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THE RESILIENCE OF FINANCIAL MARKETS AND ADAPTATION MECHANISMS UNDER NEW GLOBAL CHALLENGES

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The aim of the study is to examine the resilience of financial markets under the pressure of new global challenges and to develop an integrated analytical framework for adaptation mechanisms that can strengthen market stability, liquidity, transparency and shock-absorption capacity. The article analyses how geopolitical fragmentation, persistent inflation risks, sovereign debt pressures, non-bank financial intermediation, private credit, digital assets, artificial intelligence, cyber risks and climate-transition shocks reshape the functioning of money, capital, foreign exchange, derivatives and insurance markets.

The research applies systematic literature review, comparative institutional analysis, macrofinancial risk mapping, synthesis of official statistical reports and conceptual modelling. The empirical part relies primarily on official materials of the International Monetary Fund, Bank for International Settlements, Financial Stability Board, Federal Reserve System and Central Bank of the Republic of Azerbaijan, as well as academic literature and local textbooks on financial markets.

The scientific novelty of the article lies in linking the classical functions of financial markets - capital allocation, liquidity provision, risk sharing and information production - with a modern resilience model based on prudential buffers, market infrastructure, digital operational resilience, data transparency, macroprudential coordination and development of local capital markets. Unlike studies that separately examine financial stability, capital market development or digital finance, the article treats resilience as an adaptive capacity of the whole financial ecosystem.

The study shows that resilient financial markets are not defined only by the absence of crisis. They are characterised by diversified instruments, credible regulation, transparent information, reliable settlement infrastructure, well-capitalised financial institutions, operational continuity and the ability to reprice risk without disorderly market breakdown. For Azerbaijan, the article concludes that the main adaptation directions are the continuation of risk-based supervision, deepening of domestic capital markets, expansion of institutional investors, development of digital and sustainable finance, stronger operational resilience and broader investor participation.

Keywords: financial markets, market resilience, financial stability, adaptation mechanisms, non-bank financial intermediation, private credit, capital markets, Azerbaijan, macroprudential policy, digital finance.

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INTRODUCTION

Financial markets have always been exposed to uncertainty, but the nature of uncertainty has changed substantially in the last decade. Traditional market risks associated with interest rates, exchange rates, credit quality and asset prices now interact with geopolitical fragmentation, energy shocks, cyber threats, climate-transition pressures, artificial intelligence-driven trading and the rapid expansion of non-bank financial intermediation. This interaction has made resilience a central concept of modern financial policy. A market may appear liquid and profitable in ordinary times, yet become fragile when liquidity evaporates, leverage is unwound abruptly, or confidence in public debt and financial institutions weakens. Therefore, the current stage of global financial development requires a broader understanding of how markets absorb shocks and how institutions adapt to new risks.

The basic economic mission of financial markets remains unchanged. They mobilise savings, direct funds toward borrowers and investment projects, provide instruments for risk transfer, facilitate payments and produce price signals. B.X. Ataşov, in the Azerbaijani textbook on financial markets, emphasises that financial markets serve as a mechanism for moving monetary resources from owners of surplus funds toward those who need resources for economic activity [1]. The Deutsche Bundesbank's educational overview similarly identifies liquidity, risk sharing and information as special functions of financial markets, while also stressing that efficient markets depend on issuers, investors, intermediaries, infrastructure and regulation [2]. These classical functions are still valid, but their implementation is increasingly challenged by the speed, complexity and cross-border nature of modern finance.

The relevance of this topic is strengthened by recent official assessments. The IMF's April 2026 Global Financial Stability Report describes global financial stability risks as elevated and points to several amplification channels: sovereign debt rollover risks, leveraged non-bank investors, stretched valuations, private credit vulnerabilities, artificial intelligence-related concentration and emerging-market capital flow sensitivity [6]. The Financial Stability Board's 2025 Annual Report notes that private finance, leverage in

core markets, digital assets and artificial intelligence are reshaping the global financial landscape [8]. The BIS Annual Economic Report 2026 further argues that the combination of buoyant market sentiment and elevated geopolitical risks increases the need for macroprudential resilience, especially because private credit, leveraged hedge funds and AI-related financing are becoming more interconnected [7].

For emerging economies, including Azerbaijan, the problem is particularly important. Their domestic markets are often smaller, the investor base is narrower, and external shocks can be transmitted through energy prices, exchange rates, portfolio flows and global risk sentiment. At the same time, local financial market development offers an opportunity to reduce dependence on external funding, broaden investment instruments and strengthen the monetary-policy transmission mechanism. The Central Bank of the Republic of Azerbaijan has placed resilience, transparency, efficiency, financial inclusion and diversification of financial instruments among the objectives of the Financial Sector Development Strategy for 2024-2026 [11]. The issue, therefore, is not only how to protect markets from shocks, but also how to use adaptation mechanisms to make financial markets deeper, more inclusive and more capable of financing sustainable economic development.

The objective of this article is to investigate the resilience of financial markets in the context of new global challenges and to systematise adaptation mechanisms relevant for both international and Azerbaijani financial-market development. To achieve this objective, the article addresses four tasks: first, to clarify the conceptual meaning of financial market resilience; second, to identify the main global risk channels affecting financial markets; third, to group adaptation mechanisms into regulatory, institutional, infrastructural, technological and market-development dimensions; and fourth, to assess how these mechanisms may be applied in the Azerbaijani context. The research is based on official reports, academic literature and local sources, and its structure follows the logic of literature review, analytical discussion, tables, schemes and applied conclusions.

A SUMMARY OF PUBLICATIONS ON THE TOPIC

The theoretical foundations of financial market resilience begin with the general theory of financial systems. O. Berna İpekten explains financial markets as mechanisms that bring together fund suppliers and fund demanders and enable the movement of savings toward investment through institutions, instruments and legal rules [3]. This approach is important because resilience cannot be understood only as a technical issue of banks or exchanges. It depends on whether the whole financial system can continue to perform fund-transfer functions during uncertainty. The more diversified and credible this transfer mechanism is, the lower the probability that a disturbance in one segment will paralyse the entire market.

A similar functional approach is developed in the Deutsche Bundesbank material, which places financial markets within the broader financial system and identifies capital allocation, payment channels, savings mobilisation, monitoring of fund use and risk transformation as key services [2]. Particularly relevant for this study is the Bundesbank's emphasis on "the four Is": issuers, investors, intermediaries and infrastructure. This classification helps explain why adaptation mechanisms must not be limited to one institution. If issuers are weak, markets cannot provide diversified instruments; if investors are few, liquidity remains shallow; if intermediaries lack capacity, information costs rise; if infrastructure is fragile, settlement and price discovery become vulnerable.

Local Azerbaijani literature provides an additional institutional perspective. Ataşov's textbook analyses money, capital, credit, foreign exchange, securities, stock exchange, insurance and derivatives markets as interconnected segments of the financial system [1]. The author underlines that financial markets are not simply places where securities are traded; they represent a mechanism for the mobilisation and redistribution of financial resources. This view is directly linked to the topic of resilience: a market that successfully redistributes resources across sectors and time horizons also strengthens the capacity of the economy to adapt to shocks.

The historical and behavioural literature adds an important warning: market prices may deviate from fundamentals for long periods. The Edinburgh Business School course text *Practical History of Financial Markets* discusses the limitations of a mechanical interpretation of the Efficient Markets Hypothesis and highlights bubbles, debt-deflation, behavioural finance and historical episodes of asset-price instability [4]. This literature is useful because resilience analysis must recognise that markets are not always self-correcting in a smooth and timely manner. In the presence of leverage, herding, uncertainty and asymmetric information, price movements can become an amplifier of instability rather than a neutral signal.

Modern academic research on liquidity and systemic risk deepens this argument. Brunnermeier and Pedersen show that market liquidity and funding liquidity may reinforce each other: declining asset

liquidity can tighten funding constraints, and tighter funding can force further asset sales [15]. Adrian and Shin analyse how leverage in financial intermediaries fluctuates procyclically, expanding during booms and contracting during stress [16]. These studies remain highly relevant for the current period because many new risks - including leveraged exchange-traded products, hedge fund basis trades and private credit structures - operate through similar mechanisms of liquidity, leverage and interconnectedness.

Macroprudential policy literature focuses on how public authorities can reduce systemic risk rather than only protect individual institutions. Hanson, Kashyap and Stein argue that a macroprudential approach should lean against credit booms and build buffers before stress materialises [17]. Claessens provides a broad review of macroprudential instruments, including capital buffers, loan-to-value limits, reserve requirements and stress testing [18]. These ideas form the basis for many present-day adaptation mechanisms because they shift financial regulation from reactive crisis management to forward-looking resilience building.

Official international publications after the global financial crisis and the COVID-19 period increasingly connect resilience with NBFI, digitalisation and operational risk. The IMF's 2026 GFSR stresses that non-bank portfolio flows can support emerging-market financing but also carry risks because they are highly sensitive to global risk sentiment [6]. The FSB highlights NBFI leverage, data gaps, crypto-assets, stablecoins, operational incident reporting and cross-border payments as major policy areas [8]. The BIS links financial vulnerabilities with high public debt, private credit growth, leveraged hedge funds and the concentration of AI-related financing [7]. These sources show that adaptation mechanisms must cover a broader perimeter than banking supervision alone.

Finally, Azerbaijani official sources provide an applied country framework. The Central Bank's Financial Stability Report 2025 states that the banking sector's capital adequacy ratio was 17.6%, the Liquidity Coverage Ratio was 154%, net profit was around AZN 1.2 billion, return on assets was 2.1%, and return on equity was 18.2% [10]. The same report also indicates that the Central Bank introduced a 0.5 percentage point countercyclical capital buffer and continued to align capital regulation with Basel III standards [10]. The Financial Sector Development Strategy 2024-2026 identifies financial inclusion, depth and diversification of instruments, efficiency, transparency and resilience as strategic objectives [11]. These documents support the practical relevance of the adaptation model proposed in this article.

MAIN PART

1. Conceptual Foundations of Financial Market Resilience

Financial market resilience may be defined as the capacity of markets, institutions and infrastructure to continue performing essential functions under stress, to absorb losses without disorderly breakdown, and to adapt to structural changes without undermining confidence. This definition is broader than the concept of stability in a narrow sense. Stability may indicate that current conditions are calm, but resilience indicates that the market can withstand future disturbance. In this sense, resilience is dynamic, forward-looking and institutional. It depends on liquidity, solvency, market depth, legal certainty, operational continuity, investor trust and policy credibility.

A resilient financial market has several characteristics. First, it allows prices to adjust to new information without excessive discontinuity. Second, it preserves the ability of solvent borrowers to obtain financing even when risk premia increase. Third, it enables investors to rebalance portfolios without provoking fire sales. Fourth, it provides mechanisms for risk sharing through insurance, derivatives, diversified securities and institutional investment. Fifth, it maintains settlement, custody, clearing, payment and reporting functions even during cyber or operational disruptions. These conditions are not created automatically; they require regulation, infrastructure, market discipline and institutional learning.

The resilience of a financial market can therefore be expressed through a functional relationship: $R = f(L, C, D, I, O, G)$, where L represents liquidity, C capital and solvency buffers, D diversification of instruments and investors, I information transparency, O operational continuity and G governance/regulatory credibility. The formula is not intended as a mechanical econometric model, but as a conceptual tool for understanding why resilience is multidimensional. A market with high liquidity but weak governance may be vulnerable to speculative excess. A market with strong capital but poor operational continuity may be exposed to cyber shocks. A market with good regulation but narrow investor participation may remain shallow and dependent on a small group of participants.

For emerging economies, local capital market development is especially important. According to the Bundesbank overview, local financial markets help governments finance deficits in domestic currency, support monetary policy implementation, improve long-term financing, provide local-currency assets and deepen capital allocation [2]. These functions reduce external vulnerability. When domestic markets are

underdeveloped, firms and governments rely more heavily on bank credit or foreign borrowing. This can increase maturity mismatch, currency mismatch and sensitivity to external interest-rate cycles. A deeper local market, by contrast, creates a domestic investor base, strengthens monetary transmission and improves the economy's capacity to finance investment through diverse channels.

Table 1.

Core market functions and their role in resilience

Core function of financial markets	Resilience contribution	Main vulnerability under new challenges	Adaptation mechanism
Capital allocation	Directs savings toward productive investment and public financing	Sudden stop of capital flows, rising risk premia, debt rollover pressure	Local-currency bond markets, diversified issuers, transparent disclosure, credible fiscal-monetary coordination
Liquidity provision	Allows investors to buy and sell assets without sharp price disruption	Fire sales, margin calls, leveraged deleveraging, thin secondary markets	Market-making capacity, central clearing, liquidity stress tests, repo-market safeguards
Risk sharing	Distributes risks among banks, insurers, investors and derivative users	Hidden leverage, concentration, correlated positions, weak insurance buffers	Macroprudential limits, capital buffers, risk-based supervision, derivative transparency
Information production	Creates prices and signals about risk, credit quality and expectations	Opacity in private credit, AI models, crypto-assets and complex funds	Data reporting, valuation standards, audit quality, investor protection, supervisory technology
Payment and settlement	Supports continuity of transactions and confidence in market infrastructure	Cyberattack, operational outage, third-party dependency, settlement delay	Operational resilience standards, incident reporting, redundancy, cyber stress testing

Source: Compiled by the author based on Ataşov [1], Deutsche Bundesbank [2], İpekten [3], IMF [6], FSB [8] and BIS [7].

Scheme 1.

Transmission of a global shock into financial-market instability

Geopolitical / inflation / technology shock	Repricing of risk and expectations	Funding and liquidity stress	Leverage and interconnectedness channels	Real-sector credit and investment effects	Policy response and market adaptation
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Source: Developed by the author.

2. New Global Challenges and Channels of Market Vulnerability

The first major challenge is geopolitical fragmentation. Recent years have shown that military conflicts, sanctions, trade restrictions and energy-market disruptions can rapidly affect financial markets. The IMF's April 2026 GFSR describes how the war in the Middle East increased energy prices, raised inflation expectations, affected bond yields and created pressure on emerging-market assets [6]. The OECD's 2026 assessment similarly notes that higher energy prices, supply shortages, tighter financial conditions and weaker confidence can weigh on global activity and create difficult trade-offs for central banks [12]. In such a setting, financial markets become a transmission channel between political uncertainty and the real economy.

The second challenge is the fiscal-financial stability nexus. High public debt increases the sensitivity of sovereign bond markets to confidence shocks, changes in inflation expectations and shifts in investor demand. The FSB 2025 Annual Report warns that deteriorating confidence about debt sustainability can amplify volatility in government bond markets and create risks for financial stability [8]. The BIS Annual Economic Report 2026 devotes special attention to high public debt and shifting financial markets, arguing that fiscal risks and bond-market structure have become more closely connected [7]. This is important because sovereign bonds often serve as collateral, safe assets and benchmarks for pricing other financial instruments. When their liquidity weakens, the whole market system can be affected.

The third challenge is the expansion of non-bank financial intermediation. NBFIs can support market-based finance, reduce excessive reliance on banks and provide alternative investment channels. However, it also creates vulnerabilities when leverage, maturity mismatch or liquidity mismatch are hidden outside the banking perimeter. The FSB notes that NBFIs continue to grow faster than the banking sector and that interlinkages between banks and nonbanks, combined with opacity, make vulnerability assessment more difficult [8]. The IMF also emphasises that non-bank investors can amplify emerging-market shocks because cross-border portfolio flows are sensitive to global risk sentiment [6].

Private credit is a particularly important segment of NBFI. The FSB estimates the size of private credit at between USD 1.5 trillion and USD 2 trillion as of the end of 2024 and stresses that the sector has not been tested during a severe and prolonged downturn [9]. Private credit may finance underserved companies, but it can also generate valuation opacity, borrower leverage, interconnectedness with banks and insurance companies, and data gaps. Because many borrowers are not publicly rated, market participants and regulators may have difficulty assessing the true level of risk. As private credit becomes accessible to broader investor groups, including retail channels in some jurisdictions, liquidity and conduct risks may increase.

The fourth challenge is technological transformation. Artificial intelligence affects financial markets through algorithmic trading, credit scoring, fraud detection, portfolio management, customer service, regulatory technology and cybersecurity. Used properly, AI can improve efficiency and risk analysis. Used without adequate governance, it may create model opacity, correlated trading, data bias, cyber vulnerabilities and concentration around a small number of technology providers. The FSB's Annual Report states that AI is reshaping the financial landscape and that vulnerabilities related to AI use in the financial sector require further examination [8]. The BIS also points to AI-related financing becoming concentrated and circular within the ecosystem [7].

Digital assets and stablecoins create a related but distinct challenge. They can improve payment speed, programmability and cross-border transfer efficiency, yet they can also weaken the singleness of money, raise run risks and create links between crypto markets, money markets and banking-sector liquidity. The FSB's 2025 Annual Report indicates that implementation gaps in crypto-asset and stablecoin regulation could pose risks to financial stability [8]. The BIS 2026 report discusses stablecoins in the broader context of the monetary system and stresses that financial stability implications depend on whether stablecoins become close substitutes for central bank money and bank deposits [7].

The fifth challenge is operational and cyber resilience. Financial markets increasingly rely on digital infrastructure, cloud service providers, trading platforms, central securities depositories, payment systems and data vendors. A cyber incident or outage at a critical node can disrupt market functioning even if banks and investors remain solvent. This makes operational resilience a core part of financial stability. The FSB reports that it finalised a format for operational incident reporting exchange, which reflects the growing need for cross-border coordination and comparable data on operational disruptions [8]. For emerging markets, this issue is equally important because a smaller infrastructure base may create concentration risk.

Finally, climate and transition risks have become part of the financial market agenda. Climate-related physical risks can affect insurance losses, collateral values and credit risk, while transition policies may reprice carbon-intensive assets and create sectoral shocks. Sustainable finance and green bond markets can help mobilise capital for adaptation and transition, but only if disclosure standards and taxonomy rules are credible.

Table 2.

New global challenges and financial-market adaptation mechanisms

Global challenge	Primary market impact	Main amplification channel	Adaptive response
Geopolitical fragmentation and energy shocks	Higher inflation expectations, commodity volatility, weaker confidence	Bond yield increases, currency pressure, emerging-market outflows	Scenario analysis, FX-liquidity buffers, diversified trade and financing channels
High public debt and fiscal uncertainty	Volatile sovereign yields and wider risk premia	Collateral valuation, sovereign-bank nexus, rollover risk	Debt-management transparency, longer maturities, domestic investor base
NBFI leverage and private credit	Opacity and potential forced deleveraging outside banks	Bank-nonbank links, data gaps, liquidity mismatch	NBFI reporting, leverage monitoring, liquidity management tools
AI, digital assets and cyber risk	Faster trading, model opacity, operational dependency	Correlated algorithms, third-party concentration, cyber incidents	AI governance, cyber stress testing, incident reporting, digital resilience standards
Climate and transition risk	Sectoral repricing, insurance losses, stranded assets	Disclosure gaps, greenwashing, collateral risk	Sustainable finance taxonomy, climate stress tests, green bond standards

Source: Compiled by the author based on IMF [6], BIS [7], FSB [8; 9], OECD [12] and World Bank [13].

3. Adaptation Mechanisms for Strengthening Financial Market Resilience

Adaptation mechanisms can be grouped into six interrelated blocks: macroprudential buffers, liquidity and market-functioning tools, transparency and data architecture, operational and digital resilience, market-depth policies and sustainable-finance instruments. These blocks are mutually reinforcing. Capital buffers are more effective when data are reliable; liquidity support is safer when markets are transparent; digital innovation strengthens resilience only when operational risks are controlled; and domestic market depth reduces external vulnerability only when investor protection and disclosure standards are credible.

The first block is macroprudential resilience. Macroprudential policy differs from microprudential supervision because it focuses on system-wide risk, procyclicality and interconnectedness. It includes countercyclical capital buffers, systemic-risk buffers, sectoral capital requirements, loan-to-value and debt-service-to-income limits, stress testing, exposure limits and recovery planning. These tools help prevent credit booms from becoming financial instability. The Azerbaijani case is relevant because the Central Bank introduced a 0.5 percentage point countercyclical capital buffer in 2025 to strengthen the banking system's capacity to absorb potential cyclical risks [10]. This type of measure illustrates how resilience is built before stress appears.

The second block is liquidity and market-functioning policy. Liquidity is the immediate line of defence when uncertainty rises. Markets with high turnover can still become fragile if liquidity depends on leveraged participants or short-term wholesale funding. Therefore, liquidity stress tests should include market liquidity, funding liquidity and collateral liquidity. Authorities should monitor repo markets, margining practices, maturity mismatch, redemption structures in funds and concentration of market makers. In crisis conditions, central banks may need to provide temporary liquidity facilities, but such measures should be supported by ex ante regulation to reduce moral hazard.

The third block is transparency and data architecture. One lesson from both the global financial crisis and the recent expansion of private credit is that opacity can transform local risk into systemic uncertainty. Data gaps in NBFI, derivatives, crypto-assets, private credit and cross-border flows limit the ability of authorities to assess vulnerabilities. The FSB's establishment of a Nonbank Data Task Force and its work on operational incident reporting show that modern financial stability policy increasingly depends on data comparability [8]. For market participants, transparency also reduces information costs, improves price discovery and strengthens investor confidence.

The fourth block is operational and digital resilience. Financial markets depend on continuous functioning of payments, clearing, settlement, custody, trading and reporting systems. Operational resilience requires redundancy, incident response plans, third-party risk management, cyber tests, data-backup arrangements and clear communication protocols. In the era of AI, it also requires model governance, human oversight, explainability, audit trails and limits on fully automated decision-making in critical processes. Financial institutions should treat AI not only as a productivity tool but also as a source of model and operational risk.

The fifth block is market-depth and investor-base development. Resilient markets require diversity of issuers, investors and instruments. A local market dominated by a few government securities, a narrow group of banks and limited retail participation may remain functional but shallow. Development of corporate bonds, sukuk, investment funds, pension assets, insurance investment portfolios, venture financing, crowdfunding and market-making institutions can broaden the ecosystem. However, such diversification should be gradual and regulated. The Central Bank of Azerbaijan's strategy to expand capital markets, deepen instruments and increase retail investments from AZN 150 million toward a potential AZN 1 billion reflects this logic [11].

The sixth block is sustainable finance. Climate adaptation and transition financing require long-term capital, predictable regulation and credible disclosure. Green bonds, sustainability-linked bonds, ESG reporting, climate-risk stress tests and sustainable-finance taxonomies can redirect capital toward resilient infrastructure and low-carbon projects. For an energy-exporting economy, this is strategically significant because transition risks can affect export revenues, public finances, banks' corporate loan portfolios and investor expectations. Sustainable finance should therefore be treated as a financial-market adaptation tool rather than a narrow environmental agenda.

An integrated adaptation model must also include communication and credibility. Financial markets respond not only to regulations but also to expectations. During stress, unclear policy communication can intensify volatility. Regulators should communicate risk assessments, supervisory priorities and market-development reforms in a transparent manner. At the same time, communication

must avoid creating excessive reassurance or panic. Credible communication strengthens trust because it demonstrates that authorities understand the risk environment and possess instruments to respond.

Scheme 2.

Integrated adaptive-resilience cycle for financial markets

Risk identification and data collection	Scenario analysis and stress testing	Capital, liquidity and operational buffers	Market infrastructure and disclosure reforms	Communication and supervisory action	Feedback, learning and regulatory adjustment
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Source: Developed by the author.

Table 3.

Adaptation mechanisms and their expected contribution to resilience

Mechanism block	Policy instruments	Expected resilience effect
Macroprudential buffers	Countercyclical capital buffer, systemic-risk buffer, stress testing, DSTI/LTV limits	Absorbs cyclical shocks, limits excessive leverage and protects credit continuity
Liquidity safeguards	LCR/NSFR monitoring, repo-market analysis, margin practices, central clearing, emergency liquidity facilities	Reduces probability of fire sales and disorderly market breakdown
Transparency and data	NBFI reporting, private credit metrics, derivative repositories, valuation standards, investor disclosure	Improves early warning, price discovery and supervisory response
Digital and operational resilience	Cyber tests, incident reporting, cloud-risk management, AI governance, backup settlement systems	Maintains continuity of payments, clearing, settlement and critical market services
Market-depth policies	Corporate bonds, funds, institutional investors, market makers, retail-investor access, sukuk and crowdfunding frameworks	Diversifies funding channels and reduces dependence on bank credit or external borrowing
Sustainable finance	Green bonds, ESG reporting, climate stress tests, transition-risk disclosure, sustainable finance roadmap	Mobilises long-term investment and reduces climate-transition vulnerability

Source: Developed by the author based on macroprudential and market-development literature [15-18] and official policy documents [6-11].

4. Azerbaijan's Financial Market Resilience in the Context of Global Shocks

Azerbaijan's financial market development takes place in a specific macroeconomic and institutional context. The economy is affected by energy prices, regional geopolitical risks, trade corridors, exchange-rate expectations and the pace of non-oil diversification. At the same time, macroeconomic buffers, sovereign wealth assets and a relatively stable exchange-rate framework have supported confidence. According to the Central Bank's Financial Stability Report 2025, real GDP increased by 1.4% in 2025, nominal GDP reached AZN 129 billion, and non-oil and gas value added grew by 2.7% [10]. Annual inflation at the end of 2025 remained within the announced target corridor of $4\pm 2\%$, with consumer prices rising by 5.2% [10]. These indicators show that the domestic financial sector operated in an environment of moderate growth and manageable inflation, but not without external risk.

The banking sector remains the central component of Azerbaijan's financial system. The CBA report indicates that in 2025 capital and liquidity indicators were above regulatory minimums: capital adequacy was 17.6%, the Liquidity Coverage Ratio reached 154%, net profit was around AZN 1.2 billion, ROA was 2.1% and ROE was 18.2% [10]. These figures are important because banking-sector resilience directly affects the ability of the financial system to absorb shocks. If banks are well capitalised and liquid, they can continue lending and maintain confidence even when external conditions deteriorate.

However, market resilience cannot rely only on banks. Capital markets, insurance companies, non-bank credit institutions, payment systems and investment companies must also develop. The Central Bank's Financial Sector Development Strategy 2024-2026 explicitly aims to develop insurance, capital markets and payment systems, deepen and diversify financial instruments, enhance financial inclusion, facilitate efficiency, safeguard transparency and strengthen financial-sector resilience [11]. This strategic direction corresponds to the international understanding that resilient systems are diversified systems. Concentration of funding in one channel increases vulnerability; diversification of instruments and investors improves adaptation capacity.

The insurance sector is an important part of risk-sharing architecture. In 2025, Azerbaijan's gross written premiums rose by 11% year-on-year to AZN 1.5 billion, claims and benefits paid increased by 22% to AZN 920 million, and the sector generated AZN 166 million in net income [10]. These data indicate

expansion and profitability, but they also show the need to monitor underwriting risk, claims inflation and investment risk. A developed insurance market can support financial resilience by absorbing household and corporate risks, investing long-term reserves and contributing to capital-market demand.

Capital market development remains a priority. The 2025 CBA report states that investment companies still account for a relatively small share of the financial system but have growth potential; client assets of investment companies increased by 35% to AZN 2.6 billion, mainly driven by brokerage services in foreign markets [10]. The Strategy sets ambitious capital-market targets, including increasing the share of the capital-market sector in non-oil GDP from 10% to 14% and expanding retail investments from AZN 150 million to a potential AZN 1 billion [11]. These targets point to an important adaptation channel: the broader the investor base and the wider the range of instruments, the less dependent the economy is on bank lending and external financing.

Azerbaijan's adaptation mechanisms should therefore focus on five priorities. The first is continuing risk-based supervision and Basel III alignment in banking, while ensuring that credit growth remains consistent with borrower capacity. The second is deepening local capital markets through government securities, corporate bonds, investment funds, sukuk, venture capital and crowdfunding frameworks. The third is developing institutional investors, particularly insurance and pension-related channels, to create stable long-term demand for securities. The fourth is strengthening digital, payment and cyber resilience because market confidence increasingly depends on uninterrupted infrastructure. The fifth is integrating sustainable finance into market development so that long-term capital can support diversification, energy transition and climate adaptation.

It is also necessary to strengthen investor education and trust. Retail participation can improve market depth, but only if investors understand risk and have confidence in disclosure, custody and market conduct. Without these safeguards, rapid retail expansion can create speculative behaviour and reputational damage. Therefore, the growth of retail investment should be accompanied by clear suitability standards, financial literacy, transparent fees, complaint mechanisms and effective supervision of intermediaries. The goal is not simply to increase the number of investors, but to create informed and stable participation.

Overall, Azerbaijan's financial market resilience should be assessed through both current buffers and future adaptability. Current capital and liquidity indicators suggest a stable base. Yet the next stage requires stronger market infrastructure, more instruments, more institutional investors, better data, operational resilience and greater integration with international standards. This direction is consistent with both domestic strategic documents and global policy debates. The country's advantage lies in the opportunity to develop markets in a planned and risk-sensitive way, avoiding some of the fragilities that appeared in more advanced but highly complex financial systems.

CONCLUSION

The analysis demonstrates that financial market resilience under new global challenges is a multidimensional capacity rather than a static condition. Modern markets must absorb shocks arising from geopolitical conflicts, inflation volatility, public debt pressures, NBFI leverage, private credit, AI, cyber threats, digital assets and climate transition. These risks are not isolated. They interact through liquidity, leverage, valuation, funding, confidence and operational channels. Therefore, adaptation mechanisms must be integrated across regulation, infrastructure, institutions and market development.

The classical functions of financial markets remain the foundation of resilience. Markets allocate capital, mobilise savings, provide liquidity, enable risk sharing and generate information. However, each of these functions now requires stronger safeguards. Capital allocation must be supported by disclosure and local-currency financing. Liquidity provision must be backed by market-making capacity, repo-market monitoring and stress testing. Risk sharing must be transparent and subject to macroprudential oversight. Information production must be protected from opacity in private markets, digital assets and AI models. Payment and settlement functions must be operationally resilient.

International experience shows that resilience cannot be achieved only through bank regulation. The financial system has moved toward market-based finance, non-bank intermediaries, private credit, digital platforms and cross-border investment flows. The IMF, BIS and FSB all emphasise that vulnerabilities increasingly arise outside the traditional banking perimeter. This requires broader data collection, NBFI leverage monitoring, operational incident reporting, crypto and stablecoin regulation, AI governance and cross-border cooperation. A narrow supervisory perimeter is no longer sufficient.

For Azerbaijan, the results are encouraging but also point to the need for continued reform. Banking-sector capital and liquidity indicators in 2025 were above minimum requirements, profitability

remained solid, and the Central Bank introduced a countercyclical capital buffer. At the same time, long-term resilience requires deepening capital markets, expanding institutional investors, developing sustainable and digital finance, strengthening cyber and operational resilience, and increasing investor confidence. The Financial Sector Development Strategy 2024-2026 provides a relevant framework for this transition.

The main practical conclusion is that financial market resilience should be designed as an adaptive cycle. Authorities and market participants should identify risks early, test adverse scenarios, build capital and liquidity buffers, improve infrastructure and disclosure, communicate policy responses clearly, and update regulation when new vulnerabilities emerge. Such a cycle transforms shocks from purely destructive events into sources of institutional learning. In this sense, resilience is not resistance to change; it is the capacity to change without losing stability, trust and developmental function.

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СТІЙКІСТЬ ФІНАНСОВИХ РИНКІВ ТА МЕХАНІЗМИ АДАПТАЦІЇ В УМОВАХ НОВИХ ГЛОБАЛЬНИХ ВИКЛИКІВ

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Метою дослідження є аналіз стійкості фінансових ринків в умовах нових глобальних викликів та обґрунтування комплексної системи адаптаційних механізмів, спрямованих на зміцнення ліквідності, прозорості, інституційної довіри та здатності фінансової системи поглинати шоки. У статті розглянуто вплив геополітичної фрагментації, інфляційного тиску, боргових ризиків, небанківського фінансового посередництва, приватного кредиту, цифрових активів, штучного інтелекту, кіберризиків і кліматичного переходу на функціонування фінансових ринків.

У дослідженні використано системний огляд літератури, порівняльний інституційний аналіз, картування макрофінансових ризиків, узагальнення офіційних статистичних звітів та концептуальне моделювання. Інформаційну базу становлять матеріали Міжнародного валютного фонду, Банку міжнародних розрахунків, Ради з фінансової стабільності, Федеральної резервної системи, Центрального банку Азербайджанської Республіки, а також наукові публікації та місцеві навчальні джерела.

Наукова новизна полягає у поєднанні класичних функцій фінансових ринків – розподілу капіталу, забезпечення ліквідності, перерозподілу ризиків та формування інформації – із сучасною моделлю стійкості, що ґрунтується на пруденційних буферах, ринковій інфраструктурі, цифровій операційній стійкості, прозорості даних, макропруденційній координації та розвитку локальних ринків капіталу.

Результати можуть бути використані регуляторами, банками, страховими компаніями, інвестиційними компаніями та органами економічної політики для вдосконалення системи раннього попередження, управління ліквідністю, кіберстійкістю, захисту інвесторів, нагляду за небанківським сектором і розвитку ринку капіталу.

Доведено, що стійкість фінансових ринків означає не лише відсутність кризи, а й здатність системи адаптуватися до змін, своєчасно переоцінювати ризики, зберігати ліквідність, забезпечувати довіру інвесторів та підтримувати безперервність фінансових послуг. Для Азербайджану основними напрямками адаптації визначено ризик-орієнтований нагляд, поглиблення ринку капіталу, цифрові та сталі фінанси, розвиток інституційних інвесторів і посилення операційної стійкості.

Ключові слова: фінансові ринки, ринкова стійкість, фінансова стабільність, механізми адаптації, небанківське фінансове посередництво, приватний кредит, ринок капіталу, Азербайджан, макроруденційна політика, цифрові фінанси.