

## **Azerbaijan to revise 2011 budget as oil prices rise-INTERVIEW**

\* Azeri central banker sees slight 2011 budget revision

\* Oil prices seen higher than government forecast

\* Food price increases a concern for the government

By Lesley Wroughton

Oil-producing Azerbaijan is set to revise its 2011 budget with global oil prices likely to be higher than the government forecast earlier, the country's central bank chief said in an interview on Thursday.

"We think that by the end of the year prices will be lower (than now) but higher than we were forecasting before the start of the year," central bank governor Elman Rustamov told Reuters Insider.

He said the Azeri central bank's foreign exchange reserves, which rose by \$159 million in January to \$6.57 billion, were likely to hit \$8 billion by the end of 2011.

The former Soviet republic is an increasingly important oil producer and plans to produce 51.5 million tonnes of oil in 2011.

Global prices rose nearly 3 percent on Thursday as unrest in the Middle East and North Africa spread and worries increased about supply disruptions.

Azerbaijan's budget is based on \$60 a barrel, but benchmark Brent crude was trading above \$114 a barrel on Thursday.

While higher oil prices bode well for Azerbaijan's oil-rich economy, surging global food prices are a burden because the country is a major food importer.

The UN Food Price Index rose for the eighth consecutive in February to reach the highest levels since at least 1990, posing difficulties for developing countries where households spend most of their disposable income on food.

Rustamov acknowledged food prices are a concern but said the government would try to keep inflation in the single digits.

Consumer prices in Azerbaijan rose 8.3 percent year-on-year in January, up from a 5.7 percent increase in December but still in line with the government's forecast of single-digit

inflation in 2011.

"Azerbaijan imports a significant portion of its food from abroad and increasing food prices are a significant share of household budgets as in any other emerging market country, so we can expect food prices will be a concern for Azerbaijan," he said, speaking through a translator.

"The government has put in place inflation measures, so through these measures the government will make efforts to keep inflation targets within single digits," he added.

Rustamov said the 2011 budget would likely be revised to address food security needs arising from higher prices.

"I don't believe it will be a significant adjustment as the budget is quite well balanced and we should take into account the concerns of macroeconomic management and sustainability issues," he said. "So, higher oil prices and volatility are external shocks and should not be transferred to the budget.

"But at the same time there could be needs in the country that need to be addressed, and particularly recently the president has spoken about food security issues and in light of these initiatives, some additional funding could go to rural financing to boost agriculture," he added.

He said changes to targeted spending was not directly related to the increase in oil prices but rather determined by government plans to upgrade infrastructure.

"It is because the country is in process of improving and upgrading its infrastructure and some of these major projects may need some additional financing and some additional transfers can be made for these purposes," Rustamov said.

"I don't expect this will be significant so an adjustment in spending is possible but it's not directly related to an increase in oil prices."

Rustamov said he did not expect changes in the government's policy on managing oil revenues in the light of a higher world oil price.

He said the government had earned \$47 billion from oil of which 50 percent had been saved in an oil fund for future generations and the rest was used by the government for spending needs.

"We plan to keep this proportion in the future," he said, adding: "Looking forward, since the revenues from oil are set to increase a more substantial portion of the revenues will be saved for the future," he added.