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## Macroeconomics

### IFC to provide support in attracting investment

The International Finance Corporation (IFC) continues to implement a range of advisory projects aimed at encouraging private sector growth. IFC will support Azerbaijan in attracting investment, in particular, foreign direct investment in the non-oil sector and support diversification, Jan van Bilsen, IFC Regional Manager for the South Caucasus, said. He considers that since agriculture is one of the main sources of jobs in Azerbaijan, the industry must be



competitive in both domestic and foreign markets.

Van Bilsen mentioned that IFC will continue to support Azerbaijan in unleashing the power of its private sector through strategic reforms that help attract investment. As the regional manager noted, the Corporation also supports Azerbaijan in increasing competitiveness and ensuring sustainable growth. He pointed out that IFC signed cooperation agreements with the Ministries of Economy and Agriculture of Azerbaijan last week, as well as with the Food Safety Agency.

Van Bilsen stressed that these agreements will be of great importance for the achievement of all goals. IFC regional manager added that the aim of cooperation is to facilitate business and attract investment in the non-oil economy of Azerbaijan. He noted that the agricultural sector faces a number of challenges. Van Bilsen considers value chains need further development and the food safety management system needs further improvement.

"To address existing challenges, our aim is to help streamline regulations and modernize the national food safety management system," van Bilsen concluded. IFC is a sister organization of the World Bank and member of the World Bank Group. It

is the largest global development institution focused exclusively on the private sector in developing countries. The Bank Group has set two goals for the world to achieve by 2030: end extreme poverty and promote shared prosperity in every country.

IFC leverages its products and services, as well as products and services of other institutions across the World Bank Group, in order to create markets that address the biggest development challenges of time. The Corporation applies its financial resources, technical expertise, global experience, and innovative thinking to help its clients and partners overcome financial, operational, and other challenges.

IFC is also a leading mobilizer of third-party resources for projects. The Corporation's willingness to engage in difficult environments and its leadership in crowding-in private finance enable to extend footprint and have a development impact well beyond direct resources.

Azerbaijan became a member of IFC in 1995. IFC has been supporting the Azerbaijani private sector for over 20 years and has invested \$500 million within this period. Investments worth \$350 million were directed for trade financing and investments were also made in the Baku-Tbilisi-Ceyhan pipeline. The funds have financed over 50 long-term projects across a

range of sectors, including financial services, infrastructure, and manufacturing.

Recently, IFC made proposals for creating a mechanism for supporting the dialogue between the private and public sectors of Azerbaijan. One of them deals with the improvement of the overall investment climate, and the second with providing support in drafting and introducing amendments to the legislation, evaluating their impact on the business environment and the economy as a whole.

### **Minister: Azerbaijan is at new stage of development**

Azerbaijan is at a new stage of development,



as reforms are successfully implemented in the country and

the economy is being liberalized and expanding, the Minister of Transport, Communications and High Technologies of Azerbaijan Ramin Guluzade said at the FINTEX Summit, which is being held on the topic "New trends in banking and the payment ecosystem: innovative solutions, financial technologies and security" in Baku, said.

According to the minister, serious work is being carried out in the

country to strengthen the export potential, create a favorable investment environment, and develop innovative technologies. At present, various technological start-up and large companies operate in the financial technology sector of the country, the minister continued.

Ramin Guluzade noted that there is serious competition between participants in the financial technology market. He also emphasized the importance and relevance of this summit, which brings together the banking, financial and technological sectors.

The summit provides a solid platform for discussions about new technological solutions, business models, application of innovative technologies in the financial sector and new trends in this sphere, he said.

## Industry

### Electricity exports increase

Azerbaijan continues to work on strengthening its power system



to meet the growing demand both in local and foreign scale as well as to ensure the reliability of the power system. The country exported 1.05 billion kWh of electricity worth \$45.1 million in

January-April 2019, according to the State Customs Committee.

In the same period of last year, the country exported 987.9 million kWh of electricity at the cost of \$38.4 million.

Azerenergy is the main exporter of electric energy in Azerbaijan. There are over 30 power plants on the balance of Azerenergy. The total power generation capacity of these stations exceeds 6,000 MW, which allows generating about 24 billion kWh of electricity annually.

Recently, energy operators of Georgia, Azerbaijan and Russia held a working meeting in Tbilisi.

The technical details of the power systems of the three countries were reviewed during the meeting at the head office of the Georgian State Electrosystem JSC. The representatives of Azerenergy and the Unified Energy System of Russia took part in the meeting.

The parties reviewed the mechanisms for regulating power flows and agreed to discuss the details related to the creation of the United Electric Power Ring, which will significantly improve the stability of the electrical systems of the three countries and increase the possibilities of electricity export and import.

It is noteworthy that in 2018, Azerbaijan's electricity exports increased by 165.2 million kWh in comparison with 2017 (1.28 billion kWh), reaching almost 1.5 billion kWh. As many as 1.23 billion kWh of this amount was exported to Georgia, 121.5 million kWh to Russia, 80.3 million kWh to Iran, and 13.45 million kWh to Turkey.

The cost of electricity exported from Azerbaijan amounted to about \$66 million, and the value of exports increased by \$16 million compared to 2017.

Total electricity production in Azerbaijan amounted to 25.2 billion kWh in 2018.

Azerbaijani government expects the power generation in 2019 at 25.5 billion kWh. This figure is expected to go up by 2 percent annually to 27.1 billion kWh in 2022. The capacity of the country's generating system is 7,172.6 megawatts, which allows generating about 24 billion kWh of electricity annually.

In recent years, Azerbaijan has turned from an electricity importing country into a country exporting electricity. Azerbaijan, which has been exporting electricity to neighboring countries for a long time, has already begun exporting energy to European countries.

Since early May 2019, Azerenergy has started supplying electricity to Greece, Romania, Bulgaria and Hungary through Georgia and Turkey. In the coming months, the company also plans to export electricity to Austria and Italy.

### Car production grows in country

Azerbaijan has been paying special attention to the development of the automotive industry in recent years.



As many as 436 cars were manufactured in Azerbaijan in January-April 2019, which is 3.4 times more compared to the same period of 2018, according to the country's State Statistical Committee.

The total production of cars, trailers and semi-trailers in the country amounted to 28.6 million manats (\$16.8 million). This is an increase of 8.6 percent over a year. Meanwhile, Azerbaijan imported a total of 7,250 cars worth 92.4 million manats (\$54.35 million). The country also imported 643 trucks totaling 10.1 million manats (\$5.9 million). This is an increase of 2.03 and 2.5 times, respectively.

In addition, Azerbaijan imported 44 buses for 1.6 million manats (\$940,000), which is an increase of

2.3 and a decrease of 7.4 percent, respectively.

In 2019, car production in Azerbaijan in terms of value will reach 31.7 million manats (\$18.6 million), in 2020 the figure will be 56 million manats (\$32.9 million), in 2021 it will make up 85.3 million manats (\$50.2 million), and in 2022 it will reach 113.3 million manats (\$66.6 million), according to government estimates.

It is planned to gradually increase the production volume of passenger cars to 7,000 units per year in quantitative terms. For now, their number is projected at 600 units in 2019. But the volumes will significantly increase to 2,000 units starting from 2020, 3,500 units in 2021, 5,300 in 2022, and finally, reach 7,000 units in 2023.

Trucks production is also set to expand. In 2019, as many as 55 vehicles are expected to be produced. Since 2018, a new automobile plant began operating in Azerbaijan producing cars under the "Khazar" brand. This contributed to a significant increase in passenger cars' production in Azerbaijan. Previously, only the Nakhchivan Automobile Plant operated in the country, where "Lifan" cars were assembled.

The country also has the Ganja Automobile Plant, where a number of trucks of Belarusian and Russian companies are manufactured. Ganja

Automobile Plant is the largest assembly plant of Belarusian tractors outside the Eurasian Economic Union. Launched in 2004, the plant organizes the assembly of all types of trucks and tractors of Belarusian production since 2006. So far, more than 10,000 Belarusian tractors and specialized equipment have been assembled at the Ganja Automobile Plant.

The plant produced 478 units of machinery in January-April 2019. In addition, the plant manufactured 478 units of machinery, including 466 different models of tractors, one MAZ automobile trailer, one KAMAZ automobile, two MAZ buses and five tractor trailers with a self-operating mechanism.

In general, Ganja Automobile Plant produced 8 models of MAZ cars in the amount of 2,864 units. Some 30-40 percent of the assembly of these vehicles was provided by local production. Moreover, the plant manufactured 330 MAZ trailers and 3,202 units of attachments, 208 KAMAZ trucks and 411 Ural vehicles. Another automobile plant of the Russian GAZ Group is planned to be built in the Hajigabul industrial zone in late 2019.

Moreover, there is a joint venture between Khazar OJSC Azermash and Iran Khodro, commissioned in Neftchala industrial park on March 29, 2018, which costs \$15 million (75

percent is Azermash's share and 25 percent is Iran Khodro's share).

The plant has 300 employees and is capable to manufacture up to 10,000 cars per year. At the same time, if necessary, it is possible to switch to a three-shift operation, and without additional space, bring the assembly volumes to 30,000 cars a year.

## Agriculture

### Hazelnut exports increased markedly

Local hazelnuts strive for entering new foreign markets to stimulate increase in the non-oil share in the country's economy.



Azerbaijan exported 7,060 tons of hazelnuts worth \$38.37 million in the first quarter of 2019. Compared to the same period last year, exports in quantitative terms increased by 57.3 percent, and in value - by 61.8 percent. The major importers of local hazelnut were Russia, Italy and Germany. In particular, in January-March 2019, as many as 3,213 tons worth \$15.8 million were exported to Russia, 1,710 tons - to Italy (\$9.9 million), and 1,450 tons - to Germany (\$8.4 million). The rest was supplied to other countries.

In 2018, Azerbaijan exported 18,223 tons of peeled hazelnut worth \$93.5 million.

Azerbaijan is known as one of the few countries in the world enjoying favorable climate conditions suitable for hazelnut growing. Several varieties of hazelnuts, such as Atababa, Ashrafli, Ghalib, Ganja, Sachagly, Topgara and Yagly, are cultivated in Azerbaijan. Hazelnut growing is the main source of income for the population in the northwestern regions of Azerbaijan. It is also mainly a family business in Balakan, Zagatala, Gakh, Gabala, Khachmaz, and Shabran regions.

Hazelnuts produced in Khachmaz region are mainly exported to Russia, and those produced in Gabala, Oghuz, Gakh, Zagatala and Balakan regions are exported to European countries.

In 2017, hazelnut trees were planted in Azerbaijan on an area of 18,000 hectares. Thus, the total area of hazelnut gardens in Azerbaijan reached 55,000 hectares. The main goal is to bring the figure up to 80,000 hectares by 2022.

It is noteworthy that today Azerbaijan has become the world's third largest hazelnut producer and exporter. Hazelnuts are now among the country's main export goods after oil and gas products. Industry experts expect annual exports worth \$150-200

million in the near future. Currently, Azerbaijan exports hazelnuts to more than 25 countries.

Presently, the country tries to expand its export routes and enter new markets. Thus, this year, Zagatala hazelnut processing plant plans to export products to the Swiss market. During the Azerbaijani export mission's visit to Switzerland, preliminary agreements on hazelnut export were reached with Switzerland's GNC, Varistor, Delica and other influential companies. Switzerland agreed to import 220 tons of hazelnuts worth \$125,000.

The plant also intends to increase exports to other European markets, in particular, to Germany.

In addition, at exhibitions in Dubai (Gulfood 2017) and Germany (Prowein), where Azerbaijani companies took part, orders for exporting hazelnuts to Spain were received.

In 2016, Ferrero, the world's largest buyer of hazelnuts, started purchasing large quantities of Azerbaijan's hazelnuts. Recently, Azerbaijani company Azhazelnut signed a contract with Latvia's Alisco for the export of hazelnuts to Latvia worth \$250,000.

The export of non-oil products will stimulate the expansion of the Azerbaijani products' markets and will

further strengthen the non-oil sector's share in the structure of the GDP.

The programs for expanding the manufacture and processing of agricultural products that have been adopted in recent years and those still at the planning stage should contribute to greater self-sufficiency in the food and beverage industry.

### **Food Safety Agency: Azerbaijani products are easily exported to EU**

The export of Azerbaijan's crop products to European markets has



acquired a large scale, said Goshgar Tahmazli, chairman of the

Food Safety Agency, said. According to him, the existing requirements for the supply of Azerbaijani products to European markets comply with international standards. "Azerbaijani products are easily exported to EU countries. International structures recognize Azerbaijan's phytosanitary certificates," he remarked.

Tahmazli added that the agency cooperates with a number of international organizations in the field of food safety. The chairman also noted that a State Program on Food Safety has been adopted in the country for the first 7 years, which will be implemented step-by-step with the

support of other government agencies in the coming years.

## Transport

### EU highlights need to sign aviation agreement with Azerbaijan

Energy is the key element of cooperation between the EU and Azerbaijan, but there are plenty of fields in which potential cooperation is possible. Transportation sphere promises fruitful results and negotiations in this direction are underway. “In order to expand cooperation between Azerbaijan and the EU in the field of transportation, a relevant aviation agreement should be signed in the nearest future,” Kestutis Jankauskas, the EU Ambassador to Azerbaijan, said.

He said that the aviation agreement is an integral part of the regional transport hub project, which is the next major project of Azerbaijan. This project is equally beneficial for both the EU and Azerbaijan, Jankauskas noted.

The ambassador added that a high-level dialogue on transportation with Azerbaijan began this year and it envisages different infrastructure projects. Jankauskas stressed that the

parties negotiate on a new agreement on strategic partnership between the EU and Azerbaijan.

“We had a series of video conferences after the last round of negotiations on trade issues. The work is underway. Everything possible must be done to ensure that the text is signed as soon as possible,” the EU ambassador noted.

Initiative of European Commission to create a common aviation area aims to open and integrate aviation markets. This will create new opportunities for consumers and operators, and, most importantly, high standards in terms of flight safety as well as air traffic management.

In November 2016, the European Council issued a mandate to the European Commission and the High Representative for Foreign Affairs and Security Policy to conduct negotiations regarding a comprehensive agreement with Azerbaijan on behalf of the EU and its member states.

The new agreement should replace the 1996 partnership and cooperation agreement and should better take into account the objectives shared by the EU and Azerbaijan and the challenges facing them today. It will follow the principles endorsed in the 2015 review of the European Neighborhood Policy and offer a renewed basis for political



dialogue and mutually beneficial cooperation between the EU and Azerbaijan.

Currently, bilateral relations between the EU and Azerbaijan are regulated on the basis of an agreement on partnership and cooperation that was signed in 1996 and entered into force in 1999. The new agreement envisages the compliance of Azerbaijan's legislation and policies with the EU's most important international trade norms and standards, which should facilitate access of Azerbaijani goods to the EU markets.

## **Tourism**

### **Tourism may become most profitable sector of non-oil economy**

Tourism is one of the leading and fastest growing sectors of the Azerbaijani economy. The fact that tourism is a strategically important sector of the national economy ensures a strong support for the industry from the government. Favorable climatic conditions allow organization of tourism at any time of year.



Tourism and hospitality sector may become the most profitable sector of the non-oil sector in 2019 and potential investors can invest in this

area, Azerbaijani economist Elman Sadigov said.

He considers that the need for professionals, felt in the service sector, the lack of places for receiving and accommodating foreign tourists arriving in the country can bring significant income to those who are ready to invest in this sphere.

"One may launch activity in the tourism sector by opening a small or medium-sized hostel, a two-star hotel, or a guest house for 10-20 rooms. One may attract guests and make a profit through good service," Sadigov said.

The expert believes that the main task is to ensure that the tourist is satisfied and a positive image is created, adding that as the client potential grows, profits will also increase.

He further noted the lack of mid-segment facilities in the service sector, including cafes and restaurants. The economist said that the luxury segment – five-star hotels, expensive restaurants – are most represented, but there is a need for more facilities that would meet the middle segment requirements.

Sadigov assumes that the agriculture segment may also be attractive, but this is hard work that requires a special approach.

"It is important to be a professional in the agricultural sector. To invest in this sphere without being involved in it is a wrong approach, because the investor may be unable to understand why and how the investments are lost. Agriculture is a specific sector. Without knowing it, it may be risky to invest in it. This is a profitable sector, but only if a professional approach is taken," he mentioned.

As the expert thinks, a family business is considered another profitable area.

"ABAD (ASAN Support to Family Business) project is being implemented in Azerbaijan, which is very positive. I think every citizen can assess their potential, their interests and create a small family business by contacting ABAD centers. It may seem that self-employment sounds simple, but this is an extremely important question," he said.

The economist also warned that investing in today's popular cryptocurrency can be risky.

"The person who eyes to invest in financial markets in cryptocurrency must be careful. There is a very high volatility in this sector, which means that there is also a high risk of losses," Sadigov concluded.

Azerbaijan is among the developing countries in the field of tourism, occupying the 39th place among 148

countries in terms of global competitiveness in tourism.

The successful holding of grand events has turned Azerbaijan into a country recognizable by everyone in the world, and a country that many foreigners wish to visit as soon as possible.

Moreover, simplification of the visa regime also plays a major role in the development of tourism in Azerbaijan. Currently, citizens of a number of countries get visas right at the Azerbaijani airports, while other tourists can visit the country by getting online tourist visas.

In 2018, as many as 2,849,600 tourists from 196 countries arrived in Azerbaijan, showing a 5.7 percent increase compared to 2017.

### **"7 Wonders of Azerbaijan" project launched**

New television project titled "7 Wonders of Azerbaijan", launched with the joint support of IDEA Public Association and Nature and History Production, was presented in Icherisheher, Baku. Vice-President of the Heydar Aliyev Foundation Leyla Aliyeva, social and political figures, representatives of foreign embassies,



scientists, well-known masters of culture and art attended the event.

The project aims to increase the sense of patriotism in society, preserve the national-cultural and historical heritage, study controversial facts of the history of Azerbaijan against the background of historical monuments of the era, draw attention to the popularization, protection and restoration of historical, cultural and natural sites.

In addition, "7 Wonders of Azerbaijan" has set a goal to popularize Azerbaijan's historical, cultural and natural 'gems' in the country and beyond, to give impetus to the development of local and foreign tourism, as well as infrastructure in these territories.

Head of Nature and History Production Hikmat Nagdaliyev, Minister of Ecology and Natural Resources Mukhtar Babayev, Deputy Minister of Culture Sevda Mammadaliyeva, Director of the Institute of History Yagub Makhmudov and Chairman of the State Tourism Agency Fuad Naghiyev shared their views on the project.

Historical attributes used in decorating the specially prepared space, reflecting the essence of the project, and costumes that personified the country's spiritual values attracted special attention at the event.

The model of the fortress used in the interior design and large rocky stones with the images of people created a special mood returning the visitors to the past.

The presentation concluded with the launch of the voting of "7 Wonders of Azerbaijan" project on [www.yeddi.az](http://www.yeddi.az). Ensemble playing old musical instruments also delighted the guests with its performance.