

Republic of Azerbaijan: 2008 Article IV Consultation—Staff Report; Staff Statement; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Republic of Azerbaijan

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2008 Article IV consultation with the Republic of Azerbaijan, the following documents have been released and are included in this package:

- The staff report for the 2008 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on March 12, 2008, with the officials of the Republic of Azerbaijan on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on May 8, 2008. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- A staff statement of May 23, 2008 updating information on recent developments.
- A Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its May 23, 2008 discussion of the staff report that concluded the Article IV consultation.
- A statement by the Executive Director for Republic of Azerbaijan.

The document listed below will be separately released.

Statistical Appendix

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623-7430 • Telefax: (202) 623-7201
E-mail: publications@imf.org • Internet: <http://www.imf.org>

Price: \$18.00 a copy

**International Monetary Fund
Washington, D.C.**

This page intentionally left blank

INTERNATIONAL MONETARY FUND

REPUBLIC OF AZERBAIJAN

Staff Report for the 2008 Article IV Consultation

Prepared by Staff Representatives for the 2008 Consultation with Azerbaijan

Approved by Lorenzo Pérez and Mark Plant

May 8, 2008

- **Mission:** February 27–March 12, 2008, Baku.
- **Team:** Ms. Fichera (head), Mmes. Zermeño, Koeda, John (assistant), Mr. Ding (all MCD), and Mr. Pratt (MCM external expert). Mr. Pérez (MCD) and Mr. Lanz (OED) attended policy discussions. Mr. Gvenetadze, resident representative, and the local office staff, assisted the mission.
- **Exchange system:** Azerbaijan accepted the obligations of Article VIII, Sections 2, 3, and 4, effective November 30, 2004. A new de facto exchange rate arrangement that pegs the manat to a dollar/euro currency basket became operational in March 2008, replacing a crawling peg exchange system that had been in place since 2006.
- **Data:** Azerbaijan has participated in the General Data Dissemination System since 2001. Provisions of data to the Fund is adequate for surveillance.
- **Previous consultation:** concluded on May 9, 2007. The staff report and PIN are available at <http://www.imf.org/external/pubs/cat/longres.cfm?sk=21031.0>.

Contents

Page

Executive Summary	3
I. Introduction.....	4
II. Recent Developments	5
III. Outlook	12
A. Short-Term.....	12
B. Medium- and Long-Term.....	14
IV. The Authorities' Views.....	17
A. Macroeconomic Policy Mix to Reduce Inflation.....	17
B. Improving the Quality and Efficiency of Public Expenditures.....	18
C. Strengthening the Financial System.....	18
V. Staff Appraisal	19

Tables

1. Selected Economic and Financial Indicators, 2004–08	22
2. Balance of Payments, 2004–08.....	23
3. Consolidated Central Government Operations, 2004–08 (In millions of manats)	24
4. Consolidated Central Government Operations, 2004–08 (In percent of non-oil GDP)	25
5. Summary Accounts of the National Bank, 2004–08	26
6. Monetary Survey, 2004–08.....	27
7. Banking System Soundness Indicators, 2004–07	28
8. Selected Economic and Financial Indicators, 2006–13	29
9. Public Sector Debt Sustainability Framework, 2003–13	30
10. External Debt Sustainability Framework, 2003–13.....	31
11. Economic and Financial Indicators, 2006–13.....	32

Boxes

1. Non-Oil Revenues: Recent Developments and Policy Issues	7
2. Banking Sector Developments.....	10
3. Exchange Rate Assessment for Azerbaijan	13