

Central Bank of the Republic of Azerbaijan

REPORT
ON ACCOMPLISHMENT OF MAIN GOALS AND
FUNCTIONS IN 2021

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Introduction

The purposeful policy pursued in 2021 under the leadership of Mr. Ilham Aliyev, President of the Republic of Azerbaijan resulted in minimum negative effects of the pandemic on the country economy. Despite the new wave of pandemics, effective anti-crisis measures, mass vaccination and gradual easing of social isolation restrictions, as well as gradual adaptation of economic entities to the new condition have restored economic activity and economic growth was higher than the forecast for 2021.

The Central Bank of the Republic of Azerbaijan discharged its mandated functions in 2021 and contributed to macroeconomic and financial stability, as well as the stable operation of all segments of the financial sector. Although Azerbaijan, like most countries, has faced unprecedented inflation since the second half of 2021, macroeconomic stability was safeguarded as a whole. The Central Bank's monetary policy was oriented towards mitigating the increasing effect of external and internal non-monetary factors on inflation by managing monetary conditions and inflation expectations. The balance of payments surplus and the macroeconomic framework supported the equilibrium in the FX market. The appreciation of the nominal effective exchange rate allowed a significant neutralization of imported inflation last year.

1. Accomplishment of goals

The goal of the Central Bank is to maintain price stability within the authorities established by the legislation.

1.1. Maintaining price stability within the authorities established by the law

In 2021 the monetary policy of the Central Bank reacted to the dynamics of inflation and deteriorated external background, the nature of factors that translate to inflation – whether they are temporary or lasting, changes in the balance of risks of inflation, medium term inflation forecast and expectations. Over the period, push effect of cost factors mainly of foreign origin was neutralized by means of the appreciation of the nominal effective exchange rate (NEER), balanced regulation of the cost and quantitative parameters of money and effective management of inflation expectations.

According to official statistics in December annual inflation was 12% (December 2021 vs December 2020). Average annual inflation was 6.7%. Average annual core inflation calculated by excluding swings in regulated prices and prices for seasonal agricultural products was 4.2% in 2021. The diffusion index – a measure of the change in dynamics pertaining to the number of goods and services with rising and falling prices in the consumer basket¹ increased as well. Out of the 519 items of goods and services included in the consumer basket, the prices for 316 or 61% increase in the range of 4-12% annually. In 45% of rising prices, the price increase was less than 8%. Prices for 2.5% of products and services in the basket decreased.

Inflationary pressures elevated across all sub-groups of goods and services. In December the food price index increased by 15.8% on annual (about 3/5 of total inflation). Average annual food inflation was 8.1%. Historical analysis of seasonal factors suggests

¹ The index is calculated as $(\text{increasing-decreasing}) / (\text{decreasing+unchanged})$.

that, while there has been on average 3.4% deflation cumulatively on food products over recent 10 years every May-September, inflation made 2.3% in the relevant season of the reporting year. Rising global food prices significantly influenced food inflation. In particular, rise in prices for butter and vegetable oils, sugar and dairy products, as well as bakery products was driven by global food prices. According to the Food and Agriculture Organization of the United Nations, in 2021 global food prices hiked by 23.1%, by 20.7% on flour products, by 17.4% on dairy products, by 36% on oils, and by 33.6% on sugar.

Non-food prices hiked by 7.7% over recent one year. The highest price hike was in fuel (20%) and construction materials (13.5%).

Service prices rose by 10% over recent one year. Liberalization of regulated prices continues to weigh on service inflation. In 2021 the price for cold water supply and sewerage service increased by 2 times, natural gas by 27% and power supply by 12.5%. In addition, prices hiked by 30.1% on passenger transportation by air, 12.3% on catering, by 9.7% on rent fees and by 7.7% on healthcare services.

The analysis of the inflationary factors suggest that, factors of foreign origin directly and indirectly translated to domestic price hike. In 2021 import prices hiked by over 21%. Intensification of imported inflation is put down to rising global food prices, high transportation-logistic expenses and peaked inflation in partners. According to the World Bank, energy prices increased by 77%, and non-energy prices by 20% on annual in 2021.

In 2021 supply and demand mismatch amid massive global anti-COVID-19 vaccination, stepwise easing of lockdown restrictions in particular countries and large-scale fiscal-monetary stimulus packages triggered unprecedented inflationary pressures in most countries. Last year inflation in main trade partners considerably exceeded targets – compared to the target annual inflation was higher by 2.4 times in the USA, by 2.6 times in the euro area, by 2.1 times in Russia, by 1.7 times in Kazakhstan, by 2 times in Belarus, by 2 times in Ukraine, by 4.6 times in Georgia and by 7.2 times in Turkey.

The Baltic Dry Index, the index of transport of dry bulk materials, had risen since 2008 and peaked in September 2021. Though slightly decreased last quarter of the year, the index is still higher than the pre-pandemic level. In general, cost of transport of dry bulk materials increased by 60% in 2021 (annual growth was up to 4 times in certain months of the year.)

Rising producer prices amid the lingering pandemic and ongoing effects of liberalization of government-regulated prices also activate cost factors of inflation. The APPI increased by 17%, while transportation service prices increased by 5.8%.

The effect of government-regulated prices on annual inflation is estimated to exceed 20%. The rising effect of government-regulated prices on inflation is mainly due to the increase in tariffs for services. The lasting effect of regulated prices and tariffs retains the potential to increase prices up in 2022.

Recovery of high aggregate demand last year paved the way to transformation of rising expenses to prices. In 2021 retail trade turnover increased by 3.2%. A 4.6% rise in current expenditures of the state budget supported aggregate demand.

The balance of payments (BoP) surplus, the macroeconomic framework and the monetary condition supported the equilibrium in the FX market. The appreciation of the NEER partly neutralized imported inflation. In 2021 the non-oil NEER appreciated by 12.1%. This appreciation is expected to have a reducing effect in prices in 2022. The formation of the bilateral AZN/USD exchange rate amid expansion of supply channels in the FX market

also was critical in neutralizing foreign inflation and regulation of inflation expectations. Attractiveness of national currency denominated savings and the higher growth rate of deposits than that of loans had a reducing effect on inflation via aggregate demand.

The actual dynamics of inflation was a crucial factor to formulate inflation expectations. Over recent 12 years, all monitored sub-sectors of the real sector have posted growth. According to December surveys, 82% of households expect inflation, and 29% of them expect inflation to rise further.

1.2. Organization and operation of the work of payment systems

Stable and reliable operation of payment systems was one of the priorities for the Central Bank. The key components of the National Payment System (NPS), launched and managed by the Bank maintained uninterrupted operations in 2021. The institution focused on systems' resilience for cyberattacks resistance in the environment of rising cyber threats because of global digitalization.

The Bank attached great importance to the active use of the NPS capacity among the population and businesses. 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, amounted to AZN217.7 billion (2.3 times of GDP), while the number of payments was 70.8 mln units. Bank transfers y.o.y. increased by 18% and 9% in terms of the number and value respectively.

The infrastructure of the Government Payment Portal (GPP), created for centralized collection of budget and mass service payments, continued to expand in the reporting period. 11 central executive power institutions, 3 state agencies, 4 utility enterprises, 5 landline and mobile communication operators, 116 judicial bodies, 19 insurance companies, 1438 municipal bodies, 109 higher and secondary special education institutions and other bodies of social importance are integrated to the GPP. Now payments are made for over 900 services on the institutions integrated to the GPP via 26 banks and about 2500 payment points of the Azerpost LLC, about 4000 payment terminals in cash and digitally. Total volume of transactions over the GPP amounted to AZN4.1B (y.o.y up by 25.8%) (58% cashless payments (y.o.y. up by (35.2%)).

Development of the card infrastructure followed a positive trend in 2021. 92 million card transactions were conducted over the Interbank Card Center, created to reduce dependency of the country's card infrastructure on international card organizations and make card payments more efficient; the value of national currency transactions amounted to AZN4.7B, foreign currency transactions amounted to USD19.1M and EUR5.3M. Banks increased the range and quality of card products.

Because of the efforts on the development of cashless payments, the growth rate was higher in 2021 than in the previous years. As of 01.01.2022 the number of payment cards in circulation was 11.5 mln. units, ATMs 2970 units, and POS-terminals 61179 units. Total value of domestic payment card transactions y.o.y. increased by 28.2% to AZN36.1B. The value of domestic card-based cashless transactions increased by 79.6% to AZN11.5B. The number of e-trading operations y.o.y. increased by 57.5% to 110 mln. units, while the value increased by 81% to AZN7.5B. The number of contactless payment cards in circulation y.o.y. increased by 2 times to 7.5 mln. units, the number of POS-terminals that accept

contactless payments increased by 28.5% to 44 thousand units. The number and value of contactless payments increased the indicators of 2020 by 3.8 and 5.2 times respectively.

Statistic indicators on e-banking services, one of the main challenges of nowadays, have made considerable progress. The number of transfers from current accounts was 58.2 mln. units and the value made AZN162.9B (y.o.y. up by 37% and 70% respectively).

The coverage and functionalities of the Instant Payments System (IPS) expanded, and cheap payment methods, such as a QR code were created to allow small businesses to accept cashless payments. At the same time, the Central Bank developed and approved the 'Methodological Guideline on QR code payments in the Republic of Azerbaijan'. 21 banks, the Azerpost LLC and the State Treasury Agency of the Ministry of Finance were integrated to the IPS, that allows settlements between individuals and legal entities, as well as public institutions through simplified identifiers (PIN, TIN, mobile number, e-mail) as of the end-reporting period. The number of transactions in the IPS was 116 thousand units, while the value was AZN281M.

Efforts to expand the coverage of the Digital Information System (DIS) to increase access to e-banking services continued in 2021. The DIS platform uses face recognition, aided by integration to domestic and international markets. The DIS allows remote bank account opening for e-residents without coming to the country. As of the end-reporting period, 20 banks were integrated to the DIS platform. Since the date of commissioning, the system has opened 1600 remote bank accounts for legal entities and individuals, and users obtained over 280 payment cards.

Works were done under the actions plan on transition of the financial system to ISO20022. ISO20022 in the NPS infrastructure will allow to create single data formats between payment system participants, minimize payment transaction risks, reduce resources (financial, time, human) spent on automation and formulate extended functionalities.

The Central Bank focused on expansion of cooperation with international organizations to increase the coverage of digital payments. To bring innovations to the country the Bank signed cooperation agreements with the Visa and the MasterCard for the upcoming strategic period in 2021, followed by the joint activities on the actions to be implemented in 2021. As part of the related measures, the Apple Pay payment solution was successfully activated in Azerbaijan on 2 November 2021 at the initiative of the Central Bank, and the support of the banking sector and international card organizations with an eye to increase the range of contactless payment solutions and apply innovations.

The Central Bank and the State Tax Service under the Ministry of Economy launched a work group to investigate and eliminate current challenges related to the use of POS-terminals, approved and implemented the actions plan for 2021.

The Bank focused on awareness, literacy and promotion of cashless payments. The Central Bank implemented many stimulating and awareness events with international card organizations and related authorities to promote the use of digital payments and encourage the population to use cashless payments.

To eliminate the problems hindering development of cashless payments, increase access of the population and businesses to cheap and favorable financial services countrywide regardless of the place of residence and maintain a positive trend on digital payment indicators during the upcoming strategic period, the Bank developed the 'Digital

payments strategy of the Central Bank of the Republic of Azerbaijan for 2021-2021' and began to implement planned actions. The best practices-based Strategy that targets the formation of competitive, innovative and accessible ecosystem includes 54 actions on 5 main directions.

2. Discharge of functions

The Central Bank took necessary actions to establish and pursue the monetary and exchange rate policy, organize cash circulation, regularly set and announce the exchange rate of manat against foreign currencies, regulate and control currency, develop reporting BoP and participate in development of the forecast 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 in accordance with Decree No.1616 of the President of the Republic of Azerbaijan dated 2 November 2019.

2.1. Setting and implementing the state's monetary and exchange rate policy

In 2021 the Central Bank implemented its monetary policy in the environment of accelerated inflationary developments in partners and high unprecedented inflationary pressures on the basis of the imported inflation. External sector indicators followed positive dynamics in terms of economic growth and the growth was higher than expected. In general, monetary policy decisions contributed to strengthening reducing effects of non-monetary factors based inflation through monetary factors. The Central Bank strived to strengthen the reducing effect of the monetary policy on inflating through both quantity and cost of money.

The adequate monetary condition supported the FX market equilibrium, which boosted the main price stability anchor, and allowed to considerably neutralize foreign inflation.

In general, monetary policy decisions supported an optimum balance between price stability and economic activity. To support economic growth recovery, the refinancing rate was shifted to 6.25% from 15% in 16 steps from early 2018 to December 2020. However, in the first half of 2021 there was a pause in making a change to the refinancing rate mainly in response to external sector developments, starting from the second half of the year in response to accelerated inflation the refinancing rate was increased three times in a row to 7.25% in September, October and December. The Central Bank made public interest rate related decisions under the previously announced schedule with appropriate analytical comments.

Interest rates varied across various money market segments. Yield on government securities and interest rates in the interbank market were prone to decreasing. In general, yield on government securities decreased by 2-5 pp depending on duration to the range of 4-7% as at yearend. Only in recent months there has been certain increase in the interest rates. Nominal credit and deposit interest rates underwent no considerable changes. In December 2021 the average interest rate on manat denominated new loans was 16.4%, and on newly attracted savings and deposits 9.1%. High inflation is accompanied with low interest rates.

In 2021 money supply kept pace with the demand of the economy. Over 11 months state budget surplus had a downward effect on base money. Considerable activation of state budget expenditures and the use of the single treasury account for the purpose was

accompanied with the rising money supply growth rate at the end of the year. Money base in manat increased by 32.2%, by 14.8% if to skip term deposit operations in systemically important banks.

Broad money supply in manat grew by 17.6%. On the backdrop of wider digitalization in settlements the share of cash in broad money supply decreased by 7.3 pp.

To manage liquidity in the economy effectively the Central Bank adequately used various market operations tools over the year. Amid excess liquidity in the banking system, demand for the Bank's sterilization tools was high across all months. In 2021 the Central Bank held 38 note auctions. Long-term notes (84-, 168-, 252 day) were issued at 3 and 28-day notes at 35 of them. In general, total outstanding amount of sterilization via notes was AZN200M. Demand prevailed over supply at auctions on placement of notes; as a result, yield on these tools was close to the floor of the interest rate corridor. Notes issued by the CBA were used as collateral in the REPO market and had a positive effect on the money market activation.

The Central Bank focused on effective communication of the monetary policy on the basis of higher transparency and accountability more widely using digital tools. The Bank published press releases with relevant analytical comments on each policy decision and held regular press conferences. The monetary policy review was released on a quarterly basis. Central Bank's activities were highlighted in its official website, as well as via YouTube, Twitter, Instagram and Facebook. The Bank adopted a new medium-term communication strategy.

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 formed necessary reserves on banknotes and coins in 2021 under Part II, Article 19 of the Constitution of the Republic of Azerbaijan and the 'Law of the Republic of Azerbaijan on the Central Bank of the Republic of Azerbaijan'.

The Central Bank withdrew AZN7B or 448.6 mln. units of currency from and issued AZN7.4B or 474.6 mln. units of currency into circulation. In general, cash in circulation increased by 4% (470 mln units) to AZN12.3 B as of the end-year.

In light of international practice, the Central Bank started renewing national currency within the current concept with the introduction of the most recent innovations, nano and micro technologies, issued renewed 1, 5 and 50 manat and 20 gapik currency into circulation early in 2021 and announced that it would issue to circulation 20 manat banknotes on 10.02.2022.

Note that, the renewed 50 manat banknote won the 'Best Applied Security Product' category at the Excellence in Holography Awards 2021, which was presented by the International Hologram Manufacturers Association (IHMA), and was among the finalists of the US International Association of Currency Affairs (IACA) held an international competition on 'Excellence in currency 2022' awards.

To perpetuate the Patriotic War, successfully ended by our victorious army under the leadership of Mr Ilham Aliyev, the Supreme Commander-in-Chief of the Armed Forces and President of the Republic of Azerbaijan for the liberation of Karabakh 'Zafar' commemorative

banknotes and coins, as well as commemorative coins dedicated to the memory of our cities and regions liberated from the clutches of the enemy - 'Shusha', 'Jabrayil', 'Gubadli', 'Aghdam', 'Zangilan', 'Fuzuli', 'Lachin', 'Kalbajar', 'Khojavend' and 'Sugovushan' were issued to circulation. These banknotes were widely covered in mass media and presented with the participation of relevant government agencies and commercial banks.

The 'Clean money in circulation' policy adopted to improve the quality of money in circulation kept going, AZN10.5B worth currency withdrawn from circulation was processed in automated systems and fit currency was reissued to circulation, AZN2.7B worth unfit currency was withdrawn from circulation.

The Central Bank focused on effective anti-counterfeiting, the Bank detected, withdrew from circulation and delivered to law-enforcement bodies 358 units (AZN28 thousand) of counterfeit currency. In 2021, the Ministry of Internal Affairs opened and investigated 6 criminal cases under Article 204 of the Criminal Code of the Republic of Azerbaijan (production, acquisition or sale of counterfeit money and securities) in connection with counterfeit banknotes discovered and examined by the Central Bank.

The Central Bank established a new 'Cash office' to accept and change unfit currency from the population. Cash offices of the Central Bank accepted from the population and changed AZN8M worth (138 thousand units) currency and the Bank provided delivery of AZN4.3M worth (20.7 mln units) coins through the mobile cash office service.

Information on national currency, educational materials were placed on the 'National currency' section of the official site of the Central Bank. The Bank organized seminars and webinars on anti-counterfeiting with the participation of the staff of the Central Bank, commercial banks, as well as staff and students of science and education institutions.

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

In 2021 the exchange rate of the manat against foreign currencies reacted to supply and demand in the FX market. The balance of payments surplus, macroeconomic framework and adequate monetary condition supported the exchange rate stability, which had a downward effect on imported inflation and inflation expectations.

The FX market was in equilibrium in 2021, which provided the exchange rate stability, crucial in neutralization of foreign inflation. In addition to the adequate monetary condition, better expectations on the backdrop of the BoP surplus and rising oil prices had an additional stabilizing effect on the FX market.

The value of FX operations increased, mainly due to expansion of foreign economic relations, in particular, foreign trade amid lower pandemic-related restrictions. The value of transactions in the cashless FX market y.o.y. increased by 7.4% to USD27.8B equivalent², cash foreign currency trading decreased by 21.5% to USD4B. USD denominated transactions account for 86.4% of cashless and 85% of cash FX transactions.

The Central Bank organized auctions for the sale of currency of the State Oil Fund of the Republic of Azerbaijan (SOFAZ) and held total 99 currency auctions. Demand at Central Bank's currency auctions varied over the period. Due to expectations triggered by indirect effects of developments in the external environment in January demand for cash and

² Including transactions with USD, EUR, GBP, and RUB

cashless currency increased resulting in a relative rise in the demand at currency auctions. To fully meet demand at auctions, provide open communication with the public for management of expectations, and regulate banks' demand for foreign currency avoiding the currency auction scheme the use of non-deliverable forwards (NDF), an alternative financial tool, was activated. As a result, demand has decreased and stabilized since February. In the last months of the year, there was a certain increase in demand due to psychological effects of depreciation of the currencies of a number of neighboring countries and activation of expenditures from the state budget, rising demand was fully covered at the expense of the savings generated from SOFAZ sales in previous months. In general, at 70% of auctions held over the year supply prevailed over demand at auctions.

Central Bank's buy-interventions to the FX market were limited and amounted to \$245M.

The official exchange rate of the manat was set on the basis of the average exchange rate on interbank transactions in 2021 (both auction and over-the counter on the Bloomberg platform). The average official AZN/USD exchange rate was AZN1.7 in 2021. Buy-sell exchange rates set by banks were close to the official one. Commercial banks' average buy/sell rate was 1.6993/1.7024. The difference between the official exchange rate and average daily buy rates was AZN0.0007 and sell rates AZN0.0024.

The exchange rate of the manat varied against the currencies of trade partners. It appreciated against the euro, the Turkish lira, the Russian ruble, the pound and the Japanese yen, and depreciated against the Swiss franc, the Ukrainian hryvnia and the Georgian lari. The dynamics of bilateral exchange rates influenced that of multilateral exchange rates. In general, 12.1% appreciation of total trade weighted non-oil NEER of the manat neutralized high inflation importation.

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 relations of residents and non-residents are regulated by the above Law and the following regulations of the Central Bank: the 'Regulations on currency operations of residents of the Republic of Azerbaijan in foreign currency and non-residents in national and foreign currencies' approved by the Management Board of the Central Bank on 28 November 2016; the 'Regulations on bringing foreign currency into and taking out of the Republic of Azerbaijan by residents and non-residents' approved by the Management Board of the Central Bank on 3 March 2016; the 'Regulations on organization and exchange operations of currency exchange offices' approved by resolution #44/1 of the Management Board of the Central Bank dated 29 December 2015; the 'Regulations on maintaining currency exchange operations by the persons licensed for currency exchange activities' approved by Resolution #47/1 of the Financial markets Supervisory Authority dated 21 December 2017.

The currency regime applied in the country served to the purpose of stabilizing the FX market and balancing the BoP within the framework of comprehensive measures aimed at financial stability.

At the same time, to make currency control more effective, prevent illegal taking foreign currency out of the country, targeted measures were taken to strengthen monitoring and

control over foreign exchange transactions of resident and non-resident foreign exchange agents (banks), as well as prevent suspicious transactions.

Analysis suggested that the applied currency regime played a positive role in optimizing the ratio between inflow and outflow of foreign currency into and out of the country in 2020. At that, under the Law of the Republic of Azerbaijan 'on Protection of Foreign Investment' and international treaties on mutual promotion and protection of investments seconded by the country, a free currency regime is provided for repatriation of foreign investments, transfer of income earned by foreign investors and other payments abroad.

Bringing the national currency (manat) into and taking out of the country is regulated with the 'Regulations on declaration by residents and non-residents when bringing to and taking out of the Republic of Azerbaijan of cash national currency and national currency denominated securities' approved by Resolution No.434 of the Cabinet of Ministers of the Republic of Azerbaijan dated 10 October 2018 in accordance with Part 3, Article 3 of the Law of the Republic of Azerbaijan on Currency Control. According to the Regulations, the national currency, including jubilee and commemorative coins can be taken out of the country upon declaration at the tax authority without any restrictions. On the one hand, it paves the way to sustainability of manat from the economic standpoint and its use in the regional trade turnover, on the other hand, it serves to promote the country by means of jubilee and commemorative coins dedicated to various historical events, prominent personalities, international events of the independent Azerbaijani state abroad, and disseminate information about ancient history and prominent people.

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

In 2021 the Central Bank managed foreign exchange reserves in the context of a complex environment characterized with high volatility and low yield in global financial markets. On the backdrop of rising inflation rates as a result of accelerated global economic growth and supply chain disruptions monetary tightening expectations in advanced economies fluctuated financial markets, and led to unfavorable environment for fixed yield low risky financial tools. However, Central Bank's foreign exchange reserves were maintained safely and liquidly, and reserves were increased.

The year of 2021 was a complicated period for central banks in terms of foreign exchange reserve management. Yields were negative in almost all segments of indices on fixed yield low-risky foreign securities in the USD, the EUR and the GBP in global financial markets. This is due to a sharp rise in market interest rates, which were close to zero or negative in early year, against the background of inflation expectations. However, the Central Bank's preference of money market instruments with less than one year maturity and tactical steps taken in response to the situation in foreign financial markets allow to generate positive annual interest yield and high relative yield compared with relevant benchmarks. Return on foreign exchange asset management amounted to USD7.2M.

The Central Bank continued conservative management of foreign exchange reserves within the current strategic structure framework. FX reserves were managed by dividing into the operational tranche, which serves to support the monetary policy, and the investment tranche held to increase income. Significant reductions in the euro's share in the investment tranche in recent years, characterized by chronic negative interest rates, have had a positive effect on both management outcomes and the reduction in exchange rate losses against

the USD. In general, as of the end-reporting period 82% of official FX reserves were maintained in the USD, 7% in the EUR, 1% in the GBP and 10% in SDR.

To increase the efficiency and effectiveness of the management of the Central Bank's FX reserves, the Bank expanded tools and geographical diversification and continued introduction of international index-type benchmarks. For this purpose, the Central Bank managed FX reserves by investing them in liquid, government, quasi-government and corporate debt liabilities of foreign countries with high credit rating.

The Central Bank continued to cooperate with foreign managers in FX reserves management along with the internal management. The Bank took measures to improve foreign management and pass-through of foreign experience to internal management.

In 2021 Central Bank's FX reserves increased by USD705.6M or 11.1% to USD7.1 B, driven by USD532.5M equivalent increase in Azerbaijani SDR limit within SDR allocation.

2.6 Development of the reporting and participation in development of the forecast balance of payments under the legislation

Compiling of the relevant international standards (BPM6) based BoP continued in 2021, actual and forecast indicators of the BoP were one of the critical information sources for adequate decisions in the macroeconomic policy.

Cross-references via the International Transactions Reporting System (ITRS) allowed to further purify the reporting and accounting system of the BoP, deepen analytics, reconcile indicators and improve forecasting. As part of the ITRS to further improve review and processing of statistic indicators, the first stage of automation efforts completed and the reporting portal was introduced to respondents and users in a test mode.

At the same time, more detailed information was obtained from a number of private and state owned enterprises, which allowed to clarify export data. Within the frames of information sharing with the State Customs Committee information on imported goods by individuals was presented to the Central Bank which allowed to further clarify the trade credits item both in the import of goods and other investments sections.

Taking into account the latest macroeconomic trends the Central Bank held regular consultations with relevant authorities on BoP forecasting, and sent necessary inquiries to a number of large state enterprises. Necessary information was submitted to the Ministry of Economy in connection with the preparation of BoP forecasts, an integral part of the forecasts of economic and social development of the country for 2022 and next three years. The Bank submitted an official opinion on the medium-term BoP forecast prepared by the Ministry of Economy.

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 in 2021. Relevant authorities regularly delivered to the Central Bank government and government backed foreign debt statistics and data on foreign debt by the oil-and-gas and non-public sectors.

Compliance of public, oil and gas and private sector loans (government and government guaranteed), securities (government and corporate) and payables and

receivables (trade credits and advances) with the information provided by commercial banks on the ITRS was checked, and appropriate corrections were made. At the same time, the information obtained as part of information sharing framework with public institutions, served to further clarify the balance of consolidated foreign debt statistics and other investment sections of the international investment balance, both assets and liabilities, loans and advances, trade loans and advances.

Government and government guaranteed foreign debt statistics was clarified based upon the foreign debt statistics received from the Ministry of Finance. The Central Bank assessed foreign debt statistics of the banking sector based upon digital balances from commercial banks. Consequently, the Bank summarized consolidated debt statistics data.

Moreover, the Bank started automation related works to improve the collection and summarization of consolidated foreign debt statistics and international investments balance data. Legal procedures are under way on the development of a new reporting format and manual (in light of opinions and proposals of the Azerbaijan Banks Association, the Azerbaijan Insurers' Association and other related authorities).

2.8. Banking sector rehabilitation and resilience

The financial stability was safeguarded on the backdrop of continuing effects of the pandemic and other vulnerabilities. The Bank assessed the effect of external shocks on the banking sector, and provided flexible regulation and supervision response to prevent systemic risks. As a result, all segments of the financial sector remained stable, banking sector's stability, liquidity indicators exceeded the norms significantly, and profitability indicators improved. Despite high inflationary pressures, the effective prudential policy measures yielded positive dynamics in the quality of the lending portfolio.

In 2021 the lending portfolio expanded and supported economic growth within the macroeconomic and financial stability targets.

In general, effective application of supervisory tools resulted in maintained financial resilience of the sector and confidence of the population in the banking sector increased. Hence, all main bank indicators increased.

As of 31.12.2021, 26 (including 2 state-owned) banks are operating in the banking sector. The number of banks with foreign capital is 12 (assets of the banks with foreign capital account for 15% (USD3.4B) of the total assets of the sector). Banks provide services via 479 branches, 97 divisions (including exchange offices), 2 907 ATMs, and 20 329 employees.

Payment of compensations on 4 banks, whose licenses were revoked in 2020 as part of the banking sector restructuring continued in 2021, too. As of 31.12.2021, The Deposit Insurance Fund paid total AZN660.9M worth compensation to over 25 thousand depositors.

The Bank continued rehabilitation and capitalization of the banking sector for lending support. In general, banking sector's capital adequacy exceeded the minimum regulatory requirement by about 2 times.

To mitigate negative translation of the pandemic to the financial sector as part of the implementation of relevant decrees of the President of the Republic of Azerbaijan and the Cabinet of Ministers the Central Bank approved additional support measures package to the financial sector on 24 April 2020 and adopted the 'Procedure for temporary regulation of

activities of credit institutions on the backdrop of the coronavirus (COVID – 19) pandemic'. The package of measures provides for introduction of a number of decisions and recommendations on the banking sector, including reduction of the regulatory burden. After the package of measures was adopted, duration of the support measure and regulatory requirements were extended five times, taking into account the waves of the pandemic.

Starting from early 2021, in accordance with the progress of the pandemic, the Central Bank decided to restore some deferred regulatory requirements and not to continue some regulatory relief as part of a stepwise exit from the regulatory easing. The Bank restored inspections in credit, insurance and investment institutions, started to apply additional capital requirement on consumer loans, capital requirements for market and operational risks entered into force, the minimum regulatory norm of the capital adequacy ratio on systemically important banks and other banks was reduced to the pre-pandemic level (12% and 10% respectively), relief on provisioning for the loans covered with the state support mechanisms and restructured loans, on risk rate of some types of business loans, as well as restrictions on dividend payments were removed. Moreover, other regulatory relief on service fees charged from banks in interbank payment systems and acquiring tariffs on entrepreneurs' payment cards, tariffs related to transactions concluded in the securities market, listing tariffs at the Baku Stock Exchange, as well as participants of the securities market was removed.

To reduce regulatory burden of the financial sector, the Management Board, with the next package of changes approved on 30 September 2021, extended recommendations for credit institutions not to calculate interest fine, penalties and other payments on overdue debts of individuals and businesses affected by the pandemic, as well as not to deteriorate borrowers' credit histories on delinquencies related to credit liabilities for an additional three months until 1 January 2022 and the counter-cyclic capital buffer was set at 0% by that date.

Risks and various scenario-based stress-tests were assessed continuously to safeguard financial stability of the banking sector. At the same time, macroeconomic forecasts-based stress-testing models and relevant contingency plans were assessed with an eye to improve risk management in banks, and banks were provided with a methodological support on testing and improvement of models.

Efforts to expand financial intermediation of the banking sector and accessibility of loans continued and lending activity began to recover. Banks' lending portfolio increased by 17.7% (AZN2.5B) to AZN16.7B. Banks' mortgage portfolio increased by 19%, business portfolio by 14.9%, and consumer portfolio by 23.4%. As of 31.12.2021 business loans account for 58.5% of total lending portfolio.

Liquid assets of the banking sector account for 36% (AZN13.9B) of total assets. The instant liquidity ratio of 62% exceeds the minimum regulatory requirement (30%) by more than 2 times.

Banking sector's total liabilities increased by 22.4% (AZN6.1B) to AZN33.5B. Deposits account for 80% of total liabilities (34% (AZN9B) savings of the population (except for deposits of individuals engaged in entrepreneurship). Savings of the population increased by 12.3% (national currency denominated savings increased by 34.5%, while foreign currency denominated savings decreased by 8.8%). Note that, the savings portfolio of the banking sector reached its historical highs. The exchange rate stability of the national currency led to the de-dollarization of savings. The lending portfolio also follows the de-

dollarization trend. Dollarization accounts for 41.7% of savings of individuals, 50.6% of deposits of legal entities (excluding financial sector deposits) and 26.2% of the lending portfolio. The level of dollarization in the both lending and deposit portfolio has been on a minimum level since January 2015.

2.9. Development and resilience of the insurance sector

20 insurers, 1 reinsurer, 28 insurance brokers and 730 insurance agents provided the operation of the insurance sector in 2021.

The Central Bank conducted comprehensive examination in 3 insurance, 1 reinsurance companies, 1 insurance and reinsurance brokers under the schedule of planned comprehensive examinations. The Bank regularly took supervisory measures to protect the rights of the insured and creditors during the liquidation of insurance companies.

The insurance premium y.o.y. increased by 16% to AZN844M. Growth was 28% in life and 6% on non-life insurance companies.

The project developed jointly with the World Bank regarding the transition to risk-based supervision to improve supervision of insurance. Efforts continue to determine risk-based financial resilience supervision model aligned to the local insurance sector investigating the experience of the Insurance Regulation and Supervision Authority of the Republic of Turkey. As part of the project works were done to enable insurers to measure their own funds, appraise assets and liabilities.

The Central Bank continued works to digitalize insurance activities within the frames of the project developed for the purpose. The final draft law was sent to the Cabinet of Ministers on 30 December 2021. As part of the digitalization efforts, the Management Board of the Central Bank with its Resolution No.23/3 of 31 August 2021 approved the content and form of the 'Compulsory insurance agreement on loss of professional work capacity as a result of labor accidents and occupational diseases'. At the same time, as part of the project works continue to improve the regulations that include minimum requirements on electronic information systems of insurers. Moreover, international experience was studied and meetings with experts were held with an eye to create a single e-database of the insured. Efforts are under way on creation of the e-architecture.

The Bank continues works on launch of an independent experts institute to fairly evaluate losses on insurance events, increase qualifications of related independent experts and satisfaction of citizens. An appropriate new concept has been developed taking into account the opinions and proposals of related international experts. Based on the new concept, draft amendments to rules and the law have been developed to define the requirements for expertise of independent experts involved in insurance. At the same time, work is underway to establish a mechanism for the effective resolution of pre-trial disputes. In this regard, international experience has been studied and a new concept has been developed. Work is underway to amend the legislation in accordance with the new concept.

At the same time, the Central Bank continues to work to improve insurance legislation. Thus, a new concept was developed for the compulsory insurance of civil liability of vehicle owners, which has a wide coverage in the insurance sector and among the population. The new concept rests on the opinions and proposals of international experts, as well as an optimal model adapted to the conditions of the local insurance market. The new model will contribute to an increase in the level of service provided to consumers and a more equitable

risk assessment process for the relevant type of insurance. In accordance with the above concept, a draft amendment to the legislation was prepared.

A new concept was developed to improve the mechanism for compulsory real estate insurance. The new concept is under discussion with international experts.

Work was done to establish norms for the transfer of insurance risks to foreign reinsurers. In particular, a draft amendment to the legislation was prepared to define the requirements for reinsurance activities under the risk transfer mechanism.

Pursuant to the Law of the Republic of Azerbaijan 'on State Compulsory Personal Insurance of Military Servicemen', the Central Bank took control on the spot to ensure prompt execution of compulsory insurance payments to heirs of servicemen killed and those wounded during the Patriotic War. From the beginning of the Patriotic War until 30 December 2021, AZN57.6M worth insurance payments were made, AZN32.1M worth insurance payment was made to 2 919 martyr families, 15 270 insured or disabled military men received AZN25.5M worth insurance payments. At the same time, over AZN3.4M worth mortgage loans of the martyred and disabled military men were fully paid by life insurance companies and related efforts continue.

To implement awareness and promo actions of the 'Actions Plan on the work to be done for the development of the insurance sector' approved by Decree No. 354s of the Cabinet of Ministers of the Republic of Azerbaijan dated 21 May 2019, the Central Bank of the Republic of Azerbaijan, the Compulsory Insurance Bureau and the Association of Insurers of the Republic of Azerbaijan are implementing large-scale projects together. Also, during the 'Financial Literacy Month' (November 2021) there was held a competition on the virtual course 'Insurance for Children' and a drawing competition on 'Insurance through the eyes of children'. The Central Bank developed a course 'Introduction to Insurance' for children and adolescents as part of increasing the insurance literacy of citizens.

Trainings for employees employed with insurers to expand human resources of the insurance market were carried out by trainers of the same institution based on a training program developed jointly with the professional staff of the Turkish Insurers Institute. The program encompasses all insurance directions. Actuaries, critical for safeguarding financial resilience of insurers, were attracted to trainings and examinations. Trainings were provided for sales representatives who are in close contact with consumers during insurance services, one of the priority areas. At the same time, trainings were held on underwriting and reinsurance. Moreover, jointly with international experts the Bank developed trainings and qualification programs on Solvency II, IIRS-17, internal audit, risk management, PR in insurance and other directions. Program based trainings will be held regularly.

2.10. Maintaining capital market development and resilience

As part of the strategy on capital market development elaborated by the Central Bank, intense measures were taken 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.

Within the framework of regulating the securities market in accordance with international practice, regulations stimulating the development of financial intermediation and increasing financial inclusion in the capital market were approved and included in the

State Register of Legal Acts. The 'Regulations on supply of investment services (operations) by investment companies' and the 'Regulations on margin trading' took effect on 14 September 2021. These Regulations cover remote opening of customer accounts when providing investment services by investment companies, electronic preparation of contracts and orders, determining AML/CTF requirements, and adjustment of credit limits and customer classification for margin trading to international practice.

To identify economic and fiscal incentives to increase access of issuers and investors to the capital market, efforts started to establish a stimulating tax regime in the capital market. In this regard, the Central Bank prepared a draft Law 'On amendments to the Tax Code and the Civil Code of the Republic of Azerbaijan'.

A legislative initiative was launched to establish a market for derivative financial instruments used for reliable risk management and hedging in financial markets. In this regard, the Bank developed jointly with the European Bank for Reconstruction and Development (EBRD) projects to improve relevant legal acts to ensure that the legal framework of the derivative financial instruments market is in line with international standards. In addition, a draft law on securitization activities was developed to ensure the transformation of non-liquid assets into securities in the financial markets.

On 12 April 2021, the Central Bank and the Turkish Capital Markets Board signed a Memorandum of Understanding on cooperation and exchange of information on the capital market in order to bring the regulation and supervision of capital markets in line with international standards. At the same time, the ninth meeting of the Joint Intergovernmental Commission on Economic Cooperation between Azerbaijan and Turkey decided to establish mutual relations between the Azerbaijani and Turkish capital markets. To develop the capital market infrastructure, in December 2021, the National Depository Center opened a nominal deposit account with the Central Depository of Turkey. This account allows local institutional investors to invest in Turkish government securities without opening a securities or bank account in Turkey. Dual listing model is to be introduced between the Baku Stock Exchange and the Borsa Istanbul in 2022.

The Central Bank paid special attention to increasing access of business entities to financial resources through the capital market. In this regard, the Bank closely cooperated with international financial institutions, and took stimulating promo measures. In the reporting year, the EBRD launched a project to support the corporate bond market in our country. Within the framework of the project, trainings and seminars were held for companies intending to be financed from the capital market for corporate bond issuance by public offering, and support was provided for the preparation of emission prospectuses. In 2021, some of these companies issued corporate bonds on the stock exchange through a public offering. Moreover, in the reporting year, the Asian Development Bank approved a project to support the development of the Azerbaijani capital market. The development of the corporate securities market was prioritized within the project.

In addition, listing requirements were simplified to increase private sector capital market financing initiatives, and an incentive tariff regime was introduced for issuers and investors. At the same time, to stimulate public offering of corporate securities, the Baku Stock Exchange introduced a mechanism for rewarding investment companies providing underwriting services. This, in turn, encourages placement of securities on the stock exchange through a public offering.

Challenges for the institutional development of the capital market also require the modernization of market infrastructure. In this regard, the Central Bank started to establish a centralized operating system covering trade and post-trade operations in the capital market, align the issue and trading of securities to the technological standards of today, create opportunities for investors to trade remotely on the stock exchange and digitalize the issue of securities.

The Central Bank attaches special importance to increasing the knowledge of potential issuers and investors about the market, high expertise and awareness in capital markets as a whole for the effective functioning of the capital market. Intensive awareness-raising events were organized with the participation of international financial organizations, the Baku Stock Exchange, the Small and Medium Business Development Agency (SMBDA), Azerbaijan Confederation of Entrepreneurs and investment companies. To expand regional coverage of investment services and increase the level of awareness on the capital market in the regions, the 'Investment Journey' project was launched, organized by the Central Bank, the SMBDA and capital market participants.

In 2021 the total trade turnover of the securities market y.o.y. increased by 19% to AZN16879M. Growth in the primary corporate securities market was 51% (AZN729M), 46% (AZN769M) in the government bonds market, 3.3 times (AZN5046M) in the repo market.

The value of transactions with stocks and bonds in the Baku Stock Exchange increased to historical highs AZN15301M, market capitalization on stocks increased to AZN4367 M. In general, the value of the primary corporate bonds market increased by 83% to AZN1.9B. Corporate bonds were placed in the stock exchange by public offering, investors were very interested in securities issued by reputable issuers.

The total value of the government securities market increased by 46% to AZN2453M. The size of the primary government securities market increased by 29% to AZN1497M, while the value of the secondary market increased by 83% to AZN955M. For the first time the Bank began to issue government bonds with seven-year maturity in the reporting year. This issue is crucial in terms of aligning the government securities market to the international practice, shaping the yield curve, expanding the collateral base, as well as involving foreign investors to the local market.

In 2021 the Central Bank state registered AZN9295M worth stocks and bonds. At the same time, in the reporting year a record number of 20 emission prospectuses amounting to total AZN535M were approved on public offering of corporate securities.

2.11. Protection of rights of consumers and investors in financial markets and financial literacy

The Central Bank took necessary measures to prevent the violation of the rights of consumers and investors and ensure restoration of violated rights based on the received appeals in 2021.

Consumers and investors sent total 13716 appeals in 2021: 75% of appeals relate to the banking sector, 20% to the insurance sector and 5% to capital markets and others. Consumer appeals were investigated and many issues were resolved. AZN8579.47 worth funds were returned to 9 citizens as part of compensation amounts calculated as per the Decree 'On additional measures to resolve issues with problem loans of individuals in the

Republic of Azerbaijan' dated 28 February 2019 and violated depositor rights of 21 citizens, appealed to the Central Bank were restored. At the same time, necessary changes were made to the information incorrectly submitted to the Centralized Credit Registry at the request of 52 citizens. In addition, total AZN1.5M worth insurance payments were made to the injured in 2021. A protocol on 45 administrative violations on capital markets was drawn up.

During the period, 49,352 calls to the Central Bank's landline numbers, as well as to the '966' hotline were answered promptly. Meetings were held with 347 citizens who applied to the Central Bank to protect their rights, 870 appeals received by the WhatsApp service were answered.

The Central Bank of the Republic of Azerbaijan approved the 'Regulations on handling and acceptance of consumer and investor appeals'. Non-bank credit institutions were instructed to place information boards about the 966 hotline in places that attract citizens' attention, and their implementation was monitored. As one of the ways to address the questions, complaints and suggestions of consumers to the Central Bank, videos on the procedure of electronic application in Azerbaijani, English and Russian were prepared and posted on social networks. The new QR-code system allows to measure the level of satisfaction of the citizens participating in the reception with the current system and the admission process. In the 'Consumer and Investor Rights' section of the Central Bank's official website, infographics on the work done in consumer rights protection was posted, and the links 'Statistics', 'Frequently Asked Questions', 'Measures' and 'Suggestions' were added. The 'Feedback' system was put into operation in the section of the department to provide feedback to citizens in case of any difficulties in establishing contact with the Central Bank. The 'Citizens' Reception' section was expanded in the 'Consumer and Investor Rights' section. Citizens have the opportunity to participate in video reception via Skype or WhatsApp from 10:00 to 11:00 on weekdays **without pre-registration**, entering the section 'Consumer and Investor Rights'.

A QR-code board was developed to ensure that citizens approaching the Central Bank's 'Reception Room' can apply online. In addition to the paper carrier, citizens approaching the administrative building have the opportunity to apply online through the QR-code in the banking, insurance and capital market sectors, where their applications are closed.

Information on the work done by the Central Bank in connection with the protection of consumer rights was disseminated in mass media.

Meetings and discussions were held with the supervised objects to increase transparency in financial services, improve reporting by the supervised objects and expand consumer satisfaction specified in Part 7 of the '2021 Actions plan on assessment and prevention of corruption risk in the Central Bank of the Republic of Azerbaijan' approved by Decree No.18S of the Central Bank dated 18.03.2021 on provision of the implementation of Decree No.1859 of the President of the Republic of Azerbaijan dated 27 February 2020 'On approval of the National Activity Plan for 2020-2022 regarding promotion of open government'.

During the reporting year, works continued to increase financial literacy, trainings and workshops were held on 'Responsible borrowing', 'Budget and savings', 'Advantages of digital payments', 'Insurance', 'Consumer budget', 'Guarantee', 'Mortgage loan', 'Features of consumer loans' and 'National currency' for different target groups, all participants were

provided with detailed information about the electronic resources developed by the Central Bank on economic education.

In connection with the announcement of 2021 the Year of Nizami, a resource called Nizami880.cbar.az (9874 visitors, 25275 views) was created, a drawing and essay competition was announced. More than 800 schoolchildren countrywide took part in the competition with 15 winners and 41 outstanding students. The event was also held as part of '*Global money week*' and a relevant report was sent to the organizers.

Financial literacy trainings were conducted for 58 students from 25 different regions of Azerbaijan. On June 1, the International Children's Day, students were invited to the Central Bank, intellectual games on financial literacy were organized, and their gifts and certificates were presented. As part of the financial literacy month, a competition on the virtual course 'Insurance for Children' and a drawing competition on 'Insurance through the eyes of children' were held in November, and the winners were determined. A competition was announced for participation in the program 'Financial Literacy and the Path to a Professional Career'. Out of 160 applicants, 16 were eligible to participate in the program, and 14 successfully completed the program.

The national final stage of the 'European money quiz' was held jointly with the Central Bank and ABTM. In the national final, attended by 20 people, two people won the right to participate in the final stage in Europe. Five videos were prepared on the 'One question - one answer' video section. 10 distance courses in Azerbaijani, English and Russian languages were launched on the virtual education platform (22168 visitors, 437792 views over the year), and preparations are underway for five courses. 379 final exams were organized for course graduates on the platform, 263 relevant certificates were prepared and submitted.

The content of the Financial Literacy Portal (bizimpullar.az) was enriched, new animations were added, in the video section 'One question - one answer' video materials on 'Basic banking services package', 'Consumer finance protection', 'The role of the Central Bank in protection of shareholder rights in the capital market', 'E-appeals of citizens', 'Compulsory civil liability insurance related to the use of real estate', 'Compulsory motor third party liability insurance', 'Citizens 'reception rules at the Central Bank'' were prepared and released. The portal's news block, Facebook page and YouTube channel were updated in accordance with the relevant measures. During the year, there were 29,131 visitors and 116,225 views on the Financial Literacy Portal.

New categories of financial products and services information retrieval system (27364 visitors, 65025 views during the year) were put into operation, work was done to place infobank.az link on the websites of insurance companies, the register was updated for all categories, and optimization efforts were controlled with the executor company.

Awareness-raising activities with educational institutions continued to increase financial literacy. Also, financial literacy events were organized for pensioners, participating in the 'Third Spring' social project, for children of martyrs under the joint organization of the 'YASHAT' Foundation, 'ASAN Volunteers', for residents of the 'Winners' Camp', a joint project of the 'For Azerbaijan' charity organization and the State Migration Service of the Republic of Azerbaijan. Seminars for schoolchildren were in Azerbaijani, English and Russian. At the same time, financial literacy trainings were held for employees of the Central Bank's territorial offices, DOST agency volunteers, ASAN volunteers, Veyseloglu Group of Companies, the State Employment Agency, the Azerbaijan Railways CJSC and other

government agencies. In addition, trainings on various topics were held at the Azerbaijan National Academy of Sciences.

Professional development trainings for insurance workers and awareness-raising activities for insurance users were carried out within the projects 'Training of professional staff' and "Implementation of insurance literacy, awareness, promo and preventive measures'.

Financial literacy related materials were regularly shared on social networks and covered in interviews on various television channels, including ASAN radio.

2.12. Improvement of the deposit insurance scheme

The Central Bank assessed the impact of the non-continuation of the full deposit insurance scheme on the banking sector due to the expiration of the full deposit insurance scheme, aided by simulations on various models of application of insurance limits. Taking into account completion of rehabilitation measures in the banking sector and the role of the deposit insurance scheme as a financial stability anchor, the Bank decided to exit the deposit insurance scheme, the transition period being set until 5 April, the amount of protected deposits was increased in line with international practice and the scope of the deposit insurance scheme was expanded.

Under the new deposit insurance scheme, the amount of compensation for protected deposits of individuals was increased from AZN30,000 to AZN100,000 manat, deposits of individuals engaged in individual entrepreneurship (with the amount of compensation set at AZN20,000) and funds of individuals remaining in deposit accounts of notaries are also covered by the deposit insurance mechanism. Note that, the new scheme allows to fully protect deposits of 99.9% of deposits of depositors in terms of number. At the same time, expansion of the coverage of insured depositors is aimed at supporting the policy of small business development and further increasing confidence in the banking system.