ASIAN DEVELOPMENT BANK

REPUBLIC OF AZERBAIJAN

REASSESSMENT OF DEBT REPAYMENT CAPACITY

September 2004

CURRENCY EQUIVALENTS
(as of 20 September 2004)

Currency Unit	–	manat/s (AZM)
AZM1.00	=	$0.000204
$1.00	=	AZM4,904

ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
FDI	–	foreign direct investment
GDP	–	gross domestic product
GNI	–	gross national income
IDA	–	International Development Association
IMF	–	International Monetary Fund
NBAR	–	National Bank of Azerbaijan Republic
NPV	–	net present value
OCR	–	ordinary capital resources
PRGF	–	Poverty Reduction and Growth Facility
SOFAZ	–	State Oil Fund of Azerbaijan Republic

NOTES

(i) The fiscal year of the Government ends on 31 December.

(ii) In this report, "$" refers to US dollars.

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CONTENTS

I. INTRODUCTION

1. Azerbaijan joined the Asian Development Bank (ADB) in December 1999. For the purpose of determining its eligibility for ADB's loan assistance and the applicable ceiling for cost sharing, Azerbaijan was classified as a Group B1 country in March 2001.[1] Using the World Bank Atlas methodology, Azerbaijan's per capita gross national income (GNI) in 1999 was estimated at $550, well below the operational cutoff of $885 for eligibility for borrowing from the International Development Association (IDA). In addition, Azerbaijan's debt repayment capacity was found to be limited at the time.

2. As a Group B1 country, Azerbaijan is eligible for Asian Development Fund (ADF) resources, but has only limited access to ADB's ordinary capital resources (OCR). ADB is planning to extend an ADF loan of about $20 million to Azerbaijan in 2004. ADB's graduation policy is understood to imply that its OCR loan assistance to Azerbaijan in 2004 cannot exceed this amount.[2] However, the Government requested that ADB provide two OCR loans totaling about $35 million in 2004 to improve the provision of water supply and sanitation services in selected towns and to support the development of micro and rural finance.

3. This paper examines whether ADB can prudently increase its OCR loan assistance to Azerbaijan beyond the ADF loan assistance. To this end, the paper reassesses Azerbaijan's debt repayment capacity, taking into account its recent macroeconomic performance and medium-term macroeconomic prospects as well as the current debt burden and debt sustainability under alternative scenarios.

II. RECENT MACROECONOMIC PERFORMANCE

4. Azerbaijan's recent macroeconomic performance has been strong, with rapid output growth, low inflation, fiscal surpluses, remonetization of the economy, and increasing official international reserves (see Appendix). Real gross domestic product (GDP) grew by an average annual rate of 10.6% in 2001–2003. Output growth was fairly broad-based, averaging 11.7% in industry, 5.7% in agriculture, and 6.8% in the services sector. Per capita GDP in US dollars at the market exchange rate rose from $653 in 2000 to $864 in 2003, while per capita GNI (based on the World Bank Atlas methodology) reached $810 in 2003, compared with the IDA operational cutoff of US$895 for that year.

5. Large inflows of foreign direct investment (FDI) into the oil and gas sector (henceforth the oil sector) have been the engine of growth. The full development of the Azeri-Chirag-Gunashli oil fields in the Caspian Sea began in 2001, and the construction of the associated Baku-Tbilisi-Ceyhan oil pipeline was launched in 2002. In addition, the development of the Shah-Deniz offshore gas field and the construction of the South Caucasus Pipeline, which is to deliver gas from Shah-Deniz to Turkey, were sanctioned in early 2003. Accordingly, gross FDI inflows into the oil sector exceeded $5.3 billion in 2001–2003, and reached $2.8 billion (39.4% of GDP) in 2003 (Figure 1).

6. Despite large hydrocarbon-related foreign exchange inflows, domestic price stability was maintained and real exchange rate appreciation—often associated with a natural resource boom—was avoided until 2004. Inflation, as measured by the consumer price index, averaged 2.2% a year in 2001–2003. The nominal exchange rate of the national currency (the manat) against the dollar depreciated by 9.8% and the real effective exchange rate depreciated by 15.4% over the 3 years, giving domestic producers a competitive edge.

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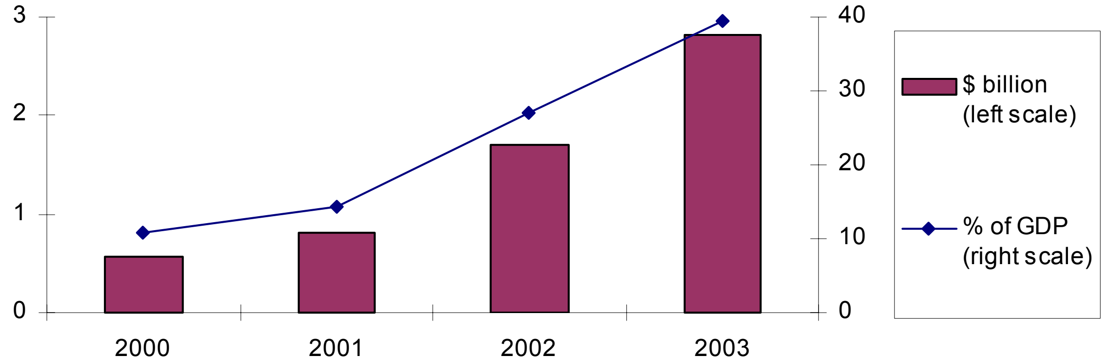
[1] ADB. 2001. *The Country Classification of Azerbaijan*. Manila.
[2] ADB. 1998. *A Graduation Policy for the Bank's Developing Member Countries*. Manila.

Figure 1: Gross Foreign Direct Investment in Oil Sector, 2000–2003



GDP = gross domestic product.
Source: Government of Azerbaijan and Asian Development Bank staff projections.

7. Fiscal policy has been moderately expansionary. The enterprise profit tax and the payroll tax have gradually been lowered to reduce the tax burden on the economy and foster the development of the non-oil sector. At the same time, salaries of public sector employees have been raised considerably to reduce the gap between wages in the public and private sectors, and capital expenditures have been increased to meet the country's priority social and infrastructure needs. Nonetheless, the consolidated budget—which includes the State Oil Fund of Azerbaijan Republic (SOFAZ)—has been kept in surplus since 2000, and the non-oil deficit—defined as the deficit of the consolidated budget excluding hydrocarbon-related receipts and outlays—has remained well below the estimated long-term sustainable level.

8. A substantial part of oil-related revenues has been saved in SOFAZ, assets of which increased from $271.0 million at end-2000 to $817.6 million at end-2003. This has helped reduce an upward pressure on the exchange rate and prevent a potentially destabilizing effect of large foreign exchange inflows on the macroeconomic situation. Moreover, in 2003 part of the revenue windfall arising from higher-than-anticipated world oil prices was saved in a special treasury account as a cushion against possible future declines in oil prices and, consequently, oil-related budgetary revenues. In this way, Azerbaijan effectively established a stabilization oil fund separate from SOFAZ.[3]

9. Monetary and exchange rate policies have been aimed at providing sufficient liquidity to the rapidly expanding economy, smoothing out excessive fluctuations of the nominal exchange rate, and ensuring continued depreciation of the real exchange rate, while maintaining domestic price stability. Liquidity has been injected into the economy primarily through net purchases of foreign exchange by the National Bank of Azerbaijan Republic (NBAR), with limited increases in its domestic credit. Although the stock of broad money grew at a high average annual rate of 25.0% in 2001–2003, the increase in money supply was broadly in line with the increase in money demand resulting from real output growth and remonetization of the economy.

[3] Unlike, for example, Kazakhstan's oil fund, SOFAZ does not perform the stabilization function in that its receipts and outlays are not directly linked to world oil prices and the domestic budgetary situation.

10. Azerbaijan's official international reserve position has steadily been improving since 1999, although the country ran large current account deficits in the last 2 years. In both 2002 and 2003, strong export performance was more than offset by sharp increases in imports of capital goods and services for hydrocarbon development. The resulting current account deficit was fully financed by inflows of FDI and other capital inflows, such that the overall balance of payments recorded a surplus in both years. Consequently, gross official reserves, including SOFAZ assets, reached about $1.6 billion at end-2003, which was equivalent to 12.0 months of non-oil sector merchandise imports and 7.1 months of total merchandise imports.

11. However, disturbing signs of potential worsening of the macroeconomic situation emerged in the first half of 2004. Pushed by considerable increases in public sector wages in 2003, consumer price inflation accelerated from 2.2% in 2003 to 4.2% in the 12-month period ending in June 2004. In the absence of sufficiently deep and well-functioning money and capital markets, NBAR's ability to absorb liquidity from the economy through open market operations is very limited. Therefore, NBAR had to cut its net purchases of foreign exchange in the first half of 2004 to curb money supply and inflation. This measure helped lower the growth rate of money supply and contain inflation, but contributed to considerable appreciation of the real exchange rate.

12. While appreciation of the real exchange rate has become increasingly difficult to avoid in the face of growing foreign exchange inflows, it needs to be accompanied by structural reforms that enhance competitiveness of the non-oil tradable goods sector to prevent "crowding out" of this sector by the oil sector and the nontradable goods sector. It is therefore regrettable that there has been a delay in implementing several important structural reform measures that are envisaged in the Government's economic reform program supported by the International Monetary Fund (IMF) under the Poverty Reduction and Growth Facility (PRGF).[4] As a result, the completion of the fourth review of Azerbaijan's performance under the PRGF arrangement has been postponed, raising concerns about the sustainability of economic reform.

III. MEDIUM-TERM MACROECONOMIC PROSPECTS

13. Notwithstanding the negative developments of the first half of 2004, Azerbaijan's medium-term macroeconomic prospects are good largely because of the unfolding oil boom, which is unlikely to be affected by these developments. Provided that military hostility with Armenia does not resume, the domestic political situation remains stable, and the key investment projects in the oil sector are implemented without significant delays, growth is expected to remain buoyant until the end of this decade, driven by continued large inflows of FDI into the oil sector in 2004–2008, and the anticipated rapid expansion in oil production and exports in 2005–2010. However, growth is likely to moderate markedly after 2010—as oil production and exports are forecast to stabilize in 2011–2012 and decline thereafter—unless major new oil fields are discovered and developed by that time.

14. Table 1 presents selected macroeconomic projections for 2004–2015 under three alternative scenarios: (i) base case (most likely), (ii) low case (pessimistic), and (iii) high case (optimistic). The scenarios are based on the same anticipated time profile of oil production and exports but on different assumptions about world oil prices and output growth in the non-oil sector. Under the base-case assumptions that the benchmark price of Brent crude oil will average $32 per barrel and annual output growth in the non-oil sector will average 4.0%, GDP is projected to grow at an average annual rate of 8.4%, with annual output growth in the oil sector averaging 13.3%. This translates into average annual per capita GDP growth of 7.5%, assuming

[4] These include measures aimed at reducing implicit energy subsidies, enhancing competition in the financial sector, and tightening financial discipline in the enterprise sector.

that the population will grow at the rate of 0.8% a year. At the market exchange rate, per capita GDP is projected to rise to $3,415 by 2015, in part reflecting continued appreciation of the exchange rate. Even if the price of Brent crude oil averages $24 per barrel and annual growth rate of output in the non-oil sector averages 2.0%, GDP will still grow at an impressive average annual rate of 6.0%, with per capita GDP in dollars rising to $2,628 in 2015. By comparison, if the price of Brent crude oil averages $40 per barrel and annual output growth in the non-oil sector averages 6.0%, GDP will grow at an average annual rate of 10.4% and per capita GDP in dollars will reach $4,268 in 2015.

Table 1: Selected Macroeconomic Projections, 2004–2015
(average annual percentage change unless otherwise indicated)

Item	Low Case	Base Case	High Case
A. Growth and Income			
1. Real GDP	6.0	8.4	10.4
2. Real Output in the Oil Sector	10.6	13.3	15.4
3. Per Capita GDP	5.2	7.5	9.5
4. Per Capita GDP in 2015 ($)	2,627.5	3,415.2	4,268.0
B. Government Finances			
1. Consolidated Budget Revenues (AZM trillion)	233.9	324.8	414.4
a. Oil-Related Revenues	149.2	227.8	303.2
b. Other Revenues	84.8	97.0	111.3
2. SOFAZ Assets at End-2015 ($ billion)	21.9	36.8	50.7
C. Balance of Payments			
1. Average Annual Current Account Balance (% of GDP)	6.1	14.3	19.4
2. Merchandise Exports	9.6	12.0	13.9
3. Merchandise Imports	0.2	2.0	3.5
D. Key Assumptions			
1. Average Annual Price of Brent Crude Oil ($ per barrel)	24.0	32.0	40.0
2. Real Output in the Non-Oil Sector	2.0	4.0	6.0
3. Population	0.8	0.8	0.8

AZM = manat, GDP = gross domestic product, SOFAZ=State Oil Fund of Azerbaijan Republic.
Source: Asian Development Bank staff projections and assumptions.

15. A substantial amount of oil revenues is expected to accrue to the state coffers.[5] In the base-case scenario, cumulative revenues of the consolidated budget are projected to reach AZM324.8 trillion ($67.9 billion) in 2004–2015, of which AZM227.8 trillion ($47.7 billion) will be oil-related revenues. SOFAZ assets are forecast to amount to $36.8 billion at the end of 2015, assuming that fund's annual expenditure will average $250 million and the return on its assets will be maintained at about 5.0% per year.

16. As imports for the oil sector decline and oil export volumes increase, the current account balance is likely to turn positive in 2006 or 2007. It will stay positive even when oil production

[5] To ensure efficient use of this oil windfall, the Government is preparing a long-term oil revenue management strategy.

and exports start to contract after 2012 because the decline in oil export volumes will be partly offset by a concomitant reduction in profit remittances by international oil companies and growing investment revenues of SOFAZ. In the base-case scenario, the current account is projected to record an average annual surplus of 14.3% of GDP in 2004–2015. Merchandise exports are forecast to surge from $2.6 billion in 2003 to more than 12.0 billion a year in 2010-2012, before declining to $10.2 billion in 2015. By contrast, merchandise imports are expected to increase relatively modestly from $2.7 billion in 2003 to $3.4 billion in 2015, with a decline in oil sector imports after 2004 partly offsetting a continuing increase in non-oil sector imports.

IV. CURRENT DEBT BURDEN

17. Both Azerbaijan's external debt burden and the Government's total debt burden are moderate. Aware of the experiences of some other oil-rich countries where an oil boom was accompanied by rapid accumulation of external debt, the Government has adopted a very cautious approach to external borrowing. Indeed, its economic reform program supported by the IMF set a ceiling of $80 million a year on new nonconcessional borrowing in 2001–2003. That ceiling was never reached. Between 2000 and 2003, the stock of government and government-guaranteed external debt disbursed and outstanding increased modestly in absolute terms, from $1,162 million to $1,575 million, and stayed virtually unchanged in relative terms at around 22% of GDP (Table 2). Since it consisted of mostly concessional loans from multilateral and bilateral development agencies, the net present value (NPV) of the debt was smaller than its face value: about $1,371 million or 19.2% of GDP at end-2003, using a fixed discount rate of 5.0%. Although the ratio of external debt service to exports of goods and services rose slightly from 4.6% in 2000 to an estimated 5.0% in 2003, it remained low from an international perspective.

18. The Government's domestic borrowing policy has been even more conservative. In 1997, it discontinued the use of long-term NBAR credits to finance a budget deficit, although it occasionally resorts to short-term overdrafts. With the consolidated budget recording a surplus since 2000, the Government has been reluctant to issue securities even for purposes of stimulating the development of the money market and facilitating the conduct of monetary policy. Consequently, the stock of the Government's domestic debt fell from an estimated 4.2% of GDP in 2000 to 2.3% of GDP in 2003. Most of this was long-term NBAR credits attracted by the Government in the first half of the 1990s to finance budget deficits and provide centralized credits to state-owned enterprises.

19. While detailed data on external borrowing (including borrowing by public entities) not contracted or guaranteed by the Government are not available, balance of payments statistics suggest that it has likely been small compared with government and government-guaranteed borrowing. This is in part because Azerbaijan has not yet introduced capital account convertibility, its financial sector is still at an early stage of development, and few domestic companies have access to international capital markets.

20. According to the Government's Letter of Intent to IMF dated 4 December 2003, Azerbaijan has modest disagreements concerning external debt with Kazakhstan, Turkmenistan, and Uzbekistan and is trying to resolve them. The Government has no overdue external debt obligations to other creditors. It has recently made considerable progress in strengthening its external and domestic debt management systems.[6]

[6] ADB has helped the Government strengthen its external and domestic debt management systems under the Technical Assistance for Capacity Building for Strategic Economic Policy Formulation at the Ministry of Finance.

Table 2: Government and Government-Guaranteed External Debt, 2000–2003

Item	2000	2001	2002	2003
1. Stock of Debt Disbursed and Outstanding				
a. $ Million	1,162.4	1,270.1	1,356.4	1,575.0
b. % of GDP	22.0	22.3	21.8	22.1
2. Composition of Debt by Maturity (% of total debt)				
a. Less than 5 Years	30.6	23.5	16.2	22.5
b. From 5 to 10 Years	23.4	27.2	25.7	21.1
c. From 10 to 20 Years	20.7	15.7	13.3	3.4
d. More than 20 Years	25.3	33.5	44.7	53.0
3. Composition of Debt by Creditor (% of total debt)				
a. Multilateral Creditors	60.3	56.5	53.4	51.7
b. Bilateral Creditors	8.8	20.2	27.8	32.6
c. Export/Import Banks	20.1	11.7	10.3	8.4
d. Commercial Banks	10.7	11.6	8.5	7.3
4. Terms of Debt				
a. Average Maturity (years)	22.0	22.0	22.0	22.0
b. Average Interest Rate (% per annum)	3.5	3.5	2.3	2.3
5. Debt Service				
a. $ Million	94.5	114.0	116.5	153.7
b. % of Consolidated Budget Revenues	7.5	9.1	7.9	7.3
c. % of Exports of Goods and Non-Factor Services	4.6	4.9	4.4	5.0

Sources: Government of Azerbaijan and Asian Development Bank staff estimates.

V. QUALITY OF POLICIES AND INSTITUTIONS AND INDICATIVE DEBT SUSTAINABILITY THRESHOLDS

21. Recent empirical studies have demonstrated that debt sustainability depends not only on the level of a country's debt burden, but also on the quality of its policies and institutions.[7] A country with sound policies and strong institutions can sustain a greater debt burden than a country with poor policies and weak institutions because the former uses its resources more efficiently and manages its debt more effectively than the latter.

22. Various country assessments and ratings—including the European Bank for Reconstruction and Development's Transition Indicators, and Freedom House's Governance Ratings, Heritage Foundation and Wall Street Journal's Index of Economic Freedom—suggest that the overall quality of policies and institutions in Azerbaijan is on balance close to average. While the quality of macroeconomic policies is normally ranked above average for comparator countries, that of structural policies and institutions is generally perceived to be below average. Therefore, the indicative debt sustainability thresholds proposed by IDA and IMF for a country with medium-quality policies and institutions can be applied to Azerbaijan. These thresholds are (i) NPV of debt-to-GDP ratio of 45%, (ii) NPV of debt-to-exports ratio of 200%, (iii) NPV of debt-to-revenue ratio of 200%, (iv) debt service-to-exports ratio of 25%, and (v) debt service-to-revenue ratio of 30%.8

[7] See, for example, Kraay, A., and V. Nehru. 2004. When is Debt Sustainable? *World Bank Policy Research Working Paper No. 3200*. Washington, DC: World Bank.

[8] IDA and IMF. 2004. *Debt Sustainability in Low-Income Countries—Proposal for an Operational Framework and Policy Implications*. Washington, DC.

VI. DEBT SUSTAINABILITY UNDER ALTERNATIVE SCENARIOS

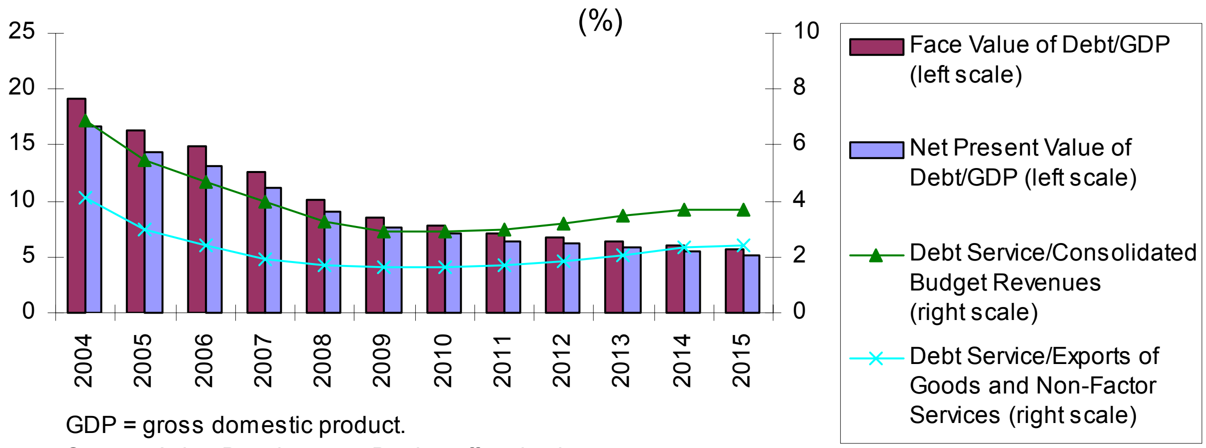
23. The Government intends to maintain a conservative borrowing policy. New government and government-guaranteed external borrowing is expected to average a relatively modest \$150 million a year in 2004–2015, gradually declining from \$200 million in 2004 to \$120 million in 2015. For the purpose of this paper, two sets of assumptions have been made concerning the possible structure and terms of this new borrowing: a base case and a low case. In the base case, it is assumed that the share of concessional loans in total new borrowing will be 40% in 2004, decline slowly to 10% by 2011, and stay at that level thereafter, while the annual average interest on nonconcessional loans will be 5.0%. In the low case, it is assumed that the share of concessional loans in total new borrowing will be 30% in 2004 and fall rapidly to 0.0% by 2007, while the annual average interest on nonconcessional loans will be 7.0%. These sets of assumptions have then been combined with the macroeconomic projections to assess debt sustainability under three alternative scenarios: scenario 1 (the base-case macroeconomic scenario and the base-case assumptions); scenario 2 (the low-case macroeconomic scenario and the low-case assumptions); and scenario 3 (the high-case macroeconomic scenario and the low-case assumptions).

24. In all three scenarios, the ratios of the debt stock to GDP are projected to fall during 2004–2015, while the ratios of debt service to consolidated budget revenues and exports of goods and non-factor services are forecast to decline substantially during the rest of this decade, before rising somewhat in the first half of the 2010s (Figures 2-4). In scenario 1, for example, the face value of debt is projected to decline from 22.1% of GDP in 2003 to 5.6.% of GDP in 2015, with NPV of debt falling to 5.1% of GDP. The ratio of debt service to exports of goods and non-factor services is forecast to decline from an estimated 5.0% in 2003 to 1.5% in 2009–2010, before rising to 2.4% in 2015. Furthermore, external borrowing not contracted or guaranteed by the Government is expected to remain relatively small, while the stock of the Government's domestic debt is projected to fall to less than 1.0% of GDP by 2015.

25. Thus, neither the sustainability of the country's external debt (namely, the ability of the country to service its external debt in the future without resorting to exceptional balance-of-payments support and/or a major correction in the balance of income and expenditure) nor the sustainability of the Government's total debt (that is, the ability of the Government to service its external and domestic debt in the future without resorting to inflationary financing and/or a major fiscal adjustment) is at risk. It is only if the Government borrows an additional \$1.1 billion–\$1.2 billion a year exclusively on nonconcessional terms that, in the low-case macroeconomic scenario, government and government-guaranteed external debt indicators will reach the aforementioned indicative debt sustainability thresholds by 2015.

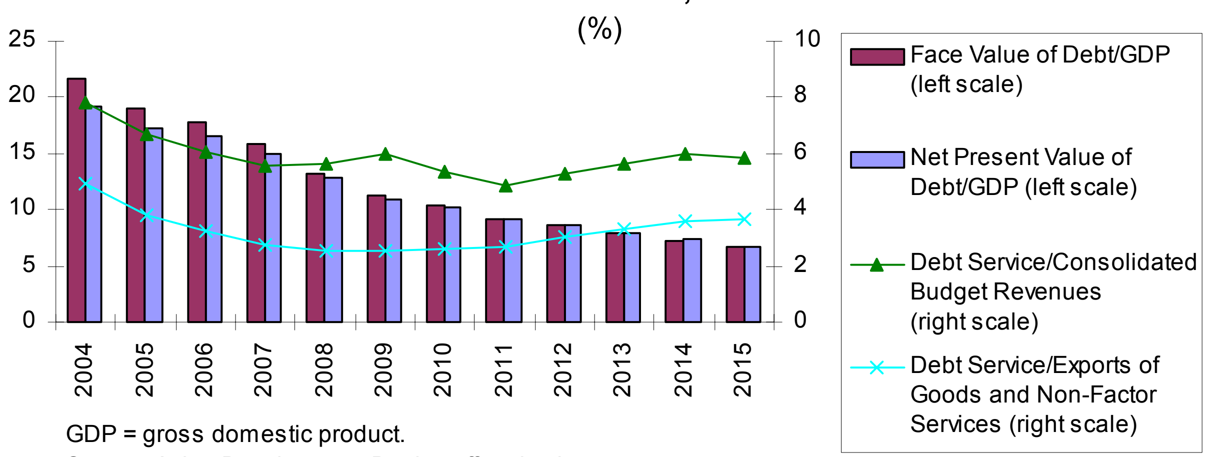
26. Consequently, Azerbaijan is in the process of graduating from IDA and other concessional financing. The World Bank's Country Assistance Program for Azerbaijan for FY2003–FY2005 envisages that, in addition to IDA credits, the International Bank for Reconstruction and Development will lend Azerbaijan \$40 million in FY2004 under the base-case scenario and another \$35 million in FY2005 under the high-case scenario. Accordingly, the Government's economic reform program agreed on with IMF allows for a larger (\$150 million) new nonconcessional borrowing in 2004 than in previous years.

Figure 2: Government and Government-Guaranteed External Debt Indicators in Scenario 1, 2004–2015



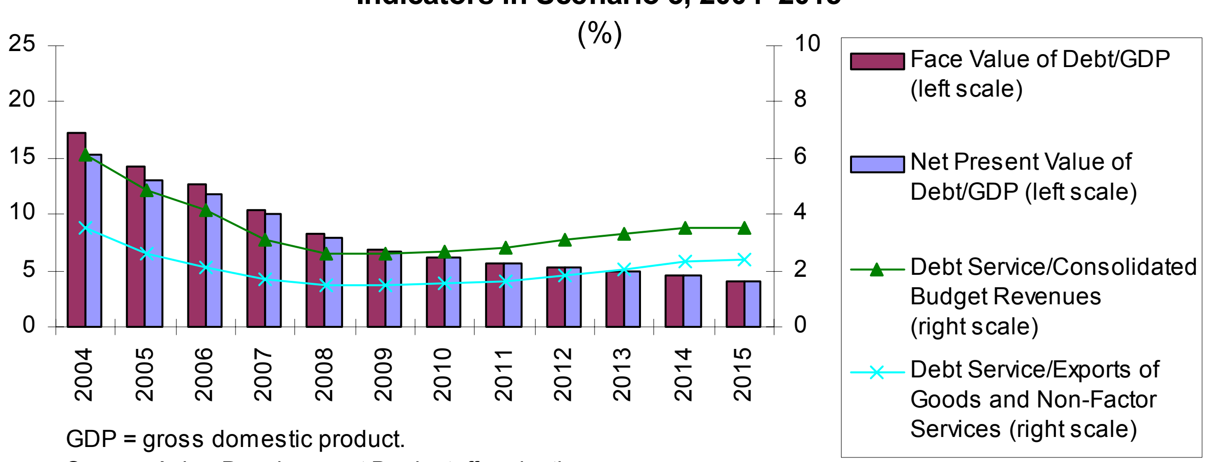
GDP = gross domestic product.
Source: Asian Development Bank staff projections.

Figure 3: Government and Government-Guaranteed External Debt Indicators in Scenario 2, 2004–2015



GDP = gross domestic product.
Source: Asian Development Bank staff projections.

Figure 4: Government and Government-Guaranteed External Debt Indicators in Scenario 3, 2004–2015



GDP = gross domestic product.
Source: Asian Development Bank staff projections.

VII. CONCLUSION

27. Azerbaijan's recent macroeconomic performance has been strong, and its medium-term prospects are good. Moreover, the country's external debt burden and the Government's total debt burden are moderate and sustainable even under the pessimistic macroeconomic scenario. Hence, Azerbaijan's debt repayment capacity can now be assessed as strong, and ADB can prudently increase its OCR loan assistance to the country above the ADF loan assistance, without raising debt sustainability concerns.[9]

[9] However, the ceilings on new nonconcessional borrowing set in the Government's economic reform program supported by IMF under the Poverty Reduction and Growth Facility and the existing constraints on Azerbaijan's absorptive capacity, including institutional weaknesses, need to be taken into account, when determining the appropriate amount of OCR loan assistance.

AZERBAIJAN: SELECTED ECONOMIC INDICATORS, 2000–2003

Item	2000	2001	2002	2003
A. Income and Growth				
1. GDP (AZM trillion, current prices)	23.6	26.6	30.3	35.1
2. GDP by Origin (% of GDP, current prices)	100.0	100.0	100.0	100.0
a. Industry	42.5	43.5	46.2	49.9
b. Agriculture	16.1	14.8	14.0	13.1
c. Services	35.2	33.8	31.9	30.0
3. GDP Growth (%, constant prices)	11.1	9.9	10.6	11.2
a. Industry	5.8	5.2	15.2	15.0
b. Agriculture	12.1	5.0	6.4	5.6
c. Services	9.6	6.2	6.1	8.0
4. GDP per Capita ($, current prices)	652.5	701.1	760.2	863.5
B. Inflation and Exchange Rate				
1. Consumer Price Inflation (%)	1.8	1.5	2.8	2.2
2. Nominal Exchange Rate (AZM per $)	4,474.2	4,656.0	4,860.8	4,910.7
3. Real Effective Exchange Rate (2001=100)	103.2	100.0	96.3	87.2
C. Consolidated Budget[a] (% of GDP)				
1. Revenue and Grants	24.0	22.0	23.6	29.3
2. Expenditure and Net Lending	20.8	20.1	22.3	29.2
3. Surplus (Deficit)	3.3	1.8	1.3	0.2
D. Money Supply				
1. Reserve Money (annual % change)	29.0	1.7	14.0	23.5
2. Broad Money (annual % change)	27.1	31.7	14.4	29.8
3. Monetization Ratio[b] (%)	11.0	12.9	13.0	14.5
E. Balance of Payments				
1. Current Account Balance				
a. Million Dollars	(-)187.0	(-)49.6	(-)769.0	(-)2,021.0
b. Percent of GDP	(-)3.5	(-)0.9	(-)12.3	(-)28.3
2. Merchandise Exports ($ million)	1,799.0	2,045.9	2,304.9	2624.6
3. Merchandise Imports ($ million)	1,539.3	1,465.1	1,823.4	2723.1
4. Overall Balance ($ million)	282.0	322.0	221.0	123.8
F. Official International Reserves				
1. Gross Official Reserves ($ million)	950.6	1,217.1	1,413.5	1,620.6
a. Gross International Reserves of NBAR	679.6	725.0	720.8	803.0
b. SOFAZ Assets	271.0	492.1	692.7	817.6
2. Gross Official Reserves (months of imports)				
a. Total Merchandise Imports	7.4	10.0	9.3	7.1
b. Non-Oil Sector Merchandise Imports	8.2	11.0	11.4	12.0

AZM = manat ($1=AZM4,904), GDP = gross domestic product, NBAR = National Bank of Azerbaijan, SOFAZ = State Oil Fund of Azerbaijan Republic.

[a] The figures for 2003 include energy subsidies to the electricity and gas sectors and offsetting tax credits to the State Oil Company of Azerbaijan Republic, which were explicitly included in the 2003 budget and amounted to 5.6% of GDP.

[b] The ratio of broad money to GDP.

Sources: Government of Azerbaijan, International Monetary Fund, and Asian Development Bank staff estimates.