Structure of Azerbaijani National Income

written by BRI Economic Team BAİ İqtisadi Qrupu

Household statistics may be regarded as one of the most important sources of information reflecting the real state of the economy, provided they are reliable and trustworthy. That is because the behavior and activity of other institutional units in the economy (public authorities, businesses, and financial institutions) directly depend on two factors: total population income and individual decisions on how to spend what they earn. Looking at the statistics of any developed country, it is clear that the funds spent by the population on consumption have a fairly high share in GDP. For example, this indicator as of 2022 is around 70% in Denmark and Germany, and 80% in Canada and the United States. Over that same period, the similar indicator in Azerbaijan was slightly higher than 50%. Undoubtedly, the population should primarily earn money to be able to spend it in Azerbaijan. In turn, it is very important that these earnings are provided from various sources (from entrepreneurship and wage labor, for example) and that they are sustainable.

Main sources of household income in Azerbaijan according to official statistics

According to the report on households from the State Statistics Committee (SSC), in 2023, Azerbaijan recorded an average per capita monthly income of AZN 343,2 (roughly $200). This figure is 7,5% higher in urban areas than in rural ones. If this is true, it can be an official measure that citizens of Azerbaijan have become considerably poorer. In 2023, the official minimum subsistence level per person (which is also the poverty line) was approved at AZN 246. Thus, the income of an average citizen is only 28% above the poverty line. It should also be noted that the minimum living standards

currently used in Azerbaijan correspond to the standards of low-income countries. In reviewing the SSC report on the level of income of the population, the first impression we get is that, if these data reflect reality, the vast majority of people will not have the opportunity to own a home and a car, and in the best-case scenario should be able to eat sensibly.

The fact that the difference between the per capita income in urban and rural areas is very small is questionable. Statistical data show that in 2023, Baku and other major cities (Sumgait and Absheron District, Ganja, Shirvan, Mingachevir) accounted for 77% of the country's total economic output of AZN 128,2 billion. Given the significant contribution of urban settlements, which are also district centers, it appears that the share of villages in the country's output cannot exceed 10-15%. The national income, the source of the population's income, is formed precisely on the basis of the output indicator. How is it possible in this case that the difference between per capita income in cities, from which 85-90% of national income comes, and in villages is less than 10%? Such a ratio is possible only if the real level of rural-to-urban migration in the country and sharing of a significant part of the income generated in the cities with rural families are reflected in official statistics.

Unfortunately, there is no objective information on internal migration in Azerbaijan. Therefore, the above official statistical data on income is not taken seriously by independent researchers. For example, Nakhchivan Autonomous Republic's permanent population is 459.000 inhabitants, according to the latest census conducted by the SSC in 2019. However, a study published by Baku Research Institute from November 2022 included various parameters (energy consumption, number of pupils, etc.) and concluded that Nakhchivan's actual population is lower than the official statistics by at least 120.000-140.000.

Contradictions between official statistics and reality

SSC data on the sources of household income also contain questionable points, according to which, the incomes for the population in 2023 came from the following sources:

- 37,7% from labor income of employees (work performed by employees working under an employment contract);
- 33% from self-employment;
- 19,6% from transfers (pensions, retirement and social benefits, as well as support in kind);
- 7,7% from funds received by households from other families (in the form of aid or loans);
- 1,7 % from overseas remittances;
- 0,3% from the use of property.

The points that seem particularly controversial in this part are related to the income from self-employment, overseas remittances and income from property.

The SSC defines “income from self-employment” as incomes from entrepreneurial activity, profit distribution in collective farms, and the sale of products produced on family farms. A third of these incomes came from the sale of agricultural products and two thirds from entrepreneurial activity. In absolute terms, the average monthly income from entrepreneurial activity for each inhabitant was AZN 76, with the income from the sale of agricultural products amounting to AZN 37. The most questionable aspect in these statistics is that the share of income from entrepreneurial activity (32%) in the income of the poorest 20% of people is almost two times higher than that of the richest 20% of people (16,8%). The monthly income from this source in absolute terms amounted to AZN 65 in the poorest 20% of people and AZN 102 in the richest 20% of people.

However, in many countries of the world one can see a completely different breakdown. As a rule, employment income and social transfers dominate low-income bracket, while the

income from entrepreneurial activity and property dominate the high-income bracket. In Türkiye, for example, the share of business and property income in the income of the poorest 20% of people as of 2022 was about 10%, while it averaged 35% in the richest 20% of people. In absolute terms, the difference between the incomes of the two groups from this source is close to 27 times.

One of the possible reasons for this atypical phenomenon of in Azerbaijan is that the country's official statistical bodies cannot involve households belonging to high-income population groups in a budget survey because these surveys should be conducted by consent of the people themselves, directly in their apartments. Such co-operation is unrealistic in Azerbaijan's non-transparent environment.

The results of the SSC report on the share of overseas remittances in family income shares again reveal Azerbaijan's questionable practices of data collection. According to the above-mentioned report, in 2023, the monthly amount of overseas remittances averaged AZN 5,7 per person (AZN 68,4 per year), with its share in the income structure constituting 1,7%. However, according to the Central Bank's balance of payments statistics, the total cash remittances to individuals in Azerbaijan over the same period amounted to AZN 2,8 billion ($1,655 billion), an average of AZN 277 per person per year and AZN 23 per month. Given the national income for 2023 is predicted to be AZN 78 billion according to the statistics of national accounts, overseas cash remittances to individuals should account for 3,5% of the population's total income. As we can see, according to calculations made on the basis of the Central Bank's balance of payments statistics, both indicators differ significantly from the results of the household survey.

Lastly, with regard to property income, this extends to rental income on property, interest on securities and savings, and dividend payments. The SSC's report shows that in 2023, the share of income from this source in household income reached

0,3%, totaling AZN 1,2 per month (AZN 14,4 per annum), of which AZN 0,8 (AZN 9,6 per annum) came from rental income of the property, thus yielding an average per capita monthly income of only AZN 0,4 from these sources.

If we assume that the data on household income from property rental is true, it means that only AZN 97 million per year comes from this source. However, the annual income generated from the rent of thousands of shops in 5-10 large shopping centers in Baku such as *Bina*, *Sadarak* and *Crescent Mall*, is at least this amount.

The figures on families' interest income reflected in the report are highly questionable. According to the Central Bank's 2023 report, interest rates on time deposits stood at 8,2% in national currency and 2% in foreign currency. The volume of time deposits of households in the banking sector was about AZN 4,5 billion in national currency and AZN 2 billion in foreign currency. Thus, the population had AZN 409 million in time deposits (AZN 369 million in national currency and AZN 40 million in foreign currency). Given the population at that time (10.127.000 people), the per capita monthly household income from deposits is AZN 3,3. Nevertheless, the study of households shows that the monthly income for the use of property reached AZN 1,2 per capita.

The most interesting thing is that according to the SSC report, the monthly amount of property income was AZN 2,5 per person between 2018 and 2019, yet this figure decreased by 2 times to AZN 1,2 in 2023. However, the last 4 years have seen a significant increase in rents only due to high inflation. Therefore, if the report reflects reality, it means that there are serious cases of bankruptcy in the rental business. However, other government reports fail to look at these facts.