IMF Country Report No. 26/112

THE REPUBLIC OF AZERBAIJAN

STAFF REPORT FOR THE 2026 ARTICLE IV CONSULTATION

May 26, 2026

In the context of the 2026 Article IV Consultation, the following documents have been released and are included in this package:

- A **Press Release.**
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse-of-time basis, following discussions that ended on February 17, 2026, with the officials of the Republic of Azerbaijan on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on March 26, 2026.
- An **Informational Annex** prepared by the IMF staff.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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PRESS RELEASE

PR 26/131

IMF Executive Board Concludes 2026 Article IV Consultation with the Republic of Azerbaijan

FOR IMMEDIATE RELEASE

- *Following strong performance in 2024, economic growth moderated to 1.4 percent in 2025, as oil-sector disruptions and slower non-hydrocarbon activity weighed on output.*
- *Elevated hydrocarbon prices from the war in the Middle East are expected to strengthen Azerbaijan's fiscal and external positions in the near term, but inflationary pressures could emerge.*
- *Sustained fiscal consolidation and private sector-led diversification away from hydrocarbon production remain the key policy priorities, given declining hydrocarbon reserves.*

Washington, DC – April 30, 2026: On April 27, 2026, the Executive Board of the International Monetary Fund (IMF) completed the Article IV consultation with the Republic of Azerbaijan and endorsed the staff appraisal without a meeting on a lapse of time basis.[1] The authorities need more time to consider the publication of the Staff Report prepared for this consultation.[2]

Following the strong performance in 2024, growth slowed in 2025. Oil production was hampered by technical issues, causing hydrocarbon GDP to contract by 1.6 percent, compared to flat growth in 2024. In the nonhydrocarbon sector, growth moderated from 6.5 percent in 2024 to 2.7 percent, reflecting the indirect effects of falling hydrocarbon prices, as well as lower investment, coming off elevated levels in the previous years. Overall, real GDP slowed to 1.4 percent in 2025, down from 4.2 percent in 2024. Headline inflation temporarily breached the upper bound of the CBA target range of 4±2 percent in April and May 2025 and it has been oscillating within a 4.9 to 6

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis of discussion by the IMF Executive Board. Both staff's discussions with the regional institutions and the Board discussion of the annual staff report subsequently are considered an integral part of the Article IV consultation with each member. The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

[2] Under the IMF's Articles of Agreement, publication of documents that pertain to member countries is voluntary and requires the member consent. The authorities have requested additional time to decide on the publication of the staff report. A final decision is expected not later than 28 days from the Board consideration date.

percent range since. The increase was largely driven by rising food prices, with food price inflation climbing to 8.2 percent yoy in October 2025, before moderating somewhat. Most recently, increases in the regulated prices led to a pickup in headline inflation to 5.7 percent in January 2026.

Hydrocarbon exports continued to sustain the external surplus in 2025, despite lower oil and gas prices. By 2025 Q3, the current account surplus narrowed to 5.4 percent of GDP from 6.3 percent in 2024, driven by lower oil exports. The decline in oil exports was partially offset by slower imports growth, which moderated to 2.7 percent yoy in the first three quarters of 2025 compared to earlier double-digit growth, reflecting lower investment spending. The combined CBA and SOFAZ reserves rose to $85 billion by end-2025, and the liquid portion is estimated to cover over 38 months of imports and exceed 970 percent of the IMF's reserve adequacy metric. Nonetheless, considering the need to maintain intergenerational equity, the external position is assessed to be substantially weaker than the level consistent with medium-term fundamentals and desirable policies.

Growth is projected to pick up marginally and inflation to remain within the CBA target band. Staff expect GDP to pick up moderately to 2.1 percent in 2026, amid continued weakness in oil and gas production. Nonoil GDP growth is projected to accelerate to 3.7 percent, before stabilizing at 3½ percent in the medium term. The rebound reflects a slower pace of fiscal tightening expected in 2026 and positive indirect effects of higher oil and gas prices due to the war in the Middle East. These gains are partially offset by weaker business confidence and investment. The output gap in the nonoil sector is expected to fall but remain positive in 2026, before gradually closing over the medium term. The outlook for oil GDP, which is driven by binding production constraints, is projected to decline by 2.0 percent in 2026 before slowing at a moderate pace of 0.5 percent, pushing down overall GDP growth to about 2½ percent in the medium term. Inflation is projected to pick up to 6.0 percent by end-2026, assuming higher imported food inflation amid the war in the Middle East, which could also erode real incomes and reduce demand. Nonetheless, the current account surplus is expected to improve significantly in 2026, owing to the increase in hydrocarbon prices, before weakening gradually over the medium term. SOFAZ reserves will continue to grow, assuming hydrocarbon prices remain elevated.

Risks to the outlook remain broadly balanced, but external uncertainty is high. The intensification of the current war in the Middle East could push hydrocarbon prices up, providing a larger boost to the external and fiscal position. This could, however, also lead to considerable inflationary pressures through the impact on global food prices, affect food security, create migration pressures, require higher spending, and raise business uncertainty, posing a risk to the consolidation and diversification strategies. At the same time, heightened geopolitical and policy uncertainty could lower global growth, weakening growth, the external position, and fiscal revenues. Similarly, deepening global geoeconomic fragmentation and adverse trade shocks could impede prospects for economic diversification, but if trade and investment divert to the region, it could also provide new opportunities. On the domestic side, insufficient commitment to fiscal consolidation could increase inflation and weaken the long-term fiscal position. Limited progress in private sector development, including through SOE reforms, could pose challenges to diversification and lower growth potential. Upside risks stem from progress in the peace agreement with Armenia, which could foster opportunities for stronger economic growth.

Executive Board Assessment

Azerbaijan is appropriately focused on diversification, as declining hydrocarbon production weigh on the economic outlook. Growth is expected to pick up only marginally to 2.1 percent in 2026 amid continued weakness in the hydrocarbon sector and some acceleration of the nonhydrocarbon GDP growth. Declining oil production is expected to push down overall growth to about 2½ percent in the medium term. Inflation is projected to pick up to 6.0 percent by end-2026 and to 4.2 percent by end-2027, reflecting rising food prices amid higher global commodity prices. The current account balance is projected to remain in surplus over the medium term. The external position is, however, assessed to be substantially weaker than the level consistent with medium-term fundamentals and desirable policies. While risks to the outlook remain broadly balanced, external uncertainty is high. The intensification of the current war in the Middle East could push hydrocarbon prices further up, providing a large boost to the external and fiscal position. The war could, however, also lead to considerable inflationary pressures through the impact on global food prices, affect food security, create migration pressures, require higher spending, and raise business uncertainty, posing a risk to the consolidation and diversification strategies.

The medium-term fiscal consolidation is appropriate and will ensure intergenerational equity and support external sustainability. The authorities' fiscal rule target of reaching 13 percent of nonoil GDP in 2029 is consistent with achieving constant real annuity across generations over the next decade. This requires saving any windfall from elevated hydrocarbon prices. A clear and comprehensive strategy that identifies concrete revenue and expenditure measures will enhance the credibility of fiscal consolidation. The new financial monitoring framework for SOEs and the ongoing digitalization and centralization of public payments will strengthen public financial management. The authorities should also continue efforts to reduce SOE subsidies, rationalize tax incentives, and strengthen tax administration and compliance, including through the ongoing TADAT self-assessment and subsequent external evaluation. Specifying more limited escape clauses and an automatic correction mechanism would further enhance fiscal rule credibility.

The CBA should raise policy rates if inflationary pressures persist. While inflation is projected to fall over the forecast horizon, close monitoring of risks to inflation and responding to inflation surprises will be important, given elevated external uncertainty, upside risks to inflation from the ongoing war in the Middle East, and still developing monetary policy passthrough. Clear and forward-looking communication is becoming increasingly important as the central bank relies more on inflation forecasts to guide monetary policy. The interbank market rates remain close to the policy rate, reflecting successful management of excess liquidity by the CBA. Material improvement in the passthrough to the broader economy will require further development of a risk-free yield curve, and continuing progress in addressing long-standing structural issues such as dollarization, high operating costs, and low competition in the banking sector.

The active use of macroprudential policy supports macroeconomic objectives, while addressing emerging risks to financial stability. The gradual move to Basel III implementation has minimized disruption to the financial sector and credit supply, while increasing the ability of the sector to withstand capital and liquidity shocks. The adoption of the risk-based approach to supervision will allow the CBA to optimize its use of resources. However, the CBA should remain vigilant to the adequacy of the resources going forward, especially as individual banks' risks become better understood through the Basel III pillar II process. The work to strengthen financial safety nets, consolidated supervision, and emergency liquidity assistance should continue to be pursued, including the necessary changes to the laws.

Azerbaijan should remain focused on private-sector-led economic diversification. Expanding the role of the private sector in diversification, including through foreign direct investments, calls for deepening capital markets to increase the private sector's access to finance, as well as increasing labor productivity through human capital investment, and continuing reforms aimed at tackling labor market informality. Along with recent progress in monitoring of SOE performance, reducing the role of regulated prices and lowering state subsidies to SOEs would stimulate competition and help optimize SOE performance. The authorities should continue to improve SOEs' disclosure practices and governance structures, including appointing independent supervisory board members and professionalizing management, and at the same time, steadily divest SOEs to the private sector. Efforts to improve governance, transparency, and integrity should continue. While data provision is broadly adequate for surveillance purposes, further work on closing the remaining gaps is needed.

It is recommended that the next AIV consultation takes place on the standard 12-month cycle.

Azerbaijan: Selected Economic and Financial Indicators, 2023–31

			Est.	Projections					
	2023	2024	2025	2026	2027	2028	2029	2030	2031
	(Annual percentage change, unless otherwise specified)								
National Income									
GDP at constant prices	1.4	4.2	1.4	2.2	2.5	2.5	2.5	2.5	2.5
Of which: Oil sector 1/	-2.0	0.0	-1.6	-2.0	-0.5	-0.5	-0.5	-0.5	-0.5
Non-oil sector	4.5	6.5	2.7	3.7	3.6	3.5	3.5	3.5	3.5
Consumer price index (period average)	8.8	2.2	5.6	6.0	5.1	4.1	4.0	4.0	4.0
Consumer price index (end of period)	2.1	4.9	5.2	6.0	4.2	4.0	4.0	4.0	4.0
Money and Credit									
Domestic credit, net	25.3	-1.3	29.7	11.2	12.1	10.1	10.1	10.0	9.7
Of which: Credit to private sector	14.8	15.9	8.7	8.9	9.0	9.0	9.0	9.0	9.0
Manat base money	19.6	0.2	7.4	7.2	8.5	9.0	9.0	9.0	9.0
Manat broad money	19.7	3.6	10.2	7.7	8.4	8.3	8.2	8.4	8.4
Total broad money	5.4	3.1	7.2	7.0	7.8	7.2	7.1	7.1	7.1
External Sector									
Exports f.o.b.	-30.8	-11.0	-3.7	15.9	-9.7	-9.0	0.6	0.5	2.0
Of which: Oil sector	-34.0	-12.3	-5.9	17.1	-12.6	-12.8	-1.7	-2.3	-0.1
Nonoil sector	11.1	-0.8	11.9	8.9	8.8	10.2	10.1	10.7	8.7
Imports f.o.b.	21.4	4.7	2.8	6.2	4.0	4.0	4.2	5.1	5.4
Of which: Oil sector	12.2	-13.3	3.6	2.8	1.0	2.2	2.5	2.8	2.8
Nonoil sector	23.5	8.5	2.7	6.8	4.4	4.2	4.4		
Real effective exchange rate	6.1	-1.7	-3.0	...	...	...	...	...	...
	(In percent of GDP, unless otherwise specified)								
Gross Investment	18.2	21.1	15.7	16.2	16.4	16.7	16.6	16.3	16.0
Consolidated government	12.2	11.9	11.1	10.9	10.3	9.9	9.5	9.0	8.5
Private sector	6.0	9.1	4.5	5.3	6.1	6.9	7.1	7.3	7.5
Of which: Oil sector	-0.3	-0.3	-0.4	-0.2	0.0	0.1	0.1	0.1	0.1
Gross National Savings	29.7	27.3	21.2	25.9	21.8	18.8	18.2	17.3	16.6
Consolidated General Government Finances 2/									
Total revenue and grants	40.6	37.9	37.1	38.8	36.6	35.0	34.3	33.7	33.2
Total expenditure	32.8	33.9	34.6	37.0	36.4	35.6	34.8	34.3	33.7
Current expenditure	20.6	21.9	23.4	26.1	26.1	25.7	25.3	25.3	25.2
Net acquisition of non-financial assets	12.2	11.9	11.1	10.9	10.3	9.9	9.5	9.0	8.5
Overall fiscal balance	7.9	4.1	2.6	1.8	0.2	-0.6	-0.5	-0.6	-0.5
Overall fiscal balance (excluding SOFAZ CBA transfer) 5/	7.9	4.1	2.6	1.8	0.2	-0.6	-0.5	-0.6	-0.5
Non-oil primary balance, in percent of non-oil GDP	-22.2	-20.0	-18.6	-18.0	-16.3	-14.5	-13.2	-12.2	-11.2
General government debt 3/	21.8	21.6	20.1	20.0	20.0	19.9	19.9	20.0	20.2
General government and government-guaranteed debt	31.1	30.3	28.2	24.6	23.5	22.8	22.4	22.1	21.5
External Sector									
Current account (- deficit)	11.5	6.3	5.5	9.7	5.4	2.0	1.6	1.0	0.6
Foreign direct investment (net)	-2.9	-1.3	-1.5	-1.3	-1.0	-0.7	-0.5	-0.3	-0.1
Memorandum Items:									
Gross official international reserves (in millions of U.S. dollars)	11,613	10,959	11,515	14,392	15,079	14,164	13,125	11,734	9,660
in months of next year's non-oil imports f.o.b.	6.1	7.1	7.1	8.6	8.8	7.9	7.1	6.0	4.7
Nominal GDP (in millions of manat)	123,128	126,524	129,094	133,233	141,201	149,898	159,320	169,320	180,069
Nominal non-oil GDP (in millions of manat)	78,990	86,241	92,307	101,466	110,480	119,081	128,178	137,971	148,512
Nominal GDP (in millions of U.S. dollars)	72,429	74,426	75,938	78,372	83,060	88,175	93,718	99,600	105,923
Oil Fund Assets (in millions of U.S. dollars)	56,070	60,031	73,542	76,052	77,901	79,169	80,625	82,298	84,236
Assumed oil price, WEO plus $2-$3 premium (in U.S. dollars per barrel) 4/	85.9	84.0	69.7	84.2	78.0	76.2	75.9	75.7	77.2
Assumed natural gas price, WEO plus a premium (in U.S. dollars per thousands of cubic meters)	460.1	389.0	425.4	521.9	424.3	312.1	312.1	312.1	312.1
Exchange rate (manat/dollar, end of period)	1.7	1.7	1.7	...	...	...	...	...	...

Sources: National authorities; and IMF staff estimates and projections.

1/ Includes the production and processing of oil and gas.

2/ Consolidates State Budget, State Oil Fund of Azerbaijan (SOFAZ), Nakhchevan Autonomous Region (NAK) and State Social Protection Fund.

3/ Starting in 2021, includes guarantees issued to Aqrakredit for its acquisition of distressed assets from the IBA.

4/ Oil prices for 2023 and 2024 are actual data.

INTERNATIONAL MONETARY FUND

REPUBLIC OF AZERBAIJAN

STAFF REPORT FOR THE 2026 ARTICLE IV CONSULTATION

March 26, 2026

KEY ISSUES

Context. Economic momentum waned in 2025, coming off elevated growth in 2024. Inflation rose, driven by food prices, but remains within the target band. The war in the Middle East has heightened uncertainty, even as it potentially augments Azerbaijan's buffers. Addressing any inflationary pressures as well as—given falling hydrocarbon reserves—sustained fiscal consolidation and economic diversification are the main challenges.

Policy Recommendations.

- **Stay on course with fiscal consolidation, including saving any windfall from elevated hydrocarbon prices.** The planned consolidation is appropriate for intergenerational equity and long-term external sustainability. A comprehensive strategy, with clearly identified expenditure and revenue measures, including the rationalization of tax expenditures, would mitigate risks to medium-term consolidation.

- **Raise the policy rate if inflationary pressures from imported food persist.** The current inflation outlook justifies keeping the policy rates unchanged, but the CBA should be prepared to respond firmly to inflation surprises. The CBA should continue enhancing the monetary transmission mechanism and communications. Given the de facto pegged exchange rate regime, maintaining fiscal prudence and safeguarding cost competitiveness will become key for ensuring the sustainability of the peg.

- **Actively use macroprudential policy and continue reforms in the financial sector oversight framework.** Staff welcomes recent regulations to implement Basel III capital requirements and the overall progress in implementing FSAP recommendations. Completing the transition to a risk-based and consolidated supervision framework and enhancing the emergency liquidity assistance and financial safety nets frameworks will help safeguard the hard-fought resilience of the banking sector.

- **Continue efforts to diversify the economy.** While the focus on economic diversification is appropriate, the strategy should be private sector-led, avoiding large public projects, given the fiscal consolidation strategy and risk of private sector crowding out. Tackling labor market informality, boosting labor productivity, deepening financial markets, and improving SOE efficiency and reducing their role in the economy are key to improving competitiveness and attracting foreign investment.

Approved By
Zeine Zeidane (MCD) and Lamin Leigh (SPR)

Discussions with the authorities were held in Baku, during February 4–17, 2026. The staff team is comprised of Anna Bordon (head), Hoda Assem and Lucyna Gornicka (all MCD), Shafiq Ghawi (LEG), with support from Xiaoqiao Shen (MCD). Patryk Łoszewski and Rashad Hasanov (OED) joined the mission. Desislava Hineva and Branden Laumann provided excellent production assistance. The mission met with Central Bank of Azerbaijan Chairman Kazimov, Finance Minister Babayev, Minister of Economy Jabbarov, Minister of Labor and Social Protection Aliyev and other senior officials and representatives of private sector, academia, and international organizations.

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ANNEXES

CONTEXT

1. Growth slowed in 2025, while inflation picked up. Hydrocarbon output declined considerably last year, amid continued weakness in oil and gas production. In the nonhydrocarbon sector, growth moderation reflected the indirect effects of falling hydrocarbon prices and lower investment. Largely driven by external factors, inflation rose temporarily above the upper bound of the Central Bank of Azerbaijan's (CBA) inflation target range in 2025 H1 before returning within the band in the second half of the year.

2. The geopolitical environment remains complex. On the one hand, significant progress was made toward reaching a peace agreement with Armenia. In August 2025, Azerbaijan and Armenia signed a joint declaration, outlining their intent to pursue peace. While not yet a formal treaty, the declaration has spurred preliminary signs of regional trade normalization. If sustained, the peace process holds the potential to boost business confidence, attract investment, and enhance growth prospects. The resulting peace dividend would support economic diversification and facilitate achieving long-term fiscal sustainability amid dwindling hydrocarbon production. On the other hand, geopolitical and economic uncertainty has risen owing to Azerbaijan's proximity to the war in the Middle East, even as elevated hydrocarbon prices augment buffers.

3. Policy implementation was broadly in line with past Fund advice (Annex I). Fiscal policy tightened considerably in 2025 and the budget for 2026 envisages further consolidation. Looking through the temporary rise in inflation, the CBA lowered its policy rate by 0.75pp since mid-2025. The authorities are making progress in implementing FSAP recommendations and efforts to improve state-owned enterprise (SOE) management continue.

RECENT DEVELOPMENTS

4. Following the strong performance in 2024, growth slowed in 2025. Oil production was hampered by technical issues, causing hydrocarbon GDP to contract by 1.6 percent, compared to flat growth in 2024. In the nonhydrocarbon sector, growth moderated from 6.5 percent in 2024 to 2.7 percent, reflecting the indirect effects of falling hydrocarbon prices, as well as lower investment, coming off elevated levels in the previous years. Overall, real GDP slowed to 1.4 percent in 2025, down from 4.2 percent in 2024. The estimated output gap in the nonoil sector narrowed but remained positive.

5. Inflation rose in 2025, driven by food inflation. Headline inflation temporarily breached the upper bound of the CBA target range of 4±2 percent in April and May 2025 and it has been oscillating within a 4.9 to 6 percent range since. The increase was largely driven by rising food prices, with food price inflation climbing to 8.2 percent yoy in October 2025, before moderating somewhat. Most recently, increases in the regulated prices led to a pickup in headline inflation to 5.7 percent in January 2026, while core inflation rose to 5.5 percent after falling during the last quarter of 2025.

6. Hydrocarbon exports continued to sustain the external surplus in 2025, despite lower oil and gas prices. By 2025 Q3, the current account surplus narrowed to 5.4 percent of GDP from

6.3 percent in 2024, driven by lower oil exports. The decline in oil exports was partially offset by slower imports growth, which moderated to 2.7 percent yoy in the first three quarters of 2025 compared to earlier double-digit growth, reflecting lower investment spending. The combined CBA and State Oil Fund (SOFAZ) reserves rose to $85 billion by end-2025, and the liquid portion is estimated to cover over 38 months of imports and exceed 970 percent of the IMF's reserve adequacy metric. Nonetheless, considering the need to maintain intergenerational equity, the external position is assessed to be substantially weaker than the level consistent with medium-term fundamentals and desirable policies (Annex II).

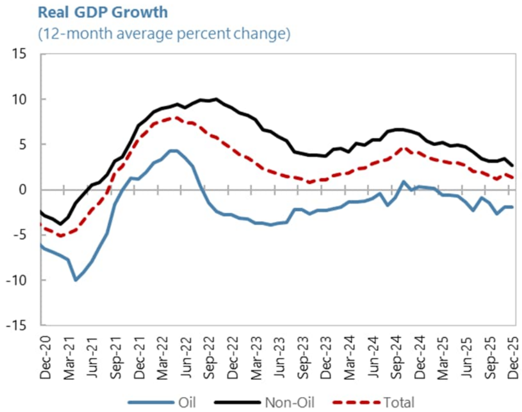
7. Fiscal policy tightened considerably in 2025. Although the 2025 budget envisaged fiscal easing, revenue overperformance and lower than expected expenditure resulted in a reduction of the consolidated nonoil primary deficit (NOPD)—the preferred indicator of fiscal stance—by 1.4 percentage points to 18.6 percent of nonoil GDP. Compared to 2024, consolidated capital expenditure declined as percent of nonoil GDP, while savings from the public payments reform helped curb current expenditure growth. SOFAZ assets rose from $60 billion at the end of 2024 to $73.5 billion in 2025, mostly reflecting large valuation gains. Public debt declined to 20.1 percent of GDP from 21.6 percent in 2024 amid muted new issuance and early debt redemptions.

8. The CBA cut the policy rate by 0.75pp in three steps since mid-2025. The CBA explained the cuts as driven by increasing confidence in inflation stabilizing within the target band, as it expected external factors driving food inflation to fade and the contribution of domestic demand to inflationary pressures to remain subdued over the next year. While the cuts also followed declines in global interest rates, low level of financial integration allows Azerbaijan to maintain some degree of monetary policy independence, despite the de facto peg against the US dollar. The CBA continued to reform its monetary policy operational framework, including by shortening the maturity of its standing facility operations and increasing the role of one-week operations as the main policy tool.

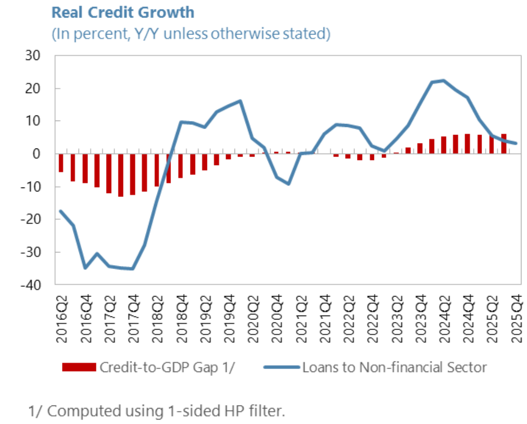
9. Risks to financial stability continue to subside, but structural vulnerabilities in the banking sector remain. Growth in loans to the private nonfinancial sector moderated from 22.1 percent in 2024 to 9.1 percent in 2025 and the positive credit-to-GDP ratio gap narrowed, amid subdued domestic demand and a tightening of macroprudential tools. These included raising the countercyclical capital buffer (CCyB) from zero to 0.5 percent in March 2025, introducing debt-to-income limits, and increasing risk weights on consumer lending. Banks continue to be well capitalized, supported by strong profitability and low NPLs at around 2.5 percent. Despite some progress in addressing deposit dollarization, which declined from 37.5 percent in 2024 to 35.6 percent in 2025, it continues to be a challenge, along with overreliance on wholesale funding and high deposit and credit concentration.

Figure 1. Azerbaijan: Recent Developments

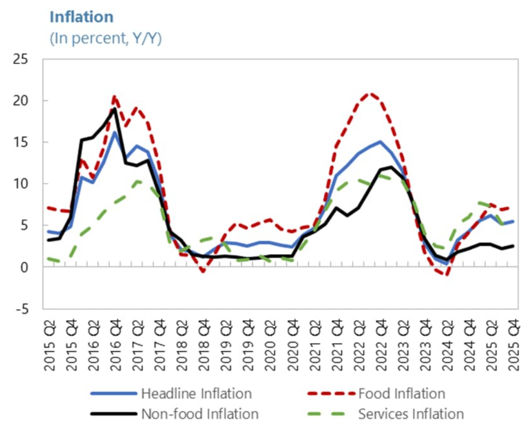
The economy slowed in 2025...



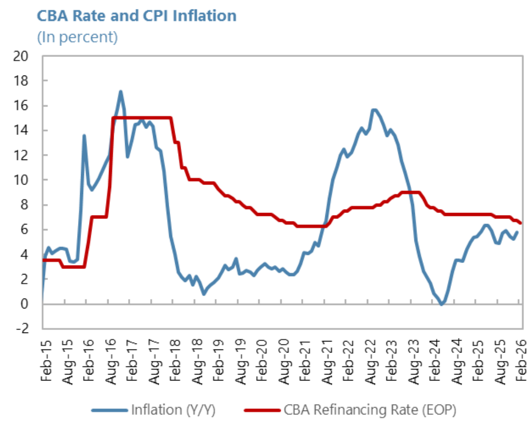
....accompanied by a moderation in credit growth.



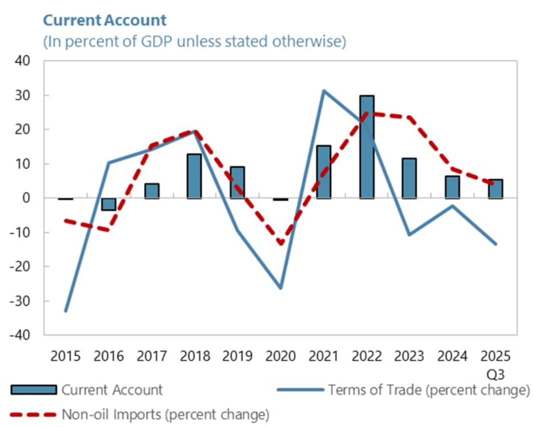
Inflation picked up due to external factors driving up food prices...



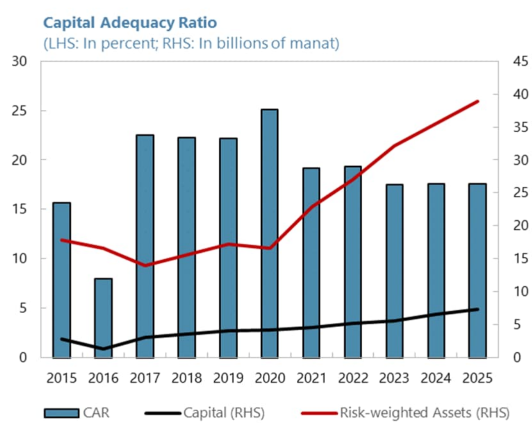
...with the CBA keeping the policy rate positive in real terms.



The current account surplus remained positive in 2025Q3 despite lower oil prices, while imports growth slowed.



Banks remain resilient with high capital adequacy buffers.



Sources: National authorities, Haver, and IMF staff calculations.

OUTLOOK AND RISKS

10. In 2026, growth is projected to pick up modestly and inflation to reach the upper bound of the CBA target band. Staff expect GDP to reach about 2.1 percent in 2026, amid continued weakness in oil and gas production. Nonoil GDP growth is projected to accelerate to 3.7 percent, before stabilizing at 3½ percent in the medium term. The rebound reflects a slower pace of fiscal tightening expected in 2026 and positive indirect effects of higher oil and gas prices due to the war in the Middle East. These gains are partially offset by weaker business confidence and investment. The output gap in the nonoil sector is expected to fall but remain positive in 2026, before gradually closing over the medium term. The outlook for oil GDP, which is driven by binding production constraints, is projected to decline by 2.0 percent in 2026 before slowing at a moderate pace of 0.5 percent, pushing down overall GDP growth to about 2½ percent in the medium term. Inflation is projected to pick up to 6.0 percent by end-2026, assuming higher imported food inflation amid the war in the Middle East, which could also erode real incomes and reduce demand. Nonetheless, the current account surplus is expected to improve significantly in 2026, owing to the increase in hydrocarbon prices, before weakening gradually over the medium term. SOFAZ reserves will continue to grow, assuming hydrocarbon prices remain elevated.

11. Risks to the outlook remain broadly balanced, but external uncertainty is high. The intensification of the current war in the Middle East could push hydrocarbon prices up, providing a larger boost to the external and fiscal position. This could, however, also lead to considerable inflationary pressures through the impact on global food prices, affect food security, create migration pressures, require higher spending, and raise business uncertainty, posing a risk to the consolidation and diversification strategies. At the same time, heightened geopolitical and policy uncertainty could lower global growth, weakening growth, the external position, and fiscal revenues. Similarly, deepening global geoeconomic fragmentation and adverse trade shocks could impede prospects for economic diversification, but if trade and investment divert to the region, it could also provide new opportunities. On the domestic side, insufficient commitment to fiscal consolidation could increase inflation and weaken the long-term fiscal position. Limited progress in private sector development, including through SOE reforms, could pose challenges to diversification and lower growth potential. Upside risks stem from progress in the peace agreement with Armenia, which could foster opportunities for stronger economic growth.

Authorities' Views

12. The authorities have more optimistic views of growth, while broadly aligning with staff's assessment of risks. They expect a stronger growth rebound of 2.9 percent in 2026 and an annual growth rate of around 3.5 percent over the medium term. The stronger forecast reflects nonhydrocarbon sector growth of around 5.0 percent in 2026 and beyond, supported by the improved business environment increasing private investment, including FDI, and further diversification of the economy. The authorities assess the output gap as broadly closed as of end-2025. They expect hydrocarbon export volumes to stabilize in the coming years, supporting current account surpluses beyond the medium term. On the external sector assessment, they noted that FX

demand has been weaker than supply, reflecting increasing trust in the manat. They view external developments as the main risk affecting medium term growth, including upside risks from Azerbaijan's favorable location along planned trade routes. The authorities noted that Azerbaijan can use its substantial buffers, as well as rely on stronger monetary and macroprudential tools, in response to the materialization of risks.

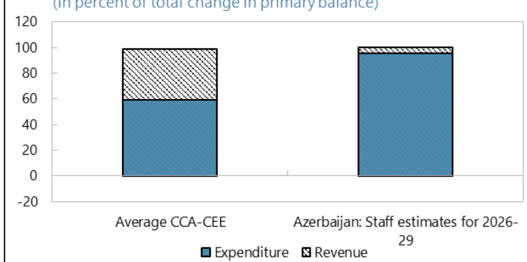
POLICY DISCUSSIONS

Discussions focused on the policy mix that would stabilize the business cycle and enhance medium-term domestic and external stability amid dwindling hydrocarbon reserves and large state footprint. Staff discussed fiscal, monetary, and macroprudential policies to close the output and credit gaps; the fiscal consolidation strategy to achieve intergenerational equity and enhance external sustainability; continued efforts to strengthen the monetary policy framework; ongoing reforms to tackle banking sector vulnerabilities; and steps to promote diversification and nonhydrocarbon sector growth.

A. Fiscal Policy: Staying on Course with Consolidation

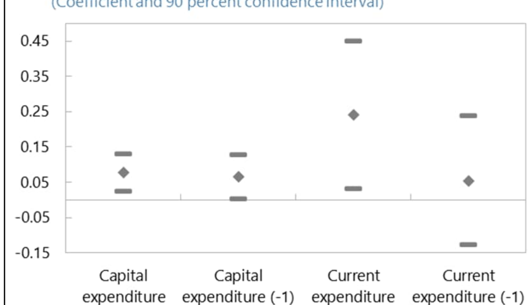
13. Staff baseline projections envisage steady medium-term fiscal consolidation. Following a frontloaded consolidation in 2025, staff forecasts an improvement in the NOPD in 2026 by 0.6 percentage points to 18.0 percent of nonoil GDP, amid the unwinding of public capital expenditure, moderation in current expenditure growth, and a partial withdrawal of PIT exemptions. Over 2026–31, the baseline projection shows an average reduction in the NOPD by 1.3 percent of nonoil GDP annually, and to a large degree reflects a moderation in the public sector wage bill growth (under the currently envisaged minimum wage adjustment schedule) and a reversal of the rise in regional reconstruction and related spending observed over the past 4 years. The baseline projection is, however, subject to risks. First, the consolidation is largely expenditure-based. The experience of comparator countries shows that successful large consolidations relied on a mix of both expenditure *and* revenue measures. Second, although fiscal multipliers are relatively low, prolonged fiscal tightening may have a larger-than-expected negative impact on nonoil GDP, which could pose a risk to consolidation plans.

Contributions to Large Fiscal Consolidations in CCA-CEE Countries 1/
(In percent of total change in primary balance)



1/ Consolidations of primary balance (NOPB for Azerbaijan) of at least 4 percent of GDP over 4 years, between 2000-2024 across 19 CCA-CEE countries (left column) and projection for Azerbaijan (right column). Excludes consolidations where initial primary deficit was larger than 8 percent of GDP.
Source: WEO Database. IMF Staff calculations.

Nonoil GDP Growth Impact of Public Expenditure 1/
(Coefficient and 90 percent confidence interval)



1/ Coefficients from a regression of real nonoil GDP growth on current and previous year real growth in government's current and capital expenditure.
Sources: WEO Database, IMF Staff calculations.

14. **The medium-term fiscal consolidation remains appropriate for ensuring intergenerational equity and external sustainability.** Staff estimates that a NOPD of 6–6.5 percent of nonoil GDP would ensure constant real annuity across generations. Reaching it in around 10 years would require an annual fiscal adjustment of about 1.2–1.6 percent of nonoil GDP annually starting in 2026—a pace of consolidation that is consistent with the authorities' hard fiscal rule target of reaching 13 percent of nonoil GDP in 2029. These estimates are, however, subject to considerable uncertainty. This pace of consolidation requires that any revenue windfall from higher hydrocarbon prices relative to what is assumed in the budget and the medium-term fiscal framework should be saved. Combined with low current levels of debt to GDP, the envisaged consolidation contributes to low overall risk of sovereign stress (Annex III) and external sustainability (Annex II).

15. **A clear and comprehensive strategy will enhance the credibility of fiscal consolidation.** Staff estimates that phasing out the PIT exemptions, slowing the wage bill growth, and normalizing regional reconstruction and related spending account for around ¾ of the fiscal adjustment foreseen over 2026–29. The remaining part reflects savings expected from the new financial monitoring framework for SOEs and the ongoing digitalization and centralization of public payments, which should also strengthen the public financial management framework. The authorities should continue efforts to reduce SOE subsidies, rationalize tax incentives, and strengthen tax administration and compliance, including through the ongoing TADAT self-assessment and subsequent external evaluation.[1] Nevertheless, the scope for additional tax revenues might be limited in the near term, given the low tax base potential.[2] Finally, while the recent amendment to the fiscal rule—clarifying that the medium-term NOPD target should be set every four years and could not be revised—is a welcome step, specifying more limited escape clauses and an automatic correction mechanism would further enhance fiscal rule credibility.

Authorities' Views

16. **The authorities are committed to achieving intergenerational equity.** The authorities highlighted that in 2025 important steps were taken to further strengthen the fiscal framework, particularly to reduce its reliance on oil revenues and enhance budget transparency. In addition to meeting the non-oil primary balance fiscal rule, they recognized the benefits of financing all current expenditure with nonoil revenues, reducing SOFAZ transfers to the budget, and ultimately relying on an annuity from SOFAZ reserves. On measures to support the fiscal consolidation, the authorities recognized the need to mobilize additional revenues but stressed that new measures should be designed carefully and phased gradually to preserve recent progress in raising formal employment. They emphasized ongoing work on strengthening institutional capacity of tax administration. They also noted that a comprehensive review of tax expenditure measures is currently underway, and that a TADAT self-assessment is scheduled for 2026. The authorities pointed to the lower-than-budgeted expenditures achieved in 2025 as evidence of potential savings from the ongoing digitalization and

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[1] The authorities estimate annual revenue loss from tax exemptions and deductions at 5.8 percent of GDP in 2025.

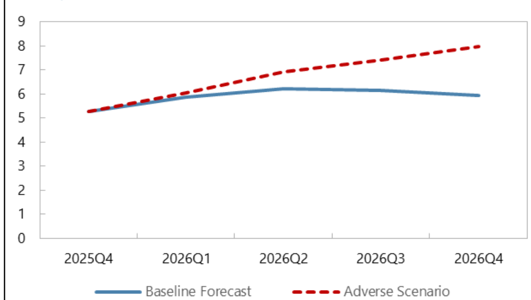
[2] MCD Departmental Paper 2022/13 "Revenue Mobilization for Resilient and Inclusive Recovery in the Middle East and Central Asia."

centralization of public payments system. They acknowledged risks to the budget stemming from elevated external uncertainty but see the ongoing consolidation as key to reducing public finances' sensitivity to external factors and plan to see through any temporary volatility in oil prices. Considering the significant role of the state budget in fixed capital investment, supporting private investment remains a priority.

B. Monetary and Exchange Rate Policy: Staying Alert to Inflation Risks

17. The CBA should raise policy rates if inflationary pressures from imported food persist. Keeping the current policy rate on hold is consistent with the projected normalization of domestic demand and the closing of the output gap over the projection horizon. The rise in headline inflation foreseen in 2026 is largely driven by external drivers of food prices (Annex IV) and inflation is expected to fall close to the mid-point of the target band by end-2027. However, given elevated external uncertainty (Annex V), uncertainty surrounding the neutral rate estimates (assessed by staff to be around 2.25 percent, somewhat above the current real policy rate) and still developing monetary policy transmission, the CBA should stay prepared to respond firmly to inflation surprises. In particular, a more pronounced rise in the global commodity prices due to the ongoing war in the Middle East could raise inflation well above the CBA's target range.[3]

Inflation in Adverse Scenario 1/
(In percent, Y/Y)



1/ In the adverse scenario global oil prices rise to 110 USD per barrel in 2026 and global food prices rise by around 25 percent.
Sources: World Economic Outlook Database and IMF staff estimates.

18. The CBA should continue to enhance its monetary policy communication. The CBA reduced its refinancing rate by 25bp at the July and December meetings, even though it revised the inflation forecasts for 2025–26 upwards. While the CBA continued to project inflation remaining within its target range, the upward revisions of headline inflation for 2026 were hard to reconcile with the assessment of upside risks to inflation subsiding.[4] Meanwhile, clear and forward-looking communication is becoming increasingly important as the central bank relies more on inflation forecasts to guide monetary policy. Given the authorities' commitment to a de facto pegged exchange rate regime in the medium term, maintaining fiscal prudence and safeguarding cost competitiveness will become key for ensuring the sustainability of the peg.

19. Past reforms have improved the impact of CBA policy rates on the interbank market, but transmission to broader financing conditions needs strengthening. While the interbank market rates remain close to the policy rate, reflecting successful management of excess liquidity by the CBA, staff analysis suggests that monetary policy passthrough to bank interest rates remains

[3] Since Azerbaijan is an oil and gas exporter, a more pronounced rise in the global commodity prices in the adverse scenario would have a positive impact on its external balance and on consolidated budget revenues, while the impact on domestic fuel prices would be limited, as those are regulated.

[4] In February 2026, the CBA reduced both the refinancing rate by 25bp and the end-2026 inflation forecast.

muted (Annex VI). Material improvement in the passthrough will require addressing long-standing structural issues, such as low competition and high operating costs, as well as further progress in de-dollarization. Monetary policy passthrough would also benefit from establishing a risk-free yield curve, for which closer coordination between the Ministry of Finance (MoF) and the CBA will be needed. Staff also emphasized the importance of MoF-CBA coordination for liquidity management.[5]

Authorities' Views

20. The authorities view the policy stance as slightly accommodative while agreeing with the need to remain vigilant to inflationary risks. The CBA forecasts inflation to stabilize in the middle of the target band in the medium term, and views inflation risks as stemming mostly from external factors. On communication, the CBA made the case for keeping the press releases concise and using press conferences to explain the nuances of policy decisions. The CBA agreed that strengthening the passthrough to broader financing conditions will require continued progress in addressing structural issues in the banking sector, although they also noted signs of the policy rate affecting interest rates on new loans and deposits. The authorities believe the de facto pegged exchange rate has served Azerbaijan well. They expect that current account surpluses along with the envisaged lower nonoil fiscal deficits and considerable FX reserves should make the peg sustainable in the medium term. The authorities acknowledged that maintaining the peg will require closer monitoring of domestic cost pressures and greater efforts to improve productivity to maintain external competitiveness. They nonetheless remain determined to use the policy rate as a tool to manage inflation, which they believe would still be effective under the current exchange rate regime, given relatively limited integration with the global financial system.

C. Financial Sector Policy: Safeguarding Resilience

21. The CBA should continue to actively use macroprudential policy as part of the overall policy mix. Maintaining the current CCyB calibration is appropriate, given the slowdown in credit growth and the shrinking but positive credit-to-GDP gap. The authorities should continue to closely monitor credit risk given the potential for NPLs to increase as credit growth moderates following a period of excessive expansion in 2023 and 2024. Staff welcomes the ongoing implementation of the liquidity coverage ratio, which—together with the planned introduction of the net stable funding ratio—will support the resilience of the banking sector and enhance the macroprudential policy toolkit.

22. Remaining vulnerabilities require continued efforts to strengthen prudential oversight and the financial safety net. The banking sector remains resilient, as reflected in strong capital adequacy and profitability ratios. Nevertheless, high deposit and credit concentration and still elevated financial dollarization continue to present risks. The authorities should continue advancing

[5] In 2025 Q2, the MoF began to deposit balances of the treasury account in commercial banks, which required the CBA to ramp up its liquidity-absorbing operations to steer the interbank market rates closer to the policy rate.

Basel III adoption and implementing recommendations from the Financial Sector Assessment Program (FSAP), particularly in the following areas:

- Reinforcing the resilience of D-SIBs. Staff welcomes recent regulations to implement Basel III capital requirements, including requiring additional D-SIB capital buffers linked to systemic risk bucket designation, and looks forward to its full implementation by January 2027.

- Implementing a risk-based, consolidated supervision framework. The CBA should monitor the full-scale implementation of the risk-based supervision framework, which started in 2026, to ensure the ongoing adequacy of supervisory resources. Going forward, the CBA should implement consolidated supervision to enhance banking sector soundness.

- Bolstering financial safety nets. Staff welcomes the approval of the recovery methodology and finalization of resolution plans for individual D-SIBs and looks forward to the passage of legal amendments that will strengthen the CBA's resolution powers and deposit insurance.

- Strengthening the emergency liquidity assistance (ELA) framework. The CBA is receiving technical assistance from the IMF and reviewing draft amendments to the laws and regulations. Implementation of the ELA reform package will strengthen the ability of the CBA to respond to liquidity stress in the banking sector.

Authorities' Views

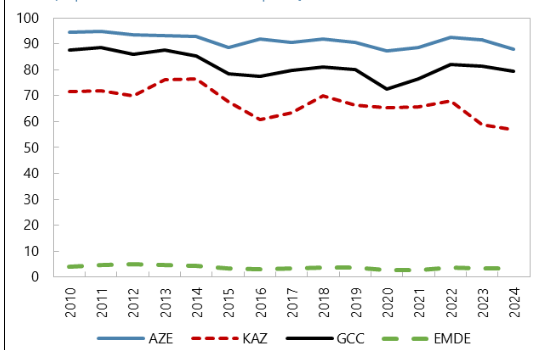
23. The authorities highlighted the strong financial soundness indicators in the banking sector and substantial progress in implementing the FSAP recommendations (Annex VII). Extensive prudential and regulatory reforms are being implemented gradually to ensure minimum disruption to banks' lending activities. The aim is to promote financial stability, apply international best practices, increase public confidence in the banking sector, and address structural vulnerabilities identified by the FSAP, such as deposit and loan concentration, as well as deposit dollarization. In this context, the authorities highlighted recent achievements, such as doubling the number of retail depositors in the last two years and reducing deposit dollarization. The authorities reaffirmed their commitment to boost the financial safety net, implement consolidated supervision, and enhance the emergency liquidity assistance framework. The authorities noted that the adoption of the risk-based approach would allow them to optimize the use of supervisory resources and agreed that the adequacy of staffing should nonetheless be reviewed during the implementation stage.

D. Structural Reforms: Reducing The Role of the State

24. The focus on diversification efforts remains appropriate. Exports continue to be more concentrated in hydrocarbons compared to other oil-exporting countries, but Azerbaijan's efforts to become a logistics and transport hub are beginning to pay off, as transit traffic volumes have risen significantly in recent years. The authorities should push forward with WTO accession, which would

reduce tariff and non-tariff barriers, and advance measures to expand the role of the private sector in diversification, including in the next Social and Economic Development Strategy, which will set the reform agenda for 2027–30. Increasing the regularity of public debt issuance to establish a benchmark yield curve, and creating more retail savings and investment instruments would deepen financial markets, supporting the private sector's access to finance. Ongoing initiatives to reduce labor market informality will enhance social protection and raise labor productivity (Annex VIII), but increasing human capital investment remains key to improving competitiveness and attracting foreign investment.

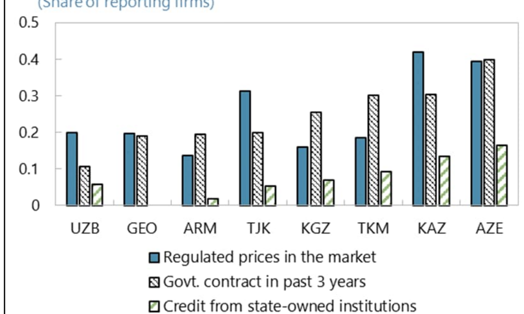
Fuel Exports
(In percent of merchandise exports)



Source: World Bank.

25. **Strong state presence remains an obstacle to successful economic diversification.** The government's involvement extends beyond the hydrocarbon production sector. In this context, low fiscal multipliers on public spending and Azerbaijan's lower tax revenue gap relative to peers are likely reflections of public sector crowding out of private spending. Private firms in non-extraction sectors are more likely to receive a government contract or to obtain financing from a state-owned institution than their CCA peers. Firm surveys also show the prevalence of regulated prices across sectors. Lowering state subsidies to SOEs and reducing the role of regulated prices would stimulate competition and help optimize SOE performance. While progress on privatization has been slow, the increased involvement of strategic partners in AIH companies is a welcome step that could improve SOE transparency and efficiency. The authorities should continue to improve SOEs' disclosure practices and governance structures, including appointing independent supervisory board members and professionalizing management. At the same time, staff looks forward to greater progress in developing an ownership policy over its more than 2000 SOEs, and moving forward on privatization plans for entities that are better left to the private sector.

Regulated Prices, Public Procurement Contracts and Credit From State-Owned Banks
(Share of reporting firms)



Source: World Bank Enterprise Surveys (2023 for Georgia and Kyrgyz Republic, 2024 for the rest).

26. **Efforts to improve governance and financial integrity are gaining momentum.** The authorities have made good progress in digitalizing public procurement and strengthening the AML/CFT framework. Further progress in making the procurement processes more efficient and increasing the role of competitive bidding procedures is nonetheless needed. Staff welcomes the implementation of the beneficial ownership registry and urges greater digitalization to enhance its use and reliability. The CBA should continue to update its AML/CFT framework to address risks in future activities, such as virtual assets service providers. AML/CFT supervisors should also expand private sector engagement to ensure the regulated entities are aware of the risks and their reporting obligations. Finally, the draft conflict-of-interest (COI) law covers a wide range of COI situations and reflects many best-practice elements. Strengthening the COI and asset disclosure frameworks are

however long overdue. The COI law was a 2024 target reform under the National Anti-Corruption Action Plan and the asset disclosure law for high public officials was adopted in 2005. Staff urgently calls for submitting the draft COI law for parliamentary review and operationalizing the asset disclosure system for public officials.

Authorities' Views

27. The authorities agreed with the need to prioritize private sector development. They remain committed to the WTO accession process and have made progress in signing new free trade agreements, both of which they see as crucial for creating new opportunities for Azerbaijani companies and for attracting foreign investors. The authorities agreed with the need to reduce state presence in the economy but believe that improving SOE management and performance is a necessary first step, which will later contribute to successful privatizations. They highlighted progress of the AIH and AZCON holdings in reforming management practices, appointing independent board members, and publishing financial statements of their SOEs, and expect that the new financial monitoring framework developed by the MoF will further improve the transparency of SOE financial and operational reporting. The authorities see an increased role for mobilizing private capital, including through strengthened PPP frameworks and risk-sharing instruments, to sustain investment activity.

28. The authorities highlighted ongoing efforts to improve governance, transparency, and integrity. The authorities plan to raise awareness of AML/CFT risks by sharing a summary of the national risk assessment with the private sector and organizing outreach events and discussion forums. On the beneficial ownership registry, they agreed on the need to accelerate data verification, and shared efforts towards full digitalization. With the operationalization of the new procurement law in 2024, the authorities reported that the number of tenders going through the electronic portal has increased and highlighted improved efficiency of the payment processes, but noted the need to further simplify procurement procedures, reduce processing times, and lower the cost of business. On asset disclosure of high public officials, they reported that implementation will coincide with the ongoing e-government initiative to enable digital declarations. The draft COI law is currently awaiting approval from the Cabinet of Ministers.

DATA ADEQUACY

29. While there are some shortcomings in data quality, data provision is broadly adequate for bilateral surveillance (Annex IX). There are several shortcomings in national accounts statistics. Further improvements are needed on quarterly GDP data using the production approach, including updating the classifications of economic activities, revising the base year, enhancing benchmarking methods, and using alternative indicators where short-term data differ from annual data. On the expenditure side, production of chain-linked GDP series in constant prices has started, but a few challenges remain, including inventory discrepancies, distortions in gross fixed capital formation, and the need to update annual supply and use tables. Government finance statistics are not fully consistent with GFSM 2014. While several legal entities of public law are not included in the general

government, their inclusion would not materially change the fiscal position and staff's assessment. On external sector statistics, Azerbaijan does not produce an International Investment Position table.

STAFF APPRAISAL

30. **Azerbaijan is appropriately focused on diversification, as declining hydrocarbon production weigh on the economic outlook.** Growth is expected to pick up only marginally to 2.1 percent in 2026 amid continued weakness in the hydrocarbon sector and some acceleration of the nonhydrocarbon GDP growth. Declining oil production is expected to push down overall growth to about 2½ percent in the medium term. Inflation is projected to pick up to 6.0 percent by end-2026 and to 4.2 percent by end-2027, reflecting rising food prices amid higher global commodity prices. The current account balance is projected to remain in surplus over the medium term. The external position is, however, assessed to be substantially weaker than the level consistent with medium-term fundamentals and desirable policies. While risks to the outlook remain broadly balanced, external uncertainty is high. The intensification of the current war in the Middle East could push hydrocarbon prices further up, providing a large boost to the external and fiscal position. The war could, however, also lead to considerable inflationary pressures through the impact on global food prices, affect food security, create migration pressures, require higher spending, and raise business uncertainty, posing a risk to the consolidation and diversification strategies.

31. **The medium-term fiscal consolidation is appropriate and will ensure intergenerational equity and support external sustainability.** The authorities' fiscal rule target of reaching 13 percent of nonoil GDP in 2029 is consistent with achieving constant real annuity across generations over the next decade. This requires saving any windfall from elevated hydrocarbon prices. A clear and comprehensive strategy that identifies concrete revenue and expenditure measures will enhance the credibility of fiscal consolidation. The new financial monitoring framework for SOEs and the ongoing digitalization and centralization of public payments will strengthen public financial management. The authorities should also continue efforts to reduce SOE subsidies, rationalize tax incentives, and strengthen tax administration and compliance, including through the ongoing TADAT self-assessment and subsequent external evaluation. Specifying more limited escape clauses and an automatic correction mechanism would further enhance fiscal rule credibility.

32. **The CBA should raise policy rates if inflationary pressures persist.** While inflation is projected to fall over the forecast horizon, close monitoring of risks to inflation and responding to inflation surprises will be important, given elevated external uncertainty, upside risks to inflation from the ongoing war in the Middle East, and still developing monetary policy passthrough. Clear and forward-looking communication is becoming increasingly important as the central bank relies more on inflation forecasts to guide monetary policy. The interbank market rates remain close to the policy rate, reflecting successful management of excess liquidity by the CBA. Material improvement in the passthrough to the broader economy will require further development of a risk-free yield curve, and continuing progress in addressing long-standing structural issues such as dollarization, high operating costs, and low competition in the banking sector.

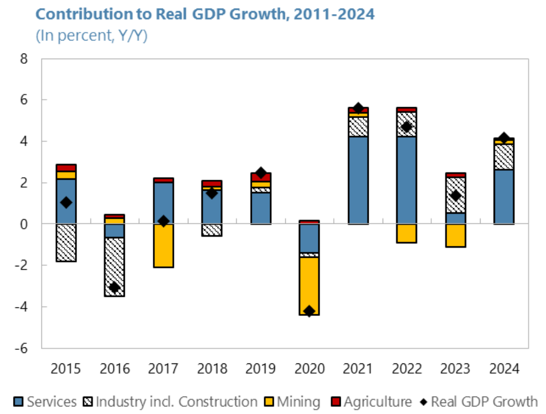
33. The active use of macroprudential policy supports macroeconomic objectives, while addressing emerging risks to financial stability. The gradual move to Basel III implementation has minimized disruption to the financial sector and credit supply, while increasing the ability of the sector to withstand capital and liquidity shocks. The adoption of the risk-based approach to supervision will allow the CBA to optimize its use of resources. However, the CBA should remain vigilant to the adequacy of the resources going forward, especially as individual banks' risks become better understood through the Basel III pillar II process. The work to strengthen financial safety nets, consolidated supervision, and emergency liquidity assistance should continue to be pursued, including the necessary changes to the laws.

34. Azerbaijan should remain focused on private-sector-led economic diversification. Expanding the role of the private sector in diversification, including through foreign direct investments, calls for deepening capital markets to increase the private sector's access to finance, as well as increasing labor productivity through human capital investment, and continuing reforms aimed at tackling labor market informality. Along with recent progress in monitoring of SOE performance, reducing the role of regulated prices and lowering state subsidies to SOEs would stimulate competition and help optimize SOE performance. The authorities should continue to improve SOEs' disclosure practices and governance structures, including appointing independent supervisory board members and professionalizing management, and at the same time, steadily divest SOEs to the private sector. Efforts to improve governance, transparency, and integrity should continue. While data provision is broadly adequate for surveillance purposes, further work on closing the remaining gaps is needed.

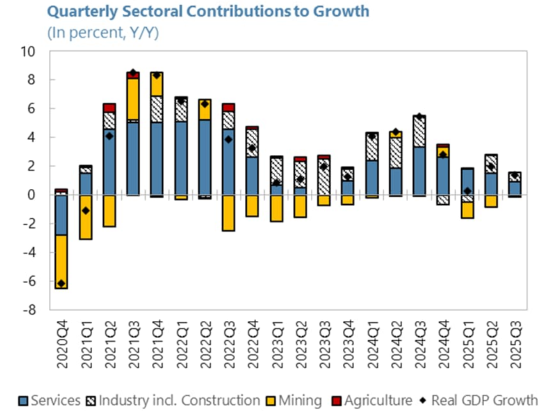
35. It is recommended that the next AIV consultation takes place on the standard 12-month cycle.

Figure 2. Azerbaijan: Real Sector Indicators

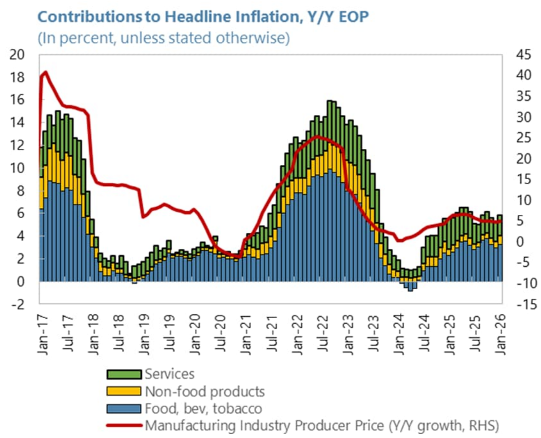
Growth accelerated in 2024, amid the lagged impact of large public investment in 2023…



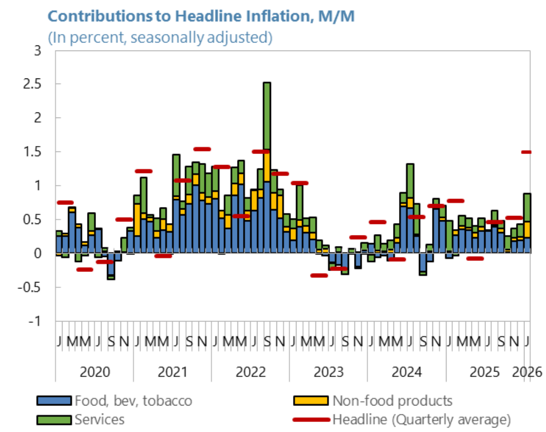
… and slowed in 2025, as oil prices and output declined and the impact of past public investment started to fade.



Rising food prices have driven up headline inflation …

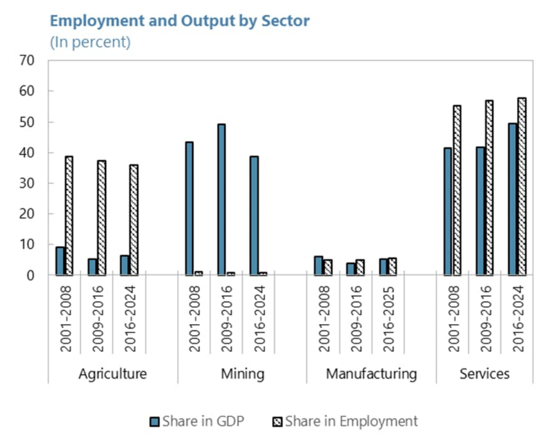


..but food inflation showed signs of slowing in recent months.



Unemployment is stable and wage growth robust…

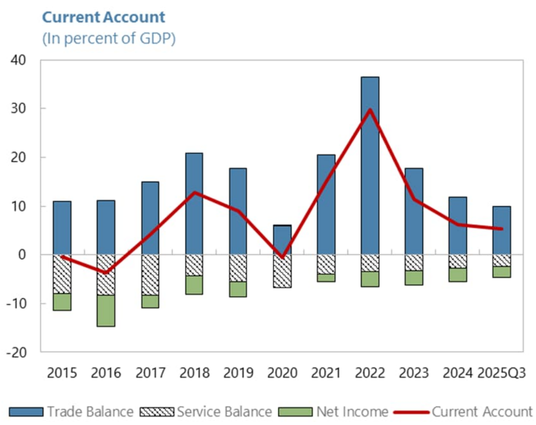
…but the mismatch between employment and value-added remains.



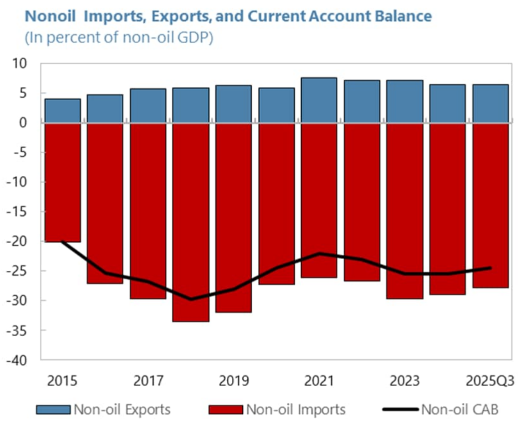
Sources: National authorities, Haver, and IMF staff calculations.

Figure 3. Azerbaijan: External Sector

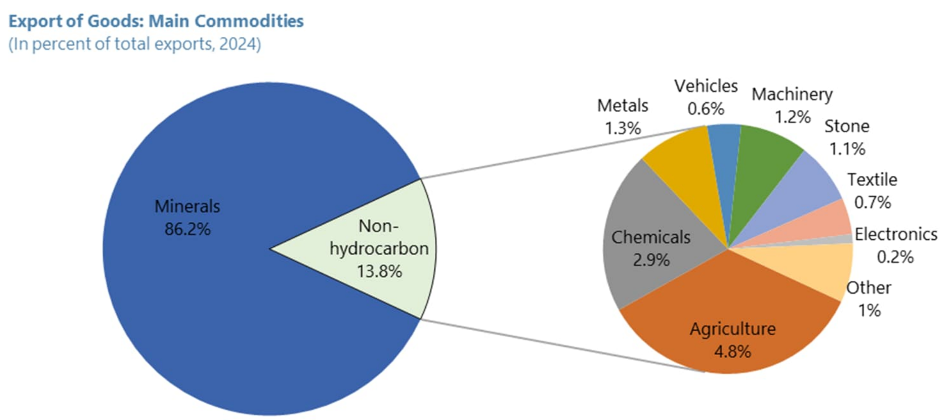
The external position remains favorable...



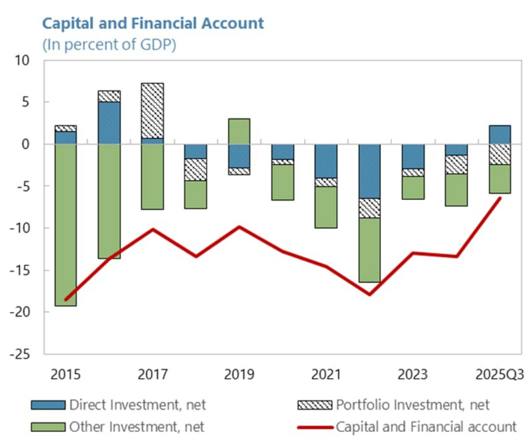
... with continued decline in non-oil imports.



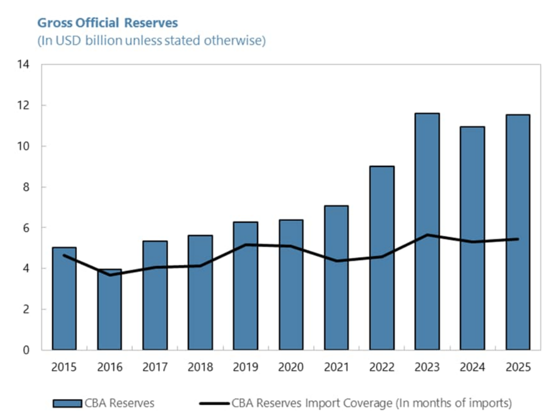
Exports remain highly concentrated in hydrocarbon products.



Despite net outflows of FDI and other investments...



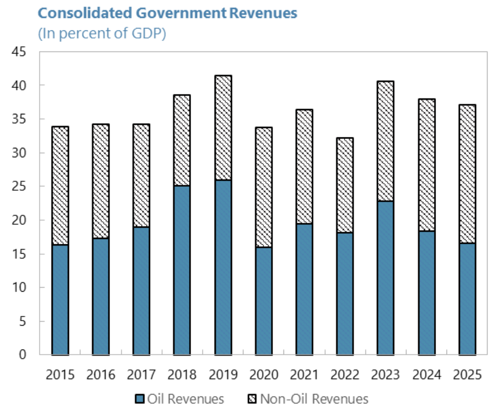
...reserves continue to accumulate.



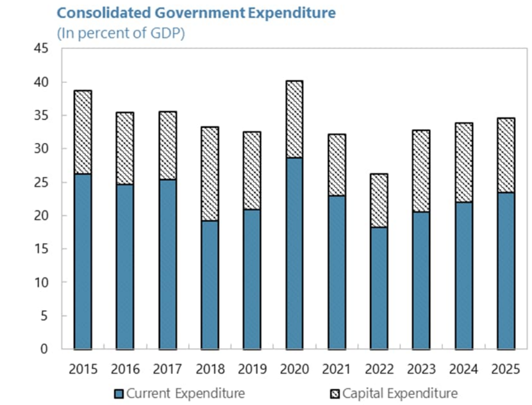
Sources: WITS, Haver, and IMF staff calculations.

Figure 4. Azerbaijan: Fiscal Sector

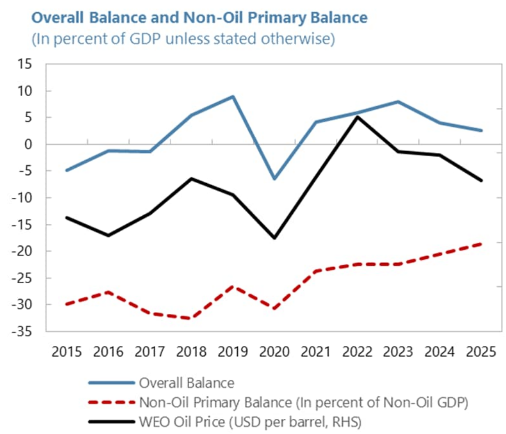
The share of nonoil revenues in total government revenues is gradually rising…



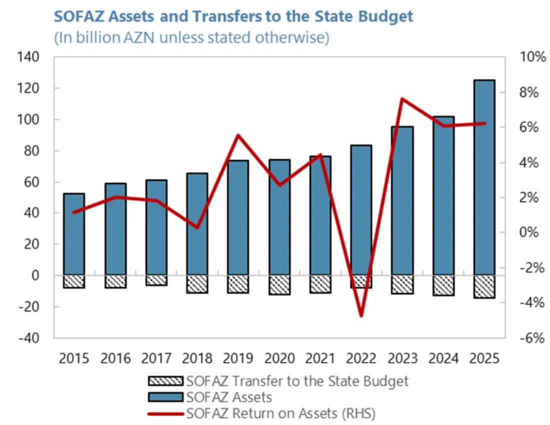
… while both capital and current expenditures have risen in recent years.



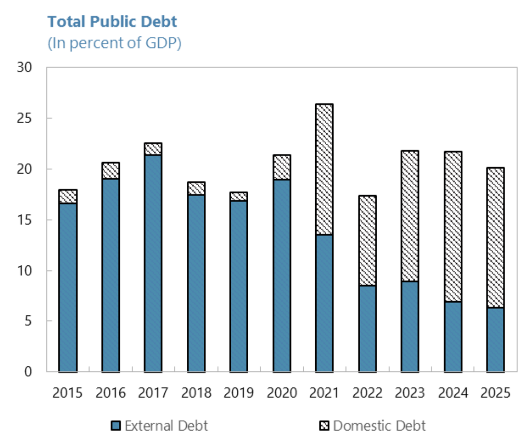
The nonoil primary deficit continued shrinking in 2025 while the overall balance declined amid moderating oil prices.



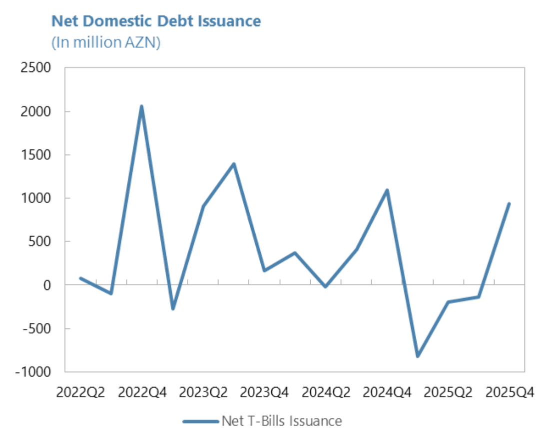
Large valuation gains boosted the value of SOFAZ assets in 2025.



The debt-to-GDP ratio remains low and substitution of external debt with domestic debt continues…



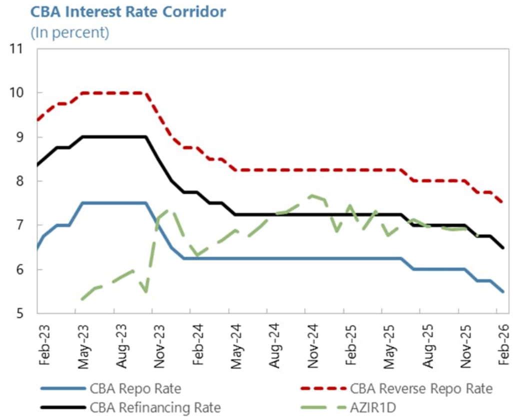
…although net sovereign debt issuance was negative for most of 2025.



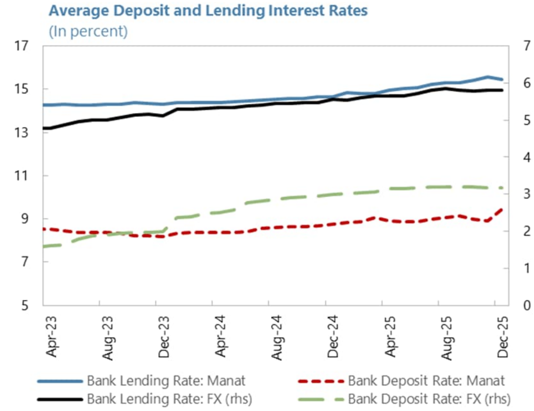
Sources: National authorities, Haver, IMF World Economic Outlook, and IMF staff calculations.

Figure 5. Azerbaijan: Monetary and Exchange Rate Developments

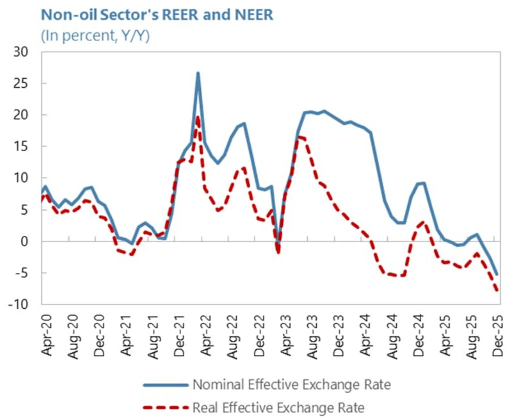
The benchmark AZIR1D rate continued to follow the CBA refinancing rate, which was cut thrice since mid-2025…



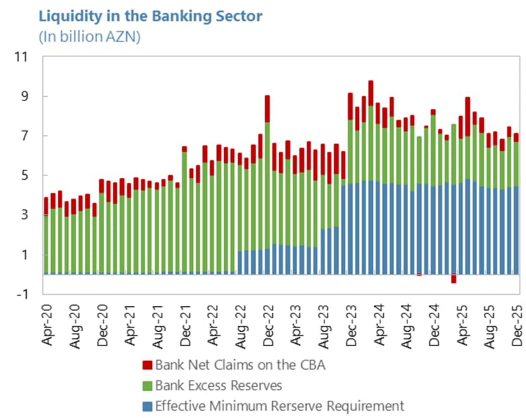
… while interest rates on bank deposits and loans edged up in 2025.



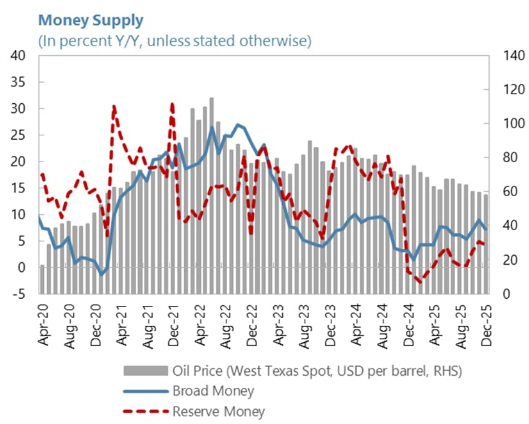
The real effective exchange rate depreciated somewhat in the second half of 2025.



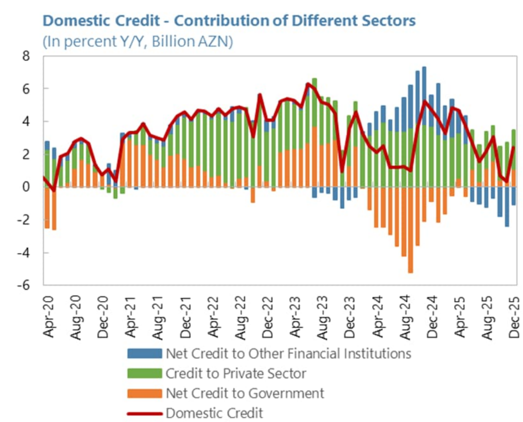
Banks continue to hold considerable excess reserves above the minimum rrequirements.



Money growth slowed in 2025…



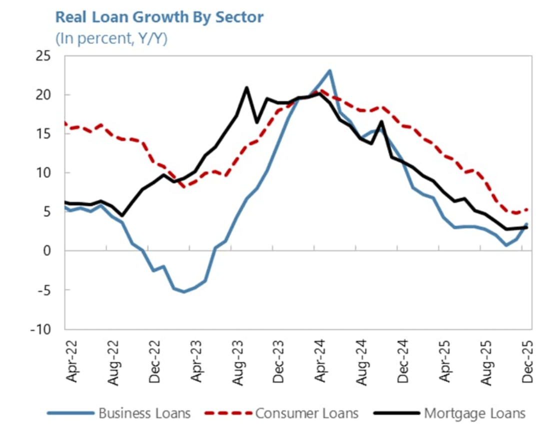
…and credit to the private sector moderated.



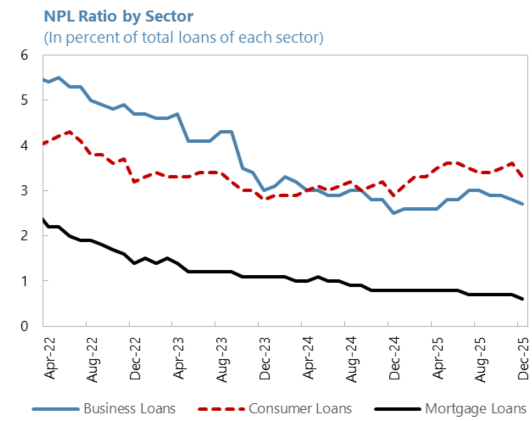
Sources: Haver and IMF staff calculations.

Figure 6. Azerbaijan: Banking Sector

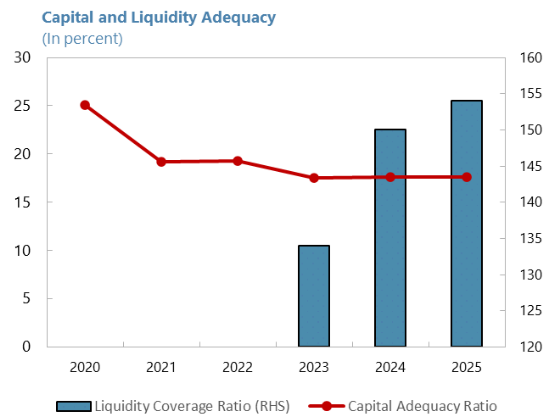
Real loan growth slowed across sectors…



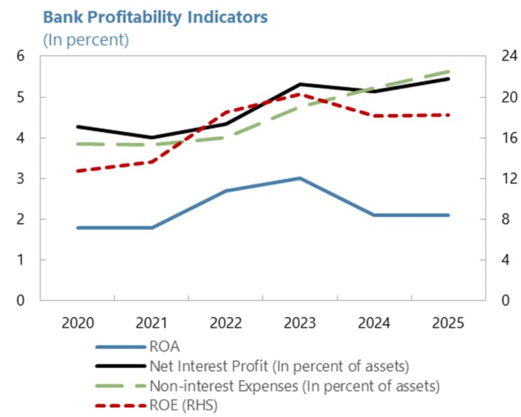
…while the NPL ratios ticked up slightly for business and consumer loans, but from low levels.



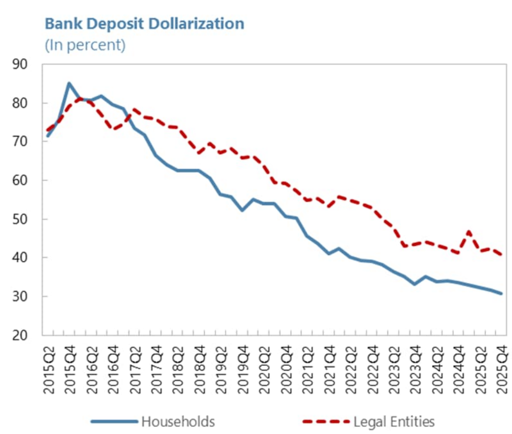
Banks' liquidity buffers are rising with the gradual introduction of the LCR since 2023.



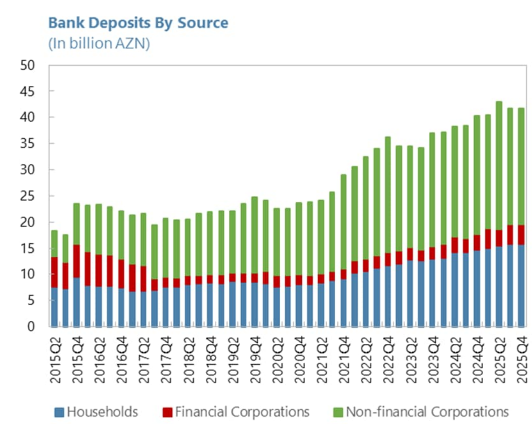
Profitability remains strong, despite high noninterest expenses.



The de-dollarization of household deposits continues…



…although volatile and concentrated deposits from corporates remain the main source of funding.



Sources: National authorities, Haver, and IMF staff estimates.

Table 1. Azerbaijan: Selected Economic and Financial Indicators, 2023–31

	2023	2024	Est. 2025	Projections 2026	2027	2028	2029	2030	2031
	(Annual percentage change, unless otherwise specified)								
National Income									
GDP at constant prices	1.4	4.2	1.4	2.2	2.5	2.5	2.5	2.5	2.5
Of which: Oil sector 1/	-2.0	0.0	-1.6	-2.0	-0.5	-0.5	-0.5	-0.5	-0.5
Non-oil sector	4.5	6.5	2.7	3.7	3.6	3.5	3.5	3.5	3.5
Consumer price index (period average)	8.8	2.2	5.6	6.0	5.1	4.1	4.0	4.0	4.0
Consumer price index (end of period)	2.1	4.9	5.2	6.0	4.2	4.0	4.0	4.0	4.0
Money and Credit									
Domestic credit, net	25.3	-1.3	29.7	11.2	12.1	10.1	10.1	10.0	9.7
Of which: Credit to private sector	14.8	15.9	8.7	8.9	9.0	9.0	9.0	9.0	9.0
Manat base money	19.6	0.2	7.4	7.2	8.5	9.0	9.0	9.0	9.0
Manat broad money	19.7	3.6	10.2	7.7	8.4	8.3	8.2	8.4	8.4
Total broad money	5.4	3.1	7.2	7.0	7.8	7.2	7.1	7.1	7.1
External Sector									
Exports f.o.b.	-30.8	-11.0	-3.7	15.9	-9.7	-9.0	0.6	0.5	2.0
Of which: Oil sector	-34.0	-12.3	-5.9	17.1	-12.6	-12.8	-1.7	-2.3	-0.1
Imports f.o.b.	21.4	4.7	2.8	6.2	4.0	4.0	4.2	5.1	5.4
Of which: Oil sector	12.2	-13.3	3.6	2.8	1.0	2.2	2.5	2.8	2.8
Real effective exchange rate	6.1	-1.7	-3.0	…	…	…	…	…	…
	(In percent of GDP, unless otherwise specified)								
Gross Investment	18.2	21.1	15.7	16.2	16.4	16.7	16.6	16.3	16.0
Consolidated government	12.2	11.9	11.1	10.9	10.3	9.9	9.5	9.0	8.5
Private sector	6.0	9.1	4.5	5.3	6.1	6.9	7.1	7.3	7.5
Of which: Oil sector	-0.3	-0.3	-0.4	-0.2	0.0	0.1	0.1	0.1	0.1
Gross National Savings	29.7	27.3	21.2	25.9	21.8	18.8	18.2	17.3	16.6
Consolidated General Government Finances 2/									
Total revenue and grants	40.6	37.9	37.1	38.8	36.6	35.0	34.3	33.7	33.2
Total expenditure	32.8	33.9	34.6	37.0	36.4	35.6	34.8	34.3	33.7
Current expenditure	20.6	21.9	23.4	26.1	26.1	25.7	25.3	25.3	25.2
Net acquisition of non-financial assets	12.2	11.9	11.1	10.9	10.3	9.9	9.5	9.0	8.5
Overall fiscal balance	7.9	4.1	2.6	1.8	0.2	-0.6	-0.5	-0.6	-0.5
Non-oil primary balance, in percent of non-oil GDP	-22.2	-20.0	-18.6	-18.0	-16.3	-14.5	-13.2	-12.2	-11.2
General government debt 3/	21.8	21.6	20.1	20.0	20.0	19.9	19.9	20.0	20.2
General government and government-guaranteed debt	31.1	30.3	28.2	24.6	23.5	22.8	22.4	22.1	21.5
External Sector									
Current account (- deficit)	11.5	6.3	5.5	9.7	5.4	2.0	1.6	1.0	0.6
Foreign direct investment (net)	-2.9	-1.3	-1.5	-1.3	-1.0	-0.7	-0.5	-0.3	-0.1
Memorandum Items:									
Gross official international reserves (in millions of U.S. dollars)	11,613	10,959	11,515	14,392	15,079	14,164	13,125	11,734	9,660
in months of next year's non-oil imports f.o.b.	6.1	7.1	7.1	8.6	8.8	7.9	7.1	6.0	4.7
Nominal GDP (in millions of manat)	123,128	126,524	129,094	133,233	141,201	149,898	159,320	169,320	180,069
Nominal non-oil GDP (in millions of manat)	78,990	86,241	92,307	101,466	110,480	119,081	128,178	137,971	148,512
Nominal GDP (in millions of U.S. dollars)	72,429	74,426	75,938	78,372	83,060	88,175	93,718	99,600	105,923
Oil Fund Assets (in millions of U.S. dollars)	56,070	60,031	73,542	76,052	77,901	79,169	80,625	82,298	84,236
Assumed oil price, WEO plus $2-$3 premium (in U.S. dollars per barrel) 4/	85.9	84.0	69.7	84.2	78.0	76.2	75.9	75.7	77.2
Assumed natural gas price, WEO plus a premium (in U.S. dollars per thousands of cubic meters)	460.1	389.0	425.4	521.9	424.3	312.1	312.1	312.1	312.1
Exchange rate (manat/dollar, end of period)	1.7	1.7	1.7	…	…	…	…	…	…

Sources: National authorities; and IMF staff estimates and projections.

1/ Includes the production and processing of oil and gas.

2/ Consolidates State Budget, State Oil Fund of Azerbaijan (SOFAZ), Nakhchevan Autonomous Region (NAK) and State Social Protection Fund.

3/ Starting in 2021, includes guarantees issued to Aqrakredit for its acquisition of distressed assets from the IBA.

4/ Oil prices for 2023 and 2024 are actual data.

Table 2a. Azerbaijan: Balance of Payments, 2023–31
(In millions of U.S. dollars, unless otherwise specified)

			Est.	Projections					
	2023	2024	2025	2026	2027	2028	2029	2030	2031
Exports, f.o.b.	29,202	25,992	25,043	29,022	26,220	23,851	23,999	24,120	24,604
Oil and gas sector	25,935	22,751	21,415	25,069	21,919	19,110	18,778	18,342	18,326
Other	3,267	3,241	3,628	3,953	4,301	4,740	5,221	5,778	6,278
Imports, f.o.b.	-16,397	-17,167	-17,653	-18,745	-19,488	-20,262	-21,104	-22,176	-23,383
Oil and gas sector	-2,849	-2,469	-2,558	-2,630	-2,656	-2,716	-2,782	-2,860	-2,941
Others	-13,548	-14,698	-15,095	-16,115	-16,832	-17,547	-18,322	-19,316	-20,442
Trade Balance	12,806	8,825	7,390	10,277	6,732	3,588	2,894	1,943	1,221
Services, net	-2,335	-2,051	-1,565	-1,283	-1,143	-1,018	-963	-830	-652
Oil and gas sector	-2,062	-1,843	-1,311	-1,143	-1,124	-1,097	-1,096	-1,043	-973
Others	-273	-208	-254	-139	-20	80	134	213	321
Factor income, net	-3,199	-2,735	-2,302	-2,065	-1,860	-1,615	-1,379	-1,124	-1,012
Oil and gas	-3,933	-3,382	-2,930	-2,755	-2,575	-2,390	-2,200	-2,005	-1,810
Others	734	647	628	690	715	775	821	881	798
Transfers, net	1,058	632	638	643	722	829	954	1,014	1,079
Current Account Balance	8,329	4,671	4,160	7,572	4,450	1,784	1,507	1,003	634
Non-oil Current Account Balance	-8,762	-10,386	-10,455	-10,970	-11,114	-11,123	-11,192	-11,430	-11,967
Capital account, net	-10	-1	-6	-1	-1	-1	-1	-1	-1
Direct investment, net	-2,093	-969	-1,167	-993	-819	-646	-473	-299	-125
Oil and gas	-2,804	-733	-1,098	-995	-893	-790	-688	-585	-483
Others	710	-236	-69	2	73	144	215	286	358
Portfolio investment, net	-683	-1,661	-1,300	400	440	506	582	669	770
Other investment, net	-1,979	-2,829	-1,822	-2,048	-1,991	-1,748	-1,657	-1,549	-1,422
Oil and gas	-1,845	-432	-171	-167	-164	-161	-158	-154	-151
Others	-134	-2,396	-1,651	-1,881	-1,827	-1,587	-1,499	-1,394	-1,271
Oil bonus	471	458	458	458	458	458	458	458	458
Financial derviatives	0	0	0	0	0	0	0	0	0
Financial Account, Net	-4,284	-5,001	-3,830	-2,183	-1,913	-1,430	-1,090	-720	-319
Capital and Financial Account Balance	-4,294	-5,003	-3,836	-2,184	-1,914	-1,431	-1,091	-721	-320
Errors & Omissions	1321	-107	-57	0	0	0	0	0	0
Overall Balance	5,356	-438	268	5,388	2,536	353	416	282	314
Financing	-5,356	438	-268	-5,388	-2,536	-353	-416	-282	136
Change in net foreign assets of CBA (increase -)	-2,617	653	-555	-2,877	-688	915	1,039	1,391	2,074
Change in Oil Fund assets (increase -) 1/	-5,782	-3,025	-1,490	-2,511	-1,849	-1,268	-1,456	-1,673	-1,938
Change in other government FX assets (increase -)	3043	2810	1778	0	0	0	0	0	0
Memorandum Items:									
Current account balance (in percent of GDP)	11.5	6.3	5.5	9.7	5.4	2.0	1.6	1.0	0.6
Gross official international reserves	11,613	10,959	11,515	14,392	15,079	14,164	13,125	11,734	9,660
in months of next year's non-oil imports f.o.b.	6.1	7.1	7.1	8.6	8.8	7.9	7.1	6.0	4.7
Oil Fund assets	56,070	60,031	73,542	76,052	77,901	79,169	80,625	82,298	84,236
Oil price (US$ per barrel)	85.9	84.0	69.7	84.2	78.0	76.2	75.9	75.7	77.2
Exchange rate (average, AZN/$)	1.7	1.7	1.7	…	…	…	…	…	…
Nominal GDP (in millions of U.S. dollars)	72,429	74,426	75,938	78,372	83,060	88,175	93,718	99,600	105,923

Sources: National authorities; and IMF staff estimates and projections.

1/ Excludes all changes in reserve assets that are not attributable to transactions.

Table 2b. Azerbaijan: Balance of Payments, 2023–31
(In percent of GDP, unless otherwise specified)

			Est.	Projections					
	2023	2024	2025	2026	2027	2028	2029	2030	2031
Exports, f.o.b.	40.3	34.9	33.0	37.0	31.6	27.0	25.6	24.2	23.2
Oil and gas sector	35.8	30.6	28.2	32.0	26.4	21.7	20.0	18.4	17.3
Other	4.5	4.4	4.8	5.0	5.2	5.4	5.6	5.8	5.9
Imports, f.o.b.	-22.6	-23.1	-23.2	-23.9	-23.5	-23.0	-22.5	-22.3	-22.1
Oil and gas sector	-3.9	-3.3	-3.4	-3.4	-3.2	-3.1	-3.0	-2.9	-2.8
Others	-18.7	-19.7	-19.9	-20.6	-20.3	-19.9	-19.6	-19.4	-19.3
Trade Balance	17.7	11.9	9.7	13.1	8.1	4.1	3.1	2.0	1.2
Services, net	-3.2	-2.8	-2.1	-1.6	-1.4	-1.2	-1.0	-0.8	-0.6
Oil and gas sector	-2.8	-2.5	-1.7	-1.5	-1.4	-1.2	-1.2	-1.0	-0.9
Others	-0.4	-0.3	-0.3	-0.2	0.0	0.1	0.1	0.2	0.3
Factor income, net	-4.4	-3.7	-3.0	-2.6	-2.2	-1.8	-1.5	-1.1	-1.0
Oil and gas	-5.4	-4.5	-3.9	-3.5	-3.1	-2.7	-2.3	-2.0	-1.7
Others	1.0	0.9	0.8	0.9	0.9	0.9	0.9	0.9	0.8
Transfers, net	1.5	0.8	0.8	0.8	0.9	0.9	1.0	1.0	1.0
Current Account Balance	11.5	6.3	5.5	9.7	5.4	2.0	1.6	1.0	0.6
Non-oil Current Account Balance	-12.1	-14.0	-13.8	-14.0	-13.4	-12.6	-11.9	-11.5	-11.3
Capital Account, Net	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Direct investment, net	-2.9	-1.3	-1.5	-1.3	-1.0	-0.7	-0.5	-0.3	-0.1
Oil and gas	-3.9	-1.0	-1.4	-1.3	-1.1	-0.9	-0.7	-0.6	-0.5
Others	1.0	-0.3	-0.1	--	0.1	0.2	0.2	0.3	0.3
Portfolio investment, net	-0.9	-2.2	-1.7	0.5	0.5	0.6	0.6	0.7	0.7
Other investment	-2.7	-3.8	-2.4	-2.6	-2.4	-2.0	-1.8	-1.6	-1.3
Oil and gas	-2.5	-0.6	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1
Others	-0.2	-3.2	-2.2	-2.4	-2.2	-1.8	-1.6	-1.4	-1.2
Oil bonus	0.7	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.4
Financial derviatives	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial Account, Net	-5.9	-6.7	-5.0	-2.8	-2.3	-1.6	-1.2	-0.7	-0.3
Capital and Financial Account Balance	-5.9	-6.7	-5.1	-2.8	-2.3	-1.6	-1.2	-0.7	-0.3
Errors & Omissions	1.8	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance	7.4	-0.6	0.4	6.9	3.1	0.4	0.4	0.3	0.3
Financing	-7.4	0.6	-0.4	-6.9	-3.1	-0.4	-0.4	-0.3	0.1
Change in net foreign assets of CBA (increase -)	-3.6	0.9	-0.7	-3.7	-0.8	1.0	1.1	1.4	2.0
Change in Oil Fund assets (increase -) 1/	-8.0	-4.1	-2.0	-3.2	-2.2	-1.4	-1.6	-1.7	-1.8
Change in other government FX assets (increase -)	4.2	3.8	2.3	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum Items:									
Current account balance	11.5	6.3	5.5	9.7	5.4	2.0	1.6	1.0	0.6
Gross official international reserves	16.0	14.7	15.2	18.4	18.2	16.1	14.0	11.8	9.1
in months of next year's non-oil imports f.o.b.	6.1	7.1	7.1	8.6	8.8	7.9	7.1	6.0	4.7
Oil Fund assets	77.4	80.7	96.8	97.0	93.8	89.8	86.0	82.6	79.5
Oil price (US$ per barrel)	85.9	84.0	69.7	84.2	78.0	76.2	75.9	75.7	77.2
Exchange rate (average, AZN/$)	1.7	1.7	1.7	...	...	...	...	...	...
Nominal GDP (in Millions of US$)	72,429	74,426	75,938	78,372	83,060	88,175	93,718	99,600	105,923

Sources: National authorities; and IMF staff estimates and projections.

1/ Excludes all changes in reserve assets that are not attributable to transactions.

Table 3a. Azerbaijan: Statement of Consolidated Government Operations, 2023–31 1/
(In millions of manat)

	2023	2024	Est. 2025	Projections 2026	2027	2028	2029	2030	2031
Revenue									
Total revenue	50,049	47,966	47,955	51,666	51,689	52,534	54,673	56,996	59,856
Tax revenue	27,658	29,624	30,364	33,074	34,642	36,873	39,048	41,446	44,131
Income taxes	9,684	9,749	9,756	11,073	11,189	11,964	12,579	13,239	14,029
Individual income tax	1,657	2,019	2,021	2,447	2,784	3,451	3,715	3,999	4,304
Enterprise profits tax	8,027	7,730	7,734	8,626	8,405	8,513	8,864	9,240	9,725
Value added tax (VAT)	8,128	8,894	8,943	9,694	10,350	10,985	11,663	12,438	13,288
Excise taxes	1,452	1,656	1,697	1,858	2,012	2,159	2,316	2,486	2,671
Taxes on international trade	2,202	2,429	2,356	2,534	2,675	2,814	2,963	3,141	3,340
Other taxes	792	867	863	949	1,033	1,113	1,198	1,290	1,388
Social security contributions	5,399	6,028	6,749	6,966	7,382	7,837	8,330	8,853	9,415
Nontax revenue	22,372	18,321	17,570	18,572	17,026	15,639	15,602	15,526	15,700
Of which: Oil Fund revenues	21,662	18,039	17,160	17,234	15,584	14,100	13,962	13,774	13,825
Grants	20	20	20	20	20	20	20	20	20
Expenditure									
Total Expenditure	40,348	42,840	44,652	49,298	51,433	53,375	55,440	58,019	60,729
Current Expense	25,346	27,766	30,264	34,813	36,823	38,563	40,384	42,820	45,431
Compensation of employees	8,130	8,407	9,723	10,288	10,752	11,189	11,643	12,183	12,814
Use of goods and services	6,478	7,315	8,650	8,908	9,100	9,308	9,519	9,746	10,361
Social benefits	8,070	9,140	10,180	12,007	13,143	14,078	15,066	16,356	17,494
Of which: Social protection fund	5,992	6,781	7,401	8,135	8,858	9,548	10,277	11,062	11,908
Subsidies	1,462	1,608	1,500	1,746	1,724	1,758	1,813	1,874	1,961
Grants	20	20	20	20	20	20	20	20	20
Interest	868	446	1,003	919	1,013	1,153	1,281	1,390	1,554
Other expense	319	829	-812	926	1,070	1,057	1,042	1,252	1,227
Net Acquisition of Nonfinancial Assets	15,002	15,075	14,388	14,485	14,610	14,812	15,056	15,198	15,298
Overall Balance	9,701	5,125	3,303	2,368	256	-840	-767	-1,023	-874
Overall balance excluding one off items	9,701	5,125	3,303	2,368	256	-840	-767	-1,023	-874
Non-oil primary balance 2/	-17,511	-17,249	-17,147	-18,282	-18,048	-17,266	-16,895	-16,816	-16,593
Net Financial Transactions	9,701	5,125	3,303	2,368	255	-842	-770	-1,027	-879
Net Acquisition of Financial Assets	11,117	7,153	2,323	4,037	2,884	1,881	2,146	2,470	2,866
Oil Fund	11,738	5,143	2,533	4,269	3,143	2,156	2,474	2,844	3,295
Privatization and other sale of assets	-116	-109	-110	-132	-158	-190	-228	-274	-328
Banking System 3/	-490	-100	-100	-100	-100	-100	-100	-100	-100
Others	-15	2,219	0	0	0	15	0	0	0
Net Incurrence of Liabilities	1,416	2,027	-980	1,669	2,629	2,723	2,916	3,496	3,745
Domestic debt issuance	1,116	1,527	-1,160	3	670	778	987	2,057	2,329
External Loans	300	500	180	1,666	1,959	1,945	1,930	1,440	1,415
Memorandum Items:									
Oil revenue	28,081	22,820	21,452	21,568	19,316	17,577	17,405	17,178	17,268
Non-oil revenue	21,968	25,146	26,502	30,097	32,372	34,956	37,265	39,814	42,583
Non-oil tax revenue 4/	15,839	18,408	19,785	21,773	23,527	25,560	27,275	29,189	31,273
Non-oil GDP (in million of manats)	78,990	86,241	92,307	101,466	110,480	119,081	128,178	137,971	148,512

Sources: National authorities; and IMF staff estimates and projections.

1/ Consolidated government includes oil fund SOFAZ, State Social Protection Fund, Unemployment Insurance Fund, State Agency for Mandatory Health Insurance, and Nakhchivan Autonomous Republic budget. These entities have been added to budgetary central

2/ Defined as non-oil revenue minus total expenditure (excl. interest payments) and statistical discrepancies. Does not include possible slowdown in fiscal adjustment.

3/ Comprises government deposits in CBA and commercial banks.

4/ Tax revenue excluding AIOC and SOCAR profit tax.

Table 3b. Azerbaijan: Statement of Consolidated Government Operations, 2023–31 1/
(In percent of non-oil GDP)

	2023	2024	Est. 2025	Projections 2026	2027	2028	2029	2030	2031
Revenue									
Total revenue	64.4	55.6	52.0	50.9	46.8	44.1	42.7	41.3	40.3
Tax revenue	35.6	34.4	32.9	32.6	31.4	31.0	30.5	30.0	29.7
Income taxes	12.5	11.3	10.6	10.9	10.1	10.0	9.8	9.6	9.4
Individual income tax	2.1	2.3	2.2	2.4	2.5	2.9	2.9	2.9	2.9
Enterprise profits tax	10.3	9.0	8.4	8.5	7.6	7.1	6.9	6.7	6.5
Value added tax (VAT)	10.5	10.3	9.7	9.6	9.4	9.2	9.1	9.0	8.9
Excise taxes	1.9	1.9	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Taxes on international trade	2.8	2.8	2.6	2.5	2.4	2.4	2.3	2.3	2.2
Other taxes	1.0	1.0	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Social security contributions	7.0	7.0	7.3	6.9	6.7	6.6	6.5	6.4	6.3
Nontax revenue	28.8	21.2	19.0	18.3	15.4	13.1	12.2	11.3	10.6
Of which: Oil Fund revenues	27.9	20.9	18.6	17.0	14.1	11.8	10.9	10.0	9.3
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure									
Total Expenditure	52.0	49.7	48.4	48.6	46.6	44.8	43.3	42.1	40.9
Current Expense	32.6	32.2	32.8	34.3	33.3	32.4	31.5	31.0	30.6
Compensation of employees	10.5	9.7	10.5	10.1	9.7	9.4	9.1	8.8	8.6
Use of goods and services	8.3	8.5	9.4	8.8	8.2	7.8	7.4	7.1	7.0
Social benefits	10.4	10.6	11.0	11.8	11.9	11.8	11.8	11.9	11.8
Of which: Social protection fund	7.7	7.9	8.0	8.0	8.0	8.0	8.0	8.0	8.0
Subsidies	1.9	1.9	1.6	1.7	1.6	1.5	1.4	1.4	1.3
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest	1.1	0.5	1.1	0.9	0.9	1.0	1.0	1.0	1.0
Other expense	0.4	1.0	-0.9	0.9	1.0	0.9	0.8	0.9	0.8
Net Acquisition of Nonfinancial Assets	19.3	17.5	15.6	14.3	13.2	12.4	11.7	11.0	10.3
Overall Balance	12.5	5.9	3.6	2.3	0.2	-0.7	-0.6	-0.7	-0.6
Overall balance excluding one off items	12.5	5.9	3.6	2.3	0.2	-0.7	-0.6	-0.7	-0.6
Non-oil primary balance 2/	-22.2	-20.0	-18.6	-18.0	-16.3	-14.5	-13.2	-12.2	-11.2
Net Financial Transactions	12.5	5.9	3.6	2.3	0.2	-0.7	-0.6	-0.7	-0.6
Net Acquisition of Financial Assets	14.3	8.3	2.5	4.0	2.6	1.6	1.7	1.8	1.9
Oil Fund	15.1	6.0	2.7	4.2	2.8	1.8	1.9	2.1	2.2
Privatizations and other sale of assets	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2
Banking System 3/	-0.6	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Others	0.0	2.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Incurrence of Liabilities	1.8	2.4	-1.1	1.6	2.4	2.3	2.3	2.5	2.5
Debt securities	1.4	1.8	-1.3	0.0	0.6	0.7	0.8	1.5	1.6
Of which: Domestic banking sector	1.3	1.0	-1.1	0.2	0.2	0.2	0.3	0.3	0.3
External Loans	0.4	0.6	0.2	1.6	1.8	1.6	1.5	1.0	1.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum Items:									
Oil revenue	36.2	26.5	23.2	21.3	17.5	14.8	13.6	12.5	11.6
Non-oil revenue	28.3	29.2	28.7	29.7	29.3	29.4	29.1	28.9	28.7
Non-oil tax revenue 4/	20.4	21.3	21.4	21.5	21.3	21.5	21.3	21.2	21.1
Non-oil GDP (in billion of manats)	77.7	86.2	92.3	101.5	110.5	119.1	128.2	138.0	148.5

Sources: National authorities; and IMF staff estimates and projections.

1/ Consolidated government includes oil fund SOFAZ, State Social Protection Fund, Unemployment Insurance Fund, State Agency for Mandatory Health Insurance, and Nakhchivan Autonomous Republic budget. These entities have been added to budgetary central government.

2/ Defined as non-oil revenue minus total expenditure (excl. interest payments) and statistical discrepancies. Does not include possible slowdown in fiscal adjustment.

3/ Comprises government deposits in CBA and commercial banks.

4/ Tax revenue excluding AIOC and SOCAR profit tax.

Table 4. Azerbaijan: Summary Accounts of the Central Bank, 2023–31
(In millions of manat, unless otherwise specified)

			Est.	Projections					
	2023	2024	2025	2026	2027	2028	2029	2030	2031
Net Foreign Assets	22,544	23,826	21,808	26,698	27,867	26,311	24,544	22,180	18,654
Net international reserves of the CBA	22,548	23,830	21,812	26,703	27,872	26,316	24,549	22,184	18,658
Gross international reserves	23,757	25,003	23,050	27,940	29,109	27,553	25,787	23,422	19,896
Foreign liabilities	-1,209	-1,173	-1,238	-1,238	-1,238	-1,238	-1,238	-1,238	-1,238
Other items, net	-4	-4	-4	-4	-4	-4	-4	-4	-4
Net Domestic Assets	1,341	-108	2,910	-242	639	4,255	8,188	12,873	18,884
Domestic credit	3,352	1,828	5,105	1,843	2,515	5,944	9,708	14,240	20,115
Net claims on consolidated central government	-2,523	-798	-2,716	-2,516	-2,316	-2,216	-2,115	-2,013	-1,910
Of which: claims on central government	445	389	331	331	331	331	331	331	331
manat deposits of central government	-3,039	-4,565	-2,299	-2,099	-1,899	-1,799	-1,698	-1,596	-1,493
Net claims on banks 1/	6,557	9,430	8,198	4,359	4,831	8,160	11,823	16,253	22,025
Credit to the economy	0	0	0	0	0	0	0	0	0
Net claims on other financial corporations 1/									
Other items, net	-2,011	-1,937	-2,194	-2,085	-1,876	-1,688	-1,520	-1,368	-1,231
Reserve Money	23,885	23,718	24,718	26,456	28,506	30,567	32,732	35,053	37,538
Manat reserve money	20,875	20,916	22,470	24,088	26,136	28,488	31,052	33,846	36,892
Currency outside CBA	17,318	17,449	19,563	20,939	22,562	24,192	25,907	27,743	29,710
Bank reserves and other deposits	3,557	3,467	2,907	3,149	3,574	4,295	5,145	6,103	7,182
Reserves in foreign currency	3,009	2,801	2,248	2,368	2,371	2,079	1,681	1,206	646

Sources: National authorities; and IMF staff estimates and projections.

1/ Includes CBA holdings of Aqrarcredit's bonds as a part of the SPV, and IBA deposits.

Table 5. Azerbaijan: Monetary Survey, 2023–31
(In millions of manat, unless otherwise specified)

			Est.	Projections					
	2023	2024	2025	2026	2027	2028	2029	2030	2031
Net Foreign Assets	25,217	26,610	25,836	31,120	32,784	31,544	30,064	27,758	24,651
Net international reserves of the CBA	22,548	23,830	21,812	26,703	27,872	26,316	24,549	22,184	18,658
Net foreign assets of commercial banks	3,684	3,993	5,162	5,572	6,082	6,412	6,712	6,782	7,212
Other	-1,015	-1,214	-1,138	-1,154	-1,169	-1,183	-1,196	-1,208	-1,219
Net Domestic Assets	19,909	19,898	24,033	22,254	24,726	30,122	35,970	42,957	51,078
Domestic credit, net	23,193	22,889	29,686	33,009	36,987	40,738	44,831	49,305	54,077
Net claims on consolidated central government	-319	-4,354	77	766	1,843	2,431	3,077	3,794	4,470
Credit to the economy	23,505	27,234	29,601	32,235	35,137	38,299	41,746	45,503	49,598
Of which: private sector	23,505	27,234	29,601	32,235	35,137	38,299	41,746	45,503	49,598
Credit to other financial public sector	7	9	8	8	8	8	8	8	8
Other items, net	-3,284	-2,991	-5,653	-10,755	-12,262	-10,616	-8,861	-6,348	-2,999
Broad Money	45,118	46,499	49,860	53,366	57,502	61,658	66,027	70,707	75,721
Manat broad money	35,372	36,652	40,386	43,493	47,151	51,052	55,264	59,888	64,892
Cash outside banks	15,873	15,858	17,948	18,791	19,796	20,743	21,695	22,677	23,691
Manat deposits	19,453	20,791	22,439	24,702	27,355	30,309	33,569	37,210	41,201
Foreign currency deposits	9,747	9,846	9,474	9,873	10,351	10,606	10,763	10,819	10,829
			(Annual percentage change)						
Net foreign assets	0.7	5.5	-2.9	20.5	5.3	-3.8	-4.7	-7.7	-11.2
Net domestic assets	11.8	-0.1	20.8	-7.4	11.1	21.8	19.4	19.4	18.9
Credit to the economy	14.8	15.9	8.7	8.9	9.0	9.0	9.0	9.0	9.0
Of which: private sector	14.8	15.9	8.7	8.9	9.0	9.0	9.0	9.0	9.0
Broad money (M3)	5.4	3.1	7.2	7.0	7.8	7.2	7.1	7.1	7.1
Manat broad money (M2)	19.7	3.6	10.2	7.7	8.4	8.3	8.2	8.4	8.4
Reserve money	14.3	-0.7	4.2	7.0	7.8	7.2	7.1	7.1	7.1
Manat reserve money	19.6	0.2	7.4	7.2	8.5	9.0	9.0	9.0	9.0
Memorandum Items:									
Gross official international reserves (US$ millions)	11,613	10,959	11,515	14,392	15,079	14,164	13,125	11,734	9,660
Velocity of total broad money (M3)	1.7	1.9	1.9	1.9	1.9	1.9	1.9	2.0	2.0
Credit to private sector in percent of non-oil GDP	29.8	31.6	32.1	31.8	31.8	32.2	32.6	33.0	33.4
Share of foreign currency credits in total credit portfolio	22.4	20.2	18.2	16.4	14.7	13.3	11.9	10.7	9.7
Current to broad money ratio	35.2	34.1	36.0	35.2	34.4	33.6	32.9	32.1	31.3
Share of foreign currency deposits in total deposits	33.4	32.1	29.7	28.6	27.5	25.9	24.3	22.5	20.8
Foreign currency deposits to broad money ratio	21.6	21.2	19.0	18.5	18.0	17.2	16.3	15.3	14.3

Sources: National authorities; and IMF staff estimates and projections.

Table 6. Azerbaijan: Banking Sector Financial Soundness Indicators, 2020–25
(In percent, unless otherwise specified)

	2020	2021	2022	2023	2024	2025
Capital Adequacy						
Regulatory Capital to Risk-Weighted Assets	25.1	19.2	19.3	17.5	17.6	17.6
Tier I Capital to Total Regulatory Capital	86.0	84.0	79.0	77.0	77.2	79.7
Risk-Weighted Assets to Total Assets	52.0	62.0	57.0	65.0	66.8	68.1
Asset Quality						
Nonperforming Loans (NPLs) to Total Loans	6.2	4.5	3.8	2.6	2.4	2.5
Nonperforming Loans (billions of manat)	0.9	0.7	0.7	0.6	0.7	0.8
Share of Restructured Loans	14.5	8.8	5.8	3.6	4.0	3.2
Loan-loss provisioning to nonperforming loans ratio	55.0	57.5	58.1	63.5	73.5	75.9
Liquidity						
Instant Liquidity Ratio	61.0	62.0	60.0	52.0	51.9	54.4
Liquid Assets to Total Assets 1/	33.0	36.0	37.0	27.0	27.0	23.0
Liquidity Coverage Ratio 2/	…	…	…	134.0	150.1	154.0
FX Liquidity Coverage Ratio 2/	…	…	…	118.0	178.0	200.0
Profitability						
Bank Return on Assets	1.8	1.8	2.7	3.0	2.1	2.1
Bank Return on Equity	12.7	13.6	18.5	20.3	18.1	18.2
Foreign Currency Position and Dollarization						
Deposit Dollarization	53.2	47.6	47.1	38.4	37.5	35.6
Loan Dollarization	30.2	26.2	20.1	18.8	16.1	14.2
Net Open FX Position	-25.3	-11.3	2.7	1.4	-5.3	2.9

Sources: Central Bank of Azerbaijan and IMF staff calculations.

1/ Liquid assets include cash and cash equivalents, claims on the CBA, Nostro accounts, and deposits with financial institutions.

2/ Introduced in 2023.

Annex I. Implementation of IMF Recommendations

2025 Article IV Recommendation	Policy Action
Fiscal Policy	
Continue annual reduction of the non-oil primary deficit by 1.5 - 2 percent of non-oil GDP in the medium term.	The NOPB improved by 1.4 percent of nonoil GDP in 2025 and it is projected to improve by 0.6 percent in 2026.
Maintain spending prudence, including continued moderation in wage growth, rationalization of subsidies and gradual increase in domestic energy prices.	Public investment spending moderated in 2025 and is projected to fall as a share of GDP in 2026. The Ministry has improved the efficiency of the public sector payments procedures, resulting in budget savings.
Continue effort to improve tax administration and compliance, broaden the tax base, and explore new sources of budgetary revenues.	PIT tax holidays are being phased out over 2026-2028. The State Tax Service has received a training on TADAT in 2025 and aims to finish a self-assessment exercise by end-2026.
Consider further improvements in the design of fiscal rule, including reassessing the triggers to changes in fiscal targets, clarifying the operation of correction mechanism, and continue effort to modernize the budgetary framework.	The fiscal rule framework has been modified to eliminate annual adjustments of the medium-term target.
Monetary and Exchange Rate Policy	
The CBA should exercise caution before continuing to cut interest rates further.	The CBA cut the policy rate by 0.75pp since mid-2025, seeing through the temporary drivers of inflation.
Continue efforts to modernize monetary policy, including by reforms of interbank transaction processes in secured markets, as well as steps to elevate monetary policy communication. Ensure a closer coordination between the government's debt management operation and the CBA's liquidity management operations.	The CBA continued to modernize the monetary policy framework and improve monetary policy transmission, including by shortening the maturity of its standing facility operations, increasing the role of one-week operations as the main policy tool, and adjusting the methodology for computing the benchmark AZIR rate.
Financial Sector Policy	
Continue progress in implementing key 2025 FSAP recommendations: 1) reinforce the resilience of domestic systemically-important banks (D-SIBs), 2) adopt a consolidated supervision framework, 3) bolster financial safety nets by finalizing resolution plans for banks whose failure would have systemic consequences, and 4) strengthen the emergency liquidity assistance (ELA) framework.	The CBA has introduced regulations to fully implement Basel III capital and liquidity requirements gradually by January 2027, including requiring additional D-SIB capital buffers. The implementation of risk-based supervision has started and progress has been made towards the implementation of consolidated supervision by the end of 2026. The CBA has finalized resolution plans for individual D-SIBs and is receiving an IMF TA on the ELA framework.
Structural Policy	
Introduce reforms to increase the profitability of and strengthen corporate governance in SOEs. Level the market playing field where SOEs compete to pave the way for greater private sector participation.	The Ministry of Finance has been granted oversight powers over financial performance of SOEs and has approved a new set of guidelines on financial reporting by the SOEs.
More effort is needed in areas of governance, including upgrading and enforcing the anti-corruption legal and institutional framework, improving asset disclosure, and increasing beneficial ownership transparency.	The beneficial ownership registry was implemented last year and progress has been made in digitalizing public procurement and strengthening the AML/CFT framework.

Annex II. External Sector Assessment

Overall Assessment: Staff assesses the external position in 2025 to be substantially weaker than implied by fundamentals and desirable policies. Oil and gas prices have dropped from their 2022 peaks and hydrocarbon production has declined since 2023, leading to lower oil export revenues. As the real effective exchange rate depreciated in 2025, non-oil exports growth outpaced that of non-oil imports. However, the current account balance continued to decline. A larger and more sustained current account (CA) surplus is needed to preserve intergenerational equity. Notwithstanding the impact from the war in the Middle East, global energy prices are projected to stay below 2022 levels in the medium term. If external conditions persist and without a more competitive non-oil sector, the CA balance will likely continue to be substantially weaker than the level needed for future generations. This overall assessment is subject to a high degree of uncertainty related to the future path of oil and gas prices.

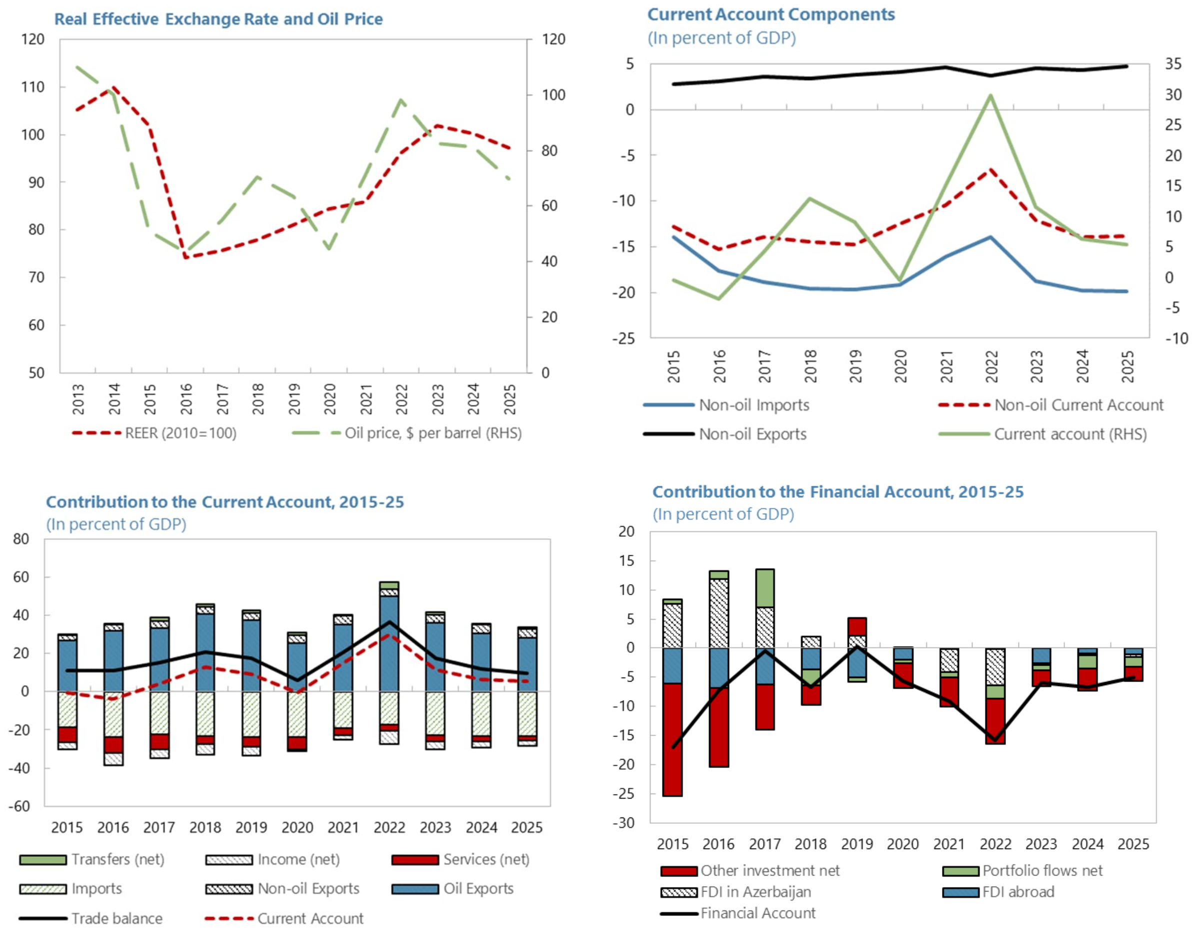
Potential Policy Responses: Given the projected decline of hydrocarbon production and revenues in the medium term, fiscal consolidation should be sustained to preserve intergenerational equity and help increase the saving-investment balance. The central bank should also be prepared to use its tools to keep inflation within the target band, while continuing to strengthen the monetary policy framework. More importantly, these policies should go in tandem with reforms to attract private investment and develop a competitive and export-oriented non-oil sector.

Current Account

Background. The CA surplus stood at 5.4 percent of GDP in the first nine months of 2025, lower than the 6.3 percent recorded in 2024 and significantly below earlier years. Reserves continued to accumulate during the same period. Owing to lower oil and gas prices and a significant decline in hydrocarbon production, the dollar value of oil exports showed a 7.2 percent decline in the first three quarters of 2025 compared to the same period last year. Meanwhile, nonoil imports moderated, growing at 3.9 percent in the first three quarters of 2025, after experiencing high growth in the last two years. The CA surplus for 2025 is projected at 5.4 percent of GDP. The CA surplus is projected to increase to about 10 percent of GDP in 2026 on the back of higher oil and gas prices and to gradually decline in the medium term in tandem with the expected decline in oil export volumes and prices. Rising demand for gas in Europe could generate additional business opportunities, but this will require significant capital investments.

Assessment. Overall, staff assesses the external position to be substantially weaker than the level consistent with medium-term fundamentals and desirable policies. This assessment is based on the External Balance Assessment (EBA)-lite commodity module's consumption model, based on the permanent income hypothesis (PIH), given its relevance. Specifically, staff assesses the CA gap to be negative and around 6.1 percent of GDP, based on the constant real annuity estimated by the EBA-Lite commodity approach. The results are highly sensitive to the assumed oil price.

Figure II.1. Azerbaijan: Real Effective Exchange Rates and Contributions to Current Account 1/



Sources: National authorities, IMF World Economic Outlook, and IMF staff calculations.
1/ Forecast for 2025.

- The EBA-Lite commodity approach[1] is preferable for assessing the CA position in Azerbaijan because it is based on PIH and reflects the fundamental goal of achieving intergenerational equity in a country with nonrenewable resources. Assuming the annuity is constant in real terms, the CA norm is estimated at 11.9 percent of GDP in 2025, implying a CA gap of -6.1 percent of GDP.[2] The gap is expected to remain negative over the medium term at 4.4 percent of GDP, implying that Azerbaijan's declining CA surplus could remain below the level needed to preserve intergenerational equity and further efforts to build additional buffers will likely be required.

- The current account model, which estimates an equilibrium level of the CA consistent with the gamut of structural and policy factors in the IMF's multilaterally consistent EBA-Lite framework, suggests that the CA was stronger than implied by fundamentals and desirable policies in 2025. The CA norm is estimated at 2.6 percent of GDP, implying a favorable gap of 3.3 percent of GDP, after adjusting for the remaining cyclical effects and other exogenous factors.

Table II.1. Azerbaijan: Model Estimates for 2025
(In percent of GDP)

Azerbaijan: EBA-lite Model Results, 2025			
	CA model 1/	REER model 1/	Consumption Model
		(in percent of GDP)	
CA-Actual	5.4		5.4
Cyclical contributions (from model) (-)	-0.2		-0.2
Natural disasters and conflicts (-)	-0.3		-0.3
Adjusted CA	5.9		5.9
CA Norm (from model) 2/	2.6		11.9
Adjustments to the norm (+)	0.0		0.0
Adjusted CA Norm	2.6		11.9
CA Gap	3.3	-2.3	-6.1
o/w Relative policy gap	2.8		
Elasticity	-0.3		
REER Gap (in percent)	-10.7	7.7	19.9

1/ Based on the EBA-lite 3.0 methodology
2/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

Background. The manat depreciated in real terms in 2025. It has been de facto pegged to the dollar at a rate of 1.7 since April 2017. The real effective exchange rate (REER) was 1.7 percent weaker than 2023, at the end of 2024. Since then, it depreciated further by 3 percent by end of 2025.

Assessment. The current account and REER models suggest a REER gap in a wide range of -10.7 to 7.7 percent. The EBA-lite commodity model—the preferred approach—points to a positive REER gap, in line with the negative CA gap implied by a constant real annuity.

Capital and Financial Accounts: Flows and Policy Measures

Background. Azerbaijan has been a net supplier of capital. The capital and financial accounts recorded net cumulative outflows in 2024 and in the first nine months of 2025, reflecting the CA surplus.

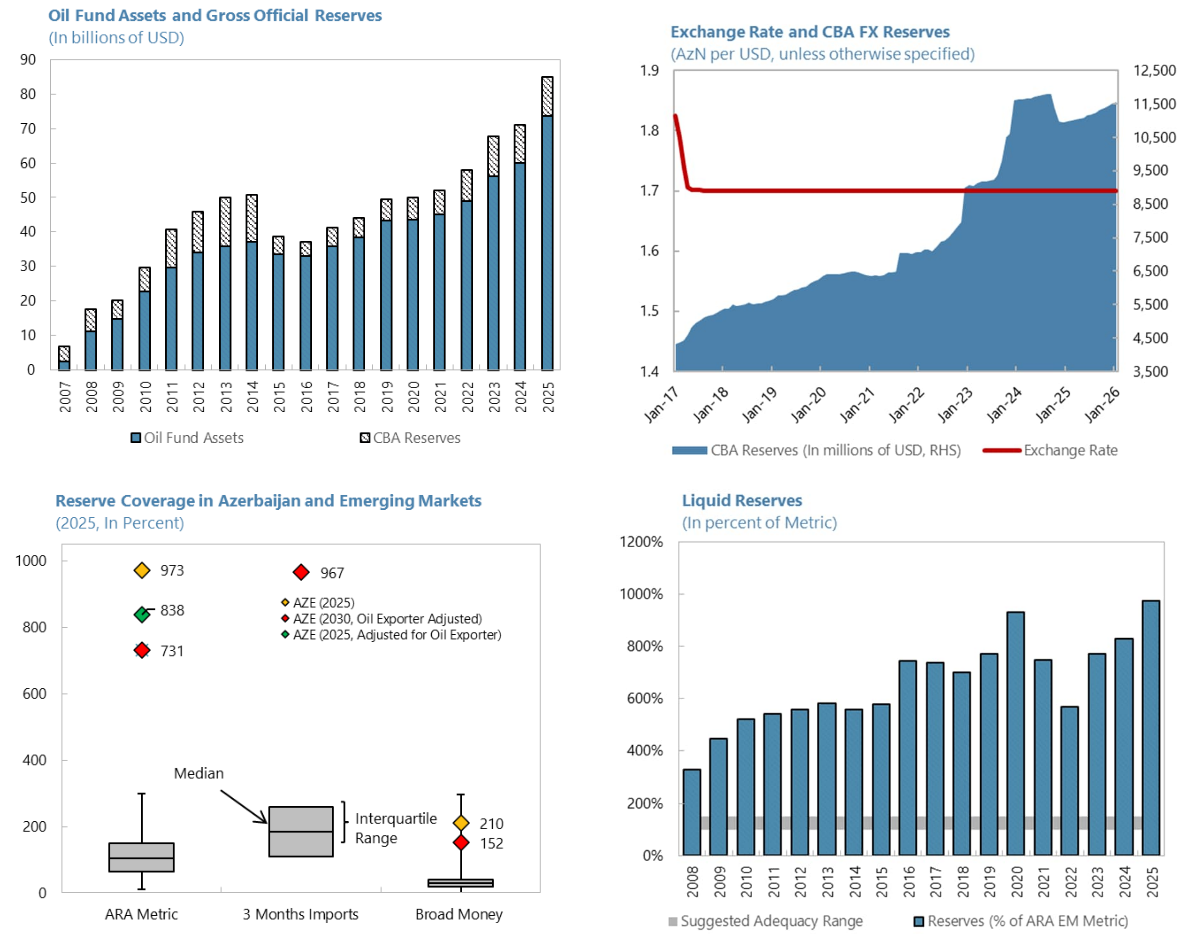
Assessment. Azerbaijan's capital and financial accounts are generally open but domestic financial markets are underdeveloped compared to those in regional and global peers. Capital inflows are dominated by FDI, mostly related to the oil sector, and portfolio inflows, while outflows include trade credits, bank outflows, and outward FDI, mainly by the national oil company.

FX Intervention and Reserves Level

Background. With the CA surplus, the CBA's gross international reserves increased further, reaching $11.5 billion (15 percent of GDP, 7 months of next year's imports) by end of 2025. The CBA's reserves are complemented by the liquid part of foreign assets held by the State Oil Fund (SOFAZ). This liquid part, mostly fixed income instruments and gold, represents about 68 percent of the $73.5 billion in assets (97 percent of GDP) by end of 2025. Together, CBA and SOFAZ liquid assets cover over 38 months of next year's non-oil imports and exceed 970 percent of the IMF's reserve adequacy metric.[3]

Assessment. The external reserve coverage remains more than adequate. Azerbaijan scores much better than most EMs on all criteria of the IMF's Assessing Reserve Adequacy (ARA) metric, which combines information on exports, broad money and other investment liabilities (yellow diamonds lower left chart). This is the case even after adjusting the ARA metric for the country's heavy reliance on oil exports (green diamond in same chart). Reserve coverage scores are projected to remain strong into 2030, given expected CA balances, rising reserves, and limited increases in external debt (red diamonds).

Figure II.2. Azerbaijan: Exchange Rates and Reserve Adequacy 1/



Sources: National authorities, Haver, IMF FAD Reserve Adequacy Tool, and IMF staff calculations.
1/ Forecast for 2025.
Notes: The data for EM refers to a sample of 47 emerging markets.

Foreign Assets and Liabilities: Position and Trajectory

Background: Azerbaijan does not yet produce an international investment position (IIP). However, the foreign asset position would be largely dominated by SOFAZ assets, which reached about $73.5 billion in 2025 (including valuation gains). With fiscal consolidation expected to continue and oil prices projected to be higher than in 2025, these assets are expected to stay above $75 billion in the medium term. On foreign liabilities, general government sector debt amounted to about $5 billion as of end-2025. The recent Financial Sector Assessment Program furthermore noted that foreign liabilities of the banking sector are not large. BOP flows to other sectors also do not point to a significant build up in foreign liabilities. This is not expected to change significantly under the baseline scenario.

[1] Bems, R., and I. de Carvalho Filho, 2009, "Exchange Rate Assessments: Methodologies for Oil-Exporting Countries," IMF Working Paper 09/281.

[2] The estimated norm is sensitive to the choice of model parameters, such as the GDP growth rate, interest rate, and population growth rate, as well as the underlying oil prices.

[3] The reserve adequacy metric is calculated based on the 2025 baseline projection of SOFAZ assets which does not include large valuation gains.

Annex III. Summary of Sovereign Risk and Debt Sustainability Assessment

Table III.1. Azerbaijan: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	Low	The overall risk of sovereign stress is low, reflecting a low level of vulnerability in the near and medium term, and moderate level of vulnerability in the long term.
Near term 1/			
Medium term	Low	Low	Medium-term risks are assessed as low as overall deficit and borrowing needs are projected to remain moderate, with projected high though moderately declining oil price and increasing production of natural gas mitigating the impact of declining oil production and oil revenues. The risk of sovereign debt distress is also mitigated by large SOFAZ assets which are about five times higher than public debt. Around 70 percent of SOFAZ assets are in liquid fixed income instruments or gold, which, with a presidential decree, are legally available to the government.
Fanchart	Moderate	Moderate	
GFN	Low		
Stress test	...	...	
Long term	...	Moderate	Long-term risks are assessed as moderate. The decline in hydrocarbon revenues is projected to increase the deficit and public debt gradually and moderately, while increased reliance on domestic rather than external borrowing results in shorter debt maturity and higher amortization. However, already high public sector financial assets are projected to increase further, while domestic securitites market development should allow maturity extension.
Sustainability assessment 2/			Not required for surveillance-only countries.
Debt stabilization in the baseline			No

DSA Summary Assessment

Commentary: Azerbaijan is at a low overall risk of sovereign stress. Azerbaijan's public debt is expected to increase only slowly in the baseline, and it remains relatively low as a percent of GDP and relative to sovereign fund assets. Government-guaranteed debt is around 8 percent of GDP but majority of it are fixed-rate loans, and loans from IFIs account for around 1/3. However, with hydrocarbon production and government hydrocarbon revenues projected to gradually decline in the medium- and long term, in the absence of fiscal adjustment, fiscal balance is projected to gradually weaken, and borrowing requirements and public debt to gradually increase. Still, medium-term liquidity risks as analyzed by the GFN Financeability Module are low. Mechanical signal shows moderate fanchart risk, reflecting past elevated volatility of debt drivers. With an improved macro framework, less procyclical fiscal policy and large asset buffers, staff also assesses this risk as moderate. Over the longer run, Azerbaijan should implement reforms to diversify its economy, reduce reliance on the hydrocarbon revenues and boost nonoil revenues. The authorities acknowledge the need to undertake this adjustment and are planning measures to diversify the economy, reducing the probability that this risk would materialize. Thus, staff assesses the long-term risks as moderate.

Source: Fund Staff.
Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.
1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.
2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Figure III.1. Azerbaijan: Debt Coverage and Disclosures

	CG	GG	NFPS	CPS	Other	Comments
1. Debt coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					n.a.	

2. Subsectors included in the chosen coverage in (1) above:

	Subsectors captured in the baseline	Inclusion	Comments
1	Budgetary central government	Yes	
2	Extra budgetary funds (EBFs)	No	Not applicable
3	Social security funds (SSFs)	Yes	
4	State governments	No	Not applicable
5	Local governments	No	Not significant
6	Public nonfinancial corporations	No	
7	Central bank	No	
8	Other public financial corporations	Yes	

(CG: rows 1–3; GG: expected: rows 1–5; NFPS: rows 1–6; CPS: rows 1–8)

3. Instrument coverage:

Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/
chosen coverage	chosen coverage	chosen coverage	Missing from recommended coverage	Missing from recommended coverage

4. Accounting principles:

Basis of recording		Valuation of debt stock		
Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/

(Chosen: Cash basis; Nominal value 5/)

5. Debt consolidation across sectors:

Consolidated	Non-consolidated
	chosen coverage

Color code: chosen coverage; Missing from recommended coverage; Not applicable

Reporting on Intra-Government Debt Holdings

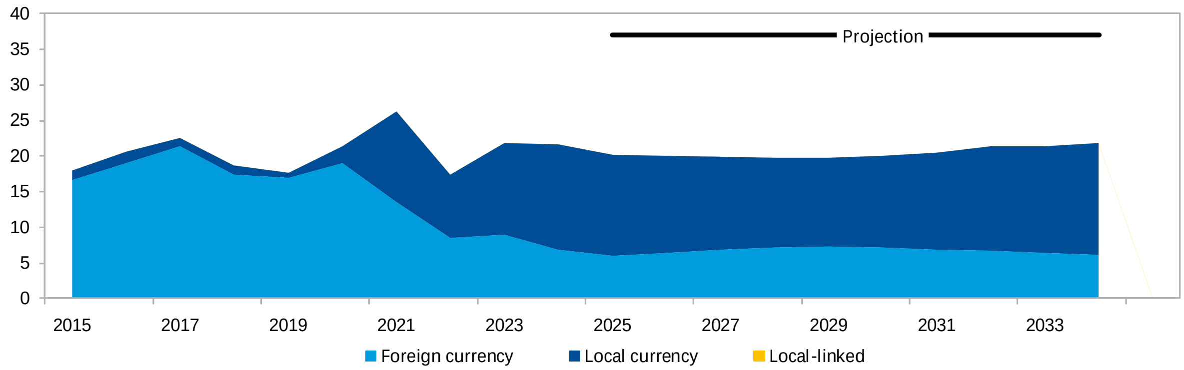
	Issuer \ Holder	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
1	Budget. central govt									0
2	Extra-budget. funds									0
3	Social security funds									0
4	State govt.									0
5	Local govt.									0
6	Nonfin pub. corp.									0
7	Central bank									0
8	Oth. pub. fin. corp									0
	Total	0	0	0	0	0	0	0	0	0

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Commentary: Debt coverage includes the general government. Debt guaranteed by the government is not included, except for, starting in 2021, the guarantees issued to Aqrakredit for its acquisition of distressed assets from the state-owned bank IBA. Guaranteed debt not captured amounted to 8.0% of GDP as of end-2025. Azerbaijan is a unitary state. Other than the Nakhichevan Autonomous Republic (added to the budgetary CG), there are no independent states and no debt issued by local governments.

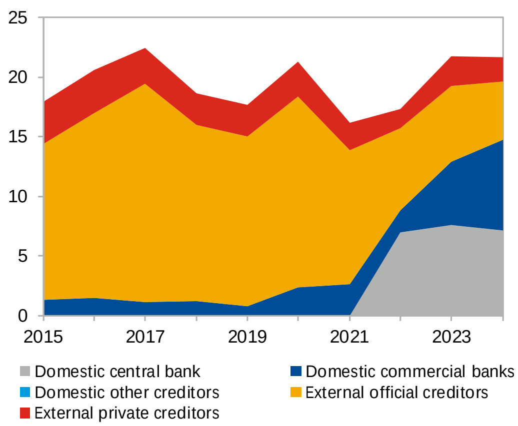
Figure III.2. Azerbaijan: Public Debt Structure Indicators

Debt by Currency (In percent of GDP)



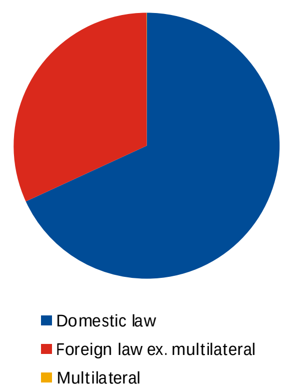
Note: The perimeter shown is general government.

Public Debt by Holder (In percent of GDP)



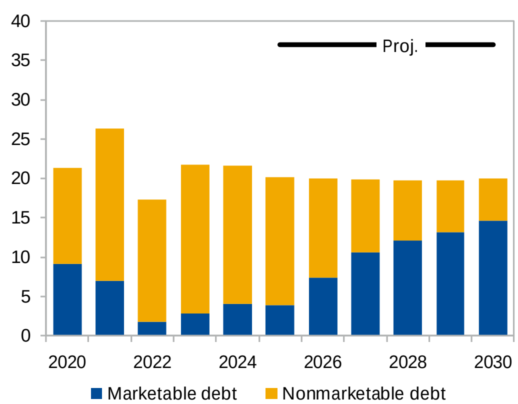
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2024 (In percent)

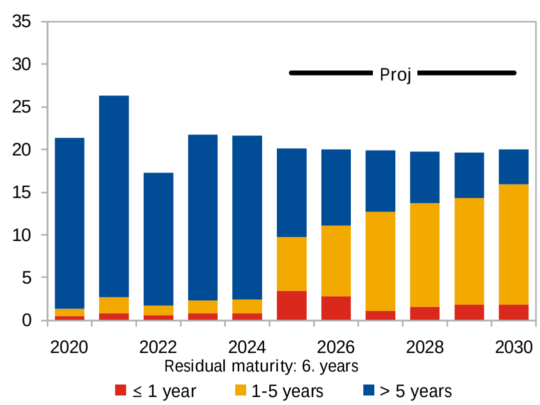


Note: The perimeter shown is general government.

Debt by Instruments (In percent of GDP)



Public Debt by Maturity (In percent of GDP)



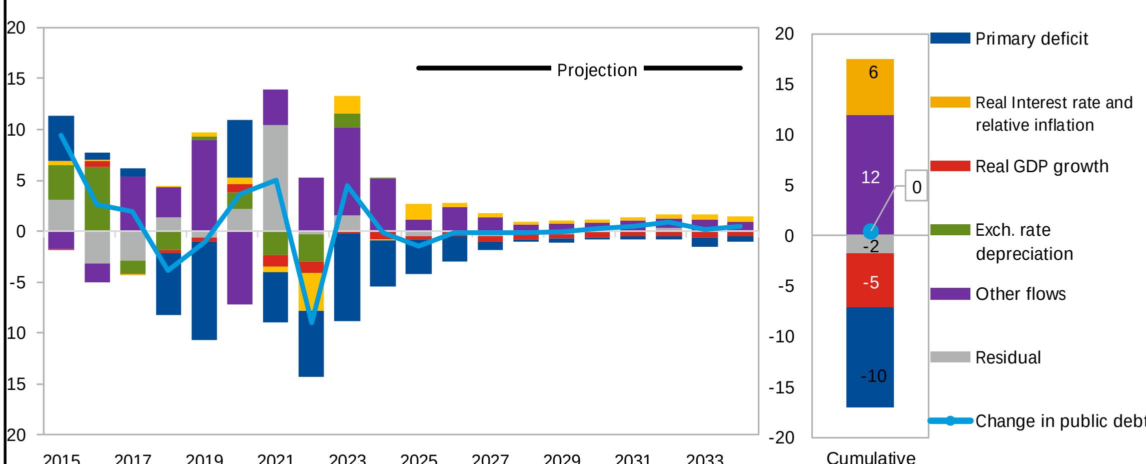
Commentary: The projected declining share of external debt reflects the authorities' plan to reduce the dependence on external borrowing. Increased central bank share in 2021 reflects the recognition of guarantee to Aqrarkredit, a government-controlled credit agency, on the bond it issued to acquire bad assets from the IBA during the 2015-16 crisis.

Table III.2. Azerbaijan: Baseline Scenario

(Percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection			
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Public debt	21.6	20.1	20.0	19.9	19.8	19.7	20.0	20.5	21.3	21.4	21.9
Change in public debt	-0.2	-1.5	-0.2	-0.1	-0.1	-0.1	0.3	0.5	0.9	0.1	0.4
Contribution of identified flows	-0.3	-1.0	-0.1	0.4	0.2	0.2	0.4	0.5	0.6	0.2	0.3
Primary deficit	-4.5	-3.3	-2.5	-0.9	-0.2	-0.3	-0.2	-0.4	-0.3	-0.9	-0.5
Noninterest revenues	37.9	37.1	38.8	36.6	35.0	34.3	33.7	33.2	32.8	32.2	31.7
Noninterest expenditures	33.4	33.8	36.3	35.7	34.8	34.0	33.4	32.9	32.5	31.3	31.1
Automatic debt dynamics	-0.8	1.2	0.0	-0.1	-0.2	-0.2	-0.2	-0.1	-0.1	0.0	0.0
Real interest rate and relative inflation	-0.1	1.5	0.4	0.4	0.3	0.3	0.3	0.4	0.5	0.5	0.5
Real interest rate	-0.1	1.5	0.4	0.4	0.3	0.3	0.3	0.4	0.5	0.5	0.5
Relative inflation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real growth rate	-0.9	-0.3	-0.4	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5
Real exchange rate	0.2	…	…	…	…	…	…	…	…	…	…
Other identified flows	5.0	1.2	2.4	1.4	0.6	0.8	0.8	1.0	1.0	1.1	0.9
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions 1/	5.0	1.2	2.4	1.4	0.6	0.8	0.8	1.0	1.0	1.1	0.9
Contribution of residual	0.1	-0.5	-0.1	-0.5	-0.3	-0.3	-0.1	0.0	0.3	0.0	0.1
Gross financing needs	-3.6	-1.5	1.5	3.5	3.9	4.6	5.3	5.7	6.7	6.4	7.1
of which: debt service	0.9	1.8	4.0	4.4	4.1	4.9	5.5	6.1	7.0	7.3	7.6
Local currency	0.2	0.8	3.1	3.2	2.6	3.1	3.3	3.6	4.4	5.0	5.3
Foreign currency	0.7	1.0	0.9	1.2	1.5	1.8	2.2	2.5	2.6	2.3	2.3
Memo:											
Real GDP growth (percent)	4.2	1.4	2.2	2.5	2.5	2.5	2.5	2.5	2.7	2.6	2.6
Inflation (GDP deflator; percent)	0.5	-3.1	1.5	1.7	2.7	2.9	2.8	2.8	2.4	2.3	2.3
Nominal GDP growth (percent)	2.8	2.0	3.2	6.0	6.2	6.3	6.3	6.3	5.5	6.2	6.3
Effective interest rate (percent)	0.0	3.7	3.5	3.8	4.1	4.3	4.4	4.6	4.7	4.8	4.9

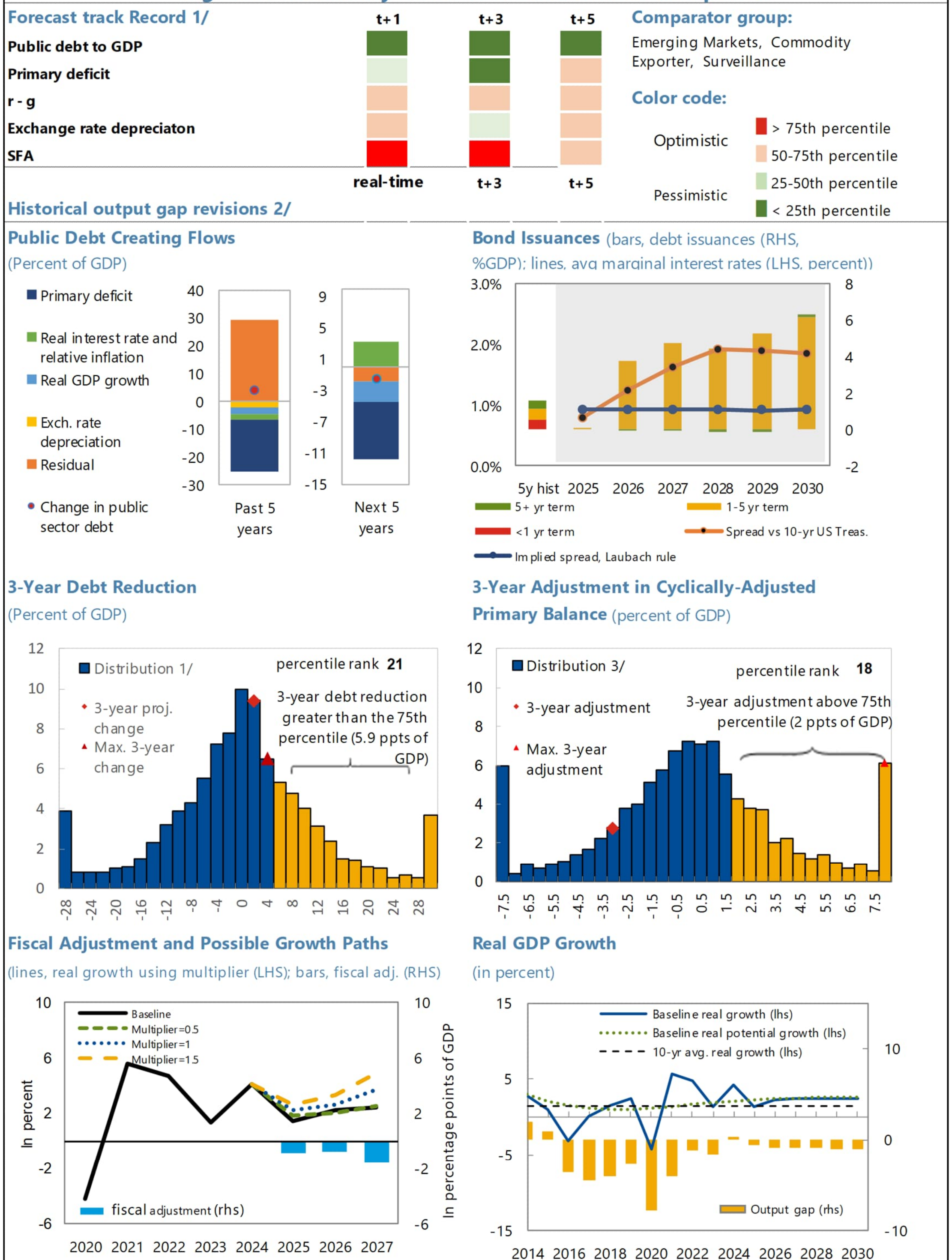
Contribution to Change in Public Debt
(In percent of GDP)



Staff commentary: Public debt is projected to increase very gradually, reflecting a) higher borrowing costs from a gradual substitution of external borrowing with (more expensive) domestic borrowing, b) relatively modest growth prospects, and c) medium-term fiscal consolidation combined with an assumption that part of the oil revenues will be saved, boosting SOFAZ assets but translating into a small primary deficit.

1/ Includes accumulation of SOFAZ assets.

Figure III.3. Azerbaijan: Realism of Baseline Assumptions



Commentary: Following stronger growth in 2024 driven by high oil prices and by delayed impact of public investment, growth slowed in 2025 driven by low oil production and muted investment. Growth is projected to remain modest amid declining oil production and fiscal tightening. Realism analysis does not point to major concerns: past forecast errors do not reveal any systematic biases and the projected fiscal adjustment and debt reduction are well within the norms.

Source : IMF Staff.

1/ Projections made in the October and April WEO vintage.

2/ Data cover annual observations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

3/ Starting point reflects the team's assessment of the initial overvaluation from EBA (or EBA-Lite).

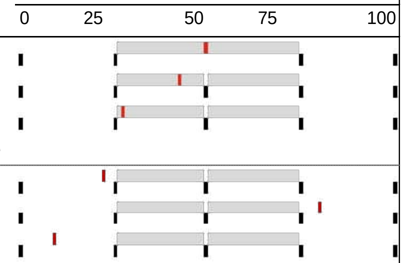
Figure III.4. Azerbaijan: Medium-term Risk Analysis

Debt Fanchart and GFN Financeability Indexes

(In percent of GDP unless otherwise indicated)

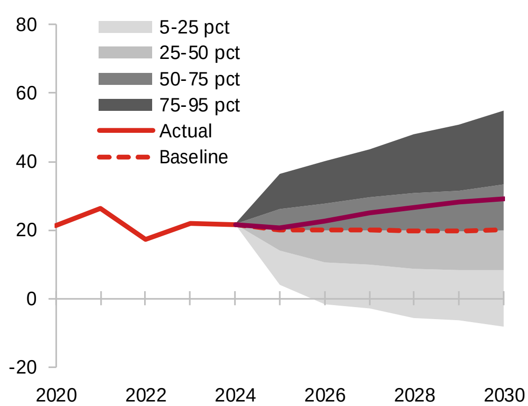
Module	Indicator	Value	Risk index	Risk signal
Debt fanchart module	Fanchart width	62.9	0.9	...
	Probability of debt not stabilizing (pct)	28.3	0.2	...
	Terminal debt level x institutions index	12.3	0.3	...
	Debt fanchart index	...	1.4	Moderate
GFN finance-ability module	Average GFN in baseline	2.9	1.0	...
	Bank claims on government (pct bank assets)	9.1	2.9	...
	Chg. in claims on govt. in stress (pct bank assets)	1.3	0.4	...
	GFN financeability index	...	4.4	Low

Percentile in peer group 1/

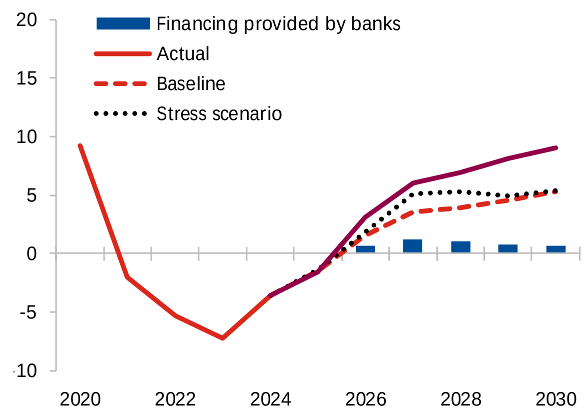


Legend: Interquartile range Azerbaijan

Final Fanchart (In percent of GDP)



Gross Financing Needs (In percent of GDP)

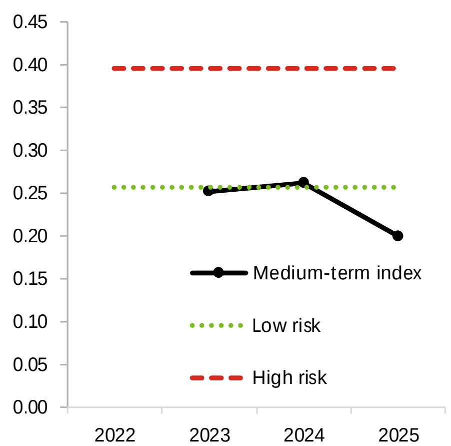


Triggered stress tests (stress tests not activated in gray)

Banking crisis | Commodity prices | Exchange rate | Contingent liab. | Natural disaster

Medium-Term Index

(In index number)



Medium-Term Risk Analysis

	Low risk threshold	High risk threhsold	Weight in MTI	Normalized level
Debt fanchart index	1.1	2.1	0.5	0.3
GFN finaceability index	7.6	17.9	0.5	0.1
Medium-term index (MTI)	0.3	0.4	...	0.2, Low

Prob. of missed crisis, 2025-2030 (if stress not predicted): 9.1 pct.

Prob. of false alarm, 2025-2030 (if stress predicted): 54.5 pct.

Commentary: Of the two medium-term tools, the Debt Fanchart Module is pointing to a moderate level of risk, reflecting mainly past elevated macroeconomic volatility, while the GFN Financeability Module suggests a low level of risk. The commodity price stress test shows a moderate worsening of debt and GFN path relative to the baseline, which already includes the projected oil production decline. The risk of sovereign debt distress is also mitigated by large SOFAZ assets which are about five times higher than public debt. Around 70 percent of SOFAZ assets are in liquid fixed income instruments and gold, which, with a presidential decree, are legally available to the government.

1/ The comparison group is emerging markets, commodity exporter, surveillance

Figure III.5. Azerbaijan: Long-term Risk Analysis

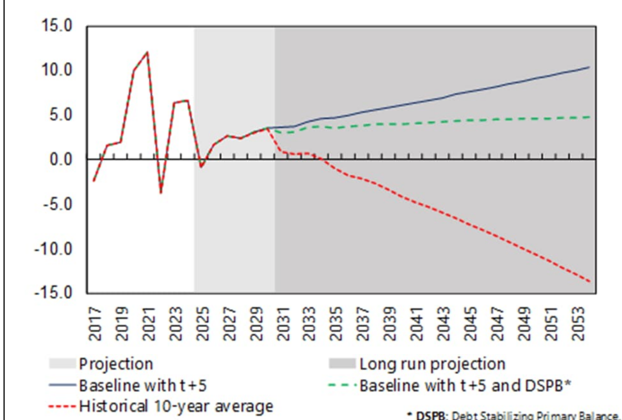
Large Amortization Trigger

Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Medium-term extrapolation with debt stabilizing	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Historical average assumptions	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	

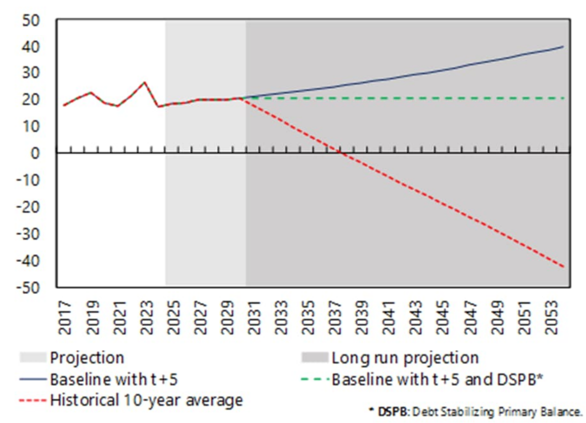
Overall Risk Indication	

Alternative Baseline Long-term Projections

GFN-to-GDP ratio



Total public debt-to-GDP ratio



Commentary: Amortization payments are projected to increase as a result of the gradual increase in borrowing and a shift from external to domestic borrowing. The historical 10-year average scenario underscores how Azerbaijan has benefited in the past from high oil revenues. Over the long-run, debt amortization will be steadily increasing as hydrocarbon production and related revenues decline, necessitating more borrowing in the absence of adjustment. Moreover, in line with the new Debt Management Strategy, the authorities aim to reduce external borrowing and rely more on domestic debt issuance which tends to have shorter maturities. However, the authorities understand the fiscal implications of declining oil revenues and are committed to implement spending and revenue measures to ensure fiscal sustainability. Also, with the development of domestic securities market, gradual lengthening of domestic debt maturitites is likely. Therefore, the long-term fiscal risks stemming from the decline in hydrocarbon production and switch from external to domestic borrowing are expected to remain manageable.

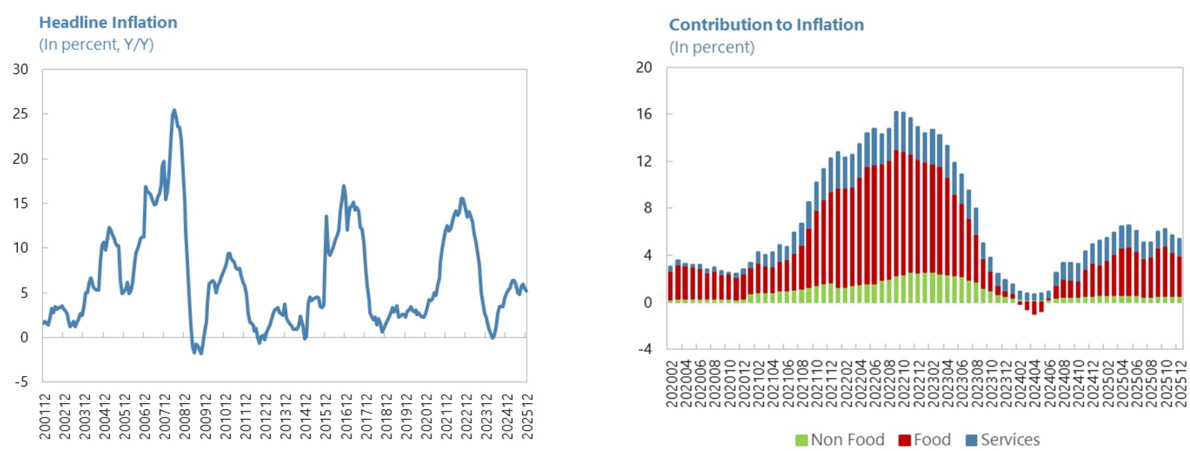
Annex IV. Drivers of Food Price Inflation in Azerbaijan[1]

A. Recent Inflation Developments

1. Consumer price inflation in Azerbaijan has been on an upward trend since mid-2024 (Figure IV.1). After falling to around zero percent year-on-year (yoy) in April 2024, the lowest level over the previous 10 years, headline inflation has risen considerably. It temporarily breached the upper bound of the CBA's inflation target band of 2.0 to 6.0 percent in April and May 2025 and has been hovering within the 4.9–6.0 percent range since.

2. The increase in headline inflation has been driven by food prices. Given their large share in the consumption basket (43.2 percent as of end-2024), food prices are the most important driver of headline inflation in Azerbaijan. Looking at recent years, food inflation increased from -1.8 percent in April 2024 to 8.2 percent in October 2025, before declining to 7.1 percent in January 2026. Services and non-food inflation picked up from mid-2024 lows, too. While non-food inflation remained relatively moderate, hovering around 2–3 percent yoy through 2025, services inflation rose considerably on the back of adjustments in regulated prices, reaching 8.4 percent in the beginning of 2025, before falling gradually throughout the year.

Figure IV.1. Azerbaijan: Recent Inflation Developments



Sources: Central Bank of Azerbaijan, The State Statistical Committee of Azerbaijan.

B. Drivers of Food Inflation

3. An econometric analysis reveals that food inflation in Azerbaijan is largely driven by external factors. Given the importance food inflation for overall price pressures in Azerbaijan, we conduct an econometric analysis of its drivers. Equation (1) presents the main specification:

$$\pi_t^f = \alpha\pi_{t-j}^f + \beta\mathbf{X}_{t-j} + \gamma\mathbf{Z}_{t-j} + \varepsilon_t, \quad (1)$$

[1] Prepared by Hoda Assem (MCD), Lucyna Gornicka (MCD), and Xiaoqiao Shen (MCD).

where π_t^f is yoy food inflation in month t, $\mathbf{X}_{t-j}$ is a vector of domestic variables, and $\mathbf{Z}_{t-j}$ is a vector containing external factors. The estimation is based on monthly data since 2001. The domestic and external factors include domestic producer price inflation and weather data (rainfall and temperature), inflation in the main trading partners from which Azerbaijan imports food (Russia, Turkey, China), global food price inflation, and the manat nominal effective exchange rate (NEER). We also control for the impact of manat devaluation on food inflation in 2016–17. Column (1) in Table AIV.1 shows the preferred specification.[2] It reveals that the main drivers of food inflation are movements in the NEER, inflation in Russia, changes in the global food prices, and extreme heat episodes. Across several alternative specifications, other domestic factors such as producer price inflation and rainfall conditions have turned out insignificant.

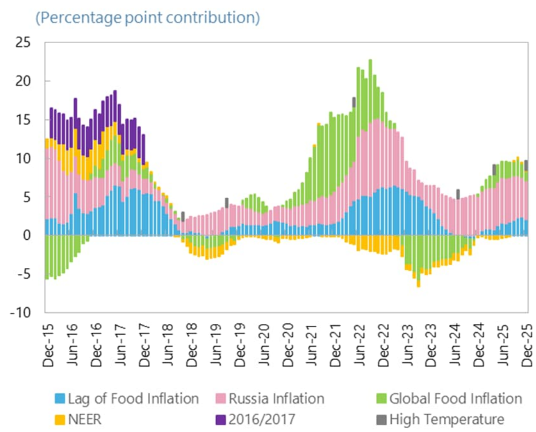
Table IV.1. Azerbaijan: Regression of Food Inflation 1/

	Food inflation				
VARIABLES	(1)	(2)	(3)	(4)	(5)
Food inflation (-3)	0.551***	0.552***	0.533***	0.533***	0.532***
Russia inflation (-3)	0.380***	0.375***	0.371***	0.376***	0.376***
Global food inflation (-3)	0.186***	0.186***	0.184***	0.184***	0.185***
NEER change (-1)	-0.0646***	-0.0637***	-0.0629**	-0.0632**	-0.0631**
2016/2017 dummy	3.840***	3.751***	4.040***	4.148***	4.162***
PPI inflation (-3)			0.00470	0.00425	0.00416
High temperature dummy (-3)	1.174*			1.194*	1.222*
Low rain dummy (-3)					-0.111
Constant	-0.446	-0.317	-0.420	-0.550	-0.542
Observations	239	239	225	225	225
R-squared	0.885	0.883	0.894	0.896	0.896

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

1/ Dependent variable is yoy food inflation, sample is monthly, between January 2006–December 2025. Variables in changes refer to yoy rates. The high temperature dummy is one for months with average temperature ranks 10% of the month-specific distribution.

Figure IV.2. Azerbaijan: Food Inflation Decomposition



Sources: The State Statistical Committee of Azerbaijan, Haver Analytics, IMF staff calculations.

4. Inflation in Russia has been the dominant external driver of the most recent food inflation surge in Azerbaijan (Figure IV.2). Russia is the biggest trading partner of Azerbaijan in terms of imports and food imports. While it accounts for 18 percent of the overall Azerbaijani imports, its share in food imports is 34 percent, increasing to 44 percent for vegetable imports as of 2023. The considerable import dependency translates into a strong impact of inflation developments in Russia on food prices in Azerbaijan. Looking at the food inflation spike in 2025, around 2/3 of it is attributable to inflation developments in Russia over the previous 6 months.

5. Global food prices and the effective exchange rate are two other relevant factors. Global food prices are extremely sensitive to worldwide supply shocks (e.g. weather or commodity-price-related). Global food inflation was the main factor pushing food prices up in Azerbaijan in 2021–22, while its contribution was negative in 2023–24. Although global food inflation started picking up again in late 2024, it remains moderate, contributing to food inflation in Azerbaijan in 2025 only to a small degree. Developments of the NEER matter for food inflation, since depreciation of the manat increases

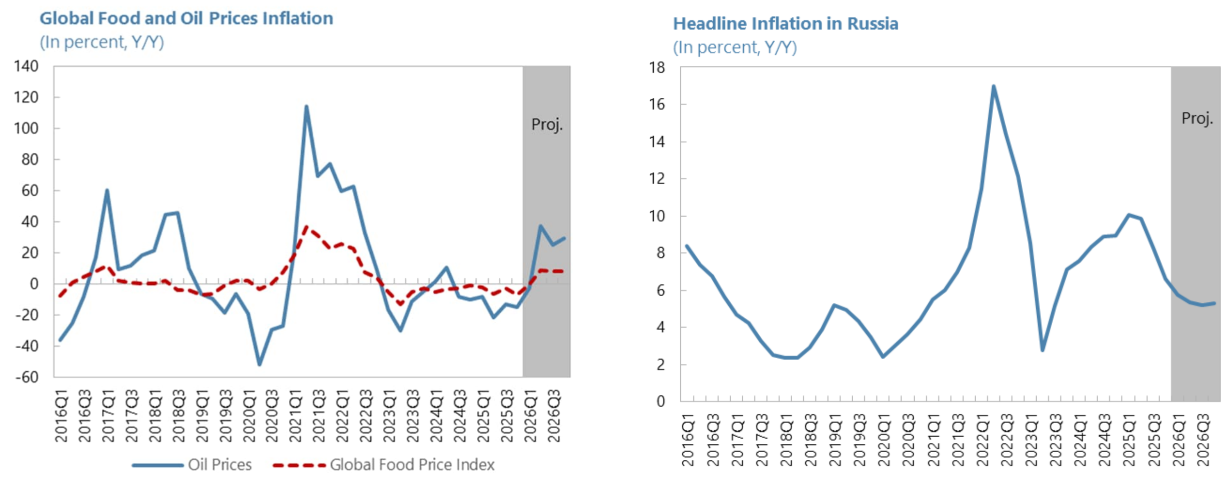
[2] The preferred specification was based on the information criteria and the significance of the individual independent variables.

the cost of food imports. Even when controlling for the large depreciations of 2016 and 2017, the NEER remains a statistically significant determinant of domestic food prices, and changes in the NEER impact domestic prices relatively quickly.

C. Outlook for Food Inflation

6. Based on the current projections, Azerbaijan's food inflation is likely to face volatility with an upward pressure over the coming year due to the external pressures. Global food prices are forecasted to rise by 8 percent in 2026, driven by a spike in global oil prices amid the current war in the Middle East. Meanwhile, Russia inflation is projected to stabilize at around 5.6 percent in 2026 (Figure AIV.3). Combined, external factors are likely to exert a renewed pressure on food inflation in Azerbaijan over the next year. However, this outlook is subject to considerable volatility as heightened geopolitical tensions and intensification of the war may further disrupt commodity flows.

Figure IV.3. Azerbaijan: Outlook for External Drivers of Food Inflation



Sources: IMF World Economic Outlook Database.

Annex V. Risk Assessment Matrix[1]

Risk	Likelihood	Possible Impact	Policy Advice
External Risks and Spillovers			
Geopolitical Tensions and Intensification of Conflicts. Rising geopolitical tensions, and a weakening of multilateralism, raise the risk of an escalation in military conflicts, accompanied by damage to key physical and financial infrastructure, disruptions in major transit routes and supply chains, higher migration pressures, additional financial frictions and market volatility.	High	High. As a large oil and gas exporter, Azerbaijan would benefit from higher oil and gas prices following intensification of geopolitical conflicts, such us the current war in the Middle East. Higher hydrocarbon prices would raise government revenues and contribute to stronger balance of payments. However, the food imports bill would rise. A reversal in foreign investment, tourism and trade dynamics would have a negative impact on the diversification efforts and threaten the fiscal consolidation strategy.	Maintain a prudent fiscal policy and avoid procyclical budget spending. Save most of the oil revenue windfall. Use part of the additional revenues to provide temporary support to the most vulnerable. Continue efforts to diversify the economy.
Commodity price volatility. Supply and demand imbalances—triggered by geopolitical tensions, coordinated production decisions, shifts in investor preferences, or structural changes in demand—fuel commodity price swings, amplifying external and fiscal pressures, social unrest, and macro instability.	High	High. Rising food prices would lead to higher inflation and budgetary spending would increase to protect the vulnerable. Given large dependence on revenue from hydrocarbon production, volatility of oil and gas prices would have a significant impact on the balance of payments, budget, and economic activity. It could also adversely affect bank asset quality, profitability, and financial stability.	Follow a prudent fiscal policy to avoid adding to inflationary pressures. Use fiscal space for emergency spending. Enhance banks' resilience by continuing efforts to align capital and liquidity requirements with Basel III. Pursue structural reforms to reduce the economy's dependence on hydrocarbons.
Trade-related Risks: Protectionism and Trade Disruptions. Tariff and nontariff measures disrupt global supply chains, weighing on activity while increasing inflation. Trade diversion triggers broader protectionism.	High	Medium. Prospects for economic diversification could be affected.	Accelerate structural reforms and promote private sector development to support the nonhydrocarbon sector.
Trade-related Risks: New trade agreements. Tangible progress in trade talks reduces uncertainty and trade barriers. Wider cooperation on services, FDI, and taxation boosts investment and bolsters public finances.	Low	High. Reconfiguration of global trade could provide opportunities, particularly if trade routes are diverted towards Azerbaijan (e.g., higher demand for gas from the EU, development of a China-EU trade route through the region).	Accelerate structural reforms and promote private sector development to take advantage of opportunities. Enhance integration with the world economy, including through WTO accession.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

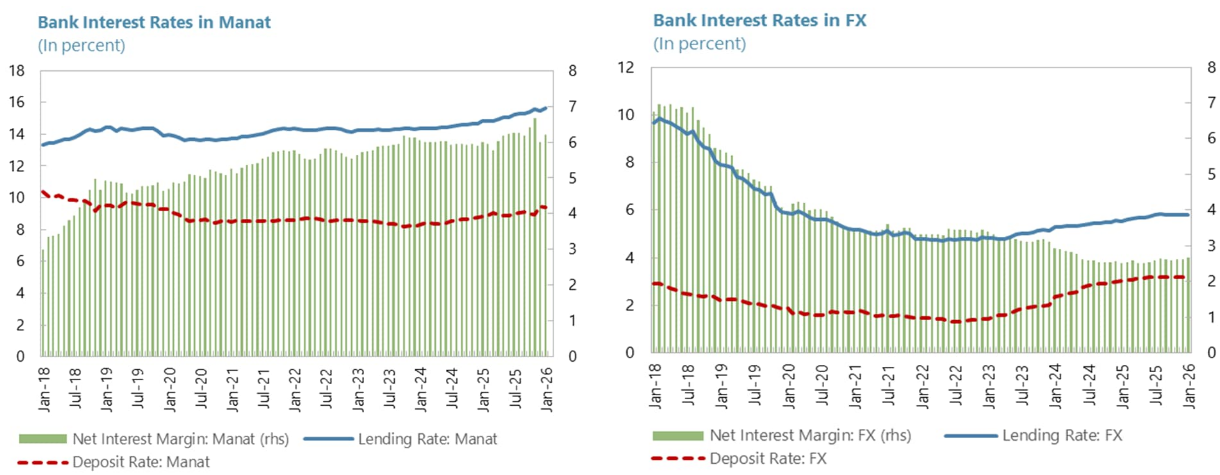
Risk	Likelihood	Possible Impact	Policy Advice
Climate change. Extreme climate events and rising temperatures could cause loss of life, damage to infrastructure, food insecurity, supply disruptions, and heighten economic and financial instability.	Medium	Medium. Severe drought could affect agricultural output and increase food prices.	Use fiscal space to temporarily support the most vulnerable. Build resilient infrastructure and accelerate efforts to promote a more sustainable and green economy.
Domestic Risks			
Loss of spending discipline, leading to a procyclical fiscal policy. Higher oil and gas prices boost budget revenues, leading to increased spending pressures.	Medium	Medium. Pressure to increase spending, instead of saving the oil windfall revenues, could lead to a procyclical fiscal policy, increase inflation, and delay fiscal consolidation, weakening the long-term fiscal position and fiscal rule credibility.	Gradually and steadily reduce the nonoil primary deficit by maintaining spending discipline, saving most of the oil windfall revenues, and increasing nonoil budget revenues.
Slow progress in diversification of the economy. Lack of progress in private sector development, including through SOE reforms, would pose a risk to the diversification and to the fiscal consolidation strategy, slowing foreign investment and growth potential.	Medium	Medium. Failure to strengthen SOEs increases the likelihood that state support will be needed, increasing government debt. Weak SOE performance could also adversely affect banks. Lack of progress in diversifying the economy would hamper potential growth and—over the longer-term—impede the fiscal consolidation strategy as hydrocarbon production and revenues decline.	Implement comprehensive reforms to improve the corporate governance and efficiency of SOEs. Divest SOEs that are not strategically important and could operate on a commercial basis. Reduce the presence of the state in the economy and support private sector development, including by deepening financial markets.

Annex VI. Recent Developments in Bank Interest Rates: Drivers and Implications for Monetary Policy[1]

A. Recent Developments in Bank Interest Rates

1. Since the second half of 2023, the dynamics of interest rates on bank loans and deposits in Azerbaijan have diverged from developments in the CBA's policy rate. While the policy rate declined by 225 bp between September 2023 and January 2026, the average interest rates on the outstanding stock of bank loans and deposits rose during the same period by over 130bp and 100bp in manat, and by around 70bp and 120 bp in FX, suggesting that other factors may be driving financing conditions in the banking sector (Figure AVI.1). Banks' average net interest margin[2] (NIM) in manat has also risen within the same period, from 6.0 percent to 6.2 percent, continuing a trend that started even earlier. Meanwhile the NIM in FX *declined* from 3.1 percent to 2.7 percent.

Figure VI.1. Azerbaijan: Average Interest Rates on Outstanding Bank Deposits and Loans



Source: Central Bank of Azerbaijan.

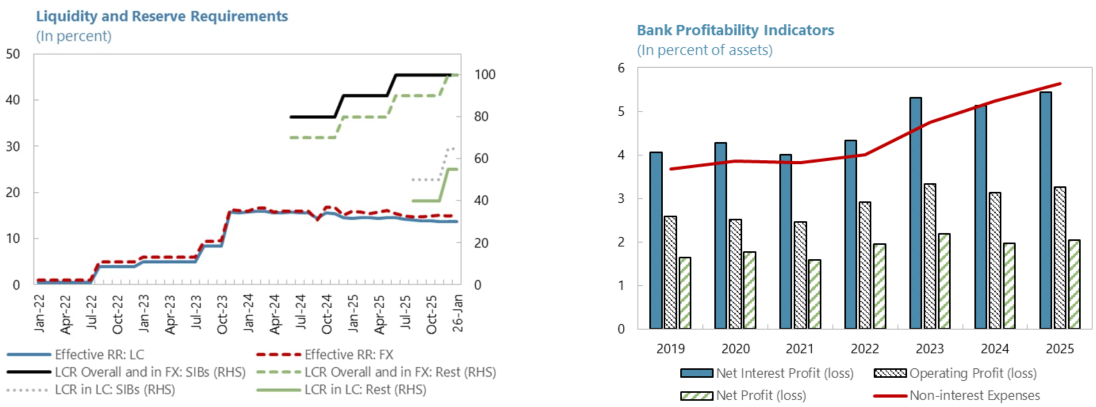
2. During the same period, the CBA tightened prudential regulations to strengthen financial stability and to increase the resilience of the banking sector. First, the effective reserve requirements increased from around 5 and 6 percent (for manat and FX deposits respectively) in July 2023 to around 14 and 15 percent currently (Figure AVI.2). Second, the Liquidity Coverage Ratio (LCR) requirement was introduced separately by currency and on a consolidated basis, and finally the Basel III capital requirements have been gradually introduced since 2024. While these regulatory changes have been introduced to absorb liquidity, support stability of money market rates, and enhance financial stability, they could have also incentivized banks to raise their NIMs to cover the regulatory costs and protect their profitability, contributing to an upward pressure on both deposit and loan

[1] Prepared by Shafiq Ghawi (LEG) and Lucyna Gornicka (MCD).

[2] Net interest margin is defined as the difference between the average interest rate on outstanding bank loans and the average interest rate on outstanding bank deposits.

interest rates.[3] Overall, recent interest rate developments raise two key questions: To what extent do changes in financial regulations explain the observed rise in bank loan and deposit interest rates and, more broadly, is the monetary policy passthrough to domestic financing conditions operating as intended?

Figure VI.2. Azerbaijan: Financial Regulations and Bank Profitability Indicators



Source: Central Bank of Azerbaijan.

B. Interest Rate Changes and Bank Performance

3. To recover the costs associated with implementing the new regulations and protect their profitability, banks may widen the spreads between loan and deposit interest rates. After an increase in unremunerated reserve requirements, banks may increase the spread between the interest rates on loans and the interest rates on deposits to compensate for the higher cost of funds. Otherwise, banks' profit margins will be negatively impacted.[4] Similarly, an increase in liquidity requirements may increase banks' cost of funds and drive up interest rates on loans or reduce profits, depending on the bank's market power and the competition in the market.[5]

4. Despite concerns regarding the impact of new financial regulations, profitability of Azerbaijani banks has improved in recent years. The banking sector's annual net profit in 2023–25 was higher than in 2022 and in earlier years (Figure AVIII.2), supported by low non-performing loan ratios and—until earlier this year—by robust loan growth. The continuous upward trend in profitability in recent years suggests that the new regulations might not have been as binding for banks as feared and that other factors have been more important for profit developments. Importantly, this sustained profitability cannot be attributed to efficiency gains, given the worsening operating efficiency of

[3] In addition, changes to the CBA's liquidity management framework introduced in 2022 have contributed to a decline in the excess liquidity in the interbank market. They have also helped to improve the transmission of the policy rate to the interbank rate—see the Azerbaijan 2025 AIV Staff Report.

[4] See e.g. IMF (2004). See Annex V: "Banking Sector Interest Rate Spread Analysis" in the Azerbaijan 2023 AIV Staff Report for a decomposition of the bank interest rate spread in Azerbaijan.

[5] Banks could also adjust their balance sheets to reduce the impact of the new regulations, for example by rolling over wholesale funding prior to maturity or by attracting deposits with lower reserve requirements and with low run-off rates for the LCR.

Azerbaijani banks. For example, the ratio of non-interest expenses to total assets has deteriorated in each year since 2022.

5. Although the tightening of financial regulations affected bank activities in both manat and FX, interest spreads in manat and in FX have seen divergent dynamics. The manat NIM (a proxy for the interest rate spread) has been on an upward trend since 2018, and in 2025 it reached the highest level 15 years. On the contrary, the FX NIM has continued to decline even after the introduction of the new financial regulations.

6. In sum, strong profitability and rising manat net interest margins point to additional explanations behind the observed increases in the bank interest rates. A potential explanation of the divergent developments in the NIM in manat and the NIM in FX could be banks' stronger market power in local currency lending compared to lending in foreign currency, where the main customers—large corporations with revenues in FX—can access FX financing also through foreign intermediaries. Overall, the combination of rising NIM in manat and sustained profitability suggests that recent increases in bank rates cannot be explained solely by regulatory changes.

C. Monetary Policy Passthrough

7. To investigate whether changes in the policy rate have an impact on bank interest rates, bank-level regressions of effective interest rates and loan growth are estimated. The effective loan and deposit interest rates for each bank are calculated using information on interest expense and revenue from banks' financial statements.[6] Following Sapriza and Temesvary (2020),[7] the empirical specification is:

$$\Delta y_{i,t} = \alpha + \beta^1 \Delta i_t + \beta^2 \Delta ffr_{i,t-1} + \Gamma W_{t-1} + \Upsilon X_{i,t-1} + \varepsilon_{i,t}, \quad (1)$$

where $\Delta y_{i,t}$ is the dependent variable (yoy change in the average interest rate on outstanding loans, in the average interest rate on outstanding deposits, or in real loans of bank *i*), Δi_t is the yoy change in the CBA's policy rate, W_t is a vector containing domestic macro variables: forecasts of inflation and real GDP growth forecasts for the next year, and a recession dummy; $X_{i,t}$ is a vector of bank-level controls: CET1 capital ratio, return on assets (ROA), real assets and real assets growth, the deposits to assets ratio. Given high dollarization in Azerbaijan, we also control for the global interest rates, captured by changes in the Fed funds rate ($\Delta ffr_{i,t}$). An important caveat of the analysis is that since the data is annual, several factors other than monetary policy (but correlated with it) could affect banks' lending and pricing decisions. For this reason, we include a range of macroeconomic and bank-level controls. An advantage of using bank-level regressions is that potential endogeneity due to a two-way causal relationship between the dependent variable and CBA's policy rate is less of a concern compared to regressions of system-wide interest rates and loan volumes. Finally, it is important to

[6] Bank-level data is from Fitch Connect. The sample is unbalanced and includes 37 banks over 2007-2024. GDP and inflation forecasts come from the WEO database (October 2025 round), the Fed funds rate is from Haver Analytics. Real loans and assets are deflated using CPI.

[7] Sapriza and Temesvary (2020) analyze the impact of changes in the Fed funds rate on real credit growth of the banks in the U.S. We use a similar set of bank controls as in their analysis.

note that the (bank-level) effective interest rates do not distinguish between domestic versus foreign currency loans and deposits.

8. **Monetary policy changes by the CBA are followed by adjustments in bank lending rates and lending volumes.** A tightening in the policy rate is associated with a statistically significant rise in banks' effective interest rates on bank loans and lower real loan growth (Table AVI.1). The deposit interest rate rises too, although the coefficient on the policy rate in equation (1) is much smaller than for the loan interest rate and statistically insignificant. A potential explanation is that banks promptly pass the full interest rate increase on the loan interest rates while delaying and only passing it partially on the deposit rates. Another explanation could be the relatively larger importance of FX deposits than FX loans for Azerbaijani banks. While FX-denominated deposits are less sensitive to the changes in the domestic policy rates, the effective deposit rates we use in the analysis do not distinguish between the currency of deposits. Finally, while statistically significant, the implied magnitude of the passthrough from the policy rate to the bank lending rates remains relatively low.

9. **The strength of policy passthrough to bank lending volumes seems to have risen over time.** Re-estimation of equation (1) on a shorter period between 2016–24 reveals that the strength of the association between the CBA's policy rate and bank lending and deposit rates has not changed in the more recent period, while the link to bank lending volumes has become stronger.[8]

[8] A t-test for equality of coefficients on the policy rate shows that the coefficient is higher in the post-2015 sample than in earlier years in the regression for real loan growth.

Table VI.1. Azerbaijan: Bank-level Regressions

VARIABLES	(1) Δ lending rate	(2) Δ lending rate	(4) Δ deposit rate	(5) Δ deposit rate	(7) Δ real loans	(8) Δ real loans
lending rate (-1)	-0.18***	-0.14***				
	(0.04)	(0.05)				
deposit rate (-1)			-0.26***	-0.17***		
			(0.03)	(0.04)		
Δreal loans (-1)					-0.005**	0.07
					(0.002)	(0.05)
Δi	**0.19*** **	**0.17*** **	**0.04**	**0.006**	**-1.56** **	**-2.11*** **
	(0.06)	(0.06)	(0.039)	(0.03)	(0.67)	(0.54)
L. inflation forecast	-0.02	-0.01	-0.08**	-0.05	0.02	-1.62*
	(0.06)	(0.10)	(0.04)	(0.05)	(0.68)	(0.85)
L. GDP growth forecast	0.21***	0.52	0.009	-0.05	-0.81	-0.23
	(0.06)	(0.42)	(0.04)	(0.20)	(0.60)	(3.54)
L. fed funds rate	0.29**	0.17	0.08	0.08	-1.12	-0.42
	(0.13)	(0.19)	(0.08)	(0.10)	(1.44)	(1.71)
L. CET1 capital to assets	0.005	0.02	-0.02**	-0.02***	0.26*	0.09
	(0.01)	(0.01)	(0.009)	(0.007)	(0.14)	(0.12)
L. ROA	0.09**	0.035	0.02	0.01	0.63	0.71**
	(0.04)	(0.04)	(0.02)	(0.02)	(0.41)	(0.33)
L. Δreal assets	0.006	0.02*	0.009**	0.002	0.33***	0.16*
	(0.006)	(0.01)	(0.004)	(0.005)	(0.07)	(0.09)
L. real assets	-0.03	-0.02	-0.01	-0.01	0.06	0.26
	(0.02)	(0.03)	(0.01)	(0.02)	(0.17)	(0.27)
L. deposits to assets	0.10	-0.26	-0.14	-1.33*	23.91**	-3.33
	(1.05)	(1.38)	(0.67)	(0.70)	(11.31)	(11.78)
recession dummy	0.20	0.62	-0.79**	-0.86***	-8.69	-14.79***
	(0.51)	(0.59)	(0.32)	(0.30)	(5.55)	(5.19)
Observations	256	138	247	132	261	142
Adjusted R-squared	0.19	0.25	0.29	0.17	0.23	0.42
Period	**2008-2024**	**2016-2024**	**2008-2024**	**2016-2024**	**2008-2024**	**2016-2024**

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Sources: Fitch Connect, Central Bank of Azerbaijan, Haver Analytics, IMF Staff calculations.

Notes: The term L.x stands for one lag of a variable x.

D. Policy Recommendations

10. The analysis of the recent developments in bank interest rates reveals a complex interplay between monetary policy, regulatory changes, and market dynamics. While regulatory tightening in recent years has likely increased banks' funding costs, sustained profitability, fast credit expansion, and widening manat net interest margins suggest a prominent role of other factors in driving the dynamics of bank interest rates. While monetary policy passthrough continues operating, it remains incomplete.

11. The disconnect between policy rate changes and bank interest rate dynamics underscores the need for policies to enhance monetary policy transmission and market efficiency:

i. Strengthening monetary policy transmission by promoting market efficiency and competition. Rising NIMs and deteriorating cost ratios point to inefficiencies and market concentration. Enhancing competition in the banking sector and fostering operational efficiency could help improve monetary policy passthrough to bank interest rates. Developing a benchmark yield curve would additionally support transmission of policy changes beyond short-term rates to broader financing conditions.

ii. Addressing dollarization. The divergence between manat and FX lending conditions highlights the need for strategies to reduce dollarization, which in turn would improve domestic currency intermediation and support monetary policy effectiveness.[9]

iii. Reviewing calibration of the reserve requirements. The use of reserve requirements should focus on stability of short-term liquidity for a better alignment with monetary policy objectives. In this context, a simplification of the current required reserve ratios and widening the gap between required reserves on manat and FX could be considered. A uniform reserve requirement rate applied across all deposit tenors prevents distortions and avoids the risk of circumvention when some liabilities have a lower rate. A widening of the relatively narrow wedge between required reserves on manat and FX deposits would strengthen FX liquidity buffers and reduce the relative attractiveness of FX deposits to depositors.

[9] See Annex VII of the Azerbaijan 2025 AIV Staff Report for detailed policy recommendations on a de-dollarization strategy.

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Annex VII. Implementation of FSAP Recommendations

Azerbaijan: FSAP Main Recommendations and Progress as of December 2025				
Recommendations		Authorities	Timeline	Actions by Authorities
Systemic Risk Analysis				
1	Systematic risk monitoring: Enhance the CBA's forward-looking risk assessment framework, including top-down stress testing and early warning indicators. Integrate their results into prudential policies formulation, cross-checking of banks' bottom-up stress tests, and to inform supervisory review of banks' ICAAP and ILAAP. (¶ 13, 14)	CBA	ST	IN PROGRESS: Internal procedures for review and analysis of stress tests were approved on 13 November 2025. The procedures integrate bottom-up and top-down stress testing and require cross-checking of the results and envisage interviewing banks with involvement of supervision. The drafting of regulations requiring banks to conduct bottom-up stress testing is complete. The next step is legal clearance and CBA Management Board approval. The CBA is receiving TA from the IMF on establishing an early warning system for the banking sector based on FSAP recommendations.
Macroprudential Policies				
2	Macroprudential strategy: Develop and publish a macroprudential policy strategy. (¶ 25)	CBA	I	IMPLEMENTED: The Banking Sector Macroprudential Policy Framework document has been approved for publication in December 2024.
3	Capital buffer: Enhance banks' resilience by raising capital buffer requirements consistent with Basel III, such as the capital conservation buffer, countercyclical capital buffer (including introducing positive cycle-neutral countercyclical capital buffer when suitable in line with prevailing macroeconomic and financial conditions), and differentiated high loss absorbency buffer requirements for D-SIBs. (¶ 27)	CBA	ST	IMPLEMENTED: The CBA has set the counter-cyclic capital buffer (CCyB) at 0.5 percent from 01 March 2025. In addition, amendments to capital regulations were adopted in December 2025 to implement Basel III standards (including introduction of capital conservation buffer, differentiated HLA buffers requirements for D-SIBs) and banks have been granted a one-year transition period for implementation.
4	Systemic risk buffer: Adopt and activate capital buffers to address systemic risks stemming from certain sectors or specific exposures (e.g., consumer lending, FX, and concentration risks). (¶ 10, 27)	CBA	ST	NOT IMPLEMENTED: Currently the CBA address systemic risks from certain sectors and/or specific exposures through add-ons to risk weights, which like capital buffers, results in higher regulatory capital. The CBA has applied higher risk weight to consumer loans and to unhedged FX business loans. The current approach also allows application of additional risk weights on an individual loan level. The CBA plans to review its approach once transition to Basel III capital structure is completed in 2027.
5	Liquidity measures: Finalize the implementation of Basel III liquidity requirements, including the NSFR; and regularly publish aggregate data on LCR and NSFR once implementation is completed. (¶ 27)	CBA	ST	IN PROGRESS: The CBA introduced the Liquidity Coverage Ratio (LCR) in December 2023. The LCR in national currency was implemented in August 2025 at 50 percent for D-SIBs and 40 percent for all other banks, with implementation to reach 100 percent gradually by December 2027. The NSFR regulation and reporting forms have been prepared and the banks reported initial NSFRs as at the end of October 2025 and December 2025. Analysis of the banks' NSFR data will help determine the glidepath for implementation and refining the reporting forms and the regulation.

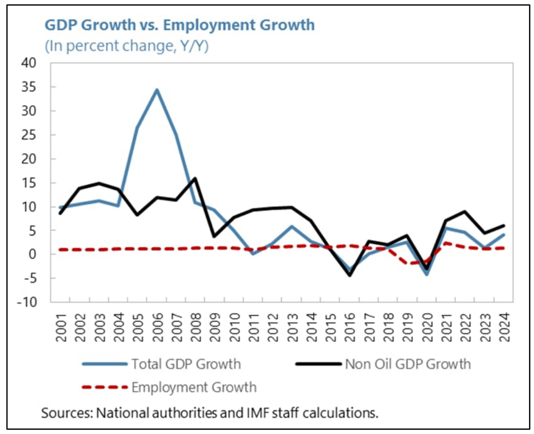
Azerbaijan: FSAP Main Recommendations and Progress as of December 2025 (Continued)				
Recommendations		Authorities	Timeline	Actions by Authorities
6	De-dollarization measures: Widen the relatively narrow wedge between required reserves on manat and FX deposits to strengthen FX liquidity buffers and limit the intermediation of FX deposits. (¶ 28)	CBA	ST	NOT IMPLEMENTED: The Macroprudential Policy Framework sets reducing dollarization of the financial system as an intermediate objective and outlines relevant macroprudential tools. Internal discussions are ongoing on the possible activation of these tools.
Banking Supervision and Regulation				
7	Central bank's powers, independence, accountability and governance: Amend the Law on Central Bank of Azerbaijan—with technical assistance from the IMF—in line with international best practices in central banking and BCP CP1 and CP2 criteria. Specifically: (¶ 32)	CBA / Parliament	MT	NOT IMPLEMENTED.
8	Corrective and sanctioning powers: Enhance the regulatory framework to ensure clarity of corrective actions and sanctions powers, which allow the CBA to act at an early stage to address unsafe and unsound practices and to use these sanctioning powers more proactively. (¶ 32)	CBA	ST	IMPLEMENTED: In January 2025, the CBA published its Risk-based Supervision Policy Concept which includes early intervention measures linked to risk assessment. The accompanying supervision manual was approved by Supervision Committee of the CBA in December 2025 and determines early interventions, escalation process, sanctions, and other supervisory measures.
9	Early intervention: Develop a rigorous and structured internal framework and guidelines for a consistent and early supervisory intervention, and a clear escalation process of corrective actions. (¶ 32)	CBA	ST	IMPLEMENTED: See recommendation (8) above.
10	Transactions with related parties: Enhance the enforcement measures imposed by the CBA (including sanctioning and other prudential requirements) in cases of material shortcomings on transactions with related parties' provisions, in order to discourage these misconducts in banks. (¶ 30)	CBA	ST	IMPLEMENTED: During the FSAP assessment, related-party exposure limit was violated only by one bank, and has been subsequently remedied. At present, there are no breaches to related parties' regulations.
11	Disclosure and transparency: Issue requirements to encourage banks to disclose data on the group they belong to, as well as their structure of ownership (and beneficial owners) and more comprehensive and structured information on exposures of transactions to related parties. (¶ 32)	CBA	ST	PLANNED: It will be reviewed within the framework of consolidated supervision. Information regarding the transition plans to consolidated supervision has been provided below.

Azerbaijan: FSAP Main Recommendations and Progress as of December 2025 (Continued)				
Recommendations		Authorities	Timeline	Actions by Authorities
12	Consolidated supervision: Expedite the implementation of strategic projects that include legal amendments and prudential requirements to ensure full adoption of a consolidated supervision framework. (¶ 31)	CBA	ST	PLANNED: The CBA is currently working on the implementation of a consolidated supervision framework as a subcategory of the CBA 2024–2026 Financial Sector Development Strategy and is scheduled for implementation in 2026. The initial draft on consolidated supervision scope and requirements for banks has been developed and is currently being discussed internally within the CBA.
13	Integration of risk assessment: Issue requirements to integrate ICAAP and ILAAP into banks' risk management framework and supervisory review process to ensure a comprehensive assessment of solvency and liquidity risks. (¶ 32)	CBA	ST	PLANNED: The ICAAP and ILAAP requirements to banks are scheduled to be implemented in 2026. The ICAAP and ILAAP reports by the banks, based on the regulatory framework, will become the foundation for Pillar 2 supervisory review and assigning add-ons. The supervisory review methodology will also be developed and integrated into the Supervision Manual by 2026.
Financial Safety Net, Bank Resolution and Crisis Management				
14	Recovery planning: Efficiently integrate bank recovery plans into CBA's Supervisory Review Process and early intervention framework and enhance the Methodological Guidance on Recovery Plans. (¶ 40)	CBA	ST	IMPLEMENTED: In line with the Risk-based Supervision Policy Concept, recovery planning has been integrated into the supervisory review process. The Methodological Guidance on Recovery Plan was approved in 2024 and enhanced in 2025.
15	Insolvency and liquidation, resolution planning, and bank resolution: Amend the Law on Banks, in line with FSB Key Attributes (KAs) (¶ 39)	CBA, MOF, Parliament	ST	IN PROGRESS: Relevant draft law amendments have been prepared, including amendments to the Law on Banks, the Law on Central Bank, the Law on Deposit Insurance, as well as guidance related to the Emergency liquidity assistance (ELA) framework. The CBA is receiving IMF technical assistance on the ELA framework.
16	Resolution plans: Prepare resolution plans for D-SIBs and banks that are assessed to provide critical economic functions and whose failure would have systemic consequences. (¶ 39)	CBA	I	IMPLEMENTED: The methodological guidance on resolution planning has been prepared and resolution plans for individual D-SIBs are in place.
17	Emergency Liquidity Assistance (ELA): Establish a comprehensive ELA framework, including eligibility criteria and collateralization requirements. (¶ 39)	CBA	I	IN PROGRESS: See recommendation (15) above.
18	Deposit Insurance, resolution funding and temporary public funding: Amend the Law on Deposit Insurance to: (¶ 39, 41)	ADIF, CBA, MOF, Parliament	ST	IN PROGRESS: See recommendation (15) above.

Azerbaijan: FSAP Main Recommendations and Progress as of December 2025 (Concluded)				
	Recommendations	Authorities	Timeline	Actions by Authorities
	Financial Integrity			
19	AML/CFT: Strengthen the AML/CFT risk-based supervision framework, and address other deficiencies identified by MONEYVAL. (¶ 35)	CBA	ST	IN PROGRESS: The CBA has strengthened the risk-based approach to AML/CFT supervision by refining the methodology for customer risk rating, conducting sectoral risks assessment, and analysis of the AML/CFT risks of the regulated financial institutions. The CBA has also introduced new guidelines for conducting inspections of supervised entities. To address the deficiencies under Recommendation 35, draft amendments have been submitted to establish criteria for serious, repeated and/or systematic violations to ensure proportionate and dissuasive sanctions.
	Systemic Liquidity Management			
20	Money market: Promote the development of markets for interbank repo, unsecured, and government securities to boost market capacity to withstand shocks and enhance financial sector resilience. (¶ 37)	CBA, MoF	ST	IMPLEMENTED: In 2025, the CBA introduced new regulations for the calculation of the AZIR index rate which allows for the calculation and disclosure of compounded term AZIR rates for 30-, 90- and 180-days to further encourage its use by money market participants as a reference rate. In October 2025, the European Bank for Reconstruction and Development (EBRD) issued manat-denominated bonds for the first time in the domestic market with the floating coupon rate determined based on the AZIR index. To enhance the efficiency of open market liquidity sterilization operations, the 7-day repo transactions were replaced with 7-day deposit operations and adjustments were made to account for non-business days. As part of the improvements to the operational framework, the minimum participant requirement for CB note auctions was also removed.
21	Short-term liquidity management: Adjust the payment timeframe (duration where the borrowed money is returned to the central bank or commercial banks when the lending/deposit facility is used) to support a smooth operation of the lending and deposit facilities. (¶ 38)	CBA	ST	IMPLEMENTED: For the 1-day standing facility instruments, the transfer of funds back on the next working day is now performed until 09:45 (instead of 16:45).

Annex VIII. Labor Market Developments, Challenges, and Reforms[1]

A. Context



1. **Azerbaijan's strong economic growth over the past two decades has significantly improved welfare and reduced poverty.** From 2000 to 2009, fueled by the oil boom, the economy expanded rapidly at an average annual rate of 15.9 percent, with the oil sector growing twice as fast as the non-oil sector. Growth slowed to 2 percent annually between 2010 and 2024 due to declining oil production and lower oil prices that dampened overall demand. During 2001–2009, GDP per capita grew at an average annual rate of 15.1 percent.[2] These gains translated into notable social progress, with the national poverty rate falling from 50 percent to 6 percent and extreme poverty dropping from 20 percent to 5 percent between 2000 and 2019 (World Bank 2015; World Bank 2022). However, despite the strong economic growth, the labor market did not see a commensurate expansion.

2. **Employment growth was relatively weak during the same period, despite sustained economic growth.** Employment expanded by a modest 1.1 percent annually—well below expected levels given the pace of economic expansion. This underperformance contrasts with empirical evidence that demonstrates a strong positive link between economic growth and employment growth (Kaspos et al., 2005; Ball et al., 2015; Prieto et al., 2018; IMF, 2025).[3] An obvious explanation is that growth has been largely concentrated in the capital-intensive hydrocarbon sector, which yielded high productivity and limited job creation.

3. **This annex looks at prospects for the labor market and its role in Azerbaijan's long-term growth.** With hydrocarbon reserves dwindling, the government recognizes that growth cannot be driven by the hydrocarbon sector. Growth will have to rely more on expanding the labor force and/or increasing nonhydrocarbon labor productivity growth. The note analyzes both aspects: What are the prospects for growth in the labor force? And what is the outlook for nonhydrocarbon labor productivity?

[1] Prepared by Hoda Assem (MCD).

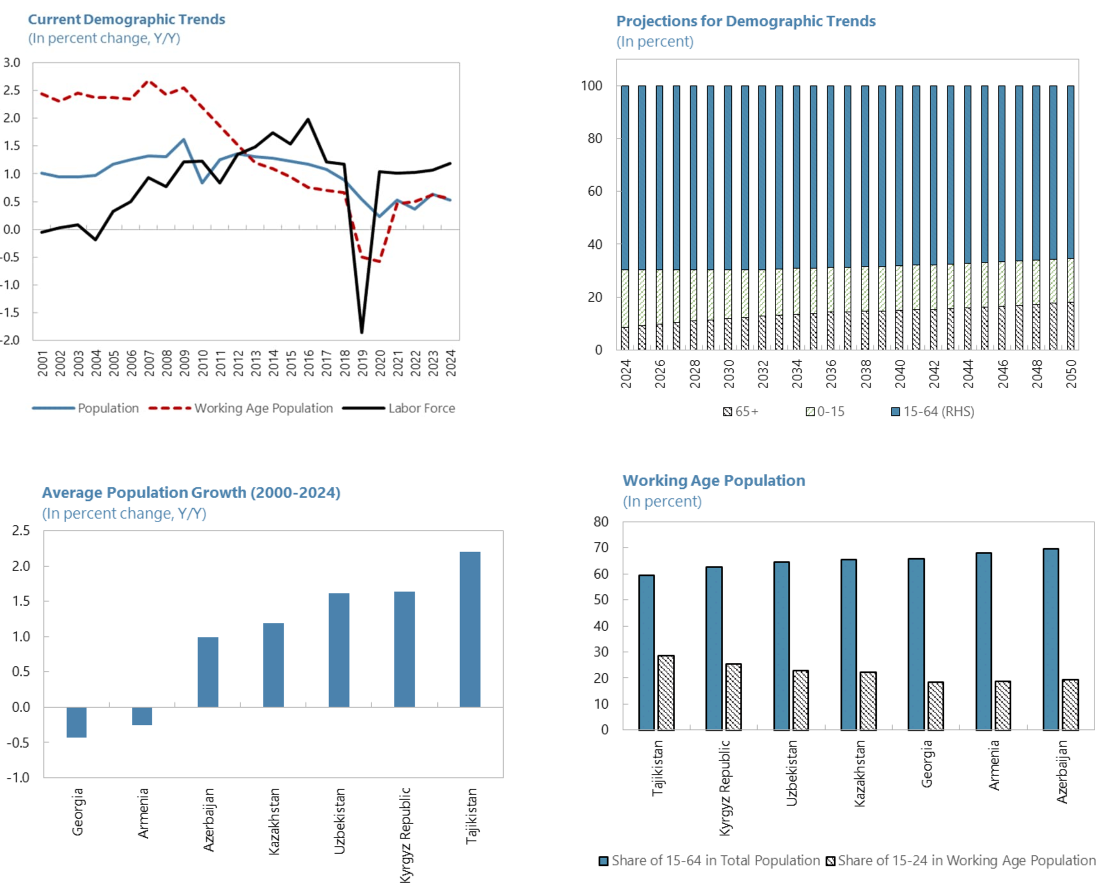
[2] GDP per capita growth since 2009 has been much lower at 1 percent.

[3] The relationship between growth and employment in Azerbaijan appears weak. Between 1992 and 1995, GDP fell by an average of 19.3 percent annually, while employment declined by just 1 percent. From 1996 to 2013, GDP grew 10.9 percent per year on average, but employment increased only 1 percent (Rahmanov et al., 2016).

B. Labor Force Growth Prospects

4. **Demographic trends are putting downward pressure on the size of the labor force.** The population stands at 10 million and has grown at less than 1 percent annually since 2000. With fertility rates well below the replacement level, at 1.4 children per woman, population growth is projected to slow even further to about 0.3 percent annually through 2050. Consequently, the working-age population (15–64 years), which currently accounts for about 7 million people, is expected to decline from 70 percent of the population to about 65 percent by 2050. In contrast, the population aged 65 and above is expected to grow by 3.3 percent annually, reaching 18 percent of the population in 2050 from 9.9 percent in 2024. Meanwhile the share of those under 15 years is relatively low at 20.3 percent and is projected to decline further to 16 percent by 2050. These demographic shifts imply a shrinking labor force and a rising dependency ratio, which will increase pressure on social protection systems and public finances.

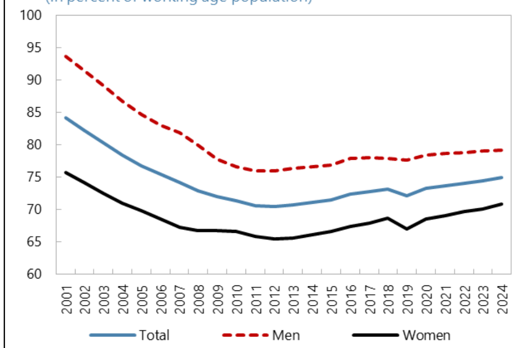
Figure VIII.1. Azerbaijan: Demographic Trends and Population Dynamics



Sources: National authorities, United Nations World Population Prospectus, World Bank World Development Indicators, and IMF staff caculation.

5. Labor force participation declined significantly until 2012 but has started to recover slowly in recent years.[4] The total labor force participation rate fell from 83 percent in 2000 to 73.7 percent in 2012, driven primarily by a sharp decline in male participation. Female participation also fell, but to a lesser extent. This decline reflects rising inactivity as many workers, particularly men, who were employed in heavy industries were laid off and either remained inactive or moved to informal employment, contributing to a rise in inactivity rather than official unemployment figures (Rahmanov et al., 2016). Since 2012, labor force participation has increased slowly, reaching 75 percent in 2024. The recent increase in participation reflects growth in the non-hydrocarbon economy and a corresponding rise in employment, which has helped absorb more workers into the labor force (Valiyev, 2020). Despite this recovery, women's labor force participation rates—though declining comparatively less—have not yet caught up with those of men. Moreover, women, less educated individuals, younger cohorts and urban residents are more likely to be inactive, which suggests that limited labor market opportunities and family or childcare responsibilities, particularly for women, continue to constrain labor force participation. Looking ahead, the labor force is projected to increase by about 3,800 individuals annually, adding fewer than 100,000 workers by 2050, assuming participation rates remain at current levels.[5]

Labor Force Participation Rate
(In percent of working age population)



Sources: National authorities.

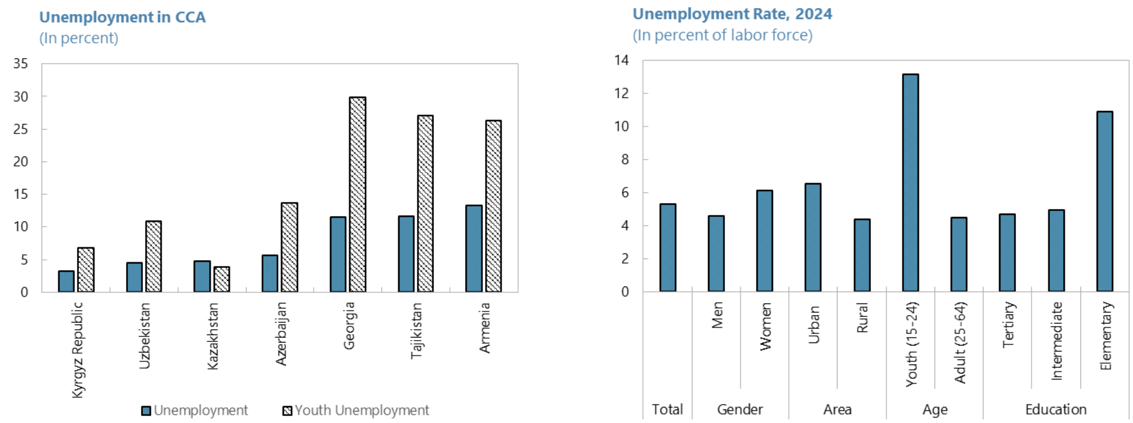
6. Unemployment has declined but remains concentrated among the youth, the least educated, and urban populations, indicating room for further improvement. The overall unemployment rate fell from 11.8 percent in 2000 to 5.3 percent in 2024, positioning Azerbaijan at the median in the CCA region.[6] Female unemployment stands slightly higher at 6.1 percent compared to 4.6 percent for males, while the youth (ages 15–24) face a high rate at 12.9 percent. Unemployment is also most pronounced among those with basic education while those with tertiary education have seen a nearly 40 percent decline in unemployment rates between 2011 and 2024, reflecting a growing demand for higher-skilled workers. Although men and women each constitute roughly half of the labor force, women face 1.3 times higher unemployment than men. Urban and rural labor force shares are also similarly balanced. However, urban unemployment is 1.2 times higher than rural unemployment, reflecting limited urban job opportunities versus predominance of agricultural work in rural areas. Given these persistent disparities, there remains scope to reduce unemployment further as part of the efforts to expand and better integrate these vulnerable groups into the labor force.

[4] The labor force participation rate is the share of the working age population who are employed or looking for work (ILO, 2014).

[5] According to projections by UN World Population Prospects.

[6] The unemployment rate shows the proportion of the labor force that is not employed but actively looking and available for work. (ILO, 2014).

Figure VIII.2. Azerbaijan: Unemployment



Sources: World Bank World Development Indicators and Labor Code of the Republic of Azerbaijan.

C. Labor Productivity Growth Prospects

7. Labor productivity growth has stagnated at around 2 percent annually since 2016. Growth peaked in 2005, coinciding with the capital-intensive expansion of the hydrocarbon sector. A comparison across sectors reveals that industry, which encompasses the hydrocarbon sector, remains the most productive, and agriculture the least. Moreover, while productivity has increased in all sectors, growth has been particularly low in the agricultural sector (on average 3.2 percent annually between 2001 to 2024). Meanwhile, while real wages appear to broadly align with labor productivity over time, this is not the case at the sectoral level, where real wage growth outpaced productivity growth in the agricultural sector.

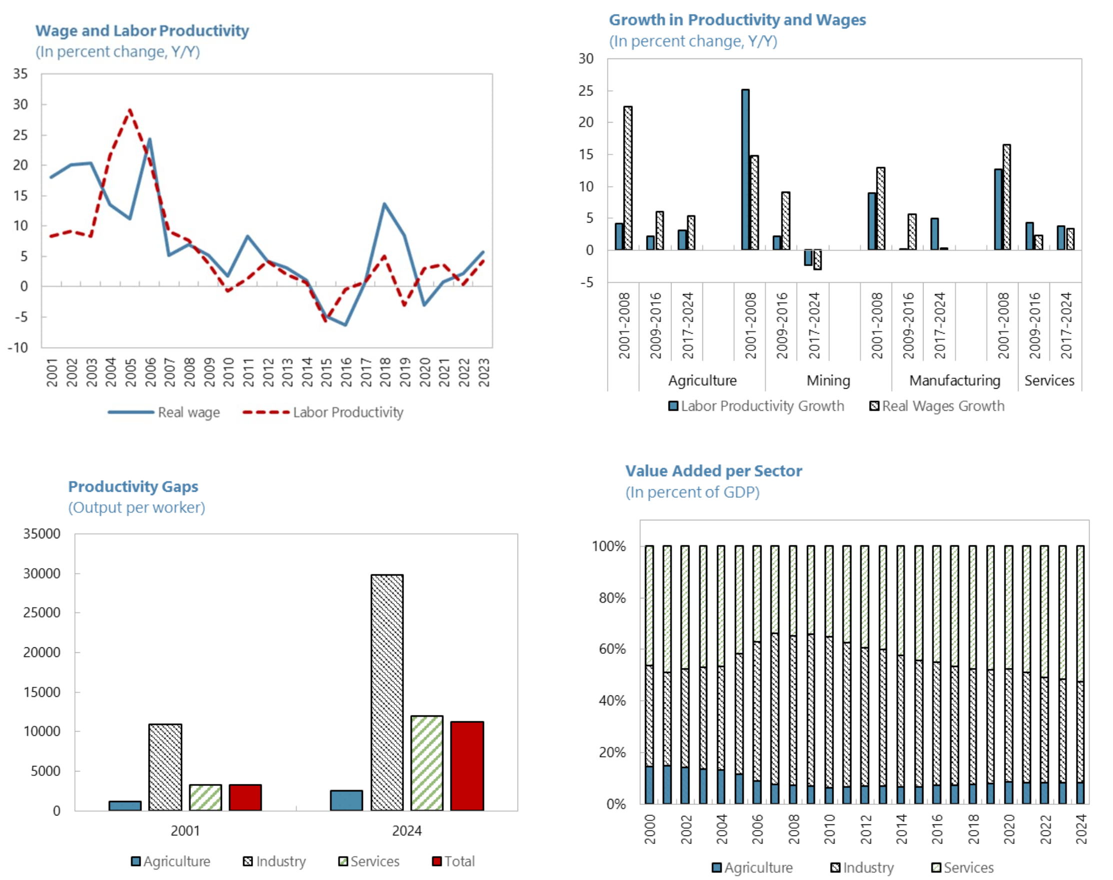
8. Despite low productivity, agriculture remains a major employer. Agriculture employs about 35.4 percent of workers in 2024 yet contributes just over 5.6 percent of GDP. By contrast, the hydrocarbon sector accounts for 31.8 percent of GDP but employs only about 1 percent of the workforce. Over the past 25 years, as employment in agriculture has slowly declined, much of the growth in employment has occurred in manufacturing and services. The services sector now accounts for over 42.2 percent of GDP and employment. However, this includes a substantial share of public sector jobs.

9. Employment growth has been driven primarily by the private sector, but the share of public sector employment remains large. Employment rose from 3.9 million in 2000 to over 5 million in 2024, due to growth in private sector employment while public sector employment declined.[7] Despite the decline in public sector employment, about 1.1 million people still work in the public sector, including state-owned enterprises, which accounts for roughly 20 percent of total employment in 2025, down from 33 percent in 2000. In short, the public sector remains a significant employer, and its dominance could hinder innovation and economic growth by competing with the private sector on a limited talent pool.

[7] The employment rate measures the share of the working-age population employed (ILO, 2014).

10. **Informal employment continues to pose a significant challenge in Azerbaijan.** The informal economy is estimated at nearly 50 percent of GDP, among the highest in the CCA region (Medina and Schneider, 2019; Nahmadova, 2021). While data on informal employment is unavailable, employees registered under formal labor contracts represent only 23 percent of private sector workers, implying that around 77 percent of the private sector lack formal employment contracts.[8] Self-employment is widespread across sectors, representing almost all employment in agriculture, around half of the employment in manufacturing and services, and about one fifth of employment in mining. Informal jobs typically lack social protection, offer low wages, and provide limited job security. The concentration of labor in agriculture and the large informal sector with limited access to training and efficiency gains constrains overall productivity (IMF, 2025). These factors underscore structural challenges to job creation and competitiveness (Rahmanov et al., 2016).

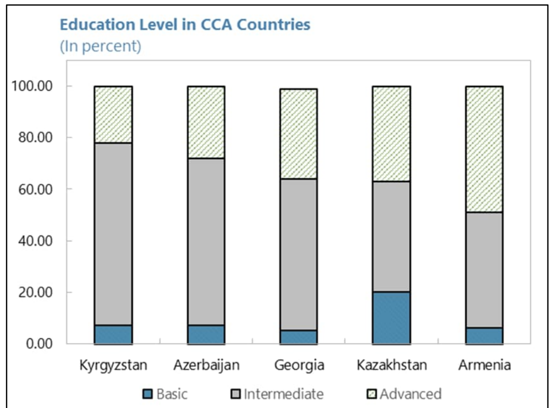
Figure VIII.3. Azerbaijan: Labor Productivity, Wage Dynamics, and Sectoral Value Added



Sources: Haver, Labor Code of the Republic of Azerbaijan, World Bank World Development Indicators, and IMF staff calculations.

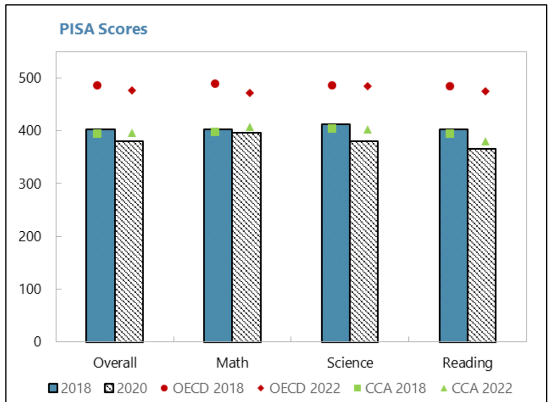
[8] Employees are defined as persons who perform labor activity in the relevant workplaces in exchange for wages by concluding an employment agreement (contract) with the employer according to the Labor Code of the Republic of Azerbaijan (SSC). The residual category includes, in addition to informal workers, people who identify as employers, who work for themselves or are unpaid family workers.

11. The labor force has a lower share of workers with advanced degrees, compared to other CCA countries. The share of tertiary-educated workers rose from 22 percent in 2000 to 28 percent in 2025, while intermediate education declined from 74 to 65 percent. However, the share of workers with intermediate education remains among the highest regionally, while tertiary education is below average. Labor force participation and employment rates strongly correlate with education level. Participation and employment rates are the highest for tertiary educated workers and the lowest for those with basic education. These patterns underline Azerbaijan's need to boost higher education attainment to improve labor market outcomes.



Sources: International Labor Organzition and and IMF staff calculations.

12. The quality of education has also declined during the pandemic. In the most recent PISA assessment (2022), Azerbaijan ranked 50th in mathematics, 61st in science and 60th in reading out of 70 participating countries. The 2022 scores also show a significant decline compared to 2018, particularly in science and reading, largely due to pandemic-related disruptions. Azerbaijani students scored below OECD averages but were broadly in line with other CCA countries.[9] Moreover, substantial differences in performances were also observed across socioeconomic background and gender. It is important to note that these scores cover only Baku which may not be representative of national outcomes. Furthermore, as the global economy moves toward high technology industries, there is a critical need to enhance digital skills. According to the International Computer and Information Literacy Study (ICILS) in 2023, Azerbaijan's average digital literacy score was the lowest among 35 participating countries, with an average score of 319. These results highlight significant challenges in Azerbaijan's education system and underscore the urgency of addressing learning gaps to prepare students for the demands of the future economy.



Source: OCED.

D. Policy Recommendations

13. Going forward, supporting sustained economic growth will require a larger labor force. However, given current demographic pressures, it is important to prioritize policies that raise labor force participation in the near term. Improving access to affordable childcare is an important to increase female labor force participation. Evidence from various countries suggests

[9] PISA scores in 2022 were available for Georgia and Kazakhstan.

these investments can significantly improve labor market outcomes for women (Lefebvre et al., 2011; Mateo Diaz et al., 2013; Jain, 2015), with the associated fiscal costs expected to be offset by higher GDP gains (Fortin et al., 2012; Hojman et al., 2022). Enhancing youth employment prospects through strengthened vocational and technical education and facilitating school-to-work transitions via apprenticeships and internships can boost youth participation and earnings (McKenzie et al., 2016; Crepon et al., 2025), yielding positive fiscal dividends over the medium term. As demographic pressures increase, raising the retirement age in line with higher life expectancy can help sustain the labor force and also reduce long-term pension liabilities, supporting fiscal consolidation.

14. Beyond expanding the labor force, sustaining economic growth will require higher labor productivity. Structural reforms should focus first on diversifying the economy from the hydrocarbon sector, promoting private sector development and reducing the large footprint of the state. These steps reduce fiscal costs by curbing costly subsidies and reallocate resources, including labor, toward higher value-added activities. In the long term, investment in infrastructure, especially digital connectivity and transport networks, can boost productivity and position Azerbaijan as a regional transit and logistics hub. Strengthening human capital by expanding access to tertiary and technical education and fostering STEM and digital skills will equip the workforce for evolving demands. Finally, policies that improve labor market efficiency through better job matching, active labor market programs, and robust social protection systems will further reduce informality.

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Annex IX. Data Issues Annex

Figure IX.1. Azerbaijan: Data Adequacy Assessment for Surveillance

Data Adequacy Assessment Rating 1/

B

Questionnaire Results 2/

Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	C	B	B	B	A	B	B

Detailed Questionnaire Results

Data Quality Characteristics						
Coverage	C	B	B	B	A	
Granularity 3/	C		B	B	A	
			B		A	
Consistency			B	B		B
Frequency and Timeliness	B	A	B	B	A	

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.
1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.
2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance*, January 2024, Appendix I).
3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund are adequate for surveillance.
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment. *Data provision to the Fund has some shortcomings but the data is generally adequate for surveillance. It does not hamper the identification of macroeconomic and financial risks and there is little risk of inaccurate assessment of these risks and inappropriate policy recommendations. There are several shortcomings on national accounts statistics. Further improvements are needed on quarterly GDP-P data, including updating the classifications of economic activities, revising the base year, enhancing benchmarking methods, and using alternative indicators where short-term data differ from annual data. On the expenditure side, chain-linked GDP-E series in constant prices have been started, but a few challenges remain, including inventory discrepancies, distortions in gross fixed capital formation (GFCF), and the need to update annual supply and use tables. Government finance statistics is not fully consistent with GFSM 2014. Also, while several legal entities of public law are not included in the general government, their inclusion would not materially change the fiscal position and staff's assessment. On external sector statistics, Azerbaijan does not produce an IIP table.*

Changes since the last Article IV consultation. *The authorities continue work on closing the data gaps. The State Statistical Committee (SSC) of Azerbaijan, supported by IMF TA, has made progress compiling quarterly GDP time series on the production (GDP-P) and expenditure (GDP-E) sides. The SSC publishes chain-linked quarterly GDP-P data in line with IMF's Special Data Dissemination Standard (SDDS).The IMF has provided TA on imports and exports price deflators. Some preliminary data has been produced, but is not yet published. On IIP and gross external debt statistics, the CBA is close to finalizing the compilation and has committed to sharing a preliminary IIP and gross external debt data this year.*

Corrective actions and capacity development priorities. *Finalizing the compilation of an IIP and sharing the table with the IMF should be a priority. While the IMF through CCAMTAC provides TA on GFS compilation and reporting, the authorities have requested a more comprehensive TA on modernizing budget classification, that would shift the whole budget process to GFSM2014. Finally, on real sector statistics, completing the work on GDP-E would further help inform surveillance on the drivers of growth.*

Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff. *Staff does not use any data and/or estimates in the staff reports in lieu of official statistics.*

Other data gaps. *Given the relatively large size of informal economy, improving data from labor surveys related to informal employment could be beneficial.*

Table IX.1. Azerbaijan: Data Standards Initiatives

Azerbaijan participates in the Enhanced General Data Dissemination System (e-GDDS) and publishes the data on its National Summary Data Page since February 2019.

Table IX.2. Azerbaijan: Table of Common Indicators Required for Surveillance

As of March 2, 2026

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Expected Frequency[6,7]	Azerbaijan[8]	Expected Timeliness[6,7]	Azerbaijan[8]
Exchange Rates	27-Feb-26	2-Mar-26	D	D	D	M	...	40D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Dec-25	Feb-26	M	M	M	...	1M	...
Reserve/Base Money	Dec-25	Feb-26	M	M	M	M	2M	40D
Broad Money	Dec-25	Feb-26	M	M	M	M	1Q	40D
Central Bank Balance Sheet	Dec-25	Feb-26	M	M	M	M	2M	40D
Consolidated Balance Sheet of the Banking System	Jan-26	Feb-26	M	M	M	M	1Q	40D
Interest Rates[2]	Jan-26	Feb-26	D	D	M	M	...	40D
Consumer Price Index	Jan-26	Feb-26	M	M	M	M	2M	15D
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	Jan-26	Feb-26	M	M	A	...	3Q	...
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	Jan-26	Feb-26	M	M	Q	A	1Q	180D
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Dec-25	Jan-26	Q	Q	Q	A	2Q	180D
External Current Account Balance	Sep-25	Sep-25	Q	Q	Q	Q	1Q	80D
Exports and Imports of Goods and Services	Jan-26	Jan-26	M	M	M	M	12W	45D
GDP/GNP	Jan-26	Feb-26	M	M	Q	Q	1Q	90D
Gross External Debt	N/A	N/A	Q	Q	Q	...	2Q	...
International Investment Position	N/A	N/A	N/A	N/A	A	...	3Q	...

[1] Includes reserve assets pledged or otherwise encumbered, as well as net market value of derivative positions.

[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual.; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

[7] Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

[8] Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "..."

INTERNATIONAL MONETARY FUND

REPUBLIC OF AZERBAIJAN

STAFF REPORT FOR THE 2026 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

March 26, 2026

Prepared By	Middle East and Central Asia Department (In Consultation with Other Departments)

CONTENTS

RELATIONS WITH THE FUND

(As of February 28, 2026)

Membership Status: Joined: September 18, 1992; Article VIII

General Resources Account:	SDR Million	Percent Quota
Quota	391.70	100.00
IMF's Holdings of Currency (Holdings Rate)	333.90	85.24
Reserve Tranche Position	57.83	14.76

SDR Department:	SDR Million	Percent Allocation
Net cumulative allocation	529.00	100.00
Holdings	412.49	77.98

Outstanding Purchases and Loans: None

Latest Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	Jul. 06, 2001	Jul. 04, 2005	67.58	54.71
ECF	Dec. 20, 1996	Mar. 19, 2000	93.60	81.90
EFF	Dec. 20, 1996	Mar. 19, 2000	58.50	53.24

Implementation of Multilateral Debt Relief Initiative (MDRI)

Not applicable.

Implementation of HIPC Initiative

Not applicable.

Implementation of Catastrophe Containment and Relief Initiative (CCR)

Not applicable

Exchange Rate Arrangements

The de jure exchange rate arrangement is free-floating, and the de facto exchange regime is classified as a stabilized arrangement. The currency of Azerbaijan is the manat, which became sole legal tender on January 1, 1994. Azerbaijan has accepted the obligations under Article VIII, Sections 2, 3, and 4 of the IMF’s Articles of Agreement, and maintains an exchange system that is free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions, except for restrictions maintained for security reasons that have been notified to the Fund pursuant to Executive Board Decision No. 144-(52-51).

Article IV Consultation

Azerbaijan is on a 12-month Article IV consultation cycle. The previous Article IV consultation was concluded on March 21, 2025.

Resident Representative

Since November 2009, the IMF no longer has a Resident Representative in Azerbaijan, but the IMF Office in Baku headed by an office manager continued to operate, until its closure in June 2023.

RELATIONS WITH OTHER INTERNATIONAL INSTITUTIONS

(As of February 28, 2026)

Information about Azerbaijan's relations with the World Bank Group and other international financial institutions can be obtained from the following webpages.

World Bank Group:

• Country page: https://www.worldbank.org/en/country/azerbaijan

• Overview of Word Bank Group lending: https://financesapp.worldbank.org/countries/Azerbaijan /

• IBRD-IDA project operations: https://projects.worldbank.org/en/projects-operations/projects-summary?lang=en&countrycode_exact=AZ

Asian Development Bank:

• Country page: https://www.adb.org/countries/azerbaijan/main

• ADB projects and results: https://www.adb.org/countries/azerbaijan/results-adb-supported-operations

European Bank for Reconstruction and Development:

• Country page: https://www.ebrd.com/azerbaijan.html

• EBRD projects: https://www.ebrd.com/work-with-us/project-finance/project-summary-documents.html?1=1&filterCountry=Azerbaijan