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Comparative Study of the Automotive Industry in Azerbaijan

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Introduction

The automotive industry is a major employment generator in many economies, with millions of people earning their livelihood, both directly and indirectly. According to the International Organization of Motor Vehicle Manufacturers (IOMVM), the current turnover of the automobile industry is around 2 trillion EURO and is equivalent to the size of 6th largest economy in the world. While there has been a growth momentum for the global automotive industry in the past, it is also facing challenges of late, especially in view of the increasing cost of production and slowing down of demand. The world automotive industry is also faced with the challenge of undertaking R&D and designing fuel-efficient vehicles in view of volatile oil prices. The environmental challenges have also assumed critical importance to the automotive industry at the backdrop of climatic change.

Towards the end of 2014, Benchmark Brent experienced the largest annual change (-49.73%) since 2008's -61.76% depreciation and this has forced oil-producing countries to search a way out of the expected revenue decreases. Azerbaijan is one of the oil-producing countries and it relies on oil for most part of its state revenue, 92 percent of export earnings, and oil sector provided 36% of GDP in 2017. Although huge volumes of oil and gas are among Azerbaijan's current main commodities, the government strives for "economic diversification". Industry is believed to be one of the main pillars in the rising non-oil sector growth, especially automotive industry. Since 2005, three car plants have started operating in Azerbaijan, funded by both state and non-state sector and four car plants currently operate in Azerbaijan. Due to Azerbaijan's strategic location, connecting the East and the West and its sea border with Russia, Iran, Turkmenistan and Kazakhstan creates an ideal situation for manufacturing and exporting vehicles abroad. With oil price shock not appearing to be a step-back for Azerbaijan's non-oil sector growth, supported by International Economic Institutions' statement "Azerbaijan's large foreign exchange reserves provide the authorities with chances to overcome possible risks", Azerbaijan occurred to have enough room for mitigating risk. Nevertheless, this was not the situation for Azerbaijan and its economy.

This article analysis Azerbaijan's automotive market pre and post oil price shock, specifically focusing on two factors is undermining the market, as well as preventions for future development. Firstly, a sole dependency on oil, as major part of Azerbaijan's economy, which is a common characteristic for high level of oil exporting countries. Secondly, currency's instability post oil shock. There are several reasons why automotive market has not only stopped growing, but also started to decline drastically in the last four years. This decline's main reason is both new monetary and legislative policies that are adopted by government. Preventive actions to regulate the consumer loans market and prevent excess borrowing. Adaptation of new environmental standards and new tariffs and taxes entered into force. New environmental standards main aim is to prevent pollution through forcing import of cars with meeting Euro-4 at least. However, shaping of ageing car market is inevitable, because of new monetary and legislative policies impact. Lastly, this paper will give forecast about Azerbaijan's automotive market for the next five years.

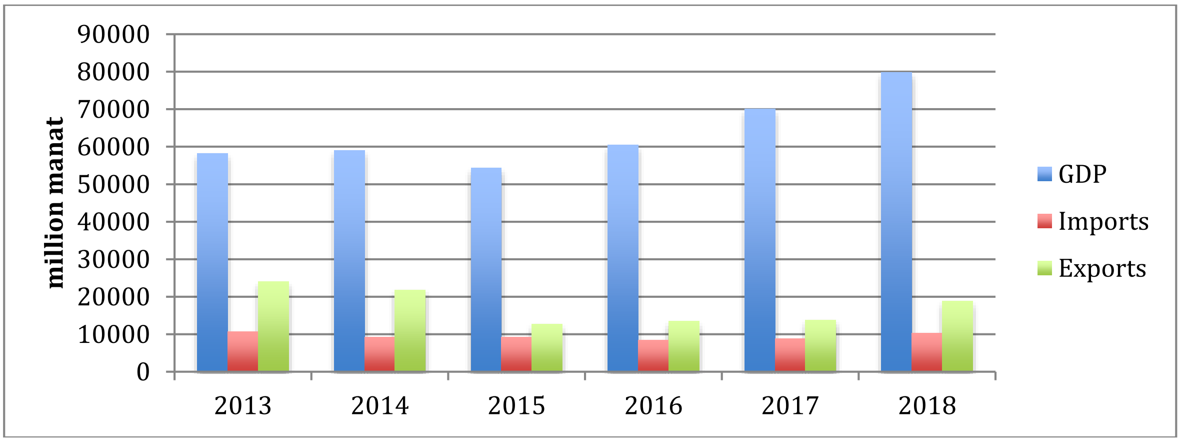
This article is divided into several sections. First part will provide a brief overview of changes in annual average crude oil price and its affect on manat compared to USD since 2010. From there, I'll move onto analyzing the Azerbaijan's automotive market by focusing on dynamics of passenger cars import, price indices of passenger cars, average annual prices of passenger cars and so on. The section afterwards will continue by thoroughly explaining changes in monetary and legislative policies of Azerbaijan, which has affected the market. Lastly, Azerbaijan's own local production will be presented on the final part, specifically focusing on the two cars plants that have started operating since 2010 and their potential future developments goals and objectives.

Context

The macroeconomic environment of Azerbaijan experienced unstable pattern during the last 5 years, most of the arising from the previous decline of oil prices. GDP of Azerbaijan has experienced stagnation in 2014 and plunge in 2015. The main reason behind this stagnation and decline, without a doubt, is the fall in oil prices coupled with a gradual decrease in oil production. The relationship between these two variables can be seen clearly from Figure 1 and Figure 2. According to data provided by The Sate Statistical Committee of the Republic of Azerbaijan, GDP of Azerbaijan had only 1% growth in 2014 and almost 8% decline in 2015, which is strongly correlated with change in the relevant year's oil price. Following 2015, Azerbaijan's GDP started to grow again 2016 and 2017, experiencing 11% and 16% growth in the relevant years.

On the other hand, exports and imports of Azerbaijan, both experienced a decline during the last 5 years. Compared to imports, exports have declined more severely; export's 43% decline was correspondent with import's 12% fall between 2013 and 2017. Exports particularly experienced sharp decline in 2015, where they dropped 21829 million manat to 12729 million manat, almost a 41% fall. Imports' level on the relevant year remained almost changed with less 1% increase. Similar to change in GDP, sharp decline in exports was largely due to fall in oil prices coupled with a gradual decrease in oil production, as oil revenue contributed predominantly to Azerbaijan's budget revenue.

Figure 1: GDP and Imports/Exports of Azerbaijan

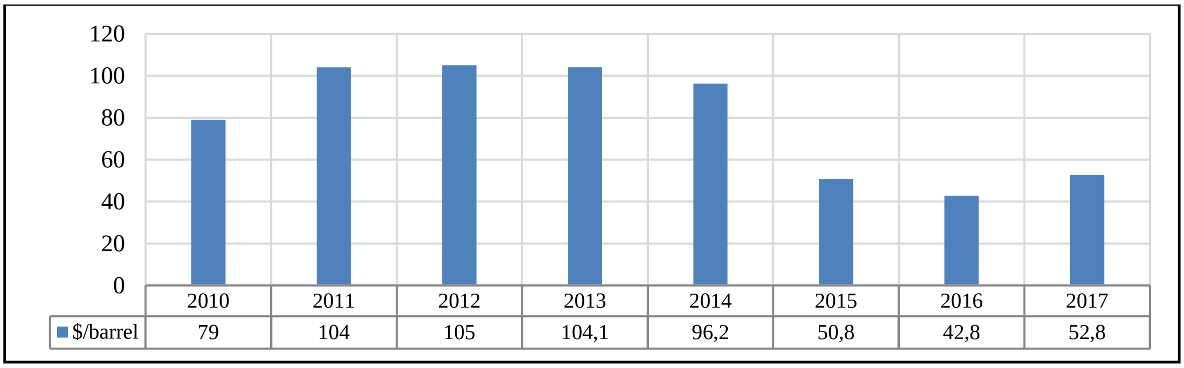


Source: Central Bank of the Republic of Azerbaijan, 2019

Shares of oil sector on Azerbijan's GDP had dropped as low as 28% after the oil shock in 2015, due to a decline in the share of oil revenues, according to data published by State Statistical Committee of the Republic of Azerbaijan. Figure 1 evidently supports State

Statistical Committee of the Republic of Azerbaijan's. In comparison with 2010-2014, crude oil prices has exprienced a dramatic decline in the past 3 years. Hence, after reaching 105$ per barrel in 2012 and remaining around this benchmark for the next year an a half, it averaged as lowest as 42.8$ per barrel annually in 2016. Because of huge role of oil in the Azerbaijani's economy, especially on its trade balance, has led to a decrease in oil revenues and further reduction in the revenues of State Oil Fund. It is vital to keep trade balance positive, becuase export operations ensure currency inflow into the country and trade helps strengthen the national currency.

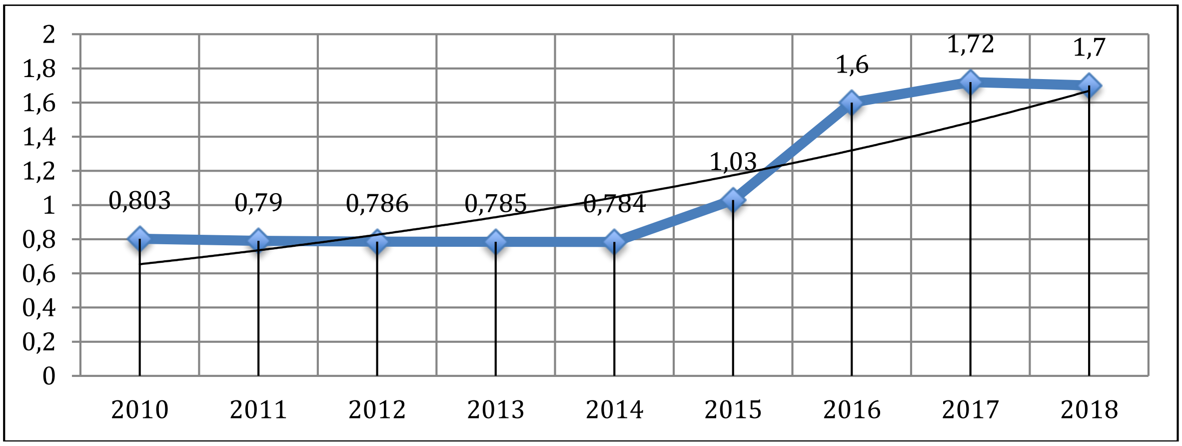
Figure 2: Annual average crude oil price



Source: World Bank Commidities Price (The Pink Sheet), 2019

According to date provided by The Sate Statistical Committee of the Republic of Azerbaijan, share of oil sector on Azerbaijan's GDP has been fluctuating since 2010, however shares still has remained at a quite high level with 30% in 2015 (lowest figure since 2010) and as presented on Figure 1, annual average crude oil price experienced it first largest decline in the same year. Correlated with oil shock, manat's value also began to depreciate against foreign currencies in 2015, as well. Oil price is the main factor influencing manat's rate, as this product take up to country's 90% of export revenues. Relative to the data in Figure 1, manat's value against USD depreciated precipitously, especially in 2016, where manat's rate dropped from 1.03 manat/USD to 1.6 manat/USD. This trend continued in 2017 as well, however rate mainly remained constant, due to the government switching to fixed exchange rate at the end of 2017. Fixed exchange rate has stayed around 1.7 manat/USD till today.

Figure 3: Annual average of manat/USD

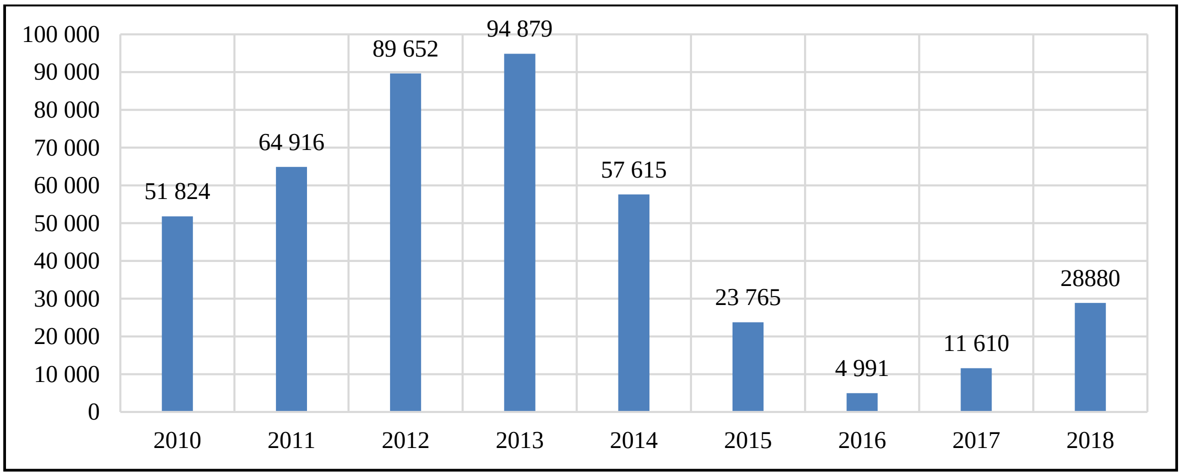


Source: Central Bank of the Republic of Azerbaijan, 2019

Prior to 2017, Central Bank of Azerbaijan was implementing a floating currency regime and this regime wasn't well suited for the Azerbaijani economy, hence the adoptation on fixed exhange rate in 2017. There are many factors why Azerbaijani economy wasn't ready to adopt floating regime. Firstly, fixed exhange rate policy has always been enforced by Central Bank of Azerbiajan previous to floating exchange rate adopted in 16th February 2015, therefore business market and infrastucture wasn't ready to adopt quickly to new currency policy. Secondly, oil price starting to increase again in 2017 has strengthened manat's value and this caused future risk for the currency, as devaluation would be unavoidable with another probable oil price. Lastly, floating currency regime didn't create suitable environment for currency reserves growth. Especially in the car market caused confusion for the importer, therefore the sharp decline of car imports in 2015 and 2016. Importers faced with serious problems such as being unable to predict future exchange rate, which directly affects value of imported car, as imported cars are bought with foreign currency. With being unable to predict future exchange rate, sudden strengthen of manat would cause sellers to lose money, as cars also would not be sold for the long periods. This is due to consumers favoring to save money, especially on foreign currency, because of investment plans, over spending it.

Data provided by The Sate Statistical Committee of the Republic of Azerbaijan illustrates downtrend of the passenger car's import after 2013. Thus, Figure 3 shows that import of passenger cars hit its peak at 94,879 n 2013 cars per year, yet due to Azerbaijan's fluctuating economy after oil shock in the second half of 2014, this number sharply fell, reaching its lowest in 2016 at 4,991. Tremendous reduction in both oil price and manat's value played huge roles for instability in the car market. These factors have limited the purchasing power of consumers, which is the undisputable reason why only 4,991 cars were imported into Azerbaijan.

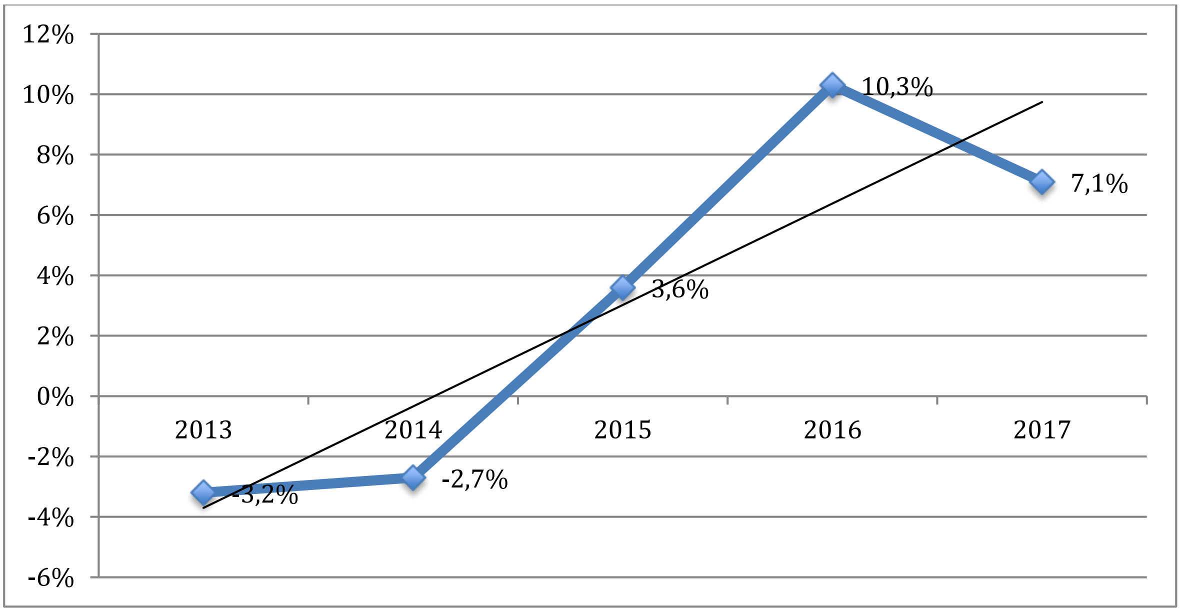
Figure 4: Dynamics of passanger cars import



Source: The Sate Statistical Committee of the Republic of Azerbaijan, 2019

Azerbaijan's car market encountred shortage, due to sudden drop in the numbers of imported cars, which was ultimate cause of the car's market inflation within 2013-2016 (See Figure 4). Relevant with Figure 3, price indices of passanger cars rose from -3.2% to 10.3%, settling at its maximum in 2016 and slightly dropping to 7.1% in 2017, due to the government's policies, such as fixed exchange rate.

Figure 5: Price indices of passanger cars

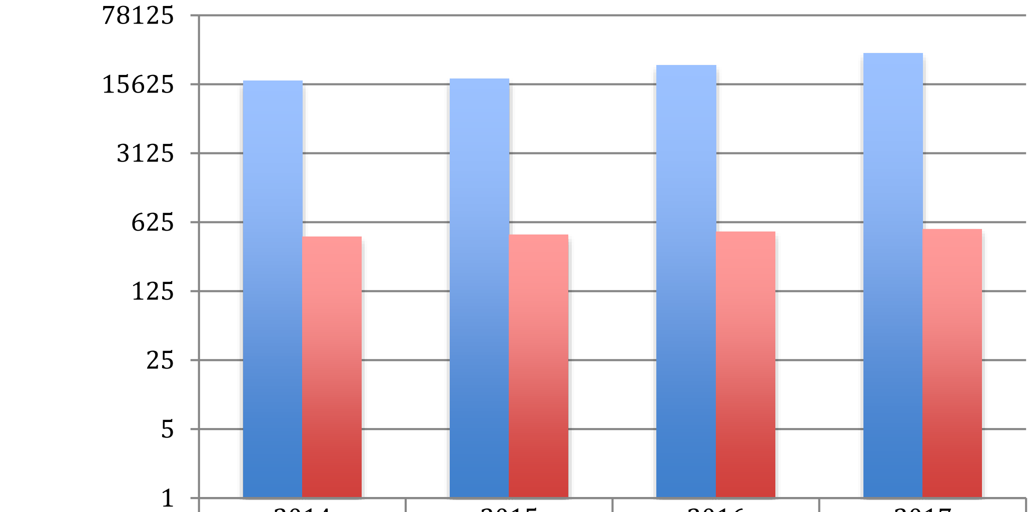


Source: The Sate Statistical Committee of the Republic of Azerbaijan, 2019

Inevitably, average annual prices of passenger cars adequately increased from 2014 to 2017. Figure 5 represent that this number doubled, reaching it highest 32123.4 in 2017. Certainly, depreciation of manat played the major role in this increment, due to foreign currencies being the main means in purchase of cars from abroad. However, regulations in Azerbaijan's law, especially Verdict No 2 signed in January 2014 by Azerbaijan's prime minister, Artur RASİ-ZADƏ on Euro 4 standards had its impact as well. Verdict No 2 states that in order to regulate hazardous substances thrown into air by vehicles, both imported and locally produced cars should meet Euro 4 standards. This verdict started its implementation from 1st April 2014. Prior to Verdict, there was no law regulating Euro standards in Azerbaijan, which means manufacturing year of the car was not relevant for custom process, as there was not restriction on manufacturing years.

Examining average monthly wage and salaries in contrast to average annual prices of passenger cars, an inflation of average monthly wage would be clear, similar to average annual prices of passenger cars. However, these increases are not as identical as it might appear to be in terms of percentage change. Average annual prices of passenger cars have grown by 90% between 2014 and 2017, whereas average monthly wage and salaries have only increased by 19% during the relevant years. These figures have direct affect on car purchase, because enormous difference increase in average annual prices and increase in monthly wages limits the purchase power of consumers.

Figure 6: Average annual prices of passenger cars and average monthly wages and salaries of employees



	2014	2015	2016	2017
Passenger cars	16847,78	17795,66	24373,83	32123,34
Monthly wage	444,5	466,9	499,8	528,5

Source: The Sate Statistical Committee of the Republic of Azerbaijan, 2019

According to Automobile Association Developments webpage, cars meeting Euro 4 standards was produced from January 2005 onwards and the new law prohibits import and production of non-Euro 4 standards cars into Azerbaijan (*Limits to improve air quality and health* 2017). This has 2 influences in Azerbaijan's car market. Firstly, it is clear that vehicles meeting Euro 4 standards are more expensive that non-Euro 4 ones, secondly limitation of non Euro 4 cars import and production is going to cause a butterfly effect on the market by increasing the prices of non Euro 4 vehicles due to this market having no supply, except already existing products that can meet the demand.

After implementation of the Verdict No 2 expected knock on affect would be increase in numbers of newer cars, however Table 1 represents the opposite. There has been an overall decrease in cars - up to 5 years and cars – from 5 years to 10 years. Up to 5 years cars gradually drop from 186,652 to 102,876 between 2014 and 2017 and from 5 to 10 years cars have varied throughout relevant years, eventually hitting its lowest at 213,830. On the other side, unexpectedly cars over 10 years have risen progressively from 681,753 to 830,731 within 4 years. Even if it is taken into consideration that vehicles become older as years advance; change in the number of vehicles between 2014 and 2017 for both vehicles together are just above 100,00 mark, which is still almost 50,000 vehicles less than change in vehicles over 10 years. This trend is strongly correlated with aforementioned circumstances, such as drop on oil price, which precipitated depreciation in manat' value and limited the consumer purchase power, as consumer demand for luxury goods expectedly declined, due to less desirable conditions, such as higher import and excise taxes and varied loan terms, alternatively the demand for the cheaper substitute for these goods has increased.

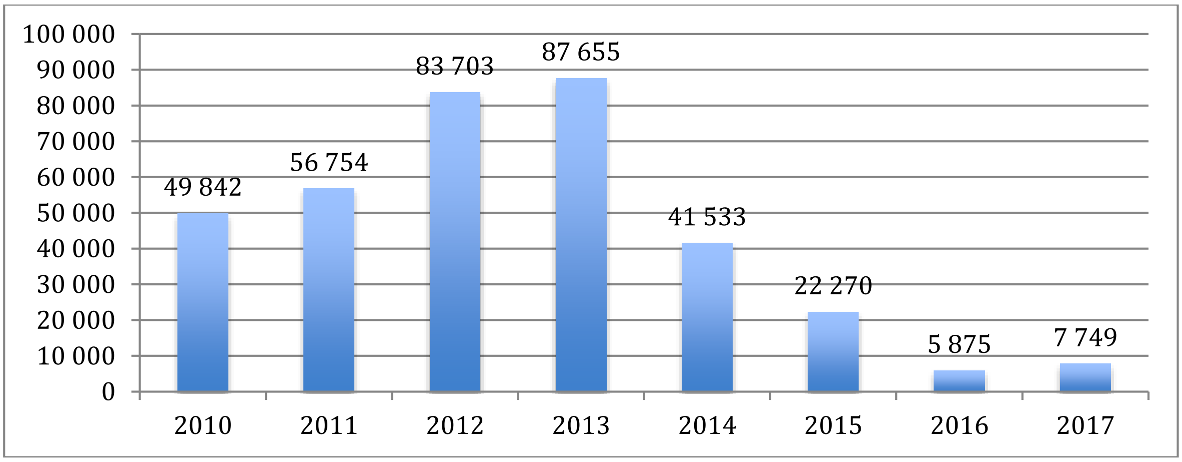
Tabel 1: Age structure of passanger cars and percentage increase in total number of passanger vehicles

Year	Up to 5 years	From 5 to 10 years	Over 10 years	Total (units)	Δ
2010	X	X	X	**815,683**	
2011	X	X	X	**871,449**	**6.4%**
2012	X	X	X	**958,594**	**9.1%**
2013	X	X	X	**1,048,806**	**8.6%**
2014	186,652	231,719	681,753	**1,100,124**	**4.7%**
2015	175,634	212,821	741,141	**1,129,596**	**2.6%**
2016	141,601	237,740	757,642	**1,136,983**	**0.6%**
2017	102,876	213,830	830,731	**1,147,437**	**0.9%**

Source: The Sate Statistical Committee of the Republic of Azerbaijan Δ – percentage increase in quantity, 2019

This has reflected itself on the first registration of passenger vehicles as well. Figure 6 illustrates variant tendencies between 2010 and 2018. There has been a general increase of newly registered cars between 2010 and 2013, where this hit its peak at 87,655in 2013. This data represent that demand for brand new vehicles were high between these periods, which is strongly correlated with large number or imports within the relevant duration. However, firstly registered passenger cars has sharply fallen after 2013 to 41,533 – more than a double reduction in number and was the lowest at 5,875 at 2016. The main reason for the decrement has been constant, just like explained previously, undesirable circumstances, such as taxes and loan conditions and floating exchange rate have limited to purchase of cars in general. Pattern of correlated increase in newly registered cars and in imports at 2017 shows a potential future car market to recover again, as circumstances change – fixed exchange rate was the main factor in this growth and its affect is inevitable.

Figure 7: First registration of passanger vehicles



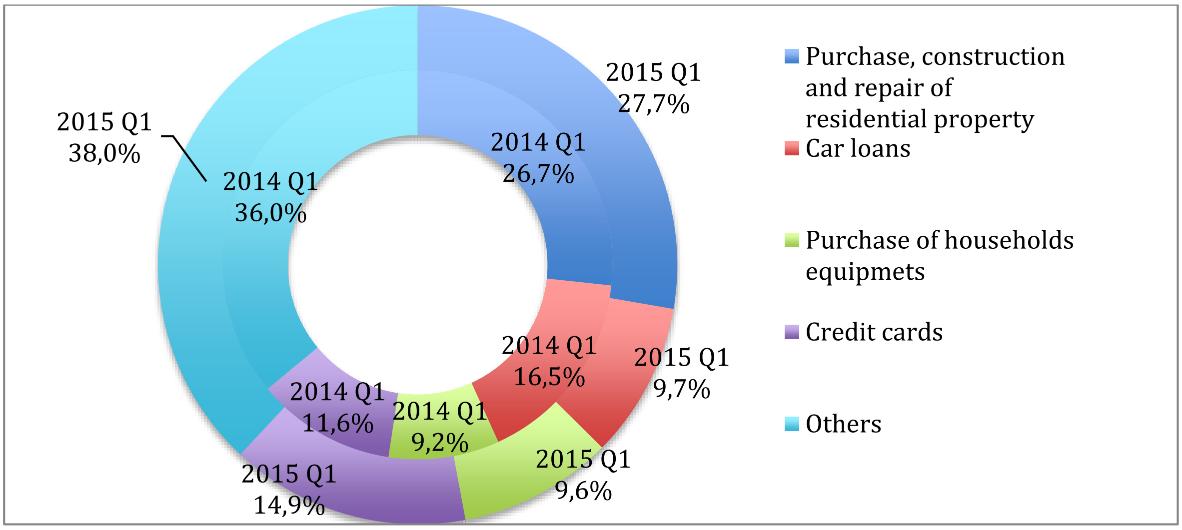
Source: The Sate Statistical Committee of the Republic of Azerbaijan, 2019

According to Expert Center for Real Estate institution's statement published on trend news agency, car market is the second largest in the consumer market in Azerbaijan, following real estate market (Ramil Osmanli 2018). Table 1 shows a continuous increase in the total of passenger vehicles, where between 2010 and 2017 this figure has grown from

815,683 to 1,147,437. Nevertheless, this growth explored in more details signifies a trend that is has been constant throughout this paper. Hence, percentage increase in quantity of passenger cars has declined dramatically from 8,6% to 0,6% between 2013 and 2016 and only started to increase to 0,9% in 2017, similar to almost all of figures in this paper. Reverting to same institution's statement, numerous decisions and changes has been made and these have affected the car market during relevant years. In 2014, the Central Bank of Azerbaijan has decided secure loans in car market, which had impact on the allocation of loans in this sector and this decision was followed by adaptation of new environmental standards, wherefore these decision had a significant affect in the car market.

Financial stability review of 2014 and first quarter of 2015 published by the Central Bank of The Republic of Azerbaijan disclose that CBA took preventive actions to regulate the consumer loans market and prevent excess borrowing, due to potential risks linked to excess borrowing along with positive macroeconomic and social impact of consumer loans. "The new regulations on assets classification and loan loss provisioning effective from early 2014 (01.02.2014) and the guidelines on regulation of credit risks on a single borrower or a group of related borrowers (22.03.2014) affected the bank's consumer loans portfolio. The new regulations tightened provisioning terms and conditions on consumer loans, and introduced the additional LTV ratio on car loans." Article published by Turan News Agency's website contact.az provides a more in depth report on new stricter regulations and on auto market overall. As mentioned before, with first collapse of the manat in the beginning of 2015, correlated strongly with oil price shock, car dealers refused of auto lending, however commercial banks didn't complete withdraw from this market; they continued to issue loans for car purchasing, but under stricter conditions. For example, VTB Bank (Azerbaijan) - the one of the leading banks in this market segment have been operating under an explicit formula "first money – then the commodity", where initial payment for brand new cars with a value less than 30 000 manat / 28 600 USD was 50%; for cars worth more than 30 000 manat / 28 600 USD it was 40%. As well as this, interest rate for loans were around 21%, and required guarantee of third parties. Commercial banks loans' circumstances for used cars are much more severe. Taking VTB Bank as an example for clearer comparison, initial down payment for used cars is double of brand new one – from 40% to 80% and interest rate is at 22% with a guarantee of third party required.

Figure 8: Structure of consumer loans



Source: Central Bank of The Republic of Azerbaijan, 2019

Significant segment of loans granted to the population was car loans in the first quarter of 2014 (Figure 7). CBA's preventive actions to regulate the consumer loans market has caused a shift in dynamics, reducing size of car loans from 16.5% to 9.6% over the year of 2014 and making it the smallest proportion of consumer loans along loans related to the purchase of household equipment. Report news agency's table displays annual dynamics of auto loans as of January 1, 2015 compared to the January 1, 2014. Banks have reported almost the same in change in dynamic of auto loans, where 9 out of 10 banks have had negative percentage, ranging from -13,81% to -46,04%, except RabitaBank, which had a 60% increase in its change in annual dynamics. This numbers helps to explain the reduction on size of car loans in the structure of consumer loans.

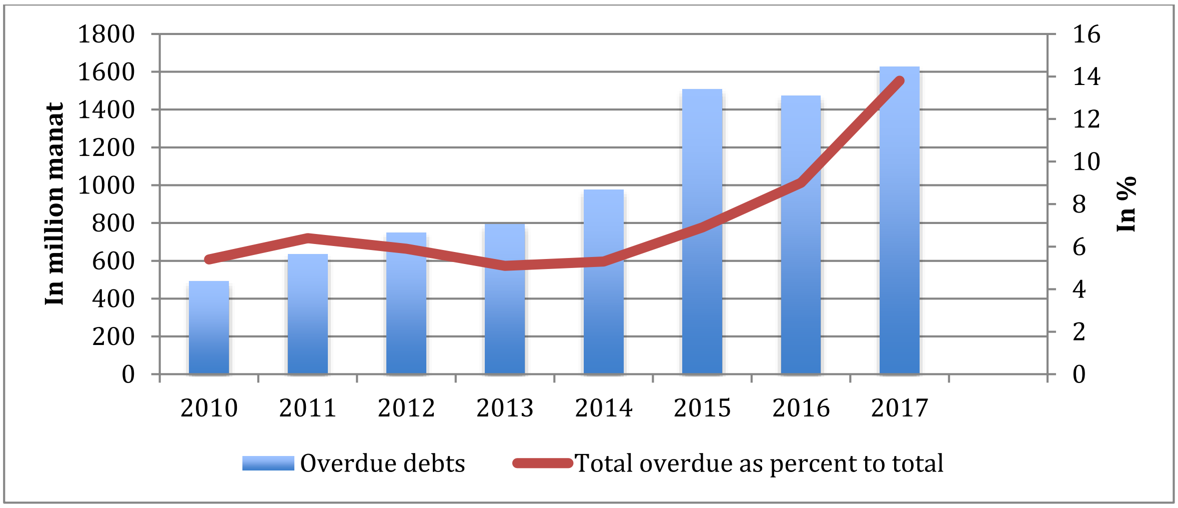
Tabel 2: Annual dynamics of auto loans

No	Banks	Annual dynamics (%)
1	Rabitabank	160,57
2	ZaminBank	-13,81
3	XalqBank	-17,01
4	VTB Azerbaijan	-18,67
5	NIKOIL Bank	-27,50
6	Bank Technique	-32,11
7	NBC Bank	-34,03
8	YapıKredi Bank Azerbaijan	-41,49
9	Atrabank	-41,80
10	Amrahbank	-46,04

Source: Report news agency, 2019

Overall, banking industry of Azerbaijan has experienced a negative shift in dynamics, especially through overdue debt and its percentage change compared to total debt. Overdue debt has gradually increased from 492.9 million manat to 1626.7 million manat between 2010 and 2017, only slightly decreasing by 35.9 million manat in 2016. Figure 9 illustrates the biggest increase in over debt from 2014 to 2015, where this figure rose from 976.3 million manat to 1508.5 million manat, which is an almost 65% increase. This sudden shift in dynamics is correlated change in structure of consumer loans, which car loans have shrank massively. Due to the stricter regulations by banks and possible bad loans history of consumer, regarding to massive boost in 2015, demand for car loans decreased greatly in 2015, which is illustrated by Figure 8. As well as overdue debt, size of this debt compared to total debt has also increased between 2010 and 2017, where 6.4% overdue debt in 2010 has rose to 13.8% in 2017.

Figure 9: Overdue debt/percent to total



Source: The State Statistical Committee of the Republic of Azerbaijan, 2019

Besides stricter monetary policies, it is expected to be a sharp increase in prices of imported cars, due to changes in excise tax from the beginning of 2019. There are several taxes are levied on imported cars, currently. Firstly, 36% VAT is charged on the car's custom value. Other than this, duties are imposed depending on vehicle's engine size, production year and export country. At last, relevant excise taxes are imposed, accordingly to vehicle's engine size. According to №1356 amendment to tax legislation, excise taxes have increased among all all engine sizes. Lowest excise tax rate is imposed on vehicles with engince size till 2000 sm^3 and this figure has stayed the same at 0,20 manat for each sm^3. Highest excise tax rate is imposed on vehicles with engine size more than 5000 sm^3 and this figure has risen from 31 400 manat + 40 manat for each sm^3 more than 5000 sm^3 to 31 400 manat + 40 manat for each sm^3 more than 5000 sm^3. Overall, with the new excise tax rates, there has been a significant increase on the tariffs, varying from 50% to 73% increase from the previous rates.

Tabel 3: Changes to excise tax

Vehicle's engine size:	**Excise tax**	
	Previous	Current
Till 2000 sm^3	0,20 manat for each sm^3	0,20 manat for each sm^3
Till 3000 sm^3	400 manat + 3 manat for each sm^3 between 2001 and 3000 sm^3	600 manat + 5 manat for each sm^3 between 2001 and 3000 sm^3
Till 4000 sm^3	3400 manat + 8 manat for each sm^3 between 3001 and 4000 sm^3	5600 manat + 13 manat for each sm^3 between 3001 and 4000 sm^3
Till 5000 sm^3	11 400 manat + 20 manat for each sm^3 between 4001 and 5000 sm^3	18 600 manat + 35 manat for each sm^3 between 4001 and 5000 sm^3
More than 5000 sm^3	31 400 manat + 40 manat for each sm^3 more than 5000 sm^3	31 400 manat + 40 manat for each sm^3 more than 5000 sm^3

Source: Ministry of Taxes of Azerbaijan Republic, 2019

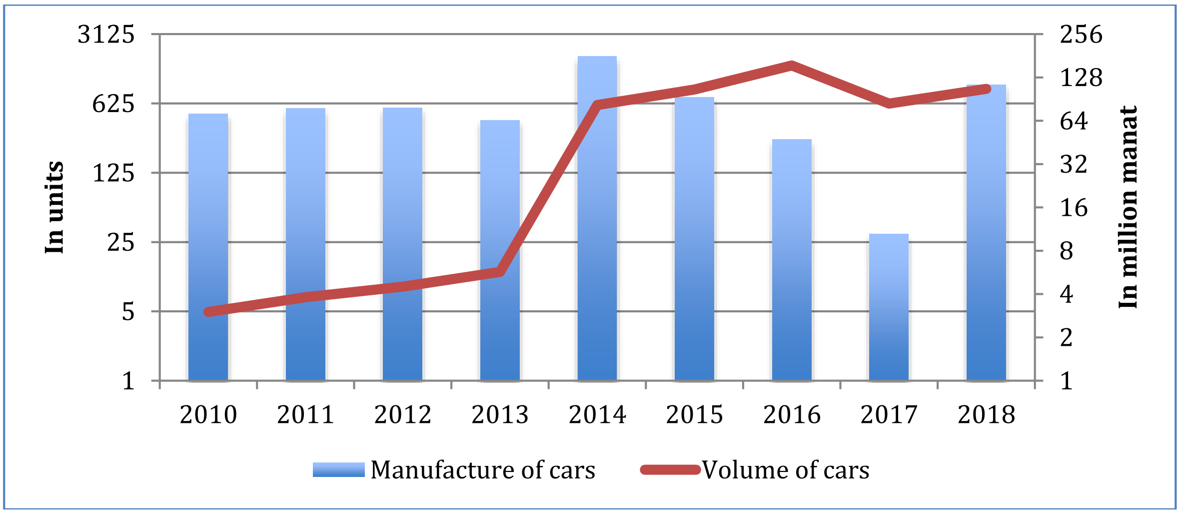
New tariffs entered also into force in 2018. The duty tax on the import of new cars with an engine capacity of 1,500 cubic centimeters and more is 0.7$ per each cubic centimeter, and for used cars with the same engine capacity is 1.2$ per each cubic centimeter. Previously, the custom duty on the import of cars with an engine capacity of 1,500 cubic meters or more was 0.4$ and 0.7$ per each cubic meter, respectively. For new and used cars with an engine capacity of less than 1,500 cubic centimeters, the import customs duty remained unchanged.

Azerbaijan President – Ilham Aliyev's Decree № 687-IVQ signed at 13th June 2013 was another legislative barrier for automotive market. Changes to system of determining goods' custom value were one of the direct factors affecting the market. With this new decree, customs valuation was regulated according to General Agreement on Tariffs and Trade (GATT) VII article. GATT VII article consists of six different methods to verify value of a good. Before the decree, value of a good was declared via an invoice only before the decree, however an invoice isn't the only element in determining custome value of a good. For instance, consumer could have bought and imported a good with a price much lower than a market value in the imported country and its price would be decleared as shown on an invoice. Currently, invoice is still the first method for determining goods' value, however if goods value is lower than a market value in the imported country, first method is inadmissible and the second method is applied. With the second method, custom value of a good is determined via market value of same and/or homogeneous goods.

Stricter monetary policies and legisletive decisions adopted by Azerbaijani government are premature, as Azerbaijan has not yet set up its own production of cars on firm basis. There are currently four active automotive plants operating in Azerbaijan. These are Ganja Auto Plant, Nakhchivan Automobile Plant, better known as NAZ, "AzKron" LLC car factory on the territory of the Neftchala Industrial Park and AzSamand. Figure 8 represents total output of cars and factual price of these manufactured vehicles between 2010 and 2017 accordingly. It shows that total output of cars was unstable but remained around same level between 2010 and 2014, where 490 car were produced in 2010, compared to 424 cars in 2013. In 2014, there was a sharp incline in the number of manufactured cars and it hit its peak at 1861 vehicles. However, this figure dropped significantly after 2014 to 725 vehicles, almost tripling down and it hit its lowest at only 30 manufactured cars at 2017. On the other hand, similar, but irregular trend was displayed for the volume of cars. Thus, volume of cars has remained around same level between 2010 and 2014, where volume of cars gradually increased from 3 million manat to 5.7 million from 2010 to 2014 and in 2014, it has risen substantially to 82,4 million manat, similar to total output during the relevant years. However, if we were to analyze years between 2014 and 2017, inversely proportional pattern would stand. As previously pointed out, output of manufactured cars decreased significantly from 2014, whereas volume of cars continued increasing till 2017. It rose from 82,4 million manat to 155.1 million manat between 2014 and 2017 and decreased to 84.2 million manat in 2017. This pattern raises many questions, such as how is it possible to have almost identical figures for 2014 and 2017, when in these 2 years; car production hit its highest and lowest point, with 1861 cars and 30 cars. These instability and suspicious figures, as well as Ganja and Nakhchivan Automobile Plant almost closing between relevant years has created a low level of trust among consumers and investors.

It should also be noted that, the structure of car production by form of ownership has been dominated by non-state sector between 2010 and 2014, where only in 2010, state sector had 3.7% share in the production and rest of the years till 2014, non-state sector had 100% of the manufacturing, according to the data provided by The State Statistical Committee of the Republic of Azerbaijan. This means, practically all of the outputs of cars were done by non-state sector till 2014. In 2014, this figure-changed notable with state-sector gaining 85.2% share in the production and its dominance in the sector has continued to grow. With latest data provided by The State Statistical Committee of the Republic of Azerbaijan, state sector had 98.2% share in total output of cars, which means non-state sector only had 1.8% and these figures are all time highest and lowest numbers for both sectors relatively. The main cause of the shift was Naz-Lifan's high number of output in 2014. Thus, Naz-Lifan manufactured 1300 cars in the first half of 2014, according Marja-Business and Financial News Agency and it was predicted to increase this number to 2000 cars by the end of the year, which is in the same level with the factual output (1861 cars) in 2014. President Ilham Aliyev recommendation at the conference dedicated to results of second year implementation of the State Program on socio-economic development in 2014-2018, to officials to purchase more of domestically produced automobiles played an important role for the growth of local car production. The Ministry of Labor and Social Protection had purchased 1,933 cars for war veterans from Naz-Lifan till 2016. Firstly, tt should also be mentioned that, Naz-Lifan is a public company and it is state owned, therefore increased number of production had a huge impact in the shift of structure of car production by form of ownership. Secondly, even though Ganja Auto Plant is an active automotive plant, almost all of the vehicles manufactured there are non-automobiles, which are mainly tractors, trucks and buses. Ganja Auto Plant only manufactures a single automobile type currently; therefore its impact on car output level is very minor. Thirdly, "AzKron" LLC car factory on the territory of the Neftchala Industrial Park began operating on March 2018, therefore its production number isn't projected on figure 8, as data provided by The State Statistical Committee of the Republic of Azerbaijan is only up to 2017, however this plant promises a propitious future for local car production, which is going to be discussed later on the paper. To conclude, AzSamand was and is only non-state auto manufacturing comapny in Azerbaijan, therfore it domianted the market till Naz-Lifan began its operation and currently, "AzKron" LLC is the second non-state automotive company in the market, therefore state sector dominance in the market is expected to reduce dramatically in the upcoming years.

Figure 10: Units of manufactured cars relevant to volume of cars, annually

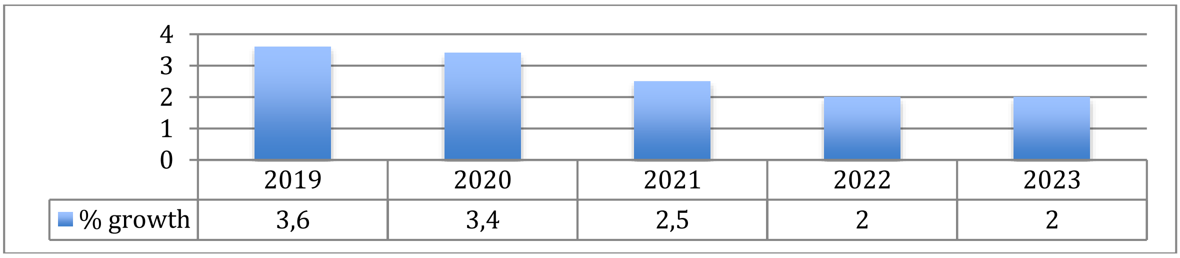


Source: The State Statistical Committee of the Republic of Azerbaijan, 2019

Azertouch Agency reports that, a major Iranian automaker Iran Khodro and Azerbaijani company Azeurocar (subsidiary of AzerMash) signed an agreement on August 6, 2016 to establish a joint automobile plant in the Neftchala Industrial Zone. Total investment in the plant is about $ 15 million and Azerbaijan holds 75 percent share while 25 percent belongs to Iran. All cars produced at the factory comply with Euro 5 standards. The annual capacity of the factory is about 10,000 cars, however in the first stage, it will produce 6,000 cars, which will be sold mainly on the local market. With car production increasing in Azerbaijan, The Azerbaijan-Iran joint car plant Khazar plans to start exporting cars to Russia and other Commonwealth of Independent States (CIS) countries next year. According State Statistics Committee's statement on November 20th, In Azerbaijan, the production of machinery and equipment, cars, trailers and semi-trailers have reached 241.1 million manat and Compared to the same period of the previous year, the production of cars increased by 26.5 times, reaching 610 cars by end of the November. This shows a direct impact a of the "AzKron" LLC car factory had on the Azerbaijan's car industry and which is ideal for Azerbaijan as it is currently working to develop its car industry and encouraging interior purchases, as well as eliminating dependence on imported cars and at the same time to create opportunities for exports in the near future. To be able to achieve those listed above, "AzKron" LLC car factory should set up its service system for its cars, as this will gather more attention from public consumers, due to positive marketing.

Azerbaijan's aim to develop its car industry has been followed by its successful strategy towards the aim, as the most recent production number represents. However, just like in 2014, an external factor, such as change in oil price shock can cause a step-back for Azerbaijan in its developments, especially when it is a heavily oil revenue dependent country, therefore analyzing future forecasts, identifying variation beforehand and preparing stability through defense mechanisms can be very favorable for Azerbaijan. Figure 11, for instance, illustrates Real GDP growth forecast of Azerbaijan till 2023. Azerbaijan's 1.3% Real GDP growth in 2018 is predicted to be followed by almost triple increased of reaching 3.6% in 2019 and this figures go conjointly with Azerbaijan's goals for the industry, as Azerbaijan has already increased its car production number by 26.5 times in 2018, compared to the same period of 2017, which means production number is only going to be increasing in 2019. Real GDP growth of 2020 is forecasted to be around same mark for 2019 with 3.4%, which means local production is likely to continue steadily, however this figure is expected start dropping after 2020, reaching 2.5% growth in 2021 and 2% growth in both 2022 and 2023. This forecasted figures are still higher than real GDP growth of 2018, however likely lower production numbers, compared to 2019 and 2020 can be a step-back for Azerbaijan's aims to export cars abroad to to Russia and other Commonwealth of Independent States (CIS) countries.

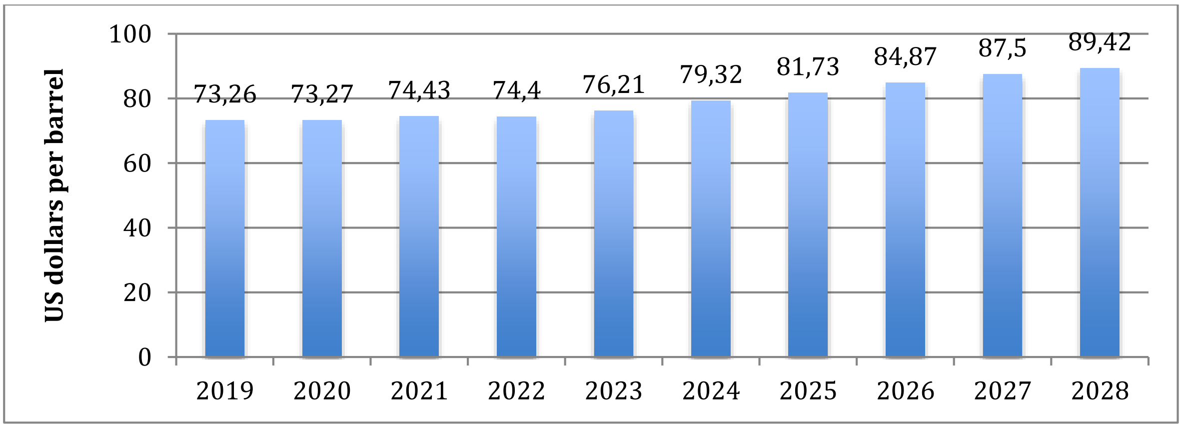
Figure 11: Real GDP growth forecast



Source: International Monetary Fund, 2019

Oil price shock in 2014 was the backbone of negative economical changes in Azerbaijan, as identified in this paper, therefore analyzing forecast of oil price would create fair picture for Azerbaijan's economical situation for upcoming years. U.S. Energy Information Administration report on "Annual Energy Outlook" provide values for commodity prices; nominal. U.S. Energy Information Administration predicts Brent oil price at 74.43 USD for 2018, which is more than 2017's annual average crude oil price (52.8 USD) – represented on Figure 12. However, oil price is expected to be dropping slightly after 2018 and reaching 73.27 USD in 2020, which is only 1.16 USD less than 2018's oil price, yet it should be noted that this figure for still higher than 2017's annual average crude oil price. After 2020, constant increase of Brent oil price is forecasted, where oil price will reach as high as 89.42 USD per barrel in 2028. There is no clear correlation between Real GDP growth forecast and crude oil price forecast, however It can be mentioned that oil prices remainign stable and increase have a positive affect on GDP growth, as oil price places an vital role in Azerbaijan's economy, therefore as great as Azerbaijan's objectives are expand non-oil sector by develop automotive market as such, Azerbaijan must be prepared for an external affect, such as oil price shock to be able to pursue its aims and goals.

Figure 12: Brent oil price forecast



Source: U.S. Energy Information Administration, 2019

Conclusion

This article has provided an overview of state of fluctuating state of automotive market in Azerbaijan but also outlined potential growth of the market, especially lead by local production that may in the future reshape the market's current status. Neftchala Industrial Zone project, "AzKron" LLC car factory must be envisioned with results in the long term rather in the short term, as it is still early stages of recovery from oil price shock. Annual average oil price just started to rise in 2017; it is still nowhere close to either 2013 or 2014 price tag and because there have been no adjustments to fixed exchange rate policy, rate is still at 1.7 manat/USD, which has continued to limit purchasing power of consumers. Dynamics of cars import has also shifted positively in 2017 and due to this positive shift; decline in inflation rate was also experienced in the same year. However, inflation rate is still at unfamiliar level for consumer, compared to 2013 and 2014's deflation in the car market. Inflation and more expensive average car prices have caused ageing in the structure of passenger cars and constant decline in the figure for first registration of cars. These, specifically ageing in the structure of passenger cars were an odd finding, as a legislative policy about Euro 4 standard was passed into law on the relevant year that decline began. Aim of the Euro 4 policy was to interfere with the ageing the market, as well as attempt to better the environment, since this standard only allows import of vehicles produced form January 2005 onwards. Nevertheless, age structure on the car parking has continued to rise even after the implementation of Euro 4 standards in 2014.

In terms of monetary and legislative policies, findings showed that adjustments to both categories had an adverse affect on the car market. Firstly, tightened provisioning terms and conditions on consumer loans, and introduction of the additional LTV ratio on car loans was not ill-advised action by Central Bank of Azerbaijan. With consumers having limited purchase power with devaluation of manat, these regulations practically withdraw the banks from the market and left consumers no alternative method for purchase. On the other hand, legislative policy changes lead to increase in car prices in the market by adopting new increased tariffs and excise taxes, as well as amending laws such as goods' custom value determination. Both of these policy changes together created obstructive situation for consumers in the car market. To eliminate these challenges and to create a healthier environment, the government can take actions, such as lowering all the tariffs for cars up till 2000 sm3.

Azerbaijan's local production also took a fall with oil price shock; units of manufactured cars decreased drastically after 2014. However, the article represents that with the market starting develop again Azerbaijan also plans boost and its local car manufacture. Azerbaijan aims and goals are to produce economical suitable vehicles for local market and as well as for the export in the future. It should still be taken into consideration that oil markets have been very volatile over the past five years. Event though findings in the paper suggest the oil price within markets will remain constant, however due to the volatile nature of the oil price, any prognosis regarding the future shall be made consciously. State dominates the local car production and because state budget dependency on the oil price, future development of the local production is very conditional. Privatization would give the market less dependency on the external factors, such as oil price and create a better environment for development of local production. Azerbaijan's strategy with Neftchala Industrial Zone project to incentivize private investment has stimlated launch of "AzKron" LLC car factory, however private investors are still reluctant to invest in Azerbaijan, due to very small market size, especially in automotive market. These measures, such as privatization has to be taken more perpetually by Azerbaijan government, as it is important to create demand for local cars not through administrative measures but rather by market. To be able to create this demand by market, Khazar and other local car producers need to build consumers trust in the first place.

With current monetary and legislative policies, total number of cars import will decrease; especially composition of the local car market will continue to deteriorate, due to constant higher taxes, which introduced fewer new cars but increases old car's share. Because of imported cars mainly being low standards, specifically low cost, prices in second-hand car market will also continue to increase. As mentioned before in the article, age structure of passanger cars mainly growing older will cause negative impacts upon enviroment, as well as potentially creating traffic through more damaged vehicles. There are couple of things that can be done to prevent this scenorie, such as government lowering tariffs and banks offering greater access to car loans. On the other hand, this scenorie will create favourable situation for local car production to increase its market share. Local car production can achieve great success via offering better quality cars at affordable price compared to imported cars market. Also, local car producers, such as Azeurocar can work with mass media as a marketing strategy to introduce its cars to mass audience and establish trust with consumers and investors.

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