ECONOMIC DEVELOPMENT IN AZERBAIJAN

1. Overview of Economic Performance

1. Azerbaijan has undergone significant economic transformation and development since the country's independence in 1991. Azerbaijan's diversified economy collapsed with the breakup of the Soviet Union, and by 1995 the gross domestic product (GDP) was only 37% of what it had been in 1989. However, despite a poverty rate of 49% as recently as 2001, Azerbaijan has quickly transformed itself into an upper middle income country with a gross national income (GNI) per capita (Atlas method) of $7,350 (2013),[1] GDP per capita of $7,912.5 (2013), and a poverty rate of only 5% in 2013.[2] It has also become a "high human development" country since 2010 under the Human Development Index (HDI).

2. The rapid economic development is mainly attributed to the exploitation of hydrocarbon resources (through production sharing agreements with foreign oil companies and foreign direct investment). Substantial reforms intended to support a market-based economy have been instrumental in facilitating growth. However, the reliance on petroleum resources places the country at risk of volatility and raises concerns about long-term sustainability and macroeconomic stability. The sluggish growth rates in 2011 and 2012 showed the country's vulnerability to relying on oil production. The near zero growth in 2011 was the lowest since 1995's GDP contraction and was due to a significant decline in oil production. Given the long time in which it takes to establish a diversified, modern economy, Azerbaijan needs to make greater progress in the non-oil sectors. With a reserve-production ratio of 21.9 as of 2012, the oil reserves would essentially be depleted by 2034.[3]

3. For 2010, approximately 80% of all budget revenue derived from the oil industry through the State Oil Fund of the Republic of Azerbaijan (SOFAZ) and taxes on the oil sector.[4] In 2013 SOFAZ alone accounted for 58% of the state budget revenues. Even leading industries in the non-oil economy are indirectly funded by the oil sector, such as construction and transport. Much of the private sector is reliant on government contracts from the public investments. The construction sector, in particular, has been a major beneficiary of public investments.

4. The key economic challenge, then, is to develop a diversified economy that has new and sustainable sources of growth, and one that becomes more competitive in the global and regional markets.

2. Government's economic goals and objectives

5. The government's economic goals and objectives are expressed in three main programs and plans. The State Program on Poverty Reduction and Sustainable Development (SPPRSD), 2008−2015 contains 9 strategic goals, including macroeconomic stability and balanced development of the non-oil sector, and increasing income-generating opportunities. SPDR (2009-2013) highlights job creation in the regions among other priorities, while *Azerbaijan 2020: Look into the Future* explains the aspirations of becoming a knowledge-based economy, increasing the country's competitiveness, and diversifying the economic structure. In summary, the various programs and plans aim to achieve sustainable economic development, a diversified

[1] World Bank. Data (online database) http://data.worldbank.org (accessed on 14 August 2014).
[2] Azerbaijan State Statistical Committee. http://www.stat.gov.az/indexen.php
[3] BP. 2013. *Statistical Review of World Energy*. For natural gas, Azerbaijan has 0.9 trillion cubic meters and a reserve-production ratio of 57.1.
[4] European Commission. 2011. *Social Protection and Social Inclusion in Azerbaijan*. Brussels.

economy with a vibrant non-oil sector, global integration, and balanced development throughout the country.

6. In order to diversify the economy, the government intends to use the country's oil revenue to finance infrastructure investments and to establish viable non-oil economic sectors. Given the limited oil reserves, which are expected to be essentially depleted by 2034, the government's strategy is one of frontloading oil wealth into investments that would provide the foundation for sustainable non-oil sectors.[5]

3. Pre-oil boom: Economic development from independence to 2005

7. Before 1991, Azerbaijan had a fairly broad economic base, with developed industrial, agriculture, and service sectors. Independence brought about an economic collapse in Azerbaijan that was among the worst in the Commonwealth of Independent States (CIS). A combination of trade disruption, loss of financing from Moscow, and the transition to a market economy, among other factors, led to GDP shrinking until 1996. The conflict with Armenia exacerbated the economic decline and led to an influx of around one million Azeris as refugees and internally displaced people.

8. The first major oil contract with international firms was signed in 1994, and the foreign direct investment surge and the construction of the Baku-Tbilisi-Ceyhan oil pipeline injected billions of dollars into the economy. The economy resumed growth in 1996 due to the onset of oil investment through production sharing agreements (PSAs) signed between SOCAR, the state oil company, and foreign oil companies for exploration and production.

9. Also, the country's stabilization and structural reform program began in earnest in 1995. The program brought about macroeconomic and financial stability in terms of GDP growth, better control of inflation, and reduced fiscal deficits.

10. The 10% average annual economic growth between 1996 and 2005 contributed to a sharp decline in poverty from 68% in 1995 to 29% in 2005 (footnote 7). World Bank deemed the economic growth to be pro-poor, even though the growth was concentrated in Baku. Among the evidence is that consumption growth was higher for the poorer deciles compared to richer deciles. Factors that led to the poverty reduction included (i) substantial increases of the minimum wage; (ii) rapid increases in wages; (iii) significant budget transfers to social programs; and (iv) higher remittances, especially from the Russian Federation.

11. A significant development occurred in February 2005, when the government issued a decree to revalue the manat. The old manat was revalued at the rate of 5,000 to 1 new manat (AZN) and took effect on 1 January 2006. The nominal exchange rate for that year was AZN 0.8714 for one US dollar.

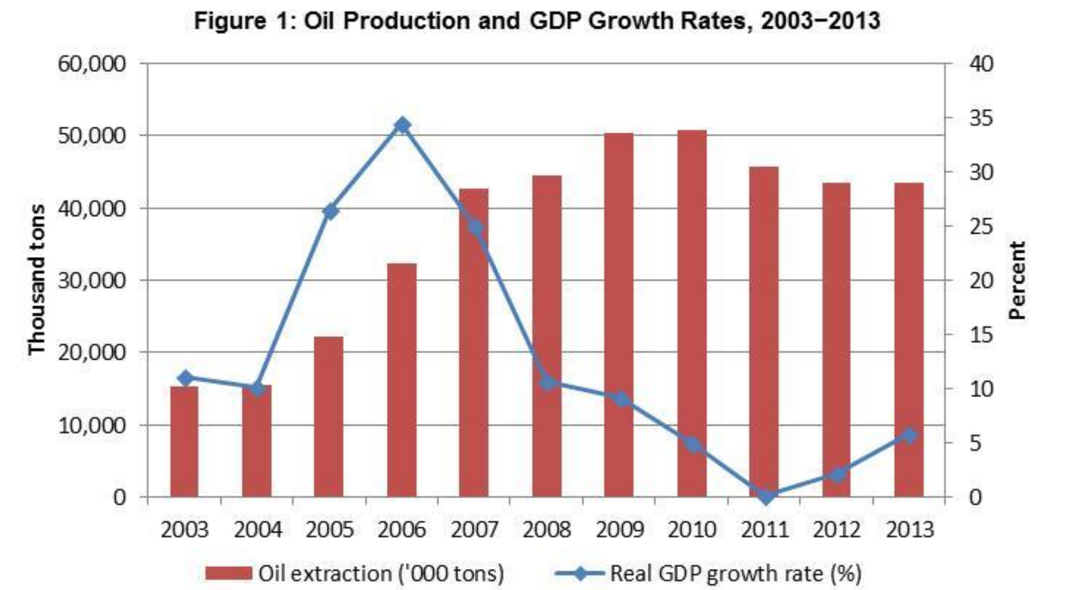
4. Economic Performance 2006−2013

a. GDP growth

12. Rapid increases in oil production caused GDP growth to surge in 2006 and 2007, averaging 29.8% annual growth before dropping back to growth levels of around 10% seen in the early part of the decade. The vulnerability of the economy to oil production fluctuations was

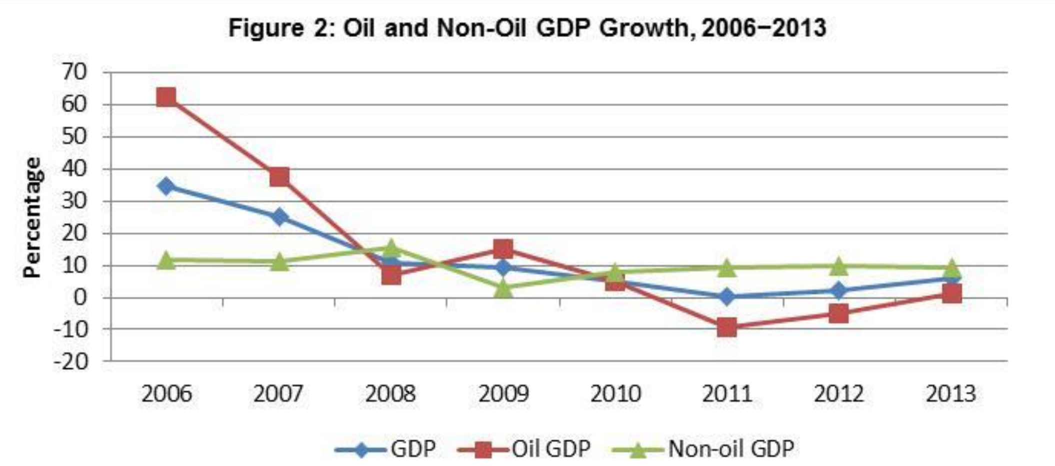
[5] World Bank. 2009. *Azerbaijan Country Economic Memorandum*. Washington D.C.

seen in 2011 and 2012, when annual GDP growth fell to 0.1% and 2.2%, respectively, due to lower oil production (Figure 1).



Sources: State Statistical Committee, Central Bank of Azerbaijan, and SOCAR websites.

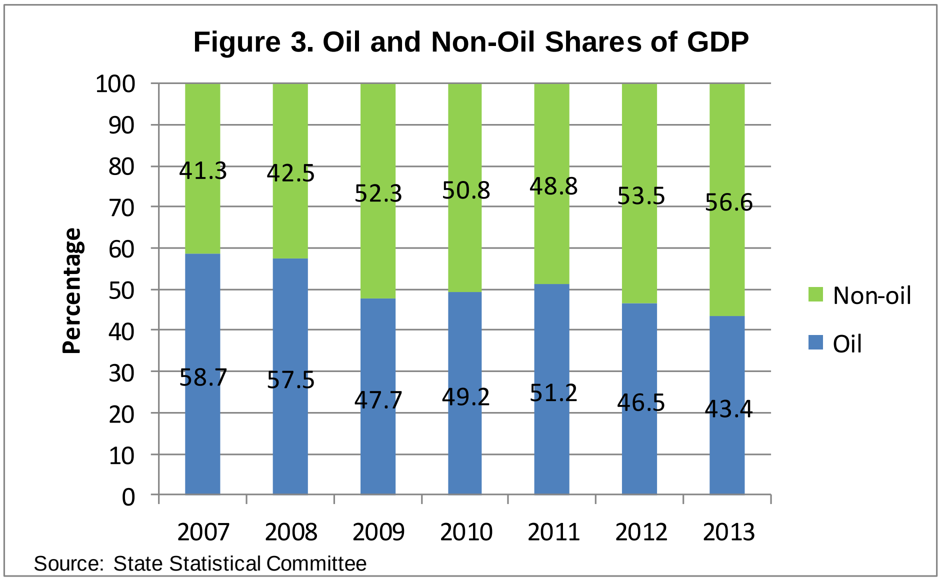
13. The non-oil sector growth rates since the mid-2000s have been steadier and fluctuating less than overall GDP growth rates, ranging from nearly 8% to 10% between 2005 and 2013 with the exception of 2009 (only 3.7% growth). From 2010 to 2013, non-oil GDP growth was higher than oil GDP growth (Figure 2).



Sources: Central Bank of Azerbaijan website and IMF Article IV reports

14. Oil constitutes nearly half of Azerbaijan's GDP (Figure 3). Aside from mining and quarrying, which includes oil, the next largest sectors have typically been construction (7.2.% of GDP) and transport, storage, and communication (8.8% of GDP). The composition of GDP by

sector over the past decade has shown little progress in diversifying away from petroleum. The oil boom clearly affected the structure of the economy. Agriculture was around 16% of GDP in 2000, but by 2013 it fell to only 5.3%.[6] Other sectors such as manufacturing and transport have also experienced declining shares of GDP over the past decade.



15. The private sector share of GDP is over 81%. However, much of the private sector's share of the economy is attributed to public expenditures and government contracts, which are financed mainly by the country's petroleum export revenue.[7]

b. Inclusiveness of economic growth

16. Elements of inclusive growth have been seen in Azerbaijan since the mid-2000s. Inequality has declined since the oil boom, with the Gini index falling nearly 8 percentage points from 2001 to 34% in 2008 (latest data available). The mean income difference between cities and rural areas is fairly small, with a Gini index of 33% for urban and 27% for rural.[8] The social protection system has been a major factor in contributing to poverty reduction and reducing inequality. The main pro-poor social transfer programs are pensions and the well-regarded Targeted Social Assistance (TSA) program, with the latter accounting for about 10% of social transfers and covering about 4% of the population (footnote 8). Currently, 81% of poor households and nearly 93% of households in the lowest income decile receive at least one type of social transfer.[9] The World Bank concluded that the poverty rate would have been around 25% in the absence of social transfers (footnote 9).

17. Other evidence found by World Bank of economic growth having been inclusive to date include (i) rural employment has risen despite a rise in rural labor force participation, (ii) the average pension has risen from 42% of the subsistence level to 95% over the past decade, and (iii) growth has had a broad-based impact on household consumption in urban and rural areas,

[6] GDP composition in 2013 was agriculture 5.3%, industry 58.1%, services 30.2%, and taxes 6.4%.
[7] Renaissance Capital. 2012. Azerbaijan: Petro-powered Sovereign Strength. Moscow.
[8] IMF. 2012. Republic of Azerbaijan: Selected Issues. *IMF Country Report* 12/6. Washington D.C.
[9] H. Onder. 2013. *Azerbaijan: Inclusive Growth in a Resource-Rich Country*. Washington D.C.

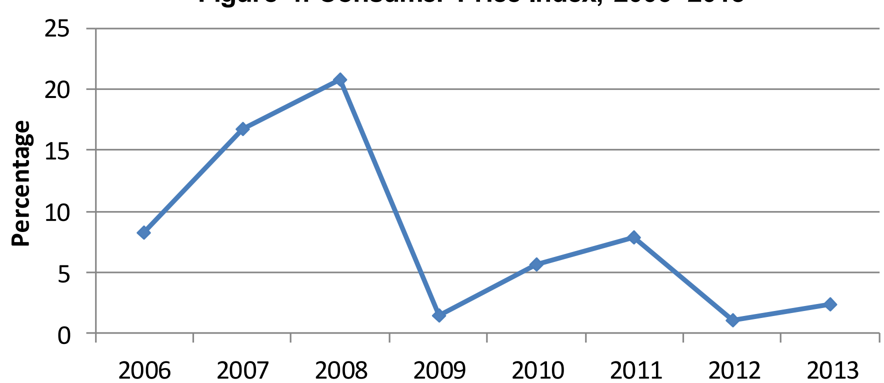
with growth in consumption expenditures having been pro-poor in rural areas and being nearly the same for almost all income deciles in urban areas (footnote 9).

18. However, despite the relatively high GNI per capita and GDP per capita, very few people have access to the higher income jobs in the mining sector (namely oil), which generates only 1.1% of the jobs but accounts for over half of the GDP. The majority of the workforce is engaged in low productivity and low wage sectors. Agriculture, for instance, employs 38% of the workforce but comprises only 5.5% of GDP. Wages in agriculture were an average of 118 euros in 2009 compared to an average of 895 euros in the mining sector.[10] Disparities are also seen in regions. Baku accounted for 78% of the value of goods produced in 2009 (footnote 10). Furthermore, the sustainability of the economic growth, the inclusiveness, and some of the factors that led to a substantial reduction in poverty (i.e., high levels of social transfers) is highly questionable due to the heavy reliance on oil revenue (footnote 10).

c. Inflation

19. Inflation, as measured by the consumer price index (CPI), has declined significantly from nearly 21% in 2008 to only 2.4% in 2013 (Figure 4). Inflation since the mid-2000s has been driven by a combination of factors such as high oil prices, large fiscal stimulus, a stable exchange rate against the dollar, monetary expansion, imported food prices, and rapid credit growth for households. The government has tolerated frequent high inflation as a short-term tradeoff against the perceived benefits of accelerated public expenditures and a stable exchange rate.

Figure 4: Consumer Price Index, 2006−2013



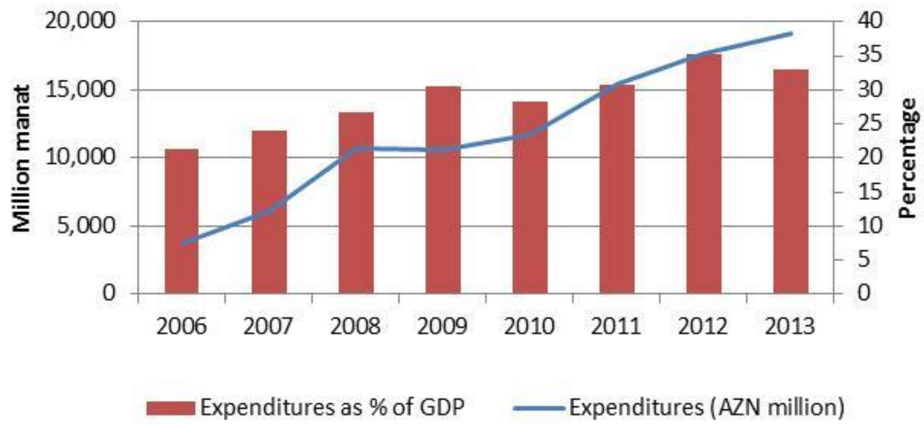
Source: State Statistical Committee

d. Fiscal policy

20. The oil windfall led to a considerable rise in government expenditures, which were used to stimulate aggregate demand. The government's expansionary fiscal policy accelerated rapidly in 2007 and 2008, with expenditures rising 181% over 2006. Expenditures have increased since 2008 from AZN10.68 billion to AZN19.1 billion in 2013 (Figure 5). Surging oil revenues enabled the government to embark on ambitious public investment programs along with increasing wages and social transfers.

[10] European Commission. 2011. *Social Protection and Social Inclusion in Azerbaijan*. Brussels.

Figure 5: Budget Expenditures, 2006−2013



Source: National Budget Group and 2013 state budget

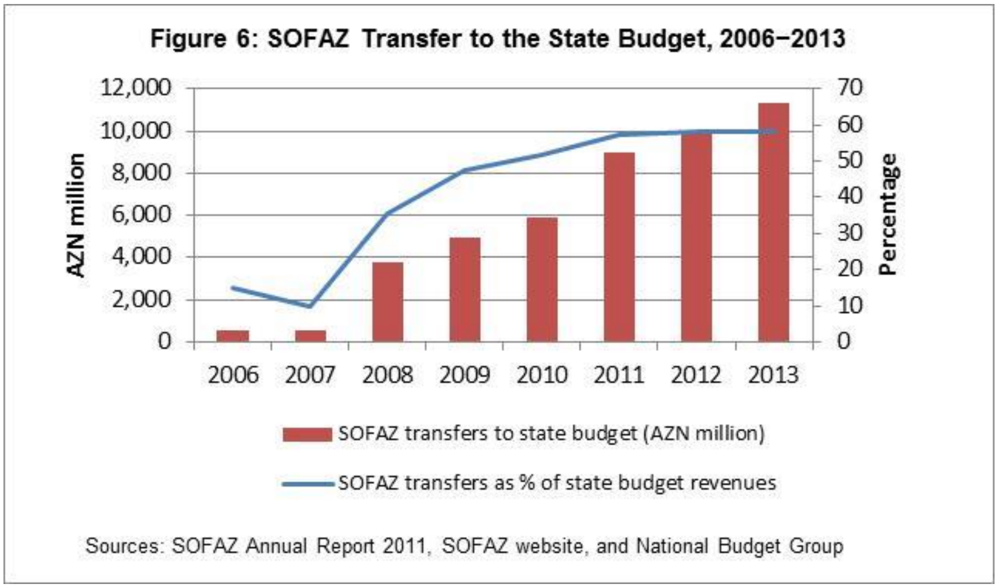
21. While health and education have benefitted from large increases in absolute terms, the shares of these sectors' expenditures in the state budget have declined sharply. In 2005, education accounted for 17.4% of state expenditures and health was 5.4%, but by 2012 their respective shares had fallen to 8.3% and 3.4%. Given that public investment expenditures partly cover health and education, their overall weight in total expenditures is slightly higher.

22. The government's large public investment program since 2006 has been accompanied by frequent periods of high inflation, low non-oil private investment, and low non-oil foreign direct investment (FDI). The fiscal expansion crowded out non-oil private investment, which dropped by over 50% as a percentage of GDP between 2005 and 2008.

23. The large annual increases in budget expenditures since 2005 have been made possible by substantial transfers from SOFAZ. SOFAZ was established in 1999 to "ensure the accumulation, effective management, and use of income… related to oil and gas… for the benefit of citizens and future generations…"[11] The fund is held overseas, which helps to sterilize export revenue and limit inflation.

24. The state budget has become highly dependent on transfers from SOFAZ (Figure 6). In 2007, SOFAZ transfers of AZN 585 million constituted only 9.7% of total state budget revenues. Between 2008 and 2013, SOFAZ transfers as a percentage of the total state budget revenues rose sharply from 35% to 58%. In 2013, AZN 11.35 billion were transferred from SOFAZ to the state budget, rising nearly 92% from the amount transferred in 2010.

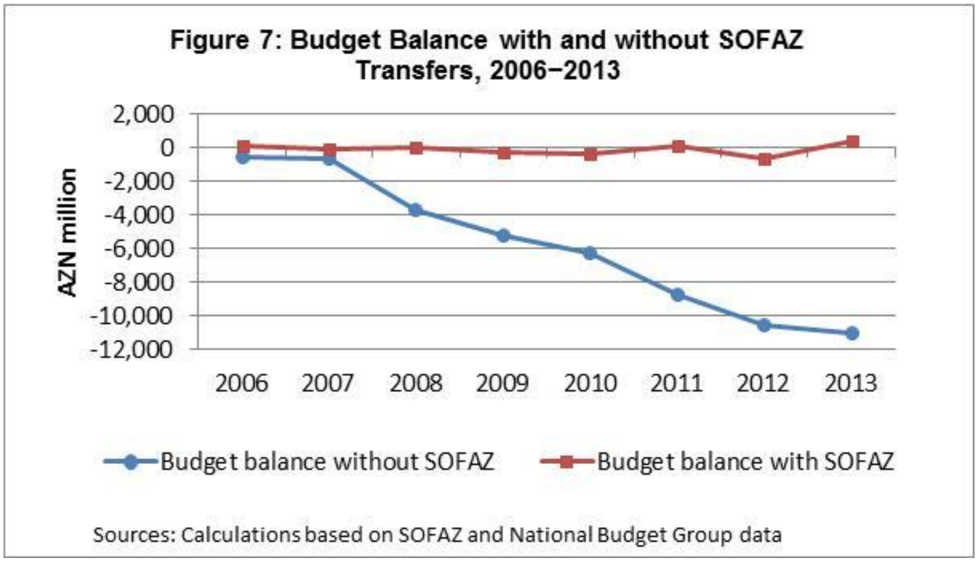
[11] State Oil Fund of the Republic of Azerbaijan. 2010. *SOFAZ Annual Report 2010*. Baku.



25. The rapid rise in SOFAZ transfers to the budget is a cause for concern on three fronts. First, it shows the government's spending is becoming increasingly dependent (at least in the short to medium term) on oil revenue as opposed to generating higher levels of other sources of revenue such as taxes. Second, by linking its fiscal policy to the global oil price cycle, the government runs the risk of exposing the economy to volatility.[12] Third, it reveals that the government is opting to spend high levels of the oil revenue now instead of conserving the SOFAZ revenues for future generations, which was one of the key objectives in the establishment of SOFAZ in 1999. With a window of only around 20 years in which to extract the petroleum resources before they are essentially depleted, the government must quickly develop a broader revenue base than is currently the case.

26. Overall government revenues have nearly mirrored total expenditures as a percentage of GDP. Both revenues and expenditures as a percentage of GDP have gone from around 15% in 2001 to 33-35% in 2013. The state budget has experienced small surpluses or deficits of around 1% or less of GDP since 2001. However, without SOFAZ transfers, the budget deficit would be substantial and growing each year (Figure 7). In 2013, the budget deficit would have been AZN10.9 billion without SOFAZ transfers compared to only AZN493 million in 2006. For 2014, policy measures have been adopted to reduce budget dependency on oil incomes. Despite an increase in budget expenditures, transfers from SOFAZ in 2014 are reduced by AZN2.0 billion compared to 2013.

[12] IMF. 2012. Republic of Azerbaijan 2011 Article IV Consultation. *IMF Country Report* 12/5. Washington D.C.



e. Monetary policy

27. Azerbaijan's monetary policy focuses on maintaining a stable exchange rate. The Central Bank of Azerbaijan (CBA) has limited monetary tools at its disposal because of the underdevelopment of the domestic debt market. The emphasis on exchange rate stability has led to periodic inflation volatility because CBA has pursued an expansionary monetary policy to accommodate the rising demand for manat due to currency appreciation against the dollar since 2006. The central bank authorities agreed in principle with the IMF to allow greater exchange rate flexibility and move towards an interest rate-based monetary policy framework, but so far progress has been limited.[13]

28. Broad money (M2) increased an unprecedented 168% in 2006 over 2005, signaling the start of a large expansion in the money supply. M2 expanded 546% between 2006 and 2012.[14]

f. Exchange rate

29. The manat has appreciated every year since the 2006 revaluation. Starting from AZN0.893 (nominal rate period average) to the US dollar in 2006, the manat strengthened to 0.784 in 2013. Much of the appreciation has been caused by the large influx of foreign currencies during the oil boom years. Following the global economic crisis of 2008 and 2009, the real effective exchange rate appreciated due to oil-related pressures such as (i) SOFAZ transfers to the treasury; (ii) foreign oil firms' taxes on profits paid in US dollars; and (iii) SOCAR foreign currency revenues (footnote 8).

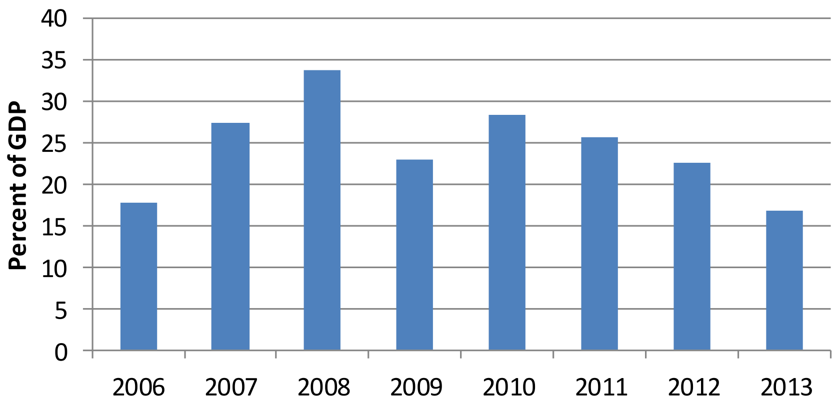
30. The real effective exchange rate appreciation could affect Azerbaijan's competitiveness and its ability to export goods besides hydrocarbons. The exchange rate appreciation also makes it more difficult for Azerbaijan to diversify into agriculture and manufacturing exports. In order to increase competitiveness in light of the currency appreciation, Azerbaijan will need to boost productivity. Public investment can help in this regard but only in the short-run.

[13] IMF. 2012. Republic of Azerbaijan—Aid Memoire of Staff Visit. Washington D.C.
[14] Central Bank of Azerbaijan website. http://www.cbar.az

g. Balance of payments

31. The surge of hydrocarbon exports in the mid-2000s transformed Azerbaijan's previously perpetual negative current account balance (CAB) from the 1990s to 2004 into large surpluses from the second half of the 2000s onwards. The CAB peaked at nearly 34% of GDP in 2008, but stood at 16.8% of GDP in 2013 (Figure 8).

Figure 8: Current Account Balance, 2006−2013



Sources: State Statistical Committee, Central Bank of Azerbaijan and IMF

32. The large CAB surpluses have been generated by strong exports since 2006, overwhelmingly for hydrocarbons. Oil and gas exports comprised an average of 94.7% of total exports between 2006 and 2012 (based on CBA data), and amounted to $30.7 billion in 2012. While total exports increased by 327% between 2005 and 2012, imports increased 139% and stood at $10.4 billion in 2012. Azerbaijan has registered a trade surplus every year since 2004. In 2012 the trade surplus was $22.2 billion.

33. FDI has ranged annually between $3 billion and $4.4 billion since 2006. FDI in the oil sector accounted for an average of 84.7% of total FDI between 2006 and 2011, but the share of the oil sector's FDI is generally declining. In 2011, oil sector FDI accounted for 79.4% of total FDI. Non-oil sector FDI has risen substantially over the past several years, from $368 million in 2006 to $886 million in 2011, but the economy will need to attract much more non-oil FDI to help spur the diversification that is required for sustainable economic growth. However, the less favorable global environment compared to before the economic crisis of 2008−2010 could make it harder for Azerbaijan to attract investment into non-oil sectors.[15]

34. Azerbaijan continues to accumulate large amounts of international reserves. A vast increase occurred in 2011, in which gross official international reserves grew 60% over 2010 to nearly $10.3 billion. Subsequently, reserves reached $14 billion in 2013. In addition to the reserves held by the central bank, Azerbaijan has $35.87 billion accumulated in SOFAZ. The combination of gross official international reserves and SOFAZ funds amounted to 68% of GDP in 2013.[16]

[15] Economist Intelligence Unit. 2012. Azerbaijan. *Country Report*. London.
[16] Author's calculations based on CBA and SOFAZ data.

35. Azerbaijan's public and publicly guaranteed external debt outstanding is growing gradually, estimated from over $7 billion annually in 2009−2011 to $9.2 billion in 2012, but this level is sustainable for now given the high export earnings from oil. The debt level has remained low because of the oil boom since the mid-2000s and the government's decision to use oil revenues to finance investment projects and social spending.

5. Economic prospects

36. In the short run, GDP is expected to grow 5.2% in 2014 and 5.8% in 2015, driven by continued expansion of the non-oil sector and slight increases in oil production. However, oil production will probably have plateaued by 2015 and could decline thereafter. In April 2012 the State Statistical Committee and SOCAR announced the government's intention to prolong the duration of oil production and reserves by reducing extraction rates.[17] Lower production levels in the near future would restrain economic growth and adversely affect government revenue and expenditures. Non-oil economic growth will continue to be driven by public sector investments, which are dependent on oil revenue.

37. With resumed growth in the economy and the non-oil economy likely having reached its output capacity in 2012–2013, inflation is expected to rise 3.5% in 2014 and 3.8% in 2015. Increasing public investments, salary increases, a fuel price hike (from late 2013), and greater allocations to social spending will likely be the drivers behind the inflation.

38. While the near-term growth prospects are favorable, the long-term prospects are a concern. Azerbaijan has been pursuing a strategy that involves short-term maximization of oil revenues in order to obtain the necessary revenue for state expenditures. Currently 58% of the budget expenditures are made up of SOFAZ transfers. This strategy of present consumption of oil funds has clearly benefited the country's current population in the short run, with a remarkable reduction in poverty, higher living standards, and higher wages since the mid-1990s. Yet this resource dependence has a finite span, and therefore Azerbaijan must make greater strides toward a non-oil economy. Azerbaijan has an estimated 7 billion barrels (or 1 billion tons) of oil reserves. Its reserve-production ratio is only 21.9 years, which is considerably lower than the world average of 52.9 years.[18] Hence, Azerbaijan faces a difficult challenge in managing its oil resources and revenues for future generations, while simultaneously spending on the infrastructure needed to support diversification of the economy that would enable long-term, sustainable economic development.

39. The government's current levels of annual increases in public expenditures – both in nominal terms and as a percentage of GDP − are not sustainable because they rely on significant transfers from SOFAZ to the state budget. Given the limitations of the oil sector's lifespan and the possibility of lower fiscal revenue in the near to medium-terms, the government may need to moderate its expenditures in the short and medium-terms to become more fiscally sustainable. The government aims to achieve fiscal sustainability by 2018 (footnote 2). IMF in May 2012 made a recommendation based on the slowdown of oil production for medium-term fiscal consolidation by reducing the non-oil fiscal deficit to 18% of non-oil GDP by 2017, down from 41% in 2011 (footnote 13). The IMF recommendation for a gradual reduction in the non-oil deficit, which could be achieved by reducing investment plans and rationalizing current spending, was reiterated in March 2013 (footnote 2).

[17] L. Evgrashina. 2012. "Azerbaijan Aims to Extend Oil Production Term. *Reuters*. http://www.reuters.com/article/2012/04/23/azerbaijan-oil-idUSL5E8FN90J20120423

[18] BP. 2013. *BP Statistical Review of World Energy*. http://www.bp.com/statisticalreview

40. Private sector investment as a percentage of GDP declined between 2007 and 2012, from 11.8% of GDP to 6.7%, while consolidated government investment as a percentage of GDP has grown 81% over that period and accounted for 70% of Azerbaijan's gross investment in 2011.[19] Private sector investment needs to increase, but this likely requires overcoming the key obstacles in the business environment that constrain the private sector. Among the main constraints are (i) limited banking intermediation, low depository rate, and low penetration of savings accounts and mortgage loans; (ii) limited access to funds in bonds and securities market; (iii) monopolies that dominate most business sectors and hinder competition; (iv) high levels of corruption; (v) poor infrastructure; and (vi) a lack of a skilled labor.

41. The current account balance will remain in surplus over the next five years but has likely begun a gradual decline as oil exports level off and possibly decline. Nonetheless, oil exports will continue to drive the trade surplus. The CAB is forecast to be 15% of GDP in 2014 and then 14.5% in 2015, well below the rates of over 20% between 2007 and 2012, because of falling oil prices. International reserves should continue to increase, but growth in reserves will likely be slower over the coming years because of steady or falling oil production.

6. Challenges and constraints to growth

42. Sustainable and inclusive economic growth faces a variety of challenges and constraints that must be overcome if Azerbaijan is to attain its goal of becoming a diversified, knowledge-based country by 2020.

43. **Monopolies**. Official and unofficial monopolies are pervasive in most business sectors. Many are state-owned, while others reputedly have strong links with public officials. The dominance of these monopolies thwarts competition, innovation, price stability, and improved service quality, and fosters corruption. Competition policy and other business regulatory reforms are needed to provide a more level playing field.

44. **Limited role of SMEs**. SMEs in Azerbaijan have a small share of GDP – less than 10% − which is well below the 30-45% found in other Central Asian countries.[20] SMEs are therefore not playing a significant role as new sources of growth or helping the economy to diversify. Domination by official and unofficial monopolies in many business sectors is a key reason for the limited role of SMEs in the economy. The government offers some assistance to help promote SMEs such as the Entrepreneurship Support Fund, but these efforts are not sufficient to enable a burgeoning SME sector.

45. **Corruption.** Reported high levels of corruption adversely affect the efficiency and effectiveness of programs and investments in Azerbaijan, and they thwart the development of the private sector. Corruption is prevalent in many aspects of life in Azerbaijan, from payments for state-provided medical services, to entrance to universities, to bribes for traffic police or customs officials, and to acquiring business and construction permits or licenses.

46. **Infrastructure deficiencies**. Despite the recent heavy investment in upgrading the country's infrastructure, the quality of infrastructure varies according to sector, with electricity

[19] Based on data from IMF. 2012. *Republic of Azerbaijan − Aide Memoire of Staff Visit* and IMF. 2012. Republic of Azerbaijan 2011 Article IV Consultation. *IMF Country Report* 12/5.

[20] Figures derived from IMF. 2012 (January). Republic of Azerbaijan: Selected Issues. IMF Country Report No. 12/6. Washington D.C., and Gloria Pasadilla. 2010. Financial Crisis, Trade Finance, and SMEs: Case of Central Asia. ADBI Working Paper 187. Tokyo.

and highway infrastructure improving greatly in recent years but water and railway infrastructure still in relatively poor condition. Most of the infrastructure was inherited from the Soviet Union and has outlived the typical 25-30 years of usefulness. The deterioration has affected the quality of service and created significant (and unnecessary) higher costs to the economy. Infrastructure improvements vary according to sector.

47. **Institutional development and regulatory reform**. Institutional capacities have not developed rapidly enough compared to the macroeconomic development. Administrative and planning capacities remain limited, and coordination in planning and implementation needs to improve among ministries and agencies. Setting priorities and sequencing reforms must also improve in order for diversification of the economy to occur.

48. **Labor challenges**. Employment growth has been mainly in less productive, lower paying sectors, and in the informal economy. The pool of skilled labor has declined significantly since independence. Weaknesses in the education system and labor market policies are making it more difficult to develop the modern skills and knowledge required for a competitive and innovative non-oil economy. Despite the skill deficiencies of labor, the minimum wage increased six-fold during 2001 to 2008, and wages and salaries tripled. Wage increases in the non-oil sector are outpacing productivity, which will harm prospects for job creation. Youth unemployment could become a major issue. One-third of the unemployed are in the 16-24 age bracket, which is higher compared to other countries around the world.[21] Sectors that generate the most GDP and growth in Azerbaijan do not generate equivalent shares of employment.

[21] IMF. Republic of Azerbaijan: Selected Issues. IMF Country Report No. 12/6, January 2012.