

# Azerbaijan

The banks covered by the survey account for about 85 per cent of Azerbaijan's total banking assets, with a majority of assets owned by domestic banks (Chart 1).<sup>1</sup> Just under 75 per cent of Azerbaijani banks surveyed expect their branch network to grow over the next five years, almost 33 percentage points and 43 percentage points above the average in Eastern Europe and the Caucasus (EEC) and the EBRD regions, respectively.

Of all the EBRD economies in which the BEPS III survey was conducted, Azerbaijan boasts the fewest banks that report having explicit environmental and climate-change policies and targets (Chart 2).<sup>2</sup> Azerbaijani banks also lag the EEC and EBRD economy averages when it comes to undertaking impact assessments prior to lending to small and medium-sized enterprises (SMEs) (Chart 3). Close to 60 per cent of Azerbaijani banks say they conduct corporate governance impact assessments, in contrast to almost 75 per cent of banks in the EEC and EBRD economies, on average. The share of Azerbaijani banks undertaking environmental, social or climate-change impact assessments is less than 40 per cent and at least 25 percentage points below that of the EEC, on average.

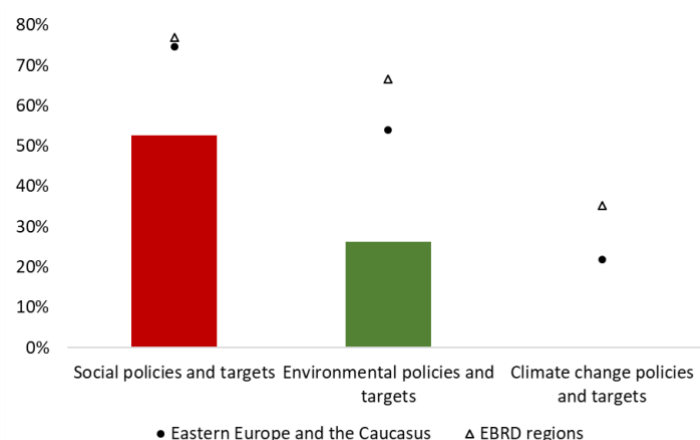
Azerbaijan has the lowest share of banks providing specific loans to improve the energy efficiency of commercial real estate, residential housing and SMEs and/or corporate clients among the EEC economies – in all three categories. Only a small handful of the banks surveyed provide such loans.

Turning to the use of digital technologies, at least 60 per cent of banks view fintech as an opportunity for most business lines in Azerbaijan, higher than the average of the EEC economies (Chart 5). More than 70 per cent of Azerbaijani banks surveyed report seeing an opportunity in fintech for SME lending, trading and sales, corporate lending and asset management. However, just under 30 per cent view fintech as a threat to asset management services, almost triple the average proportion in the EEC and EBRD economies. In addition, as in most EBRD economies, payment services are perceived as facing the biggest threat from fintech.

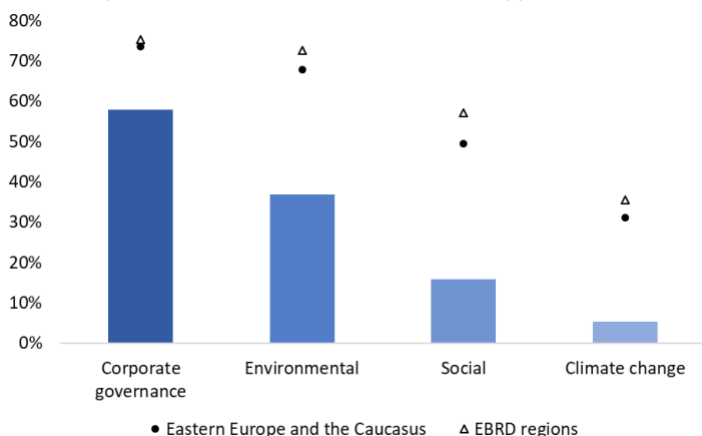
**Chart 1** Branch presence of surveyed banks



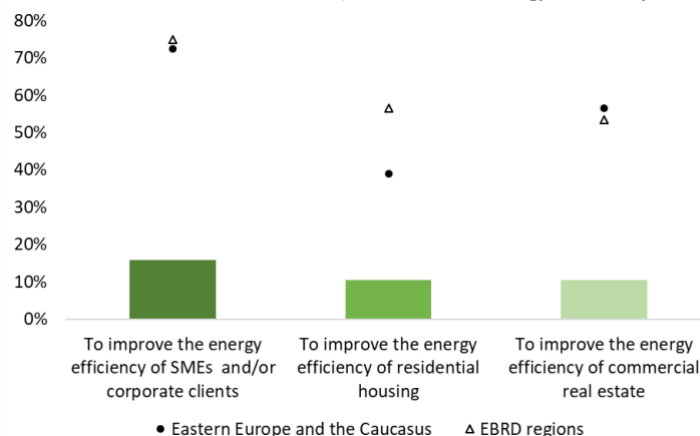
**Chart 2** ESG policies and targets



**Chart 3** Impact assessment of SMEs before loan approval



**Chart 4** Prevalence of loans to improve clients' energy-efficiency



<sup>1</sup> Domestic banks account for 97 per cent of these banking assets.

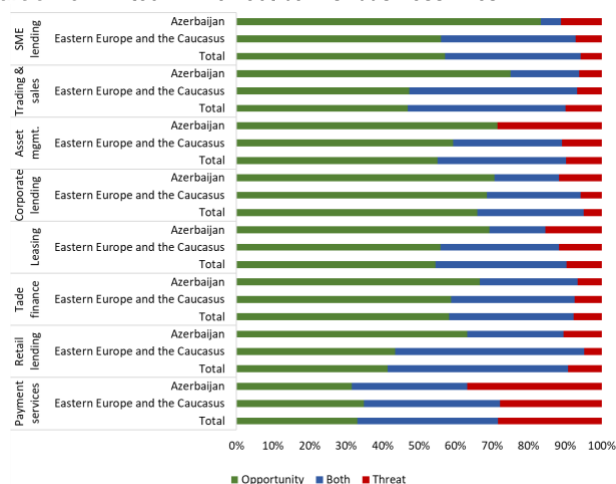
<sup>2</sup> Bars in Charts 2, 3, 4 and 8 refer to the percentage share of banks in Azerbaijan.

On average, Azerbaijani banks trail their peers in the EEC and EBRD economies when it comes to the uptake and use of digital technologies (Chart 6). Just over 40 per cent of banks in the EBRD regions use digital wallet solutions commercially, while only 16 per cent of Azerbaijani banks do so. While around four out of five banks across the EBRD regions express concern about IT security and regulatory uncertainty in the fintech space, this is true for around 95 per cent of Azerbaijani banks. Moreover, more than half of Azerbaijani banks say they would like to invest more in fintech, but are too financially constrained to do so.

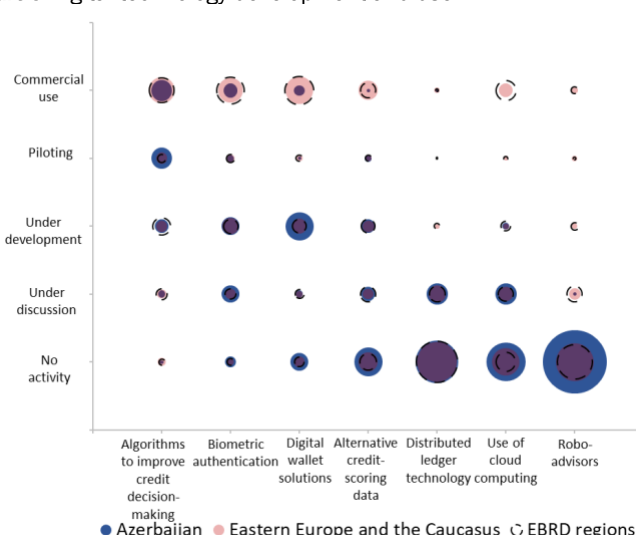
Just over 60 per cent of Azerbaijani banks accept online loan applications from SMEs. Lending to SMEs is slightly less streamlined than in neighbouring economies, with 2.4 layers of hierarchical approval for loan applications compared with an average of 2.2 layers in the EEC region (Chart 7). This is an increase from the previous BEPS survey in 2011. When it comes to banks' perception of the courts, some progress has been made over the past decade. Compared with BEPS II, a greater share of Azerbaijani banks agree that the court system is "fair and impartial" and "able to enforce its decisions". However, the share of banks viewing the system as quick and efficient remains a small minority.

The main concern with regard to lending to innovative research and development-intensive industries, such as information technology, chemicals and pharmaceuticals, is a lack of sufficient demand for credit from firms in these sectors. Just under 65 per cent of Azerbaijani banks view this as the main constraint on lending, a much higher share than in the EEC or EBRD economies, on average (Chart 8).

**Chart 5** How fintech will affect banks' business lines

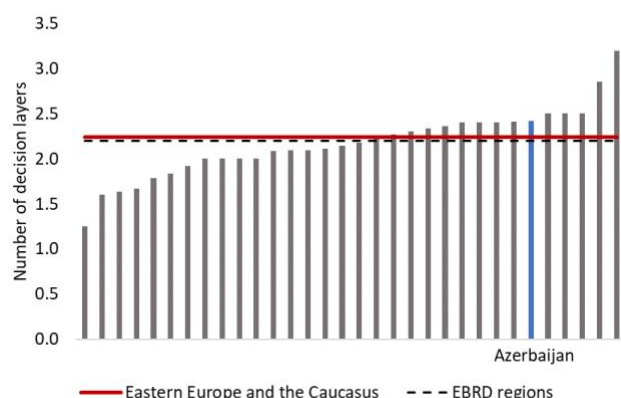


**Chart 6** Digital technology development and use



Note: For each digital technology, the size of the bubble is proportional to the share of banks that report using the technology at that level of advancement.

**Chart 7** Average decision layers, SME lending



**Chart 8** Constraints on lending to innovative industries

