



ECONOMIC NEWS BULLETIN

EMBASSY OF THE REPUBLIC OF AZERBAIJAN

Hügelgasse 2, A-1130 Vienna, Austria
Tel.: + 43 (1) 4031322, Fax: + 43 (1) 4031323
Email: vienna@mission.mfa.gov.az
Website: www.azembassy.at

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IN THIS ISSUE:
MACROECONOMY
INTERNATIONAL COOPERATION
FUEL & ENERGY
TRANSPORT
INFORMATION TECHNOLOGIES

MACROECONOMY

AZERBAIJANI'S PM: AZERBAIJAN MAINTAINED MACROECONOMIC STABILITY IN 2009

Production capacity of electricity in Azerbaijan in 2009 increased by 9.8 percent to settle at 6,370 megawatts, Prime Minister Artur Rasizade said while discussing the Cabinet of Ministers' report on country's socio-economic development in 2009 in the Azerbaijani parliament.

In 2009, Sumgayit power plant with capacity of 525 megawatts and Shahdag power plant with capacity of 104 megawatts were put into operation, Rasizade said.

Also construction of Cenub power plant with a capacity of 780 MW was also underway and construction of Ordubad hydro power plant with capacity of 36.5 MW and Fuzuli hydro power plant with 25 MW has begun in 2009.

One million manats have been allocated from President's Reserve Fund for studying possibilities of developing alternative sources of energy.

The investment program for 2010 envisages allocation of 40 million manats for introduction of alternative and renewable energy sources, Rasizade noted.

The Prime Minister also touched upon country's socio-economic development in 2009 in this report.

A balanced socio-economic policy conducted by Azerbaijani President Ilham Aliyev in 2009 promoted dynamic development of Azerbaijan as in well as years before, Prime Minister Artur Rasizade said while discussing the Cabinet of Ministers' report on socio-economic development of the country in 2009 in the Azerbaijani parliament.

"Despite global financial and economic crisis, Azerbaijan maintained macroeconomic stability last year. Real growth and prosperity of the country were ensured," Rasizade said.

Azerbaijan holds the highest position among the world countries on the main economic index - GDP for several years.

The Azerbaijani government has taken corresponding actions to maintain macroeconomic stability and competitiveness of production, boost monetary policy, solve social problems, protect the poor and stimulate business activity of entrepreneurship, he noted.

As a result of diversification of Azerbaijani economy, growth in non-oil sector of the country has been shown, Rasizade said.

According to him, leading international financial organizations like IMF, World Bank, EBRD appreciated anti-crisis measures taken by Azerbaijan.

Azerbaijan maintained its leading position in the latest report of World Bank and IFC Doing Business.

The World Economic Forum put Azerbaijan on the 51st place on Growth Competitiveness Index. It is the highest index among the CIS countries.

During the reporting period, real GDP growth was 9.3 percent to 34.6 billion manat, about 3.2 percent - in non-oil sector. Inflation fell to 1.5 percent.

"As in previous years, the government paid special attention to solve social issues", Rasizade said.

FOREIGN INVESTMENTS IN AZERBAIJAN'S ECONOMY GREW BY 75 PERCENT

In January-February, 2010, investments of foreign companies and international financial institutions in the economy of Azerbaijan increased 75.2 percent compared to the same period of last year, the State Statistics Committee said.

According the state committee, UK companies lead for the volume of investments in Azerbaijan's economy during the reporting period. The UK companies account for 52.6 percent of total investments (a rise of 99.1 percent).

Investment of companies from the U.S. totalled 49 million manat (an increase of 30.3 percent).

In Jan.-Feb., Japanese companies invested 25.8 million manat (an increase of 67.5 percent Norway – 16.31 million manat (an increase of 66.7 percent), Turkey – 12.7 million manat (an increase of 64.9 percent), South Korea – 8.1 million manat, Russia – 1.9 million manat, Saudi Arabia – 1.9 million manat, UAE - 390,600 manat, Austria – 260,100 manat in the Azerbaijani economy.

The World Bank invested 27.7 million manat (an increase of 3.6 percent), Asian Development Bank – 2.6 million manat (an increase of 2.8 times), Islamic Development Bank – 675,000 manat (decline of 21 percent).

In 2009, investments of foreign companies and

international financial institutions in Azerbaijan's economy amounted to nearly 1.5 billion manat.

AZERBAIJAN HAS INCREASED SURPLUS IN FOREIGN TRADE

In Jan.-Feb. 2010, positive balance of Azerbaijan's foreign trade amounted to \$1.64 billion which is 1.8 times more compared to same period last year, the State Statistics Committee said.

In the report period, exports amounted to \$1.428 billion and imports - \$363 million. Compared with Jan.-Feb. 2009, exports increased by 15.8 percent while imports decreased by 84.2 percent.

Crude oil made up roughly 85.18 percent, oil products - 5.34 percent, vegetable and animal oil - 1.24 percent, ferrous metals and articles thereof - 0.49 percent, fruits and vegetables – 0.38 percent, chemicals - 0,21 percent, soft and alcoholic drinks - 0.1 percent, cotton - 0.03 percent, aluminum and its products – 0.03 percent and tobacco and tobacco products 0.02 percent of the exports.

Machinery, electrical equipment and spare parts made up 27.24 percent, food products - 19.31 percent, vehicles - 13.08 percent, ferrous metals and articles thereof - 8,71 percent, pharmaceutical products – 1.92 percent, furniture – 1.12 percent and consumer goods made up 0.77 percent of the imports.

Azerbaijan held main part of export operations with France (38.82 percent) and main part of import operations with Russia (18.6 percent) in Jan.-Feb. 2010.

CENTRAL BANK: 15-20 BANKS ENOUGH FOR AZERBAIJAN

15-20 banks are enough for the economy of Azerbaijan, according to Alim Guliyev, First Deputy Chairman of the Board of the Central Bank of Azerbaijan (CBA)

"Currently, there are 46 banks operational in the country, and we believe that this is an extreme number for such country as Azerbaijan. Therefore, one of the principal tasks of the Central Bank in 2010 will be to work out a strategy of consolidation and optimization of the banking system," Guliyev said.

There are currently a lot of banks whose main financial indicators do not form the banking system, he added.

"Therefore, we believe that the number of 15-20 is the most optimal one for Azerbaijan. In this connection, the Central Bank will be optimizing the banking system in 2010, and this process may take longer than a year," Guliyev underscored.

According to Guliyev, the Central Bank will begin to pursue a strategy of consolidating banks this year. At the moment, the strategy is being concretized and specified; however, realization of the strategy will take a long period of time.

"Banks will have the following three ways: banks, which do not form the system in terms of their assets and accounts, will have either to unite through a merger of healthy assets into one large bank or be transformed into non-bank credit organizations, while weak banks will be liquidated", Guliyev said.

Nienke Oomes, Chief of the IMF team on Azerbaijan, says the IMF also backs the idea of decrease of the number of banks, something that will strengthen competition among them, ease the observations the CBA conducts, and will help reduce credit interest rates, which remain relatively high.

"Currently, there are 46 banks operational in the country, which, in our opinion, is a rather large number for such economy as Azerbaijan's", Oomes reported earlier this week on her visit to Azerbaijan. She was conducting consultations with the Government over Article IV of the IMF Agreement.

INTERNATIONAL COOPERATION

LONDON HOSTS TRADE AND INVESTMENT FORUM "GREAT BRITAIN IN AZERBAIJAN"

Trade and investment forum "Great Britain in Azerbaijan" was held March 8 in London. The forum was organized by the Middle East Association and International Bank of Azerbaijan.

According to Michael Thomas, Director General of the Middle East Association, "Azerbaijan is a strategic hub of the region, having many other opportunities in addition to oil and gas."

"British business leaders and investors will hear about business opportunities and economic potential in the industrial and commercial sectors in Azerbaijan", Mr. Thomas said, addressing the opening ceremony.

Azerbaijan is a major export market for Great Britain and some EU member-states, Lord Mayor of the City of London Alderman Nick Anstee said in his speech during the Forum.

According to him, Azerbaijan is considered as an important representative of a developing market. Today, there are over 160 British companies, ranging from small and medium enterprises, to such large, as Azerbaijan International Operating Company, Rolls Royce, BP in Azerbaijan.

"Azerbaijan is the third largest export market for Great Britain in Eastern Europe and the CIS, after Russia and Ukraine", Lord Mayor said.

According to him, the Azerbaijani government is working to diversify the economy to reduce dependence on oil and gas, in particular in sectors such as methanol production, financial services and tourism.

"There is also a need for Azerbaijan to conduct activities to stimulate growth of investments, such as improving financial transparency and corporate governance", he said.

Also there is a need for Azerbaijan's activities to stimulate growth investments, such as improving financial transparency and corporate governance", he said.

According to him, Azerbaijan's economy was not so much affected by the global financial crisis. The country's banking sector has developed rapidly over the past six years by increasing at 900 percent. Proportion of the Azerbaijani International Bank on the banking market is about 50 percent.

The Central Bank encourages foreign banks to join the Azerbaijani economy.

"The banking industry in Azerbaijan today, of course, is an example of standards of transparency and effective governance", Alderman said.

In his speech, he expressed hope for an increase of bilateral trade and investment opportunities between Azerbaijan and Great Britain in future.

According to Azerbaijani Ambassador to Great Britain Fakhraddin Gurbanov, Britain has played a key role in its development since Azerbaijan gained its independence.

"Azerbaijan has launched a very large and strategically important project on construction of

the Baku-Tbilisi-Ceyhan oil pipeline with the support of Great Britain. Today, the UK is the largest foreign investor in Azerbaijan's economy. British companies conduct activities in various sectors of the economy", ambassador said.

Co-chairman of the Britain Azerbaijan Business Council, Lord Howell of Guilford said, "the future relations between two countries are much wider than energy tasks, taking into consideration the new opportunities for British investors in Azerbaijan".

"We hope that the Business Council, which was founded in London last year in September, will help bridge a gap and develop higher level of business relations between two countries", Co-chairman of the Britain Azerbaijan Business Council Jahangir Hajiyev said.

AZERBAIJANI AND SLOVAK BUSINESSMEN MEET IN BAKU

Azerbaijani and Slovak business people have come together in Baku during the visit of Slovak foreign minister Miroslav Lajcak to Azerbaijan on March 14-16 to explore prospects for cooperation in a variety of fields.

The businessmen from a total of nearly 40 companies discussed the possibilities of launching joint projects in the fields of information technologies, agriculture, banking and construction.

The forum was opened by Azeri deputy economic development minister Niyazi Safarov and Slovak foreign minister Miroslav Lajcak.

The event is co-organized by the Azeri economic development ministry, Azerbaijan Export Investment Promotion Foundation and Slovak Investment and Trade Development Agency.

AUSTRIA-AZERBAIJAN COMMERCE CHAMBER INVITES AZERBAIJANI AND AUSTRIAN BUSINESSMEN TO COOPERATE

The Austria-Azerbaijan commerce chamber (ATAZ) invites the Azerbaijani and Austrian businessmen to cooperate and take part in its activities, ATAZ honorary president and Azerbaijani Ambassador to Austria Fuad Ismayilov said at the news conference in Baku.

"Azerbaijan and Austria have great potential for cooperation in all spheres of economy and ATAZ

was created precisely to develop this potential," he added.

According to him, several major Austrian companies such as Austrian Airlines, OMV and Strabag operate in Azerbaijan. The Azerbaijani Cahan Holding also closely works with the Austrian companies.

Today, 30 Austrian companies operate in Azerbaijan and ATAZ's activities will further strengthen the cooperation between the two countries, he said.

"We consider Azerbaijan as a gateway not only to the Caucasus region, but also to Central Asia, so it is not just about cooperation between the countries, but cooperation between regions," ATAZ President Alon Shklarek said.

FUEL AND ENERGY

AZERBAIJAN TO RECEIVE FIRST OIL FROM NEW LARGE OIL PROJECT IN AUTUMN 2013

It is expected to launch oil production under the Chirag oil project, which envisages increasing oil production at the block of Azeri-Chirag-Guneshli (ACG) fields in the Azerbaijani sector of the Caspian Sea in November 2013.

The project will create an opportunity for the extraction of an additional 360 million barrels of oil. So far, about .4 billion barrels of oil (about 188 million tons) was produced from the ACG.

Moreover, nearly 1, 800 Azerbaijani citizens will be involved in the project.

About \$38 billion was invested in the total oil and gas sector of the country, \$20 billion of which accounted for the ACG project, Head of the State Oil Company of Azerbaijan Republic (SOCAR) Rovnag Abdullayev said.

The source in the oil and gas market said that about \$4.5 billion out of \$6 billion to be spent on the project will be involved in construction work and the remaining 1.5 billion - for drilling.

Today, partners on the project to develop the ACG field sanctioned Chirag oil project in Baku.

The Azeri-Chirag-Gunashli PSA was signed in September 1994. The agreement provides for the development of the contract area within 30 years.

The project requires \$20 billion investment. ACG participating interests are: BP (operator - 34.1 percent), Chevron (10.2 percent), SOCAR (10 percent), INPEX (10 percent), StatoilHydro (8.6 percent), ExxonMobil (8 percent), TPAO (6.8 percent), Devon (5.6 percent), ITOCHU (3.9 percent), and Delta Hess (2.7 percent).

Chirag oil project envisages construction of a new platform "West Chirag", construction of necessary pipelines and work on the platform on deepwater Guneshli. The platform will be installed at a depth of 170 meters between the already-running production platforms Chirag and Guneshli. The majority of construction within Chirag oil project will be implemented in Azerbaijan. In addition, the construction of the drilling platform module will be carried out in Azerbaijan, which for the previous projects was built abroad.

Estimated daily volume of oil production from the West Chirag platform will amount to 183,000 barrels. The expected daily volume of gas production from the new platform will be 229 million standard cubic feet (more than 6.5 million cubic meters). Estimated daily volume of gas injection into the layer on the platform will be 80 million standard cubic feet (about 2.3 million cubic meters).

Outstripping drilling under the project will cover the second half of 2010 - the first half of 2012. Dede Gorgud rig will perform the drilling. The project is expected to get oil in 2013.

SOCAR PRESIDENT MEETS UK ENERGY MINISTER

President of Azerbaijan state-run energy company, SOCAR, Rovnag Abdullayev met Lord Hunt, UK Minister of State for the Department of Energy and Climate Change.

Abdullayev praised the relations between Azerbaijan and UK as well as the two countries' companies.

He noted favorable conditions had been created for foreign investors in the country.

According to Abdullayev, relations between UK companies and SOCAR contribute to developing bilateral energy cooperation, as well.

Lord Hunt said he witnessed important economic and social development in Azerbaijan since the last time he had visited the country.

He praised the fact that Azerbaijan could managed to survive the global financial crisis.

He also inquired about what had been done in Azerbaijan to export energy resources, particularly natural gas to Europe.

Abdullayev, in turn, briefed him on the energy projects carried out in Azerbaijan to diversify its energy export routes.

He said at present, Azerbaijan exports gas to Georgia, Turkey, Russia and Iran.

Touching upon the prospects for transportation of Azerbaijani gas to Europe, the SOCAR President said his country backs the Southern energy corridor.

Abdullayev also pointed out SOCAR was ready to introduce its infrastructure to transport Central Asian energy resources to Europe. He added Azerbaijan works with its partners to realize the Nabucco, Turkey-Greece-Italy and Trans-Adriatic projects.

Lord Hunt praised the accomplishments in energy sector in Azerbaijan.

AZERBAIJAN AND BULGARIA CONSIDER PROJECT ON COMPRESSED GAS SUPPLY TO EUROPE

The State Oil Company of Azerbaijan Republic (SOCAR) continues negotiations on the transportation of compressed natural gas (CNG) to Europe.

Recently, Baku hosted a meeting of a joint working group on the project to transport the Azerbaijani gas to the European markets through Bulgaria, SOCAR reported.

Representatives of the project partners to develop the Shah Deniz gas condensate field in Azerbaijan sector of the Caspian Sea also attended the meeting.

The parties discussed economic profitability of the project on delivery of the Azerbaijani compressed gas to Bulgaria and other European countries via the Black Sea, as well as technical possibilities of the project.

Today, a terminal is being constructed on Georgia's Black Sea coast (SOCAR owns the Kulevi oil terminal) to process Azerbaijani gas.

Talks are underway to transport energy by ship to

Romania or Bulgaria for onward dispatch to the domestic gas pipeline network in Europe.

The project is considered in two directions - LNG and CNG. The matter deals with 7-20 bln cubic meters of gas.

The joint working group was established on the basis of the memorandum signed between SOCAR and Bulgartransgas in November 2009.

The next meeting of the working group will be held in Sofia in late April.

TRANSPORT

TRANSPORT MINISTER: \$2 bln INVESTED IN AZERBAIJAN'S TRANSPORT SECTOR

So far, about \$2 bln has been invested in Azerbaijan's transport sector, Azerbaijani Transport Minister Ziya Mammadov said at a meeting of the second working group on development of cargo delivery to Afghanistan through the Caucasus via vehicles in Baku.

"The country works to develop all sectors of the economy. Nearly \$2 billion has been invested in country's transport sector thus far," he said.

According to Mammadov, the country works hard to develop transport infrastructure, in particular, work on the construction and overhaul of roads is underway in the country.

Azerbaijan is involved in construction of the Baku-Tbilisi-Kars railway which will promote development of the TRACECA transport corridor.

The global financial and economic crisis has shown importance of cooperation among international transport organizations and financial institutions to develop transport sector, the minister added.

AZERBAIJAN EARNS AZN 24.7 MILLION FROM SHIPPING THROUGH TRACECA CORRIDOR

Azerbaijan earned 24.7 million manats from transportation through the Europe-Caucasus-Asia transport corridor (TRACECA) in January this year, State Statistics Committee reported.

The share of railway transportation in revenues

constituted 39.1% and share of motor transport 37.6%.

The cargo traffic through the corridor rose 9.5% on the same period last year and passenger conveyance 7.6%.

AZERBAIJAN'S TRANSPORT MINISTRY SIGNS AGREEMENT ON PROJECT OF BRIDGE OVER BAKU BAY

Transport Ministry of Azerbaijan and the Embassy of the Republic of Korea in Azerbaijan signed a grant agreement within preparation of a feasibility study for bridge construction over Baku Bay.

\$1.5 million grant will be allocated by the Korea International Cooperation Agency (KOICA).

Feasibility study and its presentation will be prepared by the Korean side within the next two years. Over the next two months, Korean experts will arrive in Azerbaijan to start research on the project.

The purpose of the project to build a bridge across the bay is to improve the transport infrastructure in Baku, increase experience of Azerbaijani specialists at the expense of Korea's experience in the construction of marine bridges and roads.

According to preliminary estimates, cost of building a bridge across the bay will exceed \$1 billion.

INFORMATION TECHNOLOGIES

AZERBAIJAN BECAME A LEADER AMONG CIS COUNTRIES IN THE WORLD RANKING OF NETWORK TECHNOLOGIES

World Economic Forum presented the annual report "Global Information Technology 2009-2010". According to the report presented on the website of the World Economic Forum, as of 2009, Azerbaijan took the 64-th place (3.75 points), and thus became the leader among CIS countries in terms of work technologies.

The closest to Azerbaijan comes Kazakhstan (68-th place, 3.68 points). Russia took the 80-th place, Ukraine – 82nd, and Georgia 93rd.

Azerbaijan was also ahead of Poland (65th) and Turkey (69th). Sweden became the all-around leader with 5.65 points total.

AZERBAIJAN, AUSTRIA EXPAND RELATIONS IN ICT SECTION

Azerbaijan's Minister of Communication and Information Technologies Ali Abbasov met with Chairman of Austria-Azerbaijan Chamber of Commerce Alon Schklarek.

Abbasov praised activity of Austria-Azerbaijan Chamber of Commerce adding there were big opportunities to expand relations in ICT section.

Minister touched on regional innovation zones, East-West super information highway and project of start of Azerbaijan telecommunication satellite.

Chairman Schklarek stressed the necessity to develop relations in ICT section and attract investments for creation of the joint-ventures.

AZERBAIJANI ICT MINISTER ATTENDS IN COMSTECH EXECUTIVE COMMITTEE MEETING

Azerbaijan Minister of Communication and Information Technologies Ali Abbasov attended the 27th meeting of the executive committee of OIC Standing Committee on Scientific and Technological Cooperation (COMSTECH) in Saudi Arabia's Riyadh.

Speaking to a meeting, Mr. Abbasov briefed about Transnational Eurasian Information Superhighway (TASIM) project, reforms in the non-oil and information-communication technologies sectors.

During the event, Azerbaijan was appointed as coordinator for Islamic countries network on alternative energy sources.

Ali Abbasov also met with OIC Secretary General, COMSTECH chief coordinator, officials of Pakistan, Iran to discuss prospects of cooperation.