AZERBAIJAN

Growth is projected to decelerate to 1.9 percent in 2025, reflecting the expected reduction in crude oil production as well as moderation in non-hydrocarbon sector activity. After rising in Q1, inflation has stabilized and expected just below 5 percent in 2025. External and fiscal surpluses have narrowed as energy prices have dropped. Sluggish medium-term growth is expected to continue, hovering at around 1.8 percent.

Population[1] million **10.2**	Poverty **..**
Life expectancy at birth[2] years **74.4**	School enrollment[3] primary (% gross) **102.0**
GDP[4] current US$, billion **74.4**	GDP per capita[5] current US$ **7287.2**

Sources: WDI, MFMod, and official data. 1/ 2024. 2/ 2023. 3/ 2023. 4/ 2024. 5/ 2024.

Key conditions and challenges

Continued reliance on hydrocarbons as a major source of export and fiscal revenue remains Azerbaijan's main vulnerability. Declining oil production, oil price volatility, and the global transition away from fossil fuels are challenges to long-term growth prospects.

Private sector development is constrained by the economy's large state footprint, an uneven playing field for companies, shallow financial markets, and a weak human capital base. Despite a reduced gap with developed countries in terms of per capita capital stock, convergence of per capita income has lagged, suggesting low productivity. Reforms are needed to enable a better allocation of productive resources and technology across businesses and sectors.

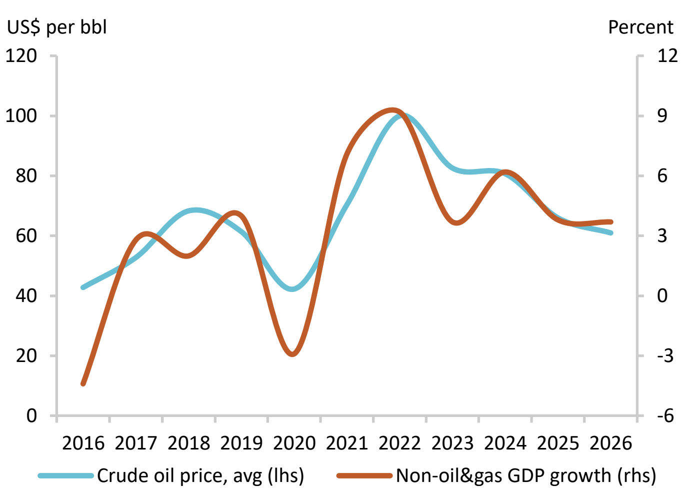
Recent developments

Economic activity decelerated sharply in H1, 2025, with real GDP growth slowing to 1.5 percent, compared with 4.3 percent in H1 2024. Crude oil production fell 3.1 percent (yoy), while natural gas production remained stable. Non-hydrocarbon sector growth also lost momentum, dropping from 6.9 percent in 2024 to 3.9 percent in H1 2025, as activity normalized in construction, transport, Information and Communication Technology (ICT), and retail following strong gains in 2024. Construction, a major driver of growth in recent years, lost momentum in H1 due to reduced public investment in reconstruction. On the demand side, real wage growth softened to 3.5 percent, with inflation constraining household purchasing power and dampening private consumption. Investment contracted 0.5 percent in real terms, largely due to reduced investment in the hydrocarbon sector. The unemployment rate levelled at 5.3 percent in H1 2025.

Average inflation increased to 5.7 percent in H1 2025 due to a hike in administrative prices and to higher imported inflation (from higher global food prices) in Q1. Inflation stabilized toward the end of Q2 and remains within Azerbaijan's Central Bank (CBAR) inflation target range of 4+/–2 percent. The CBAR has kept the policy rate unchanged at 7.25 percent since May 2024.

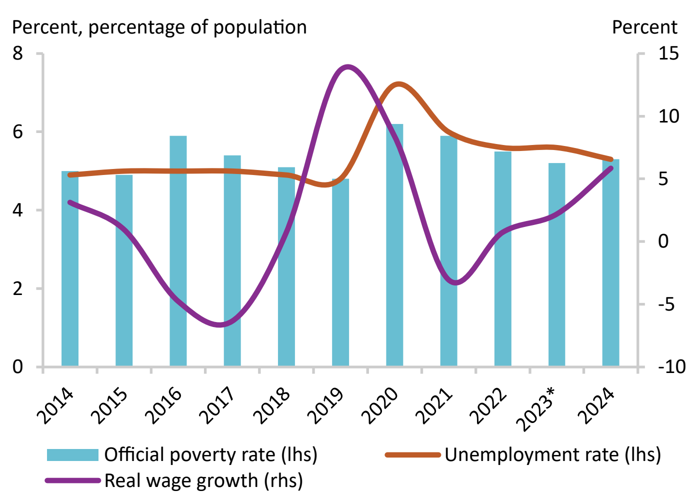
The fiscal surplus decreased to 7.7 percent of GDP in H1 2025, from 10.3 percent in H1 2024. Revenues fell 5.5 percent (yoy, in real terms) to 33.6 percent of GDP, primarily due to reduced

FIGURE 1 / Non-oil and gas GDP growth and oil price



Sources: State Statistical Committee and World Bank.

FIGURE 2 / Official poverty rate, unemployment rate, and real wage growth



Source: State Statistical Committee.
Notes: The World Bank has not yet reviewed the official national poverty rates for 2013–2023. *Preliminary.

hydrocarbon sector receipts because of lower prices. Tax collection in the non-hydrocarbon sector decreased 3.4 percent in real terms. Government expenditure in H1 rose 1.8 percent in real terms, to 31.5 percent of GDP, driven by a real increase in capital expenditure of 5 percent and a real decline in current expenditure of 1.3 percent (yoy) as budget execution lagged.

Excluding gold imports by the State Oil Fund of the Republic of Azerbaijan (SOFAZ) (8.7 percent of GDP), the trade surplus widened to 12.4 percent of GDP in 2024, with exports levelling and import growth remaining subdued, due to domestic demand easing. CBAR reserves increased 2.1 percent to US$11.1 billion by the end of H1 2025, equivalent to 5.6 months of import cover.

Credit to the economy moderated in H1 2025, growing 5.8 percent in real terms, with consumer and business lending growing 10.2 percent and 3.2 percent, respectively. The non-performing loan (NPL) ratio increased slightly to 1.7 percent. Bank deposits grew by 6.3 percent (yoy) in real terms, while banks' profits saw a 6.4 percent (yoy) decline in H1 2025.

Outlook

GDP is projected to grow by 1.9 percent in 2025, reflecting the decline in hydrocarbon output. A modest recovery in non-hydrocarbon sector growth is expected in H2 2025, as execution in public expenditure improves toward year-end. Real GDP growth is expected to remain subdued in the medium term, averaging 1.7 percent, with crude oil production contracting further and fiscal space narrowing due to less favorable hydrocarbon prices. This outlook underscores the urgency of advancing structural reforms to foster private sector–led growth in the non-hydrocarbon sector.

Inflation has already peaked and, in the absence of major external shocks, is expected to edge downward for the remainder of 2025 and stay within the CBAR's target in the medium term.

With energy prices projected to moderate, budget revenues are expected to contract, resulting in a narrowing of the fiscal surplus to an estimated 3.6 percent of GDP in 2025 and an average of 1.8 percent of GDP in 2026–2027. As fiscal space tightens, public expenditures (including investment) will need to decrease to ensure adherence to fiscal rule targets.

The current account surplus is expected to narrow to an average of 3.4 percent of GDP over the period 2025–2027, due to declining energy prices. Lower demand for imports because of low growth will partially offset the fall in exports, preventing further deterioration.

Downside risks to this outlook stem from subdued growth and declining energy prices, which could impact macroeconomic stability. On the upside, progress towards peace with Armenia would facilitate trade and attract greater foreign direct investment in the non-hydrocarbon sector.

Recent history and projections	2022	2023	2024	2025e	2026f	2027f
Real GDP growth, at constant market prices	4.6	1.1	4.1	1.9	1.8	1.7
Private consumption	4.9	4.0	7.0	4.4	4.3	4.1
Government consumption	6.3	8.1	11.3	3.8	2.5	1.9
Gross fixed capital investment	5.7	9.6	-0.7	-0.3	-0.4	-0.7
Exports, goods and services	3.3	-2.9	1.2	0.1	0.2	0.2
Imports, goods and services	3.2	1.9	3.1	1.8	1.7	1.6
Real GDP growth, at constant factor prices	4.6	1.1	4.1	1.9	1.8	1.7
Agriculture	3.4	3.2	1.4	2.5	2.6	2.6
Industry	2.4	-0.9	1.1	0.8	1.0	0.9
Services	8.5	3.8	9.1	3.4	2.7	2.6
Employment rate (% of working-age population, 15 years+)	60.4	60.0	59.4	59.4	59.4	59.4
Inflation (consumer price index)	13.8	9.0	2.1	4.6	3.0	2.8
Current account balance (% of GDP)	29.7	11.6	6.3	4.2	3.7	3.3
Net foreign direct investment inflow (% of GDP)	-1.4	-1.1	-1.1	-1.0	-1.0	-0.9
Fiscal balance (% of GDP)	5.4	8.1	4.0	3.6	1.9	1.7
Revenues (% of GDP)	30.7	39.9	38.3	36.6	34.2	33.9
Debt (% of GDP)	11.7	21.8	21.7	22.4	23.8	23.7
Primary balance (% of GDP)	5.9	8.8	4.4	4.3	2.6	2.4
GHG emissions growth (mtCO2e)	4.5	1.4	0.9	0.3	0.8	1.2

Source: World Bank, Poverty and Economic Policy Global Departments. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Data in annual percent change unless indicated otherwise.