

## **Azerbaijan's Economy in 2026: In the Context of Regional Geo-political Challenges**

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## Abstract

In 2026, the Azerbaijani economy is developing against the backdrop of regional geopolitical tensions, especially the conflict in the Middle East (between Israel-US and Iran) that has virtually closed the Strait of Hormuz, and major disruptions in global energy supplies. These events have led to a sharp increase in global oil prices (Brent averaged 103 USD/barrel in March, spot prices up to 130-150 USD/barrel), inflationary pressures, and a slowdown in world economic growth. According to the IMF's April 2026 World Economic Outlook, in the reference scenario, global growth has fallen to 3.1%, and inflation to 4.4%; in more unfavorable scenarios, growth could fall to 2%, and inflation could rise above 6%.

Real GDP growth in Azerbaijan for 2026 is forecast at 2.9% and is expected to reach 134.1 billion manat. The share of the non-oil and gas sector in GDP is expected to approach 75.8%, and in budget revenues - 57%. In the first quarter of 2026, GDP amounted to 29.703 billion manat, a decrease of 0.3% compared to the same period last year; a decrease was recorded in the oil and gas sector, and a slight increase in the non-oil and gas sector. State budget revenues in the first quarter exceeded the forecast by 5%, and the share of non-oil and gas revenues reached 57.7%. The article analyzes the trends in GDP, fiscal and export diversification of the economy, assesses sector concentration using the Herfindahl-Hirschman Index (HHI), and makes recommendations for increasing resilience to risks posed by regional conflicts. As a result, although the development of the non-oil sector (services, trade, logistics, agro-processing) plays an important role in reducing oil dependence, deeper structural changes in industry and agriculture are necessary.

**Keywords:** GDP, GDP diversification, fiscal diversification, export diversification, Herfindahl-Hirschman Index (HHI)

## Introduction

In 2026, one of the main goals is to further strengthen the diversification trends in the Azerbaijani economy. This year, the share of the non-oil and gas sector in gross domestic product (GDP) is expected to reach 70 percent, and in budget revenues - 57 percent. Deepening reforms create new opportunities for the development of the non-oil and gas sector. On the other hand, in recent years, the growth in the non-oil and gas sector has exceeded the overall economic growth rate. This indicates that the non-oil and gas sector is gradually becoming a driver of economic development.

Along with all this, the expansion of the geography of regional conflicts and geopolitical regional tensions are forming new challenges for global and regional economies. The start of the Iran war had a serious impact on transportation through the Strait of Hormuz. The strait in question is a key point of global energy security as the narrowest waterway carrying approximately 20% of the world's oil trade (15-21 million barrels of crude oil and petroleum products per day). In March and April 2026, events in the Middle East (Israeli-US and Iran wars) led to a near-total closure of the strait. According to the IEA's April 2026 Oil Market Report, this was the largest oil supply disruption in history: global supply fell by 10.1 million barrels per day (mbpd) in March, with cargoes passing through Hormuz falling from 20 mbpd to 3.8 mbpd. The total export loss is more than 13 mbpd, with a cumulative loss of more than 800 million barrels for March and April.

## Literature Summary

The literature used in the article consists of official statistical sources, reports of international organizations, and academic research.

Official sources, reports of the Statistical Committee of the Republic of Azerbaijan for January-March 2026, foreign trade statistics of the Customs Committee, budget and macroeconomic indicators of the Ministry of Finance and the Central Bank provide the main factual data (GDP structure, budget execution, export dynamics and HHI).

Among international reports, the IMF's "World Economic Outlook: Global Economy in the Shadow of War" (April 2026) and the IEA's "Oil Market Report – April 2026" reports are of particular importance. These sources analyze global oil supply disruptions, energy price increases and economic growth scenarios against the backdrop of the Strait of Hormuz crisis.

The main part of the academic literature is made up of the works of Vugar Bayramov:

- Bayramov, V. & Abbas, G. (2017). "Oil shock in the Caspian Basin: Diversification policy and subsidized economies" (Resources Policy) — examines the impact of oil price shocks on the economy of the Caspian Basin countries and the necessity of diversification policy.

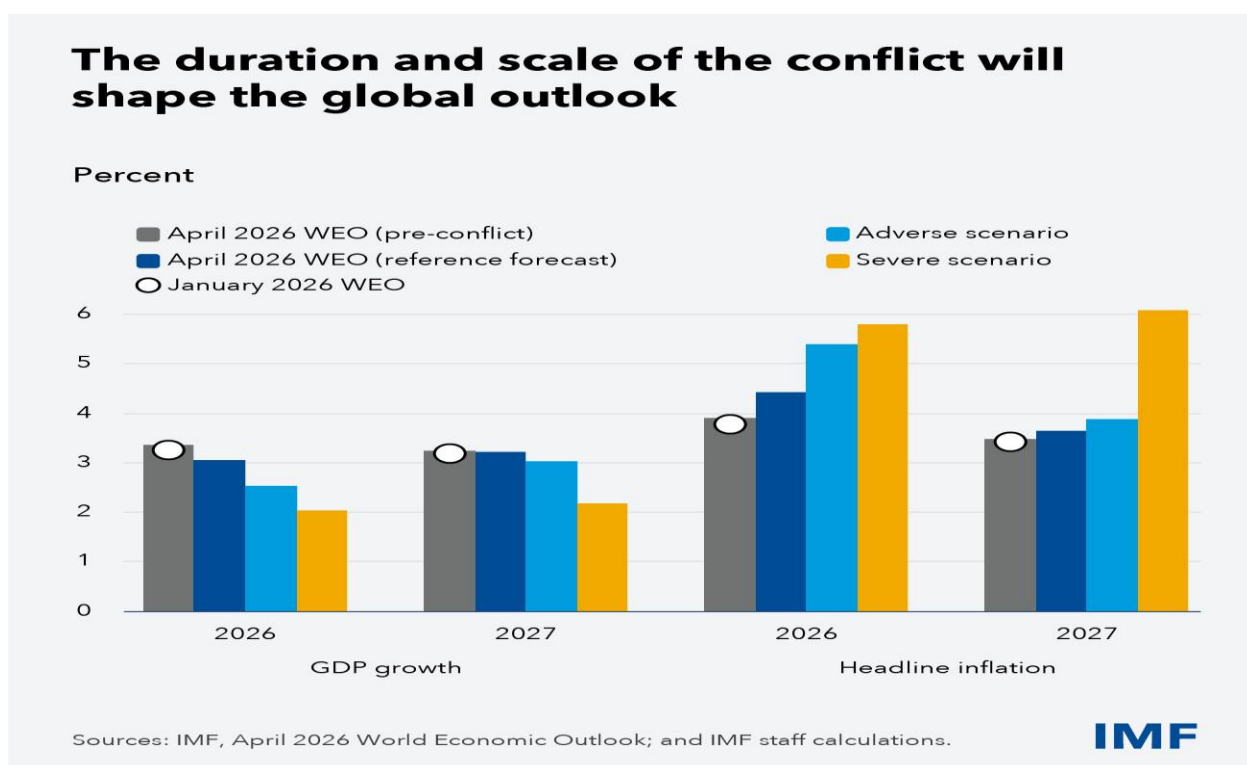
Among foreign authors, Aye M.A. (2008) analyzes the determinants of horizontal and vertical export diversification, and Herzer D. & Nowak-Lehmann F. (2006) econometrically analyzes the impact of export diversification on economic growth.

In general, the literature combines a theoretical-analytical approach with official statistics, and the main thesis of the article is — reducing oil dependence in the Azerbaijani economy and sustainable diversification strongly supports the importance of the strategy.

## Geopolitical implications for the oil market

According to the IMF's baseline forecast (short-term conflict and a mere 19% increase in energy prices in 2026), global economic growth will fall to 3.1% this year and inflation to 4.4%. This is a sharp departure from the downward trend in inflation in recent years (Figure 1). A longer-term closure of the Strait of Hormuz and additional damage to oil drilling and refining facilities make it inevitable that the global economy will be subjected to more serious and long-term destabilization. In the adverse scenario (more sharp price increases, rising inflation expectations, and tightening financial conditions), growth will rise to 2.5% and inflation to 5.4%. In the severe adverse scenario (if supply disruptions continue into 2027), growth will fall to 2% this year and next, and inflation will be above 6%. Despite reports of a temporary ceasefire, some damage has already been done to drilling and refining facilities, and risks remain high.

Figure 1. The impact of the duration and scale of the conflict on global economic growth, in percentage terms

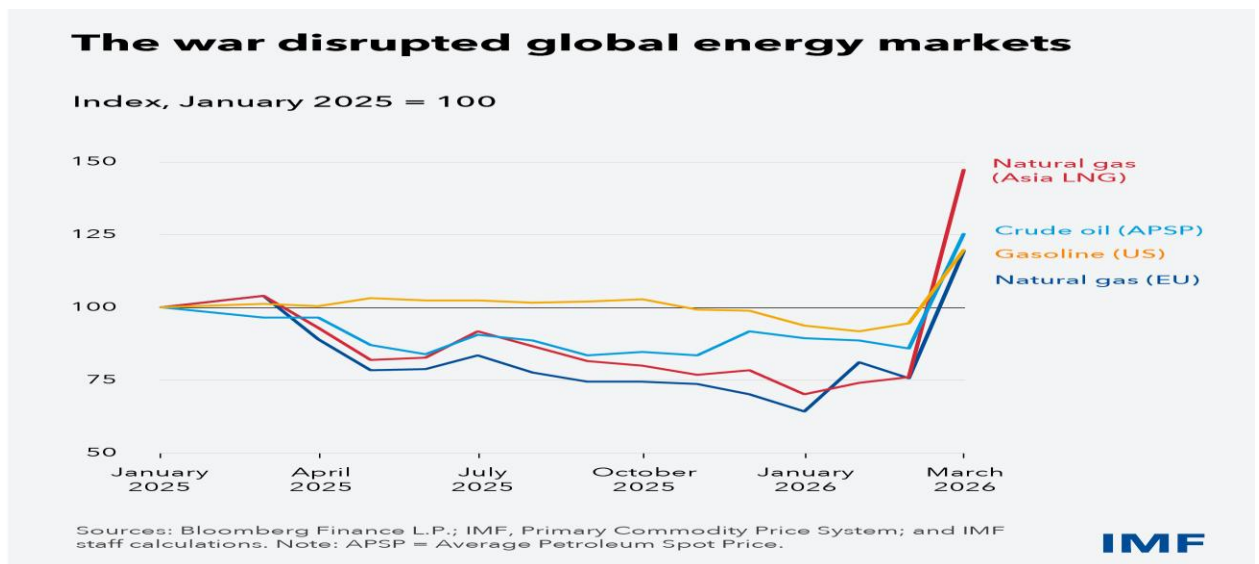


Source: International Monetary Fund

<https://www.imf.org/ru/blogs/articles/2026/04/14/war-darkens-global-economic-outlook-and-reshapes-policy-priorities>

Brent crude oil averaged a record high of \$103/barrel in March, with spot prices rising to \$130-150/barrel (\$60+ higher than futures). Middle distillates (diesel, jet fuel) hit \$290/barrel in Singapore (Figure 2). This is more than the increase in oil prices since Russia's invasion of Ukraine in 2022.

Figure 2. Impact of the conflict on energy markets



Source: International Monetary Fund

<https://www.imf.org/ru/blogs/articles/2026/04/14/war-darkens-global-economic-outlook-and-reshapes-policy-priorities>

OPEC+ has approved a 206,000-barrel-per-day increase in production for April, higher than the 137,000-barrel-per-day forecast by analysts but far below the emergency levels some have called for. While the increase ends a three-month production freeze, it does little to calm markets. That is, if oil cannot pass through the Strait of Hormuz, the additional supply is unlikely to help push prices lower. By preventing the global economy from fracturing in the face of new challenges, strengthening global cooperation, and taking the right steps to minimize economic damage, such as halting hostilities and opening the Strait of Hormuz, it is possible to minimize the economic damage. Today, implementing these principles is more important than ever to protect global prosperity.

Goldman Sachs forecasts Brent prices to be \$100/barrel in the second quarter, \$93/barrel in the third quarter, and \$90/barrel in the fourth quarter. However, the bank's previous forecast for the fourth quarter was \$80/barrel.

### Expectations for the economy in 2026

According to the budget forecast for the current year, real GDP growth is expected to increase by 2.9 percent to 134.1 billion manat. The non-oil and gas sector is projected to increase by 5 percent, its share in GDP will be 75.8 percent and its volume will be 101.7 billion manat. The share of the oil and gas sector in GDP is expected to decrease by 2.4 percent.

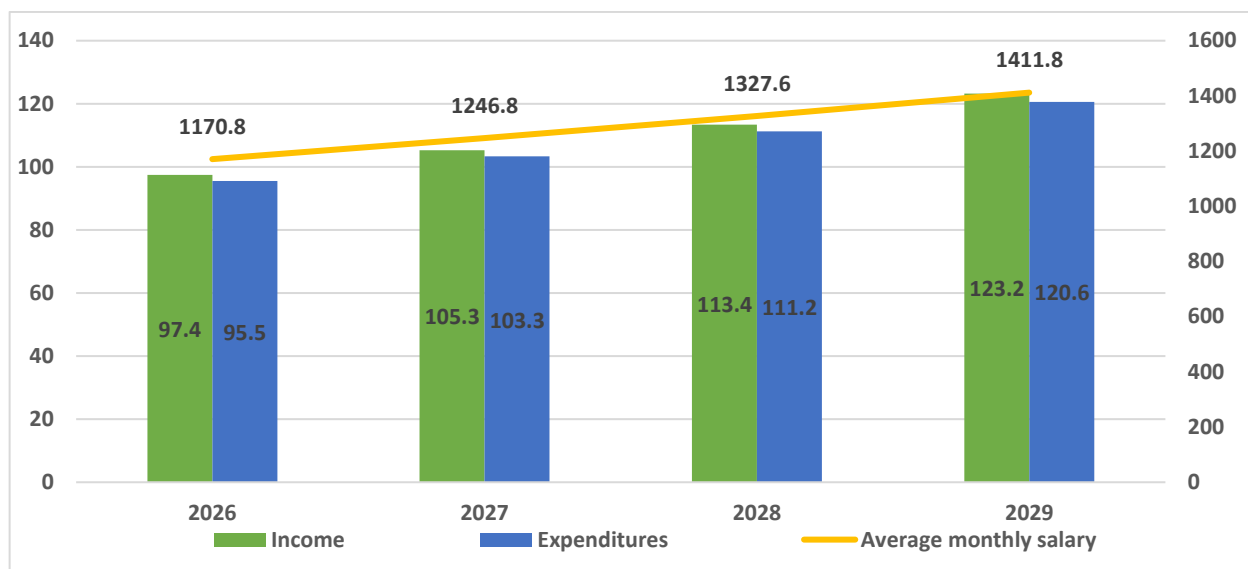
In the medium term (until 2029), GDP is expected to reach 161.8 billion manat, with the share of the non-oil and gas sector in its composition approaching 80%.

In the current year's budget, 65 US dollars were adopted for 1 barrel of "Azerilight" crude oil. This is lower than the actual average price in 2025 and oil revenues are projected to be limited.

The average annual inflation rate in 2026 is projected at 4.8 percent, and in 2027-2029 at an annual average of 4.3 percent. Due to the increase in economic activity, the real growth rate of population incomes is projected at 3.4 percent this year, and at an annual average of 3.7 percent in 2027-2029. In line with the increase in incomes, the real growth rate of population

expenditures is projected at 3.5 percent in the following year, and at an annual average of 3.6 percent in 2027-2029 (Figure 3).

Figure 3. Average monthly salary (in manats), population incomes and expenditures (in billion manats)



Source: The Ministry of Finance of the Republic of Azerbaijan

The state budget revenues for 2026 were approved at 38.609 billion manat, and expenditures at 41.7036 billion manat (including centralized revenues of 37.85 billion manat, local revenues of 758.808 million manat).

The state budget revenues are projected at 38.609 billion manat in 2026, which is 0.75% more than in 2025. In the current year, budget expenditures were approved at 41.704 billion manat (centralized expenditures of 40.9440 billion manat, local expenditures of 759.655 million manat). This is an increase of 0.7 percent or 296 million manat more than in the previous year.

### Diversification in GDP

In the first 3 months of 2026, 29.7 billion manats of GDP were produced, which is 0.3 percent less than in the same period last year (Table 1).

Table 1. GDP production in the first quarter of 2026, in million manats

	January-March		January-March 2026 compared to the corresponding period of the previous year, in comparable prices, in percentage terms
	2026	2025 <sup>*)</sup>	
Gross Domestic Product	29703,2	29886,9	99,7
including:	980,8	927,0	101,2

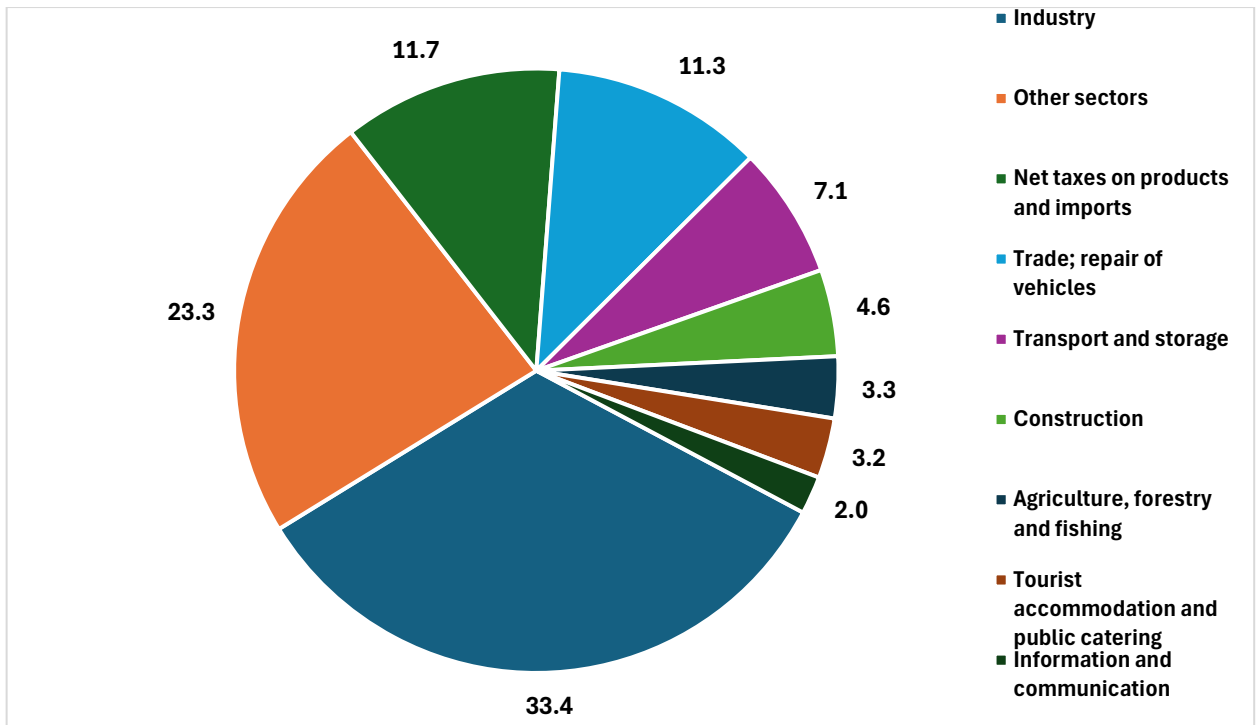
Agriculture, forestry and fishing			
Industry	9934,6	11059,6	100,2
including:			
mining	7659,1	8909,4	99,3
manufacturing	1783,5	1660,1	106,2
electricity, gas and steam production, distribution and supply	426,7	424,6	96,5
water supply, waste treatment and disposal	65,3	65,5	96,9
Construction	1378,4	1690,0	80,2
Trade: repair of vehicles	3363,2	3080,2	103,7
Transport and storage	2094,1	1976,4	101,5
Tourist accommodation and public catering	955,3	878,4	102,9
Information and communication	601,8	540,9	109,2
Other sectors	6908,4	6532,7	100,3
Net taxes on products and imports	<b>3486,6</b>	<b>3201,7</b>	<b>99,5</b>

\*) The indicators for January-March 2025 have been revised based on final data.

Source: State Statistical Committee of the Republic of Azerbaijan

33.4 percent of the GDP produced was accounted for by industry, 11.7 percent by net taxes on products and imports, 11.3 percent by trade; repair of transport vehicles, 7.1 percent by transport and warehousing, 4.6 percent by construction, 3.3 percent by agriculture, forestry and fishing, 3.2 percent by tourist accommodation and public catering, 2 percent by information and communication, and 23.3 percent by others (Figure 4).

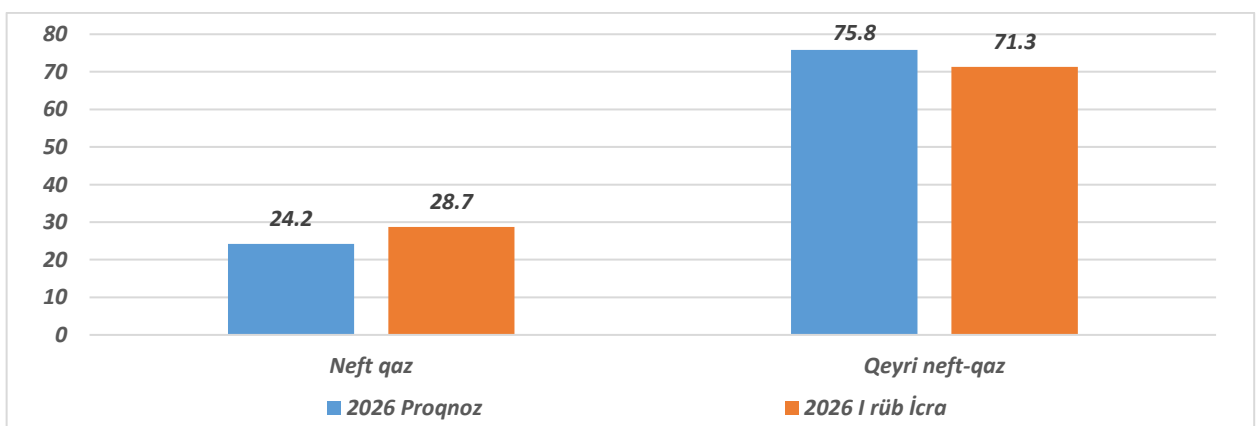
Figure 4. Structure of GDP produced in the first quarter of 2026, in percent



Source: State Statistical Committee of the Republic of Azerbaijan

In January-March 2026, the value added production in the oil and gas sector of the economy in the country decreased by 1.2 percent, and the non-oil and gas sector increased by 0.2 percent (Figure 5). However, according to the budget forecasts for the current year, in 2026, it is predicted that the GDP in the oil and gas sector will decrease by 2.4 percent in real terms, and the non-oil and gas GDP will increase by 5 percent in real terms to 101.7 billion manat. Thus, in the 2026 budget forecast, the share of the oil and gas sector in GDP is predicted to be 24.2 percent, and the share of the non-oil and gas sector is predicted to be 75.8 percent.

Figure 5. Forecast for 2026 and the share of the oil and gas and non-oil and gas sectors in GDP in 3 months, in percent



Source: Statistical Committee of the Republic of Azerbaijan

The 4.5-point overshoot of the forecast in the oil and gas sector is due to higher than expected oil and gas prices on the world market against the backdrop of a natural decline in production. The actual indicator for the non-oil sector is 4.5 points below the forecast. This

indicates that the share of the oil and gas sector in the economy (even if due to price increases) is high against the backdrop of the goals of economic diversification. The increase in the share of the oil and gas sector during actual implementation (from 24.2% to 28.7%) indicates that energy resources still play a dominant role in the economy and that the predicted non-oil and gas advantage has weakened somewhat. Although the forecast targeted a higher share of the non-oil sector (75.8%), in reality this ratio has changed in the structure of the economy against the backdrop of increasing oil revenues. This means that the role of "black gold" in budget formation was higher than planned in the first quarter. However, on the other hand, the decline of about 20 percent in the construction sector compared to the previous year has had a certain impact on the lower share of the non-oil and gas sector in GDP (Table 1).

GDP is an indicator of the growth of the country's economy and how diversified its structure is. In order to ensure the sustainability of economic development in Azerbaijan, the main direction of GDP diversification involves the development of the non-oil and gas sector. That is, it is necessary to reduce the dependence of the economy on oil and gas revenues. In 2019-2025, there was a 36.6 percent increase in GDP. Thus, during the same period, the share of the oil and gas sector in GDP decreased by 26.4 percent, from 36.7 percent to 27 percent, while the share of the non-oil and gas sector increased by 16.7 percent, from 54.3 percent to 63.4 percent. During the reporting period, the share of net taxes on products and imports in GDP increased by 6.8 percentage points, from 9 percent to 9.6 percent (Table 2).

Table 2. Gross domestic product and HHI in the oil and gas and non-oil and gas sectors of the economy in percentage terms

Indicators	2019	2020	2021	2022	2023	2024	2025*
Gross domestic product - total	100	100	100	100	100	100	100
including:							
oil and gas sector	36,7	28,1	37,0	46,6	34,3	30,3	27,0
non-oil and gas sector	54,3	62,4	54,9	45,9	56,4	59,9	63,4
net taxes on products and imports	9,0	9,4	8,1	7,4	9,2	9,8	9,6
HHI	4377,5	4778,2	4445,0	4339,0	4448,6	4599,5	4838,4

\*)Preliminary data

Source: Prepared based on data from the State Statistical Committee of the Republic of Azerbaijan.

The 21 percent increase in the share of the oil and gas sector in GDP in 2022 compared to the previous year is due to high oil prices. In the same year, there was a 16.4 percent decrease in the non-oil and gas sector. A steady decline has been observed since 2023. During the reporting period, the share of oil and gas in GDP decreased by 10 points (from 36.7% to 27%), and the shares of the non-oil and gas sector and net taxes on products and imports increased by 9.1 and 0.6 points, respectively. This is the most important structural change in recent years. In general, if we look at the average growth rate of both sectors in 2019-2025, we see that while the average annual growth rate for the oil sector was -4.3%, this indicator in the non-oil sector was at the level of 2.2%. Against the backdrop of the apparent decrease in the share of the oil sector in GDP, the non-oil sector has not been able to significantly affect it, and a positive growth rate has been maintained. This also indicates that the Azerbaijani economy is decreasing its dependence on oil and is moving towards diversification. High volatility in oil

prices still has a strong impact on the Azerbaijani economy (budget revenues, manat exchange rate, import capacity), but in recent years this impact has been weakening, as the non-oil sector is developing more stably.

Since 1982, the US Department of Justice and the Federal Trade Commission have begun to use the Herfindahl-Hirschman Index (HHI) to measure market concentration in order to prevent monopoly. The Herfindahl-Hirschman index also allows us to determine market concentration, economic diversification, and macroeconomic specialization. This index is designed to determine the extent to which the economy depends on a limited number of sectors and is calculated as follows:

$$\text{Herfindahl – Hirschman Index (HHI)} = \sum_{i=1}^n S_i^2$$

Here,  $S_i$  indicates the share of the sector in the total economy, and  $n$  indicates the number of sectors in the economy.

According to the experience of the US Department of Justice, markets are divided into 3 parts:

- low-concentration markets ( $0 < \text{HHI} < 1500$ )
- medium-concentration markets ( $1500 < \text{HHI} < 2500$ )
- high-concentration markets ( $2500 < \text{HHI} < 10000$ )

The value of HHI can vary between 0-10000.  $\text{HHI} = 10000$  indicates that there is only one company in the market and monopoly prevails.

Most often, the export HHI is calculated in the range of 0-1 (shares are taken as 0-1). Here, a value close to 1 means very low diversification.

In addition to what was mentioned above regarding economic diversification, we can use the Herfindahl-Hirschman Index to measure the level of diversification and concentration in a country's economy. Thus, in Table 2, the sum of the squares of the individual shares of the components included in the GDP structure (oil and gas, non-oil and gas, and net taxes on products and imports) in GDP is the value of the Herfindahl-Hirschman Index (HH). As can be seen from Table 2, the value of the Herfindahl-Hirschman Index (HHI) is above 2500. That is, the level of concentration in the non-oil and gas sector of the economy is high. Again, as can be seen from the same table, the level of HHI in 2020 and 2025 is higher than in other years of the reporting period.

However, against the background of a decrease in crude oil production, the decrease in the share of the oil sector in GDP directly affected the mining and processing industry (Table 3).

Table 3. Structure of added value by types of economic activity, at current prices of the relevant years, in percentage terms relative to the total

Letter code and name of the section on classification of economic activities		2021*	2022*	2023*	2024*	2025*
A	Agriculture, forestry and fishing	6,2	5,0	6,1	6,2	6,6
B	Mining and quarrying	38,1	48,5	36,6	32,2	28,4

C	Manufacturing	7,0	5,7	5,6	6,2	6,6
D	Electricity, gas and steam production, distribution and supply	1,3	1,0	1,2	1,2	1,2
E	Water supply, waste treatment and disposal	0,3	0,2	0,2	0,3	0,3
F	Construction	6,5	5,2	6,8	7,3	7,2
G	Trade; repair of vehicles	10,9	8,8	11,5	11,9	12,5
H	Transport and storage	7,5	6,5	7,0	7,5	7,8
I	Tourist accommodation and food service activities	1,4	1,6	2,4	2,7	3,1
J	Information and communication	1,9	1,5	1,9	2,1	2,3
K	Financial and insurance activities	2,0	1,7	2,5	2,4	2,5
L	Real estate transactions	3,2	2,4	3,3	3,9	4,2
M	Professional, scientific and technical activities	1,6	1,4	1,8	2,4	2,6
N	Administrative and support service activities	0,7	0,5	0,7	0,8	0,9
O	Public administration and defence; social security	4,0	3,6	4,5	4,7	5,1
P	Education	3,4	2,9	3,6	3,7	3,8
Q	Provision of health and social services to the population	2,1	1,8	2,2	2,4	2,6
R	Activities in the field of recreation, entertainment and the arts	0,8	0,8	0,9	0,8	0,9
S	Provision of services in other areas	1,1	0,9	1,2	1,3	1,4
	Imputed service fees of financial intermediaries (IMF)	-	-	-	-	-
<b>B.1g</b>	<b>Gross domestic product (at basic prices)</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>

\*) In accordance with the methodology of the MHS-2008, the imputed service fees of financial intermediaries are distributed by types of economic activity.

Source: Statistical Committee of the Republic of Azerbaijan

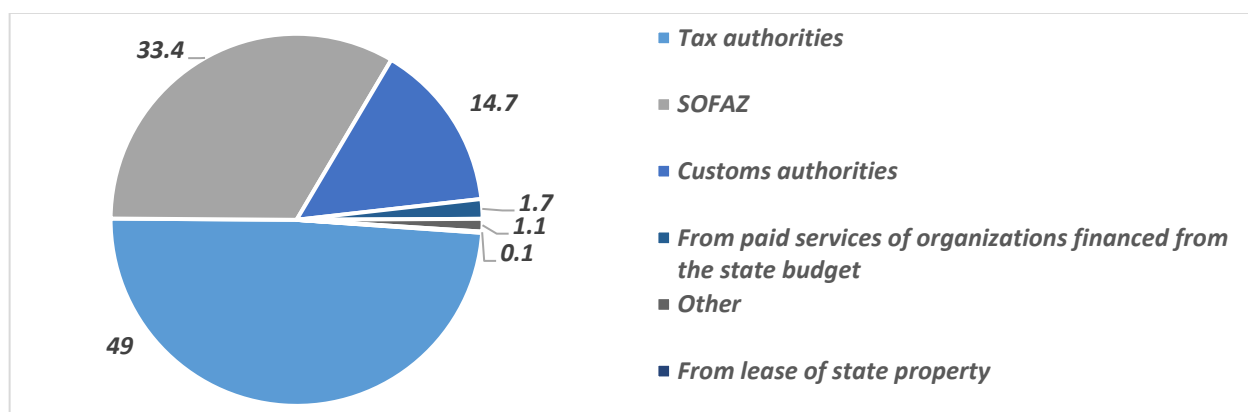
Over the past five years - 2021-2025, a decrease of 25.5 percent was observed in the mining industry, 5.7 percent in the manufacturing industry, and 7.7 percent in the production, distribution and supply of electricity, gas and steam. An increase of 9.7%, 12.8%, 3.8%, 54.8%, 17.4%, 20% and 23.8% was recorded in the sections of the classification of economic activities for construction, trade; repair of vehicles, transport and warehousing, tourist accommodation and public catering, information and communication, financial and insurance activities, and real estate-related operations, respectively. However, looking at Table 3, it can be seen that there has been a decrease in the main industrial sectors, while there has been an increase in the service sectors. Unfortunately, it can be concluded that diversification is more inclined towards the service sector than towards the production of industrial products. At the same time, there has been a slight change in the share of agriculture in GDP during the reporting period. Despite having a large workforce, large resources and potential, the fact that this sector's share in GDP remains unchanged is not effective in terms of the comprehensiveness of diversification.

Therefore, there is a need to take additional measures to further strengthen the role of agriculture in the economy and further increase the efficiency of economic diversification.

### Fiscal Diversification

State budget revenues for the first quarter of 2026 amounted to 9,598.6 million manat, which is 5 percent more than the projected 9,140.1 million manat, or 458.5 million manat more than the forecast. This is equivalent to 24.9 percent of the annual forecasted state budget revenues for the current year. State budget revenues for the first quarter of the current year, excluding SOFAZ transfers to the state budget, amounted to 6,388.8 million manat, which is 7.7 percent more than the forecasted. 49.0 percent of the state budget revenues, or 4702.0 million manat in absolute terms, were received from tax authorities, 33.4 percent or 3210.0 million manat in absolute terms were received from SOFAZ transfers to the state budget, 14.7 percent or 1410.1 million manat in absolute terms were received from customs authorities, 1.7 percent or 163.5 million manat in absolute terms were received from paid services of organizations financed from the state budget, 1.1 percent or 99.2 million manat in absolute terms were received from other revenues, and 0.1 percent or 13.8 million manat in absolute terms were received from the lease of state property (Figure 6).

Figure 6. Structure of state budget revenues in the first quarter of 2026, in percentage terms



Source: Ministry of Finance of the Republic of Azerbaijan

In the first quarter of 2026, the state budget revenues were implemented by 472.5 million manat or 11.2 percent more than projected through tax authorities, by 5.1 million manat or 0.4 percent more than projected through customs authorities, by 19.1 million manat or 6.5 percent less than projected through transfers from SOFAZ to the state budget, and by 6.5 percent less than projected through other revenues.

Of the total state budget revenues for the first quarter of 2026, the state budget revenues from the non-oil and gas sector amounted to 5,533.7 million manat or 57.7 percent, which is 446.1 million manat or 8.8 percent more than projected. In January-March of the current year, 3847.1 million manats or 69.5 percent of the state budget revenues from the non-oil and gas sector were received through tax authorities, 1410.1 million manats or 25.5 percent were received through customs authorities, 163.5 million manats or 3.0 percent were received from paid services of organizations financed from the state budget, 99.2 million manats or 1.8 percent were received from other revenues, and 13.8 million manats or 0.2 percent were

received from the lease of state property. The state budget revenues from the oil and gas sector amounted to 4064.9 million manats, which is 12.4 million manats or 0.3 percent more than the forecast.

Diversification is a strategic process aimed at reducing the fiscal sustainability of the Azerbaijani economy and its dependence on oil and gas revenues, diversifying the sources of revenue of the state budget, and ensuring the competitive and stable development of the non-oil and gas sector. This is one of the main priorities for the country's long-term economic development, as the oil sector still constitutes a significant part of the economy and the budget.

The revenues of the state budget of the Republic of Azerbaijan for 2026 have been approved in the amount of 38.61 billion manats, and expenditures in the amount of 41.7 billion manats.

Table 4. Budget revenues and expenditures in 2019-2025

Years	Budget revenues,	Share in GDP, %	Budget expenditures	Share in GDP, %	Budget deficit(-)	Share in GDP, %
	million manats	Share in GDP, %	million manats	Share in GDP, %	surplus(+)	Share in GDP, %
2019	24218,1	29,6	24425,9	29,9	-207,8	-0,3
2020	24681,7	34,1	26416,3	36,5	-1734,6	-2,4
2021	26396,3	28,5	27422,4	29,5	-1026,1	-1,1
2022	30679,6	22,9	32064,6	24,0	-1385,0	-1,0
2023	35236,39	28,9	36458,0	29,6	-1221,6	-1,0
2024	37161,8	29,4	37712,7	29,9	-550,9	-0,4
2025	39131,2	30,3	38603,6	29,9	527,6	0,4

Source: Central Bank of the Republic of Azerbaijan

<https://www.cbar.az/page-41/macroeconomic-indicators>

It was noted above that the HHI was high in 2020 and 2025, and Table 4 also shows that in those years of the reporting period, the share of budget revenues in GDP was above 30 percent. If 2020 was characterized by a pandemic shock, 2025 is already considered a year in which the non-oil sector played a leading role and the economy entered a more stable phase. This is due to the fact that the growth rate in the non-oil sector (construction, trade, logistics, ICT, agriculture) was higher than that of the oil sector and expanded the tax base. In 2020, the economy contracted due to the COVID-19 pandemic (real GDP growth was negative), oil prices fell sharply, and due to a decrease in total revenues, the budget deficit increased accordingly due to an increase in budget expenditures.

The share of the state budget in GDP should be increased based on the needs of the economy, the absence of a progressive tax scale, and the global experience of other countries. The share of state budget indicators - revenues and expenditures - in GDP, which are the main mechanism of social and investment policy, as the main instrument of income redistribution, should be increased.

### Export Diversification

Non-net gas exports increased by 8.1 percent in 2025 from 3.4 billion USD to 3.6 billion USD compared to 2024. During January-December 2025, compared to the same period in

2024, agricultural exports increased by 26.7 percent and agro-industrial exports increased by 18.9 percent to 1.3 billion USD. Exports of non-oil and gas sector products were exported to five main countries. In 2025, compared to 2024, exports to Russia increased by 38 million USD from 1.162 billion USD to 1.2 billion USD, to Turkey by 55 million USD from 542.3 million USD to 597.3 million USD, to Georgia by 75.2 million USD from 272.7 million USD to 347.9 million USD, to Sweden by 127.4 million USD from 220.4 million USD to 347.8 million USD, and to Ukraine by 83.4 million USD from 117.6 million USD to 201 million USD.

Table 5. Sectoral structure of exports and HHI

	<b>2026 I rüb</b>	<b>2025</b>	<b>2024</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>
For goods included in the oil and gas sector, in percent	<b>84,04</b>	<b>85,51</b>	<b>87,36</b>	<b>90,12</b>	<b>92,01</b>	<b>87,78</b>	<b>86,53</b>
For goods not included in the oil and gas sector, in percent	<b>15,96</b>	<b>14,49</b>	<b>12,64</b>	<b>9,88</b>	<b>7,99</b>	<b>12,22</b>	<b>13,47</b>
Herfindahl-Hirschman index HHI	<b>0,732</b>	<b>0,752</b>	<b>0,779</b>	<b>0,822</b>	<b>0,853</b>	<b>0,785</b>	<b>0,767</b>

Source: Prepared based on data from the State Customs Committee of the Republic of Azerbaijan

As can be seen from the table, exports of goods included in the oil and gas sector increased from 2020 to 2022 and reached a peak in 2022 (92.01%). This is due to the increase in oil prices and the increase in gas exports (especially to Europe) after the pandemic. A downward trend is observed after 2022. In the first quarter of 2026, the share of exports of goods included in the non-oil and gas sector increased to 15.96%, the highest level in the last 7 years. At the same time, the MFI also changes in accordance with the change in the ratio of exports of goods included in the oil and gas and non-oil and gas sectors.

Export diversification mainly occurs in two forms: horizontal and vertical (16, p. 11). Horizontal diversification involves increasing the quantity of exported products, while vertical diversification involves qualitative changes in exports. That is, it involves exporting finished products by creating added value (processing, packaging, and marketing).

Many developing countries start with horizontal diversification first, because it gives easier and faster results. The income and experience generated create the basis for moving to vertical diversification at a later stage. A classic example of this strategy is China. China, which exported mainly agricultural and light industrial products in the 1960s and 1970s, expanded its economic capabilities and switched to vertical diversification, moving to high-tech products (electronics, automobiles, etc.) and becoming the world's largest exporter.

Horizontal diversification is important to reduce short-term risks, but vertical diversification (export of high value-added products) is more effective for sustainable and sustainable economic development. The optimal path for countries like Azerbaijan is to strengthen horizontal diversification in agriculture and agro-industry, and at the same time to make a gradual transition to vertical diversification by investing in the processing industry.

In addition to the above, V. Bayramov, a deputy of the Milli Majlis of the Republic of Azerbaijan, suggests that export diversification should include not only goods, but also export markets. Because the main country of export of goods included in the non-oil and gas sector of Azerbaijan is Russia. Market diversification is very important, regardless of the political situation and the creation of artificial obstacles in export operations.

## Conclusions and Recommendations

2026 is characterized as a year of both opportunities and serious challenges for the Azerbaijani economy. The share of the non-oil and gas sector in GDP approaching 75.8% and in budget revenues approaching 57%, the growth of non-oil products (agriculture and agro-industrial) in exports (8.1% growth in 2025), and the expansion of the service sectors indicate that the diversification process continues. High values of the HHI (above 2500) emphasize that the economy is still concentrated, especially the dominant role of the oil sector against the background of price increases.

However, regional conflicts (the Hormuz crisis) are destabilizing global energy markets, creating both short-term revenue growth (oil prices) and long-term risks for Azerbaijan (slowing global growth, inflation, trade disruptions). The 0.3% decline in GDP in the first quarter of 2026 and the sharp decline in the construction sector indicate that diversification is still uneven and service-oriented. Overall, the fact that the growth rate of the non-oil sector has outpaced the oil sector in recent years is a positive trend, but sustainable development will be difficult without deepening in industry (especially processing), agriculture, and high value-added exports.

The following comprehensive measures are recommended to further strengthen diversification:

1. **Prioritizing the industrial and processing sector:** Increasing investments in the processing of agricultural products, chemistry, plastics, metallurgy and logistics, accelerating the transition to vertical diversification (high value-added finished products). This will improve the quality of exports and deepen integration with foreign markets (Russia, Turkey, Georgia, Europe).

2. **Modernizing agriculture:** Increasing productivity in an area with great potential through technological innovations, irrigation systems, seed and fertilizer supply. The development of the agro-industrial complex can significantly expand export potential (vegetables, fruits, wine, oils).

3. **Strengthening fiscal policy:** Expanding the non-oil tax base, increasing the share of budget revenues in GDP, introducing progressive tax mechanisms. Directing oil revenues (SOFAZ) more towards human capital, infrastructure and innovations.

4. **Export support:** Stimulate non-oil exports through export credit agencies (Eximbank type), marketing support and trade agreements. Combine horizontal diversification (product range) with vertical (processing and branding).

5. **Increase resilience to risks:** Improve management of reserve funds against geopolitical risks, develop alternative energy and logistics routes (East-West corridor), strengthen global cooperation (OPEC+, international organizations).

The implementation of these measures will make the Azerbaijani economy less dependent on oil price volatility and regional crises, and create the basis for long-term sustainable and inclusive development.

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