

**THE MINISTRY OF EDUCATION OF THE REPUBLIC OF AZERBAIJAN
AZERBAIJAN STATE UNIVERSITY OF ECONOMICS
INTERNATIONAL GRADUATE AND DOCTORATE CENTER**

MASTER DISSERTATION

ON THE TOPIC

**“DEVELOPMENT TRENDS OF CENTRAL BANKS IN THE CONTEXT
OF GLOBALIZATION”**

QADIMOV TOFIQ VUQAR

BAKU – 2019

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GLOBALIZATION.”**

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BAKU – 2019

QLOBALLAŞMA ŞƏRAITİNDƏ MƏRKƏZİ BANKLARIN İNKİŞAF TENDENSIYASI

Xülasə

Tədqiqatın aktualığı: Maliyyə qloballaşmasının yeni mərhələsi - dünya iqtisadiyyatının qloballaşma tendensiyasının təzahürləri kimi kapitalın hərəkətlərində yalnız xarakterizə olunmuş təkrar artım, milli və global maliyyə bazarlarının qarşılıqlı təsiri dərəcəsinin gücləndirilməsi deyil, həm də global maliyyə tənzimlənməsi strukturunda əsaslı dəyişikliklərdir.

Tədqiqatın məqsəd və vəzifələri: Tədqiqatın məqsədi iqtisadiyyatın qloballaşması şəraitində mərkəzi bankların tənzimləyici rolunu tərəfindən dünya iqtisadiyyatında tarixi dəyişiklikləri başa düşmək, eyni zamanda bu dəyişiklikləri və perspektivləri Azərbaycan iqtisadiyyatında tətbiq etməkdir.

İstifadə olunmuş tədqiqat metodları: Tədqiqat işində nəzəri metodlardan istifadə edərək, dünya maliyyə bazarının əsas tendensiyaları və inkişaf perspektivləri qeyd edilmişdir. Tədqiqatda məlumatların toplanması, sistemə yanaşma, təyin edilmiş tapşırıqlara çatmaq üçün məlumatların təhlili və tədqiqatın məqsədi kimi müxtəlif metodoloji üsullardan istifadə olunub.

Tədqiqatın informasiya bazası: Azərbaycan Respublikasının Mərkəzi Bankının və digər mərkəzi və milli bankların və həmçinin beynəlxalq təşkilatlarının statistik məlumatlarından istifadə olunmuşdur.

Tədqiqatın məhdudiyyətləri: Azərbaycanda və digər ölkələrdə mərkəzi bankların maliyyə bazarlarının tənzimlənməsi haqqında əldə olan ədəbiyyatın və statistik məlumatlarının çatışmazlığı.

Tədqiqatın nəticələri: Araşdırmalar nəticəsində mərkəzi bankların qlobalizasiya şəraitində çox bir dəyişikliyi müşahidə edə bilərik. Alınan nəticələrdən belə qərara gəlmək olar ki, Azərbaycan digər inkişaf etmiş ölkələrin qloballaşma dövründən başlayaraq ölkənin maliyyə bazarlarının tənzimləmə təcrübəsindən istifadə edərək ölkədə tənzimləmə prosesinin üzərində dəyişikliklər etməlidir.

Nəticələrin elmi-praktiki əhəmiyyəti: Aparılan araşdırmanın nəticəsində biz müasir mərkəzi banklarının inkişaf perspektivlərini üzə çıxarıb, Azərbaycan mərkəzi bankına tətbiqi və bilavasitə inkişaf yollarının tapılması məqsədi daşıyır.

Açar sözlər: central bank, megaregulator, crisis, globalization, regulation

ABBREVIATIONS AND SIGNS

CB	Central Bank
FED	Federal Reserve Board
ECB	European Central Bank
TSLF	Term Securities Lending Facility
PDCF	Primary Dealers Credit Facility
SLS	Special Liquidity Scheme
AMLF	Asset-Backed Commercial Paper Money Market Mutual Funds Lending Facility
TALF	Term Asset-Backed Securities Loan Facilities
CBPP	Covered Bond Purchase Programme
QE	Quantitative Easing
ABS	Asset-backed Security

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Introduction

Relevance of a subject of a research: The new stage of financial globalization - as manifestations of a trend of globalization of world economy - is characterized not only repeated increase in cross-border flows of the capital, strengthening of extent of interpenetration and mutual influence national and global the financial markets, but also fundamental changes in structure of global financial regulation.

The financial globalization providing stimulation of internal savings, depreciation of the capital, implementation of more progressive technologies, fast capital flow, etc. is shown also in change of the principles and mechanisms of bank regulation and supervision. It was especially accurately designated in the conditions of modern crisis when against the background of bankruptcy of the largest financial institutions of the government developed and developing countries were forced to accept and implement the programs of crisis management aimed at providing financial stability, decrease in general economic losses.

Degree of scientific readiness of a problem: In economic literature to the system analysis of activity of the central banks, including, at the international level, not enough attention is paid. The main focus of researches is placed on practical aspects of functioning of issue institutions. Such researches have the mechanistic character based on monetarist approaches. Reproduction approach to the analysis of a role of issue institutes in regulation of macroeconomic proportions at the global level and also to a research of consequences of the monetary policy pursued by them did not become a subject of close attention in economic science yet. Not investigated there is a layer of the problems connected with the system analysis of the regulating activity of the central banks in the conditions of globalization of economy and also with creation of global bodies of monetary regulation.

At the same time the emphasis on need of strengthening of state regulation of the financial sphere including bank, in terms of improvement of mechanisms and the principles (as an indispensable condition of recovery from the crisis) and also

in terms of improvement of supervisory authorities was placed (as a condition of prevention of crisis situations in the future).

The system of bank supervision covers set of the laws and regulations regulating activity of economic entities; institutes of property, segments of a financial system; development of standards of account and reporting of banking institutions; supervisory authorities, their functions and powers; the taken measures and sanctions. Bank supervision includes such aspects as licensing and registration, inspection, remote supervision, work with "problem" banks (allocation of groups of banks, development of programs of influence), procedures for revocation of license and liquidation of bank.

Strengthening of redistributive function of money in global economy causes the transformation of the issue mechanism having close connection with a global imbalance in world economy - system disproportions in national farms and in world economy, the trade and financial flows finding manifestation in imbalance between the countries. Respectively, the regulating role of issue institutes changes: they interfere with formation of reproduction proportions at the national and global levels more actively, the principles of monetary policy, quantitative and qualitative parameters of tools of monetary regulation and also operations of the central banks change intertwine with operations of systemically important banks more and more closely.

These trends cause the need for scientific justification of activity of set of the central banks for qualitatively changed environment - at the present stage of financial globalization. At the same time, now complex researches in this area are absent. It asks about need of revision of the settled views and about development of new concepts which would allow on the basis of streamlining and systematization of the accumulated scientific knowledge to reflect high-quality changes of an object of knowledge.

Main goal of a research.: Global threats which Azerbaijan at the present stage faces all more gain monetary character and are shown, in particular, in strengthening of volatility of capital flows in domestic market, growth of influence

of the global financial market on behavioral model of domestic subjects of managing. In these conditions the country is faced by a problem of adaptation of monetary policy to new realities of financial globalization, development of measures for neutralization of external threats of financial stability, coordination of efforts of public authorities in the direction of increase in efficiency of integration of the country into the system of cross-border capital flow.

Object of a research: Object of a research is regulation of the central banks and the analysis of the taken place and a role of regulation of the central banks in world economy, studying of ways of improvement and development of the matter.

Recognition of threat of system risks at world level and also depth of consequences of the global financial crisis set a task of formation of a system of state regulation of the financial sector on new level. It is necessary for achievement of stability of a national financial system completeness and integrity of institutional registration of the regulatory environment.

The new architecture modern world and the national financial markets demanded reconsideration of content of regulation and supervision.

Methods of research: Theoretic ways of research methods were using in order to reveal main trends and perspectives of development of central banks in context of globalization. Collection of data from different resources ,such as internet and literature sources , systematic approach ,observation , analyses of collected data were used in this research

Information base of research: Central Bank of Azerbaijan , central and national banks of other countries and also different international financial and non-financial organizations were taken as information base of the research.

Experience of creation and functioning of the uniform regulator in economically developed countries showed its clear advantages in comparison with traditional model. At the same time the choice by each country of model of financial regulation, optimum for it, depends on many factors: level and strategy of development for a financial system; institutional structure of the financial sector;

structure and structure of consumers of financial services (businessmen and population) and some other factors.

Limitations of research: There are not enough attention on degree of research of regulation methods of central banks by leading economists and in economic literature. Main points of researches based on aspects of currency issue problems. The main points of researches is placed on practical aspects of functioning of issue institutions. Not investigated if there is problems connected with the system analysis of regulation activity of the central banks in the conditions of globalization of economy and also with creation of global bodies of monetary regulation.

Central banks carry out an exclusive role in stabilization of the banking sector and building confidence in it and also regulate possibilities of activity of banks by means of establishment of conditions of their functioning. Fully to perform functions on ensuring stable and adequate activity of banks of the second level, the central banks establish a number of requirements and restrictions through uses of preventive, protectionist, economic and administrative methods.

Importance of results of the research. The role of the central banks considerably extended as a result of financial crisis. Earlier central banks used generally indirect methods of regulation of bank activity, bore responsibility for carrying out monetary policy and also acted as financial consultants and were sources of financial means for the national governments. At the moment these institutions have more large powers for ensuring bank stability. It often demands a combination of traditional and nonconventional approaches.

In all economically developed states regulation of a banking system has priority value. The part of the leading economic agents and the most important channels of impact on macroeconomic processes is assigned to banks in market economy at the same time. Their value in maintenance of stable social climate is extremely important.

Banking system, being an integral part of economy, presents set of different types of banks and bank institutes to their interrelations. Banks play an important

role in economy of each country. In this regard maintenance of stability of a banking system is one of the main tasks of any society.

The research of bank activity assumes first of all disclosure of maintenance of a number of such key concepts as "bank regulation, management, control and supervision" on the basis of which technologies of bank management and by means of which the state promotes safety and stability of a banking system are formed.

Structure and content of research. The research consist from three separate parts interconnected with each other .Three parts of research based on theoretical part , analyze of problem of the regulation and also perspectives and advice on future forecasts.

CHAPTER I. THEORITICAL ASPECTS OF THE ROLE OF CENTRAL BANKS IN THE CONTEXT OF GLOBALIZATION.

1.1 Functions of central banks at national and global level.

The doctrine about the central bank — rather young science. In the majority of the western countries processes of formation of the central bank came to the end only in the 19th century, and in a number of the countries — only at the beginning of the 20th century. Serious scientific researches were a rarity. Certainly, all this affect effective management of monetary circulation. (Moenjak, 2014)

Prior to the creation of central banks, societies often used precious metals such as gold or silver as the means of transaction for goods and services.

The history shows that for the last 100 — 150 years of the state could not develop a little reliable mechanisms preventing disproportions in the monetary and credit sphere. A hyperinflation in Germany in the 20th years, panic in the stock market in the USA in the 30th years, the strongest inflation in post-war years in the European countries significantly undermined economic development. Bankruptcies of banks and companies aggravated social problems, suddenly reduced savings not only certain citizens and the enterprises, but also led to financial crash of the whole people. (Uittenbogaard, 2014)

The financial crises especially noticeable in the first half of the 20th century, quite often remind of themselves and recently, their feature consists that they cease to have local character. In the modern world when national economies of the certain countries are closely interconnected and processes of globalization are rather developed, financial crises in some countries begin to gain the international character: having arisen in one region, stepping over national borders, they turn into international problem.

The general sign is first of all that the central banks treat mainly the sphere of the economic relations. Therefore the central bank can be characterized as economic institute. Its monetary policy is based on use of money, the credit, percent, an exchange rate as instruments of stimulation of economic development.

The central bank functions in the sphere of exchange. Creating the product in the form of cash and non-cash means of payment, emitting them in the address, it provides a circulation and turnover of the capital of economic subjects, the continuity of process of production, distribution, redistribution and consumption of a public product.

In a sense the central bank is a trade institute. Accumulating money of clients (commercial banks) on the accounts, the central banks carry out their redistribution on a returnable basis, crediting temporary requirements of those banks which need the temporary monetary help in a refinancing form.

The central bank is the public institute working mainly at the macro level of the economic relations. Emission of cash and means of payment are important for separate economic subjects and for economy in general. Providing the rational organization of monetary addresses, non inflation development, it creates conditions for preservation of value of money and by that for social development of society. (Kathleen McNamara, 2002)

Institutional definition of the central bank does not exist, all definitions are functional, that is describing the central bank through the functions which are carried out by it.

International Monetary Fund: the central bank — internal financial institution which exercises control over key aspects of a financial system (definition is used by drawing up official statistics).

European Central Bank: the state institute which manages currency of the country or group of the countries and also regulates the monetary offer.

Bank for International Settlements: institute of state policy which main goals consist in maintaining monetary stability and assistance of financial stability.

British encyclopedia: institute which is responsible for regulation of the size of the national monetary offer, availability and cost of the credit and also currency cost.

New Palgrave: the dictionary on economy: the institute managing monetary issue, quantity of money and the credit for monetary policy; acting as the banker

for the government and the banker for commercial banks, including crediting of final instance; managing director of the international reserves of the country.(Blume, 2016)

Dictionary of banking and finance (London): the main bank controlled by the government in the country which manages financial affairs of the country, establishing the main interest rates, emitting money, supervising behind commercial banks and seeking to operate an exchange rate.

Lexicon of the editorial office "Financial Times": the monetary authorities and the largest regulating bank in the country whose functions include issue and management of country currency, carrying out monetary policy and supervision of operations in the money market, management of gold and foreign exchange reserves, performance of a role of the creditor of final instance for commercial banks and providing banking services to the government.

At the same time, as the legal entity, the central bank carries out separate operations with concrete other economic subjects. Micro level of the economic relations is shown fully, however central, unlike other banks here, works not for itself, and on economy in general. It grants the right to characterize its activity as activity of National Institute. Not without reason in the certain countries it is called national bank (for example, the Austrian national bank), bank of the respective country (for example, the Bank of England, the Bank of Russia, Bank of France), national bank (for example, earlier — National bank of the USSR), emphasizing with that the national nature of its activity.

Unlike the banks acting as business public institutions (banks of reconstruction and development, Rosselkhozbank), activity of the central bank has no commercial character. The central bank represents non-profit organization. As any economic establishment it provides to economic subjects the products and services and as well as commercial banks, receives for them the certain payment compensating its expenses. However unlike the commercial organizations receiving profit is not the purpose of activity of the central bank. The central banks resulted from historical evolution and development of the market relations.

The analysis of history of development of the central banks showed that their sources lie in activity of the private banks which received privilege on issue activity.

Emergence of the central banks belongs to the middle of XIX – the beginning of the 20th century as during this period of the government of the majority of the countries legislatively assign to certain banks control over currency issue in the address.

Emergence of the term "central bank" belongs to the beginning of the XIX century. Thomas Joplin (1790 — 1847) in work "The essay about the general principles and the current practice of banking in England and Scotland" of 1828 criticizes monopolistic positions of the Bank of England and stands up for establishment of new joint-stock banks except already operating Bank of England. "Central bank" Joplin uses expression concerning the headquarters of multinational banks.

Throughout the XIX century understood the banks which are located in the large cities and having offices and branches beyond its limits as the central banks. In some cases they had the word "central" in a trade name. In 1834 in Scotland Central Bank of Scotland, in 1836 — Central Bank of Liverpool, in 1891 — Central Bank of London was created. This practice went out of Great Britain and got accustomed in colonies. In Canada before finding of political independence of the British Empire Central Bank of New Brunswick (1834) and Central Bank of Canada (1836) were founded. Thus, initial expression "central bank" described the large city bank working outside the native region. Only in the second half of the XIX century expression finds application for the description of activity of the Bank of England as "central bank of a deposit". The fashion for names got also into the Russian Empire. In 1873 St. Petersburg "The central bank of the Russian land credit" was created, in Moscow opening of "The Moscow central bank for institutions of the small credit" was planned. (Stefano Ugolini, 2017)

Taking into account finding of monopoly for the monetary issue assigned to one of city banks it became the only central bank of issue in domestic market.

Thus, the first central banks went beyond a border of the capitals: The Bank of England expanded the circulation of the banknotes out of borders of London, and Bank of France — out of borders of Paris. Their only difference from other banks consisted in the right of issue of banknotes. Other operations, including reception of deposits, accounting of bills, issuance of credits, etc., differed in nothing

It is hard to say where and when the central bank for the first time appeared. Some economists consider the beginning date of creation of bank which began to perform functions of central bank. According to such criterion Riksbank – the bank of Sweden founded in 1668 became the first central bank, The Bank of England was formed in 1694, The Bank of France – in 1800.

Other economists connect emergence of the central bank with obtaining by private banks privilege or exclusive right to issue of banknotes. So, the Bank of France begins issue of banknotes in 1803 and becomes the largest emission center. Quite long interval of time of the banknote of Bank of France remained private money, but recognized them as reliable as exchange on gold remained. Only in 1870 banknotes of Bank of France received the status of lawful means of payment. The Bank of England acquires the exclusive right of issue of banknotes in 1844.

But the role of the central bank not only is defined by issue of banknotes as it is considered to be: in France and some other countries the release of money in the circulation along with the central bank can carry out treasury.

Banks of this kind are engaged in the most various types of activity. They not only perform operations on crediting, the organization of calculations, traditional for banks, in cash and non-cash forms, store money of clients, emit means of payment, but also manage gold and foreign exchange reserves of the country, analyze and predict a condition of national economy, perform supervising and control functions. Working in the sphere of the economic relations at macro and micro levels, the central banks deal with issues of material support and operation of the objects entrusted to them and the equipment, have own technological centers and information systems, collect and process the relevant information.

The combination of economic, organizational and material operations to a certain extent veils essence of the central bank, does it by "many-sided" institute.

First of all that the central banks belong signs mainly to the sphere of the economic relations. Therefore the central bank can be characterized as economic institute.

Tools of the central bank mainly economic methods of regulation, its monetary policy it is based on use of money, the credit, percent, an exchange rate as instruments of stimulation of economic development, functioning in the sphere of the commodity-money relations, the central bank is dependent on extent of their development, their falling leads to abolition of bank. At the same time it is necessary to recognize that it cannot make its essence, economic types of activity busy also other economic subjects. Our task at disclosure of essence consists in other — not in display of the phenomena, general, peculiar for a set, and in disclosure special, specifics of the activity distinguishing the central bank from other institutes.(Bernanke, 2018)

In a sense the central bank is a trade institute. Accumulating money of clients (commercial banks) on the accounts, the central banks carry out their redistribution on a returnable basis, crediting temporary requirements of those banks which need the temporary monetary help in a refinancing form.

Equally it belongs also to characteristic of the central bank as national establishment.

Really, it is necessary to recognize that activity of the central bank is shown mainly at the macro level of the economic relations. Providing the rational organization of monetary circulation, non-inflationary development, it creates conditions for preservation of value of money and by that for social development of all society and its certain citizens.

At the same time as the legal entity the central bank carries out separate operations with concrete other economic subjects. Micro level of the economic relations is shown fully, however central, unlike other banks here, works not for itself, and on economy in general. It also grants to us the right to characterize its

activity as activity of National Institute. Not without reason in the certain countries it is called national bank (for example, the Austrian national bank), bank of the respective country (for example, the Bank of England, the Bank of Russia, Bank of France), national bank (for example, National bank of the USSR), emphasizing with that the national nature of its activity.

The analysis of history of development of the central banks showed, that their sources lie on receiving privilege on issue activity. Gradually the issue of banknotes in the address by these banks became the second, and then and primary activity; the bank which received privilege turned into the main bank of the state, and means of payment emitted by it — into general means of payment; their issue activity gained the national importance. It is possible to tell that for the last a little more than 300 years at various historical stages on some activities of the central banks a number of trends of their development is observed. Among them two trends are quite distinctly shown:

- 1) the concentration of issue activity which came to the end with its monopolization in one bank. As we saw, final formation of the first banks of issue as central happened in the course of concentration of issue activity, its monopolization in one bank. With nationalization of the central banks their full nationalization comes to the end;

- 2) nationalization of the central bank from a property position on its own capital, and strengthening of state regulation of the monetary sphere. (Kenneth Spang, 2007)

In the conditions of modern economy central banks are "banks of banks" which issue activity turns into the most important factor of regulation of economy.

Developing in the evolutionary way, the central banks become the main banks of the state, their activity is closely connected with the interests of the governments, advancing of their income. Excess of limits of emission of money throughout all history of activity of the central banks led to their depreciation, and then and to an issue separation from the valid money.

Helping the state, the central banks in practice and in the theory looked for all ways which could resolve a contradiction between surplus of money and their shortcoming, between the excessive issue and elasticity of monetary circulation stimulating activation of production. This search continues also in modern economy.

The question of the purposes and tasks of the central bank is initial for all organization of its activity. At all importance of the matter approaches to its decision are various.

The maintenance of the purposes and tasks of the central bank is defined by its essence. As it was already told, the central bank working in the sphere of exchange represents public monetary and credit institute which regulates money turnover in cash and non-cash forms in public interests. The central bank cannot solve problems which are assigned to the industry or other structures of production of goods, it is urged to render them the specific services. These services are provided in cash. The central bank, being public institute, at the same time acts as a part of a uniform economic organism where each part is designed to provide its integrity. As a part of the general economic system and one of its bodies he is obliged to consider a field of activity and the interests of other economic structures, to promote, moderately to the essence, realization of the common economic interests, including the interests of other economic subjects.

From here the main goal and tasks of the central bank first of all are connected with a monetary system.

In the legislation of a number of foreign countries first of all the target orientation of the central banks connected with stability of currency and the prices. The Bank of Japan, for example, considers that the main and ultimate goal his policy consists in ensuring price stability. According to the Law "About Autonomy of the Bank of Spain" (1994) its main goal is also formulated as price stability maintenance. In the banking legislation of Germany in the law on Bundesbank it is told about three main objectives. It:

- 1) regulation of money supply in the circulation;

- 2) providing economy with credit resources;
- 3) implementation of payment transaction.

At the same time it is noted that "Bundesbank is obliged according to its tasks to support the general economic policy of the government".

In accordance with its essence and target orientation, the tasks of the central bank are mainly concentrated in the following areas:

- 1) in relation to the economy as a whole;
- 2) in relation to the government;
- 3) in relation to banks and the banking system.

The tasks related to the economy as a whole are primarily related to ensuring the economy with the necessary monetary funds sufficient for exchange.

The art of the central bank is that, having a monopoly right to issue cash, keeping and taking into account the country's foreign exchange reserves, emit such a mass of means of payment that are not only sufficient for the production and circulation of the product, but also ensure the stability of the national currency in the internal and external economic turnover. Such a dual task of the central bank is the main one that defines all of its activities as an issuing institution of the country.

Being a part of the state structure, ensuring the development of the economy together with the government, the central bank provides it with the necessary assistance in implementing economic programs within its essence, covers seasonal gaps in savings if necessary, and places government securities. Rendering such assistance, the bank should not damage at the same time the implementation of its main task noted above.

In relation to banks, the central bank is a "bank of banks". His task is to be a lender of last resort, if necessary, to maintain their liquidity. Where he has the authority of the supervisory authority, his tasks are related to ensuring the effective operation of credit institutions. By establishing a procedure for admitting commercial banks to the banking market, determining economic standards for specific areas of their activities, rules and standards for conducting operations, the central bank becomes responsible for the quality of their activities.

In the legislation of some Western countries, along with the main task of strengthening the national monetary unit, another special socio-economic task is designated - reducing unemployment by stimulating production growth. In this regard, accents in the activities of the central bank are not limited to the interests of the bank's sphere, they are aimed at the commodity market, on the growth of production.

To fulfill their goals and objectives, central banks are given appropriate functions.

The functions of central banks are usually outlined as follows:

- Issuer of currency.
- Bank and advisor to government.
- Custodian to reserves of commercial banks.
- Central clearance authority and settlement of interbank conflicts.
- Custodian to other foreign currency and gold reserves of the country.
- Management of the money and banking system.
- Lender of last resort.
- Public debt management.
- Executor of monetary policy.
- Open market operations in and out of the country.
- Collection and reporting of economic statistics.
- Supervisor of commercial banks.
- Administration of exchange controls.(Chorafas, 2013)

This, however, is a scatter approach, and not especially useful. Many of the functions of the central bank can be grouped into a more logical framework. For example, the functions banker to government, advisor to government and public debt management, belong together. Similarly, lender of last resort, custodian of banks' cash reserves and management of the money and banking system belong together. Formulation and implementation of monetary policy (aimed at achieving and maintaining price stability)

- Formulation of monetary policy framework
- Influence on level of interest rates (through bank liquidity management)
- Open market operations

Banker and advisor to government

- Banker to government
- Public debt management
- Administration of exchange controls

Management of the money and banking system

- Lender of last resort (note: not a monetary policy function)
- Currency management (notes and coins)
- Banker to private sector banks
- Settlement of interbank claims
- Bank supervision
- Supervision of payments system
- Management of gold and foreign exchange reserves
- Development of debt market

Provision of economic and statistical services

Provision of internal corporate support services and systems

It should be evident that many of these functions are all interrelated. The latter two functions do not require much elaboration; thus we will cover them first. The function provision of internal corporate support services and systems is an obvious one: any organisation requires an infrastructure in order to carry out its functions / business.

The function provision of economic and statistical services, while significant, is also an obvious one. Suffice it to say that all central banks have economic departments that provide detailed statistics to CB, government and public through publishing it:

- Quarterly Bulletins and Annual Reports.

- Monthly Statements of Assets and Liabilities.
- Statements and Reports of the Monetary Policy Committee (MPC).

Of these publications, the quarterly bulletin is the most detailed.

An economic overview and articles of interest, the Bank provides detailed statistics on:

- Money and banking.
- Capital market.
- National financial account.
- Public finance.
- International economic relations.
- National accounts.
- General economic indicators.
- Key information (mainly key selected data).

These data are an essential source of information for policy-makers (the CB itself), government, analysts, and academics.(Barth, 2009)

1.2 Main aims and tasks of central banks in the context of globalization

Ultimate or primary goal of activity of the central bank (ultimate or primary goal) has to be defined so that in the maximum degree to correspond to public interests. In practice several primary purposes of the central bank differ:

- price stability;
- assistance to the balanced economic growth;
- preservation of a steady exchange rate;
- financial stability

The ultimate goal or the purposes of the central bank are specified in the law on the central bank or the constitution. They become property of publicity and explain them to the public. As a result, the purposes are reconsidered seldom, the legislation on the central bank regarding its purposes can remain invariable within decades.

The activity of the Central Bank is the process of implementing the aims and tasks established by law, in order to maintain and develop monetary relations, the payment and banking systems and the economy as a whole in terms of globalization.

The activities of the Central Bank are carried out in accordance with the aims, tasks and principles that are harmonized with the country's common economic policy. In the economic literature and legislation, the goals and objectives of the activities of the Central Bank are usually not shared.

In developed countries, the goals and objectives of the Central Bank are, as a rule, specified and enshrined in law. For example, the objectives of the US Federal Reserve are to promote maximum employment, price stability, and moderate long-term interest rates by the Fed; The objectives of the Bank of Great Britain are to supervise and control the banking system and conduct state monetary policy, fulfill the functions of the country's main bank, government banker and lender of last resort. The main task of the Bank of Spain is to maintain price stability. The objectives of the Bank of Japan are monetary emission, monetary regulation, ensuring the smooth functioning of the settlement system and the financial system, achieving price stability, and developing the national economy. In Germany, the Bundesbank Law defines its three main tasks: regulating the money supply in circulation, providing the economy with credit resources, and organizing and implementing national payment transactions.

S. Fischer, R. Dornbusch and R. Schmalensee believe that the main task of the central bank is to ensure the stability of the banking and financial systems, with the Central Bank acting as a lender of last resort. The second task, in their opinion, is to conduct a monetary policy that ensures low inflation and unemployment, but high employment and high economic growth.

Thus, summarizing, we can identify the following aims and tasks of the Central Bank:

- 1) ensuring the stability of the functioning of the banking and financial system;

- 2) supervision and control of the banking system;
- 3) the implementation of monetary policy;
- 4) the issue and organization of the circulation of money;
- 5) functioning as a bank of banks, a banker of the government and a lender of last resort;
- 6) ensuring a low level of inflation and unemployment, a high level of employment and economic growth;
- 7) management of funds of budgets of all levels and all other state funds that exist;
- 8) control and management of international reserves;
- 9) interaction with international financial and credit institutions.(Mishkin, 2009)

All tasks of the central bank can be classified into three groups.

1. In relation to the economy: the issue of money and the conduct of state monetary policy.
2. In relation to the government: banking services of the government and authorities, management of funds of budgets of all levels and all public funds, management of international reserves of the state, interaction with international financial and credit institutions.
3. In relation to the banking system: regulation, supervision and control of the national banking system, functioning as a bank of banks and lender of last resort.

1.3 The role of central banks in building a system of global monetary regulation

To answer this question, you can refer to the experience of countries with a developed two-tier banking system. In addition to administrative methods (imposing direct restrictions on the activities of commercial banks, conducting inspections and audits, issuing instructions, collecting and summarizing reports, etc.), central banks in the West also have economic instruments for regulating the

banking sector, the main components of which are: minimum reserve, open market and accounting policies.

Financial stability is regarded as essential to the achievement of sustainable high growth and employment. (Faure, 2015)

The policy of minimum reserves was first tested in the United States in the 30s, and immediately after the Second World War, it was introduced into the practice by the central banks of all the leading capitalist countries. Minimum reserves are deposits of commercial banks at the central bank, the amount of which is established by law in a certain relation to bank liabilities. Initially, the practice of reserving funds was intended to insure commercial banks. There may be a situation when the depositors' funds are almost entirely directed by the bank for lending. At the same time, due to some circumstances, investors may request their deposits. In this case, the bank will be insolvent. To avoid this, the central bank assumes the function of accumulating the minimum reserve, which is not eligible for lending. Another function of such a reservation is that, by changing the percentage of the reserve, the Central Bank influences the amount of free cash of commercial banks, which the latter can send to production. During the boom period for its “cooling”, the central bank increases the reserve rate, and during the crisis - the opposite. Increasing the reserve ratio by 1-2 percentage points is an effective means of restricting credit expansion. As a rule, the minimum reserve rate is differentiated. For example, in the USA in 1972-1976, it varied depending on a conjuncture, a type and size of contributions from 1 up to 17,5%. (Donald R. Wells, 2017)

Another instrument of credit regulation is the open market policy. For the first time it began to be held in the United States in the 20s. In the period of high productivity , the central bank offers commercial banks to buy securities at favorable rates for them in order to reduce their credit opportunities. During the crisis, on the contrary, the central bank creates refinancing opportunities for commercial banks and puts them in such conditions when it is profitable for them to sell their securities to the central bank. Thus, by changing the volume of purchase and sale of securities and the price level at which they are sold or bought,

the central bank can exercise a flexible and rapid impact on the credit activity of commercial banks.

Another classic tool in the practice of central banks is the policy of the discount rate, i.e. setting interest rates for loans that the central bank provides to commercial banks. Commercial banks must pay for these loans. Commercial banks provide the Central Bank payment obligations - promissory notes. These can be either own bank bills of exchange, or obligations of third parties held in banks. The central bank buys, takes into account these bills, while holding a certain percentage in their favor. If the bill provides for a payment obligation of \$ 1,000, then the Central Bank buys it, for example, for \$ 950. Then the discount rate will be 5%. Funds received from securities are provided to borrowers of commercial banks. The price of this loan, the interest rate, must be higher than the discount rate, otherwise commercial banks will be unprofitable. Therefore, if the Central Bank raises the discount rate, this leads to a rise in the cost of credit for the clients of commercial banks. This, in turn, helps to reduce loans and, consequently, reduce investment. Thus, by manipulating the discount rate, the central bank has the ability to influence investment in production.(William Mitchell, 2019)

The development of financial globalization processes brings with it serious challenges for national monetary policy. In this regard, it seems relevant to identify the relationship between the main trends in the development of the process of financial globalization and the conduct of monetary policy.

What are these trends and their impact on the conduct of monetary policy by central banks?

1.The international movement of capital, intensified as a result of monetary and financial liberalization, led in 1992–2007. to the growth of cross-border capital flows in the global economy. In the crisis years of 2008–2009 there was a sharp drop in global capital flows(Fig. 1).

In turn, the increase in capital flows between countries has led to a convergence of interest rates in various national economies. This trend towards the

convergence of real interest rates on government securities (Treasury bills) really began to be traced in the developed countries of the world (Fig. 2).

Analysis of the data shown in Fig. 1 and 2, demonstrates that the process of financial globalization has developed unevenly over time: periods of strengthening of the relevant trends (2006–2007) were followed by their slowdown or even reversal in certain areas (2008–2009). At the same time, the periods of “slowing down” of globalization coincided with the crisis tendencies in the global economy. (Pierre L. Siklos, 2007)

It is known that in an open economy, a fixed exchange rate, full capital mobility, and monetary policy aimed at internal goals cannot simultaneously be present. At the same time, this triad does not reject the possibility of conducting an independent monetary policy in the national economy in the context of globalization, the point is that such a policy can be pursued only in the conditions of a freely floating national currency.

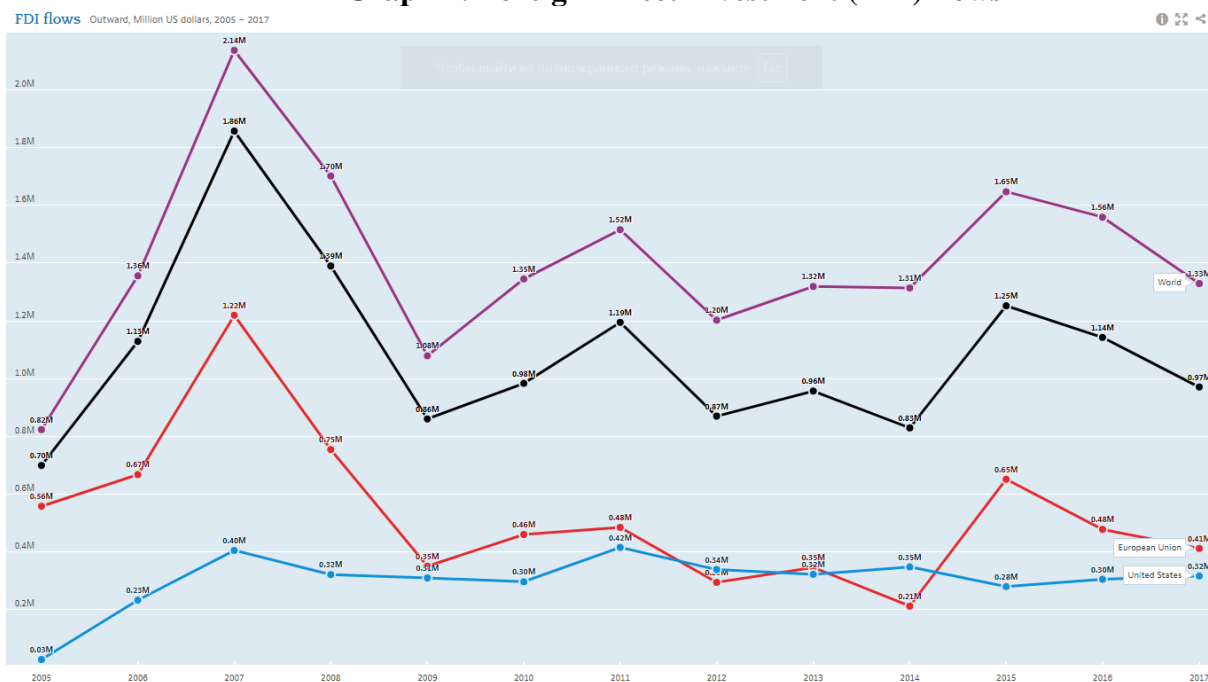
2. There is a steady downward trend in inflation on a global scale, which was especially pronounced in the 2000s. Various theoretical explanations of this phenomenon mostly boil down to increased competitive pressure in a globalizing economy in the face of lowering (or even in some cases, removing) barriers to cross-border movement of goods and services and factors of production. However, the general decrease in the rate of inflation hides significant fluctuations in relative prices.

In addition, the dynamics of the general price level in the national economy is increasingly determined by external factors: the difference between the actual and potential level of output on a global scale, the dynamics of prices for certain groups of goods (raw materials, food) on world markets, etc. (Pierre L. Siklos, 2007)

3. Volatility in financial markets is increasing. With a decrease in the growth rate of the general price level and discrepancies in the relative prices for individual goods, volatility increases in the financial markets in which “bubbles” began to form. Among such “bubbles” of the era of globalization, one can single out a rise in prices for real estate and on the stock market in the countries of Southeast Asia

in the first half of the 1990s; a boom in the US stock market caused by the rising prices of the shares of the “new economy” companies (the second half of the 1990s); growth in property prices in the United States and in several other developed and emerging market countries in the mid-2000s.

Graph 1: Foreign Direct Investment (FDI) flows



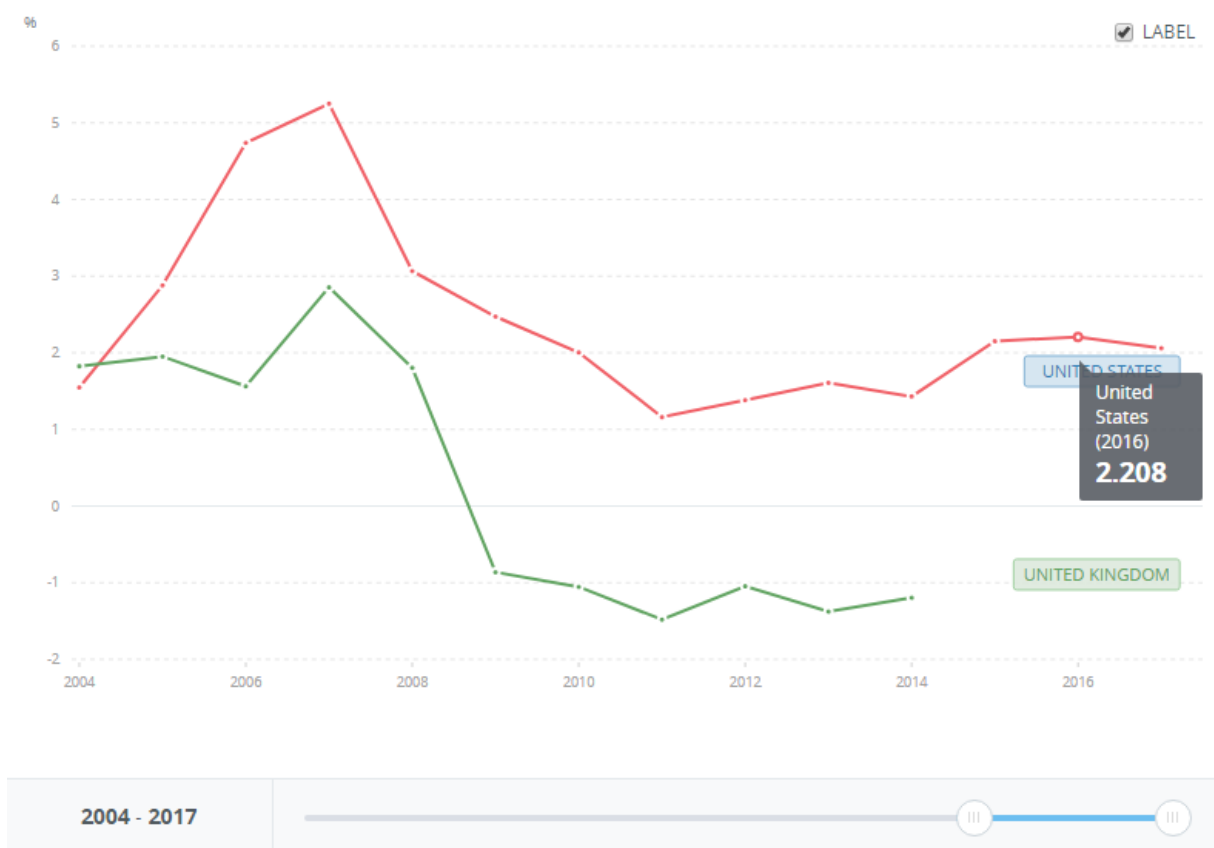
Source: OECD (2019), FDI flows (indicator). <https://data.oecd.org/fdi/fdi-flows.htm> (25.01.2019)

It is known that the most widespread instruments of monetary policy of the central banks of various countries of the world at the present stage are:

1. Restriction of growth of credit investments. The central bank limits growth of the credit investments made by commercial banks in the non-bank sector of economy. In this case for banks of the second level the percentage norm of increase in the sums passing through credit operations during certain time is established. At violation of these norms sanctions in the form of obligatory payments by banks of penal percent or the translation of the sums equal to the size of the raised credit are applied.
2. Carrying out operations in the open market. The central bank, selling/buying securities to commercial banks, non-financial institutes and the population, can effectively influence development of the

monetary and credit relations in the country. Commercial banks, buying securities of the central bank, reduce the reserves that reduces a possibility of crediting of potential borrowers. At sale of securities the central bank has an opportunity to affect directly these structures, reducing a role in this case of commercial banks. For this reason the policy of carrying out operations in the open market is considered the most effective tool of credit policy. However among shortcomings it should be noted limited time frames – the period of validity of securities is longer, the period of use of this tool is more long. Also, there is "limitation" of resources of the central bank. Usually this defect is eliminated/is softened in 2 ways: or the state provides to the central bank additional resources of securities, or allows to let out them independently.

Graph 2: Real Interest rate changes



Source: World Bank data on the GDP deflator. https://data.worldbank.org/indicator/FR.INR.RINR?end=2017&locations=US-GB&name_desc=true&start=2004&view=chart (25.01.2019)

3. Carrying out policy of the minimum reserves. When carrying out policy of obligatory reserves insurance of bank deposits is carried out, monetary policy thereby is regulated. The essence of this instrument of regulation is that certain sums of money on accounts of the central bank have to keep commercial banks. This money is necessary for the guaranteed performance by commercial banks of the obligations to investors. Thus, the direct dependence of commercial banks on the Central Bank is formed – at increase in norm of obligatory reserves the business activity of commercial banks restrains, and at decrease in norm of obligatory reserves – the business activity is stimulated, providing economic growth.

Now in the modern world new trends are noted:

1) strengthening of the importance of external shocks for national economies which are caused by the growing integration of the national financial markets into the world financial markets;

2) strengthening of presence of the foreign capital at national financial systems.

At the same time sudden suspension of inflow of the foreign capital or its outflow are capable to cause considerable financial shocks for the host country. Many scientists offer various alternative options, including targeting of nominal GDP or level of prices for key products. (David E. Altig, 2008)

CHAPTER II. ANALYSIS OF REGULATION METHODS IN CENTRAL BANKS

2.1. Analysis of functions of central banks as a regulatory and supervisory authority

Financial crisis of 2007-2009 holds a specific place in the history of post-war economic shocks of the Western world. It concerns as the reasons, forms of manifestation and stages of its development, and methods used by the central banks and the governments of the developed countries for the purpose of prevention of panic in the financial markets and minimization of negative consequences of these phenomena for the real sector of economy.

The meaning of ‘financial stability’ has itself evolved over time, but without a great deal of consensus being reached. (Han, 2016)

Crisis began in the middle of 2007 in the USA and then quickly extended to the financial markets and financial institutions of other countries. It was substantially predetermined by deep structural shifts in processes of the financial mediation defining channels and efficiency of distribution of monetary resources between sectors and subjects of a market system of economy. These shifts happened over several decades preceding crisis (especially – since the beginning of the 80th of the last century), and found reflection in wide circulation of the new financial instruments and operations connected with functioning of securities market and which are not falling under direct control of monetary regulators. All this led, in turn, to changes of operational practice of banking and non-bank financial institutions and the risk management methods applied by them.

At the first stages of crisis the central banks of the developed countries underestimated depth of the approaching accident. Their reaction was slowed down and came down to use of the traditional instruments of monetary policy which are usually used during the periods of deterioration in a general economic and financial environment. The insufficient efficiency of these methods which came to light in crisis process for overcoming recession led to enforcement of a number of non-standard programs and methods of financial aid and eventually – to monetary

injections, unprecedented on the scales, directed to support not only the bank organizations, but also other institutes of a financial system which were not subject to financing from the central banks and treasury earlier.

The financial crisis brought out many defects in the regulatory and supervisory system. There was problems with understanding of connection between prudential supervision by central banks and global financial stability. There was an idea that if the financial institutions are stable, then the whole financial system is sound, was wrong. So that idea did not resist the systemic shocks caused by crisis since 2007. So that why a new world concept within the supervisory structures was started and implemented, and macroprudential policies with the final aim to identify, solve and avoid systemic risks. Thus, the European Systemic Risk Board and the Financial Stability Oversight Council was created in the USA. This organizations monitor evolutions and forecast dangers in the overall stability of the financial system. (Miao Han, 2016)

Today the model of the integrated supervision, according to the available estimates, is used by 55 countries. In the last 25 years, at least, 36 countries from 70 with the largest financial markets passed to megaregulation. The first such institute was created in 1986 by Norway, it in 1988 was followed by Iceland and Denmark, in 1991 – Sweden. Among the large developed countries took this way Great Britain (since 1998) and Germany (since 2002).(Белоглазова, 2014)

During creation of mega-regulator usually to the forefront there are following motives:

- optimization of expenses on performance of supervising functions (this motive is characteristic mainly of the small countries);
- desire to exercise supervision of financial conglomerates on the consolidated basis;
- decrease in system risks in the bank sphere and minimization of risk of unfair behavior at which the bank does not assume in full responsibility for the actions, shifting it to the state ("moral hazard").

The systems of bank supervision in the world are very various. In a number of the countries (Spain, Greece, Portugal) these functions are performed by the central bank, in others (the USA, France) – the central bank together with the Ministry of Finance and specialized bodies, in some (Canada, Great Britain) – specialized bodies together with the Ministry of Finance (the role of the Central Bank is limited). There are countries where the Central Bank does not participate in regulation of the financial markets.

The legislative base of regulation of participants of the financial market in the developed countries was formed step by step in process of emergence of needs for setting standards and requirements to separate groups of the financial organizations. As a result all financial organizations were divided into separate categories depending on a type of activity in which they were engaged at the time of introduction of the relevant laws. In the majority the developed countries up to the middle of the 1990th years regulation in the financial markets was carried out separately on each sector of the financial market. Its multi-tier which was expressed available sets of regulators was the first characteristic feature of a system of financial regulation. The state impact on the financial markets, and through them and economy in general, was carried out through the central bank, the Ministry of Finance, treasury and also various specialized agencies and self-regulatory organizations. The second characteristic feature of a system of regulation consisted that for banks, insurance companies and participants of securities market various approaches to licensing and the regulation modes were applied, at the same time the central banks usually assumed a role of the regulator of commercial banks.

New conditions of the markets led to reconsideration of content of financial regulation. It became obvious that the task of regulators consists not in formulating rules of conduct for different types of intermediaries, and in the solution of more general tasks – ensuring stability of the market and restriction of risky positions of its participants irrespective of the functions which are carried out by them and belonging to this or that type. Such approach demanded creation of more uniform

supervision of the identical types of activity which are carried out by various participants of the market (for example, banks, savings institutions or insurance companies) and according to change of structure of financial regulatory authorities. Reforming of organizational structure had to eliminate duplication and lower costs of regulation and from public authorities, and from adjustable financial institutions.

Transition to megaregulation is objective process, connected with increase in a role of the integrated financial structures. On this way there was a majority of reforms in the sphere of financial regulation.

For example, in the 1980th years Singapore, Norway, Canada and Denmark, in the 1990s — 5 more countries passed to megaregulation, in the 21st century process accelerated. (Буклемишев О.В., 2015)

According to the IMF, among 70 states undertaking reforms in 1998-2009, 27 countries (38.5%) carried out consolidation of financial regulation and supervision in this or that form. Today from 115 full members of the International association of regulators of securities market (IOSCO) more than 42% (49 members) use branch ("vertical") model of regulation within which the regulator is available for each of segments of the financial market. The model which received the name "hybrid", characterized by distribution of powers of the regulator on several sectors works in 16 countries (13.9%). The remained 50 countries (43.5%) use various models of megaregulation. (Белоглазова, 2014)

The essence of the most widespread of these models consists available the uniform independent mega-regulator uniting functions of the regulation and supervision at the same time not being the central bank. This model exists in 33 countries. The countries in which the Central Bank is mega-regulator there are 13. In 4 countries (Australia, Belgium, Holland, Great Britain) the Twin Peaks model according to which prudential supervision is exercised by national bank is introduced, and market and behavior of participants of the market are regulated by the second body given authority in this area.

Among 25 largest financial markets only in Singapore mega-regulator is the national bank. On that is a number of weighty reasons. First, the economy and the

financial market of Singapore are very dependent on transnational capital flows. Secondly, here an important role is played by the factor of Islamic banking turning local banks actually into investment funds. In 8 countries among the 25th the largest uniform body of regulation and supervision is not the central bank, in 4 the "twin peaks" model is created. In 7 countries with the largest financial markets there are "vertical" models of regulation/supervision, in 5 – "hybrid".

Table 1: International comparisons of regulation authorities between countries

Country	Regulator	Functions
Great Britain	Double mega-regulator, "twin peaks" model	Prudential supervision of all financial organizations and supervision of market behavior
France	Bank of France and AMF Regulator	Bank supervision Control of the non-bank sector of the financial market
Germany	Regulator BaFin	Regulation of the banking sector, financial markets
USA	The working group on the financial markets at the U.S. President	Coordination of all contradictions in regulation of the national financial market
Sweden	Financial inspection	Regulation of credit institution, securities market, exchanges, insurance companies
Slovakia	National bank of Slovakia	All functions of the uniform financial regulator: regulation of banks, capital markets, insurance and pension funds

Source: World Bank Regulation and Supervision Survey (2003); <https://www.worldbank.org/en/research/brief/BRSS> (02.03.2019)

As a rule, the central bank gets out as mega-regulator in the countries with extremely small markets in which mainly foreign banks dominate. These conditions in general are characteristic also of Belarus that makes the choice of National Bank quite justified. But in world practice reform of regulation is usually undertaken very carefully. At first the corresponding prerequisites, including unification of regulation and supervision are created in various segments of the financial market, the step-by-step plans excluding a possibility of failures and probability of loss of a part of participants of the markets are carefully developed,

and then they gradually are implemented. Creation of mega-regulator – the final stage of the difficult and long transition taking up to 10–12 years.

Table 2: The Structure of Bank Supervision: International Comparisons

Country	Bank Supervisory Authority	Single Bank Supervisor or Multiple Bank Supervisors	Role of Central Bank
<i>High Income</i>			
Belgium	Commission for Banking and Finance (CBF)	Single	NCB
Canada	Office of the Superintendent of Financial Institutions (OSFI)	Single	NCB
Denmark	Danish Financial Supervisory Authority (DFSA)	Single	NCB
Finland	Financial Supervision Authority	Single	NCB
France	Commission Bancaire	Single	NCB
Germany	Federal Financial Supervisory Authority (BaFin), Deutsche Bundesbank	Multiple	CB
Greece	Bank of Greece	Single	CB
Israel	Bank of Israel	Single	CB
Italy	Bank of Italy	Single	CB
Japan	Financial Services Agency	Single	NCB
Korea	Financial Supervisory Commission	Single	NCB
Netherlands	De Nederlandsche Bank	Single	CB
New Zealand	Reserve Bank of New Zealand	Single	CB
Singapore	Monetary Authority of Singapore	Single	CB
Spain	Bank of Spain	Single	CB
Sweden	Swedish Financial Supervisory Authority	Single	NCB
Switzerland	Swiss Federal Banking Commission (SFBC)	Single	NCB
United Kingdom	Financial Services Authority (FSA)	Single	NCB
United States ³	Office of the Comptroller of the Currency, Federal Reserve System, Federal Deposit Insurance Corporation	Multiple	CB
Summary Characteristics for High Income Countries		93% Single	48% CB

Source: World Bank Regulation and Supervision Survey (2003); and Neil Courtis (ed.) How Countries Supervise their Banks, Insurers and Securities Markets 2003 (London: Central Banking Publications, 2002). <https://www.worldbank.org/en/research/brief/BRSS> (05.03.2019)

Bank Supervisory Role of the Central Bank. Countries have to make a decision if to take control on responsibility for bank supervision to the central

bank. So as with issues on single or multiple bank supervisors, the main literature is divided on the relative advantages and disadvantages of the central bank taking a role of a bank supervisor. Actually the most convincing argument made in favor of making supervisory responsibility to central bank is that as a bank supervisor, the central bank will always first who will know about the condition and performance of commercial banks. That approach may help it for identifying and make response to the emergence cases in a systemic problems in a timely manner. Other points to the disadvantages of making bank supervision to the central bank stress the intrinsic conflict of interests between such occasions as supervisory responsibilities and responsibility for monetary policy. Those conflicts can become particularly penetrating during an economic crisis, in that the central bank may be tempted to pursue a too-loose monetary policy to avoid adverse effects on bank earnings and credit quality, and/or encourage banks to extend credit more liberally than warranted based on credit quality conditions to complement an expansionary monetary policy.

As with the single or multiple bank supervisor cases, first step in addressing the discussions over the bank supervision role of central bank is to set basic facts. Table 1 compares the bank supervisory role of the central bank in 73 countries. Almost 60 percent of the countries setting banking supervision to the central bank, including 39 countries in which the central bank is the single bank supervisory authority. The four countries that have a multiple bank supervision system each assign some bank supervisory responsibility to the central bank.

2.2. Analysis of trends of regulating macroeconomic situation by central banks since financial crisis of 2007–2008

Crash of a world financial system demonstrated fragility of world economy, enhanced attention to the institutes of economy capable to resist to destructive impact of system financial crisis. Crisis drew special attention to one of key institutes of economy which is carrying out regulation and stabilization of the financial sector — to the Central Bank. Financial crisis essentially influenced the

Central Bank, having changed not only the environment of its functioning, but also his behavior in economy.

Features of behavior of the Central bank in the conditions of modern financial crisis were caused by a key role of liquidity in development and distribution of crisis. In the conditions which developed during crisis application of standard measures of monetary policy did not render effect. For prevention of collapse the Central Banks of various countries and the Federal Reserve System had to execute a number of "aggressive and creative measures of policy" (Bernanke 2009). Their actions contradicted standard idea of a framework of intervention of the Central Bank in functioning of the financial market when carrying out monetary policy. Though the taken measures had a positive impact on a situation: they opened to banks broad access to liquidity and gave an opportunity to avoid full breakdown of a banking system — they turned the Central Bank from the observer and the regulator into the active participant of the market of the credits. Both change of the policy of the Central Bank, and the impact of these changes on a role and the place of the Central Bank in an economic system demand the theoretical analysis and judgment.

At the first stages of crisis the central banks of the developed countries underestimated depth of the approaching accident. Their reaction was slowed down and came down to use of the traditional instruments of monetary policy which are usually used during the periods of deterioration in a general economic and financial environment. The insufficient efficiency of these methods which came to light in crisis process for overcoming recession led to enforcement of a number of non-standard programs and methods of financial aid and eventually – to monetary injections, unprecedented on the scales, directed to support not only the bank organizations, but also other institutes of a financial system which were not subject to financing from the central banks and treasury earlier.

According to the American statistics, the peak size of debt of the financial sector on credit programs of the U.S. Federal Reserve (further FED) in the middle of crisis (October, 2008) reached 1.4 trillion dollars. The European Central Bank

(further the ECB) and the central banks of Great Britain, Switzerland, Canada, Japan and other countries also granted the large loans to the organizations of the financial sector during crisis.(Dietrich Domanski,2014)

Below conditions of formation and stages of development of crisis of 2007-2009, actions of the central banks for overcoming crisis recession and prevention of panic in the financial markets and also a condition of the banking sector of the USA and the countries of the Eurozone after the termination of a sharp phase of crisis will be considered. The main attention will be paid to events in the financial sphere of the USA which played a role of peculiar "ground" for application of measures for stabilization of a situation in the money markets.

Since the Great depression the traditional policy of U.S. Fed during the periods of crisis recessions consisted in providing additional liquidity to banks for short terms by crediting of separate institutions through "a discount window" or on more long-term basis – by means of carrying out operations in the open market.

Refinancing through "a discount window" it was carried out by FED in the form of delivery of primary credits to institutions with a strong financial position and the sufficient capital, the secondary credits to the banks experiencing financial difficulties and the seasonal credits to small and medium-sized banks with the seasonal need for attraction of financial resources. The loans were granted on conditions overnight at higher rate, than a rate of the interbank market, and on security by acceptable papers.

As for operations in the open market, FED carried out purchase and sale of treasury securities in the secondary market, using small group of authorized dealers as intermediaries. The operations performed on a long-term basis or in the form of short-term repo transactions are reflected in the current accounts of dealers in commercial banks and by that influence the volume of money supply and the level of market interest rates.

The specified methods of monetary regulation were applied by also central banks of other countries, but with certain features. So, for example, the ECB performed operations in the open market with attraction of much more wide range

of contractors, than FED, and not only with the state securities, but also with other types of market and non-market assets. These operations had regular character – weekly repo for a period of one week. (Wyn Grant, 2012)

From the beginning of crisis in 2007 and curtailment of operations in the interbank market the central banks were forced to take urgent measures for increase in inflow of liquidity to a banking system. These programs pursued the following aims: 1) to counteract a collapse of the market of interbank crediting; 2) to prevent bankruptcy it is system significant banks and non-bank institutions; 3) to provide liquidity to special types of financial institutions.

Graph 3: Discount Rate for United States



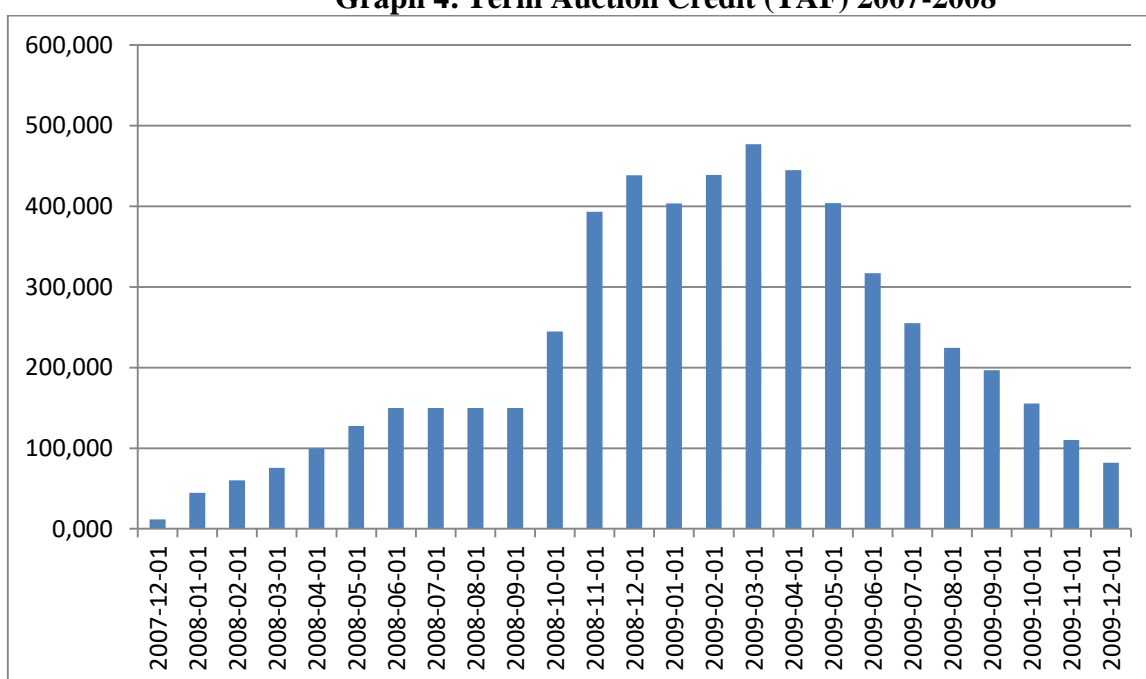
Source: The Federal Reserve Bank of St. Louis https://fred.stlouisfed.org/graph/?graph_id=562237 (08.03.2019)

First of all for completion of an acute shortage of money terms of use of "a discount window" were softened. In August – October, 2007 the Bank of England and the Bank of Canada significantly expanded the list of acceptable providing and a circle of potential borrowers on refinancing operations. FED also took measures for simplification of access for reliable borrowers to the credit resources, consistently reducing discount rate (from 6 ¼ % in July, 2007 to ½ % in

September, 2009) and increasing terms of loans through "a discount window" from the mode overnight to 30 days, and later – up to 90 days.(Chiara Oldani, 2013)

In December, 2007 FED announced the beginning of action new program of urgent auctions (Term Auctions Facility, TAF). Banks – participants of auctions could obtain the credits for terms of 28 or 84 days. This form of crediting allowed the central bank to strengthen control of the sums and terms of use of resources and at the same time to weaken influence of the so-called stigmat which was a serious obstacle for expansion of liquid support of the enterprises of the banking sector.

Graph 4: Term Auction Credit (TAF) 2007-2008



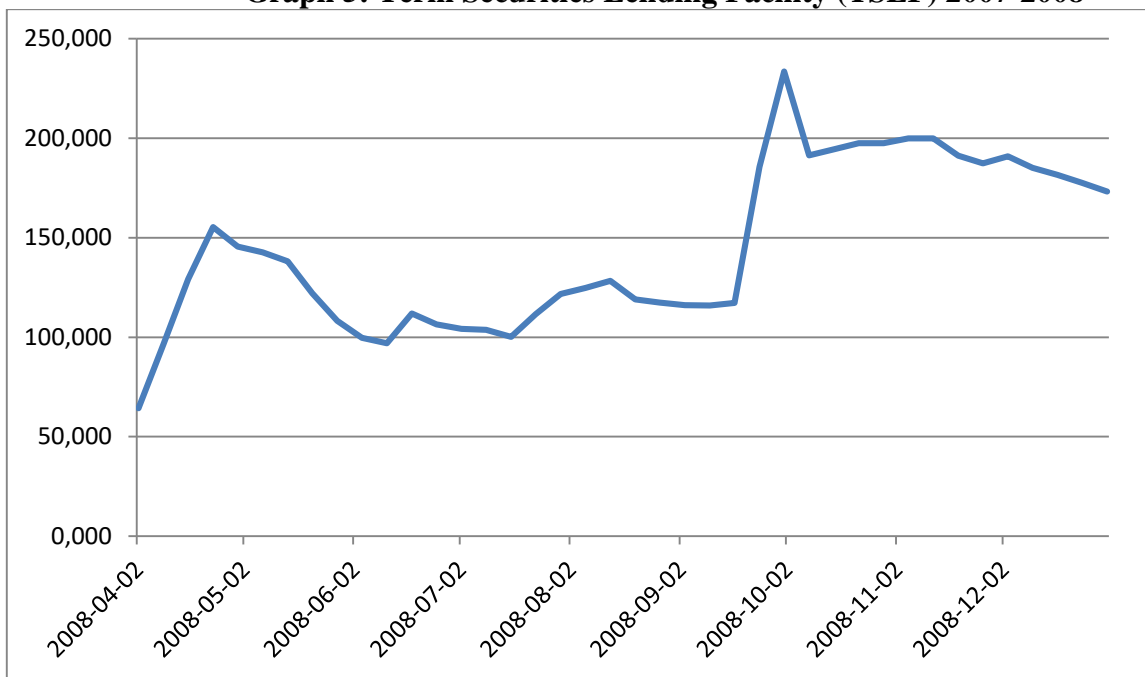
Source: The Federal Reserve Bank of St.Louis <https://fred.stlouisfed.org/series/TERMAUC#0> (08.03.2019)

The central banks of other countries also reduced discount rates during crisis and increased refinancing terms. From August, 2007 to June, 2009 the ECB repeatedly held special sessions on delivery of the credits to banks under agreements of a repo for the term of 3, 6 and 12 months. Similar actions were taken by the central banks of Japan, Great Britain and Switzerland.

Recession in the market of interbank crediting significantly worsened possibilities of receiving loans in foreign currency. The European banks needed US dollars for ensuring the current payments of the clients. In December, 2007

FED concluded the first agreements on a currency swap with the ECB and the Swiss national bank. Thanks to these agreements the European central banks could provide the clients with necessary dollar liquidity. Later similar agreements were concluded with the central banks of 12 other countries (including Brazil, Great Britain, Canada, Denmark, Japan, Mexico, Sweden, etc.). Though U.S. dollars were in the most great demand, the shortcoming and other currencies was felt. Therefore additional agreements between the central banks on opening a swap lines in foreign currency according to which the ECB provided euro, the Swiss national bank – Swiss francs, and the Asian and Latin American central banks – currencies of the countries were concluded. (James A. Caporaso, 2016)

Graph 5: Term Securities Lending Facility (TSLF) 2007-2008



Source: The Federal Reserve Bank of St.Louis <https://fred.stlouisfed.org/series/WTERMFAC> (08.03.2019)

Dealers on operations with securities were one of groups of the borrowers seriously affected by recession in the money market. Creditors toughened conditions of issuance of credits on the security of securities: sharply increased a difference (haircuts) between the market value of providing and size of the granted

loan, stopped inclusion in pledge of some types of providing, etc. In March, 2008 FED declared introduction of two new programs of credit aid to authorized dealers.

The first program of medium-term financing of operations with securities (Term Securities Lending Facility, TSLF) provided holding credit auctions for authorized dealers by transfer of papers of the American treasury to them in exchange for less reliable papers (the MBS which are released or guaranteed by the federal agencies private mortgage obligations with high rating, etc.). In September, 2008 the list of acceptable providing was even more expanded, and by October the sum of the treasury obligations received by dealers according to the TSLF program exceeded 230 billion dollars.

According to other program – crediting of authorized dealers (Primary Dealers Credit Facility, PDCF) – FED authorized delivery to this group of borrowers of the short-term credits through "a discount window" on conditions overnight at the preferential rate for the first-class clients. The maximum debt on this program was 147 billion dollars. The innovation, as well as in the first case, consisted that the central bank for the first time departed from the principled stand of rendering credit aid only to deposit institutions and used the mechanism of "a discount window" for financing of non-bank institutions. Later FED continued this practice, having allowed loans on conditions, the similar PDCF program, to affiliated branches Goldman Sachs, Morgan Stanley and Merrill Lynch.

The Bank of England in April, 2008 enacted the program of support of liquidity (Special Liquidity Scheme, SLS) according to which banks could exchange temporarily illiquid obligations from the portfolio for treasury bills. The ECB used other scheme: allowed banks to replace the liquid papers serving as providing the credits obtained at it with temporarily not sold papers, in particular ABS. It allowed to support the market of ABS and to intensify issue of new releases of these debt obligations.

In September, 2008 when the volume of operations of the interbank market reached the lowest level, crisis of mutual funds of the money market burst. The trust to these institutes which had a big portfolio of mortgage papers sharply fell,

only funds for operations with papers of the U.S. Treasury continued to function normally. After bankruptcy of the large fund Reserve Primary Fund connected with the failed Lehman Brothers, FED adopted the aid program to mutual funds of the money market for operations with commercial papers (Asset-Backed Commercial Paper Money Market Mutual Funds Lending Facility, AMLF). According to this program the deposit institutions buying the commercial papers provided with reliable assets from mutual funds could obtain at FED the credit for financing of these operations on a preferential interest rate. The similar measure allowed to stabilize the market of commercial papers.

At last, in October, 2008 it was declared introduction in action of the program of credit support of the market of the obligations provided with not mortgage assets (Term Asset-Backed Securities Loan Facilities, TALF). FED undertook to issue the credits to owners of reliable releases of ABS, and the treasury, in turn, provided FED of a guarantee on these credits within other program.

And again central bank of the USA showed readiness to depart from a traditional role of "the creditor in final instance" only for deposit institutions and to cooperate with specialized institutions of the non-bank sector.

The following figures testify to scales of a campaign for supply with liquidity of banks and other institutes of the money market of the USA during 2007-2008. The maximum amount of debt of deposit institutions on the credits of FED for the specified years (preferential crediting of banks through "a discount window", the TAF, AMLF programs, currency swaps, etc.) was 1339 billion dollars., and a similar indicator on the credits to non-bank institutes of the money and stock market (to dealers on operations with securities, mutual funds, issuers of commercial papers and ABS) – 862 billion dollars., in total more than 2.2 trillion dollars.(Ben Bernanke, 2014)

But it is only a part of the cash flow sent by the central bank of the USA for years of crisis to the financial sphere. The huge sums were spent by FED for direct purchase for own portfolio of some types of papers of private issuers and also obligations of the American treasury. According to the programs announced in

November, 2008 and March, 2009, FED got from the federal agencies of the obligations provided with a mortgage for the sum of 1250 billion dollars., agency securities on 172 billion dollars. and long-term treasury bonds on 300 billion dollars. Purchase of large packages of financial obligations by the central bank in the secondary market for assistance to the banking sector was carried out also in other countries. In July, 2008 the European Union adopted the program of purchase of the bonds with a covering (Covered Bond Purchase Programme, CBPP) issued by the European banks on security different types of assets.

Implementation of these papers in the market was complicated because of loss of investor confidence to quality of providing. The program was implemented by June, 2010, the total amount of the papers bought the ECB from banks was 60 billion euros. The Bank of England used as the main "non-standard" means of fight against crisis the program of "quantitative easing" (quantitative easing, QE) begun in March, 2009 and consisting in regular purchase of large consignments of securities (generally treasury bonds). Till January, 2010 it was acquired papers on 200 billion pounds that is equivalent to 14% of annual GDP of Great Britain. According to the experts, the QE program promoted increase in rates of government bonds, growth of consumer price index on $\frac{3}{4} - 1 \frac{1}{2} \%$ and to increase in real GDP on $1 \frac{1}{2} - 2\%$. 28. (Lloyd Thomas, 2011)

Especially it is necessary to tell about actions of the central banks directed to rescue of systemically significant financial institutions which during crisis suffered substantial damages and were on the verge of bankruptcy.

The history of Bear Stearns investment bank which we already mentioned earlier can be a bright example. In March, 2008 he announced impossibility of repayment of a debt under agreements of a repo for financing of a large portfolio of mortgage papers. Bankruptcy could bring down the interbank credit market, and not to allow it, FED granted bank a loan on 12.8 billion dollars at the preferential rate of 2.25% per annum and on the security of MBS guaranteed by the federal agencies. In several days FED issued a new loan for 30 billion dollars to facilitate acquisition of Bear Stearns by JPMorgan Chase bank.

Other example – history of sanitation of AIG, American insurance giant about which it was also told above. Difficulties with financing of the company became known in September, 2008, in several days after bankruptcy of Lehman Brothers. Being afraid of development of system crisis in the markets of financial instruments (credit default swaps, commercial papers, etc.) where AIG actively worked, FED granted to the company the loan for 85 billion dollars in the form of the credit line provided with its assets.

The new Basel III Accords. The important international body which is actively influencing process of bank regulation and supervision is the Basel committee on bank supervision.

Development of the system of assessment of capital adequacy of banks "International Convergence of Measurement of the Capital and Standards of the Capital" (Basel I standard) in 1988 became an essential step in its work.

The global economic crisis gave the chance to cardinaly change structure of approach to risk and regulation of the financial sector.

In this regard the Basel committee on bank supervision (BCBS) came to the agreement on reforms for "strengthening of global rules on the capital and liquidity for the purpose of ensuring bigger stability of the banking sector". According to this agreement which received the name Basel III, each area of the offered changes has to pass phases of consultations, discussions and introductions. In this regard higher level of dynamics, complexity and interdependence of various jurisdictions does a problem of introduction Basel to III more difficult in comparison with introduction of the previous agreement Basel II.

The agreement Basel was approved by III at the recent summit of the Group of Twenty (G20) in Seoul. Participants of the summit also approved long transition periods for full introduction of offers Basel III in capitals and liquidities. In spite of the fact that establishment of equal conditions for banks was one of purposes G20, in reality regulators in different jurisdictions use various approaches to such key questions as management and the system of remunerations, taxes and fees,

approach to systemically important institutes, so-called "living wills", borders of supervision and even accounting and disclosure of information.

The world financial and economic crisis of 2007 - 2009 which threatened stability of a financial system in many countries gave an impulse to revision of mechanisms of financial regulation. At the international level reaction to crisis became put forward in 2009. The Basel committee on bank supervision at Bank for International Settlements the offer on introduction of the new standards of bank regulation which received the name Basel III. 44.

It is necessary to remind that it is already the third stage of revision of rules and norms of the bank regulation initiated by the Basel committee. In a package Basel the methodology of calculation of an indicator of sufficiency of banking capital on the basis of differentiation of assets of bank taking into account their quality and degree of risk inherent in them I (1988) was developed. Also were offered division of banking capital into two levels – Tier I including the steadiest elements of the capital (common stocks, retained earnings, etc.), and Tier II (less reliable articles) and, respectively, calculation of two coefficients of capital adequacy (4% of the assets weighed on risk – for the capital of the first level and 8% – for the cumulative capital of bank). At the same time restriction according to which the capital of the second level should not exceed 50% of the capital of the first level was introduced. (Timo Koffer, 2014)

In 2004 the Bank for International Settlements submitted the updated version of regulatory requirements (Basel to II) where in addition to the previous standards new methods of risk assessment of bank assets when calculating an indicator of capital adequacy were entered (standard – with use of ratings of the international rating agencies and advanced, counted by analytical service of the bank from the sanction of the regulator). Also the toughening of bank supervision and a measure directed to increase in market discipline and transparency of financial transactions were provided.

Events of 2007-2009 demonstrated that the regulatory measures recommended by the Basel committee and introduced by many countries could not

prevent approach of financial crisis which was in no small measure connected with excessively risky credit policy of banks in the previous years. The committee developed and proposed a new package of the measures directed to strengthening of capital base of banks, regulation of liquidity and minimization of system risks for discussion. At a summit in June, 2012 in the Mexican city of Loskabos country leaders of "Group 20" approved an initiative of introduction of new standards and stated intention to achieve full implementation of these offers.

Besides increased requirements to the level of the basic capital Basel III provides creation of the special buffers of the capital allowing to carry out correction of own means of banks for counteraction to cyclic fluctuations of an economic environment. One more innovation – introduction of coefficients of liquidity which have to provide to banks a sufficient stock of liquid means in the conditions of development of crisis and sudden mass withdrawal of deposits.

The third direction of reform – increase in requirements to the capital of the global systemically significant financial organizations capable to initiate distribution of risks in a financial system.

It was noted above that the main regulatory means in the recommendations of the Basel committee on bank supervision since Basel Accord 1988 are the minimum requirements to sufficiency of banking capital which are expressed by an indicator of the relation of the capital of bank to the sum of its balance and off-balance assets weighed on risk degree. According to conditions of Basel III, requirements to the most reliable elements of the capital – to the basic capital (Common Equity Tier I Capital) and an additional part of the capital of the first level raise. These changes in the banking legislation have to happen in several stages. For January 1, 2013 the basic capital of banks is established at the level of 3.5% of the sum of the assets corrected on risk (against former 2%), and all capital of the first level – at the level of 4.5% (against 4% accepted earlier). For January 1, 2014 these sizes increase to 4% (the relation of the basic capital to the assets corrected on risk) and 5.5% (the relation of all capital of the first level to the assets corrected on risk), and for January 1, 2015 – 4.5 and 6% respectively.

Requirements to the total value of the capital in this period will remain at the previous level of 8%. Thus, the purpose of regulators is increase in a share of more reliable forms of capital in cumulative banking capital. (Juan Ramirez, 2017)

Table 3: Financial Regulatory Reform after the Crisis

BASEL IMPLEMENTATION IN DEVELOPING AND TRANSITION ECONOMIES					
<i>Total economies surveyed</i>	<i>Basel II</i>		<i>Basel III</i>		<i>(Per cent)</i>
	<i>Capital requirements (Standardized approach)</i>	<i>Capital requirements (Internal ratings based approach)</i>	<i>Leverage ratio</i>	<i>Liquidity coverage ratio</i>	
	<i>(Per cent)</i>		<i>(Per cent)</i>		
<i>Region (whole sample)</i>					
Africa	30	27	10	13	13
East, South and South-East Asia	17	82	59	47	29
Latin America and the Caribbean	21	38	23	14	24
Transition economies from Europe and Asia	11	73	9	18	18
West Asia	9	100	33	33	33
<i>Region (excluding BCBS members)</i>					
Africa	29	23	7	10	10
East, South and South-East Asia	11	27	13	0	7
Latin America and the Caribbean	18	16	7	7	3
Transition economies from Europe and Asia	10	23	3	7	3
West Asia	7	23	3	3	3

Source: UNCTAD secretariat calculations, based on BIS, 2014 and 2015. (15.03.2019)

During the subsequent period to the capital of the first level step by step, since January 1, 2016 the buffer of safety of the capital (Capital Conservation Buffer) which has to reach the maximum size of 2.5% by January 1, 2019 at annual increase for 0.625% will be added. It will lead up to 8.5% (6 2,5%) to growth of a share of the most reliable element of capital accounts. Respectively, requirements to all equity of bank (Tier I Tier II) to the end of the period of reforming will increase up to 10.5%. But there is more to come. In the package of proposals of Basel the so-called counter-cyclical buffer of the capital (Countercyclical Buffer) which can be used to counteraction of impact of cyclic changes of economic activity on the banking sector is available III. This measure will in addition lead to increase in the general requirements to the capital of banks in the range from 0 to 2.5% (i.e. in the maximum option up to 13%).

The new version of Basel is not limited to building of a share of capital articles in structure of bank liabilities. It provides also introduction of uniform requirements to presence at banks of a stock of liquid means sufficient for prevention of an acute shortage of monetary resources during approach of crisis recession. In this regard two indicators regulating a condition of liquid assets are offered: The 30 days coefficient of liquidity (Liquidity Coverage Ratio) and indicator of clean stable funding (Net Stable Funding Ratio).

CHAPTER III. DEVELOPMENT OF CENTRAL BANK IN REGULATING ACTIVITY IN AZERBAIJAN.

3.1. Historical background of central bank in Azerbaijan.

Actually one of the main acts adopted after Republic of Azerbaijan recovered its independence was the “Constitutional Law of the Republic of Azerbaijan on Grounds for Economic Independence of the Republic of Azerbaijan” in 25 May 1991, Article 14 ‘The Banking system and money circulation’ set the legal basics for the independency of banking system and circulation of the national bank notes and coins in Azerbaijan, and affirmed the status of the National Bank. The National Bank has been set the main emission agency, which carries out policy in lending , money circulation, settlement and foreign exchange relations, regulating the functioning of the banking system in general and performing reserve banking functions.

The foundation of National Bank of the Republic of Azerbaijan was confirmed by the Decree of the President of the Republic of Azerbaijan "On Establishment of the National Bank of the Republic of Azerbaijan" of February 11, 1992. The day when the Decree (February 12) was to approve is marked as the date of the Bank's establishment.

On August 7, 1992, the first law regulating the performance of the National Bank of Azerbaijan is the Law "On the National Bank of the Republic of Azerbaijan" and the Decree of the Milli Mejlis of the Republic of Azerbaijan on "Approval of the Statute of the National Bank of the Republic of Azerbaijan" was accepted on December 1.

On August 15, 1992 the national currency of the Republic of Azerbaijan - manat was put into circulation. Since January 1, 1994 manat have been declared the only means of payment in the country. Part II, Article 19 of the first Constitution of the Republic of Azerbaijan, adopted by referendum on November 12, 1995, has been defined as the exclusive right of circulation and withdrawal of National Bank banknotes.

Currently, the Central Bank carries out its activity on the basis of the third generation banking legislation (the second edition of the Law of the Republic of Azerbaijan "On the National Bank of the Republic of Azerbaijan", 14 June 1996, third edition was adopted on December 10, 2004).

The purpose and functions of the Central Bank, legal basis for effective and effective implementation of its activities in all its functional areas, establishment and implementation of monetary and exchange rate policies, organization of money circulation, regulation and development of payment systems, maintenance of gold and foreign exchange reserves and management has been identified as the Bank's main functions.

In accordance with the Decree of the President of the Republic of Azerbaijan "On the nominal value and the denomination of the denomination of money in the Republic of Azerbaijan" dated 07 February 2005, the new manat has started circulating on January 1, 2006. In this regard, 1 new manat was equal to 5000 manat, the current manat was kept in circulation with the new manat during 2006, and from January 1, 2007 was completely transferred to new manat, the new banknotes and coins were staged in stages.

Implementation of the central bank of the state of the Republic of Azerbaijan on 18 March 2009 "On Additions" of the "Bank of the Republic of Azerbaijan" and Amendments to the Constitution of the Republic of Azerbaijan ".

In the framework of economic and institutional reforms carried out in the country in 2016, the Central Bank has been amended. Thus, according to the Law of the Republic of Azerbaijan "On the Central Bank of the Republic of Azerbaijan" adopted on March 4, 2016, licensing and regulation of banking activities and supervision of banking activities were submitted to the newly established body. Then the CBA's authorities concentrated on cash-and-exchange policy, macroeconomic and financial stability policies, regulation of centralized and other non-licensed payment systems, and cash flow arrangements.

The administrative building of the Central Bank, located at 90, Rashid Behbudov Street, Baku, was put into operation in 1998.

Main objective of the central bank of the Azerbaijan Republic is ensuring price stability within the powers. Other purpose is ensuring stability and development of bank and payment systems. Receiving profit is not a main objective of the central bank. For achievement of the purposes the Central bank of the Azerbaijan Republic performs the following functions:

- identifies and implements the monetary and political policies of the state;
- organize the circulation of cash according to the Constitution of the Azerbaijan Republic and carries out release into the stream of commerce and retirement of bank notes;- implements currency regulation in compliance with the law;
- holding and controlling international gold-monetary reserves;
- makes the settlement balance of payments and participates in preparation of the predicted balance of payments of the state;
- licenses and regulates bank activity, exercises supervision of bank activity in the order provided by the legislation;
- will organize, coordinates, regulates functioning of payment service providers and exercises supervision of them according to the law;
- carries out other functions provided by the legislation

The Central bank of the Azerbaijan Republic is a conductor of the currency policy including a complex of the actions directed to strengthening of the external economic positions of the country. Tools of currency policy are currency interventions and (to some extent) many instruments of monetary and credit regulation (discount policy, operations in the open market, reserve requirements to banks, etc.).

Regulation of an exchange rate – the most important activity of the central bank in the currency sphere. The Central bank of the Azerbaijan Republic periodically revises structure of currency reserves, increasing the specific weight of currencies which are the steadiest at present.

The Central bank of the Azerbaijan Republic can act as the financial agent of the Azerbaijan Republic. According to the purposes established by Law No. 802-IIQ, the central bank renders assistance to carrying out economic policy of the state within the powers. The central bank does not issue the credits to the state for direct financing of budget deficit of the Azerbaijan Republic.

At emergence of a short-term lack of money of the state budget the central bank on the basis of the contract signed with appropriate authority of the executive power (on condition of providing with profitable state debt securities) having the right to issue to the state the credit for term at most 6 months with a repayment condition in the current year. Total amount of the given and outstanding part of the similar credits cannot exceed 3% of the average income of the state budget in 3 last years.

Purchase by the central bank of the debt securities issued by the Azerbaijan Republic is considered issuance of credits to the state. In case of need in connection with carrying out monetary policy the central bank can accept from the state term deposits on the conditions which are agreed on with appropriate authority of executive power. The central bank can submit offers on the main directions of economic policy of the state, including on budgetary and tax, price and tariff measures and also on the volume of an internal and external public debt and its management to appropriate authorities of executive power of the Azerbaijan Republic.

The central bank can draw the conclusions according to drafts of laws and other normative legal acts on the basis of inquiry concerning the questions which are directly carried to functions and powers of the central bank and bank questions.

3.2 The perspectives of integration of central bank of Azerbaijan to the global development trends.

Central bank of the Azerbaijan Republic as body of bank supervision. The Central bank of the Azerbaijan Republic, exercising supervision of activity of banks (supervision and conducting checks regarding compliance of activity to

legislatively established rules and regulations), carries out protection of interests of investors and creditors, provides stability of activity of credit institutions. At establishment of prudential standards for credit institutions the central bank can establish various standards and methods of their calculation for types of credit institutions.

Supervision from the central bank (as an independent form of observation of law enforcement) is not based on the subordination relation between it and banks therefore its intervention in their operational activity is strictly limited to the law. Such intervention is carried out only in the cases of violation of the rules established by the central bank and also in the presence of threat to the interests of investors. According to the law the central bank has no right to force banks to carry out the operations which are not provided by constituent documents, the legislation and regulations.

In the Azerbaijan Republic process of institutional reforms in structure of bank supervision goes the accelerated rates. Within this process in bank the special division which is engaged in data processing about the suspicious operations performed in the banking sector functions. Assessment of efficiency of activity of banks in fight against terrorism financing – one of priorities in the course of so-called on - site - the inspections which are carried out by the central bank of the republic. (Мамедов З.Ф., 2010)

At the moment the central bank installed the following system of supervision: for each bank it is looped 18 monthly during which bank once is exposed to complex inspection and also (depending on the volume of bank) 1–2 times – thematic inspection. There is also external supervision - it is the financial analysis on the basis of prudential norms.

So, the banking system is regulated not by the administrative, but bank right. According to it the Central bank of the Azerbaijan Republic has no administrative powers on management of banks and other credit institutions. The central bank was granted the rights to exercise supervision, i.e. to watch credit institution in terms of normativity of the decisions made by it. It means that the central bank can check

observance by credit institution of laws, financial standards and regulations of the central bank.

However, the present system does not provide the principle of unity of regulation, control and supervision in financial sectors. For professional participants of the stock market the State Committee of Azerbaijan on Securities, looks after insurance companies — the Service State Insurance Supervision Committee at the Ministry of Finance of Azerbaijan, investment of pension savings — the public social foundation, and banks — the Central Bank of Azerbaijan. It's been considered that it is better to watch all risks within the general supervision.

However in the special banking legislation appropriate questions are handled insufficiently in detail. According to Article 48 of the Law of the Azerbaijan Republic "About the Central Bank of the Azerbaijan Republic" ": The central bank of Azerbaijan is body of bank regulation and to control of activity of credit institutions and carries out the following: adopts acts of standard character on bank activity; establishes prudential standards and also methods of their calculation and an order of their application; establishes a procedure of payments and formations of the special reserve fund created by banks, local branches of foreign banks and non-bank institutions for compensation of possible losses on the credits and assets; on the basis of reports and checks estimates a financial position of credit institutions and on this basis gives to credit institutions instructions on entering of the corresponding corrections into financial statements, obligatory to execution; establishes standards of corporate management in banks and local branches of foreign banks; in the cases and an order established by the law carries out inspections in credit institutions and also in their affiliated economic societies; brings up before competent public authority a question for the purpose of prevention of exclusive activity in the market of banking services; applies corrective actions (correction) and sanctions against credit institutions and their administrators in cases and an order established by the legislation; in cases when demand results of the events for control held according to the law, participates in quality of the observer at meetings of administrative bodies of credit institutions,

holds consultations with administrators of credit institutions; in the cases provided by the law within the actions for financial improvement of banks defines special conditions of implementation of their credit obligations to the Central Bank; in the cases provided by the law appoints to banks and local branches of foreign banks of the interim administrator, in necessary cases appeals to court about application of the moratorium according to obligations of bank; accepts concerning banks and local branches of foreign banks at which licenses, measures according to the legislation are cancelled; carries out other powers provided by the legislation. At establishment of prudential standards for credit institutions the Central Bank can establish various standards and methods of their calculation for types of credit institutions.

These powers allow the central bank to carry out the target reference points aimed including at the development and strengthening of the banking sector of the country. Exercising supervision of activity of commercial banks by constant observation and checks regarding its compliance to legislatively established rules and regulations, the Central Bank protects the interests of investors and creditors, provides stability of activity of credit institutions. The central bank of Azerbaijan does not interfere with operational activity of credit institutions, except for cases, to the provided laws "About the Central Bank of the Azerbaijan Republic".

The central bank of Azerbaijan does not interfere with operational activity of credit institutions, except for cases, to the provided laws "About the Central Bank of the Azerbaijan Republic".

There are assumptions that modernization of regulation of a banking system on the basis of the latest (modern) international standards and experience will become a priority in a financial system of Azerbaijan. In the long term the uniform system of financial supervision has to be directed as we believe, to improvement of quality of management of the financial organizations of own risks, assessment of their ability on timely identification and elimination (decrease) of these risks.

Since 1994 it is possible to allocate four stages of the monetary policy pursued in the republic. The first stage (1994–1996) was characterized by the

requirement of ensuring macroeconomic stability and carrying out tough monetary policy which need was caused by the objective realities which developed in the country in 1992–1994. The world practice demonstrates that transition from the centralized planned system to the market relations is followed by deterioration in operational performance, the sharp growth of inflation accelerated by devaluation of national currency and deterioration in a social status of the population. In the countries of the former USSR this process was even more aggravated because of a rupture of the economic communications created in decades and aggravations of the military-political conflicts in their territories.

In 1992–1994 rates of average annual inflation in the republic were. 1,600 - 1,800%, the national currency in relation to dollar depreciated several times. At the same time the high rate of inflation was connected both with monetary, and with not monetary factors. Its main monetary factor consisted that the deficit of the state budget was completely covered at the expense of the credits of the central bank, and commercial banks had an opportunity to attract its credit resources in bigger volume, than it was necessary for the balanced growth of economy.

From the second half of 1994. The government and the Central bank of Azerbaijan began to undertake radical measures for ensuring macroeconomic stability. For this purpose with assistance of the IMF and the World Bank in the shortest possible time the emergency program actions were developed. Started their realization with adoption of the special decree of the president of the country of 15.06.1994 "About measures for strengthening of a social status of the population and stabilization of a financial condition of the country". The main goal of this document consisted in decrease in rate of inflation and stabilization of a rate of manat by means of carrying out flexible monetary and budgetary tax policy and also in creation on this basis of the favorable macroeconomic environment for economic revival.

Thus, the tough monetary policy pursued by the central bank allowed to remove completely stress in the monetary foreign exchange market, to stop a

hyperinflation and to create prerequisites for achievement of macroeconomic stability

The second stage (intermediate) covering 1997–1998 was characterized by some mitigation of tough monetary and exchange and course policy according to the new period of institutional development of economy.

The third stage of monetary and course policy began in July, 1999. In view of rates of the economic growth which was followed by significant increase in demand for money and acceleration of structural reforms, the central bank strengthened process of carrying out "soft" currency and monetary policy. As a result, interest rates for the centralized credits and norms of obligatory reserves decreased, and the rate of manat in the mode of an adjustable floating rate became more flexible. Along with prevention of deflationary trends and improvement of level of security of economy with money these measures created favorable conditions for growth of currency reserves, stimulation of export, strengthening of macroeconomic stability.

Thanks to the reached macroeconomic stability it was succeeded to avoid serious negative impact on national economy of such factors as reduction of the world prices for oil in 1998 and impact of the Russian financial crisis. Stability of national currency and a banking system in general remained: in 1998 and the subsequent period economic growth continued even higher rates.

The fourth stage of monetary policy which was characterized by essentially new macroeconomic situation began in 2003. In the conditions of the stable rate of economic growth, significant growth of volume of average per capita GDP and fast increase in income of the population, expansion of economic activity in regions of the country and, at last, the beginnings of a new oil era and also the amplified inflow of petrodollars this policy put qualitatively more difficult purposes and tasks before a banking system of the republic.

Within increase in efficiency of the organization of monetary management since 2007 the Central bank of Azerbaijan started implementation of the concept of "a corridor of interest rates". It corresponds to the best practices of the central

banks of the developed countries which already refused targeting of quantitative monetary reference points and passed to targeting of a short-term interest rate in the conditions of flexibility of an exchange rate. The strategic plan at introduction of the specified mechanism consists in limiting limits of fluctuation of an interest rate in the interbank market within the percentage corridor established by the central bank and, thus, institutionally to fix in the future the potential of momentum transfer (transmission) of monetary policy (by means of the price of money) on cumulative demand and inflation.

In 2007 the national bank made the decision on stage-by-stage liberalization of capital flow proceeding from which all transactions on withdrawal from the capitalist country (direct investments, portfolio investments, placement abroad of deposits and purchase of the real estate) are not subject to licensing and are carried out in the free mode (the notice mode).

Global financial crisis and monetary policy of the Central bank of the Azerbaijan Republic

The scope and specifics of the current global crisis demanded adoption of non-standard decisions within monetary policy. In this sense of the amendment to the law on the Central bank of Azerbaijan quite corresponded to spirit of global trends in legislations of the central banks. According to the adopted amendments the Central bank of Azerbaijan has the right to issue the credits to banks as the creditor of final instance for longer term and in various currencies. For capitalization of the solvent banks experiencing temporary difficulties, the Central bank is given authority on granting to banks the subordinated credits.

Main objectives of policy of the Central bank of Azerbaijan included providing a financial system with liquidity, support of cumulative demand, maintenance of stability of a financial system in the crisis period.

Since the end of 2008 the Central bank of Azerbaijan of 6 times changed a refunding rate and borders of a corridor on operations in the open market towards decrease. As a result the refunding rate was lowered from 15% in October, 2008 up to 2%, the upper bound of a corridor according to 20 up to 7%, balance

requirements of the Central bank of Azerbaijan to banks since the beginning of year increased by 20 times. Norms of obligatory reservation on internal sources of attraction of financial resources were reduced from 12 to 0.5%, and on external sources of attraction in general are cancelled.

As a result since October, 2008 until the end of August, 2009 the net volume of "injections" of liquidity in economy was about 2 billion dollars. From this sum only due to reduction of obligatory reserves banks received more than 730 million dollars, and activation of a discount window of the Central bank was generally focused on maintenance of liquidity of the systemically important enterprises (for example, the State oil company) and banks (mainly for timely service of external debts).

The Mortgage Fund resumed work that at once affected price stabilization in the real estate market and increase in activity in this market. So, within two months of functioning of Mortgage fund of real estate price in the secondary market were stabilized and even increased by 1.3%. Price stabilization is important very much for a financial position of the banking sector as the real estate is mortgage providing about a half of all loan portfolio of banks. Increase in activity of the real estate market is also followed by reduction of terms of property sale and growth of its liquidity.

Influence of global crisis was shown in drop in oil prices and on export products, in sharp restriction of external crediting of a banking system, in decrease in money transfers from abroad. As a result, national economy could undergo such risks as violation of macroeconomic stability (devaluation of manat and growth of inflation), violation of financial stability (deterioration of the loan portfolio and decrease in solvency of banks, a response of deposits, the termination of crediting of economy) and economic recession.

Global financial crisis posed a threat to economy of Azerbaijan in the following directions:

1) closing of external sources of financing for banks of the second level and decrease in volumes of liquidity for crediting of economy that leads to decrease in business activity;

2) falling of the world prices for exchange goods, reduction of export currency revenue therefore import is reduced and increases the negative balance of payments of the country (general characteristics of economy of Azerbaijan define its high sensitivity to external shocks);

3) reduction in production in the real sector that leads to decrease in growth rates of GDP and at the same time to increase in unemployment;

4) "attack" on manat, devaluation and speculative capital outflow, decrease in the standard of living of the population.

16.01.2009 at a cabinet meeting of the Azerbaijan Republic the president of the country published a package of crisis response measures.

The purpose of crisis response measures – to minimize impact of the global economic crisis on the republic and to prevent this influence in all possible directions.

Tasks:

- prevention of artificial increase in prices and acceleration of their decrease by means of strengthening of control of the consumer market and the competition;
- strengthening of antimonopoly activity;
- prevention of illegal intervention of the state in business activity;
- control from national bank, the Ministry of Finance and Economic Development of management of the financial means (participation of the specified institutes in adoption of the relevant decisions) imported into the country;
- control from central bank, the Ministry of Finance and The Ministry Of Economic Development Of The Republic Of Azerbaijan (participation of the

specified institutes in adoption of the relevant decisions) imported into the country.

Unlike other countries of the region in Azerbaijan large-scale capital outflow was not observed, rate of national currency – manat – in relation to the leading world currencies remained stable, in relation to dollar it became stronger more than for 5%, and in relation to euro – more than for 9%.

In due time taken fiscal and monetary and credit measures allowed to prevent essential negative impact of global financial crisis on a condition of a monetary and currency system of the republic and by that to keep stable rate of national currency to the leading world currency – dollar. Stability of a course allowed to prevent rise in price of import and the goods of foreign origin used in local production and also prevented depreciation of deposits of the population, increase in a debt burden in foreign currency, to decrease in trust to manat and high dollarization in economy.

The monetary policy of the central bank in the conditions of global financial crisis had anti-recessionary character and was directed to maintaining macroeconomic and financial stability, ensuring liquidity in economy, stabilization of work of banks and enterprises.

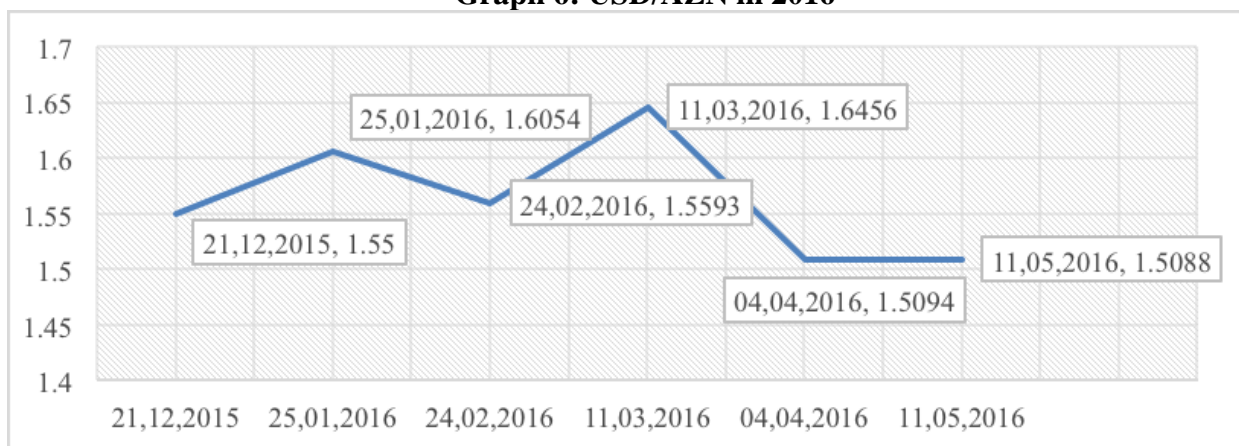
Devaluation and its impacts. During 2015 Azerbaijan currency experienced two major devaluations.

The first one, happened in the February 2015, resulted in exchange rate $1.05 \text{ AZN} = 1 \text{ USD}$, which was $0.7850 \text{ AZN} = 1 \text{ USD}$ before. It was 33.86 percent more than the exchange rate set before the beginning of the weakening process of the rate. Even though Azerbaijan Central Bank promised a gradual devaluation, it happened sharply. (CESD), 2016)

Later, on December 16, 2015, FED raised interest rates by 25 basis points, which was the first rise since 2006. Following this decision, on December 21, 2015, the Central Bank of Azerbaijan switched to a floating rate regime. It is clear that shifting to floating rate had to happen sooner or later, but the issue is about timing. Switching to flexible rate caused Manat to lose half of its value against

Dollar (1 Dollar=1.55 Manat). So Azerbaijan currency Manat lost its value about 98% overall.

Graph 6: USD/AZN in 2016



Source: The Central Bank of the Republic of Azerbaijan, 2016 <https://www.cbar.az/page-41/macroeconomic-indicators> (13.04.2019)

Why Azerbaijani government devalued the national currency?

- Saving State Oil Fund of Azerbaijan's money: According to Azerbaijan Statistics Agency, oil and oil products' industry formed %65 of the budget revenue in 2015. Since the oil prices started to decrease in the world market, Azerbaijani State Oil Fund's revenues decreased to USD 8636 billion. Via depreciation of manat approximately 34%, the income of SOFAZ become AZN 9067 billion in home currency which was the fiscal goal of the SOFAZ. (CESD), 2016)

- Saving the Central Bank's decreasing reserves: After increased oil prices, Azerbaijan Central bank had been using its reserves to maintain the fixed rate of manat. Hence, devaluation of the national currency was a protection against Central Bank's decreasing reserves.

- Enlarging the country's GDP in manat terms: According to World Bank data, Azerbaijan's GDP fell from USD 75 billion in 2014 to USD 53 billion. Devaluation of manat increased the country's GDP in manat terms.

Impact of Devaluation over the short & long run: Empirical literature says that the devaluation may be an incentive for economic growth over the long period, however in a short run there may be devastating effects. We analyse that 43

countries three year before and three year after the devaluation and mentions that GDP stagnation begins one year before the devaluation, continues during the devaluation year and over the next three years increases a bit in comparison to the devaluation year, however still does not fully recover.

In another paper, we analyze that 195 devaluation cases and shows that approximately 60% of them resulted in decreased output growth, only 40% have a positive impact.

In the long run, countries that use devaluation for improving their growth may have a zero profit. These are new-to-market developing countries who depreciated their currencies in order to gain through lower prices in the market. But the fact is that most of them are highly in debt in foreign currency. So, the profit gained will just be the offset for their debt.

In a nutshell, the analysis of the literature shows that the adverse consequences of devaluation appear in the short-term, while positive effects emerge in the long-run.

After the devaluation of manat which is carried out in 2015 fears about quality of balances and assets in the banking sector appeared and there was pressure upon a deposit base. In February, 2016 for strengthening of supervision in the financial sector the new financial regulator – Financial Market Supervisory Authority (MBNP) was created. From the beginning of 2016 within common efforts on strengthening of all banking sector the licenses were revoked from the banks which did not fulfill the minimum requirements to the capital and the obligations to creditors.

Obligations of bankrupt banks for deposits are transferred to the Azerbaijani Deposit Insurance Fund (ADIF) and other commercial banks. Measures to providing the Central Bank of Azerbaijan an opportunity to provide ADIF liquid means for implementation of payments to owners of deposits are taken. MBNP are undertaken assessment of quality of assets and total check of resistance to stress for preparation of plans of capitalization and restructuring of the remaining banks.

In connection with the second serious decision on the devaluation of December 21, 2015, the volatile growth of the foreign exchange markets in the first days of 2016 rose to a maximum level. In particular, on days when the Central Bank, which is a participant in trading on the foreign exchange markets, was not working, the availability of currency for objective and subjective reasons decreased to a minimum, the currency exchange points used the maximum margin.

On January 6, 2016 the Central bank changed "Rules of the organization and exchange of exchange offices" to increase the controlling ability, and revoked the licenses of exchange offices outside banks, at the same time the maximum limit of sales of currency was reduced by 10 times having reached up to 500 dollars. In two days exchange rate for commercial banks was established at the level a maximum +/-4% of an official rate on the same day.

In parallel the Central bank pursued policy of increase in an interest rate for prevention of depreciation of manat. As a result participants of the financial markets had to finish with a rate for 15 percent in 2016 in comparison with 3 percent for the beginning of year. In other words, discount rate was increased five times in reporting year. (CESD), 2016)

Increase in interest rates was one of the purposes of increase in discount rate for deposits and deposits, bonds and confidence-building to "manat".

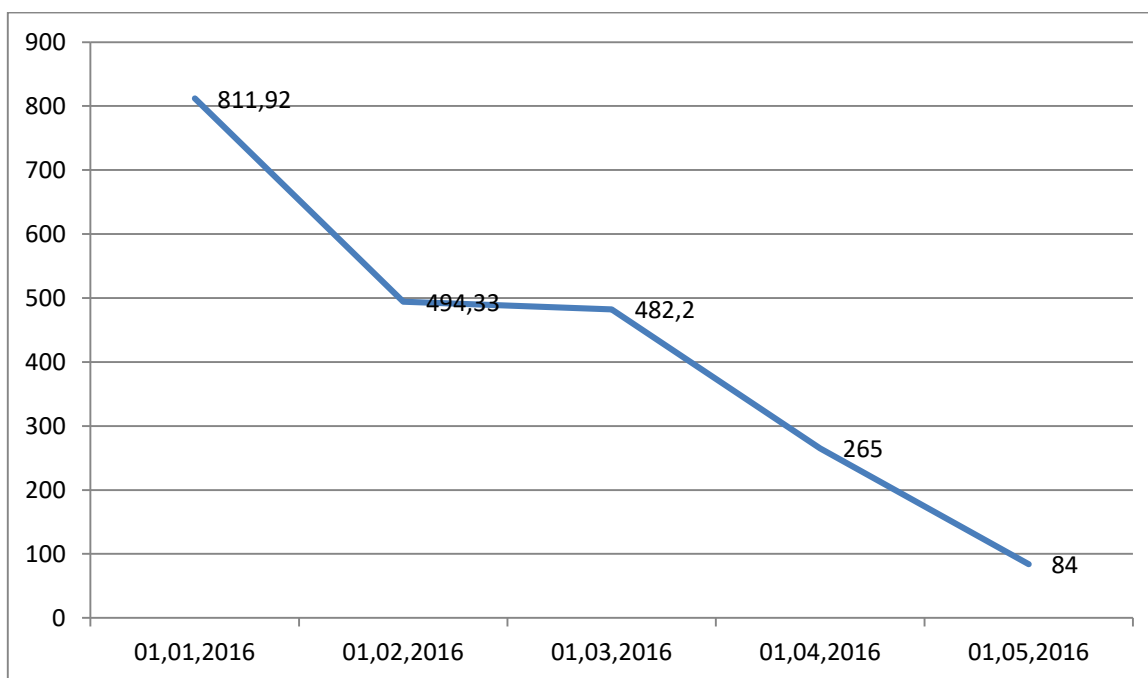
It should be noted that for the first time on June 13, 2016 the Central Bank decided to hold deposit auctions.

Deposit auctions are held for attraction of deposits in manats. Thus, the Central bank tries to achieve the following objectives:

- 1) to remove manat from the circulator,
- 2) to strengthen confidence in profitability of manat,
- 3) To take deposits which are withdrawn because of the lack of confidence in the banking sector under control.

In the whole Central Bank held 26 deposit auctions in 2016.

Graph 7: Dynamics of currency sales in auctions held after the 2nd devaluation

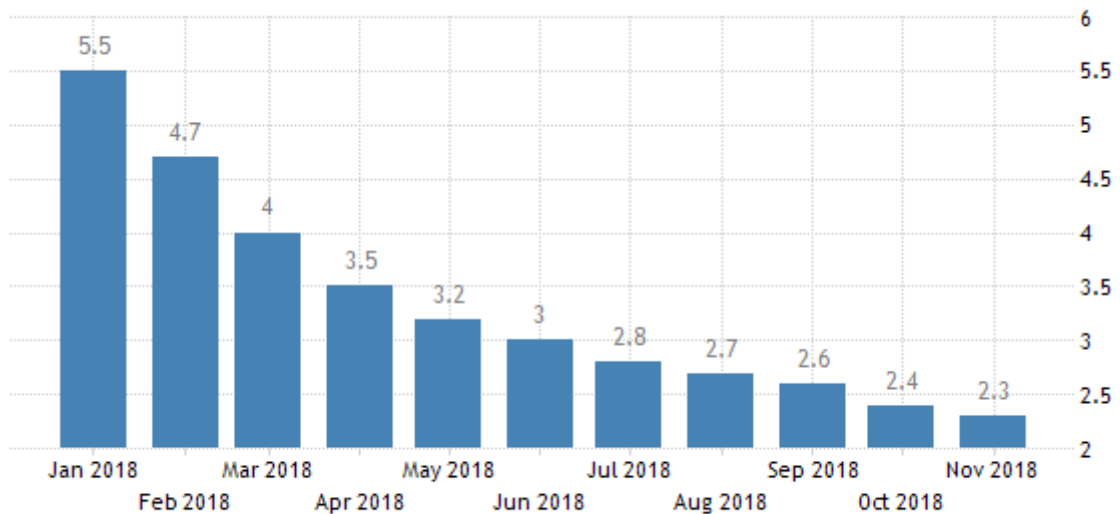


Source: Central Bank of AR and State Oil Fund of AR, 2016 <https://www.cbar.az/page-41/macroeconomic-indicators> (15.04.2019)

In 2018 central bank of Azerbaijan implemented monetary policy under ‘Statement on main directions of the monetary policy for 2018 and medium run’. The main target of the monetary policy was to end up the year with inflation at a 6-8 percent. The central bank took decisions to facilitate its monetary policy in terms of sizeable drop in inflation and inflation expectations.

In 2018 inflation was low in comparison of expected rate and stabilized at the end of a year. Average inflation was 2.3% in 2018. Average semi-annual inflation was below three percent in the second half of 2018. Price changes were 1.9% on food products, 2.7% non food staff, 2.6% on services approximately. Over the year prices for 23% of goods which are included to the consumer basket decline, 7% stayed unchanged and for 62% of goods price increase was below 5%. Just for 8% of goods, price increase was over 5%. As in last years prices for agricultural goods, fruits and vegetables mainly, were more volatile, actually due to seasonal and natural factors. Average annual inflation, besides goods and services, which prices are regulated by the government and seasonal agricultural goods, was 1.8 percent in 11 months.

Graph 8: Inflation rate of Azerbaijan in 2018



SOURCE: TRADINGECONOMICS.COM | THE STATE STATISTICAL COMMITTEE OF THE REPUBLIC OF AZERBAIJAN

Source: <https://tradingeconomics.com/azerbaijan/inflation-cpi?continent=g20> (20.04.2019)

Consumer prices were mostly influenced by changes in energy prices. The agricultural production price index increased just 2.2% in 11 months. Prices related to transportation services reduced about 1%, due to cheaper transportation services.

The exchange rate of the domestic currency reacted to BoP trends and dependent supply and demand in the forex market. On background of improvement of indicators of the external sector and within the accepted macroeconomic policy the bilateral rate of manat to US dollar remained stable. Generally, domestic currency was under the pressure of strengthening in 2018; supply prevailed over demand in the forex market. High demand for foreign currency mainly in April and August was referable to sharp devaluation of national currencies in certain partner countries. Since higher demand for foreign currency in this months did not arise from fundamental macroeconomic factors, so its impact on the exchange rate was neutralized. And monetary policy of those countries in the following months stabilized financial markets.

The official exchange rate of the manat was set on the basis of the average exchange rate on transactions between banks (auction and non-auction) in 2018. Buy-sell exchange rates set by banks were close to the official one over the year.

The actual dynamics of inflation and restoring balance in the foreign exchange market stabilized expectations on inflation rate in 2018. Expectations on inflation of the business sector have decreased across all sectors, particularly in trade and services. Households' expectations on inflation rate decreased to historical lows firstly from 2015.

The central bank made some corrections which was necessary due to recent developments in macroeconomy and updated forecasts to the interest rate corridor parameters.

The central bank of Azerbaijan Republic has considered the parameters several times since early year taking decisions on reducing the central bank policy rate from 15% to 9.75% in phases, the ceiling of the interest rate corridor from 18% to 11.75% and the floor to 7.75% from 10% on a stepwise basis.

Graph 9: Interest rate of Azerbaijan in 2018



SOURCE: TRADINGECONOMICS.COM | CENTRAL BANK OF THE REPUBLIC OF AZERBAIJAN

Source: <https://tradingeconomics.com/azerbaijan/interest-rate> (01.05.2019)

The main objectives for 2019 and medium term is to set macroeconomic stability more sustainable and increase the role in help of economic growth.

As the main policy of central bank of Azerbaijan will be holding price stability and inflation due to its mandate. The strategic and operational framework of monetary policy will be further improved to formulate macroeconomic environment with low inflation.

The main aim of the monetary policy for year to come and medium term will be to retain a stable inflation rate. In view of this, the central bank will indirectly maintain social prosperity, economic growth and employment by continuing its remaining monetary and exchange rate policy.

The uppermost monetary policy goal for the 2019 will be safeguarding price stability, within the authorities of the bank, by keeping inflation rate about 4% ($\pm 2\%$). Dynamics of the exchange rate of the manat will remain one of the critical conditions for low inflation. According to evaluations, the upward effect of cheaper manat on inflation is higher compared to downward effect of stronger manat on prices.

From this standpoint, the stable exchange rate of the national currency is the prerequisite for price stability 'anchoring'. The main factor that regulate rebalancing in the foreign exchange market will be the balance between money supply and components of the economy's demand for currency. Currency demand will be depended on dynamics of import reacting to public expenditures, foreign debt flows and surplus in capital account, and also indirect influence of the international conjuncture. Long-term dynamics of the exchange rate of the manat is determined by these macroeconomic fundamentals.

Also, Financial Market Supervisory Authority (MBNP) will prepare the plan for transfer of banks in Azerbaijan on application of standards Basel II.

"The chamber discussed the operational plan for 2018. Preparation of the plan for application of standards Basel II, definition of new conditions for listing, improvement of a framework of regulation of the financial sector will become the main activities in the bank sphere the current year", - it is noted in the message of chamber.

Besides, one of tasks of chamber is ensuring development of the insurance market and introduction of new tools in the market, start of the state registry of encumbrance of personal estate.

Basel II is the document of the Basel committee on bank supervision "The international convergence of measurement of the capital and standards of the capital: new approaches", containing methodical recommendations in the field of bank regulation. A main goal of the agreement "Basel II" is improvement of quality of risk management in banking that, in turn, has to strengthen stability of a financial system in general.

Conclusion

During the research it is revealed that in the conditions of globalization of economy activity of the central banks acquires qualitatively new contents. Synthesis of foreign experience showed that in all developed countries of a system of bank regulation and supervision there are considerable features connected with historically developed traditions, the legislation and the principles of conducting bank activity.

Experience of functioning of institutes of the international bank supervision and also feature of national systems of regulation and supervision by the central banks of Great Britain, the USA, France, Germany, Japan, Argentina and the countries of the members of the EU was analyzed. The analysis of foreign experience of regulation and supervision of the central banks showed existence of a big variety in creation of national systems of bank regulation and supervision. However, the general trend of unification on the basis of the recommendations of the international regulating and supervisory authorities, testifies a need of activation of work on compliance of the Azerbaijani system of bank regulation and supervision to recommendations, first of all, the Basel committee (Basel III) and also optimization of development of a concept of mega-regulator in the country relying on experience of foreign countries. The most relevant in the ways of transition to mega-regulation are transformations on the consolidated model or on the Twin Peaks model. Development of a financial system of any country usually happens according to two scenarios: or already existing mechanisms of regulation and supervision of the financial market are improved, or new financial institutions which role becomes key arise.

The new model of planning will allow the central bank more successfully and to effectively carry out the mission in quality of mega-regulator of economy and a financial system of the country. The structural transformations which are carried out in recent years in the central bank brought closer its institutional structure to structures of the advanced central banks of the world.

And also one of the crucial aspects ,that must be considered is about regulation of central bank and financial market during crisis and pre-crisis period in the country ,in order to avoid future financial and economical risks.

Global crisis gives a reason to look anew at the principles of regulation of the financial markets and financial institutions, to discuss their efficiency.

Obviously, the used approaches could not prevent destabilization of a world financial system that calls into question efficiency of traditional methods of regulation and does relevant a problem of their comprehensive reforming.

Thus, it is possible to draw a conclusion that main directions include a change of regulation of banking systems providing:

- development of universal regulations of all segments of a financial system;
- strengthening of state regulation of a financial system;
- increase in transparency of financial institutions;
- strengthening of responsibility of heads of financial institutions for results of activity;
- reforming of the principles of bank regulation from the international organizations.

Development of processes of economic globalization assumes integration of a banking system of the country into world financial space. It means that in Azerbaijan this system will develop in the same conditions, as in other countries, and it will be influenced by current trends of development of the world banking market.

Transition of the Azerbaijan Republic to an innovative way of development is followed by inevitable innovative changes in activity of the central bank that is shown in development of modern products and services, implementation of technologies of automation of calculations and transactions.

Realization of the listed measures will allow to provide stability of financial, and first of all bank systems, to increase trust to financial institutions, and finally to provide growth and sustainable development of national economies.

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