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Content:

- 3 Top story
- 6 Corporate statement
- 7 Interview
- 9 Feature
- 12 Sector
- 14 Economics & finance
- 18 Chart
- 19 News in brief

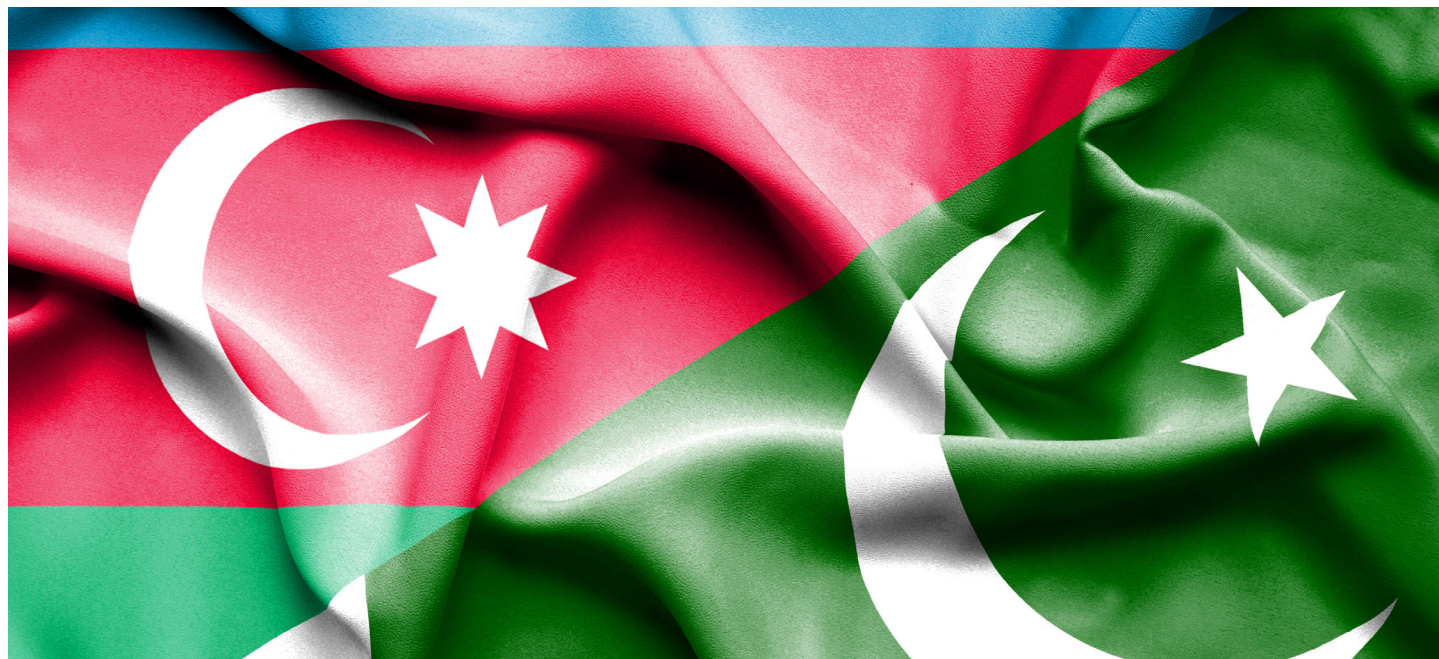
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Diplomatic visit to revamp Azerbaijani-Pakistani ties

On March 17, the Azerbaijan Export and Investment Promotion Investment (AZPROMO) signed a memorandum of understanding (MoU) with the Federation of Pakistan Chambers of Commerce and Industry to foster bilateral cooperation on trade, investment, and exchanges of know-how in entrepreneurship.

The event was part of a four-day visit of a Pakistani delegation to Baku, which was led by Pakistani President Mamnoon Hussain, and included the Minister of Defense Khawaja Asif, representatives of other ministries in Pakistan, and approximately

40 businesspeople from sectors including energy, textiles, pharmaceutical, sports, infrastructure, construction materials, medical equipment, agribusiness and leather goods. Three other MoUs were signed on this occasion. Dignitaries from both countries also shared honours; Azerbaijan's first lady, Mehriban Aliyeva, was conferred the highest civil award in Pakistan, the Hilal-e-Pakistan, for the humanitarian work of the Heydar Aliyev foundation in Pakistan, and particularly in Kashmir, over the last decade. Among the foundation's noteworthy projects in Pakistan is the reconstruction of a high school for girls in Azad Jammu and Kashmir.



Meanwhile, the Pakistani president was awarded an honorary doctoral degree for his contribution to strengthening bilateral ties.

Diplomatic relations between the two countries are strong, as reflected by the over 30 bilateral agreements that have been signed since 1995, the year when the first high-level diplomatic visit took place. Pakistan and Azerbaijan concur on most issues related to foreign policy, and support each other's plights related to territorial integrity. However, trade remains modest, at a mere \$2.8mn in 2014. The lack of direct flights between Baku and Islamabad are believed to be partially to blame for this state of affairs. Pakistan International Airlines used to operate such flights, but they were suspended after three years because they were not financially viable.

As a result, the two countries aim to increase bilateral trade and investment through joint ministerial commissions and organisations such as the Pakistan-Azerbaijan Friendship Association. Areas of particular interest are energy and, in the case of Azerbaijan, learning from Pakistan's experience in textiles and pharmaceuticals. The two countries have been cooperating on security and military issues since 2003, and Pakistani and Azerbaijani universities customarily admit students from the other country.

According to President Ilham Aliyev, this visit enabled "the two independent countries to forge a new format for cooperation based on historical legacy, traditions, religion, and, at the same time, based on strategic interests."

AZPROMO continues to reach out to partners in Europe

Meanwhile, Italian minister of Economic Development Federica Guidi also visited the

Caucasian country in April together with a business delegation, which then held a bilateral meeting at AZPROMO's headquarters in Baku. Italy has been Azerbaijan's leading foreign trade partner for seven years, and the two countries exchanged \$482mn in goods and services last year. Already an important client for Azerbaijan's oil, Italy will also be one of the main beneficiaries of the EU's Southern Gas Corridor, as it is to receive 10bn cubic metres of Azerbaijani gas per year starting in 2019.

Another European country that courted Azerbaijan in April was Serbia, whose prime minister, Alexander Vucic, visited Baku on April 14. He was received by Azerbaijani Minister of Economy and Industry Shahin Mustafayev, who spoke about the increasing trade and investment between the two countries. The private sector is driving this trend thanks to companies such as AzVirt, which is building part of a highway in central Serbia. Vucic invited Azerbaijani investors to take part in the privatisation of state-owned companies in Serbia, and mentioned that direct flights between Baku and Belgrade could start by the end of 2015.

Azerbaijan's eastern neighbour, Russia, sent its emissary Sergey Ziba, the deputy minister of industry and trade, to represent a delegation of pharmaceutical companies. AZPROMO hosted the delegation, and over 30 Russian and Azerbaijani companies active in the sector. Imports satisfy approximately 97% of the demand for medicine in Azerbaijan, and Russia is an important supplier of drugs, especially generics. Baku is seeking to attract investors willing to manufacture drugs in the country, and SCIP is a potential location for such companies. The state statistics committee estimates that drug consumption in Azerbaijan totaled \$900mn in 2013. ●



Top story



European neighbourhood policy overhaul – less radical than rhetoric suggests

Brussels declaring openly that it needs to overhaul any policy is a rare occurrence; the EU machinery is not known for being responsive and flexible. But big change is precisely what has been announced.

There is war in Ukraine, and the Middle East has gone up in flames. This dire situation is leading to a radical-sounding rethink in Brussels over its “European Neighbourhood Policy” – a 10-year-old programme designed to spread prosperity, democracy and stability east and south of the EU. Yet how quick and deep the overhaul will turn out to be remains an open question.

In a thought-piece circulated by the European External Action Service (EEAS) to its stakeholders, the bloc’s five-year-old foreign policy body has put almost every aspect of the policy up for discussion, including bilateral free trade agreements and the very concept of a unified neighbourhood policy. The paper also asks how to defend EU security and energy interests more effectively.

Johannes Hahn, the commissioner for European Neighbourhood Policy & Enlargement Negotiations, who works closely with Federica Mogherini, the EU’s foreign policy chief, said:



“The EU must be better at defending the interests and values of its citizens. We must make this policy... more focused... more flexible and differentiated to respond to the needs of our partners.”

The Commission and EEAS launched a lengthy consultation process in early March, and they plan to publish a report by November that provides new guiding principles for the coming years. A milestone will be a summit in the Latvian capital of Riga on May 22 with all the EU's so-called Eastern Partners.

One size fits nobody

The ENP is a one-size fits-all framework offered to a pearl string of states surrounding the EU. It includes Algeria, Armenia, Azerbaijan, Belarus, Egypt, Georgia, Israel, Jordan, Lebanon, Moldova, Morocco, Palestine, Syria (until recently), Tunisia and Ukraine.

The policy framework includes negotiations towards a bilateral Association Agreement, generally involving a costly, regulation-heavy free trade agreement (DCFTA), largely copied from parts of accession agreements offered to EU candidate member states in the 1990s. It also offers visa facilitation agreements in which the EU liberalises its visa policy in return for those countries signing up to stringent migration control policies, as well as “mobility partnerships”, which very modestly open up selective parts of some member states’ labour markets to neighbouring countries.

Annual ‘progress reports’ by the European Commission assess the countries’ reforms in the areas of economy, democracy, rule of law and human rights. Based on these reports, governments that steer toward the EU's preferred direction receive more aid money.

Yet the fine-sounding sentiments and goals have not been matched in reality.

The free trade deals that the EU offered Armenia, Georgia, Moldova and Ukraine have been widely criticised for not being adapted to these poor countries, which have weak states that are not in much of a position to implement the EU rulebook. The deals also don't open up the EU agricultural sector enough, although it is a crucial export sector for all these EU neighbours.

And in the east these deals have fomented trouble with Russia. The free trade and association deal was a trigger for the crisis in Ukraine. Now that the deal has been ratified on both sides, “the EU got itself into [a] conundrum”, Sir Michael Leigh, a former director general for enlargement at the European Commission and now a senior adviser to the German Marshall Fund, tells bne IntelliNews. “We didn't ask ourselves the question whether it corresponded to their needs. Now that Russia is pressing for us to think twice about this, it would be very hard to back down,” Leigh says.

Azerbaijan, for its part, has consistently rejected the EU's offer to join the association process that other ENP partners embarked upon. This is because, analysts say, that contrary to Ukraine, Moldova or Georgia, Azerbaijan harbours no long-term hopes to join the EU and is not keen on having its political and judicial system scrutinised by Brussels.

There's been some progress on mobility issues. Moldova obtained visa- free travel in 2014. Yet hopes that a visa facilitation agreement could be inked with Ukraine ahead of the Riga summit in May are fading, not least because the EU is afraid of a flow of refugees from eastern Ukraine.

Money has, overall, been scant. €12bn was disbursed between 2007 and 2013. For the period



2014-2020, €15bn has been allocated to the policy. At times the EU doesn't even get to spend aid monies because the receiving states find it difficult to manage the projects.

The programme has also been criticised for overemphasising values and underemphasising core EU interests. "The member states have delegated to [Brussels] the task of insisting on the values agenda, while the member states have been free to get on with business as usual privileging trade, security and access to resources," reckons Sir Michael.

Some EU pragmatism has already started to show, however. Despite Azerbaijan's rebuffing of offers to join the association process, Brussels, supported by the member states, has continued to nurture relations with a country that is pivotal in the EU's plans to diversify its gas imports away from Russia via the so-called Southern Gas Corridor. The Azerbaijani state oil and gas firm SOCAR is a key part of the strategic Trans Adriatic Pipeline, which will start shipping Azeri gas to the EU via Turkey from 2019. "In practice, the EU is already pragmatic and ready to talk with a government like Azerbaijan's when interests point in that direction," Sir Michael says.

Status quo

Despite the criticism and obvious problems with the ENP, few expect a radical overhaul of the policy. Divisions among member states over the priority to give to the eastern and southern part of the policy mean that consensus on big changes will in the end be hard to reach. "I do not expect

revolutionary change," says Elzbieta Kaca, analyst at the Polish Institute for International Affairs.

The EU's financial framework is already decided until 2020, although a revision in 2017 leaves room for some adaptation. "In such a situation, it is very hard to change the core of the policy," Kaca explains.

To have a more interest-based policy, the EU needs an effective foreign policy in the first place. Yet, though diplomacy is increasingly coordinated by the EEAS, EU treaties are such that actual foreign policy powers remain in member state hands. When push comes to shove, the capitals of the big member states continue to run the show. Revealingly, the Minsk talks over eastern Ukraine with Russia held in February were driven by Berlin and Paris, side-lining Brussels.

Ambitions for the Riga summit in May are modest. They will partly be about sealing a recent rapprochement with Belarus as reward for its role in helping facilitate the Minsk ceasefire talks in Ukraine. The Latvian government in charge of organising it hopes that a visa facilitation deal can be inked with Minsk. Latvia also hopes that some new relationship can be started with Armenia, which dropped its Association Agreement with the EU in 2013, instead joining the Russia-led trade bloc, the Eurasian Economic Union.

The consultation process over the reforms is lengthy, so dramatic events could yet unfold over which the EU would yet again fail to keep a grip on. ●



PASHA Bank



S&P's reaffirms PASHA's 'BB-' rating, with a stable outlook

In April, Standard & Poor's reaffirmed PASHA Bank's 'BB-' long-term IDR rating and 'B' short-term rating, with a stable outlook. PASHA Bank is the highest rated private bank in Azerbaijan with 100% local capital.

PASHA Bank's chief investment officer and member of the executive board, Taleh Kazimov, noted that the move reflects the soundness of the bank's financial standing against a backdrop of macroeconomic risks in the region. "Positioning ourselves as a reliable financial partner for the real economy, we will continue to support businesses and to contribute to the growth and diversification of Azerbaijan's economy," Kazimov says.

The bank continues to support the growth of the non-oil economy through its financing

schemes and through the events it organizes and endorses. The latest of them, The Economist's Azerbaijan Investment Summit that took place on March 17 in Baku, attracted 150 attendees from the political and investment spheres to discuss growth in non-oil sectors. Representatives from the World Bank, the European Bank for Reconstruction and Development, PASHA Bank and Ernst & Young discussed the current opportunities and challenges in the Caucasian economy. According to Kazimov, "Events such as [this] provide an excellent opportunity for us to enhance Azerbaijan's profile as an investment destination and to develop business relations with international partners, and we are delighted to have participated in this event once again."

PASHA Bank is also continuing its drive to train local business journalists through its fourth business journalism programme, which is conducted in collaboration with the British Council and the Thomson Foundation, and which gives local journalists the opportunity to learn about best practices in reporting from UK-based media organisations, such as the BBC and The Daily Telegraph. PASHA Bank fosters interest in writing among university students through writing competitions such as Aspirational Future. Conducted in collaboration with the British Council, the initiative gives university students the opportunity to hone their writing skills and learn about best practices in journalism and how to avoid plagiarism. The winners will be invited to attend summer school in business and management in the UK. •



Interview



Elizarov Consulting Group helps bring Azerbaijan in from the cold

Franklin Roosevelt once said "...all of us, and you and I especially, are descended from immigrants and revolutionists". And that pretty much sums up Baku-born Yakov Elizarov, founder and CEO of Elizarov Consulting Group (ECG), Official Representative of the State of Maryland on Business and Economic Development in Eurasia, Central Asia and Baltics, board member and business development expert. To put simply, Yakov Elizarov is Baku's version of "boy's done good". And Baku should be proud.

A young and bright overachiever, Elizarov is a descendant of Gorsky (mountainous) Jews – the largest part of the Jewish community in the Caucasus and the biggest non-Muslim ethnic group in Baku. After the collapse of the USSR, Elizarov's family emigrated to the US in 1993 to "find the world of opportunities, that didn't exist anywhere else at that time". Yet he kept up his ties with Azerbaijan. "I grew up in Baku, my

family and friends still live there, and it is still very much a home to me. Living abroad hasn't changed who I am. I love my city and that's not going to change."

Having honed his business skills at JP Morgan Chase and as a senior banker at Quicken Loans – America's largest online mortgage lender – Elizarov set up his consultancy group ECG in 2013. The company soon became the go-to point for US agencies and government institutions wanting to operate in Eurasia and Southeast Asia. Last year, Elizarov led the US trade-mission to Baku with USACC and Ministry of ICT of Azerbaijan, bringing with him 15 American companies. Following ECG's nomination by the American-Azerbaijani Chambers of Commerce, Baku-born Elizarov is now the face of business and economic development for the State of Maryland. The Group is a member of Montgomery County Department of Economic Development Innovation Network, The World Trade Center Institute, USACC.

With US government backing, ECG now offers exclusive access to resources not usually available. It also allowed his company to secure new contracts with government institutions and large corporations in the region, including Kazakhstan, Georgia and Lithuania. "It's fun working with them," says Elizarov.

It also means that many of ECG's government-supported business development projects are education and innovation driven. Tech startups, research centres, innovation hubs and incubators – to name just a few of Elizarov's ambitious projects. Some of them have already won ECG a sponsorship contract with the Lithuanian government, while Elizarov's expertise in



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education and cyber-security training has attracted Kazakhstan and ECG is now involved in preparation works for 2017 Economic Exhibition in Astana.

ECG's involvement with education is very determined. Just recently, the Group partnered up with Global Student Exchange from Jacksonville, Florida. This programme will allow secondary school students to spend the last two years at private boarding schools across the US, which will prepare them for university.

ECG is also the official representative of Webster University – one of the oldest universities in the US, also offering military education. As part of its education work, the Group works with other universities to set up joint projects, study abroad programmes, business seminars and since recently, municipal training for entrepreneurs. As part of their curriculum, Webster and ECG also offer training in public administration and cyber-security. "We are currently working on a top US cyber-security programme, as we plan to join efforts with one of our partners in Lithuania. We are also overseeing the development of a cyber-security laboratory and a virtual lab, which will allow us to work on live viruses in a controlled environment. It's a serious field and we are always happy to join efforts with new partners," says Elizarov. "Connecting universities or other educational programmes to this field is also a fantastic opportunity for students to tap into the cutting edge technology while searching for the next big thing."

As state representative, Elizarov seems equally passionate about bringing new businesses "home", looking for innovative companies in need of help and keen to expand into the US market. In any capacity, according to Elizarov, "We help overseas companies to set up a virtual office in the US. We offer to assist with registering the company with a US address, covering company communication as well as business development in the United States. This in turn allows the overseas businesses to trade as a US Entity, therefore become eligible for more resources after few years."

Yakov Elizarov's work hasn't gone unnoticed: in his office in Washington he has a letter from President Barack Obama, which he's framed and hung on the wall above his chair. The letter was issued to congratulate Elizarov for his efforts and achievements in strengthening America's business and economic ties with Eurasia, Southeast Asia and Baltic countries. "When I told my Dad that I'd received a letter from President Obama, my Dad said I must be the first mountainous Jew to receive a thank you note from an American president," jokes Elizarov. ●



Feature



Aviation safety in the CIS sees dramatic improvement

The tragic airline accidents over the last year or so, starting with the freak disappearance of the Malaysian Airlines flight MH370 in March 2014 and ending with the alleged suicide crash of the Germanwings flight 9525 in the French Alps in March 2015, claimed 849 lives and put the spotlight on public concern about aviation safety.

The series of crashes includes the Malaysian Airlines flight MH17, which was shot down while flying over Donetsk in July, and the Air Asia flight 8501, which crashed in the East Java Sea in December on its way to Singapore from Surabaya, in Indonesia. Yet politicians and airline representatives have repeatedly reassured the public that flying is safer than it has ever been, and that the recent accidents, while unfortunate, do not reflect the safety levels of the civil aviation industry.

So what is the truth about flight safety these days? And, specifically, what is the situation regarding

safety in the increasingly busy aviation sector of the Caucasus and Central Asia region?

Backed by stats

Statistics certainly support the claim that flying is safer than ever. According to the International Air Transport Association (IATA), the industry's most respected body, the number of passengers and flights has been steadily increasing over the last decade, up to 38mn flights in 2014 from 33.2mn flights in 2009. A record 3.3bn airplane tickets were sold in 2014. And while last year was exceptionally dangerous for flying, as it resulted in four-times more casualties than 2013, its 21 fatal accidents and 986 victims are dwarfed by the casualties regularly incurred in the industry several decades ago. In 1964, for example, 1,597 of the 141mn passengers that flew that year perished in 87 fatal accidents. The probability of dying in an airplane accident has therefore decreased by a factor of 3,340 in the last 50 years, from 1 in 1,000 five decades ago to 1 in 3.34mn last year.

Safety levels have particularly improved since 2003, when the IATA introduced its operational safety audit (IOSA) – a global standard that assesses airline operational management and control systems. The results speak for themselves, as the airlines that undergo the stringent requirements to comply with IOSA have an accident rate that is three- to four-times less than non-compliant airlines. In 2014, that rate was 1.09 accidents per million flights, compared with 3.32 for non-IOSA compliant carriers.

Overall, the IATA estimates that the level of implementation of international safety standards in civil aviation averages 57%. Since 2003, 402



airlines have completed the comprehensive audit, which is a precondition for joining the IATA. An increasing number of airlines from Russia and the Commonwealth of Independent States (CIS) have undergone the IOSA, most notably Aeroflot, Air Astana, Azerbaijan Airlines (AZAL), Belavia-Belarusian Airlines, Dniproavia, Georgian Airways, and Uzbekistan Airways.

Best in class

By and large, the safety situation in civil aviation in Russia and the CIS has improved by leaps and bounds in the last two decades. So much so, that it was one of the safest regions in the world to fly last year, together with North America, when both registered zero airplane accidents of any type.

These days, Russia's Aeroflot ranks highly in a number of safety rankings. Germany-based Jet Airliner Crash Data Evaluation Centre (JACDEC), for instance, ranks it as the 35th safest airline in the world. It is the only airline in the region to make it into the JACDEC ranking in the first place, together with Transaero Airlines, which ranks 17th. Aeroflot also has a seven-star rating, the maximum possible, from www.airlinerratings.com, a source that uses a point system to measure air carriers' compliance with international standards and their safety records. In comparison, AZAL has a rating of four stars, partly due to the existence of one fatal accident in its record over the last decade, namely the AZAL flight 217, which crashed in the Caspian Sea in 2005 on its way to Aktau. Turkmenistan Airlines also has a 4-star rating due to its non-compliance with IOSA, and to the country's non-compliance with the Federal Aviation Administration (FAA) standards, while the more compliant Uzbekistan Airways boasts a six star rating, despite a deadly crash in 2006.

About 20 years ago, things were markedly different. Due to the widespread use of Russian-

built aircraft like Yaks and Tupolevs back then, and to the poor training of staff, the region was an air passenger's nightmare. In 1990 alone, Aeroflot had three fatal crashes, which resulted in 61 casualties, and two more accidents in the remainder of the decade. Other Russian airlines had a similar record; the now defunct Biakalavia had a crash in January 1994 near Irkutsk, killing all 124 on board; Russian International Airways had an accident in March of that year, resulting in 75 casualties; and so did other carriers like Cheremshanka Airlines, Khabarovsk Air, Vnukovo Airlines, Tyumenaviatrans, and Sibir Airlines in the 1990s.

The outlook was no better in the post-Soviet region. AZAL had two accidents in the 1990s, one in 1991, which resulted in 51 casualties, and one in 1995, with 98 casualties. Tajik Air also suffered a terrible accident in 1993, when a Yak-40, designed to carry just 28 passengers, crashed and killed 82 of the 86 people on board. The airline lost another aircraft, a Tupolev 154B, in 1997 in Sharjah, UAE, and so did Transair Georgia in 1993, near Sukhumi.

But a decade of investment in revamping their fleet, and replacing Russian manufactured aircraft with Airbuses and Boeings, as well as training their staff and observing international safety standards has done wonders for the region's largest air carriers, which have not reported a single accident since 2008. The change has been so drastic, that nowadays Aeroflot's fleet does not include any Russian-manufactured planes.

The national carriers in the CIS continue to make visible progress in improving their compliance with safety norms. In 2014, the European Commission lifted all flight restrictions on Air Astana, which had been allowed to operate flights to London and Frankfurt since 2009, but



with certain limitations. Other Kazakh airlines remain banned from European airspace, because Kazakh authorities have yet to comply with the international safety standards required for certifying carriers. The same restrictions apply to all the airlines certified in the Kyrgyz republic.

That is not to say that the region has become completely free of accidents. Many small, regional

airlines in Russia and the CIS, like Sibir, RusAir, Dagestan/South East Airlines, Itek Air, and Red Wings and Tatarstan Airlines continue to operate outdated aircraft, and, as a result, are more prone to accidents than the national carriers. By and large, though, the region's safety record has improved so significantly, that it is obvious the issue is being seriously dealt with by authorities and airlines alike. •



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Sector

Tourism and trade to drive economic growth this year

April saw the 14th edition of the Azerbaijan International Tourism and Travel (AITF) exhibition, which gathered 371 exhibitors from 42 countries in Baku. The leading tourism event in the Caspian region, AITF was inaugurated by Minister of Culture and Tourism of Azerbaijan Abulfas Garayev, and was graced with the participation of 17 national stands representing countries from all over the world. The event was also an opportunity for Azerbaijani tour operators, service providers and tourism associations to promote themselves for one last time before the European Games in June.

The event could not have been more timely. While the number of foreign tourists traveling to Azerbaijan has increased in recent years, reaching 2.3mn in 2014, the country maintains a negative balance of \$600mn for tourism receipts. Last year, Azerbaijanis traveling abroad spent approximately \$3bn, whereas inbound tourism only generated \$2.4bn.

This year brought a new set of challenges and potential catalysts for the tourism sector. Russia, the main source market for tourists to Azerbaijan, is experiencing an economic crisis that has impacted outbound tourism. In the first quarter of 2015, Russian tourism to various European countries was reported to have dropped by as much as 50% from the year before.

However, other factors mean the tourism sector is looking up. The depreciation of the Azerbaijani currency, the manat, and the promotional activities around the European Games are

expected to result in a growing number of tourists visiting the Caucasian republic in 2015. In its March update of the economic outlook for Azerbaijan, the Asian Development Bank (ADB) revised this year's GDP growth down to 3.0% from 3.5% previously, but services, primarily driven by trade and tourism, are expected to be the fastest growing sector in 2015 with 8% growth, followed by agriculture and infrastructure, while industry and energy are to contract by more than 2.5%.

Help arrives

The Azerbaijani government has been swift to respond to the changing market conditions in neighbouring countries. Thus, at the AITF press conference, Aydin Ismiyev, head of the tourism department at the Ministry of Tourism and Culture, announced that Azerbaijan plans to introduce insurance for tour operators, and that legislators are working on a tourism insurance draft law to be submitted to the cabinet of ministers for approval. The move comes as a result of the growing number of bankruptcies among Turkish and Russian tour operators, and aims to protect the end-customer when the tour operators go bankrupt.

The European Games have also prompted a drive to evaluate the operations of the 284 travel agencies and 535 hotels operating in Azerbaijan, some of which Ismiyev reported as not being up to scratch. The ministries of tourism and culture and of emergency situations continue to supervise security measures at local hotels ahead of the opening ceremony for the European Games.

Last September, the government also eased visa requirements for the event, introducing visa



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upon arrival for spectators and waving the visa requirement altogether for accredited athletes and staff.

The first half of the year should, therefore, result

in greater volumes and receipts for Azerbaijani tourism, while the government's more careful supervision in recent months will likely leave behind improved security and service standards in the local hospitality sector. •

New York to host first America-Azerbaijan banking and finance forum

The United States-Azerbaijan Chamber of Commerce (USACC), together with International Bank of Azerbaijan and PASHA Bank, are organising the first "US-Azerbaijan Banking & Finance Forum" to be held on May 26 in New York. The forum will be a rare chance for business people and policymakers from both countries to meet and network.

Azerbaijan has been one of the fastest-growing economies in the Caucasus and Central Asia, which rebuilt itself in a relatively short time from the war-torn ruins of the Soviet Union into one of the most developed nations in the region. Azerbaijan's economy was ranked as the second fastest growing in the world between 2000 and 2010, rising over by a staggering 900% over the period.

Azerbaijan's economy weathered the recession of 2008 and 2009 better than most markets in the Caucasus and Central Asia, continuing to grow while neighbouring countries struggled. And the International Monetary Fund in its latest forecasts predict the country's economy will keep growing this year and next despite the fall in the oil price and the current economic problems bedevilling the region due to the recession in Russia.

The current macroeconomic stability of high growth and low inflation makes Azerbaijan a success story in Eurasia and a trusted ally of the world's major institutions, such as the World Trade Organization, Association of South East Asian Countries, G20, Cooperation Council for the Arab States of the Gulf among others.

Foreign investment has also held up well; in 2014 over \$20bn was invested. Much of this investment has gone into the country's large energy industry, though a government drive has opened up other parts of the economy. Industries such as ICT, tourism and agriculture are already enjoying significant growth, offering huge opportunities to investors.

Despite this, Azerbaijan's economic potential remains relatively unknown to investors and fund managers, who continue to favour other emerging markets. Therefore, the first "US-Azerbaijan Banking & Finance Forum" on May 26 offers Azerbaijani companies a chance to appeal directly to US investors as part of their efforts to secure new technologies, new investment and new markets for their exports.



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Economics & finance

Russian crisis, commodity prices to further slow Eurasian economies, IMF says

Pressure on the Caucasus and Central Asia stemming from the economic crisis in Russia and weakening commodity prices on international markets will build up throughout 2015, the IMF said in the April edition of its World Economic Outlook (WEO) released on April 14.

"Growth in the Caucasus and Central Asia is expected to drop — from 5.3% in 2014 to 3.2% in 2015, a downward revision of 2.4% relative to the October 2014 WEO," the report reads. "The decline is projected as a result of spillovers from Russia (through remittances, trade, and foreign direct investment) and lower export prices for oil, metals, and minerals."

Countries in both regions are among the world's most dependent on remittances, which largely come from migrants working in Russia. They made up over 45% and 33% of the 2014 GDP in, respectively, Tajikistan and Kyrgyzstan. As the Russian economy enters recession — the IMF expects it to contract by 3.8% in 2015 — these migrant workers will see their salaries shrink or lose their jobs, finding themselves unable to maintain the flow of remittances back home.

On the other hand, countries such as Azerbaijan, Kazakhstan and Turkmenistan have based their recent fortunes on the export of hydrocarbons. With oil prices falling to around \$55 in London trading from over \$100 in the first half of 2014,

they are all taking a big hit in terms of incoming inflows of hard currency. Turkmenistan alone is expected to see its hydrocarbons exports fall by 24.7% y/y to \$13,954mn in 2015, from \$18,535mn in 2014, the IMF estimated earlier this month.

"Faced with adverse spillovers from Russia, countries in the Caucasus and Central Asia should implement counter-cyclical fiscal policy if fiscal space, available financing, and the external position permit," the WEO said. "These countries should generally allow greater exchange rate flexibility supported by appropriate macroeconomic and structural policies and, if necessary, further depreciation to minimize loss of reserves and the erosion of competitiveness. Increased exchange rate flexibility over time would also help economies adjust to adverse shocks. Tighter monetary policy may be needed to address inflation pressure resulting from currency depreciation."

A wave of devaluation spread across the region over the past few months as central banks found themselves increasingly unable to maintain the official exchange rate. The National Bank of Kazakhstan made an early move in February 2014, when it devaluated the tenge by 19% against the dollar. Its counterparts in Turkmenistan and Azerbaijan followed suit in the first quarter of 2015. Meanwhile, local currencies floating more freely in the currency market, such as the Georgian Lari or the Kyrgyz som, have sharply depreciated against the dollar since the second half of 2014.

In 2015 the economy of oil-and-gas rich Azerbaijan will feel the heat of falling oil prices as



the IMF forecasts a 0.6% growth rate and 2.5% in 2016. Economic growth has slowed dramatically with oil production beginning to plateau since the oil-fuelled boom of 2003-2007, when the economy expanded by an average 21%.

With oil and gas accounting for 95% of the country's exports and 75% of government revenues, the 60% drop in oil prices since June 2014 has squeezed the economy. In March Fitch Ratings stated that the government would revise the 2015 budget designed at an average oil price of \$90 per barrel. According to the IMF, inflation pressure is due to increase with consumer prices set to grow by 7.9% in 2015, up from 1.4% in 2014, and by 6.2% in 2016.

On February 23 the central bank devalued the national currency, the manat, by 33.5% to the dollar and by 30% to the euro. The move came a few days after the regulator abandoned the manat's dollar peg and switched to dollar-euro basket to manage the exchange rate.

ADB approves business plan for Azerbaijan through 2017

Ahead of the Asian Development Bank's (ADB) Board of Governors' meeting on May 2-5 in Baku, the Bank approved its business plan for Azerbaijan for 2015-2017, setting at \$586mn the resources available to finance sovereign operations and \$715mn its lending programme.

The plan, published on the multilateral lender's website, envisages about \$4.1mn of development grants in the areas of energy, transport, finance, education, water and public administration. In particular, the ADB will allocate AZN800,000

(€717,000) to improve power distribution, AZN1.055mn (€946,246) to support the railways' development, and AZN500,000 (€448,431) to develop water supplies.

Azerbaijan's capital Baku will host for the first time the ADB's board meeting on May 2-5. The event, which is expected to attract about 3,000 delegates, will be held in the South Caucasus for the first time.

Established in 1996, the ADB counts on 67 member states with Japan and the US leading the group of shareholders (31.2% of the total share capital). Azerbaijan joined in 1999 and accounts for 0.5% of the bank's capital.

Azerbaijani economy to expand by 1.5% in 2015, says EBRD

Azerbaijan's economy is expected to expand by 1.5% in 2015, supported by revenues from the oil and gas sector accumulated in previous years, officials from the European Bank for Reconstruction and Development (EBRD) told reporters on March 18 on the sidelines of an investment forum in the capital, Baku.

The EBRD acknowledges that declining oil prices and other factors have a negative impact on the oil-rich country's economy, but the country can count on specific buffers. "Geopolitical risks have risen and have had an impact on many countries, including Azerbaijan," EBRD economist Dmitry Gvindadze said. "But Azerbaijan's fiscal and financial buffers are much stronger than in many countries of Eastern Europe and South Caucasus."

The Central Bank of Azerbaijan's total assets and



the state oil fund at about \$50bn, or equivalent to 60% of gross domestic product (GDP), created a “safety cushion” for the country, the economist was quoted as saying.

Hit by the fall in global oil prices, the Russian ruble’s debacle, and the domino effects of the separatist war in eastern Ukraine, Azerbaijan devalued the national currency, the manat, by 33.5% against the dollar, and by 30% against the euro in February and replaced the peg to the greenback with a two-currency basket, the dollar and the euro.

The government forecasts economic growth to stand at 4.4% in 2015, a target that analysts consider at risk since it envisages oil at \$90 a barrel. Oil and gas account for 95% of the country’s exports and 75% of government revenues. According to data released by the State Statistical Committee (SSC) on March 17, the country’s budget surplus stood at AZN422mn (€376.7mn), or 11.6% of GDP in January, with budget revenues reaching AZN1.6bn (€1.49bn) and spending at AZN1.263bn (€1.12bn).

Azerbaijan’s 2015 budget anticipates revenues were worth AZN19.4bn (€17.3bn) and spending was at AZN21bn (€18.7bn).

Socar issues \$750mn Eurobond to finance refinery and short-term debt

Azerbaijan’s state oil company (Socar) issued a 15-year eurobond worth \$750mn with a yield of 6.95% per annum, the oil giant announced on its website on March 29.

Proceeds of the Eurobond, placed on the London Stock Exchange and managed by Deutsche Bank and JP Morgan, will be used for capital spending related to the construction of the Star refinery in Turkey and for refinancing short-term debt and general corporate purposes. It is Socar’s third Eurobond following placements of \$500mn in 2012 and \$1bn in 2013.

About 93% of buyers were fund managers, while the remaining 7% were purchased by banks (5%) and pension funds (2%). The US and the UK were the leading country buyers with 41% and 39% respectively.

Socar, which is 100% owned by the Azerbaijani government, is a key contributor to the state budget and has seen its revenues shrink along with the almost 50% slide in benchmark Brent crude oil prices since last summer. In January a company executive told Reuters that an average oil price of \$60 per barrel would reduce the company’s revenues by \$510mn but that the firm could manage by regulating spending.

FDI in Azerbaijan tops \$8bn in 2014, most in oil and gas sector

Foreign direct investment (FDI) to Azerbaijan amounted to \$8bn in 2014, with the oil and gas sector accounting for 83.6% of the total, the Central Bank of Azerbaijan (CBA) reported on March 30. Non-oil FDI totalled \$1.31bn, accounting for 16.4% of the whole investment. Most of oil and gas FDI targeted projects carried out by the BP-led consortium at Shah Deniz and the Azerbaijan International Operating Company at the Azeri-Chirag-Guneshli fields.



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According to the State Statistics Committee (SSC) Azerbaijan's oil and gas sector attracted AZN893.8mn (€790mn) investment in the first two months of the year, up by 15.3% y/y. In the same period, capital investment in the industrial sector totalled AZN988.3mn (€873.5mn), up by 11.5% y/y.

In 2014 Azerbaijan's investment abroad increased by 49.5% and amounted to \$2.2bn - of which \$1.4bn in oil and gas and \$727.8mn in other sectors.

Central Bank of Azerbaijan's reserves drop by 35.6% y/y in March

In March, the foreign exchange reserves of the Central Bank of Azerbaijan (CBA) amounted to \$9.47bn, a 35.6% drop y/y from \$14.7bn in March 2014, Azernews reported on April 13 quoting the

central bank. Reserves started to decline gradually from last July, but fell sharply from December due to high domestic demand for the US dollar.

The CBA abandoned the peg of its national currency, the manat, to the greenback on February 16 and began using a dollar-euro basket to manage the exchange rate. With oil and gas accounting for 95% of the country's exports and 75% of government revenues, the Azerbaijani economy started feeling the heat from June when crude prices dropped over 50%. Western sanctions against Russia over the annexation of Crimea and the conflict in Eastern Ukraine put additional pressure on the currency.

A few days later, on February 21, the CBA devalued the manat by 33.5% to the dollar and by 30% to the euro as falling oil prices and economic turmoil in Russia put pressure on the currency and hit economies hard across the former Soviet Union.

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Chart

Growth – but not as Azerbaijan has known it

The International Monetary Fund (IMF) said in the April edition of its World Economic Outlook (WEO) released on April 14 that growth in the Caucasus and Central Asia is expected to decline from the spillover effects of the economic crisis in Russia and the fall in commodity prices – and Azerbaijan will be no exception.

Out of the region's net energy exporters, Azerbaijan's growth of 0.6% in 2015 will be the lowest outside of recession-hit Russia, as will its

2.6% growth in 2016. With oil and gas accounting for 95% of the country's exports and 75% of government revenues, the 60% drop in oil prices since June 2014 has hit the economy hard.

Inflation will spike from being the lowest among the region's net energy exporters to one of the highest. On February 23 the central bank devalued the national currency, the manat, by 33.5% to the dollar and by 30% to the euro. •

	Real GDP			Consumer Prices ¹			Current Account Balance ²			Unemployment ³		
	2014	Projections 2015 2016		2014	Projections 2015 2016		2014	Projections 2015 2016		2014	Projections 2015 2016	
Commonwealth of Independent States⁴	1.0	-2.6 0.3		8.1	16.8 9.4		2.2	2.5 3.7		...	...	...
Net Energy Exporters	1.5	-2.4 0.1		7.5	15.6 9.1		3.1	3.4 4.6		...	...	...
Russia	0.6	-3.8 -1.1		7.8	17.9 9.8		3.1	5.4 6.3		5.1	6.5 6.5	
Kazakhstan	4.3	2.0 3.1		6.7	5.2 5.5		1.6	-4.1 -3.1		5.2	5.2 5.2	
Uzbekistan	8.1	6.2 6.5		8.4	9.5 9.8		0.1	0.2 0.2		...	...	...
Azerbaijan	2.8	0.6 2.5		1.4	7.9 6.2		15.3	5.3 8.2		6.0	6.0 6.0	
Turkmenistan	10.3	9.0 9.2		6.0	7.7 6.6		-5.9	-11.1 -6.7		...	...	...

News in brief

BP expects to join TANAP consortium by June

British oil major BP expects to sign a deal on the Trans-Anatolian Natural Gas Pipeline, Tanap, "within two months" to become a stakeholder in the multi-billion-dollar project that aims to reduce Europe's reliance on Russian gas, Reuters quoted Chris Schlueter, BP country manager for Georgia, as saying.

"We are very, very close. That has been very good progress over the last week and a half. I think (we will sign the deal) within the next two months," Schlueter was quoted by the newswire on March 26.

In 2013 BP said it targeted a 12% stake in the project. Azerbaijan's state oil company, Socar, is Tanap's main shareholder with 58% stake, while in 2014 Turkish pipelines firm Botas raised its stake to 30% from 20%.

Tanap envisages carrying 16bn cubic metres of gas per year from Azerbaijan's Shah Deniz II field in the Caspian Sea, one of the world's largest gas fields, which is being developed by a BP-led consortium. The pipeline will run from the Turkish-Georgian border to Turkey's border with Bulgaria and Greece. The preliminary cost of the pipeline has been estimated at \$10bn-11bn.

He added the consortium planned to spend about \$6bn in 2015 on the Shah Deniz II and the South Caucasus Pipeline Expansion (SCPX) projects.

The pipeline was inaugurated on March 17 in the Turkish town of Kars. The construction works

of the 1,850km-long project is expected to be completed by the end of 2018 and start shipping gas from Shah Deniz II to Europe in 2019.

Azerbaijan simplifies visa regime for Baku 2015 European Games

The Azerbaijani government announced a simplified visa regime for the influx of tourists expected for the inaugural European Games that the capital of Baku is hosting in June, Azernews reported on April 3, quoting a spokesperson of the country's foreign ministry.

The new scheme will enter into force 10 days before the games kick-off on June 12 and will run throughout the competition. It will apply to all visitors who can produce a ticket for the games or a printed document confirming the purchase of a ticket.

Foreigners can get a 30-day single entry visa at the consular offices consular department of the foreign ministry, located in each of the country's six international airports.

Socar's Kulevi oil terminal shipment up by 20% y/y in Q1

The Kulevi oil port on Georgia's eastern Black Sea coast shipped 700 metric tonnes hydrocarbons and petrochemicals in Q1, marking a 20% hike y/y, the oil terminal's website reported on April 6.

Owned by Azerbaijan's state oil giant Socar, Kulevi



started operations in 2008 and has transshipped about 1.8mn tonnes of fuel oils, crude oil, and gas oil since then.

In January, Socar announced the construction of a new depot facility for receiving, storing, and loading various oil products in the Kulevi oil terminal. The project envisages five reservoirs – with a total capacity of 70,000 cubic metres (cm) – and a two-way railroad overpass for simultaneous loading and unloading of 26 tank cars. Currently the terminal has a tank farm capacity of 320,000 cm.

Italy's Tecnimont inks €350mn contract for polypropylene plant

Maire Tecnimont, the Italian engineering and construction company, has won a €350mn contract for Azerbaijan's first polypropylene plant, the Milan-based company announced on its website on April 7.

The company's subsidiaries, Tecnimont and Kinetics Technology, have reached an agreement with state-owned Socar Polymer to build a polypropylene plant and relevant utilities and off-site facilities on an engineering, procurement, and construction (EPC) basis. The plant will be located in the Sumgayit Petrochemical Complex, about 30km north of the capital Baku.

The project envisages the provision of engineering services, equipment and material supply, erection and construction activities up to start-up and guarantee test run. The plant will have a capacity of about 180,000 tonnes per annum. The plant will utilise the propylene feedstock coming from the existing naphtha cracker.

Azerbaijani oil exports drop by 16.2% m/m in March, says Socar

In March Azerbaijan's oil exports dropped by 16.2% m/m to 1.649mn tonnes against 1.969mn tonnes in February, Azernews reported on March 31 quoting the state oil firm, Socar. In January Socar exported 2.121mn tonnes of oil.

The bulk of exports followed the Baku-Tbilisi-Ceyhan (BTC) pipeline with 1.226mn tonnes of oil (4.5mn tonnes since January), while the remaining was pumped through the Baku-Novorossiysk pipeline with 169,470 tonnes (423,785 tonnes since January) and the Baku-Supsa pipeline with 254,003 tonnes (762,290 tonnes since January).

In 2014, Socar exported 24.372mn tonnes of oil, of which 20.483mn tonnes via the BTC.

KBR, Socar to create joint venture for engineering service in Azerbaijan

Azerbaijan's state oil company, Socar, and KBR, a global technology, engineering and construction company, have signed a joint venture agreement to establish a new engineering and support service company in Azerbaijan, according to a press release published on KBR's website on March 27.

The new company, to be located in the capital, Baku, will provide design, engineering, technical, procurement, construction supervision and project management services for projects across the upstream, midstream and downstream oil and gas sectors, primarily in Azerbaijan. The company will also prepare technical requirements for all stages



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of a project, including project management, contract supervision, planning and cost control.

It will also train and develop local workforce and supervise contractors throughout all stages of a project, from startup through construction and into performance testing.

Houston-based KBR has worked on various projects in Azerbaijan since 1994, achieving more than 17mn man-hours. At its peak, KBR employed nearly 400 people expending more than 4mn man-hours in the country.

Azerbaijan's Anglo Asian Mining gold production up by 50% in Q1

Azerbaijan's leading precious metals company, Anglo Asian Mining (AAM), dug out 17,193 ounces of gold in the first quarter of 2015, marking a 52% increase y/y, the London-listed company reported on its website on April 14.

About 11,222 ounces came from the agitation leaching plant, 5,963 ounces from heap leach operations and 8 ounces from SART processing. In 2014 AAM produced 60,285 ounces of gold and targets 70,000-75,000 ounces of gold by the end of 2015. Copper production amounted to 182 tonnes (from 205 tonnes in Q4) and silver to 1,950 ounces (from 3,749 ounces in Q4).

CEO Reza Vaziri stated that AAM is planning to build a small-scale flotation plant, which is expected to be commissioned in the second half of the year.

The company has the right to develop six deposits in the south-west of Azerbaijan – Gadabay, Ordubad,

Gosha Bulag, Gyzyt Bulag, Vezhnali, and Soyutlu – under a production sharing agreement signed in August 1997 with Azerbaijan's government. The company's resource base exceeds 36 tonnes of gold, 292 tonnes of silver and 94.000 tonnes of copper.

Trans Adriatic Pipeline awards first contract for construction work

Trans Adriatic Pipeline (TAP) awarded the Albanian-Italian joint venture Gener 2 and Sicilsaldo a contract for the construction and rehabilitation of access roads and bridges in Albania, TAP announced on its website on April 14.

TAP will transport natural gas from Azerbaijan's Shah Deniz II field to Europe. The 870km-long pipeline will connect with the Trans Anatolian Pipeline (TANAP) at the Turkish-Greek border at Kipoi, cross Greece and Albania and the Adriatic Sea, before coming ashore in Southern Italy. Gas sales to Georgia and Turkey are scheduled for late 2018 with first deliveries to Europe to start a year later. BP, Azerbaijan's state oil company Socar and Norwegian Statoil are TAP's leading shareholders with 20% stake each, followed by Fluxys (19%), Enagás (16%), and Axpo (5%).

The building of Albanian access roads and bridges "is a crucial step in TAP's preparations for pipeline construction, to begin in 2016," reads the statement which sets the start of the construction works for the second quarter of 2015. Gener 2 is an Albanian construction and development company, while Sicilsaldo is an Italian enterprise specialised in engineering, procurement and construction services in the oil and gas industry as well as in the power sector.

