



Economic News Bulletin
Embassy of the Republic of
Azerbaijan to the
Swiss Confederation and
Principality of Liechtenstein
Kramburgstrasse 10, 3006 Bern
tel: +41 31 350 50 44
fax: +41 31 350 50 41
e-mail: bern@mission.mfa.gov.az

Macroeconomics

President Aliyev receives honorary membership of Davos club

Azerbaijani President Ilham Aliyev, who embarked on a working visit to participate at the World Economic Forum in Davos, continues to hold high-level meetings here.

President Aliyev has met with Executive Chairman of the World Economic Forum Klaus Schwab in Davos on January 22.

The sides stressed the importance of the World Economic Forum. Azerbaijan's active and continuous

participation in this prestigious event was hailed.

They also discussed the Silk Road Project, and the current regional and global oil-related processes.

Klaus Schwab presented a badge of Davos club of honorary members to President Aliyev, marking his tenth participation in the World Economic Forum.

The president later met with Foreign Minister of Norway Borge Brende. The sides hailed the development of relations between the two countries, and exchanged views over the issues of mutual concern.

President Aliyev later met with President of the Swiss Confederation Johann Schneider-Ammann.

The presidents expressed their satisfaction with the high-level of relations between the two countries, and noted that there were sample opportunities for the further expansion of the ties.

The sides stressed that the two countries enjoyed fruitful cooperation in political, economic, energy, investment making and transport spheres. They also highlighted the role of Azerbaijan in ensuring European energy security.

The parties exchanged views over the current international situation, the

economic processes amid falling oil prices, the financial and economic crisis, and the steps taken on this front both in Azerbaijan and Switzerland.

They also discussed the current state of talks to settle the Armenian-Azerbaijani Nagorno-Karabakh conflict.

Azerbaijan encourages foreign investors in non-oil sector

Azerbaijan plans to minimize its oil dependence, which requires ensuring growth of non-oil sector of economy and increasing the volume of foreign investment in this field.



President Ilham Aliyev set this goal at a meeting of the Cabinet of Ministers, dedicated to the social and economic development in 2015 and the objectives for the future. The young oil producing country that skim the cream off the natural wealth now faced with the low prices of the “black gold” on the markets of the world. In this situation, the country, that still has gas alternative, plans to switch to the non-oil sector of economy in order not to be dependent on the hydrocarbons in the future.

The oil gave Azerbaijan a lot, but it is a high time to welcome something new.

Last year, GDP of the country has increased by more than one percent, industrial production rose by 2.4 percent and non-oil industry grew by 8.4 percent.

Moreover, the 8.4-percent growth in the non-oil industry is the main achievement of the country in 2015. Last year, the Azerbaijani economy received about \$20 billion of investments, half of which are foreign investments, which is a positive factor. The World Bank predicts that economic growth in Azerbaijan will amount to 0.8 percent this year and 1.2 percent in 2017, while forecast for global economy is 2.9 percent growth in 2016 and 3.1 percent in 2017.

“Azerbaijan, as an attractive country, and presents its potential to foreign investors,” the president said in his address.

Today, many investors are looking for a new economy, and Azerbaijan should also determine its niche in the global economy.

However, it would be not so easy, as there are great many candidates striving for the foreign investments and Azerbaijan should fight for its place in the sun.

What attracts investors? A well-developed infrastructure and favorable conditions for the investment climate is needed to attract investors.

What Azerbaijan has made in this direction? Recently, the state has made major investments in the development of marine, railway, automotive, utilities, and social infrastructures. Moreover, some bureaucratic hurdles were abolished.

As a result, the country is now eye-catching for transportation, which means great revenue for the investors. The favorable geographic location promises expansion of transport routes, which will further increase the country's attractiveness to investors in terms of easy delivery of products made in Azerbaijan to other markets. Transportation plays a leading role, while Azerbaijan has also other promising spheres.

One of them is industrial parks that offer seven years work opportunity without paying income tax, land tax and property tax. In addition, equipment and technology used in such parks are not subject to VAT.

The tax burden in Azerbaijan is not high either. The country is also reviewing proposals to stimulate exports.

Industrial parks have been created already in Sumgayit, Balakhani, Garadagh and Mingachevir. Another park, specializing in metallurgy, will be created in Ganja.

In addition, Azerbaijan has available specialized personnel not only in the

oil and gas sector, but also other industrial areas.

Along with easy transportation, lack of export duties in Azerbaijan also allows a minimum cost to enter foreign markets.

Moreover, the country has recently facilitated operation of SMEs by reducing the number of licensed activities and halving the amount of duty, simplifying the taxation, and suspending inspections for two years.

Last but not the least, investment in Azerbaijan in the current economic situation is also advantageous because of the low rate of the national currency. "Azerbaijan is an excellent country for foreign investments and that foreign investments are being protected here," President Aliyev assured.

Industry

Developing pharmaceutical industry promises positive outlook for Azerbaijan

Developing pharmaceutical manufacturing in oil-rich Azerbaijan may become one of major directions in the country's aspiration to diversify its non-oil sector of the economy.



Easing tax burdens and allowing entrepreneurs more space to maneuver

may have a positive effect on this industry in terms of big changes ahead.

With a growing population of over 9.6 million, Azerbaijan's healthcare system will require an organized and well-established public health sector. As a major social stabilizer healthcare remains an important point in the agenda of the government. The need for healthcare is growing nationwide as population is aging and human life expectancy is growing with the better provision of healthcare.

The government increased its healthcare budget more than 10 times in the past decade. There were built or remodeled over 566 hospitals and healthcare facilities so far. Currently, the life expectancy in Azerbaijan is 72 years for men and 76 for women.

Although the country is interested in ensuring broad access to healthcare provision with a high level of quality on one hand, on the other hand it seeks to cut healthcare spending. Cost cutting measures affect not only patient and consumer but also the pharmaceutical sector.

In late 2015, the government announced that Azerbaijan will create own enterprises that will manufacture medicines to cease dependence on imports. The government reaffirmed aim to continue the development of medicine manufacturing industry and establish pharmaceutical companies.

Deputy Prime Minister Ali Ahmadov announced that the talks will be soon launched on creating enterprises for the production of medicines in Azerbaijan. He said for a long period Azerbaijan lacked practice for the production of medicines, there were no specialists in this area, and most of the drugs imported from abroad.

"The drug import from abroad adversely affects the functioning of the internal market, leads to leakage of a large amount of currency outside the country. The way out of this situation is to establish relations with reputable pharmaceutical companies in foreign countries and establish relevant companies here based on the corporation. Ultimately, Azerbaijan could gradually form its own practice in the production of drugs," he said.

The market of medicines in Azerbaijan by 97 percent dependent on imports, while 57 percent of medicines registered in the country are produced in Europe, 26 percent in the CIS countries, including 12 percent made in Russia. The small proportion is produced in Asian countries.

Despite the opportunities, medicine production in Azerbaijan is not managed well. The share of basic pharmaceutical products manufacture in Azerbaijan's total industrial production is 0.01 percent, according to the State Statistics Committee. As of 2014, number of the acting enterprises in this sphere is only eight, with

volume of industrial products worth 2.7 million manats (\$1.7 million) at factual prices.

Pharmaceutical activities in Azerbaijan are licensed by the Center for Analytical Examination of Medicines under the Ministry of Health. The ministry also controls the quality of the medicines. Only 55 medicines are manufactured in the country, the ministry reports.

On drug prices in the retail sale, the country started regulating the prices of medicines from September 15, 2015. A list of medicines is constantly enlarging. Up until now, the Tariff Council has approved the prices of over 3,540 kinds of medicines. Compared with the current price, the price of 46 percent of medicines decreased more than two times, 24 percent – more than three times. In general, prices have fallen for 95 percent of all the medicines.

Deputy head of the parliamentary committee on healthcare Musa Guliyev, in turn, said the country can also in the future export medicines. “Instead of spending huge funds to purchase the medicine from abroad, we can sell medicine and get foreign currency. The point is that the country enjoys rich herbs. Producing herbal medicines we can open new jobs in regions and use the resources effectively.”

The MP is sure that the country enjoys potential to build pharmaceutical plants, adding that the government needs to offer concessions to attract entrepreneurs to this sector.

“Firstly, in case the raw material for medicines is brought from abroad, then it needs to be free from custom duties. Also, tax incentives should be applied in relation to such plans for at least several years.”

Due to lack of domestic production, the country is also huge market for medical device investments. Currently, the country imports medical devices from US, Germany, Japan, France, Russia, and Turkey. Reportedly, Russian and Turkish firms provide lower-cost equipment, which has resulted in an increasing popularity of these equipment and supplies in the local market.

The biggest issue for Azerbaijan's pharmaceutical industry is the lack of human capital. However, the government is promoting programs that encourage the youth to engage in the medical sciences.

With its high growth capacity and the government's focus on development, Azerbaijan's market outlook is still positive. The government is sure any investment in the country's healthcare industry, promises to be rewarding.

Agriculture

Azerbaijani agriculture products to gain new markets

Azerbaijan plans to increase exports of agriculture products by entering the traditional markets with a larger volume and supplying the products to new markets.



Besides oil and gas, the country eyes to export agricultural products to the world markets in the future. President Ilham Aliyev has set improving the export capacity of the agrarian sector as one of the main priorities for Azerbaijan.

Azerbaijan, with an access to the traditional markets, intends to look for new markets for its high-quality agricultural products which enjoy popularity and are in demand in neighboring countries. In his conclusion speech at a meeting of the Cabinet of Ministers dedicated to the results of socio-economic development in 2015 and objectives for the future President Aliyev called Russia the main market for Azerbaijani agricultural products.

"There is a greater demand for Azerbaijani products in Russia today. Azerbaijan must ensure this demand

and enter the Russian market with a greater production volume," he said.

Azerbaijan's northern neighbor Russia is seen as a good market for increasing the export of agricultural products since this country is considered a bridge to enter the Eastern Europe's markets.

Also, western sanctions imposed on Russia over the Ukraine crisis in late 2014 opened up the huge market for the sale of Azerbaijani products. In this regard, Russian market has a huge demand in Azerbaijan's agrarian products.

Azerbaijan is keen to diversify the national economy and reduce its dependence on petrodollars. This is seen as the safest way to minimize the impact of the ongoing economic crisis to the nation.

The most important component of the government strategy on diversification of the Azerbaijani economy is designated to optimizing the structure of non-oil exports, in particular, by increasing the volume and range of agricultural products, and improving its competitiveness on foreign markets. Azerbaijan's agricultural sector plays an important role in providing the 9.6-million population's food security in a best way and increasing the country's export potential.

Thus, one could expect that this year and in coming years agriculture will

become one of the main sectors with export-oriented products which will bring huge revenues to Azerbaijan's state budget.

Transport

Azerbaijan eyes transport sector as priority in 2016



Development of the transport sector will be on the focus of the Azerbaijani government as a priority in 2016. President Ilham Aliyev made the remark at a meeting of the Cabinet of Ministers dedicated to the results of socio-economic development in 2015 and objectives for the future on January 10.

"Currently, Azerbaijan, Georgia and Turkey are pursuing a common tariff policy in this corridor. After the aggravation of Turkish-Russian relations, Azerbaijan has mobilized its capabilities to facilitate the transit of Turkish heavy vehicles to the Central Asia," he noted.

Russia has recently banned the entry of trucks from Turkey into its territory due to the plane incident. For this reason, it was decided to send the cargo flow destined for the Central Asian countries via Azerbaijan. Consequently, this has led to an

increase in the flow of trucks from Turkey to Azerbaijan.

Azerbaijan, which enjoys an advantageous geographical position at a crossroads between East and West, has already expressed readiness to increase the volume of cargo transported from Turkey to Central Asia via its territory.

The transport sector is regarded as a central direction to diversify Azerbaijan's national economy. The government regards its capabilities as a good tool to minimize the impact of the ongoing economic crisis to the nation.

Azerbaijan has invested billions of dollars in the development of sea, railway, road and social infrastructure. Developed infrastructure and good business climate has paved the way to attract foreign direct investment in this sector, as well. With suitable location between East and West, Azerbaijan attracts foreign cargo companies. Azerbaijan also applies the principle of "single window" for transport of transit cargoes through its territory via the railways, maritime transport, ports and terminals.

Azerbaijan has reduced transit costs by around 40 percent for foreign carriers heading to the Kazakh port of Aktau and Turkmenbashi port of Turkmenistan. The government applies a 30-percent discount on the services of transit of oil and oil products by railway and transshipment via the sea terminals.

Large transport and logistics operators of Azerbaijan, Turkey, Kazakhstan and Georgia have already agreed to establish a consortium engaged in the shipping of cargoes from China to Europe, which will become possible through the Trans-Caspian international transport route "China-Turkey-Europe". The first container train from China arrived in Baku in August 2015. It is believed that expansion of transport routes will further increase Azerbaijan's attractiveness for investors in terms of ease of delivery processes.

Tourism

Investment in Azerbaijan's tourism increasing



Azerbaijan, well considering the harmony of the East and the West, seeks to develop tourism in the country. The investment in the national tourism is increasing, noted Minister of Culture and Tourism Abulfaz Garayev at the event dedicated to the 10th anniversary of the establishment of the Ministry of Culture and Tourism.

Today Azerbaijan is one of the most visited countries in the region, attracting tourists with the blue sea, mountains of delicious fruit, exquisite cuisine, hospitable people and such a

varied nature. Land of Fire reached significant promotions in tourism sector, improving the image of the country in the international arena. The country hosts a series of both luxury and 2-3 stars hotels, which now number 530 across the country currently. Some 2.5 million people from foreign countries visited Azerbaijan every year, the minister said. The national parks, providing a vast collection of beauties particularly the wildlife of the country, are among Azerbaijan's main tourist attractions, since some 75,000 tourists visited the parks last year.

Every year the ministry organizes several events across the world, promoting the rich samples of Azerbaijani culture with colorful dances, delicious cuisines and ancient history. Annually, several exhibitions and concerts, including Days of Azerbaijani Culture give the opportunity for the foreigners to get acquainted with the traditions and history of Land of Fire. Museums are one of the first places that tourists are anticipated to visit in any country and the minister said Azerbaijani museums have entered a new stage of development.

Baku is also famous with its grand museums of history, literature, music, culture and modern art. Earlier, the symbol of Baku --the Maiden Tower-- won the award of "European Museum of the Year 2015" competition.