

Azerbaijan: New Economic Paradigm

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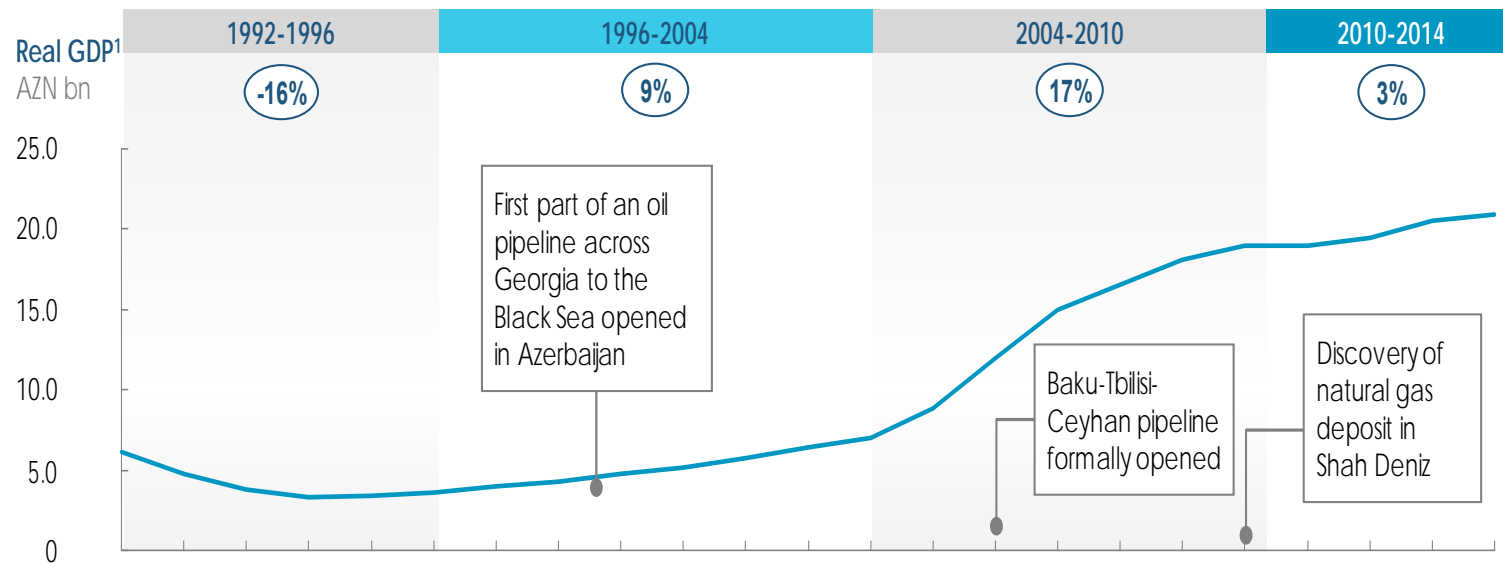
OUTLINE

- ANALYSES OF PREVIOUS ECONOMIC MODEL
- NEW ECONOMIC PARADIGM
- VISION FOR FUTURE
 - 2020
 - 2025
 - Post-2025

Stages of Development

Exhibit: Growth in Azerbaijan has occurred in four phases

(%) Average annual growth

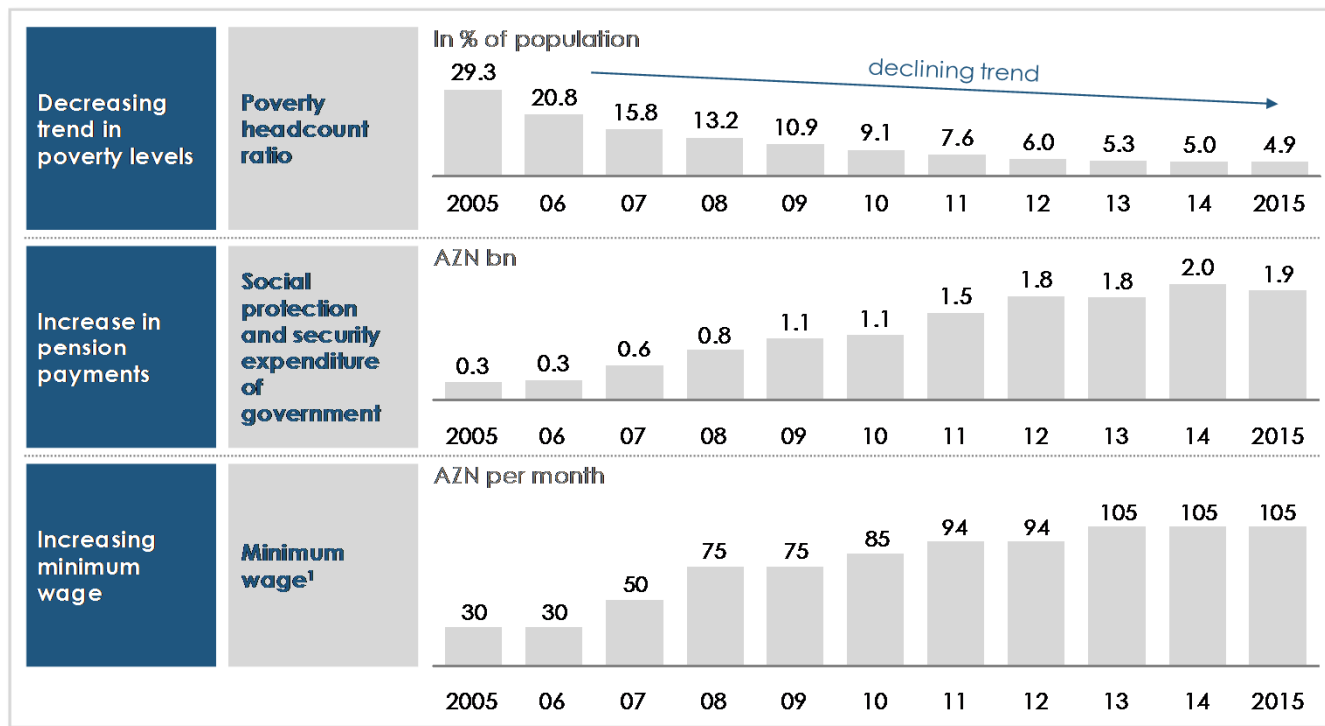


1 In constant 2005 prices

SOURCE: State Statistical Committee

Dynamics of Poverty

Exhibit: Poverty levels have decreased, social transfers and minimum wages have risen over the last 10 years

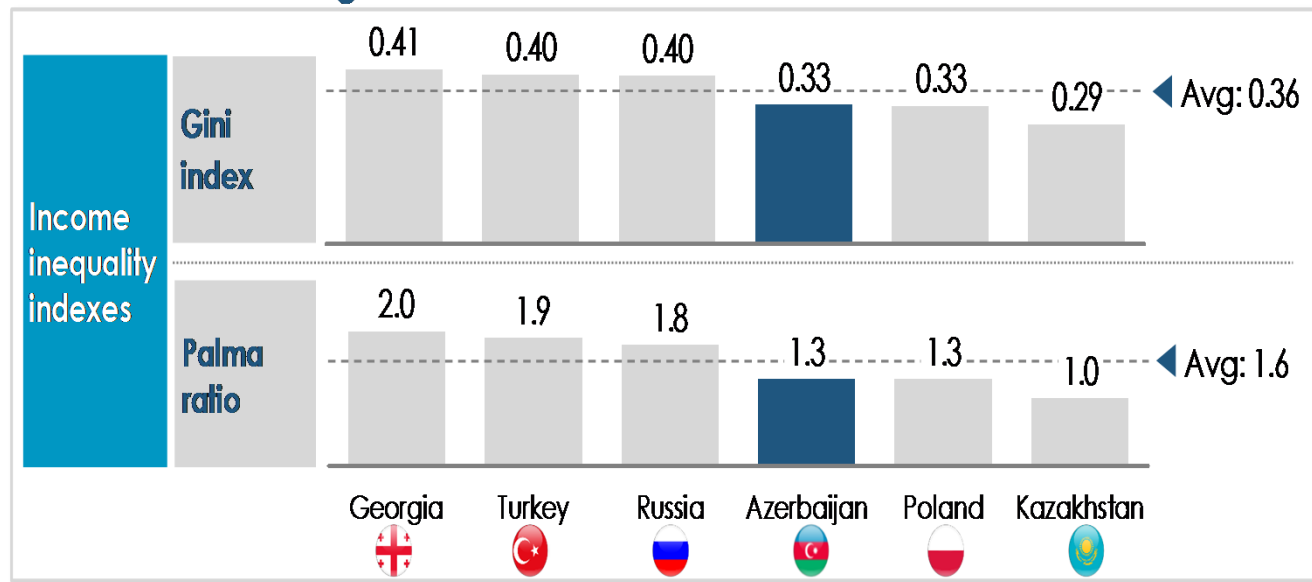


¹ Based on end of years

SOURCE: State Statistical Committee, World Bank

Low Inequality

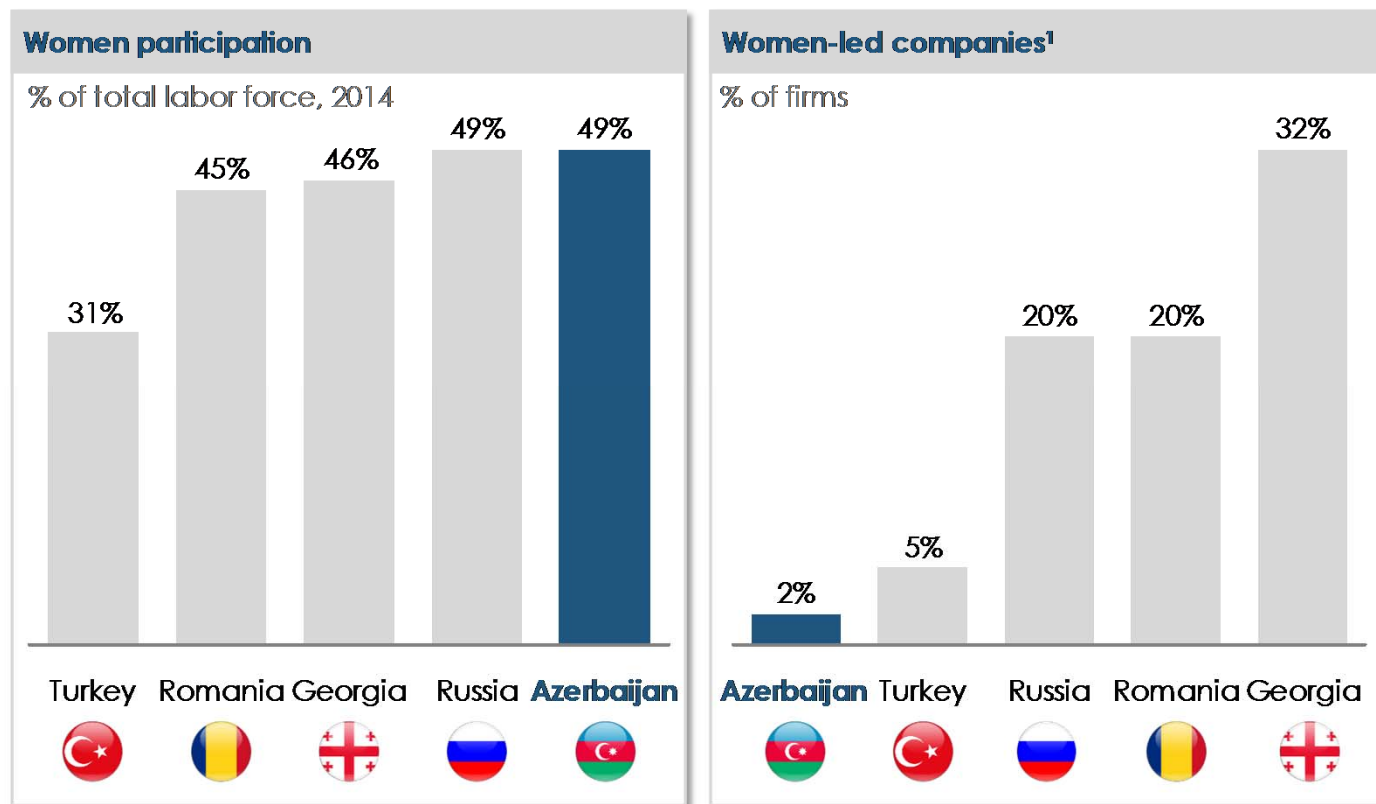
Exhibit: Income distribution inequality rate is slightly lower than benchmark averages



SOURCE: UN Human Development Report (the most recent year available during the period of 2005–2013)

Women Participation to Workforce

Exhibit: Even though women participation to workforce is high, there is an improvement potential in firms with women leaders

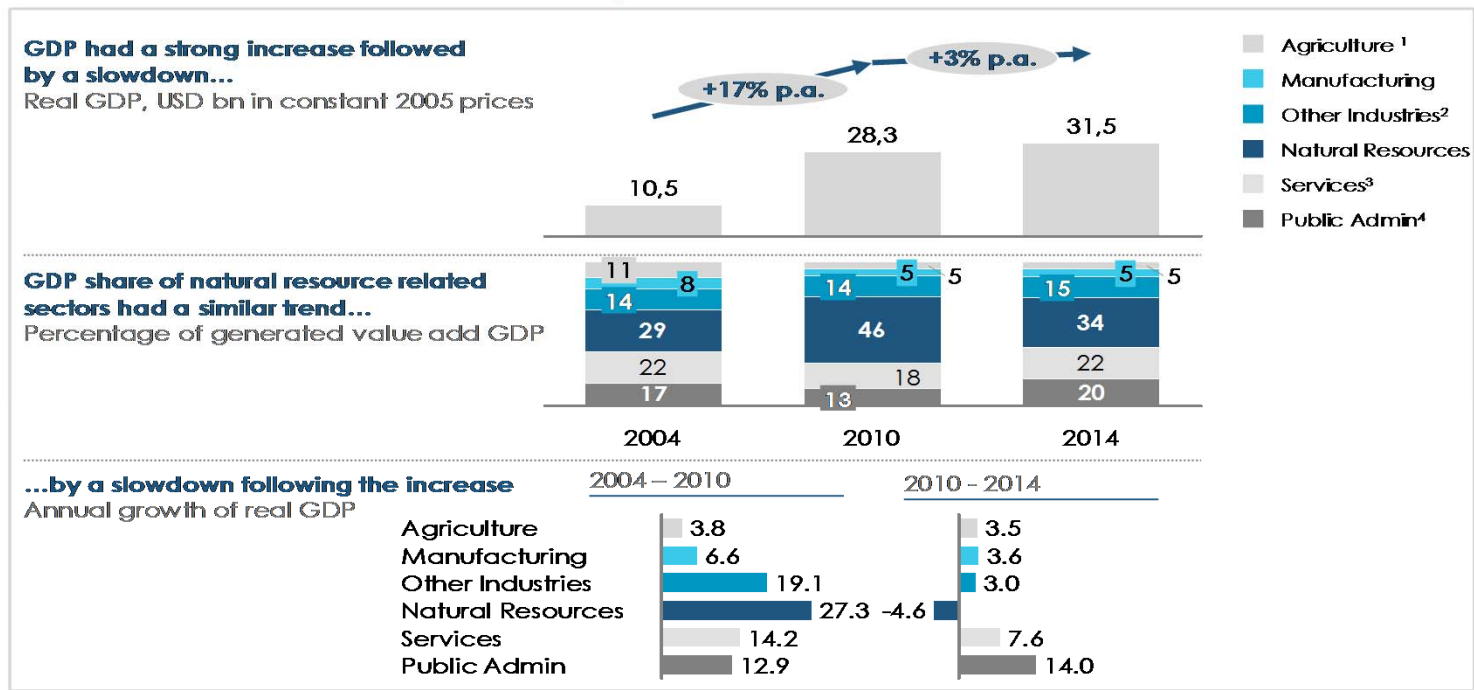


¹ Used most recent available data 2012 or 2013

SOURCE: World Bank

The Impact of Lower Oil Prices

Exhibit: Azerbaijan has been growing fast in the past, but growth has slowed due to lower resource prices



1 Agriculture includes agriculture, forestry and fishing

2 Other Industry includes electricity and water supply, construction

3 Services includes (i) wholesale and retail trade (ii) hotels and restaurants (iii) transport and communications (iv) financial intermediation and (v) real estate, renting and business services

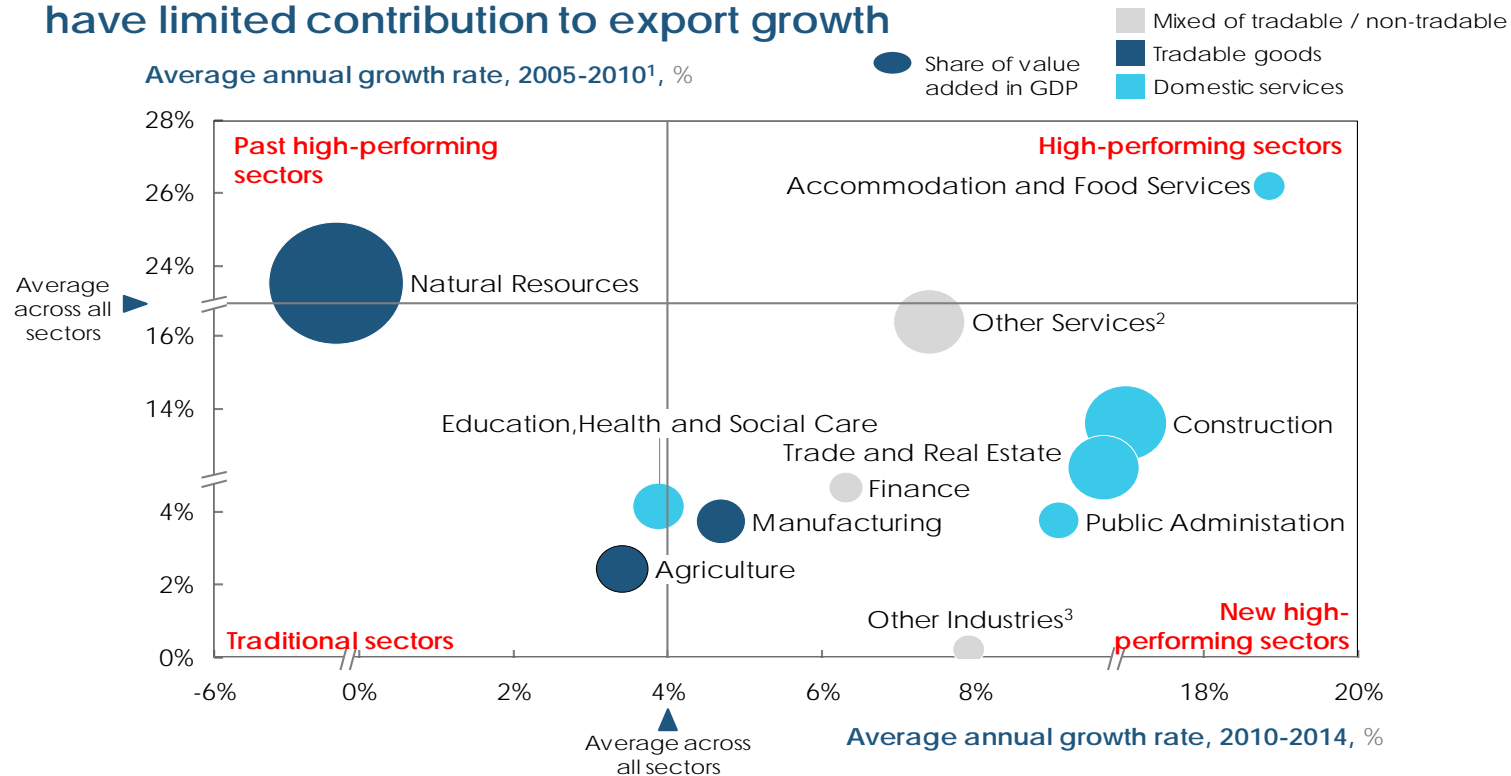
4 Public Administration includes (i) public administration and defense (ii) education (iii) health and social work (iv) other community, social and personal services including taxes

NOTE: This particular sector split is based on the three-sector theory ("Production, primary, secondary and tertiary", Allan Fisher) to better compare Azerbaijan to global benchmarks.

SOURCE: State Statistical Committee

Economic Drivers

Exhibit: Growth is recently driven by domestic services which would have limited contribution to export growth



1 Based on 2005 constant GDP of Azerbaijan, before Tax and FISM (Financial Intermediation Services Indirectly Measured)

2 Transport, storage and communication, other community, social and personal service activities

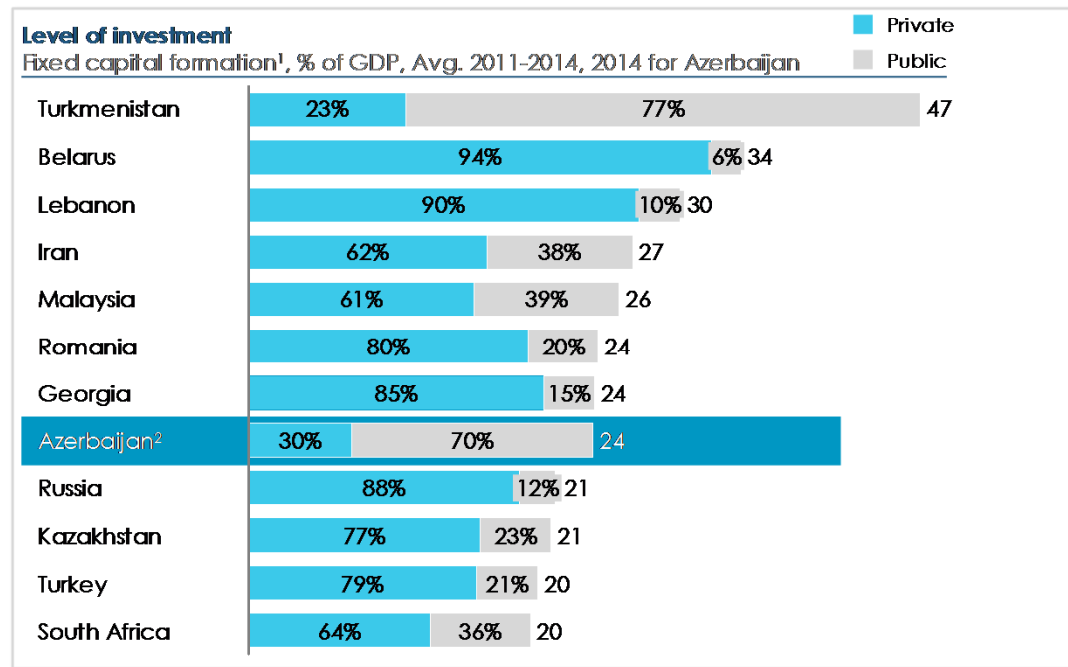
3 Electricity, gas and water supply

NOTE: This particular sector split is based on the three-sector theory ("Production, primary, secondary and tertiary", Allan Fisher) to better compare Azerbaijan to global benchmarks.

SOURCE: State Statistical Committee

Investment as share of GDP

Exhibit: Investment in Azerbaijan as a share of GDP is similar to neighbors, but dependent on public sources



¹ Note that Fixed Capital Formation does not include all foreign direct investment inflows, some of which do not go towards fixed assets

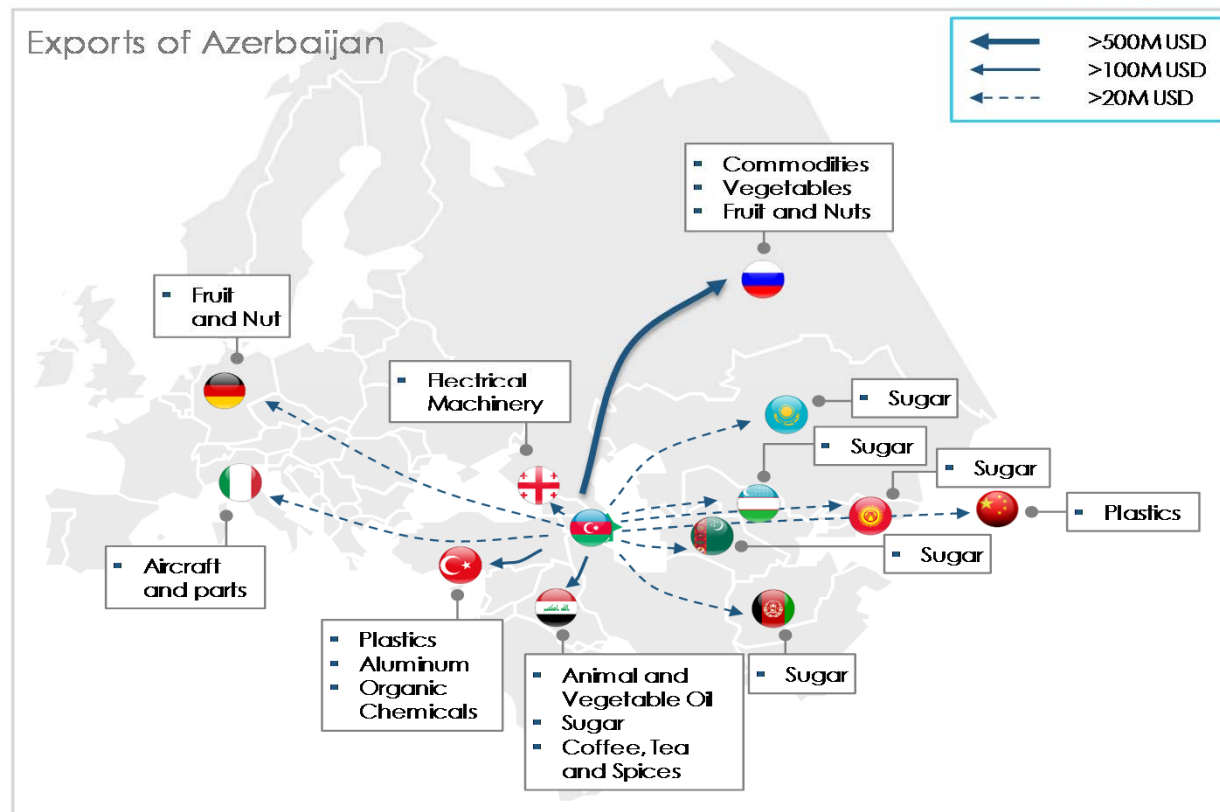
² Private and public investment division are assumed based on %30-%70 division based on 2014 budget published document

SOURCE: World Bank Development Indicators

Iran analysis is based on only publicly available data and Azerbaijan government-owned data

Geo-economics of Export

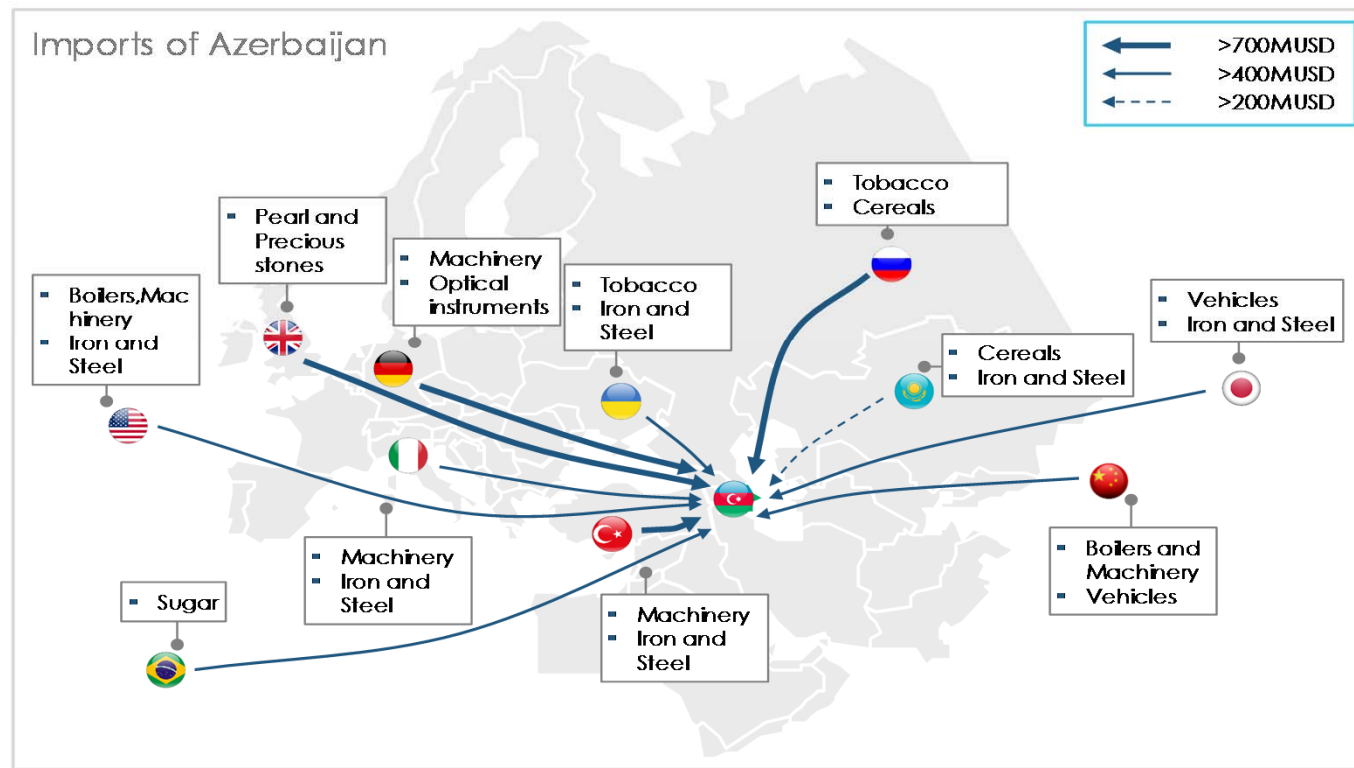
Exhibit: Azerbaijan's non-oil export is mainly towards Turkey, Iraq and Russia with limited export to eastern and southern neighbors



SOURCE: United Nations Comtrade (2014)

Geo-economics of Import

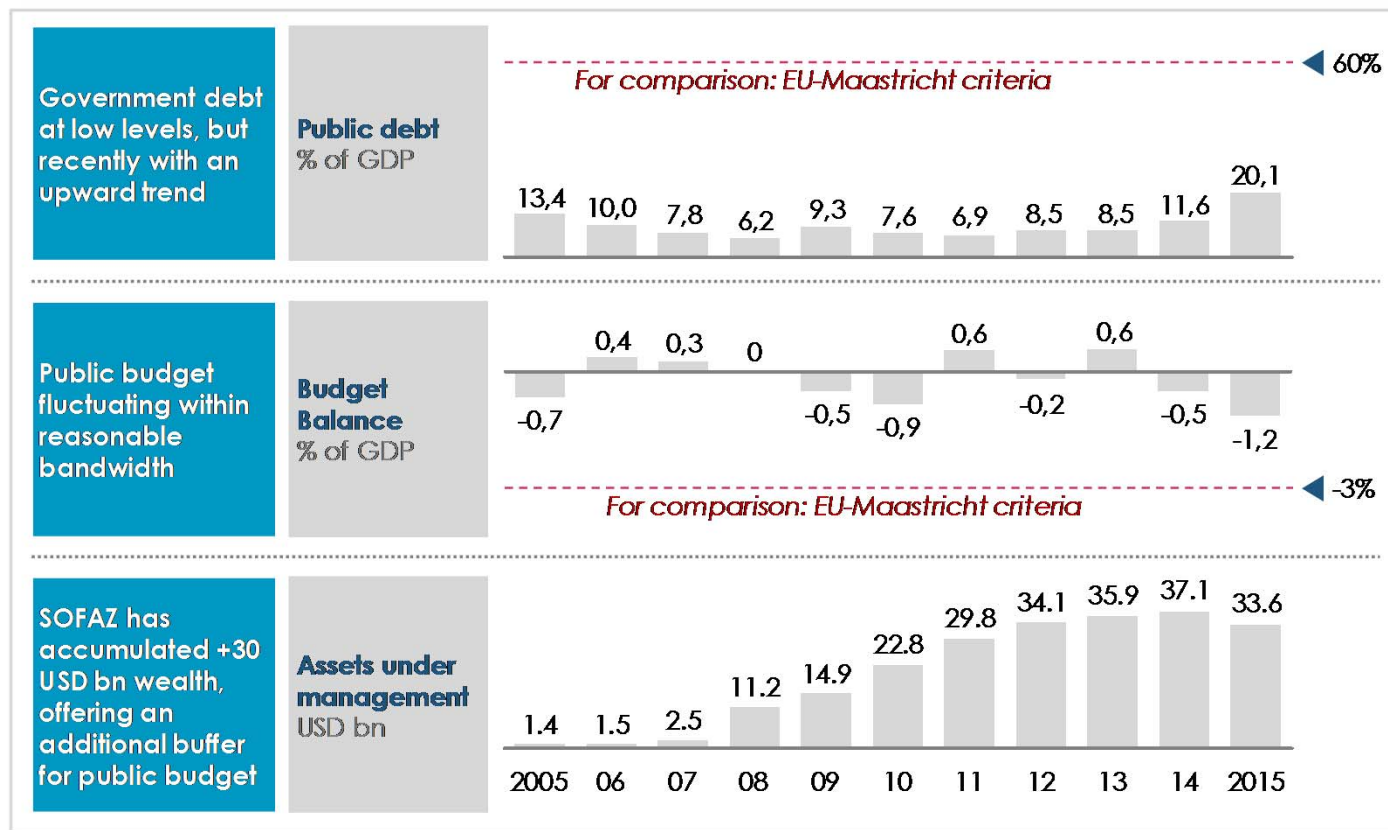
Exhibit: Azerbaijan's non-oil import is mostly from European countries and Southeast Asian countries



SOURCE: United Nations Comtrade (2014)

Fiscal Sustainability

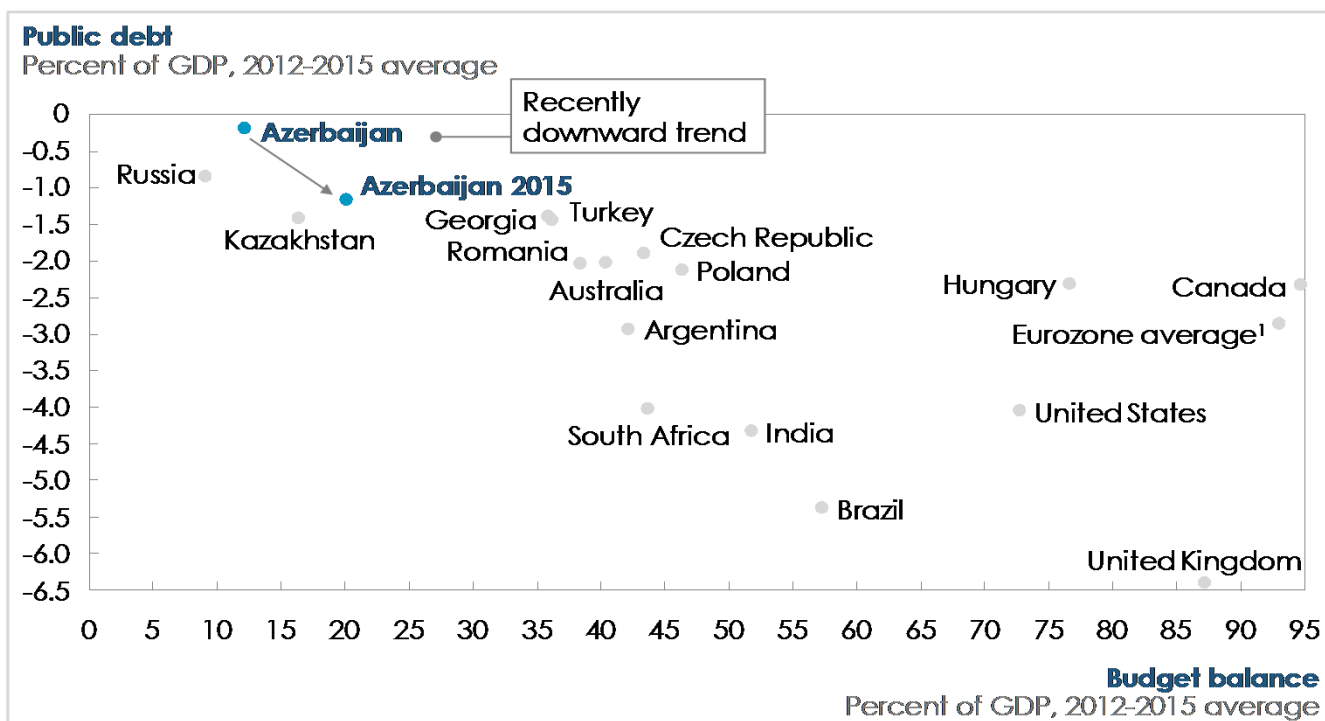
Exhibit: Despite a recent increase, Azerbaijan's debt and budget deficit are well below critical levels



SOURCE: Economist Intelligence Unit, SOFAZ

Fiscal Position

Exhibit: Fiscal position in Azerbaijan seems to be more stable compared to most of the emerging markets

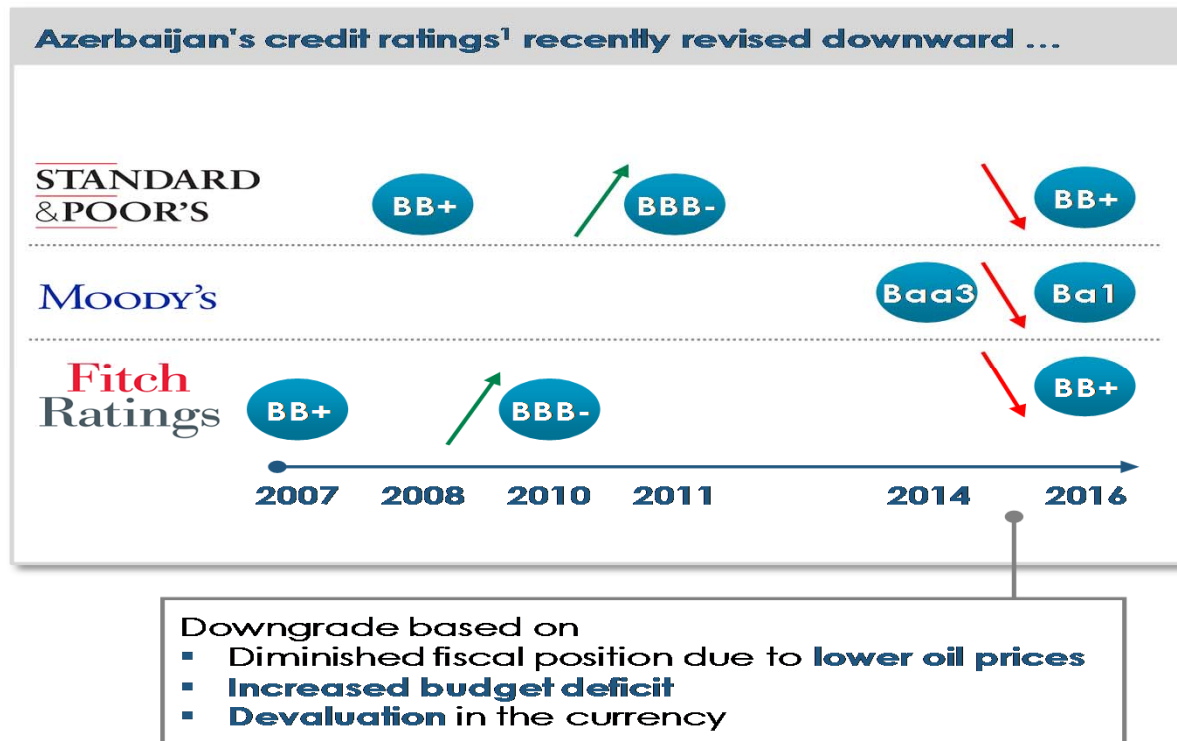


¹ 2013 data, excluding Malta and Luxembourg, not adjusted to GDP size

SOURCE: Economist Intelligence Unit

Credit Rating

Exhibit: There is a certain international risk perception

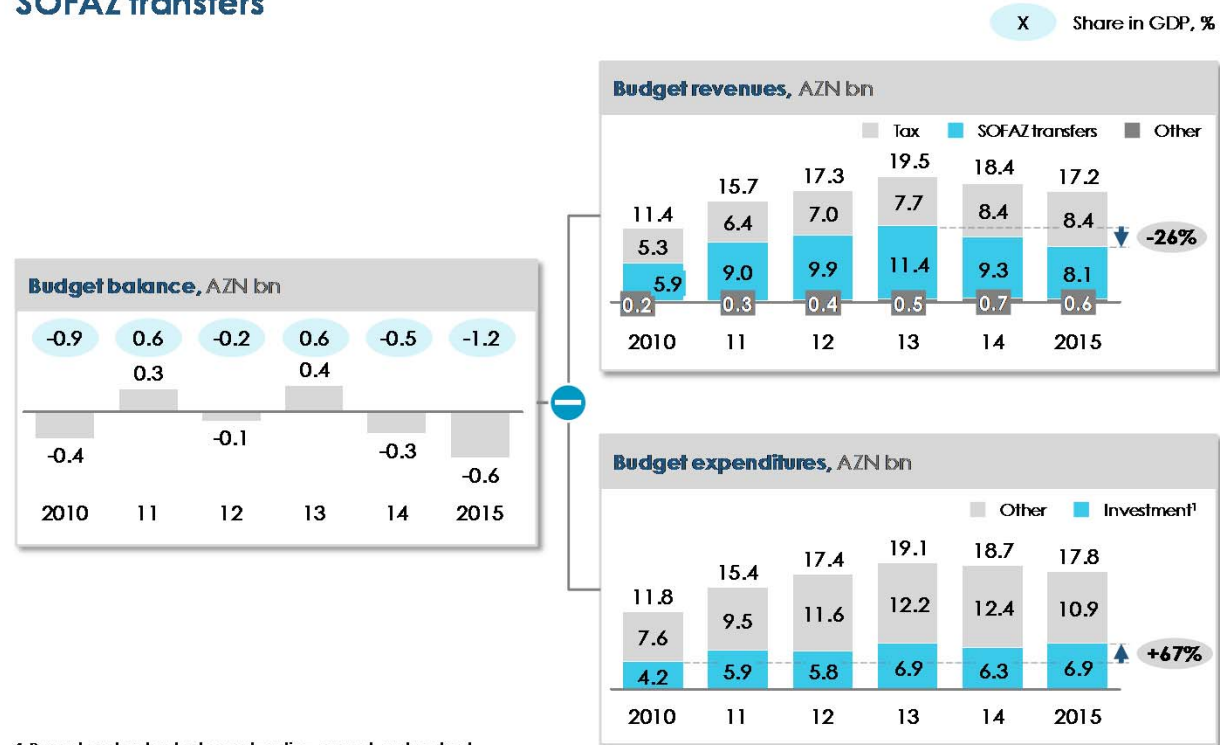


¹ Foreign currency long term ratings

SOURCE: Bloomberg

SOFAZ's Transfers

Exhibit: Recent trend towards increasing deficit is driven by decrease in SOFAZ transfers



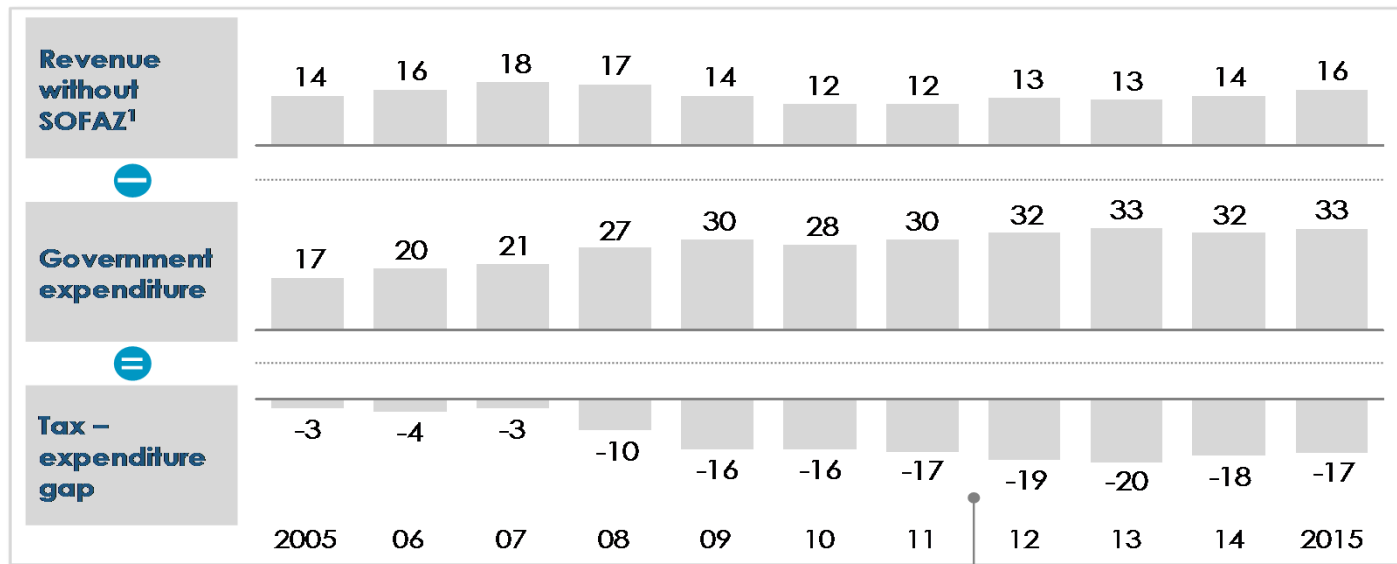
¹ Based on budgeted construction spend, not actual

SOURCE: Ministry of Finance, Azerbaijan yearly budget laws and amendments

Dependence on SOFAZ's transfers

Exhibit: Increasing dependence of budget balance on SOFAZ transfers has been a long-term trend

% of GDP



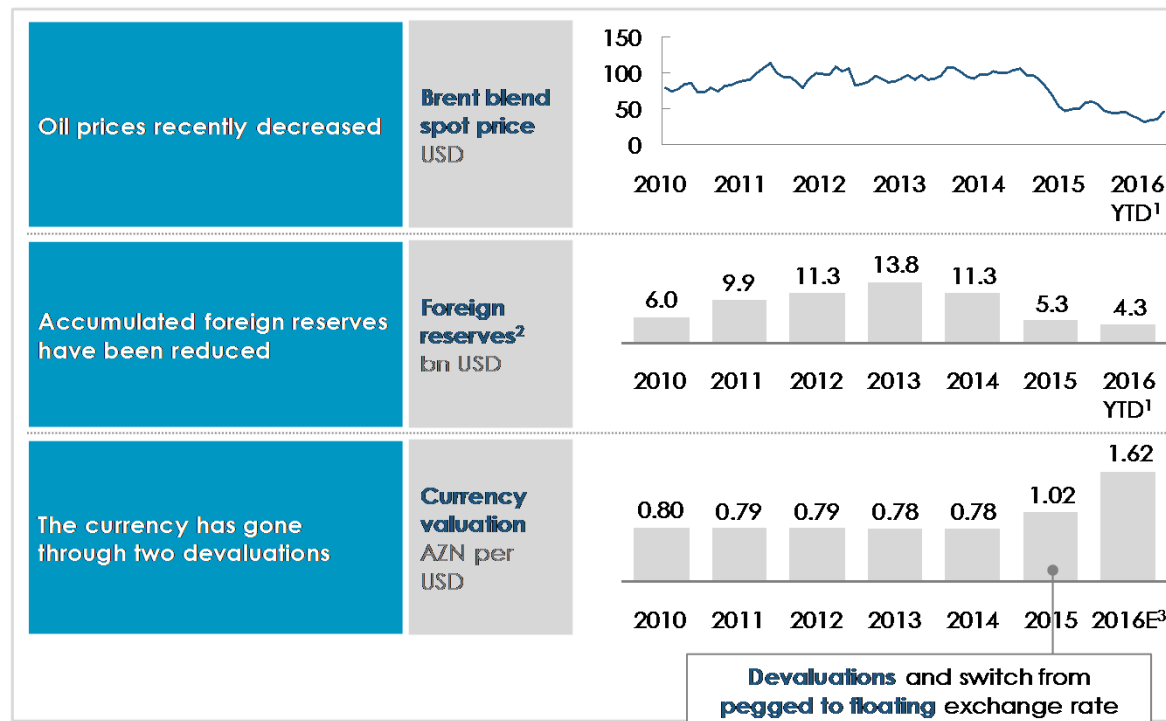
Constant tax – expenditure gap is offset by SOFAZ transfers to the budget

¹ Only tax revenues. Other revenues not included (accounting for 6% of tax revenues on average during the same time period)

SOURCE: State Statistical Committee, Ministry of Finance

Oil Prices and Currency Valuation

Exhibit: Decreasing oil price is an important factor putting pressure on currency through reduced foreign exchange inflows



1 As of May 2016 end

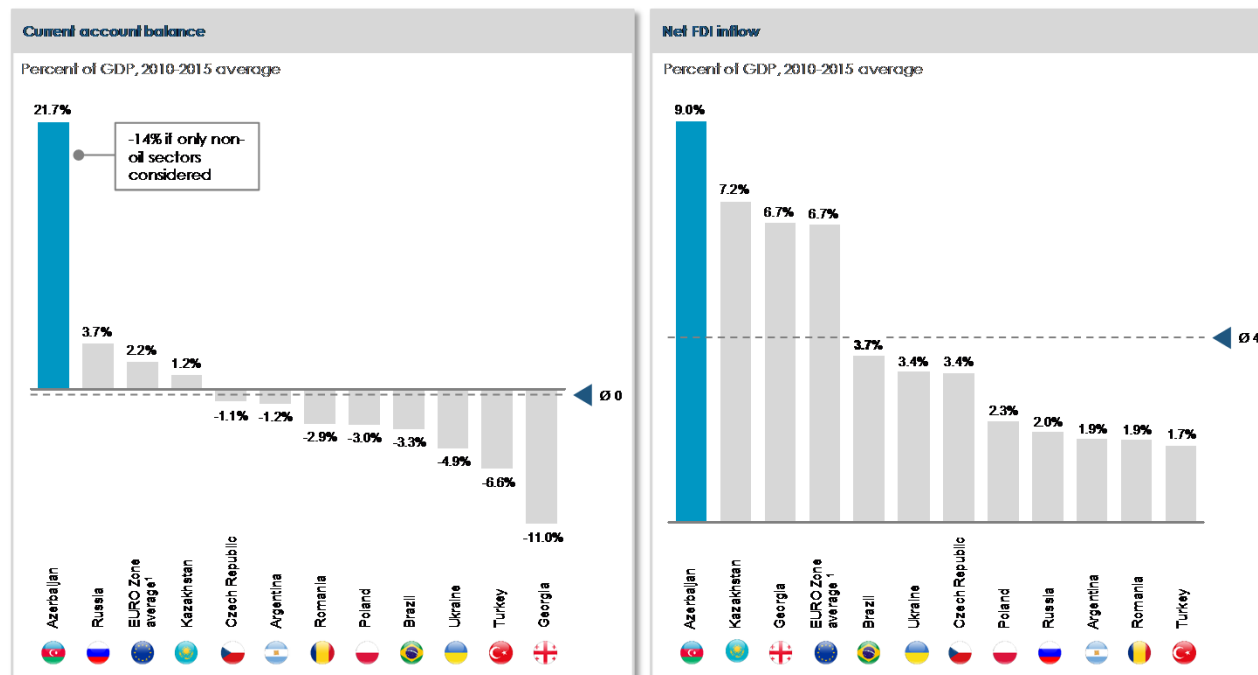
2 Excluding SOFAZ's USD ~30bn reserves

3 Ministry of Finance's year-end estimate

SOURCE: Central Bank of Azerbaijan, Economist Intelligence Unit, Ministry of Finance

Strong Currency until 2015...

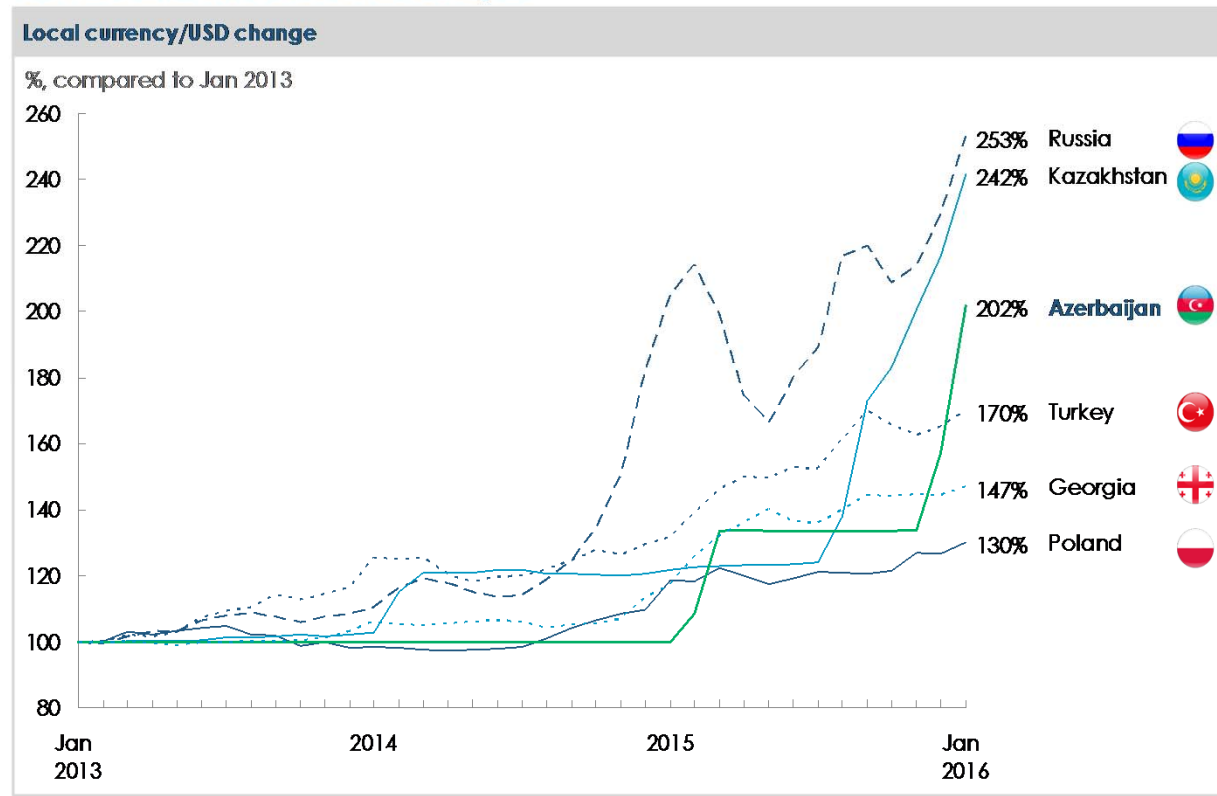
Exhibit: Strong currency until 2015 was supported by large current account surplus and high foreign direct investment (FDI) inflow



SOURCE: Economist Intelligence Unit, Azerbaijan Ministry of Finance

Devaluation Trend

Exhibit: Emerging countries in the region had a similar currency devaluation trend to Azerbaijan



SOURCE: World Market Monitor

Strategic vision and roadmap for Azerbaijan

- Strategic vision and roadmap for Azerbaijan is a nationwide effort to build a competitive, inclusive and sustainable economy. This effort covers eleven different sectors and the overarching national economy perspective that covers cross cutting themes. Each of these sectors and the national economy perspective has dedicated roadmaps, which creates a set of twelve documents in total. The effort is adopted and formalized with the presidential order that dated 16th of March 2016.

VISION OF AZERBAIJAN FOR 2025

Developing a national economy is a complex undertaking that requires collaboration among a wide range of stakeholders. Moreover, economic theory and practice have demonstrated that under certain basic conditions the private sector will independently drive growth in most areas. Thus, Azerbaijan will focus on developing the economy by ensuring coordination and supporting private-sector agents, to drive a productivity and innovation. At the same time, certain areas do demand an active public sector role. At the national economy level, ensuring macroeconomic stability, integration to global and regional value chains and favorable conditions for private sector development are key dimensions of Azerbaijan's vision for 2025.

ASPIRATIONAL VISION OF AZERBAIJAN POST 2025

- While the Strategic Vision and Roadmap document charts how Azerbaijan's economy will develop over the next years, this post-2025 vision describes the state it will eventually reach and the benefits for Azerbaijan's people that will result. Economic development is not an end in itself – its purpose is to improve the population's quality of life. By promoting a more diverse and sustainable economy based on a supportive yet lean public sector, this economic development program aims to do that: make a fulfilling life full of choices possible for the people of Azerbaijan.

Thank You!

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