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EBS/98/99

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June 12, 1998

To: Members of the Executive Board

From: The Secretary

Subject: **Azerbaijan Republic—Staff Report for the 1998 Article IV Consultation, Midterm Review Under the Second Annual Arrangement Under the Enhanced Structural Adjustment Facility, and Third Review Under the Extended Arrangement**

Attached for consideration by the Executive Directors is the staff report for the 1998 Article IV consultation with the Azerbaijan Republic, the midterm review under the second annual arrangement under the Enhanced Structural Adjustment Facility, and the third review under the Extended Arrangement. Draft decisions appear on pages 30-32. This subject is tentatively scheduled for discussion on Friday, June 26, 1998.

Mr. Owen (ext. 38811) or Mr. Fanizza (ext. 34069) or Mr. Dennis Jones (ext. 38016) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the European Bank for Reconstruction and Development (EBRD), the European Commission (EC), the Islamic Development Bank (IsDB), and the Organisation for Economic Cooperation and Development (OECD), following its consideration by the Executive Board.

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AZERBAIJAN REPUBLIC

Staff Report for the 1998 Article IV Consultation, Midterm Review Under the Second Annual Arrangement Under the Enhanced Structural Adjustment Facility, and Third Review Under the Extended Arrangement

Prepared by the European II and Policy Development and Review Departments

(In consultation with other departments)

Approved by John Odling-Smee and Susan Schadler

June 12, 1998

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I. INTRODUCTION

1. Discussions with the Azerbaijan authorities for the 1998 Article IV consultation, the mid-term review under the ESAF and third review under the extended arrangement were held in Baku during April 29-May 12.[1] The second review under the extended arrangement was completed on December 22, 1997 together with Board approval of the second year annual arrangement under the ESAF.[2] All disbursements and purchases under the arrangements have taken place as scheduled for a total amount of SDR 87.75 million. The program envisages a purchase of SDR 1.75 million under the extended arrangement and a disbursement of SDR 14.62 million under the second annual ESAF arrangement upon completion of the present reviews.

2. In the attached letter to the Managing Director dated June 11, 1998 (Appendix III), the authorities report on the implementation of the program during the first six months of the second year arrangement and describe the economic policies they intend to pursue during the rest of the second year program. All performance criteria for end-March 1998 were observed (Table 3).

3. The last Article IV consultation was concluded on December 20, 1996. On that occasion, as well as during the Board discussion of the second year program and reviews, Executive Directors stressed the importance of complementing success in macroeconomic stabilization with structural reforms, including privatization, trade liberalization, strengthening of the financial and banking systems, and the establishment of a market-oriented legal framework.

4. Azerbaijan's macroeconomic statistics leave room for further improvement. Technical and human resources are lacking, and reporting of some data is not systematically organized. The Fund, among other external agencies, is providing technical assistance to address these statistical shortcomings. Official data are sufficient to meet the minimum needs of surveillance and program work, though they sometimes require adjustments by Fund staff to facilitate economic analysis (Appendix IV).

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[1]The mission comprised Mr. Owen (Head), Messrs. Fanizza and Jones (EU2), Ms. Parry (FAD), Mr. Chami (PDR), Mrs. Romanova (BLS), and Mrs. Roller (Staff Assistant, EU2). Mr. Dunn, the resident representative also participated in the work of the mission. Mr. Abrams (MAE) visited Baku for a few days to support the mission's work on bank restructuring. The mission met with Prime Minister Rasizade, National Bank Governor Rustamov, Minister of Finance Yusifov, other senior government officials, and members of the business and diplomatic communities.

[2] Full details of relations with the Fund are set out in Appendix I. Relations with the World Bank are set out in Appendix II.

II. Recent Developments and Program Performance

- **Macroeconomic developments have been favorable, with inflation low and output rising strongly**
- **Financial policies are on track**
- **Program structural measures largely implemented, though with some delays**
- **But several developments have highlighted concerns about governance**

Table 1. Azerbaijan: Selected Indicators

	1996	1997		1998	1998	1998
		Program	Estimate	Q1	April	Revised Program
Annual inflation (end of period)	6.7	3.9	0.4	0.3	-1.3	4.5
Annual GDP growth	1.3	5.0	5.8	8.5	...	7.0
External current account						
In millions of US$	-811	-892	-914	-335	...	-1,363
In percent of GDP	-25.5	-21.7	-23.7	-32.8	...	-30.2
External debt in percent of GDP	16.6	14.0	14.5	...	...	17.2
External debt service in percent of exports of GNFS	9.7	9.2	7.4	...	...	4.2
Gross official reserves (end-period)						
In millions of US$	214	422	467	451	452	565
Months of imports	2.0	3.5	4.0	3.5	...	4.1
Exchange rate (end of period, manat/US$)	4,098	3,893	3,888	3,868	3,858	3,776
General government balance (percent of GDP)						
Cash basis	-2.8	-1.8	-1.7	-0.9	...	-3.6
Commitments basis	...	-2.8	-2.8	-0.4	...	-3.1

Sources: Data provided by the Azeri authorities; and staff estimates.

5. After increasing by only 1½ percent during the fourth quarter of 1997, despite substantial adjustments in energy tariffs, **consumer prices** rose by close to 3 percent in the first four months of 1998, compared with 4½ percent during the same period in 1997. The program's inflation objective of 4½ percent during 1998 still looks achievable, since during the summer months consumer prices are likely to decline.[3] Indeed, as a result of large falls in prices during the summer of 1997, 12-month inflation was close to zero during 1997 and the early months of 1998 (Figure 1). The favorable inflation performance reflects strict financial policies which have kept domestic demand broadly in line with supply growth in the non-oil economy.

6. The recovery in **economic activity** gained momentum during the first quarter of 1998, with annual real GDP growth at 8½ percent, up from 5¾ percent in 1997. Foreign investments in construction and services are leading the recovery in the non-oil economy, while both oil extraction and refined oil output have increased more than expected. Agricultural output also surged from a low level in 1997 which reflected disruptions associated with the break up of collective farms and adverse weather conditions. Dollar wages averaged US$41 a month in early 1998, about 50 percent higher than a year earlier but still very low compared with most competitor countries.

7. Larger-than-expected oil-sector direct foreign investments helped to boost **gross foreign reserves** to around four months of imports at the end of 1997, significantly higher than programmed, despite a slightly larger than projected current account deficit of 24 percent of GDP (Table 4). However, during the first quarter of 1998 the overall balance of payments is estimated to have shifted into a modest deficit, mainly as a result of the fall in world oil prices and shortfalls in World Bank project loans. The external current account deficit in the first quarter of 1998 was about US$70 million larger than projected, reflecting lower oil prices and the decision of the state oil company, SOCAR, temporarily not to ship oil products abroad in anticipation of an early recovery of oil prices, which in the event did not materialize. Signs are that private capital inflows linked to the oil developments were a little stronger than expected, apparently unaffected by the lower oil prices. Reflecting modest official intervention, the **manat** continued to appreciate during the first four months of 1998, after appreciating by just over 1 percent during the last quarter of 1997 and by 5 percent during the whole of 1997 (Figure 2).

8. The overall deficit on the balance of payments in the first quarter of 1998 resulted in a tightening of **domestic monetary conditions**, following a marked loosening in the second half of 1997 when the Azerbaijan National Bank (ANB), to avoid an excessive nominal appreciation of the manat, had only partially offset strong capital inflows through manat purchases in the Baku interbank currency exchange (BICEX) market. Thus, after

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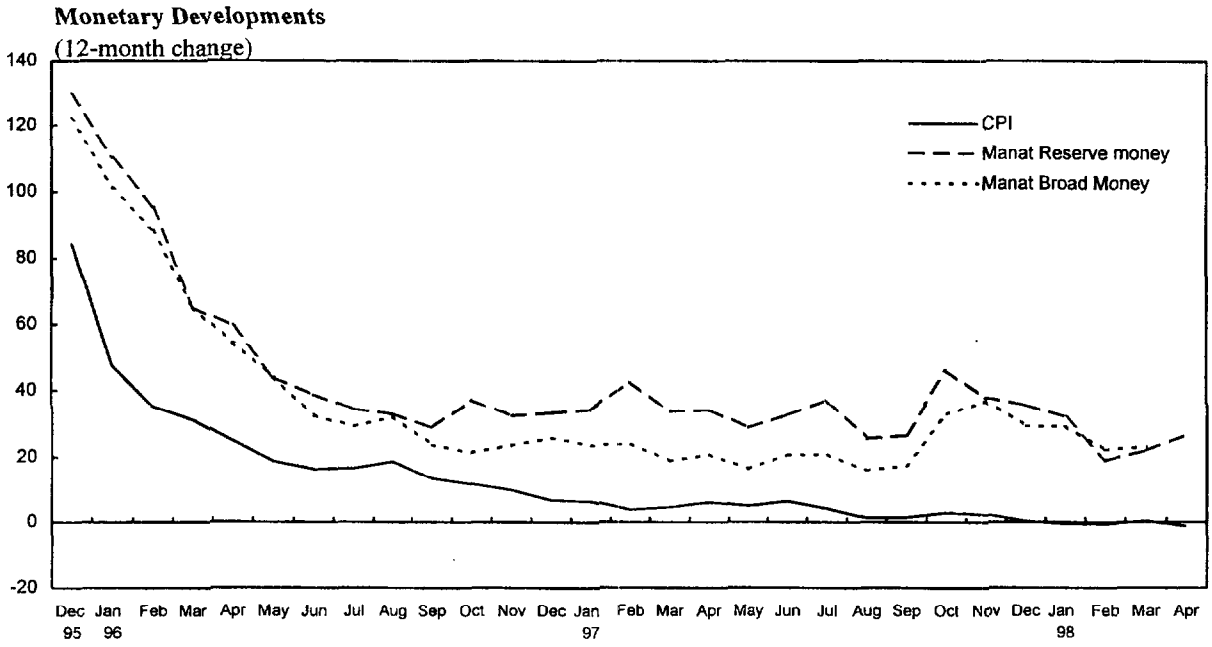
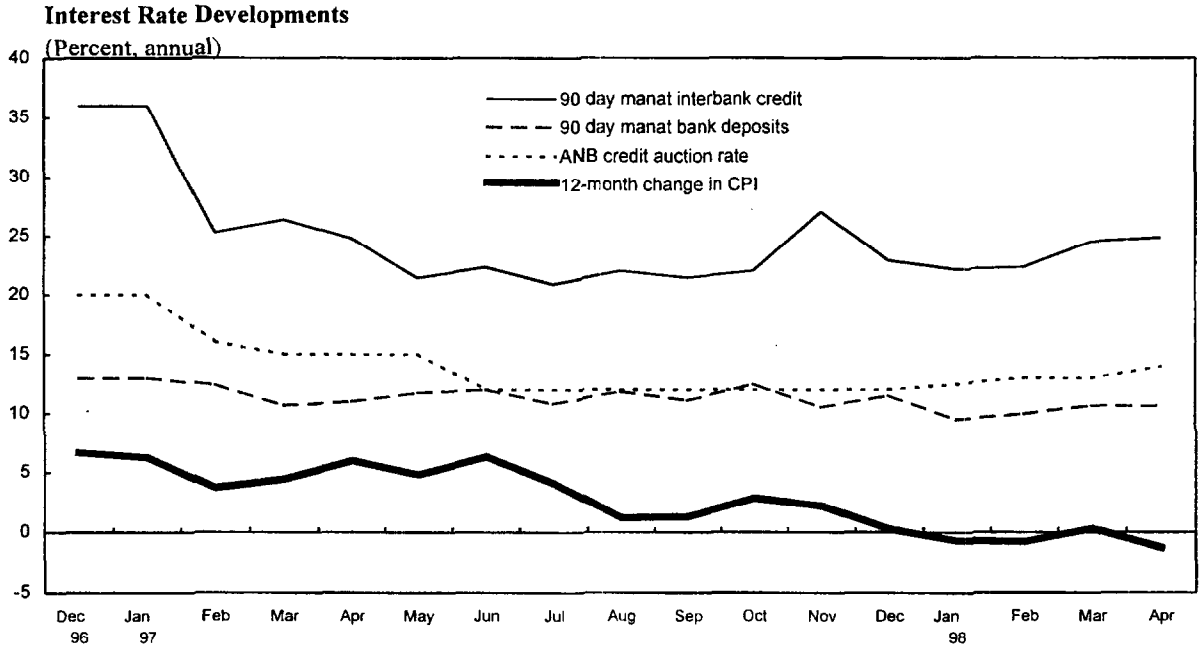
[3] Changes in food prices have a large impact in the consumer price index (CPI), as their weight is close to 70 percent.

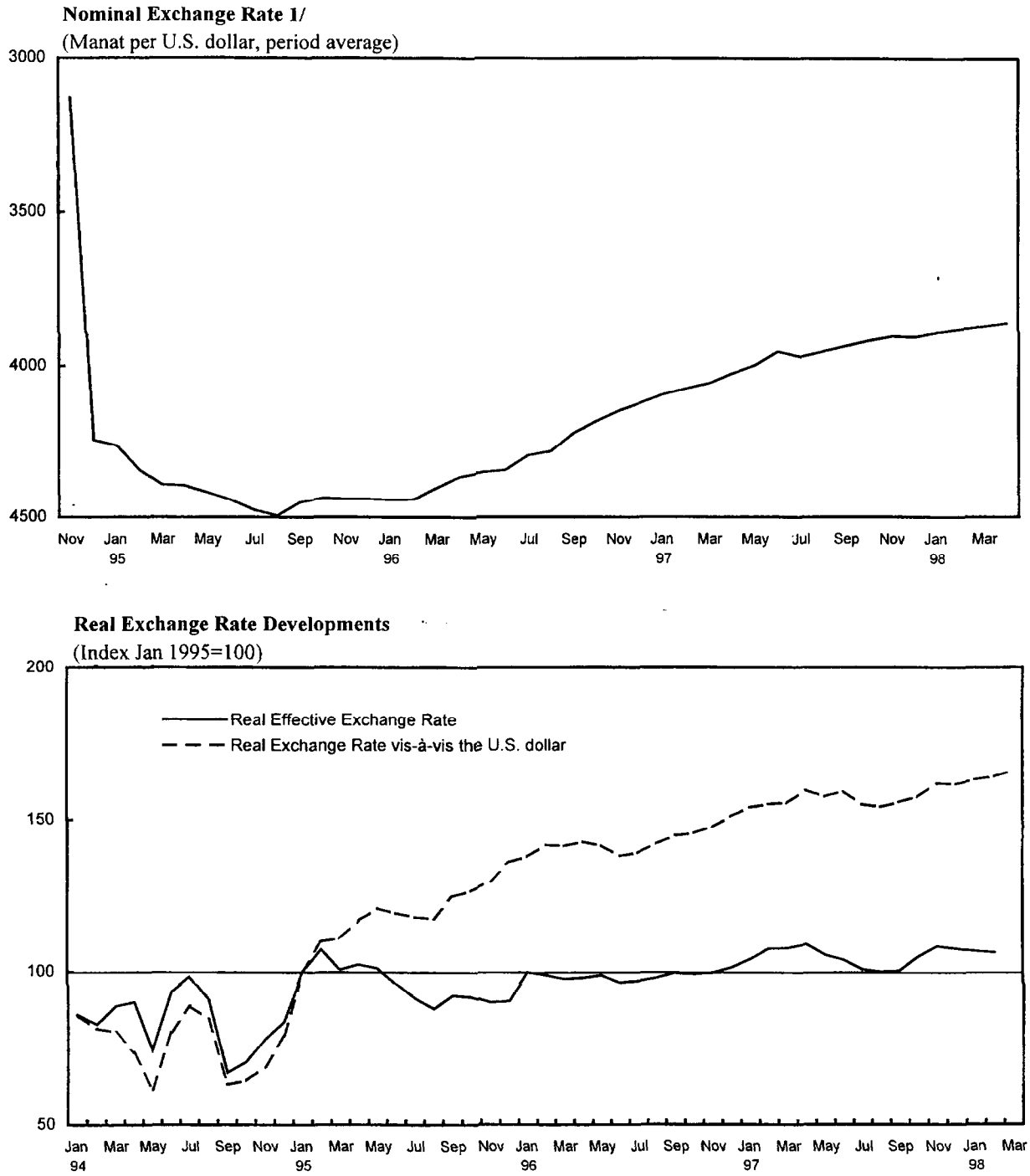
Figure 1. Azerbaijan: Monetary Indicators
(In percent per annum)





Source: Azeri authorities.

Figure 2. Azerbaijan: Exchange Rate Developments



Sources: Azeri authorities; and IMF staff estimates.

1/ An upward movement indicates appreciation.

growing very rapidly in the fourth quarter of 1997, manat reserve money contracted by 9 percent in the first quarter of 1998, but still remained 3 percent above the program's indicative target for end-March (Table 8). However, despite this excess growth in reserve money, manat broad money at end-March was as programmed, with the money multiplier declining rather than increasing as envisaged under the program, probably reflecting persistent structural problems in the banking system.

9. While central bank credit to banks was slightly above program because of liquidity problems at some of the state-owned banks, the government made much less recourse to bank financing than envisaged, reflecting a tighter-than-programmed fiscal position. **Interest rates** have remained significantly positive in real terms as inflation has subsided. Nominal interest rates on treasury bills and on ANB auctioned loans to commercial banks edged up in response to the tighter monetary conditions in the first quarter of 1998 and measures to liberalize credit and treasury bill auctions. These markets remain thin, however, with very limited participation.

10. The stance of **fiscal policy** was tighter than programmed in both the last quarter of 1997 and the first quarter of 1998, with the general government cash deficit averaging 1½ percent of GDP over the two quarters, less than half the program ceiling. Despite a significant shortfall in revenue collections as a result of the decline in oil prices and temporary suspension of oil product exports (which ended in mid-February), the cash deficit fell in the first quarter of 1998, reflecting delays in execution of discretionary current and capital budgetary outlays (Table 7). Extra-budgetary expenditures, however, included a US$15 million payment for the purchase of an aircraft for the president, which was financed by oil signature bonuses that did not accrue to the special ANB account into which these bonuses are, as a rule, deposited.[4] Despite the expenditure constraint, **budgetary arrears** to energy and water suppliers decreased during the two quarters as programmed, and arrears on pensions and budgetary wages remained negligible.

11. The very tight budget outturn in part reflected the reluctance of the ministry of finance to issue treasury bills up to the programmed amount, as a result of an unwillingness to finance the deficit at market rates. **Net domestic financing** through the issue of treasury bills was slightly negative in both quarters. Cumulative domestic financing was significantly lower than programmed, mainly because of a large build up in government deposits with the ANB which reflected a concentration of revenue collections at the end of the quarter. Cumulative **foreign financing** was less than programmed on account of shortfalls in project loans and oil bonuses.

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[4]All such uses of oil bonus money are treated, for program purposes, as budgetary financing; the associated expenditure on the aircraft is included as general government expenditure in Tables 6 and 7.

12. All the program **structural benchmarks** for end-December 1997 and all but one for end-March 1998 have now been completed, although with some delays relative to the original program schedule (see Table 2). Nonetheless, the pace of financial sector and private sector development remains slow, and several developments have given rise to concern about fiscal transparency and governance.

13. In the **fiscal** area, measures have included steps to strengthen tax collection and the completion of a survey of public sector employment. The treasury system is now fully operational and all manat bank accounts of the budget institutions have been closed. However, in December, a fraud was uncovered involving the loss of manat 100 billion of government deposits at a commercial bank. Partly in response to this, parliament approved tough new criminal penalties for economic crimes, going well beyond those normally seen in a market economy and which could themselves discourage economic development. The use of oil bonus money in early 1998 to purchase a presidential aircraft, outside normal budgetary procedures, highlighted the lack of proper controls over the use of oil revenues.

14. In the **monetary and banking area**, prudential regulations have been strengthened, but efforts to restructure the four state owned-banks have had mixed results. Audits for 1997 by internationally reputable firms indicated that the International Bank and the Savings Bank had improved their financial positions but that substantial difficulties continued at Agroprombank and Prominvestbank (see Box 1).

Table 2. Status of End-March 1998 and End-December 1997 Structural Benchmarks	
I. Benchmarks for End-March 1998	
Action	**Status**
1. Make the State Procurement Agency fully operational.	Completed. Chairman appointed on June 8, 1998.
2.Securitize manat 15 billion of outstanding government debt with the ANB (per quarter during 1998).	Completed. Ministry of Finance completed on April 3, 1998 the conversion to securities of manat 15 billion in old debts to the ANB.
3. Complete the audits of the state-owned banks by internationally reputable accounting firms.	Completed.
4. Submit to Parliament a new Securities Law that includes the establishment of a Securities Commission.	Completed. Draft law submitted to Parliament on June 8, 1998.
5. Secure Parliamentary approval of the new Land Code that includes provisions for the privatization of land of enterprises.	Not completed. Draft land code under discussion in parliament, but unlikely to be approved before summer recess.
6. Introduce a new chart of accounts and financial reporting standards for commercial banks.	Completed.
II. Benchmarks for End-December 1997	
1. Enact legislation to provide collection officers with a variety of tools and techniques to enforce collection.	Completed. Necessary changes to the Law on the State Tax Service were adopted by Parliament on December 19.
2. Establish special government commissions to develop reform plans for the health and education sectors.	Completed. Decree establishing commission on health reform signed on March 13, 1998; decree establishing commission on education reform signed on March 30, 1998.
3. Raise the minimum capital requirement for commercial banks to the manat equivalent of US$1,000,000 and announce timetable for the phased increase to US$5,000,000 by 2001.	Completed. Increase to US$1 million for existing banks, and schedule for further increases, announced. In addition, ANB announced on November 15 that the minimum capital requirement for new banks is US$5 million.
4. Provide IMF with information on the operations and financial accounts of SOCAR, as necessary to assess their implications for the balance of payments and the budget.	Completed.
5. Establish privatization plans for 1998 in cooperation with the World Bank, to include a specific list of 50 large enterprises.	Completed.
6. Implement Presidential decree authorizing the privatization of the land of privatized enterprises to their owners.	Completed. Decree signed by the President on December 19, 1997.
7. Issue a decree further liberalizing remaining ex ante registration in the case of exports on credit, consignment and barter.	Completed. Decree amending foreign trade regulation signed by the President on March 30, 1998.

Box 1: Performance of the State-Owned Banks

International Bank:

- Good financial performance and satisfactory compliance with its letter of agreement with central bank. The bank has submitted privatization proposal to government and central bank that envisages sale to private investors in late 1998, for which it is awaiting approval. Government will need to honor guarantees on unrecovered foreign exchange loans, in order to bring bank to positive net worth prior to sale.

Savings Bank:

- Considerable progress in implementing restructuring plan through March 1998, although minor shortfalls relative to targets for reducing scale of operation and number of employees.
- Loss for 1997, but small profit in final quarter of 1997; sharp improvement over 1996 reflects higher service revenues and lower costs.
- Near-term recommendations are to convert into equity its loans from ministry of finance (manat 97 billion) and some part of frozen accounts (manat 30 billion) of other government agencies, as needed to bring bank to small positive net worth. Schedule to be agreed to repay remaining frozen accounts; no lending prior to privatization.
- Accounting and management systems need major improvements.

Prominvestbank:

- Unsatisfactory performance and too weak to support effective operations. Large negative net worth, which may increase as losses due to fraud involving government deposits are recognized.
- Compliance with targets unsatisfactory on branch closures, reducing credit/deposit ratio, and loan collections.
- Situation deteriorated since 1996 and liquidation should be considered. But bank has important niche in industrial and commercial sector that could be basis for viable operations. With effective management and sound capital structure, could be effective competitor to International Bank. Needs effective twinning arrangement soon and development of business plan. Former management replaced in early 1998 and new management appears to be more effective.
- Viability requires writing off loans against liabilities due to government and central bank, continuing branch closures, vigorous loan collection, and no new lending in the interim.

Agroprombank:

- Highly unsatisfactory performance, having met some targets but missed others badly (on branch closures, lowering credit/deposit ratio, and loan collections); also violated requirement during 1997 prohibiting new loans to borrowers with overdue loans.
- Loss in 1997 and large net loss in final quarter.
- Bad loans account for 97 percent of portfolio.
- Lacks skills to make large loans to agro-processing enterprises; has undertaken little small scale or rural credit and lacks resources to develop these. Provides few services not available from other banks.
- Needs large new capital infusion, but under present management this would likely be lost.
- No feasible approach to converting entire bank into profitable sustainable entity.
- Possible option might be to separate banks' assets and liabilities into two independent entities, one solely for loan recovery, the other a small commercial banking operation for which a business plan could be developed.

15. Enterprise reform and the establishment of a market-oriented legal framework have moved forward, especially with the submission to parliament of a draft securities law and with the provision to the staff of detailed information on the financial position of SOCAR. Privatization of small and medium enterprises has proceeded expeditiously, with all the quantitative targets of the World Bank's SAC I program met. However, the quality of the auction process has deteriorated, with a lack of transparency regarding the processing of auction results and deviations from established auction procedures. The new land code, including provision for the privatization of land under enterprises, has been submitted to and

discussed by parliament, but has been returned to the president's office for further amendment. Parliamentary approval, which was envisaged by end-March, is not now expected until end-October 1998.

III. POLICY DISCUSSIONS

16. With financial policies on track, the policy discussions focused on: (i) the impact of the decline in oil prices on both short and the medium-term prospects; (ii) the need to accelerate and improve the effectiveness of structural reforms, with special attention to economic aspects of governance through better financial controls and increased transparency; and (iii) the need to begin planning for the optimal use and investment of future oil revenues, and the establishment of proper financial controls over these revenues. The staff stressed that the benefits of macroeconomic stabilization and oil wealth could be threatened if they were not accompanied by a strengthening of structural reforms, including the legal framework, and a deepening of financial markets. Favorable macroeconomic conditions provided the opportunity to accelerate the pace of structural reform so as to bring about a market-friendly environment. At the same time, the staff noted the need to ensure that the stance of financial policies remained firm in light of the recent fall in world oil prices.

A. Impact of the decline in oil prices on policies for 1998

- **Impact of lower oil prices on current account to be partly offset this year by higher oil production and lower imports**
- **Balance of payments expected to be fully financed**
- **Authorities stand ready to take fiscal measures to offset fall in oil revenues, though margins under program deficit ceilings currently large**
- **No substantial changes to program financial targets for remainder of this year**
- **Flexible exchange rate policy remains appropriate; no sign yet of competitiveness problems in nonoil sector**

17. The staff agreed with the authorities that, despite the impact of lower oil prices, the program targets for the second half of the program year remained appropriate and achievable, and that the resulting stance of fiscal and monetary policies would be consistent with attainment of the program's macroeconomic objectives for 1998.

External sector

18. The authorities argued that the preliminary first quarter figures exaggerated the impact of the decline in oil prices on the **external current account**, because of SOCAR's decision to temporarily suspend exports of oil products. Moreover, production and exports of crude oil had been higher than expected during the first four months of 1998, and this trend was expected to continue. The current account deficit is now projected to be 30 percent of GDP in 1998, about US$40 million (1 percent of GDP) more than previously projected. The impact of lower oil prices (about US$150 million) is expected to be partly offset by lower imports, in light of the 1997 outcome, and higher crude oil exports.

19. **Private capital inflows** linked to oil-sector development are expected to be largely unaffected by the lower oil prices, as these reflect long-term investment decisions which cannot be reversed without huge costs. Net oil bonus receipts are likely to be smaller than originally planned because SOCAR now intends to use bonuses this year to make payments due to a foreign oil company for building a gas utilization plant in 1992. The larger current account deficit together with lower oil bonuses are projected to reduce the expected overall surplus on the balance of payment, but the original program gross reserves target for end-1998 remains achievable in light of the more-than-programmed accumulation of reserves at the end of 1997. The balance of payments for 1998 is projected to be fully financed.

Box 2: The Impact of the Oil Price Decline on the External and Fiscal Positions

Increased dependence on oil resources makes Azerbaijan's economy potentially vulnerable to oil price changes. This is illustrated by the effects of the recent decline in the oil price on the external current account position and the budget. The discussion below is based on the latest WEO oil price assumption, which is lower than that previously used in the program by US$4½ a barrel in 1998 and US$3 for the remainder of the projection period.

Given the expected oil production and export profiles, **the direct impact of the price decline on the external current account** would increase markedly early in the next century. In 1998, the value of oil exports would fall by about 4 percent of GDP, in view of the sharp decrease in the price of oil. With a smaller price decline assumed for the remainder of the projection period, oil exports are projected to be lower by 2.5 percent of GDP over 1999-2001 with average oil production of about 275 thousand barrels a day. However, beginning in 2002, production is expected to increase markedly and the impact of the price fall on projected oil exports would increase steadily from 3 percent to about 7 percent of GDP by 2005, as daily production approaches one million barrels, and when oil exports represent more than 85 percent of total exports. The "oil boom" would come after 2005 as production and exports are expected to rise substantially, at which time the current account should be in surplus but even a small oil price change would have a significant direct impact on the current account.

The decline in the price of oil in 1998 will also have a significant negative **impact on general government revenues**. Tax revenues related to oil, which consist of royalties, profit tax, VAT, and excises paid by SOCAR (state oil company), were 22 percent lower than projected in the first quarter. In the absence of any policy response, the whole year impact could be about 1½ percent of GDP, with the decline in royalties alone estimated at ½ percent of GDP. In the medium term, profit taxes paid by both SOCAR and the international oil companies will be the main source of revenue from the oil sector as the international companies are exempt from other taxes. Since half of the gross profits will initially be devoted to recovering capital investment according to the production sharing agreements, sustained lower oil prices would impact on budgetary revenues by delaying the point at which oil companies would fully recover their investment costs and begin paying large amounts of profit taxes.

The above illustrates the sensitivity of the projections to oil price shocks on the assumption that everything else remains constant. One would expect, however, that a sustained decline in the oil price could improve non-oil sector competitiveness as a result of a possible exchange rate depreciation, and could also lead, over the longer term, to delays in the start of new exploration and development phases which would lower oil-related import of goods and services and mitigate the impact of the price fall on the current account. In addition, policy responses designed to mobilize domestic savings would help in reducing the impact of an oil price shock. In 1998, for example, the authorities have effectively increased excises to maintain the original prices of oil products, which should lead to larger excise tax receipts and offset partially the impact of the lower crude oil price. The overall conclusion is that, with appropriately flexible policy responses, the consequences of the oil price change currently reflected in the WEO assumptions should be manageable.

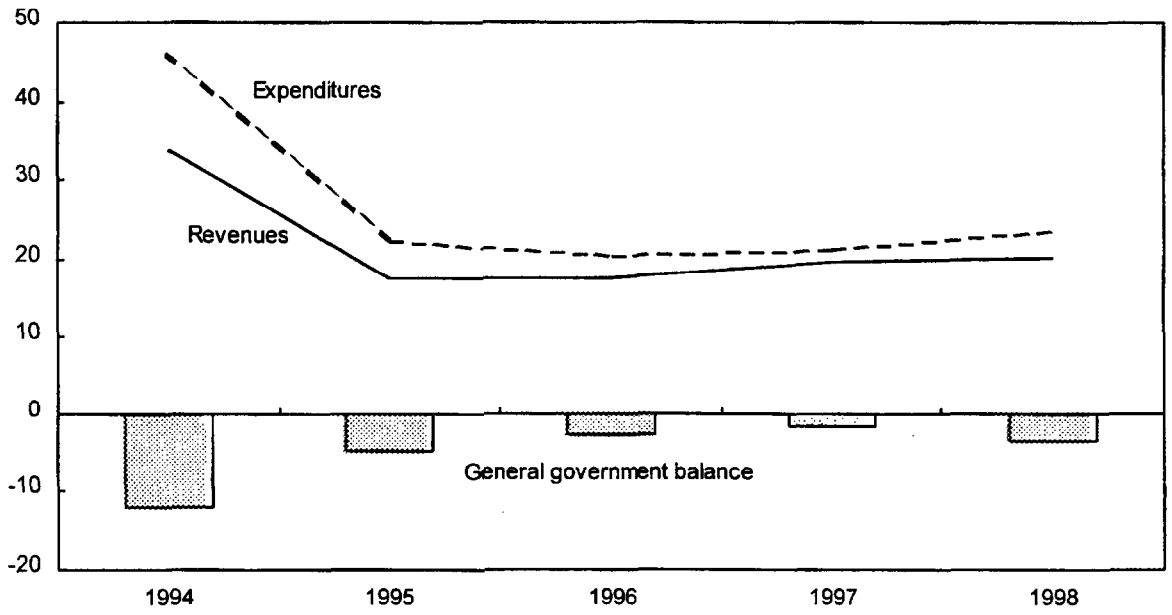
Fiscal policy

20. The authorities and the staff agreed that the direct impact of lower oil prices would be to reduce **general government revenues** in 1998 by about 1½ percent of GDP compared to the budgeted level. However, the authorities have already taken several revenue measures to offset this, including an increase in excise tax rates for oil products, expansion of the excise tax base, and various improvements in tax collection. Taking account of these, the shortfall in revenues this year is expected to be about manat 150 billion or ¾ percent of GDP. To compensate for the lower revenues, the authorities are planning a **package of expenditure cuts**. The mission urged the authorities to avoid across-the-board expenditure reductions which would weaken the budgetary process by continuing the practice of sequestration. The authorities indicated that expenditure cuts could be concentrated in lower priority areas, such as the reserve fund of the cabinet of ministers, and could include a postponement to October

1998 of the wage increase originally planned for July. Moreover, modest savings in interest payments were expected to result from loan renegotiations with external creditors.

21. The staff accepted, however, that in light of the lower-than-expected deficit in the first half of the second year program, reflecting expenditure cuts already implemented, it would be appropriate for the authorities to wait for the revenue outcome in the second quarter of 1998 before deciding whether they needed to submit modified expenditure plans for the year to parliament in a supplementary budget. With the overall **general government deficit target** unchanged at 3½ percent of GDP in 1998, the quarterly fiscal performance criteria were adjusted only on account of the changes in the timing and amounts of actual and projected foreign financing, principally the likely delay from the second to the third quarter of 1998 of the final disbursement under SAC I (Figure 3 and Table 6).

Figure 3: Azerbaijan: General Government Budget
(In percent of GDP)



22. The staff commended the authorities' generally cautious approach to the **contracting and guaranteeing of nonconcessional external debt**. It expressed reservations, however, about the issuance of a guarantee for a loan (US$75 million) to Azerichemia, a public enterprise engaged in purely commercial activity, as this had left less room under the debt ceiling for borrowing to finance genuine and much needed infrastructure projects.[5] The

[5]A further guarantee was also issued on a concessional loan to SOCAR for the construction
(continued...)

authorities shared the concern of the staff, but indicated that despite their best efforts, they had been unable to secure the loan without this guarantee. They also indicated that, within the program's ceiling, guarantees might have to be issued for two other nonconcessional loans to finance vital oil-related infrastructure projects, but reassured the staff that once Azerbaijan's creditworthiness was established, the government would stop issuing such guarantees.

Monetary policy and the exchange rate

23. With monetary growth moving back towards the program path and inflationary pressures well under control, the staff and the authorities judged that there was no need to adjust the main elements of the **monetary program**, other than to reflect changes in the timing and amounts of expected foreign financing. If the program targets are met, monetary growth during 1998 will be lower than originally envisaged, reversing the above-target monetary growth towards the end of 1997. Thus, manat reserve money is now programmed to decline slightly during 1998, and manat broad money to increase by only about 5 percent. The projected modest increase in the money multiplier reflects measures being taken by the National Bank to strengthen the banking and payments system.[6] On the basis of the projected capital inflows this monetary framework is consistent with a slight nominal appreciation of the manat.

24. The restructuring of the four state-owned banks is expected to have a major impact on the structure of the balance sheet of the banking system, including sharp reductions in credit to enterprises as bad loans (including some in foreign currencies) are written off and replaced by government securities (see Table 8). Allowing for this, underlying bank credit to the economy is expected to continue to rise in 1998.

25. In reviewing the **framework of monetary and exchange rate policy**, the authorities and the staff agreed that a flexible exchange rate continued to serve Azerbaijan well, and that intervention in the foreign exchange market should aim at ensuring that the target for net international reserves is met while seeking to avoid large fluctuations in the rate. The authorities noted that the recent fall in the oil price had no significant impact in the foreign exchange market, beyond that resulting from the reduction in current export proceeds. The past nominal exchange rate appreciation had been useful in holding down inflation and building confidence in the manat, and had not apparently adversely affected competitiveness in the nonoil sector: growth in this sector was buoyant; dollar wages were still very low; and

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[5](...continued)
of a power station.

[6]Recent Economic Developments (RED), (SM/98/139, 6/12/98), Chapter II provides details.

the real effective exchange rate had changed little over the last three years (see Figure 2).[7] However, the authorities agreed that in the event the currency came under strong pressure to appreciate or depreciate, they would consult with the staff on the appropriate policy responses.

B. The medium term outlook

- **Despite prospect of lower oil prices, medium term balance of payments outlook remains strong**

26. The mission reviewed the **medium-term outlook for the balance of payments** in light of the recent developments in the external sector as well as the changes in the oil price, transport cost, and production profiles, while retaining the original macroeconomic assumptions including those related to real growth (Figure 4 and Table 5). While these projections are highly uncertain, they suggest that the impact of lower oil prices, in line with the current WEO assumption,[8] on the external current account should be manageable. While external current account deficits are now projected to be higher on average over the next few years, several factors, notably the possible impact of a less appreciated exchange rate on nonoil trade, should moderate the impact of lower oil prices.

27. The revised projections envision a deficit of US$½ billion (3 percent of GDP) by 2005, compared with a slight surplus under the previous projections. In addition to revising the oil price assumptions, production figures have been adjusted downward beginning in 2001, due to technical delays in the development of new oil fields. However, a decline in transportation costs, associated with the opening the proposed "main export pipeline", is expected partly to offset the impact both of lower export volumes and the drop in the oil price. Non-oil exports are projected to increase at a moderate rate averaging about 10 percent a year. Oil-sector imports have been revised downward in light of new information suggesting a lower import content in oil sector development activities. Non-oil import volumes are projected to grow slightly more slowly than non-oil exports, in line with past trends.

28. Oil-sector **foreign direct investments** are projected to remain strong, as oil companies indicated that they were unlikely to change their medium term investment strategy on the basis of the recent decline in the oil price.[9] The surplus on the overall balance of

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[7]See also RED, Chapter II.

[8]The new WEO oil price assumption is on average US$3 per barrel lower than the earlier projections.

[9]Oil sector activities currently underway are governed by the terms of the production sharing

(continued...)

payments is projected to build up to US$1 billion by 2005, leading to accumulation of gross reserves equivalent to about 8 months of imports and also to the build-up of government foreign assets, perhaps invested in an "oil fund", which could reach about US$2 billion by 2005.[10] Over the same period, external debt should remain modest, reaching about 18 percent of GDP in 1999 but declining steadily to about 7 percent by 2005. Debt service as a percentage of export revenues should also remain modest, declining from a peak of 8½ percent in 2000 to about 2½ percent in 2005. Azerbaijan's ability to repay its future obligations to the Fund is therefore expected to remain very strong.

C. Structural reforms

- **Financial sector reforms to include broadening of credit auctions and treasury bill markets, and privatization of the International and Savings Banks**
- **Fiscal reforms to focus on improving cash management and financial control, and preparing for major public sector reforms in the 1999 budget**
- **Governance problems to be addressed through improvements to privatization auctions and a strengthening of the legal framework along liberal lines**
- **Working group to examine issues concerning the use and investment of future oil revenues**

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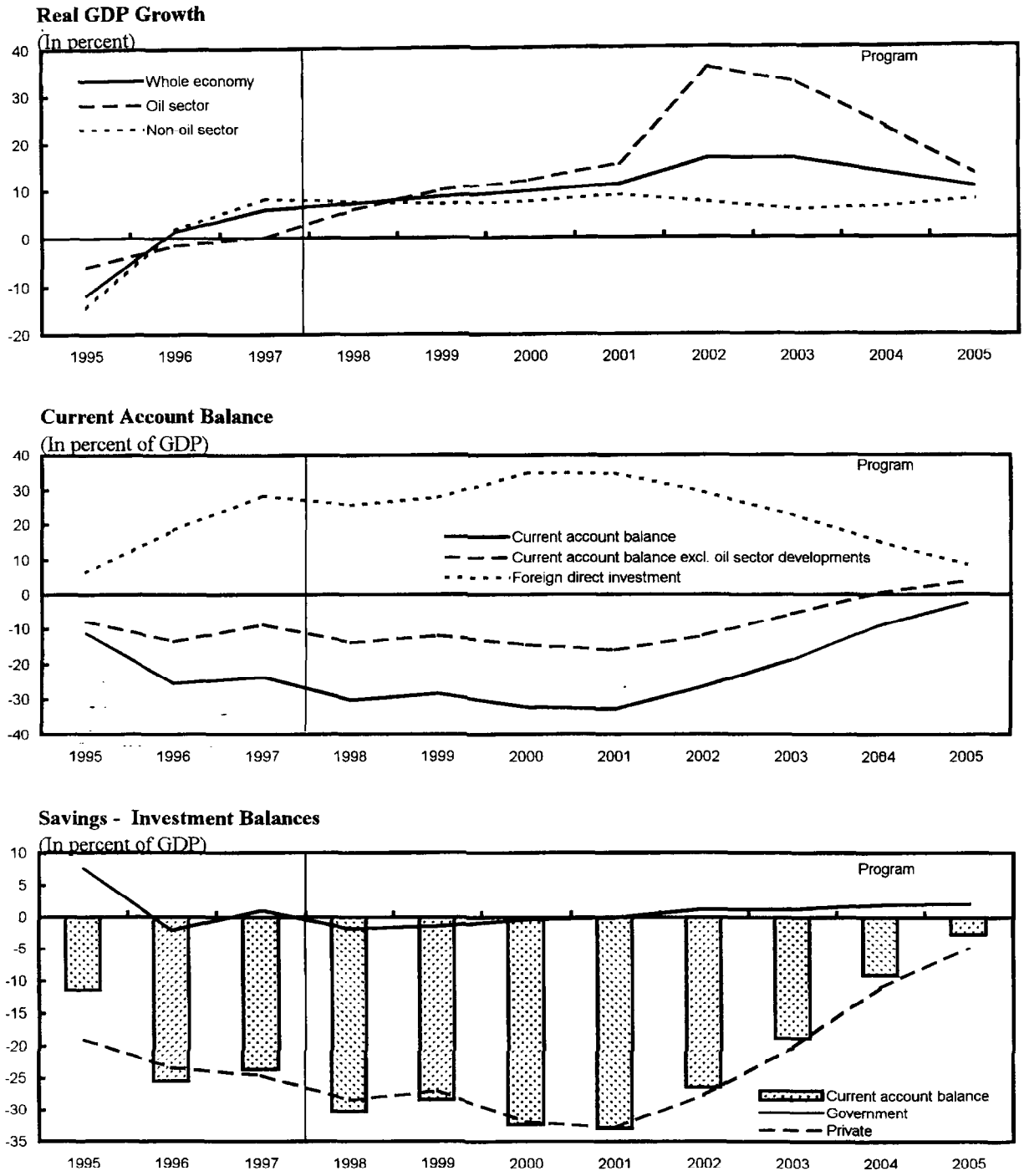
[9](...continued)
agreements (PSAs) requiring companies to undertake a specified number of exploration and drilling activities.

[10]See RED, Chapter V.

Figure 4. Azerbaijan: Medium Term Macroeconomic Indicators



Sources: Azerbaijan authorities; and IMF staff estimates.

29. The authorities agreed that an acceleration of structural reform was needed to sustain the ongoing economic recovery, particularly in the nonoil sector . The policy discussions identified five major priority areas: (i) the financial and banking sectors; (ii) fiscal reforms; (iii) enterprise reform and legal framework; (iv) agricultural sector; and (v) external trade.

i. Financial sector

30. The lack of well-developed financial markets constitutes an impediment to both macroeconomic policy effectiveness and the mobilization of resources for growth in the non-oil economy. To facilitate greater reliance on indirect instruments of monetary policy and foster financial deepening, the authorities have undertaken to further liberalize financial markets. The **credit auction** market will be opened fully to foreign-owned banks, and more orderly conditions will be created in the **treasury bill market**, in particular, by holding auctions on a regular schedule and selling the full amount of bills offered at prices determined by the market (paragraph 20 of the authorities' letter of intent (Appendix III)).[11] If fully implemented, these measures should lead to a substantial deepening of the treasury bill market.

31. While the staff and the authorities diverged little in their assessments of the conditions of the **state-owned banks** (see Box 1), opinions differed about the timing of proposed privatizations and about the need for a radical solution to the problems of Agroprombank. The authorities were initially reluctant to go ahead with the privatization of the **International Bank** this year, citing the budgetary costs of the required recapitalization. However, after accepting that these costs were likely to be minimal this year, they agreed that the privatization would be delayed only slightly and would go ahead before end-1998, after the government had honored its guarantees on unrecovered foreign currency loans made by the bank by issuing marketable securities (paragraph 14). Privatization of the **Savings Bank** should now be completed by June 1999. To facilitate this, government loans (and accrued interest) to the Savings Bank, plus some frozen obligations due to government agencies, will be converted to equity sufficient to achieve a small positive net worth (paragraph 15). The staff proposes to make privatization of both these banks structural benchmarks under the third year ESAF program.

32. It is expected that **Prominvestbank's** situation can be turned around if a strong twinning arrangement, currently in an advanced state of negotiation with a foreign bank, is concluded by mid-year. Failing such an arrangement, steps will be taken quickly to reduce substantially the bank's operations and size (paragraph 17). While the staff's view was that it would be better to liquidate **Agroprombank** immediately, the authorities viewed this as politically unacceptable. Instead, the scale of the bank's operations will be curbed sharply,

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[11]Subsequent paragraph references are to the letter of intent.

with no new lending or deposit-taking, and no credit from the central bank or the government (paragraph 18), pending a decision on how to proceed. Discussions on the future of this bank between the authorities, an MAE expert, and World Bank staff will continue over the coming weeks. Reaching understandings on the way forward for these banks will be a key issue for the third year program discussions.

33. The authorities will continue to strengthen the banking system by closer monitoring and firmer enforcement of **prudential regulations**, and by appointing a resident advisor in bank supervision and bank restructuring.[12] In addition, statutory capital for existing banks will be raised to US$1.25 million from July 1, 1998 and to US$1.5 million from January 1, 1999. Financial market development should be enhanced by enactment of the new draft law on securities.

ii. Fiscal reform

34. The authorities intend to improve **reporting, cash management, and financial planning,** with the aim of promoting more efficient management of resources by moving away from daily cash management controls and by implementing procedures to minimize idle cash balances. The closure of all foreign exchange bank accounts of budget institutions is also expected to bring greater transparency by placing all fiscal operations under the supervision of the treasury. In order to prevent arrears accumulation, the authorities plan to implement measures to control expenditure commitments (paragraph 8). Given that budgetary expenditure arrears are likely to remain significant even after programmed reductions this year, the staff indicated that in the context of third year ESAF discussions, it would explore whether the full operation of the treasury would allow the monitoring of a more comprehensive measure of expenditure arrears than currently used in the program.

35. **Public sector reform** is an important element of the program, with the aim of improving both governance and efficiency. After recently completing a survey of government employment and wages, the authorities agreed to monitor regularly the number of filled positions and the payroll (paragraph 10). To improve public sector efficiency, the authorities also agreed to decompress core public sector wages (paragraph 10). Employment reductions will rely on a well-targeted severance pay package and restructuring of the government with an emphasis on improving the efficiency of the education and health sectors. The authorities will also introduce a civil service law during 1999 to raise the quality of management-level public sector employees. In all these areas, the authorities acknowledged that much preparatory work remained to be done in order to implement changes with the 1999 budget, and indicated that technical assistance would be needed.

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[12]About one-third of banks are not in compliance with prudential regulations and have incurred a variety of administrative and financial penalties.

36. The mission stressed the importance of improving the **social safety net**, since the ongoing economic revival has produced little impact so far on the living conditions of the poor. The unemployment rate remains very high, at nearly 20 percent, while the need to provide assistance to the large number of refugees and people under the extreme poverty level[13] continues to place formidable pressures on the available resources. The authorities reconfirmed their commitment under the program to improve the social safety net by better targeting recipients, and to introduce individual retirement accounts (paragraph 12).

37. The authorities also reconfirmed commitments to improve **tax policy and administration** by completing a draft tax code and modifying the enterprise profits tax, (paragraph 13). These modifications are expected to have a positive impact on tax collections while also improving the efficiency of the tax system. The authorities also identified a number of tax administration improvements (paragraph 13).

38. The mission pointed out that **lack of cooperation between the ministry of finance and the ANB** has complicated policy implementation. The reluctance of the ministry of finance to issue treasury bills and to securitize old debts to the ANB has slowed the development of this market and severely limited the ability of the ANB to undertake open market operations to sterilize capital inflows. There have been delays in the restructuring of the four troubled state-owned banks, partly because the ministry has resisted the issuance of securities to bring the net worth of these banks to zero, including the honoring of its guarantees to the International Bank. The authorities accepted that there was a problem and agreed to take steps to clarify and regularize the financial relationships between the ANB and the ministry of finance, which are currently unclear and cause friction between the two institutions, (paragraph 21).

iii. Enterprise reform and legal framework

39. The mission held frank discussions with the authorities on ways to improve economic aspects of **governance**. They shared the staff's concerns about corruption and heavy-handed actions by the tax inspectors, customs officials, police and prosecutors, in particular with regard to non-oil-related business activities.[14] The mission and the authorities identified three major areas where policy could contribute to increase transparency and hence reduce the scope for corruption (see also Box 3):

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[13]A World Bank survey on living conditions in Azerbaijan estimated the portion of population below an extreme poverty threshold at 20.4 percent, and that below a poverty threshold at 61.5 percent in 1995.

[14]The PSAs— which have the status of law—create a special environment for foreign investment in oil developments which create less opportunities for corruption.

Box. 3: Governance Issues

The authorities share the concerns of the staff about widespread problems with economic aspects of governance. Particular concerns identified by the staff include:

- a recent fraud involving the **loss of manat 100 billion (US$26 million) of government deposits** at a commercial bank;
- the **response of the legislative and judicial authorities** to this, including heavy-handed investigations and passage of new, wide ranging criminal penalties for economic crimes that could stifle market development;
- **use of oil bonus money** to purchase an aircraft for the president, outside normal budgetary procedures;
- and **lack of transparency in the privatization process,** including questionable processing of auction results and deviations from announced auction procedures.

In addition, there is considerable anecdotal evidence of corruption involving tax and customs authorities, the police and prosecutors, including the payment of bribes to obtain licenses for commercial activities and to avoid incurring penalties for violating poorly defined regulations.

The authorities are taking actions in the following areas to address these problems.

- **Legal and judicial reform**. This includes measures to: (i) clearly define the rights and limits of the police and state procurators in the investigations of private enterprises; (ii) establish a constitutional court; and (iii) approve the civil and procedural codes.
- The establishment of a **procurement agency**, which would make transparent government purchases by defining clear rules and procedures for procurement.
- **Administrative restructuring**. In collaboration with the World Bank the authorities plan to identify government functions which could be transferred to the private sector and which are unnecessary. This would reduce the scope of government activities and regulations and hence the scope for corruption.
- **Civil service reform**. The objective is reducing both the incentives and the scope for corruption. Bringing wage and salaries in government more in line with market levels is essential in this regard. The authorities also plan to define new standards for the civil service with a **civil service law,** which would establish an independent regulatory body for the civil service and clearly define conflict of interest and rules for disclosure of income and assets.
- Strengthening the **internal audit unit** of the ministry of finance and establishing an independent **external audit agency**.
- Establishing institutional arrangements for the use of **oil revenues** in close coordination with the budgetary process.
- Improving the quality of the **privatization auctions** by better oversight of the auction results and better public information campaign.

Several of these measures have been or will be taken shortly, others are planned for the next few months. The staff stressed that governance issues would be a focus of program discussions and conditionality for the third year ESAF arrangement.

- **Privatization**. While the sale of small-and-medium-size enterprises has proceeded at a relatively quick pace, the quality of the auctions has deteriorated, with de facto barriers to participation. The authorities agreed to implement a number of steps to open up the auctions in collaboration with the World Bank (paragraph 23).

- **Legal framework**. In response to a recent embezzlement of budgetary resources, parliament has approved new anti-corruption legislation which gives additional power to the judiciary and police to fight "economic crimes". However, the mission pointed out that this new legislation could stifle private investment and provide new opportunities for corruption, as it had given prosecutors and police an unusual range

of discretionary powers, many of which were poorly defined. The mission stressed that while there might have been good reasons to strengthen the anti-corruption legislation, it was important that the basic market mechanisms be free to operate without unjustified interference. Thus, legislation which clearly defined and limited the role of the judiciary and police, based on simpler and more transparent rules, was needed. The authorities reaffirmed their commitment to submit such legislation to parliament by end-June. They also agreed to amend within the next few weeks the recently approved anti-corruption measures so as to avoid any adverse impact on private sector development (paragraph 25).

- **Oil sector**. The mission stressed that transparency in the relationships between SOCAR and the government was essential to ensure financial control over government oil-revenues.[15] In particular, it was noted that the recent purchase of an aircraft outside the normal budgetary procedures had been possible partly because no institutional mechanism was in place to control the use of oil revenues. The authorities indicated that this was an exceptional purchase and that such operations would not occur again. They also agreed to (i) implement a quarterly reporting system on SOCAR's financial position (paragraph 29); and (ii) establish a working group to prepare proposals for the future investment and use of oil revenues (paragraph 28 and Box 4).

iv. Agricultural sector

40. The mission expressed concern that structural reforms in the agricultural sector were lagging. Privatization of the cotton industry last year had not led to any reduction in monopoly power, and production was expected to decline this year. There had been delays in parliamentary approval of the new land code, and significant delays in issuing land titles which meant that the end-June structural benchmark for distribution of all titles was not now achievable. The authorities noted the need for thorough parliamentary discussion of such an important piece of legislation as the land code, but recognized the need to accelerate reform in this area.

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[15]Oil signature bonuses are paid to SOCAR by the foreign oil companies participating in the PSAs and then transferred to the special account with the ANB.

v. External trade

41. Azerbaijan's trade system is open and its exchange system is free of restrictions on payments and transfers for current account transactions. The authorities indicated their intention to eliminate the only remaining restrictions on exports by public enterprises in the context of the third annual ESAF/EFF arrangements, provided that improvement in the management of public enterprises can be realized. In addition, they reiterated their commitment to reduce the **import tariff** rate from 15 percent to 12 percent in 1999, and to 10 percent by the end of the year 2000. In view of the elimination of exchange restrictions under Article XIV, the staff encouraged the authorities to accept the **obligations of Article VIII, sections 2, 3, and 4** as this would reflect more accurately Azerbaijan's current status and would send a positive signal to the international community about the convertibility of the currency. The authorities endorsed the staff's position and indicated that a decision to accept Article VIII obligations would be taken by end-September 1998.

Box 4: Working Group on the Management of Oil Resources

Although the majority of the wealth from the oil sector will not accrue to the budget until early in the next century, it would be prudent to begin now to consider establishing institutional arrangements that would preserve and invest this wealth wisely. The authorities have therefore decided to establish a working group to make recommendations related to saving, investing, and managing these resources for the benefit of present and future generations. The group will be composed of key public officials from interested ministries, the central bank, the presidency and cabinet of ministers, and executives of the state oil company, SOCAR. The resident representatives of the Fund and the World Bank have been invited to participate in an advisory capacity.

The group will examine the range of options for successfully collecting and investing wealth from the oil sector. A key issue for Azerbaijan will be to strike the right balance between using the oil revenues for urgently needed investment in infrastructure, including borrowing for such investments now on the strength of future revenues, and saving the revenues for future generations. Saving in the form of foreign assets would reduce pressure for exchange rate appreciation, and so limit any possible damage to the nonoil sector (the "Dutch disease"), as well as creating a buffer to help the economy cope with oil price fluctuations. Because of this, some nations which have significant oil wealth have chosen to create a form of investment fund which invests part of the resources in foreign markets. Some examples which the working group will investigate include Oman, Kuwait, and Norway.

The main tasks of the working group will be as follows:

i. **Establish clear principles for the use of revenues that will accrue to the government from the oil sector**. To what extent, if at all, should such revenues be used to finance current budgetary expenditures? To what extent should they be used for infrastructure investments, or even used as collateral for loans to finance current projects? Can suitable investments be clearly identified, in the context of a public investment plan? Is it agreed that a certain portion of revenues should be invested in foreign assets, so as to build a stock of wealth?

ii. **Determine the location of the investment fund and decide how the fund will be managed.** If it is decided that a stock of wealth should be created, where should the resources be located and how should they managed? Possibilities include accumulating the resources in a government account at the central bank, or the establishment of a separate oil fund. Serious consideration should be given to employing a reputable manager from an international investment firm to manage the investments.

iii. **Develop transparent rules of access to the oil wealth that take macroeconomic implications into consideration.** A critical task of the group would be to develop the rules of access to the oil wealth to allow their use for genuine social infrastructure investments while avoiding imprudent expenditures and preventing the rapid depletion of the oil wealth.

iv. **Develop transparent accounting and budgetary arrangements for the fund, that clarify the relationships between SOCAR, the oil consortia, the government and the budget.** A key issue will be whether the oil fund should be formally incorporated into the state budget, or be separate, with its own budget approved by parliament.

D. Program monitoring

42. Performance criteria for end-June, end-September, and end-December 1998 are set out in Table 1 of the letter of intent. Prior actions for Board consideration of the program reviews were: (i) the appointment of a chairman for the State Procurement Agency; and (ii) submission to parliament of a draft securities law. Both actions have now been taken.

43. The fourth review under the extended arrangement is expected to be completed by end-December 1998, jointly with Board approval of the third year ESAF arrangement.

IV. Staff Appraisal

44. **The Azerbaijan authorities have continued to pursue very strong macroeconomic policies** and, by early 1998, achieved a rare combination of annual inflation close to zero and GDP growth not far short of 10 percent. Growth has been particularly strong in the nonoil sector, somewhat allaying fears that exchange rate appreciation in response to development of oil wealth might stifle the development of this sector. Fiscal policy is under firm control, with the authorities responding to the impact of lower oil prices and arrears beginning to fall, albeit slowly, despite the shortfall in oil revenues. Progress on the structural agenda has, however, been mixed. There are increasing concerns that slow financial sector development, together with the effects of corruption and the authorities' response to it, might constrain private sector development.

45. **The overall conduct of financial policies has been impressive**. The staff supports the authorities' approach to exchange rate policy, involving intervention to smooth short-term fluctuations and prevent excessive nominal appreciation, even though this has at times led to temporary deviations from monetary targets. The staff welcomes the authorities' intention to consult closely with staff in the event that strong pressure on the exchange rate were to threaten their objectives. The possibility of such pressures points up the need to move more rapidly to develop the credit and treasury bill auctions, to give the central bank stronger instruments, including open market operations, to sterilize its foreign exchange operations. While modest steps have been taken, much remains to be done to create genuine markets. In the fiscal area, the reluctance of the ministry of finance to issue treasury bills, combined with the shortfall in oil revenues, contributed to an unnecessarily large squeeze on expenditures during the first quarter.

46. **Progress on the restructuring of the four state-owned banks has been mixed**. Further substantial delays in resolving the problems of two of these banks are now in prospect. This makes it all the more important to push ahead quickly, in line with the revised timetable, with the privatization of the International and Savings Banks, where progress in implementing the restructuring plans has been relatively encouraging. Over the next few months, the key test of the authorities' determination to move forward will be the preparation of privatization plans for these banks and the honoring of government guarantees to the

International Bank through the issuance of marketable treasury bills. Radical and prompt action is also needed to address the problems of Prominvestbank and Agroprombank.

47. **Rapid progress in financial market development and bank restructuring continues to be hampered by poor relations between the central bank and the ministry of finance.** The root of this appears to be unsatisfactory financial relations between the institutions: the ministry does not pay interest on most of its accumulated debts to the ANB, while the ANB does not pay interest on government deposits, and there is a lack of transparency and rules concerning the size of profit transfers to the budget. The staff regards the program commitment to gradually securitize government debts to the ANB as an important intermediate step to improve relations. However, it is important that there is a comprehensive resolution of these issues before the end of this year, in the context of the third year ESAF arrangement.

48. **Progress in restructuring government expenditures has been limited so far.** Preparatory work needed to address over manning in the health and education sectors, reform the wage structure, improve the targeting of the social safety net and reform the pension system is lagging. The staff agrees with the authorities that more technical assistance, especially in the context of the World Bank's proposed SAC II, will be needed in some of these areas if program objectives are to be met. The staff welcomes the authorities' continued commitment to make substantial progress on these issues in the 1999 budget. Sustainable expenditure reductions resulting from such reforms would be especially important in the event of further adverse oil price developments.

49. **The authorities are concerned about corruption and poor fiscal governance.** These concerns center on lack of transparency in the privatization process and in the use of government oil revenues, and increasingly in recent months on arbitrary and heavy-handed actions by the tax and customs authorities, the police and the prosecutors. Recent moves by parliament to strengthen the hand of the law enforcement agencies were in part a response to a fraud involving the loss of substantial government deposits, but in the staff's view may prove excessive. Overall, there is a growing impression that governance problems could inhibit foreign investment and private sector development. The staff therefore attaches particular importance to the assurances that the authorities have given to address these issues, through measures to improve privatization auctions, strengthen budgetary management and planning through the newly established treasury, and improve financial reporting by the state oil company, while pursuing a more liberal role for the tax and law enforcement agencies. Such issues will be a focus of program discussions and conditionality under the third year ESAF program.

50. **The staff welcomes the very cautious approach which the authorities continue to take toward contracting and guaranteeing of external loans,** though it regrets that the government felt obliged to issue a guarantee, albeit within program ceilings, for one essentially commercial project. This, together with the potential vulnerability of Azerbaijan's

economic prospects to oil price shocks, highlights the need to begin thinking now about the **optimal use of future oil revenues**: to what extent is it wise to borrow now, against future revenues, for urgently needed investments; and to what extent should future revenues be invested in the infrastructure or saved in the form of foreign assets, to build a buffer against future shocks and to preserve wealth for future generations. The staff welcomes the establishment of a working group to address these issues and looks forward to contributing to its work.

51. **With its sound financial policies and substantial oil wealth, Azerbaijan is in an unusually favorable position**. Though it starts from a low base, and faces formidable problems, not least those of providing for a large number of refugees, with proper management of its resources its prospects are excellent. The priority now must be to focus on structural reforms, especially those related to governance, to ensure that the benefits of oil are widely spread throughout the nonoil sector, where most of the population must work, and not dissipated through imprudent current expenditures and corruption. In view of the authorities' commitments to address these issues, backed up by program measures, the staff recommends completion of the program review.

52. It is recommended that the next Article IV consultation be held on the standard 12-month cycle.

V. PROPOSED DECISIONS

The following draft decisions are proposed for adoption by the Executive Board:

A. Enhanced Structural Adjustment Facility- Review under the Second Annual Arrangement

1. The Azerbaijan Republic has consulted with the Fund in accordance with paragraph 2(e) of the second annual arrangement under the enhanced structural adjustment facility for the Azerbaijan Republic (EBS/97/229, Supplement 1), the third paragraph of the letter dated December 8, 1997 from the Prime Minister and the Minister of Finance of the Azerbaijan Republic and the Governor of the Azerbaijan National Bank, and paragraph 43 of the Memorandum of Economic Policies for 1997-98 (the "Memorandum") attached to the letter dated December 8, 1997.

2. The letter dated June 11, 1998 from the Prime Minister and the Minister of Finance of the Azerbaijan Republic and the Governor of the Azerbaijan National Bank shall be attached to the second annual arrangement under the enhanced structural adjustment facility, and the letter dated December 8, 1997 from the Prime Minister and the Minister of Finance of the Azerbaijan Republic and the Governor of the Azerbaijan National Bank, with its annexed Memorandum, shall be read as supplemented and modified by the letter dated June 11, 1998.

3. Accordingly, the indicators referred to in paragraph 3(a) of the second annual arrangement for the Azerbaijan Republic under the enhanced structural adjustment facility shall be as specified in Table 1 of the letter dated June 11, 1998.

4. The Fund decides that the mid-term review contemplated in paragraph 2(e) of the second annual arrangement under the enhanced structural adjustment facility for the Azerbaijan Republic, the third paragraph of the letter dated December 8, 1997, and paragraph 43 of the Memorandum attached thereto, has been completed and that the Azerbaijan Republic may request disbursement of the second loan specified in paragraph 1(a)(ii) of the same arrangement.

B. Third Review under the Extended Arrangement

5. The Azerbaijan Republic has consulted with the Fund in accordance with paragraph 3(d) of the extended arrangement for the Azerbaijan Republic (EBS/96/188, Supplement 2, 12/24/96) as amended, the second paragraph of the letter dated December 6, 1996 from the Prime Minister and the Minister of Finance of the Azerbaijan Republic and the Governor of the Azerbaijan National Bank as modified, and paragraph 56 of the Memorandum of Economic Policies for 1996-97 ("Memorandum") attached to the letter dated December 6, 1996, as modified.

6. The letter dated June 11, 1998 from the Prime Minister and the Minister of Finance of the Azerbaijan Republic and the Governor of the Azerbaijan National Bank shall be attached to the extended arrangement for the Azerbaijan Republic as amended, and the letter dated December 6, 1996 from the Prime Minister and the Minister of Finance of the Azerbaijan Republic and the Governor of the Azerbaijan National Bank, with its annexed Memorandum, as modified, shall be read as supplemented and modified by the letter dated June 11, 1998.

7. Accordingly, the performance criteria set out in paragraph 3(a) of the extended arrangement, as amended, for June 30, September 30, and December 31,1998 shall be as specified in Table 1 to the letter dated June 11,1998.

8. The Fund decides that the third review contemplated in paragraph 3(d) of the extended arrangement for the Azerbaijan Republic as amended, the second paragraph of the letter dated December 6,1996 as modified, and paragraph 56 of the Memorandum attached thereto as modified, has been completed, and that the Azerbaijan Republic may continue to make purchases under the extended arrangement.

Table 3. Azerbaijan: Performance Criteria Under the Second Annual ESAF Arrangement and EFF

(In billions of manats, unless otherwise indicated) 1/

	December 31, 1997			March 31, 1998		
	Original	Adjusted	Actual	Original	Adjusted	Actual
QUANTITATIVE PERFORMANCE CRITERIA						
Stock of net credit from ANB to the general government	49	13	-6	24	66	-36
Net domestic assets of the ANB	612	576	572	585	627	549
Floor on net international reserves of the ANB in millions of U.S. dollars	146	156	200	156	145	178
Cumulative deficit of the general government, since Sept 30, 1997 (including foreign project loans)	85	85	69	235	221	108
Arrears of the Republican budget for energy and water deliveries	588	606	596	568	586	584
Nonconcessional external loans contracted or guaranteed by general government	150	150	0	200	200	75
with maturities of 1-5 years (in millions of U.S. dollars)	35	35	0	70	70	0
Net disbursements of contracted or guaranteed loans with maturities of < 1 year (in millions of U.S. dollars)	5	5	0	10	10	0
CONTINUOUS PERFORMANCE CRITERION						
New external arrears (in millions of U.S. dollars)	0	0	0	0	0	0
STRUCTURAL PERFORMANCE CRITERION						
Complete by March 31, 1998, a comprehensive survey of government employment and pay				COMPLETED		
INDICATIVE TARGETS						
Manat reserve money	1,177	1,177	1,339	1,185	1,185	1,225
Cumulative overall fiscal deficit of the general government, since Sept 30, 1997 (excluding foreign project loans)	77	77	26	155	155	42

1/ Technical definitions of performance criteria and adjustors are contained in EBS/97/229.

Table 4. Azerbaijan: Quarterly Phasing of the Balance of Payments, 1997-98

	1997					1998 Projections				
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year
	(In millions of US dollars)									
Current account	-194	-261	-251	-208	-914	-335	-370	-365	-294	-1,363
Trade Balance	-125	-132	-191	-118	-566	-230	-150	-218	-135	-733
Exports, fob	179	231	168	231	808	130	263	192	249	834
Of which: crude oil	0	0	0	16	16	20	30	40	50	140
Imports,fob	-303	-363	-359	-349	-1,375	-360	-413	-410	-384	-1,567
Of which: oil consortia	-65	-61	-61	-69	-256	-70	-80	-80	-105	-335
Services	-71	-138	-75	-99	-384	-110	-173	-100	-109	-492
Credits	70	77	105	90	342	100	86	118	79	383
Debits	-142	-215	-180	-189	-726	-210	-260	-217	-188	-875
of which oil sector	-52	-72	-97	-100	-321	-100	-100	-100	-101	-401
Income	0	0	-5	-4	-9	-2	-51	-52	-53	-158
Of which: interest payments	-1	-2	-2	-2	-7	-2	-5	-2	-5	-14
Current transfers	2	10	21	13	46	7	5	5	3	20
Official	11	9	18	17	55	12	10	10	8	40
Private	-8	0	3	-4	-10	-5	-5	-5	-5	-20
Capital Account	204	235	275	294	1,008	309	351	391	348	1,400
Financial Account	204	235	275	294	1,008	309	351	391	348	1,400
Direct and portfolio investment	196	233	307	357	1,093	282	273	299	301	1,155
Oil companies	122	189	245	290	845	222	225	232	210	889
Of which: oil bonus (net)	0	8	35	21	64	0	0	5	0	5
Other	74	45	63	67	248	60	48	67	91	266
Official medium- and long-term loans (net)	0	11	-13	12	10	10	40	78	33	161
Disbursements	5	13	53	17	88	16	50	83	49	198
Project loans	5	13	18	17	53	16	50	48	49	163
Program loans	0	0	35	0	35	0	0	35	0	35
Amortization	-5	-2	-66	-5	-78	-5	-10	-5	-16	-37
Banking system (net)	9	0	-31	17	-5	12	33	10	9	64
Trade credit and othe Short term capital	0	-9	11	-92	-90	5	5	5	5	20
Errors & omissions	10	52	5	-14	51	0	0	0	0	0
Overall balance	20	26	29	72	145	-26	-19	27	54	37
Financing	-20	-26	-29	-71	-145	26	19	-27	-54	-37
Net foreign assets (- increase)	-20	-26	-29	-71	-145	26	19	-27	-54	-37
Central bank gross reserves	-48	-33	-65	-107	-253	16	-4	-37	-73	-98
IMF	28	7	37	36	108	10	23	10	19	61
Financing gap	0	0	0	0	0	0	0	0	0	0
Memorandum items:										
ANB's gross reserves										
In millions of dollars	262	295	360	467	467	451	455	492	565	565
In weeks of imports 1/	10	9	12	16	16	15	12	14	20	17
Current account in percent of GDP										
including oil sector development	-20.0	-27.3	-25.5	-19.5	-23.7	-32.8	-34.1	-31.7	-23.7	-30.3
excluding oil sector development 2/	-8.0	-13.3	-9.5	-3.6	-8.7	-16.2	-17.5	-16.1	-7.1	-14.0

Sources: Azerbaijan authorities; and staff estimates.

1/ Imports of goods and non factor services, excluding oil consortia operations.

2/ Excludes imports of goods and nonfactor services related to oil sector development.

Table 5. Azerbaijan: Medium Term Balance of Payments, 1996-2005

	1996 Actual	1997 Actual	1998	1999	2000	2001	2002	2003	2004	2005
					(In millions of US dollars)					
Current account	-811	-915	-1,363	-1,600	-2,148	-2,581	-2,566	-2,119	-1,185	-445
Trade Balance	-549	-566	-733	-708	-825	-920	-529	394	1,648	2,478
Exports, of which:	789	808	834	1,129	1,300	1,435	2,061	3,213	4,560	5,443
Oil	402	434	473	694	821	907	1,478	2,570	3,848	4,656
Cotton	57	105	70	110	116	121	127	134	140	147
Imports,fob	-1,338	-1,375	-1,567	-1,837	-2,125	-2,354	-2,590	-2,819	-2,912	-2,965
of which: oil sector	-213	-256	-335	-477	-609	-681	-742	-836	-788	-708
Services	-277	-384	-492	-586	-743	-853	-917	-1,021	-909	-785
Exports	149	342	383	391	412	439	471	497	528	562
Imports	-426	-726	-875	-977	-1,155	-1,293	-1,388	-1,518	-1,437	-1,347
of which: oil sector	-166	-321	-401	-450	-570	-642	-666	-718	-552	-368
Income	-52	-9	-158	-311	-580	-804	-1,113	-1,482	-1,912	-2,125
Compensation of employees	-16	-19	-27	-36	-54	-61	-86	-93	-89	-71
o. w. oil consortiums	-13	-19	-30	-39	-57	-64	-89	-96	-92	-74
interest payments on public external debt	-17	-7	-14	-44	-59	-72	-76	-79	-79	-75
invesment income, net	-19	17	-117	-232	-467	-670	-950	-1,310	-1,744	-1,979
o.w. profit repatriation of oil consortiums	0	0	-116	-201	-406	-575	-823	-1,166	-1,603	-1,851
Current transfers	67	46	20	5	0	-4	-7	-10	-12	-13
Official	86	55	40	25	20	16	13	10	8	7
Private	-20	-10	-20	-20	-20	-20	-20	-20	-20	-20
Capital and financial account	739	1,008	1,400	1,738	2,373	2,731	2,880	2,772	2,169	1,446
Official medium- and long-term	-19	10	161	205	143	86	43	37	-70	-73
Disbursements	50	88	198	228	185	119	100	100	0	0
Project loans	19	53	163	228	185	119	100	100	0	0
Program loans	31	35	35	0	0	0	0	0	0	0
Amortization	-70	-78	-37	-22	-42	-33	-57	-63	-70	-73
Direct and portfolio investment	661	1,093	1,155	1,463	2,160	2,575	2,762	2,661	2,164	1,450
Oil companies	487	845	889	1,177	1,850	2,242	2,405	2,287	1,774	1,044
Oil bonus (net) 1/	37	64	5	0	45	34	65	50	42	9
Other, net	450	781	884	1,177	1,805	2,207	2,340	2,237	1,732	1,035
Other	174	248	266	287	311	333	357	374	390	405
Banking system (net)	15	-5	64	50	50	50	55	55	55	60
Trade credit and othe Short term capital	82	-90	20	20	20	20	20	20	20	10
Errors & omissions	21	51	0	0	0	0	0	0	0	0
Overall balance	-52	145	37	139	226	150	314	653	985	1,001
Financing	52	-145	-37	-139	-226	-150	-314	-653	-985	-1,002
Net foreign assets of the Central Bank(- increase)	-24	-145	-37	-139	-226	-150	-194	-433	-260	-172
Central bank gross reserves	-95	-253	-98	-160	-180	-100	-181	-419	-246	-165
IMF	71	108	61	22	-46	-50	-14	-14	-14	-7
Change in government assets (- increase)				0	0	0	-120	-220	-725	-830
Change in arrears 2/	25	0	0	0	0	0	0	0	0	0
Rescheduling	51	0	0	0	0	0	0	...	...	...
Financing gap (+)	0	0	0	0	0	0	0	0	0	0
Memorandum items:										
Gross reserves of the ANB										
In millions of dollars	214	467	565	725	905	1,006	1,186	1,605	1,852	2,017
In weeks of imports 3/	8	16	17	20	22	23	24	30	32	32
Current account in percent of GDP										
including oil sector development	-25.5	-23.7	-30.2	-28.3	-32.5	-33.0	-26.3	-17.9	-8.3	-2.6
excluding oil sector development 4/	-13.6	-8.8	-13.9	-11.9	-14.7	-16.1	-11.9	-4.8	1.1	3.8
Stock of government assets	0.0	0.0	0.0	0	0	0	120	340	1,065	1,895
External debt in percent of GDP	16.6	14.5	17.2	18.0	17.0	15.0	12.5	10.6	8.3	6.7
External debt service in terms of export of GNFS	9.7	7.4	4.2	5.4	8.6	8.3	5.8	4.2	3.2	2.4

Sources: Azerbaijan authorities and staff estimates.

1/ Contract signing bonuses paid to the Government by foreign oil companies.

2/ Debt service obligations to Russia. An agreement to cancel all outstanding mutual claims with Russia was reached in 1997.

3/ Imports of goods and non factor services, excluding oil sector operations.

4/ Excludes imports of goods and nonfactor services related to oil sector development.

Table 6. Azerbaijan: Consolidated Operations of the General Government, 1996-1998

	1996		1997		1997		1998	
	Year Act.	Percent of GDP	Year Prog.	Percent of GDP	Year Act.	Percent of GDP	Year Prog.	Percent of GDP
	(In billions of manats)							
Revenue	2,401	17.6	2,958	18.0	3,023	19.7	3,464	20.1
Individual income tax	213	1.6	325	2.0	331	2.2	394	2.3
Enterprise profits tax	586	4.3	458	2.8	444	2.9	405	2.3
Social security contributions	310	2.3	399	2.4	388	2.5	523	3.0
Value-added tax	468	3.4	632	3.9	654	4.3	781	4.5
Excise taxes	206	1.5	220	1.3	222	1.4	258	1.5
Royalties	42	0.3	294	1.8	342	2.2	301	1.7
Customs revenue	112	0.8	240	1.5	234	1.5	300	1.7
Other Revenues	464	3.4	390	1.9	409	2.7	504	2.9
Total expenditure (incl. net lending)	2,781	20.4	3,248	19.8	3,280	21.4	4,087	23.7
Wages and salaries	483	3.5	725	4.4	701	4.6	924	5.4
Purchases of goods and services	944	6.9	1,178	7.2	1,161	7.6	1,202	7.0
Interest payments	44	0.3	25	0.2	19	0.1	40	0.2
Transfers to households	872	6.4	890	5.4	984	6.4	1,275	7.4
Social Protection Fund	794	5.8	822	5.0	842	5.5	1,124	6.5
Other	79	0.6	68	0.4	143	0.9	150	0.9
Current transfers abroad	0	0.0	25	0.2	15	0.1	41	0.2
Subsidies	285	2.1	89	0.5	106	0.7	22	0.1
Capital investment	68	0.5	267	1.6	201	1.3	348	2.0
Other	2	0.0	0	0.0	2	0.0	23	0.1
Financial Balance	-296	-2.2	-241	-1.5	-165	-1.1	-411	-2.4
Lending minus repayment	83	0.6	49	0.3	92	0.6	212	1.2
Overall Balance	-379	-2.8	-290	-1.8	-257	-1.7	-623	-3.6
Available financing	379	2.8	290	1.8	257	1.7	623	3.6
Domestic	-32	-0.2	4	0.0	-61	-0.4	204	1.2
External	411	3.0	286	1.7	318	2.1	419	2.4
GDP (billions of manats)	13,663		16,399		15,352		17,243	

Sources: Ministry of Finance, State Tax Inspectorate, Azerbaijan National Bank; and IMF staff projections.

Table 7. Azerbaijan: Consolidated Operations of the General Government, 1998 Quarterly Phasing
(In billions of manats)

	1998 Q1 Prog.	1998 Q1 Actual	1998 Q2 Prog.	1998 Q3 Prog.	1998 Q4 Prog.	1998 Year Orig. Prog.	1998 Year Rev. Prog.
Revenue	823	751	827	888	999	3614	3464
Individual income tax	77	90	83	107	114	381	394
Enterprise profits tax	115	86	100	108	111	470	405
Social security contributions (net)	100	130	122	123	148	523	523
Value-added tax	199	180	199	200	201	800	781
Excise taxes	51	26	75	78	79	283	258
Royalties	97	73	69	76	83	386	301
Customs revenue	73	69	69	76	86	280	300
Other Revenues	110	99	109	120	177	491	504
Total expenditure (incl. net lending)	975	790	1109	1072	1116	4237	4087
Wages and salaries	200	178	214	238	294	924	924
Purchases of goods and services	308	171	393	309	330	1347	1202
Interest payments	6	5	14	4	16	75	40
Transfers to households	314	315	311	329	319	1274	1275
Social Protection Fund	278	278	274	291	280	1124	1124
Pensions	162	151	159	175	165	661	650
Cash compensations	75	81	75	75	75	298	305
Other compensations and allowanc	41	46	41	42	40	165	170
Other	30	30	31	30	31	122	122
Employment Fund Expenditure (EF)	2	2	2	3	3	10	10
Disabled Persons' Fund Exp. (DPF)	4	4	4	5	5	18	18
Current transfers abroad	13	11	10	10	10	50	41
Subsidies	6	6	6	6	5	22	22
Capital investment	76	83	97	101	67	311	348
Other funds	0	0	2	1	0	3	3
Contingent liabilities	0	0	0	20	0	20	20
Financial Balance	-99	-18	-220	-130	-43	-411	-411
Lending minus repayment	52	22	62	54	74	212	212
Lending Disbursements	55	22	62	54	85	223	223
Repayment	3	0	0	0	11	11	11
Fiscal Balance	-151	-39	-282	-184	-117	-623	-623
Available financing	151	40	281	184	118	623	623
Domestic	0	17	195	-41	33	-137	204
Bank Financing	-10	17	173	-66	8	-192	132
Non-bank Financing	0	0	2	5	5	15	12
Privatization proceeds	10	0	20	20	20	40	60
External	151	23	86	225	85	760	419
Receipts	151	23	86	225	107	857	442
Project Loans	72	23	86	72	107	292	288
World Bank SAC	0	0	0	135	0	134	135
Oil Bonuses	78	0	0	19	0	435	19
Repayment	0	0	0	0	23	97	23

Sources: Ministry of Finance, State Tax Inspectorate, Azerbaijan National Bank; and IMF staff projections.

Table 8. Azerbaijan: Balance Sheet of the Azerbaijan National Bank and Monetary Survey, 1996-98
(In billions of manats, end of period stocks)

	1996	1997			1998				
	Q4	Q3	Q4	Q4	Q1	Q1	Q2	Q3	Q4
	Actual	Actual	Program	Actual	Program	Actual	Program	Program	Program
Balance Sheet of the Azerbaijan National Bank									
Net foreign assets	264.9	572.3	632.5	858.2	668.1	739.4	625.8	726.5	932.9
Net international reserves (convertible)	187.1	491.2	568.4	779.1	602.8	686.9	559.9	658.3	860.9
Gross international reserves (convertible)	876.5	1414.0	1644.4	1817.5	1708.7	1745.2	1745.0	1872.1	2135.3
Foreign liabilities (convertible)	-689.5	-922.8	-1076.0	-1038.3	-1105.9	-1058.3	-1185.1	-1213.8	-1274.4
Other	77.8	81.1	64.1	79.1	65.3	52.4	65.9	68.3	72.0
Net domestic assets	806.2	648.0	611.6	571.6	585.2	549.4	673.0	630.0	459.9
Domestic credit	853.0	869.0	764.7	781.5	753.3	717.9	856.4	812.2	672.8
Credit to general government (net; incl counterpart funds) /1	82.3	180.1	48.1	-5.7	23.2	-35.5	287.5	476.5	454.5
Claims on enterprises	8.9	8.7	9.6	8.4	9.6	8.3	9.6	9.6	9.6
Claims on banks 1/	761.8	680.2	707.0	778.8	720.5	745.0	559.3	326.1	208.8
Other items (net)	-46.9	-221.0	-153.0	-209.9	-168.0	-168.5	-183.4	-182.2	-212.9
Reserve money	1066.8	1216.4	1239.4	1422.3	1248.6	1281.1	1293.8	1350.2	1388.1
Manat reserve money	991.3	1137.1	1176.2	1339.3	1184.2	1225.4	1228.7	1282.8	1317.0
Required reserves in foreign currencies	75.5	79.4	63.2	83.0	64.4	55.7	65.0	67.4	71.1
Other deposits	4.2	3.8	4.7	7.6	4.7	7.7	4.7	4.7	4.7
Monetary Survey									
Net foreign assets	593.9	983.4	930.5	1233.3	925.2	1090.1	842.2	903.7	1071.0
Net international reserves of the ANB (convertible)	187.1	491.2	568.4	779.1	602.8	686.9	559.9	658.3	860.9
Net foreign assets of commercial banks (convertible)	396.1	483.3	358.2	450.0	318.6	404.1	278.9	241.6	206.3
Other	10.7	8.9	3.8	4.2	3.8	-0.9	3.8	3.8	3.8
Net domestic assets	951.2	843.1	972.4	830.3	1008.9	805.2	1174.0	1229.0	1154.8
Domestic credit	1780.1	1934.7	1944.0	1977.6	2019.5	1955.2	2116.6	2316.5	2438.4
Credit to general government (net, incl. counterpart funds) 1/	-108.0	35.9	-35.0	-53.5	-44.9	-95.3	247.7	461.7	469.7
Claims on enterprises and individuals	1888.1	1898.8	1979.1	2031.1	2064.4	2050.5	2009.4	1883.3	1968.7
Other items (net)	-828.8	-1091.6	-971.6	-1147.3	-1010.6	-1150.0	-1069.6	-1118.5	-1283.6
Broad money	1545.1	1826.5	1902.9	2063.7	1934.1	1895.4	2016.2	2132.7	2225.8
Manat broad money	1204.2	1309.8	1376.2	1556.3	1397.4	1401.9	1474.5	1569.4	1633.1
Currency outside banks	865.4	966.3	978.2	1170.5	998.2	1067.2	1018.2	1028.2	1058.2
Manat deposits	338.7	343.4	398.0	385.8	399.2	334.7	456.3	541.3	574.9
Foreign currency deposits	340.9	516.7	526.7	507.4	536.7	493.4	541.7	561.7	592.7
Memorandum Items:									
ANB refinancing to banks /2	761.8	680.2	707.0	778.8	720.5	745.0	729.3	776.1	658.8
Exchange rate (Manat/US Dollar, end of period)	4,098	3,930	3,893	3,888	3,864	3,869	3,835	3,805	3,776
Velocity of manat broad money (level) 3/	13.3	...	12.6	...	11.4	...	11.6	11.6	11.8
Manat money multiplier (level)	1.21	1.15	1.17	1.16	1.18	1.14	1.20	1.22	1.24
Manat reserve money (annual percentage change)	33.6	26.6	18.6	35.1	17.8	21.9	17.3	12.8	-1.7
Manat broad money (annual percentage change)	25.8	17.3	14.3	29.2	22.7	23.1	23.1	19.8	4.9
Broad money (annual percentage change)	18.9	26.1	23.2	33.6	29.3	26.8	28.3	16.8	7.9

Sources: Azerbaijan National Bank; and IMF staff estimates.

1/ Including impact of resolution of bad loans problem, which involves transfer of nonperforming loans to the government against a cancellation of the banks' debts to the ANB, with the ANB being compensated by receiving government securities. Estimated effects are manat 170 billion in Q2 and manat 280 billion in Q3. The resulting change in the stock of bank claims on government is not reflected as a change in the flow of bank credit to government in the fiscal accounts.
2/ Excluding impact of resolution of bad loans problem.
3/ Annualized quarterly GDP divided by average quarterly broad money.

Azerbaijan—Fund Relations
(As of April 30, 1998)

I. **Membership Status**: Joined September 18, 1992; Article XIV

II. **General Resources Account**:	In millions of SDRs	In percent of Quota
Quota	117.00	100.0
Fund holdings of currency	266.17	227.5
Reserve position in Fund	0.01	0 .0

III. **SDR Department**:	In millions of SDRs	In percent of allocation
Holdings	2.54	N/A

IV. **Outstanding Purchases and Loans**:	In millions of SDRs	In percent of Quota
Stand-by arrangements	58.50	50.0
Extended arrangements	32.17	27.5
Systemic Transformation	58.50	50.0
ESAF arrangements	55.58	47.5

V. **Financial Arrangements**:

Type	Approval Date	Expiration Date	Amount Approved SDR million	Amount Drawn SDR million
EFF	12/20/96	12/19/99	58.50	32.17
ESAF	12/20/96	12/19/99	93.60	55.58
Stand-by	11/17/95	11/16/96	58.50	58.50

VI. **Projected Obligations to Fund:** (SDR million; based on existing use of resources and present holdings of SDRs):

	Overdue	Forthcoming				
	04/30/98	1998	1999	2000	2001	2002
Principal	--	--	11.7	39.0	30.9	16.6
Charges/interest	--	5.5	7.2	6.1	4.3	3.3
Total	--	5.5	18.9	45.1	35.2	19.9

VII. Exchange Rate Arrangements

The currency of Azerbaijan is the manat which became sole legal tender on January 1, 1994. Currently, the exchange rate is allowed to float against all currencies. Noncash exchange rates are determined five times a week at the foreign exchange auctions conducted by the Baku Interbank Currency Exchange (BICEX). Exchange rates for cash transactions are quoted by commercial banks licensed to deal in foreign exchange on the basis of market conditions. The Azerbaijan National Bank (ANB) determines an official exchange rate against the U.S. dollar every auction day, which is equal to the most recent auction rate.

Azerbaijan has been classified by the staff with the group of countries whose currencies are independently floating.

Azerbaijan avails itself of the transitional arrangements under Article XIV.

VIII. Article IV Consultation

The fourth Article IV consultation with Azerbaijan was concluded on December 20, 1996.

IX. Resident Representative

Mr. Jonathan Dunn, the Fund's third Resident Representative took up his duties in Baku in July 1997.

X. Resident Advisers

An adviser on the establishment of the Treasury in the Ministry of Finance, Mr. Nurcan Aktürk, was stationed in Baku from December 1994 until September 1996. He was succeeded by Mr. B.K. Chaturvedi, who is due to remain through April 1999. A technical long-term adviser for tax administration, Mr. Mark Zariski, was stationed in Baku from April 1995 until April 1996.

Azerbaijan: Technical Assistance 1995-May 1998

Fund Department	Area of Assistance	Mission Dates
FAD	Social safety net	February 1995
MAE	Central bank operations	March 1995
FAD	Tax administration	April 1995
STA	Balance of payments statistics	April 1995
STA	Monetary statistics	May 1995
MAE	Central bank operations	October 1995
FAD	Treasury project inspection	December 1995
FAD	Tax administration project inspection	December 1995
FAD	Tax policy	February 1996
STA	Balance of payments statistics	March 1996
MAE	Central bank operations and banking sector reform	July/August 1996
FAD	Treasury project inspection	September 1996
FAD	Expenditure policy	October 1996
FAD	Treasury project inspection	December 1996
STA	Monetary statistics	December 1996
MAE	Foreign exchange management	January 1997
MAE	Financial market development	January 1997
FAD	Tax Administration	January 1997
MAE	Multitopic mission	March 1997
STA	Balance of payments statistics	April 1997
MAE	Bank restructuring and payments systems	May 1997
FAD	Tax administration	August 1997
LEG	Tax code legislation	September 1997
MAE	Multitopic mission	October 1997
FAD	Treasury project inspection	April/May 1998
MAE	Bank restructuring	May 1998

Source: International Monetary Fund.

Azerbaijan—Relations with the World Bank

Azerbaijan became a member of the IBRD in September 1992 and of the International Development Association in late March 1995.

The current Bank assistance strategy focuses on four main areas: (i) establishment of a policy and institutional framework conducive to efficient and equitable private sector led sustainable growth; (ii) enhancement of competitiveness in critical economic sectors, largely in agriculture; (iii) alleviating poverty; (iv) and resettlement and rehabilitation of Internally Displaced Persons (IDPs). In addition to the above, environment was identified as an urgent issue that the Bank should address.

As of March 31, 1998 the Association has committed $270 million for seven operations, of which $123 million has been disbursed: Petroleum Technical Assistance ($21.8 million, approved April 1995); Greater Baku Water Supply ($61 million, approved June 1995); Institution Building Technical Assistance ($18 million, approved July 1996); Rehabilitation Loan ($65 million, August 1995); Gas System Rehabilitation ($20.2 million, September 1996); Pilot Farm Privatization ($14.7 million, January 1997); and Structural Adjustment Loan ($70 million, July 1997). Other operations under preparation include projects in reconstruction, urgent environment improvement, agricultural development credit, health, irrigation and a second Structural Adjustment Credit.

The following economic and sector work has also been undertaken: a Country Economic Memorandum in September 1993; and energy sector review in December 1993; studies on the agriculture and financial sectors in July and October 1995 to determine these sectors' performance, prospects and constraints; and a poverty assessment in February 1996. In 1998 an environmental action plan is scheduled to be completed as well as a strategy to phase out leaded gasoline and short notes on the education and energy sectors.

The Bank organized a Pre-Consultative Group meeting in Paris in December 1992 and a full Consultative Group meeting in May 1995 to mobilize support from bilateral and mutilateral donors, including the Fund. The second Consultative Group meeting took place in January 1998. The Bank also organized a Conference of International Investors in Paris in December 1995 to interest potential foreign investors in investment opportunities in agro-industry, health care and business tourism in Azerbaijan. Furthermore, the Bank has provided grants from its Institutional Development Fund to help the Government manage the coordination of external financial and technical assistance and to upgrade the Government capability in public procurement. In September 1995, the Bank opened a Resident Mission in Baku.

June 11, 1998

Michel Camdessus
Managing Director
International Monetary Fund
Washington, DC 20431

Dear Mr. Camdessus,

1. The Azerbaijan authorities recently held discussions with Fund staff in the context of the 1998 Article IV consultations and the midterm review under the economic program supported by the second year of the extended arrangement (EFF) and the second annual arrangement under the Enhanced Structural Adjustment Facility (ESAF), approved by the Fund's Executive Board on December 22, 1997. Based on these discussions, we wish to inform you of our near term policy intentions to keep the economic program on track. We also propose performance criteria, structural benchmarks, and indicative targets through end-December 1998 under the extended and second annual ESAF arrangements.

Macroeconomic program

2. All of the program's **performance criteria** for end-March 1998 were met. **Macroeconomic indicators** suggest that the program is on track, with faster economic recovery underway and inflation continuing to show favorable trends. The external current account deficit for 1997 turned out to be slightly above program, largely as a result of higher-than-expected imports to the oil sector and of construction services. However, the net international reserves of the National Bank are well above the floor set for March 1998. Following rapid monetary growth during the fourth quarter of 1997, manat reserve money declined substantially in the first quarter of 1998.

3. The **exchange rate** has remained stable during the first quarter of the year, despite the decline in world oil prices, reflecting some modest official intervention. We intend to continue to adopt a flexible exchange rate policy, with some limited intervention to smooth short-term fluctuations and to ensure that the target for external reserves is met. The current level of the nominal exchange rate appears appropriate, but in case there is strong pressure for the rate to appreciate or depreciate significantly the government will consult with Fund staff on appropriate policy responses in light of the prevailing macroeconomic conditions.

4. Our **growth and inflation targets** for 1998 continue to look achievable and are therefore unchanged. Lower oil prices have however impacted adversely on the external current account and on fiscal revenues. We now project that the **external current account deficit** in 1998 will be 30 percent of GDP, some US$40 million higher than previously

projected, with lower proceeds from the export of crude oil and oil products, partly offset by lower imports, including imports to the oil sector.

5. Lower oil prices are expected to reduce **general government revenues** in 1998 by about 1 ½ percent of GDP compared with the budgeted level. Despite this, we believe that the fiscal deficit ceilings for 1998 established under the program remain appropriate. Restraint of discretionary expenditures during the first quarter of 1998 allowed us to build up a substantial margin under the deficit ceiling. In addition, we have already taken measures to limit the revenue shortfall, including higher excise rates, elimination of some VAT and excise exemptions, and stronger collection efforts. Nevertheless, we are considering additional revenue measures and expenditure cuts in nonpriority areas amounting to approximately manat 150 billion (3/4 percent of GDP) to ensure that the deficit ceilings for the remainder of the year are achieved.

6. The **quantitative performance criteria** set for June 30, 1998, September 30, 1998, and December 31, 1998 are broadly in line with the indicative targets established in December 1997. These criteria and indicative targets are presented in Table 1.

Structural reforms

7. **Structural reform** has continued and we intend to push ahead forcefully in this area. We wish to focus on making better progress in the areas of fiscal and financial sector reform.

a) Fiscal reforms

8. The Treasury is now fully operational. In close consultation with the Fund's resident Treasury advisor, we intend to implement measures to improve **reporting, cash management and financial planning** by end-September 1998, including the establishment of a financial planning unit within the Treasury, the production of monthly treasury reports on general government operations, and closure of foreign exchange accounts of all budgetary organizations. We will also explore with the Treasury advisor the possibility of incorporating one or more of the extra-budgetary funds into the treasury and consider their eventual integration into the budget. Finally, we will aim to prevent the accumulation of new arrears by developing and implementing by end-September 1998 interim measures to control expenditure commitments. In 1999 we plan to computerize treasury operations and establish formal accounting of expenditure commitments.

9. As a prior action for completion of the review, we have appointed a chairman for the **State Procurement Agency** and this body is now operational.

10. We have completed a survey of the **public sector wages and employment** and intend to develop and implement a system by end-September 1998 for monthly monitoring of positions, filled positions and the payroll. From this baseline we plan to achieve a cumulative

15 percent reduction in employment by end-1999 through efficiency savings, and reorganization of institutions funded by the state, which we intend to begin in 1998. The strategy for reductions of employment will rely in part on developing and implementing a severance pay policy, the full costs of which will be identified in consultation with the World Bank, by January 1, 1999. While these changes will affect the whole public sector, we will be placing particular emphasis on achieving economies in the education and health sectors. As part of this process, we will improve the collection of data on social sector expenditure, particularly on education and health. We also will aim to create incentives to retain more highly qualified staff by decompressing the wage structure by end-December 1998. Finally, we will aim to fully implement a civil service law, in consultation with the World Bank, by end-December 1999.

11. During 1999, we will prepare a **Public Investment Program** consistent with our fiscal objectives and with our policies on external borrowing and government guarantees.

12. With the 1999 budget we will better target the **social safety net** to meet the needs of those who are truly disadvantaged, with some simplification of current systems and the expansion of means-testing. The budget will also introduce payroll contributions to individual retirement accounts (IRAs) by raising the employees' contribution rate from 1 percent to 3 percent (while lowering the employers' contribution rate from 35 percent to 33 percent), and matching this with 3 percent from the employers' contribution directed toward IRAs. Technical assistance will be needed to ensure that the reforms proceed on schedule.

13. We plan to complete the draft **tax code** by end-June 1998. We will also modify the Law on Enterprise Profits Tax to rationalize the provision for capital depreciation allowances and to permit deductions for legitimate business expenses. On **tax administration**, we will adopt measures before end-December 1998 (i) to permit the use of installment payment agreements to allow taxpayers to pay off tax arrears over a period of time when they face temporary cash flow problems; and (ii) to allow the settlement of tax obligations for less than their full value when it has been determined that taxpayers are unable to pay the full amount of arrears. We will also establish a system to provide VAT refunds rather than expecting them to be deducted from taxes owed by the enterprise. We will strengthen our efforts to impose hard budget constraints in the enterprise sector, including through use of the bankruptcy law, in order to reduce both tax and interenterprise arrears.

b) Financial sector reforms

14. We plan to **strengthen the banking sector** by moving ahead with the planned restructuring of the four major state-owned banks. Progress here has been uneven. Recent audits by reputable international firms indicate relatively good performance by the International Bank and the Savings Bank. The twinning arrangement for **International Bank** is working well, and the government intends to fulfill its commitment to honor its guarantees

on loans in foreign exchange issued by this bank by issuing marketable securities on terms to be agreed between the parties. A draft strategy and principles for privatizing the bank have been prepared, and we have provided the Fund and World Bank with details of the bank's privatization plan. Contracts with financial advisers for this process will be concluded by end-June 1998 and we are confident that privatization can be completed, and an 8 percent capital adequacy ratio achieved, by end-1998, slightly later than originally envisaged.

15. For the **Savings Bank**, we intend to convert into equity loans from the government and accrued interest on such loans, plus a sufficient amount of funds that are due to government agencies to bring total shareholders equity including the accumulated deficit to a small positive value. We will prepare a privatization plan by end-September 1998 (as a structural benchmark) and complete privatization of the bank by end-June 1999.

16. The situation at Prominvestbank and Agroprombank is less favorable. They each reached many of the targets under the restructuring program. However, loan collection at **Prominvestbank** was somewhat less (85 percent) than anticipated; and despite the appointment of a new chairman, the bank still suffers organizational and administrative weaknesses that threaten its financial position. **Agroprombank** did not meet its target for loan collection, and it is facing severe liquidity problems as the new private owners of agricultural enterprises refuse to honor previous obligations. In addition, organizational and administrative weaknesses remain a serious problem.

17. To address the above noted problems, Prominvestbank has formed a Board of Directors and will conclude the terms of its twinning arrangement with a foreign bank by end-July 1998. If this arrangement cannot proceed, the bank will begin to implement a plan, in consultation with Fund and World Bank staff, to substantially reduce its size and operations.

18. Regarding Agroprombank, we are convinced that a major restructuring is urgently needed and that, in the interim, steps will be needed to limit its banking operations. Agroprombank has already been instructed to engage in no new lending (excluding the World Bank's Rural Credit Scheme), and to accept no deposits, credit from government, or credit from the ANB. In addition, only 12 branches now operate as branches, while 10 have been closed, with the remaining branches being converted into cash transfer units. We are continuing to discuss options for the restructuring of this institution with the World Bank and Fund staff.

19. On **bank supervision**, all functions have already been placed under the control of a single deputy governor of the ANB. We will monitor closely banks' compliance with prudential regulations and will enforce them rigorously. In addition, we will update prudential regulations for foreign exchange to deal with positions in third currencies, and forward contracts. To assist in these processes we will request a long-term resident MAE technical advisor who would focus on banking supervision and bank restructuring.

20. We intend to rely increasingly on **indirect instruments of monetary policy**. To this end we will continue to further liberalize our financial markets. In particular, by end-June 1998 we shall open fully the credit auctions to foreign-owned banks, in line with program undertakings, and aim to create more orderly conditions in the treasury bill market by (i) holding auctions on a regular schedule; (ii) announcing well in advance the amount of bills to be auctioned; (iii) ensuring that the total amount of bills offered will be sold at prices determined by the market; and (iv) removing the participation fee for primary dealers. In addition, we will let interest rates adjust to changing market conditions. We will also eliminate by end-June 1998 restrictions on direct trading between banks on the interbank foreign exchange market. Preparations by the ANB for open market operations have included the establishment of a securities department that is involved in the issuance and trading of treasury bills.

21. We intend to clarify before end-December 1998 the **financial relationship between the central bank and the ministry of finance**, by ensuring that (i) the central bank is paid appropriately for the services it provides in the management of government accounts; (ii) the government pays interest on its outstanding debts to the central bank; (iii) government deposits at the central bank, including its foreign exchange deposits, are properly remunerated; and (iv) that appropriate transfers of central bank profit are made to the budget.

22. We have developed a new **chart of accounts for commercial banks** which is being applied on a trial basis by seven institutions and we envisage full application across the whole banking system by end-December 1998.

c) Other structural reforms

23. While good progress has been made in the **privatization** of small and medium-sized enterprises, we believe it is essential to accelerate large-scale privatization and improve the transparency of the privatization process. In this regard, we have prepared detailed proposals for the privatization of 20 large enterprises and are discussing with the World Bank a number of steps to improve the auction process, including (i) better oversight of the auction results; (ii) better public information campaigns; and (iii) clearer rules on the participation of foreign investors through the use of "options".

24. In order to give greater impetus to **land privatization**, the new Land Code which will clarify land registration procedures and ownership rights and permit the use of land as collateral has been submitted to parliament and is expected to be approved by end-October 1998. Progress has been made in the distribution of land titles to private farmers, but we do not now expect to be able to complete the process by end-June, 1998, as previously envisaged. We now expect that all such land titles will be distributed by end-December 1998.

25. We recognize the need to improve **governance** in all areas of the economy. To achieve this we plan to implement a package of measures including the steps we are taking to

strengthen fiscal management, open financial markets, and increase transparency in the privatization process. In addition, we intend to strengthen the **legal framework** of financial activities. Draft legislation will be submitted to parliament by end-June 1998, based closely on the draft recently endorsed by advisors from the Council of Europe, to better define the rights and limits of the state police and procurators with regard to their investigation of private enterprises, and we expect passage of this law by end-October 1998. Recent amendments approved by parliament to Article 35 (bank confidentiality) of the law on banks and banking activity, and changes to the criminal code that relate to economic crimes, will be amended to avoid any adverse impact on the business environment and private sector development. As a prior action a draft **securities law** that will facilitate the development of a stock market has been submitted to parliament. **A draft law on collateral** has also been submitted. We expect passage of these laws by end-June 1998.

External policies

26. To guard against a build-up of excessive levels of external debt, the government intends to continue its **prudent external debt policy**. The government will limit its contracting and guaranteeing of new external borrowing to loans that are necessary for improving basic services and infrastructure which are essential for the private sector's activities and growth. The government will avoid extending guarantees on nonconcessional loans to public sector enterprises that are engaged in commercial activities. We continue to have no **official external arrears**.

27. The **liberalization of foreign trade** has virtually been completed. Having eliminated ex-ante registration of export on credit, consignment or barter by enterprises with majority private ownership, the government intends to eliminate these same restrictions on majority public-owned enterprises, following the improvement in their management, in the context of the third annual arrangement. In the interest of preserving and enhancing the important role of trade for the economy's growth prospects, the government intends to maintain and extend the liberal trade regime already established. The government will not, without Fund approval, impose or intensify any trade restrictions for balance of payments reasons, nor introduce any multiple currency practice, nor impose or intensify any exchange restrictions or conclude any bilateral payments agreements that are inconsistent with Article VIII of the Fund's Articles. It expects to adopt a decision to accept the obligations of Article VIII, Sections 2, 3, and 4 of the Fund's Articles of Agreement by end-September 1998. The government has developed a schedule for the progressive reduction of the general tariff rate from 15 percent to 10 percent by the end of the year 2000, beginning with a reduction to 12 percent from January 1, 1999.

Oil sector issues

28. A working group, including representatives from the Fund and the World Bank, will be established by end-June 1998 to prepare a proposal for the **institutional arrangements to collect future oil revenues** and decide on their best use. This proposal will aim to make transparent the relationships between government, SOCAR and oil consortia and to build proper financial control over the use of these revenues, in close coordination with the budgetary process.

29. In addition, given the rapid developments in the oil sector and its implications for the medium term balance of payments and fiscal outlook, the government will make every effort to **improve data collection related to the oil sector's activities**. The government will ensure that a quarterly reporting system on SOCAR's financial activities is established.

30. In view of the important role of oil in the Azerbaijan economy and recent sharp movements in oil prices, we will keep under constant **review the domestic prices of crude oil and oil products** (excluding taxes) to ensure that they are consistent with world prices. In so doing, we will ensure that the domestic price of crude oil is kept within 10 percent of the world oil price, in line with previous understandings.

31. With the policies specified above and other measures to which we have committed ourselves in the MEP and PFP dated December 8, 1997, we believe that the performance of the Azerbaijan economy will continue to improve. This would establish a good basis for discussions later in the year on the third annual ESAF arrangement.

Sincerely yours,

/s/	/s/	/s/
Artur Rasizade Prime Minister of the Republic of Azerbaijan	Elman Rustamov Governor of the Azerbaijan National Bank	Fikret Yusifov Minster of Finance of the Government of Azerbaijan

Table 1. Azerbaijan: Performance Criteria and Indicative Limits Under the Second Annual ESAF Arrangement and EFF

(In billions of manats, unless otherwise indicated) 1/

	Dec 31, 1997		Mar 31, 1998		Jun 30, 1998	Sept 30, 1998	Dec 31, 1998
	Adjusted	Actual	Adjusted	Actual			
QUANTITATIVE PERFORMANCE CRITERIA							
Stock of net credit from ANB to the general government	13	-6	66	-36	288	477	455
Net domestic assets of the ANB	576	572	627	549	674	630	460
Floor on net international reserves of the ANB in millions of U.S. dollars	156	200	145	178	146	173	227
Cumulative deficit of the general government, since Sept 30, 1997 (including foreign project loans)	85	69	221	108	390	574	692
Arrears of the Republican budget for energy and water deliveries	606	596	586	584	566	546	526
Nonconcessional external loans contracted or guaranteed by general government	150	0	200	75	250	300	350
of which: with maturities of 1-5 years (in millions of U.S. dollars)	35	0	70	0	105	140	175
Net disbursements of contracted or guaranteed loans with maturities of < 1 year (in millions of U.S. dollars)	5	0	10	0	15	20	20
CONTINUOUS PERFORMANCE CRITERION							
New external arrears (in millions of U.S. dollars)	0	0	0	0	0	0	0
STRUCTURAL PERFORMANCE CRITERION							
Complete by March 31, 1998, a comprehensive survey of government employment and pay			COMPLETED				
INDICATIVE TARGETS							
Manat reserve money	1,177	1,339	1,185	1,225	1,229	1,283	1,317
Cumulative overall fiscal deficit of the general government, since Sept 30, 1997 (excluding foreign project loans)	77	26	155	42	238	350	361

1/ Technical definitions of performance criteria and adjustors are contained in EBS/97/229.

Azerbaijan: Statistical Issues [1]

Azerbaijan's **macroeconomic statistics remain in need of improvement**. Technical and human resources are lacking, communication between different official agencies is weak and reporting of some data is not systematically organized. Data are sufficient to meet the minimum needs of surveillance and program work, though they sometimes require extensive adjustments by Fund staff.

The **authorities have been slow to implement recommendations** made by IMF technical assistance missions. The interagency working group that was established to improve data has completed a draft program for improving macroeconomic statistics. This program is currently under review in the government. The authorities have undertaken to improve the quality of statistics under the current Fund program. In particular, (i) to provide more comprehensive data on government expenditure arrears, and on government and public sector employment; (ii) to improve trade data, with the State Statistics Committee assuming the responsibility for valuation of imports; and (iii) to continue to provide accurate monetary data as a new chart of accounts and financial reporting standards for commercial banks are introduced.

Reporting of **data for program purposes is coordinated through the resident representative office**. In this regard, the timeliness of data is good, as indicated in the attached matrix.

The State Statistics Committee publishes a monthly bulletin of key statistical data a few weeks after the end of the reporting period. The central bank is currently making preparations to publish a series of financial indicators.

A country page for Azerbaijan was published in the November 1997 issue of *International Financial Statistics (IFS)*. Data on exchange rates, international liquidity, Fund position, and monetary accounts are current. However, data on interest rates, prices, and international transactions are not reported by the IFS correspondent on a timely basis. No data on national accounts, government finance, labor, or production are published.

Major outstanding statistical issues are highlighted below.

Government finance statistics

- Compilation of timely ***expenditure data on a quarterly basis*** remains a major problem for economic analysis. For example, data on wages for the third and fourth quarters of 1997 were not available to Fund staff until near the end of the first quarter of 1998. Collection of data on local budgets is the principal problem in this area, and

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[1]This section notes major changes in the situation as described for the 1996 Article IV consultation (EBS/96/188, Appendix IV).

this should be eliminated during 1998 as local budget expenditures become incorporated in regional treasury operations.

- ***Expenditure data are not available according to a functional classification***, thus making it difficult for staff to assess, for example, spending patterns on education and health. Again, expectations are that new classification criteria used by the treasury should correct this problem.

- ***Revenue data are relatively good*** and data indicating sources are usually available on a monthly basis with a time lag of one to two months. At times, however, data are only available on an aggregate basis, and include (i) items which according to international practice should be regarded as financing not revenue, (ii) inextricably, intra-governmental transfers which should be removed for proper consolidation of general government operations.

- Very ***little data on public sector employment and wages*** was available until recently. The recent public sector survey is a promising start, and the authorities have agreed to provide monthly reports on employment and payroll. An important element of monitoring the degree of staff reduction envisaged during 1998-99 will be the establishment of a system to verify periodically whether employment has actually been reduced.

External statistics

- The ***coverage of customs data*** reported by the State Statistics Committee needs to be improved to include unrecorded trade, particularly imports. Estimates of imports in the form of shuttle trade are currently being made by the central bank and added to customs data. However, Fund staff have concerns about the quality of such estimates and believe that such trade is underestimated.

- Compiling ***data on oil-related activities*** is made more difficult as no single unit is charged with this responsibility.

- Data on ***non-oil inward foreign direct investment*** are not sufficiently detailed to allow a sectoral analysis of such flows.

- ***Barter trade*** is not recorded appropriately, giving rise to fluctuations in commercial credits (which are high by any standard).

Money and banking statistics

- Although the central bank has introduced a ***new chart of accounts***, and a new chart of accounts for commercial banks is being introduced during 1998, these changes have yet to be reflected in the monetary accounts. Further technical assistance will probably

be required to ensure that compilation of the analytical accounts can continue without major disruption.

Interest rates

- A ***limited set of interest rate data*** is prepared by BICEX on a monthly basis, covering key money market rates, and average bank rates for term deposits. However, regular provision of a wider range of interest rates would be beneficial.

National accounts statistics

- National accounts statistics continue to be deficient in terms of both ***methodological accuracy and coverage***. There is a pressing need for GDP data calculated by the expenditure approach, and the need to improve the coverage of external trade. Moreover, the State Statistics Committee needs to make better use of data available from the ministry of finance and the central bank.

Price statistics

- There is still ***no index of wholesale/production prices***.

Azerbaijan: Survey of Main Statistical Indicators As of End-April 1998

	Exchange Rates	International Reserves	Reserve/Base Money	Central Bank balance sheet	Broad Money	Interest Rates	Consumer Price Index	Exports & Imports	Current Account Balance	Overall Government Balance	GDP/NMP
Dates of latest observation	end-April 1998	end-April 1998	end-April 1998	end-April 1998	end-March 1998	end-April 1998	Apr-98	Dec-97	Dec-97	Q1 1998	Q1 1998
Date received	May 1, 1998	May 2, 1998	May 2, 1998	May 2, 1998	April 28, 1998	May 5, 1998	May 5, 1998	March 1, 1998	March 1, 1998	April 28, 1998	May 5, 1998
Frequency of data	D	D	D	D	M	M	M	Q 1/	Q	M	Q
Frequency of reporting	D	D	D	D	M	M	M	Q	Q	Q	Q
Source of update	Res. Rep.	Res. Rep.	Res. Rep.	Res. Rep.	Res. Rep.	Res. Rep.	Res. Rep.	Res. Rep.	Res. Rep.	Res. Rep.	Res. Rep.
Mode of reporting	Fax/e-mail	Fax/e-mail	Fax/e-mail	Fax/e-mail	Fax/e-mail	Fax/e-mail	Fax	Fax	Fax	Fax	Fax
Confidentiality	Unrestricted	Fund staff/ED	Fund staff/ED	Fund staff/ED	Fund staff/ED	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Fund staff/ED	Unrestricted

1/ Monthly aggregates are available but are not on a consistent basis with quarterly series.