

AZERBAIJAN: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE
AS OF APRIL 15, 2008

	Date of latest observation	Date received	Frequency of data ⁶	Frequency of reporting ⁶	Frequency of publication ⁶	Memo Items:	
						Data Quality – Methodological soundness ⁷	Data Quality Accuracy and reliability ⁸
Exchange Rates	April 11, 2008	4/15/08	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	March 31, 2008	4/15/08	D	W	M		
Reserve/Base Money	March 31, 2008	4/15/08	D	W	M	O, O, O, O	O, O, O, O, LO
Broad Money	February 29, 2008	3/20/08	M	M	M		
Central Bank Balance Sheet	March 31, 2008	4/15/08	D	W	M		
Consolidated Balance Sheet of the Banking System	February 29, 2008	3/20/08	M	M	M		
Interest Rates ²	March 2008	4/15/08	M	M	M		
Consumer Price Index	March 2008	4/4/08	M	M	M	O, O, O, O	O, LO, O, O, O
Revenue, Expenditure, Balance and Composition of Financing ³ – General Government ⁴	December 2007	1/15/08	M	Q	Q	LO, LNO, LNO, LO	LO, LO, O, O, LO
Revenue, Expenditure, Balance and Composition of Financing ³ – Central Government	December 2007	1/15/08	M	Q	Q		
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	December 2007	3/01/08	Q	Q	Q		
External Current Account Balance	Q3 2007	1/08/08	Q	Q	Q	LO, LO, LO, LO	O, LO, LO, O, LO
Exports and Imports of Goods and Services	Q3 2007	1/08/08	Q	Q	Q		
GDP/GNP	March 2008	4/15/08	M	M	A	O, LO, O, LO	LO, LNO, O, O, O

¹Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

²Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

³Foreign, domestic bank, and domestic nonbank financing.

⁴The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁵Including currency and maturity composition.

⁶Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).

⁷Reflects the assessment provided in the data ROSC published on March 20, 2003 and based on the findings of the mission that took place during April 8–23, 2002 for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning (respectively) concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), or not observed (NO).

⁸Same as footnote 7, except referring to international standards concerning (respectively) source data, statistical techniques, assessment and validation of source data, assessment and validation of intermediate data and statistical outputs, and revision studies.

Statement by the IMF Staff Representative
May 23, 2008

1. This statement summarizes information that has become available since the Staff Report on the Republic of Azerbaijan was circulated to the Executive Board on May 8, 2008. The new information points to heightened risk for further rise in the already high inflation rate, but does not change the thrust of the staff appraisal.

2. Inflation has accelerated since the beginning of the year. The 12-month inflation rate rose to 21.4 percent in April from 15.2 percent in January, with food inflation surging to 29.6 percent from 19.4 percent.

3. On May 7, 2008, the President of the Republic of Azerbaijan signed into law the supplementary budget of the central government for 2008. The revised budget indicates a much larger fiscal expansion than the one described in the baseline scenario of the staff report, which reflected preliminary information on government policy intentions at the time of the mission. The authorities justified the significant budget expansion on account of higher than previously expected oil revenue.¹ The revised budget has significantly increased the domestically financed investment expenditure, quoting higher investment costs because of rising commodity and building material prices, and the need to accelerate the execution of investment projects to support non-oil GDP growth. Allocations for wages, pensions and social transfers have also been augmented to counter the impact of inflation on real incomes.

4. Staff estimates that the 2008 supplementary budget would entail an increase in consolidated government expenditure of 12.7 percentage points of non-oil GDP, with respect to the staff report projections (Tables 1, 2 and 3). Non-oil revenue is now projected to be 1.7 percentage point of non-oil GDP higher, on account of higher inflation and growth. If fully executed, the revised budget would result in a widening of the non-oil primary deficit to 50 percent of non-oil GDP, from 32 percent in 2007; the staff report projected a non-oil primary deficit of 39 percent of non-oil GDP for 2008. The overall fiscal surplus would be lower than previously projected by about 1.9 billion manat (5 percent of total GDP), leading to less accumulation of oil fund assets.

5. In the context of already binding supply constraints and an accelerating inflation trajectory, staff expects that the additional increase in public spending will result in higher inflation, a marginal increase in non-oil growth, and higher imports compared with the staff report projections. With inflation now projected to rise to 26 percent at end-2008, the risk of

¹ The original budget law was based on a 50 dollar per barrel average oil price for 2008. The supplementary budget assumes an average oil price of 70 dollar per barrel. Staff's projections, both in the staff report and in this statement, are based on the Spring WEO oil price projection of 95.5 dollar per barrel.

a price-wage spiral has increased substantially. The supplementary budget will also exacerbate the existing problems with the quality and efficiency of public expenditure due to limited administrative and absorption capacity. In view of increasing risks to long-term macroeconomic stability, staff now considers as critical a more cautious approach to budget implementation in 2008 and significant fiscal adjustment in 2009 to support a credible disinflation process. In addition, during the remainder of 2008, exchange rate and monetary policy will need to be used proactively to avoid that the inflationary impact of the supplementary budget gets out of control.

Table 1. Azerbaijan: Selected Economic and Financial Indicators, 2005–08

	2005	2006	Prel. 2007	SM/08/140 2008	Rev. Proj. 5/ 2008
(Annual percentage change, unless otherwise specified)					
National income					
GDP at current prices	46.8	49.7	43.4	49.5	51.3
GDP at constant prices	24.3	30.5	23.4	18.6	19.1
Oil GDP	65.4	62.0	37.3	27.7	27.7
Non-oil GDP 1/	8.4	11.9	11.5	9.0	10.0
Implicit GDP deflator	18.1	14.7	16.2	26.1	27.1
Consumer price index (end-period)	5.5	11.4	19.5	22.0	26.0
Consumer price index (period average)	9.7	8.4	16.6	19.6	22.3
Consolidated central government finance					
Total revenue	36.9	67.5	51.5	178.8	183.7
Of which: non-oil revenue	34.9	34.5	43.2	27.6	38.8
Total expenditure	28.7	80.9	43.3	42.4	72.8
Of which: current expenditure	22.8	50.9	33.5	34.8	53.9
investment expenditure	59.9	203.6	63.1	55.0	104.3
Money and credit					
Net foreign assets	7.5	89.3	46.9	75.0	105.6
Net domestic assets	47.9	82.7	106.4	65.2	84.9
Credit to the economy	53.0	63.6	96.5	55.0	70.0
Manat base money	7.5	132.6	101.4	68.3	94.3
Broad money	22.1	86.4	72.4	70.0	95.0
Foreign currency deposits ratio to broad money	56.9	37.9	25.4	17.9	17.9
Velocity of broad money (M3) 2/	5.2	4.8	3.5	2.8	2.9
External sector (in U.S. dollars)					
Exports f.o.b.	104.4	70.1	63.1	57.3	57.3
Of which: oil sector	113.0	75.4	66.5	59.7	59.7
Imports f.o.b.	21.4	21.1	14.1	30.4	51.1
Of which: oil sector	18.7	-9.1	-25.8	-25.5	-25.5
Export volumes	47.8	41.0	47.1	19.5	19.5
Import volumes	15.6	9.8	2.5	22.1	41.5
Terms of trade	17.0	11.6	4.3	23.3	23.3
Real effective exchange rate (- deprec.)	6.3	8.7	8.8
(In percent of GDP, unless otherwise specified)					
Gross investment	41.5	29.9	20.4	16.3	18.4
Consolidated government	4.1	8.6	10.3	10.6	13.9
Private sector	37.4	21.2	10.2	5.6	4.5
Of which: oil sector	17.6	7.8	3.7	1.5	1.5
Gross national savings	42.8	47.6	49.2	55.8	54.7
Consolidated government	7.0	8.8	12.7	39.7	38.0
Private sector 3/	35.8	38.7	36.5	16.1	16.7
Consolidated central government finance					
Overall fiscal balance	2.6	-0.2	2.4	29.1	24.2
Non-oil primary balance, in percent of non-oil GDP	-12.6	-31.1	-32.1	-39.0	-50.0
Implicit energy subsidies, in percent of non-oil GDP	23.5	19.8	14.8	15.9	15.4
External sector					
Current account (- deficit)	1.3	17.7	28.8	39.5	36.3
Foreign direct investment (net)	3.5	-6.2	-16.6	-4.1	-4.1
Public and publicly guaranteed external debt	12.5	9.4	8.1	7.5	7.3
Memorandum items:					
Nominal GDP (in millions of manats)	12,523	18,746	26,884	40,204	40,678
Nominal non-oil GDP (in millions of manats) 1/	7,002	8,655	11,131	14,462	14,936
Population (mid-year, in millions)	8.4	8.5	8.6	8.6	8.6
Nominal GDP per capita (in U.S. dollars)	1,574	2,469	3,663	5,689	5,756
Gross official international reserves (in millions of U.S. dollars)	1,178	2,500	4,273	7,410	8,528
Oil Fund assets (in millions of U.S. dollars) 4/	1,394	1,869	3,019	18,241	15,938
Exchange rate (manat/dollar, end-of-period)	0.919	0.871	0.845

Sources: Azerbaijan authorities; and Fund staff estimates and projections.

1/ Includes oil and gas transportation.

2/ Defined as gross domestic demand (excluding oil sector-related imports) divided by average broad money.

3/ The historical data include the statistical discrepancy.

4/ Includes the central government's foreign exchange deposits managed by the Oil Fund.

5/ Includes the projected macroeconomic impact of the 2008 supplementary budget enacted on May 8, 2008.

Table 2. Azerbaijan: Consolidated Central Government Operations, 2005–08
(In millions of manats)

	2005	2006	Prel. 2007	SM/08/140 2008	Rev. Proj. 7/
Total revenue and grants	3,143	5,253	7,949	22,162	22,547
Total revenue	3,132	5,248	7,949	22,162	22,547
Tax revenue	1,902	3,341	5,634	6,548	6,961
Income taxes	673	1,768	3,046	3,111	3,326
Individual income tax	317	407	589	750	795
Enterprise profits tax	355	1,361	2,458	2,361	2,531
Social security contributions	198	294	551	572	611
Value added tax (VAT)	600	738	1,179	1,725	1,885
Domestic	346	386	644	980	1,130
Imports	254	351	535	745	755
Excise taxes	141	187	403	450	450
Taxes on international trade	205	239	287	457	457
Other taxes	85	115	167	233	233
Nontax revenue 1/	938	1,499	2,152	15,614	15,585
Of which: Oil Fund revenues 2/	596	984	1,813	15,233	15,204
Tax credits for SOCAR energy subsidies	292	408	163	0	0
Total grants (current)	11	5	0	0	0
Total expenditure	2,839	5,135	7,356	10,472	12,712
Current expenditure	2,281	3,442	4,595	6,192	7,070
Primary current expenditure	1,973	3,021	4,402	6,081	6,960
Wages and salaries	580	745	1,086	1,521	1,810
Goods and services	716	1,285	1,854	2,511	3,063
Transfers	640	884	1,297	1,851	1,884
Of which: social protection fund	495	566	1,038	1,409	1,406
Subsidies	28	41	161	188	193
Oil Fund (operating expenditures)	2	1	4	10	10
Other	7	66	0	0	0
SOCAR energy-related subsidies	292	408	163	0	0
Interest	16	13	30	111	110
Current balance (-, deficit)	862	1,811	3,354	15,970	15,477
Investment expenditure and net lending	558	1,693	2,761	4,280	5,642
Domestically-financed	438	1,427	2,613	3,754	5,116
Foreign-financed	120	266	148	526	526
Statistical discrepancy	-17	155	-54	0	0
Non-oil primary balance	-884	-2,691	-3,571	-5,637	-7,465
Consolidated government balance, cash basis	321	-37	646	11,690	9,835
Excluding foreign project loans	441	229	795	12,216	10,361
Financing	-321	37	-646	-11,690	-9,835
Domestic (net) 3/	-436	-223	-830	-12,390	-10,494
External (net)	115	260	183	700	659
Memorandum items:					
Oil revenue 4/	1,221	2,667	4,247	17,438	17,410
Non-oil revenue 5/	1,922	2,585	3,701	4,724	5,137
Implicit subsidies 6/	1,647	1,710	1,647	2,295	2,295

Sources: Azerbaijan authorities; and Fund staff estimates and projections.

1/ Includes contingent revenues accrued on the "deposit account" of budgetary organizations.

2/ Includes profit oil, acreage fees, and income earned on Oil Fund assets. Oil bonuses also enter in the Oil Fund, but these are treated as a financing item.

3/ Includes changes in Oil Fund assets.

4/ Includes SOCAR tax credits for energy subsidies.

5/ Includes grants, VAT and excise taxes on oil and gas, and tax withholding on the Azerbaijan International Operating Company's subcontractors.

6/ Fund staff estimates.

7/ Fund staff projections reflecting the impact of the 2008 supplementary budget enacted on May 8, 2008.