

New Rules on Currency Control and Deposit Insurance in Azerbaijan

January 21, 2016

In the wake of the latest devaluation of Azerbaijani currency and falling oil prices, the Azerbaijani Parliament passed in the first reading several laws that are expected to have lasting impact.

Loans to the Deposit Insurance Funds

According to the Draft Law On Introducing Amendments to the Law ‘On Deposit Insurance,’ the Central Bank will be able to lend funds to the Azerbaijani Deposit Insurance Fund if the liquid assets of the latter drop below 1% of the total amount of insured deposits or if the Fund believes it will not have sufficient funds to make payments upon the occurrence of an insurance event. These loans will be backed by a State guarantee, which is to be issued within 10 business days.

Any matured obligations of the depositor vis-à-vis the banks in which the eligible deposits were made will be netted for the purposes of calculating the final payout by the Azerbaijani Deposit Insurance Fund.

Deposit Insurance Coverage Extended

According to the Draft Law On Complete Insurance of Deposits the Azerbaijani Deposit Insurance Fund will insure all eligible deposits, regardless of the amount made, with duly licensed local banks that are members of the Fund for a period of three years, subject to those eligible deposits bearing an interest rate not exceeding the respective ceiling effective at the time when the deposit was made.

Depositors who made deposits bearing an interest rate exceeding such ceiling and who wish to avail themselves of the protection of the Azerbaijani Deposit Insurance Fund will be able to petition banks to reduce the interest rate for the remaining term of the deposit.

Currency Controls

According to the Draft Law On Introducing Amendments to the Law ‘On Currency Controls,’ residents and non-residents (except for legal entities wholly owned by the State or legal entities in which the State holds more than 50 percent of the charter capital) will be able to transfer foreign currency reserves outside of Azerbaijan only after paying certain levies into the State Budget as stated below:

(i) where resident or non-resident legal entities (except for banks and insurance companies) and individuals make direct investments by way of investing foreign exchange reserves in the charter capital of [foreign] companies – a levy in the amount of 20 percent of the value of the transaction;

(ii) where resident or non-resident legal entities (except for banks and insurance companies) and individuals transfer foreign exchange reserves for the purposes of investing in securities – a levy in the amount of 20 percent of the value of the transaction;

(iii) where resident or non-resident legal entities (except for banks and insurance companies) and individuals transfer funds for the purposes of acquiring ownership or other rights in land, including subsoil rights, and other real estate (defined in accordance with the law of the country where such property is located) – a levy in the amount of 20 percent of the value of the transaction;

(iv) where resident legal entities transfer foreign exchange reserves for the purpose of funding their subsidiaries, branches, representative offices, and other offices located outside of Azerbaijan in an amount exceeding the equivalent of USD 50,000 per calendar year – a levy in the amount of 20 percent of the amount exceeding the stated threshold;

(v) where resident individuals transfer foreign currency reserves to their own foreign bank accounts or those of their close relatives in an amount exceeding the equivalent of USD 50,000 per calendar year, including funds transferred without using bank accounts – a levy in the amount of 20 percent of the amount exceeding the stated threshold.

The restriction set forth in item (v) above will not apply to transfers made for the purposes of receiving medical treatment, the payment of tuition, or making payments ordered by court judgments or arbitral awards.

Transfers for the repayment of loans and the repatriation of profits by legal entities are not affected by the draft law.

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