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**Azerbaijan Republic**

**Empirical analysis of the impact of sharp oil price fall on the economy of Azerbaijan**

SAMIR RUSTAMOV

UNEC SABAH

University of Economics





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Abstract

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In today's world, we encounter situations in which countries suffer from having strong economies. The reason is that their economies are based on resources such as oil, gas and so on. Azerbaijan is one of the states whose economy is oil-based and easily affected by changes in oil prices. Aim of this thesis is to reveal how oil price affected the Azerbaijan economy and how the government dealt with that issue which began in 2014. The thesis is divided into three paragraphs: 1) Oil price, 2) Oil industry in Azerbaijan, 3) Impact of oil price fall on the Azerbaijan economy. As a result, a great picture of the country's economy is demonstrated and problems related to dependence upon the oil-sector are mentioned.

Introduction

As it is known obviously, the oil industry has a very crucial role in human beings’ lives. Oil can be used for various purposes, mainly for energy, and this makes it an extremely important substance. As having characteristics of being natural and non-renewable, oil can be thought of as an expensive energy source, even though it is more efficiently than the coal industry. Even though renewable energy is more expensive now, but it is predicted that its price will fall rapidly in the next years. Although people have got familiar with oil for centuries however since the 20th century oil industry has demonstrated great progress. Therefore, countries which possess this natural resource have been an advantage in front of others.

Unrefined oil, is an important source of vitality all over the world because it influences the improvement and exercises of nearly all governments and its individuals. The vitality, mechanical, residential, transportation and financial segments intensely depend on unrefined oil. Concurring to the BP factual survey of world vitality in June 2016, the oil still is the world’s driving fuel, bookkeeping for 32.9% of worldwide vitality consumption(BP – 2016).

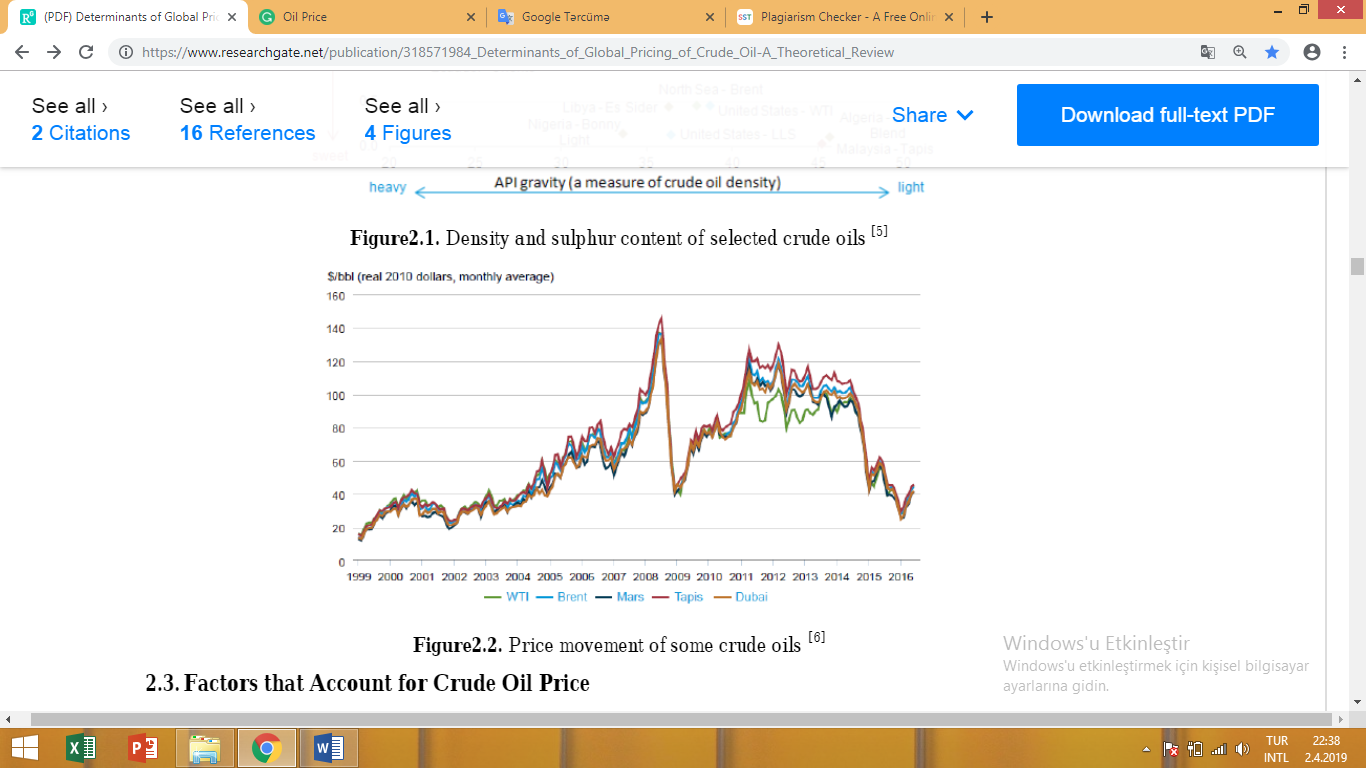
However, in recent years it becomes clear that oil will not so necessary in the future as more as it is. Because alternative energies – marine energy, solar, wind, geothermal, hydroelectric power - have been discovered and they are considered as more eco-friendly than the oil industry. So, oil period seems to be closed in the next decades. It might have positive externalities for societies, however, some countries are not still ready for a world without petroleum. Because their economies are based on the oil industry and fluctuations on the oil prices can influence their people’s welfare level necessarily.

Azerbaijan is also an oil-country. Therefore, the future of the petroleum industry has to arouse interest in Azerbaijan. The 19th century can be considered as a new stage for the development of the oil industry in that country. Since the independence of the state, oil has been a key factor in the improvement of the country and it has special weight on the state’s economy. So, Azerbaijan is one of the countries that should pay more attention to oil-related activities, prognosis and so on.

Recently, the oil price has depicted volatility. In 2014 the sharp oil price fall was experienced. That event affected some countries, also included Azerbaijan. And that is the key driver for this academic writing.

**Paragraph 1.**

**OIL PRICE**

Oil suppliers and customers meet for trade combinations of oil on property exchanges. Products exchange trade in different oil commodities and crude oil expectations, options and physical delivery. Oil is traded in exchanges and the New York Mercantile Exchange (NYMEX) in New York City and the London, as well as at the Atlanta Intercontinental Exchange (ICE) are the primary exchanges. Figure 1.1 describes the prices of some fuel blends from 1996 to 2016.

**Figure 1.1.** Price movement of some crude oils

Source: Energy Information Administration (2016)

**1.1. Factors that affect the oil price**

There are several factors that affect the oil price. In this section you will get familiar of them:

**1.1.1 Supply and Demand**

The main rule, which ‘’supply and demand’’ concept possess, can influence the oil price. In the case of experiencing an increase on demand (or decrease on supply) prices ascend, however, if demand decreases or supply increases, it affects prices negatively, so prices fall. In a given time frame supply and demand pressures reflect the prices of oil and gas reserves. Prices regulate to maintain a level of supply for the future in the consideration for actual production levels when the demand for raw oil products is high. On the other hand, high prices promote production, then supply level goes up and it results in the price fall for oil and its products(Seth, S. – 2015).

**1.1.2 Production**

Before the 1970s, seven western firms, also known as ' ' Seven Sisters, ' dominated the oil sector. These firms have been responsible for significant developments in the oil field and have performed worldwide. The Seven Sisters included the Anglo-Persian Oil Company, New Jersey Standard Oil, California Standard Oil, New York Royal Dutch Shell, Texaco and Standard Oil Company, Gulf Oil (Yergin, D. – 1991). After the oil crisis in the 1970s and subsequent political developments, oil production around the world became overwhelmingly nationalized. Today, multinational companies control only nearly 5 percent of international oil reserves, but they have remained as necessary collaborators on the oil market and petroleum industry improvement.

In the Middle Eastern there are many countries which are the largest oil producers with the largest reserves.There are also some developed economies which managed to utilize their reserves more effeciently and effectively and experience a lower reserve-to-production proportion whereas others that produced at higher rates have a production decline due to depleting reserves. This is remarkable that exclusively the United States and Russia produce at a very high rate considering they have relatively lower reserves.

Some of the most notable interests of oil producers have been channeled since the 1970s through the Organization of Petroleum Exporting Countries (OPEC). Other oil manufacturers are loosely represented throughout the International Energy Agency (IEA), and that is a sister organization of and have the same developed member countries with OECD (Organisation for Economic Co-operation and Development). Although China, Russia and India are significant producers/or consumers, however they are not member of either of those organizations.

Oil is a non-renewable natural resource and it is subject to some stipulations such as the reserves locations, the amount and physical properties of petroleum found in various reservoirs and the geological formation in which the oil is found. All of these affect the global supply of oil. The costs of extraction from a specific reserve also are determined by some of those physica factors. Additionally, a lot of time and significant investment are required to discover new reservoirs and to improve them. Thereby, the factors, which influence the international production of oil from existing fields in oil -exporting countries drive near-term petroleum prices(King, K., Deng, A., Metz, D. – 2011).

On the other hand, the technological progress has positively affected the supply of crude oil and cut down the cost of marginal oil production. Innovative technology, such as enhanced oil extraction, horizontal drilling have increased the marginal recovery of reservoirs and the amount of oil that can be produced. And now oil deposits in deep offshore which were inaccessible before can be harnessed. And technological advancement in this industry has influenced the cost of extracting and processing out of the ordinary oil reserves, so their cost has been reduced(Mostert, W. – 2004).

**1.1.3. Consumption**

There are expansive territorial contrasts in utilization rates, with the created OECD nations such as (Denmark, Germany, Luxembourg and the Joined together Kingdom) speaking to approximately 50 % of world request. Request for unrefined comes moreover from numerous sources, but two primary divisions: transportation and industry cover approximately 85 % of the overall all inclusive with private, commercial, electric control era and warming speaking to the remaining. It is striking that businesses utilize may be substituted by other sources of vitality such as coal and hydroelectricity, transportation be that as it may is nearly exclusively subordinate on rough oil items for its vitality needs. Long periods of moo fuel costs have driven the transportation framework and industry to be built around oil items and indeed with higher oil costs substituting advances have had difficult times picking up a dependable balance. They are moreover utilized as crude materials for fabricating items such as plastics, mechanical chemicals and black-top.

In later times, China’s economy has contributed essentially to oil utilization with utilization rates outperforming the moment biggest merchant of fluid fills, the Joined together States within the late 2013. Concurring to the EIA, China is anticipated to burn through 3 million more barrels per day in 2020 compared to 2012, bookkeeping for approximately one-quarter of worldwide request development over that time frame(Cunningham, N. – 2015).

**1.1.4. Organisation of Petroleum Exporting Countries (OPEC)**

The OPEC could be a lasting, interval association made by Iran, Iraq, Kuwait, Saudi Arabia and Venezuela at the Baghdad Conference on September 10-14, 1960. The five Establishing Individuals were afterward joined by other part nations such as Nigeria 1971 and Libya in 1962 and as of 2015 has 13 part nations. OPEC's objective is to facilitate and link petroleum arrangements among part-nations to ensure reasonable and steady costs for petroleum producers ; an efficient, financial and customary supply of petroleum to the devouring countries ; and a fair return on capital for those who contribute to the industry(OPEC, 2017).

OPEC accounts for an evaluated 42 % of worldwide oil generation and 73 % of the world’s “proven” oil saves, giving OPEC a major impact on worldwide oil costs. OPEC choices have come to play a conspicuous part within the oil showcase and universal controls. The impact can be especially solid when clashes or civic clutters lead to untrustworthy and extended interruptions in supply. Within the 1970s, OPEC’s limitations in oil production driven to critical cost spikes in conjunction with OPEC’s income and riches, with long-lasting and far-reaching results on the worldwide economy. OPEC begun setting generation targets for its part countries in 1980, and for the most part a lessening of these generation targets lead to an increment in oil costs(OPEC, 2017).

**1.1.5. Futures Market**

The cost of oil as we know it is really set within the oil prospects showcase. An oil futures contract could be a official assention that gives one the correct to buy oil by the barrel at a predefined cost and date within the future and clients buy prospects to fence against crude price changes that antagonistically influences benefit(Kosakowski, P. – 2016). Prospects costs over spot costs that lead to desires of higher costs within the future can impact oil makers withhold their oil in arrange to offer it at last mentioned date for higher benefits. This could decrease current supply of oil and significantly influence prices(Olimb, M., Odegard, T. M. – 2010).

**1.1.6. Speculators and Brokers**

Brokers and showcase examiners have an impact on oil costs. An illustration of a theorist would be somebody who is fair speculating the cost course and has no purposeful of really buying the item. Concurring to the Chicago Merchantile Exchange (CME), the lion's share of prospects exchanging is done by examiners as less than 3 % of exchanges really result within the buyer of the prospects contract taking having of the product being exchanged (Anon, 2015). In 2008, it was thought that examiners were offering up oil costs and making an unsustainable cost level (up to $ 140 per barrel). By late 2009, costs fell to $ 30 per barrel since the request was not display to bolster the expanded cost level(Anon, 2012).

Moreover advertise estimation may be a key figure in deciding oil costs. For case, the insignificant conviction that oil demand will increment significantly at a few point within the future can result in a emotional increment in oil costs within the show as examiners and supports moreover snap up oil prospects contracts (Anon, 2015).

**1.1.7. Exchange Value of the Dollar**

Unrefined oil is exchanged universally in, US Dollars whereas customers utilize nearby monetary forms to purchase petroleum items. When the US dollar depreciates against other monetary forms, nations with non-dollar increasing in value monetary forms appreciate cheap oil, whereas customers in US Dollar-pegged nations pay the next cost for the same barrel of oil. Changes within the US Dollar will in this manner influence world oil request. Devaluation of the US Dollar versus the appreciation of other monetary forms will diminish the taken a toll of buying a dollar. This will increment the request for rough oil, in other monetary forms than the US Dollar which thus leads to increments in costs. A negative relationship between the US Dollar trade rate and the unrefined oil cost changes is in this way expected.

**1.1.8. Government in Consumer and Producer Countries**

Around 94% of the world’s demonstrated saves are controlled by governments, in this way political choices to a huge degree control the accessibility, supply and utilization of oil.

Firstly, political objectives have a major impact on the speculations in investigation and generation that will thus influence future costs. Oil speculations in creating nations must compete with a number of other needs, counting social and wellbeing programs and other speculations to differentiate the economy absent from reliance on oil production.These other needs diminish income accessible for speculation in oil generation capacity along these lines influencing costs. For illustration, as oil costs rose in 2007, ExxonMobil, one of the biggest oil companies, was contributing $20 billion yearly in capital and investigation ventures, whereas agreeing to OPEC measurements, as it were three part countries were contributing more than $20 billion in total capital consumptions on upstream ventures to come on-line in 2004 through 2012.

Governments too give endowments on petroleum items for transport, agribusiness, mechanical and other financial exercises to control expansion. These appropriations shield certain divisions from oil cost increments. In this way, in nations with appropriations, unrefined oil request is generally lethargic to cost changes. BP gauges that these nations that as of now or as of late subsidized gasoline and other oil items such as India, China, Bahrain and Ghana accounted for 96 % of the world’s increment in oil utilization in 2007.

On the other hand, in nations without appropriations, request for oil for the most part gets to be stagnant or falls as worldwide rough oil costs (King, K., Deng, A., Metz, D. – 2011).Energy arrangement and charges in oil-rich nations moreover influence the cost of oil. On the off chance that a government bans oil investigation in a put with demonstrated saves, such as the Inlet of Mexico, it may lead to a lessening in oil supply. Petroleum understanding controls and necessities forced by nations on multi-national oil companies can increment the fetched of generation and in the long run oil costs [16].

**1.1.9. Political Tensions**

The world supply of oil is decreased by war, fear mongering, and guerrilla exercises that are as a result of political flimsiness or strife. Political precariousness in nations particularly oil creating zones such as the Center East, has had a noteworthy affect on oil generation and cost. These pressures may emerge due to the ejection of long-standing notable contention among nations and tribes, devout contrasts and the control of control and important assets like petroleum. Pressures including Iran have been related with a few of the most elevated oil costs in history, and the facilitating of these pressures have driven to cost decreases from their record tall levels. The biggest ostensible increment in oil costs earlier to the crest in 2008, ($ 10.75 per barrel), happened on June 6, 2008 taking after the comment by an Israeli cabinet serve that Israel might assault Iran. Other occasions including Iran, extending from a rocket test to the facilitating of political pressures, were related with both increments and diminishes in oil costs in July 2008.

Iraq’s generation has been diminished over the past a few decades as a result of amplified war periods. The interceding a long time of relative peace were related with recuperation within the levels of generation. Iraq’s 2008 generation of 2423 thousand barrels per day, taking after a long time of recuperation from its moo generation levels in 2003, is still as it were roughly 69 % of Iraq’s top generation of 3489 thousand barrels per day in 1979 earlier to the Iraq-Iran war.

Viciousness and agitators exercises within the Niger Delta contrarily influences Nigerian oil generation. The repeating snatching of remote specialists, assaults on pipelines and disrupt of oil framework have diminished Nigeria’s generation output.

News of distress in oil creating zones and those related with oil exercises all over the world comes about in tall oil costs.

**1.1.10. Economic Factors**

Like numerous other commodities, oil costs are connected to the financial exercises of most nations. Request and utilization of oil by all divisions increments with financial, mechanical and populace development and diminishes when there's financial retreat. Oil bringing in nations, such as the China and US, will increment their oil request as a result of financial development inevitably driving to higher oil costs. Oil trading nations, pick up greatest oil benefit and financial riches as a result of higher costs from these expanding requests. On the off chance that oil costs stay at tall levels, financial development in bringing in countries might decay, causing a decay in oil request and costs. Tall costs will moreover lead to increments in petroleum speculations, investigation and advancement budgets driving to unused oil disclosures and expanded supply which over time will cause costs to decline.



**Figure 1.2.** Geopolitical and economic effects on crude price

Source: Energy Information Administration (2016)

**1.1.11. Natural Factors**

Like most commodities, regular changes in climate influences the request for oil. In winter, more warming oil is devoured, and in summer, more gasoline is utilized as individuals drive more. Indeed in spite of the fact that markets know when to anticipate these expanded request periods, the cost of oil rises and levels out regularly each year. Extraordinary climate conditions such as storms, tsunamis and electrical storms particularly in major oil creating districts can physically influence generation offices and framework, disturbing the supply of oil and actuating cost climbs .

When Hurricane Katrina struck the southern Joined together States in 2005, influencing 19 % of the US oil supply, the cost of a barrel of oil to rose by $ 3. In May 2011, the flooding of the Mississippi Waterway too driven to oil cost vacillation (Anon, 2015).

**1.1.12. Other Energy Sources**

The affect of unrefined oil cost on other vitality segments like renewable vitality and bad habit versa isn't conclusive. Variables such as authoritative commands, competitive substitutes and shifting territorial affect must be considered. The reliance on rough oil has been reducing within the face of expanding advancement and ceaseless drop within the capital costs of other vitality advances.

Due to later oil cost increments and instability, nations have set concerted endeavors on decreasing reliance on unrefined oil. Vitality proficient and electric/hybrid vehicles as well as private sun oriented establishments are picking up showcase share and notoriety.

Broadly talking, rough oil and other vitality sources such as renewables, characteristic gas and hydroelectric are utilized to fulfill diverse parts of worldwide vitality necessities. Whereas rough remains the biggest essential source of vitality, it is for the most part utilized within the generation of transportation fills while renewable vitality is essentially utilized to create control (power).

In this way unrefined oil does not have coordinate substitutes, and so when the costs of one vitality supply increments, the request for the other does not continuously increment. The exemption to this comparison is fluid transport bio-fuels e.g. bio-diesel, bio-jet fuel and bio-ethanol which straightforwardly compete with unrefined oil items. The cost of rough can in this way be impacted by expanding ubiquity of bio-fuels(Le, B. – 2015).

Characteristic gas and unrefined oil are moreover near substitutes for each other in locales where both are backed by innovation, foundation and markets. Propels in innovation presently permit conclusion buyers to switch between powers. In the event that the cost of one vitality source rises altogether, shoppers move to other vitality source. This increments request for the moment vitality source and its cost at that point moreover increases(Seth, S. – 2015).

**1.1.13. Refinery Capacity**

The worldwide refinery capacity or utilization is characterized as the most extreme sum of rough oil that can be prepared in a calendar year partitioned by the number of days within the comparing year(Möbert, J.- 2007). The productivity and efficiency of refineries foresee the sum of rough oil items accessible for utilization. Disturbances and breakdown at refineries can cause a brief misfortune of petroleum items accessible for supply. Changes in refinery yield and capacity to prepare rough hence impacts rough oil costs.

Ødegård and Olimb in 2010 expressed that, refinery utilization rates influence rough oil costs based on the capacity of refineries to change over unrefined oil to last items. Tall refinery utilization rates may imply deficiencies within the supply of petroleum items causing an increment in petroleum items and rough oil. On the other hand, tall refinery capacities might show flooding of petroleum items into the showcase causing a diminish in prices.

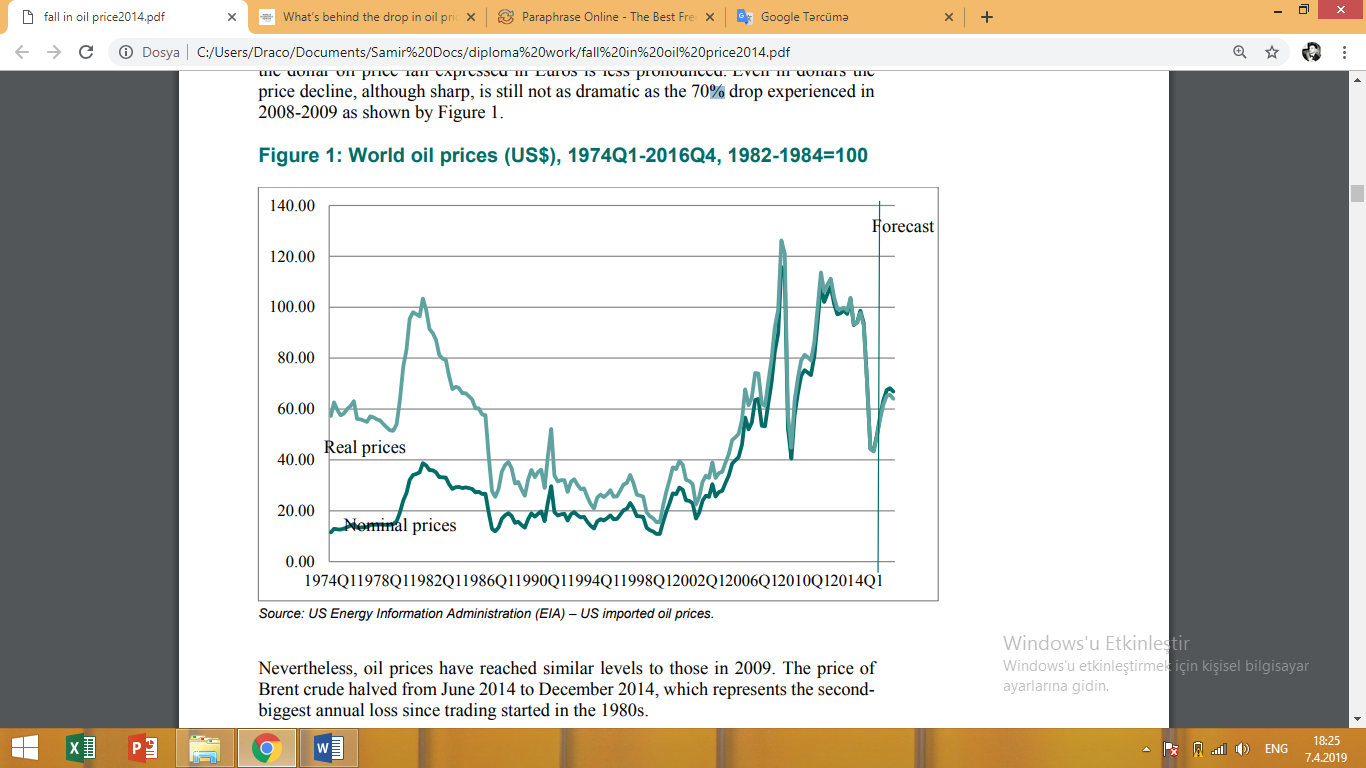
From the revisal, it can be built up that these person components or a combination of a few of these variables can cause oil cost instability. Overabundance generation of unrefined oil can lead to overflow and cost diminishment while abundance utilization can moreover drive costs up. Expanding ubiquity of other vitality sources can moreover lead to a decrease in oil as well as its cost. The climate of geopolitical pressures and insecurity is for the most part related with higher oil costs. Other variables such as the esteem of the dollar, government choices in creating and devouring countries and prospects advertise are too contributory components in oil cost assurance.

**1.2 Fall on the oil price in 2014**

The staggering drop in oil costs, from a top of $115 per barrel in June 2014 to beneath $35 at the conclusion of February 2016, has been one of the foremost imperative worldwide macroeconomic advancements of the past 20 months. The sharp drop is broadly comparable in greatness to the decay in 1985-1986, when OPEC individuals switched prior generation cuts, and in 2008-2009 at the beginning of the worldwide money related emergency. Understanding the basic causes of cost drops is basic to translating their macroeconomic impacts. The 1985-86 decrease was primarily supply-driven, whereas the drop in 2008-2009 was nearly totally due to a collapse in request. The later cost decay shows up to be a blend of the two.

The cost of oil started to rise more gradually amid the moment quarter of 2014, and it has fallen since into the primary quarter of 2015. The cost of rough oil (Brent) fell from $112 a barrel in June 2014 to $48 a barrel in January 2015, its most reduced month, a drop of more than 50%. This improvement took put as the Organization of the Petroleum Exporting Countries (OPEC) brought down figures for worldwide request to their most reduced level in a decade. The cost at the conclusion of Walk is $56 per barrel.

Since of the US dollar appreciation (around 20% over April 2014 to Walk 2015), the dollar oil cost drop communicated in Euros is less articulated. Indeed in dollars the cost decrease, in spite of the fact that sharp, is still not as emotional as the 70% drop experienced in 2008-2009 as appeared by Figure 1.3.

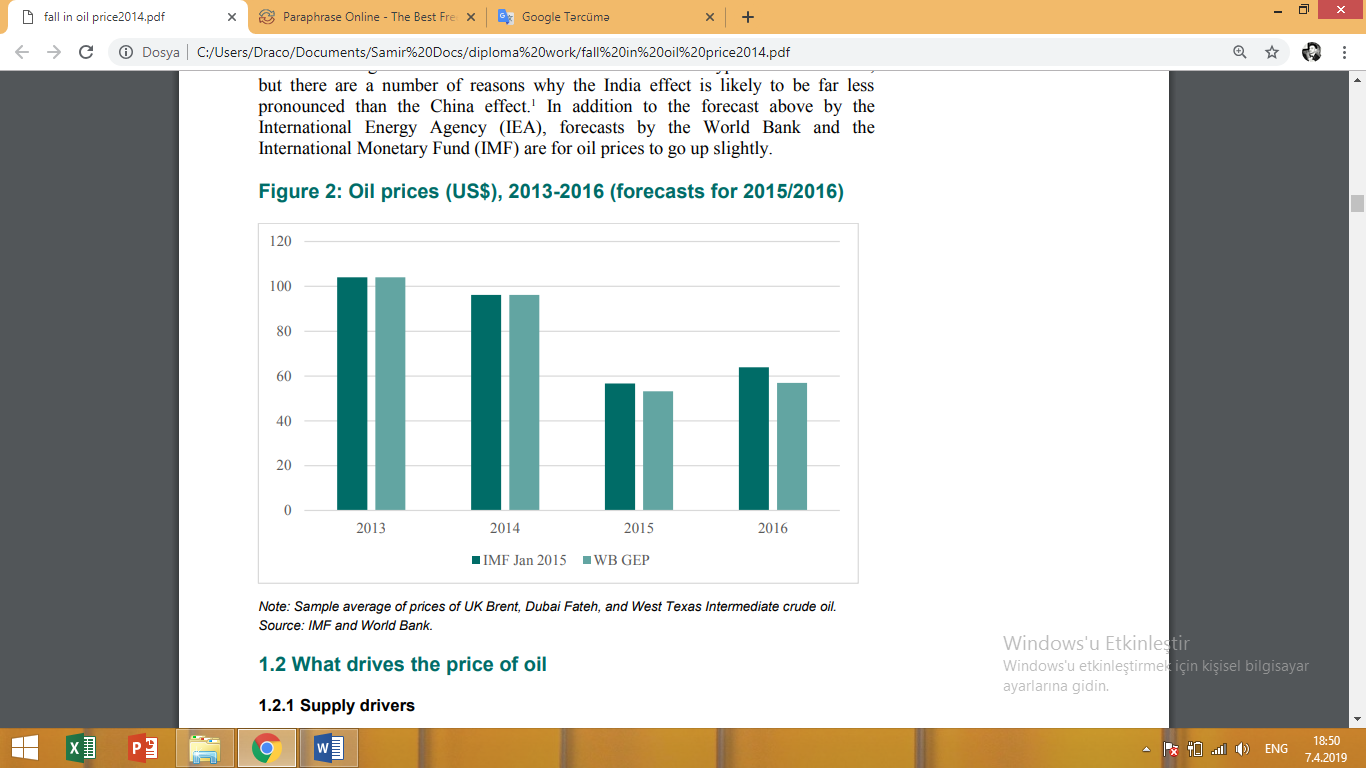


**Figure 1.3**  World oil prices (US$), 1974Q1-2016Q4, 1982-1984 = 100

In any case, oil costs have come to comparable levels to those in 2009. The cost of Brent rough split from June 2014 to December 2014, which speaks to the secondbiggest yearly misfortune since exchanging begun within the 1980s. Figure 1.4 presents the genuine and ostensible oil cost developments. The long-term decrease in genuine costs is presently closely taking after that in ostensible costs. In common, long-term cost changes requires investigation of the

* drift in (genuine) costs enduring ten a long time or more
* basic move in demand
* supply with long lags
* cost elasticities.

A few commentators recommend that 2008 itself checked the conclusion of a product supercycle, others that the China driven supercycle was over in 2011 (Jessop, 2015). Cycles may gotten to be shorter within the future. For illustration, an improved Indian development take-off might produce unused and maintained request for a few sorts of commodities, but there are a number of reasons why the India impact is likely to be distant less articulated than the China impact. In expansion to the figure over by the International Energy Agency (IEA), figures by the World Bank and the International Monetary Fund (IMF) are for oil costs to go up slightly.



**Figure 1.4** Oil prices (US$), 2013-2016 (forecasts for 2015/2016)

***What drives the oil price?***

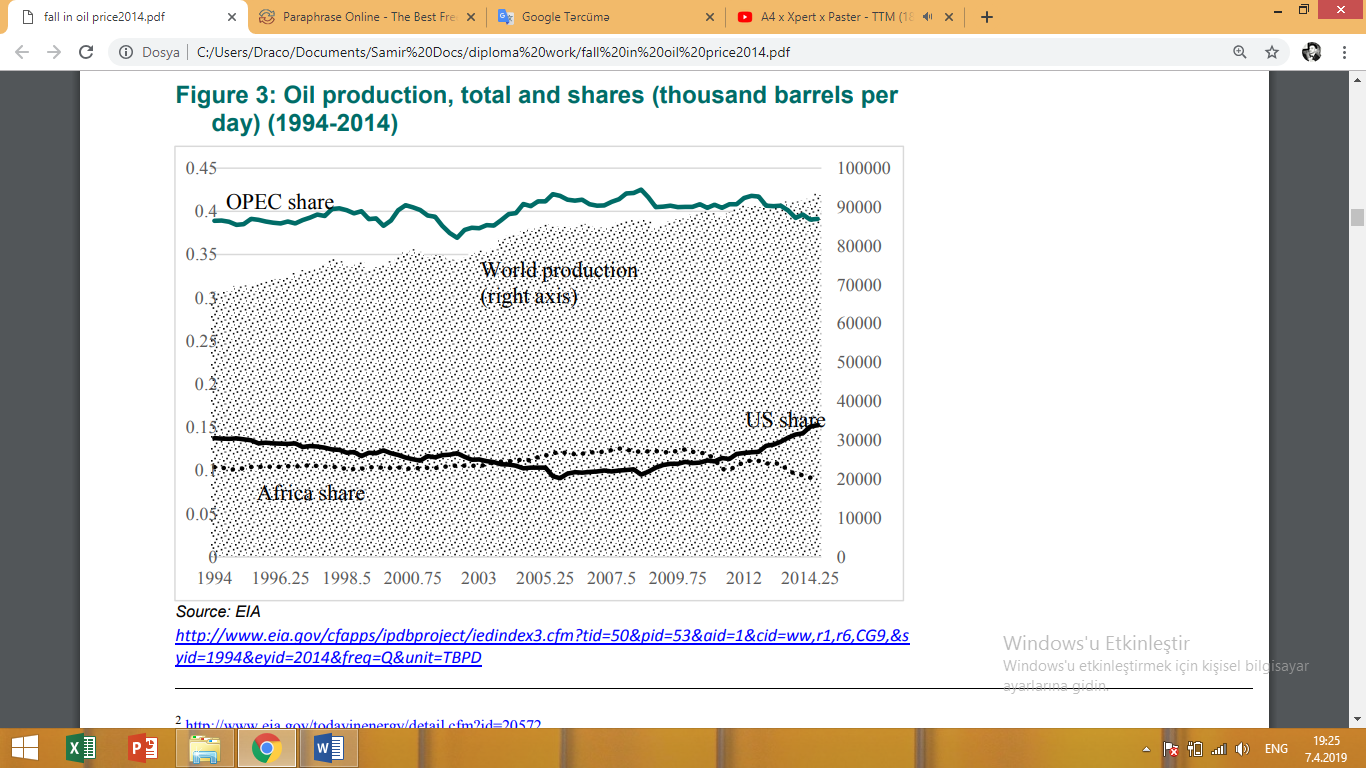
Supply drivers

The impacts of fracking have started to be felt on worldwide markets. This flighty supply of oil has been advertised advance bolster by the Obama organization, counting endorsement to send out ultralight (or oil condensate) which takes after the lifting of a four-decade boycott. Add up to US oil yield is presently at its most elevated level since the 1970s due to fracking. The IEA notes that US oil generation expanded amid 2014 by 1.2 million barrels per day (which is 1.5% of world supply) (16.2% increment) to 8.7 million bbl/d, the biggest volume increment since 1900. Most increment amid 2014 came from tight oil or fracking.

Other sources of supply have too remained tall, so that worldwide generation has been higher than expected for 2014. For illustration, the World Bank’s (2015) investigation notes that the oil trades of Iraq, OPEC’s second-largest maker, hit their most noteworthy level since 1980, averaging 2.9 million barrels a day, whereas yield in Russia, the biggest exporter exterior OPEC, was too tall. This record yield comes in show disdain toward of sanctions that brought about from increased post-cold war pressures. Figure 1.5 appears the volume of world oil supply, which has developed consistently from 70 million barrels in 1994 to 80 million barrels in 2004 and 90 million in 2014 (fracking is dependable for around 5 million, which clarifies half of the increment, see Hou et al, 2014). The share of OPEC and Africa in world generation has declined somewhat, which of the US rose strongly from 9.5% in 2008 to 15.3% in 2014 (see information on offers in Figure 1.5 underneath).

In show disdain toward of these patterns, OPEC concurred in late 2014 that it would not limit supply among individuals in arrange to guard the cost of unrefined. This non-action stamped a basic crossroads for the association and a major alter from the choice of 2008-2009 when profound generation cuts were made to avoid costs from falling further.On the one hand, OPEC’s choice to preserve yield may be a key one, planning to drive high-cost makers out of the showcase (counting US frackers) and keep up showcase share. Saudi Arabia has said it'll not cut generation independent of cost levels, ‘be it $40, $30 or $20 per barrel’, because it fights to hold showcase share (Hume, 2015). On the other hand, OPEC may basically have been caught off watch (Pugh, 2015). Or OPEC may accept that the past has appeared that it cannot control yield successfully: within the past (e.g. over 1979-1980) when OPEC acted to diminish generation and hence impact costs, non-OPEC members’ yield kept on develop, in conjunction with costs.

**Figure 1.5** Oil Production, total and shares(thousand barrels per day) (1994 – 2014)



http://www.eia.gov/cfapps/ipdbproject/iedindex3.cfm?tid=50&pid=53&aid=1&cid=ww,r1,r6,CG9,&syid=1994&eyid=2014&freq=Q&unit=TBPD

Additionally, the association once in a while sets a least cost floor instead of a ceiling. Ought to the shale gas transformation experienced within the US be rehashed somewhere else, of course an alteration to a medium- to long-term cost decay in oil will be required (compared to a short-term cost stun). The World Bank (2015) encourage draws consideration to elective sources such as the growing part of worldwide generation of biofuels. Usually not advance investigated in this bulletin.

Demand drivers

Worldwide development projections have as of now been slashed;this is in spite of any impact from the later oil cost decreases. Numerous associations, such as the IEA (2014), moreover allow weight to the part of request contemplations. IEA’s yearly report underscores how the worldwide economy remains frail, with hindered wage development and small shopper investing, and flattening getting to be a major concern; Hamilton (2014) contends that around two-fifths of the decrease in oil costs within the moment half of 2014 are thought to result from weak global request, especially within the Eurozone economies, with the rest inferable to increments in oil supply.

In spite of the fact that a decrease in oil costs increments genuine livelihoods, which makes a difference shoppers – by a few gauges a $40 cost cut shifts a few $1.3 trillion from makers to shoppers – there are dangers of a negative expansion in European economies. Within the US, the decrease in oil costs comes at a time of rehashed undershooting of its expansion target. Swelling had declined to zero within the UK by the conclusion of Walk. A few banks are as of now charging negative rates on holding Euros. More as of late, the volume of negative-yielding Eurozone government obligation has swollen to a record €1.2 trillion – comparable to a quarter of all exceptional Eurozone obligation – up from €500 billion in October 2014, as the European Central Bank (ECB) looks for to incite speculations into less secure exercises and move assets into the genuine division (Thompson, 2015).

In arrange to dodge deflationary impacts and keep up current levels of request, there have been recommendations to raise government investing, conceivably financed by raising charges on oil. For case, Summers (2015) evaluated that a $25 ton assess on carbon would raise over $1 trillion amid the following decade and raise petrol costs by as it were approximately 25 cents and these sums may well be went through. Instep the later UK budget expanded endowments for oil and gas investigation. Be that as it may, as talked about by the World Bank (2015), with arrangement intrigued rates of major central banks as of now at or close zero, there's constrained room for extra money related arrangement facilitating to raise demand; this in turn seem provoke the utilize of elective monetary instead of financial measures.

Money related arrangements within the Joined together States, Euro Zone, and Japan have played an critical part within the common decay of product costs and US dollar appreciation (Frankel, 2014). Banks are pulling out of commodities, as portion of a broader portfolio change program. Agreeing to Hume (2014) nearly $9 billion was pulled back from product ventures between September and October 2014 provoked by cost decreases in key segments such as rough oil, horticulture and gold. According to Citigroup, net withdrawals from commodities within the third quarter of 2014 totaled $8.2 billion, flipping the 2014 total net speculation from a huge influx of $7.5 billion within the to begin with quarter to a little outpouring of $600,000 by the conclusion of 2014 (Terazono and Meyer, 2014). Drivers of the liquidation prepare include concerns approximately a rising US dollar and more tightly future US financial arrangement. The basis for the next assignment to commodities is by presently recognizable to numerous speculators: expansion, inflation-matching and liquidity. In any case, the part of commodities in portfolio methodologies is being addressed, not slightest given the Chinese financial development lull and acknowledgment that the decade-long rally experienced inside commodities is impossible to be rehashed. Crowd conduct inside budgetary markets can increase cost patterns.

Considering the over, the later decay in costs tends to be driven by basic and patterned variables instead of by shareholders’ concerns and apprehension approximately financialisation in product markets.As venture banks have withdrawn from the segment, exchanging companies themselves have frequently picked up the slack, and this prepare is likely to proceed.

Geopolitical and other considerations

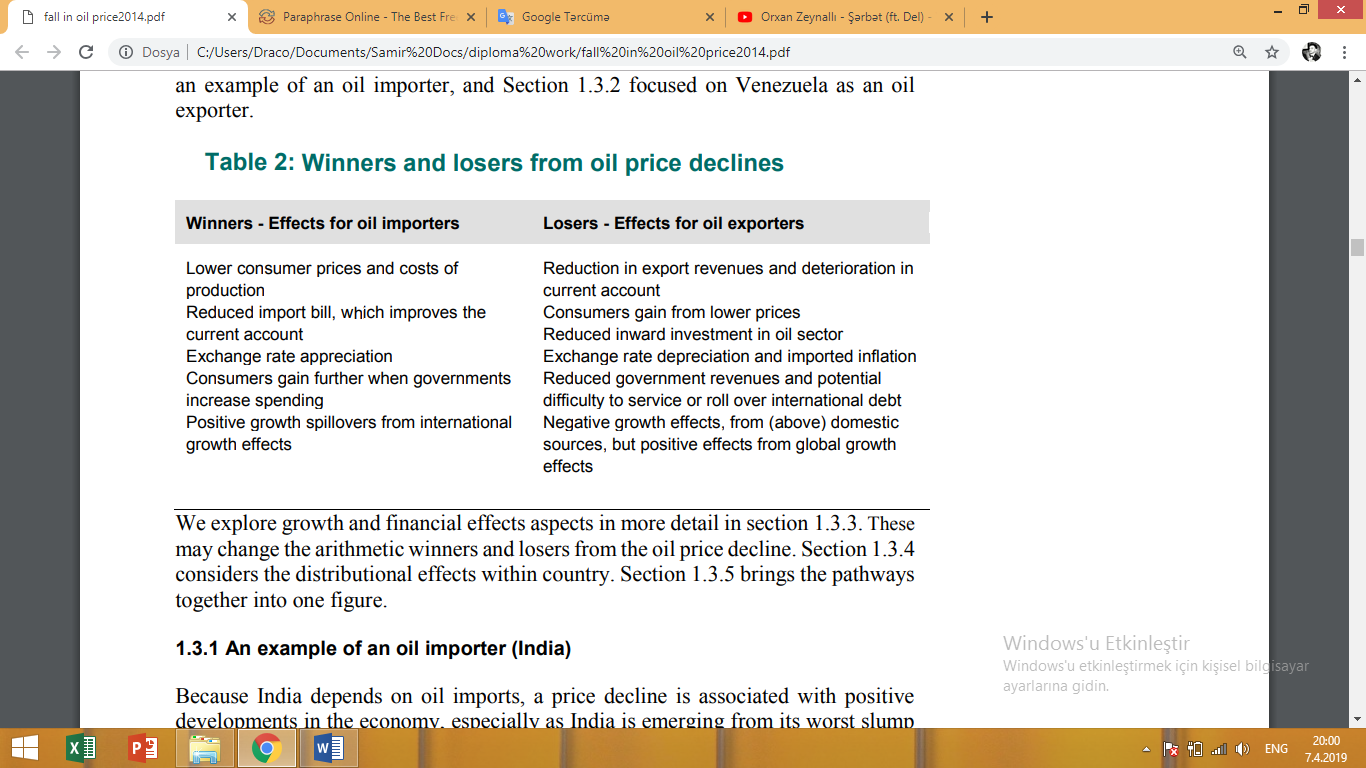
Oil costs are continuously helpless to short-term disturbance caused by the climate, strikes or strife. For case, the combination of the Iranian insurgency and the Iran-Iraq War more than multiplied rough oil costs from $14 per barrel in 1978 to $35 in 1981. Thirty-five a long time afterward, Iran's generation is as it were two-thirds of that accomplished beneath the Shah. When Iraq attacked Kuwait in 1991, oil taken a toll $21 per barrel. Five months afterward, it crested at $44. The normal cost amid the strife expanded onethird to $28. Some time recently the 2002-2003 Iraq war, the cost of oil had fallen to around $17 per barrel - much appreciated to moderate financial development taking after the 9/11 fear based oppressor assaults. But it rose by 40% to $26 per barrel amid the war in Afghanistan. Since at that point there have been major impacts from Libya’s emergency and more as of late in connection to Yemen. There have been major emergencies that, since of their area, have not had coordinate impacts on oil prices.

***Mapping the impacts of changes on oil prices***

This area traces the pathways through which lower oil costs influence creating nations. The most distinction in impacts depends on whether a nation could be a net oil exporter or net oil merchant, but there are moreover other variables. Te Velde (2011) presents an oil defenselessness record that incorporates three components: (1) level of net oil imports as % of GDP, (2) the oil share in vitality blend, and (3) vitality proficiency of generation. The index appears that a few of the poorest nations, such as Moldova, Togo, Nicaragua, Mauritania, Sierra Leone are among the foremost oil powerless economies, but other nations, such as Rwanda, Kenya, Zambia, Bangladesh, are too at risk.

The World Bank (2015) finds that oil-importing nations such as India, Indonesia and South Africa would advantage from the oil cost falls: development quickens and current account shortfalls limit. Be that as it may, it inclinations caution since families and corporations may select to utilize any picks up from the oil cost decrease to reimburse obligations instead of increment consumptions.

**Table 1.1** Winners and losers from oil price declines

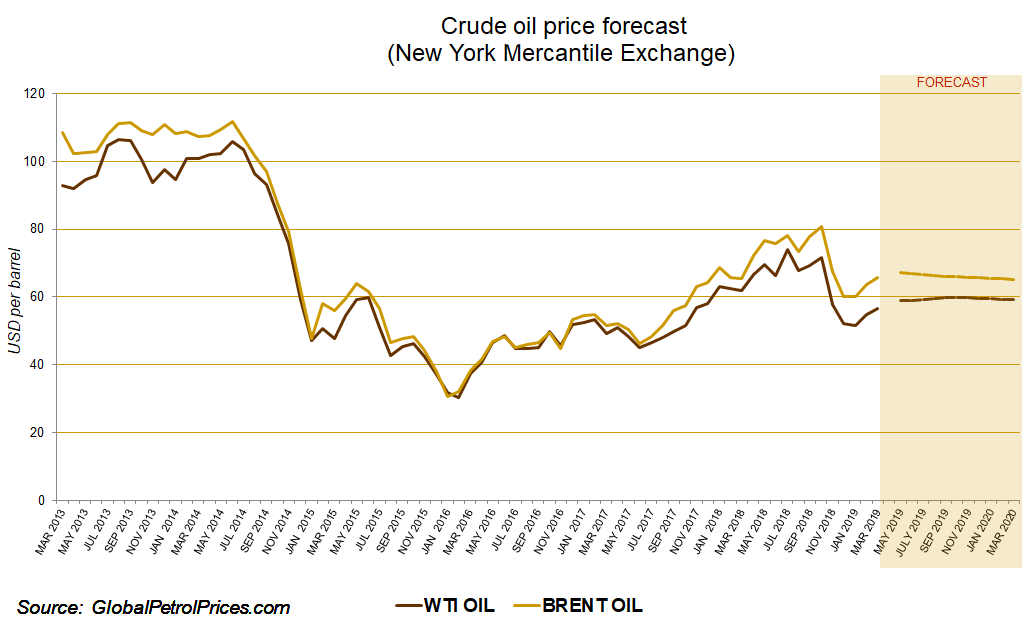


**1.3 Future expectations and prognosis**

After coming to 80 USD per barrel in drop 2018, Brent costs declined to around 50 USD per barrel in December 2018 responding to plenteous supply from U.S. makers, abating worldwide economy, and diminished concerns over the sanctions on Iran. In any case, costs have recently continued their upward slant and drawn closer 70 USD per barrel as OPEC chosen to fix oil supply. The concerns over worldwide financial development have too directed to some degree.

The prospects costs at the New York Merchantile Exchange, delineated within the chart, suggest that showcase members don't anticipate huge moves in oil costs from their current levels. The chart appears the costs of unrefined oil (Brent and WTI) at which buyers and dealers on the New York Merchantile Exchange have agreed to buy/sell oil at a few point within the future. These are the so-called prospects contracts and reflect the desires of advertise members. The buyers and sellers have concurred presently at what cost to exchange oil within the future. In this manner, with a few caveats laid out underneath the chart, we will accept that the prospects costs reflect to a huge degree their desires of long run oil prices.

These desires may not come genuine but they are likely the finest accessible estimate numbers. They total the information of buyers and dealers who attempt truly difficult to remain educated around oil costs. Other determining strategies based on study information or macroeconomic examination don't appear to perform superior.



**Figure 1.6**

Looking longer-term, we don’t see much scope for altogether higher costs. There's developing request for petroleum items from developing markets but the request in created nations is declining as natural benchmarks get harder and electric vehicles spread. Also, request within the rising markets would likely decrease off as cleaner advances ended up cheaper and more available. Thus, the World Energy Council anticipates oil utilization to crest in 2030. In addition, the U.S. Energy Information Administration gauges that current demonstrated oil saves would final until 2050 with unused stores being persistently recognized. In other words, there appears to be plentiful sum of oil for numerous a long time after its utilization begins to decrease. Of course, it things whether the low-cost saves dry up to begin with but, generally, these flow don't propose a soak increment in costs.

These variables may not be sufficient to press unrefined oil costs much lower than their current levels since on a worldwide level earnings are developing and, so distant, this produces extra request for oil. In any case, they put an upward restrain on unrefined oil costs. There may be intermittent spikes due to supply disturbances but they would be transitory. As financial development around the world picks up, unrefined oil costs may float up on a more supported premise but likely not much over a 60-80 USD per barrel level within the following few a long time.

**Paragraph 2.**

**Oil industry in Azerbaijan**

Azeri oil industry's history of advancing is divided into a few stages that each had their own idiosyncrasies.

*The first stage* began in 1847 with the mechanical oil production from the burrowed wells and continued until 1920. The long period of 1847-1848 was marked by the primary generation of mechanical oil from the burrowed wells in Bibieybat and subsequently Balakhany areas and the development of Azerbaijan's oil industry began from that moment on.

*The second stage* started in 1920 following the nationalization of Azerbaijan's oil industry and covered the field of Neft Dashlary in 1949.The generation of oil diminished down to 2.4 million tons in 1921. Inside the moment arrange due to the extension of investigation works a number of modern oil areas were found and commissioned and the oil generation come to the level of 23.6 million tons in 1941 hence making up 76% of the overall volume of oil generation within the USSR. Azerbaijan produced 11.1 million tons of oil due to the expulsion of oil hardware and oil pros to eastern districts (Tatarstan, Bashkiria, Turkmenistan and others) during the 1941-1945 war period.

*The third stage* began in 1950 with the commissioning of the field of Neft Dashlary and the improvement of the maritime oil industry in Azerbaijan and continued until 1969. A number of oil and gas areas have been uncovered and commissioned, the procedure and innovation of hydrotechnological oil plants, and the framework created for seaward oil generation.

*The fourth stage*, which began in 1969, is characterized by the rapid improvement of the oil and gas industry dating back to Heydar Aliyev's government's primary period. A new organization began at that time as the seaward oil generation improved. The Khazardenizneft affiliation was established in 1970 and considering the involvement of Azerbaijani oilmen in the conduct of marine works, the U.S.S.S. Oil Industry Service allowed the Azerbaijani oilmen to carry out all geographical, penetrating, working and other works in all segments of the Caspian Sea (the Caspian Sea was divided into segments).

*The fifth stage* is characterized by the collapse of the USSR, the creation of the modern oil methodology covering the autonomous period and Azerbaijan's unused history*.*

**2.1 The weight of oil industry on the Azerbaijan economy**

Financial incomes of carbohydrogen wealthy Azerbaijan is seriously subordinate on deals of oil, oil items and characteristic gas. From this point of view, the alteration of oil costs in global markets is considered to be the most pointer in evaluating the government's monetary condition. It should be known that the cost of a barrel of oil is estimated to be USD 45 when calculating the State and Oil Support Budget in 2018 (Ministry of Finance, “İcmal və Dövlət Büdcələrinin layihəsi”). In these circumstances, the net profits from the Azerbaijan State Oil Fund (SOFAZ) carbohydrogen deal are estimated at 9,724 billion manats, while the revenue charging from the oil segment to the state budget is estimated at 1,88 billion manats. As a result, the share of the state budget oil revenue expanded compared to the final year and reached 55.1 percent (the same figure in 20174 was 47.9 percent).

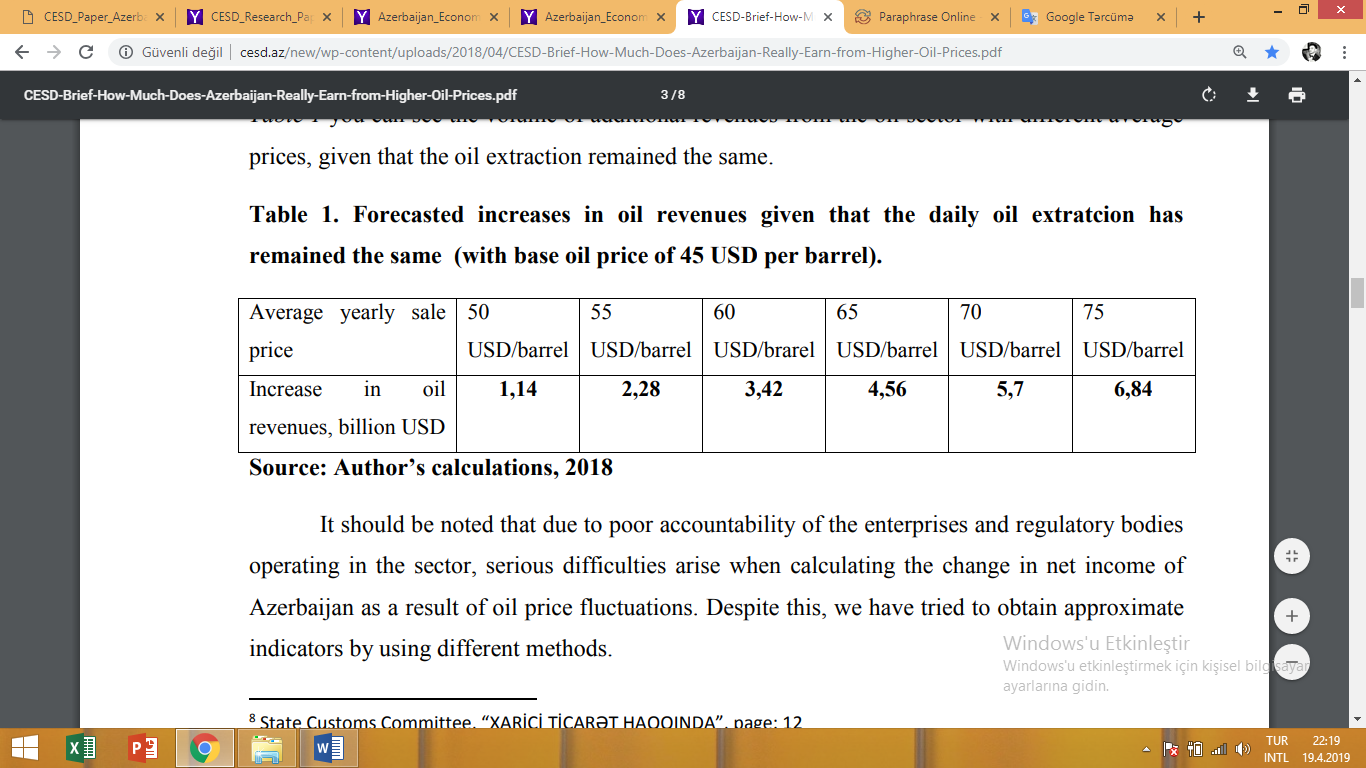
In line with perceptions, the current situation on the world oil market is changing in Azerbaijan's favour. The cost of a barrel of unrefined BRENT oil changes within the 70-75 USD interval. By and large, the normal cost for a barrel of BRENT unrefined oil amounted to USD 66.8 in the middle of January – Walk of 20186 [ Note: starting from the third quarter of 2017, SOCAR has stopped distributing the monotonous average price of Azeri light, which is the source of data as it were ]. Meanwhile, the nation's oil extraction expanded by 2.4% to 9.7 million tons, while gas extraction expanded by 5.2% to 7.3 billion cubic meters.

According to data from the State Customs Committee, in the first three months of this year, 5,438 million tons or 2,686 billion dollars were traded in oil, 938.9 thousand cubic meters or 0.168 billion dollars in common gas. The volume and esteem of traded oil was 11.7 percent higher and 35 percent higher individually compared to the final year (State Customs Committee, “Xarici Ticarət Haqqında ”).

The above variables appear to have an impact on Azerbaijan's oil revenues. In the mid-first quarter of 2018, SOFAZ had revenues of 3.533 billion manats from oil and gas deals or, in other words, 45.3 percent higher than the gauges, 0.467 billion manats were charged by the oil division to the state budget.

According to the Republic of Azerbaijan's vitality service, normal oil sends out every day was 625,000 barrels (Ministry of Energy of the Republic of Azerbaijan). Off chance that we consider the volume of daily trades [ 45 dollars per barrel compared to 66.8 dollars per barrel ], the oil deal brought extra revenue of 13.62 million dollars per day to normal. From this point of view, the country's genuine oil revenues in the primary quarter were approximately 1.23 billion higher than the estimated revenues.

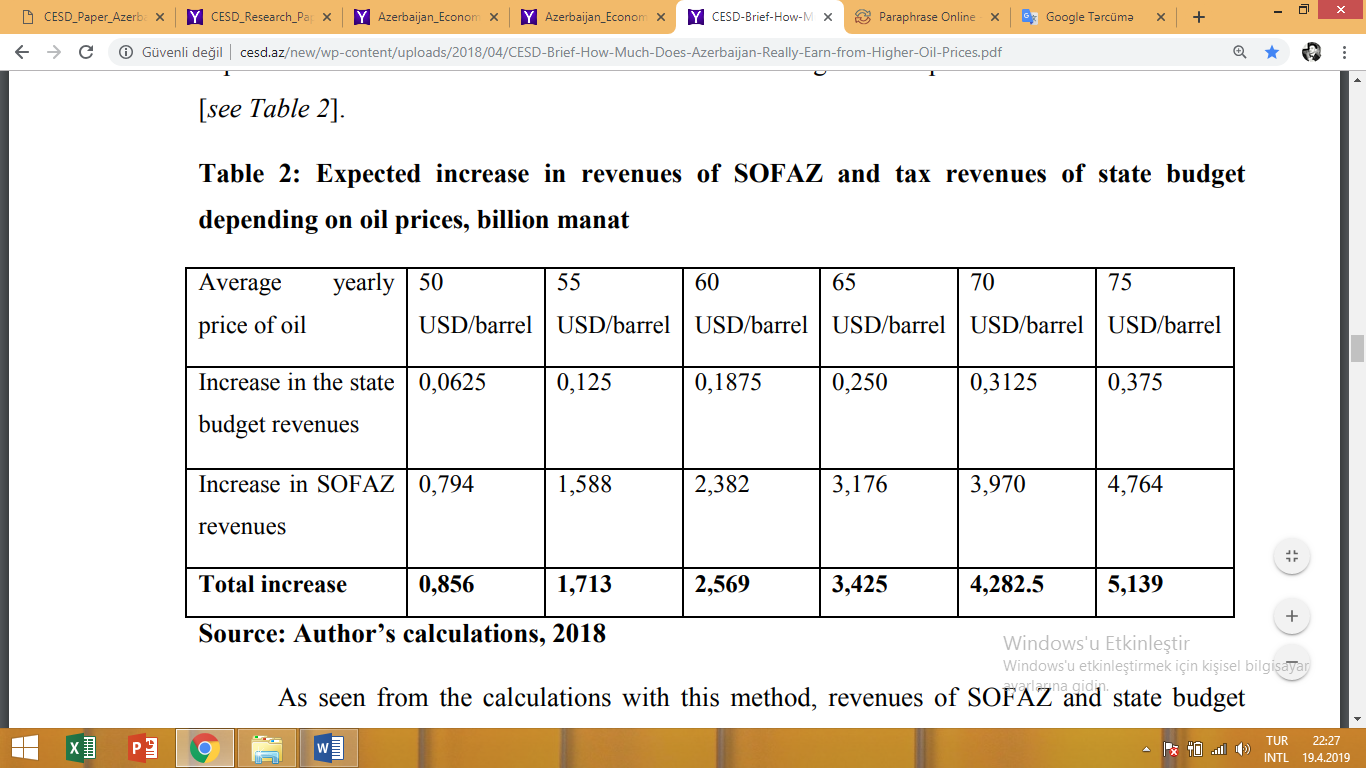
Keeping in mind that one of the most concerns about the open is the current increase in oil costs, we consider it appropriate to take it after calculations. Thus, you will be able to see from Table 2.1 the volume of extra income from the oil segment with distinctive normal costs, as the extraction of oil remained the same.



**Table 2.1**  Given that the daily oil extratcion remained the same (with base oil price of 45 USD per barrel), predicted increases in oil revenues.

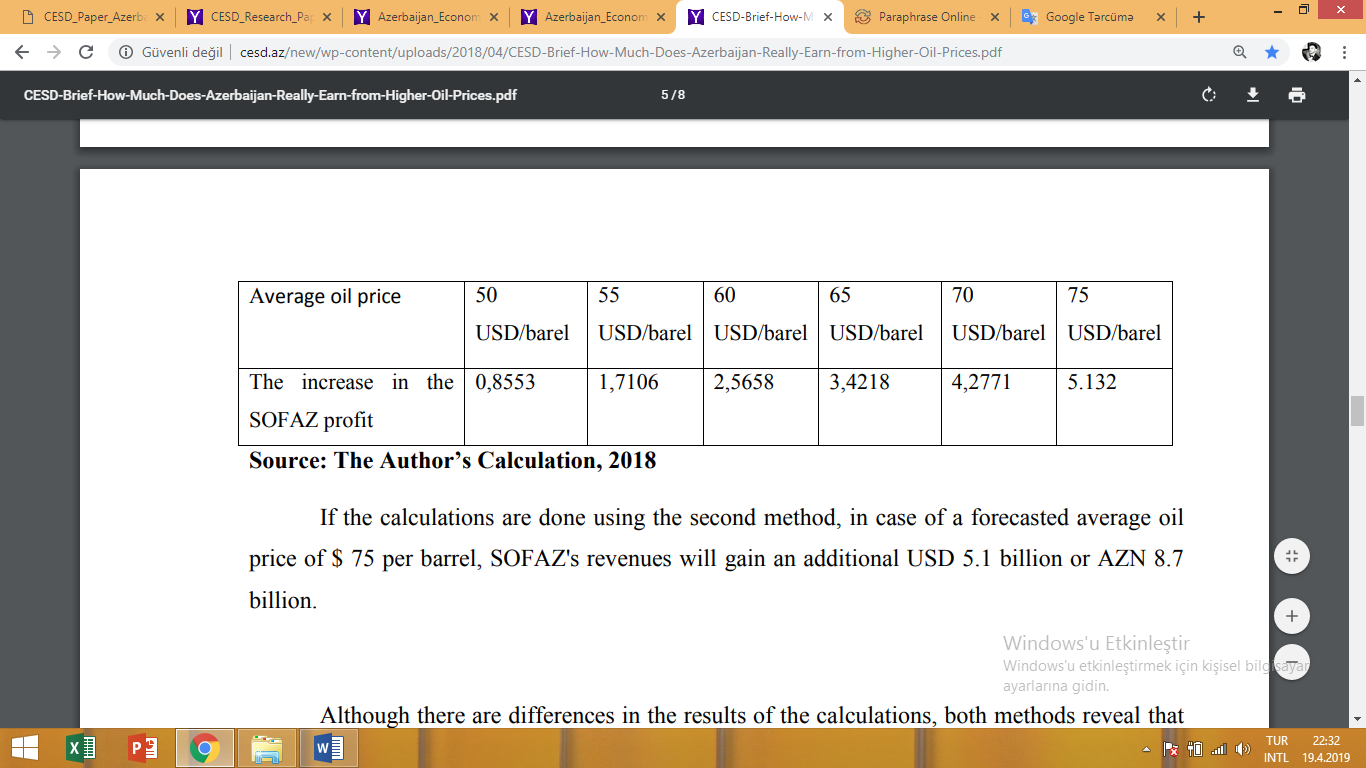
**Source:** CESD, How much Azerbaijan really earn from higher oil prices?

It ought to be famous that due to destitute responsibility of the endeavors and administrative bodies working within the division, genuine troubles emerge when calculating the alter in net wage of Azerbaijan as a result of oil cost variances. In spite of this, we have attempted to get inexact pointers by utilizing distinctive strategies.

*Procedure 1:* According to the calculations of the Republic of Azerbaijan's Fund Service, a $ 5 decrease in the cost of rough oil may result in a toll of $ 62.5 million for the state budget and $ 794 million for the State Oil Finance. Looking at SOFAZ's reliance on oil costs from this point of view and assessing the state budget's income may be as follows [ see Table 2.2 ].

**Table 2.2** Expected increase in revenue from SOFAZ and tax revenue from the state budget depending on oil prices, billion manat

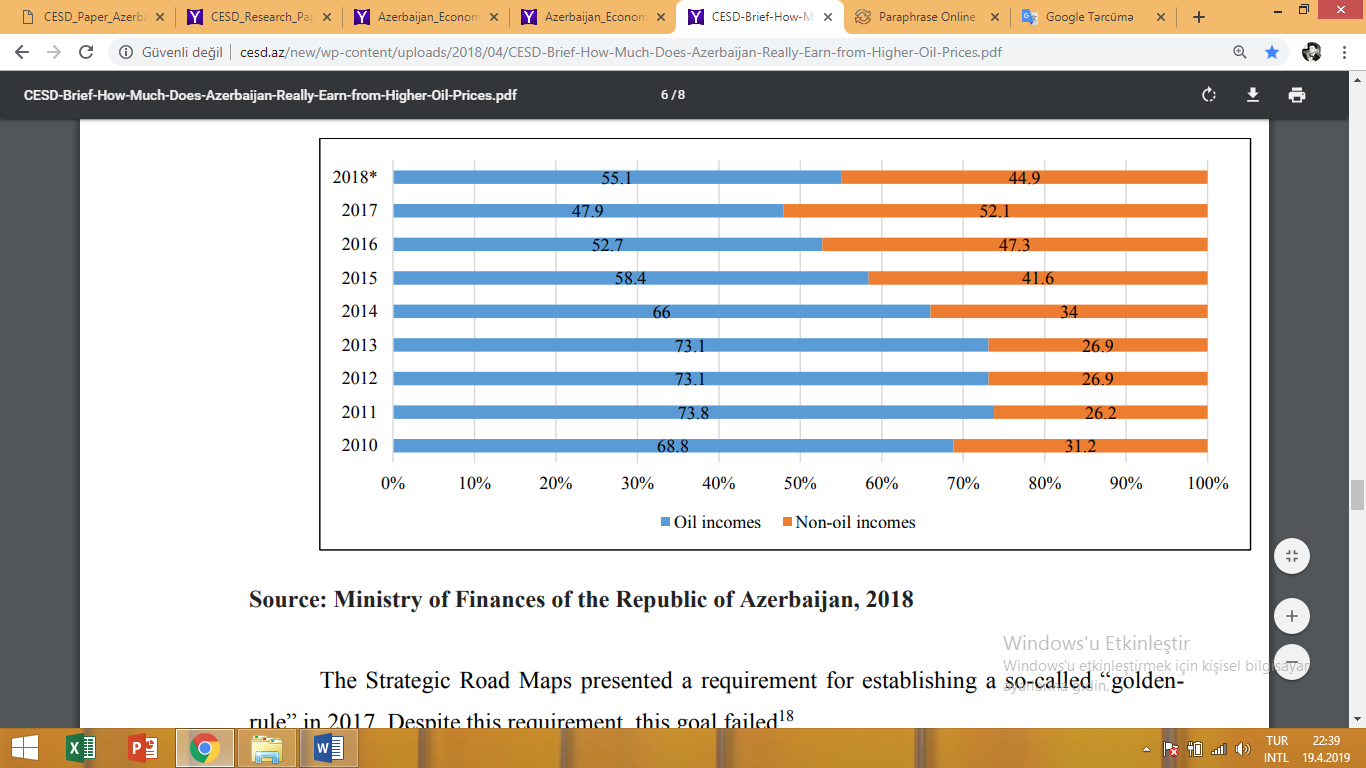
As seen from the calculations with this strategy, SOFAZ revenues and government budget revenues from the oil division can be 5.1 billion manat or 3 billion USD higher if the normal annual oil cost is 75 dollars.

*Procedure 2:* According to the SOFAZ report, by the beginning of the quarter of 2018, SOFAZ offers benefits in full of AZN 3,533 bln through the supply of benefit oil and gas. Since the daily volume of oil trade is 625 thsnd barrels, the Fund's net salary is 62.8 AZN per barrel*.* By taking into account the terms of Generation Sharing Assention (Azerbaijan's share in AIOC's share), Azerbaijan spent USD 17.7 [ counting transportation costs ] per barrel of oil.15 Accordingly, we can calculate the amount collected within the after-taking period [ see Table 2.3 ].

**Table 2.3**  Estimated revenue from SOFAZ, for stable oil prices and volume of extraction

On the off chance that the calculations are done utilizing the moment strategy, in case of a forecasted normal oil cost of $ 75 per barrel, SOFAZ's incomes will pick up an extra USD 5.1 billion or AZN 8.7 billion.

In spite of the fact that there are contrasts within the comes about of the calculations, both strategies uncover that SOFAZ creates extra income at current vitality costs within the world showcase. Expanded oil pay leads to the creation of overflow salary, bolster of the national money (manat), and the increment in vital cash saves, which emphatically influences major macro-economic markers, but makes dangers for the monetary arrangement. Some markers point to an unstable situation in the future. Following the financial decline in 2015, the government tried to execute financial union, which ceased to exist ; a monetary extension drift took place after the current quarter of 2017. Taking into the world's advertisement after the rise in oil costs, the state budget16 and SOFAZ budget17 have been changed and expanded uses. In addition, oil transfers to the state budget will be 51 percent higher in 2018 than in 2017: SOFAZ exchanges to the state budget will increase by AZN 3,116 billion or $ 1,83 billion. As a result, the share of the oil division in the state budget has once again expanded by 7.2%, which adds up to 55.1% of the state budget [see: Diagram 2.1].



**Diagram 2.1**  Share of the oil sector in revenues of the state budget, (%)

**Source:** Ministry of Finances of the Republic of Azerbaijan

The Strategic Road Maps displayed a prerequisite for building up a so-called “goldenrule” in 2017. In spite of this prerequisite, this objective fizzled.

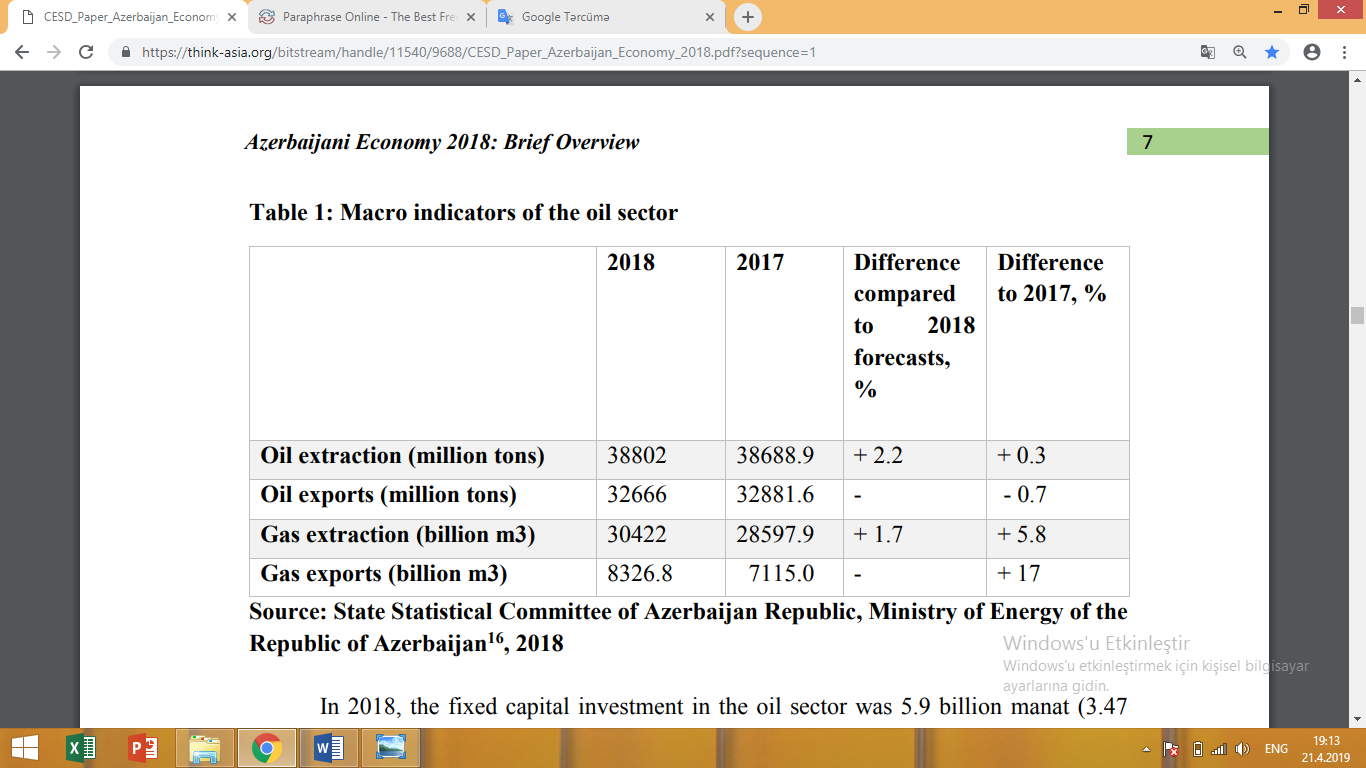
All things considered, we think that, the expanded influx of oil cash to the economy ought to not be an deterrent for cleansing and monetary combination arrangementIn the event of disappointment in recognizing these focuses, the steps taken to advance the economy of the country are not progressing to be compelling and will be open to external danger.

In spite of tall instability, 2018 can be considered a fruitful year for Azerbaijan from the point of see of oil costs. That's , the normal yearly cost of one barrel of oil whereas calculating the state budget was anticipated to be 45 US dollars , where in reality it was higher than 71 US dollars, which is 35% bigger than the oil costs recorded all through 2017. Amid the detailing year, the GDP of the oil segment was 33.1 billion manat (19.5 billion US dollars), which is 0.6% more than the past year.

Development within the division was due to a 0.3% increment in oil generation and 5.8% increment in normal gas generation [see Table 2.4].

In 2018, the settled capital speculation within the oil segment was 5.9 billion manat (3.47 billion US dollars), which suggests a decrease compared to the past year. A diminish in ventures in this segment was due to completion of the Shah Deniz 2 venture.

In 2018, the esteem included per capita expanded by 0.5%, coming about in GDP per capita coming to 8,126 manat (4,780 US dollars).



**Table 2.4** Macro indicators of the oil sector

GDP per capita designated in US dollars has strongly declined amid 2014 - 2016. The decline took put within the foundation of the financial retreat and national currency's deterioration.

In 2018, a add up to of 17.2 billion manat (10.1 billion US dollars) was contributed in settled capital and 69.7% of which was by household sources, 4.4% less than that of 2017. The reason for typically the decrease in speculations to the oil segment.

Additionally, the oil sector plays a crucial role in terms of employment. Agreeing to the comes about of 2016, the number of representatives working at SOCAR was 50,933. For comparison, the number of BP Azerbaijan company workers was 3238, of which 2817 were nearby representatives.

**2.2 Non-oil sector and its role on the economy of Azerbaijan**

The esteem included within the sum of AZN 20637.0 million was delivered in non-oil division in January-June of 2018, and for the most part, 52.6% of value added was delivered within the areas of the social and other administrations, trade, repair of vehicles and construction.

Between January and June 2018, the value-added volume produced in non-oil economic areas expanded by 2 percent compared to the same period last year. It accounted for 55.8% of GDP. Transport and storage, construction, trade and vehicle repair are the subfields of GDP that have contributed more than others.

The value-added growth rate in most non-oil sector sectors was relatively high compared to the same preceding year period.

Compared to the same period of the previous year, in the field of agriculture, forestry and fishing, 7.6%, trade and transport 2.4%, transport and warehousing 7.1%, tourists placement and public catering 7.4%, information and communications 4.9% 0.6% in social and other services.

The growth rate of value added in most sectors of the non-oil sector was relatively high compared to the same period of the previous year.

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**Diagram 2.2** Breakdown of added value created in the non-oil sector

**Non-oil industry.** The value-added volume in the non-oil industry increased by 11.1 percent in January-June 2018 compared to the same period last year, reaching 1726.6 million manat. The non-oil sector's share of GDP was 4.7 %, the non-oil sector's share of the non-oil sector was 8.4 %, and the non-oil sector's share of the value added was 9.9 %.

The share of the mining industry in the structure of value added was 3.1%, the share of the processing industry 72%, the share of production, distribution and supply of electricity, gas and steam 21.5%, water supply and waste treatment 3.4% .

In January-June 2018, the non-oil industry produced goods worth 5165.3 million manat, and compared to the same period of the previous year, production increased by 8.8%.

The share of the mining industry in the non-oil industry was 3% or 157.2 million manat, the share of the processing industry was 75.6% or 3906.5 million manat, the share of electricity, gas and steam production, distribution and supply was 18.5% or 954.0 million manat, and the share of wastewater treatment was 2.9% or 147.6 million manat.

In January-June 2018, production increased in most non-oil refineries, including beverage production (5.6%), tobacco production (3.4 times), textile industry (64.1%), clothing production (10.3% (56.9%), paper and cardboard production (1.4%), printing production (2.7 times), chemical industry (0.4%), construction materials production (34.0%), metallurgy industry (15.0%), , manufacture of finished metal products (64.1%), electrical equipment production (84.1%), motor vehicle production (16.6 times), furniture production (2.0 times) areas have increased.

Non-oil industry in Azerbaijan is one of the main goals of the economic development strategy.

Measures to stimulate the development of critical issues such as sustainable development of the non-oil sector, increasing the export capability of the country's economy, as well as the production of competitive products and employment, will continue in the future.

**Rural, forestry and fishing farms**. In January-June 2018, the actual cost of gross output of agriculture amounted to 3206.1 million manat, of which 1774.8 million manat or 55.4 percent were livestock, 1431.3 million manat or 44.6 percent and the share of plant products. Compared to the same period last year, the production of agriculture increased by 7.6 percent, including crop production by 14.6 percent and livestock products by 2.5 percent.

In January-June of the current year gross fixed capital in agriculture, forestry and fishing increased by 73.7% compared to the same period of previous year and reached 188.4 million manat.

**Crop production.** Spring field work has been completed in the country. As of June 24 of current year 450 thousand hectares of summer crops were planted. During this period, 42.6 thousand hectares of cereal and grain legumes (without corn), 34.3 thousand hectares of corn, 59.3 thousand hectares of potatoes, 69.2 thousand hectares of vegetable crops, 20.9 thousand hectares of melons, 132.5 thousand hectares of cotton, 8,6 thousand hectares of sugar beet, sunflower for 11,5 thousand hectares, 3,4 thousand hectares of tobacco, 61,7 thousand hectares of herbs, 1,7 thousand hectares of annual herbs, 5,1 thousand hectares of other cottage Plants planted.

The main crop production in the republic continues and as of July 1, 2018, 593,300 tons of vegetable or 308,300 tons or 6.9 percent more potatoes, compared with the previous year, 103.5 thousand tons or 7.3 percent more fruits and berries, 975.1 tons or 8.2 times more tobacco leaf and 360.7 tons or 10.5 percent more green tea leaves. In addition, 39.9 thousand tons of melons were harvested during the reporting period.

As of July 1, 1806,200 tons of cereals and grains were harvested, including corn (1393,600 tons of corn).

As of July 1, 2018, there are 2907 greenhouses in the country with a total area of 1.3 thousand hectares. Compared to the same period last year, the total number of greenhouses was 4.2 percent, while their area grew by 6.8 percent.

Compared to the same period of 2017, production of tomatoes grown in greenhouses increased by 4.3% to 173.1 thousand tons and cucumber production by 2.7% to 7.8 thousand tons in January-June of the current year.

**Cattle-breeding.** In the first half of 2018, the country produced 245.2 thousand tons of meat, 1016.8 thousand tons of milk and 887.4 million eggs and 14.5 thousand tons of wool. Meat production increased by 3.1 percent compared to the same period of the previous year, milk production-by 1.3 percent, eggs-by 0.9 percent.

In addition, 514 tons of cane were produced in the country, which is the highest indicator of the last 20 years. As of July 1, 2018, there were 2691.3 thousand head of cattle, including 1290.7 thousand heads of cows and camels, 8649 thousand sheep and goats. Almost 48.0% of the livestock is cow and buffalo.

In January-June of the current year 39,400 tons of poultry meat and 338,9 million eggs were produced in poultry factories. In total, the total number of birds in factories was 9760,800, and 99 eggs were obtained from each egg.

Creating aquaparks is of particular importance in ensuring the innovative development of the agrarian sector, one of the leading sectors of the economy. Work on the 1st stage in agroparks has already been completed in Khachmaz, Shamkir, Jalilabad and Goranboy districts. In addition, work on the creation of 45 agroparks in 192,000 hectares of 30 rayons with a total cost of more than 1 billion manat is underway. 207 million manat state-funded funds were invested in creation of the necessary infrastructure in the Aqroparks, 25 investment projects worth a total of 56 million manat were issued.

During 6 months of 2018, 611 entrepreneurs with a total project cost of 468 million manat were provided with preferential loans at 100 million manat (including 6.4 million manats for 560 small projects), which is 1.6 times more than in the corresponding period of last year too much. These loans accounted for 3 times more in comparison with the same period of last year and created more than 7,000 new jobs. 72% of the loans fall to the share of regions, 28% to the Baku city suburbs, 68% to agrarian sector, 32% to various industries and other sectors.

**Protection of domestic production and export promotion**. In order to protect domestic production, to increase non-oil exports and to diversify exports, imports for goods of 84 items have been applied for a two-year specific period. Imported customs duties have been provided for the transition to a slow-moving system. Import duties on heading 3661 were reduced. The import duties on heading 690 have been increased. The main reason for the rise was the protection of domestic goods from external influences.

**Construction.** According to the State Statistical Committee, 6331.7 million manat were allocated to the development of the economic and social spheres of the country from all financial sources in January-June 2018, or 14.1 percent less than in the corresponding period of the previous year. This decrease was due to the decline in investment in the oil sector, while the volume of funds directed to the non-oil sector was 21.5 percent, including non-oil investments 72.8 percent increase. 4555.2 million manat or 72.0% of used funds were spent on the construction of production facilities, 1312.7 million manat (20.7%) objects of service and 463.8 million manat (7.3%) for the construction of 946.4 thousand sq. m.

49.8% of the total capital was invested by state, 50.2% by non-state investors. 72.9% of funds directed to fixed capital were spent for construction works.

From the internal sources, the value of the fixed capital was 54.3 percent of the total capital. In January-June 2018, 55.4% of total investments in the economy or 3505.0 million manat were channeled to the non-oil sector. 11.7% of fixed capital investments, 21.1% of investments directed to the non-oil sector or 739.7 mln. Manats were used for the development of the non-oil sector.

**Transportation.** According to the State Statistical Committee, 110.2 million tons of cargo were transported by the economic entities operating in the transport sector in January-June 2018 and increased by one percent compared to the same period in 2017. 3.9% of cargo was transported by sea, 6.1% by rail, 0.1% by air, 63.9% by motor transport, 26.0% by pipeline.

Compared to the same period last year, the total volume of rail freight transported through the North-South transport corridor increased by 76,000 tons in January-May. During this period, the volume of overturned cargo in the Baku International Sea Trade Port increased by 8 percent compared to the same period last year, while non-oil transit across the country increased by 9 percent to 805,000 tons.

**Tourism.** According to the State Statistics Committee, the value of tourist placement and public catering increased by 7.4 percent in the January-June 2018 period compared to the same period of the previous year, reaching 926.3 million manat and 4.5 percent of non-oil GDP.

During the first half of 2018, the number of foreigners and stateless persons arriving in Azerbaijan was 1325,0 thousand or 10.2 percent more than the same period last year. 30.5 percent of the arrivals are from the Russian Federation, 21.1 percent - Georgia, 11.1 percent - Iran, 10.8 percent - Turkey, 3.6 percent - United Arab Emirates, 2.1 percent - Iraq, 1.8 percent - Ukraine, 18.7 percent citizens of other countries, and 0.1 percent were stateless persons.

265899 electronic visas were issued to foreigners and stateless people who wished to visit Azerbaijan through the "ASAN VISA" system during the first half of 2018. Iran, Pakistan and India were the first three countries to apply for electronic visas.

**Information and communication.** During January-June 2018, information and communication companies rendered services worth 865.9 million manat, 72.2 percent of which were consumed by the population, according to the State Statistical Committee. The value of information and communication services increased in real terms by 4.9 percent compared to the same period of 2017, and 80.9 percent of revenue earned in this area fell to the non-state sector. 48.5 percent or 419.7 million manat of services generated from the services was formed in the field of mobile telephony.

**Paragraph 3**

**Impact of oil price fall on the economy of Azerbaijan**

The passage of the world advertise cost of oil into Azerbaijani economy is determined through three scenarios.

1. *Normal situation.* The cost of a barrel of oil within the state budget for 2014 is anticipated is $ 100 . On the off chance that the government of Azerbaijan considers this cost as a target at that point the month to month normal target income would be $ 1.420 billion. On the off chance that the cost of oil for November 2014 considered, the month to month potential wage falls down to $ 1,132 billion. This implies that, once you consider the target cost of state budget, at that point the potential misfortune would be $ 288 million. In agreement with the Generation Sharing potential month to month misfortune would be $ 216 million for Azerbaijan.
2. *Sparing situation*. Calculate by taking the cost of the budget of year 2014 into thought and by tolerating the least month to month figure of the month to month generation. This calculation based on the guideline of decreased generation and sends out for declining the affect of the oil cost within the world advertise on the government and companies. In this case, the month to month trade ought to be calculated from 9,891 million barrels and the the target sum for the budget is $ 989.100 million. The income for the economy of Azerbaijan on the off chance that November 2014 cost of oil considered will be worth $ 790, 290 In this case month to month potential misfortune is $ 198.810 million. In agreement with the Generation Sharing, the potential month to month misfortune would be 149,107 million .

In expansion, the calculations relative to the normal cost of oil which was accessible some time recently oil cost decay in world advertise, was one of the offered equations in 2014. The world advertise cost of Azerbaijani oil was $ 110 US per barrel until watched cost diminishments. But in November 1 barrel of oil within the world advertise sold at $ 79.70. In case we consider that the oil trade was 14.2 million barrels , taking under consideration the normal month to month cost decreases will donate $ 1,562 billion in income. This implies that the cost diminishments make $ 430 million negative contrast per month. In this case, concurring to the generation sharing, relative misfortune per share of Azerbaijan was $ 322.5 US million.

If taking into consideration the over specified calculations at that point the potential misfortune, which may emerge from the diminishment in world oil showcase costs, to a greatest of $ 216 million per month, the least will be break even with to $ 149.1 million.Of course, in case cost diminishment proceeds, this contrast can develop indeed more. As an oil exporter nation, Azerbaijan naturally bolsters stabilized oil costs in arrange to attain its financial and budgetary objectives. exceptionally thankful to the need of a drop in world oil costs, this respect, it is imperative to cost stabilization, in arrange to attain financial and budgetary objectives.

Taking into consideration previously mentioned calculations yearly potential misfortune of Azerbaijan can be between $ 1,789 billion and $ 2,592 billion. .At the same time, sparing strategy isn't reasonable for Azerbaijan, conservation of GDP development rate, calculations of the normal month to month send out strategy can be considered financially more favorable.This implies that, in case oil costs proceed to decay in world markets in2015, then, this might possibly cause a diminish within the rate extend, 3.4 percent of GDP, 10.3 percent of state incomes, and 7.9 percent of export.

Clearly , it may have more potential impacts on budget revenues.This could be a tall extent of the budget incomes as compared to the oil segment, but too due to the sum of salary.

The decrease of oil cost within the world showcase leads to a diminishment in esteem of sends out since 94 percent send out of Azerbaijan is oil and oil products.The decrease in sends out of rough oil has the potential impacts.

Considering oil cost within the world advertise for December 2014, focusing on cost ought to be $ 90 per barrel and genuine cost is $ 60 US per barrel and after that potential misplaced per month would be $ 320 million[ ($ 1.278 million US - $ 852 thousand US) X 0.75]. This implies that in the event that normal oil cost within the world showcase is $ 60 per barrel at that point yearly potential misplaced would be $ 3.840 billion. In this case, parcel of potential taken a toll in GDP would be 5.12 %, in open income would be 15.36 % and within the country’s send out would be 11.7 %.

At the same time, due to mediation costs, money saves of the Central Bank of Azerbaijan has been diminished since the oil cost dropped within the world advertise.

*Total Reserves of the Central Bank of Azerbaijan since petroleum price dropped globally in 2014*

**Table 3.1**

**Source:** Central Bank of Azerbaijan, December 2014

|  |  |  |  |
| --- | --- | --- | --- |
| *Reserves* | *August* | *September* | *October* |
| *Total Reserves* | *14782,9* | *14638,5* | *14630,8* |
| *Currency Reserves* | 14549,6 | 13351,0 | 13237,0 |

The table appear that there have been decay of both add up to and cash saves of Central Bank. The oil cost impacts Central Bank’s mediation costs, as well.

**Figure 3.1**



There has been clear decrease within the Central Bank’s add up to saves between August-October 2014.

The Central Bank’s money saves have been decay in distinctively since oil cost dropped within the world advertise in 2014.

**3.1 Results on different indicators**

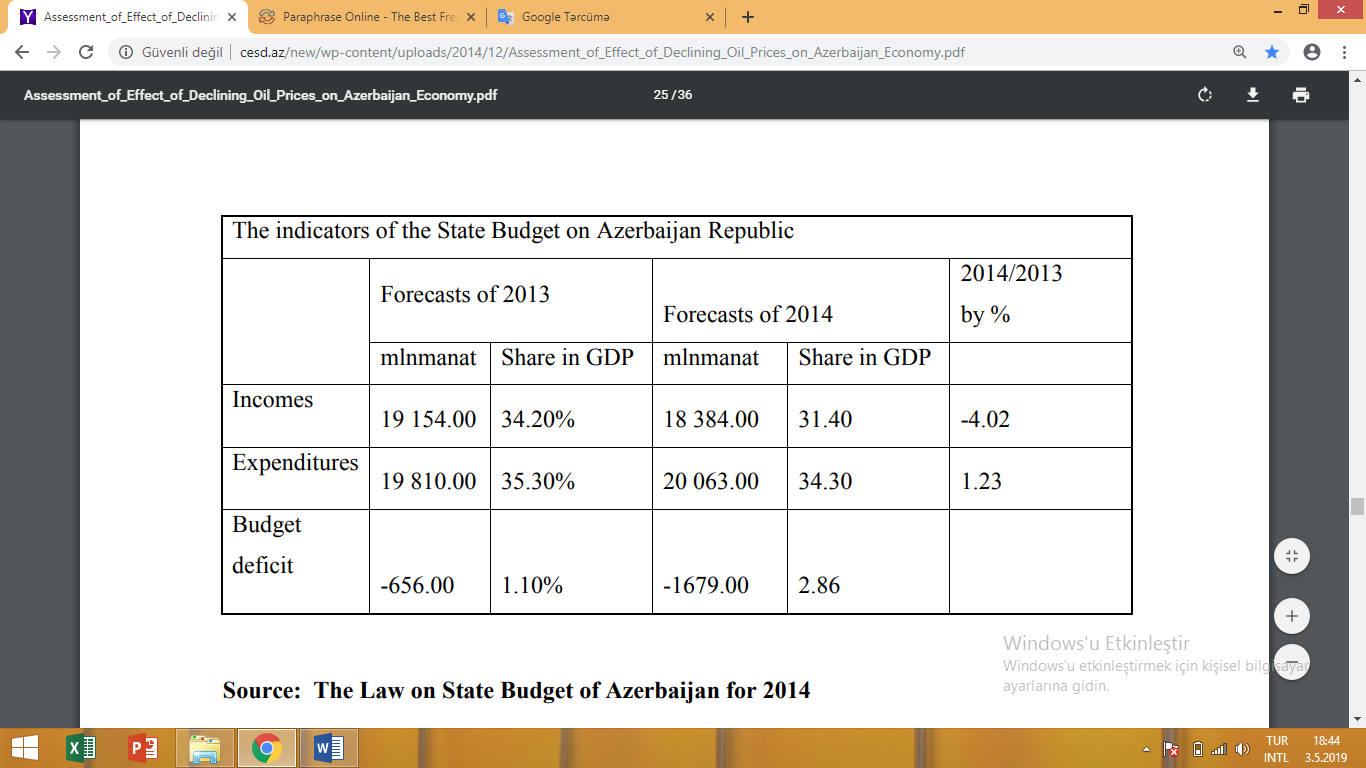
**State Budget of Azerbaijan for 2014**

Based on the law on State Budget of Azerbaijan Republic for 2014, the salary and consumption of the state budget are more adjusted to genuine financial conditions than later years’ budgets.State budget income is 18.384 billion manat and uses is 20.063 billion manat. It implies the state budget will have 1 679 million shortage which is 2.87% of GDP calculated on add up to GDP of 58.57 billion manat. In expansion, the share of state budget pay and uses in GDP has been calculated 31.40% and 34.30% appropriately by the figure of Service of Fund. The state budget shortage will be financed by advances of the service.

2014 is the primary time within the final decade that the State Budget will diminish by 4.05 %. The exchanges from State Oil Finance of Azerbaijan Republic will be diminished by 17.74% or 2 013 million manat. The lessening of state budget pay is the result of diminishing exchanges from the State Oil Support. In spite of the negative impact of transfers from the finance, SOCAR’s salary is the foremost vital asset for the State Budget. In spite of the fact that the pay of SOCAR will be diminished by 1.6% or 191.2 million manat in comparison with past year’s wage, the uses of the company will not surpass the wage, the forecasted wage of SOCAR is 11.63 billion manat and consumptions will be 11.3 billion manat.

For the note, in current year state budget, the consumptions of State Oil Finance had been forecasted 1.78 billion manat more than wage of the support. This slant expanded dependence on oil incomes and is opposite the standards approximately sparing oil funds.

Based on macroeconomic figures conducted by the Service of Economy and Industry, financial and social improvement conceptions of Azerbaijan Republic the genuine financial development will increment by 5.2% and Net Household Item will be 58.6 billion manat, a anticipated increment on GDP by 4.5% in 2014:



**Table 3.2**

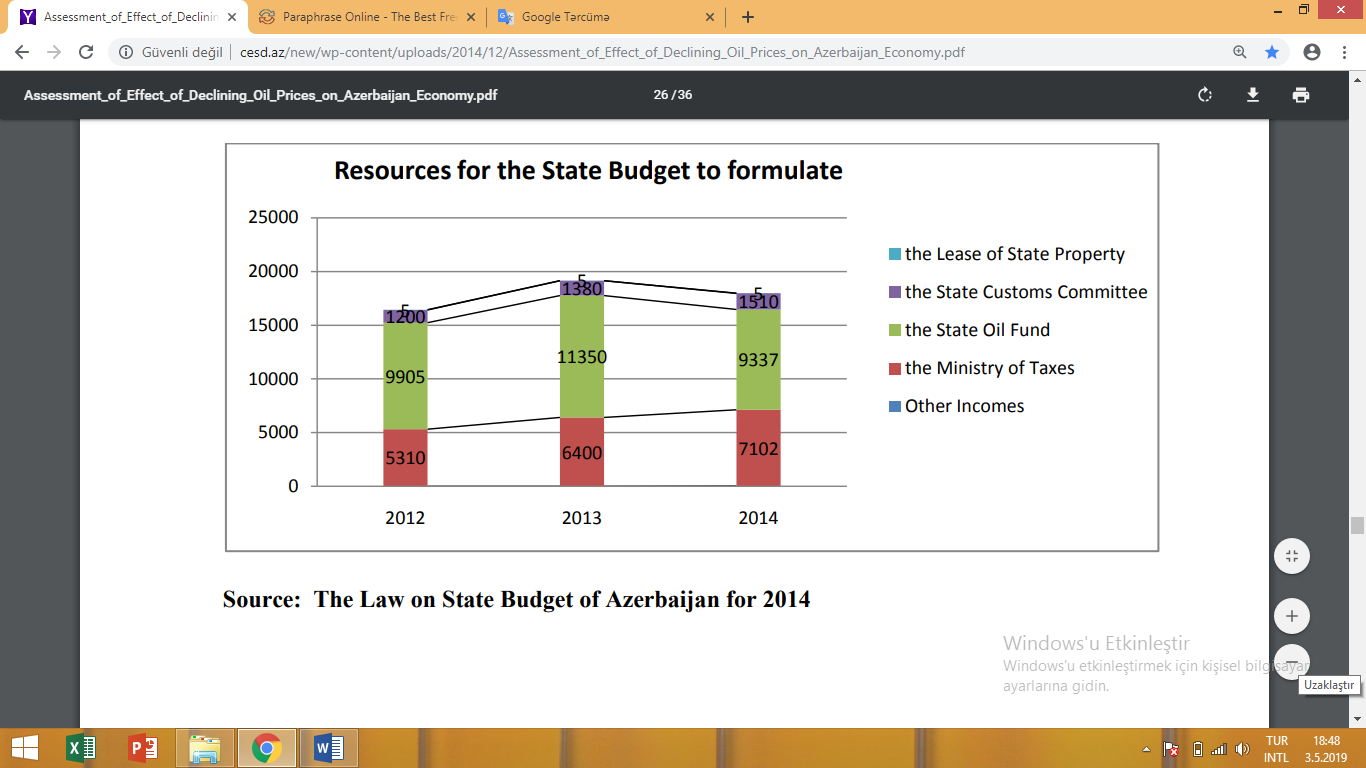
**Source:** The Law on State Budget of Azerbaijan for 2014

As outlined within the table, in 2014, the pay of state budget is confronting 4.02% diminish in comparison with 2013, but an increment of expenditures is watched within the state budget 1.23%. Taking into thought the final eleven months’ pointers in 2013, the GDP development is 5.4%, but the state budget shortfall has expanded as well which isn't positive.

Agreeing to figures of the Service of Fund, the 2014 State Budget salary will be 18 384 million manat or 775 million manat less than the current year’s salary. It is the primary time within the final decade that the State Budget salary will diminish by 4% after ceaseless increment. Be that as it may, the exchanges from the State Oil Support is budgeted to decreased in comparison with the current year’s, which contrast is 2 013 million manat. It implies, reliance on the oil segment is decreasing.

The assets to fund the State Budget of Azerbaijan Republic are given on chart underneath:

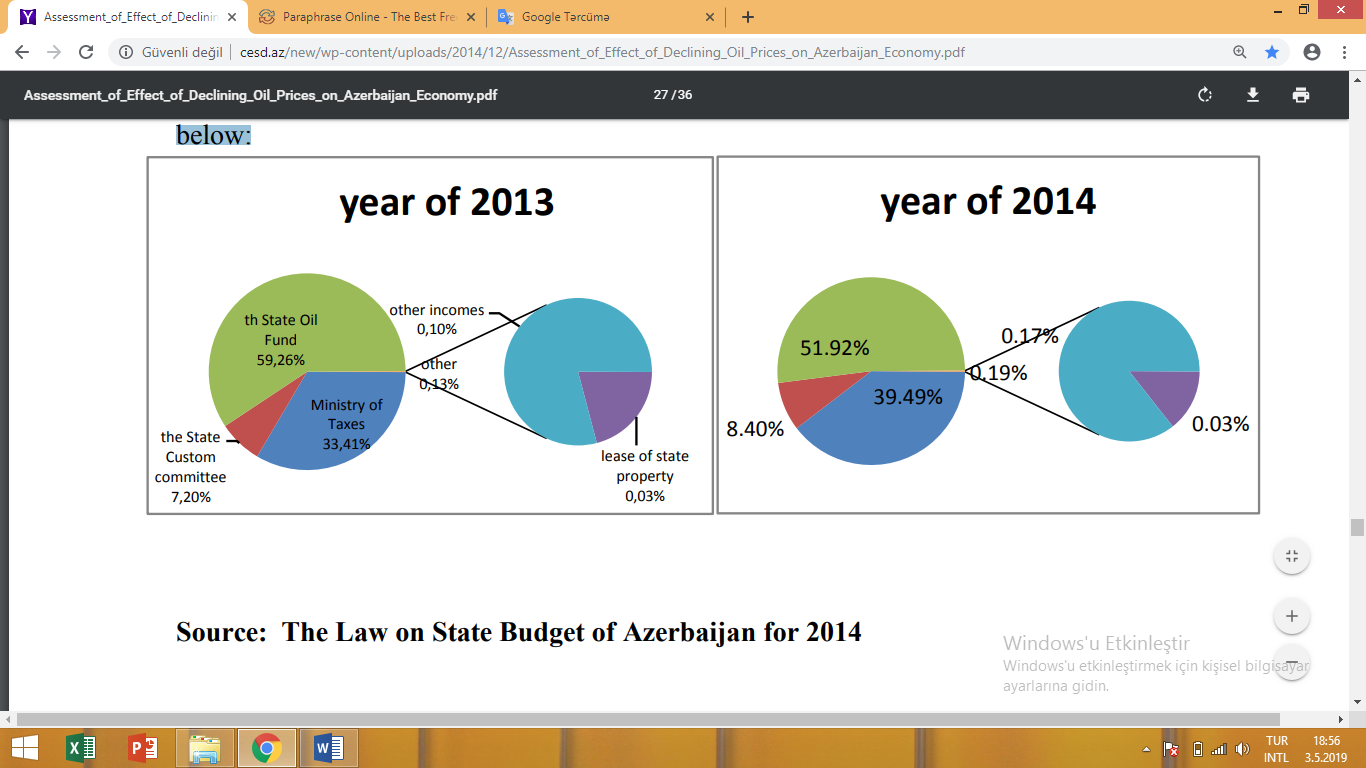
**Figure 3.2**



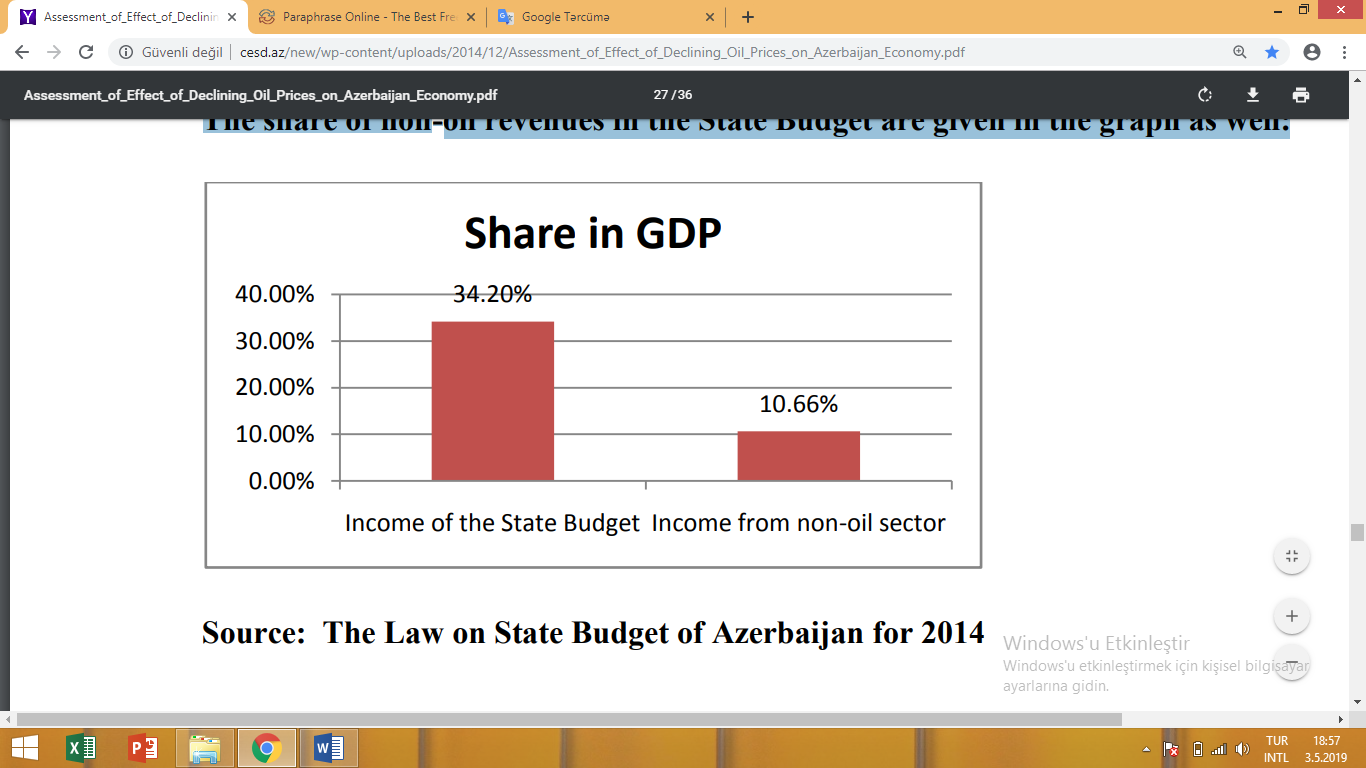
As outlined within the chart, the share of non-oil sector’s revenue has been expanding within the state budget. It implies, assess incomes, wage from the State Custom Committee will increment. The Ministry of Finance predicts the incomes of budget are hopeful, since the government plans to extend the rate of charges actualized as a result, wage from charges as age of the state budget will be expanded. In arrange to reach this increasing in charges, association with charge payers will play a noteworthy part. There's another interesting point approximately assess installments, based on insights, regularly amassing of charges surpasses 100%, subsequently, to extend the assess rates isn't best.

Fund’s incomes will give the commitment to the State Budget is outlined within the chart underneath:

**Diagram 3.1**



The share of non-oil incomes within the State Budget are given within the chart as well:



**Figure 3.3**

The chart demonstrates that the share of budget pay within the State Budget in GDP is around 34.20%, and in comparison with distinctive countries’ hones, this rate is fitting. But in the event that we take into thought the salary from oil incomes, the reality of the budget does not appear so positive. Non-oil open incomes are anticipated around 6 245 million manat and comprises as it were 10.66% of GDP.

**Country’s currency**

There were two major devaluations in Azerbaijan's currency during 2015. The first occurred in February 2015, resulting in exchange rate 1.05 AZN = 1 USD, which was 0.7850 AZN = 1 USD earlier. It was 33.86 percent higher than the rate set prior to the start of the rate weakening process. While the Central Bank of Azerbaijan promised a gradual devaluation, it did happen sharply.

FED subsequently raised interest rates by 25 basis points on December 16, 2015, which was the first increase since 2006. Following that decision, Azerbaijan's Central Bank switched to a floating rate regime on December 21, 2015. It is clear that sooner or later switching to floating rate had to occur, but the issue is timing. Switching to a flexible rate caused Manat to lose half its dollar value (1 Dollar=1.55 Manat). As a result, Azerbaijan's currency Manat lost its value overall around 98 percent.

- Why did the government of Azerbaijan devalue the national currency?

* Financial reasons

*Saving SOFAZ money*: According to the Azerbaijan Statistics Agency, the oil and oil products industry accounted for 65 percent of the budget revenue in 2015. Since oil prices began to fall on the world market, s revenues from the Azerbaijani State Oil Fund fell to USD 8636 billion. Through Manat's depreciation of about 34 percent, SOFAZ's revenue becomes AZN 9067 billion in home currency, which was the SOFAZ's fiscal objective.

*Saving CBA’s decreasing reserves:* After rising oil prices, the central bank of Azerbaijan used its reserves to maintain Manat's fixed rate. The devaluation of the national currency was therefore a protection against the decreasing reserves of the Central Bank.

*Expanding the country’s GDP in Manat terms*: Azerbaijan's GDP fell from USD 75 billion in 2014 to USD 53 billion, according to data from the World Bank. Manat's devaluation increased the country's GDP in terms of Manat.

* Supporting and preserving the non-oil sector

In recent years, Azerbaijan's neighbors Russia, Turkey and Georgia have had devaluations of currency. Since 2006, however, Manat had been appreciating, making Azerbaijani products in dollar terms more expensive. Azerbaijan's products may therefore seem more attractive to its partners through depreciation and this will help improve the non-oil sector.

* Boosting the rate of inflation / promoting foreign investment

Manat's devaluation caused higher import prices and higher inflation. The government of Azerbaijan aimed to boost both foreign and local investment in this way.

**Figure 3.4**

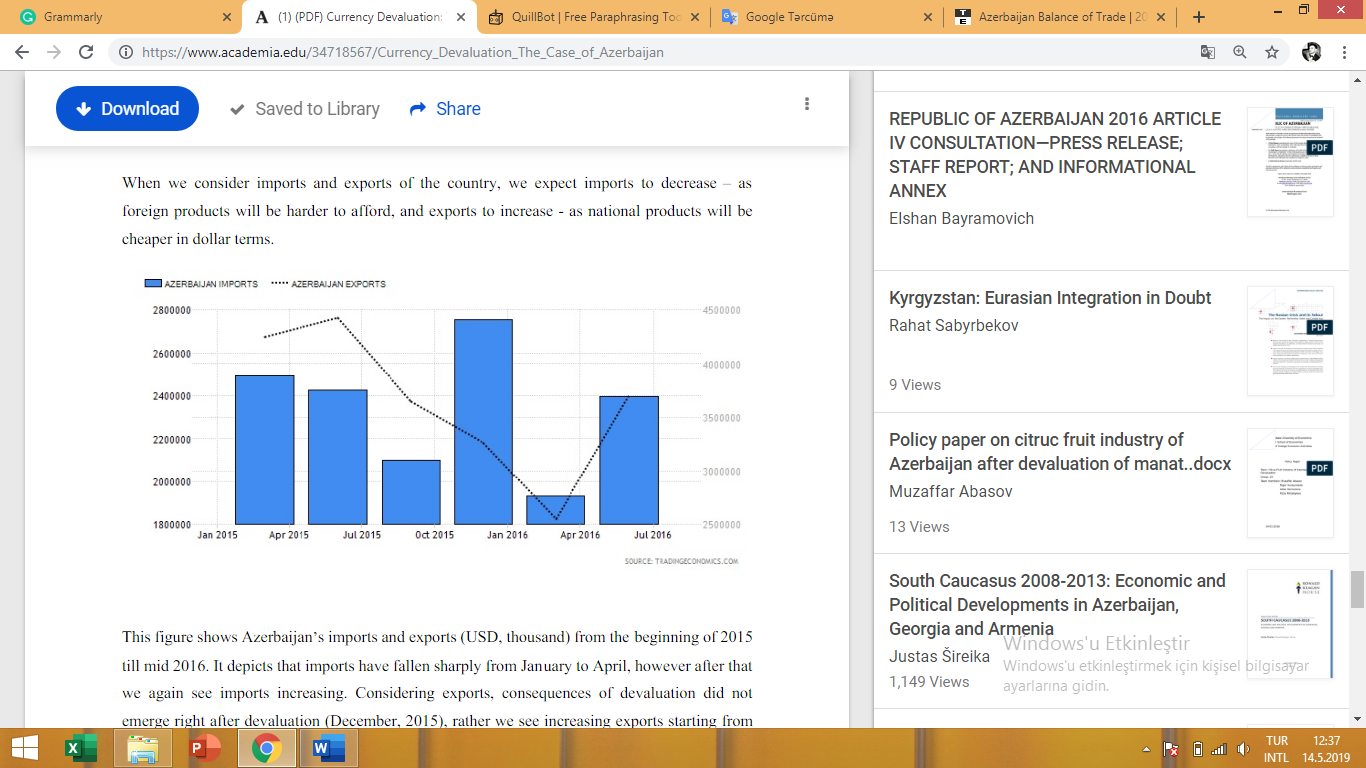


From the figure, we show that the inflation rate in January 2016 has risen from 4% at the end of 2015 to 13.6%. Food prices in Azerbaijan in particular have risen almost 14 percent from 2015 to 2016.

**Figure 3.5**



As expected, in mid-2016, foreign direct investment grew by USD 2061 million.



**Figure 3.6**

When we consider the country's imports and exports, we expect imports to decline – as foreign products will be more difficult to afford and exports will increase – as dollar-based domestic products will be cheaper.

This figure shows the imports and exports of Azerbaijan (USD, thousand) from early 2015 to mid 2016. It shows that imports dropped sharply from January to April, but after that we see increasing imports again. Considering exports, the effects of devaluation did not emerge immediately after devaluation (December 2015), rather we see increased exports beginning in April 2016.

**3.2. Government intervention**

**3.2.1 Monetary policy after oil price shock**

As vulnerabilities and instability within the worldwide economy and money related markets expanded in later a long time, worldwide dangers have emerged and financial development in transitioning and creating nations has moderated down significantly since 2015. In specific, the decrease in oil costs since 2014 driven to a sharp drop within the outside cash pay of oil- and gas-exporting states. This harmed the adjust of installments and caused depreciation of the sending out states’ national monetary standards against outside monetary forms, particularly the US dollar. In the mean time, as imported merchandise and administrations got to be more expensive, expansion, open freeze and surging motivations for dollarization by private operators taken after. In considering these issues, financial arrangement producers in Azerbaijan have confronted a number of challenges in the midst of money related turmoil.

The turmoil was primarily caused by the dishonorable estimating of the occasion and related dangers by the Central Bank of the Republic of Azerbaijan (CBA) and by the choice of an wasteful combination of financial arrangement apparatuses to reply to these occasions.

The primary challenge confronting the Central Bank of Azerbaijan was related to the economy’s response to export price stuns beginning within the 3rd quarter of 2014, taken after by the debasement of the Azerbaijani manat (AZN) by 34% against the US dollar in February 2015. The CBA set the manat at 1.05 against the US dollar (compared to 0.78 in past a long time) until it declared a move from the so-called settled to a overseen coasting trade rate administration in December 2015 and received a dollar-euro wicker container to oversee the trade rate.

The move was formally connected to an endeavor to fortify the enhancement of the national economy, make strides the worldwide competitiveness of the household non-oil segment, and ease pressures on financial and outside equalizations. Be that as it may, in spite of the fact that conclusive, it was a longdelayed choice. The Azerbaijani manat ought to have been cheapened to a few degree much prior, i.e., some time recently the negative oil cost stuns hit the economy. So also, the trade rate ought to have been settled or overseen around that deteriorated level to advance worldwide exchange and speculation, relieve current theoretical exercises related with trade rate instabilities and guarantee worldwide financial stabilization.

Outstandingly, the settled trade rate administration does not suggest that the rate will stay solidified until the end of time, and it does not fundamentally block send out enhancement unless the national money is exaggerated. The trade rate in a little country with a delicate money related framework like Azerbaijan’s cannot be cleared out totally coasting; it must be overseen (i.e., the central bank impacts the trade rates by buying and offering monetary forms). Hence, the economy might moreover be heightening broadened beneath the so-called settled trade rate administration, in spite of the fact that to a lesser degree. Within the past decade earlier to debasement, the exaggerated level of the manat, whereby 1 US dollar equaled 0.78 manat, was an deterrent to send out expansion.

As a more effective instrument in a settled trade rate administration, productive government speculation investing in non-oil generation division not as it were seem have contributed to the advance of financial broadening but moreover might have reduced social costs related with the sudden depreciation of the manat in 2015. Be that as it may, the turbulence within the money related and financial circumstance after the oil cost stun illustrated that “something went wrong” with suitable investing amid usage of the financial expansion technique pointed at moving forward the structure of the economy through “the improvement of the non-oil industry, the extension of openings to utilize elective and renewable vitality sources, the improvement of the agrarian division, the fortifying of nourishment security, extension and improvement of exchange and sorts of administrations and the advancement of the outside exchange and venture structure”.

Turning to financial hypothesis, I would say that since common government investing diminishes national sparing, subsequently causing increments in intrigued rates or revaluation of national cash, the part of money related approach is to preserve the settled trade rate by expanding cash supply to anticipate the swarming out impacts of government consumptions on venture and send out. Hence, in planning an anti-crisis administration technique, proactive and solid financial arrangement and transitory money related extension are crucial measures for filling the yield hole in a subsidence period. In any case, the conventional approach was not viable within the given circumstance due to organization issues and disgraceful forecast of outside money related stuns and negative externalities.

***Ineffectiveness of Expansionary Monetary Policy***

Taking a conventional approach to emergency administration after the oil cost stun, the Central Bank (CBA) stood up to the challenge of expanding money related commitments and invigorating household venture by dropping the renegotiating rate from 3.5% in 2014 to 3% within the 3rd quarter of 2015 (compared to 5% since 2011). In the mean time, to upgrade the accessibility of cash and credit, the Central Bank dropped the save prerequisites from 2% to 0.5%, keeping the other parameters of the intrigued rate hallway unaltered: 0.1 % floor and 5% ceiling. Beneath these conditions, assist debasement of the manat and inflation were estimate within the 4th quarter of 2015.

In case this approach were fruitful, it was anticipated that an increment within the amount of household venture might diminish the supply of the manat to be traded into outside money (and into the US dollar, in specific) over the long term which this drop in supply would appreciate the genuine trade rate (by expanding the esteem of the manat). In any case, private agents’ motivations for informal dollarization appeared not to be considered, and this come about within the inadequacy of expansionary financial approach in encourage invigorating residential venture.

Informal dollarization applied a contractionary impact, i.e., it driven to a decrease in official outside trade saves and the cash base in manat. Desires of ceaseless debasement and expansion panicked the populace into changing over their stores from the manat into US dollars, which expanded request for US dollars and made the conditions for advance cheapening of the manat. This too driven to a jumble between deposits and bank advances. Thus, in differentiate to our theory, a diminishment within the cash multiplier was watched. Over time, activated by a drop in foreign exchange saves, the wide cash supply M3 (cash within the hands of individuals, request and time stores within the manat and remote cash) moreover diminished.

***Adopting the Managed Floating Exchange Rate Regime***

In the mean time, the Central Bank endeavored to protect the esteem of the manat and protected it against the impact of falling oil costs by investing its remote trade saves. By the by, persistent decays in oil costs and outside trade saves brought almost the moment major cheapening of national cash against the US dollar within the 4th quarter of 2015 (roughly 47%) and challenged the selection of the overseen coasting trade rate administration in Azerbaijan. Based on the elemental variables deciding supply and request proportion within the cash advertise, the advantage of the drifting trade rate administration is that it permits the economy to neutralize the negative results of worldwide stuns and fortifies the improvement of the nearby budgetary advertise.

***Tightening Monetary Policy and Addressing Innovation***

As a fourth challenge, to avoid encourage debasement of the manat and to keep expansion beneath control, the Central Bank cut its cash free and started to seek after a fixing money related approach. In this respect, expanding the renegotiating rate from 3% to 5% and after that to 7% in Walk 2016 is justifiable. It was moreover one of the steps taken toward decreasing the dollarization motivations within the economy and expanding the population’s certainty within the national cash since tall renegotiating rates can lead to increments in stores. A high intrigued rate at first might debilitate residential venture, given that the turmoil within the budgetary division has as of now diminished the certainty of the populace and household financial specialists (declining development rates of advances in 2014 and 2015). On the other hand, it leads to increments within the opportunity costs of holding national money and can too diminish the motivating force for the populace to change over the manat to the US dollar and invigorate them to extend their manat deposits. This activity can result in developing bank credits within the manat and thrust down the intrigued rate within the long term.

***Globalization and Financial Liberalization***

Due to the monetary turmoil, informal dollarization, and diminishment within the cash base, the development rate of advances contracted significantly in 2014 and 2015. The development rate of credits by private banks contracted from 24% in 2013 to 22% in 2014 and 16 % in 2015. Meanwhile , the development rate of credits by private banks with outside capital was 35% in 2013 taken after by 21% and 15 % in 2014 and 2015, individually. In spite of the fact that the development rate of advances by state-owned banks contracted from 28% in 2013 to 16% in 2014, it appeared 19% development in 2015 due to government intercession. Besides, since early 2016, the CBA has disavowed the licenses of 7 banks (out of 42 add up to banks) and pointed to solidify the managing an account division. Concurring to the CBA, these banks might not fulfill their commitments to lenders or oversee their exercises prudentially.

The fifth challenge confronting the CBA ought to be liberalizing the budgetary division and making favorable conditions for the section of outside banks. The share of outside banks (with 100% outside proprietorship) in add up to advances is roughly 7%. The share of private banks with outside capital was roughly 29% in 2015 and 26% in 2016 (where private banks’ share was around 60%). This can be a clear sign of the frail part of foreign-owned banks in Azerbaijan. To advance financial growth through outside subsidizing to nearby firms, there's an pressing require for budgetary liberalization, for making favorable conditions for outside bank section, and for progressing household banks’ competitiveness.

The impacts of a fixing money related approach and the credit reaction of private banks depend on the proprietorship of person banks. The part of outside banks can be of pivotal significance in financial arrangement transmission, as they are less responsive to household financial arrangement additionally more receptive to changes in outside budgetary conditions. In comparison to the renegotiating rate of 7% in Azerbaijan, the rate within the Eurozone is roughly 0.05% (in 2015), which clearly shows that the cost of universal stores is much cheaper overseas than in Azerbaijan. With the inexhaustible nearness of foreign-owned banks, the intrigued rate in Azerbaijan would not be anticipated to be so tall. Therefore, an expanded nearness of foreign-owned banks within the keeping money framework and the plausibility of get to to cheaper worldwide stores can diminish the credit reaction of private banks to changes in household financial approach.

Concurring to later inquire about conducted by the IMF (on the case of East Asian economies), state-owned banks reacted more adversely to an expanding rate than private banks, and as anticipated, credits by foreign-owned banks expanded.

**3.2.2 Fiscal policy after sharp oil price**

The drop in oil costs and resultant waves of depreciation hit Azerbaijan’s economy and monetary adjust particularly difficult by lessening oil income inflows to the financial framework and diminishing budget livelihoods. Oil, gas and mineral incomes accounted for more than 77% of Azerbaijani budget income in 2014,1 and moo oil costs influenced nearly each perspective of the country’s monetary arrangement. Monetary approach alterations made in reaction to the unused reality incorporate changes in legislative budget incomes; changes within the structure of administrative budget investing, counting cuts to capital and repetitive consumptions; modern sources of financing for the budget shortfall; changes within the State Oil Fund’s (SOFAZ) resources; and changes within the State Oil Company’s (SOCAR) operations. Both income and investing perspectives of financial approach have experienced extreme limitations due to moo oil costs, specifically the shortage in budget incomes and cuts in government investing. Current monetary equalizations have weakened in the midst of diving oil costs.

Diminished unrefined oil and normal gas generation coupled with lower unrefined oil costs driven to a compression of the country’s GDP in 2015 (which declined by 1.1% whereas it had still developed by 2.8% in 2014). Furthermore, the ineffectively broadened Azerbaijani economy has been especially helpless to the oil-price stun since of its higher monetary reliance on incomes from hydrocarbon trades. The government has chosen to decrease the budget for open speculation by 40% from 2015 to 2016 and to end the financing of modern speculation ventures. Adding to revenue from the solidified budget decreased by 6% as a result of oil cost corrections (from $50 per barrel to $25 per barrel within the changed budget for 2016) and falling revenue from national autonomous wealth finance (SOFAZ), which has traditionally played a central role in the monetary arrangement of the country.

The declining monetary adjust steadily contribute to an increment within the open obligation burden, in this way debilitating the country’s monetary supportability: Azerbaijan’s debt-to-GDP proportion is 19.8% (as of January 2016). The government presented modern assess rates for rearranged without any genuine changes within the rates of central charges such as the VAT or the corporate benefit charge. To expand our analysis of the above-mentioned "unexplored" financial patterns, we need to explore the monetary outcomes of confines on SOCAR's receipts from unrefined oil deals as well as appropriations for state-owned companies and characteristic restraining infrastructure. Past the quick financial results, such as budget cuts on both the income and consumption sides, open resource deals, and charge rate changes, the product cost bust is affecting medium and long-term monetary plans.

***Contraction in the State Budget Revenues***

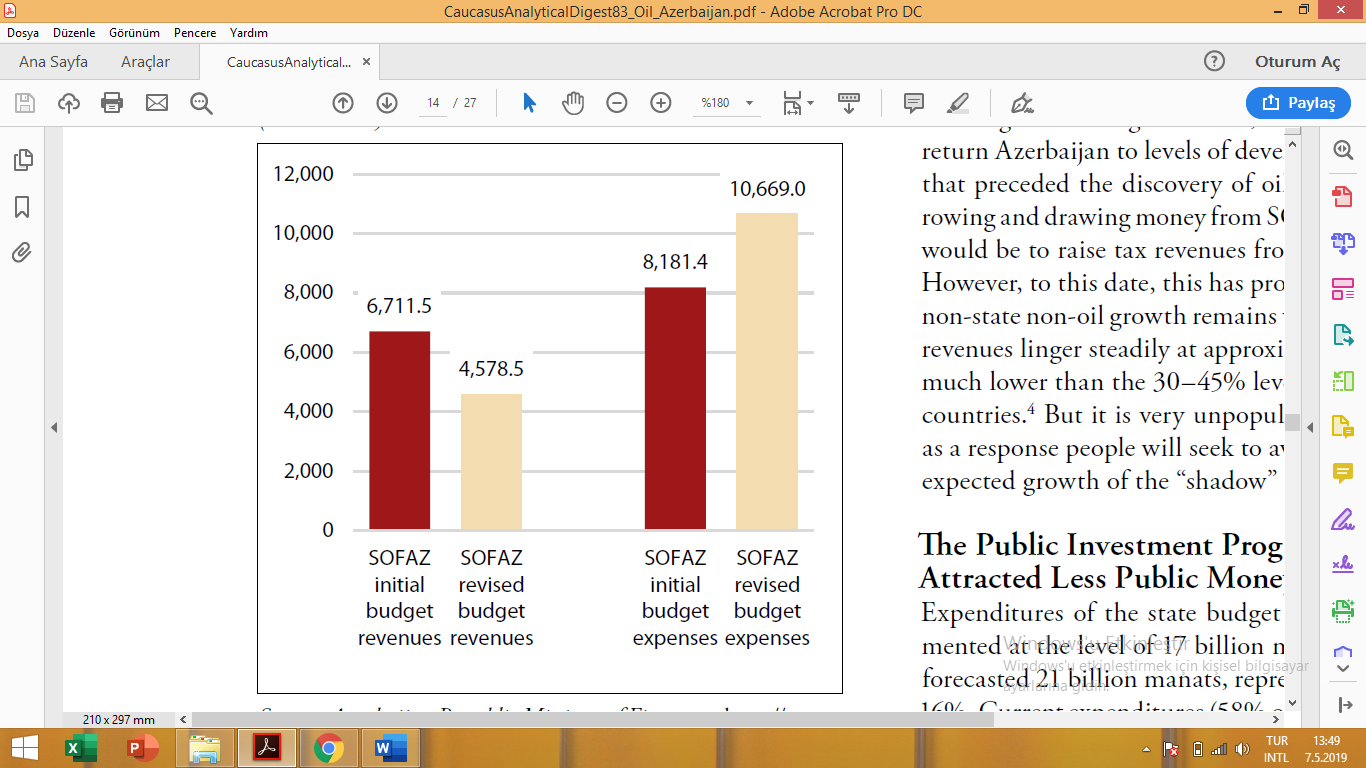
Low oil costs in worldwide markets had an prompt unfavorable affect on national budget execution: in 2015 budget incomes fell by 12% and state uses dropped by 16% compared to figures endorsed within the past year’s state budget. These figures show that genuine add up to budget income figures are falling behind beginning figures. To begin with, SOFAZ was the essential source of budget incomes, contributing 48% to add up to incomes. These exchanges were 21.7% lower than the first endorsed figures. Moment, charges and other required installments collected and exchanged to the Service of Charges accounted for 42% of state budget incomes. Non-oil wage accounts for 71% of that sum, which is 17% higher than in 2014. Third, the Committee on State Traditions produced 9 percent of additions to income, which in supreme terms was 5 percent higher than last year.

At long last, it is known that three educate (SOFAZ, the Ministry of Taxes and the State Customs Committee) “carved out” the tremendous larger part of financial incomes (98.2%), but the dominance of SOFAZ as a commodity-based extra-budgetary sparing and stabilization finance jeopardizes financial maintainability within the long term. Agreeing to an autonomous budget survey by a neighborhood think-tank, Bolster for Financial Activities, “the sum of exchanges to the state budget from the State Oil Finance [has been] altogether diminished. The part of direct installments from the oil division within the arrangement of state budget incomes has [been] significantly diminished in both outright and relative terms”

***SOFAZ Will Contribute Less***

In expanding to make changes to the state budget, the government has also re-examined the 2016 SOFAZ budget, decreasing revenue and expanding costs compared to the 2016 SOFAZ budget's introductory adjustment. The revised 2016 SOFAZ budget provides for income of 4.6 billion manats and expenditure of 10.7 billion manats. This is often a notable decline in the profit of SOFAZ and a sharp increase in the uses of SOFAZ compared to the budget updated for 2015 or the start-up adjustment of the 2016 budget.

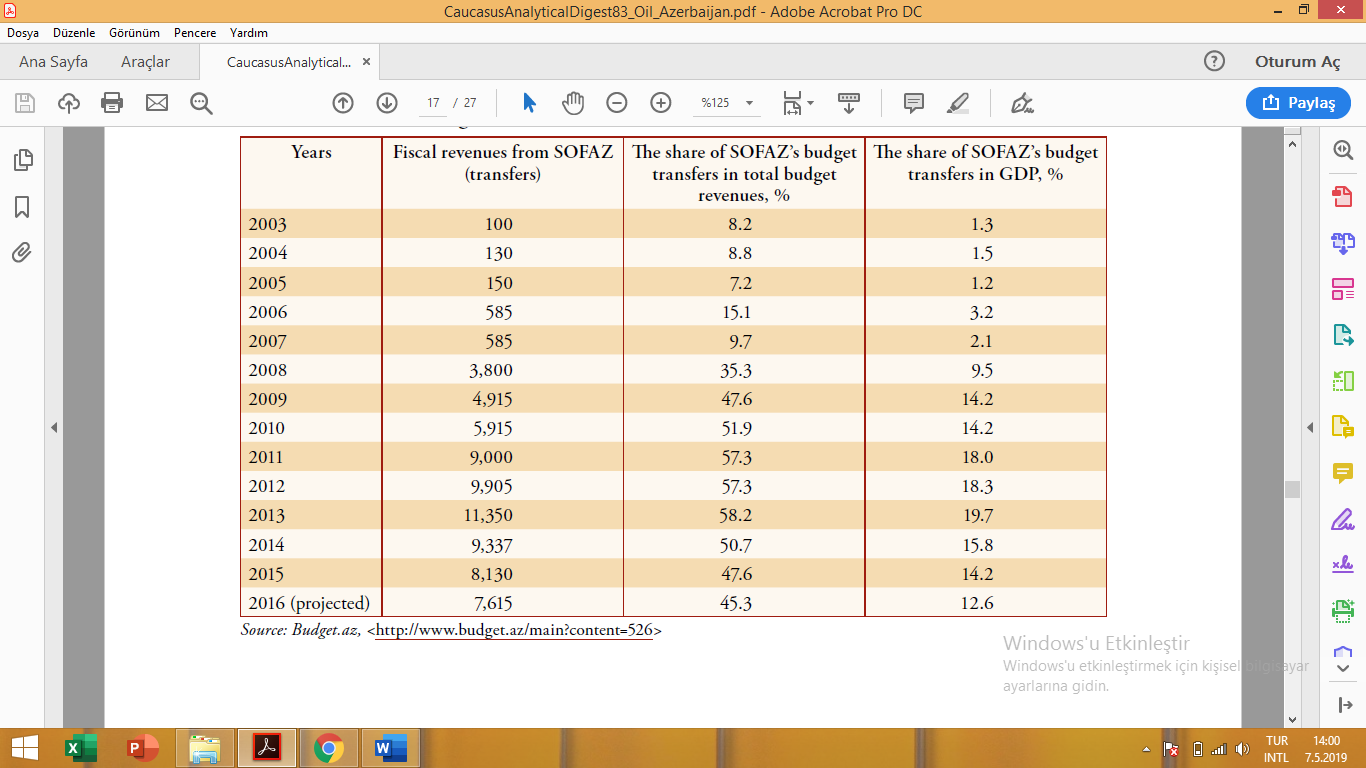
The lion’s share of pay for SOFAZ’s 2016 budget will come from the deal of benefit oil. Table appears that whereas the most budget consumption line of SOFAZ for 2016 indicated exchanges to the state budget, it'll contribute less than that sum to monetary incomes. In spite of money related troubles, SOFAZ will proceed to back national and territorial framework ventures such as the Baku– Tbilisi–Kars railroad venture, Azerbaijan’s share within the Southern Gas Passage venture, the remaking of the Samur-Absheron water system framework and the development of the “STAR” Oil Refinery in Turkey.



**Figure 3.7**

One of the suggestions of later moo oil costs and money debasement for financial arrangement was the appearance of SOFAZ as a dealer at the outside trade sell off of the Central Bank. SOFAZ has expressed that it'll proceed offering money through CBA barters. There's no lawful run the show that controls SOFAZ’s nearness at the remote trade barters or its coordinate exchanges to the state budget. It was apparent that when oil generation starts to decay or worldwide oil costs drop, the government will either be constrained to run a budget shortfall or to draw more stores from SOFAZ. These alternatives are unsustainable within the long term and seem lead to a obligation emergency, which would result in tall costs and a lower standard of living for future eras; a obligation emergency may moreover return Azerbaijan to levels of improvement and poverty that gone before the revelation of oil. In expansion to borrowing and drawing cash from SOFAZ, a third choice would be to raise charge incomes from the non-oil division. In any case, to this date, this has demonstrated troublesome since non-state non-oil development remains powerless and non-oil charge incomes wait relentlessly at roughly 20% of GDP, much lower than the 30–45% level in most created countries.4 But it is exceptionally disliked to raise charges and as a reaction individuals will look for to maintain a strategic distance from them, subsequently the anticipated development of the “shadow” economy.

**Table 3.3**



**Source:** Budget.az, <http://www.budget.az/main?content=526>

***The Public Investment Program Has Attracted Less Public Money***

Uses of the state budget in 2015 were executed at the level of 17 billion manats rather than the forecasted 21 billion manats, speaking to a diminish of 16%. Current consumptions (58% of add up to costs) were more than capital uses (38%) in 2015. Four percent of all uses were distributed to back related costs for the support of state obligations and other commitments amid 2015. The open speculation program accounted for 28.1% of the consumptions of the state budget (33% in 2014). The state budget of Azerbaijan is socially situated, and thus, one-third of its add up to costs were distributed to financing social costs.

***The Government Readjusted Its Fiscal Parameters***

The government proposed unused corrections to the 2016 state budget and these changes were affirmed by the parliament. The unrefined oil cost per barrel was set at $ 25 in 2016 estimates of changed government budget revenues. This alteration expanded state budget wages by 16 percent and state budget uses by 14 percent compared to an initially accepted budget adjustment (2 percent lower than the execution of the 2015 state budget).

There's a arrange to secure extra incomes for the state budget through more exchanges from SOFAZ (27% more within the reexamined budget than within the starting form) and more tax incomes from the non-oil division of the economy. However, there's an elective approach in which the noteworthy increment within the extraordinary share of installments from the non-oil segment contributing to state budget revenues is basically due to diminishes in add up to budget salary and within the outright sum of oil incomes within the budget. Brief of state oil support exchanges, state budget incomes will not be able to satisfactorily fund current yearly costs. Considerable cuts to the open venture program for another year have connected moreover to socially arranged zones such as instruction and wellbeing. In other words, Azerbaijan government has balanced financial arrangement to the falling oil costs and oil incomes. Open speculations have been generally brought down, but targeted social help consumptions have been raised.

***The Budget Deficit Raised the Total Debt Burden***

Following the rapid decline in rough oil costs and a moderately large budget shortfall, the Fund Service chose to hold standard government bond barters through the enlisted outflow plan for a total of US$ 500 million by the end of 2016. Government obligation for 2015 is more than 12 percent of GDP at fair. In the midst of that period, the nation accumulated significant outside cash savings of approximately US$ 39 billion (73 percent of GDP, despite the fact that these savings at that point decreased to US$ 33.5 billion), which provided adequate guarantees against any conceivable unfavorable external and internal stunts.

Public debt will increment in 2016, coming to 50.5% of budget incomes and 46% of budget uses. Besides, Azerbaijan’s charge obligation is assessed at AZN 2.4 billion. The budget burden for the installment of the national obligation expanded significantly in 2015 and 2016. “Ricardian equivalence” hypothesis accept that when the government endeavors to invigorate request by expanding debt-financed government investing, request can stay unaltered; this can be since the open will hold its reserve funds to pay for conceivable future charge increments that will be connected to paying off the obligation burden. This has two suggestions: (a) obligation burden increments make citizens more cautious around utilization; (b) open obligation will be supplanted by a charge burden on the populace within the long run.

***Socar encounters financial challanges***

State-owned oil companies such as SOCAR discover themselves with less budgetary assets to spend on expensive upstream or downstream ventures. SOCAR is the key player in Azerbaijan’s vitality segment, but it does not exchange its add up to oil incomes to the state budget. In 2015, SOCAR paid 1.48 billion manats to the state budget, which was 20% less than the past year (SOCAR’s add up to income figures for 2015 are not accessible to compare budget exchanges with incomes). In addition, the company specifically accounts a few energy-related (and in a few cases, indeed non-energy related) ventures. Due to low oil costs, SOCAR diminished rough oil and common gas generation in 2015 and suspended a few modern ventures. It declared the end of its extend to construct a modern oil-gas refining and petrochemical complex.

***Some Fiscal Policy-Related Reforms Were Amplified During the Crisis***

As portion of a arrangement of regulation changes, the Azerbaijani President built up a unused position and designated the previous appointee assess serve as the President’s financial changes right hand. Azerbaijan started to present a BOT (Build-Operate-Transfer) demonstrate for development and foundation ventures to draw in elective financing sources. The government moreover exempted speculators (speculation certificate holders) from a few charges and traditions obligations (by up to 50% for 7 a long time) and arranged anti-dumping obligations to anticipate consequence development. Due to most recent changes within the Assess Code, proprietors of retail benefit and catering benefit substances with yearly turnover of up to 200.000 manats will pay a 6% and 8% streamlined charge respectively.

The monetary emergencies made financial teach an unavoidable component of conceivable changes. But tragically a isolated law on state money related control and the Budget Code have not however been arranged. In spite of the reality that the government has as of now created medium term use arranging, it has not however changed the budgeting to the Medium-Term Expenditure Framework that empowers to track patterned changes in primary monetary parameters. SOFAZ as an extra-budgetary autonomous riches support and fundamental giver of the state budget needs modern directions or a law characterizing its sparing and stabilization capacities with clear store and withdrawal rules. The organization capacity of the government ought to be moved forward in arrange to embrace a counter-cyclical monetary policy and harmonize diverse components of the budget framework (particularly, interrelations between state budget and extra-budgetary stores).

Conclusion

As it is mentioned in this thesis oil is a very crucial natural resource and in many fields, it makes people’s work easier. Petroleum is also profitable and countries with that resource get benefit by selling it. However, in future oil will not be important as it is now. So, countries whose economies are oil-based have to change their economic policies. Otherwise, they will encounter an economic crisis and this will adversely affect people who live in those countries.

Azerbaijan is one of those countries and its economy is oil-based. Revenues from oil sector play a very precious role on the state budget.

In 2014 oil prices demonstrated a sharp fall and this affected many countries, Azerbaijan also included. Although the government tried to minimize the effects of that process, the country’s currency devaluated. In fact, it could be considered as a positive case if Azerbaijan would be export inclined country. Unfortunately, the country’s main export product is oil. So, it demonstrated that the government has to reform many fields in order to establish a better business climate.

The economy has to be diversified. Actually, after 2014 the government paid more attention to the agriculture sector. The reason is that this sector is the only field whose development requires a relatively short time. During the Union of Soviet Socialist Republics, the agriculture sector had improved but after the independence of Azerbaijan, this field stayed out of focus. However, there is great potential to improve that sector again.

In this thesis, it has been clear that oil has a great effect on many countries’ economies. Changes in oil prices can influence these countries. The weight of the oil sector on the Azerbaijan economy also was revealed. We also knew that how the government reacted a sharp fall in oil prices.

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