Summary on situation of the monetary policy on the first six months of 2002

The situation of the monetary policy

Under the positive influence of the international price conjuncture of the foreign products, especially the products consisting the base of Azerbaijani export and under the favourable internal macroeconomic conditions, the National Bank has conducted the monetary policy related to the maintenance of the acceptable level of the inflation, prompt adjustment of the national currency rate, maintenance of the currency reserves meeting the international standards and the strengthening of the national banking system and improvement of the money supply in the economy on the first 6 months of 2002 and mainly achieved the targets.

1. Macroeconomic situation

As a result of a purposeful economical and monetary policy the macroeconomic stability was kept unchanged in Azerbaijan during the first six months of 2002.

The inflation rate was at 1.9% in Azerbaijan in the first six months of 2002 and it was expected to maintain its forecasted rate (2.5%) during the year.

The researches carried out according to the inflation model show that 74.2% price change of the food products, 23.7% price changes of the non-food products and 2.1% price changes of the services had impacted the price alteration.

The alteration of prices was related 59.8% to the monetary factors, 31.2% to the non-monetary factors and 9% to the seasonal factors.

The real amount of gross domestic product as the main economical indicator had increased by 8.4%.

0.1% industrial and 3.3% agricultural product growth were achieved.

The amount of the investment in the fundamental construction sphere as a main guarantee factor of the future economical development increased twice, constituting 4.3 trillion manats, since 3.5 trillion manats or 81.1% of this was foreign investment.

According to the initial results of the summary on the first six months of 2002 the state budget receipts constituted 1971.4 billion manats against expected 2089.6 billion manats and the payments constituted 1933.9 billion manats against expected 2306.3 billion manats. The profit of the state budget constituted 37.5 billion manats.

The improvement process of the foreign trade proceeded. The foreign trade constituted 1258.9 million USD during the months of January - May. Though the export amount decreased by 26.3% constituting 653 million USD, the import amount increased by 28.5% constituting 605.9 million USD.

There was observed a positive balance in the foreign commerce in the amount of 47.1 million USD.

The improvement of population’s welfare proceeded. The income of population increased by 9.5% constituting 9904.9 billion manats, but expenses increased by 8.1% constituting 9877.1 billion manats compared to the same period of the previous year. The average salary rose up to 307.7 thousand manats by the real growth of 19.7%. In its turn, the increase of population’s income was the guarantee factor for the development of the real sector, enhancing purchasing capacity.

The inclinations in the world economy

The first six months of 2002 were memorable due to the beginning of some decelerations in the critical economical inclinations begun in the leading countries of the world in 2001.
After the traditional New Year improvement in the USA the fund indexes began to slowdown again at the beginning of the year. For the first time during the last year and half the growth of the industrial product was observed during the months of January – February. According to the summary on the first quarter of the year the GDP increased by 5.8%. The increase of the new employment places was fixed firstly since July, 2001. The raise of the wholesale trade also has indicated the increase of the busyness activity. The Consumer Sentiment Index also began to rise. So the Federal Reserve System officially declared that the economical regress had been stopped and it would perform neutral monetary policy. Under the pressure of the industrial producers of the USA and for the purpose of the export stimulation the FRS began to soften exchange policy. It should be noted that the increase of the government spendings played an important role in the increase of the economical indicators. But in spite of all, the decrease of the investment flow to the USA was observed.

Despite the descent in the exchange rate of euro from 0.9 USD to 0.8 USD, as well as the increase of the unemployment level, the other indicators of the economical activity displayed the development in Europe in the beginning of the year. For example, the index of the economical activity in the services sector went up to the top level during the last 13 months. The strengthening of the inclinations of the economical growth in Europe in the end of the year, as well as the policy of the FRS of the USA oriented to make dollar cheaper, increased the exchange rate of euro. As a result, the exchange rate of euro to USD rose up to 0.99.

The economical indicators in Japan display the continuation of the economical crisis. The situation of the banks has become worse, the assurance for the deposits was eliminated by the government and the orders for the machinery and equipment dropped down to the level of 1987. In addition, the ratings of the leading insurance companies decreased in Japan. But the improvement of the variety of economical indicators was already observed in Japan by the end of the second quarter of the year.

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

The raise in price of gold in the world market was fixed as well. Experts explain this as the result of joining companies - gold producers. Meanwhile 10 biggest corporations of gold producers maintain 40% of the world gold production.

2. Dynamics of money-and-credit indicators

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

The monetary base of manat compared to the same period of the previous year increased by 5.5% constituting 1509.5 billion manats by July 1, 2002.

There were some progresses achieved in money supply in the economy in the first six months of 2002 compared to the same period of 2001. Thus the broad monetary aggregate (M-2) increased by 17.4% constituting 1780.3 billion manats.

The monetary multiplier characterizing the ability of banking system to create money went up. The reconstruction of the banking system, development of the banking infrastructure, and especially improvement of the payment system resulted in the positive dynamics of this indicator.

The amount of the credit investment was 2404.9 billion manats by the end of the first six months of 2002. The share of the expired credits decreased to 25.4% at the end of the period compared to 34% of the first 6 months of the previous year and 27.4% of the beginning of the year. The share of the long-term credits in the total credits was 27.2%.

82.8% of the credits were accrued by the banks and 17.2% of it were accrued by the other credit organisations.
The percentage of the credits had been slightly decreased by the end of the report period. The deposits were one of the main sources of the credits during the period. The deposits of physical persons were 622.3 billion manats, which is 19.4% more in comparison with the same period of the previous year and 6.4% more compared to the beginning of the year. There were no significant changes in the percentage of the deposits. The amount of the Short-Term State Loans increased by 18.9% constituting 160.11 billion manats on July 1, 2002 and the average profitiness of the STSL was 15.43%.

Consequently, the effective monetary management system established a favorable conditions for the improvement of the money-and-credit indicators.

3. The improvement of the monetary management

The institutional improvement of the monetary management. For the successful fulfillment of the duties of the monetary policy the institutional improvement of the monetary management should also be considered.

Much was done to form a perfect research base - one of the most important elements of the monetary management mechanism. Especially complex actions performed to establish the monetary development models. As a result, a modern econometric apparatus of the macroeconomic researchs had been created and a wide implementation of the mathematical-economical methods maintained. The equilibrium models of the inflation and money market have been created and began to be used in the practical implementation of the monetary policy. It allowed to create the long-term economical forecasts by the use of the established models.

The system was created to monitor and analyze the processes in the international markets, as well as the inclination of growth in the world economy under the conditions of globalisation of the world economy. This establishes a favorable condition for the study of the influence channels of the world economy to the national economy, as well as macroeconomic aspects of the republics’ integration to the global economy.

Variety of researches has been performed to create the modelized criterions and variants for the choice of the appropriate tools of the monetary regulation corresponding to the economical situation according to the inclinations of the development of the financial markets. Moreover, the base of the information processing and processing the forecasts of the short- and long-term monetary indicators were created and brought to the world standards in the monetary research and forecast sphere.

The important actions were performed for the establishment of the complete information database to guarantee an effective monetary management. The statistical database on processes in the economy of the world, as well as the CIS region and the country was enriched. Works within the frame of the project of the Automated Bank Statistical Accounts Systems completed. Besides, several documents as the procedure rules, methodical fundamentals were prepared within the boundaries of the creation of the normative-methodological base for the collection, processing and transmitting of the statistical information.

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

The National Bank performed the refinancing of the commercial banks on the ground of auctions upon the centralized credits.

The obligatory reserve norms both for manat as well as currency were 10% during the first six months of 2002. The implementation of the practice to join the obligatory reserve norms with correspondent accounts began.

The actions for the realization of the strategy to set the open market operations as the main means of the monetary policy continued. Meanwhile the National Bank performs operations with two kinds of securities:
1. Securities issued to restructure state banks’ debts;
2. Short-term state loans (STSL).

The participation of the National Bank in the STSL (short-term state loans) market aimed to regulate short-term liquidity in the banking system. The National Bank performed REPO and reverse REPO operations depending on the liquidity of the banking system.

4. **Currency market and monetary policy**

**Exchange rate policy.** The correction of the exchange rate policy by the National Bank was proceeded in 2002 and during the first six months the correction of manat against USD was 95 manats or 2% and 1USD was equal to 4870 manats by the end of the second quarter.

It is reasonable to take into account the real exchange rate of manat against USD, as an indicator of the international competition ability of the Azerbaijan economy. The calculations display that, though in June 2002 the monthly average nominal exchange rate of manat against USD was corrected 9.6% than December 1995, its real index of change was 27.1%.

This shows the improvement of the international competitiveness of the Azerbaijan during 1995-2002 years.

**Situation of the currency market.** The gross amount of the internal currency market increased by 160.9 million USD or 16.7% constituting 1.124 billion USD in the first six months of 2002 compared to the same period of the previous year.

The National Bank maintained balance in the currency market by regulation of the demand and supply, and had the influence on exchange rate of manat. During the report period the sales of the National Bank were 173 million USD, purchases were 188.6 million USD in the internal currency market. The National Bank’s pure interfering to the currency market amounted to 15.9 million USD (1.41%) and was purchase oriented.

**Currency reserves.** The official amount of the currency reserves exceeded forecasted amount by 4.3% constituting 728.8 million USD by the end of the report period. The strategic currency reserves of the country had already exceeded 1.2 billion USD.