

**Ministry of Education Republic of Azerbaijan**

**"The rule of the capital market on the economic growth in Azerbaijan"**

**Shukur Shukurlu**

**Supervisor: Faik Nuriyev**

UNEC SABAH

[**Azerbaijan State University of Economics**](https://www.facebook.com/uneceduaz/)



**MAY 2019**

**CONTENTS**

[INTRODUCTOON 3](#_Toc8158055)

[CHAPTER I. THE FINANCIAL MARKET AND ITS COMPONENTS 6](#_Toc8158056)

[1.1. The explain of financial markets and their parts. 6](#_Toc8158057)

[1.2. The main features of the capital markets in Azerbaijan 20](#_Toc8158058)

[CHATER II. THE MAIN MACROECONOMIC INDICATORS AND DEVELOPMENT OF CAPITAL MARKET IN AZERBAIJAN 33](#_Toc8158059)

[2.1. The main macroeconomic indicators in Azerbaijan 33](#_Toc8158060)

[2.2. The formation of the capital market in Azerbijan and its development directions 39](#_Toc8158061)

[2.3. The perspective development trends of capital markets on economic growth of Azerbaijan 43](#_Toc8158062)

[CHAPTER III. THE PROBLEMS OF CAPITAL MARKET IN AZERBAIJAN AND ITS IMPROVEMENT 49](#_Toc8158063)

[3.1. The available problems in development of capital market of the Azerbaijan. 49](#_Toc8158064)

[3.2. The financial services in Azerbaijan as the strategic road map. 50](#_Toc8158065)

[3.3. The development perspectives of the capital market in the Azerbaijan. 55](#_Toc8158066)

[CONCLUSION 65](#_Toc8158067)

[REFERENCES 68](#_Toc8158068)

# INTRODUCTOON

**The relevance of the research topic**. In the context of modern globalization, the development of the world economy has been observed with a number of events and inclinations. First, after the collapse of the world socialist system and the USSR, most of the countries have joined the world economic relations. Secondly, liberalization of foreign economic relations covers many countries. Third, the broad introduction of uniform standards. Common criteria for macroeconomic policy are emerging. The characteristics characterizing the globalization of the entire world economy are reflected at the level of separate economic associations.

One of the priorities of Azerbaijan's foreign economic policy strategy is its joining modern world economy processes. The deepening and deepening of integration processes are also due to the transition to a market economy of dozens of countries that develop on a totalitarian economy. This resulted in many new structural changes in transition economies: mass privatization of private property, liberalization of foreign trade and financial services, abolition of administrative methods of management.

The relevance of the issue is explained by the fact that in today's crisis, foreign investment banks need more. Commercial banks, along with their own funds, should try to increase the funds involved. Today, 23 of the commercial banks operating in Azerbaijan have foreign capital participation. The share of foreign capital in 7 (seven) of them is 50-100%, and in 14 (fourteen) - up to 50%. There are 2 (two) foreign branches in the country, representing 5 (five) foreign banks. The ongoing crisis in the world economy and the unstable economy as a whole keep the interest of foreign banks and investors on the financial and banking market of developing countries. As it is known, the Azerbaijani economy continues its stable growth rate under such crisis conditions.

**The purpose of the research** is to provide an internationally comparative and country-based assessment of the current financial stability of the banking sector in Azerbaijan and MB countries.

**The object of the study** is to carry out a thorough analysis of the bank interest rates, their types, deposit interest issues in the country's banking sector, and to optimize them by taking into account the interest of foreign investors. Normative documents of the Central Bank of the Republic of Azerbaijan, reports of commercial banks, as well as monthly and annual reports of the Banks Association of the Republic of Azerbaijan.

The devaluation (depreciation) of the national currency in manat in 2015 has made the new approach to the country's banking sector inevitable. The key is to achieve consolidated consolidation in the banking system and gradual elimination of vulnerable banks.

It should be noted that commercial banks of Azerbaijan operate in foreign countries as well. The International Bank of Azerbaijan (IBA) is a good example of this. The bank has offices in Azerbaijan and Georgia, Saint Petersburg, Yekaterinburg, London, Frankfurt, New York, Dubai and Luxemburg.

**In the research, the scientific innovation is to analyze** the current situation in the banking sector, to learn banking relationships and to make recommendations for improving their application in banking legislation.

Changes in the banking system in the context of globalization;

* study rates, currency exchange rates, and commodity prices to be comparable;
* Importance of production and transparency of the transaction, the role of information technology for foreign investment banks;
* Increasing the level of capitalization, fighting for customer, expectation of risk rates, and other factors should play a key role in the activity of foreign-owned banks.

Innovations on financial services should be continued, inter-bank competition should be strengthened, electronic banking should be improved in foreign capital banks. Work to further increase the number of international rating banks should be continued.

**The practical significance of the research** is that the proposals proposed in the master's thesis are studied by the Central Bank and commercial banks, which can lead to the strengthening of inter-bank competition in the country by improving the participation of foreign investors in the country's banking sector and strengthening the banks' relationships with the real sector.

**Theoretical and methodological basis of the** **research** work is the theory of regional economic integration, the results of research by local and foreign economist scientists, international treaties and national legislation.

Existing economic literature, internet and periodicals related to the subject were used as reports from international organizations, including CIS Interstate Statistical Committee, as well as reports from the State Statistics Committee and the Ministry of Economic Development.

# CHAPTER I. THE FINANCIAL MARKET AND ITS COMPONENTS

# 1.1. The explain of financial markets and their parts.

The issue of uninterrupted involvement of financial resources in the country's economy during transition to market economy is of great importance. Under such conditions the activity and necessity of the financial markets are revealed. The financial market is understood to mean the finances in the form of commodities. The main purpose of the formation of financial markets is to determine the correct flow of financial flows and to ensure the transfer of financial resources to countries in need or demand. Hence, by implementing the function of international financial markets, it implements the principle of directing financial resources to countries with higher demand.

The main characteristic of the international financial and credit markets, which is the most important feature, is an uneven distribution of financial resources. The high demand for financial resources in some countries, and the high demand for such financial resources has necessitated the formation of financial and credit markets. The main mechanism of functioning of the financial and credit markets is to collect funds from countries that are just rich in financial resources and to give them a percentage of countries with strong financial resources (N.R.Quliyev, M.M.Mahmudov, 2011).

The financial markets mean markets and money markets, which are determined by the balance of money and balance of interest, as a result of the mutual relationship between money supply and demand. Financial markets are also markets where creditors have their financial resources available to borrowers. Based on the emergence of financial markets, it is precisely the division of financial resources into unequal conditions. An uneven distribution of financial resources is a financial flaw in some enterprises, and a financial shortage. Exact financial markets are aimed at eliminating this imbalance. Hence, it is the process of flowing financial resources to businesses that need financial resources from enterprises with large financial resources.

The financial market is divided into two basic rings - capital and money markets. Money market means the market of short-term credit transactions. This market typically includes the process of loans acquired up to one year. The money market is also divided into three major parts. Those parts may include (J.Richards., 2014:):

 Accounting market;

 Interbank market;

 Currency market.

The accounting markets are, in general, the markets for commercial and treasury bills, as well as other types of securities purchased and sold.

Interbank market means that the market of debt capital is meant to allow free crediting of credit institutions in these markets for a certain period of time and the banks are placed in the form of interbank deposits.

Foreign exchange markets mean markets are traded on the basis of a fixed exchange rate based on the current demand and supply interrelation.

Another type of financial market is the capital market. The capital market itself is divided into two main types. These species are organized from the following (P.Salin., 15):

 Securities market;

 Long-term and short-term bank loans market.

The securities market, based on the capital market, is a form of a financial market where securities, bonds, bills are bought and sold.

In long-term and short-term bank lending markets, it is understood that the banking services covering the given period are, in particular, the markets where loans are bought and sold. So, each venture can take a loan for the period it spends on it through these markets.

For a more accurate understanding of the structure of the financial markets described above, let's look at the following scheme (F.Ş.Kaşiyeva., 2011):

**Scheme 1.1. Structure of financial markets**

**Source: F.Ş.Kaşiyeva. “Pul, kredit, banklar” Bakı-2011**

As can be seen in Scheme 1.1, financial markets are divided into two main groups: Money Market and Capital Markets. From the scheme analysis it is clear. these rings are also divided into different spheres. Thus, the monetary market covers three major spheres. An example of these areas is the accounting market, the interbank market and the currency markets. The foreign exchange market is considered to be the markets where international bonds are bought and sold. Interbank markets, as it is known, carries out the movement of financial resources between the banks. In many cases, banks also act as intermediaries of interbank markets. Another type of financial markets is the capital market. The capital market is also divided into two main areas. These spheres include the securities market and short-term and long-term loans markets. Securities market is considered to be markets where securities are bought and sold depending on the level of their demand. The short-term and long-term loans market is understood as the activity of the markets that provide loans in the short-term and long-term. In other words, let's say. Financial markets are one of the main characteristics of capitalist efficiency.

As we have already mentioned, financial markets are formed only by the uneven distribution of financial resources, and provides financial resources to enterprises where financial resources are scarce. Along with the types of financial markets mentioned above, there are also some types of national and international financial markets. National financial markets are understood by the markets operating within the country, and only such businesses are functioning in local markets.

International financial markets are the markets that govern the uneven distribution of money between countries beyond the borders of the world. As a subject of this type of market, there are separate countries, as well as enterprises from different countries, as well as state institutions. The goal is the same: to eliminate the imbalance of financial resources, to provide financial flows to financial institutions and countries with financial resources and countries with financial resources.

In modern economic conditions, international financial and credit markets perform a number of specific functions. These functions can be summarized as follows (Антонов Н.Г. və Пессель М.А., 2001):

* Function of ensuring financial resources from creditor to debtor. In practice this function reflects itself as a temporary free-of-charge financial asset, as well as the economic relationships between the acquisition of securities and the allocation of cash.
* The function of determining the real market value of tangible assets sold on the financial markets as a result of the direct contact of the seller and the buyer;
* The most effective way for investors to place additional cash. This function of the international financial market makes it possible to say that in the process of attracting financial resources, there is no longer a suitable country, but a worldwide choice.

As mentioned above, international financial markets are divided into capital and money markets. At the same time, capital markets are also divided into securities and long-term and short-term credit markets. The securities market is divided into two different groups, both spot and term markets.

Spot Markets. markets that are instantly converted into securities are understood. Such markets can be dramatically changed as the purchase and sale is an emergency.

In term markets, financial transactions are carried out on a contractual basis

The securities market is also divided into several groups. These groups can be clearly seen through the following scheme (<http://kayzen.az/blog/B%C4%B0M/10863/beyn%C9%99lxalq-maliyy%C9%99-bazarlar%C4%B1.html> - 2019):

**Scheme 1.2. The types of Securities market**

**Source: http://kayzen.az/blog/B%C4%B0M/10863/beyn%C9%99count-maliyy%C9%99-bazarlar%C4%B1.html. International financial markets.**

The Forward market means that the securities market is intended to be a market form where the parties to the agreement, as well as the buyers or sellers, agree to send securities in their future condition at any time on the condition that they are terminated.

As for the futures market, this type of securities market is assumed to carry out trading transactions in the future in which future financial and other securities sold by the securities market are actually sold.

Option markets are a structured element of the securities market where contracts for purchase and sale of financial instruments at a predetermined price are purchased and sold. Here is an understanding of the implementation price of the option. The option price of the option is the sale of securities and the price determined beforehand.

Swap markets mean the securities market, which allows the contractual participants to carry out exchange transactions on the basis of two or more financial liabilities.

The essence of financial and credit markets is measured by the functions they perform. The main functions of the financial and credit markets are as follows (Həsənov Ə., 2005: s.25):

* Ensure that financial resources are flowing from one proprietor, that is, to a lender, ie to a debtor or borrower. Fulfillment of this function by financial-credit markets is related to the process of purchasing or trading of securities in the market or the efficient allocation of financial resources. In modern economic conditions most of the financial resources are distributed through financial and credit markets.
* Financial and credit markets provide the determination of the real market prices of the assets to be sold at the seller's direct contact with the buyer. It also determines the maturity and repayment levels of assets.
* Financial and credit markets provide investors with the most effective place, opportunity and conditions for the transfer and placement of their financial resources. The financial and credit market creates the opportunity to make such choices not only in one country but throughout the world. This, in turn, has significantly expanded opportunities for businesses and organizations to find the most cost-effective source of finance.
* Financial and credit markets will minimize the level of transfer costs, including research and information costs.

The first vendors and final producers of financial resources are divided into three main groups. These groups can be applied to (N.R.Quliyev, və M.M.Mahmudov., 2011):

* Farm subjects, including enterprises and organizations
* State
* Individuals

The process of purchase and sale of financial resources is carried out in two basic ways. These include:

* Sending the seller to the buyer without any financial intermediary;
* Delivery from seller to buyer with one or more mediators.

Financial markets are also classified by the sign of financial resources. The main types of financial markets can be attributed to this fact (Jeffrey M.Chwieroth., 2011):

* Credit and debt markets;
* Deri markets and securities market;
* Factoring and leasing service markets;
* Transparency transaction markets that are part of their money component;
* Insurance markets

Financial markets are also classified as financially based. For this reason, financial markets are divided into two main groups:

* Domestic or national financial markets. Financial markets in these markets are within the country's limits and are based on internal sources.
* World financial markets. Financial resources of such markets are formed on the basis of financial resources of residents of different countries.

Financial markets are also classified, depending on the level of development. Depending on the level of development, the financial markets are divided into the following two major parts:

* Advanced financial markets;
* Emerging financial markets. These markets are considered to be not fully formed, but are markets that are shaping.

Each financial market has its own participants and subjects. The following are examples of the following participants (Jeffrey M.Chwieroth., 2011)::

* Investors;
* Depositors;
* Borrowers.

Investors are understood to be individuals or entities, enterprises and organizations who are more than just current needs of financial resources and who want to invest in other areas.

Deposits say, for some reason, that they have reduced their personal consumption, and instead of the individuals involved in the harvest.

Borrowers are economic entities, including enterprises and organizations, as well as state authorities, who suffer from financial resources shortage and have no financial resources at their own expense.

What we have mentioned above is the key players in the financial markets. Alongside financial market participants, there are also intermediaries involved in the subject. The key subjects of the financial markets mentioned above are:

* + Makers;
  + dealers;
  + Specialized financial and credit institutions.

Makers mean individuals or legal entities acting on the basis of their respective assignments by investors or borrowers, and receiving commission for their services. Makers are intermediaries who find investors where the funds are to be placed and borrowers are financially funded by investors.

Speaking of languages ​​is understood as subjects who are directly involved in dealings with mediators, borrowers, and investors.

The specialized finance and credit institutions are generally understood as the sum of the debtors, investors, and financial companies, investment banks, insurance companies and other major financial companies.

The functioning of the financial infrastructure is developing day by day, and on this basis, noticeable improvements in the development of financial markets. Subjects of financial markets mediate economic entities operating on various forms of ownership and are closely involved in the completion of financial resources turnover. Subjects of financial markets also contribute to the strengthening of commercial successes, based on its development and improvement.

The main purpose of the creation of financial and credit markets is to eliminate the uneven distribution between financial resources and financial resources, as well as from enterprises and organizations, to flow of countries with limited financial resources, as well as to institutions and organizations [2, p. 99]. International finance and credit markets are promoting the role of mediator in this regard. However, besides, international financial and credit institutions are the subjects of the international financial and credit markets. In countries where finances are required due to the financial resources allocated by such international financial and credit organizations, production process can restore the previous function.

In the structure of international financial institutions and the formation of these organizations' investment, there are financial resources of several countries, and several states are members of such financial institutions. At the same time, financial resources of such international financial institutions are eligible to benefit from several countries. In general, each of the international financial institutions has been established and operated since the Second World War. The main reason for this was the elimination of the unstable economic situation that emerged during the post-war era. The first emerging international financial institutions are the International Monetary Fund and the World Bank, which is named Bretton Woods Twins. Therefore, these two international financial institutions are called Bretton Woods Twins, both international financial institutions have been set up as regulators of the Bretton Woods currency system based on the Bretton Woods conference (Н.Шмелев və В.Шенаев., 2006: p.102).

As opposed to the operating mechanism of existing international financial institutions, the types and activities of their services are also different. But the goal is the same. Each international financial and credit institution gives credit to those countries that really have a high demand for financial resources. At the same time, the economic situation in these countries should be stable over the long term, and the mechanism of using loans should be analyzed in a comprehensive manner.

Depending on the areas of activity, international financial institutions are divided into several groups. It would be appropriate to apply the following to those groups (<https://www.cbar.az/standalone/the-central-bank-and-economy-2015-1/>-2018):

* European Coal-Steel Union;
* European Monetary Fund;
* European Investment Bank;
* European Currency Cooperation Fund;
* European Agricultural Guarantee and Return Fund.

International financial and credit organizations, in their activities, perform the following key responsibilities (Süleymanov E., 2003):

Ensuring regulation of financial and currency-credit relations;

* Ensure the development of policy in financial and currency-credit areas;
* Collection of financial and currency credit information and publishing of research works on solving actual problems in these areas.

The main common objectives of both international financial institutions and regional financial-credit organizations are as follows (Н.Шмелев., 2011: p. 446):

* eliminating the problems that will arise in the process of buying and selling goods at the international level and creating conditions for international development;
* Improving the economic status of developing countries and improving the rate of economic growth among the countries of the world;
* Ensuring sustainable development of free trade, cooperation and economic cohesion, as well as promoting close economic and trade unity.

International financial-credit organizations are classified according to various criteria. Those traits include the following:

* by legal status;
* By character.

According to the legal status, international financial and credit organizations are divided into two groups. These belong to the same groups [28, p. 468]:

* international financial and credit organizations, which are legally independent;
* International financial and credit institutions that are not legally independent.

International financial-credit organizations that are fully legally independent include the following (<http://lybs.ru/index-10167.htm> - 2018):

* European Investment Bank;
* Africa, Asia and Islamic Development Bank;
* Caribbean Development Bank;
* European Parliament's Refugee Fund;
* European Bank for Reconstruction and Development;
* World Bank;
* International Monetary Fund;
* International Development Association;
* Multilateral Investment Guarantee Agency;
* The Arab Money Fund;
* Central American Economic Integration Bank.

The main list of non-independent financial institutions includes three international financial-credit organizations. The following organizations can be referred to:

* European Coal-Steel Union
* European Union Development Fund
* United Nations Development Program.

International financial institutions are divided into two major groups according to their nature:

* Fund-based financial institutions;
* Bank-owned financial institutions.

The following international organizations are funded by international financial institutions:

* International Monetary Fund;
* European Union Development Fund;
* International Development Association;
* United Nations Development Program.
* The Arab Money Fund;
* European Investment Fund;
* Asian Development Fund.

It is expedient to refer bank-specific financial institutions to the following organizations [29, p.135]:

*  European Coal-Steel Union;
*  European Investment Bank;
*  European Parliament's Refugee Fund;
*  Asian, African and Islamic Development Banks;
*  World Bank;
*  Caribbean Development Bank;
*  International Financial Institutions;
*  European Bank for Reconstruction and Development.

International finance and credit organizations have the authority to issue medium-term and short-term foreign currency loans as well as long-term investment loans. The main purpose of issuing medium-term and short-term foreign currency loans is to increase the economic growth of member countries and to eliminate temporary difficulties arising in the balance sheet. Long-term investment loans are used to finance investment projects.

As mentioned above, international financial and credit organizations are united by several countries, and a few countries also make loans. Countries that are members of international financial-credit organizations re-share in order to increase their capital. At the same time, the bank also contributes to attracting credit resources in investment markets.

Thus, international credit institutions and global financial institutions have been set up to eliminate the uneven distribution of financial resources between countries around the world in the post-World War II era where the uneven distribution of financial resources among the world countries has accelerated. The main purpose of the establishment of international credit organizations was the ability to apply their financial resources to their respective international financial institutions by addressing these international credit organizations in countries with limited financial resources. At the same time, international financial institutions are primarily established to determine the effective allocation of unequal financial resources among the countries. Thus, international financial institutions carry out redistribution of financial resources from countries in which they have rich institutional capacities and countries where those resources are scarce.

As a result of our research we have found out. International Financial Institutions are divided into independent and non-independent international financial institutions for legal form. Examples of internationally-financed international financial institutions are those that are fully independent of the European Investment Bank, the Caribbean Development Bank, the World Bank, the International Monetary Fund, and the Arab Monetary Fund, and have no commitments to any organization.

International financial institutions, which are legally non-independent, are examples of the European Coal-Steel Union, European Union Development Fund, United Nations Development Program and others. Each of these international financial institutions, which is legally non-independent, operates within any financial institution.

# 1.2. The main features of the capital markets in Azerbaijan

People spend a fraction of their earnings on the costs of their needs, and the other part is put on the market to earn extra income.

These markets are called financial markets. Financial markets can be classified as follows:

1. Depending on the duration of stay in demanding funds

a) Cash Money Markets; short-term, mainly markets with 1 year maturity,

b) Capital Markets; long-term and sustainable markets. The major components of the organized market segment of the Cash Money Markets are "Commercial Banks", and the main shareholder of the organized market segment of capital markets is the "Securities Exchange".

2. The absence of an official market

1) Organized financial markets

2) Free financial markets

Examples of organized financial markets in cash markets include:

- Commercial banks,

Examples of the corporate finance market in capital markets:

- Securities market

Stockholders in financial markets keep these funds in their hands for a certain amount of time, value, and document. These documents; Securities, and equity markets are used as a "SharePoint" and "Deposer".

The capital market is a long-term funding source. Equity markets provide long-term savings and investments to long-term projects, plans and ideas of state and companies, and promote productive use of funds. Equities and bonds are used as equity instruments in the capital market.

The Bank is a financial and credit organization that collects deposits and other reimbursable funds from individuals and legal entities, lends itself on its own behalf and at its own expense, and carries out settlement and cash settlement transactions on behalf of clients. Status is a legal entity.

Almost all of them are financial sources.

However, one of the most pressing issues for everyone, including Azerbaijani entrepreneurs, is the ability to access convenient and inexpensive funds. Because their bank loans, which they mostly face, are not successful in both interest and paperwork. The terms of the bank are hard to obtain, and interest rates are high.

Under such circumstances, the securities market can be used as alternative funding source. Securities commonly used for financing are bonds and bonds.

Capital Markets Financing. Shares - Stocks give you the opportunity to access financial resources on favorable terms by sharing the risks and profits of your business with investors. Business entities can sell new or existing shares to existing investors to attract new funds. At this time, the company does not have to pay back the investor, but investors instead of the dividend form part of the company's profits. Share issue is considered to be a step towards attracting long-term funding and cooperation with investors continues throughout the business.

Bonds - Bonds give you the right to receive financial assets at fixed interest rates and interest rates, and repay the principal amount at the end of the period and pay half a year or year. T-bidders do not have any right to participate in the management of the company. Bonds generally have a longer duration than bank loans, and during this period, the issuer pays interest bearers (coupon) to the holders at specified dates. Different financial institutions (such as banks, insurance companies, etc.) and broad public, as buyers of bonds.

Nevertheless, entrepreneurs do not prefer to invest money by issuing securities (stocks and bonds) which are more advantageous than bank loans. Currently, only 19 private companies are traded on the Baku Stock Exchange. Which may, with limited liability societies, be open and closed-type joint-stock societies. In addition, while the existing business loans range from 16 to 17 percent, the average bond yields 12 percent. In the table below, it is possible to see how attractive the bonds are from the bank loans.

Today, in Azerbaijan, people are considering a number of factors in the selection of banks before placing their funds on deposit. These factors can be summarized as follows (К.Р. Тагирбекова. М., Мир., 2004):

1. Reliability and firmness of the Bank.

2. Interest rate policy on attracted funds.

3. There is not a wide range of transactions offered by the Bank.

Today, the development of banking operations in our country has not reached the desired level, the quality and quantity of banking services are not yet up to international standards, and most banks are satisfied with building their business on loans, deposits and cash transactions. For comparison, today banks in developed countries offer about 300 banking services, operations and products to their customers.

Credit organizations, as well as banks, independently define the interest rates on deposits and commission fees. Nevertheless, certain factors influence commercial banks' interest rates on savings transactions. One of such factors is the classic instruments of monetary policy (in particular, the definition of mandatory reserve norms). From this point of view, the CBA should differentiate savings in order to attract more funds to the physical persons and the reserve requirements for term deposits must be eliminated.

As a result of such measures, the commercial banks' maneuvering capacities will increase in attracting term funds. It should be noted that at the beginning of the 90s, such differentiation of obligations was carried out in the local banking practice. That is, banks have been exempted from reserve requirements on term liabilities. However, at that time commercial banks were permitted to commit certain unlawful actions (most of the liabilities were divested from reserve requirements under the term commitments) and the National Bank's control was insufficient. During the differentiation of savings, accounting for savings accounts on separate accounts of the bank ensured the elimination of this problem.

It should be differentiated from the population both in manat and in freely convertible currency in terms of maturity and term. It should be noted that the mandatory reserve rate for both manat and freely convertible currencies from natural persons was at the level of 10 percent at the end of 1999. For comparison, this rate was 0.15 percent in the UK, 3-10 percent in the United States, 1.5-2.0 percent in Germany, 0.5-1.0 percent in France, 0.05-1.5 percent in Japan , Canada, even at 0 percent. At present the Central Bank reserves the required reserve rate in national currency at 2% on 01 May 2011 and 3% in foreign currency as of July 1, 2011. In contemporary conditions, the process of attracting the population's funds for local commercial banks on the one hand is not easy, on the other hand, there are some differences between the demand of physical persons in banking operations and the possibilities for repayment of this demand in Azerbaijan today.

This can be attributed primarily to the fact that the population is still in high demand for all banks, and banks have no confidence in their clients. Unsatisfactory mutual confidence strengthens the disintegration trend between the bank and the client. Finally, it loses its interest in reducing the interest of banks to individuals, and, on the other hand, the majority of the population still retaining their savings in the form of foreign currency and repayment.

We believe that the implementation of the deposit insurance system plays an important role in solving this problem. Thus, guaranteeing the repayment of funds placed by depositors in the bank is one of the main forms of strengthening the stability of the banking system and strengthening the deposit base of banks.

In recent years, the official deposit insurance system has been organized in most countries. At present, more than 40 countries are implementing the official deposit insurance project. In countries that have implemented this system, rapid population savings have been achieved in a short time.

Note that the Law of the Republic of Azerbaijan on Savings Deposit Insurance in Azerbaijan was adopted. This law was signed on December 29, 2006 by the President of the Republic and published on February 11, 2007 and came into force. The purpose of creating a deposit insurance system is to prevent the risk of losing money from individuals when the banks and local branches of foreign banks lose their ability to repay, to ensure the stability and development of the financial and banking system. With this law, the Deposit Insurance Fund has been established for deposit insurance purposes. Fund's insurance reserves are formed by the following sources (Учебник. М., 2006):

- membership fees of participant banks;

Calendar fees of participant banks;

- additional fees of participant banks;

- funds attracted by the Fund's long-term debt commitments;

- stamp money paid by participant banks;

- income generated by the management of the Fund, net of current expenses;

- Grants, donations or other sources not prohibited by law;

- Debt funds received in the amount not sufficient for payment of compensation;

- Funds received from the bank or from the local branch of the foreign bank with a right of demand under regression procedure.

Participating banks pay 10 (ten) thousand manats (AZN) per one-day membership fee at the Fund's Lending Account within 10 calendar days after their entry into the Fund Register. In addition, banks pay a calendar fee in the background. Calendar fees are paid from the day the bank is included in the register of participating banks until the date of cancellation of the banking license. The right of the participant bank to engage in deposits is suspended by the Central Bank until the bank fully executes its obligations under the Savings Deposit. The first reporting period for the calculation of calendar fees begins on the first day of the quarter, when the bank is included in the register of Participating Banks of the Fund and continues until the last day of that quarter. Calendar fees are paid at the rate of 0.15% of the amount of savings in the first year, and 0.125% in subsequent years, starting from the date of entry of the Participant Banks into the Fund Register. The Fund compensates for insured deposits in one participant bank at the following amounts (cash paid to protected depositors when an insurance event occurs):

The Fund shall pay compensation at the rate of 100% of the insured deposit, but not more than thirty (thirty) minimum wages in each participant bank. Repayments on deposits in the central currency are paid in manat, while deposits in foreign currency are repaid in foreign currency. When deposits are not in US dollars or Euro, the compensation is calculated and paid on the basis of the official exchange rate determined by the Central Bank on the day of the insurance event with one of these currencies.

The significance of determining their profitability in connection with the formation and application of new types of bank products is of great importance today. Various types of banking operations can be utilized for profitability, taking into account the characteristics of each transaction (Жуков Е.Ф., p.25)

In today's commercial banks of the Republic of Azerbaijan, offering such new banking transactions and services to their customers would allow their profits to grow. As a result, local banks will have the opportunity to increase their revenues, not just in international practice, but at the expense of operating income.

The feature of profitability in various markets of banking services is characterized as the price of banking services. The cost of banking services is defined as TransAsia expenses after the consumer is provided with the services. These payments are calculated as expense to carry out transactions.

Banks, which manage the profitability of services in different markets and segments, are actively pursuing a competitive price competition with banks that attract customers' attention to these services and offer similar services. Additionally, the pricing factor of the services is the key element of the Bank's service reputation, which creates conditions for increased customer loyalty and, ultimately, increased intangible assets of the bank.

Traditionally, it was considered that customers should use the services of a large number of bank branches. Distributed branch network, operating conditions in operating rooms, working mode and so on. has long been regarded as bank attributes.

In modern times, the role of banks, operations and services are measured by the ability of banks to offer their products at a time when customers need it.

The banking sector, being a part of the financial system, whose activity is related to market conditions of management, is inevitably at risk. Having information on the possible risk of the banking sector, the authorities can develop preventive measures aimed at creating a competitive banking system that is capable of efficient allocation of credit resources and possesses a high level of financial stability that would exclude the possibility of a systemic banking crisis.

Sustainability of the development and functioning of the banking system is now becoming one of its main characteristics. Only a stable banking system in the long term can fulfill its tasks, on the one hand, and on the other, serve as a certain guarantee of the overall stability of the economy. Crisis phenomena in the world and domestic financial markets confirmed the need to improve the risk management system in the banking sector. The urgency of developing institutions for monitoring banking risks is due to the fact that various spheres of the economy, such as the banking system and the real sector, interact with each other. This sometimes leads to the spread of negative phenomena from other spheres to the banking system. Therefore, it is important that approaches to monitoring and forecasting risks be coordinated with consideration of external factors and aimed at reducing the likelihood of negative consequences

Increasing the effectiveness of supervision over the banking system highlights the task of finding new methods for determining the reliability of credit institutions. At the same time, it is important for supervisors to have an idea not only of the current financial situation of the bank, but also the likelihood of its sustainable preservation in the long term. Therefore, forecasting its future financial situation using data that can be obtained in the process of functioning of a centralized sb system pa, processing and analysis. As the basis for the formation of a system for monitoring and forecasting banking risks, the current network of credit history bureaus can be used. However, in practice, it was not possible to form a single system of credit bureaus. Thus, the study of the problems of the stability of the banking system and the creation of a system for monitoring and forecasting banking risks is currently very relevant.

With a view to sustainable development of the banking sector, the state should contribute to the formation of regulatory infrastructure and supervision over the activities of banks. Therefore, the Government of the Azerbaijann Republic and the Central Bank of the Azerbaijann Republic also pay great attention to ensuring the stability of the banking system, which manifests itself in determining the main goals and objectives of the "Strategies for the Development of the Banking Sector of the Azerbaijann Republic (Шумпетер Й. , 2002: p.455)".

1. Within the framework of the "Strategy for the Development of the Banking Sector of the Azerbaijann Republic for the Period 2001-2005", adopted in December 2001, measures were developed that helped to consolidate the positive trends in the dynamics of the formation and development of the banking system, Azerbaijann Republic.

2. The Azerbaijann banking sector development strategy for the period to 2008 was adopted by the Government of the Azerbaijann Republic in conjunction with the Bank of Azerbaijan in 2005. Its main objectives were to increase the competitiveness of Azerbaijann credit institutions, improve banking regulation and supervision, strengthen the protection of interests of creditors and depositors, ensuring the stability of the banking sector.

3. The main objective of the development of the banking sector of the Azerbaijann Republic until 2015 is to actively participate in the modernization of the economy on the basis of a significant increase in the level and quality of banking services provided to organizations and the population and to ensure its systemic stability. This is enshrined in the "Strategy for the Development of the Banking Sector of the Azerbaijann Republic for the period until 2015 ". In this document, the Government of the Azerbaijann Republic and the Central Bank of the Azerbaijann Republic, taking into account the lessons of the crisis, intensify efforts to increase the stability of the banking sector and ensure a stable growth of the basic indicators of its functioning.

The Central Bank of the Azerbaijann Republic on the transition to a model for the development of the banking sector, focused on long-term efficiency. This fully meets the long-term development priorities of the economy, including those envisaged by the "Concept of Long-Term Social and Economic Development of the Azerbaijann Republic for the Period to 2020", approved by the Government of the Azerbaijann Republic on November 17, 2008, No. 1662-p. Achieving such a model of banking sector development is possible with further increase in the level of competition, market discipline and transparency in the banking sector. At the same time, the formation of a more effective system of banking monitoring, regulation and supervision, capable of resisting crises, becomes especially important in the near future.

At present, the Azerbaijann banking system is one of the most important sectors of the economy, which is not inferior to the real sector. Based on the special role of the banking system in the economic life of the state, it can be definitely argued that crisis phenomena in the banking sector can lead to a breakdown in economic life and the emergence of a financial crisis.

The special influence on the stability of the financial market and the emergence of risks is provided by information. As a result of the development of science and technology, information asymmetry arises and increases. From the point of view of risk, information asymmetry means uncertainty. Asymmetry of information is defined in the economic literature as a lack of information about a partner available for a deal, which leads to inefficient distribution of credit resources. For the first time, scientists began talking about information asymmetry in the consumer market in the late 1960s, when J. Akerlof suggested that in some markets the quality of the product is known only to the seller. Therefore, one can not understand how much such goods are quality without trying them. Later, the universality of the phenomenon of asymmetry of market information was proved; presence in many markets. Asymmetry of information characterizes the situation when some market participants are more informed than others.

As a result of financial globalization, as well as the growth of general instability in modern conditions, information uncertainty in the financial markets has significantly increased. In our opinion, one of the possible solutions to this problem is the creation of a comprehensive model for monitoring banking risks, which will allow the formation and accumulation of information on the state of the regions' industries, national economies, the risks of the real sector of the economy, and risks in the banking sector itself.

Based on the close relationship of the crisis phenomena of different sectors of the economy, it is necessary to take into account the probability of destabilization of the banking segment, which can lead to destabilization of the financial sector and the economy as a whole.

Thus, the banking system as part of a single economic mechanism, as well as the source of development of the economy and society should have reliability, stability and stability. In this regard, it is necessary to create a stable and reliable model of the banking system in general and a commercial bank in particular, which will be able to withstand the negative phenomena in the modern financial world.

It is important to determine the causes of instability in the banking system in general and in the bank, which should be supported by a set of measures that the bank can use to ensure its stability, stability and reliability.

Currently, the most well-known areas are the risk management policy associated with its cause, and the risk management policy associated with its operation. According to these areas, there are two forms of risk management. The first form includes such methods and forms that affect the causes of the risk, i.e. reduce the likelihood of risk and reduce the degree of uncertainty. The second form of management is aimed at the results of the manifestation of risk.

Managing the causes of risks, the bank can significantly reduce the level of threats. In our opinion, the only adequate way to reduce the degree of uncertainty is the method of forecasting, while observing and evaluating the results of the bank's activities, that is, risk monitoring. In this regard, there is a need for the existence of such a system of monitoring and assessing banking risks, which would allow us to see the impact of private indicators on the comprehensive assessment and overall performance of the bank and the entire banking sector at the current time and in the future, ie. monitoring systems. After all, for any country's economy, important is not only the current state, but also the prospects for the development of the banking system, which is explained by its key position in the economy.

The need for carrying out and increasing the role of monitoring bank risks in modern post-crisis conditions is caused by internal and external factors. The most significant external factors include: the special role of the banking system in the country's economy; the peculiarity of the development of the country's banking system in the context of the impact and consequences of the global financial crisis; interest of a wide range of economic entities in the uninterrupted functioning of the banking system; the need to increase the capitalization of credit institutions in order to meet the growing demand of the country's economy for credit resources; the growth of the presence of foreign capital in the Azerbaijann banking system; Inclusion of the banking system in the processes of globalization and informatization of banking; the emergence of imbalances in the financial sector of the economy; expansion of the scale of banking activities; general deficit of investment opportunities of the economy; short-term nature and limited credit resources, etc ..

Internal factors include: low quality of bank audit; underdevelopment of internal banking control systems; lack of consolidated supervision; inadequate performance of banking systems of risk management of their functions; the implementation of Basel Agreements (Basel-2 and Basel-3) in the Azerbaijann banking sector, etc.

The above internal and external factors that determine the need to monitor banking risks show that the competitiveness of Azerbaijann lending institutions and the banking sector as a whole remains insufficient. These shortcomings reduce the credibility of the Azerbaijann banking community and the level of confidence in the banking sector, worsen the opportunities for banks to attract investments, etc. Therefore, there is a need to change the regulatory impact on the activities of banks, which should be aimed at actively countering the emergence of crisis phenomena, rather than the subsequent infusion of budgetary funds into banks to keep the entire financial system afloat.

The implementation of monitoring of banking risks provides (: http://www.president.az/files/future\_ru.pdf. – Название с экрана., 2016):

1) for the state as a whole, monitoring allows to increase the transparency of the banking sector, increases the possibility of operative control of banking risks and regulation of the banking sector;

2) for the Bank of Azerbaijan, monitoring helps identify market-based risky trends, provides an adequate analysis of market development and the opportunity to develop a further strategy for the development of the banking sector;

3) for a commercial bank, monitoring allows you to identify bank risks at the earliest stages, and can also be a specific tool that affects the reduction of banking risks.

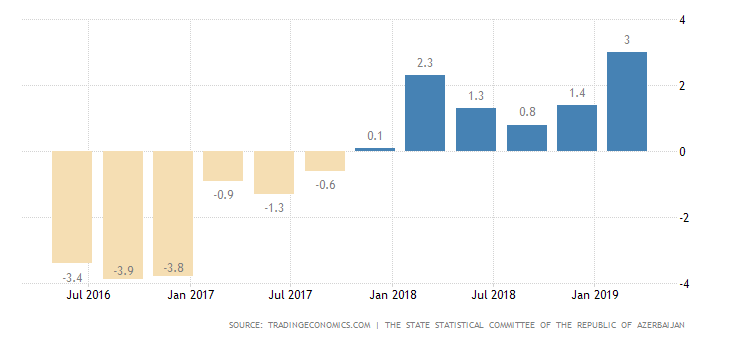
Thus, monitoring of banking risks is important for both practice and theory, as it allows not only promptly to receive current information about risks, but also to identify market trends and patterns, and draw conclusions about the prospects for the development of the banking sector.

# CHATER II. THE MAIN MACROECONOMIC INDICATORS AND DEVELOPMENT OF CAPITAL MARKET IN AZERBAIJAN

# 2.1. The main macroeconomic indicators in Azerbaijan

The Gross Domestic Product (GDP) in Azerbaijan expanded 3 percent in the first quarter of 2019 over the same quarter of the previous year. GDP Annual Growth Rate in Azerbaijan averaged 8.79 percent from 2001 until 2019, reaching an all time high of 40.40 percent in the first quarter of 2006 and a record low of -3.90 percent in the third quarter of 2016.

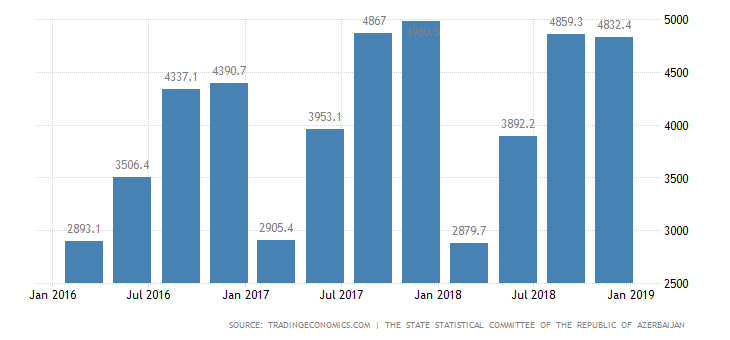
**Figure 2.1. The Gross Domestic Product (GDP) in Azerbaijan**



**Source:** [**https://tradingeconomics.com/azerbaijan/gdp-growth-annual**](https://tradingeconomics.com/azerbaijan/gdp-growth-annual)

Azerbaijan economy is based on oil and gas extraction which account for 95 percent of exports and 75 percent of government revenues. . This page provides - Azerbaijan GDP Annual Growth Rate - actual values, historical data, forecast, chart, statistics, economic calendar and news. Azerbaijan GDP Annual Growth Rate - actual data, historical chart and calendar of releases - was last updated on May of 2019.

Gross Fixed Capital Formation in Azerbaijan decreased to 4832.40 AZN Million in the fourth quarter of 2018 from 4859.30 AZN Million in the third quarter of 2018. Gross Fixed Capital Formation in Azerbaijan averaged 2334.59 AZN Million from 2001 until 2018, reaching an all time high of 4980.50 AZN Million in the fourth quarter of 2017 and a record low of 173 AZN Million in the first quarter of 2001.

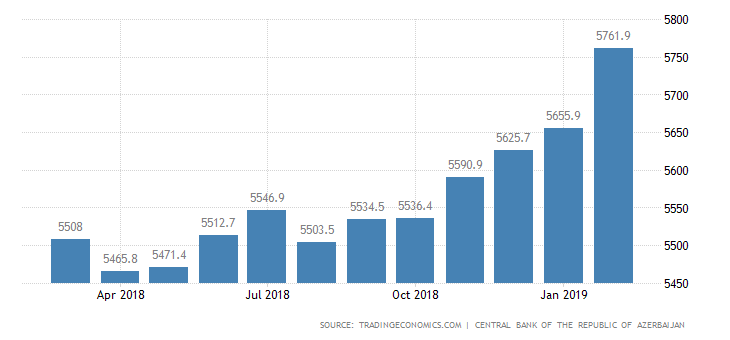
**Figure 2.2. Gross Fixed Ca****pital Formation in Azerbaijan**

**Source:** [**https://tradingeconomics.com/azerbaijan/gross-fixed-capital-formation**](https://tradingeconomics.com/azerbaijan/gross-fixed-capital-formation)

This page provides the latest reported value for - Azerbaijan Gross Fixed Capital Formation - plus previous releases, historical high and low, short-term forecast and long-term prediction, economic calendar, survey consensus and news. Azerbaijan Gross Fixed Capital Formation - actual data, historical chart and calendar of releases - was last updated on May of 2019.

Foreign Exchange Reserves in Azerbaijan increased to 5761.90 USD Million in February from 5655.90 USD Million in January of 2019. Foreign Exchange Reserves in Azerbaijan averaged 7813.37 USD Million from 2009 until 2019, reaching an all time high of 15193.40 USD Million in July of 2014 and a record low of 3974.40 USD Million in December of 2016.

**Figure 2.3. Foreign Exchange Reserves in Azerbaijan**



**Source:** [**https://tradingeconomics.com/azerbaijan/foreign-exchange-reserves**](https://tradingeconomics.com/azerbaijan/foreign-exchange-reserves)

The inflation rate in Azerbaijan was recorded at 2.10 percent in March of 2019. Inflation Rate in Azerbaijan averaged 7.32 percent from 2007 until 2019, reaching an all time high of 25.40 percent in June of 2008 and a record low of -1.80 percent in June of 2009.

**Figure 2.4. The inflation rate in Azerbaijan**



**Source:** [**https://tradingeconomics.com/azerbaijan/inflation-cpi**](https://tradingeconomics.com/azerbaijan/inflation-cpi)

The main macroeconomical indicators üere given in the Table 2.2. Lets analyze these indicators.

**Table 2.2. Macroeconomical indicators**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Unit of measurement** | **2014** | **2015** | **2016** | **2017** | **2018** |
| **Gross Domestic Product (GDP)** | mln.manat | 59014,1 | 54380,0 | 60425,2 | 70337,8 | 79797,30 |
| mln. USD | 75234,7 | 52996,8 | 37862,8 | 40867,9 | 46939,6 |
| growth rate | % | 2,8 | 1,1 | -3,1 | 0,2 | 1,4 |
| GDP, non-oil sector | mln.manat | 36189,2 | 37920,4 | 39975,8 | 44311,8 | 46893,2 |
| growth rate | % | 7,0 | 1,1 | -4,5 | 2,8 | 1,8 |
| Share of non-oil sector in GDP | - | 61,3 | 69,7 | 66,2 | 63,0 | 58,8 |
| GDP, oil sector | mln.manat | 22824,9 | 16459,6 | 20449,4 | 26026,0 | 32904,1 |
| real growth rate | % | -2,9 | 1,2 | 0,0 | -5,0 | 0,6 |
| Oil sector share in GDP |  | 38,7 | 30,3 | 33,8 | 37,0 | 41,2 |
| Share of GDP in Non-state section | % | 81,8 | 81,2 | 83,7 | 83,8 | 84,7 |
| GDP per capita | manat | 6268,0 | 5706,6 | 6269,6 | 7226,0 | 8126,2 |
| USD | 7990,8 | 5561,5 | 3928,6 | 4198,5 | 4780,1 |
| growth rate | % | 1,5 | -0,1 | -4,2 | -0,9 | 0,5 |
| Credit investments | mln.manat | 18542,6 | 21730,4 | 16444,6 | 11757,8 | 13020,3 |
| nominal growth rate | % | 20,2 | 17,2 | -24,3 | -28,5 | 10,7 |
| Incomes of the state budget | mln.manat | 18400,6 | 17498,0 | 17505,7 | 16516,7 | 22411,2 |
| Ratio to GDP | % | 31,2 | 32,2 | 29,0 | 23,5 | 28,1 |
| State budget expenditures | mln.manat | 18709,0 | 17784,5 | 17751,3 | 17594,5 | 22718,9 |
| The budget deficit | mln.manat | -308,4 | -286,5 | -245,6 | -1077,8 | -307,7 |
| Ratio of budget deficit to GDP | % | -0,5 | -0,5 | -0,4 | -1,5 | 0,4 |
| Paid services to the population | mln.manat | 7016,4 | 7462,8 | 7809,8 | 8636,0 | 9131,8 |
| growth rate | % | 7,2 | 5,1 | -1,1 | 1,2 | 3,0 |
| Average monthly nominal wage | manat | 444,5 | 466,9 | 499,8 | 528,5 | 544,1 |
| nominal growth rate | % | 4,5 | 5,0 | 7,0 | 5,7 | 3,0 |
| Income of the population | mln.manat | 39472,2 | 41744,8 | 45395,1 | 49187,9 | 53688,6 |
| nominal growth rate | % | 5,1 | 5,7 | 8,7 | 8,3 | 9,2 |
| Deposits of the population | mln.manat | 7188,3 | 9473,9 | 7448,7 | 7561,2 | 8375,4 |
| nominal growth rate | % | 12,4 | 31,8 | -21,4 | 1,5 | 10,8 |
| Poverty level | % | 5,0 | 4,9 | 5,9 | 5,4 | 5,1 |
| Unemployment rate | % | 4,9 | 5,0 | 5,0 | 5,0 | 4,9 |
| Minimum wage | manat | 105,0 | 105,0 | 105,0 | 116,0 | 130,0 |
| Inflation, average annual | % | 1,4 | 4,0 | 12,4 | 12,9 | 2,3 |
| Manat's average annual rate of 1 US dollar | manat | 0,7844 | 1,0261 | 1,5959 | 1,7211 | 1,7000 |
| Foreign debt | Mil.USD | 6478,2 | 6894,3 | 6913,2 | 9398,3 | 8927,1 |
| Ratio of external public debt to GDP | % | 8,6 | 19,8 | 20,4 | 22,8 | 19,0 |
| Strategic currency reserves | Bil.USD | 51,4 | 39,0 | 37,7 | 41,9 | 44,7 |

İt is clear from the Table 2.2 that GDP 60425.2 million manat in 2016. But the volume of GDP in 2017 increased. Thus, in 2017 the volume of GDP was 70337.8 million manat. After a year the GDP increased a little and according to statistical revue, the GDP was 79797.3 million manat. Foreign debt was 64787.2 million USD in 2015. Foreign debt increased in 2016 and was 6913.2 million USD. In 2017 foreign debt was 9398.3 million USD. In 2018 the foreign debt was 8927.1 million USD. This show that foreign debt increased in 2018.

After these measures, the decrease in the level of monetary multiplier that demonstrated the ability to generate significant cash flows and liquidity has been observed, and as a result, the slowdown in the money supply in the national economy has exceeded the rate of decline in the monetary base. Such a decline in the money supply also limits the opportunities for financing and lending in Azerbaijan's economy, and has a negative impact on its sustainability. The weakening of the country's credit-banking system's ability to generate money has a strong impact on the ability to finance the economy. At present, the credit-banking system in Azerbaijan does not meet even 20-30% of the real sector's financial resources.

The recent sharp fluctuations of the national currency rate have also influenced the activity of Azerbaijani banks. Even the banking sector is in the center of these events and acts as a self-supporting system element. The sharp drop in oil prices in the world market and the wave of crisis woes have seriously aggravated systemic risks in Azerbaijan's credit-banking system. The activity of several banks was suspended. Starting from the end of 2015 and beginning of 2016, many banks in the country began to sharply reduce the number of their branches.

The structure of the loan portfolio of the banking sector is substantially below the share of lending to material production and industry (generally, construction and property, industry and manufacturing, transportation and communications, and agriculture). The volume of loans to households is 39% of the loan portfolio. This indicates a low level of diversification of the loan portfolio in the national banking sector. As noted, the capitalization problems of the banking sector also show that the growth rate of assets exceeds the growth rate of the Bank's capital base. At the same time, the high growth rates of the loan portfolio are accompanied by the low return on bank assets and the decline in capital adequacy indicators. The analysis of the structure of assets and the aggregate capital of the banking system once again confirms these trends.

Analysis of banks' income and expenses shows that speculative transactions, such as transactions with foreign currencies, have a significant place in the financial performance of banks and have a tendency to grow. The share of this component of revenues has increased by 45% by the end of 2016 (similar to the dynamics of expenses). However, the share of net income earned on operations with foreign exchange and securities in the structure of current net income of credit institutions remains unchanged. This is explained by a high level of risk on these speculative transactions. The profitability of the banking system's assets is at a low level.

One of the serious problems of the banking system of Azerbaijan is the high level of risks and the low level of bank capital adequacy. The Central Bank and the Financial Markets Control Chamber always pay close attention to both the problems of credit organizations, as well as to the banking system as a whole, particularly to the problematic risk management issues. Starting from 2014, there is a tendency towards sharp decline in personal capital adequacy in the banking sector.

# 2.2. The formation of the capital market in Azerbijan and its development directions

Over the past three years, lending has been severely restricted in Azerbaijan's banking sector. Even some banks had to stop issuing credits for a certain period of time. It should be noted that local banks have faced huge financial losses since the decline in the value of the national currency of Azerbaijan due to the sharp decline in oil prices in the world. Licenses of many banks were canceled and activities were suspended. The main types of risk such as currency and credit risks are the most important and determining factors in the banking sector. As a result of the reduction of the solvency of the households consuming consumer loans and the reduction of confidence in the banking system, the preferences of commercial banks were established and the Mortgage and Credit Guarantee Fund of the Republic of Azerbaijan was established with the aim of increasing public confidence in the banks. Almost all of the Azerbaijani banks face the problem of sharp decline in liquidity, due to the close interaction and penetration of currency risks and credit risks. The nature of credit policy is the most important factor in ensuring the bank's reliability and sustainability. Identification, analysis, assessment of key risk management methods in the banking business; regulation of credit transactions; limitation of operations; diversification; asset protection and so on. it applies. It is more appropriate to apply the diversification of the Azerbaijani realities and regulate credit operations (N.R.Quliyev M.M.Mahmudov, 2011: 118-120).

After marking the key issues in banking management in the country, we would like to highlight issues related to financial sustainability and risk management aspects:

 Insufficient development of the risk-management system in banks, in particular in the field of operational risk management of banking operations;

 non-balance of banks' assets and liabilities and their vulnerability to market changes;

 Inefficiency of the budgeting system at all levels of the bank;

 Increasing the Bank's capitalization in the practice of Azerbaijani banks and the inadequate use of methods to evaluate the value of bank business;

 Inefficient management of revenues and expenditures on operations (primarily on interest and currency transactions) and bank's unreasonable use of net profit of the bank;

 Inefficiency of methods of conducting financial monitoring of banking activity, lack of operational financial problems and their inability to effectively solve the problem, and so on.

Most of the above-mentioned problems in the banking sector are related to the ineffectiveness of risk management in banks. This has led to the weakening of financial stability of the country's banks and serious shortfalls in the management of credit-banking organizations. The need to improve the quality of the risk management system in banks is primarily related to the transition to international standards for the implementation of banking business by the country's banks and to the more effective and thorough, ie quality-diagnostic control methods, from the formal control principles in banking regulation. The transition to supervision of banking supervision should include four key group parameters that reflect the bank's development:

1) assessment of business prospects of the bank's activity;

2) Evaluation of the Bank's financial sustainability;

3) risk management, internal control and evaluation of management procedures;

4) assessment of corporate governance and risk-management quality in the bank.

The key areas of control are the financial stability and risk aspects of banking activity. In our opinion, the methods and means of managing financial and risk management in Azerbaijan's banks, which are currently analyzed in the scientific literature, are not comprehensive and do not have a scientifically justified methodological framework that enables them to effectively implement all their principles and functions.

It should be noted that the effectiveness of the credit risk management policy in the banking activity depends on the correct selection of measures to prevent and minimize risks. The introduction and development of credit risk management methods in the current period should be the main focus of the practical activities of Azerbaijani banks. Approval of this fact can be seen in detail in the banking activity sphere, detailed development of credit policy and other internal normative documents related to lending, in the case of active use of foreign experience. There are various systems that can assess contractor risk, standard and methodologies of the Central Bank of the Republic of Azerbaijan for credit risk assessment. At the same time, it would not be appropriate to speak about the proper organization of the credit risk assessment and management methodology in banking and credit institutions in our country. The procedures and regulatory framework developed by the banks for separate business segments have not been drawn up based on the necessity to consider the future performance of the bank as a whole of uncertainty. Therefore, the methodology for separate risk types is not integrated into a single standard and can not generate and generate technology that takes account of all types of uncertainties in a systematic and equitable manner. This, in its entirety, hinders the development of the Bank's effective management mechanism, ie the solution of common issues facing the Bank, which uses risk assessment.

The elimination of a number of important problems in the management of banks' credit risk is a key condition for improving the sustainability of the banking system and can be divided into three major groups. First of all, the low level of development of this normative-legal base, the inadequacy and low quality of the banking supervision system; on the other hand, poor infrastructure development of the credit services market; and thirdly, the lack of professional staff in this field and, in general, the low level of credit risk management culture. In order to address these problems, first of all, it is necessary to develop a framework based on the need to review the external practice of the regulatory framework and banking procedures and to consider the future functioning of the bank as a whole, taking into account the application of new financial instruments and economic decisions.

# 2.3. The perspective development trends of capital markets on economic growth of Azerbaijan

The financial system refers to a combination of interrelated activities and interrelated financial relationships - a series of separate rings. Cash flow distribution, formation, redistribution and use of the financial system are ensured. Each country has its own financial system. The structure of the financial system of each country includes financial services that regulate monetary circulation and financial relations. Given that one of the main functions of Mali is a divisive function, finances provide this division function by dividing financial resources among separate economic entities. Depending on how financial funds can be created and used, financial systems can be divided into two major groups. These groups can be applied to ([www.academia.az](http://www.academia.az) - 2018):

* Centralized or public finance;
* Funds of non-centralized entities or economic entities, enterprises or organizations.

If we look at the financial system from a wider perspective, we can see that the financial system also includes a banking and credit system. The Bank-Credit System is a combination of banks or non-bank credit institutions that provide banks with the activity or credit.

The comprehensive description of the financial system of the Republic of Azerbaijan is presented in the following scheme ([www.academia.az](http://www.academia.az)- 2018):

**Scheme 2.1. The financial system of the Republic of Azerbaijan**

**Source: http: //www.mtk.az/content/? I = 39 & title = finance-and-credit-memmedova-financial system of the Republic of Azerbaijan.**

In the above scheme, if we consider the blue triangle as a condition of the financial system of the Republic of Azerbaijan, then we can say that the financial system includes state finances, municipal finance, bank-credit system, enterprises and organizations' funding, as well as the system of state financial institutions. The following can be included in the system of state financial institutions (<https://eh.net/book_reviews/capital-ideas-the-imf-and-the-rise-of-financial-liberalization/> - 2018):

* State budget;
* Extra-budgetary funds;
* Government loan;
* State insurance funds;
* Financing of commercial enterprises and organizations;
* Financing of state and municipal institutions;
* Funding of public associations and organizations;
* Ministry of Finance of the Republic of Azerbaijan;
* State Treasury Agency;
* Financial authorities of subjects of the Republic of Azerbaijan;
* Central Bank of the Republic of Azerbaijan;
* Ministry of Taxes of the Republic of Azerbaijan.

The banking and credit system of the Republic of Azerbaijan means the banks or non-bank credit institutions and financial institutions that are engaged in banking activities and can provide loans. The main subjects of the banking and credit system of the Republic of Azerbaijan are:

* Commercial banks;
* non-bank credit organizations;

Different rings and divisions of the financial system of the Republic of Azerbaijan are distinguished from each other by the functionality of each ring, the mechanism of distribution of financial resources and its role in the financial system.

If we look at the characteristics of different parts of the financial system of the Republic of Azerbaijan we can see that the highest link is the state budget of the Republic of Azerbaijan. The state budget of the Republic of Azerbaijan is the main financial plan for the creation and utilization of financial resources of the state in a centralized way. The state budget also implements the function of ensuring the financing of the state's main costs. The budget system of the Republic of Azerbaijan consists of two main levels:

* State budget of the Republic of Azerbaijan;
* Municipal budget.

One of the main rings of the financial system of the Republic of Azerbaijan is the extra-budgetary state funds. Although these funds belong to the Republic of Azerbaijan, they are not included in the budget system and are governed by relevant legislative acts.

According to the nature, off-budget funds can be divided into two main groups. These groups can be summarized as follows (<https://eh.net/book_reviews/capital-ideas-the-imf-and-the-rise-of-financial-liberalization/> - 2018:

* Social-purpose funds;
* Funds of economic nature.

The main purpose of creating extra-budgetary funds is to provide funding for social services to the population groups. Examples of non-budgetary funds of social nature include organizations such as pension fund, social insurance fund and compulsory health insurance fund.

The main purpose of creating extra-budgetary extra-budgetary funds is to provide funding for issues and measures that address the economic tasks of the state. Examples of non-budgetary funds of economic nature include the State Road Fund, National Fund for Entrepreneurship Support, State Oil Fund, Nature Reserve Fund and other similar funds.

State loans in the financial system of the Republic of Azerbaijan have a special role. State loan means the total amount of credit relations provided by the state to the population and individual economic entities to cover their expenses. Here payments, ie, payments are made by paying to the state budget.

One of the main roles of the financial system of the Republic of Azerbaijan is insurance funds. The main purpose of creation of insurance funds is to provide financial losses caused by accidents and natural disasters.

It is known that after the independence of the Republic of Azerbaijan, the transition period from the administrative-emirate system to the market economy system was experienced. In such a period, the weakness of foreign economic relations and the lack of self-justification of the administrative-emirate system have aggravated the economic situation. Therefore, as a result of successful reforms in the country, the Republic of Azerbaijan has reached its current level of progress. So that. The Republic of Azerbaijan, being a member of leading international financial institutions, global and regional financial institutions for the expansion of foreign economic and trade relations with other countries, ensured economic stability and created a steady increase in economic growth rates, as well as sufficient foreign trade and economic relations. and laid the foundations for strengthening.

The Islamic Republic of Iran, which is the first member of the Islamic Republic of Iran to become independent after its independence, is a Muslim-majority country. Thus, since 1991, the Republic of Azerbaijan is a member of the Islamic Development Bank. Being a member of the Islamic Development Bank, the Republic of Azerbaijan has significantly expanded its foreign-economic and trade relations with Muslim countries. One of the most important aspects of the Republic of Azerbaijan with the Islamic Development Bank is the fact that most of the member countries are an oil exporter. It is known that the Islamic Development Bank is a regional organization and the surrounding basin of the Iranian basin is more global (<http://www.budget.az/main?content=341> – 2018).

Since September 18, 1992 the Republic of Azerbaijan has taken a decisive step towards expanding its foreign economic and trade relations, including membership in the International Monetary Fund. The Republic of Azerbaijan has received loans from the International Monetary Fund for the implementation of six programs. However, since 2005, the Republic of Azerbaijan has been interacting with the International Monetary Fund, but has refused to receive a loan from the Fund. The necessity of privatization of state banks, industrial development, transparency of the SOFAZ activity, ensuring efficient use of oil revenues, elimination of energy and water supply problems and the need for reforms in these areas were taken into consideration by the International Monetary Fund.

The Republic of Azerbaijan was elected to the World Bank in 1992. However, the wider expansion of relations between the World Bank and the Republic of Azerbaijan dates back to 1995. As is known, the World Bank Group includes the following banks:

* World Bank;
* International Development Association;
* Multilateral Investment Promotion Agency;
* International Finance Corporation.

The Republic of Azerbaijan is a member of all financial institutions included in the World Bank Group. Since 1992, the Republic of Azerbaijan is a member of the World Bank and International Development Association. Since 1995, our country has been a member of the Multilateral Investment Promotion Agency and the International Finance Corporation.

The main purpose of the World Bank's cooperation with the Republic of Azerbaijan is the proper management of the state's oil resources, ensuring the implementation of the right investment policy to ensure the socio-economic development of the country during transition to the market economy and other such issues.

# CHAPTER III. THE PROBLEMS OF CAPITAL MARKET IN AZERBAIJAN AND ITS IMPROVEMENT

# 3.1. The available problems in development of capital market of the Azerbaijan.

In the stock market, banks and insurance companies are particularly active.

Investors, entrepreneurs, auditors and banks are expecting an initial public offering (IPO) in Azerbaijan. There is economic attractiveness because GDP growth in 2012 amounted to 2.2%, which can be compared with Ukraine's economic growth. But the lack of a perfect capital market hinders investments.

CIS countries are only 16% involved in the London Stock Exchange. Unfortunately, there are no Azerbaijani companies among them. The main activity on the Baku Stock Exchange (BSE) is secured by insurance companies and banks. The corporate securities market in the first quarter of 2013 was $ 82 million. Manat, which is 52.8% more than in the same period last year.

200 physical and 31 legal entities in Azerbaijan have professional securities market participant licenses. The main challenge for operations is the Baku Stock Exchange. It was created in 2000 to guarantee transactions and to register the participants. The Charter Fund of the Exchange is $ 1.2 million. AZN. The BSE was founded by 16 largest banks in Azerbaijan, two financial companies and the Istanbul Stock Exchange.

On July 26, 1999 the President of the Republic of Azerbaijan signed the Decree "On Securing the Activities of the State Securities Committee of the Republic of Azerbaijan", thereby establishing the securities market in the country.

In the following years, the organization has made some important reforms to ensure transparency in the securities market, to manage potential risks and protect the rights of investors. The Committee regularly adopts normative acts related to securities market regulation, emissions and circulation, licensing, as well as debt market.

There are the following types of corporate securities in the Azerbaijani market: stocks of enterprises, corporate bonds, privatization shares, options. There are also state-owned securities in circulation that turnover over them is much higher than the turnover in the private sector.

International experience shows that additional funds can be used for business development through the stock market.

In order to increase the effectiveness of the securities market in Azerbaijan, it is important that business be transparent first of all.

Secondly, there should be responsibility for international standards. Under such circumstances, the market will grow self-sufficient.

The exchange may allow emitters to change their assets into new projects. It creates conditions for attraction of potential buyers of securities and encourages securities owners to sell them. Thus, the list of dealing participants significantly expanded. However, issuers are, in any case, abused.

# 3.2. The financial services in Azerbaijan as the strategic road map.

In pursuance of the tasks outlined in the Presidential Decree No. 1897 of March 16, 2016 "On the approval of the main directions of the strategic road map for the national economy and key sectors of the economy" Strategic Road Map "(hereinafter - the Strategic Road Map). This Strategic Roadmap has been developed with the new challenges and opportunities facing the financial sector to support the flexible adaptation and post-petrol economic development model in the global economy and financial markets. The document has been developed on the principles of financial services sector's support for flexibility, competitiveness, innovation and economic development.

The Strategic Roadmap consists of a strategic vision and action plan up to 2020, a long-term vision for the period up to 2025 and a target view for the post-2025 period, covering short, medium and long-term periods. To achieve the goals set out in the Strategic Roadmap, up to 2020, 5 strategic targets and 16 priorities have been developed.

**Strategic goal 1. Funds consisting of dynamic and healthy institutions**

**system formation.** Since 2015, due to the devaluation of foreign economic shocks and the national currency, the risk sensitivity of the financial system has increased and financial indicators have deteriorated. The lack of a business model and strategy focused on sustainable and long-term goals by some financial institutions in the face of increasing risks, as well as simple risk management have complicated the financial system's adaptation to new economic conjuncture and market conditions and limited financial intermediation. Bank restructuring and capitalization in the direction of new challenges, strategic goals, including measures to improve assets, improve the insurance market, and strengthen financial inclusion.

**Strategic target 2. Financial markets development.** The activity of investors and issuers in the financial markets is limited. Information about potential investors and issuers on capital market and financial instruments such as the lack of information, asymmetry of information and the traditional convergence of thinking, limit the development of the securities market, which leads to the inefficient distribution of financial resources in the economy. Strategic targets for development of capital and money market, creation of favorable environment for market participants have been defined in order to eliminate restrictive factors.

**Strategic Target 3. Strengthening Infrastructure.** Protection of creditors' rights and obligations the judicial system and enforcement mechanisms, as well as the credit information sharing infrastructure do not support the effective integration of the financial system into new challenges. Developing a credit information exchange system for the improvement of the infrastructure, working mechanisms for the protection of creditors' rights establishment of strategic objectives, standardization of court decisions and improvement of executive discipline.

**Strategic Target 4. Improvement of Regulatory and Control Mechanisms.** Increased risk sensitivity of financial institutions in the existing economic environment and the creation of new risk zones required the improvement of risk management practices in the sector. Risky risk management in financial institutions strategic targets for formulating new regulatory and control architecture that promote processes and digital transformation.

**Strategic goal 5. Increasing financial literacy.** The knowledge and skills of employees in the financial system are qualitatively new as well as increasing financial literacy of financial services consumers can support a sound, reliable, sustainable and effective financial system. In order to achieve this, strategic goals have been identified to deepen the specialization of financial system specialists and to increase financial literacy.

As a result of successful reforms in the non-oil sector against the backdrop of the oil revenues in 2004-2014, Azerbaijan has been ranked among the fastest growing economies in the world. Observed economic growth is also a positive contribution to the financial system, along with other sectors of the economy received.

Formation of an effective financial system over the past period and continuous reforms in the field of institutional development were carried out, constructive work of the financial system was carried out. A regulatory legal framework for regulation of financial markets has been prepared and works have been done to bring it into line with international experience. Modern in different segments of financial markets operating systems have been started.

According to the Central Bank of the Republic of Azerbaijan, the average growth rate of bank lending during the period was about 30 percent. The increase in profitability of the sector and toughening of aggregate capital requirements has resulted in an increase in domestic and foreign capital inflows, growth. According to the CBA, aggregate capital at the end of 2014 amounted to 4.3 billion manats, or 7.3 percent of GDP.

The decline in oil prices in the world market since the second half of 2014 has not affected the economy of Azerbaijan as well. As a result of the decline in oil revenues, foreign currency inflows to the country declined and the foreign currency demand exceeded the foreign exchange demand, raising the pressure on the manat. In 2015, two devaluations were carried out to balance the situation in the currency market, to ensure the balance of payments and the country's strategic solvency. After the first devaluation, after the second devaluation, the funds were deprecated from the banking system, when dollarization of deposit and loan portfolio occurred.

In the background of the weakening of general economic growth, long-term activity in the banking sector has diminished.

The weakening solvency of borrowers has resulted in an increase in credit risk. Despite the positive effects of the measures taken, the continuation of macroeconomic uncertainties increased the banks' exposure to credit risk. As a result, part of the capital pad created during economic growth was lost and the capital adequacy ratio was approximated to the minimum standards and, according to the CBA, in 2015 in comparison with the same period of the previous year, having dropped by 4.2 percentage points to 14.7 percent. According to the Financial Markets Control Chamber (MBNP), funding

Another segment of the insurance market, the average annual growth rate in 2010-2015 was 20 percent. In 2015, insurance premiums increased by 444 million manat in Azerbaijan. However, the share of insurance premiums in GDP is only 0.8 percent. Highness of the banking sector is considered to be the main risk of insurance companies.

Expansion of the scope of compulsory insurance legislation has been the main factor in demand in the insurance sector. Actions taken by the state since 2011 have played an important role in the rapid development of life and non-life insurance. In terms of non-life insurance, the focus is on the compulsory insurance programs, including the compulsory motor third party liability insurance and the redistribution of real estate insurance. The expansion of compulsory personal accident insurance instruments has contributed to the development of the life insurance segment.

The primary elements of the credit information sharing system have been formed in order to promote operational and full assessment of credit risks as well as to strengthen the financial discipline of economic entities. Significant work has been done during the period to develop the financial markets infrastructure and the State Program for the Development of the Securities Market in the Republic of Azerbaijan for 2011-2020 has been adopted.

Works on the revival of financial markets have been started within the framework of the State Program. At the initial stage of the State Program 2011-2014, the necessary conditions were created for modernization of the securities market infrastructure, improvement of the normative legal base, strengthening of material and technical base, as well as development of human capital in the securities market.

Nevertheless, the weak development of corporate governance standards in the open joint-stock companies operating in the country and the low transparency have limited the attractiveness of capital through the securities market. By the end of 2015, the volume of transactions in the securities and debt securities market amounted to AZN 657 million and AZN 3,550 million, respectively (Figure 8). An important part of transactions in the debt securities market corporate securities.

Effective protection of the rights of consumers of financial services mechanisms for the formation of the population and educating the population have been worked out, modern intellectual means have been used to increase financial literacy.

Despite the decline in poverty in the country, diversification of investment in non-oil sector, the level of financial inclusion remains low.

As a whole, according to the Financial Markets Chamber, 43 banks, 27 insurance companies, 48 ​​non-bank credit organizations, 109 credit unions and 5 investment companies operated in the country by the end of 2015. Credit organizations have a dominant position in the financial system. The share of banks and non-bank credit institutions in total assets of the financial system in 2015 was 88 percent and 9.7 percent respectively, while the share of insurance companies in total assets was 2.3 percent.

# 3.3. The development perspectives of the capital market in the Azerbaijan.

The largest increase in the financial services sector of Azerbaijan is observed in the capital market.

The analysis of the report by the Financial Markets Chamber (Chamber) for the six months of this year shows that the growth rate is 2.4 times higher than the same period last year. In fact, the infrastructure has been fully formed up to all institutions operating in this area, and the system is fully ready for operations of any size. The only weak point is the uncertainty of expectations for corporate market and mass issue issues. This is due to the fact that companies in the private sector are not ready to go on the market.

Thus, the comparison between the first half of 2016, 2017 and the first half of 2018 shows that the capital market is of great importance as an alternative source of finance after the banking sector crisis and in terms of instruments. Therefore, the Chamber mobilized market participants and regulators and gave instructions to put the system into a working order. Naturally, in order to curb inflation after devaluation, government securities and repurchase operations of the Central Bank activated the stock market and these securities became key trading instruments. In 2016, government securities with a total volume of 259 million manat increased by 2 years and reached 6 billion manats in July 2018. Repo transactions, which are not generally registered in the same period of 2016, have created a turnover of 466 million manat in six months of 2018.

The corporate bond market was the biggest blow among capital market instruments, and the corporate bond market in 2016 decreased by 82% to 856 million manat in 2017. Naturally, given the fact that most of the bonds were denominated in manat, the depreciation of the manat weakened interest in this segment. This figure was 434 million manat in the same period of 2018. Only the largest revival in the corporate securities market was recorded in the initial issue and an increase of 2.9 times in the second quarter of 2017. The banks were selected with special activity among the institutions that tend to have more shares as a source of funding.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Years | Volume of corporate securities market, AZN | Government securities | Derivative financial instruments | Repo / reverse repo transactions |
| 2016 | 5 240 534 751 | 259 173 678 | 1 552 826 372 | 0 |
| 2017 | 1 904 387 576 | 1 106 388 702 | 2 207 563 336 | 11 577 452 |
| 2018 | 1 128 900 000 | 6 006 700 000 | 4 849 800 000 | 466 200 000 |

Comparison of figures shows that over the past three years, the share of state securities has risen significantly. It is true that the share of government securities has declined from 85% to 75%, but as a result, short-term bonds of the Ministry of Finance and the Central Bank's note make a significant share in total market operations. At present, 94% of the total market is owned by government securities. In other words, the volume of capital market is growing with the support of state securities. Among private corporate bonds, bonds of the Mortgage Fund and SOCAR have a large share, as both primary and secondary market operations are carried out.

The increase in turnover on futures financial instruments, futures contracts, bidders, etc. also exceeds 2.5 times. It should be noted that the main function of these tools is to insure the holder from damage in the stock market game, as well as to ensure its protection against inflation and economic instability.

It should be noted that in the "Strategic Road Map" 5 companies in Azerbaijan are expected to be included in IPO and listing. Work is underway in this direction, but there is one point that the first IPO should be absolutely successful. The next development depends largely on the positive results of the first mass offering. One of the first proposals was that Azersun Holding had one of its plants, but a hundred percent was not welcomed. Due to the high market demand, finding a company that fully meets the standards of transparency can extend until 2019. It is expected that the new Tax Code expected by 2019 will create a basis for transparency.

Thus, the capital market for Azerbaijani companies will provide new funding. Because borrowers from the capital market get lower interest rates than the money market. The reason is that when the company goes on the market, it meets directly with the investor and receives money from the investor without the broker. The banking market puts higher credit conditions as a result of service fees and margins. The example of "Metak" showed that when the banks did not give credit at below 20%, the company could borrow 12% of the capital market. Thus, the upcoming transparency will bring new opportunities to the country's companies and the results will be positive for the overall economy.

The Central Bank plays the role of forming savings by economic entities through the implementation of various action plans in the strengthening of the national currency, regulation of monetary circulation, the establishment of financial markets and the development of the banking system, and as the guarantor of conversion of savings into productive forces. The Central Bank implements currency policy in order to restore instability between national and foreign currencies. Currency policy itself is the main element of monetary policy. The main features of the monetary policy implementation in the Republic of Azerbaijan are as follows:

* The rate of use of the exchange rate for determining the optimal level of inflation in the Republic of Azerbaijan;
* Ensuring the regulation of currency risks and other currency-financial transactions in the currency markets in commercial operations.

As a logical consequence of the monetary policy carried out in the country, the current level of inflation was kept low, the rate of manat was stable, and the return of AZN to other foreign currencies, which was the national currency, was at this level.

According to Article 19, paragraph 1 of the Constitution of the Republic of Azerbaijan, the monetary unit of the Republic of Azerbaijan is manat. According to the second paragraph of the same Article of the Constitution, the function of withdrawal and circulation of money circuits in the Republic of Azerbaijan belongs only to the Central Bank of the Republic of Azerbaijan. Also, the Central Bank of the Republic of Azerbaijan is the exclusive property of the Azerbaijani state. Article 19 of the Constitution of the Republic of Azerbaijan limits the use of other monetary units as well as other currencies as a whole in the Republic of Azerbaijan.

According to Decision of the Central Bank of the Republic of Azerbaijan on Approval of Rules for Conducting Foreign Exchange Transactions by Residents and Non-residents of the Republic of Azerbaijan No 45/1 dated November 28, 2016, Resident or Non-Resident Banks to open accounts, as well as to carry out transactions in the manner prescribed by the legislation without a bank account.

The currency system of the Republic of Azerbaijan was formed from the following ratios:

* Gift balance;
* exchange rate;
* Settlements on operations and loans.

Currency relations play an important role in the development of the economies of different countries. Thus, the economic development of each country depends on foreign economic relations. As currency is used as a means of payment in international trade and economic cooperation, the development of the economy is also directly related to currency relations.

One of the main concepts we face when talking about the currency system is devaluation. Devaluation means lowering of the national currency or national currency against gold, silver, and other currencies.

In each of the central banks, devaluation policy is viewed as a backdrop of revaluation and a key tool for managing national currency. Devaluation policy has negative and positive effects on the economy. The main disadvantages include:

* As a result of devaluation, the population's ability to pay low is low. If we look at this issue from a macroeconomic point of view, we must admit that devaluation does not affect the population's solvency. However, given the fact that the issue is human factor, we can say that. devaluation is firstly reflected in the population's solvency. Thus, as a result of the depreciation of the national currency, the prices of foreign goods are rising, which ultimately affects the population.
* The decline in the value of the national currency creates a sense of panic among the population and the population begins to withdraw from the domestic currency, which in turn results in further appreciation of the national currency.
* Devaluation leads not only to imported goods, but also to domestic production prices. The reason for this is the increase in other costs of local production facilities. Finally, inflation in the country will gradually increase.
* Devaluation wave seriously damages small and medium-sized businesses. Because the depreciation of the population's money supply directly affects them.
* The greatest impact of devaluation lies in the banking sector. Because large banks of the banks operating in Azerbaijan provide loans at $ 1 billion and as a result, there is a problem with credit repayment and delays are observed.

Devaluation also has positive effects on the economy. These effects can be summarized as follows:

* Devaluation plays a role of stimulus for domestic production. Thus, the price of imported goods varies depending on the level of the dollar, ie it rises. As a result, domestic manufacturers prefer domestic production.
* Increasing exports as a result of devaluation can be more effective if possible.
* Devaluation has a positive impact on the country's key macroeconomic indicators and is one of the key factors that lead to the country's gold reserves.

The process of currency regulation is of great importance in ensuring the protection of the domestic market, maintaining the country's financial stability, and conducting monetary policy in the right direction. A number of measures have been implemented in the Republic of Azerbaijan in connection with currency regulation. First, the legislative system that has played a key role in this area has been improved. Thus, under the Law of the Republic of Azerbaijan "On Currency Regulation" No. 910 dated October 21, 1994, the mechanism of control and regulation of the currency system was established in the Republic. The Law, which we have talked about, includes the rights and obligations of the currency regulation and controlling authorities of the Republic of Azerbaijan, the rights and duties of individuals and legal entities, the use of these resources, and the disposal of these resources, defines the mechanism of accountability and currency operations and monitors the mechanism.

Although there is no restriction on the national currency of the Republic of Azerbaijan for citizens of the Republic of Azerbaijan, ie residents, there are restrictions on access to national currency for non-residents, ie foreigners or stateless persons. The limits of these restrictions are determined by the Central Bank of the Republic of Azerbaijan. Exemption and transfer of national currency and securities denominated in national currency by the residents and non-residents shall be carried out by the relevant executive authorities, including the Central Bank of the Republic of Azerbaijan and the Cabinet of Ministers of the Republic of Azerbaijan.

There are no restrictions on foreign currency transactions, remittances to foreign accounts, money transfers, or money transfers to the country for legal residents. For legal entities, the form of capital movements is made only by the rules set by the Central Bank. Removal of financial resources from the country by legal entities or individuals is carried out on the basis of customs regulations.

Non-residents, such as residents, have the right to import or export financial resources to the country, subject to customs regulations. Except for the cases stipulated by law, control over the rules of withdrawal or withdrawal of financial resources is carried out by the Central Bank of the Republic of Azerbaijan and the State Customs Committee.

One of the key subjects of our currency system is currency markets. That's why one of the main priorities of the monetary policy of the Republic of Azerbaijan is to formulate a mechanism for regulation of the currency markets.

As mentioned above, the currency exchange rate is determined by the requirement for currency in the currency market in connection with the transition of the Republic of Azerbaijan to the floating exchange rate system. Based on current demand and supply, the market exchange rate is determined. However, functioning of the foreign exchange markets in the Republic of Azerbaijan is carried out by commercial banks. Although currency exchange offices or kiosks functioned before the devaluation, their activities were terminated after the devaluation policy. The objective reason for this was the sale of dollars or other foreign currency exchange rates of these exchange offices to the monopoly price without any economic reasons. Therefore, commercial banks carrying out the functions of currency markets provide for the exchange of currencies by determining the daily exchange rate set by the Central Bank of the Republic of Azerbaijan and their margins for profit. Decisions made by the Central Bank on implementing currencies only through commercial banks are related to the formation of a currency market surveillance mechanism.

Thus, on the basis of the foregoing, we come to this conclusion. our republic continues its activity in the world currency-financial system. Thus, in our time, our republic is already known both in the world market as an exporter and an importer, which ultimately results in the integration of the Republic of Azerbaijan into the world financial and financial markets. As it is known, the national unit of our republic is manats and the process of issuance of manats and their withdrawal from the circulation belongs to the Central Bank of the Republic of Azerbaijan. However, the Azerbaijani state realizes foreign economic and trade relations through the US dollar, not the national currency, but the national currency is easily changed. This once again demonstrates that our republic has already integrated into the global financial and credit system of finance.

In the third chapter of the work, the modern trends of the international currency markets, the current state of the world currency financial system and new development mechanisms, as well as the monetary system of Azerbaijan and its international integration are analyzed.

As a result of the research, it became clear that emerging trends in the international currency markets created stock exchanges, brokerage companies in international currency markets. At the same time, new trends in international currency markets require that, in the international currency markets there is no currency constraint, significant quantitative agreements are to be made in international currency markets, and subjects of all countries in the world economy can freely participate in international currency markets.

An important issue in the plan of the International Financial System Improvement Mechanism was the new means of eliminating the obstacles that led to crises. The most important of these tools was the creation of targeted credit channels. Purpose credit channels are a formulated mechanism that enables member states of the International Monetary Fund to maintain financial and economic stability even when there is financial crises at the international level. Purposeful credit channels mean that each country in the International Monetary Fund has a mechanism to provide short-term financial resources to ensure the effectiveness of the balance of payments where there are negative changes in international financial markets (R.Məmmədov.,2013).

The most important element of the global financial system, which has recently been promoted by increasing its importance in the international arena, is transparency. Transparency of the international financial system means the level of disclosure of information about the financial, banking and economic systems of the member states of the International Monetary Fund. The issue of transparency in financial and credit policy is of great economic importance in the new structure of the international monetary and financial system. At the same time, the Code on transparency of the financial system was adopted on the initiative of 22 countries. The definition of "transparency" is as follows: - The purpose of "Transparency" - its institutional, legal and economic frameworks, agency reporting requirements - policy decisions and their justification, financial and monetary policy to the public in a timely manner, that everyone can use, understand and convey clearly.

The process of currency regulation is of great importance in ensuring the protection of the domestic market, maintaining the country's financial stability, and conducting monetary policy in the right direction. A number of measures have been implemented in the Republic of Azerbaijan in connection with currency regulation. First, the legislative system that has played a key role in this area has been improved. Thus, under the Law of the Republic of Azerbaijan "On Currency Regulation" No. 910 dated October 21, 1994, the mechanism of control and regulation of the currency system was established in the Republic. The Law, which we have talked about, includes the rights and obligations of the currency regulation and controlling authorities of the Republic of Azerbaijan, the rights and duties of individuals and legal entities, the use of these resources, and the disposal of these resources, defines the mechanism of accountability and currency operations and monitors the mechanism.

Although there is no restriction on the national currency of the Republic of Azerbaijan for citizens of the Republic of Azerbaijan, ie residents, there are restrictions on access to national currency for non-residents, ie foreigners or stateless persons. The limits of these restrictions are determined by the Central Bank of the Republic of Azerbaijan.

# CONCLUSION

The result of our research is that international financial and credit organizations are the main instrument in the regulation of foreign trade and economic relations between the countries of the world. The mechanism of regulation of the international currency-payment instruments, both financial flow movements and international trade between the countries of the world, is the result of the activities of international financial-credit organizations.

At the same time, as a result of the comprehensive analysis it became clear that the main purpose of creation of international financial and credit organizations is to increase economic growth rates in these member states, to improve the current economic situation in the country, to form a mechanism for proper financial flows from one state to another.

There are the following types of corporate securities in the Azerbaijani market: stocks of enterprises, corporate bonds, privatization shares, options. There are also state-owned securities in circulation that turnover over them is much higher than the turnover in the private sector.

International experience shows that additional funds can be used for business development through the stock market.

In order to increase the effectiveness of the securities market in Azerbaijan, it is important that business be transparent first of all.

Secondly, there should be responsibility for international standards. Under such circumstances, the market will grow self-sufficient.

The exchange may allow emitters to change their assets into new projects. It creates conditions for attraction of potential buyers of securities and encourages securities owners to sell them. Thus, the list of dealing participants significantly expanded. However, issuers are, in any case, abused.

A comprehensive study by international credit organizations has revealed that some financial institutions are operating on Islamic principles. An example is the Islamic Development Bank. The Islamic Development Bank, which has chosen the principle of coexistence in revenue, does not require any interest or commission for the loan provided and operates only in accordance with Islamic principles.

During the comprehensive analysis of the thesis, the financial system in Azerbaijan and the mechanism of co-operation with the international financial institutions of the Republic of Azerbaijan were widely studied. As a result of the research it became clear that our republic, acting as an independent state and expressing its sovereignty, already cooperates with several international financial institutions. As a result of the successful policy pursued by the Republic of Azerbaijan after its independence, our republic is experiencing its sunset and developing on an ever-increasing line. Undoubtedly, this development is based on the proper organization of the international economic relations system, as well as the interaction with international financial institutions. if the Republic of Azerbaijan carried out import operations only during the first years of its independence, our state already acts as an exporter in the world market.

One of the gratifying cases is that if we were able to get into the world market as raw materials only at the time of independence. At present, as a manufacturer of goods, we can go to the world market and compete with existing competition. As a result of the successful policy pursued by the Republic of Azerbaijan, today our state is able to cope with the function of even capital exporters. Undoubtedly, on the basis of all this, the strengthening of foreign trade and economic relations is based.

As a result of the comprehensive analysis of the thesis work, the following suggestions on the expansion of foreign economic and trade relations of the Republic of Azerbaijan and their interaction with international financial and credit organizations can be more effective:

* Further expansion of interrelations with international financial and credit organizations;
* Establishing a regulatory mechanism for the proper use of financial resources derived from international financial and credit organizations;
* Focusing on the development of non-oil spheres of financial resources derived from international financial and credit organizations;
* Studying the current practice of countries in which they interact with international financial and credit organizations and are more experienced in this field.

# REFERENCES

1. F.Məmmədov. “Beynəlxalq valyuta-kredit münasibətləri və xarici ölkələrin pul kredit sistemi”. Bakı-2012 <http://unec.edu.az/application/uploads/2015/12/bey_valyuta.pdf>
2. Nurpaşa Novruzov, Xanoğlan Hüseynov. “Maliyyə”. Bakı-2007
3. N.R.Quliyev, M.M.Mahmudov. “Beynəlxalq maliyyə munasibətləri” Bakı-2011 <http://unec.edu.az/application/uploads/2015/12/89_maliya.pdf>
4. V.Əzizov. “Beynəlxalq valyuta-maliyyə münasibətləri”. Bakı-2012 <https://www.academia.edu/6604737/Beyn%C9%99lxalq_valyuta-maliyy%C9%99_m%C3%BCnasib%C9%99tl%C9%99ri>
5. V.Z.Zeynalov. “Beynəlxalq Maliyyə”. Bakı-2010
6. D.A.Bağırov, M.Həsənli. “Maliyyə”. Bakı-2011
7. E.Ə.Balayeva, Ş.Ü.Həmişəyeva, M.M.Sadıqov. “Beynəlxalq valyuta-kredit münasibətləri və xarici ölkələrin pul-kredit sistemi”. Bakı-2003 <http://unec.edu.az/application/uploads/2015/12/bey_valyuta.pdf>
8. F.Ş.Kaşiyeva. “Pul, kredit, banklar”. Bakı-2011 <http://unec.edu.az/application/uploads/2015/12/81_pul.pdf>
9. R.F.Rəsullu. “Beynəlxalq iqtisadi münasibətlər” Bakı-2014 <http://book.ilkaddimlar.com/d_doc_book_iqtisadiyyat_23582.do> M.Hüseynov. “Maliyyə, pul tədavülü və kredit”. Bakı-2011
10. R.Məmmədov. “Beynəlxalq iqtisadi münasibətlər”. Bakı-2013
11. Hacızade E.M. Sosiallaşan iqtisadiyyat,Bakı: Elm,2006,509 s
12. Hacızadə E.M., Bağırzadə E.R. Azərbaycan iqtisadiyyatının dünyadakı reytinqi. Bakı: Elm. 2011, 128 s.
13. **“Böyük İqtisadi Ensiklopediya”. VII cilddə. /akademik Ziyad Səmədzadənin baş redaktorluğu ilə. Bakı: “Letterpres” nəşriyat evi, 2012-2015.**
14. Z.F.Məmmədov. Beynəlxalq valyuta-kredit münasibətləri və xarici ölkələrin pul-kredit sistemi. (Dərslik). Bakı, Azərnəşr 2012, səh 504
15. N.R.Quliyev M.M.Mahmudov Beynəlxalq Maliyyə Münasibətləri. Bakı, 2011.s.213
16. Ə.H.Ələkbərov, M.Ə.Vəliyev, S.M.Məmmədov, M.K.Ramazanov. “Beynəlxalq İqtisadi Təşkilatlar”. Bakı. 2010
17. Osman Nuri Araz , Elçin Süleymanov “ Azərbaycan iqtisadiyyatı”. BAKI-2010
18. Müzəffər Məmmədov, Elçin İbadov. “Beynəlxalq İqtisadi Təşkilatlar”. Bakı. 2008
19. Cəlil Kərimov, Ayaz Orucov, Tahirə Kərimova. “Beynəlxalq İqtisadi Təşkilatlar”. Bakı. 2008
20. Zahid Məmmədov “Beynəlxalq valyuta-kredit münasibətləri və xarici ölkələrin pulkredit sistemi” BAKI-2008
21. Əli Həsənov “Müasir beynəlxalq münasibətlər və Azərbaycanın xarici siyasəti”. BAKI-2005
22. M.M.Sadıqov, E.Ə.Balayeva, Ş.Ü.Həmşəyeva. “Beynəlxalq Valyuta-kredit münasibətləri və xarici ölkələrin pul-kredit sistemi”. Bakı. 2003
23. Elçin Süleymanov ”Azərbaycan və Avropa yenidən Qurma və İnkişaf Bankı

Münasibətləri”, Azərbaycan Müstəqillikdən Sonra Beynəlxalq Konfransın Materialları, Bakı, 3-4 Mart 2003, ss .101-102

1. “Mərkəzi Bank və İqtisadiyyat Jurnalı”. №2, 2013 <https://www.cbar.az/standalone/the-central-bank-and-economy-2015-1/>
2. “Mərkəzi Bank və İqtisadiyyat Jurnalı”. №1, 2014 <https://www.cbar.az/pages/publications-researches/the-central-bank-and-economy-magazine-2015-number-2/>
3. Corc Soros. “Açıq cəmiyyət qlobal kapitalizm islahat edərkən”. Moskva-2001
4. Н.Шмелев, В.Шенаев. «Мировая валютная система и проблема конвертируемости рубля». 2006 <https://www.ozon.ru/context/detail/id/2972484/>
5. Н.Шмелев. «Международные валютные отношение» 2009 <http://www.bibliotekar.ru/valyutno-creditnye-otnosheniya/3.htm> М.Евгений. «Международная валютная система» 2011 <https://utmagazine.ru/posts/7770-mezhdunarodnaya-valyutnaya-sistema>
6. «Международная Экономика». Конспект лекций КНЕУ. <http://lybs.ru/index-10167.htm>
7. Авдокушин Е.Ф. Международные экономические отношения. - М., Финансы и статистика, 2003.
8. Антонов Н.Г., Пессель М.А. Денежное обращение, кредит и банки. - М.: АО &quot;Финстатинформ&quot;, 2001.
9. Буглай В.Б., Ливенцев Н.Н. Международные экономические отношения. - М., Финансы и статистика, 2003.
10. B.Eichengreen. “Globalizing Capital: A History of The International Monetary System”. 2nd Edition. 2008 <https://press.princeton.edu/titles/8753.html>
11. R.Solomon. “The International Monetary System, 1945-1981”. 1982 <http://onlinelibrary.wiley.com/doi/10.1111/infi.12069/pdf>
12. J.Richards. “The Death of Money: The Coming Collapse of The International Monetary System”. 2014 <https://www.goodreads.com/book/show/18114198-the-death-of-money>
13. P.Salin. “The International Monetary System and The Theory of Monetary System”. 2016 <http://www.e-elgar.com/shop/the-international-monetary-system-and-the-theory-of-monetary-systems>
14. A.F.W.Plumptre. “Reform of The International Monetary System. Some Points of Special Interest to Developing Countries of The Commonwealth.” 2015 <http://www.thecommonwealth-ilibrary.org/commonwealth/imprints/r>
15. Jeffrey M.Chwieroth. “Capital Ideas: The IMF and the Rise of Financial Liberalization”. 2010 <https://eh.net/book_reviews/capital-ideas-the-imf-and-the-rise-of-financial-liberalization/>
16. Kathryn C.Lavelle. “Legislating International Organization: The US Congress, The IMF and The World Bank”. 2011 <https://www.questia.com/library/politics-and-government/international-relations/international-organizations/imf>
17. Cooper N.Richard. “Necessary Reform? The IMF and International Financial Architecture”. 2009 <https://www.questia.com/library/journal/1G1-195774204/necessary-reform-the-imf-and-international-financial>
18. Xafa Miranda. “Role of The IMF in Global Financial Crisis”. 2010 <http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.172.5927&rep=rep1&type=pdf>
19. Woods Ngaire. “Unelected Governments: making The IMF and The World Bank More Accountable”. 2003 <https://www.researchgate.net/publication/227512958_Making_the_IMF_and_the_World_Bank_More_Accountable>

**Internet materials:**

1. Beynəlxalq maliyyə institutları. <http://www.budget.az/main?content=341>
2. Azərbaycan və Dünya Bankı Qrupu arasında əməkdaşlıq. <http://lib.aliyev-heritage.org/az/1731435.html>
3. Azərbaycan-Beynəlxalq Valyuta Fondu. <http://lib.aliyev-heritage.org/az/642922.html>
4. Azərbaycanın maliyyə sistemi. <http://www.mtk.az/content/?i=39&title=maliyye-ve-kredit-memmedova-nehayet>
5. Beynəlxalq maliyyə bazarları. <http://kayzen.az/blog/B%C4%B0M/10863/beyn%C9%99lxalq-maliyy%C9%99-bazarlar%C4%B1.html>
6. Maliyyə bazarları. [*www.academia.az*](http://www.academia.az)