

A survey of azerbaijan economic policies

[Business](#)



1. COUNTRY'S BASICS Azerbaijan is the 111th largest country in the world with 86.

6thousand square kilometres, and the 91th most populated, with a bit more than9 493 600inhabitants. Azerbaijan (86. 600 sq. km) is behind Serbia (88. 361 sq.

km), Jordan (89. 400 sq. km), Portugal (92. 082 sq. km), and Hungary (93.

030 sq. km). According to the CIA's World Factbook, Azerbaijan had a population of 9. 397. 050 in 2011. Its population is young for an emerging market; with a median age is 29.

5 years, compared to Switzerland's 42 years. Azerbaijan is the biggest country of the Behind the Caucasus region, bordering the Caspian Sea in the east and Russia, Georgian on the north; Armenia on the west and Iran on the south. Azerbaijan's current GDP is \$63. 40 billion and its annual GDP growth is about 5%. GDP per capita is typical of an Emerging Market, at \$9, 240 in nominal value and \$9 020 in purchasing power parity (World Data Bank: World Development Indicators, 2012). Lastly, Azerbaijan's labour force is the 64 largest in the World with 4 605 721 people, but, due to its unemployment rate of 6% dropping, it ranks 5th in term of employed people (CIA: World Factbook, 2011).

Azerbaijan is a Presidential Republic, divided in 10 economic regions. The President is Ilham Aliev since October 31st2003. Azerbaijan is a member of CIS, ESO, GUAM, WTO. It transformed after the USSR into the oil based

economy. In 2006 Azerbaijan's 32.5% growth was the highest at the continent.

Less developed markets, had a lower annual growth than Azerbaijan. With a (nominal) GDP of around \$ 63 billion, Azerbaijan is the 70th economy in the world, with the next biggest being Luxembourg (\$64597), Belarus (\$67583 billion), and Oman (\$68092 billion). Azerbaijan \$ 9 020 GDP per capita (at nominal value) is above its neighbours: \$8, 420 for Iran, \$5, 076 for Armenia, though less than \$15, 993 for Russia. But taking account of Purchasing Power, the picture is different: Azerbaijan's \$ 10 201 (PPP) per head look meagre relatively to Iran's (\$13, 184 – officially) and Russia's (\$16, 736), though, more comparing to Armenia's (\$5, 392). Nevertheless, Azerbaijan is not the outsider on the Middle East and we will see in the next paragraph how it's exercising its power over the continent and abroad (World Data Bank: World Development Indicators, 2011).

The table below present a summary of Azerbaijan's relative prowess. We see that its ranking position is among the 70 in term of GDP, but the unemployment rate is high (6%). In the last 10 years, its GDP per capita increased. Market Integration Review Azerbaijan is a WTO observer.

The country is involved in many groups negotiation, such as the GUAM Organization for Democracy and Economic Development or the Economic Cooperation Organization. The ECO is actually a coalition of 3 Eurasian nations and 7 Asian ones that are willing to promote and develop their trade.

It was established in 1985 by Iran and its members are: Afghanistan, Azerbaijan, Iran, Kirgiz, Kazakhstan, Pakistan, Tajikistan, Turkey, Uzbekistan,

Turkmenistan and Turkey Cyprus. Those countries aim to set a single market between the member states until 2015. Azerbaijan has an in liberalization because the country is a major exporter of oil and chemico-industrial goods. Azerbaijan's aim is to reduce its imports tariffs, as they are mostly importing the ready-made goods. Recently, Azerbaijan has intended to set up a cooperation with Iran on the Information Technologies question.

Since its entrance in the ECO, Azerbaijan started focusing on Free Trade Agreements. Among the FTA's Azerbaijan has signed: a The Economic Cooperation Organisation Trade Agreement (ECOTA) was signed on 17 July 2003. The FTA most basic aim is to have free trade market between the member countries by the year 2015. Moreover, the member states are currently fighting other, not trade - related issues. For instance, all ECO members lack appropriate infrastructure. Among the issues to be settled the following can be named: transportation and communications, human resources development, energy, tourism development.

2. OUTPUT, TRADE AND BALANCE OF PAYMENT 1. Azerbaijan Current Account Current Account equals the sum of the balance of trade (exports-goods and services), plus net factor income and net transfer payments. Azerbaijan reported its current account in 2011 as equal to \$17. 15 billion USD.

In the graphs bellow we can see that Azerbaijan's main surplus period was between 2008 and 2011; its best surplus was about 6000 Million USD in January of 2008. The main export partners of Azerbaijan are: Italy (26% of total exports), US (8%), Germany (7%), Czech Republic (5%), and Russia

(4%). The main import partners of Azerbaijan are: Turkey (18% of total imports), Russia (15%), Germany (10%), Germany (7. 65%), the UK (4 %). 2.

BALANCE OF PAYMENTS The Balance of Payments is an accounting record of all monetary transactions between a country and the rest of the world. It includes Current account and Capital & Financial account. Azerbaijan's Current Account in 2012 was 12306 millions \$, which is 1217 million less than a year ago. Over one year, Trade has slowed down, and the higher services import linked to decreasing trade flows. The situation is worse now than it tended to be in the last 2 years. As I believe, Azerbaijan really needs integrative processes it supports to sell more on the new markets or it needs a creation of a substitute import production to keep the funds inside the country.

Exchange Rate Regime & FDI The Exchange rate in Azerbaijan was fluctuating during the past 10 years, within the same paragraphs as in the other countries from its category. Since US Dollar and Euro are the most popular currencies used in this country besides the national currency “Manat”, Azerbaijan is influenced by the American and European market mostly. As we can see in the table below, in report to the Euro, the Manat went through a pretty significant change in the past 10 years, due to the inflation mainly. If 10 years ago, in 2002 the rate was 1E for 4013. 2 Manat, today in 2012 the Euro is sold for around 5000 Manat.

The worse appreciation for the Azer currency was in 2005. Due to the switch to the “New Manat”, the price of the Euro reached its highest peak in the history of this country, with a rate of more than 6500 Manat for 1E. Overall

the Manat in report to the Euro was fluctuating between 4013. 2 and 6500 in the past years, currently being settled around 5000-5500. The average value of the Manat for this period was 5624.

If in case of Euro, the Manat was struggling to keep at least a healthy balance, when it comes to USD, we can observe that, even though 10 years ago, the USD was more appreciated than the Euro, since 2005, which was a critical year for the country due to the introduction of the new currency, the USD was in a constant descent. During this period, the value of the USD was reduced with more than 17% this fact reflecting the growth of the economy in Azerbaijan. Right after the currency change, the USD reached its highest value in the country at 5120. 8, while in 2012 the value of the Manat reported to the USD is 3920. 6 . Based on the data from 2001 until today, some specialists say that there is a real equilibrium exchange rate misalignment for AZN and the AZN is considered to be very overvalued.

The main factors that can influence the Exchange Rate of the AZN are productivity, trade openness, open minded approach towards foreign investors and oil prices. As Azerbaijan is a country in transition, a combination between targeting inflation and foreign exchange is the best monetary policy strategy. Azerbaijan's capital flow is extremely free, and the government encourages foreign investments, and has the will to bring in the country foreign currency, especially USD. My Advice for the Future The main wheel of the economy in Azerbaijan is the oil segment. The exploitation of the oil is a very complex procedure bringing with itself some major issues, especially regarding the environment. Until now, Azerbaijan already has a “

rich” history in terms of soil poisoning during this process, therefore I consider this to be the major issue in the development of the economy.

Environmental standards are very important and many countries agreed to sign different agreements for it, but thanks to its limited tools and knowledge about this field, Azerbaijan is still struggling , and I forecast this to do not change in the next few years.