

ON A HISTORY OF DEVELOPMENT OF THE SECURITIES MARKET IN AZERBAIJAN

Tofiq Aliyev, Hajiaga Rustambeyov

Baku State University, Baku, Azerbaijan
e-mail: tofik_aliev@hotmail.com, haji@mail.ru

Abstract. Today, the volume of non-cash transactions in Azerbaijan is growing rapidly, which, in turn, has a positive impact on the reduction of the "shadow economy" in the country. The article analysis the historical development of the securities market, the current situation and the factors hindering the development of the market.

Keywords: Azerbaijan, securities market, economic growth, history, stock market.

AZƏRBAYCANIN QIYMƏTLİ KAĞIZLAR BAZARININ İNKİŞAF TARİXİ

Tofiq Əliyev, Hacıağa Rüstəmbəyov
Bakı Dövlət Universiteti, Bakı, Azərbaycan

Xülasə. Bu gün Azərbaycanda nəğdsiz əməliyyatların həcmi sürətlə artır və bu nəticə etibarilə ölkədə "kölgə iqtisadiyyatı"nın azalmasına öz müsbət təsirini göstərir. Məqalə qiymətli kağızlar bazarının tarixi inkişaf yoluna nəzər salır, hal-hazırki durumu və bazarın inkişafına mane olan faktorları təhlil edir.

Açar sözlər: Azərbaycan, qiymətli kağızlar bazarı, iqtisadi inkişaf, tarix, fond bazarı.

ИСТОРИЯ РАЗВИТИЯ РЫНКА ЦЕННЫХ БУМАГ АЗЕРБАЙДЖАНА

Тофик Алиев, Гаджиага Рустамбеков
Бакинский Государственный Университет, Баку, Азербайджан

Резюме. Сегодня объем безналичных операций в Азербайджане стремительно растет, что, в свою очередь, оказывает положительное влияние на сокращение «теневой экономики» в стране. В статье анализируется историческое развитие фондового рынка, текущее состояние и факторы, сдерживающие развитие рынка.

Ключевые слова: Азербайджан, рынок ценных бумаг, экономический рост, история, фондовый рынок.

1. Introduction

Stock markets as one of the financial regulators of the economy nowadays are one of the main constructors of modern economic market relationship. Their role for mobilization of free capital and investment, growth of the industry and expansion of overall funds turnover in the country is vital. National stock markets are now like "mirrors" of the economy of the country, any changes of macroeconomic indexes, industry or central bank decisions are rapidly can be seen in the graph charts of the stock market. Therefore, economies with developed stock markets are always aware and can be easily forecasted, their industries are open and smoothly get access to extra funds to raise the capital.

Primary role of the stock markets is through market relations and commerce, attract more investment and by that effectively use the funds, savings of the people and grow the industry. When a company wants to increase its funds and make more investment to expansion of any part of it, or a new company wants to be settled, just through issuing shares

of the company, funds can be easily attracted. It has double effect from the economy side: from one side company/venture gets easy access to funds and grows itself to the extent where it gives benefit for the economy of the country, from another side individual with accumulated savings makes an investment in order to increase his funds and by that again stimulates growth of the economy. Therefore, in developed countries stock markets play huge role in creation of 40% of the government budget and expands its possibilities.

Secondarily, development of stock market automatically stimulates industries to refuse from “shadow economy” because in order to get access to funds of people, they first need to be listed in the stock market where one of the main principles is to have open, fair and unbiased financial statements. This attribute of the stock market is one the main reasons why post-soviet countries still struggling to get well-developed stock markets, and cannot attract funds of the individuals into expansion of the industry. Due to several bankrupts of the post-soviet countries economy subjects, losses of the savings of the citizens and overall growth of latent commerce, share of “shadow” economy is higher [5].

Since Azerbaijan got its independence, oil sector of the economy was one of the main drivers of the economy as well as of the main attractions for foreign direct investment. Funds of the oil sector enable dramatic growth of the economy and industry in the country, however most part of this development was straight linked to the oil sector. Therefore, starting from the end of 1990s country changed its course into developing and reallocating funds from oil sector to non-oil sector of the economy. In order also to get more funds from other sources of the economy like savings of the people, foreign direct investment of the investors and etc. stock market in Azerbaijan was established. Establishment of the stock market in the late 1990s meant that Azerbaijan is open for any investors and ready for the integration into global economy, which was not be possible without president Heydar Aliyev. Having established its stock market from 1998, Azerbaijan began inviting international representatives and specialists in order to finalize the regulations, principles and basics of the stock market and make it easy to integrate into global stock market. All the changes affected the growth of the stock market starting from 2000 among which was establishment of Baku Stock Market in 2001, establishment of State Committee for Securities of Azerbaijan, and led to speeding up the growth of the economy and social welfare of the people [4].

Not surprisingly, the importance of stock market was once more underlined by current president of Azerbaijan İlham Aliyev through his decrees in 2012 “Azerbaijan 2020: The view to the future” and “Development of the stock market in Azerbaijan for the years 2011-2020” [2]. Nowadays, stock market of Azerbaijan is growing as well as number of listed companies, brokers and investors which shows its importance for the economy.

However, it still has several issues, non-developed sectors which causes problems in getting access into worldwide stock market. Considering, increase in interest into stock market and growing of its importance globally, the analysis and possible ways of develop

national stock market becomes vital. Azerbaijan nowadays has all established legal-normative regulations, principles and base of the stock market, however global growth of the stock market requires some changes and add-ons into the current stock market in order to get it easily globally integrated.

2. Establishment of the first Azerbaijan stock market

Starting from the end of 19th century growth of commerce and market relations was clearly noticeable especially in Baku which was one of the main ports of Caspian Sea and the regions close to it. Having one of the essential geostrategic positions in Caucasus regions, made Azerbaijan part of Main Russian Railway network in 1900th, which was actually due to establishment of railway line between Baku and Tbilisi. In the mid of the 19th century Azerbaijan had already achievement in crude oil drilling as one of the first crude oil well in the history, which was done by Bakinski Corp of Mine Engineers. This gave start to commerce and establishment of first oil refinery factories in 1872, and by that boosted oil drilling volumes from 26 ton to 11 million at the start of 1900th [4]. Such achievement could be left without notice externally and led to first FDI flows into the country as well as flow of businessmen from across the world. Crude oil sales also managed to reallocate the funds into non-developed sectors of the economy and led to grow of other industries.

Development of market relations created basement to expansion of financial institutions such stock market, banking and others which started one of the main tools of investment. Establishment of first stock market in Azerbaijan can be defined as in 1913 when the equity and regulations of Baku Merchant Bank were founded. Bank itself one of the first stock based commercial bank in Azerbaijan situated in mansion of famous Azerbaijani millionaire and merchant Haji Zeynalabdin Taghiyev, who was also head of board of the bank while another famous Azerbaijani millionaire Musa Naghiyev was the chairman of the management board. This bank mobilized every existing at that time millionaire and merchant of Azerbaijan like Murtuza Mukhtarov, M. Asadullayev and others under one entity. The establishment of first commercial bank in Azerbaijan gave birth of many other entities of financial market relations, which mostly expanded their activities and oil commerce, this were: “Oil products stock entity”, “Bulbul oil and commerce stock entity” and others. Such speedy expansion of financial institutions in Azerbaijan could be left without notice by main strategic neighbor Russia, which started opening of its entities in Azerbaijan at the end of 1870: Bank Saint Petersburg, Saint Petersburg International Commerce Bank, Russia Merchant Bank, Russia Asia Commerce Bank, North Commerce Bank and others [7]. Russian banks were one of the main places where stocks of oil industry of Azerbaijan were sold/purchased and by that enabled openness of Azerbaijani oil industry to global market, foreign direct investment and expansion of their capital.

This could be noticed through the papers of Azerbaijani newspaper “Kaspi”, where first information about stocks, promissory notes and other financial instruments of

Azerbaijani entities like Baku Merchant Bank were depicted. Expansion of promissory notes, payable notes and stocks issuance at this period grew education of Azerbaijani citizens in stock market commerce while mobilization of capital through these stocks enabled growth of Azerbaijan oil industry [4]. However, from 1917 when started establishment of first democratic republic in Caucasus region – Azerbaijan Democratic Republic and tensions between Soviet Union and Azerbaijan started growing, stock market of Azerbaijan closed and all payables were cleared. In fact establishment of Azerbaijan Democratic Republic which continued only 2 years closed the first page of Azerbaijani stock market until 1922 when Soviet Union gave boost and opened economy of Azerbaijan under its own regulations [9].

The next part of stock market history of Azerbaijan was closely linked with Soviet Union and under its social-economic regulations, which although were primarily focused on well-being of the nation but had some sort of limits regulated by government itself. Same principle was actual in the existing stock market of Soviet Union, which was under total control and principles of Soviet government. As soon as soviet government started its “New Economic Policy”, which was led by Lenin and had primary function of mixing capitalism with state control, stock markets returned and began rising. However, as it was already mentioned, economy and big industries were still under state control as well as their stocks sold in the market. Simultaneously, first government bonds were issued at the start of “New Economic Policy”, which had 11 year expiry period and their first role was mobilization of savings of citizens in order to get additional capital for covering state expenditures.

However, “New Economic Policy” was soon banned by Joseph Stalin as non-efficient one, but stock markets were still full of state bonds. They were issued at several time periods of Soviet Union, like in 1920s, 1960s and in 1980s (as an example “zolotoy zaym” or “Golden Loan”), but all of them had only role of mobilizing capital from savings of citizens without giving no any interest rate on it back [9]. Therefore, they were forced to be purchased by citizens but also had guaranteed payback by government. Azerbaijan as part of Soviet Union at that period of timeline, had similar stock markets and bonds, loans sold in to the citizens. Although, state bonds had several negative aspects, like: people were force to purchase them; there was no any interest rate paid back on them; they were unable to be used for any other sort of finance-economy investment, but they also had some positive sides: they were totally guaranteed out of risks by existing government, were able at any time to be sold back for the same price which it was purchased (like “Golden Loan” in 1980s) and gave several advantages for the purchase of rare things in soviet period like automobiles, jewelry, flats and etc.

Later, starting from the end of 1980s tensions in Soviet Union began rising, government was losing control over countries and this led to economic depressions which eventually made unable government to pay the loans and bonds back to republics. People

started losing their investments, most of them just utilized the left amount of state bonds as useless, while banks and other financial institutions were getting bankrupted [9].

This period in Soviet Union is essential for characterizing existing stock market position of Azerbaijan, as this period with bankrupts and economy depressions created psychology of losing trust to non-cash financial institutions like banks, deposits and etc. People started mobilizing their savings without using financial institutions of the government, leading to loss by government of an amount of capital and boosted the growth of “shadow economy”, which can be still tracked in all post-soviet countries. This is one of the main reasons why it is so difficult to develop securities market at the level of Western Europe, as non-cash regulations and operations, open economy (“non-shadow”) are still not highly developed in post-soviet countries which is the main source of stock market expansion.

3. Establishment and development of modern stock market in Azerbaijan

Beginning of 1990s was notable by the end of Soviet Union as well as getting independence of all post-soviet countries, among which was also Azerbaijan Republic. Non-stable political and economic situation among all post-soviet countries led to financial crisis and long term issues of social-economic welfare of the countries. Despite the fact of non-stable position in the country, government started process of establishment of its own policy, regulations and law. It is notable that among several reforms, there was also law about stock market accepted in 1992. This shows that government knew stock markets have essential role in development of financial and economic institutions inside of the country. However, absence of regulations and policy on development of stock market and its establishment stopped process of its development at the beginning of the 1990s. There were also several obstacles directly related to political situation and Karabakh war, which led to huge inflation, non-stable financial situation, and absence of regulations to control economic institutions and non-effective management of resources [5].

Simultaneously at the same period several banks, financial institutions and stock markets were established which were actually speculating in the market, mobilizing money resources of the citizens and creating imagination of aimed social welfare. People were investing their resources into that institutions in order to gain profit, but in the end they faced issues with that institutions. Among them notable ones were Vahid Bank, Xeyal Bank, Baku Investment Stock Market and etc. Absence of regulations and control mechanisms over these institutions in the end led to their bankrupt and huge losses faced by their customers. This led to stagger of citizens’ trust into local banks and financial institutions, which can be seen till modern period and creates obstacles in development of stock market in Azerbaijan. Same scenarios happened in several post-soviet countries which negatively affected economic growth of the countries after they got their independence from Soviet Union.

In addition to bankrupts of big depositary banks, unstable political, military and social-economic situation exaggerated the negative atmosphere inside the country, which made

impossible the development of stock market and its growth. It continued up until 1993, when Azerbaijan national leader Heydar Aliyev took over the government and began its short term reforms in all directions of the country, including financial-economic ones. Reforms inside the country led to various expansions of market capitalization, growth of industry, commercial trade and overall social-economic welfare. As part of this welfare model, stock market expansion also had a positive impact on financial-economic indexes of the country. As privatization process started and first auction center was established named “Mulk” National Deposit Centre, it marked the foundation of first institutions of stock market and by that time country already had approx. 1000 of joint stock companies and more than 70 thousand investors across the country [4].

Following establishment of first stock market institution, in 1991 Cabinet of Ministers of Azerbaijan Republic finally agrees with resolution on “Issue of short-term government bonds”, which marks start of new era in the history of Azerbaijan stock market as well as brings more activities into the market. It is not surprising that first stock market players were primarily representatives of government structures, as by that they tried to attract more investment accumulated among citizens of the country and also in “shadow economy” businesses. Another notable date in the history of Azerbaijan stock market was establishment of Baku Interbank Currency Stock Market, closed type joint stock Company on 21st of June 1993. It was founded by 5 biggest banking institutions of the country: Azerbaijan Republic National Bank, Industrial Investment Joint Commercial Bank, Agro – Industrial Joint Commercial Bank, Azerbaijan International Bank and Joint Commercial Depository Bank [11]. Although the issue of short-term government bonds and establishment of closed type joint currency stock market started the process of stock market expansion, but still the policy, procedures and law principles of stock market functioning were absent which required immediate actions of the government.

Hence, initialization of privatization process in 1996 led to foundation of first legal base of stock market and on 14th of July 1998 law about “Stock Market” was accepted by government of Azerbaijan Republic. As a regulatory structure, State Committee for Securities under the auspices of the President of Azerbaijan Republic was founded on 30th of December 1998, while principles and procedures of the structure were supported by presidential decrees on “Providing the activity of State Committee for Securities under the auspices of the President of Azerbaijan Republic” and “Licensing procedures of several activities in stock market” on 8th of November 1999 [1]. All these milestones during 1998-1999 established first regulatory base of stock market in Azerbaijan Republic, stimulated growth of commercial and government securities, and by that strengthened the base of the future of stock market.

4. Establishment of Baku stock exchange and new era of stock market in Azerbaijan

Although, the foundation of State Committee for Securities and acceptance of several presidential decrees on development of stock market marked start of new era for the stock market history of Azerbaijan, still absence of its regulatory procedures, principles and international practice kept stock market of the country out of global market which was crucial for its expansion and development. Therefore, first step of the committee was establishment of Baku Stock Exchange market in 2000 by 19 biggest banks and financial structures of the country, which were all totally based on private funds which marked importance of this institution for the economic growth and foreign direct investment. First trade operation was registered on 1st of September, 2000 which was primarily state security, however starting from 2001 more private sector companies began trading their stocks, which created a firm base and financial assurance for the private sector of the economy, as well as demand, turnover, market capitalization growth and market turnover [12].

Expansion of stock market had positive impact on growth of the economy as well as stimulated foreign direct investment inflow to the country. This can be seen from the table below, starting from 2000 when BSE was established it gave huge boost to the FDI inflow and growth of market capitalization, while in 1 year time aggressive boost of FDI and MC leads to growth of GDP indexes of the country.

It can be seen that from year 2000 market capitalization increases 8 times, while changes in regulatory base happened in 2003 lead to another 4 times growth of the market. All these notable milestones could not happen without long term vision, accurate and timely execution and regulation by State Committee. In 2003 for the purpose of development of policy and getting into global stock market, number of improvements in policy and procedures were adopted, primarily with the help of TACIS – special program of European Union which has main purpose of speeding up the economic reforms in the countries of CIS (Commonwealth of Independent States). As part of TACIS program, project of “Development of stock market in Azerbaijan Republic” was initiated and led in 2003-2004 by UK based company “Securities Research Associates”. Under this project special courses were conducted by international experts for local brokers, banks, Baku Stock Exchange representatives and other institutions of stock market; the documents and supporting policies of State Committee were analyzed and adapted under globally accepted ones while creation of electronic system can be noted as one of the main steps towards the opening to global market [11]. Additionally, under special development line of TACIS program, not only professionals and experts from stock market area but also from taxes, finance, economic development and etc. area representatives were actively interacting with local representatives, creating the basement of new tax regulations and financial institutions for easiness of stock market control.

Table 1. Main economic indexes of Azerbaijan 1998-2016 (USD)

YEARS	GDP	FDI	LIQ	MC
1998	13,221,304,949.48	8,024,000.00	20,246.00	11,000,000.00
1999	14,199,681,592.65	2,021,000.00	28,542.00	11,100,000.00
2000	15,775,846,143.44	317,243,000.00	35,361.00	86,600,000.00
2001	15,059,606,657.46	329,195,000.00	94,885.00	31,784,963.00
2002	19,175,446,193.84	356,313,000.00	99,921.00	21,233,619.00
2003	21,323,096,213.03	422,313,000.00	100,419.00	46,535,036.00
2004	23,498,052,111.69	581,200,000.00	93,349.00	53,746,676.00
2005	29,701,538,059.10	1,581,672,000.00	522,478.00	295,606,718.00
2006	39,948,568,544.03	2,624,354,000.00	1,388,500.00	463,232,723.00
2007	41,629,404,406.79	4,995,260,000.00	5,500,000.00	926,465,446.00
2008	46,113,899,018.79	5,401,374,000.00	9,159,502.00	499,878,286.27
2009	50,453,518,392.52	3,663,700,000.00	3,300,000.00	216,374,269.01
2010	52,902,703,376.11	3,815,032,000.00	2,200,000.00	385,870,919.51
2011	52,937,578,302.44	5,488,366,000.00	8,430,000.00	317,335,697.10
2012	54,102,205,124.85	4,906,186,000.00	9,000,000.00	413,187,372.71
2013	57,238,335,961.25	4,507,227,000.00	8,475,861.00	389,547,482.47
2014	58,383,102,680.47	3,359,274,000.00	8,634,112.00	326,874,043.86
2015	59,025,316,698.50	2,274,553,000.00	8,455,507.00	10,525,054,775.00
2016	59,987,000,000.00	5,400,000,000.00	5,698,339.00	14,025,825,065.00

Source: World Data Bank

Moreover, with the help of European Reconstruction and Development Bank law regulations, policies were dramatically developed and strengthened. Changes made in to Civil Code of the country in 2004, added more control instruments into stock market development, and made it more friendly and accessible to all the users. Alterations boosted the easiness of stock market regulation, expanded its cover zone, and made it eligible to 14 more new companies to be established as local brokers, dealers and other subjects of the stock market. Newly established policy and procedures (3rd generation already) was presented to the government of the country for approval, which first of all gave mobility to the trade processes of stock market (e.g. if it took about a week to clear all the trade processes inside the stock market before, now they could make real time trades). Furthermore, automatization of the processes and making its regulations closer to the international market, let local stock market to enter the global market. It must be noted that, special attention was directed towards protecting rights and funds of the investors, prevent information leak and speculative plays in the market, avoid tentative price increase which in the end created firm base of the local stock market while the legal base was rapidly expanding.

In the last 10 years, stock market and its legal base let many more other financial instruments to be developed and used inside the country. In 2009 Mortgage Fund of the

country began trade of long term bonds, and simultaneously construction boom started in the country enabling thousands of citizens to purchase new flats and apartments, while the construction itself was totally funded through stock market. In 2010 government short term bonds which had 35 days of expiry, were prolonged till 5 years which helped to easily control country`s debt balance and make it more effective. It happened after platform for repo and reverse repo operations was established, variety of financial and stock market instruments were expanded, while there trade started to be more active. The main stock market of Azerbaijan – Baku Stock Exchange starting from the second decade of 2000s began upgrading its internal listing processes and procedures, automating all the policies and making it easier for companies to start trading their shares, bonds and etc. in the market. As a results of these operations, from 2009 first companies started to be added into the listing of BSE which were primarily financial institution companies, while from 2012 other sectors of the economy started to be represented by companies as well. Energy sector of the economy which was one of the biggest financial part of the government expenses, also started being funded through stock market and as an investor of non-oil sectors of the economy as well as other sector of the economy in most cases was Azerbaijan State Oil Fund.



Graph 1. Market capitalization of Azerbaijan securities market (1998-2016)

Source: World Bank Data, Azerbaijan Market Capitalization Statistics 1998-2016



Graph 2. GDP growth of Azerbaijan (1998-2016).

Source: World Bank Data, Azerbaijan

By that government made official and real the process of relocating financial sources of oil rich country into other non-developed sectors of the economy, which was one of the primary targets of national leader Heydar Aliyev, when he was signing the “Contract of Century” in 1994.

Moreover, activities in the stock market led to increasing number of issuers which boosted the market turnover and capitalization which can be seen from the Table 1. Market capitalization increased twice from 2009 to 2012, and this can be accepted as a result of alterations made in stock market development.

Next period of the stock market development of Azerbaijan, is linked to law issued by President Ilham Aliyev “State program on the development of securities market in Azerbaijan 2011-2020”, which is actual and still under implementation by government authorities. It was signed on 16th of May 2011, and since then the main target of the program was improvement of securities market up till the international level, synchronization of local market on automated level with global market, expansions of the services offered to the clients and establishment of modern level market. Whole program can be viewed in 3 stages:

1) First stage, covered period of 2011-2014, at this period government authorities mainly focused on development of securities market instruments at institutional level in order to level with global market. Main targets which were achieved, institutional progress of the market, development of corporate investment and establishment of assisting instruments, transparency of the market and its openness to the final client, update of the legal base and adaptation to match with global system, make it easy to synchronize the markets. It can be

noted that during this period, all the main targets were achieved, BSE expanded its capital turnover as well as number of players in the market, while next step was at maximum possible level automatization of the trade market. Moreover, during 2009-2011 fiscal policy for finance market was improved, now the profit directed to capital expansions was free of profit tax while shareholders were free from the tax deducted at source, which gave boost to market expansion and attracted more interest of investors.

2) Second stage, covered period of 2015-2017 where mainly regional expansion and development was targeted. During that period SOCAR as an issuer played huge role in BSB turnover, which can be noted by profitability of SOCAR`s issues placed in the market in 2012 (500 \$ million) with an end period profitability of 3.68 % in 2017. SOCAR`s next placed issues of 2013 1000 \$ million (for 10 years) and 2015 750 \$ million (for 15 years) are expected with return of profitability at 5.54 % and 6.22%, respectively.

3) Third stage, which is actually covering period from 2018 and ongoing is noted by increase of market turnover of BSB and more active players coming into the market. During that period another set of bonds were issued into the market by SOCAR, which were valued at 1000 \$ for 5 years, with 5% profit return to the holder of the bond. This issue was rapidly shared between population, and by that SOCAR actually found local source of funding without going to external foreign funding organizations, which is clear view of securities market can be used to re-direct financial source of the country into different sectors of the economy. By that, every citizen of the country played role in local funding of SOCAR, and also got 5% profit in return. Difference of SOCAR bond are that they have high liquidity level, planned interest payments while in the market SOCAR bonds were the most traded ones as per statistics of the first half of 2019. Last payment of SOCAR bonds happened on 17th of July 2019, which actually was noted by more than a half of planned payment being closed.

Conclusion. Currently, country is at finishing stage of meeting international standards of securities market and opening its doors to the global trade. This can be tracked through decrees and changes happening under the control of president of Azerbaijan Republic Ilham Aliyev. In the development concept “Azerbaijan 2020: Look in to the future” signed by president in 2012, can be noted that securities market were also target of improvement for the government. Results of these reforms can be seen now, when 20 000 AZN market turnover in 1998 got to 5.5 billion AZN in just 20 years of transformation (2018).

It says: “Important steps will be taken to form a securities market that will provide the economy with broad capitalization opportunities that meet modern, international standards and ensure reliable risk management. Systemic measures will be taken in order to limit the disorganized market of securities and increase the attractiveness of the market for investors, and the legislation that regulates the activities of the market’s professional participants and mechanisms of overseeing them”, which continues further: “It is planned to take measures to improve the institutional development level of the securities market, ensure that it meets

international standards, increase the rate of capitalization in the country's economy and expand the use of non-inflationary investment funds directed at the financing of economic projects through the stock market. At the same time, the formation of appropriate conditions for economic entities and the population to efficiently place their savings on the stock market and gradually integrate the country's securities market into the international capital market will always be in the center of attention”.

However, several challenges still needs to be solved before Azerbaijan will easily integrate into global market. Government has done all required changes in legislative base, development of stock market instruments, automatization of trade and control processes, as well as writing policies and procedures through inviting international experts from countries with well-developed stock market, but still has delays in getting to outer market. This can be linked to several issues still left without solution:

1. Absence of the level of experience and experts – securities market nowadays has all legislative and technical framework/assistance to get to global level, but country has still absence of number of experts who can manage all these processes. For that purposes government needs to boost the interest in young generation into getting education and experience abroad in stock market relating subjects, to get new generation of brokers, experts and other level of stock market players who play vital bridge role between issuers and buyers of the stock market.

2. Transparency and fairness of financial statements – one of the main drivers of stock exchange rates (besides geopolitical situations) is the financial base of the issuer and its fairness. Not surprisingly, global companies use services of big 4 audit companies in order to assure the market that all the figures are correct and replicate current situation of the company. This increases level of trust for players of the stock market and pushes them to trade the shares/stocks of the company, while currently Azerbaijan is only getting to that level of transparency through decrees of the president Ilham Aliyev about boost of non-cash operations, limits of cash out operations and new fiscal policies which makes local companies to exit from “shadow economy” and show fair figures. This issue is the main indicator why in the stock market of Azerbaijan main share of issuers are banks, investment companies and government organizations, which are all out of “shadow economy” and have open access to financial figures. Future transformations of the industry and financial institutions noted in “Azerbaijan 2020: Look in the future” may lead to final outcome of diminishing level of “shadow economy” and increase of trust of people to buy shares of the local companies, which eventually will boost trade operations in the market.

3. Low level of well recognized brands – another point which is the main trust indicator for local market player, is expansion of the company into the level of at least regional brand. Nowadays, Azerbaijan has very low number of non-oil sector brands which are actually well-known abroad, which shows the level of interest of local entrepreneurs and

investors more in financial return rather than getting brand known in the global market. It is generally accepted that well-known brands have higher prices and therefore increased level of capitalization, as well as market turnover level. They also have higher level of trust among stock market buyers, which is basically linked more to their brand name rather than financial statements.

4. Absence of corporate governance – although, this attribute is now developing among local companies, it has to be still firmly settled. As one of the main requirements of the investors is existence of effective corporate governance, which actually attracts and replicates companies position in decision making and future opportunities. Moreover, attraction of number of investors will make corporate managers to be more dependent from the shareholders and be more responsible in making decisions for the future of the company.

Above mentioned limitations are only part of the whole picture, which needs to be solved first in order to launch final procedures with global integration. Azerbaijan as nowadays all required sources and tools to find solution to all noted issues, and considering the level of importance government currently devotes into non-oil sector expansion, securities market has a primary place in that list. This proves essential role of the stock market as one of the main economic growth boosters, as well as attraction point for foreign direct investment for the expansion of non-oil sector of the economy and giving access for the issuers/companies/organizations to additional sources for the business funding.

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