

The Dynamics and Structure of Investment Activity in the Azerbaijani Economy

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According to data from the State Statistical Committee of the Republic of Azerbaijan, no economic growth was recorded in Azerbaijan in the [January](#)-May period of this year compared with the same period of the previous year: During the period, the growth rate of gross domestic product (GDP) at comparable prices was 0.0%. It should be noted that in [January-March](#) of this year, a 0.3% decline was recorded compared with the same period of the previous year.

In an [interview](#) with the press, Azerbaijan's Minister of the Economy, Mikayil Jabbarov, stated that the government was aware why economic growth rates had fallen short of expectations, and he attributed this mainly to "changes in the timelines of a number of projects implemented by the state." He specifically emphasized that "this decline is related more to public construction than to private construction." In the same interview, the minister also noted that "the dynamics of private investment are gradually increasing."

The fact that the minister directly responsible for economic growth within the government links the decline directly and exclusively to public investment projects raises numerous questions. This is due, at the very least, to the fact that the slowdown in economic growth is not characteristic only of the first months of this year: whereas the country's annual economic growth rate stood at 4,2% in 2024, it was only 1,4% in 2025. In other words, the downward trend in economic growth has already been observed in the previous year as well.

Investment is both one of the main components of gross domestic product (GDP) and one of the principal drivers of

economic growth in a country. After substantial oil revenues began to flow into Azerbaijan from 2006 onward, the construction sector experienced significant expansion, and a “construction boom” took place in the country during 2008-2015: The share of the construction sector in annual GDP rose to 12,6% in 2014.

However, following the financial crisis of 2015, this indicator began to decline year by year, falling to 4,8% in 2022. Over the last three years, from 2023 to 2025, the sector’s share has remained within a range of 6,2-6,5%.

These developments are taking place against the backdrop of large-scale projects implemented in recent years for the reconstruction and resettlement of the country’s liberated territories, as well as government statements regarding the signing of numerous major investment projects with domestic and international organizations.

For this reason, we decided to examine the state of investment activity in the national economy over the past decade and its impact on economic growth. In this article, based on a descriptive statistical analysis of the dynamics, intensity, and structure of investment activity, we identify the main trends in investment policy and investment activity in the country.

A Brief Overview of Statistical Indicators of Investment Activity

In economic statistics, the most commonly used indicators of investment are “gross investment” and “investment in fixed capital.” Although these concepts are closely related in meaning, they differ in terms of scope and economic content.

“Gross investment” covers all investment flows directed into the national economy during a given year or period. This includes investment in fixed capital, increases in inventories, investment in land and other intangible assets,

and various financial investments, such as shares, bonds, deposits, equity participation, and, in some cases, even investment in intellectual property products.

This indicator encompasses all types of investment resources directed into the economy during the period and is used in the analysis of broader financial and economic processes to examine the movement of financial resources.

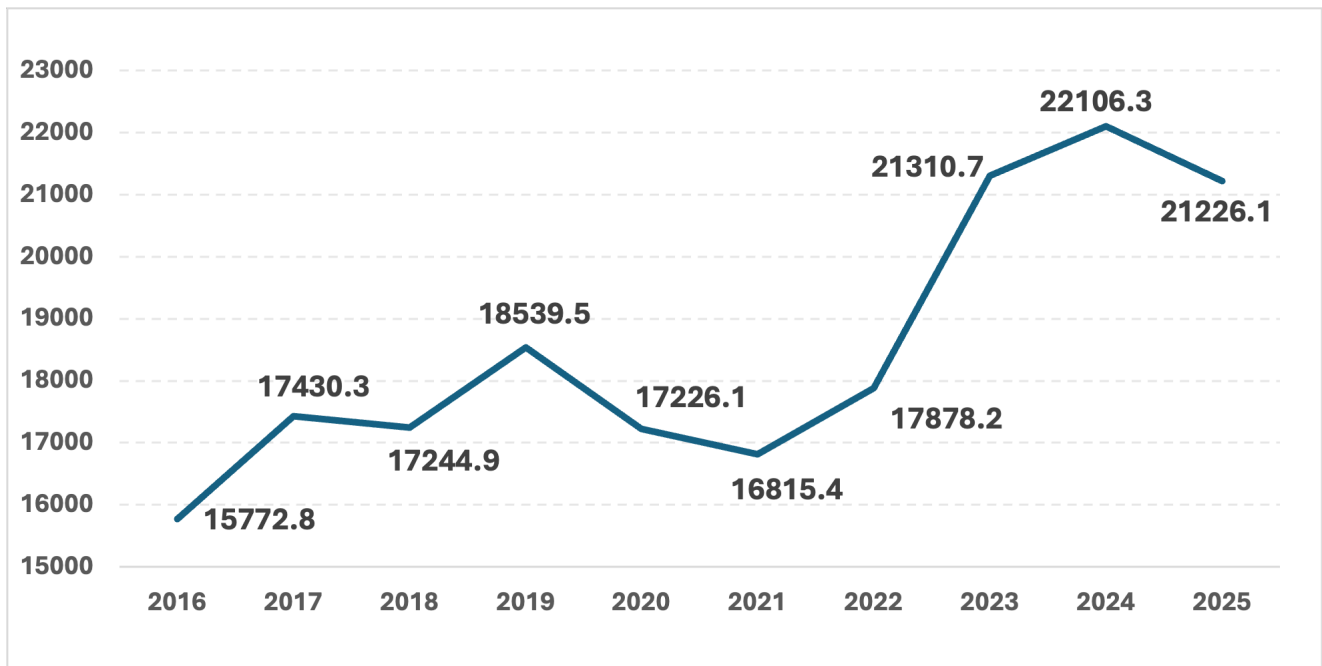
“Investment in fixed capital” is a financial and statistical indicator that reflects the total actual expenditures incurred during a given year or period for the creation, reconstruction, expansion, and modernization of fixed assets. This includes the construction of new enterprises, buildings, and facilities; the purchase of production equipment; the acquisition of transport vehicles; major repair and reconstruction works; and the creation of tangible assets intended for long-term use.

Investment in fixed capital increases the future production capacity of the real sector. For this reason, this indicator is primarily used in policy analyses that examine the sources of economic growth and the intensity of economic activity.

The Dynamics and Intensity of Investment Activity in the Country

Over the past decade, investment in fixed capital in the Azerbaijani economy has exhibited a fluctuating upward trend (Figure 1).

Figure 1. Annual Volume of Investment in Fixed Capital, at Current Prices, million manats

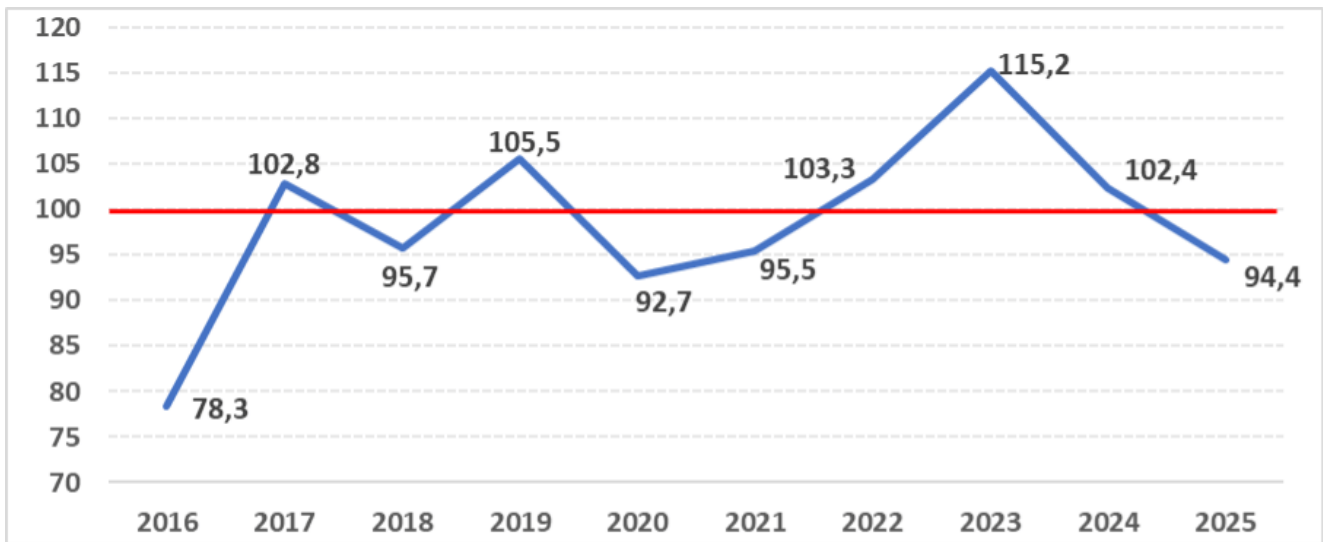


(Source: The figure was prepared based on data from the State Statistical Committee.)

As shown in Figure 1, the annual volume of investment in fixed capital increased gradually in 2016-2020, declined in 2020-2021, and then rose again in 2022-2024, while last year the trend shifted downward. It should also be noted that, [according](#) to the State Statistical Committee, this trend continued during the first five months of this year.

In addition to the dynamics of the absolute volume of investment in fixed capital in the Azerbaijani economy over the past decade, the growth rates compared with the previous year also present a concerning economic picture. This can be observed in Figure 2.

Figure 2. Growth Rate of Investment in Fixed Capital Compared with the Previous Year, at Comparable Prices, percent



(Source: The figure was prepared based on data from the State Statistical Committee.)

As can be seen, in five of the last ten years, capital investment in fixed assets, measured at comparable prices, not only failed to increase compared with the previous year but actually declined. With the exception of 2023, growth in the other years in which an increase was recorded was also very modest.

Another indicator used to assess current investment activity in the country is the ratio of investment in fixed capital from all sources during the year to annual GDP. This indicator reflects the intensity of annual capital investment in the country, or the short-term investment activity of the public and private sectors.

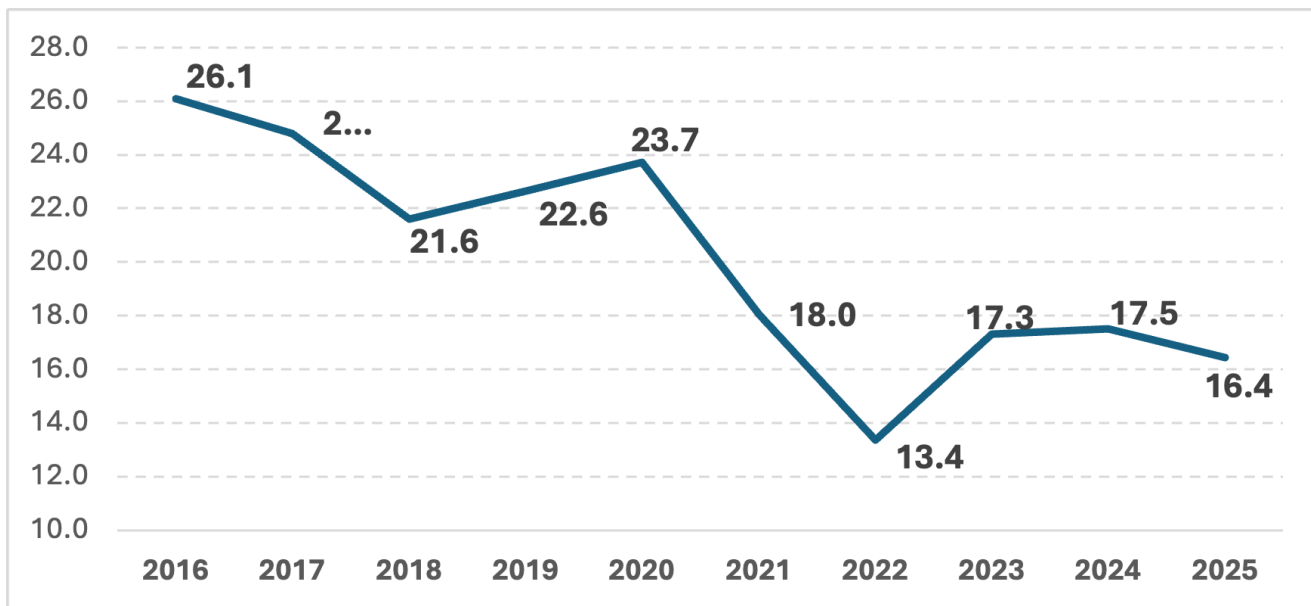
This indicator, however, does not characterize the share of investment in annual GDP, since the “investment” indicator used as an expenditure component of GDP in the System of National Accounts is Gross Capital Formation (GCF). The GCF indicator will be used in the next article.

According to the studies and recommendations of various international organizations, an annual capital investment-to-GDP ratio below 15% is considered low, a ratio between 15% and 20% acceptable, a ratio of 20-25% normal and sustainable, and a ratio of 25-30% indicative of high investment activity. A

ratio above 30% characterizes rapid development or an “investment boom.”

Figure 3 illustrates how the ratio of investment in fixed capital to annual GDP has changed in Azerbaijan over the past decade, expressed as a percentage.

Figure 3. Investment in Fixed Capital as a Share of Annual GDP, at Current Prices, percent



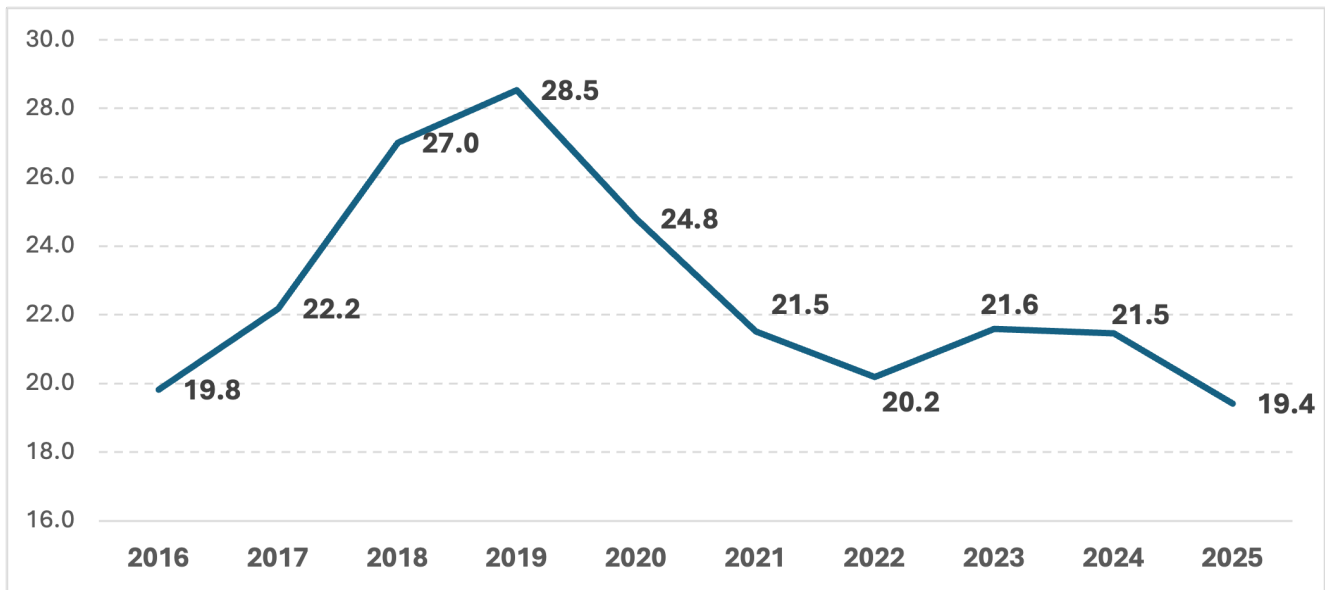
(Source: The figure was prepared based on data from the State Statistical Committee.)

As shown in the figure, although investment activity in Azerbaijan in 2016-2020 was at a level consistent with normal and sustainable development, over the last five years it has declined to an acceptable level.

Figure 3 reflects capital investment directed to both the oil and gas sector and the non-oil and gas sector. To assess the level of investment activity in the non-oil and gas sector specifically, it is useful to examine how the ratio of investment in fixed capital in this sector to annual GDP generated by the same sector has changed (Figure 4).

Figure 4. Investment in Fixed Capital in the Non-Oil and Gas Sector as a Share of Non-Oil and Gas GDP, at Current Prices,

percent



(Source: The figure was prepared based on data from the State Statistical Committee.)

Figure 4 shows that, with the exception of last year, investment activity in the non-oil and gas sector of the economy over the past nine years was at a normal and sustainable level, and even reached a high level of investment activity in 2018 and 2019. The growth recorded in the non-oil sector in recent years may be a result of this.

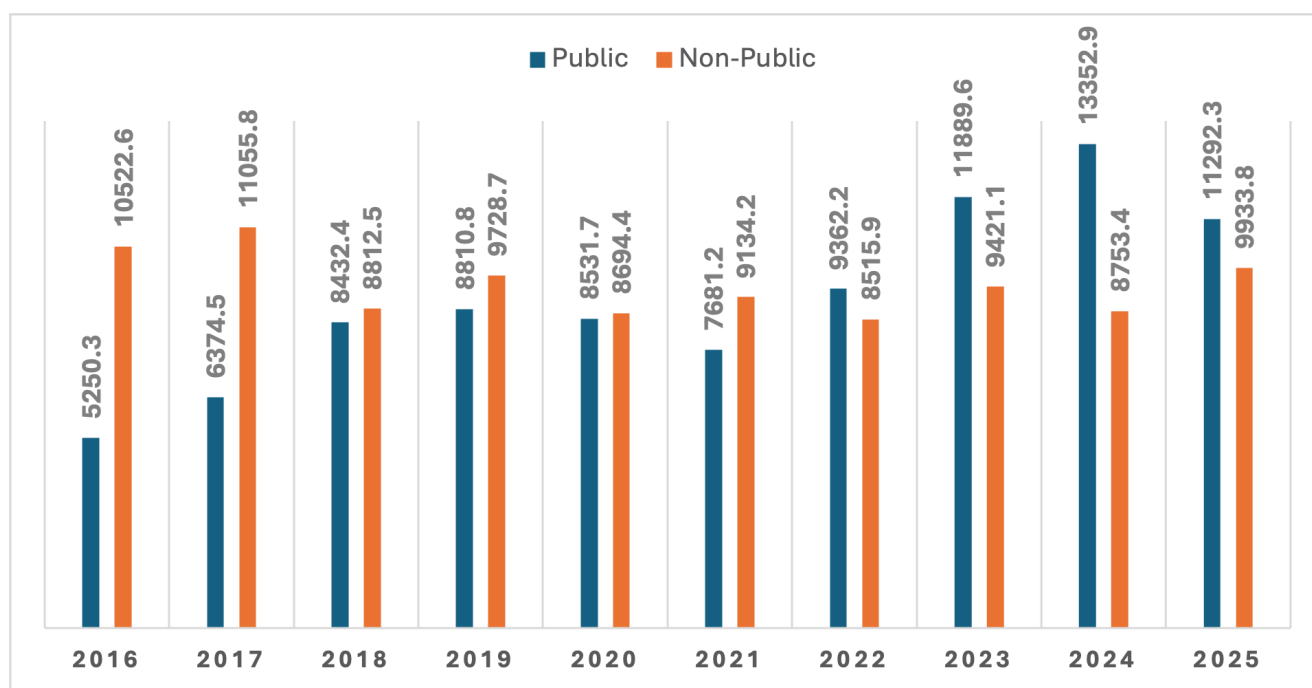
However, a concerning trend is also observed here: While investment activity in this sector increased year over year in 2016-2019, a downward tendency has been observed since 2020. Although some stabilization occurred in 2023-2024, which may be related to public investment directed toward reconstruction and resettlement projects in the liberated territories, investment activity declined relatively in 2025.

When examining investment activity, the role of the public and non-public sectors in this process is also of considerable importance. Prior to the financial and economic crisis of 2015, public investment accounted for a high share in the “public-private sector” distribution of investment in Azerbaijan, at approximately a 70% to 30% ratio. One of the targets set out in the “Strategic [Road Map](#) for the National

Economy Perspective of the Republic of Azerbaijan,” approved by Decree No. 1138 of the President of the Republic of Azerbaijan dated 6 December 2016, was precisely to achieve investment activity driven predominantly by the private sector. This is also among the main objectives of the “[Strategy](#) for Socio-Economic Development of the Republic of Azerbaijan for 2022-2026,” approved by Order No. 3378 of the President of the Republic of Azerbaijan dated 22 July 2022.

The dynamics of investment in fixed capital in the national economy by public and non-public sectors over the ten-year period covering 2016-2025 are presented in the following figure (Figure 5).

Figure 5. Dynamics of the Annual Volume of Investment in Fixed Capital by Public and Non-Public Sectors, at Current Prices, million manats



(Source: The figure was prepared based on data from the State Statistical Committee.)

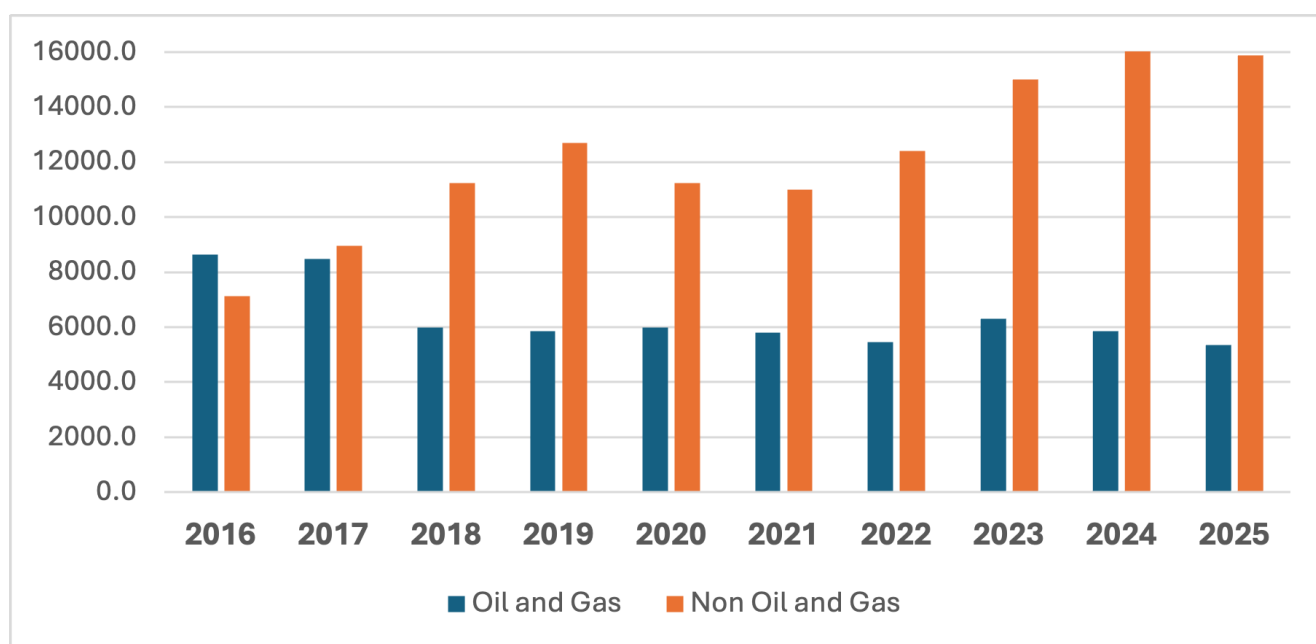
As can be seen, in 2016 and 2017, the majority of capital investment was carried out by the non-public sector. This was the period during which transfers from the State Oil Fund to the state budget were reduced due to the financial and

economic crisis. In 2018-2021, the non-public sector maintained a slight advantage in capital investment. In the period after 2022, however, the public sector once again began to dominate investment activity.

It should be taken into account that, in this figure, non-public investment also includes foreign direct investment attracted to both the oil and gas and non-oil and gas sectors. For this reason, the share of the non-public sector in capital investment appears to have increased. In reality, however, the majority of foreign direct investment continues to be directed toward the oil and gas sector of the economy. In addition, in recent years, some foreign direct investment has also been placed in construction, transport, and storage.

Over the past decade, the majority of investment in fixed capital in the Azerbaijani economy has been directed toward the non-oil sector. Moreover, the share of this sector in total capital investment has steadily increased (Figure 6).

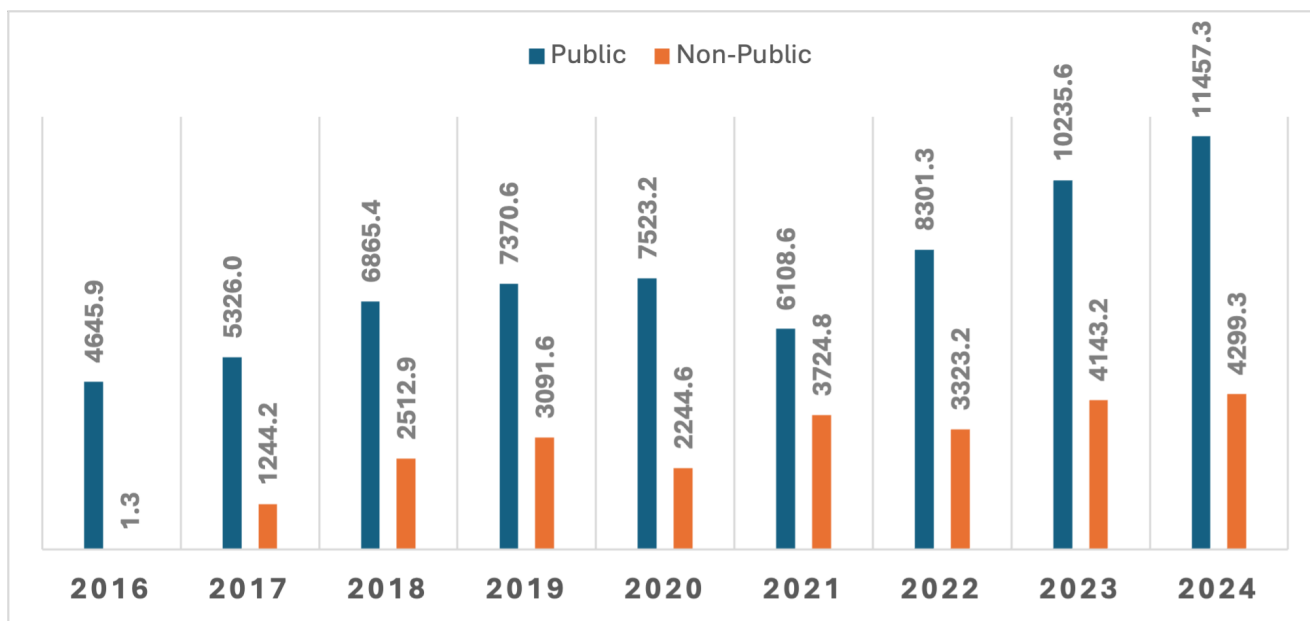
Figure 6. Dynamics of Investment in Fixed Capital by Oil and Gas and Non-Oil and Gas Sectors, at Current Prices, million manats



(Source: The figure was prepared based on data from the State Statistical Committee.)

Capital investment directed to the non-oil and gas sector of the economy is carried out mainly from domestic sources. In the ownership structure of such investment, however, public investment predominates (Figure 7).

Figure 7. Dynamics of Capital Investment Directed to the Non-Oil and Gas Sector from Domestic Sources by Public and Non-Public Sectors, at Current Prices, million manats



(Source: The figure was prepared based on data from the State Statistical Committee.)

As shown in the figure, in 2017-2024, with the exception of 2021, 70-75% of investment directed to the non-oil and gas sector from domestic sources was accounted for by the public sector, while the remaining 25-30% was attributable to the non-public sector.

Investment in fixed capital by the non-public sector in the branches of the non-oil and gas sector has continued to increase gradually year by year. Although the volume of such investment in 2024 was more than 3.5 times higher than in 2017, overall private-sector investment activity in the non-oil and gas sector remains low.

The Structure of Investment Activity in the Country

In assessing the impact of investment directed into the national economy on economic growth, the structure of annual investment, alongside its dynamics, is also important. The effect of investment in fixed capital on productivity and economic growth depends largely on the allocation structure of such investment and on the extent to which it generates productive capital.

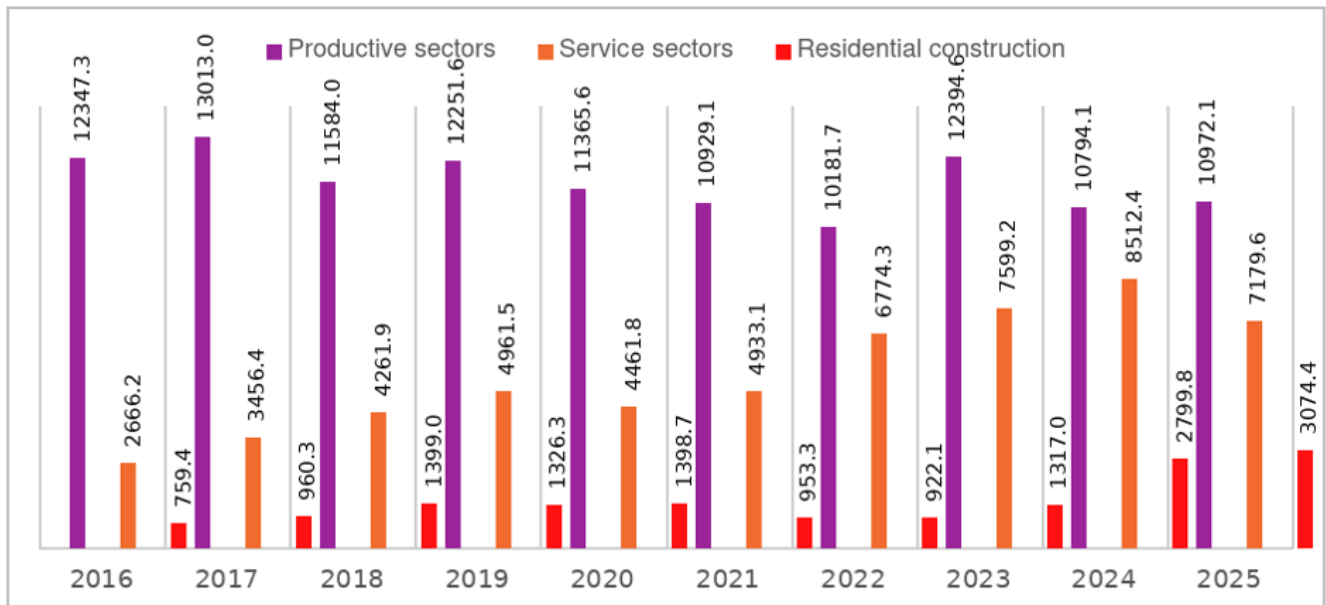
In other words, what matters is not only the increase in the volume of investment in fixed capital, but also its structure, that is, how it is distributed. It is precisely the structure of investment that determines the quality of productivity gains and economic growth.

In international practice, the allocation structure of investment in fixed capital refers to the distribution of investment across four key areas: i) the creation of infrastructure facilities and structures, ii) the creation of production or industrial facilities, iii) technological renewal and innovation, and iv) the construction of real estate assets. This classification makes it possible to better assess the efficiency of the structure of capital investment and its impact on economic growth.

In Azerbaijan, however, the State Statistical Committee does not present the structure of investment in fixed capital in this format. The structure provided by the Committee consists of three components: i) goods-producing sectors, ii) service sectors, and iii) residential construction.

The dynamics of investment in fixed capital in the country over the past decade by these components are presented in Figure 8.

Figure 8. Structural Dynamics of Investment in Fixed Capital, at Current Prices, million manats



(Source: The figure was prepared based on data from the State Statistical Committee.)

The figure clearly shows that, over the past decade, capital investment directed to production sectors in the national economy has not recorded any significant increase year over year; on the contrary, it has declined to some extent, fluctuating within the range of 10,0-13,0 billion manats annually. By contrast, capital investment allocated to service sectors and residential construction has increased year by year:

- Compared with 2016, the annual volume of capital investment in service sectors more than tripled in 2024, rising from 2,7 billion manats to 8,5 billion manats, although a slight decline was recorded last year.
- Over the same period, the annual volume of investment directed to residential construction increased fourfold. Particularly sharp growth in such investment has been observed over the last three years: The annual volume of funds directed to residential construction rose from 922,1 million manats in 2022 to 3,0744 billion manats in 2025, representing a 3,3-fold increase.

Thus, compared with 2016, in 2025 the structure of total

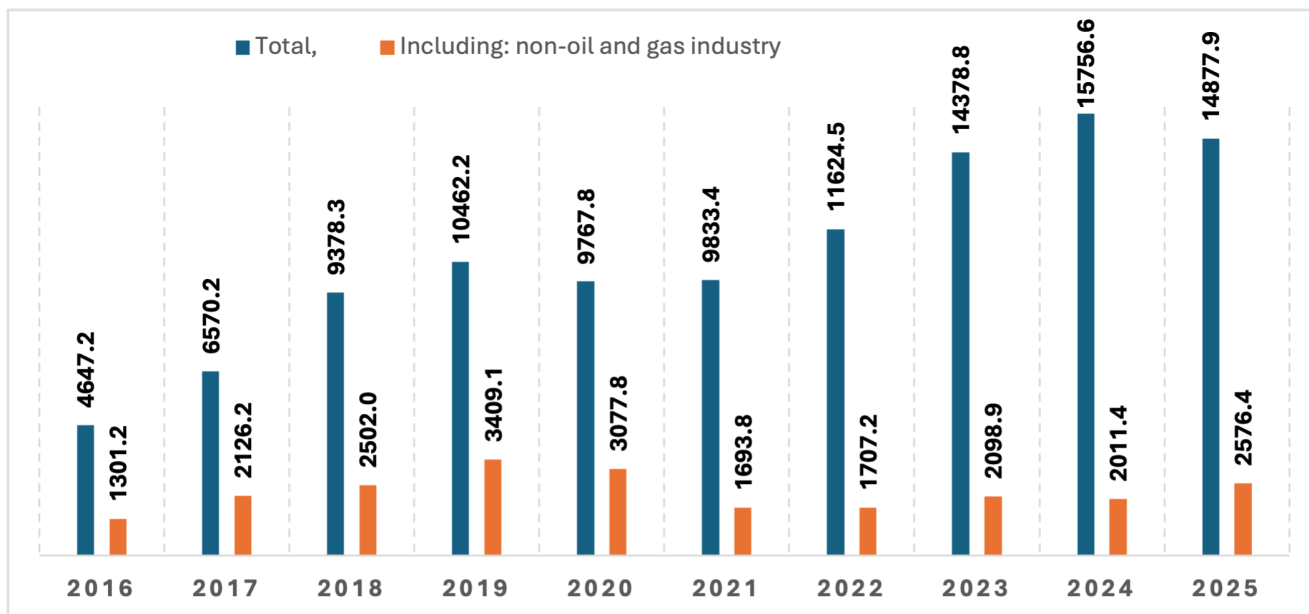
investment in fixed capital changed as follows:

- the share of production sectors declined from 78,3% to 51,7%, a decrease of 26,6 percentage points;
- the share of service sectors increased from 16,9% to 33,8%, a difference of 16,9 percentage points;
- the share of residential construction increased from 4,8% to 14,5%, an increase of 9,7 percentage points.

While investment directed to production and infrastructure sectors contributes to long-term economic growth by generating productivity and base effects, investment directed to service sectors and housing construction mainly has employment and social effects. The structural changes observed over the last three years may also be related to state-led projects aimed at the restoration, reconstruction, and resettlement of the liberated territories. Nevertheless, it should be noted that these changes in the structure of investment in fixed capital act as a factor reducing the impact of investment on economic growth.

From the perspective of influencing economic growth by creating long-term production potential, the development of non-oil and gas industrial sectors is particularly important. Therefore, Figure 9 shows how the share of non-oil and gas industrial sectors in investment directed to the non-oil and gas sector has changed.

Figure 9. Dynamics of Domestic Investment in Fixed Capital in the Non-Oil and Gas Sector and the Non-Oil and Gas Industry, at Current Prices, million manats



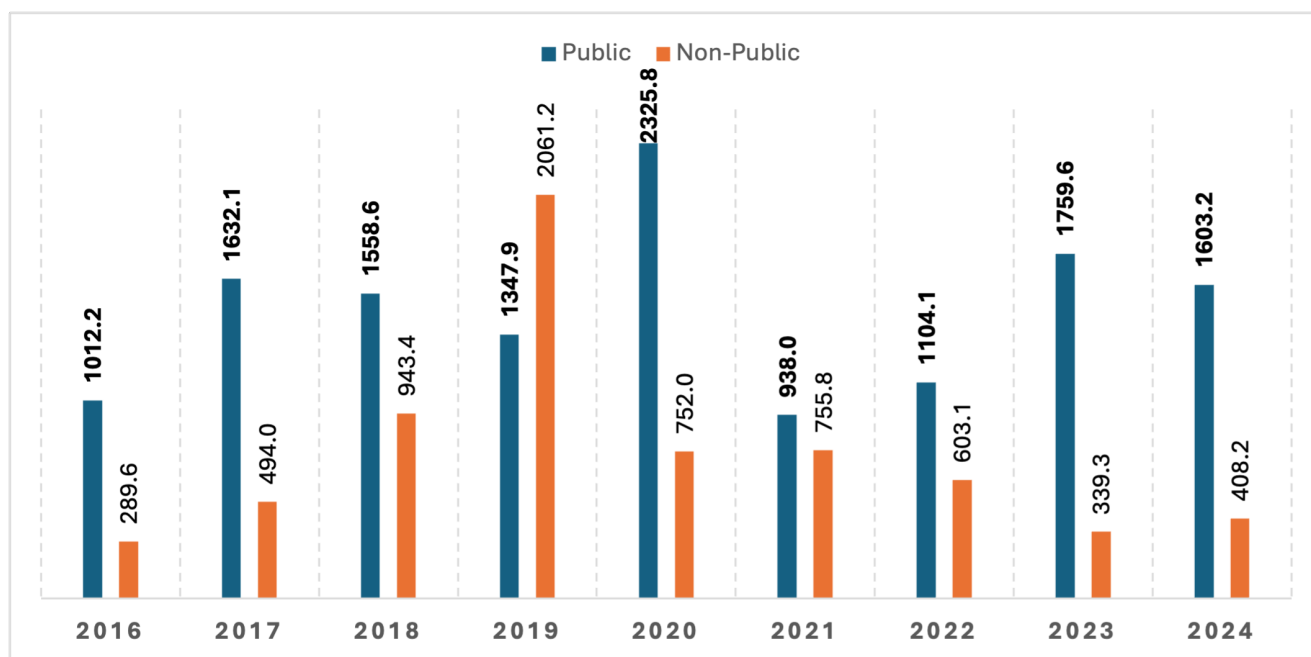
(Source: The figure was prepared based on data from the State Statistical Committee.)

The figure clearly shows that, in 2016-2020, investment directed from domestic sources to non-oil and gas industrial sectors accounted for up to 30% of total domestic investment in Azerbaijan's non-oil and gas sector. In subsequent years, however, although the total amount of capital investment from domestic sources in the non-oil and gas sector increased year by year, as shown by the blue bars in the chart, the amount allocated directly to non-oil and gas industrial subsectors not only failed to increase but actually declined, as shown by the orange bars, and its share fell below 20 percent.

Our analysis indicates that only a very small share of the funds directed to non-oil and gas industrial sectors is invested in non-oil and gas manufacturing industries; in other words, no significant progress is being made in the development of manufacturing industries in the country.

An examination of the ownership structure of investment directed to non-oil and gas industrial sectors, that is, its distribution between public and non-public sectors, shows that the public sector also occupies a dominant position in these investments (Figure 10).

Figure 10. Dynamics of Domestic Investment in Fixed Capital in Non-Oil and Gas Manufacturing Industries by Public and Non-Public Sectors, at Current Prices, million manats



(Source: The figure was prepared based on data from the State Statistical Committee.)

The figure shows that in 2016-2019, investment by the private, or non-public, sector in non-oil and gas industrial sectors increased, rising from 289 million manats in 2016 to 2,0 billion manats in 2019. In 2019, private investment in the non-oil and gas industry even exceeded public investment. However, from 2020 onward, private-sector investment declined sharply, reaching 408 million manats in 2024. During this period, public investment increased, although such data for 2025 have not yet been released.

Conclusion

Based on the analysis conducted, the main trends in investment activity and public investment policy in Azerbaijan over the past decade, covering 2016-2025, can be summarized as follows:

I. Main Trends in Investment Activity

- Although the nominal volume of investment in fixed capital has generally increased, this growth has not been stable or sustained, instead displaying a fluctuating pattern.
- In half of the last ten years, the real growth rate of investment in fixed capital was negative, while in the remaining years growth generally remained weak. This indicates that investment activity has been largely unstable.
- Although the intensity of investment in fixed capital was at a level consistent with normal and sustainable investment activity in 2016-2020, it declined after 2021 to a level that may be considered merely acceptable.
- Investment activity in the non-oil and gas sector has generally exceeded the overall national level of fixed-capital investment activity, although this sector has also shown a downward trend since 2020.

II. Main Features of Public Investment Policy

- Although official strategic documents set the objective of increasing the leading role of the private sector in investment, the actual dynamics indicate that this goal has not been achieved.
- Since 2022, the dominant position of the public sector in investment in fixed capital has strengthened again. This is mainly associated with reconstruction and redevelopment projects in Karabakh and East Zangezur.
- The public sector accounts for 70-75% of domestic investment directed to the non-oil and gas sector. This indicator shows that the state remains the main driving force behind the investment process in the non-oil economy.

III. The Role of the Private and Public Sectors in Capital Investment

- Although the share of the non-public sector in total investment has increased to some extent, a significant part of this still comes from foreign direct investment, which continues to be directed mainly toward the oil and gas sector.
- Private investment in the non-oil and gas sector financed from domestic sources has shown some growth; however, its share remains limited, and the dominance of the public sector in investment activity continues.
- In the non-oil and gas industry, private investment demonstrated rapid growth in 2016-2019, followed by a sharp decline after 2020. Over the same period, public investment continued to increase.

IV. Changes in the Structure of Investment in Fixed Capital

- The structure of investment shows a shift away from production-oriented projects toward service sectors and residential construction. This may lead to a weakening of the impact of investment on economic growth.
- Although investment in the non-oil and gas sector has increased, a progressively smaller share of these funds has been directed to industry, and especially to manufacturing. This is a factor weakening the long-term productivity and economic growth potential of investment.

Thus, the main conclusion of this statistical analysis is that, over the past decade, the intensity of investment activity in Azerbaijan has weakened; the structure of investment has increasingly shifted from productive sectors toward service sectors and residential construction; and the objective of establishing the private sector as the leading force in investment has not been fully achieved.

In particular, in the non-oil sector and in industrial investment, the public sector still remains the main investor,

and the dynamics of the investment process depend to a large extent on public investment policy.

In the next article, we will provide a macroeconomic analysis of the impact on economic growth of investment policy implemented in the country over the past decade.