



Center for Analysis of Economic Reforms and Communication of  
the Republic of Azerbaijan

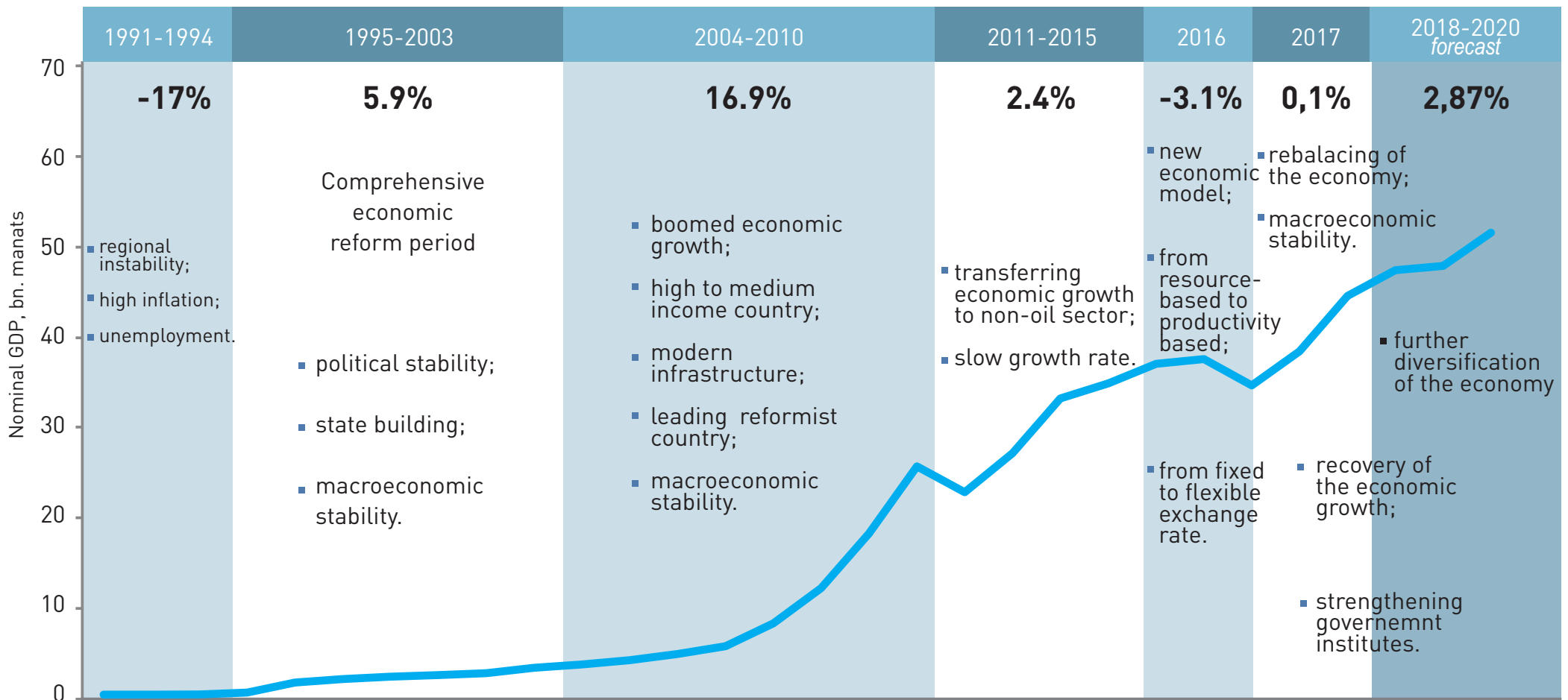
# AZERBAIJAN ECONOMIC REFORMS REVIEW

2018

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# AZERBAIJAN ECONOMY AT A GLANCE (GDP growth)



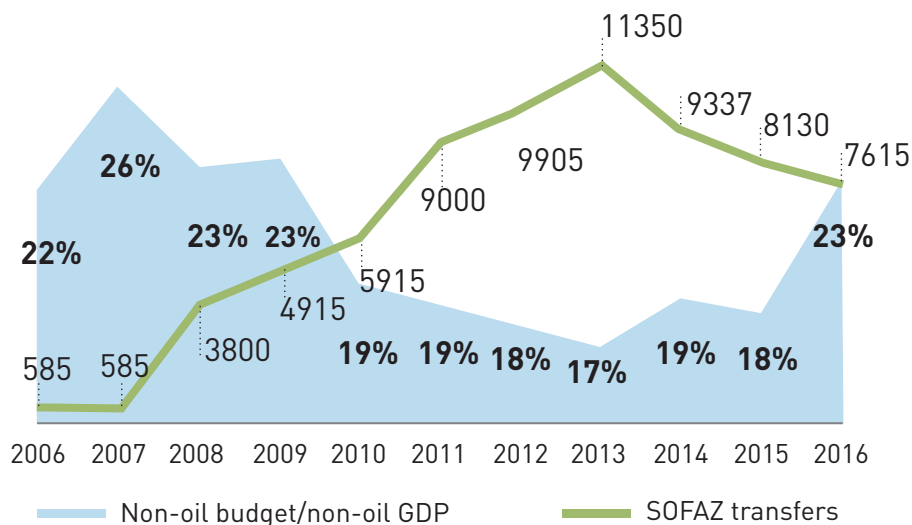
Source: State Statistical Committee, Ministry of Finance, Central Bank of the Republic of Azerbaijan



# MACROECONOMIC AND FINANCIAL STABILITY RESTORED

## Lowering dependency on the oil revenues

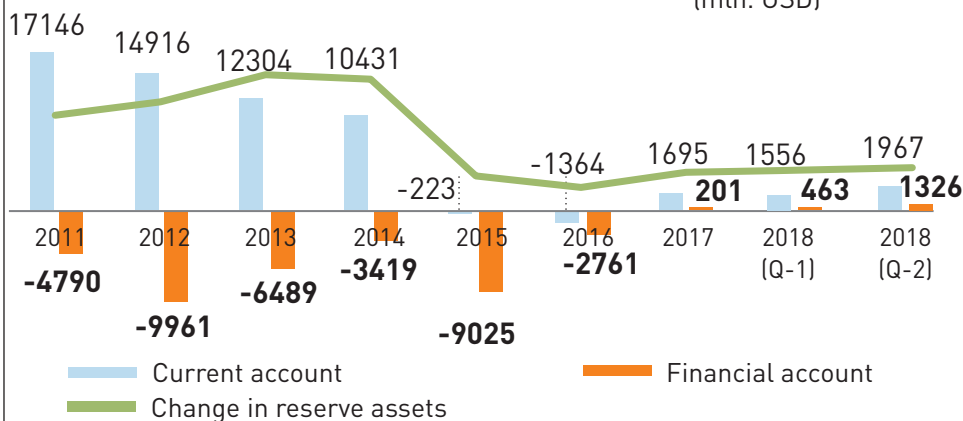
(mln. manat)



Source: Ministry of Finance of the Republic of Azerbaijan

## Strengthened Balance of Payments

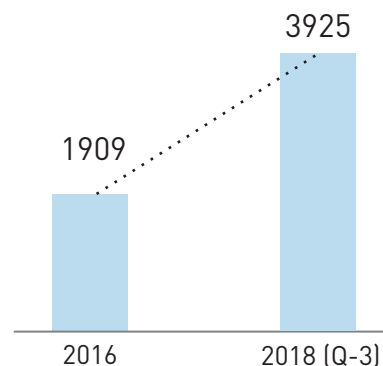
(mln. USD)



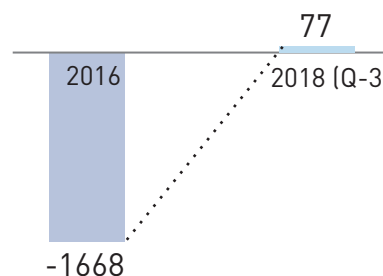
Source: Central Bank of the Republic of Azerbaijan

## Bank capitalization

(thsd. manats)



## Banking sector profitability



Source: Financial Market Supervisory Authority of the Republic of Azerbaijan

## Key characteristics

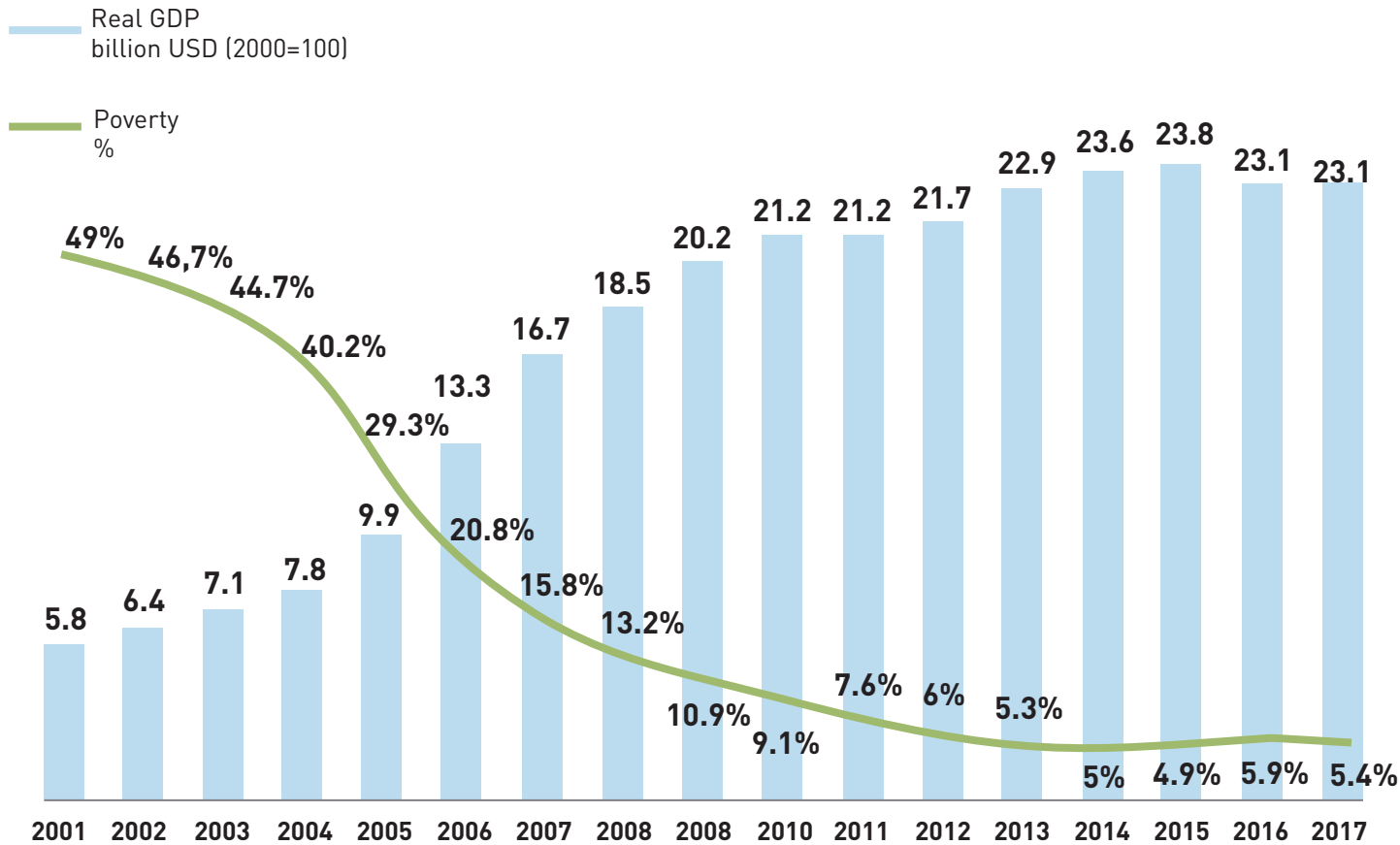
2018 (Q-2)

- **Foreign Trade Balance is at \$4 billion:**
  - stable oil prices;
  - import substitution;
  - non-oil export rising:
    - services (incl. tourism).
  
- **Increasing international reserves:**
  - IR stands at \$44 bn.;
  - IR/Import equals 35 months\*;
  - IR/state foreign debt is 3 times\*.
  
- **Exchange rate exhibits low volatility;**
  
- **Sufficient capital level in the banking system has been ensured;**
  
- **Profitability of the banking sector has been restored.**

# TRANSLATING ECONOMIC GROWTH INTO SOCIAL DEVELOPMENT OVER THE PAST YEARS

Post recovery economic growth has successfully channeled into poverty reduction...

... consequently, improving living standards



In nominal terms (2003=100|2017)

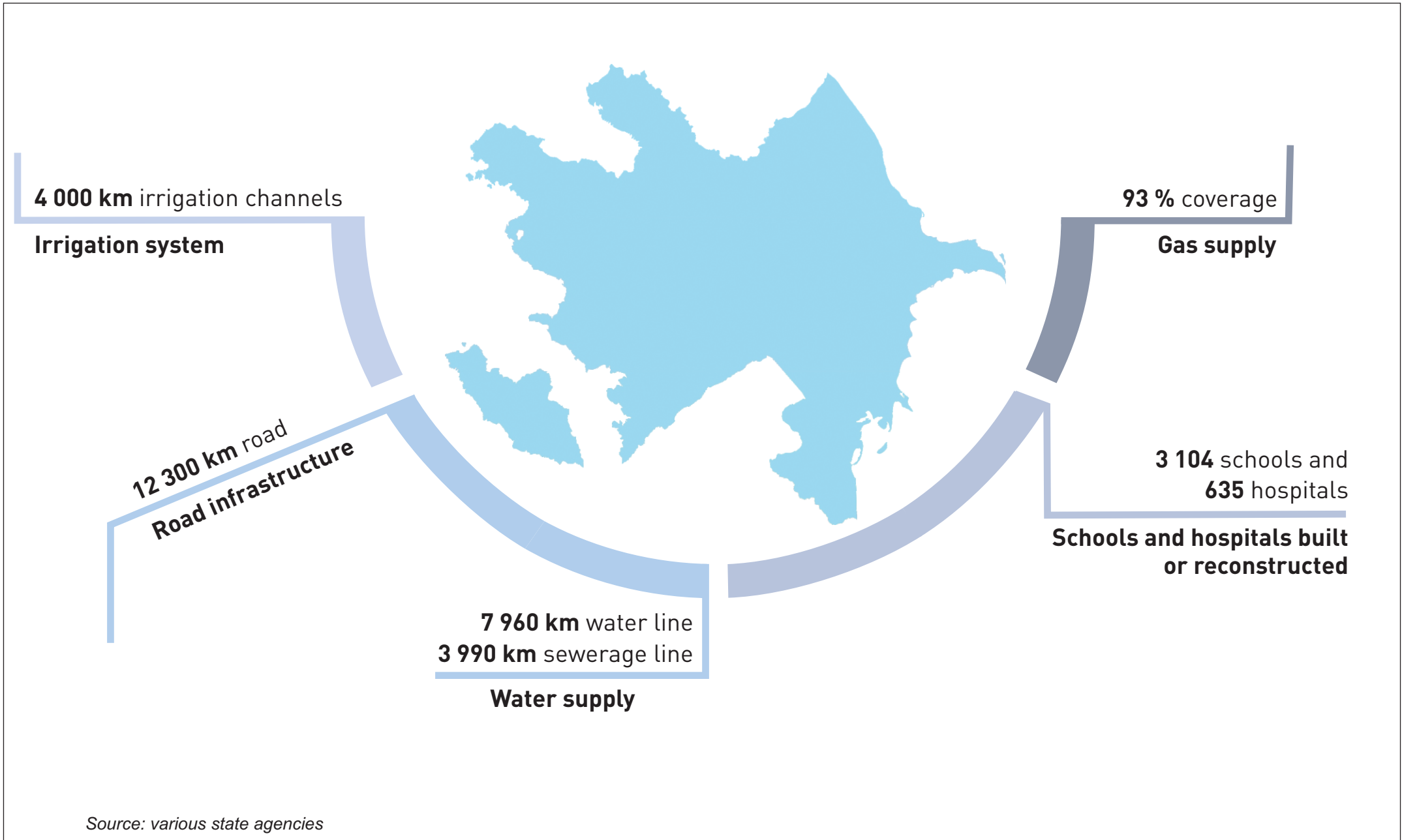


\* 2016/2003

Azerbaijan's 2015 Human Development Index value is 0.759 – which puts the country in the high human development category – ranking 78 out of 188 countries and territories.

Source: State Statistical Committee of the Republic of Azerbaijan

# SIGNIFICANT STEPS HAVE BEEN TAKEN TO MODERNIZE INFRASTRUCTURE IN THE COUNTRY



# INSTITUTIONAL REFORMS ARE FUNDAMENTAL FOR FUTURE ECONOMIC PROGRESS

## Financial Stability Council

- ensures coordinated policy approach for increasing macroeconomic stability and resilience to external shocks;
- ensures preservation of the competitive based economy.

## Energy Regulation Agency under the Ministry of Energy

- single regulator in electrical and heat energy as well as gas supply;
- provides tariff proposals on electrical and heat energy as well as gas supply to the Tariff (price) Council.

## Financial Markets Supervision Authority

- improves the quality of the finance system in response to the new global challenges;
- provides an efficient supervision system on the securities market, investment funds, insurance and credit institutions, including banks and non-banks.

## Food Safety Agency

- improves the existing legislation framework in the field of food safety;
- revises food safety standards to meet international requirements;
- improves the network of laboratories.

## Center for Analysis of Economic Reforms and Communication

- ensures expansion of the scope of economic reforms and provides efficient coordination of works in this area;
- prepares medium and long-term forecasts;
- improves the communication of the economic reforms initiated.

## Azerbaijan Mortgage and Credit Guarantee Fund

- provides guarantees and subsidies for the loans denominated in national currency to the entrepreneurs operating in non-oil sector of the economy;
- provides consulting services to entrepreneurs in debt management, risk assessment and management.

# FUTURE OUTLOOK OF AZERBAIJAN ECONOMY

In December 6, 2016 the Strategic Road Maps for National Economy and 11 core sectors have been approved.

## Strategic Vision for 2020

*“Achieve the stabilization of Azerbaijan’s economy in the short term in order to resolve the situation resulting from adverse effect of the foreign shocks, then to restore the line of development owing to diversification and new drivers in the medium term and to enhance competitiveness by further integrating into the world economy.”*

## Long-term Vision for 2025

*“Long-term vision of the national economy for 2025 is to achieve strengthened competitiveness by creating further value under the circumstances of collaboration of all economic stakeholders in Azerbaijan, which is already on the path of sustainable development.”*

## Aspirational Vision for post 2025

*“Aspirational vision for post 2025 envisages building a strong competitive and inclusive economy ensuring the improvement of social prosperity and maximizing the human development index and based on high technological development and optimum structure of economy.”*

## Strategic objectives under National Economy Strategic Roadmap envisions...

- strengthening fiscal sustainability and ensuring a robust monetary policy;
- privatization and state-owned enterprise reforms;
- development of human capital;
- development of more favorable business environment.

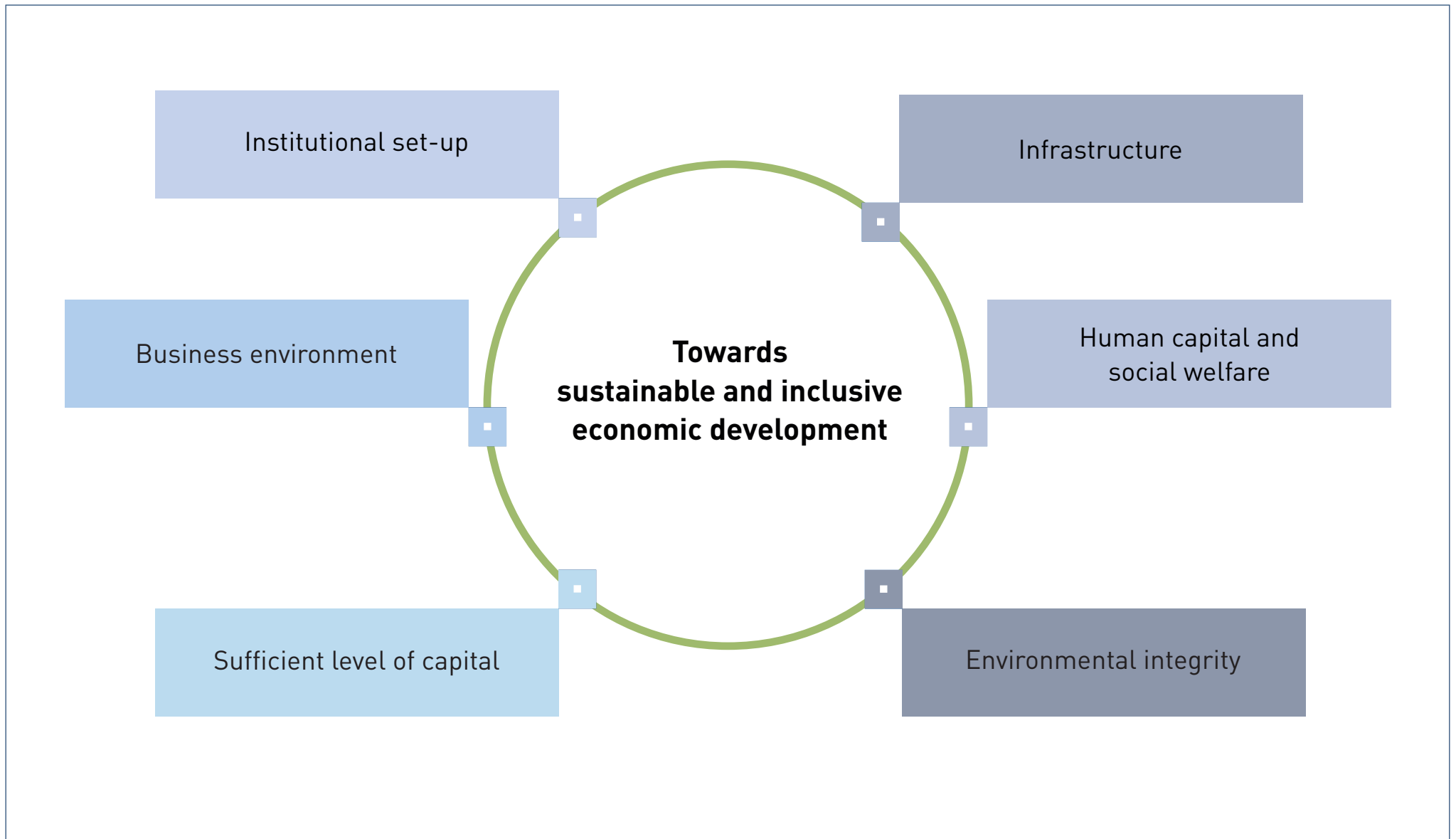
## Expected Results by 2025

- 3% real annual GDP growth;
- Creation of 450,000 jobs (1/3 in tradable sectors);
- Increase of the share of non-oil foreign direct investment (FDI) in non-oil GDP from current 2,6 percent to 4 percent;
- Increase of non-oil exports from less than 170 USD per capita today to at least 450 USD;
- Decrease the dependence of state budget on State Oil Fund transfers.

Priorities selected for future development of Azerbaijan economy are also in line with the UN Sustainable Development Goals.



# STRATEGIC REFORM DIRECTIONS HAVE BEEN DETERMINED



# STRONG INSTITUTIONS SHALL LAY FOUNDATION FOR ECONOMIC PROGRESS

## ■ Promoting Rule of Law:

- strengthening and increasing transparency and efficiency of law enforcement mechanism;
- increasing the protection of property rights;
- strengthening insolvency framework;
- improving the capabilities of making legislative forecasts.

## ■ Further strengthening the independency of judicial institutions;

## ■ Establishment of strong and independent institute of competition;

## ■ Further improving regulatory mechanisms:

- clear separation of policy, regulation and operational functions of institutions.

## ■ Public service provision:

- public services are provided through one-stop-shop “ASAN-services”\*;
- expanding coverage of “ASAN-services”;
- further digitalization of public services;
- online platforms for license and permit granting.

## ■ Increasing efficiency and effectiveness of the fiscal sector operations by introducing:

- fiscal rules;
- medium term expenditure framework;
- performance based budgeting;
- medium and long term debt strategy.

## ■ Deepening of the corporate governance practices.

\* 18 430 daily applications; average service time is 10 minutes

# AZERBAIJAN IS ON THE PATH TO FURTHER STRENGTHEN BUSINESS ENVIRONMENT...

## World Bank`s 2018 Doing Business Report

- The ranking of Azerbaijan **has raised by 32 steps** and reached 25th place among 190 countries;
- The position of the country has enhanced by **100 steps** for Dealing with construction permits and Getting credit;
- Azerbaijan is recognized as the **most reformer country**, with the number of reforms have been implemented, in Europe and Central Asia, in general, is acknowledged as top improver globally;
- Azerbaijan **is ranked in top 10** for Starting a Business and Protecting Minority Investors.

## Deloitte's 2017 Business Outlook in Azerbaijan

- With **87 percent** of the respondents having a positive view, Azerbaijan's overall business environment is clearly perceived as positive;
- Most of the respondents are optimistic about 2018: **79 percent** are expecting improvement.

## Future policy responses to improve business environment

- **Enhanced competition:**
  - ensuring level playing field conditions;
  - minimizing entry barriers;
  - improving regulatory framework (adopting Code of Competition).
- **More efficient state regulation mechanism:**
  - improving transparency and administration (tax and customs, etc);
  - improving statistical infrastructure;
  - completing further alignment of standards and technical regulations in line with international requirements.

Action plan prepared by intergovernmental working groups under the Business Commission provides a holistic approach for further improvement of business environment.

# ...AND ENSURE SUFFICIENT LEVEL OF CAPITAL TO EXPAND BOTH DOMESTIC AND FOREIGN BUSINESS INITIATIVES

## Attracting investments

- **Multiple incentives;**
- **Simplification of the processes:**
  - introduction of the single window;
  - simplification of the procedures
- **Protecting investor rights;**
- **Deepening of the privatization process;**
- **Integration to global custodians.**

## Increasing access to finance

- **Enhancing financial inclusion:**
  - financial coverage;
  - financial deepening.
- **Building stable and resilient financial system;**
- **Strengthening financial infrastructure;**
- **Increasing financial literacy;**
- **Digitalization of financial services;**
- **Continuously developing financial markets.**

### ▪ **Investment incentive certificate:**

- **50%** exemption from the profits obtained for the period of **7 years**;
- exemption of import for **7 years** (taxes and duties);
- exemption from property and land taxes for **7 years**.

### ▪ **Non-oil export promotion:**

- payment of **3%** export promotion fee from the state budget;
- improving regulatory and legal framework for the formation of access to foreign markets.

### ▪ **Multiple incentives provided to agricultural sector;**

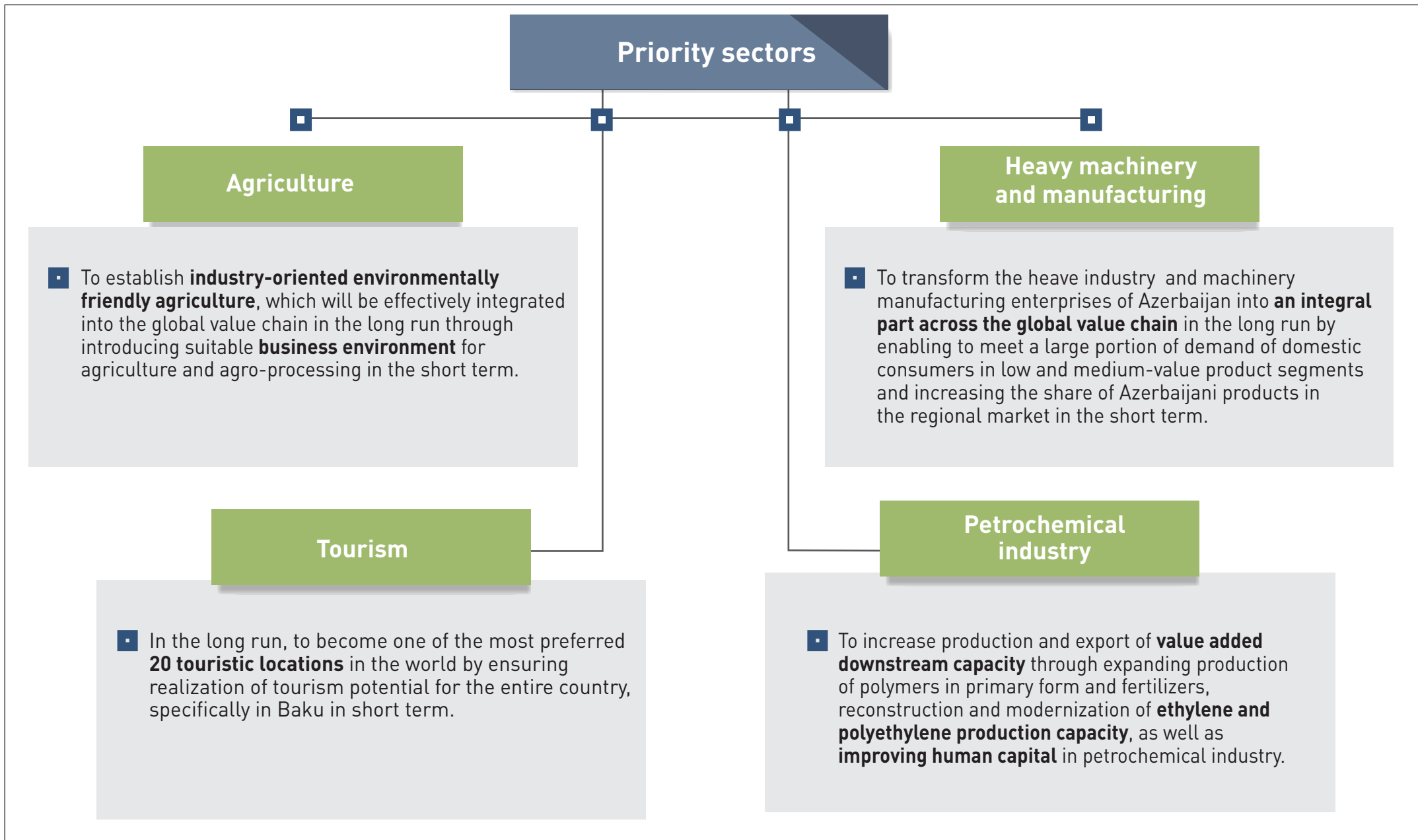
- **Trade representatives in diplomatic offices;**
- **Free trade agreements with 9 countries;**
- **Bilateral investment agreements with 48 countries;**
- **Double tax treaties with 51 countries.**

# AZERBAIJAN - RIGHT PLACE, RIGHT TIME AND CAPABILITY



- Within **reach to 50 countries** with almost **50% of world consumers** within 4-hour flight range.
- Azerbaijan has free trade access to the **270 million consumers of the CIS**, with GDP worth 1.6 trillion.
- **70% of the time is saved** between China and Europe. It is considered to be the shortest linkage both in distance and time.
- Logistics hub for the Caspian region with the **biggest airport, seaport, railway network** and free-trade zones.

# AZERBAIJAN HAS SET A TARGETS OF INCREASING PRODUCTION AND EXPORT POTENTIAL IN THE NEXT FUTURE IN PRIORITY SECTORS OF THE ECONOMY



# FURTHER IMPROVEMENT OF INFRASTRUCTURE VIA INCREASED PRIVATE SECTOR PARTICIPATION

## Further improvements that will lead to infrastructure development

- Introduction of the **Build-Operate-Transfer** model;
- **Continuous establishment of the clusters:**
  - 5 industrial zones and 4 industrial sites;
  - 3 high technological parks;
  - agroparks;
  - free trade zone to be established in Baku Sea Port.

## Enhancing utility supply

- **Improving the regulatory–legal framework through:**
  - enhancing the functional efficiency of regulatory authorities;
  - optimizing tariffs and developing incentivizing tools.
- **Improving institutional environment and progressive management systems by:**
  - ensuring generation and diversification of distribution across each area in utilities sector.
- **Generation of fully – diversified and environmentally friendly electrical energy**

## Infrastructure development



## Becoming regional logistic trade hub

- **Capturing the higher value and volume from the transit trade by:**
  - the completion of three main projects\*;
  - improvement of logistics operations;
  - establishment of trade-focused processing hub and logistics centers in Baku.

“**Digital Trade Hub of Azerbaijan**” is an electronic trade platform that aims to facilitate local, regional and international e-commerce.

## Becoming a leading ICT-driven country

- creating a technology-oriented educational landscape;
- enabling further development of **digitized economy**;
- driving growth in banking, financial, educational, medical and social sectors in the country and achieving wider use of electronic services.

The UN General Assembly has passed a resolution supporting Azerbaijan’s initiative on establishment of Eurasian Alliance and construction of **Trans-Eurasian Information Super Highway (TASIM)**.

\* *Baku-Tbilisi-Kars (BTK) railway, Astara, Iran–Astara, Azerbaijan Railroad construction projects have been finalized; Baku International Seaport project is ongoing*

# ENSURING SOCIAL CONTRACT BETWEEN GOOD GOVERNANCE AND SMART CITIZENS SHALL LEAD TO AN INCLUSIVE ECONOMIC GROWTH

## High-Quality Education

- **Improving quality at all levels of education:**
  - building stronger VET system based on school and employer partnerships;
  - promoting “education-research-innovation” triangle.
- **Improving digital infrastructure;**
- **Enhancing e-learning and distant education;**
- **Inclusive education for children with disabilities;**
- **Promoting life-long learning;**
- **Ensuring long term equilibrium between education and labor market.**

## Cutting-edge and affordable healthcare

- **Improving quality in healthcare system:**
  - high skilled personnel and modern infrastructure;
  - patient-centered services.
- **Making healthcare services more affordable:**
  - Mandatory Healthcare Insurance introduced.

## Human capital development



# SOCIAL WELFARE IS KEPT AS A PRIORITY OF ECONOMIC PROGRESS

## Improve labor market efficiency

- Promoting transition from passive social security **to active self-employment**;
- Establishment of **unemployment insurance fund**;
- Making labor market and work environment more open, inclusive and accessible to **persons with disabilities**.

## Strengthen social security

- Pension reform initiatives:
  - establishment of **non-state pension funds**;
  - introducing personal **retirement saving mechanism**;
  - further strengthening sustainability of **pension funds**.

## Promote gender equality

- Eliminating all forms of discrimination against all women;
- Ensuring **women's full and effective participation and equal opportunities** for leadership at all levels of decision making process;
- Developing **women entrepreneurship**.

## Enhance living conditions

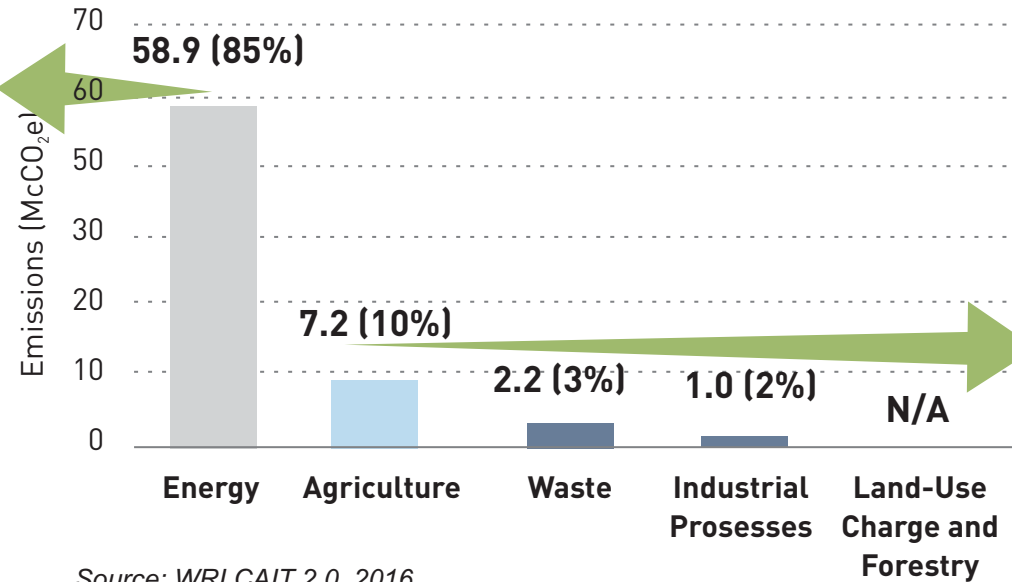
- Addressing **food safety and security challenges**;
- Ensuring uninterrupted access to **high-quality utility services**;
- Improving **access to housing** through:
  - mortgage loans through Azerbaijan Mortgage and Credit Guarantee Fund;
  - social housing via MIDA – State Housing Construction Agency.

# AZERBAIJAN TARGETS TO REDUCE GREENHOUSE GAS EMISSIONS UP TO 35 % BY 2030

## Initiatives undertaken to reduce GHG in energy sector

- modernization of natural gas pipelines;
- prevention of leakage during gas production;
- increasing development of renewable energy resources;
- development of public transit; energy efficiency (changing ownership mindset, increasing alternative energy usage and etc.).

## Azerbaijan`s GHG Emissions by Sector and Percent of Total Emissions (2012)



## Measures for developing climate smart agriculture

- developing climate-smart-agriculture practices;
- developing mechanisms for sustainable use of agricultural land and water resources;
- developing mechanisms for reduction of negative impact of climate change on agriculture;
- methane capture from livestock sources.

### Azerbaijan has signed

- UN's framework convention on climate change;
- Kyoto Protocols;
- Protocol for Protection of the Caspian sea.

### Public initiatives for green space

- expanding green spaces;
- "No tree-cutting program";
- Go-green propaganda.