Macroeconomic Analysis and Graphical Interpretation of Azerbaijan Economy in 1991-2012

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The aim of this research is to analyze macroeconomic performance and discuss transition indicators in Azerbaijan economy for 1991-2012. After regaining independence in 1991, Azerbaijan implemented economic transition process toward market economy. In the first years of independence, serious economic recession was observed. However, after 1995, the restructuring of the economy started. In this sense, signing the “Contract of the Century” was a turning point toward oil based high speed economic growth or oil boom period. Thus, by opening “Baku-Thilisi-Ceyhan” pipeline in 2005, Azerbaijan’s macroeconomic indicators experienced considerable growth for the following years. On the other hand, Azerbaijan officially declared the end of economic transition process in its economy in 2009. In this paper, the authors discuss the political-economic and economic process in the whole period as well as analyze the macroeconomic performance with and without oil & gas contribution. In addition, the authors question what would happen if economic transition period ended in Azerbaijan’s economy. It is concluded that oil & gas production has a serious impact over macroeconomic indicators and transition indicators, and for Azerbaijan it implies only a partly end of economic transition, though not completely.

Keywords: Azerbaijan economy, macroeconomic analysis, oil and gas, economic transition

JEL Classification: O11

1. Macroeconomic Analysis in Historical Context


The first years of independence had been much difficult for the Republic of Azerbaijan from both political and economic sides. More precisely, economic problems were mainly the result of political changes in the country. Thus, the years 1991-1994 are named as the first period, recession period or regress period in economic development of Azerbaijan by different researchers. Unfortunately, this period of Azerbaijan’s

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In time of Soviet Union (SU), country’s economy was designed for the strategic requirements of the SU (Soyak and Nesirova, 2003, p. 3). Cultivation of lands was done collectively within massive production cooperatives and state farms which everything was under the control of administration (Lerman, 2000, p. 96). Despite of the independence, CPE still preserved its power in the economy within the first period. Privatization could not be started because of political instability and ongoing war with Armenia. Moreover, the president of Azerbaijan was changed three times during the first three years of independence. The Communist party was still in the administration and the first president of Azerbaijan (Ayaz Mutalibov) was “dependent” to the central government. He was unresponsive to the national problems and following Russia oriented policies (Yunusov, 2001, p. 62).

However, under the leadership of Abulfaz Elchibey or the Azerbaijan Popular Front Party (APF) after May 1992, the country’s policy changed toward “nationalistic” Turkish oriented foreign policy which worsened conditions of the country in terms of economic pressure, done by Russia and Iran (Ismailzade, 2005, p. 2). In brief, the ongoing war between Azerbaijan and Armenia, loss of territories, refugee and IDPs issue, instability of political regimes, transportation “embargo” of Russia, Chechen war and other political reasons caused a deepening of the economic crisis during this period of the transition (Kaynak and Nasirova, 2005, p. 40).

Moreover, collapse of Soviet Union caused the destruction of economic ties with other post-Soviet countries, loss of country’s shares in those markets and unavailability of subsidies from the central government (Suleymanov, 2008, p. 171). In addition, collapse of the “inter-republican trade arrangements” and delays in “interrepublican payments systems” also led to the decline in production (Taymas, 1993).

According to Table 1, GDP of 1990 was approximately 2.67 times more than GDP volume of 1994. GDP’s growth rate in the first year of independence was negative, but not at a significant level. However, GDP had contracted 21.8% in average in the other years of this period. Thus, added value in sectors of the economy in 1995 had decreased sharply in comparison to the corresponding indicators of 1990. Thus, agriculture was just 32.7% of the 1990 and respectively, manufacturing-77.5%, industry-64.5% and services-64.3%. On the other hand, total volume of export had decreased more than 2.32 times in 1994 in comparison to the 1992 of $1.484 billion ($730 mln inter-republic and $754 mln extra-republic export), mostly due to the decrease in export of oil & gas and petroleum products (World Bank, 1995, p. 78).

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</tr>
</thead>
<tbody>
<tr>
<td>GDP (mln. USD)</td>
<td>8858.006</td>
<td>8792.366</td>
<td>4991.350</td>
<td>3973.027</td>
<td>3313.739</td>
<td></td>
</tr>
<tr>
<td>GDP growth (%)</td>
<td>-</td>
<td>-0.7</td>
<td>-22.6</td>
<td>-23.1</td>
<td>-19.7</td>
<td></td>
</tr>
<tr>
<td>Inflation (%)</td>
<td>-</td>
<td>-</td>
<td>46.2</td>
<td>1128</td>
<td>1662.2</td>
<td></td>
</tr>
</tbody>
</table>

Source: World Bank Database

Hyperinflation as the common issue of this period in most transition countries was observed in Azerbaijan also in the following years of price liberalization, 1992. Although the inflation rate was 46.2% in 1992, it sharply increased to four digit numbers such as the 1662.2% in 1994. And the main cause of hyperinflation was compensation of budget deficits through money printing by Central Bank of the country (Kaynak, Nasirova, 2008, p. 41).

In 1993, a new president came to the government. After the regime change, the priority became to achieve the political stability and authority of central government over all events within Azerbaijan, under the control of new president - Heydar Aliyev. In this context, Azerbaijan and Armenia signed the cease-fire agreement in May 1994 which increased attractiveness of the country for the FDIs. Moreover, Azerbaijan invited foreign oil companies to invest to its oil sector that resulted by signing of the “Contract of Century” on 20th September, 1994. This contract was valued as $60 billion, including 33 companies of 15 different countries which enhanced Azerbaijan’s place in FDI performance index to the top in following years (Bayulgen, 2003, p. 209).
1.2. Restructuring Period: 1995-2005

The main target of the government after 1995 was to restructure the destructed economy with the effect of recession. Most of the scholars consider this period as lasted until 2003 because of the presidency change and new economic program toward social-economic development of Azerbaijan’s regions. However, I suggest analyzing of this period until the end of 2005 which is the year of opening Baku-Tbilisi-Ceyhan pipeline. In addition, 2005 is the turning point in Azerbaijan’s economic development toward high speed economic growth and huge positive balance in current account. Azerbaijan started to implement radical economic policies in 1995 in collaboration with IMF under its comprehensive stabilization program due to prevent the hyperinflation issue (Baranick and Salayeva, 2005, p. 213). As a result, application of exchange rate based orthodox programs became very successful in Azerbaijan to reduce the inflation to one digit level within a short time period (Dabrowski, 2003, p. 17). At the same time, Azerbaijan accomplished to get credits from IMF only after implementation of IMF supported stabilization programs, in amount of $219 million in December 20, 1996, especially for structural reforms (IMF, 1997, December).

In addition, adoption of Azerbaijan’s constitution in November 12, 1995 was also significant event in terms of establishing juristic base for economic activities. Azerbaijan developed its cooperation with the World Bank and other international organizations that speeded restructuring of the economy as well. Thus, 31 World Bank projects with the value of $726.72 mln in total had been carried out in Azerbaijan within this period of the transition (World Bank, 2013). However, occupation of 20% of its territory, the refugee and IDPs issue were still essential obstacles to restructuring of the economy. Thus, the country had lost a significant part of production potential as well as faced with additional unemployment issue in terms of refugees and IDPs.

### Table 2: Change in main macroeconomic indicators: 1995-2005

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP (mln $)</th>
<th>GDP growth (%)</th>
<th>Inflation (%)</th>
<th>Current account balance (% of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>3052.4</td>
<td>-11.8</td>
<td>411.75</td>
<td>-13.12</td>
</tr>
<tr>
<td>1996</td>
<td>3176.7</td>
<td>1.3</td>
<td>19.79</td>
<td>-29.31</td>
</tr>
<tr>
<td>1997</td>
<td>3962.7</td>
<td>5.8</td>
<td>3.67</td>
<td>-23.11</td>
</tr>
<tr>
<td>1998</td>
<td>4446.4</td>
<td>10</td>
<td>-0.77</td>
<td>-30.69</td>
</tr>
<tr>
<td>1999</td>
<td>4581.2</td>
<td>7.4</td>
<td>-8.52</td>
<td>-13.09</td>
</tr>
<tr>
<td>2000</td>
<td>5272.6</td>
<td>11.1</td>
<td>1.80</td>
<td>-3.19</td>
</tr>
<tr>
<td>2001</td>
<td>5707.6</td>
<td>9.9</td>
<td>1.54</td>
<td>-0.91</td>
</tr>
<tr>
<td>2002</td>
<td>6236.0</td>
<td>10.6</td>
<td>2.77</td>
<td>-12.32</td>
</tr>
<tr>
<td>2003</td>
<td>7275.7</td>
<td>11.2</td>
<td>2.23</td>
<td>-27.77</td>
</tr>
<tr>
<td>2004</td>
<td>8680.5</td>
<td>10.2</td>
<td>6.70</td>
<td>-29.83</td>
</tr>
<tr>
<td>2005</td>
<td>13245.4</td>
<td>26.4</td>
<td>9.67</td>
<td>1.26</td>
</tr>
</tbody>
</table>

Source: World Bank, World Development Indicators

Oil industry was restructured within the “Contract of Century” in corporation with foreign oil companies. After achieving the stability, government launched reforms in economy toward establishing market economic system which required policy changes in macroeconomic stabilization, price and trade liberalization, privatization, supporting of new entrepreneurs, and development of a supportive juristic base (Aslund and Boone, and Johnson, 1996, p. 251). In context of such economic policies, government implemented reforms in agriculture such as distribution of land among private sector and privatization the property of old “Sovhozes” and “Kolkhozes” (Thomas, 2006, p. 228).

However, the land area was distributed among households rather than establishing cooperatives in privatization process. In 2002, 96% of “cultivated land” and 98% of “livestock inventories” were divided among individual farms and 80% of them did farming by themselves, just 1/10 of total land was leased to others (Dudwick et al., 2007, p. 34). This kind of privatization and farming prevented establishment of cooperatives in agriculture which is required for the better performance in international competition.

In 1995, the parliament of Azerbaijan adopted the privatization program offered by the president which aimed to privatize 70% of state enterprises (World Bank, 2008, p. 15). Initially, small enterprises and later medium and large ones would be privatized by applying the voucher privatization method (World Bank, 2008,
As a result of economic reforms and attracting FDIs to the oil sector of Azerbaijan, recession period was ended and positive economic growth (out of 1995) was observed. This represents itself in the economic indicators of that time as well. According to table 2, GDP had increased approximately 3 times in 2004 and 4 times in 2005 in comparison with the GDP of 1995. The inflation rate decreased to 411% in 1995 from 1662% of the previous year. It decreased gradually until 2001, and even deflation was observed in 1998 and 1999.

As a result of liberalization in trade, the volume of import always exceeded the amount of export during this period. The proportion of current account deficit to GDP had been serious until 1998 or obtaining the first oil within “the Contract of the Century”. However, this proportion had increased again after 2001, mainly because of the lower oil prices in world market that oil was the most important good in country’s export. Moreover, the oil contract and implementation of economic reforms enhanced the attractiveness of Azerbaijan for FDIs.

In addition, according to World Bank Database, the added value had increased 1.57 times in agriculture, 2.44 times in manufacturing, 8.22 times in industry, and 2.94 times in services in 2005 in comparison with 1995. However, the share of sectors in GDP had changed against agriculture (2.75 times), manufacturing (1.78 times) and services (1.32 times). In contrast, the share of industry in GDP had increased 1.89 times within the same time period mainly as a result of the increase in oil & gas production. Thus, the share of oil & gas had been 42.2% in GDP, 75% in industry, 86.5% in total export and 94.2% in FDIs in 2005 (Ciarreta and Nasirov, 2012, p. 283).

After the 2003 elections for presidency of Azerbaijan, new president – Ilham Aliyev came to the head of the government. He promised to create 600,000 new jobs within the next 5 years which were approximately accomplished (Escudero, 2009, p. 10). In addition, the “State Program on Social-Economic Development of the Regions of Azerbaijan Republic for 2004-2008” was adopted which targeted to decrease the social-economic development gap among the regions of Azerbaijan as much as possible through supporting the regional developments, encouraging major sectors of the regions, producing of export-oriented products, ensuring new job opportunities etc. (SPSEDRI, 2004, pp. 3-4). Therefore, the new trend in historical development of Azerbaijan economy was not so far, especially related to the construction and opening of Baku-Tibilisi-Ceyhan pipeline as well as sharp increase in oil production under “the Contract of the Century”.

1.3. Oil Boom Period: After 2005

Oil industry is not new for Azerbaijan economy that country was the biggest producer of oil in the early twentieth century. In addition, Azerbaijan’s rank in oil production through modern drilling equipment was at first in the 19th century (Smith, 2001, p. 28). Although Azerbaijan started to produce its oil independently after the collapse of Soviet Union, there were significant problems in transportation and delivering of Azerbaijan oil to the world markets. That is why the oil boom in Azerbaijan started after opening of BTC pipeline that solved the issue we mentioned above. This pipeline was constructed to deliver Azerbaijan’s oil to the Ceyhan seaport of Turkey through Georgia with 1760 km length and 1 million barrel/day export capacity (Cornell and Ismailzade, 2005, p. 61). In addition, the Baku-Tbilisi-Erzurum (BTE) gas pipeline was constructed within 2004-2007 in order to deliver Azerbaijan’s gas to Turkish and world market with 30 billion cubic meters gas export capacity (Aras and Suleymanov, 2012, p. 228).

Opening of BTC pipeline in 2005 sharply increased the oil production and exportation which means huge revenues from oil which substantially changed the structure of the country’s economy. Thus, oil production had been above 42 million tons after 2007 and even exceeded 50 billion tons in 2009 and 2010 but, in the subsequent years, production level fell and became 43 million tons in 2012 (SOCAR, 2013). As a result, Azerbaijan’s GDP grew 34.5% in 2006 and 25.05% in 2007. However, GDP growth slowed after 2007 which become just 1% in 2011 because of the decline in oil production. Despite of the decline, Azerbaijan’s economy grew 4.45% in 2012.

<table>
<thead>
<tr>
<th>GDP (mln $)</th>
<th>GDP growth (%)</th>
<th>Inflation (%)</th>
<th>Current account balance (% of GDP)</th>
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This period is also characterized by the raise of the importance of inflation issue in the country. Thus, the inflation increased and became in two digit numbers for the first time after 1996 which was the result of high-speed economic growth or overheating of the economy associated with oil production. Revenues of the State Oil Fund of Azerbaijan Republic (SOFAZ) which was established to accumulate the revenues from oil & gas production became $66.3 billion within 2001-2011, from which $64.1 billion had been gained within 2005-2011 (SOFAZ, 2011, p. 11). Moreover, it is predicted to become $200 billion until 2024 (Ciarreta and Nasirov, 2012, p. 282). Consequently, the huge amount of oil revenues led to the sharp increase in state budget or government expenditures through transfers from SOFAZ which raised the amount of national currency (manat) in circulation.

In fact, the expenditures of state budget increased 7.2 times in comparison with 2005 from which transfers from SOFAZ consisted of 42.5% or $24,800.0mln of total sum of stated budget expenditures ($58,317.8mln) within 2006-2011 (SOFAZ, 2011, p. 19). In addition, approximately 15% of state budget’s own revenues were also related with oil and non-oil fiscal deficit became 32% of GDP in 2012 (Boyarchuk, 2012, p. 2). As a result of sharp increase in oil export, current account balance became positive, even 33.7% of GDP in 2008 which, the share of oil & gas in gross export had been more than 90% within 2006-2009 (Ciarreta and Nasirov, 2012, p. 283).

Distribution of value added GDP among sectors of the economy is also at the center of interest. According world development indicators (World Bank, 2013), the value added GDP, agriculture, industry and services become respectively 5.07, 3.2, 5.12 and 5.6 times of 2005 in 2011. Moreover, slight change was observed in proportional share of sectors in the country’s GDP. Thus, the share of agriculture in value added GDP had decreased approximately from 9% in 2005 to 5.7% in 2012. In contrast, the share of services has increased nearly from 24.4% in 2005 to 27.2% in 2012. The change in share of industry is very little (less than one percent) but, it still dominates in the economy with 59.4% share in GDP.

Despite of high level of economic growth, there are still some crucial problems such as high level of oil dependence, economic diversification and less development of export oriented sectors of the economy. In addition, there is a misbalance of distribution of labor force and GDP production among sectors of the economy as well as difference in labor force earnings regard to this misbalance. Thus, only 1% of the total labor force is employed in oil and gas industries and 50% in agriculture (Ciarreta and Nasirov, 2012, p. 283). This implies that 50% of total labor force produces very small share (5.7%) of GDP while 1% does a significant part. Obviously, this is embodied in salary of workers in different sectors as well.

2. Graphical Interpretation

Here, we will graphically discuss the trend in GDP and its components after the end of economic recession, 1994. We analyze the changes in GDP and GDP components of Azerbaijan economy in two ways: including and excluding contribution of oil & gas sector to the GDP, industry and export of the country.

Figure 1 indicates the value of GDP and GDP components in USD which embodies the impact of oil & gas sector as well. From the graph, it is clear that not a substantial change was observed in both GDP trend and trends in its components until 2004. However, because of opening the Baku-Tbilisi-Ceyhan (BTC) pipeline in May 2005, sharp increase in both GDP and industry sector was seen until 2008. Increasing of oil prices has also affected positively GDP value and industrial production. Thus, oil price for per barrel increased from $50 in 2007 to $140 in summer of 2008 which fell to $40 at the end of the same year (Smith, 2009). That is why Azerbaijan’s GDP raised approximately $16 billion in 2008 which was mainly sourced from the increase in industrial, more precisely oil production. However, a decrease in GDP and industrial production was observed in 2009 as a result of sharp fall in oil prices and 2008 Financial Crises in the world economy. After 2009, the amount of both GDP and industrial production significantly increased. Nevertheless, industrial production decreased slightly after 2011 mainly because of the fall in amount of oil production.

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP (USD)</th>
<th>Agriculture</th>
<th>Industry</th>
<th>Export</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>20982.3</td>
<td>34.5</td>
<td>8.37</td>
<td>17.67</td>
</tr>
<tr>
<td>2007</td>
<td>33049.4</td>
<td>25.05</td>
<td>16.6</td>
<td>27.3</td>
</tr>
<tr>
<td>2008</td>
<td>48852.5</td>
<td>10.8</td>
<td>20.8</td>
<td>33.7</td>
</tr>
<tr>
<td>2009</td>
<td>44291.5</td>
<td>9.3</td>
<td>1.4</td>
<td>22.97</td>
</tr>
<tr>
<td>2010</td>
<td>52906.0</td>
<td>5</td>
<td>5.86</td>
<td>28.43</td>
</tr>
<tr>
<td>2011</td>
<td>63403.7</td>
<td>1</td>
<td>7.85</td>
<td>27.04</td>
</tr>
<tr>
<td>2012</td>
<td>67197.7</td>
<td>4.45</td>
<td>1.06</td>
<td>22.3</td>
</tr>
</tbody>
</table>

Source: World Bank, World Development Indicators
On the other hand, no volatility was observed in amount of both agricultural and service production during the whole period. Thus, the change in agriculture sector has been very small in comparison with the GDP growth. However, added value in the service sector has also substantially risen as parallel to the increase in GDP after 2005. Hence, added value in the service sector has exceeded $18 billion in 2012 which is 5.6 times the corresponding value in 2005. The export trend is almost on the same line with industry trend because of the oil factor. The country has also had an increasing import trend, especially after 2005 (which only declined in 2009). Very huge trade surplus was observed after 2005 which reached $20 billion in 2008 and $22 billion in 2012, mainly because of the oil export.

Although Azerbaijan’s economy was characterized with high speed economic growth until recent years, the growth itself has been at the center of discussions along the period, especially after 2005 in terms of the dependency to the oil sector. In Figure 2, we attempted to analyze GDP, industry and export trends in Azerbaijan economy, with and without contribution of oil & gas. Comparative trends indicate that normal and non-oil & gas GDP do not differ so much until 2005. However, sharp increase in oil production after 2005 has leaded to the expansion of the gap. In 2008, the gap exceeded $25 billion which achieved $31 billion in 2011. This was represented in industrial production (mining industry) and exports of the country as well.

The gap between industrial production with and without oil & gas also significantly increased after 2005 which became $26 billion in 2008 and $30 billion in 2011. As a result, the share of oil & gas production in industry has been 70-80% which is considerably high. In export, the situation is much more crucial. Thus, share of oil and gas in total export has registered over 70% after 2000 and between 82-91% in 2005-2011. Nevertheless, all these aspects were already expected in context of the “Contract of the Century” many years ago. A more important question is what kind of non-oil & gas trends were observed within this period. According to Figure 2, non-oil & gas GDP has also grew substantially after 2005. Thus, its value in 2012 was 5 times than that of 2005. Approximately the same result is also observed in the change in value of non-oil & gas industry within 2005-2012. Moreover, total volume of non-oil-and-gas export has also increased 6.7 times (2012) in comparison with 2005.

On the other hand, the amount of gross capital formation or gross domestic investments has had an upward trend during almost the whole period. According to World Bank Database, yearly gross capital formation had increased from $0.5 billion in 1994 to $5.5 billion in 2005 and nearly $13 billion in 2012. Moreover, the positive trend in net FDI flow to the country was also observed during the period. Thus, net FDI flow had risen from less than $93 million to approximately $4.5 billion in 2005 and $5.3 billion in 2012. However, positive trends in Azerbaijan economy were accompanied with the increasing of external debt stocks of the country. Thus, Azerbaijan’s external debt reached $2.2 billion in 2005 and $7.6 billion in 2012.
All non-oil & gas trends have a slow-speed increasing tendency during the whole period. This proves that non-oil & gas sector did not decline in parallel with oil production. However, this should not be considered as that other sectors have not been affected by sharp increase in oil production and following huge revenues. Nevertheless, any research about Azerbaijan economy should take into consideration the occupation fact of its 1/5th territory and living in military conditions.

3. Transition to Market Economy

After the collapse of SU, Azerbaijan left the centrally planned economic system and launched a process toward market economy. However, the transition speed was very low in the initial years of independence due to economic recession and political uncertainty as well as war conditions. When ceasefire appeared between Azerbaijan and Armenia, the country initiated the process of mass privatization of state property and liberalization of the economy. This process took a long time. Only in 2009, the president of Azerbaijan, Ilham Aliyev officially declared that the economic transition of Azerbaijan’s economy had ended.

In this sense, it is important to mention what embodies economic transition. Each year, European Bank for Reconstruction and Development (EBRD) publishes transition indicators for every transition country. Despite of officially declaring the end of the transition process, such indicators have been calculated for Azerbaijan as well. Thus, EBRD’s transition indicators are categorized as “large scale privatization”, “small scale privatization”, “governance and enterprise restructuring”, “price liberalization”, “trade & forex system”, and “competition policy” which was valued on the basis of 4+ (EBRD).

Below, Figure 3 represents gradual transition indicators until 2012. According to the table, only price liberalization and trade & forex system has gained almost the highest transition indicator value. Small scale privatization also could be considered as successful with a 3.7 transition indicator value after 2002. However, the transition indicators for the remaining categories (governance and enterprise restructuring, large scale privatization, and competition policy) has never exceeded two and did not increase after 2003. Note that, EBRD has decreased the transition indicators’ value for the competition policy category from 2 to 1.7 in 2011 and 2012, respectively.
Figure 3. EBRD transition indicators for Azerbaijan, 1991-2012

On the other hand, the Index of Economic Freedom for all countries and various regions are calculated and published by the Heritage Foundation and Wall Street Journal, which is used as a measure for decentralization in empirical researches related to transition economies. Based on a 100 score measure, the overall score of the Index of Economic Freedom in Azerbaijan economy has never exceeded 58.9 which means mostly unfree. The score differs in different categories. Thus, in 2012 Index of Economic Freedom, for Azerbaijan, calculators of this index have found fiscal, and labor freedom as free, monetary, and trade freedom as mostly free, government spending, and business freedom as moderately free, investment freedom as mostly unfree, property rights, freedom from corruption, and financial freedom as repressed. Nevertheless, generally, political issues are considered to be much more influential on the values of this index rather than reality. Thus, indicating Armenia’s economy much more free than Azerbaijan economy seems to be suspicious.

4. Conclusion

In this research, we looked through the macroeconomic and economic transition performance of Azerbaijan economy within 1991-2012. We found that, first period in Azerbaijan’s economic history after the independence was characterized by sharp increase hyperinflation and decline in total output. However, establishing the National Bank and National currency should be considered as the welcoming events of this period. The initial conditions of the transition were difficult to implement reforms for access to free market economy. Azerbaijan entered a new period of transition in 1995 with two crucial events: the cease-fire agreement and the “Contract of the Century” which took the country to a better place.

The evaluation of the restructuring period (1995-2005) of Azerbaijan economy may be confusing. Gaining stability in a political environment supported the inflow of FDI and growth in economy. If only macroeconomic performance of the country would be analyzed, the evolution “score” would be very good. Nevertheless, the detailed analysis indicates that this “score” is highly related to the oil production, especially in 2005. Therefore, the oil-based development of Azerbaijan may cause additional negative effects for other sectors of economy what called as “Dutch Disease”. Despite of the oil-based development and the mistakes done in privatization, particularly in agriculture sector that still preserves its negative effects in terms of international competitiveness, the path from recession to this level of development under those conditions should be considered as a success. In addition, opening of BTC pipeline in May 2005 would take Azerbaijan to another period of economic development called as oil boom.

Azerbaijan’s economic development in this period (2005-2012) was mostly related to the sharp increase in oil production. At first sight, the macroeconomic performance may be considered as very good. However, some problems still remain in its economy. The biggest economic issue for the near future is
developing non-oil & gas sectors in Azerbaijan economy. Decreasing oil & gas dependence and misbalance among sectors of economy as well as establishing a diversified economy with strong export oriented industry could take Azerbaijan to a better place.

In light of EBRD transition scores, and Index of Economic Freedom, the question rises whether or not the economic transition has ended, as officially declared in 2009. According to EBRD transition scores, none of the transition measures has changed toward being better after 2005, as even the competition policy score has decreased in 2011-2012. Referring to Economic Freedom index, the score has slightly changed during the whole period. Nonetheless, Azerbaijan has introduced itself after 2009 as an economy that surpassed the transition period. That is why, the international community considers Azerbaijan as an emerging economy. However, from an economic perspective, the “end” of the transition in Azerbaijan’s economy should be studied comprehensively.

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