STATEMENT
OF THE CENTRAL BANK OF THE REPUBLIC OF AZERBAIJAN ON MAIN DIRECTIONS OF THE MONETARY AND FINANCIAL STABILITY POLICY FOR 2021

The economic and military potential created over many years as a result of purposeful policy and deep reforms implemented under the leadership of President Ilham Aliyev allowed our victorious army to win a brilliant victory over enemy forces in 2020 and minimize negative effects of the COVID-19 pandemic.

A combination of unprecedented external and internal shocks in the country in 2020 was reacted to in a timely and adequate manner. These shocks, which have a strong impact on all spheres of public life and economic activity, have been effectively managed over the year.

As a result of concerted measures taken by the Central Bank with the government against the pandemic and sharp deterioration of the external environment in 2020, macroeconomic stability, including price stability and balance in the FX market was safeguarded.

The anti-crisis plan adopted to support the population and businesses, monetary and macro-prudential easing prevented a further decline in economic activity, allowing economic entities to partially compensate for losses in income.

There are important challenges for the country's economy in 2021 and the medium term, like returning to a sustainable economic growth trajectory, achieving double GDP growth over the next 10 years, ensuring sustainable macroeconomic stability in light of new realities, and restoring liberated territories.

In 2021, the Central Bank's monetary policy will focus on price stability, one of the main pillars of macroeconomic stability. In implementing the monetary policy, the Central Bank will focus on main external and internal drivers of inflation. Additional measures will be taken to make the monetary policy more effective to achieve the inflation target.

Efforts will continue to maintain financial sector stability, deepen financial intermediation, money and capital markets. The use of regulatory incentives to support pandemic-affected economic entities will be kept in mind.

I. MONETARY POLICY IN 2020

1.1. Monetary policy environment

The year 2020 was marked by the fight against the COVID-19 virus, announced a global pandemic. Due to the epidemiological situation, a sharp decline in global trade which has been dropping since previous years, supply chain disruptions, job losses and growing uncertainty have had a negative impact on global economic activity, and global commodity and financial markets have been *severely stressed. All this has, directly and indirectly, weighed in on the Azerbaijani economy. Proper policies and anti-crisis measures have allowed to minimize negative effects of the pandemic, and macroeconomic and financial stability has been safeguarded in the country.*

Developments of the past few years gave the basis to expect that 2020 will be a difficult year. There was a slowdown in global economic activity due to trade wars and disintegration trends. It is no coincidence that since the end of 2018, the Internationa Monetary Fund (IMF) has been revising its outlook for global economic growth down in each subsequent report. While the average oil price was $72 in 2018, it fell by 12% to $64 in 2019.

Rapid spread of the coronavirus worsened global economic growth outlook for 2020 and created a new situation for policymakers around the world. According to recent IMF updates, the global economy is expected to shrink by 4.4% in 2020, higher than the economic downturn rate during the 2008-2009 financial crisis. In particular, recession is projected at 5.8% in advanced economies (AEs) and 3.3% in emerging market economies (EMEs). Recession in Azerbaijani trade partners is expected to average 7.1%. For soft landing, a number of countries announced large fiscal stimulus packages to support households and businesses, aided by expansive monetary policy measures.

Over the past period of 2020, global commodity prices, including energy prices, have been very volatile – prices fell by 29% in the energy sector and rose by 10.9% in the non-energy sector over 11 months. Global food prices increased by 4% over the period.

The average Brent oil price over the past period of 2020 was $43 a barrel, 33% lower than the average price in 2019. In the wake of the pandemic, a break in the OPEC + deal in March and a sharp increase in oil supply triggered a price shock. In April, oil prices fell to historic lows of recent decades. A new OPEC ++ deal, progress in development of an effective COVID-19 vaccine, and expectations of a relative recovery in economic activity in Half 2 of the year also led to a slight increase in oil prices during this period.

Effects of the pandemic also translate to global trade and investment. According to the latest World Trade Organisation report, global trade is projected to decline by 9.2% in 2020. According to the World Investment Report by the UNCTAD, global foreign direct investments will decrease by 30-40% in 2020.

Despite significant deterioration of the international situation, the balance of payments in Azerbaijan maintained its equilibrium. Over 9 months of 2020, current account deficit was only 0.7% of GDP. Although external trade balance, a key component of the BoP, decreased significantly, it remained in the positive zone.

Country's strategic foreign exchange reserves remained almost stable throughout the year. At present, strategic foreign exchange reserves exceed $50B and thus the gross domestic product (GDP).

Aggregate supply and demand have declined this year due to the pandemic. Monitoring of real sector enterprises shows that the average business confidence index fell year-over-year across all sectors. According to a survey among households, the consumer confidence index fell to a negative zone in 2020.

Amid economic situation related to uncertainty in the world and our country, temporary disruptions in the logistics chain, investments in the economy in January-November y/y decreased by 4%.

According to official statistics, though the non-oil and gas industry and agriculture, the base sectors of the economy, continued to grow over 11 months of the year amid declining components of aggregate demand, in general GDP decreased by 4.3% in real terms; by 6.5% on the oil and 2.9% on the non-oil sector.

Although the economic decline in the non-oil sector has slightly slowed down over recent months, output gap is assessed in the negative zone.

Concerted active anti-crisis measures by the Government and the Central Bank, in particular measures to support the pandemic-affected areas, helped to significantly reduce the scale of decline in economic activity compared to a number of countries around the world. The counter-cyclic fiscal policy, monetary and macro-prudential easing played a key role here. Adjustment to the 2020 state budget using the fiscal space has been important in terms of supporting both macroeconomic stability and economic activity.

1.2. The monetary policy and its consequences

The monetary policy of the Central Bank was oriented towards managing inflation within the target band (4±2%) in 2020. Bank's monetary policy decisions served to neutralize threats to macroeconomic stability from the external and internal environment and avoid sharp decline in aggregate demand by keeping inflation within the target band amid the pandemic.

According to official statistics, annual inflation in November was 2.4%, below the target center. Over recent 1 year the prices for 8.1% of the products in the consumer basket remained unchanged and prices for 13.3% of them fell. Price hike for 55% of products was below 2%.

Over recent 12 months inflation was 3.9% on food products, 1.2% on non-food products and 1.1% on services. Amid pandemic-triggered uncertainties, low consumer and investment expenditures and shrinkage in aggregate demand act as the key anti-inflationary factor. Rising global food prices also contributed to food inflation. Average annual core inflation was 2% over 11 months of 2020.

In 2020 external sector developments, actual dynamics of inflation and stability in the FX market factored in the dynamics of expectations. According to the December survey among households the share of respondents expecting the prices to rise at a higher rate upcoming 12 months was 12%. Inflation expectations on non-oil processing, trade, services, and construction were close to actual inflation.

In general, reducing factors prevailed among the factors affecting inflation and inflation expectations in 2020.

FX market stability played an important role in keeping inflation at the target band. This year, the Central Bank organized both scheduled and off-schedule auctions for sale of currency by the State Oil Fund of the Republic of Azerbaijan (SOFAZ). As a result of expectations stemming from indirect effects of external developments, dollarization accelerated in March, and demand in the FX market increased sharply. However, timely response to the situation, full coverage of market demand, effective organization of exchange offices of banks in a very complex pandemic situation, open communication with the market allowed to quickly achieve stability. Subsequent relative recovery in global oil prices and improved expectations as a result of stabilization in FX markets of partner countries supported stability in the FX market.

The official AZN/USD exchange rate was set on the basis of the average exchange rate on interbank transactions. Buy/sell exchange rates set by banks were close to the official one.

The exchange rate of the manat varied against currencies of trade partners. The dynamics of bilateral exchange rates influenced that of multilateral exchange rates. Total trade-weighted non-oil Nominal Effective Exchange Rate appreciated by 8.8%, while the Real Effective Exchange Rate (REER) appreciated by 6.3% over 11 months. To note, the REER has depreciated by 29.5% since end-2014, contributing to non-oil sector competitiveness.

Accommodation of monetary conditions at the expense of both, the value and the quantity of money continued. Decisions related to interest rate corridor parameters served to maintain an optimum balance between supporting economic activity and safeguarding macroeconomic stability amid the pandemic. Interest rate corridor parameters were discussed 8 times in 2020 – the refinancing rate was reduced stepwise from 7.5% to 6.25%, the ceiling of the interest rate corridor from 9.25% to 6.75%. The floor of the corridor was left unchanged at 5.75%. In general, the refinancing rate has been reduced by 2.4 times since early 2018 (from 15%).

Base money in manat increased by 7.1% since early year. Over the year the main factor to affect money supply was the change in treasury account that depends on state budget's revenues and expenditures. Targeted critical liquidity support by the Central Bank to the economy also affected money supply. In general, money supply has increased by 52% since early 2018 when the monetary policy started to be eased.

Monetary policy easing was accompanied with lowering interest rates on Central Bank's deposit operations and short-term notes, and lowering return on government securities. Interest rates in the interbank market, as well as deposit and loan interest rates balanced between risk premiums and monetary easing. In general, since January 2018, average interest rate on new loans in manat has decreased by 5.5 pp. Risks exacerbated by the pandemic in the real sector have limited further interest rate decline.

Dollarization of deposits continued declining. The share of foreign currency-denominated deposits and savings included in monetary aggregates in total deposits increased to 56.5% in March (54.9% early year), and then gradually decreased to 50.2% in November. In particular, dollarization of deposits of individuals was 52.7% in November.

To effectively manage liquidity in the economy, the Central Bank adequately used various market operations. Depending on the liquidity position of the banking system, demand for sterilization tools of the Bank varied from month to month. During the year, the Central Bank held 62 deposit auctions and 46 auctions on notes. Duration of the sterilization portfolio was reduced to prevent pandemic-driven threats to macroeconomic stability and maintain balance in the FX market. At the auctions organized by the Bank, starting from Q2, demand exceeded supply, and yield on these instruments approached the floor of the interest rate corridor.

Effective communication of the monetary policy was one of important priorities in 2020 too. This year, under the schedule announced to the public, press releases with relevant analytical comments on each policy decision of the Central Bank were published, and regular press conferences were held. A monetary policy review was released to the public on a quarterly basis. Activities of the Bank were covered through its official website, as well as social networks Twitter and YouTube. The Central Bank's official Facebook page was created at the end of 2020.

1.3. Financial stability and financial sector development

The financial stability policy in 2020 was mainly oriented towards ensuring stability of financial markets and the system, minimizing negative effects of the pandemic, and supporting the population and businesses. Despite the situation, efforts continued to expand financial intermediation and deepen financial markets.

Radical steps were taken to rehabilitate the banking sector; 4 banks that had lost their financial resilience were removed from the system. Insured deposits of the population were mainly returned at all four banks, more than 24,000 depositors received AZN615 million.

The pandemic-driven situation in the real sector was the major factor influencing the dynamics of lending. To support access of businesses to financial resources, the Central Bank established an active framework for cooperation with representatives of the banking community and entrepreneurs. If to skip terminated banks, mortgage loans on the banking sector increased by 11.9%, business loans increased by 1% and consumer loans decreased by 4.5% over 11 months. From early year, banks' loans to the industry increased by 43.3% and its share in the business portfolio increased from 18.4% to 26.1%. In addition, lending to construction that has high multiplier effect, increased by 9.1% over 11 months of the year and its share in the portfolio reached 11.9%.

Deposits of the population, one of the main sources of funds for operating banks made AZN7.8B, haven't changed since early year, if to skip terminated banks.

Social isolation measures taken against the pandemic resulted in weaker ability of businesses and the population to properly serve their debts, affecting the loan portfolio quality. However, the share of non-performing loans in banks' portfolios was in single digits over the year (6% in November).

Capital adequacy, that significantly exceeds regulatory requirements of the banking sector, is sufficient to cover losses from insolvent creditors. Over 11 months of 2020, banks increased total of AZN116.7 million worth share capital.

Banking sector's liquid assets amount to AZN9B, instant liquidity ratio on the banking system is 59%, exceeding the norm (30%) by almost 2 times.

Despite uncertainty and recession in the economy growth in the insurance sector, begun early year, continues. Insurance premiums y/y increased by 9% over 11 months – 14% in voluntary life insurance, 7% in voluntary non-life insurance, and 4% in compulsory insurance. No significant drop was observed in assets of the insurance sector. Currently, the capital position of the sector ensures its high solvency. Over the period, 3 insurance companies with unacceptable total capital were excluded from the sector as a result of supervisory measures taken within the existing legislation. Market behaviour of insurers with consumers was under strict control. Measures were taken to improve and adjust to best international insurance practices the insurance legislation, digitalize insurance activities, train professional staff, and educate insurance consumers.

Efforts to develop the capital market, make regulatory and supervisory processes more effective continued this year too. To expand opportunities for issuers and investors to participate in the capital market, an incentive tariff regime was established and differential tariffs were set to stimulate listing on the stock exchange. The legal framework for increasing financing opportunities by issuing bonds in the securities market was improved. To increase access of foreign investors to the capital market of our country, cooperation with international depositories was continued, and the Central Bank became an associate member of the IOSCO. Over 11 months of 2020, the volume of trade y/y increased by 1.7 times in the secondary market of corporate securities, and by 1.9 times in the repo market.

The Central Bank gave regulatory holidays in support of capital market participants during the pandemic, as well as tariff discounts to support participation of issuers and investors in the market.

In accordance with the relevant decree signed by the President of the Republic of Azerbaijan in March and the anti-crisis plan approved by the Cabinet of Ministers, the Central Bank adopted a number of regulatory reliefs for the pandemic-affected population, businesses and financial institutions.

As part of implementation of these decisions, banks restructured AZN1.2B worth loans of 50000 borrowers over the past period of the year. Businesses account for 87%, individuals for 9% and mortgage for 4% of the restructured amount. Banks actively restructured their lending portfolio at their own initiative along with the regulatory easing of the Central Bank.

Banks made up to 50% discount on cashless payment service fees to individuals and legal entities engaged in entrepreneurship. Bank accounts and payment cards were issued in a short time to provide lump-sum payments to 600,000 citizens registered as unemployed. To manage the population density in front of ATMs, it is now possible to receive pensions and social benefits from ATMs of any bank without paying additional service fees.

The pandemic once again proved to the banking sector, the population and businesses the need for digitalization. This year, wider use of cashless payment infrastructure and increase in the range of innovative payment services provided by banks supported the whitening of economic turnover and contraction of the cash economy. Over 11 months the volume of domestic cashless transactions with payment cards y/y increased by 34%, contactless payments by 5.2 times, and the volume of Internet and mobile banking settlements by 65% and 90% respectively.

A 24/7/365 Instant Payment System, that allows to complete payments between the population, businesses and public institutions, in 5-10 seconds regardless of place and time in line with modern requirements and supports mobile payment solutions, has been created. Another project aimed at ensuring digital access to financial services was the creation of a Blockchain-based Digital Identification System.

Since April, under the self-employment program, with the support of the Central Bank, 21 banks have provided AZN 1.7 million worth various assets, such as production and catering equipment, cattle and sheep to 591 vulnerable people. It is planned to further expand the scope of this program.

To increase access to financial resources in rural areas, the Central Bank has launched a joint project with relevant agencies. As part of the project, best practice-based financing mechanisms are underway to increase access to financial services for agricultural entrepreneurs, especially small agribusinesses.

To support access of the real economy to sustainable financial resources, the EBRD and the Central Bank have agreed to conduct $200 million worth swap operations in 2020 with maximum $50 million limit. To date, active swap transactions with the EBRD are $18.2 million.

II. MONETARY AND FINANCIAL STABILITY POLICY FOR 2021

The monetary and financial stability policy for 2021 is shaped up in the context of high uncertainty about outlook for global economic activity, the situation in global commodity and financial markets. Next year, the pandemic will continue to test economic sustainability potential of particular countries. Risks are mainly related to the epidemiological situation and maintain the potential to affect the external and internal environment.

On the other hand, there are great challenges concerning long-term adaptation of the Azerbaijani economy to low oil revenues, major restoration and return operations in liberated territories after the Patriotic War, as well as the rapid realization of a new growth strategy aimed at doubling national income over next 10 years.

In this context, safeguarding macroeconomic and financial sector stability in 2021 will form a basis for the macroeconomic and macro-prudential policies.

Through macroeconomic and financial stability, the Central Bank will support restoration of pandemic-affected economic growth on a sustainable basis. The monetary policy will continue to play an important role in providing necessary conditions for sustainable economic growth by focusing on the price stability next year. Efforts will continue to strengthen financial sector resilience, develop financial intermediation and improve financial markets

2.1. Macroeconomic forecasts

The Central Bank will implement its monetary policy for the year to come in light of macro-forecasts on global and internal economic trends.

Remaining epidemiological risks and general uncertainty in the global economy indicate that the recovery in 2021 will be gradual. Differences in the ability of countries and economies to adapt, as well as the search for new business models in a changing environment, will also be a factor influencing recovery. According to the IMF October Update, global economic growth in 2021 will be 5.2% - 3.9% in AEs and 6% in EMEs. Launch of the process of vaccination against COVID-19 raises optimism about the realization of these forecasts.

Leading economies are expected to use stimulating opportunities of fiscal and monetary policies next year too to support economic activity. Central banks in the world's major power centers are likely to continue quantitative easing. A low-interest rate environment is expected to continue throughout the year.

Economic growth in Azerbaijani trade partners is expected to be 5% in 2021. Given current uncertainties, a new wave of sharp fluctuations in the financial markets of partner countries is not ruled out.

Uncertainty about global commodity markets also remains high. Global prices for different commodities may fluctuate in different directions.

Recent advances by various pharmaceutical companies in production of a safe and effective COVID-19 vaccine have had a positive impact on the oil market. Updated forecasts show that in 2021 daily demand for oil will increase. Given the above, a number of think tanks in December revised their oil price forecast up for 2021. The consensus price by major think tanks for 2021 is $48 a barrel. However, high supply is expected to limit price hikes. On the other hand, given the impetus by the pandemic to technological innovations, a long-term downward trend in demand for oil products is expected to linger.

Global food prices are expected to continue to rise next year, amid declining supply due to the pandemic. According to the World Bank, prices for agricultural products are expected to increase by 1.4% in 2021.

Recovery in global economic activity will also have a positive effect on the recovery of global trade. According to the WTO, the growth rate of global trade will be 7.2% in 2021.

Forecasts for the baseline scenario show that next year's external and internal balance indicators in Azerbaijan will improve compared to 2020.

The situation with the pandemic in 2021, the dynamics of global oil prices, prospects of the OPEC ++ deal, developments in trade partners, the dynamics of imports will be the main factors driving the external balance of Azerbaijan.

In 2021, economic activity in the real sector of the Azerbaijani economy is expected to gradually resume. According to official forecasts, real economic growth rate is expected to be 3.4% in the baseline scenario, including 3.1% in the non-oil sector. Start of the process of recovery of external demand, as well as the recovery of domestic demand at the expense of postponed demand stands on the basis for the forecast of recovery of economic growth. Maintaining macroeconomic stability will be one of the key factors in bringing economic growth closer to its potential in 2021. Counter-cyclic macroeconomic policies and start of reconstruction in the liberated areas will also revive the main drivers of economic growth in 2021. According to the submitted draft budget, next year's state budget expenditures are projected to increase by 3.8% compared to 2020, including capital expenditures by 7.9%. Counter-cyclic use of the fiscal space next year is also important in terms of maintaining macroeconomic stability. In the medium term, transition to a new macro fiscal framework should be kept in mind, in light of new economic realities. Moreover, minimizing state budget deficit as much as possible and its financing with sustainable non-inflationary sources should be a fiscal priority.

Realization of these forecasts on the internal balance in 2021 will depend on effective coordination of all aspects of the macroeconomic policy.

2.2. Main monetary policy directions for 2021

The priority goal of the monetary policy will be price stability, the key guarantor of the confidence in the national currency. Reforms will continue to strengthen the ability to control inflation.

The utmost monetary policy target for 2021 will be to maintain inflation within the 4±2% target band. As in previous years, the target in the year to come will be twelve-month change of the consumer price index.

The exchange rate, money supply and interest rates will be used as intermediate targets of monetary policy to achieve the inflation target, taking into account the transmission characteristics of decisions.

Short- and medium-term transmission of the exchange rate of the manat to inflation will be taken into account when pursuing the monetary policy. A significant share of imported goods in consumption makes the exchange rate the main factor of inflation. Next year the balance in the FX market will depend on the state of the balance of payments, the state's foreign exchange demand and supply, as well as exchange rate expectations of economic agents. If necessary, preventive measures will be taken together with the government to ensure balance in the FX market. The work on optimizing currency regulation will continue in 2021.

Money supply, another anchor will be regulated in light of economic growth and inflation forecasts, as well as financial market developments.

To achieve the goals, the Central Bank will use all tools and mechanisms adequately in future, paying attention to consistency and effectiveness of its policy decisions. Quantitative parameters of monetary policy instruments will be flexibly adjusted depending on liquidity needs of the economy and the situation in financial markets. Improvement of operational procedures will continue to enhance monetary policy's transmission effect, as well as support money market activation and formation of the yield curve.

Decisions on the parameters of the interest rate corridor will be made in light of macroeconomic forecasts and risk balance. Conservative position will be maintained in risk assessment, taking into account possible negative consequences of excessive monetary easing. In Q1, 2021, the factors that reduce inflation are expected to dominate. During this period, high global food prices and rising epidemic related costs of firms may be offset by declining aggregate demand. In the medium-term, recovery of aggregate demand and thus economic growth will be one of the main factors influencing inflation. Stable exchange rate of the manat will be the main anchor of macroeconomic stability in both short and medium-term.

Taking into account the risk balance and potential impact of non-monetary factors, achieving inflation target will continue to depend significantly on effective coordination in all areas of the economic policy in the upcoming year, especially on the fiscal and monetary policy. On the other hand, structural and institutional reforms in the country should improve the competitive environment, which is important for sustainable price stability.

The Central Bank will continue efforts to increase its ability to influence inflation in 2021. Particular attention will be paid to improvement of strategic framework of the monetary policy and realization of the conditions for strengthening the interest rate channel of the transmission. The new banking legislation will also strengthen influence of the Central Bank on its main mandate - price stability, by adjusting the institutional framework of its activities to best practices.

Effective communication and enhanced transparency will continue to be a priority in 2021. The purpose of communication will be to influence the behaviour of economic agents by shaping adequate expectations. In accordance with the previously announced schedule (Annex 1), press releases with relevant analytical comments on each policy decision of the Central Bank will be published, and regular press conferences will be held. Efforts will be intensified to fully implement the principles of transparency adopted for central banks at the international level.

2.3. Priority directions of financial sector development in 2021

In 2021, the financial sector policy will focus on safeguarding financial stability, supporting pandemic affected economic agents, as well as deepening financial intermediation and markets. All this should further enhance the role of the financial sector in economic growth.

To maintain financial stability, first of all, efforts will continue to improve the banking supervision framework and apply risk-based and counter-cyclic prudential regulation. The prudential regulatory framework will allow pro-active risk detection and preventive measures. Efforts will be intensified to increase internal capacity of credit institutions to manage risks and apply corporate governance standards in banks. A regulatory framework in line with international standards and improved risk management in banks will support soundness of the sector.

Realization of the new strategy on the new deposit insurance framework mechanism in 2021 will maintain confidence in the banking sector. In addition to changing the amount of compensation for protected deposits of individuals, the strategy provides for determination of the amount of compensation for funds in bank accounts of individuals engaged in entrepreneurial activities and full insurance of funds belonging to individuals remaining in notaries' deposit accounts. Planned changes will allow to fully protect deposits of vast majority of depositors, improve risk management in banks, strengthen market discipline and competitive environment, reliably protecting banking system stability and interests of depositors.

Work will continue to strengthen the system of protection of the rights of consumers of financial services and increase financial literacy of the population.

Regulatory relief to support pandemic affected economic agents will be extended and modified as necessary, depending on the situation. These measures will be aimed at protecting interests of borrowers, maintaining lending and stable operation of the financial sector.

Activities will be intensified to increase the depth of the financial and banking sector. Increasing focus on business lending in banks' strategies will be encouraged in 2021 as well. Activation of the interbank money market will serve to accelerate a flow of resources between banks and thus meet the needs of businesses for financial resources.

Particular attention will be paid to improving access to finance in the regions. Establishment of banking and financial infrastructure in liberated areas will be an important part of the return plans.

Expansion of mortgage lending through market mechanisms will play an important role in development of the real estate sector. In this regard, establishment of a construction saving bank will be considered.

Digitalization of financial services and the use of fintech will be encouraged to expand financial inclusion. Next year, attention will be paid to wider use of cashless payment infrastructure and introduction of innovative payment instruments by banks.

Strengthening effective regulation and supervision in the insurance sector, expanding the scope of insurance and giving additional impetus to development of other segments of the financial markets will be important priorities. Attention will be paid to establishing a risk-based regulation and supervision framework to ensure financial stability of the sector, in other words, its high solvency. Implementation of projects launched based on international basic principles to improve insurance legislation, awareness and promotion in insurance, strengthening professional staff, digitization of insurance activities will continue on a large scale.

Measures for development of the capital market will be implemented within the relevant strategy to improve the legal framework, shape a modern market infrastructure, stimulate market participation and adjust the supervisory framework to international standards. The securitization process to improve the legal framework in the capital market will support deepening of the capital market by creating a regulatory framework in line with international standards for derivative financial instruments and repo markets, as well as improving financial intermediation and thus introducing new and more sophisticated tools and services. Establishment of a centralized trading system that meets modern standards to improve operating environment in the capital market, as well as works to be done on electronic registration of securities will significantly expand market access of issuers and investors.

Special programs developed in international cooperation will ensure implementation of large-scale measures to modernize the financial sector. The program, developed jointly with McKinsey, will provide an in-depth diagnosis of financial inclusion, development of a strategy and a dedicated action plan. Cooperation has started with the World Bank under the FSAP Development Module to conduct a comprehensive and in-depth diagnosis financial sector. Specific programs for development of the capital and insurance sectors have been developed with the participation of international experts and their implementation has begun.

Close coordination with the government will be ensured to address key ecosystem problems in the financial sector. Reforms on ‘whitening’ of the economy, strengthening sustainability of the macro-fiscal framework, improving the competitive environment and other directions will have a positive impact on activities of the financial sector too.

Conclusion

The effective monetary and prudential policy implemented in 2020 has allowed to ensure macroeconomic and financial stability, the main goals set in this direction for this year have been attained. Low inflation, protection of the purchasing power of the national currency, stability and development in all segments of the financial sector are the main results of the current year.

In 2021, the focus will be on further deepening macroeconomic stability in the national economy, returning to the economic growth trajectory and job recovery, effective coordination of macroeconomic policy to achieve these goals. Maintaining financial stability, development and deep reforms in all segments of the sector, high financial depth and inclusiveness have been set as the main priorities of the financial policy.

Annex 1

Schedule of disclosure of monetary policy decisions to public

In 2021, decisions related to the parameters of the interest rate corridor will be publicly disclosed 8 times according to the schedule below:

- January 29
- March 19
- April 30
- June 18
- July 30
- September 17
- October 29
- December 17

Out of the above dates, disclosure of decisions will be accompanied by press conferences on January 29, April 30, July 30 and October 29.