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Banking competition,venture capitalists and their influence on entrepreneurial activity

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Abstract

The financial services industry is changing from day to day, and the profitability of a financial institution is an important aspect of today. Banks are an integral part of the financial market, and in order to remain at this level, it is necessary to determine how banks operate and what factors affect their profitability. Banks are an integral part of the financial market, and in order to remain at this level, it is necessary to determine how banks operate and what factors affect their profitability. This thesis explores the factors influencing the profitability of banks in Azerbaijan. External and internal factors were analyzed, and the relationship between these banks was put forward. The history and current performance of the banking sector in Azerbaijan are reviewed and described in detail. Previous research from many countries profitability and factors affecting it.

Ratings have commercial properties of commercial banks of Azerbaijan, taking into account capital adequacy, asset quality ratio, management quality ratio, profitability ratio, liquidity ratio, GDP and size of the Bank. Secondary data were collected from official websites of banks, financial reports for the period from 2015 to 2017. Modification of the dependent and independent variables of the regression model was displayed using the panel.

Data analysis method. Empirical analysis and results based on the panel data were used to determine the factors influencing the profitability of banks.

Keywords: profitability, internal factors, external factors, banking system, Azerbaijan, group data, Bank rating**.**

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INTRODUCTION

Modern commercial Bank is a complex socio-economic object, so it should be considered as a system. As a commercial Bank system has the following features:

- openness, i.e. a system for two-way exchange of information, financial and human resources with the external environment;

- self-government;

- organization, i.e. internal ordering and structuring (distribution of functions between separate divisions);

- sociality, i.e. a system consisting of people, which is an element of the existing society. For the banking sector is characterized by a high degree of development of competition (from the Latin "concure" "run to the goal").

Competition as an economic phenomenon represents the failure of the economic process of rivalry, the struggle of sellers and suppliers in the sale of products, rivalry between individual producers or suppliers of goods or services for the most favorable conditions of production and sale. Since the subjects of competition are sellers and buyers, distinguish between competition among sellers and among buyers. Competition is also divided into price competition based mainly on price reduction and non-price competition based on improvement of product quality and conditions of sale.

Competition is a very effective mechanism for spontaneous regulation of the proportions of social production. The current crisis state of both the world and domestic economy is having a very active impact on competition in all spheres of activity, including banking.

We will achieve this goal by consistently solving the following tasks:

- we will give a General description of Bank competition;

- analyze the specifics of commercial banks;

- define the system of goals and functions of a commercial Bank in a competitive environment;

- define the concept and distinctive features of banking competition;

- describe the current trends and forms of development of banking competition;

- we will analyze the specifics of the banking market;

- describe the current state of the banking sector;

- define the main aspects of the development of the system of competition in the banking sector;

- describe the current state of the banking competitive environment.

The object of this study is competition, which can be observed in the banking sector of the World Federation.

The purpose of the thesis: to analyze the specifics of banking competition, as well as to identify the main trends of competition in the banking sector of the World economy.

To achieve the goal it is necessary to solve the following tasks:

- to identify the importance of competition in the banking sector of the economy, to determine its forms and functions;

- show the role of competition in the development of the banking sector;

- to reveal the essence, directions and methodological basis of competition monitoring in the banking sector of the economy;

- to justify the current state of the banking market in terms of competition in the banking sector.

The subject of the study is the economic relations developing in the process of competition in the banking sector.

The object of the study are the institutions of the banking sector of the Worldeconomy. Competition in the banking sector of the economy is considered through the relationship of theory and practice, based on a combination of micro- and macroeconomic approaches.

The theoretical basis of the work was the fundamental work of leading economists, scientific articles in economic journals and statistics, as well as legislative and regulatory acts. The scientific novelty of the work is determined by the fact that in this paper a comprehensive study of the problems of competition in the banking sector. The theoretical and practical significance of the work is that the study develops little developed in the domestic economic science direction, expands its methodological and methodical apparatus. It is aimed at solving a major practical problem of competition in the banking sector of the economy and contributes to the stable functioning of the banking system and the national economy.

The work includes an introduction, three chapters, conclusion and references. The first and second chapters cover the theoretical basis of the formation of banking competition, the third Chapter analyzes the current state and presents the main trends.

I. THEORETICAL BACKGROUND OF IMPACT OF BANKING COMPETITION AND VENTURE CAPITALISTS ON ENTREPRENEURIAL ACTIVITY

1.1. İmportance of banking competition

In General, competition can be defined as the rivalry of market actors interested in achieving the same goal. These market entities are either sellers or buyers. Characteristic features of competition are as follows:

- Existence of markets with alternative options for buyers (sellers).

- the presence of more or less buyers (sellers), competing with each other and using various tools of market policy.

- alternation of the use of these tools by some competitors and the response of other competitors.

Similarly, Bank competition is a dynamic process of competition between commercial banks and other credit institutions, in which they seek to secure a strong position in the credit and banking market.

The sphere of banking competition is the banking market. Its specificity lies in the fact that it is a very complex formation, which has very wide boundaries and consists of many elements. It is more correct to speak not about one, but about many banking markets.

Modern commercial banks operate as sellers or buyers in virtually all market sectors. If we consider the market system in terms of objects of sale, we can say that it includes the following sectors:

1. Market of means of production and production services. Commercial banks act as sellers of banking services for enterprises (settlement services, accounting, corporate Finance management), financial intermediaries (lending to production facilities), as well as as buyers of production resources (purchase of office equipment).

2. Consumer goods and services market. Here banks act as financial intermediaries (loans for consumer purposes), but sometimes as buyers (organization of receptions in the framework of work with the public).

3. Labour market. It is a target area of the personnel policy of banks, which inevitably have to update or replenish their personnel from time to time, entering this market as buyers.

4. The market of intellectual and information product. On it, banks can act as sellers of banking services (financial advice), and as buyers of production resources (computer software).

5. Estate market. Here, banks act most often as financial intermediaries (mortgage lending) and only relatively rarely as buyers (acquisition of land and office space) or sellers (sale of collateral on a non-refundable mortgage loan).

6. Financial market. In this area, banks are among the main actors.

Among the financial markets are:

- loan capital market. On the one hand, banks buy temporary rights to monetary resources from their depositors, on the other hand, they act as sellers when issuing loans;

- securities market. Carrying out orders of clients, and also on own initiative banks carry out purchase and sale of securities and play alternately that role of sellers, the role of buyers;

- the market of currencies and precious metals. The role of banks in this market is similar to their role in the securities market.

Thus, we see that the sphere of banking competition is very extensive, and the competitive environment is diverse and heterogeneous.

Banking competition has a number of specific features that distinguish it from competition in industry or other sectors of the national economy and deserve a separate generalization. The identified features include:

1. The first of the features of competition in the market of banking services, due to such a specific property of the goods, which operate financial institutions, as the universal equivalence of money.

Cash is not even highly liquid, but absolutely liquid goods, and therefore it is quite difficult to replace other goods. In this sense, money is not a commodity of elastic demand.

As M. I. Piskotin rightly pointed out, money has an irreplaceable ability, supporting the vital activity of many millions of cells of the economic organism, ensuring their interaction, turning them into a single whole, automatically respond to any changes, both in the body itself and in the external environment. It is an essential self-regulating system vital to society. It can be affected, it can be replaced by artificial or connect individual arteries, to build the necessary corrective mechanisms, but it is impossible to replace it entirely. This indispensability makes the competition in the provision of banking services more acute, which leads to a certain commitment of credit institutions to high-risk operations.

2. The second significant difference between the banking services market and the commodity markets is also due to the fact that the "commodity" that is traded is money and related financial instruments.

In the vast majority of cases, this "product" is ephemeral. You can't touch it or taste it. Electronic money for the operator is nothing more than numbers flashing on the display screen. Therefore, the world (reality) of the financial market is virtual in a sense. The reality here is often not given to the market participant in the sensation. It is formed in the same process as the thinking of the market participant, and sometimes through this thinking.

3. Financial services markets are increasingly dealing with financial instruments, among which brand new, previously unknown instruments are taking an increasing place. Banking markets attract the best minds. The combination of intellectual abilities with computer technologies assumes a wide field for

imaginations which as practice shows, have no borders. Here you can find derivatives for any underlying asset, you can see derivatives where the underlying asset is another derivative or there is no such asset at all, and there is, for example, any arbitrarily changing index-coefficient.

4. The fourth feature of competition in the banking market, which distinguishes it from competition in commodity markets, is related to the mobility (mobility) of financial capital.

Financial capital is even more mobile than physical investment, it has a privileged position - it can avoid countries that are subject to high taxes and strict regulation. Credit institutions as entities that ensure the appropriate direction of financial capital flows (Sewerage of financial flows), play a key role in this process.

5. The fifth difference between competition in the banking market and competition in the commodity markets is that the proximity to the economic center of the credit institution creates a more significant competitive advantage compared to the same location of the enterprise competing in the commodity market. In this regard, M. porter argues that a competitive "strategy should be based on an understanding of how location affects competitive advantage."

6. The banking services market is more deeply involved in the process of economic globalization than commodity markets. The globalization of the economy is characterized by changes in the global economic structure over the past two decades. As part of these changes, four main structural trends have emerged:

- changes in the relationship between raw materials and industrialized countries;
- transition of industrialized countries from labor-intensive to science-intensive production;
- increasing the importance of international capital flows in world trade;

- increasing diversification of multinational corporations, including international investment in modern enterprises and partnership agreements.

7. The peculiarity of the banking services market, which affects the forms and methods of competition, is the active unwillingness of competing entities to experience any regulatory impact of the authorized state bodies. Most often this is done "not for reasons of industrial necessity, but because of the desire to hide profits from risk or creditors, to avoid taxation or restrictive legislation in the countries where the company operates. There are also such psychological" reasons as the desire to avert the threat of nationalization, to hide the true size of the enterprise.

8. A specific character in the banking market is acquired by such a form of competition as the creation of associations of legal entities - associations involving relations of power and subordination, as well as various forms of dependence between the participants of the financial market. The specificity of the banking services market is that:

- first, it uses again involved, i.e., essentially strangers, not their own funds;

- secondly, the relations of power and subordination (control and dependence) in this case acquire exclusively monetary character;

- third, the responsibility and other burdensome obligations related to the exercise of the right of ownership remain on the controlled (dependent) legal entity, while the economic power and domination are carried out in the absence of economic risks.

As the main laws of banking competition at the present stage can be called the following:

- universalization of banking activities.

- liberalization of state regulation of banking activities.

- expansion of the regional and national sphere of activity of credit institutions.

Modern efficient banking system is a banking system, which, firstly, is characterized by the qualitative performance of the main functions of the banking system in the economy: the safety of deposits; financial intermediation, that is, the redistribution of capital, risks and revenues in the economy; aggregation and preservation of economic information by banks. Second, and equally important, is the demand for banking services and the ability of the banking system to provide such services on time and efficiently. The banking system must be able to do what the economy needs.

The emergence of the global financial crisis is not accidental, but a natural phenomenon associated with long-term trends in global political and economic development. At the same time, the current crisis has its own characteristics and distinctive features associated with the far-reaching processes of globalization, regional political and economic integration, global migration, etc. Largely generated by these specific processes, it is an important milestone in world development.

Its nature is complex and multifaceted. It is not just a financial ("banking") or economic ("mortgage", "food", "energy", etc.) crisis. This is a crisis of the former world order, the former world order, and above all – the neoliberal model of globalization in the form as it was formed by the end of the XX century. Among the most important features of this model are the dominant role of the United States as a world economic, political and military leader, complete separation of the financial sector from the production economy and the associated presence of a huge number of unsecured financial assets. The global economic crisis has revealed problems in the existing models of banking systems. At the same time, most States were not ready to review the previous model of the banking system and currently do not have an effective strategy to overcome the crisis.

The current crisis, like all the past in Western regional civilization, is directly generated by the principles of construction and functioning of the credit and financial system, adopted in it and in the second half of the twentieth century spread from it in the process of globalization, along with its culture in other regions of the world (including Russia).

The most characteristic features in the development of foreign banking systems today are:

- deregulation of financial markets and liberalization of banking legislation;
- invasion of large non-financial corporations in banking;
- increased competition between banks and non-Bank credit institutions;
- disintegration – loss of traditional mediation functions by banks;
- the emergence of virtual banks;
- internationalization and globalization in banking – the emergence and rapid consolidation of the dominance of transnational banking giants in the financial market;
- financial innovation;
- universalization and diversification in banking;
- miniaturization of banks;
- the use of electronic money everywhere.

Deregulation of financial markets and liberalization of banking legislation is the content of legislative reforms that have taken place in most developed market economies. The reforms were aimed at easing or eliminating such restrictions and prohibitions in the field of financial activities as:

- territorial expansion of banks (opening of new institutions, expansion of branch network, creation of holdings, etc.).);
- regulation of interest rates and tariffs for financial services (abolition of marginal rates for active and passive operations);
- introduction of new financial instruments and new types of services (for example, the opening of so-called "hybrid" accounts combining the characteristics of a current account (demand account) and a fixed-term account involving the receipt of interest by the account holder);

- the ban on transactions with corporate securities for commercial banks, which was lifted, in particular, in the United States.

The adoption of these legislative restrictions at various historical stages was intended to protect the banking business from excessive risk, destructive competition, the danger of avalanche development of bankruptcies, fraught with serious losses for customers of banks and for the economy as a whole. However, a specific combination of many reasons: a sharp increase in competition from non-Bank financial intermediaries and, as a result, a drop in profitability of banks compared to their rivals; inflation, which made it intolerable to further fix the price of banking services, and, finally, the rapid growth of financial innovations in the form of derivative financial instruments and services – dictated the need to lift prohibitions and weaken administrative control over the activities of banking institutions.

The invasion of large non-financial corporations in banking also had its own characteristics. Large financial companies such as General Electric, Ford Motors Company and others have created "non-Bank banks" - financial institutions that perform some banking functions. This is done in order to circumvent the strict banking legislation governing banking operations, and to be able to insure, work with corporate securities, leasing and real estate, to carry out consulting, that is, to perform those functions that were officially prohibited to banks. This allowed financial conglomerates to take over the banking business, resulting in increased competition between banks and non-Bank lending institutions.

As a result of the direct entry of large industrial firms into the capital markets, bypassing financial intermediaries, through the sale of their commercial securities (short-term unsecured liabilities), banks have lost a significant share of the market of deposits and loans, which forced them to look for other sources of income, resulting in disintegration – the loss by banks of the traditional function of mediation and the search for new functions and forms of work that can compensate for lost positions. The way out was the rapid involvement of banks in securities trading, in particular, securitization – sale of assets. Issued in the form of securities, Bank insurance – the merger of the sectors of life insurance and retail banking, as well as the emergence of virtual banks.

Virtual or cyber banks (there are also the concepts of "direct" banks, home banking) allowed to bring banking services to customers, to make the work more comfortable for both sides. Thanks to this form of operation, banks reduced costs, saving on staff, from the point of marketing – segmented markets and banking products, improved the quality of services, speeding up calculations, replenished the information base of banks with data on financial behavior of customers.

Internationalization and globalization in banking – the emergence and rapid consolidation in the financial market of the domination of transnational banking giants – the process of rapid expansion of the scope of large banks beyond national borders, accompanied by the creation of a network of foreign branches and an increase in the share of transactions with foreign clients. Today is not news Association of German and Japanese financial supergiants, the merger of American and Japanese banking institutions. One of the paradoxes of the modern development of the world banking system is that, despite all the measures of regulation and control (implemented both at the national level and globally), the banking system has never been so unstable as in recent years. Existing methods of regulation of banking activities are often considered inadequate, too rough, which requires additional efforts to develop new techniques and methods for assessing Bank risks. A real banking crisis in the world and in Russia, including a direct confirmation of this.

1.1.1. Measuring and assessing banking competition

Realization of strategic interests of development of the modern capitalist state, including the solution of a problem of providing economy financial resources in the amounts necessary to maintain a stable rate of socially oriented growth depends largely on the prospects for the development of a modern competitive banking sector. In turn, the state of the banking sector is determined by the General the state of the economy of the country, primarily the degree of completion of structural reforms, the conditions of business activity, the General level and nature of income distribution in society, the state of the institutional environment of the market economy.

One of the key factors in the effective implementation of the principle of unity of economic space and free movement of financial resources services is the creation of conditions for the development of competition in the market of banking services. The level of development of competitive relations has the greatest impact on the overall development vector of the banking market. Because of this, creating conditions for the development of a competitive environment in the banking sector.It is one of the key elements of the state policy aimed at ensuring harmonious and highly effective economic growth of the country In the General economic context, competition encourages effective market action, forcing customers to offer a wider range of products and services at more attractive prices and better quality, which in turn contributes to the efficiency of production and redistribution of economic resources. With regard to the banking sector, it is the presence of competition that causes the expansion of the circle services provided by banks, regulation of prices for them to acceptable level's. Competition encourages banks to move to more efficient ways of providing services, i.e. provides circumstances, benefits-living for their development and improvement. Competition for customers requires banks not only to provide a wide range of quality banking services, but also information transparency of the Bank to customers.

On the one hand, banking competition is the competition of commercial banks for limited demand in the market of banking products seeking to take a strong competitive position, and on the other hand, banking competition is a regulatory mechanism that can ensure the highly efficient functioning of the banking system in the country. whole. Competition in the banking industry is determined by the competitive structure of the industry, so to determine competition in the banking industry

It is necessary to analyze its competitive structure. It is important to understand that the behavior of banks in the markets affects the competitive structure of the industry or shapes it. Competition and competitive structure of the banking industry constantly changing under the influence of changes in the behavior of banks in the industry, so the analysis of the competitive structure of the banking industry should be in terms of the behavior of individual banks in the markets as independent economic entities, this will be the key to an adequate assessment of competition in the markets. The competitive structure of the banking industry affects efficiency of banks. In this regard, the analysis of competition in the banking industry, its competitive structure, the behavior of banks in the extreme the aggressive environment of the financial market is the first step towards development of competition in the banking industry, the formation of an appropriate competitive structure, improving the efficiency of implementation banks transform savings into investments and redistribute financial resources. A market economy does not exist without competition. Competition acts as one of the global issues of economic theory.

Competition – economic competition between economic entities for the opportunity to maximize profits and strengthen market position. In General, competition can be defined as competition of market actors interested in achieving one and the same goal.At the same time, the concept of competition is ambiguous and is not covered by any one universal definition. Competition is also a way management, and such form of existence of the capital at which one individual capital competes with the other. Competition – rivalry, competition between producers acting on the market for the most favorable conditions of production and sale of goods for obtaining on this basis, the maximum possible profit. At the same time, competition is a mechanism for automatic regulation of the proportions of social production. Being an attribute of the market, competition is natural by arises from the market and at the same time serves as a prerequisite its existence and development . The actual practice of economic life in the world shows that the market and competition are the main mechanism of development of the modern economy, more powerful and effective than any other factor of its movement.

The efficiency of the market is higher, the more active the competition and the better the conditions for its manifestation. Competition requires a certain, preferably optimal combination of economic, technological and social prerequisites. Violation of this condition complicates the manifestation of competition and eventually leads to stagnation in the economy, reducing it efficiency, falling living standards of the country's population. Competition performs the function of differentiation of incomes of producers on the basis of different production efficiency. Competition in the banking sector is characterized by certain specifics. Banking services are different from other business services, they appear as a result of an in-depth analysis of market needs, carefully prepared, correspond to the list and technology of banking operations. The list of banking services should be, with one on the other hand, it is economically feasible, and on the other hand – satisfying the financial needs of the market and meeting the conditions of maximum availability of banking services to consumers. Bank competition is a process of commercial rivalry banks and other credit institutions in the course of which they seek secure a strong position in the credit and banking market. Based on this approach, interbank competition, he proposes to understand the dualistic process of competition between commercial banks for a limited amount of effective demand in the financial market, which is a complex of customer transactions carried out through traditional and innovative banking instruments, which it is possible on the basis of implementation by clients of a positivist type of economic behavior. In this case, the term "dualistic" means that for the implementation of the principle of competition in banking transactions it is necessary to cross two fundamental classes of things or principles that affect each other, but do not change their structure. Competition is observed both between individual banks and between the largest unions of Bank capital. The latter are increasingly striving for a monopolistic agreement, for the unification of banks. Major financial transactions – various joint stock companies – all more often it is carried out not by any individual Bank, but by means of an agreement between several leading banks. The centralization of Bank capital is manifested in the merger of large banks into major banking associations, in the growth of the branch network of large banks. Banking associations are giant banks that play a dominant role in banking.

1.2. The role of competition in banking industry

Competition as an economic phenomenon represents the failure of the economic process of rivalry, the struggle of sellers and suppliers in the sale of products, rivalry between individual producers or suppliers of goods or services for the most favorable conditions of production and sale. Since the subjects of competition are sellers and buyers, distinguish between competition among sellers and among buyers. Competition is also divided into price competition based mainly on price reduction and non-price competition based on improvement of product quality and conditions of sale.

Competition is a very effective mechanism for spontaneous regulation of the proportions of social production.

Competition has its own distinctive features:

1. availability of markets with alternative options for buyers (sellers);
2. the presence of more or less sellers (buyers) competing with each other using different market instruments.

It is worth noting that there is also competition in the banking sector.

Banking competition is a process of competition between commercial banks and other credit institutions, in which they seek to secure a strong position in the market of loans and banking services.

It has a number of specific features that distinguish it from competition in other market sectors.

Features of banking competition are as follows:

- banking competition is characterized by the development of forms and high intensity;
- competitors of commercial banks are many other categories of competitors. With universal banks compete specialized banks (savings, mortgage, investment banks serving small and medium-sized businesses, clearing, innovative banks), non-Bank credit organizations, non-financial organizations (credit unions, pawnshops, leasing and factoring companies, clearing houses, financial brokers, investment companies, pension funds, mail, trading houses);
- competitive space is represented by numerous banking markets, some of which banks act as sellers, others as buyers;
- intra-industry competition is mainly of a specific nature, which is associated with the differentiation of banking products and services;
- banking products and services can replace each other, but do not have competitive "external" (non-Bank) substitutes, and therefore cross-sectoral competition is carried out mainly through capital flows;

- in banking, there are no a number of entry barriers typical for many industries, which leads to a relatively greater intensity of competition in this area;

- restrictions of price competition bring to the fore the problems of quality management of banking products, advertising services;

- banking markets are markets of differentiated oligopoly, providing ample opportunities for cooperation and coordination of market policy of various credit institutions;

- along with the individual, there may be group banking competition. Along with the objectives, the functions of a commercial Bank are also determined by its dual nature. The main function of a commercial Bank is to facilitate the movement of financial resources in the economy. This feature has two main aspects:

- if money acts as a means of circulation and payment, the Bank, acting as an institution of the monetary system, promotes the organization of payments and monetary circulation in the society;

- if money acts as a commodity (loan capital), then the Bank, being an institution of the credit system, accumulates temporarily free funds of some economic entities and lends them to others.

In both cases, the Bank acts as an intermediary in the movement of financial resources (in the first case, from the payer to the payee, in the second, from the lender to the borrower), so in the economic literature, commercial banks are considered as financial intermediaries. It is from these positions that the concept of a Bank is defined.

Thus, commercial banks - credit institutions, which for profit, as the main purpose of its activities, carry out in the aggregate the following operations:

- attraction of funds of individuals and legal entities in deposits;

- their placement on their own behalf and at their own expense;

- opening and maintenance of Bank accounts.

The main purpose of the commercial Bank – economic management, in order to make a profit and as additional activities of commercial banks can carry out Agency, trust, information services.

There are the following types of commercial banks: branch and without branches, development banks (Finance separate target programs), universal (carry out many types of banking operations), specialized (one type of banking operations) banks.

Commercial Bank has the following features:

- is a commercial legal entity;
- created in the form of an economic society;
- carries out credit operations;

In the banking competitive strategy it is important to take into account the forms of competition intra-and inter-sectoral. Each of them is characterized by its own methods. In today's Worldbanking market there is intra-competition and its main forms: subject and species, although with certain reservations.

Subject banking competition is possible, as a rule, in the provision of mass, homogeneous, standardized services. This is typical, for example, for various contributions of the population. As a rule (but not necessarily), in these cases, price competition is used – different interest rates on the same type of deposits in different banks. However, the same interest rate can be supplemented by other free services, for example, transfer of utility bills from a Bank Deposit.

Since not all services are mass, standardized, many of them are aimed at taking into account the interests of a particular client.

As an example, we give loans to a particular company, which is issued by an individual, special loan agreement. In such cases, there is species competition, combining its price and non-price methods. Moreover, with the improvement and development of the banking sector, its services (and products) may lose features of uniformity, especially in the eyes of the Bank's customers due to the formation of various features of the Bank's reputation. Naturally, all other things being equal, the depositor (client) will go to the Bank that seems more solid to him, whose rating is higher .

Intra-industry competition in the modern World banking market exists mainly in the form of specific competition. From the standpoint of banking marketing, this should mean that the development of a new range of banking products and services (within the existing type) does not yet provide a competitive advantage, if it is not supported by measures to form consumer preferences.

In economic science, it is proved that inter-sectoral competition is carried out through the overflow of capital and functional competition (competition substitutes). Intersectoral competition in the banking sector, as a rule, takes place between banks whose interests have not previously crossed.

For banking in General, and for the conditions of modern Russia, the predominant type of inter-sectoral competition is the overflow of capital. This is done when banks try to gain a place in new industries and when newcomers enter traditional banking markets.

Consider some aspects of price and non-price competition. Usually price competition is divided into open and hidden. From the point of view of competition in the environment of production with open price competition there is a wide notification of price reduction. With hidden competition in the production of goods with significantly improved quality characteristics, its price rises, but disproportionately little.

The peculiarity of price competition in the banking sector is the lack of a clear relationship between the consumer value of Bank goods and its value (price). Therefore, the border between hidden and open competition is blurred, conditional, and the framework of maneuver with interest rates, commissions, tariffs for services, etc. is very mobile. In addition, regular customers of the Bank can affect the price of Bank goods in the direction of its decline.

Price competition always has certain limits that narrow its (competition) opportunities. These include, first of all, various forms of state influence in the form of direct restrictions (minimum and maximum rates, fixed rates on concessional government loans, etc.) and indirect regulation, primarily in the form of monetary policy measures, refinancing rates, etc.

The limitation of price competition is also determined by the fact that there are limits to the prices of Bank goods below which the Bank does not make a profit. Many modern Western banks enter into alliances such as cartels, tend not to compete in the price of banking products, to keep a circular defense.

For Worldcommercial banks in modern conditions is also characterized by a trend towards non-price competition, which should also be taken into account in banking marketing.

1.3. Understanding and importance of venture capital and capitalists

The modern economy is developing so rapidly that no technology, no project can wait — money for business development, as a rule, is needed either immediately or never. Venture capital is a mechanism that reduces the time of appearance of money for the development of companies, in this connection, the study of risk investments is becoming increasingly important both in developed countries. And after 12 years, the main venture players are still foreign investors. Coaching centers are created, venture fairs are held annually, new laws are adopted by the government, programs for the development of venture investment are developed, etc. However, according to independent experts, the share capital in this business still does not exceed 1.5%.Currently, faces economic problems, which are associated with the lack of a well-established system of financing innovation. In this regard, the study and analysis of non-traditional sources of investment, one of which is venture capital, are beginning to become increasingly important in our country. With the help of methods of comparisons and analogies the analysis of venture investment in the study of which is the object of analysis in this work. At the same time, the subject of the analysis should be considered the flows of venture capital funds sent to Russian funds. It is necessary to analyze the volume in which these funds were received for a certain period, as well as their dynamics and determining factors. In this course work such tasks of the analysis as theoretical consideration of the concept of venture capital and the history of its occurrence in developed countries and Russia are set. Also, the theoretical significance of the project is to justify the existence of prerequisites for the development and successful functioning of the venture industry in the current macroeconomic situation in our country. The second Chapter will examine the role of venture capital in financing innovation capital. The purpose of this work can be formulated as the study and analysis of the situation of the venture capital market with an indication of the obstacles and the development of ways to address them. Despite the growing interest in risky investments, this type of financing is in its infancy in Russia. In this connection, it is advisable in the course of work to make comparisons in the functioning of risk capital in Russia and in the West, where the venture capital industry has long justified its existence, rewarding its investors with astronomical profits. Venture capital is capital that is used for direct private investment. Most often it is provided by external investors to Finance new, growing companies, or companies on the verge of bankruptcy. Venture capital investments are often high-risk investments, but at the same time they have above-average returns. They also help to get a share in the ownership of the company. A venture capitalist is a person who makes such investments. The strict requirements for potential investments of venture capitalists force many entrepreneurs to seek sources of initial financing on the side of business angels. Many people learn about the term "venture capital" after they realize that credit institutions do not want to Finance their business project. There is a huge difference between getting a loan from a credit institution and selling a stake in your venture capital firm. Are you really ready for a new partner who will take some control over the management of the company, even if it is quite rare to take part in current operations? Are you ready to find out what venture capitalists need (your business idea may be good for you but may not have enough potential to attract venture capital)? Are you ready to spend time looking for and courting venture capitalists (venture capital is much harder to find than getting a Bank loan, besides getting to know each other as potential partners is a long process)? Are you ready for a thorough test of your leadership abilities and what they may require to replace or improve the management team? Are you ready to sell a larger stake in the company than you intended? Sometimes people are denied credit because of insufficient equity or surety. Is venture capital really your last hope? You may need less venture capital funding than you thought. By attracting a venture capitalist, you increase the equity of the business, and perhaps now the lender will consider your enterprise less risky and provide a loan that you could not expect initially. First you need to check everything; you can not be sure that you will be given a loan if you get venture capital financing. Other circumstances may arise and play a role. Usually the investment of venture capital by acquiring part of the shares of the customer or granting him loans. Venture capitalist cooperates with the company until it becomes attractive to potential buyers. Then, he either sells the shares on the stock market, or carries out a direct sale of the company or part of it to the buyer who is ready to buy it at a price that provides the investor with the planned amount of profit. For a given kind of investment plays a huge role the time factor is also of great importance should be given to the personal qualities of the venture investor – it is these factors that determines the amount of profit from the financed object.Despite the emergence of some necessary prerequisites for the venture industry its development is constrained by a number of negative factors. It can be assumed that its very origin was already caused by a number of problems. That is, initially the attempt to introduce a purely market mechanism in the "non-market" Russian economy of the 90s was not thoroughly thought out and planned. I believe that it was not acceptable to consider the capitals of regional venture funds as sources for the development of privatized enterprises. Innovative, high-tech projects – that's a niche of this kind of funds. Now, more than a decade later, this wrong strategy makes itself felt – today, the majority of venture investors prefer to invest in any, less risky industries than innovation. Venture capital supports the most dynamic industries to ensure the country's international competitiveness; it has made possible the development of new industries such as personal computers and biotechnology. It is no coincidence that countries with a developed venture capital market (USA, Japan, Germany, UK, Netherlands) act as the largest exporters of high-tech products. Venture capital also serves to support entrepreneurial ventures, promote the emergence of new innovative companies, their rapid growth and market, and create new jobs. The lack of information does not allow us to give an exhaustive and fully objective description of the functioning of venture funds in our and the risk capital industry as a whole. In this connection, probably not all participants of this business came to the attention when writing this work. Despite this, we can conclude with a certain degree of confidence that venture financing in the Russian investment sector demonstrates an innovative approach and, despite its small volume, plays an important role in the development of promising sectors of the "new economy". the theoretical and practical significance of the study lies in the possibility of using the main scientific provisions and conclusions of the thesis as a starting point in further studies of the problems of formation of venture capital, its role in the implementation of the innovation process. The conclusions reached by the author clarify and Supplement a number of provisions on the content and basics of venture financing, its sources, factors and prerequisites.Theoretical conclusions can be applied to complex developments in the field of innovation and investment policy. The provisions and conclusions put forward in the work are of practical importance for determining the directions and ways of forming a competitive national economy.

II. EMPIRICAL RESEARCH METHODOLOGY OF INFLUENCE OF BANKING COMPETITION AND VENTURE CAPITALISTS ON ENTREPRENEURIAL ACTIVITY

2.1. Overview of the history of the banking system in azerbaijan

Economic measures taken in the country also contributed to the development of the banking sector of Azerbaijan and banks have increased the level of service significantly. After gaining independence, the Republic of Azerbaijan conducts economic policy in the country.

In the 1990s, with the independence process, structural changes were made implemented in all financial systems, including the banking system. Interest rates and currency withdrawals play an important role in the rapid development of these structural changes. These structural changes in the nature of financial and banking sector reforms. But in the 1990s, the development of banking sector led to a significant deterioration in the state of financial institutions; banks Under increased attention for a long time. During this period, increasing borrowing requirements and budgetary use accelerated the process. When it came to the 2000s, the banking sector was at serious risk, restructuring of the banking sector and financial structures became inevitable. In parallel with the restructuring and integration of international markets, serious changes have been made in the institutional structure of banks in Azerbaijan, as well as in the services and products they offer. Thus, the "banking sector" of Azerbaijan's economy is open to international competition and is headed by leading sectors. With regard to international applications, within the framework of the main elements of the restructuring of the banking system, the management of the system, as well as the period of adoption and risk management, recognition and reduction of assets, capital strengthening, liquidation and proper management of political interference in the banking system (Aliyev, 2007). There are two main approaches to the rehabilitation or restructuring of banks. The first approach is to improve the financial structure of the country's banks will be the most effective way of economic development done. The second approach is the short-term approach; you need to increase equity immediately. Of course, each of the condition conditions of the two approaches have their advantages and disadvantages. The most common methods of rehabilitation are strengthening Bank capital, Improving the structure of the Bank of shareholders, improving the structure of competitiveness, providing collateral for conditional support of liquidity in the Bank. Restructuring methods are applications such as the adoption of banks, public administration, merger, division, reduction, restructuring and privatization of loans. To explore the world requires a global banking system. Therefore, the help and experience of other countries are needed to harmonize Azerbaijani banks with global banks and bankers. Currently, the most important problem facing the country's banking activities is characterized as education. Especially in this area of technology and knowledge.

Centrality is the main router in the distribution of the implementation of scientific socialism. Years of experience shows the activities created by the Central management system, business and financial results have been resolved and banking services have been closed from other services. Naturally, this is reflected in the banking system of negativity. the result, the market economy and the banking system need to make fundamental changes. After 1991, the Republic of Azerbaijan gained independence. Compliance with the requirements of the economy, the market economy, technological development, economic and political reforms of the banking system showed the effect of reconstruction of infrastructure. Azerbaijani banking system in the light of technological achievements market economy was initiated a broad discussion .

2.2. Dynamics of development and direction of structuring the banking sector of Azerbaijan

After the restoration of independence, the first national banknotes "Manat" (AZN) were issued for circulation. In accordance with the principles of the market economy, Azerbaijan will create a legal basis for a competitive and modern banking system. In June 1996, the new "Law on the Central Bank" and "Law on banks and banking activities" Were approved by President Heydar Aliyev (CBAR annual report, 2007). Article 1 of the Law of the Republic of Azerbaijan, signed by the last President of Azerbaijan Ilham Aliyev in 2004, States that "the Bank is a legal entity that attracts deposits from legal entities or other repayable assets, issues loans on its behalf and its own funds and cash registers, and money transfers ". The law "On banks" governs the implementation of the banking system of the Republic of Azerbaijan. In accordance with the law in the banking system of the country: the Central Bank and non-Bank credit organizations. The law "On the Central Bank of the Republic of Azerbaijan", the Civil code, the Constitution of the Republic of Azerbaijan and other normative legal acts regulate the first and main stage of the banking system: the Central Bank of the country and its activities. In coordination with the Republic of Azerbaijan, the Central Bank licenses and controls operations in the form. Credit organizations belong to the second stage of the banking system and its activities in accordance with the Constitution of the Republic of Azerbaijan, the law "On Banks, Civil code, laws "On the Central Bank of the Republic of Azerbaijan", "On non-Bank credit organizations", "On credit unions" and other normative legal acts. According to article 1 of the Law of the Republic of Azerbaijan, a Credit institution is a Bank or a local branch of a foreign Bank or a non-Bank Bank Bank of a credit institution." The Central Bank is authorized to regulate the operations of all banks operating in countries and currencies. This Bank serves other banks and the government and always works with them. Other banks directly show services to customers. In accordance with the decree on changes of currency units to the nominal value and the price Scale (denomination) signed by the President of the Republic of Armenia in 2016, 1 new manat (AZN) was equal to 5,000 manats (AZN). A year after sharing from AZN and AZN, new manat (AZN) banknotes and metal coins were issued (CBAR annual report, 2016). According to the 2010 report of the Central Bank, compared to the previous year, 32 new branches and 15 new Bank departments were opened in the country. The income was increased from AZN 140.1 million to AZN 120.3 million. The banking sector while continuing to increase the key determinants of Bank performance.

Table 1.1.: List of banks reviewed by their size (total assets)

1 open joint stock company "international Bank of Azerbaijan" 6 173 865 000

2 capital Bank open joint stock company 1 103 870 000

3 open joint stock company "Xalq Bank" 839 412 259

4 closed joint stock company "Bank Standard" 793 064 000

5 Commercial Bank "Unibank" 578 359 000

6 closed joint stock company "AccessBank" 515 269 000

7 open joint stock company "Bank of Baku" 181 486 000

8 Bank Respublika open joint stock company 428 237 000

9 open joint stock company "Temirbank" 377 593 000

10 AGBank open joint stock company 348 125 000

11 open joint stock company "Zaminbank" 240 784 358

12 TuranBank open joint stock company 217 073 000

13 Rabitabank open joint stock company 149 232 000

14 open joint stock company "AmrahBank" 111 131 000

15 Azerbaijan credit Bank open joint stock company 21 867 560

Source: Central Bank of Azerbaijan, financial stability Review – 2013

Assets of the Central Bank increased by 13.9% and amounted to AZN 13.3 billion, and the Bank loans increased by 9% and amounted to AZN 8971.8 million. In 2010, the return on assets (ROA) return on equity (ROE) was 7.4%. The financial crisis in 2010 is beneficial. In total, 44.7 million ATMs and POS-terminals were executed through parts of transactions. The number of Bank cards and online banking transactions increased in 2010 (CBAR annual report, 2010).

At the end of 2012, referring to the report of the Central Bank, the number of operating banks - 43 banks, 665 branches and 158 branches. Half of private banks, or rather 22 of them, belong to foreign capital. The table above lists 15 banks by size, which were considered in the study. As reported by the Central Bank in 2012, the assets of the banking system of the AR 17643.4 million manats, increasing by 26.5% over the year Loans increased by 27.8% and amounted to 12399.4 million manats. In 2012, banks made a profit of AZN 169.9 million, profit after tax amounted to AZN 130 million. manats'. Total income of banks (interest and interest) amounted to AZN 1,625. 1 million, while total expenses of banks (interest and non-interest expenses) amounted to AZN 1,296. 9 million. Profitability index:

Return on assets (ROA) and return on equity (ROE) were 4.8% and 7.1% respectively. In 2012, the total capital increased to $ 2,573 million

AZN (CBAR Annual report, 2012)

Table 1.2.Growth rates of key determinants of the banking system of Azerbaijan,%

Years	*2014*	*2015*	*2016*	*2017*
Assets	*13,6*	*13,9*	*7,9*	*2,8*
Loans	*18,3*	*9,2*	*8,5*	*29,1*
Deposits of legal entities	*18,8*	*4,8*	*15,6*	*-0,5*
Deposits of population	*22,6*	*29,7*	*35,9*	*24,8*
Total capital	*18,5*	*8,9*	*15,8*	*35,9*

Source: Central Bank of Azerbaijan, financial stability Review 2012-2017

Table 1.3. Profit of Azerbaijani banks, million Manats 2012-2017

Years	*2015*	*2016*	*2017*
	1099.8	*1257.8*	*14.4*
Change,%	*569.3*	*658.0*	*15.9*
Interest income	*325.3*	*259.2*	*18.6*
Interest expense	*596.2*	*659.2*	*12.5*
Non-interest income	*14598.2*	*16529.1*	*12.3*
Non-interest expense	*11587.9*	*15697.2*	*12.3*
Total revenue	*269.2*	*589.4*	*10.2*
Net operating profit	*449.5*	*158.5*	*-65.1*
Provision for loan losses	*5698.5*	*458.2*	*11.3*

Source: Central Bank of Azerbaijan, financial stability Review 2017

This return on equity ratio shows how profitable the Bank is in relation to its net profit to equity. The coefficient of return on equity (ROE) measures how well the equity holders for their investment in the Bank. The higher the ratio, the more effective management is to use its shareholder base and greater returns to investors. The ROE ratio is calculated by dividing net income by average share capital and expressed as a percentage.

2.3. Financial assets of the Bank

Financial assets under IFRS (IAS) 39 are classified as financial assets at fair value through profit or loss, loans and receivables or financial assets available-for-sale, depending on the situation. The Bank determines the classification of its financial assets at initial recognition and may subsequently reclassify financial assets in certain cases as described below.

All regular purchases and sales of financial assets are recognised on the date of sale, that is, the date on which the Bank undertakes to acquire the asset. The usual methods of buying or selling are the buying or selling of financial assets, which require the delivery of assets within a period normally established by a regulation or Convention in the market. Financial assets at fair value through profit or loss Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for short-term sale. Derivative financial instruments are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets held for trading are recognised in profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not listed in an active market. They are not for immediate or short-term resale and are not classified as trading securities or as investment securities available-for-sale. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated statement of profit or loss and other comprehensive income when loans and receivables are derecognised or impaired, and through the amortization process. If a non-derivative financial asset classified as held for trading is no longer held for sale in the near future, it may be reclassified from fair value through profit or loss in one of the following cases:

► a financial asset that would meet the definition of loans and receivables above may be reclassified to loans and receivables if the Bank has the intention and ability to retain it for the foreseeable future or until such time as

maturity;

► other financial assets may be reclassified as available for sale or held to maturity only in rare circumstances.

A financial asset classified as available - for-sale that met the definition of loans and receivables may be reclassified as loans and receivables if the Bank has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified at fair value at the date of reclassification. Any profit or loss already recognised in profit or loss is not reversed. The fair value of a financial asset at the date of reclassification becomes its new value or amortised cost, if applicable.

Cash and cash equivalents

Cash and cash equivalents consist of cash at the cash Desk, funds at the Central Bank of the Republic of Azerbaijan with the exception of mandatory reserves, as well as amounts due from credit institutions that Mature within ninety days from the date and have no contractual encumbrances. If the Bank acquires its own debt, it is excluded from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognised in the consolidated statement of profit or loss and other comprehensive income. The objectives of the Bank's capital management are (i) to comply with the capital requirements set by CBAR, to ensure the Bank's ability to continue to operate as a going concern and to maintain high credit ratings and healthy capital to support its business and maximize shareholder value. Capital compliance the capital adequacy ratios set by CBAR are monitored monthly by reports that set out their calculations, which have been reviewed and signed by the Bank's chief Executive officer and chief accountant. Other capital management objectives are evaluated annually.

2.4. Foreign currency translation

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional exchange rate at the reporting date. Gains and losses arising from the transfer

foreign exchange transactions are recognised in the consolidated statement of profit or loss and other comprehensive income as gains less losses on foreign exchange transactions - difference in accounting. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated at exchange rates at the date of the original transaction. Non-monetary items measured at fair value in a foreign currency are translated at exchange rates at the date the fair value is determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the CBAR exchange rate on the date of the transaction are included in gains less losses from operations with foreign currency. The Bank used the following official exchange rates as at 31 December 2016 and 2015 in the preparation of these consolidated finances.

	2016	2017
1 US dollar	AZN 1.7707	AZN 1.7707
1 EUR	AZN 1.8644	AZN 1.8644

Standards and interpretations issued but not yet effective Standards and interpretations issued but not yet effective before the date of issue the consolidated financial statements are presented below. The Bank intends to adopt these standards, if applicable, when they become effective. IFRS Financial instruments IFRS (IFRS) "Financial instruments", published in July 2014, replaces the existing guidance in IFRS (IAS) 39 "Financial instruments:

Measurement: IFRS includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment of financial assets, as well as new General hedge accounting requirements. It also provides guidance on the recognition and derecognition of financial instruments from IFRS (IAS). IFRS applies to annual periods beginning on or after 1 January 2018 and should be applied retrospectively with some exceptions. Early adoption of the standard is allowed. The group does not intend

adopt this standard at an early stage. The group assesses the potential impact on its consolidated financial statements as a result of

from the application of IFRS. IFRS 12 disclosure of interests in other organizations»

• The amendments clarify that the requirements for disclosure in IFRS (IFRS) 12, with the exception of the requirements in paragraphs B10-B16 are applied to the company's interests in subsidiaries, joint venture or associated company (or part of its stake in the joint venture or associated company) that is classified (or included in a disposal group that is classified) as held for sale.

• The amendments enter into force on 1 January 2017 and should be applied retrospectively.

2.5. Characteristics of Empirical Research Object:Entrepreneurial activity

The existence of a Bank('loan provides accumulation of available funds for the purpose-their targeted distribution in the framework of meeting emerging from a certain range of subjects of economic relations needs of financial growth. In a market economy, it is mediated by the functioning of such subjects of economic relations as commercial banks.

It should be noted that the provision of borrowed funds in the economy is carried out by other economic entities, but it is the Bank loan of commercial banks that plays the most pronounced role in the redistribution of financial resources, allowing to improve the efficiency of the economic system as a whole and to carry out targeted state influence on the participants of economic relations.

Accordingly, the credit activity of commercial banks, being economic in nature, is at the same time of great socio-political importance, acting as one of the objects of regulation and management by the state.

Carrying out credit regulation, the state pursues the purpose of expansion or reduction-crediting of economy that allows to solve in due time problems of stabilization of internal economic development and increase of competitiveness of the state in the world economic market.

It should be said that the credit regulation mechanisms of public administration aimed at the implementation of strategic objectives to improve the efficiency of the national economy and the welfare of its citizens. In conditions of low level of 'confidence in the Russian banking sector! effective implementation of regulatory and management functions of the state in the sphere of credit activities of commercial banks is of great importance. Problems of interaction between the banking system and financial markets have not been given sufficient attention in the economic literature. Increased competition in the banking market, aggressiveness behavior of non-Bank credit organizations, mutual funds, other financial institutions, the complexity and rapid development of moderninformation technologies cause the need to study relationships, interaction of credit institutions with individual segments of the financial market. Significant influence on the development of theoretical studies of the features of management and regulation of credit activities of commercial banks have scientific works devoted to the analysis of General issues of the ratio of state regulation and management of economic relations, and considering the features of the state impact on the banking system as a whole.

According to some"-* scientists, state management of the economy at the present stage; should be considered not only and not so much in the format of direct command influence, as it is increasingly evident in the forms of state regulation, which is proposed to include, for example ,-" - licensing of economic entities, the implementation of control and Supervisory functions.

At the same time, it can be assumed that the introduction, progressive development and consolidation of the principles of corporate governance in the implementation of credit activities and credit relations while maintaining the state management and regulatory role over time minimizes the level of credit risks by improving the professional ethics and culture of professional activities in credit activities, as well as the financial' culture of participants in credit relations in Russia.

The theoretical and methodological basis of the thesis is a number of scientific approaches that have developed-in line with classical and non-classical sociology in the field of public administration and regulation of economic relations, including credit, as well as the specifics of the development of modern socio-economic and socio-cultural space of Russia, in which the credit activities of commercial banks. In particular, actively used the ideas and statements out risk assessment of the theory, the activity and structural-functional approaches.

The study used methods of generalization and abstraction, typology, * comparative-historical approach, the principles of complex analysis,-system and competence approaches, which allowed to identify the main trends in the field of credit activity of modern Russian society in the context of its socio-cultural, socio-political and economic specifics.

Methodological work of the UN was also made up of fundamental sociological, economic, legal and interdisciplinary developments on the definition of forms and methods of state regulation and management of credit activities of commercial banks in the Russian society, in conjunction with the principles of theoretical and applied understanding of the studied problems.

The thesis actively used theoretical and methodological developments of Russian and foreign researchers in various fields of knowledge on the problem of state regulation and management of Bank lending, the possibility of using the mechanisms of self-regulation and self-government, the introduction of corporate governance in this type of banking quality standards of banking services. the radiation of scientific research of credit activity of commercial banks is dominated by economic and legal approaches, which is consistent with the socio-economic and legal basis for the functioning of the credit banking system. At the same time, the system principle of development of various segments of the economic sphere of society assumes inclusion of the economic phenomena in a wide sociological context within studying of the credit relations and factors of successful development of credit activity of commercial banks. On this basis and taking into account " specifics of development of modern society, including the approaches developed in the conditions of understanding of the riskological nature of functioning of the social and economic sphere of society in a complex with activity and "structural and functional approach within which the role and functions of the state as the subject of management of the credit relations and regulation of credit activity of commercial banks are proved are methodologically reasonable.

2.6. Research Goal and Problem

Financial performance indicator of the Bank; the size of the Bank's profit is important for all those involved in this activity. In General, the amount of profit depends on three global components: income; expenses; taxes and other obligatory payments of the Bank. In accordance with this model of formation and to a certain extent of use (expenditure) of profit can be represented as follows. The total profit reflects the overall financial result of the Bank's commercial activities, but this result, as already shown earlier, is formed under the influence of a whole range of factors that can act in different directions, which is why the profitability factors need a "personal" analysis.

Let's analyze and analyze the difference between the Bank's assets and liabilities in the form of a coin:

Interest rate risk may be the result of interest rate risk and mismatch between the Bank's demand and liabilities for a certain period (Batrakova, Analytical policy, 2002). When market interest rates change, there is a change in the value of assets and liabilities, which creates a risk of interest rate changes. Changes in market interest rates in both directions - both lower and higher interest rates, depending on the maturity of banks, can create risks. This may eventually lead to a decrease in the Bank's interest margin. Analysis of the methodology area. Scope analysis is a tool used to determine the difference between assets and liabilities.

For interest rate swap analysis, interest rate sensitive assets (FHA) and sensitive liabilities (FHA) are reviewed. FHA includes loans, securities, interbank loans and deposits placed, as well as deposits such as FXO and interbank loans and deposits raised. The word COP is considered the difference between the FHA and the FBI (formula 1). Note that the quota can be either negative or positive

Table 2. Time difference between assets and liabilities.

CAP (-)	FHA-FHP<0 FHA/FHP< 100%
CAP (+)	FHA-FHP>0 FHA/FHP> 100%

Through The COP. as a result of changes in the interest rate, you can also calculate the resulting net income as a percentage (formula) .

$$XFG=К *\Delta y$$

XFG – the percentage of net income;

Δy – changes in interest rates;

B the consequence of the fact that, for a certain period of terms of payment of assets is more than liabilities, a drop in market interest forms a loss for the Bank, and an increase in income.

Table 3. The relationship between changes in interest rates and CPC.

Falling rates	Loss	Income
Increase in rates	Income	Loss

The main advantage of this method is its simplicity for calculation purposes. And the disadvantages are the following:

-This is a static model that does not take into account changes in interest rates or changes in liabilities. Thus, when interest rates change, the behavior of borrowers ' repayment may change - it may be repaid or postponed during the debt;

- when changing interest rates on the portfolio there are no calculations;

- Thus, it is based on the assumption that all positions are changed or revised simultaneously;

- The sensitivity of interest rates on the time difference is not taken into account.

Duration. To take into account the sensitivity and variability of the difference between the differences, the periodicity is used. In calculating the grace period, demand and liability should be calculated on a first-come basis. Due to the change in the market interest rate of 1% of the interest rate, it reflects the change in demand and liabilities of the portfolio and is calculated separately both on demand and on liabilities according to the following formula:

$$=De = \frac{V1-V2}{2(Vo)(\Delta y)}$$

De- effective duration;

V2 – the value of the portfolio by lowering the interest rates on the item 1%;

V1 – the value of the portfolio with an increase in interest rates per point 1% ;

V0 – the current value of the portfolio;

Δy – change of interest rates.

As can be seen from the formula, the value of both assets and liabilities of the Bank, as well as the duration of the asset and liabilities at the time of calculation is used. It should be noted that due to changes in interest rates, effective interest calculated using formula 3 allows not only the discount rate, but also changes in expected cash flows by changing interest rates.

A longer (shorter) duration indicates a higher (smaller) sensitivity to interest rate changes.

After determining the result, you can determine how fluctuations in interest rates affect the Bank's equity (formula 5). If the result is positive, it means that assets are more sensitive to changes in interest rates than liabilities. On the contrary, if it is negative, liabilities are more sensitive to changes in interest rates than assets. For example, if interest rates fall, if the result is positive, then capital will increase, and if the simple balance is positive, then capital will decrease. This is due to the fact that when the interest rate is reduced, the value of assets can significantly increase the value of liabilities compared to the value of liabilities. And this is considered an advantage of the COP method. But this method also has a number of disadvantages:

- riminals when revenue curve varies slightly. Not accurately measures high interest rates, fluctuations;

It does not take into account expected cash flows as a result of changes in interest rates;

- many assets and liabilities in the Bank portfolio are not freely bought and sold in the market, and their market value is difficult to calculate;

- Does not predict future market value for existing or new financial instruments.

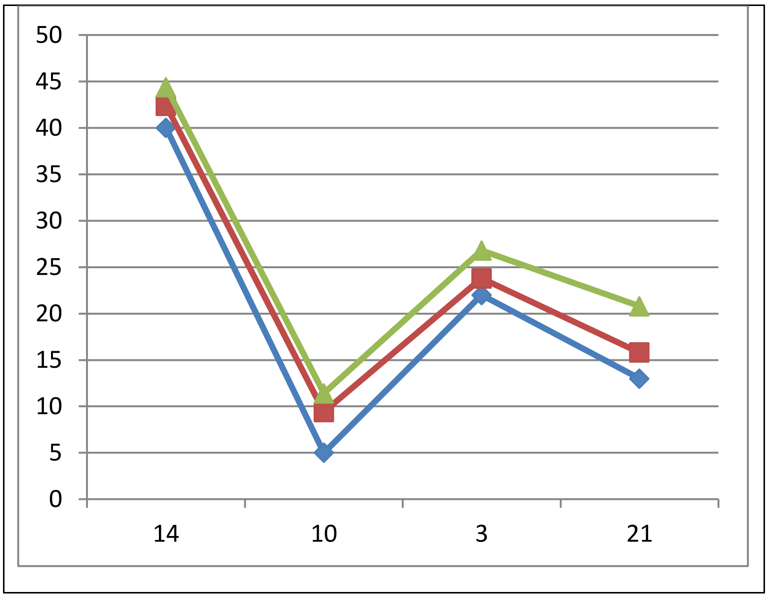
To calculate the interest rate risk in a hypothetical banking system, two conventional banks were used using the above methods. For these banks, FHA and FHÖ were analyzed according to the table of payment schedule distribution at the initial stage (table 4.)

Bank A			Bank Б	
Term	Share FHA %	Share FHO %	Term	Share FHA %
1 month	6	13	14	40
1-3 months	10	8	10	5
3-6 months	14	18	3	22

6-12 months	25	38	21	13
More than 12 months	45	23	52	20
Subtotal	100	100	100	100

Looking at the statistics on the interest rates of conventional banks, it turns out that the volatility of interest rates B is higher than in A (figure 1). As a result of the analysis, the interest rate risk of B vapka is higher than that of Bank A. Further calculations will show how accurate this is. Since the balance sheet is dominated by the Bank's long-term assets and liabilities, changes in interest rates on this position may affect the Bank's interest rate risk.

Figure 1- Dynamics of average interest rates of ordinary banks A and B



Interest rate risk may be the result of interest rate risk and mismatch between the Bank's demand and liabilities for a certain period (Batrakova, Analytical policy, 2002). When market interest rates change, there is a change in the value of assets and liabilities, which creates a risk of interest rate changes. Changes in market interest rates in both directions - both lower and higher interest rates, depending on the maturity of banks, can create risks. This may eventually lead to a decrease in the Bank's interest margin. Analysis of the methodology area. Scope analysis is a tool used to determine the difference between assets and liabilities.

- Achievement of complex quality of products and services by banks fundamentally changes the formulation of their strategic goals and gradually becomes a system-forming element of the overall banking strategy. The quality - cost ratio beneficial to the consumer depends on the effectiveness of organizational decisions, processes and other components of the quality assurance system. The ability to provide the consumer with high quality services at optimal costs is the main factor that determines the preservation of high efficiency of the financial institution.- The need to move from the inertial path of economic development to the achievement of institutional reconstruction before the banking system of Russia poses the problem of creating qualitatively new banking products that can meet the demand of consumers, as well as the development of integrated methods of their use in the policy of banks. This is largely due to the banking business, which is characterized by large mergers and acquisitions, the creation of holdings and groups as global banks, the development of the diversity of the banking system in the process of improving competition in its field.

The author used General scientific and special research methods in the process of the work. Methods of systematic approach to the study of the objects under consideration, methods of abstract-logical, comparative, analytical and economic-statistical research are used as scientific tools. - State support of the reformed banking sector requires its improvement. Self-regulation of banking activities acts as a system of interrelated coordinated actions to regulate the Bank's activities aimed at effective management of banking risks in order to maintain stability in a changing external and internal environment.

- Expediency of Bank reform taking into account transition to the international standards of regulation of activity of commercial banks as a method of adaptation to processes of financial liberalization demands development of the functional concept. Such an approach can and will cause appropriate structural changes in the entire financial system of the country and thus will bring it closer to similar institutions of the world community.

The practical significance of the dissertation research is that its main results are brought to specific recommendations, some of which are implemented in practice in the context of reforming the banking sector. They can also be used in the implementation of the financial policy of the state, in particular, those areas that are associated with the improvement of competition in the banking sector.

Of particular practical interest are:

• key areas of state support and regulation of competition at both Federal and regional levels;

• the variety of organizational forms of the banking system cooperating with enterprises and various structures of financial self-organization of the population: credit unions, savings and loan, construction and savings banks, etc.;

• a system of economic standards for managing the quality of banks and calculating their costs, as well as their monitoring, consistent with existing data collection capabilities.

One of the ways out of this situation may be the following: normally operating banks that can not withstand the new requirements, should be able to join other banks as branches, branches, etc. To do this, you need to stimulate, including through tax, the procedure of mergers and acquisitions, and the easiest way here — the cost of a merger to deduct from taxable profits. A more serious area is the creation of a legislative niche for banks operating in a limited range of operations, for example, as cash centers of financial groups, or performing Deposit and credit functions. Such banks may be granted a limited license with lower capital adequacy requirements.

2.7. The Empirical Research Hypothesis

The section describes the data used for analysis, defines the methodology and variables used in the regressions in the following sections. The analysis is carried out using the data of the credit file of the Italian small and medium business. The data is provided by one of the largest Italian banking groups, which has branches throughout Azerbaijan, provides loans to borrowers located in all 20 regions of Azerbaijan, and operates in 178 industries (six-digit NACE classification).

The database covers the period between 2015-2017 and contains credit files with information on the firm level for 24,369 SMEs combined with relevant information on the relationship between the Bank and the firm. We consider credit characteristics such as loan amount and loan interest rate, collateral or personal guarantees; Bank-specific Variables such as firms ' credit risk profile, size, location, industry; as well as a comprehensive set of characteristics of the relationship between the Bank and the firm, most commonly used in the empirical literature on lending (duration and exclusivity of the relationship between the Bank and the firm, physical and organizational proximity, the presence of synergies between brokerage companies and firms , as well as the frequency of contacts between the loan Manager and companies). Additional variables are included to control the market structure in which firms operate.

Since the data are provided by one Bank, the problem of selection of the sample should be taken into account. The Bank's credit policy, which is determined endogenously, depends on the specific characteristics of the firm, such as the size of the Bank and its risk profile. The Bank's internal policy may lead to a shift in results, preventing researchers from making generalizations. However, the use of credit file data rather than industry reviews allows the analysis to focus on information that is directly related to actual credit decisions. Unlike studies conducted in the form of industry surveys, when collecting data through credit registers and for the purpose of analyzing credit information for firms throughout the banking system, credit file data have an excellent advantage in capturing and examining the set of characteristics and information that banks effectively use when making lending decisions.

The Bank's internal rating assigned to each firm (RATING) is used as a control variable. Observed risk of borrowers has traditionally been measured using either accounting information (Chakraborty & Hu, 2015; Ono & Uesugi, 2016; Berger et al., 2011a), or by analyzing the history of borrowers of default loans with other banks in the previous year (e.g., Jimenez et al., 2009). However, both of these indicators failed to capture the level of risk effectively observed by the lender, as the Bank must analyse the relevant quantitative and qualitative data before deciding whether to approve or reject the loan. To overcome this potential flaw, a variable RATING was used instead. The variable is formed of the internal rating system of the Bank based on the credit risk observed by the lender, and klassificeret quantitatively evaluate the creditworthiness of the borrower on five categories of risk for solvent borrowers (I.e., R5 = less risky, 1 = most risky).

Table 5.Summary statistics

variable	Mean	potential disadvantage.
distribution	2,148	1,873
guarantee	0,125	0,330
rating	4,037	1,055
volume	2,606	7,000
Exclusivity	0,284	0,310
distance	0,081	0,272
contacts	2,364	2,970

The strength of the relationship between a Bank and a firm is measured by the size of the lending relationship, such as duration, exclusivity, volume, physical and organizational proximity (inverse distance) and frequency of contact, which are used as the main independent variables.This variable consists of the number of face-to-face meetings between the Bank and the firm during the year.

2.8. The Empirical Research Logic, Stages and Methods

Econometric model

The following econometric models have been developed for each of the three dependent variables:

A logistic regression model to test the determinants of the dependent variable -access to credit:

distribution = P0 + P1 (RATING -1) + P2 (SCOPE-1) + P3 (warranty) P4 (volume) + P5 (ORG_DISTANCEt-1) + P6 (contacts) + s

The usual least squares model to check the determinants of the Spread variable»

SPREADt = P0 + pi (RATING -1) + P2 (SCOPEt-1) + P3 (EXCLUSIVITYt-1) + P4 (Distance-1) + P5 (ORG_DISTANCEt-1) + P6 (CONTACTSt-1) + s

Logistic regression model to check the determinants of the "Required guarantee" variable»

GUARANTEE = P0 + Pi (RATING -1) + P2 (SCOPEt-1) + P3 (EXCLUSIVITYt-1) + P4 (Distance-1) + P5 (ORG_DISTANCEt-1) + P6 (CONTACTSt-1) + s

Missing variable

As can be seen from the econometric models, the variable "duration" is not represented in the multiple regression analysis. The motive for abandoning this variable from regressions is as follows. The Bank's rating system has already included information on the duration of the relationship in five rating categories, thus contributing to the assessment of the probability of default (PD). The inclusion of this variable in the multiple regression does not give any information and distorts the results.

However, the results of simple regressions show that the duration of the relationship between the Bank and the firm has a positive effect on the Bank's PD rating(it usually reduces it), and the rating of firms improves as the average duration of the relationship increases.

Table 6. "Duration" and credit rating

Rating	Number	Average duration [Years]
R1	376	6,1
R2	2.275	6,3
R3	4.039	6,9
R4	7.072	8,1
R5	10.607	11,2
Всего	24.369	9,1

A simple regression analysis shows the relationship between the duration variable and each of the dependent variables (credit availability, distribution, and security request). (Table 6). The results show that as the duration of the ratio increases: the spread applied to the loan tends to decrease, albeit very steadily. For firms with less than five-year relationships with the Bank, the average spread is 2.5%, while for companies with 5-10 years of relationships, the spread is reduced to 2.4%. As the ratio goes beyond ten years, the average spread tends to remain unchanged at 2.2%. It should also be noted that duration is not the only factor affecting spread variations that will ultimately be affected by other factors, including the presence or absence of collateral and personal guarantees.

Credit availability is steadily increasing as the number of years increases. The credit claim is rejected by more than 10% of firms at the lower limit of the duration of the relationship, while this percentage is 5.6% for enterprises with more than 20-year relationships.

The request for security is reduced in the duration of the relationship. Approximately 17% of companies with less than five years of relationships had to provide a real or personal guarantee, while for long-term relationships this percentage remained stable between 11% and 12%.

Table 7. Relationship between duration and dependent variables

Duration relations [Years]	On average distribution	Availability of credit	%
0-5	2,5%	89,4%	16,9%
5-10	2,4%	91,2%	11,6%
10-15	2,2%	92,7%	10,9%
15-20	2,3%	93,4%	12,4%
over 20	2,2%	94,4%	12,0%
Total	2,3%	91,3%	13,65%

These results are consistent with much of the empirical evidence that longer-term relationships benefit borrowers. Long-term relationships between lenders and borrowers reinforce banks ' accumulation of private customer information and reduce the problem of asymmetric information. As a result, when banks become more familiar with the quality of firms over time and consider it less risky, they may decide to further improve the terms of loan agreements (Lehmann & Neuberger, 2001). Empirical data show that the length of the relationship between the Bank and the borrower has a positive impact on the availability of credit (Berger & Udell, 1995; Boot, 2000). Berger and Udell(1995) and Boot (2000) found that the length of the relationship between the Bank and the borrower had a positive impact on the cost of the loan. Moreover, Degryse and Van Cayseele (2000) believe that the length of the financial relationship negatively affects, albeit very moderately, the probability of collateral, according to what has been emphasized.

2.9. The Empirical Research Data Sample

Table shows the results of the econometric analysis of the impact of the size of the lending relationship, with the exception of duration, the presence of terms of the loan and credit agreements.

Table 8. the results of the econometric regressions

	Availability of credit	distribution	guarantee
RATING	0.892***	-0.243***	-0.222***
	(-0,022)	(-0,0128)	(-0,0195)
SCOPE	0.0345***	-0.00816***	-0.0188***
	(-0,00567)	(-0,00171)	(-0,00372)
EXCLUSIVITY	1.086***	0.0814**	0.145**
	(-0,0938)	(-0,0393)	(-0,0614)
DISTANCE	-0,111	-0,0533	0,0533
	(-0,082)	(-0,0453)	(-0,0714)
ORG_DISTANCE	-0.435***	0.115***	0,0222
	(-0,0531)	(-0,0317)	(-0,0496)
CONTACTS	0.0315***	-0.0181***	0,00458
	(-0,00997)	(-0,00415)	(-0,00665)
CONSTANT	-1.117***	3.430***	-0.960***
	(-0,0819)	(-0,0578)	(-0,0855)
Method. OLS	Logit	Linear	Logit
N. OBSERVATIONS	24,369	22,239	22,239
Pseudo R2 Adj R-squared	0.1749	0.1880	0.0102
LR chi2(6) F (6, 22232)	2527.98	72.06	180.49
Prob > chi2 Prob > F	0.0000	0.0000	0.0000

The table shows the regression results for the three dependent variables. For each independent variable, the size, scale, and value of the beta coefficients are presented, and standard errors are given in parentheses. To indicate the significance level of variables, coefficients are reported with an asterisk: (*) indicates whether the significance level is greater than or equal to 90% but less than 95%; (**) indicates whether the significance level is greater than or equal to 95% but less than 99%; (* * *) if the significance level exceeds 99%. The RATING variable is always significant and has expected characteristics. Thus, improving a company's credit rating increases the likelihood of loan approval, reduces the interest rate applied to the loan granted, and further reduces the likelihood that collateral or personal guarantees will be required. We remind you that RATING is the control variable in the regressions and records the information that is missing in the variable lending variables. The following results are obtained by estimating the influence of the relationship dimension on the dependent variables:The variable is always significant and can be interpreted as follows: when a borrowing firm purchases additional non-credit products and services from a relational Bank, such as portfolio management or various payment schemes, it improves the Bank's ability to assess financial health more accurately. Thus, the presence of synergies with cross-products allows relational banks to collect additional soft information about firms and subsequently reuse this information in future transactions and in different products. In the course of such repeated interactions, information asymmetries between banks and firms are further reduced and banks are Made more transparent to banks. The reduced information asymmetry and the resulting positive information about the quality of the Bank Leads to more favorable contractual conditions for firms, as evidenced by the regression results. The larger the relationship area, the more likely it is that the firm will receive the requested credit.

Both the interest rate applied to the loan and the likelihood of collateral claims will be reduced as banks Continue to purchase additional non-credit products from banks. Another plausible explanation for lower interest rates on loans may be that banks will also receive commissions on products sold to firms. Thus, banks will have less incentive to raise prices or extract rents. It can be concluded that a broader relationship will benefit both lenders and borrowers. From the point of view of creditors, banks will receive softer information about customers and will be able to better assess the creditworthiness of firms and make better decisions.Physical distance: the distance Variable is insignificant in all three regressions. This result should be interpreted with caution because only 8% of the firms in the sample were located in a province other than the one where the Bank's branch was located. Apparently, the bad and the variability of the location of firms could affect this discovery.

Part of the literature argues that the problem of retention appears to be limited to temporary effects due to the duration of the relationship, as indicated by Ioannidou and Ongena (2010), which show that the transition to a new Bank significantly reduces the loan rate within the next year and a half. The following table shows that as the number of banks decreases, the interest rate gradually decreases to 1.8% for companies with 9 or more banks and is 2.5% for those with only one Bank. The demand for collateral is also increasing. (Table 2.14.)

Table 9. Relationship between the number of banks and dependent variables

Million.man (AZN)	On average distribution	The low quality of the loan	High credit quality
3.335	2,5%	15,3%	92,9%
5.696	2,4%	15,1%	91,0%
5.267	2,4%	13,6%	91,6%
3.330	2,3%	13,3%	91,7%

The results are also confirmed using the variable "depth". We combine the Banks with four quartiles of depth, and we see that the average spread applied to the firms of the fourth quartile, t. Bankas share of more than 75%, is 2.47% compared to the total average spread of 2.35%.The following statistical analysis shows that cross-selling is an RL measurement that helps mitigate the retention problem and reduce the cost of credit.

Table 10. Relationship between coverage and average spread

On average distribution	The low quality of the loan	High credit quality
0	16.020	2,38
1-5	2.435	2,33
6-10	2.125	2,34
11-20	1.095	2,19
Above 20	564	2,04
Total	22.239	2,35

Credit lending is one of the most effective mechanisms for addressing asymmetric information problems in credit markets, especially when lending to small, low-profile borrowers. By reducing information problems, a close relationship between the Bank and the firm can benefit both sides of the relationship. In particular, for small and medium-sized enterprises that are heavily dependent on external Finance, credit lending is a key source of improved access to Finance. However, lending to relationships is a complex phenomenon, and empirical evidence on the relative costs and benefits of a close relationship between a Bank and a firm is largely mixed. Two methodologies were used to address the complexity of the problem and to examine the impact of such relationships on SME financing: a systematic review of empirical data on the topic from 2007 to 2017 And an empirical analysis of the case study using a credit data file for a sample of Italian SMEs. Both studies examined the same set of dependencies (credit availability, loan interest rates and collateral requirements) and independents (duration, exclusivity, cross-selling, distance and contact) and the relationship between them.

2.10. Methods of the Empirical Research

On the one hand, this model can be used by banks to understand, to what extent its activities are focused on consumer's. On the other hand, the consumer, studying the market of banking services and choosing for yourself the most priority factors, focusing on on the model, can understand which of the leading banks he's interested. At the same time, competition, which has developed in the market of banking services, now time is so high that reliability and stability the Bank does not guarantee him the necessary inflow clients'. Modern consumer banking the Bank evaluates the services according to its "own system" of values, which is complex and changeable, the study of which and the identification of significant factors will allow the Bank better understand your client. The results of the systematic review are in line with the latest evidence from the meta-analytical study by Kysucky and Norden (2016) that the benefits of credit Relationships go beyond improved access to Finance. Long-term, exclusive and synergetic relationships that create a relationship between the Bank and the firm lead to increased availability and volume of loans. In addition, lending relationships lead to more favourable credit conditions for small businesses, such as lower loan rates and lower collateral requirements, although the results vary depending on the size of the loan. Both physical and organizational distances undermine the ability of lenders to produce soft information, with the latter having a more serious negative impact on lending results. This confirms the predictions of economic theory that private soft information props are mostly local, and the most effective intermediaries in lending to SMEs are those that have an organizational form characteristic of small banks characterized by a flat organizational structure (Berger & Udell, 2002; Cerquerio et al., 2007). The phenomenon of delays occurring in longer and more exclusive relationships is related to interest rates on loans rather than collateral requirements, contrary to the findings of Kysucky & Norden (2016). Synergies between products between banks and small firms, as well as borrowing from several lenders, can partially mitigate the negative effects of information capture of borrowers.

2.11. Limitations of the Empirical Research

Organizational distance: Variable "organizational distance" has a significant impact on the availability of credit and spreads. A negative sign of organizational distance from credit availability may imply that when the distance between relationship managers and decision makers increases, problems may arise due to the nature of soft information. This reason may be that the loan Manager may face problems in quantifying and transmitting soft data through the Bank's normal transmission channel.

Variable "contacts" are important for availability and pricing. The presence of frequent contacts with credit managers increases the release of soft information and leads to an increase in the availability of loans and lower interest rates. Frequent and direct contacts and meetings provide the Bank with a greater awareness of the management capabilities and economic projects of the company. These results show the importance of personal and frequent contacts between relationship managers and firms when entering into a loan agreement. Following the generally accepted opinion, the lending relationships that serves as the primary technology for banks when dealing with opaque firms such as SMEs, because of the close relationship between the Bank and the firm can mitigate the problem of non-transparency by assessing reliable soft information collected by loan officers through repeated contact, and (among others, Berger & Udell, 1998; Cole et al., 2004).

Finally, the empirical analysis was carried out by dividing the sample of companies based on the rating assigned to each of them by the Bank. Given that about half of the companies were awarded the R5 rating, which indicates the best quality of loans, it seems appropriate to divide the sample into two rating groups: R5 (best quality) and R1 + R4 (the rest of the sample). The table below shows the results of this analysis.

Table 11.Results of econometric regressions: high and low credit quality of the Bank

High credit quality				The low quality of the loan		
	CREDIT AVAIL.	SPREAD	GUARAN.	CREDIT AVAIL.	SPREAD	GUARAN.
	-	-		0.962***	-0.136***	-0.0933***
RATING	(.)	(.)	(•)	(-0,0303)	(-0,0243)	(-0,0323)
	0.0339***	-0.00499**	-0,00674	0.0343***	-0.0124***	-0.0312***
SCOPE						
	(-0,0129)	(-0,00197)	(-0,00468)	(-0,00631)	(-0,00285)	(-0,00552)
	1.080***	0.118**	-0,0214	1.082***	0.0320***	0.196***
EXCLU.						
	(-0,252)	(-0,0533)	(-0,11)	(-0,101)	(-0,0564)	(-0,0745)
	-0,297	-0.135**	0,00937	-0,078	0,00267	0,072
DISTAN.						
	(-0,201)	(-0,0611)	(-0,125)	(-0,0895)	(-0,0652)	(-0,0871)
	-0.909***	-0,0627	0,0525	-0.374***	0.138***	0,0161
ORG DI.						
	(-0,143)	(-0,0486)	(-0,0984)	(-0,0568)	(-0,0424)	(-0,0573)
	0.0393*	-0.0149***	-0,00786	0.0282**	-0.0216***	0,0121
CONT.						
	(-0,0233)	(-0,00515)	(-0,011)	(-0,0111)	(-0,00639)	(-0,00837)
	3.313***	2.140***	-2.101***	-1.306***	3.136***	-1.352***
CONST.	(-0,107)	(-0,0271)	(-0,0561)	(-0,0963)	(-0,0884)	(-0,117)
Method.	Logit	Linear	Logit	Logit	Linear	Logit
N. OBS.	10,607	10,316	10,316	13,762	11,923	11,923
Pseudo R2	0.0249		0.0005	0.1408		0.0056
Adj R2		0.021			0.058	
LR chi2	66.47		3.24	1523.54		59.05
F-stat		5.39			12.52	
Prob>chi2	0.0000		0.6623	0.0000		0.0000
Prob>F		0.0001			0.0000	

The table shows the regression results for the Bank with the lowest and highest rating. For each independent variable, the size, magnitude, and value of the beta coefficients. To indicate the significance level of variables, coefficients are reported with an asterisk: (*) indicates whether the significance level is greater than or equal to 90% but less than 95%; (**) indicates whether the significance level is greater than or equal to 95% but less than 99%; (* * *) if the significance level exceeds 99%. Standard errors are given in parentheses. Previous results are substantially confirmed. Moreover, a very interesting proof is that the variables are usually somewhat more significant for companies with lower credit ratings. This result shows that when Banks are faced with a deteriorating economic situation, as reflected in their balance sheet, relational banks provide greater support to these firms. In these circumstances, banks use soft information and rely more on private information when making lending decisions.The finding suggests that there is a trade-off between costs and benefits, i.e. All the benefits higher from such relationships come at a certain cost, leading to an analysis of the dark side of the RL - containment problem. While much of the economic literature emphasizes that the closer relationship between the Bank and the firm has a beneficial effect on the terms of the loan agreement, Rajan (1992) and Sharpe (1990) draw attention to the problem of detention, particularly with regard to SMEs. Once the client firm establishes an exclusive bilateral agreement with the Bank, the company can access the "information monopoly" acquired by the Bank.

III. EMPIRICAL RESEARCH RESULTS OF INFLUENCE OF BANKING COMPETITION AND

VENTURE CAPITALISTS ON ENTREPRENEURIAL ACTIVITY

3.1. Development of entrepreneurial activity in Azerbaijan

Intensive development of entrepreneurial activity in the manufacturing industry of the Republic urgently requires the development and implementation of regional and sectoral innovation programs for a long period. The specificity of individual sub-sectors, their diversification and restructuring requires the implementation of targeted investment and innovation projects and business plans.

The expansion of the network of innovative infrastructures and regional joint ventures will also contribute to the production of high-quality products of food and light industry, consumer goods of a wide range, the need for which is now satisfied by imports in the country.

Other conditions are necessary for the development of entrepreneurship. They include the stability of the state economic and social policy, preferential tax regime, developed infrastructure to support entrepreneurship, the existence of an effective system of intellectual property protection, the formation of flexible market mechanisms to increase business activity of entrepreneurs. Entrepreneurs should be able to freely enter the foreign market. It is necessary to create an accessible credit system for entrepreneurs, to provide the opportunity to purchase the necessary means of production, raw materials and components. In all this, entrepreneurs engaged in manufacturing industries, especially in the regions of the Republic, are still experiencing some difficulties. It seems that the elimination of the above difficulties and shortcomings will contribute to the intensive development of all types of business throughout the country. To do this, each entrepreneur with its high stimulation of labor, having absorbed the best of world experience, must continue to work productively to create effective production and management activities.

Carrying out fundamental reforms aimed at the development of entrepreneurship, creating a favorable environment for doing business in the center of the economic strategy defined by the national leader of the Azerbaijani people Heydar Aliyev, which is successfully followed by the President of the Republic of Azerbaijan Ilham Aliyev. The priority task of the present stage of socio-economic development of the country is to ensure long-term and balanced economic development of the country, which is successfully implemented within the framework of the adopted state programs. The private sector continues to play an important role in achieving success, as a result of the creation of an enabling environment for doing business as a result of targeted policies.

In recent years, the most important factors that have influenced the improvement of business conditions have been the reduction in the number of taxes and, to a large extent, the reduction of social insurance contributions. Transition of enterprises and organizations from progressive tax system to proportional and reduction of the tax rate in this type of tax from 35% to 22%, reduction of VAT to 18%, elimination of a number of types of taxes, reduction of the maximum tax rates on personal income from 55% to 35%, reduction of social insurance contributions from 40% to 22%, reduction of the total number of taxes from 15 to 9, exemption of entrepreneurs engaged in the production of agricultural products from all taxes until 2009, except for land tax, and a number of relevant measures in this direction have led to the creation of a favorable environment for doing business.

The current licensing system in the country has undergone radical changes, the number of individual activities subject to licensing has been reduced from 240 to 54, the license period has been extended from 2 years to 5. The introduction of a new licensing system gave impetus to the development of free competition, accelerated the process of improving the quality of products and services.

At the same time, export duties were eliminated in the country, and the maximum 15% level of import duties was determined. At the same time, the Tariff

Council of the Republic of Azerbaijan was established in order to develop a fair competitive environment in the domestic market, systematic regulation of tariffs of natural monopolies, as well as prices set directly by the state by the Decree of the President of the country and the decision of the Cabinet of Ministers of January 31, 2002.

Currently, the policy in this area is aimed at ensuring systematic state support for entrepreneurship and improving its efficiency. The implementation of consistent measures to implement this strategic line continues. A mechanism of state financial support has been established, which is the most important real source for meeting the financial needs of small and medium-sized entrepreneurs. Measures are being taken to create the first industrial town, business incubators, a network of business centers in the Republic in the field of forming the infrastructure of entrepreneurship. It should be noted that an export and Investment promotion Fund has been established in Azerbaijan, the main activity of which is aimed at increasing the country's export capacity and attracting foreign investment. Relations between the state and the entrepreneur are developing, serious steps have been taken to improve the system of state regulation of entrepreneurship. Effective mechanisms have been put in place to protect the rights of entrepreneurs, which have reduced the number of artificial obstacles. Regular events are held to strengthen Advisory and information support and development of business relations of entrepreneurship. Were analysed and taken note of the figures reflected in the published 2006 report, "Doing Business". In order to improve the relevant indicators, a draft decree of The President of the Republic of Azerbaijan "On some measures for the development of entrepreneurship in the Republic of Azerbaijan" was prepared and signed on 30 April 2007. The Decree took into account recommendations to reduce a number of procedures and regulations for starting a business. The results did not have to wait long. Promotion of Azerbaijan in the report "Doing Business-2009" from 96 to 33 position is a vivid reflection of the reforms to improve the conditions for doing business in our country. This growth rate was not in the history of the report, which is prepared by the world Bank and the International Finance Corporation (IFC) and covers 178 countries.

The order of the President of the Republic of Azerbaijan "On measures to ensure the organization of activities of business entities on the principle of "one window" number 2458 dated October 25, 2007 defined a single state registration body – the Ministry of Taxes, the application of which began on January 1, 2008.

After the transition to the "one window" system in Azerbaijan, the procedures for starting a business were reduced from 15 to 1, and the time spent on these procedures from 30 days to 3. The transition to this system was accompanied by a significant growth of legal entities wishing to register.

One of the main objectives of the Presidential Decree is to determine the areas for construction. In order to implement paragraph 1.2 of the presidential Decree, a working group of representatives of state structures was established and meetings were held. The working group developed and submitted for approval to the Cabinet of Ministers the draft "Procedures for issuing permits for the allocation of land for construction, construction (reconstruction and restoration), commissioning of objects and structures, the construction of which is completed." After the approval of the document, the number of procedures for issuing permits for the allocation of land for construction, construction works (reconstruction and restoration), commissioning of objects and structures, the construction of which is completed, should be reduced from 28 to 12.

In order to improve the conditions for doing business, work is continuing to improve the system of permits together with state bodies, protect the interests of investors, register property, pay taxes, conduct foreign trade, simplify the process of business suspension. Entrepreneurship as one of the specific forms of manifestation of social relations contributes to the material and spiritual potential of society, creates favorable conditions for the practical realization of the abilities and talents of each individual, leads to the unification of the nation, the preservation of the national spirit and national pride.

History itself has proved that entrepreneurship was and will be the main component of the economic system of the society that calls itself civilized. Therefore, the transition to market relations poses many challenges for our society, among which the development of entrepreneurship occupies an important place. The future of Azerbaijan belongs to entrepreneurship. Therefore, the unification of all forces to protect entrepreneurship can be the key to all positive achievements and changes in the economy, an integral part of which is the manufacturing industry, consisting of separate sub-sectors, with its own characteristics and level of development.

In a competitive environment in the activities of business structures should be qualitative changes.

In order for business structures to work effectively, it is necessary to constantly study all aspects of their activities in the context of the external economic environment. In this connection, business structures should assess, control and model their economic sustainability, thereby ensuring the effective functioning of modern entrepreneurship.

Ensuring sustainable development of modern entrepreneurship is the basis for the implementation of the strategy of socio-economic development of Azerbaijan. It is the basis of the innovative and productive nature of the economy. 10 years ago, Professor A. S. Pelikh rightly noted that the more economic entities have the opportunity to show their initiative and creativity, the smaller the gap between the potential and actual results of development. The development of innovative economic growth is impossible in the conditions of artificial limitation of creative creative element, freedom of economic initiative, necessary for this mobility of all production resources.

Entrepreneurship creates mechanisms of coordination, development strategy through the market and competition, communication between economic entities, ensures the development of new promising industries, promotes the widespread development of marketing activities, increase the openness of the national economy, the development of import and export of capital. The most important feature of entrepreneurship is the independence and independence of economic entities.

CONCLUSION

Indeed, during research it was found out that Azerbaijan is dominated by a mixed model of corporate governance, it increasingly tends to the insider model. It should be noted that public corporate governance has also developed relatively independently and specifically. In this regard, it is assumed that the hypothesis of the study was confirmed.

1. Exceptionally, banks charge higher interest rates and ask for more collateral, suggesting that banks typically use their information monopoly to block customers.

2. This section provides some additional evidence related to the retention problem that occurs when relationships between banks become too exclusive. The results of our empirical analysis confirm that the phenomenon of detention is present and is generally associated with the exclusivity of the relationship.

Since we used two methodologies to study the research questions of the thesis, the limitations were presented in both methodologies.

During the systematic review, part of the study quality assessment was ignored due to focus on recent studies, and some unpublished material was included.

3.The results of the empirical analysis show that in the conditions of the Italian credit market, lending of relations improves the access of SMEs to Finance and credit conditions. The duration, exclusivity, volume and frequency of contacts between banks and firms have a positive impact on the likelihood of SME loan approval, and the organizational distance has a negative impact on the relationship between the Bank and the firm and therefore on the availability of funds, indicating that proximity is also a significant feature of the relationship with close loans.

In General, empirical analysis shows that the relationship lending model offers significant benefits to SMEs in the form of improved access to capital and better credit conditions. The exception is the measurement of the exclusivity of the relationship between the company and the relational Bank. Moreover, variables are generally becoming more important for low-quality firms. This result implies that the frequency of lending relationships is positively related to the access of small companies to Finance, especially in the absence of historical relationships, poor financial reports and insufficient collateral. Consequently, banks use soft information and rely more on private information when making decisions about lending to information opaque borrowers.

The results are essentially confirmed using empirical case study methodology in the second part of the thesis. The duration increases the availability of credit and reduces security requirements, although its impact on the average loan spread is rather slow and insignificant. Exclusive and synergistic relationships create a higher degree of creditworthiness for SMEs, while firms with more exclusive relationships are likely to obtain information from their main banks through higher interest rates on loans and collateral requirements. Both the average spread and the frequency of collateral claims are negatively related to the number of banks, while borrowing from multiple lenders and synergies between products can mitigate the potential deterrence problem. Moreover, variables are generally becoming more important for low-quality firms. This result implies that the frequency of lending relationships is positively related to the access of small companies to Finance, especially in the absence of historical relationships, poor financial reports and insufficient collateral. Consequently, banks use soft information and rely more on private information when making decisions about lending to information opaque borrowers.

In 2015, the return on equity decreased by 0.11% or 10.6 % In the remaining periods, there is an increase in this indicator. The average return on capital during the analyzed period was 0.6. At the same time, the average return on equity growth was 0.205 or 85.2%. The method of consolidation of intervals and moving average reflects the growth of return on equity from 30% to 90%. The straight-line method shows the General trend of growth of return on capital by an average of 30% annually.

During the analyzed period of 2015-2017, there was an increase in the ratio of highly liquid assets to attracted funds, except for 2015 and 2016 (in 2015, the ratio of highly liquid assets to attracted funds compared to the previous period decreased by 0.1 or 48.1%, and in 2016 the ratio of highly liquid assets to attracted funds compared to the previous period decreased by 0.17 or 43.4%.). On average, the ratio of highly liquid assets to attracted funds during the analyzed period was 0.2. At the same time, the average increase in the ratio of highly liquid assets and borrowed funds amounted to 0.007 or 3.1%. As the method of consolidation of intervals shows, this indicator increases from 20% to 30% on average over three years. According to the equation, the direct ratio of highly liquid assets to borrowed funds increases by an average of 1.7% annually. Throughout the analyzed period, the legal capacity both in comparison with the basic and in comparison with the previous periods is reduced, except for 2015, in which compared with 2016. legal capacity increased by 0.29 or 861%. The average capacity for the period 2002-2015 was 0.4. At the same time, the average increase in legal capacity decreased by -0.093 or -17.3%. According to calculations, the legal capacity is reduced on average by three years from 50% to 20%. The formula of the equation of a straight line shows the General tendency of decrease in capacity annually on average by 10%.

There is a moderate relationship between profitability and efficiency, and a close inverse relationship between profitability and the ratio of highly liquid assets to borrowed funds.

Multiple R - multiple correlation coefficient is equal to 0.853, since the value is in the range of 0.7-0.9, there is a close relationship between profitability, capacity and the ratio of highly liquid assets and attracted funds. R2 - multiple coefficient of determination is equal to 0.908, shows that the change in profit depends on the change in legal capacity by the ratio of highly liquid assets and attracted funds by 90.8% , the influence of unaccounted factors is 9.1%.

Based on calculations, it was obtained the regression equation =0,877-1,463x1+1,112x2. If you increase the capacity by 1, the profitability is reduced to 1,463; the increase in the ratio of highly liquid assets and borrowed funds 1, the profitability is increased by 1,112 .

When calculating the coefficients of elasticity and coefficients, the following results were obtained: with an increase in legal capacity by 1%, profitability decreases by 146.3%; and with an increase in the ratio of highly liquid assets and attracted funds by 1% - by 111.2%; the ratio of highly liquid assets and attracted funds has the greatest impact on the dynamics of profitability change.

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Annex 1.

Consolidated statement of changes in capital for the year ended 31 December 2016 (Thousands of Azerbaijani manats)

Share capital retained earnings total capital

31 December 2015	46.811 - -	21.108 38 38	67.919 38 38
31 December 2016	46.811 - -	21.146 - (3.121)	67.957 - (3.12_
31 December 2017	46.811 - -	- 93.121) 18.025	(3.121) - 64.836

Annex 2.

Consolidated statement of financial position as at 31 December 2016. (Thousands of Azerbaijani manats)

	2016	2017
Assets		
	219.972	121.648
Cash and cash equivalents	30.755	82.389
Funds in credit institutions	185.126	251.752
Loan to customers	2.647	60
Investment securities available for sale		1.801
Current income tax assets	-	10.211
Property and equipment	7.260	5.817
Intangible asset	7.9336.362	3.969
Other assets	460.055	477.647
Liabilities		
	20.023	20.014
	51.966	123.202
Amounts due to CBAR	314.794	212.860
Funds of credit institutions	-	48.759
Customer accounts	3.077	1.190
Debt securities issued	5.359	3.665
Deferred income tax liabilities	395.219	409.690
Other obligation		
Total commitment		
Capital		
Уставный капитал	46.811	46.811
Retained earnings	18.025	21.146
Aggregate capital	64.836	67.957
Total liabilities and equity	460.055	477.647

Signed and authorized release on behalf of the Board of The Bank