

REPUBLIC OF AZERBAIJAN

In manuscript law

ABSTRACT

of the dissertation for the degree of Doctor of Philosophy

**FORMATION AND DEVELOPMENT PERSPECTIVES OF
SYSTEMICALLY IMPORTANT BANKS IN THE FINANCIAL
SERVICES MARKET**

Specialization: 5301.01 – Domestic Fiscal Policy and Public Finance

Field of science: 53 - Economic sciences

Applicant: **Vahid Adalat oghlu Aliyev**

BAKU - 2024

The dissertation work has been conducted at the “Finance and Financial Institutions” department of Azerbaijan State University of Economics.

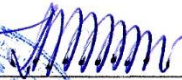
Scientific supervisor: doctor of economic sciences, professor
Zahid Farrukh oghlu Mammadov


Official opponents: doctor of economic sciences, professor
Vahid Tapdiq oghlu Novruzov


PhD in economics, associate professor
Ramil Mahammad oghlu Aliyev

PhD in economics, associate professor
Ismayil Jafar oghlu Hasanov

Dissertation council ED 2.10 of Supreme Attestation Commission under the President of the Republic of Azerbaijan operating at Azerbaijan State University of Economics

Chairman of the Dissertation council:  Doctor of economic sciences, professor
Yashar Atakishi oghlu Kalbiyev

Scientific secretary of the Dissertation council:  Doctor of philosophy in economics,
Sugra Ingilab Humbatova

Chairman of the scientific seminar:  Doctor of economic sciences, Professor
Nizami Najafgulu Khudiyev



INTRODUCTION

Relevance and level of research on the topic. In recent years, global risks and threats have substantially impacted all sectors of the world economy. Within this context, finance and the financial system have emerged as critical areas of focus due to their complexity, representing a key strategic direction in the development of the global economy. The challenges associated with forming and developing systemically important banks in the financial services market have become increasingly relevant.

The regular crises occurring around the world, including those in recent decades, highlight that financial stability and the resilience of the financial and credit system are among the most complex issues faced today. The negative consequences of the most recent financial crisis—the global financial crisis that began at the end of 2008 - are still being felt today. As a result of this crisis, fundamental transformations occurred in the functioning of the world's financial and credit systems, particularly in the banking sector, necessitating the renewal or enhancement of a significant portion of the operational mechanisms that had been deemed effective up until that point. Numerous banks and other participants in the financial services market faced serious challenges, leading to bankruptcies or mandatory mergers with other firms and banks. Certain limitations and problems arose in the global financial and credit markets, highlighting the difficulties faced by financial institutions in attracting external financial resources, while risks increased significantly.

No country has been immune to the effects of the global financial crisis, and Azerbaijan is no exception in this regard. Indeed, our country has managed to maintain its macroeconomic stability, which it has optimally established and developed, for an extended period without allowing it to deteriorate. However, the sharp decline in the price of crude oil - Azerbaijan's primary export commodity—on global energy markets has led to a reduction in foreign currency inflows and increased external pressures on the national currency. As a result of various factors, in 2015, our national currency, the manat, underwent a double devaluation. Nevertheless, thanks to systematic and consistent measures implemented by the government, it has been possible to restore macroeconomic and

macro-financial stability in the country. The resilience of the national currency has been ensured, losses in the banking sector have been minimized, and the operations of the financial and credit system have been aligned with the demands of the time through government support mechanisms.

To this end, measures have been taken to enhance the activity of the financial services market, intensify the processes of economic development, address problematic loans, and thereby provide a significant boost to macroeconomic and macro-financial stability. In particular, resolving problematic loans has not only contributed to improving the socio-economic welfare of the population but has also created additional incentives for stabilizing the banking sector and increasing economic activity.

On the macro level, the implementation of state regulation mechanisms and supportive measures has led to improvements in the structure and operational directions of the financial services market, thereby stabilizing the activities of market participants. The development processes within the banking sector have been accelerated, with particular emphasis placed on expanding the assets and investment activities of banks. Efforts have been made to align the quality and quantitative parameters of banking services with the demands of the financial services market. Furthermore, increased attention has been directed towards organizing and developing the operations of stock exchanges, insurance companies, and entities within the securities market in accordance with the requirements of the global environment.

However, despite these advancements, issues regarding the intensive development and stability of the financial services market in our country persist, indicating that much work remains to be done. The stability of the existing financial system, the effective organization of financial and credit sectors, the adaptation of corporate governance mechanisms governing the movement of financial flows to global best practices, and the proper utilization of financial resources all necessitate more systematic and refined approaches.

Increasing the role of the banking sector in the development of the national economy involves directing financial resources to the real sectors, providing more favorable and long-term loans, and diversifying

the credit portfolios of banks, particularly systemically important banks, while ensuring robust protection against risks. In summary, the accessibility of various financial and credit services offered in the financial services market, especially banking products, and the expansion of their variety are issues of considerable relevance.

In global practice, the functions of systemically important banks play a crucial role in addressing these challenges, and processes for the formation and development of such banks are underway in our country as well. Given that only a few of the currently operational 23 banks are likely to evolve into systemically important banks, it becomes evident how profound the problem is.

Furthermore, following the 44-day Great Victory in Karabakh, which began on September 27, 2020, new historical perspectives have emerged for our country, alongside objective realities. The strategic objective is to reconstruct the liberated territories to the highest standards, utilizing "smart" technologies. Effective utilization of the potential of the newly created economic regions—the Karabakh and Eastern Zangezur economic regions—holds significant importance. All these processes require reliable financial assurance mechanisms, a dynamic financial services market, and, primarily, a flexible banking system. In this context, the centralization, attraction, accumulation, and efficient distribution of existing and potential financial resources is strategically crucial. For the effective execution of these important functions in the financial services market, the strategic role of the banking sector, particularly systemically important banks, must be enhanced. Their operations should increasingly incorporate innovative approaches based on modern technologies, digital mechanisms, and agile and accessible banking services.

All of these factors, especially in a context where modern global crises are deepening, underscore the need to ensure the intensity and flexibility of the financial services market during a period of extensive economic and structural reforms in our country. This entails developing more attractive and accessible financial services, formulating highly efficient mechanisms for providing banking services that adequately respond to market demand and supply, and determining the directions for enhancing the leading and strategic role of systemically important banks

in these processes. These considerations reflect the relevance of the research topic.

The issues examined in this research and the matters investigated are among the widely discussed directions in the field of economics and have always been focal points in research areas. Specifically, the financial factor, the efficiency of the financial system, the intensity of the financial services market, and the role of systemically important banks in these processes, along with the important functions they perform and the associated problems, have been studied by a group of Azerbaijani economists, including Z.A. Samadzadeh, A.F. Musayev, A.J. Muradov, A.A. Alakbarov, M.M. Sadigov, Z.F. Mammadov, A.Sh. Shakarliyev, B.Kh. Atashov, G.N. Manafov, E.M. Sadigov, Sh.S. Gafarov, Sh.T. Aliyev, M.M. Baghirov, A.E. Karimov, and others in their scholarly works. The strategic role of the financial factor, the flow of financial resources, their management, utilization, the organization of oversight for these processes, the attraction of financial resources, their accumulation and distribution, as well as the role of banks in these processes—including the functions of systemically important banks and leading financial intermediation mechanisms—are addressed in the theories and scientific views of classical economists such as A. Smith, A. Marshall, D. Ricardo, H.P. Minsky, J.M. Keynes, R.M. Solow, P.A. Samuelson, F. Modigliani, M.H. Miller, E.A. Selgin, and others. Furthermore, the efficiency problems of the financial services market, their intensity issues, and the directions aimed at enhancing the role of systemically important banks in these processes have been highlighted in the works of a group of other scholars and researchers, including V.K. Senchagov, R.I. Khasbulatov, O.I. Lavrushin, T.N. Vetrova, T.V. Nikitina, S.G. Lukin, Y.S. Stoyanova, N.D. Shimshirt, and others.

At the same time, the new challenges arising from global influences, particularly those stemming from contemporary global problems in recent decades, necessitate the development of more efficient and functional mechanisms within the financial system. This includes the continuous establishment of a financial-credit policy that ensures the dynamism of the financial services market, the formulation and application of regulatory mechanisms, and the significant elevation of the role of systemically important banks in these processes, along with the

investigation of related issues in light of modern realities and the initiation of new research.

The object of the research is the financial services market and systemically important banks.

The subject of the research is the perspectives of the formation and development of systemically important banks in the financial services market, which hold strategic significance for the country's macroeconomic and macro-financial stability.

Research goals and objectives. The primary goal of this research is to identify the formation and development prospects of systemically important banks in the financial services market. To achieve the main goal of the dissertation, a number of objectives have been set forth:

- Investigation of the theoretical and methodological foundations for the formation of systemically important banks in the financial services market.

- Examination and generalization of international experiences related to the development of systemically important banks in the financial services market.

- Analysis of the role of systemically important banks in the financial services market in Azerbaijan.

- Assessment of the current state of the banking sector in the country and the role of systemically important banks in the formation processes and efficiency of financial and banking mechanisms.

- Investigation of the problems related to the expansion of the structure of financial services and the improvement of activities in this area.

- Analysis and generalization of the factors that determine the significance of systemically important banks in the financial services market in the country.

- Evaluation of the efficiency of systemically important banks in the context of strategic objectives related to the expansion of the financial services market.

- Development of recommendations and proposals for the expansion of systemically important banks in the financial services market in modern times, among others.

Research Methods. The methodological foundations of this research are established through an examination of the current challenges facing the financial and credit system, alongside the issues related to the development of systemically important banks within the financial services market. This analysis is informed by the scientific works of classical economists, various international researchers, and Azerbaijani scholars. Furthermore, the study incorporates legal documents such as the laws of the Republic of Azerbaijan, presidential decrees and orders, regulations endorsed by the Central Bank of Azerbaijan, as well as other relevant laws and normative acts. To achieve its objectives, the research utilizes a range of methodologies, including scientific abstraction, analytical and synthetic methods, comparative analysis, and economic-statistical evaluation techniques.

The main clauses defended. Based on the scientific innovations derived from the dissertation research, the following main clauses are submitted for defense:

- In the context of modern global challenges, there is a need for new perspectives and approaches to enhance the resilience and functionality of the financial system, as well as to expand the financial services market.

- Systemically important banks play a strategic role in addressing efficiency issues within the financial services market, owing to their multifunctional characteristics.

- The enhancement of financial and credit mechanisms, the expansion of the financial services market, and the improvement of the efficiency of systemically important banks necessitate the consideration of international best practices, particularly in alignment with the unique developmental characteristics of each country.

- The financial services market in Azerbaijan requires new elements of stability and mechanisms, wherein the significance of systemically important banks is of a strategic nature.

- Challenges persist in ensuring the stability of the banking sector and systemically important banks, as well as in maintaining financial stability; addressing these challenges necessitates the implementation of mechanisms that respond to new challenges arising from global crises.

- In light of new challenges, including the post-pandemic period and the reconstruction of liberated territories, there is an urgent need for

the formulation and implementation of targeted action programs aimed at enhancing the resilience of the financial services market, with a particular emphasis on strengthening the role of systemically important banks.

The scientific novelty of research can be summarized as follows:

- A modern scientific framework has been developed regarding the role and future perspectives of systemically important banks within the financial services market, particularly in light of escalating global challenges.

- By approaching the development directions of the financial services market, the challenges hindering the efficiency of systemically important banks have been systematically outlined, and methodological approaches related to these challenges have been identified.

- The dissertation substantiates the strategic importance of systemically important banks by analyzing their role in the formation and growth of financial systems and financial-credit service markets across various countries.

- A thorough analysis of Azerbaijan's financial services market has been conducted, revealing existing challenges and evaluating developmental potential, while emphasizing the multifunctionality of systemically important banks and justifying their strategic significance.

- An assessment of the influence of selected systemically important banks on the intensity and stability of the financial services market has been performed, culminating in the creation of a block diagram illustrating their strategic functions and characteristics.

- A SWOT analysis focused on the impact of systemically important banks on the stability of Azerbaijan's financial services market has been carried out, identifying strengths, weaknesses, opportunities, and threats.

- A foundational block diagram has been formulated to enhance the functioning of the financial services market amid ongoing economic reforms and structural changes in the country.

- Mechanisms aimed at expanding the multiplicative role of systemically important banks within Azerbaijan's financial services market have been articulated and justified, taking into account both current realities and future outlooks.

- The dissertation highlights the critical need for the establishment and execution of the "State Program for Accelerating the Development of Systemically Important Banks in the Financial Services Market of the Republic of Azerbaijan from 2025 to 2030," emphasizing its importance in ensuring the stability of the financial services market and enhancing the role of systemically important banks to meet contemporary standards and demands.

Theoretical and practical significance of the research. The scientific and theoretical clauses and findings of this research could provide valuable insights for improving the existing mechanisms within the financial services market, as well as for increasing the efficiency of systemically important banks in these processes. Additionally, the core findings of this dissertation could be integrated into the curriculum of higher education institutions, particularly in courses such as "Finance", "Budget systems", "Money and banking", "Banking operations", "Financial markets", and "Finance and Investments", among others.

Appropriation and implementation. The candidate has published a total of 10 scientific works related to the dissertation topic, including 7 articles and 3 theses, four of which were published abroad. The main provisions of the research include the following articles: "Problems of ensuring financial stability in Azerbaijan and modern aspects of the development of the financial and credit system", published in the "Audit" journal in 2017; "Strategic functions and operational principles of systemically important banks in the financial services market", published in the "Scientific works" journal of the National Academy of Sciences of Azerbaijan in 2018; "Important aspects of the multiplicative characteristics of systemically important banks in Azerbaijan's financial services market", published in the "Geostrategy" journal in 2019; and "The strategic importance of systemically important banks in Azerbaijan's financial services market", published in the "Financial Economics" journal in Moscow in 2020. Additionally, the candidate presented a thesis titled "The importance of systemically important banks in stabilizing the financial services market in the context of increasing global influences" at the International conference held in Austria on May 30, 2019, and another thesis titled "The impact of systemically important banks on the development of the financial services market in modern times" at the

scientific conference dedicated to the 96th anniversary of the birth of the National Leader of the Azerbaijani People, Heydar Aliyev, held on April 25-26, 2019, at SSU, among others.

The institution where the dissertation was conducted. The dissertation was conducted at the Department of “Finance and Financial Institutions” of the Azerbaijan State Economic University.

The overall volume of the dissertation. The total volume of the dissertation is specified in terms of individual structural sections as follows: Cover page and Table of contents (2,483 characters), Introduction (17,065 characters), Chapter I (93,668 characters), Chapter II (79,916 characters), Chapter III (48,308 characters), Conclusion (10,511 characters), and List of references (25,070 characters). The overall length of the dissertation amounts to 277,021 characters. Excluding figures, tables, graphs, and the reference list, the dissertation consists of 223,045 characters.

MAIN CONTENT OF THE RESEARCH

1. Examination of theoretical foundations for enhancing efficiency in the financial services market. This research investigates theoretical frameworks pertaining to the challenges of increasing efficiency in the financial services market, drawing on various scholarly works, and examining issues related to the development of this market and its unique characteristics. A central scientific proposition is adopted: *“In the context of modern global challenges, new perspectives and approaches are required to ensure the operability, stability, and expansion of the financial services market”*.

Discussions on the efficiency of finance evoke interest in classical economic theories and viewpoints. Notably, ensuring the efficient use of resources and financial assets is regarded as a critical issue. David Ricardo emphasized the necessity of focusing more on the efficiency problems related to economic processes and financial resources in his analyses¹. Alfred Marshall highlighted the interrelated factors that significantly exist within financial processes². In the context of public production processes,

¹ Ricardo, D. *On the Principles of Political Economy and Taxation*, 1817, s. 179.

² Marshall, A. *Principles of Economics: Abridged Edition*. Cosimo, NY, – 2006. – p. 71

finance plays essential roles in the creation of material goods and services, acting as the real value. The financial mechanism is utilized for various objectives within the state's economic policy, primarily focusing on the collection of funds from diverse sources, such as taxes, investments, deposits, and fees. This encompasses revenue generation and the formation of the state budget, the provision of expenditures through organization, the management of the state, the improvement of citizens' living standards, the financing of military-defense expenditures, and the fulfillment of other expenses. In our view, finance should be considered one of the robust management mechanisms and functions at the disposal of the state, underpinning its survival and governance. According to researcher N.D. Shimshirt, the financial sphere comprises three interrelated segments: “1) *macrofinance - the aggregate of the money market and capital market*; 2) *investments*; and 3) *the business financing segment*”³. The increasing role of finance and the financial system in the economy, along with the importance of the financial services market, necessitate more fundamental research and systematic approaches to address the challenges of enhancing its efficiency.

The scientific works and approaches of a group of Azerbaijani scholars and researchers reveal significant interest in the nature of finance, its economic functions, its role in society and the economy, as well as the challenges related to the formation, development, and enhancement of efficiency in the financial services market. The importance of implementing more effective mechanisms for managing financial resources and the movement of financial flows has notably increased. Academic Z. Samedzadeh emphasizes that “*ensuring the principle of transparency in the state governance system, the appropriate allocation of budgetary funds, and the strengthening of financial discipline are crucial issues*”⁴. According to Professor A.A. Alakbarov, “*it is necessary to leverage the experience of foreign investors to ensure financial stability*”⁵.

³Шимишрт, Н.Д. Современная теория и практика финансового менеджмента на предприятии / Н.Д. Шимишрт. – Томск: Изд-во Том. ун-та. –2011. – с. 11.

⁴Səmədzadə, Z.Ə. Dinamik inkişaf edən bir ölkədə şəffaflığın və maliyyə intizamının təmin olunması vacib şərtidir. [Elektron resurs] / <http://www.samedzade.az/az/pages/183>.

⁵Ələkbərov, Ə.Ə. Sosial-iqtisadi inkişafın maliyyə-büdcə tənzimlənməsi problemləri: / İ.ü.e.d. dissertasiyasının Avtoreferatı) / – Bakı, 2007. – s. 40.

From the perspective of finance and the financial system, the stability and operability of the financial system, as well as the efficiency of the mechanisms employed, significantly positively influence the intensity of economic development processes. They regulate the demand and supply of financial resources among the participants in these processes, serving as a driving force for stable and dynamic economic growth.

2. Methodological approaches to the formation processes of systemically important banks in the modern financial services market. The principal scientific proposition in this matter is as follows: *“Systemically important banks play a strategic role in addressing the efficiency challenges of the financial services market due to their multifunctional characteristics”*.

In the current context, the processes occurring in the global financial services market and the banking sector are characterized by considerable complexity. Particularly, there is a necessity for systematic measures to enhance the role of banks in ensuring financial stability and supporting the social-economic development processes of the country, as well as realizing macroeconomic and macro-financial stability. The strengthening of financial and credit stability, ensuring the availability of alternative financial resources, the development and implementation of mechanisms for state stimulation of lending to the real economy sectors by banks, the renewal of conceptual approaches to reduce banking risks, and the improvement of the financial market supervision system all play crucial roles in the development of systemically important banks.

In this context, addressing the global challenges associated with the development of the financial services market, the obstacles to the growth of systemically important banks are depicted in Figure 1.

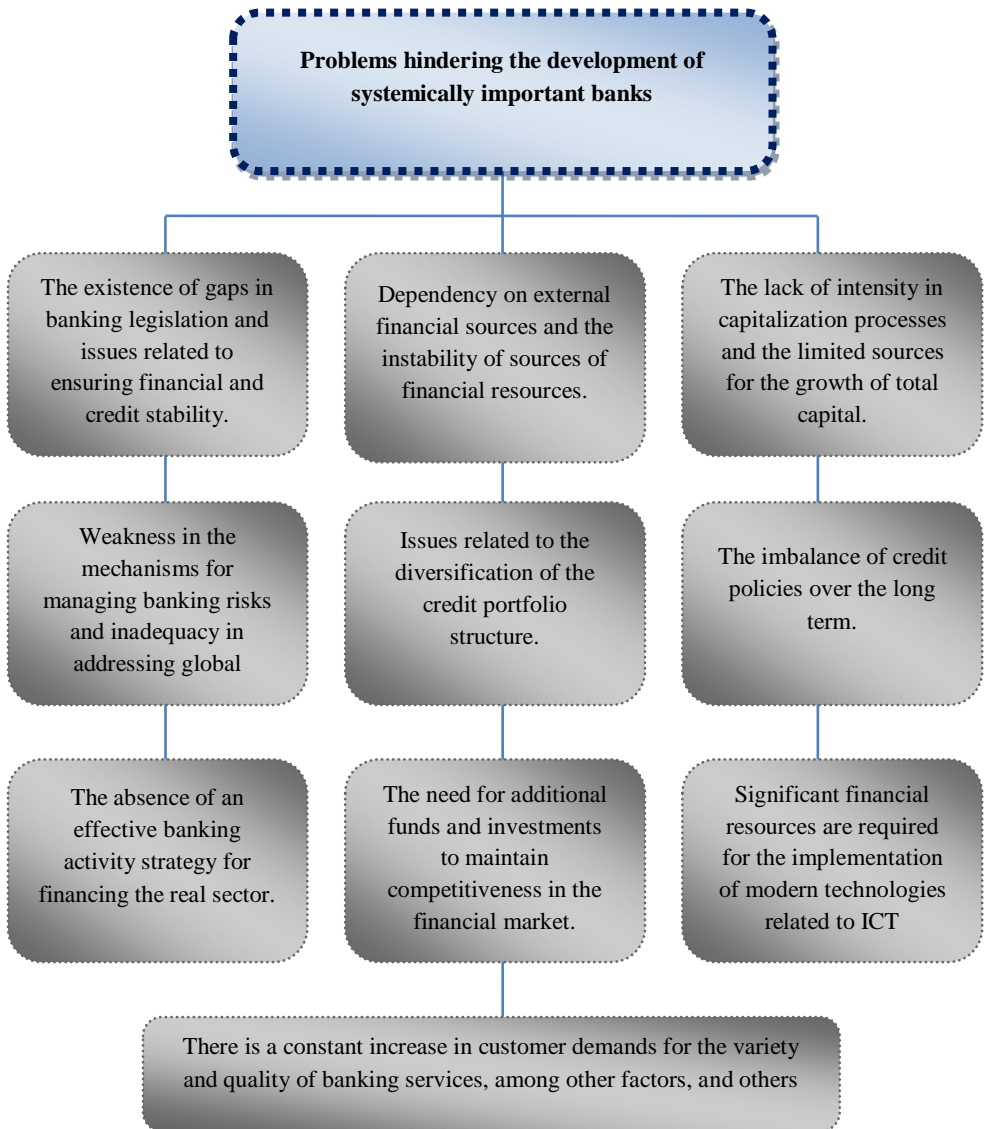


Figure 1. Schematic representation of problems hindering the development of systemically important banks (Source: prepared by the author)

In Figure 2, the methodological approaches and principles for the development of systemically important banks are summarized.

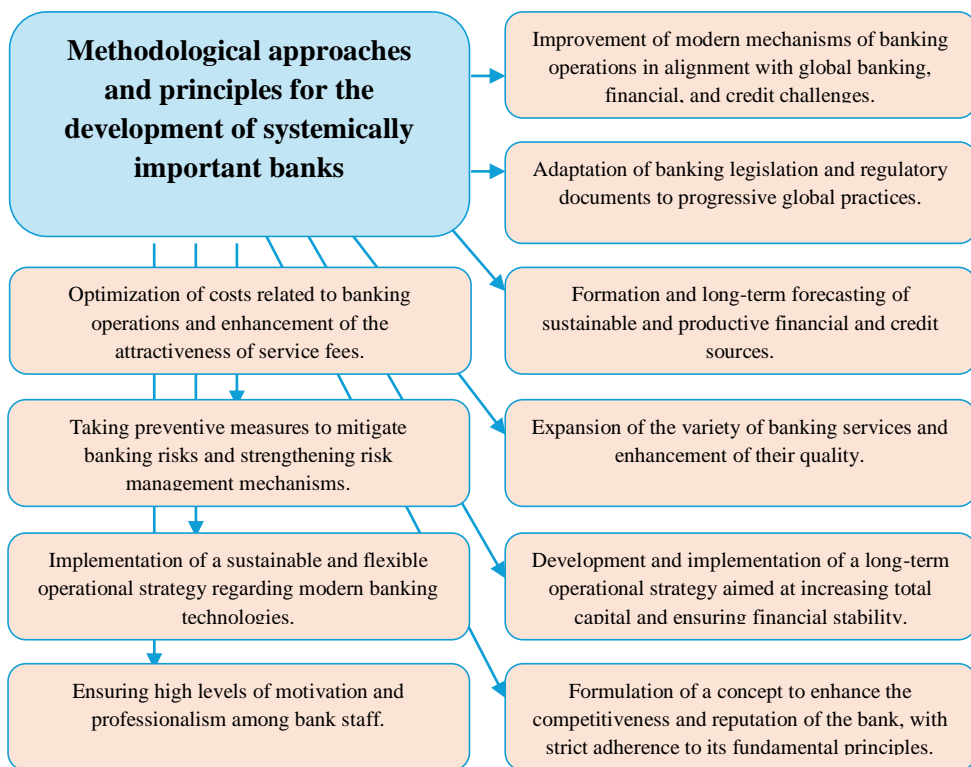


Figure 2. Block diagram of the methodological approaches and principles for the development of systemically important banks (prepared by the author).

It should be noted that the expansion and development of the financial services market, the elimination of problems that reduce the efficiency of this market's operational mechanisms, and the representation of systemically important banks in this market with a wider range of flexible services are significant⁶. The consideration of these principles and criteria in the operations of systemically important banks will strengthen their resilience and simultaneously allow these banks to enter the financial services market with a broader array of banking products and financial services⁷.

⁶ Məmmədov, Z.F. *Bank fəaliyyətinin əsasları*. Bakı: Azər nəşr, – 2013. – s.67.

⁷ Kərimov, A.E. *Kommersiya banklarının xidmət fəaliyyətinin genişləndirilməsi və inkişaf etdirilməsi problemləri: / İ.e.d., dissertasiyasının avt-ru./* Bakı,–2012.–56 s.

2. Current aspects of international experience regarding the operations of systemically important banks in the financial services market in the context of global risks and threats. The scientific proposition presented is: *“In enhancing of financial and credit mechanisms, expanding the financial services market, and increasing the efficiency of systemically important banks, it is essential to examine international experience in conjunction with the developmental characteristics of each country in these areas.”*

The intensification of global processes, volatility in commodity and raw material markets, the increase of risks, and the growing restrictions in the movement of financial and credit resources necessitate the formation and development of more efficient and functional international settlement mechanisms. Consequently, systemically important banks need to refine their operations within the framework of international standards and undertake measures to improve their competitiveness. Among the significant initiatives in this regard is the acceleration of their development in accordance with Basel standards and criteria, as well as the deepening of their integration into the global financial and credit system.

The report prepared by the Basel Committee on Banking Supervision presents the level of compliance and efficiency of capital and liquidity standards applied by systemically important banks in 22 countries. The measures implemented and mechanisms adopted have had a positive impact on the operations of these banks. In general, international financial and credit institutions have identified a set of measures and tools to enhance the oversight of banking activities, protect against risks, and improve the overall efficiency of macroprudential regulation. These measures include: 1) Administrative measures: regulation of the growth rate of lending, such as establishing limits on the increase in lending; 2) General regulatory tools: primarily related to reserves and capital, including enhancing capital mobility, adjusting the financial leverage ratio, and ensuring the dynamism of reserves; 3) Instruments affecting specific sectors of the financial market: this involves restricting the allocation of financial resources and capital to certain areas, as well as imposing specific requirements for the formation and use of capital; 4)

Instruments affecting liquidity and currency risks: this mainly includes the clean stable funding ratio, limits on currency position openness, and directing the increase of high liquidity assets; 5) Instruments affecting structural risks: this encompasses systemically important supplementary measures, including those related to capital and liquidity, as well as initiatives aimed at expanding the structure of the financial services market; 6) Instruments for direct limitations on financial services consumers; instruments for restricting the foreign debts of non-financial companies; and instrument for tax application related to real estate transactions for individuals⁸.

Table 1

Key indicators of major banks ranked among the top ten systemically important and global banks (as of early 2023)

No	Bank name	Country/location	Assets (trillion \$)	Market capitalization (billion \$)	Capital (billion \$)	Founded	Number of Employees (thousands)
3.	Industrial and Commercial Bank of China	Çin, Pekin	3,51	226,10	279,53	1984	471
4.	JP Morgan Chase & Co.	ABŞ, Nyu-York	2,6	236,4	204,58	1799	242
5.	HSBC Holdings	, London	2,51	143	163,30	1865	236
6.	Mitsubishi UFJ Financial Group	Yaponiya, Tokio	2,84	75,5	138,95	1880	108,4
7.	BNP Paribas	Fransa, Paris	2,91	69,8	99,65	1848	191
8.	Royal Bank of Canada	Kanada, Toronto	1,22	92,7	109,8	1864	81
9.	Banco Santander	İspaniya, Santander	1,53	73,3	107,6	1857	195
10.	Commonwealth Bank of Australia	Avstraliya, Sidney	0,973	124,0	101,2	1911	45,8
11.	UBS Group AG	İsveçrə, Sürix	0,98	65,2	55,4	1862	59,8
12.	Itau Unibanco Holding	Braziliya, San-Paulu	0,49	52,3	15,1	1924	94,9

⁸Шакер, И.Е. Роль стандартизированного подхода к измерению кредитного риска контрагента (Базель III) в целях создания условий для экономического роста России. // Экономика. Налоги. Право. – 2019. № 3, – с. 147.

Source: Top 10 largest banks in the world (<http://1tmn.ru/ratings/tmn-ratings/top-10-krupnejshikh-bankov-mira-4146657.html>).

Table 1 reveals that the Industrial and Commercial Bank of China ranks at the top among the world's systemically important banks, with total assets reaching \$3.51 trillion. Previously, we noted that Chinese banks' asset volumes surpass even those of U.S. banks. This trend suggests an imminent rise in competition within the banking sector and across the global financial-credit landscape, with particular focus on the intensifying rivalry between these two powerhouse economies. Transnational banks, meanwhile, are increasingly recognized as key players in the global financial and currency systems⁹.

It's essential to recognize that adopting international practices, mechanisms, management methods, or banking services that have succeeded elsewhere cannot be done without due consideration. Introducing such international financial-credit mechanisms and tools into the national financial-credit system, banking sector, or financial services market requires a comprehensive evaluation and strong scientific and practical rationale.

13. Analysis of the current state of the financial services market in Azerbaijan and evaluation of the role of systemically important banks. The dynamics of credit investments in Azerbaijan's economy from 2005 to 2023 have been analyzed, revealing a substantial decline in credit volumes beginning in 2015, with a reduction of over 50%. Specifically, in 2015, credit investment in the national economy amounted to 21.7 billion AZN by 2017, this figure had dropped to 11.8 billion AZN. A slight rebound was observed in 2018, reaching 13 billion AZN. Notably, while long-term credit investments decreased over this period, a 6.9% increase was recorded in 2018 compared to 2017. In 2023, credit investment in the economy grew by 65.5% compared to 2020, reaching nearly 24 billion AZN (see Table 2).

⁹ Борисов, А.Н. Транснациональные банки как важнейшие субъекты мировой валютной системы. // Национальная безопасность 2(25) – 2013. – с. 238.

Table 2

Dynamics of credit allocations to the economy in Azerbaijan from 2005 to 2023, in million manats:

Indicators:	2005	2010	2015	2016	2017	2018	2019	2020
Credit Investments in the Economy, Total: including:	1440,9	9163,4	21730,4	16444,6	11757,8	13020,3	15298,2	14530,5
Short-term loans as a percentage of total	913,2 63,4	2567,1 28	5297,3 24,4	3478 21,1	2101,3 17,9	2695,1 20,7	2918,7 19,1	2475,0 17,0
Long-term loans as a percentage of total	527,7 36,6	6596,3 72	16433,1 75,6	12966,6 78,9	9656,5 82,1	10325,2 79,3	12379,5 80,9	12055,5 83,0
Overdue debts	68,2	492,9	1508,6	1472,6	1626,7	1585	1273,1	893,1

Source: Based on official statistical publications by SSCRA (<https://www.stat.gov.az/>)

As of early 2021, 26 banks were operating in the country, of which only 2 were state-owned banks. In comparison, the number of banks was 44 in 2005 and 43 in 2015. By 2023, the number of banks had decreased from 26 to 23 compared to the year 2020 (see: Figure 3).

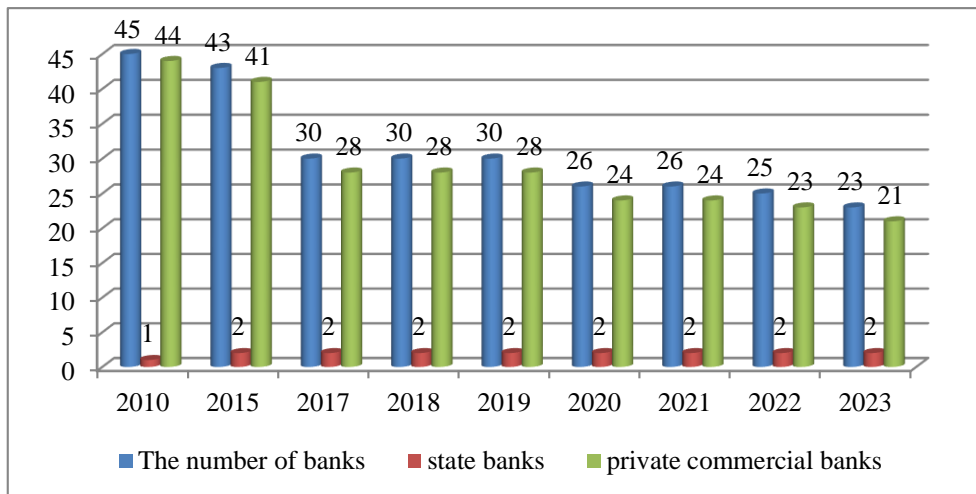


Figure 3. The number of banks in Azerbaijan as of early year (2010-2023). (Prepared based on data from the Azerbaijan Banks Association. <http://www.aba.az>)

Figure 4 analyzes the dynamics of the total volume of aggregate assets of banks operating in our country, indicating that from 2008 to

2023, the aggregate assets of banks increased by 4.78 times, reaching nearly 49.2 billion manats.

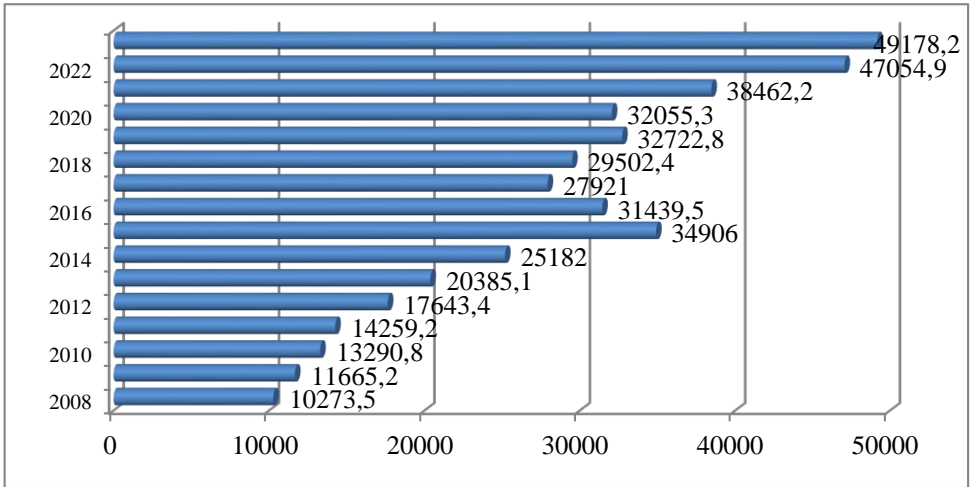


Figure 4. Dynamics of the aggregate assets of Azerbaijani banks, in million manats, 2008-2023 years (Prepared based on the statistics of the Central Bank of Azerbaijan <http://www.cbar.az>).

The indicators of the aggregate credit portfolio in Azerbaijan's banking sector for the years 2005-2023 are presented in Table 3. From 2010 to 2020, the average annual volume of the banking sector's aggregate credit portfolio increased 10.1 times, reaching a level of 14.2 billion manats. In 2022, the volume of the aggregate credit portfolio increased by 38% compared to 2020, amounting to 19.6 billion manats. During this period, the volume of business loans showed a growth of 27%, while the volume of consumer loans increased by nearly 53%. In 2023, the volume of the aggregate credit portfolio demonstrated an increase of 18.3% compared to 2020.

Table 3. Indicators of the aggregate credit portfolio in Azerbaijan's banking sector from 2005 to 2023, in million manats

No	Indicators	Years										
		2010	2010	2015	2017	2018	2019	2020	2021	2022	2023	
1	Aggregate credit portfolio of the banking sector, including:	1401,4	8971,8	21152,0	11337,6	12628,3	14900,9	14157,0	16659,1	19594,4	23183,0	
2	Business credits	-	-	-	7566	8113	9032	8478,3	9740	10855,1	12616,8	
3	Consumer credits	-	-	-	3772	4515	5869	5678,7	6919,1	8739,3	10566,2	
4	Aggregate credit portfolio of non-bank financial institutions	39,6	191,6	578,4	420,2	392,0	397,2	373,4	460,7	589,6	796,2	
5	Credit placements in national currency	542,9	5865,3	10994,5	6953,6	8073,6	10000,8	10204	12696,5	16194,3	18816,1	
6	Credit placements in foreign currency	898,1	3298,1	10735,9	4804,2	4946,7	5297,4	4326,4	4423,4	3989,6	4366,8	
7	Credit placements in foreign currency, in million USD	977,7	4133,5	6884,6	2825,8	2909,8	3116,1	2544,9	2603,5	2346,8	2568,7	
8	Dollarization of credit, as a percentage	62,3	36,0	49,4	40,9	38,0	35,6	29,8	25,84	19,77	23,21	

Table 4 presents an analysis of the assets and total loans of Azerbaijani banks for the period of 2017-2023. This table compares the indicators of the banks' assets and total loans over five years, allowing for a clear assessment of trends and developments in the country's banking sector during this timeframe.

Table 4

Azerbaijani bank' assets and total loans, in million manats (2017-2023)

No	Banks	Assets					Total loans				
		2017	2020	2021	2022	2023	2017	2020	2021	2022	2023
1.	International Bank of Azerbaijan	9074,7	8962,8	11483,9	14038,9	13668,2	1542,9	2609,1	3099,4	3530,6	5048,8
2.	Paşa Bank	3958,4	5513,0	6408,4	8519,8	8651,4	1350	2095,0	2545,6	2728,1	2835,4
3.	Kapital Bank	3240,3	5227,5	6709,5	7822,2	8659,6	1163,3	2175,9	2652,6	3157,8	4171,8
4.	Xalq Bank	1792,8	2353,1	2339,4	2685,1	3082,5	1263,2	1475,1	1407,0	1740,6	1827,0
5.	Bank Respublika	683,7	1034,0	1232,4	1584,9	2131,6	393,6	446,9	719,9	962,6	1174,2
6.	Azərbaycan Sənaye Bankı	936,6	911,5	812,6	747,6	749,2	289,9	317,0	243,6	241,6	256,4
7.	Access Bank	837,8	855,9	932,1	1168,9	1392,3	541,4	502,6	632,5	813,5	1013,8
8.	Rabitabank	706,5	831,0	1017,9	955,0	1138,4	193,7	432,0	474,0	610,9	721,2
9.	Unibank KB	592,7	816,0	1038,7	1440,6	1590,7	319,5	567,3	739,2	889,6	1047,7
10.	Premium Bank	462,7	653,3	760,3	692,2	685,1	393,6	570,1	508,1	437,0	471,7
11.	Muganbank	467,1	590,9	708,4	789,3	-	336,7	335,9	401,1	453,8	-
12.	Turan Bank	456,4	551,7	715,0	820,8	822,8	258,3	351,2	436,4	548,5	629,4
13.	YapıKredi Bank Azərbaycan	438,5	348,3	394,8	481,9	514,9	118,6	149,4	174,9	236,9	291,8
14.	AFB Bank	489,3	281,4	272,2	282,4	330,7	162,7	182,2	142,8	170,9	180,1
15.	AG Bank	411,6	m/y	-	-	-	250,4	m/y	-	-	-
16.	Nikoil Bank (currently Yelo Bank)	387,9	390,9	533,7	821,5	1566,5	239,6	308,3	446,0	621,9	764,3
17.	Expressbank	315,2	313,5	351,4	437,0	560,2	186,6	209,7	261,4	297,1	409,3
18.	Azer-Türk Bank	330,2	359,2	407,3	965,2	995,5	116,7	167,3	233,6	321,7	447,4
19.	Bank BTB	265,8	356,1	362,1	374,2	369,2	142,2	206,1	262,1	265,8	187,1
20.	Ziraat Bank	184,5	299,0	388,1	528,9	636,7	67,2	158,3	231,2	317,6	390,9

14. The strategic role of systemically important banks in strengthening the stability of the financial services market. The examined scientific proposition posits that *“The financial services market in Azerbaijan requires new elements of resilience and mechanisms, and the importance of systemically important banks in these processes is of a strategic nature.”*

Another significant function of systemically important banks is their active involvement in improving business processes and more efficient management of cash flows within the country. For example, Pasha Bank, one of the key systemically important banks in the country, places great emphasis on these issues¹⁰. Considering all these factors, it would be interesting to identify the strategic functions of systemically important banks in the financial services market and to generalize their characteristics, as illustrated in Figure 5.

We have conducted an analysis of the current state of the financial services market in Azerbaijan, focusing on the operational mechanisms of the banking sector and the overall financial system. This includes examining the current situation of the financial and credit system, particularly the assets and liabilities of the banking sector, with an emphasis on systemically important banks.

¹⁰Kazımov, T. *Azərbaycanda bank sektorunun ümumi vəziyyəti. EcoVision, 28-ci sayı, [Elektron resurs] / Bakı. – 2016. – S.27. <http://atib.az/EcoVisyon-28.pdf>*

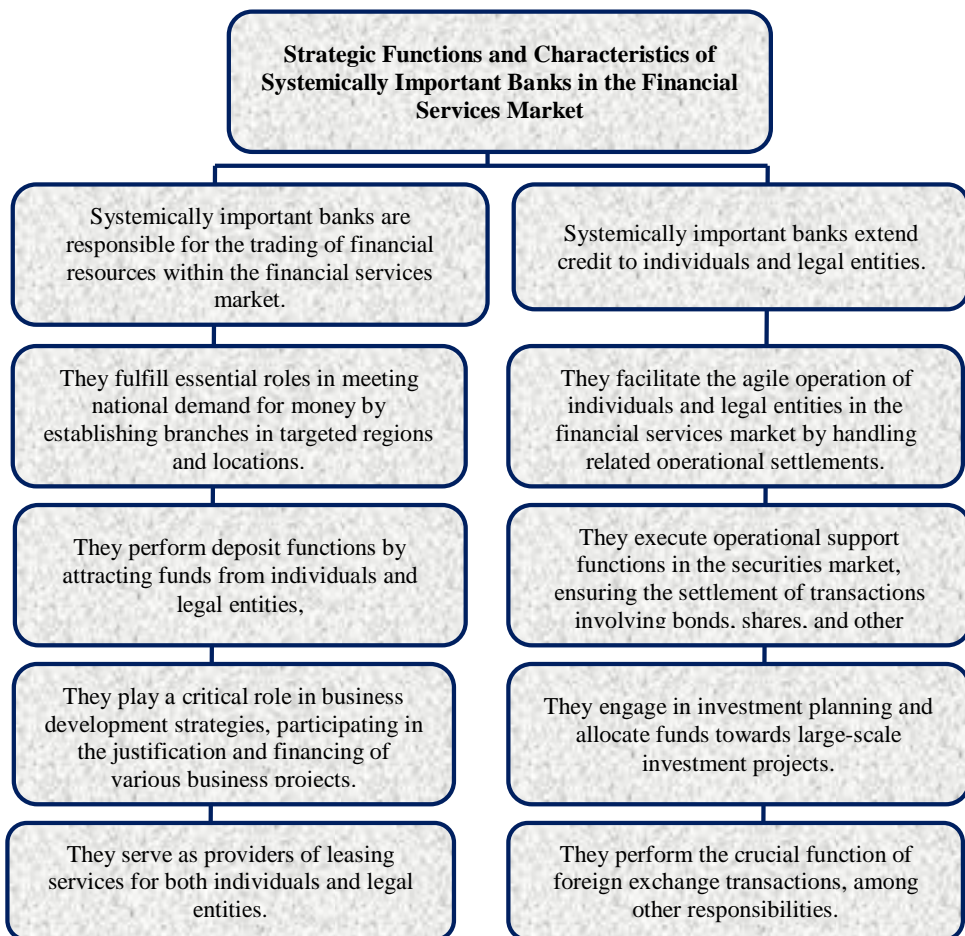


Figure 5. Strategic functions and characteristics of systemically important banks in the financial services market under new challenges

15. Enhancing the financial services market in Azerbaijan and expanding the role of systemically important banks. This analysis is based on the proposition that *“The banking sector and systemically important banks on Azerbaijan face challenges in maintaining resilience and financial stability, requiring the adoption of mechanisms responsive to new global crises”*.

Amid increasing global transformations and restrictions on capital flows, efficient movement of international capital, financial assets, and

investments is essential. When the country's financial and banking systems and the broader financial services market become attractive to foreign investors, a favorable environment is established for the robust influx and circulation of both domestic and foreign resources. This, in turn, provides stronger financial support for entrepreneurship and business development. The activities and multiplier effects of systemically important banks contribute significantly to the national financial system by ensuring stability, managing public funds within the banking system, accumulating, conserving, and allocating financial resources, and enabling the function of money as a commodity in the economy.

Additionally, the Basel Committee on Banking Supervision has set standards and principles that require systematic approaches to bank risk management, particularly in terms of protecting client interests. According to these standards, precautionary measures should be applied consistently to address risks effectively and safeguard clients' interests¹¹.

The efficient functioning of systemically important banks is closely tied to having a well-founded operational strategy and setting long-term strategic objectives. Banks in Azerbaijan should capitalize on the country's macroeconomic and macro-financial stability to shape their development strategies and implement mechanisms for financial stability. In this context, efforts to strengthen the resilience of systemically important banks and amplify their multiplicative influence in the financial services market need to be intensified.

16. Enhancing the role of systemically important banks in the development of Azerbaijan's financial services market amid new challenges. *A key premise here is the necessity to enhance the role of systemically important banks in strengthening the resilience of Azerbaijan's financial services market, especially in the context of new challenges such as the post-pandemic recovery, reconstruction of liberated territories, and the strategic roadmap objectives.*

Between 2016 and 2023, the primary goals in the strategic direction of the banking sector were to ensure stability in the sector, elevate the role of systemically important banks, align with international standards,

¹¹Banklar üçün müştərilərlə bağlı lazımi ehtiyat tədbirləri. Bank Nəzarəti üzrə Bazel Komitəsi. [Elektron resurs] / <http://www.fiu.az>.

improve corporate governance, and increase transparency¹². In addition, a presidential decree on November 28, 2019, introduced new regulatory measures in the financial services sector¹³. This decree dissolved the Financial Market Supervisory Authority, delegating its functions back to the Central Bank.

The development and revitalization of liberated territories are directly contingent upon robust financial support and the advancement of the financial services market. We believe that systemically important banks can play a significant role in facilitating these processes. Over the past four years (2021–2024), the state budget has allocated considerable funds for the restoration of these liberated areas, amounting to approximately 14 billion manat. The First State Program for the Great Return, aimed at reintegrating former internally displaced persons into their ancestral homes, is being actively implemented. Cities such as Shusha and Khojaly have welcomed their first residents, and educational and healthcare institutions have commenced operations. The city of Fuzuli is undergoing more intensive restoration efforts. Starting from September 2024, Karabakh University in Khankendi has begun admitting its first students. Currently, the restoration of Jabrayil, Zangilan, Kalbajar, and numerous other settlements is accelerating, while life in Lachin has resumed its course with dynamic development. In the post-conflict regions, two international airports - Fuzuli and Zangilan - have been put into operation, with the construction of Lachin Airport expected to be completed soon. The Aghdam Industrial Park and the “Araz Valley Economic Zone” have initiated the production of their first products, with the number of residents steadily increasing. While these developments are commendable, we believe that akin to international best practices, the utilization of alternative financial, credit, and investment resources could significantly expedite the reconstruction processes. Thus, there is a pressing need to accelerate the establishment of an agile and accessible network of financial credit and banking services in the liberated

¹²*Azərbaycan Banklar Assosiasiyasının 2016-2020-ci illər üzrə strateji planı. ABA. – Bakı: – 2015. – 12 s.*

¹³*Maliyyə xidmətləri bazarında tənzimləmə və nəzarət sisteminin idarəedilməsinin təkmilləşdirilməsi haqqında. Azərbaycan Respublikası Prezidentinin Sərəncamı // Bakı: – 28 noyabr 2019-cu il. – № 1616.*

territories. Substantial grounds for these initiatives exist, as reflected in the Presidential Order dated December 10, 2021 “On some measures related to the acceleration of economic development in the liberated territories”¹⁴. Additionally, the Presidential Order dated February 2, 2021, established “Azerbaijan 2030: National Priorities for Socio-Economic Development”¹⁵. Collectively, these actions form a strong foundation and create significant prospects for expanding the financial services market in the near future, enhancing the role of systemically important banks in these processes.

17. Summary of scientific and practical proposals and recommendations from the dissertation work

1. The issues of efficiency and development of the financial services market, as well as the finance and financial system, should be investigated comprehensively. In this context, ensuring the optimality of the financial system and its responsiveness to global challenges should become a strategic objective of the state.
2. It is essential to align banking activities with the new Basel standards and to develop and implement new mechanisms for maintaining the financial stability of banks, considering global challenges.
3. The diversification of resources of the country’s banks, the formation of productive financial sources, and the implementation of measures to increase non-interest income should be ensured, along with the establishment of justified strategies for investment activities.
4. Each systemically important bank should have an anti-crisis strategy, and the preparedness of financial stability mechanisms for long-term global challenges must be rigorously tested and evaluated. Financial reserves should be established, with particular attention paid to the adequacy of the capitalization levels of such banks.
5. To maximize the intensive implementation of restoration and revitalization projects in the liberated territories, a concept for the development of financial-credit and banking infrastructure in the

¹⁴ *İşğaldan azad edilmiş ərazilərdə iqtisadi inkişafın sürətləndirilməsi ilə bağlı bəzi tədbirlər haqqında Azərbaycan Respublikası Prezidentinin Sərəncamı. Bakı şəhəri, 10 dekabr 2021-ci il.*

¹⁵ *Azərbaycan 2030: sosial-iqtisadi inkişafa dair Milli Prioritetlər. / – Azərbaycan Respublikası Prezidentinin 2021-ci il 2 fevral tarixli Sərəncamı ilə təsdiq edilmişdir.*

Karabakh and East Zangezur economic zones should be developed. In this regard, it is necessary to ensure that systemically important banks provide more agile banking services based on modern technologies, particularly digital mechanisms and “smart technologies”.

6. In response to the new challenges arising from global crises, we propose the adoption and implementation of the “State Program for accelerating the development of systemically important banks in the financial services market of the Republic of Azerbaijan for 2025-2030”. This program aims to strengthen the resilience of the financial services market in Azerbaijan and elevate the role of systemically important banks to meet the objective requirements of modern times. Considering the demands of the post-pandemic period and the restoration and revitalization priorities of the liberated territories, the necessity for preparing a comprehensive strategic and targeted measures plan, as well as a state program, emerges. Additionally, the issues related to enhancing the role of systemically important banks in intensifying the operations of the financial services market in the country draw attention to several conceptual approaches, necessary measures for implementation, and mechanisms that need to be developed and realized.

The core content of the dissertation has been published in the following academic works:

1. Strategic functions and operational principles of systemically important banks in the financial services market // Azerbaijan National Academy of Sciences, Journal of Scientific Works, – 2018, No. 5, – pp. 30-36.
2. Important aspects of the multiplicative characteristics of systemically important banks in Azerbaijan's financial services market // Baku: Journal of Gestrategy, – 2019, No. 5, – pp. 140-144.
3. Strategic importance of systemically important banks in enhancing the efficiency of financial and banking mechanisms // Baku: Journal of Audit – 2019, No. 3, Volume 25, – pp. 49-58.
4. The impact of systemically important banks on the development of the financial services market in modern times // Materials of the Republican scientific conference dedicated to the 96th Anniversary

- of National Leader Heydar Aliyev. SSU, April 25-26, 2019, – pp. 314-316.
5. Development issues of systemically important banks and assessment of their impact on the financial services market // Baku: Azerbaijan National Academy of Sciences, Journal of Scientific Works, – 2019, No. 2, – pp. 85-91.
 6. The role of systemically important banks in stabilizing the financial services market in the context of global transformations // Journal of Technology and Science, Issue: 01, Volume: 69. – 30.01.2019, – pp. 238-244.
 7. The importance of systemically important banks in stabilizing the financial services market amidst increasing global influences / Journal of Science and Innovation. Steyr, Austria. 30.05.2019, – pp. 73-76.
 8. Strategic importance of systemically important banks in Azerbaijan's financial services market //Journal of Financial Economy, 2020, No. 04, – pp. 323-328.
 9. Theoretical and methodological issues of the efficiency of systemically important banks in the financial services market // News of the Azerbaijan National Academy of Sciences, Economic Series, Baku. – 2021, No. 04, – pp. 159-166.
 10. Integratively significant banks: directions for improvement in the financial services market of Azerbaijan / Proceedings of the II International scientific and practical conference “Modern strategies and digital transformations for sustainable development of society, education, and science”, Moscow, September 26, 2022, – pp. 276-284. <https://www.elibrary.ru/item.asp?id=49569150>.



The defense of the dissertation will be held 22 January on 2025 at 16:00 at the meeting of the ED 2.10 Dissertation Council operating under the Azerbaijan State University of Economics.

Address: AZ 1001, Baku city, Istiglaliyet Street 6.

It is possible to get acquainted with the dissertation in the library of the Azerbaijan State University of Economics.

The electronic versions of the dissertation abstract are posted on the official website of the Azerbaijan State University of Economics. (<http://unec.edu.az/tedgigat/dissertasiva-surasi/>).

The abstract was sent to the necessary addresses on 21 December 2024.

Çapa imzalanıb: 11.12.2024
Kağızın formatı: 60x84 ¹/₁₆.
Həcmi 1 ç.v. (37171 işarə)
Tiraj 30.

*“AA – Poliqraf” istehsalat-kommersiya birliyində
hazır diopozitivlərdən istifadə olunmaqla çap edilmişdir.*

Əlaqə üçün: capevi@internet.ru Tel.: +994552012809