



ECONOMIC NEWS BULLETIN

EMBASSY OF THE REPUBLIC OF AZERBAIJAN

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MACROECONOMY

AZERBAIJAN'S STRATEGIC CURRENCY RESERVES EXCEED COUNTRY'S EXTERNAL DEBT BY 6 TIMES

The GDP in Azerbaijan increased by 2.8 times in 2004-2009 and GDP per capita reached \$4,874.1 last year, according to the article by the Minister of Economic Development Shahin Mustafayev, published in the official press.

The strategic currency reserves of Azerbaijan have reached \$22 billion, which 6 times exceed country's foreign debt and cover the non-oil imports and services. Acceptable business conditions contributed to investments in the economy to exceed \$70 billion, half of which consists of foreign investments.

Budget expenditure increased by 4.8 times in 2004-2009 to implement the activities in enhancing social welfare, the average monthly salary - three times, the income of the population - 3.4 times, per capita income - 3.2 times, the minimum pension - 3.8 times, the minimum wage - 6.3 times. The level of poverty over the past five years decreased 4.1 times - from 44.7% to 11%. About 840,000 new jobs were opened over the past six years.

In 2009, community deposits in Azerbaijani banks grew by 23%, the amount of lending to economy - 17%. Compared with last year, financial services increased by 12.5%. Nominal per capita income

increased by 6.7% compared to 2008, while the average wage - by 8.6%.

In the first quarter of 2010, the real GDP growth was 5.4%, including oil sector - 6.9%, non-oil - 4.3%. During this period, growth in industry was 6.2%, agriculture - 1.5%, telecommunications sector - 24.8%, trade - 6.2%, transport - 2.6%.

CENTRAL BANK CHAIRMAN: EURO DEPRECIATION NOT TO AFFECT AZERBAIJAN'S ECONOMY

Euro-Depreciation as a result of events in Greece will not affect the strategic currency reserves of Azerbaijan, Central Bank of Azerbaijan (CBA) Chairman Elman Rustamov said.

"We constantly monitor the changes in exchange rates. Especially, it concerns the ratio of euro-dollar rates. It declined to 0.89 euros to \$1 and rose to 1.6," Rustamov said.

According to him, at present, reverse process is observed.

"Our currency reserves are well diversified. We did not observe any loss, even in the worst crisis period," Rustamov said.

According to him, euro-depreciation is not serious, as the dollar's share exceeds the euro in Azerbaijan's currency reserves.

Investors continue to sound the alarm about the financial situation in Greece, and other peripheral

countries of the Euro zone, which negatively affects the rate of the single currency.

DEPUTY MINISTER OF ECONOMIC DEVELOPMENT: SIMPLIFICATION OF EXPORT-IMPORT PROCEDURES IN AZERBAIJAN TESTIFIES TO CARE FOR BUSINESS

Azerbaijan made significant changes in the procedures which regulating foreign trade. On May 14 Azerbaijani President Ilham Aliyev signed a decree "Additional measures to improve the rules of export-import operations".

According to the decree, the decision to regulate foreign trade is approved by the Cabinet of Ministers, but export-import of goods, intellectual property and services require an authorized conclusion of executive power. It also clarified that the requirement for advance payment, opening of credit or bank guarantee in export and import is preserved only for state-owned enterprises and enterprises with state shares at least 50%. In this case the Ministry of Economic Development registers foreign trade contracts of such organizations.

Deputy Minister of Economic Development Niyazi Safarov spoke in an interview with Trend to clarify the innovations for the individuals of foreign trade activity.

What are the objectives of the document adopted recently?

As a result of successful economic policy under the leadership of the President, including the execution of state programs aimed at diversifying the economy, the development of non-oil areas, supporting entrepreneurship, improving of business and investment climate, a steady development has been recently observed in all areas of economy and export opportunities of the country have been expanding rapidly.

During a conference on the results of the first year of the "State program of socio-economic development of regions in 2009-2013" March 12, 2010 the Azerbaijani President instructed to prepare appropriate proposals to improve the situation for local entrepreneurs to enter external markets, study their export opportunities to other countries, as well as create favorable conditions for local entrepreneurs abroad.

As we know, the rules regulating import and export operations was approved in 1997. Some

provisions did not conform to today's level of economic development.

The" Regulations on export-import operations in Azerbaijan "were amended and supplemented by the Presidential Decree dated May 14, 2010 "Additional measures to improve the rules regulating import and export operations in the Republic of Azerbaijan". They were approved by the Presidential Decree 609 "Further liberalization of foreign trade in the Azerbaijan Republic" dated June 24, 1997. It ensured the removal of this problem.

What is the essence of changes and additions to the rules? And in general, what is the significance of the document?

The main goal of these changes and additions are the following:

- reducing the number of documents and procedures required for import and export operations;
- more simplification of calculations in export;
- creating more favorable situation for exporters;

Changes were made in two directions. The first direction envisages the reduction of number of certain documents and procedures required for registration of foreign trade operations.

At the same time, the requirement "Rules for regulating import and export operations in Azerbaijan" on the registration and examination of contracts during the import and export of some specific products, services and intellectual property with obtaining feedback related state agencies was eliminated.

The second direction envisages the simplification of the rules of calculation for export. Thus, except state-owned enterprises and enterprises with state shares with at least 50 percent, during export of goods by all other persons, they will not be required prepayment or opening irrevocable letter of credit or providing bank guarantees of first class.

It is also an important document in the development of non-oil sector, prolonged improvement of the business climate, in encouragement exports, in the expansion of import-export operations, simplifying import and export procedures.

FITCH UPGRADES AZERBAIJAN TO INVESTMENT GRADE

Fitch Ratings recently upgraded Azerbaijan's Long-term foreign and local currency Issuer Default Ratings (IDRs) to BBB- from BB+. The Outlooks on both ratings are Stable. Fitch has also upgraded Azerbaijan's Country Ceiling to BBB- from BB+ and upgraded its Short-term foreign currency IDR to F3 from B, a press release read.

Fitch's upgrade of Azerbaijan's sovereign rating to investment grade reflects the rapid increase and prudent management of oil revenues that are being used to build a strong public and external net creditor position, says Andres Klaar, Associate Director in Fitch Sovereigns Group. He said the strong sovereign balance sheet provides a powerful buffer against potential shocks emanating from the country's structural weaknesses. They included a poor non-oil business climate and per-capita economic output that is two-thirds of the BBB-range median. The prudent use of the oil windfall has brought about an accumulation of assets in the State Oil Fund of Azerbaijan Republic (SOFAZ), the sovereign wealth fund, to \$16.2 billion as of end-March 2010 (38% of 2009 GDP).

Fitch said that despite volatile international oil prices and the global financial crisis, Azerbaijan ran a budget surplus of 6.3% of its gross-domestic product in 2009 as the authorities' cut budget expenditures rather than increasing transfers from SOFAZ, delivering an increase in SOFAZ assets of \$3.7 billion. The ratings agency added that virtually every external finance indicator in Azerbaijan is superior to the group median. Its sovereign net foreign assets reached 37% of GDP at end-2009, similar to Kazakhstan's 41% and Russia's 33%. However, the moderate private sector indebtedness in Azerbaijan is strength relative to its two CIS peers, as illustrated by Azerbaijan's strong net external creditor position of 36% relative to Russia's 26% and Kazakhstan's net external debt position at 27%. The Central Bank of the Republic of Azerbaijan (CBRA) has successfully maintained the manat's exchange rate against the USD during the global financial crisis.

Fitch believes the fiscal rule that limits the annual expenditure of oil revenues to a level consistent with the "permanent income" from the oil endowment is appropriate. The agency also draws comfort from the transparency of the State Oil Fund (SOFAZ), underlined by Azerbaijan being the first country to be fully compliant with the international Extractive Industries Transparency

Initiative. Fitch forecasts assets in SOFAZ to increase to around USD 22 bln. at the end of 2010.

FUEL AND ENERGY

AZERBAIJANI MINISTER: WE ARE INTERESTED IN RAPID IMPLEMENTATION OF NABUCCO PROJECT

Azerbaijan is interested in rapid implementation of gas pipeline construction project Nabucco, Minister of Industry and Energy Natiq Aliyev told Trend's correspondent in Tbilisi.

"The volume in which Azerbaijan will be involved in gas supplies to Europe via this route depends on the needs and scale," Aliyev said.

He said that Azerbaijan expressed interest in the project at the state level. However, Minister stressed that Azerbaijan has not taken any obligations to "Nabucco".

"We are interested in this project. The closer organizers will be to its realization, the more actively we begin to discuss the conditions of our participation in it," the minister said.

Construction of gas pipeline is planned to be launched in 2011, the first supplies - in 2014. Maximal capacity of pipeline will hit 31 billion cubic meters per year. About 30% of the total project cost will be invested by Nabucco Gas Pipeline International shareholders, the remaining 70 % will be paid by loans.

U.S SECRETARY OF STATE: AZERBAIJAN DEVELOPS AS AN IMPORTANT AND RELIABLE SUPPLIER OF ENERGY TO WORLD MARKETS

Azerbaijan has emerged as an important and reliable supplier of energy to world markets, U.S Secretary of State's message to the participants of the seventeenth International Exhibition and Conference on "Oil and Gas, Refining and Petrochemicals" held in Baku on June 1-4, said.

"In Azerbaijan's drive to continue developing its energy resources, you will find a strong partner in the United States," Ambassador Richard L. Morningstar, the U.S. Secretary of State's Special Envoy for Eurasian Energy, this morning read a

letter from Secretary of State Hillary Clinton during the opening ceremonies of the 17th Caspian International Oil and Gas Conference.

Working closely with regional neighbors, including Georgia and Turkey, Azerbaijan has successfully developed the East-West Energy Corridor, including the Baku-Tbilisi-Ceyhan oil pipeline and South Caucasus gas pipeline, the message said.

"The United States is proud to have been a partner of Azerbaijan in realizing these important projects. In particular, we look forward to Azerbaijan's continued leadership in realizing the Southern Corridor for gas transport to Europe in the near future," the message said.

AZERBAIJAN, GEORGIA, ROMANIA SIGN A DEAL TO ESTABLISH JV TO TRANSPORT GAS TO EUROPE

Georgia, Azerbaijan and Romania have signed an agreement on the establishment of a joint venture (JV) on the project of a new way of transporting Azerbaijani gas to Europe.

Tbilisi hosted a ministerial on the implementation of the Georgian-Azerbaijani-Romanian project on the transportation of Azerbaijani liquefied natural gas to Europe May 12. The ministerial will be attended by Azerbaijani energy minister Natig Aliyev, his Georgian counterpart Alexander Khetaguri and Romanian Minister of Economy, Trade and Business Adrean Vidianu.

The parties agreed that the new JV deal will specific questions on the project.

"This facility will deal with involving funding for the project and the creation of feasibility studies," Khetaguri said. The new JV will be established within 30 days.

The project involves the delivery of natural gas from Azerbaijan to Georgia to the Black Sea coast, where will build a factory for processing natural gas into liquefied natural gas. Then it will be delivered to via the tankers Romania, where also will be built re-gasification plant.

"This is a very important project and it will further diversify the Azerbaijani gas to Europe. We believe the diversification of the oil and gas supply routes to Europe is one of the most urgent problems" Aliyev said.

Khetaguri said all the transit routes that pass through its territory are important for Georgia

"These are the economic benefits and increase of our energy security," he said.

Vidianu said the Azerbaijani gas will ensure the Europe with energy in certain measures.

"Romania intends to play an active role in this process and this project is part of this policy," he added.

SOCAR: MOST MODERTN ENVIRONMENTAL REQUIREMENTS INTRODUCED IN AZERBAIJANI SECTOR OF CASPIAN SEA

The State Oil Company of Azerbaijan (SOCAR) identifies three main tools for the preliminary research, forecasting and overcoming possible disasters as a result of development of hydrocarbon resources in the Azerbaijani sector of the Caspian Sea, head of SOCAR ecology department Azer Aliyev said on May 4, commenting on consequences of the explosion at the Deepwater Horizon platform of BP in the Gulf of Mexico, which led to large-scale oil spills.

According to Aliyev, assessment of all possible risks was conducted in the preparation of all energy projects in Azerbaijan. In particular, were taken into account all the problems that may arise in the wells, both geological problems and in the process of drilling and exploitation. All these issues are reflected in the project decisions.

"First of all, these risks are reflected in the preparation of projects, which also envisages additional measures in case of such accidents," said Aliyev.

Secondly, according to Aliyev, SOCAR has its own waste management plans to eliminate possible pollutions, which are primarily aimed at their reduction and prevention of similar cases. In case of any problems, work is directed at reducing these consequences to a minimum.

Thirdly, the national authority responsible for recovery disaster and spills, and spills that may occur for reasons beyond a person, and man-made disasters is the Ministry of Emergency Situations (MES). MES has all necessary ships and equipment for the disasters.

According to Aliyev, the most advanced environmental standards are introduced in the implementation of projects in Azerbaijan under operator activities of British BP Company. According to Aliyev, it is impossible to compare

the Gulf of Mexico with the Caspian Sea. The well is located in the Gulf of Mexico at water depth of around 1,500 meters, while in the Caspian Sea, the wells are located at a depth of several hundred meters.

"Our conditions are more lightweight, but the environmental standards are more stringent," said Aliyev.

According to him, it is wrong to say that after the incident in the Gulf of Mexico, the work towards security in the Caspian Sea will be strengthened, since these works were carried out here always and environmental requirements were stipulated in advance. But after the disaster in the Gulf of Mexico, it needs to explore and take into account the events, ways to eliminate and overcome the accident and the damage done by this catastrophe.

INTERNATIONAL COOPERATION

AZERBAIJAN'S ECONOMIC POTENTIAL PRESENTED IN VIENNA

A meeting to explore economic and investment potential of South Caucasus nations was organized on May 11 in Vienna by the Austrian Federal Economic Chamber.

Opening the event, regional manager for CIS countries of the Austrian Economic Chamber Heinz Walter said Austrian companies become increasingly interested in starting businesses in the South Caucasus countries. Austrian firms seek to invest in agriculture, construction and alternative energy sources.

Speaking at the event, representative of the Azerbaijan's Ministry of Economic Development Zaur Gasimov told of Azerbaijan's investment opportunities, macroeconomic stability in the country, state programs to develop regions. According to Gasimov, favorable investment climate exists in Azerbaijan.

Gasimov and counsellor of Azerbaijani Embassy Shamil Alasgarov answered questions of Austrian companies' representatives. The main goal of the meeting was to attract local companies to join the Austria economic mission, which is going to visit South Caucasus countries in June.

AZPROMO FACILITATES EXPORTS OF LOCAL PRODUCTION TO EUROPEAN MARKETS

The Azerbaijan Export and Investment Promotion Foundation and United Nations Development Programme (UNDP) hold a seminar "Foodstuff packaging and labelling in accordance with EU requirements" for Azerbaijani businessmen, AZPROMO Acting President Adil Mammadov said.

"AZPROMO conducts activities that promote the export of Azerbaijani goods abroad. The main purpose of this seminar was to inform the local business community on EU standards, regulations as well as to facilitate the exports of local production to the European markets," Mammadov said.

About 30 entrepreneurs from agriculture and food industry sectors participated at the event on May 11-12. During the training the representatives of local business community introduced with types of packaging and labeling required in EU as well as all the relevant issues.

THE 6TH MEETING OF AZERBAIJAN-JAPAN STATE COMMISSION ON ECONOMIC COOPERATION TOOK PLACE

Azerbaijan's Deputy Prime Minister Abid Sharifov attended the 6th joint meeting of State Commission for economic cooperation between Azerbaijan and Japan and economic committee between the two countries held in Tokyo. Speaking to the event, Sharifov provided information on current economic state of Azerbaijan.

The attendees exchanged views on economic and trade relations between the two countries, as well as discussed bilateral cooperation in the fields of energy, emergency situations, agriculture, tourism, transport, health, social protection of the people, ecology and standardization. The event also saw signing of the protocol.

Azerbaijan's embassy to Japan, Azerbaijan Export and Investment Promotion Foundation also organized a forum here entitled "Current economic situation and investment opportunities".

Forum brought together representatives of more than 30 companies of Azerbaijan and 100 companies of Japan. The forum discussed Azerbaijan's economic development, investment climate, transnational Eurasia super information highway, tourism potential, oil and gas industry.