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**SABAH CENTER**



**Student-Amin Taghiyev**

**2008 GLOBAL FINANCIAL CRISIS AND ITS IMPACT ON AZERBAIJAN ECONOMY**

**Thesis Advisor: Mr. Metin Firuzi**

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**CONTENTS**

[ABSTRACT 3](#_bookmark0)

[ACKNOWLEDGMENT 4](#_bookmark1)

[INTRODUCTION 5](#_bookmark2)

CHAPTER 1: EXPLANATION OF FINANCIAL CRISIS 7

* 1. [Scientific description of concept of financial crisis 7](#_bookmark3)
  2. Historical development of financial crisis 12
  3. Main components of financial crisis 17

[CHAPTER 2: 2008 GLOBAL FINANCIAL CRISIS](#_bookmark5) 22

* 1. [Features of global financial crisis 22](#_bookmark6)
  2. [Causes of financial crisis and its expression forms 25](#_bookmark7)
  3. Spread of financial crisis to other nations in the short term and its impacts on different sectors 33

**CHAPTER 3: REFLECTION OF GLOBAL FINANCIAL CRISIS TO AZERBAIJAN ECONOMY 38**

3.1 Impact channels of financial crisis to Azerbaijan economy 38

3.2 Azerbaijan’s anti-crisis policy program related global financial crisis 45

3.3 Results of anti-crisis monetary policy in Azerbaijan in the context of global financial crisis 51

CONCLUSION 57

REFERENCES 59

**ABSTRACT**

The global financial crisis affected the economy of the state, because of the rapid association of Azerbaijan to the world economic structure and wide economical connections with developed and underdeveloped countries. If we give attention to the common economy of Azerbaijan, we can observe that the key reason of GDP growth, reduce of the unemployment , the inflation rate’s descend and increase of the level of other optimistic economical developments is rising of oil prices and oil processing.

After the global crisis, fall in oil prices in the world markets has created some hardships for national economy. In this work the impact of the global financial-economic crisis on Azerbaijani Economy on macro and micro levels, with the inclusion of oil and non‐oil sectors, direct investments, state budget, state debt, trade volume and agricultural sector have been investigated.

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**INTRODUCTION**

Problems related to global financial crisis and anti-crisis policy issues are the subject of discussions between academics working in the field of international scientific community as well as public and humanitarian sciences. The global financial crisis is still in progress in some countries. It is natural that in such a situation, it is crucial to investigate the causes and consequences of scientific research. On the other hand, Azerbaijan's economic development and its anti-crisis policy in the face of this global financial crisis caused some interest in the world scientific community. In the anti-crisis package, the situation was primarily analyzed and the plan for future work was determined. The analysis of the current situation showed that the economy in Azerbaijan has not yet reached the crisis level, but there are channels of crisis, and appropriate preventive measures are required to minimize it. One of the factors that could make the impact of the global crisis on the Azerbaijani economy was the decline in oil prices and other non-oil export products in the world market and the decline in foreign credit flows to the national banking system. As a result of timely measures taken to prevent them, the impact of the crisis on the Azerbaijani economy has minimized.

The directions of the anti-crisis measures implemented by the Azerbaijani state are very diverse. One of the priority areas is the reduction in consumer prices. It is known that in 2005, with the decree of the President of the Republic of Azerbaijan dated May 31, 2005, the complex measures to strengthen anti-inflation measures and regulate inflation in the Republic of Azerbaijan have begun.

One of the other priority areas has been the strengthening of anti-monopoly over these years. In these years, against to anti-monopoly and anti-competitive struggle has been strengthened, with the emphasis on preventing illegal interventions by state agencies. One of the most important priorities was undoubtedly the use of financial monitoring over loans and interest rates, which included the support to national banks, which, in turn, contributed much strengthening of fiscal discipline. Issues such as directing industrial enterprises to the domestic market and ensuring food security are also crucial in the anti-crisis measures undertaken by the state today. Azerbaijan's anti-crisis roadmap has been identified in the prepared anti-crisis measures package. Improving control over the financial system both nationally and globally should be considered as one of the most important conditions. The most optimal way out of the crisis is to carry out "economic and institutional reforms”. The most rational option is to predict the possible crises and to take action against it, as the most accurate policy. Thus, it is important to note that the most important factor that enables effective anti-crisis management in Azerbaijan is the trust and confidence to the President of the country.

Therefore, the analysis and evaluation of the global financial crisis and anti-crisis measures should be based on scientific evidence.

The purpose of the research is to analyze the impact of the global financial crisis on the Azerbaijani economy and to make suggestions and recommendations by scientifically explaining ways out of it.

**CHAPTER 1: EXPLANATION OF FINANCIAL CRISIS**

* 1. **Scientific description of concept of financial crisis**

Financial crises are also observed in all countries, which is conditioned by the developmental characteristics of these crises, the structure of economic and financial systems.

We can collect the theories that describe major financial crises in the world under six headings:

* Periodic debt collection. According to Fischer, Minski, economics, there is a periodic debt accumulation in the rapid growth of both companies and countries. This debt accumulates as a key factor in the emergence of financial crises;
* The crisis in banking. According to this theory proposed by monetarists such as Fridman and Kagan, high inflation has led to panic in the banking sector. In this case, the impact of the contractionary monetary policy on the economic asset is reduced;
* Rational theory. Expectations for price fluctuations as the most important factor for economists like Flud, Gerber, Watson and Krikman;
* Theory of Uncertainty. This theory explains the importance of making decisions between risk and future earnings. Economists of this school, Molozer and Nerring said that the cause of financial crises are the future of uncertainty and instability;
* Credit theory. Decrease in credit volumes leads to a sudden increase in credit demand;
* Financial Market Structure theory. This theory which is developed by Davis is based on deregulation, overcoming barriers to market access, developing new markets, and other factors. Reduction of input barriers to the market may lead to an increase competition, which can lead to a decline in credit demand and a decrease in credit standards[[1]](#footnote-1).

The crisis has certain characteristics as any event of social development. The essence of the economic crisis is expressed by the sharp inadequacy of production and consumption. This violates the normal functioning of the entire economic system and is reflected in the re-production of goods in terms of the aggregate demand for solvency and the violation of the conditions for the re-use of public capital. At the same time, it causes massive bankruptcy of firms, increased unemployment and other socio-economic shocks. The periodicity of the economic crisis and its expression phases characterize the periodic nature of economic development, which in turn reflects the development law of reproduction, the substitution the fall of production and the rise of production.

This problem was investigated by K.Marks in a deeper and more detailed manner. The economic crisis typically implies the emergence of periodic currency and financial crises. The causes of the economic crisis are contradictions in the recycling process, ie production, distribution, exchange and consumption. The development of recycling and the elimination of accumulated contradictions occur periodically. This problem was thoroughly investigated by K.Marks. He revealed the causes of crises, justified their importance, determined the relationship with the situation and laid the foundations for the theory of crisis development.

Theories of the economic crisis present many causes and factors of its existence. Thus, representatives of neoclassicism and liberalism believe that the cause of crises is that the population, which causes extreme production, is not completely consuming the products. They think solution of issue is stimulate people for consumption. But the current lack of consumer and capacity is result more than cause.

According to K. Marks, it is difficult to eliminate crises in the conditions of existing capitalism. Representatives of neoclassicism and liberalism in the economic theory do not link the source and causes of crises to the nature of capitalism. Many of them see the reason for crises as the population does not fully consume the products, which in their opinion excessive production leads to the crisis.

Economists who see the cause of the crisis as disproportionate in the economic development or market's "inequality" are closer to the Marxist position. In their view, crises are conditioned by the lack of a flat relationship between the fields and the unexpected actions of entrepreneurs, and this is the result of incompetent, unprofessional management.

The theory of "non-balance" adapts to other widespread views, such as derivation of external circumstances into crises. Economist F. Hayek thinks that excessive production crises are due to overabundant state funding.

Crisis has in psychological theory as well. In the opinion of Shumpeter, it is characteristic of its psychological picture that shapes the attitude towards investment for each base. The panic and disruption of the crisis situation leads to the stagnation of capital investments, the euphoria in the conditions of progress stimulates the "changing situation" of excitement and they constitute the irregularity of the investment cycle.

Economics has developed a number of different theories of scientific economic periods (cycles) and the causes of crises. Well-known economist P.Samuelson summarizes these theories, emphasizing more important sides of periods and crisis theories:

1. The theory of money crisis, which explains the expansion (spread) of the bank loan;

2. The theory of novelty (Shumpeter, Hansen), which describes the application of important innovations in the production cycle;

3. The psychological theory (Pigue, Beckot, etc.), which interpreted the population as a result of the wave of instability and optimism;

4. The theory of full non-consuming theory (Gobson, Foster, Kitiips, etc.), which is the cause of the period, compared with the amount of income earned by wealthy and savvy people, compared to the amount invested in.

5. The theory of excess investment - (Mizes);

6. Solar Spots - Weather - Product Theory (Covlis, Moore).

Many economists say that the financial crisis is a crisis in the financial system, in other words, they call it a crisis of financial system. So A.Q. Gryaznova explains in the "Finance-credit encyclopedia dictionary" written in 2002, the financial system crisis as a deep-breaking activity of the main components of the financial system. In his view, the financial system crisis is the complete loss of the ability to repay financial institutions. This kind of institutional understanding of the financial system in which many Western scholars agree, is often portrayed by the bankruptcy of credit institutions and is replaced by a bank crisis. In my opinion, this approach is not always correct because it limits the financial instability to the framework of their system.

In the IMF's scientific studies, the classification of crises in their field of view is offered, and crises in the banking, debt and currency sectors of the financial system are discussed. The alternative classification of crises was proposed by Rudelet and Sachs. Unlike the IMF classification, authors allocate crises to their alleged developmental mechanisms:

- Crisis resulting from errors in the course of macroeconomic policy leading to the accumulation of crisis potential;

- Financial panic;

- Sharp decline in asset prices;

- Moral risk of lending high-risk projects.

This classification incorporates the mechanisms of implementation of specific crises for many segments of the financial crisis. Apparently, there was proposed a universal approach to the analysis of the crisis development in the context of the globalization of the financial market and the strengthening of its dependence on all the assets involved. In this sense, it is desirable to replace the word "debt" with the term "fund" that combines the wider choice of assets associated with securities.

Russian economist B.B.Rubsov considers that the "financial crisis" includes the crisis of the currency system, the crisis of the banking system and the stock market crisis. According to K. Rudovoy, the financial crisis is a violation of the balance of financial and credit systems that reflects the instability of financial institutions, the devaluation of the national currency and non-payment of sovereign debt. All of this causes a sharp decline in GDP and consequently a violation of the process of formation and distribution of centralized state funds[[2]](#footnote-2).

Financial crises can be grouped into 3 categories: bank, debt and currency crises, according to the widely-spread classification offered by Michael Broton, an expert of the US National Bureau of Economic Research. Thomas Pugel and Peter L. Lindert, authors of America's famous "International Economics" studybook, argue that there are five factors that can lead to a financial crisis: excessive loans and debt; external shocks; currency risk; temporary international short-term loans and global infections.

Summarizing the work in the field of financial shocks, it can be concluded that the essence of the financial crisis is as follows: the financial crisis is characterized by the sharp decline in the value of financial assets, particularly the weakening of the national currency and the problem of public debt repayment, the breakdown of the financial institutions' intermediation function and the sharp decline in stock prices.

* 1. **Historical development of financial crisis**

The concept and explanation of financial crises and the recognition of its objective causes change over time as the socio-economic reality changes itself. Economists typically divide views on economic times into three stages:

* The first stage - from the 18th to the 30th of the 20th century.At that time, such an idea prevailed that economic crises during the era of capitalism were not entirely possible (C.Mill, B.Sey, D.Rikardo), or simply random, and the free competition system could independently eliminate them ( K.Sismondi, R. Robertsus, K. Kautsky);
* The second stage - from the mid-1930's to the mid-1960's of the 20th century. At this time, the idea that economic crises inevitably in the conditions of classical capitalism was widespread. J. M. Keynes believed that government should intervene to economy in order to stimulate the aggregate demand and it is necessary tool for solving the crisis and unemployment;
* The third stage - began in the mid-1960s and continues to today. During this period, firstly, special attention was given to the separation of exogenous (external) and endogenous (internal) causes of the periodicity of the market economy, and the advantage was given to endogenous factors.

Depending on coverage, crises become local (national), regional and international. By the middle of the 19th century, they were limited to the borders of one, two or three countries, and later became international, and the first international crisis took place in 1825. First, all the economic shocks have an impact only on the outside of the economy, primarily due to wars, epidemics, natural disasters, and subsequent failure to produce agricultural products. From the middle of the nineteenth century, the main cause of crises was a balance between the demand for industrial production and demand, that is, the classical economic era appeared simultaneously with the industrial revolution.

Thus, the new types of crises began in the nineteenth century and were repeated on average every 8-10 years: 1825, 1837, 1847, 1857, 1868-1869, 1873, 1882-1883, 1890-1892, 1900-1902, 1907 and others. Although different economic periods differ significantly from their duration and intensity, they all had the same recession, depression, recovery, and expansion phases.

1929 - 1933 - The Great Depression was a time of the largest global financial crisis in modern times, which has damaged more US. He started bankruptcy at the Stock Exchange in New York and covered the banking system, industry, and agriculture. According to its nature, this was a periodic crisis of reproduction , at that time, as a result of the low purchasing power of the population, the production of goods was not required and sold. As a result, the public recycling process has been violated, numerous trade and industrial enterprises, transport companies and banks have been disintegrated. In 1932 industrial production in the United States fell by 46%,manufacture on separate types of production has significantly decreased, for example, the cast iron - 79%, steel -76; car -80%. The crisis has led to the massive wave of bankruptcy. 135,000 industrial and financial firms, 5760 banks were bankrupt in 1929-1933. Only in 1932 loss of corporations amounted to $ 3.2 billion. Foreign trade turnover decreased by 3,1 times. The country has fallen to the level of 1911.

Post-crisis depression was long-term. After some revival in 1937, a new crisis, characterized by the absence of a premature rise phase, took place. Although the new crisis was weaker than it was before, it has been extremely harsh. In the capitalist world, the total volume of industrial production was reduced by 11%, in the United States - by 21%, and the release of cars by 40%. The development and aggravation of this crisis was stopped by the Second World War in 1939-1945.

After the Second World War, the domestic economic crisis began in 1948-1949 which was covering the United States and Canada. Industrial output in the USA decreased by 18.2%, in Canada - by 12%; the total output of developed capitalist countries decreased by 6%. The next economic crisis in the capitalist countries emerged in the United States, Japan, France, Canada, Great Britain, Belgium, Sweden, Netherlands, Finland and other countries in 1957-1958. However, the post-war era was the largest economic crisis in the whole of capitalist countries and in 1974-1975, with a high level of inflation. The characteristic feature of this crisis is its main areas of production-energy, agriculture, raw material fields, and deep structural crises that covered the currency system.

After the war, the first world economic crisis started at the end of 1957 and continued until mid-1958. It covers USA, UK, Canada, Belgium, the Netherlands, and some other capitalist countries. Industrial production in developed capitalist countries has dropped by 4%, and the army of unemployed has reached almost 10 million. The economic crisis that started in the US in the late 1973, the 1957- 1958 global economic crisis has been far exceeded in terms of coverage, duration, depth and destructive power of countries, and has drawn closer to the 1929 -1933 crisis. In the mid-1975, the number of unemployed in developed capitalist countries reached 15 million. In addition, 10 million workers have been relocated to an uncompleted job week or are temporarily deprived of enterprises. On the other hand, the real incomes of the population have declined.

In 1973, the first energy crisis took place which began with the OPEC member countries' decision to reduce oil production. Thus, the initiative to raise oil prices in the world market has been shown. On October 16, 1973, the price of one barrel of oil increased to 67% (from $ 3 to $ 5). In 1974 the price of oil reached $ 12.

The crisis of Mexico in 1994-1995 has taken place. It has been classified as a debt crisis. By the end of the 80's, the Mexican government has begun to attract investments to the country. In particular, the government opened the stock market, and revealed most of Mexico's state-owned companies. From 1989 to 1994, the flow of foreign capital into Mexico was stronger. In the first signs of financial imbalance (non-balance), the massive flow of capital began (in 1995, $ 10 billion was transferred from the country) which led to the crisis of the banking system.

The world financial crisis began in 1997 - 1998. It led to large scale disintegration of the Asian stock market by its launch. Its causes include the devaluation of the national currencies of the region and the high level of deficit in the payment balance of South East Asia. According to economists, the Asian crisis has reduced world GDP by $ 2 trillion.

As it is known, the global financial crisis (2007-2008) has started with the global financial crisis on the American real estate market. Moreover, although one of the reasons for the creation of derivative financial instruments is to be hedged against risks, their use for speculative purposes has increased rapidly. Exploding the mortgage "foam" has triggered the crisis in the banking sector all over the world, which, in its turn, has led to recessions in the real sector of economy in all countries of the world. All of this led to the loss of confidence in the financial markets and the spread of panic. The crisis that began in the American banking system quickly spread to developed and developing countries around the world.

So, starting in 2007 and 2008 the ongoing global financial crisis can be divided into four stages:

1. The Anglo-Saxon Financial Crisis (from the summer of 2007 to March 2008). The first of the global crisis occured through the emergence of problems in the US mortgage market the largest US mortgage bank, Bear Stearns, was launched to recover.
2. Borders (Decoupling, March 2008). The crisis has spread to economically developed countries, but there is also hope that the crisis will not affect developing countries, and their dynamic economic development will ultimately be the main catalyst for the salvage of those countries in their rotation.
3. Loan contraction operation (de-leveraging, September-November 2008). The global crisis is spreading to developing countries and recognition of officials about the launch of recession in developed countries. The beginning of the collapse of the banking system in many countries around the world.
4. Emission or filling (quantitative easing, from the end of November 2008 to the present time). Most governments in the world have developed a comprehensive set of monetary and fiscal measures to avoid the collapse of the industry and the goal is primarily to stimulate the demand by increasing the money supply.

According to recent data, as a result of the current financial crisis, total losses of banks around the world are over $ 700 billion, about half of them fall on American banks. Banks have been able to repay about 50% of this amount by attracting new capital. However, according to the latest estimates of the International Finance Corporation (IFC), the loss of banks can double - up to $ 1.6 trillion. Thus, the development of the Global Financial Crisis (2008) and development of the post-crisis scenario have been consistently as follows:

1. Collapse of USA mortgage-credit system;

2. Reduction of loan volumes;

3. Low index of stock indices;

4. Increase of budget deficits;

5. Decline of real sector;

6. Increase of unemployment;

7. Decrease in consumer spending.

**1.3 Main components of financial crisis**

The main component of the financial crisis is the bank crisis. The inter-country differentiation of the banking sector is derived from features such as institutional relations, ownership structure, measurement differences, sectorial concentration, systematic audit, presence of international financial standards, and technological infrastructure. However, emerging economies have a similar banking system and problems, so that the banking crisis can be generalized for them. Rising of interest rates in industry-developed countries increases the probability of a bank crisis in emerging and transition economies for 3 reasons:

1. First, banks of the developing countries have to increase their interest rates in order to attract investors from developed countries, which already have higher earnings in their countries. High interest rates increase the probability of default;
2. Secondly, most of the developing countries borrow from foreign banks. If such debts are massive, the increase in interest rates in industrialized countries creates a general macroeconomic shock, which ultimately can’t repay debt to both domestic and foreign banks. In developed economies, the rise in interest rates leads to a deterioration in the currency of developing countries, because in such a case, the domestic banks need a large amount expressed in national currency in order to repay their foreign currency debt;
3. Thirdly, speculative attacks can pose a serious threat to the stability of the developing country's banking system.

For example, until the 1998 crisis, most Russian banks obtained high profits through speculative transactions through currency, securities, and other financial instruments. In August 1998, 76% of bank investment in the economy was invested in government securities. As the “Izvestiya” newspaper notes, the banking system is developing through highly profitable financial speculation, does not recognize other ways of earnings and does not want to recognize it. However, assortment of speculative schemes gradually decreased.

Kaminsky and Reinhart's Theories of Bank Crisis. The causes of bank crises are the same as changing the countries' economic and financial structure, with the geographical location, to provide information about crossing the causes of the crisis in many ways. Kaminsky and Reinhart's 1996 study examined the changes in macroeconomic incomes before and after the banking crises in 20 countries and tried to predict "early warning signals" for predicting crises. As a result of the survey, the decline in foreign exchange reserves, high real interest rates, rapid drop in commodity prices were shown as signals of the upcoming crisis[[3]](#footnote-3).

Looking at the relationship between the crises, Kaminsky and Reinhart analyzed that there was no connection between the crises in the balance of payments and the banking crisis in the 1970s. During this period, financial markets have been highly organized and regulated. In the 1980s and 1990s, bank crises have increased and as of the half of the situation banking crises came out above the credit crisis. The problem is not clear, but an existing bank crisis tells about international crises. Reasons for the bank's crisis on the balance of payments proposed by Stocer and the rebound by Kaminsky and Reinhart have been denied by the idea that "knowing that the balance of payments crisis is ineffective in predicting future banking crises."

The currency crisis is a loss of confidence in a country's national currency, so the speculation funds begin to leave the country in excessive size and despite the central bank's efforts, the impossibility of continuing the current situation is reflected in the form of national currency circulation. Indicators of currency crises can be collected in the following five groups:

1. Poor macroeconomic indicators and incorrect economic policy;

2. Inadequacy / weakness of the financial basis;

3. Ethical risk and asymmetric information;

4. Incorrect predictions of existing credit organizations and international financial institutions;

5. Realization of unexpected risks such as terrorist incidents.

Stanley Fisher, the IMF's assistant's assistant, was of the opinion on the currency crisis in 1988; "The main reason for the ongoing crisis in a country is the debt that is missing or incomplete in current year. If the current year's debt is large

and If a country that repaid external debt does not give enough current debt to interest, the crisis is approaching."

The causes of currency crises are: short and long term periodic changes; development of inflation processes that violate the exchange rate of national currencies; incompleteness of international settlements, some of which reflect the chronic passivity of some of the balance of payments, and others with chronic activity; instability of the international currency markets, which are exposed to factors outside from economy; strengthening the unequal development of countries; contradiction between the limited capabilities of regulation of foreign exchange relations at the interstate level with a high degree of national regulation.

There are following classifications of currency crises: The first type is linked to the increase in the money supply in the stabilization of the rate in any country, which increases the domestic prices against world prices, which violates the trade balance and ultimately refuses the fixed exchange rate; second type is due to excessive public debt accumulation. This leads to the loss of investors over a certain period of time, the "escalation" of the capital takes place, and the exchange rate goes down sharply; third type is related to the debt of the private sector; fourth type - excessive accumulation of state debt and this debt is not the budget's ability to repay, which ultimately leads to inflation and devaluation.

The financial crisis in Brazil in January 1999 began, and according to C.Sachs, the reason for this crisis was increasing real value of the Brazilian currency about 30-40%. This means that wages and prices in Brazil are very high when the current exchange rate is converted to US dollar and this reduces the competitiveness of the country in international markets. Brazil maintained exchange rate artificially at a high level through interventions in the currency market. At the end of August 1998, the Central Bank sold $ 25 billion of currency reserves in order to protect the national currency. The total volume of currency reserves reached $ 70 billion, about $ 45 billion[[4]](#footnote-4).

Another element of the financial crisis is a debt crisis. The debt crisis is a failure of the state and economic entities to fulfill their obligations to the creditors. In this sense, the debt crisis may seem similar to the banking crisis. The only principle difference between these two concepts is the subject of relationships. If we look at banking institutions while examining the bank crisis, the debt crisis has nothing to do with financial institutions and the state. In addition, the bank crisis is essentially a credit crisis, that is, learning and analyzing the creditor's problems, and the debt crisis points to the instability in the debtor's or borrower's activities.

There is no clear explanation of debt crisis in scientific literature. This is a situation where the borrower is unable to pay off his foreign debt due to the credit schedule. Many countries resort to external borrowing because of lack of internal resources during domestic investment. This is mainly the issue of state budget financing, socio-economic reforms, and the problem that arises during existing debt obligations.

There are three main sources of foreign borrowing:

1) State's use of foreign sources for financing the budget deficit;

2) Involvement of loans related to the import goods about consumer and investment;

3) Attracting funds from national consumers of goods and services in order to investment needs.

According to Fischer, debt crisis can occur for 3 reasons:

1. Countries that are obliged did not manage their economies properly. The details and reasons for this are different, but the overall experience includes budget deficits and high exchange rates of the national currency. Countries that are indebted to raise the exchange rate of the national currency to a higher level, resulting in speculative sharp increase in imports, and purchases from abroad were carried out under a low exchange rate. In some countries it was accompanied by the flow of capital to abroad. According to some estimates, the flow of capital in Latin America reached $ 100 billion at the end of the 1970s;
2. The second reason for the debt crisis was the uneven distribution of loans by banks. Commercial banks did not conduct a profound investigation when they had to borrow new borrowers. They gave credit without considering the abnormally growing scale of debt;
3. The third reason was the sharp deterioration of the world economy in the early 1980s. Interest rates rising, economic growth has diminished, and the value of products has dropped. Increase in interest rates indicates that those in debt should pay higher interest rates to pay off their foreign debts[[5]](#footnote-5).

[CHAPTER 2: 2008 GLOBAL FINANCIAL CRISIS](#_bookmark5)

2.1 [Features of global financial crisis](#_bookmark6)

After clarifying that the crisis in the United States in 2007-2008 was the result of a new phenomenon like "financial infection" the threat of a new world financial crisis began to be considered a particularly acute way.

Between 1970 and 2000, financial crises resulted in the loss of around 10-30% of the national financial assets in the country. In 2008-2009, there were crises in many developed and developing countries' banking systems, and these crises were not only affect the sinking and troubled banks, but also impact the real sector and homeowners who had ties to the banks. In II half of 2008 - decline in stock indexes: 70-80%, losses in global financial sector: $ 3 trillion, or 4.3% of global GDP.

International experience shows that the costs associated with the elimination of the banking crisis are on the average 15-20% of GDP. It is known that in many countries, the prevention of the bank crisis has been costly to cover: up to 15 per cent in Spain and Hungary, 20.5 per cent in Malaysia and more than 30 per cent in Mexico. In some countries this figure can reach 40-50%. The state spending on the recapitalizing and structural upgrade of the Turkish banking sector was $ 40-50 billion or a quarter of GDP. In Turkey, a new regulatory body has been set up which assume the commitments of 25% of the banking sector. In Russia, direct financial expenditures on structural renewal of banks made up 0.2% of GDP in 1998, compared to 21.7% in April 2009. After the 2007-2008 crisis, the USA government's direct financial costs for the structural upgrading of the banks make up 38.7 percent of GDP, which is, in figures, $ 5500 million. In the eurozone, the cost of crisis prevention reached 23.4% of GDP, including the German government anti-crisis program of 500 million euros, 360 million euros in France, and 400 million euros in Ireland.

Both the detent of the global financial bustle that started in the summer of 2007 and its relationship are substantially financial in nature, and happened in a specific sector of US financial markets. However, when we consider how the crisis emission speedily through markets, and then gradually affected the real economy, not only in the developed countries, but also underdeveloped nations.

In attempting to release these factors, one must stay away from the deception to look for simple reductionist approach, leading to mono-causal expressions. The global financial crisis has now budged from containing the transmission to coping with the global recession. The current recession has some peculiarities. Unlike recent periods of recession it’s not just a balloon bursting of asset with implications for a number of financial institutions and a concomitant narrowing of demand which could be resolved by automatic balancers on the financial side and a monetary policy that lowers interest rates. This stagnation is a much more complex entity. First of all, there was an asset pustule caused by an abundance of savings in the global economy and the USA`s interminable claim for loan. Thus the savings plenty which led to nominal interest rates ordinarily financed overabundant US consumption – not investment. This led to a significant rise in asset prices (particularly house prices), supported by the commodities explosion following steady growth in arising economies. The debt spiral which this ensued in has been completely debated in the literature – hold out it to tell that when bad mortgage debt began being reclaimed (so called subprime crisis) it was swiftly understood that there was a common credit crisis next from the presence of tremendous sums of poisonous assets in the balance sheets of credit institutions and banks. Consequently, the collateral backing of a number of credit advancements started being suspected and credit freeze. This led to a downfall of demand and increasing unemployment – all in an intense cycle. In a series of effective works, Carmen Reinhart and Kenneth S. Rogoff have examined the historic recording of countries experiencing different financial crises. They declare that real home price falls average 35% stretched out during six years from top to slump, as equity price falls down average 55% along a downswing of approximately three and a half years. The unemployment rate increases by 7% during the down period of the session and production falls 9%. The real amount of state debt tends to burst, raising an average 86%, because of lose tax incomes. In addition, Reinhart and Rogoff find out that the historic features of banking crises in middle-to-low-income states have been match to those in wealthy nations.

Thus, as diverse from most recessions in the recent period the current profound stagnation symbolizes an integration of a number of elements:

- Shock of debt and asset price inflation (effortless get credit, relaxed lending norms);

- Regulative crisis: insufficient regulations (rules do not keep pace with innovations in financial instruments, leading to more higher complication, poor clearness and more risk);

- Complicated credit derivatives: the innovation an duse of confused derivating such as CDOs (Collateralized Debt Obligations) made it hard to define and comprehend the subprime issue, once default rates started to increase;

- Rising utilize of new global financial products – spread out risk (but ascended risk) + decreasing transparency (opacity of markets: the opponent risk).

**2.2 Causes of financial crisis and its expression forms**

The global economic imbalance caused by the ever-increasing current account deficit of the USA and the surplus of savings in other countries is one of the most important factors affecting the crisis. The credit abundance caused by global financing is one of the most important triggers of the crisis.

**Global Financing, Credit Explosion and Housing Price Balloon**

Since the late 1990s, China, have begun to create huge savings to the developing Asian countries and the oil-producing countries of the Middle East. This savings pool in search of investment took the breath in the US and carried the country above its own capabilities; inexpensive money from overseas with low interest rates has led to a credit boom. Firstly, the expansionary monetary policies in the US, in additionally, through to the global liquidity supply, the cheap and easy loan facility created a rapid increase in mortgage loans and increased the demand in the housing sector. This fueled the sudden rise in housing prices and caused widespread, financial and economic losses.

Increased housing prices mean that borrowers can refinance their homes with larger loans when their home value increases. As a result, it is assumed that due to the rising housing prices, it is possible for the borrowers to sell their houses to repay the loan, so the probability of default is low. The fact that the securities, which are based on the income streams from these loans, provide great returns makes the investors happy. Therefore, there has been a sudden increase in lending to the sub-sector population.

With the fall in housing prices after the peak of 2006, decay in the financial system has started to come to light. The decline in housing prices has led many risky borrowers to see that their mortgages are submerged. Because the value of the house fell below the value of the mortgage. Unpaid mortgages have risen rapidly, and eventually millions of mortgages have been foreclosure.

**Weakening of traditional banking and Shadow banking**

The traditional financial intermediary role of banks; funds collected with the issuance of short-term deposits which given as long-term credit, short-term debt and long-term lending- it is the process of transformation of financial assets by the banks. In the United States, the importance of commercial banks, the most important source of funding for non-financial borrowers, began to decline in the 2000s. While the share of commercial banks in total financial intermediation assets was 40% in the period between 1960 and 1980, it decreased to 30% at the end of 2005. It seems that the traditional financial intermediary role of the banks, that is, the functions of lending the funds they have collected by deposits, have started to lose their importance in the financial system.

Banks may face a risk of default due to their short-term deposits and long-term credits. In this case, two instruments can reach the rescue of the banks. One of them is the FED; the other one is deposit insurance. In the event of an attack on banks, the FED prevents banks from selling their assets at the expense of their existence, allowing them to reach sufficient cash to make payments to their depositors; on the other hand, even if the bank does not find liquid or even can’t pay its debts, deposit insurance also prevents banks from getting more off the road by assuring depositors to get their money back. However, these two instruments have a cost for participating banks. In order to avoid the subjective risk problem, banks had to give up some of their autonomy and pay a cost. In addition, if we include international regulations such as Basel I and Basel II, we will see a strict safety net under commercial banks.

Contrary to Basel I, all of the recommendations in Basel II were not implemented. Because, in the banking system, not everyone is looking for stability and security. Especially after the 1980s, a large number of people entering the financial services sector realized that they could make a lot more money if the safety net was not created in the banking sector. Apart from the regulations, there were ways to do banking, but on the other hand it was necessary to be excluded from the protective measures provided to ordinary banks. Thus, regulatory arbitrage began to used, which means deliberately avoiding regulations, is being used to make more profits. This search led to an increase in shadow banking.

Shadow banking system; There are financial institutions which are not banks, but look like a bank, operate, borrow, invest, and act like a bank in all other respects. Despite the differences between deposit banks and shadow banks, both types of banks are exposed to bank attacks. Because most of the shadow banks have one common feature, which is the maturity mismatch. They mostly borrow from short-term liquid markets and then invest in long-term illiquid assets. Shadow banks, which are defined as non-bank financial institutions that convert maturity and liquidity, carry the same fragility as commercial banks. In other words, they had the same fragility facing the banks when it was attacked. When the panic hit, traditional banks and shadow banks could not renew their short-term loans and became illiquid. Shadow banks were at the center of the crisis. When the housing bubble exploded in the US, the losses of banks and non-bank financial institutions led to widespread bankruptcies in the financial system.

According to Krugman, there is a shadow banking system at the center of the global crisis which leads to financial vulnerability. These dark financial institutions, which do everything the traditional banks do and, like banks in crises, are subject to the rules established for banks and should be included in the financial security network.

**Unsuccessful Monetary Policy of FED and Low Interest Rates**

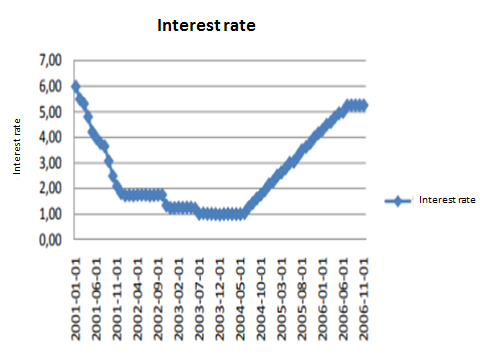
In 1997 - 1998, the most remarkable situation that people in the US saw in the financial markets was that everyone who bought stocks gained a lot of money. In those years, as people bought more, stock prices began to rise and swell up. Thus, more funds are flowing into the stock market. The peak in stock prices was the mid-2000 year.

Following the swelling of the stock balloon, the housing bubble began to swell. FED President Greenspan has defended the free market economy and low interest rate policy, as he dislikes state intervention to regulations and markets. During his presidency, the low interest rate policy played an important role in the formation of the housing bubble. USA interest rates fallen to low levels in 2003; partly due to FED policy and partly due to a large amount of capital inflows from other countries, especially from China. These low interest rates led to an explosion in the housing market, which helped the US economy to recover from the recession after the 2001 recession. However, while the housing market was booming, financial institutions began to take increasing risks. The reason why they took these risks was the idea that the FED would save themselves in any case. In other words, traders knew that the FED would implement a continuous expansionary monetary policy, inflate the balloons and run to save the investments after the balloons exploded. This phenomenon which called ’Greenspan Voodoo’ has caused a large moral hazard.

Greenspan believed that the increase in high-risk lending was a good development. Greenspan and his team have a significant share in the continuous reduction of regulations in the United States.

The interest rates should be low for the continuity of the household and corporate borrowing. The American Central Bank has taken such a decision. It has emerged in the long run that the important decision applauded by Greenspan is actually a disaster. The decision taken; it has allowed companies, investment funds and individuals to receive more loans. This wealth effect allows a household in debt to borrow more, consume more, and thus increase the prices of acquired assets. This phenomenon is not unique to the US and is the same in other countries.

Graphic 1: Effective Federal Funds Rates between 2001-2006



Source: Economic Research Federal Reserve Bank of St. Louis

Greenspan, who had been the chairman of the FED during the two asset bubble that first appeared in the stocks, and then in the house, the failure of this issue was revealed after he left his post. With the outbreak of the global crisis, Greenspan has become the target board. When the crisis broke out, FED head was Bernanke. Bernanke continued the financial bubble after the crisis. The Greenspan contribution, which required the intervention of the FED when the markets went bad, was replaced by Bernanke's contribution. This contribution further increased the bubble and exacerbated the risk of excess risk. When the first signs of problems appeared in the summer of 2007, the FED and the European Central Bank provided very high liquidity to the markets. In the first two weeks of August, the European Central Bank has issued a total of USD 274 billion, while the FED introduced $ 38 billion in August 2007. With the outbreak of the crisis, the FED has pushed the markets into liquidity. In this way, the interest rates are close to zero. The intention here is to stop things from getting worse and the financial system to collapse. It was not surprising that low interest rates did not return to the economy as mobility. Because, although companies have found cheap money, they have not invested in and kept the money in their hands. On the other hand, the banks have kept their inexpensive money and did not present them as new loans to the market as expected.

**Usage of Leverage**

Leverage means the extent to which a financial institution finances its investments with funds borrowed. In other words, the amount of debt used as a complement to the investment. The more emphasis is given to debt and leverage, the financial system becomes finer. The fact that the players of an economy tend to borrow for the purpose of financing their activities shows that they are prone to bankruptcy. It is a known fact that there is a link between leverage use and global crisis.

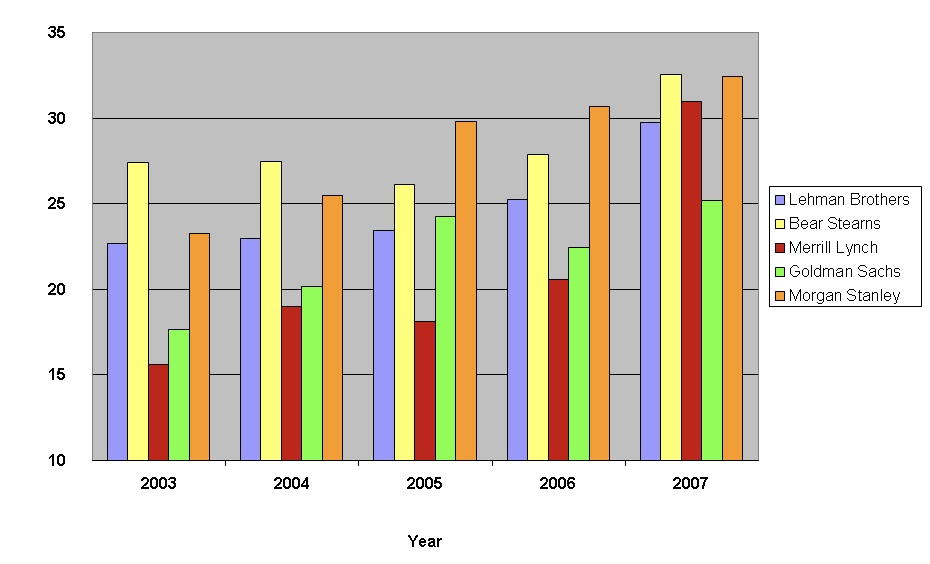
Most crises start after a process in which the price of certain assets rises well above their actual value. Balloons formed during this process go hand in hand with excessive borrowing. Because, investors usually borrow money in order to get a rise of share. The rapid increase of asset values is directly proportional to the excessive increase in credit supply. This shows that the financial system has not been adequately regulated, and even the central bank has implemented a loose monetary policy. As the loan becomes increasingly cheap and large, the purchase of the demanded asset becomes easier. As a result of increasing demand, prices are rising. Since the assets in the center of the balloon can typically be shown as collateral and the price of the collateral continues to raise, the possibility of borrowing more and more every day. In other words, borrowers can take advantage of leverage. However, at the point where the supply of the group of assets subject to the balloon exceeds the demand, the growth of the balloon stops. The belief that prices will continue to rise is becoming more and more difficult to borrow because housing prices have fallen. Free funds, which are generally highly leveraged in derivative markets, for more returns, have reached a high return on the market in favor of a positive investment as they have invested considerably above the amount of their funds, in the case of negative progresses in the markets, it creates great losses. Negative processes in the markets due to housing loans have severely damaged free funds, which have a large position in mortgage-backed securities. This process started in the USA when new housing supply exceeded demand. When the prices have risen, many residences have become built and cannot find demand. So that, excessively high prices and rising mortgage loan rates prevented buyers from being more buried in this market.

People and companies have realized that prices will not rise after this and borrowing is becoming difficult. Because the balloon needs easy money -borrowing. If the borrowing cannot be provided, prices start to fall. Debt is now more impossible after the price decrease.

This process was fully realized in 2007 and 2008. Unless home owners can repay mortgage loans, the value of securities derived from these loans declined rapidly and the collapse began. When the panic begins, it is seen that the prices have fallen well below the actual value during the collapse, as the prices have increased above the original value of the balloon. Damages incurred by financial institutions with high debts triggered them to reduce the risk they were exposed to. The banks stopped lending and thus triggered a liquidity and credit crisis that spread across the whole economy. Confidence collapse in the financial system combined with the major losses of financial firms led to a serious reverse leverage cycle and a credit crisis in the entire economy. Individuals and institutions have not been able to renew their current lending, refinance, and spend much less on goods and services. Therefore, the economy has started to shrink. The things that have triggered the financial crisis have spread to the real economy and have led to multifaceted damage.

As can be seen in Graph 2, between 2003 and 2007, the leverage ratios of financial system of the five major investment banks in the USA (Morgan Stanley, Goldman Sachs, Merrill Lynch, Bear Stearns and Lehman Brothers) have reached frightening dimensions. The leverage ratio of investment banks increased from 33 to 1. In other words, only 33% of the money used by the bank is its own capital. This shows that a loss of three percent in their assets can lead to bankruptcy. These banks, when the asset values increase, in response to this, they increased their balance sheet size and became more borrowed by using more leverage.

Graphic 2: Leverage Ratios of Investment Banks in 2003 - 2007



Source: Company Annual Reports

**2.3 Spread of financial crisis to other nations in the short term and its impacts on different sectors**

The 2007-2008 global financial and economic crisis has affected both developed and developing countries.

The crisis that began in the United States soon started to spread to other developed countries, such as Japan and the European Union. Before the crisis, the growth rate of world trade in 2004-2007 was 8.74%. With a sudden turnover of bank loans and a decline in demand for commodities and services, the global trade volume in 2008 increased only by 2.95%, but declined in 2009 to 11.89%. The global GDP growth in 2008 was 1.83%, and in 2009 GDP fell 2.3% for the first time after the Second World War.

In February 2008, inflation hit a record high. According to George Soros, tendency to transfer them to real assets as a result of lack of confidence in the currency. This has influenced the commodity sector at a later time and has shown itself in the price of oil and gold. In 2009, the problem was counterproductive, and the economic outlook pointed to deflation. The reason for this was the reduction of the Federal Reserve's discount rates to close to zero.

Japan occupies second place after US for economic development. However, this factor did not prevent the global economic crisis from affecting it. Japan, like other countries, has experienced the global economic crisis. The Central Bank of Japan has decided to direct $ 35.5 billion of $ 40 billion in advance to support the financial market. That same day, the insurance company Yamato Life Insurance Co., Ltd. went bankruptcy. Its debt was $ 2.7 billion.

Japan is an export-oriented country and high-tech goods produced in the country are exported to the West. In the West, the demand for this export has dropped while crisis. Export is the most important factor for the development of Japanese economy. Its abatement causes automatic GDP decline. In the third quarter of 2008, there was a 1.8% decline.

Japan's main export products are automobiles and electronics. In the second half of 2008, the economy crashed. As a result of the 2008-2009 crisis, Japan's automotive industry began a period of hard times. Japan's car exports declined. The volume of exports fell to the level of 50 years ago. In principle, the global economic crisis has diminished the demand for the Japanese car. As in other countries, workers in Japan have begun to reduction and the first losses have been made by car manufacturing companies.

The obvious reason for the Japanese crisis is the 2008 global financial crisis. In addition, there are other specific reasons: the euro and the dollar against the yen have risen. For this reason, they did not buy Japanese goods abroad. Another factor is the decline in demand across the country and abroad. According to a survey conducted by Bloomberg News in 2009 among 24 economists, most of them believe that Japan's GDP decline by 11.7% in the third quarter of 2008, which is the decline in demand in the world.

The crisis in the United States has also switched to Europe as soon as possible. Three large Icelandic banks have gone bankrupt. In 2008, the Icelandic currency lost 40% against the Euro and the rate of inflation in Iceland reached 15%. The real estate market in the United Kingdom, just like the United States, has dropped dramatically.

Greece is the most affected country among the European Union countries while financial crisis. The Greek government borrowed a large amount of money for covering the budget deficit. At the beginning of 2010, foreign debt rose to a dangerous level. The state was forced to cut off public sector spending due to inability to pay its debt. This also led to the riots in the beginning of the crisis. Greece asked for a loan as a starting point for debt restructuring from the EU. However, it was the first country to seek financial assistance from the EU in the fight against the financial crisis. Then Portugal and Ireland joined the list. On October 23, 2010, the IMF and the EU opened a credit line worth $ 110 billion to Greece to overcome the crisis. In the summer of 2011, Greece applied for a second loan. In spite of attempts to reduce its debt, Greece's public debt was approaching 350 billion euros. EU leaders and the IMF agreed to give more than € 109 billion in aid to Greece. The agreement was reached at an emergency summit in Brussels on 21 July 2011. In addition, the amount close to € 50 billion was also required by investors. At the same time, the aid to Greece reached 159 billion euros. Finally, the economy of Greece is a result of the crisis was owed a huge amount credit and it was deactivated on June 1, 2015.

The financial crisis in Spain was triggered by the 2008 global economic crisis, became stronger with the influence of the European crisis and eventually gained specific features under the influence of local legal, financial and social realities.

Spain is one of the major EU countries, so its economic situation has a great importance for international audiences. That is why Spain was under pressure from the US, the IMF and other EU countries and the European Commission. Spain's state debt in 2010 was $ 820 billion. It was almost equal to the debt of Greece, Portugal and Ireland. The Spanish government hoped that after sharp economic events, economic growth could and could escape the pressure of foreign organizations. Spain's GDP deficit declined from 11.2% in 2009 to 9.2% in 2010 and 8.5% in 2011.

There is such an economic law: the economies of emerging and transition economies are dependent on the improvement of developed countries. If the global crisis begins in a developed country, it usually goes from developed countries to underdeveloped countries.

Some politicians and analysts have assumed that the crisis will not affect developing countries and countries with transition economies, and if touched, the results will not be heavy. The growth rate of the economy in developing countries still continued in the first half of 2008. Finally, in the summer of 2008, the crisis in developing countries, especially Central and Eastern Europe and the former Soviet Union, has been touched upon by the world's major economic resources - oil and precious metals prices.

According to the IMF, the biggest blow to the global financial and economic crisis has been with more developed emerging economies or developing countries with strong economic ties with developed countries, particularly Eastern Europe and the CIS. The first group of countries was originally depended from EU demand and investment demand. The second group countries are dependent on the prices of energy and other raw materials that fall from the summer of 2008.

According to the IMF, the decline in economic growth was also observed in the Baltic countries: Latvia - 12%, Estonia and Lithuania - 10%, Ukraine - 8%. Large developing countries, such as China, Brazil, and India, have maintained their economic growth rates. Economic growth in these countries has dropped slightly compared to previous years. This was due to the high domestic demand in these countries and as well as favorable conditions in the food and agricultural sectors.

The decline in the value of the national currency created a set of problems in the financial sector: most of the economic entities that borrowed in foreign currency lost their solvency, thus increasing the volume of risky credit portfolios in the banks, which led to the increase in the volume of debt in GDP, the loss of confidence in the national currency and the flow of capital from the country automatically.

The global financial and economic crisis has shown that the export-oriented development strategy brings with it greater risks than it was anticipated, as the international trade is more flexible in the period and more vulnerable to the economic recession. At the end of 2008 and early 2009, Asia's emerging economies’ export volume were 40% annually. Moreover, the rate of economic growth slowly fell, and even in some countries, the growth rate was negative. Taiwan's GDP dropped 8 percent, Thailand -4.3 percent, Singapore 3.7 percent, and Republic of Korea 3.4 percent. Hence, it can be concluded that the negative impacts on the economy in this group are related not only to foreign funding, but also to the decline in international trade.

For developing countries, it is important to note that financing with foreign capitals is a great risk for them. Countries financed by foreign capital are "dried" after countries with foreign capital flowing out of the country on the eve of the crisis.

Asian and Latin American countries have been able to cover the shortfall caused by the inflow of foreign funding, but countries like Central and Eastern Europe have experienced a major deficit in the balance of payments. For example, this figure was 25% in Latvia.

As you can see from this table, countries with a transitional economy have had a greater impact on the CIS, Baltic and Eastern European countries. (Table 1) Of course, the impact of the crisis on individual states is different. The decline in production took place in Ukraine and Lithuania. Gross domestic product fell by 15-20%, while Kazakhstan's GDP fell by only 2%. A higher rate of inflation was observed in Russia and Ukraine, which is a transformation country, with a decline of 10-15%, a significant reduction in real incomes and commodity turnover. As regards unemployment, as seen from the table, there were fewer countries in transition economies. (Table 1) However, this indicator was higher in developed countries. This was due to the policy of developing countries on reducing unemployment in the face of crisis.

Table 1. The impact degree of the global financial crisis on different countries

|  |  |  |  |
| --- | --- | --- | --- |
| Indicators | Developed countries | Developing countries | Transition  economically  countries |
| GDP dynamics (annual increase, %) | -5 | 2 | -10 |
| Retail trade turnover  (annual increase, %) | -5 | 5 | -10 |
| Inflation  (annual increase, %) | deflation | 2 | 10 |
| Unemployment % | 10 | 5 | 8 |
| Declining of stock market (max, times) | 2.5 | 4 | 5 |
| Stage of recovery and development | 2nd half of 2010 - 2011 | 2nd half of 2009 - 2010 | 2011-2012 years |

Source: Prepared by the author on the basis of the International Monetary Fund data

**CHAPTER 3: REFLECTION OF GLOBAL FINANCIAL CRISIS TO AZERBAIJAN ECONOMY**

**3.1 Impact channels of financial crisis to Azerbaijan economy**

The global economic crisis has affected the economy of Azerbaijan as a result of the fall in oil prices, the decline in credit flows from international markets to the banking system, and the decline in global market prices of some non-oil industry products. Thus, the sources of external funding are limited to aggregate demand.

**Impact on economic growth**

Given the general picture of the country's economy, we can see GDP growth, inflation rate decline, unemployment decline, and other positive economic growth. It is known that the increase in GDP in Azerbaijan is associated with more oil production and rising oil prices. Before the global financial crisis, GDP growth was registered at 26.4 percent in 2005, 34.5 percent in 2006, and 25 percent in 2007, with an increase of 10.8 percent in 2008. According to the International Monetary Fund, Azerbaijan's GDP growth in 2009 was so low for the first time that it declined at 11.5 per cent. If we analyzed the economic growth after 2005, despite the fact that the country generated oil from the previous level, due to the decline in oil prices, there has been a decline in the dynamics of goods and services produced in the country. This proves that Azerbaijan's revenues depend on oil and oil revenues directly depend on the price conjuncture in the world market. It is necessary to minimize dependence of economic growth on oil revenues for sustainable development of GDP.

Table 2. GDP between 2000-2009

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Years | GDP | | Per capita | | Economic growth (compared to previous year) |
| Million manat | Million $ | manat | $ |
| 2000 | 4718.1 | 5272.8 | 595.1 | 665.1 | 11.1 |
| 2001 | 5315.6 | 5707.7 | 665.2 | 714.3 | 9.9 |
| 2002 | 6062.5 | 6235.9 | 752.9 | 774.4 | 10.6 |
| 2003 | 7146.5 | 7276 | 880.8 | 896.8 | 11.2 |
| 2004 | 8530.2 | 8680.4 | 1042 | 1060.3 | 10.2 |
| 2005 | 12522.5 | 13238.7 | 1513.9 | 1600.4 | 26.4 |
| 2006 | 18746.2 | 20983 | 2241.1 | 2508.5 | 34.5 |
| 2007 | 28360.5 | 33050.3 | 3351.8 | 3906.1 | 25 |
| 2008 | 38005.7 | 46258.2 | 4439.9 | 5403.9 | 10.8 |
| 2009 | 34060.8 | 42575.7 | 3917,3 | 4874,1 | ‐11.2 |

Source: Central Bank of the Republic of Azerbaijan

For the first time in 2009, GDP declined compared to previous years. This is mainly due to the decline in oil prices and the regress in the construction sector.

**Impact on oil and non-oil sector**

Like oil-producing countries, Azerbaijan has suffered a significant loss due to the fall in oil prices in the world market. The oil, which cost $ 150 per barrel, crashed down to $ 30-40 after the crisis. This reduction has had a negative impact on Azerbaijan's oil revenues. In general, around 75% of the state budget is formed by the oil sector and 97% of its exports are accounted for oil and oil products, the decline in oil prices also brings many problems for the development of the country's economy. Declining of energy prices is not only economic, as well as create negative consequences from the social point of view.

After the global financial crisis, the Azerbaijani government postponed the implementation of several large-scale infrastructure projects a few years later. Particularly, new subway construction projects, construction of a bridge over the Caspian Sea and a number of facilities were postponed after the crisis was over.

**Impact on agriculture**

The role of agriculture in the reduction of the impact of the global financial crisis and, in particular, in maintaining food security, is indispensable. It is almost impossible to effectively operate the agrarian sector, especially agriculture, due to its financial resources in Azerbaijan. In some of the developed countries, until recently, the state has a purposeful impact on the agrarian sector, mostly focused on exit from crisis situations, at the moment, these impacts are largely serve to the maintenance of sustainable development of agriculture.

Paying the demand for agrarian products in Azerbaijan at the expense of domestic production is important both in terms of agrarian safety of the country and in reducing dependence on imports. The financing of agriculture from the state budget depends on the degree of justification of the investment policy in the area, its implementation and innovation promotion environment, and the effectiveness of the allocated funds. In 2008, 97% of the total exports of commodity groups in the foreign trade turnover were in the mineral products, but agriculture did not exceed 1.1%. It is important to increase the export capacity of agricultural enterprises. The demand for agrarian fields, including agriculture, is largely dependent on the proportion of expenditure and income. In the process of determining this ratio, there is still a problem of incompleteness of initial information at the modern level of field development. The point is that existing statistics (excluding household surveys) does not allow for accurate calculations of financial results of households, peasants and households. Therefore, in the determination of production costs, revenues and profitability indicators, it is necessary to satisfy mainly the data of individual agrarian entrepreneurs and agricultural enterprises.

Thus, the share of the sector in which 40% of the total employment in Azerbaijan was employed in GDP decreased from 2000 to 5.7% in 2008. The financial crisis has once again demonstrated that for sustainable development of Azerbaijan, more attention should be paid to the development of agriculture, not merely to the oil and gas industry.

**Impact on trade**

During 2008, the volume of trade transactions with 141 countries by resident and non-residents of the country was $ 54.9 billion. During this period, 2127 exported goods worth $ 47.8 billion were exported, while 5893 units worth $ 7.2 billion were imported, while the positive balance of export and import transactions amounted to $ 40.6 billion[[6]](#footnote-6).In 10 months of 2009, Azerbaijan carried out import and export operations with 136 countries in the amount of $ 16.5 billion. In January-October 2009, $ 11.5 billion of foreign trade turnover was exported, $ 5 billion - imported goods. Positive balance which was $ 6.5 billion has been registered in foreign trade turnover.

**Impact on foreign debt**

During the crisis period, Azerbaijan's foreign debt rose by 22.9% to $ 3 billion in January 2009. The ratio of external debt to GDP declined from 8.2% to 6.4% in the last year. The amount of foreign debt per capita, on the contrary, increased from $ 283.8 to $ 344.9. Most of the loans attracted by government and government agencies are related to the implementation of investment projects.

The amount of loans attracted for economic reforms totaled $ 344.9 million. $ 266 million of this amount is from the World Bank and $ 78.9 million from the International Monetary Fund loans. Interestingly, the volume of foreign loans attracted and used in 2008 increased by 58% to $ 697 million.

In turn, $ 286.3 million was spent on repayment of foreign debt. This figure has increased by 67.9% over the past year, and ¼ of this has been spent on debt repayment. $ 117.9 million has been spent on repayment of foreign debt due to state budget funds. The World Bank (WB) predicts that the current account balance in Azerbaijan will reach 41.6% of GDP in 2008 and 30.7% in 2009.

It should be noted that Azerbaijan is in the first place among Eastern Europe and Central Asia. At the same time, Azerbaijan is expected to maintain a leading position in 2009 and 2010. In general, the majority of countries in the region have a negative current account balance, which is also a negative percentage to GDP.

While the share of Azerbaijan's foreign debt in GDP is not a dangerous one, it is also alarming that the rapid growth trend of foreign debt is observed. Thus, it is a serious signal that the share of external debt in GDP in the last 6 months is increased to 2 times. In addition, such a sharp growth rate coincides with the time when Azerbaijan's financial capabilities have diminished significantly compared to previous years. Finally, the repayment of high-value loans received and used now will coincide with the decline of oil revenues in Azerbaijan after 15-20 years.

**Impact on construction sector**

In 2009, construction works in Azerbaijan amounted to 3,158.9 million manat, compared to 2008, the volume of works decreased by 12.2%. 2.163 billion manats (68.5% of the total volume) of the work done in the reporting period, including construction, reconstruction and expansion,  610 million manat (19.3%, respectively) fundamental repair, 132.4 million manat (4.2 percent) of current repair, 253.5 million manat (8 percent) - other construction works. Non-state construction enterprises totaled 2.4 billion manat, state construction enterprises - 795.3 million manat has done. In addition, the average monthly nominal wage of 62.1 thousand people, who worked in the construction sector during the eleven months of 2009, amounted to 449.8 manat and increased by 10.7% compared to the same period of the previous year. The average monthly nominal wage for those working in large and medium-sized enterprises was AZN 500.4. The average monthly nominal wage of workers in state-owned construction enterprises was 365.9 manat. Wages have increased by 43% in construction, 11.4% in building and construction, and 443.6 and 264.9 manat respectively in the area of installation and decoration works of buildings and coatings. In spite of all these indicators, the sector that has been the most affected by the global crisis in Azerbaijan has been the construction sector. In the previous years, the flourishing construction sector has been a sector that has experienced a decline in customer and capital deficit.

**Impact on direct investment**

One of the most important impacts of the global crisis on developing countries is the decline in direct foreign direct investment. Direct foreign investment in the country's economy has dropped slightly in 2008, in return for the growth of investment in infrastructure projects, mainly in the framework of the state investment program in Azerbaijan. The volume of direct investment directed from foreign sources in 2008 was 2.2 billion pounds (2.75 billion dollars), down 16.3% less than in the same period of the previous year. If the cause of the decline in previous years (this trend is observed since 2006) is due to the fact that more oil and gas projects have been relocated to investment repatriation, then in 2008 it is also necessary to add the effects of the global economic crisis.

Table 3. Volume of investments between 2000-2008

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Volume of investments | | | | | | | |
|  | **2000** | **2003** | **2004** | **2005** | **2006** | **2007** | **2008** |
| Investment |  |  |  |  |  |  |  |
| million manat | 1289.8 | 4249.2 | 5820.4 | 6733.4 | 7415.6 | 10353.9 | 12481.8 |
| million dollar | 1441.4 | 4326.4 | 5922.7 | 7118.5 | 8300.4 | 12066.1 | 15192.1 |
| Foreign investments: |  |  |  |  |  |  |  |
| million manat | 829.5 | 3310.9 | 4496.4 | 4628.5 | 4514.2 | 5727.2 | 5625.8 |
| million dollar | 927 | 3371 | 4575.5 | 4893.2 | 5052.8 | 6674.3 | 6847.4 |
| Domestic Investments: |  |  |  |  |  |  |  |
| million manat | 460.3 | 938.3 | 1324 | 2104.9 | 2901.4 | 4626.7 | 6856 |
| million dollar | 514.4 | 955.4 | 1347.2 | 2225.3 | 3247.6 | 5391.8 | 8344.7 |
|  | | | | | | | |

Source: State Statistical Committee of the Republic of Azerbaijan

Great Britain was the largest shareholder in foreign investment and international investment in Azerbaijan in 2008. The volume of British residents' capital investments in Azerbaijan amounted to about $ 1.27 billion or AZN 1 billion in manat equivalent. British investors' investment decreased by 202 million manat or 16.5% compared with the same period last year. In addition to Great Britain, the top five of the major foreign investors in the Azerbaijani economy can include US, Japanese, Turkish and Norwegian residents. Investors representing these four countries accounted for about 941.3 million manat, with their share being equal to 42.3%. Let's remind, in 2008, the development of Azerbaijan's economic and social spheres totaled about 9 billion manat or 34.3% more investment than in 2007. There is also a decline in the sales volume of various imported goods in the country. For example, in 2008, sales volume on some car brands fell to 40%.

Table 4. Foreign Investments between 2000-2008

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Foreign Investments (US $ million)** | | | | | | | |
|  | 2000 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
| Total foreign investment | 927 | 3371 | 4575.5 | 4893.2 | 5052.8 | 6674.3 | 6847.4 |
| including: | | | | | | | |
| Financial Loans | 262.9 | 238.3 | 293 | 698.4 | 983.5 | 1576.6 | 2357.9 |
| Oil industry | 546.1 | 2972.4 | 4088.1 | 3799.9 | 3422.3 | 4003.3 | 3350.7 |
| Oil bonus | ‐ | 58.6 | 21.6 | 1 | 17 | 68.2 | 3.5 |
| Enterprises with joint and foreign investment | 118 | 45.4 | 104.2 | 230.5 | 368.4 | 439.1 | 494.1 |

Source: State Statistical Committee of the Republic of Azerbaijan

**3.2 Azerbaijan’s anti-crisis policy program related global financial crisis**

In order to reduce the negative impact of the global financial crisis, the government has started preparing and implementing the Anti-crisis Program. In speech of President Ilham Aliyev at the Cabinet of Ministers meeting on January 16, 2009, the Conceptual Framework of the Anti-crisis Program was reflected in the following theses:

- Increase investment and credit investments in agriculture. Taking into account that 46% of the population of Azerbaijan lives in the village and the basis of their economies is agriculture and agricultural products are raw materials for industrial areas, as a result, it will give impetus to the development of industry;

- To reduce the dependence on oil revenues and to prepare the manufacturing sectors for high growth rates by providing non-oil sector development;

- To revise budget performance and reduce some expenditure items in order to reduce the budget deficit;

- To increase the public control and state control to prevent the acquisition of funds acquired in the social and construction projects funded by the Oil Fund; Replacement of short-term investments with long-term investments;

- Strengthen control over the consumer market to prevent artificial price increases;

- Strengthen state control measures against monopoly and unfair competition;

- Prevention of illegal interference of state structures in the economy;

- Granting of a portion of the foreign exchange reserves abroad to the use of local banks on favorable terms, in general, stimulation of concessional loans addressed to inter-bank and population;

- Increasing state aid to farmers and other entrepreneurs, applying regional and sectoral tax incentives;

- Stimulation of export on the non-oil sector;

- Reviewing the priorities of the state investment program, strengthening the efficient use of budget funds and strengthening the state financial discipline;

- Applying elective government safeguards for some of the problematic debt obligations and accounting for the informal economy;

- Financing of projects that provide re-training of gradually increasing unemployed people and increase of the allowances to them;

- Carrying out informational campaigns to encourage all types of households, regardless of their household and their property;

- Promoting the development of the corporate debt sector in the securities market economically; anti-inflation measures, such as fiscal and monteral tools, to avoid unequivocal preference and to work for their combination;

- Taking effective measures to strengthen the food security of the country;

- Strengthening assistance to exporters.

President Ilham Aliyev said at the meeting of the Cabinet of Ministers that 2009 was successful for Azerbaijan and expressed his satisfaction with the success of the government's tasks. Despite the economic difficulties, the head of state regarded the 9.3 percent GDP growth in Azerbaijan as one of the most significant achievements: “Almost in the region and in the post-Soviet space, and in the broader sense, the vast majority of countries have faced great challenges. Economic development in those countries has dropped dramatically. Some countries are almost on the verge of tragedy. But the situation in our country is quite different and our 9.3% economic growth, I want to say again, is the result of the work done in 2009 and earlier years. Industrial production increased by 8.6 percent in 2009. This shows that our industry has also grown. Agriculture has increased by 3.5 percent. This is also a very important indicator”.

This progressive principle is always emphasized in the management concept of the President of Azerbaijan Ilham Aliyev, who has defined efficient and transparent management as one of the important tasks of the government. The session of the Cabinet of Ministers devoted to socioeconomic outcomes of last year shows that the country has been rapidly developing in 2009, accompanied by global crisis, as a bright example of transparency, public accountability, and successful implementation of all its strategic objectives.

The minimum loss of Azerbaijan from the global financial crisis is conditioned primarily by the introduction of independent economic policy by President Ilham Aliyev. The prudent approach of our Republic to active participation in the international stock exchanges, the securities market in terms of providing financial security is among the main factors that weaken the financial crisis on our republic. Touching upon the reasons of Azerbaijan's loss of the global financial crisis, the head of state specifically pointed out that our republic has developed economic policy based on national interests: ”In some cases, certain conservative trends in the financial sector in Azerbaijan were criticized by international financial institutions. Sometimes we were advised to join the integration tendencies even more rapidly and integrate into international trade organizations. But our position was always very cautious, because the economy of Azerbaijan is a self-sustaining economy. Like some other countries, we are not dependent on foreign aid”.

The global crisis has created a risk of macroeconomic and financial instability for the Azerbaijani economy and a significant drop in economic growth. However, the high economic and financial potential created in the country in recent years and effective utilization of this potential has enabled the implementation of an effective anti-crisis policy and the timely neutralization of emerging risks.

As the crisis began in the world, the Central Bank began to take anti-crisis measures to minimize the impact of the global crisis on Azerbaijan. This was mainly in the following areas:

1) Interest rates lowered. Starting from September 2008, on May 25, 2009, the Central Bank of Azerbaijan reduced the refinancing rate by 6 times, from 3% to 2%, and in general from 15% to 2%. The upper limit of the interest corridor was reduced from 20% to 8%. Fundamental measures were taken to address the liquidity problem. Lower interest rates and softening requirements to domestic and foreign liabilities to commercial banks have brought significant liquidity to the banking system since the end of 2008. The Central Bank has been implementing adequate monetary policy since October 2008 to support liquidity sources in the economy, with the global recession, the global liquidity shortage and the decline in inflation. In order to further improve liquidity indicators, their foreign liabilities have been exempted from the 5% mandatory reserve requirement. The reserve requirement for internal liabilities was reduced from 12% to 3%. Liquidity support was provided to the banking system at the amount of 470 million manat due to the reduction of mandatory reserve requirements. Subsequently, the mandatory reserve requirements in both manat and foreign currency were reduced from 3% to 0.5%. As a result of the last event, commercial banks received additional $ 120 million. In general, since October 2008, 1.4 billion manat additional liquidity was created in the banking sector;

2) Some banks were assisted. In November 2008, the Central Bank of Azerbaijan issued short-term financing of 50 million manat to “Unibank” and a total of $ 250 million to other commercial banks. As of 2009, the amount of loans issued by the Central Bank to commercial banks increased by 5.7 times compared to the previous year and amounted to AZN 1315 million. As of January 1, 2010, the share of loans allocated by commercial banks from financial institutions is 29.4%, the total liabilities of banks - 13.6%, and deposits - 30.8%;

3) Almost all savings were guaranteed. In May 2009, the parliament amended the law on bank deposit insurance and raised the amount of deposits covered by this state guarantee from AZN 6,000 (US $ 7,470) to 30,000 manat ($ 37,280).

As a result of all above-mentioned measures, the financial sector of Azerbaijan is appreciated by international rating agencies. For a while in Azerbaijan, the rating on foreign and local currency credit ratings is stable at “BB” level by the UK's FITC Rating Agency. Other international financial institutions are also positive about our country's financial policy.

The regulatory measures taken by the Azerbaijani government to cure the financial crisis include:

1. Economic events before the crisis;

2. Timely and adequate correction during the crisis;

3. Strategic correction and sustainable economic policy as a whole.

It should be noted that during the crisis no financial assistance was provided to our country.

Changes and additions to the Law on the Central Bank, which came into force with the Decree of the President of the Republic of Azerbaijan dated July 9, 2009, allowed for more effective struggle against the effects of the global crisis. Recent trends observed in the status of central banks in most countries in the crisis have been reflected in these changes. Due to changes, the Central Bank may issue loans to banks, including subordinated loans, for a longer period and in different currencies. At the same time, the Central Bank has the right to lend bank loans on a state-guaranteed basis to support the real sector. In 2009, the Central Bank reduced the discount rate 3 times, from 8% to 2% and from 13% to 7% upper limit of the interest rate corridor, taking into account the major macroeconomic trends. During the year, the Central Bank activated giving of liquidity operations, instruments attracting of liquidity instruments are restricted. Reserve requirements rates were reduced from 6% to 0.5%. Average maturity of reserve requirements was 1 month in both manat and foreign currency deposits.

The Central Bank direct assistance to the economy, based on the stable exchange rate of manat, was at the level of 5% of Gross Domestic Product. Implementation of the anti-crisis program prevented the reduction of the money supply, maintained financial sustainability and economic activity of banks, provided essential support for the investment activity of the major enterprises in the system. In 2009, the anti-crisis program of the Azerbaijani government was focused on macroeconomic and financial stability and support for economic growth.

In general, due to the direct and indirect instruments, the Central Bank ensured liquidity in the amount of about 1.8 billion manat from October 2008. This liquidity support system, along with the banking system, covers the most important entities of the real sector, including the State Oil Company of Azerbaijan (SOCAR), “Azeraluminium” OJSC, under these conditions, the economic growth in the country in the first 11 months of this year has grown to 9%.

**3.3 Results of anti-crisis monetary policy in Azerbaijan in the context of global financial crisis**

Successful anti-crisis measures and robust financial and economic potential created in previous years have been sustained by the country's economy and its resistance to negative external influences has been successfully tested.

Over the past year, regulatory framework has provided for the reorganization of the State Securities Committee, along with a number of measures aimed at improving the legislation in the securities market, eliminating existing gaps in the existing legislation and bringing it to the international standards.

The amount of insured deposits in Azerbaijan increased from AZN 6,000 to AZN 30,000. This, in turn, has given a boost to the confidence of depositors in banks. As a result of this event, the banks improved their financial position. In this regard, Standard & Poor's notes: "Unlike banking systems in some other countries of the region, Azerbaijan's banking system was able to escape large amounts of savings due to the panic after the global crisis began."

The Standard & Poor's agency notes that the government has taken the necessary measures to ensure that banks do not face serious problems in Azerbaijan and that it has produced positive results. For example, it is noted that, since January 2009, a profit tax exemption is applied to stimulate the recapitalization of the banking sector.

Generally, the banking sector has been exempted from profit tax by 2012, which creates favorable conditions for their capitalization and not to face financial problems in crisis situations. From October 2008 till May 2009, the Central Bank of Azerbaijan has been providing additional $ 1 billion additional liquidity to the banking sector of the country, with a reduction in the discount rate from 15 to 2 percent, as well as the reduction of reserve requirements.

In 2008 and in early 2009, foreign banks entered the Azerbaijani banking market very actively, including the opening of representations, mainly with “Vneshtorgbank”, “Kommerzbank” and “Citigroup Inc”. As a result of the created favorable conditions, the share of foreign banks in the country has doubled since 2005 and exceeds 30 per cent.

Thus, it is clear that in the global financial crisis, as in other areas, the situation in the financial sector of Azerbaijan is positive and dynamic development pace remains. This, in turn, has a beneficial effect on maintaining the tendency to develop in other areas. As a result of the measures taken, the banking sector's crisis-oriented nature, in its turn, maintains the level of crediting, which in its activity prevents the problems arising in the areas where the loan acts as an important point. All of this contributes to the minimal impact of the global crisis on Azerbaijan over the upcoming period.

In the CIS, the list of countries that will be the most affected by the crisis were Russia, Georgia, Kyrgyzstan, Tajikistan, Kazakhstan and Armenia. The impact of the crisis on the Azerbaijan among the CIS countries is not so great and it is linked to the careful attitude of the Azerbaijani financial market.

Of course, the increase of Azerbaijan's financial capacities plays an important role in the development of many key spheres, in particular, entrepreneurship and measures taken by the state in this field give positive results. The preferential loans given by the state to the entrepreneurs are a significant stimulus for dynamic development in this area. For this reason, the volume of such loans extended by the state is increasing. Thus, by the end of the year, entrepreneurs received preferential loans worth 80 million manat each year. This year the amount of loans is 130 million manat.

Another attractive issue for Azerbaijan in the global crisis is the development of securities, including bonds market. As you know, the foundation of the global financial crisis has just begun to diminish the value of securities. As a result, the global financial crisis has led to a sharp decline in bonds and this led to a global crisis of securities. However, this situation did not prove itself in the practice of Azerbaijan. The most obvious example of this was the bonds of the Azerbaijan Mortgage Fund. It should be noted that on June 16, 2009, the bonds of the Mortgage Fund started to be placed on the Baku Stock Exchange for the first time. Interest-bearing bonds worth 15 million manat were traded at the auction. The nominal sale price of one bond made AZN 1000. Bonds with annual yield of 3% are issued for 7 years and their maturity date is May 2016. The bonds of the Mortgage Fund were confirmed to be demanded from the first day of their auction. This means that Azerbaijan abstains from the effects of the global economic crisis. The total volume of bonds of the Mortgage Fund is 55 million manat. Experts say that these securities are state-guaranteed so investor's interest is very high, and the remaining 40 million-dollar bonds will be sold as soon as they are issued on the Baku Stock Exchange. Revenue from the sale of securities is transferred to the Mortgage Fund's account and thus, the volume of mortgage loans issued to the population will increase by 55 million manat, which means more families have housing. Finally, this leads to a higher level of employment in the construction industry and further expansion of the activities of the construction sector. This situation creates favorable conditions for increasing the employment level of the population in Azerbaijan and eliminating the problem of unemployment.

All of this, in contrast to many countries of the world, speaks about the possibility of dynamic economic development in the conditions of global crisis, and Azerbaijan is the most obvious example of this. For this reason, attention to the Azerbaijani experience is increasing in terms of protecting the effects of the global economic crisis on the international arena.

However, Azerbaijan is one of the least affected countries in the global financial crisis. All of this has been achieved by the country's government in a timely and well-timed manner and as a result of carefully thought-out measures that we will look at below. As a result, the state structures of Azerbaijan managed to successfully solve three major problems in the world crisis:

1. The national currency could maintain its stability and the devaluation of manat prevented;

2. Despite the decrease in oil revenues, the state budget surplus was 1026.9 million manat in January-November 2009;

3. The Azerbaijani financial system was able to protect itself and no financial entities went bankrupt.

These facts allows positively assess the state's financial and budgetary policies. It should be noted that, Russia and Kazakhstan, which have not less than Azerbaijan's oil reserves, have not fulfilled any of the listed issues.

In the conditions of the negative consequences of the global financial crisis that started in 2008, the state strategy, which serves to improve the welfare of the population, has been consistently implemented in Azerbaijan, and the country's financial system has been further strengthened and its pace of development has been maintained.

As a result of the successful development and modernization strategy, the Azerbaijani economy demonstrated high stability to the global crisis and lost its stability, maintaining growth dynamics and level of social development. Anti-crisis policy, which has created a strong stability potential in the country, has also created good opportunities for maintaining financial stability.

An analysis of the measures taken to combat the global crisis shows that, countries with low foreign and domestic debt, but also high financial and currency reserves are more prepared and resistant to the crisis. From this point of view, both in the beginning of the year, both the International Monetary Fund and the world's leading rating agencies, Standard & Poor's, report that the Azerbaijani economy has great potential and durability and the economic policy pursued by the country's leadership would overcome the consequences of the global crisis more easily than other countries.

In 2009, there was an increase in the corporate securities market (corporate bonds and stocks) of Azerbaijan. This increase occurred both in the volume of placed bonds and in the operations on the secondary market. If in 2008 corporate securities placement was 33.69 million manat, this figure increased by 60% to 53.9 million manat in the reporting period. The increase in the corporate bonds market was even faster. Thus, if in 2008, the re-bidding operations amounted to 18.10 million manat, in 2009 this indicator increased 3.4 times to 61.76 million manat. The sharp revival in corporate bonds market in 2009 was mainly due to the placement of local banks and Mortgage Fund bonds. Analysis of the 2010 state budget showed that Azerbaijan successfully implemented all its strategic plans, tasks and goals that year. Most importantly, our country, which has been successfully insured by the negative effects of the global crisis, was able to pay more attention to the development of progressive and progressive programs.

As a result of the implemented anti-crisis program, the financial durability of the banking sector has further strengthened:

1. The banking system has about 60% of its current liabilities, which is less than the minimum (30%);

2. Capital adequacy ratio of the sector was twice as high as the acceptable norm;

3. The quality of the loan portfolio was maintained at an acceptable level; the share of overdue loans in the total portfolio was 3.3%;

4. The banks' financial results were positive, and in 11 months of the current year profitability on assets was 2.6% and capital gains - 17.8%.

So that, the exchange rate policy of the Central Bank has become the core of anti-crisis policy of the state and has helped to maintain macroeconomic and financial stability.

The reason is that Azerbaijan has little influence on the world financial crisis:

1. Azerbaijan's foreign exchange reserves of $ 22.3 billion;

2. The fact that the foreign debt of the Azerbaijani state is the least. Our country's foreign debt is up to $ 3 billion. This is 9% of GDP (up to 40% normal);

3. The correct economic policy, based on the science of the state.

In the present reality, the research of Azerbaijan's national development model on the basis of concrete scientific principles is particularly important in the financial system. The end of the transitional period in the economic field transforms the unbroken unity of science and economy on the basis of mutual influence mechanisms, the modernization of economics and strong human capital in accordance with the requirements of the new era in the financial system and the use of scientific predictions in the regulation of the economy.

**CONCLUSION**

The financial crisis has demonstrated the failure of globalization as a socio-economic phenomenon in the progress of capitalist relations. One of the core reasons for the financial crisis is the high production of derivative financial instruments, which is currently 8 times greater than the world GDP. Although the crisis started from the US mortgage market, its origin was the global macroeconomic reasons. One of the vital reasons was the high liquidity. Exaggerated assessment of liquidity gave rise to the formation of market foams. The stock market capitalization has grown to "cover" new derivatives, such as structured bonds.

The recent crisis is the outcome of the controversy in the US economy. However, the US remains the leader of the world economy, and the dollar's place in the currency system has not changed in recent years. Based on this, it is almost essential to make alterations in the world financial system, taking into consideration that the dollar plays the most significant role as a reserve currency in the world economy.

In my diploma work, I have reviewed the crisis in two parts. The first part, which happened in 2008, was marked by major financial losses. It has led to the collapse of numerous banks and credit companies, insurance firms, businesses and factories. In almost all countries of the world, the rate of economic growth slowed down and foreign trade also declined. All developed countries that have experienced the preliminary signs of the crisis have initiated to take anti-crisis measures. Second part is related Anti-crisis program of Azerbaijan and its consequences.

In contemporary times, clearer rules are needed for all participants in the international financial system. At this stage it is compulsory to generate completely new approaches to managing financial procedures and to conduct education. There are two ways of solving the problem of regulation of global financial relations: 1) Development of international principles, standards and global instruments ensuring stability in the financial process. 2) Establishing a specialized international organization that manages global competition, and gradually establishing an international institution that manages major international economic operations.

In addition to the above-mentioned suggestions, both developed and developed countries such as Azerbaijan should take the following measures to eliminate potential future financial crises:

1. States should strengthen their oversight over their financial operations;

2. "Slow" factors of financial transactions and capital flow should be prepared. An example of this can be the protection of capital movements on foreign exchange operations;

3. International standards for rating agencies should be compiled. If there is a gross mistake in the risk assessment and systematic errors, it is necessary to cancel the results of the agency's activities and stop its activity;

4. Anti-crisis measures should be carried out not only at the local or national level, but also at the internationally coordinated level yard. The global nature of the crisis creates conditions for global governance, but they have not yet been developed;

5. Governments should not hurry to nationalize privately owned enterprises and expand public sector. It lowers production, weakens business activity, and leads to corruption. Nationalization should be only for a short period of time. Issues related to nationalization should be carefully considered;

6. It is necessary to switch to international accounting and trading systems.

Azerbaijan was one of the least influenced countries in the early global financial and economic crisis. The main reason for this was the accumulation of currency reserves at the expense of oil production and export before the crisis. Another reason for the less impact of the crisis on our country was the consistent and purposeful policy pursued by the state. Despite all this, the analysis of the current crisis shows that the financial market of Azerbaijan depends directly on the world economy and international financial markets.

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