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ATTAINING SDG 8 IN AZERBAIJAN: THE CHALLENGES OF ECONOMIC TRANSFORMATION AND JOB CREATION

Anar Valiyev

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Attaining SDG 8 in Azerbaijan: The challenges of economic transformation and job creation

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INTERNATIONAL LABOUR OFFICE – GENEVA

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Foreword

Full and productive employment and decent work are at the heart of the 2030 Agenda for Sustainable Development and its 17 Sustainable Development Goals (SDGs). In addition to the specific goal (SDG8) of promoting "sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all", decent work is featured in many of the other SDGs.[1]

In adopting the SDGs, in particular SDG8, the international community has put job creation at the heart of economic policy-making and development plans: economic growth that generates decent work opportunities will lead to inclusive and poverty-reducing growth. Systematic follow-up and review of the implementation of the 2030 Agenda is required in order to maximize and track its progress. The follow-up and review is expected to "maintain a longer-term orientation, identify achievements, challenges, gaps and critical success factors and support countries in making informed policy choices".[2]

In order to support ILO constituents in their efforts to maximize and track progress on SDG8, a multi-country research programme has been undertaken that diagnoses opportunities and challenges associated with promoting productive employment and that identifies policy options for achieving SDG8. Within the framework of the ILO/Sida Partnership on "More and better jobs for inclusive growth and improved youth employment prospects", this global research on "SDGs and employment policies: Macroeconomic, sectoral and labour market policies for structural transformation and full and productive employment" was conducted in 10 countries, taking into account their specific country context. In particular, the research focused on the interlinkages and potential virtuous circle between targets 8.1 (sustaining per capita economic growth), 8.2 (sustaining labour productivity growth), 8.3 (promoting development-oriented policies), 8.5 (promoting full and productive employment for all women and men) and 8.6 (decreasing the share of NEETs by engaging young people in the labour market).

To better tailor policy advice and to customize employment diagnostics, it is important to present types of employment and economic growth pathways, and similar dynamics, according to core employment and productive characteristics and challenges. This is related, for example, to demographic transition and labour market transformations driven by globalization and technological change. The country selection included a diversity of countries across the employment and productive transformation pathways for more nuanced and contextualized policy guidance.

Four global syntheses are presented, based on the country studies, focusing more specifically on: (i) Structural transformation for inclusive growth and productive employment; (ii) Gender impacts of structural transformation; (iii) Young people not in employment, education and training; and (iv) Delivering on SDG8.

The Employment, Labour Markets and Youth Branch (EMPLAB) is engaged in global advocacy and in supporting Member States' efforts to put the aim of more and better jobs at the centre of economic and social policies and of growth and development strategies. Policy research and knowledge generation and dissemination are essential components of

[1] See ILO: *Decent Work and the 2030 Agenda for Sustainable Development* for more information on the linkages between decent work and the SDGs. Available at: https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/publication/wcms_436923.pdf

[2] United Nations (2015): Transforming our world: The 2030 Agenda for Sustainable Development". Available at: http://undocs.org/A/RES/71/313

EMPLAB's activities. The ILO/Sida Partnership on Employment working paper series is designed to disseminate the main findings of research on a broad range of topics undertaken by EMPLAB on employment and youth employment policies. The working papers are intended to encourage the exchange of ideas and to stimulate debate. The views expressed in them are the responsibility of the authors and do not necessarily represent those of the ILO.

Sukti Dasgupta
Chief
Employment, Labour Markets and Youth Branch

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List of acronyms

ACCA	Association of Chartered Certified Accountants
BTC	Baku-Tbilisi-Ceyhan
FISIM	Financial intermediation services indirectly measured
FSU	Former Soviet Union
IDP	Internally displaced people
GDP	Gross domestic product
HDI	Human Development Index
NPISH	Non-profit institutions serving households
NEET	Not in education, employment or training
PSA	Production sharing agreement
SOCAR	State Oil Company of Azerbaijan Republic
SOFAZ	State Oil Fund of the Republic of Azerbaijan
WEF	World Economic Forum

Executive summary

In accordance with national priorities, the Republic of Azerbaijan has adopted all seventeen Sustainable Development Goals (SDG), including 88 targets and 119 indicators. In 2016, a year after launching the SDG initiative, a presidential decree established the National Coordination Council for Sustainable Development (NCCSD), a high-level government agency tasked with coordinating SDG efforts and integrating them in the country’s development plans. The mandate of the council was to monitor Azerbaijan’s progress on SDGs, as well as to ensure the inclusion of SDG goals in state programmes.

Particular attention was paid to the goals of decreasing poverty, ensuring gender equality and, most importantly, providing decent work and economic growth. Within the past couple of years, Azerbaijan has approved a strategic roadmap for the social and economic development of key sectors, with short-term (by 2020), medium-term (by 2025) and long-term targets (beyond 2025). One important document adopted by the Azerbaijani Government was the Employment Strategy for 2019–2030, which encompassed most of SDG targets and indicators.

SDG 8 – “Promote Sustained, inclusive and sustainable economic growth and decent work for all” – is considered especially important for building a sustainable economy. Looking at recent trends, it is expected that Azerbaijan will be able to achieve targets on all indicators. There are many challenges and shortcomings that may endanger progress, however:

- **The economy’s strong dependency on energy revenues**: this is one of the most problematic aspects of the national economy and may endanger achievement of targets 8.1.1 and 8.2.2 (real GDP growth). A significant share of GDP, tax revenues, exports and consumption depends on oil and gas prices. If energy prices fluctuate too much, Azerbaijan may have serious problems.
- **Labour’s high concentration in agriculture and the informal sector**: over 35 per cent of all Azerbaijan’s labour resources are involved in the agriculture sector, even though it is responsible for a negligible share of GDP. Meanwhile, most of these workers are not registered and do not pay income tax. One serious corollary of this is that, later on, these people will not be entitled to extra pension payments and will receive only the basic pension. That may increase the share of people living in or close to poverty.
- **High inactivity rate**: the Government of Azerbaijan will be able to reach the unemployment goal even earlier than 2030 (8.5.2). The main challenge here, however, is the high number of inactive people, including many young people. The current proportion of inactive people in the labour force is around 36 per cent. The share of young people not in education, employment or training (NEET) is around 23 per cent: the Government will try to reduce this to 15 per cent by 2030.

Azerbaijan also has a number of governance and capacity gaps that may hinder its ability to achieve the SDGs. The Government needs to improve the performance of public institutions. Over the past few years Azerbaijan has initiated several structural reforms that have significantly improved the quality of some of its institutions. There has been considerable progress with the adoption of technology and e-governance in the delivery of public services. The Government has also introduced reforms in the justice system. The introduction of ASAN and DOST services across the country was hailed with great enthusiasm. Some concerns remain about the efficiency and effectiveness of some agencies, however. Another concern for the Government is the centralization of governance. Duplication of functions among agencies and institutions is another problem.

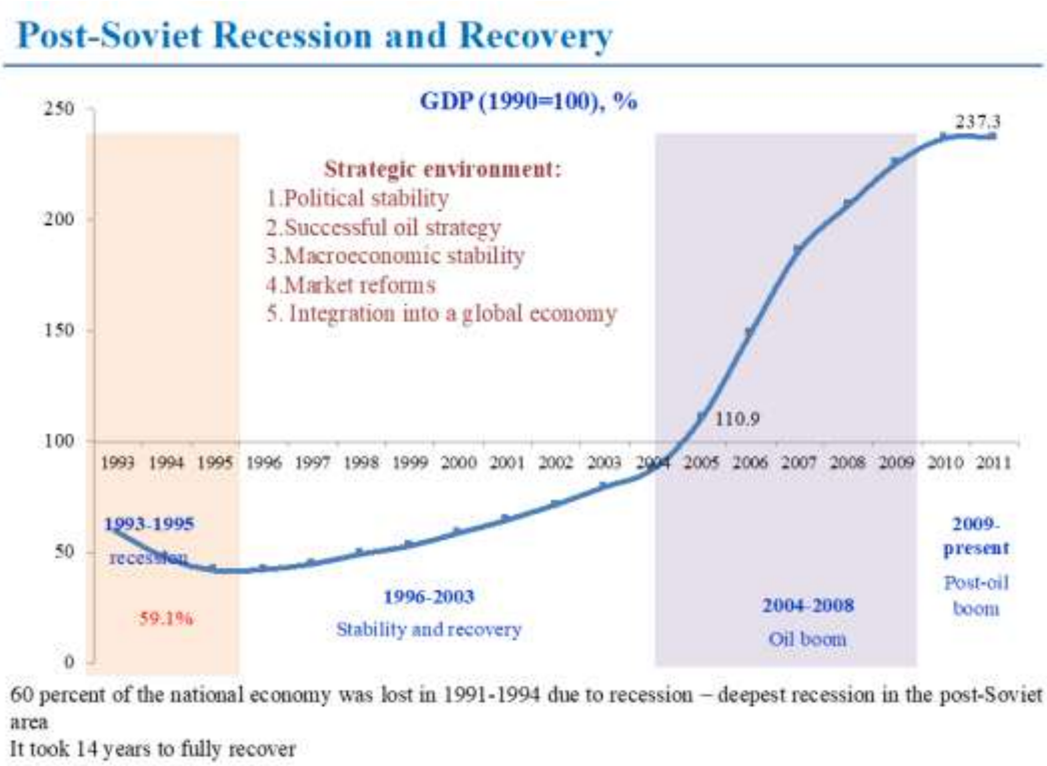
Overall, the challenges and threats that may hold Azerbaijan back in its efforts to reach its short- and long-term goals are substantial, but manageable. Instability in world markets, political risks and economic challenges, however, may elevate the risk. To combat this, the Government should create a resilient and flexible economy and public institutions that can weather possible future crises.

Azerbaijan's economic development and transformation

Economic development since the 1990s

Azerbaijan's post-Soviet economic development can be nominally divided into four phases: recession, stabilization and recovery, oil boom and crisis, and finally, post-crisis development. During the first period, which began in 1991 and continued until 1995, Azerbaijan lost more than 60 per cent of GDP due to economic transformation, war in Karabakh and disruption of economic ties with other republics of former Soviet Union. Many people were made redundant and massive layoffs took place due to deindustrialization. The situation was exacerbated by the level of poverty, which reached almost 49 per cent.

Figure 1. Post-Soviet recession and recovery, Azerbaijan, 1993–2011



Source: State Statistical Committee of Azerbaijan Republic, System of National Accounts; Central Bank of Azerbaijan Republic, Statistics; International Monetary Fund, Azerbaijan.

During the second stage of development, Azerbaijan achieved political stability by the mid-1990s and launched limited economic reforms, including privatization of small and medium-sized enterprises. These and other reforms led to an increase in Azerbaijan's GDP by 1.3 per cent in 1996, while inflation declined sharply from as high as 1,788 per cent in 1994 to 50 per cent in 1995, and to 20 per cent in 1996 (State Statistical Committee of the Republic of Azerbaijan, 2009). Two factors significantly contributed to sustained growth. First, a production sharing agreement (PSA) was signed with foreign oil companies in 1994 that envisaged extraction and export of oil and gas from the Caspian Sea to the world markets. Second, oil companies promised to construct the Baku-Tbilisi-Ceyhan (BTC) pipeline and the South Caucasus Gas pipeline to transport oil and gas to Turkey through Georgia.

Both contracts became the cornerstones of Azerbaijan's forthcoming development as they generated a significant amount of foreign direct investment (FDI).

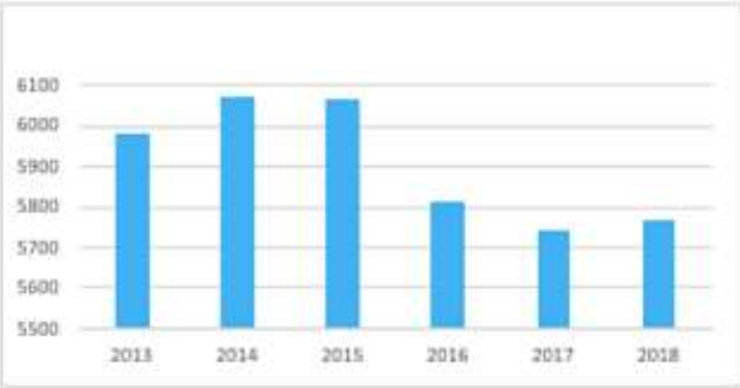
The third stage of development, which might be called the "oil boom", was marked by the fastest GDP growth in post-Soviet Eurasia. Within that period, thanks to the windfall of oil money, the country was able to achieve many goals, including reducing poverty, GDP growth and improving citizens' welfare. The financial windfall did not lead to economic diversification or boosting competitiveness, however. Instead, the country fell into the classical resource trap, which was first felt during the global financial crisis in 2008–2009. The general policy of the Government in that period followed the neoclassical approach propounded by the IMF and the World Bank, aimed at directing the development of the country towards political stability, macroeconomic stability, market reforms and integration into the global economy. During the period of high oil prices, however, the Government did not pursue profound reform of the economy, concentrating mainly on public spending. Most FDI came either into the oil sector or to the Government as loans: 90–95 per cent of Azerbaijani exports consisted of oil, gas or oil products, which did not made other sectors attractive to investment. The financial crisis reduced the level of FDI, which was felt mainly in agriculture, manufacturing and construction. Nevertheless, oil prices did not fall significantly, which allowed Azerbaijan to compensate losses in the economy by increasing public investment. The country still managed to end 2008 with a double-digit growth rate and maintained 9.3 per cent growth in 2009, thanks to oil production. The crisis was mitigated primarily by high oil prices, which allowed the Government to substitute domestic investments for FDI. The general population in Azerbaijan was not hard hit by the crisis at the level of consumption or price increases. The Government made massive investments in the economy, with large-scale construction related to European Olympic games, road construction, social projects and redevelopment.

The Azerbaijani economy grew fast between 2011 to 2014, with double-digit GDP growth, that allowed the country to invest heavily in infrastructure projects, wage rises, hosting international events and investing in the national industrial base. The first signs of problems arose in 2012, when the country began to depend on oil and gas incomes. At some points Azerbaijan exports depended almost entirely (95 per cent) on oil and other sectors were completely marginalized. Meanwhile, growth of imports, including for luxury products, furniture and machinery, as well as food products, led to sectoral changes. The agriculture sector suffered a heavy blow, and the outflow of labour from agriculture to services intensified. It was easier to earn money in the service sector in Baku rather than in the agriculture sector.

The last stage, which could be dubbed "post-oil development", began in 2015 and still continues. Oil prices fell significantly, while consumption and government spending remained the same. The Azerbaijani Central Bank was forced to devalue the currency twice in 2015. Overall, the Azerbaijani manat (AZN) depreciated twice against the euro and the US dollar. That immediately affected the prices of many products, because Azerbaijan was importing most products, including agricultural, industrial and other goods. The struggle to keep the national currency stable depleted the resources of the Central Bank and forced the government to use extraordinary measures in order not to spread panic and prevent the collapse of the financial system.

Although the Government and the Central Bank announced a floating rate policy, in accordance with which exchange rates are set by market, but the policy was not implemented fully. The Government needed to control the situation and intervene with sales of US dollars in order to keep the Azerbaijani national currency stable. GDP per capita dropped perceptibly (Figure 2).

Figure 2. GDP per capita, Azerbaijan (constant 2010 US$)



Source: State Statistical Committee of Azerbaijan Republic, System of National Accounts, https://www.stat.gov.az/source/system_nat_accounts/?lang=en

During the year, 10 banks were closed, among them one of the five principal banks, Bank Standard. Population living standards have deteriorated sharply. The average wage in Azerbaijan is US$ 303, below even Georgia and Armenia. Incomes have risen, but they have been eaten up by rising inflation. The social expenditure budget for 2016–2018 remained at the same level. At the same time, utility tariffs began to increase, which had not been observed for a long time. In fact, electricity tariffs increased twice during 2016. The differentiated tariffs for electricity and gas introduced in Azerbaijan have led to fierce debate among economists. Later, at the request of the President the limit on electricity use was raised to 300 kilowatt-hours per month and the limit on gas was raised to 1,700 cubic meters per year.

The rise in unemployment in 2016 is estimated by CBA as 190,000 jobs. Things improved somewhat in 2017, but although no crisis ensued, it required all the Government's efforts to achieve that. It was expected that economic growth could reach a modest +0.3 per cent by the end of the year. The country's balance of payments surplus was restored. A critical drop in investment was halted. Inflation for the year as a whole remained high (13 per cent). In 2017, for the first time in several years, the Government adopted a growth budget. The recession appeared to be over. As a result of tight monetary policy, it seemed that it was possible to ensure financial stability. True, the price of this was quite high and lending to the economy declined by almost 25 per cent or approximately AZN 4 billion. But the foreign exchange market stabilized: from the end of February of 2017 until today the dollar exchange rate has remained at 1.7001 AZN / US$.

Overall, for the past three years there has been no or only modest economic growth. Meanwhile, the capacity for growth is also limited by the current economic structure. The crisis made the Government contemplate deep, structural reforms that began to be implemented from 2015. Nevertheless, by 2019 the country’s economy was still dependent on highly volatile commodities, such as oil and gas, although the Government is heavily investing in diversifying the economy.

Some indicators worsened, showing that the economic crisis and its aftermath were impacting the population severely. The Gini coefficient, a measure of income inequality, increased from 3.47 in 2000 to 17.07 in 2018. This shows that the efforts to eliminate poverty, hunger and malnutrition, especially among the vulnerable population, were not enough. Many citizens earn just above the poverty line and are prone to fall back into poverty. By 2017, almost 20 per cent of all full-time workers earned less than US$ 84.71 (AZN 150) per month (91 per cent of the minimum consumption basket), and more than 30 per cent earned between US$ 84.71 (AZN 150) and US$ 169.42 (AZN 300). According to household budget survey data, the income of more than half of the population is below US$ 147.06 (AZN 250) per month (just US$ 50 – AZN 85 – above the poverty line). This is consistent with the World Bank report, estimating that 57 per cent of the population were at risk of poverty.[3]

Today, four years after the crisis, Azerbaijan's economy has not been able to compensate for the losses and restore its pre-crisis position. The collapse of the banking system lowered people's trust in the banking sector and an outflow of funds. The second challenge posed by the current situation is the continued dependence on oil and gas resources, which is observed in almost all areas. Thus, the share of oil revenues in state budget revenues increased from 47.7 per cent in 2017 to 59.5 per cent in 2018 and the share of crude oil, petroleum products and natural gas in exports increased from 88.62 per cent in 2017 to 91.17 per cent in 2018. Finally, the share of the oil and gas industry in GDP increased from 37.17 per cent in 2017 to 42.56 per cent in 2018. Meanwhile, the state budget heavily depends on transfers of funds from the State Oil Fund of the Republic of Azerbaijan (SOFAZ). In 2017, such transfers totalled AZN 10.99 billion, while in 2018 the volume of transfers was AZN 11.36 billion. This means that in the formation of the budget in 2018, the share of revenues from SOFAZ transfers alone will be about 50 per cent, and the amount of direct oil revenues to the budget due to payments from SOCAR and oil consortiums was AZN 13.7 billion, 70 per cent more than in 2017.

Overall, 2019 started positively for Azerbaijan's economy as GDP grew by 2.1 per cent in the first nine months. Nevertheless, counting GDP in US dollars, GDP was still only around US$ 28.7 billion in 2018, compared with more than US$ 75 billion in 2014. At this rate, Azerbaijan would need more than decade to return to the pre-2015 level.

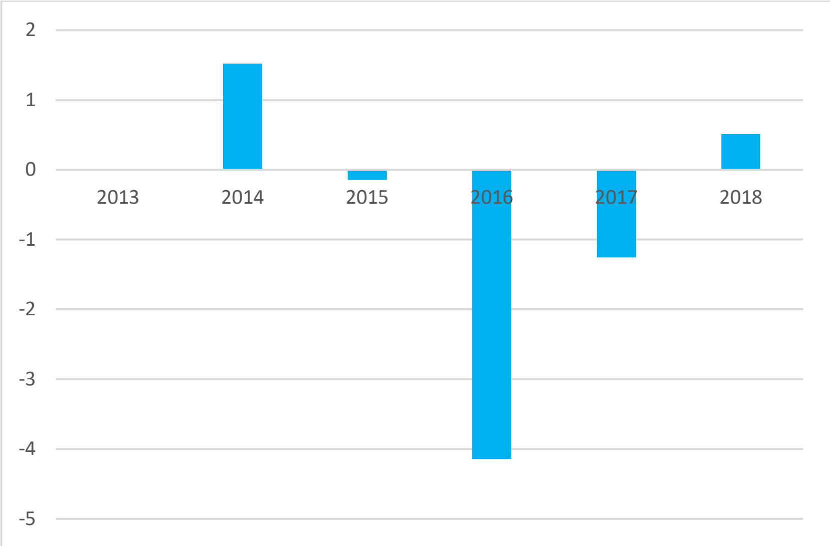
Main macroeconomic trends

In 1995, Azerbaijan's real GDP stood at only 37 per cent of its 1989 level, while the average for the Confederation of Independent States (CIS) was 58 per cent. On average, Azerbaijan's real GDP decreased by 15 per cent per annum from 1992 to 1996 (World Bank, 2009). Azerbaijan's economy stabilized closer to 1998 when the first oil from the so-called "Contract of the Century" began to flow. These and other reforms allowed Azerbaijani GDP to increase by 1.3 per cent in 1996, while inflation declined sharply from 1,788 per cent in 1994 to 50 per cent in 1995, and to 20 per cent in 1996 (State Statistical Committee of the Republic of Azerbaijan, 2019). From 2000 until 2015 Azerbaijan made significant progress in the development of its economic and human resources. The economy began to recover slowly and then took off in the mid-2000s. Thanks to the oil money windfall, real GDP showed tremendous growth, culminating in 34.4 per cent growth in 2006, one of the highest rates in the world. Within a short period – 2003 to 2010 – GDP almost doubled. In 2004–2005 GDP reached the level of 1990, and in 2011 it was well over double (237 per cent). At the same time, real GDP in US dollars reached its peak in 2014 at US$ 37.2 billion, with per capita GDP at US$ 3,079, the highest in the post-Soviet period. Real GDP per capita had increased more than 3.5 times since 2000.

The financial crisis of 2015–2016, however, hit Azerbaijan's macroeconomic indicators hard. Annual growth of real per capita GDP (SDG 8.1.1) stumbled and fell (Figure 3). The crisis showed the vulnerability of the economy and called into doubts Azerbaijan's ability to achieve its SDG targets for 2030.

[3] Challenges on the path to Universal Health Coverage: The experience of Azerbaijan.

Figure 3. SDG 8.1.1: annual growth rate of real GDP per capita, Azerbaijan



Source: State Statistical Committee of Azerbaijan Republic, System of National Accounts, https://www.stat.gov.az/source/system_nat_accounts/?lang=en

The reason for such vulnerability was the fact that, starting from 2000, Azerbaijan's development was focussed on the development of oil production, often sacrificing the other sectors of the economy. Thus, in 2005, the oil sector accounted for 55.4 per cent of GDP. If we take into consideration the industries and services connected with oil, the share of oil and gas in GDP would be much higher. Although by 2018 the oil sector's share had fallen to 39.8 per cent, together with oil and gas–related industries it still dominated. The share of oil in GDP value added was around 55 per cent before the 2015 crisis and increased slightly after the crisis, fluctuating between 55 and 60 per cent. Meanwhile, the non-oil sector has increased its share from the low of 37 per cent in 2007 to 52.4 per cent in 2018. Despite the Government's efforts to diversify the economy and statements about reducing its dependence on oil and gas revenues, GDP growth in the non-oil sector was a mere 1.8 per cent in 2018, falling from 2.7 per cent in 2017.

Azerbaijan's foreign exchange reserves in 2018 increased by only US$ 3 billion to US$ 45 billion. Meanwhile, by the beginning of 2019, external public debt had reached about US$ 9.7 billion (a 3.2 per cent increase over the year), because the country has increased liabilities for external payments. Overall, 17 per cent of the budget in 2020 is directed toward serving foreign debt (up from 9 per cent in 2019). This may bring problems of non-sustainability in future and Azerbaijan may be unable to finance its SDG targets.

The share of non-mining and non-energy sectors in GDP generation has undergone an average annual increase of 0.9 per cent since 2005, accounting for 60.7 per cent of total GDP in 2018, approximately 4 per cent less than the previous year. Regarding employment trends in this sector, the average annual increase of 0.04 per cent has been the trend since 2014. Meanwhile, the largest employing sector in this group – agriculture, fishing and forestry, employing 36.2 per cent of the labour force in 2018 – has also increased by an annual average 1.13 per cent since 2014. The gender distribution ratio for 2018 within respective sector was 41.9 per cent (women) to 58.1 per cent (men), making it comparatively gender equal.

The increase in GDP growth rates compared with 2018 is associated with an increase in gas production from the Shah Deniz field, as well as with the implementation of the objectives for developing the non-oil sector. For 2019, the Government expects Azerbaijan's GDP growth to be 3.5 per cent. According to the IMF, an increase in gas production in Azerbaijan may lead to an increase in oil GDP in 2019 by 5 per cent. At the same time, the current account balance of payments surplus in Azerbaijan is growing, and by the end of

2018, it will amount (according to the European Bank for Reconstruction and Development) to 6.6 per cent of GDP against 4.1 per cent of GDP in 2017, which demonstrates positive trade trends with almost 15 per cent growth in non-oil exports. In the non-oil sector in 2019, according to government forecasts, an increase of 3.9 per cent was expected, and 3.1 per cent in the oil sector. GDP growth rates themselves in the current year are stated at 3.5–3.6 per cent per annum. It should be noted that Government forecasts of 2 per cent GDP growth in 2018 failed to come true: the World Bank and the UN estimated GDP growth as likely to be 1.8 per cent, while the International Monetary Fund set it at 1.3 per cent. The slowing of non-oil GDP growth in 2018, compared with its level in previous years, is a testimony to remaining problems in this area. The state has launched various measures, including essential investments, to maintain the pace of growth of non-oil GDP. It was the slowing of non-oil GDP export growth that led to the reduction of this sector's share in the export basket. One of the main reasons for the drop in pace of economic growth in 2018 is the decrease in the volume of capital investments, by 8.8 per cent from a year earlier. It should be added that over the same period oil production rose by 0.2 per cent and gas by 4.9 per cent. Crude oil prices rose on the world market which, in turn, played a substantial role in GDP growth. Among the successes of 2018, there was a reduction in inflation to 2.3 per cent, ensuring the stability of the manat against the US dollar.

Analysing GDP growth further, we can see that agriculture, which employs the bulk of the labour force (formally and informally) has experienced unstable ups and downs. This sector is highly dependent on markets abroad and local prices rather than on investments in the economy. Overall, the massive income from the oil sector enticed the Government to invest in the fastest growing sectors, such as construction. During this period Azerbaijan conducted several image-building projects, such as the Eurovision Song Contest (US$ 300 million), the European Games (US$ 1.2 billion), Formula 1 (US$ 150 million annually) and others that required investments in roads and buildings, as well as services (Azeri Press Agency, APA, 2016). Most of the investments could be considered to be sunk costs. A relatively small amount went on wages or the service sector. Government investment spurred economic activity, but public spending was not distributed equally across all sectors of the economy and a significant share went to large corporations and foreign companies.

Thus, other sectors, such as agriculture and manufacturing, received little attention, while financial services, trade and real estate boomed. Most sectors of the economy, nevertheless, showed negative trends starting from 2016, associated with the depreciation of the manat (AZN) in 2015. Only a few sectors, such as mining, construction and trade, showed stable growth. Finally, GDP growth per capita (SDG 8.1.1) in Azerbaijan showed stable growth throughout 2000–2010, peaking at 32.8 per cent annual growth in 2006 due to oil price rises, as well as oil production by the consortium. The period 2005 to 2007 showed cumulative real GDP growth of 80 per cent, which fell to single digits in 2008 and negative growth starting from 2015. In 2015, 2016 and 2017, due to inflation and currency depreciation, real GDP growth was marginal or negative (Appendix 1.2). Only in 2018 did real GDP per capita show some slow and modest growth, at 0.2 per cent, raising hopes of an upturn.

Budget, fiscal policy, taxation and governance

For the past eighteen years, nominal public spending has increased more than fifteen fold, and by 12 times in real terms (from US$ 2 billion to US$ 24 billion). The budget relied heavily on high revenues from the oil sector. The share of direct oil revenues in the state budget fluctuated between 65.4 per cent in 2009 to almost 80 per cent in 2015–18 (State Statistical Committee of the Republic of Azerbaijan, 2018). Meanwhile, the State Oil Fund constantly transfers funds, reaching a record 35–40 per cent of all budget revenues in 2014–18. The new post-crisis budget still exhibited Azerbaijan's extreme dependence on oil revenues: the share of oil revenues in the state budget increased from 47.7 per cent in 2017 to 59.5 per cent in 2018 and the share of crude oil, petroleum products and natural gas in exports increased from 88.62 per cent in 2017 to 91.17 per cent in 2018. Finally, the share of the oil and gas industry in GDP increased from 37.17 per cent in 2017 to 42.56 per cent in 2018. The non-oil revenues of the state budget came mainly from taxes (taxation of the oil industry) and customs duties.

The Azerbaijani Government followed the recommendation of financial institutions such as the IMF to keep the budget deficit in check. Thus for the past 14 years the deficit has fluctuated between 0.2 to 1.2 per cent of GDP, even running a surplus in 2006, 2008 and between 2010 to 2013. Due to the influx of oil money, budget revenues reached a record US$ 24.8 billion before suddenly dropping to US$ 10 billion in 2017 due to the devaluation. Meanwhile, official inflation in Azerbaijan also fluctuated, from single digits to almost 21 per cent in 2008. Independent experts question the official single-digit inflation in 2014 and 2015, however, claiming that this number should be higher. Experts cast doubt even on 2016 inflation, at 12.5 per cent, claiming that the true figure was more like 20 per cent (Central Bank of Azerbaijan, 2019). The budget analysis for the past 10 years indicates that increased public expenditures are not directed toward human development (for example, health care, education, science), but rather to infrastructure projects, defence and general government services. Despite the absolute increase, the share of social expenses in the state budget has been decreasing for the past few years. The government strategy to make Azerbaijan a transportation hub has led to massive investments in roads, railroads and airports.

The Azerbaijani tax system has remained mainly unchanged for the past 10 years. In addition to some changes introduced in 2006–07, such as with simplified taxes, non-oil tax collection has consisted generally of VAT, simplified tax, income taxes, excise taxes and customs duties. Profit taxes have tended to decrease for the past couple of years, however, and despite government efforts, the share of taxes in overall GDP fluctuates between 5 per cent and almost 9 per cent, arousing scepticism about fiscal sustainability. Meanwhile, it is worth mentioning that significant shares of non-oil GDP come from sectors associated with the energy industry (construction, services) or are highly dependent on state investments. Thus, agriculture, which is one of the largest contributors to the non-oil sector, cannot be profitable without government subsidies. The same can be said of construction, which survives on governmental contracts. At the same time, a significant share of excise or income taxes also come from oil or oil-related sectors.

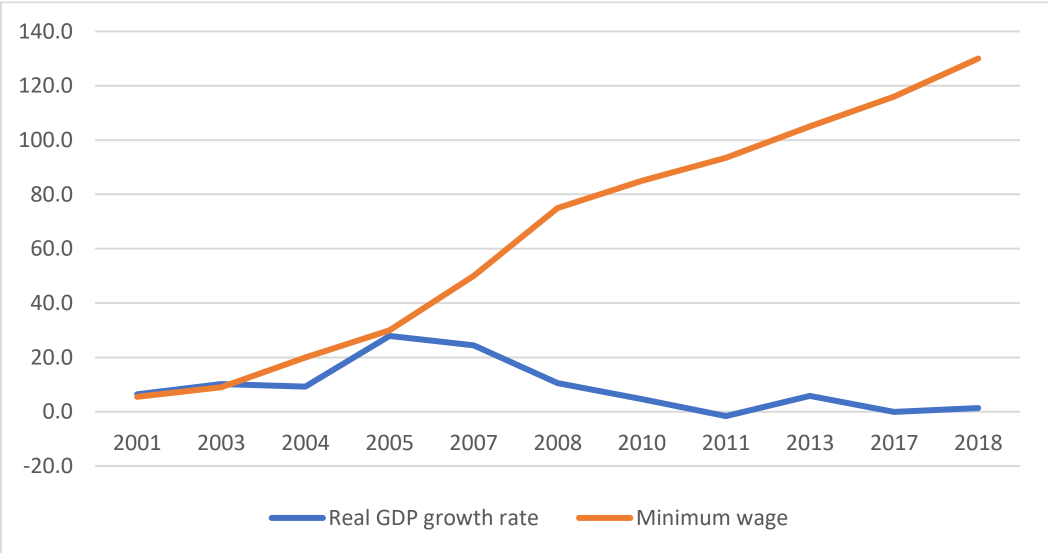
The biggest problem with tax collection is related to regional disparity in Azerbaijan. The bulk of taxes and budget income come from Baku. All offshore and onshore oil and gas production, oil refining and transportation are in Absheron and Baku. Because most tax revenues come from oil and gas production, these locations pay the bulk of the taxes. In contrast, other regions contribute only marginally to the state budget and remain totally dependent on transfers from it. Such a disparity is not necessarily a problem in many countries, but in Azerbaijan the distribution of tax revenues mirrors economic activity. Thus, most business activity happens in Baku, while regions lack the necessary funding. Also, the regions do not have the right to retain their revenues (except fees for leasing municipal lands) and do not have fiscal independence. The distorted nature of tax collection prevents the regions from exercising fiscal decentralization because they would not be able to cover their major expenses if they were not assisted. This situation also prevents local governments from making autonomous decisions on spending. Because their budgets are based on government transfers, the Government has control over regions' spending. At present, the Government will hardly be able to do anything to change the situation because of the oil sector's domination of the economy.

Poverty, inequality and the informal economy

During the Soviet period, Azerbaijan, due to its low level of urbanization and large agricultural sector, had a high poverty rate in comparison to most other socialist countries and republics. In 1990, just before the breakup of the Soviet Union, around 35 per cent of the population lived below the subsistence level (SSC, 2004). As a result, Azerbaijan entered independence with a substantial social burden, namely a collapsed economy, high poverty and unemployment. Moreover, the presence of around one million refugees and internally displaced people further exacerbated the situation. It is worth mentioning that poverty was homogeneous before the Soviet transition. The overwhelming majority of the poor were families with a large number of dependents, pensioners and single mothers (Braithwaite, 1995; Manning and Tikhonova, 2004). Since independence, however, poverty has become more heterogeneous throughout the country and demographic characteristics have become weak determinants of it.

Azerbaijan has made significant progress in reducing the poverty level. Thus, in 2001 the poverty level was 49 per cent, but by 2017 this had been reduced to 5.4 per cent, a sevenfold decrease. Overall, 3.3 million people were lifted out of poverty. One of the main reasons for this downward trend is rapid economic growth. The positive economic growth of the past decade was accompanied by growth in real wages, the main source of poverty reduction among the working poor. In this regard, the annual growth rate of average monthly real wages has been 5.1 per cent since 2014. Meanwhile, the minimum monthly wage has experienced a gradual increase since 2001, while the GDP growth rate has also been positive, with modest stagnation in recent years (Figure 4).

Figure 4. Trend in GDP growth rate and minimum wage, Azerbaijan, 2001–18



Source: Growth rates are calculated based on information retrieved from the State Statistical Committee of Azerbaijan Republic, System of National Accounts, https://www.stat.gov.az/source/system_nat_accounts/?lang=en; State Statistical Committee of Azerbaijan Republic, Labour Market, https://www.stat.gov.az/source/labour/?lang=en

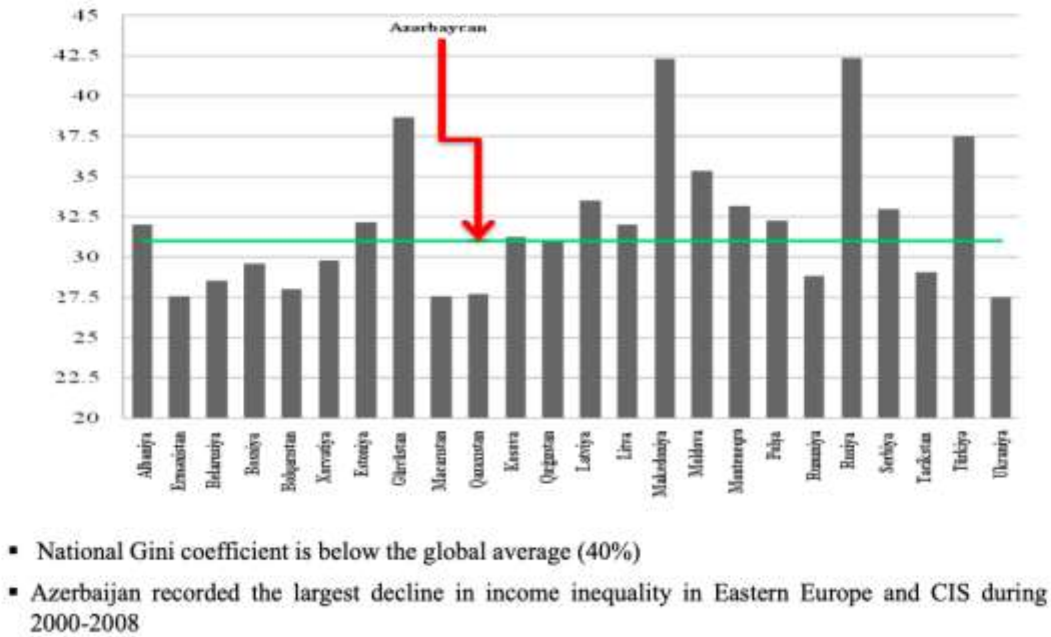
The average annual growth rate of monthly real wages has been well over 14 per cent since 2003. The Government has also gradually increased the minimum wage since 2001, rising from below 23 per cent of the minimum subsistence level in 2001 to over 95 per cent in 2008. Narrowing the gap between the minimum wage and the official poverty line has probably contributed to a substantial decrease in official poverty incidence during the past decade. Due to the high unemployment rate and absence of employment opportunities wages are often still below the poverty line. Unfortunately, the absence of trade unions in these sectors (especially in services) means that workers are unable to engage in collective bargaining.

Devaluation and further inflation in 2015–16 created some fears that poverty may increase, especially among people with debts. Indeed, between 39 and 44 per cent of all private sector loans were to households (Appendix 1.5). To make matters worse, in many cases loans were denominated in US$ dollars. Thus, in 2016–19 the proportion of defaulted loans ranged between 9.0 per cent and 13.8 per cent, amounting to AZN 1.5 billion (US$ 880 million), the bulk of it affecting households. On 1 March 2019, the Government decreed compensation for people who had loans denominated in US dollars and had been hit hard by devaluation. Meanwhile, in 2018 the Government set the cost of living at AZN 180 (US$ 106), while the minimum wage was set at AZN 143 (US$ 85). But the challenge of social sustainability still remained. Because of the high number of insolvencies the creditworthiness of a large proportion of the population, making it difficult for them to borrow in the future. Inevitably, this had an adverse impact on poverty.

Another problem is the low level of social benefits in Azerbaijan compared with neighbouring post-Soviet countries. In March 2019 the minimum workers’ pension was set at US$ 94.12 (AZN 160), and the minimum wage was US$ 105.88 (AZN 180). Meanwhile, in Azerbaijan the average monthly nominal wage is US$ 338, compared with US$ 364 in Armenia, US$ 390 in Ukraine, US$ 398 in Georgia, US$ 444 in Kazakhstan, US$ 471 in Belarus and US$ 695 in Russia. On the other hand, in Azerbaijan there are 130 pensioners for every 1,000 people, while in Armenia there are 154, in Kazakhstan 157, in Moldova 200, in Ukraine 264, in Belarus 273 and in Russia 296 pensioners per 1,000 people. Note that in Belarus, whose population is similar to that of Azerbaijan, around 2.6 million citizens, or 26 per cent of the population, receive pensions, while in Azerbaijan only 1.3 million do so, which is 13 per cent of the population (indeed, the number of pensioners in Azerbaijan decreased by 20,900 people in 2018). Despite this, however, the average level of labour pensions in Azerbaijan is less than half that in Russia, and 1.5 times less than in Kazakhstan and Belarus.

The Gini index, based on consumption data for the past 18 years, shows significant fluctuations (unfortunately, data are not available for calculating income Gini). Thus, the coefficient was 0.365 in 2001 and dropped precipitously to 0.172 in 2002, further decreasing until 2005. In 2006 the coefficient went back up to 0.32 and remained there. The HDI calculation of the Gini coefficient for 2010–16 is claimed to be 0.166, which is comparatively low. Overall, the national Gini coefficient is usually below the global average (40 per cent). Azerbaijan recorded the largest decline in income inequality in eastern Europe and CIS during 2000–08 (Figure 5). Meanwhile, consumption inequality was higher in cities than in towns and rural areas. The Gini index for cities, towns and rural areas was equal to 0.328, 0.287 and 0.271, respectively (World Bank, 2010). According to the results of the 2007 HSRP, the income-based Gini index was 0.32 for 2006, while the income inequality ratio was 4.9 (this is the ratio of the total income of the top income quintile to the total income of the lowest income quintile). It should be noted that annual income per adult equivalent household member was used when calculating this ratio (CLED, 2008).

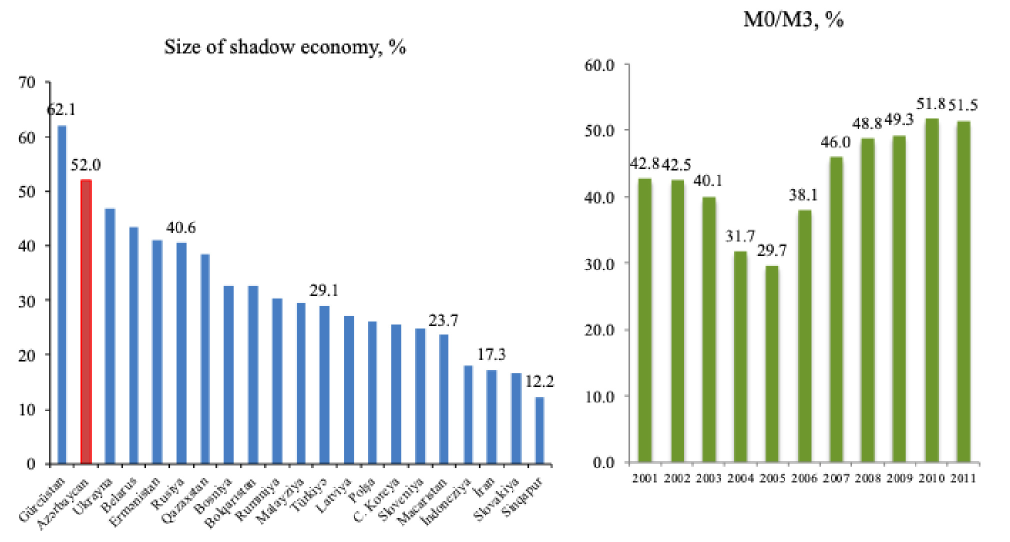
Figure 5 Income inequality, Gini coefficient, Azerbaijan



Source: International Monetary Fund, Azerbaijan
https://www.imf.org/external/pubs/ft/weo/2018/02/weodata/weoselco.aspx?g=901&sg=All+countries+%2f+Emerging+market+and+developing+economies+%2f+Commonwealth+of+Independent+States

The biggest difficulty for scholars working on the Gini coefficient is to properly calculate inequality in countries with a large informal economy. Azerbaijan, unfortunately, is one such country (Association of Chartered Certified Accountants, 2017). At an estimated 66.12 per cent of GDP in 2017, Azerbaijan's informal economy surpasses those of India (16.55 per cent of GDP), China (10.17 per cent), Bulgaria (29.85 per cent), Ukraine (45.96 per cent) and even Nigeria (47.7 per cent). Based on International Monetary Fund (IMF) data, estimates pit the shadow economy in Azerbaijan at AZN 40.22 billion (€ 21 billion) in 2016, out of a GDP of AZN 67 billion. Previous studies (Schneider, 2012) also ranked Azerbaijan as one of the countries with the highest percentage of informal economy in GDP in the world, averaging 58 per cent between 1999 and 2007. The Azerbaijani government statistical agency, however, put the figure at only 9.1 per cent of GDP in 2015. According to respondents to the ACCA's surveys, the two most decisive factors that can lead to an increase in informal economic activity are economic crises or recessions and high unemployment levels (Figure 6).

Figure 6. Shadow economy, selected countries (Percentages)



- Azerbaijan is 148th among 151 countries in terms of the size of shadow economy (WB). Average size of shadow ecconomy in CIS, Eastern Europe and Turkey are 43%, 28% and 31% respectively.
- Share of cash economy is 52%, while it is 14% in Kazakhstan and 20.6% in Russia

Source: World Bank, www.worldbank.org

In order to preserve national wealth for future generations, the State Oil Fund of Azerbaijan was created in December 1999. Its assets had reached US$ 42.5 billion by June 2019 (State Oil Fund of Azerbaijan Republic, 2019). The Government plans to draw on the fund in difficult times to supplement the budget with the necessary cash flow and stabilize the situation.

Credits and foreign direct investment

If we look at the actions of the Government of Azerbaijan right after the financial crisis in 2015 and devaluation, we can see that it did everything possible to control the macroeconomic situation. However, general government gross debts to GDP jumped from 14 per cent in 2014 to a record 54 per cent in 2017 (falling slightly to 48 per cent in 2018). That is a very high number and raises serious concerns about the sustainability of the financial system. Servicing the national debt already accounts for a substantial share of the budget and in 2020 around 17 per cent will be allocated to this. Looking at the sectoral composition of lending to the private sector for the past 13–14 years, we can see a number of negative tendencies. Thus, overall lending to the private sector grew from 2005 to 2014, from US$ 1.5 billion to almost US$ 24 billion.

The largest shares of private sector lending were to households (consumption), followed by trade and services (Appendix 1.5). Only a small proportion was directed to economic sectors such as chemicals, energy or industry. Thus, when the devaluation hit the economy, households were worst hit by the crisis and the share of defaulted or toxic loans reached 14 per cent in 2017. The biggest hit was experienced by the construction sector, in which lending fell from a high of 15.3 per cent in 2013 to 4.6 per cent in 2017. Nevertheless, lending households dominates the lending of credit organizations and banks, adding to the sustainability problems of the financial system. Meanwhile, on several occasions the Central Bank changed the interest rate from 3 per cent to 15 per cent in 2016 in order to dampen the economy and alleviate overheating of the financial market. In 2018, interest rates were lowered from 15 to 9.75 per cent after the dangers of high inflation and further devaluation were reduced (Appendix 1.5).

As for foreign direct investments, Azerbaijan has been able to attract them and export its natural resources due to the exploration of new oil fields and PSA agreements with foreign oil companies. Azerbaijan had FDI flows of US$125.5 billion between 1995 and 2017 (SSC, 2019). FDI in manufacturing, assembly and services, however, is extremely low and most FDI in the country goes to infrastructure and extractive industries. Thus, according to statistics, between 2000 and 2018 the lion's share of investments went to industry (mining), ranging from 72 per cent of overall capital investments to almost 92 per cent (2007). Construction and transport were the second and third sectors receiving FDI. Agriculture, however, Azerbaijan's largest employer, received a mere 1 per cent of overall FDI (Appendix 1.1). Overall, out of total FDI of US$ 77.8 billion between 2000 and 2017, US$ 66.8 billion – or 85.9 per cent – went to the oil sector, while US$ 19.9 billion went to non-oil sectors.

US$ 29.2 billion (24.2 per cent) of all foreign investments between 2000 and 2017 were loans to the Government of Azerbaijan and state-run and private firms from a variety of international finance and credit institutions. US$ 77.8 billion (64.5 per cent) were direct investments. The Ministry of Economic Development claimed that over 9,000 foreign companies were involved in different sectors of the economy. Moreover, the State Statistical Committee reports that as many as 1,424 joint ventures and foreign-invested enterprises operated in Azerbaijan in 2017 (compared with 551 in 2000, 1,091 in 2010, and 1,235 in 2015) (SSC, FDI, 2019).

Import/export operations

The dynamic of Azerbaijan's import/export operations for the past 18–19 years shows an interesting picture. Trade turnover has been steadily increasing every year, with some downturns. The largest growth happened in 2002 (35.2 per cent of growth) when the first oil from the contract of the century began to be exported, which led to export growth. Meanwhile, imports also began to grow because of products necessary for oil extraction. The second-largest surge in trade turnover happened in 2011, associated with the peak of oil extraction in Azerbaijan. The biggest concern of economists and experts in Azerbaijan has always been the distorted nature of exports. Thus, the share of mineral resources in overall exports have never gone below 82 per cent, reaching almost 95 per cent of overall exports in 2011. This puts Azerbaijan in an unsustainable situation, with exports depending on one volatile product. The non-oil sector's share in overall exports decreased fivefold between 2000 and 2008, only to increase almost threefold up to 2018, mainly because of the oil crisis in 2008, after which Azerbaijan stepped up its efforts to diversify its export portfolio. Agriculture, metallurgy and chemicals are among the main sectors contributing to non-oil exports. Even though the latter's share is on an increasing trend, it still accounts for a small portion of overall exports. For example, agricultural exports, the leading non-oil export and the sector in which most people are employed, has not been able to achieve more than 5–6 per cent of overall exports.

Meanwhile, the structure of imports is fairly diverse, mainly comprising machinery, metals and agricultural products. The prominence of agricultural products raised a question mark over Azerbaijan's security during this period. In 2016 and 2017 Azerbaijan was able to reduce imports somewhat to stabilize the national currency. Imports of furniture, cars and other luxury products were particularly affected (State Statistical Committee, Import-Export, 2019). At the same time, the increase in world oil prices and the growth in gas production in the first four months of 2019 meant that the share of crude oil, petroleum products and natural gas in total exports amounted to 91.62 per cent, and the share of the oil sector in GDP was 42.82 per cent. Comparative estimates based on the official reports of the State Statistics Committee, the Ministry of Finance and the State Customs Committee, show the increasing dependence of the economy on natural and non-renewable resources for the past two and a half years. One of the main factors behind this is the pro-cyclical nature of expenditure in managing oil revenues in Azerbaijan. Thus, the rate of spending of oil revenues depends on the volume of revenues from the export of crude oil, petroleum products and natural gas: when foreign exchange earnings from the export of raw materials increase, budget spending increases, and when they decrease it follows suit.

Economic diversification and business environment

After the shocking devaluations of February and December 2015, when the Azerbaijani manat depreciated by almost 50 per cent, the Government turned its attention to efforts that might alleviate the situation by promoting more business activity. Dozens of licenses for entrepreneurial activities were eliminated, while tax and customs were rendered more transparent. The Government also eliminated some duties and taxes for import-export operations affecting local prices, especially for food.

At the institutional level, the government established the position of Presidential Assistant on Economic Reform, tasked with creating a roadmap for economic reforms. The team began by prioritizing the sectors of the Azerbaijan economy that they deemed best positioned to create jobs and attract investments. In December 2016 the Government adopted a road map within the framework of which it began to implement structural reforms. The reforms did not include much about poverty alleviation and employment, concentrating more on economic diversification. The Government also established a new Financial Market Supervisory Chamber, giving it some functions previously managed by the Central Bank. Moreover, several other committees were established. Finally, the Government heeded the tourism sector's long-standing priorities of facilitating international travel and further liberalizing the visa regime.

Since the devaluation in 2015 Azerbaijan has shown some improvement in governance indicators. The Government took into consideration complaints from business, easing customs and helped firms. These efforts are reflected in the World Bank's Doing Business Report 2018, in which Azerbaijan was placed in the top ten. The country also jumped 32 places to rank twenty-fifth out of 190 countries for ease of doing business. As the Doing Business Report 2018 states (World Bank Group, 2018) with regard to Europe and Central Asia, Azerbaijan implemented eight reforms that make it easier to do business in 2017–18, a record number among the 10 top improvers and globally. Several of these reforms involve institutional changes. Azerbaijan opened a window at the Baku City Executive Office solely for dealing with construction permits, for example, reducing the time needed to obtain a building permit by 80 days and the cost by AZN 12,563 (about US$ 7,500). To improve access to loans, Azerbaijan established a new credit bureau and a new unified collateral registry. Azerbaijan also became of the top 25 countries in which it is easy to start a new business. Meanwhile, the Global Competitiveness Index, compiled annually by the World Economic Forum (WEF) for 140 countries, ranked Azerbaijan 35th in 2017, the country's highest position since independence. Sadly, a year later, in 2018, Azerbaijan dropped to 69th place, but that is still considered a good achievement (WEF, 2018).

In-depth analysis shows, however, that the Government's actions have not yet made a significant impact. The economy has not received the necessary impetus for creating a competitive market. Private investors did not rush to establish businesses and local companies remain content with the domestic market. Only a few industries are able to export. Most businesses, whether in services or production, are heavily dependent on local consumption, as well as budget expenditures. Most construction companies outside the housing sector depend on government contracts. Hotels, small traders, restaurants and others do not get much revenue from foreign tourists and their market is also highly volatile.

Azerbaijan in future is likely to face serious problems with funding its debt obligations. To meet its commitments to expand oil and gas development in the region, including the

TANAP (Trans-Anatolian) and TAP (Trans-Adriatic) pipeline projects, backed by the State Oil Company (SOCAR), Azerbaijan is in dire need of massive investment. Meanwhile, the Oil Fund of Azerbaijan is currently the only mechanism that can stabilize the financial situation, but it does not have sufficient funds to invest in other government commitments. At a certain point, probably in the near future, the Government will need to seek external loans from the World Bank, IMF, or other agencies, which may require significant reforms in all sectors of Azerbaijan's economy.

Azerbaijan and the Sustainable Development Goals

Ever since Azerbaijan made a commitment to implement the Sustainable Development Goals, the Government has directed much of its efforts to attain them. Some of these efforts (especially in relation to SDG 8: "Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all") have encountered problems in terms of targets and indicators, while others may create serious challenges.

The first target – SDG 8.1.1 Annual growth rate of real GDP per capita and SDG 8.2.1 Annual growth rate of real GDP per employed person – would be one of the most difficult to achieve. Taken into consideration the unstable growth of the economy, as shown in Figure 1, it is very hard to be sure that the Government will be able to sustain a stable growth rate. The trends for the past 10 years show that this indicator is heavily dependent on oil prices.

Another target, such as decreasing informal employment in the non-agricultural sector, would be comparatively easy to achieve because the Government has launched several registration initiatives. Thus, one system launched in 2008–2009 allowed a large chunk of people to come out of the informal economy, especially persons involved in small businesses.

In the case of unemployment, the Government will be able to meet the Sustainable Development Goals. Currently, overall unemployment and youth unemployment are similar to rates in developed countries. Today, the Government could easily even eliminate unemployment using administrative resources. The biggest problem, however, is the inactivity rate, which is very high. The labour force participation rate overall did not go beyond 66 per cent, indicating that around 34 per cent of people in the labour force are not economically active. The Government's efforts should be directed toward involving those inactive labour force and providing them with decent jobs.

Labour market analysis

Demographic and labour market development

By the time of collapse of the Soviet Union, around 71 per cent of the employed population was working for the state sector (SSC, 2019 – Labour). New economic challenges and transformation led to a decrease in the public sector and the growth of the private one. The sharp decline of the economy in the 1990s had a disastrous effect on the demographic and labour market situation. Many jobs became obsolete due to the changes in economy and massive layoffs occurred due to deindustrialization. Moreover, around 1 million citizens emigrated to neighbouring countries for work. Many emigrants had the necessary skills and competencies but were not in high demand at home. Meanwhile, at the beginning of the 2000s the country started to suffer from a demographic crisis, with a sharp decrease in birth rates and fertility (Appendix 2.1).

Starting from the early 2000s, when the Government began to receive the first oil dividends, the government's policy has been directed to the creation of the jobs and employment opportunities for a growing labour force. Government policies for this period were directed to the creation of jobs and even the president announced a plan to create 600,000 jobs between 2005 and 2008. The increase in labour was partly absorbed by massive migration of Azerbaijanis to Russia, Turkey and other countries in search of a better life. Meanwhile, other workers were able to take up new jobs in professions such as real estate, construction, services and others. However, as was shown in the previous section most investments were in the oil sector, which had limited capacity. The 2015 devaluation significantly impacted the labour market. The Government sharply decreased budget spending on state projects that were a major source of employment, so actual budget spending for 2015 was 15.7 per cent less than the projected US$ 13.53 billion (CESD, 2016). Due to the falling oil prices and shortage of cash, the Government froze all large-scale construction, concentrating on social projects in order to ease tensions in the economy. Therefore, most seasonal or part-time jobs were cancelled, laying off many unskilled workers.

The Azerbaijani Government has adopted the Sustainable Development Goals, but out of 189 indicators, only 89 have been adopted. Concerning Goal No. 8 – Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all – Azerbaijan adopted only a few indicators, although the Government has taken some steps to meet the goals. Concerning the issue at stake, on 2019 the government adopted an employment programme. According to the Employment Strategy of Azerbaijan for 2019–2030 signed on 30 October 2018 by the Azerbaijani president, the level of unemployment should be decreased to 4 per cent by 2030 (in 2017–2018 the level of unemployment in Azerbaijan totalled 5 per cent, including 5.9 per cent among women, 12.9 per cent among young people 15–24 years of age and 9.2 per cent among young people 15–29 years of age). Another goal of the Strategy is to ensure that the proportion of employed people not involved in agriculture will be 80 per cent by 2030 instead of 49 per cent by the end of 2018. At the same time, Government funding for financing employment programmes will be increased from 0.01 per cent in 2018 to 0.1 per cent by 2030. Moreover, by 2030 the Government plans to decrease the share of NEET young people (15–24 years of age) from 23 per cent (2017) to 15 per cent (Employment Strategy 2019–2030, p. 7). Overall, while the strategy addresses the issues of skill and capacity-building, improvement of vocational education and the reduction of skills mismatches, the issues of regional differences and educational attainment are missing.

Looking at these and other predictions we can state that achieving a 4 per cent unemployment rate may not be so difficult because official employment is low. Using administrative resources this goal can be reached even earlier. The budget allocation part is also doable. The biggest challenge will be to reduce the level of NEET young people and decrease the level of inactivity. That goal will difficult, taking into consideration the low funding for employment programmes. Moreover, decreasing the level of NEETs would require not only administrative resources but also education reforms to teach the new curriculum. Moreover, vocational education would need to be improved and reformed to meet the challenges of the market economy. Finally, implementation of the strategy would require restructuring of employment agencies, harmonization and coordination between various level of ministries, agencies and programmes.

Structure of employment by economic activity

Government policy has generally been directed towards creating jobs in the state sector in order to alleviate tensions in the labour market, absorbing young people. Guarantees and pay in the state sector (especially in rural areas) have tended to be better than those in the private sector. With the increasing oil money, however, the Government has chosen the easy option, providing state jobs in construction and public services, as well as through public tenders. This state capitalism approach worked very well during the period of high government investments. Once the Government ceased to launch construction projects and state investments, however, the majority of people lost their jobs. Because of this approach to employment and government-led initiatives in job creation the structure of employment in Azerbaijan does not necessarily reflect national productivity or export potential. Out of the 4.8 million employees in the Azerbaijan economy, the biggest single group (36.4 per cent) are working in agriculture (including forestry, hunting, and fishing, as well as the cultivation of crops and livestock production). This share has changed only slightly since 2000 when it was 39.1 per cent (Appendix 2.1). This picture is explained mainly by the fact that during the Soviet time Azerbaijan was considered an agricultural republic where. The 25 years of independence have changed this but not significantly, falling from around 52 per cent (Appendix 2.1).

On the contrary, agriculture does not produce a share of GDP or exports proportionate to the number of people involved. While in 1992 the share of agriculture in GDP was 32.5 per cent, by 2017 it had fallen to 5.08 per cent. Moreover, the share of agricultural exports was less than 5 per cent in 2017 (Appendix 1.4). It is better than in 2008, however, when agricultural exports were a negligible 2 per cent (Appendix 1.4). Such a small share of exports or GDP is partially explained by the fact that Azerbaijan's GDP is heavily reliant on the oil sector and agricultural products have low added value. Meanwhile, low incomes, as well as low wages in rural areas led to migration from villages to cities or even abroad, to Russia or Turkey. Thus, the regions have become populated by older people or kids with low productive capacity.

Most people involved in agriculture are small farmers producing goods for local markets or for consumption. Many do not pay taxes (except local tax on land) or taxes on income or social security fees because it is difficult for the Government to track their income, most of which is generated through trade or for own consumption. This situation makes the tax system vulnerable, with a major share of the population not paying taxes and being outside the social security system. If pension reforms go full speed ahead with the elimination of the basic pension, many of these people will not get a pension, not being registered with the system. Thus, for many years the Government has been discussing opportunities to move to a pay-as-you-go system, but the high level informal employment makes it difficult.

Meanwhile, the share of women working in agriculture has grown since the mid-2000s: one-fifth of all people working in agriculture are women (Appendix 2.3). Because agriculture has among the lowest hourly wages (Appendix 2.6), at US$ 1.2, people are forced to move to the urban centres, including a massive outflow of men abroad. Disproportionate labour costs in other sectors could be explained by the inflated cost of labour in services, finance and other sectors because of the windfall of oil money not supported by real production. The tendency among men in rural areas to seek better paid jobs abroad or in cities has contributed to the increase in the share of women in agriculture.

The extraction sector, which produces most of GDP and exports, accounts for only 0.8 per cent of total employment. This reflects how unequally employment is structured. In most sectors, shares in overall employment have diminished. The share of employment in construction, however, rose from 4.9 per cent to 7.3 per cent. This growth came at the expense of the agricultural sector. Most of the employment opportunities in construction do not require specific skills. The second largest sector, trade, also saw some decline, but it still employs a significant number of people, constituting 14.6 per cent in 2017. This sector also absorbed people from agriculture. Other sectors that saw some marginal growth were accommodation and food services, reflecting tendencies towards diversifying the economy toward tourism and food, information and communication and others.

For the past 18 years the share of people working in the private sector has also increased. Thus, while in 2000 1.2 million out of 3.8 million people overall were working in state sector (33.2 per cent) by 2018 this had dropped to 1.1 million out of 4.8 million or around 24 per cent. Thus, the growth of the labour force in the past two decades has been in the non-state sector (Appendix 2.4). It is interesting to look at the statistics of older people in the economy. While in the 2000s their number was around 142,000, between 2004 to 2005 their numbers fell significantly to 103,000, reflecting changes in employment policy and massive layoffs in the state sector. Subsequently, however, their number began to grow again, reaching 146,000 in 2017 (Appendix 2.1). This could be explained by the fact that pensioners require additional income as pensions are not enough to sustain them.

Meanwhile, the number of economically active people increased significantly in absolute terms. While in 2000 there were 4,370,200 economically active people, in 2018 there were 5,073,800, up by more than 16 per cent (Appendix 2.1). This is explained mainly by the fact that a high number of young people entered the labour market and there was a high number of working pensioners. In 2017, 48.5 per cent were women (2.4 million), and 51.5 per cent men (2.6 million). This has been fairly stable for the past decade. However, out of 251,000 unemployed people in Azerbaijan, around 58 per cent are women (145,000) while 42 per cent are men (106,000). In general, the unemployment rate has remained stable for the past decade, not exceeding 7 per cent. However, only a marginal 15 per cent of unemployed people were given official unemployment status by employment services, with men outnumbering women by four to one (Appendix 2.1). To obtain official unemployment status unemployed people need to submit certain documents to an employment office, upon which they receive benefits. Overall, based on 2017 data, only 1.5 per cent of unemployed woman received unemployment benefit, and 4.5 per cent of unemployed men.

Unemployment, inactivity rates, self-employment and the informal economy

Unemployment in Azerbaijan is not at a critical level. In fact, the country will be able to achieve the unemployment SDG even earlier than 2030. Looking at the structure of unemployment, we can see that around 0.3 per cent of all unemployed people were aged 15–19 (which could be explained by the fact that most people this age are still studying), 9.3 per cent were aged 20–24, 31.6 per cent were aged 25–29, 0.7 per cent were of pre-pension age and 58.1 per cent were between 29 and retirement age (Appendix 2.8). Such a high number in the last category could be explained by disabilities or other factors that prevent them taking up employment. It is important to highlight that education level is not the main driving factor of unemployment: in 2005, 2010 and 2017 an unexpected majority of unemployed people had gained a higher education (57 per cent in 2017), 32 per cent had secondary special education, 8.3 per cent vocational education and 2.6 per cent secondary education. The share of unemployed people with higher education is higher among men than women. This is explained by the fact that women can find jobs more easily in almost every sector, while men tend to seek higher paid jobs.

One of the driving factors of unemployment among those with higher education in Azerbaijan is a surplus of graduates in areas such as health, education and humanities, as well as a shortage of graduates qualified as financial managers and agriculture experts. Furthermore, a lack of skills might be considered to be another factor contributing to the unemployment rate increase among graduates. Most higher education graduates do not have the skills they need to make them competitive. In this regard, based on the results of the STEP Employer Skill Survey carried out in Azerbaijan in 2013, a serious skill shortage was detected, especially concerning technical, cognitive and socio-behavioural skills, coupled with employers' high expectations (Rutkowski, 2015). One of the biggest challenges to achieving higher employment among young people is the mismatch between education or training and the demands of the market. Thus, deputy Minister of Education Idris Isayev declared that this mismatch is the major threat to Azerbaijan's future.

The lack of skills is exacerbated by the fact that out of the workforce of 4.8 million, around 2.8 million – or 60 per cent – have only a secondary education, which does not provide the necessary skills to master some kind of job. Moreover, around 355,000 people or 8 per cent have only a basic education. Meanwhile, the share of people with a vocational education is around 5.3 per cent. With secondary specialized education they make up around 15 per cent. People with a higher education total 769,900, making up around 16.5 per cent (Appendix 2.12). The biggest problem here is that around 1.4 million people with secondary or basic education are young people 15–34 years of age. This indicates that in a decade or so a large proportion of the population will be without real skills or competences. The number of people with a vocational education is very low. Lifelong learning will thus play a significant role in overcoming this problem.

One of the reasons behind the lack of skills among graduates is the low-quality of education in Azerbaijan, which does not equip graduates with the required skills. This low quality can be explained by the fact that most of the investment and expenditure in education are directed towards material things, such as the construction of new schools and equipment (Report.az, 2019). Such equipment does not enhance the quality of education, however. Anecdotal examples are abundant: for example, new computers were purchased for schools and connected to a high-speed internet, but the pupils were not allowed to use them (Aliyev et al., 2011). Given the lack of adequate skills, coupled with the low quality of education and labour market mismatches, various ministries have established their own universities to train skilled labour for the future. Thus, the Ministries of Emergencies, Tourism, Border Service, National Security and Customs have opened their own academies. The skills obtained at these institutions allow graduates to easily get jobs in the respective ministries. Overall, this tendency signals a capacity in Azerbaijan both to identify needs and to develop corresponding systems to overcome challenges.

This is also a problem, however, because such narrow specialization does not allow students to change their profile or place of work and it decreases workforce mobility. This is even more worrying because educational institutions are the key suppliers of skilled and qualified labour in Azerbaijan. Every year, graduates face a rapidly changing and very competitive employment sector. To increase their chances of employment, these graduates need to have certain soft skills, along with the core skills that are currently most valued by employers. However, these skills are not taught by institutions. Senior government officials emphasized at the OSCE's 26th Economic and Environmental Forum in 2018 that the fundamental questions that need to be answered concern the qualities that young people of tomorrow will need and how growth can be promoted beyond material improvement.

Investment in education nowadays has a much broader definition, linking skills with productivity (Consolidated summary, 2018).

All in all, although some data and reports are available, there is a lack of comprehensive research scrutinizing the quality of higher education output, in the form of readily employable graduates, placement rates and graduate income trends. These limited studies emphasize the paradox of graduates' difficulties finding work while there is growing demand for skilled employees (Sadirkhanov, 2009). Azerbaijan has not been subject to much research in this area. However, preliminary information makes it clear that currently higher education in Azerbaijan does not meet the skill requirements of the labour market.

Unemployment figures in Azerbaijan are not necessarily a true indication of reality. In order to see the real picture, experts and government policymakers need to use other criteria, most importantly in relation to the economically inactive. According to statistics, at the end of 2017, 2.1 million people were economically inactive (Appendix 2.14), approximately 500,000 more than 10 years previously. During the period 2008–18 the number of economically active people grew by 14.6 per cent, while the number of non-active people rose by half a million. Of this, around 733,000 – or 34 per cent – are men and 1.4 million (66 per cent) women. The biggest growth was observed among inactive women: over the past 10 years the number of inactive women has grown by 600,000. Also during this period the number of "stay-at-home" women increased from 330,000 to almost 620,000. It is worth mentioning that among the economically inactive, around 273,000 have a higher education, 269,000 a secondary education and 97,000 a vocational one. And it is interesting to observe that 55 per cent of the total inactive population resides in cities, the rest in rural areas, and their respective numbers growing over the past 10 years by 210,000 and 260,000 (Appendix 2.10).

Analysing the data presented in Appendix 2.14, we can see that the biggest chunk of economically inactive women (44 per cent) fall in the category "persons keeping house and taking care of children". The majority of these women are in the age ranges 20–24 and 55–64 (Appendix 2.15). These women have not had an opportunity to find work or their skills and qualifications are insufficient to compete in the labour market. This is further reflected in the educational level of inactive women overall: more than half of inactive women (55 per cent) have attained only a secondary education (State Statistical Committee). The next largest share of inactive women are pensioners by age and service years (30.6 per cent). The largest male inactivity categories are young people aged 15–24 (42 per cent) and pensioners, students or the disabled.

Unfortunately, the Azerbaijani Government does not provide information on NEETs (young people aged 20–34 not in employment, education or training), and the estimates presented here are based on Eurostat practice, with some inevitable errors. Thus, the number of people aged 20–34 in Azerbaijan is 2,630,000. Of these, the number in employment is around 1,852,000. That leaves 778,000 people. The number of students in higher education in Azerbaijan is around 167,000, although not all of them are necessarily in the 20–34 age group. We can assume, based on the fact that students graduate from secondary school at the age of 17–18 that students over age 20 are in their third or fourth year of bachelor degree. Taking into consideration years of admission we can assume their number to be 40,000–50,000. That means that around 700,000–720,000 people – around 23.5 per cent – aged 20–34 are unemployed or economically inactive (NEET). In 2017, the Government published some figures stating that the proportion of NEET young people (aged 15–24) was 23 per cent.

Data on self-employed people in Azerbaijan are also patchy. The State Statistics Committee has, for example, no clear definition of self-employment, although it does classify it under "non-state property", with reference to business ownership. There is also a discrepancy between the number of employed people in particular sectors and the number of people participating in them in some economic function. We can assume the difference comprises people who are either self-employed or undeclared employees. For example, the number of people involved in agriculture in 2017 in some capacity was 1,752,000, while another statistic shows the number of employees in 2017 as 49,400. This huge discrepancy could be attributed to the fact that the majority of people in agriculture are unregistered or self-employed. It is extremely difficult to keep track. The situation is similar in construction, trade and manufacturing, but quite different in mineral extraction, education, electricity supply and financial activities because these sectors are dominated by state entities or private enterprises with registered employees.

Overall, out of the 4.8 million economically active people, only 1.5 million wage workers were registered in 2018 as working in state-owned and non-state-owned enterprises. It would be wrong to attribute to the whole difference to self-employment or undeclared work, although, as vice-president of the Azerbaijan Trade Union Confederation Jamaladin Ismailov stated, the informal economy in Azerbaijan is so large because around 40 per cent of able-bodied citizens work illegally. According to the tax authorities, as of 2 March 2019 the number of registered taxpayers was only 988,158. This situation, in which the bulk of those working in agriculture are unregistered self-employed is extremely detrimental to Azerbaijan’s pension system, as well as the workers themselves. Many, as a consequence, are not covered by pension insurance and will be left with no income on top of the basic pension, which is scarcely above the subsistence minimum. These people account for most of the shadow economy, often cited as one of the scourges of the Azerbaijani economy.

In 2017, the shadow economy in Azerbaijan was estimated as accounting for 66.1 per cent of GDP. For 2016 the IMF estimated the shadow economy at AZN 40.22 billion out of a total GDP of AZN 67 billion. Previous studies, such as Friedrich Schneider's 2012 paper "The Shadow Economy and Work in the Shadow: What Do We (Not) Know?" also classified Azerbaijan as having one of the largest shadow economies as a share of GDP in the world, averaging 58 per cent between 1999 and 2007 (Schneider, 2012). The Minister of the Economy, in turn, said that the shadow economy had decreased to 34 per cent of GDP in 2016 from 40 per cent in 2015. He attributed the decline to the maintenance of relative macroeconomic stability, the renewal of economic growth, the improvement of the business climate due to deregulation and labour market legalization as a result of a lower social security tax.

Wages and employment

Average monthly nominal wages in Azerbaijan have been constantly increasing in nominal terms. By 2017 the average wage across all professions was AZN 528 (US$ 310). The differences between different professions are significant. For example, the average wage in agriculture was AZN 261 (US$ 153), while in the financial sector it was AZN 1,387 (US$ 815) and in mineral extraction it was as much as AZN 3,071 (US$ 1,800). The lowest wages were observed in health care and social care, at around AZN 222 (roughly US$ 130), education AZN 322 (US$ 190), agriculture AZN 261 (US$ 150), and arts and recreation AZN 268 (US$ 155) (Appendix 2.5). This wage is explained mainly in terms of labour costs: the cost of labour in mining is around US$ 14.6, in the financial sector it is US$ 6.5 and in construction it is US$ 4 (Appendix 2.6). Meanwhile, the cost of labour in education (US$ 1.6 per hour), health care (US$ 1.1) and agriculture (US$ 1.2) is extremely low. Another explanation of the wide wage discrepancy is the fact that most low-wage productive jobs are in the public sector. These sectors are traditionally considered poorly paid but secure jobs that allow a significant portion of the population who would otherwise find it difficult to obtain a foothold in the labour market to sufficient money to keep them out of poverty. In Azerbaijan, many citizens earn just above the poverty line and are vulnerable to falling back below it.

In 2017, almost 20 per cent of full-time workers earned less than AZN 150 per month (91 per cent of the minimum consumption basket), and more than 30 per cent earned between AZN 150 and AZN 300. According to household budget survey data, the incomes of more than half of the population are below AZN 250 a month (just AZN 85 above the poverty line). This is consistent with a World Bank report (World Bank Group, 2019) estimating the proportion of those at risk of poverty in Azerbaijan at 57 per cent. Therefore, the Government refrains from reforms in these sectors and from laying off employees, preferring to keep them on, even in low wage jobs. In most cases, these jobs are superfluous or could be streamlined (or eliminated). Thus, the privatization of health care institutions or shutting down museums or art centres would create a major headache for the Government, depriving a significant number of people of their livelihoods. It would also, of course, increase the number of poor people, raising the poverty level once again to what it was in the 1990s and risking the ignition of social tensions.

The Government's employment policy is oriented towards job creation all over the country in order to discourage people from migrating to urban areas to lift them from poverty. The Government emphasises job creation in the private sector but remains the largest employer and employment creator. Among other things, the Government creates short-term or seasonal work to ease social pressure. Thus, the decision to start mass cultivation of cotton was inspired by the desire to employ rural people in labour-intensive cultivation. Opening offices of various government agencies and ministries in the regions is another strategy. Finally, the army is also very important as a means of providing employment for the young unemployed, at least for a short period of time.

Gender and employment

There is substantial inequality between men and women in employment. Even in the formal or state sectors average monthly nominal wages for women are only 60 per cent of men's wages. This discrepancy is even bigger in certain industries. As regards monthly nominal wages in 2017, sectors in which women constitute the majority are the lowest paid. Education and health care, for example, have the lowest pay, even below agriculture. These sectors do not attract high quality staff, being left to people who are not motivated, not bread-winners in a family or have lower qualifications. We should also add that the shares of women in these low-paid jobs have increased over the past 12 years: in education from 69.7 to 73.8 per cent and in health care from 77.4 to 76.5 per cent – Appendix 2.3). A similar development has occurred in agriculture, in which the share of women grew from 17.9 per cent to 21.5 per cent. Even in these low-paid jobs, however, there is a gap between men and women, with most higher ranking positions occupied by men.

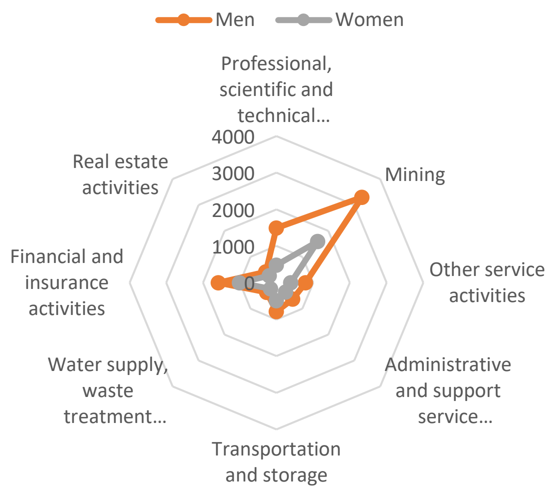
Low-paid sectors are traditionally dominated by women, who are considered less competitive workers. These positions have been considered "women's" sectors since Soviet times. The traditional division of sectors into women's or men's areas has served the purpose of absorbing women into less competitive sectors, with lower pay and requiring lower qualifications. Thus, in the Soviet period, education, the arts, commerce and to some extent agriculture absorbed women or were easy for women to enter. Having said that, this also established a tradition for women to go to university to train as specialists for these kinds of jobs. For example, the Pedagogical University, the University of Languages, the University of Arts and nursing schools were dominated by women. The education sector has traditionally been dominated by women and by 2017 the share of women in education was around 74 per cent, while in health care and social services the proportion is even slightly higher, at 75 per cent (Appendix 2.3).

This kind of gender discrimination creates a perpetual circle of problems, in which women dominate some sectors, while men dominate the others. It is difficult to move from one sector to another, especially for women, because it requires additional qualifications or highly competitive skills. For example, a woman graduating from a pedagogical university or who has trained as a teacher would not be able to work as anything else other than a teacher. Moreover, absence of enough employment places while universities overproduce specialists leads to a situation in which graduates are ready to take any job, such as sales clerks, receptionists, cashiers and so on.

In recent years, women have begun to account for a comparatively high share of employees in such sectors such as financial services and banking, human resource management, professional and technical activities. In some instances women retrained to become specialists in these areas. However, additional funding is required for retraining and job search. Due to the high investment in and state financing of many short-lived projects, such as the European Games, Formula 1 and Eurovision, thousands of women were able to find decently paid jobs and also to participate in the necessary training. As a result of the financial crisis of 2015, however, and the Government’s need to curtail many image-building projects, many women lost their jobs and went back to the traditional areas. Thus, short-lived Government-led initiatives were slowly beginning to change the labour market structure, but the crisis stopped this in its tracks.

Low wages in traditional women’s sectors naturally make women more vulnerable to changes in economic circumstances. The most important factor is of course pay. Traditionally, the wages in these sectors are low, too low for traditional male breadwinners. Furthermore, there are numerous barriers that prevent women from taking other jobs: a study conducted by UNESCAP[4] concludes that their major share of domestic and care responsibilities prevents women from actively participating in the labour force, limiting their ability to earn income. Traditions and norms further hamper women’s access to education and paid employment. As a result, a large proportion of employed Azerbaijani women are also still engaged in domestic and care or other informal or low-paid work.

Figure 7. Average monthly nominal wages and salaries of employees by economic activity in 2017



Source: State Statistical Committee of Azerbaijan Republic, Labour Market, https://www.stat.gov.az/source/labour/?lang=en

Meanwhile, families invest more in sons rather than in daughters, seeing them more likely to be able to financially support their parents in the future. Finally, there is an invisible gender wage gap in all sectors (Appendix 2.7). In general, in the economy as a whole, men are paid twice as much as women (or more in mineral extraction and professional activities), at AZN 663 (US$ 400) versus AZN 335 (US$ 200). Across all professions, men’s wages are

[4] Examining Women’s Economic Empowerment in SPECA Countries.

significantly higher than women's. The same picture can be seen in the non-state sector (Appendix 2.7 – see Figure 7). Meanwhile, women are generally paid more in the non-state sector than in the state sector, across all occupations. Indeed, in some professions women in the non-state sector receive higher wages than men in the state sector.

Future implications

The largest employment sectors in Azerbaijan – that is, public services – are funded through the budget. State expenditures in 2015–2017 increased by only 2–3 per cent, in comparison to double digit increases in previous years (SSC, 2019). In 2018, however, the Government increased its budget spending by 40 per cent, most of which went to increased wages and pensions. While in 2015 the Government spent around AZN 3.3 billion on the wages of public employees, in 2018 it grew to almost AZN 4.4 billion. In addition, in June 2019, the President signed a new decree that increases the minimum wage to AZN 250 (around US$ 150). This tendency is likely to continue, although the Government is trying to bring some private sector into the public sector. Thus, the ASAN service levies fees to finance itself. The Government is now also launching the DOST system, a one-stop-shop solution for speeding up, improving the efficiency of and expanding access to social services, with a focus on inclusion. Moreover, the Government is planning to introduce mandatory health insurance from 2020. This would moderate people's expenditure on health care, decrease the level of informal payments and improve the situation of health care employees.

As regards wage policy, the Government's priorities are to sooth social tensions and alleviate poverty arising because of devaluation, which began to have an impact only two or three years. The growth of wages and pensions cannot be attributed to economic sustainability, however, but rather to income tax reform and the narrowing of the informal economy. Under this reform, a tax holiday is granted for the wages of employees hired in the non-oil sector from January 2019 for a period of seven years. This extends to wages of up to AZN 8,000. Because of this and other reforms it is claimed that 66,000 new labour contracts were signed from the beginning of the year.

One problem here is that labour costs will continue to be the scourge of the public sector. Thus, labour costs for the economy as a whole in 2016 and 2017 were US$ 2.5 per hour, varying between sectors. Due to the low oil prices, the Government sharply decreased state spending on various projects, which also affected the private sector.

Economic challenges, structural transformation and future policy implications

Since 2016 Azerbaijan’s development has been dedicated to stabilizing the economy and getting to grips with the socio-economic situation. In March 2016, President Aliyev announced that the country was moving towards a new model of a non-oil economy and immediately began to implement that policy. In 2017, the President ordered the establishment of a special zone for free trade in the Alat settlement of the Garadagh district of Baku, including the new Baku International Sea Trade Port. Facing a new reality, the Government was looking for growth in industry and has tried to speed up the creation of favourable economic zones: industrial parks and industrial and agricultural districts. The Government has allocated funds to accelerate work on creating an industrial and technological park in Pirallahi. And in order to stimulate the stagnating construction sector, the State Agency for Housing was created in 2016. At the same time the Government has tried to expand the sources of foreign currency earnings, for example, from tourism and the agricultural sector. The past three years have also been marked by a keen interest in transit projects across the country and the launch of the Baku-Tbilisi-Kars railway was also intended to help diversify the economy.

In 2017–18 the Government began to pay serious attention to the agricultural sector. This was influenced by the opening up of the Russian market to Azerbaijani agricultural products, as well as by subsidies. The year 2016 was dubbed the Year of Agriculture, while 2017 was designated by the President as the Year of Reforms. Overall the attitude to reform has become more thorough and pragmatic. The Government understands that reforms cannot be carried out without the constant renovation of old institutions and the creation of new ones.

The Government began to take novel institutional steps after it became clear that a crisis was inevitable. In the sphere of management, this included the creation of the Financial Markets Supervisory Authority (FIMSA), the reform of customs and the tax system, the unification of a number of ministries and establishment of various legal entities in public law. Since 2017 some redundant ministries have been abolished, while others have been merged or reformed. Meanwhile, the social situation has continued to deteriorate. Any increase in household incomes continues to be offset by high inflation. From 2017, the retirement age began to be raised, which is always a problem in conditions of unemployment. Many problems faced by the budget, customs, the tax authorities and always unprofitable municipalities have been shifted onto the population.

Starting from early 2019, the Government has made a serious effort to replace the older generation of public officials, merging or liquidating some agencies, as well as initiating the establishment of new institutions. The main purpose behind most of the reforms was to optimize the public administration system, cutting the public sector wage bill, as well as making the system easier to manage. By the end of October, the President had implemented several other measures to restructure the system. Calling for the older generation to retire, he replaced two deputy-prime ministers, and merged the Ministry of the Economy with the Ministry of Taxes and the State Property Committee. In terms of structural reforms, the Government seems to be taking serious steps to reform Azerbaijan’s governance by reinvigorating personnel in key positions. It is hoped that these changes will lead to a certain degree of liberalization of the economy, the social sphere and politics. The experience of devaluation in 2015 and 2016 showed that the Government did not have a proper crisis management plan. Restructuring and reforming the public sector administration may also help to cope more effectively with such crises in future.

From early 2017, duties on the import of tobacco and alcoholic beverages were increased. In order somehow to ease social pressures, President Ilham Aliyev signed a decree in 2019 raising the minimum monthly wage by 40 per cent, to AZN 250. The growth of the minimum wage in Azerbaijan has affected around 950,000 people, 600,000 of whom work in the public sector. Raising the minimum wage to AZN 250 also made it possible to increase the average monthly wage in the sectors financed from the state budget, from an average of AZN 265 to AZN 367.

The economic progress over the following years demonstrated that the Azerbaijani Government was able to stimulate the economy and implement its intended goals, such as macroeconomic stability, attraction of foreign direct investments and development of the oil sector. Starting from 2011 Azerbaijan has shown a marked improvement in its governance indicators. The introduction of a “one-stop-shop" system and the easing of a number of procedural hurdles has decreased the time and cost needed to set up a business. The registration of new businesses has risen over the past decade. Serious reforms have also been implemented in the customs agency, significantly reducing informal practices, as well as making import/export operations easier.

Azerbaijan still faces several serious challenges, however, to the detriment of its economy. As in many countries of the former Soviet Union, small businesses are not well developed: Azerbaijan pays more attention to the development of large corporations. Often, government decisions taken for the benefit of large businesses make it impossible for other, smaller companies to compete. Despite the call from the President, for government bodies the development of small businesses is not priority. Thus, funding from the National Fund for Entrepreneurship Promotion goes mainly to large enterprises (85 per cent), leaving a mere 15 per cent to small and medium-sized businesses. The share of SMEs in budget revenues or GDP does not exceed 3–5 per cent. Most non-oil sector revenues come from large businesses. Even in agriculture, where most employment in Azerbaijan is concentrated, the Government encourages the creation of large agricultural enterprises as a means of diversifying the economy. Evidence that this is perhaps a mistaken approach is provided by the decision to reintroduce cotton cultivation in the regions, hoping that it may bring additional income and benefit people in rural areas. In fact, the initiative was not successful and the costs outweighed the revenues. In the regions, local authorities have been instructed to create jobs and workplaces, and they have tried to do so in the best Soviet traditions. Thus, there is anecdotal evidence that local governments are opening factories or industrial enterprises that employ more labour than needed. In fact, by using modern technology they could have use much less labour but due to the priority given to employment, they are ignoring economic principles. After a short period of time, such enterprises tend to be shut down and unemployment emerges again. Most of the jobs in these enterprises are seasonal or short-term.

Another hindrance to business in Azerbaijan is the presence of monopolies. In some cases no other company can import or produce a given product because custom offices or tax agencies do not allow it. After the 2015 crisis the Government seriously reformed the customs system, but the issue of monopolies has not been solved entirely. The President initiated amendments to the Criminal Code, which provides for punishment for monopolists for criminal conspiracy against competitors. The Code of Competition that would have implemented these regulations, however, was never adopted. Unregulated monopolies almost always suppress SMEs and hinder the entrance of foreign companies.

In October 2018 the Azerbaijani Government adopted the Strategy on Employment for 2019–30. One of its main aims was to meet objectives of the Sustainable Development Goals. One central aim of the Strategy is to raise the proportion of people not employed in agriculture to 80 per cent by 2030 instead of 49 per cent at the end of 2018. Moreover, by 2030 the Government plans to decrease the share of NEET young people (15–24 years of age) to 15 per cent, from 23 per cent in 2018. The share of government funding for employment programmes will also be increased from 0.01 per cent in 2018 to 0.1 per cent in 2030. In light of these targets it seems that the goal of a 4 per cent unemployment rate would not be too difficult for Azerbaijan because official employment is low and administrative resources sufficient. The biggest challenge would be to decrease the level of NEET unemployment and of inactivity. Low funding for employment programmes makes this difficult. Even the large-scale enterprises that the Government helps out with loans would not be able to absorb the unemployed in future. SMEs are needed for this purpose.

But another reason why Azerbaijan cannot diversify effectively is the low quality of labour. As already mentioned, only 14–15 per cent of the labour force have a higher education and most of them are specialized in non-competitive industries. The share of labour with vocational training is low and this hinders the production of competitive products for the world market. Most non-oil sector products are agricultural and exported mainly to the Russian Federation. Only a paltry share are exported to EU countries because of high EU agricultural standards. Meanwhile, the keen efforts of the Government to create a competitive economy have not yet borne fruit. From independence, Azerbaijan did not have the basis for creating a competitive economy. Low-skilled labour, outdated industries and a lack of direct access to world markets (geography) did not allow the economy to thrive. The country chose the oil and gas dependence for economic development, which made sense at that time. After 2005, however, when petrodollars began to flow into the country, the Government choose to invest them in short-term, “white elephant” projects and image building. Some funds were directed toward industry, but profit making still lies in the future.

Following the financial crisis of 2015 and the aftershock in 2016, the Government prepared the Strategic Roadmap of the National Economy, consisting of 12 directives and signed by President Aliyev in December 2016. The President tied this document to future large-scale reforms. The Government started to implement structural reforms trying to improve the efficiency of the state apparatus and reviving the non-oil business sector. It is interesting that international organizations have recognized Azerbaijan as among the 10 most reformist states worldwide (WB, 2018) and as one of the most competitive states in the world (WEF, 2018). Nevertheless, the Government has not deepened reforms and does not intend to do so. The economy remains unstable because businesses cannot expand or households develop. Instead, expansion or growth happens because of the government sector, budget expenditure and state projects. Because the Azerbaijan manat has more than halved in value, the Government has been able to fully insure itself against budget risks. Because most transfers from the Oil Fund are made in US dollars, devaluation was positive for the Government. For the businesses, the banking sector and households, however, it was highly detrimental.

Conclusion

Before implementing policies to try to help people to obtain decent work, the Government should identify the most vulnerable groups in the labour market. In the case of Azerbaijan due to the absence of a social safety net, a significant share of people could be considered vulnerable. The absence of health care insurance and long-term jobs, as well as the lack of spending on education make people spend most of their income on these services, which should be provided by the State. In addition, there are gender inequalities in the labour market, including a high share of women in the economically inactive population and low wages for women compared with men. More specifically, the Government should address the needs of the most vulnerable, including small farmers or rural people in small agriculture. Outside factors such as natural disasters, economic crises or border closures may affect them disastrously. Most are engaged in informal employment, do not receive substantial social benefits and, once they retire, receive only a basic pension.

Elderly people are another category that would specific attention to take into consideration the high level of disability among them. The average pension of AZN 234 is barely enough to cover the consumer basket without any spending on medicine. It goes without saying that significant health costs are associated with aging. In a country in which the out-of-pocket share of total health expenditure is very high, these payments prevent the elderly from seeking medical assistance in the first place, thus causing premature deaths or negatively affecting the quality of life.

The biggest problem for the Government in future is likely to be the high inactivity rate. The labour force participation rate overall has not risen above 66 per cent. The Government's efforts should thus be directed toward mobilizing the inactive labour force and providing them with decent jobs. For this purpose the Government should actively engage in stimulating SMEs as the largest sector of future employment. Moreover, the new jobs should be created in the private sector rather than in the public one. Finally, a coordinated and harmonized approach should be implemented to match the education sector with the labour market. In 2019 the Government further eased the burden on businesses that service the general public by allowing them to pay less tax. However, the share of vulnerable employment in Azerbaijan remained high, especially among women. The majority of jobs cannot be considered sustainable or long term, and are dependent on economic conditions in the country. This applies in particular to women. Furthermore, the share of vulnerable jobs has remained the same for the past five years without showing a sign of significant change. Another aspect of this vulnerability is that these people do not have insurance or access to the social safety net.

The Government also needs to change the structure of its economy and be able to rely more on sectors that do not suffer from price fluctuations. These sectors, in both the short and the long run, include transport (especially because of the North-South and OBOR initiatives); tourism, which has shown good growth for the past five years; communication; and trade. Tourism has been identified as a priority in strategic roadmaps because it may be among the sectors best able to generate jobs. Simplifying visa conditions after the currency crisis has helped to bring more tourists into the country and to boost the service sector. Tourist flow has especially benefited the regional population by creating more formal jobs in rural areas or regions outside Baku.

The Government needs to take a number of important actions to make the economy more competitive: beginning talks on WTO accession; obtaining guarantees from the EU on visa-free travel; and reaching an agreement with Russia, Turkey, Ukraine, Kazakhstan and others to guarantee free movement and working opportunities for Azerbaijani labour. This freedom would make it possible to relieve pressure on the domestic labour market, increase remittances and bring a large share of the population, especially in agriculture, out of poverty. Finally, the Government should not regulate the economy too heavily or invest in unprofitable sectors for the sake of creating short-term employment. The market itself should regulate what kinds of products and services are profitable, including agricultural products. The Government in turn should support the market and create the conditions for the development of these sectors. Overall, the next five years will be important for the Azerbaijani Government in its efforts to meet its commitments in relation to the Sustainable Development Goals.

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Appendices

Appendix 1.1: The Main Economic Indicators for the Period of 2000-2018

Indicator	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Real GDP (bn manats) *	6 974	7 427	8 128	8 957	9 786	12 523	16 839	21.1	23.3	25.6	26.7	26.3	26.9	28.4	29.2	29.4	28.5	28.5	28.9
Real GDP (bn USD)						13.24	18.86	24.59	28.36	31.85	33.27	33.30	34.24	36.21	37.23	28.65	17.86	16.56	17.0
Real GDP per capita (USD)	868.2	915.2	992.2	1 083	1 172	1 482	1 968	2 437	2 661	2 863	2 971	2 886.	2 907.	3 038	3 079.	3 062.	2 936	2 901	2 907
Real GDP Growth	6.2%	6.4%	9.4%	10.2%	9.2%	27.9%	34.4%	25.4%	10.5%	9.3%	4.6%	-1.6%	2.1%	5.8%	2.6%	0.6%	-3.1%	0.0	1.4%
GDP Production (at current prices):																			
Oil sector (%)	29.0	31.3	31.0	30.0	31.3	44.0	53.8	56.1	55.4	45.1	48.0	49.5	44.7	40.8	36.2	28.2	32.3	35.5	39.8
Non-oil Sector (%)	64.7	60.7	60.9	62.2	61.4	48.3	40.7	37.2	37.8	46.9	45.1	44.5	49.0	52.4	56.2	62.7	59.5	57.3	52.4
Taxes (%)	6.1	7.8	8.0	7.6	7.2	7.5	5.4	6.5	6.7	7.8	6.7	5.8	6.2	6.6	7.4	8.9	8.1	7.1	7.8
Budget income (bn USD)						2 172.7	4 347.7	7 001.5	13 098.8	12 846.4	14 207	19 881.9	21 998.0	24 852.9	23 458.1	16 716.9	10 966.4	9 555.5	13 183.1
Budget expenditures (bn USD)						2 63.14	4 245.21	7 063.18	12 999.03	13 147.42	14 659.86	19 494.36	21 773.93	24 405.28	23 838.99	17 334.37	11 117.49	10 218.68	13 364.06
Budget deficit to GDP						-0.7	0.5	-0.2	0.2	-0.7	0.9	0.6	0.3	0.6	-0.5	-1.2	-0.4	-1.6	-0.4
Inflation, average consumer prices	1.8%	1.8%	2.7%	2.1%	6.6%	9.4%	8.3%	16.6%	20.8%	1.4%	5.7%	7.8%	1.0%	2.4%	1.5%	4.1%	12.5%	13.0%	3.5%
Interest Rates (%)	10	10	10	7	7	9.0	9.5	13	8	2	3	5.3	5	4.75	3.5	3	15	15	9.75
Poverty level		49%	46.6%	44.7%	40.2%	29.3%	20.8%	15.8%	13.2%	10.9%	9.1%	7.6%	6.0%	5.3%	5.0%	4.9%	5.9%	5.4%	
Gini Coefficient **		36.5	17.4	18.8	16.2	16.6	31.8		31					33.7					
Current account balance	-3.5	-0.9	-12.3	-27.7	-29.8	1.2	17.6	27.2	33.5	22.9	28.4	25.9	21.4	16.6	13.8	-0.4	-3.6	4.1	-3.5

Indicator	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
(% of GDP)																			
General government gross debt (% of GDP)	22.8%	24.3%	23.0%	21.8%	19.9%	13.4%	10.5%	8.3%	6.9%	12.3%	12.5%	11.2%	13.7%	12.6%	14.3%	34.9%	50.7%	54.0%	48.3%
Growth of GDP per capita (SDG 8.1.1)	5.2%	5.4%	8.4%	9.2%	8.2%	26.5%	32.8%	23.7%	9.0%	8.1%	3.4%	-2.7%	0.9%	4.2%	1.5%	-0.5%	-4.2%	-1.2%	0.2%
Foreign Direct Investments (m USD)	664.1	899.8	2 011.6	3 017.8	4 192.2	4 029.8	3 790.7	4 442.1	3 844.8	3 037.1	3 614.9	4 293.8	5 384	5 976	8 049.2	7 483.1	7 323.4	5 713	
Oil sector	546.1	820.5	966	2 972.4	4 088	3 799.3	3 422.3	4 003	3 350.7	2 412.7	2 955.3	3 407.8	4 288	4 935	6 730.7	6 622.7	5 617.4	4 900	
Non-oil sector	118	79.3	45.6	45.4	104.2	230.5	368.4	439.1	494.1	624.4	659.6	886	1096	1041	1318.5	860.4	1706	813	

* In constant prices. Base year: 2005

** Gini Coefficient in average for years 2010-2017 was 16.6 (Human development Index)

*** The National Accounts indicators are calculated based on NASE classification.

Sources: State Statistical Committee of Azerbaijan Republic, System of National Accounts https://www.stat.gov.az/source/system_nat_accounts/?lang=en; Central Bank of Azerbaijan Republic, Statistics https://www.cbar.az/page-39/statistics; International Monetary Fund, Azerbaijan https://www.imf.org/external/pubs/ft/weo/2018/02/weodata/weoselco.aspx?g=901&sg=All+countries+%2f+Emerging+market+and+developing+economies+%2f+Commonwealth+of+Independent+States

Appendix 1.2: Real GDP Growth by Selected Sectors

Sector	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Agriculture	4.94%	18.80%	-7.79%	19.87%	-5.36%	-10.03%	3.82%	10.42%	1.54%	16.84%	-12.02%	2.15%
Mining	62.07%	32.62%	8.53%	-11.93%	13.58%	2.32%	-7.97%	-3.78%	-10.39%	-22.41%	12.69%	13.04%
Manufacturing	19.65%	8.51%	4.28%	28.67%	-10.03%	-17.61%	9.02%	5.12%	14.37%	6.68%	-4.21%	-2.62%
Electricity, gas and steam production, distribution and supply	17.44%	86.57%	45.52%	9.06%	-8.54%	76.07%	19.00%	1.85%	-1.69%	-25.60%	-10.25%	-17.14%
Water supply, waste treatment and disposal	66.67%	3.72%	8.97%	-1.84%	-38.36%	15.11%	-2.76%	36.73%	0.99%	12.19%	-0.71%	-4.75%
Construction	15.23%	4.91%	19.72%	12.67%	18.47%	-3.93%	29.73%	22.02%	11.47%	-4.80%	-14.89%	-7.58%
Trade: repair of transport means	18.87%	15.70%	22.46%	33.81%	0.67%	-3.83%	8.54%	12.99%	13.24%	26.46%	1.26%	2.36%
Transportation and storage	20.87%	51.91%	0.47%	43.95%	-13.27%	-10.43%	-1.19%	-5.10%	4.41%	33.28%	9.71%	1.82%
Accommodation and food service activities	28.43%	32.12%	47.57%	40.03%	13.35%	36.49%	15.60%	18.56%	19.87%	12.95%	-5.34%	0.87%
Information and communication	23.79%	7.14%	2.20%	33.37%	4.07%	-16.44%	11.21%	6.54%	6.88%	10.90%	-15.11%	-5.76%
Financial and insurance activities	28.75%	43.35%	29.16%	32.42%	-42.99%	15.76%	47.39%	16.25%	22.97%	12.32%	-14.48%	-7.88%
Real estate activities	79.16%	0.06%	63.86%	80.10%	11.76%	-5.26%	14.77%	25.41%	22.32%	37.84%	-12.87%	-4.95%
Professional, scientific and technical activities	42.92%	0.31%	21.44%	49.59%	-30.37%	10.27%	9.80%	17.22%	6.25%	12.44%	-13.12%	-5.52%
Administrative and support service activities	35.45%	24.62%	13.40%	45.34%	-7.80%	-2.71%	3.41%	21.26%	7.77%	5.81%	-12.78%	-2.88%
Public administration and defence; social security	16.30%	-36.97%	26.08%	57.68%	-1.78%	8.61%	5.17%	16.85%	12.44%	12.99%	-10.99%	0.06%
Education	24.47%	42.38%	19.38%	42.95%	-3.27%	-10.77%	4.03%	10.35%	3.43%	9.43%	-14.76%	-6.30%
Human health and social work activities	29.40%	-21.20%	59.38%	68.60%	-9.26%	-16.05%	22.43%	12.83%	11.04%	9.64%	-16.95%	-7.17%
Arts, entertainment and recreation	10.12%	-7.22%	51.04%	117.11%	2.74%	1.68%	19.59%	17.59%	12.64%	12.09%	-22.54%	-3.91%
Other service activities	-9.61%	-27.29%	112.84%	117.58%	39.49%	-18.56%	4.29%	34.38%	5.80%	10.17%	-9.59%	-4.95%

Sources: State Statistical Committee of Azerbaijan Republic, System of National Accounts https://www.stat.gov.az/source/system_nat_accounts/?lang=en;
Central Bank of Azerbaijan Republic, Statistics https://www.cbar.az/page-39/statistics

Appendix 1.3: GDP by major expenditure components (%)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Household consumption expenditure	61.49	62.90	59.96	55.81	42.12	37.1	33.40	33.43	42.75	39.36	37.3	39.5	41.9	45.43	56.7	58.7	57.6
Government consumption expenditure	13.64	12.40	12.38	12.9	10.42	8.53	9.66	8.49	11.12	10.88	10.1	10.5	10.28	10.88	12.4	12.8	11.5
Gross fixed capital formation	22.88	34.08	52.88	57.71	41.30	29.70	21.39	18.57	18.81	18.16	20.2	22.5	25.79	27.43	27.8	25.0	23.6
Changes in inventories	-2.20	0.49	0.28	0.28	0.22	0.15	0.12	0.11	0.12	-0.10	0.1	-0.1	-0.13	0.079	0.1	0.6	0.5
Exports of goods and services	41.49	42.76	42.00	48.78	62.94	66.50	68.12	65.77	51.63	54.30	56.4	53.0	48.41	43.27	37.8	46.4	48.7
Import of goods and services	37.31	50.05	65.54	72.71	52.90	38.75	28.51	23.46	23.10	20.68	24.1	25.3	26.26	26.20	34.8	43.6	42.0

Sources: State Statistical Committee of Azerbaijan Republic, System of National Accounts, https://www.stat.gov.az/source/system_nat_accounts/?lang=en

Appendix 1.4: Dynamics of Import-Export Operations

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Volume of imports of goods and services (percentage change)	0.3%	10.1%	35.2%	26.3%	-5.1%	-2.2%	1.6%	7.2%	7.7%	-1.0%	-6.5%	31.9%	11.0%	14.1%	5.2%	11.1%	-3.3%	-4.3%	2.3%
Import: Share of product in overall import																			
Vegetables products	10.2	8.2	6.4	5.6	6.6	4.1	3.8	6.6	7.2	5.1	6.6	5.3	5.2	5.1	4.6	5.0	7.0	6.4	
Beverages, spirits and vinegar; tobacco	5.1	4.9	5.0	3.9	3.2	4.6	5.2	7.7	6.8	8.5	9.3	6.8	7.5	7.6	9.7	7.5	7.8	8.4	
Mineral products	9.8	17.3	19.5	13.6	14.4	15.2	14.8	5.3	4.7	2.8	3.2	2.4	3.2	3.3	4.9	2.4	3.9	4.7	
Chemical products	7.2	4.8	5.0	4.2	3.8	4.4	4.7	5.9	6.1	6.6	6.6	6.4	6.9	7.0	7.8	7.6	8.4	9.5	
Plastic and rubber	1.9	2.1	2.4	2.8	2.5	2.5	2.6	3.1	3.4	2.8	3.4	3.7	4.4	3.2	3.3	2.8	4.4	4.9	
metals	10.5	9.2	16.9	19.0	17.4	11.6	11.7	12.3	10.7	10.8	14.0	13.6	15.2	12.1	13.6	20.3	15.0	12.1	
Machinery	31.0	24.7	23.8	26.1	30.8	33.3	29.4	30.2	30.8	34.8	28.8	31.1	27.2	25.7	28.1	26.7	23.7	21.3	
Vehicles, and transport equipment	8.5	13.9	7.4	12.7	6.9	10.0	16.7	15.5	17.0	12.7	12.1	17.3	14.7	13.4	8.8	7.7	9.3	6.8	
Others	15.8	14.9	13.7	12.2	14.3	14.3	11.2	13.4	13.4	15.9	15.9	13.3	15.8	22.4	19.2	20.1	20.5	26.0	
Volume of exports of goods and services (percentage change)	5.1%	32.3%	9.9%	-0.3%	7.2%	42.0%	39.7%	45.9%	6.0%	8.2%	-1.5%	0.14%	-1.42%	-1.7%	-2.3%	10.7%	2.8%	-7.3%	-6.9%
Share of product in overall export																			
Vegetables	1.6	0.9	1.6	2.3	2.0	4.5	2.5	3.2	0.5	1.5	0.9	1.0	1.3	1.3	1.5	2.6	2.9	3.8	
Animals or vegetable fats and oils	0.2	0.1	0.2	1.6	1.3	1.6	1.0	1.4	0.3	0.9	0.9	0.7	0.9	1.0	0.9	1.2	0.1	0.1	
food-stuffs; beverages, spirit; tobacco	1.4	1.4	1.3	1.0	1.0	1.5	1.6	3.8	0.3	1.2	1.0	1.0	1.3	1.4	1.4	2.2	0.9	0.8	
Mineral products	85.1	91.5	88.9	86.0	82.2	76.8	84.6	81.5	97.1	92.8	94.2	94.5	93.2	92.8	92.5	88.0	91.4	89.8	
chemical products	2.1	0.9	1.6	2.0	2.1	3.0	3.0	1.5	0.2	0.2	0.2	0.5	0.7	0.2	0.3	0.6	0.4	0.6	
Textiles	2.3	0.8	1.2	1.6	1.3	1.3	1.0	1.0	0.1	0.3	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.6	
metals	1.8	0.8	2.4	2.1	2.7	2.4	2.3	3.0	0.8	0.8	0.6	0.9	0.9	0.8	0.6	1.0	1.7	1.8	
Machinery and mechanical appliances	1.8	1.6	1.4	1.3	0.6	0.6	0.6	0.8	0.1	0.2	0.2	0.2	0.2	0.2	0.3	0.5	0.3	0.4	
Vehicles, and transport equipment	2.0	0.4	0.2	0.3	4.0	6.3	1.3	1.7	0.3	1.2	0.8	0.0	0.2	0.4	0.0	0.0	0.5	0.1	
Others	1.7	1.5	1.1	1.8	2.8	2.0	2.1	2.2	0.3	0.9	1.0	1.0	1.1	1.6	2.2	3.5	1.6	2.2	

Source: State Statistical Committee of Azerbaijan Republic, Structure of Foreign Trade by Products, https://www.stat.gov.az/source/trade/?lang=en

Appendix 1.5: Sectoral Shares of Credit Extension to the Private Sector

Year	Total (m manats)	Total m USD	Expired (%)	Trade and service	Energy, mining, chemistry	Agriculture and processing	Real estate and construction	Industry and production	Transport and communication	Households	Loans to public organizations	Loans to state agencies	Other sectors
2005	1 441	1 523.2	4.7	25.1	12.6	6.8	5.7	5.8	8.9	27.0	0.0	0.6	0.8
2006	2 362	2 645.0	3.3	27.4	3.9	5.8	6.5	8.2	9.1	32.9	0.1	0.8	0.4
2007	4 681.8	5 456.6	2.1	25.5	6.5	4.2	6.7	6.6	10.0	35.4	0.1	1.4	0.6
2008	7 191.3	8 752.8	2.2	26.6	11.9	3.6	6.4	5.9	9.3	32.5	0.1	0.0	0.7
2009	8 407.5	10 459.6	3.6	21.8	18.1	4.7	6.9	6.4	6.2	27.7	0.0	0.0	0.7
2010	9 163.4	11 417.1	5.4	24.1	10.7	4.8	7.2	7.4	5.0	29.5	0.0	0.0	0.5
2011	9 850.3	12 473.4	6.4	27.9	2.9	4.7	8.9	5.9	4.2	33.7	0.0	0.0	0.5
2012	12 243.7	15 585.1	6.2	21.6	3.2	4.5	10.4	10.6	3.5	35.3	0.0	0.0	0.1
2013	15 422.9	19 662.0	5.1	14.4	1.9	4.8	15.3	9.8	3.3	40.3	0.0	0.0	1.5
2014	18 542.6	23 639.2	5.3	14.5	1.1	4.6	13.8	10.9	4.0	44.0	0.0	0.0	1.2
2015	21 730.4	21 177.6	6.9	14.4	1.5	2.3	14.1	9.0	6.7	38.6	0.1	0.0	1.2
2016	16 444.6	10 304.2	9.0	15.0	3.6	2.7	11.6	7.7	7.7	35.6	0.2	0.0	1.1
2017	11 757.8	6 831.9	13.8	17.6	2.7	3.3	4.6	5.3	9.6	39.2	0.5	0.0	1.2

Source: Central Bank of Azerbaijan Republic, Statistics https://www.cbar.az/page-39/statistics

Table 1.6: Selected SDG Goals and Indicators

Indicators	2013	2014	2015	2016	2917	2018	Source
8.1.1 Annual growth rate of real GDP per capita		1.5%	-0.1%	-4.1%	-1.3%	0.5%	Azstat
GDP per capita (constant 2010 US$)	5982	6073	6064	5813	5740	5769	Azstat
8.2.1 Annual growth rate of real GDP per employed person		0.1%	-0.6%	-4.9%	-1.3%	1.6%	Azstat
GDP per person employed (constant 2011 PPP $)	35099	35120	34905	33202	32779	33307	Azstat
8.3.1 Proportion of informal employment in non-agriculture employment, by sex							
Firms competing against unregistered firms (% of firms)	19.1						WDI
Vulnerable employment, total (% of total employment)	56.4	57.0	55.5	55.1	55.2	55.0	WDI
Vulnerable employment, total (% of total employment) - female	62.1	63.0	64.1	62.0	62.2	62.0	WDI
Vulnerable employment, total (% of total employment) - male	51.1	51.3	47.3	48.5	48.7	48.5	WDI
Wage and salaried workers, female (% of female employment) (modelled ILO estimate)	29	29	27	27	27	27	WDI
Wage and salaried workers, male (% of male employment) (modelled ILO estimate)	38	37	37	36	36	36	WDI
Wage and salaried workers, total (% of total employment) (modelled ILO estimate)	33	33	32	32	32	32	WDI
Self-employed, female (% of female employment) (modelled ILO estimate)	71	71	73	73	73	73	WDI
Self-employed, male (% of male employment) (modelled ILO estimate)	62	63	63	64	64	64	WDI
Self-employed, total (% of total employment) (modelled ILO estimate)	67	67	68	68	68	68	WDI
Contributing family workers, female (% of female employment) (modelled ILO estimate)	42	42	43	41	41	41	WDI
Contributing family workers, male (% of male employment) (modelled ILO estimate)	28	28	25	26	26	26	WDI
Contributing family workers, total (% of total employment) (modelled ILO estimate)	35	35	34	33	33	33	WDI

Indicators	2013	2014	2015	2016	2917	2018	Source
8.5.1 Average hourly earnings of female and male employees, by occupation, age and persons with disabilities (manats)							
Average hourly earnings - total			3	3.2	3.4		Azstat
Average hourly earnings - female			2	2.1	2.3		Azstat
Average hourly earnings - male			3.6	4	4.2		Azstat
Average hourly earnings - disabled people							
8.5.2 Unemployment rate, by sex, age and persons with disabilities							
Unemployment, total (% of total labor force) (modelled ILO estimate)	5.0	4.9	5.0	5.0	5.0	5.2	WDI
Unemployment, total (% of total labor force) (national estimate)	5.1	4.9	4.9	5.0	5.0		WDI
Unemployment, youth female (% of female labor force ages 15-24) (modelled ILO estimate)	15.7	15.7	15.6	15.6	15.6	15.5	WDI
Unemployment, youth male (% of male labor force ages 15-24) (modelled ILO estimate)	11.5	11.4	11.3	11.4	11.3	12.2	WDI
Unemployment, youth total (% of total labor force ages 15-24) (modelled ILO estimate)	13.5	13.4	13.3	13.4	13.3	13.7	WDI
Unemployment, total (% of total labor force)			5.0	5.0	5.0	4.9	Azstat
Unemployment, total (% of total labor force) - female			5.9	6.0	5.9	5.8	Azstat
Unemployment, total (% of total labor force) - male			4.1	4.2	4.1	4.1	Azstat
Unemployment- disabled people							
Labor force participation rate (% ages 15 and older)	64.6	65.1	65.5	66.3	66.1		HDR
Labor force participation rate (% ages 15 and older), female	61.3	61.9	62.5	63	62.9		HDR
Labor force participation rate (% ages 15 and older), male	68	68.4	68.7	69.7	69.5		HDR
Vulnerable employment	56.5	57	55.5	55.1	56.1		HDR
Youth unemployment rate (female to male ratio)	1.17	1.18	1.18	1.08	1.01		HDR

Indicators	2013	2014	2015	2016	2917	2018	Source
8.7.1 Proportion and number of children aged 5-17 years engaged in child labor, by sex and age	N/A	N/A	N/A	N/A	N/A	N/A	
Children in employment, total (% of children ages 7-14)	N/A	N/A	N/A	N/A	N/A	N/A	
Children in employment, unpaid family workers (% of children in employment, ages 7-14)	N/A	N/A	N/A	N/A	N/A	N/A	
Children in employment, work only (% of children in employment, ages 7-14)	N/A	N/A	N/A	N/A	N/A	N/A	
Children in employment, total (% of children ages 5-14)			4.5	4.5	4.5		UNESCO
Children working in agriculture (out of all working children)					91.9		UNESCO
Combining work and school (7aged 7 to 14), of all school-aged children			4.9	4.9	4.9		UNESCO

Appendix 2.1: The Main Economic Indicators for the Period of 2000-2018

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Population (000)	8 032.8	8 114.3	8 191.4	8 269.2	8 349.1	8 447.4	8 553.1	8 666.1	8 779.9	8 922.4	8 997.6	9 111.1	9 235.1	9 356.5	9 477.1	9 593.0	9 705.6	9 810.0	9 898.1
Population Growth	1.0%	1.0%	1.0%	0.9%	1.0%	1.2%	1.3%	1.3%	1.3%	1.6%	0.8%	1.3%	1.4%	1.3%	1.3%	1.2%	1.2%	1.1%	0.9%
Labor force (000)	4 685.8	4 890.5	4 896.2	4 923.0	5 021.2	5 421.3	5 568.5	5 701.6	5 816.8	5 816.8	6 015.0	6 101.2	6 166.9	6 230.7	6 284.8	6 335.9	6 350.4	6 408.1	
Including number of able-bodied population in working age*	4 530.8	4 736.0	4 740.6	4 767.1	4 865.1	5 304.0	5 444.1	5 569.6	5 681.2	5 773.3	5 875.7	5 974.6	6 042.0	6 102.6	6 150.3	6 198.7	6 207.0	6 262.2	
Persons older of working age occupied in economy	142.8	142.2	142.6	142.7	142.8	103.8	110.6	118.9	125.5	133.9	133.1	126.6	124.9	128.1	134.5	137.2	143.4	145.9	
Teenagers occupied in economy	12.2	12.3	13.0	13.2	13.3	13.5	13.8	13.1	10.1	8.5	6.2								
Fertility rate	2.0	1.8	1.8	1.9	2.1	2.3	2.3	2.3	2.3	2.3	2.3	2.4	2.3	2.2	2.2	2.1	2.0	1.9	
Economically active population * *(000)	4 370.2	4 368.1	4 369.7	4 373.5	4 365.6	4 380.1	4 402.0	4 443.3	4 477.7	4 531.9	4 587.4	4 626.1	4 688.4	4 757.8	4 840.7	4 915.3	5 012.7	5 073.8	
Women	2 107.2	2 101.0	2 099.9	2 100.6	2 100.5	2 111.3	2 118.6	2 130.2	2 161.9	2 217.9	2 257.7	2 271.4	2 293.1	2 321.8	2 365	2 404.5	2 439.5	2 464.8	
Men	2 263.0	2 267.1	2 269.8	2 272.9	2 265.1	2 268.8	2 283.4	2 313.1	2 315.8	2 314.0	2 329.7	2 354.7	2395.3	2436	2 475.7	2 510.8	2 573.2	2 609.0	
Employed persons (000)	3 855.5	3 891.4	3 931.1	3 972.6	4 016.9	4 062.3	4 110.8	4 162.2	4 215.5	4 271.7	4 329.1	4 375.2	4 445.3	4 521.2	4 602.9	4 671.6	4 759.9	4 822.1	
Women	1 839.0	1 858.8	1 881.9	1 905.9	1 931.6	1 957.6	1 984.4	2 013.0	2 042.1	2 071.9	2 101.7	2 125.2	2 153.5	2 183.7	2 226.8	2 263.4	2 294.2	2 319.3	
Men	2 016.5	2 032.6	2 049.2	2 066.7	2 085.3	2 104.7	2 126.4	2 149.2	2 173.4	2 199.8	2 227.4	2 250.0	2 291.8	2 337.5	2 376.1	2 408.2	2 465.7	2 502.8	
Unemployed persons ** (000)	514.7	476.7	438.6	400.9	348.7	317.8	291.2	281.1	262.2	260.2	258.3	250.9	243.1	236.6	237.8	243.7	252.8	251.7	
Women	268.2	242.2	218.0	194.7	168.9	153.7	134.2	117.2	119.8	146.0	156.0	146.2	139.6	138.1	138.2	141.1	145.3	145.5	
Men	246.5	234.5	220.6	206.2	179.8	164.1	157.0	163.9	142.4	114.2	102.3	104.7	103.5	98.5	99.6	102.6	107.5	106.2	
Unemployment rate (%)						7.3					5.6			5.0	4.9	5.0	5.0	5.0	
Male						7.2					4.4			4.0	4.0	4.1	4.2	4.1	
Fmale						7.3					6.9			5.9	5.8	5.9	6.0	5.9	

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Persons received official unemployment status (000)						56.3					39.0			36.2	28.7	28.9	33.0	38.5	
Women						29.1					17.0			15.0	11.3	11.2	12.6	14.0	
Men						27.2					22.0			21.2	17.4	17.7	20.4	24.5	

* Population in working age – in 2005 - men 15-61 years old, woman 15-56; in 2010 - men 15-61,5 years old, woman 15-56,5; in 2013 – men 15-62 years old, woman 15-58; in 2014 – men 15-62 years old, woman 15-58,5 years old, in 2015-2016 – men 15-62 years old, woman 15-59; in 2017 - men 15-62,5 years old, women 15-59,5 years old.

** Calculated taking into account total unemployed during 2005-2017 based on İnternational Labor Organization's methodology.

*** Based on International Labor Organization's methodology (including unemployed persons receiving official status).

Sources: The State Statistical Committee of Azerbaijan Republic. Labor Market, Main Socio-Economic Indicators of Labor Market, https://www.stat.gov.az/source/labour/?lang=en

Appendix 2.2: Number of Employed People by Economic Activities. Raw Numbers. Real numbers

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
On economy, total (000)	3 855.5	3 891.4	3 931.1	3 972.6	4 016.9	4 062.3	4 110.8	4 162.2	4 215.5	4 271.7	4 329.1	4 375.2	4 445.3	4 521.2	4 602.9	4 671.6	4 759.9	4 822.1
Agriculture, forestry and fishing	39.1%	39.1%	38.9%	38.9%	38.6%	38.7%	38.5%	38.4%	38.2%	38.1%	38.2%	37.9%	37.7%	37.1%	36.8%	36.4%	36.3%	36.4%
Mining	1.1%	1.0%	1.0%	1.1%	1.0%	1.0%	1.1%	1.1%	1.0%	1.0%	1.0%	0.9%	0.9%	0.9%	0.9%	0.8%	0.8%	0.8%
Manufacturing	4.9%	4.8%	4.9%	4.8%	4.9%	4.9%	4.9%	5.0%	5.0%	5.0%	4.8%	4.8%	4.9%	5.0%	4.9%	4.9%	5.1%	5.2%
Utility production, distribution and supply	0.7%	0.7%	0.7%	0.6%	0.6%	0.7%	0.8%	0.8%	0.8%	0.7%	0.7%	0.7%	0.7%	0.7%	0.6%	0.6%	0.6%	0.6%
Water supply; waste treatment and disposal	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.7%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.5%	0.6%	0.6%
Construction	4.9%	4.9%	5.0%	5.1%	5.2%	5.2%	5.3%	5.3%	5.4%	5.4%	6.6%	7.1%	7.2%	7.2%	7.3%	7.2%	7.2%	7.2%
Trade; repair of transport means	15.9%	15.9%	15.7%	15.8%	15.7%	15.6%	15.8%	15.8%	15.9%	15.9%	14.5%	14.5%	14.6%	14.7%	14.8%	14.8%	14.7%	14.6%
Transportation and storage	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.1%	4.2%	4.1%	4.1%	4.0%	4.2%	4.2%	4.2%
Accommodation and food service	0.5%	0.5%	0.5%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	1.1%	1.1%	1.1%	1.1%	1.2%	1.3%	1.4%	1.5%
Information and communication	0.7%	0.7%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%
Financial and insurance activities	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.5%	0.5%	0.5%	0.5%	0.6%	0.6%	0.6%	0.7%	0.7%	0.7%	0.6%	0.6%
Real estate activities	2.0%	2.0%	2.1%	2.1%	2.1%	2.0%	2.0%	2.0%	2.0%	2.0%	1.6%	1.6%	1.7%	1.8%	1.9%	1.9%	1.8%	1.8%
Professional, scientific and technical activities	1.0%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.2%	1.2%	1.3%	1.3%	1.4%	1.5%
Administrative service	0.7%	0.7%	0.7%	0.9%	0.8%	1.0%	0.9%	0.8%	0.8%	0.9%	1.1%	1.1%	1.1%	1.2%	1.2%	1.2%	1.2%	1.2%
Public administration and defence; social security	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%	6.4%	6.4%	6.3%	6.2%	6.2%	6.1%	6.0%	5.9%
Education	8.6%	8.6%	8.8%	8.6%	8.7%	8.5%	8.3%	8.4%	8.4%	8.5%	8.1%	8.0%	7.9%	8.1%	8.0%	8.0%	7.9%	7.8%
Human health and social work activities	4.7%	4.7%	4.7%	4.6%	4.6%	4.6%	4.6%	4.6%	4.6%	4.7%	3.9%	3.8%	3.7%	3.8%	3.8%	3.9%	3.9%	3.9%
Art, entertainment and recreation	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.4%	1.4%	1.4%	1.4%	1.5%	1.5%	1.6%	1.7%
Other service activities	2.3%	2.3%	2.3%	2.2%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%	2.9%	3.0%	3.1%	3.1%	3.1%	3.3%	3.3%	3.2%

Sources: The State Statistical Committee of Azerbaijan Republic. Labor Market. Employment. https://www.stat.gov.az/source/labour/?lang=en

Appendix 2.3. Share of Women in General Quantity of Employees by Economic Activities

Economic activity	2005	2010	2013	2014	2015	2016	2017
On economy, total	45.6	43.1	42.0	41.8	41.2	41.3	41.1
Agriculture, forestry and fishing	17.9	18.9	22.6	22.3	21.0	20.7	21.5
Mining	17.5	12.4	13.0	13.5	13.2	13.3	13.8
Manufacturing	31.8	28.3	25.1	24.4	23.5	23.6	27.8
Electricity, gas and steam production, distribution and supply	17.6	14.2	14.8	15.1	14.5	11.8	11.3
Water supply; waste treatment and disposal	38.7	36.3	34.5	34.8	33.3	32.1	31.8
Construction	8.4	7.3	6.5	6.6	7.5	7.2	7.1
Trade; repair of transport means	35.8	31.3	32.7	29.0	24.9	24.6	24.6
Transportation and storage	21.9	17.9	18.4	18.8	17.8	16.9	17.4
Accommodation and food service activities	34.0	27.3	23.8	29.6	30.7	30.5	30.8
Information and communication	34.5	33.3	32.1	31.1	29.7	31.1	30.8
Financial and insurance activities	36.6	34.6	33.4	32.9	32.9	33.2	33.9
Real estate activities	44.3	51.1	45.5	45.1	44.2	42.1	40.6
Professional, scientific and technical activities	39.4	39.1	44.7	40.5	44.6	45.8	45.1
Administrative and support service activities	39.7	29.6	23.3	24.2	27.1	29.0	29.9
Public administration and defence; social security	31.0	29.1	28.7	29.3	30.5	28.7	27.6
Education	69.7	67.7	70.9	72.2	71.4	73.3	73.8
Human health and social work activities	77.4	76.5	78.3	79.4	76.6	77.0	76.5
Art, entertainment and recreation	65.7	64.1	62.8	63.2	63.6	62.5	63.1
Other service activities	35.4	33.6	28.6	29.5	30.9	32.5	34.2

Sources: The State Statistical Committee of Azerbaijan Republic. Labor Market. Employment. https://www.stat.gov.az/source/labour/?lang=en

Appendix 2.4: Share of People Working in Public and Private Sectors.

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Number of employed people (000)	3 855.5	3 891.4	3 931.1	3 972.6	4 016.9	4 062.3	4 110.8	4 162.2	4 215.5	4 271.7	4 329.1	4 375.2	4 445.3	4 521.2	4 602.9	4 671.6	4 759.9	4 822.1
including by property forms (%)																		
State	33.2	31.9	30.3	29.7	30.1	30.3	30.9	29.7	29.5	26.9	26.4	26.1	26.0	25.9	25.6	25.2	24.6	24.0
Non-state	66.8	68.1	69.7	70.3	69.9	69.7	69.1	70.3	70.5	73.1	73.6	73.9	74.0	74.1	74.4	74.8	75.4	76.0

Sources: The State Statistical Committee of Azerbaijan Republic. Labor Market. Employment. https://www.stat.gov.az/source/labour/?lang=en

Appendix 2.5: Average Monthly Nominal Wages and Salaries by Statistical Classification of Economic Activities

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
On economy, total	44.3	52.0	63.1	77.4	99.4	123.6	149.0	215.8	274.4	298.0	331.5	364.2	398.4	425.1	444.5	466.9	499.8	528.5
Agriculture, forestry and fishing	13.6	15.1	17.9	23.0	29.8	41.6	52.5	86.7	114.5	134.3	160.3	196.4	201.1	217.9	241.3	245.8	253.8	261.5
Mining	162.9	217.2	258.1	389.0	451.3	507.3	636.8	851.2	1008.2	992.8	1004.7	1180.4	1402.0	1516.3	1753.8	2171.1	2807.2	3071.9
Manufacturing	56.9	58.0	69.9	89.1	98.3	115.9	141.0	190.4	251.7	267.5	320.5	354.5	398.8	439.3	495.4	527.9	542.9	554.0
Electricity, gas and steam production	64.3	69.9	75.8	90.5	110.4	134.6	164.1	226.6	314.9	322.7	349.4	413.4	443.7	467.2	489.3	513.2	504.7	547.8
Water supply; waste treatment and disposal	23.7	26.9	30.5	41.3	51.7	64.4	80.8	135.6	182.6	189.9	197.7	231.9	274.8	324.9	331.8	333.3	321.4	324.6
Construction	83.8	87.2	105.8	154.4	218.2	233.3	293.2	372.3	398.4	440.6	505.8	519.4	587.5	625.5	626.9	677.7	812.9	783.3
Trade; repair of transport means	24.0	30.0	92.7	96.9	117.8	120.0	129.1	173.5	211.5	215.2	282.8	335.2	343.7	363.8	374.0	378.1	382.3	385.6
Transportation and storage	51.4	58.4	66.1	78.1	98.8	124.6	157.2	226.6	300.0	349.2	395.1	446.8	511.5	536.3	530.3	575.8	649.3	733.9
Accommodation and food service activities	62.0	72.9	96.8	101.7	112.6	157.9	164.6	212.3	265.4	297.9	333.7	385.0	404.6	444.6	463.9	464.6	476.1	511.2
Information and communication	86.6	96.2	106.9	171.1	188.0	204.8	223.0	364.2	465.6	496.7	531.3	576.6	621.9	675.4	735.0	747.2	782.0	870.6
Financial and insurance activities	126.5	157.4	209.6	196.0	217.3	311.7	535.5	707.8	785.4	812.8	990.2	1004.5	1055.5	1126.4	1198.8	1210.9	1229.2	1387.7
Real estate activities	32.2	33.2	34.2	34.7	40.8	56.3	77.7	104.9	147.2	175.8	168.1	228.3	255.6	293.9	308.2	308.2	337.0	354.6
Professional, scientific and technical activities	115.1	137.0	162.8	202.5	256.3	324.4	410.5	556.2	596.1	585.3	592.2	600.0	620.7	667.1	669.7	752.4	886.5	1032.7
Administrative and support service activities	32.8	47.6	68.9	373.9	410.8	448.5	489.8	534.2	477.9	456.9	526.7	535.1	563.2	583.9	566.6	542.6	543.6	547.8
Public administration and defence	38.9	42.2	51.0	63.0	86.8	133.9	157.8	209.1	287.0	350.1	376.5	402.7	452.6	455.0	479.6	494.7	510.6	534.5
Education	31.2	31.5	33.8	42.3	51.3	66.0	79.6	145.4	214.4	260.0	271.8	283.4	287.3	293.6	298.0	301.1	307.0	322.2
Human health and social work	14.7	14.8	18.0	21.9	29.6	45.2	69.6	94.2	130.1	154.1	155.2	164.0	175.1	181.6	197.8	204.2	214.8	222.5
Art, entertainment and recreation	18.4	20.0	21.8	33.8	41.8	51.4	63.2	103.8	143.5	204.2	208.4	211.0	211.3	220.6	250.1	252.7	258.9	268.4
Other service activities	46.6	50.7	55.2	47.3	59.9	75.8	96.0	155.3	227.8	250.5	280.3	331.8	367.6	377.6	400.2	441.9	473.4	662.6

Sources: The State Statistical Committee of Azerbaijan Republic. Labor Market. Employment. https://www.stat.gov.az/source/labour/?lang=en

Appendix 2.6: Labour Costs per 1 Hour by Economic Activities (in USD)

Economic activity	2016	2017
On economy, total	2.5	2.5
Agriculture, forestry and fishing	1.2	1.2
Mining	14.6	14.4
Manufacturing	2.8	2.6
Electricity, gas and steam production, distribution and supply	2.6	2.6
Water supply; waste treatment and disposal	1.6	1.5
Construction	3.9	3.6
Trade; repair of transport means	1.8	1.7
Transportation and storage	3.3	3.5
Accommodation and food service activities	2.4	2.4
Information and communication	3.9	4.0
Financial and insurance activities	6.0	6.3
Real estate activities	1.6	1.6
Professional, scientific and technical activities	4.3	4.8
Administrative and support service activities	2.6	2.6
Public administration and defense; social security	2.5	2.5
Education	1.6	1.6
Human health and social work activities	1.1	1.1
Art, entertainment and recreation	1.3	1.2
Other service activities	2.3	3.0

Sources: The State Statistical Committee of Azerbaijan Republic. Labor Market. Employment. https://www.stat.gov.az/source/labour/?lang=en

Appendix 2.7: Average Monthly Nominal Wages of Males and Females by Types of Economic Activity in 2017

Economic activity	Total male	Total Female	including:			
			State Male	State Female	Non-state Male	Non-state Female
On economy, total	663.1	335.7	509.8	296.1	792.4	455.9
Agriculture, forestry and fishing	260.4	265.4	210.3	194.2	361.5	311.3
Mining	3297.1	1591.6	1312.7	774.1	4589.7	2129.1
Manufacturing	598.7	412.4	746.4	507.9	568.9	387.8
Electricity, gas and steam production, distribution	561.0	447.4	561.7	445.7	527.5	526.1
Water supply; waste treatment and disposal	370.0	229.8	306.5	215.1	933.9	469.2
Construction	800.4	561.7	537.7	376.0	902.3	659.2
Trade; repair of transport means	406.3	323.4	349.3	253.3	406.6	323.8
Transportation and storage	785.6	484.2	769.3	440.5	821.2	649.9
Accommodation and food service activities	543.6	440.6	774.6	702.3	532.7	429.7
Information and communication	936.9	720.0	653.7	537.0	1 380.0	1 048.2
Financial and insurance activities	1 584.0	1 008.5	1 567.0	1 180.4	1 587.9	975.4
Real estate activities	415.6	268.7	352.2	238.4	498.1	370.1
Professional, scientific and technical activities	1 492.3	477.5	459.4	323.2	2763.7	990.1
Administrative and support service activities	626.7	361.1	611.5	257.9	642.3	555.9
Public administration and defense; social security	567.2	448.9	590.9	463.4	218.9	187.6
Education	367.5	306.0	361.4	304.4	538.0	378.7
Human health and social work activities	286.4	203.5	275.6	199.6	357.5	259.3
Art, entertainment and recreation	335.5	229.1	254.7	213.7	864.9	751.4
Other service activities	790.0	392.8	556.6	408.2	837.6	390.7

Sources: The State Statistical Committee of Azerbaijan Republic. Labor Market. Employment. https://www.stat.gov.az/source/labour/?lang=en

Appendix 2.8: Distribution of Number of Persons Received Unemployment Status by Sex and Age Groups (%)

Unemployed	Total	Including by age groups				
		15-19 years	20-24 years	25-29 years	Pre-pension ages	Other persons at working age
2005	100	0.4	17.3	30.0*	3.2	49.1
2010	100	0.6	14.5	33.3	2.4	49.2
2013	100	0.7	15.1	33.0	2.0	49.2
2014	100	0.5	13.5	35.1	0.8	50.1
2015	100	0.4	12.8	34.9	0.9	51.0
2016	100	0.3	11.4	33.9	0.7	53.7
2017	100	0.3	9.3	31.6	0.7	58.1
Men						
2005	100	0.4	16.4	28.5*	2.9	51.8
2010	100	0.7	14.1	36.2	1.8	47.2
2013	100	0.6	13.9	35.8	1.4	48.3
2014	100	0.5	13.6	37.7	0.4	47.8
2015	100	0.4	12.9	37.4	0.5	48.8
2016	100	0.3	11.5	35.3	0.4	52.5
2017	100	0.3	8.7	32.8	0.5	57.7
Women						
2005	100	0.3	18.1	31.5*	3.5	46.6
2010	100	0.5	15.1	29.6	3.1	51.7
2013	100	0.7	17.0	28.9	3.0	50.4
2014	100	0.5	13.5	31.0	1.3	53.7
2015	100	0.4	12.7	30.8	1.6	54.5
2016	100	0.3	11.3	31.5	1.2	55.7
2017	100	0.3	10.4	29.5	1.1	58.7

Sources: The State Statistical Committee of Azerbaijan Republic. Labor Market. Unemployment. https://www.stat.gov.az/source/labour/?lang=en

Appendix 2.9: Distribution of Persons Received Unemployment Status by Sex and Level of Education (%)

Unemployed	Total	Including on received education level				
		Higher	Secondary special	Vocational education	Secondary education	Secondary education (including primary education and don't have education)
2005	100	30.7	34.8	-	30.2	4.3
2010	100	42.8	35.5	12.8	7.6	1.3
2013	100	48.5	35.8	11.2	4.2	0.3
2014	100	54.0	33.8	8.6	3.4	0.2
2015	100	55.6	33.1	8.2	2.9	0.2
2016	100	57.5	31.8	7.8	2.7	0.2
2017	100	57.0	32.1	8.3	2.5	0.1
Men						
2005	100	38.7	31.2	-	26.0	4.1
2010	100	50.4	30.3	12.5	5.5	1.3
2013	100	56.3	29.6	11.1	2.7	0.3
2014	100	60.3	28.6	8.5	2.3	0.3
2015	100	61.8	27.8	8.1	2.1	0.2
2016	100	63.3	26.8	7.8	1.9	0.2
2017	100	60.9	28.4	8.8	1.9	0.0
Women						
2005	100	23.1	38.1	-	34.2	4.6
2010	100	33.1	42.2	13.3	10.3	1.1
2013	100	37.5	44.6	11.3	6.4	0.2
2014	100	44.4	41.8	8.7	4.9	0.2
2015	100	45.7	41.4	8.4	4.3	0.2
2016	100	48.1	40.0	7.8	4.0	0.1
2017	100	50.2	38.7	7.4	3.6	0.1

Sources: The State Statistical Committee of Azerbaijan Republic. Labor Market. Unemployment. https://www.stat.gov.az/source/labour/?lang=en

Appendix 2.10: Distribution of Economically Active and Economically Non-Active Population by Residence and Sex in 2017

Sex	Economically active population, thsd. person	Including		Economically non-active population, thsd. person	Employment rate, in per cent	Unemployment rate, in per cent
		Employed persons	Unemployed persons			
Urban and rural areas						
Total	5 073.8	4 822.1	251.7	2 147.8	62.9	5.0
Men	2 609.0	2 502.8	106.2	733.9	66.9	4.1
Women	2 464.8	2 319.3	145.5	1 413.9	59.2	5.9
Urban areas						
Total	2 581.8	2 429.0	152.8	1 175.3	58.8	5.9
Men	1 328.1	1 262.2	65.9	336.6	63.0	5.0
Women	1 253.7	1 166.8	86.9	838.7	54.8	6.9
Rural areas						
Total	2 492.0	2 393.1	98.9	972.5	67.8	4.0
Men	1 280.9	1 240.6	40.3	397.3	71.3	3.1
Women	1 211.1	1 152.5	58.6	575.2	64.3	4.8

Sources: The State Statistical Committee of Azerbaijan Republic. Labor Market. Unemployment. https://www.stat.gov.az/source/labour/?lang=en

Appendix 2.11: Number of Economically Active Population Including Employed and Unemployed Population by Age Groups In 2017

Age groups	Economically active population		Including			
			Employed persons		Unemployed persons	
	Total	of which women	Total	of which women	Total	of which women
Total	5 073.8	2 464.8	4 822.1	2 319.3	251.7	145.5
15-19	103.9	46.4	88.7	39.1	15.2	7.3
20-24	505.4	237.9	442.0	202.7	63.4	35.2
25-29	753.0	363.0	706.4	334.6	46.6	28.4
30-34	733.0	362.0	703.5	342.7	29.5	19.3
35-39	616.0	290.0	592.8	276.6	23.2	13.4
40-44	589.3	288.6	568.7	277.8	20.6	10.8
45-49	612.4	309.1	591.9	296.6	20.5	12.5
50-54	615.0	318.8	595.9	307.3	19.1	11.5
55-59	368.4	167.5	356.9	160.4	11.5	7.1
60-64	136.8	66.2	134.7	66.2	2.1	-
65+	40.6	15.3	40.6	15.3	-	-

Sources: The State Statistical Committee of Azerbaijan Republic. Labor Market. Unemployment. https://www.stat.gov.az/source/labour/?lang=en

Appendix 2.12: Distribution of Employed Population by Education Level and Age Groups in 2017

Age groups	Employed population, total	Including by education level					
		Higher education	Secondary specialized education	Vocational education	Secondary education	Main education	Primary education
Total	4 822.1	796.9	516.4	260.5	2 892.6	306.6	49.1
15-19	88.7	-	5.2	2.4	66.0	14.9	0.2
20-24	442.0	75.6	50.1	20.7	250.5	44.3	0.8
25-29	706.4	175.1	80.7	24.3	374.1	51.2	1.0
30-34	703.5	90.6	53.9	32.7	501.8	18.6	5.9
35-39	592.8	85.7	36.3	38.6	409.3	18.5	4.4
40-44	568.7	66.1	51.6	31.8	385.4	29.4	4.4
45-49	591.9	99.1	68.9	36.7	355.3	27.2	4.7
50-54	595.9	80.7	81.0	29.2	366.4	34.3	4.3
55-59	356.9	99.0	68.1	24.2	123.3	35.0	7.3
60-64	134.7	21.2	15.8	14.1	57.0	19.3	7.3
65+	40.6	3.8	4.8	5.9	3.5	13.9	8.7

Sources: The State Statistical Committee of Azerbaijan Republic. Labor Market. Employment. https://www.stat.gov.az/source/labour/?lang=en

Appendix 2.13: Distribution of Employed Population by Sex and Age Groups in 2017

Age groups	Women	Men	Sex distribution	
			Women	Men
15-19	1.7	2.0	44.1	55.9
20-24	8.7	9.6	45.9	54.1
25-29	14.4	14.9	47.4	52.6
30-34	14.8	14.4	48.7	51.3
35-39	11.9	12.6	46.6	53.4
40-44	12.0	11.6	48.9	51.1
45-49	12.8	11.8	50.1	49.9
50-54	13.2	11.5	51.6	48.4
55-59	6.9	7.9	45.0	55.0
60-64	2.9	2.7	49.2	50.8
65+	0.7	1.0	37.6	62.4
Total, in per cent	100	100	48.1	51.9
thsd. persons	2 319.3	2 502.8	x	x

Sources: The State Statistical Committee of Azerbaijan Republic, Labor Market, https://www.stat.gov.az/source/labour/?lang=en

Appendix 2.14: Distribution of Economically Non-active Population by Categories and Sex (%) in 2017

	Women	Men	Sex distribution	
			Women	Men
Students of day institutions pupils of senior classes	13.5	29.3	47.1	52.9
Pensioners by age and service years	30.6	31.8	64.9	35.1
Pensioners on disability	10.4	27.8	41.8	58.2
Persons receiving income from ownership	1.7	8.1	29.2	70.8
Persons keeping house, taking care of children and other family members	43.8	3.0	96.6	3.4
Total, in per cent	100.0	100.0	65.8	34.2
Thousand persons	1 413.9	733.9	x	x

Sources: The State Statistical Committee of Azerbaijan Republic. Labor Market, https://www.stat.gov.az/source/labour/?lang=en

Appendix 2.15: Distribution of Economically Non-Active Population by Sex and Age Groups (%) in 2017

Age groups	Women	Men	Sex distribution	
			Women	Men
15-19	17.7	25.4	57.3	42.7
20-24	10.3	16.7	54.2	45.8
25-29	6.9	9.2	59.2	40.8
30-34	6.5	3.3	79.3	20.7
35-39	6.1	2.2	84.2	15.8
40-44	2.0	0.6	87.5	12.5
45-49	1.7	0.3	90.8	9.2
50-54	1.7	1.3	71.6	28.4
55-59	11.0	8.7	70.9	29.1

60-64	10.8	10.9	65.6	34.4
65+	25.3	21.4	69.5	30.5
Total, in per cent	100.0	100.0	65.8	34.2
thsd. persons	1 413.9	733.9	x	x

Sources: The State Statistical Committee of Azerbaijan Republic. Labor Market. https://www.stat.gov.az/source/labour/?lang=en

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