



Economic News Bulletin
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Macroeconomics

Fitch Ratings expects economic growth to strengthen in Azerbaijan in 2018



Fitch Ratings expects economic growth to strengthen in Azerbaijan in 2018, according to Fitch 2018 Outlook: CIS and Georgian Banks. “We expect economic growth in 2018 will strengthen in Russia, Ukraine, Kazakhstan, Belarus and Azerbaijan. Growth will slow but remain healthy in Georgia, Armenia and Uzbekistan,” Fitch said.

“In Azerbaijan the authorities took important steps in 2017 in connection with the completion of large bad loan

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buy-outs from International Bank of Azerbaijan,” Fitch said. “But many other lenders still need to increase provisioning for their large portfolios of restructured and foreign-currency loans.”

Bank sector outlooks for the CIS and Georgia in 2018 are mostly stable, helped by a more supportive economic backdrop and steps to reduce asset quality pressure stemming from recessions and currency devaluations in recent years, Fitch Ratings says.

Azerbaijan’s non-oil sector successfully developed in 2017: economy minister

Azerbaijan’s non-oil sector was successfully developing in 2017, Economy Minister Shahin Mustafayev said at an event dedicated to development of entrepreneurship and promotion of the ‘Made in Azerbaijan’ brand. The minister noted that this year important steps were taken to develop the economy and very good results were achieved.



“Over the 11 months of 2017, Azerbaijan’s non-oil economy grew 2.1 percent, non-oil industry grew 3.5 percent, and agriculture grew 4.2 percent,” the minister said.

Mustafayev added that various infrastructure projects were

implemented and state support mechanisms were successfully used this year.

The minister also touched upon the moratorium on business inspections, noting that only 143 inspections were carried out in 25 months, whereas over 121,000 inspections were carried out in the previous 25 months.

Industry

Works on expansion of Sangachal terminal close to completion

The expansion of the Sangachal oil and gas terminal within the Shah Deniz 2 project is nearing completion. The statement came from Energy Minister, Parviz Shahbazov, who visited the terminal, where he got acquainted with the activities of the “Canub” power plant with a capacity of 780 megawatts during the visit to Shirvan. Shahbazov also observed the work of “ATEF Group of Companies”, which is engaged in the production of heavy oil and gas transformers, according to the Ministry.



Then the minister also visited the Sangachal terminal, the area of which has been extended for Shah Deniz 2, and was informed that work on the terminal territory is at stage of

completion, and conditions have been created for processing of additional 16 bn cum of gas.

Shahbazov also acquainted with progress of work and gave relevant instructions at the Baku Thermal Power Center. The Sangachal terminal, which is located about 45 km to the south of Baku, forms the central point for the collection, processing and export of the gas produced at the Shah Deniz field, in addition to the oil produced at the Azeri-Chirag-Gunashli (ACG) block.

The area of the Sangachal terminal is 550 hectares. The processing capacity at the terminal is more than 1.2 million barrels per day of crude oil and over 40 million cubic meters of gas.

The volume of stored crude oil is 3.2 million barrels. Expansion work, carried out at Shah Deniz 2, will allow the processing of an additional 16 billion cubic meters of gas per year. Shah Deniz Stage 2 is a giant project that will add a further 16 billion cubic meters per year (bcma) of gas production to the approximately 9 bcma produced by Shah Deniz Stage 1.

Shah Deniz Stage 2, one of the largest gas developments in the world, will help increase European energy security by bringing Caspian gas resources to markets in Europe for the very first time. Shah Deniz gas will

travel 3,500 kilometres, to elevations of over 2,500 metres, and over 800 metres below the sea.

Azerbaijan ranks 31 with best energy system



Azerbaijan took the 31st place among 125 countries of the world with the best energy system according to the data of the "Energy Trilemma Index" for 2017, compiled by the World Energy Council, the largest international energy non-profit organization. The country goes ahead in the ranking after Japan, and such countries as the Republic of Korea, Australia, China and Russia. The South Caucasus country was ranked 44th in the field of energy security, 44th in terms of energy availability and 19th in terms of environmental sustainability.

The index assesses the efforts of 125 countries, given their ability to provide a stable energy system in three ways: "energy security" (data on the effective organization of primary energy supplies from national and foreign sources, the reliability of energy infrastructure and the ability of energy suppliers to meet current and future demand), "accessibility" energy (universal availability and financial accessibility), "environmental sustainability" (measuring overall efficiency in achieving a sustainable

combination of policy and balance, it highlights how well countries manage trade-offs).

This year, Denmark once again won first place, ahead of Sweden, Switzerland, the Netherlands and the UK. It took the first place in the field of energy security, 12th in terms of energy availability, and fourth in terms of environmental sustainability. Azerbaijan is one of the energy-rich countries of South Caucasus with advanced energy infrastructure, fossil-fuel resources and energy system, providing itself needed capacity.

The energy security of Azerbaijan is formed by the principles of the reliable energy supply of strategic and important objects, security of the pipelines, diversification of energy sources, considerate of environmental requirements and efficient usage of energy resources.

The country is famous for its traditional energy resources like oil and gas. The strategy of energy security started from 1994 when the "Contract of Century" signed. Since then the oil and gas sector has been the driving force of Azerbaijan's economy. A number of production sharing agreements (PSAs), signed attracted considerable foreign direct investment from international energy companies.

At the same time, the usage of alternative and renewable energy resources forms the energy policy agenda. Country has also ample alternative energy resources in order to utilization and keeping the energy balance. Azerbaijan is investing on the improvement and production of renewable energy resources. According to the Renewable Energy Strategy for 2012-2020, the country aims to raise the renewable energy volumes to 20 percent in electricity and 9.7 percent in total energy consumption.

In January 2013, Azerbaijan announced to raise over \$7 billion in alternative energy investments by 2020, and increase total renewable capacity to 2,000 MW or 20 percent of the nation's overall power needs. The wind, which blows more than 250 days per year and may generate 2.4 billion kWh of electricity annually, is the country's preferred option because of its lower cost, environmental soundness and unlimited availability. Offering 2,400-3,200 hours of sunshine per year, Azerbaijan has also good potential for solar electricity and heat generation.

Agriculture

Azerbaijan in Top 3 hazelnut exporters

Baku hosted the 5th Donor Coordination Meeting jointly

organized by the Agriculture Ministry and the EU Delegation to Azerbaijan. The meeting was attended by about 20 international organizations and development agencies, including the World Bank, the International Finance Corporation, the Islamic Development Bank, the Asian Development Bank, the UN Food and Agriculture Organization (FAO), the United Nations Development Program, the European Union, Representatives of the European Bank for Reconstruction and Development (EBRD).



While making remarks at the meeting the Deputy Agriculture Minister Seyfaddin Talibov said that programs adopted in various fields of agriculture, which are in special attention of the Azerbaijan's President, and improved legislative base, allow to achieve strategic goals more quickly. Azerbaijan provides 85-95 percent of itself with basic food products. If earlier the main goal of the development of the agrarian sector of Azerbaijan was to ensure food security, today priority is given to the production of competitive, export-oriented products, said the deputy minister.

“The production of competitive and export-oriented products is one of the goals of the strategic roadmap for the production and processing of

agricultural products. At the same time, we must not forget about food security. I want to note that we have already achieved some successes, and we will continue to work in these areas,” Talibov said. He noted that over the past 10 months, agricultural production in Azerbaijan grew by 4 percent, and the export rate reached 40-60 percent.

For January-October 2017, the export of non-oil products increased by 23 percent compared to the same period last year and reached a value of \$1.219 billion, the Export Review Center of the Center for Analysis of Economic Reforms and Communications (CERC) notes.

At the same time, the main export commodity is tomatoes (\$131.5 million); gold (\$98.5 million); shelled hazelnut (\$ 88.6 million) and polyethylene (\$59.5 million). The deputy minister also made remarks on the hazelnut production in the country noting that today Azerbaijan ranks third in export of hazelnuts in the world.

He said the country has already obtained a big amount of currency due to the export of hazelnuts. “As many as 12,000 hectare-hazelnut orchards have been created in Azerbaijan,” he said. “The area of hazelnut orchards is expected to increase to 40,000 hectares in 2018. Azerbaijani hazelnuts are quite competitive in the

world markets. Azerbaijan ranks third in export of hazelnuts.”

According to the International Nut and Dried Fruit Council (INC), about 45,000 tons of hazelnuts will be produced in Azerbaijan this year, which is equivalent to 17,000 tons of hazelnut kernels. As many as 8,000 tons of Azerbaijani hazelnut kernels have already been sold. The current price for Azerbaijani hazelnut kernels is \$5.5 per kilogram. The cultivation and processing of hazelnuts is one of the main directions providing Azerbaijan with foreign currency, if to consider that in 2016, the revenue from hazelnut exports was the highest among non-oil products of the country.

The association of hazelnut producers and exporters reports that incomes of Azerbaijani companies from hazelnut exports in the first quarter of 2017 amounted to \$20 million, and this 3 percent more than the same period last year. Export of Azerbaijani hazelnuts in the first half of 2017 amounted to \$32.3 million. Today, more than 25,000 family farms, uniting about a hundred thousand people are operating in the field of hazelnuts production in the country.

Transport

ADB OKs loan worth \$ 400M to finance "North-South" project

The Board of Directors of the Asian Development Bank (ADB) approved

the granting of a loan for the implementation of the North-South Corridor Project, as well as for the development of the railway sector of Azerbaijan, the bank reported. The decision was made at the meeting of the Board of Directors. \$400 million will be issued by ADB itself, and the French Development Agency (FDA) will provide another \$ 175 million in co-financing. Funds from ADB will be allocated in two tranches of \$250 million and \$150 million, respectively, while the funds of the FDA- in a similar scheme tranches of \$ 75 million and \$ 00 million. Also, the project provides for the provision of technical assistance in the amount of one million dollars.

Loan will be mainly used as investments in the development of Baku-Yalama railway section (border with Russia) as part of the North-South transport project and as support for expanding the management autonomy of the Azerbaijan Railways CJSC, effective financial restructurization of company's liabilities, expansion of financial and administrative control, efficiency and accountability of the company, as well as the development of business and corporate restructurization of the railway authority.

Azerbaijan Railways CJSC is considered to be the loan executor.



ADB was founded in 1966 and has 67 member states. The bank's headquarters is located in Manila, Philippines. Azerbaijan became an ADB member on Dec.22, 1999. The country accounts for 0.5 percent of the bank's capital.

The International North-South Transport Corridor is meant to connect Northern Europe with Southeast Asia. It will serve as a link connecting the railways of Azerbaijan, Iran and Russia. The corridor is planned to transport 6 million tons of cargo per year at the initial stage and 15-20 million tons of cargo in the future.

Tourism

“Tourism - one of leading spheres of non-oil sector of Azerbaijan's economy”

In recent years, tourism has become one of the leading spheres of the non-oil sector of Azerbaijan's economy, the country's Deputy Minister of Culture and Tourism Nazim Samadov said in Baku at an event dedicated to the International Migrants Day. He noted that the Azerbaijani president's support, attention and care for the tourism sphere yielded results.



Samadov noted that for 11 months of this year, the number of tourists amounted to more than 2,477 people, which is 20 percent more than during the same period last year.

He also added that foreign tourists who arrived in Azerbaijan spent \$1.3 billion in the country, and tourists who left Azerbaijan spent \$1.2 billion abroad. The surplus amounted to \$100 million, and this may be regarded as a positive fact, he said.

Foreign tourists spent \$1.3 billion in Azerbaijan

It is difficult to imagine something more complex, heterogeneous and multi-component for description than the sights that Azerbaijan has. It



has Baku, city of winds, one of the world's most beautiful cities located at the crossroads of Europe and Asia. It has Ganja, once a capital city with its amazing spirit and refined architecture. It has Sheki, one of the most ancient cities of the country, member of the UNESCO Creative Cities Network. The country is so diverse that everyone will find here something interesting.

The state support, attention and care shown on the tourism sector, gave the positive results, according to Samadov, who noted that for 11 months of this

year, the number of tourists increased by 20 percent.

Foreign tourists who arrived in Azerbaijan spent \$1.3 billion, while Azerbaijani tourists spent \$1.2 billion abroad. Samadov noted that the positive balance was \$100 million, which can be regarded positively.

The number of foreigners visiting Azerbaijan during the first 11 months of this year was 2,477,908 people. The top 10 list of countries sending tourists to Azerbaijan includes Russia Federation (790,258), Georgia (488,269), Iran (340,702), Turkey (275,147), UAE (87,215), Iraq (58,259), Ukraine (53,583), Kazakhstan (33,439), Saudi Arabia (32,644), and United Kingdom (29,828). In the total number of foreign citizens coming to the country this year the specific share of citizens of Russia, Georgia, Iran, Turkey and UAE was more compared to remaining countries being 31.8, 19.7, 13.7, 11.1 and 3.5 percent respectively.

The highest number of tourists visiting the country was observed in July (313,515 people). Compared with the same period of the last year, the countries with the main growth rates this year were Iran, UAE and Russia. Thus, 117,556 more people from Iran, 44,558 from UAE and 105,020 more people from Russia arrived in Azerbaijan this year. For the first 11

months of the year 2016, the number of foreign tourists arriving in Azerbaijan was 2,064,224 people, and in November - 169,427. Compared to the same period of the previous year, some 413,684 more people came to Azerbaijan in the first 11 months of the current year, and only in November 31,877 more foreigners arrived in the Land of Fire.

Azerbaijan, situated on the Great Silk Road, and divided partially between Eastern Europe and Western Asia, blended the best from both cultures, forming its own unique rich culture, which attracts more and more tourists to the country. A sharp increase in number of tourists cannot but rejoice both the economy and the inhabitants of Azerbaijan, also known as the Land of Fires. Hotels, restaurants, recreation areas, and shopping centers filled up with foreigners and this shows the interest of tourists in a newly chosen destination.

The state pays much attention to tourism sector and “Strategic Roadmap for the Development of the Tourism Industry” approved in 2016 stipulates a number of measures for achieving great steps in this area. While a number of tourist facilities have been built in the regions, and cultural and historical reserves have been set up or restored.

Thanks to all these, the country has improved its tourism performance

in the Travel and Tourism Competitiveness Report 2017 released by experts of the World Economic Forum (WEF). The country is placed 71st among the most improved economies in 2017, rising 13 spots in the global ranking.

Announcements and Notifications

Azerbaijan International Travel & Tourism Fair (AITF)

Azerbaijan International Travel & Tourism Fair (AITF) is a 3 day event being held from 5th April to 7th April 2018 at the Baku Expo Center in Baku,



Azerbaijan. This event showcases products like reflects dynamic development of the very promising tourism market in the region and establishes a solid platform for domestic and international experts to demonstrate the recent trends in business, incentive, health and luxury travel etc. in the Business Services, Travel & Tourism industries. AITF is the main event in Azerbaijan’s fast growing tourism market attracting a large number of international participants and trade visitors from year-to-year becoming the ‘hub’ for the tourism industry of the entire Caspian region. It is where important meetings are organised, partnership agreements are concluded, new programs and destinations are announced.