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Analysis of Azerbaijan's 2024 Economy and Projections for 2025

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Abstract

This article examines Azerbaijan's economic performance in 2024 and provides projections for 2025, highlighting key challenges and potential opportunities. Despite expectations for reform, 2024 was marked by persistent inflation, currency pressures, and declining investments, underscoring the enduring dominance of monopolistic practices and governance inefficiencies. Notable developments included rising prices for essential goods and services, a decrease in fixed capital investments, and heightened demand for foreign currency, leading to reduced reserves and capital outflows.

Looking ahead to 2025, the economy is expected to face significant headwinds, including declining oil prices, inflationary pressures, and devaluation risks. These factors are projected to slow GDP growth, strain public finances, and exacerbate social inequality. Key initiatives, such as the "Azerbaijan 2030" strategic framework and the "Great Return" program, face implementation challenges, particularly amidst fiscal inefficiencies and limited transparency.

Keywords: Azerbaijan, economy, GDP, oil and gas prices, inflation, devaluation, investments, monopolization, corruption, unfair competition

Reflections on the 2024 Economy

The year 2024 could not solidify its place in history as a year of significant economic reforms or transformations. Instead, it was marked by rising concerns among consumers and businesses over price hikes and devaluation expectations, which persisted throughout the year.

Key inflationary pressures stemmed from several factors, including the increase in the prices of AI-92 gasoline and diesel fuel in the second half of the previous year, higher public transport fares, and the rise in monthly internet package prices from August 15. Despite these non-monetary inflationary factors remaining active throughout the year, official statistics¹ reported a consumer price index of 104.4% in November 2024 compared to November 2023. The Central Bank of Azerbaijan announced that its baseline scenario for the year-end and 2025 projected annual inflation to remain within the target range of $4\% \pm 2\%$.

One notable price reduction occurred on July 15, 2024, when the price of AI-95 gasoline dropped by 40 cent per liter, reaching 1.60 AZN. This marked the largest price decrease of the year.

Despite persistent expectations of devaluation formed at the beginning of the year, 2024 did not turn into a devaluation year. Banks' growing demand for U.S. dollars was met throughout the year. Foreign exchange auctions conducted by the Central Bank of Azerbaijan, in conjunction with the State Oil Fund, concluded on December 25, 2024. Over the year, \$7.168 billion was sold to local banks, surpassing the 2023 level by \$3.290 billion, an 84.8% increase. Nonetheless, the Central Bank maintained² that favorable external sector indicators ensured stability in the foreign exchange market and that all demand was met during currency auctions.

Addressing the rising demand for dollars, the Central Bank stated on February 13, 2024, that the surge in recent auctions was seasonal, primarily driven by the implementation of certain state projects and the private sector's import needs, including food and agricultural products. However, by year-end, it became clear that the increased demand was not seasonal as initially claimed but had systemic and multifaceted causes (Ibadoghlu, G, 2024A)³.

The highest volume of currency purchases in 2024 occurred in October, totaling \$738.7 million. Most of the supply at these auctions came from the Central Bank, with only \$174.4 million offered by the State Oil Fund. Consequently, fears of devaluation led to a decline in the Central Bank's foreign currency reserves over the year. While reserves grew by only \$183 million in the first nine

¹ https://www.stat.gov.az/news/source/Press-11_2024.pdf

² <https://www.cbar.az/press-release-4922/on-interest-rate-corridor-parameters>

³ Ibadoghlu, Gubad, Devaluation of Manat: Expectations and Realities (July 15, 2024). Available at SSRN: <https://ssrn.com/abstract=4895347>

months, the Central Bank lost \$424 million and \$404 million in consecutive months at year-end, totaling an \$821 million decline. As a result, foreign exchange reserves decreased by \$645.2 million by the end of the year, standing at \$10.968 billion.

Additionally, according to the Central Bank's Balance of Payments report, capital outflows from Azerbaijan amounted to \$3.570 billion in the first nine months of 2024, reflecting the country's negative financial account balance.

Despite these developments, including the reduction in foreign currency reserves and increased capital outflows, the transition to a secure floating exchange rate system for the national currency remained unachieved in 2024. The looming threat of devaluation persisted as a "Sword of Damocles" over the national currency, pushing these concerns into 2025.

One of the distinguishing features last year was the decrease in funds directed to fixed capital in the economy, including the non-oil and gas sector, exports, and particularly the comparative decrease in non-oil and gas exports. During the past year, Azerbaijan's monthly foreign trade recorded a negative balance three times - in March, September, and November.

In Azerbaijan, a decrease in investment in fixed capital has been observed since September of last year. According to official statistics, from January to November 2024, investments amounting to 15 billion 910.3 million AZN were made in fixed capital in Azerbaijan. This represents a decrease of 3.8 percent compared to the corresponding period in 2023. During the reporting period, investments directed to the oil and gas sector decreased by 9.0 percent, while those directed to the non-oil and gas sector decreased by 1.1 percent.

In 2024, the main ideas are related to expanding the role of the green economy, although the actual work in this area, including the implementation of projects planned for 2025 and beyond, is expected to materialize.

One significant step in economic governance last year was the creation of the Azerbaijan Transport and Communication Holding (AZCON) as a public legal entity and the transfer of state enterprises operating in the transport and communication sectors to its management. Thus, entities such as "Azerbaijan Airlines" Closed Joint Stock Company, "Azerbaijan Railways" Closed Joint Stock Company, "Azerbaijan Caspian Shipping Company" Closed Joint Stock Company, "Baku Metro" Closed Joint Stock Company, "Baku International Sea Trade Port" Closed Joint Stock Company, "BakuBus" Limited Liability Company, Baku Shipyard, "Azerbaijan Space Agency (Azerkosmos)" under the Ministry of Digital Development and Transport, "Aztelecom" Limited Liability Company, "Azerbaijan International Telecom (AzInTelecom)" Limited Liability Company, "Azərpoçt" Limited Liability Company, "Baku Taxi Service" Limited Liability Company, "Radio-Television Broadcasting and Satellite Communications" Production Union, and other legal entities and institutions, were transferred to the management of AZCON.

In 2024, efforts to curb non-cash payments through card-to-card transfers instead of POS terminals gained momentum, particularly in retail trade and food service establishments. The State Tax Service ramped up control measures to address this issue.

Despite the Competition Code set to take effect on July 1, 2024, it fell short of expectations. Economic control remained concentrated in the hands of monopolists, further strengthening their dominance in the markets last year.

Outlook for 2025

Looking ahead, Azerbaijan's economy in 2025 is expected to rely even more heavily on oil and gas revenues. With pessimistic forecasts predicting a sharp decline in oil and gas prices, the need to mobilize additional and sustainable revenue sources has become increasingly urgent.

The removal or continuation of regulated tariffs for electricity, natural gas, and pharmaceuticals—along with stricter penalties and sanctions introduced at the start of 2025—suggest rising household expenses, exacerbating social inequality and poverty. Additionally, devaluation pressures on the Azerbaijani manat are expected to intensify throughout the year.

As 2025 begins, the national economy, heavily dependent on resource revenues, faces a mix of challenges. While oil production remains relatively stable, declining oil prices, rising inflationary pressures, and expectations of currency devaluation are creating significant headwinds. These factors are likely to slow real GDP growth, curtail investment, and erode purchasing power. As a result, job creation prospects will diminish, exacerbating labor market tensions and contributing to higher unemployment and poverty rates.

In 2024, the absence of progress in anticipated reforms and the failure to address persistent issues such as monopolization and corruption, combined with increasing instances of unfair competition, significantly restricted the scope of free enterprise. These challenges curtailed overall business activity and further entrenched the dominance of monopolistic companies in the market. Additionally, at the end of December 2024, the Nakhchivan Serious Crimes Court concluded the case against former officials of the Nakhchivan Autonomous Republic, accused of embezzling hundreds of millions of state funds. Despite the allegations—15 million AZN against Rafael Aliyev (former Minister of Finance), 212 million AZN against Hijran Rustamov (former head of the Architecture Committee), and 132 million AZN against Sahhat Habibbeyli and Mansur Asgarov (Customs officials)—they received conditional sentences⁴.

2024 also saw an increase in non-productive and non-commercial state expenditures and a rise in the current costs of the state budget, which will further strain fiscal obligations in 2025. The 2025 state budget projects expenditures of 24.845 billion AZN (60.1%) for current expenses, up by 1.774 billion AZN (7.7%) compared to 2024, and 14.123 billion AZN (34.1%) for capital expenditures, down by 1.253 billion AZN (8.1%). Additionally, 2.400 billion AZN (5.8%) is allocated for debt servicing and obligations, representing an increase of 427 million AZN over the previous year⁵.

⁴ <https://turan.az/az/siyaset/dovlet-memurlari-yuz-milyonlarla-manatin-menimsenilmisine-gore-serti-ceza-aliblar-788907>

⁵ <https://turan.az/az/makroiqtisadiyyat/2025-ci-ilin-budcesi-neler-ved-edir-788587>

During the parliamentary discussions of the 2025 state budget, Prime Minister Ali Asadov highlighted that, since 2020, approximately 22 billion AZN has been allocated for reconstruction efforts in liberated territories, including 4 billion AZN in 2025⁶. Under the framework of the "Great Return," 2,417 families—9,306 individuals—have been resettled in liberated areas. Excluding the construction of 3,000 housing units yet to be completed, an average of 1.934 million AZN per person and 7.447 million AZN per family was spent in Karabakh and Eastern Zangezur between 2021 and 2024. In subsequent years, per capita expenditures are expected to decrease as infrastructure costs decline.

"The 'Great Return I' plan anticipates that expenditures related to the reconstruction and rehabilitation of territories liberated from occupation during 2025-2028 will amount to 14 billion 612 million manats. In 2025, defense and national security expenditures from the budget are projected at 8 billion 396.3 million manats (accounting for 20.3 percent of total expenditures)⁷. As it appears, in 2025, the total non-productive expenditures in just two areas (defense and rehabilitation) will reach 12.4 billion manats, constituting up to 30 percent of the total budget expenditures projected for that year. Additionally, the implementation of investments from the budget in a corrupt environment with lack of transparency further diminishes their economic significance.

In 2024, shifts in Azerbaijan's foreign policy direction and the outcome of the U.S. presidential elections emerged as potentially influential factors for the economy in 2025. Azerbaijan's inclination towards closer alignment with BRICS and the Shanghai Cooperation Organization (SCO) during 2024 further underscores these dynamics (Ibadoghlu, G, 2024B)⁸, and joining the D-8 organization⁹ could be seen as a political distancing from Europe, which will not go unnoticed in the economic relations between Azerbaijan and the European Union, its main trading partner in 2025. As President Ilham Aliyev might say, 'if relations continue in the future, a bigger wall (between Europe and Azerbaijan) will be erected.'¹⁰

The inauguration of President Donald Trump for a second term at the end of January 2025 could lead to a fulfillment of expectations of lower oil prices in the world markets (Ibadoghlu, G, 2024C)

⁶ <https://www.meclis.gov.az/news.php?id=5840&lang=az>

⁷ <https://www.maliyye.gov.az/scripts/pdfs/web/viewer.html?file=/uploads/static-pages/files/671265392d26c.pdf>

⁸ Ibadoghlu, Gubad, Azerbaijan's Membership in BRICS and SCO: Myths and Realities (July 27, 2024). Available at SSRN: <https://ssrn.com/abstract=4907447> or <http://dx.doi.org/10.2139/ssrn.4907447>

⁹ <https://developing8.org/>

¹⁰ <https://turan.az/az/siyaset/prezident-ilham-eliyev-avropa-ittifaqini-nankorluqda-ve-genclerin-beynini-yumaqda-ittiham-edir-788935>

¹¹. During the presidential elections, Trump announced that his energy strategy would be based on 'drill baby drill,'¹² a period that will be more challenging for oil and gas exporters, including Azerbaijan. Even if Azerbaijan stabilizes oil production in 2025, it will have less resource revenue compared to previous years due to the drop in world market prices. Notably, according to forecasts presented by the Ministry of Economy of the Republic of Azerbaijan in August of the current year, the average annual export price of a barrel of oil in the base scenario is assumed to be 70.0 US dollars for 2025 and 65.0 US dollars for 2026-2028. The average annual export price of a thousand cubic meters of natural gas in the base scenario for 2025 is set at 242.0 US dollars, and 236.0 US dollars for 2026-2028.

Furthermore, during Trump's term, the already high US dollar could be overtly overvalued, which could increase the risk¹³ of instability in global financial markets and could lead to a devaluation of the Azerbaijani manat, one of the main factors driving the increase in its impact.

The Azerbaijani economy appears poised to enter 2025 under challenging political and economic circumstances. These challenges are tied to the implementation of key initiatives such as *Azerbaijan 2030: National Priorities for Socio-Economic Development*, the *First State Program for the Great Return*, and the *State Program on Socio-Economic Development of the Nakhchivan Autonomous Republic for 2023–2027*.

At the same time, declining investments in fixed capital from domestic sources—particularly for projects such as the rehabilitation of the Karabakh and Eastern Zangezur economic regions, their reintegration into the national economy, and bolstering the country's defense capabilities—are expected to reduce the overall economic efficiency of state expenditures.

In 2025, regulated price increases for goods and services are anticipated to drive inflationary pressures, exacerbate the negative foreign trade and payment balances, and deplete the Central Bank's foreign currency reserves. The oil and gas sector is projected to account for 28.7% of GDP, but declining oil revenues are likely to intensify the state's financial constraints, further reducing the reserves of the State Oil Fund under the base scenario.

Additionally, economic forecasts suggest a slowdown in GDP growth. While GDP growth in 2024 is expected to reach 4.2%, the annual average real growth rate for the medium term (2025–2028) is projected to decline to 3.3%.

¹¹ Ibadoghlu, Gubad, U.S. Presidential Elections: Which Party's Leadership is More Favorable for Azerbaijan? (July 28, 2024). Available at

SSRN: <https://ssrn.com/abstract=4908188> or <http://dx.doi.org/10.2139/ssrn.4908188>

¹² <https://edition.cnn.com/2024/12/21/climate/trump-energy-oil-gas-nuclear-wind-solar/index.html>

¹³ <https://www.chathamhouse.org/2024/11/donald-trumps-policies-risk-making-us-dollar-source-global-instability>

Conclusion

Azerbaijan's economic trajectory in 2024 was characterized by persistent challenges and missed opportunities for reform, setting a precarious stage for 2025. The interplay of inflationary pressures, devaluation fears, declining foreign currency reserves, and reduced investment in fixed capital highlights the vulnerabilities of an economy heavily reliant on oil and gas revenues. Furthermore, systemic issues such as monopolization, corruption, and ineffective economic governance have exacerbated economic inefficiencies and stifled progress toward diversification. Looking ahead to 2025, Azerbaijan faces mounting economic and social pressures. The anticipated decline in oil prices, coupled with the likelihood of rising costs for essential goods and services, threatens to deepen fiscal imbalances, erode purchasing power, and amplify social inequalities. Moreover, the expected persistence of devaluation risks and reduced capital inflows could further destabilize the financial landscape, undermining investor confidence and economic growth.

While strategic initiatives such as the "Great Return" and efforts to modernize infrastructure in liberated territories reflect ambitious objectives, their economic impact remains uncertain amidst concerns over transparency and effective resource allocation. The 2025 budget, with its heavy emphasis on non-productive expenditures, underscores the urgent need for structural reforms to ensure fiscal sustainability and economic resilience.

In conclusion, Azerbaijan's path in 2025 will depend on its ability to enact decisive reforms, diversify revenue sources, and address entrenched structural issues. Without these measures, the economy risks prolonged stagnation, diminishing competitiveness, and growing socioeconomic disparities, ultimately hindering its long-term development goals.

Without meaningful reforms and structural changes, 2025 is expected to be more challenging than 2024, albeit slightly better than 2026. These trends underline the urgent need for policy adjustments in the short term to address the underlying economic vulnerabilities.