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# **The Saturday Syndrome: Roots of mistrust toward the exchange rates in Azerbaijan**

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## *Commotion around exchange rate*

Following the long and mysterious stagnation in the exchange rates in Azerbaijan for the last 7 months, a notification by the Central Bank of the Azerbaijan (see Figure 1) caused the effect of tsunami<sup>1</sup>.

“A New Manat depreciation” panic affected everyone in the country, starting from ordinary citizens to the government officials, businessmen and bank managers. The public panic happened despite the fact that around ten days ago, the head of the Central Bank announced “The currency market has been stabilized, manat has found its equilibrium in the market<sup>2</sup>” [Apa.az, 19.08.2017]. Following the raising public concerns, the Central Bank presented its explanation: the final day of September coincides with Saturday and official reporting should be completed by the end of the month. In an ordinary cases, this statement should have caused public satisfaction, and the panic should have been ended<sup>3</sup>. Despite this public statement by the Central Bank, for the last three days, the demand for the foreign currency in the local market has dramatically increased. This phenomenon indicates to the high sensitivity of the currency exchange market.

### **Figure 1: Central Bank’s notification**

*“To participants of the national payment system! Taking into account the need to ensure the completeness of payments and receipts to the state budget, the Bank will declare a working day for the banking system on September 30, 2017 for the purpose of conducting settlement and cash operations. At the same time, we note that payment systems are considered a new trading day on September 30, 2017”*

## *What is the source of panic?*

It is important to note that the first devaluation in Azerbaijan in February 2015 occurred in the similar manner: the Central Bank announced Saturday as a working day for all banks. This created the Saturday Syndrome for all stakeholders, including participants of the foreign exchange market. Taking into account the consequences of the recent devaluations, its devastating effect over the economy and lack of any compensation, or opportunity to compensate the lost, public panic can be justified.

The public mistrust toward the Central Bank and to the statements by its head is also another important factor intensifying the public panic. In the per-devaluation period, the Central Bank has denied all signs of the rapidly closing devaluation. It was the biggest lie in the modern history of banking. The performance of the Central Bank in the per-devaluation period harmed

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<sup>1</sup> Marja.az, “On Saturdays, banks participating in the national payment system will work”, 29.09.2017  
<http://marja.az/mobile/?module=news&id=13730>

<sup>2</sup> Apa.az, Elmar Rustamov: “The currency market has been balanced and the manat has stabilized”, 19.09.2017  
[http://m.apa.az/az/iqtisadiyyat-xeberleri/maliyye\\_xeberleri/elman-rustemov-valyuta-bazari-tarazlasib-manat-sabitlesib-5217](http://m.apa.az/az/iqtisadiyyat-xeberleri/maliyye_xeberleri/elman-rustemov-valyuta-bazari-tarazlasib-manat-sabitlesib-5217)

<sup>3</sup> Aznews.az, "There can't be devaluation", 29.09.2017  
<http://www.aznews.az/news/iqtisadiyyat/152723.html>

the public image of the institution, and created mistrust toward the central financial regulatory agency in the post-devaluation period. The public trust has vanished. Nowadays, ordinary citizens and businessmen has left serious doubts toward the Central Bank.

Another point which causes the mistrust by the society is the repeated statements by the Central Bank on the introduction of free floating exchange regime. The public is not convinced by this statement. The institution has announced the free market regulation of the manat's exchange rate in January 2017. There was no cardinal changes to the policy since then, and the results of our monitoring has indicated no sure signs of the free regulated exchange rate for manat.

In case of the market regulated exchange rate of manat, the USD-AZN exchange rate had to change during April-August, when the exchange rate of USD has decreased in world stock exchanges (about 13%). Another fact, which supposed to affect the free-floating manat exchange rate, is the oil prices. In June 2017, the prices for oil in the world marked have dropped to USD 44 per barrel. The was no sign of volatility of manat's exchange rate during this period [ Note 2]. All of these factors strongly indicate to the regulation of the exchange rate of manat by the Central Bank.

**Note 2:** The difference in the USD/AZN exchange rate between 04.04.2017- 02.09.2017 is 0.29%. The manat has followed the appreciation trend all this period.

However, the panic, which occurred last Friday, once again proved how sensitive is the currency markets and public opinion in Azerbaijan. The lack of the confidence toward the Central Bank and not believing in the existence of the free floating exchange rate in Azerbaijan is the main reason of such panic.

Another point which should be taken into account is the panic among the bank managers, not only ordinary citizens and businessmen. It is expected the bank managers, who has direct access to the market, to be more informed on the trends in the currency market. If it was free floating exchange rate, the bank managers would not be among those panicked. It seems they lack adequate information, or they are sure on the administrative regulations of manat's exchange rate. Such behavior by the insiders - bank managers – indicate to the non-free floating exchange rate in Azerbaijan.

### ***Is the devaluation expected?***

Currently, all of the internal, external factors, fundamental and psychological factors, which can impact the exchange rate of manat, can only help manat's appreciation. In addition:

- A few days ago, the price of oil rose to USD 60, reaching the highest level in 2017.
- The depreciation of USD for the last couple of month is obvious. Compared to April 2017, USD has lost more than 10% of its value. There is a less chance for USD for regaining its old position.
- The national currencies of Azerbaijan's all major economic partners have also been stabilized for the past year. The economic shock in many of these countries (Russia, Turkey, Kazakhstan, Ukraine, etc.) could affect the manat's exchange rate also.

- There was a surplus of sales and trade balance<sup>4</sup>.
- The country's strategic currency reserves are increasing (by 11.5% in January-September of this year)<sup>5</sup>.
- Savings and deposits are kept in foreign currency.
- One of the main factors, which could affect the exchange rate was the debts of International Bank of Azerbaijan, which already has been restructured.
- Limits on the purchase of imported products by the governmental agencies is still continues.
- The demand to imported goods by the population (purchasing power of population) has been on decrease, leaving less space for demand for foreign currency, and hence causing devaluation of the national currency.

The above stated points are factors, which will positively affect the national currency exchange rate, and there is no indication for another devaluation. On September 19, the chairman of the Central Bank said in the media that he does not see any risks for the manat's rate<sup>6</sup>. Up-today, the Central Bank has maintained its means of impact over the market. If the Central Bank decides to devalue manat once more, it is going to lose all effective means for the control over the market, which is undesirable in the current conditions. In addition, the next devaluation without reforming the exchange rate policy and transforming it to a real floating currency regime will have a devastating effect over the Central Bank.

In sum, the devaluation of manat in the short term is not expected and the players in the market do not have worries.

## ***Summary***

1. The stability in the currency exchange market is not sustainable.
2. The current exchange rate of the national currency (manat) is formed by an administrative means, rather than market equilibrium and it's risky. The exchange rate of the manat is not result of the activity of market players. The exchange rate of the manat is decided behind the closed doors of the Central Bank. There are some believes among the expert community, that the Central Bank can devalue the national currency once more.
3. Public trust toward the financial governmental institutions and especially the Central Bank is at a crucial level.
4. The Central Bank does not use its communication tools effectively.
5. The potential impact of psychological factors to the currency markets remains high.

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<sup>4</sup> CBAR, "CBA keeps refinancing rate at 15%", 18.08.2017  
<https://en.cbar.az/releases/2017/09/18/cba-keeps-refinancing-rate-at-15/>

<sup>5</sup> CBAR, "CBA keeps refinancing rate at 15%", 18.08.2017  
<https://en.cbar.az/releases/2017/09/18/cba-keeps-refinancing-rate-at-15/>

<sup>6</sup> Apa.az, "Elman Rustamov: We do not see any risks for manat's rate", 19.08.2017  
<http://en.apa.az/azerbaijan-economy/finance-news/elman-rustamov-we-see-no-risk-for-manat-rate.html>

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