

Central Bank of the Republic of Azerbaijan

REPORT
ON ACCOMPLISHMENT OF MAIN GOALS AND
FUNCTIONS IN 2022

Table of contents

Introduction	3
1. Accomplishment of goals	3
1.1 <i>Maintaining price stability within the authorities established by the law</i>	3
1.2 <i>Organization and ensuring operation of interbank centralized and other non-licensed payment systems</i>	4
2. Discharge of functions	5
2.1 <i>Setting and implementing the monetary policy</i>	5
2.2 <i>Organization of cash circulation, issue of currency to and withdrawal from circulation</i> ..	7
2.3 <i>Regular setting and announcement of the official exchange rate of manat against foreign currencies</i>	8
2.4 <i>Currency regulation and control</i>	8
2.5 <i>Maintaining and management of international gold-foreign exchange reserves at its disposal</i>	8
2.6 <i>Reporting balance of payments statistics and participation in the forecast of balance of payments</i>	9
2.7 <i>Development of country's consolidated foreign debt statistics and international investment balance, summary and dissemination of data</i>	10
2.8 <i>Banking sector rehabilitation and sustainability</i>	10
2.9 <i>Development and sustainability of the insurance sector</i>	11
2.10 <i>Capital market development and sustainability</i>	12
2.11 <i>Protection of rights of consumers and investors in financial markets and conduct of financial literacy efforts</i>	14

Introduction

In 2022 the Central Bank of the Republic of Azerbaijan discharged its functions under its mandate and pursued the policy oriented towards safeguarding macroeconomic and financial stability in the country.

In 2022 the operational environment of the Central Bank was marked with multilateral effects of global economic developments on the country economy. Price hikes in global commodities markets and high inflation in trade partners amid geopolitical tensions weighed on domestic inflation. The balance of payments surplus was accompanied with expanded supply in the FX market and the rise in strategic foreign exchange reserves.

The monetary policy was oriented towards easing inflationary pressures by means of monetary factors, and excess demand was contained by monetary policy tightening.

In 2022 the Central Bank took a number of measures to improve the monetary policy operational framework, in particular, to strengthen the monetary policy transmission. The Bank introduced new monetary policy tools in September 2022. Over the reporting year, response of interbank interest rates to interest rate corridor parameters of the Central Bank amplified.

Main priorities of the financial stability policy of the Central Bank included maintaining confidence in the financial-banking system, minimization of risks, increasing management capacity and resilience against shocks in the financial sector. The Bank continued to expand real sector access to resources. Business lending and the dynamics in the securities market widened funding options of economic growth, the depth of the financial sector elevated. Expansion of cashless payments increased the resource base of the financial sector.

1. Accomplishment of goals

The goal of the Central Bank is to maintain price stability within the authorities established by the legislation, organize and ensure operation of interbank centralized and other non-licensed payment systems and support banking system stability.

1.1 Maintaining price stability within the authorities established by the law

In 2022 persistent global inflationary pressures weighed on domestic inflation and expectations. The monetary condition and anti-inflationary measures contained imported inflation.

According to official statistics, annual inflation (December 2022 vs December 2021) stood at 14.4%. Annual average inflation stood at 13.9%. Average annual core inflation calculated by excluding swings in regulated prices and prices for seasonal agricultural products was 14% in December.

Total inflation was mainly driven by food price increase. Annual food inflation was 19%, average annual food inflation was 19.5%. Non-food prices increased by 11.9% on annual and by 8.6% on average annual. Prices for services increased y.o.y. by 10.2%. Average annual service inflation was 10.4%. In general, food prices made 8.2 pp, non-food prices 2.8 pp and changes in prices and tariffs of services 3.4 pp contribution to annual inflation.

Dynamics of actual inflation weighed on inflation expectations as well. According to December surveys, 82% of households expects inflation. 22% expects the inflation pace to be higher.

Analyses suggest that over half of direct and indirect price hikes stem from factors of foreign origin. The rise in annual import prices was 23.4% in November. High annual import prices are attributable to surge in global commodity prices amid global geopolitical tensions, rising transportation-logistic expenses and high inflation in trade partners of Azerbaijan. The balance of payments surplus, the FX market stability, the appreciated nominal effective exchange rate (NEER), the monetary condition shaped under monetary policy decisions neutralized a part of high inflation.

An unfavorable foreign inflation background weighed on producer prices. According to the State Statistics Committee, in 2022 the agricultural producer price index increased by 10.2% y.o.y.. The industrial producer price index y.o.y. increased by 15.5%. The producer price index grew by 15.7% on oil-gas products, and by 10.6% on non-oil products. The PPI in processing increased by 15.4% on annual.

In 2022 prices for transport and warehousing y.o.y. increased by 6.8%. Cost of freight transportation increased by 4.7% and passenger transportation by 30.7%. Increase in prices for passenger transportation related to price hike in air transportation (42.9%). Postal and courier service prices yoy increased by 50.3%. Moreover, prices for ICT services decreased by 0.8% y.o.y., advertising services increased by 3.1% on annual.

1.2 Organization and ensuring operation of interbank centralized and other non-licensed payment systems

Stable and reliable operation of payment systems was one of the priorities of the Central Bank. The institution focused on systems' resilience for cyberattacks in the global digitalization environment .

Total value of payment transactions through the Real Time Interbank Gross Settlements System (AZIPS) and the Low Value Payments Clearing and Settlements System (LVPCSS), the main components of the NPS, yoy increased by 57% to AZN342B (2.6 times of GDP), while the number of payments increased by 38% to 97.3 million units.

Now payments are made for over 1100 services on the institutions integrated to the Government Payments Portal (GPP). Total value of transactions over the GPP amounted to AZN5B (66% cashless payments). Total value of transactions yoy increased by 23%, and the value of cashless transactions increased by 40%.

Over the reporting period, the value of transactions processed in the national currency over the Interbank Card Center was AZN10.1B, in a foreign currency USD39.1M and EUR14.8 M.

The Bank provided relevant works on the 'Digital payments strategy of the Central Bank of the Republic of Azerbaijan for 2021-2023' elaborated to develop cashless payments.

As of 01.01.2023, the number of payment cards in circulation was 13.6 million units, ATMs – 3 thousand units and POS-terminals 79.8 thousand units. The value of domestic payment card transactions increased by 2.1 times to AZN24.4B. The number of electronic commerce transactions yoy increased by 2.4 times and the value by 2.5 times. The weight of domestic card payments yoy increased by 11.4 pp to 43.2%. The value of Internet banking services yoy increased by 50%, and mobile banking transactions increased by 3 times.

The coverage and functionalities of the 24/7 Instant Payments System (IPS) expanded over the reporting year. As of the end reporting period 24 banks, the Azerpost LLC and the State Treasury Agency of the Ministry of Finance were integrated to the IPS. To motivate the use of the IPS in 2022 participating organizations were charged no service fees for the use of the system on QR-code payments and transfers by individuals (*except for individuals engaged in entrepreneurial activity*). In 2022 the number of IPS transactions yoy increased by 2.9 times to 337.6 thousand units, while their value doubled to AZN549.3M.

The Draft Law 'on Payment Services and Payment Systems' developed to improve the payment services legal framework was purified in response to feedback and suggestions of market participants and presented to the relevant authority. Draft changes to the 'Regulations on opening, maintaining and closing bank accounts' were developed and approved to tailor remote bank account opening to market requirements and best practices. Draft changes to the 'Regulations on installation, use and application of POS-terminals in the Republic of Azerbaijan' were developed and approved to create options for introduction of innovative payment services in merchants and now mPOS solution can be used in acceptance of cashless payments.

The Bank focused on expansion of cooperation with international card organizations and bringing innovative payment solutions to the country in 2022 as well. Over the reporting year the Google Pay payment solution was successfully activated in Azerbaijan at the initiative of the Central Bank and with the support of the banking sector and international card organizations to increase the range of contactless payment solutions and introduction of innovations in the country. Users made 4 million payments (AZN85.7M equivalent) through the said innovative solution in 2022.

Over the reporting period the Bank attached great importance to the promotion of the use of digital payments and literacy and awareness on cashless payments and conducted numerous stimulating and educational events with international card organizations and related institutions.

2. Discharge of functions

To attain the main goals the Central Bank took necessary measures to establish and pursue the monetary policy, organize cash circulation, regularly set and announce the exchange rate of manat against foreign currencies, implement currency regulation and control, report BoP statistics and participate in the forecast of BoP, maintain and manage international gold – foreign exchange reserves at its disposal, compile consolidated (both public and non-public) foreign debt statistics and international investment balance under the legislation and discharge other functions.

2.1 Setting and implementing the monetary policy

In 2022 the monetary policy was oriented towards easing inflationary pressure by means of the monetary condition. Introduction of the new monetary policy operational framework allowed the interest rate corridor to affect the interbank market for the first time.

In 2022 the Central Bank took monetary policy decisions in light of global economic developments, the level of realization of internal and external risks, and updated forecasts. The Bank discussed interest rate corridor parameters 9 times in 2022. The refinancing rate was increased from 7.25% to 8.25%, the ceiling of the corridor from 8.25% to 9.25%. The floor of the interest rate corridor was decreased to 4% from 6.25% on 1 September 2022

with the application of monetary policy tools under new configuration. The decision related to the floor of the corridor was found expedient in terms of sterilization of excess liquidity in the banking sector under favorable conditions and creation of options for the formation of interest rates that provide equilibrium in the interbank money market. However, the width of the interest rate corridor was revised in line with previously made announcement next months and the floor of the corridor was shifted to 5% at the end of October and to 6.25% in December.

A number of measures were taken to improve the monetary policy operational framework. The Bank began to apply new monetary policy tools. Standing facilities were activated and the range of open market operations was expanded. As a standing facility now 1-day deposit operations are used for liquidity absorption and 1-day reverse-Repo operations for liquidity providing. 7-day repo auctions were found expedient, if necessary, along with 1, 3, 6 and 9-month notes for liquidity absorption to improve open market operations. For liquidity providing purposes, the Bank is planning to conduct 7-day Reverse repo operations.

Demand for Central Bank's sterilization tools, in particular for liquidity absorbing standing facilities was high. In September-December, average volume of one-day deposit operations was AZN464.3M. In 2022 the Bank held a total of 90 various term note auctions for effective management of liquidity, out of which 48 auctions were held in September-December. Total outstanding amount of sterilization via notes was AZN1339M.

The new operational framework had an upward effect on formation of the yield curve. In December average return was 4.69% on 28-day, 5.31% on 84-day, 6.06% on 168-day and 6.64% on 252-day notes.

The Management Board of the Central Bank decided to set the reserve requirement at 4% on deposits in the national currency and precious metals, and 5% on foreign currency denominated deposits. All banks have been maintaining reserve requirements under new norms since September 2022.

The Bank proposed an alternative operating platform to activate the interbank money market. A new collective agreement on conclusion of interbank unsecured loan transactions in the manat on the Bloomberg trading system took effect. As a result, whereas 69 transactions were concluded among banks in September and 146 transactions were concluded in October on the Bloomberg trading system, this figure increased to 168 in November and to 214 in December. 95.3% of transactions concluded in December were 1-3-day transactions. In September-December total value of interbank transactions amounted to AZN5717M on the Bloomberg trading platform and AZN420M on Repo.

Consequently, interest rate corridor parameters influenced interest rates in the interbank market for the first time. Average interest rates on one-day transactions in the unsecured interbank money market were 0.3 pp higher than in November. In general, introduction of the new operational framework serves the formation of alternative anchor of the monetary policy and strengthening the interest rate channel in the monetary policy transmission. Activation of liquidity absorbing operations with the introduction of new tools is critical in terms of balanced growth of credit investments and support for equilibrium in the FX market in the medium-run. At the same time, introduction of new tools and activation of operations in the interbank money market allows banks to attract short-term funds, if necessary, to underpin uninterrupted and sustainable settlements.

Monetary policy communication was on focus over the reporting period. Press releases on monetary policy decisions of the Central Bank were published with analytics, aided by regular press conferences, and monetary policy reviews were made public quarterly. Activities of the Bank were regularly highlighted by means of its official website and social networks. A meeting was held with independent economic experts.

2.2 Organization of cash circulation, issue of currency to and withdrawal from circulation

The Central Bank covered demand of the economy for cash in full, adequately and in time, and created necessary reserves of currency.

The Central Bank withdrew AZN8.1B worth currency from and issued AZN10.5B currency into circulation. Cash in circulation increased by 19.6% (AZN2.4B) to AZN14.7B as of the end-year. Presently, national currency reserves amount to AZN15.7B, sufficient to cover demand of the economy as a whole until end-2025 except for certain denominations.

The Bank continued to renew national currency within the current concept and issued to circulation renewed 20 manat banknote dedicated to the Karabakh topic, 10 manat banknote dedicated to History, as well as renewed 10 and 50 gapik coins to circulation over the reporting period. The renewed 50 manat banknote won the 'Best New Banknote' award for its motif, design and security elements at the international competition held by the US International Association of Currency Affairs.

The Central Bank issued to circulation gold and silver commemorative coins dedicated to the World Cup Qatar 2022 as part of cooperation with 'MDM Münzhandelsgesellschaft MBH&CO KG Deutsche Münze', the official partner of the Fédération internationale de football association (FIFA), as well as a silver commemorative coin at the order of the National Olympic Committee to perpetuate the 30th anniversary of the Committee based on the Decree of the President of the Republic of Azerbaijan 'on celebration of the 30th anniversary of the National Olympic Committee of the Republic of Azerbaijan' dated 28 March 2022.

The Bank ensured the operation of the working group of the State Committee established with respect to destruction of unfit currency withdrawn from circulation, over the year AZN2.9B (132.7 million units) banknotes and coins were destroyed. AZN16.7B (1.3 billion units) worth unfit currency was destroyed since the time of issue to circulation and no discrepancies were revealed during these processes.

The Bank focused on the organization of anti-counterfeiting and coordination with law enforcement bodies, 452 counterfeit banknotes were discovered in the national currency (AZN36 thousand), signs of counterfeiting were discovered in 183 banknotes in foreign currency, they were withdrawn from circulation and delivered to law enforcement bodies to take measures.

Cash offices established by the Central Bank in Baku and regional offices to accept for expertise and change unfit currency from the population. Over the year AZN7.6M (165 thousand units) worth currency was accepted and changed, and the Bank provided delivery of AZN1.6M worth (7.9 mln units) coins through the mobile cash office service.

2.3 Regular setting and announcement of the official exchange rate of manat against foreign currencies

Huge balance of payments surplus had an upward effect on the equilibrium in the FX market and supported the exchange rate stability, the key price stability anchor.

The Bank held a total of 99 currency auctions in 2022 on the sale of foreign currency provided by the SOFAZ. At 80% of currency auctions supply prevailed over demand, average demand amounted to \$52.4M vs \$70M worth supply. The Central Bank's purchase-oriented intervention in the FX market amounted to \$2048M.

The official exchange rate of the manat against the USD based upon the average exchange rate on interbank transactions over the period (both auction and over-the counter on the Bloomberg platform) and was AZN1.7 on a daily average. Commercial banks' average buy/sell rate was 1.6971/1.7024.

The manat appreciated against the euro, the Turkish lira, the English pound, the Kazakh tenge, the Japanese yen, the Swiss franc and the Ukrainian hryvnia, and depreciated against the Russian ruble and the Georgian lari. The dynamics of bilateral exchange rates influenced that of effective exchange rates. In general, 8.4% appreciation of the non-oil NEER of the manat neutralized part of imported inflation.

2.4 Currency regulation and control

The Central Bank maintains currency regulation according to the Law of the Republic of Azerbaijan on Currency Regulation. Currency transactions of residents and non-residents are regulated with the law and regulations of the Central Bank.

In 2022 the Central Bank licensed three legal entities to engage in currency exchange operations. The currency regime applied in the country served the stabilization of the FX market and balancing the BoP as part of comprehensive measures aimed at financial stability.

The Bank provided target-oriented measures to strengthen monitoring of and control over operations of banks with residents and non-residents, and avoid suspicious transactions in order to make currency control more effective and prevent illegal taking currency resources out of the country in accordance with the valid currency regime. Analyses suggest that, the valid currency regime played a positive role in optimization of the ratio between bringing into and taking out of the country foreign currency in 2022.

2.5 Maintaining and management of international gold-foreign exchange reserves at its disposal

In 2022 the Central Bank managed its foreign exchange reserves on the backdrop of unfavorable market environment characterized by factors like sharp increase in global inflationary pressures and geopolitical tensions. As part of the fight with global inflation, central banks of advanced economies dramatically increased policy rates. Consequently, zero negative interest rates typical for the post-global financial crisis of 2008 increased significantly and economic crisis expectations resulting from the continuation of tight monetary policy elevated.

The Central Bank continued to manage foreign exchange reserves conservatively within the frames of adopted strategy and regulations. Over the period FX reserves were managed by dividing them into the operational tranche, which serves to support the monetary policy of the Bank, and the investment tranche held to increase income. As of the end-reporting period 87% of official FX reserves were maintained in the USD, 4% in the EUR, 1% in the GBP and 8% in SDR.

In 2022, foreign exchange reserves of the Central Bank were managed by investing in government and quasi-government debt liabilities of foreign countries with an investment grade credit rating based on benchmarks selected in accordance with goals of each tranche and sub-portfolios. The Bank continued to further improve the credit quality of the investment portfolio and diversify by countries.

The Bank continued to cooperate with foreign managers along with the internal management on FX reserve management. Measures were taken to increase options and efficiency of diversification of portfolios under foreign management, as well as transmit best practices to internal management.

The unfavorable environment in global financial markets weighed on results of FX reserve management. Prices fell across all segments of global debt securities amid dramatic increase of policy rates by leading central banks. Whereas rising market rates increases interest income allowing short-term financial tools that take a considerable part of the Central Bank's investment portfolio to be reinvested at a higher interest rate, they led to unrealized revaluation losses on risk-free and high credit quality debt securities invested for a relatively longer term. Consequently, as of end-2022 net gains from management of FX assets of the Central Bank amounted to \$-41.8M, and return was -0.53%. Note that, rising market rates will allow the gains from the management of Central Bank's FX assets to surge in upcoming years.

Central Bank's official forex reserves increased by \$1.9B (27%) to \$9.0B. Purchase of foreign currency from the domestic market had a push, while exchange rate differences had a pull effect on forex reserves.

2.6 Reporting balance of payments statistics and participation in the forecast of balance of payments

Over 9 months of 2022 the Central Bank continued to compile the balance of payments statistics based on relevant international standards (BPM6).

Cross-check via the International Transactions Reporting System (ITRS) allowed to purify the reporting and accounting system of the BoP. As part of the ITRS automation efforts the reporting portal was introduced to respondents and users to check statistic indicators and improve the processing.

More detailed information was obtained from a number of state enterprises (mainly SOFAZ and SOCAR), which allowed to check information on foreign direct investments. At the same time, indicators on royalty and licensing services were checked and included to the relevant BoP item as part of information sharing with the State Tax service under the Ministry of Economy.

The Central Bank regularly held consultations with related authorities regarding BoP forecasting in light of recent macroeconomic trends and sent necessary requests to a

number of state owned enterprises. The Bank officially delivered information and final forecasts to the Ministry of Economy to develop medium-term socio-economic development forecasts of the country.

2.7 Development of country's consolidated foreign debt statistics and international investment balance, summary and dissemination of data

Efforts to collect and summarize data for consolidated foreign debt statistics and international investment balance continued over 9 months of 2022.

The Central Bank formulated state and state-backed foreign debt statistics presented by the Ministry of Finance and foreign debt statistics across the banking sector based on the digital balance sheet received from commercial banks. The Bank summarized consolidated foreign debt statistics and international investments statistics in light of the data presented by banks along with indicators on government and government-backed loans, government and corporate securities, accounts payables and receivables, and presented to relevant public authorities.

Efforts of automation continued to collect and summarize consolidated foreign debt statistics and data on international investments balance. The Management Board of the Central Bank with its decision No 18/1 dated 25.05.2022 approved the 'Guidelines on development and submission of statistical reports on foreign debt and international investments', developed to improve the database and expand analytical analysis on consolidated foreign debt statistics and data on international investments and the paper was entered to the State Register of Legal Acts. A videoconference was held with respect to the 'Guidelines on development and submission of statistical reports on foreign debt and international investments' presented to respondents. Methodological recommendations were issued at the meeting on foreign debt and international investments.

2.8 Banking sector rehabilitation and sustainability

The banking sector continued its stable operation on the backdrop of uncertainties triggered by complicated geopolitical processes. In 2022 capital and liquidity indicators of the banking sector considerably exceeded the norms, profitability indicators improved. As part of macroeconomic and financial stability targets the lending portfolio increased and contributed to economic activity.

Financial resilience of the banking sector was kept in focus as part of supervision. Credit risks, trends in the forex market and dollarization were regularly tracked, settlement channels that became more relevant due to geopolitical developments were monitored, and banks' financial standing was assessed. The Central Bank conducted comprehensive inspections in 5 banks, 4 NBCIs and the Azerpost LLC, and thematic inspections at 4 banks. As a result of effective application of supervisory tools banks safeguarded their financial resilience, and confidence of the population in the banking sector elevated.

The Management Board of the Central Bank with its decision of 11.10.2022 revoked the license issued to the Baku branch of the National Bank of Pakistan based on their own appeal due to voluntary liquidation. Hence, there were 25 banks (including 2 state-owned banks) as of 31.12.2022. Banks' service network includes 487 branches, 91 divisions (including currency exchange offices), 2997 ATMs, and 22731 employees.

The short open currency position problem of the International Bank of Azerbaijan OJSC emerged in 2016 was resolved in early July and adjusted to the normative requirement. The bank's liquidity and currency position is kept under control on an ongoing basis.

Over the reporting period shareholder equity of the banking sector increased by AZN58.7M. Capital adequacy of the sector surpassed the regulatory requirement by 1.9 times (12% on systemically important banks, and 10% on other banks).

Lending activity of the banking sector increased in 2022. Banks' lending portfolio increased by 17.6% (AZN2.9B) to AZN19.6B. Banks' consumer portfolio increased by 27.3%, mortgage portfolio increased by 24.3% and business portfolio increased by 11.4%. Business loans accounted for 55.4% of total lending portfolio as of 31.12.2022.

The Bank assessed banking sector risks continuously in 2022 and evaluated financial resilience under various scenarios based stress tests. At the same time, the Central Bank provided crucial methodological support for banks to improve their stress-test models.

Changes were made to relevant regulations by the Central Bank to minimize potential threats to the quality of the lending portfolio, ensure responsible and sound lending, as well as increase the role of banks in financing of large-scale and long-term projects in the real sector in order to improve the supervisory framework of the banking sector, and a new 'Regulation on prudential regulation of project financing loans' was approved in 2022.

Total number of requests to the Azerbaijan Credit Bureau (Bureau) was 77.9 million units, and the number of scoring requests was 0.3 million units. Total number of requests received by the Bureau was 118.6 million, and the number of scoring requests was 4.6 million units from the date of establishment to 31 December 2022.

Liquid assets of the banking sector amounted to AZN17.1B (36.4% of total assets of the banking sector). The instant liquidity ratio (59.7%) exceeds the minimum requirement (30%) by 2 times.

Total liabilities of the banking sector increased by 23.7% (AZN7.9B) to AZN41.4B. Deposits accounted for 81.4% of total liabilities, out of which savings of the population amounted to AZN11.5B (except for individuals engaged in entrepreneurship). In 2022 savings of the population increased by historical highs – 27.1% (31.3% in the national currency, 21.3% in a foreign currency).

The exchange rate stability of the national currency of recent years shaped de-dollarization trend of savings. At the same time, de-dollarization of the lending portfolio continued over the reporting year and dropped to historical lows. According to the end-year information, dollarization was 39.8% on savings of the population, 50.9% on deposits of legal entities (except for deposits of the financial sector) and 20.1% on the lending portfolio.

Banking sector's term foreign debt decreased by 27.8% to \$276.5M in 2022. Presently, foreign debt accounts for merely 1.1% of total liabilities of banks (0.9% excluding the IBA).

2.9 Development and sustainability of the insurance sector

19 insurers, 1 reinsurer, 1 co-insurer, 29 insurance brokers and 652 insurance agents provided the operation of the insurance sector in 2022.

Insurance premiums yoy increased by 15% to AZN969M, and insurance payments decreased by 6% to AZN434M in 2022. Growth in insurance premiums was 30% on life and 2% on non-life insurance companies. The Central Bank conducted comprehensive inspections at 4 insurers, in 1 insurance agent, 2 insurance and reinsurance brokers.

The Bank conducted efforts to enable insurers to measure their funds and assess their assets and liabilities as part of the draft project on transition to risk-based supervision in insurance. The initial version of the project based on Solvency 2 principles was developed and delivered to international experts for feedback and proposals. Efforts continue to develop corporate governance standards in compliance with the Solvency 2 requirements, as well as on the information to be disclosed to the broad public by insurers.

The Central Bank continued digitalizing insurance activities. Draft amendments to the legislation were developed in order to integrate to electronic information systems of related authorities, their feedback and proposals were collected and delivered to the Cabinet of Ministers. Moreover, draft amendments to the Law of the Republic of Azerbaijan 'on Compulsory Insurances' were approved on 18 October 2022. The said amendments cover concluding insurance contracts on compulsory real estate insurance, compulsory insurance against third party liability in relation to use of immovable property, compulsory personal accident of insurance of passengers as electronic documents.

The 'Regulation on calculating insurance premium amounts for vehicle owners' compulsory civil liability insurance' and the 'Regulation on governing mutual payments between insurers in connection with compensation for damage caused to the vehicle driven by the damaged party in a road traffic accident' were approved by the Management Board of the Central Bank to improve the insurance legislation and were applied on 1 October and 1 November 2022 respectively. To expand access of citizens to electronic contracts and simplify the process the Management Board of the Central Bank approved relevant changes to the 'Additional requirements for issuing permits for maintaining compulsory insurance types' and the 'Requirements for the form and content of insurance certificates on vehicle owners' compulsory civil liability insurance' with its decision of 28 December 2022. The Decision 'on determination of the amount of one-time funds paid by insurers willing to operate under the Green Card System to the account related to the reserve of current liabilities formed by the Compulsory Insurance Bureau and insurance premiums to be applied under this system by insurers entitled to operate under the Green Card System' was approved by the Management Board of the Central Bank and took effect on 01.01.2023.

Based on the Memorandum signed among the Central Bank, the Compulsory Insurance Bureau and the Association of Azerbaijan Insurers, a survey was conducted among citizens to assess insurance literacy, and a promo program was prepared to raise insurance literacy. Educational activities aimed at increasing insurance literacy are carried out regularly.

Trainings of employees on expanding personnel potential of the insurance market are delivered by the professional staff of the Turkish Insurers Institute based on the training program developed with representatives of the same institution. The training program covers all aspects of insurance. Currently, training is under way under the Actuarial development program, which consists of theoretical and practical parts and will last for 15 months.

2.10 Capital market development and sustainability

The Central Bank took intense measures to make regulatory and supervisory processes in the securities market more effective, bring the legal framework of the capital market in line with international standards, improve operational infrastructure, and support market supply and demand.

Guided by the Business Enabling Environment report by the World Bank, to create a regulatory framework for green bonds the Central Bank developed draft amendments to the Civil Code and submitted to the Cabinet of Ministers on 28 October 2022. After draft amendments enter into force, relevant regulations on green bonds are planned to be developed with technical support of relevant state authorities and the World Bank.

To increase options for capital market financing a bond guarantee scheme was created with the Decree of President of the Republic of Azerbaijan dated 24 August 2022. Under the Decree, corporate bonds issued by issuers in manat are expected to be guaranteed by the Mortgage and Credit Guarantee Fund, and appropriate regulations will be developed by the Fund within five months. The said scheme is planned to be commissioned in 2023.

According to amendments made to the Tax Code on 13 May 2022, only dividends, discounts and interest income paid on stocks and bonds publicly offered and allowed to trading in a regulated market are exempt from tax for 5 years from 1 February 2023. At the same time, calculation of interest tax on bonds was aligned to international practice. The draft law on creation of a favorable tax regime in the capital market developed by the Central Bank and the State Tax Service provides for exemptions for joint-stock companies whose stocks are publicly offered and that are engaged in production from profit tax for three years, exemption of issue proceeds from profit tax and applying exemptions on taxation of income generated from secondary market operations with stocks and bonds at the stock exchange and exemption of profit earned by investment funds and their managers for three years.

Mutual relations were established between capital markets of Azerbaijan and Turkey at the 9th meeting of the Joint Intergovernmental Commission on economic cooperation between Azerbaijan and Turkey. In December 2022 a nominal holder account of the Central Depository of Turkey was opened with the National Depository Center (NDC), which in turn creates a basis for mutual listing of securities.

To elevate capital market financing of the private sector the Central Bank created a Securities Issue System and commissioned on 2 December 2022. The system allows providing services supplied by the Central Bank, the NDC and the Baku Stock Exchange regarding state registration and placement of investment securities electronically.

Over the reporting period the Bank continued relevant efforts to promote initiatives on capital market financing of the private sector and the listing at the stock exchange. The Baku Stock Exchange continued to use an awarding scheme of investment companies providing the underwriting service. In addition, the Baku Stock Exchange cancelled listing tariffs on stocks to be newly listed until 31 December 2023.

A number of changes were made to the current settlement model to improve clearing and settlement on securities, reporting requirements on full introduction of the delivery versus payment principle, as well as requirements for higher flexibility of transactions were determined. Intense literacy events were organized to increase knowledge of potential issuers and investors on the market and formulate expertise and awareness in capital markets as a whole with the involvement of international financial organizations, the Baku

Stock Exchange, KOBIA, the Azerbaijan Confederation of Entrepreneurs, the Entrepreneurial Development Fund and investment companies.

Over the reporting period trade turnover in the securities market amounted to AZN15563M. Growth was 45% in the stock market, 31% in primary corporate bonds market and 25% in the government bonds market. The volume of transactions conducted at the Baku Stock Exchange amounted to AZN14948M, positive dynamics on placement of corporate bonds at the stock exchange by public offering. In 2022 total trade turnover of corporate securities yoy increased by 93% to AZN1574M at the Baku Stock Exchange.

The volume of operations in the government securities market amounted to AZN8313M. Over the period, 90 auctions were held with Central Bank notes at the Baku Stock Exchange, the volume of operations with notes at primary and secondary markets increased by 9% to AZN5249M. The Baku Stock Exchange held 48 auctions on placement of government bonds. The volume of primary government bonds market increased by 61% to AZN2407M, while the size of government securities in circulation increased by 66% to AZN4161M.

Over the reporting year the Central Bank state registered AZN9039.4M worth stocks and bonds. At the same time, total AZN830M worth 33 prospectus and one information memorandum were approved on public offering of corporate bonds.

2.11 Protection of rights of consumers and investors in financial markets and conduct of financial literacy efforts

The Central Bank took necessary measures to prevent violation of the rights of consumers and investors and ensure restoration of violated rights based on the received appeals in 2022.

A total of 68534 appeals were received from consumers and investors in writing, via the hotline and WhatsApp. 68% out of 11812 written appeals were related to the banking sector. Many issues were resolved as a result of investigation of appeals. AZN43275 worth portion of compensation amount calculated in accordance with the Decree on resolving problem loans of individuals dated 28 February 2019 was returned to 44 citizens. Moreover, a total of over AZN 839 thousand worth insurance payments were made to affected individuals. 55037 calls to the 966 hotline were promptly responded, meetings were held with 1242 citizens, 1685 appeals received through the WhatsApp were handled. Legal awareness efforts were provided in parallel with crucial measures related to the protection of the rights of applicants.

To regulate appeals of consumers of financial services in accordance with the Law of the Republic of Azerbaijan 'on Citizen Appeals' and relevant sectoral legislative acts, the 'Methodological Guidance on handling consumer complaints in financial institutions' was approved. Consumers residing in regions dissatisfied with supervised entities were received at the regional centers of the Central Bank located in Guba, Bilasuvar and Ganja.

A series of events were conducted to raise financial literacy, also as part of the Global Money Week held internationally. Financial literacy trainings were held for teaching staff and students of 22 secondary schools, teachers and students of 22 higher education institutions, IDPs, and employees of the 'Veysaloglu' Group of Companies and students, members of the 'Eternal Unity – Youth' Public Union (about 2000 people in total).

A total of 1249 people participated in the bilingual competition among 10-16 year old pupils in the virtual course 'Kids and money', in the competition in the virtual course 'Financial literacy: strategy, teaching, analysis' for teaching staff, as well as heads of organizations and human resources managers, on the joint 'Banking and digital payments' virtual course with the VISA international card organization, 544 successful participants were awarded with certificates and gifts.

Due to the declaration of 2022 as the 'Year of Shusha', the Central Bank together with the MasterCard International organized a competition on virtual courses on financial literacy for the teaching staff and students of secondary schools under the Karabakh and Eastern Zangezur Regional Education Departments in the financial literacy month. 43 students won, and 25 students distinguished themselves within the framework of the competition.

An international money exhibition dedicated to the 'Global Money Week' was held for young people under the organization of the Nakhchivan AR Office of the Central Bank, an intellectual game was organized for employees of 8 commercial banks, and an event titled 'Let's get to know our manat' was held for elementary school students of the Heydar Aliyev secondary school.

The national final stage of the 'European money quiz 2022' for pupils of 13-15 age was held jointly with the Azerbaijan Banks Association, and 2 winning students were identified and recruited for appropriate preparation. On 10 May 2022, 2 students representing our country took the 9th place in the European final stage participated by 57 students from 29 countries. A seminar was held for 30 students from villages within the framework of the 'Learning hand-in-hand' project of the Azerbaijan – UK Alumni Association.

Two large insurance projects titled 'Development of professional staff potential' and 'Raising insurance literacy, education, promotion and prevention measures' continued. In addition, the Central Bank, together with the Association of Azerbaijan Insurers, started the Actuarial Development Program with 91 participants to form a new generation of actuaries with modern knowledge and skills in the country.

The content of the financial literacy portal (bizimpullar.az) was enriched with new videos. The portal had 140961 views by 30957 visitors in 2022. The content of the virtual education platform (edu.e-cbar.az) was also enriched and 9 distance courses were developed and commissioned. Over the year, 1,065 final exams were organized for those who completed their studies on the platform, and 849 successful people were awarded with appropriate certificates.

Two new categories of 'Letters of credit' and 'Bank guarantees' were added to the information search system of financial products and services (infobank.az). In 2022, 14007 visitors had 41189 views of the system. Materials related to financial literacy were regularly shared on social networks.