

*Interaction of fiscal and monetary
policies in Azerbaijan*

Azer Alasgarov
Central Bank of Azerbaijan

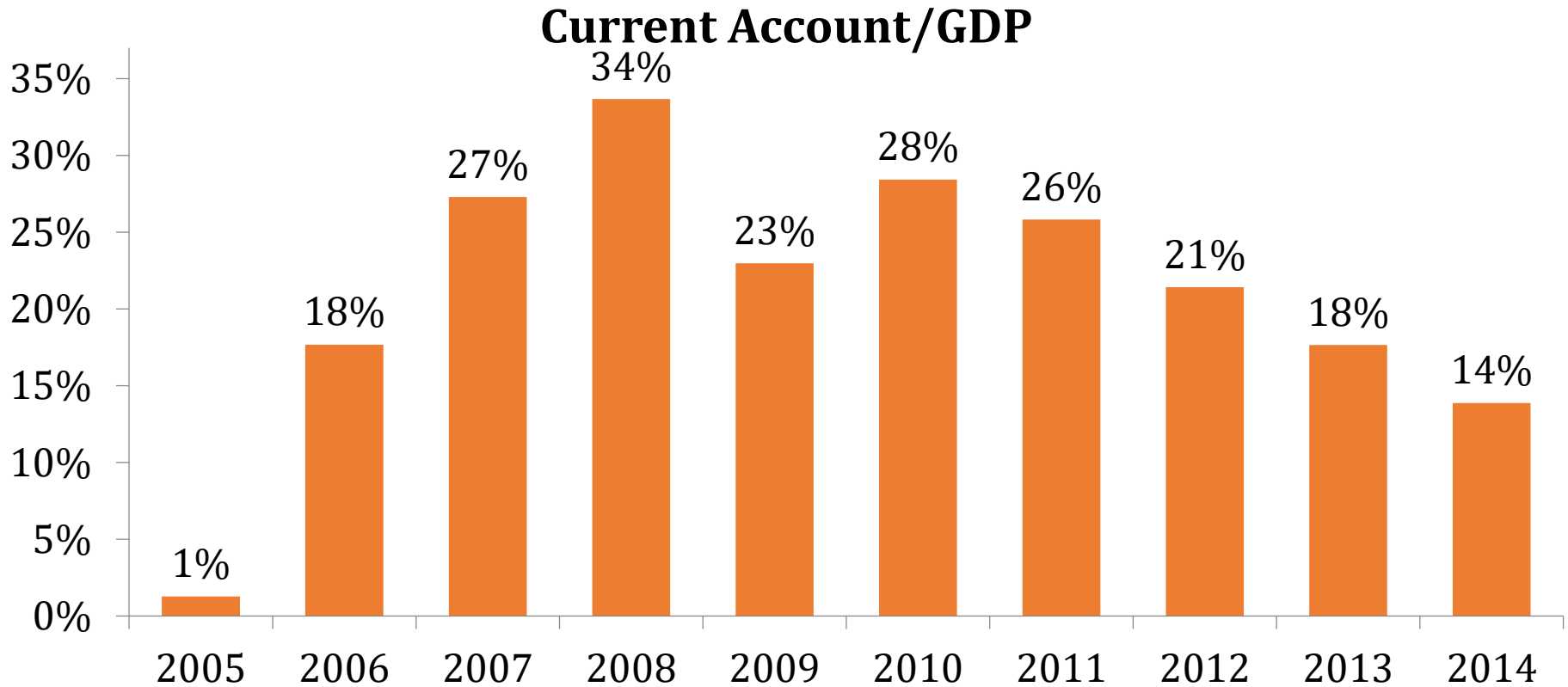
September 2019

Content

**I. Fiscal policy during oil boom period in Azerbaijan
(2004-2014)**

**II. Policy responses to External Shocks and priorities
(2015-2019)**

I. External position (2004-2014)

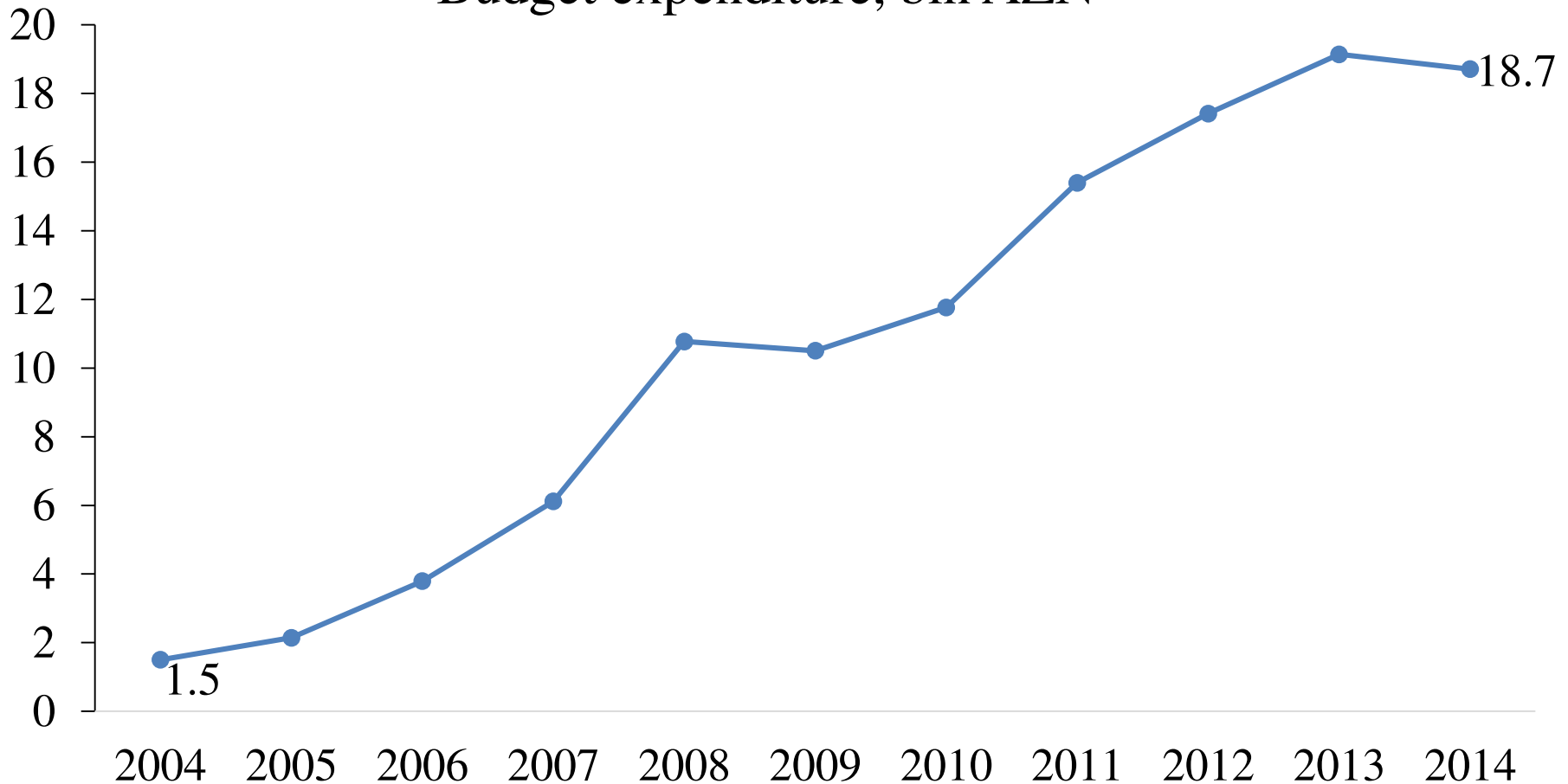


Favorable external condition:

- Oil prices increased by several times;
- Oil extraction increased from 0,3 barrel per day in 2003 to 0,85 barrel per day in 2014;
- Export volume increased by 11 times.

I. Fiscal policy (2004-2014)

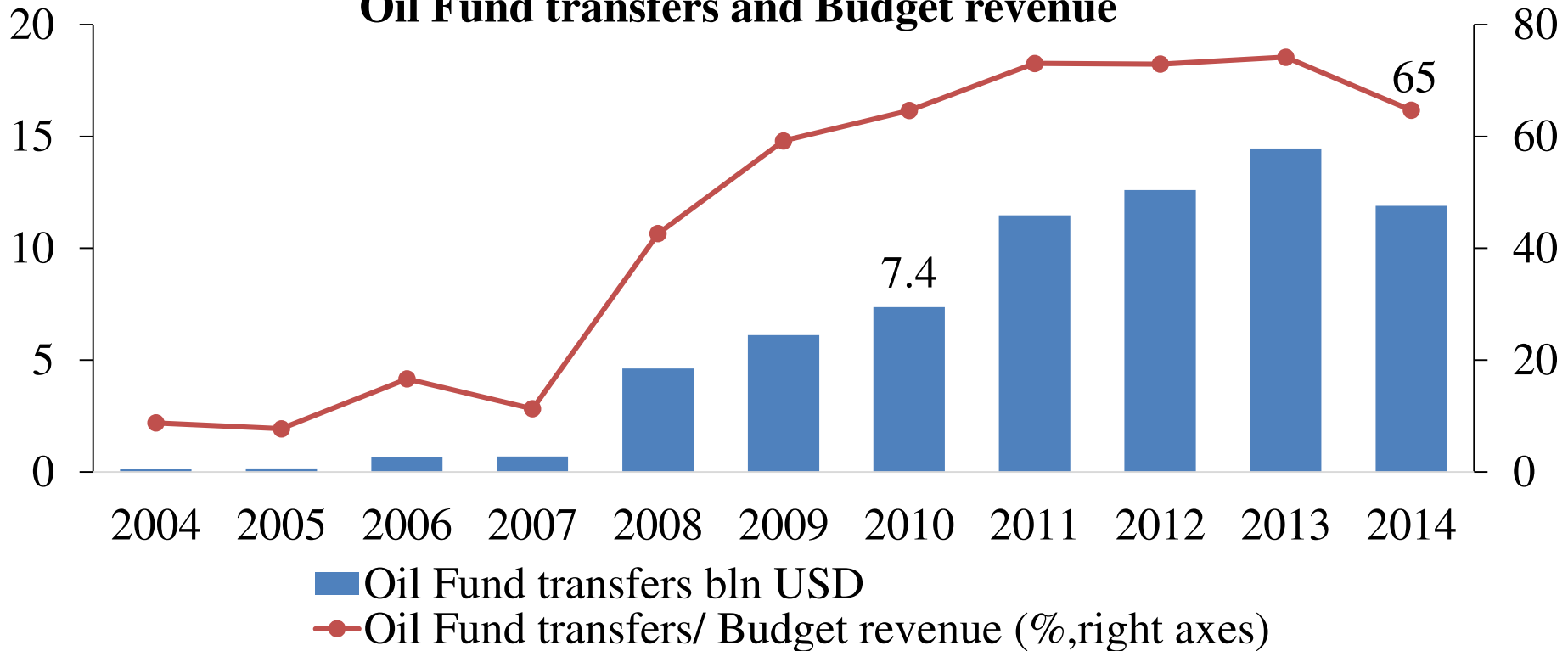
Budget expenditure, bln AZN



- Government expenditures increased by 12,5 times, including capital expenditures by 47 times.

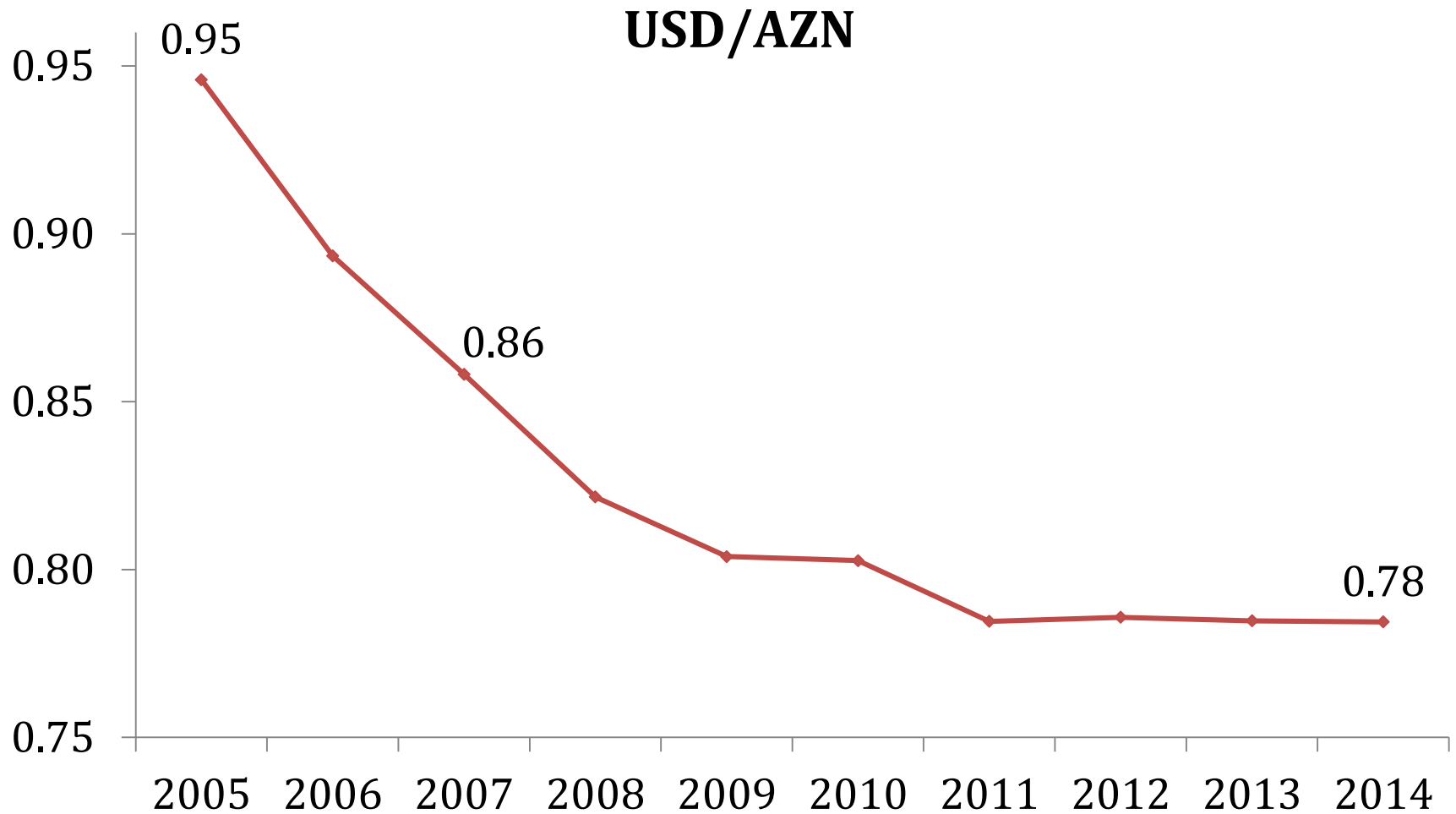
I. Fiscal policy (2004-2014)

Oil Fund transfers and Budget revenue



- Oil Fund established in December 1999. Objectives:
 - ✓ *protection of macroeconomic through sterilization of oil revenues*
 - ✓ *accumulation of reserves for future generations*
 - ✓ *using part of reserves to stimulate economic growth*
- Sources of Oil Fund revenues: country's share in exports of crude oil, bonus payments, asset management income, other

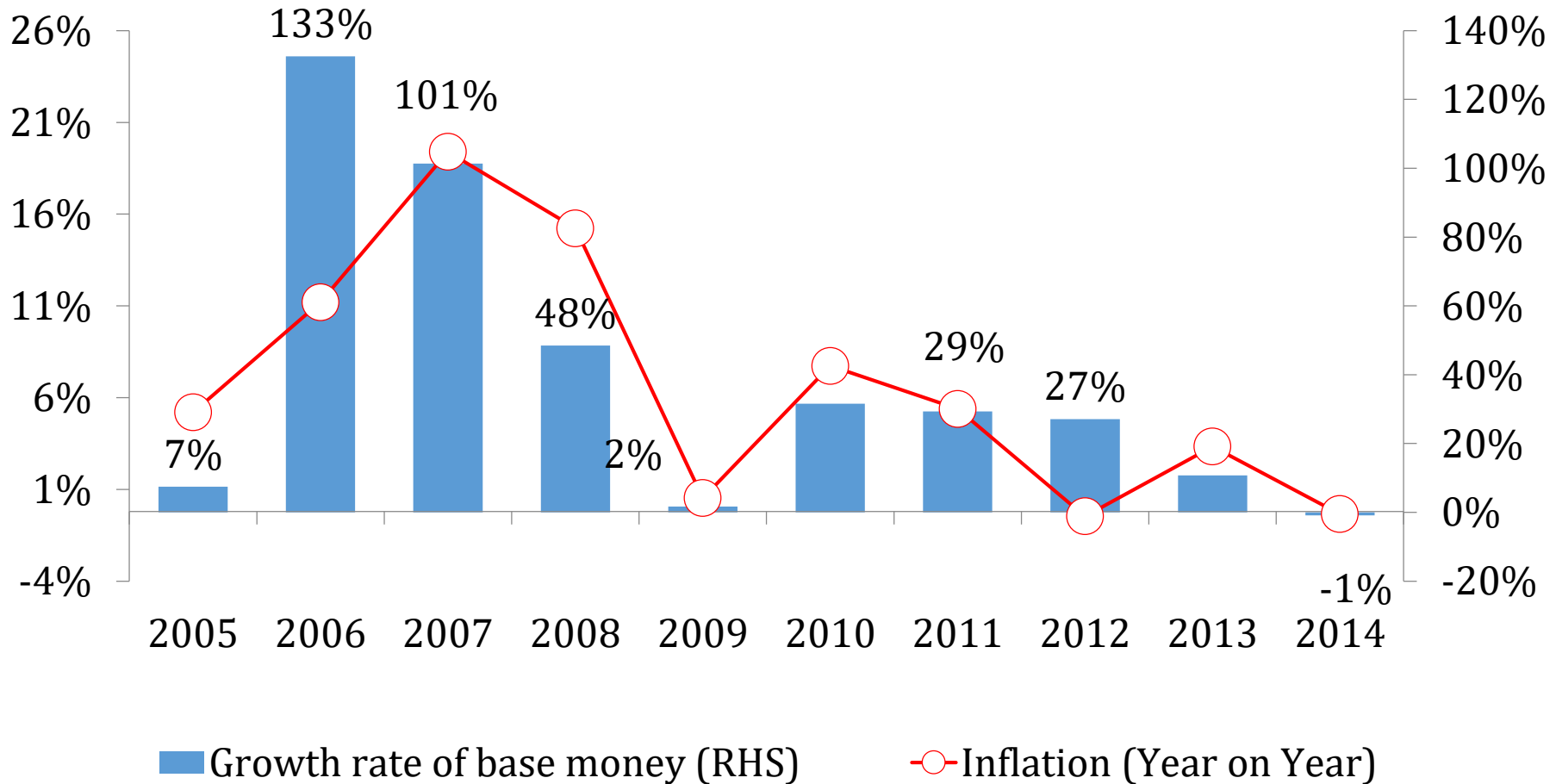
I. Exchange rate policy (2004-2014)



■ National currency appreciated

I. Monetary policy (2004-2014)

Money supply and inflation, %



- Money supply growth was related mainly with FX interventions of CBA.

II. Policy responses to External Shocks (2015-2019)

- **Fiscal policy:**

- Transfers from Oil Fund to the state budget in USD decreased
- Moving to less procyclical fiscal policy - fiscal rule was introduced in 2019
- Medium-term expenditure framework (MTEF) and public debt management strategy announced

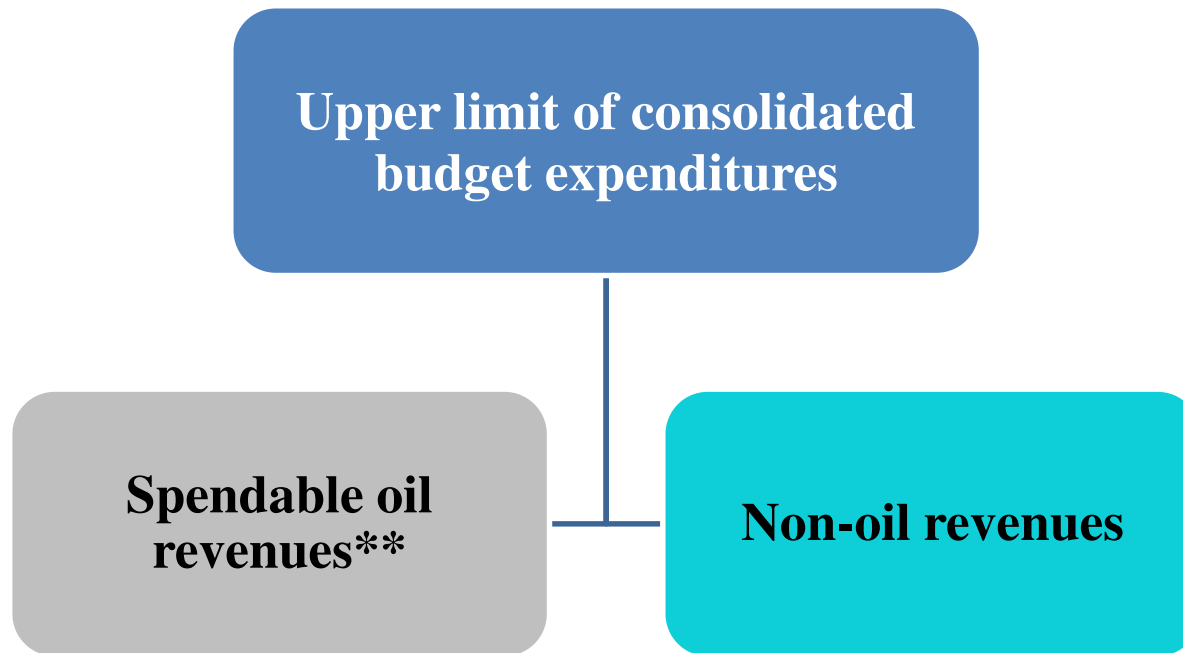
- **Exchange rate and monetar policy:**

- Manat depreciated against USD by 2 times in 2015
- CBA activated sterilization operations, introduced deposit auctions and restored short-term note auctions.

- **Coordination of macroeconomic policy:**

- Financial Stability Council was established (Members: President's Administration, Ministry of Finance, Ministry of Economy, Central Bank, FIMSA, Oil Fund).

II. Fiscal rule in Azerbaijan



Conditions:

- 1. Upper limit of the consolidated budget expenditures is calculated as the sum of spendable oil revenues and non-oil revenues**
- 2. Each year, the consolidated budget expenditures should not increase more than 3% (nominally).**
- 3. Each year, the ratio of non-oil primary deficit to non-oil GDP should decrease.**

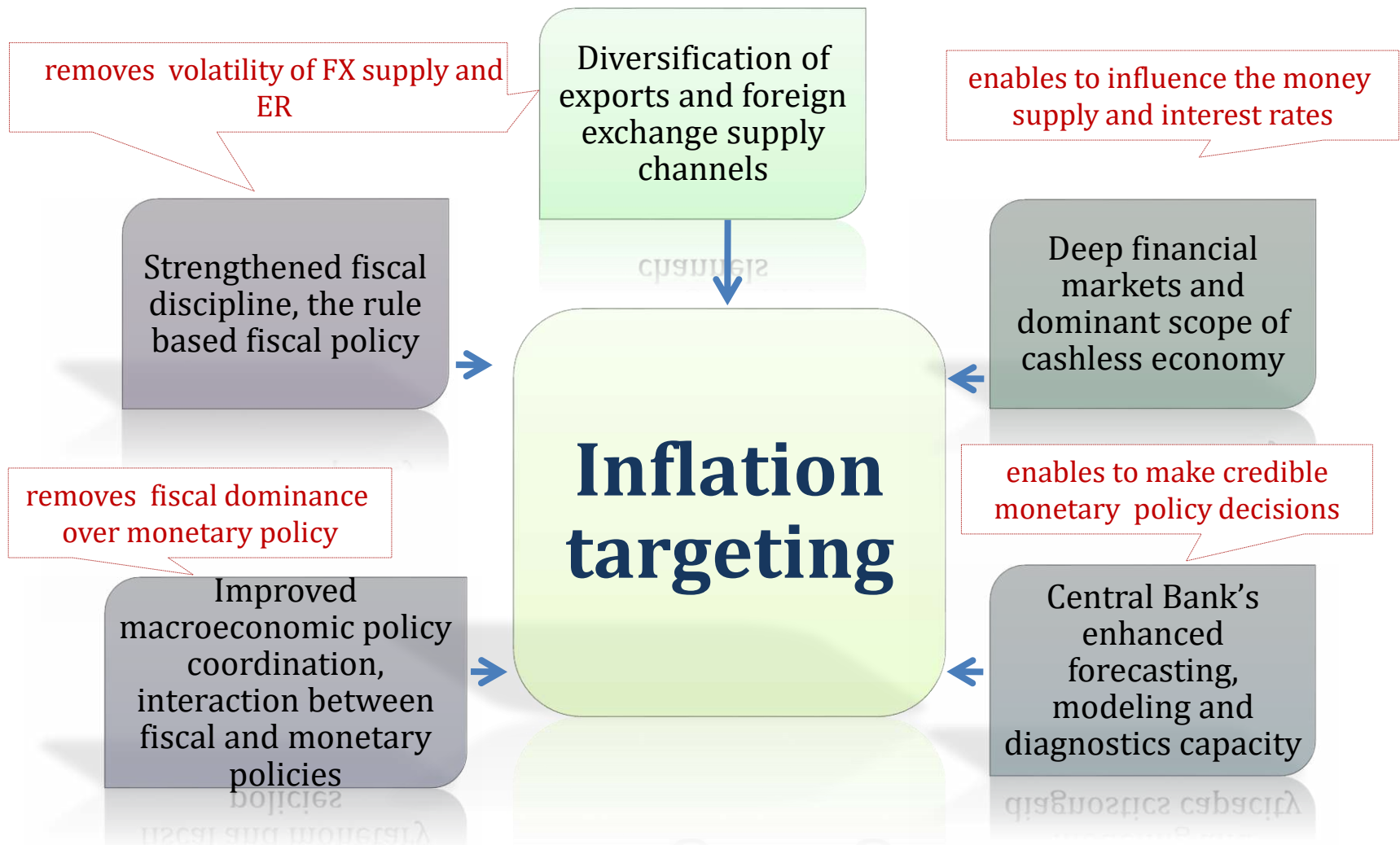
II. Fiscal rule in Azerbaijan

**Calculation of spendable oil revenues

Step 1.	Calculation of spendable oil revenues (SOR) is based on the Net Financial Assets (NFA)
$SOR_{NFA} = NFA * 30\%$	
Step 2.	If spendable oil revenues calculated based on the NFA is bigger than forecasted oil revenues (FOR),
$SOR = FOR + (SOR_{NFA} - FOR) * 20\%$	
<p><i>Otherwise,</i></p> $SOR = SOR_{NFA} + (FOR - SOR_{NFA}) * 20\%$	

II. Policy priorities: monetary policy

Preconditions for switching to flexible ER and IT framework



**Thank you for your
attention!**