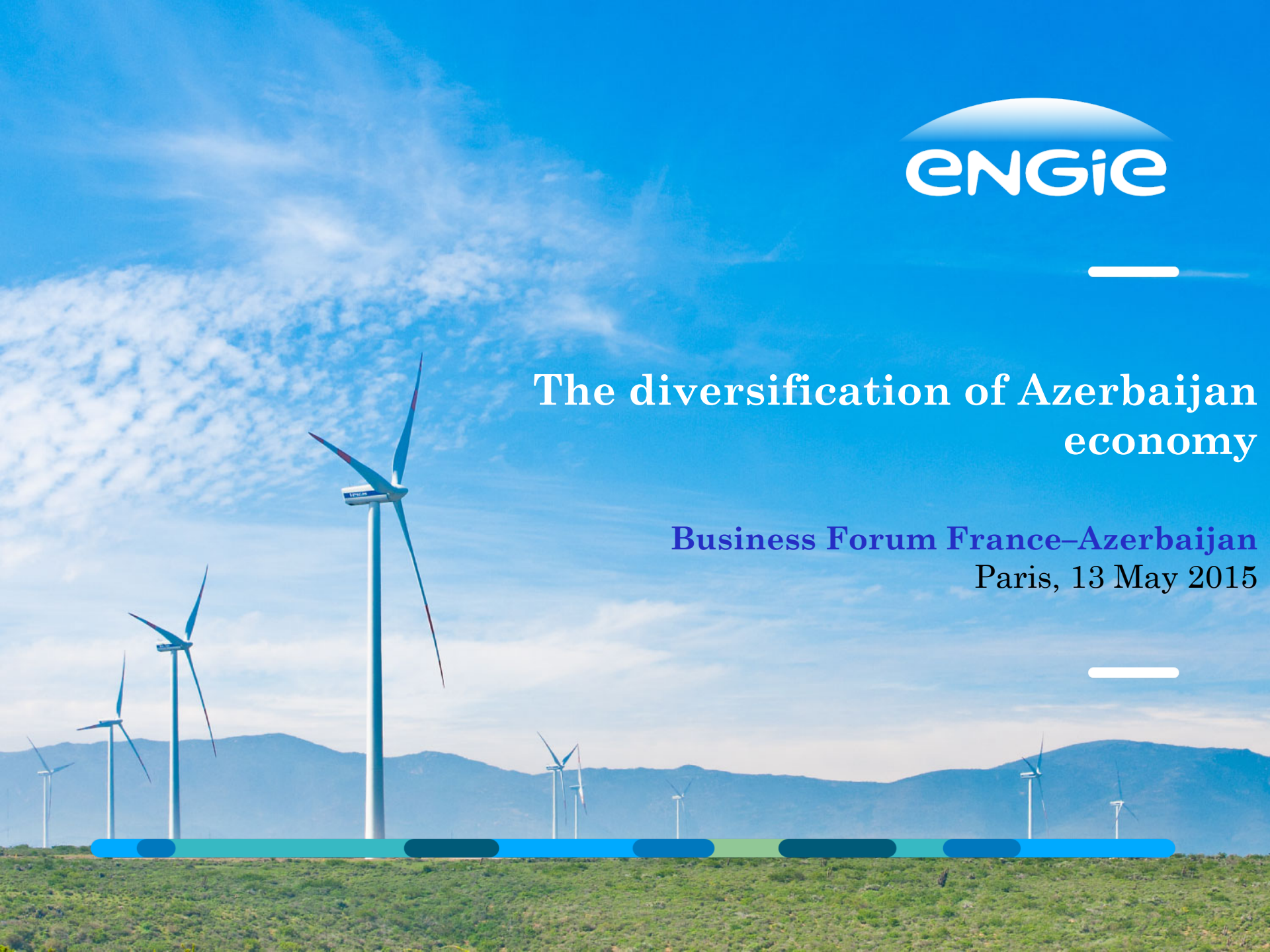




# The diversification of Azerbaijan economy

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# INTRODUCTION

- The contribution of hydrocarbons to GDP remains high, with about 50% of GDP
- The word "diversification" has recently become one of the most popular while discussing Azerbaijan's economic policy
- Development strategy "Azerbaijan in 2020: Looking to the Future"

# DIVERSIFICATION FIELDS

Azerbaijan has real opportunities for growth in other sectors:

- agriculture,
- food processing,
- capital goods,
- information technology and communication (IT&C),
- renewable energy,
- tourism,
- services,
- industries,
- transport, etc.

# REASONS FOR ACHIEVING SUCCESSFUL ECONOMIC DIVERSIFICATION

Azerbaijan has 6 good reasons for achieving successful economic diversification:

*-Macroeconomic and political stability in the country*

*-Acceptable investment climate*

*-Availability of currency reserves for ensuring the country's financial independence*

*-Availability of own unique model for the development of non-oil sector*

*-Existence of opportunity to expand Azerbaijani products' transit to world markets*

*-Azerbaijan's recognition as a reliable partner by the world's leading economic powers*

# 5 DIMENSIONS OF DIVERSIFICATION

Diversification of economy has five dimensions in Azerbaijan:

- diversification of GDP mainly focusing on non-oil sector,
- diversification of export upgrading the share of the innovative-led goods and services,
- diversification of partners relying on developed economies,
- diversification of institutional endowments including natural capital, physical capital, human capital and institutional capital, and
- diversification of economy over the regions.

# REASONS FOR DIVERSIFICATION

Two fundamental reasons that justify the avoidance from the reliance on hydrocarbon resources:

- oil prices are very difficult to predict. Between 2003-2012, the coefficient of variation of oil prices has been 0.4.
- diversified economies perform better over the long-run and it is also a new reality linked to modernization

# NON-OIL ECONOMIC SECTORS

- Transportation
- Agriculture
- Construction
- Business environment
- Infrastructure
- Tourism
- Manufacturing
- Financial and business services
- Telecommunications
- Currency system

# TRANSPORTATION

Major international traffic arteries:

- the Silk Road and
- the South-North corridor

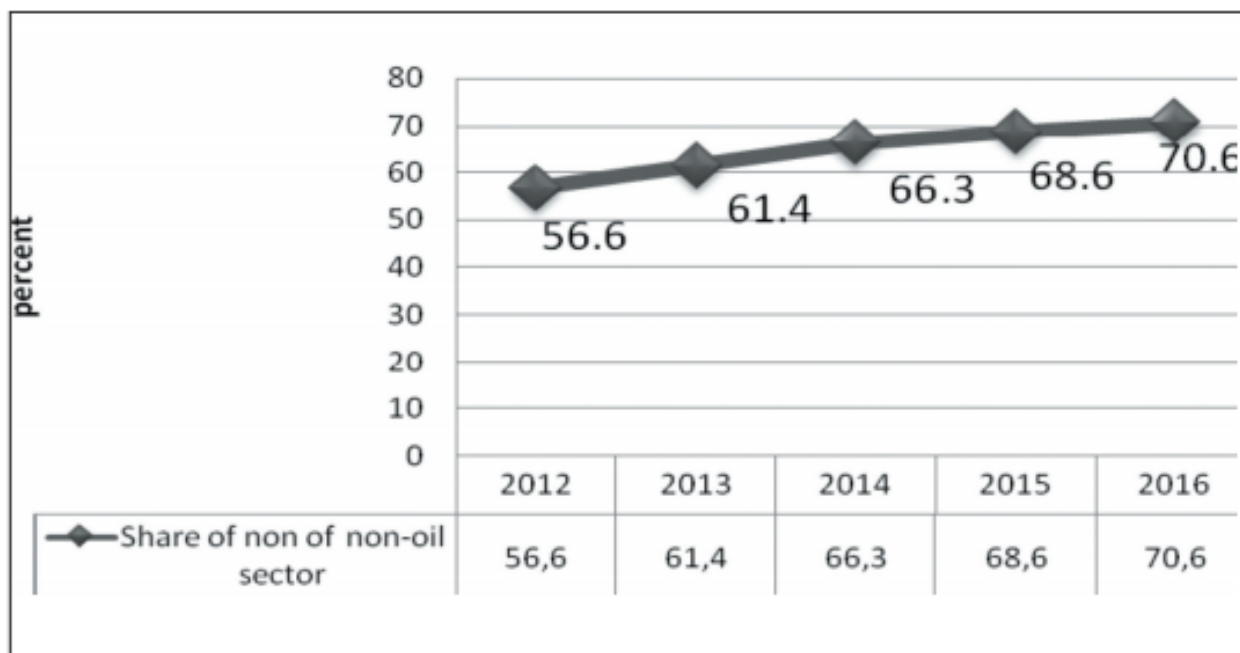
Azerbaijan is an important economic hub in the transportation of raw materials:

- The Baku-Tbilisi-Ceyhan pipeline (BTC)  
→ Azerbaijan, Georgia and Turkey.
- The South Caucasus Pipeline (SCP) → Azerbaijan, Georgia and Turkey,
- EU-sponsored Silk Road Project - Azerbaijan plays a major role



## Azerbaijan

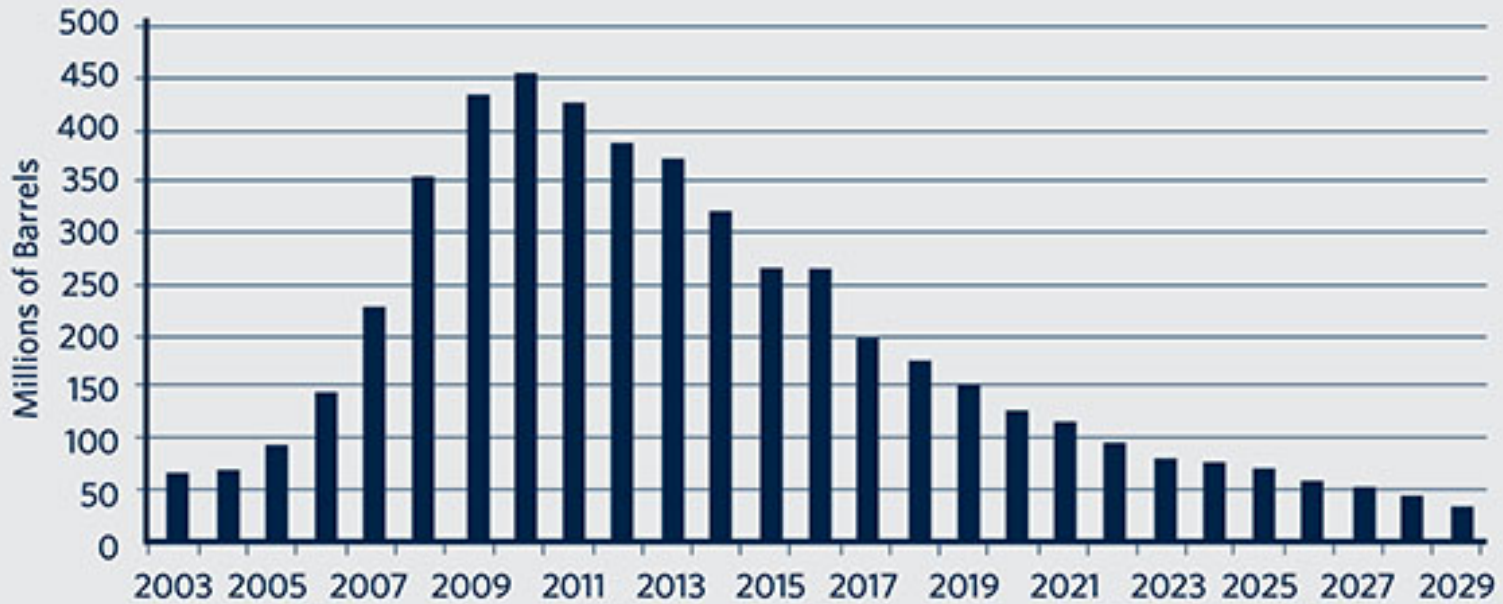
Selection of economic indicators	2009	2010	2011	2012	2013e	2014f	2015f
<i>Key country risk indicators</i>							
GDP (% real change pa)	9	5	0	2	6	5	4
Consumer prices (average % change pa)	1	6	8	1	3	6	5
Current account balance (% of GDP)	23	28	26	22	18	17	15
Total foreign exchange reserves (mln USD)	5,364	6,409	10,274	11,277	13,082	15,170	17,600
<i>Economic growth</i>							
GDP (% real change pa)	9	5	0	2	6	5	4
Gross fixed investment (% real change pa)	-9	4	12	2	11	9	6
Private consumption (real % change pa)	7	-15	22	2	10	7	7
Government consumption (% real change pa)	5	-10	10	2	9	0	2
Exports of G&S (% real change pa)	8	24	4	2	2	3	2
Imports of G&S (% real change pa)	-5	1	36	2	8	5	4



**Figure 1. The share of non-oil sector in GDP in Azerbaijan**

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

Figure 1: Oil Production Forecasts in Azerbaijan



Source: Center for Economic and Social Development, Baku, April 2011

## Economic growth

(% unless otherwise indicated)

	2014	2015	2016
US GDP	2.4	3.2	2.5
OECD GDP	1.9	2.5	2.4
World GDP	2.3	2.7	2.8
World trade	3.4	5.1	5.3

Source: The Economist Intelligence Unit

## Expenditure on GDP

(% real change)

■ = 2015 ■ = 2016

### Private consumption



### Government consumption



### Gross fixed investment



### Exports of goods & services



### Imports of goods & services



Source: The Economist Intelligence Unit

## Origin of GDP

(% real change)

■ = 2015 ■ = 2016

### Agriculture



### Industry



### Services



Source: The Economist Intelligence Unit