

3. Sharchuk, T. V. (2018). Lohistychnyi outsorsynh – shliakh do optymizatsii upravlinnia biznes-protsesamy pidpriemstva [Logistics outsourcing – a way to optimize the management of business processes of the enterprise]. *Bulletin of the National University «Lviv Polytechnic»*, no. 633, pp. 772–780.

4. Krasnoshapka, V. V., & Trokhymets, I. I. (2015). Outsorsynh ta yoho zastosuvannia na pidpriemstvakh Ukrainy [Outsourcing and its application at the enterprises of Ukraine]. *Efektivna ekonomika* [Efficient economy] (electronic journal), no. 5. Available at: <http://www.economy.nayka.com.ua/?op=1&z=4097> (accessed 10 November 2020).

5. A.T. Kearney's 2019 Global Services Location Index (GSLI) Resonates with Digital Change. Website. Available at: <https://www.prnewswire.com/news-releases/at-kearneys-2019-global-services-location-index-gsli-resonates-with-digital-change-300867002.html> (accessed 10 November 2020).

REGULATION OF THE BANKING SYSTEM OF AZERBAIJAN IN MODERN CONDITIONS

Mursalov Muslum¹

DOI: <https://doi.org/10.30525/978-9934-26-002-5-29>

The banking sector of Azerbaijan is one of the most important sectors of the national economy. Its functioning ensures the elimination of gaps in the movement of financial flows of business entities, the accumulation of capitalization of incomes of individuals and legal entities, and serves as the circulatory system of the state economy. The use of the powerful stimulating potential of this sector contributes to the equalization of the economic conditions of economic entities and ensures the financial stability of the country's economy. Against the background of the socio-economic crisis, the tasks of the state regulator in terms of reforming the banking sector are of particular importance. The latest trends in the socio-economic development of countries for a long time are associated with the intensification of external influences. In this context, it becomes necessary to form a new paradigm of state regulation of the banking sector in Azerbaijan, to develop forms and mechanisms of its influence on the socio-economic development of the state [1, p. 76–77; 2, p. 75–77].

1. In Azerbaijan, by the end of 2019, regulatory functions in the monetary system were divided between the Central Bank (hereinafter – CBAR) and the newly created regulatory body – the Chamber for Control over Financial

¹ Azerbaijan State University of Economics (UNEC), Azerbaijan

Markets (hereinafter – Chamber). At the same time, the CBAR carried out monetary policy, and the Chamber was endowed with the powers of regulation and supervision of financial markets and, in fact, ensures their effective activity as a megaregulator. If the CBAR had many years of significant experience in the country's banking market [3, p. 9; 4, p. 4, 9], then the Chamber, created by the Decree of the President of Azerbaijan on March 16, 2016 and covering such financial segments of the economy as the securities market, investment funds, insurance, credit organizations (banks, non-bank credit organizations and postal operator), is at the initial stage of its formation and development. The need to create a megaregulator (Chamber) in Azerbaijan as an optimal organization of banking regulation and supervision arose, in our opinion, in connection with the gradual blurring of the boundaries between the banking, insurance and stock sectors of the financial market.

To identify the feasibility of such a step, it is necessary to comprehensively analyze the arguments «for» and «against». The arguments justifying the need for a unified regulator, in our opinion, include the ability to regulate and supervise the activities of financial institutions, providing better communication processes, coordination of decisions and exchange of information, establishment of a unified approach to regulation and supervision of the banking, insurance and stock sectors, unification of financial statements etc. The opposite opinion operates on such arguments as risks for the banking sector due to the lack of highly qualified employees, the need for close information exchange between supervisory authorities and monetary policy, the underdevelopment of the stock market in Azerbaijan, the lack of a high-quality and effective system for collecting and analyzing statistical information on all segments of the financial market, etc.

Thus, the creation of a megaregulator has both its advantages and disadvantages. The main positive aspects in case of creation of a separate megaregulator of Azerbaijan are: firstly, the ability to carry out supervision on a consolidated basis, which is necessary for the implementation of comprehensive coverage of regulation and supervision of the activities of financial holdings; secondly, with the help of a single management structure, it is possible to ensure high-quality communication processes, coordination of decisions and exchange of information; third, the establishment of a unified approach to regulation and supervision of the banking, insurance and stock sectors of the financial market, etc. The transition from a megaregulatory model to an institutional one requires a very complex process that ensures an effective combination of all functions in one body. This process involves the implementation of a set of measures aimed at creating the prerequisites for the successful creation of a single body for financial regulation and supervision.

However, as real experience shows, in addition to the advantages, there are drawbacks in the regulation and control of the Azerbaijani financial market for the Chamber: firstly, practically no body, except for the CBAR, controls the banking system, adequate staffing; second, there is a close exchange of information between regulators and monetary policy; thirdly, there is a risk of a low level of independence of the megaregulator. The financial crisis showed that the transfer of certain regulatory and supervisory functions from the CBAR to the megaregulator proved to be ineffective not only in Kazakhstan, Georgia and Poland, but also in many developed countries such as Belgium, Great Britain and Germany.

In general, the creation of a megaregulator in the Republic of Azerbaijan corresponds to the prevailing trends in world practice. Over the past 20 years, the trend towards the creation of a megaregulator of the financial market has prevailed in the world, where the trend towards the amalgamation of several megaregulators, albeit to a lesser extent, has attracted attention. Since 2008, international organizations have been insisting on the gradual consolidation of financial, banking and insurance supervision.

In general, the activities of the Chamber should be assessed as insufficiently effective and incompatible with the practice of international financial institutions. First of all, all this is due to the growth of problem loans in the country, a decrease in public confidence in banks, the practical termination of lending to individuals and legal entities, low transparency of liquidation of credit institutions, passive participation in the protection of investor rights, a strategy for the development of the banking sector, its competitiveness and is confirmed by the lack of programs aimed at increasing and strengthening. As a result, some functions of the Chamber were actually transferred to the newly created Financial Stability Council and the Financial Monitoring Service of the Republic of Azerbaijan. Based on this, one should pay attention to the fact that the main function of the Financial Stability Council at that time was assigned only to the CBAR, which was responsible for monetary policy, and not to the Chamber, which was responsible for the financial market as a whole. It should be noted that part of the functions of the Chamber for the control and regulation of money laundering and the prevention of financial terrorism have been transferred to the Financial Monitoring Service. The measures taken, albeit indirectly, proved the unsatisfactory work of the Accounts Chamber in regulating the financial market. Many experts agree, some of them (for example, the Association of Accountants and Risk Specialists in Azerbaijan) considered the current situation and activities of this institution to be risky for the country's financial system.

At the end of November 2019, the Chamber was dissolved, and its powers were transferred to the CBAR, which is currently a megaregulator. In order to improve the activity of the CBAR as a megaregulator in the future, it is advisable to use foreign experience, in particular:

- Regularly determine quantitative and qualitative parameters for assessing the current state of the financial sector. Thus, for the banking sector, along with traditional parameters (total capital and assets, their ratio to GDP), it is necessary to choose a number of other financial and economic indicators that directly affect them.

- Assess the interaction of financial sectors (banking, insurance, stock), identify prospects for synergy, determine control parameters, etc.

- Wide use of modern financial technologies (blockchain, big data, machine learning, etc.) in regulation and control, identification and analysis of interrelated risks, as well as the implementation of other functions to identify deep trends in the development of the financial sector;

- Develop and regularly adjust long-term and short-term development programs for the financial sector of Azerbaijan (banking and insurance sectors, strategies for the development of the stock market).

At present, the effectiveness of the CBAR as a megaregulator can be quantified by the work of financial institutions and their characteristics based on such indicators as the value (and change) of the total capital of commercial banks issued to individuals and legal entities, as well as the amount of overdue loans. Similar functions can be used for other sectors of the financial market. The essence of the relevant parameters and their dynamics will make it possible to qualitatively interpret the current situation in the financial sector, taking into account objective internal and external conditions. Finally, the current relationship between the financial sectors of Azerbaijan should be taken into account when assessing the activity of the CBAR as a megaregulator [5, p. 4–6].

In the current situation, the megaregulator has to revise the applicable management directives. In the near future, an important task of the megaregulator is the transition to a differential control system. This means that prudential rules are based on the principle of «level of risk – appropriate level of control» (for example, maximum risk – maximum control, etc.), depending on the volume and nature of the financial intermediary's activities. Given the realities of Azerbaijan, such an approach is especially relevant for secondary players in the financial market and can be implemented by dividing financial institutions into two categories: systemically important (with high prudential requirements) and less significant (with simplified regulation). Unfortunately, the cluster of systemically important financial institutions in Azerbaijan has not yet been officially defined. In general, the application of

megaregulation in the financial system of Azerbaijan gives contradictory results. Given that the country has short-term experience in this area, a deeper analysis of the consequences of the transition to mega-regulation can be carried out only in a few years. To form an idea of the megaregulator in our country, it is advisable to use the roadmap method.

References:

1. Murshudli F. (2008). Azerbaijan Banking System: Challenges and Prospects of Globalization. *The Caucasus&Globalization*, vol. 2, no. 2, pp. 75–95.
2. Hajiyev S., Murshudli F. (2009). Azerbaijan Financial And Banking System During the Global Crisis: Shift of Emphasis In International Comparative Assessments. *Central Asia and the Caucasus*, no. 4-5, pp. 75–91.
3. Bank Industry Risk Analysis: Azerbaijan's Young, Fragmented Banking System Increasingly Affected By Global Crisis (2009). S&P. June 1, 12 p.
4. Banking Industry Country Risk Assessment: Azerbaijan (2014). S&P. February 13. 16 p.
5. Transition Report 2020-21: The State Strikes Back. Eastern Europe and the Caucasus. Azerbaijan (2020). London: EBRD, 19 p. Retrieved from: <https://www.ebrd.com/news/publications/transition-report/transition-report-202021.html>