

AZERBAIJAN

EBRD BOARD of GOVERNOR's 29th Annual Meeting

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Written Statement by Mr. Mikayil Jabbarov, Minister of Economy,

EBRD Governor for the Republic of Azerbaijan

Mr. Chairman,

Mr. President,

Fellow Governors,

Distinguished Guests, Ladies and Gentlemen,

First of all we would like to thank the European Bank for Reconstruction and Development (EBRD) team for the organization of the virtual 29th Annual Meeting of the Board of Governors of the Bank amid the current uncertain environment.

The world has faced a global health crisis. From the economic point of view, Azerbaijan was more prepared for the current situation. We had enough fiscal space to manoeuvre in reducing the negative impact of the crisis on domestic economy. As of the end 2019, State Oil Fund's reserves to GDP ratio has been 90.2% and these reserves exceeded the public foreign debt by 4.8 times and the annual import value by 3.2 times, the budget deficit to GDP ratio has been 0.25% and the debt to GDP ratio has been 18.9%.

Like most countries, Azerbaijan has fought and continues to fight against the pandemic that has led to one of the worst economic crises of all time. On top of the immediate actions taken against the pandemic outcomes, we also developed sustainable long-term development plans.

With the intention of reducing the negative impact of the pandemic and consequently, sharp fluctuations in world energy and stock markets on the economy, , a short and medium-term Action Plan was approved by the relevant order of the President of the Republic of Azerbaijan. Digital economy, agriculture and processing industry, construction, mining, petrochemicals, transport, trade and logistics, domestic tourism, telecommunications have been identified as the main priorities of the state's economic policy and main drivers of the sustainable and dynamic growth in the medium term..

Within the framework of the approved respective Action Plans, the government has adopted economic and social packages supporting hundreds of thousands

businesses and supported salaries of thousands employees. Large-scale social projects have been implemented in the country, and in 2020, the volume of these projects reached a record high. Neither the pandemic nor the low oil prices have led to the suspension or cancellation of any project in a social sphere. During the combating period with the COVID-19 pandemic, 5 million people have been covered with an extensive social package.

Fortunately, we are observing positive dynamics in the combat against the coronavirus since July, 2020 which gives us reason to say that all the measures undertaken were timely. As a result of those measures, the situation remains under control. With exclusion of slight fluctuations, we can see that the number of people infected since July 16, 2020 is much lower than the number of people recovered which itself is a positive trend that attests to the utmost importance of sustaining the control over the pandemic. At the same time, given that the number of patients was increasing, and although the existing hospitals have significantly expanded our capabilities, there was a need to build series of new hospitals. So far, 9 modular hospitals have been built and utilized.

Recently, on September 9, the Economic Council was established in order to formulate a socio-economic development strategy that reflects the country's national development priorities, to create the new strategic management framework for economic policy that can ensure its implementation, as well as to achieve effective regulation and law enforcement practices in the post-pandemic period. For the maintenance of the macroeconomic stability and acceleration of socio-economic development in the country, the Economic Council will analyse the processes taking place in the global and national economy, including the fiscal and monetary sectors, as well as the financial and banking sector and will prepare proposals pertaining reforms and economic policy to be implemented in the current and medium term in order to take appropriate measures to prevent possible internal and external influences on the country's economy. According to our forecast plan the target for GDP growth rate was set at 3,8% in the medium-term and at 6-7% in the long-term.

For the purpose of combatting the COVID-19 pandemic and addressing its negative effects, we have also discussed the opportunities for cooperation with a number of international financial institutions, including the EBRD. In this regard, it is worth to mention the loans timely introduced and provided to Azerbaijani companies under the EBRD's Solidarity Package.

EBRD's Strategic and Capital Framework (SCF) for 2021-2025, which outlines the Bank's strategic activities and financial planning processes for upcoming 5 years, focuses on three strategic themes of i) supporting the transition to a green, low carbon economy, ii) promoting equality of opportunity and iii) accelerating the digital transition. During the implementation of the SCF, EBRD aimed to increase the quality, quantity and impact of its activities in each priority sector, such as financial institutions, industry, trade and agribusiness and sustainable infrastructure. The SCF also includes a prompt and simplified credit mechanism that ensures the financial sustainability of operating countries and local customers, including exceptional and innovative measures to meet the short-term needs of partner banks, SMEs and infrastructure. We are pleased to see that according to the SCF, the EBRD will be able to lend record of \$13 billion a year. As SMEs face constant impairment loss during the crisis, capital investment measures in the early years of the SCF are therefore particularly important step in supporting companies. As such we would like to invite the EBRD to consider the possibility to invest in equity capital of Azerbaijani companies as well.

It is pleasant to see that all these strategic directions and sectors of the EBRD SCF for 2021-2025, which outlines the Bank's priority activities, and financial planning processes for upcoming years, are almost in line with the strategic development priorities of our Government. We will continue our efforts to explore and identify new opportunities for cooperation with the EBRD on the country's development priorities such as:

- development of the private sector and SMEs
- increasing the effectiveness of state support to private entrepreneurship
- privatization
- increasing the level of participation of the private sector in economic growth and employment
- fundamental reforms of state-owned enterprises
- aimed at increasing the efficiency, transparency
- competitiveness
- expansion of public-private partnership
- expansion and further development of the digital economy

EBRD has always been a reliable and important development partner for Azerbaijan. Until now EBRD has implemented 174 projects in Azerbaijan totalling more than € 3 billion, where 13 of them are in public sector (€1.6 billion) and 161 in the

private sector (€ 1.6 billion). On November 22, 2019, for the first time, Azerbaijan joined the Bank's donor community, by signing the contribution agreements making our Eastern Europe Energy Efficiency and Environmental Partnership Fund (E5P) contribution of 2 million dollars and joined the EBRD Technical Cooperation Account with the same amount.

The EBRD has launched the Green Program in Azerbaijan. Ganja city has been selected as a partner city for this initiative. The implementation of the first project will be launched in 2021.

The EBRD plays an important role in financing the private sector in Azerbaijan and contributes to the development of SMEs. In particular, earlier this year the EBRD and the Central Bank of the Republic of Azerbaijan has signed an agreement (swap agreement) as a result of which Azerbaijani companies could benefit from loans denominated in the local currency.

Recently, (by the Presidential Decree of the 7th August, 2020) Azerbaijan Investment Holding was established in the aim of management of state-owned companies and enterprises on the basis of common principles in order to improve their activities, increase the transparency and economic efficiency of their investment programs, ensure their competitiveness. Holding is engaged in defining long-term targets and development strategies of stated-owned companies rather than managing their current operations.

The President of the Republic of Azerbaijan Ilham Aliyev and President of World Economic Forum (WEF) Borge Brende signed the letter of intent envisaging the establishment of WEF's Centre for the Fourth Industrial Revolution Affiliate in Baku on January 21, 2020, at WEF's Annual Meeting in Davos. Currently, the establishment process of Affiliate is underway. We believe that digital transition theme of SCF will be a key direction for EBRD to explore cooperation with Azerbaijan in this field.

Despite all our regional development efforts, unfortunately, continued occupation policy of Armenia against Azerbaijan creates serious obstacles to the expansion of economic cooperation in the region and limits the full realization of economic potential. As known, 20% of the internationally recognized territories of Azerbaijan are under occupation of Armenia for the last three decades, causing 1 million Azerbaijani refugees, enormous humanitarian, economic, environmental and cultural damage to the Republic of Azerbaijan. This summer, on July 12 the Armenian armed forces fired artillery at Azerbaijani positions across the border between the two states, also targeting

civilians and civilian objects in violation of international humanitarian law. Just recently, on September 27, 2020, the Armenian armed forces for the umpteenth time fired on our settlements, as well as our military positions, using various types of weapons, including heavy artillery, from several directions causing casualties among the civilian population and our servicemen. In order to prevent another military aggression by Armenia and provide the security of densely populated civilian residential areas the Armed Forces of the Republic of Azerbaijan undertook counter-offensive measures within the right of self-defence and in full compliance with the international humanitarian law.

I underline that no military actions are taking place in the territory of Armenia despite numerous false allegation to the contrary.

29 civilians were killed as the result of deliberate shelling and targeting our cities out of the frontline.

Being well aware of the fact that the illegal presence of the armed forces of Armenia in the occupied Nagorno-Karabakh and surrounding regions of Azerbaijan is a serious threat to regional peace and security and demonstrating the principled position based on the norms and principles of international law on the aggression of Armenia against Azerbaijan and its illegal activities, the international community should strongly condemn Armenia's policy of aggression and provocative activities against Azerbaijan and force Armenia to comply with the international law, including its commitments under the international humanitarian law. Full responsibility for the present situation falls on the political-military leadership of Armenia.

In the meantime, we would like to congratulate the newly elected President of the Bank and to wish the new President every success in further enhancement the development and strengthening the cooperation between the Bank and member countries.

In conclusion, I would like to express our deep gratitude to the EBRD for a long lasting and sustainable support to the development agenda of Azerbaijan.