
Gubad Ibadoghlu : « Oil price drop showed that Azerbaijan's dependence on oil prices is too »

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Day.Az interview with Gubad Ibadoghlu, famous economist and head of the Economic Research Center.

- Today all those, who are not indifferent to the budget and the future of our country, are concerned with the only question - why oil is dropping in prices so dramatically?

- Everything is clear from the economic point of view. Though there are such organizations as OPEC, which may influence the prices on energy sources by means of increasing or reducing hydrocarbons production (for example, now OPEC intends to reduce production), not too much depends on them now. We are witnessing the international financial crisis on our planet, which has slowed down the economic growth significantly.

The economic growth slowed down, production reduced and purchasing capacity of the population dropped in the main producing and power consuming countries, including European countries, the United States with its mortgage crisis, plus India and China.

The production decline naturally caused the reduction in their consumption of fuel and energy sources, which in turn led to the reduction of demand. The chain went on and reduced oil prices. And not only oil prices: gold, nickel, coal, gas and metals also dropped in prices, while dollar rose up, consolidated on this background and now this is a tendency.

- How long will it continue?

- At least by the completion of presidential elections in the United States and perhaps longer. So far we have been speaking of the economic component, but there is also a political one which is the US intention not to allow the budget increase and influence of potential rivals, who have oil reserves.

The United States, which has its own oil wells and definite reserves, may influence the situation.

Today, most do not understand the economic and political way of the United States following the presidential elections in this country. The platform of the candidates is clear but it is not clear how it will be implemented and influence the economy of the country and the world. And unless this issue is clarified, any calmness on the markets and the stock exchanges is out of the question.

- What is happening and will happen to our budget?

- You know that the worst script, fixed in our budget, was the oil price at \$80 per barrel. But unfortunately, life showed that there can be even worse script at \$66 per barrel. It means that everything is even worse than it could have been, especially for a country whose state budget consists of 80% of oil dollars and where everything goes around oil. Oil price drop showed that Azerbaijan's dependence on oil prices is too dangerous for the country.

It is good that we have a kind of an "airbag" in the form of the oil fund. We may use it and make transfers...

But, again here there must be a definite limit. Unfortunately, the Azerbaijani legislation does not fix it clearly, while the laws of Norway fix that the transfers of over 4% of the oil fund are banned. However, we are practicing larger transfers of money from the oil fund.

- Which implications will it have for future?

- This is a negative tendency. Constant transfers from the oil fund may lead to the stripping of money, which belongs to the next generations of Azerbaijanis.

Unfortunately, we depend strongly on foreign states in the oil issue - thus, with the drop in oil prices, we have problems.

The budget replenishment with only oil dollars is dangerous and this tendency should be stopped. We need our own strong agriculture, which would allow to feed ourselves, while expenses of the oil fund will reduce the share of the future generations and perhaps, reduce it to zero and they will be left without it. But I do not like to think about it.

- Will our budget, corrected due to the declining oil prices, be able to overcome this situation with dignity?

- Oil production is growing and we may try to overcome the difficulties at this expense. This year it is planning to produce 50 mln tons, while in 2009 this number will reach 62 mln tons, in 2010 64 mln tons. Some numbers can be softened by raising oil sale and production.

Though, on the other hand, expenses on production will rise with the increase in production, while potential spendings will drop. I expect definite problems with budget in the mid next year, when it will need correction and obviously require transfers from the oil fund.

- How long can this situation last?

- Our budget may stand such prices for long. The issue is that the "airbag", I mean the National fund, is also not eternal. In fact, it can be used only once.

And by taking money from it we should realize that thus we deprive the future generation of Azerbaijan of it.

- It is evident that then the country should reject large projects, such as a bridge via Baku bay, at least temporarily.

- Certainly. It should be done at least until the oil prices increase. BP has already rejected participation in the Caspian oil pipeline project.

Moreover, under the current oil prices, the BTC pipeline would have not been built.

This issue implies the pure profitability of the projects. Those bridges, which are under construction now, will certainly be completed. But to invest \$1 bln of national money to a bridge over Baku bay... Is it profitable under current oil prices? I think such projects should now be put off due to the current oil prices.
