



Market Outlook Azerbaijan

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Introduction

Azerbaijan has tripled its economy during the last 15 years and plans to double it in the next 10 years with the focus on non-oil sector. Around 80% of the economy is private sector. Azerbaijan is an upper middle-income economy.

Azerbaijan is rich in energy resources and recognized as an energy exporter in the world. Azerbaijan's economy is driven by the oil and gas sector, which accounts for around **90%** of the total exports and around **30-50%** of total GDP (depending on prices for natural resources). Around **90%** of oil production and **40%** of gas production goes to export. The major non-oil export product is cotton.

At the same time Azerbaijan is facing a decline in oil production since 2010 (-25% during 2015-2021).¹

The size of the **banking system** is relatively small compared to the economy of Azerbaijan. There are 26 banks, 2 state banks and 24 private banks (including 7 banks with 50-100% of foreign capital)² Four largest banks count for 60% of total banking sector. US Dollars play an important role in Azerbaijan banking system (many loans and deposits are in dollars).

SMEs sector is not well developed in Azerbaijan, it provides jobs for **42%** of all employees, but generate only **17%** of GDP (compared to OECD countries, where SME's employ 60-70% of employees and generate around 60% of GDP)

Several government-connected companies dominate the economy of Azerbaijan.

There is a territorial conflict since 1988 between Azerbaijan and Armenia over the disputed region of Nagorno-Karabakh. The latest military operation started in September 2022.

Azerbaijan is a presidential republic. Turkey and Azerbaijan have strong economic, military, cultural and linguistic connections. Influence of Turkey in Azerbaijan is high. Mr. Erdogan, the president of Turkey once said: "one nation, two states".

Key Figures³

- Capital: Baku (population **2,3** million)
- Population: **10,1** million (2021)
- Official language: Azerbaijani (some similarities to Turkish language). Russian and English are widely used
- Religion: 95% Muslims
- The President: Ilham Aliyev

¹ <https://www.ceicdata.com/en/indicator/azerbaijan/crude-oil-production>

² <https://uploads.cbar.az/assets/d701bfa769e508299fbf2354c.pdf> (Azerbaijan language)

³ <https://data.worldbank.org/country/azerbaijan?view=chart>

- GDP: 133,8 billion manat **or \$78,6 billion** (2022, CAERC and Interfax) ⁴
- GDP per capita: 13292 manat ⁵ or **\$7813** (2022, Azerbaijan State Statistics Committee) ⁶
*Eastcham Finland estimation based on 1,7 manat/\$ exchange rate average for 2022
- GDP growth: **4,6%** (2022, CAERC)
(non-oil GDP + **9.1%**, oil and gas GDP **-2.7%**) ⁷
- Main export products: oil and gas (**90%** of total export)
- Azerbaijan has borders with: Armenia (1007 km), Iran (765 km), Georgia (480 km), Russia (390 km), Turkey (15 km). ⁸

Based on the World Bank's **Doing Business 2020** report, Azerbaijan is ranked **#34.** out of 191 countries. Compared to Finland #20. Kazakhstan #25. Uzbekistan #69. ⁹

Based on the **Transparency International's Corruption Perceptions Index 2022**, Azerbaijan is ranked **#157.** Compared to Russia #137., Uzbekistan #126., Kazakhstan #101. and Finland #3. ¹⁰

Based on the **Global Innovation Index 2022**, Azerbaijan is ranked **#93.** Compared to Finland #9. and Kazakhstan #83. ¹¹

Based on the **Index of Economic Freedom 2023**, Azerbaijan is ranked **#75.** out of 130 countries (moderately free). Compared to Finland #11. (mostly free), Georgia #35. (moderately free), Kazakhstan #71. (moderately free), Uzbekistan 109 (mostly unfree) and Russia #125. (mostly unfree) ¹²

Sovereign Credit Rating / Outlook (2022)¹³

Standard & Poor's credit rating for Azerbaijan stands at **BB+ / stable** outlook.

Moody's credit rating for Azerbaijan stands at **Ba1 / stable** outlook.

Fitch's credit rating for Azerbaijan stands at **BB+ / positive** outlook ¹⁴

Workforce in Azerbaijan

Based on the **English Proficiency Index 2022**, Azerbaijan is ranked **#92.** It is the same group of countries as Uzbekistan #89. and Kazakhstan #99. (very low proficiency). Compared to Finland #8. (very high proficiency). ¹⁵

In 2021 the number of economically active population has reached **5.3** million people (+716.500 persons compared to 2020), of which 4.9 million persons are employed and 315.700 persons are unemployed.

During 2010-2021 years average monthly nominal wages and salaries of employees being increased for 2,2

⁴ https://ereforms.gov.az/files/te_review/pdf/en/3bec56126471bee029652ee7039adcec.pdf

⁵ <https://www.stat.gov.az/news/index.php?lang=en&id=5412>

⁶ <https://interfax.com/newsroom/top-stories/86972/>

⁷ <https://interfax.com/newsroom/top-stories/86972/>

⁸ <https://nk.gov.az/ru/page/35/>

⁹ https://archive.doingbusiness.org/content/dam/doingBusiness/pdf/db2020/Doing-Business-2020_rankings.pdf

¹⁰ <https://www.transparency.org/en/cpi/2022>

¹¹ <https://www.globalinnovationindex.org/analysis-indicator>

¹² <https://www.heritage.org/index/ranking>

¹³ <https://tradingeconomics.com/azerbaijan/rating> and <https://countryeconomy.com/ratings/azerbaijan>

¹⁴ <https://www.fitchratings.com/entity/azerbaijan-80442264>

¹⁵ <https://www.ef.com/wven/epi/>

times made 732 manat (**\$430**).¹⁶ The minimum wage in Azerbaijan has been increased by 15% since 01.01.2023, to 345 manats (**\$203**).¹⁷

Key sector 1: Energy mix and renewable energy

Oil and natural gas counts for **90%** of Azerbaijan's export, and **60%** of the government budget. They also supply **98%** of primary energy and **90%** of the country's electricity. Oil and, more recently gas are the main drivers of prosperity of Azerbaijan since 1990s and will remain the same in the short and medium terms. But long-term outlook for fossil fuel is unclear, due to commitment of the main importer countries to achieve zero greenhouse gas emissions by 2050 (China in 2060). The state-owned State Oil Company of Azerbaijan (SOCAR) dominated fossil fuels sector in Azerbaijan.¹⁸

Oil production was **declining** since 2010 and even the natural gas production is increasing, the total export revenues are declining. Global trend for clean energy put additional pressure on fossil fuels market. Diversification of economy is vital for Azerbaijan in such circumstances.

Azerbaijan's **energy mix** is based on natural gas (66%) and oil (33%). Natural gas is used to generate most of the country's electricity and heat (90%). Coal is not used in Azerbaijan. Electricity generation and supply is well developed in Azerbaijan, thanks to remarkable investments since 2009.

The private (residential) sector is the largest energy consumer, which counts for **32%** of total energy consumption (mainly natural gas), following by transport sector with **26%** (mainly oil) and industry with **26%** as well (mainly oil)

Oil and gas production has a long history in Azerbaijan, but since mid-2000's the production started to grow significantly and has increased basically in 3 times (the peak of the production was in 2010), thanks to the development of the Azeri-Chirag-Gunashli oil block and the Shah Deniz gas field.

Azerbaijan is one of the countries with high potential for **renewable energy** sources (it has **excellent solar and wind resource, significant potential for biomass, geothermal and hydropower generation**). By 2030, Azerbaijan plans to install 1500 MW in renewables capacity, in part to support future export of green electricity and green hydrogen to European markets.

Azerbaijan took a commitment to reduce its GNG emissions (greenhouse gas) by **35%** till 2030, compared to 1990 level.

In 2021 the "**Renewable Energy Law**" was signed, which support the development of renewable energy projects. This law introduces guaranteed tariffs, support and benefits for investors (including foreign), for scientific research, benefits for investors, etc. Azerbaijan Renewable Energy Agency was established in 2020.¹⁹

In 2022, renewable energy generation has reached **7%** of total energy produced in Azerbaijan. Renewable energy market is dominated by hydropower (1.596 billion kilowatt-hours), followed by solid

¹⁶ <https://www.stat.gov.az/source/labour/?lang=en>

¹⁷ <https://www.azernews.az/nation/204656.html>

¹⁸ <https://socar.az/en/>

¹⁹ www.area.gov.az/en

waste incineration (205.3 million kilowatt-hours), wind power (83.3 million kilowatt-hours) and solar power (60.9 million kilowatt-hours).²⁰

Key sector 2: Agriculture

In 2021 agricultural lands count for **55%** of all lands of Azerbaijan. The share of GDP from agriculture, forestry and fishing has increased from 2,4% in 2010 to **5,5%** in 2021 and expected to reach **6,8%** in 2023. Agricultural sector counts for around **40%** of all jobs.

The amount of arable land in Azerbaijan has increased from 1,39 million hectares in 2010 to 1.89 million hectares in 2021. The number of employers in agro business has increased from 1,66 million people in 2010 to 1,81 million in 2021. The number of students in agricultural higher educational institutions has increased from 879 in 2010 to 4.734 in 2021.

The main exported products are potatoes, tomatoes and fruits.
The main imported products are wheat, fruits, and vegetables.

Azerbaijan is taking steps to improve the efficiency of agricultural business: Agrarian Insurance Fund was established (to insure 48 agricultural products on 29 risks), 72 State Agrarian Development Centers were established (to provide different services for agricultural companies) and other steps to make agricultural business more attractive for investors and participants.

Key sector 3: Education

Spending on education counts for **4,3%** of GDP (2020), compared to **5,9%** in Finland.²¹

There are 52 higher educational institutions in Azerbaijan (47 in 2000). There are **199** students per 10.000 inhabitants in Azerbaijan, compared to 307 in Kazakhstan, 277 in Russia, etc. There is a big demand for more higher educational institutions.

25 Azerbaijani universities are involved in the Erasmus+ program. During 2014-2020, around 1.200 students from the EU studied at Azerbaijani universities.

Azerbaijan has a “State Program for the Education of Azerbaijanis in Foreign Universities for 2022-2026”, which allows **400** students annually to study abroad.

Private education is well developed, there are many private schools and children gardens in Azerbaijan, mainly in Baku, including: Baku Oxford School, The International School of Azerbaijan, Azerbaijan British College, British School in Baku and many others.

International Trade of Azerbaijan

Azerbaijan's export was **\$41,7 billion** and import only **\$14,5 billion** in 2022. Azerbaijan has clear trade surplus. It is expected that in the nearest future the trade surplus will remain.²²

Top 5 non-oil export destinations are: Russia, Turkey, Georgia, Switzerland and USA.²³

²⁰ <https://en.trend.az/business/energy/3695532.html>

²¹ <https://data.worldbank.org/indicator/SE.XPD.TOTL.GD.ZS?locations=AZ>

²² https://ereforms.gov.az/files/te_review/pdf/en/3bec56126471bee029652ee7039adcec.pdf

²³ https://azertag.az/en/xeber/Russia_was_top_export_destination_of_Azerbaijans_non_oil_products_in_September-2356889

Azerbaijan's main trading partners are Italy, UK, USA, Turkey, Israel, France, Indonesia, Russia, Germany, and India.

The main **export** products are: oil and gas (90%), agricultural products (mainly cotton and tomatoes), metals (mainly gold), chemicals, etc.

The main **import** products are: machinery and electrical equipment (24%), agricultural products (17%), different vehicles, ships, aircrafts (12%), chemicals, metals, etc.

EU is accounting for **38%** of Azerbaijan total foreign trade (EU is the main trading partner).

400 European companies are operating in Azerbaijan. ²⁴

The EU invested **\$21.5 billion** in Azerbaijan's economy during 2012 - 2021.

The EU is Azerbaijan's largest foreign investor.

EU is the biggest export and second-biggest import market for Azerbaijan (**51%** share of Azerbaijan's exports and a **16%** share of Azerbaijan's imports).

EU imports from Azerbaijan mainly: oil and gas, agricultural products, chemicals, etc.

EU exports to Azerbaijan mainly: machinery and transport equipment, chemicals, manufactured goods, agricultural products, etc. ²⁵

in December 2020, Azerbaijan has started natural gas supplies to Europe through the Trans-Adriatic Pipeline (TAP).

Azerbaijan has an "observer status" at the **WTO** (World Trade Organization). ²⁶

(164 countries are members of WTO. 25 countries and some international organizations have observer status in WTO. WTO accounts for more 98% of world trade.)

Azerbaijan has free trade agreements (**FTAs**) with Russia, Ukraine, Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan, Georgia, Moldova and Belarus. Under the FTAs, goods can be imported and exported from\to those countries free of customs duties. ²⁷

Finland- Azerbaijan Trade

According to the Finnish Customs, Finland's export to Azerbaijan was **€16,3** million (+26,3%) and import from Azerbaijan was **€0,9** million (+50,9%) in 2022.

The main products that Finland exports to Azerbaijan are: machinery, dairy products, electronic equipment, pharmaceuticals products, etc. ²⁸

The main products that Azerbaijan exports to Finland are: textile, fruits and vegetables, etc. ²⁹

"Finnish companies are involved in engineering, ecology in Azerbaijan. Green energy and energy efficiency are also among the main issues of interest, as countries take steps towards a "greener world" by using energy efficiency."

Nina Vaskunlahti, Deputy State Secretary or International Trade at the Ministry of Foreign Affairs of Finland (28.10.2022)

²⁴ <https://www.azernews.az/business/203653.html>

²⁵ https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/azerbaijan_en

²⁶ https://www.wto.org/english/thewto_e/whatis_e/tif_e/org6_e.htm

²⁷ <https://wto.az/en/areas/regional-trade-agreements/>

²⁸ <https://oec.world/en/profile/bilateral-country/fin/partner/aze>

²⁹ <https://tradingeconomics.com/azerbaijan/imports/finland> and <https://tradingeconomics.com/azerbaijan/exports/finland>

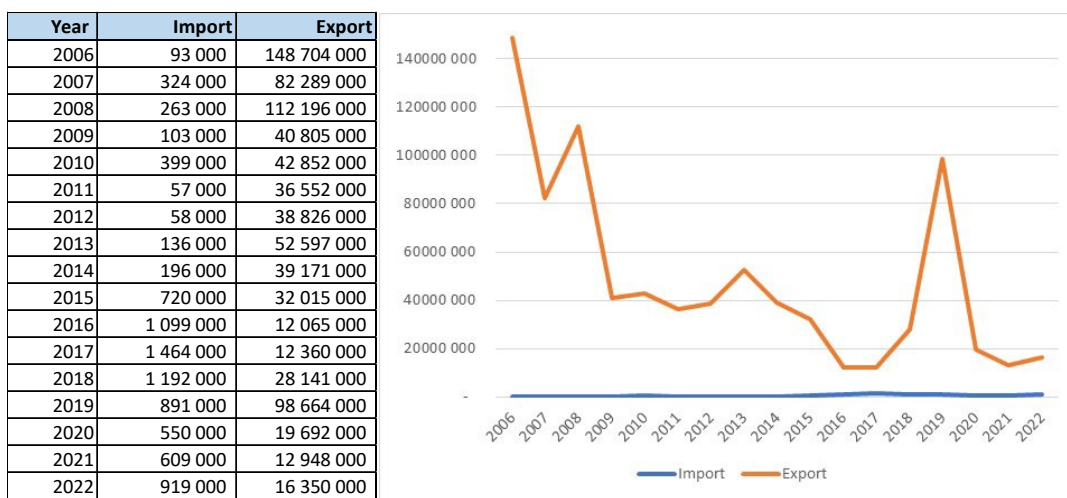
Total Finnish export to Azerbaijan during 2006-2022 was **€826** million (€48,6 million per year on average)
Total Finnish import from Azerbaijan during 2006-2022 was **€9** million (€0,5 million per year on average)

Green energy and energy efficiency are among the main issues of interest between countries. ³⁰

29.09.2005 Finland and Azerbaijan has signed the avoidance of double taxation treaty.

(FYI: According to the Trading Economics database on international trade Finland's export to Azerbaijan was **\$130** million in 2022. ³¹)

Finland-Azerbaijan Trade (2006-2022, €) ³²



Finnish export to Azerbaijan increased by **26,3%** in 2022 and has reached €16,4 million, according to Finnish Customs statistics. The main export products are: dairy products, machinery and equipment. Import from Azerbaijan to Finland increased by **50.9%** and has reached €919.000. ³³

The largest product group in Finnish export to Azerbaijan is food products, the value of which increased by 39.3% and has reached €6.5 million (including €5.9 million dairy products).

Export of machines, equipment and different transport increased by 14.7% and has reached €4.9 million (including €2.5 million telephone equipment, the export of which increased by 145%).

Export of chemicals increased by 83.5% and has reached €3.3 million, about half of it was dyes and tanning agents.

³⁰ <https://qazet.az/en/deputy-state-secretary-finnish-companies-are-looking-for-business-opportunities-in-azerbaijan>

³¹ <https://tradingeconomics.com/azerbaijan/imports/finland>

³² <https://tulli.fi/en/statistics/country-statistics/previous-years> and <https://tulli.fi/en/statistics/country-statistics>

³³ <https://www.eastcham.fi/ uutishuone/suomen-tavaravienti-azerbaidzaniin-kasvoi-neljanneksen-vuonna-2022/>

N.B. The Embassy of Azerbaijan in Sweden is also accredited to Finland and Norway.³⁴
There is no embassy of Finland in Azerbaijan. There is an honorary consul Mr. Faiq Jabiyev located in Baku, Azerbaijan.³⁵

There are around 10 Finnish companies operate in Azerbaijan (in industry, trade, construction and service sectors)³⁶

Foreign Direct Investments (FDI)

Oil and gas sector has a long history of attracting the largest share of FDI in Azerbaijan. At the same time the Government of Azerbaijan has identified 4 sectors to diversify the economy: agriculture, ICT, logistics and tourism.

In 2021, in Azerbaijan, FDI flows was negative **-\$1.7 billion** because of the repatriation of funds by oil companies (2021 FDI inflow was -\$1708 million and FDI outflow was +\$77 million)³⁷

FDI inward stock 2021 was **\$31,6 billion** (the value of foreign investors' equity)
FDI inward stock 2021 was **\$26,7 billion** (the value of the resident investors' equity in foreign economies)

FDI inflow goes mainly on the oil and gas sector, although Azerbaijani tries to diversify the economy and to attract FDI to agriculture, transportation, tourism and ICT sectors.

Russia used to be the main source of FDI's in Azerbaijan.

But for 1-9 months of 2022, the UK if the biggest FDI source in Azerbaijan (27,7% of total FDI), followed by Turkey (16.4%), Cyprus (13.5%), Russia on the 4th place with 8.3% and Iran (5.6%).

EBRD is an important institutional investor in Azerbaijan. EBRD has invested around €3.6 billion in 181 projects in Azerbaijan.

Foreign citizens, organizations, and companies may lease but not own land (ownership of different real estate by foreigners is legal).

Business Opportunities in Azerbaijan

Renewable Energy

Azerbaijan has set a target to increasing the share of renewable energy to 30% by 2030 and to reducing greenhouse gas emissions by 35%. Unique geographical and climate conditions are in favor for solar energy, but also for wind energy and solid waste incineration.

Azerbaijan's renewable energy potential is 27 gigawatts of wind and solar power onshore and 157 gigawatts of wind power offshore. Azerbaijan plans to build 3 gigawatts of wind and 1 gigawatt of solar power by 2027.³⁸

³⁴ <https://stockholm.mfa.gov.az/en>

³⁵ https://finlandabroad.fi/web/aze/honorary-consulates/-/asset_publisher/4sNlIRsmWs2r/contactInfoOrganization/id/118404

³⁶ <https://mfa.gov.az/en/category/avropa/finlandiya>

³⁷ https://unctad.org/system/files/official-document/wir2022_en.pdf

³⁸ <https://caspiannews.com/news-detail/azerbaijan-to-supply-europe-with-green-energy-2022-12-19-31/>

Agriculture

Agricultural sector is growing in Azerbaijan, attracts investments and provides opportunities for Finnish companies in this sector. Agriculture as one of 4 priority sectors for diversification of the economy of Azerbaijan. Azerbaijan has a long tradition in agriculture, unique climate and many sunny days are in favor for fruits and vegetables.

There is a big demand for tractors, combines, irrigation equipment, meat, dairy, and fruit and vegetable processing equipment, packaging equipment, etc.

ICT

ICT sector is undeveloped in Azerbaijan, big variety of ICT solutions and services are needed in Azerbaijan. Baku is the main focus area for ICT projects.

Energy efficiency \ Green energy

Azerbaijan is in need to modernize pipelines and improve energy efficiency. Azerbaijan took a commitment to reduce its GNG emissions (greenhouse gas) by **35%** till 2030, compared to 1990 level. Since 2021 the green energy sector has received a boost for further active development, thanks to “Renewable energy law”

Education

There is a big demand for vocational education in Azerbaijan, educational technologies and educational equipment. The topic of education is one of the main topics during any meeting with local authorities and private business.

Sanctions and “Know Your Customer” compliance process.

The sanctions aimed at Russia also affect trade to Central Asia. In particular, the threat of indirect evasion of sanctions must be taken into account when dealing with Central Asian countries. For this reason, all companies doing business with these countries must now have a sufficiently extensive KYC- compliance process ("know you customer") to prevent this kind of activity, because activity against sanctions is prohibited both directly with sanctioned customer and indirectly using any front organization arrangements. In the KYC- process, the sanctions situation of the product and possible sanctions listings of trade partners must be clarified. Screening of business transactions is a key measure in which the trading partner and the end-users of the product, the related persons, ownership relationships and the comparison of the products to the sanction lists are completed.

End-user certificate must be obtained from the final user of the product if this is possible with the help of reasonable measures. Therefore, seller of the product has an obligation to know the end- user of the product/service since it is prohibited to indirectly deliver/handover any funds or other monetary benefits to possible sanctioned entity, i.e. all "decoy activities" are also prohibited. If the end user is sanctioned (in some cases, the US sanctions should also be taken into account if, for example, US technology, labor or trade is conducted in dollars) the company must not have practically any financial relationship with such sanctioned entity.

Conclusions

Azerbaijan economy shows stable growth and expected to grow further. Azerbaijan is actively seeking for new technologies to make its economy modern and more effective. Finnish companies have products and

solutions which might help Azerbaijan and Finnish companies definitely should take advantages of Azerbaijan market.

Useful contacts

The Embassy of Azerbaijan in Stockholm

(also accredited in the Republic of Finland and the Kingdom of Norway)

<https://stockholm.mfa.gov.az/en>

Finnish Honorary Consulate in Baku, Azerbaijan

https://finlandabroad.fi/web/aze/honorary-consulates/-/asset_publisher/4sNlIRsmWs2r/contactInfoOrganization/id/118404

Kirsti Narinen, Roving Ambassador for the South Caucasus (Armenia, Azerbaijan, Georgia)

www.finlandabroad.fi/web/arm/mission

The State Statistical Committee of the Republic of Azerbaijan

www.stat.gov.az/?lang=en

Azerbaijan Renewable Energy Agency

<https://area.gov.az/en>

Centre for Analysis of Economic Reforms and Communication

<https://ereforms.gov.az/en>

Objectives of the Center for Analysis of Economic Reforms and Communication is to develop proposals for realization of economic reforms based on analytical data by conducting analyses and researches on macro and micro -economic levels. The chairman of the supervisory board is a Prime Minister of Azerbaijan.

Investment Promotion Agency (AZPROMO)

<https://azpromo.az/en>

AZPROMO was established in 2003 by the Ministry of Economy to attract foreign investment in the non-oil sector and encourage exports of non-oil products.

The foreign trade of Azerbaijan (by the State Statistical Committee of Azerbaijan, in english)

<https://www.stat.gov.az/source/trade/?lang=en>

Central Bank of Azerbaijan

<https://www.cbar.az/home?language=en>

Azerbaijan Energy Regulatory Agency

<https://regulator.gov.az/en/>

AERA (established in 2017) regulates producers, suppliers, distributors and consumers of electricity, gas supply and district heat. Also AERA is responsible for the investment climate in energy sector.

Azerbaijan Renewable Energy Agency
www.area.gov.az/en