

Fergana Nowruz HAMIDLI

Azerbaijan State University of Economics, doctoral student

CHARACTERISTIC ASPECTS OF MONETARY REGULATION OF SUSTAINABLE ECONOMIC GROWTH IN AZERBAIJAN IN THE POST-OIL ERA

Summary

After the reforms, a financial mechanism was not established in Azerbaijan to speed up the solution of economic problems, which is also confirmed by the events related to the global financial crisis. It was important to ensure the qualitative development of the economy and create conditions for long-term and sustainable development. The previous development strategy did not ensure the continuous growth of the Azerbaijani economy and the realization of the economic interests of the majority of the population of Azerbaijan. The transition to sustainable economic growth requires an adequate monetary mechanism as a basic condition for ensuring national interests and achieving economic security. The urgency of reviewing the features of the monetary mechanism is related to the importance of maintaining and increasing the achievements of financial stabilization and strengthening the role of the state monetary policy in the implementation of the sustainable economic growth strategy in Azerbaijan. The experience of many countries of the world proves that the effective combination of various instruments of state regulation of the monetary and credit sphere allows to solve the problem of temporary lack of liquidity, at the same time to prevent it from turning into a crisis of solvency, as well as to effectively use the opportunities for growth and development of the economy as a whole.

Key words: *monetary, economic growth, economy.*

UDC: 339.74

JEL: E50

Introduction

The monetary easing that started in Azerbaijan in 2018 shows that we have not fallen into a "liquidity trap". Although the money supply has increased by more than 50 percent since 2018, the average interest rate on new loans granted in manat has decreased by 5.5 percent. Increased risks in the real sector under the influence of the pandemic have limited the further reduction of interest rates. That is, interest rates have fallen due to the increase in the money supply, and therefore it is still too early to talk about the "liquidity trap" that will arise in the event that the increase in the money supply cannot lower interest rates and economic growth slows down. In addition, the non-oil industry, agricultural sector, as well as information and communication services are increasing mainly due to productivity. This means that the growth of money supply supports the growth of productive sectors. Starting from 2021, when economic growth is restored, monetary growth should be directed to increasing productivity. Growth with low productivity is short-lived: such growth stops as soon as government support ends. As Professor Hausman from the United States said, we should

not be satisfied with just "picking the low-hanging fruits", but should move towards the development of more productive areas. [2]

For liquidity management, the Central Bank uses deposit auctions, placement of bills, term of sterilization portfolio and other tools. This year, the main goals are to strengthen the transmission effect of monetary policy, revive the money market and maintain the shape of the profit curve. The yield curve shows the state and prospects of the economy and if the curve has an upward trend, economic growth is predicted and vice versa.

There is enough money in the banking sector of Azerbaijan, the volume of liquid assets is 9 billion manats, which is twice the standard of the instant liquidity ratio. In addition, banks' capital adequacy is sufficient to cover losses. Currently, the main goal is to direct liquidity to restore economic growth. To reduce risks in the real sector, the government should widely apply mechanisms such as credit guarantees, credit insurance and credit subsidies. Government agencies such as the Mortgage and Credit Guarantee Fund, the Entrepreneurship Development Fund, the Innovation Agency, and the Agricultural Credit and

Development Agency reduce the risks of banks in the real sector by providing subsidies, guarantees, and soft loans. However, in order to reduce these risks to a level that does not hinder economic growth in general, it would be appropriate to continue structural reforms and increase financial depth and inclusion. Moreover, economic growth is not only financed by banks. In world experience, the securities market plays an important role in attracting funds to the real sector. [4]

Against the background of fiscal expansion, the trend of money supply growth in Azerbaijan will continue. For example, the expenses of the 2021 state budget amount to 28.5 billion manats, which is 16.9 percent more than the actual implementation of 2019, and 5.9 percent more than 2020. It should be noted here that, on the one hand, the rate of circulation of the manat due to the slowdown of inflation and the decrease of GDP, on the other hand, the increase in the money supply in manat 4. Fiscal expansion determines the contours of the monetary policy and justifies the increase in the money supply. As part of an expanded government, the Central Bank increases the money supply in manats by issuing new loans and buying currency from the market. The government increases the money supply due to the deficit of the state budget. Risks in the real sector should also be reduced to reduce the risk aversion of banks so that interest rates fall in line with the increase in money supply. In such a case, the money multiplier in Azerbaijan, that is, the banks' ability to create money, will increase, and the real sector will expand. In a word, the existing macroeconomic stability, liquidity opportunities, fiscal space and transport-logistics network in Azerbaijan create the basis for the transition of economic growth to a higher trajectory. [3]

The tasks given by President Ilham Aliyev in the last meeting in the field of efficiency of budget expenditures, including the potential in the field of mobilization and borrowing of state revenues, indicate that there is a large scale of "fiscal space" in Azerbaijan. In the current situation in Azerbaijan, "fiscal space" allows managing and managing risks. However, fiscal reforms will take longer. While Azerbaijan's governance performance has improved in EBRD re-

ports for countries in transition, further improvement of financial institutions is essential, including improvements in debt strategy, fiscal rules, medium-term expenditure frameworks and performance-based budgeting considering the lessons of the corona crisis.

In order to maintain economic growth, in addition to fiscal and monetary policy, improving the business environment, stimulating the state, Azerbaijan's participation in regional projects, access to markets and confidence are even more important. In the new geo-economic reality created by Azerbaijan, the opening of regional communications and the reintegration of Karabakh can accelerate economic growth in our country. According to the "Doing Business" report, Azerbaijan, one of the 10 most reforming countries, continues to implement business reforms, including foreign trade, investment, competition, regulation and corporate governance in state-owned enterprises.

In order to create optimal conditions for the development of the money market in Azerbaijan, the following are necessary:

- decrease in dollarization of money circulation;
- strengthening incentives for investment activity;
- improvement of the legislative framework in the field of monetary policy;
- improvement of the fiscal system;
- application of electronic money circulation;
- carrying out a policy of reducing inflation and limiting prices;
- development and implementation of a wide variety of forms of non-cash circulation;
- strengthening control over the legality of cash and non-cash transactions to prevent possible illegal actions, etc. [5]

It is very important to develop a mechanism for issuing guarantees to increase the speed and efficiency of cash and non-cash circulation. Currently, this is the provision of state guarantees. However, only state guarantees cannot fully satisfy the demand for guarantees of commercial structures. Thus, the improvement of the situation in the money market in Azerbaijan will lead to the strengthening of the manat and the stabilization of the monetary system as a whole, which

in turn will have a positive effect on the economic processes in general.

The strategic goal of the economic policy is to "balance" the national economy, accelerate the transition to a model of economic growth based on private investment and exports, and on this basis ensure more sustainable and diversified economic growth. In accordance with this task, the CBA, together with the government, will take a number of steps to ensure macroeconomic and financial stability by raising the national economy to a new level of macroeconomic stability and thereby more effectively synchronizing all areas of monetary policy. The Central Bank will implement a policy that will increase the flexibility of the monetary policy, ensure the financial stability of the national economy and international competitiveness [5, p.196].

The CBA's exchange rate policy will be aimed at smoothing sharp fluctuations in the exchange rate in accordance with the requirements of the floating exchange rate. In addition, additional measures are taken to balance the foreign exchange market together with the government. Also, maintaining financial stability is one of the most important tasks. In order to protect the savings and other savings of the population, comprehensive measures will be implemented in the direction of strengthening the financial stability and capitalization, liquidity of the banking sector, including the improvement of the deposit insurance system.

Attention should be paid to the information transparency of the monetary authorities and the banking sector through the regular publication of analytical materials as part of the policy of ensuring effective supervision of the banking system and the policy of ensuring the reliability and stability of the monetary system. And it is necessary to apply, and in some cases to tighten, penalties for professional violations, providing incorrect and untimely information to both commercial banks and supervisory bodies.

To ensure the coherence of the course and the country's investment attractiveness, the socio-economic policy developed by the monetary authorities should take a long-term nature and character, if there are people directly responsible for its implementation.

Making the banking system more resistant to external and internal shocks, protecting financial stability, and efficiently mobilizing and distributing financial resources are important directions for improving monetary and credit policy. Taking adequate measures to prevent the accumulation of risks in the banking system, including the application of prudential control principles (aimed at regulating risks) is one of the important steps towards improving the monetary system.

In accordance with its main objective, the CBA will try to maintain price stability and conduct a policy aimed at managing core inflation. In order to improve the monetary system, the CBA will adequately use liquidity instruments in the money market depending on the economic cycle. Interest rates on CBA's liquidity instruments will be determined in accordance with the interest corridor concept. The parameters of the interest rate corridor will be flexibly adapted to economic realities, taking into account the characteristics of the monetary system's transmission capacity for the economy.

Efforts will be continued to adapt the monetary policy structure to the CBA's inflation targeting regime. In addition to fulfilling the prerequisites for the inflation targeting regime, changes in the structure of monetary policy and recent trends in the expansion of the central bank's target perimeter and instrumental arsenal will be taken into account. In addition, the CBA will focus on closely coordinating monetary and macroprudential policies.

The exchange rate of the national currency (manat) will develop primarily under the influence of fundamental factors that determine demand and supply in the currency market in the "floating exchange rate" regime.

The floating exchange rate should reliably protect the economy from negative external shocks, contribute to strengthening the medium and long-term stability of the economy, accelerating the diversification of the economy and exports, and further increasing the international competitiveness of local production. The high flexibility of the exchange rate regime is the most important factor that allows maintaining the necessary level of foreign exchange reserves.

Moreover, a floating exchange rate is one of the key conditions for an inflation targeting regime. In the coming years, economic entities are expected to fully adapt to the floating exchange rate regime (the floating exchange rate was introduced by the Central Bank in 2016 to replace the fixed exchange rate). Foreign economic shocks, oil prices and changes in the value of the national currencies of the main trading partners, including countries that are seriously affected by oil prices, will be the main factors affecting the foreign exchange market and the exchange rate of the manat in the near future [8, 145].

On the other hand, the currency balance will be affected by fiscal policy, including state investment policy, external debt management, measures to improve the international settlement mechanism, and other institutional issues. Taking into account all these factors, the CBA will try to balance the foreign exchange market and smooth out sharp fluctuations in the exchange rate, using the resources at its disposal, together with the government.

Macroeconomic forecasts indicate stabilization of Azerbaijan's economic situation. Stabilization of oil revenues is expected under conditions of stabilization of prices for main export products. It is predicted that the balance of payments will show a surplus in the current account and strategic foreign exchange reserves will increase. The increase in the country's credit rating (compared to 2016) also creates favorable conditions for increasing the flow of foreign capital into the economy. All these are fundamental factors affecting the exchange rate of the manat and the money supply.

Growth is expected to be accompanied by a "clean" increase in domestic demand and a gradual increase in foreign supply. According to the socio-economic development forecasts of the country, it is expected that economic growth will benefit mainly from the non-oil sector against the background of the stabilization of the oil sector. Taking into account the high results achieved in the field of modernization of physical and social infrastructure, the task of increasing internal financial consolidation, directing state expenditures to new development priorities, diversifying the economy, increasing export potential, and developing human capital becomes even more urgent [3].

Taking into account macroeconomic forecasts, including external economic factors and the stabilization of oil revenues, the monetary policy goal of the CBA in the coming years will be to maintain the annual (12-month) inflation at a single-digit level and prevent high jumps in inflation.

To achieve these goals, manat exchange rate flexibility based on demand and supply of foreign currency is the main condition, but taking into account the priorities of financial stability, sharp fluctuations of the exchange rate are not allowed. In the long run, the CBA will continue the transition to a flexible exchange rate regime for more effective inflation targeting. Thus, the flexible exchange rate regime is considered the main condition for strengthening the control of the money supply in international practice. A phased transition to any regime should be possible depending on the level of diversification of foreign currency income, the development of financial instruments for insurance against currency risks, the reduction of dollarization, the depth of the financial market, as well as the level of the real impact of the manat on the competitiveness of the export sector.

In order to further improve monetary support, the CBA will flexibly use market instruments to achieve monetary policy objectives. The interest rate parameters, including the refinancing rate, will be adjusted depending on the level of inflation, the economic cycle and the situation in the financial markets. The liquidity of the banking sector will be managed mainly through short-term operations. Relatively longer refinancing transactions should be used only when necessary. The mechanism of application of reserve requirements should be further improved, and the level of the requirement should be determined depending on the scale of hot capital inflows to the banking sector. Also, full launch of the CBA economic cycle monitoring system and, for this purpose, providing analytical depth to macroeconomic and microeconomic statistics,

It is proposed to develop a new macroeconomic model based on the theoretical foundations of the general equilibrium model, taking into account the local specifications, as well as the methodological tasks of the post-crisis period, for the dynamic study of various economic

shocks. This model should enable the CBA to conduct simulations under different monetary policy regimes and provide better type of forecasts.

Conclusion

Since the economic reforms were carried out in Azerbaijan, no purposeful monetary policy has been carried out. The financial mechanism was not established to speed up the solution of economic problems, as the events of the global financial crisis confirmed. Economic growth and suppression of inflation at all costs should not be an end in itself. Qualitative development of the economy, formation of conditions for long-term and sustainable development was of great importance. All this gives reason to talk about the unstable nature of the growth of our economy. The growth rates of recent years have been achieved not as a result of the modernization of the economy, but due to the increase in the price of energy carriers in the world markets. It is already clear that the past development strategy did not ensure the realization of the economic interests of the majority of the population of Azerbaijan.

The justification and regulation of the final general goal of the monetary policy of the Central Bank is the initial and main stage of its modernization. The danger of "imitation of strong activity" arises without adequate justification of the need to improve the quality of life and ensure the innovativeness of the economy's development as the final general goal of the monetary policy of the Central Bank.

Literature

1. "Strategic roadmap for the main sectors of the national economy" Decree of the President of the Republic of Azerbaijan dated March 16, 2016.
2. Statement on the main directions of monetary policy of the Central Bank of the Republic of Azerbaijan for 2017.
3. Statements of the Central Bank of the Republic of Azerbaijan on the main directions of monetary policy for 2019.
4. Eyyubov VS, Tagiyev AM Regulation of the national economy. Textbook for universities. - Baku: "Europe" publishing house, 2014. - 340p.
5. Musayeva SV, Tagiyev AM Azerbaijan economy. Textbook for universities. - Baku: "Europe" publishing house, 2018. - 420 p.
6. Guliyev RA Globalization of the world economy and Azerbaijan. - Baku, 2011. - 320p.
7. Mammadov Y. Formation and development directions of the stock market in the Republic of Azerbaijan. Baku, "Europe" publishing house, 2016.
8. Базилинская А. Макроэкономика: Учеб. пос./ 2-е изд., Перераб. /О. Базилинська - К.: Центр учебной литературы, 2009.- 442 с.
9. Bemes E.A., Yarrulin R.R. Insurance in Russia: tendencies, problems and perspectives of development // Vestnik OGU. 2013. No. 8. С. 165–169.
10. Bernanke B. Half-year report on monetary policy before the financial committee of the House of Representatives of the United States Congress. Washington, July 17, 2013.

Fərqanə Novruz HƏMİDLİ

Azərbaycan Dövlət İqtisad Universiteti, doktorant

POST-NEFT ERASI DÖVRÜNDƏ AZƏRBAYCANDA DAVAMLİ İQTİSADİ ARTIMIN MONETAR TƏNZİMLƏNMƏSİNİN XARAKTERİK CƏHƏTLƏRİ

Xülasə

Azərbaycanda islahatlardan sonra iqtisadi problemlərin həllini sürətləndirmək üçün maliyyə mexanizmi qurulmamışdır ki, bunu global maliyyə böhranı ilə bağlı hadisələr də təsdiqləyir. İqtisadiyyatın keyfiyyətə inkişafını təmin etmək, uzunmüddətli və davamlı inkişaf üçün şəraitin formalaşdırılması vacib idi. Əvvəlki inkişaf strategiyası Azərbaycan iqtisadiyyatının davamlı artımını və Azərbaycan əhalisinin əksəriyyətinin iqtisadi maraqlarının həyata keçirilməsini təmin etmirdi. Davamlı iqtisadi artıma keçid milli maraqların təmin edilməsi və iqtisadi təhlükəsizliyə nail olunması üçün əsas şərt kimi adekvat monetar mexanizm tələb edir. Monetar mexanizmin xüsusiyyətlərini nəzərdən keçirməyin aktuallığı maliyyə sabitləşməsi nailiyyətlərinin saxlanması və artırılmasının vacibliyi və Azərbaycanda davamlı iqtisadi artım strategiyasının həyata

keçirilməsində dövlət monetar siyasətinin rolunun gücləndirilməsi ilə əlaqədardır. Dünyanın bir çox ölkələrinin təcrübəsi sübut edir ki, pul-kredit sferasının dövlət tənzimlənməsinin müxtəlif alətlərinin səmərəli birləşməsi müvəqqəti likvidlik çatışmazlığı problemini həll etməyə, eyni zamanda onun ödəmə qabiliyyəti böhranına çevrilməsinin qarşısını almağa, eləcə də bütövlükdə iqtisadiyyatın artımı və inkişafı imkanlarından səmərəli istifadə etməyə imkan verir.

Açar sözlər: *monetar, iqtisadi artım, iqtisadiyyat*

Фергана Новруз ХАМИДЛИ

Азербайджанский Государственный Экономический Университет, докторант

ХАРАКТЕРНЫЕ АСПЕКТЫ ДЕНЕЖНО-КРЕДИТНОГО РЕГУЛИРОВАНИЯ УСТОЙЧИВОГО ЭКОНОМИЧЕСКОГО РОСТА В АЗЕРБАЙДЖАНЕ В ПОСТНЕФТ- НУЮ ЭПОХУ

Резюме

После реформ в Азербайджане не был создан финансовый механизм для ускорения решения экономических проблем, что подтверждают и события, связанные с мировым финансовым кризисом. Важно было обеспечить качественное развитие экономики и создать условия для долгосрочного и устойчивого развития. Прежняя стратегия развития не обеспечивала непрерывный рост экономики Азербайджана и реализацию экономических интересов большинства населения Азербайджана. Для перехода к устойчивому экономическому росту необходим адекватный валютный механизм как основное условие обеспечения национальных интересов и достижения экономической безопасности. Актуальность рассмотрения особенностей денежно-кредитного механизма связана с важностью сохранения и приумножения достижений финансовой стабилизации и усиления роли государственной денежно-кредитной политики в реализации стратегии устойчивого экономического роста в Азербайджане. Опыт многих стран мира доказывает, что эффективное сочетание различных инструментов государственного регулирования денежно-кредитной сферы позволяет решить проблему временной нехватки ликвидности, в то же время не допустить ее перерастания в кризис платежеспособности, а также эффективно использовать возможности роста и развития экономики в целом.

Ключевые слова: *денежный, экономический рост, экономика.*