

AZERBAIJAN REPUBLIC

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ABSTRACT

of the dissertation for the degree of Doctor of Philosophy

DIRECTIONS FOR THE IMPROVEMENT OF FINANCIAL MARKETS IN THE REPUBLIC OF AZERBAIJAN

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GENERAL CHARACTERISTICS OF THE WORK

Relevance of the topic and degree of development. The development of financial markets and the existence of financial and credit institutions that operate efficiently here have been a prerequisite for the successful operation of the economy as a whole in the last 10 years. It is the financial markets that determine the conditions for the development of financial intermediation, thereby satisfying the business's need for financial resources and enabling the acceleration of the investment process.

An important feature of the modern economy of the Republic of Azerbaijan is that the money, credit, currency, fund, and insurance sectors tend to integrate and form a single national market. This is determined by the demand for various sources and financial instruments in financing the economy.

In the conditions of continuous development of the economy, the volume of operations in all sectors of the financial markets is increasing at a rapid pace. Its role as a mechanism for mobilization and redistribution of financial resources is constantly increasing. In the modern conditions of the world trend, financial products offered simultaneously in several segments of the financial markets have started to appear. So, currently, in addition to commercial banks, insurance companies, pension funds and joint financing funds act as sellers of credit derivatives, and the buyers of these instruments are commercial banks, pension funds and non-financial corporations. The characteristic features of modern financial markets are the inter-sectoral redistribution of financial risks. It determines the stability of specific segments, but at the same time, it can lead to an increase in the operational risk of the financial system as a whole.

The processes taking place in the world financial markets also influence the financial markets of Azerbaijan and determine the main directions of its development. The complexity of the processes taking place in the financial markets of Azerbaijan determines the need to increase the set of financial instruments and apply it to several segments of the market and the development of system regulation.

In addition to all this, the importance of applying foreign experience in this field is very great. It is clear that a number of countries in the world have established mega-regulators that control several segments of the financial markets at the same time.

Currently, the process of integration of financial markets in Azerbaijan and the world is intensifying. In this regard, the formation of an international financial center in the territory of our country, which has wide opportunities for companies to actively participate in the world financial markets, is of particular importance. Thus, the relevance of the topic of the dissertation research is determined by the necessity of the following:

- analysis of methodological aspects of financial market formation and activity;
- application of principles and conditions of organization of financial markets;
- determining the place and role of financial markets in the structure of the economy;
- Investigating segments and types of financial markets in Azerbaijan;
- Stages and regularity of development of financial markets in Azerbaijan, analysis and evaluation of the current situation;
- Finding out the conditions for the integration of the financial markets of Azerbaijan into the world financial markets, their compatibility and possible lack;
- making necessary recommendations on the regulation and improvement of financial markets.

Economic reforms implemented in recent times are observed with a significant increase in the global rating indicators of our country. In the Strategic Road Map for the perspective development of the national economy of the Republic of Azerbaijan, approved by the Decree of the President of the Republic of Azerbaijan dated December 6, 2016, the formation of the financial sector, including financial markets in the country, will be ensured until 2022, and in the long term, the financial sector will be prepared for competition on the world stage.

The tasks of achieving these goals can be evaluated as factors that determine the relevance of the dissertation topic.

As for the degree of development of the dissertation topic, we should note that a lot of scientific research has been carried out in the directions of the development of financial markets and its various segments in Azerbaijan. The formation of working mechanisms in the field of improving the use of financial resources in various directions has had a significant impact on this. As a result, a large number of scientific-research works on the study of emerging and developing financial markets in our republic have been created. In this direction, A.A. Alekbarov, M.M. Sadigov, M.Kh. Hasanli, Z.F. Mammadov, S.M. Mammadov, B.Kh. Atashov, M.M. Baghirov, A.Sh. Shakaraliyev, A.I. Bayramov, among the economists of Azerbaijan. In the scientific researches of D.A.Baghirov, A.M.Karimov, A.B.Abasov, R.M.Jabiyev, N.A.Novruzov and others, the modern situation and development prospects of the financial markets were studied in detail, and results of theoretical and practical importance were obtained.

The works of foreign authors provide a deep and comprehensive analysis of numerous theoretical and practical aspects of its development based on the integration of money, credit and fund sectors, which are part of financial markets. Here, researches were conducted by several prominent economists in the direction of regulation of financial markets, complex research and determination of their future development directions. A. Smith, D. Ricardo, K. Marx can be attributed to such economists. In addition, there are a number of valuable scientific-research works in the field of financial markets in the works of T.K. Blokhin, D.M. Mikhaylov, B.A. Lyalin, T.V. Vorobyov, A.A. Chaldayev, T.B. Nikitina, S.V. Yakinin and a number of other scientists in the CIS area.

However, in the studies of the country's economists, the main attention is paid only to the specificity of the financial markets, to the study of its separate segments, and to the conditions of the integration of the world financial markets. In addition, most of the research works are on the analysis of the macroeconomic conditions of the formation of financial markets, the criteria for the selection of the methodology of its development, the methods and tools of regulation, the acceleration of the integration of the Azerbaijani financial markets into the world financial markets and the improvement of financial markets. the processes of

proposal development and implementation have been neglected in a number of cases. In this regard, it is necessary to study the formation and activity of financial markets in Azerbaijan based on the principles of systematic analysis, and the economic changes taking place in the world and in our republic make it necessary to constantly study the financial markets and the real situation existing there, and to determine the directions for improvement. Such approach allows to reveal the main regularity of the development of the financial markets of Azerbaijan, to reveal the specificity of the conditions of its integration into the world financial markets, and to determine the possibility of the formation of an international financial center on the territory of Azerbaijan. All this shows that the topic of scientific research work is devoted to an actual and relatively little-studied problem in this field.

Object and subject of research. The set of financial markets of different types and levels of development, as well as economic subjects closely related to them, operating in our republic was taken as the object of the research. The subject of the research is the formation, development and improvement tendencies of financial markets, regularities, as well as the factors, methods and means that condition these processes.

Research goals and objectives. The purpose of the study is to develop the conceptual bases of its formation and development in order to improve and regulate the financial markets of the Republic of Azerbaijan in accordance with the new economic conditions and integrate them into the world financial markets. To achieve this goal, the following tasks were set and fulfilled:

- to study and practice modern methodologies of financial markets;
- to assess the conditions and principles of the organization of financial markets;
- to study the place and role of financial markets in the general structure of the economy;
- to characterize the segments and types of the financial market in Azerbaijan;
- to provide an analysis of the current state of development of financial markets;

- to determine the main goals by showing the positive and negative aspects of the integration of the Azerbaijani financial markets into the world financial markets;
- to study the international experience on regulation of financial markets;
- to reveal the main tendencies of the development of the financial markets of Azerbaijan;
- to determine the degree of influence of state securities on the securities market;
- preparing recommendations for improving the future development of financial markets.

Research methods. The methodological and theoretical bases of the research are the principles of systematic analysis and logic, the concept of market equilibrium and the rules of efficient behavior of market participants. General scientific methods were used in the research, including inductive and deductive analysis, classification and grouping, economic-statistical and comparative methods. Their consistency provided the necessary depth and universality of the research, as well as made it possible to substantiate the results scientifically.

During the research, quantitative analysis methods were used to assess the impact of government securities on the securities market. A regression model of the relationship between the mentioned indicators was built.

The theoretical basis of the research is the works of classical and modern foreign economists dedicated to the theory and practice of the formation and development of financial markets. Researches of Azerbaijani economists in the field of financial markets were widely used in the thesis work.

The following are the empirical basis of the research:

- Legislative acts of the Republic of Azerbaijan, normative documents of the Cabinet of Ministers of the Republic of Azerbaijan, the Central Bank, the Ministry of Finance, the Financial Markets Control Chamber of the Republic of Azerbaijan (abolished in November 2019), the Strategic Road Map of the Republic of Azerbaijan on the development of financial services;

- statistical and analytical materials of state authorities of the Republic of Azerbaijan, foreign states and organizations;
- publications in the periodical press of Azerbaijan and foreign countries.

The main provisions defended:

- study of the methodological aspect of financial markets activity;
- examination of the principles of organization of financial markets and evaluation of their place and role in the economic system;
- investigating the mechanism of state regulation of financial markets in Azerbaijan;
- classification of financial market segments and assessment of mutual relations between them in the context of state financial policy priorities;
- assessment of the current state of financial markets in Azerbaijan;
- study of the main regularities of the development of financial markets in Azerbaijan;
- classification of development stages of financial markets in Azerbaijan and justification of their development directions;
- evaluation of the system of measures ensuring the integration of the financial markets of Azerbaijan into the world financial markets

The scientific novelty of the research consists of the following:

- the theoretical and methodological bases of the formation and development of financial markets in Azerbaijan, the conditions and principles of organization and improvement of its activity, the place and role of financial markets in the economy were comprehensively studied;
- the economic nature of segments and types of financial markets, mutual relations between financial markets were analyzed, the priority directions of the state's financial policy were determined based on the current state of financial markets;
- the main conditions and directions of the integration of the Azerbaijani financial markets into the world financial markets have been determined. A modern infrastructure of financial markets carrying out transactions using a wide set of financial instruments used in the world experience has been created in the financial markets of Azerbaijan;

- the most important conditions for the integration of the Azerbaijani financial markets into the world financial markets were investigated and the system of measures to be used in this direction was determined;
- the current state of the financial markets was analyzed and, accordingly, its development directions were indicated in the perspective;
- the system of financial market regulation measures has been established to ensure control by the Central Bank and financial authorities;
- the level of influence of state securities on the securities market in Azerbaijan during 2019-2022 was determined;
- Scientifically based proposals and recommendations have been prepared in the direction of improving the activity of the financial markets of Azerbaijan.

Theoretical and practical significance of research. The implementation of the proposals and recommendations put forward in the thesis work can allow to significantly increase the efficiency of financial markets in the improvement and development of the market infrastructure in the country.

The obtained new scientific approaches and results can be used as educational materials in the implementation of strategic roadmaps for the development of the financial sector of our country, as well as in the training programs of economists and financial specialists.

The results and proposals developed in the research process can be used to improve the legislation on the development and regulation of financial markets in our republic.

Approval and application. The subject of the dissertation corresponded to the general direction of the research work of the Azerbaijan Cooperation University and was regularly discussed and approved in the scientific seminars of the University as a topical subject. The scientific results of the dissertation work were used in the teaching of finance and conducting scientific-research works at the Azerbaijan Cooperation University and Baku Business University, and were presented at republican and international scientific-theoretical conferences.

The main provisions and results of the dissertation work are printed 4.1 p.s. reflected in 12 articles and theses. Among the published scientific works are the classification and characteristics of financial markets (Baku, 2017), the role of financial flows in the investment of

securities (Baku, 2018), theoretical and practical aspects of the development of the financial market in Azerbaijan (Baku, 2020), the evaluation of the role of financial markets in the national economy (Baku, 2021), articles entitled " Main features of the development of financial markets of Azerbaijan" (Moscow, 2021) and published in international scientific-practical conference materials Financial markets and the role of the state in their formation (Baku, 2018), Investors in the securities market (Baku, 2018), The theses entitled "Stock market as a priority of the financial market of the Republic of Azerbaijan" (Bulgaria, 2018), "Regulation and development trends of modern Azerbaijan financial markets" (Baku, 2020) can be cited.

The name of the organization where the dissertation work was performed: Azerbaijan Cooperation University

Dissertation volume and structure. The dissertation consists of an introduction, 3 chapters, a conclusion and a 158-item bibliography. The introduction consists of 14138 characters, the first chapter has 58905 characters, the second chapter has 82274 characters, the third chapter has 34998 characters, the conclusion has 11368 characters, and the bibliography has 10697 characters. There are 8 tables and 12 pictures in the dissertation. The volume of the dissertation, excluding tables, pictures and the list of references, is 206,743 characters.

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THE MAIN CONTENT OF THE RESEARCH

In the introduction of the thesis, the relevance and level of development of the topic, the object and subject of the research, the goals and objectives, methods, the main propositions defended, scientific innovation, theoretical and practical significance, approval and application of the research results are explained.

In the first chapter of the dissertation devoted to "theoretical and methodological foundations of the activity of national financial markets", the economic content, functions, structure, role of financial markets in the economy, the formation and operation of financial markets were studied and the tools and means of state regulation were evaluated. Financial markets are a more volatile (complex) element of the modern market economy. Because, on the one hand, it has a strong influence on the changes in the obstacles created in the real sector, and on the other hand, it has a strong influence on the process of redistribution of financial resources and the change of the dynamics of the interest rate. In modern conditions, the role of financial markets in the reproduction process is growing rapidly. Diversification of relations between the real and financial sectors of the economy allows economic entities to maximize the income obtained from placing temporary free funds, attract debt funds, and reduce risks. This also ensures the overall stability of the reproduction process. However, the uncontrolled flow of capital between the financial markets of specific countries and regions, the increase in interest rate and exchange rate volatility pose a threat to the normal course of the reproduction process. In connection with this, the problem of its regulation in order to ensure the stability and liquidity of financial markets and the reduction of financial risks for investors is intensifying.

The financial market can be studied in two different ways, both as a set of financial institutions and as a set of economic relations. In the first case, the financial market includes organizations and departments, which are designed for redistribution of capital based on market principles of supply and demand. In the first approach, the financial market acts as a system of market participants who are investors and institutions that issue securities. Here, intermediaries - stock exchange and over-the-counter organizers; market infrastructure - deposits, registrars, settlement centers, etc. includes. In the second case, the financial market is viewed as a system of economic relations aimed at the formation, distribution and redistribution of capital. All markets in which capital is bought and sold, except the commodity market, are considered financial markets.

Direct or participation of financial intermediaries is important to determine the relations between financial market participants. Deposits

As a rule, modern money markets are characterized by global integration and are determined by the liquidity of the assets of this market, i.e. how easily and quickly they can be converted into cash currency.

Research shows that the most common market in practice is the stock market, which is generally the same as the stock market. The evidence in favor of this approach is that if earlier the stock market was mainly related to long-term securities, now the boundary between long-term and short-term securities is gradually being broken. The securities market is divided into national, international and regional markets. Besides, primary and secondary, organized and unorganized, money and capital markets are distinguished depending on the order of organizing the purchase and sale of securities. The classification of the securities market can be shown in the following scheme (Figure 2).

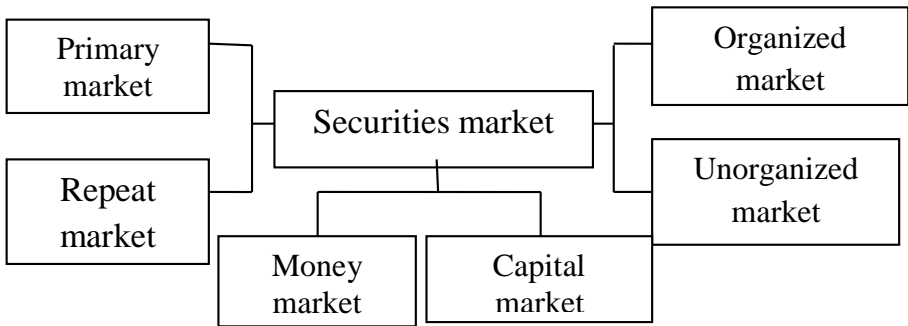


Figure 2. Types of securities market

Source: Compiled by author.

It should also be noted that when securities are issued, they enter the primary market and find their first owner there. Participants of the primary market consist of issuers and investors. The purchase and sale of securities can be carried out both without intermediaries (that is, they can be sold directly by the issuer to the investor) and with the help of an intermediary. All subsequent operations, i.e. subsequent purchase and sale of securities, are carried out on the secondary market. In the primary market, investors' funds go into the hands of issuers. In the secondary market, securities and funds are transferred from one

investor to another, where the issuer is not involved. Here securities are redeployed and securities change hands.

Financial markets include the foreign exchange market. The foreign exchange market refers to the purchase and sale of foreign currencies, payment documents in foreign currency, as well as the movement of foreign investors' capital and derivative financial instruments or stable market (forward, option, etc.) relationships.

In the foreign exchange market, the interests of investors, sellers and buyers of currency values are linked. From an organizational and technical point of view, the foreign exchange market is characterized by modern communication networks connecting national and foreign banks, brokerage companies and other financial institutions that are subjects of the foreign exchange market. The main aspect of the foreign exchange market is that it stands against each other only through writing on the correspondent account. The main thing is that the bank determines the exchange rate.

Gold market is a center where regular trading and financial activities are conducted using gold based on market prices. Such centers are a combination of large banks, precious metal exchanges, organizations specialized in gold trading, its regulation and bullion production.

Another important aspect of the financial market is the provision of financing needs of companies. The financial market is a mechanism that allows an enterprise acting as a deficit player to mobilize capital at the expense of investors (surplus player). The effort to ensure the efficient operation of financial markets requires the development of the method of its regulation, including the regulation of the activities of market participants, the procedure for the execution of agreements with financial assets, and the improvement of its degree of openness and transparency.

The main goal of financial market regulation is to protect investors' interests and create competitive capital markets. Violation of investors' rights is characteristic of the financial markets of developing countries. There are low-level legal assurance technical, supply base and regulatory authorities. The Republic of Azerbaijan also belongs to the group of developing market countries.

As a result of the successful economic policy implemented in the country, Azerbaijan has demonstrated sufficient tolerance to the global crisis, and high financial stability of the economy has been ensured thanks to the large currency reserves created.

Increasing the role of financial markets in ensuring the socio-economic development of the country depends directly on state regulation, and the main tasks facing the state in this direction may be the following:

- provision of state support for the development and improvement of the securities market;
- ensuring the security of the securities market for the free activity of professional participants and the satisfaction of customers;
- monitoring the installation of free information systems in the securities market and compliance with the principle of disclosure of information products by market participants.¹

In the second chapter of the thesis called "Evaluation of the modern state of the formation of financial markets in Azerbaijan", the current state of financial markets was analyzed, the financial mechanism of activity stimulation was characterized, its segments and types were analyzed and evaluated. The main stages of development of financial markets have been characterized, the possibilities of its development have been revealed.

The dynamic development of Azerbaijan's economy took place thanks to the economic reforms and the deepening of its integration into the world economic system. Financial markets have become a necessity as a structure that ensures the direction of both internal and external resources to economic development. Thus, in modern conditions, financial markets play an important role in providing financial resources, both at the level of macroeconomic and state structures. "Therefore, the development of the market economy is impossible without financial markets. "Financial markets are a special form and

¹ Abbasov Azim.H. Formation of financial markets in Azerbaijan and problems of financial and credit system in market economy. Baku, 2003.

method of organizing cash flows and are a set of buying and selling relations in the sphere of financial relations."²

On the other hand, financial markets have the main role of reorganizing the redistribution of financial resources in the economy. Thus, the formation, more efficient distribution and purposeful use of financial resources is regularly regulated with the help of the financial market. Financial markets are an important tool for maintaining macroeconomic balance, especially financial stability.

Despite the fact that financial markets in our country are in the stage of formation, they continue to develop. The existence of financial markets is the basis for the formation of a market economy, the implementation of the process of privatization of state property in Azerbaijan, the development of entrepreneurship, the creation of joint-stock companies, the development of debt relations, etc. related to economic processes.

The credit market, which is one of the foundations of financial markets, consists of two types: the wholesale credit market and the retail credit market. The wholesale loan market determines the interbank interest rate and is generally carried out on interbank exchanges. In our republic, the wholesale credit market is implemented through credit auctions held by the Central Bank. The retail credit market represents the relationship between creditor banks and customers and determines the retail interest rates of loans.³

Another segment of the financial market, the foreign exchange market, reflects the relations that arise in the process of changing the national currency of one country to the currency of another country.

Thus, healthy financial markets play a special role in ensuring economic efficiency and the necessary standard of living for each member of society, on the one hand, in creating investment opportunities, and on the other hand, in creating conditions for more rational planning of consumption expenses.

Banks are an institution that plays a key role in the financial system. In countries based on market laws, the banking system consists of

²Atashov Bayali. Kh. Financial markets. Textbook for higher schools, Baku, 2016. 456s, p. 21.

³Sadigov MM, Mammadov SM Finance. Textbook. Ganja, 2010.

two levels - the Central Bank and the commercial banking system. A bank is a legal entity that attracts deposits or other repayable funds, gives loans on its own behalf and at its own expense, and at the same time carries out transfer and cash settlement operations on behalf of customers, whether as a natural or a legal entity.⁴

Thus, financial markets combine small and diverse funds and turn them into powerful cash flows that are used to improve the economy.

As a result of the distribution of those cash flows among the sectors and areas of the economy, this provides opportunities to create conditions to ensure the expansion of investment. The economic progress of the country and the improvement of financial institutions, in turn, have a positive effect on the development of financial markets.

In order to fulfill the tasks defined by the Decree No. 1897 of the President of the country dated March 16, 2016, comprehensive measures related to the formation of a financial system consisting of dynamic and healthy institutions are planned and implemented in the "Strategic Roadmap for the Development of AR Financial Services". Figure 3 shows the strategic goals set for the implementation of the Strategic Roadmap.⁵

⁴AR Law "On the Central Bank of the Republic of Azerbaijan" (December 10, 2004).

⁵Strategic Roadmap for the development of AR financial services. Baku, 2016.

Strategic vision							
A financial system that is sustainable, deeply focused on risk management processes, surrounded by efficient regulation and strong infrastructure elements							
Main participants	Banks	non-bank credit institutions/financial companies	financial institutions for development	institutional investors	financial sector support services	Other participants	Taking measures to create a banking system consisting of dynamic and healthy institutions while supporting economic growth.
Financial markets	Stock market	Bond market	Commodity Market	Money market	Derivatives Market Payments		Revitalizing the financial market with the aim of creating a platform for additional liquidity and risk exchange.
Supporting infrastructure	Credit		Payments		Law		Improving the infrastructure to increase transparency and efficiency in financial services
Policies/regulator	Control framework		State initiatives and other instruments				Reviewing and updating the basic rules that define the boundaries of the financial system
Skills	financial sector skills		skills and financial literacy of producers				Improving the skills of financial services participants and the financial literacy of customers

Figure 3. Strategic goals defined for the implementation of the Strategic Roadmap in the financial field

Source: Based on information contained in the Strategic Roadmap compiled by the author.

It was emphasized above that in order for the securities market to function in a purposeful way in our country, the establishment of its developed infrastructure is extremely important. Currently, the infrastructure of the securities market is mainly formed by the Baku Stock Exchange, the National Depository Center and other experienced participants of the securities market. The indicators of the securities market in 2019-2022 are shown in table 1.

Table 1. in the Republic of Azerbaijan in 2018-2021 actual stock market performance

Market segments	Number of transactions				Amount (million man)			
	2019	2020	2021	2022	2019	2020	2021	2022
Corporate securities, including:	3277	3237	6076	4400	3,477	3356.5	2395.1	2189.7
Primary market	299	330	1277	566	2,305	1435.6	2164.4	1007.9
Repeat market	2,978	2907	4799	3834	1,172	1920.9	230.7	1181.9
Government securities, including:	2177	1737	2206	2506	11,782	8,622.9	7,287.8	8,312.8
Primary market	1,581	1161	1425	1590	10,877	7,610.5	6,188.6	7,304.0
Repeat market	596	576	781	916	905	1,012.3	1,099.3	1,008.8
Repo/counter-repo securities market, including:	618	1,322	4,284	4,112	1,123	2150.2	7196.3	5060.5
Primary market	1,880	1491	2702	2156	13,182	9,046.1	8,353.0	8,311.9
Repeat market	4,192	4,805	9,864	8,862	3,200	5,083.4	8,526.3	7,251.2

Source : Azerbaijan Republic It was compiled by the author based on the data of the Central Bank .

As can be seen from the table, in 2019, the number of transactions concluded for all transactions in the stock market was 6,072, in 2020, 6,296, in 2021, 12,566, and in 2022, 11,018 units. Compared to 2019, the number of deals in 2022 increased by 81.5%, compared to 2020 by 75%, and compared to 2021, it decreased by 12.3%. Compared to 2021, the growth in the government securities market in 2022 was 13.6%. In the compared period, we witness a 27.6% decrease in the number of corporate securities transactions, and a 29.7% decrease in repo transactions.

During the study, regression analysis was used to model the impact of government securities on the securities market.

Let's write the equation of the model using the simple linear type of regression model. The formula for simple linear regression is:

$$y = \beta_0 + \beta_1x + \varepsilon$$

In our example, government securities are the independent variable, and the securities market is the dependent variable. In this case

Let's accept the conditional data as in the table below and add it to the excell 2019 software.

Table 2.

Actual indicators of the securities market in the Republic of Azerbaijan in 2019-2022

Years	2019	2020	2021	2022
State precious papers (x)	6 days	5 days	7 days	5 days
Precious papers market (y)	37,000,000 AZN	48,000,000 AZN	21,000,000 AZN	52,000,000 AZN

Source: compiled by the author based on the data of the Central Bank of the Republic of Azerbaijan [14].

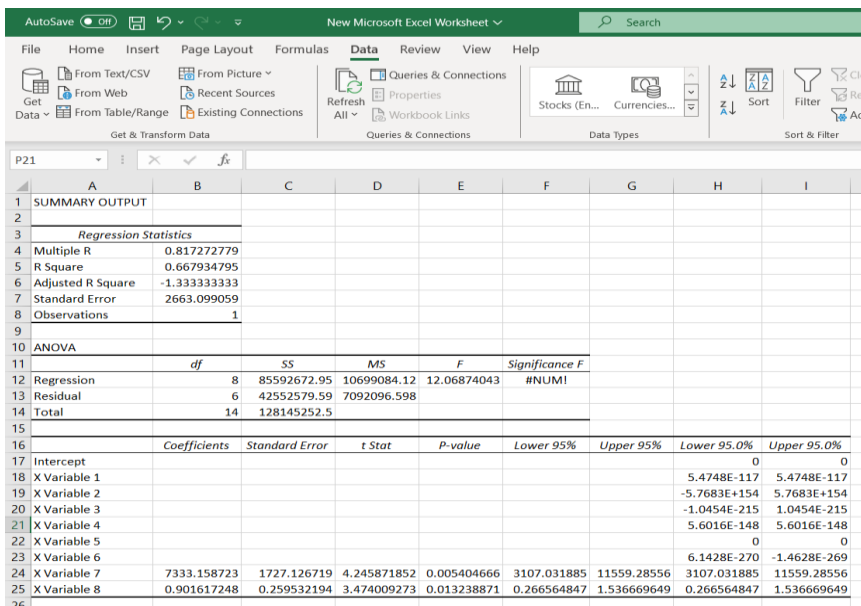


Figure 4. Summary of the regression model

Source: prepared by the author in Excel 2019 software based on the data of the Central Bank of the Republic of Azerbaijan.

In the example we looked at, the value of Multiple R is about 0.82, which, as you can see, is closer to 1. This means that the relationship between government securities and the securities market is very strong during the year under review.

The long-term vision of financial services until 2025 is to create a financial system within a stable, reliable and balanced legal framework, supported by a regulatory framework and providing a wide range of financial services to all customer groups. The task set for the period after 2025 is to form an attractive and competitive financial sector at the regional level for foreign investors.

Azerbaijan's corporate bond market has developed rapidly in recent times. Their issuers were the largest oil corporations and banks. Thus, in the formation of the financial market, its fund segment showed a structured and stable tendency to development, adequate to the stock market of developed countries.

Also, there have been positive structural changes in the credit market of Azerbaijan. The reduction of public debts has led to an increase in bank lending to the real sector of the economy. Resources concentrated in these banks have been an important source of corporate financing.

The increase in the revenues of the State budget of the Republic of Azerbaijan helped to increase the capitalization of state banks, increase their system-creating function in the banking sector of Azerbaijan, activate the process of debt capital formation and use it for crediting the real sector.

At the same time, the liberalization of the Azerbaijani financial market became an important condition for its integration into the world financial market.

The third stage of the development of the Azerbaijani financial market started in 2006 and is still ongoing. At this stage, the specified conditions have been realized and the country's economy has actually become a part of the global financial system. The goal here is to strengthen the national currency and the financial centers of Azerbaijan.

Thus, the analyzes show that the formation and development stages of the financial market in Azerbaijan reflect the global model of the formation of such markets.

Strategic Roadmap for AR financial services development. Baku, 2016.

In the third chapter of the dissertation, dedicated to "Development trends and ways of improvement of financial markets in Azerbaijan", the characteristics of modern development trends of financial markets are determined, and the integration of financial markets into the world financial markets is justified in order to increase the efficiency of the financial mechanism of sustainable and innovative development. In this chapter, proposals and recommendations on measures to improve the financial markets have been put forward.

The trend of strengthening the integration of the Azerbaijani financial markets into the world markets is manifested first of all in the process of globalization of international economic relations, and secondly, in the expansion of the country's economy and the increasing interest of Azerbaijani companies and banks in foreign economic expansion.

From the period when the Republic of Azerbaijan began to cooperate with the world's prestigious development banks and funds, as well as with various international financial and credit organizations, until 2020, 167 projects and programs were financed on behalf of the Republic of Azerbaijan or on the basis of state guarantees in areas of special significance for the social progress of our country. 203 signed credit agreements. The total amount given directly to the government by the beginning of 2020 with different international financial and credit institutions with which we cooperate is 12914.8 mln. loan agreements were signed in dollar equivalent. Based on this, 11410.1 mln. dollars (91.7%) were used. About 3091.1 mln. on used loans. principal debt in the amount of USD 9091.0 mln. in dollar equivalent, including direct foreign debt of 8320.0 mln. was equivalent to dollars.

In our opinion, the integration of the financial market of Azerbaijan into the world financial market can bring the following benefits to our country:

- in placing funds of our country's companies and banks in the world credit market;
- achieving circulation of securities of local issuers in international exchanges;
- placement of funds of non-residents in the country's credit market;
- Organizing the circulation of foreign securities in the stock market of Azerbaijan;
- In carrying out transactions with all financial instruments used in the world financial market;
- Optimizing the investment portfolio by attracting foreign financial assets by private and institutional investors of Azerbaijan.

In order to create a favorable investment environment in the countries and stimulate the financial market, measures must be applied.

The effectiveness of the applied concessions has already been recognized by most countries.

In recent decades, free economic zones have been widely used to create favorable conditions for both domestic and foreign investors. Limited territories - Free economic zones - are provided for the application of tax, currency, financial, social and customs benefits to individuals and legal entities engaged in entrepreneurial activity. Because here there is a complex system of sights that attracts foreign investors.

In the previous paragraphs, we mentioned the non-transparency of the database as one of the problems that hinders the development of financial markets in our country. Thus, the lack of transparency of the information base reduces investors' interest in the financial market. This is one of the reasons that directly slows down the development of the financial market. In the market economy, reliable and accurate information is one of the main factors. Because the more honest the information, the more sustainable profitability of enterprises and organizations can be ensured, as well as the conditions for finding reliable partners and reliable financial sources. Such data can be prepared according to modern standards using accounting and reporting system.

It is important to ensure the use of precise and clear methods for monitoring the activities of financial institutions. For this purpose, the following should be implemented:

- improving the risk management system of professional participants of financial markets;
- strengthening the role of the jury when considering disputes in the financial market and increasing the authority of judicial bodies (arbitration courts) in resolving financial disputes, including by promoting the specialization of special courts on financial legislation issues;
- optimizing the demand for financial institutions' reporting, applying standards to the public disclosure of information about their activities by professional participants of financial markets;
- paying attention to the improvement of the demand for the placement of funds, composition and structure of assets of financial institutions that even carry out investment activities in the financial market.

Thus, the future development of financial markets in Azerbaijan directly depends on the activities of many state institutions, improvement of the legislative framework, activities of legal and natural persons and many other factors.

The tasks set in the Strategic Roadmap for the development of financial services in the Republic of Azerbaijan until 2020 have been largely solved, and thus a reliable foundation has been created for the long-term development of the financial markets of Azerbaijan. As a result of this progress, we can say about the stable formation of independent, competitive real financial markets.

Summarizing what has been said, it can be shown that in order to bring the level of development of financial markets in Azerbaijan to the level of advanced countries, it will be necessary to carry out long-term and extremely extensive work.

Thus, the study of the objective laws of the formation and development of financial relations, the study of the current situation in the financial market, the assessment of risks, the investigation of the directions of their reduction, made it possible to draw a number of conclusions, put forward proposals and recommendations:

1. In modern times, the state of financial markets and the pace of development in Azerbaijan are not encouraging, although many reforms have been carried out in this area. The lack of improvement of the information base, the imperfect level of transparency, the presence of a small number of investors, insufficient financial literacy, the low level of interest of the population in this area, etc. we can give an example of the main reasons. Experience shows that if we approach the delays in the development of the general financial system and financial markets from the position of the IEP and benefit from their experience, we can overcome many problems encountered in this field.

2. In modern conditions, the role of the financial market in the reproduction process has increased significantly. Diversification of relations between the real sector of the economy and the financial sector allows economic entities to maximize income from the placement of temporary financial resources, attract debt funds and neutralize risks. Thus, the overall stability of the reproduction process is ensured.

3. The organization and development of financial markets in Azerbaijan reflects world laws. This regularity consists of the development of separate segments of financial markets by stages and their integration into a single market. The general direction of the development of the Azerbaijani model of financial markets is the coordination of fund and bank financing of the corporate sector. Therefore, the financial market model formed in Azerbaijan characterizes the specificity of the country's economy and contains elements of the Anglo-American and continental financial market.

4. With the help of the regression model, it was determined that there is a strong positive relationship between government securities and the securities market.

5. The modern trends of the development of the financial markets of Azerbaijan consist of the following:

- the increase in the number of markets expressed in the increase in the capitalization of the stock segment of the national model of the financial market, which consists of connecting bank lending and corporate financing with the placement of securities in the stock market;
- increase in bank credit, increase in currency transactions;

- As a result of favorable macroeconomic conditions in Azerbaijan and the stable activity of financial institutes, the increase in the degree of stability in the economic ups and downs of the world financial markets;

- strengthening integration into the world financial markets.

6. For the revival of the economy, the development of the banking system and financial markets of Azerbaijan, the merger of relatively small banks and small enterprises that previously operated separately in the form of joint-stock companies, and investment by issuing securities were among the most important methods applied.

7. The lack of special risk assessment organizations in our country slows down the flow of foreign investors to the country. Thus, foreign investors are not aware of the risks they may face in the country they are going to invest in, and due to the lack of special risk assessment organizations, they are unaware of the risk. The lack of special companies that can present this information to investors in our country is one of the main factors that slows down the development of the financial market. In my opinion, the establishment of such organizations, whether in the public or private sector, would be a very commendable step.

8. The presence of sufficiently high interest rates applied in commercial banks operating in the country is one of the factors that directly affect the number of investors. So, when an investor who wants to earn income applies for a loan from a bank in order to engage in investment activities, he avoids this activity due to the fact that the interest rates are quite high. This indirectly affects the number of investors. This means that this situation is not beneficial for a potential investor, and it is not beneficial for an investor applying to the bank for a loan. For this reason, it would be appropriate to significantly reduce the loan interest in commercial banks, which would benefit both individuals and legal entities, as well as the banks themselves, in terms of increasing their customers.

9. Improvement of the stock exchange, legal and organizational development of this market based on advanced international experience, expansion of trading opportunities, creation of a modern trading platform for financial instruments, registration of securities protection

rights and simplification of accounting procedures, this expansion of financial intermediation services at the regional level to access type services, creation of appropriate legislative framework for regulation and promotion of the activities of investment companies, as well as preparation of rules regulating the activity of the financial market should be carried out from time to time.

10. In order to ensure the rapid growth of financial markets, the country's economy should be open, and the regulation of the country's economic activity should be adapted to the international legal model and world practice. The process of regulating the economy and foreign trade should be formed in accordance with the country's national interests, natural and production resources, domestic needs and advantages of the international division of labor. Foreign economic relations are political, psychological, etc. should be organized not according to values, but according to the principles of economic efficiency, necessity and justice. This means that favorable conditions should be created for the implementation of appropriate forms of foreign economic relations. The country's financial institutions should actively participate in joint activities with international and regional economic organizations and institutions in accordance with the standards. Foreign economic relations should always be directed to national strategic goals, should ensure scientific and technical development, should serve the efficient use of financial resources, and ensure the country's economic security.

11. It is recommended to take measures to ensure the transparency of financial reports, which are the main database in financial markets, and to stimulate mass training in this area. Therefore, it is advisable to take into account the following:

- implementation of mechanisms that encourage economic entities to use the securities market to attract financial resources;
- development of the state and non-state system related to the compliance of investors' rights and interests by issuers;
- promoting the demand for securities by ensuring the protection of investors' rights by issuers;
- stimulating the development of financial market infrastructure, including investment funds and institutional investors;

- preparation and implementation of state programs for the purpose of educating investors, as well as increasing investment and corporate management culture.

12. The wide use of investment resources in circulation has a significant impact on the development of Azerbaijan's financial markets, increasing the competitiveness of financial markets, and it is imperative to increase investment resources in terms of volume.

Studies show that despite some difficulties, this new market structure in our country will grow faster in the future.

Over time, the conditions for the proper development of the securities market in Azerbaijan are created, the reason for this is the continuation of the privatization process, the creation of large companies, holding structures, and the formation of large joint-stock companies. This will result in further expanding the possibility of our companies to attract investment together with local and international stock markets.

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

1. Rəsulova G.R. Maliyyə bazarlarının təsnifatı və xarakterik xüsusiyyətləri. "Audit" Elmi-praktiki jurnal. Bakı, -2017, -№2, -s.42-47.
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