

## Summary on situation of the monetary policy on the first quarter of 2002

### *1. Macroeconomic situation*

The National Bank has conducted the monetary policy related to the maintenance of the acceptable level of the inflation, the stability of national currency rate, the currency reserves meeting international standards, strengthening of the national banking system and improvement of money supply in the economy on the first quarter of 2002 and mostly achieved the targets. Consequently, the economical stability was retained during the first quarter of 2002.

The **inflation rate** in Azerbaijan was at 1.5% on the first quarter of 2002.

The **real amount of the gross domestic product** as a main economical indicator has increased by 4.7%.

The amount of the investment in the fundamental construction sphere as a main guarantee factor of the future economical development increased by 2.4 times constituting 2.2 trillion manats, since 1.9 trillion manats (395.3 million USD) or 84.6% of this was the foreign investment.

According to the initial results of the summary on the first quarter of 2002 state budget receipts were 893.1 billion manats (15.3% of the gross domestic product) against expected 963.6 billion manats and the payments were 839 billion manats (14.4% of the gross domestic product) against expected 1141 billion manats. The deficit of the state budget was 54.1 billion manats (0.9% of GDP).

The development in the different spheres of the economy had a positive influence to the increasing of the population income. The population income increased by 8.9% constituting 4.9 trillion manats, but expenses increased by 8.2% constituting 5 trillion manats compared to the previous year. In its turn the increase of the population income was the guarantee factor for the real sector development, enhancing purchasing capacity.

The foreign trade decreased by 32.9% constituting 398.1 million USD compared to the same period of the previous year, during the months of January - February. Though the export amount decreased by 62.8% constituting 156.6 million USD, the import amount increased by 40.5% constituting 241.5 million USD.

A negative balance in the amount of 84.9 million dollars was observed in the foreign trade.

### *2. Situation of the monetary market*

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

The monetary base of manat increased by 5.5% and constituted 1509.5 billion manats by April 1, 2002.

Some progresses were achieved at the **money supply in the economy** on the first quarter of 2002 compared to the same period of 2001. Thus the **broad monetary aggregate** increased by 9.4% constituting 1670.7 billion manats.

A high growth rate of money supply than the monetary base is related to the increase of the monetary multiplier (3). The monetary multiplier (3) characterizing the ability of banking system to create money is higher than either the same period of the previous year or the beginning of the current year. The increase of the monetary multiplier (3) is the positive result of the reconstruction of the banking system, the development of the banking infrastructure, and especially application of the electronic payment system in the country.

The increase of the monetary multiplier resulted also in some positive changes within the structure of the money supply. The portion of the cash in the total money fell down compared to the beginning of the year. Though the cash supply decreased by 6.2%, the non-cash amount in manats increased by 2% during the quarter. The increase of the non-cash amount in manats was mostly due to the fixed deposits. Though the demand deposits decreased by 8.1%, the fixed deposits increased by 33.7%.

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

The central discount rate remained unchanged (10%) during the report period. Real percentage was 8.5%. This was one of the minimum rates among the CIS countries.

The obligatory reserve norms both for manat and currency were 10% in 2001. Possession of securities using about 50% of the obligatory reserve funds improved the liquidity of the banks and set a favorable environment to increase the money supply, assisting to the development of the securities market. In addition, the National Bank began practice to join obligatory reserve norms with correspondent accounts.

A lot was done to realize the strategy of setting open market operations as the main means of the monetary policy. The National Bank conducted a direct purchase and sale, as well as the REPO and reverse REPO to regulate the liquidity of the banking system.

### ***3. Currency market and monetary policy***

**Exchange rate policy.** The correction of the exchange rate policy by the National Bank was proceeded in 2002 and during the first quarter the correction of manat against USD was 50 manats or 1.1% and 1USD was equal to 4825 manats by April 1, 2002.

**Situation in the currency market.** The gross amount of the internal currency market increased by 94.7 million USD or 22% constituting 525.1 million USD compared to the same period of the previous year.

The National Bank maintained the balance in the currency market by regulating demand and supply, and had influence on the exchange rate of manat. During the report period the sales of the National Bank were 94.3 million USD, purchases were 87.8 million USD in the internal currency market. The National Bank's real interference to the currency market amounted to 6.5 million USD (-1.2%) and was sale oriented during the report period.

The currency reserves of the National Bank not only reimbursed the minimum demand of the internal market, it was also several times more than required. Thus the official currency reserves were twice more than critic demand of foreign currency. It proves that the international payment ability of Azerbaijan is high, considering that long-term credits exceed in the structure of foreign debt.

### ***4. The processes in the world economy***

The first quarter of 2002 was memorable due to the beginning of some decelerations in the critic economical inclinations begun in 2001.

The fund indexes began slowdown again after the traditional New Year improvements in the USA in the beginning of the year. For the first time during the last year and half the growth of the industrial product was observed during the months of January – February. The increase of the new employment places was fixed firstly since July, 2001. The raise of the wholesale trade also indicates the increase of the busyness activity.

In spite of the descent in exchange rate of euro from 0.9 USD to 0.8 USD, as well as increase of unemployment level, the other indicators of the economical activity display development in Europe. Generally figures show that the decline has already stopped in Europe.

The economical indicators in Japan display the continuation of the economical crisis. For example, it should be noted that the situation of banks has become worse; the assurance for deposits was eliminated by government and orders for machinery and equipment dropped down to the level of 1987. In addition, the ratings of the leading insurance companies decreased in Japan.

Despite the influence of the information that the oil reserves of America have increased and demand has decreased during the first quarter, the price of oil in the world market is characterized as rising upward. The price of oil for one barrel had already exceeded 25 USD since March.

The raise in price of gold in the world market was fixed as well. Experts explain this as the result of joining companies - gold producers.