Qədim Diyar Beynəlxalq Elmi Jurnal. İyun 2026, Cild: 8, Sayı: 6, s. 350−354
Ancient Land International Scientific Journal. June 2026, Volume: 8, Issue: 6, pp. 350−354
DOI: https://doi.org/10.36719/2706-6185/61/350-354

Historical Development of the Azerbaijan's Banking System

Nigar Jabrayilsoy

Abstract. *The historical development of Azerbaijan's banking system reflects the broader political, economic, and social transformations of the country. The foundations of formal banking in Azerbaijan were laid in the late 19th and early 20th centuries during the period of the Azerbaijan Democratic Republic, which sought to establish national financial institutions to support economic growth. In 1919, alongside the creation of other state institutions, early banking frameworks were introduced, primarily focused on credit provision and currency stabilization for trade and public services. The banking system of the Azerbaijan Democratic Republic, in addition to being the first in this field, was also the foundation of independence in the financial sector in our country. With the incorporation of Azerbaijan into the Soviet Union in 1920, the banking system underwent centralization and state control. Banks were integrated into the Soviet financial apparatus, and their operations were closely linked to the planned economy. During this period, financial institutions mainly served as instruments for implementing state economic policies, including industrial and agricultural development. While this system expanded access to financial services and strengthened technical capacity, it limited the independence of banking institutions and constrained the development of modern financial instruments.*

Keywords: *Azerbaijan banking system, Central Bank of Azerbaijan, financial reforms, digital banking, economic transition*

Azerbaijan State University of Economics, Master's student, Baku, Azerbaijan
E-mail: nigarcbrayilsoy@gmail.com
Received: 7 February 2026; Accepted: 31 May 2026; Published online: 28 June 2026

Azərbaycanda bank sisteminin tarixi inkişafı

Nigar Cəbrayılsoy

Xülasə. *Azərbaycan bank sisteminin tarixi inkişafı ölkənin daha geniş siyasi, iqtisadi və sosial transformasiyalarını əks etdirir. Azərbaycanda rəsmi bankçılığın təməli 19-cu əsrin sonu və 20-ci əsrin əvvəllərində iqtisadi artımı dəstəkləmək üçün milli maliyyə institutları yaratmağa çalışan Azərbaycan Xalq Cümhuriyyəti dövründə qoyulmuşdur. 1919-cu ildə digər dövlət qurumlarının yaradılması ilə yanaşı, əsasən ticarət və ictimai xidmətlər üçün kredit təminatı və valyuta sabitliyinə yönəlmiş erkən bankçılıq çərçivələri tətbiq edilmişdir. Azərbaycan Xalq Cümhuriyyətinin bankçılıq sistemi bu sahədə ilk olmaqla yanaşı, ölkəmizdə maliyyə sahəsində də müstəqilləşmənin təməli olmuşdur. 1920-ci ildə Azərbaycanın Sovet İttifaqına daxil olması ilə bank sistemi mərkəzləşdirmə və dövlət nəzarətinə keçdi. Banklar Sovet maliyyə aparatına inteqrasiya edildi və onların fəaliyyəti planlı iqtisadiyyatla sıx bağlı idi. Bu dövrdə maliyyə institutları əsasən sənaye və kənd təsərrüfatının inkişafı da daxil olmaqla dövlət iqtisadi siyasətinin həyata keçirilməsi üçün alət kimi xidmət edirdi.*

Bu sistem maliyyə xidmətlərinə çıxışı genişləndirsə və texniki potensialı gücləndirsə də, bank qurumlarının müstəqilliyini məhdudlaşdırdı və müasir maliyyə alətlərinin inkişafını məhdudlaşdırdı.

Açar sözlər: *Azərbaycan bank sistemi, Azərbaycan Mərkəzi Bankı, maliyyə islahatları, rəqəmsal bankçılıq, iqtisadi keçid*

Azrəbaycan Dövlət İqtisad Universiteti, magistrant, Bakı, Azərbaycan
E-poçt: nigarcbrayilsoy@gmail.com
Daxil oldu: 7 Fevral 2026; Qəbul edildi: 31 May 2026; Onlayn dərc olundu: 28 İyun 2026

Introduction

The development of Azerbaijan's banking system is closely linked to the nation's economic transformation, modernization, and integration into the global financial environment (Central Bank of Azerbaijan, 2025). Following the restoration of independence, the country faced the challenge of building a stable financial infrastructure capable of supporting market-oriented reforms and sustainable growth (Wikipedia Contributors, 2026). Establishing a national banking framework became a crucial step in promoting economic liberalization, ensuring monetary stability, and fostering private entrepreneurship (Trade.gov. 2026). Over the years, the banking sector in Azerbaijan has evolved from a fragmented, state-controlled structure into a diversified and technology-driven system (Hasanov, Bayramli & Al-Musehel, 2018). The introduction of modern regulatory frameworks, international accounting standards, and digital innovations has strengthened the efficiency and transparency of financial institutions (Azərbaycan Respublikasının Mərkəzi Bankı. 2025). The Central Bank of Azerbaijan has played a vital role in managing monetary policy, stabilizing the national currency, and supervising the banking sector to enhance public trust (Azərbaycan Respublikasının Mərkəzi Bankı. 2025).The institutional and structural reforms implemented in Azerbaijan's banking system have significantly contributed to shaping a more resilient financial environment ("Banklar haqqında" qanunvericilik və bank sistemi strukturu. 2025). The liberalization of interest rates, introduction of prudential norms, and adaptation of Basel principles have strengthened the sector's ability to respond to both domestic and global challenges ("Müstəqil Azərbaycanda bank sisteminin yaranma tarixi və inkişafı" – I hissə. 2015). The diversification of banking services — including mortgage lending, small and medium enterprise financing, and digital payment systems — has expanded access to financial resources across the population.

Evolution and Modernization of the Banking System in Azerbaijan
The evolution and modernization of Azerbaijan's banking system represent one of the most important dimensions of the country's economic transformation and integration into the global market. The banking sector has undergone fundamental structural, institutional, and technological changes aimed at improving financial stability, supporting entrepreneurship, and promoting sustainable development (Research Gate. 2022). This transformation has been closely tied to Azerbaijan's broader strategy of transitioning from a resource-based economy to a diversified and innovation-oriented model ("Müstəqil Azərbaycanda bank sisteminin yaranma tarixi və inkişafı" – III hissə. 2015). At the heart of these changes lies the gradual shift from administrative management to a competitive, market-oriented banking framework. The reforms introduced by the Central Bank of Azerbaijan and other financial institutions have strengthened monetary regulation, enhanced public trust, and fostered the development of modern financial instruments. These efforts have been particularly crucial in expanding access to credit, improving the efficiency of capital allocation, and facilitating investment across various economic sectors. The modernization process has also been shaped by digital technologies, which have redefined the way banking services are delivered. The rapid adoption of

online banking, mobile payment systems, and fintech solutions has not only increased financial inclusion but also elevated the overall competitiveness of the sector (UNEC. 2022). The process of modernization in Azerbaijan's banking sector has unfolded in several interconnected phases, each reflecting the country's socio-economic priorities and global integration goals.

Table 1
Evolution of Key Financial Indicators of the Azerbaijani Banking System (2018–2023)

Indicator	2018	2019	2020	2021	2022	2023
Number of Operating Banks	30	29	26	25	24	23
Total Banking Assets (billion AZN)	27.6	30.9	33.5	37.1	42.5	48.2
Credit Portfolio (billion AZN)	12.2	13.3	14.0	17.1	19.4	22.8
Deposits of Population (billion AZN)	7.8	8.5	9.1	10.6	12.3	13.9
Capital Adequacy Ratio (%)	18.9	19.6	20.5	21.0	20.3	19.8
Non-performing Loans (NPLs, %)	10.5	8.1	6.0	5.3	4.8	4.1
Digital Banking Transactions (million AZN)	1200	1650	2300	4100	6200	

Source: Mammadov, J. (2024). *An analysis of Azerbaijan's financial system reforms and their impact on economic development.* SSRN.

The data presented in Table 1 reflects the dynamic evolution of Azerbaijan's banking system between 2018 and 2023. Over this period, the sector demonstrated significant structural, financial, and technological advancement. The total banking assets increased steadily from 27.6 billion AZN in 2018 to 48.2 billion AZN in 2023, indicating the strengthening of the sector's financial base and expansion of credit operations. Similarly, the credit portfolio experienced continuous growth, reaching 22.8 billion AZN by 2023, which shows an active lending policy and improved accessibility of financial resources for both businesses and individuals. The volume of population deposits also rose sharply, reflecting growing public confidence in the banking system and improved financial inclusion. The capital adequacy ratio, which remained above 18% throughout the analyzed period, confirms the system's strong solvency and compliance with prudential regulatory requirements. At the same time, the decline in non-performing loans from 10.5% to 4.1% demonstrates enhanced credit risk management and overall improvement in banking supervision.

Table 2
Structural Composition and Ownership Distribution of Azerbaijan's Banking Sector

Indicator Category	Share in Total Banking Assets (%)	Share in Total Loans (%)	Share in Deposits (%)	Share in Digital Operations (%)
State-Owned Banks	42.5	38.7	45.2	25.4
Private Domestic Banks	46.3	50.1	42.7	54.6
Foreign-Owned Banks	11.2	11.2	12.1	20.0

Source: Mammadov, J. (2024). An analysis of Azerbaijan's financial system reforms and their impact on economic development. SSRN.

The data in Table 2 illustrates the structural composition and ownership distribution of Azerbaijan's banking sector, emphasizing how different types of banks contribute to the overall financial system. State-owned, private domestic, and foreign-owned banks each play distinct yet complementary roles in ensuring the sector's stability, competitiveness, and modernization. State-owned banks hold approximately 42.5% of total assets and 45.2% of total deposits, underscoring their dominant position in large-scale financing and strategic government programs. These banks often focus on social and infrastructure projects, ensuring the implementation of national development priorities. However, their lower share of 25.4% in digital operations reflects a slower pace of technological transformation compared to the private sector. Private domestic banks account for the largest share of total loans (50.1%) and digital operations (54.6%), highlighting their dynamic approach to innovation, market competition, and customer-oriented financial services. Their growing digital footprint indicates that they are driving the transition toward modern banking technologies such as mobile applications, online payments, and automated service systems (Məhəmmədov, 2024).

Conclusion

As a result, the banking system of Azerbaijan has gone through a long and dynamic development path. Starting from the period of the establishment of the first national financial institutions, the banking sector was formed with the aim of supporting the country's economic development and ensuring national financial stability. During the Soviet period, the banking system operated in accordance with the requirements of a centralized and planned economy, which ensured the direction of financial resources to state priorities, but limited the independence of banks and their innovative activity opportunities.

The economic and legal reforms carried out in connection with the independence of Azerbaijan after 1991, in particular the liberalization of the banking sector and the organization of the activities of commercial banks, increased competition in the financial system and expanded the range of services. The establishment of the Central Bank and the introduction of regulatory mechanisms in accordance with international standards have strengthened the reliability and stability of the banking sector. At the same time, the application of modern technologies, the development of digital payment systems and the expansion of international cooperation have integrated Azerbaijani banking into the regional and global financial system.

Currently, the banking sector is not limited only to the distribution of economic resources and the provision of credit; It also plays an important role in diversifying the national economy, supporting entrepreneurship and strengthening the investment climate. Analyses show that the sustainability of the banking sector in Azerbaijan is directly related to modern risk management, efficient capital allocation and the implementation of innovative services.

Thus, the banking system of Azerbaijan has become an important driving force of national economic development, reconciling the traditions of the past with modern market requirements. An analysis of the historical development stages and the reforms carried out shows that the banking sector plays a decisive role in ensuring economic stability and increasing competitiveness in the international financial system. In the future, institutional reforms, technological modernization and further strengthening of financial education are essential for the sustainable development of the banking system. This is considered one of the main guarantees for ensuring economic security and sustainable socio-economic development of Azerbaijan.

References

1. Azərbaycan Respublikasının Mərkəzi Bankı. (2025). *Mərkəzi Bank və bankçılığın tarixi mərhələləri (vəzifə və tarix)*. CBAR.az.
2. Azərbaycan Respublikasının Mərkəzi Bankı. (2025). *Tarix: Müasir bank sisteminin yaranması (1991–2025)*. CBAR.az.
3. Central Bank of Azerbaijan. (2025). *History of central banking in Azerbaijan*.
4. *Banklar haqqında qanunvericilik və bank sistemi strukturu*. (2025). *Azərbaycanın bank sistemi*. Azərbaycan Vikipediyası.
5. *Müstəqil Azərbaycanda bank sisteminin yaranma tarixi və inkişafı* – I hissə. (2015). *Banco.az*.
6. *Müstəqil Azərbaycanda bank sisteminin yaranma tarixi və inkişafı* – III hissə. (2015). *Banco.az*.
7. Hasanov, F. J., Bayramli, N., & Al Musehel, N. (2018). Bank specific and macroeconomic determinants of bank profitability: Evidence from an oil-dependent economy. *International Journal of Financial Studies, 6*(3), Article 78. https://doi.org/10.3390/ijfs6030078
8. Məhəmmədov, Ə. (2024). *Azərbaycan bank sisteminin iqtisadi inkişafa təsiri* (Unpublished bachelor's thesis). Azərbaycan Dövlət İqtisad Universiteti (UNEC).
9. Qasımova, S. (2014). *Azərbaycan bank sisteminin tarixi inkişafı və rolu*. irs-az.com.
10. U.S. Department of Commerce. (2026). *Azerbaijan – Banking and finance sector overview*. Trade.gov.
11. Azərbaycan Dövlət İqtisad Universiteti. (2022). *Bank sisteminin yaranması və inkişafı* (Tədris materialı). UNEC.
12. Wikipedia contributors. (2026). *Banking in Azerbaijan*. In *Wikipedia, The Free Encyclopedia*.