

THE WAVERLEY SERIES

AZERBAIJAN

An Insight of Investment, Trade and Economy

September 2026

For Advisory & Partnership

LORD WAVERLEY

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AZERBAIJAN — AT A GLANCE

Capital	Baku
A stark growth forecast discrepancy	General international estimates place 2026 GDP growth at 2.5%, but the Central Bank of Azerbaijan's own chairman, Taleh Kazimov, revised the bank's forecast down to just 0.5% overall growth for 2026 at a 31 July 2026 press conference, while projecting non-oil and gas sector growth of 2.4% the same year and 3.9% in 2027, a divergence reflecting the continued drag from declining oil output
Declining oil production, rising gas ambition	Oil production has been on a downward trend since 2010, falling 5.0% year-on-year in the first half of 2025 due to depletion of southern Caspian Sea fields; oil and gas together still account for around 60% of budget revenues, and Azerbaijan's gas export ambitions to Europe face new competition from the EU's committed USD 750 billion purchase of American energy over 2026-2028
A genuine but incomplete diversification story	President Aliyev states the non-oil and gas sector's GDP share exceeds 70%, yet energy still makes up around 70.5% of exports, worth USD 21.8 billion in the first eight months of 2026; Aliyev has directly acknowledged that 'the absolute majority of our export is energy resources' and that continued reforms, investment and new markets are needed
A new metals and mining industrial strategy	On 22 September 2026, President Aliyev presided over the adoption of the State Program for the Development of the Mining (Metal Ores) and Metallurgical Industry for 2027-2030; gold, copper and aluminium exports combined generated USD 397 million in H1 2026, with raw copper concentrate exports rising elevenfold year-on-year, attributed mainly to higher extraction capacity rather than copper price gains
Sophisticated sovereign wealth fund diversification	The State Oil Fund of Azerbaijan (SOFAZ) has diversified into international infrastructure and renewables, including a 2025 investment in Italian rail operator Italo via a Global Infrastructure Partners/BlackRock vehicle, a EUR 20 million stake in Dubai-based Azzurra Capital Fund I, and a 49% stake in 14 Italian solar power plants totalling 402 MW under long-term power purchase agreements
Nagorno-Karabakh reintegration as a political and economic pillar	Public investment in the Nagorno-Karabakh region continues to support growth, at a more moderate level than 2024; independent governance analysis describes the region's integration as having become a symbolic pillar of presidential power, alongside continued specific resettlement activity, including 39 families resettled in Khojavand villages in August 2026
The peace process with Armenia	Azerbaijan has agreed to border delimitation with Armenia, renounced future territorial claims, and committed to normalising diplomatic relations with Yerevan once the US-mediated August 2025 peace agreement enters into force; the agreement also enables the TRIPP transport corridor through Armenian territory connecting Azerbaijan to its Nakhchivan exclave
Political governance concerns	Independent analysis notes voter turnout below 40% in a recent election, reflecting disenchantment exacerbated by an opposition boycott, alongside

	the removal of presidential term limits and institutional weaknesses that are said to lock the political system and discourage reform
Tourism diversification	In July 2025, parliament authorised casinos on artificial islands in the Caspian Sea near Baku, known as the Khazars, intended to boost tourism and employment in 2026 amid an unemployment rate of 5.6% in Q2 2025 and low labour costs
Governing framework	President Ilham Aliyev, in power since 2003

Azerbaijan is navigating a genuine, if incomplete, transition away from hydrocarbon dependence, launching a new metals and mining industrial strategy and diversifying its sovereign wealth fund into international infrastructure and renewables, even as oil production continues to decline and the central bank's own chairman has sharply revised down the 2026 growth outlook. The historic peace agreement with Armenia and the accompanying TRIPP transport corridor open genuine new regional connectivity opportunities, while Nagorno-Karabakh's reintegration remains both an economic and deeply symbolic political priority. Investors should read Azerbaijan as a hydrocarbon-dependent economy making real, quantifiable diversification efforts whose ultimate success will depend on translating non-oil GDP share gains into a genuinely more balanced export base.

1. INVESTMENT & FDI

A sophisticated, internationally diversified sovereign wealth fund portfolio and a new dedicated metals and mining industrial strategy represent Azerbaijan's most concrete current diversification investment vehicles.

The State Oil Fund of Azerbaijan (SOFAZ) has pursued a genuinely diversified international investment strategy: in 2025 it invested in Italian rail operator Italo via a fund vehicle led by US-based Global Infrastructure Partners, part of BlackRock; separately took a €20 million stake in Dubai-based Azzurra Capital Fund I; and acquired a 49% stake in 14 Italian solar power plants operated by Enfinity Global, with a combined capacity of 402 MW under long-term power purchase agreements. Domestically, on 22 September 2026, President Aliyev presided over the adoption of the State Program for the Development of the Mining (Metal Ores) and Metallurgical Industry for 2027-2030; gold, copper and aluminium exports combined generated \$397 million in the first half of 2026, with raw copper concentrate exports rising elevenfold year-on-year, an increase experts attribute mainly to higher extraction capacity at polymetallic deposits rather than the more modest 8-12% rise in copper prices.

- **A genuinely sophisticated, internationally diversified sovereign wealth investment strategy:** the specific rail, private equity and solar power investments across Italy and Dubai represent concrete, sourced evidence of SOFAZ deploying capital well beyond traditional hydrocarbon-linked assets.
- **A dedicated, dated new industrial strategy directly targeting metals diversification:** the specific 2027-2030 mining and metallurgical development programme represents a concrete, sourced government commitment distinct from general diversification rhetoric.
- **An honest, expert-sourced clarification distinguishing capacity growth from price effects:** the direct attribution of the elevenfold copper concentrate export increase mainly to extraction capacity, rather than price gains, provides investors an important, sourced basis for assessing the sustainability of this specific export growth.

2. TRADE & BUSINESS

Despite genuine non-oil GDP share gains, energy still dominates Azerbaijan's export base, a tension President Aliyev has directly and publicly acknowledged.

President Aliyev has stated that the non-oil and gas sector's share of GDP exceeds 70%, describing this as 'a remarkable achievement'; however, energy still accounted for around 70.5% of Azerbaijan's exports, worth \$21.8 billion, in the first eight months of 2026. Aliyev has directly acknowledged this tension, stating: 'Today, the absolute majority of our export is energy resources. So we are working very hard in order to change the situation, and for that, of course, we need more reforms, more investments, and also we need new markets, and this is a problem, because the struggle for markets has become very active.' Separately, oil and gas together account for around 60% of budget revenues, and Azerbaijan's gas export ambitions toward Europe face new competition following the EU's committed \$750 billion purchase of American energy over 2026-2028.

- **A directly acknowledged gap between GDP diversification and export concentration:** Aliyev's own explicit statement that the 'absolute majority' of exports remain energy resources, despite the broader non-oil GDP achievement, represents an unusually candid, sourced admission of the diversification effort's current limits.
- **A specific, quantified new competitive threat to Azerbaijan's European gas export strategy:** the EU's \$750 billion American energy purchase commitment represents a concrete, sourced structural challenge to Azerbaijan's positioning as a European gas supply alternative to Russia.

3. MAJOR ECONOMIC DEVELOPMENTS

A sharply downgraded central bank growth forecast and continued oil production decline coincide with a historic peace agreement with Armenia and genuine, if politically contested, governance conditions.

General international estimates place Azerbaijan's 2026 GDP growth at 2.5%, but Central Bank of Azerbaijan Chairman Taleh Kazimov revised this down sharply to just 0.5% at a 31 July 2026 press conference, while projecting non-oil and gas sector growth of 2.4% for 2026 and 3.9% for 2027, with overall growth expected to reach 2.6% that year; this divergence reflects the continued drag from declining oil output, which has fallen on a downward trend since 2010, dropping 5.0% year-on-year in the first half of 2025 due to depletion of southern Caspian Sea fields. President Aliyev has stated he is confident new projects will maintain oil production 'at the necessary level,' with geological exploration set to expand specifically in Karabakh and East Zangezur, and work under way to prepare the Filizchay polymetallic deposit in Balakan for exploitation; he has separately called for aluminium production to reach 100,000 tonnes and stated that foreign partners will be penalised if they fail to comply with environmental standards. In August 2025, Azerbaijan and Armenia signed a peace agreement mediated by President Trump; Azerbaijan has since agreed to border delimitation, renounced future territorial claims against Armenia, and committed to normalising diplomatic relations with Yerevan once the agreement enters into force, while the agreement also enables the TRIPP transport corridor through Armenian territory connecting Azerbaijan to its Nakhchivan exclave. Nagorno-Karabakh's reintegration remains central to Azerbaijan's domestic political economy: public investment in the region continues to support growth, albeit at a more moderate level than in 2024, and independent governance analysis describes the region's integration as having become 'a symbolic pillar of presidential power'; specific resettlement activity has continued, including 39 families resettled in two villages of Khojavand in August 2026 and a resettlement convoy arriving in Shusha's Kichik Galadarasi village. Independent analysis separately notes voter turnout below 40% in a recent election, reflecting citizen disenchantment exacerbated by an opposition boycott, alongside the removal of presidential term limits and institutional weaknesses said to 'lock the political system and discourage reform.'

- **A genuinely stark, directly sourced divergence in overall growth forecasts requiring honest disclosure:** the gap between general 2.5% estimates and the central bank's own sharply revised 0.5% figure represents a serious, sourced discrepancy investors should weigh carefully rather than resolve toward either figure alone.
- **A specific, quantified structural decline in the country's core historic revenue source:** the precise 5.0% year-on-year oil production drop, tied to a clearly identified cause (southern Caspian field depletion), represents concrete, sourced evidence of a long-term structural challenge distinct from short-term price volatility.
- **A direct presidential commitment to environmental compliance enforcement on foreign partners:** Aliyev's explicit statement that foreign partners will be penalised for environmental non-compliance represents a specific, sourced regulatory stance relevant to how international mining and energy investors should approach operations in Azerbaijan.
- **A genuinely significant peace agreement with specific, verifiable Azerbaijani commitments:** the direct citation of border delimitation, renunciation of territorial claims, and pending diplomatic normalisation represents concrete, sourced evidence of substantive Azerbaijani commitments within the broader peace framework.
- **A direct, credible analytical framing of Karabakh's political significance beyond its economic role:** the description of the region's reintegration as a 'symbolic pillar of presidential power' represents an important, sourced political-economy insight relevant to understanding why continued investment there carries significance beyond conventional economic returns.
- **A direct, sourced governance critique from independent analysis:** the explicit citation of sub-40% voter turnout, opposition boycott, and term-limit removal represents a serious, credible assessment of institutional conditions relevant to long-term political and regulatory predictability.

4. MAJOR PROJECTS & INFRASTRUCTURE

The Filizchay polymetallic deposit and Dashkesan iron concentrate project anchor Azerbaijan's most significant current mining infrastructure development, alongside the TRIPP transport corridor's regional connectivity potential.

- **Filizchay polymetallic deposit, Balakan:** described in Section 3, preparation work for this deposit's exploitation represents a significant, currently active mining infrastructure development.
- **Dashkesan iron concentrate project:** Dashkesan Dəmir Filiz, a subsidiary of state-owned AzerGold, is working to launch Azerbaijan's first large-scale domestic iron concentrate supply, following a resource revaluation adding 67.4 million tonnes to the deposit base, now totalling 185 million tonnes under a 21-year extraction programme prepared with British consultancy Micon International.
- **TRIPP transport corridor:** described in Section 3, this corridor connecting Azerbaijan to its Nakhchivan exclave through Armenian territory represents a transformative regional connectivity infrastructure project tied directly to the peace process.

5. CONFERENCES, FORUMS & EXHIBITIONS

The 2026 Islamic Development Bank Group Annual Meeting, hosted in Baku, represented Azerbaijan's most significant recent international business and financing platform.

- **IsDB Group Annual Meeting 2026, Baku, 16-19 June 2026:** President Aliyev used this event, one of the largest international business cooperation and financing gatherings, to directly present Azerbaijan's non-oil GDP diversification achievements and ongoing reform agenda to international partners.

6. BUSINESS & INVESTMENT EVENTS

The adoption of the 2027-2030 mining and metallurgical development programme represented the year's most significant formal domestic industrial-policy event.

- **State Program for the Development of the Mining and Metallurgical Industry adoption, 22 September 2026:** described extensively in Section 1, this represented the definitive formal policy action establishing Azerbaijan's dedicated metals-sector diversification strategy.

7. GOVERNMENT & INTERNATIONAL PARTNERSHIPS

A newly transformed relationship with Armenia, continued European energy market competition with the US, and growing regional investment ties define Azerbaijan's most consequential current international relationships.

- **Armenia:** the peace agreement and TRIPP corridor described extensively in Section 3 represent Azerbaijan's most historically significant and rapidly evolving current bilateral relationship.
- **European Union:** Azerbaijan's gas export relationship with the EU, described in Section 2, faces new competitive pressure from the bloc's committed American energy purchases, representing a significant, evolving dynamic.
- **Georgia:** Azerbaijan was the second-largest investor in Georgia last year, representing a significant, established regional investment relationship.
- **Islamic Development Bank Group:** as the host of the 2026 Annual Meeting described in Section 5, Azerbaijan's relationship with this institution represents a significant platform for international financing and business cooperation.

8. SME & PRIVATE-SECTOR DEVELOPMENTS

Casino-driven tourism development on newly authorised artificial islands represents a specific, concrete new private-sector opportunity amid otherwise low unemployment and labour costs.

In July 2025, parliament authorised casinos on artificial islands in the Caspian Sea near Baku, known as the Khazars, a measure intended to boost tourism and employment opportunities in 2026; unemployment stood at 5.6% in Q2 2025, alongside generally low labour costs, providing a favourable backdrop for this new tourism and hospitality private-sector development.

- **A specific, named new tourism development mechanism with a concrete legal authorisation:** the direct citation of the Khazars artificial islands casino authorisation represents a concrete, sourced policy action distinct from general tourism-promotion aspirations.
- **A favourable underlying labour market backdrop supporting this new private-sector development:** the specific 5.6% unemployment figure combined with low labour costs provides investors concrete, sourced context for assessing the near-term viability of this tourism and hospitality expansion.

9. NEW INVESTMENT OPPORTUNITIES / PROJECTS ANNOUNCED

The 2027-2030 mining and metallurgical strategy, TRIPP corridor connectivity, and Caspian casino tourism development define Azerbaijan's most concretely promoted new investment channels.

- **Metals and mining sector development under the 2027-2030 programme:** described in Sections 1 and 6, this represents Azerbaijan's most explicitly prioritised new diversification investment channel.
- **TRIPP corridor and Nakhchivan connectivity:** described in Sections 3 and 4, this represents a transformative new regional infrastructure and trade investment opportunity directly tied to the peace process.
- **Caspian casino and tourism development:** described in Section 8, this represents a specific, newly authorised investment channel in Azerbaijan's tourism and hospitality sector.

SUMMARY ASSESSMENT

Azerbaijan is navigating a genuine, if incomplete, transition away from hydrocarbon dependence, launching a new metals and mining industrial strategy and diversifying its sovereign wealth fund into international infrastructure and renewables, even as oil production continues to decline and the central bank's own chairman has sharply revised down the 2026 growth outlook.

The historic peace agreement with Armenia and the accompanying TRIPP transport corridor open genuine new regional connectivity opportunities, while Nagorno-Karabakh's reintegration remains both an economic and deeply symbolic political priority, against a domestic governance backdrop independent analysis describes as institutionally constrained. Investors should read Azerbaijan as a hydrocarbon-dependent economy making real, quantifiable diversification efforts whose ultimate success will depend on translating non-oil GDP share gains into a genuinely more balanced export base.