % of average manat reserve money in previous period)							
Net international reserves 1/	39.4	32.3	8.2	3.9	4.2	2.7	4.0
Net domestic assets 1/	8.5	-0.6	15.2	9.7	-0.3	0.5	5.4
Credit to government 1/	5.4	2.4	14.0	3.7	-5.3	-2.5	-0.2
Credit to banks	13.5	9.0	9.1	6.9	4.4	5.2	8.6
Other items, net	-10.4	-12.0	-7.9	-0.9	0.6	-2.2	-3.0
Manat reserve money	47.8	31.7	23.4	13.6	3.9	3.2	9.3
(Period average percentage changes)							
Manat money multiplier	-2.4	-0.1	0.8	-1.1	-0.9	-1.4	-1.2
Manat broad money	45.5	31.6	24.2	12.6	3.0	1.8	8.1
Memorandum items:							
Inflation	102.6	14.3	2.6	8.5	8.1	-0.4	-0.6
Nominal GDP	66.5	10.2	5.2	9.6	2.3	0.7	5.0
Velocity of manat broad money	14.5	-16.2	-15.3	-2.6	-0.7	-1.1	-2.9
Velocity of manat broad money (level)	21.4	17.9	15.2	14.8	14.7	14.5	14.1

Sources: Azerbaijan National Bank (ANB); and Fund staff estimates.

1/ Excludes World Bank and oil bonus funds held at the ANB.

57. Net domestic assets generally contributed only modestly to reserve money growth, with the notable exception of the third quarter of 1995, when central bank credit to banks for harvest financing expanded rapidly. Thereafter, the importance of NDA as a source of base money growth declined. In fact, during the first half of 1996, the ANB's policy of allowing practically no change in NDA implied that all monetary growth derived from balance of payments inflows. During the harvest period of 1996, however, NDA growth accounted for about half of reserve money growth.

58. A distinct feature in executing monetary policies has been the tightness of central bank credit to banks. In 1995, when nominal interest rates remained very high, the ANB's refinancing credit to banks amounted to less than interest payments paid by banks, implying virtually no net central bank credit to the economy. Part of this squeeze was offset, however, by the ANB's profit distribution to the budget. In response to tight bank credit, interenterprise arrears accumulated rapidly (Figure 7, Box 10). During the first half of 1996 domestic credit was restricted even more as the ANB changed its strategy. First, as of January 1, 1996, the scheme of circulating liquidity through banks and ANB profits to the government ceased as the ANB stopped collecting interest payments from the four state-owned banks. At the same time, credit to these banks was virtually cut off. Only the Agroprom Bank continued to receive refinancing credit for financing the harvest cycle. Second, credit supply to private banks through credit auctions was kept at low levels as the ANB applied strict prudential requirements to auction participants. Finally, net credit to the government contracted--and in fact temporarily turned negative--reflecting a strong fiscal adjustment effort. Credit creation by the ANB seasonally accelerated during the 1996 harvest season, when the ANB extended loans of some Manat 100 billion (i.e., about as much in nominal terms as in the previous year) to the cotton sector and the bread complex through the Agroprom Bank. As a result, manat reserve money growth increased to 9.3 percent in the third quarter of 1996 compared with 3 to 4 percent during the previous quarters.

Figure 7. Azerbaijan: Enterprise Arrears
(In millions of manats, end of period stock)

Source: Azerbaijan National Bank.

Box 10. Enterprise arrears

With tight bank credit and a lack of financial discipline state-owned enterprises continued to accumulate payment arrears. Interenterprise arrears rose from 27 percent of GDP at end-1994 to 103 percent of GDP at end-June 1996. During 1996, however, a tougher stance toward enterprise arrears was adopted. In February 1996, state-owned enterprises were instructed to require prepayment or a guaranteed letter of credit when supplying goods or services to customers in arrears. The enforcement of these instructions remained inadequate, however. In June, enterprises also gained better control over their bank accounts. Suppliers used to submit payment claims to banks where these claims waited in queue until funds became available. This system shifted the responsibility for debt settlements from enterprises to banks and encouraged inaction on the part of enterprise managers. The system was abolished in July 1996, except for debts to the budget and the Social Protection Fund. In September 1996, a Presidential decree was issued to further address the stock and flow problem of enterprise arrears. This decree involved a netting out exercise of existing arrears, with the important restriction that no bank credit or budgetary resources was allowed to be used in selling these arrears. Bank clients can obtain a discount on their interest obligations to banks if they are able to reach a rescheduling agreement for the repayment of their arrears to banks and adhere to the repayment schedule. The instruction to demand prepayment or payment by confirmed letter of credit for all clients who are in arrears was expanded. To avoid a build up of budgetary arrears, budget organizations are no longer allowed to purchase goods or services prior to the release of funds by the Ministry of Finance. Partly owing to these measures and a turn around in economic activity, interenterprise arrears have started to stabilize.

Enterprise Arrears (In billions of manats, end of period stocks)

	December 1994	December 1995	June 1996	September 1996
Arrears to enterprises	736	8,893	15,210	15,465
Arrears to banks	109	588	814	835
Total	845	9,481	16,024	16,300
Interenterprise arrears in percent of GDP	27.4	72.5	102.8	104.5

59. Increases in money supply were broadly matched by recovering money demand. The income velocity of manat broad money declined rapidly during 1995, as real interest rates moved to positive levels, inflation declined and the exchange rate remained stable. Increasing confidence was also signaled by a growing willingness of the public to hold manats as evidenced by a declining dollarization ratio. As in other transition economies, the decline in money velocity slowed down after the initial stabilization success. In the first half of 1996 velocity declined only slightly, possibly reflecting the liquidity crisis in the Savings Bank which may have increased households' reluctance to hold savings at banks accounts. However, confidence appears to have returned later in 1996, as the manat continued to appreciate against the U.S. dollar and the Russian ruble, and inflation dropped to very low levels. The demand for manats recovered and velocity started declining more rapidly, albeit at a lower rate than in 1995.

Exchange Rates

60. Apart from a short lived attempt to peg the exchange rate against the U.S. dollar in early 1994, Azerbaijan has maintained a flexible exchange rate regime since the manat became the sole legal tender in January 1994. Owing to lax financial policies in 1994, the nominal exchange rate depreciated by 95 percent during the year. While the exchange rate remained broadly stable for 1995 as a whole, the manat depreciated by 8 percent in January-August 1995, as it took time to build up confidence in the currency. Also, there was some political pressure to accumulate foreign exchange reserves, which led to insufficient sterilization of the inflow of oil bonus funds. Later in 1995 the authorities changed their monetary policy consistent with allowing a gradual appreciation of the nominal exchange rate. This policy choice was taken in preference to higher inflation, as it was recognized that the capital flows associated with the development of the oil fields and the initial undervaluation of the currency were bound to lead to a significant real appreciation of the manat. Since fall 1995, the ANB has maintained its sales of foreign exchange in the market broadly consistent with the targeted growth of the monetary base. As a result, the manat has been gradually appreciating: during January-November 1996 by 7 percent vis-à-vis the U.S. dollar and by 22 percent vis-à-vis the Russian ruble (Figure 8).

61. The real effective exchange rate (based on relative consumer prices) has appreciated by 24 percent between January 1995 and November 1996. This appreciation has been larger when measured by relative U.S. dollar wage developments than when measured by relative consumer price inflation. The fundamental trend toward an appreciation of the real exchange rate can be attributed to several factors. First, the present real exchange rate appears undervalued. While estimates of the equilibrium real exchange rate are not available, the low level of dollar wages in Azerbaijan relative to neighboring CIS countries suggests a significant undervaluation, even when differences in wage underreporting and productivity levels are taken into account. Second, Azerbaijan is experiencing strong net capital inflows, mainly related to the operations of the oil consortium. Although most of these foreign investments spills over to imports, the oil sector as a whole has witnessed net foreign exchange inflows, mainly due to the disbursement of oil signature bonuses and the need to finance domestic expenditures associated with the oil fields development. While an appreciation of the real exchange rate, driven by foreign direct investments, is common in transition economies, in the case of Azerbaijan it may be associated with a particular phenomenon known from other resource-rich countries. Oil related inflows increase demand for domestic resources, driving up prices of nontradeables relative to tradeables, thus putting upward pressure on the real exchange rate. As mentioned in Section II, this may lead to a crowding out of the traditional tradeable goods sector--a syndrome called "Dutch Disease" (Box 11).

Figure 8. Azerbaijan: Exchange Rates

Sources: Azerbaijan authorities; and Fund staff estimates.

1/ Upward movement indicates an appreciation.

2/ Using data from Kaufman, D. and Kaliberda, A., Integrating the Unofficial Economy into the Dynamics of Post-Socialist Economies, World Bank Kiev Office, December 1995

Box 11. Dutch Disease

Experience from many resource-rich countries shows that large changes in a country's wealth resulting from resource discoveries or resource price changes can have adverse effects on the overall economy, as the booming sector may crowd out other traded goods sectors, such as manufacturing and agriculture. This phenomenon is often labeled "Dutch Disease", as the Netherlands experienced major shifts in domestic production following the discovery of substantial gas deposits in the 1960s.

Typically, one distinguishes two channels through which the increase in a country's wealth can lead to unbalanced growth. First, there is a resource movement effect: as marginal labor productivity and hence real wages rise in the booming sector, it attracts workers from other sectors, thus draining their resources. Second, there is a spending effect. If the increased wealth is not saved abroad but rather spent directly or indirectly (through fiscal channels) on nontraded goods, the real exchange rate will appreciate which will hurt the competitiveness of the traditional traded sector. In many cases, the current account will deteriorate initially as domestic absorption (and imports) picks up in anticipation of future revenues, while exports--as in the case of the development of oil or gas fields--only start at a later stage.

Interest Rates

62. As stabilization took hold, the ANB gradually lowered its refinance rate. In late 1996, interest rates were only about one tenth of their levels in early 1995 (Table 22). The decline in nominal interest rates followed falling inflation rates with a lag. In early 1995, the refinance rate was 237 percent (uncompounded) while it dropped to 100 percent by end-1995. However, the decline was less steep than inflation and, as a result, in mid-1995 the ANB's refinance rate as well as most banks' lending rates turned positive in real terms. By late 1996, the annualized real refinance rate stood at 25 percent.

63. The structure of commercial banks' deposit and lending rates has been characterized by a wide range of interest rates charged by different banks and for different client groups, reflecting a highly segmented financial market which lacks efficient arbitrage. In 1995, lending rates to state-owned enterprises were somewhat lower than those charged to private enterprises because state-owned enterprises were often thought to be able to borrow under implicit government guarantees. In 1996, as such guarantees were gradually replaced by a general practice of collateralizing commercial loans, lending to private enterprises became more attractive and the spread between the rates for these borrowers narrowed. Deposit rates have generally declined faster than lending rates while the margin has remained substantial, reflecting high credit risks, the high burden of nonperforming loans in banks' portfolios and banks' efforts to strengthen their capital base.

B. The Use of Monetary Instruments

64. The number of monetary policy instruments available to the ANB has remained limited, implying a lack of flexibility in liquidity management. During 1995 and 1996, direct instruments of monetary control, such as directed credit allocation to commercial banks, still played a significant role in the conduct of monetary policy. However, the new Central Bank Law passed in June 1996 (Box 12) has increased the ANB's scope for liquidity management.

65. A uniform reserve requirement on all commercial bank deposits (including foreign exchange accounts and interbank deposits) was introduced in January 1995. The reserve requirement ratio was originally set at 12 percent but was raised to 15 percent in April 1995. To reduce the burden on the banking system, the ANB lowered the reserve ratio to 10 percent in June 1995. As a result, the money multiplier increased and growth of broad money accelerated. The reserve requirement was raised back to 15 percent in September 1996 when inflation showed signs of acceleration. Banks' required reserves are not remunerated, which imposes a significant tax on the banking system.

Box 12. The New Central Bank and Banking Laws

Parliament enacted a new central bank law and a new banking law in June 1996. These laws, which had been drafted with Fund technical assistance, replaced the laws that had been in effect since 1992.

According to the 1992 central bank law, the independence of the ANB was limited: its monetary policy had to be approved by Parliament. Moreover, the law set out potentially conflicting objectives for the ANB as it was to ensure the stability of the national currency, as well as to promote the interests of the state. In practice, this boiled down to financing the government and state-owned enterprises. The new central bank law, however, establishes that the principal objectives of the ANB are: (a) to achieve and maintain price stability, and (b) to foster the development of a sound banking system. To this end, the ANB has been given full independence to operate its monetary and exchange rate policies, while it has also been granted the authority to license and supervise banking activities. The ANB is required to submit annual reports to Parliament that review monetary and exchange rate policy in the preceding period and outline policies for the next period.

Together with the new central bank law, the new banking law establishes the legal framework for the ANB to regulate and supervise banking activities. The banking law defines a bank as an institution that accepts deposits and/or extends credits for its own account. No institution or person is allowed to carry out banking activities without being licensed by the ANB. The law establishes licensing procedures as well as are procedures and grounds for the withdrawal of a licence.

66. Credit auctions began in March 1995 and have been conducted on a monthly basis. Credits usually bear a maturity of six months and the supply is adjusted dynamically as the auction proceeds. Bidding starts at the interest rate of the last auction and adjusts during the auction, depending on demand and supply. In practice, credit auctions are the ANB's channel to supply refinance credit to the private banking sector, as state-owned banks have been effectively excluded from the auction process because they do not meet the required prudential standards. The credit auction mechanism was designed to gradually phase out refinancing credit, but progress has been slower than expected. In 1995 about 25 percent of total refinance credits were allocated through the auctions, but this ratio dropped to only 20 percent in the period January-September 1996. Largely, this reflected the dominant role of harvest financing. Indeed, if directed harvest financing through the Agroprom Bank is excluded, practically all refinance credit was supplied through credit auctions. However, insufficient transparency of the auction process may have prevented its development; auctions are generally poorly publicized and admission criteria have been sometimes applied discretionarily.

67. In September 1996 the ANB started treasury bill auctions. The first treasury bills were offered as zero-coupon, paperless instruments with a 91 day maturity; a book entry system was used for registration. During the introductory phase of the treasury bill market, only a primary market for these papers was established. The market is still very thin: until mid-November 1996 only two auctions took place with sales of treasury bills for an amount of manat 11 billion.

68. Foreign exchange in Azerbaijan is traded at the Baku Inter Currency Exchange (BICEX). This is the only market for non-cash foreign currency (off auction trading is prohibited) and only banks are allowed to participate. Since its creation in August 1994 the importance of the BICEX has grown--both in terms of auction volume and frequency: between the first quarter of 1995 and the third quarter of 1999, the number of auctions doubled and the average volume per auction increased by a factor of 2.5 (Table 23). The ANB continues to actively participate at the BICEX. It does not only sell its own funds but also acts as an agent for the government which uses the BICEX to convert revenues collected in foreign currencies (i.e., taxes and customs receipts transferred from enterprise forex accounts) into domestic currency. On average, about 30 percent of the total turnover has been supplied by the ANB in 1996.

C. Commercial Banking Sector Developments and Banking Supervision

69. Azerbaijan's banking system continues to be dominated by the four state-owned banks as the private banking system remains highly fragmented with about 160 small banks. Tight financial policies quickly exposed serious weaknesses in the banking system as the erosion of loan values through inflation was stopped and harder budget constraints were imposed on enterprises. As a result, many borrowers were no longer able to service their loans and large

portfolios of nonperforming loans developed, leading to a serious undercapitalization of the banking system. Confidence in the banking system has remained low, as indicated by large cash holdings of the population.

State-Owned Banks

70. The four state-owned bank--Savingsbank, International Bank, Agroprombank, and Prominvest Bank--account for about 80 percent of the banking system's total assets, 70 percent of deposits, but only 30 percent of paid-in capital. Until recently, the traditional sectoral demarcation of their banking activities has been largely preserved,¹⁰ with the largely insolvent state enterprise sector as their principal customer. The liquidity crisis of the Savings Bank in October 1995 (see below) revealed the more general problem of a mismatch between the state banks' funding costs and the returns on their lending activities. At end-September 1996, the aggregate liquidity gap of the state banks was estimated at manat 300 billion, or 2 percent of GDP, and the solvency deficit amounted to manat 700 billion, or 5 percent of GDP.¹¹ In addition, several state-owned banks faced problems of poor management.

71. In response to the incipient banking crisis, the ANB developed a rehabilitation plan for each of the four state-owned banks. As a first step, a protocol passed by the ANB's Board of Directors on March 29, 1996, limited the activities of the four state-owned banks and placed them under tight management programs and special supervision. In September 1996, a more comprehensive plan was established by a series of bilateral Letters of Agreement between each of these banks and the ANB. State banks were cut off from central bank financing, and their lending activities have been stopped (Savings Bank and Prominvest Bank) or restricted (Agroprom and International Bank). However, the state-owned banks still provide important financial services, mainly as a depository for households savings and provider of payment services and intermediation facilities.

72. Although all state-owned banks have faced severe problems of liquidity, solvency and profitability, there are differences in their individual performance. Liquidity problems became most apparent in the case of the Savings Bank, which in early October 1995 was unable to pay interest on its deposits. To alleviate the immediate cash flow problem, the Ministry of Finance extended a 10 year loan to the Savings Bank equivalent to manat 50 billion. In

¹⁰The Savingsbank collected household deposits which were on-lent to small enterprises; the International Bank focused on foreign currency transactions; and Prominvest Bank and Agroprom Bank used to lend to state-owned enterprises in the industrial and agricultural sectors respectively.

¹¹The liquidity gap is defined as the difference between liquid assets and the deposits that can be withdrawn on short notice. The solvency deficit is calculated as the difference between the estimated value of the total assets of a bank and its liabilities.

addition, deposit rates were reduced to improve cash flow, all new lending was stopped, and a workout unit was established to recover as much as possible of the existing loan portfolio. However, by end-September 1996 loan collection had not improved markedly. In November 1996, the Ministry of Finance extended a second liquidity support loan equivalent to manat 45 billion aimed at covering deposit withdrawals, paying off interest arrears, and settling the backlog of the bank's payment arrears. While the overall restructuring of the bank has not proceeded as fast as expected, the Savings Bank has made some progress in reducing operating costs. In 1995-96, some 700 of the total of 1,300 branches have been merged and staff has been reduced from 3,800 persons to 3,400 persons.

73. The **International Bank** appears to be the most viable of the four state-owned banks. In 1996, the bank has been able to attract new deposits and it was the first to audit its operations according to international accounting standards. However, the International Bank's financial position has benefitted from the holdings of foreign exchange deposits of the ANB, which it has remunerated only with delays and at below market interest rates. The International Bank has continued its lending activities during 1996 with most new credits being extended to the State Bread Concern to finance grain imports from Kazakhstan. These loans were secured by government guarantees.

74. The **Prominvest Bank** has greatly narrowed its banking activities, as its deposit collection and lending activities were suspended under the government restructuring plan. However, the collection of overdue loans, mainly extended to the state-owned enterprise sector, has improved significantly during 1996. The **Agroprom Bank** has continued to collect household deposits despite the requirements of the restructuring plan. The bank has also received significant amounts of refinance credit from the ANB for financing the harvest cycle (amounting to manat 190 billion or 80 percent of total refinance credit from January to mid-October 1996). Collection of overdue loans has been weak.

Private Banking Sector

75. The existing 160 private banks are mostly small, single-branch institutions, linked to one or a few enterprises. In addition, five foreign banks have opened branches in Azerbaijan, sometimes aggressively seeking to increase their market shares. However, the private banking sector's share in overall banking activities is still marginal; in 1996 they provided less than 10 percent of total credit to enterprises and households. There are several reasons for the limited role of private banks. First, commercial lending is not attractive because the enterprise sector is not creditworthy and the legal framework to enforce loan servicing (e.g., collateralization and bankruptcy laws) is underdeveloped. Second, the private banks' deposit base is weak, as confidence in the banking sector as a whole is recovering only slowly. Third, receiving funds through the ANB's credit auction mechanism is difficult for private banks because the rules for participation in these auctions are not always transparent. During

January-September 1996 private banks received only manat 40 billion of credits through auctions.

Banking Supervision

76. During 1995-96, the ANB has significantly strengthened its supervisory capacity. New regulations of banking activity were issued in early 1996, including tighter bank capital adequacy standards and reorganized supervision and inspection functions. Minimum capital requirements have been increased considerably: from the manat equivalent of US\$35,000 in January 1995 to US\$1,250,000 in October 1996 for new banks, and, during the same period, from US\$10,000 to US\$200,000 for existing banks. Regarding the provisioning for loan losses, a first step was the elimination of the ceiling on banks' reserve funds in June 1996, which earlier had been restricted to 25 percent of a bank's statutory capital. New regulations on loan classification and provisioning, consistent with international practices are under preparation. A significant number of banks, including state-owned banks, do not comply with all prudential regulations and some do not even report regularly to the ANB. The ANB has generally been slow in enforcing banking supervision regulations, i.e., in closing and liquidating banks. However, the number of on-site inspections has increased during 1996, and the bank supervision department at the ANB has been expanded and reorganized.

V. EXTERNAL SECTOR DEVELOPMENTS

77. *The current account deficit widened to 21 percent of GDP in the first nine months of 1996. By contrast with a terms of trade-related deterioration in 1995, this largely reflected a surge in imports associated with rapidly increasing investments to develop offshore oil fields. Further progress was made in liberalizing trade and payments systems although some restrictions still apply on current international transactions.*

A. Current Account

78. Developments in Azerbaijan's external current account have become increasingly dominated by the oil sector. While in 1995 the widening of the current account deficit to 13.3 percent of GDP was largely due to rising transportation costs reflecting disruptions of the trade links to Russia via Chechnya, a further deterioration to 20.2 percent of GDP in the first nine months of 1996 was attributed to the development of a big offshore oil field by the AIOC (Box 13 and Table 24). Imports rose by 48 percent in dollar terms with more than half of the increase owing to the AIOC oil project. Exports grew by 42 percent due to increasing shipments of oil products, as well as expanding "non-official" exports reflecting smuggling (oil, cotton, and wheat) and underreporting of export prices.¹² Excluding oil consortium

¹² Rough estimates for the first nine months of 1996 put nonofficial exports to some US\$135 (continued...)

operations, the current account deficit in 1996 is projected at 7.4 percent of GDP, slightly lower than in 1995.

Box 13. Balance of Payments, 1994-96			
	1994	1995	1996 Jan.-Sept.
	(In millions of U.S. dollars, unless otherwise indicated)		
Current account	-121	-379	-476
Trade balance	-163	-343	-319
Services	-33	-96	-297
Current transfers	75	111	140
Capital and financial account	54	456	413
Of which:			
Direct investment	22	277	409
Overall balance	-79	145	-10
Memorandum items:			
ANB's gross reserves (end-of-period)	2	119	157
Current account in percent of GDP			
Including oil consortium operations	-8.3	-13.3	-20.2
Excluding oil consortium operations	-8.3	-9.6	-6.3

Sources: Azerbaijan authorities; and Fund staff estimates.

Direction of Trade

79. Official data suggest that the reorientation of trade away from the CIS has—at least temporarily—come to a halt (Table 25). This may partly reflect the fact that trade routes to CIS countries are now more open than a year ago. Indeed, in the first nine months of 1996, the share of exports to CIS countries increased to 46 percent, after having declined from 52 percent in 1993 to 40 percent in 1995. A large part of this increase was due to significant sales of oil products to Georgia.

80. After sharp declines in 1993-95, the share of imports originating from the CIS countries stabilized at 33 percent during 1996. These imports partly reflected an increase in Azerbaijan's purchasing power as the Manat has appreciated against the Russian ruble. A large amount of goods are imported through the "shuttle trade" from non-CIS countries. According to the estimates of the central bank, merchandise worth US\$188 million was

¹²(...continued)
million.

imported in 1995 by some 400,000 individuals either by charter flight or by bus. Most of these imports originated from United Arab Emirates, Turkey, Pakistan, Poland, China, and Iran. Shuttle trade imports are generally financed with cash obtained from foreign exchange bureaus in an amount limited to US\$5,000 per trip. In addition, it appears that there exist significant volumes of personal barter trade (e.g., individuals trading Azeri caviar against consumer goods). The successive reductions of the duty free limit on personally imported goods have not caused any decline in the shuttle trade so far.

Commodity Composition of Trade

81. The composition of Azerbaijan's exports is increasingly concentrated in petroleum products. The share of these products in total exports increased from 52 percent to 69 percent in the first nine months of 1996. Several factors explain the specialization of exports in petroleum products. First, with the collapse of the U.S.S.R., Azerbaijan lost its traditional customers for agricultural and manufacturing goods. Second, delays in enterprise restructuring have prevented non-oil industries from developing new products that could meet world standards. Third, oil product exports were supported by rising world prices while cotton exports suffered from declining prices (Table 27). Finally, to some extent, the weakness in non-oil exports can be explained by the real appreciation of the manat.

82. Apart from the oil consortium's purchases of machinery and equipment from abroad, the growth of officially recorded imports was associated with an increase in private consumption and further supported by a high import propensity of households. In particular, there is a strong pent-up demand on consumer goods which were in limited supply earlier. In addition, imports of grain and other basic staples from the European Union have risen rapidly. In 1995 and in the first nine months of 1996, food products covered 42 percent of Azerbaijan's imports, compared with a share of 28 percent in 1994. Also, imports of machinery and equipment (excluding the AIOC) have increased rapidly, by 21 percent in 1995 and by an estimated 80 percent in 1996.

Services and Current Transfers

83. With the decline in exports of services (mainly transportation), the deficit in the service balance more than doubled in the first nine months of 1996, and its contribution to the current account deficit amounted to 40 percent. In the last two years, imports of services have increased rapidly, reflecting rising transportation costs, increasing business travel, and more recently, strong demand for oil-related technical services. AIOC imports of construction and engineering services reached US\$68 million in 1995, and US\$134 million in the first nine months of 1996. In contrast to the widening deficit, of the services account, the balance of current transfers has remained positive. This reflected mostly the continuation of official transfers: humanitarian aid from the EU and the UN, as well as technical assistance from international donors.

B. Capital Account and External Debt

Foreign Direct Investment

84. Capital account developments have been dominated by foreign direct investments. In 1995, foreign investments to develop the AIOC's offshore oil fields accounted for US\$123 million or 4.4 percent of GDP. In the first nine months, these inflows reached US\$330 million or 9.6 percent of GDP. In addition, the AIOC shareholder companies transferred US\$122 million as signature bonuses for the production-sharing agreement in 1995.¹³ In early 1996, additional oil bonuses amounting to US\$68 million were paid by a new oil consortium for the signing of an exploration contract for the Karabakh field. These oil bonuses were netted out with a part of a SOCAR's debt to Pennzoil, a U.S. company which built a gas compression station in 1994. Other oil bonuses are expected to be disbursed in the coming months for the signing of three new exploration contracts. Stimulated by a buoyant domestic market outlook, foreign investments are also increasing rapidly in the areas of retail trade, hotel and restaurants activities, and construction with Turkish companies often playing a leading role in their financing.

Net Official Financing

85. Multilateral creditors have provided most of the official loan disbursements as balance of payments support. These disbursements were estimated at US\$116 million in 1995, and US\$45 million in the first nine months of 1996. In 1995, the European Union disbursed a bullet loan of US\$65 million to finance food imports on nonconcessional terms, which is to be repaid in 1997. The World Bank has lent US\$61 million under its rehabilitation credit facility, of which US\$30 million was disbursed in 1995, and US\$31 million in early 1996. Official project financing (US\$14 million, mainly from EBRD and IDA) has remained limited so far, mainly because of the low absorption capacity of the public sector.

86. The difficulties Azerbaijan experienced in servicing its external debt in 1995 have largely been resolved, and the country is now current on its external obligations. However, discussions are still continuing with Russia to reach a final agreement on Azerbaijan's liabilities that were estimated at US\$81 million in 1994. These liabilities may be partially offset by claims originating from the breakdown of the U.S.S.R. as well as by electricity supplies to a Russian radar station located in Azerbaijan. Already in 1995, agreement had been reached

¹³Of this amount, US\$ 39 million were disbursed by the original shareholders and US\$83 million by Exxon and the Turkish National Oil Company for the sale of half of SOCAR's stake in the oil consortium. Total AIOC oil bonuses amount to US\$413 million, of which US\$203 million was disbursed in 1993-95. An additional US\$40 million will be transferred in tranches during 1996-98; the remainder is tied to progress in implementing the contract.

concerning an outstanding debt to the Turkish Eximbank. After the first settlement in July 1995, the Azeri authorities paid overdue interest payments in June 1996, and obtained a new rescheduling arrangement for US\$75 million covering the period 1998-2000. Regarding gas arrears to Turkmenistan, Azerbaijan is amortizing the debt of US\$81 million ahead of the agreed schedule, mainly through exports of oil products, mineral water, light equipment and shipment services. No gas was imported from Turkmenistan in 1996.

International Reserves

87. In building up its international reserves Azerbaijan has benefited from the continued support from the Fund. Gross reserves rose from only US\$2 million at end-1994 to US\$119 million by end-1995, and to US\$157 million, equivalent to six weeks of imports, at end-September 1996,¹⁴ Fund disbursements were first made under the Systemic Transformation Facility (SDR 58 million) and then under a Stand-by Arrangement (SDR 58 million). The ANB's capabilities to manage its foreign reserves remain limited; in 1995-96, reserves were primarily placed in time deposits at offshore banks in the United States and Europe.

External Debt

88. Since end-1995, the stock of public external debt has increased from US\$420 million to US\$490 million at end-September 1996. External debt is projected to reach US\$560 million, or 16.3 percent of GDP, at end-1996. Turkey is the largest creditor (39 percent), followed by Russia and other CIS countries (34 percent), and multilateral institutions (26 percent). However, the exact amount of outstanding debt vis-à-vis four CIS countries (Russia, Kazakhstan, Turkmenistan, and Uzbekistan) is still under discussion.

C. Trade, Payments, and Exchange Systems

Trade Policy

89. In 1995 and 1996 Azerbaijan made further progress toward a liberalized trade regime, although some trade obstacles still existed for both exports and imports. On the export side, quotas were removed in early 1995 and in late 1995, the ex ante export contract registration scheme was largely eliminated. However, this scheme was maintained as a means of controlling export underinvoicing for key strategic goods, including oil products, ferrous and nonferrous metals, and cotton. Cumbersome export registration procedures may have contributed to delays in exporting cotton in 1996, at a time when world prices were declining. The authorities simplified the scheme in June 1996 by subjecting contracts only to a review by

¹⁴Unlike in previous reports (e.g., SM/95/293), gross international reserves do not include foreign exchange deposits held by the Azerbaijan National Bank with domestic banks.

the Ministry of Foreign Economic Relations on a lapse-of-time basis. In December 1996, this ex ante export contract registration scheme was finally eliminated altogether. Strategic exports are liable to a specific tax levied at 70 percent of the price differential between the export and domestic prices. However, domestic price increases, notably for cotton, have reduced the impact of this tax in 1996. In mid-1996, ad valorem or specific duties on non-CIS exports were still in place for selective agricultural and intermediate products.

90. On the import side, quantitative restrictions and licenses have been abolished, while customs duties have remained in place. The current tariff structure consists of two rate schedules: one schedule of rates applies to the 55 most favored nations while a schedule of higher rates applies to all other countries. The rates for most favored nations (98 percent of trade) vary between zero and 70 percent. There are, however, numerous exemptions which substantially limit the degree of effective protection. These exemptions cover certain goods (children's clothing, medicines, and medical equipment, raw materials, and equipment for production), places of origin (CIS countries) and types of importers (individuals, invalid associations, humanitarian agencies, oil consortia). In 1996, the trade distortions between importers and local producers as well as among importers themselves have been gradually reduced by extending the coverage of domestic excises to non-CIS imports, and the coverage of VAT to non-CIS imports and domestically produced foodstuffs. A customs tariff reform is under preparation with a view to eliminating the remaining distortions in the current system.

Exchange and Payments System

91. Azerbaijan maintains a flexible exchange rate regime, with the official rate determined by auctions of noncash foreign exchange in the Baku Interbank Currency Exchange (BICEX). Foreign exchange can be cashed freely in foreign exchange bureaus. However, transaction costs and remaining restrictive regulations segment the foreign exchange market, leading to a positive differential between the official exchange rate (in U.S. dollars per Manat) and the curb exchange rate (Box 14).

Box 14. Exchange Rates and Payment Restrictions

The exchange rate for the national currency, the Manat, is determined at the Baku Interbank Currency Exchange (BICEX) on the basis of demand and supply. Since November 1, 1996 auctions are held five times a week. An official exchange rate is established daily on the basis of the BICEX rate determined at the last session. The official rate is used mostly for valuation purposes, but also for a few official transactions taking place outside BICEX. The rates determined at BICEX auctions apply to all noncash transactions and most official transactions, as there is no noncash interbank market for foreign exchange. Cash rates are freely determined by the commercial banks' exchange bureaus on the basis of market conditions, except that the spread between the selling cash rate and the official rate for any particular day cannot exceed 5 percent. On December 3, 1996, the official rate was US\$1 = Manat 4,147, and the average buying and selling cash rates were respectively US\$1 = Manat 4,253 and US\$1 = Manat 4,272. Since 1995, the spread between the official rate and the cash buying rates has fluctuated in a 1-4 percent margin. This margin covers broadly the transaction costs incurred by a foreign bureau to obtain the cash exchange rate from a bank participating in the BICEX.

The average of the buying and selling cash rates is permanently above the interbank noncash rates, possibly reflecting the fact that foreign exchange bureaus are net buyers of foreign exchange in the BICEX, a point which is also illustrated by substantial imports of dollar banknotes by the International Bank over the two last years (US\$90 million in 1995 and US\$60 million in the first nine months of 1996). More importantly, the asymmetric rate structure may be explained by the nature of trade flows and limited arbitrage between cash- and noncash market. While exporters are predominantly public enterprises who place their proceeds on correspondent accounts abroad, importers are often individuals who use cash. Enterprises' participation in the cash market is limited, while individuals acting in their personal capacity cannot participate in BICEX auctions. Resident or nonresident legal enterprises are not allowed to withdraw foreign currency from their foreign exchange accounts, but are forced to convert their foreign exchange earnings through BICEX sessions.

92. In general, however, the payment system is fairly liberal. At present, resident and nonresident individuals or enterprises may freely open foreign exchange accounts at banks in Azerbaijan. Since June 1996, exporters are no longer required to surrender and sell 30 percent of their foreign exchange earnings at BICEX auctions. Also, a declaration of origin of the foreign exchange is not required. While there are no restrictions on the repatriation of foreign exchange by nonresidents, there exists an exchange restriction subject to Article VIII, on the making of advance import payments more than 60 or 180 days prior to the delivery of good,

for state-owned and private enterprises, respectively. Further, prepayments by bank transfers for contracts for the importation of goods and services are limited to an amount not to exceed an equivalent of US\$10,000. Prepayments in excess of this amount require either the opening of a letter of credit or the authorization of the ANB; the latter is freely granted for all bona fide import contracts, upon presentation of satisfactory documents, provided that the prepayments are to be made by bank transfers.

93. Azerbaijan continues to impose limitations on the payments and transfers from foreign exchange bank accounts by individuals for current international transactions, including tourist, educational, or medical allowances, as well as the remittances for family living expenses abroad.¹⁵ These limitations give rise to exchange restrictions maintained under Article XIV.

94. The bilateral payment agreement between Azerbaijan and the Islamic Republic of Iran has expired (without apparently having been made operational), thereby eliminating an earlier exchange restriction (resulting from a settlement period in excess of three months) subject to Article VIII, but which was covered under the temporary exemption decided by the Executive Board on July 20, 1994. Azerbaijan also maintains Trade and Economic Cooperation Agreements with most countries of the CIS, as well as Banking Agreements with Pakistan, Egypt, and Turkey, which reportedly are cooperation and framework agreements with no payment or line of credit mechanisms. Also, correspondent accounts have been opened by the ANB with central banks of other CIS countries, which are used for official payments and are not credited with the proceeds of current international transactions entered into by entities not forming part of the budgetary process. Proceeds of current international transactions between residents of Azerbaijan and other CIS countries are directly channeled through correspondent accounts opened between commercial banks.

VI. STRUCTURAL ISSUES

95. *Implementation of structural reforms has lagged behind most other transition economies. Large scale privatization has not yet started and small scale privatization gained momentum only in late 1996. Progress in price liberalization has been relatively faster. Structural reforms have had only a limited impact on improving real sector performance.*

96. According to the Transition Reports of the European Bank for Reconstruction and Development (EBRD) in 1994-96, Azerbaijan was consistently ranked among the slowest

¹⁵Specifically, unless individual residents are transferring abroad foreign exchange that had been previously sent to them from abroad, individuals' transfers to abroad are limited to \$5,000 per transaction (up to \$1,000 without any documents, and between \$1,001 to \$5,000 upon presentation of satisfactory documents), with no possibility to transfer amounts in excess of \$5,000. These limitations do not apply to transfers of foreign exchange previously transferred to Azerbaijan from abroad.

reformers by most transition indicators (enterprise restructuring, markets and trade reforms, financial sector restructuring, and legal reform). Only in the area of price liberalization Azerbaijan compared relatively well with other transition economies. Azerbaijan's progress in structural reforms, measured by an unweighted average of the EBRD's transition indicators, can be seen from its position on the horizontal axis of Figure 9. Using this simple measure, structural reforms have been progressing rather slowly during the past two years, scoring an index of 1.3 (out of a maximum 4) in 1994 and 1.5 in 1996.

97. Figure 9 also depicts real GDP growth and the corresponding transition index in selected transition countries; the correlation is statistically significant. However, Azerbaijan's structural reforms appear to have had only little impact on real GDP, as can be seen from the movement of Azerbaijan's relative position between 1994 and 1996. The explanation is twofold: First, the *de facto* progress of structural reforms may have been faster than captured by the transition index, which measures the *de jure* status of reforms. For example, many small enterprises in Azerbaijan have been operated by private owners for years under leasing arrangements. Second, real activity is affected by nonstructural variables as well, and it appears that these played a more important role in promoting growth during the past two years. In particular, the development of the oil fields in the Caspian Sea has contributed positively to Azerbaijan's output performance.

A. Privatization

98. The Privatization Program for 1995-98 was adopted in September 1995. The program stipulates two main methods of privatization: cash auctions for small scale privatization and a combination of voucher and cash auctions for large scale privatization. The program also required an adoption of a series of regulations, instructions, and model documents for corporatization, cash and voucher auctions, and investment funds. The legislation for small-scale privatization was completed in March 1996. Although a number of legislative documents for large-scale privatization were also adopted, regulations on voucher investment funds, national depository system, and on the participation of foreigners in the privatization process still remain to be finalized. The State Property Committee (SPC) is working in close cooperation with the World Bank to finalize these documents for the Presidential approval.

99. The first cash auction for small scale privatization was held on March 26, 1996. Between March and July, several rounds of auctions were held with the sale of only about 200 enterprises. The auction process turned out to be more problematic than initially anticipated. First, most small enterprises subject to privatization were operated by *de facto* owners. These enterprises had been acquired by their operators through unofficial arrangements, many already during the Soviet era. These "arrangements" were generally accepted, including by the government: enterprises were seen as private property and privatization only meant the legalization of the *de facto* ownership. Consequently, although these enterprises were being offered for privatization through auctions, there has only been

Figure 9. Real GDP Growth and Structural Reforms in Selected Transition Countries 1/
(1996 transition indicators and average of 1995 and 1996 real GDP growth, unless otherwise stated)

Sources: EBRD and Fund staff estimates.

1/ The regression line depicts $y = -14.4 + 5.6 * REF$, where REF is an average score for progress in overall implementation of structural reforms as described in the EBRD's Transition Report 1996. Values in brackets are t-statistics.
(3.8) (4.1)

2/ Transition indicators of this year and average of this and previous year's real GDP growth.

one bidder per enterprise. The initial auction price has become the actual sale price, and the auction process has turned into a bargaining process between the privatization authority and de facto owners. While the former has sought to establish politically acceptable prices in auctions in order to fend off allegations of misconduct, the latter has tried to pay as little as possible to privatize his "own" enterprise. This process significantly hampered privatization auctions resulting in repeated offers of same enterprises without any new bidders.

100. Second, all small enterprises were organized under ministries, local governments, or state concerns. For example, shops reported to the Ministry of Trade or to organizations under its control, and service enterprises such as barber shops, tailors, and repair workshops reported to the State Service Concern. The management of these umbrella organizations often had a vested interest in preserving the status quo. All the documents needed for privatization (list of fixed assets, liabilities, and other basic company information) were held by these organizations, and it has been difficult for the SPC to collect them to initiate the auction process.

101. In July 1996, the President chaired an enlarged meeting of the Cabinet of Ministers which resulted in dismissal of the Prime Minister and the Chairman of the SPC. Thereafter, two state concerns (State Service Concern and the State Concern for Trade and Local Industries) were abolished and enterprises under their control were set for privatization. Moreover, the methods used for determining the reserve action price in the auctions were revised leading to significantly lower prices. With this support, the SPC achieved a break through in small scale privatization in August-November 1996 when more than 3,000 enterprises were privatized (Box 15). Auctions were extended to outside the Baku region, their frequency was increased, and a large number of small service and trade enterprises, in addition to gas stations, were offered for privatization at auctions.

102. Progress has been made in the preparatory work for large scale privatization. The printing of privatization vouchers has been contracted, and the first batch of vouchers (4 million of a total of 32 million vouchers) arrived to Azerbaijan in mid-November. All remaining vouchers are scheduled to arrive before the end of 1996. Preparations for the distribution of vouchers is under way, and lists of entitled recipients in every region have been largely completed. Vouchers will be distributed through the branches of the Savings Bank. In addition, a preliminary list of 70 medium and large enterprises has been identified for corporatization. The first round of voucher privatization auctions is scheduled to take place before end-March 1997.

103. Progress in land privatization accelerated after the adoption of the Land Reform Law in August 1996. The law grants full private ownership of land, including the rights to sell, bequeath, inherit, and use land as collateral. The law also classifies the land stock into three categories: (i) state-owned land (land under buildings of state organs, forests, common grazing land, land under highways, railroads, and pipelines, etc); (ii) municipal land (land for

communal use such as parks, recreation areas, sport facilities, and land for residential developments, etc); and (iii) land in private ownership (including farm land as well as the land under apartments and houses). Foreigners are not allowed to own land in Azerbaijan, but are allowed to lease both urban and rural land.

Box 15. Small-Scale Privatization in 1996			
	April-July 1996	August-November 1996	Total
Service enterprises	--	2,886	2,886
Trade/Commercial enterprises	62	157	219
Bread shops	--	298	298
Gas stations	120	83	203
Pharmacies	--	5	5
Others	--	7	7
Total	182	3,436	3,618

104. The land stock in Azerbaijan is estimated at 8,654 thousand hectares of which 77 percent is agricultural land and 12 percent is forested. Of the 6,650 thousand hectares of agricultural land, 1,808 thousand hectares are arable. More than 90 percent of the arable land is allocated for privatization. After the land reform process is completed, 45 percent of the total land stock will remain under state ownership, 33 percent under municipal property, and 22 percent under private ownership.

105. The distribution of land and the splitting of kolkhozes and sovhozes began already before the Land Reform Law was adopted. Farmers were given plots under a user-right arrangement but without a title. There were about 3,200 farms (family or cooperative) established before the law was adopted. In addition, the privatization of livestock was largely completed. Land privatization was greatly accelerated in October 1996. As of mid-November, 800 thousand hectares (47 percent of land to be privatized) were distributed. The number of private and cooperative farms increased to 5,300. Although the farmers have been given a specific demarcated plot, only some 2,500 have so far received the ownership certificates. Similarly, the new farms have not yet been registered.

B. Price Liberalization

106. Most prices were liberalized in 1992-93. After the government abolished the state order system and bread price subsidies in January 1995, only prices of public utilities and petroleum products remained under direct state control. Prices for electricity and gas were tripled in February 1995 and another round of administered price increases followed in July 1996 when prices of household energy, water and sewage were raised by 400 percent, and fees for public transportation by 30 percent. Despite these price hikes, public utilities continued to be provided to households below marginal cost recovery levels.

107. Petroleum prices were raised to world market levels in late 1995 and prices of raw materials and cotton followed suit in early 1996. The maintenance of price regulations in petroleum pricing partly reflects the lack of a functioning regional market for crude oil and petroleum products, while production is highly monopolized domestically. However, during 1996 the price differential of petroleum products to the world market widened again as world oil prices rose. The Government reacted to this development only with a significant lag and increased domestic crude oil price to US\$80 per ton, or to 70 percent of the world market level, only in late 1996. User prices for petroleum products were kept unchanged after the crude oil price realignment in November 1995, but were slightly increased in April 1996. The price structure of petroleum products still results in cross-subsidization of industrial oils and heavy fuel oil.

C. Structure of Government

108. The public administration of Azerbaijan at both republican and local levels consists of 19 national Ministries, 18 State Committees, and 30 independent state organizations and concerns organized under the Cabinet of Ministers. The structure of administration has remained largely unchanged from the era of the Soviet Union. The republican administration consists of the central staff of national ministries, committees and other state organizations, their field offices in the regions, and local administration (oblasts and rayons). A number of critical functions, such as justice and defense, are the responsibility of the republican administration. The government administration is largely arranged along sectoral lines, including health and education, geology and geodesy, hydro meteorology, forestry, fishing, mining, science, and mass media. Many of the ministries and committees, particularly in the economic and social sphere have ill-defined and often overlapping tasks.

109. The government remains heavily involved in economic decision making on a microeconomic level, mainly because the external boundaries of public administration have not yet been redefined to correspond to the needs of a market economy. Controls are exercised through numerous commercial and industrial entities which are part of budgetary organizations, but serve no clear public policy role and are often self-financing. These include, for example, the oil company (SOCAR), enterprises under the Ministry for Material Resources, Ministry of Foreign Economic Relations, Fishing and Forestry Committees, as well

as under the Irrigation Committee. In the areas where privatization and leasing arrangements have already progressed, the public administration often interferes in enterprises' marketing and production decisions by controlling key distribution channels. For instance, the Ministry of Trade, which in Soviet times used to distribute consumer goods, still commands large refrigerating capacities and procures food for hospitals, schools and the military. Similarly, the Ministry of Agriculture controls cotton production and ginneries. Finally, licences and directives serve as a means of government control, sometimes even after their legal basis has been revoked.

110. As in the economic sphere, policies and administration of important social sectors are diffused across different ministries. There is no single organization charged with human resource development. Instead, at least 12 government agencies are involved in education, including the Ministries of Health, Education, Agriculture, and Sports; the Academy of Science, the Science and Technology Committee; Railways and the Cabinet of Ministers. In addition, more than eight ministries are involved in Science and two are involved in health.

D. Other Structural Issues

Human Capital Formation

111. While Azerbaijan still scores high on such human development indicators as literacy, school enrollment, and infant mortality but reflecting the lack of financial resources, human capital is deteriorating rapidly. Education expenditures have declined from 12.5 percent of GDP in 1992 to 4 percent of GDP in 1996 with effects to the dropout rate in general secondary education. The education system is also excessively biased toward training technicians in narrow specializations. The average student-teacher ratio is low, which is partly due to very high employment in the education sector (presently some 130,000 teachers and 55,000 support staff) and partly the result of a gradual reduction of the number of teaching hours per teaching position from 18 hours in 1993 to 12 hours in 1995. Also, high cost of wages and salaries for teaching staff have crowded out other essential expenditures (like books and curriculum development), thereby distorting the input mix and contributing to the deterioration in the quality of the education system.

112. The health care system has been developed with little attention to criteria of technical and allocative efficiency. As a result the system is characterized by excessive reliance on curative health services (especially acute care facilities staffed with specialized physicians) and an over accumulation of hospitals and hospital beds. Three trends characterize recent developments in the health care system. First, budget expenditures have been drastically reduced; between 1992 and 1995, real budget outlays fell by more than 75 percent, from 2.7 percent of GDP to only 1.2 percent of GDP. Second, the health care system increased its reliance on informal user charges to finance its activities, which has substantially reduced the access of poor households to medical services. Third, the overall use of the system has

dropped substantially. Between 1992 and 1995 the number of patients in hospital beds fell by 40 percent. A pilot project focusing in primary care, preventive medicine and basic care has been launched in the city of Kuba by the Ministry of Health and UNICEF.

Environment

113. Azerbaijan faces severe environmental problems. The Caspian Sea is heavily polluted, as are the country's rivers, the Kura and the Araks. Large quantities of industrial and municipal sewage are discharged annually into the sea and rivers. Chemical plants and oil refineries are heavy polluters of the coastal waters. Moreover, both onshore and offshore oil fields pollute the Caspian Sea. Extensive problems with worn and faulty equipment frequently cause oil spills. From the time that the oil fields started producing oil, almost all the reservoirs have been flooded. Brine has been reinjected or discharged into the Caspian Sea without further treatment. Given the poor state of most wellbores, it is likely that reinjected brine has not remained where it was initially placed, and has polluted local freshwater reservoirs. The poor quality of drinking water in the two major cities, Baku and Sumgait, as well as in other municipalities is caused by the pollution of surface waters, and is dealt with inadequately due to obsolete technologies of the public water utilities. The World Bank has started a project to improve the water supply and quality in the Greater Baku Area.

114. An additional environmental problem is posed by the rising level of the Caspian Sea, by about 2.5 meters since 1978. It is estimated that the sea level will continue to rise by another 1.5 meters by 2010, causing serious damage to the Aspheron Peninsula, as well as to the entire coastal zone. Flooding, increasing soil salinity and rising ground water levels already adversely affects crop production. A third problem is the poor air quality in the two main cities, caused by industry as well as increasing traffic.

Legal Framework

115. Azerbaijan's legal framework on property rights and commercial rules partly dates back to the times of the former Soviet Union. Several laws necessary to implement market reforms have been passed in recent years, but their emphasis has been on general legislation rather than on setting specific rules for day-to-day operations of a market economy. For example, the Constitutional Law on Principles of Economic Independence defines property rights in general terms; the Law on Enterprises and Joint Stock Companies contain the basic principles for the establishment, activities, and conduct of different organizations; the Bankruptcy Law sets the procedures for declaring enterprises bankrupt, establishes priority debtors' claims, and provides for the reorganization of the bankrupt enterprise; and the Law on Investment Activities ensures equal protection to all investors, regardless of their nationality, and provides that contracts made between investors in accordance with pre-existing laws have full force and effect.

Table 1. Azerbaijan: Gross Domestic Product by Sector of Origin, 1991 – 96

	1991 1/	1992 1/	1993	1994	1995 Est.	1996 Proj.
(In billions of manats)						
Gross domestic product	2.1	25.1	190.5	2685.3	12264.1	14799.5
Industry	0.6	6.6	66.4	967.9	4337.8	4971.2
Agriculture	0.8	5.8	63.4	932.3	4302.2	5224.2
Construction	0.2	1.6	8.7	94.8	365.5	439.5
Transportation	0.1	0.9	6.3	87.4	386.3	465.7
Other	0.3	10.2	45.6	602.9	2872.3	3698.8
(In percent of GDP)						
Gross domestic product	100.0	100.0	100.0	100.0	100.0	100.0
Industry	30.3	26.1	34.9	36.0	35.4	33.6
Agriculture	39.1	23.0	33.3	34.7	35.1	35.3
Construction	7.9	6.4	4.6	3.5	3.0	3.0
Transportation	6.6	3.8	3.3	3.3	3.2	3.1
Other	16.0	40.7	23.9	22.5	23.4	25.0
Oil related	...	...	...	19.6	21.0	20.8
Non-oil related	...	...	...	80.4	79.0	79.2
(Real percentage changes)						
Gross domestic product	-0.7	-22.1	-23.1	-18.1	-11.0	1.2
Oil and gas	...	...	...	-7.5	-5.0	0.8
Oil	...	...	...	-7.5	-5.8	1.2
Gas	...	...	...	-7.5	1.0	-4.1
Non-oil	...	...	...	-20.8	-13.0	1.4
Non-oil industry	...	...	...	-35.2	-26.1	-10.5
Agriculture	...	...	...	-13.0	-8.5	2.0
Construction	...	...	...	...	-34.0	1.0
Transportation	...	...	...	...	-17.0	1.0
Other	...	...	...	...	-7.9	7.9
Non-oil non-traded	...	...	...	-25.9	-14.1	6.2
Non-oil traded	...	...	...	-16.8	-12.0	-1.6

Sources: Azerbaijan State Committee of Statistics; and IMF staff estimates.

1/ 1991 and 1992 rubles converted into manats at an exchange rate of 1 manats to 10 rubles.

Table 2. Azerbaijan: Gross Domestic Product by Final Use, 1991 – 96

	1991	1992	1993	1994	1995 Est.	1996 Proj.
(In billions of manats)						
Gross domestic product	2.1	25.1	190.5	2685.3	12264.1	14799.5
Final consumption	1.9	18.4	185.4	2684.6	11626.0	14143.4
Households	...	12.3	138.1	2244.1	10500.0	12714.4
Government	...	6.1	47.3	440.5	1126.0	1429.0
Gross fixed capital formation	0.3	5.2	32.9	492.0	1747.7	3166.9
Domestic investment	...	...	...	244.4	1064.3	738.3
Foreign direct investment	...	...	...	247.6	683.4	2428.5
Change in inventories and statistical discrepancies	-0.2	0.0	1.3	-205.1	725.3	577.7
Net exports	0.1	1.5	-29.1	-286.2	-1834.9	-3088.4
Exports of goods and nonfactor services	1.2	26.8	90.2	1196.7	3762.8	4347.0
Imports of goods and nonfactor services	1.1	25.3	119.4	1482.9	5597.7	7435.4
(In percent of GDP)						
Gross domestic product	100.0	100.0	100.0	100.0	100.0	100.0
Final consumption	90.3	73.2	97.3	100.0	94.8	95.6
Households	...	49.0	72.5	83.6	85.6	85.9
Government	...	24.2	24.8	16.4	9.2	9.7
Gross fixed capital formation	14.7	20.8	17.3	18.3	14.3	21.4
Domestic investment	...	...	...	9.1	8.7	5.0
Foreign direct investment	...	...	...	9.2	5.6	16.4
Change in inventories and statistical discrepancies	-10.7	0.0	0.7	-7.6	5.9	3.9
Net exports	5.7	6.0	-15.3	-10.7	-15.0	-20.9
Exports of goods and nonfactor services	58.7	106.8	47.4	44.6	30.7	29.4
Imports of goods and nonfactor services	53.0	100.8	62.7	55.2	45.6	50.2

Sources: Azerbaijan State Committee of Statistics; and IMF staff estimates.

Table 3. Azerbaijan: Energy Production, 1990 – 96

	1990	1991	1992	1993	1994	1995	1996 Jan – Sep	Idem, in % of same period previous year	1996 Proj.
Oil and gas condensate (mln tons)	12.5	11.7	11.1	10.3	9.6	9.2	6.8	97.6	9.3
Gas (bln m3)	9.9	8.6	7.9	6.8	6.4	6.6	4.7	95.4	6.3
Refined oil (mln tons)	16.3	15.8	11.9	10.0	9.4	8.9	6.4	96.0	9.1
Gasoline (mln tons)	2.0	1.8	1.2	1.2	1.3	1.0	0.5	94.5	..
Mazut (mln tons)	6.8	7.4	5.6	5.1	4.1	4.4	2.9	91.7	..
Kerosine (mln tons)	1.3	1.2	0.5	0.5	0.6	0.6	0.5	116.9	..
Diesel (mln tons)	3.9	3.6	3.2	2.7	2.3	2.2	1.5	91.4	..
Lubricants (mln tons)	0.8	0.8	0.4	0.2	0.2	0.1	0.1	101.1	..
Electricity (bln kwt/h)	23.2	23.4	19.8	19.1	17.6	17.0	12.6	103.0	..
Heating energy (mln Kcal)	23.1	22.1	16.8	15.2	12.0	9.9	3.7	79.9	..

Source: Azerbaijan State Committee on Statistics, and Ministry of Economy.

Table 4. Azerbaijan: Crude Oil Production, 1980 – 1996

	Kaspmorneftegaz (Offshore)	Azneft (Onshore)	Total	Percentage change
(in thousands of metric tons)				
1980	9,600	5,053	14,653	..
1981	9,371	4,703	14,074	-4.0
1982	8,247	4,666	12,913	-8.2
1983	8,409	4,286	12,695	-1.7
1984	8,447	4,057	12,504	-1.5
1985	9,233	3,909	13,142	5.1
1986	9,419	3,902	13,321	1.4
1987	10,069	3,734	13,803	3.6
1988	10,324	3,417	13,741	-0.4
1989	10,136	3,023	13,159	-4.2
1990	9,931	2,582	12,513	-4.9
1991	9,492	2,249	11,741	-6.2
1992	9,225	1,970	11,195	-4.7
1993	8,321	1,974	10,295	-8.0
1994	7,778	1,785	9,563	-7.1
1995	7,440	1,760	9,200	-3.8
1996 (Proj.)	7,680	1,620	9,300	1.1

Sources: Azerbaijan State Committee of Statistics; State Oil Company of the Azerbaijan Republic.

Table 5. Azerbaijan: Agricultural Production by Major Crops, 1990 – 96

	1990	1991	1992	1993	1994	1995	1996 Jan–Sep	1996 Proj.
(In thousands of metric tons)								
Grains (mostly wheat)	1413.2	1346.4	1337.2	1147.9	1037.5	921.4	1009.1	1020
Cotton	542.9	539.7	336.5	283.3	284.0	274.1	260	285
Tobacco	53.5	59.4	46.1	36.5	21.0	8.5	8.9	10
Potatoes	185.1	179.9	156.0	152.2	150.0	155.5	172	235
Other vegetables	856.2	805.9	555.5	487.8	471.2	424.1	533	628
Grapes	1196.4	1125.6	607.0	411.3	317.0	308.6	255	270
Watermelons	67.5	62.0	50.1	46.9	45.0	41.6	...	59
Other fruits	320.0	498.3	400.9	346.4	323.4	324.4	199.2	321
Tea	30.7	26.6	22.7	24.0	19.4	9.4	2.9	3.5
(Percentage changes)								
Grains (mostly wheat)	64.2	-4.7	-0.7	-14.2	-9.6	-11.2	...	10.7
Cotton	-6.5	-0.6	-37.7	-15.8	0.2	-3.5	...	4.0
Tobacco	6.0	11.0	-22.4	-20.8	-42.5	-59.5	...	17.6
Potatoes	0.5	-2.8	-13.3	-2.4	-1.4	3.7	...	51.1
Other vegetables	-6.4	-5.9	-31.1	-12.2	-3.4	-10.0	...	48.1
Grapes	13.2	-5.9	-46.1	-32.2	-22.9	-2.6	...	-12.5
Watermelons	6.3	-8.1	-19.2	-6.4	-4.1	-7.6	...	41.8
Other fruits	-23.5	55.7	-19.5	-13.6	-6.6	0.3	...	-1.0
Tea	-6.1	-13.4	-14.7	5.7	-19.2	-51.5	...	-62.8

Sources: Azerbaijan State Committee of Statistics, and Ministry of Agriculture.

Table 6. Azerbaijan: Yields of Major Agricultural Commodities, 1990 – 95

	1990	1991	1992	1993	1994	1995
(In hundred kilograms per hectare)						
Grains (mostly wheat)	24.2	20.7	21.2	16.2	16.8	15.1
Cotton	20.7	22.1	14.4	12.7	13.2	13.0
Tobacco	38.2	36.9	28.4	23.0	20.0	10.6
Potatoes	77.7	80.7	82.7	78.1	85.2	97.5
Other vegetables	199.6	189.1	166.7	150.0	164.0	157.1
Grapes	76.5	75.3	45.8	30.9	25.9	32.6
Watermelons	73.8	70.3	65.4	87.2	95.7	72.6
Other fruits	28.1	43.8	36.8	32.5	31.2	31.2
Tea	39.1	33.0	26.6	26.5	18.8	10.3
(Percentage changes)						
Grains (mostly wheat)	10.5	-14.5	2.4	-23.6	3.7	-10.1
Cotton	-1.0	6.8	-34.8	-11.8	3.9	-1.5
Tobacco	6.2	-3.4	-23.0	-19.0	-13.0	-47.0
Potatoes	-6.4	3.9	2.5	-5.6	9.1	14.4
Other vegetables	-3.6	-5.3	-11.8	-10.0	9.3	-4.2
Grapes	17.5	-1.6	-39.2	-32.5	-16.2	25.9
Watermelons	10.1	-4.7	-7.0	33.3	9.7	-24.1
Other fruits	-34.2	55.9	-16.0	-11.7	-4.0	0.0
Tea	-12.0	-15.6	-19.4	-0.4	-29.1	-45.2

Sources: Azerbaijan State Committee of Statistics, and Ministry of Agriculture.

Table 7. Azerbaijan: State Procurement Prices, 1993 – 96

	1993	1994	1995	1996 Proj.
(In manats per metric ton, annual average)				
Agricultural crops				
Grains	7,920	54,453	403,398	653,000
Cotton (raw)	13,378	300,377	1,297,348	1,379,252
Tobacco	57,943	918,843	1,513,823	1,827,501
Potatoes	6,796	192,388	1,075,174	1,552,020
Vegetables	8,133	69,990	163,559	264,650
Fruits	8,890	80,851	178,830	216,546
Grapes	5,960	62,305	470,268	484,999
Tea leaves	21,185	157,545	986,270	983,026
Watermelons	3,489	23,430	162,327	178,683
Animal products				
Milk	4,478	65,641	471,286	520,749
Beef	18,907	306,600	1,390,091	1,631,611
Mutton	21,765	374,990	1,656,998	1,882,798
Poultry	53,700	675,558	3,988,983	4,058,896
Eggs (1,000)	3,021	48,687	285,887	327,988
Wool	33,746	285,912	1,466,469	1,250,580
Memorandum items				
Domestic prices in relation to world market prices:				
(In U.S. dollars per metric ton, annual average)				
Wheat				
World market price	140	150	177	210
Less transportation costs (approximate)	120	125	147	170
Domestic price	66	38	91	152
Procurement price as percent of world market price	55	30	62	89
Cotton				
World market price for cotton fiber	1,279	1,757	2,167	1,788
Less transportation and ginning cost (approximate)	679	1,157	1,367	988
Conversion factor from fiber to raw cotton (approximate)	0.33	0.33	0.33	0.33
Implicit world market price of raw cotton	226	386	456	329
Procurement price as a percent of implicit world market price of raw cotton	49	54	64	97

Sources: Azerbaijan State Committee of Statistics, Ministry of Economy; and IMF staff estimates.

Table 8. Azerbaijan: Main Indicators of Animal Husbandry, 1990 – 96

	1990	1991	1992	1993	1994	1995	1996 Proj.
(In thousands of heads)							
Live stock							
Cattle	1916	1832	1826	1731	1621	1633	1682
of which cows	716	711	734	735	712	743	773
Pigs	202	157	137	67	48	33	30
Sheep	5315	5224	5098	4711	4371	4373	4434
Goats	198	195	194	190	168	185	210
Horses	39	37	35	35	35	38	43
Other	32	31	28	24	20	23	25
(In thousands of metric tons)							
Animal products							
Meat	176.0	154.0	113.0	93.0	84.0	82.0	85.0
Beef	74.0	63.0	50.0	44.0	43.0	41.0	42.0
Pork	13.0	9.0	5.0	3.0	2.0	2.0	2.0
Mutton	35.0	33.0	27.0	26.0	22.0	24.0	25.0
Poultry	54.0	49.0	31.0	20.0	17.0	15.0	16.0
Milk	970.4	947.7	850.4	798.5	751.0	826.5	848.0
Wool	11.1	10.5	9.5	9.7	9.9	9.0	9.0
Eggs (millions)	985.3	958.2	812.2	584.5	520.0	455.8	483.0
(Percentage changes)							
Live stock							
Cattle	-3.2	-4.4	-0.3	-5.2	-6.4	0.7	3.0
of which cows	-3.6	-0.7	3.2	0.1	-3.1	4.4	4.0
Pigs	-5.2	-22.3	-12.7	-51.1	-28.4	-31.3	-9.1
Sheep	-4.1	-1.7	-2.4	-7.6	-7.2	0.0	1.4
Goats	-2.9	-1.5	-0.5	-2.1	-11.6	10.1	13.5
Horses	-7.1	-5.1	-5.4	0.0	0.0	8.6	13.2
Other	-3.1	-3.1	-9.7	-14.3	-16.7	15.0	8.7
Animal products							
Meat	-6.4	-12.5	-26.6	-17.7	-9.7	-2.4	3.7
Beef	-9.8	-14.9	-20.6	-12.0	-2.3	-4.7	2.4
Pork	8.3	-30.8	-44.4	-40.0	-33.3	0.0	0.0
Mutton	-2.8	-5.7	-18.2	-3.7	-15.4	9.1	4.2
Poultry	-6.9	-9.3	-36.7	-35.5	-15.0	-11.8	6.7
Milk	-7.9	-2.3	-10.3	-6.1	-5.9	10.1	2.6
Wool	10.0	-5.4	-9.5	2.1	2.1	-9.1	0.0
Eggs (millions)	-6.7	-2.8	-15.2	-28.0	-11.0	-12.3	6.0

Sources: Azerbaijan State Committee of Statistics, and Ministry of Agriculture.

Table 9. Azerbaijan: Production Indicators, 1993 – 96

	1993	1994	1995 Est.	1996 Proj.
(Index of real output; 1992 = 100)				
Total industry	80.0	60.0	47.4	43.5
Energy	89.0	82.8	76.1	...
Electricity	94.0	83.7	78.6	...
Oil and gas	86.0	80.0	75.2	75.8
Metallurgy	61.0	16.5	8.7	...
Machine building	86.0	46.4	25.1	...
Chemical and petro-chemical	72.0	43.9	37.3	...
Construction materials	66.0	46.2	17.1	...
Light industry	85.0	61.2	53.9	...
Textiles	88.0	58.1	53.4	...
Agroprocessing	72.0	46.8	25.7	...
Agriculture	75.0	66.0	60.4	61.6
Grains	85.8	77.6	68.9	76.2
Cotton	84.2	84.4	81.4	84.7
(Real percentage changes)				
Total industry	-20.0	-25.0	-21.0	-8.2
Energy	-11.0	-7.0	-8.0	...
Electricity	-6.0	-11.0	-6.0	...
Oil and gas	-14.0	-7.0	-6.0	0.8
Metallurgy	-39.0	-73.0	-47.0	...
Machine building	-14.0	-46.0	-46.0	...
Chemical and petro-chemical	-28.0	-39.0	-15.0	...
Construction materials	-34.0	-30.0	-63.0	...
Light industry	-15.0	-28.0	-12.0	...
Textiles	-12.0	-34.0	-8.0	...
Agroprocessing	-28.0	-35.0	-45.0	...
Agriculture	-25.0	-12.0	-8.5	2.0
Grains	-14.2	-9.6	-11.2	10.7
Cotton	-15.8	0.2	-3.5	4.0

Sources: Azerbaijan State Committee of Statistics; and IMF staff estimates.

Table 10. Azerbaijan: Selected Industrial Production Volumes, 1990 – 96

	1990	1991	1992	1993	1994	1995	1996 Jan – Jun
Metal Industry							
Steel ('000 metric tons)	501	462	360	236	37	20	...
Steel pipes ('000 metric tons)	493	411	260	146	31	10	2
Aluminium ('000 metric tons)	239	276	240	183	271	261	...
Machinery and equipment							
Oil extraction equipment ('000)	5	4	3	2	0	0	0
Drilling equipment ('000)	73	73	55	53	29	24	8
Pumping equipment ('000)	527	462	393	161	35	1	0
Electric motors ('000)	4860	3374	1837	1355	834	512	197
Transformers ('000 kw amp)	1996	1616	651	228	97	56	59
Construction materials							
Reinforced concrete (million m3)	1295	1183	989	594	250	91	16
Bricks (million)	1317	1446	1062	764	498	161	53
Roof tiles (million)	66	78	70	51	14	8	6
Cement ('000 metric tons)	990	923	827	643	467	196	84
Chemical industry							
Fertilizers ('000 metric tons)	212	188	81	32	5	2	1
Pesticides ('000 metric tons)	2	7	6	1	1	0	0
Sulfuric acid ('000 metric tons)	603	552	269	141	56	24	18
Caustic soda ('000 metric tons)	160	171	92	49	40	36	16
Sulphanol ('000 metric tons)	130	118	62	23	7	0	0
Household goods							
Crockery ('000)	21	26	18	16	10	3	2
Metal goods ('000)	1948	724	355	257	135	19	4
Radios ('000)	6	7	0	30	3	1	0
Airconditioners ('000)	309	295	268	179	119	64	38
Ventilators ('000)	134	93	41	37	28	3	0
Detergents ('000 metric tons)	82	76	52	40	10	3	2
Soap ('000 metric tons)	43	25	17	10	8	6	2
Agro-processing							
Timber ('000 m3)	126	87	47	24	7	2	0
Cotton fiber ('000 metric tons)	167	172	148	111	74	81	...

Source: Azerbaijan State Committee of Statistics.

Table 11. Azerbaijan: Average Monthly Wages, 1993 – 96

	Average wage in manats	Average wage in U.S. dollars	Real wage index (1993=100)	Average wage percentage change	Real wage percentage change
1993 January	1,014	21.0	150.1	16.8	-24.2
February	1,099	18.2	141.7	8.4	-5.6
March	1,232	17.8	141.4	12.0	-0.2
April	1,254	16.1	125.8	1.8	-11.0
May	1,367	13.8	108.5	9.1	-13.8
June	1,505	11.2	97.0	10.1	-10.6
July	1,986	17.4	116.7	32.0	20.3
August	2,133	17.1	110.9	7.4	-5.0
September	2,451	18.7	109.5	14.9	-1.2
October	2,516	17.6	92.2	2.7	-15.9
November	3,043	15.3	81.8	20.9	-11.2
December	4,900	20.6	80.2	61.0	-2.1
1993 Annual average	2,042	17.1	113.0	715.6	-33.7
1994 January	5,580	19.1	66.3	13.9	-17.4
February	6,260	16.6	60.4	12.2	-8.9
March	6,940	14.5	53.6	10.9	-11.2
April	7,620	12.0	48.0	9.8	-10.4
May	8,300	7.6	36.5	8.9	-24.0
June	12,075	12.4	45.4	45.5	24.3
July	13,831	14.1	46.6	14.5	2.7
August	14,615	13.5	46.5	5.7	-0.2
September	15,600	9.2	42.6	6.7	-8.5
October	19,812	9.0	40.5	27.0	-4.9
November	28,676	9.2	38.6	44.7	-4.8
December	39,302	9.3	34.1	37.1	-11.7
1994 Annual average	14,884	12.2	46.6	629.0	-58.7
1995 January	34,102	8.0	23.1	-13.2	-32.1
February	43,651	10.0	26.3	28.0	13.8
March	53,767	12.2	31.6	23.2	20.2
April	52,745	12.0	29.4	-1.9	-7.1
May	56,083	12.7	30.0	6.3	2.1
June	61,102	13.8	32.9	8.9	9.6
July	59,642	13.3	32.2	-2.4	-2.1
August	61,821	13.8	33.3	3.7	3.4
September	64,657	14.5	33.0	4.6	-0.8
October	64,657	14.6	32.6	0.0	-1.4
November	65,433	14.7	32.2	1.2	-1.3
December	88,954	20.0	41.8	35.9	29.8
1995 Annual average	58,884	13.3	31.5	295.6	-22.7
1996 January	65,457	14.7	30.1	-26.4	-27.9
February	69,287	15.6	30.9	5.9	2.7
March	79,433	18.0	35.7	14.6	15.3
April	83,986	19.2	37.5	5.7	5.2
May	76,207	17.5	34.4	-9.3	-8.3
June	77,494	17.8	35.9	1.7	4.4
July	81,397	18.9	37.7	5.0	5.1
August	81,990	19.1	37.3	0.7	-1.2
September	83,466	19.8	37.6	1.8	1.0

Sources: Azerbaijan State Committee of Statistics; and IMF staff estimates.

Table 12. Azerbaijan: Average Monthly Wages by Sector, 1990 – 96

	1990	1991	1992	1993	1994	1995	1996 Jan – Aug	1996 Proj.
(Annual average, in manats)								
National economy ^{1/}	19.5	31.8	270.3	2,184.7	15,325.3	62,467.4	81,450.9	84,814.8
Industry	21.9	40.0	388.3	3,109.2	21,009.0	95,556.7	143,494.1	...
Agriculture	16.4	26.1	146.6	1,120.4	8,310.6	33,548.9	30,189.0	...
Transportation	21.6	34.5	285.4	2,623.4	18,635.8	98,241.2	125,508.8	...
Communication	17.5	31.0	294.8	2,270.3	19,599.3	83,802.2	116,147.9	...
Construction	29.1	45.3	367.5	3,277.8	22,366.2	98,872.5	142,933.9	...
Trade	15.1	22.9	162.8	1,163.8	7,647.1	37,518.7	36,278.4	...
Hotel industry	14.1	24.6	162.7	1,640.1	11,206.1	49,206.3	53,305.5	...
Health and social services	13.2	22.7	240.6	1,294.0	9,982.6	26,303.6	28,526.7	...
Education	17.7	25.6	257.1	2,012.6	14,038.5	46,412.3	50,195.0	...
Culture	12.5	29.3	202.5	1,502.0	10,480.5	33,442.6	35,258.7	...
Banking and insurance	27.1	61.4	675.7	6,431.0	33,316.8	169,063.8	181,359.4	...
Government administration	25.9	37.4	345.2	3,478.1	10,134.2	57,514.8	62,395.0	...
(Annual percentage changes)								
National economy	8.9	63.1	750.0	708.3	601.5	307.6	...	35.8
Industry	4.8	82.6	870.8	700.7	575.7	354.8	...	...
Agriculture	17.1	59.1	461.7	664.3	641.8	303.7	...	...
Transportation	6.9	59.7	727.2	819.2	610.4	427.2	...	...
Communication	8.7	77.1	851.0	670.1	763.3	327.6	...	...
Construction	5.1	55.7	711.3	791.9	582.4	342.1	...	...
Trade	13.5	51.7	610.9	614.9	557.1	390.6	...	...
Hotel industry	11.9	74.5	561.4	908.1	583.3	339.1	...	...
Health and social services	7.3	72.0	959.9	437.8	671.5	163.5	...	...
Education	6.6	44.6	904.3	682.8	597.5	230.6	...	...
Culture	2.5	134.4	591.1	641.7	597.8	219.1	...	...
Banking and insurance	58.5	126.6	1000.5	851.8	418.1	407.4	...	...
Government administration	42.3	44.4	823.0	907.6	191.4	467.5	...	...

Sources: Azerbaijan State Committee of Statistics; and IMF staff estimates.

^{1/} Data may differ from the average for the year calculated on the basis of monthly wage data.

Table 13. Azerbaijan: Labor Market, 1992 – 96

	1992	1993	1994	1995	1996 Proj.
(In thousands of persons)					
Population	7,301	7,364	7,420	7,535	7,604
Working age population	3,954	3,971	3,999	4,039	4,093
Outside labor force	500	500	600	622	671
Labor force	3,454	3,471	3,399	3,417	3,422
Total employment	2,922	2,917	2,886	2,837	2,726
Industry	429	392	374	352	...
Government	603	642	653	599	568
Agriculture	1,009	940	895	877	...
Other	881	943	964	1,009	...
Unemployment	532	554	513	580	696
Unemployment rate (in percent)	15	16	15	17	20
Registered unemployed	6	20	24	28	...
Benefit recipients	6	5	4	3	...
Pensioners	1,118	1,251	1,283	1,227	...
(Percentage changes)					
Population	1.0	0.9	0.8	1.5	0.9
Working age population	0.5	0.4	0.7	1.0	1.3
Outside labor force	...	0.0	20.0	3.7	7.9
Labor force	...	0.5	-2.1	0.5	0.1
Total employment	-1.7	-0.2	-1.1	-1.7	-3.9
Industry	-5.7	-8.6	-4.6	-5.9	...
Government	1.0	6.5	1.7	-8.3	-5.2
Agriculture	...	-6.8	-4.8	-2.0	...
Other	...	7.0	2.2	4.7	...
Unemployment	...	4.1	-7.4	13.1	20.0
Registered unemployed	...	204.7	21.0	19.9	...
Benefit recipients	...	-16.7	-20.0	-25.0	...
Pensioners	...	11.9	2.6	-4.4	...

Sources: Azerbaijan Committee of Statistics, Ministries of Labor and Finance; and IMF staff estimates.

Table 14. Azerbaijan: Consumer Price Index, 1993 – 1996

	Index 1993=100	Percentage changes				
		In the month	Quarterly In the quarter	Over the previous quarter	Annual In the last twelve months	Over the previous twelve months
1993 January	33.1	54.1			1081.3	965.8
February	38.0	14.8			917.4	961.7
March	42.7	12.3	98.7	147.9	870.7	944.1
April	48.8	14.4			847.5	934.1
May	61.8	26.5			1028.6	961.2
June	76.0	23.1	78.1	64.0	1108.1	995.7
July	83.4	9.7			1073.9	1014.2
August	94.2	13.0			1113.6	1033.8
September	109.6	16.3	44.2	53.9	1091.1	1045.3
October	133.7	22.0			1126.3	1059.0
November	182.1	36.2			1248.0	1091.6
December	299.4	64.4	173.2	114.2	1293.8	1129.7
1994 January	412.5	37.8			1146.4	1135.1
February	507.8	23.1			1236.5	1163.8
March	634.3	24.9	111.9	152.7	1386.4	1217.6
April	777.0	22.5			1491.7	1280.2
May	1113.4	43.3			1703.1	1371.6
June	1302.7	17.0	105.4	105.4	1613.7	1425.8
July	1452.5	11.5			1641.8	1471.7
August	1538.2	5.9			1532.4	1487.7
September	1793.5	16.6	37.7	49.8	1536.6	1501.9
October	2394.3	33.5			1690.9	1540.7
November	3641.8	52.1			1900.0	1615.7
December	5652.1	55.2	215.1	144.3	1788.0	1664.4
1995 January	7223.4	27.8			1651.0	1671.7
February	8126.3	12.5			1500.2	1637.3
March	8329.4	2.5	47.4	102.6	1213.2	1539.6
April	8795.9	5.6			1032.1	1423.4
May	9156.5	4.1			722.4	1243.0
June	9101.6	-0.6	9.3	14.3	598.7	1089.5
July	9074.3	-0.3			524.7	966.1
August	9092.4	0.2			491.1	873.4
September	9583.4	5.4	5.3	2.6	434.3	788.7
October	9717.6	1.4			305.9	685.8
November	9960.5	2.5			173.5	554.3
December	10428.7	4.7	8.8	8.5	84.5	411.7
1996 January	10647.7	2.1			47.4	299.6
February	10977.7	3.1			35.1	222.2
March	10911.9	-0.6	4.6	8.1	31.0	171.0
April	10966.4	0.5			24.7	132.9
May	10856.8	-1.0			18.6	104.2
June	10574.5	-2.6	-3.1	-0.4	16.2	82.7
July	10563.9	-0.1			16.4	66.1
August	10775.2	2.0			18.5	52.9
September	10861.4	0.8	2.7	-0.6	13.3	41.1
October	10850.5	-0.1			11.7	31.7
November	10937.3	0.8			9.8	24.6

Sources: Azerbaijan State Committee of Statistics.

Table 15. Azerbaijan: Breakdown of Consumer Price Index, 1995 – 96

	Total		Food items		Non-food items		Non-food goods		Services	
	Percentage change	Index Dec 1994=100	Percentage change	Index Dec 1994=100	Percentage change	Index Dec 1994=100	Percentage change	Index Dec 1994=100	Percentage change	Index Dec 1994=100
1995 January	27.8	127.8	33.8	133.8	10.9	110.9	15.7	115.7	5.7	105.7
February	12.5	143.8	10.8	148.3	18.5	131.4	12.9	130.6	25.2	132.3
March	2.5	147.4	2.6	152.1	2.3	134.4	3.2	134.8	1.2	133.9
April	5.6	155.6	5.9	161.1	4.9	141.0	5.1	141.7	4.6	140.1
May	4.1	162.0	4.7	168.6	2.2	144.1	2.3	144.9	2.1	143.0
June	-0.6	161.0	-1.6	166.0	2.6	147.9	3.4	149.9	1.6	145.3
July	-0.3	160.5	-1.3	163.8	3.0	152.3	3.5	155.1	2.4	148.8
August	0.2	160.9	-1.2	161.8	4.4	159.0	3.0	159.8	6.0	157.7
September	5.4	169.6	6.0	171.5	3.7	164.9	2.3	163.4	5.2	165.9
October	1.4	171.9	1.6	174.3	1.0	166.5	1.4	165.7	0.6	166.9
November	2.5	176.2	3.0	179.5	0.9	168.0	1.0	167.4	0.9	168.4
December	4.7	184.5	6.1	190.5	0.4	168.7	0.6	168.4	0.1	168.6
1996 January	2.1	188.4	2.7	195.6	0.2	169.1	0.1	168.6	0.2	168.9
February	3.1	194.2	3.7	202.8	0.8	170.4	0.1	168.7	3.0	174.0
March	-0.6	193.1	-0.7	201.4	0.0	170.4	0.1	168.9	0.0	174.0
April	0.5	194.0	0.2	201.8	2.0	173.8	2.5	173.1	0.7	175.2
May	-1	192.1	-1.5	198.8	0.7	175.0	0.9	174.7	0.2	175.6
June	-2.6	187.1	-3.4	192.0	0.9	176.6	-0.2	174.3	2.9	180.7
July	-0.1	186.9	-4.8	182.8	16.8	206.3	0.3	174.8	66.9	301.5
August	2	190.6	2.3	187.0	1.0	208.3	0.9	176.4	1.2	305.1
September	0.8	192.2	0.9	188.7	0.2	208.8	0.3	177.0	0.1	305.5
October	-0.1	192.0	-0.2	188.3	0.4	209.6	0.2	177.3	0.7	307.6
November	0.8	193.5	-0.1	188.1	3.9	217.8	-0.2	177.0	12.0	344.5

Source: Azerbaijan State Committee of Statistics.

Table 16. Azerbaijan: Consolidated Operations of the General Government, 1992-96

	1992		1993		1994		1995		1996 1/	
	Billions of Manats	Percent of GDP	Billions of Manats	Percent of GDP	Billions of Manats	Percent of GDP	Billions of Manats	Percent of GDP	Billions of Manats	Percent of GDP
Revenue	12.3	49.0	63.7	33.4	658.1	24.5	1872.5	15.3	2395.9	16.2
Individual income tax	0.5	1.8	3.7	1.9	27.8	1.0	116.9	1.0	209.3	1.4
Enterprise profits tax	1.6	6.2	13.3	7.0	97.5	3.6	408.7	3.3	434.4	2.9
Social security contributions	2.5	9.8	15.0	7.9	79.6	3.0	250.2	2.0	318	2.1
Employees	...	...	...	...	2.9	0.1	5.2	0.0	...	...
Employers	...	...	...	...	68.4	2.5	229.3	1.9	...	...
Other	...	...	...	...	8.3	0.3	15.7	0.1	...	...
Value-added tax	2.0	7.8	12.7	6.7	62.7	2.3	176.1	1.4	432.4	2.9
Excise taxes	0.9	3.6	6.3	3.3	37.0	1.4	88.4	0.7	240.3	1.6
Royalties	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	94.6	0.6
Customs revenue	0.0	0.0	1.2	0.6	12.8	0.5	69.0	0.6	126.1	0.9
Strategic export tax	0.0	0.0	0.0	0.0	0.0	0.0	187.5	1.5	148.4	1.0
Foreign exchange revenue	3.5	14.0	7.2	3.8	251.6	9.4	317.2	2.6	0.0	0.0
Employment Fund revenue	...	...	...	...	1.9	0.1	6.0	0.0	6.9	0.0
Road Fund revenue	...	...	...	...	...	...	...	...	67.6	0.5
Other former Funds	...	...	...	...	...	...	...	...	15.5	0.1
Other revenue	1.5	6.0	4.3	2.3	87.2	3.2	252.5	2.1	302.7	2.0
Total expenditure (incl. net lending) 2/	11.6	46.3	87.8	46.1	965.5	36.0	2395.3	19.5	2801.6	18.9
Expenditure (excluding net lending)	11.6	46.3	87.8	46.1	965.5	36.0	1991.5	16.2	2722.6	18.4
Wages and salaries	...	...	...	...	86.0	3.2	390.1	3.2	483.6	3.3
Purchases of goods and services	1.8	7.0	16.4	8.6	120.0	4.5	731.4	6.0	944.9	6.4
Defense	1.6	6.4	13.3	7.0	120.0	4.5	197.8	1.6	130.8	0.9
Reserve fund for Cabinet Ministers	...	...	...	...	...	...	0.0	0.0	0.0	0.0
Settlement of refugees	0.2	0.8	3.1	1.6	...	...	57.9	0.5	45.3	0.3
Other	...	...	...	...	...	...	475.7	3.9	768.8	5.2
Interest payments	...	...	...	...	0.3	0.0	10.7	0.1	52.6	0.4
Current transfers to households	2.9	11.4	26.0	13.6	160.4	6.0	534.2	4.4	850.6	5.7
Social Protection Fund	...	...	...	...	...	...	534.2	4.4	794.6	5.4
Pensions	1.3	5.2	12.7	6.7	73.5	2.7	204.3	1.7	390.7	2.6
Price compensations	0.4	1.6	5.4	2.8	62.4	2.3	275.0	2.2	328.0	2.2
Other compensations and allowances	1.1	4.4	7.9	4.1	24.5	0.9	54.8	0.4	99.9	0.7
o.w. Settlement of arrears	...	...	...	...	...	...	...	...	129.0	0.9
Other	...	...	...	...	...	...	...	...	56.0	0.4
Current transfers abroad	...	...	...	...	...	...	7.9	0.1	0.0	0.0
Subsidies	2.7	10.8	7.3	3.8	101.9	3.8	233.0	1.9	295.7	2.0
o.w. National Economy	...	...	...	...	...	...	195.0	1.6	247.7	1.7
Other current expenditure	4.1	16.3	33.2	17.4	479.8	17.9	0.0	0.0	0.0	0.0
Capital investment	0.2	0.8	4.9	2.6	16.1	0.6	78.9	0.6	72.8	0.5
Employment Fund Expenditure (EF)	...	...	...	...	1.0	0.0	5.3	0.0	6.4	0.0
Disabled Persons' Fund Exp. (DPP)	...	...	...	...	...	...	...	...	14.9	0.1
Other funds	...	...	...	...	...	...	...	...	1.0	0.0
Financial Balance	0.7	2.8	-24.1	-12.7	-307.4	-11.4	-118.9	-1.0	-326.6	-2.2
Net lending minus repayment	...	...	...	...	...	...	403.8	3.3	79.0	0.5
Fiscal Balance	0.7	2.8	-24.1	-12.7	-307.4	-11.4	-522.7	-4.3	-405.6	-2.7
Financing	-0.7	-2.8	24.1	12.7	226.9	8.4	523.0	4.3	406.0	2.7
Domestic	...	...	...	...	...	...	29.9	0.2	-4.7	-0.0
External	...	...	...	...	...	...	493.1	4.0	410.7	2.8
Receipts	...	...	...	...	...	...	494.2	4.0	410.6	2.8
Repayment	...	...	...	...	...	...	0.9	0.0	0.0	0.0
Memorandum Items										
GDP	25		190		2685		12264		14800	

Sources: Ministry of Finance, State Tax Inspectorate, Azerbaijan National Bank; and IMF staff projections

1/ Projection

2/ Expenditure breakdown in 1992-94 is not fully comparable to that in 1995 due to definitional changes.

Table 17. Social Protection Fund, 1993–96

	1993	1994	1995	1996
(In billions of manats)				
Total revenue	23.1	136.2	533.1	810.0
Insurance fees	15.9	74.9	307.7	428.0
Compulsory fees of citizens	0.5	3.4	5.7	12.0
Transfers from the state budget	5.3	48.3	173.6	340.0
Extraordinary grant from the EU	0.0	0.0	29.3	30.0
Other revenue	1.4	9.6	16.8	0.0
Total Expenditure	23.1	136.2	527.7	810.0
Pensions	12.4	60.2	194.5	370.1
Cash compensations for increased prices	0.8	36.3	237.6	213.4
Other compensations and allowances	9.9	39.7	95.6	75.2
Payments to people since 1995	0.0	0.0	0.0	151.3
Balance (– deficit)	0.0	0.0	5.4	0.0
(In percent of GDP)				
Total revenue	12.1	5.1	4.3	5.5
Insurance fees	8.3	2.8	2.5	2.9
Compulsory fees of citizens	0.3	0.1	0.0	0.1
Transfers from the state budget	2.8	1.8	1.4	2.3
Extraordinary grant from the EU	0.0	0.0	0.2	0.2
Other revenue	0.7	0.4	0.1	0.0
Total Expenditure	12.1	5.1	4.3	5.5
Pensions	6.5	2.2	1.6	2.5
Cash compensations for increased prices	0.4	1.4	1.9	1.4
Other compensations and allowances	5.2	1.5	0.8	0.5
Payments to people since 1995	0.0	0.0	0.0	1.0
Balance (– deficit)	0.0	0.0	0.0	0.0
GDP	190	2,685	12,264	14,800

Source: Social Protection Fund and Ministry of Economy

Table 18. Azerbaijan: Annual Changes in Monetary Aggregates, 1993–96

	1993 act.	1994 act.	1995 act.	1996 proj.
(end of period percentage change)				
Manat Broad Money	685.9	486.1	122.2	26.7
Manat Reserve Money	1,136.5	642.7	129.7	30.9
Currency in Circulation	1,475.2	552.9	114.7	28.3
(period average percentage change)				
Manat Broad Money	...	508.6	175.2	56.3
Manat Reserve Money	...	681.7	190.6	60.9
Currency in Circulation	...	609.2	244.2	55.7
Memorandum Items				
Inflation (end of period)	1,293.8	1,788.0	84.5	8.4
Inflation (period average)	1,129.7	1,664.4	411.7	20.1
Velocity of manat broad money 1/	5.1	11.5	17.7	13.6
Manat money multiplier (end of period)	1.7	1.3	1.3	1.2
Manat money multiplier (period average)	1.9	1.5	1.3	1.3

Sources: Azerbaijan National Bank; and IMF staff estimates.

1/ Calculated as annualized period GDP divided by period average broad money stock.

Table 19. Azerbaijan: Balance Sheet of the Azerbaijan National Bank, 1993–96
(In billions of manats, end of period stocks)

	1993 Q4	1994 Q4	1995 Q1	Q2	Q3	1995 Q4	1996 Q1	Q2	Q3
Net foreign assets	-1.0	4.5	106.2	220.4	314.8	244.6	428.2	316.9	253.6
Net international reserves (convertible) 1/	0.1	3.8	12.0	146.9	145.4	81.1	262.6	157.4	101.3
Gross international reserves (convertible) 1/	0.1	8.4	12.2	351.8	349.5	529.0	696.6	658.9	662.1
Foreign liabilities (convertible)	0.0	-4.6	-0.2	-204.8	-204.0	-447.9	-433.9	-501.6	-560.8
Required reserves in foreign currencies	0.0	0.0	93.0	73.0	170.1	164.3	166.2	159.3	151.4
Net claims on FSU states	-1.0	0.7	1.2	0.5	-0.7	-0.8	-0.6	0.2	0.9
Net domestic assets	44.8	322.0	445.1	429.4	556.2	666.5	499.1	640.1	801.5
Domestic credit	44.0	335.7	503.8	515.7	693.7	784.5	623.3	709.8	898.8
Credit to general government (net; incl oil account)	23.9	235.1	-62.7	65.6	307.5	-114.2	-198.4	-103.0	-18.3
Credit to general government (net; excl oil bonus and World Bank funds)	23.9	235.1	177.8	235.4	321.4	300.0	245.3	262.9	242.6
Manat claims on central government (net)	24.3	244.7	194.6	239.8	327.5	304.4	250.4	291.9	246.4
Oil signature bonus funds	..	..	-240.5	-169.8	-13.9	-369.9	-263.9	-187.7	-87.7
World Bank counterpart funds	0.0	0.0	0.0	0.0	0.0	-44.4	-179.9	-178.2	-173.2
Claims on social protection fund (net)	-0.1	-0.3	-1.2	-1.3	-1.2	-0.9	-1.4	-1.6	-0.2
Claims on local government (net)	-0.3	-9.3	-15.6	-3.1	-4.9	-3.5	-3.7	-10.9	-3.7
Claims on enterprises	0.1	1.0	3.2	5.8	7.4	8.5	8.9	9.1	9.6
Credit to banks (including overdrafts)	20.0	100.2	127.9	165.5	217.3	250.0	279.0	326.4	411.4
Foreign currency deposits placed at domestic banks	3.9	41.5	435.4	278.8	161.4	640.2	533.9	477.3	496.1
Other items (net)	0.8	-13.7	-58.6	-86.3	-137.5	-118.0	-124.2	-69.7	-97.3
Reserve money	43.5	323.1	548.5	643.0	865.8	906.4	918.1	949.7	1047.3
Manat reserve money	43.5	323.1	455.6	570.0	695.7	742.2	752.0	790.4	895.9
Currency in circulation	43.2	282.3	371.6	467.6	553.8	606.1	622.8	639.2	739.4
Manat bank reserves			83.9	102.4	141.9	136.1	129.2	151.2	156.5
Correspondent accounts	0.2	17.3	48.1	68.5	104.0	87.3	87.5	111.3	133.9
Required reserves in manats	0.1	21.4	34.3	32.6	36.4	48.1	40.2	38.4	21.0
Other	0.0	2.1	1.5	1.3	1.5	0.7	1.5	1.6	1.6
Required reserves in foreign currencies	0.0	0.0	93.0	73.0	170.1	164.3	166.2	159.3	151.4
Other deposits	0.3	3.4	2.8	6.7	5.2	4.7	9.2	7.3	7.8

Sources: Azerbaijan National Bank; and IMF staff estimates.

Table 20. Azerbaijan: Monetary Survey, 1993–96
(In billions of manats, end of period stocks)

	1993 Q4 Actual	1994 Q4 Actual	1995 Q1 Actual	Q2 Actual	Q3 Actual	1995 Q4 Actual	1996 Q1 Actual	Q2 Actual	Q3 Actual
Net foreign assets	3.4	398.7	523.8	703.5	744.3	676.3	674.8	460.2	608.7
Net domestic assets	82.9	649.4	464.6	751.7	925.7	623.3	590.7	774.3	839.5
Domestic credit	88.2	830.0	809.0	1329.8	1599.0	1336.1	1383.9	1634.2	1827.3
Credit to general government (net, including oil account)	17.0	185.0	-131.8	-3.6	217.3	-199.9	-321.3	-245.9	-165.8
Credit to general government (net, excl oil bonus and World Bank funds)	17.0	185.0	108.7	166.2	231.2	214.3	122.4	120.0	95.1
Manat claims on central government (net)	23.2	209.8	161.7	204.9	297.8	285.3	210.1	210.9	192.0
Claims on social protection fund (net)	-3.1	-11.8	-13.1	-11.4	-17.2	-21.5	-21.7	-21.6	-16.0
Claims on local government (net)	-3.1	-13.0	-40.0	-27.4	-49.4	-49.5	-65.9	-52.7	-48.2
Oil signature bonus funds	0.0	0.0	-240.5	-169.8	-13.9	-369.9	-263.9	-187.7	-87.7
World Bank counterpart funds	0.0	0.0	0.0	0.0	0.0	-44.4	-179.9	-178.2	-173.2
Claims on enterprises and individuals	71.2	645.0	940.8	1333.4	1381.7	1536.0	1705.2	1880.1	1993.1
Other items (net)	-5.3	-180.6	-344.4	-578.2	-673.4	-712.7	-793.1	-859.9	-987.8
Broad money	86.3	1048.1	988.4	1455.2	1669.9	1299.6	1265.5	1234.4	1448.2
Manat broad money	73.5	431.0	580.2	750.2	901.9	957.6	957.7	992.4	1116.2
Currency outside banks	43.2	276.1	366.1	460.9	547.7	602.4	616.6	632.6	729.3
Manat deposits	30.4	154.9	214.1	289.2	354.2	355.2	341.0	359.8	386.8
Foreign currency deposits	12.8	617.0	408.2	705.0	768.0	342.0	307.9	242.0	332.0
Percentage Changes									
Currency in circulation (period average)			43.4	28.3	21.7	13.6	5.9	2.7	9.2
Manat reserve money (period average)	..	63.5	47.8	31.7	23.4	13.6	3.9	3.2	9.3
Manat broad money (period average)	63.4	63.5	45.5	31.6	24.2	12.6	3.0	1.8	8.1
Memorandum items									
Inflation (period average)	114.2	144.3	102.6	14.3	2.6	8.5	8.1	-0.4	-0.6
Nominal GDP growth	..	142.7	66.5	10.2	5.2	9.6	2.3	0.7	5.0
Velocity of manat broad money (level)	5.2	18.7	21.4	17.9	15.2	14.8	14.7	14.5	14.1
Manat money multiplier (level)	1.7	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.2
Gross international reserves (millions of U.S. dollars) 1/	..	2.0	2.8	79.0	78.8	119.1	159.2	152.0	157.1
Idem, including deposits at domestic banks	..	2.0	102.2	141.6	115.2	263.3	281.2	280.1	292.8
Net international reserves (millions of U.S. dollars) 1/	..	0.9	2.7	33.0	32.8	18.3	60.0	36.3	24.0
Idem, including deposits at domestic banks	..	0.9	102.1	95.6	69.2	162.5	182.0	164.4	159.7

Sources: Azerbaijan National Bank; and IMF staff estimates.

1/ Different from the presentation used earlier, foreign currency balances held at domestic banks are not included in gross international reserves of the ANB, but instead included in net domestic assets of the ANB.

Table 21. Azerbaijan: Domestic Credit to Enterprises and Households, 1993–96
(In billions of manats; end of period stocks)

	1993 December	1994 December	1995				1996		
			March	June	September	December	March	June	September
Total credit to rest of economy 1/	79.8	678.7	936.2	1298.9	1296.4	1449.0	1652.2	1812.8	1909.7
Azerbaijan National Bank	0.7	1.1	2.6	4.9	6.2	6.5	8.2	8.4	8.6
Prominvest Bank	31.9	132.4	181.8	259.5	308.9	347.9	376.5	400.6	412.5
Agroprom Bank	21.4	181.2	267.2	384.3	473.3	594.7	682.5	726.2	810.5
Savings Bank 2/	2.9	13.9	18.9	27.6	32.0	33.5	32.6	29.9	29.3
International Bank	5.7	228.3	285.0	401.6	259.2	249.4	323.2	386.7	390.1
Private banks	17.2	121.8	180.7	221.0	216.7	216.9	229.2	261.0	258.7
Short-term credit	75.4	596.0	830.7	1160.5	1116.9	1264.8	1460.5	1657.1	1760.3
Azerbaijan National Bank	0.7	1.0	2.4	4.7	5.9	6.1	7.8	8.0	8.2
Prominvest Bank	30.0	123.7	171.5	247.8	296.0	333.3	358.9	380.3	390.7
Agroprom Bank	20.0	168.5	241.0	346.6	422.8	531.5	613.5	655.0	738.4
Savings Bank 2/	2.8	13.8	18.8	27.6	32.0	33.5	32.6	29.9	29.3
International Bank	4.9	167.7	216.7	313.0	143.6	143.7	218.7	323.2	335.7
Private banks	17.1	121.3	180.3	220.8	216.6	216.7	229.0	260.7	258.0
Long-term credit	4.3	82.7	105.4	138.5	179.5	184.2	191.7	155.7	149.4
Azerbaijan National Bank	0.0	0.1	0.2	0.3	0.3	0.4	0.4	0.4	0.4
Prominvest Bank	1.8	8.7	10.3	11.7	12.9	14.6	17.6	20.3	21.8
Agroprom Bank	1.4	12.7	26.2	37.7	50.5	63.2	69.0	71.2	72.1
Savings Bank 2/	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
International Bank	0.9	60.6	68.3	88.6	115.6	105.7	104.5	63.5	54.4
Private banks	0.1	0.5	0.4	0.2	0.1	0.2	0.2	0.3	0.7
<u>Memorandum items</u>									
Quarterly credit growth	..	..	37.9	38.8	-0.2	11.8	14.0	9.7	5.3
Annual credit growth	421.6	750.7	590.4	405.9	266.0	113.5	76.5	39.6	47.3
Real credit to rest of economy (Index Dec. 93 = 100)	37.5	16.9	15.8	20.1	19.0	19.5	21.3	24.1	24.7

Source: Azerbaijan National Bank.

1/ Data may differ from the balance sheet data used in the monetary survey due to classification differences.

2/ Does not include lending to commercial banks.

Table 22. Azerbaijan: Interest Rates, 1993–96
(End of period)

	1993	1994	1995				1996		
	December	December	March	June	September	December	March	June	September
ANB refinance rate, uncompounded ^{1/}	100	200	237	180	100	100	50	30	25
compounded	144	406	543	342	144	144	60	34	27
Treasury Bill rate, uncompounded	...	...	...	...	...	...	...	...	31
compounded	...	...	...	...	...	...	...	...	35
Commercial bank lending rates									
State enterprises, uncompounded	110	210	260	190	110	80–110	50–90	45–70	25–45
compounded	164	441	641	373	164	107–164	60–125	53–91	27–53
Private enterprises, uncompounded	150–200	200–250	200–300	180–250	120–200	80–120	50–60	45–50	25–36
compounded	257–406	406–597	406–838	342–597	186–406	107–186	60–75	53–60	27–41
Commercial bank deposit rates									
Enterprises									
Current accounts, uncompounded	0–5	0–5	0–5	0–5	0–5	1–10	1–10	1–10	1–10
compounded	0–5	0–5	0–5	0–5	0–5	1–10	1–10	1–10	1–10
Time deposits, uncompounded	50	100–150	100–200	100–200	70–110	20–100	10–100	5–70	4–32
compounded	60	144–257	144–406	144–406	90–164	90–164	10–144	5–91	4–36
Households									
Current accounts, uncompounded	20	20	20	20	20	20	20	20	3
compounded	22	22	22	22	22	22	22	22	3
Time deposits, uncompounded	30–100	200–250	180–250	160–200	50–80	10–80	7–60	5–60	3–60
compounded	34–144	406–597	342–597	284–406	60–107	10–107	7–75	5–75	3–75
Large one-month deposits ^{2/}	...	25	25	15	10	6	5	3	2
compounded	...	1355	1355	435	213	101	80	43	27

Sources: Azerbaijan National Bank; and commercial banks.

^{1/} Credit auction rate as of March 1995.

^{2/} Monthly interest rates.

Table 23. Azerbaijan: Baku Interbank Currency Exchange, 1994-96

	Average exchange rate (manats per U.S. dollar)	Total volume (thousands of U.S. dollars)	Number of auctions	Average volume per auction (thousands of U.S. dollars)	ANB net sales (thousands of U.S. dollars)	ANB buying (thousands of U.S. dollars)	ANB selling (thousands of U.S. dollars)
1994 August	1,500	205	...	...	-12	...	...
September	2,321	1,649	...	...	-4	...	...
October	3,026	2,652	...	...	3	...	...
November	4,199	3,317	...	...	610	...	...
December	4,318	5,281	8	660	-700	...	...
1995 January	4,265	6,901	7	986	2,084	462	2,546
February	4,345	6,567	8	821	2,822	200	3,022
March	4,392	8,567	8	1,071	2,961	717	3,678
April	4,396	22,588	14	1,613	3,324	3,552	6,876
May	4,418	21,824	12	1,819	7,472	1,050	8,522
June	4,444	30,928	13	2,379	-2855	7,780	4,925
July	4,476	23,082	13	1,776	5,062	2,632	7,694
August	4,495	24,608	13	1,893	4,558	1,843	6,401
September	4,451	36,145	13	2,780	10,976	89	11,065
October	4,437	28,147	11	2,559	16,934	0	16,934
November	4,440	36,966	13	2,844	19,466	0	19,466
December	4,440	29,250	11	2,659	12,308	0	12,308
1996 January	4,443	33,259	13	2,558	15,733	111	15,844
February	4,441	28,322	11	2,575	8,964	336	9,300
March	4,404	55,617	11	5,056	7,090	18,232	25,322
April	4,367	52,530	13	4,041	17,875	5,263	23,138
May	4,353	47,197	11	4,291	13,650	6,965	20,615
June	4,346	52,756	12	4,396	11,067	17,709	28,776
July	4,298	45,066	15	3,004	10,809	15,795	26,604
August	4,283	42,828	18	2,379	13,978	3,145	17,123
September	4,222	44,364	17	2,610	25,504	2,600	28,104
October	4,181	67,803	17	3,988	8,879	15,810	24,689
November	4,149	59,228	19	3,117	24,307	10,251	34,558
1995 Q1	4,334	22,035	23	958	7,867	1,379	9,246
Q2	4,419	75,340	39	1,932	7,941	12,382	20,323
Q3	4,474	83,835	39	2,150	20,596	4,564	25,160
Q4	4,439	94,363	35	2,696	48,708	0	48,708
Year	4,416	275,573	136	2,026	85,112	18,325	103,437
1996 Q1	4,429	117,198	35	3,349	31,787	18,679	50,466
Q2	4,355	152,483	36	4,236	42,592	29,937	72,529
Q3	4,268	132,258	50	2,645	50,291	21,540	71,831

Source: Azerbaijan National Bank.

Table 24. Azerbaijan: Balance of Payments, 1994-96.

(In millions of U.S. dollars unless otherwise indicated)

	1994	1995, quarterly				1995	1995	1996, quarterly			1996
		Q1	Q2	Q3	Q4	Jan-Sep	Year	Q1	Q2	Q3	Jan-Sep
Current account	-121	-91	-91	-55	-143	-236	-379	-147	-192	-171	-476
Trade balance	-163	-89	-97	-41	-115	-228	-343	-85	-156	-123	-319
Exports, fob	682	107	128	184	192	419	612	205	187	205	736
Of which: oil consortiums	0	0	0	0	0	0	0	0	0	0	0
Imports, fob	-845	-196	-226	-225	-308	-647	-955	-290	-342	-328	-1055
Of which: oil consortiums	0	-3	-4	-7	-16	-14	-30	-12	-66	-74	-152
Services	-33	-29	-24	-38	-50	-91	-140	-101	-39	-59	-269
Credits	137	37	38	44	54	118	172	27	37	47	222
Debits	-170	-66	-61	-82	-104	-209	-312	-128	-75	-106	-491
Income	0	-3	-1	-1	-2	-5	-7	-3	-9	-6	-28
Of which: interest payments on public debt	-3	-3	-2	-1	-2	-6	-7	-4	-7	-5	-30
Current transfers	75	31	32	25	24	87	111	42	11	16	140
Official	71	24	24	19	15	66	81	37	13	10	119
Private	4	7	8	6	8	21	29	5	-1	6	21
Capital and financial account	54	122	29	50	256	200	456	175	131	107	413
Capital account	0	0	0	0	-2	0	-2	2	0	0	2
Financial account	54	122	29	50	257	200	457	173	131	107	411
Direct investment	22	45	73	75	84	193	277	102	137	170	409
Of which oil bonus 1/	0	30	51	42	0	122	122	0	0	0	0
Portfolio investment	0	-2	-2	-2	3	-5	-2	0	0	0	0
Trade credits	0	0	0	0	0	0	0	0	0	0	0
Official medium- and long-term	54	11	9	18	49	39	87	27	-26	-12	-11
Disbursements	54	27	17	19	53	64	116	33	9	4	45
Project loans	54	10	0	0	4	11	14	1	9	4	14
Program loans	0	17	17	19	49	53	102	31	0	0	31
Amortization	0	-16	-8	-1	-4	-25	-29	-5	-35	-16	-56
Banking system (net)	-22	74	-45	-35	108	-6	102	44	20	-51	13
Short term / other	0	26	6	-53	14	-21	-7	0	0	0	0
Errors & omissions	-12	23	38	29	-22	90	68	3	6	44	53
Overall balance	-79	54	-24	24	91	54	145	31	-55	-20	-10
Financing	79	-54	24	-24	-91	-54	-145	-31	55	20	44
Net foreign assets (- increase)	-2	-100	7	26	-93	-67	-161	-39	25	12	-2
Central bank gross reserves	-2	-100	-39	26	-148	-113	-261	-39	7	-5	-37
IMF	0	0	46	0	55	46	101	0	18	18	35
Change in arrears	81	-33	8	-51	-0	-76	-76	8	5	6	19
Rescheduling 2/	0	79	9	1	3	89	92	0	25	2	27
Memorandum items:											
ANB's gross reserves											
In millions of dollars	2	102	141	115	119	115	119	159	152	157	157
In weeks of imports 3/	0	5	7	5	4	5	5	6	6	6	6
Current account in percent of GDP											
incl. oil cons. operations	-8.3	-13.0	-12.9	-7.8	-19.3	-11.2	-13.3	-19.5	-24.8	-20.5	-20.2
excl. oil cons. operations	-8.3	-11.3	-10.8	-4.4	-11.9	-8.8	-9.6	-9.0	-12.7	-5.8	-6.3
Exports GNPS	819	144	166	228	247	537	784	232	223	252	958
Imports GNPS	-1015	-262	-287	-307	-412	-856	-1268	-418	-418	-434	-1546

Sources: Azerbaijan authorities and staff estimates.

1/ Contract signing bonuses paid to the Government by foreign oil companies.

2/ In 1996, rescheduling of outstanding claims to the Turkish Eximbank (mainly trade credits) with repayment over the 1998-2000 period.

3/ Imports of goods and non factor services, excluding oil consortium operations.

Table 25. Registered Foreign Trade, 1993–96 1/
(In millions of US Dollars)

	1993	1994	1995	1996 Jan–Sep
Exports	697	637	547	441
Food	97	64	39	18
Cotton	65	99	117	31
Oil products	198	207	282	306
Metal	162	105	18	4
Chemicals and petrochemicals 2/	44	33	34	30
Machines and equipment	66	93	46	38
Other	65	36	11	14
Imports	849	778	668	715
Food	...	205	277	305
Natural gas	66	193	0	0
Metal	...	97	42	57
Chemicals and petrochemicals 2/	...	52	73	71
Machines and equipment	...	102	123	152
Other	...	129	153	130
Direction of Trade				
Export	697	637	547	441
C.I.S.	362	281	218	204
Russia	180	140	99	75
Ukraine	47	568	33	15
Other countries	136	83	86	114
Rest-of-World	335	356	329	237
Iran	193	242	163	163
Turkey	61	16	26	24
United Kingdom	3	62	49	12
Other countries	78	36	91	38
Imports	849	778	668	715
C.I.S.	441	498	228	239
Russia	125	118	88	104
Ukraine	153	86	34	74
Kazakhstan	35	52	18	13
Turkmenistan	71	196	51	12
Other countries	57	47	37	36
Rest-of-World	408	280	440	476
Iran	42	67	80	49
Turkey	64	76	141	143
Other countries	302	137	219	284

Sources: Azerbaijan State Committee on Statistics; and IMF staff estimates.

1/ Including humanitarian assistance.

2/ Including pharmaceutical products.

Table 26. Azerbaijan: Energy Balance, 1991-96

	1991	1992	1993	1994	1995	1996 Prelim. est.
Oil and products	(In millions of metric tons)					
Production	11.7	11.2	10.3	9.5	9.2	9.1
Net volume of trade	4.2	3.5	1.4	1.8	2.2	2.2
Export	8.3	5.4	1.6	1.8	2.2	2.2
of which: crude	0.0	1.1	0.0	0.0	0.0	0.0
Import	-4.1	-1.9	-0.2	0.0	0.0	0.0
Registered use 1/	7.5	7.7	8.9	7.6	7.0	6.9
Natural gas	(In billions of cubic meters)					
Production (excluding losses) 2/	8.6	7.8	6.8	6.2	6.6	6.3
Net volume of trade	-8.2	-3.9	-2.5	-2.5	-0.5	0.0
Export	0.0	0.0	0.0	0.0	0.0	0.0
Import	-8.2	-3.9	2.5	-2.5	-0.5	0.0
Registered use 1/	16.8	11.7	9.3	8.7	7.1	6.3
Memorandum item:						
Energy trade balance 3/	-3.1	0.0	0.9	-0.4	1.7	2.2

Sources: Azerbaijan State Committee on Statistics; Ministry of Economy; World Bank; and IMF staff estimates

1/ Registered use is the volume of production plus net imports.

2/ Production excludes vented gas.

3/ Expressed in metric tons equivalent (one ton of oil=1120 cubic metres of gas).

Table 27. Azerbaijan: Import, Export Prices and Terms of Trade, 1993-96.

	1993	1994	1995	1996 Jan - Jun
	(Base 1993 = 100)			
Import price index, in U.S. dollars (c.i.f.)	100.0	131.4	161.0	162.7
(annual rate of change in percent)		31.4	22.6	1.0
CIS	100.0	156.7	182.4	193.8
Non - CIS	100.0	101.6	133.6	131.3
Export price index, in U.S. dollars (f.o.b.)	100.0	117.7	114.2	127.5
(annual rate of change in percent)		17.7	-3.0	11.7
Terms of trade	100.0	89.6	70.9	78.4
(annual rate of change in percent)		-10.4	-20.8	10.6
	(In U.S. dollars per ton unless otherwise stated)			
Selected CIS imports (c.i.f.)				
Beef	341	833	1240	1240
Butter	875	1162	2142	2410
Wheat	94	96	119	164
Flour	202	125	180	272
Sugar	309	309	392	473
Phosphates	454	454	786	913
Natural gas (per '000 c.m.)	21	80	80	80
Selected non - CIS imports (c.i.f.)	100	101.6	133.6	131.3
Beef	1029	1029	1297	1224
Butter	1054	1040	2468	2195
Wheat	82	82	117	125
Flour	168	168	300	261
Margarine	880	916	1096	1214
Sugar	341	335	455	467
Selected exports (f.o.b.)				
Tomatoes	425.3	425.3	129.1	347.1
Wine	4.0	3.0	1.6	1.7
Tobacco	1367.3	839.6	466.3	630.6
Air conditioners (per unit)	98.2	182.5	149.2	203.0
Cotton	754.9	1315.9	1530.1	1451.9
Kerosine	101.2	97.3	102.2	130.7
Diesel	98.3	115.6	112.7	137.9
Lubricants	77.6	169.2	293.7	345.8

Sources: Goskomstat; and IMF staff estimates.

Table 28. Azerbaijan: Current Transactions According to the Balance of Payments, 1994-96

(In millions of U.S. dollars)

	1994	1995, quarterly				1995	1996, quarterly				1996
		Q1	Q2	Q3	Q4		Q1	Q2	Q3	Jan-Sep	
Current account	-121	-91	-91	-55	-143	-379	-147	-192	-171	-510	
Goods	-163	-89	-97	-41	-115	-343	-85	-156	-123	-363	
Exports (bop basis)	682	107	128	184	192	612	205	187	205	597	
Exports f.o.b. (Goskomstat - trade statistics)	637	89	113	169	177	547	156	136	155	447	
Energy	207	44	40	78	94	257	118	85	96	299	
Non-energy	430	44	73	91	83	291	38	51	59	148	
Coverage adjustments	45	19	15	15	15	64	49	50	51	150	
Bunker fuel	...	2	1	1	2	6	0	2	2	4	
Goods for processing	...	3	1	0	1	5	0	0	0	0	
Exports to Turkmenistan for gas imports	...	10	10	10	9	39	0	0	0	0	
Personal shoppers	...	4	4	4	4	15	4	4	4	11	
Other/adjustment	...	0	0	0	0	0	45	45	45	135	
Imports fob (bop basis)	-845	-196	-226	-225	-308	-955	-290	-342	-328	-960	
Imports c.i.f. (Goskomstat - trade statistics)	-778	-144	-128	-163	-232	-668	-233	-250	-227	-710	
Energy	-225	-43	-11	-5	-28	-87	-10	-7	-5	-22	
Non-energy	-553	-101	-117	-159	-204	-581	-223	-243	-222	-688	
Coverage adjustments	-67	-53	-98	-62	-76	-287	-57	-93	-101	-250	
Bunker fuel	-5	-1	-1	-1	-2	-5	-1	-1	-1	-4	
Goods fin. by EU and Turk. Exim Bank	...	-11	-11	-11	-11	-44	0	0	0	0	
Humanitarian aid	-50	-18	-18	-18	-19	-73	-26	-13	-9	-47	
Oil consortium imports	0	-3	-4	-7	-16	-30	-12	-66	-74	-152	
Personal shoppers	-60	-30	-72	-40	-46	-188	-20	-20	-20	-60	
Other goods, (legal entities)	...	-0	-0	-0	-0	-1	-17	-15	-15	-47	
Adjustment for freight and insurance	48	11	9	16	18	54	19	22	18	59	
Resident carriers & insurers	...	4	1	7	8	20	...	...	...	0	
Non resident carriers & insurers	...	7	8	9	10	34	...	...	...	0	
Services	-33	-29	-24	-38	-50	-140	-101	-39	-59	-199	
Credit	137	37	38	44	54	172	27	37	47	111	
Transportation	...	17	18	21	22	76	10	11	18	39	
passenger	...	4	4	5	4	17	2	4	3	8	
freight	71	10	11	13	14	48	7	6	12	25	
other	...	3	3	3	3	11	1	2	3	6	
Travel	...	14	14	18	24	70	10	11	20	42	
Business	...	2	2	3	3	10	2	5	4	10	
Personal	...	12	12	15	21	60	8	6	17	31	
Other services	...	6	6	6	8	26	8	14	9	30	
Communication	...	2	2	2	2	8	2	2	2	5	
Construction	...	1	0	1	0	2	1	0	1	2	
Insurance	...	0	0	0	0	0	0	1	0	1	
Financial	...	0	0	0	0	0	0	2	0	2	
Government	...	1	2	1	2	6	2	2	2	6	
Other	...	2	2	2	3	9	3	7	5	14	
Debit	-170	-66	-61	-82	-104	-312	-128	-75	-106	-310	
Transportation	...	-14	-9	-22	-26	-72	-33	-29	-29	-90	
passenger	...	-4	-5	-5	-5	-19	-5	-4	-6	-15	
freight	-48	-8	-2	-15	-19	-44	-26	-22	-20	-68	
other	...	-2	-2	-2	-3	-10	-2	-3	-2	-7	
Travel	...	-38	-38	-38	-33	-146	-26	-26	-33	-85	
Business	...	-3	-3	-3	-2	-10	-1	-4	-3	-8	
Personal	...	-35	-35	-35	-31	-136	-25	-22	-30	-77	
Other services	...	-14	-14	-22	-45	-95	-70	-20	-45	-135	
Communication	...	-1	-1	-1	-1	-4	-1	-1	-1	-2	
Construction	...	-4	-5	-6	-9	-24	-14	-16	-12	-42	
Oil consortium	...	-2	-3	-4	-6	-15	-7	-14	-10	-31	
Other	...	-2	-2	-2	-3	-9	-6	-2	-2	-11	
Insurance	...	-1	1	-1	-2	-2	-0	-0	0	-1	
Financial	...	-0	-0	-0	0	-0	-1	-0	0	-1	
Government	...	-2	-2	-2	-2	-8	-1	-2	-2	-5	
Other	...	-6	-7	-12	-32	-57	-66	-16	-35	-117	
Oil consortium	0	-5	-6	-11	-31	-53	-58	-10	-35	-103	
Other	...	-1	-1	-1	-1	-4	-8	-6	0	-14	

Table 28. Azerbaijan: Current Transactions According to the Balance of Payments, 1994-96, continued.

(In millions of U.S. dollars)

	1994	1995, quarterly				1995	1996, quarterly			1996
		Q1	Q2	Q3	Q4		Q1	Q2	Q3	Jan-Sep
Income	0	-3	-1	-1	-2	-7	-3	-9	-6	-18
Credit	0	2	2	2	3	10	3	1	2	6
Compensation of employees	0	1	1	1	1	3	0	0	1	1
Investment income	0	2	2	2	2	7	3	1	2	6
Direct investment	...	0	0	0	0	0	0	0	0	0
Other investment	...	2	2	2	2	7	3	1	2	6
Debit	...	-5	-4	-3	-5	-16	-6	-10	-8	-25
Compensation of employees	...	-2	-2	-2	-3	-9	-2	-4	-4	-9
Oil consortium	...	-2	-2	-2	-3	-9	-2	-4	-4	-9
Other	...	-0	-0	-0	-0	-0	0	0	0	0
Investment income	...	-3	-2	-1	-2	-7	-4	-7	-5	-15
Direct investment	...	-0	0	0	0	-0	0	0	0	0
Other investment	...	-3	-2	-1	-2	-7	-4	-7	-5	-15
o.w.: interest on public debt	-3	-3	-2	-1	-2	-7	-4	-7	-5	-15
Current Transfers	75	31	32	25	24	111	42	11	16	70
Credit	75	35	36	30	28	129	50	16	21	86
General Government	71	25	25	20	17	87	37	13	10	60
Humanitarian, technical & other assist.	71	25	25	20	17	87	37	13	10	60
Other	0	0	0	0	0	0	0	0	0	0
o.w. EU grant	0				0	0	0	0	0	0
Other sectors	4	10	11	10	12	43	13	3	11	27
Workers remittances	...	9	9	8	9	35	12	2	9	24
Other transfers	...	1	2	2	2	7	1	0	2	3
Debit	0	-4	-4	-5	-5	-19	-8	-4	-4	-16
General Government	0	-1	-1	-1	-2	-5	0	-0	0	-0
Contribution to international organizations	...	-1	-1	-1	-1	-5	-0	-0	0	-0
Other	...	0	0	0	-0	-0	0	0	0	0
Other sectors	0	-3	-3	-4	-3	-13	-8	-4	-4	-16
Workers remittances	...	-3	-3	-3	-3	-12	-8	-4	-4	-16
Other transfers	...	0	0	-1	-0	-1	0	-0	-0	-0

Source: Azerbaijan State Committee on Statistics ; and IMF staff estimates