



“ALTERNATIVE INFLATION METHODOLOGY DEVELOPMENT” PROJECT

FINAL REPORT

Baku –august, 2007

“Alternative inflation methodology development” project

Since November, 2006 Economic Research Center implemented the “Alternative Inflation Methodology Development” project with funding from the United States Agency for International Development (USAID) and organizational support from World Learning. The major goals of the project were to strengthen government’s anti-inflation policy, identify the impact of inflation on poverty and design an alternative methodology for its calculation. The following are the activities and events that took place under the project:

Meetings

1. “Estate Market Participants” NGO. The purpose of the meeting: The organization prepares and reports price changes (inflation) in estate and construction materials market as alternative State Statistic Committee does. For examples, price changes in construction materials market prepared by “Estate Market Participants” NGO differ from what announced State Statistic Committee. Taking into consideration above reasons meetings were held as so to study the methodology applied by this NGO. Nusret Ibrahimov, chairman of “Estate Market Participants” NGO and experts attended in our meetings. Price changes in construction market as well as the methodology used were discussed in the meetings.

2. World Bank Office in Baku. Meeting was held with Rasim Ceferov, the economist of World Bank Office in Baku. Discussions in the meeting were addressed to methods used by the World Bank to calculate inflation rate. The World Bank’s economist expressed his concern on inflation rate and he mentioned the rate announced by State Statistic Committee does not response reality. He pointed out that the annual inflation rate is 18-20 per cent. World Bank uses econometrics methods to calculate inflation rate.

3. State Statistic Committee (twice). Meeting was held with Mrs. Natella Guliyeva, the head of Price Statistics Department. Methodology of collection and development of official statistics was discussed in the first meeting. Mrs. Guliyeva mentioned that number of districts is increased while collection of prices of foods and non-foods and shopping centers are selected based on information bank developed by Ministry of Taxes.

Reasons of differences between international and official standards are discussed in the second meeting. She insisted that figures announced by international financial organization do not match reality, since official figures stated by the committee is real. In her opinion, dependent valuables in econometric model are not correctly selected.

4. International Monetary Fund. Meeting was held with Mr. B.Zaboyko, the representative of IMF in Baku. He expressed the importance of the project and added that some other organizations are interested in calculating of alternative inflation rate. For instance, The American Chamber of Commerce in Azerbaijan (AmCham) is doing the analogy activities. Mr. Zaboyko mentioned that IMF supports transition from methodology on household consumption to goods turnover methodology. He requested to be kept informed on implementation of the project and its results.

5. International Monetary Fund (Washington DC). Gubad Ibadoglu, Fuat Rasulov, members of the Project staff met Vitali Kramarenko, the head of Azerbaijan Mission of IMF and informed him about the project. Mr. Kramarenko expressed his optimism for expected results of the project and asked to be informed on the project implementation.

6. World Bank Group (Washington DC). Gubad Ibadoglu, Fuat Rasulov, members of the Project staff had 2 meetings in the headquarter of World Bank. First meeting was held with Michel Mordas, the executive director of WB's mission to Azerbaijan, Kyrgyzstan, Poland, Serbia, Sweden, Tajikistan, Turkmenistan and Uzbekistan and he was informed about the project. Mr. Mordas expressed his interest to the project and asked for getting further information in the future.

Second meeting was held with Christian Peterson, senior economist on South Caucasus and member of South Caucasus Group of Central Asia Department and Christos Kostopoulos, senior economist of Europe and Central Asia Department. Both of them expressed their interest to the project implementation. Mr. Kostopoulos mentioned importance of calculation of alternative poverty rate in Azerbaijan.

7. Ministry of Economic Development. On 26 December 2006 meeting was held at Ministry of Economic Development. Mr. Shahin Sadigov, Director of Economic Policy and Forecasting Department and Mr. Adalat Muradov, Director of Macroeconomic Analysis and Forecasting sector taken part in the meeting. They were informed about the project, its purposes, planned activities within the project. Mr. Sadigov mentioned that alternative research is always appreciated. He expressed his interest in sharing the results of the project. Since there is complexity to compare results he did not support the idea of changing all of current methodology. Mr. Muradav pointed out that the government has intention to conduct researches at this field and they are much more interested in the reasons and factors that cause inflation. After he mentioned that the reasons and factors that cause inflation are familiar for the government. At the end, Mr. Sadigov asked for keeping touch on impacts of the project. He mentioned that, if the results are good enough and well substantiated, MED would use the results at their next forecasts.

8. National Bank of Azerbaijan. On 27 December 2006 meeting was held at National Bank of Azerbaijan. Ali Ahmedov and Shaig Adigozelov, Senior Economists of Research and Statistics department welcomed Inflation Project Staff. First of all information about the project, aim of project, planned works within the project was given to them. Representatives of NBA expressed their interest in the project. At the same time they mentioned that price survey monitoring for 50 kinds of food goods at this field have been conducted by NBA. The results are more or less same with the results of State Statistics Committee. Meanwhile they mentioned that, NBA observes price changes in comparison with previous year's same month, in comparison with previous year's December and in comparison with last month of current year. Representatives of NBA also asked to be informed about results of the project and mentioned that they are ready for cooperation.

9. State Statistics Committee. During the December meetings continued with Ms. Natella, Director of Price Department at State Statistics Committee. The main themes of these meetings were consumer basket and special weights of regions that are used in calculation of inflation by State Statistics Committee. There are 585 kinds of goods in consumer basket: 151 foods, 111 clothes, 22 construction materials, 174 household equipment and other needs and 127 services. According to methodology of State Statistics Committee weights of regions are calculated based on number of population. However the experts of the project did not agree with this opinion. The main problem is that calculation of the number of population region by region is not right enough. For example so much people live in Baku who is registered in regions and Statistics Committee calculates them as region living people and this directly disorders weight of regions. Experts of the project suggested that to calculate weights of regions based on trade turnover for goods and volume of services as new methodology. The weights of regions were calculated according to this new methodology.

10. Ministry of Labor and Social Protection. On January 12 was held meeting in the Ministry of Labor and Social Protection of the Population. The senior specialist of Labor Policy department Iskandarova Khanim and senior specialist of Targeted Social Assistance department Musayeva Aygun have been participated in the meeting. Firstly, the framework of the research project has been described to the representatives of the ministry. The main topic of the meeting was the current raise of prices and main impact channels of these increases on the welfare of the population. The representatives expressed that the recently established working group within the ministry is engaged in study of all possible effects of current price raise on targeted social assistance policy of the government. And they (working group) tend to determine main directions of the mentioned policy in order to cope with the problem. The representatives complained of not getting the official and accurate data on main macroeconomic indicators,

including the inflation rate in time. Moreover, they discussed the problem concerning with indexation of incomes and mentioned that besides the relevant law which adopted in 1992, there are not real official actions in this field. The representatives of the ministry acknowledged that sometimes they are facing with the distortion of received data done by the State Statistical Committee (SSC). That is, sometimes SSC sends various letters to the ministry by indicating that there were some mistakes and distortions in previous data sent. There are not any studies in the ministry which try to estimate the effect of income growth on inflation rate. At the end, the representatives expressed their earnest interests on the project conducted and would be glad to have the productive findings of the research done within the project.

11. Ministry of Taxes. On January 15 was held meeting in the Ministry of Taxes. The meeting was with the head of department of Tax Policy and Strategic Researches of the ministry Professor Akif Musayev. Main topic of the discussions was recent price increase and its outcomes in the country. A. Musayev was expressed his concern on subsequent multiplicative effect of current price increase and mentioned that the government is engaged in solution of this problem. Thus, the government requested to have policy recommendations from all relevant state agencies. He said the he is favor for all alternative approaches, but all these approaches should be finalized with policy recommendation. Musayev depicted the increase of budget burden as the government measure which presents the action against the inflation. In particular, he mentioned the importance to take into account the inflation issues when talked about social protection of vulnerable population and all welfare questions.

12. Parliament. The third meeting in this month was in January 23 in Parliament. The meeting was with delegate Azer Amiraslanov the member of Standing Commission of the Parliament. First, the brief introduction was made about the project. Then he was informed with interim findings and performance of the activities done within the framework of the project. A. Amiraslanov expressed his interest in the project and requested for getting the final outcomes of the project. He emphasized the usefulness of the project's findings for the Standing Commission of the Parliament. Amiraslanov intended that real income growth of the population is still higher than the inflation growth in the country. Therefore, he said that recent price increase would not be harmful for social condition in the country.

13. Ministry of Finance. On January 26 was held meeting in Ministry of Finance. The meeting was held with the Deputy Head of the department Tax Policy and Income, Fikret Shirinov. The discussion started with brief presentation of project. The representative of the ministry emphasized that his ministry is not engaged in calculation and forecasting of the inflation rate. However, in order to forecast the budget procedures the ministry is getting the forecasts of main macroeconomic indicators (including inflation rate) from the Ministry of Economic

Development. As mentioned by the representative the ministry is receiving the current data on CPI from the National Bank. Furthermore, some specialists of the ministry are using the forecasts of Oxford School, financed by BP in order to forecast budget procedures. However, the representative acknowledged the inflation problem one of the main challenges for the government and mentioned that in order to solve this problem the ministry is very carefully analyzing the structure of budget expenditures. He depicted the enhancement of investment expenditures as best solution of this problem. At the end, the representative expressed his earnest interests on the project conducted and would be glad to have the useful outcomes of the research done within the project.

14. Scientific Researches of Center of Economic Reforms, Ministry of Economic Development. On January 27 was held meeting in ERC office with the Dr. Rovshan Guliev, the head of department Scientific Researches of Center of Economic Reforms, Ministry of Economic Development. In the meeting he was acquainted with the research project. He discussed the questions concerning about econometrical models of inflation which he is using in his studies. At the end, he emphasized the importance of exchanging of views in this field.

15. State Statistical Committee. On February 5, was held next meeting 2007 with Natella Gasimova - the head of "Cost Policy" department of State Statistical Committee (SSC). During the meeting members of analytical group provided an extensive information about the project and discussed collaboration between SSC and ERC in this sphere.

16. Cabinet of Ministers. The next February meeting was held in ERC's office on February 8, 2007 with Ogtay Hagverdiyev - head of Economic Department of Azerbaijan Cabinet of Ministers. At the meeting first of all an information about the project was presented to Mr. Hagverdiyev. He was also informed about the activities and discussions held. Mr. Hagverdiyev has noted that it is specifically important to correctly calculate the level of inflation and he also said that the government has faced with relevant problems. Thus, the level of inflation calculated for the internal use was higher than the level of inflation publicly announced. At the same time Mr. Hagverdiyev said that the number of products in the consumption basket is large and that it is important to reduce it. Hagverdiyev said that there is an un-official consumption basket formed of 70 products, and that the price dynamics is being calculated based on the changes of prices for these products. At the end Hagverdiyev also asked to constantly inform him about the project and to share with him the outcomes of the project.

17. International Monetary Fund. The next meeting during February was held on February 27, 2007 with the head of IMF mission on Azerbaijan – Mr. Vitaly Kramarenko. At the meeting that was held in Hyatt Regency hotel the members of the analytical group shared with Mr. Kramarenko and afterwards responded to his questions regarding the socio-economic situation in the country.

18. State Investment Policy project of USAID. During the reported month, the next meeting was held on February 28, 2007 with Mr. Yanush Shimer head of the State Investment Policy project of USAID. During the meeting the project researchers have introduced themselves. Afterward the extensive information about the project was presented and the inflation level calculated by the center for January 2007 was shared. Mr. Yanush was especially interested and amazed by the fact that ERC, in order to calculate CPI, observes the prices in 16 regions of the country and for each round the Center observes around 50,000 price scenarios for the goods and services from the consumption basket. In addition to this, during the discussion, Mr. Yanush has made a number of suggestions and recommendations.

19. AMCHAM. First meeting in march was with executive director of AMCHAM N. Nasrullaeva. In the meeting she was informed about The Center for Economic Reforms and alternative measure of inflation project. In this regard she was informed about the main objectives of the project, implemented tasks and planned activities in the future. N. Nasrullayeva stressed the importance of the project and also she mentioned that, the member organizations of the chamber also will be interested in this information. N. Nasrullayeva mentioned that AMCHAM has implemented similar project however she also noted that both projects can not be compared for their scale and professionalism. N. Nasrullayeva requested to be informed about the ongoing processes of the project and she expressed her desire to participate in future discussions.

20. Switzerland Cooperation Office on South Caucasus. Another meeting was, with Naila Safarova, National Program Coordinator of Switzerland Cooperation Office on South Caucasus. In the meeting she was also informed about The Center for Economic Reforms, the project, researches and outcomes. Ms. N. Safarova stressed the importance of the project and mentioned that, this information should be widely disseminated and propagated. Ms. N. Safarova expressed her desire to participate in future events. She also mentioned the importance of public communication and requested another meeting to be organized in order to define the directions of future collaboration.

Surveys

The inflation rate has been calculated based on the total of 51480 price observations conducted through the survey across the country that was launched since January, 2007. The survey covered 9 economic zones, 21 cities and districts (the total of 88 settlements) for the list of 585 goods and services. The survey questionnaires were grouped as being for food, non-food and services and conducted twice a month among four shops (Survey Questionnaire attached).

Articles

1. “An alternative approach to the inflation calculation in Azerbaijan”, “525-ji gazet”, January 2007
2. “Calculation methodology of CPI in Azerbaijan Republic- positive and negative sides”, “Hesabat” Magazine, February 17, 2007, 06 (94)
3. “Foreign Experience on Inflation Methodology”, “525-ci qəzet”, March 17, 2007
4. “Social impacts of the inflation”, “Ekspert” Magazine, 4 (40), April 2007
5. “Prices vs. Income: which goes ahead?”, “Ekspert” journal, 5 (41), May, 2007
6. “the orthodox view at the inflation creating implications of oil revenues”, “Ekspert” Journal, 6 (42), June, 2007. “Yeni Iqtisadiyyat” (“New Economy” *Translation*) journal, August, 2007, www.yeni-iqtisadiyyat.com
7. “Inflation and blood pressure”, “Ekspert” journal, 7 (43), July, 2007. www.ekspert.az
8. “Inflation: invisible hand”, “Ayna” newspaper, August, 2007. <http://www.ayna.az/rubric.php?id=22293> (the print version of the article attached)

Answers to Recommendation Package

Under the project, Economic research Center has worked out a package of recommendations on “Softening the impact of recent price inflation on non-oil production sector and socio-economic policy” and presented it to government authorities concerned. A few state bodies, as shown below, have expressed their reactions to it (*Package of Recommendations attached*):

1. Ministry of Economic Development. “We are grateful to you for your close observation over the economic developments in the country and recommendations to intensify the efficiency of economic reform efforts and prevent any possible threats that might result in adverse implications for the macroeconomic stability. Be advised that the

points mentioned in the content of the mail are on the focus of the government and the proposed recommendations have been reflected in the decrees and disposals of President Ilham Aliyev of the Azerbaijan Republic and adopted state programs. The Code of Competition as mentioned in the propositions regarding the non-oil production sector has gone through the 1st reading of the Milli Mejsli and is expected to be adopted. We will consider your efforts of recommendations in the preparation of our future relevant legislative acts.

2. Azerbaijan Confederation of Trade Unions (ACTU). The package of recommendations developed and submitted by Economic Research Center through letter 14/7 of 29. 01. 2007 regarding the softening of the negative implications of recent price inflation on the non-oil production sector and socio-economic policy has been reviewed in ACTU..

It should first of all be mentioned that issues contained in the letter are under the focus of attention of ACTU as an entity protecting workers' rights. It is obvious that ACTU has handed in its suggestions to the government of Azerbaijan concerning the recent price rise, which were ultimately considered in the decree of Azerbaijan President with that regard. In that respect, ACTU appreciates ERC's package of recommendations. Just to note that most of the activities mentioned in the package have been envisaged in the decree of Azerbaijan President with regard to the intensified anti-inflation efforts in the Azerbaijan Republic, which was adopted in 2005, and been incorporated into the Head Joint Agreement conducted between the Cabinet of Ministers and National Confederation of Entrepreneurs' entities of the Azerbaijan Republic for 2006-2007. The implementation of these activities are under the control of ACTU and will be further continued.

3. State Fund of Social Protection of the Azerbaijan Republic. The ERC's package of recommendations concerning the "Softening of the impact of recent price inflation on non-oil production sector and socio-economic policy" that was submitted to the Fund has been accordingly reviewed. Azerbaijan is a country of market economy principles and the economic success of the country is mainly attributable to the adherence to these principles. The price changes in some goods and services (such as electricity, fuel etc), whose prices are regulated, rest against the objective reasons. Meanwhile, the increased base share of salary pensions up to 50 AZN manats as of February 1st, 2007 and the indexation of insurance in line with the consumer prices of 2006 are steps envisaged in the social policy towards the regulation of the implications of increased prices of certain goods and services, which occurred in connection with the reforms in the filed of energy and utilities, on the living conditions of low-income

population. The above-mentioned way of increased pensions proves to be a successful implementation mechanism in the international practice.

Seminars, Conferences and Press-conferences

1. During January, two media conferences have been held by the project staff. The first media conference ***“Attitude to the last decision of the Tariff Council and expected price increase”*** was held in January 8 in IMC. Media conference was videotaped by several TVs such as: ITV, Lider TV, ATV, STV (Turkey), TRT (Turkey) and Seher TV (Iran) and telecasted. As the resonance of the conference, the project coordinator Gubad Ibadoglu gave an interview to the ANS TV and this interview was telecasted. The results of the conference were broadcasted by BBC and ANS CM radios. The outcomes of the conference were spread by several information (press) agencies such as APA, Turan, Trend made transmission. Some outcomes of the conference were published in following newspapers: “Uch Nogte”, “Baku Khaber”, “Yeni Musavat”, “Vafa Mutallimova”, “Khalg Jebhesi”, “Merkez”, “Sherg”, “Trend”. (*Media published articles attached*).

2. The second media conference in January ***“Neutralizing of price increase and inflation”*** was held in January 25. Media conference was videotaped by ANS TV, STV (Turkey), and Seher TV (Iran) and telecasted. The results of the conference were broadcasted by BBC and ANS CM radios. The outcomes of the conference were spread by several information (press) agencies such as APA, Turan, Trend made transmission. Some outcomes of the conference were published in following newspapers: “Novosti Azerbaijan”, “Medaforum”, “Gundelik Azerbaijan”, “Sherg”, “Baku Khaber”, “Yeni Musavat”, “Impuls”, “Khalg Jebhesi”, “Uch Noqte”, “Azadlig”, “Olaylar”, “Zerkalo”, “525-ci gazet”, “Ekho”, “Realazer.com”. (*Media published articles attached*).

3. On February 15, 2007, Economic Research Center held a presentation of its project on ***“Development of alternative methodology for calculating inflation”*** with funding of USAID. The presentation was taken place in the International Press Center. Representatives of USAID, reps of WLIO, head of Azerbaijan Representation of International Monetary Fund (IMF) and reps of media attended the conference. The event started with an introduction made by the chairman of ERC who informed the participants about the project. He emphasized that the main goals of the project were to develop the alternative methodology of calculating inflation in Azerbaijan, to calculate the corresponding inflation based on the surveys conducted in different

regions, to support corresponding anti-inflation policy of the government, to define the main factors affecting inflation in Azerbaijan and to calculate as precisely as possible the level of those factors' influence on inflation.

The public response to the press conference was quite positive. Thus the conference was recorded and broadcasted by ANS, ITV, Lider TV, ATV, Space TV and STV (Turkey). The outcomes of press conference were commented on by BBC and ANS ChM radio stations. The articles on the results of the press conference were issued in the newspapers: "Uch nogte", "Yeni Musavat", "Khalg Jabhasi", "Sharg", "Gundelik Azerbaijan", "Ekspress", "525-ji gazet", "Ayna", "Echo". (*Media published articles attached*).

Information about the press conference was distributed by APA, Turan, and Trend information agencies as well as by other internet portals. Here is a list of corresponding websites:

<http://www.day.az/news/economy/70646.html>

<http://zerkalo.az/rubric.php?id=14023>

<http://www.newsazerbaijan.ru/exclusive/20070215/41642980.html>

<http://www.echo-az.com/economica01.shtml>

<http://www.ayna.az/rubric.php?id=14028>

<http://www.525ci.com/aze/2007/02/16/anons=4>

<http://realazer.net/?mod=view&id=1523>

<http://www.apa.az/news.php?id=48972>

<http://www.trend.az/index.php?mod=shownews&news=110562&lang=ru>

One of the serious results of the press conference is that after the press conference, the head of the project, the head of analytical group and one of the members of analytical group, were invited to Baku office of IMF. The head of Azerbaijan Representation of IMF – Bazil Zovoyko and its other representatives participated in the meeting. The meeting was devoted to the outcomes of the press conference. Vafa Mutallimova, who commented on the conference presentation, has clarified the issues that were raised at the conference.

4. "Development of Alternative Inflation Methodology" Seminar by ERC was held at "Irshad" Hotel on April, 13, 2007 with participation of representatives of government bodies, National Parliament, international organizations, local and foreign NGOs and Mass-Media, totally more than 60 participants. Gubad Ibadoglu, the chairman of ERC, mentioned that the main purposes of the project are to strengthen current anti-inflation policy of Government of Azerbaijan (GoA), study impacts of the inflation on poverty level and develop alternative methodology to calculate inflation rate. Steve Moren, the head of department at USAID, spoke about importance of the project. Ms. Leman Azizova, the research team member, gave comprehensive information to

participants about “Development of Alternative Inflation Methodology” Project. Mrs. Vefa Mutellimova, the research team leader, had presentation on “Analysis of Alternative Inflation Methodology: Foreign Experience and Implications for Azerbaijan”.

Reports on the seminar was broadcasted at ANS, Space and STV TV Channels. Followings articles on the seminar have been published: “Dengi”, “Деньги”, “Эхо”, “525-ci qəzet”, “Xalq Cəbhəsi”. (*Newspaper publications with seminar results attached*).

5. Seminar on alternative inflation calculation was held in Gence on May, 01, 2007 with participation of representatives of regional departments of government bodies (Ministry of Economic Development, State Statistic Committee), business institutes (f.e. Association for Agro-Business), banks (Azerbaijan International Bank, Capital Bank, Respublica Bank), insurance companies, NGOs and Mass Media. Key-speaker, Gubad Ibadoglu, the project coordinator, spoke about the importance as well as goals of the project. He added that one of the main purposes of the project implementation is to strengthen the government’s anti-inflation policy, examine inflation’s impacts on poverty level and prepare and development alternative method to calculate the CPI in Azerbaijan. Farid Bakhshiyev, the representative of USAID, spoke also about the importance of the project implementation and alternative inflation calculation. In the end of the presentation, the project coordinator drawn attention of audience to activities done within the scope of the “Developing of Alternative Inflation Methodology” Project. He mentioned that price observation is taken place in 22 districts in Azerbaijan including Gance, price observation is done for 585 items. Mr. Ibadoglu concluded that special CPI will be calculated and developed in Gence separately. After responding questions Gubad Ibadoglu free discussions were taken place. Mr. Ibadoglu gave interview to “Kapaz TV” Television Channel, and the information about the seminar workshop was highlighted in www.ganca.az , www.day.az and www.apa.az.

6. On July 20, there was held a press conference with regard to the ***results of the alternative inflation calculations for the first half of 2007*** at the International Press Center, attended by over 30 various media representatives, who were provided with relevant press-releases and tables with the description of both regional and countrywide inflation rate for food, non-food and services both in Baku and regions. Members of the project research group and representatives of USAID and World Learning Organization in charge of the project and information also participated in the event. Gubad Ibadolgu, the project coordinator, made a detailed presentation about the results of inflation calculations for the first half of the year and answered queries rased by journalists. There was a series of post-conference publications in several newspapers under

various titles such as, “Ekspress”, “Azadlig”, “525-ji gazet”, “Markaz”, “Yeni Musavat”, “Kaspi”, “Khalg Jabhesi”, “Sharg”, “Echo”, “Zerkalo”, “Paralel”, “Reytinq” newspapers. Besides, APA, Trend and Turan news agencies disseminated news under the common heading of “17.44% inflation recorded for the first half of the current year in Azerbaijan”. Moreover, electronic media such as Day.az, 1news.az, novosti.az, fineco.az, and ANS GM, “Azadliq” and BBC radios wrote and aired conference related news under the heading of “17.44 inflation rate recorded in the first half of the year” with the follow-up radio debates at 15:10 and 21:35 pm on ANS TV.

Public awareness campaigns

1. During the report month Talk Show was performed in 26 March 2007 at 19.15 in Public TV(ITV). In the program experts such as Samir Dadashov, Director of Antimonopoly Department under the Ministry of Economic Development, Natella Gasimova, Director of Price Statistics Department of State Statistical Committee, Fikrat Shirinov representative of Ministry of Finance and Vafa Mutallimova, Chief of the Research Group of CER on the project gave a speech. Simultaneously, the members of research group of CER, economics students, master students, PhD students and NGO representatives participated at the programme. *(CD with Public TV aired program attached)*
2. The information about CPI for February which ERC calculate was represented by Economic News program by ANS TV. Also, this information was delivered to international organizations and country representation of IMF.
3. During the month the director of the project G.Ibadoglu gave an interview about the project to newspaper “Echo”. See <http://www.echo-az.com/economica02.shtml> .
4. In March 8 2007, the article “Boom and gloom: Azerbaijan's economy, drunk on oil, is suffering rapid inflation” published in magazine “The Economist” based the results of the alternative inflation measure project implemented by CER with support of USAID. See http://www.economist.com/daily/news/displaystory.cfm?story_id=8819945
5. Articles on the project have been periodically published in central newspapers (525-ci gazet, Expert Journal and etc.) in April.
6. Gubad Ibadoglu, the project coordinator, attended talk-show in ANS CHM Radio on April, 2007. Mr. Ibadoglu addressed inflation expectation in 2007. He also responded to question-messages sent by listeners.

- 7.** Information on the project implementation was posted in different newspapers in May, 2007. Gubad Ibadoglu, the project coordinator, gave interview “Gundelik Azerbaijan”, “Paralel” and Fuat Rasulov, the research team member, gave interview “Nedelya” newspaper in Russian.
- 8.** ANS TV cited the project findings and special reportage on April CPI was prepared based on ERC information. Report on April CPI was distributed among international and local organizations including International Monetary Fund.
- 9.** Discussions on Alternative CPI for May, 2007 were taken place in the mass-media, as well. Gubad Ibadoglu, the project coordinator, gave interviews to “Ekho” newspaper, Public Radio and ANS TV Chanel.
- 10.** ANS TV broadcasted special reportage on Alternative CPI for May, 2007 calculate by ERC within the scope of the project. Meanwhile, Summary of Alternative CPI for May, 2007 was sent to international organizations, including International Monetary Fund (IMF). Discussions on the Alternative CPI Calculation with IMF representatives were continued in June, 2007, too.
- 11.** G. Ibadoglu, the project coordinator had 2 foreign visits in June, 2007 and had presentations on the results of “Development of Alternative Inflation Methodology” implemented with funding of USAID. The project coordinator had speech on the project results at the seminar held by International Transparency on June, 13, 2007, in Jakarta, Indonesia and at the international conference organized by Sasakawa Peace Foundation (Japan) on June, 26, 2007 in Urumchu, China.
- 12.** During the July, the periodical media continued discussions of the project. Gubad Ibadoglu, project coordinator, gave an extensive interview to the “Echo”, “Musavat” newspapers, and “Azadlig” and “ANS GM”.
- 13.** Unlike in May and early January, the calculated Consumer Price Index (CPI) was, during June, aired on the News Program of ANS Channel. This news was conveyed to international organizations, including International Monetary Fund, Azerbaijan representative.

“Alternative Inflation: international experience and Azerbaijan”

Book Publication

The foreign experience in terms of alternative inflation calculation was studied under the project based on the lessons learnt, the 5-chapter handbook titled as “Alternative Inflation: international experience and Azerbaijan” was published in the total number of 500 copies. The first chapter covers topics on inflation, cause-effect spiral, while chapter 2 discusses international benchmarks for the alternative inflation calculation. The 3rd chapter addresses possibilities for the application of international practice regarding the alternative inflation rate calculation in developed and Central and Eastern European countries including post-soviet states and reviews the current CPI calculation methodology in the Azerbaijan Republic finally presenting the semi-annual ERC calculated CPI figures for 2007.

Nearly 100 copies of the book was distributed among the participants of the final project conference, who were representatives of government agencies, international organizations, local NGOs and Mass-media. The distribution is still ongoing to various interest groups and authorities of (book with CD-version attached).

Extra-project activities

As an extra-project activity, survey was conducted among 210 respondents both regionally and in Baku, where prices were statistically observed, to estimate the hidden inflation and analyze the quality characteristic of CPI in the first half of 2007. The survey findings were highlighted in the reports on the CPI for the first half of 2007 and incorporated into the book “Alternative Inflation: International experience and Azerbaijan”.

Final Conference

On August 16, 2007, there was held a final project conference at the hotel “Avropa” attended by around 80 representatives of government’s economic authorities, Milli Mejlis, international organizations, local and foreign NGOs including media. Having opened the event with welcoming remarks, Vusam Gasimli, a member of ERC Management Board, gave a brief overview of the project stating the importance of alternative inflation calculation in the world practice. Later on, Eldar Gojayev, member of ERC Management Board took the floor and mentioned the 15th anniversary of national currency Manat and shared his own background related with inflation. He added that Manat has gone through hard times until now: “I was a student then and used to think that our manat will be the strongest in the region. Afterwards, I noticed manat depreciating semester-on-semester and we all know the current situation of

Manat”.

The conference was highlighted on news programs of ANS, ITV, AzTV and ATV channels with some fragments from the event. The conference information was disseminated by APA news agency and day.az portal <http://www.day.az/news/economy/89059.html>, <http://www.apa.az/news.php?id=67319>

The following well-known periodical newspapers published the conference materials. (*newspaper publications on the conference attached*).

№	Name	Date	Article title
1	Azadlig	17.08.2007	Inflation to rise towards the end of year
2	525-ji gazet	17.08.2007	Government needs to reinforce anti-inflation efforts; by Gubad İbadoglu:
3	Kaspi	17.08.2007	Consumer Basket Composition to be reconsidered
4	Yeni Musavat	17.08.2007	Inflation recorded in July
5	Markaz	17.08.2007	Inflation expected to be at 20 percentage points
6	Zerkalo	17.08.2007	20 inflation towards the end of year
7	Exo	17.08.2007	20 inflation probable towards the end of year
8	Ayna	17.08.2007	Consumer Basket Composition to be improved

Attending the event, USAID’s economist advisor, Poll Davis, stressed the importance of controlled inflation and contended that Azeri government should increase private investments, which presupposes as much accurate inflation calculation as possible. The USAID representative also stated that they will do their best on their part towards the efforts in this direction and expressed his assuredness of the constructive approach by parties to negotiations. P. Davis mentioned the sustainability of such calculations.

ERC Chairman of Management Board made a speech on the goals and outcomes of the project stating that the project sought to intensify anti-inflation efforts of the government as well as to identify major inflationary factors and accurately estimate them. The major project activities included the review and evaluation of the methodology applied by the State Statistics Committee, study of foreign experience with that regard and work out a package of recommendations towards the improved methodology in Azerbaijan. The project monthly

calculated inflation rate and assessed its impact on the budget expenditures and social situation in the country. The alternatively calculated inflation has become a reference point for the business community, researchers and private households. Even CPI calculated for January was referred to in the article **“Boom and gloom: Azerbaijan's economy, drunk on oil, is suffering rapid inflation” of March 8, 2007** published by the Economist Intelligence Unit of the London-based “Economist” Journal. (http://www.economist.com/daily/news/displaystory.cfm?story_id=8819945). The project implementation and results were published in the reports of international financial institutions, such as IMF, ADB.

The share of regional turnover of goods was established under the project and price observations conducted with regard to the total number of 585 goods and services (i.e. food, non-food and services) in 3 groups, and CPI calculated by various aspects. The surveys encompassed 9 out of 10 economic zones in Azerbaijan including 22 towns, along with the meetings that took place with various government agencies, parliament and international organizations.

The project output in terms of recommendations was designed and submitted to the government authorities to soften the negative monetary implications of recent price inflation on the non-oil production sector and social policy. Project authors claim that the actual inflation will encourage more government accountability and positively influence over the more accurate calculation of the officially announced figures. It will lead to the more proper regulation of currency pressure resulted from oil revenues thus increasing the efficiency of their management. Regarding the project achievements, more references to the project calculations of inflation, not only led to the confirmation by the government of the existence of double-digit inflation in Azerbaijan as the major attainment, but also overcome the psychological barrier in terms of transition from one to double-digit inflation. That is, the press conference, held under the leadership of Ogtay Hagverdiyev, Department head of Cabinet of Ministers, announced results of statistical price observations by 40 consumption goods for March and the inflation was announced to be double-digit being 16% as compared to the same period of the previous year (<http://www.day.az/news/economy/76057.html>). It turned out that the government itself did statistical price observations for its internal use and does not rely on the figures of State Statistics Committee, which can also be attributed to the greater number of internal and external references to the figures provided by the project “Alternative Inflation Methodology Development”.

On top of that, the government defined the double-digit inflation as a priority issue to tackle during the gathering of the Cabinet of Ministers regarding the semi-annual socio-

economic results. Thus, after the third month of the alternative calculations based on the statistical price observations was over, the government adjusted its inflation calculation and was obliged to initiate anti-inflation measures.

Bilateral meetings that took place between project experts and state bodies, international organizations and independent experts built mutual trust and cooperation, which resulted in the multilateral discussion and useful exchange of thoughts during the seminar workshop on April 13, 2007. The seminar held under the project in Ganja city was the first to highlight the inflation topic in the region and discuss with the participation of various interested stakeholders from both government authorities and other non-public sectors. The seminar enhanced the awareness in the region.

The project research and survey handbook popularized the idea of alternative inflation and discussions are ongoing in the Scientific-Research Institute under the Ministry of Economic Development in terms of the implementation of alternative inflation calculation project.

Monthly analytic journal and newspaper articles during the project implementation and periodical interpretations turned into the reference point for the experts, researchers, and graduate students. Moreover, the periodical press conferences and newspaper publications authored by the project research team led to the enhance awareness of the population with regard to the inflation and its socio-economic impacts.

It should also be noted that media has recently been informed of the semi-annual results of the project. The inflation rate, for this period, has been estimated at the percentage points of 17.44, slightly different from what was announced by the government, 16%. 0,37 percent inflation was recorded for July. As regards the seven-monthly figures, the inflation rate rose up to 17,80 percent, which implies the absence of traditional inflation that is due to seasonal factors and experts assume that inflation will be even higher in August.

Following the project results, discussions resumed. Joining the discussions, Sevgim Rahmanov, chairman of Traders and Producers made an emphasis of the importance of the project and suggested that future efforts be taken to regularly calculate price index for daily goods and services. In response to his suggestion, G.Ibadoglu once more mentioned that the calculations are in line with the basket composition defined by the State Statistics Committee, given the comparative advantages of this approach. Parliamentarian Khanhuseyn Kazimli

underlined the important idea of this kind of events for the country stating that “serious economic growth is observed in the country, which has some inflationary effects”. An economist scientist Nazim Imanov made an important point of alternative calculation of inflation in terms of more accurate national economic policy-making. He added that excessive economic growth increases inflation and it would be very useful under future research initiatives to estimate the impact of inflation on the economic growth.

The package of recommendations was presented to and appreciated by various government bodies including Ministries of Economic Development, Labor and Social Protection of People with a few recommendations being already adopted. 5 out of 7 recommendations about the money-credit and currency-rate policy were accepted by the National Bank and one out of recommendations regarding the non-oil production sector was adopted by the Tariff Council at the initiative of Ministry of Economic Development. 2 out of 9 social recommendations were accepted by the Ministry of Labor and Social Protection of the Azerbaijan Republic. Likewise, a few other recommendations about the non-oil production and social sectors were debated by the government.

Project achievements and the vision forward

One of the practical attainments of the project is that the mentioned agencies that had a chance to access alternative inflation figures will enable them to calculate and estimate future period revenues and expenditures based on alternative calculations of USAID funded project done at both macroeconomic and household levels. This will ultimately increase rationality of decisions of households and business entities.