

Concentration in Azerbaijan's Banking Sector

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The lack of an adequate level of competition in the banking sector affects the quality of services provided. For many years, independent experts have identified the high degree of concentration in the banking sector as one of the main factors hindering competition. This assessment is now also acknowledged at the official level. In recent years, the leadership of the regulatory authority has repeatedly raised concerns related to market concentration and the competitive environment in the banking sector in statements. This indicates that banking sector concentration is also officially recognized as an issue requiring attention to ensure the sector's development.

In a [July 2026 interview with the press](#), Taleh Kazimov, Governor of the Central Bank of Azerbaijan, addressed this issue. Emphasizing the importance of increasing competition in the sector, the governor identified market concentration as one of the key challenges facing the banking sector. According to Kazimov, changes in interest rates by banks holding dominant market positions have an impact on the sector as a whole.

Strengthening competition is also among the objectives outlined in the Central Bank's strategic framework. The Financial Sector Development [Strategy](#) for 2024–2026 envisages strengthening corporate governance, transparency, and competitiveness in the banking sector. The document also identifies the expansion of the banking market and the development of non-bank credit institutions as priorities. However, establishing competitiveness as a strategic objective does not in itself indicate the extent to which competition is ensured in the market. Answering this question requires an

examination of the actual trends in banking sector concentration.

To answer this question, let us first examine the level of concentration in the banking sector in terms of assets, loans, and deposits.

Measuring Concentration in the Banking Sector: The HHI Index

One of the key indicators used to assess market concentration in the banking sector is the Herfindahl–Hirschman Index (HHI). According to the [US Department of Justice](#), the index is calculated as the sum of the squares of the market shares of all firms operating in a given market. This method takes into account not only the market shares of the largest banks but also how market shares are distributed among all market participants. The HHI ranges from 0 to 10,000, with higher values indicating greater market concentration.

In Azerbaijan, the “[Rules for Determining the Level of Concentration in Relevant Markets](#)” were approved by Resolution No. 258 of the Cabinet of Ministers, dated 3 August 2026. Under these rules, an HHI below 1.500 indicates a low level of market concentration, an HHI between 1.500 and 2.500 indicates moderate concentration, and an HHI above 2.500 indicates high concentration. An HHI below 1.500 is considered indicative of a competitive market structure.

Data published in the Central Bank of Azerbaijan’s [Financial Stability Reports](#) indicate that HHI values for assets, loans, and deposits in the banking sector have followed different trends over the past five years.

According to the HHI, concentration trends in Azerbaijan’s banking sector varied across different market segments between 2021 and 2025. An analysis of Central Bank [data](#) indicates that the banking sector exhibits moderate concentration in terms of assets and deposits, but low concentration in the loan market. Between 2021 and 2025, the HHI for assets declined from 1.567

to 1.360, while the index for deposits fell from 1.741 to 1.506. In contrast, the HHI for the loan portfolio increased from 1.017 to 1.180. Thus, although concentration in the asset and deposit markets declined to some extent over the five-year period, the loan market experienced the opposite trend.

Table 1. Trends in the Banking Sector’s HHI, 2021–2025

Year	By Assets	By Loans	By Deposits
2021	1567	1017	1741
2022	1584	982	1819
2023	1504	1146	1589
2024	1474	1207	1653
2025	1360	1180	1506

Source: Central Bank of the Republic of Azerbaijan, [Financial Stability Reports](#)

According to Central Bank [data](#), the HHI **for assets** declined from 1.567 to 1.360 between 2021 and 2025. Based on the HHI classification, the banking sector exhibited moderate concentration in assets during 2021–2023 and low concentration during 2024–2025.

The HHI **for deposits** remained the highest among the three key indicators throughout the period. The index rose to 1.819 in 2022, declined sharply to 1.589 in 2023, increased again to 1.653 in 2024, and fell to 1.506 in 2025. Thus, although deposit market concentration declined, the HHI remained within the moderate concentration range at the end of 2025.

The trend for the **loan portfolio** was different. After declining to 982 in 2022, the HHI increased to 1.207 in 2024 before falling to 1.180 in 2025. Although the index remained within the low concentration range throughout the period, it increased by a total of 163 points between 2021 and 2025. This indicates that concentration in the loan market did not decline over the five-year period but instead increased to

some extent.

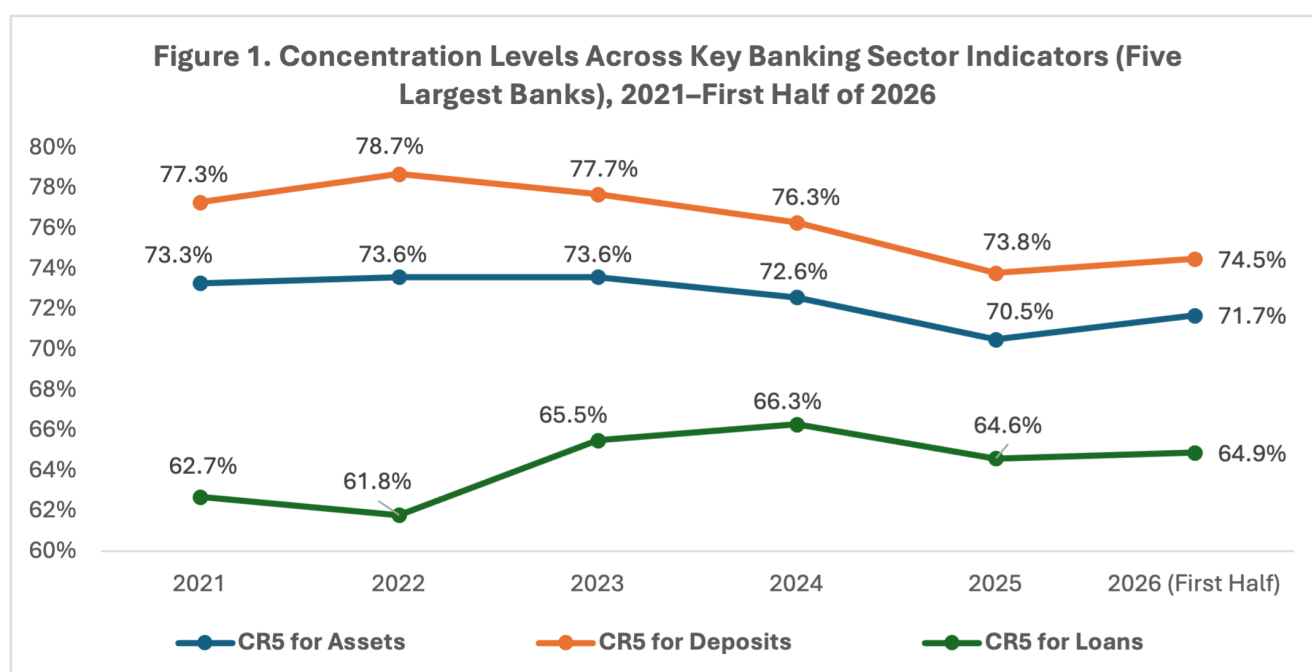
Overall, the decline in HHI values for assets and deposits, alongside an increase in the index for the loan portfolio, indicates that concentration in Azerbaijan's banking sector did not follow a uniform trend across all market segments between 2021 and 2025. Particularly noteworthy is the fact that the deposit market consistently recorded the highest HHI among the three indicators. The increase in the loan market's HHI over the five-year period also makes it difficult to draw a general conclusion that concentration in the banking sector has declined.

The Central Bank [identifies](#) the presence of numerous small and medium-sized banks in the banking sector as one of the factors explaining the low and moderate levels of market concentration. However, a large number of banks does not necessarily mean that market shares are evenly distributed among them or that competition is sufficiently strong. Our calculations show that, despite the presence of numerous market participants, the five largest banks account for a significant share of the banking sector's assets, deposits, and loan portfolio. Nevertheless, the HHI measures the distribution of market shares and, on its own, does not provide a comprehensive assessment of the effectiveness of competition, the quality of banking services, interest rate determination, or the range of choices available to customers. Therefore, changes in the HHI should not automatically be equated with improvements in the competitive environment. To gain a clearer understanding of how the market is distributed among its largest participants, we will extend the analysis by examining the five-bank concentration ratio (CR5), which measures the combined market share of the five largest banks.

2. Analysis of the CR5 Concentration Ratio

Calculations based on the CR5 (*Concentration Ratio of the Five Largest Banks*) indicate that the five largest banks in

Azerbaijan account for a substantial market share across all three key segments of the banking sector. Between 2021 and 2025, the CR5 for assets declined from 73,3% to 70,5%, while the ratio for deposits fell from 77,3% to 73,8%. In contrast, the CR5 for the loan portfolio increased from 62,7% to 64,6%. In other words, at the end of 2025, the five largest banks accounted for approximately three-quarters of the banking sector's assets and deposits and nearly two-thirds of its loan portfolio. These figures indicate that market shares remain heavily concentrated among the largest banks, particularly in the deposit market, where they maintain a dominant position (Figure 1).



Source: Compiled based on bank-level data published by the Azerbaijani Banks Association.

The decline in concentration in terms of assets and deposits in recent years can be regarded as a positive development. However, this decline is not sufficient to conclude that competition in the market has strengthened. At the end of 2025, the five largest banks still accounted for a substantial share of the market across all three indicators. The situation in the loan market is somewhat different, as the CR5 increased overall between 2021 and 2025. This indicates that the decline

in market concentration has not been uniform across all segments of the banking sector.

The results for the first half of 2026 are also noteworthy. The CR5 increased across all three indicators: assets, deposits, and loans. Although these changes do not yet provide sufficient grounds to conclude that the long-term trend has reversed, they raise questions about the sustainability of the declines observed in previous years.

Another noteworthy finding is that the same large banks hold leading positions across multiple market segments. The International Bank of Azerbaijan, Kapital Bank, PASHA Bank, and Xalq Bank are among the five largest banks in terms of assets, loans, and deposits. Bank Respublika, which ranks fifth in terms of assets and loans, is replaced by Azer Turk Bank in the deposit market. This pattern indicates that strengthening competition in the banking sector depends not only on the number of market participants but also on how market shares are distributed among existing banks.

A high CR5 ratio does not, in itself, prove the absence of competition. However, the concentration of a substantial share of the market in the hands of a small number of banks raises important questions about the effectiveness of competition, particularly in light of statements by the leadership of the regulatory authority that the interest rate policies of major banks influence the banking sector as a whole.

Concentration in the Loan Market

[Calculations](#) for the first half of 2026 indicate that concentration in Azerbaijan's banking sector varies by loan category. The CR5, which measures the combined market share of the five largest banks, stands at 74,2% for consumer loans, 71,1% for real estate loans, and 65,2% for business loans. Thus, among the three segments, concentration is highest in the consumer loan market and lowest in the business loan market. Nevertheless, the fact that approximately two-thirds

of the business loan portfolio is held by just five banks indicates that market shares are not widely distributed among participants.

Concentration is particularly high in the consumer loan market. Kapital Bank accounts for 33,5% of this market, while the International Bank of Azerbaijan (ABB) holds a 21,8% share. Together, these two banks account for 55,3% of consumer loans. This indicates that market leadership is determined not only by the combined share of the five largest banks but also, in particular, by that of the two leading banks. One of the key questions in assessing competition in the consumer loan market is how banks with such substantial market shares compete in terms of lending conditions, interest rates, and the alternatives they offer to customers.

The relatively lower CR5 in the business loan market suggests a broader distribution of market shares. Nevertheless, ABB holds a 21,3% share, PASHA Bank 19,3%, and Kapital Bank 11,9%, meaning that the three largest banks collectively account for 52,5% of the business loan portfolio. Thus, more than half of this market segment is concentrated in the hands of just three banks. Although the leading bank's dominance is less pronounced than in the consumer loan market, the market shares held by a small number of major banks remain significant.

In the real estate loan market, ABB's position is particularly noteworthy. The bank accounts for 37,6% of this segment. Together with Kapital Bank's 12,4% share, the two largest banks account for approximately half the market, while the three largest banks collectively hold 61,2%. Thus, in addition to a high CR5 ratio, this market is characterized by the leading bank's substantial advantage over other participants. This market structure highlights the need to consider not only overall concentration but also the relative market positions of individual banks when assessing competition in the real estate loan market.

A comparison of the three segments reveals that high market concentration takes different forms. In the consumer loan market, the combined dominance of Kapital Bank and ABB stands out; in the business loan market, ABB and PASHA Bank hold particularly strong positions; while in the real estate loan market, ABB maintains a clear lead. Therefore, assessing competition in the banking sector solely on the basis of aggregate loan portfolio indicators is insufficient. The market positions of leading banks in individual loan segments, as well as the distribution of market shares among the largest participants, must also be taken into account.

Three Banks and Common Control Relationships

When assessing concentration in the banking sector, it is important to consider not only the market shares of individual banks but also their ownership and control relationships. The financial statements of [Kapital Bank](#), [PASHA Bank](#), and [Xalq Bank](#) identify members of the Azerbaijani president's family as their ultimate owners and controlling parties. This makes it necessary to examine the banks' market positions not only as separate legal entities but also in the context of their ownership and control relationships.

According to [calculations](#) for the first half of 2026, these three banks collectively accounted for 42,1% of the Azerbaijani banking sector's total assets, 47,5% of deposits, and 35,7% of the loan portfolio. In other words, these three banks held nearly half of all deposits and more than 40% of total assets in the sector. Their particularly large combined share of the deposit market is noteworthy. These findings indicate that assessing competition in the banking sector requires examining not only the market shares of individual banks but also their underlying ownership and control structures.

Decisions That Could Affect Market Concentration

The already agreed upon merger between Bank Respublika and

AccessBank represents a significant development that could affect concentration in Azerbaijan's banking sector. Under the agreement announced in September 2026, the merged bank's total assets are expected to reach AZN 4,5 billion, while its loan portfolio is projected to amount to AZN 3,3 billion.

Scenario calculations based on data for the first half of 2026 indicate that the transaction could increase the CR5 for assets from 71,7% to 74,6% and for the loan portfolio from approximately 65% to 70%. The CR5 for deposits is also expected to rise from 74,5% to approximately 76,3%.

Thus, the acquisition of AccessBank, the country's eighth-largest bank by total assets, by Bank Respublika, the fifth-largest, could further increase the combined market share of the five largest banks and thus further increase the concentration in the banking sector.

Another development that could affect concentration in the banking sector is the restructuring of Bank BTB. In [July 2026](#), the bank's license was revoked, and its assets, deposits, and loan portfolio were transferred to ABB, the largest bank in the sector. According to the Central Bank, Bank BTB accounted for 0,6% of the banking sector's total assets and 0,9% of its loan portfolio. As a result, this independent banking institution ceased operations, and its financial portfolio was transferred to a bank that already held a substantial market share. Although this change alone does not necessarily imply a sharp increase in market concentration, it could contribute to a redistribution of market shares in favor of larger banks, particularly in the loan market.

International Comparison

According to [data](#) from the European Central Bank, the average CR5 for banking sector assets in the EU stood at 69,33% at the end of 2025. Across individual countries, the ratio ranged from 34,37% to 95,2%. This wide range indicates that there is no single banking market model and that banking sector

structures vary considerably even within Europe. For example, the CR5 was relatively low in countries such as Luxembourg (34,3%), Austria (37,1%), Germany (35,3%), and France (48,7%), while it was considerably higher in Belgium (74,3%), Bulgaria (76,7%), Croatia (84,5%), Estonia (89%), and Finland (84%). In Greece, the concentration ratio reached as high as 95%. In 2025, the CR5 for banking sector assets stood at 90,8% in neighboring [Georgia](#), 62,5% in [Türkiye](#), and 62% in [Armenia](#).

Conclusion

The findings of this analysis indicate that market concentration remains a significant issue in Azerbaijan's banking sector. Although concentration in terms of assets and deposits declined to some extent between 2021 and 2025, concentration in the loan portfolio increased. The five largest banks account for approximately three-quarters of the banking sector's assets and deposits and nearly two-thirds of its loan portfolio. Thus, the declines observed in certain concentration indicators have not substantially reduced the dominant position of a small number of large banks in the market.

A more serious concern is the possibility that market concentration could increase further in the future. The transfer of Bank BTB's assets and loan portfolio to ABB represents a structural change that has already taken place. Meanwhile, the future merger between Bank Respublika and AccessBank, if completed, could lead to a further concentration of market shares among the largest banks, particularly in terms of assets and loans. Furthermore, the fact that Kapital Bank, PASHA Bank, and Xalq Bank are linked to the same controlling parties indicates that examining the distribution of market power solely through the individual market shares of banks is insufficient.

Therefore, declines in certain banking sector concentration indicators do not necessarily mean that the problem of

competition has been resolved. A large number of banks does not automatically translate into strong competition. The key issue is not how many banks operate in the market, but rather in whose hands economic power is concentrated and how this affects consumer choices and the terms of loans and deposits. If the Central Bank has identified strengthening competition as a strategic objective, progress toward that objective should be reflected in actual market conditions. Otherwise, despite official statements emphasizing the importance of competition, the dominant position of a small number of large banks in the sector will persist and, in some cases, may become even more entrenched.