

**Speech by Elman Rustamov, the Chairman of the Management Board of the National Bank of the Republic of Azerbaijan at the meeting of the Cabinet of Ministers of the Republic of Azerbaijan dedicated to results of socio-economic development of 2007 and upcoming objectives in 2008, chaired by the President of the Republic of Azerbaijan Ilham Aliyev.**

**Report of the Chairman of the National Bank Management Board**

Mr. President!

Dear conference participants!

Previous year of 2007 was a successful year of our national state, economical construction history. Dynamic economic development strategy realized systematically by President Ilham Aliyev, sublime construction programs realized in the basis of deep nationality and modern ideas, increased economic potential of our country and improved life standard of the population in 2007 and last four years. Azerbaijan occupied 61st place among 170 countries, passing ahead of all CIS countries, upon economic development index hold by one of the influential investment banks "Godman Saks". Azerbaijan significantly passed ahead of Ukraine( 71st place), Russia (81st place), Armenia (82nd place), Georgia (100th place). We have to note that, this index articulate both macroeconomic features and such sociopolitical parameters as utilization of computer, phone, internet, average education level, average longevity, supremacy of law and political stability. Discussion of social economic development of 2007, under such circumstances is significant point from the view of appreciation of current macroeconomic situation. High macroeconomic development was ongoing in the country and as mentioned below economic growth in our country reached 25%. This growth realized in the basis of 35% increase in 2006. Mr. President, this feature is very noticeable. World Bank's lately published prediction indicates that, in next 3 or 4 years Azerbaijan will keep stable its leader position in the world in economic growth sphere. We have to proud that double figured economic growth during last year and last 4 years in non-oil sector was ongoing. This fact shows that, one of the main strategies of our government, branch of our economy, conducted systematically. Increase of employment in our country from the macroeconomic view should especially be notified and one of your main objectives in your electoral policy, opening of 600 thousand work places has been realized within four years. Economic growth and obvious increase of world oil price resulted with consolidation of economic positions of our country abroad. During last three years, positive balance of current operations increased about 50 times and exceeded 7 milliard USD. This figure constitutes for 30% of our GDP. For the next year, this figure anticipated for more than 14 milliard USD. Net creditor position of the country increased significantly, foreign financial assets increased by 3,3 USD milliard, but liabilities decreased by 1,4 USD milliard. As a result of foreign currency, strategic currency reserves increased by 4,5 times during 4 years and exceeded 7 USD milliard. Now, financing period of strategic currency reserves of goods and services upon non-oil sector is 5 times more than international norm. Last year currency reserves in the National Bank increased by two times and constituted for 4 USD milliard. We have derived about 150 USD million from

management of these assets. Consequently, in last year it has been realized strategic diversification of strategic currency reserves both in State Oil Fund and National Bank of the Azerbaijan Republic and in this way it has been overcome such targets as prevention of dependence on one currency, decrease of sensitiveness from various foreign shocks and preserve of net value of the reserves. From the view of dynamic development improvement of populations life standards, increased social optimism in our society. As you have mentioned already, in a short period level of poverty reduction decreased by 3 times. In addition, if we refer to the World Bank review, Azerbaijan occupies first place in the world for poverty reduction level. At the same time, we have to highlight that, under the conditions of high social-economic development, population's life standards improves. I want to emphasize the fact of increase of tourism services by our population stood for 2 times. Mr. President, we have submitted information on inexistence of proposal from tourism companies, in December. There is not any pass for winter vacation. This fact affirms forming of new life standards. Number of mobile phone users per hundred persons increased by two times, and number of internet users increased by 50%. Exactly these indicators, serves as a basis of economic development rating index, as mentioned below. Generally, the National Bank has three goals in current macroeconomic situation. First goal was limiting of inflation, second was protection of national exchange rate stability, and the third one was provision of development and financial stability of the banking system. I want to talk about inflation. As usual, one of the recently observed main problems in our country is inflation. From the Press we know that, today inflation is one of the global problems in world economy. For example, except Holland, last year any country within Euro zone could not fulfill inflation commitment. All member countries undertook commitment about inflation rate, while being a member. Only Holland could manage. Obviously, this fact connected with increase in oil price in the world. At the meeting upon results of nine months Mr. President correctly substantiated that, from one side, as an oil exporter country, we derive profit from this phenomenon, but from the other hand, it results with inflation import. Our calculations show that, more than 6 % of inflation last year imported to our country, related to foreign factors. Besides oil factor, other foreign factors are related with sharpen of food balance in the world as a very considerable issue. From one side, this fact related to high development in economies of Asia countries, especially increase in food demand in China and India, from other hand this fact related to consumption of great deal of food products for fuel in the condition of increase of oil prices. This factor is constantly. Permanently, this even affects economies of developed countries, including Azerbaijan. As of internal factors of the inflation, I have to stress that, we have chosen high development dynamics. There is high economic growth in our country, and we conduct large-scale programs in the country. Persistently, it results with activating of the inflation. For the reason that, all income features of the population increases by 40%. But, nominal income parameters of the population is about 2,5 times more than inflation rate and this fact show that, rate of real incomes of the population provided by 20 per cent. Currency stability problem is one of the main problems of our economy. There is considerable currency overflow to the country, as mentioned. Last year volume of foreign exchange market exceeded \$12 milliard. This aggregate was 2,5 times more as against last year. Surplus of capital stood for \$2 billion in this market, supply was \$2 billion more than demand. The National Bank sterilized this amount and prevented sharp consolidation of the national currency. Completely,

strengthening of the national currency constituted for 3 percent during the year. Taking into consideration our considerable reserves from 2000, real effective exchange rate cheapened by 15% within this period. This fact indicates that, we could reserve our competitive strength during middle-term period. It reflects in increase of export in non-oil sector. Some comments on banking sector. This sector is one of the highly developed sectors of our economy. During a year, increase indicators of the banking system reached highest level during last 4 years, increased 70-80 per cent or two times, in average. Completely, assets of the banking system increased by 5 times from 2004, this figure exceeds 7 times, growth of non-oil sector. General bank assets of the country constitutes for 60 percent of all assets in Southern Caucasus. Increased recourses of the banking sector, completely harnesses to the non-oil sector. Credit investment to economy increased more than 7 times, during last four years, 83% in 2007. In the issue, systematic reforms and institutional construction processes integration into international financial markets increased. In real terms, all innovative banks have rating compared to sovereign rating of the country. Last year it has been derived \$12 billion debt and investment capital from foreign financial markets. In comparison with last year, this figure is more than 3 times. Mr. President, from 2008 some banks intend to enter into financial markets of the world with their securities; we hope it will happen in the first quarter. We consider that, it will be the key step in the direction of international integration of the banking system. World major financial institutes "Commerce Bank" and "City Bank" opened their representatives in our country. They plan to increase their status and change these representatives into bank branches in 2008. Taking into operation of the Deposits Insurance Fund gave high profit. I have already stressed that, deposits increased by two times. This fund play great role here. In real terms, 1.8 million depositor and 83% of deposits are insured. From the current year, insurance fee will be increased 4 thousand manats to 6 thousand manats. Insurance area of these depositors will be enlarged both from numeral view and from amount view. Last year we observed mortgage boom. During a year, it has been delivered 260 million AZN mortgage credits and 8 thousand families improved their living conditions by these mortgages. Mr. President, you have given some instructions on this issue. We are trying to find more favorable mortgage models. According to the instructions, we will give our proposals to you, Mr. President. Mr. President, after all, I want to note that all macroeconomic goals in 2008 are defined. According to the state budget, the National Bank has already defined main directions of monetary-credit policy for 2008. This policy will be harnessed to fulfillment of the stable economic development, provision of macroeconomic stability course defined by you. I want you to ensure that, the National Bank and its personnel will do their best for realization of all targets identified in 2008.

Thank you all for attention.

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