Azerbaijan: Selected Economic Indicators

	1998	1999	2000	2001	2002 Prel. Est.
	(Changes in percent)				
Real economy					
Real GDP	10.0	7.4	11.1	9.9	10.6
CPI (end-of-period)	-7.6	-0.5	2.2	1.3	3.3
	(In percent of GDP)				
Consolidated Government					
Total revenue 1/	19.6	18.5	21.2	21.5	28.0
Total expenditures (including net lending) 1/	23.8	23.6	20.8	20.3	28.3
Fiscal balance 2/	-3.9	-4.7	-0.6	0.9	-0.5
	(Changes in percent)				
Money and Credit					
Manat reserve money	-22.3	20.9	22.1	9.0	11.0
Manat broad money	-10.6	5.3	11.1	7.8	15.5
Banking sector credit to the economy	6.7	4.2	-1.6	-17.5	16.7
Income velocity of average manat broad money 3/	7.8	7.8	7.7	6.8	6.2
	(In percent of GDP)				
Balance of Payments					
Current account balance (-, deficit)	-30.7	-13.1	-3.6	-0.9	-12.6
External public debt 4/	11.4	21.0	22.2	22.2	22.6
Gross international reserves					
In millions of US$, end of period	449	673	680	725	721
In months of nonoil sector imports of GNFS	3.5	4.7	4.9	4.5	4.0
Exchange Rate					
End-of-period level (Manat/US$)	3,890	4,378	4,565	4,775	4,893
Real effective exchange rate (-, depreciation)	14.9	-5.8	-9.8	-6.1	-8.3

Sources: Azeri authorities; and IMF staff estimates.

1/ Revenue and expenditure in 2002 include the estimated value of SOCAR's unpaid energy deliveries to the utilities (5.4 percent of GDP).

2/ This definition of the general government balance treats revenue from privatization as a financing item and is measured from below-the-line financing which includes the statistical discrepancy.

3/ In terms of nonoil GDP.

4/ Includes government and government guaranteed external debt only.

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International Monetary Fund
Washington, D.C. 20431 USA

IMF Approves US$18 Million PRGF Disbursement to the Azerbaijan Republic and Requests for Waivers of Performance Criteria and Extension of Arrangement

The Executive Board of the International Monetary Fund (IMF) has completed the second review of the Azerbaijan Republic's performance under a Poverty Reduction and Growth Facility (PRGF) arrangement. Completion of the review will enable the Azerbaijan Republic to draw an amount equivalent to SDR 12.87 million (about US$18 million) from the IMF immediately, which will bring total disbursements thus far under the arrangement to SDR 28.97 million (about US$41 million). Access authorized under the PRGF arrangement (see News Brief No. 01/53) amounts to the equivalent of SDR 80.45 million (about US$113 million).

In completing the review on May 14, 2003, the Executive Board granted waivers in respect of the Azerbaijan Republic's non-observance of three performance criteria pertaining respectively to the adoption of timetables for the unification of domestic and world prices for oil, oil products and natural gas, the full privatization of the International Bank, and the preparation of United Universal Joint Stock Bank for privatization, as well as quarterly granting to the State Oil Company of the Azerbaijan Republic of tax credits. The reforms ultimately undertaken by the authorities in connection with certain performance criteria went beyond what was specified in the performance criteria – e.g., unifying domestic and world market energy prices, rather than merely adopting a timetable for their unification—and the related delays did not jeopardize achievement of the program's objectives.

The commitment period of the three-year PRGF arrangement approved for the Azerbaijan Republic on July 6, 2001 has been extended through March 31, 2005.

The Poverty Reduction and Growth Facility is the IMF's concessional facility for low-income countries. PRGF-supported programs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners, and articulated in a Poverty Reduction Strategy Paper (PRSP). This is intended to ensure that each PRGF-supported program is consistent with a comprehensive framework for macroeconomic, structural, and social policies, to foster growth and reduce poverty. PRGF loans carry an annual interest rate of 0.5 percent, and are repayable over 10 years with a 5 ½-year grace period on principal payments.

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Following the Executive Board discussion, Eduardo Aninat, Deputy Managing Director and Acting Chair, said:

"Azerbaijan's macroeconomic performance in recent years, with strong, broad-based economic growth and low inflation, has been impressive. However, poverty remains widespread and the economy is heavily dependent on oil-sector revenue. To enhance prospects for sustained growth in the non-oil sectors and to make further progress in alleviating poverty, the authorities will need to develop a strategy for the use of oil wealth. Combined with the aggressive implementation of structural reforms, this will be a critical part of the authorities' overall development strategy as outlined in their recently approved State Programme on Poverty Reduction and Economic Development (PRSP).

"The authorities' preparation of a full PRSP with broad participation from civil society is commendable, and the broad policy priorities outlined in the PRSP are consistent with the multi-dimensional nature of poverty alleviation. It will now be important to ensure that the targeted reforms are implemented on a timely basis, and that the strategy is adjusted in response to changing economic conditions and experience gained during the reform process. To help ensure steady progress toward the PRSP objectives, the authorities are encouraged to enhance their project evaluation capacity, gradually increase capital expenditures, improve the effectiveness of health and education spending, and build a social safety net to support reforms in the energy sector.

"The authorities' commitment to monetary and fiscal policies consistent with macroeconomic stability is laudable, and exchange rate policy remains appropriate for the challenges facing Azerbaijan. In view of pressing needs for infrastructure and social spending, the moderate increase in the non-oil fiscal deficit in 2003 is appropriate, and is consistent with a long-term strategy of conserving a large share of oil revenue for future generations. The authorities are encouraged to save any higher-than-budgeted oil revenues to provide a cushion against possible future declines in oil prices.

"The authorities' decision to focus their attention on the non-oil deficit as the proper measure of fiscal stimulus provided to the economy is appropriate, in view of the volatility of oil prices. In addition, the recent passage of the draft amendments to the Budget Systems Law is welcome, and should help ensure closer integration of the oil fund and state budgets into a comprehensive budget.

"The efforts to enhance energy sector financial discipline have led to a substantial reduction in explicit and implicit subsidies. These subsidies remain considerable, however, and the authorities are encouraged to press ahead with their planned energy sector reforms, including by adopting a mechanism for adjusting energy prices that would ensure domestic energy prices remain broadly in line with world market prices.

"The recent reforms in the banking system, particularly the strengthening of banking supervision and the introduction of large and small-value payments systems, are encouraging. However, slow progress in privatizing remaining state-owned banks has prevented the development of a truly