

UDC 336

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MONETARY POLICY OF CENTRAL BANKS IN THE FIELD OF FINANCIAL STABILITY REGULATION

***Summary.** It is known that the main tasks in the macroeconomic policy of the state are to ensure economic development, employment, price stability and balance of payments. For this, there is a macroeconomic regulatory mechanism, such as the monetary policy of the state, which is realized through various methods.*

In the regulation of the country's economy, especially in times of financial crisis, in times of falling oil prices, which provide the main foreign exchange earnings for our country, it is important to effectively organize monetary policy, which is carried out by the Central Bank of Azerbaijan. The monetary policy pursued by the Central Bank of Azerbaijan is primarily aimed at stabilizing the national currency and keeping inflation low. These goals are the main conditions for the implementation of capitalization and structural policies to ensure economic development in the country. The Central Bank of the Republic forms guarantees for the formation of deposits by all economic entities and the subsequent conversion of deposits into productive investments through the reliable strengthening of the national currency position, ensuring the development of the banking system, measures to regulate money circulation, the formation of financial markets.

Methods: In the process of researching and studying the problem, analysis and synthesis, deduction and induction, systematic approach method, logical generalization and statistical methods were used. In addition, economic analysis, comparative analysis, generalization and analysis-synthesis methods were used in the evaluation of materials.

Key words: *financial stability, central banks, crisis, economy, monetary policy.*

Introduction. The Central Bank determines monetary policy to achieve relevant economic and financial goals, ensures the issuance and issuance of banknotes, constantly determines the exchange rate of the national currency against foreign currencies, regulates and monitors currency in accordance with the legislation, reserves currency and gold manages resources.

Currency regulation is important in ensuring financial stability in Azerbaijan, implementing effective monetary policy and protecting the domestic market from external threats. In this regard, the Law "On Currency Regulation" adopted in 1994 is considered important. The law defines the principles of conducting currency transactions in the country, the powers and functions of bodies regulating currency and currency control, the rights and obligations of legal entities and individuals in the possession, use and disposal of foreign exchange, and the liability for violations of foreign exchange legislation. .

After the global economic crisis, the country's economy grew, and then, in response to a three-fold drop in oil prices since the second half of 2014, deeper maneuvers were made in macroeconomic policy. The level of use of oil revenues has been optimized, exchange rate corrections have been carried out, rehabilitation and restructuring operations have been launched in the financial segment, and the established Financial Stability Board has played an important role as a platform for macroeconomic coordination.

However, until 2016, the global economic situation remained unfavorable for Azerbaijan. The sharp decline in crude oil prices compared to previous years and the weak economic growth trends observed in key economic partners have had a significant impact on the country's balance of payments, as well as aggregate demand. Calls for macroeconomic stability have been in the spotlight, with declining foreign exchange earnings.

The main directions of the financial stability policy of the Central Banks

The policy on financial stability consists of a system of measures taken by the Central Banks for the effective management and stabilization of economic processes. The monetary policy objectives of the Central Banks are to control the level of inflation, to create a fertile financial environment in the economy in order to fully achieve employment and economic growth through job creation.

At the heart of the monetary policy of the state is the theory of money - the processes of the impact of money, monetary policy on the state of the economy.

At present, one of the two monetary policy concepts is preferred in countries with a market economy model.

Credit expansion measures of central banks increase the financial resources of banks, thus increasing the money supply as a result of lending. Credit restriction reduces the lending capacity of commercial banks and, as a result, reduces the level of money supply in the economy.

In foreign practice, the central bank uses the following tools to regulate monetary policy:

- change of reserve requirements,
- borrowing of commercial banks from the central bank or change of mechanisms for depositing funds of commercial banks in the central bank,
- financial transactions in the open market with government securities.

Central Banks have to flexibly adjust reserve requirements in order to achieve the goals of fiscal policy and keep the money supply in circulation.

Changes in the level of required reserve requirements are also used to keep credit expansion at a reasonable level, as well as to increase excess liquidity in the banking system.

Central Banks have to use a variety of tools to achieve their monetary policy goals and objectives. However, these tools differ significantly depending on the economic level and structural features of different countries he knows.

In general, the planning of cash by means of financial regulation means the conduct of monetary policy in accordance with the demand for money, determining its growth rates for each period, favorable interest rates for economic entities.

Thus, the strategic goal of monetary policy is to ensure employment, maintain price stability, and ensure economic growth characterized by a harmonious state budget and balance of payments. Among them and the task of keeping inflation at an optimal level is very important.

Monetary policy and foreign exchange reserves management in Azerbaijan

The features of the modern banking system in Azerbaijan are characterized as a transition system. A distinctive feature of this system is that along with institutional policy, the system itself is being transformed. At present, the functioning of this system is not fully developed, although market relations are visible. For the future, all elements of the banking system and their interrelationships will be fully adapted to market requirements.

Monetary policy plays an important role in fiscal policy in order to reduce the tension of assets in foreign and national currencies. This policy is primarily aimed at using the exchange rate to determine the optimal level of inflation in the country. As can be seen from Figure 1, the inflation rate in the country can be considered satisfactory.

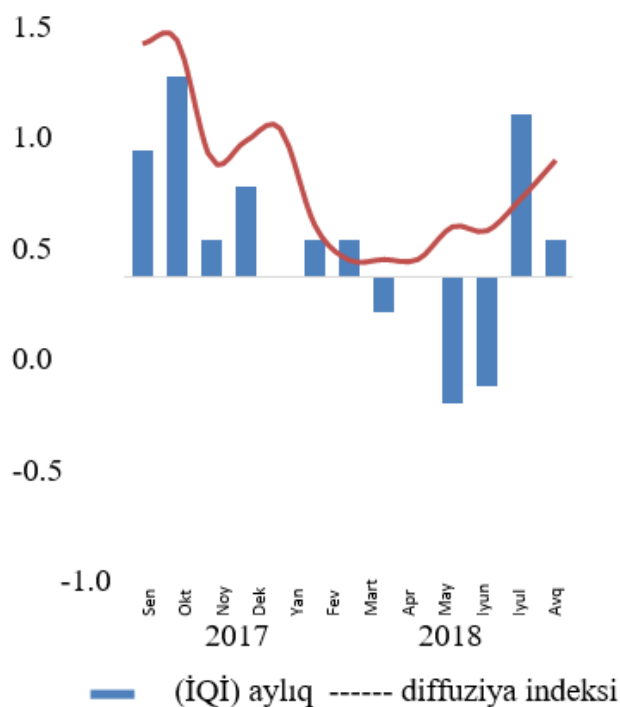


Diagram 1. The scale of inflation

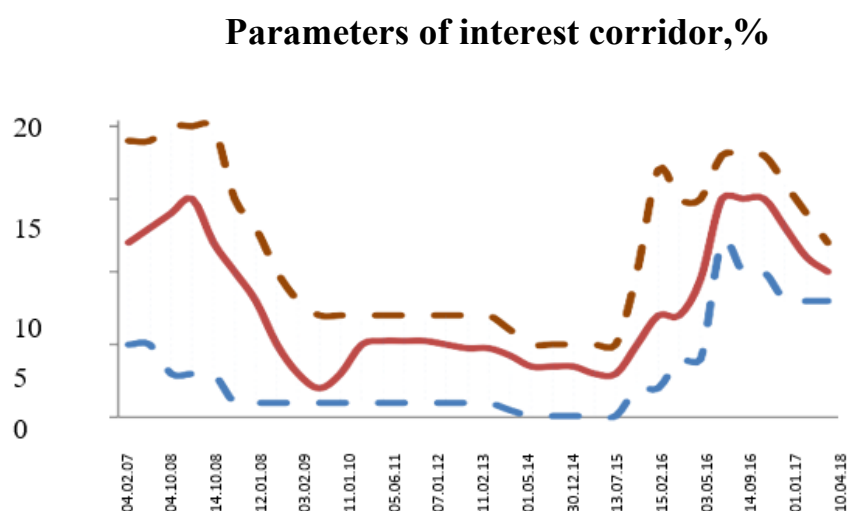
Source: Monetary Policy Review January-September 2018, Central Bank of the Republic of Azerbaijan. P. 24

One of the strategic tasks of the Central Bank, which regulates the activities of banks and the money supply, as well as the exchange rate of the manat, interbank settlements and budget execution, is to create a monetary basis for increasing money supply adequately to real economic growth and without compromising financial stability. The revision of exchange rate policy, mandatory reserve requirements, discount rates and changes in banks' open currency positions also directly serve these purposes.

At present, a multi-segment, civilized currency market has emerged in our country, operating in a self-regulatory regime, and great opportunities are being created for its participants to participate in any sphere of the market. As a result of programmatic measures to stabilize the exchange rate of the manat, the Central Bank's intervention in the foreign exchange market has been steadily reduced as the market has become more balanced and the market has become a self-regulating structure.

Over the past 2-3 years, the Central Bank has made significant adjustments to the parameters of the interest rate corridor in liquidity operations, taking into account the processes of macroeconomic stability and macroeconomic forecasts. It was decided to gradually reduce the discount rate from 15% to 10%, the upper limit of the interest rate corridor from 18% to 12%, and the lower limit from 10% to 8%. Figure 2.1 shows the parameters of the interest rate corridor at different times.

Graph 1



Source: Monetary Policy Review January-September 2018, Central Bank of the Republic of Azerbaijan. P. 31.

Framework instruments, consisting of instruments related to the short-term attraction and placement of funds, serve to manage the short-term liquidity of banks and are implemented at interest rates set by the Central Bank at the initiative of banks. These instruments play an important role in preventing the current level of liquidity in the banking system and sharp fluctuations in interest rates in financial markets.

Analysis. The main causes of different types of financial crises can be summarized in several groups. The first reason is the behavior of investors, who try to predict the actions of other investors when determining the investment strategy. This means that if a significant portion of investors predicts that other

investors will buy or sell any financial assets, they will join the general flow and take this step, resulting in irrational currents in the stock markets that are exaggerated or underestimated. leading to disastrous results by underestimating the real value of financial assets. The mortgage crisis, which began in the United States in 2007 and spread to other parts of the world, led to a massive banking crisis and a global crisis, with billions of dollars worth of assets on the balance sheets of major banks depreciating sharply after falling real estate prices.

Foreign economic influences resulting from the devaluation of the national currency in our country since 2015 have led to an increase in the risk sensitivity of the country's financial system and the deterioration of financial indicators. Against the background of ever-increasing risks, the business model, which focuses on a number of long-term goals, the instability of financial institutions and the lack of strategy, as well as easy risk management have made it difficult for the financial system to adapt to modern market and economic conditions. It is these factors that have significantly limited financial intermediation.

It is important to implement the following measures in order to establish the main directions in ensuring financial stability in Azerbaijan and the perspective development model necessary for our country. These measures foods are:

- Ensuring the resilience of the financial system against external and internal influences.
- Improving the quality of risk management processes by further improving the regulatory framework.
- Strengthening the infrastructure of the financial system for financial stability.
- Increasing the development potential of the financial system in the country.
- Creating a financial system consisting of dynamic and sound institutions.
- Taking measures to improve the credit risk model (relations with other commercial banks, the impact of the macroeconomic situation, etc.)

- Joint analysis of credit and liquidity risks, their impact on economic growth and adverse effects.
- Ensuring liquidity related to the capitalization of the banking system.
- Planning of restructuring of non-performing assets.
- Strengthening inclusion in the financial system.
- VaR in accordance with the requirements of Basel 3 in order to measure market risks application of the model.
- Establishment of early warning systems.
- Creation of a stress test model in banks and its adaptation to international standards in the near future.
- Strengthening the access of investors to financial markets.
- Improving control and regulation mechanisms.

It is important to create financial systems consisting of dynamic and sound institutions.

Conclusions and Suggestions. Changes in the global financial market, instability in some countries require constant monitoring of economic systems, the factors affecting them and a comprehensive approach to the analysis of indicators.

International experience shows that an important condition for overcoming the economic crisis is to ensure macroeconomic stability, to prevent the growth of inflation, which are its main indicators, as well as to strengthen the national currency. Achieving this goal makes it necessary to restructure monetary policy in accordance with the requirements of a market economy. Monetary policy mainly includes the impact of value factors on macroeconomic parameters - employment, economic growth, prices, balance of payments. The main purpose of monetary policy is to influence lending and money circulation, as well as to regulate the economy by combating inflation.

Thus, the purpose of the Central Bank's monetary policy is to prevent sharp fluctuations in the value of the manat in order to maintain its stability, use the

national currency as a means of preventing inflation and deflation, ensure development in the domestic foreign exchange base, expand the scope of foreign exchange transactions. effective management of strategic foreign exchange reserves to create favorable conditions for the transition to full currency conversion, to increase the reliability of deployment and placement of strategic foreign exchange reserves and to ensure liquidity with favorable income.

As a preventive measure against the financial and economic crisis, it is expedient for the Central Bank to take the following steps in the implementation of monetary policy:

- Establishment of a monitoring system based on a range of indicators in the financial segment using data obtained at short intervals (monthly or weekly);
- The analysis of the financial system should include additional indicators related to the relationship of commercial banks with other sectors of the economy, in particular with the state, insurance, asset management companies, stock and bond markets, interbank money and foreign exchange markets;
- Attention should be paid to the behavior of various financial institutions of the bank type (commercial banks, credit cooperatives and other financial institutions);
- Work should be continued to develop financial sustainability indicators for especially relevant sectors of the economy. In this regard, it is necessary to develop a balance system covering financial relations in various sectors of the economy.

When preparing monetary policy directions, the Central Bank should analyze external and internal economic factors, the current situation in the financial markets and the characteristics of the solvency of monetary policy, and conduct a comprehensive assessment. The Central Bank should be guided by the principles of security and liquidity in the management of foreign exchange reserves. At present, in accordance with the state of the Azerbaijani economy, the

Central Bank prioritizes ensuring the stability of the manat exchange rate in ensuring social welfare and maintaining investment activity.

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