



Azerbaijan

Highlights

- **Economic growth has accelerated and inflation has slowed in 2024.** Public investment and real incomes have supported robust growth in non-oil gross domestic product (GDP), while the oil and gas sector has returned to growth on the back of strong gas demand. Inflation remains within the central bank's target range.
- **The digitalisation agenda has continued with investments in infrastructure and the adoption of the country's first cybersecurity strategy.** The authorities have increased investment in the physical cyber network, boosting network speeds, and enhanced cybersecurity by setting out the requirements for more resilient digital systems.
- **Some progress has been made on greening the economy.** The authorities set a target for renewable energy and undertook the first renewable energy auction for a utility-scale solar plant. They also laid out new energy-efficiency standards for construction.

Key priorities for 2025

- **More decisive efforts are needed to improve economic governance.** The government's stated commitment to strengthening the governance of state-owned enterprises cannot be achieved without implementing the Organisation for Economic Co-operation and Development's (OECD) principles of corporate governance. This should be accompanied by further steps to liberalise the economy and increase competition.
- **A sustained focus on the non-oil sector remains crucial for the diversification of the economy.** Levelling the playing field for private companies and reducing the state's footprint in many sectors of the economy could bring about the private-sector dynamism needed for economic diversification.
- **Enabling conditions for renewable energy are needed.** Grid capacity should be upgraded significantly to allow bigger investments in renewables, while more transparent regulatory and policy frameworks would encourage private investment in this sector.

Main macroeconomic indicators (per cent)

	2020	2021	2022	2023	2024 proj.
GDP growth	-4.2	5.6	4.7	1.1	3.8
Inflation (average)	2.8	6.7	13.9	8.8	3.5
Government balance/GDP	-6.4	4.2	6.0	1.7	-1.1
Current account balance/GDP	-0.5	15.1	29.8	9.9	8.5
Net FDI/GDP [neg. sign = inflows]	1.8	4.1	6.5	4.3	2.8
External debt/GDP	21.6	15.1	9.7	9.8	na
Gross reserves/GDP	17.7	13.8	13.5	18.0	na
Credit to private sector/GDP	26.0	22.9	18.3	23.2	na

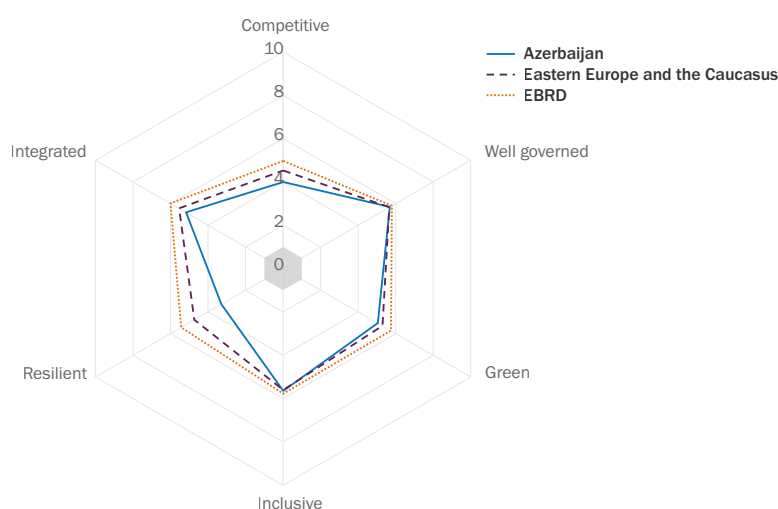
Macroeconomic developments and policy response

Economic growth has accelerated in 2024. Real GDP grew by 4.3 per cent year on year in the first half of 2024 on the back of solid real income growth and strong public infrastructure investment. Non-oil real GDP returned to robust growth of 6.8 per cent year on year after a slowdown in 2023, while the oil and gas sector posted positive growth (0.6 per cent year on year) for the first time in two years as a result of a continued increase in gas production. Gas production in the country is increasingly replacing oil due to strong demand for gas from Europe and the gradual depletion of existing oil fields. However, gas prices on the European market have been volatile in recent years, and the drop in prices in 2024 has negatively affected export revenues, halving the current account surplus in the first six months of the year.

Tight monetary policy and falling food prices have curtailed inflation. The annual rate of inflation dropped to 0 per cent in April 2024, before rising to 3.5 per cent in September. The central bank reacted to the disinflation in late 2023 with a series of gradual policy rate cuts, from 9.0 per cent in October 2023 to 7.25 per cent in May 2024. Annual credit growth has strengthened further to more than 20 per cent since the beginning of 2024, though from a very low base. Nominal income growth slowed to 5 per cent year on year in the first half of 2024, which still amounts to solid real income growth given the low level of inflation.

Energy exports and public investment will continue to drive short-term growth. The increase in demand for Azerbaijan's energy products is expected to support export revenues, though oil and gas price volatility poses a risk. A solid level of foreign reserves and an ample sovereign fund provide a liquidity buffer against this risk. The government is, therefore, likely to enable a continuation of current levels of public investment and expenditure. We forecast real GDP growth of 3.8 per cent in 2024, moderating to 2.7 per cent in 2025. The forecast is highly sensitive to fluctuations in oil and gas prices and geopolitical fragility in the region.

Assessment of transition qualities (1-10)



Structural reform developments

Digitalisation is continuing, with the removal of infrastructural constraints and improved cybersecurity. Investments in the physical network have increased the speed of the internet by one-third over the past year. In August 2023, the government unveiled its first five-year “Strategy of Azerbaijan Republic on Information Security and Cybersecurity for 2023–2027”, which sets cybersecurity standards for the national digital space and requires enhanced personal data protection. Similarly, in 2024, the central bank enhanced requirements to improve information security in the financial sector, aimed primarily at strengthening data protection and minimising cybersecurity threats.

Azerbaijan updated its Nationally Determined Contribution (NDC) in October 2023. The authorities renewed the NDC, committing to reduce greenhouse gas emissions by 40 per cent compared with 1990 levels by 2050, providing they receive appropriate international support through financing, technology transfer and capacity building. The departure from the 2015 pledge of a 35 per cent reduction by 2030 is explained by the country’s new strategic socioeconomic development programmes, specific national circumstances and growing recognition of the need to diversify the economy.

Work on capital markets development resulted in the country’s first initial public offering. In May 2024, Azerbaijan’s largest bank by assets, International Bank of Azerbaijan, announced the country’s first initial public offering, which is expected to be finalised by the end of the year. The bank is offering a substantial portion of its shares to both domestic and international investors, aiming to diversify its shareholder base. Meanwhile, the authorities have adopted specific regulations to allow banks in Azerbaijan to provide investment services, thus expanding direct access channels. Work to improve financial derivatives and securitisation has been completed, and a corresponding draft law has been presented. In a move towards sustainable finance and the promotion of environmentally friendly investment opportunities, the basic criteria have been established to form the legislative framework for green bonds.

Some progress is being made on the green agenda. In April 2024, the first renewable energy auction was announced, while secondary regulation setting out norms for energy efficiency has been gradually adopted. The authorities, hosts of the COP29 climate conference in November 2024, have committed to increasing the renewable share of the country’s installed generation capacity to at least 30 per cent by 2030 and to unlocking its green energy potential through private investment in utility-scale renewables. In 2024, the government announced the first renewable energy auction for a 100 MW solar power plant project in Garadagh. New energy-efficiency bylaws have been adopted that regulate eco design requirements and energy performance metrics for new buildings.

Expansion of the Southern Gas Corridor is under way. Responding to the rise in demand for gas, in 2024, the authorities signed several new gas supply agreements with European countries, as well as an agreement to increase the capacity of the Southern Gas Corridor connection to Greece and Italy. After the expansion, gas exports to Europe are expected to rise from the current 12 billion cubic metres to 20 billion cubic metres by 2027. ●