

How much interest have foreign investors shown in the Azerbaijani economy over the past 10 years?

written by BRI Economic Team BAİ İqtisadi Qrupu

The long-term decline in crude oil prices on global markets that began in mid-2014 caused a deep economic and financial crisis in Azerbaijan in 2015–2016, as the country's economy was highly dependent on oil revenues. To overcome the crisis and reduce the dependence of the economy on oil revenues, the government at that time took a number of important steps to improve the business environment. It adopted strategic roadmaps that reflected the economic reforms to be carried out and envisaged the development of specific sectors.

The [Strategic Roadmap](#) on Azerbaijan's national economic perspective, approved in December 2016, identified one of the main problems in the field of investment activity as the fact that more than 85 percent of foreign direct investment (FDI) coming into the country between 2004 and 2014 had been directed to the oil and gas sector. The Roadmap set the task of increasing FDI in the non-oil sector in the following period. It even targeted a rise in the share of FDI directed to the non-oil sector in non-oil GDP from the 2,6 percent at that time to 4 percent by 2025.

We are already in the last year of the targeted period. So, what is the status of FDI in the non-oil and gas sector over the past years? This article seeks to answer that. The analysis is based on official statistical data provided by state institutions and is descriptive.

A new legal framework

In October 2018, [Baku Research Institute](#) presented a comprehensive study on FDI directed towards the Azerbaijani economy. The study highlighted the existing problems in attracting FDI and proposed solutions. Although certain steps were taken in the following period to address the issues mentioned in the study, the measures carried out were neither comprehensive nor sustainable. For example, some changes were made on the [website](#) of the Export and Investment Promotion Fund of Azerbaijan (AZPROMO) to improve the organization of informing foreign investors about the country's investment opportunities. However, this work was not carried out consistently afterward. The institution created the [Invest in Azerbaijan](#) page and prepared an [investment guide brochure](#). Yet the information on the page is not updated in a timely manner, and compared with similar websites in other countries, the limited content remains one of the main problems.

Among the steps taken to stimulate the inflow of FDI into the country, the establishment of the Alat Free Economic Zone deserves special mention. [The Law](#) on the *Alat Free Economic Zone* was adopted in May 2018, and [the Presidential decree](#) on the establishment and organization of the zone's activities was issued in May 2020. Information about the favorable conditions created here for foreign investors can be found on the zone's [website](#). Presidential decrees also provide tax and customs [incentives and preferences](#) for both local and foreign investors wishing to operate in industrial parks established in the country.

The most significant change during this period was the adoption of a new law on investment activity. In January 2018, the president signed a [decree](#) on measures to promote investment activity and protect the rights of foreign investors. The decree instructed the Cabinet of Ministers to prepare a draft Law on Investment Activity, taking into account international experience, and submit it to the president within three months. According to the decree, the draft law had to create a legal framework that would encourage

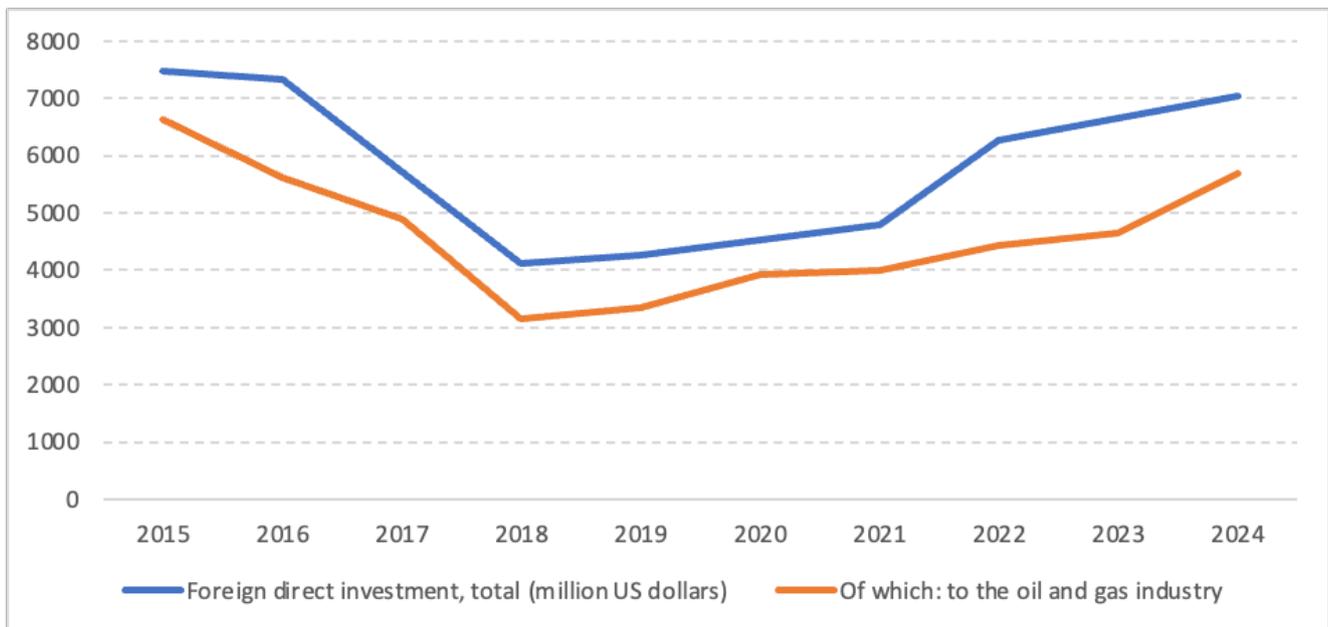
both local and foreign investors to invest in Azerbaijan's non-oil sector. [The law](#) instructed in that decree was only adopted in June 2022. It set out the legal framework for state guarantees provided for investment activity.

The dynamics and sectoral structure of FDI in 2015–2024

According to our calculations based on the data of the [State Statistics Committee](#) (SSC), the total amount of foreign investment attracted to the Azerbaijani economy in all forms over the past 10 years, covering 2015–2024, was 84,823 billion US dollars (USD). Of this, 58,2 billion USD, or 68,6 percent, were direct investments, while the remaining 26,6 billion USD were financial credits, portfolio investments, and other forms.

Based on data from the SSC's electronic publication "Azerbaijan in Figures," we prepared the dynamics of FDI inflows into the national economy for 2014–2025, presented in Diagram 1. As can be seen from the diagram, just as in the previous period, most of the FDI attracted to the country in the last 10 years was again directed to the oil and gas sector. According to our calculations, of the total 58,2 billion US dollars of FDI during this period, 46,3 billion US dollars, or 79,6 percent, went into the oil and gas sector.

Diagram 1. Dynamics of FDI attracted to the Azerbaijani economy in 2015–2024, current value (million US dollars).

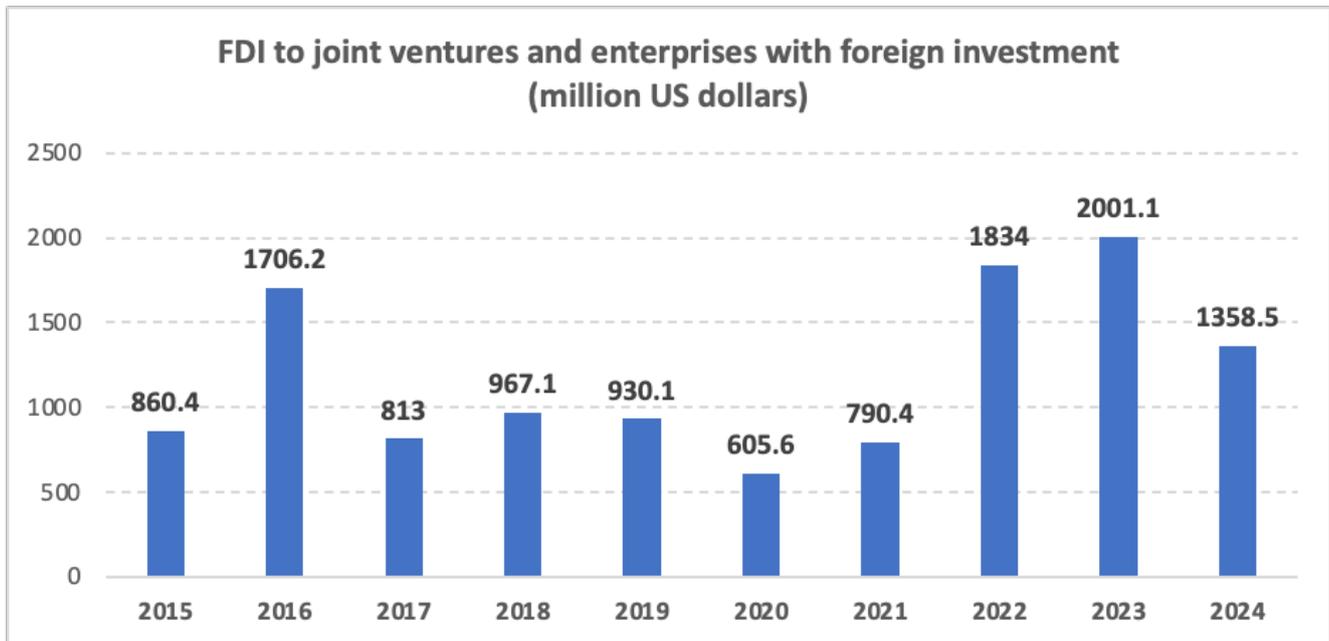


Source: prepared based on the data of the SSC.

The diagram shows that the annual amount of FDI attracted to the oil and gas sector declined until 2018 but then gradually increased again. This was mainly related to the renewal of the contract on the Azeri-Chirag-Gunashli fields.

As can be seen from Diagram 2, which reflects the dynamics of FDI attracted to joint ventures and enterprises with foreign investment outside the oil and gas sector, the volume of such investments rose to 1,7 billion US dollars in 2016 but fell by half the following year. During the peak of the Covid-19 pandemic in 2020, it dropped to the lowest level of 605,6 million US dollars. However, in 2022 the amount doubled compared with the previous year. In 2023, for the first time, FDI attracted to joint ventures and enterprises with foreign investment outside the oil and gas sector in Azerbaijan rose to 2 billion USD , although in the last year of the period, 2024, a decline was recorded.

Diagram 2. FDI attracted to joint ventures and enterprises with foreign investment in 2015–2024 (in current US dollars of respective years).



Source: prepared based on SSC data.

According to our calculations based on [SSC data](#) on the annual non-oil and gas GDP created in Azerbaijan, the ratio of annual FDI attracted to joint ventures and enterprises with foreign investment to annual non-oil and gas GDP was 2,3 percent in 2020, 2,6 percent in 2021, 5,1 percent in 2022, 4,9 percent in 2023, and 3,1 percent in 2024.

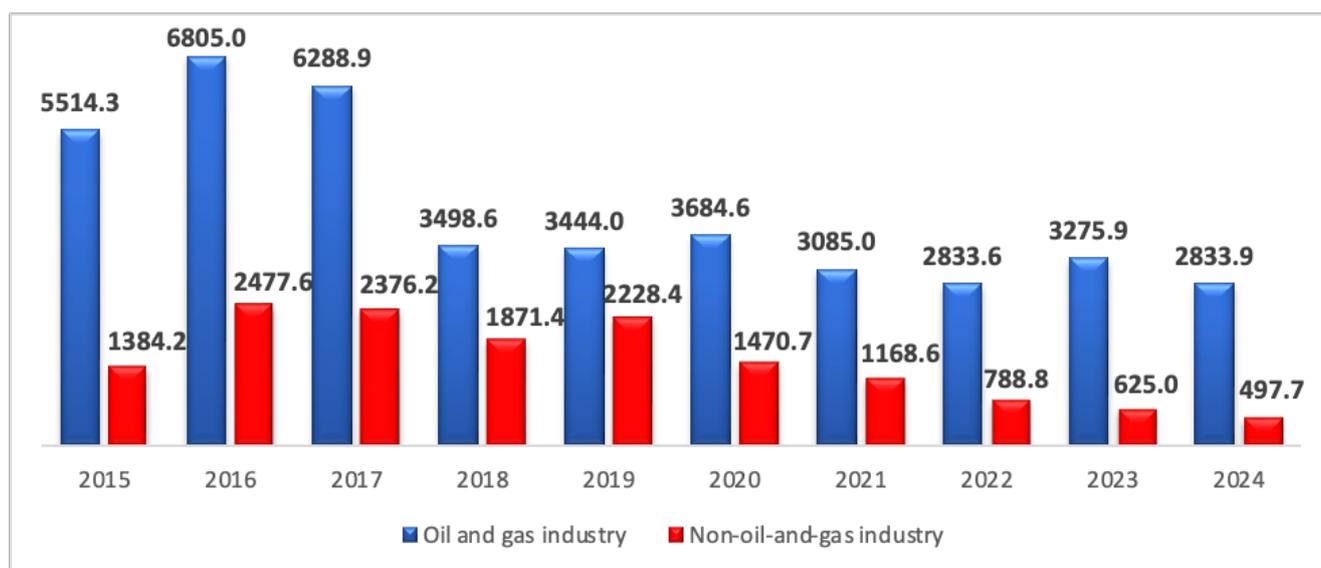
The sectoral structure of FDI directed to fixed capital

The main driving force of economic growth is investment directed to fixed capital. According to our calculations based on [SSC data](#), the total amount of foreign investment directed to fixed capital in the Azerbaijani economy over the past 10 years, covering 2015–2024, equaled 56,152 billion manats. Of this, 41,2 billion manats, or 73,5 percent, fell to the share of the oil and gas sector, while the remaining 14,9 billion manats, or 26,5 percent, went to the non-oil and gas sector.

The structure and dynamics of FDI directed to fixed capital in the country over the last 10 years are presented in Diagram 3. As can be seen from the diagram, since 2017 both the oil and gas sector and the non-oil and gas sector have experienced declines in foreign investment directed to fixed capital. While the average annual amount of foreign investment directed

to fixed capital in the oil and gas sector exceeded 3 billion manats, in the non-oil sector it declined year by year. The amount of foreign investment directed to fixed capital in the non-oil and gas sector fell from 2,5 billion manats in 2016 to 497,7 million manats in 2024.

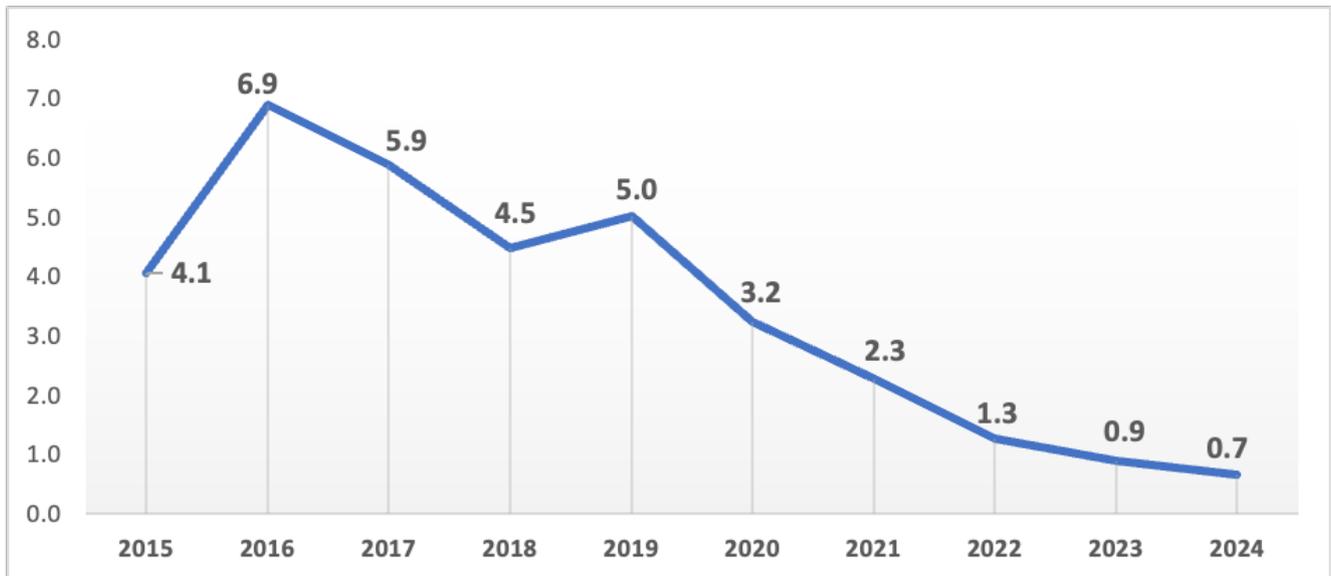
Diagram 3. Dynamics of FDI directed to fixed capital in 2015–2024, million manats.



Source: prepared based on SSC [data](#).

A sharp decline can also be observed in the ratio of FDI directed to fixed capital in the non-oil and gas sector to annual non-oil and gas GDP. This can be seen in Diagram 4.

Diagram 4. Change in the ratio of FDI directed to the non-oil and gas sector to non-oil and gas GDP, in percentage.



Source: prepared based on SSC data.

As the diagram shows, while this indicator was 6,9 percent in 2016, it fell to 0,7 percent in 2024, which means a decrease of 6,2 percentage points over the last eight years.

Looking at the sectoral structure of FDI directed to fixed capital, the overwhelmingly dominant share of the extractive industry should be noted. According to our calculations [based on SSC data](#), 73,6 percent of such investments during 2015–2024, or 41,3 billion manats, fell to the extractive industry (99 percent of this amount related to the oil and gas industry). The second area of interest for foreign investors during this period was the construction sector, with a share of 13,3 percent. The amount of foreign investment directed to fixed capital in construction over the past 10 years was 7,5 billion manats. In third place was transport and storage with a share of 5,2 percent. This sector attracted 2,9 billion manats of foreign investment over the past 10 years.

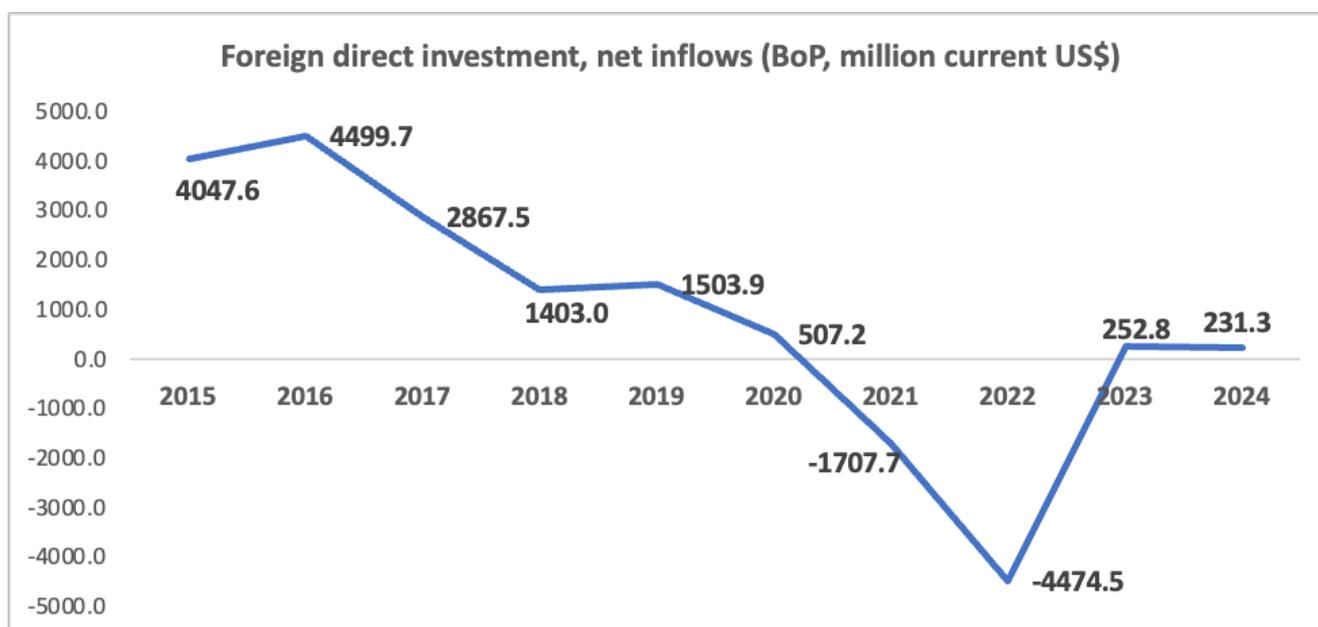
The country's manufacturing industry has not yet become an area of real interest for foreign investors. Over the last 10 years, the total amount of foreign investment directed to fixed capital in the manufacturing industry was only 959,8 million manats. Of this, 798,0 million manats, or 83,1 percent, occurred in a single year, 2019. According to [SSC data](#), in 2019, of the 798,0 million manats of foreign

investment directed to fixed capital in the manufacturing industry, 778,0 million manats, or 97,5 percent, went to the production of rubber and plastic products, while 13,0 million manats, or 1,6 percent, went to food production.

Net FDI inflows to Azerbaijan in the last 10 years

It is known that foreign investments directed to a country's economy are made by investors with the aim of generating income. Foreign investors periodically repatriate the income they earn from their investments (profits, dividends, etc.). Therefore, assessing how the country's investment attractiveness or level of interest for investors has changed mainly requires an evaluation of net FDI inflows. Net FDI inflows to the country are understood as the difference between the amount of FDI that entered the country in a given year and the amount of investment income repatriated from the country in the same year. This indicator is prepared based on the data of the country's annual balance of payments. The dynamics of net FDI inflows to Azerbaijan for 2015–2024, prepared based on [World Bank data](#), are shown in Diagram 5.

Diagram 5. Dynamics of net FDI inflows to Azerbaijan in 2015–2024, millions of USD.



Source: World Bank.

As can be seen from the diagram, after 2016 the amount of net FDI inflows to the country declined year by year. In 2021 and 2022 it was even negative. The amount of investment income repatriated from Azerbaijan by foreign investors in those years exceeded the amount of new FDI directed to the country by 1,7 billion US dollars in 2021 and by 4,5 billion US dollars in 2022. According to World Bank data, a small positive difference (230–250 million US dollars) was recorded in the net FDI inflows to the country in the last two years.

Conclusion

Based on the analysis of data for the past 10 years (2015–2024) on FDI attracted to the Azerbaijani economy, we can conclude that despite the steps taken by the government after the economic and financial crisis of 2015–2016, the country's non-oil and gas sector has still not been sufficiently attractive for foreign investors. To attract the desired level of FDI into the non-oil and gas sectors of the country, more serious institutional and structural reforms are still needed.