

**OECD WORKING GROUP MEETING ON FINANCIAL MARKETS
DEVELOPMENT IN THE SOUTH CAUCASUS AND UKRAINE REGION**

*“FINANCIAL SECTOR REFORM IN TRANSITION ECONOMIES
AND POLICIES FOR SME GROWTH”*

**AZERBAIJAN BANKING SECTOR: IMPACT OF GLOBAL
FINANCIAL CRISIS AND POLICY RESPONSES**

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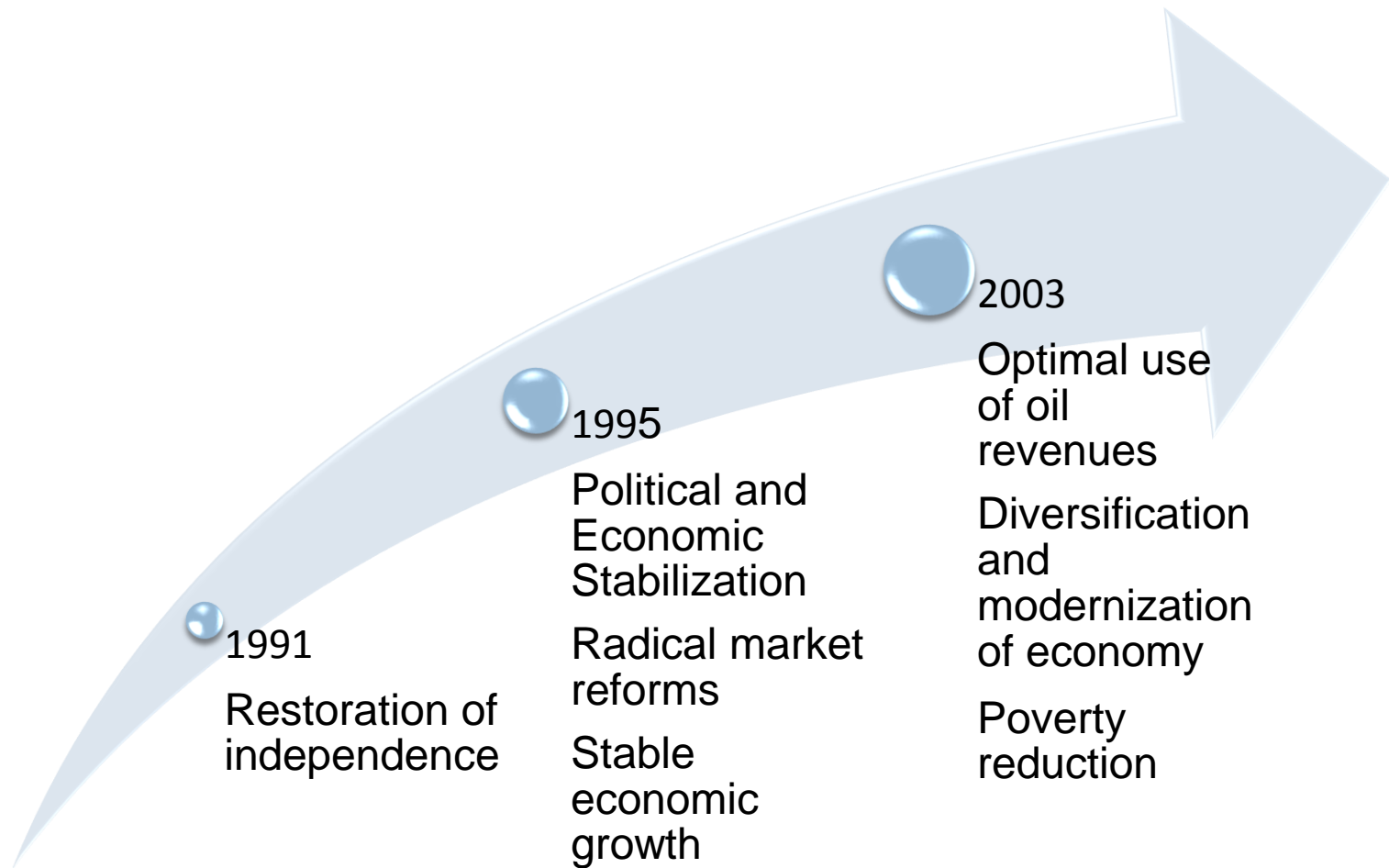
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Development Milestones

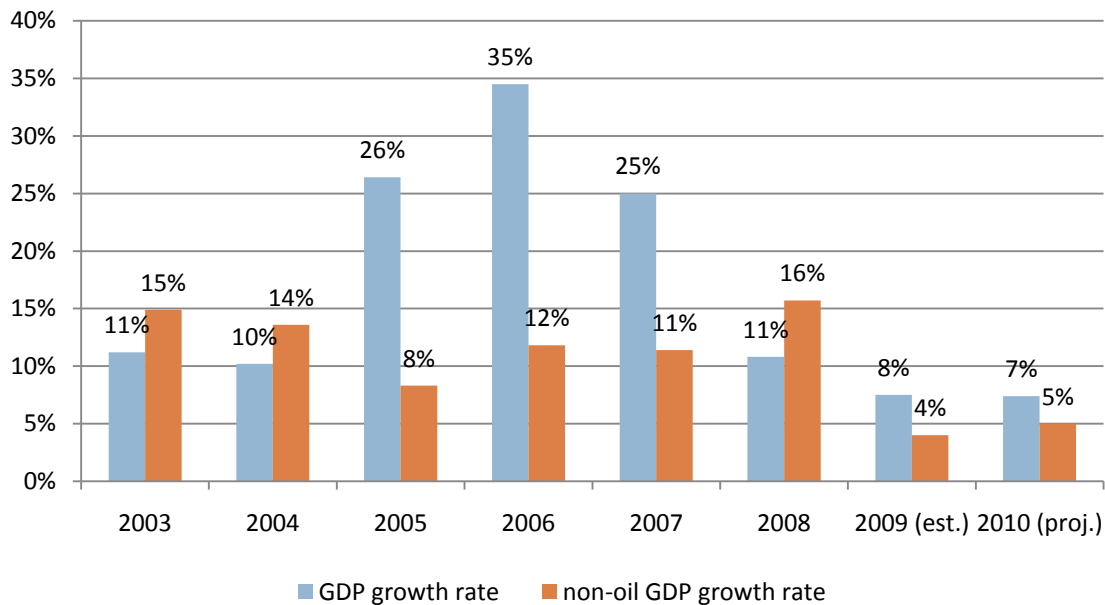
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Overheating of the economy: 2004-2007

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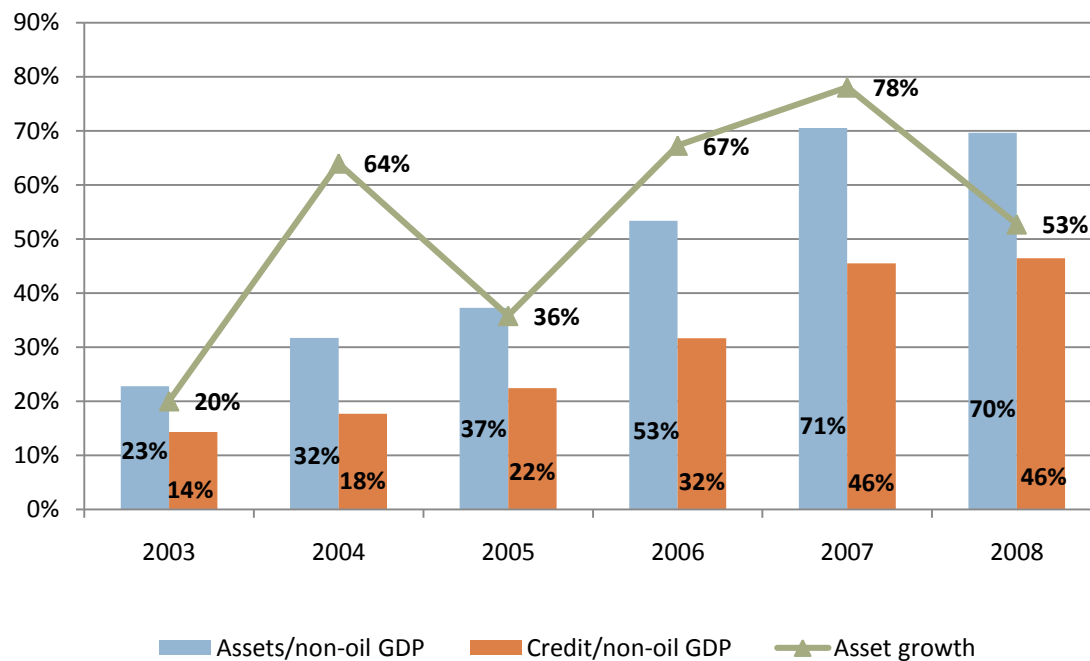
GDP growth rate



- ❖ Surge of oil production starting from 2003
- ❖ 2004-07, average annual economic growth climbed from 11% to 24%
- ❖ GDP – \$47,5 bn (2008)
- ❖ GDP per capita –\$ 5,403 (2008)
- ❖ Inflation -15,4% (2008)
- ❖ In 2008, first time, non-oil GDP growth exceeds general GDP growth
- ❖ Foreign strategic reserves – \$18 bn (2008)

Financial Intermediary

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- ❖ Capital adequacy – 19.6% (2008)
- ❖ NPL ratio – 2.2% (2008)
- ❖ ROA -2.9% (2008)
- ❖ ROE – 22.9% (2008)
- ❖ Liquidity ratio – 16.7% (2008)

Transmission channels of the Global Crisis to Azerbaijan

Decrease in the price of Oil and other raw materials in the world markets

- In Azerbaijan, oil and oil products formulates substantial of the total export and the government budget.

Limitation in the access to foreign financing

- Limited possibilities of refinancing of financial sector's external debt.

Decrease in gastarbeiter transfers

- Contraction of the money remittances of the migrants from other countries affected by the Crisis

Contraction of FDI

Anti-crisis program and policy response

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The Central Bank of Azerbaijan operatively reacted to the decline of financial sources by mitigating monetary policy and injecting extra liquidity

Monetary policy steps:

1. Starting from the end of 2008, CBA six times changed refinancing rate from 15% to 2% (as a result, 2.0 bn. was injected to the economy)
2. Required reserve norms for internal sources was reduced from 12% to 0.5%, and for external sources reduced to nil (As the result, banks were provided with liquidity amount of 730 million dollars). *Required mandatory reserve norms (5%) for external borrowing was applied before the crisis to prevent excessive foreign borrowing)*
3. Central Bank provided funds to banks for liquidity purposes
4. In general, central bank injected money to the economy in the amount of 6% of GDP

Anti-crisis program and policy response

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Prudential regulation steps

1. Increasing requirements for asset quality and provisioning
2. Increasing loan underwriting requirements (E.g maximum loan to one borrower) as well as requirements for information disclosure and information asymmetry
3. Strengthening risk management, active dialogue with bank management, and risk-based supervision
4. Changes to the Central Bank Act increased the roles of the Central Bank in the economy and provided with more policy tools. The changes enables Central Bank to provide long term financing to economy and banks (special subordinated debt obligations)
5. Earnings directed to bank capitalization were exempted from tax burden

Anti-crisis program and policy response

The Organized Interbank Credit Market guarantee system

- The purpose of this system is to increase interbank credit market liquidity by strengthening confidence among the market players. In this regard, new segment, Guaranteed Money Market, was created within the Organized Interbank Credit Market with the participation of the Central Bank. The Central Bank will become guarantor on deals concluded in the market. The idea is to commission mechanism of interbank market and ensure the participants' mutual trust

Deposit insurance scheme further improved:

- Ceiling amount of insured deposit increased from AZN 6,000 to AZN 30,000 , and ceiling interest rate is defined as 15%