



Conservative but stable

Sahmar Movsumov: "Azerbaijani Oil Fund is managing to preserve its assets despite the global crisis"

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The global economic crisis, plummeting oil prices - many experts are wondering how the Azerbaijani economy is managing to withstand the impact of these reverses and remain stable against the backdrop of complete ruin in neighbouring countries. Particularly amazing is the state budget - how can it be managed with oil prices so low on international stock exchanges? Will Azerbaijan have to spend all of its oil savings? All doubts are dispelled by Sahmar Movsumov, executive director of the State Oil Fund, in an interview with Region Plus.

- In late 2008 and early 2009, the Azerbaijani government's decision to forecast an oil price of \$70 a barrel for the state budget triggered many arguments. Do you think it is necessary to reconsider budget parameters after the first quarter, given that oil is currently fluctuating around \$50?

- There is an English saying: the devil is in the detail. To answer this question, we have to determine the impact of the price of crude on Azerbaijan's state budget. Indeed, the oil factor does play an important part in the formation of the state's revenue, but the greater part consists of transfers from the State Oil Fund. And these transfers are not affected by oil prices. The price of oil affects SOFAZ assets, but the fund will transfer the AZN 4.915 billion planned for this year anyway, whether the oil price reaches \$80, \$100 or \$200.

There is also a small amount of fiscal revenue from the State Oil Company, which is not affected by the price of crude either. Let me explain why. SOCAR receives most of its profits from the sale of oil products in the domestic market, where prices do not

depend on stock exchange fluctuations and which are established and regulated by the Tariff Council. There is another component - the profit tax transferred by foreign oil companies operating in Azerbaijan, and this is where the impact of the global situation may be observed. But again, it is not significant in terms of the overall state budget. In this light, it is not as important to focus on oil prices on international stock exchanges as it is, for example, in Russia where prices have a greater effect on state revenue, because the state budget receives considerably more in profit tax from oil companies.

- What would be the implications if a decision were taken to reduce the budget's oil price forecast?

- If the question arises of changing the base oil price in the state budget, two options are likely to be proposed - to reduce expenditure or to find new sources of revenue. But even if the first option is chosen, it will hardly be practical. The structure of budget expenditure includes a large number of investment projects which can be postponed, thus reducing expenses. Most importantly, we have no problems in fulfilling our social commitments - salaries, pensions and benefits.

At the same time, considering the economic recession, one of the issues on the agenda is fiscal stimulation of the national economy. If we compare this budget to last year's, growth is evident. It is even more conspicuous in the structure of the state budget. Therefore I think that if budget expenditure is fulfilled as planned, there will be no need to supplement it - it will be quite sufficient for the national economy.

- You have said that the oil price affects SOFAZ assets, which is confirmed by statistical data for the first quarter of 2009...

- Indeed, the fund's assets in the first quarter have declined by 3.2% to AZN 8,721.4 billion. At the beginning of the year the fund's assets tended to decrease, but since March they have begun to grow again. As I said before, at the end of the year our assets will not be reduced and will remain at least at the level of 2008. Two factors will influence assets - an increase in oil production and the price of oil. I venture to

say that even with an oil price of \$50, SOFAZ revenue in 2009 will reach AZN 8 billion.

- Is it necessary to amend SOFAZ's investment policy today?

- No, it is not. 99.7% of the fund's assets are invested in high-rated securities. Of course, when the global situation becomes more stable, we will look for other ways of investment. But it is too early to think about that and we will continue with our conservative policy.

- Several years ago there was a suggestion to divide the fund's assets between three portfolios - expenditure, stabilization and investment. The last component envisaged saving a proportion of oil revenues for future generations. Hasn't the crisis urged you to revive that suggestion?

- The crisis we are observing is indeed unprecedented - the worst since World War II. It has affected almost all countries, the real economy is collapsing and the number of jobless in the world is huge. Russia, for instance, has lost almost half of its reserves in four months. Kazakhstan is channelling a large share of its reserves towards domestic needs; the Norwegian fund lost \$91 billion last year. In other words, all long-term issues have been put on the backburner. At a time when almost all the world's leading countries are using reserves to keep their economies running, Azerbaijan is maintaining its Oil Fund as it was at the beginning of the year. Of course, there won't be large growth this year but, what is more important, we will be keeping what we have saved. Isn't this enough to show how we care for our future generations?