

**AZERBAIJAN REPUBLIC**

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**IMPROVEMENT OF COMMERCIAL BANKS' MEDIATION  
OPERATIONS IN THE STOCK MARKET**

Speciality: 5301.01 - Internal fiscal policy and public finance  
Field of science: 53 - economic sciences

Applicant: **Lamiya Lazim gizi Khankishiyeva**

**ABSTRACT**

of the dissertation submitted for the degree of  
Doctor of Philosophy in Economics

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## GENERAL CHARACTERISTICS OF DISSERTATION

**Actuality and study degree of the subject.** According to world experience, the existence of a financial sector with diversified infrastructure and an effective stock market is a necessary condition for the efficient development of the market economy model. The stock market, which is a part of the financial market, includes the economic relations that arise in the process of issuing and placing valuable securities, as well as the activities that reflect the circulation of securities by professional market participants. It is in the stock market that the relations between property and lending related to securities, which are special financial instruments, are formed.

Today, the topic of the stock market and the activity of commercial banks in this market is relevant, as the development and improvement of the market economy requires increasing the activity mechanism of the banking sector and the content of the stock market in our country, including the impact of this market on the economy. The liquidity of the country's banking system and its ability to conduct large-scale operations in the financial markets are important both for the country and for each of us, as the strengthening and weakening of the economy affects each of us. The securities market for the economy performs a number of basic functions. One of them is to manage the investment process and ensure the proper use of investment resources in society. Mediation operations of commercial banks in this market lead to further strengthening of the banking system and increase in income.

It is no coincidence that the priorities of the development of the country's banking sector are given ample space in the Strategic Roadmap for the Development of Financial Services in the Republic of Azerbaijan, which entered into force by the decree of the President of the Republic of Azerbaijan Mr. Ilham Aliyev dated December 6, 2016. Here, creating a favorable environment for issuers and financial intermediaries for the development of the country's financial market, increasing investors' access to the financial market, and increasing activity in the interbank money market are defined as strategic priorities.

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**The level of study of the problem.** A fairly large-scale system of knowledge and a scientific research base have been formed in the field of studying the activity characteristics of the banking system in the financial markets.

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Abdullayev XS., Abdullayev RE., Adigozelov Sh.A., Bagirov VV., Akbarov R.M., Asgarova R.V., Azizov YS., Khudiyev N., Khuduzade RA., Hajizade ST., Kashiyeva F.Sh., Guliyeva SH., Gurbanova TT., Mammadova GQ., Mammadov I.N., Mammadov Z.F., Mustafayev FA Valiyev P.A., etc. works of local scientists are dedicated.

Babayev A.M., Javadov AM, Guliyev F.M., Orujov I.R., Sultanov A.H., Hajiyev E.M., Vahabzade N.M, Karimova C.A., Murshudlu FF and other scientists have included in the investigation of various operations of commercial banks.

Various aspects of the development problems of the activity of commercial banks are investigated by Aliyev A.I., Aliyev M.F., Gasimov A.S., Hashimov F.K., Ibrahimov Z.H., Ismayilov A.X., Gazanfarov E.M, Kazimov F.X., Karimov A.E., Shekaraliyev G.A. and others.

Various aspects of the development problems of the financial and securities market and credit institutions were investigated by Azerbaijani scientists as Abbasov A.H., Abbasov R.H., Aliyeva A.A., Garakhanov N.N., Sadigov E.M., Hajiyev RS., Hasanov R.A., Isamaylov E.Q., Musayev E.M., Rzayev E.A. and others.

Among foreign economist scientists, M.Friedmen, J.Hicks, K.C.Balthrop, C.K. Van Horn, E.C.Dollan, K.D.Kempbel, R.C.Kempbel, T. Copeland, M. Miller, F. Modelyani, D. Polfremen, P.S.Rouz, F. Ford,

U. Sharp, B. Edwards, etc researched.

Among the researchers of the CIS countries in researching the development problems of the banking sector and the securities market were engaged G.N.Beloglazova, N.I.Valencheva, E.F.Jukov, V.S.Zakharov, A.Y.Kazak, V.V.Kiselyov, V.I.Kolesnikov, Q.Q.Korobova, A.M.Kosoy, L.N.Krasavina, L.P.Krolivechkaya, O.I.Lavrushin, I.V.Larionova, O.M.Bogdanova, O.M.Bogdanov, Y.B.Zelenski

Without reducing the scientific and practical importance of these studies, we would like to note that in accordance with the characteristics of the current stage of development of the national economy, it is necessary to conduct complex-systematic scientific research in the field of determining the prospective development directions of the country's stock market, where the role of mediation activities of commercial banks, which are the main financial and credit institutions, is evaluated. as these aspects have been left out of the attention of researchers. The above proves the subuality of the research work and acted as the main factors determining the selection of the dissertation topic.

Object of the study: mediation operations and activities of commercial banks in the stock market.

**Subject of the research:** It is a system of relations that occurs during the activity of the stock market as a whole and the mediation operations of commercial banks.

**The purpose of the research** is to study the scientific basis of the activity of the stock market and to determine the directions for improving the securities mediation operations of banks based on the analysis of the mediation activities of commercial banks. To achieve this goal, the following tasks were defined and fulfilled in the research process:

- to investigate various theoretical and methodological approaches to the development of the securities market and the study of the problems of banks' activities in this field;
- to reveal the mechanisms and characteristics of banks' mediation activities in the stock market;
- to analyze the processes of formation and organization of mutual relations between the stock market and commercial banks in individual countries;

- To study the dynamics of the formation and development of the securities market of Azerbaijan;
- To reveal modern mechanisms of mediation activity of commercial banks in Azerbaijan;
- To evaluate the impact of mediation operations of commercial banks on the stock market on the investment process of the national economy;
- To determine the priority directions of the development of mediation activities of banks in the stock market;
- To determine the development prospects of mediation activity in the securities market of Azerbaijan;
- To develop effective mechanisms of state regulation of the national stock market.

**Theoretical-methodological basis of research.** In the research process, statistical grouping, analysis-synthesis, systematic approach, situational analysis, induction-deduction, etc. methods were used. The theoretical basis of the research was organized by the scientific works of national and foreign scientists on the issues of securities market, improvement of mediation operations of commercial banks, impact of financial markets on the country's economy, development of the securities sector.

**Basic provisions put to defense:**

- In the securities market, the interaction and compatibility of various ideas in the field of mediation activity of banks was revealed, by comparing and adding various scientific-theoretical approaches, he summarized and completed the principles of mediation activity of banks in the stock market, and also systematized a methodological apparatus based on the author's approach.

- A comparative analysis of the activity of commercial banks in the securities market in different countries was carried out, their different aspects were studied and their unique characteristics were determined, and the dynamics of the development of the national securities market for the application of certain directions to the national stock market was determined and the problems there were revealed.

- The characteristics and principles of mutual activity of the stock market and commercial banks were revealed, and the directions for

solving the problems encountered by evaluating the current state of mediation activity of commercial banks in the country were determined.

- The directions of the development prospects of mediation operations in the stock market of commercial banks in Azerbaijan have been determined, and the impact of these operations on investment financing has been reflected.

- It is necessary to make appropriate changes to the legislative framework regulating the activities of commercial banks and the rights of investors in the national stock market. Regulation of relations arising during the implementation of mediation activities in stock markets faces various legislative loopholes and lack of normative legal acts. Based on the specificity of the national stock market, the author developed measures to improve state regulation mechanisms, and gave suggestions and recommendations.

**Scientific novelty of the research** is the characteristics of the mediation activity of commercial banks in the securities market of Azerbaijan were analyzed and scientifically and practically justified proposals and recommendations on improving the mechanisms of mediation operations of commercial banks were developed. In this regard, in the theoretical, scientific and practical aspect:

- Conceptual generalization of theoretical and methodological approaches in the field of mediation activity of banks in the securities market was carried out;
- Specific features of mediation operations of commercial banks in the stock market have been revealed;
- A comparative analysis of the activity of commercial banks in the securities base in individual countries was carried out, and their unique characteristics were determined;
- the development dynamics of the national stock market was analyzed;
- the characteristics and principles of mutual activity of the stock market and commercial banks have been revealed;
- the current state of mediation activity of commercial banks in the country was evaluated;
- In the securities market in Azerbaijan, the characteristics of the influence of bank mediation operations on investment financing have been revealed;

- Development prospects of mediation operations of commercial banks in the stock market in Azerbaijan have been determined;
- Measures for improving the state regulation mechanisms of the national stock market have been developed, proposals and recommendations have been given.

**The information base of the research** is based on the legislative and normative acts of the Republic of Azerbaijan, decrees of the President of the Republic of Azerbaijan, official data of the Azerbaijan Statistics Committee, the Central Bank, the Financial Markets Control Chamber, reports of the main indicators on the securities market, results of scientific research of leading countries and foreign scientists, Internet resources materials, as well as the author's direct observations and analyzes.

**Theoretical significance of the study.** The main theoretical provisions and results of the research have been brought to the level of concrete proposals, and these proposals can be used in the process of improving and developing the mediation operations of commercial banks in the country in the securities market.

**Practical importance of research.** The main theoretical provisions and results of the research have been brought to the level of concrete proposals, and these proposals can be used in the process of improving and developing the mediation operations of commercial banks in the country in the securities market.

**Application and approval of research results.** Theoretical and practical results of his research were reported at national and international scientific-practical conferences. The main provisions and results of the dissertation work are reflected in 8 articles and 7 theses published in scientific publications recommended by the AAK under the President of the Republic of Azerbaijan.

**The scope and structure of the dissertation work.** The dissertation consists of an introduction (12,070 characters), three chapters (Chapter I 82,341 characters, Chapter II 62,443 signs, Chapter III 56,571 signs), a conclusion (16,140 characters) and a list of literature in 122 names. The total volume of the dissertation, except for the literature list, tables, graphs, pictures, is 229891 characters.



# THE MAIN PROVISIONS DEFENDED

## **1. Conceptual generalization of theoretical and methodological approaches in the field of mediation activity of banks in the securities market was carried out.**

As a mechanism for the redistribution of funds, the securities market closely interacts with the real and financial sector of the national economy and ensures the free flow of capital between sectors. The main role of the securities market is to mobilize temporary free monetary resources for the development of the national economy.

As the main directions of the financial policy, the organization of the activities of the financial, credit and money markets, as well as stock exchanges, etc. is considered an important component of the state's economic policy

Currently, one direction in the monetary policy is the formation of an effective financial market. The financial market has a great influence on the formation of the money supply. Since commercial banks operate in the financial market, the formation and regulation of this market is of great importance. Financial markets include the state securities market, domestic currency market, corporate stock market, etc. the development of forms will play an important role in providing the economy with the money supply it needs.

The state budget, banking system and securities market are always in close contact. These areas complement each other and compete with each other at the same time. This is because the development dynamics of all three channels are oriented in different directions. Thus, as a result of increasing taxes, the increase of budget funds reduces the free financial resources of economic entities and the population, limiting the resource base of the banking system and the stock market. At the same time, the expansion of bank lending (credit expansion) reduces the opportunities for financing the real sector through the issuance of securities.

Unprofessional activity in the securities market is performed according to the license provided by credit institutions for the implementation of banking operations. Commercial banks are institutions of the lower stage of the banking system. Their main purpose is the attraction of funds and their placement on their own behalf, on the basis of return, payment and

maturity conditions. Researchers point to the fact that the profitability of the securities market is higher than the funds invested in the real sector, and the weakness of the banks' resource base as the main factor limiting banks' credit relations with the real sector.

## **2. Specific features of mediation operations of commercial banks in the stock market have been revealed.**

One of the important financial and investment sources of ensuring economic development in modern conditions is the securities market, whose main function is to concentrate financial resources and direct them to the necessary directions. Therefore, it is very important to focus on organizing new highly competitive enterprises.

In general, the main goal of the securities market is to attract investments to the economy. In order to realize this goal, the following conditions must exist:

- free movement of capital;
- ensuring the liquidity of securities obtained by numerous sellers and buyers, as well as small differences in purchase and sale prices;
- availability of trading systems that provide communication between sellers and buyers;ların və alıcıların əlaqəsini təmin edən ticarət sistemlərinin mövcudluğu;
- information transparency of the market.

Information should be accurate, correct and meaningful. For this reason, great attention is paid to the disclosure of information in the stock market by the following:

- about the financial situation of the enterprise by the issuers, about the upcoming issue of securities, about large shareholders, etc;
- about their qualifications by professional participants of the stock market, conditions for providing various services to customers, their financial obligations;
- about trade rules, listing conditions and so on by trade organizers;
- on changes of the normative-legal framework by regulatory bodies, on compliance with the control system and work rules in the financial market

Another type of activity of a commercial bank in the securities market is depository activity, that is, it includes the provision of services for the storage of securities, the accounting of rights on securities, as well as the service of contracts with securities.

Commercial banks can also carry out activities on the management of securities, that is, in accordance with the relevant contract, it is an activity on behalf of the management of securities belonging to another person with the right of ownership at the time assigned to a certain reward place in the interest of this person or another person determined by him.

A new form of activity of commercial banks in the stock market is the implementation of advisory services on issues related to the investment of capital in one or another financial asset. Consulting services are based on the internal data system of commercial banks, because this system allows to analyze the ratio between the income and risks of various assets and to design algorithms for the purchase and creation of their portfolio, considering the dynamics of securities for buyers.

Commercial banks can also operate as investors in the stock market. Commercial banks are universal banks that carry out transactions with securities along with other transactions.

The activity of banks as professional participants of the securities market, i.e. as intermediaries, implies the implementation of the following types of activities:

- broker activity;
- dealer activity;
- activity on securities management;
- clearing activity;
- depository activity.

### **3. A comparative analysis of the activity of commercial banks in the securities market in individual countries was conducted and their unique characteristics were determined.**

The economy of developed countries cannot be imagined without the participation of commercial banks in stock market reserves, where their role differs depending on national legislation and autonomy. At the same time, due to a number of points, foreign experience in the field of organizing banking activities on securities is of certain scientific and practical interest.

Traditional banking transactions related to the service of the securities market are as follows:

- Purchase of securities and granting of credit for their security;
- Provision of bank guarantees of bonds and other securities (for example,

housing certificate shipments);

- Performing the functions of issuers' payment agents, keeping the accounts of securities market participants and making money settlements based on the results of their transactions in the securities market.

Under the influence of crisis situations in the economy of the countries, there was a need to create reliable protection mechanisms for deposits. Until the beginning of the great depression in the United States and due to the extreme losses and losses of the world economic crisis, the universal banks that existed at that time faced an alternative: either to provide traditional banking services or to carry out transactions with securities. Thus, all banks were prohibited from commercial banks (they were prohibited from carrying out transactions with securities and membership in stock exchanges and divided into investment banks, which were mainly oriented towards long-term investments in real assets and emission instruments.

After World War II in Japan, commercial banking was separated from investment and banking activities by legislation. According to the law, commercial banks are allowed to purchase and sell securities as auxiliary transactions. Although not universal banks, on the Japanese stock exchange, they had the opportunity to directly intervene in securities trading, thereby suppressing brokerage firms. They were also given the right to use the help of joint firms - brokerage companies and firms that are members of exchanges - by obtaining a license, to purchase and sell all types of securities, either at their own expense or on the basis of customers' orders.

Commercial banks of the AFR are divided into universal (Universal banker) and specialized (Spezial banken) banks. Commercial companies of the AFR have been given the right to carry out all types of transactions with securities. Since there are no joint brokerage firms in Germany, all functions are performed by banks, that is, banks issue the largest amount of bonds, act as owners (owners) of large investors and investment groups, and carry out most of transactions with securities.

Let's look at the experience of the CIS countries, it can be seen that Russian commercial banks are practically allowed to operate professionally and unprofessionally in the stock market. One of the important problems with the existence of Russian commercial banks is

ensuring reliable income. In accordance with Russian legislation, commercial banks are allowed to act as a professional participant-investment institution and perform the role of a broker or dealer, provide settlement-clearing services, depository services and other activities.

#### **4. The development dynamics of the national stock market was analyzed.**

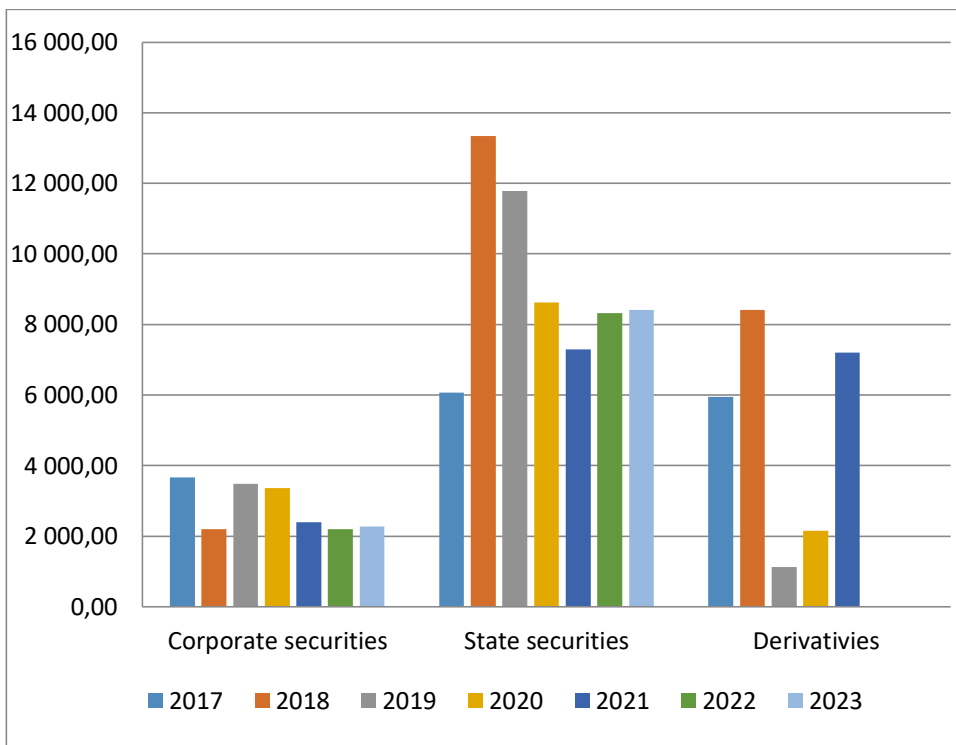
The analysis of the structure of the state securities market should be started from the analysis of the circulation characteristics of the securities circulating here:

1. State short-term bonds and notes of the Central Bank. After the formation of the Stock Exchange, government bonds issued by the Ministry of Finance and transactions with notes issued by the Central Bank are carried out in accordance with the market's demand and supply. The Ministry of Finance uses the funds attracted by the placement of bonds to close the deficit of the state budget, and the Central Bank uses them for the purposes of regulating the money supply within the framework of open market operations.

2. Debt obligations and promissory note market: These securities are bought and sold outside the stock market because they are non-emission securities. However, this market is not yet sufficiently formed and there is no liquid market for these securities.

3. Public privatization shares (cheques) and options: Although these securities put into circulation for the purpose of being used in privatization have expired, they continue to be bought and sold in the unorganized market.

4. Corporate securities market: stocks and corporate bonds



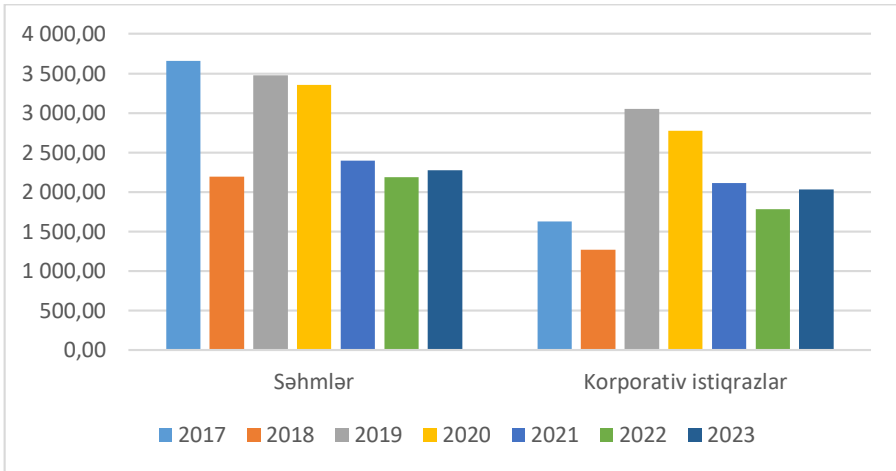
**Diagram 1. Development dynamics of the structure of the securities market**

Source: Based on information contained in the former FİMSA and CBAR compiled by the author.

When we analyze the process occurring in different segments of the corporate securities market, we see that the influence of the factors of exchange rate differences on market segments is more acute here. In general, trends of decreasing volume of the corporate securities market are observed in the securities market of Azerbaijan. This applies to both stocks and corporate bonds.

If you look at the dynamics of state securities, you can see that their volume has been constantly increasing during 2016-2019 (see digaram 1.). It should be noted that the notes of the Central Bank have an important position here. Thus, in 2016, the total volume of government bonds was 0.567 mln. manat Notables of the Central Bank

are 2.1 times less than 0.268 mln. was manat.

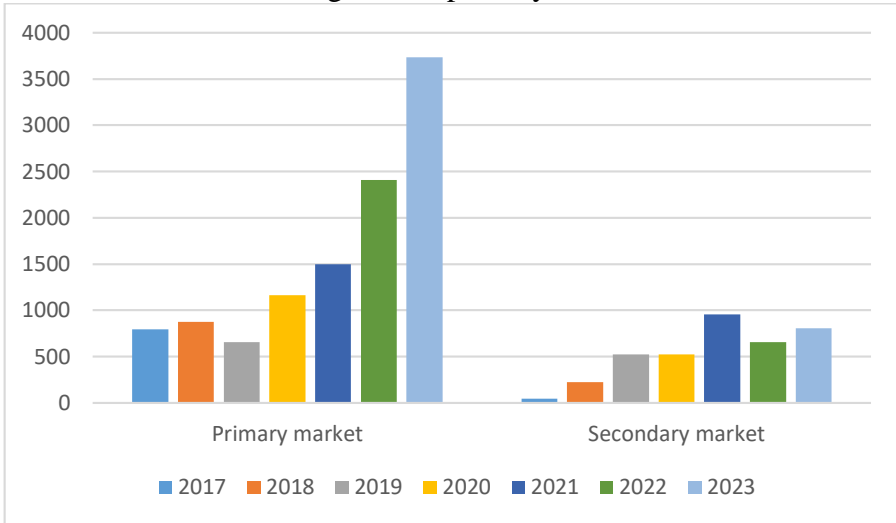


**Diagram 2. The volume of shares and bonds in the securities market**

Source: Based on information contained in the former FİMSA and CBAR compiled by the author.

However, in 2017, the notes of the Central Bank increased by 19.4 times compared to the previous year to 5,227 mln. reached manat and exceeded the volume of government bonds by 6.2 times. In 2017, the share of Central Bank notes in the state securities market was 86%, and the share of government bonds was 14. It should be noted that the volume of notes of the Central Bank increased 2.3 times in 2018 to 12,242 mln. reached manat. in 2019, their volume decreased to a certain extent and amounted to 10,597 mln. was manat. Although this indicates that the trends of increasing the volume of notes of the Central Bank will continue, the pandemic that occurred in the world in 2020 and the related economic crises did not bypass the Azerbaijani securities market, as we observe a 1.5-fold decrease in the volume of notes of the Central Bank. Since the notes of the Central Bank are mainly placed in the market, they indicate an increase in the demands of the Central Bank against these commercial banks. In 2021, we are still witnessing a decrease in investment, taking into account the economic losses of Azerbaijan as a result of the war. During 2021-2023, although there is no significant change in the secondary market,

there is a noticeable change in the primary market.



**Diagram 3. Development dynamics of the primary and secondary market of state securities**

Source: Based on information contained in the former FIMSA and CBAR compiled by the author.

### **5. The current state of mediation activity of commercial banks in the national stock market was evaluated.**

One of the types of this activity is broker activity. The main requirement put forward during the purchase of a license for the implementation of brokerage activities in our country is the necessity of the existence of rules for the accounting and reporting system for transactions with securities in a legal entity.

The features and types of services that a broker can provide to its customers depend on three points:

- restrictions imposed by the licenses of the licensee or professional participants of the securities market;
- the composition of the contract for providing brokerage services to a specific customer, where the list of specified brokerage services is recorded;
- the size of the brokerage company and its place in the market. The



bigger the brokerage company, the more potential it can offer services to its customers.

Dealer activity is the conclusion of purchase and sale agreements by the persons who carry out this activity of securities on their own behalf and at their own expense, and by resold them to investors, with the public announcement of prices for the purchase and sale of certain securities. By buying securities at a low price and selling them at a high price, dealers perform the following functions in the market:

- provides information about securities issues, their exchange rates and quality;

- customers sometimes act as agents who perform their tasks, which can be delivered through brokers (as a rule, the dealer does not contact the broker; he can order the broker); sometimes the opposite situation also arises, that is, the broker can turn to the dealer;

- following the situation in the securities market - dealers are not interested in the sharp fluctuation of the exchange rate of securities: since they take the difference between the purchase price (this is low) and the selling price (this is high), their income is always there, but if the exchange rate of securities fluctuates sharply, the purchase price may be high, and as a result, dealers lose (so it is believed that), dealers are the organizers of the securities market-if the demand for securities increases, dealers immediately start selling their paper, etc.);

- by bringing together sellers and buyers, they stimulate the development of the securities market, that is, by performing brokerage operations, they act as a catalyst in the market.

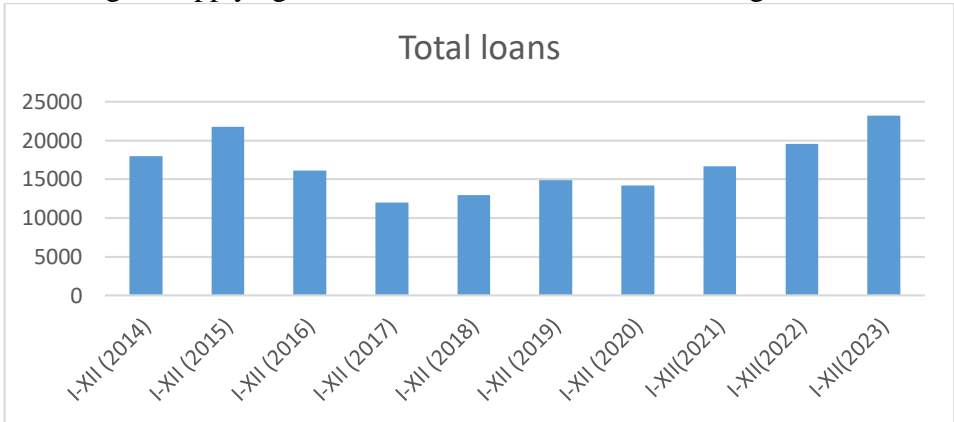
Depository activity is one of the mediation operations of banks in the securities market. This is the maintenance of securities certificates or the provision of rights accounting or transfer services to securities.

The depository organization is one of the professional participants of the stock market, and its main function is to act as a guarantor of ownership rights in securities.

In order to ensure the exchange of securities for money (in cash or in the form of credit), a single national depository system combining clearing and storage functions, as well as independent clearing and depository systems can be used.

**6. In the stock market in Azerbaijan, the characteristics of the influence of bank mediation operations on investment financing have been revealed.**

The mechanisms of investment financing and lending of commercial banks depend significantly on the characteristics of the state regulation system in the field of capital and refinancing opportunities. Banks, unlike other subjects of the economy, have even wider opportunities for obtaining and applying various forms of investment financing.



**Diagram 4. Dynamics of the volume of bank loans**

*Source: compiled by the author based on the information of the Central Bank*

From the data of Diagram 4, it can be seen that in the period after the February devaluation of 2015, the volume of bank loans in the country's economy began to decrease during 2016-2019. Securities have growth dynamics in the banking sector. So, in 2018, compared to 2017, 1,088 mln. manat i.e. increased by 43%. Even in 2020, an increase is observed compared to the general annual indicators of 2017 and 2018.

Looking at the dynamics between 2020 and 2023, although not with a sharp change, overall the dynamics are in the direction of constant growth. We can connect this with the fact that the Central Bank has lowered the discount rates in recent years, financial stability has begun to emerge, and in recent years, the state wants to subsidize loans in the field of entrepreneurship, the introduction of a preferential credit mechanism, and also with the direction of investments in restoration works in territories freed from occupation. And it should be noted that the

increasing dynamics of the volume of credit expands investment opportunities in the stock market in Azerbaijan.

**Table 1. Assets of the banking sector (mln.man)**

<b>Assets</b>	2017	2018	2019	2020	2021	2022	2023
1. Cash	1,153.0	1,363.8	1,531.5	1,532.2	1,803.2	1 957,8	1 877,0
2. Claims on CBAR, total*	2,032.2	2,332.6	2,600.7	3,071.0	7,213.9	6 327,7	6 390,3
3. Nostro accounts (correspondent accounts with other banks)	2,626.0	1,958.6	3,266.7	3,493.9	4,605.7	3 115,1	2 251,2
4. Deposits in financial institutions, including banks	7,233.5	6,484.8	5,538.2	4,155.7	1,879.3	4 998,4	4 006,6
5. Securities	2,498.5	3,586.5	3,261.3	4,335.0	4,890.1	8 337,7	7 098,0
6. Loans to financial institutions, including banks	259.5	257.6	304.8	259.7	323.5	382,9	420,2
6.1. net loans	208.6	235.2	287.7	244.7	302.7	370,9	409,6
7. Loans to customers	11,337.6	12,628.3	14,900.9	14,157.0	16,659.1	19 594,4	23 183,0
7.1. Less specific reserves against possible losses on loans	1,476.5	1,479.0	1,449.7	1,136.6	1,145.8	1 158,8	1 338,3
7.2 Net loans to customers	9,861.1	11,149.3	13,451.2	13,020.3	15,513.3	18 435,6	21 844,7
8. Fixed assets	858.5	953.3	987.4	741.4	774.8	812,6	749,3
9. Intangible assets	128.2	145.6	167.8	146.4	154.9	152,3	152,4
10. Other assets (less specific reservers)	1,321.4	1,292.7	1,630.3	1,314.7	1,324.3	2 546,8	4 399,1
<b>11. Total Assets</b>	<b>27,921.0</b>	<b>29,502.4</b>	<b>32,722.8</b>	<b>32,055.3</b>	<b>38,462,2</b>	<b>47054,9</b>	<b>49 178,2</b>

Source: Official website of the Central Bank – [www.cbar.az](http://www.cbar.az)

## Cədvəl 2. Liabilities of the banking sector (mln.man)

<b>Liabilities</b>	2017	2018	2019	2020	2021	2022	2023
1. Deposits (excluding financial institutions)	16,894.9	18,581.2	21,326.7	20,722.9	26,938.3	33 762,6	34 550,1
1.1 Individuals	7,542.5	8,269.7	8,508.0	8,044.7	9,032.4	11 483,0	12 582,2
1.1.1. term deposits	5,187.6	5,479.0	5,658.7	4,789.2	5,339.0	6 204,1	6 882,1
1.1.2. current accounts	2,354.9	2,790.7	2,849.3	3,255.4	3,693.4	5 278,9	5 700,1
1.2 Legal entities	9,352.4	10,311.5	12,818.7	12,678.3	17,605.9	22 279,6	21 967,9
1.2.1. term deposits	1,710.9	1,449.7	2,605.6	2,039.0	2,052.6	2 577,8	4 499,5
1.2.2. current accounts	7,641.5	8,861.8	10,213.1	10,639.3	15,853.3	19 701,8	17 468,4
- deposits of entrepreneurs		105.7	130.0	133.2	209.0	260,0	365,6
2. CBAR's claims to banks	507.6	384.7	326.1	374.4	319.1	217,0	47,1
3. Loro accounts	184.1	191.1	235.0	232.0	195.5	560,4	343,3
4. Deposits of financial institutions	1,515.5	1,126.2	1,205.5	1,078.2	1,071.3	1 254,2	1 533,5
5. Loans of banks	223.9	87.5	74.5	48.7	130.0	137,8	89,1
6. Loans from other financial institutions	1,891.8	2,008.3	1,991.6	2,099.0	2,380.8	2 701,1	3 077,8
7. Securities issued by banks	1,855.4	1,829.8	1,747.7	1,729.7	894.4	821,3	777,4
8. Other liabilities		1,221.8	1,232.7	1,071.1	1,563.5	1 978,5	2 696,5
9. <b>Total liabilities</b>	24,211.8	25,430.6	28,139.8	27,356.1	33,492.9	41 432,8	43 114,8

*Source: Official website of the Central Bank - - [www.cbar.az](http://www.cbar.az)*

In the stage after the 2015 devaluation period, the profitability indicators of the banking sector decreased in 2016-2018. Thus, in 2018, compared to the previous year, the net profit in the banking sector was 0.883 mln. 0.279 mln. fell to manat, that is, decreased by 3.1 times. Since this year, there has been a relative decrease in instability factors. Even progress is felt in the profitability indicators of the banking sector (see table 2.). In 2019, the net profit of the banking sector increased by 47% compared to 2018 to 0.537 mln. manat. in 2020, however, this indicator is noticeably lower. As of 2021, when we pay attention to the report on the financial situation and the profit and loss report, the liabilities that create these assets, the liabilities that create these assets, we observe an increase in the volume of capital and net profit. This, the Central Bank's

lowering of the discount rate has led to the creation of more investment opportunities for commercial banks, which in itself results in the development of the securities market.

**Table 3. Profit and loss indicators for the banking sector (mln.man)**

<b>Profit and loss items</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
1. Interest and related income	1,775.2	1,753.0	1,922.2	1,920.5	2,107.0	2 738,8	3 492,9
1.1. Interest on loans	1,282.7	1,224.5	1,421.6	1,519.5	1,708.1	2 194,4	2 573,8
2. Interest and related expense	824.9	581.9	547.9	492.5	538.4	657,8	839,4
2.1. interest on deposits	373.4	377.8	372.4	312.9	362.3	459,0	596,0
3. Net interest profit (loss)	950.3	1,171.1	1,330.3	1,368.1	1,537.5	2 040,6	2 608,7
4. Non-interest income	938.5	549.1	723.7	672.1	876.0	1 216,0	1 368,2
5. Non-interest expenses	980.6	1,025.6	1,205.0	1,236.5	1,470.7	1 885,2	2 335,7
6. Operating profit (loss)	908.2	694.6	849.0	803.7	942.8	1 371,4	1 641,2
7. Loan loss provisions	(26.5)	345.4	177.3	71.0	168.9	195,5	271,8
8. Other income (expenses)	4.1	2.5	21.3	0.6	0.7	0,1	2,7
9. Profit (loss) before taxes	938.8	351.7	693.0	733.3	774.6	1 176,0	1 384,6
10. Profit tax	55.2	72.3	156.1	165.5	165.6	261,5	308,2
11. Net profit (loss)	883.6	279.4	536.9	567.8	609.0	914,5	1 076,4

*Source: Official website of the Central Bank – [www.cbar.az](http://www.cbar.az)*

## **7. Mediation activities in the stock market of Azerbaijan and development prospects of banks' mediation operations have been determined.**

Mediation activity in the financial markets of Azerbaijan began to take shape during the years of independence. In the early days, this field of activity was formed in the conditions where there was no necessary legislative framework, the influence of the blind trends of the securities market and the transfer of the experience of other countries to the country's market.

As a result of the analysis of the normative-legal framework protecting the rights of investors in the stock market, it can be seen that it is very fragmentary and does not comprehensively ensure the rights of market participants. Also, one of the main factors in the development of mediation activity is the effect of the increase in market volume on the quantity of intermediaries. The initial increase in the market volume leads

to an increase in the number of intermediaries, which in turn leads to the strengthening of the structure of the market. One of the important points during the research of the activity of commercial banks in the securities market is the solution of the issue of separating the risks inherent in ordinary – classic – banking operations (deposit-debt and settlement) from the risks related to the participation of banks in the stock market.

In our opinion, in the current situation, where the banking system is affected by currency and financial instability factors and the problems of restructuring and increasing the stability of the banking system are aggravated, a different approach to the activity of commercial banks in the securities market is necessary.

Currently, one of the most important issues is to determine the directions of development of mediation activities, to develop tools and tools that intermediaries operating in the securities market can actually work with in order not to lose the experience, professional staff and certain formed infrastructure factors of the market in the current difficult period.

**8. Measures for improving the state regulation mechanisms of the national stock market have been developed, proposals and recommendations have been given.**

Maliyyə bazarının vasitəsilə iqtisadiyyatın müasirləşdirilməsi, ETT-in inkişafı, ölkənin elmi-tekniki potensialının artırılması, innovasiya fəaliyyətinin aktivləşdirilməsi və iqtisadi artımın təmin olunması üçün maliyyə resurslarını səfərbər etmək olar.

Through the financial market, financial resources can be mobilized to modernize the economy, develop of scientific and technical progress, increase the country's scientific and technical potential, activate innovation activities and ensure economic growth. In recent times, the waves of global financial crises have once again proven the inefficiency of the self-regulation mechanisms of the stock market in overcoming the crisis situation and eliminating its consequences. Currently, the problems of state regulation of the stock market are very urgent. After the global financial crises, a number of economists have come to the conclusion that financial markets need to be regulated in strict frameworks for the implementation of their activities.

Despite the development of the post-Soviet period for nearly 30

years, there is still no single strategy of innovation activity in the national banking system. This determines the lack of a systematic nature of innovation activities in the country's banks. We have to admit that the national innovation system does not exist in Azerbaijan.

In our opinion, in the current situation, it is necessary to form specialized banking structures (conditionally called reconstruction and development banks) engaged only in long-term lending and investment of the country's industry.

Insider trends are strong in the country's stock market. Here there are opportunities to earn good income by obtaining advance information about the activities of issuers and large investors. There are no norms in the legislation of Azerbaijan that prohibit the use of insider data and prevent these processes, on the other hand, bureaucratic obstacles during emission, barriers to access to the market to hold the positions of monopolistic subjects who concentrate certain types of activities in the market lead to the loss of efficiency in the process of preparation for the issue of securities.

Improving the regulation of the stock market should be aimed at preventing crises in advance and assessing risks, optimally coordinating with the prevention of the emergence of new risks. First of all, it is necessary to analyze and predict the dangers that create conditions for the formation of risks.

One of the main elements of the institutional system of the stock market is self-regulation organizations. In theory, they should create conditions for the efficient operation of the securities market by raising the level of regulation of market participants in interaction with state bodies.

In order to increase the efficiency of the country's stock market, it is required to improve the organizational and economic mechanisms of its regulation.

**9. Development prospects of mediation operations of commercial banks in the stock market in Azerbaijan have been determined.**

Azerbaijan's securities market is quite young compared to other countries. For the development of this field, the President of the Republic of Azerbaijan prepared a program covering the years 2012-2020. In

modern times, increasing liquidity in the securities market is one of the important issues, and for this, conditions should be created for the creation of market makers and transparent operations. In this field, the improvement of corporate management standards in banks can also pave the way for the development of the stock market.

In order to increase the credit resources of the country's banking sector and optimize the money supply in circulation, to activate the securities market in order to mobilize the population's funds and transform them into investment rates, to reduce taxes imposed on income from bank deposits and dividends obtained from securities, or a preferential tax regime, it is necessary to determine tax holidays.

AR's "Investment Funds Act" states that "an investment fund is an open-type joint-stock company that invests the funds raised through the issuance and public placement of shares in securities, as well as carries out activities on the purchase and sale of securities and has a diversified investment portfolio". However, although enough time has passed since the adoption of the law, there are currently only 2 investment funds in Azerbaijan. The need for very large financial resources for the operation of investment funds is due to the high level of concentration of private sector capital.

The most important factor in the increase in banks' investments in securities is the relatively high level of income for them, lower risk and high liquidity compared to credit operations.

The necessary conditions for the development of banking operations of banks are as follows:

- First, the presence of short and long-term tools and tools of a speculative nature in the securities market;
- Secondly, capital consumers who want to invest in the stock market and those who offer it are quite large.

### **The main content of the dissertation work is reflected in the following scientific works:**

1. "Фондовые ценные бумаги Азербайджана". Экономическая теория в XXI веке: поиск эффективных механизмов хозяйствования:



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2. “Azərbaycanda qiymətli kağızlar bazarının mövcud vəziyyəti”. Odlar Yurdu Universitetinin elmi və Pedaqoji Xəbərləri, Humanitar elmlər seriyası, №42, 2015, səh. 237-240
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