Why Are Azerbaijani Banks Reluctant to Convert Their Abundant Funds into Loans?

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Surveys conducted among entrepreneurs operating in Azerbaijan show that they identify limited access to bank credit as one of the most serious obstacles they face. Similar views are also commonly expressed by the public. People frequently complain about the high cost of borrowing, stringent lending conditions, and limited access to financing.

On the other hand, we encounter a completely different picture. Banks' lending campaigns continue uninterrupted across the mass media, social networks, and public advertising platforms. We regularly receive SMS messages and phone calls offering loans, while mobile applications present us with pre-approved credit limits. At first glance, this creates the impression that credit is readily available in the country.

This seemingly contradictory situation raises an important question: If the demand for credit is so high and banks, for their part, are so eager to lend, why do entrepreneurs and citizens still complain about limited access to financial resources? An even more important question is this: Given that Azerbaijani banks have sufficient funds at their disposal, why do they not channel these resources into financing the real sector? After all, the funds held by banks have not been obtained free of charge, and interest must be paid on them.

To answer this question, it is first necessary to examine the extent to which the country's economy is financed by bank lending. For this purpose, we can calculate the share of bank loans in GDP, one of the indicators most widely used in international practice. This indicator makes it possible to assess the extent to which the financial sector performs its intermediary role in the economy.

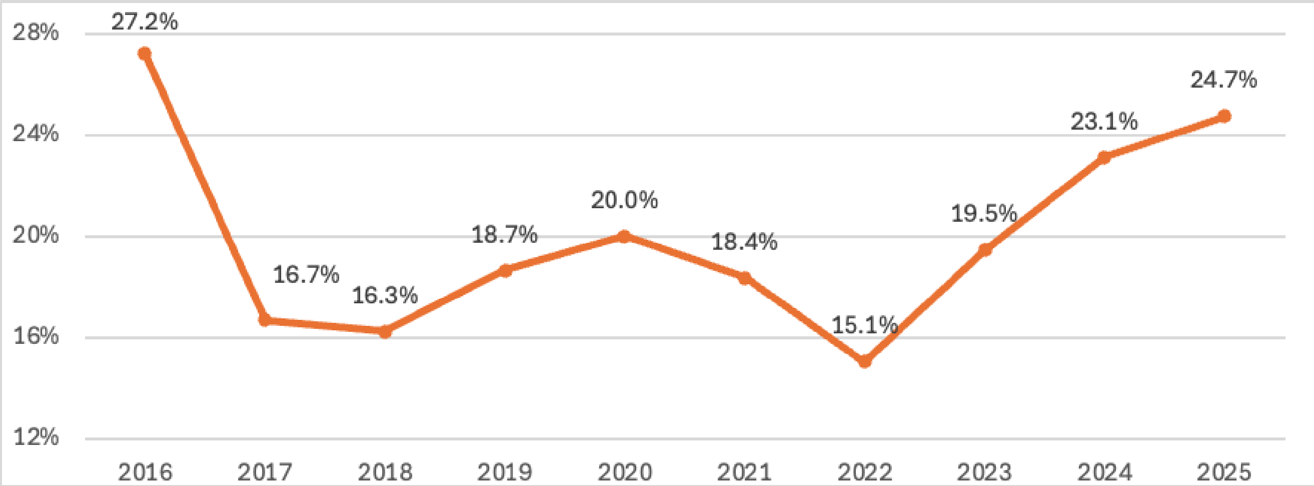

Chart 1. Bank Lending as a Share of GDP Nationwide, %
Source: Central Bank of the Republic of Azerbaijan

As shown in Chart 1, bank lending as a share of GDP remains relatively low and does not reach one-third of GDP. Over the past decade, this indicator has exhibited an unstable trend, declining from its peak of 27,2% in 2016 to 16,3% in 2018 and subsequently to its lowest level of 15,1% in 2022. This trend is associated with the 2015 devaluation and the 2020 pandemic. In subsequent years, greater economic stability contributed to an increase in the share of lending, which reached 24,7% in 2025. Despite this increase, the share of lending in GDP remains considerably below the desired level.

For comparison, [in developed countries], the ratio of bank lending to GDP typically exceeds 100%. This [indicator] is also higher in Azerbaijan's neighboring countries. For example, over the past five years, it has ranged between 60% and 70% in Georgia, 40% and 70% in Türkiye, and approximately 50% and 70% in Armenia.

Official [data] indicate that although the nominal volume of bank lending has increased in recent years, the level of credit provision in the economy has not entered a qualitatively new stage. Despite the growth in lending, the role of bank credit in the economy has not expanded significantly compared with the previous period. Demand for credit resources in the real sector remains unmet, and the need for financing continues to be high.

Thus, the economy's demand for credit is several times greater than the supply of credit provided by banks. This raises a second question: do banks have the capacity to expand lending sufficiently to meet the economy's demand for credit, or do they have adequate resources to finance the real sector? To answer this, let us examine several indicators.

As a rule, one of the main sources of bank lending is the deposits placed by individuals and companies. In Azerbaijan's banking system, deposits constitute the principal source of bank funding. From 2021 through May 2026, deposits accounted for between 80% and 85% of banks' liabilities. One of the key indicators showing how much of the deposits attracted by banks is converted into loans is the loan-to-deposit ratio. This indicator reflects the extent to which banks use the funds they collect for lending purposes.

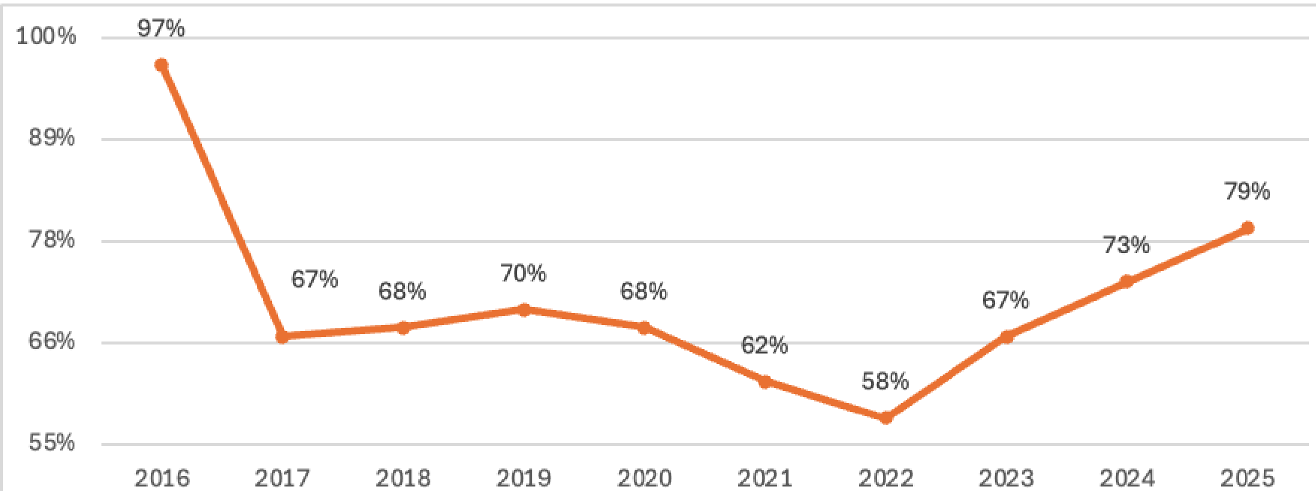

Chart 2. Ratio of Bank Lending to Deposits Nationwide
Source: Central Bank of the Republic of Azerbaijan

Chart 2 shows that in 2016, banks directed nearly all the deposits they had attracted toward lending. This was a period when banks had access to a wider range of funding sources and were less dependent on deposits. Following the devaluation in 2015, banks reduced to a minimum the amount of foreigncurrency funding obtained from foreign financial institutions, one of their principal sources of finance. In subsequent years, credit institutions also significantly reduced the resources they received from the Central Bank. As a result, they now depend primarily on deposits.

Although the loan-to-deposit ratio in the banking sector declined from approximately 70% to 58% between 2019 and 2022, it increased in subsequent years, reaching 79% in 2025 and 80% in the first five months of 2026. Chart 2 shows that banks directed at most four-fifths of deposits to the real sector in the form of loans. During a certain period, this ratio fell to as low as three-fifths. By contrast, the loan-to-deposit ratio stood at 161% in 2014 and 123% in 2015. The Central Bank’s assessment indicates that the banking sector maintains a high liquidity buffer and confirms that a significant share of resources not allocated to lending is held in liquid form. Nevertheless, over the past five years, both the volume of liquid assets and their share of total assets have declined. Between 2021 and 2025, the volume of liquid assets fell from AZN 13,9 billion to AZN 12,9 billion, while their share of total assets decreased from 36% to 22,6%.

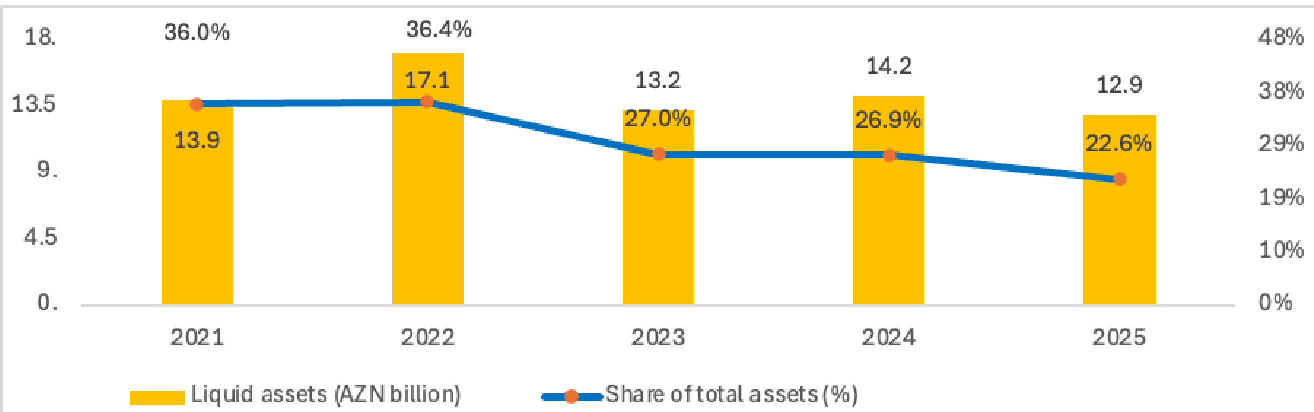

Chart 3. Liquid Assets of the Banking Sector (2021–2025)
Source: Central Bank of the Republic of Azerbaijan

The data presented in Charts 2 and 3 indicate that banks have sufficient resources to extend credit; however, credit institutions channel these resources into other areas. The question is: which areas?

An analysis of the banking sector's asset structure shows that, although significant changes have occurred in the allocation of banks' resources in recent years, a relatively balanced distribution between loans and other assets has been maintained. In particular, the share of net loans in total bank assets increased from 41,1% in 2021 to 50.,5% in 2025 and stood at 50% in May 2026. This trend is consistent with the increases in the share of loans in GDP and in the loan-to-deposit ratio analyzed in the preceding sections, indicating that lending in the banking sector has expanded significantly in recent years. Nevertheless, approximately half of bank assets remain concentrated in non-loan assets. This indicates that a substantial portion of the banking sector's resources is allocated to other financial instruments, liquid funds, and non-credit assets.

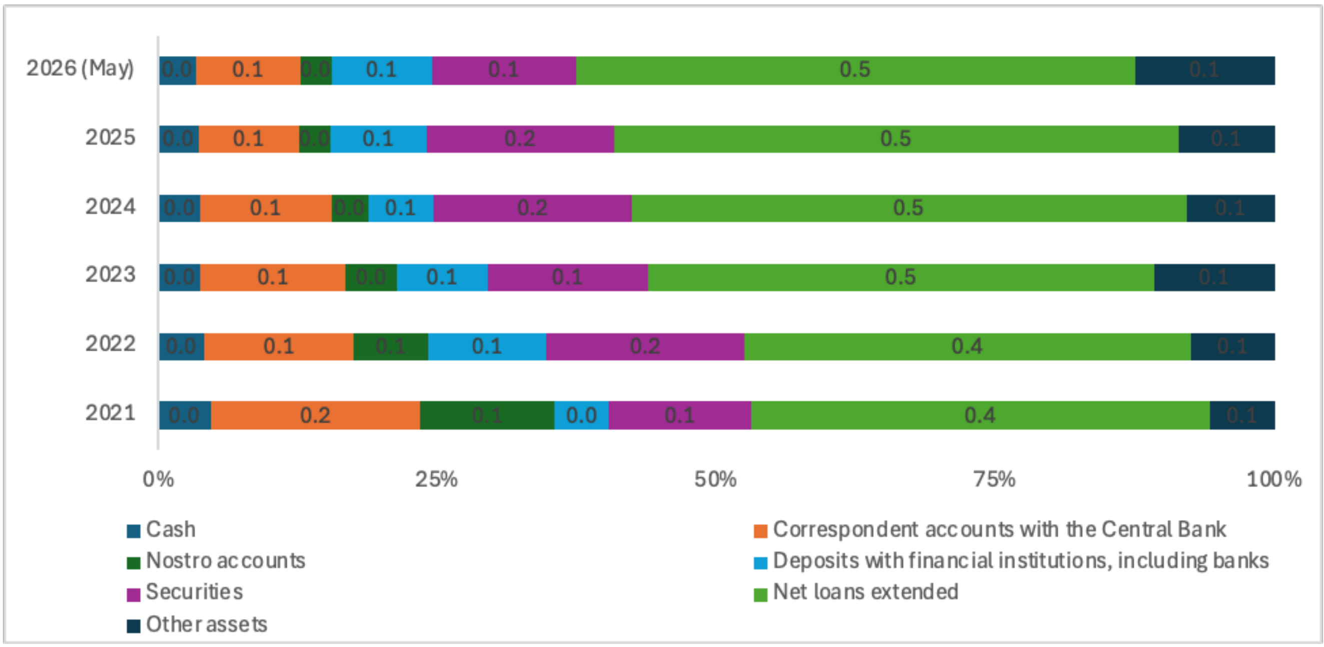

Chart 4. Structure of Banking Sector Assets (2021–May 2026), %
Source: Central Bank of the Republic of Azerbaijan

By investing a portion of the funds that they did not allocate to lending in securities, banks succeeded in securing an alternative source of income and increased the share of investments in securities to as much as 18% over the past five years. However, this indicator declined to 12,9% in May 2026. At the same time, the share of correspondent accounts with the

Central Bank in total bank assets fell from 18,8% in 2021 to 9,3% in May 2026. This represents an important trend, indicating that banks have redirected part of their highly liquid funds toward other assets, primarily their loan portfolios, in recent years. Nevertheless, the share of deposits placed with financial institutions, including other banks, increased from 4,9% to 9%.

Despite the significant expansion of banks’ deposit base, one reason they remain cautious about converting these resources into loans is the maturity structure of deposits. As of May 2026, demand deposits accounted for 53,7% of total deposits. In other words, these funds may be withdrawn by their owners at any time. The high share of such deposits increases the need for banks to maintain maturity matching between their assets and liabilities and may, in particular, constrain their capacity to finance long-term loans. Under such conditions, banks that are highly dependent on deposit funding generally prefer shorter-term loan products that allow funds to be repaid more quickly.

At the same time, positive changes have also been observed in the quality of the deposit base in recent years. From 2021 through May 2026, the share of time deposits in total deposits increased from 32,0% to 46,3%. Among household deposits, this indicator rose from 58,0% to 63,0%. The growing share of time deposits provides banks with a more stable funding base and creates more favorable conditions for expanding lending.

Notably, lending in the banking sector also expanded during this period. The share of loans in bank assets increased, while the share of liquid assets in total assets declined. This trend suggests that the positive changes in the structure of the deposit base may have been among the factors supporting banks’ lending capacity. Nevertheless, the fact that demand deposits still account for more than half of total deposits remains an important factor explaining banks’ cautious approach to lending policy.