

**Additional support actions proposed by the Central Bank of Azerbaijan as part of the implementation of the Actions Plan approved by the Cabinet of Ministers with respect to the implementation of Item 10.2 of Decree#1950 of the President of the Republic of Azerbaijan dated 19 March 2020 on ‘A number of measures to mitigate the negative impact of coronavirus (COVID-19) pandemic and consequent sharp fluctuations in global energy and stock markets on the economy of the Republic of Azerbaijan, macroeconomic stability, employment and businesses’**

The Cabinet of Ministers has approved an Actions Plan with respect to the implementation of the Decree of the President of the Republic of Azerbaijan on mitigation of negative impact of coronavirus (COVID-19) pandemic and sharp fluctuations in energy markets on the country economy, macroeconomic stability, employment and businesses. The Actions Plan provides for protection of employment and income of the population and maintaining governmental support for businesses in diverse areas, including regulating credit liabilities.

In general, the Central Bank of Azerbaijan (CBA) is planning to take additional support measures in several areas to have these actions implemented and maintain financial service continuity for businesses and the population, continue lending of the economy and protect the rights of financial service consumers during pandemic.

**I. On support for the population, the economy and the banking sector with regulatory actions during coronavirus pandemic**

*Low economic activity, reduced income of businesses and households and worsened solvency resulting from coronavirus pandemic and sharp fluctuations in global energy markets challenge financial resilience of the banking sector. Consequently, temporary regulatory relief needs to be adopted on mortgage loans to entrepreneurs operating in areas directly affected by the special quarantine regime during the pandemic and individuals. It should be noted that recommendations by international financial institutions to regulatory authorities have been considered when identifying these actions. International financial institutions recommend to take a conservative position in regulatory softening,*

*not to allow regulatory decisions to hide challenges in the financial sector and mainly use stability buffers accumulated in the financial sector.*

### **1. Support for individuals (not involved in entrepreneurship)**

- Restructure mortgage loans issued by 1 March 2020 out of funds of the Mortgage and Credit Guarantee Fund (MCGF) with the Fund's consent (accordingly making amendments to related regulations of the Fund) until 30 September 2020;
- Banks should not deteriorate loan quality during restructuring mortgage loans issued by 1 March 2020 out of funds of the MCGF;
- Banks are recommended not to charge interest fine, penalties and other payments from borrowers in the event of full or partial delay in payment of credit liabilities (principal and interest payments);
- Submit negative information on borrowers, classified as satisfactory as of 1 March 2020, who delay credit debts due to pandemic, to the credit bureau with special notes until 30 September 2020 (not to deteriorate borrowers credit history).

### **2. Protection of interests of and support for businesses directly affected by pandemic**

- Not to deteriorate the quality of a borrower until 30 September 2020 irrespective borrower's financial standing when restructuring satisfactory as of 1 March 2020 loans of entrepreneurs whose loan interest is subsidized under the Actions Plan approved by the Cabinet of Ministers of the Republic of Azerbaijan;
- Restructure loans classified as satisfactory as of 1 March 2020 issued out of funds of state funds (the Entrepreneurship Development Fund, the Agrarian Credit and Development Agency) with the consent of the Funds (making amendments to relevant regulations of the funds) until 30 September 2020 and not to deteriorate loan quality irrespective borrower's financial standing;
- Recommend banks not to accrue and deduct additional interest fines, penalties and other payments from borrowers until 30 September 2020 in the event of delay in payment of credit liabilities (principal or interest);
- Submit negative information on borrowers, classified as satisfactory as of 1 March 2020, who delay credit debts due to pandemic, to the credit bureau with special notes until 30 September 2020 (not to deteriorate borrowers credit history).

### **3. Relax banks' regulatory burden, increase lending capacity and safeguard financial resilience**

- Reduce aggregate capital adequacy ratio on systemically important banks to 11% from 12% until 1 January 2021;
- Reduce aggregate capital adequacy ratio on other banks to 9% from 10% until 1 January 2021;
- Reduce counter-cyclic capital buffer to 0% from 0.5% until 1 January 2021;
- Ignore market and operational risks when calculating banks' capital adequacy indicators until 1 January 2021;
- Reduce the risk coefficient on mortgage loans issued out of banks' own funds as of 1 April 2020 to 50% from 100%;
- Recommend banks to defer dividend payments on results of 2019 until 30 September 2020 and not to pay interim dividends for 2020 to safeguard and strengthen banks' capital position;
- Postpone additional capital requirements on consumer loans until 1 January 2021;
- Postpone inspections in credit institutions (comprehensive and thematic) until 30 September 2020 except for the cases where immediate response is required.

#### **4. Increase access of certain economic areas to credit resources**

- Reduce risk rate on loans issued to producers of medical supplies and equipment to 20% from 100%.

### **II. On reducing expenses of economic agents on payment services during coronavirus pandemic**

*Low economic activity, dropped income of businesses and households due to coronavirus pandemic and sharp fluctuations in global energy markets will negatively affect indicators of use of payment services. The following actions are provided to stimulate and reduce expenses on cashless payment services:*

- Reduce service fees charged from banks in interbank payment systems to about 50% until 30 September 2020;
- Recommend banks to decrease tariffs for payment services to customers likewise;
- Recommend to reduce acquiring tariffs to 50% until 30 September 2020 to reduce costs on acquiring of payments with cards of business entities.

### **III. On maintaining insurance service continuity and protecting the rights of the insured**

*Low economic activity amid the special quarantine regime has contained access to insurance services. Under the current circumstances, the size of insurance premiums accumulated by the sector is decreasing. Minimization of a physical contact between the insured and insurers has challenged management of insurance claims. At the same time, continuing insurance payments on the backdrop of low sales has complicated insurers' liquidity management. Given all the above, it is planned to implement measures in the following areas:*

**1. Maintain access to insurance services and recommend insurers to effectively use electronic facilities**

- Insurers to accept appeals by the insured on regulation of damages via e-mails and electronically (including video and photo coverage of accidents);
- Grant a grace period to the insured directly affected from the special quarantine regime on voluntary insurance contracts in payment of insurance premiums until 30 September 2020;
- Insurers should take necessary managerial and technological measures to fully adjust business processes to pandemic related new operational conditions;
- Insurers should ensure entering into voluntary insurance agreements electronically (taking into account the requirements of Articles 899 and 903.7 of the Civil Code and the Law on Insurance Activity);
- Insurers should disclose information on the work regime during the special quarantine regime and relevant procedures on regulation of damages on their websites;
- Insurers should maintain nonstop operation of hotlines and receive the insured via video calls to protect the rights of the insured.

**2. Grant relevant regulatory holidays to insurers**

- Consider over 90-day pass due receivables emerged after 1 March 2020 on the insured directly affected by the special quarantine regime in calculation of insurance reserves and own funds of insurers until 1 January 2021;
- Postpone mobile (the next planned) inspection of insurers until 30 September 2020 except for the cases that require immediate response (extraordinary).

**3. Support insurers in liquidity management and safeguard financial resilience**

- Recommend the Compulsory Insurance Bureau (CIB) to postpone payment of calendar fees to the CIB until 30 September 2020;

- Recommend insurers to defer dividend payments on results of 2019 until 30 September 2020 and not to pay interim dividends for 2020 to safeguard and strengthen capital position.

#### **IV. On decreasing negative impact of the coronavirus (COVID-19) pandemic on capital market participants**

*The size of transactions of investment companies with securities is decreasing amid low economic activity due to the special quarantine regime. Issuers postpone planned issue of bonds, the size of managed client portfolios shrinks. This has a downward effect on capital market participants' financial indicators and profitability in particular. To decrease the effect of the current situation on capital market intermediaries, issuers and investors and give additional stimulus the CBA is planning to take the following actions in light of the recommendations of the International Organization of Securities Commissions (IOSCO) that sets international standards in securities markets:*

##### **1. Grant regulatory holidays to securities market participants**

- if investment companies violate capital requirements, the CBA to postpone enforcement measures until 1 January 2021;
- submission of annual audited financial statements by investment companies and the stock exchange to the CBA and disclosure to the public to be extended until 30 September 2020;
- extend disclosure of annual and semiannual reports to the public by issuers whose securities are publicly offered and traded in the regulated market for 1 (one) month;
- postpone examination of licensed persons in the securities market (investment companies, stock exchange) until 30 September 2020.

##### **2. Grant discounts to securities market participants**

- the National Depository Center should postpone tariffs on deals on shares in the stock exchange and on bonds in the secondary market, as well as registration of repo transactions until 30 September 2020;
- the Baku Stock Exchange to annul listing tariffs on corporate bonds from 1 April 2020 to 1 January 2021;
- shift settlements on transactions with government securities in the Stock exchange, secondary market transactions on CBA notes and mortgage bonds from 'T+1' to 'T+0' regime until 30 September 2020;
- minimize the scope of documents required by the Baku Stock Exchange at public offering until 1 January 2021 (only require an excerpt from the state register of securities and emission prospectus).