

Ibadoghlu, Gubad

Preprint

The Current State of the Azerbaijani Economy and Future Prospects

Suggested Citation: Ibadoghlu, Gubad (2024) : The Current State of the Azerbaijani Economy and Future Prospects, ZBW - Leibniz Information Centre for Economics, Kiel, Hamburg

This Version is available at:

<https://hdl.handle.net/10419/303481>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

The Current State of the Azerbaijani Economy and Future Prospects

By Gubad Ibadoghlu, a senior policy analyst at the Economic Research Center

Abstract

Azerbaijan's economy is at a critical juncture, with the decreasing reliance on resource-based income signaling an imminent transition. The nation's strategic focus on economic diversification offers substantial prospects for growth in non-oil sectors. However, the pressing question remains: Is Azerbaijan sufficiently prepared for the post-oil era?

This paper aims to rigorously assess the key performance indicators outlined in the nation's state programs and strategic roadmaps, particularly in the context of diversifying the economy. By providing an in-depth analysis of both retrospective and prospective GDP growth, this study highlights the challenges and opportunities Azerbaijan faces in cultivating a more diverse and resilient economic landscape. The findings suggest that while there are significant hurdles to overcome, there is considerable potential for the country to transition towards a more sustainable, diversified economy that is less dependent on oil revenues.

This evaluation not only underscores the necessity for continued reforms but also identifies key areas where strategic investments and policy shifts could yield long-term benefits for Azerbaijan's economic future.

Keywords: Azerbaijan, national economy, GDP growth, COP29, fossil fuel, post-oil era, diversification, non-oil and gas exports, Strategic Roadmaps, State Programs

Contents

Introduction

- I. Retrospective and perspective analysis of the macroeconomic situation
- II. Prospects of the diversification for Azerbaijan's economy

Conclusion

Introduction

Azerbaijan is known worldwide as an oil country, and this is not without reason, as crude oil, petroleum products, and natural gas have constituted at least 90% of the country's exports over the past 15 years¹. The oil and gas sector has also significantly contributed to the formation of GDP², attracting direct foreign investments³, and maintaining fiscal stability⁴. From stabilizing the national currency⁵ to preserving political⁶ and social⁷ stability at all levels, oil and gas resources have played a leading role in addressing these issues. On July 18, 2022, Azerbaijan signed a "Memorandum of Understanding on Strategic Partnership in the Field of Energy" with the European Union, driven by these political dividends⁸.

However, the decline in oil production, which started even before the COVID-19 pandemic, has now become a trend. Since 2011, Azerbaijan has been producing less oil each year than the previous one. It is now widely acknowledged in Azerbaijan that the country's oil resources are depleting, and if the situation continues, Azerbaijan will go down in history as the country with the fastest depletion of oil resources among OPEC+ members. According to forecast calculations⁹, starting from the next decade, the country's commercial gas production will also decline, and Azerbaijan will transform from an oil-exporting country into an oil-importing one. The Azeri-Chirag-Gunashli (ACG) field, with reserves estimated at 5.4 billion barrels, has already produced 4.4 billion barrels of crude oil over the past 30 years. Although the remaining 1 billion barrels are planned to be extracted by 2049, the current production rate suggests that ACG reserves will be depleted within 10 years (G.Ibadoghlu, 2024)¹⁰.

¹ In 2023, the export of crude oil and oil products and natural gas accounted for 90.12 percent of the total export¹. https://customs.gov.az/uploads/foreign/2023/2023_12.pdf?v=1705581222

² In 2023, the oil and gas industry accounted for 33.82% of the GDP.

<https://www.stat.gov.az/news/macroeconomy.php?lang=az&page=9>

³ 30.87% of the investments in the economy of Azerbaijan in 2023 fell to the oil and gas sector. <https://cbar.az/page-43/external-sector-statistics>

⁴ In 2023, 51.52% of the budget revenues were provided due to oil and gas revenues.

https://sai.gov.az/files/2023_icra_rey-227333293.pdf

⁵ Since 2016, the exchange rate of the Azerbaijani manat against the US dollar has been determined at the rate of 1.7 manat per dollar. <https://cbar.az/page-41/macroeconomic-indicators#page-1>

⁶ Since 2006, the transportation of Azerbaijani oil from the Turkish port of Ceyhan, and in 2021, the transportation of Azerbaijani gas to Europe through TAP has started. <https://president.az/az/pages/view/azerbaijan/contract>

⁷ As of July 1, 2024, more than 2.7 billion manats have been spent from the State Oil Fund of Azerbaijan to improve the social and household conditions of refugees and internally displaced persons. <https://oilfund.az/report-and-statistics/recent-figures>

⁸ Memorandum of Understanding between Azerbaijan and the European Union on Strategic Partnership in the field of energy, <https://president.az/az/articles/view/56689>

⁹ Will Azerbaijan meet Europe's 2027 gas demand deadline?

<https://www.spglobal.com/commodityinsights/en/ci/research-analysis/will-azerbaijan-meet-europes-2027-gas-demand-deadline.html>

¹⁰ Ibadoghlu, Gubad, Orthodox View on the 30th Anniversary of the Azerbaijan's "Contract of the Century" (September 20, 2024). Available at SSRN: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4962993

At a government meeting on economic issues on September 26, 2024, it became clear that the Azerbaijani authorities understand they cannot halt the decline in oil production. As a result, they are pushing leading companies in the mining industry to make new investments to prevent a sharp drop in production. Speaking at the meeting, President Ilham Aliyev stated:¹¹ "In recent years, oil production in projects implemented by foreign oil companies has been decreasing year by year, which has naturally had a negative impact on our overall economic growth rates, and we have been compensating for this decline by developing the non-oil sector. However, deficiencies in oil production have been brought to the attention of foreign oil companies through negotiations, and they have been urged to address these shortcomings and ensure the stability of oil production. In recent months, very active work has been carried out in this direction. As a result, there is now a firm expectation that there will be no more unjustified declines in oil production."

President Aliyev's speech indicates that the government does not recognize that the national economy has entered a post-oil era or, even if it observes this, is unwilling to accept it. Over the past 20 years, sharp declines in oil production have been recorded, including a decrease of 5.2 million tons or 10.3% in 2011 compared to the previous year, 2.9 million tons or 7.9% in 2020, 2.5 million tons or 7.5% in 2023, and 2.4 million tons or 5.8% in 2017. This decline is primarily driven by the Azeri-Chirag-Gunashli (ACG) field. The highest production at ACG during the 20-year reporting period was recorded in 2010 at 300 million barrels. In 2023, oil production at ACG was only 44.5% of the 2010 peak, and production declined by 100 million barrels or 43% compared to 2014. The sharp decline in production at ACG began to be observed in 2018 and is expected to continue until 2025, with production stabilizing at around 119 million tons annually between 2025 and 2027 (G.Ibadoghlu and E.Bayramli, 2024)¹². Under such circumstances, the crucial task for the national economy is not to prevent the decline in oil production but to generate the lost added value from other sectors. However, the Azerbaijani government seems reluctant to acknowledge the beginning of the post-oil era. This also shows that the government has not prepared the national economy for the post-oil era.

For this reason, Azerbaijan, which will host COP29, is indifferent to the decision made at COP28 in Dubai to gradually phase out inefficient fossil fuel subsidies and implement other measures aimed at transitioning away from fossil fuels in energy systems¹³. State support for SOCAR continues from the state budget, and the company also finances quasi-fiscal expenditures

¹¹ A meeting devoted to economic issues was held with Ilham Aliyev, <https://president.az/az/articles/view/66934>

¹² Ibadoghlu, Gubad and Bayramli, Emin, Could the economy of Azerbaijan fall into the middle-income trap? (June 19, 2024). Available at SSRN: <https://ssrn.com/abstract=4870534> or <http://dx.doi.org/10.2139/ssrn.4870534>

¹³ Key highlights from COP 28, <https://unfccc.int/cop28/5-key-takeaways#end-of-fossil-fuels>

(G.Ibadoghlu, 2022)¹⁴. Furthermore, BP is beginning activities under the \$6 billion Azeri Central East (ACE) project, with production expected in the first quarter of 2025¹⁵. BP is also continuing work to assess hydrocarbon reserves and plan future activities at the first exploration well in the Shafag-Asiman offshore block¹⁶. In addition, BP has assessed gas reserves¹⁷ at Azerbaijan's offshore ACG field and, on September 20, 2024, signed a memorandum with SOCAR for two blocks (the first block Karabakh and the second block Ashrafi-Dan Ulduzu-Aypara) in the Caspian Sea¹⁸.

The Azerbaijani government is currently discussing investment plans for the second phase with TotalEnergies, which has already completed the first phase of production at the "Absheron" field¹⁹. The process has already begun. In 2023, the State Oil Fund received \$8.207 billion, of which \$6.899 billion came from the ACG field and \$1.308 billion from the Shah Deniz field (gas and condensate)²⁰. This means that the State Oil Fund's average monthly revenue from ACG and Shah Deniz in 2023 was \$683.9 million.

In the first eight months of 2024, the State Oil Fund received \$4.636 billion²¹, of which \$4.271 billion came from the ACG field and \$364.465 million from the Shah Deniz field (gas and condensate). Therefore, the State Oil Fund's average monthly revenue from ACG and Shah Deniz in the first eight months of 2024 was \$579.5 million. As seen, the monthly revenues from ACG and Shah Deniz in each month of this year have decreased by up to \$105 million compared to the same period last year. This decline will undoubtedly continue in the coming years. Nevertheless, President Ilham Aliyev expressed satisfaction with the results and economic indicators achieved since the beginning of the year during the meeting. He noted, "Economic growth was 4.3%. Considering the processes taking place in the world today and the overall geopolitical situation, I can say that this is a very positive indicator."

¹⁴ Ibadoghlu, Gubad, Retrospective Assessment of Corruption Risks and Perspective Assessment of Future Activities of SOCAR (July 21, 2022). Available at SSRN: <https://ssrn.com/abstract=4168843> or <http://dx.doi.org/10.2139/ssrn.4168843>

¹⁵ bp begins oil production from major new platform offshore Azerbaijan, <https://www.bp.com/en/global/corporate/news-and-insights/press-releases/bp-begins-oil-production-from-major-new-platform-offshore-azerbaijan.html>

¹⁶ First Shafag-Asiman exploration well spudded offshore Azerbaijan, https://www.bp.com/en_az/azerbaijan/home/who-we-are/operationsprojects/shafag-asiman.html

¹⁷ bp assessing gas resource at ACG Field offshore Azerbaijan, <https://www.offshore-mag.com/drilling-completion/article/55130609/bp-assessing-gas-resource-at-acg-field-offshore-azerbaijan>

¹⁸ bp and SOCAR sign MOU on two blocks in the Caspian Sea, https://www.bp.com/en_az/azerbaijan/home/news/press-releases/bp-and-SOCAR-sign-MOU-on-two-blocks-in-the-Caspian-Sea.html

¹⁹ TotalEnergies launches second phase of Absheron gas field development, <https://www.ogj.com/exploration-development/article/14298435/totalenergies-launches-second-phase-of-absheron-gas-field-development>

²⁰ Annual report of the State Oil Fund of the Republic of Azerbaijan for 2023, https://oilfund.az/report-and-statistics/get-download-file/flip/7_2023_tam.pdf

²¹ ACG and Shah Deniz revenues, <https://oilfund.az/fund/press-room/news-archive/1655>

I. Retrospective and perspective analysis of the macroeconomic situation

The reality is that the economic growth rate recorded in Azerbaijan over the past five years is below that of most CIS countries. In January-July 2024, Azerbaijan's GDP growth rate surpassed only Moldova and Kazakhstan among CIS countries, and its industrial production growth rate exceeded only Moldova and Kyrgyzstan. Thus, Azerbaijan lags behind the other seven CIS countries in terms of both GDP and industrial production growth rates. The current situation can be observed in Table 1, based on data from the CIS Statistical Committee²².

Table 1. Key Macroeconomic Indicators of CIS Countries in January-July 2024

Country	GDP Growth (%)	Industrial Production Growth (%)
Kyrgyzstan	108.7	100.8
Tajikistan	108.2	112.1
Armenia	106.5	115.7
Uzbekistan	106.4	107.1
Turkmenistan	106.3	-
Belarus	105.5	107.5
Russia	104.7	104.8
Azerbaijan	104.5	101.7
Kazakhstan	103.2	102.9
Moldova	102.2	100.7
CIS Average	104.7	104.5

Source: CIS Statistical Committee

As seen from the table, in January-July 2024, both GDP and industrial production growth rates in Azerbaijan were below the CIS average.

Looking ahead, economic growth in Azerbaijan is expected to slow down. According to the World Bank's "Global Economic Prospects - June 2024" report²³, economic growth in Azerbaijan will continue to slow compared to 2021 and 2022, with low growth rates persisting over the next two years. This situation is presented in Table 2.

²² CIS Statistical Committee, <https://new.cisstat.org/web/guest/doc>

²³ Global Economic Prospects, June 2024, <https://openknowledge.worldbank.org/server/api/core/bitstreams/6feb9566-e973-4706-a4e1-b3b82a1a758d/content>

Table 2. GDP Growth in CIS Countries, 2021-2026

Country	2021	2022	2023	2024 (Forecast)	2025 (Forecast)	2026 (Forecast)
Azerbaijan	5.6	4.6	1.1	2.3	2.4	2.4
Armenia	5.8	12.6	8.7	5.5	4.9	4.5
Georgia	10.6	11.0	7.5	5.2	5.0	5.0
Kazakhstan	4.3	3.2	5.1	3.4	4.7	3.6
Kyrgyzstan	5.5	9.0	6.2	4.5	4.2	4.0
Belarus	2.4	-4.7	3.9	1.2	0.7	0.5
Moldova	13.9	-4.6	0.7	2.2	3.9	4.5
Russia	5.9	-1.2	3.6	2.9	1.4	1.1
Ukraine	3.4	-28.8	5.3	3.2	6.5	5.1
Uzbekistan	7.4	5.7	6.0	5.3	5.5	5.7
Tajikistan	9.4	8.0	8.3	6.5	4.5	4.5
Europe and Central Asia	7.2	1.6	3.2	3.0	2.9	2.8

Source: World Bank's Global Economic Prospects Report

As seen from the table, during the period 2021-2026, GDP growth in Azerbaijan is below the regional average for Europe and Central Asia, except for the year 2022.

In recent years, Azerbaijan has not only lagged behind the European and Central Asian regional indicators in terms of economic growth levels but also fell behind the average GDP growth rate of developing countries. The economic analysis and forecasts from the United Nations Department of Economic and Social Affairs indicate that in Least Developed Countries (LDCs), economic growth is expected to rise to as much as 4.8 percent in 2024 compared to the previous year. In LDCs, the average GDP growth in 2023 was 4.2 percent. For landlocked developing countries (LLDCs), a GDP growth of 4.7 percent is anticipated in 2024, which is close to the level recorded in 2023²⁴.

The economic prospects of Small Island Developing States (SIDS), which are most adversely affected by the negative impacts of climate change, are improving thanks to the sustained revival of tourism activities and the restoration of remittance inflows. Specifically, another report from

²⁴World Economic Situation and Prospects: June 2024 Briefing, No. 181, <https://www.un.org/development/desa/dpad/publication/world-economic-situation-and-prospects-june-2024-briefing-no-181/>

the United Nations Department of Economic and Social Affairs forecasts that the real GDP growth of SIDS will accelerate from 2.4 percent in 2023 to 3.3 percent in 2024²⁵.

According to the Organization for Economic Cooperation and Development (OECD) economic reviews and forecasts, following a 3.1% growth in global GDP in 2023, a similar 3.1% growth is expected in 2024, with a projection of an increase to 3.2% by 2025²⁶.

Considering that Azerbaijan is part of the LLDC group, the prospects for economic growth in the country appear bleak compared to other nations in the same category. The World Bank forecasts a 2.3 percent growth for Azerbaijan in 2024.

If we classify these indicators into three groups by decades, then the average indicator of GDP production by groups is shown in the table # 3. (G. Ibadoghlu and I. Bayramov, 2024)²⁷.

Table 3. GDP production in Azerbaijan for 1996-2025

	1996-2005, on average	2006-2015, on average	2016-2025*, on average
GDP growth	10.39 percent	9.66 percent	1.29 percent

*GDP growth forecasts for 2024 and 2025 are 2.3 and 2.4 percent, respectively.

According to the World Bank's Global Economic Prospects report released in June 2024, developing economies are projected to grow at an average of 4% in 2024-25, which is slightly slower than in 2023. However, in low-income economies, growth is expected to accelerate from 3.8% in 2023 to as much as 5% in 2024. The report also indicates that the global economy is expected to stabilize in 2024 for the first time in three years²⁸.

In the Economic Memorandum for Azerbaijan²⁹ published by the World Bank in September 2022, it is stated that if the Azerbaijani government does not implement fundamental changes in its economic policies, economic growth in Azerbaijan could become a serious problem. The short

²⁵World Economic Situation and Prospects: June 2024 Briefing, No. 181, <https://www.un.org/development/desa/dpad/publication/world-economic-situation-and-prospects-june-2024-briefing-no-181/>

²⁶ Economic outlook: Steady global growth expected for 2024 and 2025, <https://www.oecd.org/en/about/news/press-releases/2024/05/economic-outlook-steady-global-growth-expected-for-2024-and-2025.html>

²⁷ Ibadoghlu, Gubad and Bayramov, Ibad, Evaluation of the target indicators of the Strategic Roadmap: the effects of "twin deficits" and "spending of unearned money" (June 20, 2024). Available at SSRN: <https://ssrn.com/abstract=4871213> or <http://dx.doi.org/10.2139/ssrn.4871213>

²⁸ World Bank Global Economic Prospects, June 2024, <https://openknowledge.worldbank.org/server/api/core/bitstreams/6feb9566-e973-4706-a4e1-b3b82a1a758d/content>

²⁹ World Bank Azerbaijan Country Economic Memorandum, September 2022, <https://documents1.worldbank.org/curated/en/09910000922236784/pdf/P17532606988e2056084e603c9c48ddc618.pdf>

version of the World Bank staff's Long-Term Growth Model (LTGM) calculations is presented in Table 4.

Table 4. Summary of Simulations for Azerbaijan from 2024-2050

Average Growth Rate (%)	2024-2050	2024-2029	2030s	2040s
I. Total GDP	0.5	1.1	0.5	0.1
II. Non-Energy GDP	1.6	2.0	1.8	1.3
III. Energy GDP (Oil + Gas)	-2.3	-0.2	-2.2	-3.5

Source: World Bank staff's LTGM calculations

Note: LTGM and its extensions are a set of tools developed based on the Solow-Swan Economic Growth Model (1956) using Excel to analyze future long-term growth scenarios³⁰.

World Bank experts have prepared these calculations based on the initial scenario reflecting Azerbaijan's current state economic policies. The World Bank staff's LTGM calculations indicate that under the initial scenario, Azerbaijan's GDP will grow at an average annual rate of 0.5 percent from 2024 to 2050. During this period, the non-energy GDP is expected to grow by an average of 1.6 percent, while the energy GDP will decrease by 2.3 percent. The LTGM calculations for the initial scenario show that the economic difficulties for Azerbaijan will begin in 2030 and worsen after 2040. Specifically, from 2040 to 2050, the average annual GDP growth rate will be 0.1 percent. This means that while the natural population growth exceeds this rate, the per capita national income will begin to decline. According to the calculations, the economic situation in this decade (2040-2050) will be exacerbated not only by the sharp decline in energy GDP but also by the slowdown in the growth rate of non-energy GDP, which will begin in 2030.

Additionally, considering the implementation of a package of reforms targeting all growth stimulants, World Bank staff have also forecasted growth under a reform scenario. The summary of growth stimulants under the reform scenario suggests that GDP's annual growth rate could increase by an average of 1.7 percentage points by 2050. They believe that economic growth can be ensured by enhancing productivity and developing human capital. In the reform scenario, growth stimulants include changes in human capital (1), private investments (2), government investments (3), and women's participation in the workforce (4).

1. Human Capital: According to World Bank experts, in the long term, the proposed reforms in Azerbaijan for developing human capital should include improving the basic education system and its quality, enhancing the quality of higher and vocational education,

³⁰ The Long Term Growth Model, <https://www.worldbank.org/en/research/brief/LTGM>

linking the development of a skilled workforce with the labor market, adapting existing skills to the labor market, and strengthening social protection.

2. Private Investments: The World Bank³¹ believes that economic reforms that strengthen the business environment and promote entrepreneurship will increase private investments in Azerbaijan by 2050, raising the annual GDP growth by approximately 0.3 percentage points. Experts expect Azerbaijan to increase private investments to 20 percent of GDP by 2030 by implementing reforms to improve market efficiency and competitiveness. These reforms will have a strong impact on growth in the initial years and ensure an additional GDP growth of +0.5 percentage points by 2030. However, without complementary reforms to enhance productivity, the returns on private investments will significantly decline over time. As a result, the additional growth will decrease to +0.1 percent by 2040. This slowdown indicates that investments alone do not bring sustainable long-term growth.

3. Government Investments: World Bank experts believe that the economic benefits of the increasing government investment strategy in Azerbaijan will not be substantial. According to the simulated scenario, while the trajectory of government investments is assumed to support growth until 2030 (considering necessary budget expenditures supporting reforms), it will begin to gradually decrease from 2030 to 2035. Increasing government investments to up to 8 percent of GDP by 2030 will provide a weak boost to GDP growth in the medium term (0.2 percentage points in the 2020s) and could generate nearly zero additional growth in the long term.

4. Women's Participation in the Workforce: Regarding women's participation in the workforce, support for women's employment, self-employment, and entrepreneurship can be noted. Companies with a majority of female shareholders in Azerbaijan have one of the lowest percentages in the region (only 15 percent). Azerbaijan also has one of the lowest levels of female representation in high-level executive positions, with Kazakhstan, a structurally similar country, having a rate of 26 percent compared to Azerbaijan's 16.5 percent. Additionally, according to the State Statistics Committee³², the unemployment rate among women is higher than among men, and in 2020, the average monthly wage for men was 58 percent higher than that for women.

As seen, the Azerbaijani government should focus on the qualitative aspects of economic growth rather than the quantitative side. Regarding quantity, the current year's economic growth rate is 33.9 percent in Qatar and was Macau last year. This does not mean that Qatar or Macau are

³¹ World Bank Azerbaijan Country Economic Memorandum, September 2022, <https://documents1.worldbank.org/curated/en/099100009222236784/pdf/P17532606988e2056084e603c9c48ddc618.pdf>

³² State Statistical Committee, Labour Market Reports, <https://www.stat.gov.az/source/labour/>

developing better. A one-year indicator is not significant in terms of economic growth. In the last five years within the CIS region, the highest growth was recorded in Tajikistan at -7.3 percent, while Azerbaijan's growth was 1.9 percent³³.

Therefore, in the advisory, attention should be paid to the qualitative aspects of Azerbaijan's economic indicators rather than the quantitative ones, which is essential for an objective assessment of the current situation and for better defining future-oriented policies.

³³ Countries with Highest GDP Growth 2024, <https://gfmag.com/data/countries-highest-gdp-growth/>

II. Prospect of the diversification for Azerbaijan's economy

Diversification, which has long been crucial for Azerbaijan's economy, is even more relevant in the current situation. However, without a competitive environment, a diversification policy implemented through the state's administrative and financial resources cannot ensure sustainable development in the medium and long term. Such policies, while having short-term effects, primarily serve to strengthen the dominance of more monopolistic companies.

On September 26, 2024, during a consultation dedicated to economic issues, President Aliyev stated³⁴, "Our main goal is to further diversify our economy and improve the model of sustainable development." Although this reiterates previously stated goals, it has not been realized in practice. Specifically, many of the concrete targets set in the "National Economy and Strategic Roadmaps for Main Sectors of the Economy"³⁵, approved by presidential decrees, as well as in the State Programs adopted for the agricultural sector, have not been met.

Naturally, as a result, the outcomes in the direction of diversifying the national economy have been unsatisfactory. Unfortunately, consultations dedicated to economic issues do not discuss the reasons for the failure to implement the tasks and achieve the targets set in the State Programs and Strategic Roadmaps. In general, there are no platforms for such discussions. Consequently, the implementation level of the approved Strategic Roadmaps and State Programs is low. The regrettable results obtained from the preliminary evaluation of the target indicators defined in the Strategic Roadmap for the National Economy of the Republic of Azerbaijan up to 2025³⁶ confirm this (G. Ibadoghlu and I. Bayramov, 2024)³⁷. In the Strategic Roadmap for the National Economy of the Republic of Azerbaijan (hereinafter referred to as SRM), two out of five target indicators are directly related to the diversification of the economy. A glance at them reveals that the economic policies pursued in the area of diversification have been unsuccessful so far. According to the initial assessment, the target of increasing non-oil sector exports to \$450 per capita is still far from being achieved. In 2023, the per capita export in the non-oil sector was \$324.1. This year, the situation in this area has worsened further. According to the State Statistics Committee³⁸, non-oil and gas exports for January-July 2024 amounted to \$1,874.7 million. Thus, non-oil and gas

³⁴ Speech by President of the Republic of Azerbaijan Ilham Aliyev at the meeting, September 26, 2024, <https://president.az/az/articles/view/66934>

³⁵ Decree of the president of the Republic of Azerbaijan on approval of strategic road maps on the national economy and key sectors of the economy, <https://president.az/az/articles/view/21953>

³⁶ Strategic road map of the Republic of Azerbaijan on national economy perspective, <https://static.president.az/pdf/38542.pdf>

³⁷ Ibadoghlu, Gubad and Bayramov, Ibad, Evaluation of the target indicators of the Strategic Roadmap: the effects of "twin deficits" and "spending of unearned money" (June 20, 2024). Available at SSRN: <https://ssrn.com/abstract=4871213> or <http://dx.doi.org/10.2139/ssrn.4871213>

³⁸ Macroeconomic indicators of the country's economic and social development in January-August 2024, <https://www.stat.gov.az/news/macroeconomy.php?page=1&lang=az>

exports in January-July 2024 decreased by 93.4% in real terms and by 83.7% in comparative terms compared to the same period in 2023. Considering the natural population growth and the decline in non-oil and gas exports in January-July 2024 compared to the previous year, it is expected that by the end of this year, non-oil and gas exports per capita will be around \$300. The achieved result in SRM for the target indicator of \$450 per capita non-oil and gas exports by 2025 may reach two-thirds.

In SRM, the share of direct foreign investments aimed at the non-oil sector in the non-oil GDP is set to be above 4%, which was achieved based on last year's data. In my opinion, this target indicator in SRM is set too low. According to the International Monetary Fund's database³⁹, the actual special weight of total investments in GDP for oil-exporting countries in 2024 is 24.63%. Regarding the export of services, one of the crucial sectors for diversification is transportation. In recent years, the export of transportation services among South Caucasus countries has varied between 6-7% of GDP in Georgia, 1.5-2% of GDP in Armenia, and between 1.1-3.0% of GDP in Azerbaijan. The transit potential of South Caucasus countries is mainly determined by the quality of these transportation and logistics services. The most suitable indicator for a comprehensive assessment of this metric is the Logistics Performance Index (LPI)⁴⁰ calculated by the World Bank. In terms of logistics efficiency, Armenia and Georgia ranked 92nd and 119th, respectively, out of 160 countries in 2022. This indicator is considerably low compared to neighboring countries (Turkey, Iran, Kazakhstan, Russia). Unfortunately, the World Bank has not included Azerbaijan in the LPI index.

Regarding State Programs, especially in the agricultural sector, the targets set for the development of technical sericulture have not been achieved. Let us examine some of them.

As a result of implementing the “State Program for the Development of Sericulture and Silk Production in the Republic of Azerbaijan for 2018–2025,” approved by Presidential Decree No. 3406 dated November 27, 2017, it was planned⁴¹ to increase the volume of raw silk production to 6,000 tons by 2025. According to statistical data⁴², raw silk production was 3.7 thousand tons in 1970, 4.4 thousand tons in 1975, 5.0 thousand tons in 1980, and 5.5 thousand tons in 1985. A sericulture network was established in 60 districts. As a result of extensive work carried out in the development of sericulture during that period, raw silk production in the country reached 5.9 thousand tons by 1991. From 1992 onwards, raw silk production (5,200 tons) gradually declined, and in 2015, only 236 kilograms of raw silk were produced in the country. In 2016, 70.7 tons; in

³⁹ Oil-exporting countries Datasets, <https://www.imf.org/external/datamapper/profile/OEXP>

⁴⁰ <https://lpi.worldbank.org/international/global>

⁴¹ State Program for 2018-2025 on the development of cocooning and sericulture in the Republic of Azerbaijan, <https://e-qanun.az/framework/37032>

⁴² Agricultural statistics, <https://www.stat.gov.az/source/agriculture/>

2017, 245.2 tons; in 2018, 514 tons; in 2019, 641 tons; in 2020, 446.6 tons; in 2021, 497.4 tons; in 2022, 341.4 tons; and in 2023, 357 tons of raw silk were produced. By June 20, 2024, kumchuls delivered 230.9 tons of raw silk to supply points. Although the subsidy provided by the state for raw silk supply has been increased since 2022, and the purchase price of the product has been raised, kumchuls sell raw silk at 5 manats per kilogram to "Azeripek" LLC. Additionally, the state pays farmers a subsidy of 6 manats per kilogram of raw silk produced, resulting in farmers receiving a total of 11 manats for each kilogram of raw silk they deliver. However, this year, only 1/26th of the raw silk production target set in the State Program was achieved.

As a result of implementing the "State Program for the Development of Cotton Production in the Republic of Azerbaijan for 2017-2022"⁴³, approved by Presidential Decree No. 3082 dated July 13, 2017, it was planned to achieve raw cotton production of 500 thousand tons by 2022. According to statistical data⁴⁴, cotton harvested in Azerbaijan was 89.4 thousand tons in 2016, 207.5 thousand tons in 2017, 233.6 thousand tons in 2018, 295.3 thousand tons in 2019, 336.8 thousand tons in 2020, 287 thousand tons in 2021, 322.5 thousand tons in 2022, and 276.3 thousand tons in 2023. As seen, 64.5% of the target was achieved in 2022 and 55.2% in 2023.

In the "State Program for the Development of Tobacco Growing in the Republic of Azerbaijan for 2017–2021"⁴⁵, approved by Presidential Decree No. 3163 dated August 10, 2017, it was planned to reach an average yield of 20 centners/hectare, cultivate 6,000 hectares of land, and produce 12 thousand tons of tobacco by 2021. According to statistical data, raw tobacco harvested was 5.3 thousand tons in 2017, 6.3 thousand tons in 2018, 6 thousand tons in 2019, 6.9 thousand tons in 2020, 6.4 thousand tons in 2021, 5.1 thousand tons in 2022, and 6.3 thousand tons in 2023. As seen, the government could not reach the target set in this program either. Although the target for raw tobacco production was to reach 12 thousand tons in 2021, only 53.3% of the target was achieved in that year.

⁴³ State Program for the development of cotton cultivation in the Republic of Azerbaijan for 2017-2022, <https://e-qanun.az/framework/36050>

⁴⁴ Agricultural statistics, <https://www.stat.gov.az/source/agriculture/>

⁴⁵ State Program for the development of tobacco farming in the Republic of Azerbaijan for 2017-2021, <https://e-qanun.az/framework/36324>

Conclusion

As seen, the problem of Azerbaijan's economy is not only the decline in production and rising costs in the oil sector, the decrease in gas prices, but also difficulties in the transportation and agricultural sectors. As a result of all these factors⁴⁶, both the export of oil and gas products and non-oil and gas goods and services are decreasing compared to previous years. This necessitates a reassessment of the country's economic diversification policy. The success of this policy depends on the state's completion of the transition to a market economy, supporting freedoms and competition, ensuring the independence of the judicial and legal system, reducing the tax burden and corruption in business, and legalizing the shadow economy.

⁴⁶ Agricultural statistics, <https://www.stat.gov.az/source/agriculture/>