

STATEMENT

of the Central Bank of the Republic of Azerbaijan

on main directions of the monetary and financial stability policy for 2015

Dynamic growth and macroeconomic stability in the Azerbaijani economy continued in 2014 on the backdrop of complex global environment. The non-oil sector was the main growth driver while investment activity remained high. Surplus of the balance of payments ensured rise in strategic foreign exchange reserves. Azerbaijan retained its position in the world's 10 in terms of macroeconomic stability. The Central Bank actively contributed to macroeconomic stability in 2014 in harmony with the economic growth and diversification policy pursued by Mr Ilham Aliyev, the President of the Republic of Azerbaijan and strategic growth priorities described in the "Azerbaijan 2020: Look into the Future" Concept of Development.

The Central Bank directed its effort at maintaining single-digit inflation, stability of the exchange rate, financial stability in the banking sector and at increasing the role of banks in economic growth. Despite risks arising from the global economic environment, the Bank attained these goals. Macroeconomic stability was preserved, while manat once again proved to be a stable currency. Over the year financial stability was sustained, the role of the banking sector in promoting economic growth and investment activity further grown and access to financial services and resources broadened.

In accordance with the diversification policy of the economy the Central Bank will continue its policy aimed at macroeconomic and financial stability, financial deepening of the banking sector, and developing financial – banking infrastructure in 2015. The Bank is targeting maintenance of low single-digit inflation in the upcoming year as well through the monetary policy. The key task here is, above all, to preserve stability of the exchange rate of manat. Also, the Bank will keep improving the monetary policy framework in line with new global and macroeconomic challenges.

The Bank is considering to flexibly manage risks in the banking system and improve banks' financial soundness through the counter-cyclical banking supervision model and prudential policy. The key targets of the banking policy of the Government for the year to come are to effectively meet lending demand of the non-oil sector, ensure access to financial services and resources, develop modern banking in regions, broaden the scope of cashless payments and electronic banking, and improve the mortgage mechanism.

I. Activities of the Central Bank in 2014

1.1. Macroeconomic environment

THE GLOBAL ECONOMY. *The global economy kept growing in the current year, although it remains uneven across regions. The economic activity in developed economies*

slightly improved. Fiscal consolidation that considerably decreased budget deficits of recent years became moderate in the current year which in turn paved the way to revival in the economic activity along with the stimulative monetary policy. But lingering sovereign debt in certain countries, particularly in the euro zone, exhaustion of the stimulating capacity of the macroeconomic policy and structural problems contain economic growth. Developing economies witness weakened economic growth prospects. Volatile global demand and low investment flows have a downward effect on the economic activity in these countries.

Given new trends, the International Monetary Fund (IMF) marked down economic growth forecasts for most countries. According to the recent release, **global economic growth** is expected to be 3.3 percent in 2014. The economic growth forecast was shifted to 1.8 percent on developed countries (DDCs), and 4.4 percent on developing countries (DGCs). **Unemployment** still challenges the world economy. According to the International Labor Organization, the unemployed are numbering 202 million across the world. Unemployment in the DDCs is 7.6 percent, while it is 6.7 percent in DGCs.

Global trade is expected to increase by 3.8 percent in 2014 relative to 3 percent increase of the previous year. Global **investment flows** change their geography amid high interest rates in certain leading economies. The UNCTAD predicts 35 percent rise in FDIs on DDCs and 1.8 percent decline on DGCs as of the end of the current year.

Recent global economic processes affect the **financial sector** as well. Currently, the main challenge in the banking – financial system of DDCs is the recovery of the lending channels of the economy without damaging financial stability.

Commodity prices were prone to decline in 2014 amid low global demand. Over the past period of the current year global commodity prices went down by 19.5 percent, including 8.3 percent decline in food prices and 12.7 percent decline in metal prices. In 2014 oil prices considerably declined (over 40 percent), the annual average price of which was about USD 100.

Low activity in the global economy was accompanied with decline in **inflation**. As of end-2014 inflation is expected to be 1.6 percent in DDCs and 5.5 percent in DGCs. Major central banks continued the accommodative monetary policy including utilization of unconventional monetary policy tools on the background of global economic growth and unemployment problems and low inflation.

THE EXTERNAL ECONOMIC POSITION. *The national economy maintained a favorable external position in 2014, and foreign exchange reserves kept growing. The Azerbaijani economy displayed high stability in the current year amid processes in the countries of the region.*

Despite the current conjuncture in the world commodity markets, over past 11 months of 2014 surplus of foreign **trade balance** increased 2.7 percent y.o.y. The value of export prevailed over that of import by 2.6 times. Import dropped by 18 percent. Surplus of the

current accounts balance is expected to exceed 10 percent of Gross Domestic Product (GDP) as of the end-year.

Foreign investments in the national economy constituted USD 5.6 billion having risen 16.5 percent over 11 months. The country's high international rating allowed to issue first government euro bonds on the world markets on the favorable terms.

Over the year strategic **foreign exchange reserves** grew 3 percent amid surplus of the balance of payments, and Azerbaijan retained its position in top 20 in terms of the reserves to GDP ratio (about 70 percent). Foreign exchange reserves equal to three-year import and surpasses the external debt over 8 times. Azerbaijan further enhanced its **international investment position**. Assessments display that country's gross foreign assets prevail over liabilities by 2.7 times.

ECONOMIC GROWTH. *Economic growth continued in 2014 primarily driven by the non-oil sector. Azerbaijan strengthened its position in the upper middle income countries group. Diversification carried on, economic growth rebalanced between internal and external demand sources.*

Over 11 months of the current year GDP rose 2.2 percent, including 6.5 percent rise in the non-oil economy. The non-oil sector accounts for 60 percent of GDP. **Rise** in the non-oil manufacturing was 6.6 percent, in tourism and catering 16.8 percent, information and communication 14.2 percent, and in construction 8.6 percent. The appropriate policy within the 'Year of Industry' had an upward effect on the production of the manufacturing industry. The Consumer Confidence Index remained high in the current year.

High economic activity in the non-oil sector resulted in creation of over 100 thousand new jobs, including over 82 thousand **permanent jobs**.

Internal demand, including **investments and consumption** contributed to economic growth in 2014. Over 11 months of the current year **investments** in the country economy amounted to AZN 14.7 billion, 63.1 percent of which falls to the share of the non-oil sector. Government budget spending also underpinned internal demand. Budget funds account for 38.9 percent of investments.

Population's consumption expenditure rose 7.5 percent over 11 months. The value of goods and services sold in the consumer market rose 9 percent. The Central Bank survey among households suggests that the Consumer Confidence Index remains high.

1.2. Implementation of the monetary policy

INFLATION. *In 2014 the country achieved price stability and kept inflation in low single digits. According to the recent release of the World Economic Forum, Azerbaijan is one of the countries with the lowest inflation rates in the world.*

Annual average inflation decreased by 0.8 p.p. to 1.5 percent over 11 months of the current year compared with the same period of the last year which considerably falls behind average inflation in trade partners (5.2 percent).

Over the year the Central Bank permanently exercised control over **factors affecting inflation**. Appropriate monetary policy, higher expansion of supply compared with internal demand, decline in food prices in the world markets had a downward effect on inflation. The Central Bank's conjuncture surveys conducted among real sector enterprises and households exhibit low inflation expectations.

Over the period the rise in population's income exceeded the inflation rate, resulting in 3.6 percent increase in real disposable income and 4 percent rise in real wages over 11 months.

THE EXCHANGE RATE POLICY. *In 2014 the Central Bank preserved stability of the national currency – manat through implementing the appropriate exchange rate policy based upon a favorable external economic position. The Central Bank maintained a balance in the FX market through responding promptly to processes.*

The Bank directed its exchange rate policy to the the maintenance of the macroeconomic and financial stability and non-oil sector competitiveness.

The implementation of the exchange rate policy remained unaltered, bilateral USD/AZN exchange rate was used as the operational target of this policy. The exchange rate of manat against the USD scarcely changed in 2014 on the background of considerable devaluation of national currencies in a number of foreign trade partners. Significantly lower inflation compared to trade partners had a downward effect on the REER.

The Central Bank supervised promptly demand for foreign exchange, sources and motives of demand for foreign exchange in cash and cashless market, including psychological factors affected by the depreciation of currencies in main trading partners. As a result of the adequate regulatory measures, the stability in the foreign exchange market maintained and fluctuations in exchange rates did not occur.

The stable exchange rate of manat amid the current specifics of the Azerbaijani economy once again proves its macroeconomic significance. The stable exchange rate is vital in managing inflation and inflationary expectations, preserving value of assets of the population and the real sector, and financial stability of the banking sector. In parallel, structural policies aimed at further strengthening macroeconomic sustainability and coordination of the economic policy also contribute to the exchange rate stability.

THE INTEREST RATE POLICY AND MONEY SUPPLY. *The Central Bank utilized stimulative monetary policy in 2014 on the backdrop of low inflation. The Central Bank eased the monetary policy in light of internal and external factors of economic growth and overall trends in the economic cycle.*

The Central Bank made changes to parameters of the interest rate corridor 2 times in 2014 to allow higher investment activity in the non-oil sector and drops in interest rates, which resulted in staged shift of the **refinancing rate** to 3.5 percent from 4.75 percent. At the same time, the Bank decreased banks' reserve requirements on foreign and domestic liabilities to 2 percent from 3 percent. These measures had a downward effect on interest rates on deposits and loans.

Over 11 months of 2014 **money supply** in manat kept pace with demand for money and rose 6.6 percent, aided by improvements in its structure. Growth of cashless money supply prevailed over that of cash money supply by 22 p.p.

1.3. Maintenance of financial stability

MACROPRUDENTIAL FRAMEWORK. *The banking system became more resilient to external and internal shocks, financial stability was preserved, financial resources effectively mobilized and allocated. Banking system witnessed adequate measures on prevention of risks accumulation. The capitalization of banks continued, prudential supervision framework directed at regulation of key risks was introduced.*

Systemic risks were preventively contained based upon diagnostic analysis of key trends in the banking sector. The **counter-cyclical management** and early warning systems were enhanced.

To protect the quality of sector's assets and regulate credit risks the Bank took diverse vector destimulating measures and tightened the macroprudential supervision framework to rebalance the portfolio structure.

Banks' **capitalization** continued, and an intense supervision was undertaken on the banks with low capitalization potential. Over the period following the capitalization decision (August 2012) banks' aggregate capital increased 95 percent or AZN 2 billion and reached AZN 4.2 billion. The capital of banks that own 99 percent of sector's assets exceeded AZN 50 million.

The Bank elaborated **new risk-based methodological framework** for banking supervision. A new methodological framework on **responsible lending**, implying the boost of social responsibility of credit institutions, was established to set banks' behavioral standards, and eliminate adverse business practices.

To increase the confidence in the banking system, the Bank continued institutional development of protection mechanisms of financial service consumers, including improvement of settlement mechanisms of disputes supporting the consumer rights.

A series of activities on **financial literacy** continued jointly with banks, international organizations and public authorities. Literacy campaigns involved over 40 educational institutions. The launch of the Financial Awareness Portal was completed, which includes various intellectual resources on raising financial literacy.

FINANCIAL SUSTAINABILITY. *The measures taken yielded better sustainability indicators in the banking system, and stronger provisioning of the banking system against possible risks.*

Currently **the capital adequacy** – the key indicator of the banking sector sustainability – is 18.7 percent relative to the 12 percent threshold. Banking system's aggregate capital increased by 21.3 percent over 11 months of the current year.

The banking sector liquidity is high, liabilities and settlements are handled on an uninterrupted basis. The system's instant liquidity ratio exceeds the threshold by 2 times.

The quality of banks' assets is satisfactory. The share of over due debts of the real sector and the population to the banking system constitutes 5.5 percent of the portfolio, fully coverable by banks' provisions.

The share of foreign debt liabilities in banks resources is only 22 percent, which is safe in terms of sustainability.

Y.o.y. increase in banks' profit was 23 percent. **Return** on system's assets is 2 percent, while ROE is 13.8 percent.

1.4. Financial intermediation and development of banking – financial infrastructure

FINANCIAL INTERMEDIATION. *The banking sector made more contribution to economic growth in 2014. The Central Bank took relevant actions to expand business lending in line with the country's strategic growth targets. Critical measures were taken to decrease the cost of banks' funds and optimize expenses on business loans.*

The banking sector, which holds 90 percent of financial system assets across the country, continued to amplify its financial depth. The sector's **assets** reached 78 percent of the non-oil GDP having risen by 21.2 percent. Currently financial depth of the Azerbaijani banking sector is in line with the countries with mid-developed banking systems.

Bank loans increased 18 percent, as well as long-term loans rose 19.2 percent. Currently, long term loans account for 81 percent of the lending portfolio. Over 11 months of the current year business loans grew 18 percent, loans to manufacturing and production increased 36.3 percent, agriculture and processing 14.1 percent. The share of business loans in total lending portfolio was 73 percent. Credit in regions rose 39.4 percent.

A series of regulatory actions were taken in the light of current dynamics and potential risk in **consumer loans**. As a result, consumer loans decreased to 19 percent, y.o.y. decrease being 1.9 times, and to 11 percent excluding mortgage loans, car loans decreased 31 percent. The share of consumer loans in Azerbaijan lags behind the average indicator on the EBRD countries. The share of consumer loans in the portfolio in DDCs is 50 percent and above.

AZN 92 million worth of **mortgage loans** were granted over the past period of 2014. As a result, the lending portfolio of the Azerbaijan Mortgage Fund (AMF) reached AZN 628

million, while the number of mortgage borrowers are over 15700. The Bank has started the introduction of the “Electronic Mortgage” among authorized banks, insurance companies, appraisers and the AMF. Total volume of mortgage loans surpassed AZN 1 billion having risen 25 percent (3 percent of non-oil GDP).

ACCESS TO FINANCIAL SERVICES. *The access to financial services, the level of usage of the financial infrastructure by the economic entities continued to broaden over the reporting year.*

The **number of bank service points** per 100 thousand persons reached 10. This indicator is 20, considering branches of the AzerPost, which render financial services to the population.

Banks opened 47 new branches in 2014, 34 of which are located in regions. Over half of bank branches are concentrated in regions.

The Central Bank supported activities of **non-bank credit organisations** to revive alternative lending sources. The number of NBCOs reached 157 and their branches are numbering 222. Assets of NBCOs have risen 13.3 percent since early year, while loans – 12.3 percent.

Electronic banking services – one of the key contributors to expanding population’s access to financial services – were not disregarded. Currently, 23 banks provide Internet banking, while 15 banks – mobile banking services.

2 service units of the Centralized Credit Registry (CCR) were launched in “**ASAN service centers**” to better services by the CCR. The number of online inquiries from credit institutions exceeds 2.8 million.

FUNDING SOURCES. *Confidence in banks further boosted in 2014, resulting in a banking sector’s broader resource base and sustainable funding sources.*

Over the past period of 2014 corporate deposits reached AZN 8.2 billion having increased by 35.3 percent, while **deposits** of the population reached AZN 7.1 billion having risen 10.8 percent. Deposits of the population in manat jumped 15 percent over 11 months. Deposits in regions rose 12.4 percent.

There are 473 depositors per 1000 persons in the country. The amount of per capita deposit reached AZN 745, while **the number of bank accounts** of physical persons - 6.4 million.

The population is the **net creditor** of the banking sector. The deposits of the population exceeds that of loans by AZN 2.3 billion. Interest income on deposits constituted AZN 450 million over the past period of the current year.

INTEREST RATES. *Interest rates continued to decline, the Central Bank took additional actions to accelerate the process.*

The average interest rate on deposits has decreased to 9.4 percent since early year having dropped 0.4 p.p.. In addition to the Central Bank’s refinancing rate, the reduction in the

maximum threshold on insured deposits to 9 percent from 10 percent by the the Board of Trustees of the Deposits Insurance Fund in May had a downward effect on interest rates.

Interest rates on loans are prone to decline. This trend has strengthened over recent 5 years, currently the average interest rate on loans is 14.3 percent, and 10.8 percent on commercial loans. Average interest rates on consumer loans vary depending on the type and collateral of the loan. Overall, average interest rates on consumer loans are close to those in most countries.

PAYMENT SYSTEMS. *Maintenance of payment systems stability, broadening the adoption of modern infrastructure established in this field and promotion of innovations were of critical activity directions of the Central Bank in 2014.*

Payments handled through the National Payment System in 2014 constituted twofold of GDP.

The “**Government Payment Portal**”, launched within the formation of “electronic government”, kept expanding, which resulted in integration of 19 mass service providers to the Portal. Payments are made on over 285 service types, provided by these organizations. Currently, the work on acceptance of payments through the portal for services provided by public institutions, operating in “ASAN service” centers, as well as on integration of the “ASAN payment” system to the infrastructure is being completed.

The card infrastructure continued **to develop** in 2014. The number of cards issued in the country reached 5.9 million pieces, ATMs – 2586, POS-terminals – 68676. The number of payment cards rose 5 percent, ATMs 6.8 percent, and POS-terminals over 2 times.

II. The monetary policy, financial stability and banking sector development in 2015

The monetary and exchange rate policy in 2015 will be implemented taking into account global economic risks and strategic development challenges of the national economy.

The main purpose of the monetary policy will be to maintain low single-digit inflation.

The stability of the exchange rate of manat will be one of the main priorities next year.

The flexibility of the monetary policy will be enhanced to effectively underpin economic growth depending on the economic situation.

Prudential supervision will be strengthened to ensure financial stability in the banking sector, counter-cyclical regulation will continue.

Broadening access to business loans, stimulating real sector lending, and development of the banking – financial infrastructure will be critical priorities.

Efforts to decrease interest rates will continue.

2.1. The global economic environment and macroeconomic forecasts

THE GLOBAL ECONOMY. According to forecasts by international financial institutions global economic growth will slightly accelerate in 2015, though uneven across regions. Global economic growth will be affected mainly by the degree of volatility in global commodity markets, the level of recovery of financial sector activity, and the nature of monetary policies in DDCs.

The IMF predicts 3.8 percent **global economic growth** in 2015 – 2.3 percent on DDCs, and 5 percent on DGCs. Inflation forecast for 2015 is 1.8 percent on DDCs and 5.6 percent on DGCs.

The USA is expected to abandon the accommodative monetary policy in 2015 amid better economic growth and employment indicators, which will be critical factor affecting interest rates in global financial markets. **Structural reforms** will play important role in revival of economic activity in the leading economies of the euro zone.

Global trade is predicted to rise 5 percent in 2015. International capital flows will tend to DDCs during the next year. According to the forecasts, FDIs to DDCs will rise 16.3 percent, while as little as 1.6 percent to DGCs.

MACROECONOMIC FORECASTS. *The Azerbaijani economy will continue to grow in 2015, driven by the implementation of the government's strategic growth programs. The diversification of economy will be affected by investment activity in the non-oil sector and increasing the export potential.*

The country's **external economic position** will remain favorable in 2015. High financial sustainability of the country economy – the driver of macroeconomic stability – will be maintained. The current account are expected to have surplus.

Economic growth is projected to grow at 4.4 percent in 2015, to be mainly driven by the non-oil sector. Growth forecast on the non-oil sector is 8.2 percent.

The contribution of **internal demand** will remain high. Internal investments are predicted to rise 6.1 percent, while expenditures of the population 5.2 percent in real terms.

2.2. The monetary policy and macroeconomic stability

MONETARY POLICY PURPOSES. *The primary goal of the Central Bank's monetary policy in 2015 will be to ensure price stability within its competences.*

Given recent global and internal economic trends, inflation is expected to remain low in medium term. Inflation target for the upcoming year is 2-3 percent.

The monetary policy will respond promptly to both inflationary and deflationary risks, the nature and scope of which will depend on supply and demand affecting inflation.

The Central Bank will focus on analysis of various price indices and comprehensive assessment of risks of deviation of inflation from forecast. The dynamics of the core inflation will be tracked to differentiate temporary and long-run factors of inflation (deflation) pressures.

The Central Bank will consider results of the economic cycle model when forming an adequate monetary policy reaction.

THE EXCHANGE RATE POLICY. *The exchange rate policy of the Central Bank will be directed at maintenance of macroeconomic and financial stability and competitiveness of the non-oil economy in 2015.*

The stable exchange rate of manat is critical in attaining low single-digit inflation, maintaining social welfare and investment activity. Hence, the exchange rate stability of manat is a vital priority in 2015.

The exchange rate regime will be kept primarily unalterable, targeting USD/manat exchange rate will be the operational framework of the exchange rate policy in the next year as well. The NEER and REER of manat will be monitored in the year to come along with the bilateral exchange rate.

MONETARY POLICY TOOLS. *The Central Bank will deploy liquidity injection or sterilization in the money market in 2015 to achieve an acceptable growth rate for money supply.*

Macroeconomic forecasts suggest that **money demand** will continue to stabilize in 2015 as well.

Depending on the situation in the money market, the Central Bank will focus on absorption and injection of liquidity. Market operations will serve for preserving stability in the banking system, stimulating financial intermediation and making payments in time, along with monetary policy objectives. If needed, unconventional monetary policy tools will be employed along with conventional ones, business lending tools through banks will be developed.

Interest rates on liquidity tools will be set under the interest rate corridor concept. **Parameters of the interest rate corridor** will be flexibly aligned to the economic environment. The Central Bank will consider the priority of decreasing interest rates on loans when setting interest rates on its operations.

The pass-through capacity of the monetary policy to the economy – transmission will be considered when setting quantitative parameters of monetary policy tools. The Bank will continue efforts to improve monetary policy tools and strengthen their effects on the economy. Strengthening the interbank money market will be on a particular focus, with the consideration of integrating possibilities of market interest rates to the interest rate corridor mechanism.

THE MONETARY POLICY FRAMEWORK. *The Central Bank will continue to improve the strategic framework of the monetary policy in 2015. This improvement will be, on the one hand, on the realization of preconditions for inflation targeting, on the other hand, on expansion of the Central Bank's regulatory toolkit.*

International experience finds **inflation targeting** to be the most effective framework for price stability. This policy framework implies high impact of the Central Bank on aggregate

demand, economic growth and inflation through interest rates, provides opportunity for stabilizing inflation expectations and offsetting the effects of macroeconomic shocks. As adequate circumstances arise (diversification of foreign exchange sources, deepening of financial and capital markets, increasing financial depth of the banking sector and etc) the interest rate might be used as an operational target affecting aggregate demand.

The Bank will consider recent changes in the design of the monetary policy across the world when improving the monetary policy framework. The recent global crisis demonstrated that central banks should not be restricted to ensure sustained economic growth only through price stability. Currently, the expansion of central banks' targets (economic growth and financial stability along with price stability) and toolkits has become topical issue.

The monetary policy will be closely coordinated with the macroprudential policy given the probability of macroeconomic disbalances to be triggered by risky growth in the financial sector. Macroeconomic stability, to be ensured through monetary policy tools, will be enhanced with the introduction of counter-cyclical prudential tools capable to prevent overheating in the financial sector.

2.3. The financial stability policy

The Central Bank will continue to boost banking sector's resilience to potential risks, and preventively contain risks in 2015 as well.

In 2015 the banking supervision framework will continue to improve in line with the Basel III principles, as well as local environment of the banking activity. Efforts to build a policy model allowing to provide **risk based and counter-cyclical regulation**, and to cover each risk type with prudential requirements will continue.

Banks' lending activity will be reserved and the lending portfolio structure rebalanced **to maintain the quality of sector's assets**. Consumer lending growth will be continuously regulated to align credit investments to the economic growth strategy. The "responsible lending philosophy" will be further improved in banks, new initiatives on improvement of the collateral disposal mechanism will be established. The Bank will study possibilities to introduce new regulatory tools in the year to come to contain risky growth in the banking sector.

The Bank is planning **to create a regulatory framework on operational risks** and include them to capital adequacy calculations. The Banking system will continue to **consolidate**. The Bank will focus on supervision of systemically important banks in line with their risk profiles, and, if needed, take actions on restructuring.

Adoption of corporate governance standards and raising requirements on the quality of management, management competencies, technological and personnel potential will endure to **heighten internal risk management potential** in banks.

Strengthening the system on the protection of interests of the financial services consumers will be one of the top priorities within the actions aimed at **boosting confidence of the population and the corporate sector in the banking system**. The Bank will strengthen activities to **raise financial literacy of the population**. The Financial Awareness Portal is expected to contribute to the process. The Bank will continue events on financial awareness jointly with various organizations in parallel with the elaboration of new educational facilities and products.

2.4. Financial intermediation and development of its infrastructure

FINANCIAL DEPTH AND ACCESS TO LOANS. *The Central Bank will continue efforts to elevate the role of the banking – financial sector in the diversification of the economy in 2015. The Bank will promote the formation of the financial system, which directs financial resources to the diversification of the economy, serves for more efficient allocation of funds and improvement of social welfare through effectively fostering economic growth.*

The Bank will study options to create new funding mechanisms and promote introduction of new products and services to the real sector **to increase the opportunities of businesses to obtain long-term loans**. It will be critical for the real sector to deliver effective business projects to expand business lending. Full alignment of financial reporting of real sector enterprises to international standards and enhancement of the mechanism to protect creditors' rights will factor in higher access to business loans.

Efforts to decrease interest rates will continue. The focus will be on stimulating the population, the corporate sector and institutional investors to place their long-term savings with the banking sector to raise the banking sector's resource base. Also, stimulation of cashless payments with eventual widening of resource sources for lending will be enhanced. Possibilities of expanding the scope and coverage of deposit insurance will be considered within the deposit insurance scheme. Ongoing restructuring in the banking sector, development of the interbank market, strengthening internal capacity of banks and improving operational effectiveness, as well as electronization of banking services and distant banking services might be the factors to have a downward effect on interest rates.

Development of regional banking will be on focus in 2015, credit institutions will be promoted to expand their regional network. The development of physical branch network along with distant banking and electronic banking tools will be the main priorities. Greater importance will be attached to the development of NBCIs in light of the role of microfinance in raising social welfare in regions. The Bank will take additional actions to broaden access to banking services via microfinancing institutions, including regional service network of the AzerPost LLC.

Efforts to **develop the mortgage lending system** will continue in 2015. Possibilities of implementing new initiatives jointly with the Government will be considered based upon international practice. Expansion of the scope of social mortgage is also a priority. The “Electronic Mortgage” system will be employed to simplify mortgage lending. Citizens will be enabled to apply online. Actions will be taken to attract additional market sources, create new mortgage products and shape a guarantee mechanism on mortgage loans to broaden ordinary mortgage lending.

PAYMENT INFRASTRUCTURE. *A wider scale of cashless payments will be a priority next year as well, key components of the National Payment System will be developed on an ongoing basis.*

Public institutions will be integrated to the **Government Payment Portal to expand utilization of its infrastructure** on an ongoing basis. Payments for services rendered by public institutions operating in ASAN service centers will be accepted via the Portal. Also, the integration of “ASAN payment” system to the infrastructure will be accomplished.

To broaden use of e-banking services in banks the improvement of relevant statutory base for managing risks in this field, identification of customers and regulation of customer – bank relations will be considered.

Conclusion

The national economy continued to dynamically grow and diversify in 2014, and country’s international ratings improved on various socio-economical indicators. The national economy displayed higher sustainability to global tensions and risks, and economic growth endured.

Macroeconomic stability was maintained in 2014, inflation remained on a low single-digit level, and manat preserved its exchange rate stability. The banking sector further broadened its financial intermediation and access to financial services. Preventive management of risks in the banking sector yielded banks’ higher financial sustainability.

The Central Bank is targeting macroeconomic and financial stability in 2015 as well.

The key priorities will be maintenance of low single-digit inflation and the exchange rate stability of manat for the next year as well. Economic growth will be supported by the flexible monetary policy.

The Central Bank will maintain financial sustainability and minimize risks in the banking sector.

The Bank will take more actions to deepen financial depth of the banking sector and stimulate its more effective involvement to economic growth.