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AZPROMO, GIZ train local producers of wine and soft drinks

The Baku Business Centre, the headquarters of the Azerbaijan Export and Investment Promotion Foundation (AZPROMO), hosted a training session on July 31 on "New trends for soft drinks and wine. Distribution channels and competition."

A joint initiative by AZPROMO, the Ministry of Economy and Industry and the German Enterprise for International Cooperation (GIZ), the training gathered representatives of 30 local producers of wine and soft drinks.

Present at the event was AZPROMO Vice President Vidadi Guliyev, who discussed the institution's successful cooperation with GIZ, and encouraged participants to take advantage of the opportunity to improve their services and enhance their exports.

Also present at the event was the head of the GIZ office in Baku, Sonia Fountaine, and international marketing expert Christine Young, who gave presentations on global perspectives on soft drinks and wine, and current trends in the European Union and beyond. ●

Top story

Trump brings luxury to Baku, amidst a 32% real estate sector decline

The July announcement that aspiring US presidential candidate Donald Trump has joined forces with Garant Holding to give his name and management know-how to a 33-floor luxury residence building in Baku injected some verve into an otherwise depressed real estate sector in Azerbaijan.

Set to open by the end of the year, the building "will set a new standard for excellence in the region", according to the Trump Hotel Collection website. "When we open in 2015, visitors and residents will experience a luxurious property unlike anything else in Baku – it will be among the finest in the world," the mogul himself touts.

What Trump fails to mention, however, is that Baku has no shortage of luxury properties with high standards. A real estate boom in recent years has resulted in a flurry of luxury office and residential buildings, as well as over a dozen five-star hotels and luxury hospitality brands like Hilton, Four Seasons, Fairmont, Park Inn and Marriott.

However, the glitzy plazas, hotels and other swanky developments popping up everywhere could soon become the legacy of a real estate bubble that burst; the real estate market posted a 31.9% drop in turnover in the first six months of 2015, falling from $2.6bn in January-June 2014 to $1.75bn this year. The drop is all the more shocking coming after years of double-digit growth; last year, for instance, the real estate sector grew by 25%.

As Bakuvians struggle to repay overnight-inflated mortgage loans, the government needs to intervene with significant injections of cash in order to support the local demand for real estate and to prevent a ripple effect tearing into the banking sector. Meanwhile, those with savings in dollars could profit from the current state of affairs, as prices in dollars have dropped by over 30%, and are expected to continue on a downward trend for the remainder of the year.

Mortgage troubles

The devaluation of the national currency in February was the greatest contributor to this year's decline. Mortgage lending seized up after the manat's overnight devaluation of a third of its value, and it has only slightly picked up since. Officially, mortgage lending decreased by 10.8% on year at the end of May, down to $47mn, although most banks are still struggling to refinance mortgages given out before the devaluation.

According to the Azerbaijan Mortgage Fund (AMF), only six banks were able to refinance more than 1,000 mortgages in the first quarter, namely AG Bank, Xalq Bank, Muganbank, Demirbank, Bank Standard and Zamin Bank. Meanwhile, other institutions like Accessbank report that refinancing mortgages is an ongoing effort.

This year, the AMF has capped loans at $47,600, and at less than 80% of the property´s market value. The loans are exclusively for residential property, and give preferential interest rates to war veterans, PhD holders and state employees, among others.

In order to counteract the effects of the devaluation on mortgage lending, the government has allocated an additional $190mn to mortgage loans from the state budget in July. During a statement made at a cabinet of ministers meeting in July, President Ilham Aliyev noted the "need to improve the living conditions of the youth and other categories of people", and mentioned that the $190mn would go to social mortgage loans, which currently constitute less than a quarter of the AMF´s portfolio.

Capital demand

Baku is by far the most sought-after destination for real estate investments in Azerbaijan, with residential prices per square metre (sqm) remaining high in prime locations like the Sabail District ($2,131) and Yasamal ($1,661).

The average price in Baku decreased by 1% in June, to $1,612/sqm. Affordable housing was the most affected by the drop in mortgage lending, as purchasers of such apartments are more susceptible to failing to meet the contract terms for taking out such a loan. Consequently, the price decline for affordable apartments and houses was lower.

Housing in Baku is a mix of small apartments and houses, many of which were built during Soviet times, as well as modern residential complexes like Port Baku and Khazar Island.

A May fire at a Soviet-era apartment building in the Binaqadi district, which was exacerbated by the Styrofoam facing that was used to beautify the building, and which this newsletter covered in its previous edition, resulted in a temporary drop in demand for such apartments. However, the diligence with which the material was removed from similar buildings in the Azerbaijani capital should restore some trust in the safety of Baku´s older abodes, say analysts. •

PASHA Bank

PASHA Bank sponsors student competition, brings together local entrepreneurs at AmCham picnic

In July, PASHA Bank joined efforts with the State Committee for Securities (SCS) to organise a social initiative aimed at training and challenging economics students. The initiative consisted of a series of workshops and a contest aimed at students studying at the Azerbaijan State University of Economics. The students were divided into three groups and required to deliver presentations to a panel of judges on the impact of the currency devaluation on capital markets; the role of the capital markets in economic development; and financing infrastructure projects through capital markets. The winners have the opportunity to intern at the SCS for one month.

Not one to miss occasions such as the Fourth of July, PASHA Bank also sponsored a picnic organised by the American Chamber of Commerce (AmCham) in Azerbaijan to celebrate the US Independence Day. The event gathered 1,000 participants and was an opportunity for local entrepreneurs to network in an informal setting. According to Sona Abbasova, Head of Corporate Communications, "PASHA Bank is dedicated to supporting local entrepreneurship, particularly small and medium-sized enterprises. Organising such events is important to help promote informal bonding among Azerbaijan's business community."

July also saw good progress in PASHA Bank's efforts to improve the customer service experience. After renovating its Shuvelan Business Centre, the institution can now welcome customers to an additional service space on Ildirim street, from which it provides a full range of financial services, including loans, corporate and cash services, trade financing, and support in accessing capital markets. ●

Comment

Azerbaijan needs to move beyond energy

Michael Cecire of the Foreign Policy Research Institute

Azerbaijan has come a long way from its Caucasian tiger years of gangbusters economic growth and genuine optimism. The country is, it seems, in a bit of a rut.

The greatest factor in Azerbaijan's waning star is the very thing that launched its global prominence (and keen Western attentions) in the early 2000s: energy. While vast quantities of oil and natural gas have made Azerbaijan a coveted regional partner and elevated the geopolitical profile for the entire region, the rapid decline in energy prices over the last several years and the disruption of global energy markets are upsetting this calculus.

Azerbaijani oil production peaked in 2010, and has been following a trajectory of steady decline since that point. This was always going to pose a problem to Azerbaijani authorities who, while they recognised that the country's singular dependence on hydrocarbons exports would not last forever, saw it as a gradual and manageable problem. Optimism was buoyed by the prospect of increased natural gas production from the Shah Deniz II field, which would presumably help compensate for declines in oil revenues.

These hopes were dashed by the recent crash in energy prices which, while experiencing some modest recovery from a summertime uptick, are expected to remain low for the foreseeable future. And should the new Iran deal hold – an admittedly big if – that could put vast quantities of new hydrocarbon products on the markets, which would add further downward pressure on energy prices. Azerbaijan's revenue shortfall has already had a marked impact on the national economy, which is further compounded by the effects of currency devaluation and falling remittances from Russia.

All of this is occurring against the backdrop of an international energy environment in upheaval. The US has re-emerged as an energy superpower and is now the world's leading producer of both oil and gas. And with robust Canadian production, and the prospect of sector reforms in Mexico, North America is leading an international energy revolution, just as unconventional and alternative energy sources become increasingly viable. Azerbaijani energy, at this point, is a declining and increasingly superfluous input.

Even before recent fluctuations in global energy markets, Azerbaijan was never going to be much more than a bit player in the European diversification strategy. At their core, and despite their varying utility, grand strategies for ferrying Caspian hydrocarbons to Europe have been mostly a response to geopolitical demand, not economic demand. But diminished energy demand, resets in the global energy marketplace, and Azerbaijan's increasing hostility to the West are upsetting Azerbaijan's cherished, if somewhat short-lived, strategic "value proposition". If it hopes to reclaim its niche, Azerbaijan will have to rethink its whole approach.

Finding New Mojo

Energy will likely always be a major strength for Azerbaijan, but it is increasingly insufficient on its own to preserve the strength and independent freedom of action that Azerbaijan has long held to be crucial to its national security and development.

Economically, Azerbaijan must make up for the lost time and money that should have been invested in diversifying the country's economy away from its reliance on energy production. Transit is one notable and potentially opportune area where Azerbaijan may be able to find purchase. The prospect of Iranian energy coming online should motivate Baku to push for those hydrocarbons to fill Azerbaijani pipelines and railways. The nearing completion of the Baku-Tbilisi-Kars railway, and the wider expansion of Turkey-Georgia-Azerbaijan trilateral economic (and political) infrastructure, should help facilitate this opportunity.

It also presents a chance for Azerbaijan to find a niche in the much-ballyhooed New Silk Road concept, which bets heavily on the prospect of lucrative east-west trade flows across the Eurasian interior. While the efficacy of the New Silk Road remains an open question, China has already put its money where its mouth is to the tune of some $40 billion – a sum sizeable enough on its own to stimulate economic multipliers for the countries savvy enough to get on board. Next door neighbour Georgia is already getting in on the action.

But more importantly, Azerbaijan needs to reconfigure itself politically. The days of winning praise and prestige by virtue of its large proven oil reserves are rapidly coming to a close. Instead, Azerbaijan could make its regional mark by embracing real liberal reforms. Geopolitically, a freer Azerbaijan would be a trusted Western partner and part of a liberal bridge reaching into the Eurasian interior. Yes, it would take years, even generations, of tireless work, but even a noticeable turn could spark a new regional dynamic.

Tying Azerbaijani fortunes to Moscow would be a short-sighted proposition even without Russia's dire economic outlook or its well-established record of dominating its smaller neighbours. But with the mutually reinforcing forces of state revanchism and economic isolation at full churn in Russia, Azerbaijan's entente of convenience with the Kremlin is simply bad policy. Azerbaijan has grown much since it regained independence in 1991, but its potential as a regional power will never be realised until it reaches beyond its post-Soviet legacy. •

Michael Cecire is an associate scholar at the Foreign Policy Research Institute's Project on Democratic Transitions.

Feature

First-half growth exceeds expectations, but uncertainty remains

Azerbaijan has undoubtedly had a chequered year thus far, its economy echoing woes elsewhere in the region, and suffering additionally from the halving of oil prices at the end of last year. However, a July meeting of the cabinet delivered surprisingly positive results for the first half of the year, namely GDP growth of 5.7%, driven by growth in the non-oil sector (9.2% growth), industrial production (4%), and agriculture (7.3%). Meanwhile, foreign direct investment reportedly increased by 44.8% on year in manat terms, which would correspond to growth of 5.3% in dollar terms, up to $3bn.

While the meeting did not deliver specifics on how the growth rate was achieved, and whether the construction boom and enhanced economic activity around the European Games played a role in it, the results have certainly exceeded forecasts from international institutions such as the World Bank, which forecast 1.5% GDP growth this year; Standard & Poor's, which forecast 2.2% growth this year; or Moody's, which recently downgraded its outlook for the Azerbaijani financial sector to negative from stable, citing expected economic growth of just 1% this year. Furthermore, Moody´s mentioned "developments in the non-oil economy" as "determinants for the banks' operating environment, and, as such dictate the evolution of bank performance," which seems to contradict all the more the official 9.2% growth rate in the non-oil sectors.

Differing perspectives

The roots of such bleak predictions lie in the poor performance of regional economies, particularly Russia´s, accompanied by the Azerbaijani economy's high dependence on hydrocarbons for export revenues, state budget and overall economic activity, and a February 21 devaluation of the manat by over 30% against both the euro and the US dollar, which shocked the markets coming after four years of stability thanks to a peg to the dollar.

Yet Azerbaijani officials are upbeat about the economy's prospects. Two weeks ago, the president of the central bank, Elman Rustamov, told the local press that the economy had overcome the "risk zone". "With oil prices at $40 per barrel, the trade balance of Azerbaijan will be deficit-free, and therefore we are not afraid of this level. We expect a surplus in the balance of payments this year at the current price of oil."

President Ilham Aliyev delivered the results of the first half-year himself at the meeting of the cabinet, and expressed his satisfaction with them, noting that they were achieved "despite unpleasant processes in different parts of the world."

Analysts, however, are more reserved about the economic prospects of the Caspian country. They cite that between August 2014 and June, the central bank lost 60% of its international reserves, which now stand at $10.5bn. The financial sector has also taken a beating: lending decreased as a percentage of banking operations from 71.55% in December to 68.38% in June; banks lost 21% of their loan portfolio since December, which amounted to $19bn as of June; a controversial 10% tax on income from deposits was reintroduced in January, driving away depositors; the rate of non-performing loans increased by 34.5% between January and June; large banks like the International Bank of Azerbaijan reported losses in the billions of dollars; and real estate and insurance experts are expressing concern over their sectors' prospects.

As the numbers indicate, the banking sector has born the brunt of the devaluation, but some banking executives are staying hopeful. "The devaluation in February has slowed down

Azerbaijan to host F1 race in 2016

Azerbaijan is set to make its Formula 1 debut in July next year, according to a 21-race provisional calendar published in July by the FIA, Formula One's racing governing body. The inaugural race in Baku is scheduled to take place on July 17.

The inclusion of races in Azerbaijan and Germany means the 2016 calendar grows to 21 races, up from this year's 19. The Azerbaijan race will revive the European Grand Prix title, and its addition on the calendar is a clear sign of the burgeoning commercial opportunities of the region straddling Eastern Europe and Western Asia.

The addition of Baku to the F1 calendar is yet another high-profile event coup for Azerbaijan. In June, Baku hosted the first-ever European Games, an international multi-sport event representing Europe's Olympic Committees, featuring almost 6,000 athletes from 50 countries competing in 20 sports.

growth in the banking sector, but we are seeing a reduction in the pace of the slowdown, which is an encouraging sign. We hope there will be a turnaround after the summer break," Michael Hoffmann, CEO of Accessbank, told bne IntelliNews in June.

Another area on which local and international experts diverge is that of inflation, which stood at 3.4% in May according to the Azerbaijani government, but which the World Bank expects to reach 10% by the end of the year. What is certain is that the central bank issued $3.5bn worth of currency so far this year, almost 30 times more than it issued in the first half of 2014.

All is not lost, as some areas of the economy have gotten a boost from the February devaluation. The foreign exchange market, for instance, posted 41.9% growth in the first half-year, as Azerbaijanis rushed to turn their savings into foreign currency. Banks have both profited and lost from this development – higher trading volumes brought higher profits, but the trend resulted in a scarcity of foreign currency on the market, as well as a decrease in manat deposits. Meanwhile, the government has avoided budget deficits to date, while keeping contributions from the sovereign wealth fund SOFAZ down to a minimum of $3.3bn.

Whether the Azerbaijani economy will grow by 1% or 5% this year remains to be seen. Until then, everyone seems to agree on the fact that the country's sizeable savings packed away in SOFAZ will mitigate the effects of the downturn on the population, and afford the government space while it navigates the murky waters of economic uncertainty. •

Sector

Baku strikes deals for power sector revamp, eyeing higher exports

A World Bank special mission visited Baku at the end of July for the second time this year to discuss upgrading Azerbaijan´s power grid with financial support from the international financial institution (IFI), after a similar mission in April. The details of the financing scheme are still in the works, but the scope is to completely rebuild the power generation and distribution infrastructure in several pilot regions in Azerbaijan – a plan that will cost an estimated $300mn.

The World Bank is not the only IFI courted by the Azerbaijani government in its drive to improve and expand the country's out-dated grid. At the Asian Development Bank's annual meeting in Baku two months ago, the two sides signed a memorandum of understanding for a $1bn upgrade of the power grid, distribution and transmission lines, and customer service of state-owned utilities. According to the deal, the IFI would finance three-quarters of the cost, and disburse the funds in three tranches over a period of five years, while the government in Baku would cover the rest.

The Azerbaijani power sector has had a chequered evolution over the last two decades, with generation capacity decreasing drastically in the 1990s, only to recover in the 2000s. The authorities in Baku are taking steps to address a sector that is plagued by "a host of inefficiencies" on both the supply and the demand sides, according to a World Bank report, and have set targets to reduce leakages from 16.5% to 6.5% by 2020, and of losses along transmission lines from 4.3% to 2.8%.

Other issues identified in the World Bank report are low energy tariffs due to subsidised fuel, which lead to overconsumption, theft and the low domestic service quality, with electricity rationing outside the capital fairly frequent and significant collection losses.

State-owned Azerenergy is the main electricity producer, which generates power at 13 thermal power plants (TPPs) and eight hydropower plants, to then distribute it through over 200 substations with capacities ranging from 110 to 500 kilovolts.

In February, distribution and transmission was entrusted to a newly created public company, Azerishig, which took over Azerenergy´s former distribution and transmission operations with the aim of modernising the transmission network and ensuring a reliable supply of power. All the power generators in the country are required to supply their output to Azerishig.

Tapping into clean energy sources

Power generation is one of the areas that the government is working to improve and diversify. At the moment, gas-based thermal power plants generate over 91% of the country's electricity, although renewable energy sources like solar and wind power are increasingly contributing to the energy mix. In 2013, solar and wind power each accounted for 800mn kilowatt-hours (kWh) of electricity, out of a total of 23.3bn kWh.

Other sources of clean energy like hydropower are also being tapped. In 2013, the government announced plans to build 34 small hydropower plants with a total capacity of 240 MW, although the plans have yet to materialise. The estimated potential for renewable energy sources in Azerbaijan exceeds 12,000 MW, with solar being the most promising energy source (5,000 MW). Increasing the contribution of clean energy to 20% of the power mix by 2020 will require investment of $8.9bn, in addition to that required to upgrade the fossil fuel-based thermal power plants.

Power is money

Having increased its installed capacity by 30% in the last five years, up to 7,100 MW, Azerbaijan could add electricity to the list of major exports, after it ensures a stable domestic supply. In 2013, the country exported 805mn kWh to neighbours Iran, Russia, Georgia and Turkey, but the government in Baku has expressed its wish to increase the sales volume and its markets to include Iraq and Afghanistan.

In July 2015, a delegation led by Iranian Energy Minister Houshang Falahatian, paid a visit to Baku to discuss connecting the two countries' grids and aligning energy tariffs. The infrastructure is reportedly in place, and an agreement would pave the way to higher levels of electricity sales from Baku to Teheran.

"By synchronising their energy systems, Azerbaijan and Iran are creating the basis for the future electricity exchange with third countries, including Russia," Falahatian told the local media during his visit. "After the synchronisation of the energy systems of our countries, Iran will be able to share power with Russia, and Azerbaijan with Afghanistan and Iraq, through Iran." •

Economics & finance

Non-oil sectors drive economic growth in Jan-Jun

The Azerbaijani economy posted 5.7% growth rate between January and June, driven primarily by the non-oil sectors, PASHA Bank said in its "Economy and banking sector overview" for the first half-year released on August 10. This will be welcome news for the government, which has been pushing to diversify the economy from its heavy dependence on hydrocarbons with mixed success.

While oil and gas production rebounded compared with the first half of 2014, from a 2.8% decrease to 1.3% growth, the non-oil sectors recorded a commendable 9.2% increase in the first half.

Manufacturing was the fastest growing sector of the economy, with a 17.2% growth rate, followed by hospitality (17.1%), trade (13.4%), construction (11.5%), information and communications technology (10.7%), agriculture (7.3%) and social services (4%).

Chemicals did particularly well, registering an increase both in turnover (120%) and in exports (162.5%). Other areas of manufacturing that saw significant increases were publishing (74.3 %), wood (32.6%), metallurgy (21.9%), construction materials (19.4%) and paper (5.4%). Meanwhile, textiles and machinery fared less well, with year-on-year decreases of 69.6% and 25.2% respectively.

The public sector managed to maintain a budget deficit of AZN0.77bn, despite the drop in oil prices, and of the higher expenses associated with the organisation of the first European Games in June. The result is atypical for Azerbaijan, which normally posts budget surpluses thanks to oil revenues. Azerbaijan´s sovereign oil fund, SOFAZ, covered part of the deficit, by transferring AZN278mn more to the state budget than in the first half of last year, when it transferred AZN2.9bn. The breakeven oil price for fiscal purposes is $69.7 per barrel, and the Azeri Light has been inching closer to that number, after reaching $62.7 per barrel in June, up from $49.5 per barrel in December. If oil prices continue to evolve in this line, Azerbaijan´s state budget for the second half of the year could reach break-even, PASHA Bank predicts.

The Central Bank of Azerbaijan's reserves have dropped by $6.6bn since August 2014, although they have slightly increased from a low of $8.4bn in April to $8.5bn in June. According to the report, "the dollarisation of the Azerbaijani economy is the main reason behind the shrinking money supply." PASHA Bank expects the recovery to be lengthy, due to the large loss of cash reserves and the AZN3.7bn decline in the cash in circulation.

Meanwhile, total investments in the economy were on the rise, up to AZN7.9bn from AZN7.6bn in the first half of 2014. Oil and gas continue to command the lion's share of investments at 43%, up from 39% last year. Domestic investments account for over 60% of total investments, while the construction sector managed to attract over a fifth of the total investment in the non-oil economy, or AZN945mn.

Foreign receipts, however, decreased significantly as a result of the high oil and gas component, at

95%, in Azerbaijan´s exports. Thus, revenues from exports decreased from $11.2bn in the first half of 2014 to $6.2bn in the same period this year, while imports increased from $4.1bn to $4.7bn, the result being a $5.6bn drop in the country´s foreign trade surplus.

The number of companies increased by 63,500 since June 2014, up to 551,700, and, just like a year ago, the majority of them remain concentrated in Baku, rendering the government´s plans for regional development all the more urgent.

Contrary to forecasts from international organisations like the International Monetary Fund (IMF) and the World Bank, which had projected an inflation level of 8.9% and 10% respectively this year, Azerbaijan has been experiencing deflation since April, the result being a moderate inflation rate of 3.2% as of the end of June.

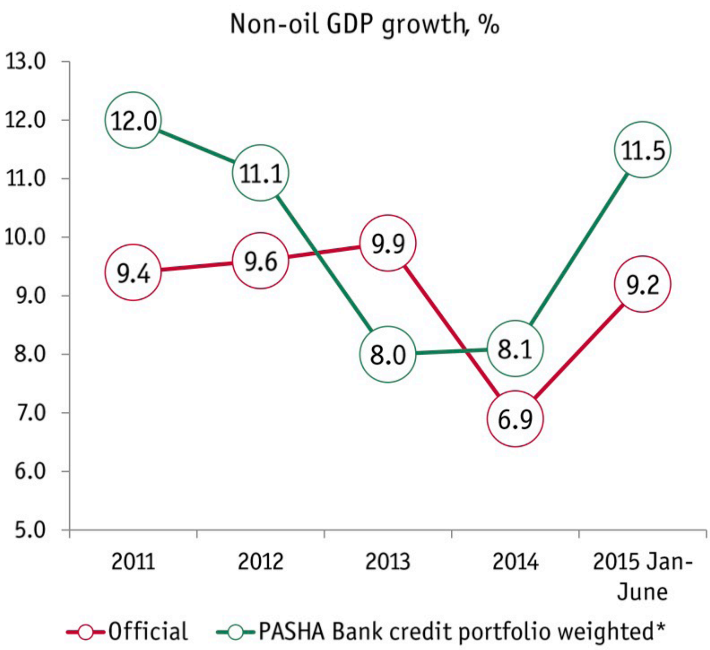
Banking and insurance

Both the banking and insurance sectors posted growth in total assets and premiums, respectively, in manat terms. Thus, banking assets grew from AZN25bn in December to AZN29bn in May, although the 33.5% devaluation of the Azerbaijani currency against the US dollar means that, in dollar terms, assets dropped by 13.75%. With AZN1.5bn in assets as of May, PASHA Bank continues to command the second largest asset base among local banks, after International Bank of Azerbaijan.

Total lending underwent the same trend as banking assets, namely an increase in manat terms, from AZN18bn in December to AZN20.4bn in May, but a double-digit drop of 15.6% in dollar terms. The loan distribution has changed dramatically compared with last year, with sectors like trade and services and industry and mining losing ground to the construction sector (27% growth), transportation and ICT (53%), and consumer loans (19% increase).

Deposits, on the other hand, maintained the same level as last year in dollar terms, after posting a sturdy 36.2% year-on-year growth in manat terms, up to AZN18.5bn. "Households are the largest depositors in the country," the report notes. "Its share in the overall deposit base made up 41% between January and May."

On the surface, the insurance sector seems to have weathered the February devaluation better than the banking sector, with premiums increasing from AZN212mn in June 2014 to AZN242.4mn a year later. However, sector leaders like Alexandre Kananadze, the first deputy chairman of local insurance company AzSigorta, urge caution. "The devaluation took places in the first quarter of the year, the losses came somewhere in the middle of the second quarter, and they will be paid in the third quarter," he told ABC.AZ last week.



FDI up by 45% in Azerbaijan in H1

Foreign direct investment in Azerbaijan increased in the first half by 44.8% y/y to AZN3.22bn (€2.79bn), the abc.az website reported, citing official data. According to the data, FDI went up by 2.5% m/m to AZN592.5mn in June.

The UK is the country's largest foreign investor with AZN1.03bn (32%), followed by Turkey with AZN456.6mn (14.2%), Norway with AZN387.2mn (12) and Iran and Russia with AZN222mn (6.9%) each.

In total, the country received investment worth AZN7.93bn in January-June 2015, a 3.7% y/y increase. In June, total investment went down by 2.5% to AZN1.51bn.

Investment mostly came from enterprises' own funds (AZN5.66bn, up by 32.4%), public spending (AZN1.49bn, 45.9% down) and bank loans (AZN368mn, up by 51%).

Azerbaijan attracted total investment worth AZN17.62bn in 2014, of which AZN12.74bn or 72.3% was domestic. FDI totalled AZN4.88bn or 27.7% of the total.

Azerbaijan's Mortgage Fund cuts mortgage issuance by 12% in H1

Azerbaijan's Mortgage Fund reduced the issuance of mortgages by 12% y/y to AZN56.5mn (€49mn) in the first half of 2015, according to the Central Bank of Azerbaijan, which runs the fund.
The fund issued mortgages to the tune of AZN9.5mn, up by 18.75% y/y. The volume of mortgages issued to refinance mortgages given by commercial banks earlier stood at AZN37.8mn.

The average size of mortgages stood at AZN40,584 in June against AZN39,891 in June 2014, the average term of mortgages was 279 months against 278 months and the average interest rates 6.73% against 6.83%. The average monthly payment was AZN297.4 in June 2015 against AZN318.6 in June 2014.

The fund has issued mortgages worth AZN698.78mn since it was established in 2006.

The maximum size of mortgages issued by the fund is AZN50,000 at an annual interest rate of 8% for 25 years. The figures are AZN50,000, 4% and 30 years for mortgages issued to socially-vulnerable groups of the population. Downpayment on the regular mortgage is 20% and 15% for the social one.

Azerbaijan revokes licences of 71 insurance agencies

Azerbaijan's Finance Ministry has revoked the licences of 71 insurance agencies, the ministry's State Insurance Control Service said in a statement on July 29.

The service said that it suspended the licences of 80 insurance agents in April for failing to submit financial reports and revoked 71 licences on July 27 for failing to meet its demands.

In total, 116 insurance licences have been revoked in Azerbaijan since the end of 2014, according to the Trend news agency.

There are 946 insurance agents, including 61 legal entities and 885 individuals, and 19 insurance brokers (eight legal entities and 11 individuals) operating in Azerbaijan at the moment. The country has 26 insurance and one re-insurance companies, according to Trend.

Dollar deposits account for 70% of insured deposits in Azerbaijan

Azerbaijan had 90% of all deposits opened in commercial banks insured at the end of June, of which 70% were denominated in dollars, the Azerbaijani Deposit Insurance Fund said in a statement posted on its website.

The fund said there were 7,147,401 deposits opened in commercial banks, of which 6,444,188, or 90%, were insured by the fund.

Bank retail deposits totalled AZN7.56bn (€6.53bn) as of July 1, up by AZN884mn or 13.2% in the first half of 2015.

The volume of insured deposits went up by 25.9% to AZN2.12bn between January and June, or 28% of the total. Of insured deposits 69% were denominated in dollars, 27% in manats and 4% in euros.

The fund's insurance assets stood at AZN103mn at the end of June.

Out of 45 commercial banks operating in the country, 44 are members of the fund.

In a bid to ease the run on manat-denominated deposits following a 35% devaluation in February, the fund increased annual interest rates paid on insured deposits from 9% to 12%. The fund doesn't insure deposits with higher interest rates. The maximum size of deposits insured is AZN30,000.

Chart

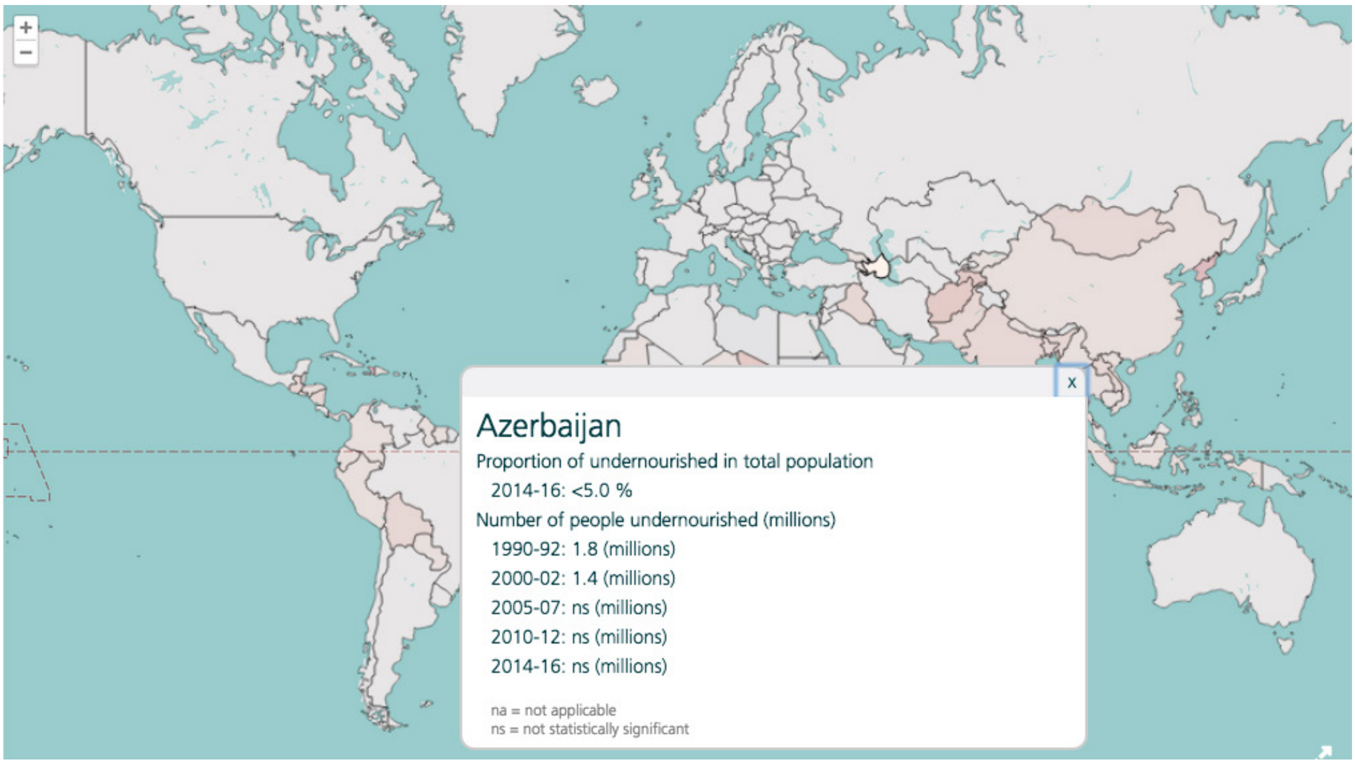
Caucasus and Central Asia halve undernourishment

Caucasus and Central Asia have managed to halve undernourishment levels since the delicate transition from the command economy to market economy that followed the collapse of the Soviet Union, the Food and Agriculture Organization (FAO) of the United Nations highlighted in its latest report on global food security.

"Progress has been sufficiently rapid to enable both the region as a whole and most countries to achieve the Millennium Development Goals (MDG) hunger target [to reduce by 2015 at least by half the proportion of people in the country suffering from undernourishment]," the report reads. "Indeed, most countries have attained PoU levels close to, or below, the 5% threshold."

Azerbaijan, Georgia, Armenia, Kyrgyzstan and Turkmenistan have achieved the World Food Summit goal (to reduce by 2015 at least by half the number of people in the country suffering from undernourishment), while Kazakhstan and Uzbekistan have achieved the MDG hunger target. The only country still lagging behind is Tajikistan, which is making insufficient progress to reach the international targets, and is burdened by a relatively high proportion of undernourished (PoU) of 33.2%.

The proportion of undernourished (PoU) in the total population fell to the current 7% from over 14% in the early 90s, the report shows. In absolute figures, the number of undernourished people fell to 5.8mn, from 9.6mn soon after the collapse of the Soviet Union. •



News in brief

BP produces 16mn tonnes of oil at Azeri-Chirag-Guneshli in H1

The BP-led consortium produced 16mn tonnes (116mn barrels) of oil from the offshore Azeri-Chirag-Guneshli field in the Caspian Sea in the first half of 2015, the same level as in January-June 2014, the Trend news agency reported on August 10, citing figures from BP.

The daily output stood at 641,000 barrels in the field.

The consortium produced 31.5mn tonnes (233mn barrels) of oil in the field in 2014 against 32.2mn tonnes (239mn barrels) in 2013.

Operating costs totalled $359mn in the field in the period, while capital expenditure was $949mn.

In 2015 the company'scapex is expected to exceed $1.99bn and operating costs $978.7mn.

The contract on the block was signed in 1994. It is estimated to contain 5.4bn barrels of recoverable oil.

BP holds 35.78% in the project, Chevron 11.27%, Inpex 10.96%, AzACG 11.65%, Statoil 8.56%, Exxon 8%, TPAO 6.75%, Itochu 4.3% and India's ONGC holds a 2.72% stake.

Azerbaijan gets first Kazakh-made train locomotive

Azerbaijan has received the first Kazakh-made diesel locomotive, the head of Azerbaijan Railways, Javid Gurbanov, told a ceremony to receive the first container train from China via Kazakhstan along the Trans-Caspian International Transportation Route in Baku on August 3.

He noted that his company would sign a contract to acquire a further nine General Electric-designed locomotives, made by Astana Locomotive Plant. "The first locomotive has already arrived today. We expect the arrival of a further nine locomotives," the Trend news agency quoted Gurbanov as saying.

Astana Locomotive Plant, opened jointly by the Kazakhstan Temir Zholy (KTZ) railway company and General Electric Transportation Company, has a capacity to produce 100 diesel ES44Ci Evolution locomotives, based on the GEVO engine.

Askar Mamin, the head of KTZ who attended the ceremony, told journalists that Azerbaijan Railways would earn up to $700mn a year from transit shipments by 2020. He noted that over 300,000 containers would be shipped annually via the route by 2020.

The first container train made of 41 flat wagons carrying 82 containers left Shihezi in western China on July 28 and reached Baku via Aktau across the Caspian Sea, having covered 4,000 km.

Kazakhstan hopes the route will be extended further to Turkey after the Baku-Tbilisi-Kars railway line will become operational in the near future.

Azerbaijani agricultural output up by 7.3% y/y in Jan-Jun

Azerbaijan's farming output rose by 7.3% y/y in monetary terms to AZN2.65bn (€2.29bn) in January-June, the first deputy chairman of the State Statistical Committee, Gamid Bagirov, told a news conference on July 24.

The output of animal husbandry went up by 2.6% y/y, while that of crops by 14% y/y, Bagirov said without providing absolute figures.

He said the grain harvest was 321,000 tonnes up in January-June, despite the acreage being 48,000 hectares smaller, noting that the yield was 800 kg/ha higher than last year.

Area under grain production stood at 362,100 ha as of June 24, up by 1.2%, according to the Trend news agency.

Azerbaijan hoards nearly $35.8bn in oil fund

As of July 1, the assets of the State Oil Fund of Azerbaijan (Sofaz) decreased by 3.56% to $35.78bn since the beginning of the year, the fund said in a statement on its website on July 23.

The fund explained the decrease in the value of its assets by a 35% devaluation of the national currency, the manat, in February on the back of low oil prices.

The fund's revenue totalled AZN4.05bn (€3.5bn) and spending AZN4.04bn. Revenue worth AZN3.81bn was raised from the oil and gas sector: AZN3.80bn from oil and gas sales, AZN5.7mn from oil and gas transits, AZN2.1mn from bonuses and AZN2.2mn from acreage fees, the fund said. It also received revenue worth AZN241.9mn from managing its assets.

The fund transferred AZN3.56bn to the state budget and spent AZN89.8mn on social programmes for refugees and internally-displaced persons, AZN46.5mn on reconstructing the Samur-Absheron irrigation networks, AZN17.2mn on funding the construction of the Baku-Tbilisi-Kars railway line and AZN5.9mn on education programmes.

Azerbaijan's Socar says Southern Gas Corridor 30% complete

The Southern Gas Corridor, which is expected to transport gas from Azerbaijan to Europe from 2020, is 30% complete, according to Azerbaijan's national oil and gas giant Socar.

Rovnag Abdullayev, the head of Socar, told the German media that 30% of works carried out within the Southern Gas Corridor project had been completed, AzerNews reported on July 21.

"Agreements with 162 suppliers from 23 countries totalling over €10bn have already been signed. Currently, more than 9,500 people are working over the project. As part of the Shah Deniz-2 project, seven wells have been drilled while the construction of a compressor station in Georgia and pipe production is in full swing," AzerNews quoted Abdullayev as telling the German media.

The Southern Gas Corridor will connect the Trans-Anatolian (Tanap) and Trans-Adriatic (Tap) pipelines, which will ship gas from the giant offshore Shah Deniz to Italy via Turkey and Albania.

Azerbaijan to launch low-cost fares

Azerbaijan's national air carrier Azerbaijan Airlines has announced it has launched low-cost fares on its existing flights, the Trend news agency reported on July 21.

The carrier will offer low-cost fares on the Baku-Antalya route three times a week from August, the Baku-Istanbul route daily from September, the Baku-Moscow route twice a day from October and the Baku-Dubai route daily from October.

The company said it would offer low-cost fares on Embraer aircraft and that the fares would not exceed €99 per flight.

The company also announced that it would reduce its lowest fares by 20% on its regular flights from August 1 and seats with reduced fares would account for 30% of aircraft capacity with the retention of all services available to economy class.