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ABSTRACT

of the dissertation for the degree of Doctor of Philosophy

ORGANIZATION AND DEVELOPMENT DIRECTIONS OF THE FINANCIAL-CREDIT SECTOR IN AZERBAIJAN

Speciality: 5301.01 - Internal fiscal policy and public finance

Field of science: Economic sciences

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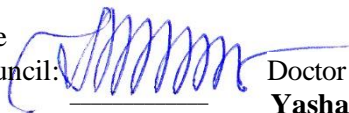
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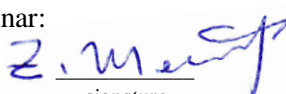
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GENERAL CHARACTERISTICS OF THE WORK

Relevance and level of study of the research topic. Global development trends are rapidly changing the development models of economic systems. Policies aimed at economic development and growth in recent decades has already increased the conditions for the occurrence of serious problems and crises. Especially recent financial crises, global pandemics, military conflicts, etc. had serious negative effects both on world economy, and the financial and credit sectors, markets of the countries. The trends of global development, which are not so much based on justified forecasts and methodological foundations, do not lead to any positive changes in the development of the financial and credit sector. As a result of all such factors, leading and most developing countries have been taking serious measures related to the health of their financial and credit sectors and sustainable development of financial markets in the last ten years. Also, the negative effects of the "Covid-19" pandemic have further highlighted the need for serious reforms in the financial and credit sector.

Taking these and other factors into account, attention is being paid to the development of the financial and credit sector in the Republic of Azerbaijan. In the development of the country's financial and credit sector and financial markets, only stable and sustainable development trends are observed. The issues of organizing this sector according to modern international practice, opening it to international integration, wide application of new tools, means of payment, and services are more prominent. On the other hand, special attention is paid to the application of digital services, financial technologies, increasing the financial literacy of the population and consumers, and other similar points. All such points appear clearly in the conceptual documents as "Development Concept "Azerbaijan 2020: a vision of the future", "Strategic Roadmap for the development of financial services in the Republic of Azerbaijan", "State Program for the expansion of digital payments in the Republic of Azerbaijan in 2018-2020", "Digital Payment Strategy 2021- 2023" and other.

Significant progress has been observed in the development of the financial and credit sector and financial markets in the Republic of Azerbaijan in the last ten years. In this field, the necessary normative-legal base was created, the processes of improving the market infrastructure were

continued, and the indicators of the bank-credit sector and the stock market showed growth trends. However, since 2015, many serious problems have appeared in this sector. As a result, both the banking sector and the financial market as a whole have experienced downward trends in many areas. Lack of financial stability in the country's financial and credit sector, lack of providing a wide range of modern services and digital payments, lack of consumer satisfaction and other important problems remain. All such factors, which are mentioned in the field of financial and credit sector, make it more urgent to carry out wider studies based on the provisions derived from the program and strategic road maps adopted in the country.

Foreign economists as A.Smith, D.Ricardo, G.McLeod, J.Keynes, I.Schumpeter, P.Samuelson, L.Lerner, S.Harris, E.Hansen, M.Friedman, R. Coase, R. Miller, and others' are significant in the researches related to the study of the theoretical conceptual bases of the activity of the financial and credit sector. In these studies, the views arising from the cycle stages and requirements of the relevant theoretical foundations are the main focus. Researches of economists from the CIS area as G.N.Beloglazova, V.V.Bulatov, V.A.Borovkova, O.V.Vershinina, E.P.Jarkovskaya, G.M. Kolpakova, O.I.Lavrushin, B.B.Rubchov, S.F.Fedulova, L.V.Fedosenko, I.N.Yudina, R.K.Shenin and others are also distinguished by their importance in this field. In relevant studies, important issues such as the modern development problems of the financial and credit sector, financial markets, the organization and regulation of the banking sector are mostly investigated at the level of the last period. Azerbaijani economists A.A. Alakbarov, Z.F.Mammadov, E.M.Sadigov, M.M.Baghirov, B.Kh. Atashov, N.H.Ahmadov, N.N.Khudiyev, F.A.Ganbarov, Y.A.Mammadov, F.F.Murshudlu, M.F.Aliyev and others' researches on financial markets and banking-credit sector are distinguished by their importance. In those studies, many important issues related to the development problems of the financial-banking sector and financial markets in the country were touched upon.

Without diminishing the importance of the researches of these scientists, we would like to note that the radical changes that have occurred in the financial and credit sector in recent times have revealed the need to conduct new researches in this field, taking into account the development trends. Thus, it is important to create a modern banking model, the

establishment of prospective development directions of financial markets in accordance with new demands, the application of digital services in this field, the expansion of the range of services provided, the increase of financial literacy of consumers and the population, and the conduction of the research reflecting the aspects of appliance of modern technology are important. Such factors were taken as the main relevant research directions during the dissertation work.

The object of the study is the financial and banking sector of the country, the operational characteristics and mechanisms of this sector, and **the subject** is the system of economic relations emerging in the process of the development of the financial and credit sector.

The purpose of the dissertation work is to determine the prospects for the development of the financial and credit sector in the country based on the study of the theoretical foundations of the organization and development of the financial sector and the bank-credit system, as well as the analysis and evaluation of its current state. To achieve this goal, the following **tasks** have been defined:

- the study of various theoretical approaches to the development of the financial sector and banking-credit system;
- investigation of development stages and characteristics of the banking sector;
- study of international experience in the field of formation and development of the financial and credit sector;
- To analyze the development dynamics of the financial and credit sector;
- To conduct an econometric analysis of the activity of the financial and credit sector in the country;
- To analyze the organization and development of digital services of the banking sector in Azerbaijan;
- To determine the development prospects of the financial and banking sector in Azerbaijan;
- Develop proposals and recommendations on improving the activity of the financial and credit sector of Azerbaijan;
- To discover ways of increasing efficiency in improving the activity of the financial and credit sector in Azerbaijan.

Research methods. Analysis-synthesis, statistical, analytical,

comparative and retrospective, empiric, econometric analysis methods were mainly used in the preparation of the dissertation work. The information base of the study is made up of the reports of the State Statistics Committee of the Republic of Azerbaijan, the Central Bank, and the official data of international financial institutions.

Main defended provisions:

- Conceptual generalization based on the systematization of theoretical foundations in the development of the financial and banking sector and justification of the need to develop a new social-oriented development concept;

- in the international practice, the characteristics of the formation of the financial and credit sector of different countries, revealing the development trends and the detection of the modern development features of the banking and credit system;

- By conducting a comparative analysis and evaluation of the development dynamics of the financial and credit sector in Azerbaijan, revealing the main problems in this sector;

- Construction of forecast-econometric models based on the analysis that reveals the correlation-regression dependence of the main indicators characterizing the activity of the country's financial and credit sector, as well as the relationship between the incomes of the country's population and GDP;

- Determining the priority development directions of the financial and credit sector in Azerbaijan, developing proposals and recommendations;

- Elaboration of proposals and recommendations on increasing financial inclusion and financial literacy of the population in organizing the efficient operation of the financial and credit sector in Azerbaijan;

Scientific novelty of the study:

- based on the systematization of theoretical approaches in the development of the financial and banking sector, a conceptual generalization was carried out, and the necessity of developing a new social-oriented development concept of the financial and credit sector in the current period was substantiated;

- the formation and development features of the financial and credit sector of individual countries were revealed;

- based on the analysis and assessment of the development dynamics

of the financial and credit sector, its modern development trends were determined;

- Based on the econometric analysis of the main indicators characterizing the activity of the financial and credit sector of Azerbaijan, forecast models of its development were established;

- Proposals and recommendations were made on the identified priority directions of the development of the financial and banking sector in Azerbaijan;

- Proposals and recommendations were made on increasing financial inclusion and financial literacy of the population in organizing the efficient activity of the financial and credit sector in Azerbaijan;

Theoretical and practical significance of the results of the dissertation work. The results of the dissertation create ample opportunities to determine the scientific and practical basis of ensuring the organization and development of the financial and credit sector in the country in accordance with modern requirements. The results of the research contain important provisions that can affect the improvement of the activity of the financial and credit sector in the country, the wide application of financial innovations in this field, the increase of financial literacy of the population and consumers, and the development of the financial sector in terms of modern requirements. The materials and results of the research can be used in the preparation of normative-legal and methodological documents related to the improvement of the activity of the financial and credit sector, in the preparation of measures to create a favorable environment for the development of this field.

Dissertation approval and application. The results of the dissertation work were presented at international and republican conferences and reflected in 10 scientific articles and theses.

The name of the organization where the dissertation work was carried out: “Economics” Department of Azerbaijan Tourism and Management University.

Logical and structural foundations of the dissertation work. Logical and structural foundations of the dissertation work. Logical and structural foundations of the dissertation work. The logical basis of the dissertation is defined according to the subject, object, goals and tasks of the research. The dissertation with its introduction (11423 symbols) and

three chapters (Chapter I 81082 symbols, Chapter II 48029 symbols, Chapter III 84365 symbols) totally consists of 247499 symbols. The dissertation work consists of 163 pages and according to the logic and essence of the work 4 pictures, 5 tables, 4 schemes, 18 diagrams and 15 graphs were prepared.

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- 2.1. Analysis of the development dynamics of the financial and banking sector in Azerbaijan
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The result

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PRINCIPAL DEFENDED PROVISIONS

1. Justification of the need for conceptual generalization and preparation of a new social-oriented development concept based on the systematization of theoretical foundations in the development of the financial and banking sector;

It was noted that different bank-credit theories emerged as a result of the processes occurring in different periods of development. The concept of finance and credit draws attention with theories arising from the requirements of each historical stage of development, differing in its essence with different orientations. However, the crises that often occur in the financial and banking spheres in the world now require the development of the conceptual basis and methodological basis of the activity of the financial-credit system in accordance with the new conditions. In this process, the points that increase the social and public importance of banking and credit institutions and financial organizations should prevail.

Both in economic and legal scientific sources, the activity of bank-credit organizations, and the characteristics of their operations are reflected in the conceptual basis of credit relations. The essential purpose of a banking and credit organization is rather characterized as a legal entity whose main purpose is to generate income and profit. However, if bank-credit organizations act only in pursuit of their own profits, the interests of the large-scale population involved in the borrowing process in a period of worsening financial conditions will not be satisfied at all, and the effective solvency demand in society will be limited. From this point of view, the issue of optimal reconciliation of interests between the state, bank-credit institutions and members of society who are their customers should always be in the center of attention. From this aspect, the necessity of developing a new social-oriented development concept of the financial and credit sector in the current period is justified in the dissertation work. Thus, bank-credit organizations have a wide range of influence on socio-economic development processes at both the macro and micro levels.

From such a point of view, on the basis of the analysis of economic and legal theoretical-conceptual approaches, such a proposition is put forward in the dissertation that the activity of banks cannot be estimated only as loans, deposits, etc. operations, and since the results of these operations have a serious impact on the material well-being of the society,

this activity is also of significant socio-economic and social importance.

2. Revealing the characteristics of the formation of the financial and credit sector of different countries, the development trends and the detection of the modern development features of the banking and credit system in the international experience;

Analyzing the financial and credit system of countries such as the USA, Great Britain, Canada, Japan, European Union countries, China, and the CIS, it was determined that although international standards and integration into the world facilitate the interaction of banking systems, deep differences remain between their development. Such a situation also does not protect banking systems from negative consequences and the impact of crisis events. The market of banking services also depends on the local state regulation and the development characteristics of the national economy.

Development trends in the field of credit investments in recent times allow us to come to the following conclusions about the emergence of some changes here:

- in a situation where the global trends and the effects of the recent financial crises have not passed enough, European banking and credit organizations maintain their activity in the financing and lending of the economy compared to the CIS and including the Republic of Azerbaijan;

- banks and credit organizations tend to finance households and people related to economic and intellectual (science, education) activities from consumer loans;

- Banks and other credit organizations take an active position in financing the real sector and innovative development areas in the European Union.

Reports on global financial stability show that the world economy, including the financial and banking sector, has seriously suffered since the beginning of 2020 as a result of the impact of the COVID-19 pandemic. Aggravation of the current crisis may affect world financial stability. The banking system of most countries is taking serious measures to ensure the stability of their own and the world financial system and to protect their economies. It is possible to attribute the following more to the relevant measures:

- Significant liberalization of monetary policy due to reduction of interest rates. Central banks provide additional liquidity to the financial

system and this should be done through open market operations;

- Central banks are launching a number of new large-scale programs for the purchase of riskier assets such as corporate bonds by restoring the activities of the programs used during the financial crisis;

- Taking into account the current state of the financial sector and the recommendations of international financial organizations, regulatory concessions were provided by the central banks in order to ensure the continuity of financial services, to support consumers and maintain their ability to pay, and to provide access to financial services. A broad action plan for facilitation is being implemented.

The increase in the frequency and scale of military conflicts in many parts of the world, for example, the introduction of large-scale sanctions against the Russian Federation and some CIS countries in the world financial market, exclusion from international payment systems, as well as stricter and longer-term restrictive measures in connection with the COVID-19 pandemic, the world brings to the agenda the implementation of programs that may lead to further tightening of the financial system. If the consequences of such a situation turn into a deeper and long-term economic recession, tightening measures may be required. Such a tightening of conditions, in turn, may increase the factors of financial weakness that have accumulated in the environment of low interest rates in recent years.

Currently, the need for banks to maintain their leadership in the global development environment and rapidly changing business conditions is increasing. This situation is especially evident in the last twenty years. It is from this point of view that the competitive tendencies are raising in the modern banking system. This factor determines the expansion of both the quality and volume of new products and services in the market of debt and credit funds. Based on the current experience, it is appropriate to put forward such a point of view: there is a special need to accelerate the process of transformation of banks into more strategically oriented and technologically advanced financial institutions with a flexible operational structure. Many specialized financial and credit institutions are already facing serious difficulties, and in the process of solving relevant problems in this sector, in our opinion, the following principles should be the basis of the activity of banking and credit institutions:

- Elimination of complex and contradictory requirements of regulators;
- Fundamental improvement of information and communication technologies;
- Improvement of the bank-business relationship and cooperation model;
- Organization of activities according to the demands and expectations of customers in an increasingly competitive environment.

The development processes taking place in the world economy are changing the views on the issues of prudential regulation and control in the stable and sustainable development of the financial and credit sector. Thus, the improvement of the regulation and control system in this field ensures, on the one hand, the strengthening of financial stability and the reduction of systemic risks; on the other hand, it can be considered as one of the factors that ensure appropriate development.

3. Revealing the main problems in this sector by conducting a comparative analysis and evaluation of the development dynamics of the financial and credit sector in Azerbaijan;

In this regard, it is noted in the dissertation that noticeable changes have been observed in macroeconomic indicators in the last ten years. For example, it is possible to mention important factors such as the increase of gross domestic product (including non-oil GDP), incomes of the population, and the volume of investments directed to fixed capital and other indicators from this point of view. One of the most important points is related to the fact that the socio-economic development of the country is manifested together with the changes in the financial and credit sector. It is appropriate to evaluate the mentioned views in parallel with the real situation. So, despite a number of different development trends in the world economy and the financial and credit sector in the last five years alone, the volume of GDP in Azerbaijan increased by 1.4 times, the income of the population by 1.4 times, the volume of deposits of the population in banks by 1.2 times, the volume of investments directed to the economy increased by 1.2 times. At the same time, the level of loans across the country was observed to decrease by 1.3 times during this period.

The financial system and markets of the Republic of Azerbaijan have faced a number of serious problems at their level of development since

2015. Thus, the decrease in oil revenues, external economic shocks and the devaluation of the manat were the main causes of this problem. As a result, risks have increased in the financial sector as well as in a number of areas, and their indicators have dropped sharply. Such a situation has shown itself more clearly in both the banking sector and the financial market. Thus, the banking sector faced serious financial and capital losses, and it also resulted in the tendency of the decrease in the level of the securities of the banking sector to be released to the stock market.

However, despite all such problems, the level of development of the financial and credit sector has not weakened sharply. Thus, although the volume of loans per capita in the country decreased by 30% in 2019 compared to 2014, the volume of bank deposits per capita increased by 20%.

When comparing the last 10 years in the volume of loans to the economy by financial and credit organizations, growth trends are observed. In lending to the economy, the financial and credit sector attracts attention with its greater use of state financial resources. However, despite all such points, the credit investments of these organizations cannot be considered high compared to GDP and non-oil GDP. It should be noted that in 2010, the specific weight of financial and credit institutions' loans to the economy was 21% in GDP, and 46% in non-oil GDP, but in 2019 this indicator was significantly reduced (GDP- also 19%, in non-oil GDP 34%).

In modern practice and in most countries, the amount of loans to the economy of banking and credit organizations is more than 50% of GDP. The assets of the banking sector of Azerbaijan in 2020 were 32.1 billion manats. In terms of the assets of the country's banks, the situation of all banks cannot be accepted from the same point of view. Thus, 50% of bank assets are owned by three banks: Pasha Bank, Kapital Bank and International Bank.

The total assets of the Azerbaijani banking sector decreased by 6.4% in 2020 compared to 2019. Such a decrease is specific to Azerbaijan as well as most countries of the world. Based on official statistical sources, the actual decrease is less than expected. Against the background of the ongoing pandemic, the flow of bank deposits is observed, which has led to a decrease in the passive operations of the balances of financial institutions. Due to the withdrawal of deposits, financial resources for these purposes have decreased. Of course, taking a loan in such a crisis and unstable period

is considered risky. The current situation has affected the limitation of banking operations, the weakening of the structure of assets and liabilities. Studies show that the real situation in the banking sector is still not completely clear.

The decline in the number of banks in the last ten years was due to their failure to meet the established capital requirements. Also, increasing the stability of the banking system in the country has resulted in the annual reduction of the number of banks and the consolidation of private banks. At the same time, the Central Bank put forward requirements for the minimum amount of capital of private banks to have a charter capital of 10 million manats, and then up to 50 million manats, which was increased 5 times. Against the background of a narrow market, the oversupply of banking products - the limited number of customers has not only increased the cost of banking services, but also created problems with the quality of their assets. The level of lending by banks on their own sources regarding capital investments is extremely low, and their share in the investment structure of industrial enterprises does not exceed 5%. Also, factors such as the ineffectiveness of the control system of the banking service market also had their effects on this process. The increase in the total capital of banks operating in the relevant period attracted attention. Thus, compared to 2010, in 2020, the volume of capital reserves belonging to these organizations increased by 2.1 times and reached 4.7 billion manats. The level of capitalization of the country's banks is 6% of GDP, which is quite low compared to the corresponding indicator of developed and developing countries.

If we pay attention to the financial results of the republic's banks, they are noticeable with their positive results in the last ten years. Thus, compared to 2010, the profit of banks in 2020 increased by 3.4 times and amounted to 567.8 million manats. In the increase of the profits of these organizations, mainly their income from credit, deposit operations and related commission fees played a greater role. Banks' income from other services is still not distinguished by its superior position.

It is impossible to evaluate the structure of the bank's loan portfolio from the same point of view. Thus, the special weight of business loans in this structure has been observed with a greater advantage in recent times. Compared to 2010, the volume of business loans increased by 1.7 times in

2020. The close participation of banks in the financing of government programs also plays an important role in such growth of business loans. Consumer loans have the next highest share in the credit portfolio of banks. During the compared period, there was no significant decrease in the volume of these loans. The volume of mortgage lending of these organizations is still not observed with its high share. It should be noted that in consumer and mortgage lending, financing through the banks' own internal capabilities is distinguished by its superior position.

The effects of "Covid 19" are clearly felt in a number of indicators of the banking sector. Thus, compared to 2019, in 2020, banks' loan portfolio decreased by 5%, deposit portfolio by 2.8%, bank liabilities by 2.8%, and population savings by 5.4%. During the comparable period, interest income of banks decreased by 0.1%, non-interest income by 7.1%, and operating profit by 5.3%. Noticeable differences are evident in the credit investments of Azerbaijan's banking and credit organizations directed to the economy and other areas.

The analysis suggests that the country's credit market is still not developing in accordance with modern requirements. Thus, the main market of bank-credit organizations is formed on consumer loans. Banks are not actively involved in lending to other sectors of the economy. On the other hand, banking services do not appear in this market with their wide variety. All such cases slow down the development of modern banking services, especially digital services. Such a situation also reduces the participation activity of the country's banks in the economic field. The wide-scale implementation of the state's subsidization and support program for partial provision of loans can affect the stabilization of the existing situation. Such an approach (support mechanisms, mixed financing, etc.) can also be considered essentially as risk sharing.

Despite the gradual improvement in the banking system of Azerbaijan, it remains unstable: dollarization, unhedged currency positions and non-performing loans are still at a high level. Factors such as changes in the world economy and the rapid development of information technologies are causing the emergence of new trends in the global financial and credit sector. Such development trends bring to the agenda the deepening of reforms in relevant areas:

- Strengthening of prudential regulation and control;

- Digitization of financial services;
- Expansion of alternative banking;
- Changing the operational models of financial institutions;

4. Creation of forecast-econometric models based on the analysis that reveals the correlation-regression dependence of the main indicators characterizing the activity of the country's financial and credit sector, as well as the relationship between the incomes of the country's population and GDP;

It is important to analyze the factors affecting the crediting process and credit investments in the economy. Thus, making any forecasts in the financial and credit field depends on the assessment of the impact of these factors. For this purpose, the econometric evaluation of the dependence of the total credit investments on the factors affecting it was carried out in the dissertation work.

The regression equation (1) characterizing the dependence of total loan investments on the factors affecting them is defined as follows:

$$\text{LOG(CKQ)} = C(1) + C(2)*\text{LOG(CD)} + C(3)*\text{MNEM} + C(4)*\text{MREM (1)}$$

Here:

LOG(CKQ)-natural logarithm of total loan investments;

LOG(CD) - natural logarithm of total deposits;

MNEM-nominal effective exchange rate of Manat;

MREM-Represents the real effective exchange rate of Manat.

Table 1.

The dynamics of economic indicators affecting the development of the financial and credit sector in Azerbaijan¹

	GDP (million manats)	Nominal incomes of the population (million manats)	Total credit investments (million manats)	Overdue loans (million manats)	Total deposits (million manats)	Deposits of individuals (million manats)	Nominal effective exchange rate of manat (%)	Real effective exchange rate of manat (%)
2009	35601.5	22396.1	8407.5	303.5	6379.1	2334.9	98.3	115.5
2010	42465.0	25605.6	9163.4	492.9	7625.8	3029.8	104.2	127.7
2011	52082.0	30633.5	9850.3	633.8	9447.0	4119.8	108.1	134.2
2012	53995.0	34769.5	12243.7	748.8	10699.2	5113.4	108.3	130.3

¹ <https://www.stat.gov.az/source/finance/>

2013	57708.2	37562.0	15422.9	792.8	12475.8	6395.8	108.1	131.5
2014	58977.8	39472.2	18542.6	976.3	15453.4	7188.4	124.5	146.6
2015	54380.0	41744.8	21730.4	1508.5	23431.4	9473.9	89.7	110.0
2016	60425.2	45395.1	16444.6	1472.6	22091.0	7448.7	66.3	91.3
2017	70135.1	49187.9	11757.8	1626.7	20599.1	7561.2	65.9	94.2
2018	80092.0	53103.7	13020.3	1585.0	21870.4	8375.4	72.6	99.6
2019	81896.2	57035.0	15298.2	1273.1	24746.0	8637.9	73.4	99.0
2020	72578.1	55726.1	14530.4	893.1	23666.9	8177.9	75.6	100.3
2021	92857.7	57181.5	17119.8	719.4	29027.7	9241.5	85.4	113.6

Using the data of Table 1, the following model was obtained from the econometric evaluation of the regression equation characterizing the dependence of the total loan investments on the factors affecting it in the Eviews Application Software Package:

$$\mathbf{LOG(CKQ)=2.13818770255+0.768024233547*LOG(CD)+0.041715077359*MNEM - 0.0333391185054*MREM (2)}$$

Model calculations show that

- When total deposits increase by 1%, total loan deposits increase by approximately 0.77%;
- When the nominal effective exchange rate of the manat increases by 1%, total loan investments increase by approximately 4.2%;
- When the real effective exchange rate of the manat increases by 1%, total loan investments decrease by approximately 3.3%.

The results show that the obtained results are in accordance with the theoretical provisions and accurately reflect the practical situation. Thus, when the volume of deposits in banks increases, the volume of credit investments also increases. However, not all deposits are directed to loans. The Central Bank implements monetary policy, including a mandatory reserve ratio in terms of liquidity protection. This prevents part of the deposits from being directed to loans. The nominal effective exchange rate of the manat has a positive effect on the volume of loans, and the real effective exchange rate has a negative effect. It is known that in the calculation of the nominal effective exchange rate, the exchange rates of the national currencies of the countries with which the country trades are taken into account, and in the calculation of the real effective exchange rate, the consumer price index (inflation) in those countries is additionally taken into account. In other words, the fall in the nominal value of the manat relative to foreign currencies (nominal depreciation of the manat) had a positive effect on credit, while the increase in its real value (the real

appreciation of the manat) had a negative effect.

In the research work, the necessity of developing a socially oriented concept of the financial-credit system was mentioned in the theoretical arguments. Based on this aspect, the impact effect of some important indicators of the financial and credit field on the financial well-being of the population and the economic development of the country was evaluated. The regression equation (3) characterizing the dependence of the nominal income of the population on the factors influencing it is defined as follows:

$$\text{LOG(ENG)}=\text{C(1)}+\text{C(2)}*\text{LOG(UDM)}+\text{C(3)}*\text{LOG(FSE)} + \\ + \text{C(4)}*\text{LOG(VKK)}+ \text{C(5)}*\text{MREM} + \text{C(6)}*\text{DUMMY2020_2021} \quad (3)$$

Here, LOG(ENG) is the natural logarithm of the nominal income of the population; LOG(UDM) – natural logarithm of gross domestic product volume; LOG(FSE)-natural logarithm of deposits of natural persons; LOG(VKK)-natural logarithm of overdue loans; MREM-manat real effective exchange rate DUMMY2020_2021- fictitious variable, closing years of the COVID pandemic;

Using the data of Table 1, the following model was obtained from the econometric evaluation of the regression equation characterizing the dependence of the nominal income of the population on the factors affecting it in the Eviews Application Software Package:

$$\text{LOG(ENG)}=\mathbf{0.955858506454}+\mathbf{0.685112564998}*\text{LOG(UDM)}+ \\ +\mathbf{0.389352972304}*\text{LOG(FSE)}-\mathbf{0.133686423429}*\text{LOG(VKK)}- \\ -\mathbf{0.00319474201571}*\text{MREM} - \mathbf{0.151747600692}*\text{DUMMY2020_2021} \quad (4)$$

Model calculations show that

- When the GDP increases by 1% - The nominal income of the population increases by about 0.69%;
- When the savings of natural persons increase by 1% - The nominal income of the population increases by about 0.39%;
- When the amount of overdue loans increases by 1% - Nominal income of the population decreases by about 0.13%;
- A 1% increase in the real effective exchange rate of the manat - Reduces the nominal income of the population by about 0.3%;
- Closures in 2020-2021 due to the COVID-19 pandemic - caused a decrease in the nominal income of the population by approximately 15.2%;

The results show that the obtained results are completely consistent

with the theoretical provisions. The first result shows that approximately 68% of the created added value is directed to the formation of the population's income, including the payment of labor. The interest given to the savings of the population in commercial banks leads to an increase in the nominal income of the population. The high percentage of loans given by banks, as well as non-returned loans to banks as a result of a part of them being used inefficiently, have a negative effect on the granting of new loans and, consequently, have a negative effect on the increase of the population's monetary income. The closures related to the COVID-19 pandemic have created obstacles for the population to perform effective labor activities.

5. Determining the priority development directions of the financial and credit sector in Azerbaijan, developing proposals and recommendations;

The development of the financial and credit sector in accordance with modern requirements has become more relevant in recent years in Azerbaijan. The modern level of development of the financial and credit sector and the financial market of Azerbaijan embodies the main features of the country's social and economic situation. In terms of socio-economic development, this sector should serve the following purposes:

- Diversification of the economy;
- Improving the welfare level of the population;
- Development of state and legal institutions;
- Ensuring the integration of the domestic financial market into the regional and international capital markets;

So, taking modern challenges as a basis, it is necessary to take into account relevant views in the main development directions of the financial and credit sector in the near and future perspective:

- Increasing the activity of the banking and credit sector in increasing the quality of life and quality of the country's population;
- Creating a fair competitive environment in the financial and credit sector;
 - Banks continuously come up with new services according to the changing requirements of the market;
 - Expanding the scope of digital services provided to individuals and legal entities;
 - Creation of conditions for new and different players to enter the

market;

We believe that the development prospects of the financial and credit sector prove the importance of this point of view: One of the main reasons for the large-scale development of the modern world is closely related to the tendency of the activities of the financial services market and its participants towards digital technologies. Users of financial services benefit more from this development, which plays an important role in ensuring the efficiency of their work. The expansion of opportunities and circulation in the relevant markets has led to many qualitative improvements in the organization of relations between financial institutions and their customers:

- Established relationships rise to a new level of quality;
- Traditional attitudes and business models are improving;
- Interactions create more additional incentives;
- Users of the financial sector quickly identify new sources of time, income (profit);
- Elimination of unnecessary and excess cost losses is accelerated;
- The efficiency of the regulatory mechanism of the financial sector increases;
- There are wide opportunities for the introduction and accessibility of the required new types of services;

From this aspect, it is noted that the creation of a favorable environment for the application and use of financial technologies should also include the creation of an advanced platform in the relevant direction. The main factor hindering the development of financial technologies in Azerbaijan is the uncertainty of regulation, which significantly limits the flow of financial capital, determines the value of the organization and reduces the multiplier. This factor also makes it difficult to reinvest financial capital. The use of modern financial technologies is also characterized by legal difficulties. Examples of this include the gaps in the vagueness of the conceptual-legal approach and management system in this area, identification problems, legal status of participants, personal data protection, legal culture and actions.

We believe that it is appropriate to implement appropriate measures in order to eliminate the risks that may arise with the application of financial technologies:

- Ensuring the use and storage of large volumes of information in the

financial and credit sector;

- Creation and continuous development of digital financial infrastructure;

- Implementation of effective regulatory standards in the market related to the application of financial technologies;

- Application of modern management and risk-based control system in the financial sector;

- Strengthening measures to combat financial fraud under the conditions of the formation of a healthy competitive environment;

- Construction of advanced platforms aimed at consumer rights in the physical use of distance financial services;

- Strengthening the effective protection of personal data;

- Expansion of measures to deepen the openness of financial markets to domestic and foreign markets;

- Application of advanced world standards and practices, taking into account information security, in the improvement of the development environment of financial technologies;

In the application of digital transformation, NFC (Near-Field Communication) technologies that respond to modern payment solutions, Open banking or the application of special platforms (for example: Instant payments system - AOS) are of particular importance, but competitive modern banking, including contactless, compared to the countries of the world the purposeful activity of our country's banks in expanding payments and efficient and safe use of payment services is limited.

In this regard, the development of the activity of "Fintech" companies, promoters of digital transformation in classical and traditional banking in our country and initiators of the payment processing revolution, is also important. Fintech companies always gravitate towards countries with transparent and clear legislation, and this trend will accelerate in the future. Building a payment ecosystem through digital transformation will stimulate cashless payments and ensure transparency by expanding the economy. In this regard, it is necessary to implement state-important projects and conceptual documents related to digital transformation in a timely manner and without delay.

Taking into account modern requirements, the joint cooperation of the bank and "Fintech" will lead to the improvement and activation of the

existing markets, as well as the minimization of risks and the increase of economic efficiency by ensuring transparency. In the modern realities of the development of financial innovations, in the conditions of financial and digital globalization, the issue of state and transnational regulation comes to the fore. The future of fintech isn't just defined by advances in technology. For Azerbaijan, the future development of digitalization of the national financial market should be considered more deeply. In particular, the timely implementation of measures arising from the development of domestic and foreign relations of financial technologies is a special necessity.

- The development of financial innovations in the financial and credit sector of Azerbaijan requires increased attention to such directions:

- Presentation of products in new segments (investment in real estate, insurance business, stock market, financial leasing, etc. stable and reliable transactions);

- Use of new information technologies in cash management;

- Development of financial intermediation services aimed at reducing operational costs, more efficient management of assets and liabilities;

6. Elaboration of proposals and recommendations on increasing financial inclusion and financial literacy of the population in organizing the efficient activity of the financial and credit sector in Azerbaijan;

Increased competition in the financial and credit sector will stimulate the application of innovative mechanisms to business, create opportunities to provide better service quality to the consumer. From this aspect, the efficiency indicators to be obtained in connection with the application of financial innovations have been determined in the dissertation, based on modern experience. Thus, the main indicators that determine the economic efficiency of the application of financial innovations can be attributed: profitability and self-paying indicators of capital investments.

The application of financial technologies also necessitates the development of financial inclusion in the country. The development of financial markets and the reforms implemented in this area should focus on increasing the accessibility and inclusiveness of financial services. The concept of increasing financial inclusion in the country should be supported at the state level. Such a policy, which meets especially democratic

principles, should ensure that the financial services needs of different groups of people are met at a high level.

Relevant factors should be taken into account in meeting the demands of the country's citizens for financial services:

- Implementation of financial rights regardless of people's status (social, psychophysical, religious belief, ethnic identity, etc.);

- Provision and stability of state aid and support for people with disabilities, as well as their families;

- Organization of scientific-practical activity in the field of financial inclusion (theoretical-methodological bases of inclusive education, program-methodical tools);

- Systematic approach to the process of organization and implementation of inclusive education technologies (implementation of social work experience with the family in the conditions of general education institutions and the education system as a whole);

- Increasing the social responsibility of the family in the field of financial accessibility and inclusion;

- Deepening of integration and partnership relations between the state, private sector and society on financial inclusion.

A strategic plan for increasing financial inclusion should be prepared, and its goals and objectives, as well as ways to achieve potential efficiency, should be determined based on the following directions:

- Organization of financial inclusive educational institutions of different levels;

- Application of progressive experience in the activity of relevant enterprises;

- Creation of the necessary conditions for the widespread application of financial inclusion in the education system of the country;

- Determination of the model to be applied on financial inclusion;

- Implementation of stimulating mechanisms in the field of increasing the inclusion of services in the financial markets and sector;

- Improvement of the legal and regulatory framework related to increasing financial inclusion;

- Placing information about the level, variety and quality of financial services on the electronic website and other information portals of banks and credit organizations;

- Creating a transparent information base on financial markets and the financial-credit sector.

It should be noted that the importance of people having access to reliable and necessary information about financial services and protecting their rights as a consumer of financial services is increasing in the conditions of instability and poorly predicted development of financial markets. Understanding the complicated financial services to citizens and consumers and protecting their rights should be one of the main guidelines in the relevant normative documents.

- National strategies for increasing financial literacy should be aimed at all consumers of financial services and should try to cover the widest segments of the population.

We believe that in modern conditions, the implementation of serious and purposeful changes in the field of increasing the financial literacy of the population comes from a special necessity:

- The state should act as the initiator of such changes;

- Legal and program documents on increasing the financial literacy of the population should be adopted;

- Involvement of relevant bodies, financial organizations, public and private organizations and other interested parties in the implementation of relevant measures should be considered important.

In modern times, the increase in cyber risks is considered a constant threat to financial organizations. So, banks of different levels and sizes in the world are exposed to cyber attacks almost every day. The increase in such a situation should be taken into account in the context of the application of financial innovations, and necessary measures should be taken in this regard. Especially in the financial and credit sector, hibersecurity measures should be implemented systematically. Large banks are now independently creating centers and services that respond to hibersecurity incidents and exploiting them purposefully. However, other banks and credit organizations do not have such opportunities. In this regard, it is necessary to implement reform measures at the state and field level for the development of financial innovations and the protection of the financial and credit sector.

- The fight against cybercrime should be carried out with the close participation of law enforcement and special services. Such an approach

already brings to the fore the creation of an advanced legal-normative base on hibersecurity, and the application of advanced practice in this field in the country.

The fight against cybercrime justifies the need to improve the legislative framework. Such a fight can also be carried out by means of coordinated actions with special services and law enforcement agencies of foreign countries on the basis of relevant agreements. It is appropriate to implement a set of relevant strategic initiatives to ensure the safety of the financial and credit sector:

- Creation and development of the legal framework and regulatory mechanisms for the hibersecurity of the financial and credit sector;
- Creation of a center for combating cyber security and cyber crime in the banking sector;
- Expansion of international cooperation in the prevention of cyberattacks in the financial and credit sector;
- Strengthening the control system of the financial sector;
- Development of electronic infrastructure for the banking and credit sector;
- Creation of a unified cyber security system for the Central Bank and domestic financial sector.

The main conclusions and recommendations on the organization and development directions of the financial and credit sector in Azerbaijan are reflected in the dissertation work in an expanded form.

The following scientific publications have been issued based on the dissertation's primary scientific findings:

1. Amanova Ş.M., “Bank sisteminin inkişaf mərhələləri və xüsusiyyətləri”. Bakı, AMEA-nın Xəbərləri, İqtisadiyyat Seriyası, 2018, N6.s.262-269.

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problemləri”. Bakı, Dövlət İdarəçilik Akademiyası. Azərbaycanca regional inkişafın idarəolunmasında müasir istiqamətlər. Respublika elmi-parktik konfrans materialı. 22.04.2019. s.157-160.

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7. Аманова Ш.М., «Развитие финансово-бухгалтерской системы банковского сектора в Азербайджане». Бухгалтерский учет: достижения и научные перспективы XXI века. Материалы Международной научно-практической конференции кафедры бухгалтерского учета университета. Ярославль – Москва. 28.11.2019. s.23-28.

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9. Аманова Ш.М., «Особенности развития фондового рынка в Азербайджане». Москва: Журнал «Экономические науки». 2021, №4 (197). s.20-24.

10. Amanova Ş.M., “Müasir dövrdə maliyyə texnologiyalarının inkişaf istiqamətləri”. Bakı, AMEA-nın Xəbərləri, İqtisadiyyat Seriyası. 2021, N1. s. 141-149.



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