



INTERNATIONAL UNION FOR HOUSING FINANCE FACT SHEET

> AZERBAIJAN

Member Contributor: Azerbaijan Mortgage Fund

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1. DEMOGRAPHIC OVERVIEW

Between 2005 and 2009, the population of Azerbaijan had an average rate of growth of 1.3% resulting in a total population in 2009 of approximately 9 million inhabitants. The largest population group is that aged between 21 and 44 years (38.9%), followed by those under 21 (34.3%). The smallest age group is that of those aged over 65, which represents only 6.6% of the total population.

2. MACROECONOMIC BACKGROUND

The high economic growth that took place in Azerbaijan between 2005 and 2008 (with an average GDP growth rate of 24.2%) was mainly due to large oil exports, although the real estate, construction and banking sectors also had a positive effect on growth in this period. In 2009, despite the global financial crisis, Azerbaijan's economy still demonstrated a positive and sustainable rate of development, with a GDP growth rate of 9.3%, whilst most other countries in the world were still suffering the negative consequences of the global downturn.

The reduction in the GDP growth rate was accompanied by a steady decrease in the unemployment rate from 1.4% in 2005 to 1.0% in 2009¹ and by a zigzagging consumer price index, which, from an average of 8.95% in 2005 and 2006, increased to an average of 18.75% in 2007 and 2008, and finally decreased to just 1.5% in 2009. The increase in the consumer price index was mainly due to the general global recession and the tightening of global demand, which impacted on prices around the world and, in particular, on consumer goods. However, Azerbaijan's Central Bank's proactive measures aimed at stabilising the currency (*manat*) and avoiding devaluation also contributed directly to the price stability observed in 2009.

While the average annual income of the population has been steadily increasing over the last five years in line with the strong economic growth experienced in Azerbaijan, the real fixed investment to housing has fluctuated enormously between years, in part due to fluctuations of industry and, in recent years, mainly due to the reduction of housing construction as a result of the global financial crisis and recession.

Even though the industrial sector represents 60.5% of Azerbaijan's GDP, only 12.1% of the labour force actually works in this sector. The labour force is concentrated in the service sector (49.6%) and in the agricultural sector (38.3%). However, the agricultural sector accounts for only 5.8% of GDP. These differences, which are reflected in social and economic inequalities within the country, will require Azerbaijan to diversify its economy in the future, which, for the time being, relies heavily on oil exports.

¹ The low and reducing unemployment rate is due partly to the statistical procedure by which the unemployment is recorded in Azerbaijan. In order to be considered as unemployed, citizens need to register with their related agency via a formal procedure which, unfortunately, many fail to undertake. Nevertheless, the government has reported that approximately 900,000 new jobs had become available in the last five or six years, out of which approximately 600,000 were permanent positions that would suggest an increase in the employment rates.

This dependency on oil has already been acknowledged and, as a consequence, the development of the non-oil sector has become one of the Azerbaijan Government's top priorities.

3. HOUSING MARKET

3.1. Housing Supply

Azerbaijan has approximately 1.1 million dwellings, which, when compared to the population, indicates a shortage in the country's housing stock as the average annual number of houses completed between 2005 and 2009 was just 14,980 dwellings. However, apart from the fact that there is a large potential for growth in this sector motivated by a high demand for new housing in the country, most newly constructed buildings have not yet been recorded statistically and, therefore, have not been accounted for in the number of dwellings mentioned above. This also has effects on ownership rates, as many of the people living in new dwellings do not yet have an ownership title because the formal procedures to accept the dwelling as an adequate residence are sometimes delayed. Currently, the average household size is of approximately 4.7 people.

3.2. Housing Tenure

According to the State Statistical Committee of the Republic of Azerbaijan (SSC), 89.7% of dwellings are owner-occupied. Although the estimates from private research firms differ slightly from the proportion calculated by the State Statistical Committee, the percentage of people renting dwellings from private landlords reaches only 18.4%.

Irrespective of the estimates considered, the conclusion remains the same: most dwellings are owner-occupied. Given that the residential price for a square metre in Azerbaijan is AZN 852 (EUR €760) and that the average annual income is AZN 2,489 (EUR €2,222), primarily only those in the higher income brackets can afford to own the home in which they live.

4. RESIDENTIAL MORTGAGE MARKET

4.1. Lending

The residential mortgage debt to GDP ratio in Azerbaijan is still very low, although it has been steadily increasing from 0.03% in 2005 to 0.44% in 2009. Over the last five years, the highest value of outstanding residential mortgage debt can be found in 2009 (AZN 152.5 million, i.e. EUR €128 million). This low ratio and value of outstanding residential loans are due partly to the fact that the Azerbaijan housing finance system is still relatively young and partly due to the lack of long-term resources.

Most of the major mortgage business is nowadays undertaken by the Azerbaijan Mortgage Fund's (AMF) agent banks, which only offer fixed mortgage loans under the AMF's standards. Azerbaijan's commercial banks and non-banking credit institutions have also started their own mortgage programmes following an increase in demand in recent years. The average mortgage loan has a representative interest rate of 7.5%, an average loan-to-value (LTV) of 67%, an average payment-to-income (PTI) multiple of 35.4%, an average maturity of 23 years and an average value of approximately AZN 42,432 (EUR €37,871). All of these average characteristics show that AMF promotes strict underwriting standards, which could be considered an attractive prerequisite for foreign investors and capital markets initiatives. Despite the fact that commercial mortgage products remain relatively unaffordable for low and middle-income groups, it should be highlighted that the affordability index for the average Azerbaijani family has been increasing over the recent years (see figure 1 in the Annex).

The Azerbaijan Mortgage Fund, under the Central Bank, was established on the 16th of September 2005, following the Decree No. 299 on "Forming of mortgage loans systems in the Republic of Azerbaijan". This institution was established with the aim of improving the living conditions of the population, building an efficient housing finance system, adapting the supply of housing to the real demand for housing and attracting foreign investors to Azerbaijan mortgage lending activities.

The current legislation provides for two types of foreclosure processes: non-judicial and judicial foreclosure. In the first type, the borrower offers his/her consent and the lender can sell the property in

the open market. In the second type, the lender requires express authorisation by a court in order to realise the foreclosure and, even with this authorisation, the lender can only sell the property in specialised auctions. This process generally takes from between six months to a year to be carried out. Once the lender has foreclosed on a property, the borrower, their family members and/or cohabitants in that property must leave the property within one month.

4.2. Funding

There are three main funding sources for residential mortgages in Azerbaijan: State Budget allocations to the AMF; the AMF's mortgage bonds; and banks' own mortgage programmes. The State allocations, which focus on the social mortgage sector, are expected to reach AZN 14 million (EUR €12.5 million) in 2010. The AMF's mortgage bond programme only began operations in 2009 with an initial amount of AZN 55 million EUR (€149 million) and it expects to place another AZN 75 million (EUR €66.9 million) in 2010 (see figure 2 in the Annex).

5. GOVERNMENT HOUSING POLICIES

5.1. Refugees and Internally Displaced Persons Housing Policies

The dispute over the Nagorno-Karabakh region between Armenia and Azerbaijan has led to the appearance of approximately one million refugees and Internally Displaced Persons (IDPs). This led the President of the Republic of Azerbaijan – Ilham Aliyev – to approve on the 1 July 2004 the State Order No. 298, whereby the State developed a programme *"for improving the living conditions of refugees and IDPs and the increase of employment among them"* in order to alleviate the social and economic problems arising from their situation as refugees and IDPs.

Thanks to the State Oil Fund of the Republic of Azerbaijan, the State Budget, International Donors and other humanitarian organisations, approximately ten thousand families have been able to move into new settlements constructed for and handed over to refugees and IDPs. However, despite the large-scale measures taken over the last decade, a portion of refugees and IDPs still live in tented camps, wagons, railway stations or incomplete public buildings. Nevertheless, the efforts continue. For example, in 2009, the State Oil Fund allocated AZN 90 million (EUR €80.3 million) to improve living conditions of refugees and IDPs. Since the beginning of the conflict, the Government has spent approximately AZN 800 millions in its efforts to support and improve the living conditions of the refugees and IDPs.

5.2. Social mortgages

The State of Azerbaijan is also working on social and economic inequalities arising from the lack of housing through other means. Between 2005 and 2009, the State Budget allocated AZN 82 million (EUR €73.2 million) to mortgage loans via the Azerbaijan Mortgage Fund with the aim of improving the living conditions of the population. Since 2009, budget resources have focused only on social mortgage loans, which target a particular category of the population. The main characteristics of these loans are: a maximum loan of AZN 35,000 (EUR €31,238) with a maximum annual interest rate of 4%, a maximum repayment period of 30 years and a down-payment of 15%.

5.3. Other Housing Policies

In 2009 the Ministry of Labour and Social Protection provided 490 apartments to people with disabilities, veterans of the war with Armenia and other groups in social and economic distress. In addition, some Government agencies, in cooperation with both national and international NGOs, promote housing policies that allow their employees and at risk communities to meet their housing needs.

5.4. Mortgage Legislation

The prime mortgage market in Azerbaijan is regulated by the following legislative acts: the Civil Code of the Azerbaijan Republic, the Law on Mortgage, the Law on State Registry of Real Property, the Registration Rules of Mortgage Deed and other acts related to the activity of the Azerbaijan Mortgage Fund. In the near future, the following laws are expected to be implemented: amendments and additions

to the Civil Code related to mortgage bonds and the Law on Housing Construction Savings. Both of these proposals are currently in a draft stage.

The laws mentioned above do not provide any tax exemptions for mortgage loan borrowers; however, if a person constructs a property in their place of residence, this tax payer will not be subject to income tax during the following three years.

6. REFERENCES AND DATA SOURCES

Azerbaijan Central Bank

<http://www.cbar.az/en>

Azerbaijan Mortgage Fund under The Central Bank of Azerbaijan Republic

<http://www.amf.az/?/en/news/view/33/>

Central Intelligence Agency, The World Fact Book

<https://www.cia.gov/library/publications/the-world-factbook/geos/aj.html>

United Nations

www.un.org

State Committee of the Republic of Azerbaijan on Deals of Refugees and Internally Displaced Persons

<http://www.refugees-idps-mmittee.gov.az/en/index.html>

State Statistical Committee of the Republic of Azerbaijan

<http://www.azstat.org/indexen.php>

7. CONTRIBUTOR CONTACT INFORMATION

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8. ANNEX

Figure 1: Housing Affordability Index for Mortgage Loans

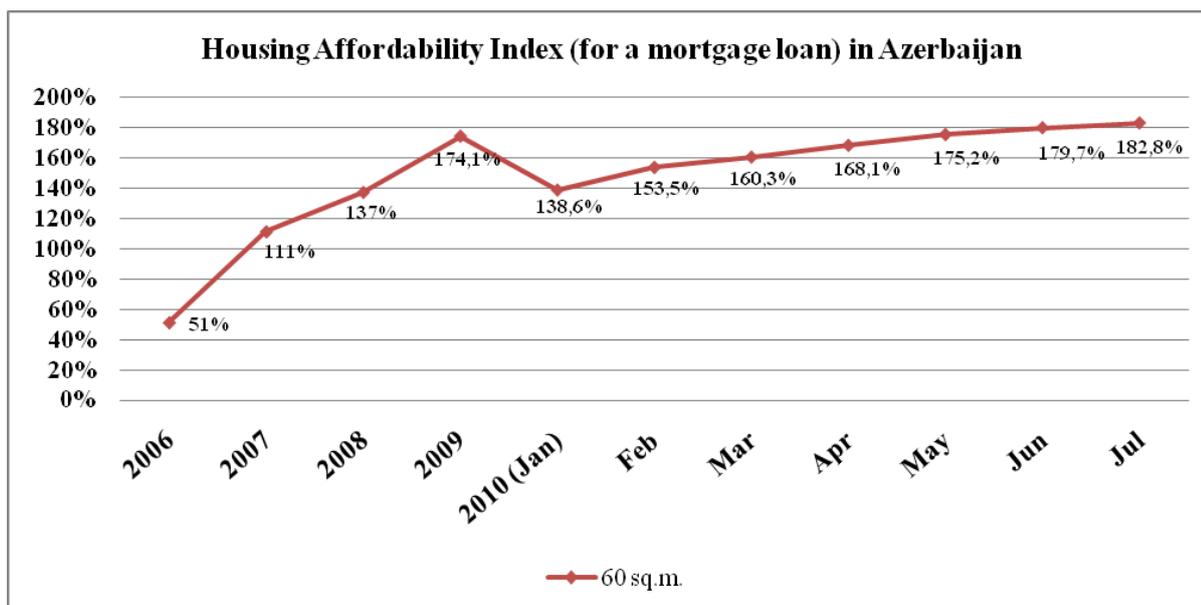
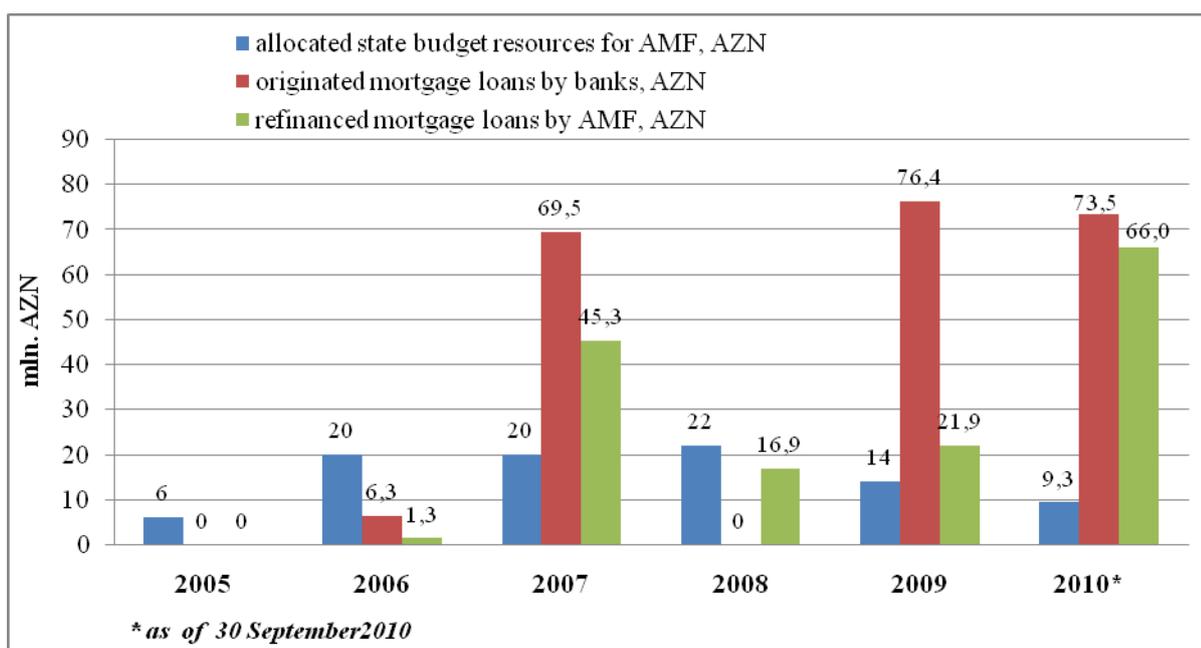


Figure 2: Housing Finance Sources



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