

bne:Invest in Azerbaijan

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Azerbaijan joins 67 other countries at Germany's International Green Week

Azerbaijan was well represented at the 80th edition of the International Green Week in Berlin (IGW), which took place in the German capital on January 16-25. The pavilion organised by the Azerbaijani Ministry of Economy and Industry included exhibitors from 20 private companies from all over the country, including

the Nakhchivan Autonomous Republic (NAR), which showcased over 200 agricultural products at the fair. The Azerbaijani delegation included representatives from the ministries of agriculture and economy, as well as from AZPROMO. This was the country's eighth participation at the annual event.



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In addition to welcoming over 400,000 visitors to the pavilion, the IGW was also an opportunity for Azerbaijani officials to forge partnerships with their counterparts from other countries. Thus, Deputy Minister of Agriculture Ilham Guliyev met with representatives from the UN, the EU and officials from the ministries of agriculture of different countries present at the fair, while also attending the seventh edition of the ministerial Agriculture and Food Forum.

The leading global event that gathers private companies and government officials active in the areas of agriculture, agribusiness and food security, this year's edition of the IGW attracted more than 1,650 exhibitors from 68 countries, over 70 ministers of agriculture from all over the world, as well as agricultural and economic policy delegations from Germany and other countries. The event generated €48mn in direct sales to the 415,000 visitors, €150mn in income for the Berlin/Brandenburg metropolitan region, and numerous business deals and partnerships.

This year's IGW partner country was Latvia, which was represented by President Andris Berzins, who encouraged delegates to "take their time to visit Latvia" in his speech at the opening ceremony, which included members of the German cabinet and representatives of various German states, as well as the EU Commissioner for Agriculture and Rural Development Phil Hogan, and Commissioner for Health and Food Safety Vytenis Andriukaitis.

The topics covered at the fair were as broad as the attendance, and included food security, organic farming, trade barriers for agricultural commodities, global food chains, animal welfare, consumer trends, simplifying the European agricultural policy and vegetarianism. •

The next fair will take place between January 15 and 24, 2016.



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Top story



Caucasus fares better than Central Asia on economic freedom

Countries in the Caucasus generally fared better than Central Asian countries in the 2015 Index of Economic Freedom, compiled by the Heritage Foundation jointly with the Wall Street Journal. Overall the Caucasus's economies are ranked as moderately free, with rule of law and perceived corruption indicated as key challenges.

Georgia's economy is the Caucasus' freest, ahead of its regional peers Armenia and Azerbaijan, according to the Heritage Foundation and the Wall Street Journal. Georgia's economic freedom scored 73, making it the world's 22nd freest, ahead of Azerbaijan in 85th place.

Despite lagging behind Georgia and Armenia, energy-rich Azerbaijan remains the most attractive destination in the region for foreign investors, with a net FDI inflow of \$2.4bn

compared with Georgia's \$1bn and Armenia's \$307mn.

The European Bank for Reconstruction and Development (EBRD), for example, in 2014 invested €238mn in 21 projects in Azerbaijan – up from €163mn in 17 projects a year earlier – making it the largest recipient of EBRD funds in the Caucasus, as well as one of the largest in the CIS and eastern Europe. The EBRD's press service said that since 1992 the bank has allocated €1.8bn to finance 146 projects focusing on the development of Azerbaijan's non-oil sector, thus targeting mainly small and medium-sized enterprises (SMEs). The core of investment remains in infrastructure (39%), followed by the energy sector (37%), financial institutions (14%) and industry, commerce and agribusiness (10%).



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Property rights and freedom from corruption remain fragile in Azerbaijan. Wide-ranging reforms have resulted in some progress in regulatory efficiency and economic diversification, improving the overall macroeconomic and entrepreneurial environments. The index reports that burdensome regulatory requirements undermine the emergence of a more dynamic private sector and long-term economic development.

The region's largest economy, Kazakhstan, was rated as 69th freest in the world, with an economic freedom score of 63.3. Its score has decreased by

0.4 points from the year earlier, with declines in property rights and business freedom outweighing a modest combined improvement in half of the 10 economic freedoms, including trade freedom, labour freedom, and freedom from corruption, the index says.

Uzbekistan and Turkmenistan still fare among the world's worst performing countries in terms of economic freedom as their respective authoritarian regimes leave little room for a more liberal economic environment, according to the index. •



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PASHA Bank

PASHA Bank underwrites three bond issues, enters Turkish market

In December 2014, PASHA Bank managed bond issues for three leading Azerbaijani companies through its subsidiary, PASHA Capital. The bank acted as underwriter and market maker in the placement of Bakcell's \$51mn and AccessBank's \$15.3mn bond issues, and as market maker for UniBank's \$25.5mn placement. It is currently providing daily liquidity and quotations for each of these three bond issues.

Bakcell, AccessBank and UniBank issued the new bonds after their previous bonds matured in December 2014. All three companies met their obligations to investors before the maturity date, bolstering investor confidence in them and in Azerbaijan's bond market as a whole. As a result, Bakcell and UniBank were able to obtain better terms for their latest bond issues. Bakcell paid a coupon rate of 9% for its new bond issue, compared with 9.5% in 2011, and UniBank issued a two-year bond with a 9.75% coupon rate, an improvement from the 11% it previously paid for a three-year bond. AccessBank also increased the amount it raised in its latest bond issue to \$15.3mn from \$12.7mn previously, maintaining the same coupon rate of 9%.

According to Taleh Kazimov, Chief Investment Officer and member of the board of PASHA Bank, the institution has placed a total of 16 corporate bonds on behalf of the three companies over the years, and intends to continue working with them.

"Issuing bonds with a total value of \$91mn is a large amount for Azerbaijan's capital markets, and the success of these placements is evidence of how well the domestic capital markets are developing. PASHA Bank always strives to protect the interests of both investors and its corporate clients when working on new bond issues. Successful placements are important for building confidence in the domestic capital markets. Helping to develop Azerbaijan's capital markets is one of PASHA Bank's key aims, since this will not only help to bolster investment banking activities in the country, but it will also support Azerbaijan's economy as a whole," Kazimov noted.

In other news, PASHA Bank also achieved its long-standing goal of entering the Turkish market in December, when its acquisition of a 79.9% stake in TAIB Bank from Turkey's Aksoy Holding was approved by the Turkish Banking Regulation and Supervision Agency (BRSA). Through its existing operations in Georgia and its \$80mn deal with Aksoy, the bank is seeking to capitalise on the increased trade and investment flows between Azerbaijan, Georgia, and Turkey.

PASHA Bank CEO Farid Akhundov is keenly anticipating working with corporate clients from Turkey. "We believe the Turkish market holds great potential, particularly for small and medium-sized enterprises looking for investment opportunities in Azerbaijan, Georgia and other countries in the region. There are also plenty of opportunities for Azerbaijani investments into Turkish SMEs, and we hope that PASHA Bank's presence in Turkey will help to aid the flow of investments and trade in the region," Akhundov said. •



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Interview



Azerbaijan GDP seen hitting \$100bn within 10 years

Azerbaijan is probably the most economically successful country in the Caucasus thanks to its oil wealth, but more recently its economy has been bearing the fruit of the government's diversification drive.

In the last ten years, Azerbaijan's GDP has expanded 3.4-fold and today is worth a bit more than three quarters of a billion dollars. Investment has also been pouring in, albeit mostly to the oil and gas sector; cumulatively, the government has invested some \$180bn into the economy and has another \$50bn in gross international reserves.

"Diversification is the key to success and the non-oil sector is now growing two to three times faster than the traditional oil sector," said

Rufat Mammadov, president of the Azerbaijan Export and Investment Promotion Foundation (AZPROMO), at the Adam Smith Conferences' "Azerbaijan Banking and Finance Forum," which took place on February 4-5 in Baku.

Stable and growing

Being amongst the biggest oil and gas producers in the world has obviously helped Azerbaijan's investment case, and the country has been able to weather the winds of the regional currency crisis caused by the collapse of the Russian ruble in December without too much difficulty.

"With a strong reserve base, FX stability is probable in the wake of lower oil price and ruble devaluation. In December 2014, the government used up 8% (\$1.13bn) supporting the national currency, having spent \$1.27bn in the first 11 months to prevent the currency from strengthening," says Chris Weafer, CEO of Macro Advisory, a Moscow-based consultancy.

"According to the Azerbaijan 2020 development programme, the key areas for future growth, as well as investment opportunities, should be in tourism, construction, telecoms, banking & financial services, real estate and agriculture related sectors," adds Weafer.

The state is also not very exposed to the global financial markets, having launched its debut sovereign Eurobond only last year to raise \$1.25bn that matures in March 2024, which has a modest coupon yield of 7.36%.

Thanks to this growth and stability, the banking sector has been growing strongly, focusing on retail banking and lending to small and medium-



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sized enterprises. The government attempted to promote a consolidation in the sector by increasing banks' minimum capitalisation from \$20mn to \$50mn last year, but all the owners decided to stump up rather than sell or merge their banks.

"It's a market thing," said Aliya Azimova, country manager from the World Bank's IFC. "Owners will sell or merge when they don't expect the profits from their banks to continue to rise, and obviously they still have high expectations from the sector's future."

The banking sector continues to be dominated by the state-owned International Bank of Azerbaijan,

which accounts for 35% of the banking assets in the entire region by itself.

The backbone of the local financial sector, the bank is now developing its Islamic Finance business to tap new pools of capital. The Sharia-compliant banking division was launched in 2012 and since then has carried out over 50 deals worth a total of \$527m, says Benhnam Gurbanzada, who leads the Islamic banking business.

This type of finance is most appropriate for Azerbaijan, as by its nature the loans are backed by assets and targeted at productive, rather than pure financial, investment projects. •

Azerbaijan – Key Macro Trends

| | 2011 | 2012 | 2013 | 2014E | 2015E | 2016E | 2017E |
|----------------------------------|--------|--------|--------|--------|--------|--------|--------|
| GDP, US\$ bln | \$66.0 | \$68.7 | \$73.6 | \$75.3 | \$77.0 | \$82.0 | \$86.0 |
| GDP, Real growth | 0.1% | 2.2% | 5.8% | 3.0% | 2.0% | 4.1% | 3.8% |
| Inflation | 7.9% | 1.0% | 1.5% | 1.4% | 2.3% | 2.6% | 2.5% |
| Retail sales, % Chg YoY | 10.2% | 9.6% | 9.9% | 10.0% | 8.0% | 8.0% | |
| Industrial production, % Chg YoY | -4.9% | -2.1% | 1.8% | 1.0% | -2.0% | 0.0% | |
| Unemployment | 5.0% | 5.2% | 5.8% | 6.0% | 6.6% | 6.0% | 5.8% |
| Budget execution, % GDP | 0.6% | 0.3% | 0.6% | 0.3% | (5.0%) | (2.5%) | 0.0% |
| Current Account, % GDP | 26.5% | 21.8% | 16.5% | 12.6% | 3.0% | 5.0% | 6.0% |
| US\$/Manat, eop | 0.800 | 0.785 | 0.785 | 0.785 | 0.860 | 0.860 | 0.860 |
| Urals, US\$ p/bbl, average | \$109 | \$110 | \$108 | \$100 | \$50 | \$70 | \$80 |

Source: State Statistics Committee, Asia Development Bank, IMF, EBRD, Macro-Advisory estimates



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Feature



Azerbaijani economy echoes oil price drop as focus shifts to non-oil sectors

The plunge in oil prices over the last seven months has had mixed effects on the global economy, ranging from modest growth boosts for net importers like China, Japan and Europe, to disastrous economic consequences for Russia and Venezuela.

All oil-exporting countries' economies have experienced negative effects from the fall in oil revenues to varying degrees. Gulf economies like Kuwait, Qatar and Saudi Arabia are cushioned by reserves that are as high as \$700bn in the case of the latter, and can run on deficits for several years; meanwhile, more populous countries, with expensive social programmes, and exporting lower quality crude like Russia, Nigeria and Venezuela, have been badly hit. For Azerbaijan's economy, the consequences are likely to be sizeable but manageable.

While a negative impact on Azerbaijan's state budget and public spending is already

materialising – the drop in oil and gas revenues last year eroded growth to 2.8%, below the 4.5% that had been projected by the International Monetary Fund – the country has made enough progress in diversifying its economy and its sources of revenues to withstand a year of volatile oil prices.

Sovereign wealth fund SOFAZ and increased taxes are expected to replace energy revenues until oil prices recover, elusive as that recovery may be at the moment.

Azerbaijan's \$24.7bn state budget for 2015 was initially calculated based on a price of \$100 per barrel in October 2014, only to be later rectified to \$90/b in November. However, the crude price has dipped to under \$50/b since, and only slightly recovered in early February. SOFAZ contributes the lion's share of the state budget, namely 80%, while 20% comes from taxes from the non-oil sector.

According to SOFAZ CEO Shahmar Movsumov, the sovereign wealth fund is expecting \$13bn in revenues this year if oil prices average \$90/b. However, if they remain at the current level of \$50/b, revenues will drop to \$7.2bn, while spending would hover around \$15bn, resulting in a \$7.8bn deficit. The fund anticipates a much lower deficit of approximately \$3bn. Approximately 88% of SOFAZ's spending goes to the state budget, while the remainder is spent on public infrastructure and developmental projects.

Echoing moves by sovereign wealth funds elsewhere, SOFAZ is seeking to maximise the profit on its existing assets by investing in real estate in East Asia (South Korea, China, Japan)



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and Southeast Asia (Singapore). The fund will also invest \$500mn in assets in Chinese yuan this year, while continuing to hold on to its ruble assets and its investment in Russia's VTB Bank, which, according to Movsumov, is "a very long-term, strategic investment."

In the private sector, the effects of the plunge in crude prices are already starting to be felt. BP announced that it would slash 255 jobs, or 8% of its staff in Azerbaijan, in response to "a challenging market environment." Globally, the supermajor is seeking to save \$1bn through job cuts this year. Similarly, in January the oil services and equipment provider Schlumberger cut 9,000 jobs globally, equivalent to 7% of its staff.

The effect of the low oil price on economic growth is being compounded by the appreciation of the US dollar, to which Azerbaijan's currency is pegged. This prompted Azerbaijan's central bank to use \$1.13bn from its foreign currency reserves to support the manat in December. However, the dollar has continued to appreciate by 7.2% against the euro in January, which may require further intervention by the authorities. Allowing the currency to float freely could be less costly for the Azerbaijani state and would allow its non-oil exports, on which the country will increasingly have to rely for foreign exchange, to remain competitive in the Commonwealth of Independent States region.

Statements by Azerbaijani officials about oil prices were largely positive until December 2014, focusing on the resilience of the Azerbaijani economy to prices as low as \$60/b. On December 17, Minister of Energy Natiq Aliyev told Trend news agency that: "If we take a look at the past 20 years, we can see that oil prices have constantly changed."

However, prices have since dipped well below that level, and few official statements have been made since, with the exception of President Ilham Aliyev's December 2014 interview with Russia's Rossiya-24 TV channel, in which he acknowledged that falling oil prices could negatively impact the government's budgetary spending. A third of the government's budget spending is allocated for investment projects, which have fuelled the construction sector in recent years. Should spending be cut, other sectors of the economy, such as construction, might become collateral damage of the falling oil prices.

The current state of affairs only validates the Azerbaijani government's sustained efforts towards economic diversification in recent years. Significant progress has been made on that front, as the share of the non-oil economy in annual GDP rose to 59.6% in 2014, and is expected to reach 65.1% in 2015 and 71.3% in 2018. Meanwhile, the contribution of oil and gas revenues to the state budget has fallen from 73.1% in 2013, to a projected 66% in 2014. That trend is expected to continue.

Averaging 10% annual growth, Azerbaijan's non-oil economy has outpaced the energy sector's output for many years, and is poised to become the driver of the economy in the years to come. The government forecasts an 8.2% growth in the non-oil economy this year and 7.0% in the coming three years.

In the shorter term, SOFAZ CEO Movsumov anticipates weathering the storm by making balanced spending cuts. "Although we will reduce spending, we will do so in a very controlled manner, without damaging the real economy," he anticipated. ●



Sector



Agriculture boosted by decree aiming to turn Azerbaijan into net food exporter

The third largest part of the Azerbaijani economy and the top contributor to employment, agriculture received a boost when President Ilham Aliyev decreed 2015 as "The Year of Agriculture". The agricultural sector's performance over the last two decades has certainly been one of sustained growth, yet much still needs to be done for Azerbaijan to match some of the leading producers in the Commonwealth of Independent States (CIS), such as Kazakhstan, Belarus and Ukraine.

President Aliyev made the announcement during a cabinet meeting in early January that focused on the government's strategy for socio-economic and regional development in Azerbaijan. The head of state commissioned the Ministry of Agriculture to develop an action plan for 2015, and discussed his priorities for the sector. "One of the items on our agenda relates to the growth of our export potential, because I am sure that in the near

future we will provide ourselves with all the basic foodstuffs. Thus, we will have new products to export. If we consider the fact that we are already in the process of setting up about 20 large farms, I am sure that we will be able to fully provide ourselves with wheat in the near future," Aliyev said.

Accounting for 6% of GDP and 38% of the jobs in the country, agriculture generated \$291mn in exports of horticultural products alone last year, a 16.1% year-on-year increase. Imports of similar products that are the mainstay of the country's trade with other agricultural producers dropped by 13.5% in the same period, resulting in a positive trade balance of \$265.8mn. The total volume of production in the sector was estimated at \$6.4bn in 2014, \$3.6bn of which was in livestock production. According to Minister of Agriculture Heydar Asadov, the number of heads of cattle increased by 21% in recent years, which led to a growth of 46% in meat production and of 53% in milk production.

Successive post-independence administrations have been successful in driving agricultural production up, to the point where the country is now almost self-sufficient in most areas. In the last decade alone, the production of agricultural goods increased by a factor of 3.4, while investment in the sector grew 15-fold, and the average monthly salary in agriculture nine-fold. Azerbaijan currently boasts self-sufficiency rates of 92% and 76% for meat and dairy products respectively, up from the 30% it enjoyed at the time of independence in 1991. Local production satisfies 81% of the demand for poultry, 80% for eggs, 65% for vegetable oil and 50% for butter. The country has also become a net exporter of goods



that it previously imported, such as potatoes, which Azerbaijan exports in volumes of over 50,000 tonnes a year nowadays.

Much remains to be done, though, for Azerbaijan to become an important exporter of foodstuffs in the CIS.

Work to be done

Measured in per-capita terms, the country's 310kg yearly production of cereals and dried pulses is puny in comparison to Kazakhstan's 1,070kg, Moldova's 747kg, Belarus' 805kg or Russia's 637kg. According to the UN's Food and Agricultural Organisation (FAO), wheat tops the list of Azerbaijan's agricultural imports, costing the country \$282mn in 2011. The comparison of per-capita production volumes of other foodstuffs, such as milk, eggs, meat and potatoes between Azerbaijan and its neighbours yields similar results. A notable exception is the production of fruit and berries, in which Azerbaijan ranks third in the CIS region, with a per-capita production of 88kg in 2013.

Its fruit and vegetables support a thriving agro-industry of juices, fruit composts, canned fruit and vegetables, sauces, and jams, which is becoming an important source of foreign receipts for Azerbaijan. Az-Granata, the leader in the production and exports of such goods, reported a 157% year-on-year increase in export sales in 2013 in the more than 22 markets it serves. In addition to the US, the CIS, the UAE and the 17 European markets with which it trades, the company is looking to cement its presence in China, Israel, Sweden and Canada,

according to CEO Farid Musayev. AZNAR, another manufacturer of fruit juices, boasts a similar growth record and a presence in 15 foreign markets. Meanwhile, BizimTarla, Azersun Holding's brand of fruit composts and canned vegetables, can also be found in stores in Turkey, Europe and the CIS, and so can the company's brand of tea, Azercay.

While the private sector is making its way into new markets, the Azerbaijani government is enlisting the help of international partners, such as the European Bank for Reconstruction and Development (EBRD) to put the country's propitious topography, which consists of nine climatic zones, and its 4.77mn hectares of agricultural land to good use. In December, Minister Asadov negotiated with the financial institution over the financing of agricultural parks in Azerbaijan and a framework for agricultural loans. The farm ministry is also working to address issues such as re-seeding to improve fodder provision, the creation of a seed fund, tax exemptions, loans and fuel and engine oil subsidies for agricultural operators. The government has also made efforts to build new reservoirs and canals, such as the recently completed ones at Shamkirchay and Takhtakorpu, for irrigation.

While 2015 is still in its early days, the Azerbaijani government appears dedicated to the goal of furthering the transformation of the agriculture sector this year, from smallholder farming to large-scale production, and exports of raw and processed foodstuffs. •



Economics & finance

Standard and Poor's downgrades outlook for Azerbaijan to negative

Standard & Poor's has revised its outlook on Azerbaijan from stable to negative, due to the impact that low oil prices will have on the country's fiscal and external balances, the New York-based ratings agency stated in a note on January 30. S&P forecasts the economy to grow by 1.9% and "expect(s) nominal GDP to contract by over 10% this year due to the sharply lower oil prices".

According to S&P, Azerbaijan's government might draw down its currently substantial fiscal buffers or accumulate general government debt "more rapidly than what we had previously expected in order to compensate for significantly lower oil prices".

"The ratings are constrained by Azerbaijan's modest economic wealth levels, generally weak institutional and governance effectiveness, and limited monetary flexibility," reads the note. Azerbaijan's economy relies heavily on the hydrocarbons sector, which contributed to about 44% of GDP and 95% of merchandise exports in 2013-2014. S&P's has "significantly" lowered its forecast on oil prices, expecting them to be at \$55/barrel in 2015.

"Deteriorating terms of trade will depress Azerbaijan's economic growth and hurt its external and fiscal balances," says S&P.

Azerbaijan's average income up by 4.8% in 2014

Azerbaijan's average income grew by 4.8% in 2014, amounting to AZN443 (\$565) a month, and the average monthly pension reached AZN173.4 (\$221), reported AzerNews quoting the State Statistics Committee's Deputy Chairman, Rauf Salimov, on January 29. In a year-in-review conference, Salimov said that in 2014, 127,000 new jobs were created and the unemployment rate fell by 0.1%, settling at 4.9%. Private deposits in commercial banks grew by 12.4% in 2014 totalling AZN7.2bn (\$9.2bn).

Salimov expects the economy will grow by 4.4% in 2015, and the GDP in market prices will amount to AZN59.8bn (\$76.3bn).

Azerbaijani inflation at 0.2% y/y in January

Azerbaijan's inflation stood at 0.2% in January, Abc.az reported on February 5 quoting data released by the Statistics Committee. Consumer price index (CPI) grew by 0.2% against 0.5% in December 2014.

Food prices rose by 0.4%, while non-food items and services to the population showed zero growth. In January 2014, Azerbaijan recorded a 0.2% deflation.



Azerbaijani net foreign reserves grew by 5.5% y/y in January

In January, Azerbaijan's net foreign reserves were up by AZN588.6mn (\$751.9mn) to AZN10.49bn (\$13.4bn), marking a 5.5% increase year on year, Abc.az reported quoting the Central Bank of Azerbaijan (CBA). The total though marks a month-on-month decrease as in December reserves stood at AZN11.9bn (\$15.2bn).

By 2014 year-end the country's commercial banks increased their net foreign reserves to AZN1.965bn against AZN1.53bn (\$1.95bn) in December, but recorded a decrease on a yearly basis, down from AZN2.06bn (\$3.3bn).

Azerbaijani state oil fund to invest AZN28.8bn in 2015

The investment portfolio of Azerbaijan's state oil fund SOFAZ for 2015 was set at AZN28.2bn (\$36.7bn), AzerNews reported on January 21 citing a presidential decree which indicates the programmes SOFAZ will fund throughout the year.

The state oil fund will finance accommodation and social projects for refugees and internally displaced persons, the reconstruction of the Samur-Absheron irrigation system; the construction of the Baku-Tbilisi-Kars railway line; the state programme for educating youth abroad in 2007-2015 as well as the Azerbaijan's share in the Southern Gas Corridor project. Established in 1999 by former President Heydar Aliyev, SOFAZ maintains a revised currency structure whereby 50% of its assets can be kept in the dollar, 35% in the euro, 5% in the

British pound, and the remaining 10% in other currencies. In 2015, some 10% of the fund's investment portfolio will be invested in stocks, 5% in real estate and 5% in gold.

International Bank of Azerbaijan's assets up by 22.7% in 2014

In 2014 assets of the International Bank of Azerbaijan (IBA), one of the country's leading banking institutions, amounted to AZN8.8bn (\$11.2bn) marking a 22.7% increase compared to the previous year, reported Abc.az on January 23 citing IBA's press office. Net profit totalled AZN64.5mn (\$82.3mn).

The bank reported an increase across all segments: aggregate capital reached AZN1bn (\$1.27bn) bringing the equity capital to AZN590.2mn (\$753.6mn), and loan portfolio was up by 16.6% to AZN5.8bn (\$7.4bn), of which AZN678.5mn (\$866.4mn) was granted to individuals. Net profit stood at AZN64.5mn.

IBA started operating in 1990 as a branch office of Russia's Vneshekonombank and in 1992 it grew into a full joint-stock bank. Today it operates in Russia and Georgia as well through the subsidiaries IBA-Moscow and IBA-Georgia. On January 23 IBA-Moscow was included in the list of Russia's "strategically important" credit institutions and on the same day IBA-Moscow signed a cooperation agreement with Russia's Sberbank. The agreement includes co-financing investment projects, trade financing between Russia and Azerbaijan, and cooperation in the financial markets.



Chart

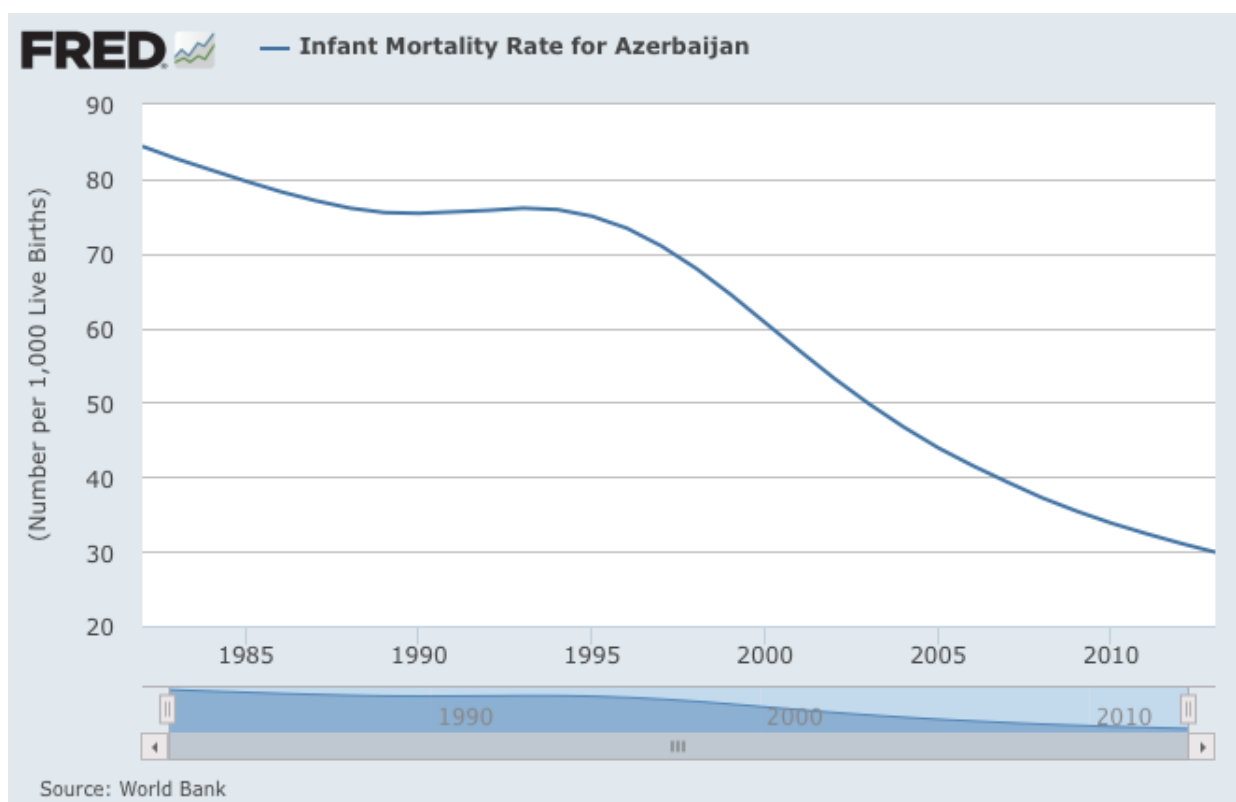
Born to live

News that Raisa Abulfaz Nabatova, a 30-year-old resident of Siyaku village in Azerbaijan's Lankaran district, on February 2 gave birth to quadruplets – one girl and three boys – via caesarean section was good news for her family, but is also illustrative of the big improvements seen in Azerbaijan's infant mortality rate since independence in 1991.

Looking at the chart produced by the World Bank, in 1991 the number of infant deaths in Azerbaijan per 1,000 births stood at 75.6. By 2013 the Infant Mortality Rate (IMR) had dropped to 29.9, which compares favourably with other

countries in the region such as Uzbekistan's IMR at 36.7, though still has some way to go to reach Kazakhstan's IMR of 14.6 and Russia's IMR of 8.6.

Azerbaijan has seen a tenfold increase in public spending on healthcare over the last decade, which reached \$789m in 2013. Since 2005, the Ministry of Health has launched 11 programmes worth \$500m to modernize the healthcare system, and to correct problems such as regional discrepancies in the access to healthcare and the shortage of medical personnel. Last year alone, the government built and renovated 81 medical facilities, 38 of which are located outside Baku.



News in brief

Azerbaijan presents in Davos first European Games in Baku in 2015

The Heydar Aliyev Foundation has officially presented Baku 2015, the first European Games, in Davos, AzerNews reported on January 23. The biggest sporting event in Azerbaijan's history will take place in Baku on June 12-28 and will host over 6,000 athletes representing 49 countries in 20 disciplines – 16 Olympic sports and 4 non-Olympic sports. Eleven of the sports will offer qualification opportunities for the Rio 2016 Olympic Games.

The Baku 2015 Games will take place in 21 stadiums and facilities and the official opening ceremony will take place in the newly-built 68,000-seat Baku Olympic Stadium. The Athletes Village will accommodate up to 7,300 people.

The government's stated aim is to put the country on the world sport map. The European Games are just one of the sporting events Azerbaijan managed to grab. In 2016 the country will host the first Baku Formula One Race and in 2020 four matches of the Uefa Euro 2020 will be played in Baku.

Azerbaijan to develop new technique for industrial breeding of sturgeons

Azerbaijan is working on the development of a new concept for breeding sturgeons industrially, AzerNews reported on January 21 citing Ilham

Alekperov, head of the Zoology Institute of the National Academy of Sciences.

According to Alekperov, the Zoology Institute and the Scientific Research Institute at the Ministry of Natural Resources Ministry, are developing an innovative method to create a network of farms for the industrial breeding of sturgeons. The aim is to increase the offer and decrease the poaching of sturgeons in the Caspian Sea.

The Caspian Sea is home to 80-85% of the world sturgeon stock, whose roe is used to produce black caviar, and its population is rapidly shrinking. The decrease resulted in soaring prices for both the fish, between \$18-22 in Europe and the US, and black caviar, between \$4,000 and \$9,000 per kilo, Alekperov said.

Apart from Azerbaijan, the main producers of black caviar are Iran, Russia and Kazakhstan where farms for breeding sturgeons already exist.

Azerbaijan to raise education funding up to 6% of GDP from 2016

Azerbaijan's President, Ilham Aliyev, has approved the Action Plan on State Education Development Strategy, Abc.az reported on January 21.

The scheme plans to gradually increase government spending on education up to 6% of GDP from 2016 as well as to create a mechanism for financing state-run educational institutions and raise extra-budgetary funds.



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The plan also promotes a self-financing system in educational institutions at both government and municipal level, support for the provision of paid education services, and increased financial and organisational autonomy of the educational institutions. An Education Development Fund is envisaged to develop a new mechanism of financing for scientific research in the education system.

As for the educational structure, the strategy raises schooling to 12 from the current 10 from the next academic year, and it instructs the Ministry of Education to develop new subject curricula by 2017.

Azerbaijani car imports down by 40% y/y, production quadrupled

In 2014 Azerbaijan imported 63,368 vehicles against 104,385 the year before, marking a 40% decrease, but local production increased four-fold, AzerNews reported on January 21 citing the State Customs Committee. In addition, 5,054 trucks were imported versus 7,823 in 2013.

The decrease is a result of the Euro-4 standard the Azerbaijani government introduced in April 2014 to reduce carbon emissions. The new regulation allows the import of vehicles produced in the EU from 2005, in the US from 2004, in China and Japan from 2011, in Korea from 2006, and in Turkey from 2009. The restriction also resulted in increased prices which are due to continue rising as the government introduced higher taxes on imported cars.

Azerbaijan is pushing the development of its car manufacturing industry and produced 1,861 cars in 2014, 4.4 times more than in 2013, according to

the SSC. The two plants located in Nakhchivan and Ganja manufactured 284 trucks and 1,265 tractors, up by 15.4% and 71.2% compared to 2013.

Azerbaijani foreign trade totals \$31.02bn in 2014

Azerbaijan's foreign trade totalled \$31.02bn and foreign trade surplus amounted to \$12.26bn in 2014, AzerNews reported on January 16 citing the State Statistical Committee (SSC).

Exports totalled \$21.8bn, down by 8.95% y/y, while imports amounted to \$9.2bn, down by 14.22% compared to 2013.

The public sector dominated export operations at \$20.48bn, while the private sector's foreign trade amounted to \$1.21bn and individuals to \$226.2mn. The public sector's share in import operations reached \$2.34bn, the private sector's \$6.48bn and individuals' \$364.2mn. The country's foreign trade operations decreased by 10.58% y/y. In the reported period, 3,727 legal entities and 2,645 individuals were involved in foreign trade activities.

According to the SSC, Azerbaijan's Taxes Ministry collected AZN7.1bn in taxes up by 6.8% y/y. Profit tax amounted to 32.4% of total tax revenues, VAT to 28.8%, income tax to 13.8%, and excise tax to 10.4%. Income from the non-oil sector increased by 14.5% y/y.

BP to cut 255 jobs in Azerbaijan due to challenging market environment

British oil company BP plans to cut 255 jobs, about 8% of its workforce, in Azerbaijan as it



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trims costs in response to the “challenging market environment”, Reuters reported on January 27 citing a company’s statement. The decision follows the company’s announcement in December of a \$1bn programme to cut thousands of jobs worldwide.

In Azerbaijan, 105 Azeri nationals and 150 foreigners would be made redundant out of a total of 3,254 employees (2,760 Azeri citizens). According to the statement by BP, which is the biggest foreign investor in the ex-Soviet country and operates major projects in its energy sector, the company remains “committed to the region and to the projects that we operate”. A freezing base pay will also be implemented across the group in 2015.

Oil prices dived since June 2014 to below \$50 per barrel, and oil majors have been cutting capital and operating expenditure.

OSCE urges Armenia and Azerbaijan to stop fighting over breakaway region

The Organisation for the Security and Cooperation in Europe (OSCE) has urged Armenia and Azerbaijan to stop renewed fighting along the border of Azerbaijan’s breakaway region of Nagorno-Karabakh, according to a statement released by Europe’s leading security and rights watchdog on January 27.

Violence has intensified since last November and it underlines the risk of a broader conflict in the Caucasus, a region crisscrossed by oil and gas pipelines.

The OSCE’s Minsk Group, created in 1992 to negotiate a resolution of the conflict between the two Caucasus countries over Nagorno-Karabakh, called “on Azerbaijan to observe its commitments to a peaceful resolution of the conflict” and “on Armenia to take all measures to reduce tensions”. The statement added “that all sides must abide by the terms of the ceasefire agreement”.

Armenia-backed forces seized Nagorno-Karabakh, a mountainous region within Azerbaijan, and seven surrounding Azeri districts in the early 1990s following the breakup of the Soviet Union. Repeated efforts to secure a lasting solution to hostilities have failed despite mediation by France, Russia and the United States. Since the ceasefire signed in 1994 Nagorno-Karabakh, is controlled by its majority ethnic Armenian population.

SOCAR to sell 3.4% stake in Turkish Petkim petrochemical complex

SOCAR, Azerbaijan’s state oil company, will sell 3.4% of its 61.32% stake in the Petkim, Turkey’s leading petrochemical complex, APA state news agency reported on February 4. US-based BCM Global Fund has expressed interest in purchasing the shares worth TRY34mn (\$13.8mn).

In 2014 SOCAR announced investment to develop the peninsula where the complex is located, including the construction of a new refinery and power plus as well as a container terminal.

