The main goal of this publicly disclosed quarterly review is to release the analysis of current macroeconomic developments and information on the monetary policy implemented by the Central Bank of the Republic of Azerbaijan to the broad public.
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ACRONYMS

CBA The Central Bank of Azerbaijan
ADB The Asian Development Bank
EBRD The European Bank for Reconstruction and Development
ILO The International Labor Organization
IMF The International Monetary Fund
NBCI Non-bank credit institution
FDI Foreign direct investments
SSC The State Statistics Committee
DGCs Developing countries
DDCs Developed countries
OECD The Organization for Economic Cooperation and Development
CPI The consumer price index
APPI The agricultural producer price index
SME Small and medium-sized enterprises
NEER The Nominal effective exchange rate
OPEC The Organization of the Petroleum Exporting Countries
REER The Real effective exchange rate
RSM Real Sector Monitoring
IPPI The industrial producer price index
NFES The National Fund for Entrepreneurial Support
UNCTAD The United Nations Conference of Trade and Development
GDP Gross Domestic Product
WTO World Trade Organization
EXECUTIVE SUMMARY

Macroeconomic stability strengthened in Quarter I, 2018 – inflation hit single-digit, the external sector indicators maintained positive dynamics, and stability in the FX market continued. Economic recovery started in 2017 gained much more sustainability in Quarter I, 2018. These positive outcomes were the result of the target-oriented and flexibly coordinated macroeconomic policy.

Annual inflation kept decreasing in the current year as well. Inflation fell back to single digit level, owing to exchange rate stability, optimal management of money supply, dynamics of global food prices, higher supply in the goods and services market, and relative drop in inflation expectations. Lower inflation underpinned rise in real income of the population.

Improvement process of external sector indicators that started in 2017 continued in 2018 amid higher export potential and favorable international economic conjuncture in commodity markets.

Positive trends taken place in the external sector translated into the exchange rate stability of the manat. The stable exchange rate was one of critical factors to have a downward effect on both the inflation rate and inflation expectations. The exchange rate stability was also accompanied with the decrease of dollarization.

The monetary condition in place maintained the best possible balance between the realization of macroeconomic stability targets and liquidity coverage of the economy. Rise in money supply fueled economy’s demand for money and sustained uninterrupted payments in the first instance. Higher money supply was not accompanied with rise in lending activity, the banking system is going through the accumulation of excess liquidity in parallel with increase of saving trends. Excess liquidity triggered high demand for CBA’s financial tools in 2018 too.

Strengthened macroeconomic stability and increased economic activity paved a way for gradual normalization of monetary condition. Over the reported period the CBA made critical corrections to the parameters of the interest rate corridor on its liquidity operations in view of recent macroeconomic trends and forecasts. Policy decisions were taken in light of the monetary policy’s transmission specifications.
I. GLOBAL ECONOMIC ENVIRONMENT AND THE EXTERNAL SECTOR

1.1 Global economic trends

The global economic environment continued improving in Quarter I, 2018. Economic growth came amid higher global trade and investment flows. Yet global economic growth is still subject to certain risks.

Global economic growth. Global economic activity remained on the mend amid a favorable monetary condition, higher investment flows and stronger growth in developing Asian countries.

On the backdrop of rising global investment growth rates of global trade and global industrial production continue elevating. Inflation is stabilizing both in DDCs and DGCs.

According to initial estimations, the US economic growth rate of Quarter I prevailed over the same indicator of the similar period of previous years. The US tax cut contributed to population’s higher income and savings.

Graph 2. Quarterly economic growth (quarter on quarter)

Source: OECD and statistics committees of relevant countries

High consumer confidence in the euro zone is indicative of lingering sustainable growth. Economic
indicators of Quarter I released both in France and Germany display that revival in manufacturing in particular is ongoing. Unemployment is going down with parallel accelerated growth in Japan.

The volume of exports in DGCs is increasing in response to high imports in DDCs. Initial data show that growth of commodity exporting DGCs in 2017 continues in 2018 as well. Economic growth in China was higher than expected in Quarter I, 2018 – 6.8% (y/y). Economic growth is picking up speed under the influence of governmental support in the fiscal and monetary policy. However, economic revival is supplemented by rising inflation.

According to recent estimations by the ILO, the global unemployed are numbering 192.7 million, i.e. global unemployment stands at 5.6%. Despite high work force, global unemployment is expected to drop to 5.5% by the end of 2018 due to high economic activity in DDCs in particular.

**Global commodity prices.** The commodity price index by the IMF has increased by 4.8% since early year mainly owing to rising oil prices.

Brent oil prices continued to rise in 2018 too, they increased by 3.4% as of the end-quarter compared to early year. The average price for Brent oil stood at $67 (y/y up by 25%).

The price for natural gas has increased by 3% since the beginning of the year. In general, the average price for natural gas y/y was up by 13.1%.
Introduction of restrictions on the use of coal in China weighed in on high demand for gas. Metal prices increased about 1% compared to the early year. Relative drop in supply of certain products due to weather conditions contributed to an increase in prices of agricultural products.

After increasing the benchmark rate 3 times in 2017 (April, June and December) the US Fed increased the rate once again by 0.25 p.p. to 1.5% in March, 2018. At the same time, the Fed sold securities in Quarter I, 2018 as in Quarter IV, 2017 under the decision to reduce its swollen balance sheet in the aftermath of the global financial crisis. Inflation rate exceeded 2% target in UK, which paved the way to transition to the tight monetary policy – the target rate was shifted to 0.5% from 0.25% in November 2017.

Global financial markets and the monetary policy. Amid higher global growth central banks of major DDCs kept tightening the monetary policy, while most DGCs reduced the policy rate.

Source: IMF

Source: Reuters

The ECB is wary of tightening the monetary policy despite accelerated economic growth and
lower unemployment. Over the past period of 2018 the benchmark interest rate was kept unchanged in the euro zone, supplemented by ongoing purchase of assets. The target rate in the Czech Republic was shifted to 0.75% in February 2018 (0.5% in 2017). The interest rate was increased in Canada too (to 1.25% from 1%).

Some central banks of DGCs eased, while others tightened the monetary policy over the period. The refinancing rate was decreased by 0.25 pp. to 6.5% in Brazil, while it was increased to 7.5% from 7.25% in Mexico.

Russia continued to ease the monetary policy – the refinancing rate was once again reduced to 7.25%.

Compared to the early year the USD depreciated against the euro, the pound, the Chinese yuan, and the Japanese yen, while it gained against the Turkish lira, the Russian ruble and the Iranian rial.

**Forecasts.** The IMF kept optimistic global economic growth forecasts for 2018 and 2019 in its Global Economic Outlook released in April, 2018 – global growth will stand at 3.9% amid accelerated growth in DGCs, and sustainable growth in DDCs (0.1% up from growth in 2017). Economic growth is forecast to stand
at 2.5% in DDCs and 4.9% in DGCs in 2018.

High growth forecasts in the euro zone and Japan and spillover of the US fiscal reform to partner countries weighed in on growth forecasts in DDCs. The US fiscal reform contributed to economic growth both through tax cut and high public spending. 2.3% economic growth of 2017 in the USA is expected to increase to 2.9% in 2018. The IMF revised up economic growth forecasts for 2018 for the euro zone by 0.2 p.p. to 2.4%, mainly due to high domestic demand and favorable monetary policy. The ECB also revised up economic growth forecast for 2018 by 0.1 p.p.

The accommodative monetary policy in DDCs, structural reforms and remediation efforts in the financial sector slowed down the effect of crises of the previous decade, accelerating global recovery.

Both revived global economic environment and rising oil prices create favorable conditions for high oil and non-oil exports in Azerbaijan. Economic growth is expected to stand at 2.9% (non-oil export weighted) in 2018 in peer group of trade partners of Azerbaijan.
1.2 Azerbaijani external sector developments

On the backdrop of higher non-oil export capacity and favorable international economic potential, improvement of external sector statistics started last year continued in Quarter I, 2018.

According to the State Customs Committee (SCC), foreign trade turnover amounted to $5.6 billion: exports $3.4 billion (60.7%), import $2.2 billion (39.3%).

Azerbaijan traded with 146 countries.

EU countries accounted for 38% of trade turnover: Italy 34%, Germany 18%, Czech Republic 12% and Austria 9%.

CIS countries accounted for 15% of trade turnover: Russia 60%, Ukraine 17%.

Other countries accounted for 37% of trade ties: Israel (15%), China (11%), USA (11%) and Indonesia (10%).

Commodity export increased by 28.7%, driven by the oil sector – the value of exports rose 35% on crude oil and 74% on oil products.
Non-oil exports also posted growth – fruits and vegetables 46%, cotton yarn 25%, chemicals 30%, aluminum 4%.

Main export partners included Italy (19%), Israel (9.2%), Turkey (7.8%), the Czech Republic (6.2%) and Indonesia (6%).

Commodity import jumped 44.8% - import on the public sector increased by 2.7 times to $0.4 billion, while import on the private sector increased by 30.4% to $1.7 billion.

Russia accounted for 17.3%, Turkey 14.3%, China 10%, Germany 8.8%, USA 4.8%, Ukraine 4% and Belarus 3.8% of imported products.

Imports rose on major components: it increased by 3 times on vehicles, 3.4 times on cement, 52% on machinery and mechanisms, 77% ferrous products and 13.2% food stuff, while it decreased by 22% and 4.8 times in tobacco and sugar respectively.

The situation in economic partners weighed on the dynamics of money remittances along with non-oil exports. According to rough estimations, money remittances to the country amounted to $ 291.6 million.
Iran accounted for major part of investments to fixed capital from foreign companies and organizations.

Positive external sector developments weighed on the dynamics of foreign exchange reserves. Strategic foreign exchange reserves increased by 5% amid the improved balance of payments (BoP), sufficient to cover thirty-one-month import of goods and services exceeding the sovereign debt by 3 times.

Investments to fixed capital stock from foreign enterprises and organizations kept flowing – according to the SSC, FDIs constituted $1.4 billion (48.3% of total investments).

The United Kingdom, Turkey, Switzerland, Malaysia, the Czech Republic, Japan, the USA, Russia and
II. MACROECONOMIC DEVELOPMENTS IN AZERBAIJAN

2.1. Aggregate demand

*Economic growth was mainly driven by domestic demand as before.*

*Consumption expenditures* kept increasing in Quarter I, 2018 too.

The volume of goods and services sold in the consumer market over the period to meet consumer demand y/y increased by 2.5% to AZN 10.8 million in real prices. 96% of goods sold and services supplied by economic agents was offered by private entrepreneurs.

Average consumer purchased on average AZN 367.7 worth of commodities and services monthly (y/y up by AZN 20).

Retail trade turnover increased by 2.6% to AZN 8.5 billion. Retail non-food trade turnover increased by 3.3% to AZN 4.2 billion.

Consumers spent 50.7% of their funds on food, beverage and tobacco at retail trade outlets (y/y up 2%). Expenses y/y increased by 3.5% in knitwear, clothing and shoes, 3% in electric appliances and furniture, 1.9% in telecommunication.

**Table 1. The share of spending items in trade outlets in Quarter I, 2018, %**

<table>
<thead>
<tr>
<th>Spending item</th>
<th>2017 3 months</th>
<th>2018 3 months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food, beverage and tobacco</td>
<td>51</td>
<td>50.7</td>
</tr>
<tr>
<td>Knitwear, clothing and shoes</td>
<td>17.7</td>
<td>17.6</td>
</tr>
<tr>
<td>Electric appliances and furniture</td>
<td>6.1</td>
<td>6</td>
</tr>
<tr>
<td>Computers, telecommunication devices and others</td>
<td>0.8</td>
<td>0.7</td>
</tr>
</tbody>
</table>

Source: SSC
2.1 Aggregate demand

<table>
<thead>
<tr>
<th>Pharmaceuticals and medicals</th>
<th>1.3</th>
<th>1.2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fuel</td>
<td>4.9</td>
<td>5.7</td>
</tr>
<tr>
<td>Other non-food stuff</td>
<td>18.2</td>
<td>18.1</td>
</tr>
</tbody>
</table>

Source: SSC

Every consumer purchased on average AZN 146.6 worth of food, beverage and tobacco and AZN 142.6 worth of nonfood items monthly for private consumption in retail trade.

Catering turnover rose by 3.8%. Entities accounted for 40.1%, and private entrepreneurs account for 59.9% of catering turnover in the private sector. The size of paid services to the population increased 1.7% to AZN2 billion. Per capita paid services consumption y/y increased by 3.6% in nominal terms.

Consumer demand was driven by rise in nominal income of the population – it y/y increased by 9.8% to AZN 12.5 billion. Per capita income rose by 8.8%, while disposable income increased by 10.2% to AZN 11.6 billion.

Nominal average monthly salary of hired workers in the economy y/y increased by 2.2% to AZN 510.8. Salary of employees in public entities was AZN 393,8 and in private entities was AZN 674,6.

Bank loans to households, one of consumer demand components increased by 0.6%. The size of consumer lending portfolio made up AZN 4.6 billion as of End-March.

The consumer confidence index, generated from the survey ‘Financial behavior and intentions of households’ of March, 2018 continued improving. To note, this indicator rests upon the surveys on ‘Family’s financial condition expectations’, ‘Expectations on country’s economic situation’, ‘Savings probability’ and ‘Unemployment expectations’ among various income households. Analyses suggest that the consumer confidence index has been prone to rising over recent 3 quarters, mainly due to better
expectations related to country and family’s financial standing, and lower unemployment expectations.

**Government expenditures** were critical for domestic demand. According to the Ministry of Finance of the Republic of Azerbaijan, in January – March 2018 state budget expenditures made up AZN 4408 million\(^1\).

Following the economic classification, 40% (AZN 1761.3 million) of state budget expenditures were channeled to social spending (salary fund, pension and social allowances, drugs and food), (y/y up by 7.7%).

**Investment expenditures.** AZN 2869.2 million worth of investments were channeled to the country economy – AZN 1413 million to the oil and AZN 1456.2 million to the non-oil sector. The private sector accounts for 42.8%, while public sector 57.2% of total investments.

51.7% of investments stemmed from internal, while 48.3% external sources.

<table>
<thead>
<tr>
<th>Table 2. Investment sources, share, %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Funds of enterprises and organizations</strong></td>
</tr>
<tr>
<td>Bank loans</td>
</tr>
<tr>
<td>Budget funds</td>
</tr>
<tr>
<td>Off-budget funds</td>
</tr>
<tr>
<td>Population’s own funds</td>
</tr>
<tr>
<td>Other funds</td>
</tr>
</tbody>
</table>

Source: SSC

Funds of enterprises and organizations prevailed in total investments (60.4%).

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2.2 Aggregate supply and employment


Economic growth. According to the SSC, real GDP increased by 2.3% to nominal AZN 17.2 billion. Per capita GDP was AZN 1755.7.

The mining industry extracted 9.6 mln tons of crude oil, 4.4 mln m3 of natural gas. Oil extraction rose by 2.2%, while gas extraction dropped by 5.8%.

The non-oil sector posted growth on major areas.

The non-oil and gas industry grew by 12.3%.

The CBA’s RSM related survey findings also suggest that y/y non-oil economic activity elevated; indicators bettered across major production areas, including chemical industry, weaving, and machinery. All service (communication, postal, transport, hotels, healthcare, tourism) and trade
(home appliances, cars, furniture, housewares) areas covered in the survey posted positive dynamics in activity indicators.

**Employment.** As of End-Quarter I, 2018 the economically active population was numbering 5,075.9 thousand persons (y/y up by 57.7 thousand persons).

According to the SSC, the number of hired labor y/y increased by 0.1% to 1,516.5 thousand persons.

![Graph 17. Economically active persons, end of period, thousands](image)

*Source: SSC*

22.4% of hired labor in enterprises and organizations was involved in production, including 6% in construction, 6.6% processing, 3.2% agriculture, 2.2% mining.
2.3. Inflation

As a result of ongoing downward trend in annual inflation rate inflation hit a single-digit level, one of the most critical factors supporting rise in population’s real income.

**Consumer Price Index (CPI).**
According to the SSC, average annual inflation was 4%. CPI components – food prices changed by 4.5% on average annual, non-food prices by 4.3%, and services by 2.9%.

Average inflation was 0.1% (y/y down by 1.7%). Inflation peaked in March over the period (0.2%).

The diffusion index – a measure of change dynamics pertaining to the number of goods and services with rising and falling prices in the basket of consumer goods also decreased compared to early year.

Prices for 170 out of 520 items of goods and services declined and remained unchanged for 142 items in March.

Analyses display that the stable exchange rate, optimal management of money supply, dynamics of global food prices, wider supply of products

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**Source:** SSC

Food prices account for 1.9%, nonfood 1.1%, and services for 1% of average annual inflation.
and services, and lower inflation expectations contributed to single-digit inflation.

Average annual core inflation, calculated by excluding the goods and services whose prices are regulated by the government, and seasonal agricultural products was 3.1%.

![Graph 20. Consumer Price Index, 2018, annual average](image)

Expectations also contributed to swings in consumer prices. Overall heightened under certain cost factors, they were prone to lowering. Regular RSM by the CBA revealed that price expectations in trade fell in furniture and cars, and rose in home appliances for upcoming 3 months. Price expectations decreased across all areas of services, mainly in transportation, hotels and healthcare. In processing price expectations dropped in food and beverage, chemical, machinery and metallurgy segments, while they rose in construction materials, plastic mass, weaving and other non-metal mineral products. Price expectations jumped in construction.

**Producer Price Index (PPI).**

According to the SSC, the GDP deflator, that measures price swings in all domestically produced goods and services, was 9.9%, mainly owing to rising global oil prices.

Having changed more on industrial products, the IPPI y/y increased by 18.8%, mostly due to price upswings in mining, and electricity, gas and steam generation (20.9% and 35.5% respectively).

Prices in processing rose by 14% - tobacco products (29.8%), polygraph activity (27.2%), oil
processing (20%), and production of vehicles and towed vehicles (19%).

Graph 21. Annual average change in PPI, %

Source: SSC

The APPI increased by 6.4%, due to price hikes in plant growing products (6.6%) – prices for yearlings hiked by 9%. Prices for animal products increased by 6.2% – beef 8.4%, lamb 5.1%. Prices increased for forestry (1.5%), and fish and fishery products 7.9%.

Transportation tariffs decreased by 3.4%, attributable to 5% slide in cargo services. Whereas prices for passenger transportation increased by 6.8%, prices for communication and postal services decreased by 0.3%.
III. THE MONETARY AND EXCHANGE RATE POLICY

3.1. The FX market and the exchange rate of manat

The FX market operated in a self-regulatory mode and the exchange rate of manat against foreign currencies responded to balance of payments trends.

The size of transactions increased in FX market’s both segments – the cash and cashless currency markets.

Cashless transactions amounted to $4.8 billion equivalent \(^2\) (y/y up 11.2%) – 84% of which was USD denominated transactions and 16% other currencies. USD transactions y/y increased by 12.4%, while EUR transactions decreased by 12.1%.

29% of cashless operations was conducted in the Interbank, 71% in the Intrabank market.

Interbank market turnover y/y increased 13%. 54.3% of USD transactions is attributable to regulation of banks’ liquidity position. Interbank market operations mainly are conducted over Bloomberg platform.

Intrabank currency operations amounted to $3.4 billion equivalent (y/y up 10%). Currency operations with legal entities account for 96% of total currency operations in the Intrabank market.

USD denominated operations account for 78% of Intrabank market turnover. Cashless purchases of the banks amounted to $1.1 billion, and sale to $1.6 billion worth of USD by internal conversion.

Table 3. Currency operations in the Intrabank FX market (currency unit)

<table>
<thead>
<tr>
<th></th>
<th>USD</th>
<th>EUR</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Buy</td>
<td>Sell</td>
</tr>
<tr>
<td>2017 Q1</td>
<td>1007</td>
<td>1350</td>
</tr>
</tbody>
</table>

\(^2\) Including transactions in the USD, the Euro, the English pound, the Russian rouble
3.1 The FX market and the exchange rate of manat

Cash currency exchange operations by banks amounted to $1.4 billion USD equivalent (y/y up 80.3%). Commercial banks bought $594.2 mln and sold $517.8 mln worth of cash USD. Buy operations exceed sell operations by $76.4 million.

Table 4. Data on cash currency exchange by banks (mln. currency unit)

<table>
<thead>
<tr>
<th>Year</th>
<th>QI</th>
<th>USD</th>
<th>EUR</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Buy</td>
<td>Sell</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Buy</td>
<td>Sell</td>
</tr>
<tr>
<td>2017 QI</td>
<td>277</td>
<td>365</td>
<td>88</td>
</tr>
<tr>
<td>2018 QI</td>
<td>594</td>
<td>518</td>
<td>-76</td>
</tr>
</tbody>
</table>

Source: CBA

Analysis of the dynamics of USD denominated operations of the banks in 2018 reveals that the sale of banks exceeded their purchases in January and February, while the reverse was true for March.

Graph 22. Net sale of USD in cash, m. USD

CBA continued to hold currency auctions in the I quarter of 2018 to arrange sale of currency provided by State Oil Fund of Azerbaijan Republic (SOFAZ). Currency auctions are held twice a week and the market participants are informed about parameters of the auction through “Bloomberg” terminal prior to the auction.
The Bank held 23 foreign currency auctions, worth a total of $1310.2 (y/y up 65.2%).

AZN gained 0.01% against the USD, 4.16% against the Turkish lira, depreciated 2.45% against the euro, 3.78% against the pound, remaining unchanged against the Russian ruble.

The dynamics of bilateral exchange rates affected that of multilateral exchange rates. Total trade weighted non-oil REER appreciated 3%.

2% depreciation of the NEER and inflation differences in partner countries had a downward effect on the REER.
3.2. Monetary policy tools

Monetary policy tools were employed in light of developments in macroeconomic arena and financial markets, recent forecasts, and monetary policy pass through characteristics.

Improved external sector indicators and single-digit inflation paved the way to gradual normalization of the monetary policy. Given the stronger macroeconomic stability and recent macroeconomic forecasts the CBA made critical corrections to its interest rate corridor parameters on its liquidity operations. On 12 February 2018 the CBA Management Board decided to move down the refinancing rate to 13% from 15%, the ceiling of the interest rate corridor to 16% from 18%, and the floor to 8% from 10%.

The Bank kept various term (up to 7 days, 14 and 28 day) standing facilities and open market operations active to meet economy’s demand for money and effectively manage liquidity. CBA’s sterilization tools were in higher demand on the backdrop of accumulated excess liquidity due to lingering weak financial intermediation in the economy.

The Bank held 15 deposit auctions on attraction of available funds in the national currency and 12 auctions on placement of notes. Maturity of deposit operations was 14 days, while notes were placed for 28 days. Total outstanding amount of funds attracted at deposit auctions and
placed notes made up AZN 1.3 billion.

Source: CBA

AZN 700 million worth of funds were attracted at deposit auctions, while AZN 600 million via placement of notes. Outstanding amount of funds attracted by deposit auctions and placement of notes was down by 16%.

Despite lower return on sterilization operations due to reduction of the floor of the interest rate corridor, excess liquidity remains high, since demand prevailed over supply by 3 times at deposit auctions and by 2.7 times at auctions on placement of notes.

Deposit and short-term notes placement transactions both sterilize excess money supply and promote development of the money market, contributing to the monetary policy’s operational framework and extension of the interbank market. As a critical representative indicator, return on CBA sterilization tools influences the level of other interest rates.

Deposits are attracted and notes are placed at interest rates fluctuating between the floor of the interest rate corridor and the refinancing rate (currently 8%-13%) – deposits were attracted at 8.01% - 14.79%, while notes were placed at 8.01% - 14.52%.
Over Quarter I the reserve requirement was left unchanged. The reserve requirement on liabilities in the national currency and precious metals stood at 0.5%, on foreign currency liabilities at 1%, and on liabilities to the non-resident financial sector and settlements with international financial institutions 0%.

Table 5. Reserve requirement, %

<table>
<thead>
<tr>
<th>Date</th>
<th>Foreign currency denominated liabilities</th>
<th>Liabilities in manat and precious metals</th>
<th>Funds attracted from n/resident financial sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>01.05.2011</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>01.07.2011</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>01.08.2014</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>01.03.2015</td>
<td>0.5</td>
<td>0.5</td>
<td>0.5</td>
</tr>
<tr>
<td>30.12.2015</td>
<td>0.5</td>
<td>0.5</td>
<td>0.5</td>
</tr>
<tr>
<td>03.03.2016</td>
<td>1</td>
<td>0.5</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: CBA

Reserve requirements were still applied on an averaging basis, to allow more flexible management of liquidity by banks.

Monitoring findings display that banks’ cumulative balances on correspondent accounts with the CBA considerably exceeded amounts to be maintained as required reserves over the reported period.
3.3 Money supply

Tailored money supply maintained the best possible balance between realization of macroeconomic stability targets and coverage of the economy with liquidity.

Money base in manat increased by 10.9% to AZN 9471 million as of the end-period. Higher money supply contributed to liquidity coverage of the economy and uninterrupted payments. Demand for money is still driven by demand of the fiscal sector and the banking system for liquidity.

Cash in circulation – the structural element of money base – decreased by 0.4%. On the other hand, balance of correspondent accounts in manat increased by 3.6 times.

Broad money supply in manat (M2) increased by 4.3% in I quarter and reached to AZN 13005.9 million as of the end-period.

Cash stock, savings of individuals and deposits of legal entities in the structure of money supply in manat (M2) performed differently: whereas cash stock decreased by 1.2%, savings of individuals in manat increased by 8.6%, and deposits of legal entities increased by 3.2%.

Table 6. Money aggregates, mln. manat

<table>
<thead>
<tr>
<th></th>
<th>01.04.17</th>
<th>01.01.18</th>
<th>01.04.18</th>
</tr>
</thead>
<tbody>
<tr>
<td>M0</td>
<td>6145</td>
<td>7490</td>
<td>7404</td>
</tr>
<tr>
<td>M1</td>
<td>8411</td>
<td>10544</td>
<td>10692</td>
</tr>
<tr>
<td>M2</td>
<td>10982</td>
<td>12466</td>
<td>13005</td>
</tr>
<tr>
<td>M3</td>
<td>19903</td>
<td>22772</td>
<td>22459</td>
</tr>
</tbody>
</table>

Source: CBA

Term savings and deposits in manat increased by 20.4%, while demand deposits increased by 7.7%. Term deposits of individuals in manat increased by 16.2%.

Broad money supply (M3) decreased by 1.4% to AZN 22459 million as of the end-period.
3.3 Money supply

Savings of individuals in manat increased by 8.6%, while their foreign currency denominated deposits decreased by 2.4%. As a result, dollarization of deposits of individuals dropped to 64.1% from 66.5% at the beginning of the year.

Dollarization of bank deposits decreased – the share of foreign currency denominated savings and deposits in M3 money aggregate was 45.3% early the period, and 42.1% end period.
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