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Azerbaijan's Financial System and Macroeconomic Dynamics: A Banking-sector-focused Analysis (2021–2024)

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Abstract. *This article examines the structure of Azerbaijan's financial system and its relationship with macroeconomic developments during 2021–2024. Particular attention is given to the dominant position of the banking sector within the financial system, the regulatory functions of the central bank, and the role of the state in financial markets. The analysis shows that the financial system rests on a two-tier banking structure and that financial resources are mobilized largely through banks. It also emphasizes the central role of the Central Bank of Azerbaijan in monetary policy, the preservation of financial stability, and the supervision of the banking sector. The Azerbaijan Deposit Insurance Fund is shown to strengthen confidence in the financial system by improving deposit security. The banking sector's control of approximately 95% of financial-system assets indicates that the system is organized around banks. An examination of macroeconomic indicators reveals a general upward trend in GDP, household income, wages, investment, and credit volume during 2021–2024. Over the same period, however, the external balance remained volatile under the influence of energy-price fluctuations and global economic conditions. The labour market displayed employment growth together with an uneven unemployment profile. Overall, the article concludes that financial markets represent an important channel through which economic growth is supported.*

Keywords: *financial system of Azerbaijan, banking sector, central bank, macroeconomics, credit system, economic growth.*

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Azərbaycanın maliyyə sistemi və makroiqtisadi dinamikası: bank yönümlü təhlil (2021–2024)

Hüseyn Ramazanlı

Xülasə. *Bu tədqiqatda Azərbaycan maliyyə sisteminin strukturu və onun 2021-2024-cü illər arasında makroiqtisadi inkişaflarla əlaqəsi təhlil edilir. Tədqiqat xüsusilə maliyyə sistemində bank sektorunun dominant roluna, mərkəzi bankın tənzimləyici funksiyalarına və dövlətin maliyyə bazarlarına təsirinə yönəlmişdir. Təhlil göstərir ki, maliyyə sistemi iki səviyyəli bankçılıq strukturuna əsaslanır və maliyyə resursları əsasən banklar vasitəsilə səfərbər olunur. Tədqiqat həmçinin Azərbaycan Mərkəzi Bankının pul siyasətində, maliyyə sabitliyinin qorunmasında və bank sektoruna nəzarətdə mühüm rolunu vurğulayır. Bundan əlavə, Azərbaycan Əmanətlərin Sığortalanması Fondu əmanətlərin təhlükəsizliyini artırmaqla maliyyə sisteminə inamı gücləndirir. Bank sektorunun maliyyə aktivlərinin təxminən 95%-nə nəzarət etməsi sistemin əsasən bank mərkəzli olduğunu göstərir. Makroiqtisadi göstəricilər 2021-2024-cü illər ərzində ÜDM-də, ev təsərrüfatlarının gəlirlərində, əmək haqqında,*

investisiyalarda və kredit həcmində ümumi artım tendensiyasını göstərir. Lakin, enerji qiymətlərindəki dəyişikliklər və qlobal iqtisadi şərait nəticəsində xarici balans dəyişkənlik göstərib. Əmək bazarında işsizlikdə dalğalanmalarla yanaşı, məşğulluq artımı da müşahidə olunub. Ümumilikdə, maliyyə bazarları iqtisadi artımı dəstəkləyən mühüm kanal kimi qəbul edilə bilər.

Açar sözlər: *Azərbaycan maliyyə sistemi, bank sektoru, mərkəzi bank, makroiqtisadiyyat, kredit sistemi, iqtisadi artım*

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Introduction

Azerbaijan's financial system constitutes a core institutional framework that supports the sustainable development of the national economy and facilitates the efficient allocation of resources. This system includes the state's regulatory mechanisms related to borrowing, credit policies, and asset transfers. The financial system consists of banks, insurance companies, other financial institutions, the pension system, financial markets, and payment systems. Structurally, it is built on a two-tier banking system, a feature that clearly demonstrates the central role of the banking sector in the allocation of economic resources (International Monetary Fund, 2025). The implications of this structure indicate that financial resources are collected and distributed largely through banks.

The first and most visible component of Azerbaijan's financial system is the central bank. The Central Bank of Azerbaijan (CBA) is the principal authority responsible for formulating and implementing monetary and credit policies and for regulating and supervising the banking sector. The CBA's main functions include inflation targeting, control of the money supply, implementation of foreign-exchange policies, and the preservation of financial stability. The Central Bank therefore occupies a central position in maintaining price stability and safeguarding the security of the financial system. Within this framework, the CBA's regulatory and supervisory functions are of critical importance for the early identification of risks that may emerge in the banking sector and for the implementation of preventive measures.

The second tier of the financial system consists of commercial banks and non-bank credit institutions. In Azerbaijan, the banking sector controls approximately 95% of the financial system's assets, and a large share of economic resources is mobilized through these institutions. The number and composition of banks operating in the country reflect both the scale and the diversity of the sector. As of 2025, 22 banks were operating in Azerbaijan; 20 of them were private commercial banks, while two held the status of state-owned banks. This composition shows that the banking sector is supported by both the public and private sectors, while private banks remain dominant in the distribution of resources.

Literature Reviev

An assessment of Azerbaijan's financial system by sectoral shares reveals the dominant position of the banking sector. Banks manage approximately 95% of the assets of the financial system, indicating that the bulk of resources is channelled through banks. The share of insurance companies varies between approximately 3% and 5% (Asian Development Bank, 2025). This share suggests that the insurance sector has a limited role within the financial system, although it remains strategically important for risk management. The share of non-bank financial institutions remains below 2%,

which indicates that microfinance and other financial-intermediation services have not yet reached the desired level of development. This structural distribution points to the need for further diversification of the financial system and broader dispersion of risks.

Azerbaijan's financial system is characterized by the predominance of the banking sector and the comparatively limited development of other financial institutions. The high share of the banking sector in total assets confirms that financial resources are collected and distributed primarily through banks. Nevertheless, strengthening areas such as insurance, capital markets, and microfinance would improve the resilience of the financial system and support the sustainability of economic growth (Akansu et al., 2022). The deepening of financial markets, the development of institutional infrastructure, and the improvement of the regulatory framework therefore stand out as priority areas in Azerbaijan's financial transformation.

The institutional features of Azerbaijan's financial system play a critical role in preserving financial stability, strengthening risk management, and implementing economic policies. These features demonstrate the effectiveness of regulatory mechanisms, the role of the state in the sector, and the structural risks faced by the system. Because of the dominance of the banking sector and the active presence of the state in the financial sector, the institutional structure is an important determinant of the allocation of economic resources.

In the field of regulation and supervision, the Central Bank of Azerbaijan (CBA) is the main regulatory authority of the financial sector. The CBA has been carrying out broad reforms with the objective of aligning the system with Basel standards. Within these reforms, the strengthening of the consolidated supervision framework, the development of crisis-management procedures, and the implementation of bank-resolution mechanisms have been identified as priority areas. The consolidated supervision approach makes it possible to assess intragroup risks within banks in a comprehensive manner and contributes to the early detection of systemic risks. Crisis-management and resolution mechanisms, in turn, allow problems arising in financial institutions to be addressed in a planned and orderly manner before they spread to the wider system (Alkan, 2022a; Alkan, (2022b). These approaches serve the preservation of financial-system stability and the reduction of the fiscal burden on the state.

The Azerbaijan Deposit Insurance Fund (ADIF) was established in 2007 and operates as a safety mechanism designed to protect individual deposits. The existence of the ADIF contributes to confidence in the banking system and strengthens depositors' commitment to banks. Deposit insurance helps preserve financial stability, particularly during periods of systemic risk, by preventing rapid deposit outflows. This mechanism functions as a financial safety net by protecting individual depositors in cases of bank failure or payment difficulty.

The state's influence over the financial system is one of the defining characteristics of the institutional structure. State-owned banks, such as the International Bank of Azerbaijan, manage approximately one-third of financial-sector assets. This situation demonstrates the system's direct connection with state policies and the use of public banks as strategic instruments in the economy. The active presence of the state plays an important role in directing credit resources to specific areas and strengthens the function of state banks in financing economic-development objectives. At the same time, the state's dominant role in the sector may restrict market-based competition and the effectiveness of the private sector.

From the perspective of systemic risks, high dollarization, credit concentration, and volatile deposits emerge as the main concerns. Dollarization has become particularly widespread in commercial lending, increasing the direct impact of exchange-rate movements on loan portfolios. Credit

concentration refers to the concentration of lending in particular sectors or among large borrowers, and it increases the vulnerability of the financial system to economic shocks. Volatile deposits, meanwhile, make liquidity management more difficult for banks and limit their capacity to provide long-term credit. These risk factors underline the importance of effective regulation and risk-management mechanisms for strengthening the resilience of the financial system.

In recent years, the credit portfolio has expanded, and by March 2025 the volume of credit had reached USD 16.3 billion (International Monetary Fund, 2025). Growth in the credit portfolio points to increased financing of economic activity and an expansion of banks' asset base. During the same period, the ratio of non-performing loans was recorded at 3.2%. This ratio indicates that credit quality in the banking sector has generally been maintained and that risk-management practices have been effective. The relatively low non-performing-loan ratio suggests that banks have kept default risk under control and have adopted a disciplined approach in their credit processes.

Reforms continue in the direction of alignment with global standards, wider use of digital services, and greater financial inclusion. Alignment with global standards enhances the transparency and international competitiveness of the financial system. The development of digital services accelerates banking transactions and reduces costs (Yalçın, 2022). Financial inclusion expands access to financial services for individuals and small businesses, thereby increasing economic participation. The reforms undertaken in this context are designed to improve the efficiency of Azerbaijan's financial system and support the process of economic growth.

Results and discussion

During 2021–2024, the Azerbaijani economy displayed notable fluctuations in both growth and external-balance indicators. Gross Domestic Product stood at 93,203.2 million manat in 2021, rose to 133,972.7 million manat in 2022, declined to 123,128.4 million manat in 2023, and reached 126,337.0 million manat in 2024. This pattern reveals the direct relationship between the economy, energy revenues, and external demand. The main driver of the increase in 2022 can be identified as the strengthening of external demand and energy exports. The decline in 2023 may be explained by weaker global demand and volatility in energy prices (Central Bank of Azerbaijan, 2024).

Household income increased continuously during 2021–2024, rising from 57,206.8 million manat to 83,093.4 million manat. This increase indicates a strengthening of household purchasing power and domestic demand. The rise in the average monthly nominal wage from 732.1 manat to 1,009.4 manat points to an increase in wage levels in the labour market. While wage growth supports consumption demand, it also has the potential to create inflationary pressure from the perspective of price stability.

State budget revenues and expenditures account for a substantial share of GDP. In 2024, the share of budget revenues in GDP was 29.4%, while the share of expenditures was 29.9%. This indicates that the state plays an active role in the economy and that public expenditure supports growth. At the same time, high budget expenditure requires careful planning in terms of fiscal discipline and the efficient use of resources (Azernews, 2025).

Table 1
Macroeconomic indicators (2014–2024)

Macroeconomic Indicator	2021	2022	2023	2024*
Gross Domestic Product (million manat)	93,203.2	133,972.7	123,128.4	126,337.0
Household Income (million manat)	57,206.8	69,163.0	78,124.2	83,093.4
Average Monthly Nominal Wage (manat)	732.1	840.0	933.9	1,009.4
State Budget Revenue (million manat)	26,396.3	30,679.6	35,236.4	37,161.8
Share in GDP (%), state budget revenue	28.3	22.9	28.6	29.4
State Budget Expenditure (million manat)	27,422.4	32,064.6	36,458.0	37,713.7
Share in GDP (%), state budget expenditure	29.4	23.9	29.6	29.9
Household Bank Deposits (year-end, million manat)	9,241.5	11,743.0	12,947.8	14,661.9
Population (year-end, thousand persons)	10,063.3	10,127.1	10,180.8	10,224.9
Fixed Capital (year-end, million manat)	259,274.9	269,438.4	281,691.1	292,732.3
Credit Issuance (year-end, million manat)	17,119.8	20,184.0	23,979.1	29,288.2
Investment Directed to the Economy (million manat)	25,313.8	29,135.1	32,080.9	33,135.6
Current Account Balance (million US dollars)	8,291.6	23,478.1	8,329.4	4,671.1

Source. Azərbaycan Respublikası Dövlət Statistika Komitəsi. (2025). *Milli hesablar sistemi və tədiyə balansı*.

In the banking sector, household deposits increased from 9,241.5 million manat to 14,661.9 million manat during 2021–2024, while credit volume rose from 17,119.8 million manat to 29,288.2 million manat. The growth of deposits indicates stronger confidence in the financial system, while the expansion of credit reflects a revival of economic activity. Nevertheless, the sustainability of credit growth requires continued monitoring of credit quality.

The increase in fixed capital and investment indicates an expansion of productive capacity. Fixed capital rose from 259,274.9 million manat to 292,732.3 million manat during 2021–2024, while investment directed to the economy increased from 25,313.8 million manat to 33,135.6 million manat. The decline in the current account balance from USD 8,291.6 million in 2021 to USD 4,671.1 million in 2024 creates a risk for external balance and may place pressure on foreign-exchange reserves. During 2021–2024, the Azerbaijani economy recorded increases in income, wages, and investment indicators, but it also experienced fluctuations in external balance and GDP dynamics.

For the period 2014–2024, Azerbaijan's Gross Domestic Product (GDP), measured both in total and per capita terms, clearly shows the growth dynamics of the economy. GDP was 59,014.1 million manat in 2014 and declined to 54,380.0 million manat in 2015, indicating a period of weaker economic activity. During 2016–2019, GDP increased steadily and reached 81,896.2 million manat in 2019. In 2020, GDP fell to 72,578.1 million manat; this decline may be associated with a contraction in economic activity and a decrease in external demand.

Table 2
Gross Domestic Product - Manat (GDP)

Year	Total (million manat)	Per Capita (manat)
2014	59,014.1	6,268.0
2015	54,380.0	5,706.6
2016	60,425.2	6,269.6
2017	70,337.8	7,226.0
2018	80,092.0	8,156.2
2019	81,896.2	8,246.3
2020	72,578.1	7,257.8
2021	93,203.2	9,278.9
2022	133,972.7	13,270.9
2023	123,128.4	12,126.1
2024	126,337.0	12,382.5

Source: Azərbaycan Respublikası Dövlət Statistika Komitəsi. (2025). *Milli hesablar sistemi və tədiyə balansı*.

In 2021, GDP rose to 93,203.2 million manat and then increased to 133,972.7 million manat in 2022, reflecting strong growth. GDP declined to 123,128.4 million manat in 2023 before rising again to 126,337.0 million manat in 2024. GDP per capita followed a similar path: it stood at 6,268.0 manat in 2014, reached 13,270.9 manat in 2022, declined to 12,126.1 manat in 2023, and then increased to 12,382.5 manat in 2024.

Throughout this period, the phases of increase and decline in GDP reveal the economy's dependence on external demand and energy revenues. The sharp increase observed in 2022 shows that economic growth was supported by external income sources. The decline in 2023 reflects the slowdown in economic activity and the effect of volatility in external markets. The renewed increase in 2024, however, demonstrates the economy's recovery capacity and growth potential (World Bank, 2022).

The labour force increased from 4,587.4 thousand persons in 2010 to 4,915.3 thousand in 2015, 5,089.9 thousand in 2020, and 5,312.1 thousand in 2024. This increase indicates a steady expansion in the overall size of the labour force. The rise in the female labour force from 2,257.7 thousand to 2,571.1 thousand during 2010–2024 shows that women's participation in the labour force increased and that female employment strengthened. The male labour force also increased, from 2,329.7 thousand to 2,741.0 thousand.

The employed population rose from 4,329.1 thousand persons in 2010 to 5,029.8 thousand in 2024. This increase indicates that the employment rate among participants in the labour force improved. Female employment increased from 2,101.7 thousand persons in 2010 to 2,414.1 thousand in 2024, while male employment rose from 2,227.4 thousand to 2,615.7 thousand. The rise in employment indicates an expansion of job opportunities and growth in productive activity within the economy.

The unemployed population increased from 258.3 thousand persons in 2010 to 368.7 thousand in 2020, before declining to 282.3 thousand in 2024. This change shows that the gap between labour-force growth and employment growth became more pronounced in 2020, while employment growth reduced unemployment during 2021–2024. Female unemployment stood at 156.0 thousand persons in 2010 and reached 157.0 thousand in 2024, while male unemployment rose from 102.3 thousand to 125.3 thousand. The fact that female unemployment remained close to its 2010 level suggests that the increase in female employment was balanced by growth in female labour-force participation.

The number of registered unemployed persons was 217.6 thousand in 2023 and 217.2 thousand in 2024. The distribution of registered unemployment between women and men shows that registered unemployment was higher among men. The high level of registered unemployment may be associated with a reduction in informal employment in the labour market or with the expansion of the coverage of the registered unemployment system. In Azerbaijan, labour-force and employment indicators followed an upward trend during 2010–2024, while the unemployment rate increased in 2020 and subsequently declined. This pattern reflects the transformation of economic activity and of the labour market.

In the Azerbaijani economy, financial markets emerged as one of the key channels supporting economic growth during 2021–2024. The size of banking-sector assets and liabilities, the increase in credit and deposit volumes, the strengthening of the capital base, and the growth of investment financing demonstrate the contribution of financial-intermediation capacity to growth (Asian Development Bank, 2025). The containment of inflation and the maintenance of exchange-rate stability appear as structural elements through which financial markets support growth. The increase in domestic investment and the strengthening of employment indicate that the contribution of financial markets to growth has been translated into concrete outcomes by expanding the production and investment capacity of economic actors. On the basis of these data, the contribution of financial markets to economic growth can be identified through the effective allocation of resources, investment financing, and risk-management mechanisms.

Conclusion

This article has examined the structure of Azerbaijan's financial system and its relationship with macroeconomic developments during 2021–2024. The findings show that the country's financial system is largely dominated by the banking sector and that a significant share of resources is mobilized through banks. The Central Bank of Azerbaijan has a decisive role in monetary policy, the preservation of financial stability, and the supervision of the banking sector. According to the research findings, the banking sector controls approximately 95% of financial-system assets, which shows that financial intermediation takes place primarily through banks. The existence of the Azerbaijan Deposit Insurance Fund contributes to the stability of the system by strengthening confidence in deposits. At the same time, the state's strong presence in the financial sector is effective in directing economic resources, although in certain cases it may also limit market competition. When macroeconomic indicators are evaluated, GDP, household income, wages, investment, and credit volume display a general upward trend during 2021–2024. However, the foreign trade balance and economic growth remained sensitive to fluctuations in global markets and changes in energy prices. Employment increased in the labour market, while unemployment rates showed periodic fluctuations. Consequently, although Azerbaijan's financial system is an important structure supporting economic growth, financial diversification must be developed in order to strengthen the system's resilience. In particular, the strengthening of capital markets, the expansion of financial inclusion, and the improvement of risk-management mechanisms are of critical importance for the system's long-term sustainability.

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