To What Extent Do People Rely on the Azerbaijani Government's Economic Reforms?

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Every day, people make various decisions that have an impact on economic processes. Economics, as a scientific discipline, is aimed at learning the underlying reasons for such decisions and prognosticating their consequences. In this regard, from the 40s and 50s of the 20th century onward, one of the most popular theories in economics and other social sciences is consumer behavior theory. Consumer behavior theory is the study of activities of individuals, groups, or organizations pertaining to the acquisition, use, and disposal of goods and services, as well as that of emotional, mental, and behavioral reactions of consumers as manifested before or after these actions.[1] Consumer behavior in the context of economics means what the consumers do or how they behave while choosing and buying, and especially their overall behavior when purchasing an item. Two main questions asked in this theory, usually, are: (1) what can consumers afford? and (2) what do consumers want to buy?[2]

These are questions that should be answered firstly in order to identify how the consumer makes decisions or decides on the type and quantity of product. The subject of this research is particularly related to the former question. So when we say purchase ability we mean demand. Demand speaks of the quantity of a good that consumers have the ability and willingness to buy at a given price and time.[3] In other words, consumer demand depends on price. Then, what are the factors that influence consumers when making a decision and paying a certain price?

In economics, the aforementioned decisions are known as economic expectations. These are the predictions of people and business about the economic events to come.[4] What are the expectations of ordinary consumers? According to Milton Friedman, the formation process of the household expectations occurs with the extrapolation of developmental tendencies as they happened in the past.[5] Thus, people's contemplation about the future is based on past events. To put it another way, by organizing their current expectations, people try to avoid their previous mistakes. It is obvious that every human being draws different conclusions from their mistakes and/or past experiences with economic processes. In this respect, in the second half of the 20th century, various surveys were conducted so as to understand consumers' conditions. Being presented to the public in the form of various indices, these surveys have made it possible to identify the expectations of the population.

Awareness of the expectations of the community, in turn, has had a positive impact both on governmental and business structures, providing an opportunity for future planning beforehand. As a result, on the one hand, companies have been able to control their operations and, on the other hand, the government has been prepared for changes related to tax revenue. When there is a decline in consumer confidence, and the propensity to save goes up then the majority of the producers will head to reducing their production volume. In other case, the opposite will be observed.

Among these indices, the Consumer Confidence Index (CCI) is of paramount importance. The Conference Board's Consumer Confidence Index, initially designed in the US and issued on a monthly basis, has been presented since 1967. Another index, associated with consumer confidence is the Consumer Sentiment Index (CSI), created by the University of Michigan Survey Research Center in 1966.[6] In all countries this index is calculated both by government and private companies. In many cases, the Consumer Confidence Index is used as an indicator

of future consumer spending. When consumers are optimistic with regard to the future, they consume more and save less than when they are pessimistic about the future; therefore, many forecasters, politicians, and other analysts consider consumer confidence indices practical for making predictions about consumers' future expectations regarding the economic situation, their family financial situation, and household income.

Coming to the effectiveness of the CCI, there are many studies carried out in this area. Econometric investigations conditionally show that consumer confidence measurements are correlated with real time consumption,[7] and provide some possibility to do short-range estimations on actual consumption.

First of all, we should mention that the CCI is simple. The method used in its calculation is known as balance. The balance indices are an approved way of condensing the information in business surveys.[8] They include questions related to the direction of changes and are usually categorized into three optional answers: "positive," "negative," and "neutral." The balance method unifies the individual answers. The index is obtained by subtracting the proportion of "positive" answers from that of "negative" ones.

Calculation of Consumer Confidence Index in Azerbaijan

Unlike in other countries, the CCI is not published in Azerbaijan. Therefore, we are deprived of any detailed information concerning the methodology of the calculation procedure in the country. The Central Bank, which is the commissioner of the survey of *household financial behavior and intentions* has never published any information about the index it has calculated internally since 2013. According to the data revealed in November 2013,[9] Consumer Confidence Index was at a level of 30.01 basis points. According to the information,

the respondents (4250 households) come from all regions of the country and are classified with regard to their income level, type of employment, working condition, education, age, and gender differences. In terms of its methodological foundation, the Central Bank used *The Joint Harmonised EU Programme of Business and Consumer Surveys,* adopted by the European Commission, *Business Tendency Surveys: A Handbook*, a methodological guide issued by the Statistic Department of the Organization for Economic Cooperation and Development, as well as, during the preparation period for this work, the technical support of the KOF Institute (Switzerland), which monitors the economic situation with the support of the Swiss organization SECO. According to the account given by the representatives of the Central Bank, mentioned in a note related to their methodology, they adopted the "balance method" to calculate the survey results.[10] According to the description, the difference between positive and negative answers, which characterizes a given indicator about the component, is called index and assessed on the basis point. Approach to peak points stands for an increase or a decrease in the propensity for a component.

Since the leak of information in 2013, no additional information about the index has been released from the Central Bank or otherwise. The Monetary Policy Review, published four times a year, only generally states that "Although there has been some progress in the Consumer Confidence Index (CCI) compared to the previous quarter, the average indicator for 2020 decreased compared to the previous year and fell into the negative zone."[11] Its representative have also stated: "Despite the positive growth dynamics in all areas other than the construction sector and the revival of consumer demand during the reported year, uncertainties, created by the spread of the new variants of Covid-19, and the high inflation rate have affected the Consumer Confidence Index, which is calculated based on the results of 'Households' financial behavior and intentions' survey which reflects consumers'

future expectations."[12] How these indicators changed during the period and what numbers they accounted for are questions for which the public has no answer.

In open access sources, we only find the report tables on the website[13] of the Center for Scientific Research and Statistical Innovations of the State Statistical Committee of the Republic of Azerbaijan. Those tables concern the survey of *Households' Financial Behavior and Intentions* for the fourth quarter of 2018 and third quarter of 2019. It is difficult to say whether this survey belongs to the Central Bank, and there is no such survey among household surveys on the website of the State Statistical Committee. At the same time, the inform

ation concerning the company or organization that fulfilled this order has begun to be published in 2020.[14] However, from the respondents' number (4250), we can guess that it is the same survey to which the Central Bank referred.

Contrary to the Central Bank, some organizations or companies periodically publish research results related to consumer behavior. In this respect, Business Insight International Research Group's research, published in February 2019, can be mentioned. According to their survey, the consumer confidence index stood at 82.6, which was a negative index regarding chosen standards. Even, the research runners were saying that there was a decrease compared to the year 2018. In this sense, we can add the Centre for Social Research to the list, as well. Their objective was not to prepare an index; however, the questions that they asked and those in the survey for the CCI index were almost the same.

Methodology

To measure the index, the authors of this piece, grounded by international and local experience in this area, conducted a public survey, between February 17 and March 20, 2022. During the research process, we adopted both qualitative and

quantitative methods to gather information. The accumulation and processing procedure of data on research questions was organized in the following way.

To assess the present conditions and future expectations of households we conducted an online survey through the Google Forms website. The questionnaire covered the following issues.

• General information about the respondents (age, gender, place of residence, education, income level, employment, and marital status);
• Respondents' thoughts on the state of the country's economy over the past 12 months;
• Respondents' expectations of the country's economy in the next 12 months;

The online survey was conducted between the dates of February 18 and March 20, 2022. An announcement about the survey was made through social networking platforms, where we asked citizens to participate in it. The total number of participants was about 500, and the demographics of the respondents were as below.

 — 65.7% of the respondents were men, while that of women was 34.3%; 328 and 172 people, respectively.

 — Considering respondents' age groups, it seems that, the percentage of the respondents aged 18-29 was high (58.5%). The figures for other groups aged 30-49, 50-64, and over 65 were 38.9%, 2.2%, and 0.4% respectively. With regard to this issue, it should be highlighted that, the age range of the participants does not coincide with the age structure of the country's population, in addition, full participation of different population demographics, especially those living in the regions and over 65 years old, has not been ensured.

Figure 1. Distribution of Survey Participants by Age Group
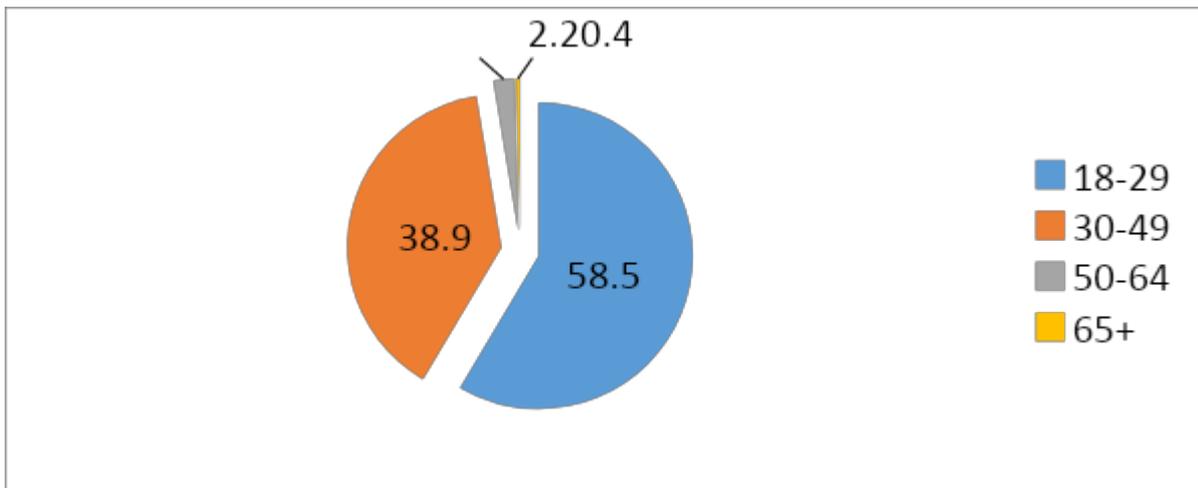
— Coming to the place of residence or living area of the respondents, we see that thirteen out of the fourteen economic regions were represented in the survey. East Zangezur was the only economic region which did not have a respondent. Most of the respondents were from the capital city of Baku (67,1%). The percentage of the respondents from the administrative regions of the Karabakh economic region accounted for 9,6% of all participants. Respondents from the Absheron-Khizi economic region constituted 6,8% of all participants. The percentages of the participants from other regions were as below: Gazakh-Tovuz 5,2%, Central Aran 3%, Ganja-Dashkasan 2,6%, Guba-Khachmaz 1,4%, Shaki-Zagatala 0,8%, Mountainous Shirvan 0,8%, Shirvan-Salyan 0,4%, Lankaran-Astara 0,4%, and the Nakhchivan Autonomous Republic 0,4%.

Figure 2. Distribution of Survey Participants by Region of Residence
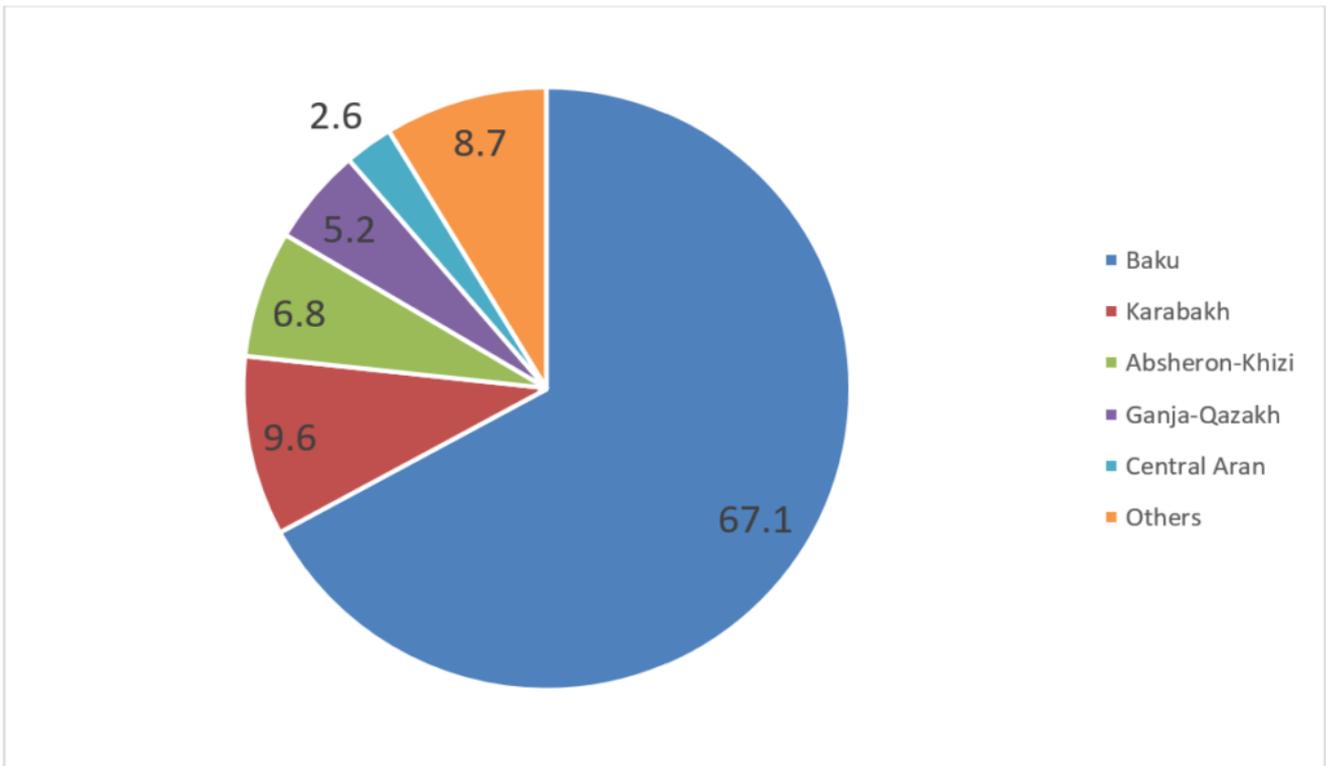
— Distribution of the participants in terms of education level shows that the majority of the respondents held a university degree (88%). Only 7,2% of the respondents had complete or incomplete secondary educations and only 4,8% were college or vocational school graduates

— Figures representing respondents' employment rates state that the majority of respondents were employed (66,9%), while 12,2% of the respondents were unemployed. Twelve percent of the total respondents were students, while 8,2% and 0,6% were individual entrepreneurs and retirees, respectively.

Figure 3. Distribution of Survey Participants by Employment Status
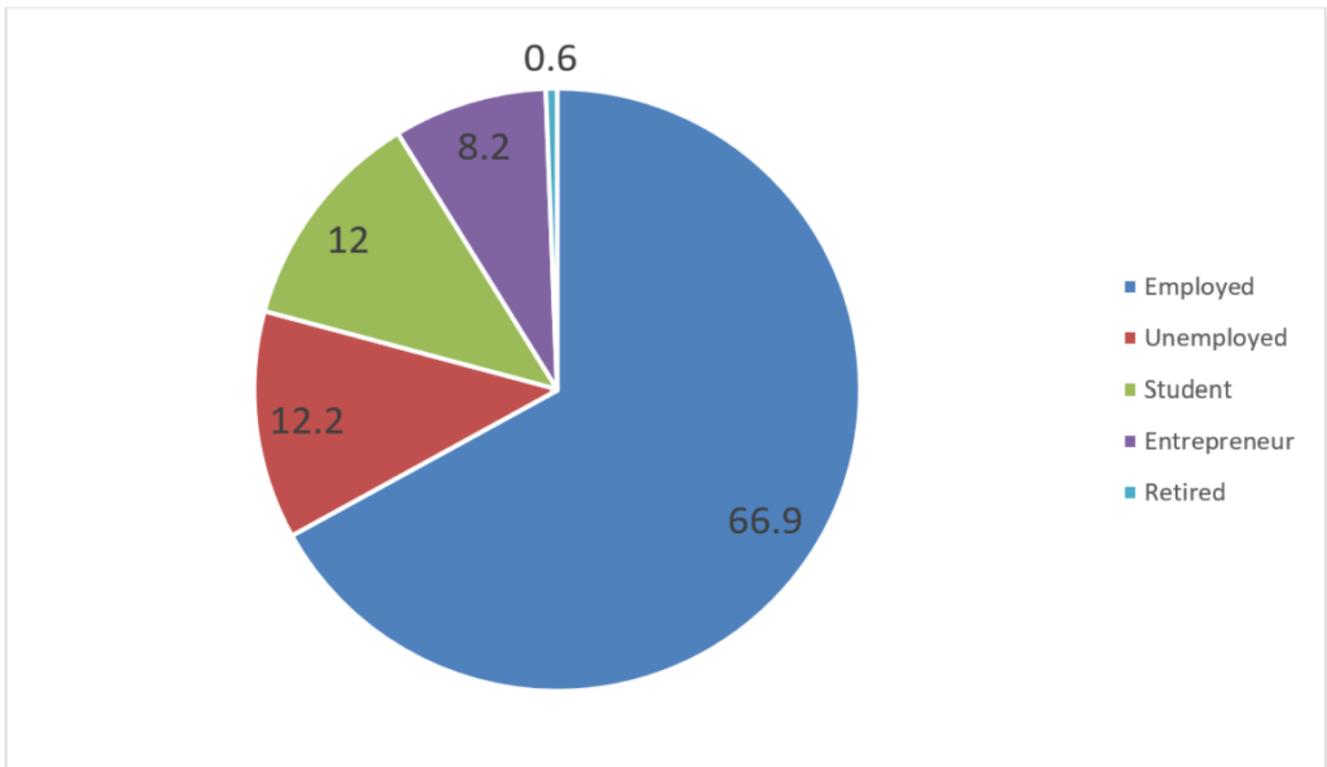
As shown in Figure 4, 36,8% of respondents were people with over 1000azn a monthly income. People earning 0-300azn per month constituted 21,7% of all participants. 13,6% of respondents received a monthly income of 301-500azn, and 12% of them had a monthly income of 501-700azn, but the percentage of people with the highest monthly income amongst the respondents (701-1000azn) was 15 percent. 0,8% of survey participants left the question about monthly earnings unanswered.

Figure 4. Distribution of Survey Participants by Income Groups
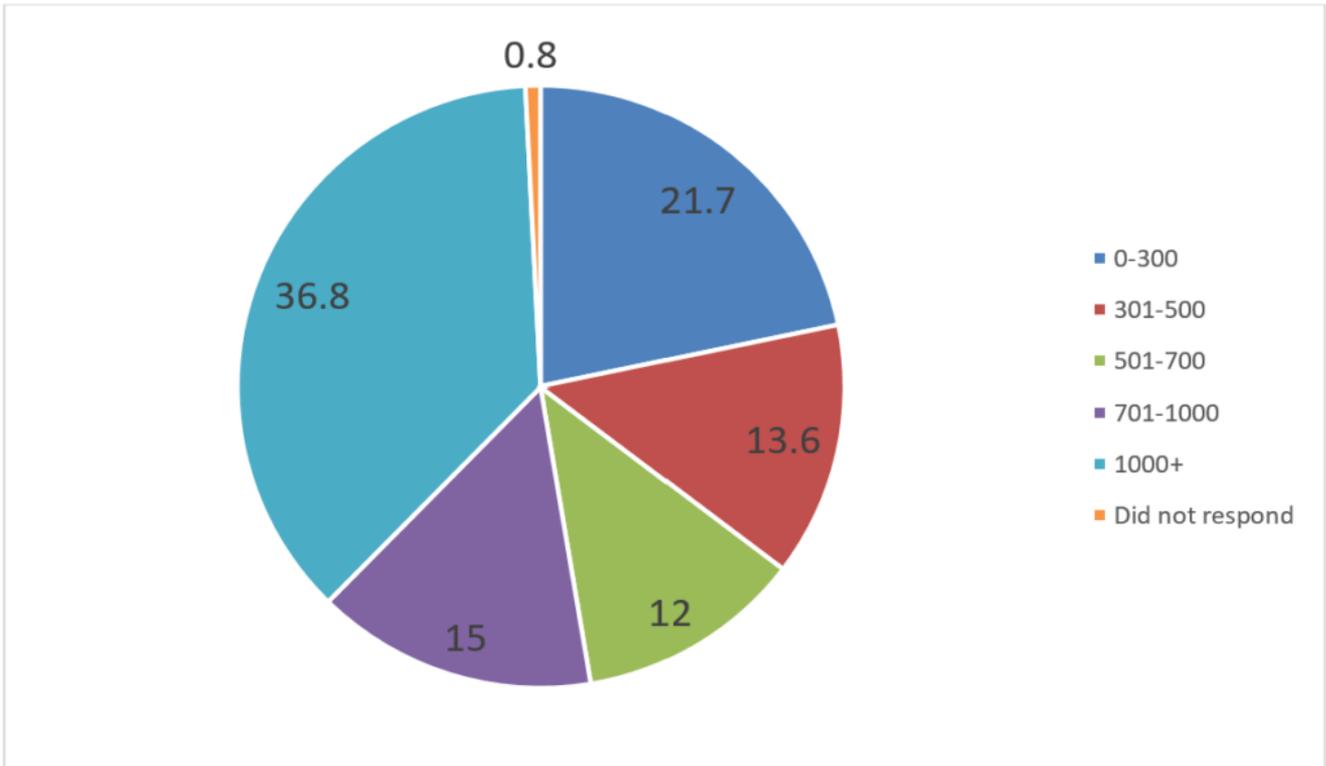
— In Figure 5, we observe that most of the respondents (63,9%) were single, only 36,1% of them were married.

— Taking into consideration respondents' answers about the number of their family members we understand that most of the participants were people with four family members (29,9%). The second highest percentage (23,7%) belonged to those who had three family members. People with five and two family members constituted 17 and 11,4 percent of the respondents, respectively. While 9,4% of the respondents had more than five family members, and 8,6% of them were living alone.

Figure 5. Distribution of Respondents According to the Number of Family Members
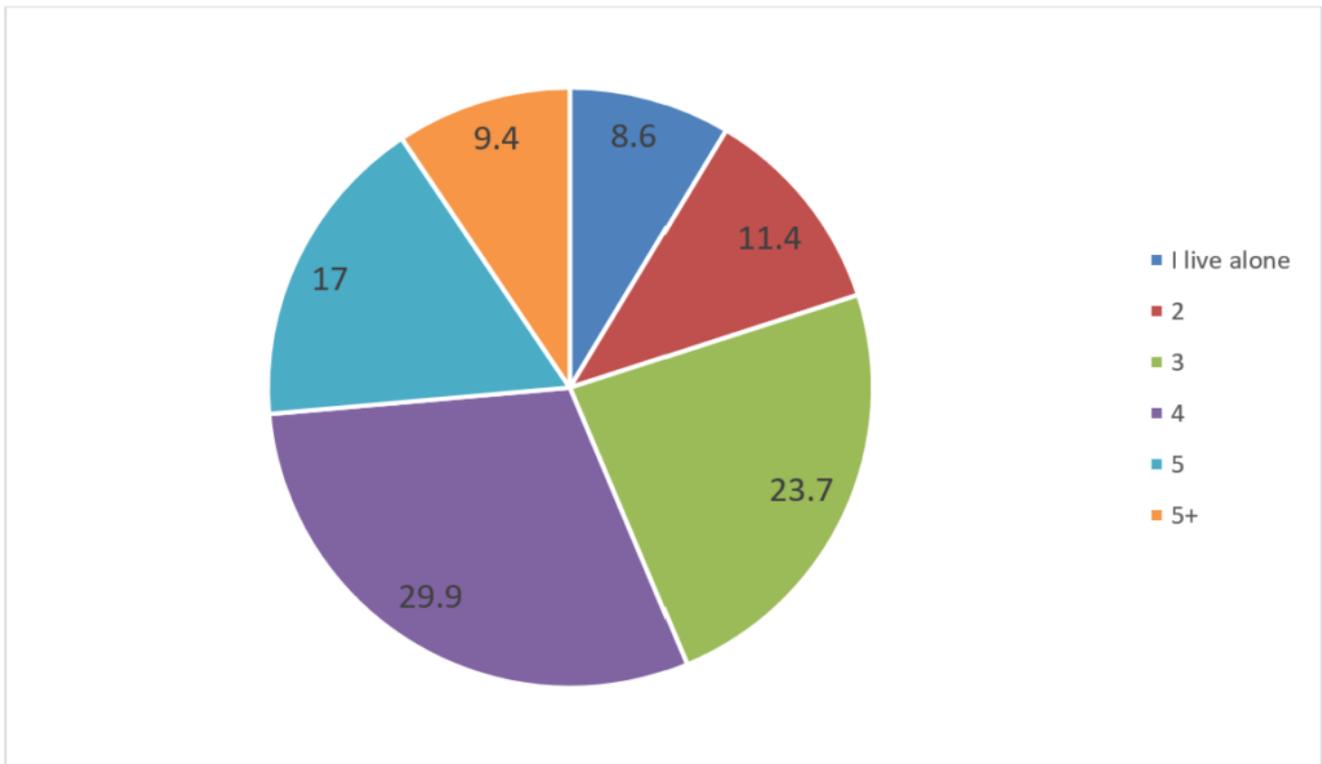
Data about the demographics of the respondents confirm that the number of participants living in the provinces and that of retirees was fewer than their counterparts. In the country, there is a significant difference in terms of income level between Baku and other regions. Also, the incomes of retired people in the country are lower than that of wage workers. In this regard, we had limited chances to survey citizens such as retirees from the upper age group and those from regions. Nevertheless, we do not think that any increase in their number could make any significant difference in the results of this analysis.

The authors of this paper also measured the Consumer Confidence Index based on the responses given to the questions classified under the categories "Respondents' thoughts on the state of the country's economy in the last 12 months" and "Respondents' expectation about the state of the country's economy in the next 12 months." To measure the index, we relied on the international experience.

First, it was possible to classify answers, relating to the questions, into the following categories: positive, semi-positive, neutral, semi-negative, and negative. In the next

stage, the proportion of the negative and positive answers of the total answers was determined. For this purpose, to maintain the balance the following formula was adopted.

Proportion of positive answers = (positive + ½ semi-positive) / total answers * 100

Proportion of negative answers = (negative + ½ semi-negative) / total answers * 100

To determine the index per component, we adopted the balance method. As the method necessitates, obtaining the index, we subtract the number of negative answers from that of positive ones and add 100 to the result, to keep clear of sub-zero results. In other words, we get the following formula:

Proportion of positive answers – proportion of negative answers + 100 = index indicator per-question

The CCI, in international practice, is an average number of two indicators. One of the two represents the actual situation, while the other is related to the expectations. In our survey, as well, questions were divisible into two: "Respondents' thoughts about the state of the country's economy in the last 12 months" and "respondents' expectations about the state of the country's economy in the next 12 months." Keeping this in mind, after obtaining the index indicators for each question we aggregated them in groups. Index indicators for each group were obtained through the average number method. As a result, we obtained the following consumer confidence index formula:

Consumer Confidence Index = (current situation + expectations) /2

Categories into which results are classified:

0-100 – negative expectations

100 – neutral expectations

100-200 – positive expectations

Survey results

During the survey, 10 questions related to the CCI were directed to the respondents. As mentioned earlier, these questions were divided into two:

• Respondents' thoughts on the state of the country's economy in the last 12 months;
• Respondents' expectations about the state of the country's economy in the next 12 months

There were five questions related to each group. Particularly the following results will be presented in accordance with these questions.

Respondents' thoughts on the state of the country's economy in the last 12 months.

– How has the financial situation of your family (household) changed over the last twelve-month period?

As already mentioned, people's future expectations are formed based on past events. Therefore, we included questions intended to divulge the respondent's sentiments about the previous year. Responding to this question, nearly half of them (44%) stated that over the course of the last twelve-month period their circumstances have gotten worse. As income level goes down this number goes up. 52,2 percent of the respondents with the lowest monthly income (0-300azn) said that their financial situation worsened. Even 12% of the respondents said it was much worse. In the group of respondents with the highest income, 31% spoke of bad financial circumstances. The same percentage of respondents stated that the circumstances remained unchanged.

Figure 6. Financial Situation over the Past 12 Months.
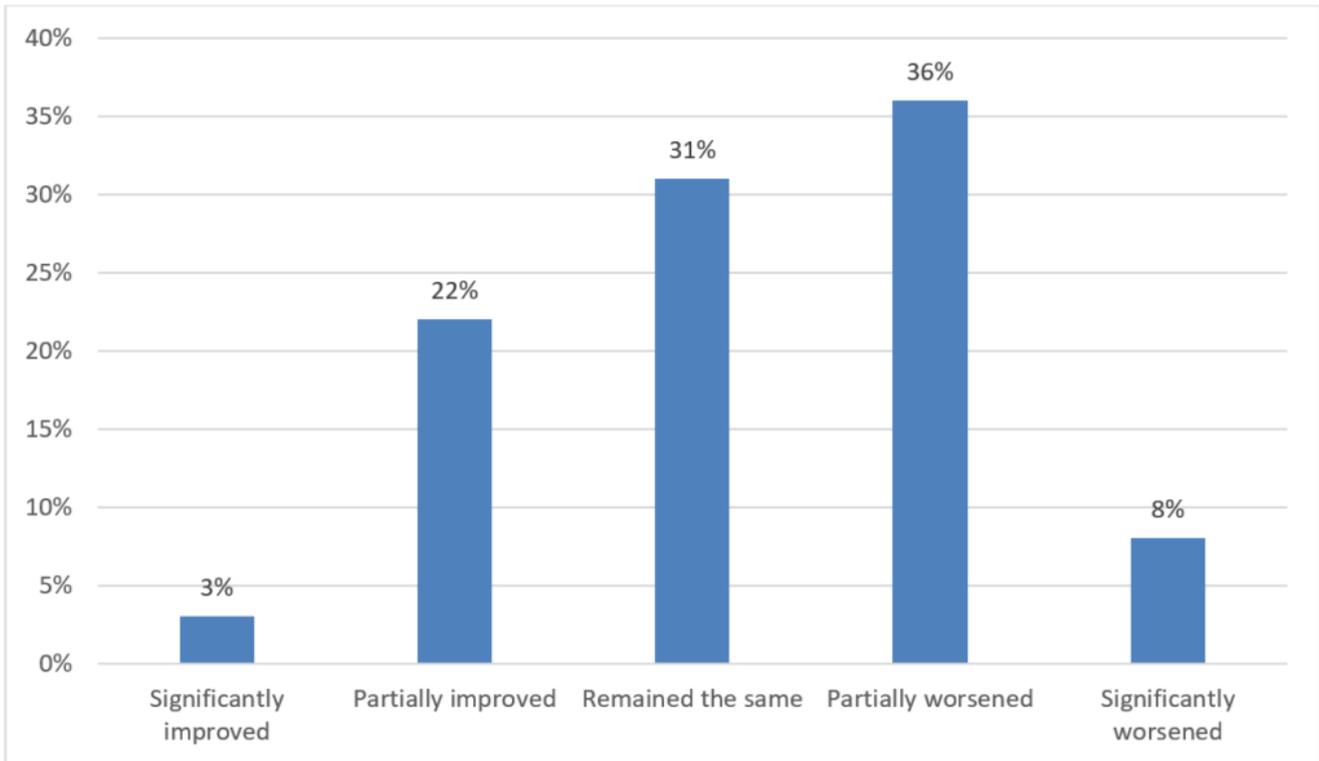
Twenty-five percent of the respondents say the situation changed for the better during the last 12 months. It should be noted that, people who said "significantly improved" mainly belonged to two income groups; half of them were from the high-income group (over 1000azn), but one-third of them had an income of up to 300azn.

— How do you evaluate the country's overall economic situation over the last twelve-month period?

Regarding the country's economy, respondents were near unanimous in their assessment. According to 80% of the answers country's economy got worse. Only 10% of the respondents said that the situation had not changed. Likewise, 10% said that it had improved. 38% of those who observed an improvement in the economic situation were from the highest income group. In second place were middle-income respondents.

Figure 7. State of the Country over the Last 12 Months
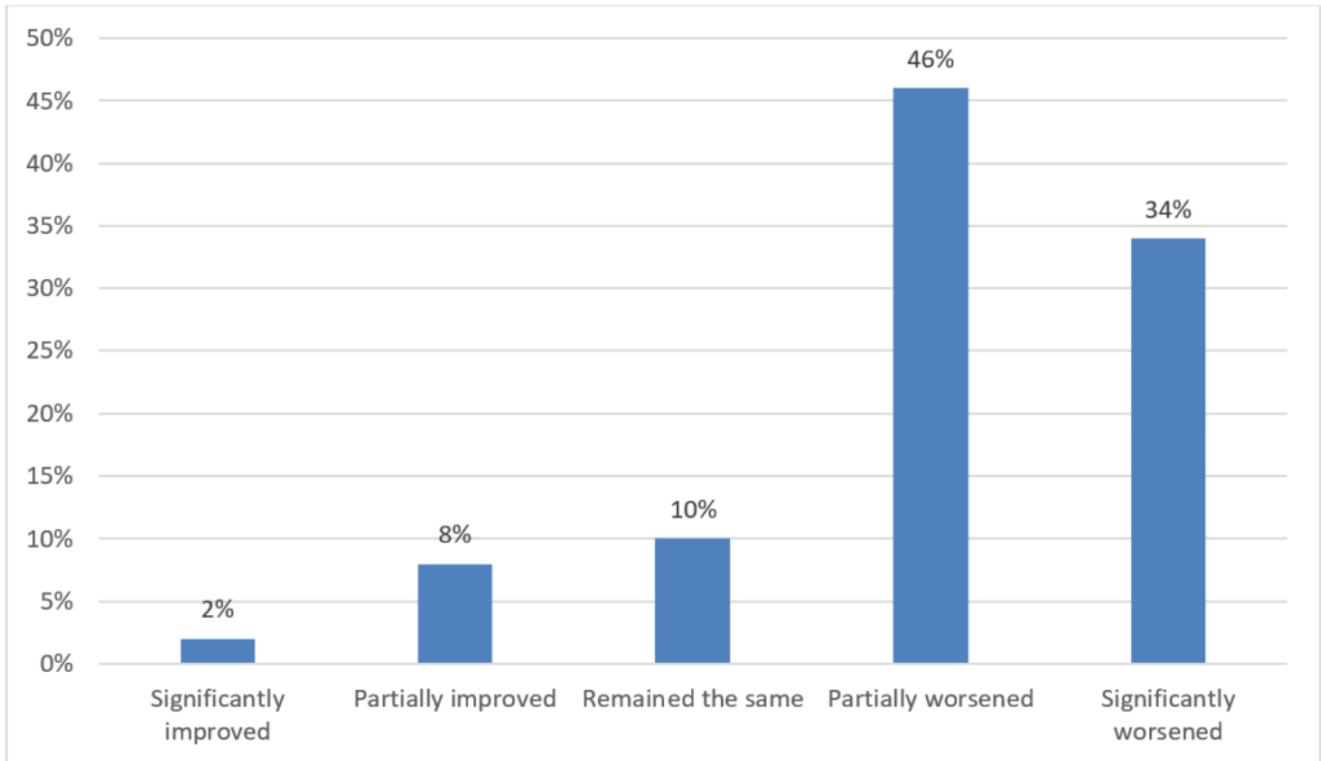
— How do you evaluate the changes in consumption expenditures over the last twelve-month period?

Regarding the price changes witnessed throughout the last year, respondents were again near unanimous. In this category, 96% of the answers confirmed price escalation; however, 2% of them marked that there was only a slight increase in prices. But no one observed any decrease. Even 72 percent of the respondents observed dramatic increase.

Figure 8. Price Variation over the Last 12 Months
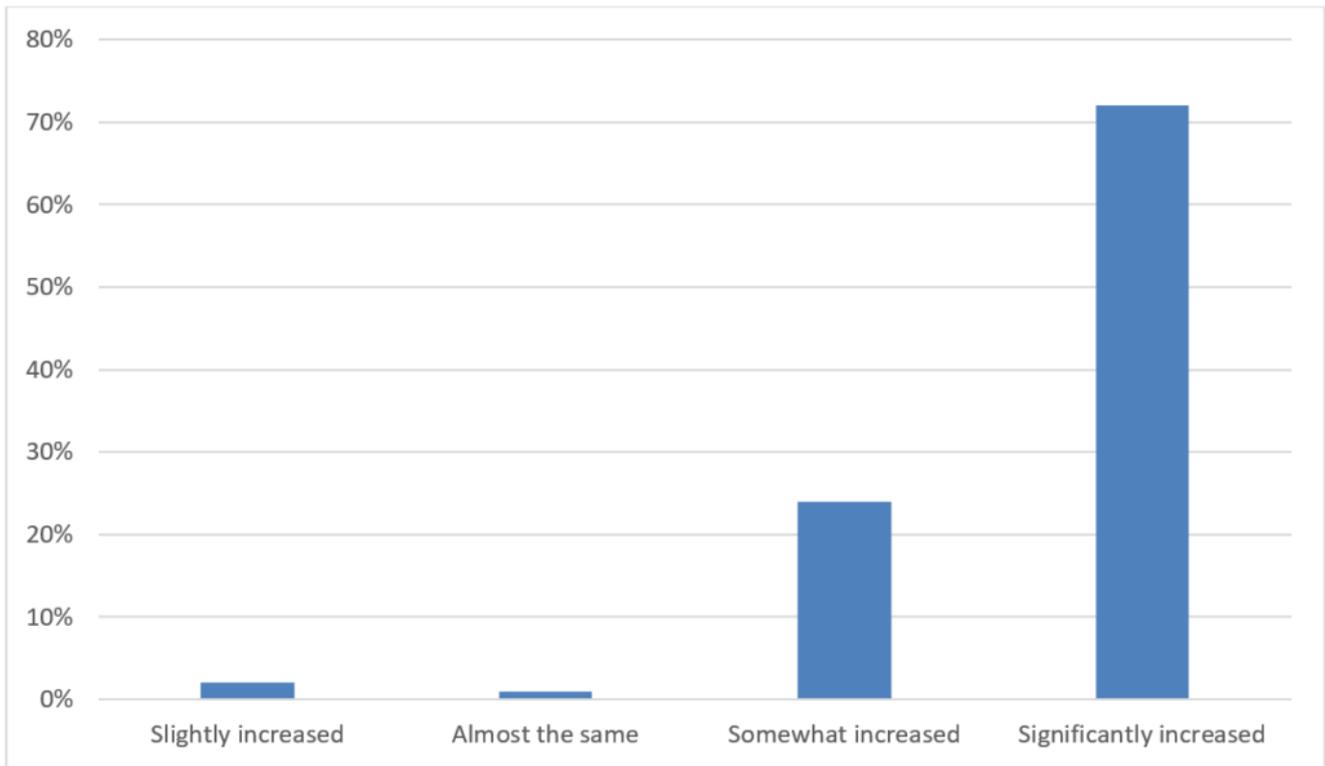
— Do you think it is the right time to purchase durable goods (furniture, home appliances, car, house, and so on)?

One of the things to represent people's views about the present situation is their willingness to make big purchases. If it is considered a good time for purchasing, then the economic condition is favorable. In the opposite case, one can predict negative conditions in the economy. People's opinions about buying durable goods, such as household equipment, car, etc., are not fixed, in the current situation. Yet, more than half of the participants (57%) preferred the "neutral" option. At the same time, the number of those who believed it is not a good time for spending on such things was equal to one-third of the respondents. Still, eleven percent believe it is a good time to purchase such products. Among them, the highest-income group accounts for 40%. Again, this group formed 25% of the respondents who believed it is the wrong time.

Figure 9. Appropriate Time for Purchasing Durable Goods

Yes, it's a good time	Neither good, not bad time	No, it's not a good time
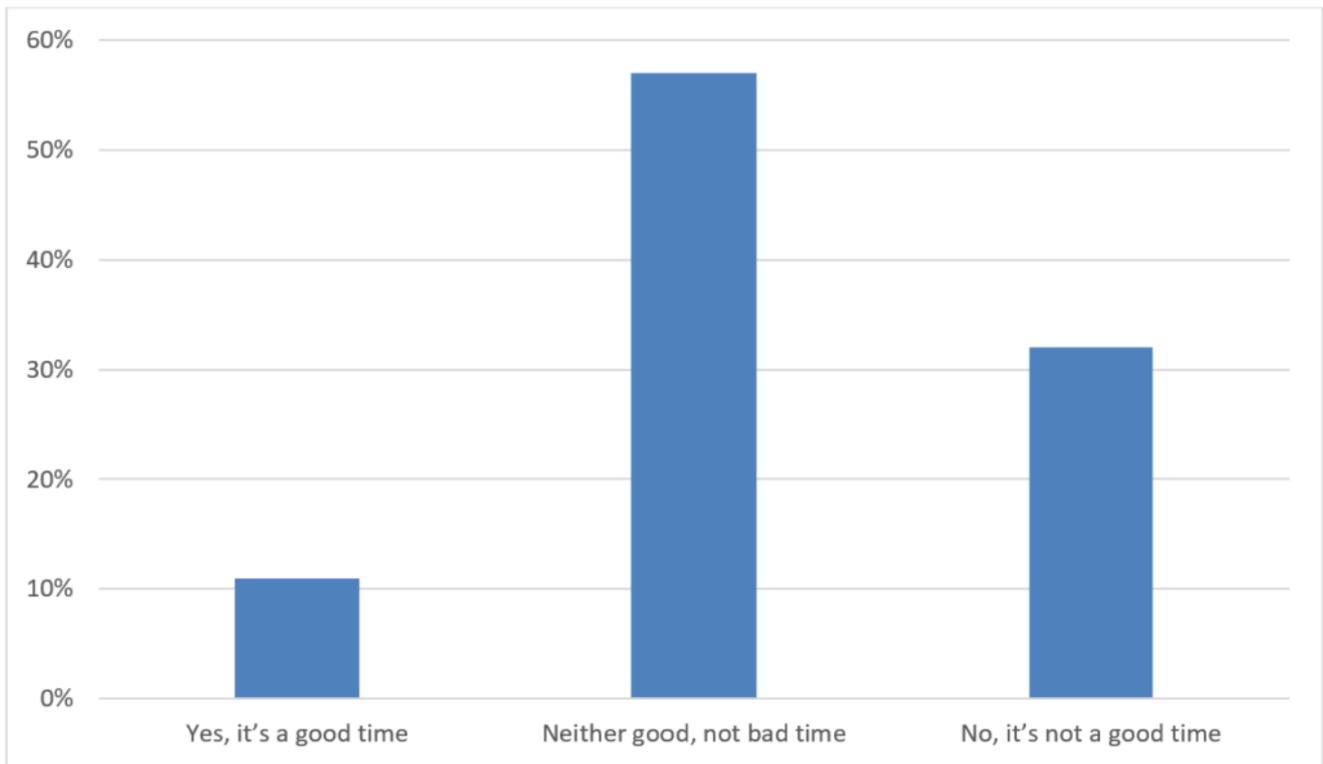
**— Which of the following best represents your family's current financial circumstances?**

Responses to this question are varied. While asking a question related to the current financial situation surveyors took income and expenditure ratio as a standard. In their opinion, if income exceeds expenses it is a sign of positive financial standing; otherwise, a household's financial circumstances should be regarded as negative.

10% of respondents declared that their incomes exceeded their expenses. Another 18% said it slightly exceeds spending. So these two groups have some ability to save. It is not hard to assume that these groups were formed by high-income individuals. The survey results show that 43% of those who gave such responses earned more than 1000azn per month. They are followed by respondents earning 701-1000azn each month. The individuals gathered in this income group lead others for spending their savings, owing to financial difficulties (27%).

Amongst the respondents who indicated that they "regularly borrow money," a relative majority belongs to the low-income group, though overall these people are equally distributed

among the groups. It is worth mentioning that, the current financial situation is not just dependent on one's income level, but also on the number of family members. Thus, 66% of the families who "regularly borrow money" consist of four or more people. In another group, 45% of the respondents have 1-3 people in their families.

Figure 10. Current Financial Situation of Your Family
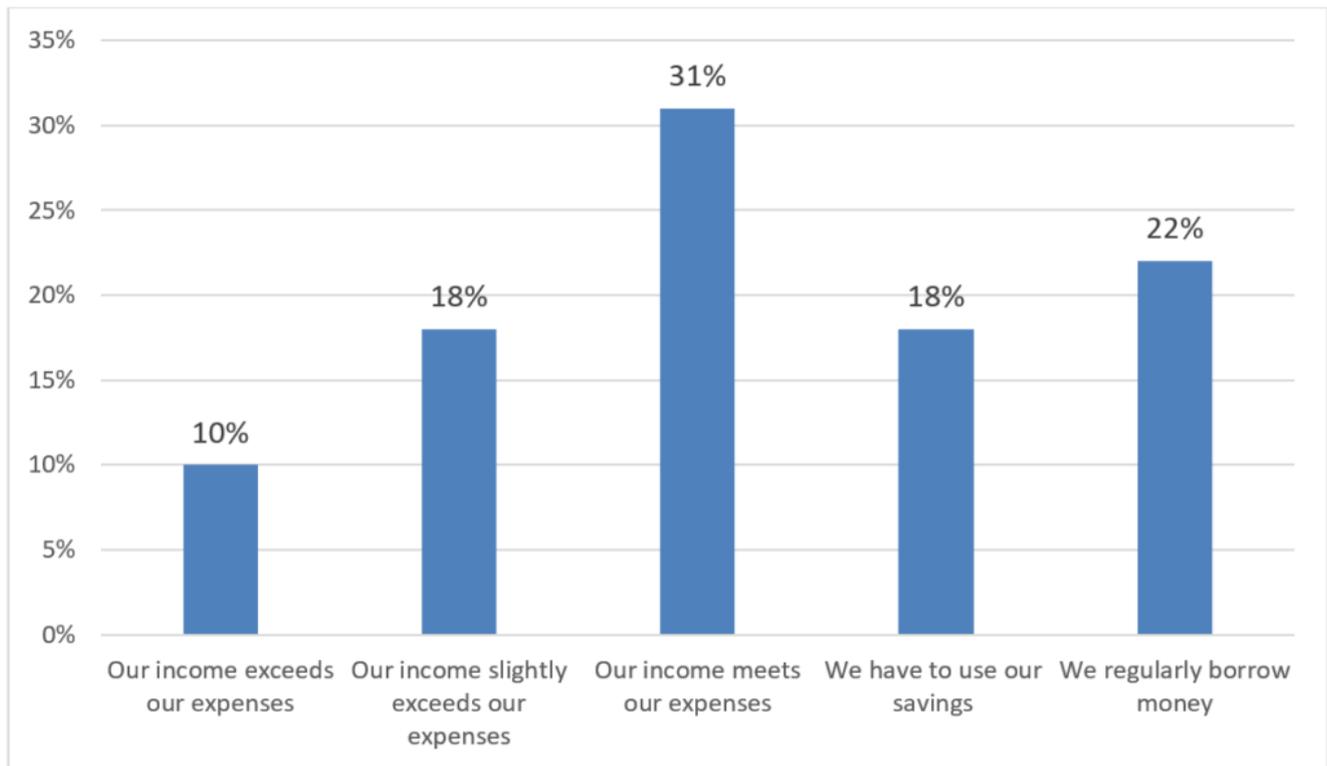
Respondents' expectations about the state of the country's economy in the next twelve-month period

— What is your expectation of your family's financial situation in the next twelve-month period?

The expectations of the population are relatively optimistic with regard to their households' financial status in the coming 12 months. Considering the given responses, we see that 34% of the respondents do not think that there will be any difference, whereas 32% are optimistic and think it will get better. Only 28% predicted worsened circumstances.

Considering that for 44% of respondents things changed for the

worse, the situation invites optimism. It should be noted that 26% of the respondents, who went through bad circumstances during the last 12 months, think that their financial situation, significantly or partially, will get better.

On the other hand, we see that 34% of participants do not expect any considerable change in the next 12 months. Thirty-nine percent of those who predicted that financial circumstances would remain unchanged said that it was more or less difficult over the last 12 months. In other words, conditions of the respondents in this group are never favorable.

**Figure 11. Financial Situation of your Family in the Next 12 Months**
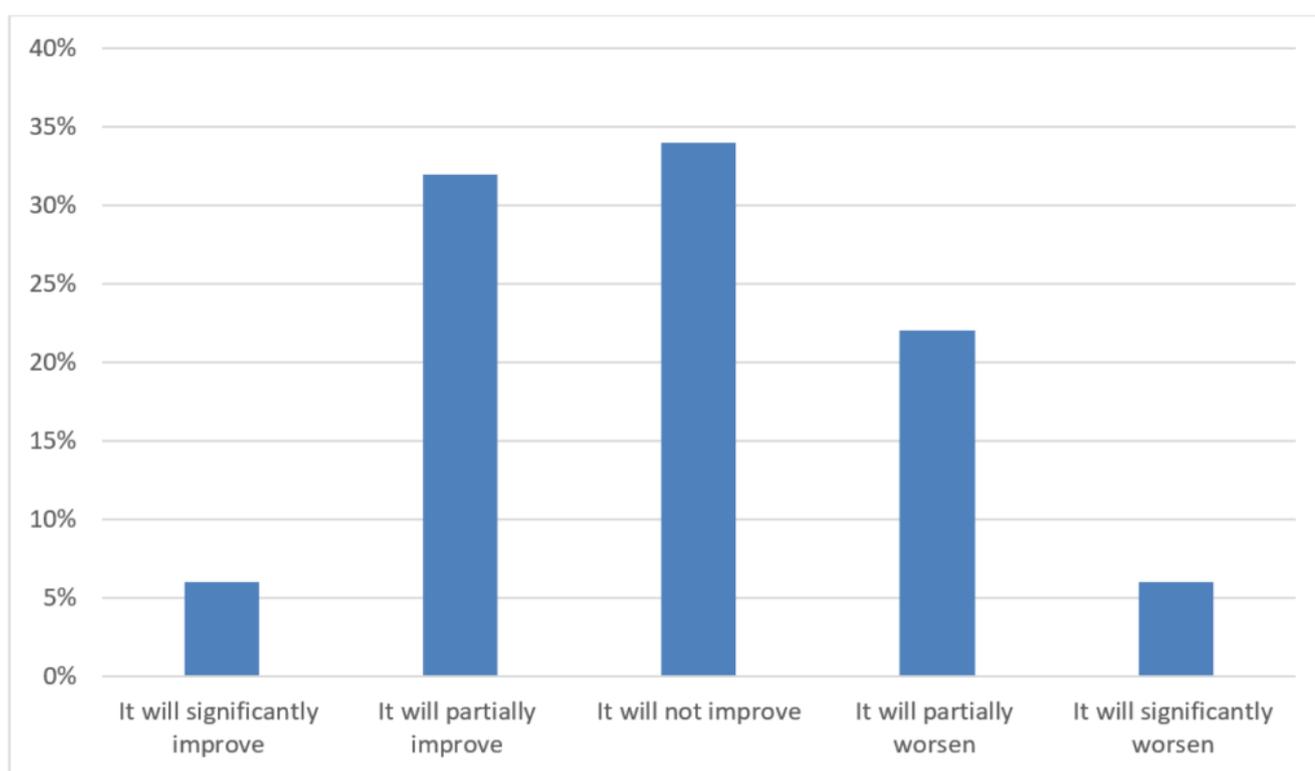
— What are your expectations of the country's overall economic state over the next twelve-month period?

The optimism related to the family's financial status had no effect on respondents' thoughts on the country's state. Over sixty percent of respondents (61%) are of the opinion that the situation will worsen. This is compared to 21 percent who

believe the situation will remain unchanged. The percentage of those who are positive and think it will improve is just 17%. We should mention that the number of people who think that the situation will be very difficult is more than other groups. Interestingly, during the entire period of the survey, the average price of Azerbaijani oil on world markets remained above 90 dollars. The highest point, 135,99 dollars, was recorded on March 9, before which 416 people had already participated in the survey. Yet sixty-nine percent of the 84 participants who subsequently joined the questionnaire stated that the situation has changed for the worse, in some degree.

**Figure 12. The Country's Economic State in the Next 12 Months**
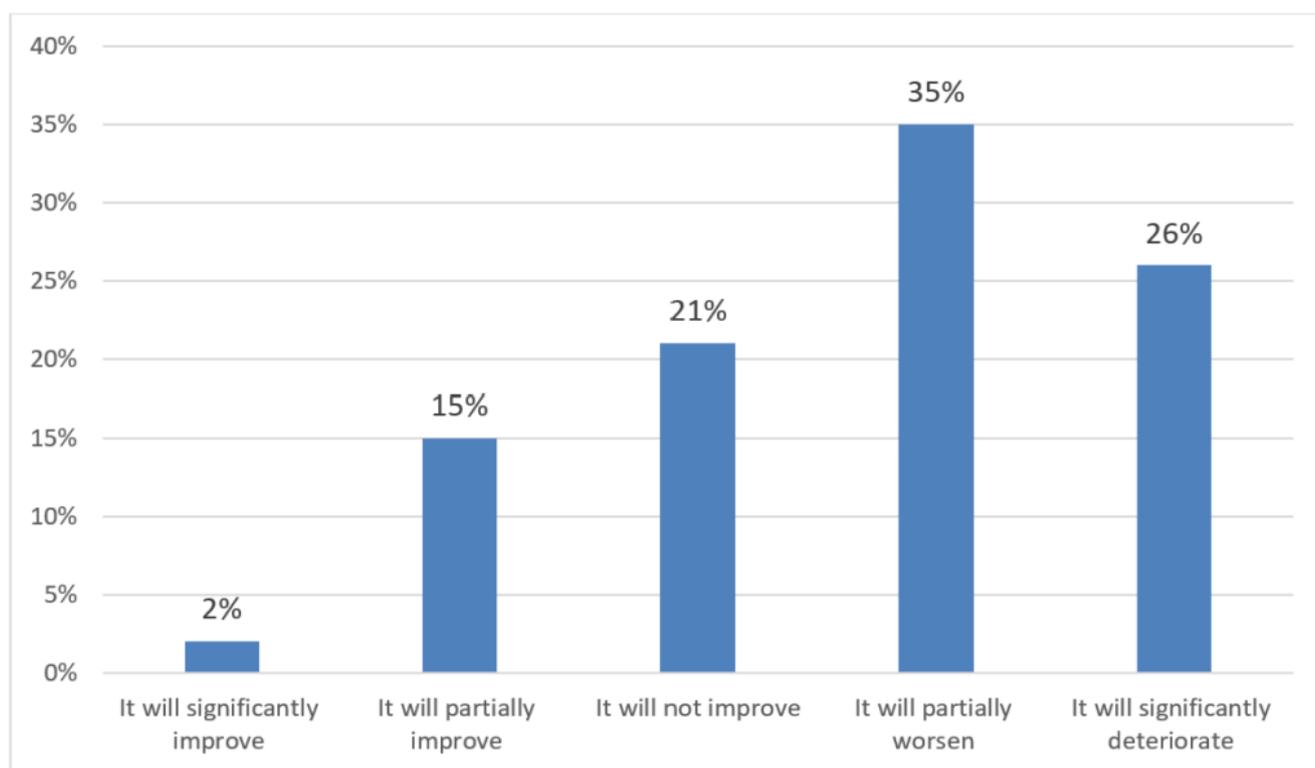
—What are your expectations of changes in consumer prices in the next 12 months compared to the previous year?

There is uncertainty about the prices, and probably it is the main reason for negative predictions regarding the future of the country's economy. More precisely, people are preparing for further inflation. According to 81% of respondents, prices will continue to rise. Half of them believe that the price increase will be the same as last year's, while the other half

predicts that it will be higher compared to the previous year. Merely 5% of the respondents predict that prices will remain unchanged or fall. Others, whose number accounts for 15% of respondents, also predicted an increase, though they qualified that inflation would be slow.

Figure 13. Price Variation in the Coming 12 Months
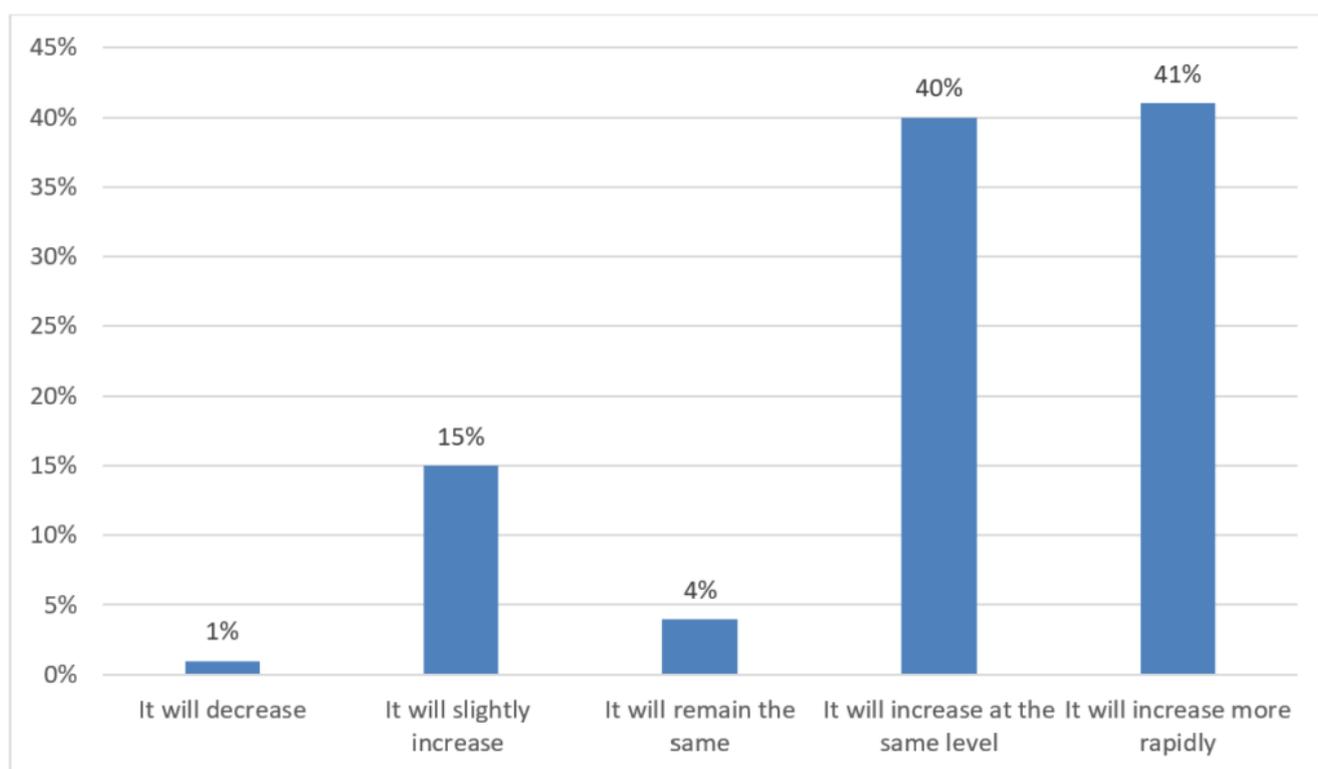
— **How do you evaluate expectations concerning changes in unemployment in the next twelve-month period?**

Responses to this question, again, reveals pessimism. Sixty-nine percent of the respondents think that unemployment will continue to rise. Again 46% of them thought the rise will be relative, but 23 percent predicted a sharp rise. One-fourth of respondents did not expect any change. Optimistic respondents believed prices will drop and they accounted for 6%. People who agreed with this standpoint were mainly from Baku and had an income of 1000azn.

Figure 14. Number of Unemployed People in the Next 12 Months
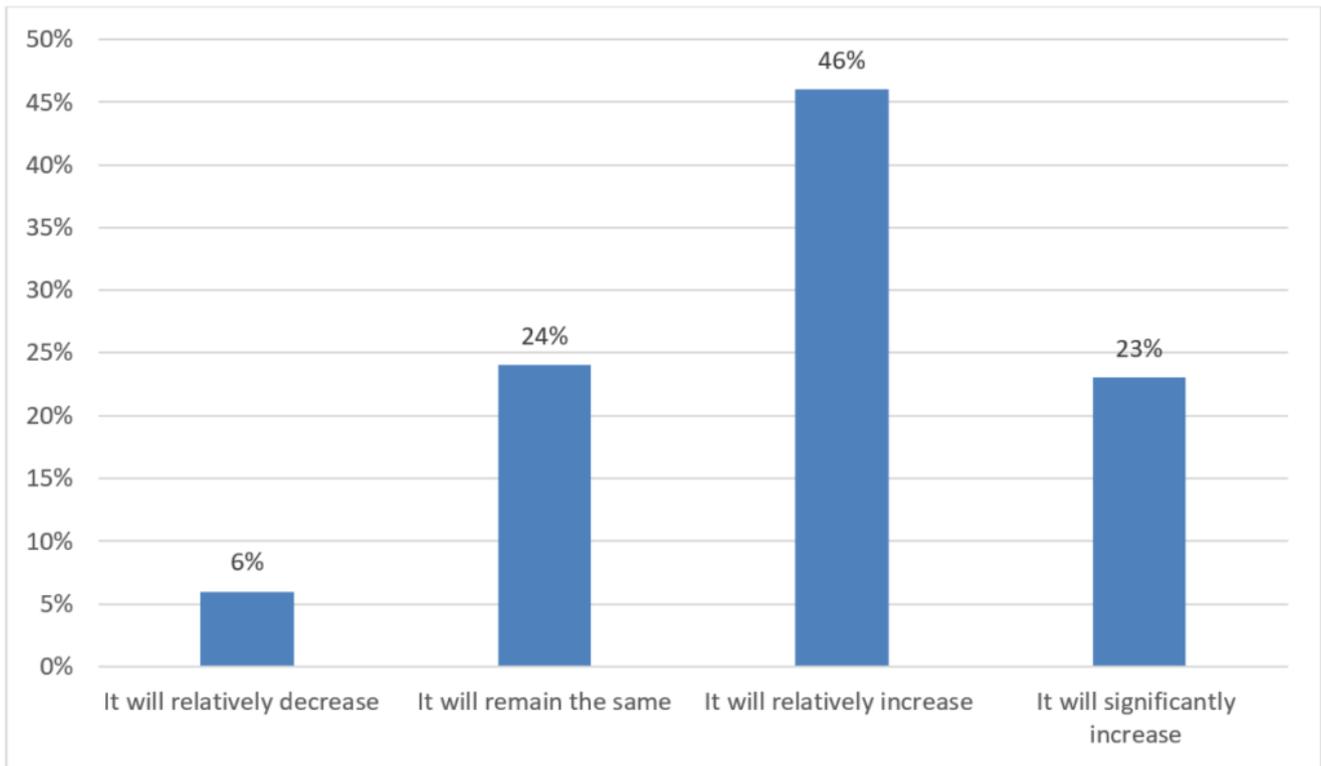
— Are you planning to save money in the next 12 months?

It is understandable that expectations for saving money in the next 12 months are low. Forty-three percent of respondents think that it is not be possible to save money over the next 12 months. While 45% think that there is some chance to save money, another 12% of the respondents believe that the possibility is high.

Figure 15. Possibility of saving money in the next 12 months
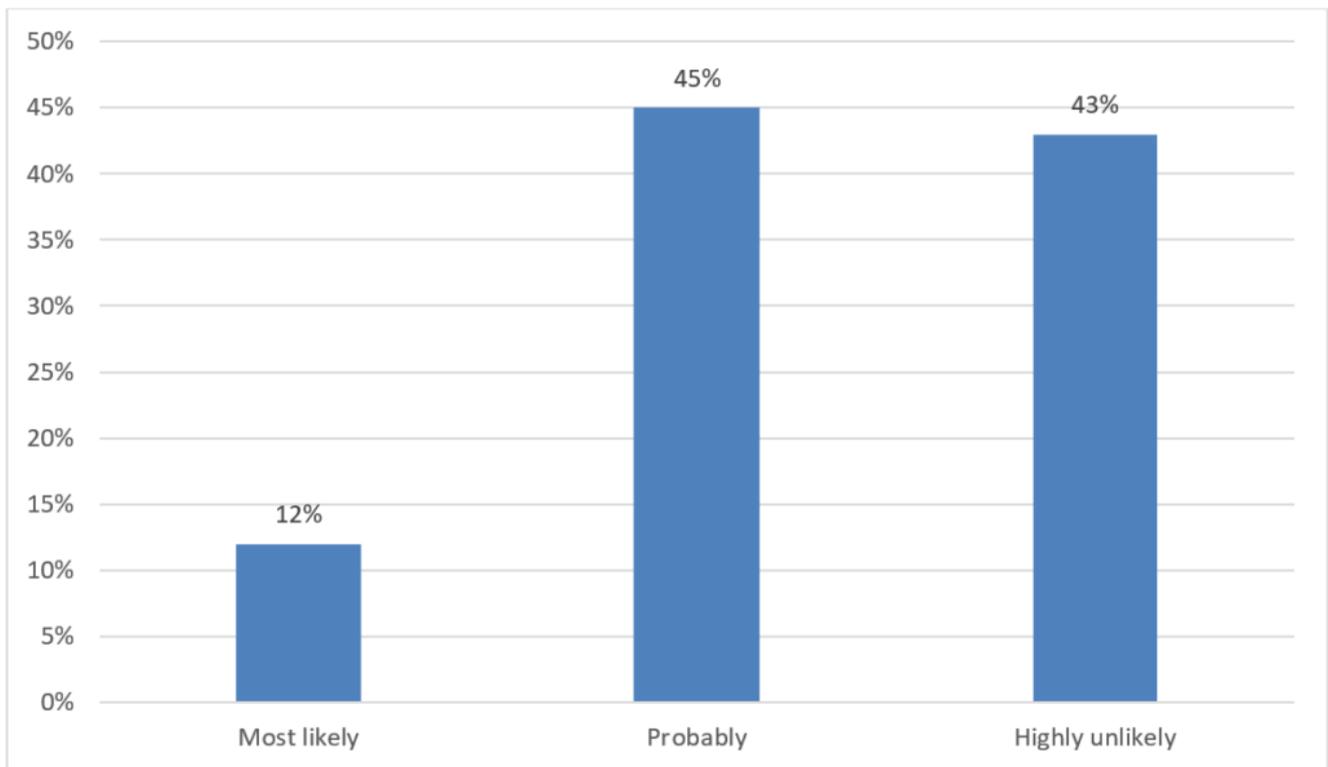
Thus, as it seems from the figures, the majority of the respondents are not happy with the present situation, nor are they positive about the future. In the end, only in one category—that of "How do you evaluate expectations of change in your family's financial situation over the next 12 months"—was the index indicator on the positive side. For this question the index was equal to 104.92 points. For other questions, index indicators were under 100. It shows that from the CCI perspective, the number of optimists is less than that of pessimists.

Table 1: Consumer Confidence Index

Question	Index
How has the financial situation of your family (household) changed over the last twelve-month period?	88,05
How do you evaluate the country's overall economic situation over the last twelve-month period?	48,50
How do you evaluate the changes in consumption expenditures over the last twelve-month period?	17,03

Do you think it is the right time to purchase durable goods (furniture, home appliances, car, house, and so on)?	73,59
Which of the followings best represents your family's current circumstances?	87,15
What are your expectations of your family's financial situation in the next twelve-month period?	104,92
What are your expectations of the country's overall economic state over the next twelve-month period?	65,86
What are your expectations of changes in consumer prices in the next 12 months compared to the previous year?	47,39
How do you evaluate expectations concerning changes in unemployment in the next twelve-month period?	57,31
Are you planning to save money in the next 12 months?	63,33
Consumer Confidence Index	65,31

As is mentioned in methodology, CCI is built upon two measures, one of which represents the current situation, and the other expectations. According to our survey, the index of the situation during the last twelve-month is 62.87, while that of expectation is 67.76. The average of these two is forms the CCI. For our calculation, this is equal to 65.31 points, which is well under 100.

Additional Questions

Responding to the question concerning the current status of their family, 22% of respondents chose the option "regularly borrow money." In this respect, surveyors asked respondents additional questions related to the sources of borrowing. Taking into consideration the responses of participants given to the questions about their loan sources, it seems that 44% of the respondents showed credit agencies (banks) as a source. Apparently, regardless of their actual financial state, many

respondents applied for varied loan products. Merely 33,6% of the participants had no financial obligation. The proportion of the respondents borrowing from relatives and other acquaintances accounted for 17,7 percent. 3,4% of respondents mentioned as a source of debt loans from business centers, 1% money lenders, and 0,6% interest-bearing loans from other individuals.

According to survey data, approximately one third of people with an income up to 500azn, got a bank loan; however, the number of people whose income exceeds 500azn was 50 percent. The most frequent customers of credit agencies are those with an income of 701-1000azn. Their share of respondents is 57 percent. The most interesting point is that the majority of the respondents who chose the "I have no debt" option are categorized under the lowest income group (0-300azn). Their number is equal to 44 percent. In this regard, the second highest result (40%) is recorded among those who have an income of over 1000azn.

**Figure 16. Distribution of Survey Participants by Loan Source**
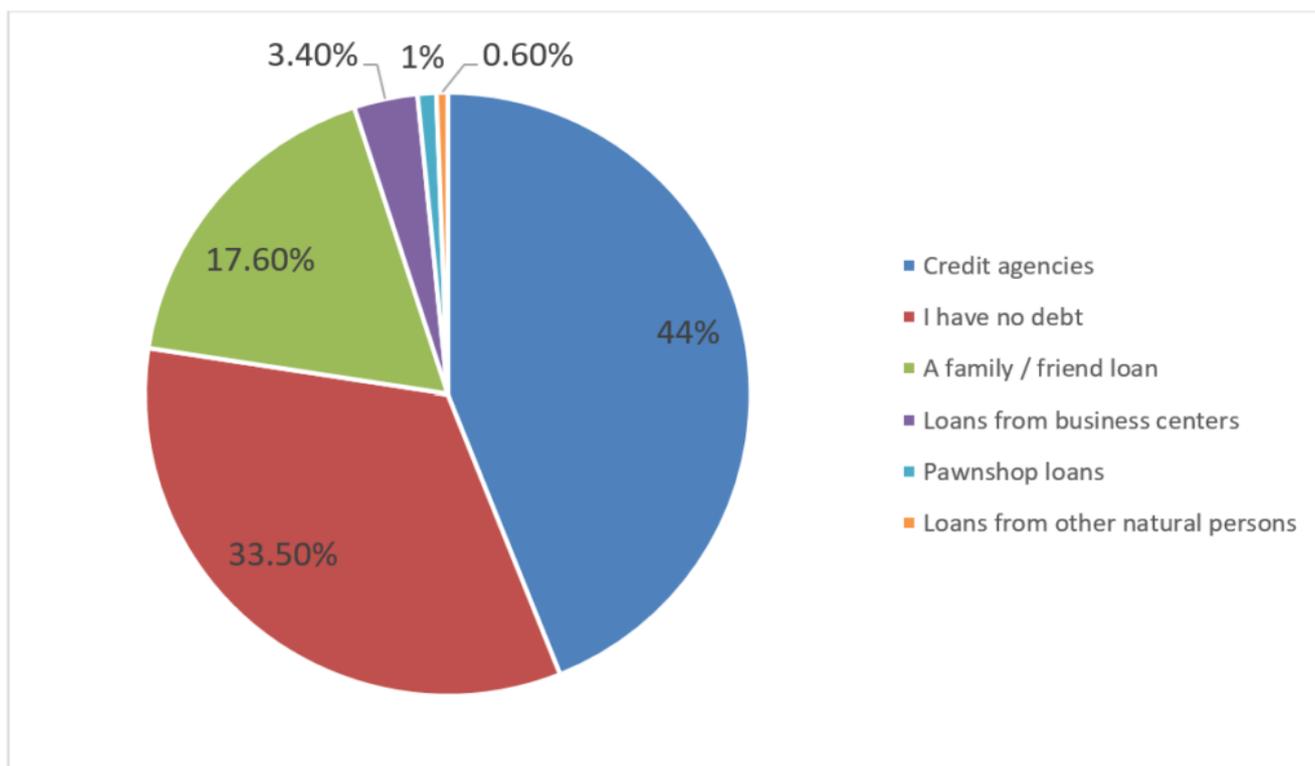
In the survey, respondents were also asked whether they rely

on the country's economic policies. The results show that the greater part of survey participants have no confidence in economic policy. While 5,2 % believe in the country's economic policies, 22,1% of the respondents are not fully confident in them.

Regarding the question about respondents' reliance on government economic policy, when analyzed by income level, it appears that the lowest figure of those who have no confidence in economic policies pursued in the country is recorded in the lowest income group — 68%. In other categories this figure is above 70 percent. The highest share of people who do not trust the government's economic policy is recorded among those who earn 501-700azn a month. Seventy-eight percent of respondents in this group do not trust the economic policy of the government. When analyzed by profession, the lowest percentage of those who had no confidence in the government is that of students (63%), while the highest is that of laborers (75%).

Figure 17. Survey Participants' Confidence in the Government's Economic Policy
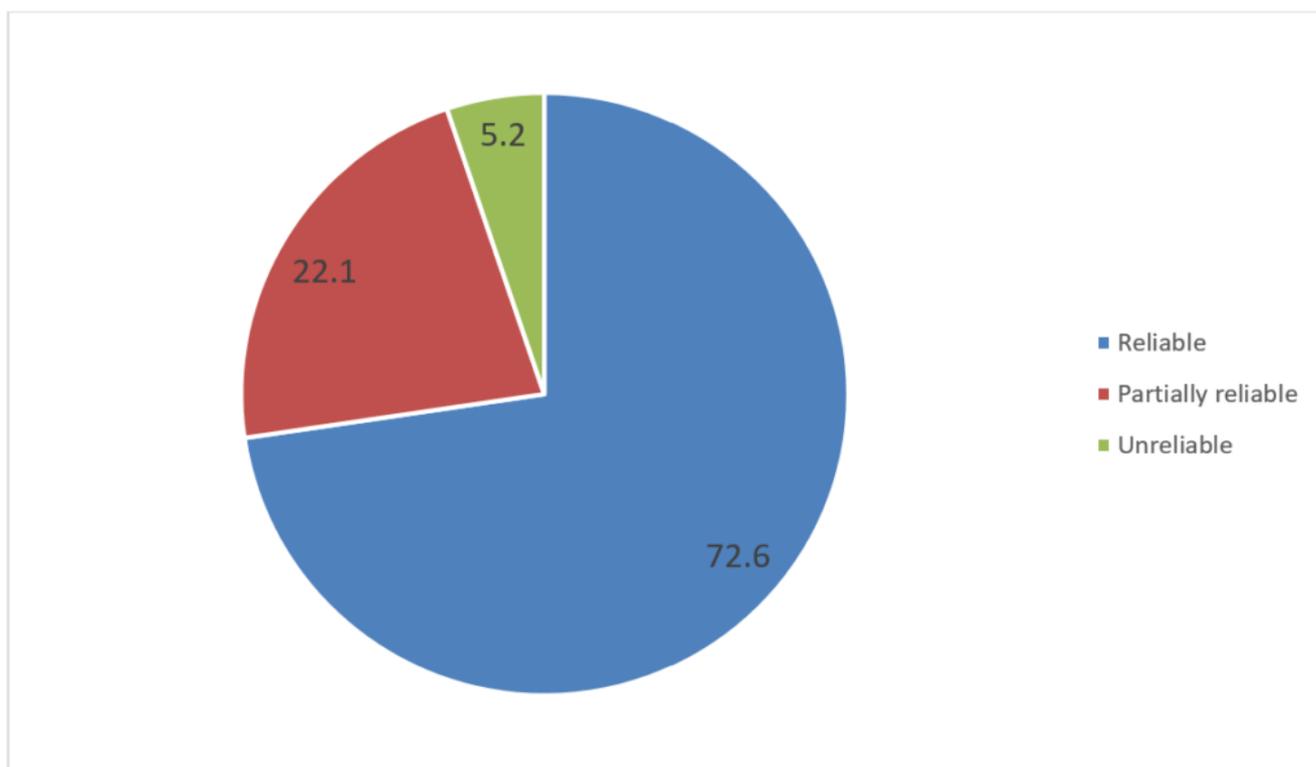
Conclusion

In many economies, consumer expectations in the market have a considerable impact on investors who are taking a new investment decision. Consequently, consumers' market expectations are of significance in terms of improving both economic activity and employment. The results of this research show that, at present, Azerbaijani consumers' expectations of economic processes are negative. As mentioned earlier, consumer expectations are formed on previous experience. The survey results of the current study demonstrate that the events of the last twelve-month period negatively influence consumers. To illustrate this, we can refer to the index data obtained through the balance method which we adopted in our survey conducted for the purposes of this study. That data shows that the lowest point of the index over the last twelve-month period was recorded in the price-change component. As Table 1 illustrates, the figure was equal to 17,03 points. According to the methodological explanation above, indicators from 0 to 100 represent negative expectations. Likewise, we have observed that consumers were negative, again, responding to the question about changes in overall economic conditions during the last twelve-month period (48,5). In general, survey results show that respondents were of the same opinion about both price change and overall economic conditions.

This, as we saw, results in a compounding of pessimistic expectations. For example, the index number for consumer price change in the next 12 months compared to the last year is just 47,39 points. In other words, as the number implies, in the next twelve-month period too people expect a rapid increase in prices. As a result, they are hesitant to purchase any long-term use products. According to the survey results, more than half of the respondents were neutral.

Only one component index indicator was over 100. The index for an expectation of a change in your family's financial situation in the next 12 months is 104,92. As we mentioned, if this figure is over 100 then the consumer expectations are considered positive. We assume that the relative improvement

in this index is due to expectations concerning the abolition of quarantine restrictions.

Therefore, the index that we obtained through the balance method was 65,31. To measure this index, the basis points of attitudes about the current situation and expectations about the next twelve-month are averaged. This index shows that, consumers' opinions and expectations of the economy are negative. In this regard, it is clear that there are serious challenges to the government's socio-economic policy, and the government, to adequately respond to these challenges, must develop new effective socio-economic policy mechanisms. In this context, the issue which we particularly want to bring into focus is consumers' thoughts on government economic policy along with that of economic processes in the market. Our survey results show that 72,6% of respondents have no confidence in government economic policy. As three out of four people do not trust the economic policies pursued in Azerbaijan, the effectiveness of policy mechanisms comes into question. In this respect, ensuring participation, transparency, and accountability in the development of policy mechanisms in the country could change the situation for good and increase confidence in government economic policy. From our point of view, one of the first steps to be taken in this direction is that the Central Bank and other institutions should regularly measure consumer behavior and expectations and share the results.

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