
Analysis : Azerbaijan Grapples With Rising Inflation

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Economic Development Minister Heydar Babayev warned on April 15 that the Azerbaijani government may be forced to revise upward its projection for annual inflation in 2008, day.az reported. The annual budget predicts a figure of 13-14 percent, considerably lower than the most recent IMF estimate of 20 percent, while the CIS Statistical Committee has predicted that inflation in Azerbaijan this year will reach 16 percent, higher than in any other CIS member state.

The 2007 budget initially envisaged inflation not exceeding 9-10 percent.

But on November 29, experts from the independent Center for Economic Research announced that according to their data, prices had already risen by 22.5 percent and the final figure could reach 25 percent. On January 23, day.az quoted Azerbaijan State Statistical Committee Chairman Arif Veliyev as announcing that the annual inflation rate last year was 16.7 percent. But government officials argue that last year's double-digit inflation should be seen in the context of the 25 percent annual increase in GDP and a 42 percent rise in the average wage, to 214 manats (\$258.45).

President Ilham Aliyev told a cabinet session on April 14 that real incomes are still outpacing inflation, day.az reported on April 15, with incomes rising by 33 percent. Economic Development Minister Babayev for his part insisted that inflation is "completely under control."

Such optimistic statements fail, however, to take into account the artificially high prices of some imported food, which contributed to "inflation for the poor" reaching 50 percent last year, according to echo-az.com on November 30.

Speaking in Baku in mid-March, Valeria Fichera, who heads the IMF's Middle East and Central Asia Department, warned that inflation could reach 20 percent in 2008 and that it could take up to five years to bring it down to single digits, ANS Press reported on March 14. She said the fund has made specific recommendations to the Azerbaijani government, including cutting to between 27-30 percent the increase in budget spending this year, given that "the Azerbaijani economy is not yet ready" to increase expenditure further. Other recommendations focused on state-funded investment and regulating wage increases.

The Azerbaijani government had foreseen the possible impact of increased budget spending on the inflation rate: Babayev announced early last fall that the government had drafted a program of measures, which the IMF had approved, intended to keep inflation in 2008 within manageable limits, at around 12 percent, according to echo-az.com on September 28. But independent experts were more skeptical. Eyub Huseynov of the Union of Free Consumers predicted that annual inflation in 2008 would be no lower than 15 percent in light of what he termed the absence of any comprehensive government policy to curb it.
