



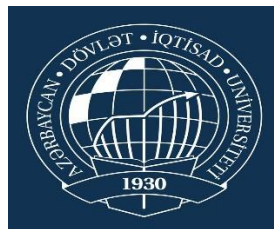
# **The Ministry of Education of Azerbaijan Republic**

## **Financial markets and the roles in developing countries like Azerbaijan**

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## **Abstract**

The financial market is a mechanism that allows you to carry out various financial transactions, such as buying securities and other goods. Financial markets help investors and buyers to find out where prices, borrowings and loans are identified, price fixing and <sup>aggregate</sup> asset values and borrowers' debt flows. In other words, the financial market is a market that provides the distribution of cash between economic subdivisions. Its main purpose is to mobilize funds efficiently and transfer them to those in need of financial resources. One of the main factors of the necessity of the financial market is the uneven distribution of financial resources.

## **Table of Contents**

- I Introduction**
  - 1.1. Research Background**
  - 1.2. Research Purpose and Objectives**
  - 1.3. Research Structure**
- II Chapter 1: Theoretical and methodological bases of financial market activity.**
  - 2.1. Evolution of Financial market.**
  - 2.2. Studying the theoretical foundations of the financial market in the market economy.**
  - 2.3. Role and importance of financial market in socio-economic development of the country.**
- III Chapter 2: Ways to overcome of the problems of the financial market in Republic of Azerbaijan.**
  - 3.1. In Azerbaijan segments of the financial market and the analysis of their current situation.**
  - 3.2. Perspective ways of development of the financial market of the Republic of Azerbaijan.**
  - 3.3. Application of the practice of regulating the foreign financial markets in the reality of the Republic of Azerbaijan.**
- IV Conclusions and suggestions.**
- V Bibliography.**

# **Introduction**

## **1.1 Research Background**

For several years the Azerbaijani economy has transformed into a new economic system. Transition from tough centralized planned economy to market economy in Azerbaijan required the restructuring of the financial market in the country, as well as the overall financial system. However, this issue was very large and large. For many years in Azerbaijan not only the financial market, but also its structure; commercial and investment banks, stock exchanges, insurance companies and so on. However, as a result of a successful economic policy, the formation and improvement of the financial system has been achieved, naturally, this development has not negatively affected the development of the financial market.

Despite many efforts to develop the financial market in our country, its current state is still incompatible with world standards and gives itself to many problems in this area. Thus, in our country, the financial market belongs to the type of market that is being formed, and there is a need for more actions and improvement of the system

## **1.2 Research purpose and objectives**

The object of the work is the financial market, which is one of the most important components of the financial system. Its activity is to study the problems of financial market formation in the Republic of Azerbaijan, analysis of its functioning mechanism with the experience of developed countries and its structural elements.

The purpose of the research is to investigate the theoretical bases of the financial market in modern economic conditions, to investigate its development level in the

republic, to identify existing problems, to identify ways to solve these problems and to provide scientifically justified proposals.

The following tasks have been defined to achieve the goal:

- ✓ Investigation of the formation and development stages of the financial market and its theoretical bases;
- ✓ Analyze and evaluate the features of different structural elements of the financial market in our country;
- ✓ <sup>Deeply</sup> examine the role and importance of the financial market in the socio-economic development of the country;
- ✓ Evaluating the prospects for the future development of the financial market in our country and the feasibility of applying the practice of regulating the financial markets of developed countries in our country;
- ✓ Investigating the factors that adversely affect the supply and information base of the financial market and making suggestions on how to find solutions.

### **1.3 Research structure**

The key issues discussed here are conceptual approaches to the formation and functioning of the financial market of different time economists, the study of the theoretical foundations of the financial market in the conditions of market economy and its role and importance in the socio-economic development of the country.

Here are discussed ways to overcome the problems of the financial market in the Republic of Azerbaijan. Here are the ways of the future development of the financial market in our republic and the application of the practice of regulation of the financial markets of the developed foreign countries in the reality of the Republic of Azerbaijan, the investigation of the problems encountered in the market activity and the solution of the problems.

# **Chapter 1: Theoretical and methodological bases of financial market activity.**

## **2.1. Evolution of Financial market.**

The concept of the financial market is a newer concept than other elements of the financial system and is explained differently in various literature. Its key role in the economy is to redistribute financial resources. Thus, the formation of financial resources, its more efficient division, and purposeful use are routinely managed with the help of the financial market. According to historical sources, the first stock market as the first embodiment of the financial market existed as an integral part of commodity exchanges. Here are monetary obligations (bonds, promissory notes, trusts) and cash as financial instruments. The first independent stock exchange was established in Amsterdam in 1611. The Amsterdam stock exchange was the only regular market for the export and purchase of securities in the Dutch securities market.

Though the concept of financial market was not an object of research by classical economists, there were many approaches and concepts about the various elements of the financial market.

A. Schumpeter was a prominent representative of the economic theory and noted that the means of redemption performs in the hands of the entrepreneur. Because at that time the structure of production varies. That is why the capital market is a monetary market. Schumpeter shows that capital always acts as a means of payment. However, all means of redemption are unable to perform specific capital functions. Schumpeter only accepts the form of money of the capital. In his opinion, the advance capital that

has been converted into production means loses its specific function, they exist as funds, so that the entrepreneur accounts for the means of production acquired.

One of the representatives of the Marginalism School was U.S. Jevons' approach to investment is different, which this is the main driving force of the financial market. So he interpreted the productivity of capital as a function of time, measured the investment by two indicators: the volume of the invested funds and the period in which the investment was invested. The essence of the idea is that the capital gains has the same power to increase the sustainability of the investment period. Jevons shows that the interest rate depends on the ratio of product growth to the capital increase.

J. M. Keynesian also used the concept of the money market and, in his opinion, the price regulator, which acts as a general regulator in free market conditions in the money market. Keynesian also showed the mechanism of monetary supply and interest rate impact on the volume of financial market activity in the theory of interest. From the theory of interest, it can be concluded that, the change in the volume of money supply seriously affects the investment process, which in turn influences the change in the scale of reproduction. The volume of money supply should also change the psychological situation in the money market and ensure that the interest rate drops. However, the amount of the money offer must comply with the rate of interest rate so that it does not eliminate business activity. On the other hand, if the money supply, can not reduce interest rates, monetary regulation, then shows its weakness. From this theory it can be concluded that the greater the amount of money in the general circulation, the more it stimulates the movement of the money, the active flow of money, the invested part of the investment influences the growth of the money market.

The neo-classical theory of finance, which is most widely used in finance theories, is also the systematization of knowledge about the principles of functioning of financial



markets. Financial capital is formed in the development of the economy as a more important role of financial markets. At the end of the nineteenth century, theoretical understanding of trends in financial markets, the need for the preparation of some standard approaches to the work of stock exchanges and stock market participants was gradually formed.

The main aim of this period's researchers is to develop the theory and practice of operations management in the financial markets. The first attempt to build a theory of behavior in the stock market is related to the name of Dow. In 1882, he created a specialized company for the production of financial information, since 1889, the company has begun releasing Wall Street Magazine, which has become a US-based daily business magazine after some time.

Furthermore, the basis of the neoclassical theory developed under the classical international trade theory is Ricardo's principle of comparative advantages in international trade, which plays an important role in the application of international financial markets. Based on this principle, Englishman C. Mill first began to deal with issues of capital movements in the nineteenth century. Based on Dick Rickard, he has shown that the capital flows from one country to another, as the profit margin is different between countries. In this regard, the role of the financial market in the international arena is increasing.

French mathematician L. Basilee attempted to explain the price behavior of shares in the French stock market through the mathematical apparatus in his doctoral dissertation on "Theory of Speculation", which he completed in 1900. He came to the conclusion that the price dynamics in the stock market will never be an exact science. L. Baselé's service is undeniable in the development of the theory of finance. Because, the idea of adding stochastic models to the analysis of price behavior in the capital market belongs to its.

Later this topic development of prominent economists effectively connect. A graduate of Harvard University, J. Uilyams he had done significant work in the field of theory in the Stock market. He proposed a modification of the DCF model for assessing shares as one of the tools available in the doctoral dissertation. However, a decisive contribution to the development of this theory belongs to G. Markovitz. He developed the foundations of the theory of the portfolio in 1950. Also, G. Markovitsyn's works methodology for the decision-making on the investment of financial assets was given. The core of the DCF model is characterized by the sum of all cash generated by the company during its existence. The formula for the DCF model is as follows:

$$DCF = \frac{CF_1}{(1+r)^1} + \frac{CF_2}{(1+r)^2} + \dots + \frac{CF_n}{(1+r)^n}$$

$$FV = DCF \times (1 + r)^n$$

Thus, the discounted present value (for unit cash flow during unit period) will be calculated as follows:

$$DPV = \frac{FV}{(1+r)^n}$$

Here,

DPV- discounted present value of expected cash flows;

FV- nominal value of cash flows for the future period;

r- the interest rate or discount rate;

n- period number;

J.Tobin analysis of the financial market in 1981 and its production, costs, prices, and employment, due to the effects of the decision-making; According to the analysis of the financial market and harvesting process in 1985, F.Modilyan; G.Markovic, U.Sari and M.Miller in 1990 for financial theory studies; R. Merton and P. Sculz were awarded the Nobel Prize in 1997 for the development of the cost option. In these works, the price theory was developed in the market, the efficiency indicators of the capital market were studied, the model of risk and income assessment and their empirical confirmation methodology were proposed and new financial instruments were identified.

In the middle of the 20th century, many monographs on the neo-classical theory of finance were promoted. However, some specificity has been observed in those works, that is, in the financial theory literature, the problems of the capital market are widely interpreted, and there is little space for the management of financial resources of the companies. During this period, two aspects of finance innovation - the theory of capital structure and the theory of portfolio suggest the essence of the science and technique of managing the finance of large companies because it allowed them to answer two fundamental questions: where to get and where to direct financial resources. This question was answered by the financial market.

The neo-classical theory of capital international movement has been shaped by E. Hekser, R. Nurse, K.Eversen and B.Olin in the first decades of the twentieth century.

Representatives of the Neo-Saxons' theory paid more attention to the interaction between capital flows and the country's balance of payments. Keynes noted that the international capital flows occur when countries have different balance of payments. The Neoconal theory is based on the macroeconomic analysis as well as the neoclassical theory. This is an incomplete aspect of both theories because they do not explore the behavior of individual investors.

The modern economic theory attaches special importance to Transnational Corporations (TMC). This is largely explained by the rapid development of the post-World War II era and the decisive factor in the global economy. From this point of view, several models of direct investments have been developed within the framework of the TMC Concept. The most important of these are:

- 1. Monopolistic advantages model.** This model was developed by S.Haymer. It was later upgraded by R.E.Gayvz, CHP Kintleberger, L.Lakrua, Q.C.Conson. The main idea of the model is that the foreign investor is in a relatively less favorable situation than a local investor. He is not aware of the market environment in the country and the rules in the market. He does not have extensive contacts in this country, and he is suffering more from risk by making big spending. Therefore, in order for a foreign investor to gain profits, he must have a monopoly advantage over a domestic investor.
- 2. An internalization model.** Based on the idea of R. Kouz, this model operates a special domestic market between TMC divisions. The creators of the internalization model - A.Rakmen, M. Kesson, P.Paky, C. Danning believe that an important part of international transactions is actually the company's internal operations.
- 3. Eclectic model.** This model is a set of self-propelled parts of other models. That is why this model is sometimes called to as "eclectic paradigm". In the modern era, the eclectic model has a great popularity.

According to the model at the same time, there are three conditions when the company starts production abroad:

- The company can use production resources in that country more effectively.
- The company has more advantages over this death than other firms.

- It is profitable for the firm to use all of these advantages in the same country.

American scientist, Nobel laureate James Tobin has proposed the theory of "q" (kyu) of investments. According to this theory, there is a difference in "q" between the cost of the company's capital and its stock market value. If the stock exceeds the recoverable amount, ie the "q" is positive, the firm will be able to increase its real equity. If "q" is negative, the opposite process will occur.

Portfolio investment theories indicate that the portfolio investor is interested in the following four points in foreign countries:

- ✓ Risk level for financial investments;
- ✓ profitability rate of foreign securities;
- ✓ the liquidity level of foreign securities;
- ✓ the desire to diversify their portfolio of securities by means of securities of foreign origin.

The quinning of these four factors has led to the fact that portfolio investments are more exposed to changes in political and economic conjuncture.

One of the important theories of the period is the theory of capital flight. Since this theory is studied poorly, the term itself is explained differently. D.Kaddington understands the illegal import and export of short-term capital when it comes to capital flight. However, most researchers, including C. Kintberger, explained that this was the movement of capital, which was contrary to the national interests of the country, and was due to the absence of favorable investment climate in the country. Capital fleet is currently observed in all CIS countries. This is mainly done by increasing the foreign assets of commercial banks and purchasing foreign securities. It can be viewed as a legal trafficker of capital. The illicit capital of the capital is smuggled, foreign exchange imports and exports, and so on. forms.

Meanwhile, one of the modern-day economists, Gencki commented on the concept of the financial market: The financial market is the financial institutions that create savings savings for direct borrowers.

Thus, although the understanding of the financial market has a relatively modern understanding, its research has always been in the focus of many economists and has been thoroughly investigated.

## **2.2. Studying the theoretical foundations of the financial market in the market economy.**

The financial market is the market form of financial resources that acts as commodities. In other words, the financial market is a market that provides the distribution of cash between economic entities. Its main purpose is to effectively divide the cash and to ensure that they are transferred to those in need of financial resources.

One of the main factors of the necessity of the financial market is the uneven distribution of financial resources. We can explain that, on the basis of the activity of each economic entity, it is expedient to earn income. This in turn is accompanied by cash flow. Thus, an economic entity attracts funds to expense, resulting in cash as revenue, and this tool is a tool for continuation of the activity. Usually, the earnings are more than the estimated cost, and if it is purposeful, the majority will be directed to the expansion or accumulation of activities. In some cases, earnings do not suffice to extend the business, even to the extent that it is at the level of activity and need extra cash. As you can see, as a result of the activity of economic entities, some of them are temporarily free of charge, and some in need of cash. Hence, when a venture invests in other ventures, it is aimed at improving the financial position of another entity or "escaping" its bankruptcy, while on the one hand it aims to increase

profitability of the enterprise. And from here you can come to the conclusion that the market economy conditions prevail in the modern relevance of the financial market come to the fore. Hence, the financial market plays a mediator in directing cash flows to those in need.

According to V.I.Kolesnikova, the financial market is a set of cash flows that are constantly moving, ie dividends and redistribution. He pointed out that the market economy itself requires the functioning and development of the financial market because it acts as one of the key factors in the development of the market economy itself.

Generally, the financial market is important in the development of the economy. Its role is determined by the functions it performs, as follows:

- ❖ Real sales prices of financial instruments issued on the market as a result of the seller's direct contact with the buyer are determined in the market. It also determines the level of repayment of assets and its terms.
- ❖ To ensure that cash flows from one entity to another, ie to a cash-generating party. This self-distribution of financial resources, temporarily free funds in connection with the purchase and sale of securities that the economic relations. Currently, most of the world's financial resources are distributed through the financial market;
- ❖ The financial market creates space, opportunity and conditions for investors to place their freely available funds in the most efficient destinations. In the meantime, there is a chance to choose not only the country, but even the whole world. This makes it possible for companies to find the most affordable source of finance.
- ❖ One of the major functions of the financial market is to minimize costs (research and information costs) for the placement and acquisition of financial resources.

In modern conditions, financial markets play an important role both in the macroeconomic and financial resources of the state, regardless of ownership. This means that the market economy can not be achieved without the financial market. It is the special form and sphere of cash flow arrangements and represents the range of trading relationships in the financial system.

The emergence of financial markets is objective and it has further developed in the light of the state of the state and enterprises with different organizational and legal forms. On the other hand, the level of state intervention in the economy in the conditions of the market economy and the interaction between the state and enterprises have also had an impact on its development.

The financial market is divided into two groups based on sources of funds:

- ✓ Domestic or national financial markets. Resources of these markets are built on domestic sources. In this case, the resources of other countries are attracted, but their share is negligible.
- ✓ World financial markets. Their resources come from the resources of the residents of different countries.

According to the development level, financial markets are divided into developed markets and emerging markets. Markets that are often created or formulated are called emerging markets. This type of market form is typically characteristic for developing countries.

The primary sellers and final producers of financial resources are divided into three groups: business entities (enterprises and organizations), individuals and the state. Purchase and sale of financial resources is carried out in two ways: without the assistance of financial intermediaries, directly from the seller to its consumers and with the assistance of one or more mediators.

The financial market can not be imagined without its subjects, as they are:



- investors - enterprises and organizations that have excessive financial resources and direct them to investment.
- depositors - natural persons who are collecting various deductions for certain purposes by reducing personal consumption.
- borrowers - enterprises and organizations that lack sufficient financial resources or lack financial resources, as well as state authorities.

Along with these statements, there are also various intermediaries operating as financial market makers and specialized finance and credit institutions.

Intermediaries acting as subjects are:

- 1. Makers.** They act as an intermediary acting on behalf of the investors or borrowers receive income in the form of commission. Makers can act as individuals and legal entities.
- 2. Dealer.** By acting freely, in some cases they enter into direct deals with other intermediaries, even investors and borrowers. They buy securities in their own name and at their own expense, and sell them back to investors. Under the Civil Code dealers can only act as legal entities.
- 3. Brokers.** They are stock market participants acting on behalf of the client and at his expense. Brokers also engage in advisory activities. They also provide advisory services for the placement of securities on the secondary market. Brokers carry out their activities as a professional participant by special licenses.
- 4. Specialized finance and credit institutions.** Here are investment banks, financial companies, insurance companies and so on. includes. They both act as investors, borrowers, and mediators.

As the financial infrastructure is expanding, considerable progress is made in the formation and development of the financial market. Thus, market-oriented entities

between different types of property-forming enterprises play a leading role in the completion of economic resources turnover and help them achieve commercial success.

The basis of the financial market is the mechanism of redistribution of capital between supply and demand. Generally, the following markets are important in its formation: Debt Market, Capital Markets, Currency Market, Money Market, Insurance Market, Securities Market, Leasing Market, etc. These markets are part of the financial market.

Currency market subjects carry out the following types of transactions: transfer of purchasing power, exposure (open currency position insurance), interest rate arbitrage (interest rates) to get benefits).

Transmission capability is carried out in the form of the following transactions:

- Cash (spot) - currency immediately, within the first two days of the closing of the transaction is intended to be.
- Term (forward) - provides the currency within the specified timeframe.
- Svop - involves the joint implementation of various long-term sales and purchases transactions.

When dealing with the currency market, subjects are not only operating from economic point of view, but also in terms of organizational, economic, and legal restrictions. Such kind of relations can be called a system of currency relations.

Gold market - a collection of gold and the increase in financial resources, but also to organize business and industrial consumption in connection with the purchase and sale of risky sector economic relations. Here, newly produced gold and gold stocks traded public and private. The organizational point of the gold market is a series of banks, which deals with buying and selling gold. These banks play a role as mediators

between buyers and vendors. Examples of world gold markets are London, Zurich, New York, Chicago, and Hong Kong markets.

Depending on the duration of the financial market, the division is of greater importance and, depending on its short-term and long-term nature, it is divided into the capital market and the money market.

The capital market, in turn, is divided into the loan market and share market. Such a division represents the nature of the relationship between the buyers and their issuers in the financial instruments used in this market. If a share-based equity instrument is used as a financial instrument, these relationships are characteristic of property relations, and in other cases these are credit relationships.

The capital market capital is the relationship that arises in the process of securing the capital of the loan or the form of circulation. It is known that the loan repayment is a sum of money that is periodically credited. The origin of the capital of the capital is primarily the free financial resources and savings of enterprises and organizations and citizens. Businesses and organizations place their free financial resources in various lending institutions by earning interest, subject to income. Additionally, the fact that the funds entering and paying on the accounts of banks in the banks does not go unnoticed by the use of these funds as a credit resource.

Credit capital market participants are as follows:

- Credit organizations that collect free funds and place them in lending;
- Investors having free cash (financial resources);
- Entities and organizations, citizens and other government agencies that have borrowed for certain purposes.

The role of mediators is not great here because the participants are in direct contact with each other.

The role of the capital market in the formation of financial resources of enterprises is of double character. For example, an entity that has free financial resources primarily receives interest income through placement or lending to borrowers at banks and other credit institutions. On the other hand, credit agencies involved in these funds increase their reserves by "selling" those who need them.

Share certificates - securities that certify ownership of the entity, the share of the entity in its charter capital, its involvement in the profit distribution and, as a rule, the right to participate in managing this entity. The issue of ownership is defined by the legislative act and the founding documents of the organization.

Cash flow market is represented by cash in circulation and other short-term equity instruments (promissory notes, checks, etc.) that fulfill their function. In most cases currency market includes currency and interbank markets. The cash market plays an important role in ensuring the current liquidity of economic entities. This market is also called the money market and, in turn, has several segments.

The key segments of the cash market are the following:

1. Diskont market
2. Interbank loan market
3. Eurobond market
4. Deposit certifications market

The discount market is the market where the bills are bought and sold. Its importance is to provide a regular flow of money, and central bank and commercial banks act as operators of this market.

One of the money market segments is the interbank loan market, where commercial banks lend each other. Interbank loans are provided at the expense of funds exceeding the reserve requirement of commercial banks at the central bank.

The Eurobond market is a market in which trading with financial instruments, nominated by the euro, is a part of the money market. Eurobond is the money placed by European banks in national currency of the country in banks of another country. It is widely used in international markets for deposits, loans and other transactions. These currencies are primarily US Dollars, British pound sterling, euro and other currencies.

In developed countries, the deposit certificates market also operates. Deposit certificates are a kind of securities and represent a certificate of large-scale deposits in banks. The term of circulation of certificates of deposit is usually not more than one year and may be viewed as money market securities.

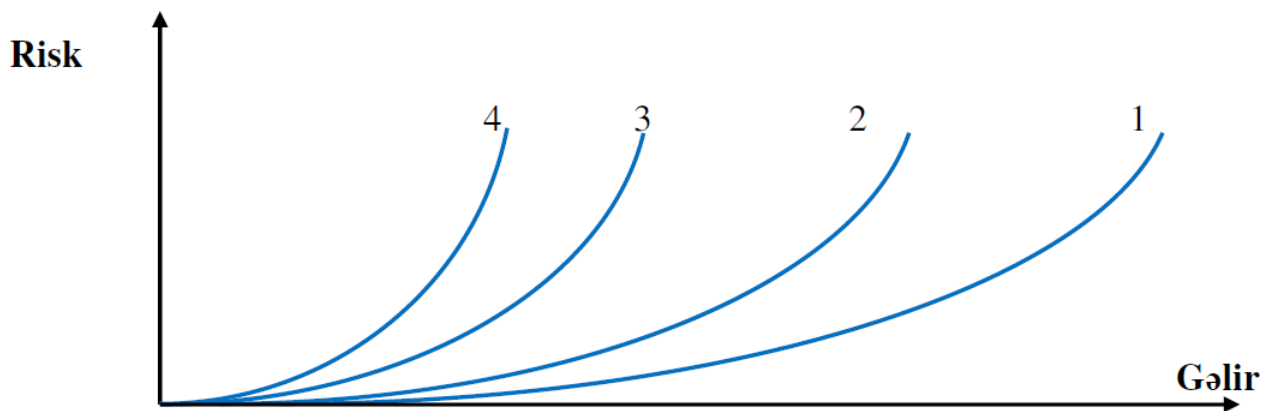
One of the key elements of the money market is the REPO agreement, which specifies the sale of securities in return. The essential condition for implementing such an agreement is the existence of an advanced government securities market and the existence of a well-developed system of paperless securities circulation. When a REPO agreement is made, the party selling the securities receives money, which can be used for various purposes: completing a deficit of liquid funds, or for carrying out an active transaction in another segment of the financial market. Upon termination of the contract, the redemption value of the securities may be higher. The difference between these prices is the interest charge for the use of cash. Purchases should be made on or after a specified date.

Another component of the financial market is the securities market where all market subjects mentioned above are participants in this market. Unlike the loan market capital, the role of mediators is great here. As it appears from the securities market, it

is the major intermediary securities in attracting financial resources. Securities are a legal document that grants a debtor's debt or property right, which gives the holder the dividend or interest income. It is impossible to speak about the existence of a highly developed market economy in a state without a securities market. This market consists of the mutual relationships between the demand for cash and the offer.

As you know, in the context of the existence of the financial market, more precisely, where the securities are bought and sold, the risk is also inevitable. Thus, the risk can be considered as an integral part of the securities market. Risk means the probability of loss as a result of changes in market conditions, which are related to investments in securities and are essential to them. It should be noted that as their securities profitability increases, their risk levels are also increasing. This dependence can be summarized as follows:

**Qrafik 1.1**



*1-dövlət qiymətli kağızları; 2-şirkətlərin istiqrazları; 3-səhmlər; 4-törəmə qiymətli kağızlar.*

As can be seen from the graph, although the government does not promise high return on securities, its risk is minimal, which means it is more secure. But some investors want to earn high returns and risk it. As we have seen, there is a direct proportional

dependence between the probability of risk and profitability; the higher the probability, the greater the chance of getting income.

The most commonly used financial instrument is the stock market. Share - is an emissive security that determines the right of its owner (s) to take part of the profit of the joint-stock company in the form of dividends, to participate in the management of the joint-stock company and to acquire a part of the remaining property after it has been liquidated.

Stocks are issued in the following cases:

1. When an open joint stock company is created;
2. When turning an enterprise or an entity into a stock company;
3. Increase of the share capital.

Stocks have several features:

1. Share - is the property title;
2. There is no "presence" of the share;
3. The shares are subject to limited liability;
4. Shares can be divided and united.

Shares are divided into ordinary and privileged stocks in the Corporation's ownership right. Each ordinary shareholder is present at the shareholders meeting, has the right to vote in that meeting and may be selected and elected to the management body. Preferred shares do not have this right, but their advantage is that redeeming dividends on these shares does not depend on the company's business. The shortage of preference shares is that if the venture successfully carries out its business, dividends are rising on ordinary shares and remain unchanged on privileged stocks.

Dividend is a profit for the year, and is distributed among shareholders as a fixed amount depending on their nominal value. Dividends can not be paid until the charter capital is fully repaid at the time the enterprise is insolvent.

The sequence of dividends payable by subjects is as follows:

- Preference shares with certain advantages in dividend acquisition
- only on preference shares;
- on preferred shares with no dividend amount determined;
- on ordinary shares

The face value of the shares is at its face. The charter capital of the joint-stock company is equal to the total nominal price. The share price of shares is the initial purchase price of the shares. Emission price is higher than the nominal price. The market price is the buy and sell price of shares in the market. The rate depends on the demand and supply of the securities.

Privileged shares are divided into 2 groups: cumulative and reversible.

- Cumulative shares are intended to ensure that the dividends are neither full nor fully paid, collected and subsequently paid.
- Revertible shares - the essence of which is that the entrepreneur has merit for these shares, while other types of ordinary and preference shares changing them.

Bonds are one of the most widely distributed securities in the financial market. "Bondsheets" is a emissive note that determines its owner's right to receive the nominal value of the issuer from the issuance date and the right to receive the specified or other property equivalents (if not contrary to the legislation) .

The bond is a debt certificate and there are two main signs:



- the obligation of the issuer to repay the specified amount at the specified time;
- Interest bearing debt to the issuer for a nominal price;

Bonds are classified according to the terms of ownership, based on the nominal payment method, for the pledged income, depending on the purpose of the bonds.

İstiqrazlar bazar və nominal qiymətə malikdirlər. İstiqrazın bazar qiyməti istiqraz bazarında və maliyyə bazarında olan şəraitlə müəyyən olunur.

Kuponun ödəmə qiymətinə görə xüsusiyyətinə görə istiqrazlar bölünür:

- variable interest bearing bonds
- equal interest bonds. Such bonds are referred to as indexed and usually issued under inflation conditions.
- bonds with minimal or zero coupon bonds are not paid or their volume is very small. The market price of such bonds is typically less than the nominal, ie a discount is offered.
- mixed-type bonds, at which the entrepreneur receives part of the profit in the form of revenue, while the other part receives a floating rate.

Bonds on stock market turnover are:

- Common bonds. Payment of annual income and repayment of the principal debt during the loan period.
- Turnover bonds. The Sahibkara reserves the right to change the shares of the same issuer. As a means of payment, the issuer determines less income on them.

Bonds can be issued by government agencies, private companies and joint-stock companies. The maturity of bonds is not less than one year and their issue is subject to state registration. It is important to have the following requisites on bonds:

- name of issuing issuer - emitter;
- total amount of debt;
- face value of the bond;
- terms and conditions of payment of dividends;
- Interest rate;
- number of bonds.

The interest rate on bonds is determined based on their nominal value irrespective of the bonds' value of the bonds.

Depending on the completion of operations with securities, the securities market is divided into spot and term markets:

- The exchange of securities in the spot market is practically instantaneous at the moment of transaction. Trading in timed markets is carried out under a term contract.
- Forward market is a type of market where the parties agree that the securities that actually exist in them are to be redeemed in the future at a later date.
- The futures market is a market where trades are carried out in the future on a contractual basis for the future delivery of securities or other financial instruments that are actually sold in the financial market.
- Option market is the market where the purchase and sale of a contract that gives the right to buy and sell certain financial instruments (securities) at a

predetermined price takes place at a specified time. The price of an advance price option is called.

- Swap market is a market for direct exchange of contracts between the participants of the securities agreement. This ensures that at a certain time (or at some point) the exchange engagement partner has two financial obligations.

### **2.3. Role and importance of financial market in socio-economic development of the country.**

The role and position of the financial market in the development of the country's economy has been proven quite well in the experience of developed countries through the market economy. However, because of the high level of development of the financial market in the Republic of Azerbaijan, which has just entered the market economy, its role in the social development of the country does not dominate. However, the efforts of the government, financial market development, as well as maximizing the impact of socio-economic development adopted in order to increase its role in the implementation of government programs has been achieved, at least partially.

In the decree of the President of the Republic of Azerbaijan dated November 24, 2003 "On measures to accelerate the socio-economic development in the Republic of Azerbaijan", a number of important issues were set in front of economists and economic service areas, and tasks were set up to determine its enforcement mechanism. The development of the financial market and the provision of resources here, as well as the maximum transparency of the transmitted information are included in these activities.

The rapid socio-economic development of Azerbaijan, the measures taken to improve the business environment in the country and etc. are appreciated by influential international organizations.

Increasing the role of the financial market in the socio-economic development of the country is largely dependent on the state regulation that the main objectives of the state in this direction are:

- Implementation of the state program on development of securities market;
- Securing the securities market for professional participants and customers;
- Establish an open information system on the securities market and control the forced disclosure of information by market participants

The State Securities Committee's obligations under the securities market regulation are as follows:

- Development and implementation of state policy in securities market, including the securities market, public administration, oversight;
- Organization and development of the securities market, creating favorable investment climate;
- Ensuring control over the activities of issuers, professional participants, stock market in the securities market;
- Creating a healthy competitive environment in the securities market;
- Securing the protection of securities market participants, including investors, shareholders and other securities owners.

To evaluate the impact of the financial market on the economic system, let's take a look at this example. As we know, one of the causes of inflation is the increase in the money supply in circulation. Inflation in the securities market is interconnected.

Inflation can be avoided by temporarily restricting free cash flow to investment processes rather than personal consumption. This is possible only through the development of the financial market. It is important to note the role of state securities here. The issuance of state and corporate securities plays an absorbent role, leading to excessive (excessive) cash flows in circulation for investment purposes, which prevents inflation. The state securities released today play a role in reducing inflation.

One of the major challenges facing the economy in the market economy and transition economies is the solution of mutual debt problems, as well as payments between enterprises. Because the existence of a mutual debt problem also causes new problems. The enterprise can not pay taxes, because buyers do not pay their debts for their goods. The state, in its turn, can not fulfill its budget plan due to a lack of tax revenues, and state aid to some sectors of the economy is delayed or generally not supported. All of this, in general, affects economic life, and the state loses its power over economic, political or other spheres. Thus, in the modern era, the government considers the development of the debt market more acceptable for solving these problems. This market plays a major role in meeting the needs of the enterprise's core and operating assets. Securities traded in the market are those that provide the areas in which the debt securities need circulation. The main element of the debt market, the flow of promissory notes and bonds, is that financial resources flow from less effective areas to more effective areas. In this regard, the development of the debt market in the country helps to solve many problems within the enterprise as a whole, and the efficient distribution of resources is ensured. The main securities in this market are various types of promissory notes, corporations and government bonds, state treasury obligations, savings certificates and other valuable securities.

As we have noted, the role of the securities market in our republic is determined primarily by its choice of market economy. Market economy is based on free entrepreneurship. The key to achieving this is the transition from privatization, which

is known from world practice, to the process of privatization of state property. Under such circumstances, there is a need for the existence of the securities market in the process of privatization chosen by the state based on foreign experience. Thus, on January 7, 1993, the Law of the Republic of Azerbaijan "On privatization of state property" was adopted to ensure the normative-legal base of privatization. In order to implement this process, the State Property Committee was established in accordance with the presidential decree of June 23, 1992. The committee was tasked to prepare a program on privatization of state property. Implementation of the first program did not produce any results, and on 29 September 1995, 1995-98, a new Republican Program of Public Property Privatization was adopted in Azerbaijan. With the adoption of this program, the necessity for the stock market to take on the solution of the important problem of privatization. The program outlines the period and stages of privatization, the objectives, the classification of privatized enterprises, the transformation of their shares into stock companies, specific options of equity, terms and conditions of granting privatization checks, and the rules for their use. Privatization of enterprises is the formation of market and market relations; Involvement of competitive enterprises into production process; increased flexibility in production management; attracting foreign investment; stock market and stock market formation, reduction and elimination of budget deficit, etc. to solve some problems.

It should be noted that, despite the fact that the privatization process has been carried out for about 20 years, many businesses have not been privatized yet. One reason is that foreign investors can not be involved in the privatization process. For this, it is important to provide more information about the securities market and investment climate in the country. On the other hand, not all enterprises are involved in privatization. This is due to the special strategic importance of these enterprises for the state.

As we know, the State Program on Socio-Economic Development of the Regions of the Republic of Azerbaijan (2004-2008) was adopted according to the Decree of the President of the Republic of Azerbaijan. The program envisages the development of various economic and social spheres in the regions of the republic, and restoration of the balance between the center and regions in these areas. The program has identified different actions, their purpose and executors in relation to the above. The program envisages the extent to which the securities market plays a major role in the implementation of such a large-scale government program, as the restoration of enterprises' activity, accelerating the process of privatization, the transformation of medium and large enterprises to stock companies and their shares to develop the financial market.

After creation of the securities market, it was important for the government to regulate its role in the economy of our country. In accordance with this Decree of 26 July 1999, the SSC, which is a regulatory body, was established. With the establishment of the Baku Stock Exchange (BSE) in 2000, the role of the stock market in our country has increased. Because it was an important organizational form of the securities market. It should be noted that the first stock exchange in the stock market of our republic was "Baku Securities Exchange", established in 1991. Then the stock market activity was regulated by the Law of the Ministry of Finance "On licensing of stock market activities in the securities market". However, as a result of the budget deficit and the non-continuing monetary-credit emission, the rate of inflation exceeded 50%. After that, as a result of the political and economic crisis in the country, there was no favorable conditions for the development of the market, and its activity was suspended.

On November 8, 1999, "Rules of licensing of certain types of activity in the sphere of securities activity" were approved, which, as a very important document, was the establishment of civil capital market infrastructure in the country in order to regulate

12 types of activities, expand the corporate securities market and it has become one of the new priority steps for the settlement of the conflict.

In 2000, the "Development of the Securities Market in the Republic of Azerbaijan" Program (July 2000 - December 2001) was adopted. In this program, the main directions of the development of the state policy and the securities market in the securities market of the Republic of Azerbaijan have been identified. The main directions of the market development are the formation of the legislative base of the securities market, the development of the securities market infrastructure, the creation of an institutional investor system, the protection of investors' rights in the securities market, the securities market experts, the development of international relations, the creation of an open information system on the securities market.

Taking into consideration the role of the stock market in the development of our economy, the Ministry of Economic Development has defined further development trends of this market in the Concept of Economic and Social Development of the Republic of Azerbaijan for 2007 and the next three years. Future priorities for the development of the securities market, which is an integral part of the financial market, are the deepening of integration of Azerbaijan into the international capital market, establishment of cooperation with IOSCO, authoritative international organizations, Association of National Code Agencies and other international financial institutions, membership in international depository clearing centers in Euroclear and Clearstream institutions creating a single state printing house that meets international standards throughout the country. At the same time, the main directions will be the stimulation of creation of investment and non-state pension funds for the purpose of expanding the market of debt obligations by using debt securities in the Republic of Azerbaijan, expanding the use of mortgage and housing certificates, investing in securities, attracting the population to the securities market .



Increasing the role of the financial market in socio-economic development also depends on the existence and development of an investment climate in the economic environment. This climate is made up of a large number of elements and can be combined into the following groups:

- Socio - political situation in the country and its perspectives;
- Domestic economic situation and its development prospects;
- The mechanism of internal economic activity and its prospects.

In general, favorable investment conditions have a positive impact on the following factors:

1. Stable state support policy for entrepreneurship;
2. The preferential tax regime;
3. a system of measures that create a financial flow;
4. establishment of innovation centers;
5. development of a corporate network to provide financial assistance to enterprises;
6. Consultation Centers;
7. Intellectual Property Effective Defense System;
8. simplify the procedure of regulation of the farm activity;
9. Increasing the quality of the workforce;
10. Degree of coverage with information technology and communication means;
11. Orientation of Success;
12. Freedom of creativity, etc.

In modern times, all major firms primarily identify the country's business infrastructure and investment climate, and then think about investing in that country. We have shown some factors affecting the above investment conditions. In addition, the legislative system in the field of regulation and protection of foreign investments

is a system of labor and social legislation, which is one of the key factors in the country's existence of free economic zones, taxation and investment climate. World practice shows that countries with developed business infrastructure are more attractive to investors. Investors estimate such countries as countries with favorable investment climate.

The objective and subjective factors affecting the investment climate in Azerbaijan, unfortunately, are not considered to be favorable. These factors are in three groups

can be combined:

- socio-political situation
- economic situation
- legal guarantee.

The socio-political situation means the political situation in the country and its stability in terms of the foreign investor. The economic situation includes the following: economic development, investment opportunities, access to loan capital, etc.

Since the 90s radical socio-economic reforms, restructuring of the economy based on the principles of market economy, the capital markets necessary to create an entirely new sphere that took place in the financial market.

The State Program on Poverty Reduction and Sustainable Development in the Republic of Azerbaijan for 2008-2015 was approved by the President of the Republic of Azerbaijan in order to stimulate socio-economic development in our country, which included a number of assignments aimed at the development of the financial market. The following work has been done for the implementation of these tasks:

- Starting from February 2012, securities trading, custody and depository systems have been integrated into electronic payment systems and automated trading

mechanisms have been introduced. In order to modernize the legal framework of the integrated trading system, the Baku Stock Exchange and the National Depository Center have developed a draft "Implementation of Clearing Activities" and "Rules on Settlements and Accounts Transactions on Stock Exchange"

- 3-level listing mechanisms have been set up at the Baku Stock Exchange, thereby creating favorable environment for companies with different financing requirements. At the same time, the "Listing Advisory Program" was developed and implemented by the Baku Stock Exchange to increase the access of the companies to the capital market and to provide advisory services in this area. Within the framework of the program a list of potential companies per category of listing has been defined and regular meetings with them have been organized. Detailed information on the advantages of using the stock market as an alternative source of funding was provided to the companies and various trainings and trainings were held.
- Preparation of normative legal base providing activity of investment funds was completed in 2011. During 2012, the Bank was regularly promoting investment funds, informational trainings and trainings were conducted in this area. At the same time, research was started to make banks more active use of capital markets and funded pension fund activities;
- Participation of market participants in regular training seminars and courses was provided to the SCS. They were provided with detailed information on best international practices in the field of securities market regulation, provided appropriate methodological support;
- A draft law "On Making Additions and Amendments to the Civil Code of the Republic of Azerbaijan" has been prepared with a view to bringing the provisions of the national legislation in line with European Union legislation regarding the acquisition of significant shares in the joint stock companies, the

reorganization of the companies, protection of shareholders' rights. An agreement with the relevant central executive authorities was completed and submitted to the Cabinet of Ministers of the Republic of Azerbaijan on October 29, 2012;

- In order to increase the analytical potential of the SCS, topics such as "placement of securities during mass offering", "prudential regulation of equity market intermediaries", "procurement procedures of the companies", "prospect requirements", "internal accounting and reporting system requirements applied to investment companies" and participation of SCS employees in trainings and seminars conducted throughout the country and abroad. In total, 21% of SCS employees participated in countrywide and 63% participated in countrywide trainings and seminars;
- Information on any changes in registry information of civil servants operating in the SCS is regularly submitted to the Presidential Administration and the Civil Service Commission under the President of the Republic of Azerbaijan. During this reporting period 6 information was provided to the state agencies in question;
- The Listing Counseling Program has been launched to encourage companies to fund the stock market in the securities market. In this direction, a database of potential companies, training and educational materials has been prepared and the Listing Advisory Group has been formed. Intensive work was carried out to listing potential companies ready to finance the capital market;
- The Draft Law on Amendments to the Articles of Association of the Civil Code of the Republic of Azerbaijan for the purpose of applying advanced corporate governance standards has been agreed with the relevant central executive authorities and submitted to the Cabinet of Ministers. This project was included in the draft Law on Entrepreneurship. At the same time, in the course of the investigation of the complaints filed by legal and natural persons for

investigating and prosecuting complaints about administrative offenses, and conducting the investigation on administrative offenses related to the competence of the SCS, in order to effectively and efficiently carry out investigations on administrative offenses. Developed and approved Methodology for Investigation of Investors' Appeals and Administrative Offenses, which sets out uniform rules and procedures

## **Chapter 2: Ways to overcome of the problems of the financial market in Republic of Azerbaijan.**

### **3.1. In Azerbaijan segments of the financial market and the analysis of their current situation.**

The economic reforms carried out in the Republic of Azerbaijan and its deepening integration into the global economy have created conditions for the dynamic development of the economy. Formation of the financial market in our country has become a necessity in order to ensure domestic and foreign resources to economic development.

The financial market in our republic had been fully formed in 1995. In 1998, there were 4 exchanges in our country. In 1998, there were 547 joint-stock companies, 79 commercial banks that provide capital flows between sectors and regions, a large number of insurance companies, credit unions, and investment funds operating. Over the past 20 years, our country has established a regulatory framework for the financial market and its sectors, ie many laws and decisions have been made. The Civil Code of the Republic of Azerbaijan has established the legal basis for the financing of leasing, trust management and money demand. The legislation has been renewed, the requirements to insurance companies have

increased, the audit system has been established. However, practically the financial market has been developing unilaterally by meeting the state's financial resources. Starting from 1998, quantitative and qualitative changes have taken place in the financial market of the Republic of Azerbaijan. The share of enterprises and organizations has increased in the financial resources buyers and the share of the state has started to decline. Due to the relative reduction of the cost of attracted funds, their access has been made available to many businesses. However, currently the financial market of Azerbaijan belongs to the developing (emerging) market group.

In our Republic, we can see the segments of the financial market as follows:



**Scheme 2.1**

As can be seen from the description, the major segments of the financial market in Azerbaijan include the money market, the stock market, the foreign exchange market, the credit market and the insurance market.

**The money market** is the markets where short-term funds flows. In some literature, currency and credit markets are also part of the monetary market. Playing promissory notes and deposit certificates are key roles, such as money market instruments. Proxy is a one-sided debt obligation, and it is a security that confirms the unconditional obligation of the issuers to pay bills to the holders of bills (bills of exchange). The promissory note is very convenient as a bank account and a commercial loan, which means that the payment is not paid at the time, but after a certain amount of time, ie within the amount of the promissory note at the disposal of the promissory notes. Here, the promoter does not have any obligation to pay, but instead, the amount of the bill owes to it.

**The stock market** is a market where the operations are carried out through shares, with the stock market. The stock market in Azerbaijan has been weakly developed. The main reason for this is the lack of financial literacy, the lack of transparency of financial statements, the lack of interest in attracting investors, and other reasons. The shares used in the local equity market are divided into two groups: preferred shares and ordinary shares. Each ordinary shareholder is present at the shareholders meeting, has the right to vote in that meeting and may be selected and elected to the management body. Preferred shares do not have this right, but their advantage is that redeeming dividends on these shares does not depend on the company's business. The shortage of preference shares is that if the venture successfully carries out its business, dividends are rising on ordinary shares and remain unchanged on privileged stocks.

**The foreign exchange market** is the market where the currencies are bought and sold. In international practice this is called the Forex market. In our Republic, currency market participants are mainly brokerage firms, commercial banks and individual individuals operating on their network systems. The highest volumes of currency market operations are transactions on non-cash foreign exchange, rather

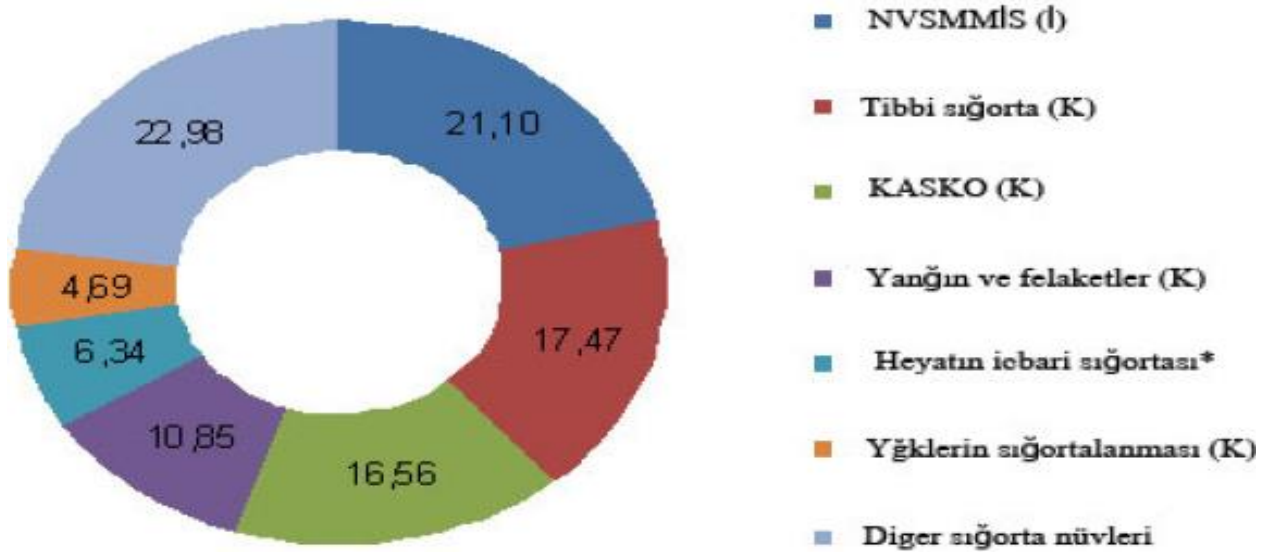
than buying and selling cash. Foreign currency in the currency market is generally changed to the national currency of the country. However, of course, in the currency market of a country, two foreign money can be transmitted indirectly or indirectly. There is no national currency in the forex market in Azerbaijan, transactions are carried out on the basis of foreign currencies (USD, EUR, JPY, GBP, CHF etc.).

**The credit market** is the debt capital market. It emerges in the conditions of supply and demand for the proceeds. The basis of the credit market is the economic mechanism that ensures the repayment of the borrowed funds by creditors, with interest payments and repayments. Market activity is provided through banks and funds that are capable of mobilizing and lending them to credit.

**The insurance market** is a special social and economic relationship, a sphere of money circulation, where the insurance protection of the role of the object of sale is played. An objective basis for the development and implementation of this market is the need to provide money to the victims in the event of unforeseen circumstances. Under the classification of modern insurance, insurance is primarily divided into life insurance and non-life insurance. Insurance forms are understood to mean voluntary and compulsory enforcement. In Azerbaijan, the listed types and types of insurance are operated by state and insurance companies. The structure of the insurance market in Azerbaijan can be clearly seen in the following scheme.

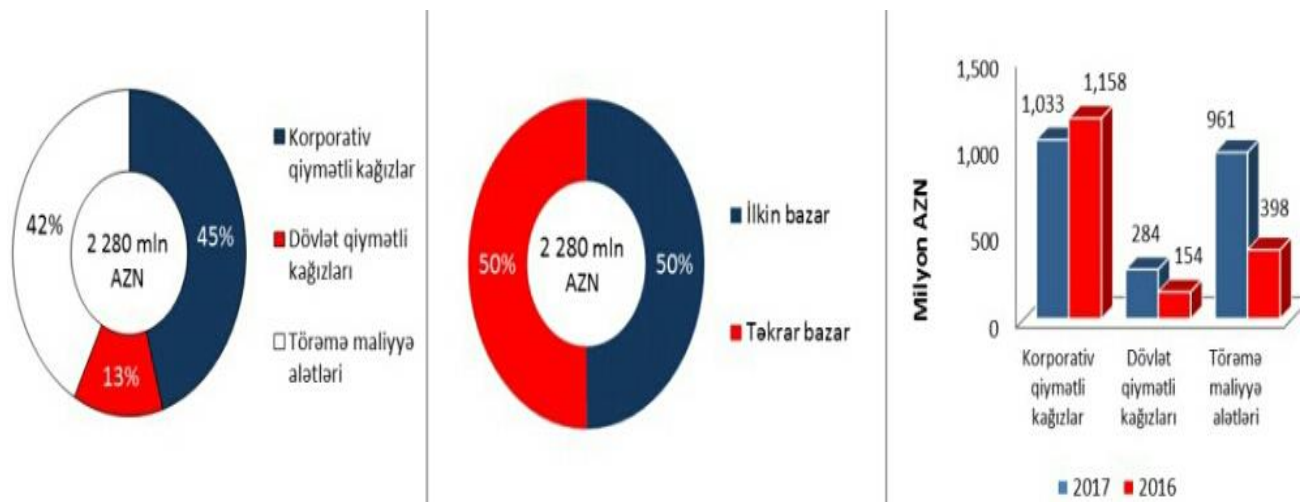
## **Scheme 2.2**





As can be seen from the scheme 2.2, the largest share in the insurance market is in the compulsory motor vehicle insurance (21.1%). Accordingly, the market share of other types of insurance, which is the largest health insurance (17.47%), automobile insurance (16.56%) and other types of insurance (22.98%).

During 2017, the securities market increased by 33% compared to the same period last year and amounted to 2,280 billion manat. Over the reporting period, the secondary market of securities increased by 89% and exceeded 1.1 billion manat. Against the background of the decline in the corporate securities market by 11%, the government securities market increased by 84%.



The initiatives of real sector representatives and financial institutions to increase their capital through the stock market during the reporting period resulted in an increase in the volume of transactions in the corporate securities market by 7.9 times to 830 million manat. In general, the amount of deals closed on the primary market of shares increased by 58 times compared to the previous reporting period and reached 777 million manat.

During the reporting period, the notes issued by the Central Bank of the Republic of Azerbaijan to reduce the pressure on manat showed the dynamics of growth in the volume of transactions in the government securities market.

During the reporting period the volume of deals in the government securities market increased by 84% compared with the previous year and amounted to 284 million manat. 207 million manats of this amount were traded on the primary market with notes of the Central Bank. Short and medium term government bonds worth AZN 72 million were placed during the period. Average weighted yield on short-term government bonds amounted to 16.58%. Repeated market deals with state bonds amounted to 4.7 million manat.

During the reporting period, trading platforms on commodity derivative financial instruments with a total value of AZN 903 million and a total value of AZN 57 million were realized on the platform of the Baku Stock Exchange. In general, the total volume of the derivative financial instruments market amounted to 961million manat, and a 2.4 times increase in the market compared to the same period last year.

The total amount of repo transactions with securities during the reporting period was 2.7 million manat. Of this, 63% (1.7million manats) consisted of 4 repo

**Table 2.3. Credit  
investments in economy**

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
İqtisadiyyat	2 36	4 68	7191	8 40	9,16	9,85	12,2	15,4	18,5	21,7	16,44

transactions with government bonds. Two repo transactions worth AZN 998,000 were made with corporate bonds.

During the first quarter of 2018, the amount of securities in the securities market amounted to \$ 6.2 billion. AZN. This is 2.7 times more than in the same period last year.

The volume of credit investments in our economy is increasing year by year, and we can see the growth rate in the table below (2.3).

Since 1993, after the political stability has been created in our republic, wide opportunities have been created to attract foreign investment. The dynamics of domestic and foreign investment in our economy can be seen in Table 2.4

As it is seen from the table, as the transition to a market economy, the volume of both domestic and foreign investments to the country's economy is increasing.

<b>a kredit qoyuluşları</b>	<b>2.7</b>	<b>1.8</b>		<b>7.5</b>	<b>3.4</b>	<b>0.3</b>	<b>43.7</b>	<b>22.9</b>	<b>42.6</b>	<b>30.4</b>	<b>4.6</b>
onlardan:											
qısa müddətli	1,14 2	1 64 9.5	2 29 5.9	2 36 0.0	2 56 7.1	2,95 1.2	3,50 8.3	3,33 5.5	3,93 1.3	5,29 7.3	3,478. 0
yekuna görə, faizlə	48.3	35.2	32.1	28.1	28.0	30.0	28.7	21.6	21.2	24.4	21.1
uzun müddətli	1 22 0.7	3 03 2.3	4895	6 04 7.5	6 59 6.3	6,89 9.1	8,73 5.4	12,0 87.5	14,6 11.3	16,4 33.1	12,96 6.6

\* min manat

**Table 2.4 Investments to the economy**

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Bütün mənbələr üzrə investisiya qoyuluşları:</b>											
mlyn.manat	7 41 5.6	10 35 3.9	13 32 8.0	10 47 5.0	1411 8.9	1704 8.8	2025 1.1	2144 8.2	2189 0.6	2005 7.4	2286 8.5
mlyn.dollar	8 30 0.4	12 06 6.1	16 22 2.0	13033 .5	1759 1.4	2158 8.9	2577 7.8	2734 0.0	2790 7.5	1954 7.2	1432 9.5
<b>Xarici investisiyalar:</b>											
mlyn.manat	4 51 4.2	5 727. 2	5 625. 8	4 395. 1	6 619 .7	6849. 8	8102. 7	8269. 3	9175. 7	1099 8.9	1621 6.1
mlyn.dollar	5 05	6 674.	6 847.	5 468.	8 247	8673.	1031	1054	1169	1071	1016

r	2.8	3	4	6	.8	9	4.0	0.9	7.7	9.1	1.1
<b>Daxili investisiyalar:</b>											
mlyn.manat	2 901.4	4 626.7	7 702.2	6079.9	7499.2	10199.0	12148.4	13178.9	12715.0	9058.5	6652.4
mlyn.dollar	3 247.6	5 391.8	9 374.6	7 564.9	9343.6	12915.0	15463.8	16799.1	16209.8	8828.1	4168.4

Thus, from our analyzes we can conclude that currently the financial market in the Republic of Azerbaijan belongs to the emerging market type, and its development is being done by the state and other related organizations.

### **3.2. Perspective ways of development of the financial market of the Republic of Azerbaijan.**

At the end of the twentieth century, transition from a tough centralized economy to market economy in Azerbaijan required the restructuring of the financial market as well as the financial system in general. However, this issue was very tough and large, as in recent years not only the financial market in Azerbaijan, but also its structure; commercial and investment banks, stock exchanges, insurance companies and so on. There has been no competition between commodity and service providers, including financial producers, which has always had a negative impact on public progress. Thus, all these negative circumstances have led to "economic deficits," which has led to a general economic shake in the country. And thus the necessity of transition to a market economy has become an objective reality. There was no problem with the financial market because it was not available at all. However, some of the elements of this market have been reflected in the fact that public debts, savings banks, and so on.

But they could not have any impact on the financial sphere and the functioning of the entire economy.

As a result of the recent work on transition to market relations in the economy, the country's economy has seen a great deal of growth in various sectors: inflation rate decline, annual growth of gross domestic product and industrial production, stability of national currency, privatization of small and medium enterprises, increase in inflow of foreign investments, creation of national banking system, etc. At the same time, short-term government bonds, state-owned privatization shares (checks), state-owned privatization options, stocks of joint-stock companies, deposit certificates and promissory notes of credit institutions were issued. The foregoing has given impetus to the formation of the organized securities market in the Republic of Azerbaijan.

The most important thing in the development of the financial market in our republic was the State Program "Development of the securities market in the Republic of Azerbaijan in 2011-2020", approved by the Decree of the President of the Republic of Azerbaijan dated May 16, 2011. The assignments on the program implementation consist of the following :

- Improving the stock market's ability to trade basic and derivative financial instruments by improving its compliance with legal and organizational advanced international practices, the introduction of a new trading system;
- Simplify registration and registration of securities and their rights;
- Creating a single central depository system for government and corporate securities;
- Optimization and automation of securities foreclosure procedures;
- Expansion of regional coverage of financial intermediation services and access to these types of services;
- Formation of the necessary normative legal base regulating the activity of investment companies and promoting their activity;

- Asset management companies, regulatory and legal framework governing the activities necessary for the formulation and promotion of their activities;
- Investment funds and other collective investment schemes (real estate investment funds, etc.) necessary legal and regulatory framework governing the activities of the formation and promotion of their activities
- An alternative stock trading platform for small and medium entrepreneurs
- Creation, promotion and promotion of their funding from the stock market;
- Creation and automation of the accurate, complete and timely disclosure of information in the securities market;
- Development and submission of a new draft law in line with international best practice on securities market;
- Creation of optimal issuance and registration system of securities, application of securities international numbering system;
- Creating a system for effective protection of investors' rights;
- harmonization of professional activity licensing procedures in the securities market with international experience;
- Organizational and functional strengthening of SCS and personnel
- capacity development;
- Strengthening the capacity of the refresher courses under the SCS, improving the training programs and ensuring their effectiveness;
- implementation of specialized training programs for professional participants of the securities market;
- Organization of local and international conferences, seminars and meetings on capabilities of Azerbaijani capital markets, etc.
- The following activities are planned to be undertaken:
- Integration of securities with trading, storage and depository systems with electronic payment systems and introduction of automated trading mechanisms, placement of a repo trading platform with corporate securities, and thus

creating opportunities for new group financial instruments trading on the stock exchange;

- During the period, the Baku Stock Exchange plans to put into operation a new platform for trading of currency and commodity-based derivatives. The new system will offer individual and institutional investors the opportunity to negotiate currency trading, as well as precious metals and other commodity contracts, provided liquidity is provided by relevant market makers in the BSE. Formation of necessary technical and legal base for use of liquidity-backed corporate bonds and bonds of Azerbaijan Mortgage Fund as a repo subject of the Baku Stock Exchange trading platform and repo operations with corporate securities have been started.
- Within 2014, the World Bank's "Capital Markets Modernization" project has been integrated into the securities market for integrated trading, settlement and control systems. As a result of the procurement process, "Korea Stock Exchange" was declared a winner. The contract with the company was signed in January 2015. It is planned to install the systems in 2015 and commission it in 2016. In the course of the period, a new approach to transactions on securities in organized markets with securities has been started to simplify and optimize the trading and post-trading architecture of the securities market. The new settlement system ensures the implementation of blocked trading practices and transactions based on the principle of direct processing of funds during settlement and clearing operations with securities. Thus, based on the new settlement system, primary market transactions and government securities, including pre-trading, blocked securities and cash flows, traded with corporate securities, and blocked securities before repurchasing, securities and cash at the work day.
- A comprehensive Action Plan for creating a single central depository system for government and corporate securities has been prepared and discussed with



interested parties (Finance Ministry, Central Bank, Baku Stock Exchange, National Depository Center, brokers and other partners). The plan envisages the implementation of legal and organizational measures on the organization of the central depository system on the basis of the National Depository Center. In this connection, amendments and supplements to the "Depository Performance Standards" by the Decision No 07 of the CMB dated May 11, 2012 have been incorporated into the State Register of Legal Acts of the Republic of Azerbaijan. At the same time, the central depository system of other depository banks in the country is expected to provide activity based on the principle of membership;

- The regional coverage of securities trading platforms is expanded through the automation of securities trading, accounting and registration processes. The branch of the National Depository Center in Nakhchivan Autonomous Republic joined the automated central depository system, trainings were conducted to increase professional skills and abilities for the employees of the branch using the remote access system. In parallel, awareness-raising activities are being carried out in order to encourage people to use the capacities of the securities market, especially in the regions;
- Advanced international experience on alternative exchange trading systems, which provides access to long-term financial resources on favorable terms for small and medium-size enterprises, has been studied and the development of a new Trade Platform Technical Instruction has been started. In parallel, within the framework of the Listing Advisory Program carried out by the Baku Stock Exchange, informative measures are being planned on the stock market opportunities for small and medium-sized enterprises;
- A draft law "On Securities Market", which meets modern, international standards, provides broad capitalization opportunities for the economy and ensures reliable management of risks. The draft law was widely used in

technical assistance, with discussions and consultations with experts from the World Bank, as well as experts from government agencies in the European Union securities market regulators. On this basis, the IOSCO Principles of the International Organization of Securities Regulators, as well as the relevant EU standards, have been reflected in the draft law, taking into account national characteristics. Legal, linguistic, financial and other necessary expertise of the draft law will be made.

- On November 6, 2012, a regional video conference on increasing the effectiveness of corporate governance and reporting system in joint-stock companies was held in Lankaran city as part of the events on capabilities of Azerbaijani capital markets. A presentation of the project was held on November 22, 2012 in order to inform the general public about the Twinning project "Approximation of the legislation of the Republic of Azerbaijan on the securities market with the legislation of the European Union and the Institutional Development of the State Committee for Securities" and detailed information was provided to the media. An international conference titled "Formation of capital markets: trends, challenges, opportunities" dedicated to the 15th anniversary of the National Depository Center was held on October 5, 2012. The conference was attended by representatives of capital market institutions and international organizations from 21 countries. On April 17-18, 2012, meetings were held with leading universities in three leading universities in the field of higher education, discussions on the role of the capital market in economic development. Also, new financial instruments will be introduced in the market, including derivative markets (futures and options), professional cadres in the securities market, and the development of the relevant direction in higher education institutions in order to create the impact base of the securities market, electronic data exchange and other modern technologies will be provided. The main objective is to ensure the formation of a stock market

that can successfully invest in the economy and redistribute the economy, promote investment activity, and strengthen the country's position in the global investment market. The following measures will be taken to achieve this goal:

- Expansion of the state securities market;
- improving the mechanism of attracting new funds to the corporate securities market, providing favorable conditions for securities management, stimulating the work of professional participants in the securities market;
- improving legislation and judicial protection of investors' rights;
- reducing long-term investment risks, improving stock market financial instruments to attract new investors;
- elimination of existing obstacles to promote corporate paper offer;
- Further development of trading systems in the stock market;
- accelerate the stock market infrastructure, which ensures the flow of capital, the reduction of investment sources;
- Improvement of stock market regulation mechanisms.

Since the stock market is weakly developed and weak regulatory framework in this area, portfolio investment flows to Azerbaijan is very small. In 1997 their volume was \$ 1.1 million, in 1998 it was \$ 0.3 million dollars. In 1999, the portfolio investment in Azerbaijan was never settled. One of the important and important places in the foreign investment sector is the international financial-financial and banking organizations. Various international organizations were involved in Azerbaijan's investment activity. These organizations allocate loans to specific projects and provide technical assistance. The World Bank, the International Monetary Fund (IMF), the International Development Association, the European Bank for Reconstruction and Development and the Islamic Development Bank are among them. Only the World Bank finances six investment projects currently worth \$ 195 million. These are the technical assistance to the development of the oil industry, the restoration of the water supply system in Baku, the creation of exemplary farms and so on. A private investment

service center will be set up in the near future with the assistance of the World Bank. This service center will assist the investor in the private sector. The IMF has allocated a \$ 88.9 million STF loan from 1995 to 1998 and a SBA (stand-by arrangement ) loan of \$ 90 million. In 1995, the IDA provided preferential loans of \$ 100 million. While evaluating the positive side of foreign investment, it is also important to take into account the rationality and profitability of their use in the country. For example, Exim Bank of Turkey has invested \$ 250 million in Azerbaijan. However, Turkey has allocated this loan on condition that its \$ 150 million will be spent on the import of Turkish goods. In other words, the main part of the loan is aimed not at the development of production and construction, but to purchase low quality Turkish goods. The presence of low-quality goods in the domestic market has a negative impact on domestic producers, which generally negatively affects the national economy. In this regard, the use of the loan should be a comprehensive approach.

Azerbaijan's participation in the world capital market requires first of all the development of legal and economic mechanisms regulating relations between our republic and major exporters of capital. Here the main burden lies on the Azerbaijani state. Thus, the state should utilize all available opportunities to attract foreign investment to the economy of the republic, as well as take complex and systematic measures to improve the investment climate in the country.

First of all, a complete economic system should be formed in Azerbaijan to achieve a strong foreign investment flow, including an advanced financial market. Taking into consideration the experience of the countries taking the lead in the world economy, it can be said that the effective foreign economic activity of Azerbaijan and the foreign investor should be based on the following general principles:

- ❖ national economy should be open system;
- ❖ Mechanism of regulation of economic activity in the country must comply with international law and world practice;

- ❖ The structure of the economy and foreign trade relations is economical potential, domestic demand and the benefits that it has in the international division of labor;
- ❖ favorable conditions for the application of progressive forms of foreign economic relations;
- ❖ Foreign economic relations must be conditioned by logic of economic efficiency and necessity, not political, psycho-ethnic and other factors;
- ❖ be in the international and regional economic associations and organizations that respond to national interests of the country and actively participate in their work;
- ❖ foreign economic relations should always take into account their strategic goals and achievements in scientific and technical progress, and promote the use of resources;
- ❖ The economic security of the country should be ensured.

In order to accelerate the integration of the financial market into the international system, foreign investment should be encouraged in the country. Nevertheless, our state has many advantages to attracting foreign companies to the country, as follows:

- 1) In addition to having a favorable geographical location, Azerbaijan has an advanced international transport network (air, water, railway, motor roads, oil and gas pipelines), which facilitates the intensification of contacts with foreign countries;
- 2) Azerbaijan has strong natural-economic potential (rich mineral resources, productive land, favorable natural and climatic conditions, plentiful and cheap labor, etc.);
- 3) There are a number of industrial enterprises, production areas and infrastructure facilities in Azerbaijan with a modern technical and economic base;

4) There are strong scientific potentials and qualified personnel resources in Azerbaijan;

5) Realization of economic reforms (privatization and decentralization of property, liberalization of prices, liberalization of foreign economic relations, creation of market infrastructure) in the country related to transition to market relations;

6) Involvement and protection of foreign investments in the country

about the liberalization and development of foreign economic relations and the adoption of a number of other legal and regulatory acts and the implementation of organizational and administrative work for their implementation;

7) Establishment of enterprises dealing with economic activity jointly with overseas business circles in the country;

8) the Republic of Azerbaijan has already signed agreements on interstate economic relations with many countries, joining several international treaties and agreements, accession to several international and regional economic associations and organizations, etc.

However, the analysis also indicates that, despite some positive changes that have recently taken place with foreign investors, the current advantages and capabilities are not fully and effectively used.

It was noted that one of the most important factors influencing the creation of favorable investment climate in our country is the introduction of a system of preferential tax and customs payments. As you know, customs-tariff policy is one of the instruments of implementation of economic policy, and the application of these privileges in the future would have a positive effect. However, it would be more expedient to use a flexible, multidimensional, but well-defined tariff system on the basis of the structure of the market, the current state of the economy, the supply and

the supply, taking into account the obligations of foreign trade regimes and international organizations in applying these discounts.

In the tax field, foreign investors with a share of more than 30%, and foreign investors operating in leading economies, are exempt from tax within 5 years, plus 50% of their earnings over the next seven years are exempt from income tax. The organizational measures taken to increase the attention of foreign investors to the Azerbaijani economy have an important role. The I International Business Congress in Baku in October 1990 is the first important step taken in this direction. 800 invitations have been sent to 80 countries to attend this congress. Almost 700 delegates from 400 companies from 43 countries took part. Many preliminary agreements were reached at the Congress. The Congress has attracted the attention of world-famous companies to Azerbaijan.

Thus, the prospective development of the securities market in Azerbaijan depends on the work of many government agencies, the legislative base, the activity of individuals and other factors. The most important organizational work has been done in the market, the market infrastructure has been created from scratch, and the normative-legal base, which is in line with world standards and highly appreciated by international financial institutions experts, has been created. The main purpose of the SCS is to minimize the risks in the securities market along with ensuring the transparency of the market processes. It is aimed at protecting the rights of investors in the regulatory framework, preventing insider trading, preventing manipulation of prices and preventing the domestic and foreign investment resources of the country's stock market in the real sector of the economy and turning the market into a speculative bargains market. special attention was paid to other actions.

### **3.3. Application of the practice of regulating the foreign financial markets in the reality of the Republic of Azerbaijan.**

As the financial market of our republic has started to be formed in recent years, it is necessary to use the experience of foreign countries in the field of improvement of its activity. The main problems observed in the financial market, as in other areas of the financial system, are the lack of information base, low transparency, as well as the low number of investors, the lack of financial literacy, and the public's interest in this field. In order to eliminate these problems, the relevant structures have developed draft laws, state programs and various standards that refer to the experience of foreign countries. In the developed countries, we can explore and further improve the functioning of the financial market and its regulatory procedures in our country.

It should be noted that the majority of EIA does not have special laws regulating foreign investment (Great Britain, Belgium, Netherlands, Luxembourg, Italy, Africa etc.). True, these countries have separate notes regulating the legality of foreign investment in strategic areas (air and maritime transport, insurance and banking systems, aviation industry, etc.). In the UK there are restrictions on foreign investment for the aviation industry, aviation and maritime transport, film industry, television and radio industry. Investor's capital investment in satellite communications, AES construction and operation, television broadcasting in the United States is generally prohibited by federal law. In order to invest in public-private spaces in Italy, a foreign investor must obtain special permission from relevant ministries. Finland has been forbidden to invest foreign investment in the paper-pulp industry, nuclear power, agriculture and railway transport, which is of major importance to the country. Nevertheless, it is allowed to establish enterprises with the participation of 100% foreign capital in most EOM (Belgium, Great Britain, Switzerland, USA, AFR, Italy, Austria and others). These businesses are



mainly created in areas that are not of strategic importance to those countries. Examples of this are the enterprises of the former USSR created in these countries and completely owned by the USSR ("Belarusmasineri Ink" in ABS, "Gordian Ink" in Canada, "Sovecart" in Switzerland).

Any country with a market economy tries to create the most favorable conditions for attracting foreign investment. Of course, these investments are monitored by allowing foreign investment to be permitted by relevant government agencies. In the UK this kind of permit is issued by the Bank of England. There is a more sharp permission system in France. In this country, a foreign investor declares the economy, finance and budget ministries. This declaration is permitted for investment activity after verification. It should be noted that, while issuing such permits in the CPS, the foreign investor does not face any obstacles, bureaucratic hassles or procrastination. Basically these permits are formal. This approach in regulation of the financial market activity is considered to be an integral part of the state's financial policy.

The United States has a special place among the countries that are liberal about foreign investment. Foreign investors are not required to register and obtain permission in this country. Only the joint stock companies are undergoing a very complicated registration procedure. The most liberal legislation is available in Delaware. At present, the most favorable, liberal regime for foreign capital is available in Germany and Luxembourg. In these countries, import and export of capital is carried out without any special permission, restrictions.

In some countries, they create a favorable regime for foreign investment. For example, a privileged regime has been established in all priority areas in Portugal. Municipalities in this country create specific areas called "industrial yards". There is a pre-installed production infrastructure and foreign investors are using this infrastructure on a favorable basis.

Tax legislation is one of the most important factors affecting the country's investment for investment. The tax laws of the countries of the world are significantly different from each other. Thus, foreign companies are mainly subject to income tax, tax on capital increase, VAT. Profit tax is different in different countries; This tax is 25-35% in the UK, 30-39% in Belgium, 37% in Finland, 56% in Germany, and 35% in Japan.

The main role of the VAT in indirect taxes. The average rate for this tax is 15% in the UK, 19% in Belgium, 18.6% in France and 19% in Italy. However, the number and degree of taxes applied to the activities of foreign companies in our country is not so different from the local companies. In some cases, some incentives may also be required to improve the investment climate and stimulate the financial market. Thus, according to the tax legislation of the Republic of Azerbaijan, 20% profit tax, 18% VAT is applied both to foreign and local companies. This is much lower rates compared to EEA.

In a number of countries, there are special regions where foreign companies operating there are subject to a preferential tax, or they are exempt from tax. For example, in Italy, a foreign investor investing in the country's outdated regions does not pay taxes for 10 years. Proactive tax regime is applied to enterprises created in France, called Private Entrepreneurship Zones (Dunkern, La Sot, La Sena). Companies operating in these regions are exempt from taxes for the first 10 years. Experts from the countries applying tax breaks, as well as the Liechtenstein, the Bermuda islands, the Normandy Islands, the Antarctic Islands and so on.

Most countries have already taken the lead in creating a favorable investment climate and at the same time making significant concessions to the financial market stimulus. Over the last few decades free economic zones have been widely used to create favorable conditions for both domestic and foreign investors. The Free Economic Zone phenomenon envisages the use of tax, currency, financial,

social and customs privileges for individuals and businesses engaged in entrepreneurial activity in a limited area. That is, there is a complex system of privileges here that attracts a foreign investor.

In the second half of the 1990s, there were 700 free economic zones in the world, and their number continues to grow. The majority of free economic zones are owned by the EEC. There are 130 in Europe and 180 in the United States. It should be noted that in our republic tense work is going on in this direction. The main purpose of the state to create a free economic zone is to increase the competitiveness of production, to attract foreign investments, to reduce the cost of imported goods and so on.

The foreign investor is constantly thinking about the risk that he may face in his country of capital. Here it is understood that the probability of the loss of the instruments invested by the foreign investor is understood. In developed countries special services and investment banks carry out risk assessment for investors. As investor is not closely acquainted with the political or economic situation in the country in which he wants to invest, he / she will be contacted by such companies and will be able to make changes in the structure and designation of securities envisaged in the investment portfolio. However, unfortunately, such companies do not operate in our country, which in turn impedes the growth of the number of investors and, consequently, the expected development of the financial market.

One of the most important subjects of the financial market in EEC is investment banks. Investment banks are the companies providing services to various companies, stock companies and even the state, who want to earn maximum returns on the market by issuing their securities. The main difference of investment banks from commercial banks is that they do not give loans and attract deposits. Its main advantage is that if a company is facing a shortage of funds, it may appeal to a commercial bank to issue a loan or to repay its debt or stock and apply it to an

investment bank instead of paying a high interest rate. In this case, the company entrusts these works to the entire investment bank and, by carrying out the valuation of the company, undertakes all administrative work and promotes the realization of securities, ie the market. Failure of investment banks in our country creates many difficulties and slows down the process of eliminating many problems in the financial market. Thus, one of the main reasons for the low number of investors and issuers is the high interest rates in commercial banks and the lower interest rates on depositing, so the company, which is struggling to make a profit or facing shortage of funds, avoids the commercial bank. In this case, there is a great need for creation of investment banks in our republic so that companies facing these problems can use the services of these institutions as the "key" of access to the financial market.

As you know, in recent years, many efforts have been made to stimulate investment climate and financial market in our republic, and most importantly, the implementation of measures to protect investors' rights. As in developed foreign countries, investors in our country can now apply to the relevant authorities for their freedom of movement and violation of their rights so that consideration of their complaints and taking effective measures are considered the direct duty of the state. Comparative analysis of the protection of investors' rights in tables 3.1 and 3.2 for years (2013-2014, 2014-2015) has been provided.

As can be seen from the tables, the number of complaints and complained joint stock companies is quite high. But at the beginning of 2015, these figures have dropped significantly compared to the same period last year, which can be regarded as a pleasing one.

**Cədvəl 3.1**

<b>İNVESTORLARIN HÜQUQLARININ MÜDAFİƏSİ ÜZRƏ TƏDBİRLƏR</b>			
	<b>2014-cü il Yanvar-Dekabr</b>	<b>2013-cü il Yanvar-Dekabr</b>	<b>Fərq (%)</b>
<i>Daxil olmuş şikayətlərin sayı</i>	333	329	1%
<i>Daxil olmuş ərizələrin sayı</i>	33	26	27%
<i>Şikayət olunmuş səhmdar cəmiyyətlərin sayı</i>	489	456	7%
<i>Cərimələrin sayı</i>	378	546	-31%
<i>Cərimələrin məbəği (AZN)</i>	469 500	179 800	2,6 dəfə
<i>İcrası məcburi göstəriş verilmişdir</i>	86	104	-17%
<i>İllik hesabatlar təqdim edilmişdir</i>	497	489	2%

**Cədvəl 3.2**

<b>İNVESTORLARIN HÜQUQLARININ MÜDAFİƏSİ ÜZRƏ TƏDBİRLƏR</b>			
	<b>2015-ci il Yanvar</b>	<b>2014-cü il Yanvar</b>	<b>Fərq (%)</b>
<i>Daxil olmuş şikayətlərin sayı</i>	32	25	28%
<i>Daxil olmuş ərizələrin sayı</i>	5	2	2,5 dəfə
<i>Şikayət olunmuş səhmdar cəmiyyətlərin sayı</i>	67	136	-51%
<i>Cərimələrin sayı</i>	15	24	-38%
<i>Cərimələrin məbəği (AZN)</i>	22 500	40 500	-44%
<i>İcrası məcburi göstəriş verilmişdir</i>	0	2	-
<i>İllik hesabatlar təqdim edilmişdir</i>	2	7	-71%

As mentioned in the previous paragraphs, one of the obstacles to the development of the financial market in our republic is the lack of transparency of the information base. This factor causes the investors' interest in the financial market, which is one of the reasons for the slowdown in the market. In the market economy, reliable and honest information is needed to ensure the continued profitability of businesses and organizations, finding reliable partners, and

searching for sound sources of funding. Such information can be generated through accounting and reporting systems that meet modern standards.

In developed foreign countries, the financial reporting system has been developed at a high level that companies are obliged to publicly announce their annual financial statements and the transparency of these reports does not cause public debts. However, despite the fact that the International Financial Reporting Standards have already been applied in our country, this system is still not functioning and almost only commercial banks and some open joint stock companies present their annual financial statements to the public. Many measures have been taken in our country in recent years to overcome this problem and the experience of foreign countries has been widely used and is being implemented.

From the point of view of defining new principles of accounting, the Law of the Republic of Azerbaijan "On Accounting" of June 29, 2004 and the presidential decree on the application of this Law are important documents in the field of state accounting in the field of accounting. The main purpose of state regulation in this field is to develop accounting and accounting records in the country on the basis of International Financial Reporting Standards and the National Accounting Standards established on their basis for commercial and non-profit organizations and ensure transparency of financial statements.

Taking into account the recommendations and recommendations of the 2009 Corporate Governance Assessment Report of the Standards and Standards Project, which is a joint project of the World Bank and the International Monetary Fund, the amendments and supplements to the articles of the Article 4 of the Civil Code of the Republic of Azerbaijan on Joint Stock Companies and the Code of Administrative Offenses The draft law "On Making Amendments and Supplements" was prepared and coordinated with the central executive bodies and the final draft was submitted to the Cabinet of Ministers of the Republic of

Azerbaijan on 27 December 2012. Both Draft Laws provide for the establishment of an effective corporate governance framework, the protection of shareholders' interests, and the application of transparency and accountability principles in the management of stockholder societies. These Rules serve to systematize securities transactions, submit reports electronically, and increase the effectiveness of control over securities transactions by SCS. In accordance with the Decree No 19 of the SCS dated December 14, 2012, Regulations "On the Prevention of Exchange of Securities Market" have been approved, providing information on the storage, use, submission, disclosure of information, the operation of securities by the insiders the regulatory framework for the prevention of corruption in the securities market was established, as well as defining the scope of manipulation with insider trading and securities. The Rules of Preparation and Disclosure of Annual Reports Concerning the Activity of Investment Securities Issuers, approved by Resolution No 16 of the CMB dated November 30, 2012, have been approved. Procedures for preparing and disclosing annual reports by emitters of the Republic of Azerbaijan, issuing investment securities with new Rules were defined.

The Concept of Human Resources Management of the State Committee for Securities of the Republic of Azerbaijan was approved by the Decree No 78 of 23rd May 2012 and the basic principles of human resource management were determined in the SCS. An annual training program was developed to increase the capacity of SCS employees, the Civil Service Commission under the President of the Republic of Azerbaijan, the European Union, the Turkish Cooperation and Development Agency, the International Organization of Securities Commissions, the Turkish Capital Markets Board, the Polish Financial Control Agency, Italy, Austria , Spanish and Greek Securities and Commodity Exchanges, and training and seminars were organized. In the trainings and seminars held in Turkey, Poland, Spain, Italy and Greece, the participation of employees of the SCS, NDC and BSE in the field of international experience was provided. The capacity of the SCS

employees was also increased through the internal resources. Thus, within the framework of cooperation with educational centers SCS employees participated in 6 training sessions. In general, in 2012, 21% of SCS employees participated in countrywide and 63% participated in countrywide trainings and seminars.

## **Conclusions and suggestions**

Our republic now lives in the 14th year of its independence. During this period, many measures have been taken in relation to the transition to market economy. The privatization, liberalization of prices, the creation of joint ventures and involvement of foreign investors in the country, carrying out economic reforms and the adoption of various laws in this direction, the preparation and application of state programs are only a part of these measures. The key factor in the development of the financial market in our country was the necessity of foreign investment flow in the formation of the market economy.

In spite of the implemented measures, the pace and current state of the financial market in our country can not be considered as satisfying. The main reasons for this are the lack of information base, low level of transparency, as well as the lack of investors, the lack of financial literacy, the population's interest in this field, and problems. Practice shows that the approach of developed countries to such a slowdown in the development of the financial system as well as the financial market can help eliminate many problems in this area.

We have the following suggestions on the subject:

- 1) In order to stimulate this activity, the information security should be brought to a high level - since the purchase of securities in our Republic and the interest in



the financial market are generally low - the securities market should provide full information about the risk and potential profit of investors.

- 2) Implementing the preparation of tax incentives that are relevant to improving the taxation issues in the securities market with relevant agencies, as well as the use of world practice and the creation of a favorable environment for investment growth.
- 3) Issue of government securities on separate terms and different investor classes.
- 4) Major part of the foreign investment attracted to our republic is directed to the oil sector, changing the proportion, development of the non-oil sector, issuance of bonds for financing large-scale projects of state importance, as well as provision of state and non-state securities to the world's most developed stock markets .
- 5) Implementation of reforms in the pension system, attracting more attention of the population and increasing financial literacy will lead to an increase in the volume of securities purchases in the country, thereby stimulating the development of the securities market.
- 6) In some countries, a preferential regime has been created to attract foreign investment. For example, it may be possible to specify specific areas called "industrial yards" created by municipalities. There is a pre-installed production infrastructure and foreign investors are using this infrastructure on concessional basis. Establishment of such spheres in our Republic can also stimulate the development of the financial market.
- 7) Non-functioning of private organizations engaged in risk assessment in our country will prevent the flow of foreign investors into the country. Thus, the risk that a foreign investor may face in the country of capital is uncertain, and the lack of private companies in our country that can invest this information slows down the development of the financial market. Establishing such companies in both the state and the private sector can be useful in my opinion.

- 8) Interest rates applicable to commercial banks operating in our country are high enough. This does not benefit any prospective investor who wishes to engage in investment activity to earn a living and apply to the bank for a loan. This, however, will disrupt this activity and affect the number of investors. For this reason, a significant reduction in interest rates in commercial banks will benefit both individuals and legal entities, as well as the banks itself.
- 9) In order to achieve the rapid development of the financial market, the national economy should be an open system, the mechanism of regulation of economic activity in the country must comply with international law and world practice, the structure of the economy and foreign trade relations should be shaped in accordance with the country's economic potential, domestic demand and the benefits of the international division of labor, foreign economic relations should be conditioned by economic, efficiency and necessity of logic, not just political, psycho-ethnic and other factors, but also should be included in international and regional economic associations and organizations that respond to the national interests of the country and are actively involved in their work foreign economic relations are always strategic goals and scientific and technological progress should take into account the achievements of the country, make use of resources, and ensure the country's economy.
- 10) It is expedient to carry out measures in order to ensure transparency of the financial statements considered as the main information base in the financial market, and mass training of personnel in this area.

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