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Expectations for the Azerbaijani economy in 2026: Perspectives and Realities

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Executive summary

Economic projections for Azerbaijan in 2026 reveal a divergence between domestic and international forecasts, suggesting moderate rather than rapid growth. While national authorities maintain a more optimistic outlook, international institutions such as the World Bank and the EBRD expect a slower expansion of the economy. Independent assessments similarly anticipate limited progress, reflecting the broader challenges facing the global and regional economic environment.

Government revenues are projected to increase slightly, driven primarily by higher tax and customs collections from the non-oil sector and nominal gains linked to inflation. The non-oil economy is expected to remain the main engine of growth, offsetting the continued stagnation in the oil and gas industry. On the expenditure side, budget spending is anticipated to expand due to inflationary pressures, growing social obligations, and ongoing investment in infrastructure and development projects. Rising wages, pensions, and social benefits will contribute significantly to higher nominal outlays.

Despite the manat's general stability since 2017, potential pressures are anticipated in the foreign exchange market during 2026. The currency's value remains closely tied to oil revenues, which continue to dominate the export structure. With oil and gas accounting for the vast majority of exports, fluctuations in global energy prices will remain the most influential factor affecting exchange rate dynamics. The outlook for the international oil market appears subdued, with major forecasts suggesting a decline in Brent crude prices. If prices remain at or near lower levels for an extended period, the Central Bank may be prompted to adjust the exchange rate to reflect changing external conditions.

The decline in oil prices stems from a combination of increased global supply and weakened demand, particularly from major consumer markets such as China. This trend is

expected to keep prices under downward pressure throughout 2026. Given Azerbaijan's fiscal dependence on energy exports, such a scenario would heighten the risks for both the national currency and overall macroeconomic stability.

Inflationary pressures are likely to persist, exceeding earlier expectations. Upward revisions to inflation forecasts for both 2025 and 2026 indicate that rising prices will remain a key concern for policymakers. Independent projections suggest that inflation may outpace official targets, driven by higher import costs, exchange rate pressures, and continued expansionary fiscal measures.

In summary, Azerbaijan's economic outlook for 2026 is characterized by modest growth, fiscal expansion anchored in non-oil revenues, and increasing inflationary and exchange rate risks stemming from a weaker global oil market. While the diversification of the economy continues to provide some resilience, the country's dependence on hydrocarbon revenues remains a central vulnerability in the face of fluctuating global energy conditions.

Economic growth

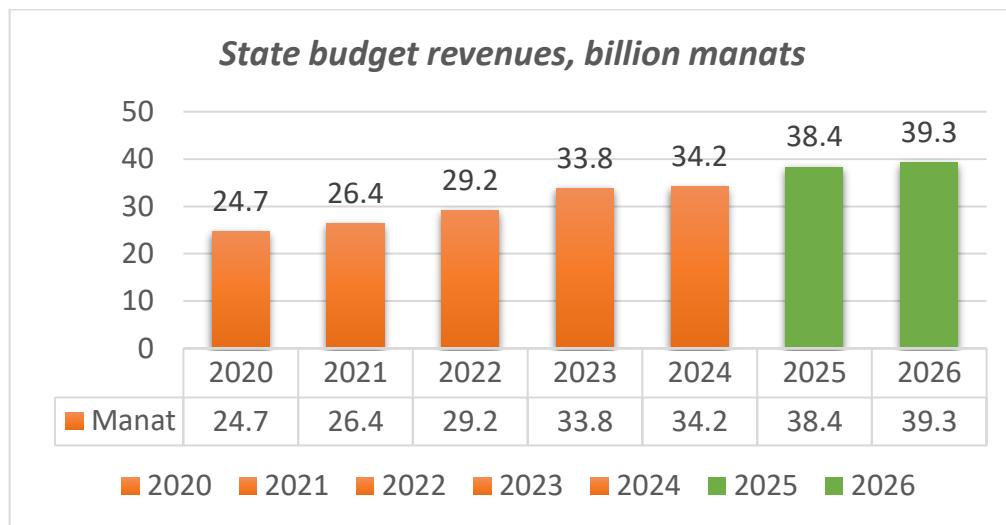
There are differences between domestic and foreign projections for the Azerbaijani economy in 2026. As a result, whereas the Ministry of Economy of the Republic of Azerbaijan projects 3.2% economic growth in 2026, the World Bank and the European Bank for Reconstruction and Development (EBRD) project 2.5% and 2.4% growth, respectively. Forecasts from CESD's econometric models indicate that GDP will increase by 2.4% in 2026. According to the projections, the economy will not grow at a high rate in 2026 given the current economic conditions.

Budget revenues

Since 2020, budget revenues have increased consecutively (6.8%, 10.6%), reaching 29.2 billion manats in 2022. In 2023, against the background of the observed growth rate in fiscal revenues, budget revenues increased by 15.8%, reaching 33.8 billion manats. In 2024, however, the growth rate slowed, and with a 1.2% increase, budget revenues rose to 34.2 billion manats. In the current year, compared to 2024, a 12.3% increase in budget revenues has been recorded against the backdrop of increases in tax revenues and transfers to the budget from the respective executive authority. For 2026, it is projected that budget revenues will increase by 2.3% compared to the current year through a reduction in oil and gas revenues and a particular increase in non-oil and gas revenues.

Figure

State budget revenues, billion manats



Note: Milli Majlis of the Republic of Azerbaijan, CESD. (<https://meclis.gov.az/news-layihe.php?id=1530&lang=az&par=0>,
<https://www.meclis.gov.az/news-layihe.php?id=1722&lang=az&par=0>,
<https://www.meclis.gov.az/news-layihe.php?id=1733&lang=az&par=0>,
<https://www.meclis.gov.az/news-layihe.php?id=2057&lang=az&par=4>,
<https://www.meclis.gov.az/news-layihe.php?id=2168&lang=az&par=0>, <https://meclis.gov.az/documents/93-VIIQ.pdf>)

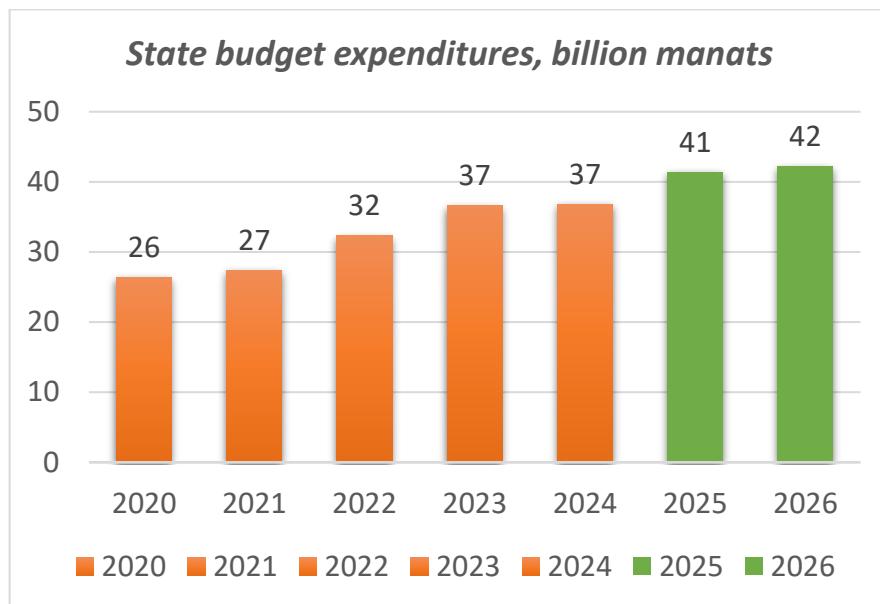
Revenues are expected to reach 39.25 billion manat in 2026, up 895 million manat (2.33%) from 2025, according to the Ministry of Finance. Additional tax and customs revenues anticipated from the non-oil and gas industry, along with nominal growth in budget revenues as a result of inflation, account for a sizable portion of the rise. Budget income will mostly come from non-oil sector growth of about 4%, notwithstanding the oil and gas sector's low growth.

Budget expenditures

As per the Ministry of Finance of the Republic of Azerbaijan, it is anticipated that the consolidated budget expenditures in 2026 will reach 1 billion 427.9 million manats, representing a 3% increase—49 billion 57.4 million manats—over the approved figures for 2025. The report indicates that state budget expenditures are set at 822.4 million manats, or a 2% rise—42 billion 230 million manats—when compared to the sanctioned amount for this year.

Figure

State budget expenditures, billion manats



Note: Milli Majlis of the Republic of Azerbaijan, CESD. (<https://meclis.gov.az/news-layihe.php?id=1530&lang=az&par=0>, <https://www.meclis.gov.az/news-layihe.php?id=1722&lang=az&par=0>, <https://www.meclis.gov.az/news-layihe.php?id=1733&lang=az&par=0>, <https://www.meclis.gov.az/news-layihe.php?id=2057&lang=az&par=4>, <https://www.meclis.gov.az/news-layihe.php?id=2168&lang=az&par=0>)

As seen in the figure, budget expenditures continued to increase each year up to 2023 at a consistent growth rate. During the relevant period (2020–2023), the expenditures of the state budget of the Republic of Azerbaijan increased by 3.8%, 17.9%, and 13.3%, respectively, reaching 36.6 billion manats. Although the observed growth rate of expenditures weakened in 2024 (1% increase), in the current year the growth rate rose again to 13% against the background of increased spending particularly in general public services, social protection and social security, and economic activity. For 2026, a 2% increase in state budget expenditures compared to 2025 is expected.

The rise in state budget spending is primarily attributed to inflation and growing social obligations. The rise in wages, pensions, and social benefits raises expenditures in nominal terms. Furthermore, the ongoing infrastructure and investment projects contribute additional pressure on the budget. Additionally, the expansion of the non-oil and gas sector results in increased expenditures.

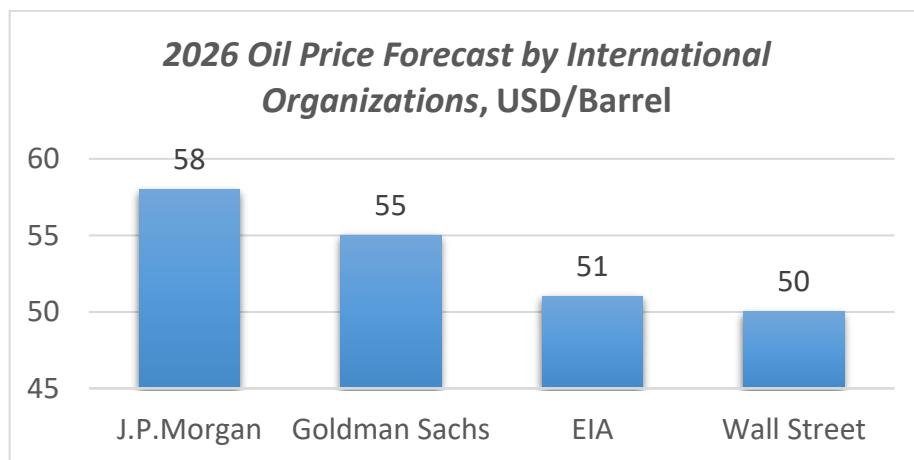
Currency/Oil prices

Despite the Azerbaijani manat's stability since 2017, there are occasional pressures noted in the foreign exchange market. The Central Bank of Azerbaijan's strategy states that the exchange rate policy aligns with the balance of payments and the amount of currency flowing

into the country. The inflow of currency is primarily determined by the level of direct exports. As reported by the State Statistics Committee, Azerbaijan's total exports reached \$26 billion 338 million in 2024. The export of non-oil and gas products accounted for \$3 billion 356 million. This indicates that oil and gas products represented 87.3% of the total exports from Azerbaijan. In this scenario, the primary factor influencing the manat's exchange rate in 2026 will be oil prices. The global oil market outlook for 2026 appears bleak. Projections for the cost of a barrel of Brent oil in 2026 have been lowered. J.P. Morgan expects the price of a barrel of Brent oil to be \$58 in 2026, Goldman anticipates \$55, the US Energy Information Administration (EIA) estimates \$51, and Wall Street predicts \$50. If these predictions are accurate, the pressure on the Azerbaijani manat will increase in 2026.

Figure

2026 Oil Price Forecast by International Organizations

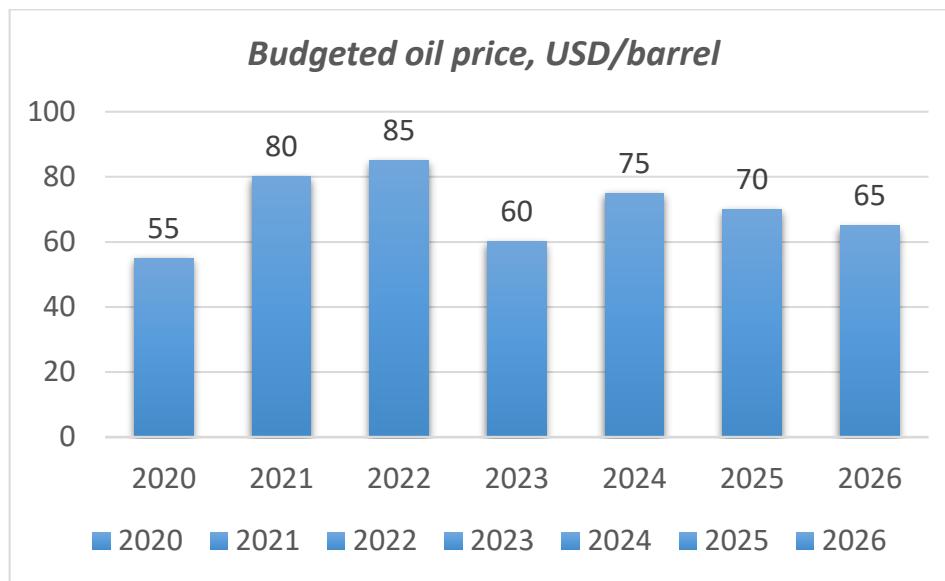


Note. J.P.Morgan, Goldman Sachs, U.S. Energy Information Administration (EIA) , Wall Street.

An examination of both the direct and indirect communications from the Central Bank of Azerbaijan indicates that a decrease in oil prices to \$50 per barrel is approaching a critical threshold. This indicates that if the average oil price in 2026 remains approximately \$50 for an extended period (at least one quarter), there is a significant likelihood that the Central Bank will adjust the exchange rate. Given that Azerbaijan has not adopted a floating exchange rate system, the manat's exchange rate is directly influenced by the Central Bank's decisions. Simultaneously, the Central Bank of the Republic of Azerbaijan bases its decisions on the demand present in the foreign exchange market and the fluctuations in the global energy market. In 2026, the State Oil Fund of the Republic of Azerbaijan forecasts no significant rise in the amount of dollars to be introduced into the foreign exchange market. In this situation, the primary element affecting the exchange rate continues to be the global oil market price.

Figure

Budgeted oil price, USD/barrel



Note: Ministry of Economy of the Republic of Azerbaijan, Milli Majlis of the Republic of Azerbaijan, CESD.

The decrease in oil prices in 2026 is primarily caused by rising supply and diminishing demand in the worldwide market. OPEC+ is ramping up production, while output in the US and other nations is also rising, resulting in a boost in reserves. Simultaneously, the economic downturn in China and other key consumer markets is maintaining low demand. Consequently, prices will continue to face downward pressure. In this context, as the oil price in the 2026 state budget serves as a preliminary estimate, a reduced price may also be considered.

Wage/Salary/Pension

In 2026, no rises in the minimum wage or minimum pension are anticipated. As per initial projections, labor pensions are set to be indexed and raised by an average of 9.0 percent in January 2026. In contrast to pensions, no particular alterations are anticipated in the wage structure.

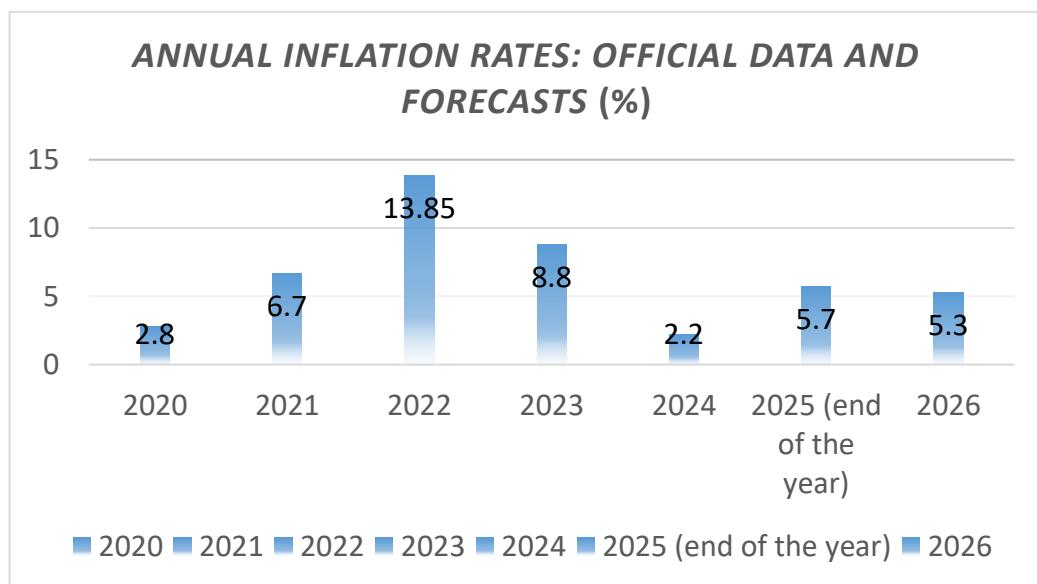
Inflation

Inflation is expected to exceed the levels of the previous year in 2026. Due to the actual inflation rate surpassing expectations in the remaining months of 2025, the Ministry of Finance of the Republic of Azerbaijan has raised the initial estimate for average annual

inflation for 2025 from 4.6 percent to 5.4 percent. The Central Bank of Azerbaijan anticipates a 5.3 percent rise in prices annually by 2026. According to independent surveillance conducted by CESD, average yearly inflation is expected to be 7.5 percent in 2026. Overall, the two updates to official inflation predictions for 2025 (4.6; 5.1; 5.4 percent) indicate that increased price rises are anticipated for this year and the following year.

Figure

Annual Inflation Rates: Official Data and Forecasts



Note: Ministry of Finance of the Republic of Azerbaijan. (CESD hesablama-proqnoz, <https://maliyye.gov.az/news/6293/2025-ci-ilin-dovlet-ve-icmal-budcelerinin-yarimillik-icrasina-dair-arayis-ve-ilin-sonuna-gozlentiler-senedi-mid-year-review>, https://maliyye.gov.az/scripts/pdfjs/web/viewer.html?file=/uploads/news_files/68a4961f88134.pdf)

Recommendations

Followings in light of the current macroeconomic climate and official, global, and independent projections for 2026 are recommended:

1. Reducing unnecessary expenses and altering the cost structure, especially through astute management, in light of the oil market's anticipated volatility and the poor projections for the regional and global economies in 2026;
2. Considering exchange rate risk and paying close attention to the currency ratio in credit and debit transactions. Considering the possible exchange rate risk when making payments and borrowings;

3. Making the wage fund more efficient. creating a new wage mechanism and controlling excessive growth in the labor fund if the personal income tax grace period is not extended;
4. Considering customer saving inclinations in their conduct. expanding the selection of less costly goods;
5. Making the most of the proportion of convertible currencies in lending commitments. This can lessen the possible adverse consequences of exchange rate fluctuations;
7. Diversifying import sources and making adaptable judgments in response to the political and economic shifts occurring in the region;
8. Adapting the flexible domestic economic policy to the fluctuations in oil prices. Being ready for the possibility of exchange rate fluctuations in the event that one barrel of Brent oil drops below \$50 and stays there for a while;
9. Putting into practice a strategy of competition with conventional markets in line with the mechanism that is anticipated to be implemented in 2026 in relation to the simplified tax turnover. Launching new incentive programs in line with the anticipated cost reductions in post-terminal usage prices for 2026;
10. Modifying the policy in light of the prediction of a possible increase in the share of non-cash payments in traditional markets.

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