

REPUBLIC OF AZERBAIJAN

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ABSTRACT

of the dissertation for the degree of Doctor of Philosophy

**EVOLUTION AND DEVELOPMENT PERSPECTIVES
OF FINANCIAL-CREDIT INSTITUTIONS
IN THE FINANCIAL SECURITIES MARKET**

Speciality: 5301.01 Internal fiscal policy and public finance

Field of science: 53 – Economic sciences

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BAKU - 2021

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STUDY OVERVIEW

Relevance of the research topic. The successful functioning of Azerbaijan's financial markets is one of the country's top priorities for economic development, and its development is closely linked to the characteristics of the financial system's organizational structure. The banking sector and the securities market, on the other hand, are the two most important components of every country's financial system. This market's institutional characteristics express an infrastructure element developed by professional participants and government organizations involved in this area of the financial market.

As a result, in order to ensure the smooth and efficient operation of the Azerbaijani stock market, special attention must be paid to the implementation of necessary reform and change, as well as the search for appropriate funding sources. It is vital to stimulate the development and improvement of financial institutions in the securities market in order to achieve this.

We can only talk about the preponderance of bank capital in this area of the financial market when it comes to the main players of securities market in Azerbaijan. As a result, as part of their professional operations, commercial banks should be engaged in maintaining the smooth operation of the infrastructure of the financial market and act as one of the primary initiators of necessary change, thereby ensuring the high degree of development of the financial market. Furthermore, they have to serve as financial suppliers.

The securities market in Azerbaijan is through a period of change, both in terms of content and structure. It connects the national and global economies' systems of interlinked market mechanisms. Simultaneously, the securities market is an important component of globalization, integrating national systems and assisting in the standardization of legislation. Azerbaijani businesses have managed to attract investment in their expansion thanks to the opening of economic boundaries, access to international markets for goods and services, and free movement of capital.

On the other hand, there are essentially no private investment banks among the banks established in the country as a result of market

reform, and interest rates of commercial bank loans do not operate as a driving factor for economic development.

As a result, the following factors contribute to the urgency of the topic addressed in this dissertation:

- When researching the characteristics of the Azerbaijani stock market, it is necessary to systematize the theoretical basis of the activities of professional players in the securities market of Azerbaijan, as well as generalize methodological approaches to interpret current stock market models in world practice.

- Inadequate development of issues has been connected to the development of Azerbaijan's stock market infrastructure due to a lack of a coherent strategy for strategic development and improvement of the mechanism of operation;

- There is the necessity to perform a complete examination of practical operations of professional stock market participants in order to establish mechanisms in order to involve their funds in the development of the securities market's infrastructure.

When analysing the stock market's development features in Azerbaijan, it's important to consider the national economy's increasing crisis tendencies, the country's strong reliance on raw material exports, the financial system's sensitivity to external influences, and the ineffectiveness of most investor protection programs. The rapid development of the national stock market is not just a theoretical concern for the country, but it is also a practical one.

The fundamental purpose of the “State Program on the Development of the Securities Market of the Republic of Azerbaijan for 2011-2020” is to establish a securities market that complies with international standards, offers modern, broad capitalization opportunities to the economy, and has an effective operation and risk management mechanism.

The “Strategic Roadmap on Development of Financial Services in the Republic of Azerbaijan” envisages the development of financial markets as the second strategic goal, according to the decree issued by the President of the Republic of Azerbaijan on December 6, 2016. The construction of a favourable environment for financial intermediaries and issuers is justified as a priority within the context of this purpose.

All of these factors, as well as the need to identify more effective priorities for the financial system's development have influenced the research topic's importance.

Study level of the problem. Local and international scholars have always been interested in the theoretical and methodological foundations of the development of financial and securities markets, as well as the challenges of formation and development of financial and credit institutions in the securities market. With the change of the administrative-economic structure of the government and the formation of private property, securities, and the market economy, the first scientific works on these issues started to appear in modern Azerbaijan.

The following Azerbaijani economists have researched finance, banking and credit systems, national economy investment and financing, and many aspects of the operation and development of various financial and credit organizations in this process: Kh.S.Abdullayev, R.E.Abdullayev, Z.F.Mammadov, L.V.Abışlı, M.A.Dashdamirov, B.S.Ahmadov, M.A.Ahmadov, R.M.Akbarov, A.E.Karimov, S.A.Hajiyeva, R.A.Hasanov, M.O.İbrahimova, Z.H.Ibrahimov, A.Kh.İsmayılov, E.Q.İsmaylov, F.Kh.Kazımov, F.Sh.Kashiyeva, A.S.Qasımov, F.M.Quliyev, R.A.Quliyev, İ.N.Mammadov, G.Q.Mammadova, J.B.Namazova, M.M.Sadiqov, E.A.Rzayev, Z.A.Shakaraliyeva, N.M.Vahabzada, P.A.Valiyev, A.Y.Yahyayeva and others. Moreover, local economic scholars RH Abbasov, DA Bagirov, and RA Hasanov examined the challenges and development of financial market as well as features of financial and credit institution activities.

The organization and economic mechanisms of the securities market's evolution, as well as features of its impact on the economy's financing and investment processes have been thoroughly examined by A.H.Abbasov, R.S.Hajiyev, N.N.Qaraxanov, Y.A.Mammadov, E.M.Musayev, Z.A.Nuriyev, E.M.Sadiqov, S.S.Taghizada.

Some concerns in the field of institutional theory have been explored in the works of world-renowned economists R. Coase, D. North, and T. Veblen, as well as his followers and students - G. Adams, K. Ayrs, and JK Helbright. Issues relating to the securities

market's structure have been studied by scientists by S.C. Anderson, J.L. Arcand, E. Berkes, E. Davey, E.Friend, I.Fisher, M.Feldstein, M.J. Gordon, J.Hirschleifer, J.Clark, T.Rybkinsky, V. Mau, U.Panizza, B.Zorsten, J.B. Williams and others.

Economists of the post-Soviet countries including U.Abdinasirov, A.Abramov, P.V.Alekseyev, A.U.Albekov, E.V.Aristova, S.V.Bakareva, V.E. Bessarabov, T.B.Vilkova, A.V.Qetmanova, V.B.Qoroshenko, E.B.Dorina, N.A.Jarnikova, E.A.Zavyalova, N.A. Zvyaginseva, A.P.Ivanov, K.V.Ivanova, B.A.Kartashov, A.A. Kilyachkov, N.B.Kozlov, N.V.Kruglova, Y.V.Laxno, E.V.Matveyev, A.A. Povlova, A.Radikin, F.M.Topsakhalova, A.I.Khorev, A.Shemetov, M.Chernov and others have also conducted research on these problems. At the same time, the existing achievements and previous research in the study of these problems do not reduce their relevance of the problem. However, in order to build a financial market that runs efficiently and fulfils current standards, there is a need for extensive systematic research to identify methodological concerns, the development dynamics of financial and credit institutions, as well as scientifically supported strategic priorities for its development, taking into account the existing challenges in the field of management in Azerbaijan as well as the intensification of economic crisis trends. The mentioned issues confirm the importance of the dissertation topic and served as deciding elements in its selection.

Goals and objectives of the dissertation. The goal of this dissertation is to establish the future development directions of financial and credit institutions in the national securities market, as well as measures to improve their efficiency, based on a study of the scientific foundation for the formation and development of the securities market, as well as an examination of financial institutions in this market.

To achieve this goal, the following objectives have been set and fulfilled:

- To conduct a comprehensive and detailed research of theoretical approaches to securities market challenges;
- To identify the methodological principles and analyse the

mechanisms of operation of financial and credit institutions in the securities market;

- To examine foreign experience in the establishment and growth of financial markets;

- To analyse development dynamics of the Azerbaijan's securities market;

- To evaluate the current situation of the securities market;

- To expose the country's stock market's current difficulties in the sphere of financial-credit institution activities;

- To determine the national securities market's development perspectives and priorities;

- To explore measures to improve the activity of financial and credit institutions as important actors in the securities market;

- To develop an action plan to strengthen the role of financial and credit institutions in the country's securities market.

The research object and subject. The study's focus is the operation of securities markets and the features of financial and credit institutions' activities in Azerbaijan's securities market.

The subject of the research is the system of relationships between market participants in the establishment and development of financial and credit institutions in Azerbaijan's securities market.

The theoretical basis of the research is the provisions of the schools including neoclassical, monetarist, Keynesian, institutional economic theory, as well as the results of research conducted by local and foreign scholars on the topic of the dissertation.

The methodological basis of the research is based on the methods of analysis-synthesis, induction-deduction, comparative analysis, statistical grouping, structural analysis, generalization, empirical analysis.

The research database includes normative-legal actions relating to Azerbaijan's financial sector and securities market, as well as materials from the Central Bank of Azerbaijan, the Ministry of Economy, and international statistical and rating organizations.

The scientific novelty of the dissertation is based on the proposals about the development of the conceptual basis of the securities market, the analysis and assessment of the existing status of

financial and credit institutions in this market, the determination of priorities for the development of the Azerbaijani securities market, and development of the scientific and practical solutions for improving the activities of financial and credit institutions operating in the stock market.

In this regard, in *theoretical, scientific and practical aspects*:

- The theoretical foundations of securities market activity have been conceptually generalized, and the concepts of “investment fund,” “investment company”, “investment bank,” “individual investor,” and “institutional investor” have been completed and clarified;

- Within the framework of several models on securities market, the characteristics and methodological principles of financial and credit institutions have been revealed.

- Development trends of securities markets of different countries and features of development model of securities market in Azerbaijan have been identified;

- On the basis of the analysis of the indicators reflecting the level of development of the country’s securities market, its modern level of development has been determined;

- A comparative analysis of the stock market of Azerbaijan with foreign countries has been conducted and an assessment of the current state of the national stock market has been carried out;

- The effectiveness of the financial and credit institutions in the country's securities market has been assessed and the main problems facing its development have been identified;

- Prospects for the development of the infrastructure of the securities market in the Republic of Azerbaijan have been identified;

- Directions for improving the mechanisms of state regulation of the national stock market have been identified;

- Proposals have been developed to increase the efficiency of financial and credit institutions in the country's securities market;

The theoretical and practical significance of the research includes the results obtained and the set of measures elaborated develop and complement the theoretical and methodological organizational apparatus of the securities market in Azerbaijan. The author’s recommendations and methodologies are of practical

importance and can be used by the state bodies responsible for the regulation of the financial system of the Republic of Azerbaijan and can be taken into account while elaborating the development strategy of the Azerbaijani financial market. Dissertation materials can be used in the preparation and improvement of teaching and methodological materials on the courses taught by higher education institutions at bachelor and master levels.

Approbation of research results. The main provisions and results of the dissertation have been presented at international and national scientific-practical conferences, as well as scientific and methodological seminars.

11 scientific articles on the topic of the dissertation have been published in foreign and local scientific journals. Of these, we can mention the followings including “Basic Problems and Prospects for Development Banking System of Turkey” (“IX Международная научно-практическая конференция Минск”, April 18-19, 2013), “Activities of Professional Participants in the Development of the Securities Market: analysis and evaluation” (Baku, 2014), Fundamentals of Macro and Microeconomic Analysis in the Securities Market: Theory and Practice (Baku, October-December 2016), Analysis of Macroeconomic Indicators Affecting the State of Financial Markets (Lankaran, 2016), the role of the Securities Market in the investment process: analysis and evaluation (Moscow, 2017), Prospects for Participation of Investment Banks in the Securities Market of Azerbaijan (Baku, July 2018), Ways to Improve the Mechanism of State Regulation of the National Stock Market (Baku, 2019), Azerbaijan and Turkey Universities: Education, Science and Technology “I International Scientific-Practical Conference” and others.

The results and proposals of the dissertation have been sent to “Muganbank” OJSC and accepted for future use (M / 01-2446).

The structure and scope of the dissertation. The dissertation’s structure is determined by the research’s goal and aims. The dissertation work has a total of 155 pages and consists of an introduction (15591 characters), three chapters (Chapter I - 101045 characters, Chapter II - 92796 characters, Chapter III - 61777

characters), a conclusion (6409 characters), and a list of literature in Azerbaijani, Russian, and English languages written according to recognised standards.

THE CONTENT OF THE DISSERTATION

Introduction

Chapter I. Theoretical-methodological aspects of the activity of financial and credit institutions in the securities market

1.1. Theoretical approaches on the formation and activity of securities market

1.2. Methodological principles and mechanisms of the activity of financial-credit institutions in the securities market

1.3. International experience on the activity and development of securities market

Chapter II. Analysis and assessment of the current state of the securities market and financial and credit institutions in the Republic of Azerbaijan

2.1. Analysis of the development dynamics of securities market in the Republic of Azerbaijan

2.2. Evaluation the level of development of the infrastructure and modern state of the national stock market

2.3. Main problems of the activity of financial and credit institutions in the country's securities market

Chapter III. Development perspectives of the activity of financial and credit institutions in the Azerbaijan's securities market

3.1. Development and elaboration of the effective mechanisms of securities market infrastructure in Azerbaijan

3.2. Ways to improve the mechanisms of state regulation of the stock market

3.3. Priority directions of the activity of financial and credit institutions in the development of national securities market.

Conclusion

List of literature

MAIN CONTENT OF THE WORK

1. The theoretical foundations of securities market activity have been conceptually generalized, and the concepts of “investment fund”, “investment company,” “investment bank,” “individual investor,” and “institutional investor” have been finalized and clarified. According to a conceptual summary of the theoretical foundations of the securities market, there is no unanimous opinion on the mechanics of the securities market, the classification of participants, its regulation, or the development of financial and credit institutions. The author has completed and clarified the concepts of “investment fund”, “investment company”, “investment bank”, “individual investor”, “institutional investor”.

An “institutional investor” is a legal company or individual that participates in the securities market as a financial intermediary and acts as an organization that redistributes financial resources to cash-strapped businesses that require funds to complete planned initiatives. There are a number of investment institutions in Azerbaijan. It is important to stress that the banks have experienced a rapid development in comparison with the existing insurance companies, investment firms, investment funds, and so on.

Individual investors’ activities are diverse, involving both the deposit formation and investment in financial market products and processes. Individual investment policy is interpreted by all of these actions as an economic entity’s purposeful behaviour aimed at reaching a specific goal and outcome. Such a policy necessitates the ability to recognize and analyse all of the elements that influence financial market savings and investments. As a result, investing actions of individual financial market participants must be linked to the market’s economic and household functions. As a result, individual investment activity can be classified as part of economic activity when it is linked to the development of deposits and their subsequent use as investments in the economic resource market or as collateral to achieve certain objectives. The dissertation work develops a strategy for the mechanism for the investment activity of individual investor.

Although the number of stock market entities is modest on the one hand, and a joint-stock investment fund is among the professional

stock market participants on the other hand. It should be remembered that the legal entity is the investment scheme's organizer.

The term “investment company” refers to a legal organization formed in the form of a joint-stock company that is licensed to conduct investment activities with the primary focus on primary or ancillary investment services.

The terms “investment bank” and “investment company” are similar in meaning, but the latter comprises professional securities market participants who are regulated for brokerage and dealership. As a result, many economists consider credit institutions' investing activities to be separate banking operations. This term could be related to the necessity for banks to supply the necessary quantity of financial resources to the investment fund. Given the poor liquidity and slow development of the stock market, this is mostly accomplished by utilizing the liabilities of a commercial bank. The investment bank—according to the author, which is considered a leading mediator in the trading of stocks and bonds, financial instruments, currencies, and commodities, as well as the publishing of analytical reports on all markets also serves as a global financial institution specializing in the buying and sale of brokerage services through consultancy services.

2. Within the framework of various models of the securities market, the characteristics and methodological principles of financial and credit institutions have been identified. The key investment techniques can be structured for securities after reviewing theoretical materials on investment methods and decisions. The suggested systematization will enable the investor to select the most suitable security from a wide variety of options available on the securities market.

It should be mentioned that the selection of an investing plan for Azerbaijani stock market is influenced by a variety of circumstances. Furthermore, it is a fact that SSCs in Azerbaijan have not yet reached a high level of development, and investors are hesitant to demonstrate a clear and confident approach. In Azerbaijan, knowledge and capabilities of potential individual investors for securities management are now relatively low. It is influenced by a number of socioeconomic factors. This study, we believe, should be performed as one of the

methodological support documents on making investment decisions in a highly complete systematization of alternative strategies (their characteristics, advantages, and disadvantages).

There have been several techniques of evaluating exchange operations described. Due to the inconsistencies in each strategy, determining a distinct solution for the young and insecure Azerbaijani market remains challenging.

In this case, the researchers consider existing methodologies in terms of interaction and synergistic effect rather than importance and accuracy.

3. The development trends of the securities markets of different countries and the features of the development model of the securities market in Azerbaijan have been identified. Azerbaijan is more accustomed to the intermediate investment banking paradigm. The Central Bank of Azerbaijan has licensed universal banks and broker-dealer organizations to operate in several sectors of the financial market (before the abolition of the FIMSA).

The level of formation and development of the Azerbaijani securities market, as well as its financial and credit institutions is determined by the country's current geopolitical environment, as well as regional economic development scenarios (CIS, South Caucasus). As a result, it is necessary to unite the efforts of both neighbour and partner countries (major trading partners) in order to strengthen the working circumstances of financial and credit institutions across the securities market.

In terms of chances to apply world experience in the establishment of the Azerbaijani stock market, a comparative study of stock market models is intriguing. The market economy's transition has progressed at a breakneck pace. Therefore, the experience and models of the world's leading stock markets have been actively used. As a result, Azerbaijan has employed a mixed model of equal involvement in the bank and non-bank investment markets.

National models on financial markets in post-socialist nations cannot be defined as European or Anglo-Saxon in nature. In this regard, the Azerbaijani model is similarly contradictory, as it employs a blended management approach that combines elements of both models. The most appropriate model for the present Azerbaijani

economy is presented in the table (Table 1).

Table 1
Features of main stock market models

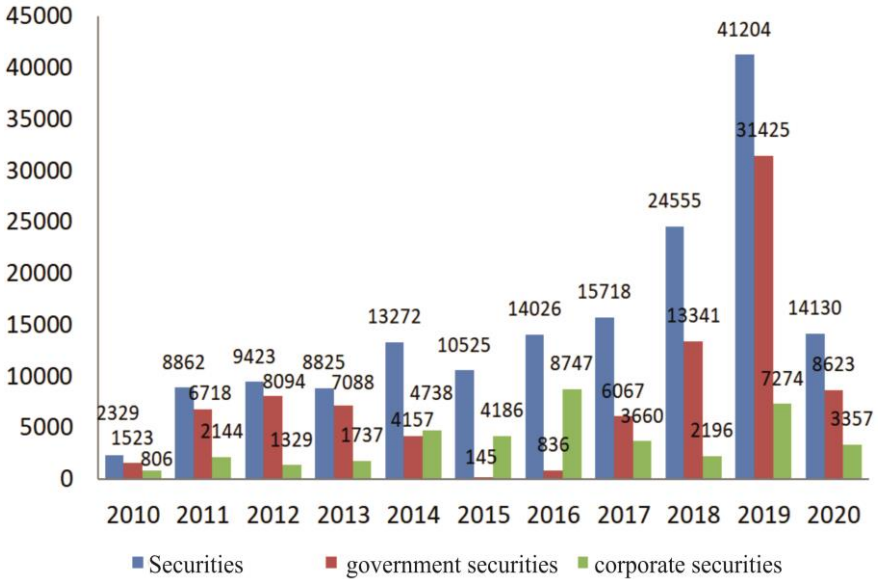
	EUROPEAN MODEL	AMERICAN MODEL
<i>Representatives</i>	Germany, France, Sweden, Belgium, Italy, Austria	United States, United Kingdom
The right of banks to work with securities	Banks operate with almost unlimited securities	Investments in stocks are prohibited for banks
State participation	Minimal state intervention	Active participation of the state in market management
Corporate governance	Insider corporate governance system	An outsider type of corporate governance
Dominance in the financial sector	The dominance of banks in the economy	The great importance of the capital market in the financial sector
Corporate strategy	Conservative	Adapted flexibly with external change management strategy

Source: Compiled by the author on the basis of comparison of local and foreign scientific sources.

4. Based on the analysis of indicators reflecting the level of development of the country's securities market, its current level of development has been determined. Our research shows that, in recent years, great progress has been made in the republic's securities market in terms of the degree of development. In addition to good quantitative indicators, considerable qualitative improvements have been experienced. As a result, the investment securities market as a whole rose by 6.1 times in 2020 compared to 2010, with government securities increasing by 5.7 times and corporate securities increasing by 4.2 times.

In comparison to 2019, the securities market volume in 2020 fell to 14.130 million manat decreasing by 65.7 percent. This is largely due to a severe drop in corporate activity caused by the global pandemic, which has impacted many countries' international and national financial markets. As we have experienced, this has not gone unnoticed in Azerbaijan's domestic financial sector. This impact was considerably bigger in our own financial sector under the influence of the Second Karabakh War, which occurred in 2020. War, as is well

known, does not allow for the efficient use of all economic resources, including financial resources. In comparison to 2019, the government securities market decreased by 72.6 percent in 2020, while the corporate securities market decreased by 53.9 percent (Graph 1).



Graph 1. Development dynamics of Azerbaijan's investment securities market (in million manats)

Source: Compiled on the basis of information provided by the Central Bank of the Republic of Azerbaijan.

As a result, the corporate securities market's portion of the investment securities market's structure increased from 39.8% in 2015 to 62.4 percent in 2016, and it has fallen from 23.3 percent in 2017 and 2018 to 8.9%, respectively. This percentage was 17.7% in 2019, and it was 23.8 percent in 2020. Government securities and derivative financial instruments accounted for 1.4 and 58.8% of total assets in 2015, 6.0 and 31.7 percent in 2016, 38.6 and 37.8% in 2017. In 2018, it was 54.3 and 34.3%, and in 2019 and 2020, it was 76.3% and 61%, respectively, and no transactions on derivative financial instruments were registered.

The investigation reveals that the structure of the corporate securities market has changed significantly. Thus, the volume of transactions in the stock segment of the corporate securities market in

2019 increased by 2.8 times compared to 2010 and amounted to 1.446 million manats. However, in 2020 it decreased by 59.7% compared to 2019 reached to 583 million manats which almost reached to the level of 2010. It's worth noting that this amount was 502 million manats in 2010, which is only 1.2 percent less than it was in 2020. In the corporate bond segment, in 2020 increased by 9.1 times compared to 2010 and reached 2774 million manats (Table 2).

Table 2
Level of development of the corporate securities market in Azerbaijan (million manats)

Years	Corporate securities	Including	
		Stocks	Corporate bonds
2010	806	502	304
2011	2 144	1 029	1 115
2012	1 329	599	730
2013	1 737	573	1 164
2014	4 738	1 279	3 458
2015	4 186	657	3 529
2016	8 747	913	7 834
2017	3 660	2 032	1 628
2018	2 196	925	1 271
2019	7 274	1 446	5 828
2020	3 357	583	2 774
2020 in relation with 2010%	416,5	116,1	912,5

Source: Compiled by the author on the basis of the Central Bank of the Republic of Azerbaijan

As a result, the weight of stocks in the structure of the corporate securities market fell from 15.7% in 2015 to 10.4% in 2016 and rose to 56.0% in 2017, but again it decreased by 42.1 percent in 2018. In 2019, the quantity of stocks was 19.9%, as can be seen from the table, which decreased significantly compared to the previous two years. According to the final analysis of 2020, this figure fell to 17.4%. The share of corporate bonds increased from 84.3% to 89.6% during this period, respectively, and fell to 44.5% in 2017, but rose again to 57.9% in 2018. In 2019, there is an increase of 80%, and in 2020, with a slight increase compared to the previous year (2.5%) to 82.6%, which indicates a significant improvement compared to 2017 and 2018.

According to the analyses, over the last ten years (2010-2020), special weight of bonds in the Azerbaijani corporate securities market has exceeded special weight of stocks. In 2020, it exceeded 4.2 times compared to 2010. Thus, in 2020, stocks accounted for 17.4% and bonds accounted 82.6%. of the corporate securities market. This shows that the borrowing in internal corporate market of Azerbaijan in 2020 is more than investments in the stocks.

The volume of government securities in Azerbaijan has declined during 2010-2015, and only in 2016-2018 has it begun to climb again, according to an analysis of the market's trend for 2010-2020. In particular, it manifested itself in the years 2017-2018. As a result of the Ministry of Finance's execution of a domestic borrowing policy, as well as a substantial increase in the amount of notes issued by the Central Bank to relieve pressure on the manats (increased up to 20 times from 2016 and reached 5227 million manats), the securities market expanded by 7.3 times in 2017 compared to 2016, reaching 6.1 billion manats. In 2019, the government securities market continued to increase (by 2.4 times in comparison to 2018), but in 2020, it fell by 3.9 times to and was 8,6 billion manats (Table 3).

Table 3
Level of development of the government securities market in Azerbaijan (Million manats)

Years	Government securities	Including		
		Government bonds	Central Bank notes	Repo/counter-repo
2010	1523	456	229	838
2011	6718	281	655	5782
2012	8094	168	1070	6857
2013	7088	135	344	6609
2014	4157	108	508	3541
2015	145	21	-	124
2016	838	567	269	2
2017	6067	839	5227	52
2018	13953	1098	12243	612
2019	33930	2884	28541	2505
2020	8623	1684	6939	2150

Source: Compiled by the author on the basis of the Central Bank of the Republic of Azerbaijan.

Table 3 shows that after the devaluation in February 2015, the volume of government securities decreased by 96.5 percent compared to 2014. It climbed 5.7 times the previous year in 2016, 7.2 times in 2017, 2.3 times in 2018, and 2.4 times in 2019. In 2020, it decreased by 74.6%.

The Central Bank of the Republic of Azerbaijan actively used sterilization mechanisms, resulting in an increase in the volume of government securities from 2016 to 2019. As a result, the Central Bank's note issue volume climbed by 6 billion manat, or 2.3 times, in 2018, surpassing 12 billion manats. The weighted average yield on the notes was equal to 8.45 percent as a result of 51 auctions staged on the stock exchange with the Central Bank's notes. In 2019, the total number of notes issued increased by 2.4 times and was 28.541 billion manats.

In terms of repo and counter-repo transactions, the total amount of government bonds traded in 2017 was 52 million manats, up 25 percent over 2016. In 2018, the overall amount of repo transactions in the investment securities market totalled 612 million manats, an increase of 11.9 times over the previous year. Government bonds accounted for 67 percent of this increase, or 373 million manats. In the repo market, the volume of transactions in this area surged by 13.1 times. It should be mentioned that, despite the absence of repo transactions with Central Bank of Azerbaijan notes in 2017, the number of repo transactions in 2018 reached 180 million manats.

The degree of development of the country's derivative securities market from 2014 to 2018 reveals that, while the overall volume of the derivative financial instruments market peaked in 2015, it fell in 2016 before increased again in 2017 and 2018 (See Table 4).

Table 4

Level of development of the derivative securities market in Azerbaijan (Million manats)

Years	Derivative securities market	Including	
		commodity based	currency based
2014	4379	205	4173
2015	6194	99	6095
2016	4441	272	4169
2017	5940	402	5538
2018	8406	1030	7376
2019	-	-	-
2020	-	-	-

Source: Compiled by the author on the basis of the Central Bank of the Republic of Azerbaijan.

During 2018, trading operations totalling 1030 million manats were conducted on the Baku Stock Exchange's derivative financial instruments platform through currency-based derivative financing products totalling 7.4 billion manats. In general, the total amount traded on the derivative financial instruments market in 2018 was 8.41 billion manats, representing a 41.5 percent rise over the same time in 2017.

When looking at the structure of the Azerbaijani derivative financial instruments market, it is observed that while the percentage of currency-based financial instruments has reduced marginally, it still holds the market's dominant position.

5. A comparative analysis of the stock market of Azerbaijan with foreign countries was conducted and an assessment of the current state of the national stock market was carried out. Recent developments in the international arena, as well as changes in world oil prices and the sound macroeconomic support provided by a number of wealthy countries, have demonstrated that countries need to develop their financial foundations. To expand the real sector in the Republic of Azerbaijan, issues of interest rates and terms in banks, as well as the development of the stock exchange, must be resolved. It is possible to address the financial demands of economic organizations by founding investment banks for this reason, rather than spending more money on stocks and bonds. On the other hand,

an intermediation mission will undoubtedly be established in investment banks to ensure those depositors and those in need of funding or enterprises may trust each other. In this regard, it is critical to align financial statements generated by businesses with international standards.

It should be mentioned that, following the devaluation in February 2015, numerous regional branches and departments of banks were exposed to closure as a result of the financial system's decline. Banks are well-known financial and credit institutions that play an important role in the transmission of funds to the regions via their branches. One of the most pressing concerns, in this regard, is to establish the circumstances for the growth of financial and credit institutions, which are critical components of the financial infrastructure, as well as to construct a system of governmental support for their activities in supplying financial and investment funds to various sectors of the economy. In this regard, it is required to simplify and tightly segregate the functions of separate governing organizations at the regional and national levels in order to improve the efficiency of Azerbaijan's securities market. At the same time, enhanced regulation of investment institutions will result in the transfer of some government regulatory authority to regional regulators. It should be noted that for the development of the stock market it is necessary to create a transparent information base, bring accounting and auditing in line with international standards.

6. The efficiency of financial and credit institutions in the country's securities market has assessed and the main problems facing its development have been identified.The absence of appropriate funding sources for the formation of investment funds is one of the primary reasons for the lack of investment funds in Azerbaijan, according to an assessment of the level of growth of the national stock market and the role of financial and credit institutions. As a result, funds operating in the country (such as Mortgage and Credit Guarantee Fund of the Republic of Azerbaijan, Azerbaijan Deposit Insurance Fund, and so on) operate primarily at the expense of state money, and investments are made in support of the state's numerous socioeconomic programs. Gaps in the law are

one of the key reasons for the lack of private investment funding. It's worth noting that existing public funds also finance and invest through banks, rather than directly.

Given our country's slow pace of development, we must make greater efforts than other countries to persuade investors of the long-term viability and effectiveness of beneficial reform in this sector. Azerbaijan leads the South Caucasus region for foreign reserves. In addition to our country's vast natural resources, the advantages of a well-capitalized banking system, a low corporate income tax rate, and a wide consumer market should be recognized. Despite all of these favourable aspects, the poor performance of government agencies, a certain level of corruption, and the presence of high bureaucratic hurdles encourage investors to think carefully when investing in areas of our national economy.

7. Prospects for the development of the securities market infrastructure in the Republic of Azerbaijan have been identified.

The adoption of a variety of legislative measures that stimulate the improvement of the investment climate in general can be used to implement a system of actions to improve the investment climate. In addition to enhancing stock market law to protect investors' interests, the followings are proposed:

- To provide liability insurance and electronic document management in market players' activity;
- To pay special attention to the use of contemporary legal and technical measures to secure information on property rights;
- To build a network information system to support the ownership of securities and other financial instruments;
- To support the Central Bank's functions necessary for the implementation of the financial market regulator's major tasks (liquidity management, protection of investors' rights, infrastructure development), raise the financial market's transparency and monitor its condition.

The existing situation of the stock market must be harmonized with Azerbaijan's existing degree of investment instrument development. Given the uncertainty surrounding the Azerbaijani stock market's short-term prospects, long-term growth should be

prioritized. In the long run, the commercial organizations that deliver the most social efficiency will be given a significant boost in the development. It is well known that mobilizing resources to support the socio-economic sphere and vulnerable parts of the population will be financially impossible for a national market without sustainable development. As a result, compensating measures that support issuers and private investors in the creation of stock market investment instruments via the means of future public efficiency standards will also help the country create socially relevant regional initiatives.

8. Directions for upgrading the national stock market's state regulating mechanisms have been identified. The legal framework of the Republic of Azerbaijan's securities market must be updated to reflect the current stage of development of the country's financial sector. Given the current global economic and political scenario, we believe that tightening regulations and consolidating control functions is an acceptable approach for protecting national enterprises.

- The Azerbaijan Investment Company employs appropriate methods of collaboration to co-finance projects in non-oil areas of the Azerbaijani economy with the participation of foreign investors. The formation of cooperative investment funds can be a successful choice.

- There is now no single legal space for the state compensation program that assures the efficient functioning of investors in Azerbaijan's stock market. In this regard, normative acts regulating the activities of the compensation program for investors in the Republic of Azerbaijan's laws are required. We recommend that the existing law "On Investment Funds," which regulates the principles of investment fund creation and operation, be improved, or that the Civil Code of the Republic of Azerbaijan be amended to include essential additions and revisions. From a practical standpoint, the generalized and clarified version of the definitions provided in the first chapter of the dissertation's definition of "investment funds" can be utilized in this circumstance.

Also, there is no guarantee fund in Azerbaijan other than the Deposit Insurance Fund, and the activities of this fund are strictly

limited. To efficiently expand the securities market in the country and attract investment through financial markets, measures should be adopted to protect depositors' and shareholders' rights in order to promote local and foreign investors. In this regard, the law "On measures to protect the rights of depositors and shareholders" must be passed in Azerbaijan, as well as state and non-state guarantee (compensation) funds. Different legal regimes of compensation schemes might be defined at the same time through these normative acts.

This law should provide the legal foundation for the creation and administration of a compensation fund, which is a special non-profit company that pays investors compensation. Those who get payments from compensation funds, like in the rest of the globe, are those who do not pay for damages in line with court orders owing to a lack of cash or other property. Individual investors' rights to compensate for losses caused by a professional stock market participant should be specified in the law. Individuals who own stocks regarded to be specialized investors are typically not compensated by compensation funds. Furthermore, compensation fund sources should be governed by legislation. Because none of the compensation schemes outlined in our legislation have been completely created, legislation establishing stock market guarantee programs is required. This law will assist investors in avoiding potential losses.

9. Proposals and recommendations have been developed to increase the efficiency of financial and credit institutions in the country's securities market. Hedgers (insurance service providers), one of the most important participants in the securities market, have a very limited, if not non-existent, presence in our country. As a result, Azerbaijan's business insurance culture is quite poor, and we believe that its development should be a top priority. It is not fair, in our opinion, for one group to engage in low-quality professional activities while putting the financial risks of others on the entire population of the country. In addition, paying compensation from the public fund is an extremely expensive operation. As a result, it is more cost-effective to use these subsidies to improve the country's medical and social sectors. According to international standards, Azerbaijan should have a variety of compensation fund structures in

place, with compensation for stock market clients being a top priority. Adoption of a single legislative act regulating this field in the country is an essential step in the establishment of an enhanced legislative framework for the protection of investors' rights in the stock market.

In order to meet more efficient and secure activities in Azerbaijan's securities market, significant reforms must be continued to improve the role and position of current market institutions. Legislative acts must be developed to provide appropriate financial resources for investors and issuers. Also the adopted legislative have to facilitate the process of implementing appropriate measures for the formation of professional participant companies operating in the securities market with appropriate financial resources as well as efficient operational management systems, a wide range of professional staff and the legal basis for these companies.

The main provisions of the dissertation, the results obtained and the proposals are reflected in the following published scientific works:

1. С.В.Гусейнова, Мурадов Р.Ш. “Основные проблемы и перспективы развития банковской системы Турции” / “Государственное регулирование экономики и повышение эффективности деятельности субъектов хозяйствования IX Международная научно-практическая конференция Минск: 18-19 апреля 2013 стр.172-174

2. Hüseynova S.V. “Azərbaycan iqtisadiyyatının müasir vəziyyəti və gələcək inkişafının assosiativ proqnozlaşdırılması 2013-2017-ci illərdə” / Geostrategiya jurnal №4 (22) İyul – Avqust. Bakı: 2014, səh. 56-60

3. Hüseynova S.V. “Qiymətli kağız bazarının inkişafında peşəkar iştirakçılarının fəaliyyəti: təhlil və qiymətləndirmə” / Azərıtıftıfıq Azərbaycan Kooperasiya Universiteti, Kooperasiya elmi-praktiki jurnalı №4 (35). Bakı: 2014 (50 illik yubiley buraxılışı), səh. 156-164,

4. Hüseynova S.V. “Qiymətli kağızlar bazarında makro və mikro iqtisadi təhlilin əsasları: nəzəriyyə və praktika” / “Qiymətli kağızlar bazarında makro və mikro iqtisadi təhlilin əsasları:

nəzəriyyə və praktika” Azərbaycan Dövlət İqtisad Universitetinin Elmi xəbərləri №4, Cild 4, Oktyabr- Dekabr 2016 səh. 147-156

5. Hüseynova S.V. “İqtisadiyyatın inkişafında qiymətli kağızlar bazarının rolu (nəzəri aspektləri)” / Azərıtıftaq Azərbaycan Kooperasiya Universiteti, Kooperasiya elmi-praktiki jurnal №2 (41) Bakı: 2016, səh.72-79,

6. Hüseynova S.V. “Maliyyə bazarlarının vəziyyətinə təsir edən makroiqtisadi göstəricilərin təhlili” // Lənkəran Dövlət Universiteti “Müasir elmin aktual problemləri” Respublika elmi praktik konfransı -2016. Məruzəyə görə Sertifikat səh.183-185

7. С.В.Гусейнова. “Роль рынка ценных бумаг в инвестиционном процессе: анализ и оценка” / Журнал «Экономика и управление: проблемы и решения» №7 том 4 2017 ИД "Научная Библиотека" Москва: стр. 88-92

8. Hüseynova S.V. “Azərbaycanın qiymətli kağızlar bazarında investisiya banklarının iştirak perspektivləri” / “AMEA-nın Xəbərləri İqtisadiyyat seriyası” jurnalı 03.07.2018-2 sayı, səh 89-95.

9. Hüseynova S.V. “Azərbaycanın qiymətli kağızlar bazarında investisiya şirkətləri və investisiya fondunun fəaliyyətinin təhlili və qiymətləndirilməsi” / “İpək Yolu” jurnalı, 2019

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11. Hüseynova S.V. “Azərbaycanda qiymətli kağızlar bazarının inkişafı: reallıq və prioritetlər” // “Azərbaycanın iqtisadi inkişaf strategiyası” mövzusunda keçiriləcək Respublika Elmi konfransının materialları. Bakı: 2019



The defense will be held *on “23” June 2021* at 16:00 at the meeting of the Dissertation council at ED 2.10 of Supreme Attestation Commission under the President of the Republic of Azerbaijan operating at Azerbaijan State University of Economics.

Address: AZ 1001, Baku, Istiglaliyat street, 6

The dissertation is accessible at the Azerbaijan State University of Economics Library.

Electron versions of dissertation and its abstract are available on the official website of the Azerbaijan State University of Economics.

Abstract was sent to the required addresses on *“24” May 2021*.

Signed for print: 19.05.2021
Paper format: 60x84_{1/16}.
Volume: 05/19. Number of hard copies: 20
(37725 symbols)

“AA – Polygraph” Production and Commercial Association