

Financial Sustainability of Economic Growth in Azerbaijan

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Abstract: The identification of the drivers of sustainable economic growth in Azerbaijan over the past 30 years is of both practical and scholarly significance. This article approaches the analysis of these growth drivers through the prism of financial support for growth. To this end, the author evaluates three groups of factors that have been particularly important in the Azerbaijani context: oil and foreign investment parameters, the characteristic features of economic policy, and public borrowing. The paper also assesses the specificities of forming liberal economic relations and the features of economic reforms.

Keywords: finance; efficiency; investment; sustainability; balance of payments

JEL Classification: The Journal of Economic Literature

1. Introduction

The issue of forming national economies and selecting principles of functioning becomes particularly relevant during periods of systemic reforms and institutional transformation. The evaluation of national economies is usually conducted in line with efficiency and effectiveness criteria such as resource potential, scale, development features, management approaches, and the degree of diversification (5, 7, 8, 10). For instance, V. Leontief described the national economy as a system of diverse activities and emphasized its capacity for self-regulation as a crucial feature. Despite the broad spectrum of approaches, structural analysis is most frequently applied in assessing the real development potential of national economies (11).

Based on an analysis of the effects of transitional features of the national economy on economic growth, it can be argued that deviations from global experience and theoretical models, as well as the persistence of certain transitional characteristics, have not only failed to hinder but have, in fact, served as important determinants of Azerbaijan's leap from deep recession to rapid growth within a short period.

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Among the factors determining the phenomenal pace of economic growth during the independence period, the oil factor is undoubtedly decisive. While oil has been a primary driver of development, its most important “service,” in our view, has been its function as an indispensable financial resource for the reconstruction of other crucial sectors of the economy. Large-scale investments in the oil industry also acted as a stimulus for attracting foreign investments into other sectors. In this process, the role of economic policy pursued during that period was particularly significant and effective. The government’s economic policy aimed at diversifying the national economy and strengthening its social dimension ensured the achievement of an overall accelerative effect.

Over the past decade, the dominance of domestic investments in the structure of national capital formation, alongside the emergence of a trend prioritizing investments in the non-oil sector, can be regarded as the “product” of this economic policy.

In our opinion, the government’s approach to managing financial resources has also had a profound impact on the observed rapid growth. The maintenance of adequacy between fiscal and monetary factors in financial management targeted at preserving macroeconomic stability, the effective use of the balancing role of the balance of payments, and the purposeful utilization of public borrowing as a supportive instrument significantly enhanced the effectiveness of financial policy.

2. The Impact of Oil and Foreign Investment on National Economic Growth

The identification of the main determinants of the sustainability of national economic systems, both in general and within the framework of various processes, is crucial for ensuring the continuity of growth and development dynamics. In economic analysis, the theoretical and methodological identification of growth drivers, supported by global experience, is regarded as a solid and reliable argument. However, in our view, for transitional economies such as Azerbaijan, adopting an individual approach to the selection and assessment of growth drivers and their dynamics should be considered an essential methodological principle.

During the independence period, the primary drivers of organizing and expanding national economic circulation can be identified as hydrocarbon production, the restructuring of transport-production infrastructure, and the management of financial flows. The selection of these areas is explained by their structural and systemic characteristics. These production sectors are not only extensive and complex but also distinguished by their investment attractiveness and, at the same time, possess accelerative features for the development of other sectors. On the other hand, in a national economy that suffered from a shortage of financial resources and lacked effective management mechanisms in the early years of independence, the utilization of rapidly expanding financial inflows became highly significant.

As is well known, since the mid-19th century, the oil sector has played a major structural role in Azerbaijan. For more than 180 years, Azerbaijan has acted as an “energy driver” for the economies of large states such as Tsarist Russia and the Soviet Union, being a major oil producer and manufacturer of oil and chemical products. However, at the time of the restoration of state independence in 1991, Azerbaijan’s potential as an oil country had dramatically declined. In a situation of military, political, and socio-economic collapse, the profitability of the main economic resource fell to extremely low levels, and the risk of a complete halt in the existing production and refining industries due to investment shortages became a tangible reality.

Overall, the central objective of Azerbaijan's oil strategy during the independence period has been to integrate energy resources into economic circulation, ensure the sustainability of socio-economic development, address existing problems, and create a material foundation for the prosperity of future generations (10).

The oil and gas sector, and the fuel-energy complex as a whole, remain sustainable and long-term driving forces within the structure of the national economy. The diversification of industry through deepening resource processing is still largely tied to the oil and gas sector. One of the factors that increases the relevance of this issue is that the sector has become, in fact, the key source of both national and economic security. Approximately 60–70% of the state budget is formed by revenues from this sector (10).

In global practice, the hypothesis that the oil and gas sector is one of the determinants of rapid growth in transitional economies can be verified through the analysis of the impact of the socio-economic model on institutional growth. According to some scholars (e.g., Acemoglu, Johnson & Robinson), comparisons between the pre-oil era and the oil-revenue era of development must be drawn on the basis of the quality of economic and political institutions and the conditions they create for economic growth. Therefore, the substantiated identification of institutional factors is of primary importance (1, p. 427).

According to global trends, at certain stages of development, the share of energy resources and related services in GWP may decline for various reasons. It is true that during such periods, the dynamics of GWP itself tend to weaken. Leading experts note that, under such circumstances, the key determinants of GWP growth are characterized by different parameters. The share of the oil and gas sector in the structure of GWP is considered one of the most significant indicators of this field. According to international practice, in developed oil- and gas-producing countries, the share of the oil and gas sector in GWP usually exceeds 20–30%. In general, for countries where the oil and gas industry plays a leading role, the corresponding benchmark of 20–25% is considered optimal (8).

Over the past 20–25 years, the successful implementation of Azerbaijan's oil strategy has resulted in the generation of revenues that made it possible to finance the development of sectors ensuring the sustainability of economic growth.

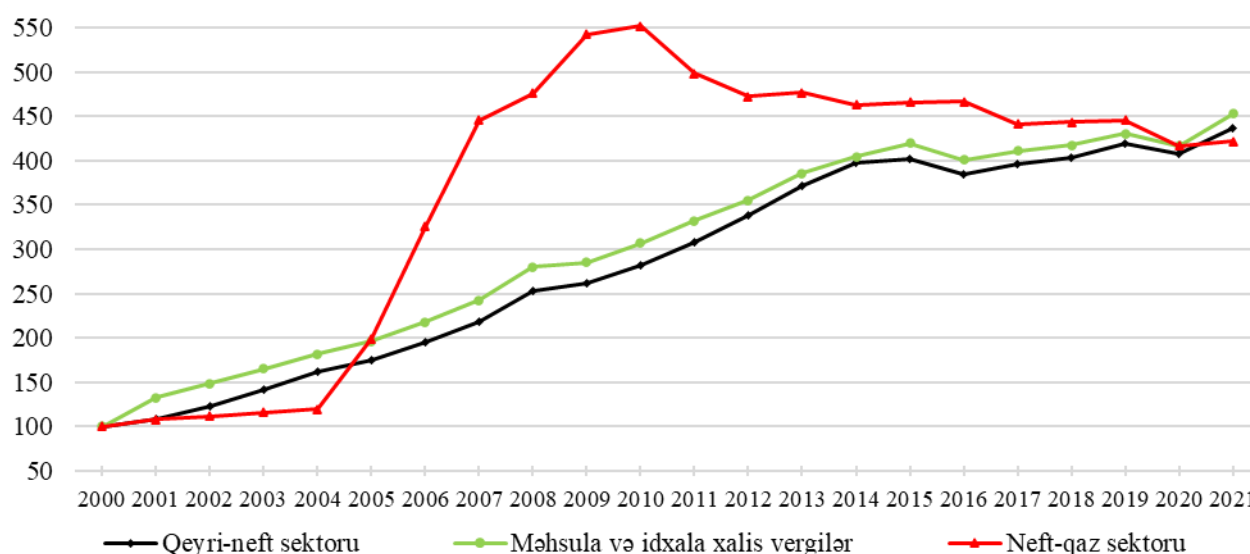


Figure 1. Dynamics of GWP growth (2000=100)

Source: State Statistical Committee of the Republic of Azerbaijan (12, 13)

During this period, the primary dominant factor in the development of the national economy was, naturally, the rapid growth of the oil sector. In the structure of industrial production, the share of the extractive industry, while traditionally high, increased to 78.9% in 2010 and stood at 67.7% in 2023. According to official statistics, the oil and gas sector has played a decisive role in the overall development dynamics of the country during the analyzed period.

Of course, variations in dynamics across individual parameters are observed, and this is natural. Beginning in 2004, the prioritization of the non-oil sector was enshrined as a key objective in Azerbaijan's development programs and economic policy documents.

Table 1. Main Macroeconomic Indicators of the Oil and Gas Sector

	Indicators	2006	2008	2010	2015	2016	2017	2018	2019	2020	2021	2022	2023
1	GWP growth rate	134,5	110,8	105,0	101.1	96.9	100.1	101.5	102.2	95.8	105.6	104.7	101.1
2	Oil sector GWP growth t	163,2	128,9	101,8	98.6	123.1	100.5	125.9	100.4	93.5	101.4	97.5	97.7
3	Oil sector share in GWP	53,8	57,2	48,5	36.6	40.5	53.1	40.2	35.7	28.1	37.1	46.6	35.3
4	Oil sector share in WB	59.3	67.8	68.8	58.4	52.7	47.9	60.3	56.2	56.7	49.9	49.9	48.8
5	Oil fund transfer in WB	15.1	10.2	51.9	46.5	43.5	36.8	49.5	46.9	49.4	42.9	25.8	35.2
6	Oil sector share in x/inv	44.7	19.2	18.9	34.6	43.1	36.0	20.3	18.6	21.4	18.4	15.9	37.5
7	Oil sector share in Exports	92.2	95.2	94.8	88.7	61.6	90.3	76.0	77.1	73.7	78.9	85.8	91.8

Table 1 was compiled based on data from the State Statistics Committee, the Central Bank and SOFAZ

According to calculations based on the data of the State Statistics Committee (SSC), between 1995 and 2022 a total of USD 186 billion in foreign investment was attracted to the national economy, of which 94.5% (USD 177.1 billion) was received during 2003–2022. Within this period, the structure of foreign investment inflows was as follows: USD 37.5 billion (24.1%) represented financial loans attracted by the Government of Azerbaijan and various public and private entities from international financial-credit organizations; USD 114.2 billion (64.5%) consisted of foreign direct investment (FDI); USD 217.7 million (0.2%) represented oil bonuses; and the remaining USD 24.8 billion (15.9%) accounted for other investments, primarily portfolio investments. During the same period, of the total FDI directed to Azerbaijan's economy, USD 98.1 billion (85.9%) was invested in the oil sector, while the remaining USD 16.1 billion (14.1%) was allocated to non-oil sectors.

Thus, Azerbaijan's position among the global leaders in GWP growth rates over the last two decades has undoubtedly been driven by large-scale investments in offshore oil and gas fields since 1995, the construction of the Baku–Tbilisi–Ceyhan oil pipeline and the South Caucasus Gas Corridor, dynamic price trends in the global oil and gas market, the multiple expansion of the oil and gas sector itself, and, ultimately, economic policy—primarily fiscal policy—which enabled the realization of these opportunities under more favorable conditions.

Taking into account that the national economy constitutes a complex system of socio-economic relations, the influence of the oil factor can be considered even broader. The value added generated in oil and gas production has not only accounted for the main share of GWP, but the spending of a portion of these revenues has created demand for the products of other sectors, thereby ensuring their development. In particular, a significant share of the value added generated in sectors such as education, healthcare, and others has been derived from the expenditure of oil revenues.

Research indicates that the aggregate demand formed through the share of oil revenues in the state budget alone accounted for over 30% of domestic demand during 2008–2022. Considering the multiplicative effect of these expenditures, it can be concluded that the role of oil revenue spending in shaping domestic demand has been even greater. Hence, it is once again confirmed that in modern Azerbaijan, revenues derived from oil and gas production remain among the key determinants of economic growth.

3. The Role of Economic Policy in the Financial Provision of Growth

Without diminishing the role of oil and foreign investment factors in achieving the phenomenal growth of the Azerbaijani economy over the past 30 years, the role of economic policy implemented alongside all natural factors must be given special recognition. Despite the diversity and creativity of economic policy during this period, here we will focus primarily on certain issues pertaining to the financial sector.

As experience demonstrates, in transitional economies, including Azerbaijan, fiscal shocks arising from the increase in budget expenditures and the resulting demand exert significant influence on macroeconomic parameters. This factor primarily affects the rate of economic growth. Since budget expenditures are financed by spending a portion of generated GWP, their impact on inflation remains limited. Analysis shows that the rise in inflation in the country has mainly been driven by the increase in prices of economic resources. In particular, in recent years, government measures aimed at aligning the prices of goods and services regulated by the state with market levels have been the main source of inflation. Under such conditions, the increase in state budget expenditures has not been a decisive factor in determining inflation levels. Overall, research conducted in five OECD member countries also shows that the impact of fiscal shocks on price levels is limited. Studies reveal that in Azerbaijan there has been no significant correlation between the growth rate of current and capital expenditures of the state budget and changes in the non-oil GWP deflator and the consumer price index.

In 2015, the sharp decline in global crude oil prices—the main donor of the state budget—resulted in a sharp fall in Azerbaijan’s budget revenues, triggering waves of devaluations. This, in turn, renewed the urgency of measures directed toward the development of the non-oil sector. The government’s new approach, aimed at sustainable development, involved reducing the dependence of the state budget on transfers from the State Oil Fund and finding mechanisms for more efficient use of expenditures. According to the Strategic Road Map adopted in 2016, amendments were made to the “Law on the Budget System” in 2018, introducing fiscal rules. This rule was applied for only one year—in 2019—and in 2020 the government suspended its application until 2022, citing the need to increase budget expenditures to mitigate the negative effects of the pandemic. From 2022 onwards, the fiscal rule was reinstated. The new fiscal rule limits only the level of the non-oil budget deficit, thus regulating fiscal discipline.

As manifestations of purposeful economic policy during the independence period, the following should be highlighted: preventing the negative effects of multiple increases in financial inflows driven by oil revenues; avoiding market collapse despite the rapid expansion of domestic market capacity in the face of substantial growth in public expenditures; steering clear of excessive borrowing from global financial markets; constantly expanding the scope of domestic economic activity, including widening support for entrepreneurship; increasing funding for infrastructure; strengthening attention to regional development; and prioritizing program-based development. The best evidence of this

assessment is the calm response of the national economic system to the global financial and economic crisis that began in 2008.

When assessing the performance of the Azerbaijani economy in the post-crisis period, we believe the primary focus should be on analyzing the opportunities created by economic policy to support sustainable development. From this perspective, the expansion of the functionality of the state budget and the strengthening of its regulatory role may be considered the dominant instruments of national economic policy. During this period, the nature of the state budget underwent significant transformation, effectively becoming a budget of growth and development. State budget expenditures, which accounted for one-third of GWP, turned into a genuine “engine” of growth and development. Moreover, the long-term maintenance of a high share of investment expenditures within the state budget underscores the consistency of fiscal trends. Importantly, the targeted nature of public investment expenditures confirms that their rapid increase did not result in an overdominance of the state in economic activity. This is because public funds were directed toward the modernization of critical public service sectors, including social, energy, and road infrastructure. At the same time, such policies can be evaluated as supporting the development of the non-oil sector. Significant elements of the government’s attention to this area include the continuation of tax incentives for agriculture and related sectors over many years, and, in recent years, a substantial increase in funds allocated through the National Entrepreneurship Support Fund to support small businesses.

Since 2004, another important feature of national economic policy has been the prioritization of domestic resources in maintaining a high level of economic activity. For instance, over the last 10 years, approximately 58% of fixed capital investments directed towards economic development were financed from domestic resources: 28% from the state budget, 13% from non-budgetary state enterprises, and 17% from private domestic financial resources. It should be emphasized that the State’s activity strategy in this regard has been multidimensional. In Azerbaijan, the practice of large state-owned companies investing not only in their own development but also in addressing urgent social issues has become widespread. Alongside the direct allocation of public funds to entrepreneurship development, greater attention to balanced regional development—particularly through the implementation of essential social infrastructure projects—has increased the investment attractiveness of the regions, thereby encouraging both foreign and local investors to commit resources more willingly.

The essence of the rational utilization strategy of financial inflows implemented over the last 20 years lies in prioritizing sustainable economic growth rates over short-term choices between macroeconomic stability and growth under conditions of incomplete employment and high openness of the economic system. From the perspective of concrete policy measures, these outcomes can be explained, as noted above, by the continuation of systemic sterilization of the financial market and inflation-targeting measures, the institutional and functional regulation of banking activity to stimulate economic activity, ensuring the appropriate use of oil revenues in line with the stage of development, and establishing reciprocal financial flows between the state budget and the State Oil Fund to secure the continuity of public expenditures. At the same time, “stabilizing” interventions in the financial market, maintaining the operability of the banking system through maneuvers with interest rates and reserve requirements, ensuring flexibility in monetary policy, and stabilizing price levels—including wage and exchange rate policies—based on profitability norms and social effects in the real sector have proven particularly effective (6, 7).

As the next group of financial drivers of economic growth in Azerbaijan, it is appropriate to distinguish the effects arising from the formation of an open economy, targeted rational integration policy, and the nature of geo-economic external relations. From the early stages of economic reforms (1994–1998), national economic policy regarded rational transformation into the global economic system as one of the essential conditions for progress. By rational transformation, it was implied that integration should not be considered as an ultimate goal in itself, but rather as a means to achieve other objectives. For example, in the difficult early 1990s, the Azerbaijani government, aiming to address two major problems—severe investment shortages and the restoration of macroeconomic stability—concluded the “Contract of the Century” (1994) and signed a cooperation agreement with the International Monetary Fund (1995). It was only after these agreements that Azerbaijan began to attract much-needed foreign investment and support loans for reforms. Naturally, in the government’s subsequent activities, ensuring the more productive and effective utilization of foreign investments and technical credits became one of the key constraints and guiding principles of national economic policy during that period.

The best manifestation of the impact of external support on national economic growth is reflected in the country’s balance of payments. Overall, during the period under review, the balance of payments has undergone significant changes across many qualitative parameters.

Table 2. Main Analytical Indicators of the Balance of Payments

	1995-2005		2006-2012		1995-2005	
	mlrd.\$.	%	mlrd.\$.	%	mlrd.\$.	%
Attracted Capital – Total	28.0	100	52.8	100	80.8	100
Direct Investments	20.1	71.8	28.7	54.4	48.8	60.4
Oil and Gas Sector	18.4	65.7	24.0	45.5	42.4	52.5
Other Sectors	1.7	6.1	4.7	8.9	6.4	7.9
Loans and advances	6.5	23.2	17.8	33.7	24.3	30.1
Government guaranteed	2.1	7.5	5.4	10.2	7.5	9.3
Others	1.4	5.0	6.3	11.9	7.7	9.5
Total capital directed abroad	18.7	100	132.7	100	151.4	100
Direct investments	3.7	19.8	4.1	3.1	7.8	5.2
Loans and advances	-	-	3.5	2.6	3.5	2.3
Returns of direct investments	8.2	43.9	29.7	22.4	37.9	25.0
Returns of loans	1.0	5.3	13.1	9.9	14.1	9.3
Other capital	3.2	17.1	35.2	26.5	38.4	25.4
Strategic foreign exchange reserves	2.6	13.9	47.1	35.5	49.7	32.8

The table has been compiled based on data from the State Statistical Committee and the Central Bank.

The balance of payments, against the backdrop of Azerbaijan’s recent economic achievements, has generally maintained its relative equilibrium and has become one of the key enablers of sustained expansion and growth. Even during the most severe crises, the negative balance of payments deficit has not turned into a serious obstacle to economic growth; on the contrary, it has ensured the preservation of macroeconomic stability, including the relative stability of the national currency exchange rate (with the exception of the 2015 devaluation).

It is important to note that the recent assessment of the balance of payments indicates that it possesses sufficient stability overall. The main reasons for this are, of course, the nature of the national economy’s integration into the global economic system and the established growth dynamics of

Azerbaijan's economic development. At the same time, one of the factors ensuring sustainable development, in our view, is that national economic policy has increasingly acquired a geo-economic character.

In the current stage, one of the critical elements in ensuring the sustainability of growth and development in the national economy is the country's favorable geographical location, which constitutes a key factor shaping its modern geo-economic strategy. Situated at the crossroads of the natural "North–South" and "East–West" transport corridors, Azerbaijan not only facilitates the integration of its abundant oil, gas, and transit resources into global circulation but also, in recent years, has rapidly and effectively assumed the vital role of a "connecting" hub in newly operational regional transport junctions. It is particularly important to emphasize that, following the liberation of Azerbaijani territories from 30 years of occupation and the restoration of the country's territorial integrity as a result of the Patriotic War (2020), Azerbaijan's role as a regional and global transport "hub" will strengthen even further, becoming a crucial element in sustaining economic growth.

4. Public Borrowing as a Priority Direction of Fiscal Policy

In the global context, one of the most important elements of modern national fiscal policy is borrowing, whose effectiveness and functionality have been expanding rapidly. Although borrowing has traditionally carried the essence of a financial technology, its functionality has increased sharply alongside the development of economic relations. Today, economic actors at all levels make use of a wide range of borrowing instruments, making it the most commonly employed approach to meeting financial needs. It should be noted that the current "abundance" of financial resources in the global economy is attributable not only to economic development but also to the significant role of financial technologies. For instance, the spread of corporatization (the diversification of shares) as the most effective governance model in market economies, the practical "independence" of global capital markets, the rise of digitization leading to a new qualitative stage of financial technologies (e.g., the spread of cryptocurrencies), and the expanded application of new prudential approaches in banking (Basel standards) all illustrate this transformation. Interestingly, the expansion of financing through borrowing has also conditioned an expansion in the functionality of finance itself. In essence, the decline in relevance of the quantity theory of money—originally based on the marginal utility hypothesis and on the necessary equilibrium between money supply, circulation velocity, prices, and output—has created an "invariance" of sources for obtaining financial resources. Under such conditions, the most accessible and "cheapest" type of resources has increasingly been borrowing in its various forms. In this way, borrowing has effectively ended the "era of limited financial resources" and significantly expanded their functionality (9). In our view, as highlighted above, the expansion of borrowing as a financing method in the modern era simultaneously broadens both the independence and functionality of fiscal policy. Today, fiscal policy has become a decisive dominant in performing broader functions across nearly all levels of economic activity—from households to the state.

According to data from the Ministry of Finance, as of October 1, 2024, Azerbaijan's external public debt amounted to USD 5,299.1 million, representing 7.4% of the forecasted GWP for 2024 (AZN 121,342.5 million). As of the same date, domestic public debt stood at AZN 17,192.9 million, or 14.2% of GWP. Taking into account newly attracted funds, principal repayments, and exchange rate fluctuations during the year, external public debt decreased by USD 1,162.1 million (18%) compared to the beginning of the year, while domestic public debt increased by AZN 1,326.5 million. The main

reasons for this increase were the government's efforts to support the development of the government securities market, to establish a medium- and long-term yield curve for public debt, and to implement a purposeful borrowing policy in line with the "Medium- and Long-Term Strategy on Public Debt Management of the Republic of Azerbaijan," which includes substituting external debt with domestic debt.

External public debt consists of loans from international financial institutions for infrastructure projects and financing programs, as well as the outstanding balance of funds raised through government securities placed in international financial markets. Research and official data show that in recent years, the significant volume of government-guaranteed debt obligations and the increase in debt obligations with maturities of up to 10 years have created conditions for the growth of contingent liabilities in the coming years. This, in turn, not only increases debt service costs but also drives up expenditures of the State Budget and the Guarantee Fund. Expert assessments indicate that the high share of foreign-currency-denominated obligations in the current debt portfolio is primarily due to the limited capacity of the domestic financial market to meet borrowing needs and the attraction of development-oriented loans from international financial-credit institutions of which Azerbaijan is a member. Therefore, it is considered essential to keep under close attention the risk that any potential changes in the exchange rate of the national currency could increase both the volume of public debt and the costs of debt servicing.

According to official data, 45.1% of Azerbaijan's existing external public debt is due to creditors within up to 10 years from the reporting date, 51.2% within 10 to 20 years, and 3.7% in maturities exceeding 20 years. Debt obligations with variable interest rates account for 52.8% of external debt, while those with fixed interest rates constitute 47.2%.

Budget data indicate that the upper limit of public borrowing for 2021 was projected to increase for both domestic and external borrowing, with domestic borrowing set to rise significantly more than external borrowing. Specifically, the upper limit for domestic borrowing in 2021 was determined at AZN 1.3 billion, while the ceiling for external borrowing was set at AZN 1.2 billion. In other words, the emphasis on the role of borrowing in economic policy continued during the reporting year.

Thus, research shows that although the level of borrowing in Azerbaijan has not posed serious concerns, the government, in line with global economic trends, has adopted a more cautious approach in recent years. As a preventive measure, the "Medium- and Long-Term Strategy on Public Debt Management of the Republic of Azerbaijan", adopted in 2018, can be highlighted (2). This strategy covers both the medium-term (up to 2020) through a new framework of policies and measures for public borrowing, and the long-term perspective up to 2025. To achieve its defined objectives, the strategy envisaged three strategic goals and five priority measures. The strategic goals were identified as: ensuring a sustainable and manageable level of public debt, improving the risk management system, and strengthening the infrastructure and monitoring mechanisms for public borrowing.

The strategy specifies that Azerbaijan's public debt comprises the following components:

- loans directly contracted by the government from financial-credit institutions, constituting its direct obligations;
- funds raised from the issuance and placement of government securities and bonds in domestic and international financial markets;

- contingent liabilities recognized as public debt (specifically, the portion of guaranteed debt servicing costs borne by the state in cases where borrower institutions default on loans obtained under government guarantees, calculated either as the amount due within one fiscal year or based on risk-cost analysis).

Overall, this comprehensive strategy identifies the main objective of public debt management for 2018–2025 as ensuring the sustainability of public debt while gradually reducing its ratio to GWP in the coming years. Achieving this goal also entails the implementation of complementary sub-objectives, including ensuring debt sustainability in line with the financing needs of the economy over the medium and long term, meeting fiscal needs not covered by other sources at minimal cost and risk, and supporting the development of domestic financial markets.

As noted above, although the volume and structural characteristics of public debt pose certain potential risks in terms of increasing the “additional” burden on the economy, from the perspective of supporting economic development, public debt can, in a number of cases, generate marginal and functional effects that make it highly beneficial. Indeed, this factor should also be considered one of the reasons behind the rapid increase in borrowing levels in the global economy today. The analysis of the current structure of Azerbaijan’s public debt, along with all other evaluations, requires that this aspect be taken into account as well.

In practice, in recent years, even though debt obligations attracted under state guarantees have been serviced by the operating revenues of state enterprises themselves, the potential default of implementing entities requires that the portion of debt service obligations falling within a single fiscal year—or determined based on risk-cost analysis—be classified as contingent liabilities within public debt. To this end, a Guarantee Fund for Public Debt and State Guarantees has been established within the state budget.

Overall, it should be emphasized that in recent years the efforts of the Azerbaijani government to strengthen regulation in the field of public borrowing deserve recognition. One of the most important recent decisions in this direction has been the adoption of the “Rules on Borrowing and Issuing State Guarantees on Behalf of the Republic of Azerbaijan.” According to this regulation, borrowing on behalf of the Republic of Azerbaijan is carried out through the issuance and sale of government securities in domestic and foreign markets, as well as through the orderly attraction of loan funds, within the upper limits (ceilings) defined by the annual State Budget Law.

Recent trends demonstrate that, despite notable progress in strengthening the accountability of implementing organizations receiving state-guaranteed loans and in the flow of funds intended for the Guarantee Fund, the practice of fulfilling debt obligations of several implementing organizations with unsatisfactory financial standing through the resources of the Guarantee Fund has been expanding. Specifically, the repayment of debt obligations covered by the Guarantee Fund on behalf of state-guaranteed borrowers faces significant challenges. As a result, contributions to the Guarantee Fund are in practice formed mainly from the state budget and the Central Bank’s retained earnings.

Taking these circumstances into account, we consider it essential to reaffirm the importance of increasing efficiency in public borrowing, ensuring effective risk management in this area, improving oversight mechanisms, enhancing the structure of the public debt portfolio, and diversifying borrowing sources within optimal limits.

Thus, examining the distinctive characteristics of the role of borrowing in the state's modern fiscal policy allows us to formulate a number of key conclusions and recommendations.

The growing importance of borrowing as a type of financial resource requires the establishment of a legal framework for new policy approaches and standards in both global and national economies. In the Republic of Azerbaijan, attention to this matter has increased significantly in recent years. Numerous strategic state documents and programs of major importance have been adopted. The most significant of these is considered to be the "Medium- and Long-Term Strategy on Public Debt Management of the Republic of Azerbaijan." This document, which identifies a system of strict and well-considered norms and rules as well as necessary reforms, contains many progressive targets. However, it should be noted that the strategy cannot be regarded as fully comprehensive when assessed against global best practices and national realities. For example, while the strategy emphasizes a cautious approach to creating additional foreign-currency-denominated debt obligations and envisages the attraction of loan funds—either directly or under state guarantees—only for priority projects, it does not provide for requirements such as the issuance of state guarantees for domestic borrowing related to projects.

In our view, excessive reliance on borrowing as a policy target is unacceptable for economic development. Therefore, in assessing the current conditions of Azerbaijan's economy, the following measures should be prioritized to prevent possible negative consequences of borrowing in the future:

- Regulating debt in state-owned joint-stock companies and enterprises by adopting a case-by-case approach to existing credit lines;
- Continuously assessing currency risks and ensuring financial oversight of loan projects and resource utilization in terms of effectiveness and efficiency;
- Providing the required financing at the lowest possible cost, taking into account the nature of public debt;
- Prioritizing the resolution of problems such as determining currency preferences for the debt burden in order to mitigate the impact of external macroeconomic shocks on the budget and expenditures.

In Azerbaijan's experience, the need for strengthening institutional coordination and improving effectiveness in the formation and implementation of macroeconomic, including structural, policy has been repeatedly emphasized from various perspectives. In this regard, the Financial Stability Council was established in 2016. It was intended that the Council would, through preventive measures, mitigate the negative impacts of strong volatilities in the global and national financial systems at that time and thus create a basis for enhancing the effectiveness of national economic policy.

Later, in 2020, the Economic Council of the Republic of Azerbaijan was established with the aim of "preserving macroeconomic stability in the country and accelerating socio-economic development by studying global and national economic processes, including those in the fiscal and monetary sectors as well as the financial-banking sector, and by determining the direction of reforms and economic policies to be implemented in the short and medium term to prevent possible internal and external impacts on the national economy" (2).

Taking into account the qualitative changes that have occurred in recent years in both global and national economic development, the Government of Azerbaijan rightly considered this decision as

necessary for creating a new governance framework for economic policy and economic reforms in the country.

Subsequently, two major steps were taken toward this objective. The first was the establishment of the Azerbaijan Investment Holding (AIH), which is considered a significant milestone in forming a new governance framework within the national economy. The next important step was the adoption in 2021 of the strategic document “Azerbaijan 2030: National Priorities for Socio-Economic Development.”

This document, of strategic importance, rightly emphasized that as the worthy and logical outcome of victory in the 44-day Patriotic War, “the reintegration of the liberated territories into the country’s overall economy, as well as benefiting from the opportunities of new international and regional transport-logistics corridors, will provide a strong impetus for Azerbaijan’s development.”

The National Priorities define the ideological core of Azerbaijan’s new development trajectory, which aims to ensure long-term, sustainable, and rapid growth. This includes strengthening the successful interaction among society, business, and the state; ensuring that the state’s role in the economy is effectively and efficiently managed through market-oriented reforms; strengthening private property institutions; and directing economic resources toward sectors generating higher value-added.

The realization of this new development trajectory encompasses the implementation of five National Priorities: a sustainable, growing, and competitive economy; a dynamic, inclusive society based on social justice; competitive human capital and a space for modern innovations; the great return to the liberated territories; a clean environment and a “green growth” country. These National Priorities also hold particular importance in fulfilling Azerbaijan’s commitments under the United Nations’ “Transforming Our World: the 2030 Agenda for Sustainable Development.” In this regard, we consider the establishment of a Commission on Sustainable Development in Azerbaijan to address the challenges of the new millennium as highly significant.

For this purpose, in 2016 the National Coordination Council on Sustainable Development of the Republic of Azerbaijan was established. Its primary mission was to identify national priorities and indicators aligned with global goals and targets relevant to Azerbaijan up to 2030, and to ensure the alignment of state programs and strategies covering socio-economic sectors with the Sustainable Development Goals (SDGs). Over the past five years, Azerbaijan has demonstrated its commitment to achieving the 2030 Agenda. At the same time, Azerbaijan has been one of the first countries to implement the MAPS Mission (2030 Mainstreaming, Acceleration, and Policy Support), which reflects concrete policy and programmatic steps to accelerate the implementation of the SDGs at the national level.

5. Key Findings and Recommendations

Thus, in the short- and medium-term perspective, the main challenges to ensuring sustainable development of the Azerbaijani economy can be identified as follows:

- One of the critical challenges of sustainable development is the rationalization of the sectoral structure of investments in terms of both sectoral allocation and ownership. This implies strengthening functionality in economic diversification.

- Research shows that it is advisable for national economic policy to focus on ensuring a creative macroeconomic balance between fiscal and monetary sectors.
- Against the backdrop of the sharp increase in the marginal utility of innovative technological opportunities driven by rapid global scientific and technological progress, identifying new key drivers of economic growth based on rising productivity, resilience, and adequacy to global value chains should become a primary policy priority. To this end, it is necessary to implement large-scale institutional reforms, finalize the formation of a financial market mechanism, and introduce new models of state asset management as well as corporate governance standards.

From the perspective of transforming a new approach to economic development strategy into a policy-making factor, the “National Priorities for Socio-Economic Development to 2030” are of special importance. At the same time, we believe that ensuring the realization of these National Priorities must be guided by the logic of continuity of growth and inclusiveness of development, in order to enable the economy’s “self-development” potential to materialize at a high level of productivity.

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