

**THE MINISTRY OF EDUCATION OF THE REPUBLIC OF AZERBAIJAN**

**AZERBAIJAN STATE UNIVERSITY OF ECONOMICS**

**INTERNATIONAL CENTER OF GRADUATE EDUCATION**

**MASTER DISSERTATION**

**on the topic**

**“THE IMPACT OF COVID-19 ON BANKING SYSTEM OF  
AZERBAIJAN”**

**Akhundova Maleyka Fuad**

**BAKU – 2022**

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**MASTER DISSERTATION**

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**“THE IMPACT OF COVID-19 ON BANKING SYSTEM OF AZERBAIJAN”**

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## **Elm andı**

Mən, Axundova Məleykə Fuad qızı and içirəm ki, “The Impact of COVID-19 on Banking system of Azerbaijan” mövzusunda magistr dissertasiyasını elmi əxlaq normalarına və istinad qaydalarına tam riayət etməklə və istifadə etdiyim bütün mənbələri ədəbiyyat siyahısında əks etdirməklə yazmışam.

# COVID-19 PANDEMİYASININ AZƏRBAYCANIN BANK SİSTEMİNƏ TƏSİRİ

## XÜLASƏ

**Tədqiqatın aktualığı:** Fəaliyyətini dayandıran şirkətlərin gəlirlərini itirdiyini və nəticədə kreditləri qaytarmaqda çətinliklə üzləşəcəyini nəzərə alsaq, pandemiyanın bank sektoruna təsiri qaçınılmazdır. Şübhəsiz ki, banklar iqtisadiyyatın əhəmiyyətli sütunudur və onların tətbiq etdikləri idarəetmə siyasəti pandemiyaadan sonra iqtisadiyyatın bərpasına təsir göstərəcəkdir.

**Tədqiqatın məqsədi:** Bu dissertasiya koronavirus pandemiyasının Azərbaycanın bank sektoruna, xüsusən də bankların maliyyə göstəricilərinə təsirini, əsasən, pandemiyaadan əvvəl və sonra bankların kreditləşdirmə və depozit göstəricilərini tədqiq edir.

**İstifadə olunmuş tədqiqat metodları:** Tədqiqatda müxtəlif məlumatların təhlili aparılmışdır və müqayisəli, keyfiyyətli, və kəmiyyət tədqiqat metodlarından istifadə olunmuşdur.

**Tədqiqatın informasiya bazası:** Kitablar, elmi məqalələr, empirik əsərlərdən eləcə də Dünya Bankı, Beynəlxalq Valyuta Fondu, Ümumdünya Səhiyyə Təşkilatı və Azərbaycan Dövlət Statistika Komitəsinin rəsmi statistik məlumat resursları.

**Tədqiqatın məhdudiyyətləri:** Pandemiyanın Azərbaycanın bank sektoruna təsirini araşdırmaq üçün statistik məlumatlar lazım olan informasiyanı tam əldə etməyə kifayət etmir.

**Tədqiqatın elmi yeniliyi və praktiki nəticələri:** Azərbaycanda koronavirus pandemiyası bank sektoruna mənfi təsir göstərmiş, bu, əsasən kredit ödənişlərinin çətinləşməsi, əmanətlərin azalması və maliyyələşdirmə ehtiyacının artması ilə müşahidə olunmuşdur. Bununla əlaqədar olaraq, pandemiyanın ilk ilində banklarda kredit əməliyyatları (3,5 faiz) və əmanətlər (3,2 faiz) azalsa da, pandemiyanın ikinci ilində bankların əksəriyyəti maliyyə vəziyyətini bərpa etmişdir, belə ki, 23 bank (bankların 88,5%-i) 2021-ci ili xalis mənfəətlə bağlamışdır.

**Nəticələrin istifadə oluna biləcəyi sahələr:** Nəticələr akademik təşkilatlar tərəfindən pandemiyanın müxtəlif biznes sahələrinə təsirlərini öyrənmək üçün istifadə edilə bilər.

*Açar sözlər: Koronavirus pandemiyası, Bank sistemi, Banklar, Kredit, Depozitlər*

# THE IMPACT OF COVID-19 ON BANKING SYSTEM OF AZERBAIJAN

## SUMMARY

**The actuality of the subject:** Coronavirus disease pandemic's influence on the banking sector is inescapable, considering the companies, which have stopped operating lose out on incomes, and consequently could not pay back the credits. Banks are a significant column of the economy and the administration policies they espouse will impact the economy retrieval following the pandemic.

**Purpose and tasks of the research:** This dissertation scrutinizes the influence of the pandemic on the banking sector of Azerbaijan, financial performance of banks, examining principally the lending and deposit figures of banks before and after the pandemic.

**Used research methods:** The study analyzed various data and used comparative, qualitative, and quantitative research methods.

**The information base of the research:** Books, scholarly articles, empirical works, official statistical information resources of the World Bank, International Monetary Fund, World Health Organization and the State Statistics Committee of Azerbaijan.

**Restrictions of research:** Statistics are not enough to fully obtain the necessary information for studying the impact of pandemic on the banking system of Azerbaijan.

**The novelty and practical results of investigation:** The pandemic in Azerbaijan disturbed banking sector, by distressing loan repayments, decreasing deposits and surging need for financing. The credit operations (by 3.5 percent) and deposits (by 3.2 percent) at banks decreased in 2020, however, most of the banks (23 banks) recovered their financial situation and closed the year 2021 with net profits.

**Scientific-practical significance of results:** Results can be used by the academic organizations in learning the impacts of the pandemic on different business areas.

*Key words: Coronavirus disease pandemic, Banking System, Banks, Lending, Deposits*

## **ABBREVIATIONS**

**AI** - Artificial Intelligence

**AML** - Anti-Money Laundering

**CARES** - Coronavirus Aid, Relief, and Economic Security

**CBAR** - Central Bank of Azerbaijan Republic

**CCP** - Central Counterparty

**COVID-19** - Coronavirus Disease 2019

**CPI** - Consumer Price Index

**DAX** - Deutscher Aktienindex (German Stock Index)

**ECA** - Europe and Central Asia

**FMI** - Financial Market Infrastructure

**FTSE** - Financial Times Stock Exchange

**GDP** - Gross Domestic Product

**IATA** - International Air Transport Association

**IMF** - International Monetary Fund

**KYC** - Know-Your-Customer

**ML** - Machine Learning

**OECD** - Organization of Economic Cooperation and Development

**ROA** - Return on Assets

**WHO** - World Health Organization

**PPP** - Public-Private Partnership

**SMEs** - Small and Medium sized Enterprises

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## INTRODUCTION

**Relevance of the research topic:** The continuing COVID-19 is not just a world-wide pandemic and public health crisis, it has brutally influenced the international economy and financial markets as well. The substantial drops in revenue, the upsurge in redundancy, and disturbances in the transport, service, and manufacturing areas are amid the results of the pandemic extenuation events, which have been employed in lots of countries. It has turned out to be transparent that majority of country administrations globally misjudged the jeopardies of speedy COVID-19 expansion and were typically volatile in their crisis reaction. Since the disease outbursts are not expected to vanish in the foreseeable future, hands-on world-wide arrangements are obligatory to not just save lives but defend economic and financial prosperity as well.

Along with the significant weight on health care arrangements, COVID-19 has had most important economic significances aimed at the influenced nations. The coronavirus epidemic has triggered straight influences on revenue owing to precipitate demises, workplace non-attendance, and decrease in efficiency and has formed an undesirable supply disruption, having manufacturing productive performance decelerating as a result of international supply chain disturbances and terminations of factories. As an instance, in China, the manufacturing index decreased thru in excess of 54 percent as compared to the year 2019 index. On top of the influence on productive economic performances, customers characteristically altered their expenditure behaviour, primarily owing to reduced revenue and family finances, in addition to the distress and fright conveying the pandemic. Service areas for instance leisure industry and transportation have agonized noteworthy losses owing to lessening in travel. The International Air Transport Association (IATA) estimated a decrease in airline income only from passenger carriage of equal to USD 314 billions (IATA, 2020). The restaurants and bars, tourism and transportation, entertainment, and sensitive production are amid

the areas, which are the worst influenced through the pandemic quarantine actions (Dey & Loewenstein, 2020).

On top of marked health disparities, particularly in nations short of worldwide healthcare coverage, the economic influence of the current epidemic will be diverse through the nation's revenue distribution. As an instance, office employees are more probable to changeover to flexible working provisions throughout the limitations, although lots of manufacturing, service sector, retail, and transportation employees will suffer a noteworthy lessening in work attributable to community limitations and lesser request for their products and services (Duan et al., 2021).

International financial marketplaces have been profoundly influenced through the impacts of the spread of the pandemic. Since the case figures began upsurging internationally, principally over the USA, European countries (i.e., Italy, Spain, Germany, France), Iran, and South Korea, the global financial and petroleum marketplaces substantially decreased, especially affecting oil-dependent countries, e.g., Azerbaijan. Moreover, by the beginning of the 2020, principal USA and European stock market indices have misplaced a 1/4 of their worth, having oil prices deteriorating through in excess of 65 percent. Furthermore, there were momentous adverse relations amid the daily quantity of coronavirus cases and numerous stock indices (Pak et al., 2020).

Greater economic difficulties are connected with the existing and budding forthcoming request for oil translating into vacillations in oil prices because of abridged economic performance as a result of the epidemic. Predictable supply surplus was in charge for noteworthy price decreases as well. In case the oil prices endure to be lesser than the anticipated, numerous oil-dependent countries might contract after decreases in trade and speculation. Shudders to the labour marketplaces will be intense, particularly for nations relying on relocation. Internationally, migrant employees make imperative aids to labour marketplaces, addressing inequities in both high and low skilled professions. Since the global travel limitations and lockdowns (owing to mutated version of the virus) are

probable to endure for the predictable future as country administrations attempt to halt the expansion of coronavirus, migration movements will surely be limited, obstructing world-wide economic growing, and progress (Pak et al., 2020).

It is unquestioned that, banks are a significant column of the economy and the administration policies they espouse will impact the retrieval of the economy following the epidemic. The banks possess a central role in the economy since they ease local and global trade. Huge disruption in this scheme is able to influence the society as one. In this extent, confidence is vital for the running of the banking scheme and economy (Polyzos et al, 2021). The significance of banks for economic and societal wealth is not hesitant, since they are the foremost suppliers of capital and supporters of the economy, businesses, and people (Demir & Danisman, 2021).

It is not undisclosed that, the COVID-19 epidemic has altered lots of things in the banking scheme: how banks function, carry out novel operations, and the proceedings. The indispensable character of the banking facilities obliged them not shut all of their branches and to safeguard individuals' access to financial capitals. Nearly 25 percent of bank branches have shut down throughout the outburst in lots of economies, by reason of the protection of workers, staff deficiencies, and less commerce taking place overall. Of the residual 3/4, lots of them are open on limited hours and with limited personnel (Caplain, 2020). Having the mentioned encounters around them, banks have to point out the approach, which outlines their forthcoming. As stated by Caplain (2020), they have to concentrate corporate permanence planning on matters for endurance: alter branch hours and recruitment combination and times, change in-branch calls to appointment-only, close some branches for the time being. Each of these vicissitudes executed in the way that they function will certainly affect the way the banking scheme will appear in the forthcoming.

Therefore, it is important to examine in what ways the current pandemic has influenced the global economy, and particularly banking system, and analyse the clue specifically in the instance of the banking sector of Azerbaijan.

**Statement of the problem and learning level:** Since the expansion of the coronavirus is expected to endure unsettling economic activity and adversely influence industrial and service businesses, particularly in developed economies, it is predictable that financial marketplaces will endure to be instable. There is an ongoing question as to whether this recounting crisis will possess a long-term structural influence on the world-wide economy or mainly temporary financial and economic penalties. In each scenario, it is obvious that transmissible sicknesses for instance COVID-19 have the possibility to impose intense economic and financial charges on local and global economies. On account of high conveyance connectivity, globalisation, and economic interrelation, it has been tremendously problematic and overpriced to contain the disease and alleviate the import dangers once the virus began to spread in manifold places. This warrants global cooperative performance and international speculation in vaccine development and spreading, in addition to the precautionary measures counting capacity building in real-time surveillance and the improvement of contact tracing competences at the local and global extents. Since the outbursts of new infections are not expected to vanish in the near forthcoming, proactive world-wide undertakings are obliged not just to save lives but to defend economic performance as well (Feyen et al., 2021).

The influence of the pandemic on the banking sector is inescapable, considering the companies, which have stopped operating lose out on incomes, and consequently could not be capable of paying back the credits. Likewise, households having members that have missed their jobs or are furloughed have lower revenue, and thus may not be capable of reimbursing their credit. This will lead not just to misplaced income but in losses as well (in case repayment capability is permanently reduced), adversely influencing profits and bank's capital. Moreover, since the swift recovery turns out to be less likely, banks might anticipate additional losses, leading to the necessity for extra provisions, additional undermining their lucrativeness and capital position (Kunt et al., 2021).

Moreover, banks are undesirably influenced since the bonds and further traded financial tools have lost their worth, leading to additional losses for them.

Furthermore, there can be losses attributable to open derivative places that have moved in unforeseen ways as a result of the crisis.

Another problem confronting banks is that, banks experience swelling request for loans, since particularly businesses necessitate extra cash flow to meet their outlays even in times of decreased incomes or no income at all. In some situations, this developed request has showed itself in the drawdown of credit lines by debtors (OECD, 2021a).

Moreover, banks experience lesser non-interest proceeds, since there is inferior request for their different facilities. As an instance, there are smaller quantity of payments and dealings being done with lesser economic activity, and lesser safety matters by companies decrease fee revenue for investment banks (Kunt et al., 2021).

Losses and lesser capital buffers in banks are able to cause undesirable spill-over influences that may make banks' solvency place even shoddier and may destabilize the wider economy as well. The banks can vend bonds and further tradeable financial tools in order to advance their liquidness situation or to compensate for losses, having prices of these tools dropping accordingly, and negatively influencing other banks, which hold them. Banks could lessen credit delivery to the economy, therefore destructively influencing businesses depending on these kinds of buffers, undermining their existence. People experienced alike spill-over influences throughout the 2008/09 world-wide financial crisis - this could make the financial shudder much worse (Berger et al., 2021).

Although being an imperative research topic, there is a scarce amount of research on the influences of the ongoing pandemic on the banking sector. Consequently, research needs to be done in this field, to scrutinise the effects of the pandemic on the banking sector, and the responses to the disturbances by country administrations, in the example of Azerbaijan.

**Purposes and objectives of the research:** The purpose of this study is to broadly examine the impacts of COVID-19 on the banking system of Azerbaijan, through analysing the pandemic's effects on the global and local economy, and the

banking system exclusively. The dissertation will study the banking system of the country as well, to comprehend how it functioned before and during the pandemic.

**Object and subject of the research:** This dissertation is aimed at analysing the impact of COVID-19 on the banking system of the Republic of Azerbaijan. In doing so, the main research objectives are to understand the banking system in the Republic of Azerbaijan (through examining the history, current state of affairs and the working mechanism of the banking system thoroughly) (1), to examine the effects of COVID-19 on the economy of Azerbaijan (2) and to analyse the influences of COVID-19 on the banking system of the country (3).

The methodological foundation of this study is grounded on general scientific and private scientific methods, including economic-statistical, monographic, and computational-constructive.

**Research methods:** With the intention of reaching the main research objectives, this dissertation will utilize specific means and methods. The research methods of this dissertation take in profound literature research and quantitative research method, namely the statistical comparisons of economic indicators, bank assets, and liabilities before and after the COVID-19 outbreak. In addition to these, the research takes in the survey research amongst the employees of banks functioning in Azerbaijan, with the aim of comprehending the alterations on the bank operations as a response to COVID-19 pandemic.

**Research database:** Database for the application of chosen literature review method of this research comprise books, scholarly articles and empirical works. The database for the comparison method comprises the official resources of statistical data, which encompass the database of the World Bank, IMF, WHO and The State Statistical Committee of Azerbaijan. In order to carry out the research on the influences of the pandemic on Azerbaijan's banking sector encompasses the qualitative research method, i.e., semi-structured interviews with the specialists of the commercial banks operating in Azerbaijan.

**Research limitations:** Since the statistics are not enough to fully obtain the information needed to study the impact of the COVID-19 on the banking sector of

Azerbaijan, I have completed my research with information obtained from my personal surveys and analysis.

**Scientific novelty of the research:** The scientific novelty of this dissertation lies in the fact that in the event of future pandemics or other force majeure circumstances, it helps the financial, banking sector and the economy as a whole to conduct timely and adequate analysis to prevent the negative impact of such events.

**Scientific and practical significance of the results:** This dissertation is expected to answer important questions regarding the effects of the enduring COVID-19 pandemic on the global and local economies (in the instance of Azerbaijan), and separate areas of economy (in the instance of banks). The results of the research will be significant to future researchers, as they will be able to compare the impacts of coronavirus on banks in different countries.

# **CHAPTER I. THE BANKING SYSTEM IN THE REPUBLIC OF AZERBAIJAN**

## **1.1 History of the Banks and Banking System in Azerbaijan**

The banking in the Republic of Azerbaijan in its current form predates to the year 1992, yet it instigates in the 2<sup>nd</sup> half of the 19<sup>th</sup> century and endured over the USSR period. The banking scheme comprises the country's central bank - the Central Bank of Azerbaijan, instituted on 11 February 1992, and state- and privately-owned commercial banks. All the commercial banks operating in the country are joint-stock. The solitary valid currency inside the country is the Azerbaijani manat (AZN). The Central Bank is the sole organization which is authorized to issue AZN. Throughout the changeover to a marketplace economy in the 1990s, the banking scheme of the country was not achieving the requirements of socioeconomic improvement as anticipated, and was trailing out-dated laws lingered from the USSR. The banks in the country possess obligatory assets, determination of standards, settings of liabilities amid debtor and depositors, and deposit protection (insurance). These commandments were instituted in the year 1996 following the system verifying to encroach upon regulations and opportune reimbursements of deposits. At present, the banking scheme in the country can be considered as being steady.

The Republic of Azerbaijan its independence from the USSR on October 18, 1991, for the second time. In addition to the initial law On Banks and Banking Activity, the decree On the National Bank of the Republic of Azerbaijan was implemented on 7 August 1992. Azerbaijani Manat, which is the national currency of the country was released on August 15 (in common with ruble). AZN was stated as the single means of imbursement in the country starting the year 1994. In the initial Constitution of the Republic of Azerbaijan implemented in the referendum in the year 1995, it was reiterated that the right of issuing and removing money from flow belongs just to the Central Bank of the country (in its initial name:



*National Bank*). The decree On the National Bank of the Republic of Azerbaijan and On Banks and Banking Activity in the Republic of Azerbaijan were re-accepted in a novel issue on 10 and 14 June, the year 1996, correspondingly. Novel bank regulations enabled the banking scheme to turn out to be adjacent to the global banking practise and create credit organisations. With the purpose of acclimatizing to the modernized technical and theoretical means and the necessities of contemporary current progressions, the law On the National Bank of the Republic of Azerbaijan was implemented on December 10, the year 2004. The law On Banks implemented on 16 January 2004, became effective on 30 March the same year. With regard to the Referendum Act named On Additions and Amendments to the Constitution of the Republic of Azerbaijan dated March 18, 2009, National Bank of the Republic of Azerbaijan was retitled to The Central Bank of the Republic of Azerbaijan (CBAR). On account of actions executed aimed at the formation of deposit insurance instruments, the law On Deposit Insurance was implemented on 29 December 2006. Significant actions are executed in the country for averting decriminalising unlawfully attained money or further possessions and funding of terrorism. In connection with this, the commandment On the Prevention of the Legalization of Criminally Obtained Funds or Other Property and the Financing of Terrorism came became operative on 25 February, the year 2009.

The preliminary improvement of the country's banking scheme started in the second half of the 19<sup>th</sup> century. Nonetheless, organizational and legal edifice of banking sector of the country commenced following the attainment of government independence in the year 1991. Consistent with the Decree of the President of the Republic of Azerbaijan accepted 10 January 1992, the International Bank of Azerbaijan was formed on the foundation of the previous Soviet Bank for Foreign Affairs' database of Azerbaijan.

Commercial banks in the country institute the second stage of the two-phased bank scheme as the countries having marketplace economies. Four of the overall self-regulating commercial banks were grounded on government

proprietorship. 51 per cent of their licence capital or the regulatory package was possessed by the government, as listed below:

- The Industrial Investment Joint Stock Commercial Bank of the Azerbaijan Republic;
- The Agrarian-Industrial Joint-Stock Commercial Bank of the Azerbaijan Republic;
- International Joint-Stock Commercial Bank of the Azerbaijan Republic;
- Deposit Commercial Bank of the Azerbaijan Republic.

As stated above, through the Decree of the President of the Republic of Azerbaijan, employed on 11 February 1992 the National Bank of Azerbaijan was formed on the foundation of the prior Soviet State Bank, Industrial-Construction Bank and the Agrarian Bank's record of Azerbaijan, and Azerbaijan Deposit Bank on the base of Deposit Bank of the prior USSR record of Azerbaijan. From February to August the year 1992, the organizations and sections of the Industrial-Construction Bank and the Agrarian Industry Bank were subordinated to the National Bank of Azerbaijan in a straight line.

Following the attainment of its independence, the local marketplace was formed. All through this phase, vicissitudes were completed not in the form of banks, but in credit relationships. Thus, two-phased banking scheme was created - the National bank being the initial phase and commercial banks being the following one. Following that, the Agrarian Industry Bank and the Industrial Investment Bank were withdrawn from relegation of the National Bank and turned into Universal Joint-Stock Commercial Bank. Consistent with the pertinent conclusion of the National Assembly, Deposit Bank and International Bank of the Azerbaijan Republic commenced functioning as joint-stock commercial banks. The course of alteration of the Agrarian Industry Bank, the Industrial Investment Bank, the Deposits Bank and the International Bank to joint-stock commercial banks was finished in the year 1993. The 49 per cent of the private stakes were dispersed amid diverse legal and physical persons. The National Bank began to operate as a

self-governing bank. The primary head of the National Bank was selected following the implementation of the mentioned laws and regulations. Having the unconventionality of the banking scheme, the local currency of the country – AZN - was set into flow in the year 1992.

Arduous political circumstances and severe defilements in the economy were discerned throughout the phase while the market economy focused banking scheme was arranged in the country. This placed the banking scheme to a problematic state of affairs. Accordingly, administration and running fundamentals in the banking scheme were desecrated. On the whole, the banking provision did not encounter the necessities of the social and economic improvements. The banking sector was founded on the inadequate legal foundation. It was administered suitable for the necessities and foundations of previous jurisdictive acts. Just a few of the several banking procedures recognised globally were being carried out in the country.

There were stern inadequacies and retail management circumstances in the scheme of the Deposit Bank. They debased the instructions set through the legislature on reimbursement of these deposits on a timely basis. Thus, the deposits of the populace in Deposits Banks have turned out to be unusable and impractical shares. The Deposits Bank misplaced its core. On the account of the applied reorganizations, the imperfections and inadequacies in the movement of the banking scheme were eradicated and noteworthy progresses were completed in their business. The ultimate vicissitudes in the up-to-date banking scheme of the country might be assembled as below:

- Essential reorganizations executed in the banking scheme augmented the rights and accountabilities of government and commercial banks;
- The function of banks and running roles surged in governing money movement;
- The predilection is accorded to found cooperative banks having the capacity to contend with overseas banks in the country;

- The right was accorded to the Central Bank to issue an independent monetary strategy and to issue local currency to the flow.
- The function of each kind of bank in the association of the securities marketplace in the country was surged and the German model is favoured in this course, and so forth.

With the purpose of applying monetary strategy, the standards of compulsory bank capitals were regulated and their origin bases were detailed in the Law of the country On National Bank accepted through the National Assembly on 10 June, the year 1996. The law comprises the founding of obligatory capitals, ascertaining of standards, regulation of liabilities amid debtors and depositors and guidelines for preserving obligatory capitals and so on.

On March, 2014 Fitch Ratings issued an evaluation of banking scheme of Azerbaijan as being generally steady, even though emphasising organizational matters, which must be addressed with the aim of advancing the system. Fitch stated that retail loaning is a higher development section compared to corporate loaning. In addition, Fitch stated constructive scores on five dissimilar banks operating in Azerbaijan (FitchRatings, 2021).

The influences of the financial markets supervisory authority demarcated through regulations of Azerbaijan, comprising licensing, governing and direction in the financial facilities marketplace, and duties and accountabilities on guarding the rights of depositors and customers of financial facilities were moved to the Central Bank of the country by the Decree of the President on “Development of the management of the scheme of regulation and supervision in the financial services marketplace” accepted on 28 November, the year 2019.

At present, the Central Bank is directed through the third-generation banking commandments. This lawful foundation in position enables the Central Bank to attain its objectives and roles in increasingly effective and resourceful ways, and execute actions athwart each functional extent, and regulates its major roles, i.e., setting and employing the monetary and rate of exchange strategy, forming money

flow, governing and advancing unified interbank and further accredited payment scheme, preserving and administering gold and further external exchange capitals.

Consistent with Decree of President of Azerbaijan on Alterations to the Nominal Value of Monetary Units and the Scale of Prices in Azerbaijan accepted on 7 February 2005, a novel currency was allotted into flow starting January 2006 - 1 novel AZN equated to 5000 former manats, enduring in parallel circulation with AZN in the year 2006 and just starting January 2007 the country began to utilize the novel currency, which were allotted to flow on a stepwise foundation.

The release of the country's central bank roles specified appraisal of the bank's title and it was rechristened "the Central Bank of the Republic of Azerbaijan" by the implementation of the referendum act on "Making Additions and Adjustments to the Constitution of the Republic of Azerbaijan" taking place on 18 March 2009.

The ruling classes of the Central Bank experienced vicissitudes embodying 2016 economic and organizational restructurings - under adjustments to the decree on the Central Bank of the Republic of Azerbaijan implemented on March, the year 2016, with which licensing, governing and administration of the banks were allocated to an afresh formed establishment. By that time, the Central Bank has concentrated on the monetary and rate of exchange strategy, maintaining macroeconomic and financial constancy, governing and advancement of unified interbank and further accredited payment schemes and administration of cash movement.

## **1.2 Operational Mechanism of the Banks and Central Bank in Azerbaijan**

The banking scheme is regarded as a significant component of the financial sector of Azerbaijan. At the moment, banks overtake further financial mediators for the capacity of their assets and equity, along with regional coverage.

At present, there is an advanced bicameral banking scheme grounded on marketplace standards (i.e., the Central Bank as in the primary level, commercial

banks, and further non-bank credit establishments in the other level). As stated earlier, the Central Bank of the country was instituted in the year 1992. The foremost function of contemporary central banks is upholding prices and monetary steadiness. The Central Bank in the country acts the number of purposes demarcated through law with the intention of attaining its objectives.

The foremost role of the Central Bank is setting and regulating the country's monetary and rate of exchange strategy. The monetary strategy is regulated by means of an assortment of tools. These comprise obtaining and selling securities distributed by the government and the Central Bank, defining interest rates on credits issued through the Central Bank to banks, necessities for essential funds of banks, and so forth. By the help of these tools, the Central Bank utilizes prospects for affecting price steadiness, economic development, along with safeguarding financial steadiness in the country through regulating the amount of money in flow.

One of the imperative roles of the Central Bank is issuing of the local currency (AZN) of the country. As stated by Article 19 of the Constitution of the Republic of Azerbaijan the Central Bank owns this special function. In this authority, the Central Bank issues AZN denominated banknotes and coins to and takes out from flow, and make moves on their flow.

The Central Bank decides an authorised rate of exchange of the local currency counter to external currencies. The rate of exchange is one of the aspects impacting the external economic relationships of the country. The Central Bank regulates the authorised rate of exchange of the AZN, in view of the middling marketplace rate. The economic organizations take into account the authorised rate of exchange while carrying out foreign exchange dealings.

Furthermore, the Central Bank carries out the role of the currency regulation and controlling. External currency regulation and controlling is a group of actions, which back the transmission of the rate of exchange strategy, uphold global reserves, govern external currency flow, perform transactions, limit external currency utilization, and exercise state control on external currency flow.

The Central Bank conscientiously utilizes gold and other foreign exchange capitals with the aim of keeping the rate of exchange of the AZN and control the payments balances. In unison, this establishment performs as a protector of the local gold and further foreign exchange capitals assigned to it, and simultaneously carries out the mission of their management. For that reason, gold and further foreign exchange capitals at present possess a steadying and supporter function in foreign payments. The gold and further foreign exchange capitals of the Central Bank consist of gold, valuable metals, and valuable stones, external currencies, external currency reserves settled in the financial records of external central banks or further financial establishments, and further universally recognized resources. The Central Bank provides information in the broadcasting about the complete volume of gold and external exchange capitals administered through it no less than four times a year.

One of the purposes of the Central Bank is gathering the state's payment balance figures and assemble a reportage of this payment balance. The payment balance is a numerical reportage scheme, which displays pointers and indication of the synopsis of economic activities (i.e., relating products & services, reserves) executed by the country's populace (individuals) and legal establishments (companies & organizations) functioning in the territory of Azerbaijan by external individuals/organizations throughout a specific period. The payment balance is utilized for computing the economic output (GDP) of each nation.

The Central Bank progresses the state's combined (viz., public and non-public) external debt figures and foreign speculation balance, reviews and publicises information. The role was allotted to the Central Bank in the face of the amendments formed to the Law of the Republic of Azerbaijan on the Central Bank of the Republic of Azerbaijan authorized on 20 October 2015. The extraneous debt figures and foreign speculation possess a singular role in the creation of the global position of the local economy, along with reflecting macroeconomic policy choices. These figures are shaped on the foundation of accountancy of the liabilities of local organisations to organisations of overseas states. The Central

Bank systematizes, directs, controls actions of, and supervises central interbank and further unlicensed imbursement schemes enclosed within this mission.

At this time, this kind of schemes comprise The Real-Time Gross Settlement System, The Low-Value Payments Clearing and Settlement System, The Interbank Card Centre (Aliyev, 2020). The Central Bank decides necessities for partaking in the mentioned schemes, together with safety necessities for partaking, necessities for the perseverance of imbursement schemes, and necessities for structure of payment credentials.

The Deposit Insurance Fund of Azerbaijan was instituted on 9 February 2007 by the decree of the President of the Republic of Azerbaijan, and began functioning on August 12, 2007, the objective of forming the Deposit Insurance Scheme is avoiding the menace of mislaying funds deposited via persons and guaranteeing the perseverance and improvement of the financial and banking arrangement at times banks and local branch offices of overseas banks turn out to be insolvent. Azerbaijan Deposit Insurance Fund is controlled through the Trustee Board and through the Executive director grounded on the Law on Deposit Insurance (Aliyev, 2020). Consistent with the adjustments completed to the Law of the Republic of Azerbaijan “On Deposit Insurance” on December 18, 2020, the volume of recompense for secured deposits of persons was upsurged by AZN 30 thousand to 100 thousand.

### **1.3 Statistical Information on the Existing Banking Scheme in Azerbaijan**

The financial segment in Azerbaijan is controlled by banks that possess around 95 per cent of financial segment over-all resources. The non-banking financial segment, predominantly the micro-finance area, is immature and suffered substantially after the devaluations dated back the year 2015. 19 banks were terminated in the year 2016 on account of non-performing credits, deprived asset quality, nonexistence of liquidness, and the general economic slump. Further four banks were terminated in the year 2020 following the Central Bank’s taking over



financial marketplace management from a previously independent controller. The biggest bank of the country - the International Bank of Azerbaijan (IBA), is widely held by the government and experienced reforms in the year 2018. The commercial establishments functioning in Azerbaijan frequently complain that stringent credit policies bound access to medium- and long-term funding, confining private firms. Notwithstanding more than a few government initiatives, the loan supply accessible for small and medium enterprises (SMEs) stays restricted.

At present, there are 26 banks operating in Azerbaijan, one of them being the Central Bank of Azerbaijan and the remaining 25 of them being commercial banks, 1 owned by the state, and the rest privately owned.

**Table 1: Comparisons of basic bank statistics in 2019 and 2021**

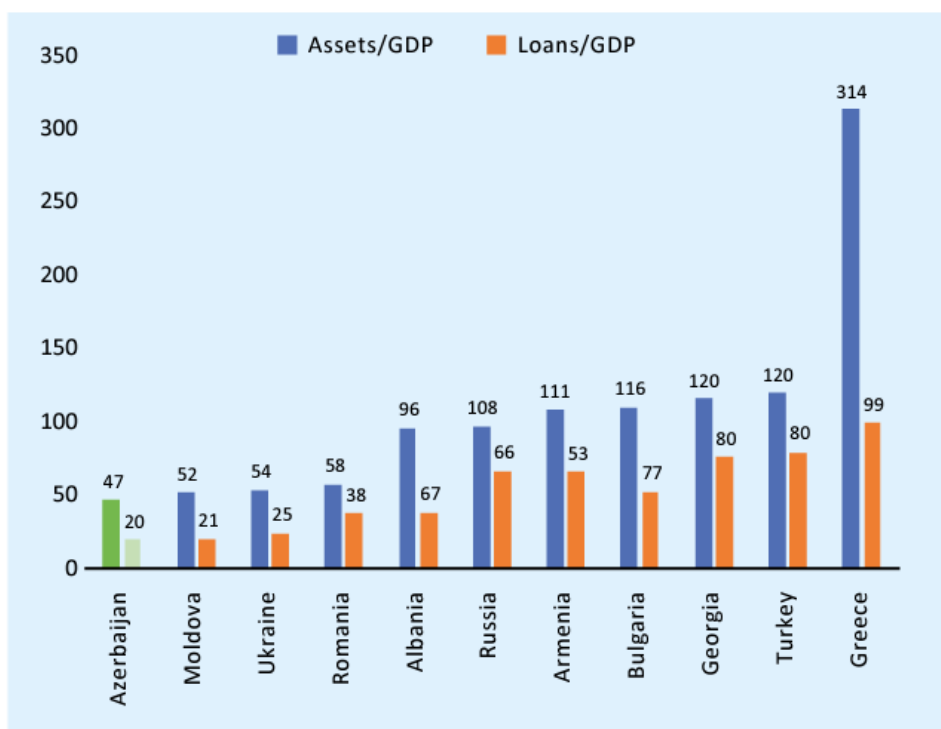
	31.12.2019	31.10.2021
<b>Number of banks</b>	<b>30</b>	<b>26</b>
State banks	2	2
Private banks	28	24
Banks with foreign capital	14	12
banks with 50% to 100% foreign capital, of which	7	7
local branches of foreign banks	2	2
banks with less than 50% of the foreign capital	7	5
The number of banks licensed since the beginning of the year	0	0
The number of banks whose licenses have been revoked since the beginning of the year	0	0
Number of banks' branches	509	473
Number of banks' divisions	133	97
Number of ATMs	2647	2870
Number of employees	19460	19835

**Source:** [Central Bank of Republic of Azerbaijan](#)

Of the 26 banks operating in the country, 7 are mainly owned by foreign persons and two mainly owned by the state. The banking segment recorded a profit

of AZN 568 million ( $\approx$  USD 334 million) in the year 2020 that is 12 per cent of equity capital. Comparable profitability was experienced in the year 2019.

**Figure 1: Overall banking sector assets and loans to Gross Domestic Product as of the year 2020 (%)**



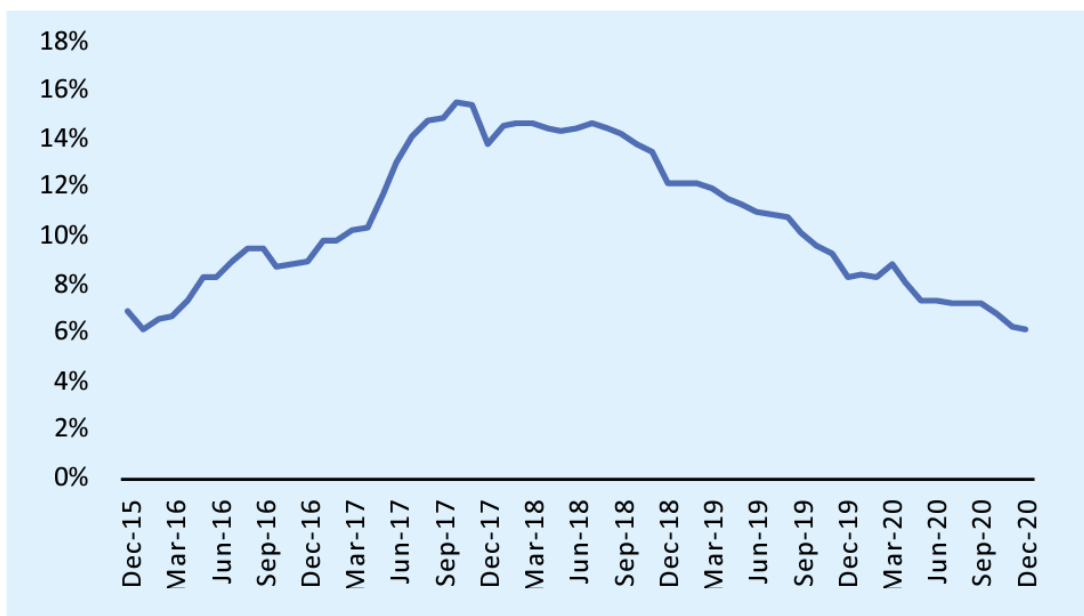
**Source(s):** Corresponding central banks, IMF

The banks' assets decreased through 2 per cent in the year 2020 attaining AZN 32 billion ( $\approx$ USD 18.8 billion), and banks' liabilities decreased through 2 per cent attaining AZN 27.3 billion ( $\approx$ USD 16 billion). The sector is profoundly dollarized, having approximately 55 per cent of bank liabilities detained in USD. The sector's capital amounted to AZN 4.69 billion ( $\approx$ USD 2.75 billion) at the close of the year 2020.

The proportion of credits in the overall banking segment assets is comparatively low at 43 per cent, despite the fact the portion of liquid assets accounted for approximately 50 per cent at the close of the year 2020. Banks' funding principally comprise deposits, which make up 76 per cent of overall liabilities, of that 29 per cent are trade deposits and 46 per cent are business

reserves. Additional 18 per cent of the over-all liabilities are claims of further financial organizations and securities distributed.

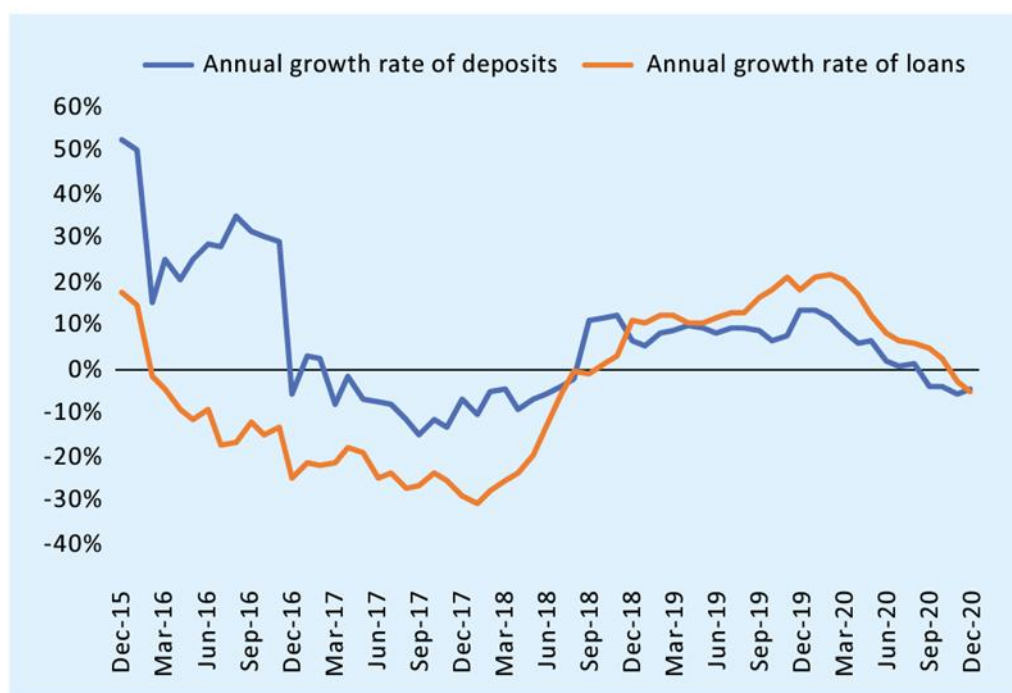
**Figure 2: Overdue loans as a portion of the overall loans (percentage)**



Source: [Central Bank of Republic of Azerbaijan](#)

Following the declines in petroleum prices in the year 2014 and consequential local shock and economic predicament, unsettled credits on banks' statements of financial position began to increase and touched 16 per cent of the entire credit portfolio by the close of the year 2017. By that time, unpaid credits have decreased and by the close of the year 2020, they made up 6 per cent of entire loans. It must be noted that, as stated by staff report of the International Monetary Fund, September 2019 unpaid loans do not completely indicate the real non-performing loans in the system.

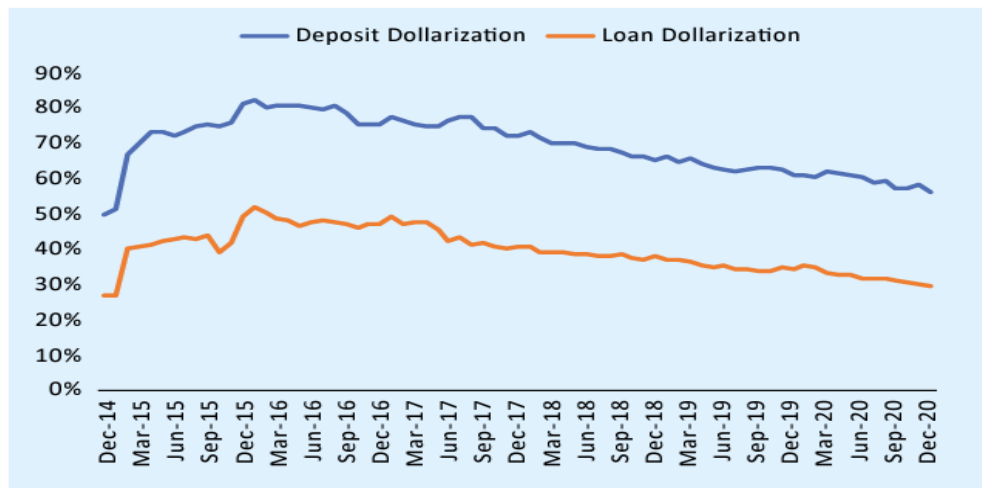
**Figure 3: The growth rates of loans and deposits**



Source: [Central Bank of Republic of Azerbaijan](#)

The economic calamity taking place in the year 2015 resulted in the let-down of some of the financial organizations, in excess of 10 commercial banks were terminated in the year 2016. Bank terminations and clearance of banks' statements of financial positions from bad credits lead to the scope of the banking segment lessening substantially by nearly 20 per cent in the years 2016 and 2017. This, in response, was indicated in the adverse growing rates of loan and deposit aggregates. For the years 2015 and 2016 the entire loan portfolio of the banking scheme declined through 40 per cent. The development of the banking segment, which began in the year 2018 was strike once more in the year 2020 as the difficulties introduced by COVID-19 pandemic degenerated. For the entire year 2020, credits decreased through 5 per cent and deposits decreased through 4.4 per cent. Notwithstanding substantial shock to the economy and finance segment, dollarization endured to decrease in the year 2020. One cause for the latter is that the country was capable of upholding steadiness in the foreign exchange marketplace and AZN did not mislay its value contrary to US dollar in contradiction of other nations in the region.

**Figure 4: Dollarization for loans and deposits**



Source: [Central Bank of Republic of Azerbaijan](#)

The credits to households in the year 2020 made up 46 per cent of the entire credit portfolio, beyond which 32 per cent were customer credits and 14 per cent - mortgages. The portion of business debtors in over-all credits is 51 per cent, a rate which is comparatively low in comparison to peer nations. The trade and services segment holds the principal portion in business credits by 25 per cent of the entire portfolio. A comparatively inferior portion of over-all credits is capitalized in further segments for instance industry and farming. Interest rates are comparatively unchanging for the past two years both for AZN and USD credits. In the year 2020 interest rates on AZN credits were 15.6 per cent although for overseas currency credits they were 5 per cent typically.

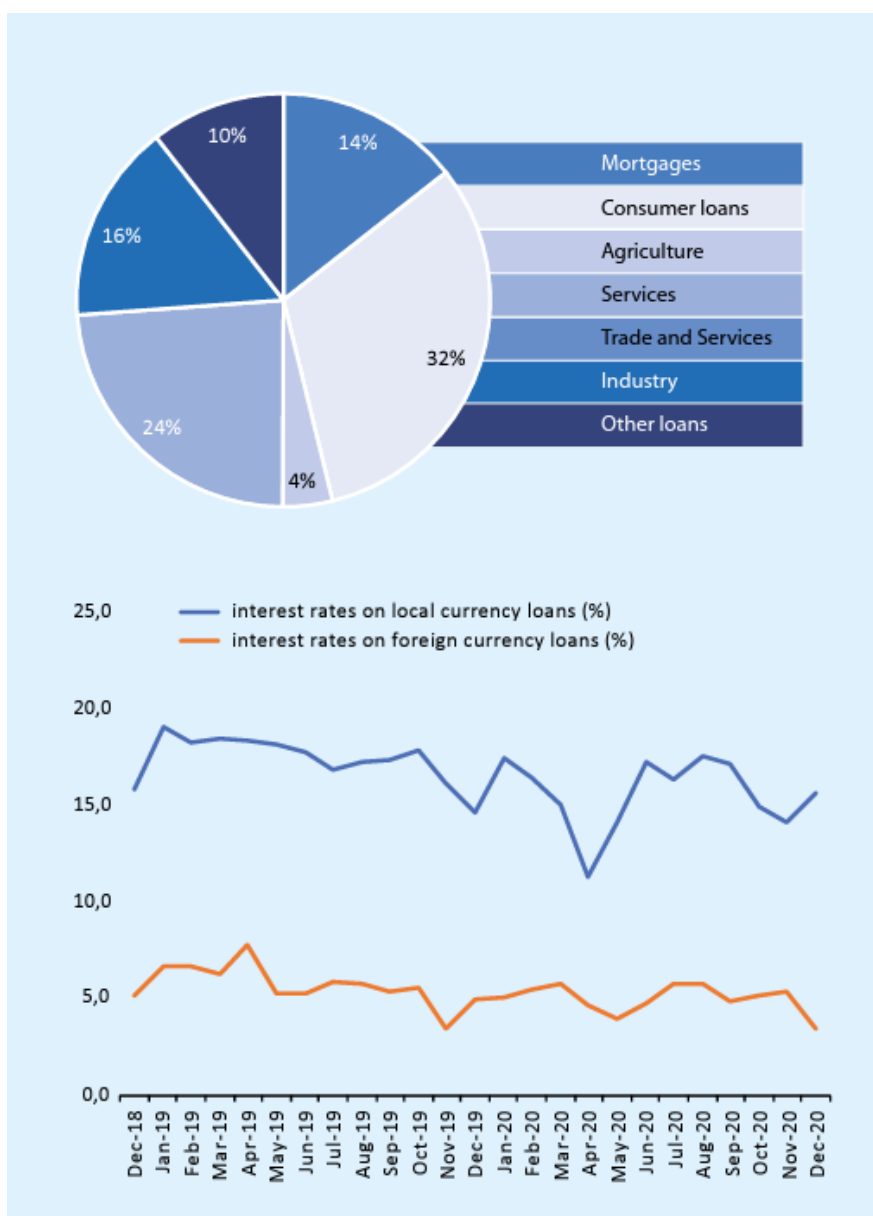
Notwithstanding the publicly falling the rate of exchange passage in the year 2017 and formally consenting the national currency to drift, the Central Bank has not presented an openly fluctuating rate of exchange. By April 2017, the USD-AZN rate of exchange has detained stable at 1:1.70. However, dollarization stays as a difficulty for the banking segment of the country. Following the devaluation of the AZN in the year 2015 through approximately 100 per cent contrary to the US dollar, dollarization flew to 82 per cent for deposits and 49 per cent for credits. Though, by the year 2015 dollarization has weakened rather both for credits and deposits yet at the closing of the year 2020 it was still at a comparatively high rate.

The dollarization might not be eradicated rapidly; it is a longstanding encounter and since the reliability in local currency upsurge it will endure to decrease additionally.

The financial and wealth management, working capital, trade finance, and loaning characterise the greatest chances for novel business expansion. Request for microfinance is growing as well, having few creditors in position. Leasing in the country is in its initial stages, yet it is a propitious vehicle aimed at corporate financing in this emerging marketplace. The greatest chances in leasing comprise production equipment, farming apparatus, medical devices, and conveyance.

Numerous Azerbaijani banks have demonstrated their interest in following correspondent relations with American banks. Furthermore, a growing quantity of private banks are attentive in enticing overseas equity investors. The European Bank for Reconstruction and Development, the International Finance Corporation, and some German financial organizations have engaged equity shares in quite a few this kind of institutions. The growing prosperity of Azerbaijan has increased interest in financial and wealth administration facilities as well.

**Figure 5: The structure of credit portfolio and the interest rates**



**Source:** [Central Bank of Republic of Azerbaijan](#)

As a final point, the banking segment in the republic of Azerbaijan is a comparatively small area of the economy having credits accounting for just 20 per cent of the gross domestic product, out of which about half are credits granted to households. Even though the precise figures on genuine non-performing loans is not accessible, the extent of unpaid loans in banks' statements of financial position specifies that the rate of non-performing loans stays as a challenge for the banking segment of the country. The other difficulty of this sector is dollarization that, while decreasing for the previous 5 years, is still at a comparatively high rate.

## **CHAPTER II. THE EFFECTS OF COVID-19 ON THE ECONOMY OF THE REPUBLIC OF AZERBAIJAN**

### **2.1 COVID-19 in Numbers: How did the Pandemic Outbreak Affect the Global Economy**

The world started to witness a hazardous realism on the first half of March, 2020 once the WHO stated novel form of coronavirus as being an epidemic (Godsell et al., 2021). Originating from Wuhan city of China, active patients speedily expanded to neighbouring countries, European region and the USA as it reached world-wide magnitudes. On the way to the official epidemic announcement, considerable economic motions from diverse channels specified that the world was sloping to an unparalleled breaking point (Louhichi et al., 2021). In sequences of indicative reports, specialists crossways proficient teams had foreseen a universal epidemic would stress the components of the world-wide supply chains and requests, by this means kindling a cross-country economic calamity owing to the exceedingly integrated economic world. In virtually all areas, the evolving chaos formed by the epidemic outdid the estimations in those reports. The disease has already infected in excess of 410 million people and caused deaths of over five million people globally (WHO, 2022), upset sources of incomes, and cost USD trillions through world-wide downturn looms (Nicola et al., 2020). In steps to detach patients and bound the spreading level of the disease, whereas extenuating the epidemic, country administrations worldwide employed rigorous actions for instance obligatory local quarantine and border closings (Louhichi et al., 2021).

The unwanted influences of the lethal disease on the world-wide economy are forward-moving gradually. The disease is foreseeable to possess a decisive function in fluctuating the worldwide economic output as the outburst endures and has resulted in restrictions on supply channels, a weakening in extraneous travel in addition to the strike and deterioration in economic action (Islam & Muyeed, 2020). Global statistical data demonstrate that, COVID-19 epidemic resulted in the worldwide gross domestic product damage of 3.4 %. Putting it in the number



viewpoint, world-wide GDP was projected at virtually USD 84.54 trillion in the year 2020, which means that a 4.5 % decline in economic development led to virtually USD 2.96 trillions of mislaid economic output (Jackson et al., 2021).

As stated by the World Economic Outlook as issued by the International Monetary Fund on October 2021, world-wide economic advancement lessened to a yearly level of approximately 3.20 per cent in the year 2020, having a retrieval of 5.90 per cent in the year 2021 and estimated recovery rate of 4.9 per cent for the year 2022. Along with that, the IMF summarized that developed economies would witness continual economic difficulties in the year 2022 on account of supply-side deficiencies and chances aimed at low-income emerging countries had shaded significantly by reason of the inequalities in the vaccination procedures and discrepancies in country administration backings. The economic slump brought about by the COVID-19 is considered being increasingly worldwide in character as compared to economic recession witnessed throughout the former world-wide financial crisis on account of its impacts on developing countries. In its latest prediction, the IMF estimated geographic areas of the world-wide economy would recuperate at dissimilar hustles, signifying discrepancies in the vaccination process, the scope of the policy backing, and numerous structural circumstances, for instance the impact of travel industry in the economy (Jackson et al., 2021).

Over the late 2021, numerous major economic and monetary indicators had recovered from the pits of the coronavirus-related economic downturn, even though not every area of the world-wide economy had improved to the pre-coronavirus levels (IMF, 2021). Along with this, a resurrection in virus-related cases and the emergence of novel and increasingly contagious tensions of the coronavirus made some establishments in the late 2021 to lessen their economic development forecasts for the year (Platt & Smith, 2021). Even though vaccination levels upsurged in numerous advanced countries, predominantly the U.S.A, developing countries fought to attain access to them, and accordingly, to have their economies functioning at or above pre-coronavirus extents. Financial marketplace indicators principally improved from the damages witnessed in third and fourth

months of the year 2020, world-wide petroleum prices exceeded the pre-coronavirus levels, burden escalating the USD had commonly relieved, and labour marketplaces seemed to be alleviating (Baker et al., 2020).

The disease has disordered world-wide supply chains, through closures or terminations of shops or lessening open hours in impacted regions. Furthermore, the quarantine undertakings have resulted in a demand-side tremor on account of limitations in movement, trade, etc. By an economic standpoint, the global economy has turned out to be indefinite and ambiguous. In June 2020, the World Bank predicted a world-wide economic downturn of virtually 8 per cent. Majority of the global financial marketplaces have witnessed record-level declines. March 2020 will endure a reference as the fiercest decline ever witnessed by financial marketplaces. An extraordinary oil crash has been seen, where the petroleum price has distorted to approximately USD 20 per barrel throughout this period. All in all, for the global economy, the coronavirus epidemic is an earthquake (Nicola et al., 2020).

The foremost economic consequence of the health disasters brought about by coronavirus has been a demand-side shudder (Louhichi et al., 2021). The suppression influences primarily impacted domestic assurance in the short-run, having a lessening in the consumption of goods not so crucial for daily life. Following these, exportations, travel segment, eateries, and entertainment sites were the primary segments being impacted. These circumstances possess the straight impact of decreasing investments as well, on account of a lessening in consumer and investor activities, brought about by high levels of ambiguity. For these reasons, trade, goods and facilities contracts, and capital movements will be dependent on considerable limitations that would establish a supply shudder, which might possess an imperative influence on the currency marketplace (Saunders & Cornett, 2011, p. 34). Furthermore, currency marketplaces possess a vital function in global finance, since counterparts implement diverse policies aimed at hedging in counter to economic acquaintance via currency offshoots. Consequently, it is beneficial to comprehend the impacts of coronavirus on the currency marketplace,

particularly since this marketplace is the biggest financial marketplace with regard to middling day-to-day exchange capacity (Aslam et al., 2020).

Along with these, additional distinguishing fact on the coronavirus epidemic denotes the extent of ambiguity. The harshness of the conditions will be contingent on the length and scope of the spreading of the virus. More precisely, stockholders can possess some uncharacteristic responses to the coronavirus outburst, which will impact their anticipations and subsequently the changing aspects of the economy. For comprehending the function of shareholder responses to the coronavirus outburst on the economic and monetary schemes, one can regard the theoretical context of behavioural finance. Remarkably, this contemporary concept of finance specifies that investor conduct impacts the changing aspects of financial resources (Ritter, 2003). Behavioural finance emphasizes that, non-rational depositors that make choices grounded on their sentiments, could impact the arbitrage of logical stockholders (Ortmann et al., 2020). From the academic viewpoint, two partialities could encourage the response of stock marketplaces to stockholders' reactions: conservatism and representativeness (Louhichi et al., 2021).

Quite a lot of researches have been carried out regarding the economic influence of the COVID-19 epidemic. The existing theory might be arranged into three components. Some researches examine reactions by commercial establishments to the epidemic and the economic outcomes of it (Mandel & Vipin, 2020; Martin et al., 2020; Gu et al., 2020; Nakamura & Managi, 2020). Further research points out the influence of COVID-19 epidemic on the goods and energy marketplaces through examining the impact on petroleum prices and their unpredictability (for instance, Apergis & Apergis, 2020; Mensi et al., 2020; Sharif et al., 2020) or through examining the stock earnings of energy companies and their performance (for instance, Kanda & Kivimaa, 2020; Vaka et al., 2020). The third column of research concentrates on the influence on monetary and economic schemes. Some works examine the influence of COVID-19 on diverse financial marketplaces (for instance, Albulescu, 2020; Zhang et al., 2020). Further research emphasizes on the efficacy of the currency marketplace and the expectedness of its

instability (Aslam et al., 2020). The other studies examine the function of cryptocurrencies with regard to “safe-havens” or hedging throughout the COVID outbreak (for instance, Conlon & McGee, 2020; Mnif et al., 2020). Additional works scrutinise the environmental influence all through the coronavirus outburst (Lian et al., 2020; Monserrate et al., 2020).

It is unquestioned that, COVID-19 has impacted societies, commercial establishments and country administrations universally, unconsciously influencing the financial marketplaces and the universal economy (Morgan et al., 2021). Ineffective administrative rejoinders and quarantine measures have resulted in a disturbance in the supply channel. For instance, in the origin country of the COVID-19 – China, quarantine regime and restrictions substantially decreased the manufacture of products from places of work, whereas self-isolation guidelines reduced consumption, demand and usage of goods and facilities (Nicola et al., 2020). Along with the disturbance in the supply channels, the capital marketplace segment has been impacted as well. For instance, in the USA, the S&P 500, a stock marketplace index, which evaluates the stock action of 500 big businesses on the USA stock exchange - Dow Jones Industrial Average and Nasdaq lessened intensely till the country administration held the CARES Act, having the indexes surging by 7.3 per cent, 7.73 per cent and 7.33 per cent correspondingly (Conlon & McGee, 2020). Besides, 10-year US Treasury bond yields have fell to 0.67 per cent (Nicola et al., 2020). In the marketplaces of Asia region, the identical route trailed with Shanghai Composite of China and KOSPI of South Korea, primarily falling then tracked through a surge in stocks upon country administrations’ backing. Along with China and South Korea, Japan's Nikkei was up 2.01 per cent (Mnif et al., 2020). The bond yields of the European region frequently weakened, reaching marketplace strain hit extents witnessed during the eurozone crisis. DAX (Germany), FTSE 100 (The UK) and the Euro Stoxx 50 were lessened, but surged considerably upon the approval of the rescue set of the European Union. Along with these, gold fell contrary to the USD by 0.65 per cent (Nicola et al., 2020).

## **2.2 Comparison of the Main Economic Indicators of Azerbaijan before and after the COVID-19 Outbreak**

The initial event of COVID-19 epidemic in Azerbaijan was confirmed in 02/2020 and preventive actions have been progressively employed by early March. The foremost impacts of the plague on the economy of the country witnessed in March. Executing obstructive actions has resulted in the disjuncture of bonds amid segments, which has made way to monetary losses. As stated by the State Statistics Committee of the Republic of Azerbaijan, in the initial two quarters of the year 2020, commercial establishments and the individual businesspersons functioning in Azerbaijan made AZN 33.80 billion, or 2.70 per cent less in real terms in comparison with the identical period in the year 2019 (Suleymanov & Abdullayeva, 2021).

In the commencement of the epidemic, the fall in the petroleum prices in the company of the expansion of infection-deterrence guidelines folded the adverse influence of coronavirus through lessening the worth of petroleum exports severely. The unpredictability in the electricity marketplace commenced to influence the economy as primary as February 2020. In the year 2019, virtually 40 % of gross domestic product was made by the mining segment and approximately 92 % of its exportation was mineral goods. The non-oil segments of Azerbaijani economy were not sufficiently robust to make allowance for the petroleum industry (Valiyev & Valehli, 2021).

### **2.2.1 Industry**

In the first half of the year 2020, industrial establishments and individual businesspersons functioning in this area made industrial goods at value of AZN 18.40 billion, or 1.5 per cent less compared to the similar period in the year 2019. Manufacture in the non-oil and gas segment surged via 11.20 per cent. The 61.60 percent of industrial production was formed in the mining segment, 32 per cent in the processing segment, 5.5 per cent in the manufacture and distribution of energy,

natural gas and steam, and 0.8 per cent in the water supply, and waste management and discarding segments.

### **2.2.2 Fixed capital investments**

In the initial six months of the year 2020, AZN 5,956 million, in other words 2.7 per cent less investment was directed to fixed properties compared to the matching period of the year 2019 from all monetary resources. The size of fixed capital rapt to the petroleum and natural gas segment surged via 17.5 per cent, whereas the extent of reserves devoted to the non-oil segment lessened via 15.5 per cent. Throughout this period, AZN 3,502 million or approximately 59 per cent of the over-all speculation was domestic reserves. AZN 3,577 million or 60 per cent of the reserves devoted to the fixed assets were expended on building.

### **2.2.3 Products and services marketplace**

In the initial six months of the year 2020, AZN 18.20 billion, counting AZN 9.70 billion worth of food, drinks and tobacco goods, AZN 8.50 billion of non-food goods were traded to the populace in the retail trading. On the whole, in comparison with the matching period of the year 2019, products marketplace revenue upsurged through 1.9% in the first half of the year 2021. In the first two quarters of the year 2020, paid facilities accounting for 3,339.90 million manats were delivered to the populace. Throughout the mentioned period, revenue by paid facilities delivered to the people lessened through 19.20 per cent in comparison with the similar period in the year 2019. In per month contrast, income from paid facilities in 06/2020 surged thru 11.8% in comparison with 05/2020.

### **2.2.4 External trade**

As stated by the State Customs Committee, in the first half of the year 2020, trade was executed with more than 160 states, and the extraneous trade revenue accounted for virtually USD 12,676 million. Approximately USD 7,686 million or 61 per cent of the trade revenue was the worth of exported goods, and USD 4,990

million (39.4 per cent) was the worth of imported goods, leading to an excess of USD 2,697 million. In the first half of the year 2020, the capacity of exportations in the non-oil- and gas segment made up USD 912 million. In this period, exportations of non-oil- and gas goods lessened through 9 per cent in real prices and 15 per cent in real terms in comparison with the first half of the year 2019 and accounted for USD 722 million. In the first half of the year 2020, the CPI surged via 103 per cent in comparison with the similar period in the year 2019, comprising 106 per cent for food, drinks and tobacco goods, 101 per cent for non-food goods and for paid facilities 101 per cent.

### 2.2.5 Employment and earnings

Consistent with the statistical information as of 1<sup>st</sup> of July, 2020, the quantity of economically active people was 5,221,600 individuals, of which 4,883,100 persons were working. In the first half of the year 2020, the middling monthly nominal salary of workers in Azerbaijan surged by 25 per cent in comparison with the same period in the year 2019 and accounted for AZN 729.

The Table 2 presents the contrast of chosen macroeconomic indicators of Azerbaijan prior to and following the COVID-19 outbreak:

**Table 2: Chosen economic indicators of Azerbaijan in 2019 and 2020 (in AZN)**

<i>Chosen economic indicators</i>	<i>2019 (before COVID-19)</i>	<i>2020 (after COVID-19)</i>
<i>GDP</i>	81,896,200,000.00	72,432,200,000.00
<i>Tax Revenue of the budget</i>	11,755,000,000.00	11,151,400,000.00
<i>External balance on goods and services</i>	10,059,399,996.05	-559,400,001.12
<i>Foreign direct investment, net inflows</i>	2,556,660,600.00	2,346,803,280.00
<i>Unemployment Rate</i>	4.84	6.27

Source: [The State Statistical Committee](#)

## **2.3 Policy Measures and Restructurings by the Azerbaijani Government in Response to the Crisis Generated by the Pandemic**

In Azerbaijan, as part of mitigating the undesirable influences of the COVID-19 epidemic, 1.99 billion manats were spent from the budget of the country in the year 2020. 612.50 million manats of this amount were distributed to pay for grants and compensations to healthcare employees, medical apparatus and materials, medications, for surging the quantity of beds at hospices and arrange the work of specific hospitals, to pay for the facilities delivered to individuals in isolation and quarantine establishments (Suleymanov & Abdullayeva, 2021).

With the aim of holding the expansion of coronavirus, the government of Azerbaijan initially established a distinct quarantine command, which comprised border closings, obliged isolation of recurring residents, prevention of mass assemblies, limitation on local travels; closing of eateries and some further public services, airfields, and transport centres; social distancing, and fumigation of public areas. The coronavirus Operational Headquarters has been formed under the supervision of the Cabinet of Ministers, and they have been given functions of designing particular actions with the intention of lessening the adverse effect of the epidemic on the commercial atmosphere of the country.

### **2.3.1 Employment-linked actions**

With the purpose of lessening the social insurance weight, the levels of compulsory social insurance contributions (SICs) for individuals stemming revenue from non-service doings were changed. For insured individuals stemming earnings from non-service activities:

- Computation of compulsory social insurance premium by 1<sup>st</sup> of April, 2020 to 1<sup>st</sup> of January, 2021, by the sum of the lowest per month wage for business action (considering the application of different interest levels per areas):
  - 25 per cent in building and trade;



- 15 per cent in further fields.
- Computation of compulsory SICs from 1<sup>st</sup> of January, 2021 to 1<sup>st</sup> of January, 2026 in the sum of lowest per month wage (considering the application of different coefficients per regions):
  - 50 per cent in the building area;
  - 25 per cent in further fields.

### **Agriculture industry**

- Compulsory SICs for every family member of persons utilizing farming lands possessed by them, contingent on the area of land commutated thru the sum of the lowest per month salary (AZN 250 = USD 147.06):
  - up to 5 ha - in the sum of 2 per cent;
  - 5 - 10 ha - in the sum of 6 per cent;
  - in excess of 10 ha - in the sum of 10 per cent.

### **Lawyers, freelance bookkeeper and auditors**

- It is predicted to regulate the social insurance weight of this classifications of persons in the total of 10 per cent upon deduction of the expenditures.
- Along with the mentioned, payments of a provisional payment to 600 thousand jobless individuals began in April, 2020 and these continued in the subsequent two months. Furthermore, social aid for backing the financial condition of the people, backing plan on the payment of utility services on electrical energy consumption for people and assistance scheme on the payment of schooling charges of students that are from socially vulnerable background were also applied as social help plans.
- Furthermore, the country administration has instructed the Ministry of Labour and Social Protection to make collective actions with companies and deliver day-to-day supervision for averting unpardonable dismissals.

### **2.3.2 Economic incentive actions**

- AZN 2.5 billion (roughly USD 1.471 billion), that is equivalent of 3 per cent of the gross domestic product, has been assigned from the government's budget to the Cabinet of Ministers to fund the actions on lessening the adverse influence brought by coronavirus on top of vacillations in the worldwide energy and stock marketplaces on the economy, macroeconomic steadiness, employment matters and commercial establishments functioning in the country.
- AZN 97 million (roughly USD 57 million) has been billed to the State Agency for Compulsory Medical Insurance from the reserve account of the country's president aimed at the supply of required medicinal apparatus and further medical resources with the intention of averting the expansion of the COVID-19 epidemic and fortify the fight in contradiction of it.
- The president of Azerbaijan has formed a fund to back the fight counter to COVID-19, to which AZN 20 million (virtually USD 12 million) was transferred, having further contributions from the public and private segments. As of 22<sup>nd</sup> of April, 2020, As stated by the internet site of the fund, the contributions transferred to the fund accounted for AZN 112, 898,697 (virtually USD 67 million).
- The country administration has provided 5 million dollars to the coronavirus fund in light of the WHO's Strategic Readiness and Response Project.
- The establishments have protracted the extensive deposit assurance until 4<sup>th</sup> of December, 2020. This covers entire deposits in both manats and extraneous currencies within a 10 (2,5) % interest rate cover.
- On 19<sup>th</sup> of March, 2020, CBAR left the refunding level unaffected at 7,25 %, yet increased the bottom of the interest rate passage (inside a de facto scheme) thru 125 bps to 6,75 %.
- CBAR with the partaking of the State Oil Fund, has directed planned and unique foreign exchange sales, and has fulfilled all requests for foreign currency at the proclaimed 1.70 AZN-USD level.

The payment of a portion of the wage of workers and financial backing to individual businesspersons in action segments impacted by the epidemic. The subsequent measures are amid the undertakings employed with the intention of backing economic development and commercial activities throughout COVID-19 epidemic:

- Financial backing package in the sum of AZN 215 million (roughly USD 126.50 million) aimed at the payment of earnings to 300 thousand salary recipients in the industries impacted on account of epidemic (intended for averting job dismissals);
- Financial backing package in the sum of AZN 80 million (virtually USD 47 million) aimed at 300 thousand individual businesspersons functioning in the industries harmfully impacted on account of epidemic (intended for protection of the employment). The plan was implemented to the taxpayers that made tax, obligatory SIC and redundancy insurance payments in the year 2019.
- It must be further stated that, aforementioned financial backing plans were intended for rectifying the harm to businesspersons and the payment of wages in the industries of the country's economy (20 industries) influenced due to COVID-19 epidemic.

### **Government credit and guarantee for backing the economy and commercial establishments**

Loan-guarantee backing plan for credits in the sum of AZN 0.50 billion (USD 294.10 million) being delivered to commercial establishments (together with SMEs) functioning in the sectors harmfully influenced by the epidemic in the application of the subsequent actions:

- government guarantee aimed at 60 per cent for novel credits in the sum of 500 million manats (USD 294.10 million);

- backing 50 per cent of the interest on these credits from the government budget;
- formation of a mechanism aimed at delivering unsecured micro-credits in the farming industry by the Agrarian Credit and Development Agency. In light of this course 30 million manats (virtually 12 million U.S. dollars) have been assigned.

Moreover, distribution of further reserves to the Entrepreneurship Development Fund in the sum of 50 million manats (USD 29.40 million) was completed in fourth and fifth months of the year 2020. The plan backed businesspersons with the current credit portfolios that functions in the influenced industries by the plague as well. The country administration subsidized ten per cent of the interest expenditures of these credits for twelve months and for this determination one billion manats (roughly USD 588 million) were assigned.

### **Encouraging actions projected by the CBAR**

Measures concern wider frameworks, comprising issues regarding the reforming of commercial credits delivered thru resources of the government reserves, the reformation of mortgage credits delivered to persons thru the Mortgage and Credit Guarantee Fund of the country in addition to thru backing of partakers of the insurance and investment marketplaces.

### **Support of persons and commercial establishments**

The private commercial establishment, comprising persons involved in commercial activities were provided with the chance to rearrange credits (of acceptable excellence, and having interests funded by the government) delivered to them till 1<sup>st</sup> of March, 2020, short of weakening their excellence. Additionally, in circumstance of complete or fractional postponement in corporate and consumer credits (main or interest rate amount), credit establishments were directed not to charge a fine, penalty and further outgoings from the debtors and not deteriorate their loan history until 30<sup>th</sup> of September, 2020.

## **Lessening the controlling weight on banks, growing the loaning opportunities and upholding monetary sustainability**

With the intention of encouraging non-cash payment facilities and lessen outlays, considering the reduction in economic action and earnings of commercial establishments and individuals, along with the undesirable influence on indicators of the utilization of payment facilities until 30<sup>th</sup> of September, 2020.

- lessening of facility charges levied thru banks in interbank payment schemes up to 50 per cent until 3<sup>rd</sup> of September, 2020,
- in an alike custom, reduction of rates for payment facilities delivered to clientele by banks,
- lessening of obtaining charge equal to 50 per cent till 3<sup>rd</sup> of September, 2020 with the intention of lessening the cost of receiving of payments with cards by commercial establishments.

## **Backing of partakers of investment markets**

Baku Stock Exchange (BSE) did not levy charges to issuers of business bond till 1<sup>st</sup> of January, 2021 and minimalize the quantity of credentials compulsory for insertion of securities thru the mass bid technique.

## **Additional actions**

It must be stated that the actions are intended for making steps to present a novel model of economic development in the post-epidemic period as well. Building, extraction, petrochemical sector, digital economy, conveyance, trading, logistics, communications, farming and processing segment and local travel industry will be the foremost significances of the economic strategy of the country in this phase. In light of the restructurings for advancing the state assets administration scheme, State Investment Holding will be created for managing the firms from the sole centre in the best interests of the government, upsurge transparency and economic efficacy of their action, counting venture agendas, and

guarantee competitiveness. A novel denationalisation plan will be established as well. Along with that, with the intention of establishing a novel mechanism aimed at the progress and application of strategic plans in the building industry, the Azerbaijan Construction Corporation (ACC) will be formed for hastening the advancement of towns and regions. This organization will make sure longstanding administration of the range of strategic schemes, the formation of novel plans, enticement of depositors and the application of a preliminary plan. To end with, the pertinent regulation will be adjusted to form a constructive atmosphere for the extension of public-private partnership (PPP).

## **CHAPTER III. THE INFLUENCES OF COVID-19 ON THE BANKING SYSTEM OF THE REPUBLIC OF AZERBAIJAN**

### **3.1 COVID-19 versus the Banking Environment: How did the Pandemic Influence General Banking Climate in Azerbaijan**

As it was for further segments of the economy of Azerbaijan, the year 2020 was filled with difficulties for the banking segment. The lessening of economic motion to the lowest on account of the yearlong coronavirus epidemic limitations did not side-step the banking industry. Therefore, input of the banking segment to the economy turned to be more restricted, and by reason of deteriorating proceeds - access to banking capitals turned out to be more problematic.

The most striking happening in the banking industry in the initial year of the COVID-19 outbreak was the termination of 4 banks. On April 27, the Board of the CBAR stated numerous decisions shifting the control of the management of Atabank OJSC, AGBank OJSC, NBCBank OJSC and Amrah Bank OJSC, comprising the general meetings of the stockholders of the banks, to a temporary superintendent. CBAR cancelled the authorizations of Atabank OJSC and Amrah Bank OJSC on April, 2020, and AGBank OJSC and NBCBank OJSC on May 2020 (Aliyev, 2021).

Following those terminations, the totality of banks functioning in the country declined to 26. Even though the occurrence concurred with the epidemic, the origin of the difficulty in fact originates from the piercing devaluation of the currency, which happened in the year 2015. Th banks were faced with the perilous complications and virtually three of them were enforced to leave the marketplace. Some of the lasting banks accordingly failed over the following five periods in their efforts to remain afloat. CBAR specified that the over-all investment of four banks declined not just under the smallest standard set by the CBAR - AZN50 million - yet in point of fact to the negative. To put it other way, no less than AZN 677 million is obliged for these banks to function according to the regulation. This issue stayed unsettled in the post-devaluation period, a consequence of the

catastrophe of the Financial Market Supervisory Authority that functioned as a controlling body in between the years 2016 and 2019, to interfere in a timely basis.

CBAR set off to reinforce the banking segment upon its supervisory authorities were given back in November 2019. It was impracticable to spread the Law on Full Deposit Insurance upon initial governmental selections were called, and the choice to terminate the aforementioned banks had to be postponed as the failure to spread this regulation would cause most of the investors having no recompense. In third month, upon the establishment of the novel parliament, the regulation was prolonged for additional three quarters and the 4 banks were terminated in fourth month. From this standpoint, it is hard to relate the choice to terminate these banks with the impacts of the epidemic.

Nevertheless, it would be illogical not to distinguish the effect of the plague on the banking industry of the country. Official figures and reports of the banks evidently display that the banking segment that had just improved from the influences of the devaluation, is witnessing novel difficulties. Above all, the positive tendency was experienced in this industry in the years 2018 and 2019, yet there was a negative tendency in the year 2020, supporting this supposition.

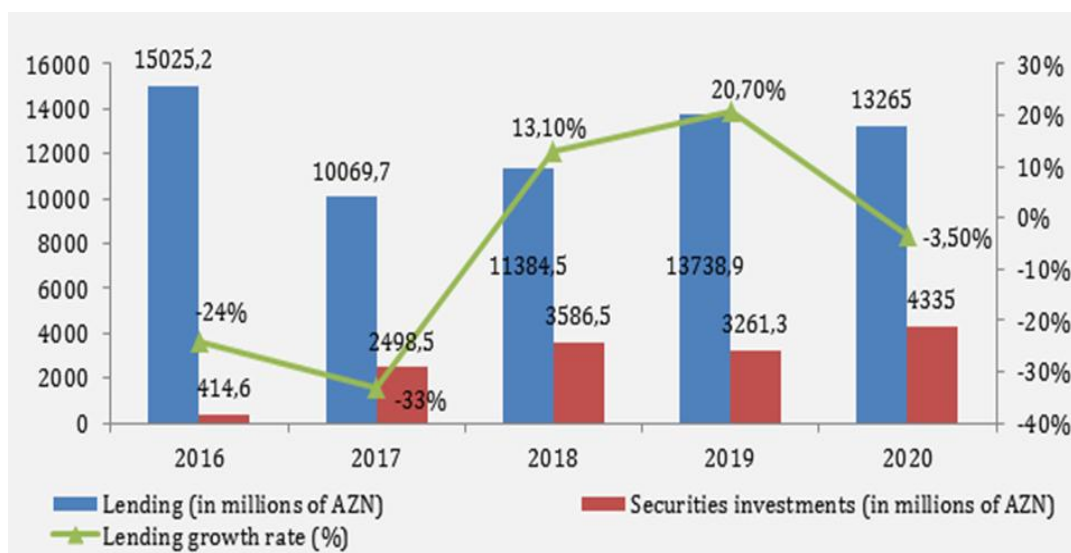
### **3.1.1 Decline in banks' credit operations**

Following the recuperating from the currency devaluation took place in the year 2015, banks enlarged their loaning operations beginning in the year 2018, and even managed to upsurge their over-all loaning thru 36 per cent in the years 2018 and 2019. The subsequent year though, marked a novel loan crisis. As stated by the Central Bank, in the year 2020, the net loaning of banks lessened via 3.50 per cent from AZN 13.70 billion to AZN 13.30 billion (see Figure 6).



Inside the outline of stringent isolation actions, a mechanism of government backing was inaugurated for averting a piercing weakening in loaning. The backing for loaning was conditioned by the Resolution № 249 of Cabinet of Ministers dated 9<sup>th</sup> July, 2020. On numerous actions for delivering government backing aimed at loans to commercial establishments for lessening the adverse effect of the COVID-19 outburst on the economy of Azerbaijan. These actions deliver a government assurance on bank credits to be attained by businesspersons and a funding for a share of the interest accumulated on these credits. In the framework of the government support plan, in the year 2020 banks restructured 1.20 billion manats in credits owing to the epidemic.

**Figure 6: Banks' net lending and investment in securities in 2016-2020**



**Source:** Central Bank of the Republic of Azerbaijan

In the year 2020, the development level of loaning was unbalanced. In the initial quarter of 2020, namely prior to the lockdown was stated, there was an upsurge of 2.60 per cent in loaning, even though in the subsequent quarter - throughout the stringent lockdown limitations there was a reduction of 7 per cent. The comparative upsurge (2.3 per cent) witnessed once more in the June-August was substituted by a reduction (1.1 per cent) in the concluding quarter.

The foremost backing for loaning derived from banks possessed by government. Contrary to 8.40 per cent upsurge in loaning by government-owned banks, loaning by privately-owned banks lessened thru 7.80 per cent. Consequently, the market share of government-owned banks in over-all loaning surged by 16.70 per cent to 19.10 per cent. The IBAR (9.90 per cent) solely made up the surge amid government-owned banks. Additional government-owned bank - Azer Turk Bank, declined loaning thru 10.2 per cent. An examination of particular banks demonstrates that the influence of the epidemic on bank loaning action was diverse. The foremost banks, which abridged loaning in the country in the initial year of the pandemic were AFB Bank (reduction of 61.30 per cent), VTB (47.10 per cent), Xalqbank (19.40 per cent), Yapi Kredi (20.20 per cent), and Accessbank (17.70 per cent). Solely Kapital (19.50 per cent), Pasha (16.50 per cent), Gunay (20.10 per cent), and Rabitabank (12.30 per cent) could substantially upsurge their loan portfolios. In general, 50 per cent of the banks functioning in the country upsurged their loaning and 50 per cent of them lessened it.

The amplified risk of manat's devaluation did not bring about the dollarization of loaning. Quite the reverse, throughout the year 2020 the portion of credits in AZN surged from 65.40 per cent to 70.20 per cent. The reason behind the reduction in the dollarization is the Resolution № 249 of the Cabinet of Ministers. On numerous actions for delivering government backing for loans to commercial establishments for lessening the undesirable influence of the COVID-19 plague on the economy of the country. These directions are just relevant to bank credits, which businesspersons take in AZN. Considering this, banks endured to release credits in manats for attaining government guarantees and interest subventions.

Above all, banks have endured the strategy of the earlier 5 periods of not loaning, favouring to capitalise the reserves "protected" in securities. The enticement of capitalising in securities for banks has upsurged substantially in current periods, having approximately 10 to 13 per cent of their resources going in that course. From the year 2016 to the year 2020, banks' reserves in securities

upsurged in excess of ten-fold. Speculation in this extent lessened via 9.10 per cent in the year 2019, yet upsurged once more thru 32.90 per cent in the year 2020 (Figure 6). This demonstrates that, with the intention of defending their reserves, banks favoured inertly instead of aggressively funding the people and companies, capitalising their assets mostly in the securities of the Ministry of Finance and the CBAR that are more trustworthy.

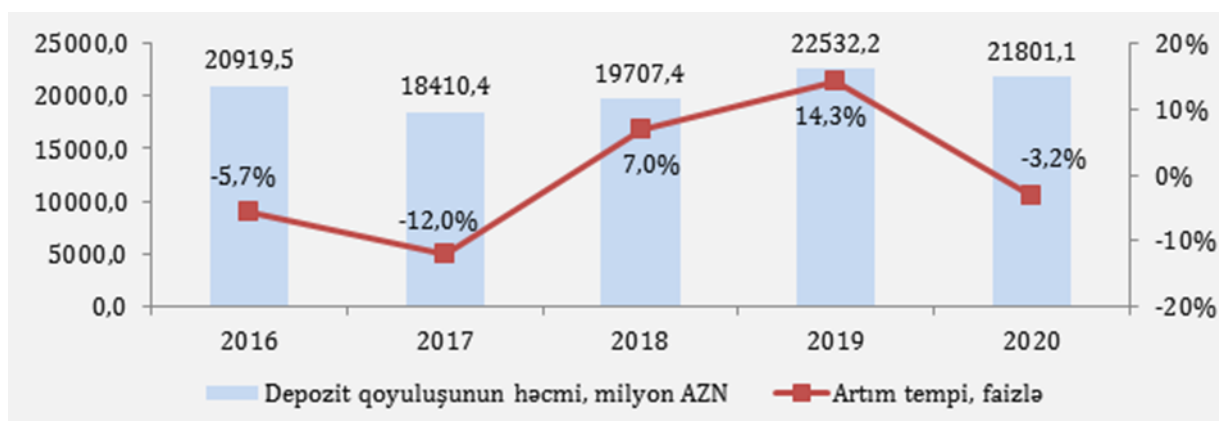
### **3.1.2 Reduction in the deposits**

In third month of the year 2020, contrary to the backdrop of a piercing decline in petroleum prices on global marketplaces, the upsurged possibility of a currency deflation impelled the people to take out a specific volume of their reserves from banks, and to convert for USD or EUR. The choice to terminate 4 banks the subsequent month (April) trembled the deposit marketplace for another time. Notwithstanding mentioned shockwaves, 2020 lessening in the deposits accounted for just 3.20 per cent, as demonstrated by Figure 7.

In actual datum, the period began sound for the deposit marketplace, and in first two months there was an upsurge in deposits by 474.70 million manats. In the third month, nevertheless, gossips regarding a devaluation impelled the extraction of deposits from banks. In contrast to this, the deposit portfolio of the banks functioning in the country lessened by 981.70 million manats in March and 619.30 million manats in the following month. The reduction lingered in May (26.70 million manats) and June (810 million manats). Increasing petroleum prices on global marketplace enhanced the assurance in rate of exchange constancy, resulting in a comparative stillness in the deposit marketplace. In July and August, there recorded an upsurge of 161.50 million manats, which might be due to the re-depositing of the recompense acquired from the bank terminations at further banks. In September and November, though, throughout the patriotic war in Karabakh region with Armenia, deposits once more fled the banks. All through this period,

the size of deposits reserved from banks accounted for approximately 300 million manats. There was a remarkable upsurge in deposits via 6.10 per cent or 1.4 billion manats in the last month of 2020.

**Figure 7: Fluctuations in the banking sector’s deposit portfolio in 2016-2020**



Source: Central Bank of the Republic of Azerbaijan

Looking at the structure of deposits, it is notable that there was a reduction of 10.60 per cent in the deposits of financial establishments, 5.50 per cent in the deposits of the populace, and 1.10 per cent in the deposits of legal establishments. The likelihood of a devaluation of manat and limitations on the sale of USD in the country did not possess an adverse influence on the currency assembly of the deposits. Notwithstanding temporary strain in the external exchange marketplace, the portion of the local currency in overall deposits surged in the year 2020 from 39 per cent to 43.6 per cent on account of the reserves of the people and commercial establishments. Throughout this period, the extent of dollarization in financial establishments’ deposits upsurged by 66 per cent to 68 per cent. reserves in the AZN endure attractive as a result of complete assurance and less yearly interest rates on external currency reserves. The foremost aspect is the low likelihood of manat’s devaluing.

In the year 2020, some banks functioning in the country upsurged their deposit portfolio, despite the fact that others were obliged to lessen it. In consort with big banks for instance Pasha (12 per cent), Kapital (17.6 per cent), and Rabitabank (9 per cent), Azerbaijani banks for example Nakhchivanbank (48.80 per cent), Gunay Bank (15.80 per cent), and banks having extraneous capital for

instance Ziraat Bank (77.3 per cent) and VTB Bank (27.7 per cent), could upsurge their portfolios as well. The deposit portfolio of the branch of the National Bank of Pakistan, which is the smallest bank in the country increased seven-fold.

The biggest deposit losses took place at AFB (70.90 per cent), Bank Respublika (37.30 per cent), Expressbank (31.90 per cent), Yelo (25.20 per cent), Eurasia (18.20 per cent), and Muganbank (16.70 per cent). In total, the deposit portfolios of 16 banks reduced, despite the fact that 10 banks surged their deposits.

The banks functioning in Azerbaijan stay reliant on deposits. The portion of deposits in the over-all obligations of banks lessened in the year 2020 from 80.10 per cent to 79.30 per cent. Nevertheless, there has a recording of a rising tendency in the preceding 5 periods.

### **3.1.3 Even bigger attentiveness of capitals**

One remarkable aspect of the epidemic is the upsurge in emphasis on the banking industry. The focus has surged especially in bank assets, loaning, and deposits.

In 2020, the over-all assets of banks in Azerbaijan lessened by 2 per cent, yet the concentration has surged. The market share of the 5 biggest banks in Azerbaijan surged from 67.2 per cent to 72 per cent, which is the uppermost figure recorded in the current years. Kapital Bank (26.2 per cent) and Pasha Bank (15.6 per cent) could momentarily upsurge their assets and these banks possessed a major part in surging the concentration. These banks are amid the 5 biggest banks in Azerbaijan with regard to market share in the bank industry. The weakening in resources of the further 3 banks in the highest five (i.e., International Bank of Azerbaijan, Xalq Bank, Bank Respublika) might not prevent the upsurge in emphasis.

The extent of attentiveness in deposits surged by 67.80 per cent to 71.80 per cent. In contradiction of a milieu of decreasing over-all deposits, the upsurge in them in big banks underwired emphasis. As an instance, 4 big banks (IBAR,

Pashabank, Kapital, and Xalq Bank) made up 84.60 per cent of the over-all upsurge in deposits of 6.10 per cent, or 1,369.80 million (in AZN), noted in the last month of 2020.

The extent of emphasis in loaning upsurged from 61.40 per cent to 67.30 per cent. Notwithstanding the weakening in loaning in the country, loaning of 5 biggest banks surged by 422 million AZN, causing an upsurge in market share.

#### **3.1.4. Some apparently constructive tendencies**

In terms of the detailed view, it is factual that in the year 2020, there were numerous constructive tendencies in the banking sector of Azerbaijan as well. As such, banks upsurged their capital through 2.5 per cent, the quantity of bank branches upsurged by 16 (from 439 to 455), the quantity of workers surged from 18,391 to 18,708, and so forth. Unquestionably, it would be pleasant to accept that these inclinations were driven straight from the actions of the banks, however an examination displays that in some cases these trends are the products of government backing (Aliyev, 2021). As an instance, the net profit of banks upsurged through 5.8 per cent in comparison with the preceding year (2019). Nevertheless, throughout this period, net profit of just 7 banks upsurged, and only one bank was capable of decreasing losses. The net profit of 18 banks lessened. The upsurge in net profit was on account of a substantial reduction (60 per cent) in the sum of special reserves formed to make allowance for conceivable losses on resources. For the reason that in comparison with the year 2019, the operating profit of the banks lessened through 5.30 per cent. The decline in the special reserves is by reason of the comparative simplification of loan rearrangement and asset cataloguing necessities on account of the government backing strategy.

### 3.1.5 Financial results of the banks in the year 2021

The financial consequences of banks operating in Azerbaijan in the second year of the pandemic (i.e., 2021) are represented by the below table:

**Table 3: Financial results of banks functioning in Azerbaijan as of 31 December 2021**

#	Name of the bank	Net Profit (AZN)	Net Loss (AZN)
1	AccessBank	1,106,000.00	-
2	AFB Bank	9,303,000.00	-
3	International Bank of Azerbaijan	208,780,000.00	-
4	Azerbaijan Industry Bank	2,228,000.00	-
5	Azer-Turk Bank	546,000.00	-
6	Bank Avrasiya	793,000.00	-
7	Bank of Baku	23,060,000.00	-
8	Bank BTB	546,000.00	-
9	Bank Respublika	19,523,000.00	-
10	Bank VTB (Azerbaijan)	4,213,000.00	-
11	Expressbank	7,701,000.00	-
12	GunayBank	410,000.00	-
13	Xalq Bank	27,289,000.00	-
14	Kapital Bank	179,963,000.00	-
15	Baku Branch of Melli Iran Bank	-	1,024,000.00
16	Muğanbank	1,552,000.00	-
17	Naxçıvanbank	6,301,000.00	-
18	Yelo Bank	11,733,000.00	-
19	Baku branch of Pakistan National Bank	-	407,000.00
20	Pasha Bank	90,180,000.00	-
21	Premium Bank	1,935,000.00	-
22	Rabitəbank	2,725,000.00	-
23	Turanbank	668,000.00	-
24	Unibank	4,688,000.00	-
25	Yapı Kredi Bank Azerbaijan	-	931,000.00
26	Ziraat Bank Azerbaijan	7,033,000.00	-

**Source:** Author's analysis based on the financial reports of the above-mentioned banks

As demonstrated by the table above, in 2021, majority of the banks (23 of them) operating in Azerbaijan closed the financial period in net profits, while only

3 of them finished the year in net loss. Of the 3 banks that closed the financial year in net loss, two are branches of foreign banks in Azerbaijan. In general, the net profits of Azerbaijan's bank sector amounted AZN 612,276,000, and net loss accounted for AZN 2,362,000.

### **3.2 The Impacts of the Pandemic on the Overall Business Climate of Azerbaijan**

In the year 2019 ease of doing business report of the World Bank Group - prior to the COVID-19 outburst - Azerbaijan was ranked on the 25<sup>th</sup> place with a score of 78.64 amongst 190 countries. The country was one of the economies demonstrating the most distinguished enhancement in performance on the Doing Business indicators globally. In Europe and Central Asia (ECA) region, Azerbaijan employed eight restructurings, which made it easier to do business in this period, displaying a record number amid the top 10 reformers, also globally. The country opened a single window at the Baku City Executive Office aimed at managing construction licences, for instance, dropping the time to acquire a construction licence by 80 days and the costs by AZN 12,563 (approximately USD 7,500). Additional one-stop shop- the ASAN Communal facility - modernized the procedure of joining to the electricity network. The country enhanced the steadfastness of the electricity supply through capitalizing in grid substructure and creating a local supervisory body for monitoring energy outages. With the aim of enhancing the access to credit, the country formed a novel credit bureau and a novel incorporated collateral registry. The country reinforced access to credit via presenting a novel secured transactions legislation and insolvency regulation that employed a functional safe transactions scheme, and extended the scope of properties, which might be utilized as security. Moreover, the country set up an amalgamated, up-to-date and notice-grounded collateral registry, and enhanced entree to credit data through forming a novel credit department. These



improvements made the business environment in the country improve, accompanied by the over-all economic enhancements.

In the year 2020 - the first year of the COVID-19 pandemic - however, Azerbaijan was ranked 34<sup>th</sup> in the same Ease of Doing Business report of World Bank Group. In the mentioned report, Azerbaijan got the score of 76.7, decreasing by 1.94 points and 9 places. Consistent with the report, the country made paying taxes more problematic through introducing a new labour contribution. This displays that, the ease of doing business in the country was obviously better in the previous year.

In the year 2020, numerous segments of the economy of Azerbaijan were impacted by the outburst of the pandemic and those sectors are still recovering from the financial damages. Deloitte Azerbaijan carried out survey research amid Azerbaijani businesses in February-March, 2021, with the aim of comprehending the influences of the COVID-19 pandemic on the operations and performance of those businesses. 24 per cent of the survey respondents were businesses involving in Banking & Financial Services sector. 14 per cent of the survey respondents stated that, they wholly altered their firm's strategy throughout the COVID-19 epidemic, whereas 64 per cent presented slight alterations. Majority of respondents stated that (52 per cent), on account of the COVID-19 pandemic their businesses decreased. 44 per cent of the respondents stated that their business was not influenced by the COVID-19 pandemic, and just 4 per cent stated that their business has recorded a growth during the first year of the COVID-19 outbreak. 58 per cent of the companies stated that they are declines in sales, half of the respondents stated that they are beginning to limit expenditures as a result of the uncertainty caused by the coronavirus pandemic. 48 per cent of the Azerbaijani businesses stated that, their supply chain has been interrupted by means of COVID-19 and 44 per cent of them have changed their hours of operation.

44 per cent of the commercial establishments functioning inside Azerbaijan think that it will take 1 to 2 years to recover their commercial operations from the effects of the pandemic and get back to pre-pandemic conditions. 17 per cent think

that it will take 2 to 5 years, and 39 per cent think that their business needs less than a year to recover from the impacts of coronavirus. Of the survey respondents that anticipated their businesses to recover in less than a year, 72 per cent make up to AZN 10 million in proceeds.

Notwithstanding the COVID-19 outburst, 42 per cent of businesses did not face substantial vicissitudes to their statements of financial position. Nonetheless, 26 per cent of businesses were rather negative on alterations to their statements of financial position. Correspondingly, 16 per cent and 24 per cent of businesses anticipate their business's income in the subsequent six months to either decline to some extent or not to be impacted by COVID-19. In the interim, 20 per cent of businesses believe that on account of COVID-19, their income would upsurge through 5 per cent; another 20 per cent accept that their income would decline through 5 per cent. Conversely, 22 per cent of businesses anticipate their incomes to lessen from 5 per cent to 10 per cent in the subsequent year as a consequence of the coronavirus pandemic. Through the succeeding financial period, 56.3 per cent of firms plan to prioritize cost lessening stratagem for recovering from the impacts of the COVID-19 plague.

These signify that over-all the business climate in Azerbaijan was adversely impacted by the COVID-19 pandemic, specifically in the initial year of the coronavirus outburst. Majority of the companies operating in the country have altered their strategy on account of the pandemic. With the aim of mitigating risks and uncertainty imposed by the pandemic, commercial establishments in Azerbaijan have a tendency to implement cost reduction stratagem. From these, it can be said that the pandemic has adversely impacted the commercial environment in the country.

### **3.3 Strong and Weak Points of Banks During the Global Pandemic**

Since the influences of the COVID-19 epidemic linger to resonate, banks possess a function to act as systemic stabilisers. These institutions have by now employed a sequence of undertakings in response to the outburst of the COVID-19

plague. Apart from instantaneous and rudimentary actions, banks must arrange undertakings tailored to the specific marketplace strains and the ways they impact the local and international marketplace. It is unquestioned that, bigger banks possess more assets, more liquidity and are less leveraged, that enabled them to cushion, instead of intensify the macroeconomic shudder. The financial market infrastructures (FMIs), predominantly central counterparties (CCPs), operated as projected. Nevertheless, the epidemic experience emphasised discrepancies in liquidity inside and across financial segments as well. Major financing marketplaces witnessed severe pressure in the year 2020, imposing authorities to make pivotal and unparalleled steps for sustaining the supply of funds to the real economy, deliver financial backing, ease USD funding scarcities, and back the running of the marketplace. An extensive sequence of monetary, fiscal, regulatory and controlling actions mitigated the influence of the coronavirus crisis on the financial scheme of Azerbaijan. Considering jurisdiction-precise conditions and requirements, country administration largely utilized the flexibility inside global norms for backing the funding to the real economy. In some situations, separate provisional measures have gone apart from the existing suppleness, with the intention of reacting to risky financial circumstances and deliver added functioning suppleness to financial establishments. The banks operating in Azerbaijan had both the weaknesses and strengths throughout the outburst of the COVID-19.

Undoubtedly, one of the weakest points of banks operating in Azerbaijan was to manage the operations online, having the branches closed. Initially, there were stringent measures on the number of people that could visit the branches, which caused negative feedbacks by the customers. In addition, when the COVID-19 outburst was experienced in Azerbaijan, some banks made it problematic for customers to take off their dollarized deposits or remaining amounts on their accounts. This was majorly due to the uncertainty amid both the customers and the banks regarding the potential financial problems as opposed by the pandemic.

Another weakness of banks was witnessed in the face of credit management. The cashflows of numerous customers and commercial establishments were

distorted as deficiency of demand streams over decreased commercial proceeds and worker redundancies. These actions in return resulted in an upsurge in commercial and non-performing retail credits, since debtors failed to make planned interest rate and main amount payments. Nevertheless, there are actions banks took for alleviating this, for helping their clienteles endure, and possibly for arising with sturdier client relationships:

- Introducing credit tolerance and alteration agendas;
- Being ready for losses;
- Encompassing credit;
- Digitizing for handling the request for refinancing.

Income compression was another weakness banks experienced as a consequence of the pandemic. In initial weeks of the second quarter of the year 2020, the banking sector market value dropped to a low-levels, since the marketplace has factored in short-term income compression from manifold sources comprising:

- Lesser net interest rates;
- A decrease in payments income;
- A reduction in trade finance and cross-border payments.

Some banks operating in Azerbaijan did not possess appropriate risk management strategy and majority of them did not possess crisis management approaches when they were faced with the financial difficulties imposed by the pandemic. This is the other weakness of the banks operating in the country. As Azerbaijani banks contended with numerous challenges imposed via the COVID-19 crisis, it is obvious that, regardless of the ultimate consequence, they learnt and continue to learn numerous beneficial lessons regarding their clienteles, their own competences, and the financial marketplace in total, which will support them well in the approaching years.

Along with the weaknesses, banks operating in Azerbaijan had strong points throughout the financial challenges imposed by the COVID-19 outbreak. Above all, banks were quick in their responses, and accordingly made immediate actions to digitalize their operations. Most of the banks in Azerbaijan improved their call centres, websites, mobile applications, as a response to lockdown measures undertaken by the government. In addition, attributable to the decreased use of cash, Azerbaijani customers started utilizing increased quantity of credit and debit cards, which enabled banks to improve this line of their services. As a consequence, lots of banks introduced novel bank products - such as universal cards (single cards that carry both debit and credit card functions) with the aim of being competitive and win over their rivals. The innovative universal cards are currently being provided with no initial fee by the LeoBank - which is owned and managed by UniBank.

Some of the banks, especially large banks included Artificial Intelligence on their apps, e.g., chatbots. As banks introduced more digital operations and solutions, the risks of digital fraud upsurged, and with the aim of averting these, banks employed biometric fraud detection systems, which resulted in high-quality facilities for a wider client base. Along with these, for the reason that banks were forced to digitalize and modernize their operations, they hired highly skilled staff, who can handle digital operations in excellence. As a consequence, banks currently employ highly competent staff, quick responses to alterations, and modernized operations to meet customer requirements with quality and in timely manner.

### **3.4 How did the Pandemic Affect the Operations of Banks Functioning in Azerbaijan: Original Survey Results**

With the intention of comprehending the direct and observable impacts of the pandemic on the operations of banks functioning in Azerbaijan, this dissertation carried out original survey-based research. The target population of this survey comprises employees of the all 26 banks operating in Azerbaijan. The

sample comprises 20 employees of 20 different banks functioning in Azerbaijan. The participants were chosen and contacted via LinkedIn professional network and e-mail. The utilized online tool was Google Forms, which was shared with the questionnaire respondents through the weblink. The survey research was carried out during January and February of the year 2022. With the aim of protecting confidentiality, the names of the survey participants, and the names of their organizations were not asked. The survey research comprises 13 questions, of which 12 questions are multiple-choice and one is open ended. The questions are indicated on the [Appendix A](#).

The initial question on the survey asked respondents if their bank has experienced operational challenges on account of the pandemic, and all the survey participants answered with a solid “Yes”, meaning that, the banks operating in Azerbaijan has faced substantial operational challenges. In contrast, when asked about the financial challenges that their operations have faced, only 30 percent of the respondents (6 banks) indicated that they have faced financial complications on account of the coronavirus. The majority of the survey partakers accept that the primary challenge that their bank has witnessed is the demand-side challenges (8 respondents, 40 per cent); 6 respondents indicated that the foremost challenge to their bank was financial challenges (30 per cent); 5 respondents stated that the primary challenge for them was operational difficulties (25 per cent); only one respondent indicated that, the chief complication for their bank was the technological challenges. Demand-side challenge can be owing to the fact that in the initial year of the pandemic outburst, people in the country lost jobs, and accordingly could not use the products (mainly credits) of the banks on account of the uncertainty and risk avoidance.

When asked about the alterations to their revenues, 9 respondents (45 per cent) specified that, there is a significant difference amid their revenue before the COVID-19 outbreak (2019), and in the initial year of the pandemic (2020). 13 questionnaire respondents stated that, there is a momentous alteration amid the

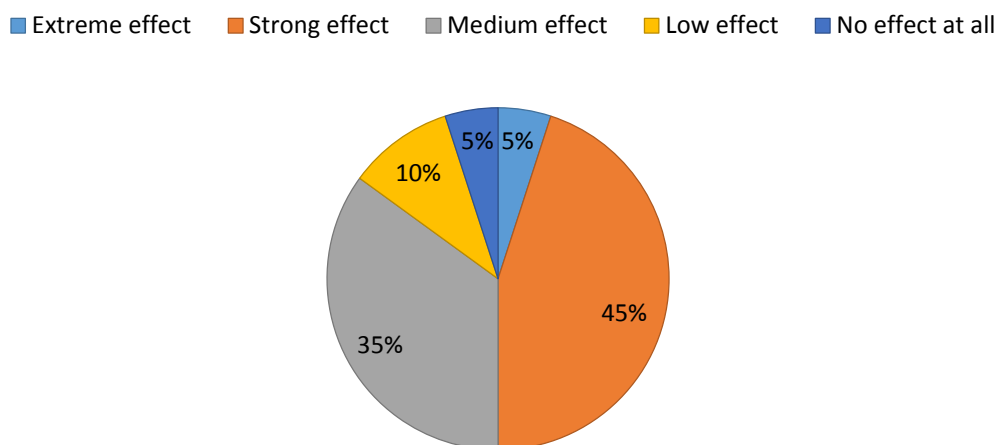
operating expenses of their bank before the pandemic outbreak (2019), and in the initial year of the pandemic (2020).

Almost all the respondents indicated that (19 respondents – 95 per cent), their revenue has grown in the year 2021, in comparison with the outcomes of the year 2020. This might be due to the ease of the lockdown measures in the second year of the pandemic, and people regaining jobs. Majority of the questionnaire participants (80 per cent) stated that, their operational expenses did not upsurge in the year 2021.

The bigger quantity of questionnaire partakers indicated that, their organizations have not made any risky move or decision throughout the course of the pandemic outburst (85 per cent).

When asked about the overall impacts of the pandemic outbreak on their organizations, majority of the respondents (45 per cent) indicated that, pandemic had a strong effect on them (Figure 8)

**Figure 8: The overall effect of the pandemic on banks on the 5-point scale**



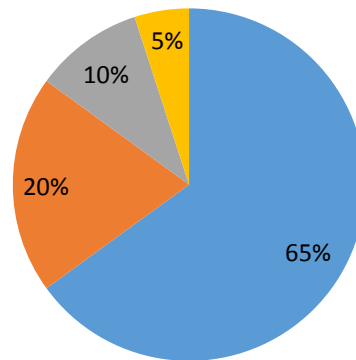
**Source:** Author's survey results

When asked if they think their organization is able recover from the effects of the pandemic, the survey outcomes demonstrated positive results, since majority of the respondents (90 per cent) think that their organization will improve from the effects of the pandemic. When asked on how long it will take for their organization

to recuperate from the influences of the COVID-19 outbreak and regain the pre-pandemic conditions, the results were as below:

**Figure 8: How long it will take for banks to recuperate from the influences of the COVID-19 outbreak and regain the pre-pandemic conditions?**

■ Less than twelve months   ■ 1 to 2 years   ■ 2 to 5 years   ■ 5 to 10 years



**Source:** Author's survey results

When asked if their organizations have altered operations as a consequence of the COVID-19 pandemic, 90 per cent of the respondents stated that, their banks have altered their operations. The open-ended question asked the areas of alterations, and the common answer was the technological improvements and remote working options for the employees.



## CONCLUSIONS AND RECOMMENDATIONS

This dissertation made thorough research on the influences of the COVID-19 pandemic on the economy of Azerbaijan, predominantly the banking industry. In doing so, the research analysed the global and local impacts of the recent plague on the economy and banking sector. Consistent with the findings of the research, current coronavirus epidemic has imposed straight influences on earnings as a consequence of untimely demises, workplace nonattendance, and lessening in productivity and has formed an adverse supply shudder, with production activity decelerating by reason of world-wide supply chain disturbances and provisional closures or terminations of the factories. Along with the influence on manufacturing activities, customers characteristically altered their spending conduct, principally because of lessened earnings and household funds, along with the distress and panic that escorted the plague. Service segments e.g., hospitality and transport have had noteworthy losses by reason of the decline in travel. Apart from these, worldwide financial marketplaces have been profoundly influenced by the impacts of COVID-19 outbreak. There were significant negative correlations amid the daily figure of infected persons with coronavirus and numerous stock indices.

The pandemic adversely impacted the economy of Azerbaijan as well, disturbing the functioning of economy in numerous segments, such as industry, investment market, products and services marketplace, foreign trade. The employment and earnings of the individuals were substantially decreased on account of the provisional closures or complete terminations of the workplaces. The COVID-19 outbreak in Azerbaijan disturbed banking sector as well, predominantly attributable to distressed loan repayments, decreased deposits and surged need for financing. It is unquestioned that, banks stay at the heart of economies, possessing central functions in the transmission of monetary policy, one of the country administration's salient instruments aimed at realizing economic progress with appropriate inflation levels. Disturbing of the banking sector shook

the economy of the country, and negatively impacted most of the macroeconomic indicators (i.e., decreased GDP, Tax Revenues, External balance, FDI inflows and increased Unemployment Rate). On account of the COVID-19, the credit operations (by 3.5 percent) and deposits at banks (by 3.2 percent) decreased in the year 2020 - initial year of the pandemic, however, most of the banks recovered their financial situation in the second year of the pandemic, and 23 banks (88.5% of all banks) closed the year 2021 with net profits.

Along with the mentioned findings, this dissertation comprises original research, in the face of online survey amongst the senior-level employees of 20 banks operating in Azerbaijan. The survey research was carried out during January and February of the year 2022. Questionnaire research found that, the banks operating in Azerbaijan has faced substantial operational challenges and mild financial difficulties. The primary challenge that banks functioning in Azerbaijan have witnessed is the demand-side challenges, which can be owing to the fact that in the initial year of the pandemic outburst, people in the country lost jobs, and accordingly could not use the products (mainly credits) of the banks on account of the uncertainty and risk avoidance. For the majority of the banks operating in Azerbaijan, there is a significant difference amid their revenue before the COVID-19 outbreak (2019), and in the initial year of the pandemic (2020). In addition to this, there is a momentous alteration amid the operating expenses of the banks prior to the pandemic outbreak (2019), and in the initial year of the pandemic (2020). According to outcomes of the survey, the revenues of the banks have grown in the year 2021, in comparison with the outcomes of the year 2020. This might be due to the ease of the lockdown measures in the second year of the pandemic, and people regaining jobs. Along with this, operational expenses of the banks did not upsurge in the year 2021 as compared to the 2020. Moreover, majority of banks has not made any risky move or decision throughout the course of the pandemic outburst. Majority of the banks accept that the pandemic strongly influenced them, yet 65 per cent of the banks need less than 12 months' period to completely recover from the impacts of the coronavirus outburst. Furthermore,

bigger portion of banks have altered their operations, primarily regarding the technological improvements and creating remote working options for the employees.

The existing research is in line with the findings of this study. As such, Xie et al. (2021) carried out comprehensive research on the emerging Asian economies and found that, as the quantity of demises from coronavirus increases, the return on assets (ROA) will lessen. Yan and Jia (2022) found that, as coronavirus infection rates upsurge, fewer branches of banks are being established. Nevertheless, these impacts lessen in the later phases of the plague. The research by Darjana et al. (2022) found that, the outburst has impacted the banking industry via decreasing credit distribution to the real segments. With regard to nominal value, over-all loans declined together with economic slowing down throughout the epidemic. The research by Kunt et al. (2021) conclude that the opposing influence of the coronavirus shock on banks was much more noticeable and long-lasting compared to on the businesses along with non-bank financial organisations, signifying the anticipation that banks are to engross at smallest share of the shock to the commercial segment. Demir and Danisman (2021) finds that stock returns of banks having advanced capitalization and deposits, more divergence and lesser non-performing loans are more pliable to the COVID-19 epidemic.

The purpose of this dissertation was to broadly examine the impacts of COVID-19 on the banking system of Azerbaijan, through analysing the pandemic's effects on the global and local economy, and the banking system exclusively. The dissertation studied the banking system of the country as well, to comprehend how it functioned before and during the pandemic. As the study was aimed at analysing the impact of COVID-19 on the banking system of the Republic of Azerbaijan, the main research objectives were to understand the banking system in the Republic of Azerbaijan (through examining the history, current state of affairs and the working mechanism of the banking system thoroughly) (1), to examine the effects of COVID-19 on the economy of Azerbaijan (2) and to analyse the influences of COVID-19 on the banking system

of the country (3). With the intention of reaching the main research objectives, this dissertation utilized specific means and methods. The research methods of this dissertation comprised profound literature research and quantitative research method, namely the statistical comparisons of economic indicators, bank assets, and liabilities before and after the COVID-19 outbreak, and the survey research amongst the employees of the 20 commercial banks operating in Azerbaijan. This dissertation answers important questions regarding the effects of the enduring COVID-19 pandemic on the global and local economies (in the instance of Azerbaijan), and separate areas of economy (in the instance of banks). The results of the research are significant to future researchers, as they will be able to compare the impacts of coronavirus on banks in different countries.

In keeping with the findings of this research, the pandemic adversely influenced the economy of Azerbaijan, disturbing the functioning of economy in numerous segments, such as industry, investment market, products and services marketplace, foreign trade. The employment and earnings of the individuals were substantially decreased on account of the provisional closures or complete terminations of the workplaces. As this research checked the official facts and figures, it found that, COVID-19 outbreak in Azerbaijan disturbed banking sector, predominantly attributable to distressed loan repayments, decreased deposits and surged need for financing. Disturbance of the banking sector shook the economy of the country, and negatively impacted most of the macroeconomic indicators - specifically, GDP, Tax Revenues, External balance, FDI inflows were decreased and Unemployment Rate were substantially upsurged on account of the terminations imposed by COVID-19. The commercial establishments functioning in Azerbaijan had to face serious business risks. Consistent with the survey carried out amongst businesses operating in Azerbaijan (24 per cent of which were banks and financial services), 14 per cent of the commercial establishments wholly altered their firm's strategy throughout the COVID-19 epidemic, whereas 64 per cent presented slight modifications. As a consequence of the impacts of coronavirus plague on the economy of Azerbaijan, 52 per cent of businesses have

contracted in size. In consequence of the coronavirus, the credit operations of Azerbaijani banks fell by 3.5 per cent and deposits at banks declined by 3.2 per cent in the year 2020 - initial year of the pandemic. Nevertheless, in the second year of the pandemic (2021), majority of the banks recovered their financial situation 23 banks (that is, 88.5% of all banks) concluded the year 2021 in net profits amounting AZN 612,276,000.

This is still indefinite and difficult to foresee when the health scheme will completely overcome the epidemic and when there will be no active coronavirus patients, meaning that the banking industry will have to cope with significances of the COVID-19 for some time. The upsurge in economic activity counter to the backdrop of facilitating lockdown restrictions has boosted a specific stimulation in the banking industry, and there has been a development in banks' lending, deposits - and accordingly net profits. Nevertheless, as accompanied and imposed by the pandemic, the banks functioning in Azerbaijan face substantial technological challenges, since they have to handle surging demand for cashless operations, increased delivery of debit and credit cards, and growing urge for the enhancement of communication channels. Complications as posed by the epidemic proved that, banking sector necessitates the utilization of modernized technology, digitalization of services and increased utilization of Artificial Intelligence (AI) and Machine Learning (ML) offerings. Along with these, banks operating in Azerbaijan are now more eager to implement well-functioning risk and crisis management strategies, with the aim of being more prepared for unanticipated events and guarantee their survival through financial fragilities.

The post-coronavirus world strengthens tendencies and issues that were previously existing prior to the COVID-19 - such as the upsurge in electronic commerce and telework, the declined function of cash and the extensive interest aimed at inexpensive, expedient payment means, the necessity for banks to handle operating outlays and devote to innovation. The post-quarantine economy is expected to observe a hastening in the call for easy, intuitive, individualized facilities brought over amalgamation in digital platforms, both bank-possessed and

directed through non-bank actors. As the digitalization turns out to be key to the delivery of financial services, cyberattacks (i.e., credit/debit card deceptions, spamming, spoofing, electronic money laundering, ATM scams, phishing inter alia) are probable to upsurge their unsettling potential and turn out to be the foremost matter for financial steadiness. Therefore, it is highly recommended for banks to implement specific AI-powered technologies with the aim of protecting both themselves and their customers against cyberattacks, via evaluating threats, detecting and averting payments fraud, advancing procedures for anti-money laundering (AML) and performing know-your-customer (KYC) controlling checks.

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## APPENDIXES

### Appendix A: Survey Questions

1. Has your organization faced operational challenges because of the pandemic?
  - Yes
  - No
2. Has your organization witnessed financial complications?
  - Yes
  - No
3. What was the main challenge your organization has experienced during the first year of the pandemic?
  - Financial challenges
  - Operational challenges
  - Demand-side challenges
  - Others
4. Is there a significant difference amid your revenue before the COVID-19 outbreak (2019), and in the initial year of the pandemic (2020)?
  - Yes
  - No
5. Is there a significant difference amid your operating expenses before the COVID-19 outbreak (2019), and in the initial year of the pandemic (2020)?
  - Yes
  - No
6. Has the revenue of your organization grown in the second year of the pandemic in comparison with the initial year of it?
  - Yes
  - No
7. Have the operating expenses of your organization surged in the second year of the pandemic?

- Yes
  - No
8. Has your organization made any risky move or decision during the first and the second year of the pandemic?
- Yes
  - No
9. Please assess the overall effect of the pandemic on your organization on the 5-point scale:
- Extreme effect
  - Strong effect
  - Medium effect
  - Low effect
  - No effect at all
10. Do you think your organization can recover from the effects of the pandemic?
- Yes
  - No
11. How long it will take your organization to recuperate from the effects of the COVID-19 outbreak and regain its pre-pandemic condition?
- Less than twelve months
  - 1 to 2 years
  - 2 to 5 years
  - 5 to 10 years
12. Has your organization altered its operations on account of the COVID-19?
- Yes
  - No
13. Please indicate the areas of alterations on the overall operations of your organization (open ended).