



Center for Analysis of
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© Objectives of the Center for Analysis of Economic Reforms and Communication is to develop proposals for realization of economic reforms based on analytical data by conducting analyses and researches on macro - and micro - economic levels directed to ensuring sustainable economic development of the country, as well as prepare mid – and long-term forecasts, provide government authorities and agencies with the same and organize promotion of the achievements made by the Republic of Azerbaijan in various sectors of the economy.

AMENDMENTS TO THE LAW OF THE REPUBLIC OF AZERBAIJAN “ON REGULATION OF CURRENCY



President of the Republic of Azerbaijan signed a Decree on implementation of the Law № 649-VQD “on amendments to the Law of the Republic of Azerbaijan on currency regulation”, dated on 25 April, 2017.

As part of the amendments the Article 12-10.1 of the Law defines the pledged amount as following: 50 000 (fifty thousand) AZN and 50 000 (fifty thousand) USD for Baku city; 25 000 (twenty five thousand) AZN and 25 000 (twenty five thousand) USD for Absheron region, Sumgait and Ganja cities; 10 000 (ten thousand) AZN and 10 000 (ten thousand) USD for other cities and rayons, as well as Nakhchivan Autonomous Republic.

According to the Decree, country President assigned several tasks in order to ensure the implementation of the Law of the Republic of Azerbaijan “on Currency Regulation”.

The Decree tasked the Cabinet of Ministers of the Republic of Azerbaijan to prepare and submit within three months to the President of the Republic of Azerbaijan proposals on aligning the Laws of the Republic of Azerbaijan and regulatory acts of the President of Azerbaijan, as well as the normative legal acts of the Cabinet of Ministers and central executive authorities with the Law of the Republic of Azerbaijan “on amendments to the Law of the Republic of Azerbaijan on currency regulation”.

Furthermore, the Financial Markets Supervision Chamber is tasked to prepare and enter into the Registry of Legal Acts of the Republic of Azerbaijan the following normative acts within three months and to report the President of the Republic:

- Rule of concluding currency transaction - upon the consent of the President of the Republic of Azerbaijan, as specified by the part 5 of the Article 3 of the Law on Currency Regulation,;
- Rules of accounting of revenues and

costs of currency exchange transactions by persons who obtained license for foreign exchange transactions – upon consent by the Ministry of Taxes, as specified by the part 9 of the Article 3 of the Law on Currency Regulation;

- Application form for obtaining license for currency exchange activity, as specified by the Article 13-1.1 of the Law on Currency Regulation;
- Under the Article 13-9 of the Law on Currency Regulation, rule of exercising control on currency exchange activity;
- Form of the comment necessary for returning the pledged amount as specified by the Article 13-10.4 of the Law on Currency Regulation;
- Organizational, technical supply and safety requirements for currency exchange transactions, unified forms for accounting, reporting and documentation of currency exchange transactions and rules and terms of their submission, places where exchange facilities will be located, as well as lists of approving documents as specified by the Article 13-1.2.9 of the Law on Currency Regulation.

Local executive authorities, upon the consent of the Ministry of International Affairs, Ministry of Culture and Tourism and the Financial Markets Supervision Chamber should ensure within a month the allocation of appropriate places to the Financial Markets Supervision Chamber for entities which will perform exchange services in their administrative territorial units.

RULES ON THE TRANSFER OF NON-PERFORMING (TOXIC) ASSETS OF INSOLVENT BANKS AS A PART OF THEIR RESOLUTION AND RECOVERY MEASURES



In accordance with the Presidential Decree dated 03 May 2017, the “Rules on transfer of non-performing (toxic) assets of insolvent banks as a part of their resolution and recovery measures” was approved by the President of the Republic of Azerbaijan, Ilham Aliyev.

This Rule has been developed in accordance with the Article 164.1.36 of the Tax Code of the Republic of Azerbaijan and establishes the methods of transferring the non-performing (toxic) assets of insolvent banks as part of their resolution and recovery measures. Transfer of non-performing (toxic) assets within the resolution and recovery measures undertaken for insolvent banks means the issuance of property rights to these non-performing (toxic) assets and alienation of both, property rights over non-performing (toxic) assets and rights to pledge the collateral with respect to non-performing (toxic) assets.

Pursuant to the Rules, assets classified as non-standard assets in accordance with the normative acts of Financial Markets Supervision Chamber, as well as collateral on such assets are defined as non-performing (toxic) assets. Besides, other concepts used in this Rule shall have the same definitions as specified by the Law of the Republic of Azerbaijan On Banks.

Transfer of non-performing (toxic) assets of insolvent banks as part of their resolution and recovery measures must be conducted as following:

- Prior to transfer of non-performing (toxic) assets, the bank must receive the opinion of Financial Markets Supervision Chamber on recognition of such assets as non-performing (toxic) assets. Such opinion must be issued within 20 calendar days.
- Transfer of non-performing (toxic) assets of insolvent banks as a part of their resolution and recovery measures must be conducted in compliance with civil contracts as specified by the Civil Code of the Republic of Azerbaijan.
- If non-performing (toxic) assets are transferred together with other assets, the contract should state separately the information

on non-performing assets.

- Price of non-performing (toxic) assets transferred should be defined by independent evaluator (independent evaluators) based on mutual consent of the parties to the contract.
- The contract on transfer of non-performing (toxic) assets should indicate at least the followings:

- Parties to, subject and amount of the contract;
- Right and duties, as well as responsibilities of parties;
- Parties to the contract establishing the property right for insolvent bank over the non-performing (toxic) assets.

According to the Decree, acts of the President of the Republic of Azerbaijan, normative-legal acts of the Cabinet of Ministers, as well as other central executive authorities of the Republic of Azerbaijan should be aligned with this Decree and submitted as a proposal to the President of the Republic of Azerbaijan. All remaining issues arisen from this Decree should be settled by the Financial Markets Supervision Chamber of the Republic of Azerbaijan

MAIN DIRECTIONS (PROGRAM) OF THE UTILIZATION OF THE ASSETS OF THE STATE OIL FUND OF THE REPUBLIC OF AZERBAIJAN AND ITS INVESTMENT POLICY FOR 2017



“Main directions (program) of the utilization of the assets of the State Oil Fund of the Republic of Azerbaijan and its investment policy for 2017” was approved by the Decree of the President of the Republic of Azerbaijan, dated 12 May, 2017.

According to the approved program, directions of expenditures of the State Oil Fund of the Republic of Azerbaijan are as follows:

- Financing the several measures on social condition of refugees and IDPs (internally displaced person);
- Transfer to 2017 State Budget of the Republic of Azerbaijan;
- Transfer to the Central Bank of the Republic of Azerbaijan for ensuring macroeconomic stability;
- Financing the reconstruction of the Samur-Absheron irrigation system;
- Financing "Baku-Tbilisi-Kars railway" project;
- Financing the "State Program on the Education of Azerbaijani Youth abroad in 2007-2015 period";
- Financing the share of the Republic of Azerbaijan in Southern Gas Corridor projects.

Investment policy of the State Oil Fund of the Republic of Azerbaijan
In 2017, the purpose of the investment policy of the Republic of Azerbaijan is to implement an investment policy aimed at maximizing return while minimizing the probability of substantial losses by the State Oil Fund of the Republic of Azerbaijan (hereinafter referred to as "Oil Fund").

The total value (weighted average size) of the investment portfolio of the Oil Fund in 2017 is forecasted at 51.2 billion AZN.

USD is the base currency of the investment portfolio of the Oil Fund. In total 90% of the total value of the investment portfolio of the Oil Fund could be composed of the following currencies provided that the credit rating issued by international credit agencies is not less than "A" (based on Standard & Poor's, Fitch credit rating scale) or "A2" (based on Moody's credit

rating scale):

- 50 % invested in assets denominated in USD;
- 35 % invested in assets denominated in EUR;
- 5 % invested in assets denominated in GBR;
- Remaining 10 % invested in assets denominated in other currencies.

Investment portfolio of the Oil Fund (hereinafter—Portfolio) consists of the following sub-portfolios as well:

- Debt obligations and money market instruments portfolio – 60% of the total value (portfolio) along with maximum lower deviation of 5% (up to 5% composed of stock funds investing in equities);
- Equity portfolio – up to 25 percent of the total value of investment portfolio (up to 5% composed of stock funds investing in equities);
- Real estate portfolio – up to 10% of the Portfolio along with maximum upper deviation of 2%;
- Gold portfolio – up to 5% of the Portfolio along with maximum upper deviation of 3%.

Benchmark of the investment portfolio

- The benchmark of the debt obligations and money market instruments portfolio (excluding assets denominated in Euro) is 6 (six) months LIBOR (interest rate published by the British Bankers' Association) for corresponding currencies.
- The benchmark for the EURO denominated assets in the debt obligations and money market instruments portfolio is 6 (six) month EURIBOR.

- The benchmark for the currencies without any corresponding LIBOR can be a widely used 6 (six) months interest rate that banks charge each other for money interbank deposits.

- The benchmark for the equity portfolio is MSCI Stock Market Index.

Risk management requirements

Interest rate risk: The actual weighted average investment duration of the debt obligations and money market is determined by the Oil Fund depending on the current situation in the global financial markets and should not exceed 48 months.

Credit risk. Credit rating of investment assets where foreign exchange assets of the Oil Fund is reserved and the requirements for upper limit of the special weight of 5 percent for debt obligations with non-investment rating and deposits in financial structures set in paragraph eight of the Clause 3.3 of the "Rules on management of foreign currency assets of the State Oil Fund of the Republic of Azerbaijan" approved by the Decree of the President of the Republic of Azerbaijan №511 dated June 19, 2001 shall not apply to the assets of the Oil Fund included into its investment made for the purpose of implementation of the measures set by the acts of the President of the Republic of Azerbaijan.

In addition, the maximum average weight of one specific security or one issuer (excluding depository banks) in the Portfolio should not exceed 15% of the total value of the Portfolio.

Liquidity requirements. Liquidity of the Oil Fund's assets should be at a reasonable level in order to ensure accurate and timely execution of planned money and other transfers related to budgetary expenditures of the Oil Fund. To ensure this level, a part of assets equivalent

to not less than USD 100 million (minimum liquidity level) should be kept in short-term money market instruments with high liquidity. If minimum liquidity level is reached, it should be restored within 7 (seven) calendar days.

Requirements with respect to external managers. The credit rating of the involved external manager or his/her subsidiary should not be less than the investment-level credit rating of international credit agencies (Standard and Poor's, Fitch or Moody) or should have at least 5 years of positive experience and competency in management of assets with a value of not less than USD 1 (one) billion.

Furthermore, the maximum allocation to external managers should not exceed 60% of the total value of the Portfolio. The maximum allocation to one external manager should not exceed 5% of the total value of the Portfolio. Assets of the Oil Fund allocated to the World Bank to be managed within the RAMP program should not exceed USD 500 million.

It is also worth to note that the responsibilities of external managers involved in management of the assets of the Oil Fund and the period set for management should be reflected in the agreement signed between the Oil Fund and the managers.



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