

Summary on situation of the monetary policy on 2001

1. Macroeconomic situation

The National Bank has conducted the monetary policy related to the maintenance of the economic stability, *prompt adjustment of* the national currency rate, maintenance of the currency reserves meeting international standards and strengthening of the national banking system in 2001, and mostly achieved the targets. Consequently, the economic stability attained a few years ago, was kept in 2001.

Though it was forecasted that there would be the inflation rate at 2.5% in Azerbaijan, the real rate was at 1.3% in 2001.

The amount of gross domestic product as a main economic indicator has increased by 9.9% compared to the proposed 8.5%.

5.1% industrial and 11.1% agricultural product *growth rates were achieved*. There were some changes in the structure of the gross domestic product. Share of industry decreased to 35.5% in 2001, against 36% in 2000. The amount of investment in the fundamental construction sphere as a main guarantee factor of the future economic development *increased by 17.1%, constituting* 5649.2 billion manats, since 3824.5 billion manats (821.3 million \$) or 67.7% of this was foreign investment.

The *share* of the private sector in the economy increases regularly. Over 70 % of the gross domestic product, 48.3% of industrial product, 99% of agricultural commodities, 76.1% of investment, 64.9% of communication services and 99% of trade were achieved by private sector.

The development in different spheres of economy had a positive influence in the increasing of the population's income. The income of population *increasing by 10.4%* was 19.4 trillion manats, but the expenses increasing by 8.4% was 18.8 trillion manats in comparison with the previous year. In its turn, the increase of population's income was the guarantee factor of the real sector development, enhancing purchasing capacity.

The improvement of the foreign trade proceeded, while the oil strategy was successfully developed. The foreign trade increased by 20%, constituting 3302.3 mln dollars, compared to the same period of the previous year, during the months of January - November. The export amount went up by 17.9% constituting 2003.7 mln dollars, and the import amount increased by 23.5% constituting 1298.6 mln dollars.

A positive balance in the foreign trade in the amount of 705.1 mln dollars was observed.

2. Situation of the currency market

According to the main directions of monetary policy, the goals on the inflation rate and the exchange value of manat relative to the foreign convertible currencies were achieved due to the chasing of amounts of the monetary program parameters.

There were some progresses achieved in the money supply in the economy in 2001. Thus the broad monetary aggregate (M-2) increased by 7.8% constituting 1755.6 billion manats, average annual money supply increased by 11.6% constituting 1692.4 billion manats. The average annual broad money supply (M-3 aggregate) increased by 22.4% constituting 3670.5 billion manats. Monetary base of manat also increased by 9% and average annual level went up by 15.2% constituting 1611.3 billion manats. The average annual broad monetary base (compulsory reserves in foreign currency also included) increased 15.1% making 1778.7 billion manats.

The increasing of the money supply is followed by the increase of production, so it didn't result in an increase in the inflation. , It indicates the existence of favorable macroeconomic base for the increase of the money supply without any complexity towards the economic stability. In its turn, the increase of monetary base resulted in the increase of the credit expansion. The

amount of credits increased by 4.2% constituting 2429.8 billion manats. The average annual credit amount increased by 15.7% constituting 2381.2 billion manats.

The main part of credits was accrued by trade and services sector, as well as transport and communications. During the period, the amount of the credits given to the physical persons and construction and property sector was increased in a high rate.

Though the short-term credit amount increased by 5.4%, the long-term credit amount increased only by 1%. The share of long-term credit amount in the whole credit amount was 27.1%.

The National Bank has regulated the money market by participating in the credit auctions, securities and currency market, as well as by obligatory reserve norms, during the report period.

The National Bank gave centralized credit accommodations in the amount of 22.6 billion manats to the commercial banks.

The central discount rate dropped from 10% to 1% since November 1, 1999 remained unchanged during report period. Real percentage was 8.7%.

The obligatory reserve norms both for manat as well as currency were 10% in 2001. To gain securities by using about 50% of amount from the obligatory reserve funds improves liquidity of banks and sets an atmosphere to increase money supply, as well as helps to develop securities market.

A lot was done to realize strategy of setting open market operations as a main means of monetary policy. The National Bank performs operations with two kinds of securities:

1. Securities issued to restructure state banks' debts;
2. Short-term state loans (STSL).

There were long-term and discounted state loans issued and included into the portfolio of National Bank in the amount of 304 billion manats for acquittance of centralized credits of the former state banks in 2001. During the year 40 billion manats were paid for securities issued for restructure of the National Bank's debts and 5.5 billion manats for the securities issued to form the authorized capital stock of BUSB.

The participation of the National Bank in the STSL (short-term state loans) market aimed to regulate the short-term liquidity in the banking system. The National Bank gained the state loans in the amount of 34.4 billion manats during the year. During the same time the National Bank performed the operations opposite to STSL. Average measured percentage of the operation was 16.58%.

3. Currency market and monetary policy

Exchange rate policy. The softening of the exchange rate policy by the National Bank was continued in 2001 and the devaluation of manat against USD was 4.6% and 1USD was equal to 4775 manats by the January 1, 2002. It should be noted that there were devaluation declines in most of the CIS countries as well.

State of the currency market. The gross amount of internal currency market increased by 48.9 million USD constituting 1.975 billion USD compared to the previous year.

The National Bank maintained the balance in currency market by regulating demand and supply, and had influence on the exchange rate of manat. The National Bank's real interfering to currency market was in the amount of 6.7 million USD (0.34%) and purchase oriented during the report period.

Currency reserves. Though there were pay off debts and active debts to the International Monetary Fund in the amount of 50 million USD, the official amount of the currency reserves retained as forecasted and constituted 698.4 million USD by the end of the year. The strategic currency reserves of the country have already exceeded 1.2 billion USD. The existing currency

reserves totally correspond to the international standards in financing critical import and maintained the superior purchasing ability of the country.

4. Situation of the global economy

The state of the global economy can be generally characterized as an expansion of the processes of instability. As to the forecasts of the International Monetary Fund the real rate of growth of the gross domestic product produced in the world economy should be 2.6%. This figure is 2.1% less compared to the previous year. The main reason is the economical crisis intensified in the leading countries of the world, especially in the USA after September 11, 2001.

The growth rate of USA economy in the second quarter became slower and abruptly decreased since the third quarter. The decrease of the rate is related to the decrease of the gross collection norm and the decrease of the consumption expenses. The researches of the American National Bureau of Investigations shows that, on March of the current year the regress phase of the economical cycle began in the American Economy after the top business performance achieved as a result of the regular development during 120 months (since the March, 1991).

For the first time during 6 years the labor productivity went down and the unemployment expanded from the production sphere to other spheres of the economy. All these resulted in the decrease of Dow Jones and NASDAQ stock indexes in WALL STREET.

The Federal Reserve System as the main macroeconomic regulator of the USA economy tried to stop the economical crisis by the monetary stimulators decreasing the discount rate to 1.75% from 6.5%. For the first time during the last 14 years the FRS softened its monetary policy like this. But despite all the efforts the decrease of business activity continued and as forecasted by the IMF the growth rate of the economy would be 2.8% less compared to 2000.

A significant decrease of the economical growth rate was observed in the countries of the **European Union** since the third quarter of 2001, which is mostly due to the sharpening of the economical crisis in Germany, in the biggest country of the union. As forecasted by the European Central Bank, the economical growth rate would not only diminish, but would be less than its potential value by the middle of 2002.

The economy of Japan has been in regress since the second quarter of the current year as well. Despite the increase of the consumption expenses during the months of January – September, the decrease of investment in the production sector, the decrease of the state consumption and the business activity in the construction sphere, as well as the decrease of the demand for the Japanese products in the foreign markets would result in the forecasted 0.5% decrease of the economical growth in this country in 2001.

Despite some pacification in the economical growth rate of the **developing countries of the world**, it was still extremely high compared to the developed countries and the growth rate was expected to be 4.3% in 2001.

The economical growth rate of the **countries with the transient economy** is also expected to be 4%, which is less than previous year.

Inflationary inclination was observed worldwide during the year. This primarily connected to the decrease of the gross global demand, as well as the cheapening of the energy resources in the international markets. Under these circumstances the central banks of countries have chosen the way of softening their monetary policy significantly.

Oil fell in price in the oil markets of the world during the current year. The price for one barrel of oil fell down to 17-18 USD, while it was 30 USD in the world markets in the beginning of the year. The sharpening of the economical crisis in the leading countries as an oil consumers resulted in the decrease of the demand for oil and consequently in the decrease of prices as well.