

The International Banking and Banking Services in Nakhchivan Autonomous Republic

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Abstract:

International banking is a very important factor to realize a vast scale and various transactions in all fields among the countries. In global world carrying out their operations effectively and consistently, banks ensure guaranty for the economy of every country. The common global economic crisis has shaken banking system deeply everywhere recent years. We should specify that, the world economy need an international banking network with solid roots and high potential.

This study deals with the global banking system and the latest popular banking transactions in Nakhchivan Autonomous Republic, the inseparable part of independent Azerbaijan. Although their establishment is very young here, we see thriving performance, financial stability and customer satisfaction of the banks in autonomous republic. Despite the fact that processes are weak in getting banking system internationally, we may say banks will improve their activities steadily in coming years in Nakhchivan.

Key words: international banking, autonomous republic, leasing, credit cards, currency, central bank, ATM machines

INTRODUCTION

After declaring independence, Azerbaijan embarked on realizing significant policies for reviving its economy. Accepting

free market economy terms, the government started to make reforms in advancing banking sector, as in all fields of economy. Above all things, privatization in banking, creating competition towards this step and adopting laws and acts to coordinate bank operations were put into practice for strategic purposes. The most important obligation of finance policy of the country is to compose banking system with characterized solid finance indicators and international experience.

Nakhchivan Autonomous Republic (NAR) is the part of independent Azerbaijan. As the Autonomous Republic become under blockade, its own finance and banking system have been created. The main administrative institution- Central Bank of Azerbaijan founded its branch in NAR. All banking services are being implemented under the control of this organization. Assimilating universal economy experiences, modern banking operations are getting higher day by day in Nakhchivan Autonomous Republic.

INTERNATIONAL BANKING

Well, where are the incentives of modern banking originated from?

Above all, high number of bank products and services. As countries are impacted from economical progress in the world, this causes all service types to get varied in all fields. Taxes, salaries, pensions, insurance, stock exchange and commission operations, real estate businesses and other factors reveal new generations banks and fundamental development aspects for evolving banking services. Furthermore, incremental competition provisions, technology development, geographical growth and expansion are substantial conditions for creating strong and enormous banks (Mubariz Bagirov, 2003:37-39).

International banking transactions are included current account, risk capital, retail deposits, business loans, money

market instruments, international lease, portfolio investment consulting, consumer loans, free zone banking, investment and participation consulting, currency transactions, future, swap and option transactions, export credit, leasing, factoring, forfaiting, underwriting, international fund transfers, gold, silver and commodities pledge services.

Therewithal, shortly, the followings are enumerated as the future perspectives of international banking:

- Good and solid financial markets;
- Market width;
- The emergence of non-bank financial institutions;
- Liberalization of national financial markets;
- Monitoring of market transactions;
- Optimal risk management of banks;
- Customers services on financial risk management;
- Multinational financial service providers to interstate customers (nptel.ac.in/courses/.../9_4-International%20Banking.pdf.)

Internationalization of banking is considered as vital component in the terms of transforming regions to financial centers. There are a number of requirements to have an international financial center status. They are followings:

- ❖ Economical liberity. At this time, no obvious insignificant obstacles are defined. Capital collection and investment decisions are free;
- ❖ As a main factor of internal economy- national currency and confidential financial system existence for foreign investors;
- ❖ The efficiency of financial instruments;
- ❖ Active, versatile and dynamic financial markets, high opportunities for lenders and borrowers;
- ❖ Benefiting advanced technology in communication;
- ❖ The importance of education and human power in financial system;

- ❖ Establishment of necessary environment to allure foreign investors and etc. (Zahid MEMMEDOV, 2012:79)

NAKHCHIVAN REGION BANKING SYSTEM

Particularly, we should strongly highlight that bank activities are regulated with two basic laws: “The law of the Republic of Azerbaijan on the Central Bank of the Republic of Azerbaijan” and “The Law of the Republic of Azerbaijan on Banks”. According to the The law of the Republic of Azerbaijan on the Central Bank of the Republic of Azerbaijan, the Central Bank is the main director agency and the Chairman of the Central Bank of the Autonomous Republic is assigned to the position by the Head of the Supreme Council of the Autonomous Republic with the approval of the Board of Directors of the Central Bank of the Azerbaijan Republic.

The banking activities are also regulated by these laws in Nakhchivan Autonomous Republic. The system of banking that exists in the Nakhchivan Autonomous Republic is dual banking. Central Bank stands on the first layer of this system and the second layer is comprised of private banks.

First of all, I state that global banking progress is not enough in the Autonomous Republic banking sector. The reasons for that are arised from some political and economic troubles. Nevertheless, acceleration of global inclinations cause the banking processes enter the international dimensions here recent times.

The emergence of banking system of NAR starts from 2000 and continues to extend up until now. The most advanced cycle of banking practices appearance coincide with 2005-2006 years. Beginning from that time impact area of banks became more extended, their products and services got diversified and international banking trends appeared in our modern day.

Realising the most advanced banking transactions, banks and credit institutions play the important role to the execute successful financial politics in the Autonomous Republic. The samples of banks in NAR are as followings:

1. Kapitalbank and its branches
2. International Bank of Azerbaijan Nakhchivan branch
3. Azerturbank
4. Nakhchivanbank
5. Rabitabank Nahchivan office
6. Agrarcredit Joint Stock Credit Organisation Nakhchivan branch
7. Finca Credit Organisation Nakhchivan branch (Bank statistical bulletin, 2013:11)

Among these above mentioned banks Nakhchivanbank is only related to the Autonomous Republic. The bank was founded in 2008 and gives all banking services.

Table 1 illustrates the information of banking sector in the Autonomous Republic.

Table 1. The number of banks and credit organisations.

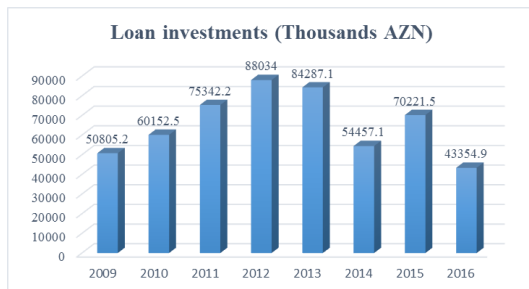
Indicators	2008	2009	2010	2011	2012	2013	2014	2015	2016
Number of banks and branches	13	14	15	15	15	15	17	17	17
Number of credit organisations	3	3	3	3	3	3	4	3	2
Foreign banks	0	0	0	0	0	0	0	0	0

Source: Bank statistical bulletin; (2016). The Central Bank of Nakhchivan Autonomous Republic

The table reflects the number of banks and credit organisations. As it seems there is no foreign bank in the Autonomous Republic. It should be noted that Aqrarkredit and Finca are the credit organisations of Nakhchivan. These loan institutions do not carry out transactions of the banks except loan transaction.

The following diagram reflects the loan investments of banks chronologically.

Graph 1



The diagram shows that the highest period of the investment coincide with 2012. After that we observe declines. The reason for this is in the contrast of financial crises banks suspend their investment and proceed cautiously.

Besides, amount of deposits in banks are also important during these years. Table 2 shows the deposits over the national and foreign currencies.

Table 2. Structure of deposits in banks
(Thousands AZN)

Years	Total deposits	Including	
		National currency (manat)	Foreign currency
2009	3040.1	1784.6	1255.5
2010	3980.6	2525.7	1454.9
2011	4570.5	2988.4	1582.1
2012	6320.0	4227.2	2092.8
2013	5070.1	3844.4	1226.7
2014	6771.6	5032.0	1739.6
2015	8571.8	2997.5	5574.3
2016	6787.4	2933.7	3853.7

Source: Bank statistical bulletins; (2013, 2015, 2016). The Central Bank of Nakhchivan Autonomous Republic.

The first conspicuous thing when we look at the table is that the amount of deposits in the banks increases year after year. It

is the sign of a stronger economy and improvement of financial opportunities of the citizens. We also witness huge amount of deposits are on foreign currency recent years. This is related to the fact that devaluation which occurred in 2015 decreased the value of the national currency (manat). That is why the citizens prefer to keep their money in foreign currency (dollar).

Nakhchivan Region Banking Services

Viewing banking services in a brief summary we can exemplify to these services: loaning, deposit business, account operations, non-cash transactions, financial leasing, money transfer, transactions with payment cards, buying and selling currency in the markets and etc.

Banking services have become varied since banks were founded here in the Autonomous Republic. When the first banks were created here, they only executed traditional services- providing loans and accumulating deposits. But later as new banks appeared in banking sector, it caused to expand interbank communications network and multiply financial services.

When the progress in banking services is clarified historically, it is important to note that from the above-mentioned transactions-loaning and deposits are the conventional operations, while others are subsequent transactions. Initially, these transactions were provided by the International Bank and Kapitalbank. But the development of economy brought new banking transactions along with new responsibilities.

Now the population of Nakhchivan benefit from these banking services without any difficulty where they live. All of the transactions that a New York or London resident realize via their bank people can do the same operations in their own bank here.

In addition to these banks here offer recent years` most widespread operations - internet-mobile banking, sms banking

and foreign currency trading. These transactions are realized by Nahcivanbank, International Bank, Kapitalbank and Azerturkbank.

The creation of the Agrarcredit in 2001 to develop the agricultural sector had greatly facilitated the work of young businessmen and farm owners.

As it is known, offering leasing, factoring and forfeiting transactions, banks present intermediary services internationally. Concerning both banks and customers these transactions are being realized on the basis of previously offered services.

Leasing transactions are one of the most important services of Azerbaijani banks and leasing companies and they have gained popularity in recent times. Agrarcredit has a large share in granting loans to citizens and the realization of leasing services at the same time.

Leasing services are also provided in the Autonomous Republic of Nahcivan. These transactions are performed by the Open Joint Stock Company "Agroleasing" and "AgrarCredit". The procedure is as follows: "Agroleasing" brings the goods from abroad to the republic and sells these goods to the customers through AgrarCredit. Basically, breeding cattles, seeds, medicines, materials useful for the agricultural sector are brought here from foreign countries in order to have significant progress in the agriculture sector. People open an account in the bank (AgrarCredit) and pay the price of all the materials and equipment in parts which they buy from the company and at the same time they pay a small commission to the bank. This makes their job a lot easier and provides great opportunities for the development of the agricultural sector.

In terms of the dynamic progress and implementation of banking services, we need to rank the development of ATM`s and POS terminals, which are the latest service criteria of banks. Table 4 gives the following information:

Table 3. Number of ATM machines and postterminals over the years

Date	ATM machines	POS terminals
2009	58	43
2010	58	43
2011	71	76
2012	84	96
2013	92	248
2014	92	867
2015	98	1044
2016	99	1202

Source: Central Bank of Nakhchivan Autonomous Republic.
www.cbar.nakhchivan.az/

ATM machines started to be used in 2004, but postterminals in 2008 in NAR. The number of POS terminals was 1202 in 2016, which we compare this with 2009's number and we can witness on 27 times increased. In addition to these, in the following table we view the data of different areas in the autonomous republic which the banks have invested on them .

Table 4. Sectoral credit investment (with a manat)

Indicators	2009	2010	2011	2012	2013	2014	2015	2016
Total credit	50805.2	60152.5	75347.2	88034.0	84287.1	54457.1	70221.5	43354.9
Industry	25052.5	26148.1	27122.6	31069.1	32555.5	5674.3	14318.4	10322.0
Construction	7040.1	5744.7	2180.1	1501.3	1501.3	7180.0	756.8	260.0
Mortgage	-	198.5	1318.7	1801.7	2321.7	2053.5	5611.0	2078.0
Education	-	-	-	-	-	-	-	-
Agriculture	11937.4	16493.7	23998.7	30400.0	27805.3	17955	20860.5	9910.6
Transport	457.5	789.7	1607.6	803.0	538.5	14.7	7162.0	4435.0
Other	6317.7	10777.8	19119.5	22458.9	19564.8	21579.6	21512.8	16348.3

Source: Bank Statistical Bulletins; (2011, 2013, 2015, 2016). Nakhchivan Autonomous Republic of the Central Bank

The table shows that loans to all sectors are given by the banks in the region. However, no loans were left to the education area. Almost such credit form(student loan) is not offered by any bank in the Autonomous Republic.

Important tasks have been carried out by the bank authorities in order to improve the services of the banks since they were founded. NakhchivanBank is one of the first regional banks of Azerbaijan which belongs to the autonomous republic itself, established in 2008. Despite being the last bank created

here, it has done a lot of substantial duties until today and it is counted among the most active banks in the banking sector. In 2016, the loans` rates granted to the agriculture sector by Nakhchivan Bank were reduced by down to 13%, and the card loans` rates by 18%. Nakhchivan Bank offers the lowest interest rates not only in the region but also in the whole Azerbaijan area.

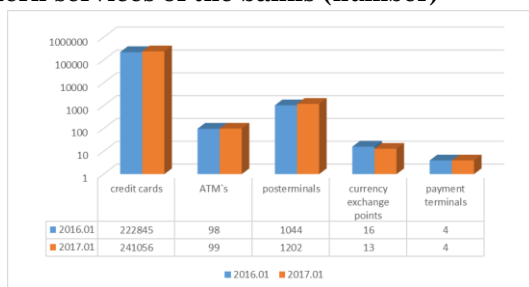
Recent years` one of the important bank funds in the Autonomous Republic of Nakhchivan is Nakhchivan Mortgage Fund. The fund was created on 7th of November in 2016. The main purpose of foundation of this fund is to prepare the mechanisms to get price-decreased houses with long-term mortgages for the residents of the republic. These loans are long-term (25-30 years) and the maximum amount is 60.000 (\$ 35 000) manat. The interest rate is 8%, cash in advance amount is about 15-25%. There are some conditions for granting credits:

1. The loan must be granted in Azerbaijani manat
2. The loan must be given to the residents of the Republic of Azerbaijan
3. The loan is issued for the receipt of the residential area which is registered in public records.
4. The loan must be issued for the receipt of the apartments those`s prices do not exceed the average real estate market price.
5. The monthly reimbursement`s amount should not be more than 70% of the monthly income of the borrower.
6. Young families, martyr`s families, national heroes, refugees families, civil servants who have at least 3 years experince and teachers who have been teaching for 5 years may benefit from the discounted mortgage terms.

Due to the date of June in 2017, over the 300 citizens of the Autonomous Republic benefited from at least 1,500,000 manat mortgage loans. (<http://www.nif.nakhchivan.az/?p=yekun2zap2>)

Most important leading services of the banks in NAR to promote international services are credit cards and the transactions related to these. Correspond to the increase of the number of credit cards, the services related to cards are also went up. The following graph summarizes the most useful information pertained to these issues.

Graph 2. Modern services of the banks (number)



When we look at the chart, we see there is not much progress in one year. Even some of the indicators are in regression. But we compare this information with previous years` datum, considerable development indices are noticed. For example, ATMs and postterminals were 58 and 43 in 2009, 58 and 43 in 2010, 71 and 76 in 2011, 84 and 96 in 2012, 98 and 248 in 2013, 98 and 867 in 2014 correspondingly. (Bank Statistical Bulletins, 2013, 2015: 23, 21).

CONCLUSION

International banking has come into prominence in the world economy recent years. As the main business tool of bank is money, it would rather emphasize that every country has its own national currency unit and uses this unit in international trade. That is why countries and companies exchange their

national currencies with foreign currencies in economic bargains among themselves. As a result of this, currency trade is originated based on money services. Addition to these, all universal services of banks are derived from the trades on foreign exchange markets.

The banking operations in Nakhchivan Autonomous Republic should be browsed from global view. Banks offer large-scaled modern services out of traditional services here too. The article deals with the banks and their activities carried out in the Autonomous Republic. From the research of the banks and their services here, following results have been getting acquired:

- Despite being under the blockade Autonomous Republic has set up its own financial system and banks provide their services under the control of the Central Bank of Nakhchivan, the administrative institution of the Central Bank of the Republic of Azerbaijan Republic.
- Based on the vital information, there have been described all banking services, their historical and present situations in the article. Loaning, bank deposits, customer accounts, non-cash operations, mortgage loan, currency exchange, financial leasing are the main missions of the banks of Nakhchivan Autonomous Republic.
- High number of bank services and products, competition increase, technological development, growing economy, establishment of subsidiaries and branches in foreign trade help better organize banking system of the republic. Here, all banks strategical plans refer to upgrade the economy and make residents life become easier. Reduction of loan interest rates aims to face the increasing demands of people and these will set to further increase competition in banking sector.
- As a negative factor there is no foreign bank in the Autonomous Republic. This is a major obstacle of its

banking system to become globalized. At the same time some loan types are not proposed and banks have almost no consulting services here.

- The globalisation of banking will prepare appropriate provisions for the transformation of the region into a financial center. Global banking will help realize major economic territorial projects over the coming years, the rapid and efficient business segments, and the training of experts, in order to benefit from the financial markets and foreign companies' experience in the world.

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