

UDC 658.8

DOI 10.30546/JIECM.2026.01.362

FACTORS INFLUENCING THE DEVELOPMENT OF THE BANKING SERVICES MARKET

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Summary: *The banking services market is characterized by the quantity and quality of banking services provided through purposeful activities aimed at meeting customers' financial needs. The functioning and development of the banking services market are directly and indirectly influenced by various factors. Banks are considered to be one of the main sources of additional financial resources for the population and varied sectors of the economy. In the modern economic environment, credit institutions act not only as providers of banking services but also as market analysts. Since credit institutions play an important role in the development of business and in meeting its financial needs, the market inevitably places banks among the fundamental elements of economic policy. In this regard, there is a need for a systematic analysis of the factors influencing the banking services market.*

Keywords: *banking services, market, quality, competition, regulation, investment.*

1. INTRODUCTION. The changes that have taken place in the economic sphere in the recent years have not bypassed the banking sector either. As in all areas of the economy, the development of banking too has become a priority of the state policy. In this regard, the strategies implemented in relation to the banking sector, as well as legislative and regulatory measures affecting banking activities, are continuously being improved. On the basis of such strategies, "the solution of organizational economic problems directly depends on the level of credit investments, the concentration of bank equity, changes in the average interest rate on loans and deposits, the ability to attract resources and many other parameters" [3, p.36]. In general, economic and legal mechanisms related to banking activities impact the entire banking system and determine the direction of development of the banking system by allowing or prohibiting various banking products. The above-mentioned issues create the necessary conditions for solving the encountered problems and, thus, for the development of the banking services market.

The efficient functioning of the banking services market forms additional opportunities to stimulate economic growth by causing an inflow of investment into bank equity. It should be noted that the formation of a competitive environment is one of the most important issues in increasing the efficiency of the banking services market [4, p.62]. This type of market significantly affects the liquidity of credit institutions, their efficient operation in the long term, within the framework of constantly renewed resources. The above mentioned shows that the banking services market, being influenced by various factors, plays a serious role in the development of banking as a whole.

2. LITERATURE REVIEW. The development of the banking services market is directly linked to the overall state of the economy, which is reflected in the economic relations in which banks participate. In this regard, analyzing the factors that directly affect the quality of banking services is considered to be one of the most important issues in banking [5, p.105]. Such factors include the state's legal mechanisms, as well as economic and social factors.

The state's legal framework and economic policy have a direct impact on the development of the banking sector. As the economy grows, the number of business entities and economic relationships increases. As a result, demand for banking services rises from both individuals and legal entities. Conversely, during periods of crisis, economic growth slows down, delays occur in the development of all economic processes, the banking sector faces difficulties, and thus complications arise in the consumption of services.

Social factors are determined by economic and legal factors. This is primarily because the development of society depends on the effectiveness of economic policy, the improvement of legislation, and the prospects for the development of economic activities, all of which are shaped by the state's strategy. Social, economic, and legal factors play a decisive role in the development of any bank by determining the level of public trust in the banking system. In recent years, increasing consumer trust in banks has been implemented through various banking reforms, particularly in response to widespread financial pyramid schemes.

Increasing trust in the banking system depends on the following factors that influence the functioning of the banking services market:

- availability and reliability of necessary information about banking services for customers, as well as the ability to effectively communicate this information to the public;
- state support and regulation of banking activities;
- efficient resolution of disputes or problems arising in interactions between customers and banks;
- ensuring the security of deposits placed in banks and compliance with the necessary prerequisites.

An increase in public trust in banks significantly determines their willingness to use the products offered by the banking services market and has a positive impact on the country's economic growth. Therefore, ensuring all conditions necessary to enhance trust aligns with the interests of both banks and the state.

3. METHODOLOGY. Since banking services are primarily aimed at satisfying customer needs, a comprehensive study of the factors influencing the banking services market requires the inclusion of demographic components in this process. Banks are established to meet the needs of society, and consumers seek to satisfy their demands by choosing among the most preferred services. The development potential of the banking services market determines key directions such as compliance with relevant quality requirements, risk-based supervision mechanisms, digital finance, sustainable finance, and professional development [2].

In the banking services market, socio-demographic factors are defined by the use of various banking products depending on gender, age, and other characteristics of consumers. Gender and age are considered among the main factors when determining credit services as well as individual investment behavior. It should be noted that customers' social profiles vary significantly depending on their level of use of banking services. In modern conditions, marketing factors play a particularly important role in analyzing development trends in the banking services market and identifying customer needs. These factors are closely related to the social component, as they facilitate the assessment of public opinions and preferences. Marketing tools help create profiles of potential customers, shape their preferences regarding service quality and speed, and identify the products and services they need. In this regard, the influence of marketing factors in the banking services market is substantial.

Marketing factors also include the development of information technologies as the foundation of the modern banking services market. Today, it is impossible to imagine the development of banking institutions without improvements in software, the application of technological innovations in customer service, and the modernization of service delivery and other structural elements. The advancement of technology also contributes to increasing customer trust and enhancing the image of banks.

The infrastructure of the banking services market is considered the basis of banks' competitiveness. Banking infrastructure encompasses overall operations and creates conditions for improving the quality of services, transactions, and products. The improvement of banking infrastructure can be achieved through enhancing banking culture, simplifying all aspects of operations, and involving all stakeholders in the process.

Financial literacy, as one of the factors influencing the banking services market, is understood as the ability of the population to manage and effectively use their financial resources. "Improving the financial literacy of financial service consumers can support the formation of a sound, reliable, sustainable, and efficient financial system" [1]. Financial literacy is defined as a combination of two

components: individuals' knowledge of banking products and services, awareness of consultation channels regarding these services, and the ability and skills to use this information when making decisions. An increase in financial literacy among the population leads to the elimination of banks characterized by low-quality services and low competitiveness.

Research shows that in a competitive environment, banks strive to offer non-traditional services, including new opportunities, credit lines, and information packages, in order to attract new customers [6, p.29]. In the competition for customers, many banks focus on developing more advanced marketing strategies and creating new services. In developed countries, one of the most stable trends in banking operations is the expansion of banks offering comprehensive services to all types of customers. Increasingly, banks are using both direct personal interaction between employees and customers and various communication channels. Alongside banks, various financial and credit institutions too attempt to provide high-quality banking services in the market; however, commercial banks remain the main players, especially leading banks whose operational objectives are primarily determined by profitability and liquidity.

An analysis of participants in Azerbaijan's banking services market shows that during 2020–2024, state-owned banks, private banks, and foreign-equity banks operated in the market. During the years under study, the number of state-owned banks remained unchanged, while the number of private banks decreased by 16.7% and the number of foreign-equity banks decreased by 25% in 2024 compared to 2020 [diagram].

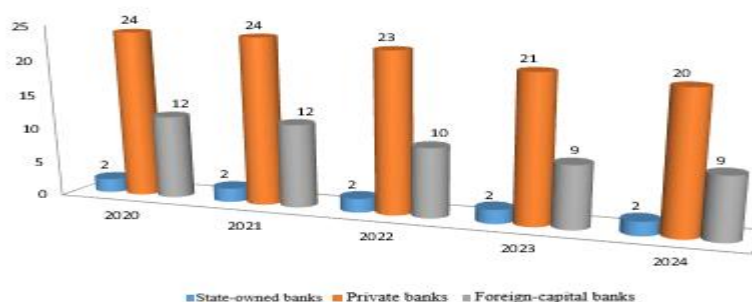


Diagram. Number of participants in the banking services market [7]

From the perspective of the real sector of the economy, one of the main functions of the banking services market is to ensure the flow of goods and services in the non-financial sector by providing financial resources. In such conditions, demand and supply are considered the key factors in assessing the need for banking services. From the standpoint of the real sector, demand represents the need for attracted financial resources, while supply is expressed as the volume of potential financial resources that can be provided by the financial sector, including loans. From the perspective of the financial sector, demand also represents the need for attracted resources in the form of commercial bank deposits and insurance premiums, whereas supply reflects the aggregate financial resources originating from the real sector, as well as secondary resources of the financial sector, such as interbank loans. The capacity of the banking services market can be assessed from both perspectives across three main categories: legal entities, individuals, and the budget system. These categories play a fundamental role in shaping the overall volume of resources in the banking services market in terms of demand and supply.

In the recent years, significant quality changes have been observed in the banking sector. Banks have substantially adjusted their strategies by prioritizing the development of digital banking, which can naturally strengthen their competitive positions. International experience shows that only large banks with well-developed branch networks are able to achieve high profitability in digital banking. These developments are largely confirmed in practice by intensive consolidation processes, mainly motivated by the goal of penetrating regional banking services markets.

In recent years, the rapidly expanding banking sector has attracted attention due to its growth potential. It is known that high population density creates favorable conditions for banks to attract and serve retail customers. Moreover, such conditions generate a high level of demand for banking services. Naturally, the most promising banking markets include regions with strong economic potential. When assessing the attractiveness of banking in a particular region, the level of diversification of production should also be taken into account. The position of banks in the economy is closely linked to fluctuations in external markets. It should also be noted that changes in the state's structural policy priorities can significantly improve the status of banks. Thus, the attraction of foreign equity into the domestic banking services market, stimulated by the state, can serve as an important driver for intensifying economic development.

4. RESULTS. Research indicates that the competitive position and operational stability of banks are closely linked to their relationships with customers. This relationship primarily creates favorable opportunities for banks to develop their resource base. Another important aspect is that credit institutions operating with budgetary funds may have significant advantages in attracting state resources. Such conditions, combined with increasing competitive pressures, necessitate a reassessment of banks' growth strategies. Sustaining the rapid growth of retail operations is objectively possible only through the attraction of additional equity resources into the banking services market. In practice, banks tend to strengthen their equity base by expanding their activities at the regional level and attracting foreign investors. The acquisition of a controlling stake by a foreign investor requires banks to improve their corporate governance systems in line with international best practices.

Thus, the inflow of foreign equity into the banking services market represents an important factor in the development of a country's banking sector. Foreign equity introduces modern technologies and innovative financial products into the market, contributes to the improvement of corporate governance in credit institutions, intensifies competition, and creates favorable conditions for the advancement of banking practices. Therefore, the role of foreign investors in increasing the capitalization of the banking sector is becoming increasingly significant. As a result, in certain segments of the banking services market, credit institutions with a predominant share of foreign equity play a key role, particularly in interbank market operations.

5. CONCLUSION. In conclusion, it can be stated that all the above-mentioned factors play a decisive role in determining the level of development of the banking services market. Under their influence, an adaptive banking environment is formed, capable of responding to both internal and external changes while minimizing their potential negative impacts.

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Received: 20.02.2026

Accepted for publication: 15.04.2026

