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Business outlook in Azerbaijan

**Deloitte CIS Research Center
2021 results, Sixth Edition**



**MAKING AN
IMPACT THAT
MATTERS**
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Introduction



Nuran Kerimov
Managing Partner
Deloitte Azerbaijan

We are delighted to present the sixth edition of Business Outlook in Azerbaijan, the Deloitte Research Center's macroeconomic journal.

We have focused on COVID-19 trends and challenges, presenting our key research findings on major changes in the Azerbaijani economy.

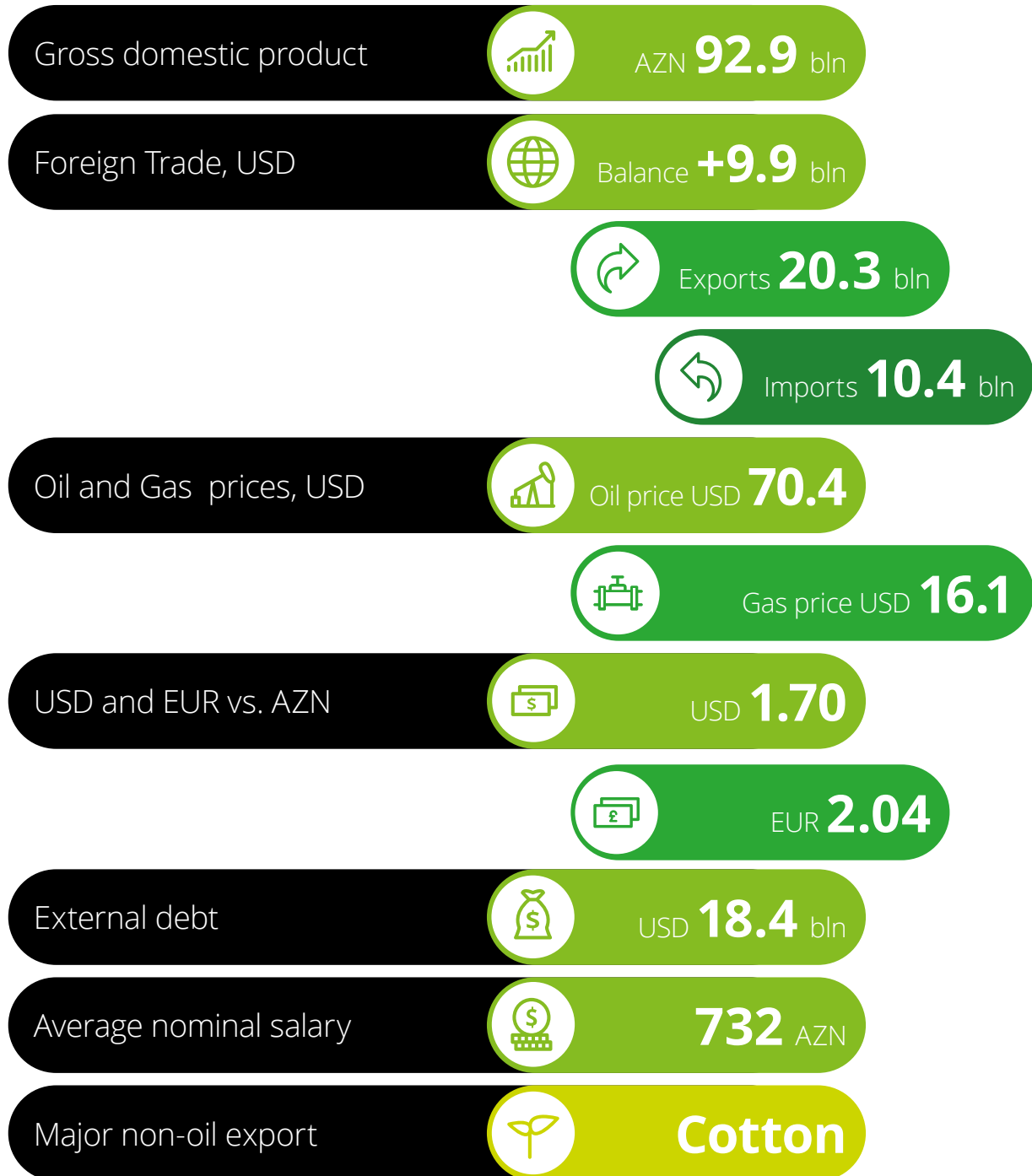
In November–December 2021, Deloitte CIS conducted a survey of leading Azerbaijani companies. These responses have allowed us to identify key drivers, major challenges and mechanisms of development for the Azerbaijani economy, as well as to conduct a comparative analysis of trends.

In this issue, we also present an in-depth review of key indicators for the agricultural sector based on publicly available data.

If you have any questions or suggestions regarding this research, please do not hesitate to contact us at cisresearchteam@deloitte.ru

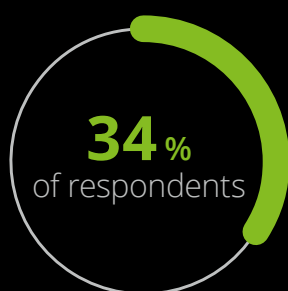
Highlights

Azerbaijan in figures



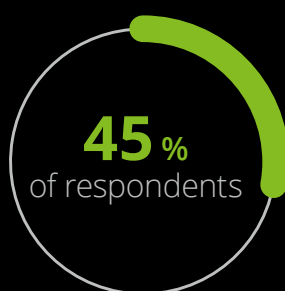
Results of the business confidence survey

Agriculture



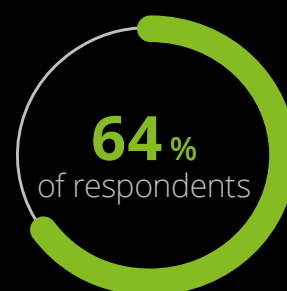
Industry expected to grow the fastest over the next five years

Business grew



The impact of COVID-19 on businesses in 2021

Average salary



...expected to grow in the upcoming year

Highlights for the Agricultural sector

GDP from agriculture

AZN **5.5** bln



Foreign Trade of Agriculture, AZN

Imports
2.225 mln

Exports
1.105 mln
















Balance
-1120 mln

Employed number of people in agriculture, forestry and fishery

1.81 mln



Comparison of indicators from 2020 to 2021

	2020	2021
 GDP, AZN bln	72.4	 92.9
 Gas price, USD/MMBtu	3.3	 16.1
 Foreign trade, USD bln	3.2	 9.9
 Export to Turkey, AZN mln	377.8	 675.9
 Foreign exchange reserves, bln	6.4	 7.0
 Average monthly salary, AZN	707	 732
 Consumer price index, %	2.8	 6.7
 Tomato exports, mln	201.4	 160.2



01

Azerbaijan
in figures

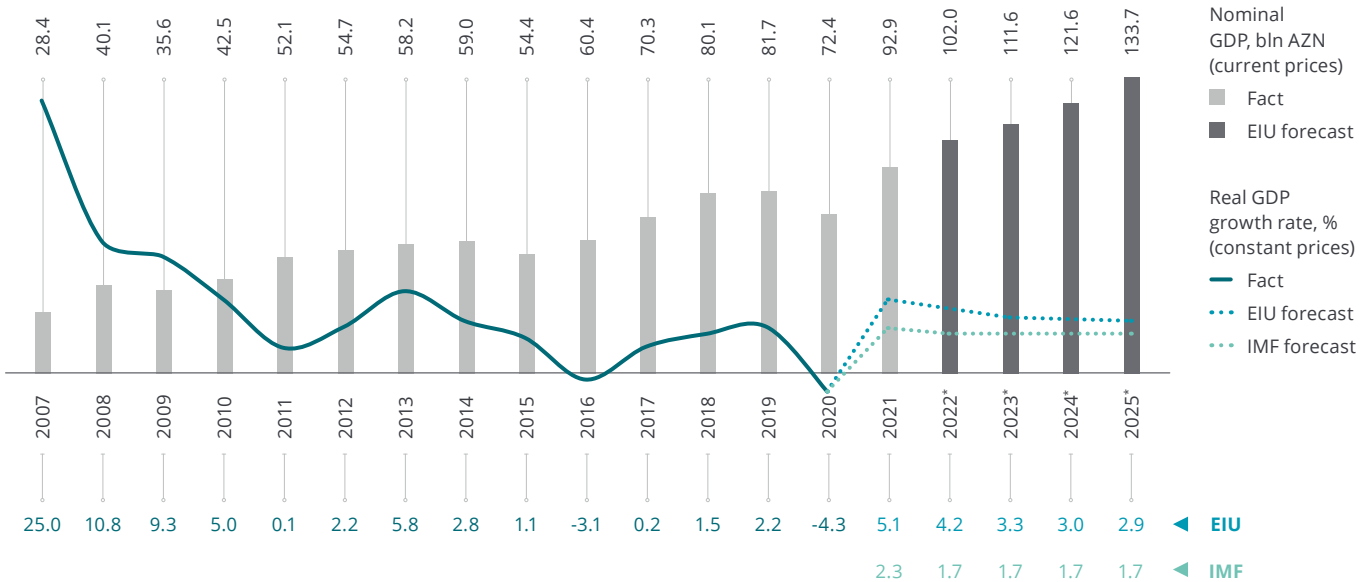




Key macroeconomic indicators

The GDP for 2021 constitutes AZN 92.9 bln, an increase in nominal GDP of AZN 20.5 bln from 2020.

Gross domestic product (GDP)



Source: Historical data — UN statistics, the State Statistical Committee of the Republic of Azerbaijan

* Forecast — Economist Intelligence Unit (EIU), International Monetary Fund (IMF)



"The economic rebound accelerated in the second half of 2021. We forecast real GDP growth of 4.2% in 2022, when the economy will return to its 2019 size. Economic growth in 2022–26 will be driven by robust private consumption and investment growth."

Source: EIU



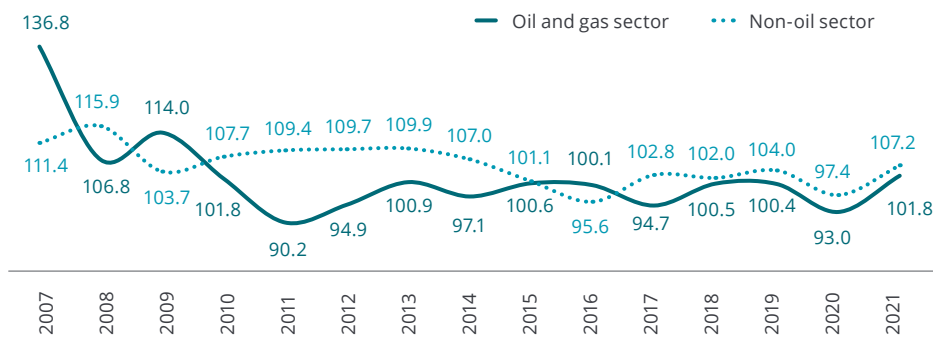
"Our economy is growing, and I am sure that it will get even bigger by the end of the year. It is also gratifying that our non-oil sector has grown by more than 5%. This is a really big figure, a big indicator, a manifestation of the work done."

Ilham Aliyev
President of the Republic of Azerbaijan

Key macroeconomic indicators

In 2021, the non-oil sector increased by 9.8%, which is higher than the 8.8% growth of the oil sector.

GDP Growth by sector, %



In 2021, the oil sector has grown by 8.8% in a year. The non-oil sector also followed this trend increasing by 9.8%.

A substantial increase in Azerbaijan's GDP growth in both sectors can be observed from 2020 to 2021.

Source: the State Statistical Committee of the Republic of Azerbaijan

S&P and **Fitch** forecasts changed from negative in 2020 to **stable** in 2021. At the same time, **Moody's** approved a Ba2 rating for Southern Gas Corridor CJSC, upgrading its outlook from **stable** to **positive**.



Agency	Azerbaijan's Credit Rating for 2020			Azerbaijan's Credit Rating for 2021		
	Rating	Forecast	Date	Rating	Forecast	Date
Fitch	BB+	Negative	10 Apr 2020	BB+	Stable	12 Nov 2021
S&P	BB+	Negative	23 Oct 2020	BB+	Stable	22 Jan 2021
Moody's	BA2	Stable	26 Aug 2020	BA2	Positive	13 Oct 2021





Key macroeconomic indicators

Brent oil price forecast

Brent oil price forecast, USD/barrel

	2020*	2021*	2022	2023	2024
EIU	53.0	70.4	75.5	66.0	61.0
IMF	50.0	66.9	65.9	63.0	61.0

* Fact



"Demand next year will rise by 3.4% to 99.86 million barrels per day (bpd), and will average more than 100 million bpd in the second half of 2022."

"Solid expectations exist for global economic growth in 2022. These include improved containment of COVID-19, particularly in emerging and developing countries, which are expected to spur oil demand to reach pre-pandemic levels in 2022."

(c) OPEC Monthly Oil Market Report

Natural gas price forecast

Natural gas price forecast, USD/mmbtu

	2019*	2020*	2021*	2022	2023	2024
Henry HUB						
EIU	2.57	2.02	3.85	3.74	3.27	-
WB	2.5	2.01	4.1	3.9	3.7	3.7
Europe						
EIU	4.8	3.3	16.1	15.3	7.23	-
WB	4.5	4.5	14.5	12.3	8.8	8.4

* Fact



"A total of 400 million standard cubic feet of gas per day are to be added to current production — this is enough to supply two million homes when fully ramped up, enabling Shah Deniz 2 to increase overall production to well over 2.4 billion standard cubic feet per day across the assets."

(c) BP

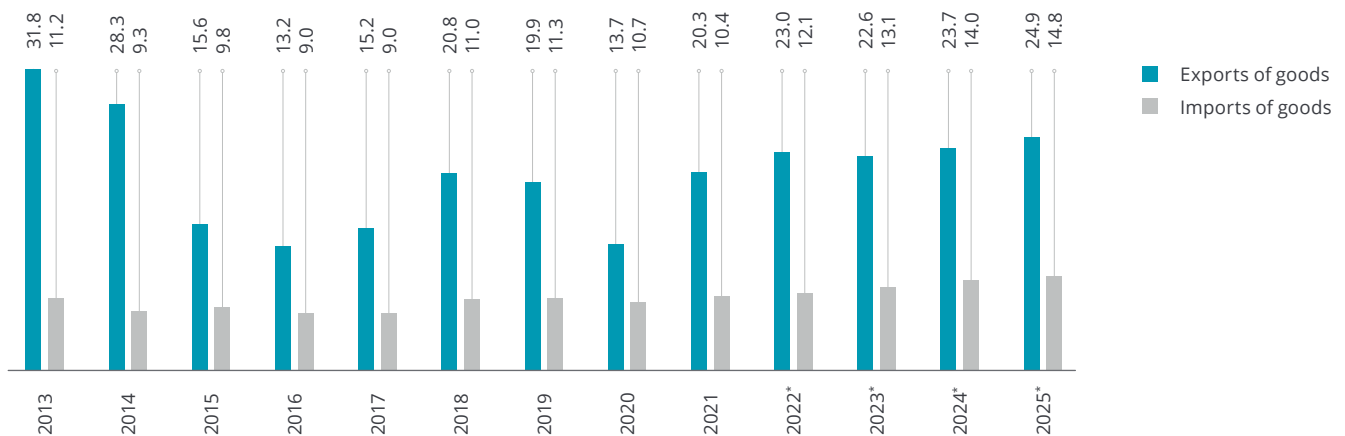




Key macroeconomic indicators

Azerbaijan's trade balance for 2021 is resulted with a surplus of USD 9.9 bln, and forecasts for the upcoming years are favorable.

Foreign Trade, USD bln



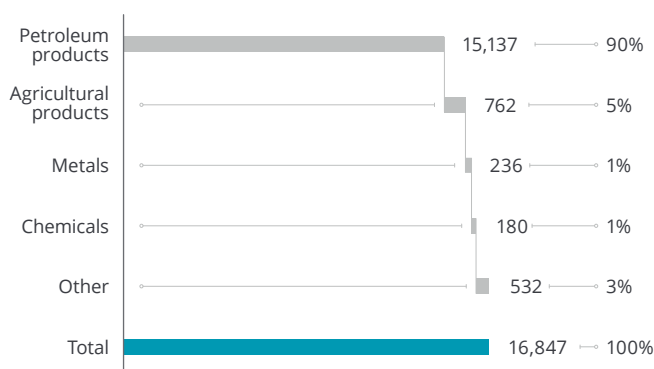
Source: the State Customs Committee, the State Statistical Committee

* EIU forecast

By the end of 2021, Azerbaijan's exports consist of USD 20.3 bln, while imports constitute USD 10.4 bln. Trade surplus tripled from USD 3 bln in 2020 to USD 9.9 bln in 2021. For the next four years, Azerbaijan's trade balance is forecasted to be consistently positive.

Azerbaijan's main trading partners are Italy, the United Kingdom, the United States, Turkey, Israel, France, Indonesia, Russia, Germany, and India.

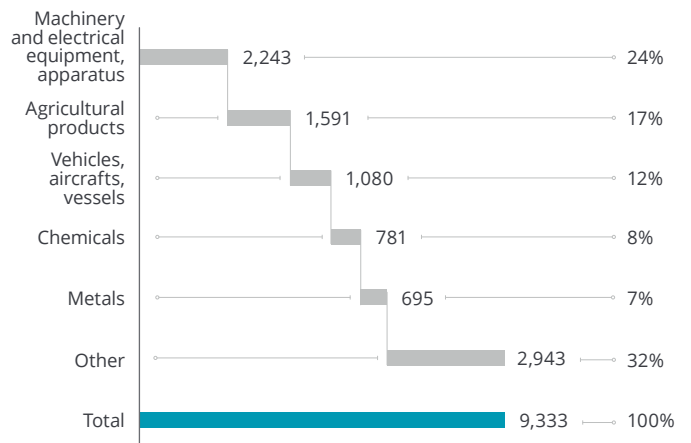
Structure of goods exported, USD mln



Source: the State Customs Committee (2021 figures cover data as of October 2021)

Petroleum products accounted for the largest share of exported goods (89.8%), followed by agricultural products, comprising 4.5% of total exported goods.

Structure of goods imported, USD mln



Machinery and electrical equipment made up the highest percentage of imported goods in 2021, accounting for 24% of total imports.

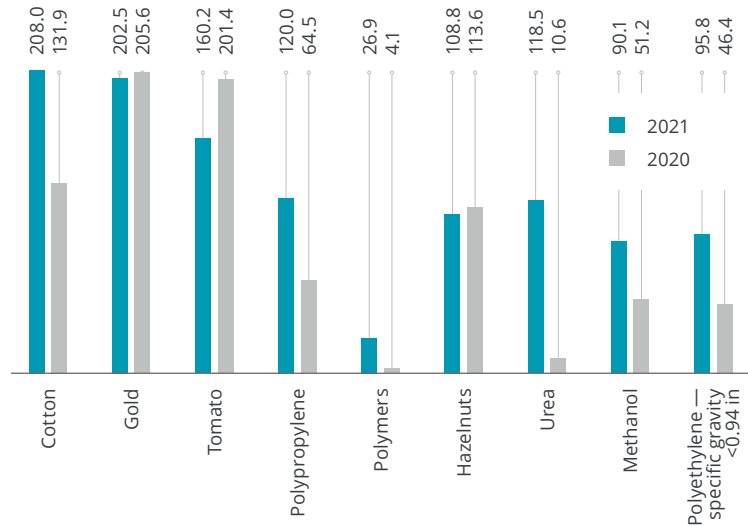


Key macroeconomic indicators



List of main non-oil goods exported in 2021, USD mln

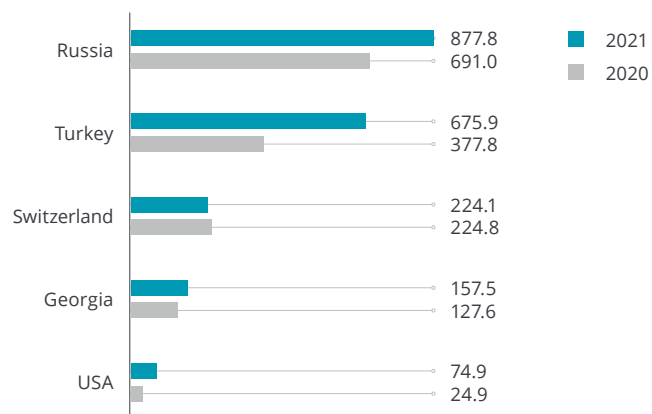
In 2021, Azerbaijan's top non-oil export product once again included cotton (USD 208 mln) and gold (USD 202.5 mln). Notably, tomato exports dropped by approximately USD 41.2 mln.



Source: Center for Analysis of Economic Reforms and Communication

Top five export destinations in the non-oil sector in 2021, USD mln

Russia retained its leading position as the top export partner. Exports to Turkey (USD 675.9 mln) increased by USD 298.1 mln.

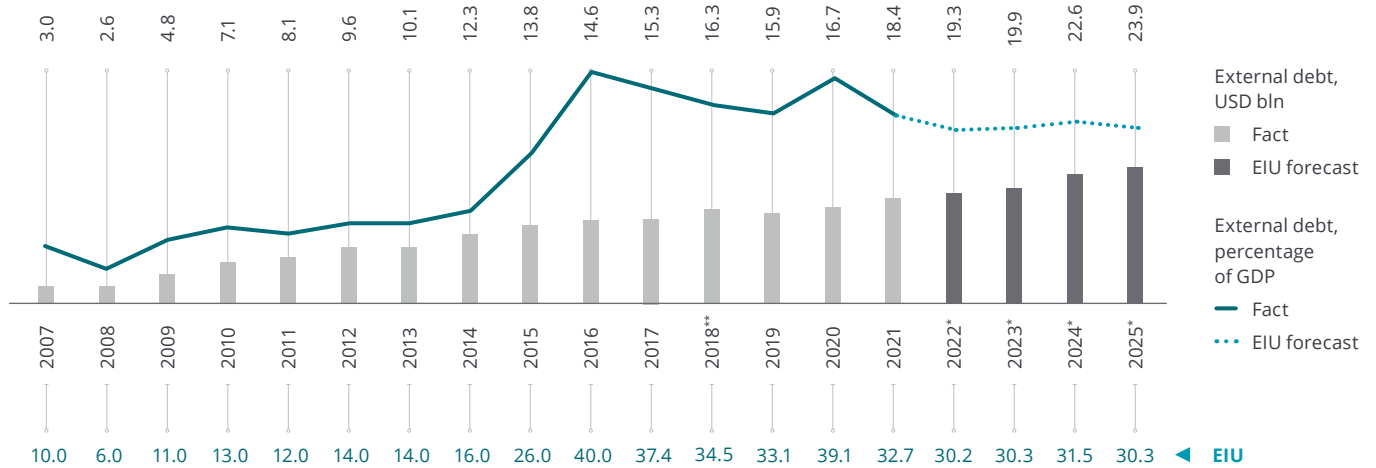


Source: Center for Analysis of Economic Reforms and Communication

Key macroeconomic indicators

Azerbaijan's external debt has increased by USD 1.7 bln. Nevertheless, foreign exchange reserves have grown by USD 600 mln.

External debt, USD bln



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

* EIU forecast

** Including USD 8.9 bln of sovereign debt as of 31 December 2018

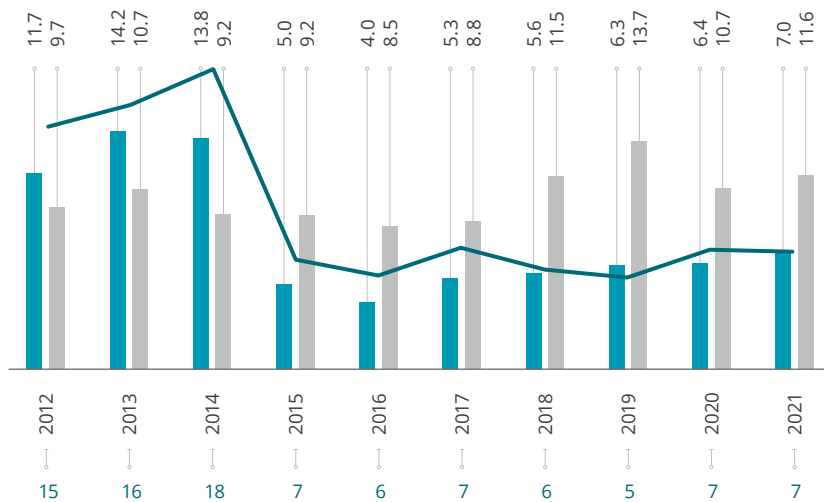
According to the EIU, external debt is expected to remain elevated in 2021, at 32.7 % of GDP, which is still low by emerging-market standards. By the end of 2022, external debt is anticipated to return to pre-crisis levels.



"We plan to reduce Azerbaijan's foreign debt to 10% of the GDP by the end of 2030"

Ilham Aliyev
President of the Republic of Azerbaijan

Foreign exchange reserves



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

* EIU forecast

■ Foreign exchange reserves, USD bln
■ Imports, USD bln
— Imports coverage by reserves, months

"As you know, my general instruction to the government was that we should not allow the reduction of foreign exchange reserves. If necessary, we should reduce costs, especially investment costs, but we must keep our foreign exchange reserves stable and try to increase them."

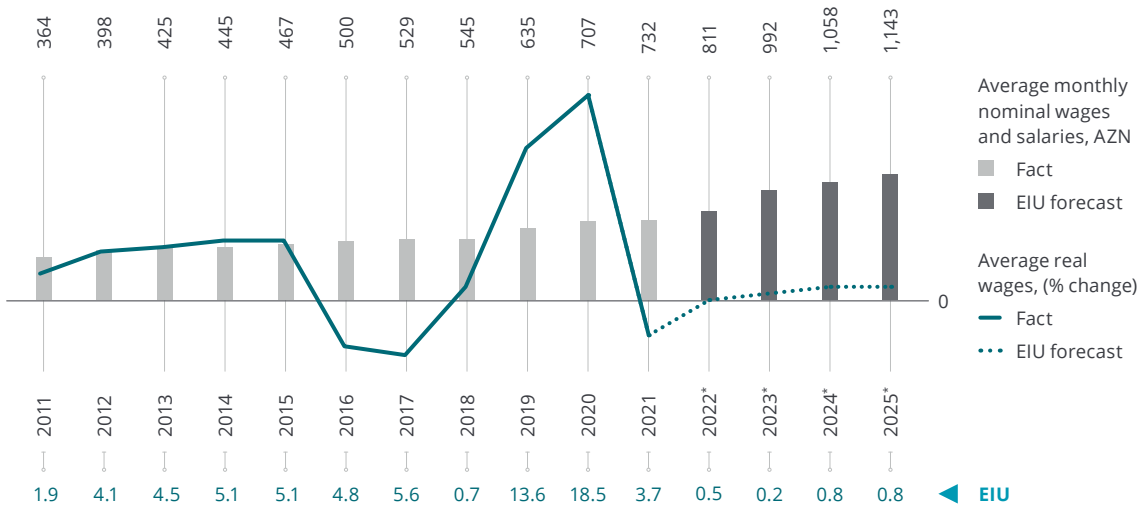
Ilham Aliyev
President of the Republic of Azerbaijan



Key macroeconomic indicators

The average salary in 2021 was higher than in 2020, and it is expected to increase in the future due to the recent social welfare reforms.

Change in average monthly salary



Source: for historical data — the Central Bank of the Republic of Azerbaijan

* Forecast — EIU

In 2022, Azerbaijan will increase its minimum wage from AZN 250 to AZN 300.

This reform is expected to cause average salaries to rise in the next years. In 2021 the average salary constituted ~AZN 732.1, which is expected to grow to ~AZN 811 in 2022, increasing steadily in the upcoming years.

According to the EIU forecast, the average real wage change rate for 2021 was -3.7%, which could have been caused by an increased inflation rate.



"In 2022, the average monthly salary in Azerbaijan is estimated to be AZN 807... The real growth rates of average monthly wages next year are projected at 4.5%."

Mikail Jabbarov
Minister of Economy of the Republic of Azerbaijan



"Next year, we expect that the average size of retirement pensions in Azerbaijan will increase from AZN 358 to AZN 375. The average size of labor retirement pensions for the first 10 months of the current year was AZN 331."

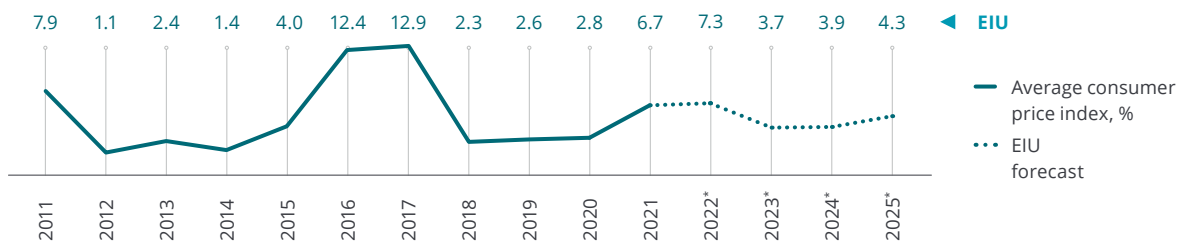
Sahil Babayev
Minister of Labor and Social Protection of the Population of Azerbaijan



Key macroeconomic indicators

Azerbaijan has experienced an increase in consumer price index due to the pandemic, challenges with global supply chain and elevated raw material & logistics costs

Average consumer price index, %



Source: for historical data — the Central Bank of the Republic of Azerbaijan

* Forecast — EIU

Since the beginning of 2021, the rise in prices for energy resources (diesel fuel, gasoline) and water consumed by the population has led to a significant increase in prices for consumer goods in the country.

According to the State Statistics Committee (SSC), in September of 2021 prices for certain products rose in comparison to previous periods.

According to the Head of CBAR, the inflation rate in 2022 is forecasted to be in the range of 6–7% per annum. The current figure for 2021 constitutes 6.7%, a 3.9% increase from last year.



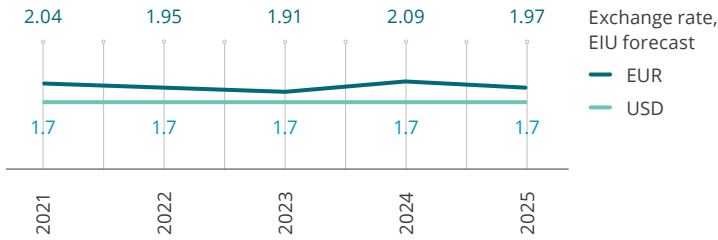
"We have imported inflation! This is especially true of the food sector, where the inflation rate is more than 30 percent for the second year in a row according to the Food and Agriculture Organization of the United Nations (FAO). The reasons are well known: the pandemic, the destruction of global supply chains, the rise in costs of raw materials and logistics costs... Meanwhile, the inflation rates in Azerbaijan are spurred on by the recovery of the global economy in general, as well as our own."

Elman Rustamov
Head of CBAR

Key monetary indicators

EUR and USD vs. AZN

According to an EIU forecast, the EUR to AZN exchange rate will remain stable during upcoming years; in contrast, the USD to AZN exchange rate will fluctuate.



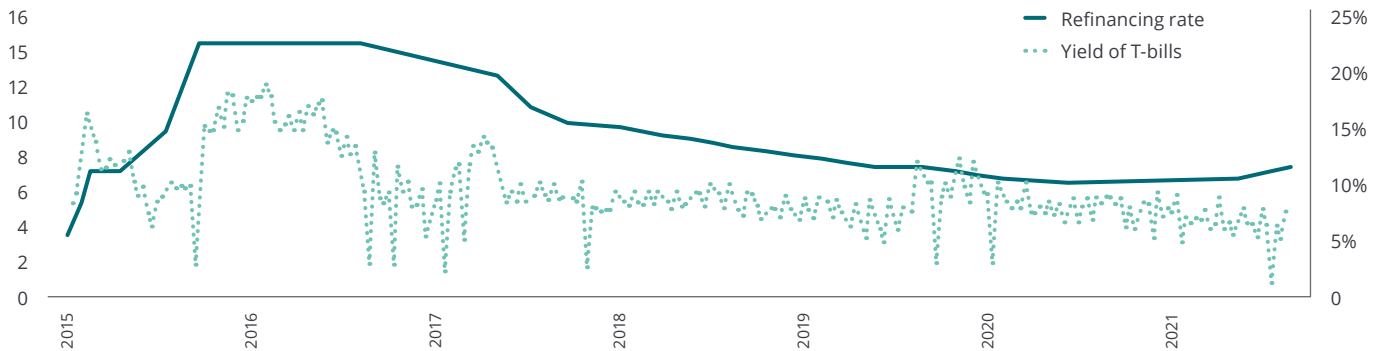
Source: for historical data — the Central Bank of the Republic of Azerbaijan
* Forecast — EIU



"All calculations are based on the current exchange rate of the manat (USD/AZN – 1.70 AZN – ed.). There is no threat of depreciation of the manat this year or next. On the contrary, in the current context, there is pressure to strengthen the manat."

Elman Rustamov
Head of CBAR

Refinancing rate and yield of T-bills, %



Source: the Central Bank of the Republic of Azerbaijan
* EIU forecast



"The refinancing rate was kept at 6.25 percent, the lower limit of the corridor at 5.75 percent, and the upper limit at 6.75 percent. The decision regarding the refinancing rate took into account current inflation dynamics, changes in the risk balance of inflation since the last meeting, and medium-term inflation forecasts and expectations."

Elman Rustamov
Head of CBAR

In 2021, CBAR increased the refinancing rate from 6.25% to 6.5% compared to 2020.



02

Overview of the agricultural sector





Agricultural Reforms and Indicators

Azerbaijani government has recently launched several important agricultural reforms to increase the effectiveness and productivity of the industry and to establish sound agricultural base.

Major latest reforms in agricultural industry



Reform #1

Digitalization of the agricultural subsidy system

Subsidies are provided to farmers through Electronic Agricultural Information System. By filling the electronic application form farmers can apply for subsidies.

Reform #2

Increased role of private sector in agricultural industry

Share and involvement of the private sector in the agriculture through the supply of fertilizers, pesticide sales and the provision of agricultural services has been increased significantly. Previously, only one state-owned company was involved in this activities, nevertheless, recent changes invited private entities and individuals to get actively involved in this which allows to enhance the dynamism of the industry.

Reform #3

Establishment of the Agrarian Insurance Fund

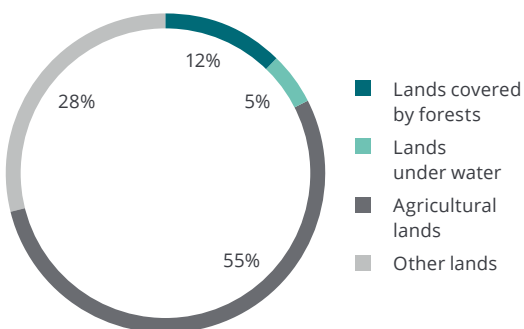
At present, the Agrarian Insurance Fund insures 48 agricultural products on 29 risks. This insurance system protects farmers from risks, increases effectiveness in this area and makes it more attractive to investors.

Reform #4

Establishment of the State Agrarian Development Centers

The State Agrarian Development Centers (SADCs) have been established on the basis of the provision of the necessary services to industry participants. At present, total number of services provided in SADCs are 72.

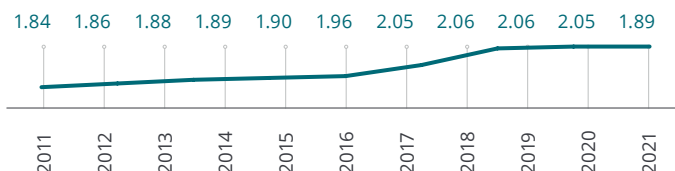
Use of agricultural land in Azerbaijan



In 2021 agricultural lands constitute 55.2% of all lands of Azerbaijan Republic. More than half of the lands are used for hayfields and pastures. Moreover 12% are lands covered by forests, and 4.6% are covered under water.

Utilized agricultural area by the end of the year, ha mln

During 2010–2021, the amount of arable land in the country grew: as of 2021, the sown area had increased by 50000 hectares since 2010, amounting to 1.89 million hectares.



Source: the State Statistical Committee, Ministry of Agriculture of the Republic of Azerbaijan



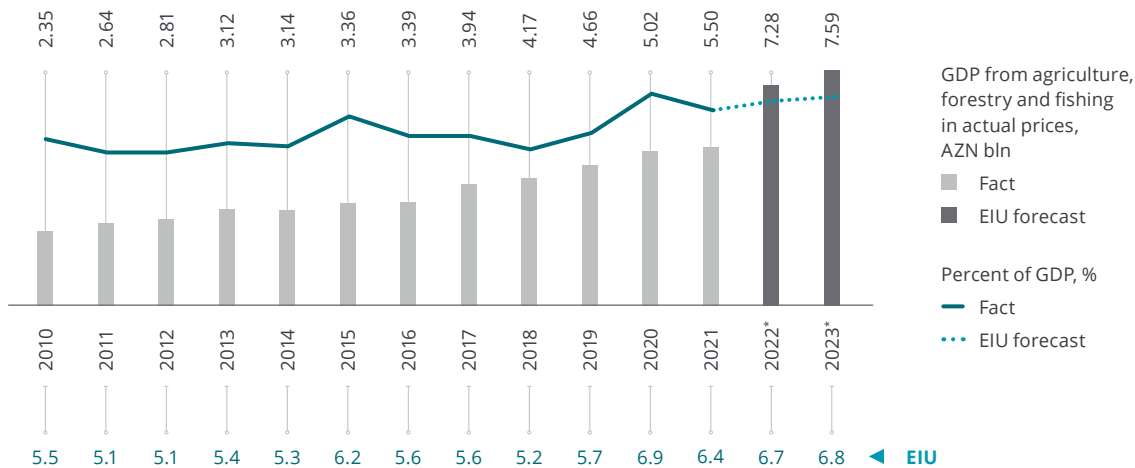
"It is important to mention the significance of agroparks for the efficient use of arable lands and the expanded production of environmentally friendly products."

Inam Karimov
Minister of Agriculture



Agricultural Indicators

GDP from agriculture, forestry and fishing in actual prices



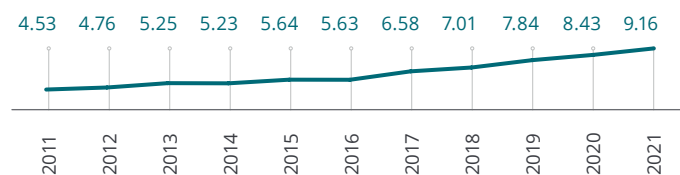
Source: the State Statistical Committee

* EIU forecast

GDP from agriculture, forestry and fishing has increased since 2010. The highest increase can be observed in 2016, when there was a AZN ~560 mln increase from AZN 3.387 bln in 2016 to AZN 3.944 bln in 2017. According to the EIU, the agricultural share of GDP is expected to be fairly consistent during 2021–2023, amounting to 6.8% of GDP in 2023.

Gross output of agriculture, actual prices, AZN bln

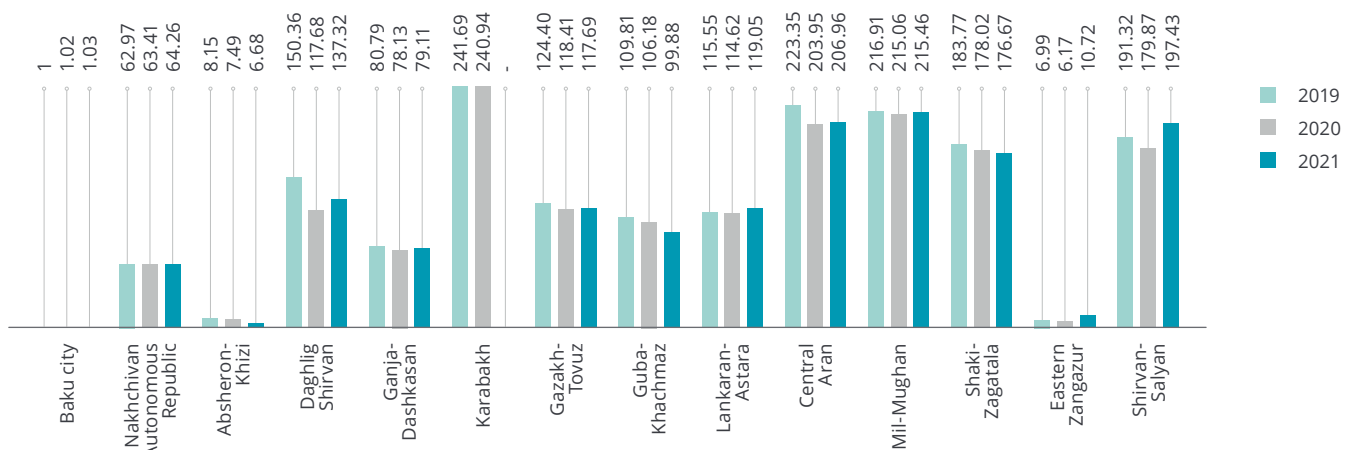
Gross value added at producer prices has been increasing since 2011, reaching its peak of AZN 9.16 bln by the end of 2021.



Source: the State Statistical Committee, 2021 figures are as of November 2021

Total sown area under agricultural crops per economic region, ha k

The economic regions with the largest total sown area are Karabakh, Shirvan-Salyan, Central Aran and Mil-Mughan. In these regions, a slight increase in the amount of total sown area can be observed from 2020 till 2021.



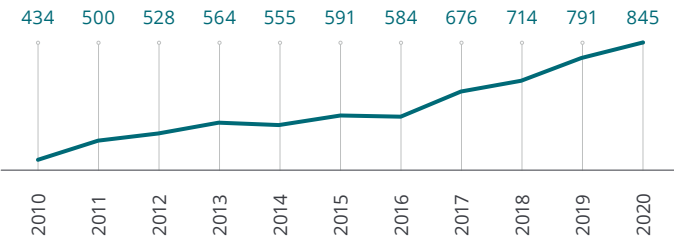
Source: the State Statistical Committee



Agricultural Indicators

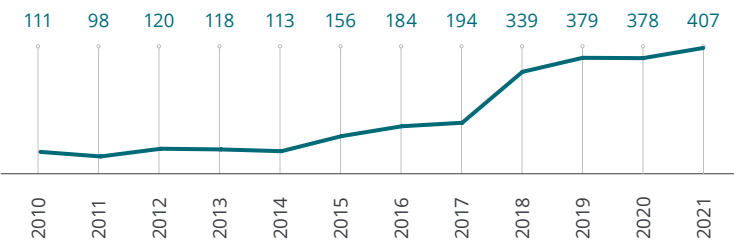
Gross agricultural output. Agricultural production. Subsidies and budget funds allocated to agriculture

Production of agricultural products, per capita, gross agricultural output, AZN



Per capita agricultural production was on a rapidly increasing path in 2010–2020, reaching a peak of AZN 845 in gross agricultural output in 2020.

Total amount of subsidies and budget funds, AZN mln



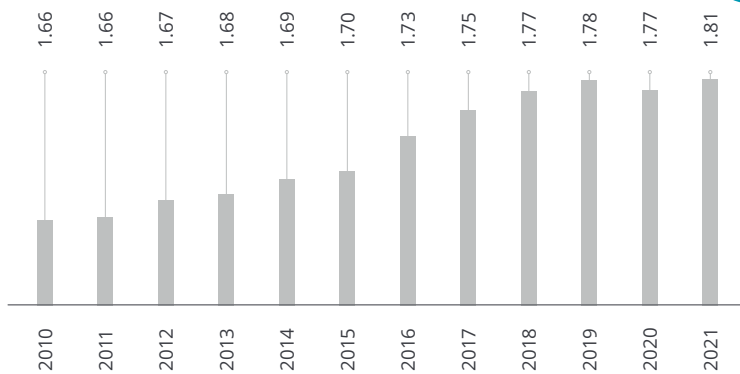
In 2021, more than 45,000 farmers received seasonal and annual agricultural subsidies. According to the Agrarian Credit and Development Agency, this agricultural subsidy covers an area of more than 82,000 ha.

Source: the State Statistical Committee

Distribution of the employed population in agriculture, forestry and fishery

The number of people employed in agriculture, forestry and fishery has been increasing since 2010. In 2021, this trend increased by 39,100 — from 1.77 mln people in 2020 to 1.81 mln people in 2021.

Employed number of people in agriculture, forestry and fishery, people mln



"Agroparks play an important role in increasing employment. So far, a total of 5,000 people have been provided with permanent jobs, and more than 4,500 people have received seasonal jobs, in agricultural parks. We plan to create more than 4,300 additional jobs at both existing and planned agroparks."

Mikayil Jabbarov
Minister of Economy

Source: the State Statistical Committee, Ministry of Agriculture of the Republic of Azerbaijan



Agricultural Indicators

Foreign trade in agriculture

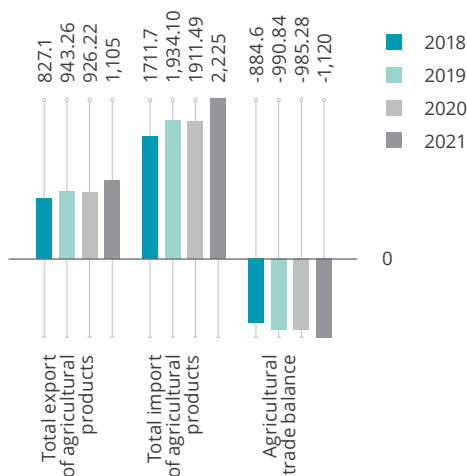
In 2021, agricultural trade balance was at its lowest, showing a 14% decrease since 2020.



"We have managed to bring to innovative technologies to Azerbaijan and smart agricultural examples applied in the world through scientific research institutes and leading agricultural companies. At present, our main goal is to expand the application of these technologies in agriculture each year. Through the application of specifically these innovations, due to increased productivity, during the next decade, the average annual growth rate in agriculture will be approximately 4%. According to OECD and FAO forecasts, global agriculture is expected to grow by an average of 1.4% annually in the next decade if global economic growth records 3.4% per year."

Inam Karimov
Ministry of Agriculture

Agricultural trade balance, USD mln

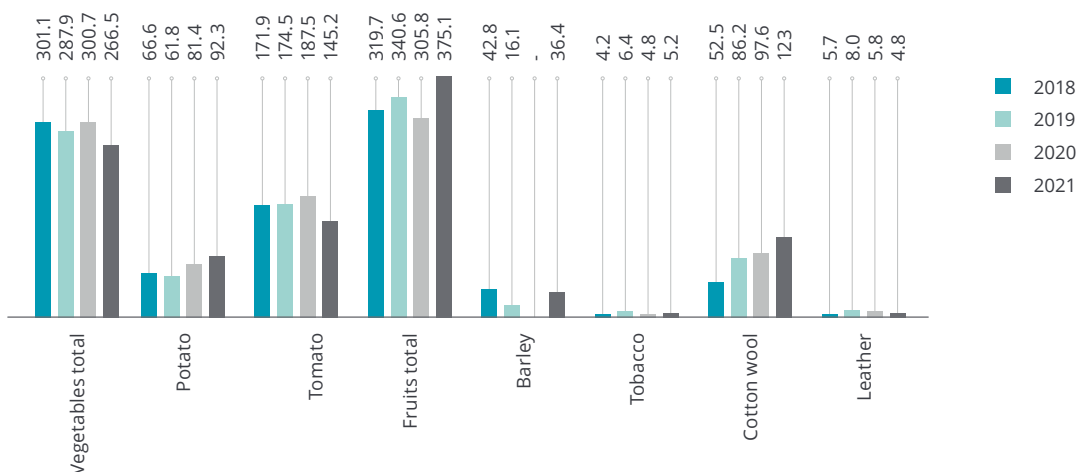


Source: the State Statistical Committee, Ministry of Agriculture of the Republic of Azerbaijan

Agricultural trade by volume

A relative increase in export of key products can be observed in 2018–2019. In contrast, in 2020–2021 there was a decrease in export volumes. The most exported products were potatoes, tomatoes and fruit, while the least exported key products were barley, tobacco and leather. In 2021, potato exports increased by 10.9 k ton compared to 2020, tomato exports decreased by 42.3 k ton and fruits total exports increased by 69.3 k ton for the same period.

Top exported agricultural products, quantity, thousand ton



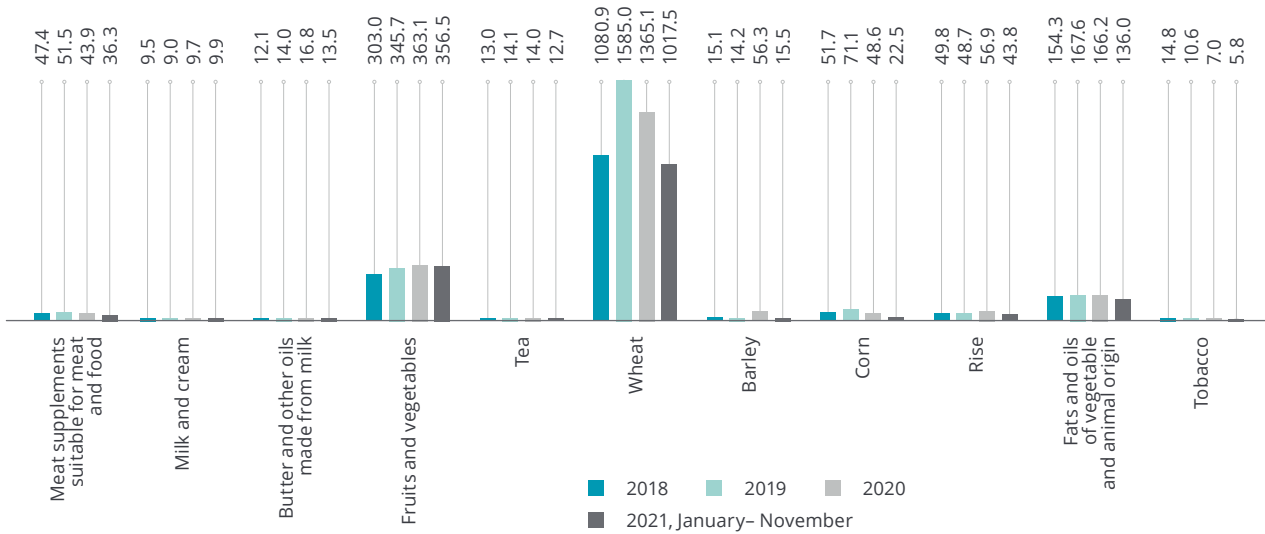
Source: Ministry of Agriculture of the Republic of Azerbaijan

Agricultural Indicators

Agricultural trade by volume

A relative increase has been observed in volumes of imports of agricultural products during 2018–2020. The most imported products were wheat, fruits, and vegetables.

Top imported agricultural products, quantity thousand ton

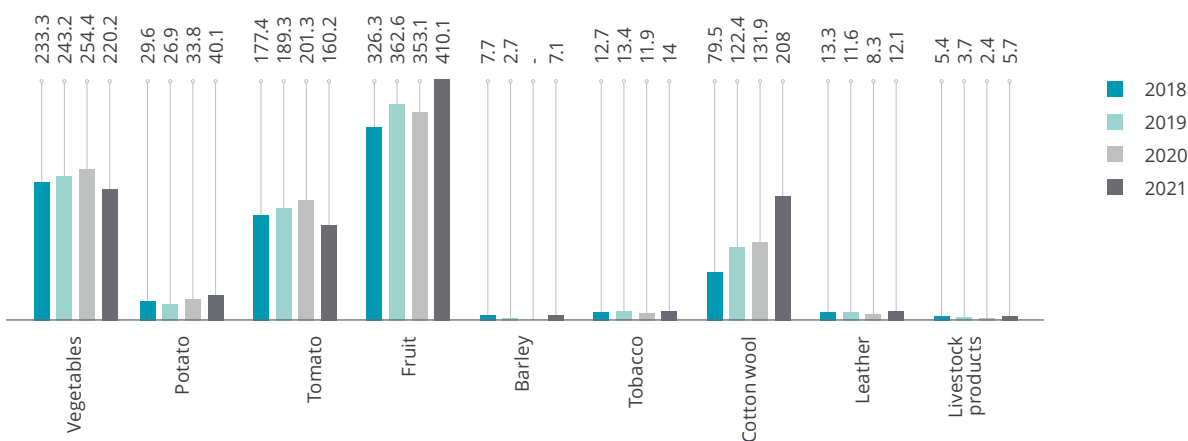


Source: Ministry of Agriculture of the Republic of Azerbaijan

Agricultural trade by value

A sharp increase in export value was observed during 2018–2021. In 2021, the total export of agricultural products increased by USD 115.1 mln in value terms on 2020, from USD 762.1 mln to USD 877.2 mln. This was mainly due to increased exports of fruit and cotton/wool products.

Top exported agricultural products, amount, USD mln



Source: Ministry of Agriculture of the Republic of Azerbaijan

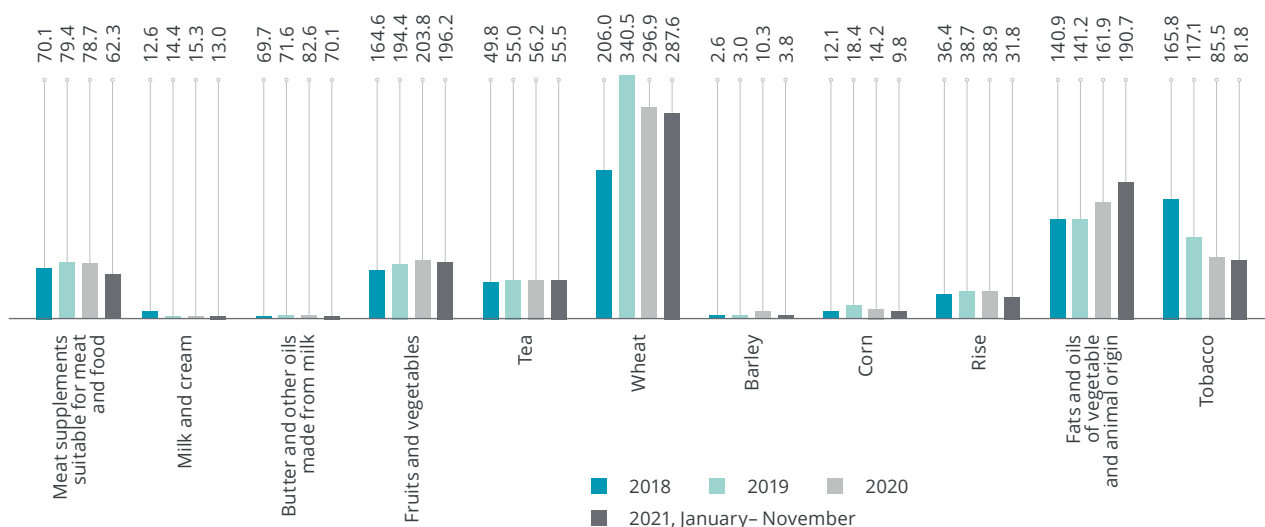


Agricultural Indicators

Agricultural trade by value

In 2018–2019, a relative increase in the value of imports of agricultural products was observed. There was a relative decrease of the value of imports in 2020.

Top imported agricultural products, amount USD mln

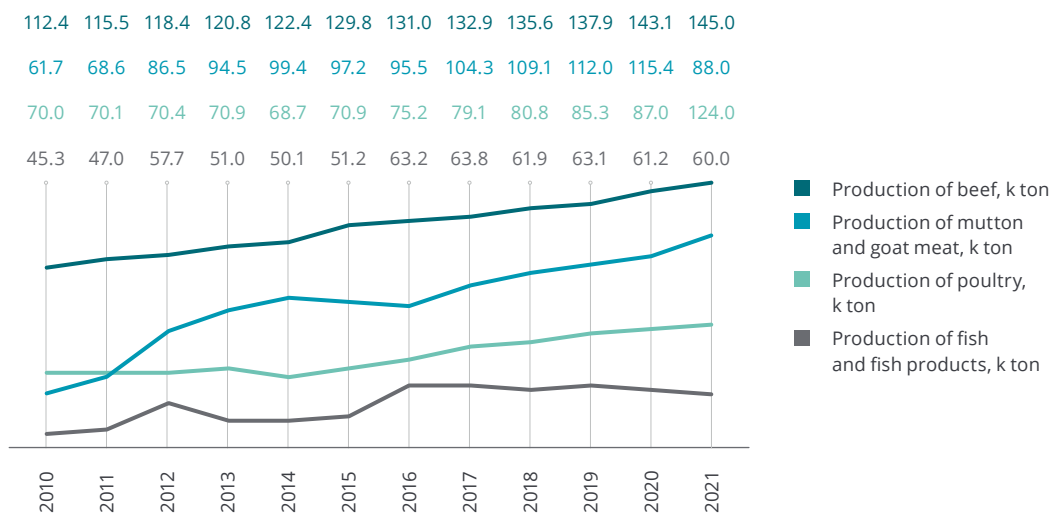


Source: Ministry of Agriculture of the Republic of Azerbaijan

Production of fish, beef, mutton, goat meat, and poultry

Production of fish products was stable during 2016–2021. Meanwhile, production of poultry at agricultural enterprises has increased sharply since 2016. Production of mutton, goat meat and beef has increased stably since 2010 compared to production of fish and poultry, where production fluctuated.

Production of fish, beef, mutton, goat meat, and poultry, dressed weight



Source: the State Statistical Committee



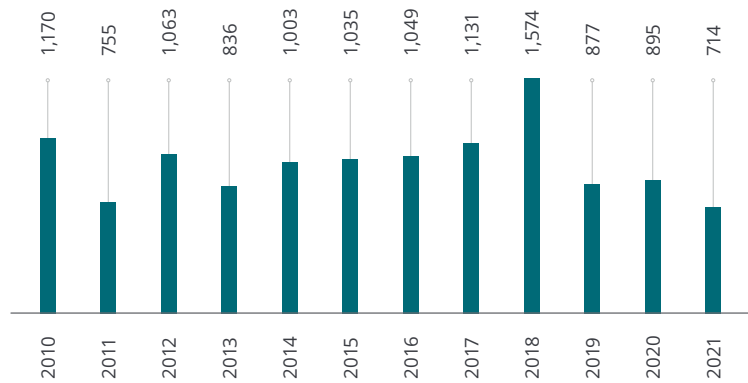
Agricultural Indicators

Production of wine, tomatoes and cotton

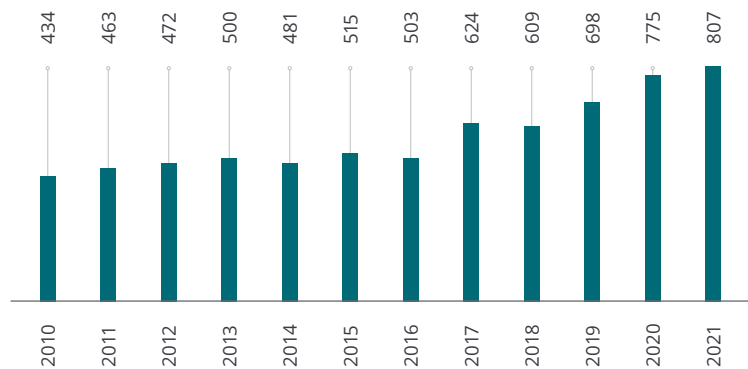
Production of cotton has been increasing, reaching its peak in 2020 at 336,800 tons. Likewise, tomato production has increased by 85.9% since 2010, amounting to 807,000 tons in 2021. However, production of wine has been less stable, with fluctuations during 2010–2021.



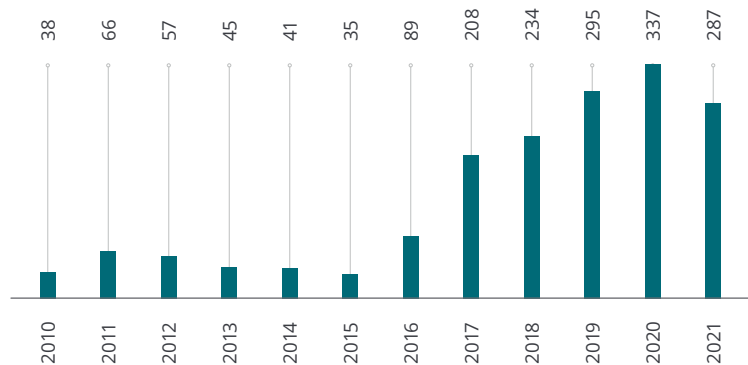
Production of wine, dcl k



Production of tomato, ton k



Production of cotton, ton k



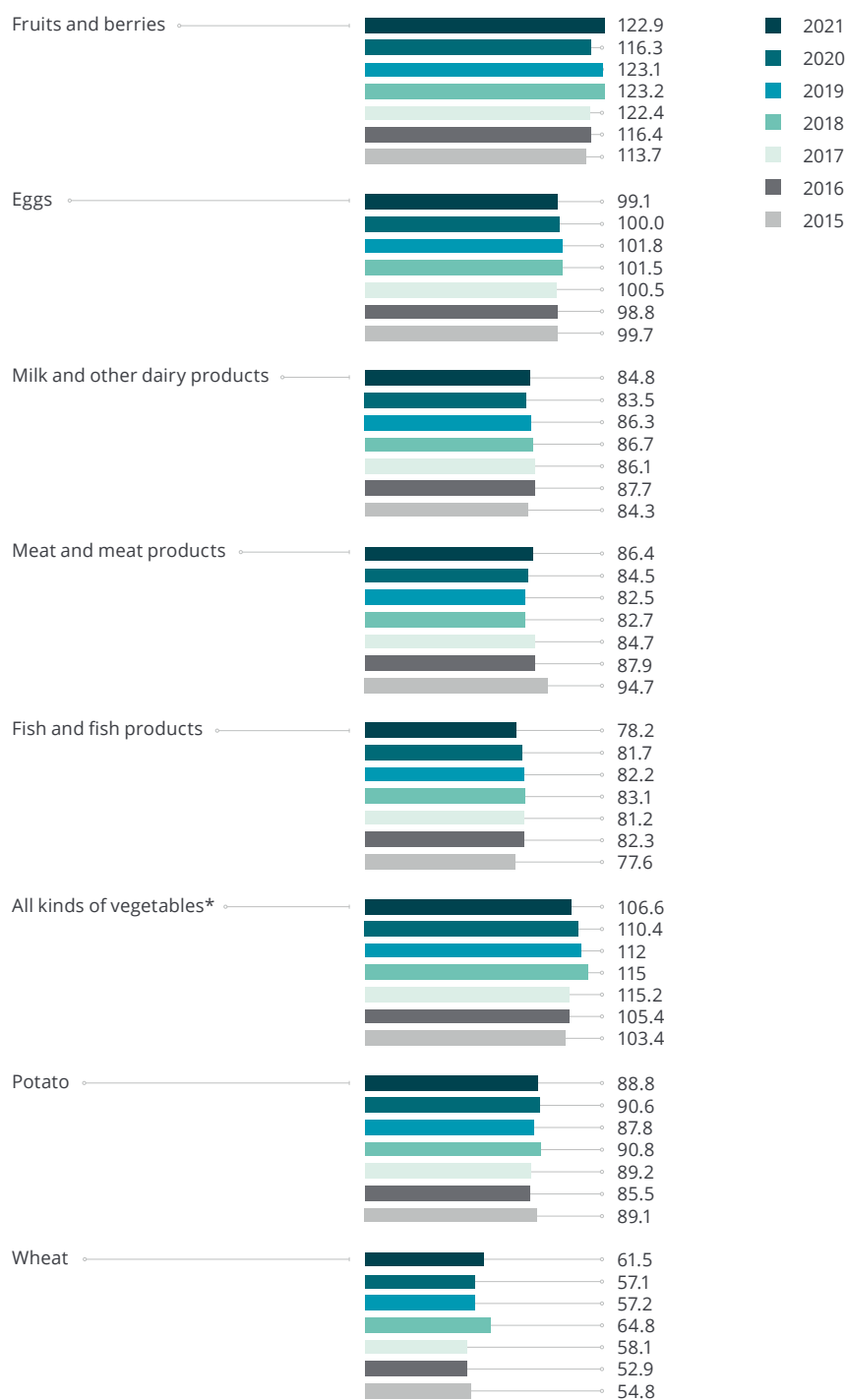
Source: the State Statistical Committee



Agricultural Indicators

Level of self-sufficiency in agricultural products, percent

The country is self-sufficient in terms of fruit, vegetables and eggs, although it is partially dependent on import for all types of meat products, dairy products, wheat, and potato.



Source: the State Statistical Committee

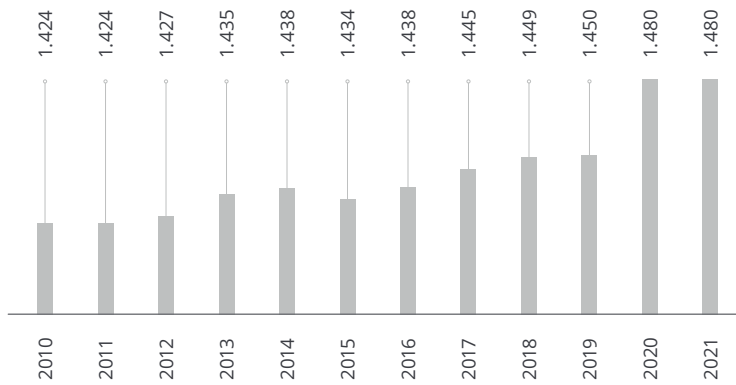
* Except for potato



Agricultural Indicators

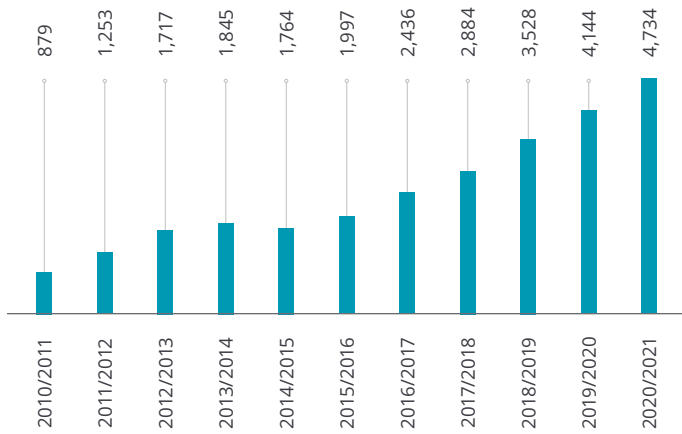
The area of total irrigated lands has tended to increase, since 2015 amounting to 1.48 mln (ha) in 2021.

Total irrigated lands, ha mln



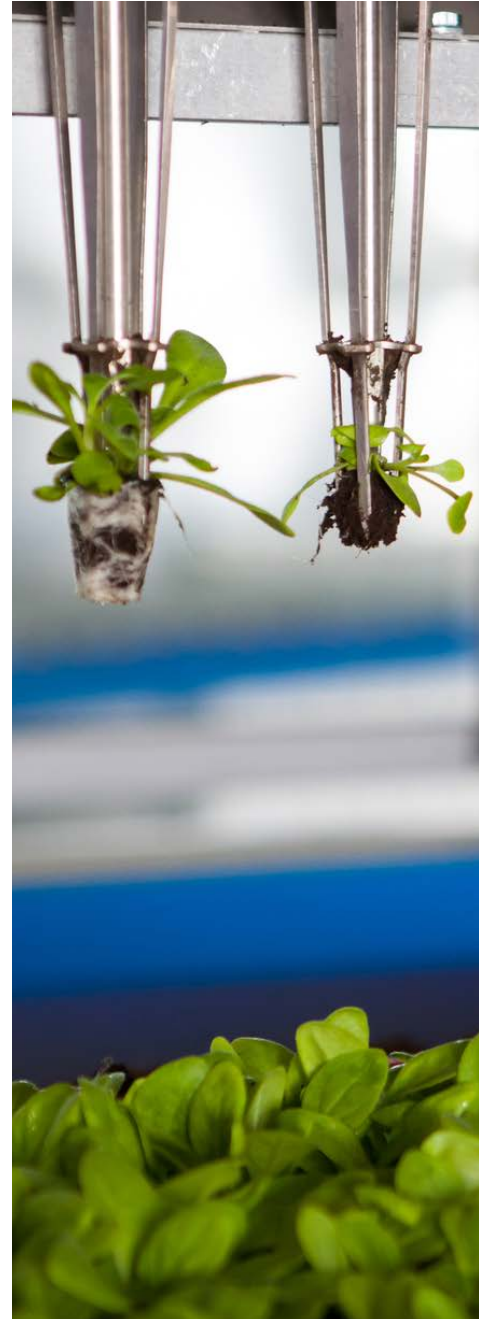
Source: the State Statistical Committee

Number of students in state and non-state higher educational institutions



■ By field of study, agriculture

Source: the State Statistical Committee

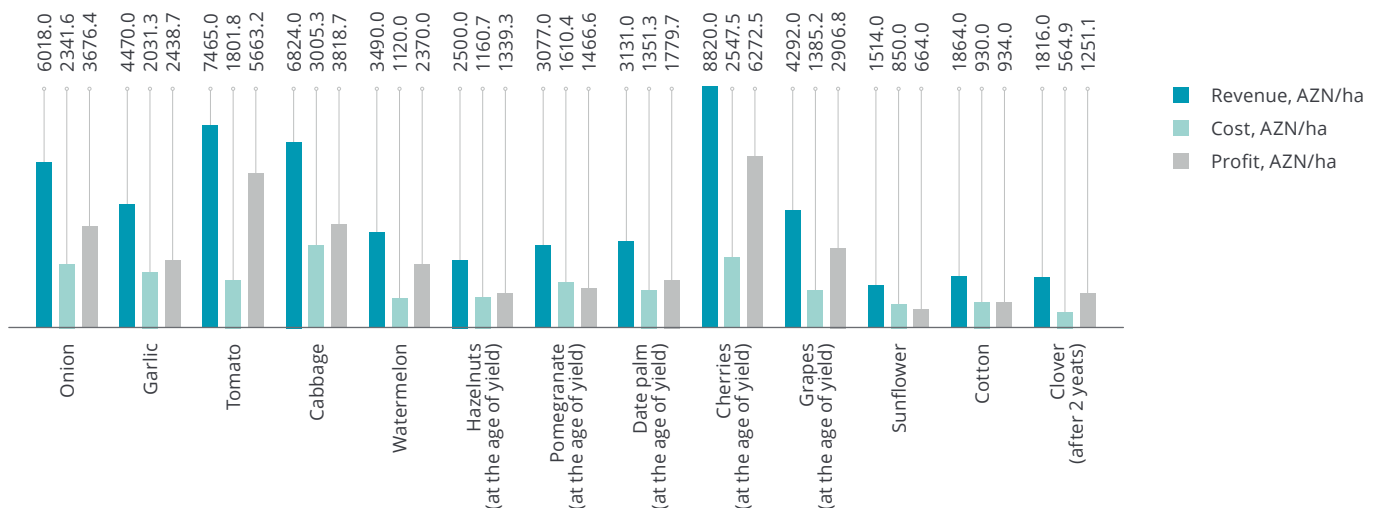




Agricultural Indicators

Revenue and cost indicators of the main crop products for 2020

Crop products with highest revenue indicator are cherries, potato and tomato. Relatively, profit of these products: cherries (AZN 6275.5), tomato (AZN 5663.2) and potato (AZN 3392.3) has the highest rate.



Source: Farm Data Monitoring System (FDMS)

66 The activity of the Ministry of Agriculture is based on three principles — cooperation with farmers, use of innovations, transparent and effective management. The Electronic Agricultural Information System is an innovation that incorporates these three principles.

Inam Karimov
Ministry of Agriculture

66 Total production of agriculture, as well as profit and revenue from the sale of agricultural products, increased throughout 2018–2020. One reason for this is that agriculture is one of the four priority sectors for Azerbaijan: the country is focusing on the agrarian and agro-food sector, its modernization, the development of export of agricultural products, and provision of financial support. These measures also contribute to increased production and economic performance of agricultural products from private farming enterprises.

International Trade Administration



03

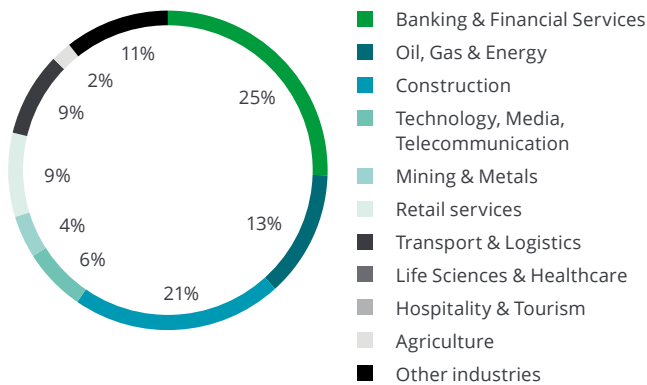
Business confidence survey



Participant statistics



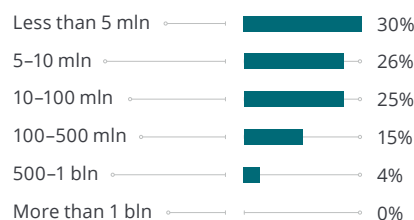
Primary sectors of respondents



Highlights: The majority of respondents are working in banking & financial services (25%). The second largest share of respondents are involved in the construction business (21%).

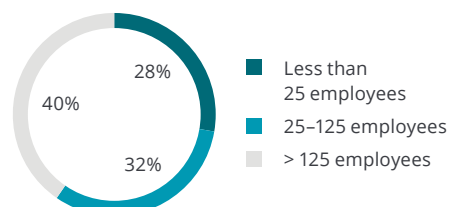
Annual revenue range of respondents (AZN)

Highlights: In total, 30% of respondents generated less than AZN 5 mln in revenue, 26% of respondents generated 5–10 mln, and another 25% of respondents generated AZN 10–100 mln in 2021.



Company headcount of respondents

Highlights: The majority of respondents (40%) employed more than 125 employees; 28% of respondents employed less than 25 employees, and 32% of respondents employed 25–125 employees.

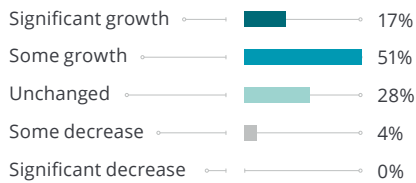




Financial outlook & risks

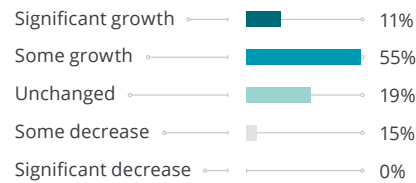
What changes do you expect to key financial and operating metrics at your company over the next twelve months?

Revenue, AZN



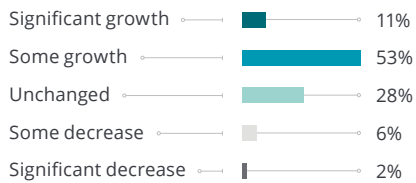
Highlights: More than half of respondents (51%) expected some growth in their company's revenue. Another major share of respondents (28%) didn't expect any change. Meanwhile, 17% expected significant growth in the revenue of their company.

Operating expenses, AZN



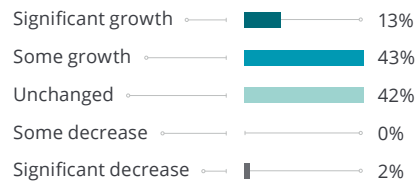
Highlights: More than half of respondents (55%) expected some growth in the operating expenses of their company. A somewhat similar percentage (19% and 15% respectively) either didn't expect any changes or expected some decrease in the operating expenses of their company.

Operating profit, AZN

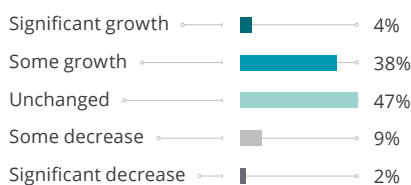


Trends: Similarly to the previous year, in 2021 most respondents expected that operating profit would show some growth (53%).

Cost of capital, AZN

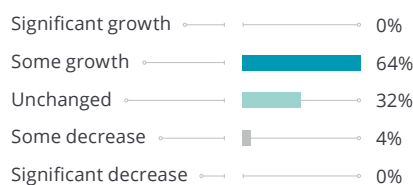


Staff headcount



Highlights: Around half of respondents (47%) didn't expect any changes to company headcount, while 38% of respondents expected some growth in the number of staff.

Average wage/salary

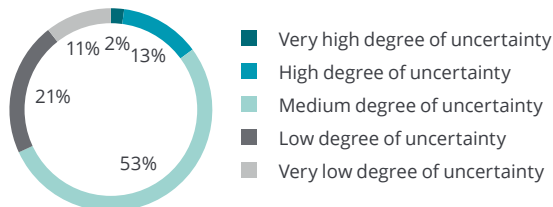


Highlights: During the year, 64% of respondents believed that there would be growth in salaries.

Trends: Compared to last year's results, respondents mostly expected some growth in average wages/salaries (64%). This trend increased by 22% compared to last year's expectations.

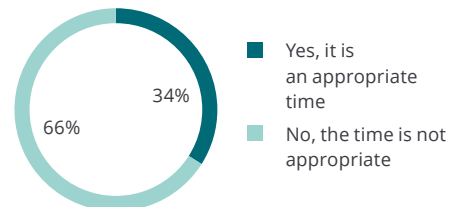
Financial outlook & risks

How do you assess political and economic uncertainty at your company in terms of strategic decision-making?



Highlights: A total of 53% of respondents assessed political and economic uncertainty during strategic decision-making to be medium, while 21% believed levels of uncertainty to be relatively low.

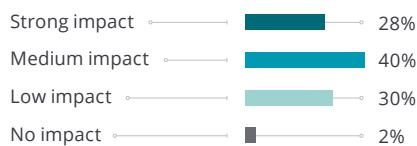
Is now an appropriate time to make risky decisions that may affect the balance sheet?



Highlights: Most respondents believed that now is not the right time to make risky decisions that may affect the balance sheet (66%).

Please evaluate the impact of the risks listed below on your company over the next twelve months.

COVID-19 pandemic



Highlights: Respondents still consider COVID-19 a risk factor, and 40% and 28% respectively deemed its impact either medium or high.

Devaluation of the national currency



Highlights: More than half of respondents (53%) believed that a potential devaluation of the national currency would have a strong impact on their company.

Decrease in demand



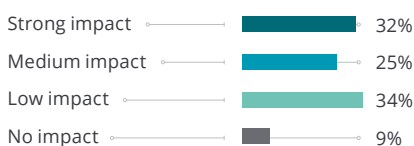
Trends: Of respondents, 46% believed that a decrease in demand would have a strong impact on the company, which is 3% below last year's results.

Difficulties with financing



Highlights: Of respondents, 37% and 30% respectively thought that the impact of financing difficulties would be either medium or strong.

Decrease in cash flow



Increase in production costs



Financial outlook & risks

Please evaluate the impact of the risks listed below on your company over the next twelve months.

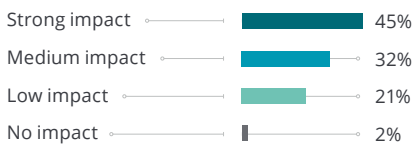
Increased state regulation for businesses in Azerbaijan



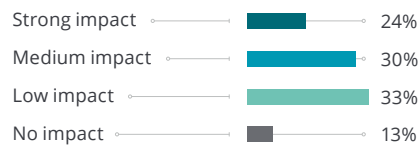
Geopolitical risks



Decrease in core business revenue



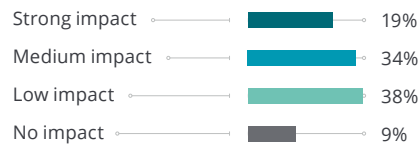
Shortage of suppliers



Cyber threats



Demotivation of employees



Highlights: According to a majority of respondents, cyber threats will have a low impact on their company (42%).

Highlights: Demotivation of employees risk poses low impact for the majority of surveyed respondents (38%). 34% believe that the risk poses medium impact.





Market environment

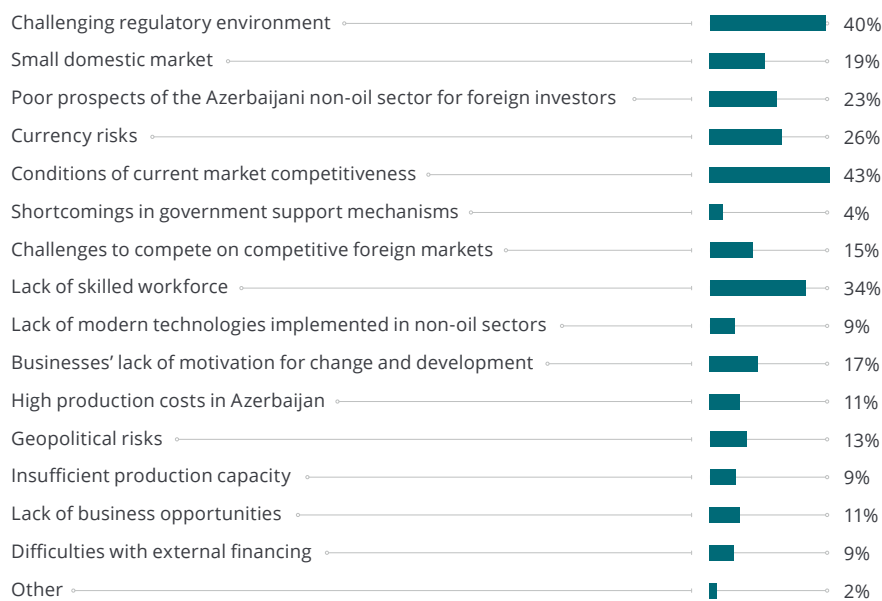
Please select the key industry of Azerbaijan’s non-oil sector that you believe will experience the fastest growth over the next five years.



Highlights: The top three industries anticipated to grow are agriculture (34%), construction and raw materials (15%), and tourism (13%).

Trends: According to the prior year’s respondents, for the next five years the second fastest growing industry was expected to be construction and raw materials, at 15%, while in 2020 it was manufacturing, at 22%.

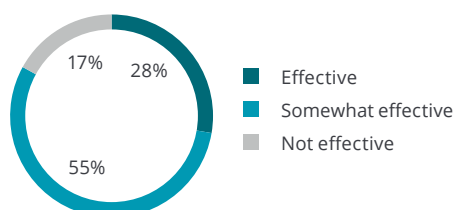
Please evaluate issues that could hinder the growth of Azerbaijan’s economy



Highlights: According to respondents, conditions of current market competitiveness (43%) and the challenging regulatory environment (40%) are most likely to hinder the growth of Azerbaijan’s economy. A total of 34% of respondents believed that a lack of skilled workforce was the issue most likely to hinder growth.

Trends: Speaking about 2020, respondents believed that the challenging regulatory environment and conditions of current market competitiveness were the main obstacles to growth in the Azerbaijani economy.

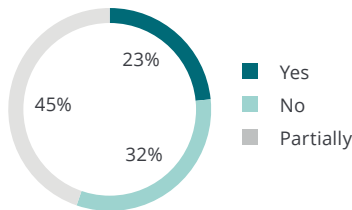
Please assess the effectiveness of the government’s efforts to support and develop the Azerbaijani non-oil sector



Highlights: Of respondents, 55% believed that the government’s support mechanisms are moderately effective at developing the Azerbaijani non-oil sector.

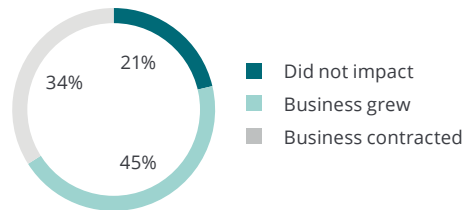
Impact of COVID-19

Did your company change its strategy due to COVID-19?



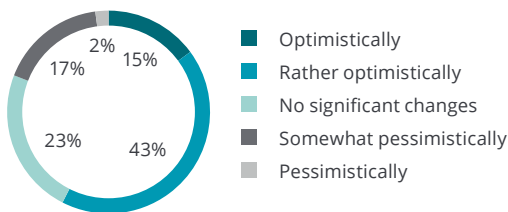
Trends: The largest share of respondents (45%) partially changed their company's strategy due to COVID-19, which is a 10% increase compared to last year's results.

How has COVID-19 impacted your business in 2021?



Highlights: Most respondents (45%) replied that their business had grown during the COVID-19 pandemic in 2021.

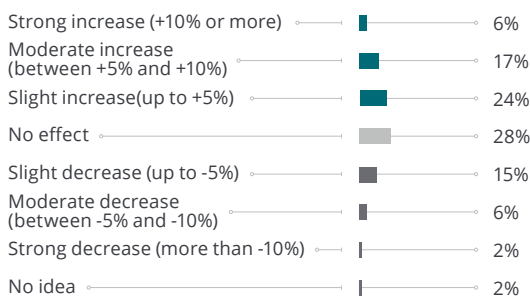
How do you assess the financial metrics of your company today compared with before COVID-19?



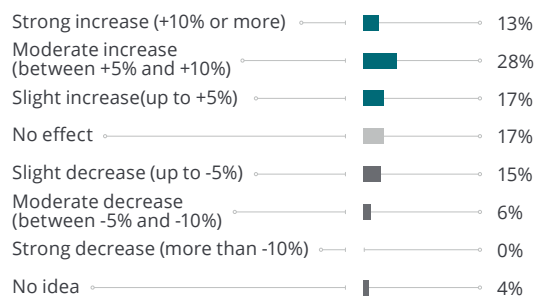
Trends: Compared to last year's results, companies have grown more optimistic. The number of companies who have very optimistic financial metrics has grown by 11% since last year. Furthermore, the number of companies with a more pessimistic outlook has also decreased by around 4%.

Based on the information you have so far and compared to previous forecasts, how do you expect the pandemic to affect the revenues of your company in the short term?

Next six months



Next 12 to 18 months



Trends: Compared to the previous year, responses are optimistic. Around 28% of respondents believe that the pandemic will have no effect on their company's revenue in the next six months, and 17% believe it will have no effect in the next 12 months. This shows that overall, the state of companies is becoming more stable. Around 23% of respondents believe that there will be a slight increase (up to +5%) in revenue in the next three months, and around 28% believe there will be a moderate increase (between +5% and +10%) in the next 12 months due to the pandemic.



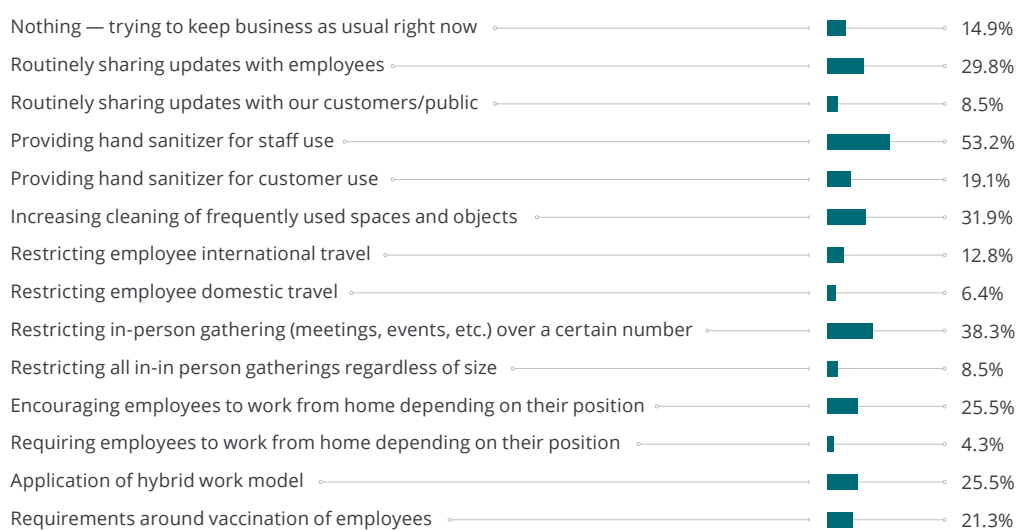
Impact of COVID-19

In terms of your business's recovery from the negative effects of COVID-19 over the next 12 months, please rank the following strategies/actions by priority.



Trends: Over the next 12 months, 71% of companies plan to prioritize additional risk management activities, a 52% increase from last year's result. In contrast to last year, the second most prominent trend is digitalization of business functions, which 61% of companies plan to engage in.

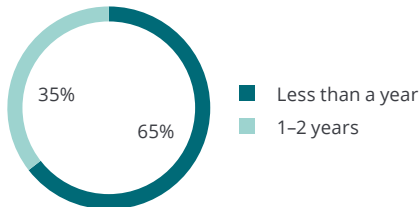
What is your business doing to address employee and customer concerns and mitigate risk during the COVID-19 pandemic?



Trends: During the period, 26% of companies applied a hybrid work model. Around 39% of companies limit the in-person meetings to some extent in order to reduce the risks associated with COVID-19, which is a 54% decrease from last year.

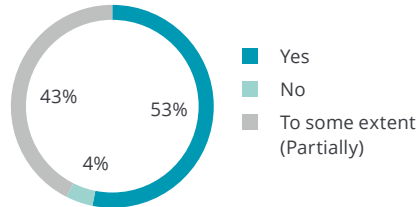
Impact of COVID-19

How long will it take your company to recover from the impacts of the COVID-19 crisis and get back to its pre-pandemic state?



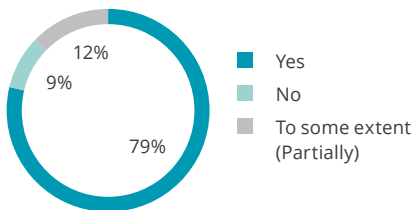
Trends: More than half of respondents (65%) have an optimistic view, believing that it will take less than a year for their companies to recover from the impacts of COVID-19 and go back to a pre-pandemic state, which is around 26% more companies than last year. Around 36% of companies believe it will take one or two years.

Did you switch to remote work during the pandemic?



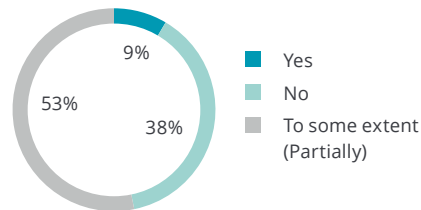
Highlights: A large majority (96%) have either completely switched to remote work or partially done so. Only 4% of respondents have not switched to remote work of any type.

Does your enterprise have adequate infrastructure and digital resources to deal with remote working?



Highlights: A total of 91% of companies believed that their companies have adequate infrastructure and digital resources to facilitate remote working. However, 9% still do not have adequate infrastructure or digital resources for remote working.

Did greater responsibilities at home due to the COVID-19 crisis cause your employees to experience difficulties carrying out their work duties?

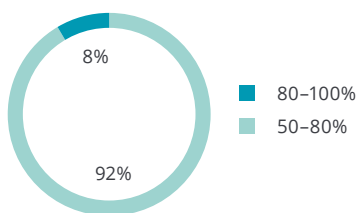


Highlights: Only 9% of companies believed that responsibilities at home posed difficulties to their employees related to remote working; 91% believed home responsibilities either had no effect or only a partial effect on employees' difficulties during remote work.

Impact of COVID-19

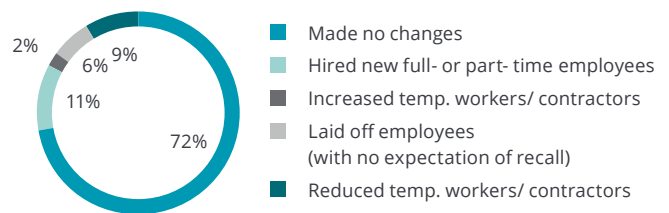


What percentage of your employees are vaccinated?



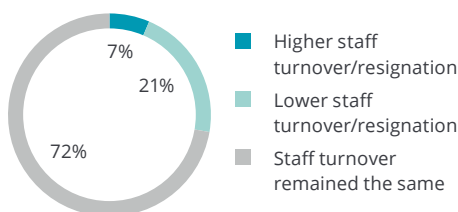
Highlights: A majority of respondents (92%) have stated that 80-100% of their employees have been vaccinated, and 8% state that 50-80% of their employees have been vaccinated.

What labor force decisions did your company make in 2021?



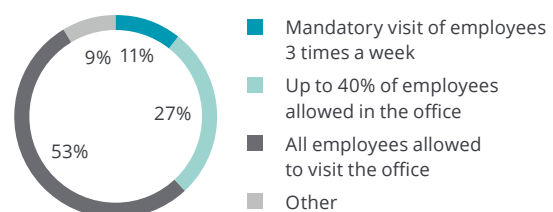
Highlights: In 2021, we saw stable labor force trends: 85% of respondents either made no changes to their labor force or increased it. Only 15% of companies laid off employees.

What observations have you made about employee turnover during the COVID-19 pandemic?



Highlights: Majority of companies (79%) saw either no changes in the staff flow or higher staff turnover, whereas 21% of companies see low staff turnover.

What rules has your company adopted in terms of office visits?



Highlights: Although most companies have switched to remote working, 53% of them allow their employees to visit the office; 38% of companies have hybrid rules whereby employees are either allowed to visit three times a week, or only 40% of employees are allowed in the office at one time.

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