

AZERBAIJAN

Table 1 **2023**

Population, million	10.2
GDP, current US\$ billion	72.7
GDP per capita, current US\$	7111.1
School enrollment, primary (% gross) ^a	99.8
Life expectancy at birth, years ^a	69.4
Total GHG emissions (mtCO ₂ e)	53.8

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent WDI value (2021).

Economic growth slowed to 1.1 percent in 2023, as a result of declining crude oil production and lackluster growth in the non-energy sector. Annual inflation fell sharply to 2.1 percent as both external and domestic pressures eased. Buoyant energy prices sustained sizable external and fiscal surpluses. In the medium-term, growth is projected to converge to about 2.5 percent as the fall in crude oil production eases and non-energy sector growth picks up.

Key conditions and challenges

Azerbaijan's continued reliance on hydrocarbons as a major source of export and fiscal revenues remains its main vulnerability. This challenges long-term growth prospects because of declining oil production, oil price volatility, and the global transition away from fossil fuels. Constraints to private sector development include a large state footprint in the economy, lack of a level playing field for companies, shallow financial markets, and a weak human capital base. Mitigation efforts around the world can substantially reduce Azerbaijan's resource rents through declining global fossil fuel demand and prices. Carbon border adjustment measures could further adversely impact the economy. Azerbaijan's hosting of COP29 in November 2024 may be an opportunity to boost climate mitigation and adaptation efforts. Elimination of distorting fossil fuel subsidies could substantially reduce emissions and boost the green transition.

Recent developments

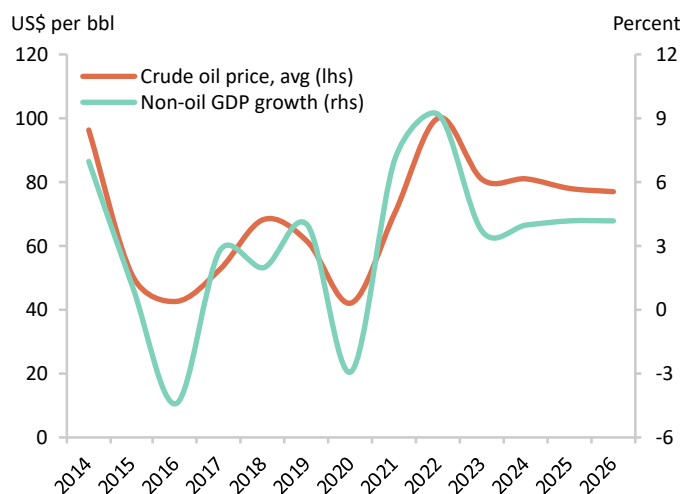
Economic growth decelerated to 1.1 percent in 2023, down from 4.6 percent in 2022. This slowdown was attributed to a contraction in crude oil production, while growth in the non-energy sector remained

subdued (3.7 percent, yoy). The decline in transport sector output, which had exhibited robust growth in 2022 due to booming air cargo transportation, weighed down non-energy sector expansion. However, the construction sector experienced notable growth, fueled by increased public investment in reconstruction. On the demand side, strong public investment helped compensate for anemic growth in private investment, while consumption growth eased compared to 2022. The unemployment rate edged down to 5.5 percent in 2023.

Inflation fell sharply in the second half of 2023, driven by a decline in global food prices and subdued domestic demand. End of period inflation for 2023 reached 2.1 percent, approaching the lower limit of the CBAR's inflation target interval of 4 +/-2 percent. Since October 2023, the CBAR cut the policy rate three times by a total of 125 basis points, bringing it to 7.75 percent as of end January 2024.

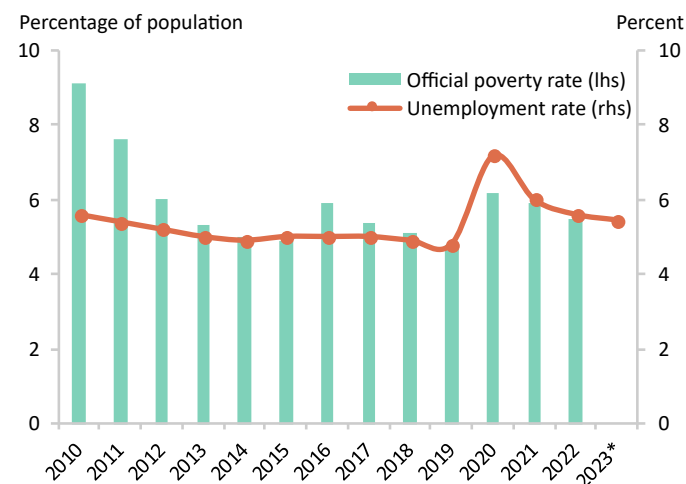
Buoyant oil and gas prices contributed to maintaining a robust external position. Hydrocarbon exports declined by 13 percent while non-hydrocarbon exports grew by 10 percent in 2023 compared to 2022. Over nine months, the current account balance (CAB) surplus reached 12.5 percent of GDP, as a substantial trade surplus offset the widening deficit in the primary income balance (driven by profit repatriation from energy companies). Remittance flows, primarily from Russia, declined in nine months of 2023 by 64 percent from the record-high levels seen in 2022, while remaining larger than in 2021. Financial outflows decreased significantly

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



Sources: State Statistical Committee, World Bank data, and World Bank staff estimates.

FIGURE 2 Azerbaijan / Official poverty rate and unemployment rate



Source: State Statistical Committee.

Notes: The World Bank has not yet reviewed the official national poverty rates for 2013–2022. *Preliminary.

as capital repatriation from natural gas production companies eased.

The strong external position allowed the CBAR to accumulate reserves, which increased by 29 percent in 2023, to USD 11 billion, covering six months of imports.

The fiscal surplus expanded to 8 percent of GDP in 2023, buoyed by favorable oil and gas prices and despite a notable increase in spending, which grew by 5.5 percent in real terms. This spending surge was primarily driven by a 13 percent real increase in capital spending, with the majority directed towards reconstruction needs. The non-energy primary balance is estimated at 21 percent of non-energy GDP, in line with the targets set for the fiscal rule. Due to the substantial fiscal surplus, SOFAZ assets grew by 14 percent in 2023, reaching USD 56 billion, equivalent to 77 percent of GDP.

Credit to the economy experienced a marked increase of 9 percent (yoy) in real terms in 2023, with the NPL ratio easing to 1.8 percent. The deposit portfolio fell by 6.5 percent in real terms.

Outlook

Economic growth is anticipated to reach 2.3 percent in 2024, driven by a less pronounced decline in crude oil output attributed to the commissioning of new oil platforms. Non-energy sector growth is expected to improve to 4 percent in 2024, primarily due to robust expansion in the construction sector fueled by public sector investments in reconstruction. Other sectors are expected to sustain their growth rates. On the demand side, consumption growth is expected to stabilize while investment growth is projected to remain moderate, supported by public investment but held back by anemic private investment growth. In the medium term, growth is forecast to hover around 2.4 percent but could accelerate if backed by a faster pace of implementation of structural reforms.

Inflation is projected to remain low, averaging 2.2 percent in the medium term,

owing to moderate domestic demand growth and stabilization in global food prices. The external balance is expected to stay in surplus in the medium term, with CAB averaging 7.5 percent of GDP, supported by favorable energy prices, while growth in imports is expected to stabilize. Money transfers are anticipated to cool further in 2024.

The fiscal position is expected to maintain a surplus in 2024-2026, averaging 3.2 percent of GDP, bolstered by a steady revenue flow from the energy sector. However, the fiscal surplus is estimated to ease in the medium term as the government has delayed reaching the fiscal target (set at non-energy primary balance as a percent of non-energy GDP at 17.5 percent) to 2027, allowing for increased spending.

The main downside risks relate to a fall in energy prices, which would impact economic activity. Upside risks include the potential increase in natural gas production due to a new field becoming operational.

TABLE 2 Azerbaijan / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	5.6	4.6	1.1	2.3	2.4	2.4
Private consumption	7.0	4.9	4.0	3.8	3.7	3.6
Government consumption	3.8	6.3	8.1	5.1	6.9	6.8
Gross fixed capital investment	-6.0	5.7	9.6	5.4	3.9	3.5
Exports, goods and services	5.6	3.3	-2.9	0.4	0.5	0.6
Imports, goods and services	2.5	3.2	1.9	2.7	2.7	2.7
Real GDP growth, at constant factor prices	5.6	4.6	1.1	2.3	2.4	2.4
Agriculture	3.3	3.4	3.2	3.0	3.0	3.0
Industry	4.1	2.4	-0.9	0.2	0.2	0.2
Services	8.6	8.5	3.8	5.3	5.3	5.2
Inflation (consumer price index)	6.7	13.8	2.1	2.2	2.3	2.3
Current account balance (% of GDP)	15.2	29.7	9.5	7.9	6.5	5.4
Net foreign direct investment inflow (% of GDP)	-4.1	-1.4	-1.1	-1.0	-1.0	-0.9
Fiscal balance (% of GDP)	4.2	5.8	8.1	5.2	2.0	0.6
Revenues (% of GDP)	36.5	31.6	40.7	38.1	34.5	32.0
Debt (% of GDP)	16.2	11.0	8.5	7.7	10.5	12.4
Primary balance (% of GDP)	4.8	6.1	8.4	5.4	2.2	0.8
GHG emissions growth (mtCO₂e)	4.4	-3.0	-0.6	0.5	1.1	1.3
Energy related GHG emissions (% of total)	64.1	62.9	62.7	63.0	63.3	63.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast.