

## ON AZERBAIJAN'S ECONOMY IN 2021 AND OVERCOMING THE INEVITABLE CRISIS THROUGH INTEGRATION INTO THE EUROPEAN UNION

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### Abstract

As it is known, this year the systemic crisis in the Azerbaijani economy, which has manifested itself since 2016, has entered a new and more destructive level. The coronavirus pandemic and the sharp drop in oil prices caused by it have completely shaken the existing economic structure, and the war at the end of the year cost the country dearly. Since the statistics of the Azerbaijani government are, to put it mildly, questionable, it does not seem appropriate to conduct any analysis on these figures, so we cannot use other statistics, except for reliable data. However, despite all this, the country's economic picture is quite clear: the economic system based on the sale of oil has already naturally entered its final phase. From now on, the oil-based economic model will not justify itself, regardless of oil production and prices. At first glance, there is nothing here, any natural resources, after a certain period of time, begin to run out, and the state makes some adjustments in its economic development project, or takes a completely new course. However, the worrying situation in Azerbaijan is that the government does not want to change anything: reducing corruption, cosmetic changes, more fiscal policy not only changes the existing economic policy, but also serves to continue this policy. Paradoxically, the goal of the reforms is to keep the system more conservative and old-fashioned.

The point of concern is that all the measures taken by the government are aimed at compensating for lost oil revenues and finding new sources of income. The government does not intend to abandon the state capitalism that has strengthened over the past 15 years, and instead of making the country's economy more transparent and open to foreign and local investors, it intends to continue the current course by attracting some resources. For example, like the TAP and TANAP projects, the main purpose of building large gas networks is not based on a plan other than to compensate for declining oil revenues. Or, instead of opening up liberated Karabakh to investors in a way that will stimulate the country's economic development, plans are being made to exploit its precious metal deposits in the first place. As well as,

All these facts show that the Azerbaijani government does not intend to abandon its traditional economic policy in the near future. This policy is designed to replenish the budget at the expense of oil and other sources, the unconditional domination of the state over economic entities, stable and insignificant funding from the budget in exchange for business freedom, administrative regulation of prices in the domestic market and all this to maintain internal stability. However, as noted above, the systemic crisis that began in 2016 indicates that this policy will sooner or later fail.

By 2021, Azerbaijan is entering with the weakest economic indicators in its recent history. If in recent years the country's foreign exchange earnings have been steadily generated from the export of hydrocarbon resources, tourism and remittances from Russia, the last two of these sources have disappeared. As oil revenues have fallen sharply as a result of falling prices and the OPEC + agreement, the country is still living off the reserves accumulated in previous years in the Oil Fund, protecting the national currency from devaluation through tight monetary policy and reserves. As all attempts to diversify the economy in recent years have failed from the very first step, the only hope now is a gradual recovery in oil prices.

Given all this, we can predict that 2021 will be quite difficult. Knowing that oil prices will fluctuate around \$ 50 next year, production will naturally decline, and gas revenues will be used to repay loans for many years to come, the government must now find other sources of funding. It is pointless to hope for primitive local agricultural production, as it is difficult and less profitable to export agricultural products to the Russian market every year. It would be unreasonable to expect an influx of tourists next year as a result of the impact of the pandemic. Russia's current situation also has a serious impact on remittances from migrants living there. In general, it is safe to say that integration plans with Russia have failed as an alternative.

Against the background of all this, the only way out for Azerbaijan can be integration with the West. Certain positive changes can be made in the country's economy, especially if the political and economic reforms required for integration into European economic structures are carried out. In this regard, it is necessary to cooperate with Europe, as well as other developed countries in a number of areas, and first of all to integrate into this economic space. Having repeatedly written about the types and areas of reforms, we note the possible areas of cooperation with the European Union within the free trade zone:

First of all, industrial products sold in our country at high prices, including electrical and automotive equipment, will become cheaper. Also, the revival of trade will create favorable conditions for many segments of the population. Imports from the European Union do not pose a threat to Azerbaijan, whose industrial production is extremely weak and dependent on imports.

Thanks to its cheap labor resources, as well as its well-trained human resources, proximity, logistics capabilities, and local energy resources for large industrial enterprises, Azerbaijan can replace certain production areas in Southeast Asia for the European Union. By placing simple production facilities such as textiles and other light industries for starters, it is possible to gradually reduce dependence on oil, especially to prevent mass unemployment and create new sources of currency for the country. As the investment climate normalizes, the deployment of relatively complex and advanced industries in Azerbaijan may become a favorable trend for EU countries.

The strategy of selling natural resources abroad or exporting agricultural products such as tomatoes to the Russian market not only deprives Azerbaijan of economic development

incentives, but also prevents it from integrating into the Euro-Atlantic space in the long run. In the current complicated geoeconomic situation, taking steps towards the European Union is becoming increasingly important for the maintenance of Azerbaijan's existence as an independent state.

Thus, the influx of oil money into the country since the mid-2000s has had a serious impact on the price of real estate, which was previously very cheap. There is an important nuance here: along with Azerbaijan, Russia was also experiencing economic growth in those years, and a significant part of the income of our compatriots living in that country flowed into the housing market in Baku. Land in the Absheron region was rapidly becoming more expensive, as it is still difficult to find a small area without construction. The transformation of Absheron into a major construction site has also created a huge source of corruption. Usually, construction is carried out without following any norms, environmental regulations were not taken into account. Despite billions of investments, the Absheron Peninsula is unregulated,

We must first answer this question: Why was the interest in the real estate market so great? Here we can list the important role of mental factors, the rapid population growth, the influx of people from the regions to Baku, the large number of IDPs, the plans of Azerbaijanis living in Russia to return here in the future. On the other hand, the lack of construction for many years also increased the demand for housing. As noted, mental factors also played a role, some people bought several or even dozens of houses, and the number of houses became an indicator of people's success. Also, the de facto absence of property taxes and compulsory insurance premiums made it easy and profitable to own property. But what interests us is completely different: The structure of the Azerbaijani economy made it necessary to turn the proceeds into real estate. Simply put, limited investment opportunities and high risk, unhealthy economic management, weak banking sector and the lack of stock exchanges, stock markets, encouraged people to turn their incomes into non-verbal assets. can be listed as the main factors that make. This factor should be taken into account when talking about the prospects of the real estate market.

As the classics point out, there is a simple reason for the onset of any economic crisis: in years of "satiety", banks release excessive funds to the market, and the sector in which these funds accumulate is dangerously burdened. Sooner or later, that money will collapse the market and lead to an economic crisis. In developed Western countries, we usually see this with the bursting of artificially inflated "bubbles" on the stock exchanges, but as noted above, the weakness of the Azerbaijani banking sector and the complete absence of stock exchanges preclude this. So, where is the huge financial mass created during the flow of oil money to the republic? With the help of the axiom that capital always prefers calm, it is not difficult to find: the vast majority of oil money entering the country (and remaining in the country), He owns real estate on the Absheron Peninsula. From villas to wedding palaces, from small huts to skyscrapers, tens of billions in artificially inflated real estate are dangerously located in the market. Also, the construction sector continues, albeit at a slower pace, because its stagnation as the main locomotive and multiplier of the economy means a sharp rise in unemployment and economic stagnation, and the government stimulates construction at any cost, but continued construction can lead to a sudden market collapse. can cause.

The main reason for the threat to Azerbaijan's real estate sector is its strong dependence on foreign exchange inflows, as the budget, which is the source of national income, depends on hydrocarbon exports, and other national income-generating institutions are non-existent. Until

now, the real estate sector has been increasing in value, being traded and mortgaged, highly valued and considered very reliable. Because real estate was attractive, because of its high liquidity, it was possible to find a client in any case. But if we assume that a sharp economic crisis will occur immediately when the inflow of foreign currency into the country is cut off, then we can predict that the economic crisis will sharply reduce the value and liquidity of real estate, so construction will not be attractive, which in turn will hit the real estate market again (as the main multiplier fails, unemployment and stagnation will widen slightly). The scale of construction so far shows that enough apartments have been built in Absheron for almost the entire country, people with relatively normal incomes have received several apartments, and the number of apartments that construction companies cannot sell is very large. We must add another factor: when the economic downturn and unemployment make it unattractive to live in Baku, the return of a small part of the population to such areas, as well as the sale of a small part of Russia's property, can have a devastating effect. As revenues declined sharply, any downward trend will lead to a domino effect. We must add that the fact that some construction companies, which are in the swamp of credit and debt, start selling at a lower price in the market is a catastrophic scenario for others. The above-mentioned construction irregularities, climatic conditions and environmental friendliness do not make this market attractive for foreign investors. The government will also be forced to impose property taxes or compulsory insurance at some point in the face of declining oil revenues. Given these factors, the downward trend may inevitably continue for some time, but the sharp deterioration of the economic situation in the country will sooner or later lead to a sharp crisis, not a decline in the real estate market.

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