

Better Research, Better Policy, Better Reform



Azerbaijan Economy in 2012; expectations and challenges

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Official forecasts for the economy of Azerbaijan in 2012 seem quite optimistic. According to the Ministry of Economic Development reports, the Government of Azerbaijan (GoA) targets 5,7 % GDP Growth in 2012, meanwhile The Central Bank of Azerbaijan is eager to keep inflation at single digits. Recently, The Central Bank announced that inflation rate will be kept no higher than 6,0 % in 2012. It is worth to mention that the annual inflation rate for December 2011 was 8%, according to the State Statistical Committee of Azerbaijan.

Earlier in 2011, the Ministry of Economic Development forecasted 3,8 % economic growth for 2011, however, later on, the ministry adjusted its figures to 0,2 %. At the same time, the inflation rate for 2011 was also adjusted from 5,0 % to 8,0 %. Meanwhile, International Monetary Fund (IMF) projected 7,1 % economic growth for Azerbaijan in 2012. The IMF also predicts that the inflation rate in 2012 will be at 10.3 percent. The Fund's estimates show that in 2011 Azerbaijan will have a balance of payments surplus, accounting for 22.7 percent of the GDP, 19.3 percent in 2012, and 8.2 percent in 2016. Earlier, the Asian Development Bank (ADB) predicted a 3 percent GDP growth for Azerbaijan in 2011 and 4.5 percent in 2012 in its Asian Development Outlook Update. ADB kept inflation forecasts for Azerbaijan unchanged, with 7.5 percent predicted in 2011 and 7 percent in 2012.

The sharp rise in GDP of Azerbaijan in 2012, according to the forecasts by both the GoA and the International Monetary Fund (IMF), is unfeasible to explain. This was stated in an interview with chairman of the Center for Economic and Social Development Vugar Bayramov. According to him, in a previous report developed by the IMF, GDP growth in Azerbaijan in 2012 projected at 2.5% since GoA projected at only 4,0 % growth. But later on, both the institutes adjusted their forecasts for 2011 as well as for 2012. The 2011 figures were reduced while forecasts for

upcoming year were raised considerably. In this regard, as noted Bayramov, a sharp increase in the IMF forecast on GDP growth in Azerbaijan causes some apprehension.

In his view, the achievement of those forecasts is essentially unrealistic. "First, the State Oil Company (SOCAR) plans to reduce oil production to 44 million ton in 2012 from this year's 46 million ton. The production of "blue fuel" is also expected to surge. Additionally, with the current level of economic turmoil in the global economy, it is hard to expect that exports of non-oil sector will increase sharply in 2012. Third, oil dependency will increase next year as result of huge transfers from State Oil Fund; more than 60 % of state budget revenues will be generated through transfers from SOFAZ. Finally, latest economic reforms do not inspire non-oil sector development. In this regard, this question seems very appealing— How GDP growth will increase to 7.1% or even 6,0 %?" - stated by Bayramov.

"Unlike the very optimistic official figures, CESD forecasts 3.7 % GDP Growth in 2012" - Bayramov concluded.

Appendices

GDP Growth Forecast for 2012, %

Name of Institute	2012
EBRD	3,0
CESD	3,7
IMF	2,5/adjusted 7,1
World Bank	6,1
Government of Azerbaijan	5,7

ADB	5,8
Black Sea Trade and Development Bank	4,1

Sources; EBRD, CESD, IMF, WB, State Statistic Committee of Azerbaijan, ADB, BSTDB, 2011

Annual Inflation Rate for 2012, %

Name of Institute	2012
EBRD	7,0
CESD	11,5
IMF	10,3
Government of Azerbaijan	6,0
ADB	7,0

Sources; EBRD, CESD, IMF, , State Statistic Committee of Azerbaijan, ADB, 2011

Note; CESD used different methods to calculate macro-economic figures including GDP growth while an aggregation method and a weighting variable are chosen. Reasons how choices of the data source, the aggregation method and the weighting variable create are based on CESD estimation. CESD also used oil production forecast and non-oil import and export, the volume of household and public consumption, capital formation and private and public investment data, as well as the impact of changing inflation on output to forecast GDP. The Center organized focus group discussions including meetings with representatives of different state agencies where estimations of macroeconomic data are included among the subject issues.