

What tools can emerging economies use in an environment of rising rates?

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**The views in this presentation are these of the author and do not necessarily represent the views of the Central Bank of Azerbaijan.*



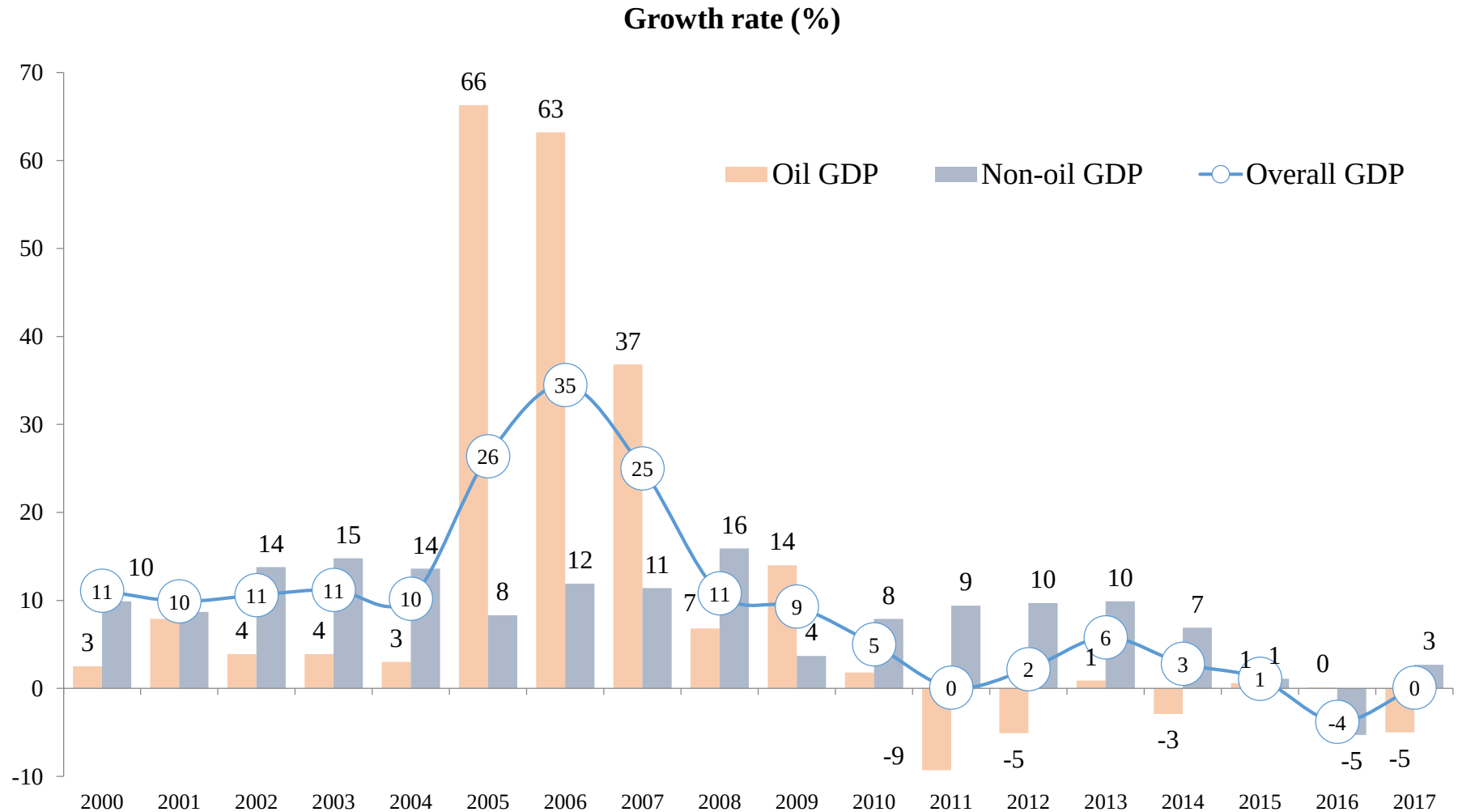
Outline

1. Stylized facts about Azerbaijan's economy
2. Possible effects of rising interest rates
3. Monetary policy instruments

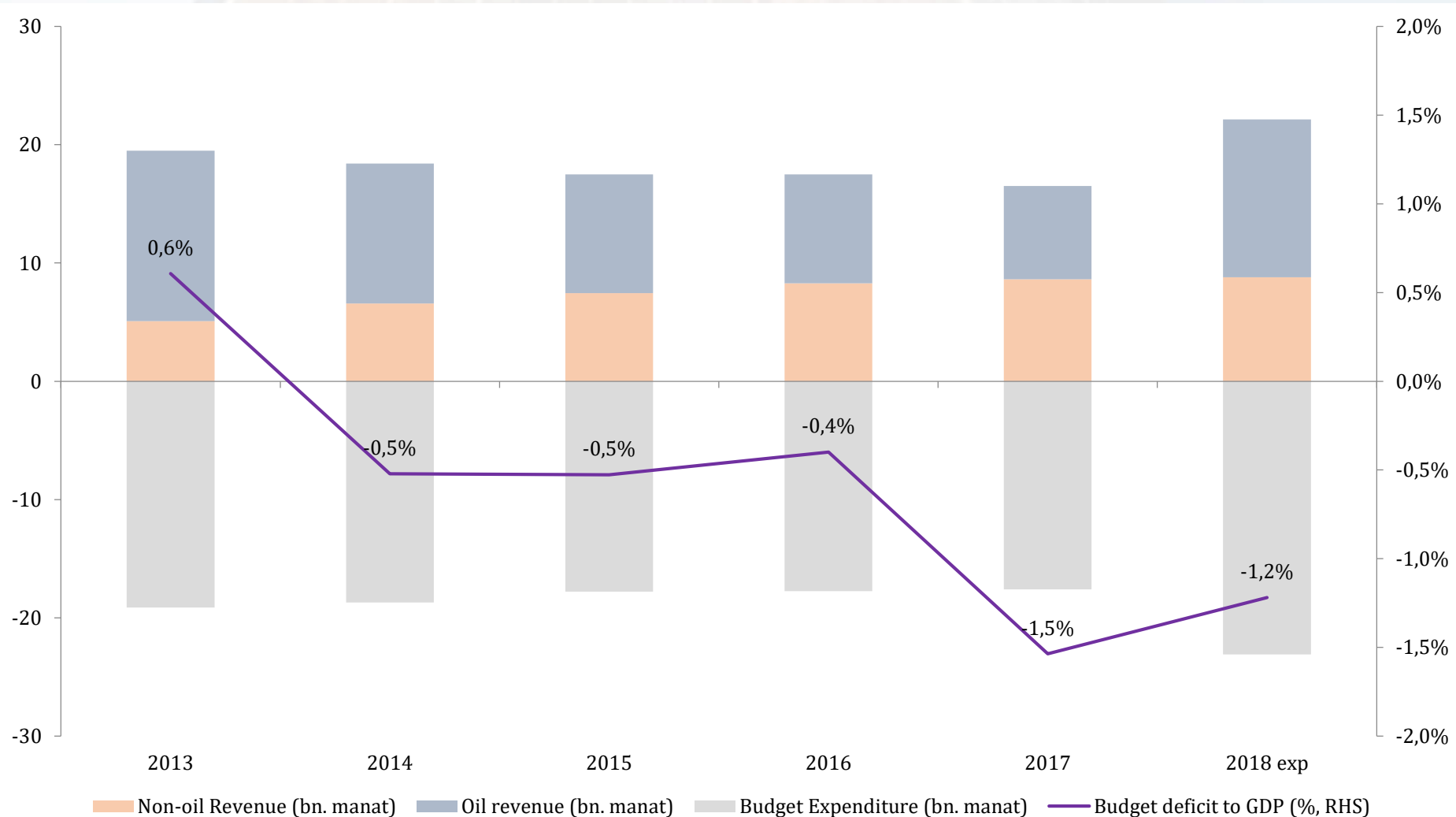
1. Stylized facts about Azerbaijan's economy

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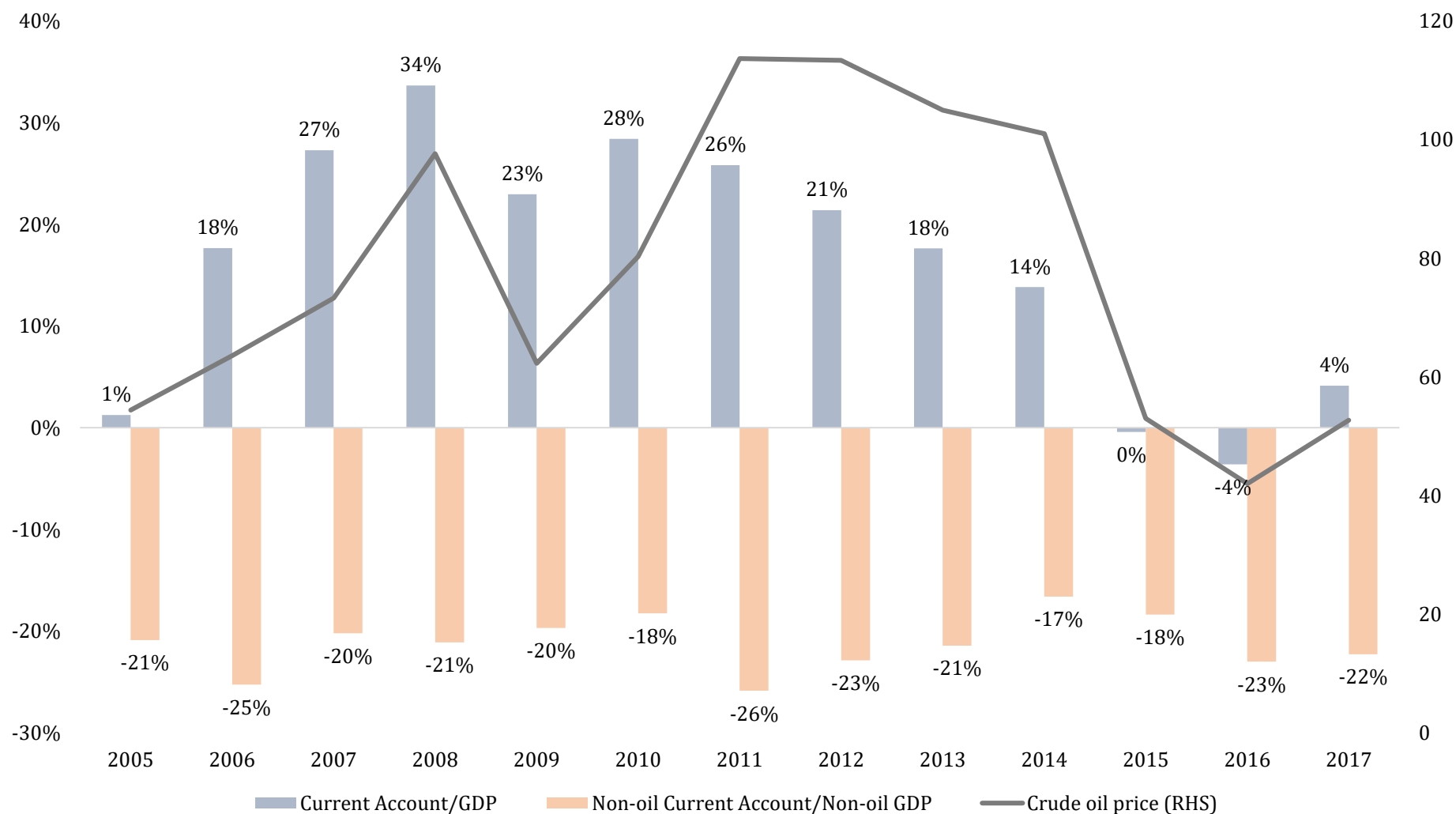
Economy experienced high economic growth for the last two decades



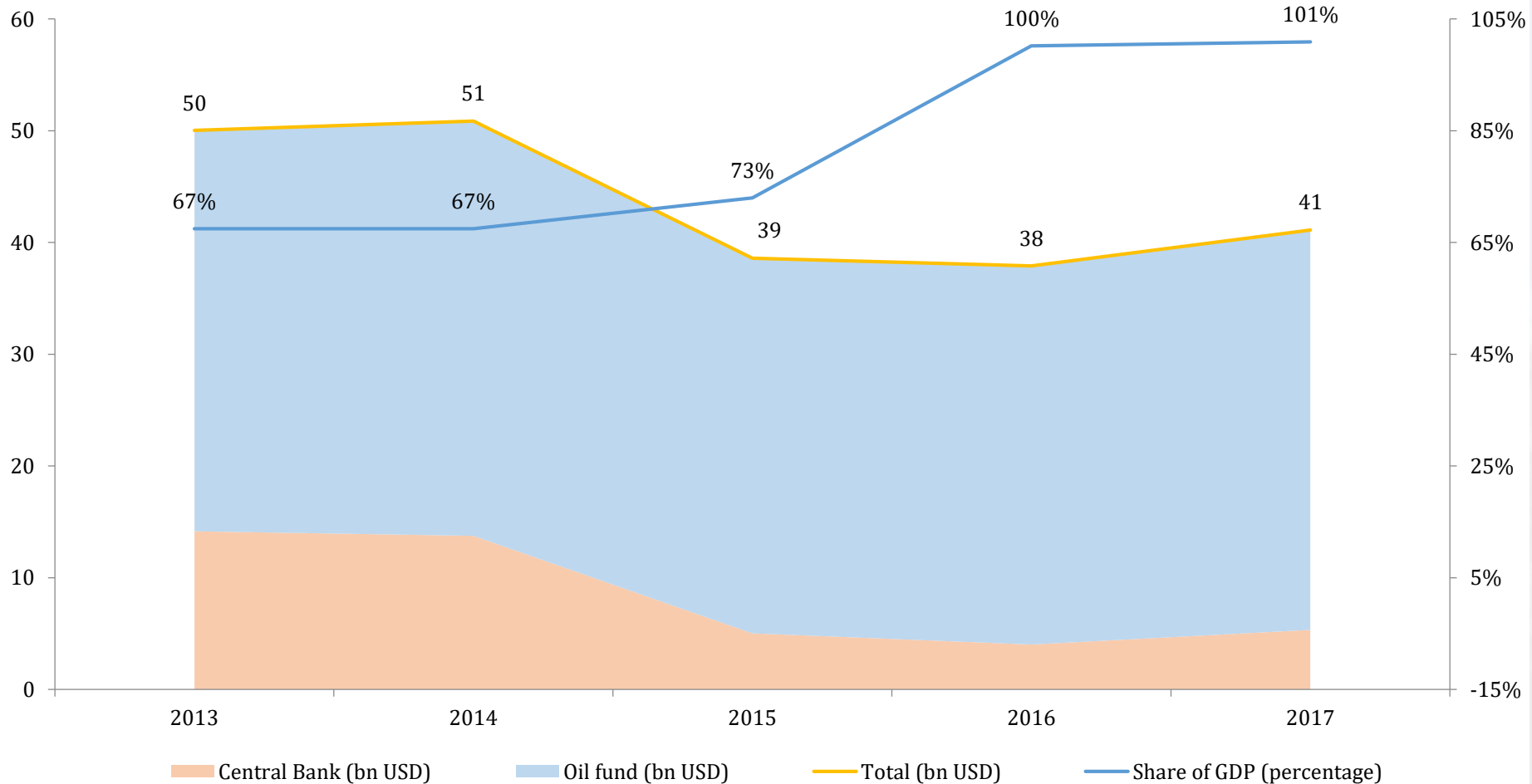
Oil revenue is an important source of budget revenue



External sector highly correlated with the oil price



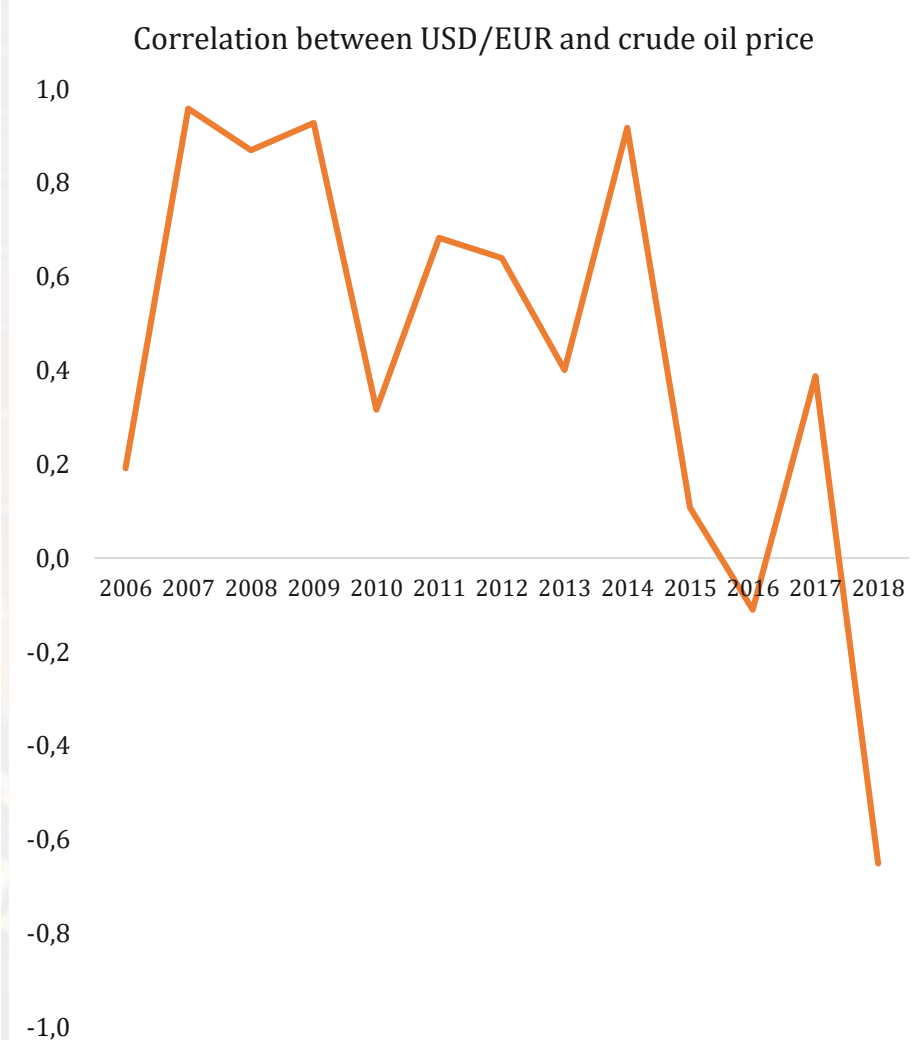
Country possesses the high level of strategic reserves



2. Possible effects of rising interest rates

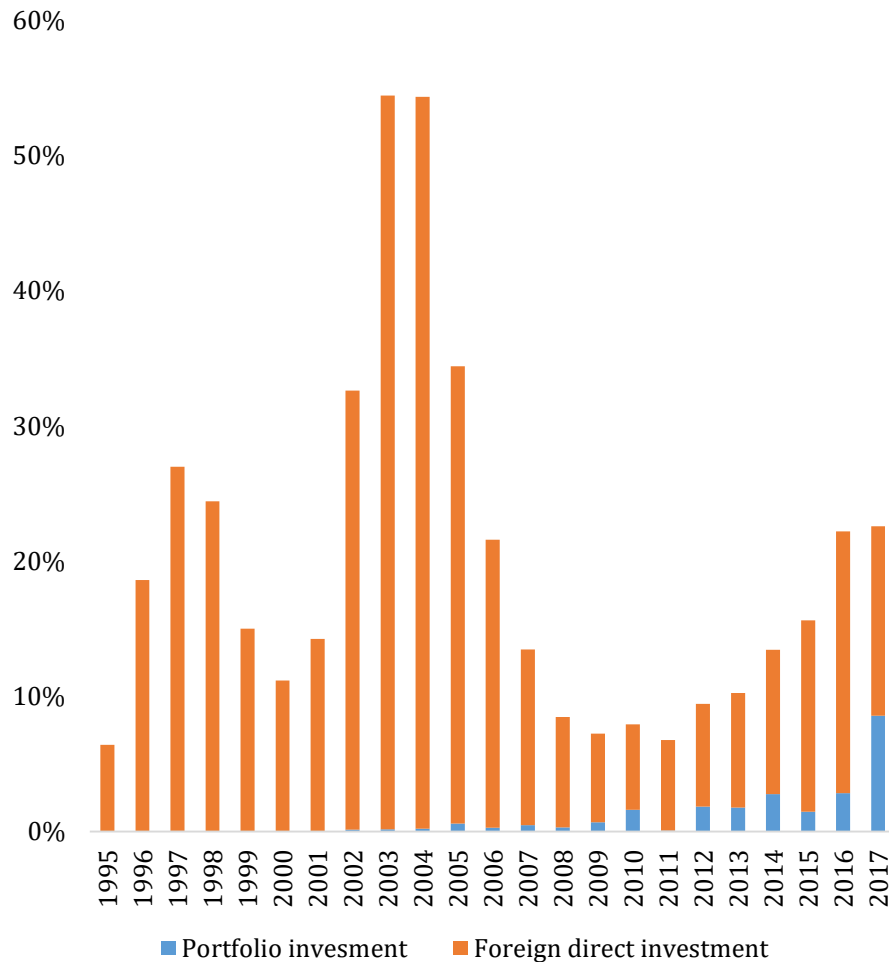
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It seems commodity (oil) exporters possess immune against interest rate increase

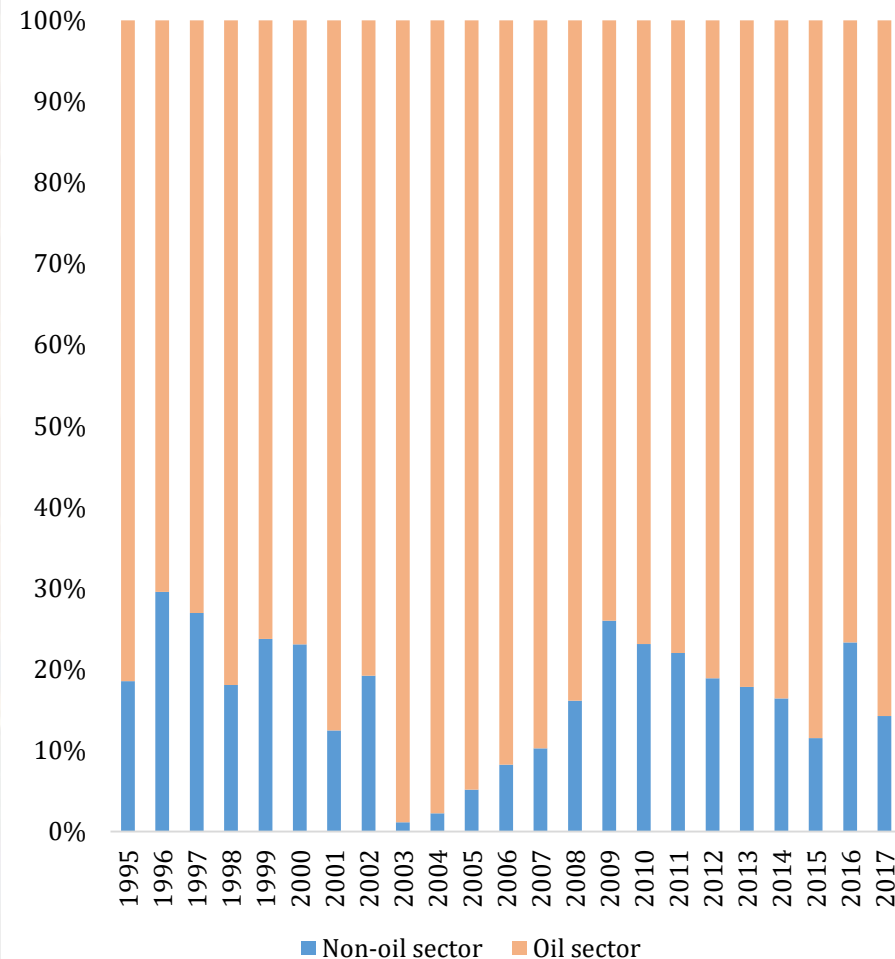


A large amount of FDI is directed to the oil sector

Foreign Direct Investment as the share of GDP

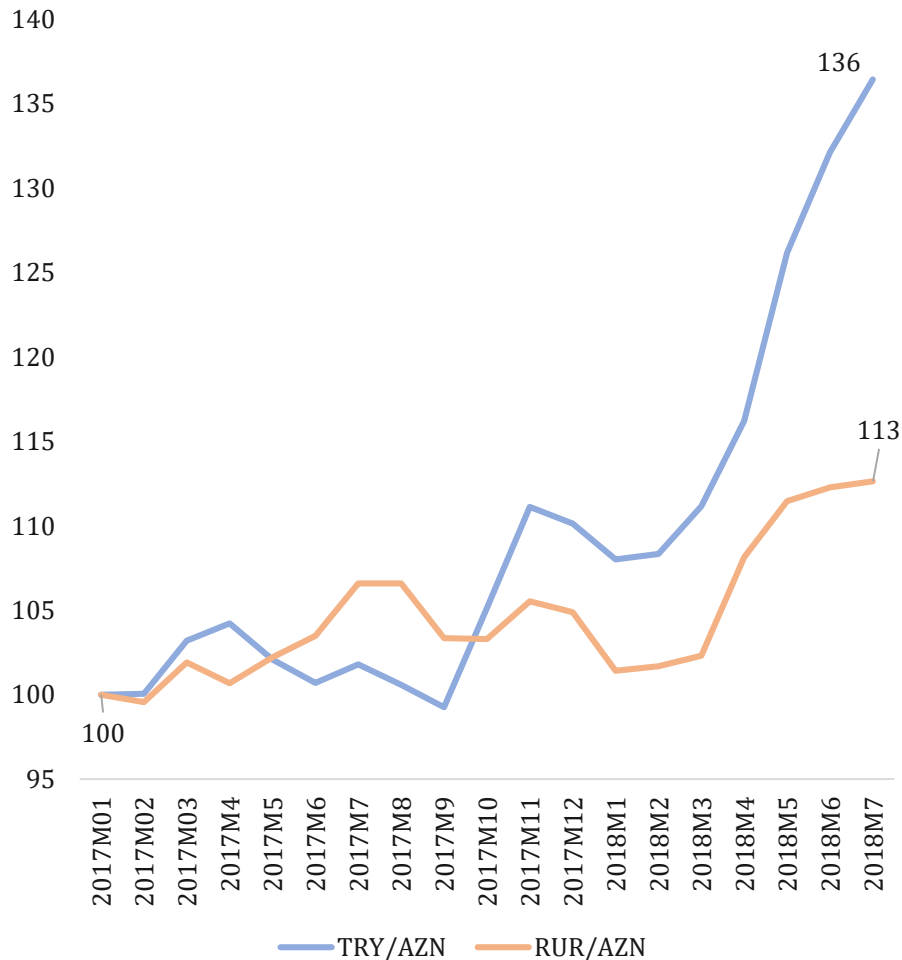


Structural division of investment

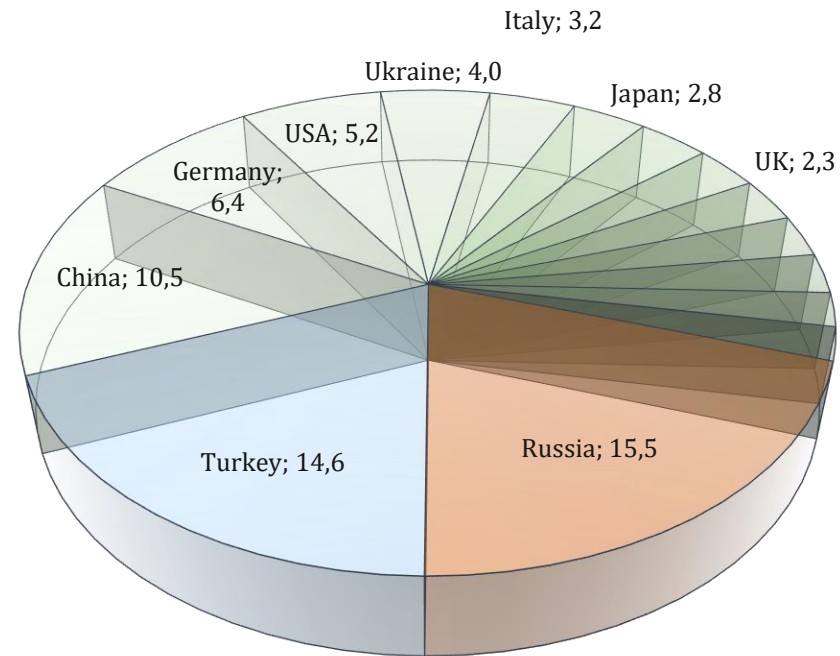


Two main partners' exchange rate depreciated due the change of rising interest rate environment?!

Exchange rate (2017 M1=100)



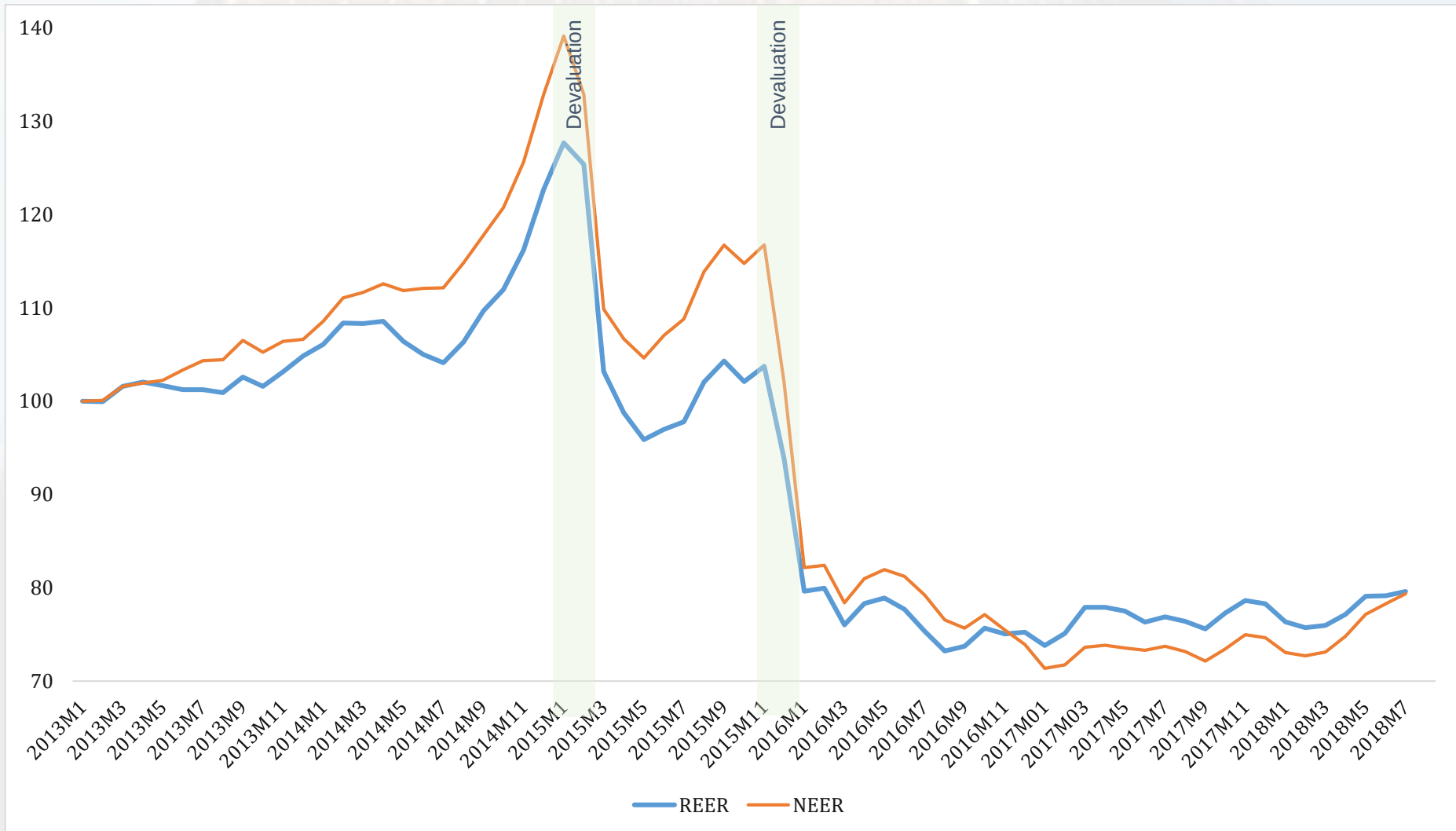
Import share of main trading partners (p.p.)



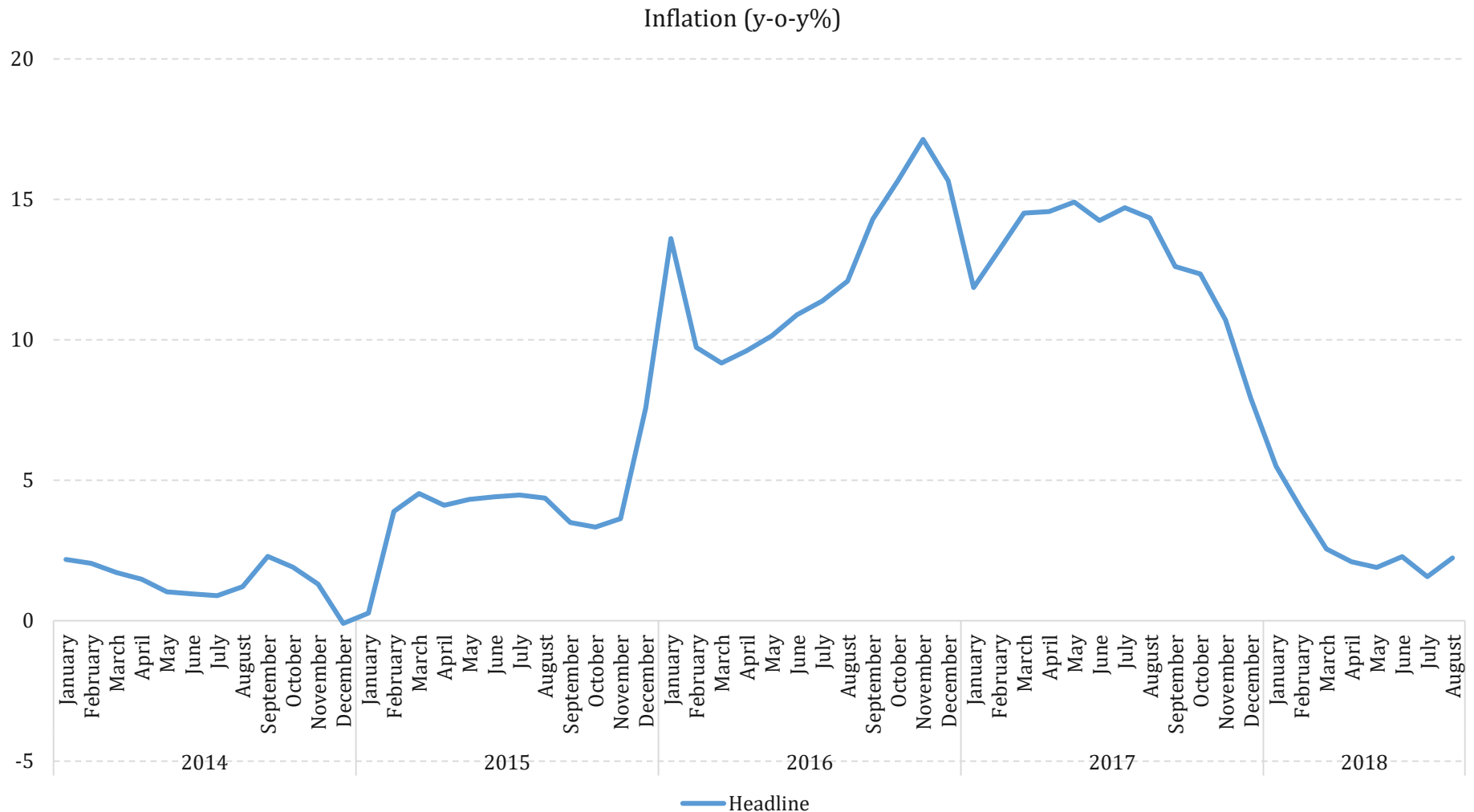
3. Monetary policy tools

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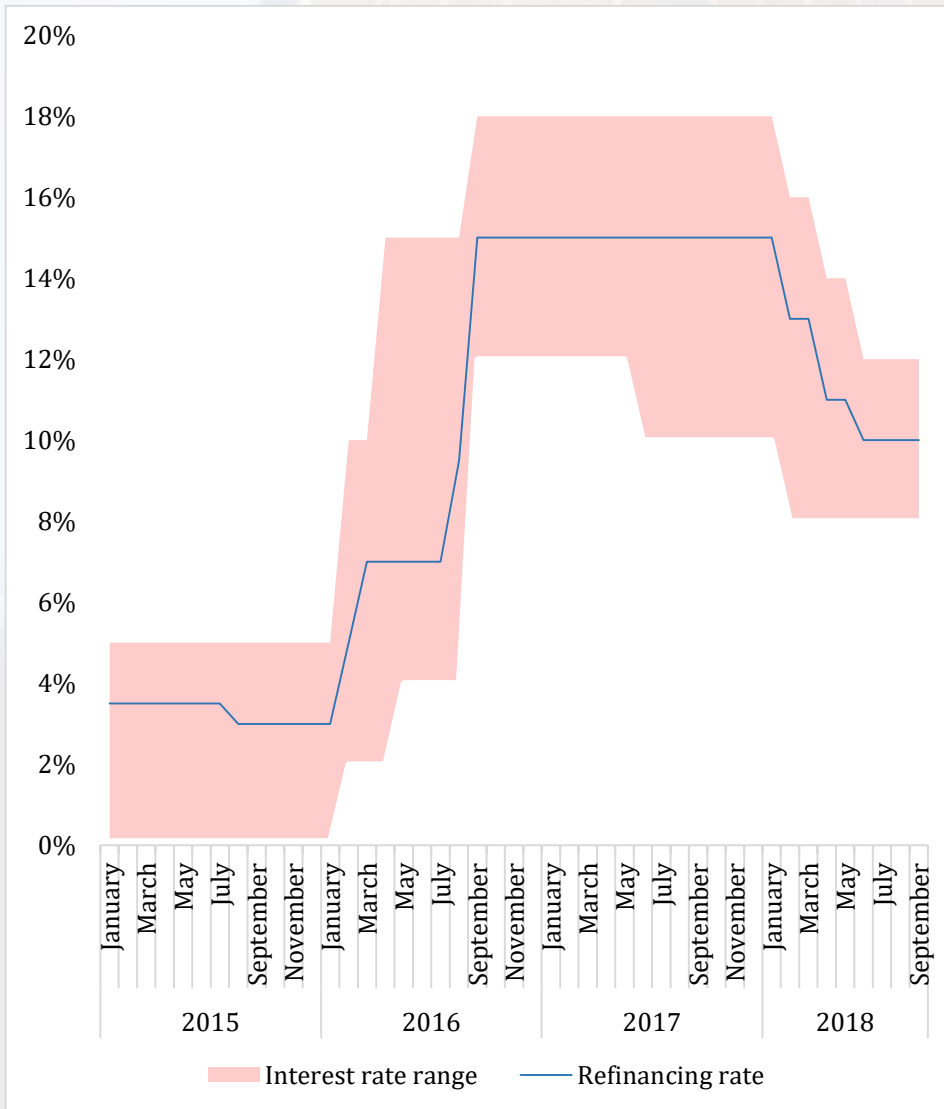
Two step devaluation increased the competitiveness of the economy



Single digit inflation was achieved through the complex policy steps conducted by CBA



Central Bank adjusted interest rate corridor to achieve its monetary policy target



Monetary policy instruments

Standing facilities:

- Liquidity absorption: 1-7 days Repo
- Liquidity provision: 1-7 days reverse-Repo

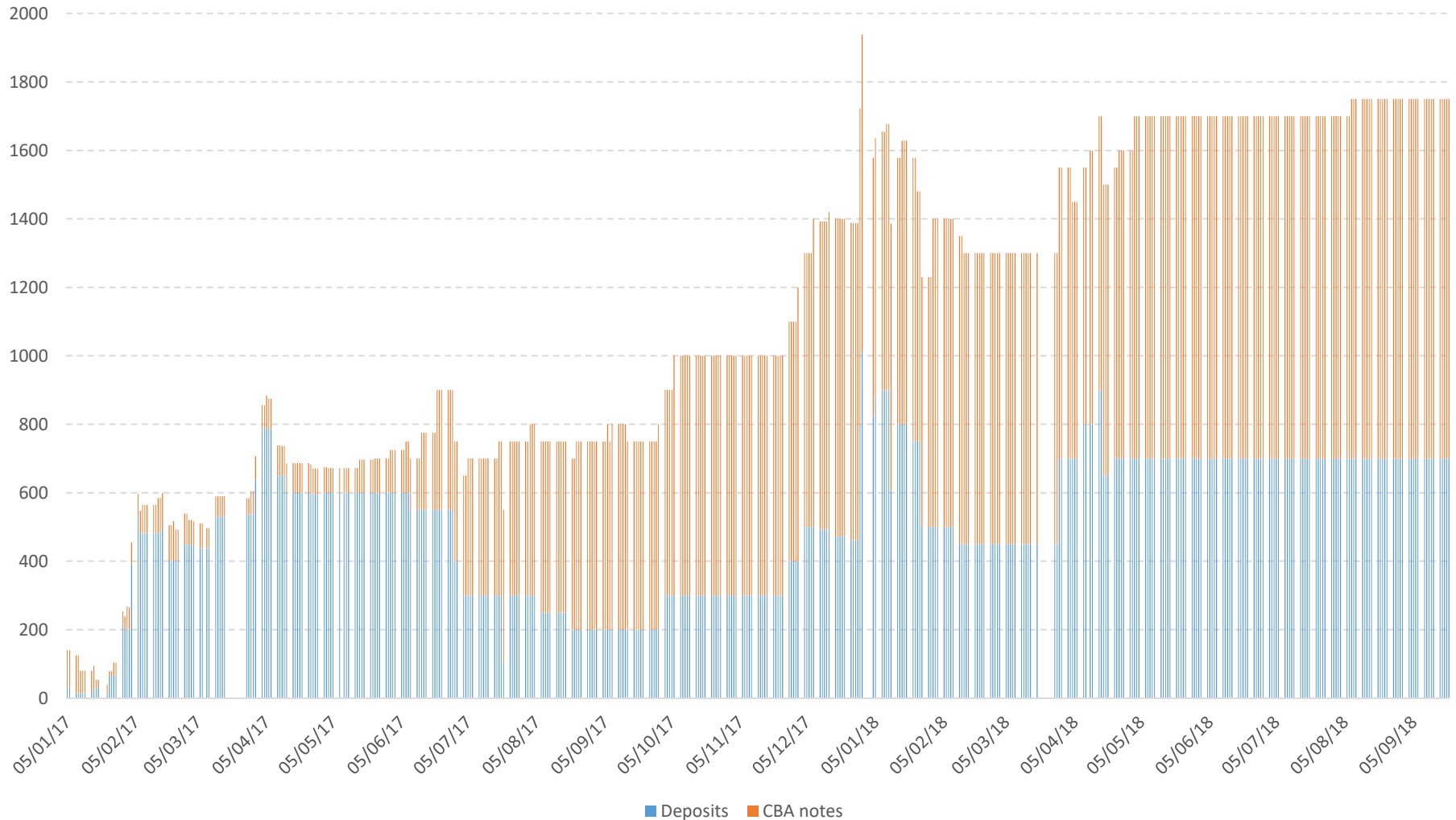
Open market operations:

- Liquidity absorption: deposit auctions, CBA notes, FX swap
- Liquidity provision: refinancing loans, FX swaps

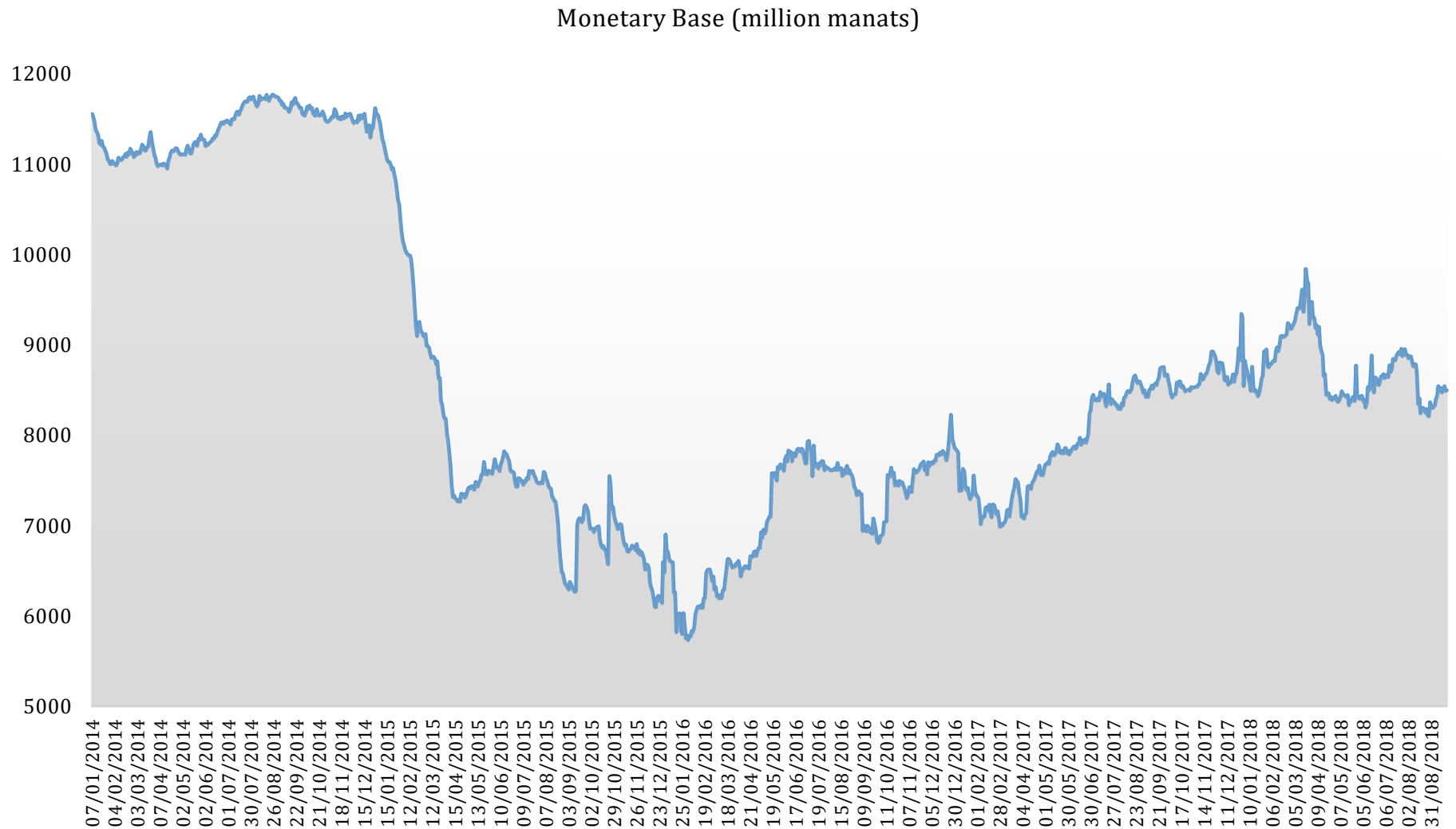
Reserve-requirements:

- National currency, foreign currency etc.)

Deposit and note auctions were introduced to sterilize excess liquidity in the banking system



Central Bank targeted monetary base as its nominal anchor



*Monetary base=Cash in Circulation + Bank reserves at Central Bank

Summary

1. Oil sector is important for the economy
2. It seems oil exporters have immune against rising interest rate
3. Rising interest rates indirectly affect economy through exchange rate
4. The monetary policy tools are primarily used to achieve lower inflation



Thank you

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