



ECONOMIC NEWS BULLETIN

EMBASSY OF THE REPUBLIC OF AZERBAIJAN

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IN THIS ISSUE: MACROECONOMY FUEL & ENERGY INTERNATIONAL COOPERATION

MACROECONOMY

Fitch affirms Azerbaijani bank's rating

International Rating Agency Fitch Ratings has affirmed Azerbaijan-based Kapital Bank's (KB) Long-term foreign currency Issuer Default Rating (IDR) at 'B+', with a Stable Outlook, the Agency said in its report on fifth of February.

KB's rating reflects Fitch's view of the potential for support from the Azerbaijan authorities ('BBB-/Positive) if needed, given the bank's important role in distributing pensions through the largest country-wide branch network, its active involvement in government-financed operations and the close informal relationships between the bank and its shareholders and government authorities.

At the same time, the rating also considers the bank's satisfactory liquidity position, supported by largely matched asset and liability maturities, the absence of material non-government wholesale funding and a significant cash cushion which covered roughly 65% of end-Q311 customer funding.

At end-Q311 a substantial 55% of the portfolio comprised policy loans funded by the Azerbaijan authorities and guaranteed by the Ministry of Finance. A further 20% of loans were unseasoned related party construction exposures.

The rating actions are as follows:

Long-term IDR: affirmed at 'B+'; Outlook Stable
Short-term IDR: affirmed at 'B'
Viability Rating: affirmed at 'b-'
Support Rating: affirmed at '4'
Support Rating Floor: affirmed 'B+'

KB was the second-largest bank in Azerbaijan by assets and retail deposits at end-2011. At present, the main shareholder of Kapital Bank is Pasha Holding, which owns 97.75 percent of shares.

The 2012 will be the year with one of most significant growth for Azerbaijan's stock exchange

The current year will be one of the most significant for the Stock Exchange of Azerbaijan in the rapid development of the corporate securities market, chairman of the Baku Stock Exchange (BSE) Emin Aliyev told.

"First of all, favorable macroeconomic situation and the steady growth of Azerbaijan's economy and as a consequence of the securities market contribute to this. The volume of trading on the market increases by almost 4.5 times for over the past five years. Second is the legislative framework that promotes progressive movement and motivates companies to domestic borrowing.

Third, the market develops institutionally, it means that the foundation for the development of the sector has already been laid and it is further strengthening," Aliyev said.

The corporate sector draws dividing line between the benefits of financing with the traditionally well-established banking and the stock market.

"Of course, the company must have a number of qualities, above all, financial and managerial. But, having found them, and providing an outlet to the stock market, the company receives a low-cost financial resource, not limited by a single investor. Company itself builds its policy of borrowing in terms of repayment terms and period, and, of course, creates a positive image," - Aliyev said.

According to statistics, the corporate sector of the securities market on the stock exchange demonstrates a confident growth trend in recent years, Aliyev said. The average increase was 70 percent in the past five years. This occurred mainly due to the growth of the primary market of corporate bonds and shares.

"We expect that the growth of the sector will continue in 2012, especially in the primary market of corporate bonds, as revival of domestic borrowing by companies resident in the background of the ongoing financial crisis in Europe is expected," Aliyev said.

Business portal launched

The new internet portal biznesinfo.az providing necessary information for entrepreneurs has been presented to the public. The portal initiated by the International Finance Corporation and "Minimax" LLC, was funded by the Swiss State Secretariat for Economic Affairs (SECO), BP and partner companies.

The event was addressed by Deputy Minister of Economic Development Niyazi Safarov and Secretary General of National Confederation of Entrepreneurs` (Employers) Organizations Mammadali Safarov. The website aims to contribute the development of entrepreneurship in the country.

SOFAZ assets jump

Budget revenues of the State Oil Fund of the Republic of Azerbaijan (SOFAZ) for the period of January-December, 2011 reached 15 628.3 billion manat, while budget expenditures constituted 9 606.6 bln. Manat, SOFAZ said on ninth of February.

Revenue of 15 451.9 bln. manat was received from implementation of oil and gas agreements, including 15 257.5 bln. manat from the sale of profit oil and gas, 101.7 mln. manat from difference in price from the phase I of Shah Deniz, 66.8 mln. manats from Azerbaijan's State participation share in the Heydar Aliyev Baku-Tbilisi-Ceyhan (BTC) Main Export Pipeline, 7.5 mln. manat as transit payments, 1.3 mln. manat as acreage payments, 15.7 mln. manat as bonus payments and 1.4 mln. manat from sale of assets received from foreign companies.

The revenues from managing assets of the Fund for the reporting period amounted to 176.4 mln. manat. As per 2011 budget of the Fund, 9 bln. manats were transferred to the state budget.

The expenditures in the amount of 140.0 mln. manats were directed to financing of settlement of the problems of refugees and internally displaced persons, 200.0 mln. manats and 32.6 mln. manats were accordingly used for financing the reconstruction of the Samur-Absheron irrigation system and financing construction of the Oghuz-Gabala-Baku water supply system, 15.0 mln. manats to financing "The state program on the education of Azerbaijan youth abroad in the years 2007-2015" and 161.9 mln. manats were directed to financing Baku-Tbilisi-Kars railway. The Fund's administrative and operational expenses in this period were 57.1 mln. manats.

The Fund's extra-budgetary expenditures related to the revaluation of foreign exchange totaled 749.8 million manats.

The assets of SOFAZ as at January 1, 2012 has grown by 30.9 % compared to the beginning of 2011 (\$22 766.8 bln.) and stood at USD 29 800.0 bln.

The State Oil Fund was established in 1999. SOFAZ key priorities are the accumulation of assets and placement of assets in abroad with the aim of minimization of negative impact on the economy; prevention, to extent, of the Dutch Disease; the provision of accumulation of assets for the next generations; and the provision of financial support to the existing socioeconomic processes in the country.

FUEL AND ENERGY

SOCAR Eurobonds made its debut

SOCAR will make its debut Eurobond issue worth \$500 million on Feb. 9, Dow Jones Newswires reported. The yield of debut Eurobond issue hits 5.45 percent per annum. The maturity date of the primary Eurobond issue is set for February 9, 2017.

SOCAR Eurobonds will be included in a listing of Great Britain and Northern Ireland and the London Stock Exchange.

According to the information, the issuers are the Royal Bank of Scotland (RBS), Citi Bank, and Deutsche Bank. Nomura International Plc. and Société Générale SA are the managers. The representative of the investors is Deutsche Trustee Company Limited. The main agent for payments and transfers is Deutsche Bank AG (London Branch).

Major events in Caspian sector oil & gas industry

Azerbaijan and Italy discuss prospects of cooperation in energy sector

A meeting between representatives of SOCAR's management and the delegation headed by Deputy Minister for Economic Development of Italy Claudio De Vichentis was held at the State Oil Company of Azerbaijan (SOCAR). Talks about the prospects of energy cooperation between the two countries, a comprehensive exchange of views on Southern Gas Corridor project of the EU and Italy's activity on the implementation of the project were held during the meeting. Ambassador Extraordinary and Plenipotentiary of Italy to Azerbaijan and representatives of the Edison Company's management participated in the meeting.

SOCAR successfully places Eurobond issue

The State Oil Company of Azerbaijan Republic (SOCAR) successfully placed in London debut Eurobond issue. Placement of Eurobond aroused great interest among investors. The total volume of orders submitted by 290 investors amounted to \$4.6 billion. The total amount of issued Eurobonds

is \$ 500 million and their yield will hit 5.45 per cent per annum. The maturity date of the primary Eurobond issue is set for February 9, 2017. Eurobonds are issued on the basis of the "Regulation S" of the Securities Act of the United States. Eurobonds have been assigned ratings of BBB- by Fitch and BA1 by Moody's. Long-term corporate rating of SOCAR was defined by Fitch as a BBB- ("stable" outlook), by S & P as a BB + ("stable" outlook) and by Moody's BA1 ("stable" outlook.). The Royal Bank of Scotland (RBS), Citi Bank, and Deutsche Bank are general managers of Eurobonds issue. Nomura International Plc. and Société Générale SA are the joint managers; the investors' representative is the Deutsche Trustee Company Limited. The main agent for payments and transfers is Deutsche Bank AG (London Branch). Eurobonds were placed among the investors of England (46 per cent), Europe (38 per cent), the United States' offshores (12 per cent) and Asia (4 per cent). As a result of placement, 63 per cent of the Eurobonds were purchased by equity participants, 16 per cent - by banks, 11 per cent - by insurance companies and pension funds, and 10 per cent - by hedge funds.

Cold snap halves Turkmen gas export to Iran

Turkmenistan has halved gas export to Iran via Dovlatabad-Sarakhs pipeline, Mehr news agency reported. Turkmenistan has reduced its natural gas exports to Iran due to the harsh cold weather in the Central Asia, the National Iranian Gas Company (NIGC) managing director Javad Odji. Despite the cut in natural gas imports and the cold winter, no disruption in gas supply has so far been reported nationwide. Turkmengaz Company has halved its gas exports to Iran without any prior notice to some 10 million cubic meters, sources told Mehr news agency, warning that the exports may even be declined further later on.

Aviation fuel levels critical in Kazakhstan

Kazakhstan is facing a critical situation in terms of securing aviation fuel, the President of JSC Air Astana Peter Foster said at a board meeting at the Ministry of Transport and Communications. "The situation with aviation fuel is critical at the moment. Kazakhstan refineries do not produce enough volume not only for Air Astana, but also for other airlines that fly from Kazakhstan. It is expected that at least 25 percent of these needs will be met from Russia," Mr Foster said. He also noted that the Russian Federation has introduced some restrictions on the export of fuel.

Tethys, Uzbekneftegaz oil and gas companies sign Memorandum of Understanding

British-Canadian Tethys Petroleum Limited and Uzbek State oil and gas company Uzbekneftegaz signed a Memorandum of Understanding on Feb.1, aimed at providing the framework for a Joint Study and the negotiation process for an Exploration Agreement relating to certain exploration blocks in the North Ustyurt Basin of Uzbekistan. It was reported earlier that Uzbekneftegaz and Tethys Petroleum Limited signed a memorandum of understanding in November, 2011, providing for new contracts to increase the production rate in two oil fields - Chegara and West Kruk in Uzbekistan. Tethys Petroleum Limited is an oil and gas exploration and production company currently focused on Central Asia with projects in oil-rich Kazakhstan, Tajikistan and Uzbekistan.

Gazprom completes geological exploration in Ustyurt region of Uzbekistan

Gazprom International Company has completed the geological exploration in Ustyurt region of Uzbekistan. The program, designed for five years, was adopted in 2006 and included three stages. Geological and geophysical surveys and drilling of prospect and exploration wells were carried out during the first two stages. The Gelle condensate field, located at 235 kilometers from the main gas pipeline Central Asia - Center was opened during the implementation of the third and final phase on the Shahpahtinsk (Karakalpakstan, Uzbekistan, north-west) investment block. The company is currently preparing a report on the calculation of natural gas and gas condensate on Gelle field for subsequent protection of the State Commission for Reserves under the Cabinet of Ministers of Uzbekistan.

Georgia sets volume of Azerbaijani gas purchases for 2012

The Georgian government has approved the gas balance for 2012. The licensee independently makes a decision to replace a country supplying gas in accordance with the order of the Minister of Energy and Natural Resources. This year, Georgia will receive 1.5 billion cubic meters of gas. About 1.3 billion cubic meters of the volume will be obtained from Azerbaijan, and 211 million from Russia. About 12,000 cubic meters of gas will be extracted from Georgia.

EU waits for Azerbaijan's gas transportation

The European Union expects an agreement on gas supplies from Azerbaijan to Europe within the next two-three months, Reuters quotes European Commissioner for Energy Günther Oettinger as saying.

"There will be gas deliveries from Azerbaijan," Oettinger said on the sidelines of an industry event. The Commissioner stressed that there are a number of pipeline projects on how to transport Azerbaijani gas to Europe and Nabucco project is just one of them.

He said the EU is open whether the Nabucco consortium would be chosen to transport this gas. "That's up to the investors and gas owners," Oettinger said. "I can live with any pipeline."

Nabucco gas pipeline is one of the Southern Gas Corridor projects, which is designed to transport gas from the Caspian region and Middle East to the European countries.

Gas which will be produced during the second stage of Shah Deniz field development is considered as the main source for all Southern Gas Corridor projects.

On Oct. 1, Nabucco, TAP, and ITGI submitted their final proposals to the Azerbaijani side, which will review them in accordance with the previously announced criteria. The decision on the preferable transportation route is expected to be made in the first quarter of 2012.

Azeri Light crude oil price climbs up to \$123.62 in February.

Oil prices have again jumped up in the world markets, with a barrel of Azeri Light crude trading for \$123.62. On the New York Merchantile Exchange NYMEX cost of the US Light crude oil rose \$ 1.06 to stand at \$101.80. A barrel of British Brent crude oil surged \$ 1.58 to trade at \$ 118,93 at the London ICE.

INTERNATIONAL COOPERATION

Azerbaijan, Austria eye cooperation spheres



An Azerbaijani delegation led by Minister of Communications and Information Technologies Ali Abbasov participated in the 7th session of the mixed commission on cooperation between Azerbaijan and Austria on economy, agriculture, industry, technique and technology in Vienna, Austria.

It should be recalled that the 6th meeting of the mixed commission was held in Baku on October 21, 2010 and Minister Ali Abbasov is the co-chairman of the commission.

Issues such as current state of bilateral trade and economic relations, perspectives, European Union - Azerbaijan relations, membership of Azerbaijan to the World Trade Organization will be discussed during the meeting. At the same time various bilateral relations and meetings are planned with Deputy Director General of the United Nations Office in Vienna, Director of the Office for Outer Space Affairs, Ms Mazlan Othman.

A business forum was covering various areas of economy would be held as part of the meeting of intergovernmental commission on February 22 with the Austrian Federal Economic Chamber. The forum was held with the participation of more than 60 major companies from Austria and about 20 major companies from Azerbaijan.

Number of EITI members ups

International Board of Extractive Industries Transparency Initiative (EITI) has adopted Peru and Mauritania as a full member of EITI, State Oil Fund of Azerbaijan (SOFAR) said on February 21.

It is stated in the information that the decision was made by the 19th international meeting of

the Board, which was held in the town of Sussex (UK).

Executive director of SOFAR Shahmar Movsumov, who is chairman of the State Commission on EITI, and represents Azerbaijan in the international board, participated at the meeting of the board.

The total number of full members of the EITI reached 14 out of 35 countries that joined the initiative after the joining of Mauritania and Peru. Azerbaijan joined the EITI process in 2003.

Azerbaijan was the first country that took the assessment process of EITI and became a full member of the EITI. Azerbaijan was awarded by EITI in 2009 for a complete correspondence of the country to EITI principles and criteria and for achievement of success in their application.

European Commissioner to visit Baku

European Commissioner for Enlargement and Neighbourhood Policy Stefan Fule would visit Azerbaijan in a few weeks, the head of the EU office in Baku Roland Kobia told media on February 23.

The purpose of the visit was to participate in the "Euronest" session in Baku. Fule would meet with Azerbaijani officials within the visit, Kobia said.

Relations between the EU and Azerbaijan were established in 1990s. The European Commission supported the CIS countries within the TACIS program.

There is an agreement on partnership and cooperation agreement between the EU and Azerbaijan. It entered into force in 1999. The countries cooperate within the European Neighbourhood Policy, has been operating since 2003.

Relations between Azerbaijan and the EU entered a new phase - a partnership within the EU Eastern Partnership in May 2008 launched by Poland and Sweden.

Hungary interested in rapid implementation of AGRI project

Hungary is highly interested in the rapid implementation of the AGRI (Azerbaijan-Georgia-Romanian Interconnector) project on transportation of Azerbaijani liquefied gas to the European countries in transit through Georgia, Prime Minister of Georgia Nika Gilauri said following the meetings in Budapest on February 17.

Mr Gilauri met with Hungarian President Pal Schmitt, Prime Minister Viktor Orban and Speaker Laszlo Kover in Budapest. Mr Gilauri stressed that Hungary is one of the participants of the project.

"These meetings stressed that Hungary is very interested in this project," Mr Gilauri said. The participants in the AGRI project are the State Oil Company of Azerbaijan (SOCAR), the Georgian Oil and Gas Corporation, as well as the MVM company (Hungary) and Romgaz (Romania). Chairman of AGRI Board of Directors is SOCAR Deputy Vice-President on Investment and Marketing Vitaly Beylarbeyov.

This project envisages supply of liquefied gas from Azerbaijan through Georgia and the Black Sea to Romania, Hungary, as well as to other European countries

The capacity of the AGRI Project is considered in three variants - 2 billion cubic meters of gas per year, 5 billion cubic meters and 8 billion cubic meters. According to preliminary data, depending on the project capacity, its costs will vary from 1.2 billion to 4.5 billion euros.

The AGRI project envisages transporting Azerbaijani gas via pipelines to the Black Sea coast of Georgia, where the gas will be liquefied at a special terminal. The gas will then be delivered to a terminal at the Romanian port of Constanta via tankers.

EU supports Azerbaijan's joining WTO

The European Union supports Azerbaijan's accession into the World Trade Organisation (WTO), the head of the EU Baku office Ambassador Roland Kobia told media.

"Azerbaijan has completed bilateral talks with Georgia," he said. "The relevant documents were signed. Georgia's accession to the WTO is a good example for Azerbaijan."

He said that following Azerbaijan's accession to the WTO, the European Union intends to propose signing an agreement on free economic space.

The Azerbaijani delegation prepares to hold the IX round of multilateral talks with the WTO working group and bilateral talks in Geneva on Feb.24. The U.S. and the EU have already agreed on holding bilateral talks.

The last meeting (VIII round of multilateral talks) was held in Geneva on Oct.18, 2010 and bilateral meetings on issues of trade and services were held with the U.S., the EU, Canada, Japan, Norway, Switzerland, Chinese province of Taiwan and the WTO other members on Oct.19-22, 2010.

During the next round of multilateral talks between Azerbaijan and the WTO new Factual Summary consolidated report by Azerbaijan's suggestions for member countries will be discussed. Earlier the Azerbaijani government presented its answers on question of the WTO members to the Secretariat and on this basis it prepared Factual Summary consolidated report. The document is a report on work carried out by Azerbaijan to become member of the WTO.

Azerbaijan has been represented in the WTO as observer since 1997 and started talks in 2004. At present Azerbaijan is holding bilateral talks with the U.S., Japan, Brazil, Ecuador, Sri-Lanka, the EU, Norway, India, South Korea, Chinese province of Taiwan, Canada and Switzerland.

Talks have been completed and protocols have been already signed with Turkey, Oman, the UAE, Georgia. Azerbaijan is currently at stage of signing protocol with Moldova which still examines the document while Kyrgyzstan has already agreed to sign it.