

REPUBLIC OF AZERBAIJAN

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ABSTRACT

of the dissertation for the degree of Doctor of Science

**LEASING DEVELOPMENT PERSPECTIVES AND
PROBLEMS IN THE MARKET OF BANK SERVICES OF
AZERBAIJAN**

Specialty: 5301.01 - Internal fiscal policy and public finance

Field of sciences: Economic sciences

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The dissertation work was performed at the "Finance and Audit" department of the Azerbaijan State University of Economics.

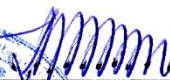
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THE WORK'S GENERAL CHARACTERISTICS

Relevance and degree of development of the topic: Significant changes have been observed in the Azerbaijani economy in recent times. The deep reforms initiated in the economy have created a favorable opportunity for the formation of a new model of development and the achievement of sustainable economic growth. In such a situation, “capital accumulation” ensuring the transition¹ from the base model “to the effective” growth model is considered the most important strategic challenge of the new era. Renewal of production capacity, increase of fixed capital, finding new forms and mechanisms of investment attraction for modernization of production, availability of sources of funding.

In the practice of advanced countries, leasing plays an important role in ensuring the interaction of both financial resources and the real and financial sectors. Leasing provides a unified integration of production investments and its sources of financing as a unique instrument, and banks with a leading role can expand credit and investment activities by using the leasing mechanism and creating new banking products, sources of funding are available.

Thus, the expansion and current nature of leasing activities is considered one of the main indicators of financial intermediation, as well as the level of economic development of the country. In Azerbaijan, in addition to being a new instrument in financing capital investments, leasing has a weak level of participation in the reproduction process. At the same time, the banking sector has limited activity in the leasing business. However, an analysis of the leasing experience of commercial banks shows the existence of a sustainable interest in leasing and the wide range of opportunities for banks in leasing operations.

However, the new economic conditions require the provision of a wide range of innovative financial services in Azerbaijan compared to the traditional banking services and products of banks. As a result, there is a great need to form new banking and financial institutions - «financial

¹ National economy and strategic road map for the main areas of the economy, Baku, 2016. p. 10

supermarket». This will ensure the diversification of banking activities and deepening of perimeters using leasing technology. In such a situation, leasing should act as a promising direction for the banking business and increase the participation of banks in financing economic activity. In this context, the study of the necessity and prospects of banks' participation in the leasing market is important.

Deepening the market of banking services and the supply of new products have great importance in the conditions of increasing demand for the modernization of the process of reproduction of the major production funds.

Leasing is widely used in the acquisition of large and capital-capacity equipment in all sectors of the economy. At the same time, leasing stimulates the sale of products with special capital capacity and provides a favorable opportunity for the buyer. At the same time, the leasing activity is widely engaged both in the manufacturing enterprise itself, as well as in individual companies and banks. In this regard, leasing also leads to the development of the banking services market as a financial instrument and the growth of the financial depth in the country.

The integration of the banking services market into the leasing business further increases and stimulates the urgency of innovative investment funds and the economic growth of the non-oil sector.

The participation of banks in the leasing market, the opportunities to influence the diversification of assets, the growth of the economy and banking assets, once again increase the relevance of research.

Although the investment climate in the country is favorable, its decline since 2014 and its lack of inclusion in the recovery process also weakens the prospects for the realization of the goals of modernization and competitiveness of the economy, Restrictions on banking and financial intermediation also increase the urgency of the problem.

In-depth study of financial intermediation and financial sustainability problems in the banking services market in order to expand financial inclusion, develop the leasing market, strengthen the capitalization and liquidity of the banking sector -, Increasing the scientific depth for the development of special mechanisms further increases the importance of research.

The urgency of the development of leasing in Azerbaijan is primarily due to the unfavorable situation of industrial and production funds. In most areas, capital erosion has reached a critical level. Thus, one-third of industrial production funds, including more than half of the processing industry, are eroded.

Currently, the leasing market is the weakest segment, with a fairly limited information and a narrow field of study. At the same time, there are significant gaps in the recognition of leasing and its practical application by both producers and banks. All this confirms that the study of the leasing services market and its economic and legal content is a topical issue. Current research is not only the first research in the conceptual study of the problem, but will also make an important contribution to bridging existing gaps.

Strategic Road Maps approved in 2016 and the State Program for the Expansion of Competitive Payments approved on September 26, 2018, respectively, financing the diversification of the economy from alternative sources and development of financial services In-depth study of problems makes the research issues even more relevant.

Different methods and approaches have been studied and applied. The study of the topic is based on in-depth fundamental and research analysis and assessments. Statistically significant results were obtained using the regression method for econometric evaluation.

Most research studies study the effectiveness of leasing, as well as its formation and development in the example of a particular economy. So:

- Some research has focused on the benefits of leasing compared to other financial instruments. External leasing practices are examined here, as well as leasing is compared with other financial instruments.
- Most research is of an applied nature and covers methodological materials on leasing operations.
- In other groups of literature, the general nature of leasing is explored, and participants in the leasing services market are monitored.

All these research works act as information base for the current research work.

It is of great interest to study the role of banking and financial institutions in both foreign and local literature in this complex mechanism, which

unites different entities of the economy.

The methodological basis of the research is the works and research of foreign and national scientists on the problems of modern application microeconomics, sectoral market theory, investment and finance.

The role of leasing in the economy, including investment financing, and the level of bank participation in this case, U.F. Sharp. Based on Bailey's work on investment and economic growth theories, the economy's demand for investment was assessed on the basis of the approaches of a number of foreign authors.

The economic-institutional-legal-financial aspects of leasing include O. Williamson, C.Robertson., C.Adams, T. Clark, and others. based on the results of research conducted by such scientists.

The impact of banks' participation in the leasing services market on their activities was used by the approaches of scientists such as Osuala and Selltiz.

There are a number of publications in the economic literature that cover various aspects of leasing activities. In the process of analyzing these problems, the author M.M. Bagirov, Z.F. Mammadov, M.M.Ahmadov, Sh.A. Abdullayev, K.P. Pashayev, V.M.Niftullayev, M. Shiraliyev, A. Tahmazova, M. Huggov, A. Hasanov, E. Ahmadov, F. Murshudlu, A. Hasanov et al. used the scientific works of national scientists and experts. In the writing of the dissertation, S. Amembal, P. Baltus, T. Isoma, L. Carter, D. Creamy-Israelin, B. Maycer, R. Pritchard, Q. Rayners, A. Herst, T. Xubenov, K. Schmitgoff, A. Stadler, V.A. Goremekin et al. The theoretical and applied work is were useful.

The scientific idea of the dissertation is related to the fact that leasing does not act only as a financing mechanism of the main funds, but at the same time it has the characteristic of a complex instrument that coordinates the activities of various spheres. Banks' participation in the leasing market is based on specific motivation, ensures the long-term nature of financial resources and forms the basis of innovative bank products and services. Such an approach to the research topic allows conducting different analyzes - banking market, leasing market, institutional-economic environment. The analyzes carried out in this

direction ensure systematicity during the research, the leasing market allows to reveal the characteristics of the forms of participation of banks, which is necessary in terms of the effectiveness of the financial-real sector relationship.

It should be noted that until now the topic of development prospects and problems of leasing in the banking services market of Azerbaijan has not been selected as a research object for the Doctor of Sciences program. In this context, the researched dissertation work is the first doctoral work in terms of researching leasing problems in the banking services market.

Object and subject of research. Banks' participation in the leasing services market is the object of the study. The subject of the research is the problems and ways of development of the leasing services market.

Goals and objectives of the study. The purpose of the study is to formulate the methodology of banks' participation in the leasing services market in the new economic conditions in Azerbaijan, as well as to identify the factors that determine its effectiveness.

In order to achieve this goal in the research process, the following tasks have been formed and implemented:

Systematization of conceptual-theoretical bases as a type of business sphere of leasing;

Study of economic-institutional, legal aspects of banks' activities in the development of the leasing market, taking into account the experience of advanced countries;

Determining the advantages of internal and external sources of financing in the formation of leasing investment potential;

- Systematic approach to the analysis of banks' participation and participation in the leasing services market;
- Investigation of leasing services as a specific form of financing in the deepening of the banking market;
- Assessment of the impact of leasing operations in banks on the GDP of the non-oil sector;
- Evaluation of the effectiveness and risks of leasing activities in banks;
- To strengthen state support for the development and efficiency of

leasing suggestions

- Development of special mechanisms for the efficient use of sources of funding for the development of financial intermediation and financial sustainability in the banking sector;
- Study of applied aspects of research .

The results of relevant scientific methodology, classical economic and financial theories were used to increase the degree of justification and reliability of the research results.

Research methods. Based on the characteristics of the analysis of research studies and systems, logical generalization, application of regression methods, econometric calculations and statistical analysis. The results of scientific meteorology, classic economic and economic theories were used as a result of the increase in the degree of substantiation and reliability of the results of the research work..

The main provisions of the defense:

1. Leasing as a banking product and a financial instrument, as a weak participation in the stimulation of separate areas of the economy, has been determined to limit the development of financial intermediation and the growth of financial depth. This is a serious challenge to the overall economic growth outlook and recovery;

2. Leasing requires a comprehensive study of economic relations, the creation of a favorable investment and entrepreneurial environment, the rational and active use of the opportunities of the leasing market, the expansion of the banking services market, and the renewal of the main funds and non-oil. will create a foundation for the rapid modernization of its fields, and ultimately for the stability of economic development.

3. Financial and operational types of leasing are distinguished, the critical difference between which is the determination of ownership rights over the asset. Leasing market in the new stage of development requires a new approach to the formation of special resource potential, thereby expanding credit and investment activities by creating new banking products, and financing sources become available. Leasing financing should be strictly coordinated on the basis of a comprehensive approach in the context of dependence on the level of development of financial markets in the country, the depth of financial intermediation, efficiency

and cost of resources.

4. The study of the potential of banks to have a leading position in the market of leasing services shows that leasing acts as a specific form of financing in the deepening of the banking market. In the process of leasing, ownership remains with the bank until the end of the lease period, the bank receives income in the form of payment for leasing, not interest on the loan. As a result, bank leasing acts as a specific method of financing technological equipment for various sectors of the economy, and as a specific form of capital investment financing for the lessee.

5. With the emergence of leasing as a source of financing, the formation of the leasing services market has undergone a great historical development. At the initial stage, leasing was a short-term lease, and later, the understanding of leasing by the society increased the demand for it. This has essentially been the main factor in the development of leasing. After leasing has become an independent sphere, the expansion of the initiative of lessors determines the formation of the market of independent leasing services;

6. There are legal, economic, political, technological and social components for regulating the financing of leasing, which is a financial instrument, but at the expense of directing free financial resources to specific areas of the economy, banks should introduce new banking products to the market in leasing financing, and revise the distribution of assets, because the activation of leasing in the market of banking services ensure the expansion of financial intermediation and credit availability;

7. Practices on creating convenient and cheap access to financial services were reviewed. According to the methodology of the World Bank, an index was calculated for each parameter characterizing the development of the financial sector during the assessment, in order to eliminate the limitation of financial inclusion, the creation of alternative financial institutions of different countries, the inclusion of large amounts of money flows outside the banking sector into the general financial system of the country, and the sources of financing to economic activity realizes the possibilities of transmission;

8. As a whole, the problems limiting the participation of banks in the market of leasing services and also the development of the leasing market

are grouped by taking into account the results obtained from the analysis and the survey. It was determined that the low availability of the leasing product for business is related to the weakness of banks' interests in the development of leasing services on the one hand, and problems arising from the structure of the economy itself on the other hand;

9. In order to assess the economic efficiency of leasing activities in banks, the impact of leasing transactions on the GDP of the non-oil sector was measured, in this context, the dependent variable was the GDP of the non-oil sector, and the main variable of interest was the amount of leasing transactions, and the results of the model established during the research were in line with the direction analyzed and found to be statistically significant, which ensures the stability of the country's economic development;

10. When assessing the riskiness of the products offered by banks in the service market, it is necessary to take into account the sensitivity of the lessee to market conditions during the currency risk, the significant impact on the sharp increase in the price of the leased object and the solvency of the lessee, so that since the leased objects are imported, reducing the risks to the necessary level, the banks in the leasing operation will allow to increase competitiveness and efficiency;

11. The development of special mechanisms for the efficient use of financing sources for the development of financial intermediation and financial stability in the banking sector is necessary for the purposes of monetary policy, important from the point of view of macroeconomic stability, these mechanisms will additionally allow to increase transactions in the interbank market, to base the term and interest structure on economic regularities provides;

12. One of the important factors for the sustainable development of the leasing services market in the country is the determination of directions for increasing state support at the initial stage. State support is necessary primarily in terms of accelerating growth in the non-oil sector of leasing, as well as forming a supermarket of financial services in the country. At the same time, this allows the transition to innovative technology, while ensuring the technological development of the areas that form the structure of the non-oil sector. This process also allows to

eliminate the disproportion in the structure of the economy. As a result, due to the multiplier effect, the demand for products in the production and infrastructure sectors increases;

13. Improvement of the infrastructure for the development of the leasing business requires the implementation of an adequate leasing policy by the banks. The modernization of leasing infrastructure supports the participation of economic sectors in leasing relations, the sustainability and effectiveness of leasing services themselves, in this case, the development of the leasing sector and the model of active participation of banks in this sector should become strategic goals. - should be consistent with the renewal of oil sector areas.

The scientific innovation of the study is that a systematic approach has been proposed to analyze the participation of banks in the leasing services market, which allows to study the complex features and specifics of banks' leasing services. At the same time, it should be noted that the results obtained are very useful in terms of leasing, investment and financial decisions of banks and investment companies, as well as regulators. In this regard, the following scientific innovations were obtained in the dissertation submitted:

Specific features of leasing, advantages, as well as difficulties in its application were revealed, and on this basis, the specific aspects of banks' participation in the leasing market were determined;

- Factors influencing the development of the leasing market in Azerbaijan were identified and justified;

- For the first time, the development prospects of leasing relations in the banking services market of Azerbaijan were determined;

- For the first time, it was justified that the expansion and nature of the leasing activity has a dual feature, such as the participation of leasing in the investment process and financial mediation, that is, in the banking services market;

- Leasing as a unique tool in the investment process, production investments and its opportunities to influence the integration of financing sources in a single framework, the transformation of free financial resources into long-term assets, the development of the banking services market and the increase of financial depth in the country were discovered;

- Weak development of financial markets, high loan interest rates, poor organization of banks with foreign capital in the economy, low competitiveness and efficiency of the banking system;

- Special mechanisms consisting of three blocks covering the directions of buying problematic assets from banks, capitalizing banks and developing the interbank market have been defined for the recovery of banks as a whole;

- In order to expand financial intermediation, including leasing activities in the banking system, the possibilities of ensuring stability and sustainability, cheapness of resources and the transfer of available resources to the economy were analyzed and evaluated;

- Based on the econometric model, the behavior of banks in the market of leasing services and its effects on the development of leasing were evaluated;

- Necessity and advantages of using leasing compared to other financing instruments have been determined;

- In the direction of strengthening the financial stability of the banking sector, basic principles have been developed and concrete targets have been defined;

- It was established that in the conditions of dependence of production and consumption markets on external shocks, leasing and leasing banks are highly sensitive to exchange rate risk, which theoretically also has a negative effect on the net present value for both parties.

- It was determined that the legislative framework for the development and regulation of leasing in the country should be adapted to international requirements, and the adoption of a new normative-legal act created the need to take purposeful measures in the direction of stimulating the possibilities of access to financial resources of leasing subjects.

- Prospects of expansion of leasing and deepening of perimeters in the banking sector of Azerbaijan were examined, in this process directions of regulation and direct support of state institutions were determined.

The theoretical and practical significance of research. The theoretical significance of the dissertation is that the development of the

leasing services market and the concept of bank participation in this market have been proposed, and methodological approaches have been developed to study the process of providing the economy with leasing services by banks. Using the concept of development of sectoral markets, the development of forms and opportunities for banks to use leasing has formed directions.

The practical significance of the research work is that the results obtained can be used in the development of a number of analytical and advisory works. In particular, during the formation of the concept of active participation of banks in the leasing services market in Azerbaijan, support was provided for the preparation of analytical materials of leasing companies in the country, as well as large commercial banks, at the ANAS Institute of Economics "The Strategic Roadmap for the Development of Small and Medium Enterprises presents proposals for the formation of proposals in the strategic goal of leasing development. References on the use of the results of research in this direction were also provided. At the same time, the researcher's approach to dissertation was used in lectures on leasing and banking services in universities. At the same time, the separate results of research can be used in the teaching of banking and investment management.

The research conducted under the dissertation was used in the implementation of the annual research plans of the National Academy of Sciences, in the preparation of conceptual documents and analysis references, as well as in the formation of strategies of various companies and banks on the use of leasing.

Approval and application. The main provisions and results of the research in the articles “Современные подходы к трактовке понятия и развития “лизинга” в Азербайджане”, “Lizinq xidmətləri bazarının inkişafı innovativ texnologiyaların sürətləndirilməsi amili kimi” and "Innovation in leasing and leasing of innovation: a meta-analysis ", international conferences held in Azerbaijan in 2015-2023, It was published in the materials of scientific-practical conferences of the Azerbaijan State University of Economics and the Chamber of Auditors of the Republic of Azerbaijan. At the same time, the author's works were published in Germany, Ukraine and Russia, as well as the research results

were published in the form of scientific articles and abstracts in republican and international scientific-practical conference materials. The author's scientific monograph on "Issues of the development of leasing in the banking services market of Azerbaijan" (Baku "Çaşıođlu" 2018 p. 297) has been elegantly published.

The research conducted within the framework of the dissertation was used in the implementation of the annual research plans of the Economics Institute of the National Academy of Sciences, in the preparation of conceptual documents and analysis references, as well as in the formation of strategies for the use of leasing by various companies and banks.

The dissertation was performed at the Azerbaijan State University of Economics.

Structure and volume of the dissertation work. The dissertation work includes an introduction (22065 characters), five chapters (Chapter I (89403 characters), Chapter II (83579 characters), Chapter III (69066 characters), Chapter IV (79978 characters), Chapter V (68938 characters), conclusion (3225 characters) and a list of 372 used literature. It consists of 416225 characters excluding figures, tables, schemes, graphs and the list of literature.

CONTENT OF THE DISSERTATION WORK

INTRODUCTION

Chapter I. THEORY-METODOLOGICAL AND ECONOMIC FUNDAMENTALS OF LEASING'S FORMATION

1.1. Location and role of leasing services in the development of banking services

1.2. Theoretical aspects of leasing as an economic category and organizational-economic characteristics

1.3. Classification of leasing services and resource capacity building mechanisms

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Chapter II. LEASING'S DIFFERENT SITUATION IN AZERBAIJCAN, FEATURES, MAIN DIRECTIONS AND METHODS OF THE ORGANIZATION

2.1. Genesis and development of leasing as a special form of financial services – retrospective review

2.2. Economic bases of leasing services in Azerbaijan, stages of development and forms of manifestation in various sectors of the economy

2.3. Economic-institutional and legal aspects of leasing development

2.4. Development of leasing relations with the participation of commercial banks

Chapter III. DEVELOPMENT PROBLEMS AND ANALYSIS OF THE MARKET OF LEASING SERVICES IN AZERBAIJCAN

3.1. Assessment of the current state of the leasing services market in Azerbaijan

3.2. Analysis of modern banking services in the Azerbaijani economy

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Chapter IV. PRICE OF LEASING OPERATIONS IN THE BANK SFERATE AND RESEARCH ISSUES OF INNOVATIONS IN LEASING

4.1. Evaluation of the economic effectiveness of leasing activities of banks

4.2. Effectiveness of leasing activities in banks and risk assessment

4.3. Evaluation of the impact of leasing on the activity of banks

4.4. Research on innovation leasing and leasing innovation

Chapter V. DEVELOPMENT PERSPECTIVES OF LEASING RELATIONS IN THE BANK SECTOR OF AZERBAIJAN – APPLIED ASPECTS OF RESEARCH

5.1. Terms and conditions of development of the financial intermediation function of banks

5.2. Increasing state support for the activation of the leasing services market

5.3 Modernization and development of banks' leasing infrastructure ideology

RESULT

LIST OF LITERATURE

ADDITIONS

REDUCTION

MAIN CLAUSES DEFENDED

1. Leasing as a banking product and a financial instrument has been determined to limit the development of financial intermediation and the growth of financial depth due to its weak participation in the stimulation of separate areas of the economy. This is a serious challenge to the prospects for economic growth and recovery as a whole.

In modern times, leasing also plays an important role as a source of investment financing in advanced countries, so leasing is the most effective and well-known tool for technical rearmament in all sectors of the economy as an important element of investment activity.

At the same time, in the practice of advanced countries, leasing plays an important role in ensuring the interaction of both financial resources and the real and financial sectors. Leasing provides a unified integration of production investments and its sources of financing as a unique instrument, and banks with a leading role can expand credit and investment activities by creating new banking products using a leasing mechanism, sources of funding are available

Thus, the expansion and nature of leasing activities is considered one of the main indicators of financial intermediation², as well as the level of economic development of the country. It should be noted that leasing has two characteristics in the investment process and financial intermediation, i.e. participation in the banking services market.

As you know, the investment process involves determining the purpose of the investment, selecting the assets to be invested, making and managing the investment, and assessing the financial capacity. The role of leasing in the investment process is that free financial resources or the financial resources involved become long-term assets. These assets are used for a long period of time, not short-term ones, in which case the right of ownership finally changes. As a result, leasing acts as an element of the source of investment financing. At the same time, leasing ensures that funds are temporarily released or raised for investment purposes.

² Fabozzi F.J. Investment Management. - M: Infra - M, 2000, 932 p. p. 83

In order to determine the place and role of leasing in the economy, including the financial services market, the activities of banks and the forms of their operations must first be considered. Investments in this process are particularly noteworthy. Because, in this case, economic activity is mainly characterized by investment. It should be noted that the classification of investments is also differentiated in different sectors of the economy, as well as because it is financed from different sources. In various economic literature, investments are calculated on the basis of exact criteria³.

Note that the leasing service is related to investment-based banking services⁴. Thus, the placement of free or attracted funds in long-term assets that have been temporarily transferred to use acts as the main content of leasing. The definition of a leasing business as a special form of financial services is discussed in the next paragraph of the current research work. As noted, leasing should be considered as a source of investment financing, along with the form of banking services. Thus, the investment in fixed assets can be financed by economic entities' own funds (profit and depreciation allocations), budget and extra-budgetary funds, bank loans, securities, as well as foreign capital execution.

Leasing is a banking service aimed at stimulating the development of individual sectors of the economy. This stimulus is carried out directly by directing free financial resources to specific sectors of the economy.

It is clear that leasing is an important element of the banking services market, along with investment financing. Taking into account these two aspects, let's define a number of features of leasing as a banking product and a financial instrument, such as the relevance of research.

³ Agafonov A.A. Features of attracting external sources of financing by small and medium-sized businesses // *Economy and Management in the 21st Century: Development Trends*. – No. 26 – 2016.

⁴ Berogatnova E. V. *LEASING MARKET OF THE RUSSIAN FEDERATION: STATE, PROSPECTS*, 2016. National Research University Higher School of Economics.

<https://dcenter.hse.ru/data/2017/01/13/1115379811/%D0%A0%D1%8B%D0%BD%D0%BE%D0%BA%20%D0%BB%D0%B8%D0%B7%D0%B8%D0%BD%D0%B3%D0%B0%20%D0%A0%D0%A4%202016.pdf>

The integrity of the financial system, including the competitiveness and efficiency of the banking system, is low. Capital and money markets are developing poorly. The lack of collective institutional investors who can make large investments has an impact on the activities of banks. The failure of the state regulation and control system of banking and financial activities to fully comply with advanced international standards is one of the tasks ahead. Transparency of the banking and financial sector is low. The difference between the volume of bank assets and the institutional and quality development of the system remains high.

Financial intermediation

Recent global research on “Development Finance” shows that there is a direct and strong link between deepening financial intermediation and economic growth in developing countries. Thus, research shows that the ratio of loans to the private sector to GDP is 10 f. b. increase in economic growth 0.2 f.b. causes growth.

The financial depth of loans relative to non-oil GDP is not acceptable.

Table 1. Financial depth (ratio of loans to non-oil GDP) in %

Year	2015	2016	2017	2018	2019	2020	2021	2022
Loan investments mln. with manats	21730,4	15938,3	11337,6	12628,3	14900,9	14157,0	16659,1	19594,4
Non-oil GDP mln. Manat	34500,9	35951,2	40012,3	41588,6	44471,8	44862,1	51122,2	61619,5
Non-oil GDP ratio of loans (in %)	63,0	44,3	28,3	30,4	33,5	31,6	32,6	31,8

Source: Developed by the author based on MB data

In 2020, the ratio of loans expressing the financial depth in banks to non-oil GDP was only 31.6% against the 60% projected in the Road Map. Deterioration of credit dynamics and portfolio quality, volatility in capital position in the sector, high credit risks and problem loans, lack of

improved collateral mechanisms, weak access to financial services are factors limiting the financial depth.

Efficiency of financial intermediation

The attractiveness of the Azerbaijani banking sector for foreign investors is not high.

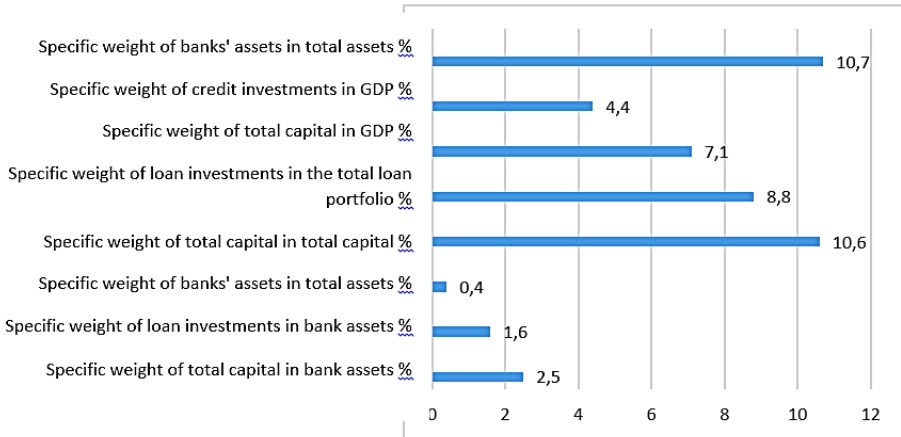


Chart 1. Main indicators of banks with 100% foreign capital

Source: Calculation by author based on MB statistical reports

Analysis of the financial results of foreign capital banks shows that the specific weight of credit investments in 2014-2020 was 30% to 21%, and the specific weight of foreign capital banks in 100% was 7.5% fell from 6.7%. While the total assets of 100% foreign-capital banks accounted for 10.7% of Azerbaijan's bank assets, the bank's capital volume was 2.5. The specific share of total capital in total capital is 10.6. Reducing regulative pressures to ensure that the banking sector is attractive to foreign investors will stimulate the process, the sustainability of banks and access to cheap credit resources. The increase in the specific weight of non-performing loans in the sector, the increase in credit risks due to the weakening solvency of borrowers, the weak development of capital markets are factors limiting investor attraction.

This was a serious call for the resumption of economic growth. All this has led to the rapid collapse and limited renewal of the main fundraiser in

the industry. Thus, according to the ConEC, 13-14% of the main production funds in the industry are renewed every year, and in some years this renewal is lower. In the processing industry, this figure is at best 6-7.

Table 2. The renewal level of the main industrial-production funds (relative to the total value), %

Indicators		2005	2010	2015	2020	2021	2022
Industry – total	Renewal	15.5	7.9	13.0	1,2	5,6	2,7
	Attrition	39.7	34.0	31.3	13,0	14,4	15,8
Processing industry	Renewal	3.4	5.5	6.1	1,1	8	4,6
	Attrition	55.7	56.9	57.1	39,7	38,9	39,9

Source: Prepared by the author based on the statistical data of the DSK

Every year in the industry, 1/3 of the main production funds are eroded, including more than half in the processing industry. All this confirms the widespread renewal of the means of production in the economy, the activation of investment activities, as well as the existence of restrictions on the renewal of fixed assets by enterprises.

There are significant gaps in the recognition of leasing and its practical application by both producers and banks. All this confirms that the study of the leasing services market and its economic and legal content is a topical issue.

2. Leasing requires a comprehensive study of economic relations, the creation of a favorable investment and entrepreneurial environment, the rational and active use of the opportunities of the leasing market, the expansion of the banking services market, and the renewal of the main funds and non-oil. will create a foundation for the rapid modernization of its fields and ultimately for the stability of economic development.

The formation of market relations, the changes in the economy of our republic in this regard, the application of the achievements of scientific and technical progress in the transformation of fixed assets, the replacement of fixed assets, as well as financial The increase in the importance of more rational use of resources makes it necessary to update the technical base of production with new methods, to create a favorable

investment and entrepreneurial environment.

International experience shows that one of such unconventional and most efficient methods is leasing. This internationally recognized investment instrument allows to attract a large amount of special resources for the development of the economy and support of entrepreneurship against the background of lack of financial resources. Leasing is a powerful impulse to stimulate production, investments and technical rearmament, and allows the enterprise to rapidly modernize its fixed assets and release high-quality, modern products without severe financial stress.

The normative-legal and methodical base of this type of activity formed in the republic is imperfect. It should be noted that extremely little work has been done on the issues of leasing in Azerbaijan, and it has been little studied in economics, and separate publications dedicated to it are not distinguished by their constructiveness. In general, almost no research has been conducted on the market of banking services in either theoretical or practical aspects, which is a significant obstacle for the full use of its potential.

Leasing as an economic term is derived from the English word "to lease", which literally translates as "renting and taking property". However, although the word "leasing" in English means rental relations, it does not essentially reflect the concept of "rent". So, due to the lack of an identical or suitable synonym, the word "leasing" is translated into the Azerbaijani language as "leasing".

Leasing is a long-term financial deal between entities. According to the terms of this transaction, the lessor buys the leased object from the seller and provides it for the temporary use of the lessee.

The effectiveness of leasing deals is manifested in the activation of the investment process, the improvement of the financial situation and business environment of the leasing enterprise. Leasing means a special form of investment; in this sense it is covered by the term "lease investment". At the request of industrial firms, financial organizations bought machines and equipment in Western countries in the middle of the 20th century and began to give them to these firms for temporary use (leasing). This is a form of investment in production.

When carrying out leasing operations, economic relations arise when the

property is made available to participants. The economic essence of leasing is that it is a complex property relationship⁵.

The results of the analysis show that the essence of the concept of "leasing" manifests itself in the economic relations between the parties in the process of the leasing transaction.

In a broad sense, the concept of "leasing" refers to complex property and financial relations related to the acquisition of property and its subsequent long-term lease.

The characteristics of leasing as an economic category are primarily manifested in property relations. It consists in the separation of the right to use property from the right to own it: if the latter is retained by the lessor, the former is transferred to the lessee, so it is determined. He pays his wages (leasing payments). In other words, the ownership right is fragmented.

Leasing is involved in all aspects of economic relations and essentially differs from credit and rental relations. This is due to the fact that leasing has a specific feature. The existing difference also allows us to identify a number of advantages of leasing compared to the mentioned categories. The main point here is that, along with ensuring the continuity of production, the possibility of using other financial instruments remains, and leasing acquires a specific character as "self-financing".

However, the development and effectiveness of leasing depends significantly on the structure and level of development of financial markets in the country. This is primarily related to the impact of financial resources on the leasing market. Therefore, the development of the capital market means a long-term source of financing for leasing.

3. Financial and operational types of leasing are distinguished, the critical difference between which is in determining the ownership right over the asset. Leasing market in the new stage of development requires a new approach to the formation of special resource potential, thereby expanding credit and investment activities by creating new banking products, and financing sources become available. Leasing financing should be strictly coordinated on the

⁵ Lapygin Yu.N., Sokolskikh E.V. Leasing. M., 2005, p. 134

basis of a comprehensive approach in the context of dependence on the level of development of financial markets in the country, the depth of financial intermediation, efficiency and cost of resources.

Although leasing is classified differently in different sources according to the study of economic literature as a whole, the classification of operational and financial leasing is generally more widespread. Such a division is classified on the basis of criteria such as the solvency of the property acquired in the lysine, the conditions of depreciation, the type of equipment to be leaked, the obligations.

Financial leasing has a different nature across countries. In our opinion, the general common classification criterion may be the transfer of property rights that occur during the performance of leasing obligations.

In the economic literature, leasing is classified according to different criteria, forms and types are defined. However, these classification symptoms do not allow to determine the deep boundary between the forms and types of leasing. For this reason, the financial and operational types of leasing are differentiated, taking into account these criteria. Financial leasing – During the operation of the leasing contract, the leasing (leasing) pays the full value of the property to the leasing (leasing). Financial leasing differs in a number of ways: three entities are involved in financial leasing: the person who prepares (seller) the leasing property, the leasing, the leasing recipient. Financial leasing is long-term.

In operational leasing – the costs incurred by the lessor on the leased property in relation to the lease are not covered by the lease payments during the term of a lease agreement.

Thus, by analyzing the existing classifications for the purpose of attributing leasing to financial or operational leasing, it can be concluded that the classification reflects not one or two, but a set of those indicators. Because such a system of indicators more accurately and completely reflects the content of leasing operations. Therefore, it would be more accurate to divide leasing operations as a whole into financial and operational leasing on economic content. Since the leasing market in countries in transition is in a new stage of development, the formation of resource potential plays an important role. Involvement of funds from

both internal and external sources is possible for the financing of leasing. However, which source has a dominant role depends on the level of development of financial markets in the country, the depth and effectiveness of financial intermediation.

Personal funds should prevail in the formation of resource potential. In practice, bank loans are rare, which is due to the high cost of resources. Structural changes in the economy and, accordingly, changes in the forms and methods of production organization provide for the establishment of a mechanism for the formation of adequate resource potential for leasing. The formation of the resource potential of leasing as a new form of business affects the development of this service segment. The decline in long-term lending by banks, especially in the context of economic transformation, and the fact that interest rates on these loans exceed the level of profitability reduce the effectiveness of sources of financing for leasing services in the context of high inflation.

In the economy, short-term bank loans predominate in the context of high risk⁶. At the same time, interest rates on these resources are significantly higher depending on the risk premium. In contrast, in most sectors of the economy, the demand for long-term loans from enterprises and consumers is greater. Because without long-term funds, enterprises cannot update the technological level and structure of production, and as a result, it is impossible to ensure the expansion of reproduction.

As is well known, the main source of investment in the economy is profit and depreciation, and as an external source, funds raised by commercial banks and other market structures. Firms prefer to mobilize investments from these sources.

4. The study of the potential of banks to have a leading position in the market of leasing services shows that leasing acts as a specific form of financing in the deepening of the banking market. In the process of leasing, ownership remains with the bank until the end of the lease period, the bank receives income in the form of payment for leasing,

⁶ Belyakova L.G. Application of correlation and regression analysis for the study of indicators of innovation and investment development of municipalities / L.G. Belyakova, O.V. Antipina // Bulletin of the Irkutsk State Technical University. - 2011. - No. 12 (59). - P. 252-256.

not interest on the loan. As a result, bank leasing acts as a specific method of financing technological equipment for various sectors of the economy, and as a specific form of capital investment financing for the lessee.

The banking services market has been explored from a sectoral market aspect, and development challenges and trends have been analyzed. Various criteria and indicators have been used to assess the potential of banks to have a leading position in the leasing services market.

In classical banking practice, banking is based on resource execution and its placement. For this reason, banks exist in both resource and sales segments of economic “markets”. As a result, the banking market has a wide economic nature, and as an economic category, its borders are not clearly divided. Thus, in modern times, banks have both seller and buyer rim in the market.

In addition to financial activity in the economy, banks also operate in the production chain, and this activity serves the continuity of the reproduction process. In order to clarify the economic mechanics of the banking services market in the economy as a whole, the market system itself and the location of banks should be considered⁷.

Research shows that the banking market should be understood as the markets for the sale of cages on this sphere. We see that such an approach has unlimited and numerous elements within the boundaries of the banking market. For this reason, there may be various criteria for clearly defining the boundary between the structural elements of the market system. Research shows that the structure of the banking market should be based on criteria such as sectoral, customer and spatial characteristics. In parallel with the geographical and market deepening of banking services, leasing services have also expanded. As leasing is a form of indirect lending, it has been attractive to banking and financial institutions. Banks currently finance the long-term use of machinery and equipment, vehicles and production tools. In the leasing process, banks

⁷ Penchukova, T.A. Development of leasing services as a factor in economic modernization / Penchukova T.A. Abstract of Cand. Sci. (Econ.) Dissertation: 08.00.05. – M., 2013. – 20 s.

do not lend directly to the enterprise to obtain the equipment, and by acquiring the equipment from the manufacturer, they lease it to the leasing. In this process, the right of ownership remains in the bank until the end of the leasing period. At the same time, the bank earns income in the form of payment for leasing, not interest on credit. For leasing, leasing acts as a specific form of capital investment financing.

During bank leasing, the right of the property owner to use it passes to the user (leasing) and is financed through a specific financing system. As a result, bank leasing acts as a specific method of financing during the acquisition of standard or unique equipment, as well as technological equipment for various sectors of the economy. The leasing fee for a leasing should not be lower than the average capital investment, otherwise the leasing person will not be able to earn income. Also, the cost of the equipment is paid in the form of leasing.

5. With the emergence of leasing as a source of financing, the formation of the leasing services market has undergone a great historical development. At the initial stage, leasing was a short-term lease, and later, the understanding of leasing by the society increased the demand for it. This has essentially been the main factor in the development of leasing. After leasing has become an independent sphere, the expansion of the initiative of lessors determines the formation of the market of independent leasing services.

The concept of the genesis of the leasing services market was studied, the modern structure of this market was studied in Azerbaijan, the degree of competition between market participants, including subjects was studied. Banks have been identified as leaders in the leasing market. External experience allows us to see the formation stages of leasing as a whole. Leasing has a long history of development, but leasing as a financial instrument originated in the United States in the twentieth century, and developed in the 1960s and infected the Western European market. Thus, this geographical expansion serves as a model for the development of leasing, which may also be interesting for the development of the future leasing market in Azerbaijan.

Leasing has undergone an important stage of development until it emerged as a category:

Chronological period	Organization of leasing	Characteristic of the stage
Before our era - the period up to the Middle Ages	The emergence of the idea of leasing	Understanding the benefits of leasing, using short-term rentals, and opting out of the financing process
The Middle Ages - the middle of the 20th century	Understanding the nature of leasing, formation of forms and methods	Communication with ETT, technological improvement, acceptance by users - (key factor of development)
The middle of the 20th century	The transformation of leasing into an independent sphere, the emergence of a modern form of leasing, the formation of the leasing services market	Rapid growth and expansion of leasing, entry into the investment process, initiative of lessors (the main development factor)

Figure 1. Organization of leasing

Source: Compiled by the author based on theoretical generalizations

Thus, the analysis of the development experience of leasing relations in different countries allows to discover a single feature that is characteristic of them. This feature is that in each specific market, the leasing business has undergone an important stage of development and various forms of leasing have emerged.

Experience shows that with the emergence of leasing as a source of funding, the formation of the leasing services market has undergone a great historical development. Initially, leasing was a short-term lease feature, and then the public's understanding of leasing increased the demand for it by users. Stimulation of investment activity has also had a positive effect on the development of leasing. In this direction, the main levers used in Western European countries were depreciation legislation and income tax.

The emergence and development of leasing in European countries shows that some leasing firms are focused on the banking and financial sector. At the same time, the producers of leasing are also acting as leasing.

6. There are legal, economic, political, technological and social

components for regulating the financing of leasing, which is a financial instrument, but at the expense of directing free financial resources to specific areas of the economy, banks should review the distribution of assets by presenting new banking products to the market in leasing financing, because the activation of leasing in the market of banking services ensure expansion of financial intermediation and credit availability.

It should be noted that development is possible in the context of the environment and tools that provide it. The development of leasing, a complex financial instrument, also requires the existence of such an environment. Only in such a situation will leasing services be useful for both leasing and leasing, as well as for the state. Experience shows that the existence of legal, economic, political, technological and social components for the establishment and development of leasing services is a key condition. Level of economic development, investment climate and level of renewal of fixed capital to study the formation and development of leasing services, emergence of new legal entities - entrepreneurs, as well as indicators of potential economic sectors such as leasing have been studied. Economic growth as a primary economic factor in the demand for leasing, as well as the economic situation in non-oil areas, can be noted.

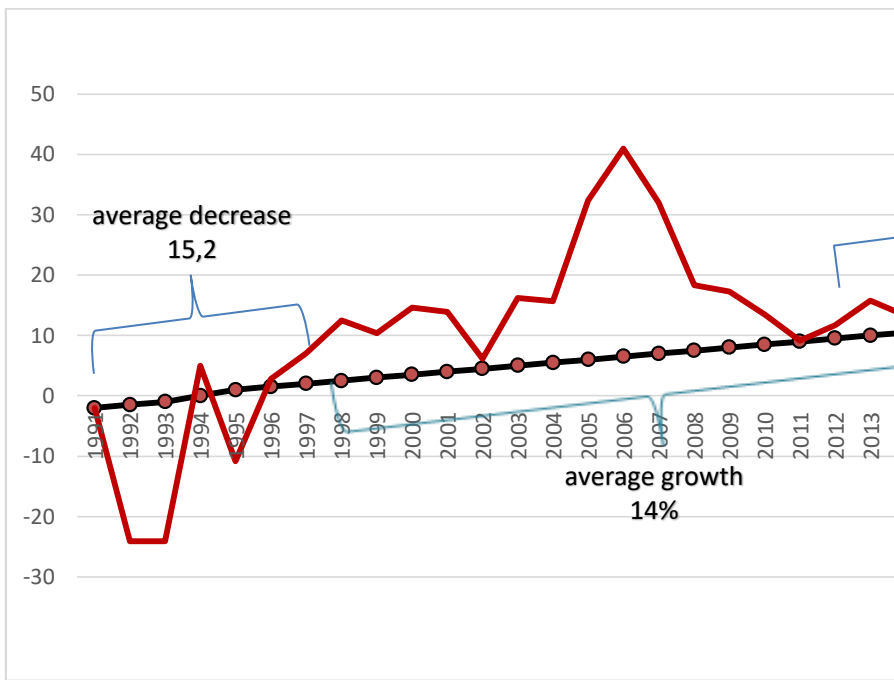


Chart 2. Gross domestic product growth rate, %

Source: Compiled by the author based on the data of the DSK

High savings are an important support for financing investments. Since the establishment of the Oil Fund, its revenues have been 125 billion \$, of which 33.4 billion \$ (26.7%) have been protected, and 92 billion \$ (73.3%) have been used for development purposes⁸. Currency reserves in 2020 amounted to 120% of GDP⁹. High savings also reduced the demand for foreign borrowing. Azerbaijan is a country with the lowest foreign debt among oil exporting countries. As of January 1, 2021, the ratio of foreign public debt to GDP is 19.0%. As of January 1, 2023, this

⁸ https://www.stat.gov.az/source/system_nat_accounts/

⁹ Zeynalov Z.H. Economic opportunities and factors limiting access to financial resources in the financial sector. Materials of the republican scientific conference in the years of Azerbaijan's economy independence. Baku: "Iqtisad University" Publishing House, 2022, p. 185

indicator was 8.5%.

Leasing offer – lending structure

Access to financial services of the country's population has expanded. As of 01.01.2023, the number of bank accounts of customers amounted to 31988.9 thousand units or an increase of 20.3%, including the number of current accounts amounted to 25769.7 thousand units or 17%. There was an increase. During this period, there was an increase of 11% in the number of bank customers.

The ratio of loans to UDM fell to 16.1% in 2017, 15.8% in 2018, 19.5% in 2020 and 14.6% in 2022, respectively.

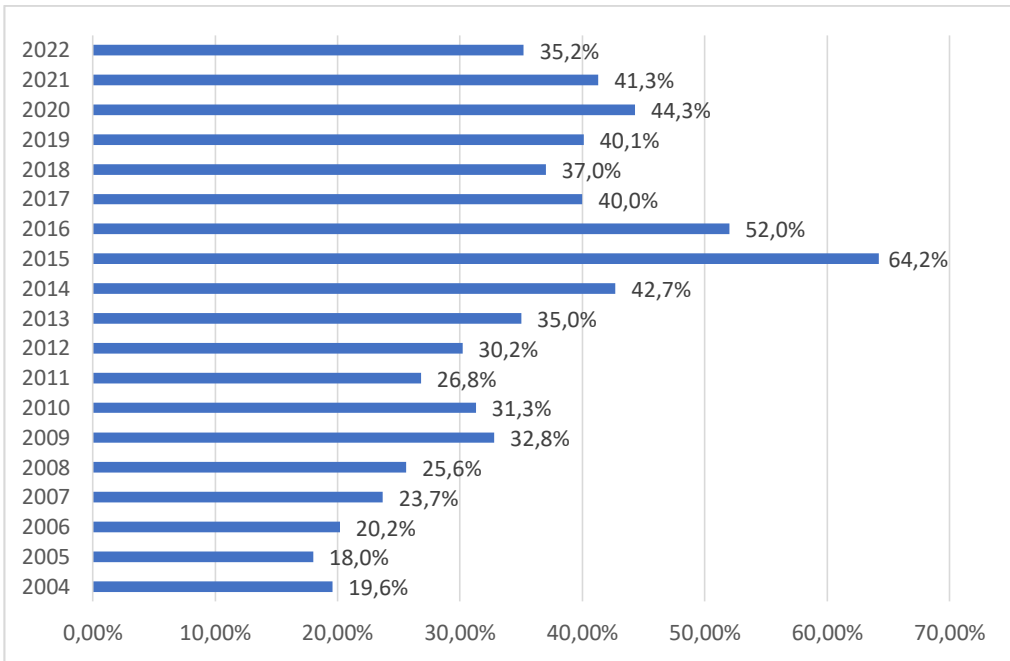


Chart 3. Ratio of bank assets to GDP (in %)

Source: calculation based on the data of DSK, MB

In 2014-2017, credit investment decreased by more than 26% in total. Macroeconomic constraints in the structure of the economy and the fact that the economy as a whole has a service-trade mediation basis show that supply of financial products is also low. At the same time, although there are vast potential opportunities for the development of the banking sector

in Azerbaijan, these opportunities are not widely used.

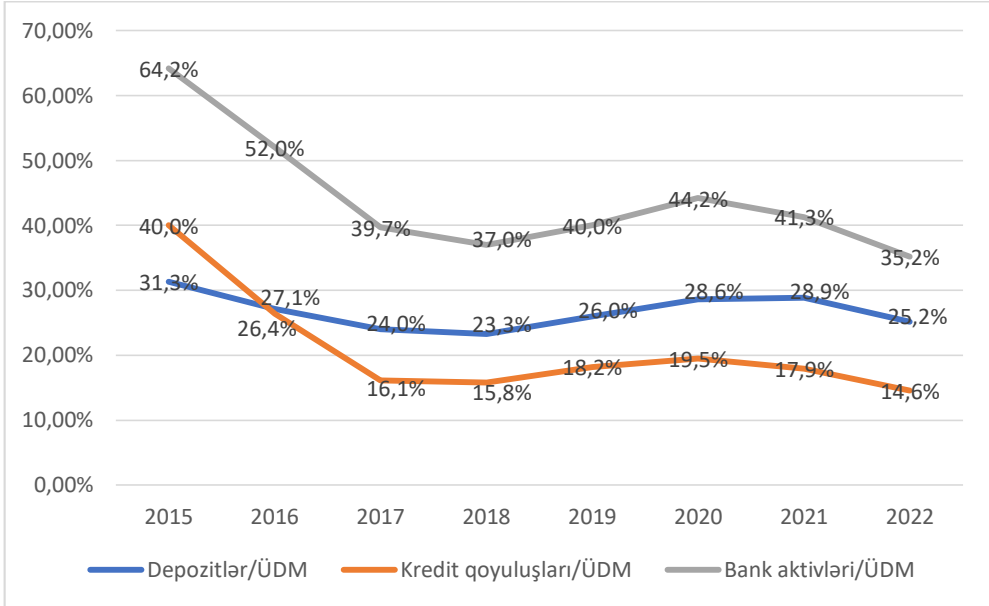


Chart 4. Ratio of main bank indicators to GDP in %

Source: Calculation by author based on data from DSK, MB

Although the idea of leasing has been formed in the Azerbaijani market since 1997, it began to develop after 2006. However, the state's leading role in the economy and the superior development of services have been key factors limiting the leasing market.

7. Experiences in creating convenient and affordable access to financial services were reviewed. Based on the World Bank methodology, an index was calculated for each parameter characterizing the development of the financial sector during the assessment, which would enable the creation of alternative financial institutions in various countries to eliminate factors limiting financial inclusion, the inclusion of large amounts of money flows outside the banking sector into the country's general financial system, and the transfer of financing sources to economic activity.

This section examines the key factors that limit the access of the

population and entrepreneurs to financial services, and examines experiences in creating more convenient and inexpensive access to financial services. The assessment used indicators such as financial depth, financial stability, efficiency and access to financial services that characterize the development of the financial sector. Each of the four parameters characterizes various aspects of the financial sector, The index for each of these parameters was calculated and compared with other countries. One of the main factors for the revival and development of the non-oil sector in Azerbaijan is the existence of a sustainable and efficient banking system.

An average of 11% of fixed capital investments in the country in the last 5 years have been made through bank loans. These indicators show that the population has limited access to bank funds. On the one hand, limited access to financial resources leads to the deprivation of sufficient funds in the economy of the banking sector, on the other hand, it does not allow the non-oil sector to revive.

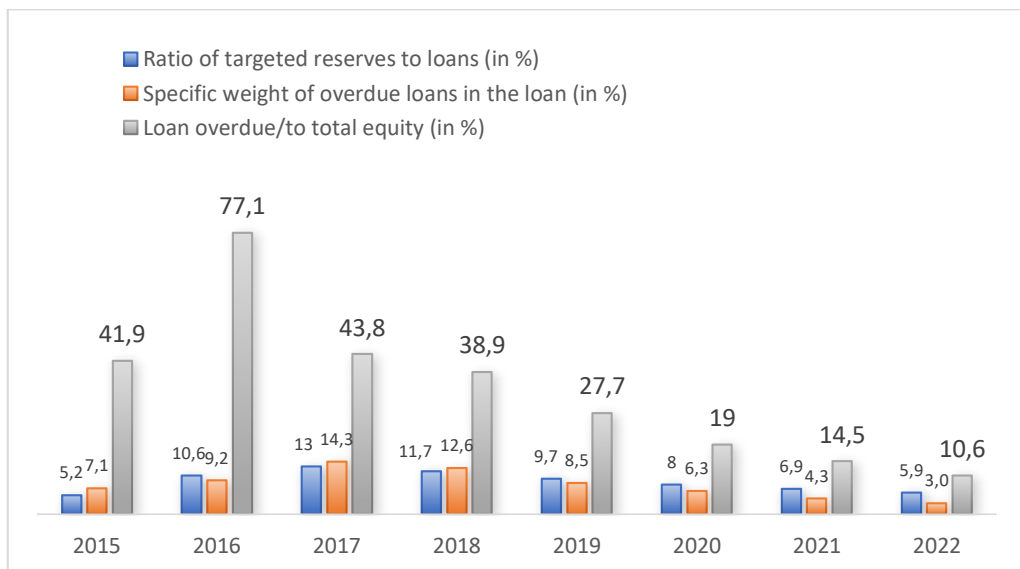


Chart 5. Ratio of overdue loan, total capital and special reserves to loan (in %)

Source: Calculation based on statistical data of MB

One of the main problems of the banking sector is the creation of alternative financial institutions in various countries in order to eliminate restrictions on financial inclusion among the population. Such organizations, by ensuring access to financial services for the population, will enable the inclusion of large volumes of money flows remaining outside the banking sector into the general financial system of the country and the provision of cheaper loans to the real sector.

The high weight of problem loans and targeted reserves in the banking sector leads to an increase in bank costs, a decrease in profitability, a weakening and bankruptcy of capital position and stability.

Commercial banks do not provide financial services without opening branches in the regions, as well as require large-scale collateral in exchange for loans (especially for small and medium-sized businesses) in both the regions and the capital, Large-scale commissions severely restrict access to financial resources for entrepreneurs and the public.

In general, access to financial services has a positive effect on economic growth when it is moderate, and in other cases it has a negative impact. Adverse effects may vary over periods. Thus, the application of information technology to banking services may reduce the demand for bank branches (a variable used as financial access). At the same time, the rapid increase in the number of bank branches can lead to a decrease in the profitability and efficiency of banks.

The fact that the financial sector is too small and too large limits economic growth. The average size of the financial sector (financial depth 60-90%) can be considered optimal for economic growth. For this reason, it can support economic growth in Azerbaijan after the financial depth and output have increased by about 2-3 times.

8. As a whole, the problems limiting the participation of banks in the market of leasing services and also the development of the leasing market are grouped by taking into account the results obtained from the analysis and the survey. It was determined that the low availability of the leasing product for business is related to the weak interest of banks in the development of leasing services on the one hand, and problems arising from the structure of the economy itself

on the other hand.

Factors influencing banks' performance in the leasing services market are grouped as follows.

Constant factors	Basic factors	Temporary factors
<ul style="list-style-type: none">•specialization•financial requirements to the lessee•frequency of lease payments	<ul style="list-style-type: none">•sphere of activity•founder type	<ul style="list-style-type: none">•area of activity of lessees•type of leasing services•leasing terms

Figure 2. Factors affecting the activity of banks in the market of leasing services

Source: prepared based on survey data

It has been established that the leasing companies established by banks are characterized not by a wide range of businesses, but mainly by narrow specialization. At the same time, at best, medium-term leasing agreements prevailed. Financial demand for leasing can be considered a key feature of all leasing. These factors should be considered as key factors influencing banks' entry into the leasing services market.

In general, the problems limiting the participation of banks in the leasing services market, as well as the development of the leasing market, are grouped as follows, taking into account the analysis conducted, as well as the results obtained from the survey:

The first block problems: low access to leasing products for business, this is due to the weakness of banks' interests in the development of leasing services, on the one hand, and the problems arising from the structure of the economy itself, on the other. Currency risk for leasing has also recently increased its importance, and the labor-intensive and high-cost process for leasing remains.

The second block problems are: the weak institutional support for the development of the leasing market, the lack of weak performance, services and security services of companies selling or producing leasing property.

Third block problems: Lack of leasing legislation and regulatory bodies and procedures.

The fourth block problems are: low financial literacy of lessees, lack of qualified staff and limited customer support of lessees.

9. In order to evaluate the economic efficiency of leasing activities in banks, the impact of leasing transactions on the GDP of the non-oil sector was measured, in this context, the dependent variable was the GDP of the non-oil sector, and the main variable of interest was the amount of leasing transactions, and the results of the model established during the research were in line with the direction analyzed and found to be statistically significant, which ensures the stability of the country's economic development.

In order to assess the economic efficiency of leasing activities in banks, the impact of leasing operations on the GDP of the non-oil sector was measured. In this context, the amounts of leasing operations are taken from the main interest variable in the GDP of the non-oil sector, which varies depending on. However, when assessing production functions in the economy as a whole, key production factors should also be included in the model. In this regard, we also used changes in capital reserves, labor, government spending, world market price of oil, the degree of openness of the Azerbaijani economy. It may be useful to conduct some initial statistical analysis of the variables prior to the evaluation of the model. It is known that the observation period for the variables of the model covers the range 2007Q1-2020Q3. This means that all variables have a time frame. It is known that during the econometric evaluation using time rows, the stationary analysis of the variables should be performed first.

Table 3. Results of the unit-root test

Variables	With a fixed limit		Fixed and trending	
	Level	Difference	Level	Difference
RNGDP_SA	-0.98	-7.26*	-2.99	-7.18*
RCAPSTOCK	-0.58	-6.07*	-2.61	-6.03*
LABOR	0.38	-6.62*	-2.20	-6.72*
GOV_EXP_SA	-1.41	-11.57*	-2.80	-11.46*
OPENNESS	-4.80*	-7.80*	-4.74*	-7.93*
OILPRICE	-1.92	-6.30*	-2.55	-6.31*
LIZING	-2.26	-7.40*	-2.13	-7.40*

*Note: RNGDP real GDP of non-oil sector, RCAPSTOCK real capital reserves, LABOR economy workforce, GOV_EXP state budget expenditures, OPENNESS country transparency rate, The OILPRICE brand represents the dollar price of a barrel of oil (Crude Oil (petroleum), Dated Brent, light blend 38 API, fob U.K., US\$ per barrel), a variable in LIZING leasing operations. SA, written at the end of the variables, shows that they are cleared of seasonal factors. The Augmented Dickey-Fuller test was performed in the Eviews program. *, **, *** represents 1%, 5% and 10% significance levels, respectively.*

Source: The table is based on the results obtained by the author from the Eviews program. Thus, it was determined that the level values of the model variables are non-stationary. Therefore, it will not be possible to use their level prices in the analysis of long-term relationships. In this case, co-integration analysis is usually used to analyze long-term relationships. They have created an appropriate test¹⁰ for the implementation of this analysis¹¹. However, it is known that the observation period of the variables covers the range 2007Q1-2020Q3. The ARDL technique (and the close Bound Test) for conducting a co-integration analysis among economic variables at such short intervals is more appropriate in the tomb (Pesaran and Shin, 1999; Pesaran et al., 2001). The mathematical image of the ARDL model is written as follows.

$$d\ln(Y_t) = \beta_0 + A(L)d\ln(Y_t) + B(L)d\ln(X_t) + \varphi_1 \ln(Y_{t-1}) + \varphi_2 \ln(X_{t-1}) + \varepsilon_t$$

Here, Y non-oil GDP, matrix of relevant coefficients A and B, L delay

¹⁰ Johansen-Juselious (1990)

¹¹Johansen (1991)

(lag) operator, matrix of X explanatory variables (including leasing), d difference operator, β_0 , The corresponding coefficients ϕ_1 and ϕ_2 represent the ε error vector.

The variant of the ARDL model, given the EC (error detection) limit, is used to check both long-term and short-term cause-and-effect relationships between economic variables. Thus¹², they have shown that if the EC (error detection) limit is statistically reliable at the given level of significance and its coefficient has a negative sign, then it can be said that there is a long-term causal relationship directed to the variable depending on the independent variables.

Choosing the best model

The optimal delay length, which plays an important role in the selection of the best model, was determined using the AIC (Akaike Information Criterion) parameter using the Eviews 9 statistical program¹³. Thus, the selection of the best test model was automatically performed to characterize the effect of leasing on non-oil economic growth, and the ARDL test equations, the smallest of the AIC criteria, were found.

Note that the ARDL test model evaluated in must have a number of important features. Thus, the remnants of this model should be homoscedastic, they should not have a serial correlation problem, should be stable and should be distributed normally. Thus, it has been established that there is a long-term causal link between all explanatory variables, including the leasing variable, that is, non-oil GDP, which is an indicator of economic development.

In order to assess the economic efficiency of leasing activities in banks, it is necessary to measure the impact of leasing operations on the GDP of the non-oil sector. Thus, it was examined that from the point of view of long-term relations, a one percent increase in leasing operations in the banking sector of Azerbaijan during the observation period covering 2007-2020 led to a 0.08 percent increase in non-oil GDP.

¹² Granger et al. (1998)

¹³ Akaike, 1973

10. When assessing the riskiness of the products offered by banks in the service market, it is necessary to take into account the sensitivity of the lessee to market conditions during the currency risk, the significant impact on the sharp increase in the price of the leased object and the solvency of the lessee, so that since the leased objects are imported, reducing the risks to the necessary level, the banks in the leasing operation will allow to increase competitiveness and efficiency.

Leasing is one of the alternative medium and long-term financing instruments.

Leasing as an alternative form of lending, on the one hand, the leased object is exclusively used by the lessee, and on the other hand, the object remains the property of the lessor during the entire lease contract. Under such conditions, the lessee uses the guarantee provided by the equipment, machinery and mechanism manufacturer. At the same time, the leasing object must also insure against risks in accordance with the interests of the lessor. Effective operation of banks in the market of leasing services requires determining the effectiveness of leasing and bank loans for economic subjects. For this purpose, first of all, the advantages of banking and leasing were compared for both the bank and the economic subject.

Through the proposed imitation model, banks' credit and leasing activities were compared, and the risks that banks may face during leasing activities were assessed. The scientific novelty of this approach is that: a) the role of credit and leasing in the financing of the leasing object has been compared, and the effectiveness of leasing has been assessed on the basis of quantitative results; b) the risks that may arise during the leasing activities of banks have been analyzed on a factorial basis; v) leasing has been compared and found to be effective in terms of the position of both the user and the leasing.

The results show that when using leasing, the net value of the leasing object is less than the loan, which means that the user spends less. The leasing benefit from the net present value.

Calculations show that the net value on leasing payments $(L = E_0 + (1 - K_n)L_0 \frac{1 - \frac{1}{(1+r)^n}}{r} = 0 + (1 - 0.25) * 150 * \frac{1 - \frac{1}{(1+0.12)^4}}{0.12} = 270$

thousands manat) from the net value on the loan ($S = 0 + (120 - 0.4 * 120) \frac{1 - \frac{1}{(1+0.12)^4}}{0.12} + (1 - 0.4) * \left(\frac{57.6}{1.12} + \frac{43.2}{1.12^2} + \frac{28.8}{1.12^3} + \frac{14.4}{1.12^4} \right) - 0 = 288$ thousands manat) as an economic entity. Although economic agents have the demand and interest in leasing in such conditions, the poor presentation of this type of service by banks leads to the limited development of the leasing service market. However, the result of the calculation does not mean that leasing is more useful or attractive than credit. Otherwise, economic entities would prefer leasing to credit to expand the reproduction process.

The country's experience shows that because leasing objects are of an import nature, changes in exchange rates are an important factor in both the formation of other risks and the reduction of the leasing transaction itself.

Given these risks, the determination of risk-free value for banks is important in terms of insurance against potential losses. Thus, the risk-affected value – is the calculation of potential losses during the period when selected, with the specified probability, by indicating the currency¹⁴.

Time period, probability level and asset amount are important components in the calculation of the risk value.

Once we find the values for each period, we can calculate the risk-exposure value (VaR) using the following formula¹⁵:

$$VaR = V_i \cdot \sigma_i \cdot \alpha;$$

The amount in the currency is calculated by the daily VaR – risk value formula with a probability of 99% after determining the probability level coefficient and variability¹⁶:

$$V = 2000 * 0.145\% * 2.326 = 6.7454 \text{ AZN}$$

If, as a result of calculations, 2,000 manat assets at a probability level of

14 http://www.blackwellpublishing.com/content/BPL/Images/Content_store/Sample_chapter/0631227091/Allen_C01.pdf

15 A. Lobanova, A. Chugunova, M. Alpina, Encyclopedia of Financial Risk Management Business Books, 2005

16 Hakan Şakar, Asset-Liability Management in Banks in terms of risk management, Istanbul 2002 Dr. K. Evren Bolgün, M. Barış Akçay, Risk management, Scala publishing, Istanbul 2005

99% are exposed to one-day risk

11. The development of special mechanisms for the efficient use of financing sources for the development of financial intermediation and financial stability in the banking sector is necessary for the purposes of monetary policy, important from the point of view of macroeconomic stability, these mechanisms will additionally allow to increase transactions in the interbank market, to base the term and interest structure on economic regularities provides.

This section provides suggestions for improving the mechanisms and methods of leasing lending to banks based on a specific example, as well as improving the management of banking risks in leasing operations.

The low level of financial depth and the weak development of financial intermediation reduce the population's access to the financial system, creating deprivations for the prospect of economic growth as a whole. The analysis shows that the financial potential of banks (capitalization opportunities of shareholders, bank profitability, limited credit activity, etc.) and the lack of support programs do not allow to solve these problems in the short term.

For this reason, the development of the mediation function, including leasing, and thus increasing the role of banks in economic growth requires, first of all, the restoration of financial stability in the sector. The architecture of financial sustainability in the banking sector (5 basic principles for strengthening financial sustainability) is proposed. It is proposed to use special mechanisms to clean up troubled assets and restore capital position. Mechanisms protect the macro-stable framework and do not allow public spending. Funding for this mechanism can be financed by the state budget, special funds and the Central Bank. The proposed mechanism can be marked in the form of a block as follows.

The first block provides for the temporary acquisition of troubled assets from banks. Taking into account the existing experience in this direction, the use of interest-free debt papers may play an important role. Thus, the existing problematic assets of the banking system are bought at face value. Their value can be paid by issued interest-free debt. Debt securities can be issued in the medium and long term (for example, for 5 years or more). At the end of this period, the securities can be sold back by banks. As a

result, the balance of banks is cleared and their capital position is improving. Problematic assets can remain in the control of the bank as a whole. During this period, banks have a favorable opportunity to create reserves. Thus, banks are restoring their financial intermediation function, their credit portfolios are being restructured, and financial pressure on borrowers is significantly softened.

The second block covers the capitalization of banks. Given the experience, it is considered expedient for the state to provide capital support to banks. The intended capital support is provided in the form of a preferred share or subordination, in which case shareholders are provided with a certain proportion of capitalization. At the end of the term, the debt capital is repaid. However, capital support provided to banks should not have an emission effect. To do this, banks should invest their funds only in government securities. These papers can be used in repo transactions in the interbank market. In this case, the development of interbank money markets is also supported. It is considered expedient to establish a special Health Fund for the purpose of capitalization and acquisition of troubled assets.

Poor management of bank liquidity also leads to a decrease in the efficiency of the monetary sphere and, as a result, the realization of a macroeconomic stability that differs from expectations. For this reason, the development of the interbank market, which is the third block for effective liquidity management, is a necessary condition. Currently, the volume of the interbank market in our country is limited

Overall, research shows that the appetite for activity and risk in the credit market remains low. The banking sector has stricter requirements for borrowers in order to make more flexible customer choices. This has a reducing effect on customers' new loan applications, ie the demand for credit is declining. Such conditions may create expectations for increased liquidity risk in the banking sector in the future.

12. One of the important factors for the sustainable development of the leasing services market in the country is the determination of directions for increasing state support at the initial stage. State support is necessary primarily in terms of accelerating growth in the non-oil sector of leasing, as well as forming a supermarket of financial

services in the country. At the same time, this allows the transition to innovative technology, while ensuring the technological development of the areas that form the structure of the non-oil sector. This process also allows to eliminate the disproportion in the structure of the economy. As a result, due to the multiplier effect, the demand for products in the production and infrastructure sectors increases.

Suggestions were made for the development and efficiency of leasing, and for strengthening state support.

In general, the limited use of leasing services, as well as its specifics, are evident in the leasing operations carried out by the bank. Although weak in Azerbaijan, the experience of banks in leasing operations has been formed, but not all banks or the proposed terms of leasing are effective for leasing. At the same time, as a result, the share of product innovations in the structure of production itself is increasing. As you know, product innovation involves the creation of a new type of product¹⁷. This makes it necessary to apply new technologies in production. However, the limited use of leasing does not lead to the creation of a new type of product, but to the creation of disposable and non-productive product forms. This is confirmed by the decrease in the share of process innovations.

This process also shows the volume of innovation products produced. Thus, the average annual volume of newly introduced products in 2007-2020 is not more than 19 million manat.

Analysis conducted in previous sections of the study shows that one of the important factors for the development of leasing in the country is the provision of state support at an early stage. State support should create an initial environment for the sustainable development of the leasing services market. Public support is primarily necessary in terms of accelerating the growth of leasing in the non-oil sector, as well as the formation of a supermarket of financial services in the country. Especially in times of crisis, the leasing instrument has the potential to affect the demand for investment in the economy. The increase in the volume and mass of leasing operations in the areas that shape the structure of the non-oil sector

¹⁷ Tsyganov A. M. Innovative leasing. M.: MGIMO-University, 2013. 198 s.

(production industry, metallurgy, transport) not only ensures the technological development of these areas, but also allows the transition to innovative technology. This process also allows the elimination of disproportion in the structure of the economy.

At the same time, increasing the technological level of the non-oil sector through leasing allows small and medium enterprises to increase the supply of new and varied products. Compared to other financing mechanisms, the predominance of leasing in fixed capital investment or the provision of access to it increases the demand for means of production. As a result, the demand for products in the fields of production and infrastructure is increasing due to the multiplicative effect.

Intensification of the leasing services market can have both direct and indirect effects on economic growth. The increase in the share of the directly effective non-oil sector in tax revenues, and the indirect effect is an increase in the competitiveness of products and services, resulting in diversification of exports in the country as a whole and support for the non-export sector.

In the context of structural recession in the economy, there is excess liquidity in the banking sector. Banks are reluctant to engage in active lending. Continuing to narrow the loan portfolio also poses serious risks to banks' financial stability. Banks are losing the opportunity to generate income and "generate" capital.

Taking into account the development practices of leasing, the state's support for banks' leasing activities can be implemented in two directions, directly and indirectly. During direct support, the state can ensure the participation of leasing in priority areas, the implementation of joint projects, as well as the development of a program to support technological innovations in the banking sector. In essence, this is the administrative and purposeful regulation of the leasing activities of banks by the state.

Indirect government support for banks' leasing activities should include, on the one hand, the revitalization of the leasing market and, on the other hand, the creation of a favorable environment for the transition to an innovation-based economy. The content, structure and forms of state support for leasing may vary, taking into account country practices. This includes tax breaks, privileges for banks that provide loans for leasing,

etc. In general, state support for banks' leasing activities should include improving the legal framework, financial and credit and stimulus forms.

Thus, for the development of leasing activity, its legislative framework should be revised and adapted to international requirements, the formation of the legislative and regulatory framework should be completed, and special privileges should be given to leasing subjects to stimulate their financial access.

13. The improvement of the infrastructure for the development of the leasing business requires the implementation of an adequate leasing policy by the banks. The modernization of leasing infrastructure supports the participation of economic sectors in leasing relations, the sustainability and effectiveness of leasing services themselves, in this case, the development of the leasing sector and the model of active participation of banks in this sector should become strategic goals. - should be consistent with the renewal of oil sector areas.

Based on the results of the previous sections, the issues raised are devoted to studying the applied aspects of the research. At the same time, the model of active participation of banks in the leasing market is given.

Stabilizing the banking system and improving the regulatory environment of the leasing services market, applying the necessary incentives in this direction creates a basis for the formation of the leasing infrastructure of banks. The activation of the leasing activity of banks can be characterized by the creation of such an institutional environment in a phased manner, as a result of which a diversified, stable leasing services market is created. This also ensures the modernization of the leasing market itself. Leasing activities of banks, forming the necessary infrastructure, serve the following two purposes:

- Creation and coordination of universal mechanisms in the sphere of leasing sector and banking activity;
- Using the competitive advantages of banks for the development of the leasing market.

A balanced solution of the mentioned issues creates incentives for the development of leasing activities of banks. In particular, the universalization of leasing activities strengthens the desire of banks to

enter this segment, and strengthens the connection between the real and financial sectors. At the same time, the quality of leasing services improves and the efficiency of banks increases.

The formation of the leasing infrastructure ensures not only the development of the current direction of banking activity, but also the modernization of non-oil sectors. In this regard, the improvement of the existing leasing infrastructure should be based on the following principles:

- Parallel implementation of institutional transformation in banking, real sector and leasing sectors. This principle allows for simultaneous harmonization of related areas;
- In order to increase the effectiveness of the banks' leasing activities, as in foreign practice, ensuring the interaction of tripartite subjects such as banks, leasing companies and manufacturers. At this time, various mechanisms can be used, which leads to the effective functioning of the mentioned "trio";
- By monitoring the leasing services and applying special standards, the efficiency of the banks' leasing activity is increased and the possibilities of choosing the leasing strategy are expanded;
- Prioritizing the principle of protecting the interests of all groups (directly and indirectly) involved in the leasing process. By renewing the leasing infrastructure of banks, it is possible to ensure both the reduction of transaction costs and the full legitimization of property rights on the leased object;
- Achieving a reduction in the cost of capital used for leasing financing. At this time, the development of the leasing sector and the active participation of banks in this sector are ensured. Gradual modernization of the leasing infrastructure in the long-term requires the existence of the following conditions for the development of the leasing sector: i) long-term stability of the banking sector; ii) development of economic sectors and facilitation of access to the leasing market; iii) basing the activity of leasing participants on market principles; iv) strengthening of the leasing infrastructure ensures competition, resulting in increased access to financing.

The strategy of modernization of the leasing infrastructure - should

ensure the elimination of existing problems in this sector and the intensification of leasing activities of banks.

First, increasing the effectiveness of leasing for banks, improving coordination between the participants of leasing relations is an important challenge for the modernization of the existing infrastructure of leasing as a whole.

Second, it is impossible to ensure that banks enter the leasing market without conducting an adequate leasing policy and choosing an appropriate strategy in improving the infrastructure for the development of the leasing business. Of course, such an entry will happen gradually, because the leasing business will not immediately respond to the modernization of the infrastructure, even the increase in efficiency takes place over a certain period of time

Modernization of the leasing infrastructure of banks implies the formation of the necessary environment for effective operation and the existence of institutions that ensure its operation.

Thus, the systematic study of the development prospects and problems of leasing in the banking services market of Azerbaijan has provided the basis for drawing scientific-theoretical conclusions and making proposals:

1. The features that distinguish leasing from categories such as credit and rental relations, as well as the classification criteria of leasing, have been determined. In the current research work, it is determined that leasing has a specific characteristic, especially the characteristic of self-financing. The main factor determining this is the interaction of the means of production, capital and leasing markets. This process also allows to ensure that the production and financial cycle are completed in an interconnected manner. However, operational and financial leasing are distinguished from each other depending on the determination of ownership rights over the asset. This also shows the role of banks in financing the leasing of consumption or production assets. This is also influenced by the characteristics of the banks. The deep development of financial instruments ensures the development of leasing markets by forming a stable and effective source of financial resources.

2. Based on the study of the development of the leasing market in the experience of advanced countries, the factors affecting the active engagement of banks in the country with leasing services were determined. Such factors are grouped by supply and demand for leasing. It has been shown that the institutional environment for the development of the non-oil sector and the development of the leasing business has both universal and specific characteristics. Based on the study of Azerbaijan's experience, it was concluded that the development of the leasing services market in the country as a whole, including the bank leasing market, has a specific character.

3. Based on the evaluations, it was determined that leasing has advantages for banks. It has been shown that leasing has a significant positive effect on the profitability of banks and plays an important role in reducing credit risk.

4. Taking into account the characteristics of the economy in Azerbaijan, the formation of the leasing services market and the development of the leasing activity of banks were studied. Based on the research, it was determined that leasing services as a financial instrument are not institutionalized and the market share of this sector is low, and the reasons are indicated.

5. Weak institutional support for the development of the leasing market also means that banks are weakly engaged in this type of activity. At the same time, the lack of regulation by a single legislation and the absence of a regulatory body hinders the development of the leasing market as a whole. Such an economic environment makes it unsustainable not only for banks, but also for manufacturers and asset owners to engage in leasing activities. As a result, the main share in the financing of leasing operations belongs to bank loans. The results of the analysis show that specialization by field and subject does not exist, only a few banks have a market share in the leasing of a limited number of subjects.

6. The approaches used to evaluate the effectiveness of the leasing activity of banks were summarized, the results of these models were analyzed according to the direction and appropriate tests were given on its reliability, the leasing and lending activities of banks were compared, and the risks that banks may face during the leasing activity were

evaluated. It has been shown that leasing is also important in terms of diversification of banking activities and therefore leasing can be considered as an alternative possibility.

7. It was determined that from the point of view of long-term relations, during the observation period covering the years 2007-2020, a one percent increase in leasing operations in the banking sector of Azerbaijan led to a 0.08 percent increase in non-oil GDP. In order to operate effectively in the market of leasing services, banks should take into account the value of the resource and the level of diversification.

8. It was determined that in the conditions of dependence of production and consumption markets on external shocks, leasing and leasing banks are highly sensitive to exchange rate risk, which theoretically also has a negative effect on the net present value for both parties. Reducing risks allows to increase the competitiveness and efficiency of banks in the leasing operation.

9. The possibilities of activation of leasing activities of banks were considered. It was determined that the leasing market has wide opportunities for banks. This is necessary both for the development of innovative products and services in banks, and for the transition of the economy itself to the stage of effective fundamental development. The economy's demand for innovative products can be met through leasing, which must be financed through banks at the initial stage.

10. Based on the methodology of the World Bank, an index was calculated for each of the parameters of financial depth, financial stability, efficiency and access to financial services, which characterize the development of the financial sector.

11. In general, an average of 7.7% of the country's fixed capital investments in the last 5 years were made at the expense of bank loans. Such restrictions on the population's access to financial resources do not allow the revival of the non-oil sector.

12. One of the main problems of the banking sector is the creation of alternative financial institutions in various countries in order to eliminate the factors limiting financial inclusion among the population. Such organizations, by ensuring access to financial services for the population, will enable the inclusion of large volumes of money flows remaining

outside the banking sector into the general financial system of the country and the provision of cheaper loans to the real sector.

13. The interrelation of problem loans characterizing the financial stability of the banking sector and the high volume of targeted reserves for the payment of possible losses was analyzed and it was determined that these problems lead to the increase of banks' costs and losses, weakening of the capital position, stability and bankruptcy.

14. Based on the assessment of the economy's demand for leasing and the current state of the banks' leasing activity, the weak and strong aspects of the formation of leasing as an independent sector and the increase of its connection with the banking and financial sector are indicated, for this purpose, the strengthening of the financial stability of banks, the development of the leasing infrastructure of banks and the main state support in this direction are indicated. directions are formed.

15. For effective activity in the leasing sphere, the stability and availability of financial intermediation should be ensured, the leasing infrastructure of banks should be gradually modernized, and the stimulation of the development of the leasing market should be provided with state support.

16. The expansion of financial intermediation in the country, the implementation of reforms to increase the effectiveness and stability of the financial-banking sector also creates ample opportunities for leasing operations. Like the development of the credit system, the expansion of leasing relations includes the deepening of banking services, the rational use of financial resources, and the formation of stable economic relations between the producer and the consumer. For this reason, banks can freely enter into and develop leasing relations. A number of world experiences have proven that leasing is a powerful instrument.

17. The analysis shows that currently there is a risk of i) default on loans and ii) the interest rate on loans is quite higher than the level of profitability in the economy. Taking into account these factors and experience, it is impossible to use the interest rate on loans as a risk-free instrument.

18. Surplus liquidity of manat, limited range of financial instruments and lack of transparency of financial institutions act as the main problem

affecting the formation of interest rate in the money market. In this sense, the interest rate in the money market is formed depending on the scale of the economy and the level of demand. This applies both to the interest rate on long-term lending to the real sector and to the short-term interest rate in the money market. Also, the interest rate on pawnshop and overnight loans is reconciled with the process of determining the refinancing rate, taking into account the excess liquidity of the manat as a result of pressure on the foreign exchange market.

19. In order to develop the leasing activity in the country, it should be considered to be regulated by a single legislation and adapted to international requirements. In order to solve this problem, the formulation and adoption of a new law on leasing services will allow stimulating the use of leasing services.

20. The interest rate on deposits has wide and long-term circulation possibilities, is risk-free, and there is no information asymmetry for this instrument. From this point of view, in the process of evaluating leasing projects in the conditions of Azerbaijan, the interest rate on deposits in manat more fully reflects the characteristics of the risk-free rate.

21. Overall, our research and current assessments indicate a weak presence of banks in the leasing service market. Taking into account the subject of the research, we can note that increasing the offer of new services and products by banks, as well as the introduction of innovations, first of all requires the health of the sector. Thus, as a result of the sharp drop in oil prices since 2014, changes in macroeconomic conditions, devaluation and weakening of business activity worsened the quality of the credit portfolio and caused losses. The question of strengthening measures for access to foreign markets is increasing its relevance.

22. One of the important factors for the development of leasing in the country is the provision of state support at the initial stage, which will ensure the creation of an initial environment for the sustainable development of the leasing services market. State support is necessary primarily in terms of acceleration of growth in the non-oil sector of leasing, as well as the formation of a supermarket of financial services in the country. Especially in times of crisis, the leasing instrument has the ability to influence the demand for investment in the economy. The

increase in the volume and scale of leasing operations in the areas that form the structure of the non-oil sector (extractive industry, metallurgy, transport) enables the transition to innovative technology, while ensuring the technological development of those areas. This process also allows to eliminate the disproportion in the structure of the economy.

At the same time, increasing the technological level of the non-oil sector through leasing allows to increase the new and varied product offer of small and medium enterprises. The predominance of leasing or the provision of access to fixed capital investment compared to other financing mechanisms increases the demand for means of production.

23. Stabilizing the banking system and improving the regulatory environment of the leasing services market, applying the necessary incentives in this direction creates a basis for the formation of the leasing infrastructure of banks. The activation of the leasing activity of banks can be characterized by the gradual creation of such an institutional environment, which results in the creation of a diversified, stable leasing services market. This also ensures the modernization of the leasing market itself. The formation of the necessary infrastructure for the leasing activity of banks serves the following two purposes:

- Creation and coordination of universal mechanisms in the sphere of leasing sector and banking activity;
- Using the competitive advantages of banks for the development of the leasing market.

The balanced solution of the issues creates incentives for the development of leasing activities of banks, strengthens the desire of banks to enter this segment, and strengthens the connection between the real and financial sectors. At the same time, the quality of leasing services improves, and the efficiency of banks increases.

24. Formation of leasing infrastructure also ensures modernization of non-oil fields. In this regard, the improvement of the existing leasing infrastructure should be based on the following principles:

- Parallel implementation of institutional transformation in banking, real sector and leasing sectors. This principle allows for simultaneous harmonization of related areas;
- Ensuring interaction of three-way entities such as banks, leasing

companies and manufacturers, as in foreign practice, in order to increase the efficiency of leasing activities of banks. At this time, various mechanisms can be used, which leads to the effective functioning of the mentioned "triad";

- By monitoring the leasing services and applying special standards, the efficiency of the banks' leasing activity is increased and the possibilities of choosing the leasing strategy are expanded;

- Prioritizing the principle of protecting the interests of all groups involved in the leasing process (directly and indirectly). By renewing the leasing infrastructure of banks, it is possible to ensure both the reduction of transaction costs and the full legitimization of property rights on the leased object;

- Achieving a reduction in the cost of capital used for leasing financing. At this time, the development of the leasing sector and the active participation of banks in this sector are ensured. Gradual modernization of the leasing infrastructure in the long-term period requires the existence of the following conditions for the development of the leasing sector: i) long-term stability of the banking sector; ii) development of economic sectors and facilitation of access to the leasing market; iii) basing the activity of leasing participants on market principles; iv) strengthening the leasing infrastructure ensures competition, resulting in increased access to financing.

25. Modernization of the leasing infrastructure not only ensures the participation of economic sectors, but also supports the stability and efficiency of leasing services. For this reason, the long-term leasing strategy of banks should take into account the stable and high development of institutions involved in leasing relations.

Taking into account the development characteristics and problems of the leasing market in our country, we can note that on the one hand, there is a great need to modernize individual sectors of the economy, and on the other hand, the banking and financial sector is looking for new markets, and for this reason, the leasing sector has a "monodevelopment" based model. The implementation of the proposed ideological strategy will bring the development of the leasing sector in our country, as well as the leasing activity model of banks closer to the Eastern European model.

This model ensures compatibility between large banks - leasing companies - manufacturers, and here the main focus was given to strategic areas (export-based areas) at the initial stage, and later, the development of small and medium businesses ensured the independent development of leasing companies. The effectiveness of extensive reproduction in the economy has ensured that a number of machinery and equipment companies are engaged in leasing activities, which is related to the operation of the principle of "effective and market-based distribution of income" in this economy.

At the same time, establishing high coordination between the state and business in this model will stimulate initiatives for leasing activities, as a result, the technological renewal of production will be fast, competitive, and the economy will move to an innovation-based development model.

26. As a result of the research, the basic principles for strengthening the financial stability of the banking sector were developed and concrete targets were defined. It increases the demand for the development of innovative products and services and innovative products in these banks, the application of innovative technology for digital payments accelerates the transfer of financial flows to economic activity and creates new opportunities for the perspective of economic growth.

The following scientific works of the author on the subject of his dissertation have been published:

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