



**Business outlook  
in Azerbaijan**  
Second issue

Deloitte CIS Research Centre  
1Q 2018

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# Introduction



**Nuran Kerimov**  
**Managing Partner**  
Deloitte Azerbaijan

We are pleased to present the second edition of Business Outlook in Azerbaijan, the Deloitte Research Centre's macroeconomic journal.

We focus on the insights into the economy of Azerbaijan and present our key research findings.

The report features unique data gathered in February and March 2018 during a survey of CFOs and top management of leading companies in Azerbaijan, Georgia and Russia. These opinions provided by the respondents have enabled us to identify major concerns, key drivers and development priorities for the Azerbaijani economy. In addition, a complex analysis of main local trends and their comparison to Russia and Georgia helped reveal hidden business features and opportunities.

If you have any questions or suggestions about this research, please do not hesitate to contact us at [cisresearchteam@deloitte.ru](mailto:cisresearchteam@deloitte.ru)





## Key macroeconomic indicators

### Gross domestic product (GDP)



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

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

### Azerbaijan's Credit Rating

Agency	Rating	Forecast	Date
Moody's	Ba2	Stable	18 August 2017
S&P	BB+	Stable	26 January 2018
Fitch	BB+	Stable	2 February 2018

### Brent oil price forecast, USD/barrel

	2018	2019	2020	2021	2022
EIU	63.0	60.0	57.8	60.6	63.3
WB	57.6	59.5	59.3	59.1	59.0
ECB	61.6	58.9	57.3	-	-

### Natural gas price forecast, USD/mmbtu

	2018	2019	2020	2021	2022
EIU	3.2	3.4	-	-	-
WB	3.1	3.2	3.4	3.5	3.7

On 2 February 2018 Fitch Ratings upgraded Azerbaijani's credit rating forecast from "negative" to "stable".

*"The main reasons for this [the improvement of the forecast for Azerbaijan's credit rating] are the gradual decline in the dollarization level in the country, the stabilization of the manat rate since April 2017 and, as a result, the growth of confidence in it, as well as the process of restructuring the International Bank of Azerbaijan, which had a positive impact on the banking sector as a whole."*

**Amelie Roux**

**Director, Sovereign and Supranational Rating Analysis at Fitch Ratings**



## Key macroeconomic indicators

### GDP per capita (PPP), '000 USD

Global ranking	Country	2016	2017*	2018*
51	Kazakhstan	25,286	25,490	26,630
52	Turkey	25,247	26,120	27,480
53	Russian Federation	24,789	23,900	24,880
70	Mexico	17,275	18,210	18,760
<b>71</b>	<b>Azerbaijan</b>	<b>17,257</b>	<b>17,390</b>	<b>17,900</b>
72	Botswana	16,957	17,491	18,227
73	Thailand	16,913	17,850	18,910
77	China	15,529	17,030	18,450
80	Brazil	15,124	15,570	16,250
104	Georgia	10,005	10,127	10,872
114	Ukraine	8,270	8,650	9,150

Source: World Bank (WB)

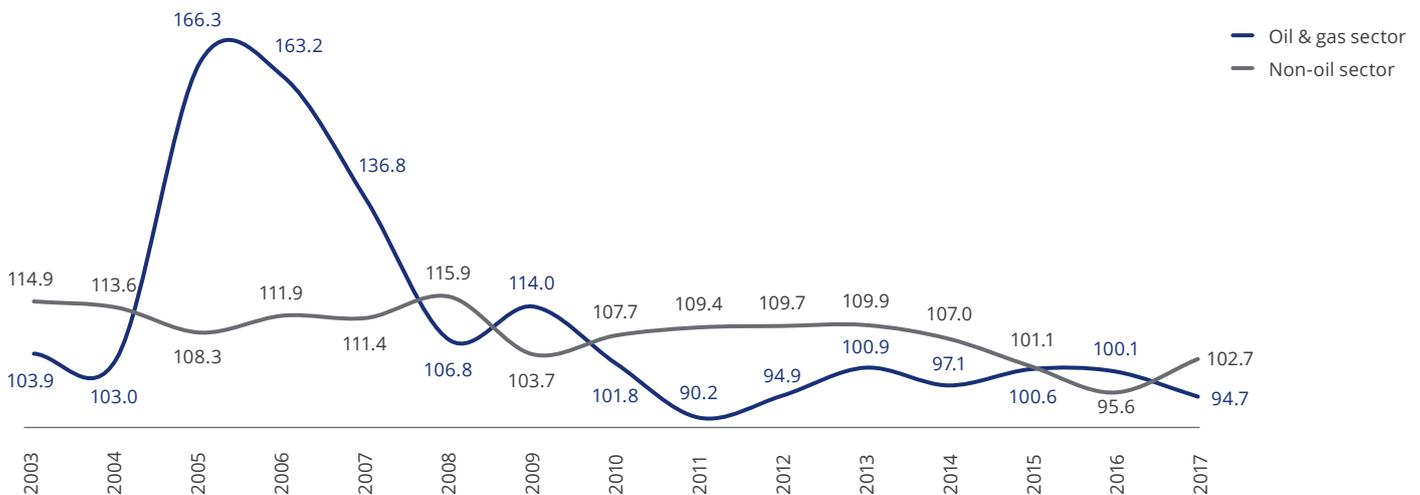
\*Estimate and forecast: EU

### Real GDP growth by economic activity in 2017

Activity	Growth (%)
Transportation and storage	8.5%
Information and communication technology	6.6%
Accommodation and food services	5.9%
Agriculture, forestry and fishing	4.2%
Trade, repair of transport means	2.5%
Construction	-1.5%
Manufacturing	-1.8%
Mining and quarrying	-4.6%

Source: the State Statistical Committee of the Republic of Azerbaijan

### Growth rate of real GDP by sector, %

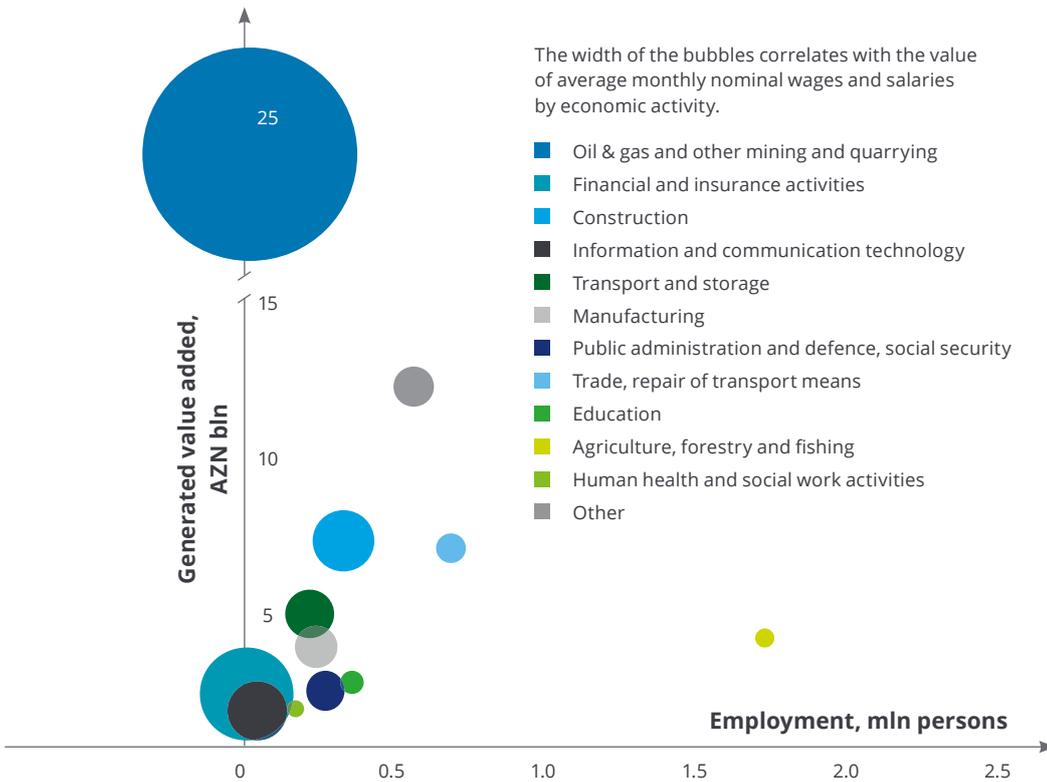


Source: the State Statistical Committee of the Republic of Azerbaijan



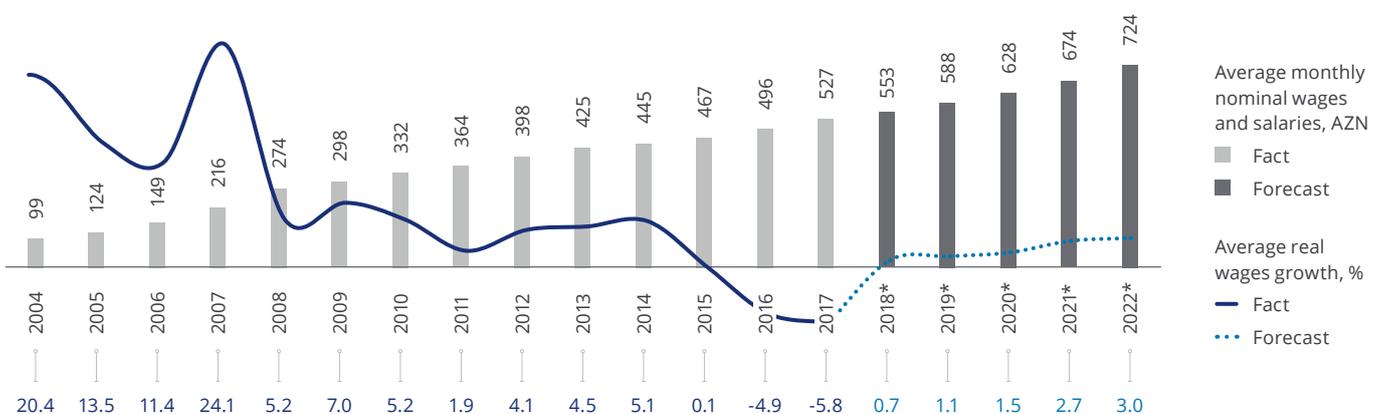
## Key macroeconomic indicators

### GDP and employment structure in 2017



Source: the State Statistical Committee of the Republic of Azerbaijan

### Average monthly salary dynamics



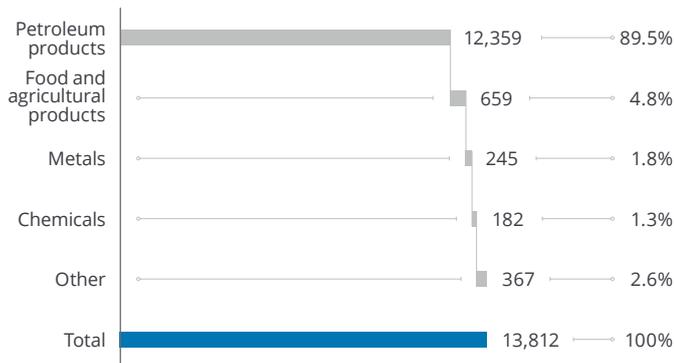
Source: the State Statistical Committee of the Republic of Azerbaijan, EIU

\*Forecast: EIU

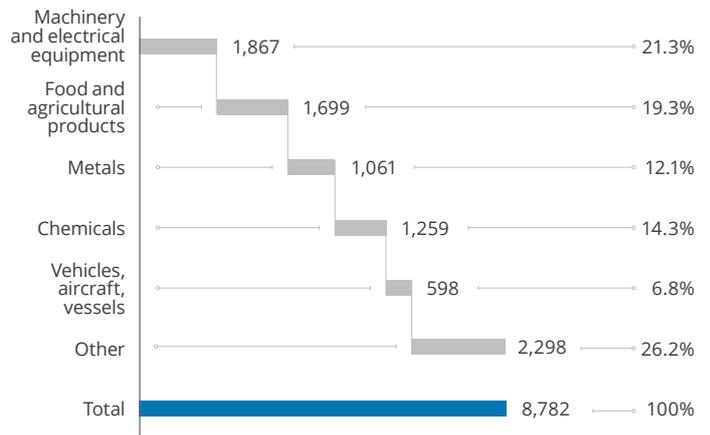


## Key macroeconomic indicators

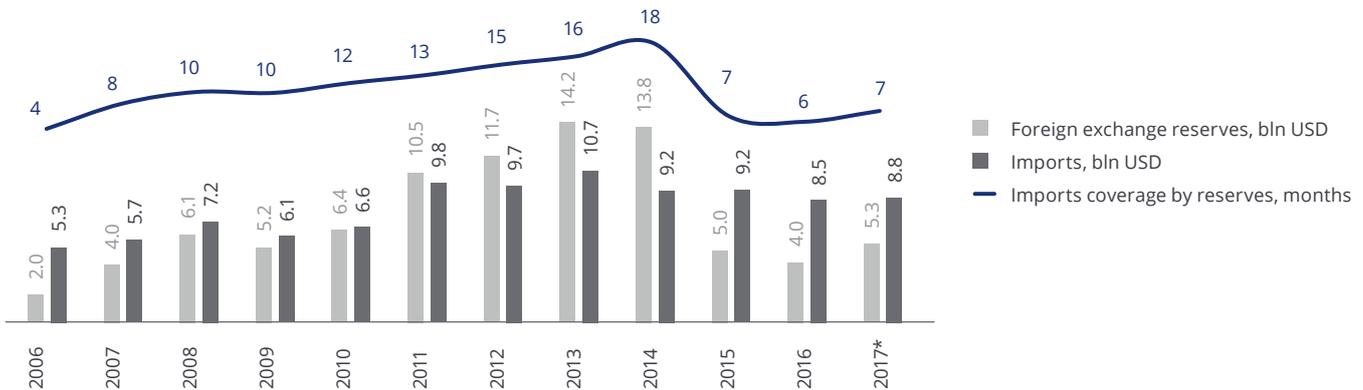
Structure of goods exported in 2017, mln USD



Structure of goods imported in 2017, mln USD



Foreign exchange reserves



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

\*Estimate: EIU

Since 2014, the currency reserves of the Republic of Azerbaijan decreased due to interventions by the Central Bank of the country in the foreign exchange market in order to keep the exchange rate of AZN manat against the US dollar at a stable level. Nevertheless, they remained sufficient enough to cover about six to seven months of imports in 2015–2017.



## Key monetary indicators

### Average consumer price index, %



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

\*Forecast: EIU, IMF

### 2017 CPI in Azerbaijan by components

<b>Total</b>	<b>12.9%</b>
Food products, beverages, tobacco	16.4%
Non-food products	10.4%
Services	9.3%

Source: the Central Bank of the Republic of Azerbaijan

### 2017 Consumer price index, average

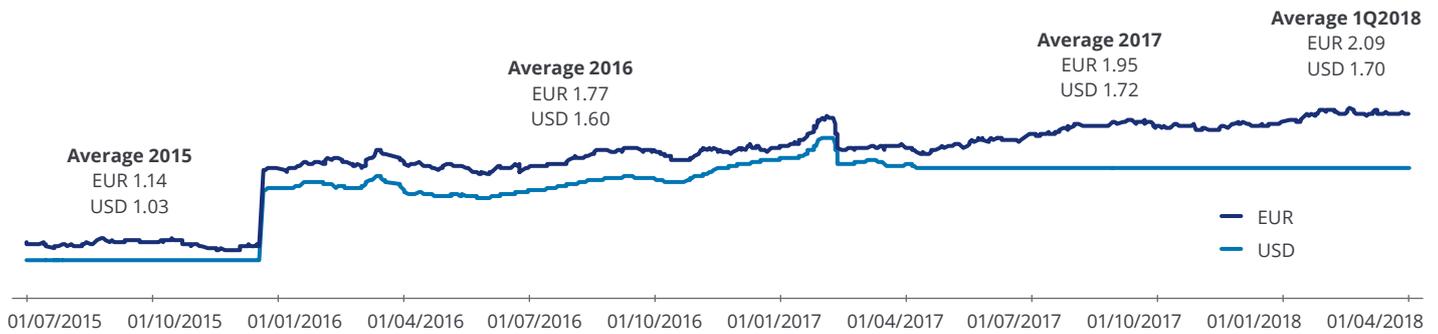
<b>Azerbaijan</b>	12.9%
<b>Turkey</b>	11.1%
<b>Russian Federation</b>	3.7%
<b>Georgia</b>	6.0%

Source: National Central Banks



## Key monetary indicators

### EUR vs. AZN, USD vs. AZN, July 2015–March 2018

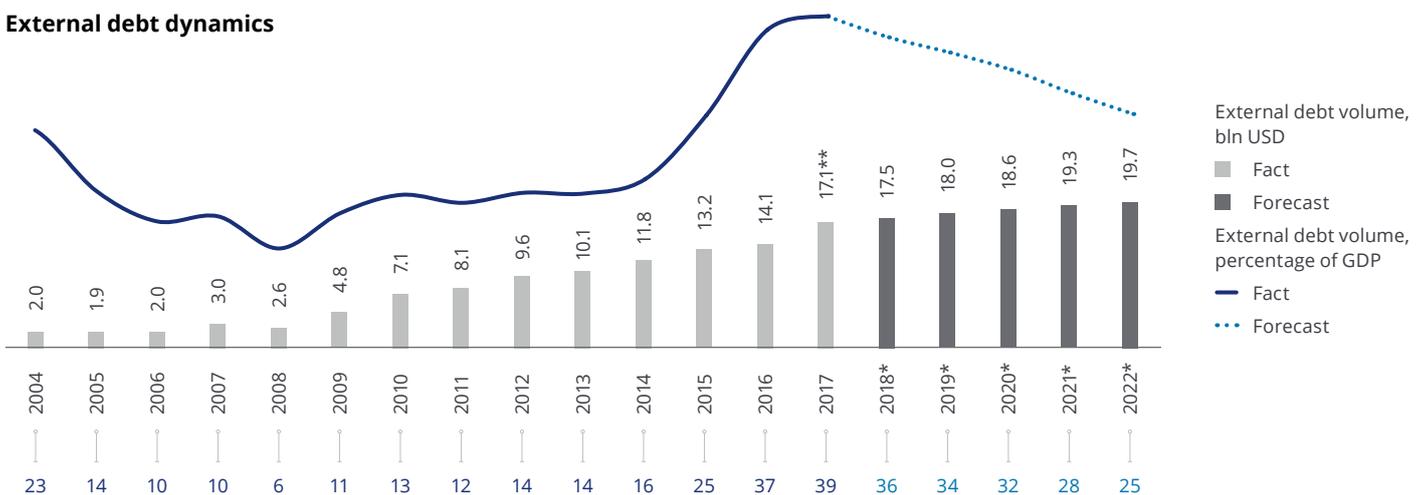


Source: the Central Bank of the Republic of Azerbaijan

### Currency rate – EIU forecast

	2018	2019	2020	2021	2022
EUR vs. AZN	2.05	1.98	1.98	1.93	1.95
USD vs. AZN	1.72	1.68	1.64	1.60	1.57

### External debt dynamics



Source: EIU

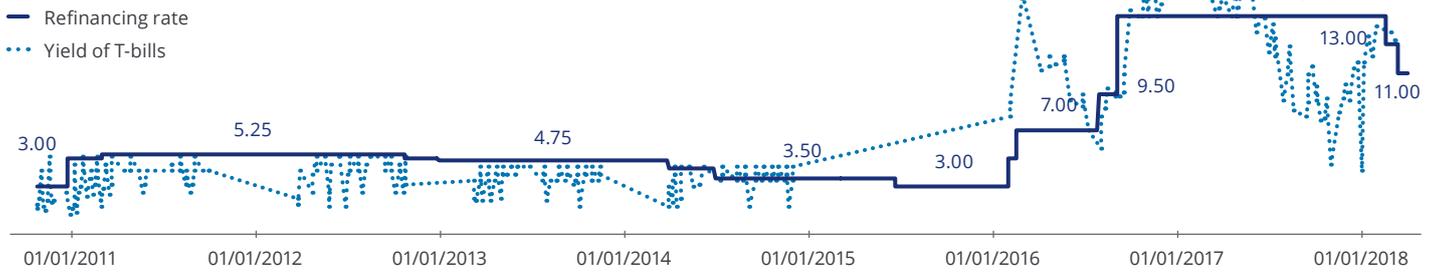
\*Forecast: EIU

\*\*Including USD 9.4 bln of sovereign debt



## Key monetary indicators

### Refinancing rate and yield of T-bills, %



#### Refinancing rate at 15 April 2018

<b>Azerbaijan</b>	<b>11.00%</b>
Turkey	8.00%
Russian Federation	7.25%
Georgia	7.25%

*"The refinancing rate has been lowered to an unambiguous level, taking into account the reduction in the average annual inflation in the country as well as the forecast for improving the external balance."*

**Elman Rustamov**  
**Chairman of the Central Bank of the Republic of Azerbaijan**

Source: National Central Banks

# 02 Key industries



## Agriculture

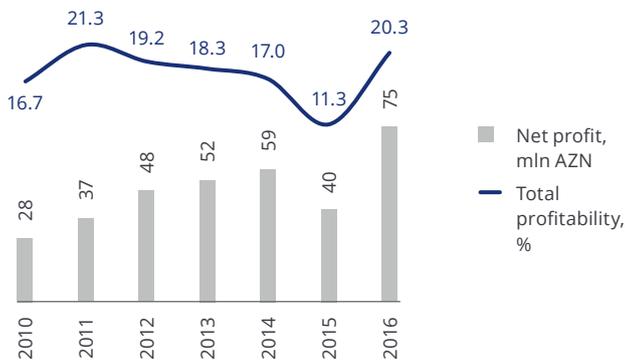
Azerbaijan produces a wide variety of crops and has excellent climatic conditions and an extended growing season. Fruits, vegetables, grains, tea leaves, and nuts are of high quality and have minimal unit production costs as well as strong brand recognition within post-Soviet markets. As a result of government measures in recent years, the silk and cotton industries have developed considerably. The commissioning of the Shamkirchay reservoir has created excellent opportunities for adding new land to the sowing turnover.

### Total agricultural output



In 2017 Azerbaijan exported food and agricultural products for \$658.9 million that is by 25.4% more than in 2016.

### Key financial results of the activity of agricultural enterprises

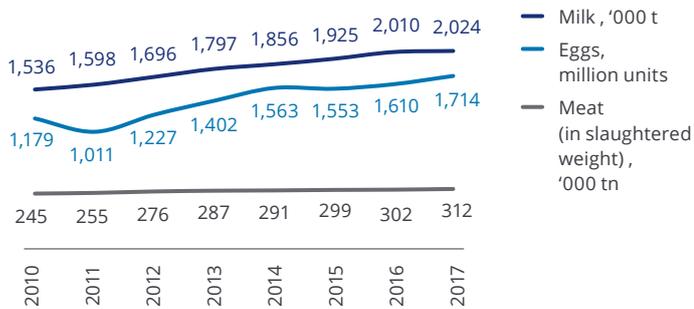


Source: the State Statistical Committee of the Republic of Azerbaijan

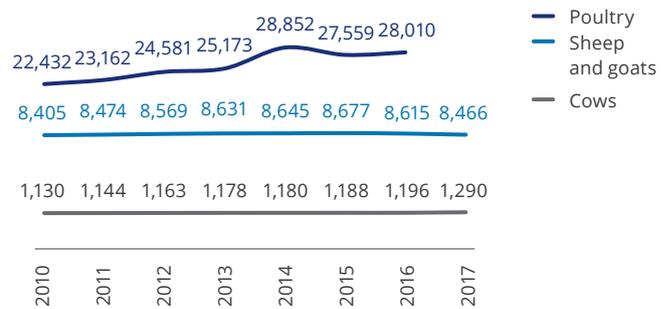


## Agriculture

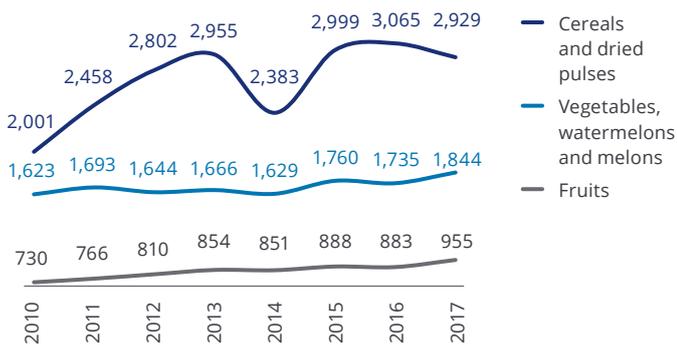
### Main animal products



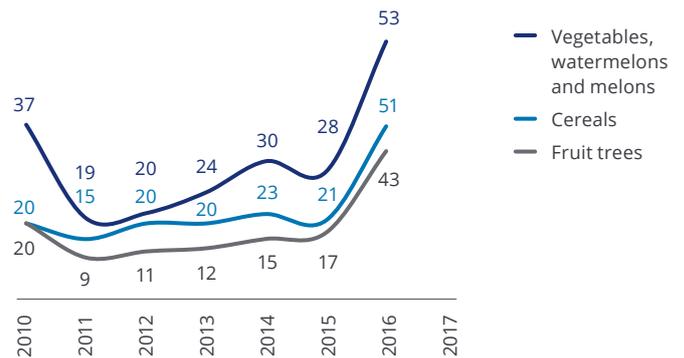
### Number of farm animals, '000



### Crop production, '000 t



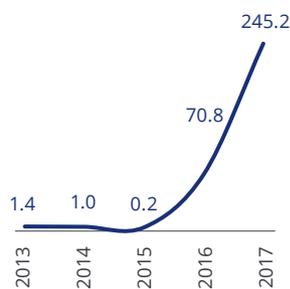
### Mineral fertilizers use, kg per ha



### Cotton



### Silk cocoons production, t



At the end of 2017, the Ministry of Agriculture decided to significantly increase the purchasing price of raw cotton in 2018 (by 20–25 percent), which could stimulate the further expansion of the area for this technical culture.

In 2016, Azerbaijan began developing a modern infrastructure for the production of silk.

# 03 Azerbaijan and Turkey: doing business together



## Azerbaijan



2.0%

The IMF forecast of GDP growth in Azerbaijan for 2018 is 2.0 percent; for 2019–2022 the average annual growth is expected at 3.2 percent.

1.5 bln USD

Turkey accounts for 9.9 percent of Azerbaijani export (USD 1.5 bln in 2017), making it the country's second largest export destination.

### Top 5 Azerbaijani exports to Turkey

#### Share

- |   |     |
|---|-----|
| • Petroleum gas                           | 70% |
| • Petroleum oil and distillation products | 13% |
| • Aluminum and articles thereof           | 6%  |
| • Plastics and articles thereof           | 3%  |
| • Electrical energy                       | 2%  |

### Top 3 Turkish companies in Azerbaijan

- Borusan Makina Ve Guc Sistemleri Sanayi Ve Ticaret A.S.
- Tekfen Insaat Ve Tesisat
- Turkish Petroleum

About 2,500 Turkish companies operate in Azerbaijan, accounting for more than 36 percent of the foreign companies in Azerbaijan.

### Best cases of cooperation

#### The Trans-Anatolian Natural Gas Pipeline (TANAP)

is a natural gas pipeline from Azerbaijan through Georgia and Turkey to Europe. It will be a central part of the Southern Gas Corridor, which will connect the giant Shah Deniz gas field in Azerbaijan to Europe. Construction began in 2013 and is expected to be completed in time for the coming on stream of Shah Deniz II, due in late 2018. It is a critical part of Azerbaijan's long-term economic plans to boost export revenue and establish itself as an energy hub for the transit of gas from Turkmenistan and Iran to Turkey and Europe. TANAP is of strategic importance to Turkey in terms of establishing itself as an energy hub between the Caspian Sea and Europe.

**Shareholders:** Southern Gas Corridor CJSC (Azerbaijan) – 58 percent, BOTAS (Turkey) – 30 percent, BP (UK) – 12 percent.



## Turkey



# 4.4%

The IMF forecast of GDP growth in Turkey for 2018 is 4.4 percent; for 2019–2022 the average annual growth is expected at 3.7 percent.

# 1.3 bln USD

Turkish exports in Azerbaijan accounted for USD 1.3 bln in 2017 making it Azerbaijan's second largest importer.

### Best cases of cooperation

**Baku-Tbilisi-Kars (BTK)**, a 826 km railway from Baku on the Caspian Sea through Tbilisi to Kars in north-eastern Turkey, marks the further integration of Azerbaijan, Georgia and Turkey. The railway line is designed to transport 3 million passengers and 17 million tons of cargo per year.

**SOCAR Turkey Aegean Refinery (STAR)**, the foundation of which was laid in 2011, is currently under construction on a 2,400-hectare site on the Aliaga Peninsula. With a crude oil processing capacity of 10 million tons, STAR Refinery is the most critical component of SOCAR Turkey's integrated energy solutions and value chain.

STAR Refinery will be put into service with a total investment of USD 5.6 billion. The construction is undertaken by a multinational consortium, comprising Técnicas Reunidas (Spain), Saipem (Italy), GS Engineering (South Korea) and ITOCHU (Japan).

### Top 5 Turkish exports to Azerbaijan

#### Share

- |  |     |
|--|-----|
| • Machinery and mechanical appliances                | 12% |
| • Iron, steel and articles thereof                   | 10% |
| • Plastics and articles thereof                      | 8%  |
| • Electrical machinery and equipment                 | 7%  |
| • Furniture, lighting signs, prefabricated buildings | 6%  |

### Top 3 Azerbaijani companies in Turkey

- Petkim Petrokimya Holding
- SOCAR Turkey Petrol Enerji Dağıtım AŞ
- Tanap Dogalgaz Iletim

About 1,100 Azerbaijani companies work in Turkey

# 04 CFO Survey in Azerbaijan

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Deloitte Azerbaijan would like to thank all those who participated in the survey we conducted in February–March 2018 as part of our global research project entitled CFO Survey. We appreciate your time and interest in our research.

In 2017–2018, various sectors of the Azerbaijani economy demonstrated robust recovery. The leading companies show growing interest in strategic decision making techniques, risk management approaches and the implementation of advanced technologies.

The expert opinions collected in this survey allowed us to conduct an integrated analysis of Azerbaijan’s business environment, as well as to study the sentiments and expectations of market participants regarding their companies’ development and the market overall.

We are pleased to present you with the key findings of our research. We hope that you will find this report useful and informative and we would be grateful if you would participate in our next survey.

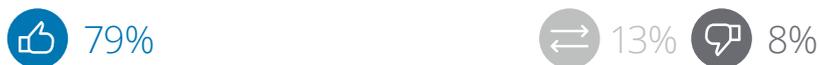


## Financial outlook

In March 2018, the respondents were asked to assess the current financial outlook for their companies compared to September 2017



The respondents' financial outlook for their companies based on September 2017 survey



- Optimistic
- No change
- Pessimistic

### Trends

In September 2017, the majority of respondents were optimistic about 2018: **79 percent** were expecting an improvement (see the second image).

In March 2018, as part of our CFO Survey of the Leading Companies in Azerbaijan we asked the respondents to assess the current financial outlook for their companies compared to six months ago and found that most of the positive expectations were preserved: **73 percent** of CFOs have a positive view of how their companies will perform and **20 percent** admit that the situation will stay at the same level. This is a sign of the stability of Azerbaijan's overall business environment and it is clearly perceived as positive.

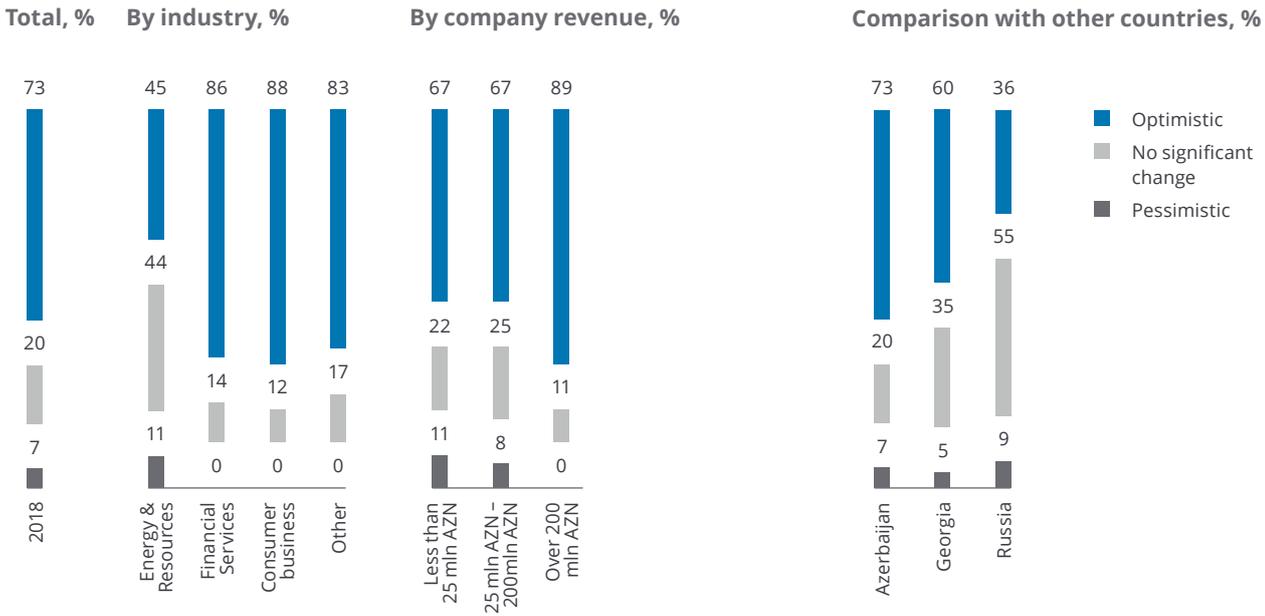
Such a positive outlook on Azerbaijan's business environment and the respondents' optimism may be due to the fact that after facing difficult challenges in 2015–2016 companies are now finally seeing signs of macroeconomic improvement.



## Financial outlook

### Highlights

#### Respondent's assessment of the financial outlook of their companies



Notably, Energy and resources companies demonstrate the lowest optimism among all industries — only **45 percent** vs. **73 percent** of optimistic responses on average.

Companies from other industries have a far more optimistic outlook with **83–88 percent** of positive responses.

Companies in Azerbaijan with an annual revenue of over AZN 200 mln demonstrate the highest optimism (**89 percent** of optimistic responses and no pessimistic ones).

The general perception of the financial outlook for companies in Azerbaijan was more optimistic than in other countries, especially Russia where the assessment is the most conservative.

However, no more than **9 percent** of respondents in either country surveyed relayed a pessimistic view.

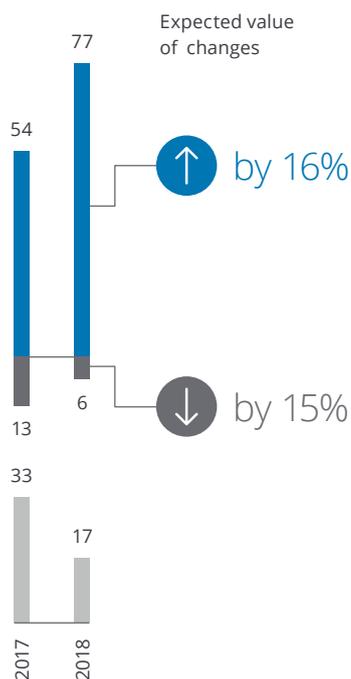


## Economic expectations

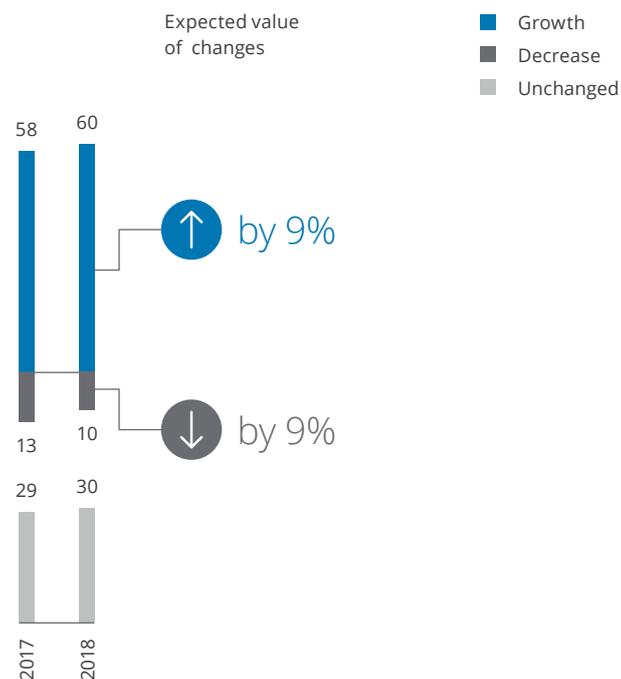
### Expected changes in corporate revenue and operating costs

The respondents were asked about expected changes in key financial metrics over the next 12 months

Revenue (in AZN), %



Operating expenses (in AZN), %



The level of optimism regarding revenue changes significantly increased in the past six months:

**77 percent** of CFOs believe the revenue of their companies will increase (by an average of **16%**), while only **6 percent** hold the opposite view (expected decline by **15%**) and **17 percent** indicated that the revenue will remain the same.

Typically, revenue growth is accompanied by an increase in operating costs. Our survey indicated that **60 percent** of respondents expect operating costs to grow by an average of **9 percent**. Both surveys have identified almost the same opinions regarding operating expense changes.



#### Specific patterns:

Respondents from Energy and resources companies expect a decrease in revenue more often than companies from other sectors, by 15 percentage points. At the same time, only 11 percent of CFOs from E&R indicate that operating expenses will grow while 33 percent expect a decrease.

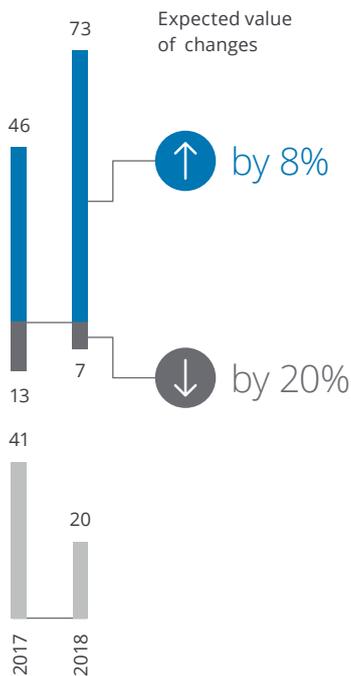


## Economic expectations

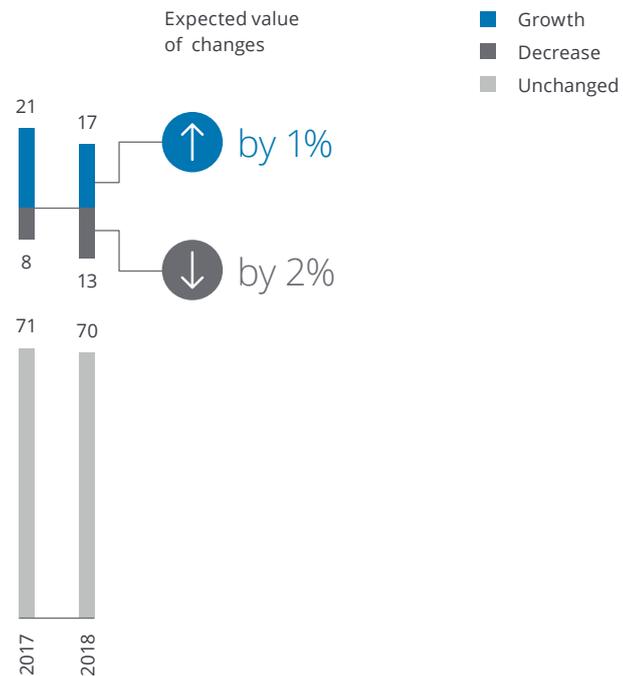
### Expected performance of operating profit and the cost of capital

The respondents were asked about expected changes in key financial metrics over the next 12 months

#### Operating profit (in AZN), %



#### Cost of capital (in AZN), %



We found that the perception of operating profit changes follows the same trend as the outlook on revenue changes: the majority of companies (**73 percent**) believe that the operating profit will increase (expected average growth of **8%**) while almost **one fifth** of respondents forecast that it will remain unchanged. Only **7 percent** of experts expect a decline in operating profit – by **20%**.

Seven out of ten CFOs (**70 percent**) expect that the cost of capital will remain at the same level. However, **17 percent** of experts forecast an increase in the cost of capital by an average of **1%**. About **13 percent** think that the cost of capital will decline slightly (by **2%**).



#### Specific patterns:

More than half (57 percent) of CFOs from Financial Services companies expect a decrease in the cost of capital.

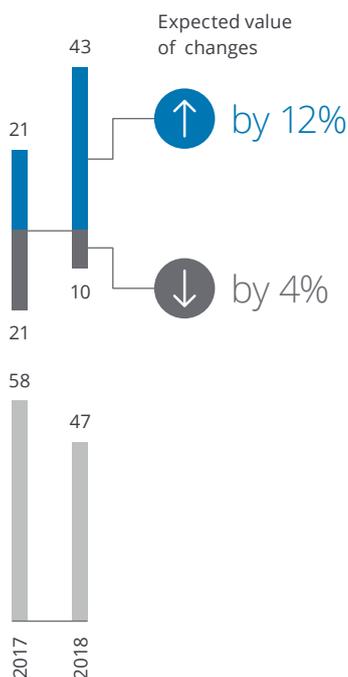


## Economic expectations

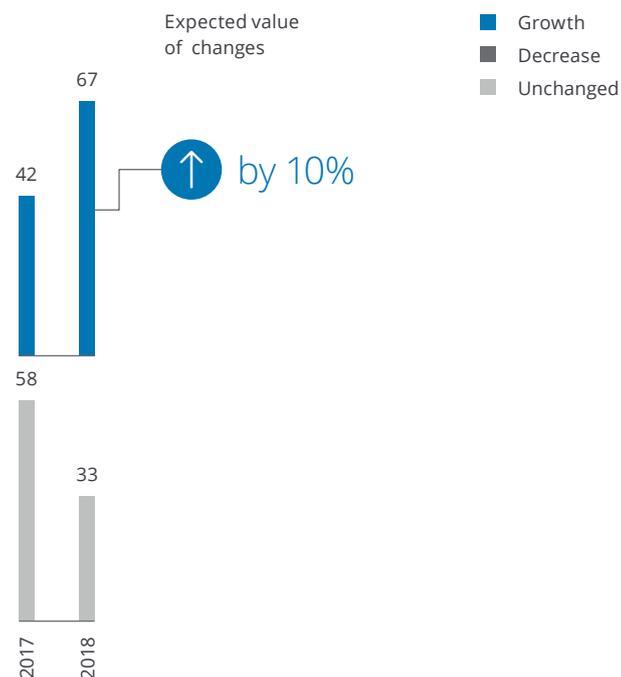
### Expected headcount and payroll changes

The respondents were asked about expected changes in key financial metrics over the next 12 months

#### Number of staff, %



#### Average wages (in AZN), %



About half of the companies (**47 percent**) are not planning on any headcount adjustments, while **43 percent** of respondents predict an increase (expected growth by **12%**), and only **10 percent** expect the opposite (a **4%** decline). Compared to the situation observed six months ago the share of companies that plan to decrease their headcount has fallen by half while the share of CFOs who expect to hire additional staff has grown two times.

Compared to the previous survey, the perception of the situation on the Azerbaijani labor market is far more optimistic: two thirds of the respondents surveyed (**67 percent**) expect an increase in the average level of wages – in their opinion, growth will be **10%**. Another **33 percent** of companies are not considering wage adjustments.



#### Specific patterns:

Two thirds of respondents representing Consumer business indicate that the number of staff will increase.

In Energy and resources, 33 percent of CFOs report that the number of staff will decrease and more than half of respondents (56 percent) indicate that the salary level will remain unchanged.

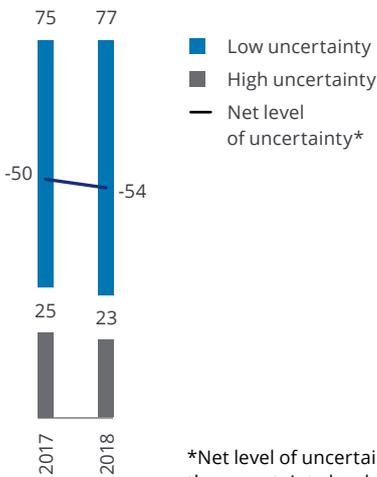


## Uncertainty and risks

### Uncertainty in strategic decision making

The respondents were asked to assess the financial and economic environment from a standpoint of uncertainty around strategic decision making

#### Uncertainty level, %



#### Trends

Attitudes to uncertainty are a major influence on strategic planning and decision-making. It is therefore important to understand how CFOs view the level of financial and economic uncertainty their companies are currently facing. The negative (minus 54%) overall net level of uncertainty indicates that the CFOs who see the level of external uncertainty as low clearly outnumber those reporting the opposite.

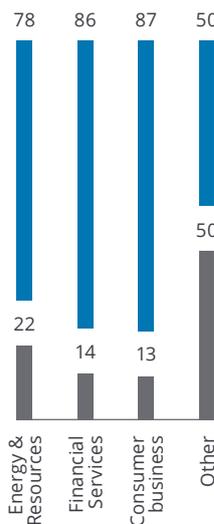
\*Net level of uncertainty is calculated as follows: [the proportion of those who see the uncertainty level as high minus the proportion of those who see it as low]

### Highlights

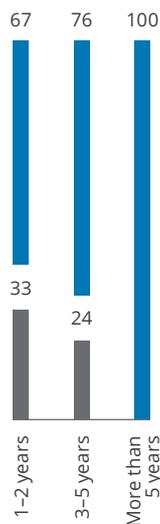
#### Total, %



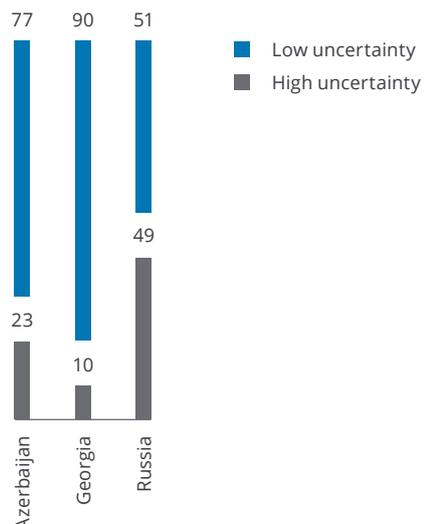
#### By industry, %



#### By time span of a company's strategy, %



#### Comparison with other countries, %



Nine out of ten CFOs of financial services companies (**86 percent**) and from the consumer business industry (**87 percent**) indicated that financial and economic uncertainties are low.

Notably, the companies with a longer strategy time span assess the level of uncertainty as lower.

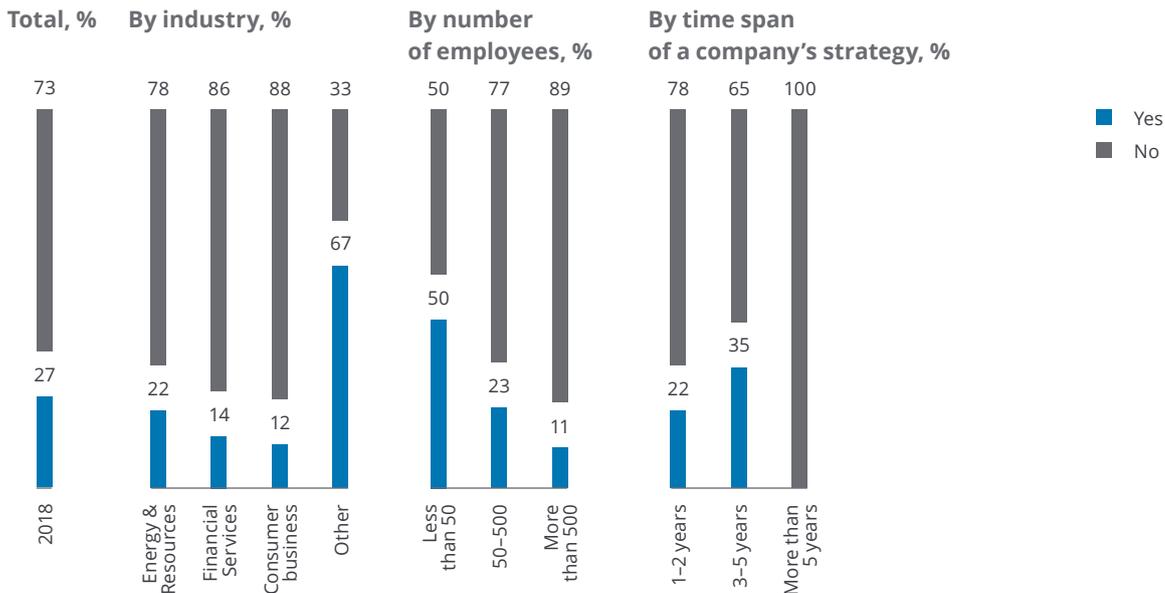
The financial and economic environment uncertainty level in Azerbaijan is higher than in Georgia, but more positive than in Russia.



## Uncertainty and risks

### Risk appetite

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



### Trends

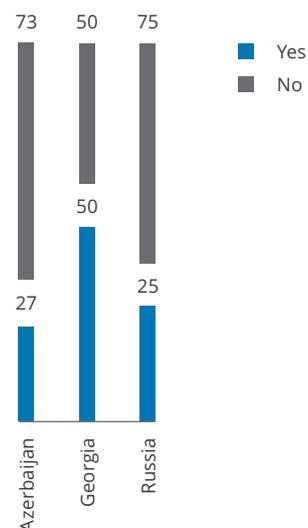
The overall willingness of CFOs of leading companies in Azerbaijan to take on additional risk is low: only **27 percent** of the respondents are prepared to make risky decisions, while the remaining **73 percent** are not prepared to take risks.

### Highlights

The risk appetite among companies with permanent employees of less than 50 persons and companies from other industries (TMT, Manufacturing, Construction) is higher: **50 percent** and **67 percent** of respondents, respectively, believe that the present time is appropriate for making risky decisions. Consumer business and financial services companies as well as companies with permanent employees of more than 500 persons are less prepared to make risky decisions (**11-14 percent**). Notably, no company with a strategy time span of more than five years is prepared to take risks.

### Comparison

with other countries, %



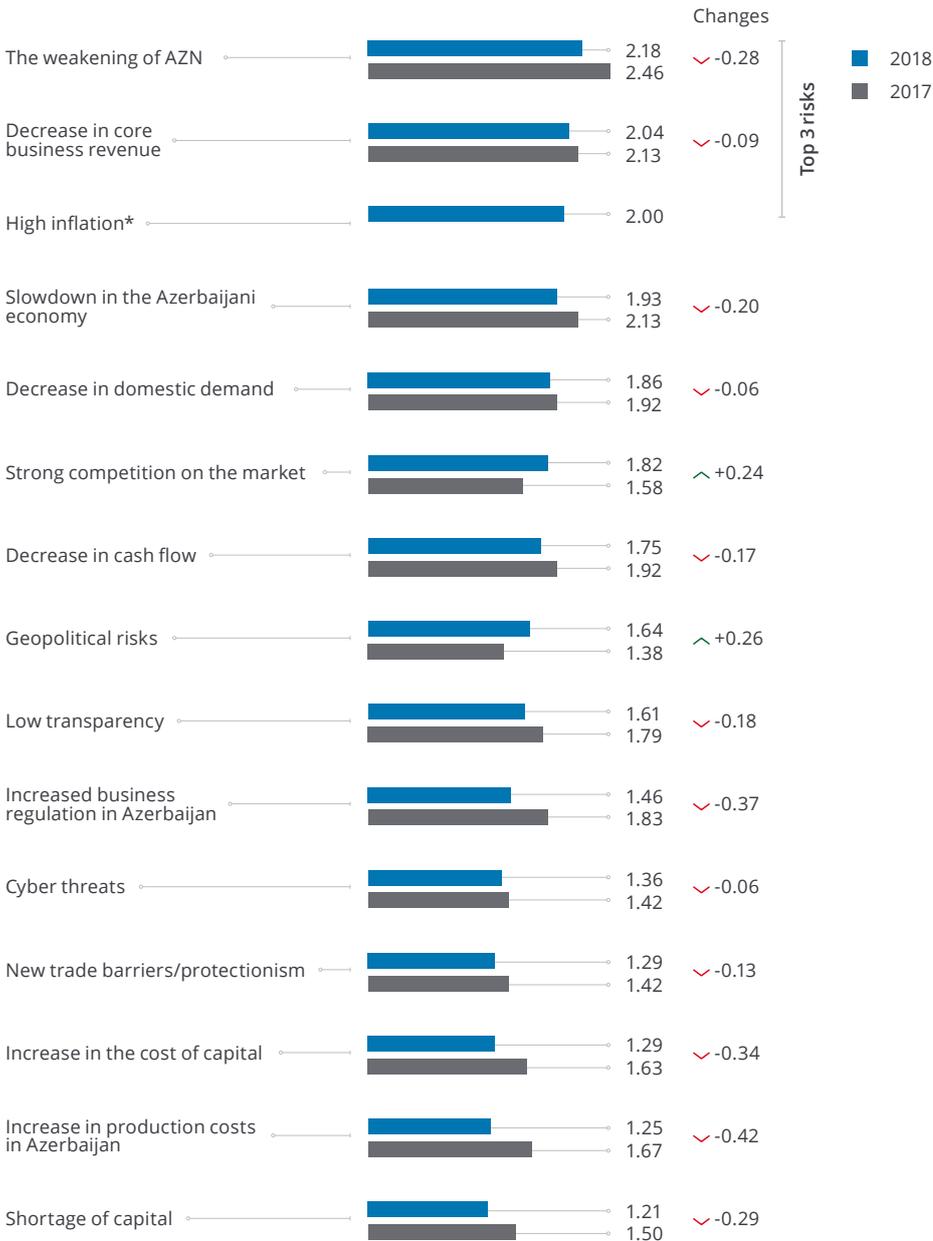
The risk appetite in Georgia is higher: **50 percent** of respondents believe that the present time is appropriate for making risky decisions, while the majority (**73-75 percent**) of respondents in Azerbaijan and Russia were least risk prone.



## Uncertainty and risks

### Risk rating

The respondents were asked to evaluate the impact of the risks below [on a scale of 0 to 3]



### Trends

Our survey has shown that businesses in Azerbaijan are focused on downside risks in terms of the exchange rate of AZN and high inflation as well as a decrease in core business revenue. Concerns about a slowdown in the national economy and a decline in domestic demand have decreased by **0.20 and 0.06 points** respectively, while the risk evaluation of strong competition on the market and geopolitical uncertainties significantly increased (by **0.24–0.26 points**). Concerns about certain financial issues, such as the cost of capital and its shortage as well as an increase in production costs and business regulations significantly decreased (by **0.29–0.42 points**).

\*The risk of high inflation was evaluated only in 2018.



## Uncertainty and risks

### Currency risk management

#### Risk management methods used by CFOs to manage currency risks\*, %



\*Respondents were asked to select all relevant answers.

#### Trends

The weakening of the AZN is still the most important risk for companies in Azerbaijan; thus, they adjust their risk management strategies to the market situation: more than half of the respondents (**57 percent**) pointed to the need to include an exchange rate clause in contracts.

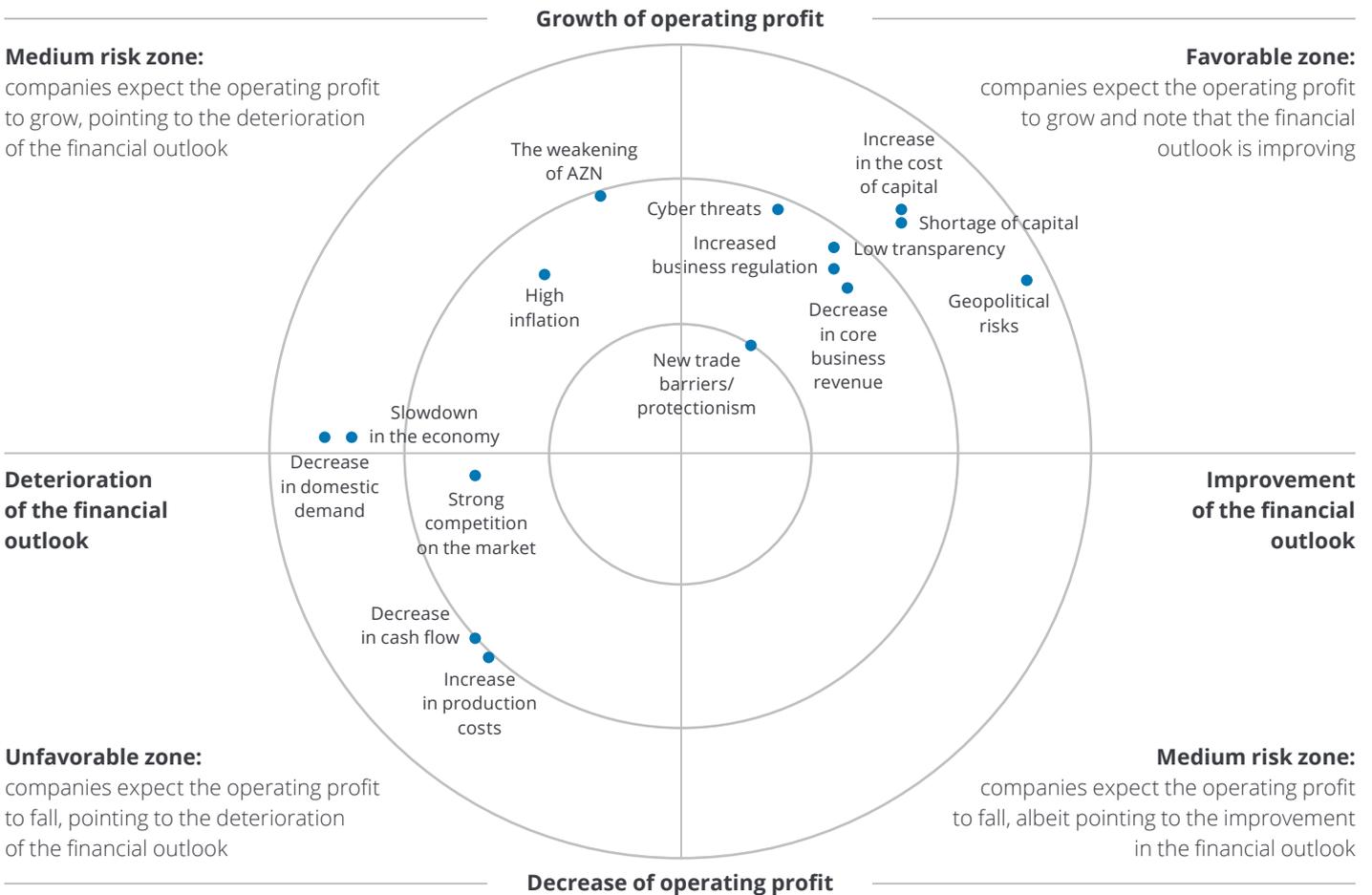
Other risk management strategies applied by the CFOs of the leading companies in Azerbaijan include the following:

- diversifying currencies used in the transaction portfolio;
- financing/borrowing exclusively in AZN;
- hedging;
- and increasing of the working capital.



## Uncertainty and risks

### Risk factor map



### Highlights

After performing a detailed analysis of the data we aggregated the risk factors into a risk map, which allowed us to assess the effect and the nature of the influence each risk has on two specific performance indicators: the expected annual operating profits for 2018 and the general perception of the current financial prospects.

Distance from the center characterizes the importance of the risk in comparison with the average value.

A slowdown in the Azerbaijani economy and a decrease in domestic demand are more significant risks for companies that expect a deterioration in the financial outlook.

For companies in the unfavorable zone, the risks associated with current financial performance are more significant: a decrease in cash flow and an increase in the cost of production.

For companies in the favorable zone, the risks associated with capital (its accessibility and cost) and geopolitical risks have much greater importance.



## Business development strategies

### Strategies rating

The respondents were asked to evaluate the priority of the strategies below [on a scale of 1 to 3]



### Trends

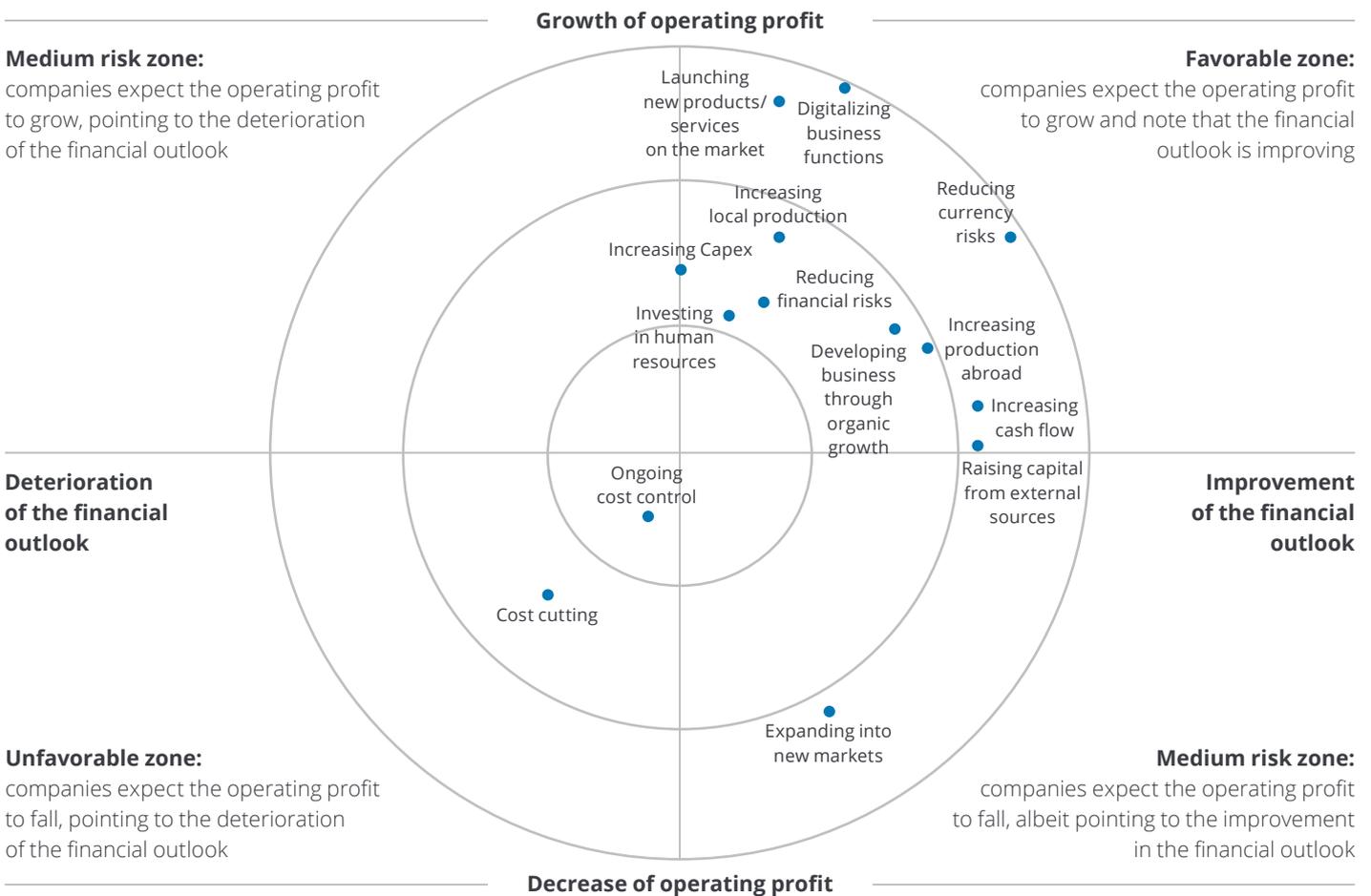
Our survey has shown that improving operational performance is a high priority for companies in Azerbaijan: cost control and optimization as well as digitalizing business functions are in demand.

Concerns about increasing cash flow and business development through organic growth as well as increasing production in Azerbaijan have significantly decreased by **0.43 points, 0.36 points and 0.31 points** respectively, while strategy evaluation for expanding into new markets has increased (by **0.18 points**).



## Business development strategies

### Strategy attractiveness map



### Highlights

As a result of our in-depth data analysis, we have drawn up a strategy map that presents the strategic directions of corporate development in 2018. This map helps to identify the most attractive strategies based on the financial prosperity and outlook for the companies.

Distance from the center characterizes the importance of the strategy in comparison with the average value.

The priority strategies for companies in the unfavorable zone include ongoing costs control and reduction.

Notably, the companies choosing to pursue a strategy of expanding into new markets more often expect lower operating profits, but are optimistic about their outlook.

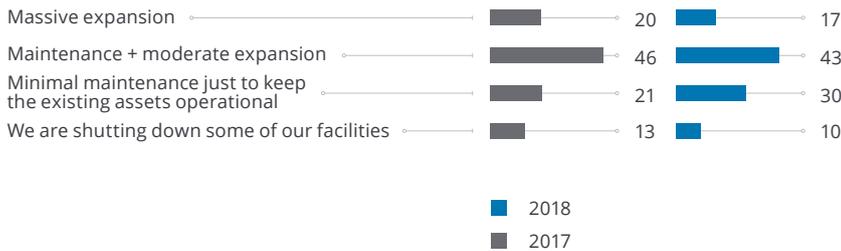
For companies in the favorable zone, strategies for the digitization of business functions and the launch of new products/services as well as the reduction of currency risks are more significant. The high priority of digitalization and the launch of new products speaks to the recognition of business processes intensification and the implementation of innovations as sources for leadership in the long term.



## Business development strategies

### Current approach to Capex

The respondents were asked about their current approach to Capex, %

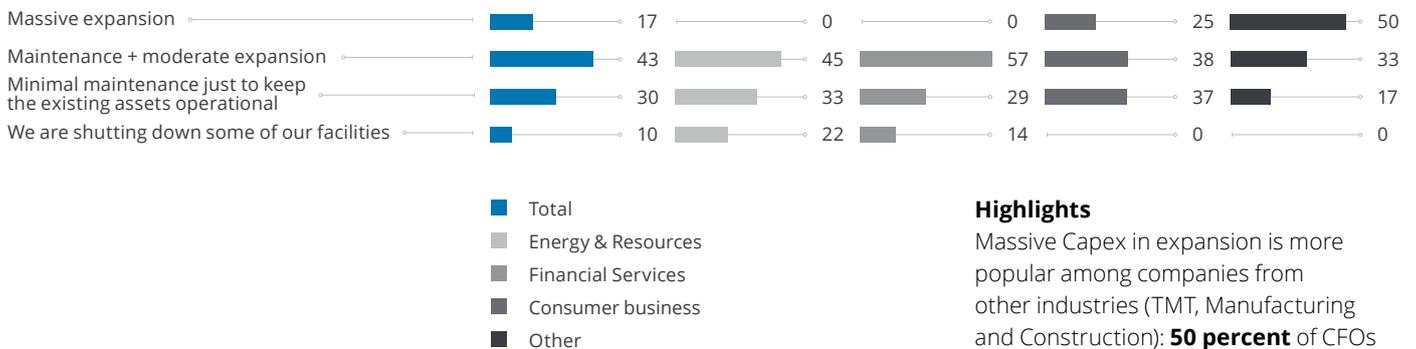


### Trends

The majority of respondents (**60 percent**) specify that the current level of Capex is sufficient for expansion: **43 percent** for moderate and **17 percent** for massive expansion.

Another **30 percent** of companies hold minimal maintenance Capex just to keep their existing assets operational. And **10 percent** of companies are forced to shut down some facilities.

The respondents were asked about their current approach to Capex (by industry), %



### Highlights

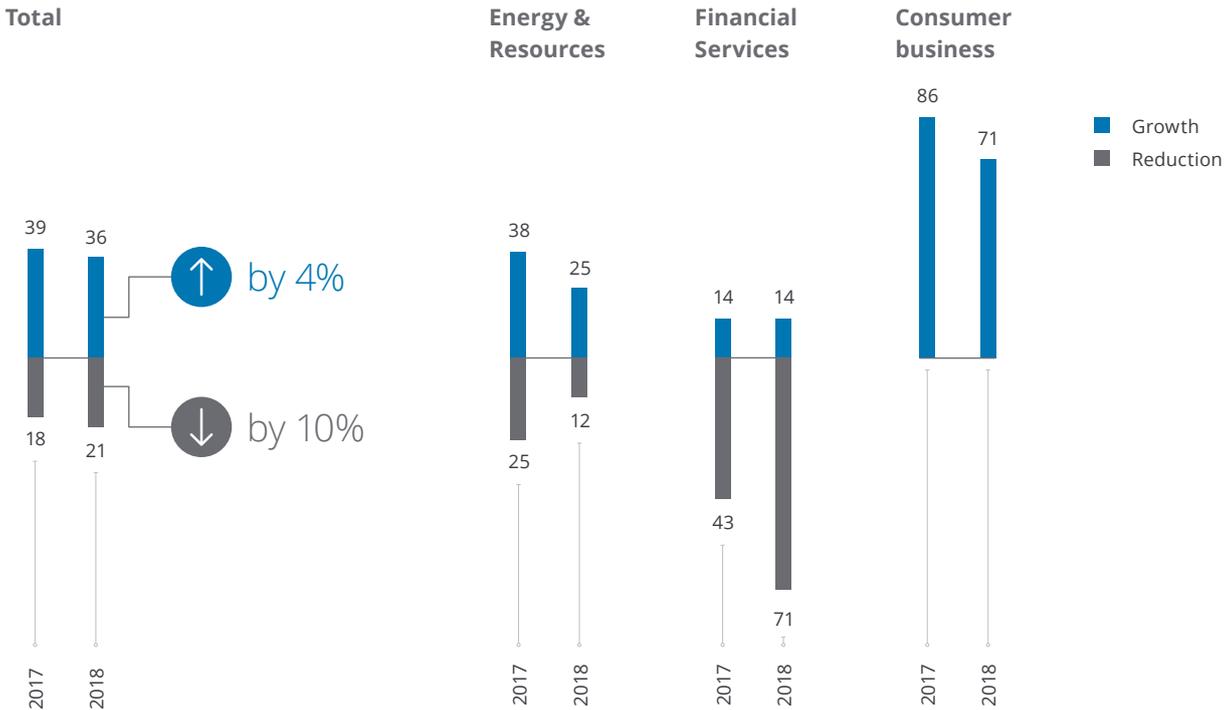
Massive Capex in expansion is more popular among companies from other industries (TMT, Manufacturing and Construction): **50 percent** of CFOs cited so, while in the Energy and resources industry **22 percent** of companies plan to shut down some of their facilities.



## Pricing policies

### Pricing policies: 2017 results and 2018 expectations

The respondents were asked about the average price change for their end products or services



### Trends

- **Thirty-nine percent** of the survey participants stated that their companies raised prices in 2017, while another **43 percent** stated that their prices did not change. Almost one in every five companies (**18 percent**) lowered their prices in 2017.
- In regard to their plans for 2018, **43 percent** of respondents expect their prices to remain at the current levels, **36 percent** of the companies plan to increase prices by **4 percent** and almost one in every five companies (**21 percent**) is prepared to cut prices by as much as **10 percent**.

### Hilights

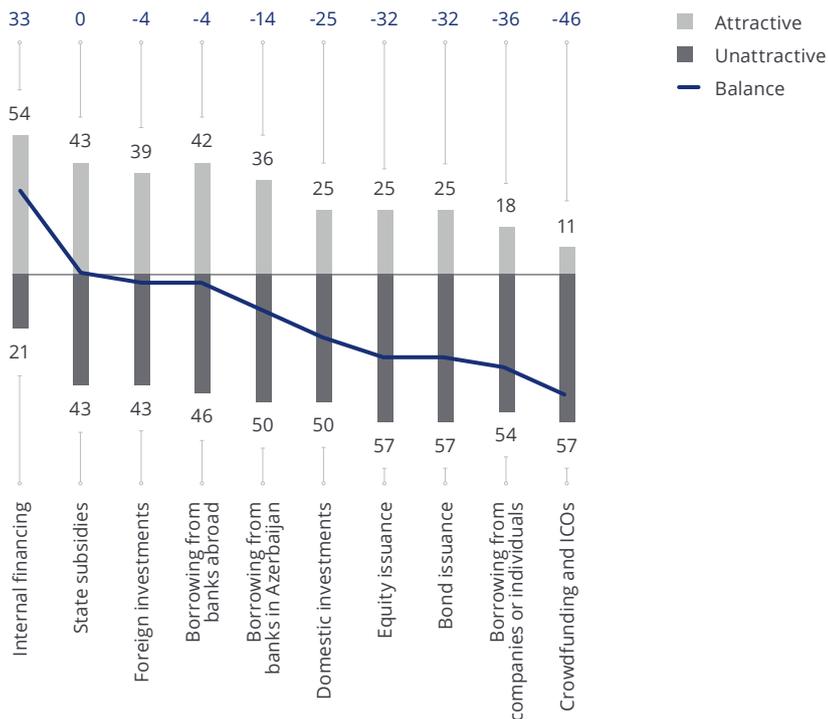
- **Twenty-five percent** of respondents among Energy and resources companies are planning a price growth in 2018, which is **13 percentage points** less than those companies that stated that they increased prices in 2017 (**38 percent**).
- Price cutting is primarily cited in the financial services industry: **43 percent** of companies faced lower prices in 2017 and the majority (**71 percent**) expect a price reduction in 2018.
- The representatives of consumer business stated that their companies raised prices in 2017 (**86 percent**) and expect prices to grow in 2018 (**71 percent**).



## Sources of financing

### Analysis of the attractiveness of various sources of financing

The respondents were asked to rate the attractiveness of the sources of financing below



### Trends

- Internal funding was recognized as the most attractive source of financing for companies in Azerbaijan (a net balance of **+33 percent**), more than half of the respondents (**54 percent**) indicated so.
- The respondents have a divided view on government financing, foreign investments and borrowings as sources of funding: the share of respondents who categorize these areas as attractive is similar to the share of those who have the opposite view.
- An interesting finding is the differing perceptions on domestic investments and loans (a net balance of **-25 percent** and **-14 percent**, respectively) as well as financing from foreign sources (a net balance around zero).
- Public debt financing in the form of bonds and shares (a net balance of **-32 percent** for both) as well as debt raising (**-36 percent**) have a low appeal, but the most unattractive source is crowdfunding and ICO.

### Highlights

- Unlike small and medium-sized enterprises (with a revenue of less than AZN 200 mln), the most attractive source for large companies is state subsidies (a net balance of **+44 percent**).
- Equity and bond issuing is far more relevant to Financial Services companies (a net balance of **+71 percent** and **+43 percent**, respectively).

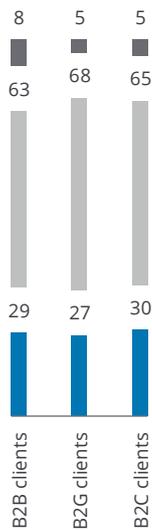


## Relationships with customers

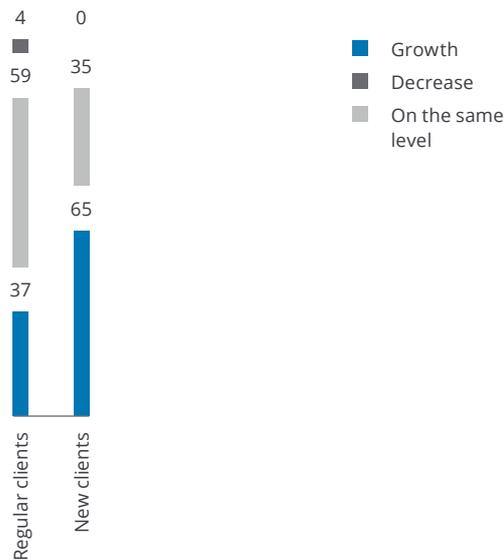
### Change in the number of clients

The respondents were asked about the change in the number of clients in 2017

Client group by type, %



Client group by constancy, %

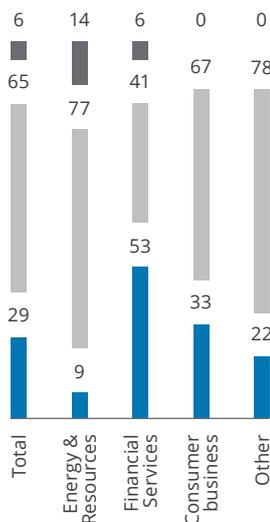


### Trends

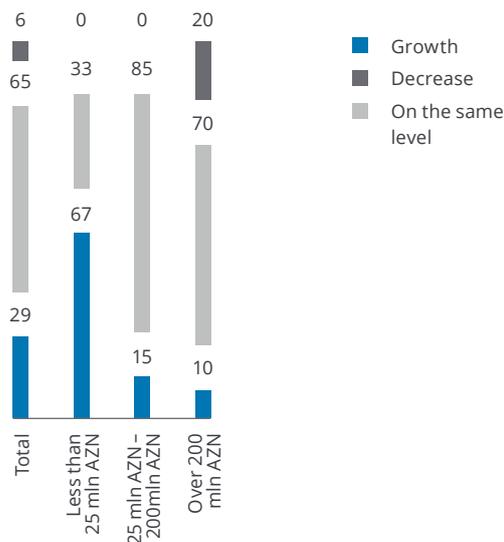
- The majority (**63–68 percent**) of the representatives of companies in Azerbaijan stated that the number of clients by type (B2B, B2C, B2G) did not change over 2017, while almost a third of respondents (**27–30 percent**) indicated an increase in the number of clients in all categories.
- Sixty-five percent** of companies in Azerbaijan stated that the number of new clients had grown in 2017.

The respondents were asked about the change in the number of their clients over 2017

By industry, %



By company revenue, %



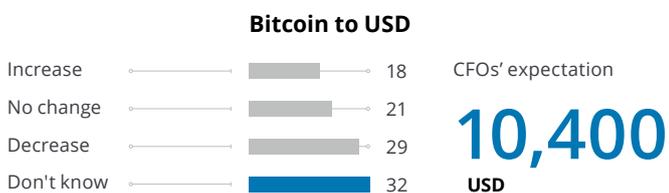
### Highlights

- The majority (**53 percent**) of financial services companies discussed a growth in the number of clients, which was almost two times higher compared to other industries.
- Only **9 percent** of the survey participants in the Energy and resources industry cited a growth of clients while fourteen percent indicated a decrease in the number of clients.
- Two out of five surveyed companies with a revenue of over AZN 200 mln indicated a decrease in the number of clients.
- While two thirds (**67 percent**) of the representatives of small companies (with a revenue of less than AZN 25 mln) cited a growth of clients.



## Anticipated market dynamics

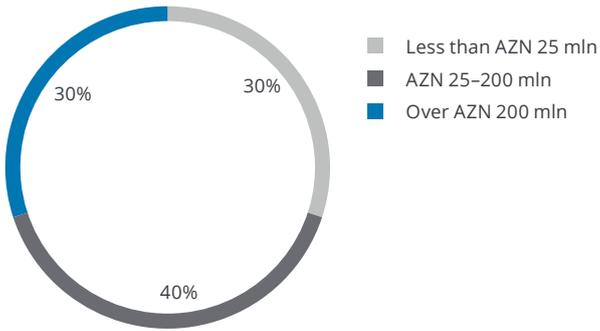
### Expected financial metrics rate and price performance of goods, %



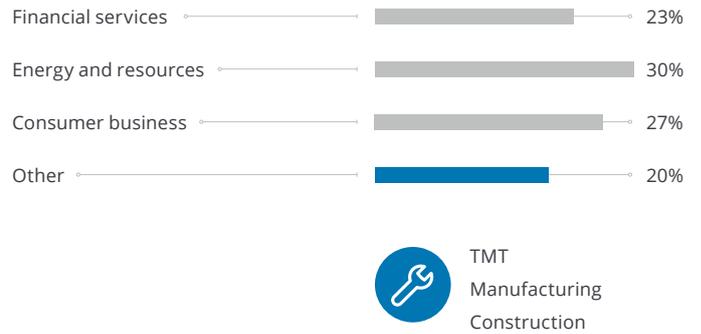


## About respondents

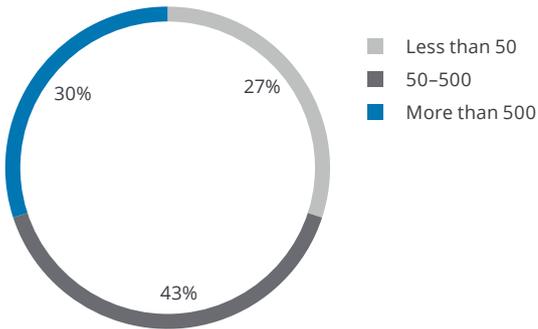
### Company's annual gross revenue in 2017



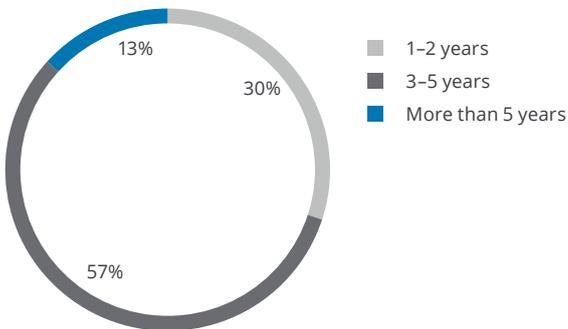
### Companies by industry



### Total number of permanent employees



### Company's time span of their strategy



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