

## **Azerbaijan Republic: Selected Issues and Statistical Appendix**

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AZERBAIJAN REPUBLIC

**Selected Issues and Statistical Appendix**

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## AZERBAIJAN: THE SIZE OF QUASI-FISCAL SUBSIDIES IMPLICIT IN CURRENT DOMESTIC ENERGY POLICIES

### A. Introduction

1. After ten years of independence and transition, Azerbaijan continues to suffer from an **extensive circuit of non-payments and arrears, with the energy sector at its heart**. Electricity and gas users hardly pay for their consumption, causing the state electricity company, Azerenergy, and the state gas company, Azerigas, to fail to pay their creditors, of which the State Oil Company of Azerbaijan Republic (SOCAR) and the tax service are the most prominent. SOCAR, as a direct result, also has large arrears to the tax authorities. Thus, at the expense of the budget, large implicit subsidies are provided to end-users of gas and electricity. This policy leads to wasteful use of energy resources and poses a threat to medium term macroeconomic stability and growth.

2. **This paper estimates the size of quasi-fiscal subsidies implicit in domestic energy policies in Azerbaijan.** For the purpose of this paper, quasi-fiscal subsidies are defined as off-budget transfers of value from the public sector to a public or private sector entity. From a consolidated public sector perspective, quasi fiscal subsidies are no cheaper than fiscal or on-budget subsidies. Eventually, the budget bears the cost of the quasi-fiscal activity via reduced tax or dividend payments. The only difference between the quasi-fiscal subsidy and the on-budget subsidy is **transparency**. On-budget subsidies are clearly visible to policy makers, parliament and the public at large. Conversely, quasi-fiscal subsidies remain implicit and therefore tend to be underestimated and ignored. Parliament does not debate or vote on the 'expenditure' and the official budget underestimates the true level of government expenditures.

### B. Domestic Energy Policy in Azerbaijan

3. Current domestic energy policies in Azerbaijan can be characterized as follows:
- **The government sets the domestic prices of oil, oil products, gas and electricity below the market value.** Under pricing occurs both in fuel deliveries from SOCAR to Azerenergy and Azerigas, and in transactions between the power and gas companies and their customers. For example, in 2000, the domestic gas price charged by SOCAR to Azerigas was about US\$15 per thousand cubic meters (tcm), and the price charged by Azerigas to households was about US\$8 per tcm. Both prices are much lower than the true value of the gas; Azerbaijan imported gas in 2000 at US\$48 per tcm.
  - **Even at these low prices, non-payment does not lead to an interruption of supply.** Again, this non-payment occurs on two levels. In 2000, Azerenergy's collection rate was just 16 percent, and Azerigas's collection rate over the first nine months of that year was 13 percent. Combined with the fact that tariffs are set lower than wholesale price levels, it is not surprising that these companies were not able to pay SOCAR for fuel deliveries – SOCAR's 2000 collection rate for deliveries to

Azerigas and Azerenergy was 0 percent. As all three companies are fully state-owned, allowing uninterrupted supply in the face of non-payment is clearly government policy. Rather than instructing state owned utility companies to stop supplying non-paying customers, the government apparently views providing cheap or free gas and electricity as a way of supporting troubled industries and poor segments of the population.<sup>1</sup> This conclusion is supported by the specification of tariffs charged and payments made by category of consumer provided in Appendix 1, which makes it clear that only private companies in the category 'trade and services' generally pay their electricity bills.

4. **Preliminary calculations, detailed below, suggest that in 2000, the total value of these subsidies amounted to 6.4 trillion manat, or 27 percent of GDP.**<sup>2</sup> For comparison, the size of the consolidated government state budget in 2000 was 4.9 trillion manat, so in this year Azerbaijan's implicit spending on energy subsidies exceeded the total of all expenditures of the consolidated government budget. As SOCAR, Azerigas and Azerenergy are all 100 percent state owned enterprises, all of these subsidies entail transfers of value from the public sector to end users of energy. In the end, the budget fully bears the cost of the subsidies via reduced tax payments and profit transfers by SOCAR, Azerigas and Azerenergy to the budget.

### C. Estimating Methodology

5. The size of the value transfer from the energy sector to end-users of energy can be assessed by estimating the cost of producing and distributing the electricity, gas and oil products provided, and subtracting actual collections from end users, in the following way:

- Calculate the **true value of SOCAR oil and gas deliveries to the domestic market.** This is done by valuing the oil and gas supplied by SOCAR to the domestic market at 'world market' prices. For oil, the average price in 2000 as reported in the IMF World Economic Outlook (WEO) minus transport costs is used.<sup>3</sup> For gas, the price that

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<sup>1</sup> Prior to January 2002, within the category of household consumers, specific groups were charged lower tariffs. The authorities decided in October 2001 to eliminate all such preferential consumer tariffs for electricity and gas effective January 2002, so that after January 2002 all households pay the same tariff. However, gas and electricity tariffs for households as a category of users remain highly preferential.

<sup>2</sup> This note does not address cross subsidization between different groups of energy users. As gas and electricity tariffs for different categories of users differ significantly, cross-subsidization is an important issue in Azerbaijan; see the appendix for tariffs by type of consumer.

<sup>3</sup> WEO prices are an average of the prices of UK Brent (light), Dubai (Medium) and West Texas Intermediate, equally weighted. The Azeri light that is exported via Supsa is of a high quality and is normally sold at a price higher than the WEO price, whereas the crude that is exported via Novorossiisk (and mixed with lower quality Siberian oil) usually fetches a price  
(continued)

Azerbaijan paid to import gas in 2000 is used. The gas imported by SOCAR as well as the associated gas produced by Azerbaijan International Operating Company (AIOC) and handed over to SOCAR for domestic distribution are both included in the assessment of the quantity delivered to the domestic market.

- Add to this the **production and distribution costs of Azerigas and Azerenergy, as well as the cost of SOCAR's refining activities**. Payments by end-users of electricity, gas and oil products should not cover just the value of the fuel inputs in the end products, but also all other costs that must be incurred to generate and distribute the products, including labor costs, capital costs, maintenance, and tax payments that power and gas generating and distributing companies should pay on their economic activities. An estimate of the full size of the quasi-fiscal subsidy to end users of electricity, gas and oil products must therefore add these costs to the costs of the fuel used. Production and distribution costs should be assessed on the basis of what should be paid by Azerenergy, Azerigas and SOCAR according to the law of the country and to keep the infrastructure intact, rather than actual payments made. For a good estimate of production and distribution costs, not all the data needed are presently available, but a reasonable estimate can nevertheless be made – see the exercise for 2000 below.
- Calculate **how much end users actually pay for the electricity, gas and oil products that find their way to the domestic market**. This includes payments by customers of Azerenergy and Azerigas, and by consumers of SOCAR's oil products (excluding the fuel oil delivered to Azerenergy and used by Azerenergy to generate electricity).
- The difference is an estimate of the size of the quasi-fiscal subsidies implicit in current domestic energy policies.

#### **D. Applying the Methodology to the Year 2000**

6. In 2000, SOCAR delivered 42.7 million barrels of oil to the domestic market (in various forms), and SOCAR produced 4.6 billion cubic meters (bcm) of natural gas for the domestic market. In addition, SOCAR imported 0.3 bcm of gas to be used by Azerenergy for electricity generation, and Azerbaijan International Operating Company (AIOC) produced 1.0 bcm of gas that was delivered to the domestic market<sup>4</sup>. The market value of this supply of fuel to the domestic market can be calculated as shown in Table 1. It shows that the **true value of the oil and gas supplied by SOCAR and AIOC to the domestic market is 6307 billion manat**. At a GDP of 23,565 billion manat, that is 26.8 percent of GDP.

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lower than the WEO price. Overall, using the WEO price as an indicator of Azerbaijan's crude oil export price is thus approximately correct.

<sup>4</sup> The Azeri-Chirag-Guneshli Production Sharing Agreement specifies that all associated gas that is produced by AIOC is provided for free to SOCAR.

Table 1. Market Value of SOCAR's and AIOC's Domestic Oil and Gas Supplies, 2000

	Quantity	Price In US\$	Transport	Domestic value In million US\$	Domestic value In billion manat
SOCAR oil	42.7 mln barrel	28.3 / barrel	US\$1.9/barrel	1127	5041
SOCAR gas production	4.6 bcm	48 / tcm		221	987
SOCAR gas import	0.3 bcm	48 / tcm		14	64
AIOC gas	1.0 bcm	48 / tcm		48	215
Total				1410	6307

Source: IMF staff calculations.

7. To this amount, we add estimates of **the cost of producing and distributing electricity** (Azerenergy costs), **of distributing gas** (Azerigas's cost) **and of refining crude oil into fuel oil and other oil products and distributing those products** (SOCAR refining costs). Estimates provided by the Macro-Economic Policy Group at the Ministry of Finance in Baku of Azerenergy's 2000 expenditures, excluding fuel costs and repayments on foreign debt, and of Azerigas's 2000 expenditures excluding fuel costs and repayments on foreign debt, are 285 billion manat and 87 billion manat respectively. SOCAR reports refining expenditures in 2000 of 1,145 billion manat. A breakdown of these expenditures is presented in Table 2.

Table 2. Azerenergy, Azerigas and SOCAR Expenditures, 2000  
(In billion manat)

	Azerenergy expenditures	Azerigas expenditures	SOCAR refining expenditures
Wages	74	16	33
Taxes	85	45	643
Social contributions	26	6	11
Essential maintenance 1/	100	20	458
Total	285	87	1145

Sources: Macro-Economic Policy Group, Ministry of Finance, SOCAR, and IMF staff estimates.

1/ The amounts included for essential maintenance are rough approximations supplied by the Macro-Economic Policy Group (for Azerenergy and Azerigas) and SOCAR.

8. From this amount, the 2000 **actual receipts** by Azerenergy and Azerigas for its deliveries and by SOCAR for its deliveries to end-users should be subtracted. In 2000, Azerenergy collected a total of 236 billion manat, and Azerigas collected 50 billion manat. SOCAR reports receipts of 1164 billion manat on all domestic oil product sales, including its sales of fuel oil to Azerenergy (Table 3). However, since SOCAR also reports that Azerenergy did not pay at all for 2000 fuel deliveries, we can assume that this amount is fully collected from oil product sales other than sales of fuel oil to Azerenergy. Table 4 presents the overall calculation of the subsidies implicit in current domestic energy policies.

Table 3. Azerenergy, Azerigas, SOCAR: Actual Domestic Receipts, 2000

	2000 Receipts, domestic sales, billion manat
Azerigas	50
Azerenergy	236
SOCAR	1164
Total	1450

Sources: Marco-Economic Policy Group, Azerenergy, and SOCAR.

Table 4. Azerbaijan: Subsidies Due to Domestic Energy Sector Policies, 2000

	Billion manat
Market value of SOCAR's and AIOC's domestic oil and gas deliveries (Table 1)	6307
Plus: expenditures of Azerenergy and Azerigas operations, and of SOCAR's refining activities, excluding the cost of fuel inputs (Table 2)	1517
Minus: receipts from domestic sales (Table 3)	1450
Total	6374
In per cent of GDP (2000 GDP: 23,565 bln manat)	27.0

Source: IMF staff calculations.

9. The data needed to perform a similar exercise for the year 2001 are not available at this point. **An assessment of 2001 quasi-fiscal subsidies would probably show a lower total**, for two reasons. First, on average, 2001 world market prices for oil were lower than 2000 prices. Second, the government intensified its program of importing gas to replace fuel oil deliveries to Azerenergy, using the reduced demand for fuel oil to increase exports of



crude oil. Nevertheless, quasi-fiscal subsidies implicit in domestic energy sector policies remained very large in 2001.

### **E. A Breakdown of Quasi Fiscal Subsidies into its Components**

10. **Are quasi-fiscal subsidies in Azerbaijan mainly driven by non-payment or by under pricing?** For the gas sector (excluding the gas imports that were used for electricity generation), Table 5 provides a breakdown.<sup>5</sup> SOCAR's 2000 production of 4.6 bcm, as well as AIOC's 2000 production of 1.0 bcm, was fully handed over to Azerigas, without any payment. The market value of this gas at the import price of US\$48 per tcm is 1,202 billion manat. At the domestic wholesale price of US\$15.5 per tcm, the value of the gas was 388 billion manat. Hence, about two-thirds of the value of the gas provided to Azerigas was lost due to under pricing, and the remaining one third because of non-payment by Azerigas. However, this distribution between under pricing and non-payment is rather arbitrary. The domestic wholesale price of gas does not have any economic meaning if there is not a single transaction that is actually settled using this price – it is simply an accounting price. If the domestic wholesale price of gas as set by the Ministry of Economic Development was doubled, we would find less under pricing but more non-payment, and Azerigas's payments would still be zero. A more meaningful breakdown can be obtained by looking at the prices charged to end-users. In the transactions between Azerigas and its customers, non-payment is a bigger problem than under pricing, as is evident from Table 5. The bottom rows of Table 5 make clear that for the gas sector taken as a whole, under pricing accounts for almost two thirds of the quasi-fiscal subsidies, with the balance due to non-payment<sup>6</sup>.

11. For oil production and electricity generation, the picture is slightly more complicated. Let us first look at the oil supplied to Azerenergy in the form of fuel oil, and the gas imported by SOCAR and provided directly to Azerenergy for electricity generation. In 2000, of SOCAR's 42.7 million barrels of oil delivered to the domestic market, 29.7 million barrels were delivered to Azerenergy in the form of fuel oil. In addition, Azerenergy received 0.3 bcm of imported gas from SOCAR for electricity generation. Taking the prices used in Table 1, the market value at world market prices of the crude oil that was used for producing the fuel oil was 3511 billion manat, and the value of the gas at US\$48 per tcm was 64 billion manat. At domestic wholesale prices, the value of the fuel oil was 1092 billion manat, and the value of the gas at domestic wholesale prices was 21 billion manat. In actual fact, no payments were made. As in the case of gas sector above, this would lead to a conclusion that SOCAR loses the value of its fuel deliveries to Azerenergy mainly due to under pricing.

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<sup>5</sup> Domestically produced gas supplied by SOCAR to Azerigas and passed on to Azerenergy is included in the analysis for the 'gas sector' here (Table 5), and not in the analysis of the 'electricity sector' (Table 6), in order to avoid double counting. In 2000, 1.3 bcm of domestically produced gas found its way from SOCAR via Azerigas to Azerenergy.

<sup>6</sup> Because of a lack of data, this analysis does not capture the transport costs that SOCAR incurs to deliver gas to Azerigas. If these were included, the calculated subsidy to the gas sector would be even higher.

Also, as in the case of gas sector, however, this breakdown is arbitrary, given the fact that domestic wholesale fuel prices are purely accounting prices.

Table 5. Gas in Azerbaijan: Under pricing and Non-payments, 2000

	billion manat
a. Total value of SOCAR and AIOC gas production for the domestic market, world market prices	1202
b. Total value of SOCAR and AIOC gas production, domestic wholesale prices	388
c. Azerigas payment	0
d. Azerigas non-fuel costs (Table 2)	87
e. Azerigas total costs at current wholesale gas prices (= b + d)	475
f. Azerigas revenue assuming full collection	521
g. Azerigas actual revenue (Table 3)	50
<b>h. Total quasi-fiscal subsidy, gas sector (= a + d - g)</b>	<b>1239</b>
i. o/w Non-payments by Azerigas customers (= f - g)	471
j. o/w Under pricing (a + d - f)	768

Sources: Macro-Economic Policy Group, and IMF staff calculations.

12. In estimating the overall quasi-fiscal subsidy provided to electricity users, we must also take into account that converting crude into fuel oil is not without costs. The available financial data on SOCAR do not allow for a direct assessment of these costs. However, as about 70 percent of SOCAR's crude that found its way to the domestic market was refined into fuel oil, we can, as an approximation, take 70 percent of SOCAR's total refining costs, or manat 801 billion, as a working assumption for SOCAR's cost of producing fuel oil<sup>7</sup>. Table 6 shows that as in the case of the gas sector, in the electricity sector end users are subsidized primarily by undercharging them (over 60 percent of the total subsidy), and to a lesser (although still substantial) extent by allowing non-payment at the current prices.<sup>8</sup>

<sup>7</sup> While the allocation of SOCAR's refining costs between fuel oil for Azerenergy and other oil products affects the distribution of the quasi-fiscal subsidy between electricity and oil products, it does not affect the total estimated quasi-fiscal subsidy in the energy sector.

<sup>8</sup> Because of a lack of data, this analysis does not capture the transport costs that SOCAR incurs to deliver fuel oil and gas to Azerenergy. If these were included, the calculated subsidy to the electricity sector would be even higher.

Table 6. Electricity: Underpricing and Nonpayments, 2000

	billion manat
a. Total value of crude content in SOCAR fuel oil delivery to Azerenergy, world market prices	3511
b. Estimated SOCAR refining costs for fuel oil production	801
c. Value of gas imported by SOCAR for Azerenergy, world market prices	64
d. Total value of SOCAR fuel delivery to Azerenergy, domestic wholesale prices	1113
e. Azerenergy payment	0
f. Azerenergy non-fuel costs (Table 2)	285
g. Azerenergy total costs at current wholesale oil prices (= d + f)	1398
h. Azerenergy revenue assuming full collection	1972
i. Azerenergy actual revenue (Table 3)	236
<b>j. Total quasi-fiscal subsidy, electricity sector (= a + b + c + f – i)</b>	<b>4425</b>
k. o/w Non-payments by Azerigas customers (= h – i)	1736
l. o/w Under pricing (a + b + c + f – h)	2689

Sources: Macro-Economic Policy Group, and IMF staff calculations.

13. The third and final element in this breakdown concerns subsidies implicit in pricing of and non-payments for the remaining part of SOCAR's domestic market oil deliveries, i.e. supplies of oil products other than in the form of fuel oil to Azerenergy. These deliveries contain a relatively small part of quasi-fiscal subsidies in Azerbaijan. For these 13 million barrels of oil, SOCAR received 1164 billion manat, or about US\$20 per barrel. The available information does not allow for a breakdown of these subsidies into under pricing and non-payment.

Table 7. Oil Products Other Than Fuel Oil: Total Quasi-Fiscal Subsidies

	billion manat
a. Total value of crude content in SOCAR oil products except fuel oil, world market prices	1530
b. Refining costs	344
c. Payments	1164
<b>d. Total quasi-fiscal subsidy, oil products except fuel oil (= a + b – c)</b>	<b>710</b>

Source: IMF staff calculations.

## F. Policy Implications

14. This note has made it clear that at present, a large proportion of Azerbaijan's natural wealth is used in untargeted subsidies to supply energy below cost or free of charge to end-users. Reform of domestic energy sector policies could greatly enhance the availability of energy sector receipts for targeted government spending aimed at reducing poverty. Recognizing this, the government of Azerbaijan is now committed to implementing a program to strengthen financial discipline in the energy sector. Some of the most important elements of that program are discussed below.

15. The visibility of energy sector subsidies in Azerbaijan has been greatly enhanced by the authorities' decision to **convert quasi-fiscal subsidies into on-budget subsidies**. Formal incorporation into the budget at domestic market prices will take place in 2003. During 2002, the subsidies will be included in quarterly public reports on the execution of the 2002 consolidated budget, and SOCAR will be granted a tax credit for any unpaid fuel deliveries. **By publicly acknowledging the quasi-fiscal subsidies** and bringing these subsidies on-budget, the massive size of subsidies to electricity and gas users is made transparent, which may lead policy makers and parliamentarians to reconsider the desirability of this allocation of resources. Putting the subsidies on-budget may also help create the necessary political momentum to revise energy prices and tariffs and enforce strict cut-off policies.

16. Next, **payments discipline** must be improved. This paper has made clear that non-payments account for a substantial share of quasi-fiscal subsidies in Azerbaijan. The fact that energy bills are allowed to remain unpaid means that users do not receive proper incentives to economize on the use of scarce energy resources. The government's comprehensive plan to improve financial discipline in the energy sector contains various measures to improve collection rates. First, consumption ceilings for budgetary organizations have been identified, and utility companies have been instructed to disconnect service after the ceiling has been reached. The authorities have also committed to cut off all state owned enterprises that do not pay their utility bills from January 2002 onward, and to monitor and publish Azerigas and Azerenergy collection rates by category of end-users from the first quarter of 2002 onwards. Moreover, a plan for improved metering of energy use will be developed.

17. In addition, the **gap between domestic and world market prices** must be reduced. This paper has shown that over sixty percent of total quasi-fiscal subsidies related to domestic energy sector policies are due to under pricing of electricity, gas and oil products. Again, by supplying energy to domestic users below the opportunity cost, domestic users do not receive adequate incentives to economize on the use of energy. Rather than subsidizing all energy users via low energy prices, the government should focus social assistance on those who truly need it. The authorities have now committed to develop a plan for the gradual unification of domestic and world market energy prices that will establish full unification of domestic and world prices by end 2004.

18. Finally, measures to improve the efficiency of state owned enterprises in the energy sector, including **restructuring and privatization** are needed. The ongoing privatization of non-core activities of SOCAR has already helped to reduce costs at the oil company. In the second half of 2001, a long term management contract for the Baku Electricity Distribution

Network was signed, and in 2002 the three remaining electricity distribution companies will be prepared for privatization. As a result, Azerenergy's activities will become more focused and concentrate on electricity generation. Privatization of gas distribution is also planned for 2002.

### **G. Conclusion**

19. Non-payments and arrears in the energy and utility sectors constitute the major economic problem that Azerbaijan faces today. This paper has outlined a method for estimating energy-related quasi fiscal subsidies. For the year 2000, the subsidies were estimated at 6.4 trillion manat, or 27 percent of GDP. Energy-related quasi fiscal subsidies were significantly larger than the 4.9 trillion manat total expenditures included in the consolidated government budget in 2000. The authorities have now taken a number of steps to improve financial discipline in the energy and utility sector. Importantly, it has been decided to bring quasi-fiscal subsidies on-budget in 2003, and to include them in quarterly public reports on the execution of the 2002 consolidated budget. However, establishing full payments at prices that reflect true economic value will require a concerted and committed effort over several years.

## GAS AND ELECTRICITY PRICING, DELIVERIES, AND COLLECTION BY TYPE OF CONSUMER

Table 8. Azerigas: Pricing, Deliveries, Collections  
First Nine Months, 2000

	Tariff, US\$/tcm	Quantity delivered, bcm	Billing In US\$ million	Collection, In US\$ million	Collection ratio In percent
Population	8	0.9	6.7	2.7	41
Communal	24	0.5	12.6	1.8	14
Industry	54	0.3	15.3	2.7	17
Azerenergy	45	0.6	28.1	1.1	4
Total	27	2.3	62.7	8.1	13

Source: Macro-Economic Policy Group, Ministry of Finance, Baku.

Table 9. Azerenergy: Pricing, Deliveries, Collections  
First Nine Months, 2000

	Tariff, In US\$/KwH	Quantity delivered, bln KwH	Billing, In US\$ million	Collection, In US\$ million	Collection ratio In percent
Population	0.022	4.9	107.7	6.5	6
Industry	0.039	1.4	56.1	11.2	20
Budget organizations	0.039	0.6	23.0	6.4	28
Absheron water	0.035	0.4	13.5	0	0
Agriculture	0.036	0.3	9.3	0.5	5
Transport	0.040	0.3	10.5	0.04	0.4
Trade and Services	0.063	0.046	2.9	2.3	80
Baku electricity distribution	0.019	2.8	52.6	6.3	12
Total	0.023	11.1	255.0	33.1	13

Source: Macro-Economic Policy Group, Ministry of Finance, Baku.

Azerbaijan: Basic Data

Social and demographic indicators (2000)					
Area (in sq. km)					86,600
Population (in thousands)					8,081
Percent urban					51
Percent rural					49
Population growth rate (in percent)					0.8
Life expectancy at birth (in years)					72
Infant mortality rate (per 1,000 population)					12.8
Physicians (per 1,000 population)					4.0
GDP per capita (in U.S. dollars, at average 2000 exchange rate)					652

	1997	1998	1999	2000 1/	2001 2/
(In percent of GDP)					
Structure of GDP					
Industry and construction	37	35	28	32	39
of which: Oil and gas sector	10	11	20	25	31
Agriculture	20	18	18	18	19
Other	43	47	54	50	42
(Percentage change, unless otherwise indicated)					
Output and employment					
GDP (in billions of manats)	15,791	17,203	18,875	23,565	18,365
Real GDP	5.8	10.0	7.4	11.1	9.3
Employment	0.2	0.2	0.0	0.1	0.0
Prices and wages					
Consumer price inflation					
Average	3.7	-0.8	-8.5	1.8	1.7
End of Period	0.4	-7.6	-0.5	2.2	-0.4
Average nominal manat wage	58.5	18.9	9.5	20.2	25.7
Real manat wage	52.8	19.9	19.7	18.1	23.6
Average nominal dollar wage	71.0	22.5	2.7	10.9	11.8
Real dollar wage	64.9	23.5	12.2	8.9	9.9
(In millions of U.S. dollars)					
External sector					
Exports of goods	808	678	1,025	1,877	980 3/
Imports of goods	1,375	1,724	1,433	1,539	651 3/
Current account balance	-916	-1,364	-600	-124	-8 3/
(in percent of GDP)	-23.1	-30.7	-13.1	-2.4	-0.3 3/
(In percent of GDP)					
Consolidated Government					
Total revenue	19.1	19.6	18.5	21.2	21.8
Total expenditure (including net lending)	20.8	23.7	23.6	20.9	19.0
Fiscal balance (- deficit)	-1.6	-3.9	-4.7	-0.6	2.6
Domestic financing	-0.4	1.4	-2.3	-2.9	-4.8
(Percentage change, unless otherwise indicated)					
Financial markets					
Manat reserve money, end of period	35.6	-22.3	20.9	22.1	9.0 4/
Manat broad money, end of period	29.2	-10.6	5.3	11.1	-1.5
Manat velocity relative to non-oil GDP (ratio) 5/	9.6	10.4	10.6	11.4	7.9
Exchange rate (manat/US\$)					
End of period	3,888	3,890	4,378	4,565	4,693
Period average	3,985	3,869	4,126	4,472	4,628

Source: Azerbaijan State Committee on Statistics, Azerbaijan National Bank, Ministry of Finance; and Fund staff estimates.

1/ Preliminary data.

2/ Data for the first nine months.

3/ Data for the first six months.

4/ Data for total year.

5/ Defined as non-oil GDP divided by average manat broad money.

Table 1. Azerbaijan: Gross Domestic Product by Sector of Origin, 1997–2001

	1997	1998	1999	2000	2001 1/
(In billions of manats)					
Gross Domestic Product at market prices	15,791	17,203	18,875	23,565	18,365
Taxes on goods and services	1,605	1,177	1,335	1,563	1,397
Subsidies on goods and services	438	468	590	628	491
Gross Domestic Product at factor cost	14,624	16,494	18,130	22,630	17,459
Industry	3,999	3,784	5,327	7,535	6,586
Extraction	...	...	3,493	5,675	5,328
of which: oil and gas extraction	...	...	3,476	5,658	5,327
Processing	...	...	1,140	1,273	889
of which: oil and gas processing	...	...	315	345	351
Electricity, gas and water supply	...	...	694	587	369
Agriculture	3,160	3,092	3,473	4,271	3,558
Construction	1,842	2,229	2,053	1,039	574
Transportation and communication	1,658	2,063	2,023	3,404	2,629
Trade	913	1,011	1,336	1,444	1,201
Social services	3,052	4,315	3,918	4,938	2,911

Source: Azerbaijan State Committee on Statistics.

1/ Data for the first nine months.



Table 2. Azerbaijan: Gross Domestic Product by Final Use, 1997-2000

	1997	1998	1999	2000 1/
	(In billions of manats)			
Gross domestic product	15,791	17,203	18,875	23,565
Final consumption	13,752	16,370	17,250	19,641
Households	11,760	13,762	14,303	16,385
Government	1,992	2,608	2,947	3,256
Gross fixed capital formation	5,841	6,109	5,381	4,476
Private	5,621	5,846	5,283	4,297
Public	220	263	98	179
Change in inventories	-435	-369	-380	-373
Resource gap	-3,790	-5,475	-2,626	505
Exports of goods and nonfactor services	4,583	3,905	5,289	9,555
Imports of goods and nonfactor services	8,373	9,380	7,916	9,050
Statistical discrepancy	426	568	-755	-684
	(In percent of GDP)			
Gross domestic product	100.0	100.0	100.0	100.0
Final consumption	87.1	95.2	91.4	83.3
Households	74.5	80.0	75.8	69.5
Government	12.6	15.2	15.6	13.8
Gross fixed capital formation	37.0	35.5	28.5	19.0
Private	35.6	34.0	28.0	18.2
Public	1.4	1.5	0.5	0.8
Change in inventories	-2.8	-2.1	-2.0	-1.6
Net exports	-24.0	-31.8	-13.9	2.1
Exports of goods and nonfactor services	29.0	22.7	28.0	40.5
Imports of goods and nonfactor services	53.0	54.5	41.9	38.4
Statistical discrepancy	2.7	3.3	-4.0	-2.9

Sources: Azerbaijan State Committee on Statistics; and Fund staff estimates.

1/ Preliminary data.

Table 3. Azerbaijan: Income, Savings, and Net Financial Balances, 1997-2000

	1997	1998	1999	2000 1/
(In billions of manat)				
GDP at market prices	15,791	17,203	18,875	23,565
Net factor income from abroad	17	141	191	-1,386
Gross national product	15,808	17,344	19,066	22,179
Unrequited transfers (net)	194	297	357	327
Gross disposable national income	16,002	17,641	19,423	22,505
Total consumption	13,752	16,370	17,250	19,641
Private	11,760	13,762	14,303	16,385
General government 2/	1,992	2,608	2,947	3,256
Gross national savings 3/	2,250	1,271	2,173	2,864
Private	1,640	2,058	3,888	2,801
General government	610	-787	-1,715	63
Gross domestic savings 4/	2,039	833	1,625	3,924
Gross national savings	2,250	1,271	2,173	2,864
Gross fixed investment	5,841	6,109	5,381	4,476
Private sector				
Gross national savings	1,640	2,058	3,888	2,801
Gross fixed investment	5,621	5,846	5,283	4,297
Central government				
Gross national savings	610	-787	-1,715	63
Gross fixed investment	220	263	98	179
(In percent of GDP)				
GDP at market prices	100.0	100.0	100.0	100.0
Net factor income from abroad	0.1	0.8	1.0	-5.9
Gross national product	100.1	100.8	101.0	94.1
Unrequited transfers (net)	1.2	1.7	1.9	1.4
Gross disposable national income	101.3	102.5	102.9	95.5
Total consumption	87.1	95.2	91.4	83.3
Private	74.5	80.0	75.8	69.5
General government	12.6	15.2	15.6	13.8
Gross national savings	14.2	7.4	11.5	12.2
Private	10.4	12.0	20.6	11.9
General government	3.9	-4.6	-9.1	0.3
Gross domestic savings	12.9	4.8	8.6	16.7
Gross national savings	14.2	7.4	11.5	12.2
Gross fixed investment	37.0	35.5	28.5	19.0
Private sector				
Gross national savings	10.4	12.0	20.6	11.9
Gross fixed investment	35.6	34.0	28.0	18.2
Central government				
Gross national savings	3.9	-4.6	-9.1	0.3
Gross fixed investment	1.4	1.5	0.5	0.8

Sources: Azeri authorities; and staff estimates.

1/ Preliminary data.

2/ Central government current expenditure minus domestic subsidies and transfers minus domestic and foreign interest payments.

3/ Gross disposable national income minus total consumption.

4/ GDP at market prices minus total consumption.

Table 4. Azerbaijan: Crude Oil and Gas Production, 1981–2001

	Offshore crude oil of which AIOC	Onshore crude oil	Total crude oil	Total gas
	(In millions of tons)			(In billions of m3)
1981	9.4	...	4.7	14.1
1982	8.2	...	4.7	12.9
1983	8.4	...	4.3	12.7
1984	8.4	...	4.1	12.5
1985	9.2	...	3.9	13.1
1986	9.4	...	3.9	13.3
1987	10.1	...	3.7	13.8
1988	10.3	...	3.4	13.7
1989	10.2	...	3.0	13.2
1990	9.9	...	2.6	12.5
1991	9.5	...	2.2	11.7
1992	9.1	...	2.0	11.1
1993	8.3	...	2.0	10.3
1994	7.8	...	1.8	9.6
1995	7.5	...	1.6	9.1
1996	7.5	...	1.6	9.1
1997	7.5	0.1	1.6	9.1
1998	9.8	2.4	1.6	11.4
1999	12.3	4.8	1.5	13.8
2000	12.5	5.0	1.5	14.0
2001 1/	9.9	4.4	1.2	11.1

Sources: Azerbaijan State Committee on Statistics, and State Oil Company the Azerbaijan Republic.

1/ Data for the first nine months.

Table 5. Azerbaijan: Production Indicators, 1997–2001

	1997	1998	1999	2000	2001 1/
(Index of real output; 1992 = 100)					
Total industry	44.5	45.5	47.4	50.3	52.7
Energy	73.2	78.3	82.4	83.9	82.6
Electricity	70.5	74.7	75.8	78.2	80.2
Oil and gas	74.5	80.1	85.7	90.2	88.0
Metallurgy	9.7	4.4	7.1	17.8	9.5
Machine building	20.4	14.2	6.3	12.3	15.9
Chemical and petro-chemical	33.4	29.6	32.2	39.7	30.0
Construction materials	15.6	12.1	9.5	13.4	20.7
Light industry	26.8	15.6	9.3	11.5	11.7
Textiles	27.4	15.3	10.0	12.3	7.8
Agroprocessing	15.7	15.3	15.9	16.2	17.8
Agriculture	66.4	70.5	75.4	34.5	98.2
Grains	84.3	71.1	82.1	115.2	153.6
Cotton	37.1	33.6	28.8	27.2	26.7
(Real percentage changes)					
Total industry	0.5	2.2	4.2	6.9	4.7
Energy	-1.6	7.0	5.3	1.8	-1.5
Electricity	-6.7	6.0	1.5	3.2	2.5
Oil and gas	0.2	7.5	7.0	5.2	-2.4
Metallurgy	364.0	-54.6	61.3	150	-46.0
Machine building	0.7	-30.4	-55.7	95.8	29.0
Chemical and petro-chemical	-28.2	-11.4	8.9	23.2	-24.4
Construction materials	4.4	-22.2	-21.6	19.7	81.7
Light industry	-16.5	-41.9	-40.6	23.2	1.8
Textiles	-13.8	-44.2	-34.6	22.5	-36.8
Agroprocessing	6.6	-2.7	3.9	2.2	9.9
Agriculture	6.1	6.2	7.0	12.1	9.7
Grains	10.7	-15.7	15.5	40.2	31.9
Cotton	-54.6	-9.4	-14.3	-5.5	-1.8

Source: Azerbaijan State Committee on Statistics.

1/ Data for the first nine months relative to the first nine months of 2000.

Table 6. Azerbaijan: Average Monthly Wages by Sector, 1997–2001

	1997	1998	1999 1/	2000	2001 2/
(Annual average, in manats)					
National economy	141,643	168,419	184,368	221,606	256,437
Industry	231,304	277,050	365,575	436,237	491,100
Agriculture	49,575	43,957	65,122	69,081	68,333
Transportation	226,771	291,028	249,870	292,421	325,056
Communication	206,799	263,576	249,870	292,421	...
Construction	299,859	441,595	428,473	416,663	439,087
Trade	67,422	75,789	117,943	119,284	147,870
Hotel industry	113,598	120,925	343,351	314,858	361,340
Health and social services	67,847	70,062	52,409	73,395	78,466
Education	119,830	132,209	124,545	156,065	156,518
Culture	68,555	76,016	...	...	...
Banking and insurance	238,811	332,796	590,961	632,268	720,000
Government administration	109,430	165,051	148,474	194,528	211,717
(Annual percentage changes)					
National economy	58.5	18.9	9.5	20.2	25.7
Industry	58.2	19.8	32.0	19.3	34.5
Agriculture	31.2	-11.3	48.1	6.1	16.5
Transportation	50.7	28.3	-14.1	17.1	17.6
Communication	73.3	27.5	-5.2	...	...
Construction	79.4	47.3	-3.0	-2.8	1.6
Trade	33.2	12.4	55.6	1.1	53.7
Hotel industry	51.2	6.4	183.9	-8.3	42.7
Health and social services	44.7	3.3	-25.2	40.0	8.0
Education	90.1	10.3	-5.8	25.3	3.3
Culture	66.5	10.9	...	...	...
Banking and insurance	41.0	39.4	77.6	7.0	30.2
Government administration	58.0	50.8	-10.0	31.0	14.8
Memorandum items:					
Average annual wage (U.S. dollars)	35.6	43.5	44.7	49.5	57.3
Agriculture/(Banking and insurance) ratio	0.21	0.13	0.11	0.40	0.10

Sources: Azerbaijan State Committee on Statistics; and Fund staff estimates.

1/ In 1999, Goskomstat introduced a new economic classification. As a result, sectoral changes between 1998 and 1999 should be treated with caution.

2/ Data for the first nine months; growth rates are relative to the first nine months of 2000.

Table 7. Azerbaijan: Labor Market Indicators, 1997–2001

	1997	1998	1999 1/	2000	2001 2/
(In thousands of persons)					
Population	7,877	7,949	8,016	8,081	8,126
Working age population	4,355	4,513	4,615	4,768	4,794
Labor force	3,732	3,744	3,748	3,748	3,749
Total employment	3,694	3,702	3,703	3,705	3,705
Industry	242	251	259	250	252
Government	651	656	728	745	746
Agriculture	1,071	1,140	1,566	1,517	1,518
Other	1,730	1,655	1,154	1,193	1,189
Unemployment	38	42	45	44	47
Unemployment rate (in percent)	1.0	1.1	1.2	1.2	1.3
Registered unemployed	3	3	3	3	3
Pensioners	1,206	1,177	1,202	1,105	1,211
(Percentage changes)					
Population	1.0	0.9	0.8	0.8	0.8
Working age population	1.4	3.6	2.3	3.3	4.3
Labor force	0.4	0.3	0.1	0.0	0.0
Total employment	0.2	0.2	0.0	0.1	0.0

Sources: Azerbaijan State Committee on Statistics; and Fund staff estimates.

1/ In 1999, Goskomstat introduced a new economic classification. As a result, sectoral changes between 1998 and 1999 should be treated with caution.

2/ Data for end-September 2001; percentage change relative to end-December 2000.

Table 8. Azerbaijan: Consumer Price Index, 1998–2001

	Index Dec 1994=100	Percentage changes				
		In the month	Quarterly		Annual	
			End of Period	Average	End of Period	Average
1998 January	199.2	0.7			-0.6	3.0
February	200.2	0.5			-0.8	2.6
March	202.6	1.2	2.4	1.4	0.3	2.2
April	203.3	0.4			-1.4	1.6
May	200.9	-1.2			-0.5	1.2
June	199.0	-1.0	-1.8	0.2	-0.2	0.7
July	196.8	-1.1			0.9	0.4
August	197.6	0.4			2.2	0.5
September	198.3	0.3	-0.4	-1.7	1.6	0.5
October	195.5	-1.4			-1.2	0.2
November	194.4	-0.6			-2.0	-0.1
December	182.8	-5.9	-7.8	-3.4	-7.6	-0.8
1999 January	181.9	-0.5			-8.7	-1.4
February	181.3	-0.4			-9.4	-2.2
March	181.3	0.0	-0.8	-4.9	-10.5	-3.1
April	181.6	0.2			-10.7	-3.9
May	181.3	-0.2			-9.8	-4.7
June	179.8	-0.8	-0.8	-0.3	-9.6	-5.5
July	178.3	-0.8			-9.4	-6.3
August	178.4	0.0			-9.7	-7.3
September	180.3	1.1	0.3	-1.0	-9.0	-8.1
October	180.8	0.3			-7.5	-8.7
November	181.2	0.2			-6.8	-9.1
December	181.9	0.4	0.9	1.3	-0.5	-8.5
2000 January	183.3	0.7			0.7	-7.8
February	185.2	1.0			2.2	-6.9
March	185.3	0.1	1.8	1.8	2.2	-5.9
April	185.3	0.0			2.0	-4.8
May	184.4	-0.5			1.7	-3.8
June	182.9	-0.8	-1.3	-0.2	1.7	-2.9
July	181.9	-0.5			2.0	-1.9
August	181.6	-0.2			1.8	-0.9
September	182.9	0.7	0.0	-1.1	1.4	0.0
October	183.9	0.6			1.7	0.8
November	184.8	0.4			2.0	1.6
December	186.0	0.6	1.7	1.5	2.2	1.8
2001 January	186.6	0.3			1.8	1.9
February	187.6	0.6			1.3	1.8
March	188.2	0.3	1.2	1.4	1.6	1.8
April	188.5	0.2			1.7	1.7
May	187.5	-0.5			1.7	1.7
June	186.8	-0.4	-0.7	0.1	2.2	1.8
July	185.3	-0.8			1.8	1.8
August	184.3	-0.5			1.5	1.7
September	185.2	0.5	-0.9	-1.4	1.2	1.7
October	186.3	0.6			1.2	1.7
November	186.7	0.3			1.1	1.6
December	188.5	0.9	1.8	1.2	1.3	1.5

Source: Azerbaijan State Committee on Statistics.

Table 9. Azerbaijan: Breakdown of Consumer Price Index, 1998–2001

	Total		Food items		Non-food items		Non-food goods		Services	
	Percentage change Dec 94=100	Index Dec 94=100	Percentage change Dec 94=100	Index Dec 94=100	Percentage change Dec 94=100	Index Dec 94=100	Percentage change Dec 94=100	Index Dec 94=100	Percentage change Dec 94=100	Index Dec 94=100
1998 January	0.7	199.2	0.9	191.2	0.0	232.9	-0.1	184.9	0.0	394.2
February	0.5	200.2	0.6	192.4	-0.1	232.7	-0.2	184.6	0.0	394.2
March	1.2	202.6	1.5	195.3	-0.1	232.4	-0.2	184.3	0.0	394.2
April	0.4	203.3	0.5	196.2	0.0	232.3	-0.1	184.1	0.1	394.5
May	-1.2	200.9	-1.4	193.4	-0.1	232.1	-0.1	183.8	0.0	394.4
June	-1.0	199.0	-1.2	191.1	-0.1	231.9	-0.1	183.6	0.0	394.4
July	-1.1	196.8	-1.4	188.5	0.0	231.8	-0.1	183.5	0.0	394.3
August	0.4	197.6	0.5	189.5	0.0	231.8	0.0	183.4	0.0	394.3
September	0.3	198.3	0.4	190.3	0.0	231.7	0.0	183.4	0.0	394.3
October	-1.4	195.5	-1.6	187.3	-0.7	230.1	-0.8	181.9	-0.6	392.1
November	-0.6	194.4	-0.7	186.0	-0.1	229.8	-0.2	181.5	0.0	392.0
December	-5.9	182.8	-7.3	172.5	-0.7	228.2	-1.1	179.5	0.0	392.0
1999 January	-0.5	181.9	-0.6	171.5	-0.1	228.1	-0.1	179.3	0.0	392.0
February	-0.4	181.3	-0.4	170.7	-0.3	227.5	-0.4	178.6	0.0	391.9
March	0.0	181.3	-0.5	169.8	0.9	229.6	-0.1	178.4	2.4	401.2
April	0.2	181.6	0.3	170.4	-0.1	229.3	-0.2	178.1	0.0	401.2
May	-0.2	181.3	-0.3	169.9	0.0	229.3	0.0	178.1	0.0	401.2
June	-0.8	179.8	-1.3	167.7	0.0	229.4	0.0	178.1	0.0	401.2
July	-0.8	178.3	-1.3	165.5	0.0	229.4	0.0	178.2	0.0	401.2
August	0.0	178.4	0.1	165.6	0.0	229.4	0.0	178.2	0.0	401.2
September	1.1	180.3	1.7	168.5	0.0	229.3	0.0	178.1	0.0	401.1
October	0.3	180.8	-0.4	167.9	1.4	232.5	0.7	179.4	2.2	410.0
November	0.2	181.2	0.0	167.9	0.6	233.9	0.0	179.4	1.5	416.0
December	0.4	181.9	0.7	169.0	0.0	233.8	0.0	179.4	0.0	416.0
2000 January	0.7	183.3	0.4	169.7	1.2	236.6	2.0	182.9	0.2	416.7
February	1.0	185.2	1.7	172.7	-0.2	236.3	0.1	183.0	-0.5	414.6
March	0.1	185.3	1.1	174.7	-1.8	232.0	-0.5	182.1	-3.6	399.7
April	0.0	185.3	0.2	175.0	-0.3	231.4	-0.2	181.7	-0.4	397.9
May	-0.5	184.4	-0.7	173.8	-0.1	231.1	-0.1	181.4	-0.1	397.6
June	-0.8	182.9	-1.3	171.5	0.0	231.0	0.0	181.3	0.0	397.6
July	-0.5	181.9	-0.8	170.2	0.0	230.9	-0.1	181.2	0.0	397.5
August	-0.2	181.6	-0.3	169.7	0.0	230.9	0.0	181.2	0.0	397.5
September	0.7	182.9	1.1	171.6	0.1	231.1	0.1	181.5	0.0	397.5
October	0.6	183.9	0.8	172.9	0.3	231.7	0.4	182.3	0.0	397.5
November	0.4	184.8	0.7	174.0	0.0	231.8	0.1	182.4	0.0	397.5
December	0.6	186.0	1.0	175.8	0.0	231.8	0.0	182.4	0.0	397.5
2001 January	0.3	186.6	0.6	176.9	-0.2	231.2	-0.4	181.6	0.0	397.6
February	0.6	187.6	1.0	178.7	-0.1	231.0	0.0	181.7	-0.3	396.5
March	0.3	188.2	0.5	179.5	0.0	230.9	0.0	181.7	-0.1	396.2
April	0.2	188.5	0.4	180.3	-0.2	230.4	-0.4	181.0	0.0	396.3
May	-0.5	187.5	-0.9	178.7	0.1	230.6	0.2	181.3	0.0	396.3
June	-0.4	186.8	-0.5	177.7	-0.1	230.4	0.0	181.3	-0.2	395.3
July	-0.8	185.3	-1.4	175.2	0.1	230.7	0.2	181.6	0.0	395.3
August	-0.5	184.3	-0.7	174.0	-0.2	230.1	-0.4	180.9	0.0	395.3
September	0.5	185.2	0.5	174.8	0.4	231.1	0.7	182.3	0.0	395.3
October	0.6	186.3	0.5	175.7	0.7	232.7	1.1	184.3	0.0	395.3
November	0.3	186.7	0.4	176.4	0.1	232.9	0.2	184.7	0.0	395.3
December	0.9	188.5	1.4	178.9	0.0	232.9	0.0	184.7	0.0	395.3

Source: Azerbaijan State Committee on Statistics.



Table 10. Azerbaijan: Prices of Electricity, 1997-2000  
(In manat per kilowatt-hour)

	1997	1998	1999	2000
Population	15	96	96	96
Industrial and construction	220	206	192	174
Budgetary organizations	...	...	192	174
Apsheron Regional Water Company	...	158	158	157
Agriculture	169	174	168	162
Electrified transport	...	...	220	178
Non industrial consumption	236	265	318	238
Trade and services	404	408	408	282

Source: Azeri authorities.

Table 11. Azerbaijan: Prices of Gas, 1997-2000  
(In manat per thousand cubic meters)

	1997	1998	1999	2000
Population	35,560	35,560	35,560	35,560
Communal	108,103	108,103	108,103	108,103
Industry	240,000	240,000	240,000	240,000
Azerenergy	198,000	198,000	198,000	198,000

Source: Azeri authorities.

Table 12. Azerbaijan: Consolidated Government Operations, 1997-2001  
(In billions of manats)

	1997	1998	1999	2000	2001 1/
Total revenue and grants	3,023	3,370	3,487	5,006	4,004
Total revenue	3,023	3,358	3,425	4,895	4,004
Tax revenue	2,458	2,396	2,688	3,414	2,776
Income tax	783	749	816	1,105	788
Individual income tax	331	408	448	476	333
Enterprise profits tax	452	340	368	629	455
Of which: oil sector	184	104	161	254	...
Social security contributions	402	437	458	563	456
Value added tax (VAT)	654	719	791	957	914
Of which: on petroleum products	...	208	180	178	...
Excise taxes	222	95	114	112	292
Of which: petroleum taxes	0	55	59	58	...
Taxes on international trade	302	293	318	494	234
Other taxes	96	105	192	183	93
Nontax revenue	566	961	738	1,481	1,228
Of which: Oil Fund revenues	...	...	...	669	702
Of which: extrabudgetary	0	615	230	202	145
Total grants (current)	0	13	61	111	0
Total expenditure	3,280	4,082	4,447	4,914	3,486
Current expenditure	2,988	3,767	3,754	4,201	2,933
Primary current expenditure	2,969	3,750	3,679	4,108	2,855
Wages and salaries	701	811	956	1,090	791
Goods and services	1,161	942	1,019	1,139	679
Transfers to households	984	1,093	1,349	1,575	1,202
Of which: social protection	842	943	1,139	1,330	972
pensions	46	79	75	81	69
scholarship	17	16	37	48	8
Subsidies	106	20	19	55	59
Oil Fund	...	...	...	0	0
Other	17	884	336	249	123
Of which: extrabudgetary	...	626	252	202	117
Of which: contingency	0	0	0	0	0
Interest	19	17	75	93	77
domestic	3	5	16	21	18
external	16	11	60	72	59
Current balance (deficit=-)	35	-397	-267	805	1,071
Investment expenditure and net lending	293	316	693	713	553
Domestically-financed	201	185	237	314	173
Of which: oil Fund	...	...	...	0	0
Foreign-financed	92	130	456	399	380
Statistical discrepancy	0	-37	-65	244	38
Consolidated government deficit, cash basis	-257	-675	-895	-153	480
Excluding Oil Fund (general government)	-257	-675	-895	-821	-222
Excluding foreign project loans	-165	-545	-439	246	860
Excluding grants	-257	-688	-956	-264	480
Financing	257	675	895	153	-480
Domestic (net)	-61	233	-434	-686	-881
Banking system	-81	124	-308	438	158
Of which: Central bank	-202	129	-345	228	57
Commercial banks	121	-5	37	210	101
Of which: Oil Fund	...	...	...	-1,134	-760
Of which: T bills	0	0	36	41	1
Nonbank sector	0	0	0	0	-70
Privatizations and other sale of assets	21	108	117	40	47
Other	0	0	-140	-30	-256
External (net)	318	443	1,329	839	401
Loans	545	443	1,340	850	424
Project loans	...	154	457	394	398
Oil bonuses	...	289	715	457	25
World Bank SAC	...	0	168	0	0
Amortization due	-227	0	-12	-12	-22

Sources: Azeri authorities and staff estimates.

1/ Data for the first nine months.

Table 13. Azerbaijan: Functional Classification of State Government Expenditure, 1997-2001

	1997	1998	1999	2000	2001 1/
	(In billions of manats)				
General government services 2/	206	229	256	262	195
Defense	353	388	436	485	307
Public order and justice	255	275	343	372	280
Education	564	570	790	906	615
Health	194	156	186	204	130
Social security	524	617	606	697	564
Housing and community affairs	89	70	71	94	46
Recreation and culture	79	92	92	106	67
Agriculture	139	82	155	170	95
Public works, transport, and communications	194	86	104	180	91
Other economic services and expenditures	347	77	149	325	202
Total expenditure (including investment) 3/	2,944	2,642	3,189	3,801	2,591

Sources: Azeri authorities and staff estimates.

1/ Data for the first nine months.

2/ Presidency, Cabinet of Ministers and Parliament.

3/ Total state budget expenditures can be derived from table 12 as follows: for 2000, total state budget expenditures are equal to total expenditures on a consolidated basis (manat 4,914 billion) minus extrabudgetary expenditures of budgetary units (manat 202 billion) minus foreign financed investments (manat 399 billion) minus net expenditures from the social extra-budgetary funds (manat 512 billion) calculated as the difference between total spending from these funds and direct budget transfers and wage contributions.

Table 14. Azerbaijan: Selected Fiscal Indicators, 1997-2001  
(In percent of GDP, unless otherwise specified)

	1997	1998	1999	2000	2001 1/
Total revenue and grants	19.1	19.6	18.5	21.2	21.8
Total revenue	19.1	19.5	18.1	20.8	21.8
<i>Of which</i> : tax revenue	15.6	13.9	14.2	14.5	15.1
nontax revenue	3.6	5.6	3.9	6.3	6.7
<i>Of which</i> : oil revenue	7.1	3.8	4.2	7.5	...
nonoil revenue	12.1	15.7	14.0	13.3	...
Nonoil revenue (percent of nonoil GDP)	13.4	17.5	17.5	17.7	...
Total grants (current)	0.0	0.1	0.3	0.5	0.0
Total expenditure	20.8	23.7	23.6	20.9	19.0
Primary expenditure	20.7	23.6	23.2	20.5	18.6
Primary current expenditure	18.8	21.8	19.5	17.4	15.5
<i>Of which</i> : wage bill	4.4	4.7	5.1	4.6	4.3
goods and services	7.4	5.5	5.4	4.8	3.7
transfers	6.2	6.4	7.1	6.7	6.5
Domestically financed investment	1.3	1.1	1.3	1.3	0.9
<i>Of which</i> : oil Fund	...	...	...	0.0	0.0
Foreign-financed investment expenditure	0.6	0.8	2.4	1.7	2.1
Interest on public debt	0.1	0.1	0.4	0.4	0.4
Wages/ primary expenditure (in percentage)	23.6	21.6	26.0	26.5	23.2
Transfers / primary expenditure (in percentage)	33.2	29.2	36.7	38.3	35.3
Wages/ non-oil revenue (in percentage)	36.7	30.1	36.2	34.9	...
Transfers / nonoil revenue (in percentage)	51.6	40.6	51.1	50.4	...
Expenditure in education and health	5.7	4.2	5.2	4.7	4.1
Education	4.1	3.3	4.2	3.8	3.3
Health	1.6	0.9	1.0	0.9	0.7
Military expenditure	2.3	2.3	2.3	2.1	1.7
Current expenditure	18.9	21.9	19.9	17.8	16.0
Investment expenditure	1.9	1.8	3.7	3.0	3.0
Current balance (+ =surplus)	0.2	-2.3	-1.4	3.4	5.8
Primary balance (+ =surplus)	-1.5	-3.8	-4.3	-0.3	2.0
Primary balance, excluding oil (+ =surplus)	-8.6	-7.7	-8.5	-7.8	...
Primary balance (excl. externally financed investment)	-0.9	-3.1	-1.9	1.4	4.0
Consolidated government deficit, cash basis	-1.6	-3.9	-4.7	-0.6	2.6
Excluding Oil Fund (general government)	-1.6	-3.9	-4.7	-3.5	-1.0
Excluding foreign project loans	-1.0	-3.2	-2.3	1.0	0.8
Excluding grants	-1.6	-4.0	-5.1	-1.1	2.6
Non-oil balance	-8.7	-7.8	-8.9	-8.2	...
Memorandum items:					
Total external assistance, including IMF (net)	2.8	3.5	9.2	2.6	2.0
<i>Of which</i> : IMF (net)	2.8	0.9	2.1	-1.0	-0.2
Total external assistance, excluding IMF	0.0	2.6	7.1	3.6	2.2
Project financing	0.0	0.9	2.4	1.7	2.2
Program financing	0.0	1.7	4.7	1.9	0.0
Value added tax (VAT)	4.1	4.2	4.2	4.1	5.0
<i>Of which</i> : collected by Tax ministry	3.0	2.8	2.6	2.4	3.0
collected by Tax customs	1.1	1.4	1.6	1.6	2.0
Tax on international trade	3.1	3.1	3.1	...	...
<i>Of which</i> : import duties	1.1	1.4	1.4	...	...
other	1.9	1.7	1.7	...	...
Land and property taxes	0.3	0.3	0.5	0.4	0.4

Source: Azeri authorities and staff estimates

1/ Data for the first nine months.

Table 15. Azerbaijan: Social Protection Fund, 1997-2001

	1997	1998	1999	2000	2001 1/
	(In billions of manat)				
Total revenues	842	943	1,139	1,330	1,030
Total payroll tax	563	603	670	806	599
Of which: paid by nonbudgetary agencies	388	405	422	522	410
Transfer from State Budget	279	340	462	515	416
Others	0	0	7	9	14
Total expenditures	842	943	1,139	1,330	972
Pensions	422	528	695	783	570
Old age pensioners	348	473	638	727	527
Working pensioners	74	55	57	56	43
Child allowances	17	9	8	8	8
Maternity leave	6	9	9	11	8
Sanatorium vouchers	15	15	15	19	15
Sick leave	19	21	19	28	23
Funeral allowances	1	6	10	9	7
Compensation for elimination of communal services	25	50	38	54	38
Other compensations and allowances	321	290	319	342	241
Children under 16	167	163	169	183	122
Pensioners	141	117	136	142	105
War veterans	13	10	14	17	14
Others	16	15	26	76	63
Balance 2/	0	0	0	0	58
	(In percent of GDP)				
Total revenues	5.3	5.5	6.0	5.6	5.6
Total payroll tax	3.6	3.5	3.6	3.4	3.3
Of which: paid by nonbudgetary agencies	2.5	2.4	2.2	2.2	2.2
Transfer from State Budget	1.8	2.0	2.4	2.2	2.3
Others	0.0	0.0	0.0	0.0	0.0
Total expenditures	5.3	5.5	6.0	5.6	5.3
Pensions	2.7	3.1	3.7	3.3	3.1
Old age pensioners	2.2	2.7	3.4	3.1	2.9
Working pensioners	0.5	0.3	0.3	0.2	0.2
Child allowances	0.1	0.1	0.0	0.0	0.0
Maternity leave	0.0	0.1	0.0	0.0	0.0
Sanatorium vouchers	0.1	0.1	0.1	0.1	0.1
Sick leave	0.1	0.1	0.1	0.1	0.1
Funeral allowances	0.0	0.0	0.1	0.0	0.0
Compensation for elimination of communal services	0.2	0.3	0.2	0.2	0.2
Other compensations and allowances	2.0	1.7	1.7	1.5	1.3
Children under 16	1.1	0.9	0.9	0.8	0.7
Pensioners	0.9	0.7	0.7	0.6	0.6
War veterans	0.1	0.1	0.1	0.1	0.1
Others	0.1	0.1	0.1	0.3	0.3
Balance	0.0	0.0	0.0	0.0	0.3
Memorandum item:					
Nominal GDP (billions of manat)	15,791	17,203	18,875	23,565	18,365
Number of pensioners (thousands)	1,206	1,177	1,202	1,105	...

Sources: Social Protection Fund; and Fund staff estimates.

1/ Data for the first nine months.

2/ The balance of 65 billion manat at end September 2001 was due to advance transfers from the budget for pensions in October and funds in transit which were cleared in the first days of October.

Table 16. Azerbaijan: Summary Accounts of the Azerbaijan National Bank, 1997-2001  
(In billions of manats, end of period stocks)

	1997	1998	1999	2000	2001 1/
Net foreign assets	785	485	1,158	1,569	2,053
Net international reserves (convertible)	784	488	1,161	1,569	2,052
Gold	5	5	0	0	0
Gross international reserves (convertible)	1,817	1,740	2,945	3,102	3,462
Foreign liabilities (convertible)	-1,038	-1,257	-1,783	-1,534	-1,409
Other	1	-4	-4	0	0
Net domestic assets	649	815	213	199	-254
Domestic credit	864	916	433	612	223
Net claims on general government	-6	162	-317	-90	122
Net claims on central government	163	330	330	452	688
Claims on central government	360	357	493	497	790
Deposits of central government	-197	-27	-163	-45	-102
Pre -2000 oil bonus deposits	-107	-168	-646	-541	-566
World Bank counterpart funds	-62	0	0	0	0
Claims on banks	861	750	746	701	101
Credit to the economy	9	4	3	0	0
Other items (net)	-215	-100	-220	-413	-476
Reserve money	1,434	1,300	1,370	1,767	1,799
Manat reserve money	1,344	1,044	1,263	1,542	1,681
Currency in circulation	1,214	970	1,185	1,420	1,534
Bank reserves	130	75	78	122	147
Reserves in foreign currencies	83	83	68	223	111
Other deposits	8	172	39	2	7

Source: Azerbaijan National Bank

1/ Data for end-December 2001.

Table 17. Azerbaijan: Summary Accounts of the Commercial Banks, 1997-2001  
(In billions of manats, end of period stocks)

	1997	1998	1999	2000	2001 1/
Net foreign assets	454	113	231	54	143
Net foreign assets (hard currency)	450	132	234	52	144
Assets	622	296	419	493	689
Liabilities	-172	-164	-185	-440	-545
Claims on FSU states	4	-19	-3	2	-1
Net domestic assets	432	674	645	1,200	1,334
Domestic credit	1,975	2,069	2,209	2,319	1,962
Claims on general government (net)	-48	-88	-39	106	207
Claims on central government (net)	-24	-81	-31	149	263
Claims on central government	53	62	103	276	306
Deposits of central government	-77	-143	-134	-127	-43
Claims on Social Protection Fund (net)	-23	-7	-8	-42	-48
Local treasury deposits	0	0	0	0	-8
Credit to the economy	2,022	2,157	2,248	2,213	1,755
Reserves	256	204	178	392	278
Cash in national currency	43	43	49	70	78
Reserves at NBA	213	161	129	321	200
Other items, net	-1,799	-1,599	-1,742	-1,511	-906
Deposits in manat and foreign currency	886	787	875	1,254	1,477
Deposits in manats	378	293	290	276	280
State enterprises	...	168	165	124	135
Private sector deposits	...	125	124	152	145
Foreign currency deposits ( residents)	507	494	585	978	1,197

Source: Azerbaijan National Bank

1/ Data for end-September 2001.



Table 18. Azerbaijan: Net Bank Credit to the Consolidated Government, 1997-2001  
(In billions of manats, end of period stocks)

	1997	1998	1999	2000	2001 1/
<b>Central Bank</b>					
Net claims on general government	-6	162	-317	-90	-33
Net claims on central government	163	330	330	452	524
Claims on central government	360	357	493	497	786
Deposits of central government	-197	-27	-163	-45	-262
Pre-2000 Oil signature bonus	-107	-168	-646	-541	-557
World Bank counterpart funds	-62	0	0	0	0
<b>Commercial banks</b>					
Net claims on general government	-48	-88	-39	106	207
Net claims on central government	-24	-81	-31	149	263
Claims on central government	53	62	103	276	306
Deposits of central government	-77	-143	-134	-127	-43
Claims on Social Protection Fund (net)	-23	-6	-8	-42	-48
Local treasury deposits	0	0	0	0	-8
<b>Total banking system</b>					
Net claims on general government	-53	74	-356	17	175
Net claims on central government	139	248	299	601	787
Claims on social protection fund (net)	-23	-6	-8	-42	-48
Other	-169	-168	-646	-541	-564

Source: Azerbaijan National Bank

1/ Data for end-September 2001

Table 19. Azerbaijan: Monetary Survey, 1997-2001

	1997	1998	1999	2000	2001 1/
(In billions of manats, end of period stocks)					
Net foreign assets	1,238	598	1,388	1,623	2,159
Net international reserves of the ANB (convertible)	784	488	1,161	1,569	2,016
Net foreign assets of commercial banks (convertible)	450	132	234	52	144
Other	4	-22	-7	2	-1
Net domestic assets	825	1,288	662	983	642
Domestic credit	1,978	2,235	1,896	2,230	1,930
Net claims on general government	-53	74	-356	17	175
Net claims on central government	139	248	299	601	787
Pre-2000 oil bonus deposits	-107	-168	-646	-541	-557
Other claims (net)	-85	-7	-8	-42	-56
Credit to the economy	2,031	2,161	2,252	2,213	1,755
Other items (net)	-1,152	-947	-1,234	-1,247	-1,288
Broad money	2,064	1,886	2,050	2,606	2,801
Manat broad money	1,556	1,391	1,465	1,628	1,604
Currency outside banks	1,171	926	1,136	1,350	1,318
Manat deposits	386	465	329	278	286
Foreign currency deposits	507	494	585	978	1,197
(Changes in percent of beginning of the period money stock, unless otherwise specified)					
Net foreign assets	41.7	-31.0	41.9	11.5	20.5
Net domestic assets	-8.1	22.4	-33.2	15.6	-13.1
Domestic credit	12.8	12.5	-18.0	16.3	-11.5
Credit to the economy	9.3	6.3	4.8	-1.9	-17.6
Credit to the economy (annual change)	7.6	6.4	4.2	-1.7	-20.7
Broad money (percentage change)	33.6	-8.6	8.7	27.1	7.5
Average broad money (percentage change)	26.9	9.4	-0.3	18.3	...
Manat broad money (percentage change)	29.2	-10.6	5.3	11.1	-1.5
Currency as a ratio to broad money	56.7	49.1	55.4	51.8	47.1
Manat deposits as a ratio to broad money	18.7	24.7	16.1	10.7	10.2
Foreign currency deposits as a ratio to broad money	24.6	26.2	28.5	37.5	42.7
Memorandum Items:					
Gross international official reserves (US\$ millions)	468	447	673	680	744
Net international official reserves (US\$ millions)	201	126	265	344	430
Exchange rate (Manat/US dollar, end of period)	3,888	3,890	4,378	4,565	4,693
Exchange rate (Manat/US dollar, period average)	3,985	3,869	4,126	4,472	4,671
Velocity of manat broad money 2/	11.4	11.7	13.2	15.2	13.6
Money multiplier	1.2	1.5	1.5	1.5	1.7

Sources: Azerbaijan National Bank.

1/ Data for end-September 2001.

2/ Velocity is defined as nominal GDP divided by average manat broad money.

Table 20. Azerbaijan: Credit and Deposit Interest Rates, 1998-2001  
(In percent per year)

	Average Interbank Credit Rates, Baku					Average bank deposit rates for customers (3 month)		ANB refinance rate (6 month)	Credit auction interest rate (6 month)	Treasury bill rate	
	7 days	30 days	90 days	180 days	90 days	US	dollars			1 month	3 month
	manats	manats	manats	manats	S dollar					manats	rate
	IBOR 1/										
1998 Jan	18.3	22.2	22.2	20.9	18.5	9.5	9.0	12.0	12.5	...	12.0
Feb	18.5	21.4	22.3	21.0	20.0	10.0	9.3	12.0	13.0	...	...
Mar	18.5	22.2	24.5	22.6	19.5	10.7	9.8	12.0	13.0	...	12.0
Apr	18.5	23.8	24.8	23.2	19.1	10.6	9.8	12.0	14.0	13.9	...
May	18.5	23.8	24.8	23.2	19.1	10.6	9.8	12.0	14.0	...	...
Jun	24.3	22.8	24.5	23.7	21.7	9.9	9.2	12.0	14.0	...	...
Jul	17.0	25.3	25.8	25.9	24.3	10.2	9.5	14.0	14.0	...	...
Aug	17.0	25.2	25.7	25.8	24.4	10.1	9.9	14.0	14.0	...	15.2
Sep	...	26.5	25.8	25.8	24.9	11.7	10.5	14.0	14.0	14.8	...
Oct	...	25.3	25.1	24.3	24.4	11.4	10.2	14.0	14.0	15.0	...
Nov	...	25.3	24.3	21.9	25.3	11.9	10.6	14.0	14.0	14.7	15.4
Dec	15.0	23.8	23.2	21.5	25.0	11.9	10.6	14.0	14.0	...	14.8
1999 Jan	15.0	25.3	25.2	23.4	26.4	12.8	11.2	14.0	14.0	...	...
Feb	15.0	25.3	25.2	22.6	25.7	12.6	11.1	14.0	14.0	...	16.1
Mar	15.0	25.3	25.2	22.6	25.1	12.5	11.0	14.0	14.0	...	15.2
Apr	15.0	22.8	25.2	22.3	25.1	11.7	10.5	14.0	14.0	...	...
May	15.0	25.3	23.6	21.0	23.9	11.8	10.6	14.0	14.0	...	19.6
Jun	15.0	21.3	21.8	20.8	22.8	12.1	10.8	14.0	14.0	...	19.6
Jul	15.0	21.3	21.6	21.4	23.9	12.1	10.1	14.0	14.0	...	...
Aug	15.0	22.3	22.0	21.3	23.7	12.0	10.0	14.0	14.0	...	21.4
Sep	21.0	22.0	22.1	22.1	25.2	12.3	10.2	14.0	14.0	...	...
Oct	21.0	22.0	22.1	22.1	25.2	12.3	10.2	14.0	14.0	...	...
Nov	17.0	17.0	20.2	19.6	24.5	12.3	10.2	10.0	10.0	...	17.7
Dec	17.0	17.0	20.5	20.0	24.3	11.8	9.9	10.0	10.0	17.1	...
2000 Jan	17.0	20.5	21.0	21.0	23.2	12.1	10.1	10.0	10.0	...	...
Feb	17.0	23.7	21.3	21.2	24.0	13.5	10.8	10.0	10.0	...	...
Mar	17.0	20.5	21.3	19.9	22.5	13.6	10.8	10.0	10.0	...	16.8
Apr	17.0	20.5	21.5	19.9	22.8	13.6	10.8	10.0	10.0	...	...
May	17.0	21.0	22.2	19.8	23.3	12.7	10.4	10.0	10.0	...	16.4
Jun	17.0	21.0	22.2	20.2	22.7	12.7	11.6	10.0	10.0	...	16.8
Jul	17.0	22.5	22.8	21.0	23.4	12.7	10.9	10.0	10.0	...	...
Aug	17.0	22.5	22.8	21.6	23.4	12.1	10.2	10.0	10.0	...	17.0
Sep	17.0	17.0	20.5	19.7	21.8	12.4	10.4	10.0	10.0	...	16.9
Oct	17.0	17.0	22.2	20.9	22.8	12.7	10.8	10.0	10.0	...	...
Nov	17.0	17.0	22.2	20.9	22.8	12.2	10.4	10.0	10.0	...	17.1
Dec	17.0	17.0	20.3	22.0	21.8	12.2	10.9	10.0	10.0	...	...
2001 Jan	17.0	14.5	18.3	22.0	21.1	11.9	10.4	10.0	10.0	...	16.5
Feb	17.0	17.0	19.4	22.4	21.8	11.7	10.6	10.0	10.0	...	15.4
Mar	17.0	17.0	19.2	22.4	21.8	11.5	10.3	10.0	10.0	...	16.2
Apr	17.0	17.0	19.2	22.0	21.6	11.3	10.1	10.0	10.0	...	16.1
May	17.0	17.0	19.2	22.0	21.6	11.6	10.3	10.0	10.0	...	15.9
Jun	17.0	17.0	19.2	22.0	21.3	11.6	10.3	10.0	10.0	...	16.7
Jul	17.0	18.3	19.8	22.3	21.6	11.7	10.5	10.0	10.0	...	17.2
Aug	17.0	18.3	19.8	22.3	21.6	11.7	10.5	10.0	10.0	...	17.2
Sep	17.0	18.3	19.8	22.2	21.6	11.7	10.5	10.0	10.0	...	...
Oct	17.0	18.3	19.8	22.8	21.8	11.5	10.5	10.0	10.0	...	...
Nov	17.0	18.3	19.8	22.8	21.8	12.0	10.9	10.0	10.0	...	...
Dec	17.0	18.3	19.8	21.0	21.8	12.0	10.9	10.0	10.0	...	...

Source: Baku Interbank Currency Exchange.

1/ IBOR: Interbank offer rate.

Table 21. Azerbaijan: Exchange Rates, 1997-2001  
(Manat per US dollar)

		Period average	End of period
1997	QI	4,076	4,035
	QII	4,009	3,980
	QIII	3,952	3,930
	QIV	3,905	3,888
	Year	3,986	3,888
1998	QI	3,884	3,868
	QII	3,861	3,861
	QIII	3,862	3,857
	QIV	3,868	3,890
	Year	3,869	3,890
1999	QI	3,910	3,929
	QII	3,958	3,975
	QIII	4,259	4,320
	QIV	4,376	4,378
	Year	4,126	4,378
2000	QI	4,393	4,413
	QII	4,445	4,476
	QIII	4,502	4,527
	QIV	4,546	4,565
	Year	4,472	4,565
2001	QI	4,586	4,606
	QII	4,627	4,648
	QIII	4,671	4,693
	QIV	4,734	4,775
	Year	4,655	4,775

Source: Azerbaijan authorities; and Fund staff calculations.

Table 22. Azerbaijan: Balance of Payments, 1997-2001

(In millions of US dollars)

	1997	1998	1999	2000	2001 1/
Exports, f.o.b.	808	678	1,025	1,877	980
Of which: oil and other products	454	450	801	1,598	885
other	354	228	224	279	94
Imports, f.o.b.	-1,375	-1,724	-1,433	-1,539	-651
Of which: oil sector	-256	-356	-195	-147	-60
other	-1,119	-1,368	-1,239	-1,393	-590
Trade balance	-567	-1,046	-408	338	329
Services (net)	-384	-369	-228	-225	-186
Exports	342	332	257	260	127
Imports	-726	-701	-485	-485	-313
Of which: oil sector	-310	-246	-189	-154	-129
Income	-9	-13	-45	-310	-182
Investment income (net)	19	30	9	-237	-140
o/w profit of oil consortium	0	0	-23	-293	-162
Compensation of employees	-19	-30	-32	-47	-26
Interest on public debt (including Fund)	-9	-13	-22	-26	-16
Transfers (net)	45	64	82	73	31
Private	-9	0	25	11	2
Public	54	64	56	62	29
Current account balance	-916	-1,364	-600	-124	-8
Net direct investment	1,115	1,023	510	119	12
Oil companies	844	831	349	-16	-31
contracted	780	889	527	454	260
capital repatriation	0	-133	-333	-569	-291
bonus	64	75	155	100	0
Other	271	191	161	135	43
Public sector capital	58	58	215	239	59
Medium Long-term borrowing	88	79	228	257	77
Budget support	35	0	42	0	0
Other long-term loans	53	79	186	257	77
Scheduled amortization	-30	-21	-14	-18	-18
Other (including short term capital)	-101	232	18	102	51
Capital account balance	1,072	1,313	743	460	122
Errors and omissions	-6	-10	8	-56	-9
Overall balance	150	-61	151	281	105
Financing	-150	61	-151	-281	-105
Change in net foreign assets of NBA (increase -)	-150	61	-130	-59	6
Net credit from the Fund	105	41	94	-52	-22
Disbursements/purchases	105	41	110	0	0
Repayments/repurchases	0	0	-16	-52	-22
Change in gross official reserves (increase -)	-255	20	-224	-7	28
Change in other foreign liabilities (increase +)	0	0	0	0	0
Change in oil fund assets (- increase)	0	0	-24	-247	-84
Adjustment (Oil Fund required reserves) 2/	0	0	2	25	-27

Source: Azerbaijan National Bank and staff estimates.

1/ Data for the first six months

2/ This corrects for the required reserves held at the ANB against the deposits of the Oil Fund, prior to 2001 when the Fund's resources were transferred to the ANB from a commercial bank.

Table 23. Registered Foreign Trade, 1997–2001 1/  
(In millions of US dollars)

	1997	1998	1999	2000	2001 2/
Exports	781	606	929	1745	1543
Food	55	47	60	57	39
Cotton	123	49	22	37	8
Oil and oil products	452	391	701	1465	1392
Metals	15	13	25	32	16
Chemicals and petrochemicals 3/	18	11	23	36	18
Machinery and equipment	39	38	38	34	32
Other	79	57	60	84	38
Imports 4/	794	1077	1036	1172	927
Food	182	176	210	223	168
Natural gas	--	--	--	--	119
Metals	109	130	111	123	94
Chemicals and petrochemicals 3/	56	79	58	84	49
Machinery and equipment	174	372	362	399	277
Other	273	320	295	343	220

Source: Azerbaijan State Committee on Statistics.

1/ Figures are based on customs data and are different from Table 22 which is based on central bank data and includes, inter-alia, shuttle trade. Also, the 2000 import figure does not include the import of two Boeings (valued at US\$130 million) as this import was not reflected in customs data of 2000 (but will be included in customs data for October 2001).

However, the import of these two aircrafts are included in the central bank import data for 2000.

2/ Data for the first nine months of 2001.

3/ Including pharmaceutical products.

4/ Do not include data on shuttle trade.

Table 24. Azerbaijan: Balance of Services and Transfers, 1997-2000  
(In millions of US dollars)

	1997	1998	1999	2000
<b>Services and Income</b>				
Services and Income	-394	-382	-273	-535
Credit	365	370	291	316
Debit	758	752	564	850
<b>Nonfactor services</b>				
Nonfactor services	-384	-369	-228	-225
Credit	342	332	257	260
Freight	67	90	90	88
Other transportation	30	39	24	31
Travel	162	125	81	63
Other	83	78	62	77
Debit	726	701	485	485
Freight	77	150	39	101
Other transportation	32	44	0	43
Travel	186	170	139	132
Government of Azerbaijan (net)	12	9	9	9
Private services	109	82	80	49
Oil services	310	246	189	150
<b>Factor services</b>				
Factor services	-9	-13	-45	-310
Credit	23	38	34	56
Investment income	23	32	34	49
Other	0	6	0	7
Debit	32	52	79	366
Investment income	13	21	47	319
Interest on public debt	9	13	22	26
IMF	8	10	12	14
Other	1	3	11	12
Profit repatriation of oil consortium	0	0	23	293
Other investment	8.0	8.0	2.2	...
Compensation of employees	19	30	32	47
<b>Transfers (net)</b>				
Transfers (net)	45	64	82	73
Credit	96	145	135	135
Debit	51	81	53	62
<b>Private</b>				
Private	-9	0	25	11
Credit	38	76	71	69
Remittances	30	75	54	57
Other	8	2	17	12
Debit	47	76	46	59
<b>Public</b>				
Public	54	64	56	62
Credit	58	69	63	66
Current grants for budgetary support	26	21	22	17
Nonbudgetary current grants	32	48	41	48
Humanitarian aid	32	48	41	48
Debit (including subscription fees)	4	5	7	3

Source: Azerbaijan National Bank and staff estimates.

Table 25. Azerbaijan: Foreign Assistance, 1997-2000

	1997	1998	1999	2000
(In million of US dollars)				
<b>A. Total Aid</b>				
Total	145.8	147.7	291.6	322.5
Multilateral	110.8	147.7	249.6	322.5
Bilateral	35.0	0.0	42.0	0.0
Loans	88.3	79.0	228.2	256.8
Multilateral	53.3	79.0	186.2	256.8
Bilateral	35.0	0.0	42.0	0.0
Grants	57.5	68.7	63.4	65.7
Multilateral	57.5	68.7	63.4	65.7
Bilateral	0.0	0.0	0.0	0.0
<b>B. Loans</b>				
Total	88.3	79.0	228.2	256.8
Project (PIP)	53.3	79.0	186.2	256.8
IDA	53.3	52.7	124.1	171.2
Non-IDA	0.0	26.3	62.1	85.6
BOP support	35.0	0.0	42.0	0.0
Projects ( sources of financing)	53.3	79.0	186.2	256.8
Turkish Eximbank	0.0	0.0	1.9	0.0
World Bank	19.8	22.4	23.9	26.7
EBRD	30.3	22.0	24.8	13.3
KFW	3.2	9.9	14.6	4.9
IFAD	0.0	0.7	1.8	1.5
Other	0.0	21.5	112.2	201.7
BOP support	35.0	0.0	42.0	0.0
EU	0.0	0.0	0.0	0.0
World Bank	35.0	0.0	42.0	0.0
<b>C. Grants</b>				
Total	57.5	68.7	63.4	65.7
BOP support (budgetary)	26.0	21.0	22.0	17.4
Off budget	31.5	47.7	41.4	48.3
Total	57.5	68.7	63.4	65.7
EU	26.0	19.0	22.0	17.4
Other	31.5	49.7	41.4	48.3

Source: Ministry of Finance, and staff estimates.



Table 26. Direction of Registered Foreign Trade, 1997–2001 1/

	1997	1998	1999	2000	2001 2/
	(In millions of US dollars)				
Exports	781	606	929	1745	1543
C.I.S.	378	233	211	235	163
Georgia	133	77	72	75	82
Kazakhstan	9	11	4	7	4
Russia	181	106	83	98	51
Ukraine	32	12	24	24	5
Other countries	23	27	28	31	21
Non-CIS	403	374	718	1510	1380
Iran	190	44	23	8	7
Turkey	41	136	69	105	53
United Kingdom	1	40	11	19	5
Other countries	171	154	615	1378	1315
Imports	794	1077	1036	1172	927
C.I.S.	351	405	325	376	320
Georgia	37	25	9	10	4
Kazakhstan	30	44	25	58	81
Russia	152	194	226	249	107
Turkmenistan	25	26	13	10	88
Ukraine	86	93	38	36	29
Other countries	21	23	14	13	11
Non-CIS	443	672	710	796	608
Iran	49	43	47	57	39
Turkey	180	220	143	129	112
United Arab Emirates	42	46	12	20	14
United Kingdom	14	69	67	59	34
Other countries	158	294	441	531	407
	(In percent of the total)				
Exports	100.0	100.0	100.0	100.0	100.0
C.I.S.	48.4	38.4	22.7	13.5	10.6
Georgia	17.0	12.7	7.8	4.3	5.3
Kazakhstan	1.2	1.8	0.4	0.4	0.3
Russia	23.2	17.5	8.9	5.6	3.3
Ukraine	4.1	2.0	2.6	1.4	0.3
Other countries	2.9	4.5	3.0	1.8	1.4
Non-CIS	51.6	61.7	77.3	86.5	89.4
Iran	24.3	7.3	2.5	0.5	0.5
Turkey	5.2	22.4	7.4	6.0	3.4
United Kingdom	0.1	6.6	1.2	1.1	0.3
Other countries	21.9	25.4	66.2	79.0	85.2
Imports	100.0	100.0	100.0	100.0	100.0
C.I.S.	44.2	37.6	31.4	32.1	34.5
Georgia	4.7	2.3	0.9	0.9	0.4
Kazakhstan	3.8	4.1	2.4	4.9	8.7
Russia	19.1	18.0	21.8	21.2	11.5
Turkmenistan	3.1	2.4	1.3	0.9	9.5
Ukraine	10.8	8.6	3.7	3.1	3.1
Other countries	2.6	2.1	1.4	1.1	1.2
Non-CIS	55.8	62.4	68.5	67.9	65.6
Iran	6.2	4.0	4.5	4.9	4.2
Turkey	22.7	20.4	13.8	11.0	12.1
United Arab Emirates	5.3	4.3	1.2	1.7	1.5
Other countries	19.9	27.3	42.6	45.3	43.9

Source: Azerbaijan State Committee on Statistics.

1/ Figures are based on customs data and are different from Table 22 which is based on central bank data and includes, inter-alia, shuttle trade. Also, the 2000 import figure does not include the import of two Boeings (valued at US\$130 million) as this import was not reflected in customs data of 2000 (but will be included in customs data for October 2001). However, the import of these two aircrafts are included in the central bank import data for 2000.

2/ Data for the first nine months.

Table 27. Azerbaijan: Energy Balance, 1997–2001

	1997	1998	1999	2000	2001 1/
Oil and oil products	(In millions of barrels)				
Production	66.2	83.4	100.8	102.2	81.4
Net volume of trade	19.5	30.0	47.4	55.0	52.6
Exports	21.9	32.1	49.1	55.4	52.7
of which: crude oil	2.1	15.7	31.2	40.6	40.6
Imports	-2.4	-2.1	-1.7	-0.4	-0.1
Domestic consumption	46.7	53.4	53.4	47.2	28.4
Variation in stocks	-2.0	2.3	-0.6	-1.0	0.3
Natural gas	(In billions of cubic meters)				
Production (excluding losses) 2/	6.0	5.6	6.0	5.6	4.2
Net volume of trade	0.0	0.0	0.0	0.0	...
Exports	0.0	0.0	0.0	0.0	...
Imports	0.0	0.0	0.0	...	...
Domestic consumption	6.0	5.6	6.0	5.6	4.2
Variation in stocks	0.0	0.0	0.0	0.0	...

Source: Azerbaijan State Committee on Statistics.

1/ Data for the first nine months.

2/ Production excludes vented gas.

## SUMMARY OF THE NEW TAX SYSTEM

Following the break-up of the Soviet Union, a general overhaul of the tax laws in Azerbaijan was necessary in order to bring them in line with the demands of an emerging market economy. After a prolonged period of gradual reforms, a comprehensive Tax Code was adopted and became effective on January 1, 2001. The new Tax Code is a major development in bringing the tax provisions into an integrated code and is modeled after recommendations by the IMF's legal department. As in many other CIS countries, legislation pertaining to customs administration is outside the Tax Code and is therefore not considered in this note.

Over the last few years Azerbaijan has enjoyed a relatively stable tax revenue to GDP ratio of about 15 percent. The main revenue sources are VAT, income tax, and profit tax, which taken together accounted for 60 percent of total tax revenue in 2000. Marginal income tax rates and social contribution rates remain high. In recent years, improvements in tax administration have accompanied the legislative effort. Organizational reforms of the large tax payer unit were completed in 2001. The Ministry of Taxes also began to introduce a no-contact filing process and started a reorganization of local tax offices, but most of the work in these areas are at initial stages.

Experience with the new Tax Code in its first year has been positive, with strong revenue gains facilitated by high economic growth. VAT collections were substantially above expectations due to the adoption of invoice based liability calculations and the elimination of several exemptions. These gains were partly offset by poor profit tax receipts related to the elimination of negotiated tax targets for state owned enterprises.<sup>1</sup> In the second half of 2001 an amendment to the Tax Code was approved by parliament with the goal to simplify regulations and expand the tax base. Key elements are a reduction of income tax brackets and exemptions, the elimination of a double depreciation rule, streamlining of the simplified tax system for small businesses, and an expansion of VAT liability.

There are a number of areas where the new Tax Code could be improved. In the short run, amendments are required on a number of articles dealing with administration which appear overly prescriptive and inappropriate to a modern processing environment. There also continues to be a practice of referencing administrative provisions in statutes and regulations developed by other bodies, when they could be more appropriately be incorporated within the Tax Code itself. In the long run, the high tax burden on wages will have to be addressed. Also, a more systematic control of exemptions should be pursued which can currently be granted by executive order. Finally, a major project for tax administration is comprehensive computerization which would greatly facilitate the administrative reforms to date.

The attached matrix summarizes the provision of the new Tax Code.

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<sup>1</sup> In 2001 SOCAR still paid according to a negotiated tax target due to its substantial quasi-fiscal activities in the energy sector.

### Azerbaijan: Summary of the Tax System

Type of Tax	Nature of Tax	Special Rules, Exemptions, Allowances, and Deductions	General Rates								
1. Personal Income Tax	<p>Resident and non-resident physical persons are tax payers of the income tax. Residents pay taxes on worldwide income, non-residents on income from domestic sources. Income is defined as (i) wages including the monetary value of in-kind compensation and life insurance premia, and (ii) income from non-employment activity, interest, dividends, royalties, and (iii) all other income which is not specifically exempt.</p> <p>Tax on gross wage income is collected at the source through withholding from wage, salary, dividend and interest income. For interest and dividend income a withholding tax of 10 percent is applied which fully covers the tax obligation from these sources. Resident physical persons who receive income from entrepreneurial activity file tax returns and make advance payments within the 15th day after the end of each quarter.</p>	<p>The following forms of income or persons are exempt:</p> <ul style="list-style-type: none"> <li>State transfers, pensions, scholarships and allowances, alimony, and income from the supply of non-precious tangible movable property.</li> <li>Income from insurance premia, supply of real estate if occupied for at least three years.</li> <li>Compensatory payments in connection with damages, gifts, financial aid and inheritance if given threshold not exceeded.</li> <li>Income from agricultural production.</li> <li>Income from individual producers of copper, tin, pottery, utensils etc.</li> <li>Income of military servants.</li> <li>Winning prize from state lottery.</li> <li>Official representatives of foreign states.</li> <li>Income of the state oil fund.</li> <li>Other exemptions can be implemented by the appropriate executive authority such as a 3 year tax holiday for owner-operated farms.</li> </ul> <p>Reduced income base by 20 times non-taxable amount of wages:</p> <ul style="list-style-type: none"> <li>National heroes, veterans, widows of servicemen, people with illnesses related to Chernobyl accident.</li> </ul> <p>Reduced income base by 5 times of non-taxable amount of wage:</p> <ul style="list-style-type: none"> <li>1<sup>st</sup> and 2<sup>nd</sup> categories of invalids other than war invalids.</li> </ul> <p>Reduced income base by 3 times non-taxable amount of wages:</p> <ul style="list-style-type: none"> <li>Parents and widows of veterans.</li> <li>Afghan war veterans.</li> <li>Internally displaced persons.</li> </ul> <p>Families with at least 3 children in guardianship can deduct 1 times the non-taxable amount of wages.</p>	<p>The following rates apply January 2002 for different income brackets:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 10%;">0%</td> <td style="width: 90%;">under 100,000</td> </tr> <tr> <td>12%</td> <td>100,000-1,000,000</td> </tr> <tr> <td>25%</td> <td>1,000,001-5,000,000</td> </tr> <tr> <td>35%</td> <td>5,000,001 and above</td> </tr> </table>	0%	under 100,000	12%	100,000-1,000,000	25%	1,000,001-5,000,000	35%	5,000,001 and above
0%	under 100,000										
12%	100,000-1,000,000										
25%	1,000,001-5,000,000										
35%	5,000,001 and above										
2. Profit Tax	<p>The profit tax is paid by resident and non-resident enterprises at the same rate. Profits are</p>	<p>Exemptions</p> <ul style="list-style-type: none"> <li>Charitable organizations, donations, gratuitous transfers,</li> </ul>	<p>Profits are uniformly taxed at 27%.</p>								

### Azerbaijan: Summary of the Tax System

Type of Tax	Nature of Tax	Special Rules, Exemptions, Allowances, and Deductions	General Rates
	<p>defined as the difference between income and allowed deductions specified in the tax code. Tax payments are made quarterly within 15 days after the end of each quarter and a final adjustment is made after the end-year income statement has been submitted. Quarterly tax payments are determined by using one of two alternative methods: (i) by multiplying the volume of income times the ratio of last year's profit tax over income, or (ii) by using ¼ parts of last year's paid profit tax.</p>	<p>non-commercial membership fees. Profits of the national bank, income from international organizations, and from state authority and budgetary organizations.</p> <p><b>Concessions</b> Taxes are half rate for organizations with 50% of employees from social organizations.</p> <p><b>Deductions</b> Expenses connected with earning income. Certain types of bad and doubtful debt. Allocations to a reserve fund for insurance companies with exceptions. Expenses on scientific-research, experimental construction, and costs incurred by geological exploration, and expenses on intangible assets. Depreciation of capital stock with accelerated schedule for some items. Repair expenses and costs incurred for geological exploration. Carry over of losses exceeding income of a given year to the next year for up to 5 years.</p>	
3. Value Added Tax (VAT)	<p>The VAT is implemented through a credit-invoice mechanism and applies to goods and services within the country as well as to imports. VAT registration is required if the value of transactions exceeds 300 times the minimum tax-exempted wages. VAT applicable activities include brokerage fees and gratuitous transfer of goods and financial assistance.</p>	<p>The following activities or items are exempt from VAT.</p> <ul style="list-style-type: none"> <li>Property purchase in the process of privatization.</li> <li>Financial services including leasing.</li> <li>Supply of national and foreign currency.</li> <li>Imports of gold, foreign currency and similar items.</li> <li>Imports of capital investments.</li> <li>Services of state and other official authorities.</li> <li>Purchases or sales connected to mass media products, editing, publishing, printing, services related to funeral ceremonies.</li> <li>Activities of international organizations.</li> <li>Import of property for financial leasing.</li> <li>Imports by national bank.</li> <li>State oil fund.</li> </ul>	18% uniform

### Azerbaijan: Summary of the Tax System

Type of Tax	Nature of Tax	Special Rules, Exemptions, Allowances, and Deductions	General Rates
		<p>Other imports can be exempted by appropriate executive authority such as agricultural products.</p> <p>Zero-rated items or activities.</p> <p>Goods and services of foreign official establishments and representatives.</p> <p>Activities related to humanitarian aid.</p> <p>Exports.</p> <p>International transportation of cargo and passengers.</p> <p>Dispatch of gold and other valuables to ANB.</p>	
4. Excise Taxes	All enterprises and physical persons producing or importing excisable goods are taxpayers. The tax code defines drinking alcohol, tobacco products and oil products as excisable goods.	<p>Exemptions</p> <p>Imports of less than 3 liters of alcohol, three packs of cigarettes and fuel in car for personal use.</p> <p>Imports related to humanitarian aid.</p> <p>Goods in transit or intended for re-exports and temporary imports.</p> <p>Zero-rated items or activities.</p> <p>Export of excisable goods.</p>	The relevant executive authority body determines the excisable tax rates.
5. Royalty Tax	Tax based on utilization of underground mineral resources payable by resident and non-resident individuals and enterprises.	Royalty is not paid on oil or gas exports from the international consortium of oil producers (AIOC).	26% on value of crude oil 20% on value of natural gas Other minerals and materials: 3-8%
6. Land Tax	Tax levied on land plots owned by resident and non resident physical and legal persons.	<p>Exempt are</p> <p>Land in common use of residential areas.</p> <p>Land of state authority bodies and budgetary organizations and national bank.</p> <p>Lands of state forestry and water funds.</p> <p>Land tax reduced by 50%, if owner exempt from income tax</p>	Rates differ by region, type of site and value of land.
7. Property Tax	Paid by resident and non resident physical persons and enterprises on the value of property owned including constructions and vehicles.	<p>Exempt are</p> <p>Buildings of the state authority, national bank, and public organizations of invalids.</p> <p>Workshop premises of physical persons who are engaged in a list of activities such as making pottery, tin etc.</p> <p>Buildings with a value of less than 300 times the non-</p>	<p>Property tax obligation:</p> <p>Buildings: 0.01% of the value of a building</p> <p>Water and air transportation: 0.02% times non-taxable monthly wages per 1 cm<sup>3</sup> of engine;</p>

### Azerbaijan: Summary of the Tax System

Type of Tax	Nature of Tax	Special Rules, Exemptions, Allowances, and Deductions	General Rates
		taxable amount of monthly income. Concessions For military service men, pensioners and people who receive income tax concessions the amount of property tax is reduced by 1.5 times the non-taxable amount of wages. Small scale entrepreneurial activity of physical persons. Deductions for enterprises for the property value of buildings used for environmental protection, civil defense, fire safety, pipelines, railways, roads, land irrigation, communication, vehicles trolley buses and trams, buildings for health, education, and sport and fixed asset depreciation. Property tax is reduced by 50% if exempt from income tax.	1% of market price for motorless water and air facilities. Cars and trucks: 0.01% (0.02% for trucks) of non-taxable monthly wages per 1 cm <sup>3</sup> of engine
8. State Road Tax	Tax for use of roads levied on vehicles from foreign states entering the country.		Rates depend on type of vehicle, distance driven, and cargo of trucks.
9. Simplified Tax	Taxpayers are enterprises not registered for VAT purposes due to low turnover except for credit and insurance institutions, investment funds and enterprises with similar activities.	Taxpayers of the simplified tax do not pay VAT and profit tax.	2% of gross turnover
10. Export Tax	Tax paid by exporter of crude oil.	Legally not part of the tax code. Applies only to SOCAR.	20% of price difference between domestic and world price.