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**Extended Abstract of Master Thesis**

**Crude oil price analysis in Azerbaijan**

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# Crude oil price analysis in Azerbaijan

## Abstract

Oil is one of the most important energy resources and the leader in global consumption of energy. Therefore, investigating how the trends and tendencies in the oil sector affect the activities run by states is important and relevant. Azerbaijan's national economy is largely dependent on oil resources, and therefore this thesis aimed to investigate to which extent the changing dynamics of international oil prices affect Azerbaijan's economic development. Two hypotheses tested. Hypotheses were follows:

H1: Dropping oil prices have direct interconnection with Azerbaijan's dropping GDP, and vice versa. H2: The current dynamics of oil prices represent negative tendencies for Azerbaijan's subsequent economic growth.

For this purpose theoretical overview, retrospective analysis, deductive thinking and regression analysis were used as a specific tools allowing investigating.

Results of research have identified that there is indeed an interconnection between the international oil market conjuncture and the current economic situation in Azerbaijan.

Based on these results, we conclude that Azerbaijan is dependent on the overall oil market conjuncture. Azerbaijan's total oil exports have significantly dropped recently, which is due to the significantly lower oil prices. As a result, the Azerbaijani national economy is currently in a condition of recession.

**Keywords:** oil market, regression analysis, economy of Azerbaijan, energy resources, economic growth, export, gross domestic product

# Analýza cen ropy v Azerbajdžánu

## Abstrakt

Ropa je jedním z nejdůležitějších energetických zdrojů a lídrem v globální spotřebě energie. Zkoumání toho, jak trendy a tendence v ropném sektoru ovlivňují aktivity států je proto důležité a relevantní. Národní hospodářství Azerbajdžánu je značně závislé na zdrojích ropy, a tedy i tato práce se zaměřuje na prozkoumání toho, v jakém rozsahu ovlivňuje měnící se dynamika mezinárodních cen ropy ekonomický rozvoj Azerbajdžánu. V práci jsou testovány dvě hypotézy. Jedná se o následující hypotézy:

H1: Klesající ceny ropy mají přímou spojitost s Azerbajdžánským klesajícím HDP a vice versa. H2: Současná dynamika cen ropy představuje negativní tendence pro další ekonomický růst Azerbajdžánu.

Za uvedeným účelem jsme využili teoretický přehled, retrospektivní analýzu, dedukci a regresní analýzu jako specifické nástroje umožňující zkoumání.

Výsledky výzkumu identifikovali vzájemnou propojenost mezi situací mezinárodního trhu s ropou a současnou ekonomickou situací v Azerbajdžánu.

Na základě uvedených výsledků, docházíme k závěru, že Azerbajdžán je závislý na celkové situaci trhu s ropou. Azerbajdžánský export ropy v poslední době významně poklesl, z důvodu podstatně nižších cen ropy. Důsledkem uvedeného je skutečnost, že národní hospodářství Azerbajdžánu se v současné době nachází v recesi.

**Klíčová slova:** trh s ropou, regresní analýza, ekonomika Azerbajdžánu, energetické zdroje, ekonomický růst, export, hrubý domácí produkt

## **Introduction**

The level of national security is preconditioned by a wide range of factors, including the level of economic independence, development of the defence sector, availability of partnership ties with other states, and so on. Energy resources play a unique role in the context of national security. Namely, it should be understood that energy resources are indispensable for any state in the world, as virtually each economic sector consumes energy for the purpose of running its activities effectively, and furthermore, energy is indispensable for satisfying the basic needs of the social sector, i.e. the population of the respective country.

Among such energy resources, the most important role is played by oil, the leader in global consumption of energy. Therefore, investigating how the trends and tendencies in the oil sector affect the activities run by states is important and relevant. Particularly, this is important and relevant for Azerbaijan, the country chosen as the object of this research. Azerbaijan is located in the Caspian Basin region, and is one of the states considered as top oil import partners by the European Union.

## **Objectives and Methodology**

The main aim of the thesis is to investigate the recent dynamics of oil prices and the impact of such dynamics on Azerbaijan's economic development.

The goals of the thesis are to investigate the key theoretical aspects related to energy and energy security, to analyze the recent global trends and tendencies in the oil market, to investigate the specificities of Azerbaijan's economic development and the role of oil in the country's economy, to evaluate the recent dynamics of oil prices in the international market, and to reveal the impact of such oil price dynamics on Azerbaijan's economic development.

In the research paper, two hypotheses will be tested. They are the following:

H1: Dropping oil prices have direct interconnection with Azerbaijan's dropping GDP, and vice versa.

H2: The current dynamics of oil prices represent negative tendencies for Azerbaijan's subsequent economic growth.

A number of methodological approaches will be used for running this research. Namely, theoretical overview will be applied with the aim of investigating the key theoretical aspects related to energy and energy security; retrospective analysis and statistical analysis will be used for investigating the recent dynamics of Azerbaijan's economic development and the dynamics

of oil prices; deductive thinking will be used with the aim of deriving conclusions in line with the goals and aims of the research; and synthesis of data will be applied for summarizing the findings revealed. Also, regression analysis will be used as a specific tool allowing investigating the correlation between changing oil prices and the Azerbaijani manat's exchange rate against the US dollar on the one hand, and Azerbaijan's level of GDP on the other hand.

## **Results and Discussion**

We have identified that there is indeed an interconnection between the international oil market conjuncture and the current economic situation in Azerbaijan – and this is the most valuable finding of this paper.

The main advice which should be implemented by the Azerbaijani authorities is the need to diversify the local economy. The recent development of the situation proves that the excessive dependence on oil exports is very negative for Azerbaijan. Any major negative tendencies in the global oil market harm the country's economy greatly, and Azerbaijan cannot resolve those issues, as its economy does not have any opportunities to get boosted through other sectors. For the best results in its economic achievements, Azerbaijan should focus on attracting foreign investors to provide financing to the country's national economy, namely, the focus could be put on other industrial sectors where Azerbaijan has preconditions for the subsequent growth, and on the tertiary sector, as services account for the greatest share of GDP in developed states.

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