

AZERBAIJAN

HEYDAR BABAYEV, Governor

On behalf of the Azerbaijan Government, I would like to express deep appreciation to our host, the Government of Spain, for setting up an excellent environment for the 41st Annual Meeting of the Asian Development Bank (ADB) Governors.

As the Governor for Azerbaijan, I would like to commend ADB's remarkable performance in 2007, with a record high lending volume of more than US\$10 billion. I am pleased to note in this regard, that Azerbaijan was one of ADB's 10 largest public sector borrowers in 2007 with a loan for a highway development project of about \$200 million. In summary, 2007 was one of the most successful years for ADB and a number of its developing member countries, and I am proud to report that Azerbaijan's economy was one of the world's fastest growing economies with real GDP growth of 34.5% in 2006 and 25 % in 2007. As a result of the unprecedented economic growth, Azerbaijan's GDP almost quadrupled over the past decade and is poised to double in the coming few years.

With GDP per capita reaching almost \$3,800 in 2007, Azerbaijan's economy will remain the largest in the Caucasus region in the foreseeable future. To provide an overall picture of Azerbaijan's recent economic achievements and future perspectives, please allow me briefly outline some significant performance benchmarks.

Backed by the increased oil exports, the country's foreign exchange reserves grew by 72% and reached about \$4.3 billion at the end of 2007. We expect the oil revenue to exceed more than \$300 billion over the next 10 years. While foreign direct investments served as the major growth vehicle at the start of the current oil boom in the mid-1990s, domestic investments in the non-oil sector have grown at a faster pace recently and constituted about 60% of all investments in 2007. State budget revenues increased by about 55% and expenditures by about 60 % in 2007 with a budget deficit of just 0.2 % of GDP.

On the back of these remarkable macroeconomic achievements, we also recognize the threat of rising inflation. And the Azerbaijan Government will be taking a series of anti-inflationary measures.

Poverty reduction has been high on the Government agenda in the past decade, and the country's poverty level was reduced from about 49% in 2001 to about 20% in 2006 and down further to about 16% in 2008. The Government has taken positive actions through the implementation of a number of important state programs to ensure sustainable economic and social development and balanced economic growth outside the oil sector. A recently completed Program for Economic and Social Development of the Regions (2004-2008) has been one of

the most important of these initiatives. This program has been aimed at improving the living conditions and standards of the people, especially the poor, by creating new business opportunities and jobs, promoting efficient use of scarce resources, and improving access to essential services, such as electricity, water and sanitation, education and health.

Touching upon Azerbaijan's major development challenges, I could not skip mentioning the problems of territories occupied by Armenia that has resulted in 1 million refugees and internally displaced people in Azerbaijan. Most of these people lived in tent camps and similar temporary accommodations until recently, and the Government has been putting together huge efforts and resources to provide them with decent housing and create new employment opportunities.

As outlined in the ABD's long-term strategic framework (Strategy 2020), poverty will remain the central challenge facing the region, and reducing and eliminating poverty in the region will remain our ultimate goal.

I am pleased to note the increased emphasis in Strategy 2020 on private sector development and private sector operations as one of the major drivers of change. We fully support the notion of increased private sector participation in the region's economic development, and we welcome ADB's active involvement in Azerbaijan's private sector development. We believe that there is a much higher potential for cooperation between ADB and Azerbaijan, and from our side, we are committed to realize this potential to the most extent possible.

Azerbaijan supports five key priorities (infrastructure, environment, regional cooperation and integration, finance and education) defined in Strategy 2020. Asia's growing demands require ADB to remain relevant to the needs of its developing member countries. I note that an increase in lending may lead to the depletion of ADB's borrowing headroom and therefore require a general capital increase for ADB in future. It is time for ADB to avoid "business as usual" and instead to take decisive and coherent measures to provide adequate assistance to developing countries by increasing its resources and capacity building.

Finally, I would like to emphasize the importance of developing further partnerships with key international institutions and strengthening regional cooperation. Azerbaijan is a member of all key international and regional financial institutions, such as the International Monetary Fund (IMF), the World Bank, the European Bank of Reconstruction and Development (EBRD), the Islamic Development Bank, and ADB. ADB is the most recent international institution that Azerbaijan has joined. This means that we are still at the initial stage of our cooperation, and there is a great potential for taking our cooperation at a higher level in the years to come.

Being geographically located at the crossroads between Europe and Asia, Azerbaijan has historically served as the natural transit point for trade flows between these two regions. In recent times, Azerbaijan has been a member of a number of key regional cooperation initiatives, including the European Union-sponsored TRACECA program, the United Nations-sponsored SPECA, and ADB-sponsored Central Asia Regional Economic Cooperation program (CAREC)¹ initiative. We are pleased to note that Azerbaijan is a host to major CAREC events this year, and we are looking forward to a successful CAREC Ministerial Conference in Baku in late November this year. With this last note, let me conclude my statement by wishing all us a successful Annual Meeting and peace and prosperity to the people of our countries.

¹ Central Asia Regional Economic Cooperation Program includes 8 ADB member-countries: Afghanistan, Azerbaijan, Kazakhstan, Kyrgyz Republic, Mongolia, People's Republic of China, Tajikistan, Uzbekistan, ..

