

AZERBAIJAN



COUNTRY ASSESSMENTS

HIGHLIGHTS

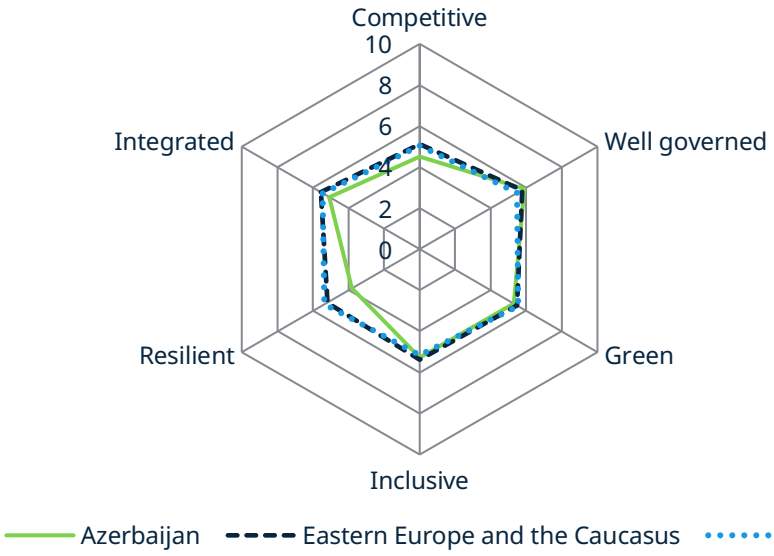
- **Real gross domestic product (GDP) expanded by 1.4 per cent year on year in the first seven months of 2026.** While oil and gas GDP contracted by 0.6 per cent year on year, the rest of the economy generated growth of 2.2 per cent year on year. At 5.8 per cent in July 2026, annual inflation stood near the upper bound of the central bank's target range. The state budget and merchandise trade balance remained in surplus during this period, while strategic foreign-exchange reserves increased further.
- **Azerbaijan commissioned and connected two major utility-scale renewable energy projects to the national grid.** These are the 240 MW Khizi-Absheron wind power plant and the 100 MW Gobustan solar power plant, the latter contract being awarded through a competitive renewable energy auction. Since the feasibility study for the Caspian-Black Sea-Europe Green Energy Corridor was completed in July 2026, work has now started on preparing the project for a final investment decision.
- **The authorities took steps to improve the investment climate and governance.** Various legislative changes were adopted to enhance the private sector's liquidity, provide incentives for technology-oriented sectors and improve access to early-stage financing.

For more information about country macroeconomic developments, please consult our latest Regional Economic Prospects report.

KEY PRIORITIES FOR 2027

- **Continue to focus diversification policies on fostering a competitive, export-oriented private sector.** Greater access to startup financing and capital-market instruments, combined with skills training linked to employers' needs, could support faster growth in the non-oil economy.
- **Continue to decarbonise the energy sector.** Matching renewable capacity growth with grid upgrades, increased storage, advances in electricity market reform and stronger energy-efficiency incentives could help accelerate the green energy transition.
- **Maintain momentum in developing the Middle Corridor.** Improving connectivity with Central Asia, neighbouring South Caucasus countries and European markets would strengthen Azerbaijan's position as a regional trade and logistics hub. Priorities include expanding multimodal transport infrastructure, streamlining customs and border procedures through digitalisation, and fostering higher value-added logistics and trade services.

ASSESSMENT OF TRANSITION QUALITIES (1-10)



For more on reforms and transition qualities, see Chapter 5 of the Transition Report 2026-27.

KEY REFORMS AND POLICY DEVELOPMENTS[1]

Management of public finances

- In December 2025 Azerbaijan established a new agency under the Ministry of Finance to consolidate and improve financial oversight of state-owned enterprises (SOEs).
- At the same time, a new dividend policy was introduced to establish a more rules-based framework for transfers from profitable SOEs to the state budget. SOEs within the scope of the policy must transfer at least 30 per cent of their net profit to the state budget as dividends, subject to financial safeguards and specified exemptions.

1 From the fourth quarter of 2025 to October 2026.

Banking regulation

- The Central Bank of the Republic of Azerbaijan (CBAR) amended capital rules in December 2025 to align banks' capital structure, adequacy ratios and buffers with Basel III. Banks will need to fully comply from 1 January 2027.
- In February 2026, S&P Global Ratings upgraded Azerbaijan's industry risk score in its Banking Industry Country Risk Assessment. The change reflected stronger banking regulation and supervision, including improved corporate governance standards and liquidity requirements aligned with Basel III.
- In March 2026 the CBAR approved the Banking Supervision Strategy for 2026-27, which aims to strengthen supervision by placing greater emphasis on each bank's individual risk profile. The CBAR also strengthened existing stress-testing requirements through common rules for testing methods and reporting.
- The CBAR amended its regulations, effective 9 February 2026, to improve environmental, social and governance (ESG) practices in banks and support integration of climate and ESG considerations into their governance and risk management systems.

Green economy transition

- Azerbaijan has strengthened its sustainable finance architecture through the adoption of the National Green Taxonomy in May 2026. This provides a framework for classifying environmentally sustainable economic activities and promoting green investment and finance.

Access to finance and capital market development

- In June 2026 the mandate to provide guarantees and interest subsidies for manat-denominated business loans was transferred to the Azerbaijan Business Development Fund. The aim is to improve the efficiency of the state's support framework for businesses.
- In July 2026 a package of legislative amendments was adopted to modernise corporate governance, expand startup financing and enhance business liquidity. The changes create a legal framework for venture capital funds, equity crowdfunding and employee stock options. Eligible non-oil businesses gained cash-flow relief by being allowed to pay employee social insurance contributions directly out of their value-added tax (VAT) deposit accounts.

Connectivity and trade

- The Baku-Tbilisi-Kars railway became fully operational in June 2026 after Azerbaijan-funded work to modernise the Georgian section was completed. The upgrade increased annual freight-handling capacity fivefold.
- The Law on Freight Forwarding was enacted in December 2025, establishing a framework for domestic and international freight services.

Digital governance

- Azerbaijan adopted the Digital Economy Strategy for 2026-29 and the Action Plan for 2026-28 on Accelerating Digital Development. They cover digitalisation, artificial intelligence, innovation and cybersecurity.
- In June 2026 the president of Azerbaijan signed a decree to develop an intelligent customs information system. Customs Code amendments published in August

2026 expanded electronic submission of customs documents, advancing the digitalisation of customs administration.

Human capital development

- In July 2026 Azerbaijan approved a 2026-30 action plan to implement its existing Employment Strategy. It sets out measures to expand vocational training and active labour-market programmes, improve access to employment services and reduce informal employment.