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# A Financial Review of the State Oil Fund of Azerbaijan under Shifting Global Dynamics

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## Abstract

The financial sustainability of the State Oil Fund of Azerbaijan (SOFAZ) is entering a critical phase, shaped by both domestic and international economic shifts. With Donald Trump's return to power in the United States, significant changes in domestic and foreign policy are reshaping global markets, particularly in the energy and securities sectors. These transformations have direct implications for SOFAZ's revenue streams, expenditure framework, and long-term financial stability.

This article provides a comprehensive analysis of SOFAZ's fiscal landscape, evaluating key revenue sources, spending patterns, and sustainability risks. It examines the impact of declining oil production, shifting commodity prices, and geopolitical uncertainties on SOFAZ's financial trajectory. Additionally, the study assesses how increasing budgetary transfers, market volatility, and investment strategies influence the Fund's ability to navigate economic uncertainties.

By integrating these factors, this research offers a forward-looking perspective on SOFAZ's future financial management and strategic adjustments, contributing to broader discussions on oil wealth governance and economic stability in Azerbaijan.

**Keywords:** Azerbaijan, SOFAZ, oil price, revenue, expenditure, financial management, geopolitical uncertainties, budgetary transfers, market volatility, investment strategies, wealth governance, economic stability

**Revenue Trends and Future Challenges**

Founded in 1999[1], SOFAZ is now entering a complex phase, shaped by both domestic and international changes. The first signs of financial strain are expected to emerge in 2025. Over its 25-year history[2], SOFAZ's assets are projected to reach a historic peak of over $60 billion in 2024[3]. However, from 2025 onward, a long-term decline in assets is anticipated, signaling a shift in the fund's financial trajectory.

Domestically, SOFAZ faces mounting challenges due to the steady decline in crude oil production from the Azeri-Chirag-Gunashli (ACG) field[4], as well as decreasing revenues from acreage fees, transit payments, and a significant drop in bonus payments after 2025. These factors will complicate the formation of SOFAZ's revenue budget.

Notably, crude oil production from the ACG field is projected to fall to 123 million barrels in 2025, marking a decline of 2.2 million barrels compared to the 125.2 million barrels produced in 2024. This downward trend is expected to have long-term financial implications for SOFAZ's revenue stream. Additionally, under Article 29.2[5] of the "Agreement on the Joint Development and Production Sharing Agreement of the Deep Water Part of Azeri, Chirag, and Gunashli Fields in the Caspian Sea" dated September 14, 2017, a total of $3.6 billion is to be paid between 2018 and 2025, with the eighth installment of the bonus payment—$450 million or 765 million AZN—scheduled for the first month of 2025.

SOFAZ's budget[6] faces growing financial pressures, with declining revenues and rising expenditures set to impact its long-term sustainability.

In 2025, bonus payments are expected to total $451.6 million (767.7 million AZN)—a 33 million AZN (4.1%) decrease compared to 2023 and 8.2 million AZN (1.1%) lower than the projected figure for 2024. Additionally, when compared to the expected performance figure, this represents an 11 million AZN (1.4%) decline.

On the expenditure side, SOFAZ's budget will see a significant increase in transfers to the state budget. While the transfer was forecasted at 12.8 billion AZN in 2024, it is set to rise by 13.3%

[1] https://www.oilfund.az/storage/images/rt3csc0jvm.pdf
[2] https://oilfund.az/en/fund/press-room/news-archive/1678
[3] https://oilfund.az/en/fund/press-room/news-archive/1682
[4] https://www.bp.com/en_az/azerbaijan/home/who-we-are/operationsprojects/acg2.html
[5] https://www.bp.com/content/dam/bp/country-sites/en_az/azerbaijan/home/pdfs/legalagreements/psas/ea-az-restated-acg-psa.pdf
[6] https://oilfund.az/fund/documents/fund-budget/83

to 14.5 billion AZN in 2025. As a result, with revenues expected to decline and expenditures on the rise, SOFAZ's $60 billion in assets will begin to shrink.

If this trend continues—where revenues fall while expenditures increase or remain stable—SOFAZ's role as an alternative financial source for the state could diminish in just a few years. In fact, given the current trajectory, maintaining a separate budget for SOFAZ may no longer be necessary. A more efficient and economically sound approach would be to direct all incoming funds straight to the state budget and manage expenditures through state financial mechanisms.

Volatility in global markets presents additional challenges for SOFAZ's fund management strategy. The ongoing uncertainty in the stock market and sharp fluctuations in global stock indices could complicate investment decisions, particularly as SOFAZ expands its portfolio of high-risk assets.

Furthermore, a decline in global prices for oil, gold, and real estate may exacerbate financial stability risks, potentially impacting the fund's overall performance and long-term sustainability.

**Table 1. SOFAZ's Revenue, Expenditure, and Surplus/Deficit Indicators (in Million Manat)**

| | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|
| **Revenue** | 16,866.5 | 21,661.9 | 18,039.0 | 14,452.5 |
| **Expenditure** | 7,988.3 | 11,832.7 | 12,896.4 | 14,640.2 |
| **Surplus (+)/Deficit (-)** | +8,878.2 | +9,829.3 | +5,142.6 | -187.7 |

*Source: Accounting Chamber of the Republic of Azerbaijan*
*Note: 2022, 2023, and 2024 represent actual data, while 2025 figures are projected.*

As illustrated in the table, SOFAZ's projected revenues for 2025 are expected to decrease compared to previous years, while expenditures are forecasted to increase. Despite the introduction of a new revenue source—dividends from oil and gas projects totaling 396.2 million AZN—a combination of decreasing production at the Azeri-Chirag-Gunashli (ACG) field, stable but lower production at the Shah Deniz field, and maximum anticipated transfer volumes are contributing to a projected budget deficit of 187.8 million AZN for the Fund[7].

[7] https://turan.az/en/finance/sofaz-budget-for-2025-approved-with-deficit-as-well-788840

**The Financial Trajectory and Projections**

It is important to note that these oil price projections for 2025 were made based on assumptions made before the U.S. presidential election. Specifically, the average annual export price of oil is projected to be $70 per barrel. This forecast is more optimistic than previous years, but it may lead to a higher budget deficit and asset reductions due to potential market risks, particularly declining oil prices.

According to the Goldman Sachs Research forecasts[8] Brent will trade in a range of $70-$85 per barrel and will average about $76. The Energy Information Administration (EIA) forecasts lower oil price in 2025 amid significant market uncertainties[9] that global oil production will outpace global demand, placing downward pressure on oil prices in the global market. Specifically, the EIA forecasts 8% decrease in Brent crude prices for 2025, averaging $74 per barrel, followed by 11% decline in 2026, with an average price of $66 per barrel.

These external factors underscore the uncertainty surrounding SOFAZ's financial outlook and highlight the importance of strategic planning to mitigate potential market risks and sustain financial stability. For comparison, the average sales price of Azeri Light (CIF) crude oil was $103.58 per barrel[10] in 2022, $86.1[11] in 2023, and $82.87[12] in 2024.

Based on the forecasts for 2025, factors that would drive the price of oil down are expected to be active. These factors include global economic slowdowns that weaken market demand, economic crises in developing markets, the development of alternative energy, renewable energy sources, and technological changes, as well as factors such as the U.S. Energy Policy Act to increase oil and gas production[13], OPEC+ countries boosting production, and non-OPEC countries expanding output.

Based on the projected average annual export price of oil used in SOFAZ's budget estimates, revenues for the next year are forecasted at $8.5 billion (14.45 billion AZN), while expenditures are expected to reach $8.6 billion (14.64 billion AZN). This results in a budget deficit of $110.4 million (187.8 million AZN) over the next seven years.

[8] https://www.goldmansachs.com/insights/articles/how-geopolitics-will-ripple-through-oil-prices-in-2025
[9] https://www.eia.gov/todayinenergy/detail.php?id=64305
[10] https://apa.az/en/energy-and-industry/azerbaijani-oil-price-rose-by-more-than-2-on-world-market-405705
[11] https://customs.gov.az/az/faydali/gomruk-statistikasi/xarici-ticaretin-veziyyeti-haqqinda
[12] https://apa.az/energy-and-industry/2024-cu-ilde-azerbaycan-neftinin-orta-ixrac-qiymeti-belli-olub-884198
[13] https://www.whitehouse.gov/presidential-actions/2025/01/declaring-a-national-energy-emergency/

According to the Ministry of Economy's projections[14], oil price scenarios for the next year range between $60 per barrel (pessimistic) and $80 per barrel (optimistic):

- Pessimistic Scenario ($60 per barrel):
    - Revenues: $7.5 billion (12.76 billion AZN)
    - Budget Deficit: $1.1 billion (1.88 billion AZN)
- Optimistic Scenario ($80 per barrel):
    - Revenues: $9.5 billion (16.14 billion AZN)
    - Budget Surplus: $884.1 million (1.5 billion AZN)

These projections highlight the significant impact of oil price fluctuations on SOFAZ's financial stability, reinforcing the need for diversified investment strategies and risk management measures.

14 https://sai.gov.az/files/NF%202025%20layih%C9%99.%2028.11.2024%20d%C3%BCz%C9%99li%C5%9F.%20finish.%20(2)%20(1)-442402356.pdf

**Expenditure Patterns and Prospects**

Considering all these factors, the revenue forecast for SOFAZ from the sale of hydrocarbons in 2025 is expected to be 32.5% lower than the actual revenue in 2023 and 16.0% lower than the actual revenue in 2024. However, this is not the lower limit of the decline rate. It is highly likely that in 2025, the average annual export price of Brent crude oil will remain below $70 per barrel, which will create a significant problem in ensuring the projected revenue for 2025. Therefore, in terms of fund sustainability, SOFAZ's budget revenues should be balanced with its budget expenditures. This can only be achieved by reducing the amount of transfers from the Fund to the state budget. In this regard, the Accounting Chamber in its opinion[15] on SOFAZ's 2025 budget proposal suggests that transfers from the Fund be directed to pay the state's foreign debt obligations, foreign currency purchases, membership fees, etc., while considering the execution of the state budget. However, I believe this could lead to an increase in the state budget deficit, as transfers from SOFAZ to the state budget and tax revenues from the oil and gas sector still make up a significant portion of the state budget's revenues. In recent years, nearly every second manat spent in the public sector (about 50%) has been financed by transfers from SOFAZ and tax revenues from the oil and gas sector.

In the medium-term expenditure framework[16], projections for transfers from the Fund to the state budget and tax revenues from the oil and gas sector for the following years can be tracked in Table 2.

**Table 2. Direct Oil and Gas Sector Revenues to the State Budget (in Billion Manat)**

| | **2024** | **2025** | **2026** | **2027** | **2028** |
|---|---|---|---|---|---|
| Transfer from SOFAZ | 12.8 | 14.5 | 12.8 | 12.6 | 12.0 |
| Oil and gas tax revenues | 5.0 | 4.3 | 4.0 | 3.9 | 3.7 |

*Source: Accounting Chamber of the Republic of Azerbaijan*

15 https://sai.gov.az/files/NF%202025%20layih%C9%99.%2028.11.2024%20d%C3%BCz%C9%99li%C5%9F.%20finish.%20(2)%20(1)-442402356.pdf

16 https://www.maliyye.gov.az/scripts/pdfjs/web/viewer.html?file=/uploads/static-pages/files/671265392d26c.pdf

As shown in the table, SOFAZ's peak transfer to the state budget is expected in 2025. While the transfer amount is projected to return to 2024 levels by 2026, no significant fluctuations are anticipated over the next two years.

Meanwhile, tax revenues from the oil and gas sector are expected to peak in 2023[17], followed by a gradual decline in subsequent years. This downward trend underscores the need for strategic fiscal planning to manage potential revenue shortfalls effectively.

[17] https://www.maliyye.gov.az/scripts/pdfjs/web/viewer.html?file=/uploads/static-pages/files/6682702853f54.pdf

**Conclusion and Sustainability Risks**

Currently, the dependency of the state budget on SOFAZ transfers and tax revenues from the oil and gas sector at this level represents a primary challenge in ensuring financial stability in the Azerbaijani economy. One of the target indicators set in the "Strategic Roadmap for the National Economy of the Republic of Azerbaijan" is to reduce the transfer from SOFAZ to the state budget to 15% by 2025[18]. In 2024, 12.8 billion manat was transferred from SOFAZ to the state budget, constituting 35.12% of the state budget's total revenues for that year[19]. This percentage is expected to increase further in 2025.

A comprehensive analysis of SOFAZ's current and future budget outlook highlights several critical risks:

1. Market Volatility and Revenue Shortfalls – Fluctuations in global commodity and stock markets may lead to lower-than-expected revenues, particularly from investment returns, potentially widening the budget deficit.
2. Erosion of Fund Assets – Covering budget deficits by utilizing SOFAZ's available funds could lead to a gradual decline in the fund's total assets, jeopardizing its long-term financial sustainability.

Both of these risks pose significant challenges to SOFAZ's fiscal stability. To mitigate these threats, the Azerbaijani government must develop a comprehensive risk management strategy, taking into account medium- and long-term financial impacts.

[18] https://static.president.az/pdf/38542.pdf
[19] https://www.maliyye.gov.az/static/105/dovlet-budcesinin-icrasina-dair-operativ-melumat