# The Future of Growth in a Resource-Rich State: Azerbaijan's Post-Oil Dilemma

Gubad Ibadoghlu[1], Senior Visiting Scholar at London School of Economics and Political Science (LSE)

**Abstract**

This paper provides a comprehensive analysis of Azerbaijan's economic trajectory over three decades of post-Soviet transformation, emphasizing the interplay between hydrocarbon dependence, fiscal fragility, and institutional weakness. Drawing upon national statistics, official budget data, and projections by international financial institutions—including the World Bank, IMF, EBRD, and ADB—the study traces macroeconomic dynamics from 1996 to 2025 and examines long-term sustainability prospects through 2050. The findings reveal that while hydrocarbon revenues have enabled rapid early growth and large-scale public investments, they have simultaneously entrenched structural vulnerabilities. Declining oil production, exchange-rate rigidity, weak diversification, and opaque fiscal governance have left the economy increasingly exposed to external shocks and domestic inefficiencies.

Institutionally, Azerbaijan's governance environment has deteriorated, characterized by shrinking civic space, weakened judicial independence, and rising authoritarian control over economic and financial institutions. These systemic deficiencies have undermined investor confidence, constrained innovation, and reinforced monopolistic market structures. The study integrates macroeconomic, institutional, and geopolitical dimensions into a unified analytical framework, demonstrating that Azerbaijan's short-term fiscal surpluses mask deeper mid-term vulnerabilities and long-term structural risks. World Bank long-term growth simulations project average annual GDP growth of only 0.5 percent between 2024 and 2050—insufficient to achieve high-income status within the century under current policy conditions. The paper concludes by identifying key reform priorities, including institutional modernization, fiscal transparency, exchange-rate flexibility, and the promotion of innovation-driven non-oil growth, as essential for achieving sustainable and inclusive economic transformation in a post-oil future.

**Keywords**

Azerbaijan; resource dependence; fiscal fragility; diversification; SOFAZ; institutional reform; hydrocarbon revenues; economic governance; macroeconomic sustainability; post-Soviet transition.

[1] **Email:** G.Ibadoghlu@lse.ac.uk

## Introduction

Since gaining independence, Azerbaijan’s economic development has been overwhelmingly shaped by its hydrocarbon wealth. Revenues from oil and gas exports have long underpinned the state budget and the State Oil Fund of Azerbaijan (SOFAZ), financing large-scale social programs, infrastructure projects, and public investments. However, this dependence has also entrenched deep structural vulnerabilities. Declining oil production, volatility in global energy markets, weak economic diversification, and opaque fiscal governance—compounded by pervasive political corruption—have left Azerbaijan increasingly exposed to both domestic and external risks. These internal fragilities are further amplified by global economic shocks, trade disruptions, and escalating regional conflicts.

Geopolitical instability continues to reinforce these economic challenges. Strained political relations with Russia—Azerbaijan’s primary trading partner—have constrained market access for non-oil exports. Moreover, more than five years after the 44-day war with Armenia in 2020, the absence of a comprehensive peace treaty sustains heightened military expenditures and geopolitical uncertainty across the South Caucasus. Against this backdrop, the imperatives of durable peace, regional economic integration, restoration of transport and communication corridors, internal market liberalization, and rationalization of public spending have become particularly pressing.

The legacy of the 2015 double devaluation[2] continues to weigh heavily on Azerbaijan's financial and monetary systems. Although the Azerbaijani manat has remained administratively stabilized against the U.S. dollar, currency misalignments with trading partners have generated competitive pressures. Since then, both the nominal and real effective exchange rates—weighted by non-oil trade—have appreciated, reflecting inflation differentials and the rigidity of the exchange-rate regime. In 2024, the nominal effective exchange rate strengthened by 9 percent, while the real effective exchange rate rose by 2.2 percent[3]. Although domestic inflation remained below the average rate of partner economies, this appreciation has eroded the competitiveness of Azerbaijan's non-oil exports, while persistent import dependence continues to expose the economy to external shocks.

Macroeconomic balances, while still positive, offer only a temporary buffer. In 2024, Azerbaijan recorded a current-account surplus of 6.3 percent of GDP (USD 4.7 billion) and a foreign-trade surplus of 7.4 percent of GDP (USD 5.5 billion)[4]. However, the Central Bank's foreign-exchange reserves declined by 5.6 percent, to USD 11 billion, raising questions about long-term sustainability[5]. Declining foreign-exchange inflows have heightened the probability of emerging balance-of-payments risks in the short to medium term. For a heavily import-dependent economy, such surpluses may ease inflationary pressures in the near term but simultaneously weaken the competitiveness of non-oil exports in global markets. Notably, Azerbaijan remains the only country[6] in the world expected to keep its land borders closed until 2026[7]—an additional constraint on trade, tourism, and cross-border economic activity.

Beyond the macroeconomic sphere, Azerbaijan's institutional environment has deteriorated sharply over the past decade. By 2014, most international development agencies and UN institutions had withdrawn from the country[8], citing systemic restrictions crackdown on civil society, restricted media landscape[9] and the erosion of judicial independence[10]. Azerbaijan ranks among the poorest performers in implementing ECtHR judgments[11]. Since 2023, repression has intensified, with nearly 400 individuals recognized as political prisoners[12] and extensive politically motivated travel bans on them not by the court, but by the investigative authority[13]. Moreover, authorities have engaged in selective enforcement of financial regulations and imposed travel bans on entrepreneurs accused of economic offenses [14]. These developments have weakened institutional capacity, undermined accountability, and diminished the credibility of anti-corruption reforms—further compounding Azerbaijan's long-term economic vulnerabilities.

This paper contributes to the broader literature on post-Soviet political economy by integrating macroeconomic, institutional, and geopolitical perspectives into a unified framework. It examines how fiscal fragility, hydrocarbon dependency, weak diversification, and governance challenges intersect to shape Azerbaijan's contemporary development trajectory. By situating these dynamics within regional and global contexts, the study provides a multidimensional assessment of Azerbaijan's short-term pressures, mid-term vulnerabilities, and long-term structural risks. The findings offer new insights into the country's prospects for sustainable, inclusive, and innovation-driven growth in an increasingly uncertain global environment.

This study synthesizes national statistics, forecasts by international institutions (World Bank, IMF, EBRD, ADB, Moody's, S&P, Fitch), and sectoral evidence on oil production, agriculture, and investment. The analysis covers 1996–2025 historical trends and 2024–2050 long-term projections, with comparative evaluation of strategic targets and actual outcomes.

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[2] Ibadoghlu, Gubad (2018) : Financial inclusion, financial literacy, and financial education in Azerbaijan, ADBI Working Paper, No. 842, Asian Development Bank Institute (ADBI), Tokyo, https://www.econstor.eu/bitstream/10419/190263/1/adbi-wp842.pdf

[3] Central Bank of the Republic of Azerbaijan, Financial Stability Report, 2024, page 12, https://cbar.az/page-798/financial-stability-report

[4] Central Bank of the Republic of Azerbaijan, Financial Stability Report, 2024, page 12-13, https://cbar.az/page-798/financial-stability-report

[5] Central Bank of the Republic of Azerbaijan, Official foreign exchange reserves, 2024, https://cbar.az/infoblocks/money_reserve_usd

[6] Goodbye to post-COVID normality—Azerbaijan will be the only country in the world to keep its land borders closed until 2026, by Victoria Flores October 6, 2025, https://www.blanquivioletas.com/en/azerbaijan-borders-closed-until-2026/

[7] On the extension of the special quarantine regime in the territory of the Republic of Azerbaijan, Decision of the Cabinet of Ministers of the Republic of Azerbaijan, 22 September 2025, https://e-qanun.az/framework/60546

[8] Azerbaijan closes 6 UN offices, 05 March 2025, https://hamamtimes.tv/az%C9%99rbaycan-bmt-nin-6-ofisini-baglayir/

[9] Human Rights Crisis in Azerbaijan in the shadows of COP29, 07 November 2024, https://www.nhc.nl/human-rights-crisis-in-azerbaijan-in-the-shadows-of-cop29/

[10] Azerbaijan: Human rights groups urge International Association of Judges to act, 30 September 2025, https://www.freedom-now.org/azerbaijan-human-rights-groups-urge-international-association-of-judges-to-act/

[11]Azerbaijan: ICJ joins call to address deepening crisis of judicial independence, 29 September 2025, https://www.icj.org/azerbaijan-icj-joins-call-to-address-deepening-crisis-of-judicial-independence/

[12] New list of political prisoners announced: 392 people, 07 October 2025, https://www.meydan.tv/en/article/new-list-of-political-prisoners-announced-392-people/

[13] Human Right Watch, World Report 2025: Azerbaijan, https://www.hrw.org/world-report/2025/country-chapters/azerbaijan

[14] Ministry of Justice, Information on temporary restriction of the debtor's right to leave the countryhttps://exidmet.justice.gov.az:8284/Icra/QuitLimitation

## Literature Review

The dynamics of resource dependence and the so-called resource curse have been extensively explored in the literature on economic development, particularly in relation to emerging and resource-rich economies (Auty, 2001; Sachs & Warner, 2001). Foundational research underscores how heavy reliance on natural-resource revenues can generate fiscal volatility, institutional fragility, and persistent structural under-diversification (Gelb, 1988; Ross, 2012). In the case of Azerbaijan, a growing body of scholarship emphasizes the complex interaction between hydrocarbon wealth, governance, and long-term development outcomes (World Bank, 2023; IMF, 2024). Analyses of policy frameworks, such as the Strategic Roadmaps for the National Economy and Key Sectors (Asian Development Bank, 2023), reveal substantial discrepancies between declared policy objectives and achieved results, particularly in areas related to non-oil exports, innovation, and investment attraction.

Azerbaijan's economy remains profoundly dependent on its hydrocarbon sector—a structural feature that has historically generated substantial fiscal revenue while simultaneously embedding systemic vulnerabilities (Das et al., 2022; Anna & Shishkova, 2021). This dependence has perpetuated a recurrent boom-and-bust cycle, closely linking economic performance to global oil-price fluctuations and constraining the emergence of a resilient and diversified economic base (Rookwood, 2021).

Recent retrospective analyses reinforce these findings. Ibadoghlu and Niftiyev (2022a), in *A Retrospective Analysis of the Azerbaijani Economy during 30 Years of Independence* (*Post-Soviet Issues*), argue that Azerbaijan's post-Soviet economic trajectory has been shaped by a paradox of resource abundance—achieving fiscal stability and rapid growth during high oil-price periods, yet failing to institutionalize sustainable diversification mechanisms. Similarly, in *An Assessment of the Thirty-Year Post-Soviet Transition Quality in Azerbaijan from an Economic and Social Liberalization Perspective* (*Journal of Life Economics*), Ibadoghlu and Niftiyev (2022b) demonstrate that the country's liberalization process has been uneven, with economic reforms outpacing social and institutional transformation. Together, these studies provide critical empirical evidence that Azerbaijan's growth model remains heavily resource-dependent, with weak linkages between extractive industries and non-oil sectors.

Recognizing the urgency of this structural vulnerability, the government has prioritized non-oil sector development as a central pillar of national economic policy, articulated in the Strategy for the Socio-Economic Development of the Republic of Azerbaijan for 2022–2026 (Ibadoghlu, 2022; Huseynov et al., 2023). However, despite these strategic commitments, implementation outcomes remain limited. Persistent deficiencies in fiscal governance, coupled with underdeveloped financial markets and weak innovation ecosystems, have constrained the mobilization of capital and technology necessary for structural transformation (Seyfullayev, 2023).

This sustained dependence on hydrocarbon exports continues to shape both macroeconomic performance and institutional design, influencing the interaction between financial and real sectors (Seyfullayev, 2023). The magnitude of this imbalance remains significant: in 2022, the oil and gas sector accounted for approximately 47.8% of GDP, while more than half of total state budget revenues were derived from oil income (Mahmudova, 2023). Such figures underscore the enduring nature of Azerbaijan's resource dependence and the continued urgency of fostering inclusive, innovation-driven, and institutionally grounded economic diversification.

Building upon this literature, the present study seeks to bridge the gap between retrospective analyses and forward-looking risk assessments. By integrating macroeconomic indicators, policy-performance evaluations, and scenario-based projections, the paper provides a multi-horizon assessment of Azerbaijan's economic trajectory—focusing on short-term pressures, mid-term exposure to structural risks, and long-term sustainability challenges. In doing so, it contributes to the broader debate on post-resource transition strategies in hydrocarbon-dependent economies and offers evidence-based insights into the prerequisites for a resilient, diversified, and innovation-oriented development model.

**Macroeconomic Performance**

Following the collapse of the Soviet political system—built upon the administrative command model and governed through five-year plans—the ensuing economic disintegration inevitably affected Azerbaijan, along with other newly independent states. The country entered a profound transformation crisis. The economic downturn that had already begun in 1989, prior to the dissolution of the USSR, deepened significantly during the first three years of independence. Between 1989 and 1991, Azerbaijan's GDP contracted by an average of 5.7 percent annually. In the subsequent period of 1992–1995, the rate of decline intensified by a factor of 3.4, reaching an average of 19.4 percent per year[15]. For comparison, the corresponding average decline among other CIS countries was approximately 13 percent annually and 43 percent cumulatively over the same period. Consequently, by 1995 Azerbaijan's national income had fallen by 58 percent compared to its 1991 level[16].

While GDP across post-Soviet economies decreased by an average of 42 percent between 1989 and 1995, Azerbaijan experienced a considerably sharper contraction of 63 percent[17]. In the three years following independence, industrial production declined more steeply than in the preceding years, the budget deficit expanded rapidly, and price and foreign-trade liberalization amplified inflationary pressures. Simultaneously, the result of recession, hyperinflation, and nationalization of property contributed to widespread unemployment and poverty[18]. The most severe declines occurred in the production sectors, where the average annual reduction exceeded 20 percent. During the recession, agricultural output fell by 43 percent, while industrial production plummeted by 60

[15] World Bank. (1999). Azerbaijan - Country Assistance Strategy (English). Washington, D.C. : World Bank Group. http://documents.worldbank.org/curated/en/283601468002971842

[16] Aliyev Gambar (2022), Statistical analysis of the main trends in the development of the Azerbaijani economy after the second Karabakh war. https://unec.edu.az/application/uploads/2023/10/liyev-Q-mb-r-Adil1.pdf

[17] World Bank. (2003). Memorandum of the President of the International Bank for Reconstruction and Development and the International Development Association to the Executive Directors on a Country Assistance Strategy of the World Bank Group for the Azerbaijan Republic, No. 25790-A2, DOI: https://doi.org/10.1596/978-1- 4648-0484-7

[18] Transition Economics Two Decades On by Gerard Turley, Peter J. Luke Published 2010. ISBN-13: 978-0-203-84291-1, ISBN: 0-203-84291-X. Transition and Development

percent. The state-budget deficit reached 15.3 percent of GDP in 1993 and remained high at 10.9 percent in 1994[19].

Inflationary pressures during this period were extreme. Azerbaijan experienced four-digit hyperinflation in 1993 and 1994, reaching 1,129.1 percent and 1,663.5 percent, respectively. Although inflation declined to a three-digit rate of 411.8 percent in 1995, it remained a major macroeconomic challenge. In 1996 and 1997, inflation was finally brought down to double-digit levels—19.9 percent and 13.7 percent, respectively—reflecting the initial impact of stabilization policies. However, in the subsequent two years, the national economy encountered deflationary pressures, indicating the fragility of the post-crisis adjustment process[20].

The social impact of the economic collapse was equally severe. In 1989, 33.6 percent of Azerbaijan's population lived below the poverty line—approximately three times higher than the average poverty rate in the Soviet Union[21]. By 1995, according to a World Bank household survey, the poverty rate had escalated to 61.5 percent, with the poorest quintile comprising 20.5 percent of the total population. These figures underscore the depth of the socioeconomic crisis that accompanied Azerbaijan's transition from a centrally planned to a market-oriented economy.

During the 1990s, Azerbaijan undertook a series of market-oriented reforms: the national currency was introduced, prices and foreign trade were liberalized, and comprehensive privatization of state assets and land—alongside agrarian restructuring—was implemented. In the first stage of land reform (1997–1999)**,** 2,032 collective farms were dissolved and their arable land was distributed to the rural population. In total, more than 1.35 million hectares were transferred free of charge to rural residents, replacing collective and state farms with individual and family farms**.**

Almost thirty one years ago, on September 20, 1994, Azerbaijan signed a Production Sharing Agreement (PSA) with foreign companies for the development of the Azeri–

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[19] World Bank. (1996). Memorandum of the President of the International Bank for Reconstruction and Development and the International Development Association to the Executive Directors on a Country Assistance Strategy of the World Bank Group for the Azerbaijan Republic, No. 15948-AZ, DOI: https://doi.org/10.1596/978-1- 4648-0484-7

[20] Ibadoghlu, Gubad, Azerbaijan's Economic Model and Its Development since Independence (January 25, 2012). Available at SSRN: https://ssrn.com/abstract=3110219 or http://dx.doi.org/10.2139/ssrn.3110219

[21] Asian Development Bank, Country Partnership Strategy: Azerbaijan, 2014–2018, https://www.adb.org/sites/default/files/linked-documents/cps-aze-2014-2018-pa-az.pdf

Chirag–Guneshli (ACG) oil fields in the Caspian Sea. This agreement holds a significant place in Azerbaijan's history, shaping the nation's economy and garnering respect and appreciation. The PSA—initially set for 30 years—was extended on September 14, 2017, until the end of 2049, commencing the second phase of this contract. Since that time, Azerbaijan's economy has been shaped by its hydrocarbon wealth.

Specifically, within the ACG development project, Azerbaijan generated over USD 174.4 billion in net profits from 2001 until September 1, 2024. This income played a significant role in shaping the state financial system, particularly SOFAZ and the state budget. During the 25 years of the Fund's operation, its revenues amounted to USD 202.1 billion, of which USD 189 billion derived from oil and gas contracts. Through transfers of USD 128.9 billion to the state budget, the Fund achieved financial balance and financed important projects[22].

GDP production in Azerbaijan decreased by an average of -6.3 percent in 1990–2000 and increased by 12.7 percent in 2000–2005[23]. Between 2006 and 2015, GDP grew by nearly 9.5 percent annually on average, driven by energy exports. Yet reliance on hydrocarbons has generated structural fragilities. Declining production, volatility in global oil markets, and weak diversification expose Azerbaijan to mounting risks. Growth has slowed dramatically since 2016, reflecting both declining energy output and weak diversification. Examining Azerbaijan's main economic parameters over the three decades following the transformation crisis (1992–1995) reveals the pronounced impact of oil-export and revenue dynamics on macroeconomic performance. Accordingly, we delineate three subperiods—pre–oil boom**,** oil boom**,** and post–oil boom—and report the corresponding indicators in Table 1**.**

[22] Ibadoghlu, Gubad, Orthodox View on the 30th Anniversary of the Azerbaijan's "Contract of the Century", (September 20, 2024). Available at SSRN: https://ssrn.com/abstract=4962993 or http://dx.doi.org/10.2139/ssrn.4962993

[23] Transition Economics Two Decades On by Gerard Turley, Peter J. Luke Published 2010. ISBN-13: 978-0-203-84291-1, ISBN: 0-203-84291-X. Transition and Development

**Table 1. Macroeconomic Indicators by Period (1996–2025)**

| Period | Avg. GDP Growth (%) | GDP (mln USD) | GDP per capita (USD) | Inflation (%) | FDI inflows (% of GDP) |
|---|---|---|---|---|---|
| 1996–2005 (pre-oil boom) | 10.23 | 6,258.3 | 772.7 | 3.89 | 27.45 |
| 2006–2015 (oil boom) | 9.49 | 53,812.4 | 5,926.6 | 6.98 | 8.77 |
| 2016–2025 (post-oil boom) | 1.46 | 57,644.2 | 5,730.4 | 7.02 | 2.00 |

*Source: Author's calculations based on data from the State Statistical Committee of the Republic of Azerbaijan (SSC)*

As shown in Table 1, the highest average annual GDP growth occurred in the pre–oil boom decade. Between 1996 and 2005**,** national income expanded by an average of 10.23 percent per year. The principal driver was exceptionally large FDI inflows, which averaged 27.45 percent of GDP—roughly four times the share recorded during the subsequent oil-boom decade and more than fourteen times the share in the most recent decade.

These inflows were concentrated in the implementation of the Azeri–Chirag–Guneshli (ACG)[24] development under the production-sharing agreement signed on 20 September 1994, managed in consortium form with the participation of SOCAR. During this period, Phase 1 and Phase 2 of ACG were brought to full development, including the construction of offshore platforms, the Sangachal terminal[25] for export operations, and the Baku–Tbilisi–Ceyhan (BTC)[26] main export pipeline.

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[24] Bp, Azeri-Chirag-Deepwater Gunashli, https://www.bp.com/en_az/azerbaijan/home/who-we-are/operationsprojects/acg2.html

[25] Bp, Sangachal terminal, https://www.bp.com/en_az/azerbaijan/home/who-we-are/operationsprojects/terminals/sangachal_terminal.html

[26] Bp, Baku–Tbilisi–Ceyhan pipeline, https://www.bp.com/en_az/azerbaijan/home/who-we-are/operationsprojects/pipelines/btc.html

Concurrently, significant progress was made in the transition to a market economy: private entrepreneurship expanded, monetary and fiscal balances improved, and budget discipline was strengthened.
During the oil-boom decade, foreign investment continued to flow into Azerbaijan; however, despite strong GDP growth, the FDI share averaged only 8.77 percent of GDP. Although the period was officially presented as the completion of the market-transition agenda, in practice governance, privatization, and liberalization reforms remained incomplete. The expanded role of state-owned enterprises further entrenched state dominance and fueled the growth of the shadow economy.

In the post–oil-boom period, which followed the Azerbaijani manat devaluations, the government adopted numerous reform-oriented economic and social programs. Yet implementation was weak, producing limited progress on economic diversification while monopolization and corruption intensified. At the same time, declining oil production and lower investment contributed to a fall in the average annual GDP growth rate. Pandemic-related restrictions compounded these headwinds: since March 2020, land and sea borders have remained closed, creating serious impediments to cross-border trade and constraining the economic development of border regions.

Over the past decades, Azerbaijan's inflation rate has followed a persistent upward trend.

Finally, I draw attention to a salient asymmetry: although real GDP in U.S. dollars increased in the third decade relative to the preceding period, GDP per capita declined. The primary explanation is demographic—the pace of aggregate GDP growth during these ten years lagged behind natural population growth, thereby reducing output per person despite an expanding economy. This divergence underscores the importance of productivity-enhancing, broad-based growth to sustain living-standard gains.

Table 2 presents medium-term growth projections for Azerbaijan—covering the current year and the subsequent two years—compiled from international financial institutions**,** credit-rating and analytical agencies, and official government forecasts. Taken together, these projections indicate that the economy is entering a period of deceleration.

**Table 2. Medium-term economic growth projections in Azerbaijan, (%)**

| | 2025 | 2026 | 2027 |
|---|---|---|---|
| World Bank | 2.6 | 2.4 | 2.3 |
| The International Monetary Fund | 3.0 | 2.5 | 2.4 |
| The European Bank for Reconstruction and Development | 3.0 | 2.5 | n/a |
| The Asian Development Bank | 3.4 | 3.3 | n/a |
| Moody's | 2.5 | 2.5 | 2.5 |
| S&P Global | 2.0 | 2.0 | 2.0 |
| Fitch Solutions | 3.0 | 2.4 | 2.5 |
| ING Group | 2.3 | 2.5 | 2.0 |
| The Economist | 2.9 | 2.9 | 3.1 |
| Azerbaijan's Ministry of Economy | 3.7 | 3.2 | 3.6 |

*Source: WB, IMF, EBRD, ADB, Moody's, S&P Global, Fitch Solutions ING Group, The Economist & Ministry of Economy of the Republic of Azerbaijan*

Currently, GDP grew by 1.3% in 9M 2025. Despite this, the Ministry of Economy forecasts GDP to grow by 3% in 2025. SSCA data indicate a 1.9% decline in the oil and gas sector and 2.9% growth in the non-oil and gas sector[27].

Table 2 indicates that ING has revised its 2025 GDP growth forecast for Azerbaijan from 2.5% to 2.3%; it keeps 2026 at 2.5% and sets 2027 at 2.0%. The Ministry of Economy projects comparatively higher growth of 3.7% (2025), 3.2% (2026), and 3.6% (2027). Among rating agencies, S&P Global expects 2.0% in 2025–2026, Fitch Ratings forecasts 3.0% (2025) and 2.4% (2026), and Moody's anticipates 2.5% annually. International financial institutions are broadly aligned on moderation: the IMF projects 3.5% (2025) and 2.5% (2026); the EBRD sees 3.0% (2025) and 2.5% (2026); the ADB estimates 3.4% and 3.3% over the next two years; and the World Bank's April and June 2025 updates projected real GDP growth for Azerbaijan of 2.6% in 2025 and 2.4% in 2026. In its 8

[27] Azerbaijan's GDP grows 1.3% in 9M 2025 - State Statistics Committee, https://interfax.com/newsroom/top-stories/114249/

October 2025 release, the Bank lowered these forecasts to 1.9% (2025), 1.8% (2026) and 1.7% (2027)[28]. The IMF likewise revised its outlook in the October World Economic Outlook ("Global Economy in Flux, Prospects Remain Dim")[29], cutting the 2025 projection by 0.5 percentage points—from 3.0% to 2.5%—and signaling a weaker profile for 2026."

Consistent with these short- to medium-term signals, the World Bank's Long-Term Growth Model (LTGM) is more sobering: absent significant reform, average annual growth could fall to 0.5% over 2024–2050, with GDP per capita rising by only ~11% over the next 30 years.[30]

Table 3 summarizes the World Bank staff's Long-Term Growth Model (LTGM) projections for Azerbaijan over 2024–2050.

**Table 3. World Bank LTGM projections for Azerbaijan, 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: The World Bank (2022), Azerbaijan: Country Economic Memorandum*

According to the World Bank's recent report[31] on accelerating economic growth through entrepreneurship, technological adoption, and innovation, under current structural and policy conditions, Azerbaijan is projected to require approximately 100 years to attain high-income country status ($14,005 in 2023). In contrast, Georgia and Armenia are

[28] The World Bank (2025),Jobs and Prosperity Office of the Chief Economist Fall 2025 Europe and Central Asia Economic Update, https://openknowledge.worldbank.org/server/api/core/bitstreams/9b18a520-9e9a-4e71-af8d-cf04b499fa18/content

[29] The IMF (2025), Global Economy in Flux, Prospects Remain Dim, https://www.imf.org/en/Publications/WEO/Issues/2025/10/14/world-economic-outlook-october-2025?cid=bl-com-AM2025-WEOEA2025002

[30] The World Bank (2022), Azerbaijan: Country Economic Memorandum, https://documents1.worldbank.org/curated/en/099100009222236784/pdf/P17532606988e2056084e603c9c48ddc618.pdf

[31] The World Bank (2025), Accelerating Growth through Entrepreneurship, Technology Adoption, and Innovation Office of the Chief Economist Spring 2025, https://openknowledge.worldbank.org/server/api/core/bitstreams/f34d0317-f1ab-4e39-b209-c7e2c149de19/content

expected to reach this threshold within 30 and 20 years, respectively. For Kazakhstan, the transition is estimated at just over 30 years, while Turkey may achieve this status in under 30 years. Among the 16 countries assessed across Eastern Europe, the South Caucasus, and Central Asia, Azerbaijan ranks among the bottom three, alongside Tajikistan and Uzbekistan, indicating significant challenges in convergence with high-income economies. However, the Socio-Economic Development Strategy of the Republic of Azerbaijan for 2022–2026[32], adopted on July 22, 2022, articulates an ambitious goal of elevating Azerbaijan to the status of a high-income economy by 2026, emphasizing structural reforms, productivity growth, and diversification as the principal drivers of this transformation.

Table 4 presents World Bank estimates of the number of years required for selected Eurasian economies to reach the high-income threshold, based on current structural and policy conditions. Balkan economies have been excluded for comparability within the post-Soviet and broader Eurasian region.

**Table 4. Years Required to Reach High-Income Status (Selected Eurasian Economies)**

| Country | Years to Reach High-Income Threshold |
|---|---|
| Armenia | ≈20 years |
| Georgia | ≈30 years |
| Türkiye | ≈30 years |
| Kazakhstan | ≈35 years |
| Turkmenistan | ≈35 years |
| Belarus | ≈60 years |
| Kyrgyz Republic | ≈70 years |
| Ukraine | ≈70 years |
| Azerbaijan | Over 100 years |
| Tajikistan | Over 100 years |
| Uzbekistan | Over 100 years |

*Source: Iacovone et al. (2025); World Bank*

[32] Socio-Economic Development Strategy of the Republic of Azerbaijan for 2022–2026, https://e-qanun.az/framework/50013

In terms of macroeconomic performance, retrospective evidence indicates that during 1996–2016 Azerbaijan's real GDP expanded at an average rate of about 10 percent per year. From 2016 through 2025, however, the pace of growth fell roughly sevenfold, to approximately 1.5 percent on average. Current projections suggest that 1.9 percent in 2025 represents the upper bound of medium-term growth under existing policies. Looking further ahead, the World Bank staff's LTGM implies an even lower long-run trajectory. Taken together—and absent fundamental reforms—these estimates imply that, given current rates of natural population increase, Azerbaijan is unlikely to converge to high-income status and may remain within the middle-income range for at least a century.

## Conclusion

Azerbaijan's economic model, founded upon hydrocarbon wealth and centralized fiscal management, has reached a structural inflection point. While resource revenues have historically sustained macroeconomic stability and financed large-scale development programs, they have also entrenched a rentier governance system characterized by fiscal opacity, weak accountability, and limited institutional reform.

The research demonstrates that Azerbaijan's short-term fiscal surpluses and foreign-exchange reserves provide only a temporary cushion against mounting medium-term risks—namely, declining oil output, shrinking export competitiveness, and growing dependence on state-driven expenditure. In the long term, the persistence of institutional weaknesses—particularly corruption, monopolization, and the politicization of regulatory and judicial bodies—threatens to erode the foundations of sustainable growth.

The post-2015 devaluations and the slow recovery of non-oil sectors have exposed the limits of Azerbaijan's state-led development paradigm. Despite a decade of reform narratives, the country continues to rely on hydrocarbon revenues for over half of its budget income, while diversification and innovation remain underdeveloped. Structural rigidities, exchange-rate misalignments, and administrative interference in markets continue to inhibit private-sector competitiveness.

From a governance perspective, the continued repression of independent civil society, the erosion of media freedom, and the absence of judicial autonomy further constrain accountability and policy feedback mechanisms. These deficits in transparency and participation perpetuate inefficiency in public investment and reduce the quality of fiscal policymaking.

Looking ahead, the policy imperative is clear. To secure macroeconomic and social stability in a post-oil world, Azerbaijan must: (1) strengthen institutional governance through transparent fiscal management, rule-of-law reform, and competitive market regulation; (2) diversify economic activity by fostering human capital, technology adoption, and entrepreneurship; (3) increase exchange-rate flexibility to enhance export competitiveness; and (4) rebuild civic and academic freedoms to enable evidence-based policymaking and public accountability.

Without such transformative reforms, Azerbaijan risks prolonged stagnation, declining fiscal sustainability, and growing social fragility. The country’s future economic resilience will depend not merely on its capacity to manage oil revenues, but on its willingness to rebuild the institutional and social foundations of a modern, diversified, and knowledge-driven economy.

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