



CENTRAL BANK
OF THE REPUBLIC OF AZERBAIJAN

DIGITAL PAYMENTS REPORT

2023

PAYMENT SYSTEMS AND SETTLEMENTS
DEPARTMENT

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1. EXECUTIVE SUMMARY

2023 was the reporting year of rising trajectory of the use of cashless payments globally. Changes in user conduct were driven by high interest in contactless payments and accelerated application of technological innovations. Instant payments, tokenization solutions and the use of electronic money ranked in the forefront of international payment trends. The application of remote user identification means expanded to ensure user comfort and security and minimize the time spent on the payment process.

Ensuring stable and reliable operation of payment systems, improvement of payment systems legislation framework, as well as the expansion of the use of cashless payments were one of the priority directions of activities of the Central Bank for 2023.

The **Law of the Republic of Azerbaijan 'on Payment services and payment systems'** developed to improve the payment systems legislative framework, as well as strengthen legal protection of payment service users took effect on 9 November 2023. The Bank developed draft regulations under the requirements of the Law, which were discussed with market participants.

To pave the way for increasing card acceptance opportunities and decreasing card acceptance costs incurred by merchants the Management Board of the Central Bank decided to set a cap

on interchange tariffs imposed on card payments throughout the country on 25 October 2023. The main objective of the Central Bank's regulation of interchange tariffs is to support the development of both issuers and acquirer banks and pursue a balanced policy by optimizing card acceptance costs duly considering their interests.

The '**Financial Sector Development Strategy 2024-2026**' developed by the Central Bank for the upcoming strategic period defined strategic directions on the payments sector, actions to be taken and key activity indicators. The Strategy outlines making payment services more accessible through the introduction of innovative solutions, strengthening transparency and competitiveness in the payments market, as well as modernizing the national payment system to ensure efficiency and security of payment services, creating a favorable market environment for participants and the formation of an effective oversight framework. The primary strategic target on the payments sector is to increase the number of cashless transactions from current 93 to 200. The actions to be implemented target the formation of competitive and innovative payments ecosystema and make a significant contribution to economic growth by expanding cashless payments.

Over the reporting period, the Bank

focused on promoting the use of digital payments, raising awareness of and publicizing cashless payments and organizing stimulating and educational events together with international card institutions and related authorities. Educational videos and audios on payment card frauds were developed based on the 'Financial Literacy Actions Plan in digital payments 2023' developed in collaboration of the Central Bank and the Azerbaijan Banks Association and published on social network accounts of the Central Bank and banks, and continuously broadcasted on television and radio channels.

Ongoing actions boosted the increase of cashless payment indicators across the country. The share of cashless turnover in domestic payment card operations y.o.y. increased by 12.4 pp to historical highs (55.6%).

The use of tokenization solutions by users y.o.y increased by 3.5 times in 2023. 1 out of 4 cashless payments made through POS-terminals was executed through the ApplePay or the GooglePay. Over the reporting period users total AZN1.9B worth 67.5 million payments were made through ApplePay and AZN813.2M worth 39.6 million payments were made through GooglePay.

In 2023, the opportunities for payment of transportation fares through contactless bank cards were actively utilized. Passengers made AZN1.1B worth (1.2 million units) payments with contactless payment cards, mobile solutions in the Absheron circular railway that provides fast passenger transportation between the cities of Baku and Sumgait. The

number of cashless transactions for increasing the balance of cards used for paying fares in public transport in Baku was 2.5 million units, and the value was AZN8.7M.

In 2023, the volume of inflows through fast money transfer systems was AZN2.5B equivalent, and outflows AZN616.4M.

2. PAYMENT SYSTEM INDICATORS

2.1. National Payment System indicators

In 2023 total value of transactions through the NPS (AZIPS, LVPCSS, and IPS) amounted to AZN766.4B (147.7 mln units).

The number of payments on large and instant payments in the Real Time Gross Settlement System (AZIPS) was 2.1 mln. units (AZN716.3B), while the number of small and reiterating payments on the Low Value Payments Clearing and Settlement System (LVPCSS) was 145 mln. units (AZN49M). The number of IPS transactions was 587.6 thousand units (AZN1.1B).

The value of AZIPS operations y.o.y. increased by 2.4 times, LVPCSS by 16.9%, and IPS by 91.8%.

The number and value of transfers by commercial banks through the NPS yoy increased by 51.1% and 2 times respectively.

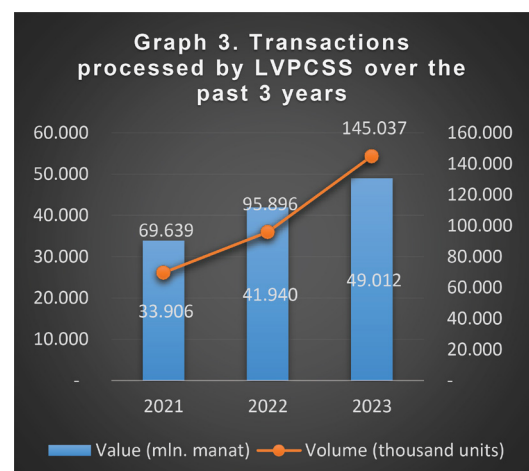
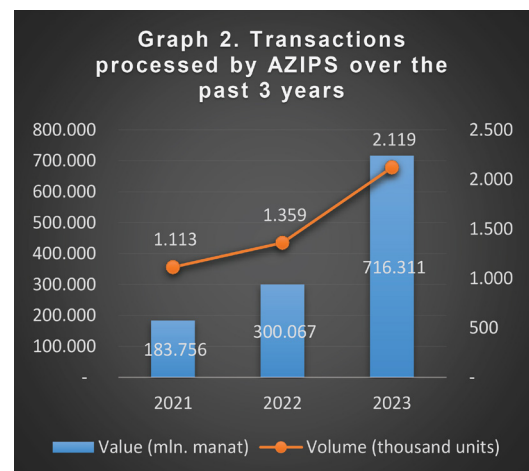
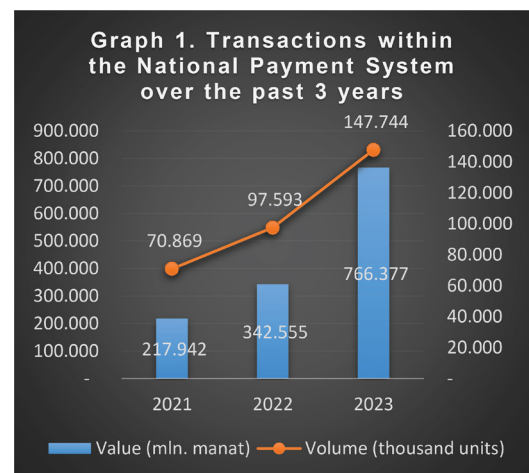
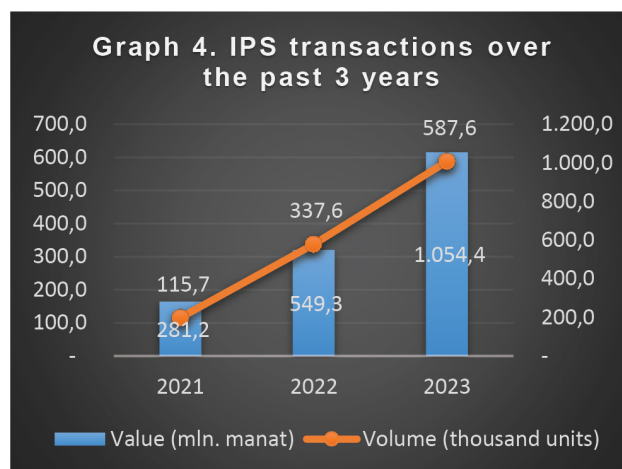


Table 1. Breakdown of payment operations through the National Payment System on participants

AZIPS	1,359	2,120	56%
Central Bank	14	20	40%
Commercial banks	1,019	1,225	20%
Other participants ¹	326	875	2.7 dəfə
LVPCSS	95,895	145,037	51%
Central Bank	62	68	9%
Commercial bank	95,476	144,593	51%
Other participants ¹	357	375	5%
IPS	338	588	74%
Value of payments (million AZN)			
AZIPS	300,067	716,311	139%
Central Bank	70,984	259,382	265%
Commercial banks	191,070	413,030	116%
Other participants	38,013	43,899	15%
LVPCSS	41,941	49,012	17%
Central Bank	822	822	0.1%
Commercial banks	33,599	39,626	18%
Other participants	7,520	8,564	14%
IPS	549	1,054	92%

2.2. Instant Payments System indicators

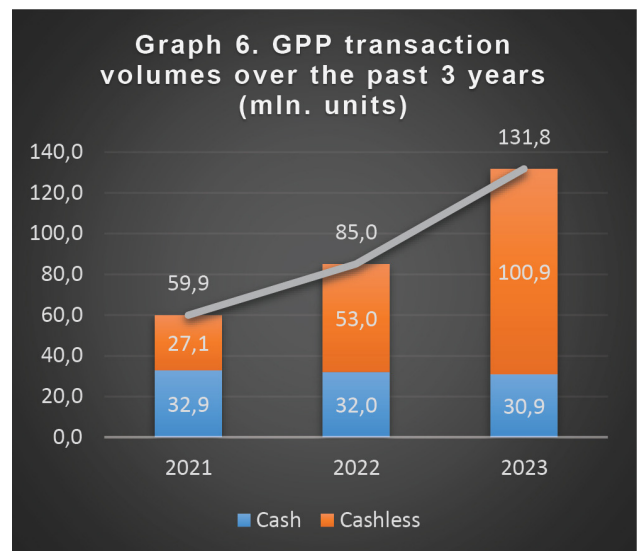
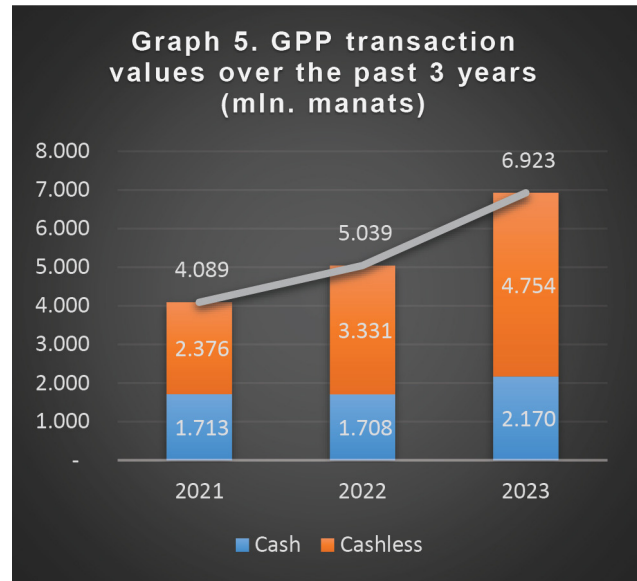
The Central Bank continued efforts to broaden the scope and functionalities of the 24/7 Instant Payments System (IPS), a new component of the National Payment System. The Financial Sector Development Strategy 2024-2026 targets increasing the share of IPS transactions in the National Payment System. The number of IPS transactions y.o.y increased by 74.2%, and the value increased by 91.8%.



2.3. Government Payment Portal indicators

Actions were implemented over the reporting period to expand the coverage of the Government Payment Portal (GPP) operated by the Central Bank. As of end-2023, 11 central executive authorities, the State Social Protection Fund under the Ministry of Labor and Social Protection of the Population, the State Tax Service under the Ministry of Economy, the State Service on Labor Issues under the Ministry of Economy, 4 utility entities, 5 landline and mobile operators, 122 judicial authorities over the ‘Electronic Court’ portal, 19 insurance companies through the Compulsory Insurance Bureau, the Deposit Insurance Fund, the Mortgage and Credit Guarantee Fund, the Intellectual Property Agency, the State Agency on Mandatory Health Insurance, the Baku Transportation Agency, the National Certification Services Center, the State Examination Center and over 100 higher and secondary special education institutions, 1438 municipalities have been integrated to the GPP. Currently, payments over 1100 services are collected on the institutions integrated to the GPP. The number of operations yoy increased by 55% to 131.8 mln. units, while the value yoy increased by 37.4% to AZN6.9B. Cashless operations account for 68.7% of total operations in terms of number and 76.5 in terms of value. The value of these cashless operations grew by 47.2%. The number of operations yoy increased by 42% to 85 mln. units, while the

value yoy increased by 23% to AZN5B. Cashless operations account for 62% of total operations in terms of number and 66% in terms of value.



3. PAYMENT CARD INDICATORS*

3.1. Indicators on the use of payment cards

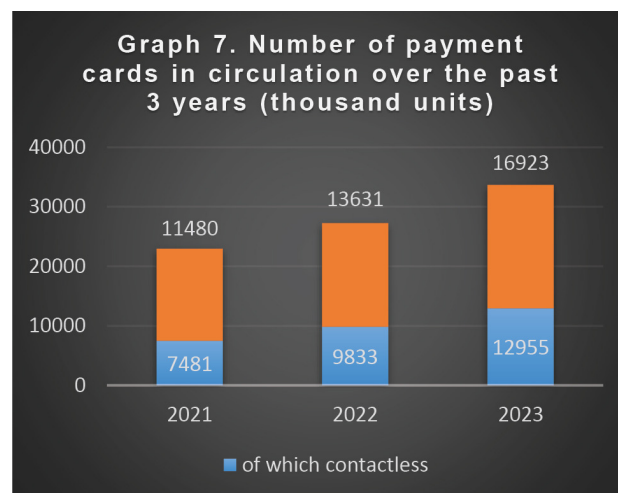
Bankcards are used as the main payment instrument in cashless payments in the country. In 2023 the value of cashless payments hiked dramatically, the use of contactless technologies, electronic commerce expanded. As of 01.01.2024 the number of payment cards in circulation was 16.9 mln. units, out of which 77% support contactless payments. The number of payment cards yoy increased by 24%, including the number of contactless cards increased by 32%. Debit cards accounted for 87% (14.7 mln. units), and credit cards 13% (2.2 mln. units) of total cards.

Total value of domestic payment card operations yoy increased by 56% to AZN88.1B, and the value of cashless payments yoy increased by 2 times to AZN49B in 2023. The weight of cashless settlements in domestic payment card operations yoy increased by 12.4% to 55.6%.

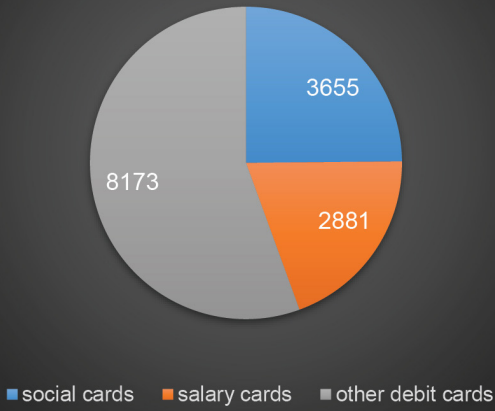
Electronic commerce account for major part of cashless payments with domestic payment cards. The number of electronic commerce operations yoy increased by 2.2 times to 563.4 mln. units, while the value increased by 2.1 times to AZN39.2B.

Cashless operations with POS-

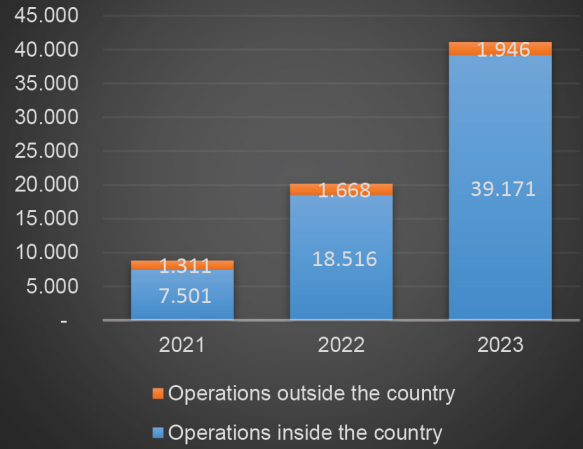
terminals at merchants yoy increased by 2.1 times to 416.6 mln. units, while their value increased by 68.5% to AZN9.8B. The number of contactless payments with POS-terminals yoy increased by 2.2 times to 401.1 mln. units and the value increased by 82.5% to AZN8.9B.



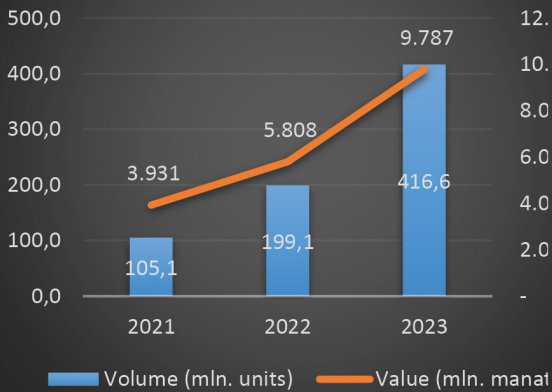
Graph 8. Debit cards by product type (thousand units)



Graph 9. Value of E-trade for the past 3 years (mln. manat)



Graph 10. Domestic cashless transactions via POS-terminals over the past 3 years



3.2. Distribution of card infrastructure across economic

The card infrastructure of the country has been following a positive trend both in Baku and large cities and in regions over recent years.

Table 2. ATM location across economic regions as of end-2022

Economic regions	Total	Out of which			
		Cash-in	Foreign exchange ATMs (CNP)	Recycle ATMs	Contactless ATMs
Baku	1 621	519	238	375	479
Nakhchivan	133	9	1	7	7
Absheron-Khizi	210	43	17	28	50
Mountainous Shirvan	53	4	1	4	7
Ganja-Dashkesen	161	29	10	18	19
Garabag	112	6	2	5	6
Gazakh-Tovuz	131	10	5	10	8
Guba-Khachmaz	111	15	2	9	14
Lankaran-Astara	110	6	2	6	10
Central Aran	139	12	2	11	13
Mil-Mugan	86	1	0	0	3
Shaki-Zagatala	136	12	5	6	12
East Zangazur	10	1	0	2	2
Shirvan-Salyan	99	7	3	6	7
TOTAL	3 112	674	288	487	637

Table 3. POS-terminal location across economic regions as of end-2023

Economic regions	Total	in retail trade, catering and service entities	out of which contactless POS-terminals
Baku	57 054	55 739	54 641
Nakhchivan	2 177	2 103	1 657
Absheron-Khizi	5 311	5 142	4 977
Mountainous Shirvan	1 272	1 212	1 199
Ganja-Dashkesen	3 704	3 524	3 437
Garabag	1 774	1 662	1 649
Gazakh-Tovuz	2 186	2 058	2 015
Guba-Khachmaz	2 631	2 513	2 432
Lankaran-Astara	2 371	2 212	2 202
Central Aran	2 569	2 434	2 405
Mil-Mugan	1 090	1 000	983
Shaki-Zagatala	2 787	2 653	2 572
East Zangazur	53	35	35
Shirvan-Salyan	1 404	1 297	1 271
TOTAL	86 383	83 584	81 475

As of 01.01.2024 the number of ATMs installed throughout the country was 3112, POS-terminals 86383, and payment terminals 2106 units.

In 2023 the number of ATMs across the country increased by 1.4%, while the number of ATMs located in regions increased by 0.9%.

As of 01.01.2024 the number of POS-terminals in circulation in the country yoy increased by 8.2% to 86,383. The number of POS-terminals accepting contactless payments increased by 19.2% to 82,992. 96.1% of total POS-terminals support contactless payments. The number of POS-terminals installed in retail trade, catering and service entities in regions increased by 2,896 (11.6%), and the number of POS-terminals that support contactless payments increased by 6,998 (35.3%). As of end-December 2023 60% of POS-terminals installed in retail trade, catering and service entities were actively utilized.

As of end-2023 the number of payment terminals installed by banks yoy increased by 3.8% to 2,106 units. The number of payment terminals located in Baku was down by 6.9%, while it was by 16.6% in regions.

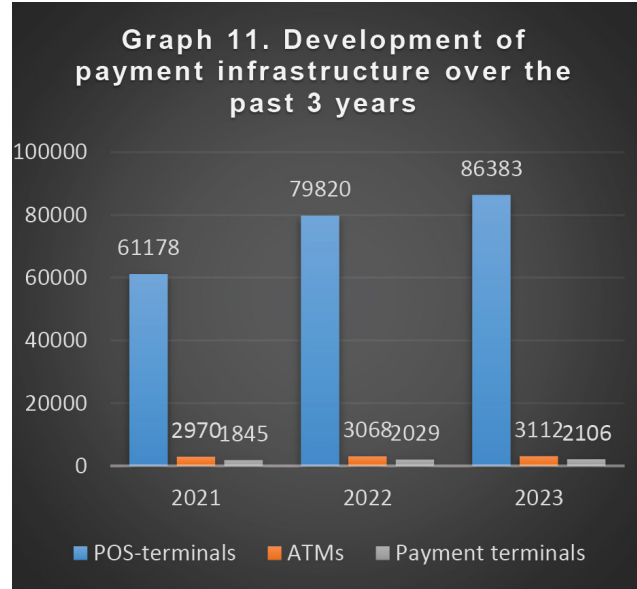


Chart 1. Coefficient of ATMs per 10 thousand persons across regions

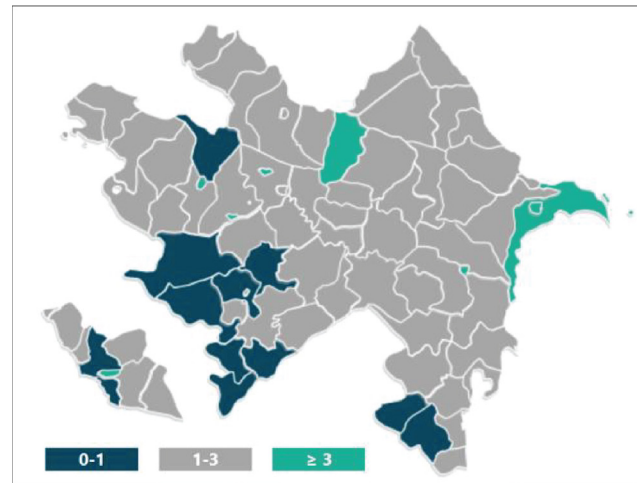


Chart 2. Coefficient of POS-terminals per 10 thousand persons across regions

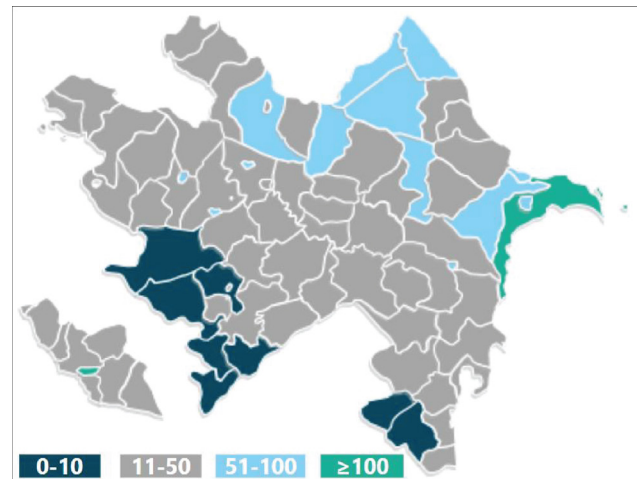


Table 4. ATM operations across regions in 2023

Economic regions	Number (mln. units)	Value (mln. manat)
Baku	91.6	21,314
Nakhchivan	3.7	853
Absheron-Khizi	9.9	2,232
Mountainous Shirvan	2.6	583
Ganja-Dashkesen	9.0	2,007
Garabag	6.3	1,475
Gazakh-Tovuz	6.1	1,475
Guba-Khachmaz	4.7	1,069
Lankaran-Astara	6.5	1,512
Central Aran	7.3	1,545
Mil-Mugan	4.9	1,097
Shaki-Zagatala	5.7	1,231
East Zangazur	0.02	1.6
Shirvan-Salyan	5.5	1,275
TOTAL	163.8	37,688

Table 5. POS-terminal operations across regions in 2023

Economic regions	Number (mln. units)	Value (mln. manat)
Baku	326.0	10,348
Nakhchivan	3.3	103
Absheron-Khizi	37.7	744
Mountainous Shirvan	4.7	97
Ganja-Dashkesen	13.7	345
Garabag	3.8	117
Gazakh-Tovuz	5.5	157
Guba-Khachmaz	8.2	269
Lankaran-Astara	5.6	159
Central Aran	8.3	180
Mil-Mugan	2.9	78
Shaki-Zagatala	6.3	197
East Zangazur	0.2	5
Shirvan-Salyan	4.5	118
TOTAL	430.9	12,916

Table 6. Payment terminal operations across regions in 2023

Economic regions	Number (thousand units)	Value (mln. manat)
Baku	4,399	623.8
Nakhchivan	60	28.0
Absheron-Khizi	806	60.8
Mountainous Shirvan	170	9.2
Ganja-Dashkesen	302	52.7
Garabag	206	21.3
Gazakh-Tovuz	158	20.1
Guba-Khachmaz	607	33.0
Lankaran-Astara	154	9.0
Central Aran	440	26.3
Mil-Mugan	88	2.1
Shaki-Zagatala	258	13.5
East Zangazur	-	-
Shirvan-Salyan	211	17.9
TOTAL	7,859	917.9

4. DIGITAL BANKING INDICATORS

Nowadays digital banking is rapidly replacing traditional banking services. The main reason for lower reliance of people on traditional banking is the convenient and easy availability of digital banking services without wasting time and waiting in long queues *almaqdadır*.

There is a positive trend in the development of digital banking in Azerbaijan too, one of main challenges of modern times. As of 01.01.2024 all banks operating in the country, including the AzerPost LLC provide Internet banking. 20 banks are providing mobile banking services.

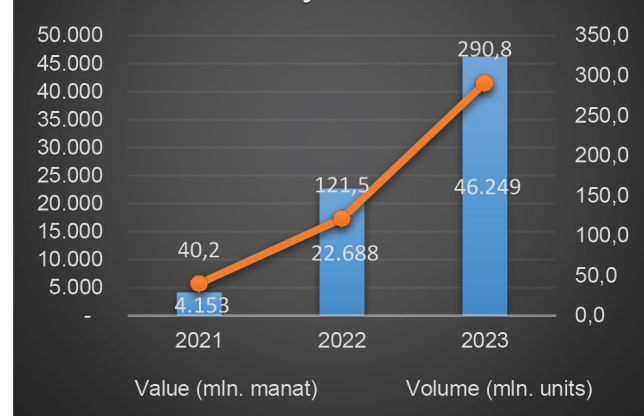
In 2023 total number of transfers from current accounts of bank customers in hard copy and through digital banking was 363.6 mln units, while the value made AZN379.3B. 85.9% (312.2 mln. units) of transfers in terms of number and 79.6% (AZN301.8B) in terms of value were conducted through digital banking.

In 2023 the value of customer transfers through Internet banking yoy increased by 12% to AZN227.7B, while the value of customer transfers through mobile banking doubled to AZN46.2B.

Graph 12. Customer transactions via internet banking services over the past 3 years



Graph 13. Customer transactions via mobile banking services over the past 3 years



5. TARGETS FOR 2024

The Bank is aiming at achieving the following targets as a result of the implementation of the actions specified in the 'Financial sector development strategy 2024-2026':

- Annual number of cashless transactions per person – 130 units
- Weight of instant payments in NPS operations – 5%
- Weight of cashless payments in cashless operations – 60%
- Weight of cashless payments in retail trade turnover– 25%
- Weight of digital banking in customer transfers from current accounts – 83%