

*Guluzade Sabir Badraddin oglu,
PhD student, Azerbaijan Tourism and Management University, Baku, Azerbaijan Republic
ORCID ID: 0000-0001-5211-8359*

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SENSITIVITY OF THE AZERBAIJANI MANUFACTURING INDUSTRY TO VOLATILITY OF THE EXCHANGE RATE (CASE OF 2015 YEAR DEPRECIATION)

Гулузаде Сабір Бадрадін оглу,
докторант, Азербайджанський Університет Туризму і Менеджменту, м. Баку, Азербайджан

ЧУТЛИВІСТЬ АЗЕРБАЙДЖАНСЬКОЇ ОБРОБНОЇ ПРОМИСЛОВОСТІ ДО ЗМІН ВАЛЮТНОГО КУРСУ (ВИПАДОК 2015 РОКУ)

The goal of this article is to investigate the causes of the inadequate reaction of the manufacturing industry of Azerbaijan to the devaluation of the national currency using the dairy industry as an example. To this end, hypotheses are put forward on the dependence on imports, weak production capacities and export experience, and research is being conducted in this direction.

Research methods and methodology. The study was based on the well-known studies of modern economists in the field of modeling open economies. In During the study, the author used the method of statistical analysis, the method of comparative analysis and the hypothesis method. The economic and mathematical tools of the work included methods of conditional optimization, analysis of differential equations, as well as econometric and statistical methods: regression analysis, the study of stationarity and cointegration of time series, vector autoregression.

The scientific novelty of this article is the conclusions made by tracking down the fluctuations of the national currency associated with the economic crisis of 2015, when there was a sharp decline in production in the manufacturing industry, the causes of the devaluation of the national currency were determined.

It is noted that after two sharp devaluations of the Azerbaijani manat in 2015, the country showed signs of an economic crisis, which in some segments, instead of increasing, there was a decrease in production and export. This indicates the presence of problems in the field of foreign exchange risk management in the country's manufacturing enterprises.

In conclusion, the author, summarizing his research, notes that an analysis of the production, consumption, import and export of a number of processed products in the period after the devaluation of the national currency in Azerbaijan allows us to draw the following conclusions:

Despite a twofold increase in the equivalent of import prices in manats, there was a significant increase in imports of some goods, and this is due to the following two reasons:

- 1. Some imported products are important raw materials for the manufacturing industry (for example, milk powder), and their production in Azerbaijan was not organized.**
- 2. The import of certain products has been increased in order to replace other more expensive products (for example, vegetable oils have replaced oil).**

Метою статті є дослідження причин неадекватної реакції обробної промисловості Азербайджану на девальвацію національної валюти на прикладі молочної індустрії. З цією метою висувуються гіпотези про залежність від імпорту, слабкість виробничих потужностей і досвіду експортування. Проводиться дослідження в цьому напрямі.

Методи і методологія дослідження. В основу дослідження покладено відомі дослідження сучасних економістів в галузі моделювання відкритих економік. Під час дослідження автор використовував метод статистичного аналізу, метод порівняльного аналізу та метод гіпотез. Економіко-математичний інструментарій роботи включав методи умовної оптимізації, аналізу диференціальних рівнянь, а також економетричні і статистичні методи: регресійний аналіз, дослідження стаціонарності і коінтеграції часових рядів, векторні авторегресії.

Науковою новизною статті є висновки зроблені під час спостереження коливання національної валюти, пов'язаної з економічною кризою 2015 року, коли відбувся різкий спад обсягу виробництва в обробній промисловості, визначено причини впливу девальвації національної валюти.

Відзначається, що після двох різких девальвацій азербайджанського маната в 2015 році в країні з'явилися ознаки економічної кризи, які в деяких сегментах замість збільшення мало місце скорочення виробництва і експорту. Це свідчить про наявність проблем у галузі управління валютними ризиками у виробничих підприємствах країни.

У висновку автор, узагальнюючи своє дослідження, відзначає, що аналіз виробництва, споживання, імпорту та експорту ряду продуктів переробки в період після девальвації національної валюти в Азербайджані дозволяє зробити такі висновки:

Незважаючи на дворазове збільшення в еквіваленті імпортних цін у манатах, відбулося значне збільшення імпорту деяких товарів, і це пояснюється такими двома причинами:

1. Деякі імпортні продукти є важливою сировиною для обробної промисловості (наприклад, сухе молоко), і їх виробництво в Азербайджані не було організовано.
2. Імпорт деяких продуктів було збільшено з метою заміни інших більш дорогих продуктів (наприклад, рослинні масла замінили маслом).

Key words: currency risk, exchange rate, dependence on imports, production capacities.

Ключові слова: Валютний ризик, Валютний курс, залежність від імпорту, виробничі потужності.

INTRODUCTION

Economic crises situation created by double leap devaluation of national currency in 2015 in Azerbaijan obviously proved dependency of the country on hydrocarbon resources and had sharply raise the issue of development of non-oil sector. That's why, evaluation of the impact of devaluation on manufacturing industry is of special interest. Realization of indications characteristic of Dutch disease in Azerbaijan for years, as well as its negative impacts on the manufacturing industry increases the urgency of such type of research.

The goal of this article is to investigate the causes of the inadequate reaction of the manufacturing industry of Azerbaijan to the devaluation of the national currency using the dairy industry as an example. To this end, hypotheses are put forward on the dependence on imports, weak production capacities and export experience, and research is being conducted in this direction.

During the study, the author used the of statistical analysis, the comparative analysis and the hypothesis methods.

The scientific novelty of this article is the conclusions made by tracking down the fluctuations of the national currency associated with the economic crisis of 2015, when there was a sharp decline in production in the manufacturing industry, the causes of the devaluation of the national currency were determined.

ANALYSIS OF RECENT PUBLICATIONS ON THIS TOPIC

It is noted that after two sharp devaluations of the Azerbaijani manat in 2015, the country showed signs of an economic crisis, which in some segments, instead of increasing, there was a decrease in production and export. This indicates the presence of problems in the field of foreign exchange risk management in the country's manufacturing enterprises.

As a result of the sharp fluctuations in the exchange rate, we have targeted a major problem specific to the national manufacturing industry. The point is that, according to the theoretical fact, the devaluation of AZN should have led to an increase in Azerbaijan's exports and a decline in its imports. But this expectation did not justify itself. And most importantly, there was a decline in the volume of processing industry products. In order to investigate the causes of this unexpected fact, we are striving to examine the hypothesis of "dependence on imported raw materials in the manufacturing industry" by setting it forth.

After 34.6 % increase of rate of USD on February 21, 2015, production growth in manufacturing industry in January-June, as expected, has increased by 4.5 times to 18—19% compared to 4% in January-March as expected. However, the subsequent dynamics reveal that this is the maximum limit for this indicator — in subsequent years

Table 1. RESERVES and USES of milk and dairy products, ton compiled based on the data of [2]

	2010	2011	2012	2013	2014	2015	2016
RESERVES							
Balance for the beginning of year	172641	171588	119739	152313	158195	164815	22115
Production	1535753	1597452	1695588	1796706	1855838	1924542	2009913
Import	647229	654608	642255	573587	581753	366035	288488
Total reserves	2355623	2423648	2457582	2522606	2595786	2455392	2320516
USES							
For cattle and poultry forage	47112	45609	46248	47471	48848	46 206	23 668
Use as foodstuff	2099713	2230548	2206834	2257347	2321031	2345715	2276948
For production of foodstuff ¹⁾	1359223	1323663	1872898	1871194	1936413	1951596	2017446
Cheese production	356 948	364805	388200	391259	396463	399396	407142
Production of milk and cream	410845	359031	853304	859807	869044	888371	913379
Production of butter	458133	461877	478868	478949	517883	524009	560551
Production of sour milk	130147	130932	129513	129551	130920	125812	123973
Production of other products	3151	7020	23013	11629	22103	14008	12401
Export	-	27	47	6072	6019	6262	5753
Losses	37210	27725	52140	53521	55073	35094	9233
Balance for end of year	171588	119739	152313	158195	164815	22115	4914
Total uses	2355623	2423648	2457582	2522606	2595786	2455392	2320516

the growth rate of production slowly decreased and dropped to zero in August 2016, falling below the indicator for January — March 2015.

It is necessary to understand this phenomenon.

1. First of all, it should be noted that it is not production that falls to zero-limit, it is the growth rate of production and this can be a natural phenomenon — this is known as the law of declining productivity in economic theory. In other words, it can be called saturation of efficiency, which is that the efficiency of each additional investment decreases gradually. In macro level, the most beautiful manifestation of this law is the variety of the rate of GDP growth in countries with different developmental levels. Indeed, while in countries with high GDP per capita, the GDP growth rate is at the level of 2—4%, in China, India, Turkey, Brazil and other fast-growing countries, this figure sometimes reaches to double digit limit [3].

Thus, the decline in production rates in Azerbaijan's manufacturing industry can be regarded as a natural phenomenon, which is not a concern at all, and can even be regarded as reaching the level of saturation of our country. However, the following analysis shows that this conclusion is wrong and at the same time dangerous.

2. Secondly. One of the important factors influencing the decline in production growth was, of course, the high volume of loans borrowed in foreign currencies. Indeed, the rise in world oil prices for many years and the steady increase in oil production in Azerbaijan have led to a downward trend in the dollar. This created the idea of efficiency of credits in USD that made the owners of sharp devaluation credits to be in shock. As a result, even after the devaluation, loans to firms increased despite the decrease in interest rates on loans. The important thing is that here it is not the rate of growth of loans, but rather its size, which can be regarded as a decline in business activity, that is, an element of the economic crisis.

3. In order to justify the results, we will get more thoroughly, let's look at export in the same period. After

the first devaluation in February 2015, the growth rate of non-oil sector exports declined rapidly dropped by 50% in January 2016 compared to January 2015. This means that the volume of export of non-oil products has decreased twice a year. Even during the whole period of 2016, there has been a tendency to decline compared to previous periods. Due to the twice devaluation of the national currency and the increase in production in the non-oil sector, such sharp decline in exports rather than the increase in exports of this sector requires a special explanation.

STATEMENT OF THE MAIN MATERIAL

In order to explain these processes, we offer the following two hypotheses.

Hypothesis 1. In the result of devaluation of the national currency, increase of production in some processing fields happened on account of decrease of import. This fact known from the first sight is confirmed obviously in the result of the following analysis.

Hypothesis 2. Though devaluation of the national currency stimulated the export, the decrease of export in manufacturing industry can be explained with the following three reasons:

a) Dependence of manufacturing products on the import of raw material. This is a natural hypothesis: If the major raw material of produced product is imported, the price of this raw material in AZN is increased twice in the result of devaluation.

b) Lower production capacity. The lack of free production capacity does not even allow increasing production in favorable conditions. This factor has probably played an important role in Azerbaijan. Thus, as a result of the devaluation of the national currency, the decline in imports has led to a gap in the domestic market that not only increased production, but even some part of the previous exports was directed to fill this gap.

Table 2. Reserves and Uses of milk and cream with fatness of 1—6 %, ton compiled based on the data of [2]

	2011	2012	2013	2014	2015	2016	2016: 2014
RESERVES							
Balance for the beginning of year	8596	8915	9025	9108	9184	9366	
Production	709634	823470	830205	839301	857952	880963	1,05
Import	16694	10980	11878	9783	8668	5152	0,53
Total reserves	734924	843365	851108	858192	875804	895481	
USES							
Used as foodstuff	718268	825429	832281	839296	857087	875856	1,044
Export	-	13	740	657	116	517	0,79
Losses	7741	8898	8979	9055	9235	9443	
Balance for end of year	8915	9025	9108	9184	9366	9665	
Total uses	734924	843365	851108	858192	875804	895481	

Table 3. All kind of cheese Reserves and Uses, ton compiled based on the data of [2]

	2010	2011	2012	2013	2014	2015	2016	2016: 2014
RESERVES								
Balance for the beginning of year	17524	15903	13817	14191	15776	16369	10982	
Production	43340	44293	47134	47506	48138	48495	49434	1,03
Import	7 204	6890	6037	11465	11717	9102	6540	0,56
Total reserves	68068	67086	66988	73162	75631	73966	66956	
USES								
Used as foodstuff	51527	52557	52220	56755	58571	62342	61190	1,05
Export	-	-	-	1	-	6	15	
Losses	638	712	577	630	651	636	576	
Balance for end of year	15903	13817	14191	15776	16409	10982	5175	
Total uses	68068	67086	66988	73162	75631	73966	66956	

decrease was about 66%. But, the most interesting case is that wither in 2015 or in 2016, the domestic consumption was increased insignificantly (accordingly 0,8% and 0,6%). This confirms our hypothesis that though some part of the domestic consumption gap arising out from decrease of import was provided on account of increasing production, there was necessity of using certain part of previous export to cover this gap (Table 1).

c) Weakness (absence) of export practice of manufacturing enterprises. We will show below the importance of this case in Azerbaijan.

1. The impact of collapse of national currency on the milk producing enterprises

The production of dairy products is one of the dynamically developing industrial fields of Azerbaijan. According to the researches, Azerbaijan has competition superiority in this field [4; 5; 6]. As seen from the Table 1, the production of milk and dairy products has regularly increase in physical use. Though severe decrease was observed in 2013, the import in pre-crises period in 2014 was increased again.

But, the import of these products in 2015 was decreased by 37,1 %, and in 2016 by 21%, in total the

The situation is similar in milk and cream with the fatness of 1—6 %: in 2014—2016, the import was decreased by 47,3%, and the production was increased by 5%. The domestic production was increased as about the production (4,4%). That's why, export was decreased by 21 % in order to cove the 47% decrease in import.

The cheese import in the country was decreased significantly during the reviewed period (47%), however the domestic consumption was increased by 5%, while production was increased by 3% in total. As seen from the Table 3, some part of domestic consumption that was increased on account of import was provided on account of the balance for end of year and this resulted in regular decrease of those balances.

Table 4. Reserves and Uses of sour milk, cream, yoghurt and other products, ton compiled based on the data of [2]

	2010	2011	2012	2013	2014	2015	2016	2016:2014
RESERVES								
Balance for the beginning of year	7217	6947	7429	6839	6096	6174	5047	
Production	133313	136199	147973	139999	142335	133322	136376	0,97
Import	9242	16003	12533	9463	9543	8778	7436	0,78
Total reserves	149772	159149	167935	156301	157974	148274	148859	
USES								
Used as foodstuff	139136	147561	157714	147308	148385	140179	140783	0,96
Export	-	6	-	18	492	387	528	1,07
Losses	3689	4153	3382	2879	2923	2661	2448	
Balance for end of year	6947	7429	6839	6096	6174	5047	5100	
Total uses	149772	159149	167935	156301	157974	148274	148859	

Table 5. RESERVES and USES of butter, ton compiled based on the data of [2]

	2011	2012	2013	2014	2015	2016	2016: 2014
RESERVES							
Balance for the beginning of year	9 449	8 615	8 694	8 462	8 904	1 840	0,22
Production	21 093	21 821	21 877	23 445	23 935	25 604	1,09
Import	20 923	21 469	21 644	21 776	10 906	8 357	0,38
Total reserves	51 465	51 905	52 215	53 683	43 745	35 801	
USES							
Used as foodstuff	42 678	42 971	43 354	44 472	41 454	32 532	0,73
Processed	-	-	-	-	-	1 511	
Export	-	-	158	59	249	107	1,81
Losses	172	240	241	248	202	166	0,67
Balance for end of year	8 615	8 694	8 462	8 904	1 840	1 485	0,17
Total uses	51 465	51 905	52 215	53 683	43 745	35 801	

Table 6. RESERVES and USES of vegetable oil, ton compiled based on the data of [2]

	2011	2012	2013	2014	2015	2016	2016 : 2014
RESERVES							
Balance for the beginning of year	13204	13019	18489	17065	18380	18426	
Production	79957	99808	100159	106874	106645	82250	0,77
Import	105715	134440	115185	129571	129126	153577	1,19
Total reserves	198876	247267	233833	253510	254151	254253	
USES							
Used as foodstuff	82875	78636	81403	101814	119672	153100	1,50
Processed	45000	69000	52971	55554	55653	58644	1,06
Export	57302	80267	81615	76895	59529	13009	0,17
Losses	680	875	779	867	871	1369	1,58
Balance for end of year	13019	18489	17065	18380	18426	28131	1,53
Total uses	198876	247267	233833	253510	254151	254253	

Table 7. RESERVES and USES of Margarine oil, ton compiled based on the data of [2]

	2011	2012	2013	2014	2015	2016	2016: 2014
RESERVES							
Balance for the beginning of year	2697	3525	3856	4092	4824	50	0,01
Production	21764	23061	24505	29284	24925	47594	1,63
Import	73	256	123	202	205	405	2,00
Total reserves	24534	26842	28484	33578	29954	48049	
USES							
Used as foodstuff	20774	22729	24119	28432	13018	27720	0,98
Processed	-	-	-	-	-	3772	
Export	-	-	-	-	16600	2965	
Losses	235	257	273	321	286	461	1,44
Balance for end of year	3525	3856	4092	4825	50	13131	2,72
Total uses	24534	26842	28484	33578	29954	48049	

The situation for sour milk, cream, yoghurt and other products is relatively different — the export in this segment has increased, production, import and consumption was decreased (Table 4). This case is explained with that, first of all, Azerbaijan for the above mentioned products is completely supplied, but the role of import is unnecessary. Secondly, the volume of export in all previous years was 20—25 times higher in comparison with import. At last, it is necessary to take into consideration that 4 % decrease of consumption and 3 % decrease of production that was at very high volume enabled to direct some part of production to the export, as such, there was 5.7 million tons of decrease in consumption and 4.1 million tons of decrease in production

and some part of 1.6 million tons of savings was directed to compensation of import and the remaining part was directed to 36 tons of insignificant export increase (528—492).

The butter among the dairy products takes a special place for Azerbaijan. Firstly, according to the historical traditions, this product is widely used in making meals. Secondly, unlike many dairy products, the significant part of the supply with this food being important for our country was implemented on account of import until devaluation (almost half of it in 2014) (Table 5).

Though export was decreased about 50 % in 2016, the production was increased only by 9%. And this is the obvious case of confirmation of hypothesis set forth by us. As such, on one hand, this is explained by weakness of production capacity reserves. But, the main reason is that the butter production of Azerbaijan is based on imported raw materials and sharp increase of price of this raw material in AZN caused significant increase of it (the price of butter was approximately increased twice during post-devaluation two years) and this caused 27 % decrease of the consumption. Furthermore, Sharp decrease (78 %) of balance of 2014 has also played an important role in provision of domestic demand.

While vegetable oils do not directly relate to the milk processing industry, it is of interest to explore the impact of devaluation on this segment, both as a substitute for

Table 8. Production price index of industrial products on types of economic activities (in comparison with previous year, in percentage) Source: [2]

Names of products	2013	2014	2015	2016	2017
Manufacturing industry	102,0	115,7	91,9	115,2	130,3
Production of foodstuff	107,2	98,8	102,9	131,6	116,1
Drink Production	104,5	102,0	104,9	127,5	96,7
Production of tobacco products	101,8	105,2	110,3	169,5	143,9
Textile industry	105,2	105,0	96,3	113,1	139,9
Clothes Production	107,0	102,7	104,3	111,3	117,8
Production of leather, products and shoes from leather	100,2	98,2	101,1	103,2	106,9
Wood processing and production of wooden products	98,9	95,3	98,2	103,3	109,3
Production of paper and cardboard	92,0	99,6	100,7	100,1	99,5
Printing activity	102,6	108,4	102,7	113,1	115,7
Oil product production	100,0	128,2	86,0	109,7	140,0
Chemical industry	110,1	100,2	71,4	135,8	130,9
Production of pharmaceutical products	103,8	99,8	100,1	104,3	96,9
Production of rubber and plastic mass products	94,1	106,9	105,5	115,1	113,0
Production of construction materials	102,6	98,8	96,0	104,4	112,8
Metallurgy industry	104,2	97,9	92,1	128,0	138,3
Production of finished metal products other than machines and equipment	106,2	95,0	101,3	104,7	138,3
Production of computer and other electronic devices	104,2	99,4	100,8	113,9	108,3
Production of electrical equipment	99,7	98,7	102,1	109,8	110,5
Production of machines and equipment	98,4	100,7	103,8	104,6	106,4
Production of automobile and trailers	100,2	107,8	100,9	119,0	126,3
Furniture production	104,0	100,5	100,1	100,7	102,3
Production of jewelry products, musical instruments, sports and medical equipment	95,4	98,3	100,8	105,3	108,2
Installation and repair of machines and equipment	90,5	98,7	114,7	105,1	100,0
Generation, distribution and supply of electric energy, gas and steam	100,2	100,0	102,5	109,3	153,9
Water supply ; waste disposal and treatment	100,0	100,0	100,0	105,1	102,4

butter being the important food and as the representative of manufacturing industry.

A strong reduction in the consumption of butter was primarily compensated by vegetable oils, such as the consumption of latter as food in 2014—2016 has increased by 50% and processing by 6%. In this background, decrease of domestic production instead of increase confirms our hypotheses — the weakness of domestic production capacities could not benefit from this, while the price of import in AZN was increased: domestic production was decreased by 23% instead of increase, and the import increased by 19%. 83% decrease in exports and 53% increase in the balance for the end of the year testifies to rise of domestic demand for vegetable oils and the efficiency of trade (Table 6).

A new point is detected in margarine oils. First of all, margarine oils also demonstrate the highest rapid production increase among milk processing products (44.8% in 2010—2014), which is explained by the fact that this product is also a substitute for butter. Apparently, Producers and Importers have tried to substitute a part of the sharp drop in demand for butter also with margarine oils: as seen from the Table 7, domestic production of this product increased by 63% and the import doubled in 2014—2016. However, there has been no significant increase in the consumption of this product. In addition, the consumption of margarine oil as a direct foodstuff was decreased (this is a proof of the non-popularity of this product in Azerbaijan (especially as food)), while the aggregate 10% increase was due to the use of raw materials in processing. Another evidence that the margarine oils fail as a butter substitute is that in 2016, approximately 30% of the total stock of this product remains in balance for end of year.

Table 9. Dynamics of import of dry milk to Azerbaijan compiled based on the data of [7]

Years	Volume of Import, USD	Volume of Import, kg	Import price, USD/kg
2013	863446	666147	1,29618
2014	426101	427453	0,99684
2015	618141	313472	1,97192
2016	1021702	N/A	
2017	2350548	422940	5,55764
2017 :2013	2,72	0,64	4,29

2. The sources of currency risks in Azerbaijani manufacturing industry

As can be seen from Table 8, there has been a sharp increase in the production prices of Azerbaijani manufacturing industry in the post-devaluation period. Let us note that the decline in the year of devaluation in 2015 should not be deceptive. First of all, the sharp decline in oil prices in the same year caused deflationary processes in oil refining products: as seen from here, prices for oil products in the same year decreased by 14% and products of chemical industry by 28.6% (Table 8). The fact that the large volume of manufacturing industry is related to the oil sector has undoubtedly resulted in a decline in production prices in manufacturing industry in general.

Secondly, if we look at the price of food products that interest us, the situation here is fully opposite — in 2014, despite the fall in prices in this segment, in 2015 the price rose by 3%. Such a small increase in price, first of all, is explained by the fact that the major part of devaluation dates back to the end of the year — December 21, and secondly, as seen from the previous year, the tendency of these products to decline was that devaluation simply stopped this process. The main increase in price was

Table 10. Production, import, consumption and export of some confectionary-flour products, ton compiled based on the data of [2]

	Years	dried crust and biscuits and confectionery products stored for a long time	Cake and confectionary products, bakery products mixed with sweetening substances	sweet-flour confectionery products
Production	2014	2 681	42 878	4 505
	2015	5 386	40 980	3 633
	2016	4 791	48 114	6 556
	2016 :2014	1,79	1,12	1,46
Import	2014	10 733	26 377	4 505
	2015	10 808	20 723	3 633
	2016	10 621	10 940	6 556
	2016 :2014	0,99	0,41	1,46
Consumption	2014	12 323	68 040	25 437
	2015	14 206	61 362	22 755
	2016	14 475	58 543	22 086
	2016 :2014	1,17	0,86	0,87
Export	2014	344	210	4 000
	2015	252	189	2 685
	2016	224	71	2 059
	2016 :2014	0,65	0,34	0,51

observed in the following years: a 32% increase in prices in 2016, which continued at 2017, was 16%.

By returning to the dairy industry, we are explaining this by import of almost all of the milk powder, which is the raw material of this field. As can be seen from the Table 9, the purchase price of this product even after the devaluation has increased rapidly (4.3 times) in USD equivalent. As for the AZN, this increase is twice as high. As a result, in 2017 the physical volume of imports of this product is 36.5% below the level of 2013, whereas the amount paid in USD is about 3 times higher (Table 9) [7], which is the result of the above-mentioned price increase.

That is why, according to our information, a number of dairy processing plants operating in our country have started to produce dry milk.

Milk powder is widely used not only in dairy products production but also in confectionery products. Looking at the production-consumption dynamics of such products, we can see that their production has also increased during the post-devaluation period, export was decreased and consumption and import was declined substantially (Table 10) [2].

In the latter two indicators, the inclination to increase is also observed. For example, in 2014—2016, import of sweet-flour confectionery products was increased by 46%, and consumption of dried crust and biscuits and confectionery products stored for a long time was increased by 17%. Let's also note that the increase in imports occurred in vegetable and margarine oils (Table 6 and 7), which was explained by the substitution of butter the import of which was sharply decreased (Table 5). Here, too, the situation is similar. Thus, in terms of sharp increase of prices for meat, butter and other products, it is natural to replace them with flour products.

CONCLUSION

Thus, the analysis of production, consumption, import and export of several processing products in the post-devaluation period of national currency in Azerbaijan enables to the following conclusions:

— The import of most manufacturing industry products was significantly decreased.

— Domestic production of those products was increased.

— However, due to weakness of production capacities and domestic raw material supply, in some cases, domestic production could not fully compensate the decreased import.

— As many segments of the manufacturing industry depend on the main raw material import, significant increase is observed in AZN equivalent of production prices of domestic products.

— Notwithstanding twice increase in AZN equivalent of import prices, strong increase was happened in import of some products and this is explained by the following two reasons:

1. Some import products are important raw materials for manufacturing industry (e.g. dry milk) and their production in Azerbaijan was not arranged;

2. Import of some products was increased in order to substitute other more expensive products (e.g. vegetable oils substituted the butter).

Attempting to replace some expensive products with a cheaper but low-quality product has failed. For example, replacing butter with margarine oil has been complete failure, which is most likely to be explained by historically established food traditions in Azerbaijan.

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