

# Analysis of The Development Dynamics of Banking and Credit Organizations in Azerbaijan

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## Keywords

*banking sector, credit potential, bank management, bank prudential rules, financial indicators of the bank-credit sistem, etc.*

## Abstract

*Purpose of the research: The main goal of the research conducted within the framework of this article is to analyze the development indicators of the Azerbaijani banking sector through empirical research tools, identify sustainable development trends of the sector, and formulate recommendations to ensure its stability.*

*Design/methodology: The study evaluates the current state of the banking sector of Azerbaijan based on a complex-systemic methodological approach, using empirical analysis tools, macroeconomic indicators of the Republic of Azerbaijan in the monetary field, statistical data on the banking sector, and indicators of economic fluctuations of banking and credit institutions.*

*Results/findings: In the article, the author assessed the credit potential of banking and credit institutions operating in the national banking sector, identified improvement measures for the elimination of problem loans and timely identification and accurate assessment of banking risks, the application of preventive control mechanisms, and the use of digital technologies in this process.*

*Practical implications and Conclusions: The article puts forward proposals for strengthening the institutional framework for implementing an effective credit policy in the banking sector of Azerbaijan, developing internal control systems of banking and credit institutions, and developing human resources potential in credit and risk management.*

## Introduction

Banking and credit institutions operating in the banking sector play an important role in financing national economies, organizing capital flows and shaping the investment climate. Therefore, the analysis of the development dynamics of the banking and credit system in the country and the assessment of its current state are of strategic importance from the point of view of ensuring sustainable economic growth and national economic security. This issue is becoming even more relevant, especially in developing countries, against the background of structural weaknesses of banking systems, dependence on foreign currency and volatility of capital flows.

## Literature review

Local scientists have conducted research covering various aspects of the development of the banking and credit system of Azerbaijan and the formation of lending policy. The regulation of credit policy in this area is included in the works of Maharramova L. [8] Her works also analyze aspects of ensuring the stability of banks. In general, the analysis of financial stability in the banking sector is constantly included in the reviews of the Central Bank of the Republic of Azerbaijan and the Association of Banks as an important issue. [2, 4, 5, 10] Also, individual researchers conducted research on the analysis of the relationship between credit policy and the stability of the banking sector (Abbasov R. [1], Ismayilov Sh. [6], Ahmadova S. [3], etc.). Specific proposals and recommendations on the management and optimization of problem loans in banking and credit organizations, as well as their restructuring in the banking system, have been developed by researchers. [5, 7] However, in this process, we believe that the analysis of the credit policies of the leading banks of the banking sector of Azerbaijan, as well as the financial and economic indicators of these institutions and the assessment of their credit potential, along with the development indicators of the general banking sector, is an optimal research tool for accurately determining modern development trends. In the following sections, we will conduct our research based on this aspect.

## Research Methodology

Since the range of factors affecting the credit potential of the national banking sector and the credit policy of banking and credit institutions is very wide, the application of a complex systematic methodological approach in the research process is scientifically justified. The analysis of the dynamics of the development of financial and economic indicators of banking and credit institutions requires the application of statistical analysis methods, statistical grouping, and functional analysis tools. In the next section of the study, the scientific findings determined with the help of these analysis methods and the results obtained on their basis will be of scientific and practical importance.

### Findings and results

The main goal of this study is to analyze the development indicators of Azerbaijani banking and credit institutions using empirical research tools, to identify the development trends of the sector and to formulate recommendations for ensuring its sustainable growth. The study will assess the current state of the banking and credit system using macroeconomic indicators, statistical data on the banking sector and indicators of global economic fluctuations [9, p. 34].

Table 2 : Credit Institutions' Loans in National and Foreign Currency by Term (2014-2024 mln.AZN)

YEAR	Short-term Credits (national)	Short-term overdue (national)	Long-term credits (national)	Long-term past (national)	Short-term credits (foreign)	Short-term past time (foreign)	Long-term credits (foreign)	Long-term past time (foreign)
2014	2494	301	11011	466	1437	90	3599	118
2015	1773	268	9220	572	3523	304	7212	363
2016	1362	147	7300	535	2115	192	5665	597
2017	1030	164	5923	624	1070	158	3733	678
2018	1510	157	6563	616	1184	171	3761	639
2019	1659	106	8341	596	1259	120	4038	450
2020	1754	94	8449	559	720	40	3605	198
2021	2246	80	10450	451	955	51	3467	136
2022	2838	74	13356	361	770	40	3218	116
2023	3279	71	16258	257	811	29	3629	79
2024	4125	87	20648	260	789	24	3725	77

Source: <https://www.cbar.az/page-40/statistical-bulletin>

As can be seen in Table 2, the volume of loans issued in national and foreign currency by credit institutions operating in Azerbaijan during 2014–2024 showed fluctuations. In 2015, compared to the previous year, national short-term loans decreased by 28%, and long-term national loans decreased by 16%. In 2016, this decrease continued, amounting to 23% and 20%, respectively. In 2017, national short-term loans decreased by 24%. Since 2018, recovery processes in lending have begun, with a 46% increase in national short-term loans and a 10% increase in long-term loans. In 2019, this increase accelerated further, reaching 27% in long-term loans. Despite the pandemic, a slight increase was observed in national loans in 2020. Thus, short-term loans increased by 5%, and long-term loans by 1%. In 2021, there was a sharp increase in lending as a result of increased economic activity: short-term national loans increased by 62%, and long-term national loans by 23.7%.

Growth continued in 2022, with an 8.7% increase in long-term loans and a 19% increase in 2023. In 2024, short-term loans in the national currency increased by 26% and long-term loans by 20%. As for loans in foreign currency, although a 145% increase in short-term loans and a 100% increase in long-term loans were observed in 2015, these indicators continued to trend downward in the following years. In 2016, short-term loans decreased by 40% and long-term loans by 53%. Although a slight recovery occurred in 2017–2018, respectively, the overall trend continued to decline. After 2020, the growth rate in foreign loans weakened. Although long-term foreign loans increased by 13% in 2023, this indicator decreased to 2.5% in 2024. Short-term loans, on the other hand, decreased by 15% and 2.7% in 2023 and 2024, respectively.

Thus, the general trend shows that in recent years, the share of loans in national currency in lending in Azerbaijan has been increasing, while foreign currency has been decreasing. This can be explained by the

strengthening of financial stability in the country, the reduction of currency risks, and the banking sector's greater preference for domestic resources.

Table 3 : Dynamics of Indicators of Foreign Assets and Liabilities in the Azerbaijani Banking Sector (2019-2024 mln.AZN)

Year	Total assets in foreign currency	Total liabilities in foreign currency
2019	14414	15632
2020	12954	13857
2021	15160	15162
2022	19064	18652
2023	16552	16087
2024	16196	16621
2025	17539	17969

Source: <https://www.cbar.az/page-188/credit-institutions>

Based on the indicators presented in Table 3, if we look at the annual changes in the assets and liabilities of the Azerbaijani banking sector in foreign currency, in 2020, compared to 2019, assets in foreign currency decreased by 10.1%, and liabilities decreased by 11.3%. In 2021, assets increased by 17%, and liabilities increased by 9.4%. Compared to 2022, assets increased by 25.7%, and liabilities increased by 23%. In 2023, assets decreased by 13%, and liabilities by 13.7%, compared to the previous year. In 2024, assets decreased by 2.1%, and liabilities increased by 8.1%.

Table 4 : Level of Problematic Loans (NPL, %) by Banks in 2013–2024

Year	Kapital Bank	ABB	Xalq Bank	AccessBank	Bank Respublika
2013	8.2	12.5	9.8	7.4	10.1
2014	7.6	11.2	9.1	6.9	9.8
2015	6.5	14.3	8.7	7.2	9.0
2016	6.1	16.5	7.9	6.8	8.7
2017	5.4	13.2	7.1	6.0	8.0
2018	4.8	10.7	6.3	5.3	6.7
2019	4.2	8.9	5.6	4.6	6.0
2020	3.8	6.5	5.1	4.2	5.4
2021	3.5	5.4	4.8	3.9	4.9
2022	3.0	4.2	4.1	3.2	4.2
2023	2.6	3.5	3.8	2.9	3.8
2024	2.2	2.9	3.4	2.5	3.4

Source: Kapital Bank ASC. (2024). 2023 Annual Sustainable Development Report.

[https://www.kapitalbank.az/files/reports/2023\\_az\\_1740056267.pdf](https://www.kapitalbank.az/files/reports/2023_az_1740056267.pdf)  
[kapitalbank.az+3kapitalbank.az+3kapitalbank.az+3](https://www.kapitalbank.az/files/reports/2023_az_1740056267.pdf)

According to the indicators presented in Table 5, the level of problem loans decreased in 2014 compared to the previous year. In Kapital Bank, this indicator decreased by 0.6%, in IBA by 1.3%, in Xalq Bank by 0.7%, in AccessBank by 0.5%, and in Bank Respublika by 0.3%. In 2015, problem loans decreased by 1.1% in Kapital Bank, but decreased by 0.7% in IBA, increased by 0.4% in Xalq Bank, increased by 0.3% in AccessBank, and increased by 0.8% in Bank Respublika. In 2016, the NPL level in Kapital Bank decreased by 0.4%, increased by 2.2% in IBA, decreased by 0.8% in Xalq Bank, decreased by 0.4% in AccessBank, and decreased by 0.3% in Bank Respublika.

In 2017, compared to the previous year, this indicator decreased by 0.7% in Kapital Bank, by 3.3% in IBA, by 0.8% in Xalq Bank, by 0.8% in AccessBank, and by 0.7% in Bank Respublika. In 2018, the level of problem loans in Kapital Bank decreased by 0.6%, in IBA by 2.5%, in Xalq Bank by 0.8%, in AccessBank by 0.7%, and in Bank Respublika by 0.3%. In 2019, this indicator decreased by 0.6% in Kapital Bank, by 1.8% in IBA, by 0.7% in Xalq Bank, by 0.7% in AccessBank, and by 1.3% in Bank Respublika. In 2020, compared to the previous year, this indicator decreased by 0.6% at Kapital Bank, by 2.4% at IBA, by 0.4% at Xalq Bank, by 0.4% at AccessBank, and by 0.6% at Bank Respublika.

In 2021, the NPL level at Kapital Bank decreased by 0.3%, at IBA by 1.2%, at Xalq Bank by 0.3%, at

AccessBank by 0.3%, and at Bank Respublika by 0.5%. In 2022, problem loans at Kapital Bank decreased by 0.5%, at IBA by 0.7%, at Xalq Bank by 0.7%, at AccessBank by 0.7%, and at Bank Respublika by 0.7%. In 2023, this indicator decreased by 0.4% at Kapital Bank, at IBA by 0.7%, at Xalq Bank by 0.3%, at AccessBank by 0.4%, and at Bank Respublika by 0.4%.

In 2024, the level of problem loans decreased by 0.4% in Kapital Bank, 0.3% in IBA, and 0.4% in Xalq Bank, AccessBank, and Bank Respublika. In general, in the 11-year statistical indicator, it was determined that the NPL level decreased by 6% in Kapital Bank, 9.6% in IBA, 6.4% in Xalq Bank, 0.4% in Accessbank, and 6.7% in Bank Respublika.

Table 5: Reduction of Foreign Currency Positions (Share of Foreign Currency Loans, %)

İl	Kapital Bank	ABB	AccessBank	Xalq Bank	Bank Respublika
2013	32	40	38	35	36
2016	25	33	32	30	31
2019	18	24	23	22	22
2022	14	17	16	16	16
2024	12	13	13	14	13

Source: International Bank of Azerbaijan (IBA). (2024). Financial Reports.

<https://abb-bank.az/az/maliye-ve-investisiya/hesabatlar/ifrs-hesabatlari>

As a result of the Central Bank's policy of reducing foreign exchange, currency risks in the country's banking sector have been effectively managed. The share of the national currency in loan portfolios has increased, and currency positions have stabilized. Thus, in 2016, compared to the previous three years, a decrease of 7% was observed in Kapital Bank, 7% in IBA, 6% in AccessBank, 5% in XalqBank, and 5% in Bank Respublika. In 2019, compared to the previous three years, a decrease of 7% was observed in Kapital Bank, 9% in IBA, 9% in AccessBank, 8% in XalqBank, and 9% in Bank Respublika. In 2022, the indicators were 14% in Kapital Bank, 13% in IBA, 13% in AccessBank, 14% in XalqBank, and 13% in Bank Respublika.

Based on the physical infrastructure indicators of the banking sector, the average number of banks is 24.3. A drop to 22 in 2024 could indicate consolidation or license revocation in the banking sector. Such reductions could allow stronger and more resilient banks to dominate the market.

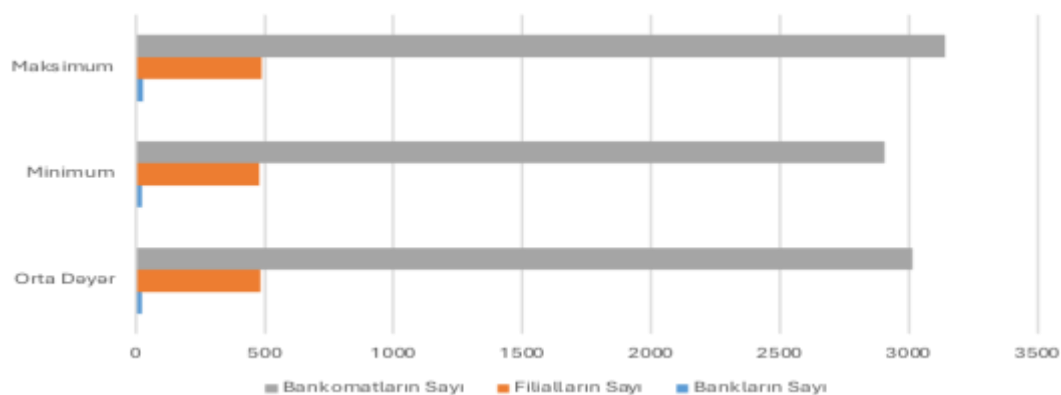


Chart 2. Average, Minimum and Maximum Values for Structural Indicators of the Azerbaijani Banking Network (2000–2024)

Source: Central Bank of Azerbaijan. (2024). Indicators on the banking network of Azerbaijan: number of banks, branches and ATMs (2000–2024). <https://www.cbar.az>

The average number of branches was 482.7. The highest figure was recorded in 2023 with 487 branches. These figures indicate that geographical access to banking services is stable and the sector maintains its proximity to customers.

The average number of ATMs was 3,014.7, and in 2024 this figure increased to 3,140. This reflects the expansion of non-cash payments and electronic banking services.

## Discussions and conclusions

In modern times, the dynamic development of financial markets, global economic changes and

technological innovations directly affect the operating environment of the banking sector. In these circumstances, the sustainable and efficient operation of banks depends significantly on the establishment of a sound and flexible banking management system. Especially in developing countries like Azerbaijan, improving management strategies in banks is of great importance in order to maintain financial stability, strengthen the reliability of the banking system and strengthen customer confidence.

Although Azerbaijan's banking management and bank management strategies have undergone certain improvements in recent years, there are still a number of structural and institutional problems in this area.

IBA (International Bank of Azerbaijan), one of the leading commercial banks of Azerbaijan, is a financial institution of strategic importance in the national banking sector. Founded in 1992, IBA has undergone significant development stages both institutionally and technologically over the years. The bank is one of the largest financial institutions in the country in terms of both the volume of its assets and the breadth of its customer base. IBA's operating strategy is based on sustainable development, digitalization and customer satisfaction. IBA prioritizes an information technology-based approach to bank risk management. In particular, automated control systems and an IT infrastructure that meets information security standards have been formed to minimize operational risks. The steps taken by the bank in the field of cybersecurity are aimed at ensuring the protection of customer data and system stability.

Among the leading commercial banks operating in the banking sector of Azerbaijan, IBA (International Bank of Azerbaijan) and Kapital Bank are strategically important financial institutions with a significant weight, a large asset base. The International Bank of Azerbaijan (IBA) is one of the largest state-controlled banks in the country and is considered a key player in the financial market in terms of stability and liquidity. IBA's risk management policy is structured in accordance with international practice and prudential regulations.

Kapital Bank is one of the banks with the widest service network and the largest customer base in Azerbaijan. Especially in the retail banking sector, Kapital Bank has identified sustainability as a strategic priority in its activities. Kapital Bank has implemented automated decision-making systems based on modern technological tools in the field of credit risk. Based on the analysis of customer data, risk profiles are created and different credit conditions are formed for these profiles. When granting loans, both statistical and behavioral models are applied, and risk prediction and assessment are carried out more efficiently [4, p. 45]

In terms of ensuring sustainability, IBA applies more conservative and cautious strategies. Kapital Bank uses technology-based, flexible and modern credit assessment systems. This allows it to create a large retail loan portfolio, but the likelihood of facing more widespread risks increases accordingly. In terms of liquidity, both banks are in a strong position. IBA's liquid assets are mainly aimed at supporting large corporate transactions, while Kapital Bank maintains its liquidity based on a high flow of customer deposits. Both banks conduct regular stress tests and scenario analyses on liquidity risks. In terms of operational risks, ABB and Kapital Bank demonstrate similar approaches. Both banks attach particular importance to developing information technologies and cybersecurity systems.

IBA relies more on cooperation with international banks and audit experience in this area, while Kapital Bank focuses on its internal digitalization strategy and applies innovative solutions more suitable for the local market. In terms of technological development, Kapital Bank shows more flexible and innovative approaches in the field of digital banking. Its successes in the field of mobile banking, online services and digital payment systems allow it to provide more effective services to a wide customer segment. IBA, on the other hand, applies technological development more in improving corporate services and risk management systems.

Capital structure analyses are also an integral part of risk management. Banks conduct stress tests on various capital pressure scenarios to assess how the existing capital cushion will behave in unstable economic conditions. As a result of such analyses, it becomes clear that dynamic capital management is of great importance for banks to meet the requirements of regulatory authorities and to continue their lending activities stably.

All these analyses show that modern risk management is not only aimed at reducing risks, but has also become a complex function integrated into the overall strategic management process of the bank, supporting sustainable development and encouraging innovation. This approach serves to shape the Azerbaijani banking sector as an internationally competitive, transparent and technologically flexible system and will make a significant contribution to further strengthening economic stability in the future.

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