THE MİNİSTRY OF EDUCATİON OF THE REPUBLİC OF AZERBAİJAN

AZERBAIJAN STATE

INTERNATIONAL GRADUATE AND DOCTORATE CENTER

MASTER DISSERTATION

ON THE TOPIC

“The impact of international financial crisis on world economy”

Malikova Sayyara Gurban

BAKU – 2019

THE MİNİSTRY OF EDUCATİON OF THE REPUBLİC OF AZERBAİJAN
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Code and name of Programme: 060401 World Economy
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Beynəlxalq maliyyə böhranının dünya iqtisadiyyatına təsiri.

Xülasə

Tədqiqatın aktuallığı: Əsrlər boyu dünya iqtisadiyyatında bir çox maliyyə böhranları baş vermiş və maksimum dərəcədə aradan qaldırılmışdır. Amma nəticədə illər keçdikcə bir böhran digərini əvəz eləmiş və iqtisadiyyata öz mənfi təsirini göstərmişdir. Bu mənfi təsiri nəzərə alaraq, maliyyə sisteminin idarə edilməsi və inkişafı dünya ölkələri üçün əsas aktual mövzu sayılır.

Tədqiqatın məqsəd və vəzifələri: Dissertasiya işimdə 2007-2008 maliyyə böhranın yaranma səbəblərini, təsir dairəsini, həyata keçirilən islahatlar və anti-böhran siyasəti haqqında öz araşdırmalarımı əks etdirmişəm. Tədqiqatda əsas vəzifə maliyyə sektorunda negativ hallara qarşı yönləndirilən ən effektiv siyasətin aşkarlanmasıdır.

İstifadə olunmuş tədqiqat metodları:Araşdırmalar zamanı bir çox qrafik, cədvəl və göstəricilərdən istifadə edilib. Təhlil edərkən bir çox ölkələrin bu böhrana qarşı olan reaksiyalarını, iqtisadi göstəricilərində olan dəyişikliklərini qeyd etmişəm.

Tədqiqatın informasiya bazası: Tədqiqat işinin aparılması üçün çoxlu sayda məlumatlardan istifadə olunmuşdur. Müxtəlif kitablardan, eləcə də geniş informasiya resurslarından, statistika komitələrinin və maliyyə qurumlarının nəşr və məlumatlarından istifadə olunub.

Tədqiqatın məhdudiyyətləri: Məhdudiyyət kimi bəzi informasiya bazasının azlığını səbəb olaraq əsaslandırmaq mümkündür.

Tədqiqatın nəticələri: Bu mövzunu araşdırılması zamanı bir cox mənfi hallara rast gəldim. Ən əsası maliyyə sektorun idarə edilməsində olan boşluqlardır. 2007-2008 maliyyə böhranının olması, bütün neqativ halların aşkar ounmasına səbəb oldu. Bu hadisədən, sonra anti-böhran siyasətinin və proqramın həyata keçirilməsi, idarəçilikdə şəffaflığa yol verilməsi, maliyyə qurumlarının tənzimləyici qaydalarında və qanunlarında müsbət dəyişikliklər əlbəttə ki, böhrandan çıxmağa kömək olmuşdur.

Nəticələrin elmi-praktiki əhəmiyyəti: Bildiyiniz kimi, maliyyə sektoru iqtisadiyyatın ayrılmaz bir hissəsidir. Maliyyə sektorundakı hər hansı bir dəyişikliklər iqtisadiyyata təsir göstərir. Bu sahədə baş verən böhranın araşdırılması və mənfi halların aradan qaldırılması hər bir zaman prioritet sayılmalıdır.

Açar sözlər: Beynəlxalq maliyyə böhranı, iqtisadi böhran.

ABBREVIATIONS

OECD	Organization for Economic Co-operation and Development
GDP	Gross Domestic Product
FDI	Foreign Direct Investment
IMF	International Monetary Fund
EU	European Union
BRIC	Brazil, Russian, India and China
CFPB	Consumer Financial Protection Bureau

CONTENTS

INTRODUCTION

Actuality of research: The scientific analysis of global economic and financial crisis is only possible on the basis of its predictable overall characteristic. The causes of this crisis are the analysis of the impact of the financial and economic crisis on each other, the first steps taken to eliminate their financial consequences, and the associated risks, as well as the timely solution to the long-term problems of the crisis. Economic crises balance in the development of the economic system is an indication of deterioration. The crisis itself is socially-economic which affects complex disruption of stability. Separate in different historical periods the reasons for economic crises in the countries were also quite different. Your current crunch nature is unique. So, the most important feature of modern economy is a globalization process.

Globalization of the global economy is also a global phenomenon which resulted in a scientific-practical aspect of the crisis in the global financial market the issue has become topical. Its features, reasons and self-denial research of forms in the global financial market against the crisis to implement measures to improve and minimize socio-economic reduce the results. Today, the US plays a leading role in the world economy and international financial relations.

The US contradiction also affects other countries. The currency of this country is also the most widely used currency. Besides this Currency reserves of countries are denominated in US currency. US financial crisis that started in the mortgage sector in 2007-2008 the financial system and the stagnation in the real sector of the economy. Also, its spread on the global financial market and the whole world had a negative impact on the economy. In this regard, most of the world's countries after 1929, the Great Depression faced the biggest economic crisis.

Statement of problem and level of learning: The occurrence of financial crises in a globalized economy may further aggravate the way forward. In today's world, economic and trade relations were at the highest level. In a developed country, the economic and financial crisis will have a negative impact on the countries in which it cooperates. To this end, it is necessary to pay more attention to the investigation of this issue and efforts should be made to identify the main problems. During the study of causes and consequences of this crisis, many financial books, scientific findings, economists' opinions and statistical data were used.

Purpose and objectives of research: The purpose of the research is to investigate the impact of the financial crisis on the country and to provide anti-crisis measures. The following objectives have been set in order to achieve the set goal:

1) Investigating the stages of the financial crisis history;

2) Investigating the causes of the financial crisis;

3) Evaluating the impact of the crisis on the world economy;

4) Investigation of crisis management methods;

Object and theme of research: The subject of the research is the current global financial and economic crisis in the global financial market, its causes, trends in the development of world economies and measures to combat it.

The object of the research is the influence of the economic cycle on the financial markets during the globalization period.

Methods of research: During the study, the effects of the 2007-2008 financial crisis on the economic indicators in different periods were highlighted.

Information base of research: A large number of data were used to carry out the research. Various books, as well as broad information resources, statistical committees and financial institutions have been published and published.

Limitation of research: As a limitation, there is not much information on the impact of this crisis on the Azerbaijani economy.

Scientific and practical significance of conclusions: Predictions and statistical data should be critically evaluated, as in real life, rather than as desired. Crisis features, its effects on the US, Europe and Azerbaijan were statistically analyzed.

Structure and size of dissertation: dissertation consist of chapters, conclusion, references and appendix. And also there are 24 Graphs and 4 tables in it. Total amount of dissertation is 70 pages.

CHAPTER I. THE MAIN THEORATICAL FOUNDATIONS OF FINANCIAL CRISIS.

1.1. Historical overview of the past episodes of financial crises.

The world financial market is part of the debt accumulated in the world market, the aggregate of the demands and offers of creditors and borrowers from different countries. One of the segments of the world financial market is the financial market or securities market.

The world financial market began to develop at the end of the XIX century with the beginning of capital expenditure (migration).

Within the framework of the world financial market, the following distinguished:

- ❖ national financial market;
- ❖ international financial market.

Economic crisis has two type: crisis of real sector and financial crisis. The crisis of real sector is created by violation of the balance of demand and supply. Financial crisis-one of the most diverse situations in which financial assets suddenly lose a large part of their nominal value.

Often referred to as financial crises, stock market crashes and other financial balloons, currency crises and sovereign default.

İn general, the emergence of the financial crisis in this factors:

- ❖ İnstability in exchange rate of securities;
- ❖ İnstability in exchange rate of national currency;
- ❖ İnflation;
- ❖ Great credit expanse;
- ❖ Liberalization of financial markets;
- ❖ Central banks′ policies;
- ❖ Panic in the financial market before the crisis;
- ❖ Disbalance between budget revenues and expenses;
- ❖ Lack of money supply in cash circulation;
- ❖ Mutual non-payments of economic entities.

Depending on the coverage area, crises can be local (national), regional and at global level. So until the begining of the 19th century crises it was limited to the borders of one, two or three countries, and later they were of international character.

Types of financial crisis;

Banking crisis: Loss of financial standing is due to the bank or flow to banks to retrieve people's funds due to other reasons the banks do not fulfill their duties the closure of such banks, the forced merger, privatization or substantial financial assistance called the banking crisis. Non-fulfillment of banks' requirements and financial fraud becomes a crisis. 1994 Mexico crisis and some of the decisions taken on April 5, 1994 in Turkey has been exposed by such attacks by bank clients.

The reason of crises in the banking sector are divided into two types;

❖ Microeconomic reasons are coverage the structure of the banking sector and all of the management parameters. In this context, the direct intervention of the government or central bank in the banking sector.

❖ Macroeconomic instability affects negatively on the banking sector. decrease in property prices, currency depreciation, ongoing stagnation of economy also impact badly on banking sector. The reasons banking crisis are macroeconomic shocks and very risky activities.

❖ Currency crisis: The currency crisis is also called the impairment crisis, usually considered part of the financial crisis. A global currency crisis can be defined as a situation whereby exchange market participants are aware of the failure of the aborted exchange rate and the hypothesis that fosters failure and forces them to be impaired.

❖ Speculative crashes and bubbles: There is a speculative balloon in the

event that some assets are large, steady overpricing. A frequent savings factor is that there are buyers who buy an asset based on their expectations to sell them at a better price than the future income. If there is a balloon, there is a risk of an accident in asset prices: the market participants will buy it for the time they expect others to buy, and the price will fall when many decide to sell. However, it is difficult to predict whether the value of the asset is equal to its true value, so it is difficult to safely identify bubbles.

Well-known samples of securities (or similar bubbles) and sediments in stock prices and other assets 17th century tulips in the Netherlands, South Sea boom of 18th century, Wall Street crash in 1929, Japanese property bubble in 1980s , Dot-com balloon crash in 2000-2001, and collapses in housing bubble in the United States. In the 2000s housing prices created a substantially growing real estate bubble as a good asset.

International financial crisis;

When a country that holds a fixed rate is suddenly forced to devalue its current account deficit, it is called the currency crisis or the balance of payments crisis. If a country does not repay its sovereign debt, it is called sovereign default. While devaluation and commitment can be a voluntary decision by the government, it is often regarded as an inadvertent consequence of the change in the investor's efforts, causing immediate suspension of capital inflows or sudden increase in capital flight.

There are several currencies that have been part of the European Exchange Rate Mechanism in suffered crises in 1992-93 and were forced to devalue or withdraw from the mechanism. Another round of currency crisis took place in Asia in 1997-98. Many Latin American countries defaulted on their debt in the early 1980s. The 1998 Russian financial crisis has resulted in a devaluation of the ruble and default on Russian government bonds.

Wider economic crisis:

The negative GDP growth in two or more quarters is called a recession. Particularly long or severe recession can be called depression, but long-term but absolute negative growth is sometimes called economic recession.

Some economists have argued that many pressures have led to major losses with financial crises.

An important example is the Great Depression that has been pre-implemented in many countries by the escape of banks and the collapse of the stock market.

Subprime mortgage crisis and other real estate bubbles in the world have led to recession in US and some other countries in the late 2008 and 2009.

Some economists argue that financial crises stem from other routes, and even though the financial shocks are the first shock from a recession, other factors may be more important to extend the recession.

Decrease in investments and exports has reduced the budget revenues of Latin American countries and has led to deficits on public debts throughout the region. The panic was the cause of closing six big London banks. The list of causes of the financial crisis:

- Latin American debt problems. İn the summer of 1825 the cost of Latin American bonds fell by half. Banks were exposed to high debts, so their nervous depositors began to retreat.
- Edition of issuance of bank notes from country banks led to outrageous partners investing in high-return, high-risk ventures
- Actions of Central bank of England was increasing the money supply, then quickly tightening it and that is why the commercial bank runs and then refusing to act like creditor until too late.

The next global crisis began in 1873 in Germany and Austria. The sharp rise in credit consumption in South America, the rise in real estate prices by speculation in Germany has caused stock markets to collapse. The bankruptcy of the West Bank in May 1873, followed by Zurich and Amsterdam stock exchanges, panic in the New York Stock Exchange, and the bankruptcy of the United States Railway company's owner, Jay Kook, pointed to the onset of the financial crisis in America. In particular, the failure of German banks to pay their debts to America caused negative consequences.

The 1907 crisis had more signs than previous crises, but it was stronger than previous scales and results. It was instigated by the British bank, which raised its accounting rate from 3.5% to 6% in 1906 to increase its gold reserves.

This event has led to the flow of capital from the United States, resulting in the downfall of business activities and the abolition of commercial banks in that country.

The reasons for this run-up were a decrease in liquidity in the market by a number of New York banks and a loss of trust among depositors, which further deepened with additional interest rates not regulated in broker's units. A sharp decline in the amount of money led to a deterioration in the state of the National Payment-Settlement System and a long-term economic recession. The crisis in the US and England has spread to France, Italy and other countries. The launch of the First World War in 1914 provided fertile conditions for the new global economic crisis. The massive sale of foreign securities in their stock markets to find funds for the war in America, England, France and Germany created a crisis in both money and product markets.

The economic crisis that began in October 1929 in the United States was the largest crisis of the 20th century.

The causes of financial crisis of 1929-1931.

❖ Demand deficiency: The main reason of economic crisis of 1929-1932 was decreased in aggregate demand volumes in the US. After the war, because of rebuilding period the consumption of European countries has dropped. In America, contrary to European countries modern and powerful industries were built and mass production was in progress. However, the lack of demand the sale of produced industrial products was limited. On the other hand, the purchasing power of Asia, Africa and less developed countries of America was low, so products could not be sold in market.

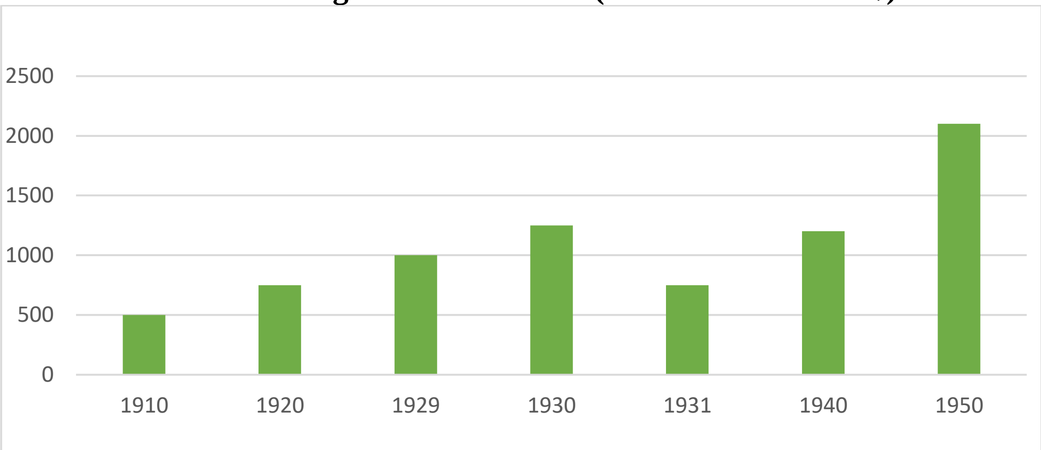
❖ Negative effects on company organization: At the beginning of the crisis company organizations was in a very bad state. Companies began to merge after the First World War and this situation created monopoly. So more than 50 percent of the total the country's economy was under the control of the 200 holdings. This situation was very risky for the American economy. Bankruptcy of one of the mentioned holdings would have a negative impact on the development of the economy.

- ❖ The gold standard: The impact on the money supply in the United States, the gold standard has undoubtedly played a role in the deployment of the Great Depression from the United States to other countries. Because the United States has a reduced product and deflation experience, Americans have less imported goods because American exports are relatively inexpensive. Such recession has led to an increase in foreign gold inflows to the United States, which in turn poses a threat to the depreciation of the currencies of the countries that have been exhausted. Therefore, foreign central banks have tried to counterbalance trade disparities by raising interest rates resulting in lower production and production costs and increased unemployment in their countries. As a result, the international economic crisis was worse than in the US, especially in Europe.
- ❖ Decreased international lending and tariffs: In 1920, while the United States economy was still expanding, lending by United States banks to foreign countries did not work out, partly because of high United States interest rates. In some borrowing countries, especially in Germany, Argentina, and Brazil, economies began to decline before the Great Depression began in the United States. At the same time, interests of American agriculture suffering because of increased competition and overproduction from European and other countries agricultural producers.

The Tariff Act of 1930 known as the Hawley–Smoot Tariff or Smoot–Hawley Tariff. This Act applying protectionist trade policies created and sponsored by Senator Reed Smoot and Representative Willis C. Hawley and was signed on June 17, 1930. So, the act raised United States tariffs on more 20,000 imported commodities the American Smoot–Hawley Tariff Act, is often brought out as a reason of the Great Depression. The Smoot–Hawley Tariff Act was harmful to the agriculture because this led farmers to not pay their loans. This incident may have even caused break up of the banking system in the West and Midwest. The tariffs envisaged by law for 100 years in the United States were the second largest amount with a small part of the tariff of 1828.

The Great Depression had a devastating impact on both the poor and the rich countries, with tax revenues, profits and prices falling, while International Trade declined by more than 50%. Unemployment in the US rose by 25%, while in some countries it reached 33%.

Diagram 1: Real GDP (billions of constant $)



Source: Louis D. Johnston and Samuel H. Williamson. Prepared by author (05.2019)

The financial crisis of 1980 started in United States. The main causes of the recession in the 1980 were the tight monetary policy pursued by the Federal Reserve to combat the residual impacts of double inflation and the energy crisis. A more aggressive inflation reduction policy was adopted by the Federal Reserve in 1981 and led to a second crisis. Production and construction have not been restored. Due to proximity and complex effects, they are called the recession in the early 1980s;

The depression in the early 1980s was a severe global economic downturn that affected most of the world's developed world in the late 1970 and early 1980. The United States and Japan excited early, but high unemployment has continued to affect at least the other OECD.

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A more aggressive inflation reduction policy was adopted by the Federal Reserve in 1981 and led to a second crisis. Production and construction have not been restored. Due to proximity and complex effects, they are called the recession in the early 1980. The long-term effects have helped the change the Latin American debt crisis, the US savings, loans crisis, and the adoption of neoliberal economic policies in the 1980 and 1990.

The oil crisis of 1973 started in October 1973 when members of the Organization of the Arab Oil Producers declared an oil embargo. Embargo headed for nations supporting Israel during the Yom Kippur War. During the Yom Kippur War, the Israeli headed ambargo to Japan, Canada, The United Kingdom, Netherlands, and the United States, extending to Portugal, Rhodesia and South Africa. In March 1974, with the end of the embargo, oil prices rose from $ 3 per barrel on the world average for $ 12 per barrel; US prices have significantly increased. The embargo has had a short-term impact on the global economy. Until 1973, the US did no tissue US dollar for gold. The rise in oil prices caused difficulties for America. The OPEC has announced that oil prices will be traded for gold reserves that released The United States of America from crisis.

The confusion in European currency markets has widened dramatically in 1992-1993. Crisis of change mechanism in 1992-93, E.U. created a major challenge in their countries. - both economic and political.

In 1979, the European Monetary System (EMS) was created. Twelve countries take part in the system: Germany, the Netherlands, Luxembourg, Greece, Belgium, Denmark, Ireland, France, Italy, Spain (since 1989), UK (since 1990) and Portugal (since 1992).

The EMS was not intended to function as a fixed interest rate system, but it was hoped to achieve the stability of the exchange rate by raising economic indicators. The exchange rate mechanism of the EMS was 10 currencies.

The events that took place in 1992-93, and then the four possible factors were behind the crisis. These include competitive issues, German unification, inevitable policy changes, and speculative attacks on themselves. Finally, the existing options are substituted. At the same time, the depreciation of the exchange rates requires change in ERM.

The Mexican peso crisis was a currency crisis sparked by the Mexican government's sudden devaluation of the peso against the U.S. dollar in December 1994, which became one of the first international financial crises ignited by capital flight.

During the 1994 presidential elections, existing offices have begun expanding fiscal and monetary policies. The Mexican Treasury has started issuing short-term debt instruments in national currency with a guaranteed payment of US Dollars that attract foreign currency. Mexico, after signing the North American Free Trade Agreement (NAFTA), gained new investors' confidence and international capital. However, the severe rebellion in the Chiapas province and the suicide bomber Luis Donaldo Colosio caused political instability and led investors to risk Mexican assets at risk.

The Asian financial crisis started in July 1997.The crisis began in Thailand. The Thai government was forced to swallow the national currency – baht due to the lack of foreign currency to support its monetary unit to the US dollar. At the same time, Thailand had foreign debt that made the country bankrupt before the disperse of its national currency. Indonesia, Thailand and South Korea, were the countries which affected by the crisis. Malaysia, Hong Kong, Philippines and Laos were also influenced by the slump. Asian financial crisis is one of the most ruinous, episodes of financial crisis that submerged some EMEs (Emerging Market Economies) of the Asia in 1997.

The main reason for the crisis was structural uncertainty in the financial sector and the inequality of the individual sectors in various economies, but Thailand was the first country in which the crisis took place and then covered the economies of all region.

The Asian currency crisis diffused globally because the crisis integrated several financial institutions and financial markets in United States. It also created the way for Brazilian debt default in 1998 and Russian debt default in 1998.It is argued that overvalued currency pegs, original sin (liability dollarization) the drying up of Japanese lending after its banking crisis, current account deficits (see the table 1 above) are main contributory factors behind the Asian Currency Crisis.

Table 1: Current Account (% GDP) of Selected Countries

Year	Indonesia	Malaysia	Philippines	Rep.of Korea	Thailand
1992	-2	-3.7	-1.6	-1.3	-5.5
1993	-1.3	-4.6	-5.5	-0.3	-4.9
1994	-1.6	-7.6	-4.6	-1.0	-5.4
1995	-3.2	-9.8	-4.4	-1.4	-7.9
1996	-3.4	-4.4	-4.8	-4.4	-7.9

Source: ADBP, Key indicators, 2003. Prepared by author (04.2019)

In addition, lack of supervision of financial markets and regulation and liberty of banking sector in a financial environment led to profiteering attacks by the international investors.

In 1997, Russia's economic development was positive for the first time after the formation of the Russian Federation in 1991. Nevertheless, the fixed currency regime of the country seemed unstable when it was affected by the impact of sensitive financial situation of international markets. In 1998, serious currency, banking and sovereign debt crisis was not prevented.

The two foreign shocks that resulted from the Asian financial crisis and the decline in demand for crude oil and non-material metals, which had a significant impact on the Russian currency reserves in 1997.

In the initial stages of the global crisis, the countries of the world have reached 14 trillion dollars. more than $ 1 billion. This amount was more than 20% of the world's gross domestic product. At the initial stage, these funds were envisaged in four key areas: state guarantees, banks support, population support and real sector allocation. Most of the funds were allocated to state guarantees. Some countries have even pledged all the money they have allocated to the crisis. In the second place, the amount that was spent on the support of the banks. These funds are mainly used for banks' expansion, increase of state share in bank capital, etc. it was planned to spend. In addition to these measures, banks in some leading countries have downgraded their accounting rates.

1.2 The global financial-economic crisis of 2007-2008 and causes of emergence of this crisis

In August 2007, the financial crisis in the US market of low-quality loans resulted in a fall in the price of assets in the housing market. When this bubble burst, the value of mortgage securities, financial institutions fell sharply. The crisis led to the collapse of the financial system, which not only led to economic recession and unemployment in the United States but also led to a global recession. Governments around the world have worked on full-scale bank rescue operations and rescue packages for up to trillion dollars. Most of the popular media and politicians think that Wall Street, bankers and homeowners are guilty of going to the extreme, self-destructive risk of envy.

Another point of view is that bankers and homeowners are victims of the financial crisis, and the causes of the crisis were non-compliance control and regulation of financial firms, non-compliance regulation of consumer rights, and the Federal Reserve System and other unqualified data prepared and presented by other central banks around the world. As for the latter, bad or non-ad irregular data received from central banks lead to improper adoption of high monetary policy and inadequate evaluation of the system (Frederic M., 2012, p.1)

The global financial crisis of 2007-2008 is the worst hit in the world after the Great Depression (1929-1933) in the United States. This crisis actually began in the US financial sector in the second half of 2007 but its effects began in September 2008 as a result of the bankruptcy of Lehmann Brothers - 158 year investment bank. Compared to other crises that have occurred in the world over the last 100 years, none of them have affected the economy badly as the 2008 Global Financial Crisis.

Since the early 2000s, low interest rates and inflation rates have led to positive macroeconomic stability and increased confidence in the US central bank.

As a result, investors did not take into account the risks inherent in their trustworthy environment. The desire of the US banks to earn profits has increased so much that the risk measurement and ratings have already passed into the second when giving loans.

A large part of the loans were issued as mortgage loans. Real estate prices increased day by day. Therefore, the banks thought that at worst they would be able to buy and sell both their loans and additional profits. Thus, there was an increase in mortgage loans and subprime loans in the high risk group.

One of the main reasons for this crisis was the lack of proper degree of securitization and the banks' investment capability.

For example, when you went to buy mortgages for banks in the United States 30 years ago, you were just waiting to pay off your debt. So, you borrowed one from someone who is waiting to pay your debt and wanting to get a loan back soon. In this old system, a homeowner went to the bank where he was indebted to pay a mortgage every month. And because mortgages are too long, loans have not been given to anyone. Because banks did not want to take risks.

Subsequently, the process of securitization was started. Therefore, lenders no longer risk even if they did not repay the money. Because in the new system, mortgage loans were sold to investment banks and investment banks combined thousands of mortgages, cars, education and other loans and created a CDI (Collateralized Debt Obligation). Investment banks subsequently sold these CDOs to individual investors. Thus, the risks are diverted, and even if the borrowers do not repay their loans, such banks move away from risks. Because when homeowners paid mortgages, money went to investors all around the world.

Investment banks held Rating Agents for rating CDOs. For example, Moody's, Standard & Poor`s, etc. These organizations also rated most banks at AAA rate. It was the highest level investment rate. The lenders were opening risky loans without considering the debt repayment. Because the more they sell CDO, the more profits they will be. The number of mortgages extended between 2000-2003 increased almost four times.

There was also a large increase in the number of subprime loans included in the high risk category. Investment banks preferred subprime loans because interest rates were high. Many of these have already been awarded AAA degrees when thousands of sub-loans have been merged and CDOs are created. Suddenly, billions of dollars have been flowing each year with a chain of securitization. Since mortgages are now available to everyone, home buying has risen, and thus the prices of homes have begun to increase. It was the biggest increase in the history (Financial Bubble).

From the very beginning of this process, no bank is concerned about the quality of loans, the risks are not properly evaluated, and it was only meant to maximize the amount of loans and maximize profits. But there was an issue they did not think of. What if the cost of real estate drops? Then what will the situation be like? And the expected thing happened. The banks seized houses because some of the creditors could not afford their loans. The only purpose of the banks was to repurchase their loans by selling their confiscated houses. The number of homes that the banks had confiscated increased because borrowers could no longer repay their debts. And one more home was removed from the market. Thus, for the loss of real estate, banks earn less than 3 times their credit. The global financial crisis of 2008 had a negative impact on financial markets and financial institutions.

The global economy is responsible for the allocation of resources and economic development of countries cooperating within a single system. If a country suffers from a financial and economic crisis, then other countries cooperating with it in economic activity will probably experience economic shock. Economic stability is beneficial for the country, instability has a negative impact both on its borders and inside.

Causes of global financial crisis of 2007-2008:

❖ The direct cause of the crisis is the release of bubbles in the highest level of housing market in the United States in 2006/2007. The rise in interest rates on low-quality and adjustable-rate mortgages (ARM) has further accelerated.

❖ After the Asian financial crisis in the United States and the Russian debt crisis in 1997-1998, the purchase of a large number of foreign car loans caused an explosion in housing construction and eased debt on loans.

❖ House prices began to rise after banks began to issue more loans to potential home owners. Poor lending standards and rising real estate prices have also led to the emergence of a bubble in the real estate market. Different types of loans (for example, mortgages, credit cards and cars) were easily obtained, and consumers received an incomparable debt burden.

❖ The credit and housing booms, the financial agreements called mortgage-backed securities (MBS) and collateralized debt obligations (CDO), which generated their value from housing prices, and mortgage payments entirely increased. This kind of financial innovation enabled all the world's investors and to invest in the US housing market. Housing prices have dropped, large-scale global financial institutions that have been owed and invested in subprime MBS have been severely damaged.

The initial stages of the housing crisis, apparently, were a normal form of market regulation. However, regulatory authorities and financial institutions did not know to what extent the substandard mortgage loans were securitized and that these securitized instruments were used to support other financial products-insurance products to derivatives. The decline in the value of secured substandard loans quickly spread to other financial assets. The financial crisis has fully intensified. (Oldani C., Kirton J.J, Savona P, 2011, p.10-15)

When George W. Bush came to power in 2001, the US financial sector was profitable and powerful, and five investment banks dominated in that sector

- ❖ Goldman Sachs
- ❖ Morgan Stanley
- ❖ Lehman Brothers
- ❖ Merrill Lynch
- ❖ Bear Stearns

And there were 3 rating agencies.

- ❖ Moody’s
- ❖ Standart & Poor`s
- ❖ Fitch

During four days, Bear Stearns lost about $ 16 billion in liquidity, causing a firm stroke and eventually approached JP Morgan and Chase. Bear Stearns Bank was rated A2 before bankruptcy. It was a high degree of investment indicating that the investment was healthy.

Then, in September, the shareholding documents of the Lehman Brothers Inc. investment bank began to collapse and bankrupted on September 15, 2008. This bank was given the A2 rate 2 days before its bankruptcy.

While bankruptcy, this bank owes $ 613 billion. This bankruptcy is considered the largest bankruptcy of US history. The Merrill Lynch investment bank was bought by the Bank of America. As a result, some banks and insurance companies were also bankrupt.

When the Lehman Brothers broke up, the idea that all banks were "too big to go bankrupt" did not remain true, and as a result, each bank was considered risky. Within a month, the threat of domino effect through the global financial system forced Western governments to put large amounts of capital on banks to prevent their bankruptcy. Banks survived at the last moment, but it was too late to prevent the free fall of the world economy. Credit flows to the private sector were closed at the same time as the decline in consumer and business circles.

All this happened after high oil prices led to the period when central banks believed that it was a priority not to reduce them while waiting for the financial crisis to spread to the real economy, but to maintain high interest rates as a support against inflation.

If we look at table 2, we will observe a decrease in the GDP in between 2007 and 2009. In 2007 real GDP of US was 1.9%, in 2008 -0.1%, in 2009 -2.5%. As we all know, the US is among the hegemonic countries in terms of economic indicators and trade relations. The fact that the 2007-2008 mortgage loan took place exactly in the US has somehow affected all countries.

Table 2: Real GDP growth in USA (Annual percent change)

Year	GDP growth%
2000	4.1
2001	1
2002	1.6
2003	2.9
2004	3.8
2005	3.5
2006	2.9
2007	1.9
2008	-0.1
2009	-2.5
2010	2.6

1. **Source:** The IMF. https://www.imf.org. Prepared by author (05.2019)

The rise in unemployment, the decline in production, the inability to trust the financial system, the emergence of a imbalance between supply and demand in the market caused economic stagnation.

Table 3: Inflation rate, average consumer prices (Annual percent change)

Year	Inflation rate %
2000	3.4
2001	2.8
2002	1.6
2003	2.3
2004	2.7
2005	3.4
2006	3.2
2007	3.8
2008	3.84
2009	-0.3
2010	1.6

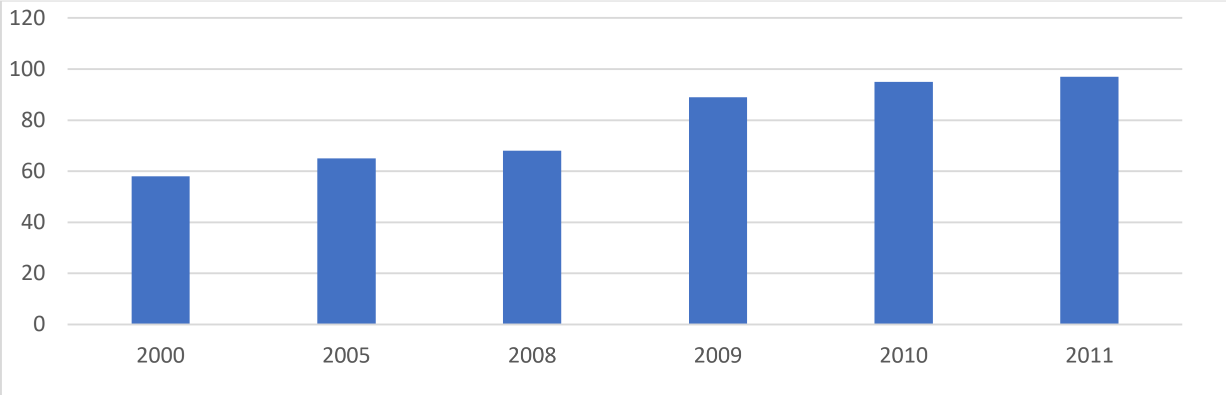
Source: The IMF. https://www.imf.org Prepared by author (05.2019)

As we have seen in the table 3, in 2008, a total of 3.84% was depreciated in 2008. If we explain clearly, the buyer should pay more in 2008 than in 2007, if you have a buyer.

Diagram 2 - US recorded the ratio of debt to GDP in 2000-2011. As we have seen in the diagram, starting from 2008, the country's debt is rising.

To put it more precisely, the increase in debt exceeds the GDP growth. 58% in 2000, 65% in 2005, 68% in 2008, 95% in 2009, and 97% in 2009. As a result of the relative decline in 2009, due to the economic recession due to the financial crisis in the financial system can be coordinated.

Diagram 2: Ratio of Debt to GDP in USA



2. **Source:** The IMF. https://www.imf.org Prepared by author (05.2019)

Given that housing combines aspects of long-term consumption with good, an investment asset can provide a useful alternative approach to the perspective of the asset market assessment of house prices. Rent-giving is an obvious alternative to hosting a similar flow of housing services for the family. In terms of finance, the rental price pay for this action or the opportunity to live in your own home rather than rent. The price and rental ratio should equalize the costs and benefits associated with owning and renting a home and it should depend on the interest rate, the expected rate of housing assets depreciation. The increase in house and rental prices, as well as the intangible advantages of home ownership. So, on over time, you can expect a general stable connection between real house prices, actual rental fees, and real interest rate. At the same time, it is worth surprised by the significant and steady change in the price of the lease ratio. Such changes distributed in all asset markets, but the rate and duration deviations from the fundamental value can be unusually large in the housing market, for example, it has lower liquidity and more important

The initial stages of the housing crisis, apparently, were a normal form of market regulation. However, regulatory authorities and financial institutions did not know to what extent the substandard mortgage loans were securitized and that these securitized instruments were used to support other financial products-insurance products to derivatives. The decline in the value of secured substandard loans quickly spread to other financial assets. The financial crisis has fully intensified. (Oldani C., Kirton J.J, Savona P, 2011. p.10-15)

A thorough study of the 2007-2008 global financial crisis is important for future politicians to understand its implications. At that time, the world was not only faced with a financial crisis. Moreover, in order to fully understand the consequences of political decisions that lead to the global financial crisis, extensive consequences or side effects of the financial crisis should be considered.

The crisis of 2008-09 significantly changed the World Economic and financial landscape. He has created two main types of expenses for investors and consumers: economic expenses and financial expenses. Both of them are related to each other and, as a rule, to another friend to eat. Difficulties in one area create additional problems for another area. (Oldani C., Kirton J.J, Savona P, 2011.p.29).

The bankers worked closely with corruptions in corrupt business. The corrupt businesses were one of the main causes of the financial crisis. These rating agencies knew what level the moment would come, but without giving any significance they were busy with bribery. Also, they were afraid of losing important and important customers. They have taken deposits from the population knowing that the crisis would happen. After the crisis, the banking system had a negative impact on the US economy.

CHAPTER II.THE GLOBAL FINANCIAL CRISIS OF 2007-2008 AS THE CAUSES OF ECONOMIC RECESSION AND REGULATORY PROPOSALS.

2.1 The negative impacts of global financial-economic crisis on economies of EU and BRIC countries.

There is such an economic regularity: developing and transition from the development of developed countries they're addicted. If the global crisis begins in a developed country, it usually moves from developed countries to developing countries. The world economy in the new millennium, especially in developing countries, the economy was expanding.

Some politicians and analysts assumed that the crisis was developing it will not touch countries and countries with a transition economy, and if it touches, the consequences will not be severe. Because the growth rate of the economy in developing countries was still continuing in the first half of 2008. Finally in 2008

in the summer, the crisis with the fall in prices of the world's main economic resources - oil and precious metals-touched developing countries, especially Central and Eastern Europe with a transition economy and CIS countries.

If we look at the spread of the crisis, we can see that the crisis in 2008 at the end of the year-in the first half of 2009, it began to spread to developing countries after the developed countries. It should be noted that economic growth was previously “imported” through channels where the crisis spread. The blow to the economy of developing countries was a decrease in demand for goods and services, a decrease in the price of energy and financial resources, a global deficit of liquidity and a weakening of investors ' interest in taking risks. Some countries even faced the problem of unstable exchange rates and low demand for migrants in the labor markets. Then the problems began to spread in the banking sector. The decline in the value of national currencies led to an increase in the number of customers who lost their solvency.

Economic policy in most countries regardless of the high or higher commercial growth rate was recorded. In most states, economic reforms were carried out in the 90s, and as a result of these reforms, the commodity and financial markets were firmly integrated. However, there was also growth in countries where no improvements were carried out or partially carried out.

The reason for the rise in economic growth was the presence of an excellent international conjuncture. Thus, the growth of global demand for essential financial resources, including the increase in the price of these resources, low-interest rates in international credit markets and low-risk factors, etc. it has created an opportunity for this. In general, the world economy, especially developing countries, was improving much higher than its potential. The group of developed countries includes currencies, which widely used, international payment and collecting instruments. This is primarily the US Dollar, then the Euro and a few more commonly used Japanese yen, Swiss franc, Great Britain pound, and so on. The largest transnational banks and other financial institutions, also located in these countries. These countries themselves receive emission rent for its currencies exports and accepts high returns from the financial sector. On the other hand, they are responsible for the global money demand and the global level of responsibility for the functioning of the financial system. The globalization of the world economy is far higher than the uneven development of countries.

Contrary to the development of developed countries, on the contrary leading to a slowdown in developing countries without reaching advanced economies. The 2007-2008 global financial and economic crisis has affected both developed and emerging markets. The crisis that began in the United States soon began to spread to other developed countries, such as Japan and the European Union. Before the crisis, in 2004-2007 world trade growth rate was 8.74%.

The rapid spread of the crisis led to bank bankruptcy. Banks limiting credit limits and especially in developing European countries descending financial opportunities, which led to the growth of the crisis and economic recession increased economic losses in the United States.

Iceland is three big banks went bankrupt. In 2008, the Icelandic currency lost 40% against Euro Iceland's inflation rate reached 15%. Real Estate in the

United Kingdom the market has just hit a massive decline in the United States. The global economic crisis that affects the whole world of finance, domestic demand, and rapidly spreading to European countries through global commerce. The rapid expansion of the crisis led to bankruptcies. Banks limiting credit limits and especially in developing European countries, declining financial opportunities led to the crisis and economic recession and exceeded the economic losses in the United States. However, after the collapse of the Lehman Brothers, capital flowed from developing countries to safe securities, such as US Treasury bonds, and stock markets in many developing countries declined sharply. The less likely scenario realized by falling commodity prices, the collapse of stock markets and the decline in consumer confidence. Despite the massive surplus of the current account and substantial foreign reserves, these countries have not been able to protect themselves from external threats. Therefore, it seems that there is a closer relationship between developed and developing countries.

There are three major transmission channels, with which the global financial crisis has spread to the European Union from the US:

- through the relationships within the financial system;
- through confidence effects and wealth on demand;
- through global trade.

As noted above, both borrowed debt liabilities and mortgage-backed securities have been acquired by corporations and corporations around the world. These products consisted of assets with a various risk profile but were combined and received a high investment rating.

As a result, subprime borrowers could not fulfill their obligations, when the real estate bubble explosion, the lender needed to finance foreclosures with their own resources, which was unmanageable for many financial institutions.

Identically, the banks tried to increase their reserves and did not lend money to the interbank market, causing “a complete evaporation of liquidity”, as has been announced by the UK bank BNP Paribas in 2007.

Secondly, there has been a sharp decline in production as a result of the reduction of loans and a sharp decline in household prices and a decrease in demand for durable goods and the decline in consumer demand in residential areas. All this negatively impacted on the financial markets.

Thirdly, mutual trade among developed countries is essential area to be examined. Crises in one state are rapidly spreading to other countries as the countries are developing interconnected with international trade. It is a mutual trade between the United States and the European Union. Thereby, European Union is the biggest trading partner of the United States, totaling 17,6% or nearly 636.4 billion USD in total trade in 2011.

The bilateral trade between two main centers of the global economy has been getting momentum accurately till the beginning of the financial crisis in 2008, when the EU's exports to the US fell to $ 220559.3 million and imports to $ 2818008.8 million.

In 2009, European Union reached a maximum of 4.3% of real GDP, this recession is deeper than any recession which happens in the European. The contraction began already in 2008, while annual GDP growth rate has dropped more than 2,8% in connection to the 2007. In addition, the crisis that began in 2008 led to the European sovereign debt crisis.

The post-crisis GDP growth rates did not correspond to the pre-crisis levels, but even worse - the result of a sovereign debt crisis, which was primarily a deal, and then reached negative in 2012.

İmports and Exports increase rates in EU 27 (has decelerate as financial crisis began, by 4 and 4,8% severally in 2008. The trend lasted in 2009, when imports of services and goods has lost 11,6 % relatively, to the past period and exports 11,7%. Both values began to restore already in 2010, as different anti-crisis measures were suggested.

During the financial crisis, the unemployment has dramatically increased in the EU-27. While the growth in unemployment in the EU-27 decreased down in 2010, according to the interference of the financial market by the European Central

Bank, Extensive introduction of EU-crisis management programs and etc. Average unemployment rate for the EA-17 beat 10,2 %, which the highest rate since 1999.

Now, if we consider the performance of the two European blocks – the periphery and center and we shall see that this tendency is entirely within the EU. But some EU countries are more sensitive than others. We can consider the reason for this is that, there is a difference between current accounts, different grade exposed to housing bubbles or the presence of a wide financial center in the country. It is essential to know that not only real economic activity has been influenced, but also potential yield might have been affected, and this is the major challenge of long-term forecasting and financial status.

For the aim of this section we will take in consideration to four of European Union periphery countries: Ireland, Lithuania, Hungary, and Latvia. In these countries the GDP growth rates began to plummet in 2008, after the global financial crisis has spread to the EU. Worst beat were in the Baltic countries – Latvia and Lithuania, where GDP growth rate has converted practically backwards, getting record rates of -14,7 and -17,95% according. Economy of Latvia, specially, was badly destroyed, the government had to stand down and country needed a significant loan from the IMF to keep away from bankruptcy in 2009.

Both Hungary and Ireland had also to get through a economic slowdown. The financial crisis led to the economy of both countries to plummet to average of -6,8% in 2009, Unless we discuss about Ireland, it is essential to reference a great current account loss that the country collected during the financial crisis mainly relatively to its recapitalizing the major banks in Ireland. Such a depression led to the investors began to withdraw their capital, relatively to economic instability. The foreign capital is one of the most important cornerstones of the economies of Latvia, Lithuania, Hungary and Ireland the slippage of FDİ (foreign direct investment) inflow can demonstrate the effect of the financial crisis had on the economy of these countries.

The FDI inflows to the economy of Hungary fell steeply from almost 50% national output of Hungary in 2007 and to -16% in 2010. Hard addiction of economy on the foreign capital was obviously the most strict cause for the depression in the country. The economists take into consideration this to be the biggest paradox during the financial crisis. Hungary dependent on foreign capital has to reduce its spending, both on the household and governmental levels. The following internal demand crisis prohibits investors from investing into the economy, that causes a much greater recession. This type of dependency is obvious in Lithuania, Ireland and Latvia showing the same trend. Austerity procedures introduced in the periphery states have led to an unavoidable consequence: social instability and growing unemployment rates. Unemployment rates have began to grow quickly in 2007, repeating the same way in all of the states. 13,70% of Lithuanian, 17,10% of Latvian, 10% of Hungarian and 11,7% of Irish population were unemployed in 2009

Relatively to the beginning European sovereign-debt crisis the rates continued to increase in 2010, that is not to be analyzed in this thesis. Thereby, we can say that the financial crisis destroyed the economies of the European union periphery heavily, relatively to mainly the economic direction of these states to the foreign capital, the origin of which reduced in course of the crisis.

In this research, the EU center countries, such as France, Germany, the United Kingdom and Italy will be investigated. The hypothesis is about that the financial crisis had the same effects on both peripheral and center countries of the European Union, and dissimilarity in sizes as already noted above, were created by various current account formation in the periphery and the center. Thereby, one of the important economic measures, the GDP growth rate plunged in 2008 and in 2009 getting the decade-worst Graphs (Germany -4,5%, France -3,15%, UK -3,07%. Italy -5,5%,) Although the recuperation trend began in 2010 already, only we see Germany was able to achieve pre-crisis level of the production growth.

But the positive impact was not stable and the European sovereign debt crisis had a negative impact on the economy in 2011.

Secondly since the center states are main importers and exporters of services and goods, and capital in the European Union, we also have to observe their performance in these areas. By nature, relatively to the overall world economic narrowing the export performance of France, Italy, the United Kingdom and Germany worsened during the crisis, causing incompatibility in their current accounts.

But, it is important to reference that the center of the EU has tested much flatter downs in compared to their peripheral states, where the slowdown regarded for ten of percent. We consider the reason to be the greater faith of the foreign investors in the steadiness of the center countries rather that of periphery. Except, the good general before crisis performance of the economy, the suitable austerity measures and better harmony with the world financial entities` guidelines permitted the core states to sustain admissible levels of the growth rates.

Such a basis formed, which is based on existing institutions and legislation and complemented by new initiatives. Of course, most of the EU's legislative efforts today aimed at controlling crises and mitigating their consequences. EU politicians have sharply understood that unilateral extension of financial aid and deposit guarantees causes significant and potentially devastating side effects. This led to an extraordinary meeting of the Council of Europe at the level of heads of State in autumn 2008 – for the first time in the history of the Eurogroup. The main role of the commission is to provide that financial resources reach their goals with minimal distortions and adverse side effects of competition. Financial incentives also have transboundary side effects through trade and commercial markets. The European Economic Recovery Programme (EERP, European Commission 2008) was adopted in November 2008, motivated to recognize these side effects.

The framework for the Prevention of financial crises that existed before the crisis was not sufficiently developed – otherwise, the mess, most likely, would not have happened. However, taking into account the Prevention of emergencies, the first steps were taken – the reconstruction of financial regulation and control-both in Europe and other countries. Recently, the European Commission adopted a draft law on the creation of a new European system risk Council for the identification of risks for the financial system. It will also create a European financial control system consisting of national supervisory bodies and three new European supervisory bodies on banking, securities, insurance and professional pensions. The development of a policy for the settlement of crises is currently one of the main tasks – at least because it should strengthen the effectiveness of the system on the regulation of crises with its impact on its reliability. These political stimuli should avoid any premature rejection but should be prepared to implement when the exit strategy will be sustainable in recovery, and they should also include a broad political framework that will lead to structural reforms that promote growth.

China, Brazil, Russia and India noticed as one block were one of powerful economies of the world economy, with growth rates which were bigger than those in developed states of Europe, the U.S and Japan. BRICs are differentiated by their rapidly, large growing economies and important

Between 2002 and 2008, economy of China grew on an average of 10%. Likewise, economy of India increased by an average of 8% yearly.

But, the financial-economic crisis has also impacted on these developing four economies with opportunity to dispersed their remarkable resurgence in the global economy. Thus, the economy Russia shortened by 8% in 2008, Brazilian – by 0,3%, missing more than 5 % from 2007, production growth of China has missing over 5% from the starting of the financial crisis, and India has demonstrated total the same consequences as China.

Despite it, the mechanisms of the financial crisis transmission are the same all over the BRIC states, there are also few dissimilarities in the financial crisis transmission ways emerging markets and developed states. There are a number of factors impacting on the crises rigidity in BRICs dependency on raw materials exports, share of foreign capital inflows in GDP, level of participation in world trade. As you know, in advanced countries most of the economy covers the financial sector. The outcome of any negative and positive event affecting the financial sector will be reflected in the economy.

But we understand that the situation is various in BRICS, where financial sphere is in fact separated from the real economy of a specific country and from the world economy totally. We will now try to connected, what accurately has carried to the transmission of the financial crisis from developed states to BRICs, and how the crisis turned from financial into the economic one, and what results it had for BRIC states. Banks and non-bank financial intermediaries were impacted by the financial crisis only to certain extent.

The exposure of the enterprises to the compound financial instruments were tightened, thereby creating automatic buffer and on the other hand national liquidity and deposits were abundant giving a protection to the banking sector, which could be occasionally observed in the developed economies. Although liquidity was plenty in BRIC countries, before to the crisis, the condition has altered as investors began to withdraw the capital from the states, causing in the banking systems the narrowing of short-term credit.

Short-term credit plays an essential role in emerging market economies, where corporate spheres many times fail to create sufficient resources inside the country for enlargement aims. Short-term credit can productively cover the deficit and then help make investments possible.

Table 4. Short-term credit in BRIC countries, in millions USD.

	Russia	Brazil	India	China
2008 Q_1	12921	-56	4.827	
2008 Q_2	44049	-50	1467	46727.68
2008 Q_3	29990	217	1690	
2008 Q_4	26178	108	3884	-49.830.78
2009 Q_5	16698	-3568	1117	
2009 Q_6	-3687	96810	-457	2304.16

Sources: European Central Bank, World Bank, International Monetary Fund,2010. Prepared by author (05.2019)

Except, materials required to help finance purchases and foreign mergers many times get from the short-term credit.

Table 4 shows that there has been a decline in short-term credit for each of the BRIC economies.

BRIC countries, there was a major change in foreign investment, for various reasons (such as political disturbances between the Russian and Georgian governments). FDI decline started in the third quarter of 2008, In India and Brazil started from Q4 2008. Russia lost 12 billion USD of FDI in 2008. In Brazil was observed 20 billion US dollars make a quick exit from its economy. The amount of FDI for India was a little under 1 billion USD.

Industrial production in Russia and China decreased from September-October in 2008, industrial production in India and Brazil fell in February in 2009, and this month was also negative in Russia. Industrial production in India and China declined in the short term (7-8 months), growth declined over a long time (more than a year) and a stronger decline (16%) compared to 8% in Brazil and Russia. Most of the victim's industrial production in Russia decreased by 16% compared to the same period last year, in May-June. (Table 5)

Table 5 : Comparison of GDP composition in BRICs, %

Country	2002-2007				2008				2009			
	HC	I	GC	NE	HC	I	GC	NE	HC	I	GC	NE
Brazil	60.7	16.7	19.9	2.7	58.9	20.7	20.2	0.2	61.1	17.8	21.2	61.1
Russia	49.8	21.2	17.4	11.6	47.4	25.6	17.8	9.2	52.8	19.0	20.8	7.4
India	59.3	31.9	11.0	-2.2	58.6	35.6	10.9	-5.1	57.2	36.3	11.9	-5.4
China	39.2	41.5	14.4	4.9	34.9	44.1	13.3	7.7	33.9	48.3	13.4	4.4

Source: The World Bank. Prepared by author (05.2019).

As the financial crisis grew in emerging economies, China and India's GDP growth slowed slightly in the first quarter of 2008, followed by Russia in the fourth quarter, and the Brazilian economy continued until the end of 2008. But China and India did not suffer from the recession and began to recover earlier.

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As the financial crisis grew in emerging economies, China and India's GDP growth slowed slightly in the first quarter of 2008, followed by Russia in the fourth quarter, and the Brazilian economy continued until the end of 2008. But China and India did not suffer from the recession and began to recover earlier. (Table 5)

Despite the larger GDP, the standard of living in China and especially in India is lower than in Brazil and Russia, as larger GDP is the result of an increase in the population, among other things.

Thus, their GDP per capita PPP is talking about something completely different from the total production volume. Before the crisis, Russia had the highest PPP GDP per capita (20 128 US dollars, the US), Brazil PPP per capita GDP was very small (12 627 US dollars. the USA), almost half of Brazil in China (6 653 USD. US) and India are less than a third of Brazil (3627 US dollars. USA).

Unemployment in the BRICS declined gradually until the crisis, but according to official data, Russia and especially Brazil were more exposed to a higher unemployment rate than China and India, where the unemployment rate changed by about 4%.

However, statistical data in China and India do not reflect the actual unemployment rate, since official statistics in India do not show a large number of self-employed workers and reflect the unemployment rate only in cities in China.

And, to conclude, we have to observe that the recession had negative affect on economies of export-oriented Brazil and China.

But India is domestic-demand oriented, so the global crisis did not affect it so much. BRIC countries have not had a significant negative impact on this financial crisis compared to Western countries. The reason is that these countries are more export oriented. Also in the BRIC countries, the financial sector is not the main component of the economy. These countries were more import-oriented.

2.2 Reforms and Regulatory challenges after the global financial crisis.

The 2007-2008 global financial crisis has revealed weaknesses and critical gaps and in the US regulatory framework and pointed to the existence of unregulated worldwide commercial segments.

The following section highlights the essential principles and reviews the main objectives of the financial regulation necessary for a useful regulatory framework. Creating the right motivates that form behaviours of the market participants are the basic to any set of reforms for extreme risks. It also helps to embrace the harmful effects of financial firms. Indeed, the best regulatory frameworks are those that minimize the severity and the frequency of the financial crisis, but there are no such frameworks.

There are three essential purposes of regulation in traditional economic theory:

❖ To limit the use of monopoly power and the prevention of severe distortions to competition and the security of market integrity,

❖ In the case of critical or non-expense information, maintaining the basic needs of ordinary people, and mistakes can destroy the well-being and

❖ If there are sufficient externalities that overall and the social, market failure costs get over both the costs of failure and the additional costs of regulation.

Limitation of monopoly power, enhancing transparency, as well as information asymmetry and exit of external expenditures to minimize- are important responsibilities of regulatory policy. Financial market failure prevention has been identified as a critical task for managing systemic risks and managing key consumer and investor protection issues.

Soundness and safety of private financial institutions can be provided within the framework of effective regulation. Market failures can cause instability in financial markets and financial institutions. Markets require self-regulatory (such as self-correcting) as well as a market failure as information asymmetry requires the regulatory policy to deal with such issues.

Individually, insurance and banking companies have been adjusted with the protection of an individual institution, the unification of examination rules, and prudential control measures. For private soundness, the capital base of an institution is an essential concern for the regulatory authorities. For derivatives and securities like the products, organizational point of view has joint rules-based security of the regulatory perimeter, with rigid rules connected to customer protection, business conduct and capital requirements.

Systematic risk is almost entirely in violation of the system's overall performance, which can lead to the removal of one or more major market components.

Therefore, the main objective of the policy is to monitor the overall functioning of the financial system entirely and to soften the systemic risk trends. Traditionally regulatory point of view to appeal this crucial issue is to overlook the too high too institution's relation with their mutual connection to this system, and if these institutions are in soundness, it means the whole system is reliable.

One of the reasons for the global financial crisis in 2007-2008 is the lack of systematic management deficiencies. In 2007-2008, commercial systems failed to function efficiently without financial institutions and 230 market confidence. Any significant adverse change in the financial system can reduce the determination of the markets to operate efficiently, based on which it damages the existence of capital and credit and, ultimately, adversely affects real economic activity. Lack of large or multilateral institutions may result in systemic risk and collapse to the overall financial system.

Valid prices are trademarks of well-functioning markets, and the effectiveness earned through the existence of information about asset price and the prevention of internal trading and anti-competitive behaviours.

Transparency of all vital information to investors is essential in this scenario. The transparent regulatory surroundings promote effectiveness and fairness by instructing financial institutions for the announcement of crucial details. Thus the revelation of information allows market participants to get an optimal agreement with information. Nevertheless, transparency can be met by colliding with the interests of a particular financial institution, such as security and soundness and market sustainability. It is possible that a commercial organization that is encountering liquidity problems may demand to preserve some information to decrease speculation while the investors in this institution require accurate and timely information and the investors trust that the prices for stock market of the institutions reflect the revelation of complete material information. Therefore these different opinions may lead to unalike responses by various regulatory authorities.

Protection of investors and customers is another fundamental objective of the regulation and it is provided through business manners rules. Especially when demands of transparency alone are not satisfactory, then investors are preserved by rules that warrant ethical behaviour and top standards of the business implemented by intermediaries.

Thereby, the conduct-of-business rules finally lead to greater belief in the financial system providing potentially more significant market participation. Business behaviour regulation pointed up the disclosure, suitability, transparency, investor defence and provided fair transactions in the markets. As we notice traditionally, securities markets notice the rules since ten years; nevertheless, as the banks have ventured far from their classic business models and concerned in more risky services and products, mainly to sparse customers, these business behaviour limitation is related by the banking regulators more on the whole. For this achievement of this purpose, the United States government has permitted special regulations in the Dodd-Frank Act 2010.

In response to the 2007-2008 global financial crisis, two great sets of reform items presented, firstly the Dodd-Frank Act (2010) in the US and then the BASEL III regulations that are worldwide in nature.

The Dodd-Frank Act (2010) and Consumer Protection Act confirmed by the Obama administration on July 21 in 2010 is perhaps the most far-reaching overhaul and conceited of financial regulation since the Great Depression (the 1930s). The Dodd-Frank Act (2010) is made up of over 300 resolutions and 2,300 pages. The Act became the main feature for regulatory reform in the US, mainly affecting a significant part of the United States banking system.

The Dodd-Frank Act (2010) changes the existing regulatory system, by generating a number of innovative agencies (during that time removing and merging others) in an effort to make effective the regulatory transactions, raising oversight of the proper institutions considered as a structured risk, changing the Federal Reserve Act, providing transparency, and extra changes. İntentions of the Act is to ensure accurate standards and administration to save American investors, consumers and businesses; the economy and end financial institutions` taxpayer-funded bailouts of; provide for a progressive notification system on the steadiness of the economy; establish new rules on executive repayment and corporate governance; and remove specific gaps that led to the 2007-2008 economic recession

Dodd-Frank Act (2010) created the Consumer Financial Protection Bureau to take under protection consumers from big, unregulated banks and combine the consumer protection obligations of a number of the existing bureau taking in the National Credit Union Administration Department of Housing and Urban Development, and the Federal Trade Commission.

The Consumer Financial Protection Bureau is an agency of the US government which liable for consumer protection in the financial system. Jurisdiction of CFPB involves payday lenders, credit unions securities firms, banks, debt collectors, foreclosure relief services, mortgage-servicing operations and other commercial organizations managing in the United States.

The Dodd-Frank Act (2010) includes execution of the Volcker rule that commonly speaking prohibits proprietary trading by insured depository financial institutions and bank holding companies. The institutions are too prevented from investing or sponsoring in either hedge funds or personal equity funds. The Volcker rule was initially suggested by American former and economist the US Federal Reserve Chairman Paul Volcker confine the United States banks from making certain types of speculative investments which do not profit their clients. Volcker maintained that all kinds of risky activity played a leading role in the global financial crisis in 2007-2008. The rule is many times referred to as a ban by commercial banks on proprietary trading, that is why deposits are used in the banks` accounts, although a number of exceptions to the prohibition were involved in the Dodd-Frank Act (2010).

Proprietary trading determined as credit transactions of the selling of bonds and the banks. Operations are happening from the trading account of the financial institution. The supporting of private equity funds determined as also serving as a managing member, or private fund partner or participation in the choice of individual fund directors, managers, or trustees. İn addition, influenced financial entities prevented from attracting in marketing activities which distribute the name of the private fund in question.

There is a notable exception to the Volcker Rule permitting the financial entity to sponsor a hedge fund or private equity but only if the existence ensures fiduciary belief, or investment consultative services to the fund. The intent of Congress in additionally the Volcker Rule to the Act is to prevent conflicts of profits between financial organizations and its purchasers. The overhead - referenced Volcker Rule exception demands which the commercial organization give complete disclosure to customer of proprietary trading which may be in an argument with investment recommendations being provided to customers.

In the aftermath of the 2007- 2008 financial breakdown congressional testimony demonstrates evidence which allegedly commercial entities were taking small positions on proprietary investments during that time giving conflicting "purchase" advice to customers. This sort of statement caused to the involvement of the Volcker Rule in the law; nevertheless, strong lobbying efforts were effective in including notable exceptions that have served to weaken the strength of the rule.

The Dodd-Frank Act is expanding legislation planned to address problems and spheres of need in regulatory framework managing The United States financial entities. Head among regulatory reforms impacting on the financial industry is the foundation of the Financial Stability Oversight Council, which ensures a head layer of oversight for commercial entities as well as for many financial regulatory bodies already in the area.

The lack of systematized attempt in implementing regulatory and policy execution among the numerous regulatory agencies managing the financial industry was a specific concern. Moreover, the Council aims to identify risks impacting on the United States financial system steadiness and suitable respond to any warnings to the system posed by the same dangers.

The Dodd-Frank (2010) legislation seeks to amplify financial institutions by creating leverage requirements and capital more stringent. The law also confines the securitization market and ensures for a new resolution method for commercial organizations. The Dodd-Frank Act (2010) places significant further regulatory limitation, on derivatives section. The Dodd-Frank Act (2010) also addresses regulatory reform in the spheres of the Volcker Rule managing proprietary trading, adviser registration for specified credit rating agency activities, and private funds (Davis, Polk, and Wardwell 2010).

The Collins Amendment to the Dodd-Frank Act (2010) demands that the risk-based capital standards suitable to the United States insured depository financial entities will also enlarge to the United States intermediate holding companies of foreign banking organizations, United States bank holding companies and systemically main non-bank commercial entities. The capital requirements of the Collins Amendment dimension is the ratio of the regulatory capital requirements over the risk-weighted assets.

Leverage capital requirements (LCR) have to involve the ratio of regulatory capital components over average total assets. Capitalization requirements ensure classification for Tier 1 and Tier 2 requirements. Tier 1 capital applies to thrift holding companies and banks with some more than $15 billion in assets. The Collins Amendment will remove hybrid securities as an element of Tier 1 capital and will only permit such securities to be involved in dimensions of Tier 2 capital.

Thereby, the overall impact of the Collins Amendment is to create current risk-based and leverage capital requirements applicable to secured depository entities as the least standard not only for depository entities but also for the bank holding entities and systemically main non-bank financial entities. Furthermore, the enactments grant the Federal Reserve the strength to impose an exception from those same requirements. Unless the Federal Reserve, in connection, with the Financial Stability Oversight Council, defines that the leverage requirements and capital are not corresponding for the non-bank financial organization in question, after the Federal Reserve may force on the custom-made, but the same stringent, leverage and capital control mechanisms.

The Dodd-Frank law provided for the creation of an office of credit ratings for the management of a credit-rating organization. The SEC (Securities and Exchange Commission) will demand national credit rating organization to ensure evidence of a useful internal control formation.

The new rules further aggravate the public disclosure requirements for the rating effort and methodology. The Dodd-Frank Act gives dominance the SEC to force penalties on domestic credit rating agencies for failing to make accurate ratings. Also, the Dodd-Frank generates a new specific civil reason of operation for plaintiff-investors damaged by the omissions or acts of rating organizations in recklessly or knowingly failing to accomplish outstanding effort of facts pertinent to creating a financial failing or rating to get analysis from independent origins when creating ratings.

The Dodd-Frank Act established the position of Vice-Chairman for Supervision within the Board of Governors of the Federal Reserve System, a member from the Board of Governors nominated by the President of the US by and with the consent and advice of the Senate. The responsibilities of this position involve the growth of recommendations for regulation and supervision of depository entity holding companies and other financial companies controlled by the Federal Reserve. The Dodd-Frank Act gives power to the Federal Reserve to manage fees assigned by merchants for adopting debit cards in given debit card operations. The Dodd-Frank Act ensures that the FDIC may break-up, seize, and wind down failing financial entity. This strength provides an opportunity with the FDIC to catch any company involving in the broadly determined "financial company" including bank holding companies, non-bank financial companies under the management of the Federal Reserve, and companies defined by the Federal Reserve mainly included in commercial operations. It is known that for many decades, the FDIC (Federal Deposit Insurance Corporation) has been empowered to resolve and seize depository institutions.

The resolution process will permit the FDIC to take over administration of financial entities assets, organize mergers with or sales to the financially stable companies, and move liabilities and assets as considered necessary. The FDIC will have regulatory dominance to ensure financial support and a proper repayment plan to problematic commercial companies. A Repayment plan for the troubled company's shareholders is made and they pay according to their repayment plan. Until FDIC financial support has been fully returned through the repayment plan, the stockholders do not get payment.

On December 16, in 2010, the Basel Committee accepted rules planned to strengthen the world financial institution and banking framework. The Committee concentrated on the concentrate of bank capital liquidity, quantity, quality, restriction of leverage levels, control of derivatives and the anticipation of the capital buffers in expectancy of either period of losses or capital growth.

This approach was a direct consequence of the global financial crisis in 2008-2009 when the international banking community was inadequate capitalization, excessive leverage, low-level bank finance programs, and a "rainy day" approach to the bank to mitigate a significant recession.The following timeline reflects the Basel III regulation development process:

- Basel III Rules published as proposals in 2009
- Committee provisionally accepted plans (with changes) on July in 2010
- The G-20 Seoul meeting consequences in approval of Basel III regulation content and time deadlines on November in 2010
- Quality of capital Basel III Rules further strengthened by the addition of higher loss buffer requirements for all Additional Tier I and Tier 2 instruments on January in 2011.

Basel III's 2010 decision required banks to finance 4,5% of the total risk-weighted assets (RWAs). Since 2015, the bank should keep the minimum rate of ordinary shares in the volume of Tier 1 (JET1) 4,5% each time.

The United States Federal Reserve declared in December 2011 that it would perform all of the Basel III rules significantly. It generalized them as follows, and made everything clear they would appeal not only to the banks but also to all the institutions with more than US $50 billion in assets.

CHAPTER III. THE INFLUENCE OF GLOBAL FINANCIAL CRISIS OF 2007-2008 ON AZERBAIJAN ECONOMY AND ANTI-CRISIS MEASURES.

3.1. Characteristic of the Azerbaijani economy in terms of the world financial and economic crisis.

The global crisis harmed Azerbaijan, and some risks aggravated the national economy. The effect of the worldwide crisis on the country was mainly due to the decline in oil and other non-oil export prices, sharp restrictions on foreign credit flow to the banking system, and the reduction in foreign currency outflows. In general, almost all the sources of aggregate demand have diminished in sources of external financing.

During global financial and monetary markets in the world in 2008-2009, not only the ability of banks to borrow debts but also financing national companies were limited. And even early repayment of some repayment was required. Under these conditions, banks of Azerbaijan repaid $ 1.2 billion loans in a year. Besides, the money transfers of the Azerbaijanis living abroad from the social point of view significantly reduced for the population of the regions.

The Azerbaijani real estate market suffered some damage from the global financial crisis. According to state property registration data, prices for all types of property in 2008-2009 declined by an average of 10-15 per cent.

By the end of 2008, prices in the housing market fell to the level of 2007, and this process started to stabilize in 2009. The fall in prices is due to the decline in activity in the real estate market under the affect of the global financial crisis. As a result, there is a process of abandonment of those companies that cannot afford to see the problems of the period in the real estate market of Azerbaijan. Other companies use other promoting methods to reduce the cost of housing to solve financial problems.

The global crisis has created negative expectations in the national economy, especially in the foreign exchange market and in the banking sector. As a result, the country's economy faced the following risks:

- ❖ violation of macroeconomic stability (devaluation of national currency and inflation rise);
- ❖ deterioration of financial stability (significant decline in the quality of banks' loan portfolio and savings out of the banking sector, the decay of banks' payment capability and giving credit);
- ❖ economic recession.

GDP growth in Azerbaijan was 26.4% in 2005, 34.5% in 2006 and 25% in 2007. But an economic growth of 10.8% was recorded in 2008. According to the International Monetary Fund, Azerbaijan's GDP growth in 2009 declined by 11.2 per cent. These indicators listed in Table 6.

Table 6: GDP and Economic growth in Azerbaijan

Years	GDP (billion dollars)	Economic growth
2000	5272.8	11.1
2001	5707.7	9.9
2002	6235.9	10.6
2003	7276	11.2
2004	8680.4	10.2
2005	13238.7	26.4
2006	20983	34.5
2007	33050.3	25
2008	46258.2	10.8
2009	42575.7	-11.2

Source: The Central Bank of the Republic of Azerbaijan. Prepared by author (05.2019)

Despite the decline in GDP growth rates, nominal GDP per person per capita increased by AZN 4440 per person last year. (Table 7).

Table 7: Per capita GDP in nominal value (manat)

Year	Manat
2004	1060
2005	1600
2006	2508
2007	3473
2008	4440

Source: Azerbaijan State Statistical Committee. Prepared by author (05.2019)

If we analyze economic growth after 2005, there is a decrease in the dynamics of production of goods and services related to the reduction of oil production in the country. Azerbaijan's revenues depend on oil, while oil revenues directly depend on the price conjuncture in the world market.

Table 8: Share of Oil and Gas Sector in GDP %.

Year	**Share %**
2001	31
2002	31
2003	30
2004	31
2005	44
2006	54
2007	54
2008	60

Source: Central Bank of Azerbaijan, Prepared by author (09.2019)

In 2004, 2005, 2006, 2007, 2008 growth in the oil sector was 3%, 66%, 63%, 51% and 7%.

The financial crisis of 2007-2008 was the sub-prime mortgage crisis had a very negative influence on the gas and oil prices. At first glance, the effect of the 2007-2008 financial crisis on the impact and oil and gas prices cannot see, but in the analyzes, the adverse effects of the crisis on all sectors of the economy observed. At the start, even when the housing market of The United States was going down, the prices of the goods continued to increase, including natural gas and crude oil. In July 2008 cost of the crude oil was about $147/barrel. But afterwards, the collapse of the financial sector had a profound impact on the economy. The economy has affected the daily activities of many large companies because financial institutions are facing significant liquidity problems. After September 2008 prices of the crude oil frequently started to fall after the collapse of the major investment banks in the US, which provoked the breakdown of the economies. The financial crisis, in conclusion, revealed the wave of liquidation and deflation, which took over all assets, involving oil and gas.

From 2003 to 2008, the state budget has increased to 10 times and budget revenues 10,763 AZN million, budget expenditures - AZN 10 680 million, respectively. The budget revenues were lower compared to the previous year (2014). Taxes of the state budget of the Republic of Azerbaijan for 2015 are 17bn. 156 mln. AZN 17 bln. 784 million manats. Thus, the revenues of the state budget in 2015 were 7% higher than the planned taxes for 2014, and the costs were 5% less. In 2007, the number of transfers from the Oil Fund to the State Budget was 585 million manats. In 2008, this Graph was $ 3800 million. Manats. In 2009 state budget The volume of transfers from the fund was 4900 million manats. Generally, from the Fund, the amount of transfer to the budget has changed over the years in Table 9.

Table 9 : Transfers from Fund to the State Budget.

Year	2005	2006	2007	2008	2009
Amount (bln manats)	150	585	585	3800	4900

Source: The State Statistics Committee 2010. Prepared by author (05.2019)

Table 10 :The share of transfers to the State Budget in the annual revenues of the Fund.

Year	Share %
2004	41
2005	22
2006	59
2007	31
2008	32
2009	58

Source. The State Statistics Committee 2010. Prepared by author (05.2019)

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

During 2008, the volume of trade transactions with 141 countries by resident and non-residents of the state was $ 54.9 billion.

During this period, 2127 items worth $ 47.8 billion exported, and 5893 units worth $ 7.2 billion imported, while the positive balance of export and import transactions amounted to $ 40.6 billion.

In 10 months of 2009, Azerbaijan carried out import and export operations with 136 countries for $ 16.5 billion. In January-October 2009, $ 11.5 billion of foreign trade turnover exported, $ 5 billion - imported goods. A $ 6.5 billion positive balance has registered in international trade turnover.

The effect of the global financial crisis on macroeconomics is as follows:

- Reduction of oil revenues, which is the basis of our economy;
- Economic growth is lower than expected by the end of the year;
- As a result of the decline in demand, economic activity is weakening.

At the end of 2008 and early 2009, the Central Bank slightly softened its monetary policy as a preventive financial measure. The Central Bank lowered the discount rate by 3% from February 2, 2009, to 5%. The upper limit of interest corridor has reduced from 13% to 10%. The mandatory reserve in manats and foreign currency decreased from 6% to 3%. An overview of the current state of the Central Bank continued to ease the macroeconomic balance, financial stability and maintaining economic activity in the country in line with the 2009 monetary policy.

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 1 billion in manats equivalent. Investments in British investors compared to the same period last year amounted to $ 202 million — manats or by 16.5%. 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. Capital investments of investors representing these four countries total 941.3 mln manats, and their share is equal to 42.3%. Let's remind, in 2008, the development of economic and social spheres of Azerbaijan directed at the volume of 9 billion manats from all financial sources or by 34.3% more 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%.

Azerbaijani economy showed that the rapid growth of macroeconomic indicators started in 2004 slowed down in 2007-2008. Meanwhile, the fact that the State Oil Fund revenues forecasted in 2008, and the smaller budgeting of the 2009 budget, suggests that the global financial crisis and the world market price of oil harm the Azerbaijani economy. Naturally, there is almost no country that insured from the effects of this global crisis. In this regard, the main objective of anti-crisis programs or concepts in each country is to reduce the negative impact of the crisis and to achieve a short-term recovery of the economy.

The global financial crisis has affected the stock market in Azerbaijan and, as in all other sectors, the stock market has a deficit of money. By the end of 2008, when the impact of the crisis was high, the share of stock companies in all sectors, especially the percentage of banks, dropped by almost two times. Shareholders could own large stock buyers and stockholders and halted the acquisition of shares as a result of the crisis, and therefore, interested in parts declined. Thus, because only a few substantial investment projects accomplished, some stock companies were not able to get the requirements for construction. At last, depression in the construction area reduced the workload of the share companies.

Price changes also occurred in areas outside the capital. Reduction of shareholders resulted in timely payment of dividends to shareholders of joint-stock companies. Compared with the natural part of the market, banks did not accept shares of the company as collateral for loans, which led to a decrease in foreign sources of income for direct investors and the overall market dynamics. It is possible to conclude that the financial crisis has sharply reduced private sector loans in Azerbaijan.

The world financial and economic crisis has affected most of Armenia, Lithuania, Latvia, Ukraine, Estonia, Russia and Kazakhstan. Moldova, Kyrgyzstan, and Belarus - were at a moderate level of crisis.

The estimates of the International Monetary Fund, the World Bank, the European Bank for Reconstruction and Development and other influential international and regional organizations show that the Azerbaijani economy was among the countries that best succeeded in the crisis.

While the world's economic growth rate was 2.3 per cent in 2008, 2 per cent in the eurozone and 5 per cent in the CIS, the average rate of economic growth in Azerbaijan was 4 times higher than in the euro, and the growth rate of the CIS countries by 2 times and amounted to 10.8%.

According to the CIS Interstate Statistical Committee and the European Bank for Reconstruction and Development (EBRD), in 2009 the GDP of Russia was 8.5%, in Ukraine - 14%, in Armenia - 19%, in Moldova - 8%, in Lithuania - 18%, in Latvia - 16%, Estonia - 13%, and in Azerbaijan - 8%.

Among the factors that make this happen, the following points are particularly relevant:

❖ There is no strong dependence on the Azerbaijani economy on the world financial market. Until the crisis began, Azerbaijani banks attracted $ 2.5 billion of credit resources from foreign financial markets, representing 25 per cent of all bank liabilities.

❖ In the years before the crisis, in Russia, Ukraine and Kazakhstan, the economy was heavily invested in domestic investment in foreign investments, but in Azerbaijan, the share of domestic investment has increased and, in 2009, its share of 80% has increased. The percentage of budget funds has increased in the financing of large projects, and as a result, the state has become the largest buyer of the private sector.

❖ Conservative, careful and well-educated policy of the Central Bank, the Ministry of Finance and other government structures has played an essential role in minimizing the negative impact of the global financial crisis on Azerbaijan.

❖ Despite the complications caused by the crisis, the currency reserves of Azerbaijan have increased from $ 7.4 billion in 2007 to $ 20 billion in 2009 and 2.5 times. As a result of the crisis, Azerbaijan's foreign exchange reserves increased by 30 per cent in the middle of 2008, when Russia's foreign currency reserves rose by 35 per cent, Belarus by 37 per cent, Ukraine by 27 per cent, Armenia by 21 per cent, Kyrgyzstan by 17 per cent, and Kazakhstan by 13 per cent.

As a result, Azerbaijan has gained a good "safety seat" to protect the global crisis, which in turn has enabled the government to overcome the negative impact of the crisis.

Table 11: Dynamics of refinancing rates in CIS countries in 2008

	Rate of refinancing %		Changing
	beginning of year	ending of year	
Azerbaijan	13,0	8,0	38,5
Belarus	10.0	12.0	20
Gerogia	10.0	8.0	-20
Kazakhstan	11.0	10.5	-4.5
Kyrgyzstan	9.0	15.2	68.5
Moldova	16.0	14.0	-12.5
Russia	10.0	13.0	30.0
Tajikistan	15.0	13.5	-10.0
Uzbekistan	14.0	14.0	-
Ukraine	10.0	12.0	20.0

Source: The Central banks of CIS countries. Prepared by author (05.2019)

CIS countries have increased the rate of refinancing thanks to the institutions that regulate and manage the financial system to attract foreign investors. The increase in rates took place in Kyrgyzstan, Russia, Ukraine. But Azerbaijan, Georgia, as Moldova, the rate of refinancing has been reduced. The refinancing rate it was mentioned above (Table 11)

3.2. The anti-crisis policy and consequences that have been carried out against this global financial- economic crisis in Azerbaijan.

Let's first note the functions of the central bank that controls banks of Azerbaijan. Central Bank is the state's leading bank. The primary purpose of the

Central Bank is to ensure price stability within its competence. The use of the Central Bank's activity is to ensure the security and development of the banking and payment systems. To achieve its goals, the Central Bank implements the following functions:

- defines and implements monetary and fiscal policies of the state;
- organizes cash circulation, carries out distribution and withdrawal of coins;
- regularly identifies and announces the official exchange rate of manat compared to the foreign currencies;
- implements currency regulation and control;
- Retains and manages the international gold and currency reserves at its disposal;
- compiles the balance of payments and participates in the preparation of the country's forecast balance;
- licenses and regulates banking activity carries out oversight of banking activity by the law;
- coordinates regulate and monitor the functioning of payment systems.

An essential element for the prevention of crises is the timely submission and dissemination of standardized information on the state of the economy and financial status of countries and economic entities, not only for statistical data but also for the transparency of the decisions taken. In the broader sense, the crisis prevention mechanism should offer measures to reduce the likelihood of emerging crises in the financial market and their socio-economic consequences.

Following the analysis of the accumulated experience, we can distinguish the following key measures to prevent the financial market crisis used in world practice:

- Providing transparency and economic indicators and information on policies of international organizations, governments and corporations;
- Application of internationally recognized standards and codes in practical activities;

- ❖ Use of control over compliance of critical financial indicators and financial institutions with defined norms;
- ❖ Use of early crisis prevention models to predict crises, comprehensive risk assessment and evaluation.

Control is an essential component of the regulation of all sectors of the economy to prevent crises and abuses. The following regulators exercise control: Central Bank, Banking Supervision Authorities, Ministry of Finance, Securities Commission, international organizations, rating agencies and other organizations.

In particular, regulatory authorities take corrective measures, such as reducing ratings, leading to sanctions, penalties imposed and notified, and impairment of the value of borrowings when disclosed or disproportionate to legislation. The impact of the global financial crisis has been more psychological in Azerbaijan's financial system and has prompted financial institutions to revise their development strategies. In spite of the hostile environment, the Azerbaijani banking system demonstrated sustainability in the risks involved. Several adequate measures taken by the Azerbaijani financial sector in 2008 resulted in stabilization of banks and stability of liquidity as a result of mitigation of the Central Bank's monetary policy, several times reduction of interest rates, turning to security in exchange rate policy and led to liquidity stability.

In 2009, especially at the beginning of the year, the recession trends in the world economy increased, prices in commodity markets and leading indices in financial markets declined.

Allocate funds from the state budget to finance measures against the crisis. The anti-crisis budget does not just mean the reduction of costs, but also the increase in the number of funds allocated to several directions. The volume of funds allocated for the implementation of anti-crisis measures in the European Union countries is within the range of 1-2 per cent of the Gross Domestic Product. Direct investment of 1% of Gross Domestic Product for anti-crisis measures does not hurt the country's financial potential but has both short and long-term positive effects. It is, therefore, advisable to allocate 380 million manats from the state budget to finance anti-crisis measures. Reduction in budget expenditures and the use of state reserves did not include in this amount. From this point of view, the anti-crisis budget should also enlarge investments for essential destinations.

Based on world practice, Azerbaijan has developed conceptual proposals on the establishment of a financial crisis prevention system, and approaches have identified, and the following briefly stated:

❖ The goal - to increase the role of the financial market in ensuring sustainable and innovative development of the economy;

❖ Task – Prevention of crisis and reducing the harm caused by them.

At a conference on the results of the "State Program on Socio-Economic Development of the Regions of Azerbaijan Republic" on 29 February 2009, President Ilham Aliyev stated in his speech the thesis of the program, which is considered as anti-crisis measures: "*The state of Azerbaijan over the past five years has invested heavily in the divisions, with large amounts of loans, privileged loans, and strong support for entrepreneurship development for the development of the private sector. Both moral support, political and financial support*".

That is, when all these factors are united, of course, it is possible to reach the gulf, and the way that Azerbaijan has passed over the last five years is clear evidence of that. Azerbaijan's experience and our policy show that we used our financial resources in the best possible way. He invested funds into the real sector of economy, energy, gas, transportation, health and education, humanitarian spheres. Thus, the level of service has risen, opportunities have increased, and even better conditions for business have been created. 7 anti-crisis trends in the complex of measures that Ilham Aliyev voiced at the meeting of the Azerbaijani government in January were as follows:

❖ The importance of reducing consumer prices.

❖ Still, in 2005, the Decree of the President of the Republic of Azerbaijan dated May 31, 2005, has started the implementation of sophisticated measures to regulate inflation with the decree "On Strengthening Anti-Inflation Measures" in the Republic of Azerbaijan.

❖ It is no coincidence that the President has paid particular attention to the issue of anti-monopoly: "*Unfounded monopoly and unhealthy competition should abandoned. The parties involved in this case should severely punish so that we can make a severe turn in this area. There should be maximum transparency in this field, all the illegal claims, unpleasant situations, illicit interventions by I would like to point out that the state bodies should be stopped immediately. Those involved in these illegal activities must be prosecuted. It is already out there and should be broader and more dangerous* ".

❖ The issue of applying financial monitoring covering the support of the national banks, the control of loans and interest rates is also in the focus of the President's attention. "*We have always been thinking about strengthening financial discipline. In the current situation, this is even more important. That's why fiscal discipline and control over the spending of financial resources should always be in the center of attention, and now there is a greater need for that. One of the main measures is to place the state's currency reserves in Azerbaijani banks. In light of the losses of the World Bank groups, the national banks of Azerbaijan are becoming more secure "holders" of the assets of the country's Oil Fund. Also, anti-crisis measures provide entrepreneurs with preferential loans. I think that we can place a certain amount of foreign exchange reserves in the most secure and reliable local banks. However, provided that the funds are directed only to the real sector of the economy and the state control over the expenditure of this money is extremely strong* ".

❖ Continuation of investing in the real economy has always been in the spotlight of Mr President. Mr President said:

"*Azerbaijan's experience and policy show that we have used our financial resources in the right, the most intelligent way. He invested in financial resources, investing in the real sector of the economy, energy, gas, transport, health and education and humanitarian spheres.* " Today, the state should show its support for the creation of new industrial enterprises in Azerbaijan.

❖ Supporting social commitments is also one of the most critical issues:

As Mr President said, "the solution to social problems, in general, shows the country's development opportunities. Azerbaijan has always paid great attention to this area and, of course, our increasing financial capabilities have a very positive impact on the solution of social issues. The work carried out in this direction in Azerbaijan shows that social problems are, in essence, a priority for us".

❖ The course of the industrial enterprises to the domestic market and food security has always been in the spotlight of the head of state.

Mr President said: "*Today, the vast majority of the consumer goods in Azerbaijan, namely the majority of food products, are local produce. It is a great achievement, and it serves a great deal of business, entrepreneurship and development in the region, and we have also ensured our food security.*"

One of the anti-crisis measures was to relieve insurance companies from the tax on the portion of the profit directed to increasing capitalization for three years, as evidence of the government's financial support. It is necessary to minimize the impact of the crisis on insurance companies, reduce unnecessary costs, increase the number of customers and prepare new products for the market during this period. The Government, at the end of 2008, has taken an essential step by releasing insurance companies and banks from profit tax.

Specifically, I would like to note that the most critical factor that enables effective crisis management in Azerbaijan is the trust and confidence of the President of the country and the business circles. Taking into consideration all this, on January 16, 2009, President Ilham Aliyev analyzed the situation in the Azerbaijani economy under the heading of the World Economic Outlook in the Cabinet of Ministers and explained his position regarding the global financial crisis. It was the first announcement that reacted to the global economic crisis at the head of state. It was the first time that the "anti-crisis measures package" was officially launched.

The prudent approach to active participation in the international stock exchanges, the securities market in terms of providing our country with financial security is among the main factors that weaken the financial burden on our republic. President Ilham Aliyev particularly touched upon the causes of Azerbaijan's suffering in the global crisis and emphasized the economic policy of our government, based on national interests: "In some cases, certain conservative trends in the financial sector in Azerbaijan criticized by international financial institutions. Sometimes we are advised to join the integration trends more quickly and integrate into international trade organizations. However, our position was always very cautious. Because the economy of Azerbaijan is self-sufficient. Like some other countries, we don`t depend on foreign aid. That's why we have always been attentive to international economic cooperation. "During the anti-crisis measures, the amendments to the Law "On Central Bank" played an essential role in 2009. Amendments to the law and the latest global trends on the status of central banks. The Central Bank has been able to provide banks with loans in the longer term and different currencies, including subordinated loans.

By summarizing, we can concentrate anti-crisis measures into four groups in the public administration system:

Safety of banking system. This package includes:

❖ re-capitalization of the bank;

❖ open a stabilization credit line;

❖ Increase the amount of compensation applied to deposits held by individuals in banks, in some cases up to 100%.

❖ clearing the bank's balance from problematic assets, and, if necessary, giving state-guaranteed assets.

Monetary policy measures - the transition from anti-inflationary policy to stimulating policy. These measures include:

❖ Some countries, taking into account the fears of inflation, interest decreases rates;

❖ Lower the national currency rate;

❖ Reduce mandatory reserve requirements;

❖ Direct financing by the Central Bank.

Promote Demand and Plan a Real Sector Action Plan. This package includes:

❖ Support for individual areas (e.g., automotive sector support program in Russia);

❖ Reducing tax rates (direct or indirectly) By the relevant decree of the President of the Republic of Azerbaijan, profit taxable by banks and insurance companies for capitalization in 2009-2012 exempted from taxation. According to the calculations, the bank added $ 170 million. There was a reason for the creation of capital in the amount of AZN;

- ❖ Support for small and medium businesses;
- ❖ To establish a special budget fund;

Expansion of the volume of the credit line opened by the state. This package includes:

❖ Increasing the volume of deposit insurance (the maximum amount of deposits protected by the Deposit Insurance Fund has increased six times, the insurance conditions have softened to safeguard the interests of bank depositors and strengthen confidence in the banking system of Azerbaijan.

Assistance package for those who lost their jobs;

- ❖ Agreement on the closure of businesses with business structures;

❖ Increase the volume of investment-oriented investment expenditures. Implementation of the anti-crisis program prevented the reduction of the money supply, provided financial sustainability and economic activity of the banks and provided the necessary support for the production and investment activity of the major systems of the system. On the one hand, successful anti-crisis measures and on the other hand, due to the strong financial and economic potential created in previous years, the country's economy has maintained, and at the same time, its resistance to adverse external impacts has successfully tested. The Law of the Azerbaijan "On the State Budget of the Republic of Azerbaijan for 2010", adopted in the National Council, also confirmed that during the global crisis, it was among the countries that were confidently moving forward towards the goals set by our republic. Even though the weakening of the growth rate of the developed economies in the context of the financial crisis, the growth trends in Azerbaijan have created opportunities for the complete formation of budget revenues

The global crisis could slow down the pace of dynamic growth, which is natural: Azerbaijan, which is open to the world and successfully integrated into the international economic and economic system, could not be fully exposed to the adverse effects of the global financial and economic crisis. The primary outcome is that in the worldwide crisis, the commercial growth rate, which is entirely inaccessible to many countries, has been achieved, and international financial institutions also admit it. Both the International Monetary Fund and the world's leading rating agencies, Standard & Poor`s, have stated in their reports that the Azerbaijani economy's enormous potential and durability, as well as the economic policy pursued by the country's leadership, are more readily available to the global crisis than other countries. World Bank, World Economic Forum International Monetary Fund, CIS Statistical Committee and other organizations counted the results of the year quite successful for Azerbaijan. Implementation of the anti-crisis program prevented the reduction of the money supply, provided financial sustainability and economic activity of the banks and provided the necessary support for the production and investment activity of the major systems of the system.

Despite the slowdown in the economic growth of the developed economies in the context of the financial crisis, the incidence of growth trends in Azerbaijan creates opportunities for the formation of full fiscal accounts. In the new budget, prepared in line with the economic and social development concept of the Republic of Azerbaijan, the trends expected in the world economy in the years to come. In 2007-2008, the State Committee for Securities had implemented several measures to improve the legislation in the field of the securities market, eliminating existing gaps in the current law and bringing it into line with international standards. The number of insured deposits in Azerbaijan increased from AZN 6,000 to AZN 30,000. And this has given impetus to the confidence of the depositors in banks.

Thanks to the successful development and modernization strategy, the Azerbaijani economy demonstrated high stability to the global crisis and lost its balance, maintaining growth dynamics and level of social development. Antimicrobial policy, which has created a strong stability potential in the country, has also produced excellent opportunities for maintaining financial stability. The successes of this progressive development model, which is typical for Azerbaijan, are carefully monitored and met with interest beyond the borders of the country.

CONCLUSION

After reviewing various perspectives on the financial crisis, key events can be summarized. It is a fact that initially started by reducing interest rates by the Federal Reserve, and promoted more risky loans that eventually resulted in housing crisis, allowing more Americans to realize homeowners' dreams. But what generate those risky subprime mortgages wasn`t only relatively to decrease interest rates, but also it was mainly caused by decreased underwriting standards for the mortgages – a main alteration in lending policy. Be convinced by that the housing market has to be absolutely deregulated and will control itself shorten the possibility to interfere in case of need for movement. Relying on durable housing market growth in the past, the United States government was unsuccessful to determine the risk of altered mortgage products and consequently enabled the housing market crash at the end of 2006 year. But not only was unsuccessful adjustment in the housing market can be accused for the financial crisis. The financial section involving banks, insurance companies, rating agencies investment banks and particularly the market for derivatives at the same time was greatly deregulated. The enormous banks there were almost no demands for maintained equity capital to save large investment transactions. In addition, a low federal funds rate merged with the deregulation of derivatives motivated investment firms to create complex financial products almost inexplicable for the outsiders. And the investment bankers utilized the non-transparent features of their products: Traded with millions of investors all around the world, the investment banks were no more serving their customers as adviser but they tried to sell CDO’s as many as feasible. As know that the bankers worked nearly in cooperation with bribable rating agencies is another important cause for the financial crisis. In view of the fact that giving the necessary rating for CDO’s while noticing that this rating is absolutely incompatible is a case of bribery. Of course these rating organization knew accurately what was proceeding and they could have ended the party but instead they gone on their operations, feared of losing main customers. Managed by greed of money investment banks lost their products and so generated the breakdown of the financial section after all.

The second chapter deals with the impact of the financial crisis on the European Union and BRİCs countries. The impact of the crisis has been strong since the European Union countries have close trade relations with the United States. This negative effect on trade relations. There has been a decline in GDP, we can not say that they are not affected by the crisis. The only reason for low impact is that the main sector of the economy is not a financial sector.

When viewed together with the current monetary policy of the Federal Reserve in 2008-2009, it offers long-term pressure on American banks and allows them to improve risk management by expanding their income models and changing operating models. In the US, lending rates will dramatically increase after the Federal Reserve launches the process of raising interest rates. The challenge for financial institutions will be to find ways to capitalize on Basel III to meet the requirements, as well as develop quality corporate clients, expand retail businesses, and increase top-level financial services. These goals create specific problems, including the identification of quality customers, the preparation of accurate price strategies, measuring the customer's profitability, measurement of determination to exposure and the calculation of sufficient capital reserves. The results shown in our research have a significant impact on policymakers and their financial institutions. Politicians, the Dodd-Frank Act and the Basel III regulatory framework should recognize the impact of both the financial institutions and the overall economic activity. Managers of a financial institution should find ways to increase the effectiveness of relevant transactions when complying with applicable legislation.

The third chapter deals with the impact of the financial crisis on the economy of Azerbaijan. If the impact of the 2007-2008 financial crisis on our country was not strong, it had some influence on some economic users. The reason for this effect is explained by the decline in oil prices. However, as a result of the reforms and anti-crisis programs implemented in Azerbaijan, Azerbaijan managed to overcome this crisis.

Azerbaijan gained its share of negative consequences from the crisis, though less than in other countries. How the economy of Azerbaijan faced with the global financial crisis, the but economic indicators have not changed significantly. Where was Azerbaijan before the crisis, and to what extent is its economy resistant to the negative consequences of the crisis key questions for politicians? There is a widespread opinion that Azerbaijan can exit from the crisis is more accessible than any other state, simply because its economy built on solid economic foundations. This belief reinforced by the idea that Azerbaijani banks did not so financially integrate into the world financial system that the banking system is more resistant to crises.

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