

Why is the scale of “under the pillow money” so large in Azerbaijan?

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On December 9, the Chairman of the Central Bank, [Taleh Kazimov](#), stated that 46 percent of the manat money supply in circulation in the country is in cash form, and that these funds mainly consist of money that the population keeps “under the pillow” and cash held in business tills. However, he did not address the deep-rooted reasons behind the growth of under-the-pillow money. The only thing that is clear from his remarks is that the country’s financial system has been formed predominantly around the banking sector. In other words, the underdevelopment of alternative financial institutions, especially the capital and securities market, does not provide people with a wide range of choices.

But the reason is not limited to this alone. The large scale of the shadow economy is also one of the main reasons for the continuous growth of money outside the banking system. In this regard, many theoretical studies have been conducted over recent decades. For example, a [World Bank study](#) based on the currency demand approach notes that as a shadow economy expands, demand for cash also increases. This is because cash circulation provides convenient opportunities for shadow economy actors to operate without a trace. Alternatively, a study conducted by the [Central Bank of Malta](#) based on data covering the years 2010–2019 concluded that the ratio of the shadow economy to GDP in the country has settled at around 21 percent.

Another important question that Kazimov passed over is the ratio of savings in national currency and foreign currency within the total volume of under-the-pillow money. In an

economic environment where banks offer very low interest rates on foreign currency deposits, where there is strict control over currency movements, and where the risk of devaluation is constantly perceived as a threat in public opinion, businesses and households give preference to foreign currency in their non-bank savings. In recent years, each of the factors listed above have affected Azerbaijan. [Central Bank reports](#) show that interest rates offered on dollar deposits are three to four times lower compared to those in the national currency. The population and businesses know that exchange rate stability directly depends on oil prices, and they constantly remember the bitter experience of 2015, when the national currency lost half of its value against major foreign currencies.

But the point is that when Kazimov says that the volume of under-the-pillow money is around 10 billion US dollars, it is clear that he mainly refers to the volume of the non-bank manat money supply, the M0 monetary aggregate. According to the [latest report](#) of the Central Bank on monetary indicators, the volume of cash outside the banking system amounted to 17,1 billion manats, which equals 10 billion US dollars at the current exchange rate. Unfortunately, the Central Bank, which has extensive resources and research capabilities, has not shown interest in studying the real volume of foreign currency savings outside the banking system and in revealing the true picture of the actual volume of under-the-pillow money. Since the M0 aggregate is a clear and reliable statistical indicator for everyone, even journalists who write about the economy can declare the amount of under-the-pillow money in national currency based on it. Naturally, indicating any figure regarding the scale of foreign currency savings outside banks is possible only through deep research because determining the real volume of foreign currency entering and leaving the country is extremely complex.

But based on some official indicators such as M0, it is possible to make certain assumptions about the volume of under-the-pillow savings in foreign currency. For example, one

such indicator is the ratio of cash foreign currency bought and sold by banks. If sales exceed purchases, it is entirely possible to characterize this volume as under-the-pillow savings. Of course, this applies if part of these funds is not taken out of the country through informal channels or spent abroad for personal needs. Even then, a certain part of this difference can be presented as such savings. For example, according to [Central Bank data](#), during 2019–2025, banks sold cash foreign currency equivalent to 18,7 billion US dollars, while they purchased 12,6 billion US dollars. In other words, there was an outflow of 6,1 billion dollars in foreign currency from the banking sector. The possibility that a certain part of this amount was converted into under-the-pillow savings cannot be ruled out. Meanwhile, during the same period, foreign currency deposits in the banking sector increased by only 300 million dollars for the household group and decreased by 350 million dollars for the business sector. During the same period, the total volume of their manat deposits increased by 12,4 billion manats. This means that demand for foreign currency in officially recorded savings sharply declined, and its share in total household deposits fell from approximately 50% to 30%.

Over the past six years, the volume of the M0 monetary aggregate increased from 9,5 billion manats to 17,1 billion manats, while its ratio to the M2 monetary aggregate declined from 52% to 46%. Although this decline is a positive process, the pace of decrease is extremely weak, and the fact that the volume of money outside the banking system remains extremely high is a serious problem for the development of the financial system. Azerbaijan's indicator in this regard is excessively high compared to some of its neighbors. For example, this indicator stands at 11% in [Kazakhstan](#), 18,5% in [Georgia](#), and 20 percent in [Armenia](#).

Another important point that Kazimov passed over is how the announced 10 billion dollars of under-the-pillow savings are distributed between businesses and the population. Perhaps

most of this amount is held in business tills, and the reasons for businesses' behavior indicate that institutional and structural problems in the economy are deeper. On average, each household may have 300 to 500 manats in cash in its pocket for daily needs, which means at most 1 billion manats. But if the discussion is about a massive amount of 15 to 20 billion manats, this is within the capacity of numerous economic groups that possess the wealth and business opportunities, as well as political patronage, needed to earn such sums.

In any case, the large scale of money circulation outside banks is an extremely important problem that the government must seriously address. But it can be solved not by merely voicing dry figures, but through professionally developed strategies and political will.