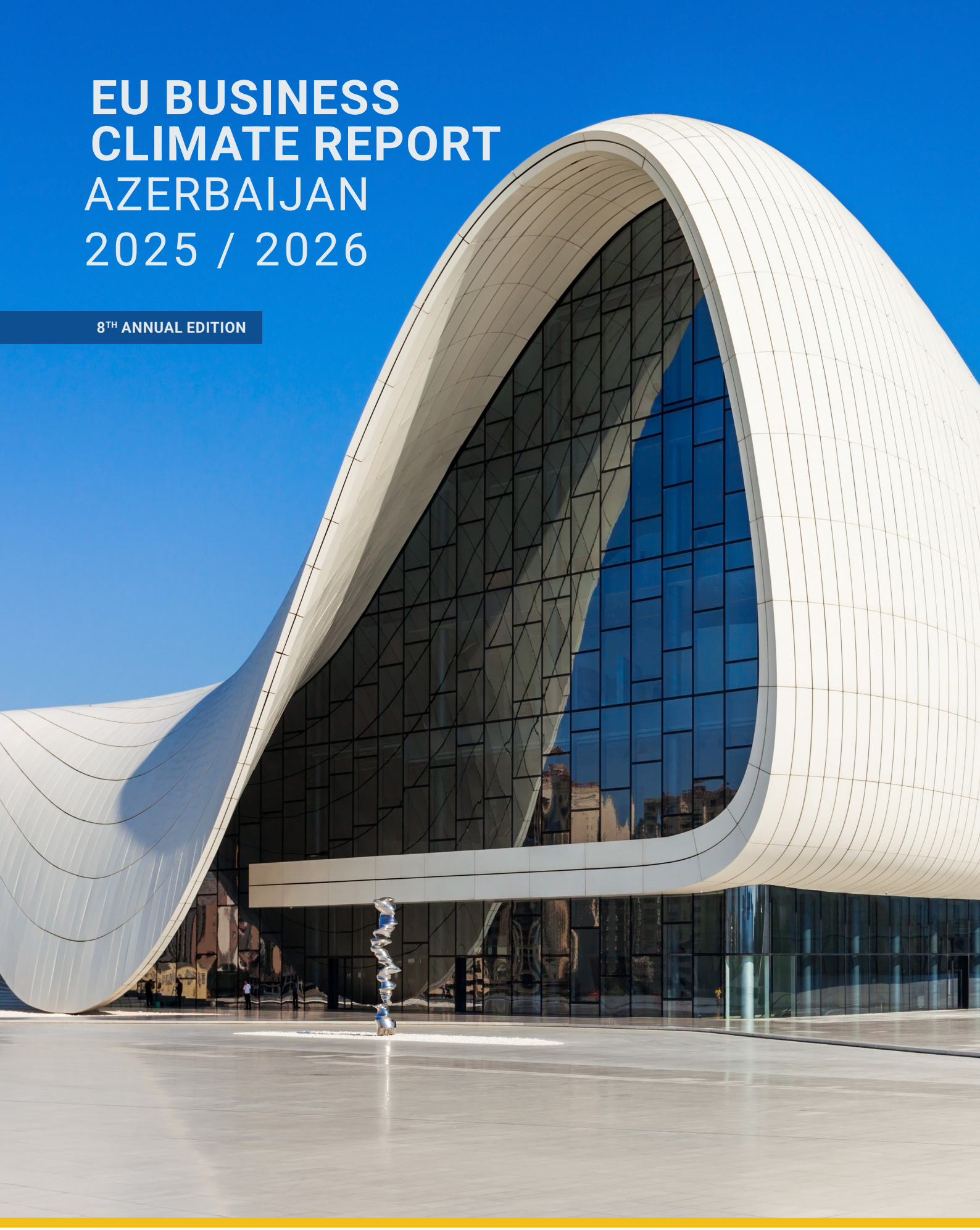
EU BUSINESS CLIMATE REPORT AZERBAIJAN 2025 / 2026

8TH ANNUAL EDITION



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Marijana KUJUNDŽIĆ

Ambassador – Head of the Delegation

DELEGATION OF THE EUROPEAN UNION TO AZERBAIJAN

The 8th edition of the EU Business Climate Report Azerbaijan (2025–2026) offers an assessment of Azerbaijan's business environment from the perspective of European companies, highlighting progress made, remaining challenges, and priorities for further improvement. This edition also marks ten years of EU–Azerbaijan business dialogue since the first EU-Azerbaijan Business Forum in 2016.

The EU remains Azerbaijan's largest trading partner, with energy continuing to play a central role in this relationship. At the same time, Azerbaijan has a valuable opportunity to build on this strong partnership by broadening its sources of growth, thereby enhancing economic resilience and competitiveness. In this context, climate action and green investment are not only environmental imperatives, but also important enablers of diversification and long-term sustainable development.

Azerbaijan's role in the development of the Trans-Caspian Transport Corridor (Middle Corridor) presents significant potential to strengthen trade, logistics, and connectivity between Europe and Asia. Realising this potential will require continued efforts to address constraints related to transport capacity, border procedures, transit costs, and coordination along the route. Infrastructure investment should also be accompanied by measures to improve energy efficiency, reduce emissions, and promote more sustainable transport solutions.

The report notes encouraging improvements in the business environment, while also identifying areas where further progress could help reinforce investor confidence. Continued attention to effective implementation of reforms, transparency, and regulatory predictability will be important. Clear and consistently applied rules, transparent administrative procedures, fair competition, and reliable dispute-resolution mechanisms remain essential, particularly for long-term investment in sectors such as clean energy and infrastructure. In this regard, the ongoing negotiations on a new comprehensive EU-Azerbaijan agreement could provide a stronger framework for closer economic cooperation and continued reform.

New opportunities are also emerging in connectivity, renewable energy, and digitalisation. The reconstruction and long-term development of Karabakh and East Zangezur, as well as economic development in Nakhchivan, may create further scope for private-sector participation. Transparent procurement, commercial viability, and sound environmental and social safeguards will be important in attracting sustainable private investment.

European companies continue to see meaningful opportunities in Azerbaijan, particularly in sectors that can support a more diversified economy. Interest from European businesses continues to grow, as reflected in the establishment of new European chambers of commerce, including Dutch, Belgian, and Polish chambers.

The European Union remains committed to supporting Azerbaijan's economic diversification, sustainable development, climate resilience, and stronger links with European markets. I hope this report will provide a useful basis for open, evidence-based dialogue between policymakers and businesses, and help advance practical reforms, stronger partnerships, and investment.

INTRODUCTION

About the publication

The "EU Business Climate Report Azerbaijan 2025/26" is the eighth edition of a regular study conducted in Azerbaijan since 2016 as part of the "EU-Azerbaijan Business Forum," funded by the European Union. For the period 2024-2026, the project implemented by VM Europe in partnership with EU Chambers and InvestBaku.

The report aims to reflect the latest trends in Azerbaijan's business climate from the perspective of European companies and European investors operating in the country. The 2025/26 edition focuses on key topics for the private sector, such as **Azerbaijan's economic development, sector-specific business, investment climate, and emerging investment opportunities.** The report places a particular emphasis on the transport and logistics sectors.

Insights for this report are gathered from:
- European companies operating in Azerbaijan, including those from the EU, EFTA, and the UK;
- European companies interested in entering the Azerbaijani market;
- Local Azerbaijani companies primarily focused on EU cooperation.

The conclusions presented in this report are based on results of **69 individual responses of the EU Business Climate Survey 2025-2026** and **22 face-to-face interviews** with company owners and top executives. The quantitative data for the Report was collected through an **anonymous online survey**, which took place between March and June 2026.
The **2025-2026 questionnaire** contained 25 obligatory + 4 conditional/optional questions based on the previous surveys and adjusted to reflect current local and global trends.

A total of 22 one-on-one interviews were conducted with companies representing retail, wholesale, FMCG, construction and engineering sectors, business services, consulting and legal services, transportation, logistics and freight forwarding, renewables and energy efficiency, telecommunications / ICT & digital infrastructure, finance, education sectors, IFIs, as well as independent experts. The study also included information gathered from bilateral chambers, EU Delegation and the European Commission, EU initiatives and projects, EU banks, as well as international organisations. More details about the methodology are available in the relevant chapter of this report.

Research team

This report was prepared by the "EU-Azerbaijan Business Forum" 2024-2026 team under the supervision of Oana Udriste, Program Manager at the EU Delegation to the Republic of Azerbaijan. The publication is conducted by Aytan Akhundova, Team Leader, Chief Research Editor, National expert in Desk research and in Qualitative research; Marius Bordalba, International Expert in Qualitative Research; Zibar Huseynova, National Expert in Quantitative and Qualitative Research; Aydan Nabiyeva, National Expert in Quantitative Research; Aygun Aliyeva, National Expert in Quantitative Research.

The project was managed by Raphael Zayat, Managing Director at VM Europe. Quality control for the 2024-2026 assignment is overseen by Ana Lopes, Senior Consultant at VM Europe SRL.

Acknowledgements

The "EU-Azerbaijan Business Forum" 2024-2026 expresses gratitude for the effective coordination and support provided by the EU Delegation to Azerbaijan, EU Member States' Embassies in Azerbaijan, the European Bank for Reconstruction and Development (EBRD), the European Training Foundation (ETF), Organisation for Economic Co-operation and Development (OECD), The Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, as well as European bilateral chambers of commerce and business associations in Azerbaijan.

COVERAGE

29 countries

The “EU Business Climate Report Azerbaijan 2025/2026” represents the views of companies and business representatives from 29 countries, including 25 EU Member States, 2 EFTA countries, the United Kingdom, and Azerbaijan. In addition, some respondents were classified under “other” countries.

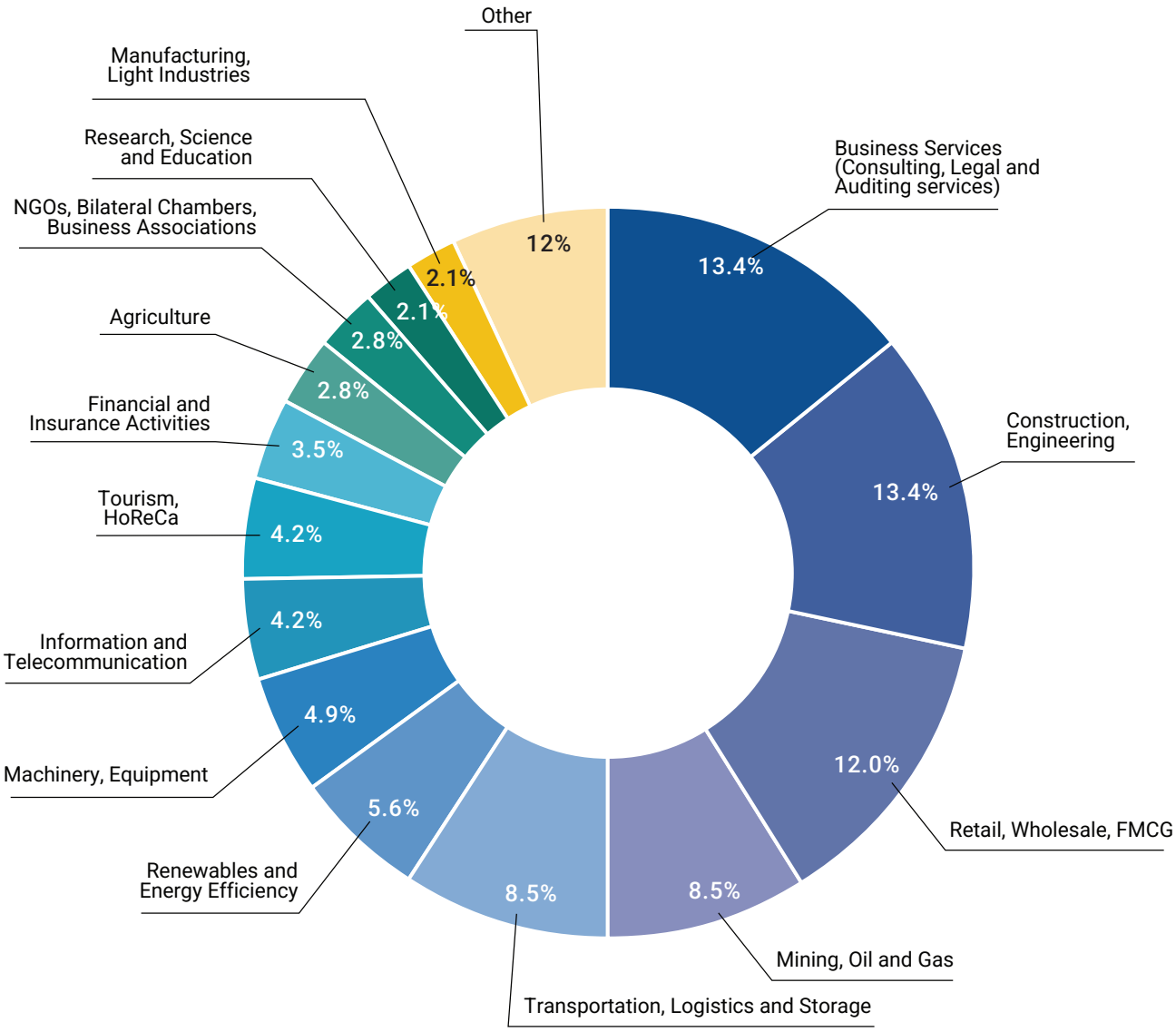
France 6.2%	Italy 7%	Germany 6.7%	Azerbaijan 21%	United Kingdom 10.3%	Netherlands 5.2%
Denmark 1%	Poland 2.1%	Switzerland 4.6%	Austria 4.1%	Belgium 4.1%	Croatia 1%
Czech Republic 2.6%	Estonia 1%	Romania 0.5%	Hungary 1.5%	Lithuania 0.5%	Bulgaria 1.5%
Norway 1.5%	Slovakia 1%	Greece 1%	Luxembourg 2.1%	Spain 2.1%	Sweden 3.1%
Malta 0.5%	Latvia 1.5%	Cyprus 0.5%	Slovenia 1%	Ireland 2.6%	

OTHER: 2.2%



19 sectors

Respondents and interviewees represented **19 sectors**. The largest shares were concentrated in business services; construction and engineering; retail, wholesale and FMCG; mining, oil and gas; and transportation, logistics and storage. Besides the representatives of these sectors, the interviews included international financial institutions and independent experts.

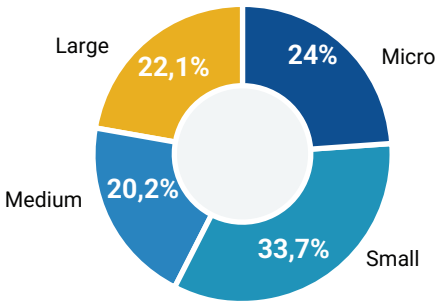


78 % of the survey respondents represent micro, small and medium-sized enterprises (MSMEs).

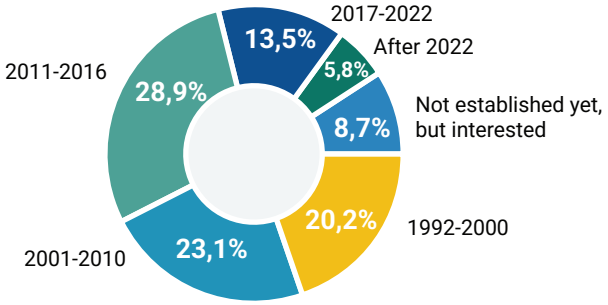
Years of establishment of the companies

More than 70% of the entities have been operating in Azerbaijan for over 10 years, and about a quarter of respondents have worked locally in the last decade. Nearly 6% of the companies started operating in Azerbaijan after 2022. Nearly 9% of companies are not yet established but are interested in entering the Azerbaijani market.

Size of the companies based on the number of employees



Their year of establishment in Azerbaijan



MAIN FINDINGS

BUSINESS CLIMATE 2025/26

Overall, **56.5%** of the European companies evaluate the current economic situation as **"Satisfactory"**
Overall, the perception of business climate is **"Satisfactory"**

BUSINESS CLIMATE INDICATORS

THE MOST POSITIVE DYNAMICS

Political and social stability
Reliability and cost of energy inputs
Efficiency of logistics, transportation and connectivity

CHALLENGES TO ADDRESS

Quality of vocational education and training
Access to finance
Business ethics and payment discipline
Access to new technologies and R&D

TOP 3 FACTORS AFFECTING COMPANIES IN THE RECENT YEARS

Insufficient market size
War in Ukraine and other global conflicts
Bureaucracy

INVESTMENT OPPORTUNITIES

51.5% of the companies plan expansion and **25%** plan to remain the same over the next few years.

TOP 3 ATTRACTIVE FACTORS:

Access to commercial partners and clients
Strategic partnerships and alliances
Access to domestic market

3 UNTAPPED INVESTMENT DRIVERS:

Low costs of production
Access to physical infrastructure
Access to natural resources and raw materials

INVESTMENTS IN KARABAKH AND EAST ZANGEZUR ECONOMIC REGIONS

19% of the companies have already invested

35% ready to invest and wait for good opportunities

Top attractive sectors:

1. Transport infrastructure
2. Alternative energy and green projects
3. Construction
4. Consulting
5. Agriculture
6. ICT

Middle Corridor

25.4% of the companies have already used the route

23.9% plan to use the Corridor in the next 2-3 years

Only **18.2%** consider that the corridor fully meets the needs of the market

The main areas to improve:
Transportation, shipping, and distribution operators
Transport duration and costs
Operational complexity and logistics coordination between corridor countries

GREEN BUSINESS AND CLIMATE CHANGE

Top stimulus for business "greening":
Financial support (tax exemptions, special tariffs, grants, etc.)
Regulatory reliefs for companies applying environmental management systems
Increased visibility for environmentally responsible companies

LABOUR MARKET AND ACCESS TO EDUCATION



Human capital is scored below satisfactory

A lack of qualified workers is the biggest challenge for **24.6%** of companies.

Main areas for further improvement

VET infrastructure
Strengthening digital skills and competencies of the workforce
Sector-specific education (e.g., logistics, trade)

ECONOMIC OPPORTUNITIES FOR WOMEN



36% of personnel in EU businesses are women

The most common positions held by women:

Administrative
Sales, marketing and PR
Mid-level management

LEVEL PLAYING FIELD FOR EUROPEAN COMPANIES

54.1% of respondents identified fair and transparent access to public tenders as a key measure

48.6% highlighted the need to strengthen investment protection frameworks

40.5% pointed to effective competition regulation and enforcement

DIGITALISATION FOR SUSTAINABLE ECONOMIC GROWTH

EU companies evaluate IT infrastructure in Azerbaijan as "neutral" or "rather sufficient"

Areas requiring the most attention:

Digital skills, including AI
Speed and reliability of Internet
Conditions of Internet providers
Coordination between different public agencies

VIEWS OF EU COMPANIES ON PROGRESS IN LOCAL REFORMS

TOP 3 THE MOST EFFECTIVE PUBLIC INSTITUTIONS

- State Tax Service
- State Migration Service
- State Customs Committee

TOP 3 THE MOST EFFECTIVE E-SERVICES

- Asan Imza and SİMA imza (digital signature services)
- mygov ID
- ASAN services (notary, migration services etc.)

EMERGING PRIORITIES TO ENSURE

- Transparent and fair rules/ processes for public tenders
- Improving operations and transparency at customs
- Rule of law regarding investors; Tax policy and administration; Workforce skills development/ education–industry cooperation

EXECUTIVE SUMMARY

This eighth edition of the EU Business Climate Report Azerbaijan 2025/26, funded by the European Union and prepared by VM Europe Consortium, presents an updated assessment of Azerbaijan's economic and business environment from the perspective of European companies active in the market. Drawing on survey responses and in-depth interviews with European businesses, the report examines key developments affecting the investment climate, sectoral opportunities, business constraints, labour market dynamics, sustainability, digitalisation, and the broader reform agenda shaping Azerbaijan's economic trajectory.

Azerbaijan continues to occupy a strategically important position at the intersection of Europe and Asia, with energy cooperation and transport connectivity remaining central pillars of EU-Azerbaijan relations. At the same time, the country is pursuing a broader economic transition aimed at reducing its dependence on hydrocarbons and strengthening the role of the non-oil economy. This process has gained further relevance in light of changing geopolitical conditions, shifting trade routes, and increasing international focus on regional resilience, energy security, and diversified supply chains. According to the interviewed European companies, Azerbaijan's geographic location, expanding transport infrastructure, and relatively stable operating environment remain among the country's most important assets.

At the macroeconomic level, Azerbaijan has demonstrated resilience, although growth dynamics have become more moderate and remain influenced by fluctuations in hydrocarbon revenues, public spending patterns, and external developments. While the non-oil economy continues to generate positive dynamics, including in transport, tourism, ICT, and construction, businesses still view the overall outlook through a cautious lens. Inflationary pressures, exchange rate concerns, and regional uncertainty continue to affect expectations, while the pace and consistency of reforms remain important determinants of investor confidence.

The investment climate is generally assessed as satisfactory, but with clear challenges to address. European businesses point to positive developments in infrastructure, energy availability, and market accessibility, while also underlining persistent constraints related to access to finance, skills availability, legal predictability, and aspects of the regulatory environment. The findings suggest a cautiously balanced perception of Azerbaijan's business climate: companies recognise ongoing efforts to improve the business environment, but many stress that the practical implementation of reforms, rather than their formal adoption, will determine whether the country can unlock higher levels of investment and private-sector development.
Transport and logistics have become increasingly prominent in the assessment of Azerbaijan's economic potential. The development of the Trans-Caspian Middle Corridor has reinforced the country's importance as a regional transit hub, and businesses broadly acknowledge the strategic significance of Azerbaijan's investments in rail, port, and customs infrastructure. At the same time, interviewed companies also point to bottlenecks related to corridor efficiency, operational coordination, and logistics costs. Further progress in this area will be essential if Azerbaijan is to fully capitalise on its transit role and strengthen its position in regional and international value chains.

The report also highlights the growing importance of sustainability and green transformation in the country's economic agenda. Azerbaijan has taken visible steps to promote renewable energy development, improve energy efficiency, and position itself as a future green energy partner. However, according to European businesses, the transition remains at an early stage in many sectors, and stronger incentives, clearer frameworks, and improved access to green finance will be needed to accelerate uptake and create a more enabling environment for sustainable investment.

Labour market development and digital transformation are similarly identified as areas of both progress and concern. Reforms in digital public services and e-government tools have generally increased the speed and efficiency of business operations. However, businesses continue to report skills gaps, particularly in vocational, technical, and digital fields, which limit productivity and constrain expansion. This indicates that future reform should focus not only on infrastructure and investment promotion, but also on human capital development, education-business linkages, and workforce readiness for a more diversified economy.

Overall, the report shows that Azerbaijan offers a combination of strategic opportunity and persistent structural constraints. European companies remain engaged and, in many cases, cautiously optimistic about the country's medium-term prospects. However, they also underline that sustaining investor interest will require continued efforts to improve transparency, strengthen institutions, deepen financial markets, support skills development, and ensure that reforms translate into tangible improvements for businesses on the ground. In this context, Azerbaijan's ability to combine connectivity, diversification, and regulatory credibility will be critical to shaping its competitiveness in the years ahead.

1 BUSINESS CLIMATE AND INVESTMENT OPPORTUNITIES

1.1 MACROECONOMIC OUTLOOK

Global context

In 2025 and the first eight months of 2026, the global economy was characterised by moderate growth, persistent inflationary pressures, and heightened vulnerability to geopolitical and trade-related shocks. While Russia's invasion of Ukraine continued to shape global economic developments through higher defence spending and the restructuring of global supply chains, U.S. tariff policies and the conflict involving Iran emerged as significant external constraints on global stability. The ongoing conflict in the Middle East led to disruptions in the Strait of Hormuz and significantly increased volatility in global energy markets. Rising oil and gas prices contributed to higher shipping, insurance, food and fertiliser costs. Meanwhile, escalating protectionist measures and trade restrictions among major economies affected global trade conditions.

Nevertheless, in 2025 and 2026 the global economy showed greater resilience than expected, supported by fiscal and monetary measures introduced by governments in response to elevated policy uncertainty. Businesses were able to adapt to earlier supply chain disruptions and trade barriers. The global economy was also supported by Artificial Intelligence (AI)-driven investment.

As a result, global output remained above pre-pandemic levels, although the recovery was uneven across country groups. Global Gross Domestic Product (GDP) growth was 3.4% in 2024 and 2025. Looking ahead, global growth is expected to slow, triggered by rising oil prices. Global GDP growth is estimated to decline to 3.0% in 2026 and rebound to 3.4% in 2027[1]. Growth is expected to be even lower in the euro area, at 0.9% in 2026 and 1.2% in 2027, driven not only by the immediate effects of higher energy prices and trade disruptions, but also by existing structural challenges.

Global headline inflation was 4.8% in 2024 and 4.1% in 2025, and continued rising in 2026, reflecting a combination of supply-side pressures, energy price volatility and renewed geopolitical fragmentation. Global inflation is expected to reach 4.7% in 2026 and gradually decline to 3.9% in 2027[2], following an anticipated reversal in oil prices once an agreement is reached between the U.S. and Iran.

Azerbaijan

Azerbaijan is located in the South Caucasus region. The country has a territory of 86.6 thousand km² and a population of 10.2 million as of 2025, 54% of whom live in urban areas and the remainder in rural areas. [3]

The main sectors of the economy are mining (oil and gas), trade, transport, construction, manufacturing and agriculture. As an upper-middle-income country, Azerbaijan is striving to diversify its economy and reduce its dependence on oil and gas exports. The government intends to reduce the share of this sector in GDP to 20% by 2029.[4]

Azerbaijan's economic trajectory has been increasingly affected by global and regional developments, particularly shifts in energy markets, trade networks and geopolitical instability. The country's geographical position has remained important in the context of global supply chain reconfiguration resulting from the war in Ukraine, supporting the development of transit corridor infrastructure.

The most significant impact of the US-Iran tensions and the bottleneck at the Strait of Hormuz on Azerbaijan's economy was the sharp rise in hydrocarbon prices. While supply disruptions pushed oil prices upwards, Azeri Light crude was sold on the spot market through bilateral agreements at prices reaching as high as USD 141.68 per barrel, approaching its historical peak of around USD 150 per barrel in 2008. This, in turn, boosted Azerbaijan's external and fiscal position.

Apart from rising oil prices, the direct impact of the new U.S. tariffs and the conflict involving Iran on the Azerbaijani economy has so far been relatively limited, as the country's exposure to the affected trade flows and markets is modest. Nevertheless, Azerbaijan remained vulnerable to indirect effects, such as disruptions to transport routes, volatility in global energy markets, and rising global food prices.

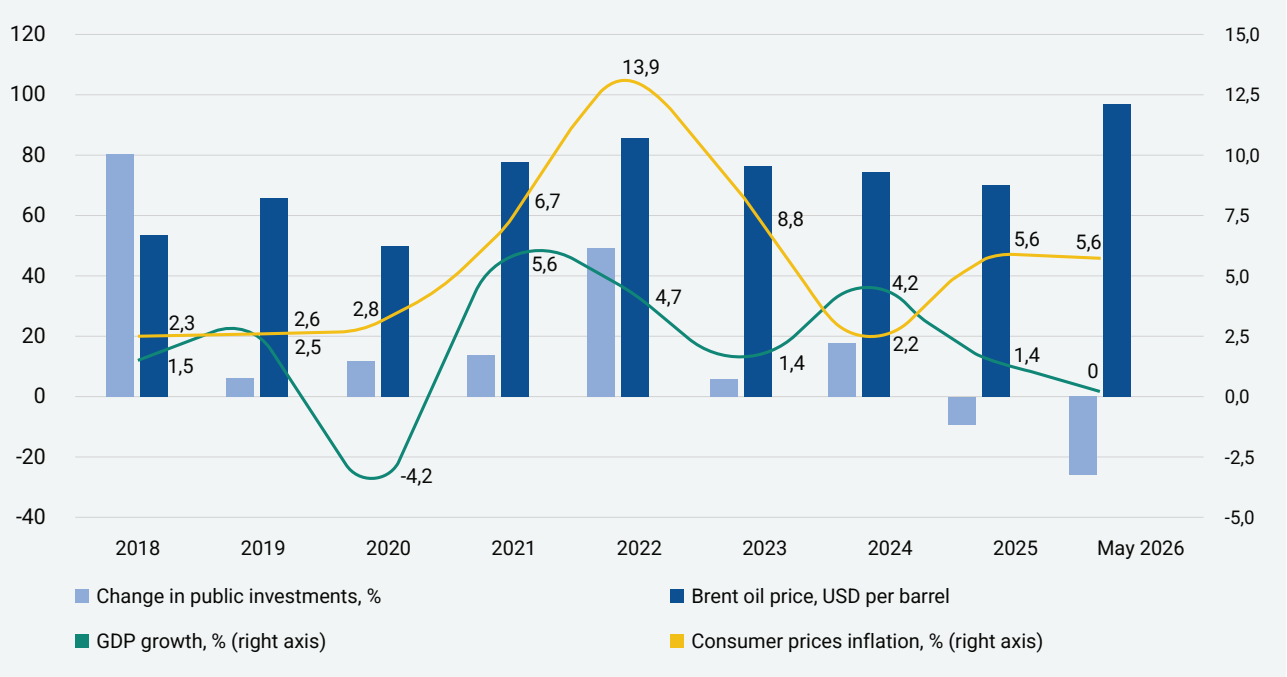
In August 2025, Azerbaijan and Armenia signed a joint declaration outlining their intention to pursue peace after decades of military conflict. Although a formal treaty has not yet been signed, the declaration was followed by early signs of regional trade normalisation and plans for regional infrastructure development. Peace is expected to enhance regional integration and reduce geopolitical risk premiums.

According to European business representatives interviewed in Azerbaijan within the EU Business Climate Report 2025/26, international political, economic, and social developments continue to have a significant impact on global logistics and the broader business environment. International instability is identified as the main source of uncertainty, with companies remaining cautious about entering the Azerbaijani market due to developments in neighbouring countries. At the same time, regional conflicts have generated some positive spillover effects for Azerbaijan by strengthening its position as an alternative gateway for regional trade. The conflicts and associated sanctions have redirected cargo flows towards alternative routes, benefiting Azerbaijan's transit potential. However, they have revealed the shortages of vehicles and railway wagons and increased the cost of doing business due to additional compliance and analytical requirements. U.S. tariff measures are not considered to have a direct effect on Azerbaijan, but the resulting uncertainty around global growth, investment, and supply chains affects businesses indirectly. By contrast, the conflict involving Iran has more immediate consequences, increasing logistics and insurance costs and weakening investment sentiment, while simultaneously enhancing the strategic importance of the Middle Corridor.

Azerbaijan's GDP growth declined from 4.2% in 2024 to 1.4% in 2025.[5] GDP per capita stood at USD 7,410 in 2025.[6] By the end of 2025, the oil and gas sector accounted for approximately 28.5% of GDP. [5]

> "The business is now in a wait-and-see position. All the large businesses and investments are put on hold."
>
> Regional Representative of a financial Institution

FIGURE 1.1 Macroeconomic situation in Azerbaijan, 2018-May 2026



SOURCE: State Statistics Committee of Azerbaijan

In 2025, the mining sector, consisting primarily of oil and gas, contracted by 2.5% due to declining extraction from ageing oil fields. The government responded with efforts to reduce the economy's dependence on oil and gas. It also optimised and rationalised public spending in order to preserve oil revenues. In turn, the decline in public investment halted growth in the construction sector, which had been a key driver of GDP growth in previous years.

The construction sector contracted by 0.4%, while the manufacturing, tourism and ICT sectors each recorded growth of around 8-9%. The transport and warehousing sector grew by 4.6%. Demand in the economy moderated during the reporting period. Although overall credit to the economy eased in 2025, lower consumer lending reflected both tighter credit conditions imposed by the regulator and weaker household demand.

The economy experienced stagnation in May 2026.[7] It was caused mainly by a 23% decline in construction, while the gradual contraction of the oil and gas sector also continued. Sectors such as transport, agriculture and services maintained growth, although at lower rates than in previous years. ICT recorded the highest growth, at 10.1%. The transport and warehousing sectors increased by 6.8%, reflecting geopolitical developments and Azerbaijan's efforts to become a logistics and transport hub.

The GDP growth of the country stood at 1.4% by the end of July 2026. The growth is expected to remain moderate in 2026–2027, with forecasts varying across international institutions and the Azerbaijani authorities.

FIGURE 1.2 Annual GDP growth forecast for Azerbaijan



Azerbaijan's oil production is expected to continue declining unless new commercially viable fields are discovered. This would reduce oil and gas revenues even if external price conditions remain favourable. In recognition of this outlook, the government intends to reduce the role of oil-and gas-driven public investment in capital formation in favour of private investment. According to the official forecast, the non-oil and gas economy is expected to increase its share of GDP from 72% in 2025 to 75.8% in 2026 and 77.6% in 2027, reflecting ongoing structural rebalancing. [4]

The government has identified economic diversification as a strategic priority. Over the medium term, key growth drivers are expected to include transport and logistics, ICT, tourism, construction, services and renewable energy. The country continues to implement large-scale green energy projects. Transport and logistics developments linked to the Middle Corridor are expected to become one of the most important long-term growth engines, supporting diversification and regional integration. Macroeconomic stability remains underpinned by low public debt, strong sovereign buffers and stable external accounts.

Labour market

As of 1 January 2026, the official unemployment rate stood at 5.2% and remained unchanged as of 1 July 2026, down from a peak of 7.2% during the COVID-19 period in 2020. The average monthly nominal salary was AZN 1,174.4 (≈ EUR 592) as of 1 July 2026. [7]

The labour market is undergoing gradual structural transformation. Formal employment in Azerbaijan's non-oil private sector increased by more than 80% between 2019 and 2025, supported by government efforts to reduce informality in the economy, particularly through tax incentives for employees in the non-oil, non-government sector. In 2024, private sector employment surpassed public sector employment for the first time. However, informal employment and underemployment remain persistent challenges.

There is a significant mismatch in capital intensity across sectors and regions. The oil and gas sector, concentrated in the Baku-Absheron region, contributes to less than 30% of GDP while employing only about 1% of workers, whereas agriculture employs more than 35% of the workforce but generates only about 5.5% of GDP. Skills shortages and mismatches between available skills and labour market needs remain key challenges. Some 66.3% of the workforce lack vocational or higher education. According to the IMF, labour productivity growth in Azerbaijan has stagnated at around 2% annually since 2016.[11]

Micro, Small and Medium-sized Enterprises (MSME)

Azerbaijan classifies enterprises as MSME based on employee numbers and annual turnover. While employee thresholds broadly correspond to those used in the EU, with up to 250 employees, Azerbaijan applies significantly lower turnover limits, with medium-sized enterprises capped at AZN 30 mln. (≈ EUR 15.5 mln.) in annual turnover. According to the latest statistics, 99% of business entities in Azerbaijan are classified as MSMEs, with the vast majority, 97.3%, being micro-enterprises.[12]

MSME ecosystem has expanded notably in recent years, with the number of MSMEs increasing by 74% between 2018 and 2024, including growth of 5.8% in 2024 alone, reaching 424,437 enterprises.[13] MSME development remains a strategic priority for the Azerbaijani government as part of broader efforts to diversify the economy and strengthen private sector growth. MSMEs accounted for 37% of non-oil sector turnover and 45.3% of total employment in Azerbaijan.[14] Azerbaijan's start-up ecosystem also continued to expand in 2025, supported by government incentives, incubation schemes and acceleration programmes.

Despite the rapid increase in the number of MSMEs, their contribution to overall value added remains relatively modest, accounting for 13.9% of total value added in the economy and 27.2% in the non-oil and gas sectors. This suggests that many MSMEs continue to operate in low-productivity sectors such as trade and basic services rather than in higher-value manufacturing, technology or knowledge-intensive activities.

Inflation and monetary policy

During 2025 and the first half of 2026, domestic prices in Azerbaijan were largely affected by global and regional supply chain disruptions and changes in transport costs, owing to the country's reliance on external suppliers for essential goods, particularly food products. According to official data, food accounted for the largest share of household consumption expenditure, at 43.5% in 2024.[15]

Consumer price inflation, which stood at 2.2% at the end of 2024, rose to 5.6% in 2025, driven by food inflation of 6.8%.[5] Services inflation also remained high, at 5.7%, affected by increases in tariffs for electricity, gas and heating in early 2025.[16] In 2025, the price of central heating tripled, natural gas supply tariffs increased by 11.8%, metro passenger transport fares by 20.0%, and air passenger transport fares by 16.5%. The housing price index increased by 10.6% in 2025. Inflation stood at 5.7% in June 2026. [16]

Inflation remained within the Central Bank of the Republic of Azerbaijan (CBAR) target band of 4% ± 2 percentage points during the reporting period. The CBAR gradually lowered its policy rate from 7.25% at the end of 2024 to 6.75% by December 2025. [16] The cuts were made because inflationary pressures eased towards the end of 2025 and there were expectations that the external factors driving food inflation would diminish.[17]

The transmission of CBAR policy rates to the interbank market has improved following the enhancements to the monetary policy framework in recent years. However, transmission to broader financing conditions still needs to be strengthened by improving competition, reducing high operating costs and achieving further de-dollarisation. Despite high levels of capitalisation, liquidity and profitability, structural challenges remain, including high market concentration, limited capital market development and reliance on deposits for funding. [11]

According to the IMF, average inflation is projected to rise to 6.0% in 2026 due to higher import prices resulting from the global energy price shock, including increased transport and food import costs, before easing to 5.1% in 2027 in the context of lower oil prices and slowing demand. Domestic administrative price adjustments, including fuel and transport tariff increases introduced in late 2025 and early 2026, are expected to create short-term upward pressure on inflation. [16]

Fiscal policy

Fiscal policy tightened in 2025 as declining hydrocarbon revenues reduced budget inflows. Azerbaijan maintained an overall fiscal surplus during the reporting period. This declined from 4.1% to 2.6% of GDP in 2025 and is expected to fall further to 1.8% of GDP in 2026 and 0.2% in 2027. [11] State budget revenues increased by 5.3% in 2025, with non-oil revenues accounting for 51.9% of the total. Transfers from the State Oil Fund of the Republic of Azerbaijan (SOFAZ) represented 37% of state budget revenues and 77% of budget revenues from the oil sector. The government continued efforts to strengthen fiscal sustainability through increased mobilisation of non-oil and gas revenues.

At the same time, budget expenditure increased by 2.4% in 2025, with capital expenditure accounting for 37.3% of the total. [4] The reconstruction of Karabakh and East Zangezur remained one of the government's most significant spending priorities. A total of AZN 17.6 bn. (≈ EUR 9 bn.) was allocated from the state budget for the reconstruction and restoration of the Karabakh and East Zangezur between 2020 and 2024, including AZN 5.3 bn. (≈ EUR 2.7 bn.) in 2024. [4] Public spending for this purpose amounted to AZN 4.5 bn. (≈ EUR 2.3 bn.) in 2025, 84.7% of which came from the state budget. It is projected to amount to AZN 13.3 bn. (≈ EUR 6.9 bn.) over 2027-2030, representing 24.3% of total capital expenditure from the budget.

The government strengthened public expenditure consolidation in 2025 and 2026. According to the revised fiscal rule, by 2029 the non-oil and gas deficit must be reduced to below 12.3% of non-oil and gas GDP, compared with 20% in 2024. [4] The scope for changes to medium-term fiscal targets is therefore limited. The consolidation strategy is intended to save any windfall gains from elevated hydrocarbon prices, meaning reduced transfers from SOFAZ to the state budget. The medium-term budget is based on the assumption that the oil price will remain at USD 65 per barrel throughout 2027-2030, which appears conservative given current global energy market conditions.

Fiscal consolidation will be pursued through the reversal of income tax exemptions, reductions in public investment and wage bill growth, improvements in the efficiency of state-owned enterprises and the digitalisation of public payments. In 2026, the government began phasing out the income tax holiday in several stages in order to preserve tax policy predictability.[18] According to the government, the aim of the tax exemption introduced in 2019, namely to improve labour market transparency and stimulate economic growth, was largely achieved. Even after the reversal, taxes may remain more favourable than they were in 2018. The IMF considers that prolonged fiscal consolidation could have a greater-than-expected negative impact on growth, given tighter expenditure and relatively low fiscal multipliers.

Public debt declined to 20.1% of GDP in 2025, down from 21.6% in 2024, as part of the government's debt strategy. [4] It is projected to remain around 19.9% of GDP in 2026 and 19.8% in 2027. International credit rating agencies maintain a broadly stable outlook for Azerbaijan, supported by low public debt, strong fiscal and external positions, and improving financial sector regulation. Azerbaijan mostly regained investment-grade status after losing it after 2015 during the country's large-scale financial crisis. Fitch Ratings upgraded Azerbaijan to investment grade in 2024, and Moody's Ratings did so in 2025, with outlooks described as "stable" and "positive". Their long-term assessments will depend on successful diversification away from hydrocarbons, institutional development, and deeper private sector expansion.

External sector

Azerbaijan's current account surplus declined from USD 4.7 bn., or 6.3% of GDP, in 2024 to USD 3.5 bn., or 4.6% of GDP, in 2025. Oil and gas accounted for 87.5% of goods exports in 2024 and 85.2% in 2025.[19] Azerbaijan maintained a resilient external position despite lower hydrocarbon exports. In 2025, the country traded with 180 countries and exported to 128.[20] Italy, Türkiye and Russia were the main export destinations, with Italy importing mostly hydrocarbons.

The services account deficit improved in 2025, with transport services increasingly becoming a major contributor. The sector accounted for 27.6% of total services turnover in 2024 and 28.6% in 2025. [19] Transport exports increased from USD 3.2 bn. in 2024 to USD 3.6 bn. in 2025. The current account surplus is expected to improve significantly in 2026 due to higher hydrocarbon prices, before gradually weakening over the medium term as oil exports and oil prices decline. [11]

Although Azerbaijan's capital and financial accounts are open, domestic financial markets require further development in order to attract foreign portfolio investment. As a result, capital inflows are dominated by Foreign Direct Investment (FDI), mostly related to the oil sector, while outflows include trade credits, bank outflows and outward FDI by the national oil company. Direct investment inflows to Azerbaijan amounted to USD 7.05 bn. in 2024. [19] In 2025, total FDI liabilities amounted to USD 6.6 bn, of which the oil and gas sector accounted for 78.1%. Capital repatriation in the oil sector reached USD 6.3 bn. In January 2025, Azerbaijan completed receipt of the total USD 3.6 bn. oil bonus payment under the Azeri-Chirag-Gunashli Production Sharing Agreement, which had been running since 2018.

Azerbaijan's large reserve buffers provide substantial protection against external shocks and support the stability of the manat exchange rate. Reserves held by the SOFAZ surged by 22.5% in 2025 to USD 73.5 bn., equivalent to 97% of GDP, reflecting the revaluation of the gold portfolio amid high global gold prices. [11] By the end of December 2025, the country's strategic foreign exchange reserves, combining SOFAZ and CBAR reserves, had reached USD 85.1 bn. and were sufficient to cover 38 months of imports of goods and services. [16] Growth in reserves slowed in 2026 despite rising oil prices, reflecting declining oil exports and more moderate gold prices. According to the IMF's assessment, Azerbaijan's external position is not fully consistent with the medium-term fundamentals required to maintain intergenerational equity, underlining the importance of diversifying the sources of the country's foreign exchange earnings. [11]

Representatives of European businesses in Azerbaijan consistently describe a period of macroeconomic pressure driven by declining hydrocarbon revenues, global volatility, and the government's fiscal response. As oil revenues decline, the economy is perceived to be stalling , putting pressure on the state budget and increasing the tax burden for businesses. Inflation is also affecting companies broadly and is viewed primarily as a global rather than Azerbaijan-specific phenomenon.

1.2 COOPERATION WITH THE EU

2026 marked the 30th anniversary of relations between the EU and Azerbaijan. Negotiations on a new Comprehensive Agreement on the EU–Azerbaijan relations continued during 2024–2026.[21] A draft of EU–Azerbaijan Partnership Priorities for 2026–2030 was prepared in June 2026, as an important milestone toward a more comprehensive framework for bilateral relations.[22] EU provides financial assistance mainly through the Neighbourhood, Development and International Cooperation Instrument (NDICI) –Global Europe instrument under the 2021–2027 Multiannual Financial Framework and conducts regional initiatives under the Eastern Partnership.[23]

EU-Azerbaijan relations in 2025 and early 2026 were characterised by intensified political engagement in light of the changing geopolitical situation in the region. Azerbaijan hosted several high-level EU visits, including those of the President of the European Council, António Costa, the EU High Representative for Foreign Affairs and

Security Policy, Kaja Kallas, and the President of the European Commission, Ursula von der Leyen. These visits focused on strengthening cooperation in energy security, transport connectivity, digital transformation, investment, and regional stability. The establishment of an EU-Azerbaijan Connectivity Partnership and a High-Level Connectivity Dialogue covering transport, energy and digital cooperation were central topics of discussion.

The EU remains Azerbaijan's largest trading partner, accounting for more than 67% of the country's exports and 11.6% of its imports in 2025 [20]. Azerbaijan is the EU's largest trading partner in the South Caucasus, representing almost 70% of the Union's trade with the region.[24] EU exports to Azerbaijan mainly consist of machinery and transport equipment, and to a lesser extent chemicals and manufactured goods. [20] In turn, the EU primarily imports mineral fuels, chemicals and related products from Azerbaijan. However, Azerbaijan has been gradually diversifying its exports and, in 2025-2026, exported agricultural, food and aquaculture products to EU Member States.[25] More than twelve Azerbaijani food producers obtained EU certification to export to the European market in 2025.

Energy cooperation remained the main component of EU-Azerbaijan economic relations. Azerbaijan supplies around 4% of the EU's natural gas demand.[26] The Southern Gas Corridor has become increasingly important for Europe as strategic energy infrastructure. The expansion of the Trans Adriatic Pipeline helped to increase annual export capacity by an additional 1.2 bn. cubic metres.[27] Azerbaijan has increased gas exports to the EU by 65% since the Memorandum of Understanding on a Strategic Partnership in the Field of Energy was signed between Azerbaijan and the EU in 2022. Azerbaijan now directs half of its gas exports to Europe, with the aim of increasing annual gas exports to at least 20 bn. cubic metres by 2027. Achieving this target will depend heavily on infrastructure capacity and market demand. By early 2026, Austria and Germany had joined the list of European customers for Azerbaijani gas through deliveries via Italy. Azerbaijan exports gas to 16 countries, 10 of them EU Member States. Other activities in the hydrocarbon sector include crude oil exports and investments such as acquisitions by the State Oil Company of the Azerbaijan Republic (SOCAR).[28] The EU is also Azerbaijan's leading foreign investor. [3]

The framework of the EU-Azerbaijan Strategic Energy Partnership also covers cooperation on renewable energy and the export of renewable electricity to European markets. The EU has supported activities promoting wind energy development in Azerbaijan. At the same time, Azerbaijan is working with regional partners to establish the Caspian-Black Sea-European Green Energy Corridor.

Connectivity has become a particularly important pillar of EU-Azerbaijan cooperation in recent years, reflecting Azerbaijan's strategic position along the EU's transport, energy and digital corridors linking Europe and Asia and supporting efforts to diversify transit routes. The Middle Corridor is a crucial part of this cooperation. EU efforts are aimed at reducing freight transit time between Europe and Central Asia from 40-45 days to 15 days through investment in railways, ports, customs and digitalisation. This could increase trade along the corridor fivefold over the next 15 years.[29]

The Strategic Approach to the Black Sea region was adopted in 2025 to frame this cooperation.[30] In order to coordinate strategic projects along the corridor and facilitate financing, the EU launched the Connectivity Agenda Platform in 2026.[31] An investment package of EUR 200 mln. was announced by the EU, with the aim of mobilising up to EUR 2 bn. in public and private investment to modernise transport, energy and digital infrastructure in the South Caucasus, as well as strengthen border crossings to support trade.[32] More than EUR 130 mln. is also expected to be mobilised by the EU under the Global Gateway initiative to unlock economic opportunities for Europe in Central Asia, the South Caucasus and the Black Sea region.[33]

One of the main connectivity initiatives is the restoration and modernisation of the Nakhchivan railway, including a comprehensive feasibility study funded by the EU and developed by the EBRD in coordination with the Ministry of Digital Development and Transport of Azerbaijan.[34] As part of the Trans-Caspian Transport Corridor, the railway is expected to improve mobility and trade flows.

The EU supported the digitalisation process in Azerbaijan during the reporting period. It contributed to the preparation of the National Digital Development Concept and the Cybersecurity Strategy, and supported the development of an e-agriculture system and resilience governance. [33]

Beyond strategic infrastructure development, support for the SME sector in Azerbaijan is another important dimension of EU cooperation in the country. In 2024, the EU supported more than 7,000 SMEs in Azerbaijan through the EU4Business initiative, helping them generate an additional EUR 40.4 mln. in income, create more than 10,000 new jobs, and increase exports by 6.4%. [33]

The EU was also engaged in urban development and environmental initiatives in Azerbaijan. From January 2025, the EU supported the modernisation of water and wastewater infrastructure in Ganja under the EBRD Green Cities programme.[35] The EU also continued efforts to foster peace between Azerbaijan and Armenia and to support people living in border regions. [32] On 1 July 2026, the EU announced a new EUR 20 mln. programme for this purpose, investing in healthcare, demining, rural development, water management, precision farming, and support for SMEs in Karabakh and East Zangezur.

This increased economic engagement was also reflected in the tourism sector. The number of tourists from EU Member States reached 120.1 thousand in 2025, representing a 7% increase compared with the previous year.[36]

1.3 BUSINESS CLIMATE: INSIGHTS FROM KEY SECTORS

Business Climate Indicators

Global and regional developments are strengthening Azerbaijan's position as a transit and logistics hub connecting Europe and Asia, attracting investment to the region and creating new opportunities in sectors such as transport and logistics. Freight volumes have increased significantly along regional corridors, raising the contribution of transport services to exports and economic activity. However, geoeconomic fragmentation and adverse trade shocks are also increasing business uncertainty in the region. The country has benefited from higher oil prices resulting from global supply disruptions, particularly as disruptions to shipping through the Strait of Hormuz persisted. The initiation of a peace process with Armenia and the gradual reopening of transport links have begun to improve transit conditions and stimulate foreign investment and trade flows across the South Caucasus.

Reliance on oil and gas exports remains the main structural challenge facing Azerbaijan's economy. As oil production gradually declines and the global energy transition implies reduced oil demand in the future, the economy remains exposed to volatility in export revenues and the fiscal balance. Expanding natural gas production and transmission through the Southern Gas Corridor is unlikely to fully offset this decline over the longer term.

Economic diversification is therefore becoming increasingly important. A strong state presence in Azerbaijan continues to impede diversification. Government involvement extends beyond the hydrocarbon sector and crowds out private sector activity. The largest share of public investment is directed to SOEs, which operate in 29 out of 30 sub-sectors, limiting competition as they often benefit from preferential access to resources despite recent reform efforts.[37] Although SOEs' domestic revenue amounts to 40% of GDP, their value added is estimated at only 6% of GDP. There is significant scope to improve the performance of SOEs and the efficiency of public investment.

Overall investment in the country is dominated by public spending and remains below the minimum investment-to-GDP ratio of 25% considered necessary to achieve sustainable economic growth. [37] Private investment remains relatively limited and concentrated in domestically oriented sectors, constraining productivity gains. This reflects persistent impediments in the business environment and other structural constraints. One such challenge is low labour productivity and improving it will require greater investment in human capital.

Institutional reform and support for private sector development are crucial to boosting private investment. During 2025 and the first half of 2026, Azerbaijan implemented several reforms, including the digitalisation of public services and customs operations, improvements in SOE governance, extensions to investment promotion certificates, and expanded support for industrial parks and economic zones. According to the World Bank Group's B-READY 2025 assessment, Azerbaijan performs relatively strongly in business entry procedures, financial services and regulatory quality, reflecting ongoing reforms in digitalisation, registration processes and financial infrastructure.[38]

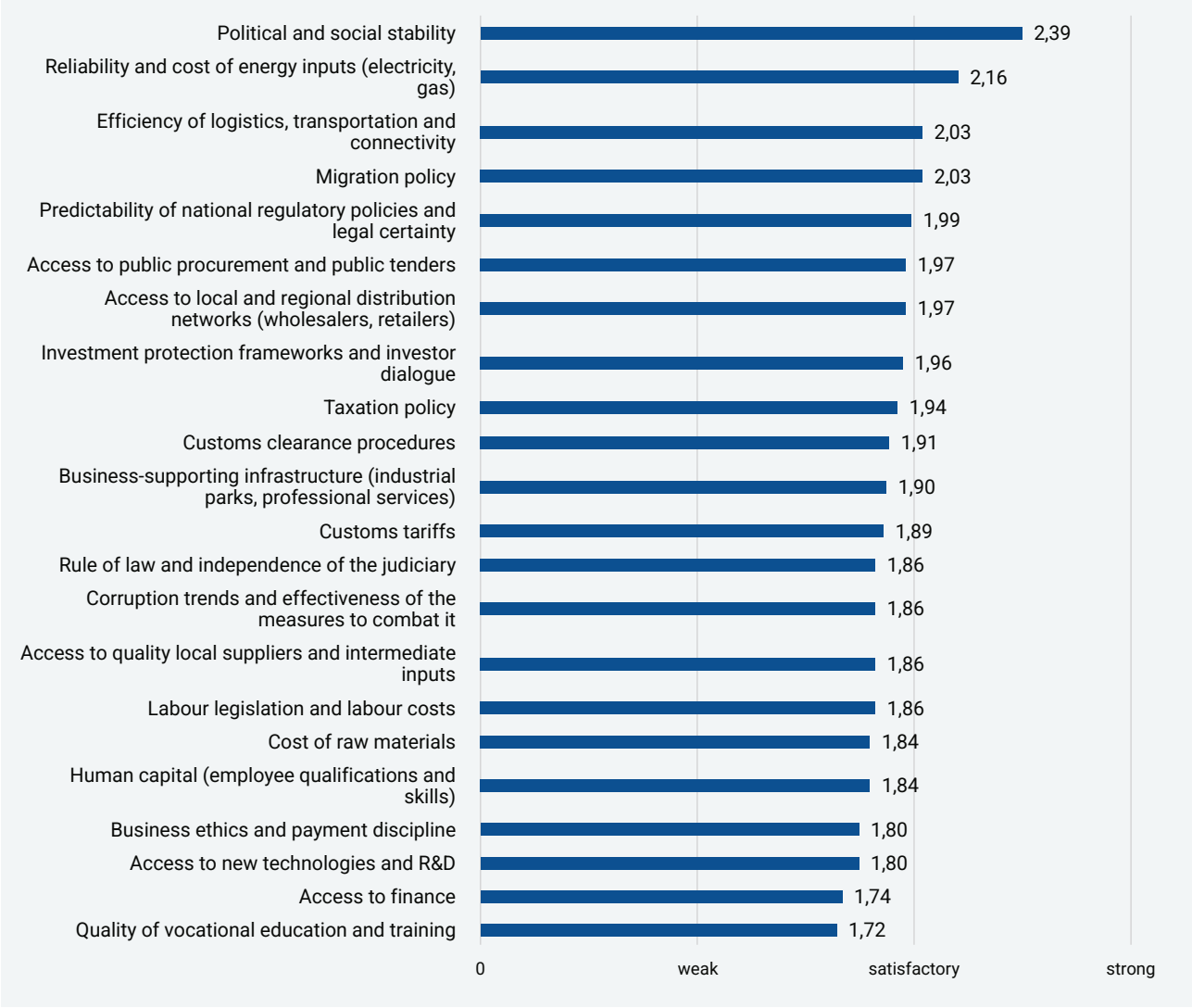
The 2025/26 survey results present a **moderate assessment of Azerbaijan's local business environment**, with most indicators clustered around the "satisfactory" level. **Political and social stability** stands out as the strongest-rated indicator, receiving a score of **2.39** on the three-point scale. **Reliability and cost of energy inputs** also receives a comparatively positive assessment at **2.16**, while **efficiency of logistics, transportation and connectivity** and **migration policy** both score 2.03.

A broad group of regulatory and institutional indicators remain close to, but slightly below, the satisfactory benchmark. **Predictability of national regulatory policies and the legal framework** scores **1.99**, while **access to public procurement and public tenders** and **access to local and regional distribution networks** both receive **1.97**.

Investment protection frameworks and investor dialogue (1.96), taxation policy (1.94) and customs clearance procedures (1.91) also fall within this middle range. At the same time, **rule of law and independence of the judiciary, corruption, access to quality local suppliers and intermediate inputs, and labour legislation and labour costs** each receive a score of **1.86**, indicating continued scope for improvement.



FIGURE 1.3 Responses to the question "How do you rate the following local indicators in Azerbaijan in the last years?"



SOURCE: EU Business Climate Survey 2025-2026

The weakest assessments relate primarily to skills, finance and business capabilities. **Quality of vocational education and training** receives the lowest score at **1.72**, followed by **access to finance (1.74)**. **Business ethics and payment discipline** and **access to new technologies and R&D** are both rated **1.80**, while **human capital (employee qualifications and skills)** and cost of raw materials each score **1.84**.

Overall, the results suggest a cautiously balanced perception of Azerbaijan's business climate. European companies particularly value the country's political and social stability, energy conditions, logistics connectivity and migration policy. However, the relatively low ratings for vocational education, access to finance, human capital and technology/R&D highlight areas where further reforms and investment could contribute to a stronger and more competitive business environment.

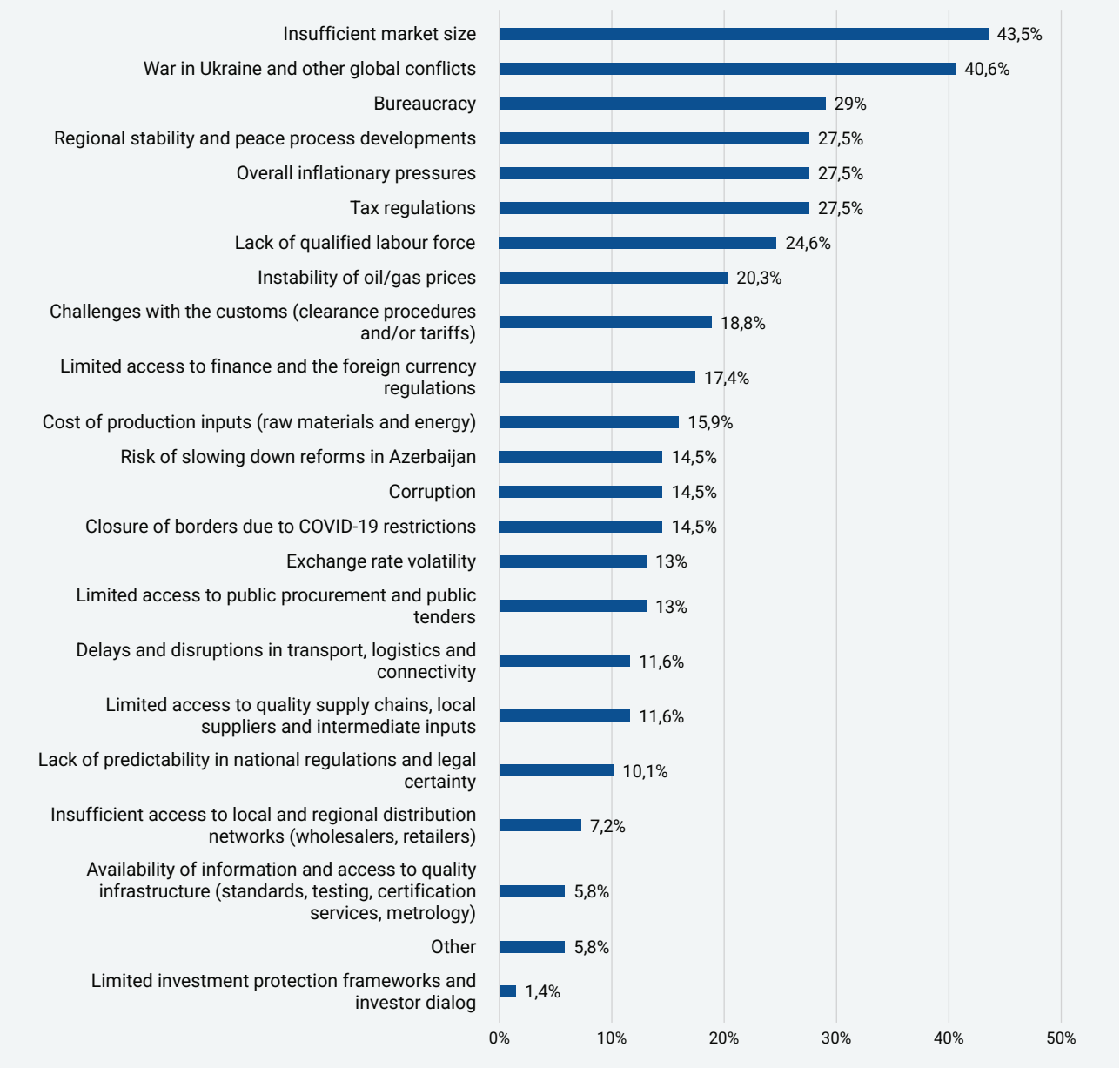
The 2025/26 survey results show that European companies in Azerbaijan are affected by a combination of market constraints, geopolitical developments, regulatory issues and workforce challenges. The most frequently cited factor is **insufficient market size**, identified by **43.5%** of respondents. This suggests that limitations in domestic demand and opportunities for market expansion represent a significant concern for European businesses. **The war in Ukraine and other global conflicts** follows closely at **40.6%**, demonstrating the continued impact of geopolitical uncertainty on companies' operations and business planning.

"The political tension turns into economic tensions. The unpredictability has large effect on economy."

CEO, Business-association

Domestic administrative and economic conditions also feature prominently among the challenges. **Bureaucracy** is identified by **29.0%** of respondents, while **overall inflationary pressures, tax regulations,** and **regional stability and peace process developments** are each cited by **27.5%**. In addition, **lack of qualified labour force** affects **24.6%** of surveyed companies, reinforcing concerns identified elsewhere in the survey regarding human capital, vocational education and the availability of skills required by businesses.

FIGURE 1.4 Responses to the question "Select factors that affected your company the most in the recent years."

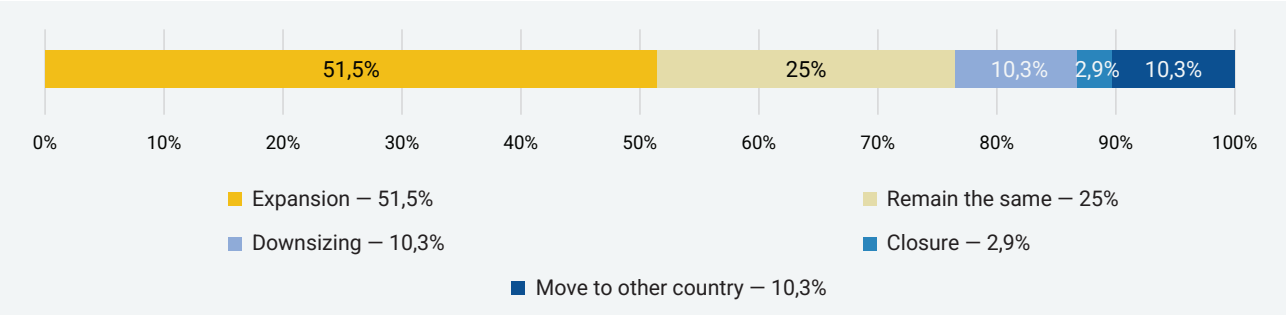


SOURCE: EU Business Climate Survey 2025-2026

Overall, the results suggest that the main pressures on European companies arise from **limited market size and geopolitical uncertainty**, complemented by domestic challenges related to **bureaucracy, taxation, inflation and shortages of qualified labour.**

The findings also highlight the importance of perceptions of the geopolitical and economic environment for European businesses' operations and investment decisions. The outlook among European companies in 2025/26 is more cautious compared with the previous survey. While expansion remains by far the most likely development, the share of companies expecting to expand declined from 71% to 51.5%, a decrease of 19.5 percentage points. At the same time, the proportion expecting to remain at the same level increased from 22% to 25.0%.

FIGURE 1.5 Responses to the question "What is the most likely development of your company in Azerbaijan in the next few years?"



SOURCE: EU Business Climate Survey 2025-2026

The most noticeable change is the increase in companies considering a contraction or relocation. The share **expecting downsizing** rose from **5%** to **10.3%**, while those considering moving to another country increased substantially from **1%** to **10.3%**. Overall, the comparison suggests that although expansion continues to dominate companies' expectations, the outlook has become less optimistic since the 2024 survey.

Sectoral Insights

According to the EU Business Climate Survey results, European companies' **assessment of Azerbaijan's national economy** became more cautious in 2025/26 compared with 2024. The average rating declined from **2.05** in 2024 to approximately **1.86** in 2025/26. Most respondents **(56.5%)** assessed the economic situation as **satisfactory**, while **14.5%** considered it strong and **29.0%** as weak.

Azerbaijan's economy remains structurally dependent on the hydrocarbon sector. As this sector also provides almost half of government revenues, the non-oil economy, which is driven by public investment, is likewise sensitive to fluctuations in oil prices. The government has accelerated efforts to diversify the economy in light of declining oil and gas production. Recent economic growth has increasingly been driven by non-oil sectors, particularly construction, transport and logistics, hospitality and ICT. Services are gradually increasing their share of GDP. ICT has gained momentum as a result of the country's digitalisation efforts. Greater use of international transport links through the country, particularly the Middle Corridor, is driving growth in transport and logistics. The government is pursuing economic diversification by prioritising sectors such as renewable energy, agriculture, ICT, transport and logistics, and tourism.

The mining sector remained the backbone of Azerbaijan's economy, although it is gradually declining. Oil and gas output fell by 2.5% in 2025, but still accounted for 28.5% of GDP, 85.2% of exports, 48.1% of budget revenues and 25.2% of investment. [5] [19][39] The sector's share of employment remains very low, at only 0.8%. The mining sector stalled in the first seven months of 2026, recording growth of just 0.2% by the end of July, amid a continued decline in oil and gas production. [7] Oil output remains on a downward trend, largely reflecting the maturity of the Azeri-Chirag-Gunashli (ACG) field. Natural gas production has remained relatively stable, although further expansion is constrained by pipeline capacity and long-term export agreements with European countries. Other mining activities are expanding, but continue to account for only a small share of the sector. Projects such as the construction of the Dashkasan iron ore plant, with an estimated cost of around AZN 2 bn., the development of the Zod deposit, and plans to double aluminium production are expected to increase this share.[40]

The construction sector, which had been one of the strongest drivers of Azerbaijan's non-oil economic growth in recent years, declined by 0.4% in 2025. The sector contracted sharply by 23% in May 2026, weighing significantly on overall economic growth. The contraction subsequently moderated, narrowing to 9.4% by the end of July 2026. [7] The sector accounted for 8% of employment in 2024. As growth in construction had been driven by fiscal expansion, the reduction in public investment as part of fiscal consolidation led first to stagnation and then to a sharp decline. Investment in the sector increased by 3.3% in 2025, compared with 11.8% growth in 2024, and accounted for 27% of total investment.

Growth in the **ICT sector** reached 8.7% in 2025 and 10.4% in the seven months of 2026. [7] The government promotes digitalisation and innovation as part of its broader diversification strategy, and this is reflected in the sector's performance. ICT has become one of the fastest-growing segments of Azerbaijan's economy, although it still accounts for only 2% of GDP. Some 69.2% of ICT services were directed to the population, while mobile services accounted for one third of sectoral output.

The tourism sector recorded growth of 8.5% in 2025 and 3.5% by the end of July 2026, although it remains sensitive to regional geopolitical developments.[7] Despite accounting for only 2.8% of GDP in 2025, the sector has considerable potential to contribute to the non-oil economy. Tourism could also support development in Azerbaijan's regions. However, limited and uneven institutional capacity outside Baku prevents these areas from realising their full potential. The high share of transport expenditure suggests that tourists may view Azerbaijan primarily as a transit or short-stay destination, although rising international arrivals have supported growth in accommodation, hospitality and related services. The concentration of visitors in a small number of source markets remains a risk, with 66% of visitors coming from Russia, Türkiye and Iran. As visitor numbers from key source markets declined owing to the continued closure of land borders, the government improved visa

procedures and carried out promotional activities, and the sector showed signs of diversification during the reporting period. Limited air connectivity, together with insufficient skills and service quality, remain among the main constraints on sector growth.

Growth in the **agriculture sector** was 0.9% in 2025, while the sector absorbed only 1.7% of total investment. Despite this, agriculture remains strategically important because it employs 35% of the workforce and supports rural incomes and food security. The sector's growth accelerated to 2.8% by the end of July 2026. [7]

FIGURE 1.6 Azerbaijan's Agricultural Sector: Key Challenges and Policy Response

The main challenges in Azerbaijan's Agricultural Sector are as follows:

Structural and institutional constraints: Agricultural businesses are not properly formalised, and the legal definitions of agricultural producers are unclear. The landholdings are fragmented and land registration is not precise. The coordination across government institutions involved in the agriculture development policy is weak. These issues create legal uncertainty in the sector, increase the administrative costs and reduce the productivity in agriculture.

Limited access to finance and market infrastructure: Agricultural finance is underdeveloped in the country, a regulated warehouse receipt system does not exist yet, the storage infrastructure is inadequate. Agricultural data is limited to subsidies and doesn't allow risk assessment. Financial institutions specialised in the agriculture sector are missing. These issues are impediments to the efficient market functioning for investments and lending to the sector.

Policy and governance challenges: The direction of subsidies doesn't align well with the strategic vision of the government in the agriculture sector and with the needs of the farmers. Government influence on production decisions risks distorting market signals. The policy might be more effective if it were built on a bottom-up principle. The agroparks need to focus on supporting the sector and refrain from acting as market player.

Competitiveness and sustainability constraints: Strict certification and other market-entry requirements limit farmers' access to new export markets. The sector relies on the Russian export market, which is subject to shocks due to the geopolitical situation. There are shortages of skilled agricultural specialists. The water management is inefficient. These limit the sector's competitiveness, increase vulnerabilities and impede sustainable growth.

The Government launched a State Programme for the Development of Agricultural Production and Processing, Fisheries and Aquaculture (2026–2030) in 2026. The program envisages spending AZN 5.9 bln. through public and private investments over five years of its implementation. The State Programme targets increasing the agricultural production by more than 2% a year and the exports of the sector by over 6% annually by 2030. The Programme aims to improve productivity, food security, competitiveness of exports, and sustainability through addressing the issues in the sector. Modern irrigation, the storage infrastructure and logistics, the usage of renewable energy, digitalisation, agriculture information systems, access to agricultural finance and support to certification are some of the fields that the program will focus on. The government will partly subsidise the transportation of the agricultural products, as well as the interest rates on loans to the agriculture sector.

A 5 March 2026 presidential decree introduced a new interest-subsidy mechanism for short-term agricultural loans and expanded the pool of authorised lending organisations. The scheme is administered through the TAPAGRO subsystem of the Electronic Agriculture Information System (EKTIS), which monitors the use of funds and helps ensure they are directed towards eligible agricultural purposes.

The government provides extensive subsidies and incentives for agriculture, agro-processing and modern agri-technologies. The sector benefits from profit tax exemptions, Value Added Tax (VAT) exemptions and income tax relief. The government agencies also support businesses by financing certification costs. Despite these measures, productivity in the sector remains a long-term challenge.

The transport sector grew by 4.6% in 2025 and 7.1% by August 1, 2026. [7] It accounted for 7.1% of GDP. Road transport dominated freight transport, and 80.4% of freight was carried by non-state vehicles. In 2025, freight and passenger traffic increased by 1.8% and 6.1% respectively, at a slower rate than in 2024. Unlike the increase seen in 2024, investment in the sector declined by 20.5% in 2025, although the sector still absorbed almost one quarter of total investment in the country. Following the resumption of the international Baku-Tbilisi passenger train on 26 May 2026 after a six-year suspension, rail transport is expected to recover. During the reporting period, Azerbaijan's airspace also became increasingly important for safe passenger and freight transit owing to regional conflicts. Rising freight volumes along the Middle Corridor in 2025 and the first half of 2026 imply higher levels of freight transit services in Azerbaijan during that period.

> "Our company was established in Azerbaijan in 2022, and we always say that the "right place, right time" rule contributed to our success, because the country developed alternative corridors and multimodal transport solutions."
>
> Co-Founder / Managing Director,
> Logistics and Transport company

The interviewed European companies stated the following:

Freight forwarding should be licensed in Azerbaijan, as it is in Türkiye. Currently, anyone can enter the business without formal training, allowing undercapitalised, cash-based operators to undercut compliant companies and potentially creating money-laundering risks through shell logistics firms.

A recently adopted law on transport, logistics and expedition is also seen as potentially threatening the viability of the freight-forwarding sector, as it makes forwarders liable for freight and customer losses without a corresponding compulsory professional-liability insurance market, which does not yet exist in Azerbaijan, potentially limiting the ability to transfer freight into Europe. Current legislation may also hold logistics companies liable for cargo losses in ways that diverge from the international convention governing road freight. While Azerbaijan is party to the international convention on air transport, no equivalent international maritime liability framework applies domestically. More broadly, the sector lacks a strong insurance culture.

Oversized containers that exceed height limits once loaded onto trucks trigger special permit requirements, creating difficulties for road and transit transport even though such cargo is treated as standard internationally; this may reflect a coordination gap between government agencies.

Wagon shortages have become more frequent over roughly the past year, prompting carriers to seek alternative routes when capacity is constrained, while persistent driver shortages and skills gaps remain. Drivers who complete official training programmes often demand significantly higher wages afterward.

Azerbaijani logistics firms also struggle to compete with Turkish operators; government support measures could help, while restrictions on Azerbaijani trucks operating in Türkiye add further difficulties, and compliance with European emissions standards remains difficult and costly for many operators.

Statistics on the freight and logistics sector are considered inadequate: tonnage by road and rail is not meaningfully distinguished, and there is little data on the value added, employment or skills distribution generated by large-scale freight operations. Government programme indicators also tend to be output-based, such as the creation of a fund, rather than measuring outcomes such as tonnage, revenues or maintenance performance.

Recommendations include further simplification of customs, tax, border-queue and road-permit procedures for logistics operators, alongside regular, structured dialogue between government and the private sector. Harmonised customs procedures and single-inspection arrangements across corridor countries could further improve efficiency.

1.4 INVESTMENT OPPORTUNITIES

Main Trends

Over the past decade, the government has increasingly focused on strengthening the non-oil economy, attracting foreign direct investment (FDI), promoting private-sector development, and improving the overall investment climate. Although hydrocarbons continue to play an important role in the economy, long-term policy increasingly emphasises sustainable growth through industrial development, logistics, renewable energy, digital transformation, and export-oriented manufacturing.

In 2025, AZN 21.2 bn. (≈ EUR 10.9 bn.) was invested in the economy of Azerbaijan, 5.6% less than in 2024. Three-quarters of these investments were directed to the non-oil and gas sector. [5] Investments in the oil and gas sector dropped by 10.3%, while investments in the non-oil and gas sector decreased by 3.9%. Outward public investments consisted of SOCAR's investments in Türkiye, Georgia, Greece, Albania and Italy, as well as SOFAZ's investments abroad as part of its reserve management.[41]

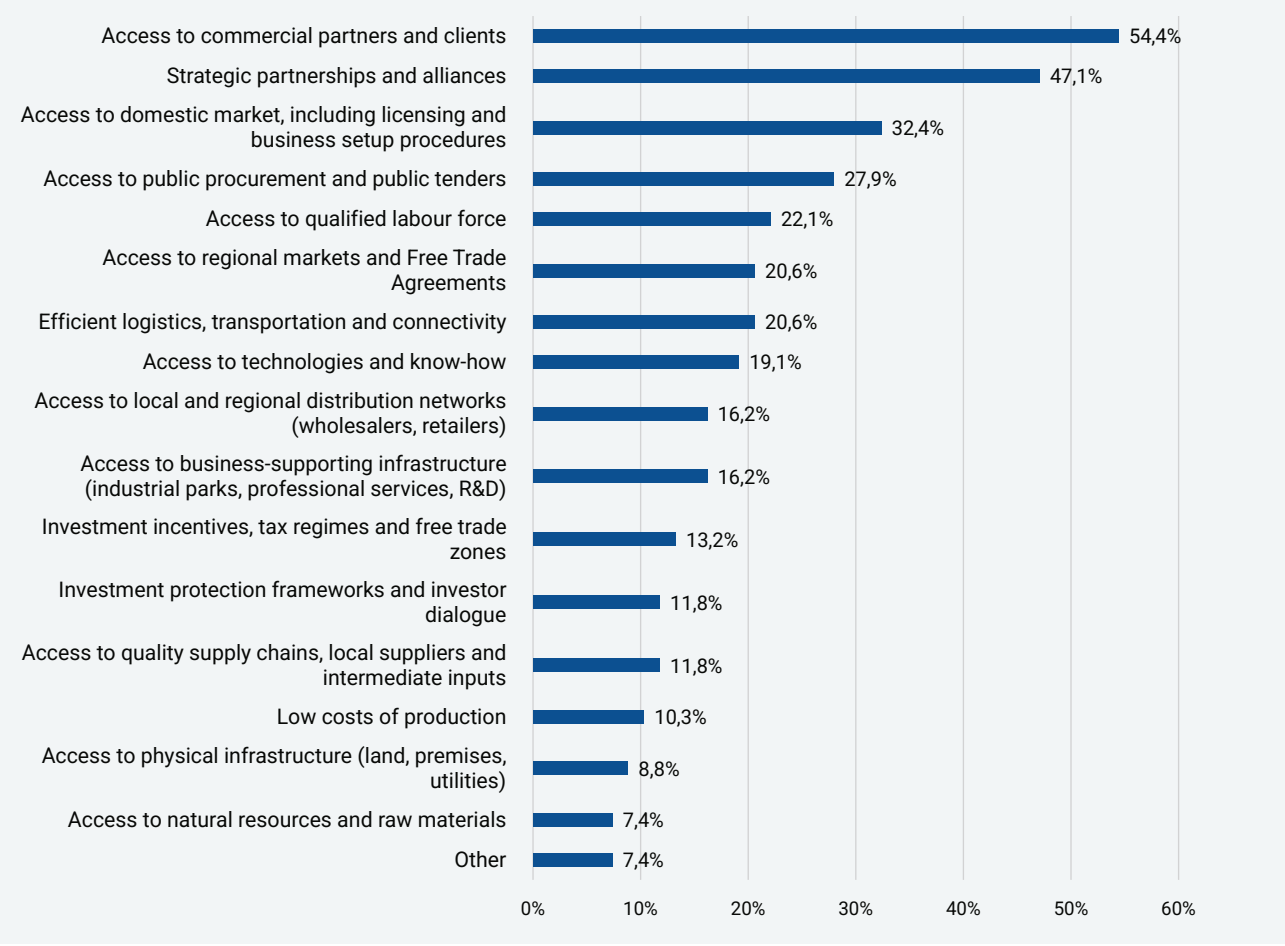
Of the total investment in the Azerbaijani economy, 46.8% was made by the private sector, of which 19.8% came from foreign sources; the UK, the United Arab Emirates, Türkiye, the Russian Federation, the USA, Switzerland, Japan and Iran were the main source countries for investments in Azerbaijan. Domestic private investments remain concentrated in non-tradable sectors, particularly the construction sector.
According to IMF estimates, total investment in Azerbaijan will reach 16.3% of GDP in 2026, recovering slightly from 15.7% in 2025. [11] In the medium term, the share of private investment is expected to grow closer to that of public investment. This reflects Azerbaijan's policy of reshaping its investment model towards stronger private-sector participation, greater foreign direct investment and public–private partnerships (PPPs). The government has identified agriculture, transport, tourism and ICT as key sectors for increasing private investment, while retaining control over strategic sectors such as mining, energy and telecommunications.

Azerbaijan is an attractive destination for greenfield investments and transport infrastructure projects, supported by its strategic geographical location along the major East–West transport corridor. Further reforms to improve policy predictability, strengthen competition and judicial institutions, deepen domestic capital markets, enhance access to finance, and increase labour productivity would help attract greater FDI.

Recent policy reforms in Azerbaijan have focused on digitalisation. The "Invest in Azerbaijan" Information System was created on 6 November 2025 to digitalise investor services through a single-window platform, reduce administrative burdens and facilitate investors' interaction with public institutions.[42]

The 2025/26 survey results indicate that **access to commercial partners and clients** and **strategic partnerships and alliances** are the strongest factors attracting European companies to invest and do business in Azerbaijan, cited by **54.4%** and **47.1%** of respondents, respectively.

FIGURE 1.7 Responses to the question "What are the most important factors attracting your company to invest and/or do business in Azerbaijan?"



SOURCE: EU Business Climate Survey 2025-2026

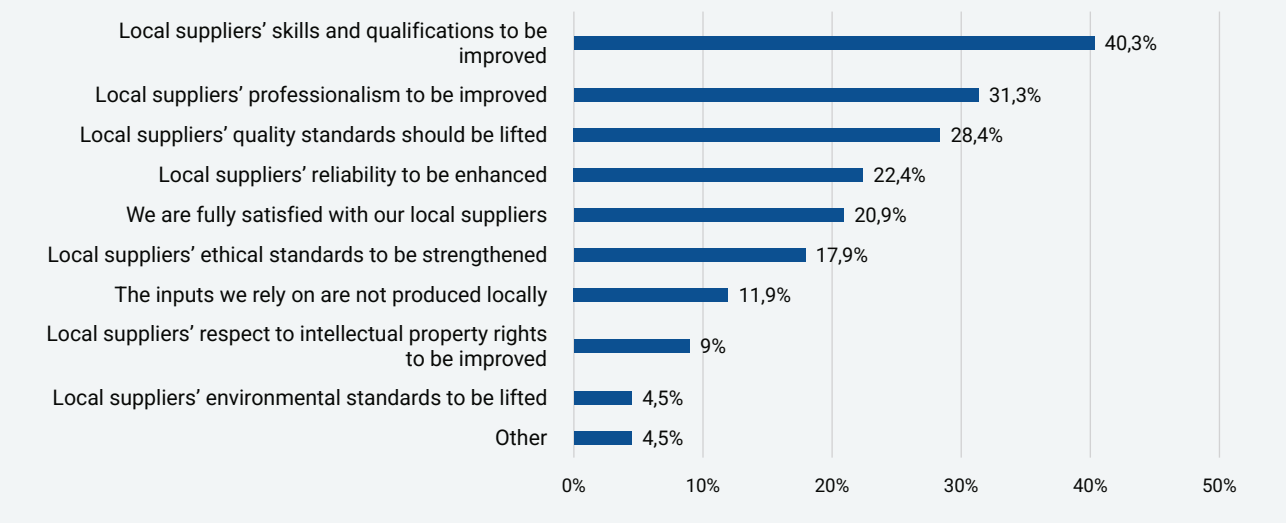
Access to the domestic market, including licensing and related conditions, is also an important attraction at **32.4%**, while **access to public procurement and public tenders** is valued by **27.9%** of respondents.

A second group of factors attracts around one-fifth of the surveyed companies. **Access to qualified labour force** is cited by **22.1%** of respondents, while both **access to regional markets and Free Trade Agreements** and **efficient logistics, transportation and connectivity** account for **20.6%**. **Access to technologies and know-how** follows closely at 19.1%, indicating that skills, connectivity, regional market access, and technological capabilities also play meaningful roles in Azerbaijan's attractiveness to European businesses.

Investment incentives, tax regimes and free trade zones are cited by **13.2%** of respondents, while **low costs of production** account for only **10.3%. Access to natural resources and raw materials** is among the least frequently selected factors, at **7.4%**. These results suggest that European companies are attracted to Azerbaijan primarily by commercial relationships, strategic partnerships and market access rather than by low production costs or natural resources alone.

The 2025/26 survey results indicate that European companies see **considerable room for improvement in the capabilities and performance of local suppliers in Azerbaijan**. Only **20.9%** of respondents report being fully satisfied with their local suppliers, while the majority identify specific areas where further development is needed.

FIGURE 1.8 Responses to the question "Please indicate whether the local suppliers fully meet expectations of your company or choose the factors to be improved."



SOURCE: EU Business Climate Survey 2025-2026

The most frequently cited concern is **local suppliers' skills and qualifications**, identified by **40.3%** of respondents. This is followed by the need to improve **professionalism (31.3%)** and raise **quality standards (28.4%)**. **Reliability** is another important issue, highlighted by **22.4%** of companies, while **17.9%** believe that local suppliers' **ethical standards** should be strengthened.

Other concerns are less widespread but remain relevant. Around **11.9%** of respondents indicate that the inputs they rely on are not produced locally, pointing to gaps in the availability and diversification of domestic supplies. Respect for intellectual property rights is identified as an area for improvement by **9.0%**, while environmental standards are cited by **4.5%**. Overall, the findings suggest that enhancing the skills, professionalism, quality standards and reliability of local suppliers could strengthen their integration into the supply chains of European companies and increase opportunities for local businesses to cooperate with international investors.

International Investment Agreements and Treaties

Azerbaijan has signed bilateral investment agreements with 51 countries, including the US, most of the EU member states and Switzerland.[43] These agreements provide foreign investors with protection against unlawful expropriation, with dispute settlement mechanisms and guarantees of fair treatment. The country has also signed agreements on the avoidance of double taxation with 57 countries, aiming to reduce the tax burden on international investors and to facilitate FDI flows.[44] Azerbaijan also benefits from free trade agreements within the Commonwealth of Independent States (CIS).[45] These agreements facilitate regional trade and investment.

Meanwhile, Azerbaijan continues negotiations on accession to the World Trade Organization (WTO) and alignment with international trade standards through ongoing reforms. One of the main points of discussion is the Azerbaijani government's position of preserving agricultural subsidies at 10% of annual agricultural production, the maximum level granted by the WTO to developing countries.[46] Accession to the WTO may be accompanied by certain risks, but it would also help to

strengthen the country's economic integration and export potential, as well as gradually reduce unfair competition and monopolisation.

Azerbaijan has expanded economic cooperation with major international partners. The US–Azerbaijan Trade and Business Conference in February 2026 resulted in the signing of a Strategic Partnership Charter in Baku.[47] The Charter establishes a framework for cooperation in digital technologies, Artificial Intelligence (AI) and innovation, energy infrastructure, trade and investment, defence and maritime security, as well as regional connectivity. Economic relations with China have also expanded under the Belt and Road Initiative.

Support Infrastructure

Azerbaijan has developed and expanded a range of investment support infrastructure in order to accelerate economic diversification, attract domestic and foreign investment, and enhance export-oriented production in the country. The establishment of special economic zones, industrial parks and industrial districts providing investors with fiscal incentives and developed infrastructure has been a cornerstone of this strategy.

Currently, nine industrial parks and four industrial districts are operating in the country. In addition, the **Alat Free Economic Zone (AFEZ)** serves as a platform dedicated to export-oriented manufacturing. In light of the increasing importance of the Middle Corridor, AFEZ continues to gain momentum owing to its role in regional trade and logistics. AFEZ is actively promoted by the Azerbaijani government as a hub for investment in logistics, technology and manufacturing. Alat FEZ Airport is being built on its territory and is expected to begin operations in early 2027. Alat FEZ will be an international airport with a cargo terminal, business aviation and low-cost carrier services. Its cargo capacity is planned to reach 500,000 tonnes per year in the first stage and to increase to 1.5-2 mln. tonnes per year. To expand industrial infrastructure beyond traditional manufacturing, AFEZ is being turned into a specialised export platform with a focus on high-value-added manufacturing. Companies operating in AFEZ are expected to export at least 75% of their production, as a way of preserving fair competition in the Azerbaijani market.[48]

By early 2026, 151 registered enterprises, including 13 non-resident companies, were operating in Azerbaijan's industrial zones, with the total investment portfolio of the registered projects exceeding AZN 8.7 bn. (≈ EUR 4.5 bn.). The industrial zones have generated around 9,700 permanent jobs, including 1,100 new jobs created in 2025. The industrial zones accounted for 19.1% of non-oil industrial production and 33.9% of non-oil exports in 2025. Products manufactured in the industrial zones have been exported to 70 countries. Annual foreign investment in industrial zones increased 8.5-fold over 10 years, reaching almost AZN 88 mln. (≈ EUR 45.4 mln.) in 2025. **The Nakhchivan Industrial Park** was established at the end of 2024, and the Western Industrial Park was established by presidential decree on 15 January 2026 in the city of Ganja and the Shamkir district.[49] Existing industrial zones, such as the Sumgayit Chemical Industrial Park and the Balakhani Industrial Park, have also been expanded to provide additional production capacity.

The Sumgayit Chemical Industrial Park, the largest industrial park in the South Caucasus, hosted 40 residents investing more than AZN 5.5 bn. (≈ EUR 2.8 bn.) by 2026.[50] The park is the country's principal centre for petrochemicals, polymers, fertilisers, construction materials, cables and other export-oriented manufacturing industries, providing the largest share of the country's industrial exports.

The Aghdam Industrial Park has developed into Azerbaijan's second-largest industrial park. By mid-2026, 31 business entities had received resident status and four entrepreneurs had been granted non-resident status at this industrial park.[51] The industrial park has attracted nearly AZN 172 mln. (≈ EUR 88.7 mln.) in investments in manufacturing, logistics and related industries.

To cut initial investment costs substantially, improve profitability and enhance competitiveness, investments in industrial zones are supported by comprehensive fiscal incentive frameworks. Fully serviced industrial land, state-financed infrastructure, and exemptions from profit (income), property and land taxes for up to 10 years are provided in these zones.[52] Additionally, imports of machinery, technological equipment and production inputs are exempt from VAT and customs duties.

The interviewed European businesses consider that the government could provide greater long-term planning certainty for companies operating in the AFEZ, which also requires greater visibility among European companies, supported by improved promotional materials. Economic zones are not straightforward to operate in and are not yet particularly attractive to larger businesses, given the time required to reach profitability and the relatively short duration of available tax exemptions, which may not allow companies to fully benefit from them. The number of industrial zones across the country has grown considerably over the past decade, creating opportunities for niche manufacturers. However, infrastructure and services, including basic infrastructure in some zones, require further development. European companies would also benefit from improved industrial infrastructure and dedicated industrial zones along the Middle Corridor. Tariffs in the AFEZ should be reduced specifically for logistics companies, whose margins are generally lower than those of manufacturers. A planned tariff increase has raised concerns, with a preference for tariffs to be set in proportion to freight volumes, in line with international practice. Overall, only a limited share of the country's free economic zones is currently occupied or utilised.

As Azerbaijan intends to shift from state-led infrastructure towards greater private-sector participation, PPPs are also becoming an important part of the country's investment promotion framework. Investment projects valued at more than AZN 30 mln. (≈ EUR 15.5 mln.) are subject to

enhanced incentive packages, including exemptions from profit (income), property and land taxes, as well as VAT and customs duty exemptions on imports of investment assets.[53] The incentives may remain in force for up to 30 years, depending on the project, to improve the long-term viability of investments. PPPs serve to mobilise private capital, as well as technical expertise in transport infrastructure, utilities and renewable energy. They also facilitate concession-based public services and performance-based service and management contracts.

Karabakh and East Zangezur Economic Regions

The Karabakh and East Zangezur economic regions continue to be the focus of the country's long-term investment priorities, given the strategic importance of restoring the region and integrating it into the national economy. These regions are supported by large-scale public investment in infrastructure, tax concessions and financial incentives, as well as by the creation of industrial zones. Transport infrastructure has been expanding and renewable energy capacity has been growing rapidly. Priority sectors for attracting investments are renewable energy, logistics, construction materials, manufacturing, agriculture and food processing, housing, tourism and digital infrastructure.

The government has mostly relied on internal resources for the reconstruction of Karabakh and East Zangezur. AZN 4.5 bn. (≈ EUR 2.3 bn.) was allocated for this purpose in 2025 and AZN 3.5 bn. (≈ EUR 1.8 bn.) is planned to be spent in 2026.[54] Public investments were directed towards rebuilding strategic infrastructure, including transport, electricity, water and agricultural infrastructure, industrial facilities and public services, as well as housing and smart settlements. Cumulative budget allocations are expected to exceed AZN 25.5 bn. (≈ EUR 13.1 bn.) by the end of 2026. In the medium term, a further AZN 13.3 bn. (≈ EUR 6.8 bn.) is planned to be spent over 2027–2030, representing about one-quarter of total state capital expenditure during the period. Thus, the cumulative public investment to these regions is expected to exceed AZN 38 bn. (≈ EUR 19.6 bn.) by 2030.

Infrastructure development has been the cornerstone of the regions' economic transformation. Over 1,400 km of highways and 120 km of railway, as well as tunnels, bridges, three international airports, water infrastructure, modern electricity transmission systems and digital networks, have been built or are under construction.[55] The Aghdam–Khankendi railway project is expected to facilitate the integration of these regions into Azerbaijan's national transport network.

The government is gradually moving from a policy focused on post-conflict reconstruction towards one that supports private sector-led, long-term economic development. The Azerbaijani government has introduced a generous investment incentive regime for businesses operating in Karabakh and East Zangezur. Besides tax and customs duty exemptions until 1 January 2033, it reimburses 20% of the utility costs of manufacturing enterprises and provides incentives for labour costs, social insurance contributions and utility connections.[56]

Access to finance for investment projects in Karabakh and East Zangezur has been supported by the government through the Azerbaijan Business Development Fund (ABDF).[57] State guarantees cover up to 90% of commercial loans, and subsidies of up to 10 percentage points of annual interest rates are provided for as long as 36 months. By April 2026, 52 investment projects had benefited from this mechanism.

The Aghdam Industrial Park and the Araz Valley Economic Zone Industrial Park are intended to become the anchors for post-conflict industrial development. By attracting manufacturing, logistics and processing industries, these industrial zones are expected to create employment opportunities and accelerate the integration of these regions into national and international value chains. By early 2026, thirteen enterprises had commenced production, supplying both domestic and export markets. These enterprises had created around 1,000 permanent jobs by mid-2026.[58] Overall, by 1 October 2026, the Small and Medium Business Development Agency (KOBIA) had received over 4,000 investment proposals, 507 of them from 39 foreign countries, indicating growing interest in establishing businesses in these regions.[59]

The government plans to turn the Karabakh and East Zangezur regions into Azerbaijan's principal green energy zone. By mid-2026, 32 hydropower plants were operational in these territories, with a combined installed capacity of approximately 270 MW.[60] The total capacity is expected to rise to 500 MW. These projects are intended to meet regional electricity demand, while also contributing to Azerbaijan's renewable electricity export ambitions, given continued investment in transmission infrastructure.

Agriculture also represents a strategic priority for private investment, although it requires a specific approach. Unlike in other regions of Azerbaijan, agricultural land in these territories has not undergone privatisation and therefore remains state-owned. To ensure the efficient use of these lands, the government introduced a competitive, investment-based mechanism in late 2024.[61] It aims to allocate agricultural land to viable agricultural investment projects through long-term lease agreements. Under this system, investors in crop production, horticulture, livestock farming, fisheries and agritourism compete by presenting their business plans. Leases start with five-year agreements and may later be extended for up to 44 years if the investment obligations are fulfilled.

The number of people residing in the Karabakh and East Zangezur regions reached 75,000 by the end of 2025.[62] The government intends to support vocational training, entrepreneurship and small business programmes to encourage sustainable local economic activity. Healthcare and other public services in these regions will need continuous improvement to retain a larger resident population over the longer term.

Nakhchivan Autonomous Republic (NAR)

Long constrained by its geographical separation from mainland Azerbaijan, NAR has gained increasing strategic importance as Azerbaijan advances regional economic integration and transport connectivity. To enhance the region's attractiveness to investors and encourage private-sector development, from 1 January 2026 the NAR was granted the same preferential tax regime as the Karabakh and East Zangezur economic regions.[63]

Besides providing tax incentives, the government has taken measures to reduce transport costs in Nakhchivan in order to neutralise one of the region's main structural constraints and improve its competitiveness. A state-funded transport subsidy scheme will be in effect from 1 September 2026 for a ten-year period and envisages reimbursing up to 70% of the transport costs of exports carried from NAR by rail, air, sea or Azerbaijani-registered road vehicles.[64] The reimbursement is set at 50% when foreign-registered road vehicles are used. The subsidies are subject to ceiling amounts linked to the customs value of the exported goods. In addition, the government reimburses 70% of the domestic road transport costs incurred by producers in Nakhchivan when shipping goods to mainland Azerbaijan.

NAR is also positioned as a regional green energy zone, supporting future renewable energy exports to Türkiye through the green energy corridor planned to be built. In February 2026, investment agreements valued at over AZN 60 mln. (≈ EUR 31 mln.) were signed for the construction of two 25 MW solar photovoltaic power plants.[65]

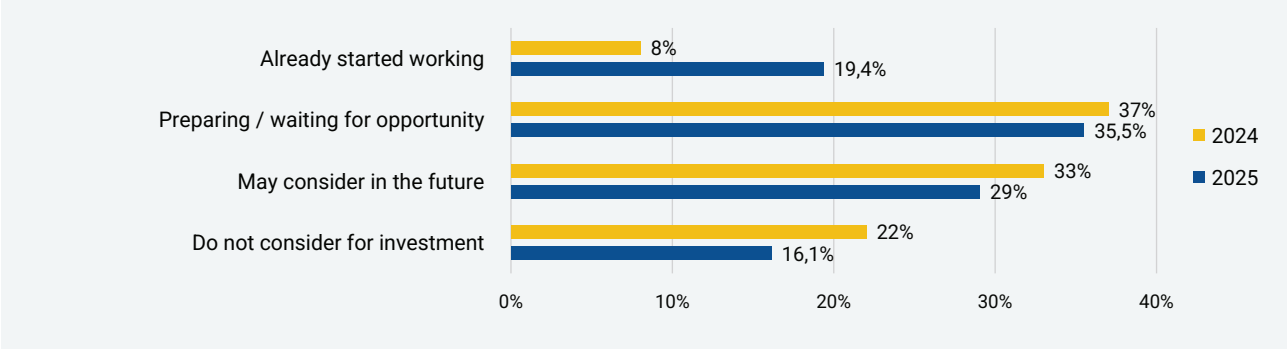
Transport connectivity has become a major pillar of Nakhchivan's long-term development strategy, with plans for the gradual reopening of transport routes through Armenia following the end of the Armenian–Azerbaijani conflict. Azerbaijan is investing heavily in rail infrastructure to transform the NAR into a regional logistics platform linking the South Caucasus, Türkiye, Europe and Central Asia. The Zangezur Corridor (also referred to as the Trump Route for International Peace and Prosperity, or TRIPP) is the main component of this strategy. The Corridor will enable a direct rail and road connection between mainland Azerbaijan and Nakhchivan through Armenia's Meghri region, continuing further into Türkiye. It would not only restore Azerbaijan's territorial connectivity but also create a shorter and more efficient freight route between Europe and Asia along the Middle Corridor (Trans-Caspian International Transport Route).

Infrastructure investments in transport and integration, the planned industrial park, the expansion of the existing industrial district and improved production and warehousing capacity are expected to notably improve Nakhchivan's position in regional and international supply chains and reinforce its role in export-oriented manufacturing. There are already indications of stronger economic activity in the NAR, such as a 20.9% increase in the number of active economic entities as of 1 July 2026 compared with the previous year.[66] Long-term economic development will depend on the successful implementation of cross-border infrastructure projects and on continued regional cooperation.

Views of European investors

The survey results indicate considerable interest among European companies in Karabakh, East Zangezur and Nakhchivan as potential investment destinations. The comparison between the 2024 and 2025/26 surveys indicates a **clear increase in European companies' active engagement with Karabakh and East Zangezur**, alongside continued interest in future investment.

FIGURE 1.9 Responses to the question "Does your company consider Karabakh, East Zangezur economic regions and Nakhchivan as potential place for investment in the nearest years?"



SOURCE: EU Business Climate Survey 2025-2026

The share of companies reporting that they have already **started working** in the regions increased substantially, from **8%** in 2024 to **19.4%** in 2025. At the same time, the share of companies **preparing or waiting for a suitable investment opportunity** remained broadly stable. This suggests that some of the investment interest observed in the previous survey may be translating into actual business activity.

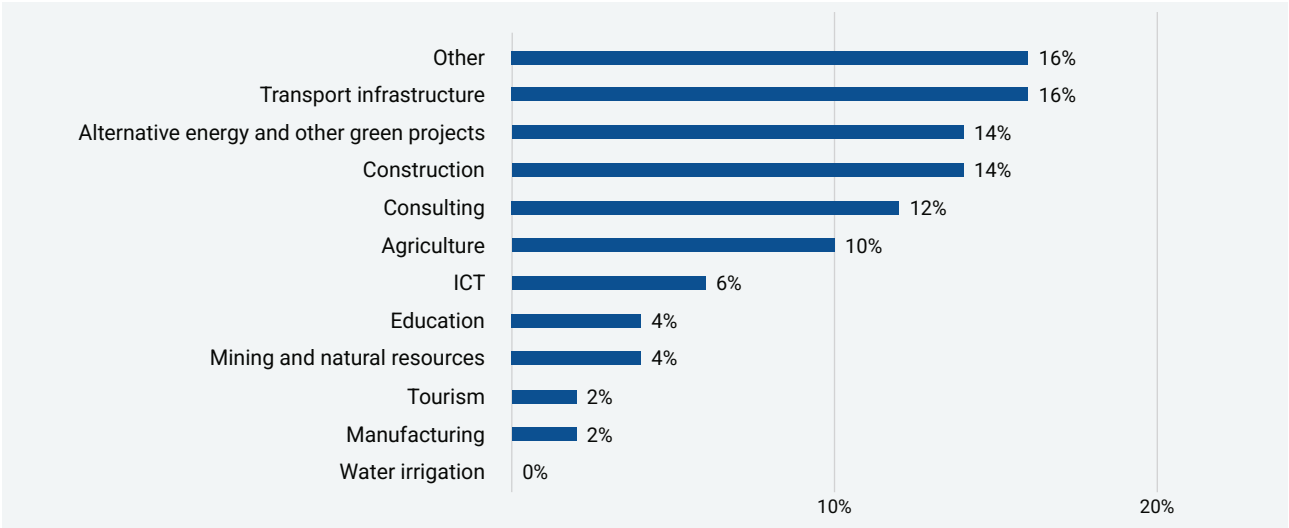
However, the comparison should be interpreted with some caution because the corresponding question in 2025 also includes Nakhchivan, whereas the 2024 question covers only Karabakh and East Zangezur. The survey results show strong interest among European businesses to operate in Nakhchivan.

> "The availability of affordable financing would be critical to attracting European engineering companies to emerging railway and infrastructure opportunities, including in Nakhchivan. With such financing in place, more companies would be willing to enter and operate in the market."
>
> Legal Representative of Azerbaijani Branch, Construction and Engineering Company

According to the interviewed European businesses, companies participating in the reconstruction of Karabakh and East Zangezur face financial and administrative difficulties, as well as slow documentation and approval processes. Although the reconstruction has not directly affected most European companies, it has had a positive indirect effect on the broader economy and increased demand for logistics services. Most construction work is carried out by Turkish firms, while European companies are mainly involved in freight transport from Europe. Very few EU companies participate directly in reconstruction projects, and those that do are often subcontractors introduced by Turkish counterparts, typically operating as second- or third-tier contractors. There is nevertheless interest in participating through the provision of production and services, although high logistics costs remain a major constraint: sourcing materials from Europe is expensive, while supplies from more distant markets, despite being cheaper, may be of lower quality and unsuitable for niche products. It has been suggested that Azerbaijan could use sovereign guarantees to attract international investment; despite the substantial amount reportedly spent on reconstruction in Karabakh, the small resident population means that investment turnover has yet to materialise; further development of the local construction industry and deeper value chains are therefore considered necessary to generate additional economic value; at present, individuals account for most borrowing demand, while access to finance remains constrained by the insufficient presence of banks and non-bank financial institutions in the region. Finance companies could benefit from informative, business-oriented visits to better assess local opportunities, while vocational training and business capacity-building linked to actual business development are considered necessary to support asset-building before business credit can become meaningful.

The survey results indicate that European companies considering investment in **Karabakh, East Zangezur and Nakhchivan** are primarily interested in **transport infrastructure, green energy, construction and professional services.**

FIGURE 1.10 Responses to the question "Which profile of investment do you consider for these territories?"



SOURCE: EU Business Climate Survey 2025-2026

Compared with 2024 survey results, sector-specific investment interest in these territories declined across almost all areas in 2025, with the largest decreases in green energy, manufacturing, construction, and water irrigation. The decline in interest across most individual investment profiles in 2025 can be viewed in the context of the territories' transition from an intensive reconstruction phase toward longer-term economic development. While interest in construction and other infrastructure-related sectors decreased considerably, the rising share of European companies already operating in the regions suggests that lower sector-specific expressions of interest do not necessarily reflect declining overall investor engagement. As reconstruction progresses, investment opportunities may increasingly shift toward activities supported by permanent economic activity, private-sector development and the gradual resettlement of the population.

> "Lots of money goes to Karabakh… The investment cycle hasn't taken off yet. Industries should be built there. The value chain should be deepened. Additional value should be created."
>
> CEO, Business-association

1.5 TRANSPORT AND CONNECTIVITY

The transport sector an increasingly important role n the Azerbaijani economy, **accounting for a 7.1% share of GDP in 2025**.[67] The country expanded its role as a growing transit hub between Europe and Asia due to its important position at the Trans--Caspian (Middle) Corridor. Transit cargo makes nearly half of the rail and road freight and over 95% of maritime cargo in Azerbaijan. [5]

Advancing the Zangezur (TRIPP) route to connect the mainland Azerbaijan with Nakhchivan and Türkiye will further enhance the capacity of the Middle Corridor. Recent geopolitical dynamics and the infrastructure advancements triggered the growth of the cargo transit through Azerbaijan. The border capacity of the country expanded to 4,100 vehicles/day in each direction. Permit exchanges increased multiple times.

FIGURE 1.11 Dynamics of the cargo transport through Azerbaijan

Category	Metric / Achievement	2025 / Comparison
Total Transit Cargo	14.3 million tons	Total, 2.5-fold increase since 2019
Containerised Transit	67,000 TEU	Total, +21% increase compared to 2024
Block Trains (China)	392 block trains	+37% increase of trains received via MC

SOURCE: Ministry of Digital Development and Transport of Azerbaijan



Main transit corridors.

With a capacity of 15 million tons and 150,000 TEUs in 2025, **the Middle Corridor** plays a vital role in supporting the regional trade. The target capacity for the Corridor in 2030 is **18.8 million tons**.[68] The infrastructure enhancements in the rail, ports, roads, airports and digital systems enabled the Middle Corridor to offer a faster transit option between Europe and China/Central Asia. As a result, the China–Europe transit has been completed in as little as 11 days.[69] The sustained momentum underlines the need for new terminals, more wagons, and improved Caspian ferry capacity, to prevent the bottlenecks on the Middle Corridor.

> "The shift of cargo flows from Russia to the Middle Corridor is a significant opportunity, but the corridor is not yet fully prepared for increased traffic volumes. Bottlenecks at ports, insufficient vessel capacity and extended waiting times continue to reduce its competitiveness."
>
> Regional Director, Logistics company

According to the interviewed European companies, while the growth of the Middle Corridor is considered real, Azerbaijan's own investment is seen as insufficient, with greater investment from Kazakhstan and Georgia also needed. Physical constraints, including the shallowing of the Caspian Sea and adverse weather conditions, further limit throughput, while seasonal conditions can reduce the corridor's efficiency for roughly half of the year.

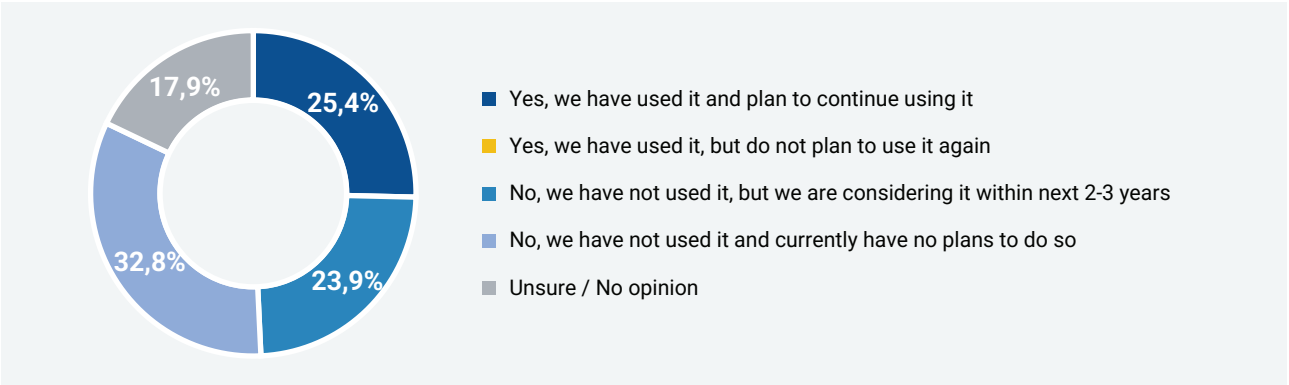
Customs optimisation between Kazakhstan and Azerbaijan is reportedly functioning well, although coordination with Georgia remains weaker. Freight volumes in Azerbaijan shift almost monthly in response to geopolitical developments in neighbouring countries, highlighting the corridor's sensitivity to regional dynamics. At the same time, the Middle Corridor is not yet equipped to handle significantly higher traffic volumes: bottlenecks at the ports of Aktau and Alat cause vessel congestion and extended waiting times.

Overall, inadequate infrastructure remains a key concern for logistics and supply-chain companies, particularly the shortage of port capacity and container-handling equipment. Nevertheless, European interest in Azerbaijan and the wider region is increasing because of the offered alternative routes. Interviewees emphasise the need for the EU to take a more proactive role in supporting the development of the Middle Corridor, drawing on the freight-transit expertise and experience of its member states, particularly the newer members.

The 2025/26 survey results indicate **moderate current use of the Middle Corridor**, alongside considerable potential for increased use by European companies. Around 25.4% of respondents report that they have already used the corridor for trade or logistics and plan to continue using it.

A further **23.9%** of respondents have not yet used the Middle Corridor but are **considering doing so within the next two to three years**, indicating potential for future growth in demand. At the same time, **32.8%** have not used the corridor and currently have no plans to do so, while **17.9%** remain unsure or have no opinion.

FIGURE 1.12 Responses to the question "Have you previously used the Trans-Caspian Transport Corridor (Middle Corridor) through Azerbaijan for trade or logistics, and do you intend to use it within the next few years?"

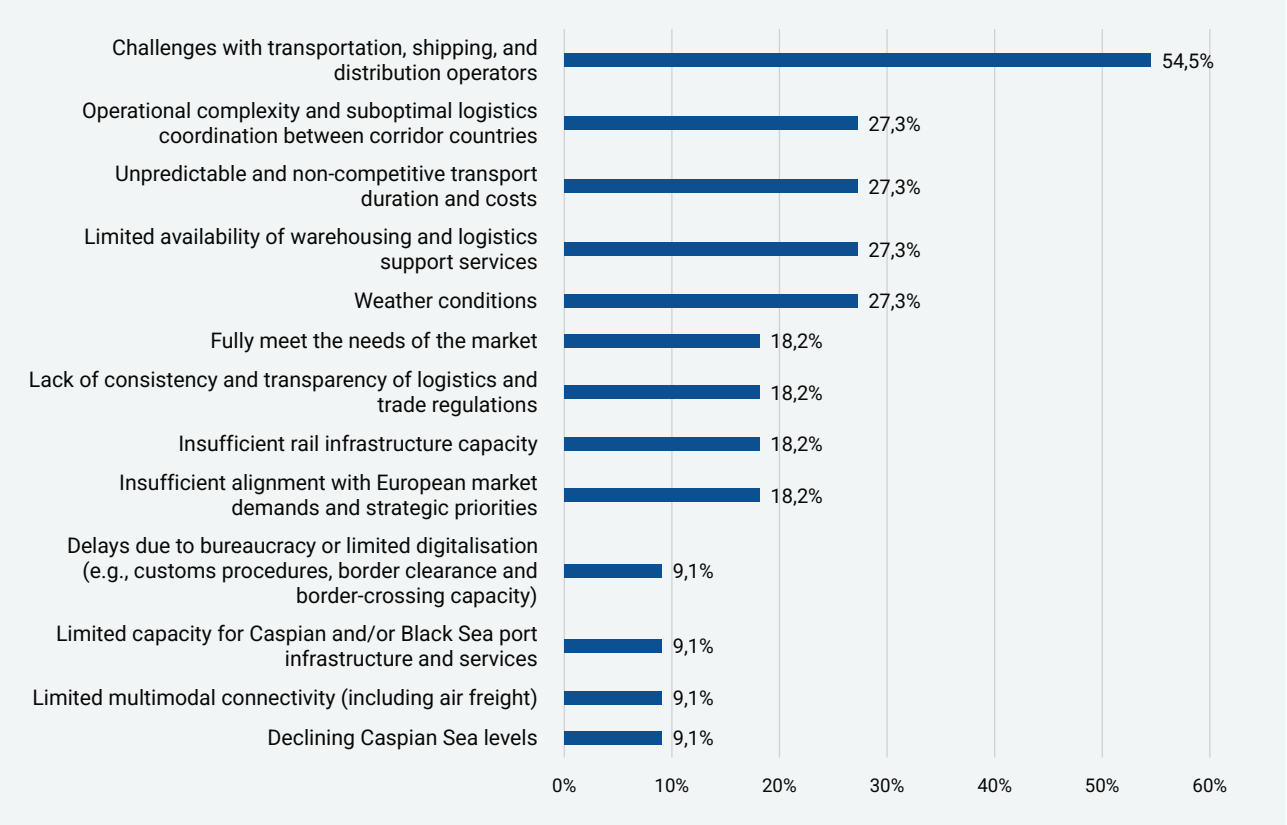


SOURCE: EU Business Climate Survey 2025-2026

The comparison with the 2024 results suggests that actual use of the Middle Corridor increased between the two survey rounds, while interest in its future use remains significant. At the same time, both the 2024 and 2025/26 survey results indicate that further improvements in efficiency, capacity, connectivity and coordination remain important for strengthening the corridor's competitiveness.

The 2025/26 survey results suggest that the **Middle Corridor does not yet fully meet the operational needs of the market**, with respondents identifying several constraints affecting its efficiency and competitiveness. Only around **18%** of respondents indicate that the corridor **fully meets market needs**, while the most frequently cited challenge, identified by approximately **55%**, relates to **transportation, shipping and related operational constraints**. This clearly stands out as the main area requiring attention.

FIGURE 1.13 Responses to the question "To what extent do the current capacity and operations quality of the Middle Corridor meet the needs of the market?"



SOURCE: EU Business Climate Survey 2025-2026

Several other challenges are identified by around one-quarter of respondents. **Operational complexity and suboptimal logistics, unpredictable and non-competitive transport conditions, limited availability of warehousing and logistics services**, and **weather conditions** are each cited by approximately **27%**.

Overall, the findings suggest that further development of the Middle Corridor should focus particularly on improving transportation and shipping efficiency, simplifying logistics operations, increasing predictability and competitiveness, expanding logistics and warehousing capacity, and strengthening alignment with European market requirements.

"The Middle Corridor is being used because the geopolitical situation has left few alternatives. The challenge is to make sure the freight remains when those circumstances change."

Regional Director, Logistics company

The peace in the region enables the development of the transit routes. Azerbaijan lifted all travel restrictions on cargo transit with Armenia that have been in place for the last decades.[70] The **Zangezur Corridor (TRIPP)** now plays a central role in South Caucasus geopolitics. Construction and upgrades on roads and rail links adjacent to the corridor are underway in several sections. Azerbaijan has been upgrading the Horadiz-Fuzuli-Aghband railway, as well as carrying out upgrades at the Julfa hub, and on the Velidag–Ordubad railway section.[71]

Meanwhile, Türkiye and Armenia have initiated the development and rehabilitation of transit infrastructure that would connect their respective territories with Azerbaijan. The practical preparations for reopening cross-border rail links have already begun with joint Azerbaijani-Armenian technical inspections in January 2026.[72] The synchronisation of the routes through the corridor could substantially shorten the transit times and costs and enhance the regional supply chains. Azerbaijan also continued enhancing the North–South axis despite the drop in its operations through those links due to the regional geopolitical situation.

FIGURE 1.14 Zangezur Corridor

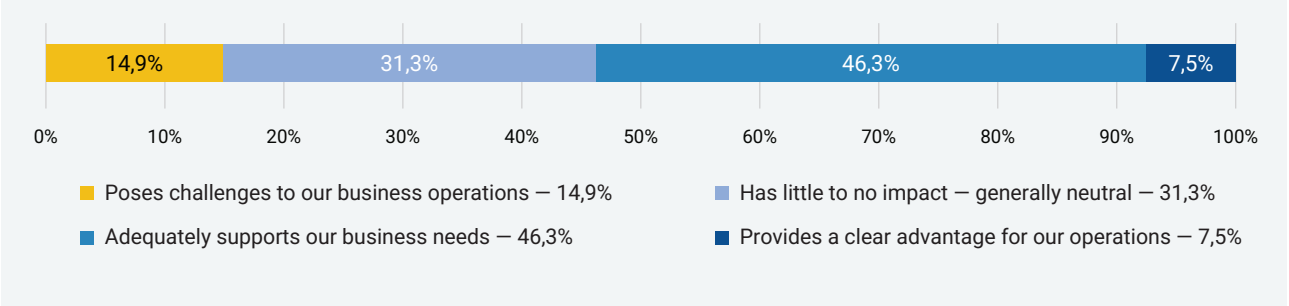


SOURCE: Ministry of Digital Development and Transport

According to the European businesses interviewed, once operational, the Zangezur Corridor is expected to attract higher freight volumes due to its shorter transit time compared with the route via Poti. The corridor could significantly strengthen Azerbaijan's position as a regional transport hub. At the same time, Türkiye would need to expand its port capacity to accommodate increased freight flows, while traffic volumes on the Baku–Tbilisi–Kars railway have so far fallen short of initial expectations. Some representatives also consider that uncertainty surrounding the corridor's opening persists.

The 2025/26 survey results indicate a generally positive assessment of Azerbaijan's transport and logistics infrastructure among European companies. Almost half of respondents (**46.3%**) state that the existing infrastructure **adequately supports their business needs**, while a further **7.5%** consider it to provide a **clear advantage for their operations**.

FIGURE 1.15 Responses to the question "How would you evaluate Azerbaijan's transport and logistics infrastructure for business use?"



SOURCE: EU Business Climate Survey 2025-2026

At the same time, **31.3%** of respondents consider the infrastructure to have **little or no impact on their operations**, reflecting a broadly neutral assessment. Only **14.9%** report that transport and logistics infrastructure pose challenges to their business operations. Overall, the findings suggest that Azerbaijan's transport and logistics infrastructure is viewed **more as a supporting factor than as a constraint** by European businesses.

Physical Infrastructure

According to the International Transport Forum (ITF), Azerbaijan's investment in inland transport infrastructure averaged 3.5% of GDP over 2022–2024, the highest share among the countries covered in the comparison.[73] Azerbaijan has been strengthening its multimodal transport infrastructure to meet the rising transit demands.

FIGURE 1.16 AFEZ



SOURCE: Ministry of Digital Development and Transport

A multimodal transport hub has been formed in Alat - integrating road and railway networks, border crossing point, the Alat International Sea Trade Port, the Alat Free Economic Zone (AFEZ), and the Alat Cargo Terminal.

While 9 international airports are already operating in the country, **the Alat Cargo Airport and Terminal** is initially designed with an annual handling capacity of 0.5 million tons, expandable to 1.5–2 million tons in later phases.[74] Air connectivity is important for the time-sensitive and high-value cargo. New regional airports outside Baku and the future Alat FEZ cargo airport will also help to expand multimodal transportation.

Azerbaijan has seen a sharp rise in transit **air traffic**, with Azerbaijan Air Navigation Services (AZANS) handling 261,085 transit flights in 2025, up from 47,065 in 2021.[75] The increase has been driven by the closure of Ukrainian airspace, restrictions and avoidance of Russian airspace, and more recently by disruptions in the Middle East, which led more than 60 additional airlines to use Azerbaijan's airspace. Growth has continued into 2026: in the first half of the year, AZANS provided services to more than 180,000 flights, including over 143,000 transit flights, a 14.4% increase year on year.[76] To manage the additional demand, Azerbaijan has restructured its airspace, added new control sectors and invested in air traffic management systems. AZANS is also considering a coordinated air traffic flow management system with neighbouring countries, which could increase capacity from around 250 to 300 aircraft per hour. [75]

Alat (Port of Baku) has been serving as a Caspian hub for containers, Ro-Ro and wagon ferries. The first phase of its construction and the development of the Free Economic Zone (FEZ) have increased the handling capacity of the port, as well as improved its rail integration. The annual transit capacity of Azerbaijan's **railway network** is 25 million tons.[77] In 2025, the volume of goods transported **by road** amounted to 143 million tons [74].

European businesses interviewed expect the Alat Port to have a positive impact on the broader geopolitical and trade environment. However, reported waiting times at the port remain at least one week, averaging around two weeks, largely due to insufficient ferry and vessel capacity. The state-owned shipping company also charges a priority fee per container for expedited access to ferries. The recent decision to manage port and rail operations through a single coordination centre is viewed positively, as it is expected to improve operational efficiency. Planned expansion of the port is likewise expected to alleviate capacity constraints, while declining Caspian Sea water levels are increasing the cost of the works.

Soft infrastructure and institutional development

Digitalisation, operational efficiency, as well as collaboration and coordination are the three main pillars of soft infrastructure for transport. The Azerbaijani government has introduced a range of measures to strengthen these areas and ensure more flexible, reliable, and transparent transport management. **The regulatory environment and government reforms** have also have also played an important role in mitigating the operational risks in transportation and enhancing the efficiency and quality of the transit operations. The government adopted a National Transit Action Plan (2024–2026) to enhance the legal framework and procedures, to improve the physical infrastructure, human and technical capacities, the operational excellence, and to enable the collaboration at the national and global level.[78]

Legislative amendments were approved establishing a legal framework for autonomous vehicles across multiple transport modes, subject to state registration and operation within areas designated by the competent authorities. Certified operators are required to monitor autonomous systems and intervene when necessary, while remote-control centres must ensure continuous monitoring and communication with the vehicles.[79]

New Rules for the Management of Airports were adopted in June 2026, designating the State Civil Aviation Agency as regulator.[80] The Rules set ownership-based management models, including PPP for state airports. Rules on Simplification of Formalities in Air Transport were approved in March 2026, aligning Azerbaijan with International Civil Aviation Organization (ICAO) Annex 9 standards, and covering the procedures incorporated in the Single Window digital system.[81]

Digitalisation has been a central component for enhancing transit capacity, and to make the transport through Azerbaijan faster and greener. In June 2026, a presidential decree was signed establishing the "Intelligent Customs" information system (İGİS), aimed at using digital technologies to improve the efficiency, transparency and accessibility of customs processes and services.[82] İGİS and e-permit exchanges, together with the national Single Window / Digital Logistics Platform[83], increased the efficiency through reduced paperwork and shortened clearance times. In December 2025, Azerbaijan established a "Single Window" information system to create a unified digital environment for import, export, transit, transport and logistics operations.[84] Implemented through the Digital Logistics Platform (DLP), the system is designed to integrate state bodies involved in foreign-trade services, including licensing and permits.[85] The system also envisages to provide end-to-end cargo tracking and real-time monitoring of document, clearance and transport processes.

Developing a digital Transport-Logistics System was another important measure taken for enhancing the digitalisation.[86] Azerbaijan Railways has completed important tracking, signalling related and Baku–Tbilisi–Kars Railway (BTK)-linked upgrades. Together with the enhanced digital management tools some bottlenecks were removed, and safety was improved. The "Action Plan for 2026–2028 on Accelerating Digital Development in the Republic of Azerbaijan" was adopted in February 2026, and sets out measures to achieve objectives such as regulatory streamlining, expanded Border Crossing Point (BCP) throughput, permit digitalisation etc.[87]

In the maritime sector, a "Maritime" information system ("Dənizçilik") was established to support navigation safety in Azerbaijan's territorial waters.[88] The system collects information on vessels, provides navigational information, and enables vessels to obtain permission to enter and leave seaports and marine operations bases, with the related documents prepared and registered electronically.

Since 2024, Azerbaijan has moved from preparation to implementation and piloting of e-CMR. In June 2025, Azerbaijan and Türkiye agreed on a joint action plan and continued technical work for an e-CMR pilot, with Azerbaijan demonstrating its local e-CMR platform (Electronic Consignment Note under the Convention on the Contract for the International Carriage of Goods by



Road platform).[89] In March 2026, the two countries advanced the pilot by working on system interoperability, electronic-signature verification and United Nations Centre for Trade Facilitation and Electronic Business (UN/CEFACT) data alignment, and agreed to begin pilot e-CMR shipments with selected carriers.[90]

Collaboration & Coordination is another vital component of the soft infrastructure measures for the transport sector. Azerbaijan Transport & Communications Holding (AZCON) has been created for the purpose of streamlining the reforms and coordinating the management in the multimodal transportation sector.[91] The Holding acts as a main counterpart for engaging with the strategic investors. It consolidates the investments and procurements of the major state transport and communications enterprises, prepares their assets for PPP, and for possible privatisation. The investment needs in the transportation sector, particularly for expanding the railroads and the port/intermodal networks, require financing through PPPs, blended finance, risk-mitigation measures and guarantees to close the financing gap.[92]

The governance of the Middle Corridor needs to be more centralised, to align different national priorities and integrate the transport. Under Azerbaijan's chairmanship of the International Transport Forum (ITF) in 2026, governments, international financial institutions (IFIs), development partners, and private sector representatives discussed key developments in international transport and logistics.[93] Long-term development of the Middle Corridor (Trans-Caspian International Transport Route) emerged as one of the central topics of the Forum.

The Zangezur route is managed under the TRIPP Implementation Framework, by a dedicated TRIPP Development Company, owned mostly by U.S. partners (74%) with Armenia holding 26%.[94]

EU approach to Central Asia and the South Caucasus has been shifting from fragmented regional cooperation to a full-scale connectivity strategy.[95] The new Connectivity Agenda of EU places larger focus on the Caucasus as a critical component of the East–West transport corridors. The Global Gateway Investment Hub seeks to enhance the participation of the European development finance across the Eastern Partnership and Central Asia. World Bank (WB) forecasts a 28% growth of the trade turnover among the Middle Corridor countries and the EU by 2030.[96]

Infrastructure enhancement needs

Despite the measures taken by the government, several operational and procedural constraints continue to affect the efficiency of the transit corridors. These include bottlenecks at transfer points, such as port–rail–road interfaces, level-crossing safety concerns, limited terminal capacity, and shortages of freight wagons and ferry capacity. These issues lead to significant bottlenecks at both Aktau and Alat ports – adding two to three days to clearance before transport can continue its journey. The government supports shipbuilding and ship repairing companies through VAT exemptions on imported goods.[97] Investments should focus on addressing operational constraints, for example through the development of intermodal terminals and automated handling systems to increase freight transport capacity.
In addition, environmental factors, including fluctuations in the Caspian Sea level and adverse weather conditions, may disrupt transport operations. Shallow-water conditions force ferries to operate below their loading capacity, limiting further increases in ferry transport capacity.

Flexibility planning, insurance mechanisms, contingency arrangements, port infrastructure and fleet adaptation are being implemented to mitigate these risks. The fleet renewal with shallower-draft vessels is becoming increasingly important.

Procedural challenges also prevail due to fragmented cross-border regulations and excessive paperwork. Enhancing the soft infrastructure is required alongside robust physical infrastructure to allow the transport network to reach its full potential. Interoperability with the neighbouring countries' electronic systems is the next important measure to be taken.

European company representatives noted during the interviews that import fees are high and administrative procedures remain challenging. The Green Corridor is viewed positively for making freight clearance faster and more predictable, although businesses still face difficulties accessing its benefits, with some companies reportedly encountering obstacles despite completing all required procedures. Businesses also considered some regulatory requirements overly broad, arguing that compliant companies and low-risk transactions should not be subject to the same level of scrutiny as higher-risk cases. They favoured a more differentiated, risk-based approach, particularly in customs and certification procedures.

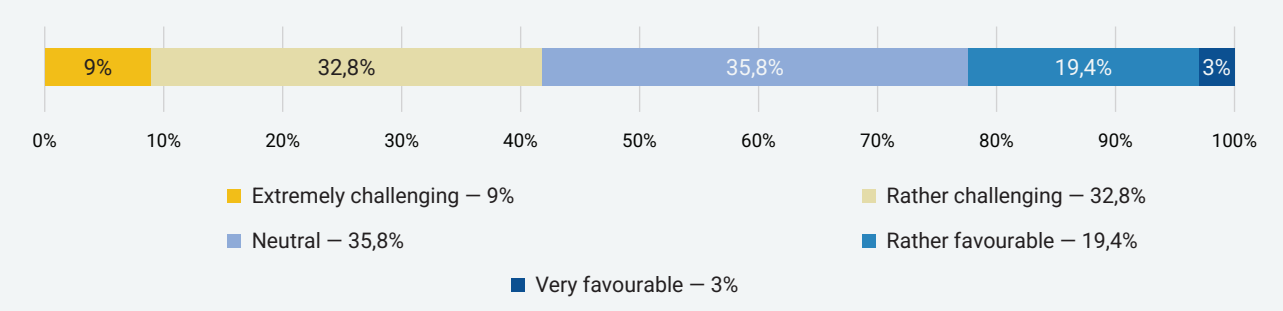
Regulatory bodies are sometimes perceived as focusing more on revenues and fines than on standards-setting, including through failure to recognise international certificates and penalties for minor technical deviations. Several customs regimes, including customs warehousing, are also considered ineffective, as goods reportedly cannot be stored in Azerbaijan without prior customs clearance, limiting re-export opportunities. New certification requirements introduced in 2024–2025 have reportedly made it harder for exporters to compete. The relevant government agencies reportedly do not accept the international certificates and apply their own standards instead, thus increasing the expenditures.

The companies also state that customs and tax administration have become more digitalised and are generally well regarded, but technical shortcomings continue to create documentation problems. Businesses would welcome API and ERP integration with customs systems, which are not yet technically equipped to support such functionality. While customs monopolies have reportedly been largely eliminated for legitimate businesses, companies stress that automation cannot fully replace access to a responsible official when system-generated queries are unclear or result in penalties. The companies highly appreciated the new end-to-end cargo tracking system in transportation.

The 2025/26 survey results indicate a **mixed but broadly balanced perception of Azerbaijan's trade facilitation environment among European companies. 35.8%** of respondents assess the environment as **neutral**.

> "Customs inspections could be more risk-based—for example, checking one out of 50 companies rather than imposing the same controls on everyone. Companies that operate properly should not be burdened because of companies that do not comply."
>
> Managing Director, Logistics company

FIGURE 1.17 Responses to the question "How would you rate Azerbaijan's trade facilitation environment?"



SOURCE: EU Business Climate Survey 2025-2026

At the same time, **41.8%** of respondents view the trade facilitation environment as **challenging**. By comparison, **22.4%** provide a **positive** assessment. Overall, the results suggest that Azerbaijan's trade facilitation environment is not perceived as strongly challenging by the majority of respondents.



2 SUSTAINABLE ECONOMIC DEVELOPMENT

2.1 GREEN BUSINESS FOR CLIMATE RESILIENCE

Azerbaijan is reducing its dependence on hydrocarbons to strengthen its climate resilience and diversify its economy. Renewable energy is the most important component of green business in Azerbaijan. The country has pledged to reduce emissions by 40% from 1990 levels by 2035, and aims to increase the share of renewables in its installed electricity generation capacity to 30% by 2030.[98]

Azerbaijan's onshore **renewable energy** sources have a technical potential of 135 GW, while the potential of offshore renewable energy sources is 157 GW. The economic potential of renewable energy sources is estimated at 27 GW, most of which is solar energy, with wind energy as the next largest share.

The country is actively pursuing plans to develop 8 GW of renewable energy by 2032, with the integration of 2 GW into the national grid due for completion in 2027.[99] During 2025, Azerbaijan produced 1,891.7 million kWh of electricity at hydropower plants (HPPs), 475.7 million kWh at wind power plants (WPPs), and 282.7 million kWh at solar power plants (SPPs).[100]

The sector demonstrated stronger momentum during the first half of 2026. During this period, the electricity generation from renewable sources increased by 5.3%.[101] Wind became the fastest-growing renewable energy source in the country, while thermal power production declined, indicating a shift towards cleaner energy sources.

Azerbaijan has been implementing large-scale projects through **partnerships** with BP, Masdar, ACWA Power, China Gezhouba Group Overseas Investment and SOCAR Green. The Khizi–Absheron wind farm, the Bilasuvar and Neftchala solar plants, and additional Masdar- and ACWA-led developments are the flagship projects. [98] Investment in battery energy storage systems and in transmission upgrades, such as the AZURE project, the Navahi hub, and new 500 kV lines, aims to improve grid flexibility and manage integration costs.[102] In addition, the country is taking strategic steps to localise supply chains for renewable energy, such as a solar panel manufacturing project and plans for local production of wind blades, towers and storage equipment at the Alat FEZ.[103]

"Green Energy Zone" is being developed as an example of integrated renewable energy development in the Karabakh and East Zangezur Economic Regions. Solar panels with a total capacity of over 8 MW have been installed on more than 2,500 residential, public and social buildings in these regions. [99] Of the more than 8,000 LED lighting fixtures installed in these regions, 43% operate on hybrid solar systems. The electricity demand of Karabakh and East Zangezur is now fully met by renewable energy, with surplus electricity supplied to the national grid. Renewable energy production in these areas continues to expand, including the construction of a solar power plant in Jabrayil and four small hydropower plants in Kalbajar and Lachin, as well as plans to build a wind power plant in Kalbajar.

As stated by the interviewed European companies, Azerbaijan has made substantial progress on its renewable-energy agenda and is proactively attracting international developers for large-scale projects. The sector is seen as offering strong long-term growth potential and generating new opportunities in engineering, infrastructure, logistics and advisory services. However, only a small number of companies are currently active in renewable energy. Although the pipeline of green-energy projects has expanded, European companies remain largely limited to second-or third-tier subcontracting roles, and the pipeline of major new projects is expected to be more limited over the next two to three years as current projects are already underway. Representatives recommended that Azerbaijan also pursue smaller-scale, bottom-up projects, rather than focusing primarily on large utility-scale schemes.

> “It should start from a smaller scale… It can start with rooftop solar panels. Not only large companies should work in this field.”
>
> Managing Director, Business-association

Azerbaijan is conducting transnational initiatives such as **regional green energy corridors** to position itself as a regional green energy hub. A feasibility study has been launched for the Central Asia–Azerbaijan Green Energy Corridor together with ADB and Asian Infrastructure Investment Bank (AIIB)[104] and has been completed for the Caspian–Black Sea–Europe Green Energy Corridor (including the Black Sea submarine cable).[105] The cables are intended to link Central Asian and South Caucasus renewable energy generation to European markets for export, as well as to enhance regional energy connectivity.

Interviewees from European businesses noted that off-take arrangements for Azerbaijan's renewable-energy output remain unclear. Bankability studies are being commissioned to assess financial viability. Concerns were also raised about the maintenance and financing of existing renewable assets, including the need for a government guarantee to secure financing from European banks.

> "Taking this energy to Europe requires time. In order to do this in 2035, they need to start ten years ahead."
>
> Managing Director, Business-association

Water management is an important element of climate adaptation. In Azerbaijan, the agriculture sector consumes 70–75% of national water use. Large water infrastructure modernisation programmes are being conducted in Ganja and Shaki with EBRD/EU support.[106] [107]

The country is seeking to shift towards modern irrigation (drip and pivot systems, and pressurised closed canals) through state subsidies, concessional loan schemes and investment incentives for the adoption of water saving systems.[108]

There are large distribution losses due to ageing urban infrastructure.[109] The "State Programme for the Improvement of Water Supply, Wastewater and Stormwater Systems in the City of Baku and the Absheron Peninsula for 2026–2035" aims to improve the efficiency of water management.[110]

The Sumgayit seawater desalination project is the first large-scale desalination PPP in Azerbaijan, marking an important step towards private-sector participation in the development of water infrastructure. The project has been developed by an ACWA Power-led consortium and is expected to last 27.5 years, including construction and operation.[111]

Azerbaijan has also been conducting institutional reforms to enhance waste management. A centralised State Agency for Waste Management was created in May 2026, with responsibility for the full waste cycle and associated fees.[112]

In order to modernise environmental administration through digital technologies, Azerbaijan has established the **Digital Ecology Information System (REIS)**[113] by presidential decree in January 2025. REIS integrates environmental information and services across different areas, such as environmental monitoring, biodiversity, waste management, hydrometeorology, geology and geodesy. The system's digital infrastructure is expected to serve as a foundation for improving environmental monitoring, permitting and compliance processes.

Azerbaijan is advancing **transport decarbonisation** through policy incentives, industrial initiatives and by attracting international finance. To encourage the adoption of cleaner transport, VAT exemptions have been introduced for electric vehicles, certain hybrid vehicles and charging equipment.[114] Local electric vehicle manufacturing has also been initiated through the assembly of electric buses at the Sumgayit Industrial Park.[115] Low-carbon transport projects are focused on railway decarbonisation and on the clean-energy modernisation of urban transport systems.[116]

Azerbaijan has been developing its **sustainable finance architecture** rapidly. The CBAR adopted Guidelines on Green and Sustainability Linked Loans in 2025[117]. On 9 February 2026, CBAR enacted amendments to strengthen Environmental, Social and Governance (ESG) and green finance regulation.[118] The amendments require banks to integrate climate and other ESG factors into their governance, risk management and internal audit, as well as to disclose sustainability data.

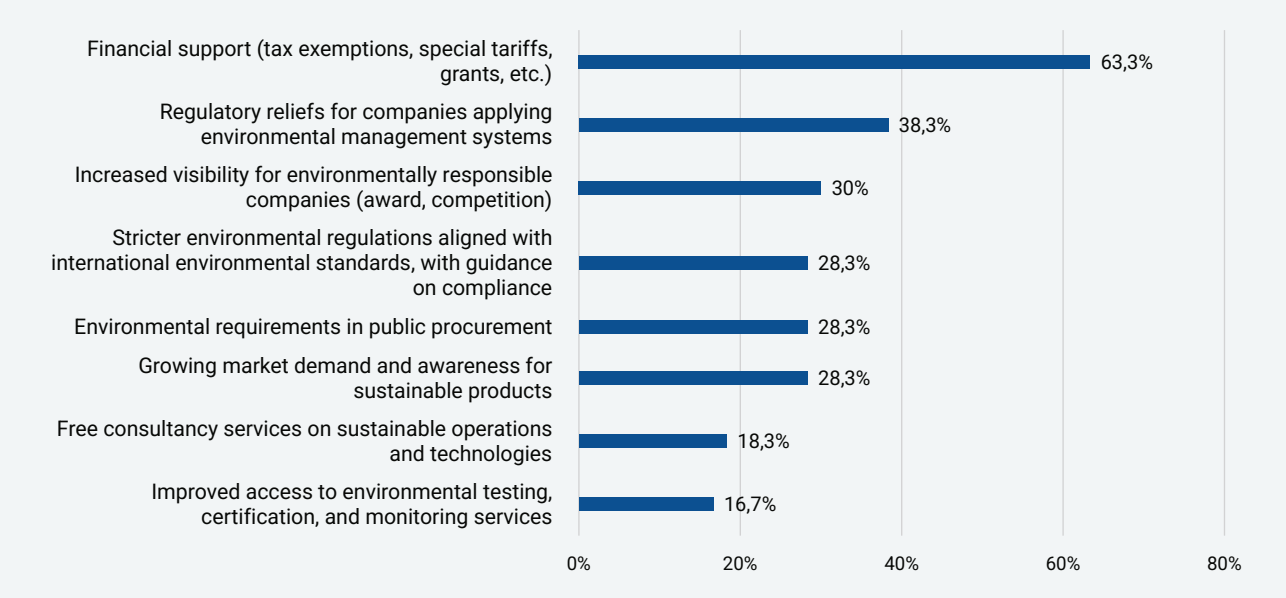
Industrial incentives, stable demand and skills development remain important for the successful localisation of green projects, while improved public procurement, secure long term offtakes and Multilateral Development Bank (MDB) support also play crucial roles. MDBs (EBRD, ADB, WB) and private impact investors (responsAbility) have been offering concessional and blended financial instruments to lower the cost of financing for green projects. They also intend to support local green lending platforms, such as the EBRD's Green Economy Financing Facility, which provides financing channels for climate-related investments via local financial institutions.[119]

Representatives of European companies highlighted during the interviews the need for technical assistance to help banks and non-bank financial institutions develop green and taxonomy-aligned finance and access carbon markets. Non-bank institutions currently invest mainly in agriculture but reportedly lack suitable mechanisms to channel this activity into green finance or carbon markets.

In turn, the 2025/26 survey results indicate that **financial incentives** are by far the most important measure that could encourage European companies to further adopt sustainable practices in their operations. **Financial support, including tax exemptions, special tariffs and grants**, was selected by approximately **63%** of respondents, substantially higher than any other measure. This suggests that the costs associated with introducing sustainable technologies and practices remain an important consideration for businesses and that targeted financial incentives could accelerate their adoption.

Regulatory relief for companies applying environmental management systems is the second most frequently cited measure, selected by around **38%** of respondents. **Increased visibility for environmentally responsible companies, through awards or competitions**, is also considered relevant by around **30%**.

FIGURE 2.1 Responses to the question "What measures would stimulate your company to further use sustainable practices in its operation?"



SOURCE: EU Business Climate Survey 2025-2026

The 2024 and 2025/26 survey results indicate both continuity and a shift in priorities. **Market demand for green products**, which was among the leading drivers in 2024, appears less prominent in 2025. This change may be viewed in the context of the strong sustainability momentum surrounding COP29, hosted by Azerbaijan in 2024. In 2025, companies appear to place greater emphasis **on concrete financial and regulatory incentives** to further advance sustainable practices.

2.2 LABOUR MARKET AND ACCESS TO EDUCATION

Labour market governance, skills development and education reforms have accelerated in Azerbaijan to increase productivity as part of a broader strategy for economic diversification. The government has been implementing reforms to address structural issues, such as mismatches between labour supply and demand, and to equip workers with skills relevant to the digital and green transitions.

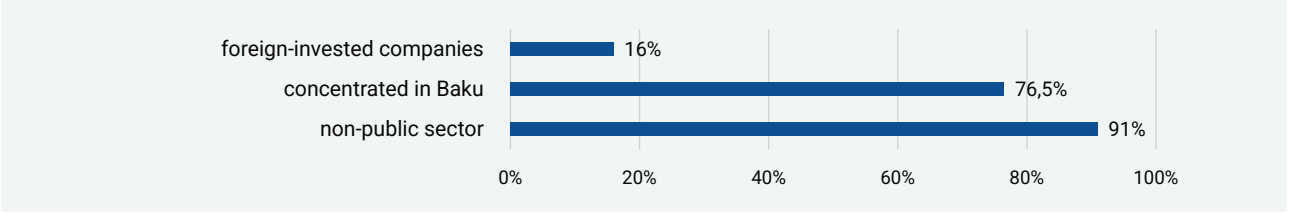
Labour Market Trends

As of 1 January 2026, the official unemployment rate stood at 5.2% and remained unchanged as of 1 August 2026, with the average monthly nominal salary reaching AZN 1,176.7 (≈ EUR 594). [7]

In 2025, new job creation in Azerbaijan was driven almost entirely by the private sector and was heavily concentrated in Baku, with a modest share linked to foreign-invested companies. New jobs were mainly created in construction, trade, manufacturing, tourism, and scientific and technical activities.

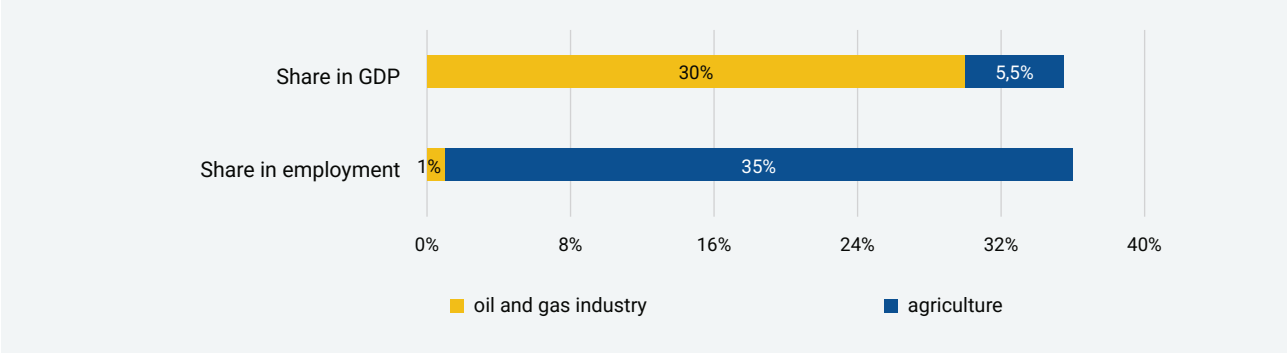
Skills shortages and a mismatch between labour market needs and the skills of local employees remain key challenges in the labour market. There is also a pronounced disparity in labour capital intensity across sectors of the economy and regions of the country. This is particularly visible in the oil and gas industry, which is primarily concentrated in the Baku–Absheron region, and in agriculture, which is practised mostly outside the capital. [3]

FIGURE 2.2 Share of new jobs, %



SOURCE: State Statistics Committee of Azerbaijan

FIGURE 2.3 Oil-gas industry and agriculture, %



SOURCE: State Statistics Committee of Azerbaijan

According to the IMF, labour productivity growth in Azerbaijan has stagnated at around 2% annually since 2016. [11]

The government has implemented extensive **legal reforms and digital solutions** to formalise and modernise the labour market. Numerous amendments were introduced to the Labour Code in 2026, covering remote work, flexible employment, an hourly employment model, the requirement to revise the annual minimum wage, stronger occupational safety rules, and new measures for worker protection.[120]

Interviewees from European companies pointed to shortages of legal professionals, including lawyers and judges with expertise in international commercial and insurance law, which can limit the handling of cross-border logistics disputes. Existing logistics-focused higher-education provision is considered insufficient, while short courses could help address the gap. Skilled-employee shortages are emerging as a constraint on industrial development. More broadly, education and market readiness are seen as lagging behind the technologies introduced by European partners, creating a gap between available high-tech and eco-friendly solutions and the capacity of local businesses and consumers to adopt them.

> “Companies export equipment to Azerbaijan, and people are needed who can operate this equipment. They remain unused because the capacity is low.”
>
> Managing Director, Business-association

The government has taken measures to significantly strengthen **occupational safety standards**: more than 1,600 professional and qualification standards are now registered nationally, with 300 added in 2025 alone. During 2024–2025, 167 state occupational safety standards were adopted in Azerbaijan in line with International Labour Organization (ILO) Convention No. 155.[121]

Active **Labour Market Programmes** were conducted during the reporting period. The priorities of the Employment Strategy for 2026–2030 and its Action Plan include support for MSMEs, skills development, apprenticeships, the formalisation of workplaces, and Vocational Education and Training (VET) expansion.[122] The Action Plan also envisages AI-based services to support the employment of jobseekers and unemployed persons.[123]

In addition to state agency employment programmes, employer partnerships (e.g. with BP and Masdar) have supported skills improvement through training, access to laboratory facilities, and local hiring linked to major projects[124] [125] The Karabakh and East Zangezur regions have also benefited from labour market programmes in the country. More than 7,800 resettled residents had been provided with employment by the end of 2025, and around 700 small family farms had been established through self-employment programmes.

According to the World Bank’s augmented Human Capital Index (HCI+), released in April 2026, Azerbaijan scored 208 points out of a possible 325, below the Europe and Central Asia average but above the average for upper-middle-income countries.[126] Its scores in the education and employment pillars are below the regional average.

Access to Education and Skills Development

Education policy in Azerbaijan and investment in the sector in 2025 aimed to better align the education system with labour market demands. The Presidential Decree on Additional Measures to Increase the International Competitiveness of the **Higher Education System** in the Republic of Azerbaijan was adopted on 22 July 2025.[127] The decree envisages strengthening the international profile of higher education institutions in Azerbaijan by expanding international dual diploma programmes and transnational education models. One notable development was the inclusion of seven Azerbaijani universities across 22 subject fields in the QS World University Rankings by 2026, with Baku State University placing in a top 100 subject ranking for the first time.[128]

Dual-degree and transnational programmes are being used to import pedagogical best practice and develop capacity for applied research. The dual master's degree programme in **renewable energy**, which graduated its first cohort in April 2026, includes a dedicated renewable energy laboratory.[129]

Interviewees from European businesses recommended a stronger Science, Technology, Engineering and Mathematics (STEM)-oriented focus in education, supported by increased investment. Representatives also highlighted the need to strengthen a broader culture of lifelong learning. An interviewed representative of a European higher education institution recommended deeper university–industry collaboration through long-term partnerships and joint R&I projects, more meaningful internship programmes with incentives for host companies, and greater curriculum flexibility to respond to labour-market needs. Better technical training aligned with actual laboratory infrastructure, and improved access to European research funding to strengthen institutional capacity and research quality were also among the suggestions.

> "As industry evolves more rapidly than formal education systems, academic programmes should be regularly reviewed and revised in close consultation with employers and industry representatives."
>
> Senior representative of a European-affiliated university in Azerbaijan

Digital skills are becoming increasingly important amid the rapid digitalisation of both the public and private sectors. To close gaps in workforce IT skills, Azerbaijan has expanded investment in future-oriented training, adopted the Artificial Intelligence Strategy of the Republic of Azerbaijan for 2025–2028[130] and launched several new skills development centres and tools.

FIGURE 2.4 Digital skills programs launched in Azerbaijan

Programme	Launched	Focus
AI Academy[131]	Sept 2025	Scholarship-funded AI/digital training
Azerbaijan Cybersecurity Center[132]	March 2023	Cybersecurity specialists (480 grads by Feb 2026)
IT SkillsBridge[133]	Sept 2025	Internship programme, 200+ trained across two phases
Azerbaijan Skills Accelerator[134]	Nov 2025	Cooperation with WEF on gov/employer/education links
Nation Program (4IR Academy)[135]	April 2025	Digital skills access

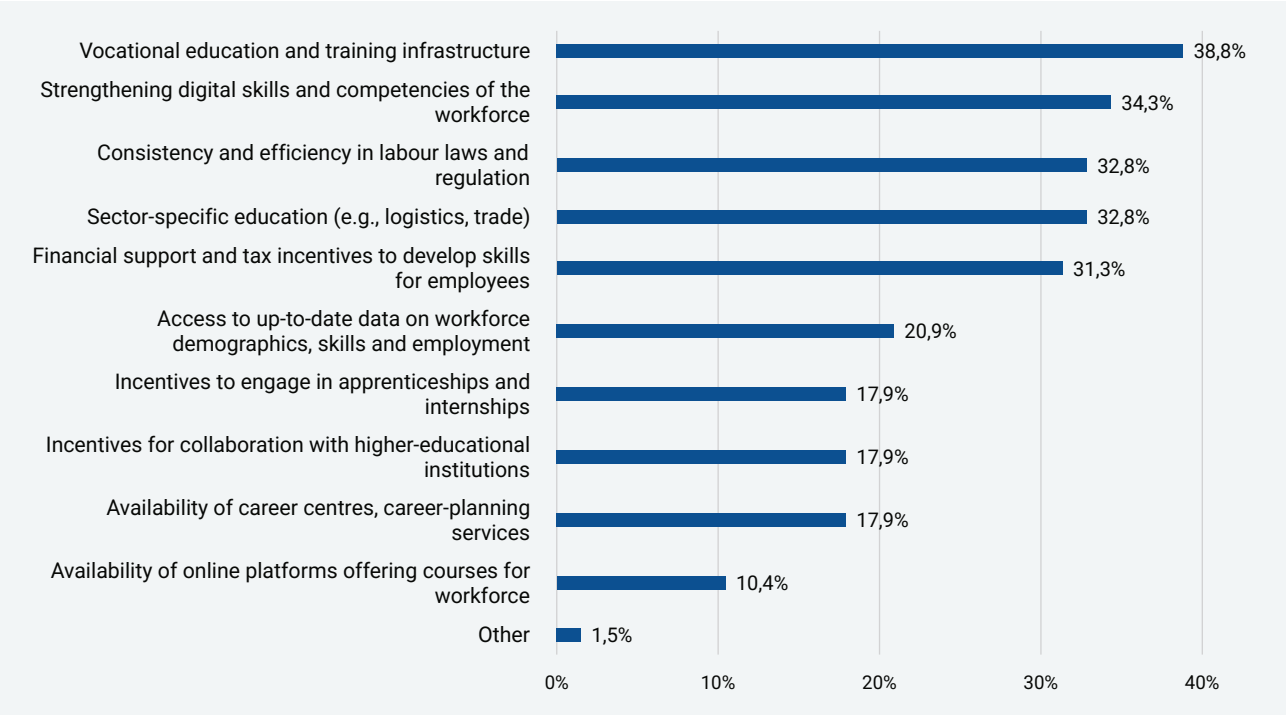
SOURCE: Innovation and Digital Development Agency (IDDA)

VET has been the main pillar of Azerbaijan's skills development strategy. Enrolment in vocational education institutions has increased significantly in recent years, while shortages of qualified technical specialists have persisted.[136] A total of 24,821 students were enrolled in vocational education institutions during the 2024/2025 academic year, representing a 21% increase compared with the previous academic year.[137] Dual VET programmes increased by 46% compared with the previous year.[138]

A Presidential Order on Additional Measures to Strengthen the Potential of the Vocational Education System was signed on 5 December 2025, envisaging the construction of 21 modern VET institutions between 2026 and 2030.[139] A Vocational Training Centre also operates under the Economic Zones Development Agency.[140] It currently offers training in 14 specialisations and cooperates with 54 companies and institutions.

The 2025/26 survey results indicate that European companies consider skills development and vocational education among the main priorities for labour market reform in Azerbaijan. VET infrastructure is the most frequently identified area, cited by approximately 39% of respondents. Strengthening digital skills and competencies follows at around 34%, highlighting the growing importance of workforce capabilities that respond to technological transformation and evolving business needs.

FIGURE 2.5 Responses to the question "What aspects of the local labour market need to be prioritised for reforms?"



SOURCE: EU Business Climate Survey 2025-2026

European companies also place considerable emphasis on improving the broader institutional and educational framework of the labour market. Around **33%** of respondents identify **consistency and efficiency in labour laws and their implementation** and **sector-specific education**, such as training for logistics and trade, as reform priorities. **Financial support and tax incentives for skills development** are also highlighted by approximately **31%**, suggesting that companies see a role for targeted incentives in encouraging investment in workforce development.

The 2024 and 2025/26 survey results show continuity in the importance of skills development, but also some shifts in reform priorities. **VET** infrastructure remains the leading priority, while 2025 results suggest a strong focus on education and skills development tailored to labour-market needs, particularly vocational, sector-specific and digital skills.



2.3 EQUAL ECONOMIC OPPORTUNITIES FOR WOMEN

Azerbaijan has developed a multidimensional policy agenda to enhance economic opportunities for women. This agenda combines legal reforms, targeted employment programs, initiatives for skills development and education, and introducing digital services.

Gender Segregation on the Labour Market

Notable progress was observed in recent years in Azerbaijan on gender equality – mostly on economic participation and legal rights. These developments were reflected in international rankings too. The country advanced in the World Economic Forum's Global Gender Gap Index from 103rd place in 2024 to 100th in 2025 out of 148 economies, scoring 0.688. [141] According to the World Bank's Women, Business and the Law 2026 report, while this progress has strong base on paper , its application lags, as the implementing institutions and enforcement mechanisms do not match this development phase.[142] This nuance helps to interpret the reason why the new policy developments have not yet translated into corresponding labour market outcomes.

Women constitute 48.4% of employed people in Azerbaijan as of 2024. The number looks near-parity, but does not rule out the significant sectoral segregation.[143] Women's employment in the country has been concentrated in traditionally female-coded sectors: 33.6% of employed women work in education, 16.2% in healthcare and social services, and 13.2% in trade. Men's employment, by contrast, is spread more evenly across sectors, with the largest concentrations in trade, construction, and manufacturing.

This segregation in the occupation leads to a gender pay gap in Azerbaijan, with men earning on average 31.1% more than women. The pattern is mostly reinforced by prevailing gender stereotypes that keep women concentrated in lower-paid sectors, while men dominate higher-paid managerial and technical roles. Women also make up 60% of part-time employees, reflecting their disproportionate share of caregiving responsibilities.

The National Action Plan on Gender (Equality between Men and Women) for 2026–2028[144] and several amendments to the Labour Code [120] were adopted on 16 January 2026 to address the abovementioned issues. The measures envisaged by these amendments can be summarised as below:

FIGURE 2.6 The National Action Plan on Gender and Labour Code amendments

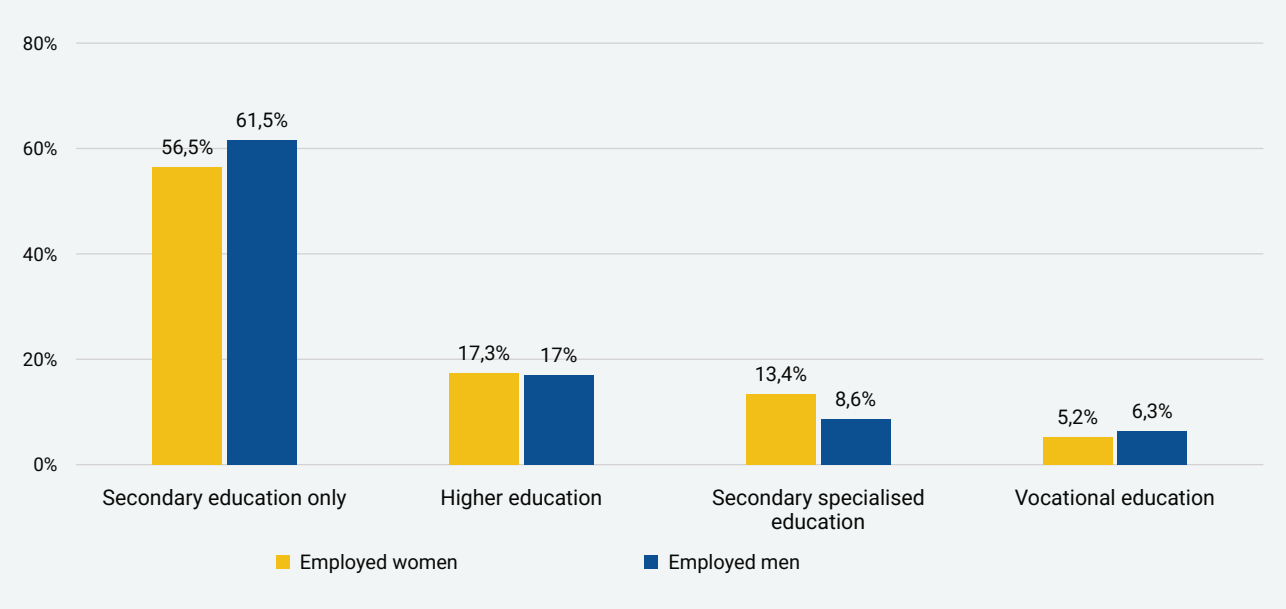
The National Action Plan on Gender (Equality between Men and Women) for 2026–2028
1. Study other countries' experience in assessing gender-sensitivity in state budgets (gender-responsive budgeting)
2. Raise awareness to boost women's equal participation in public and private sector decision-making
3. Increase efforts for helping job-seeking and unemployed women, including women with disabilities, to find formal work, reduce informal employment of women
4. Offer vocational training to make job-seeking and unemployed women more competitive in in-demand occupations
5. Provide microeconomics/management training and financing access for women entrepreneurs
6. Support rural women's employment through financial-literacy and self-employment training
7. Raise awareness against workplace gender discrimination; encourage private companies to self-audit their policies and take measures
Labour Code amendments, approved 16 Jan 2026
1.Legally define "employee with family responsibilities" — giving them protections (e.g. in shift/night-work scheduling) that don't count as discrimination
2. Create a legal basis for remote work, with terms set by mutual agreement in the labour contracts.
3. Let part-time employees move to full-time roles when a vacancy opens or their circumstances change
4. Extend paid maternity leave to cover the gap between expected and actual due dates (without cutting postnatal leave), and give fathers 14 days of paid leave at birth, guarantee that pay during leave is no lower than the employee's last wage

While these reforms give Azerbaijan the formal tools to align with international labour standards to address structural barriers to women's labour market participation, their impact depends on how they would be enforced. In July 2026, the retirement age for women in Azerbaijan reached 65, matching that of men.[145]

Access to Education

Educational attainment differs among employed women and men, explaining the labour market dynamics. Women make up 35.5% of vocational education students, but 63% of secondary specialised and 51% of higher education students.

FIGURE 2.7 Education of employed women and men for January 1, 2025, % of total



SOURCE: State Statistics Committee of Azerbaijan

Within higher education, women's fields of study remain highly concentrated in education, social sciences, and humanities. The enrolment of female students in economics/management and technical/technological fields has been increasing recently, while lagging behind the male participation in these fields.

The latest trends are already reflected in the international indexes. Remarkably, the Human Capital Index Plus (HCI+) score for women in Azerbaijan is 210, compared to 205 for men. [126]



2.4 DIGITALISATION FOR SUSTAINABLE ECONOMIC GROWTH

Digitalisation has been the center of economic reforms and economic diversification efforts in Azerbaijan in recent years. This has been particularly pronounced since 2025, with the government increasingly translating strategies, plans and decrees into real actions with measurable gains in connectivity, e-government, fintech, cybersecurity, enterprise adoption and digital trade.

Digital Infrastructure and Connectivity

By January 2026, Azerbaijan's average national broadband speed had reached 90 Mbps, up from about 67 Mbps the previous year[146]. Over the same period, broadband pricing dropped significantly, from AZN 0.45 (≈ EUR 0.23) per Mbit/s to around 0.25 AZN (≈ EUR 0.13) per Mbit/s, while the minimum benchmark for standard subscriptions is 100 Mbit/s in 2025.[147]

FIGURE 2.8 Data on Digitalisation in Azerbaijan

Indicator	2023	2024
Internet users per 100 population	89	91
Households with internet access	88.6%	90.2%
Fixed broadband subscriptions per 100 inhabitants	16.7	22.7
Active mobile broadband subscriptions per 100 inhabitants	86.7	90.4
Investments by ICT enterprises (mln. AZN)	385.8	653.2
Import of ICT goods (mln. AZN)	1,510.2	1,859.5
ICT goods as % of total exports	0.053%	0.036%

SOURCE: State Statistics Committee of Azerbaijan

According to the EU4Digital Facility's October 2025 market analysis, there is a competitive structure of 136 fixed, 4 mobile and 35 broadband operators in the country, with fast growth and broad 3G/4G coverage.[148] The analyses showed that the speed, adoption of internet, as well as the digital skills are still below EU benchmarks. The market is dominated by two operators. The dominant technologies/networks are xDSL, FWA, non-public Wi-Fi; fixed + wireless. There is a gradual shift to FTTx and upcoming 5G rollout in the country.

Digital trade facilitation is demonstrating notable growth: Azerbaijan is ranked in the Eurasian top ten in the UN's 2025 Global Survey, with a score of 92.5 (100 for transparency, 92.6 for paperless trade).[149] Cross-border paperless trade makes only 72.2, indicating the importance of harmonisation of the systems internationally.

Azerbaijan's enterprise digitalisation sharply increased in 2024, particularly in computer and internet adoption and fibre connectivity. However, web presence, intranet/extranet adoption and internet banking usage need larger improvement.[150] The digitalisation is slower in micro and small businesses and expanding faster in E-commerce.

Strategic and Regulatory Framework

Azerbaijan developed and interlinked a comprehensive digital policy architecture over the reporting period.

FIGURE 2.9 Key digital-economy strategies and instruments

Instrument	Adopted	Key elements
Digital Development Concept of the Republic of Azerbaijan[151]	16 Jan 2025	Framework for digital government, society and business; digital-maturity diagnostics for public bodies and enterprises
Artificial Intelligence Strategy of the Republic of Azerbaijan for 2025–2028[152]	19 Mar 2025	Data infrastructure, human capital, R&D ecosystem, AI in public administration; PPPs, financing and compute access for AI startups
Digital Economy Development Strategy in the Republic of Azerbaijan for 2026–2029[153]	10 Dec 2025	51 initiatives; 250 new startups by 2029; New Generation Technologies Centre; Digital Solutions and Services Platform (target: 20% of enterprises digitally transformed)
Action Plan for Accelerating Digital Development in the Republic of Azerbaijan for 2026–2028 [87]	27 Feb 2026	58 initiatives across digitalisation, AI, innovation and cybersecurity; four-tier governance with named accountable officials in every state body

The KPIs of the Action Plan for Accelerating Digital Development in the Republic of Azerbaijan for 2026–2028 (Action Plan) are to double ICT-sector GDP from AZN 2.7 bn (≈ EUR 1.4 bn.), to raise ICT exports to USD 1 bn., and to increase ICT employment from 25,000 to 40,000 people. [87]

Following the **Action Plan**, Azerbaijan adopted a package of laws in **July 2026**, in order to increase the access to finance within the innovation ecosystem. **Law on Crowdfunding**, amendments to the **Civil Code**, Law on Investment Funds, **Law on the Securities Market**, as well as the related legislation were introduced.[154] The legislative package created a legal framework for venture capital financing and modern startup investment instruments and contained the following incentives:

FIGURE 2.10 Support mechanisms for digitalisation in Azerbaijan

1	Freelancer & Digital Nomad Status	Legal status created for IT freelancers/digital nomads; no taxable permanent establishment arises for foreign clients served by Azerbaijani-based specialists.
2	Export Income Tax Exemption	Revenue from exporting digital technology, AI, innovation and cybersecurity services is exempt from income tax, provided the revenue is credited to Azerbaijani accounts.
3	Personal Income Tax Exemption	Qualified foreign specialists and returning Azerbaijani citizens are exempt from personal income tax.
4	Dividend & Investment Tax Relief	IT companies receive a 20-year dividend tax exemption; accredited-investor stakes in venture funds, startups or technoparks are deductible up to 100% (capped at 50% of income/profit).
5	IP & Know-How Transfer Relief	95% exemption on income from the transfer or sale of IP, software and know-how.
6	Cloud Services VAT Exemption	VAT exemptions apply to purchases of cloud, IaaS, PaaS and SaaS services.
7	Venture Financing Legal Framework	New Civil Code provisions recognise SAFE notes, convertible instruments, and venture-financing shareholder terms — including tag-along, drag-along and liquidation preference rights.

Fintech, Digital Payments and Financial Innovation

As the 2024–2026 digital-development strategy CBAR is concluding, CBAR has already reached numerous targets: The scope of **Open banking** has been expanded. 13 commercial banks are now fully intergrated into the Open Banking platform, a further 6 banks are in the final integration stage.[155] Two e-money institutions were integrated to the platform in May 2026 for the first time and the non-bank financial institutions are to become the next.[156] The share of **instant payments** in the number of National Payment System transactions reached 41%[157] by June 2026 and CBAR targets to increase it to 80% by 2030.[158] The value of the Instant Payment System (IPS) transactions is still insignificant as a share of total transactions. Azerbaijan National QR Standard **AZQR** was introduced in November 2025.[159]

The government took measures to support the innovation ecosystem, startups and digital skills. The Technopark regime in Azerbaijan is covering several tax exemptions. It has been increasingly attracting resident companies, and their numbers increased from 118 in 2024 to 165 by the end of 2025.[160] 155 of them are local and 10 are foreign firms. The initiatives for startups continued by KOBİA's "Start-up" certification, and by Innovation and Digital Development Agency's (IDDA) measures.

Cybersecurity

As a separate pillar of the 2026–2028 Action Plan for Accelerating Digital Development, cybersecurity is given utmost importance in this reform framework. [87] The Action Plan envisages National Security Operations, Cyber Incident Response and digital-investigation centers. It also establishes legislative and institutional framework for sectoral Cybersecurity Operations Centers (SOCs) and Computer Emergency Response Team (CERTs). The Azerbaijan Cybersecurity Center had graduated 480 specialists across six cohorts by early 2026.[161]

The National Cybersecurity Agency was established on 2 June 2026, to replace the former Electronic Security Service, with expanded functions.[162] The mandate of the new Agency is information-infrastructure resilience, prohibited-content enforcement, response to cyber threats and personal-data protection.

In 2025–2026, further progress was made in strengthening cybersecurity in the financial sector. In May 2025, the CBAR established a working group with the Ministry of Internal Affairs and the banking sector to strengthen cybersecurity and preventive measures against digital fraud, while it also began publishing sector-wide digital-fraud statistics.[163] In June 2026, the CBAR's FinCERT (Financial Computer Emergency Response Team) became a full member of the Forum of Incident Response and Security Teams (FIRST), strengthening international information-sharing and cooperation on cyber incidents.[164]

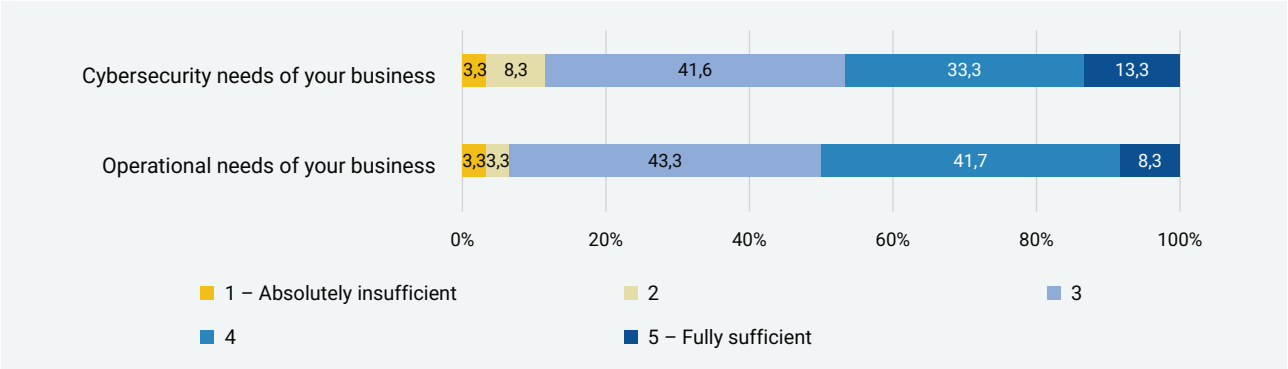
Azerbaijan ratified the United Nations (UN) Convention against Cybercrime on 10 February 2026.[165] According to ADB's December 2025 Central Asia Regional Economic Cooperation (CAREC) fintech assessment, Azerbaijan is among a handful of regional markets that have developed well-founded data-protection and cybersecurity legislation.[166] Independent international benchmarks reflect the pace of Azerbaijan's digital transformation.

FIGURE 2.11 Evaluation of International Organisations

Benchmark	Metric — Result
WB — Business Ready 2025 (B-READY)[167]	Internet services (operational efficiency) — 5th of 101 economies (score 31.05) — the top-scoring sub-indicator
ADB's December 2025 CAREC fintech assessment [166]	Regional ranking — 1st in CAREC for institutional capacity; 2nd for technological development
	Capability, finance & cooperation — Highest capability score in CAREC (81.8%), but below-average on finance and regional cooperation; fully operational national digital ID (Asan Imza) — one of only 5 countries in CAREC with national ID
Oxford Insights — Government AI Readiness Index 2025[168]	Global rank & score — 70th of 195 (up from 111th), score 48.96 (up from 39.92); 1st in South Caucasus

The 2025/26 survey results indicate that European companies generally consider **Azerbaijan's IT infrastructure** sufficient for their operational and cybersecurity needs, although there remains room for improvement.

FIGURE 2.12 Responses to the question "Please evaluate to which extent IT infrastructure in Azerbaijan is sufficient to: Please rate from 1 to 5 (Where 1 – absolutely insufficient, 5 – fully sufficient)"



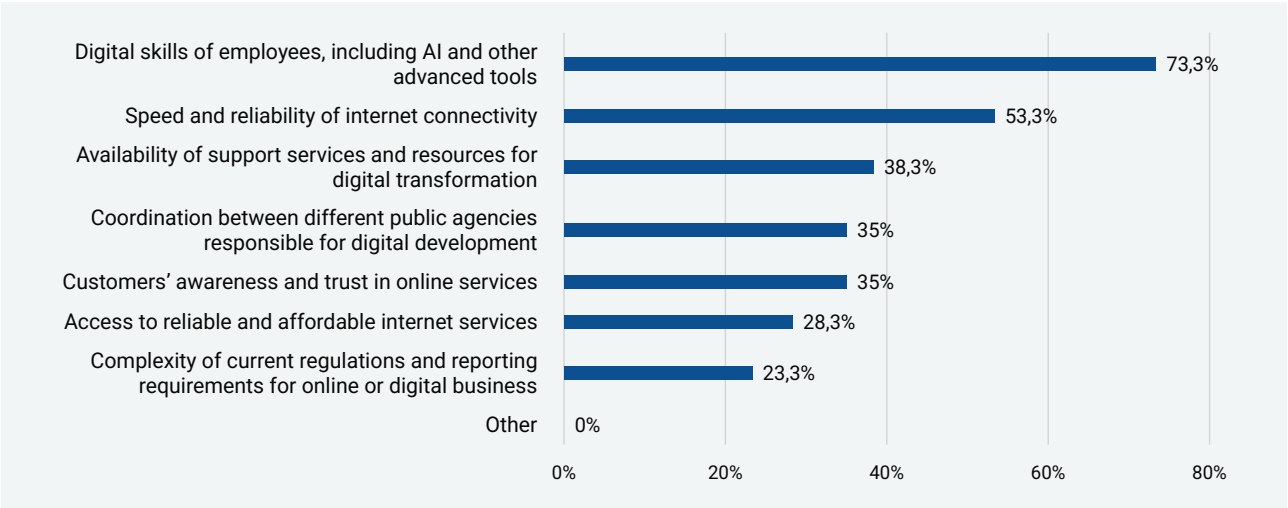
SOURCE: EU Business Climate Survey 2025-2026

Around half of respondents rate the infrastructure at levels 4 or 5 for both operational and cybersecurity needs, while a large share give a neutral rating of 3, suggesting scope for further improvements in **IT capacity, reliability and cybersecurity**.

Compared with 2024, perceptions improved modestly. The average rating increased from **3.41 to 3.48 for operational needs** and from **3.28 to 3.45 for cybersecurity needs**, with operational infrastructure remaining slightly more positively assessed in both years.

The 2025/26 survey results indicate that **digital skills** are the most significant area requiring improvement to support further digitalisation among European companies in Azerbaijan. Around 73% of respondents identify **employees' digital skills, including capabilities related to AI and other advanced tools**, as an area requiring further development.

FIGURE 2.13 Responses to the question "Which areas of your company's digital infrastructure still need improvement to support ongoing digitalisation, including the use of modern tools such as AI, cloud services, and high-speed networks like 5G? (Multiple answers can be selected)"



SOURCE: EU Business Climate Survey 2025-2026

The **speed and reliability of internet connectivity** is the second most frequently cited area, identified by approximately 53% of respondents. Other notable challenges include the availability of support services and resources for digital transformation (around 38%), coordination between public agencies responsible for digital development (around 35%), and customers' awareness and trust in online services (around 35%).

> "Digitalisation in Azerbaijan is one of the best in the Caucasus.."
>
> Regional Representative of a Finance company

Both 2024 and 2025/26 surveys **identify internet speed and reliability and employees' digital skills** as major areas requiring improvement. The results suggest a shift from basic digital connectivity concerns toward **skills and broader digital transformation capacity**.

2.5 E-SERVICES

Azerbaijan is consolidating public digital services into a unified architecture, moving away from fragmented agency-level portals towards a "one-stop-shop" model centred on the **Electronic Government Information System (EGIS)** and the mygov platform. The 2026–2028 Action Plan for Accelerating Digital Development calls for the full digitalisation of internal management processes in state bodies and a transition towards "paperless government" by July 2028, with 80% of document circulation and operations targeted for conversion to digital format. [87] The Action Plan also provides for the application of a "once-only" principle, under which citizens and businesses should not have to repeatedly provide information already held by the state.

Unified digital-government architecture

EGIS, regulated by presidential decree since August 2025, provides the core infrastructure for Azerbaijan's digital public services.[169] It comprises eight core subsystems covering areas including utilities, digital consent, local governance, document circulation, data exchange and unified access. Services are delivered through four principal platforms: mygov, which serves citizens and the general public; mygov Business, for businesses; Open Data; and Geoportal.

For businesses, EGIS provides a single digital interface for submitting applications and interacting with government institutions. Its Digital Consent subsystem allows companies to request and process personal data with the individual's explicit and revocable consent, while integrated services are intended to reduce administrative time, costs and compliance burdens.

The **mygov ID** authentication environment should be distinguished from the mygov service platform itself. Formerly known as digital.login, it was integrated into the mygov application and renamed mygov ID in October 2025. It provides unified access to public and private information systems through SİMA İmza, Asan Imza, FIN code and other authentication methods, while also supporting QR login, cross-application login and two-factor authentication.[170] At the time of its integration into mygov, mygov ID provided access to the information systems of more than 240 public and private institutions, with more than 4.8 million users and an average of over 9 million transactions per month.

By the end of 2025, the broader **mygov ID environment** had more than 5 million users, following nearly 800,000 new registrations during the year. The IDDA also reported that more than 100 public and private information systems had been integrated into the mygov ID environment during 2025.[171] The development of mygov is also becoming more participatory. In April 2026, IDDA introduced a structured citizen-feedback mechanism, treating users as participants in the co-design of public services.[172]

Expansion across government services

The service catalogue has continued to expand across major government functions. In May 2026, services from the Ministry of Science and Education were integrated into mygov, including higher-education admissions and registration, residency applications, admissions to secondary specialised education institutions, and electronic document submission for preschool institutions. The five newly integrated services are used more than 320,000 times in total each year.[173]

The Ministry of Justice has likewise expanded its citizen-facing services on mygov. By July 2026, the platform included information on enforcement proceedings, notarial services, and other functions administered by the Ministry. Two additional services launched in July 2026 allow citizens to obtain digital powers of attorney for lawyers and for the use of banking services. The Ministry reported that its mygov offering had reached five life-event-based Justice services, six notarial services, and information services relating to translation and enforcement proceedings.[174]

The **Azerbaijan State Water Resources Agency** has also integrated its services into mygov, allowing users to manage water accounts, billing, payments, applications and subscriber services through a single platform, with additional services being added.[175]

The Ministry of Labour and Social Protection of the Population provides another example of large-scale agency digitalisation. **New digitalisation** measures were introduced for government services to support labour market development, including the integration of E-Sosial into mygov, the launch of the "Labour and Employment" subsystem, and the "ƏMAS" platform. By June 2026, more than 90% of its 150 labour, employment and social-protection services had been digitalised, while its electronic systems were connected to information databases operated by up to 80 other institutions. In addition, 97% of active labour contracts had been registered electronically. In May 2026, the Ministry's e-Sosial mobile application was fully integrated into mygov and discontinued as a separate application.[177]

By July 2026, the government was increasingly moving towards the integration of individual agency portals and mobile applications into the common mygov and mygov Business ecosystem, while continuing to digitise services that remained offline and expand proactive services.[178]

Digital identity and electronic signatures

Digital identity and electronic signatures provide a further layer of the country's digital-government infrastructure. In 2025 and 2026, Azerbaijan continued to expand the use of SİMA and Asan Imza across public and private services. SİMA and Asan Imza are separate systems operated by different organisations: SİMA was developed by AzInTelecom, part of AZCON Holding, while B.EST Solutions is the national operator of Asan Imza.

In January 2026, **SİMA** reported that 100 institutions had integrated the service into their digital offerings, providing access to more than 1,000 electronic services.[179] In May 2026, SİMA was integrated into a bank's mobile application, allowing users to verify their identity through facial recognition and create a digital signature directly within the application. [180]

Asan Imza has followed a separate technological development path. In March 2026, B.EST Solutions, its national operator, presented a next-generation, quantum-ready version of the service.[181] The development builds on Asan Imza's eSIM-based technology and is intended to strengthen the security and flexibility of mobile identification and electronic signatures.

The wider adoption of digital signatures has also contributed to the digitalisation of business administration. According to findings attributed to ADB, around 90% of tax declarations and all customs declarations can now be completed online, while business-to-business invoices are issued electronically, and a company can be established in as little as five minutes. [166] All major banks use Asan Imza for customer identification, supporting know-your-customer (KYC) and anti-money-laundering (AML) processes. The same findings indicate that taxpayers can submit declarations through a dedicated helpline without a computer or internet connection, while telephone-based identity verification can facilitate access to financial services.

Data exchange and digital infrastructure

Behind the citizen-facing services, Azerbaijan is developing shared infrastructure for inter-agency data exchange. The national **digital.bridge platform** recorded two to three times more data exchanges in 2025 than in previous years.[182] It enables secure and standardised information exchange between government institutions and supports the "submit once" principle by allowing connected systems to share information without requiring citizens and businesses to repeatedly provide the same data.[183] The platform supports Government-to-Government, Government-to-Business and Government-to-Citizen data exchange and is intended to improve the integration, reliability and security of digital public services.

On 29 June 2026, the Minister of Digital Development and Transport announced the establishment of a **National Data Pool**, alongside continued migration of state information systems to the Government Cloud and construction of a new data centre.[184] The infrastructure is intended to strengthen data integrity and support the once-only principle, while reducing duplication in the collection and submission of information.

The integration of services through EGIS and migration of state information resources to the Government Cloud are also expected to strengthen information security by enabling more consistent security standards, centralised monitoring and coordinated responses to cyber threats across government. [153]

The expansion of digital infrastructure is accompanied by changes to the governance of digital services. In April 2026, the Government approved a framework for a **Unified Electronic Archive**, while the Ministry of Justice continued to expand digital notarial services through Mobile Notary and Web Notary.[185]

New rules introduced during the same period established a framework for regulatory pilot projects, allowing government bodies to test digital solutions and assess proposed electronic services before wider implementation.[186]

E-Services for Business and Investors

Digital transformation remained a major focus of the government's MSME development policy during the reporting period. The SME House network and the digitalisation of public services have further reduced the administrative burden on MSMEs.[187]

Business-facing digitalisation is also extending into Azerbaijan's quality infrastructure. In 2025, the Government established a regulatory framework for the **Quality Information System**, intended to integrate digital services relating to accreditation, conformity assessment, standardisation, measurement and technical regulation.[188]

The existing **E-Keyfiyyet** system, operated by the State Agency for Antimonopoly and Consumer Market Control, was expanded in December 2025 with a "Certificate of Origin" verification function. Users can enter the

certificate number, date and invoice number to view a copy and check its validity, including through the English versions of the system.[187] The system enables customs authorities in importing countries to verify Azerbaijani certificates of origin electronically, potentially reducing delays and costs for exporters. From 1 January 2026, applications for certificates of origin have been accepted exclusively through E-Keyfiyyet, completing the digitalisation of this process.[190]

Digital public services are also expanding into areas beyond conventional administrative transactions:
Educational documents: Since January 2026, state educational documents available digitally through mygov, including diplomas and school-leaving certificates, have had full legal force.[191] Their authenticity can also be verified electronically, facilitating the checking of qualifications by employers and other organisations.
Property administration: Amendments to Azerbaijan's Land Code, adopted in 2026, establish the State Real Estate Cadastre within the information system of the relevant authorised authority and cover real estate irrespective of ownership type.[192] The system allows cadastral information to support land-use and conservation planning, zoning and the regulation of land relations.
Forensic administration: In November 2025, Azerbaijan established a dedicated "Forensic Expertise" information system under the Ministry of Justice to digitalise forensic-examination processes and facilitate data exchange between forensic institutions and other government information systems.[193]

Information on the digitalisation of **connectivity, transport and border-crossing infrastructure** is covered separately in **Chapter 1, "Business Climate and Investment Opportunities", Section 1.5, "Transport and Connectivity", under "Soft infrastructure."**

European business representatives interviewed in Azerbaijan reported that digital tax administration is already having a positive impact, particularly by speeding up administrative processing. Improvements in e-government services have also generally increased the speed and efficiency of business operations, while digitalisation overall has contributed to a reduction in business costs. Although businesses have adapted their internal systems to comply with new digitalisation requirements, these adjustments have not fully addressed the underlying process and administrative inefficiencies. In particular, the mandatory format of electronic labour contracts may not always be compatible with the nature of certain types of work or with the operational needs of some companies. Representatives also noted that government digital services do not yet sufficiently accommodate parts of the population that are unfamiliar with digital tools. A gradual transition combining digital and traditional channels, alongside stronger digital-literacy support, would therefore be preferable to a rapid shift towards fully digital services.

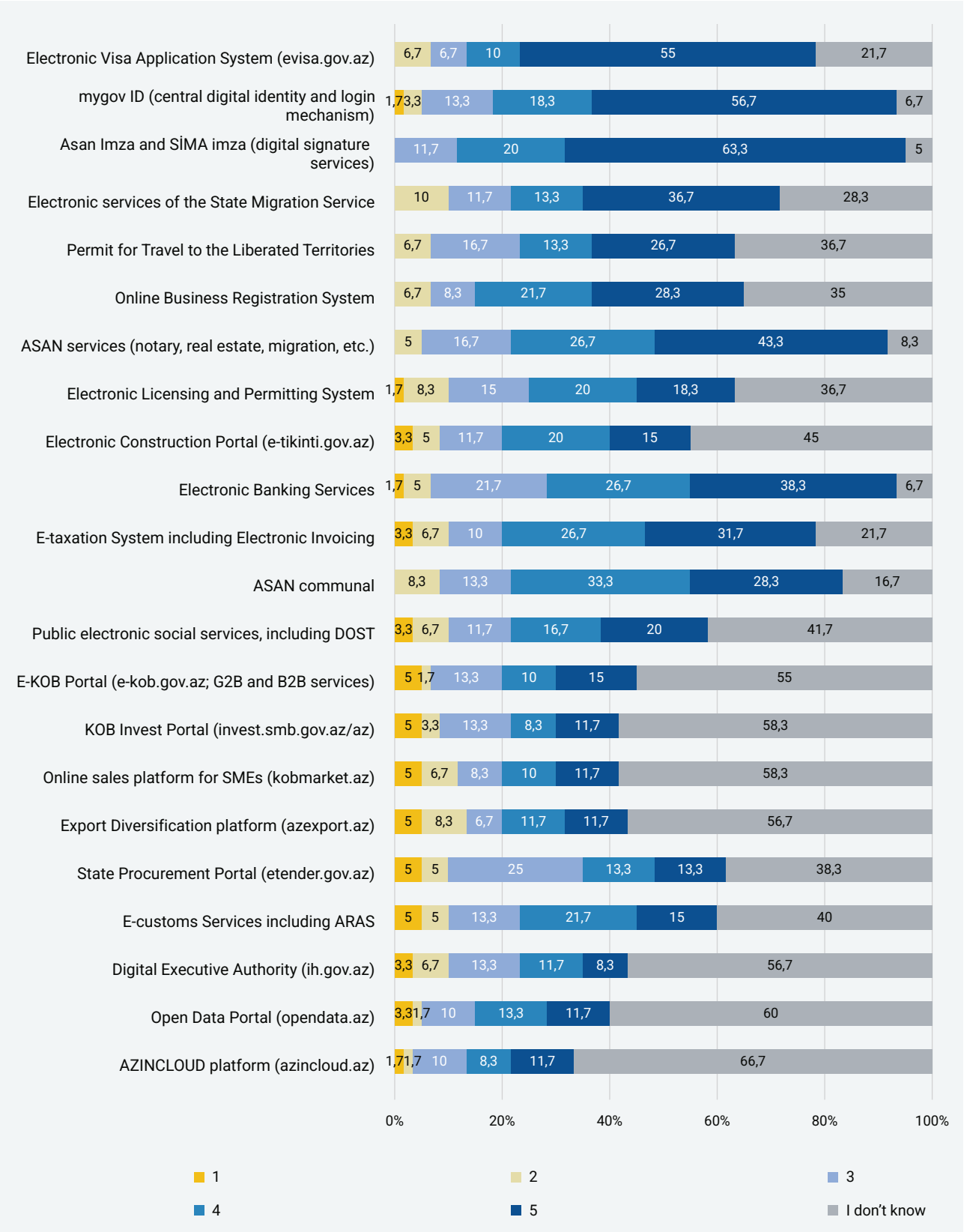
For foreign businesses, an important remaining barrier is the inability of non-citizens to obtain the digital signature required to open a bank account in Azerbaijan. According to them, mutual recognition of EU and Azerbaijani digital signatures could help address this issue and facilitate foreign companies' access to local digital services. The newly introduced digital logistics platform was viewed as a positive initiative, although its practical impact remains to be assessed as implementation progresses.

The 2025/26 survey results show considerable variation in European companies' assessments and awareness of Azerbaijan's electronic public services. Several widely used digital services receive particularly positive evaluations, while responses to some more specialised platforms indicate more limited awareness or use.

The strongest assessments are recorded for the **Asan Imza and SİMA İmza digital signature services**, with **63.3%** of respondents rating them as very effective. **mygov ID**, the central digital identity and login mechanism, also performs strongly, with **56.7%** assigning the highest rating, and the **Electronic Visa Application System** follows with **55.0%**. A**SAN services, electronic banking services, the E-taxation System, including Electronic Invoicing, and ASAN communal** also receive relatively positive assessments.

For the electronic services covered in both the **2024 and 2025/26 surveys**, the findings show considerable continuity, although the different rating scales used in the two surveys do not allow direct comparison of individual scores. The **Electronic Visa Application System** remains among the most positively assessed services in 2025, consistent with its leading position in 2024. **Electronic banking services** also continue to receive relatively favourable assessments, while the **Online Business Registration System** and **e-taxation/e-invoicing services** maintain generally positive evaluations. Overall, the results across the two survey rounds indicate that well-established and widely used electronic services continue to be assessed more positively, while awareness and uptake appear more limited for specialised digital platforms.

FIGURE 2.14 Responses to the question "How effective do you find the following electronic services in enhancing the business climate? Please rate from 1 to 5; (Where 1 - absolutely ineffective, 5 – very effective + I don't know)"



SOURCE: EU Business Climate Survey 2025-2026

2.6 OTHER REFORMS

During 2025 and mid-2026, Azerbaijan pursued a broad domestic reform agenda extending beyond digitalisation, with measures covering public finance management, taxation, state-owned enterprises, investment regulation, financial-sector development, public procurement, competition, and the wider business environment.

The reforms have also been reflected in international assessments, including the World Bank's first Business Ready (B-READY) assessment, which replaced the Doing Business series and evaluated countries across three pillars and ten topics. Azerbaijan scored strongest in business entry (86), financial services (87) and utility services (83), while market competition (45.3) and business insolvency (36.1) were its weakest areas. [194]

FIGURE 2.15 World Bank's B-READY Report Results

Pillar	Score (/100)	Global rank (of 101)
Regulatory framework	71.9	32nd
Public services	62.7	40th
Operational efficiency	63.3	42nd

Taken together, these results point to both areas of progress and remaining gaps, providing a useful backdrop for the reform measures discussed below.

Tax Policy and Administration

Tax policy has been one of the most active areas of reform. Azerbaijan's State Tax Service adopted its 2025–2028 Strategy in 2025 and started its implementation.[195] Substantial amendments to the Tax Code have been adopted and implemented. From 1 January 2026, a package of Tax Code amendments ended the income-tax privilege that had been applied since 2019 to employees of non-oil, non-state sector companies (0% up to AZN 8,000 (≈ EUR 4,071) /month; 14% above). This is being replaced by a new progressive program, gradually introduced over the period 2026–2028. Other tax measures include the following:

- Reduction of the property-tax exemption for education, healthcare, culture and sports operators from 100% to 75% of qualifying fixed-asset value, effective January 2026. [197]
- A draft 2026 budget proposal to exclude 50% of non-cash turnover from VAT-taxable turnover in public catering, and to tax simplified-regime taxpayers' non-cash turnover at 6%.[196]
- Tax exemptions (income, property, land taxes and VAT on imports) for PPP private partners and project companies for the duration specified in the PPP agreement, up to 30 years (including the construction period). [53]
- Amendments to Azerbaijan's Tax Code on 28 July 2026 allow taxpayers in the non-state sector operating outside the oil and gas sector to transfer funds from their VAT deposit accounts to the State Social Protection Fund. The measure takes effect on 1 January 2027 for a four-year period.[197]

Customs Policy and Administration

Azerbaijan has introduced a series of customs-policy and administrative reforms aimed at strengthening customs–business cooperation, facilitating exports, streamlining customs procedures, and improving the efficiency and predictability of customs administration. Key measures include:

- The Reliable Partner Concept was approved in December 2025 by Presidential Order. The Concept establishes a trust- and risk-based customs–business cooperation framework aimed at facilitating foreign trade, modernising customs services and providing greater facilitation to compliant businesses.[198]
- According to a decree adopted in June 2026, micro, small and medium-sized exporters of non-oil and non-gas goods will receive quarterly compensation for customs-clearance costs incurred on exports from 1 September 2026 to 30 September 2031, subject to the goods being confirmed as Azerbaijani-origin through a certificate of origin.[199]

In August 2026, amendments to Azerbaijan's Customs Code entered into force, introducing more detailed rules for temporary storage of goods and expanding the scope of customs expertise. The new framework clarifies declaration requirements, storage periods, rights and obligations of goods owners and warehouse operators, and provides that goods in temporary storage are not subject to import duties, VAT or excise during the storage period. The amendments also expand customs expertise to areas including vehicle environmental classification and technical compliance, prohibited/restricted goods, and intellectual-property-related ownership.[200]

SOE and Investment Regulation

The government also focused on consolidation and oversight reform of SOEs. In November 2024, the Azerbaijan Transport and Communications Holding (AZCON) was created, based on the model of Azerbaijan Investment Holding (AIH). AZCON consolidates SOEs in the transport and communications sectors and prepares them for eventual privatisation. [91] The Azerbaijan Industrial Corporation (ASK) was dissolved on 27 December 2024, and its key enterprises were transferred to AIH management.[201]

On 30 December 2025, Azerbaijan established the Agency for Monitoring of State Enterprises under the Ministry of Finance. The Agency is tasked with monitoring SOE budgets and financial performance, conducting risk-based and fiscal-risk assessments, and applying stress tests and other assessment tools in accordance with international practices. The Agency is to report to the President on a quarterly basis.[202]

On 29 December 2025, Azerbaijan introduced a new state dividend policy requiring state-owned and state-controlled enterprises and public legal entities to distribute at least 30% of their net profit to the state budget as dividends. The rules exclude SOEs whose shares are listed on leading foreign stock exchanges.[203]

The amendments to Azerbaijan's Law "On Investment Activity" adopted on 24 February 2026 established a new legal basis for the state to acquire investments of strategic importance in exceptional circumstances where necessary. The aim is to prevent harm to the interests of the Azerbaijani state and people and to protect national interests.[204] The amendments envisage compensation payable to investors, with the procedure determined by the investment agreement or, where unspecified, under the applicable statutory rules.

The Small and Medium Business Development, Investment and Export Promotion Agency was created in February 2026 through the merger of KOBIA and Export and Investment Promotion Agency of the Republic of Azerbaijan (AZPROMO).[205] Rules were adopted in June 2026 requiring regular assessment of the effectiveness of state support to MSMEs.[206]

On 14 July 2026, amendments to Azerbaijan's Law "On Currency Regulation" introduced new provisions concerning non-residents, digital nomads, and cross-border investment by venture-capital funds and accredited investors.[207]

On 8 May 2026, a new calculation of annual lease payments was introduced for specified categories of state land, applying a market-value-based formula of 3% in Baku and 2% in other cities and districts.[208]

The amendments to Azerbaijan's Law "On Patents" were enacted on 10 February 2026, introducing clearer procedural timelines for patent applications covering inventions, utility models and industrial designs.[209]

Azerbaijan introduced the statutory concept of the "beneficial owner" on 11 April 2025.[210] It requires beneficial-owner information to be disclosed when the legal entity is being registered, while existing entities have to complete the relevant transition by December 2027 and are subject to administrative fines for non-compliance.

Financial Sector Development and Access to Finance

On 26 May 2026, the State Programme on the Expansion of Financial Inclusion for 2027–2030 was approved.[211] Its target indicators include raising bank-account ownership among adults to 85% (from 70.7% in 2025), increasing the share of MSMEs with outstanding credit or credit lines to 36% (from 25%), and connecting 30% of financial institutions to a distributed Know Your Customer (KYC) system (from 0%).

The CBAR reduced the maximum interchange-fee caps for payment cards by 0.25 p.p. across relevant merchant categories effective from 1 June 2026, aiming to lower merchants' costs for accepting cashless payments.[212]

Administration of state guarantees and interest subsidies for manat-denominated loans to entrepreneurs was transferred from the Mortgage and Credit Guarantee Fund to the Azerbaijan Business Development Fund on 9 June 2026. The mechanism was extended on a pilot basis through 31 December 2030 to territories outside Baku and Absheron. The guarantees cover up to 50% of the principal loan (versus up to 90% in Karabakh and East Zangezur).[213] Loans of up to 13% annual interest are eligible, of which 50% is subsidised by the state.

The development of Azerbaijan's money and capital markets is beginning to support the use of new financial instruments. In October 2025, the EBRD issued its first manat-denominated domestic bonds in Azerbaijan, placing AZN 50 mln. (≈ EUR 25 mln.) of one-year floating-rate bonds linked to AZIR. The issue attracted 12 investors. The transaction helped establish AZIR as a benchmark for manat-denominated instruments and supported the development of the domestic capital market. Sustaining AZIR's role as a reliable market benchmark will require continued attention to its methodology and the depth of underlying market activity.

The interviewed European businesses described access to finance as a significant constraint in Azerbaijan, citing very high interest rates, strict collateral requirements, and limited competition in the banking sector as factors discouraging investment. The relatively small size of the market compared with companies' operating costs also reduces the attractiveness of large-scale foreign investment, making deeper and more affordable access to finance essential for attracting international investors.

"Interest rates are very high in Azerbaijan, and the market is small — turnover is low, expenses are high. There should be deeper access to finance from the Azerbaijani side for European companies to be interested in making large investments. As an example, there is an Azerbaijan-Uzbekistan Investment Company."

Chair of the Board, Business-association

Existing government-backed support mechanisms are also viewed as difficult to access, with businesses reportedly facing repeated requests to revise their business plans. Subsidised lending facilities channelled through commercial banks remain constrained by requirements for immovable collateral, while vehicles and equipment generally cannot be used as security, creating particular difficulties for logistics companies. Access to finance is particularly challenging for SMEs and exporters, as high interest rates and collateral requirements limit their ability to expand and invest in export-oriented activities. The absence of international banks is seen as a major gap, particularly for large companies requiring substantial credit lines that cannot currently be provided by the domestic banking system. External and portfolio financing also remain very limited, while equity investment is perceived as particularly risky. Limited competition among banks further restricts the range and quality of financing products available to businesses, while interest rates are considered too high to support productive investment. In this context, the companies consider that establishing an equity-participation fund for European partners could be helpful.

Public Procurement

July 2026 amendments to the **Law "On Public Procurement"** eased participation by non-resident suppliers and removed approval requirements for repeat purchases from the same supplier within 12 months.[214]

According to representatives of European businesses interviewed in Azerbaijan, transparency in public procurement has increased, and the procurement platform itself is now in place. Nevertheless, tenders continue to face significant procedural and subjective constraints. Businesses reported that public procurement has in some cases become more difficult and that tenders may be structured in ways that favour pre-selected companies and limit genuine competition. Transparency was also perceived to vary according to the size of the project, with investments below approximately USD 20 mln. considered more transparent and competitive, while larger projects were seen as facing greater restrictions. Procurement procedures have also become more bureaucratic, with more extensive documentation requirements and longer approval processes.

"The administrative burden is greater than the benefit. These processes take all the energy of businesses."

CEO, Business-association

Businesses suggested simplifying procedures, improving transparency, publishing complete tender information in both English and Azerbaijani, and introducing framework agreements or longer-term contracts with pre-approved suppliers to reduce administrative burdens and support more competitive procurement.

According to an international expert in public procurement, public administration, and business development, further progress in the public procurement in Azerbaijan will depend on the consistent implementation of the revised procurement framework. Key priorities include limiting single-source procurement to justified cases, strengthening competitive procedures, improving price estimation, and clarifying the roles of contracting authorities, oversight bodies, and complaints mechanisms. Accountability could be reinforced through stronger internal audit, systematic follow-up of audit recommendations, proportionate sanctions, and an independent complaints review body, supported by comprehensive procurement data. Better alignment of budget and procurement cycles and greater use of medium-term budgeting would facilitate strategic planning and reduce rushed year-end purchasing. Wider use of framework agreements, stronger contract management, and greater emphasis on value for money, life-cycle costs, and sustainability would further improve outcomes. Similar measures could strengthen PPPs by completing the legal and regulatory framework, including dispute-resolution mechanisms, adequately staffing responsible units, and applying rigorous appraisal to proposed projects.

Regulatory Predictability, Rule of Law, and Public-Private Dialogue

The interviewed European businesses emphasised that the effectiveness of reforms depends on **consistent implementation and enforcement**, rather than the adoption of legislation alone. They called for regulatory and legislative predictability and adequate transition periods before new business or investment-related legislation enters into force.

> "Stability is also needed in legislation. The laws should align with each other. They should be comprehensive and precise."
>
> Chair of the Board, Business-association

Clear and stable rules, judicial efficiency, and effective contract enforcement were considered core requirements for investment. The businesses stressed the need for specialised courts and stronger assurances regarding the rule of law, noting that companies assess potential worst-case legal scenarios before entering the Azerbaijani market.

Businesses reported instances in which contractual terms were changed after agreements had been signed, including by state entities, or where previously granted permits were subsequently found to be invalid. Such practices undermine confidence and fall short of the level of predictability expected by European investors. They also noted that Azerbaijan's AML/CFT legislation is perceived as stricter than EU standards and suggested that alignment with EU requirements would be sufficient.

The implementation of existing competition and procurement rules was considered more important than further legislative changes. WTO accession was viewed positively in this context, with businesses expecting it to strengthen transparency, commitment to rules and regulatory predictability. The interviewed businesses considered implementation of the **Competition Code** to be progressing slowly, while acknowledging its adoption as a positive development that could support Azerbaijan's eventual accession to the WTO.

Businesses also stressed that competition policy would have limited impact unless the government reduces its direct involvement and participation in commercial activities. They favoured a more limited state role in the economy, with government concentrating on regulatory and administrative functions and leaving greater space for private businesses, while recognising that strategic and defence - related assets would remain outside this approach.

According to the interviewed European businesses, there is a political will for reform at the highest levels of government, but the approach of mid-level public officials and institutions does not always reflect this commitment. The government institutions are also reported to often lack sufficient independence and frequently seek approval from higher levels, which can slow decision-making. Therefore, the businesses called for a more structured and **systematic public-private dialogue** and stronger support for business associations.

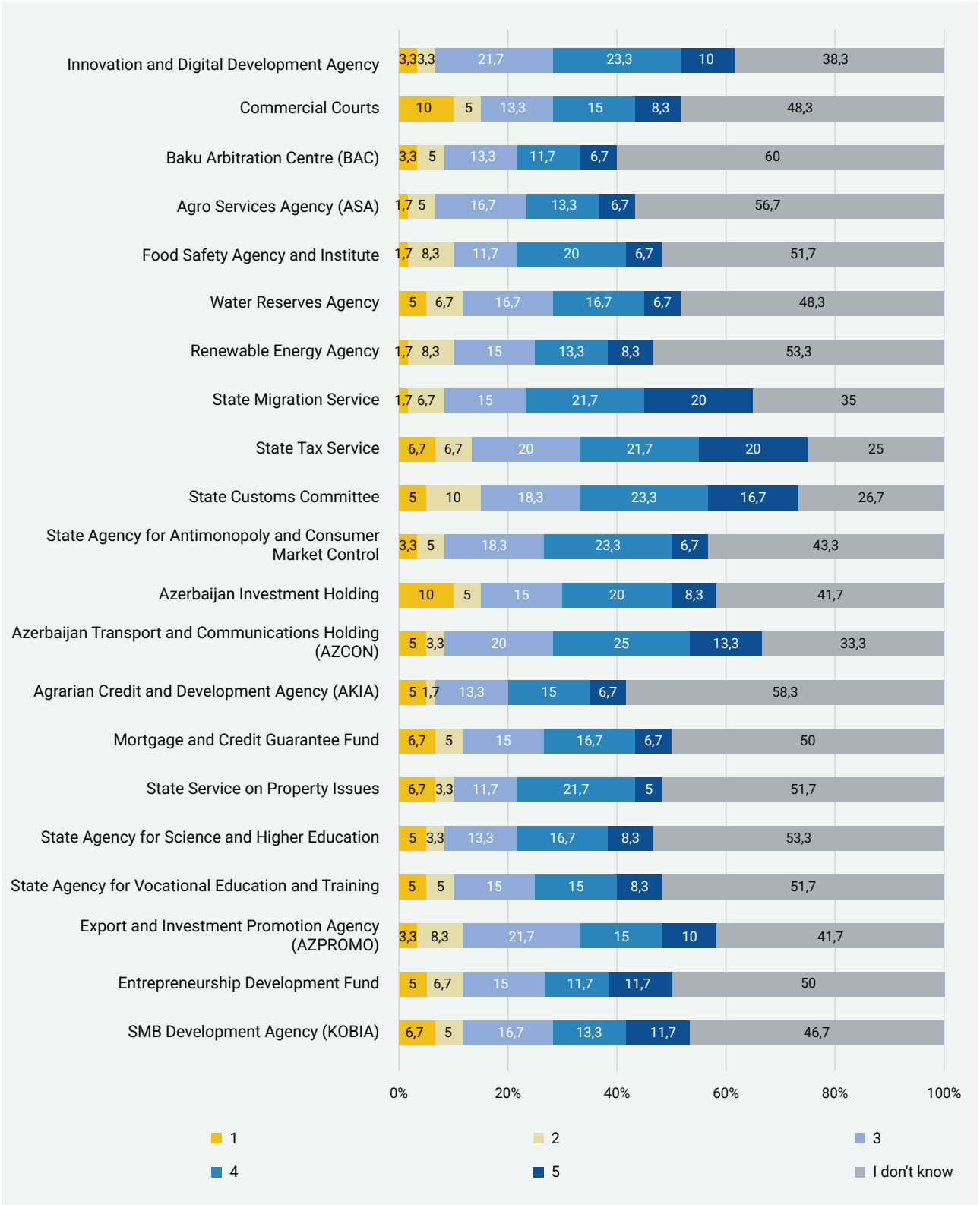
The overall assessment of the interviewed European companies was that Azerbaijan has made meaningful progress in establishing the formal infrastructure for reform, but that the credibility and effectiveness of these reforms will increasingly depend on predictable, transparent, consistent implementation. Businesses suggested that greater emphasis could be placed on the functionality and economic impact of initiatives, alongside their presentation.

> "Perfectionism can also become a problem. The government should not focus on appearance, but on profitability and functionality of the initiatives."
>
> Senior Representative, Construction and engineering company

The 2025/26 survey results reveal a mixed assessment of the effectiveness of governmental bodies. Among the institutions assessed, the **State Tax Service** receives one of the strongest evaluations: **41.7%** of respondents rate its effectiveness at 4 or 5, while only **13.4%** give ratings of 1 or 2. The **State Migration Service** is also viewed relatively positively, with **41.7%** assigning ratings of 4 or 5. Similarly, the **State Customs Committee** receives ratings of 4 or 5 from **40.0%** of respondents. These findings suggest that government institutions with which international companies interact more regularly—particularly in the areas of taxation, migration and customs—are comparatively well recognised and positively assessed.

AZCON also stands out, with **38.3%** of respondents assigning ratings of 4 or 5 and only **8.3%** giving ratings of 1 or 2. The **Innovation and Digital Development Agency** receives ratings of 4 or 5 from **33.3%**, although **38.3%** of respondents indicate that they do not know enough about the institution to assess it. The **State Service on Property Issues** is another institution receiving a relatively substantial share of positive assessments, with **26.7%** rating it at 4 or 5.

FIGURE 2.16 Responses to the question "To what extent do you perceive the effectiveness of the following governmental bodies? rate from 1 to 5 (Where 1 – ineffective, 5 – very effective + I don't know)"

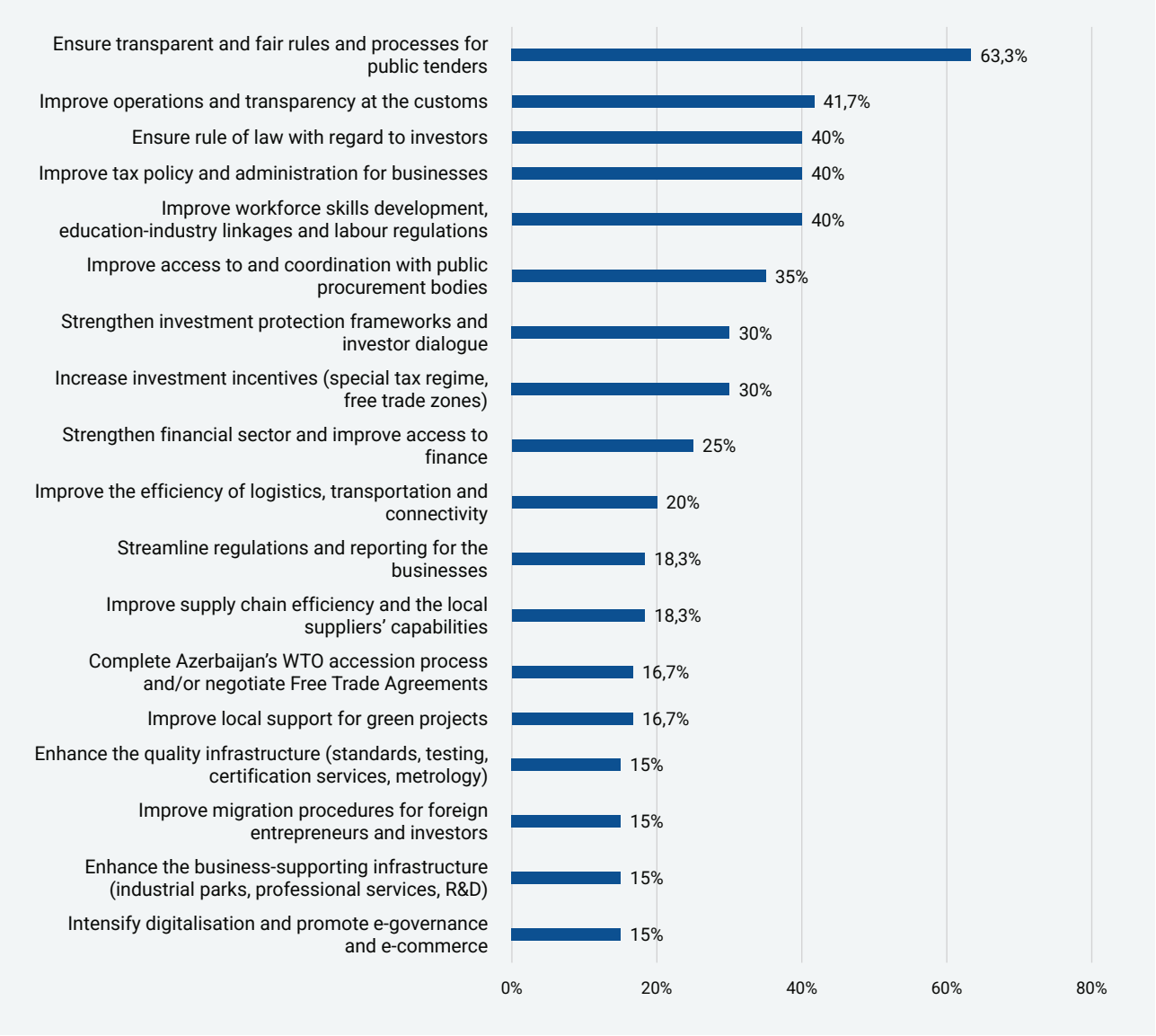


SOURCE: EU Business Climate Survey 2025-2026

Overall, the findings of the survey suggest that European companies tend to provide more favourable and informed assessments of governmental bodies with which businesses interact directly and regularly, particularly the State Tax Service, State Migration Service, State Customs Committee and AZCON. In contrast, high levels of "I don't know" responses for many specialised agencies point to an opportunity to strengthen their visibility, communication and engagement with the European business community.

The 2025/26 survey results indicate that European companies place particular emphasis on transparency, rule of law, customs procedures, taxation and workforce development as priorities for further improving Azerbaijan's business and investment climate. The most frequently selected reform is ensuring transparent and fair rules and processes for public tenders, identified by **63.3%** of respondents. This clearly stands out from the other measures and suggests that greater transparency and fairness in public procurement remain a key expectation of European businesses.

FIGURE 2.17 Responses to the question "Which of the following reforms do you consider most important to further improve the business and investment climate in Azerbaijan? (Select max. 5 that apply)"



SOURCE: EU Business Climate Survey 2025-2026

Ensuring the rule of law regarding investors is also among the leading priorities, selected by approximately **40%** of respondents. Similarly, improving operations and transparency at customs is cited by 41.7%, while improving tax policy and administration for businesses and strengthening workforce skills development and education-industry cooperation are each identified by **40.0%**. In addition, **35.0%** call for improved access to and coordination with public procurement, further reinforcing the importance businesses attach to reform in this area.

The comparison between the 2024 and 2025/26 survey results shows strong continuity in the main reform priorities, alongside some notable shifts in emphasis. Transparency and fairness in public procurement remains the leading concern, increasing from 58% in 2024 to 63.3% in 2025. Customs operations and transparency also remain a major priority, while rule of law and investor protection continue to feature prominently, although rule of law received less emphasis in 2025 than in 2024.

At the same time, the 2025 results indicate a stronger focus on several practical aspects of the business environment. **Tax policy and administration** emerge as a major reform priority at 40%, while **workforce skills development and education–industry cooperation** also receives **40%**. In contrast, **financial-sector development and access to finance,** which was among the leading priorities in 2024, becomes less prominent in 2025. **The sharp decline in the prominence of support for green projects** is also notable, suggesting that the strong attention given to green investment in 2024 was less pronounced in the subsequent survey round.

"The tax and customs administrations should act more as business facilitators than focus solely on revenue generation."

Chair of the Board, Business-association

The results of the **interviews with European companies** reveal a more critical perspective on tax administration. Tax policy and administration emerged as the most frequently and consistently cited concern in the interviews, while the businesses also acknowledge the ongoing reform agenda. The frequent legislative changes, often introduced without sufficient transition or adjustment periods, are seen as creating uncertainty and additional compliance costs. Representatives stressed that businesses could operate more effectively when provided with predictable conditions.

The operational conduct of the State Tax Service is repeatedly perceived as punitive rather than facilitative, and businesses reported that measures, such as freezing of bank accounts, can halt business operations and salary payments. Companies also argued that taxation should generally occur only once revenue has been received, as the current approach can create cash-flow pressures. Penalties may in some cases be deducted directly from company accounts before firms have an opportunity to contest them, creating financial difficulties. Cases involving possible errors by the tax administration may require additional time to resolve.

Withholding-tax procedures, described by businesses as a legacy of the Soviet period, remain an administrative burden for both companies and tax authorities, and their simplification could help reduce compliance costs. Businesses also suggested targeted tax concessions, including zero VAT rates for certain products, particularly to support exports, as well as tax exemptions for companies below a specified turnover threshold. Further simplification of tax procedures was considered particularly important for logistics companies, which must provide extensive documentation to demonstrate the validity of international transport transactions.

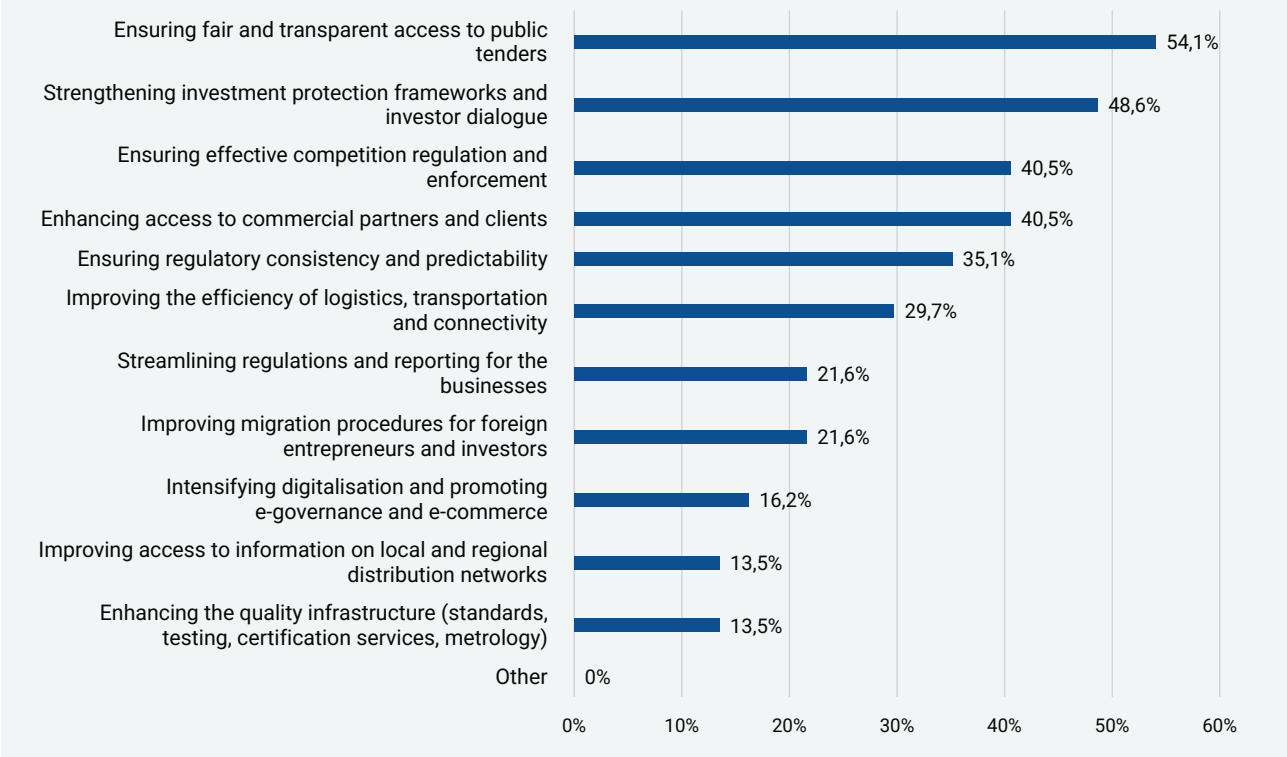
"International awareness of Azerbaijan and openness to doing business in the country have improved considerably over the past decade, while differences in business culture and practices continue to influence business relations."

CEO, Business-association

Despite these challenges, the businesses interviewed noted growing international awareness of Azerbaijan's business opportunities. They encouraged a more open approach to foreign investment, particularly as regional competition for investment continues to intensify.

Further 2025/26 business climate survey results indicate that the most frequently selected measure for ensuring a level playing field for European companies is **fair and transparent access to public tenders**. Identified by **54.1%** of respondents, the result underlines the importance of this issue for the businesses. Ensuring effective competition regulation and enforcement and enhancing access to commercial partners and clients are each identified by **40.5%**, while regulatory consistency and predictability is considered important by **35.1%**. Operational conditions also remain relevant. **Improving the efficiency of logistics, transportation and connectivity** is selected by **29.7%** of respondents.

FIGURE 2.18 Responses to the question “From your perspective, what measures could help to ensure a level playing field for European companies operating in Azerbaijan? (Select max. 3 that apply)”



SOURCE: EU Business Climate Survey 2025-2026

Overall, the results suggest that European businesses primarily associate a l**evel playing field with transparent public procurement, stronger investor protection, effective competition and predictable regulation**. Improvements in these areas, complemented by more efficient logistics, streamlined administrative procedures and easier market access, could contribute to a more competitive and equitable operating environment for European companies in Azerbaijan.

> “Fix your garden, and butterflies will arrive — no need to chase the butterflies.”
>
> Senior Representative, Construction and engineering company

Top 5 Reform Priorities

1. Customs & Trade Facilitation
Azerbaijan has made important progress in digitalising customs and trade procedures, including the introduction of the “Intelligent Customs” system and a Single Window/Digital Logistics Platform intended to reduce paperwork, shorten clearance times and integrate agencies involved in foreign trade. However, businesses continue to report high import-related costs, technical and administrative obstacles, uneven access to simplified customs regimes, and difficulties with certification and warehousing procedures. Further reform should therefore focus on simplifying and harmonising customs and border procedures, expanding risk-based inspections, improving interoperability with business systems, and strengthening single-inspection arrangements with corridor countries.

2. Tax Administration Reform
Tax administration remains one of the most frequently cited business concerns despite the adoption of the State Tax Service’s 2025–2028 Strategy and substantial amendments to the Tax Code. European companies particularly highlight frequent legislative changes, insufficient transition periods, burdensome documentation and withholding-tax procedures, and an enforcement approach perceived as punitive rather than facilitative. The reform priority should therefore be to make tax administration more predictable, proportionate and service-oriented, while simplifying procedures and providing businesses with adequate time to adjust to regulatory changes.

3. Public Procurement Governance
Although Azerbaijan has revised its public procurement framework, expanded e-procurement, and recently eased participation by non-resident suppliers, governance and implementation gaps remain, including the continued use of single-source procurement, fragmented institutional responsibilities, limited audit mechanisms, and insufficient contract-management capacity. Businesses also report bureaucratic procedures and concerns that tender conditions may restrict genuine competition. Priority should therefore be given to effective implementation of competitive procurement rules, stronger independent oversight and complaints mechanisms, better procurement data and planning and greater transparency and value-for-money orientation.

4. State Role in the Economy / SOE Reform
The extensive role of the state in commercial activity remains a structural constraint on private-sector development and economic diversification. SOEs operate across almost all economic sub-sectors and benefit in some cases from preferential access to resources, however their contribution to value added remains modest. Recent institutional reforms, strengthening financial oversight of SOEs and a new dividend policy—are important steps. Further reform should focus on improving SOE efficiency and transparency, strengthening competitive neutrality, and reducing state participation where private-sector provision is feasible.

5. Transport & Logistics Infrastructure
Azerbaijan's strategic position on the Middle Corridor is generating rapidly growing transit opportunities, but infrastructure and operational bottlenecks could constrain further expansion. Rising freight volumes have increased pressure on ports, railways, ferries and intermodal facilities, with shortages of wagons, ferry and container-handling capacity and congestion at Alat creating delays. Continued investment should prioritise port and terminal capacity, additional rolling stock and ferry capacity, automated and intermodal handling infrastructure, and stronger integration of rail, road, maritime and border systems. Complementing physical investment with digitalisation, coordinated corridor governance and greater use of PPP and blended-finance mechanisms would help Azerbaijan translate its geographic position into a more efficient and competitive regional logistics hub.





ANNEX 1: RESULTS OF EU BUSINESS CLIMATE SURVEY 2025-2026

Participants: European businesses present or interested to work in Azerbaijan and Azerbaijani companies doing business with the EU

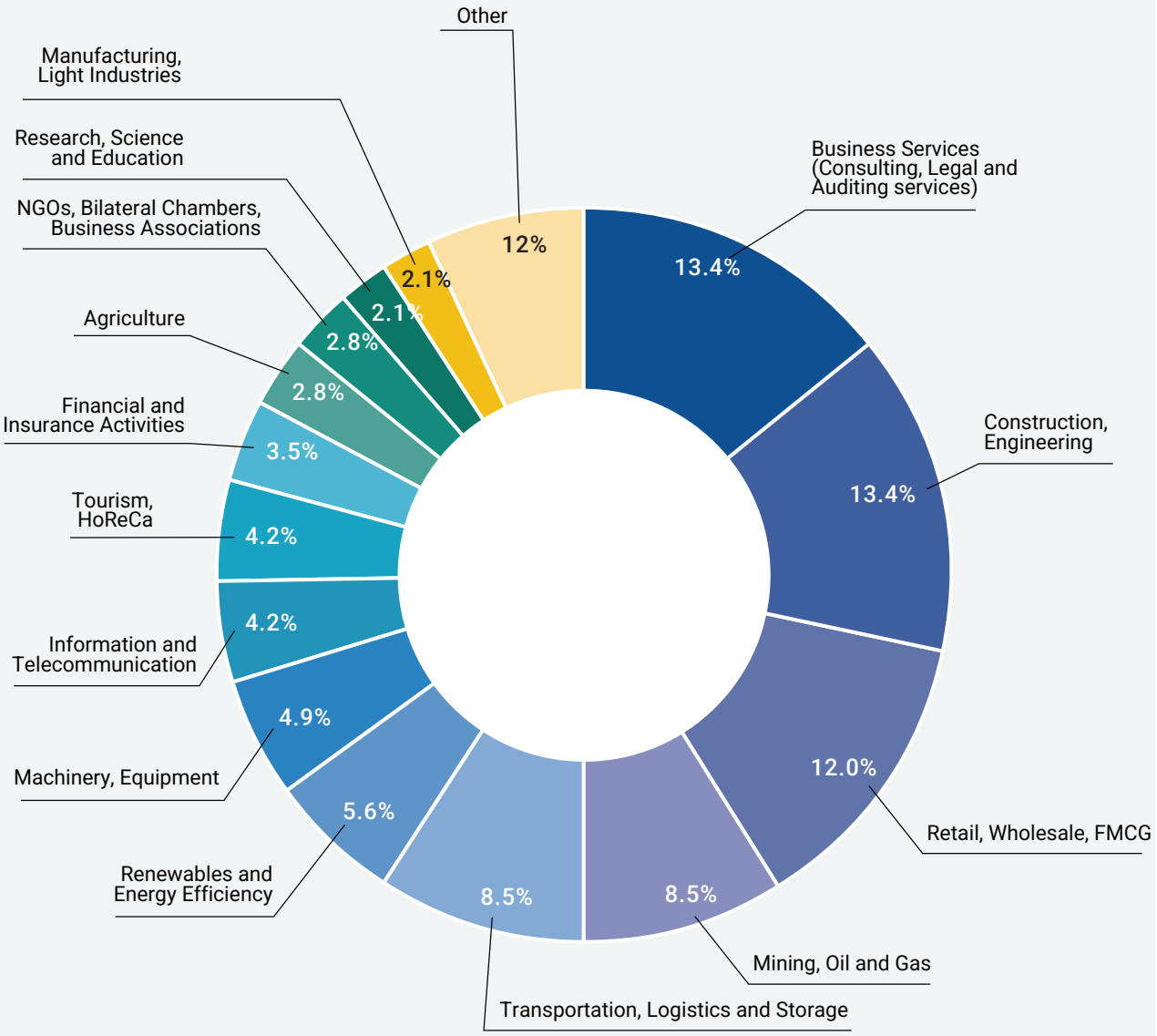
Total population: ~ 740 companies

Number of responses approved for the sample: 69

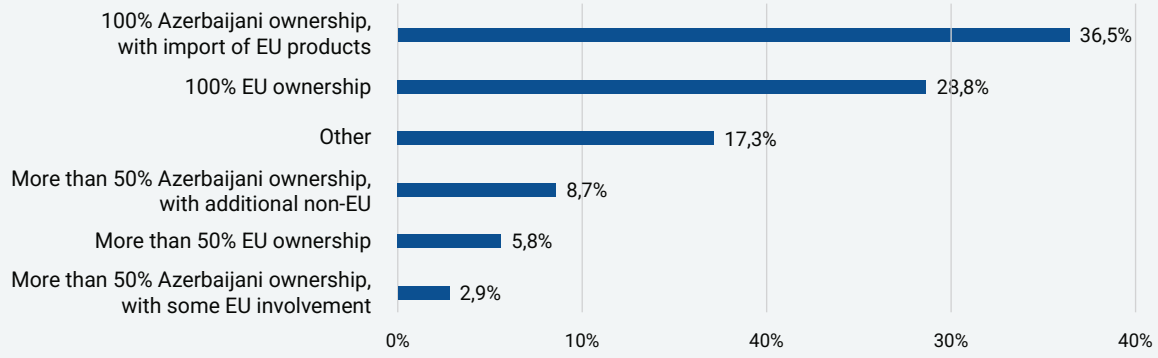
Number of countries represented: 29

Number of sectors represented: 19

Q1. What is the profile of your company? (One answer)



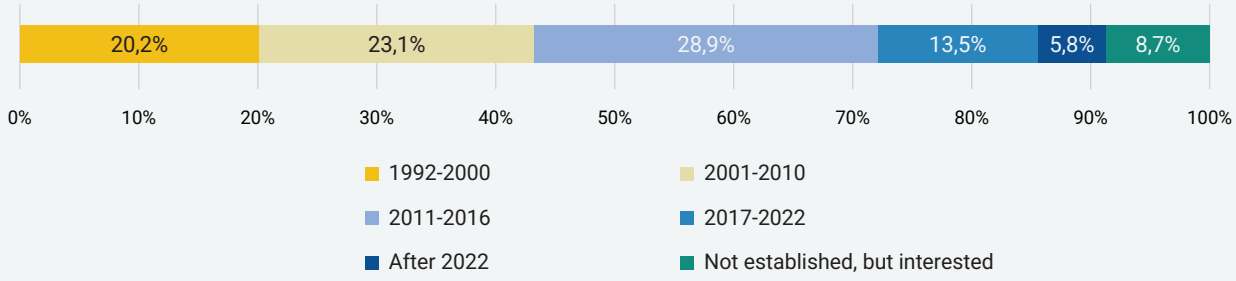
Q2. What is the ownership structure of your company? (One answer)



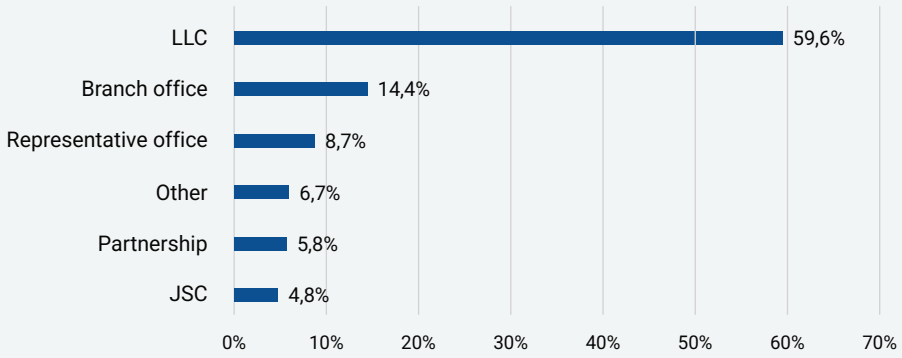
Q3. What country(-es) your company originates from or represent in Azerbaijan? (Multiple answers are allowed)

France 6.2%	Italy 7%	Germany 6.7%	Azerbaijan 21%	United Kingdom 10.3%	Netherlands 5.2%
Denmark 1%	Poland 2.1%	Switzerland 4.6%	Austria 4.1%	Belgium 4.1%	Croatia 1%
Czech Republic 2.6%	Estonia 1%	Romania 0.5%	Hungary 1.5%	Lithuania 0.5%	Bulgaria 1.5%
Norway 1.5%	Slovakia 1%	Greece 1%	Luxembourg 2.1%	Spain 2.1%	Sweden 3.1%
Malta 0.5%	Latvia 1.5%	Cyprus 0.5%	Slovenia 1%	Ireland 2.6%	

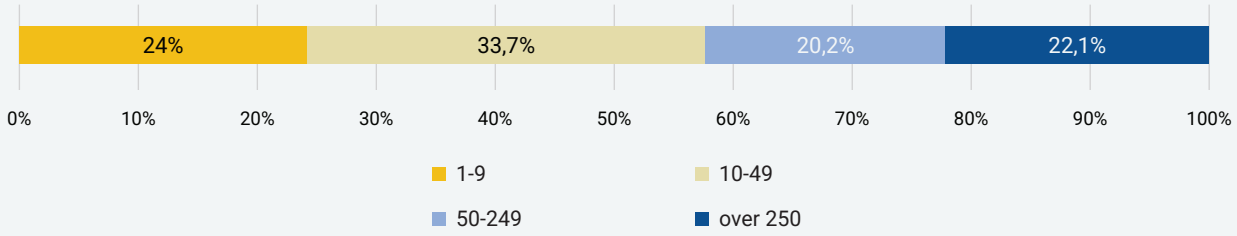
Q4. When was your company established in Azerbaijan? (One answer)



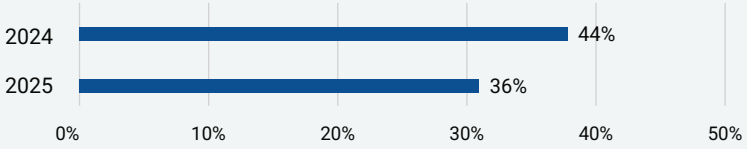
Q5. What is the legal status of your company in Azerbaijan? (One answer)



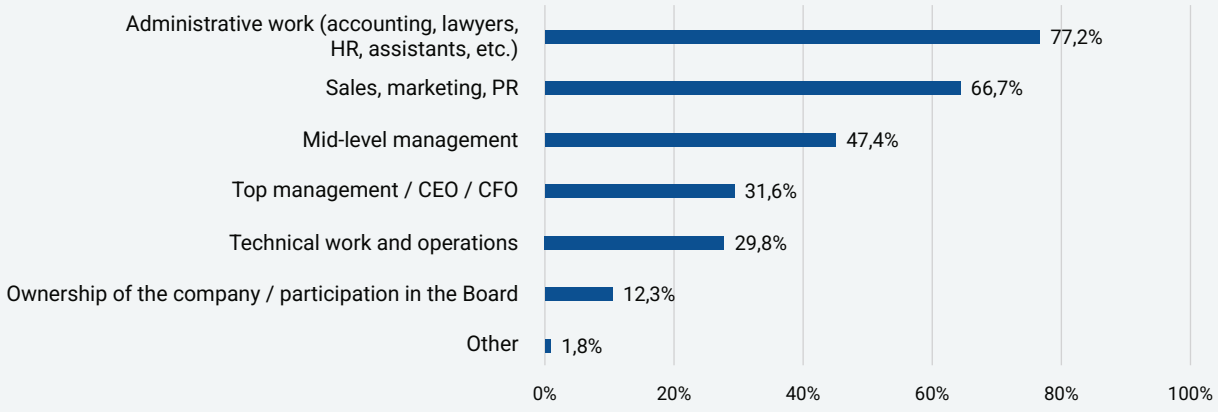
Q6. Please specify the number of employees in your company (One answer)



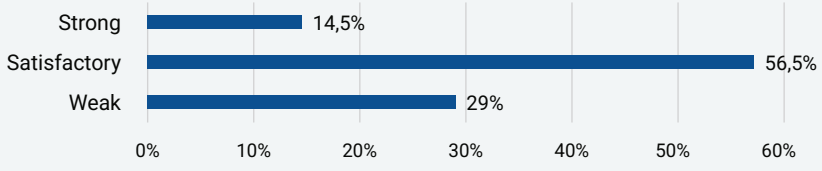
Q7. What percentage of the personnel in your company are women? (One answer. From 0 to 100%)



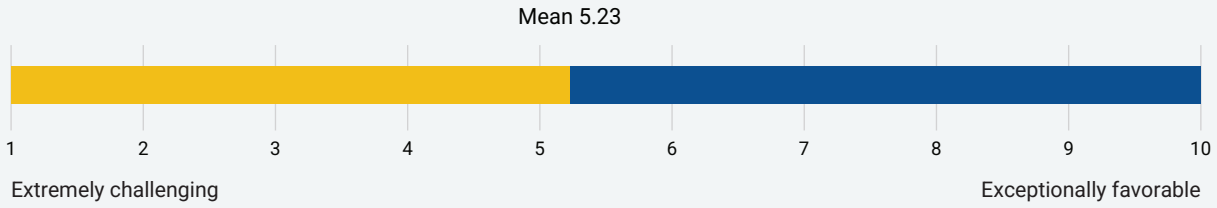
Q7.1 sub-question for Q7. In which positions women are the most represented in your company? (Multiple answers can be selected)



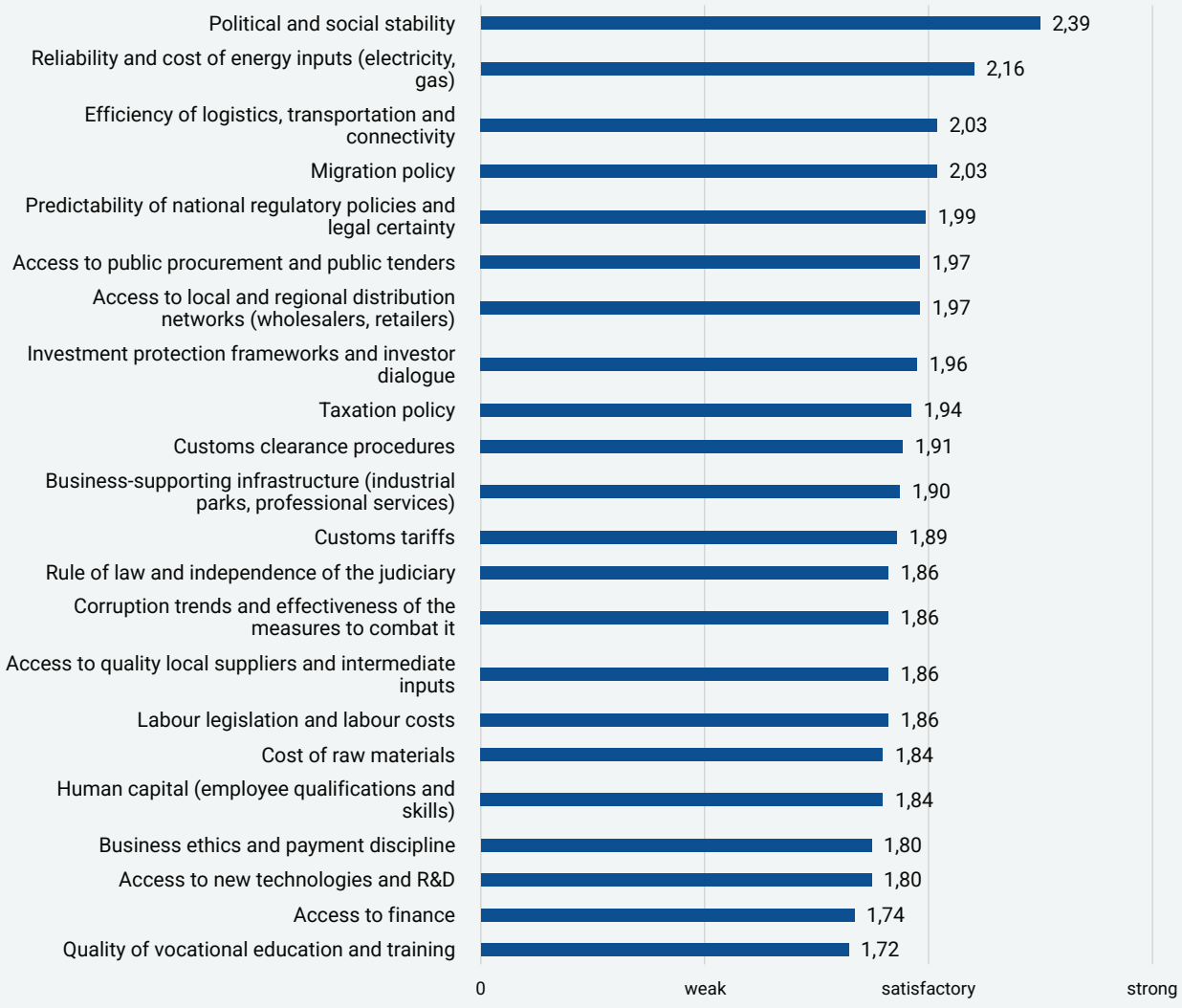
Q8. How do you evaluate the current economic situation in Azerbaijan? (Weak/Satisfactory/Strong)



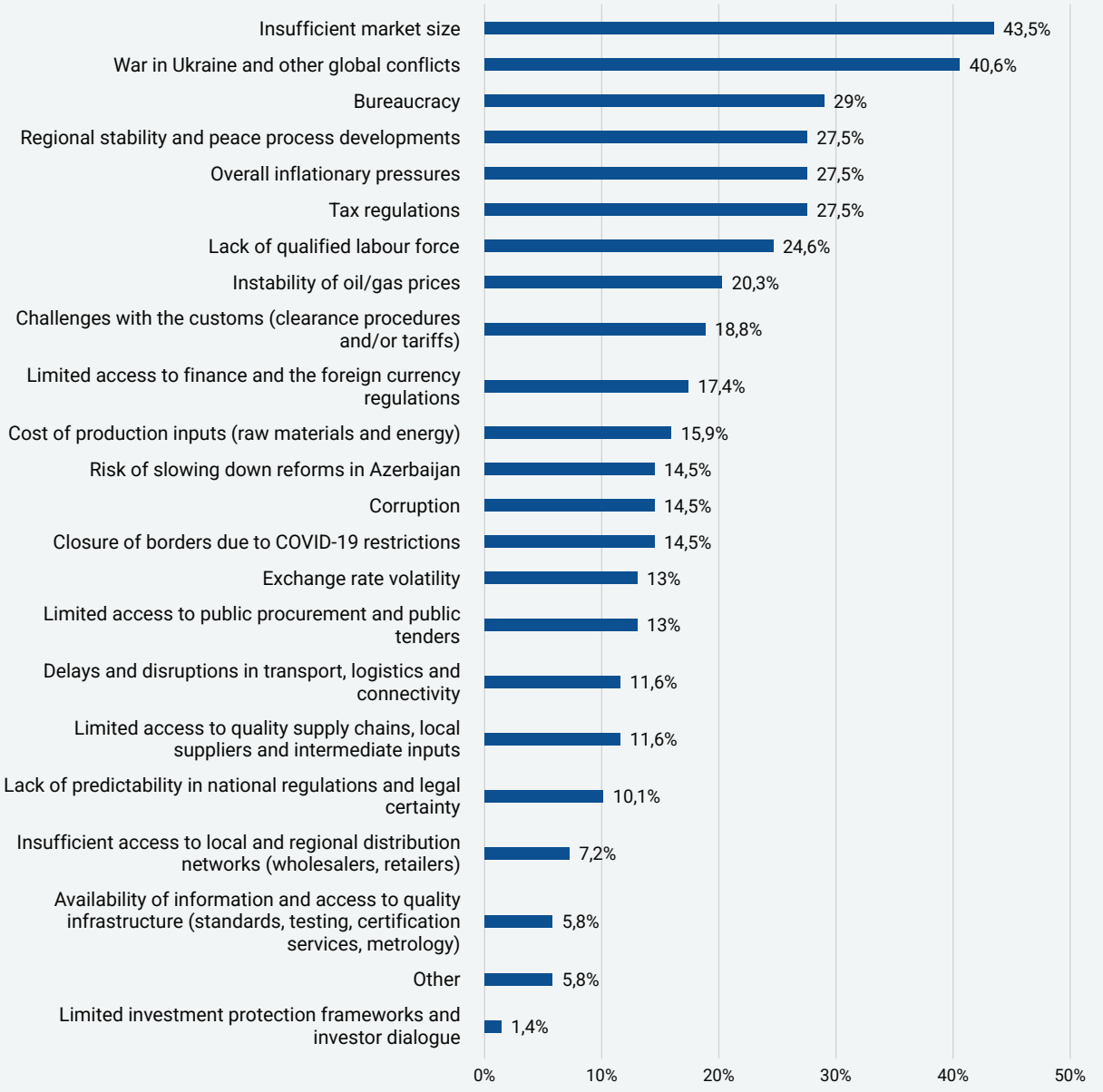
Q9. Based on experience of your company, how would you evaluate business climate in Azerbaijan nowadays? Please, rate from 1 to 10 (Where 1 – extremely challenging, 10 – exceptionally favorable)



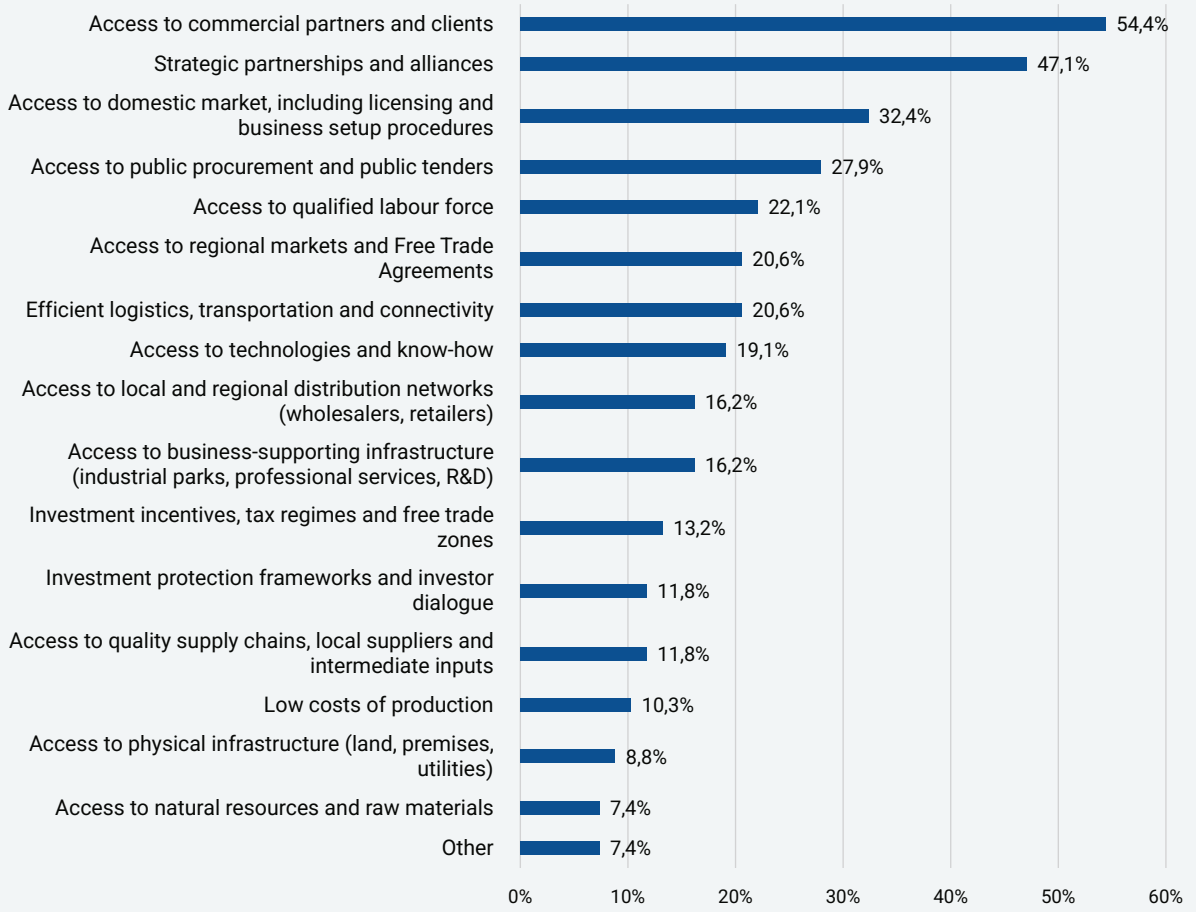
Q10. How do you rate the following local indicators in Azerbaijan in 2025? (Weak/Satisfactory/Strong)



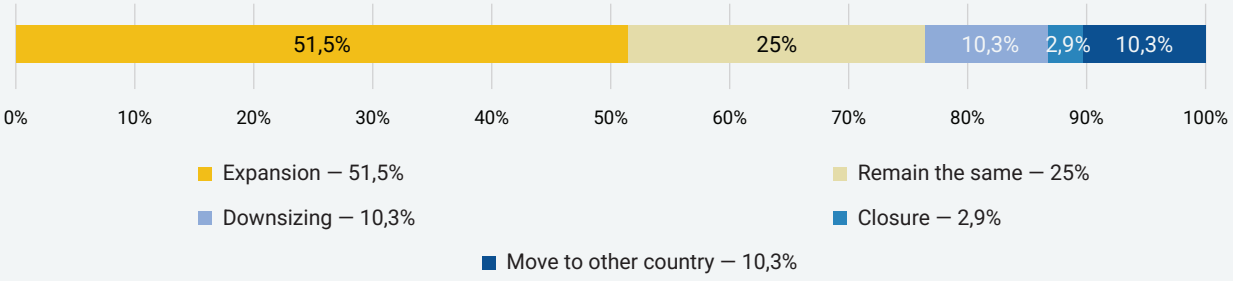
Q11. Please, choose top five factors that affected your company in 2025. (Select 5 that apply)



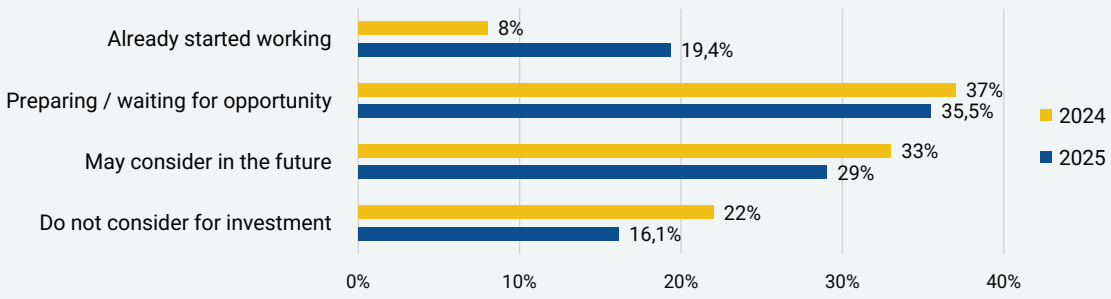
Q12. What are the most important factors attracting your company to invest and/or do business in Azerbaijan? (Select 5 that apply)



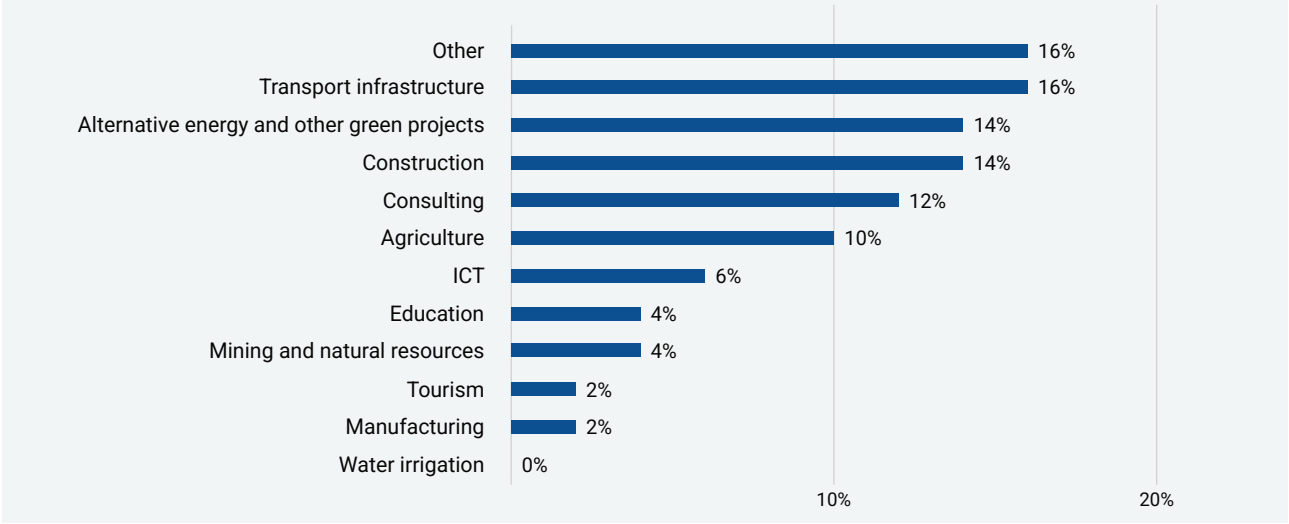
Q13. What is the most likely development for your company in Azerbaijan over the next few years? (One answer)



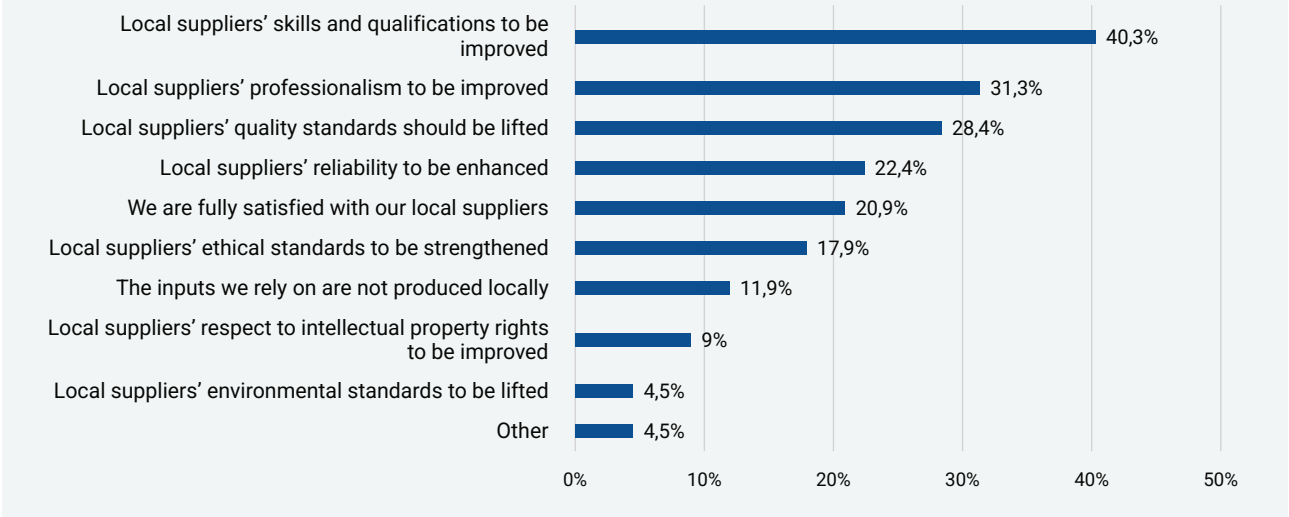
Q14. Does your company consider Karabakh,East Zangezur economic regions and Nakhchivan as potential place for investment in the nearest years? (One answer, pls. indicate where)



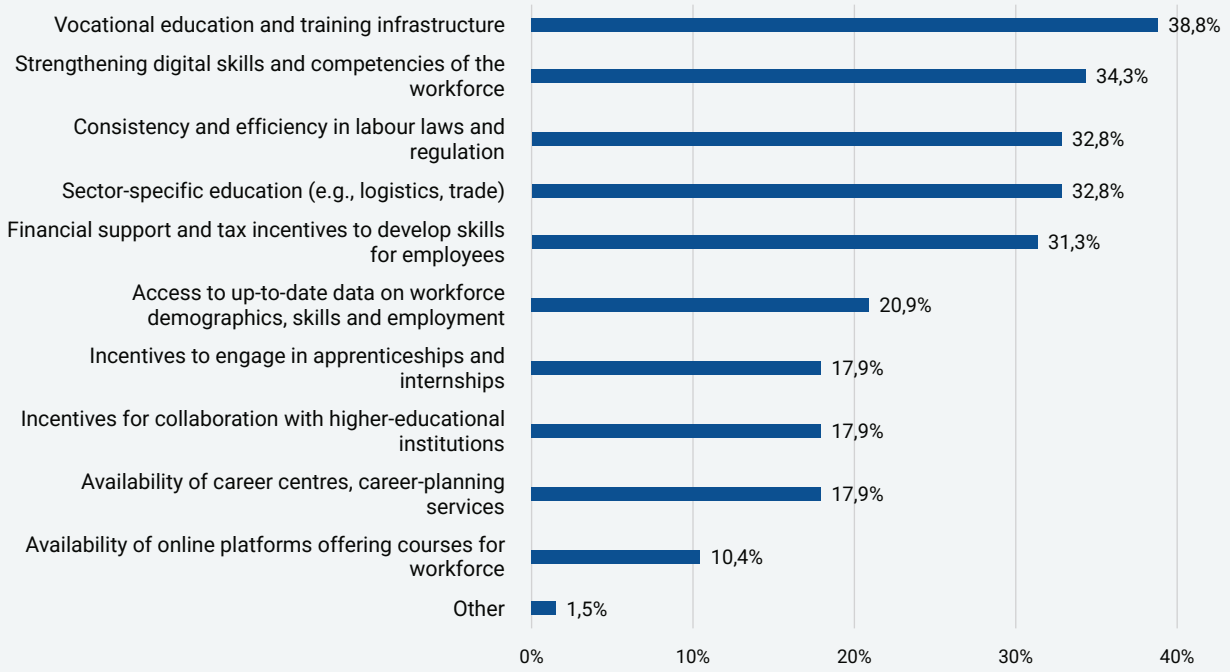
Q14.1 sub-question for those who answered from a) to c)
Which profile of investment you consider for these territories? (One answer)



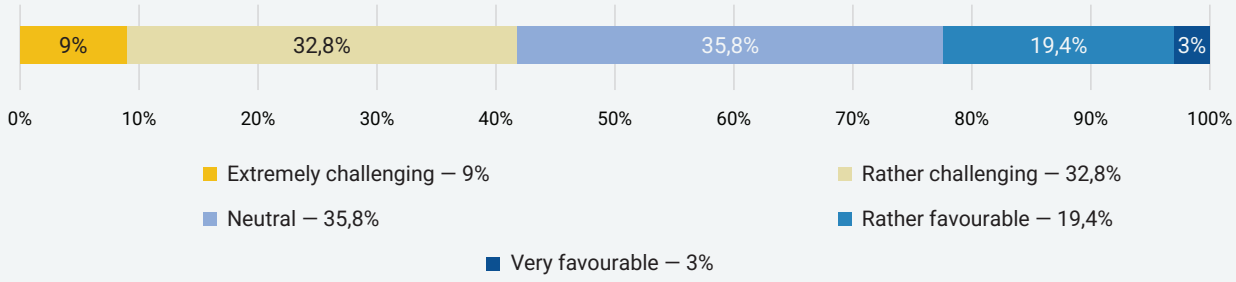
Q15. Please, indicate whether the local suppliers fully meet expectations of your company or choose the factors to be improved? (Select max. 3 that apply)



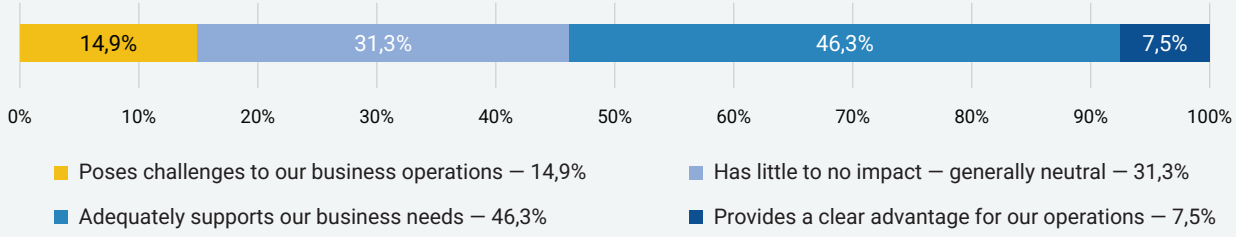
Q16. **What aspects of local labour market need to be prioritised for reforms?**
(Select top 3 that apply)



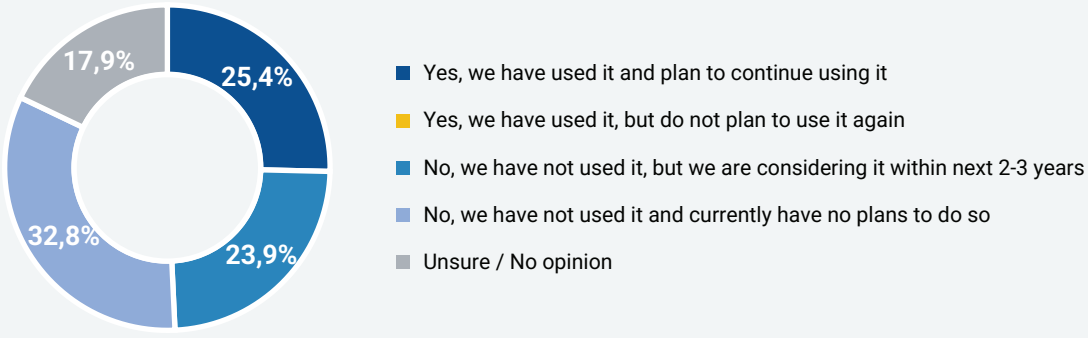
Q17. **How would you rate Azerbaijan's trade facilitation environment (e.g. customs procedures, digital documentation, border efficiency)?**
extremely challenging, rather challenging, neutral, rather favourable, very favourable



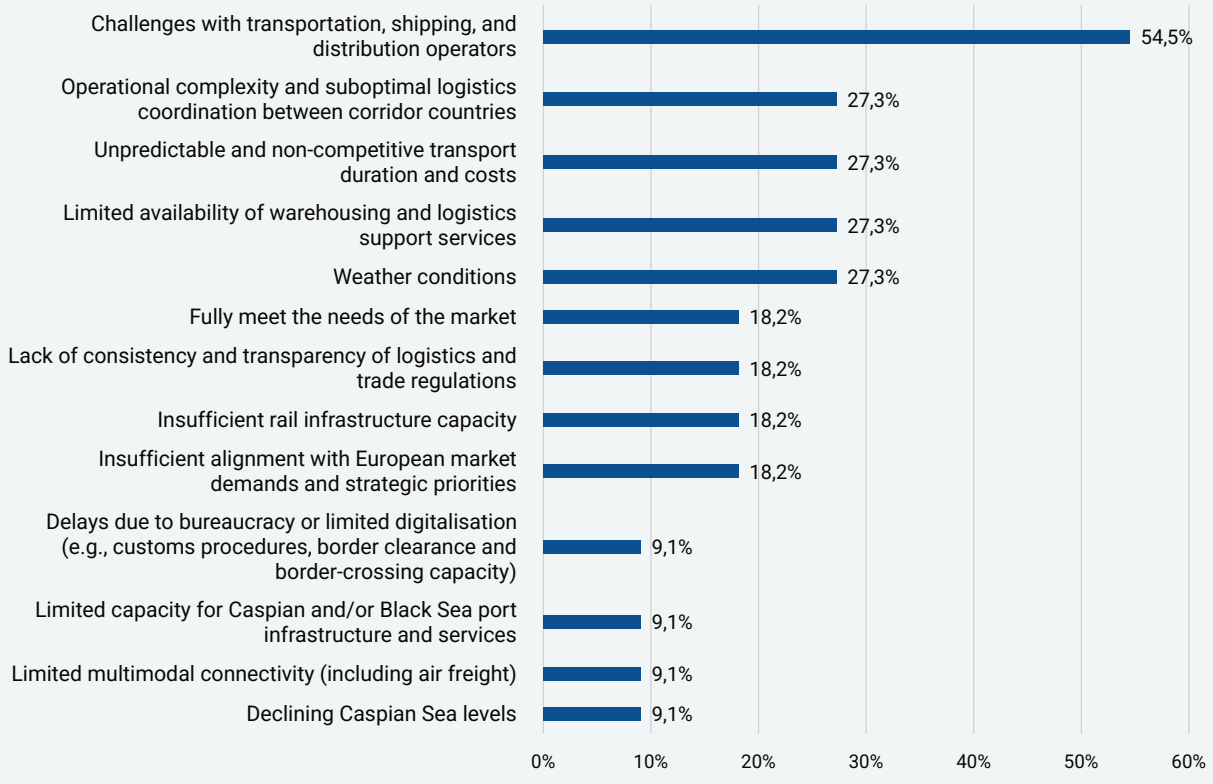
Q18. **How would you evaluate Azerbaijan's transport and logistics infrastructure for business use?**
(One answer)



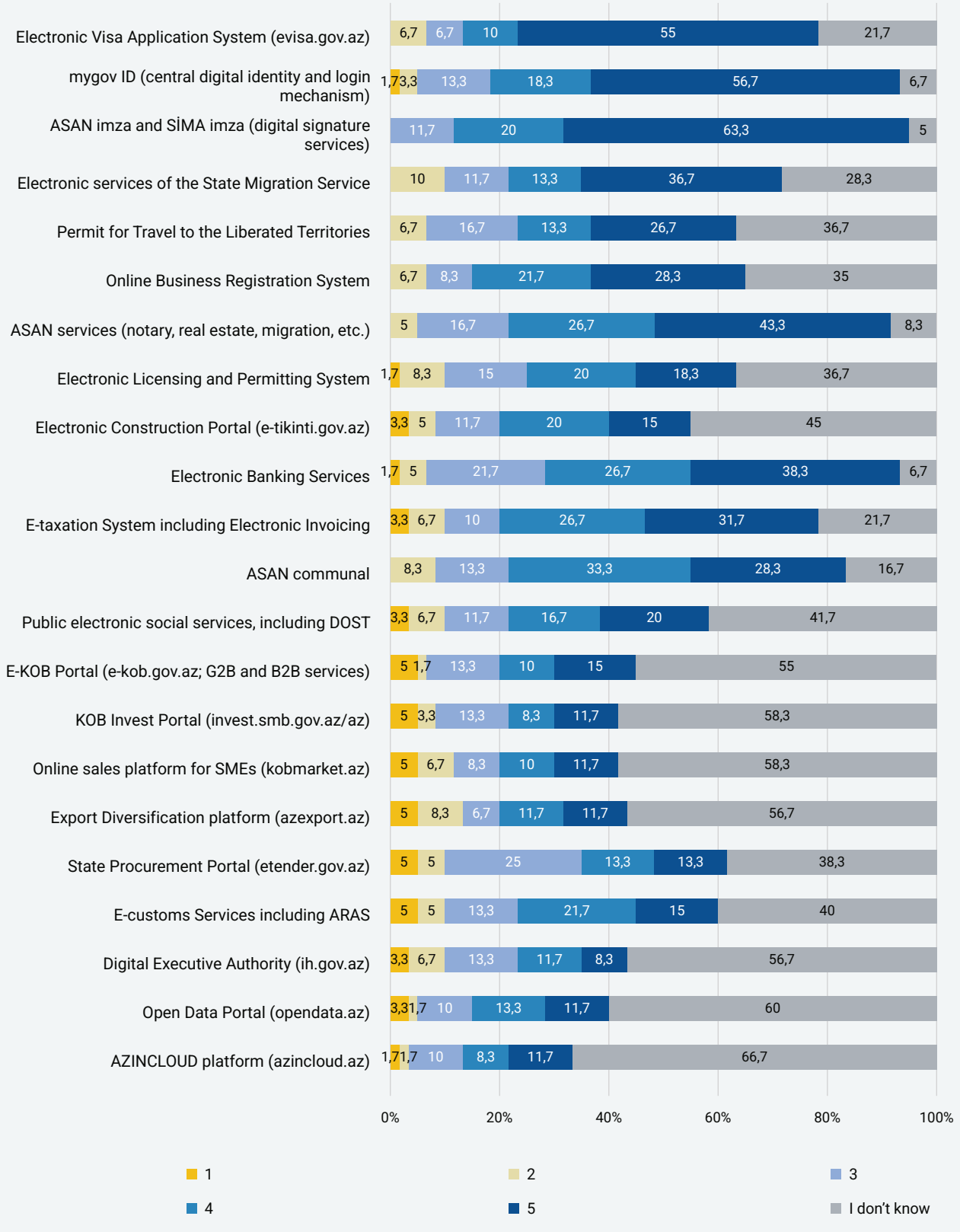
Q19. Have you previously used the Trans-Caspian Transport Corridor (Middle Corridor) through Azerbaijan for trade or logistics, and do you intend to use it within the next few years?
(One answer)
* Trans-Caspian International Transport Route starts from Southeast Asia and China, goes through Kazakhstan, the Caspian Sea, Azerbaijan, Georgia, Türkiye towards European countries



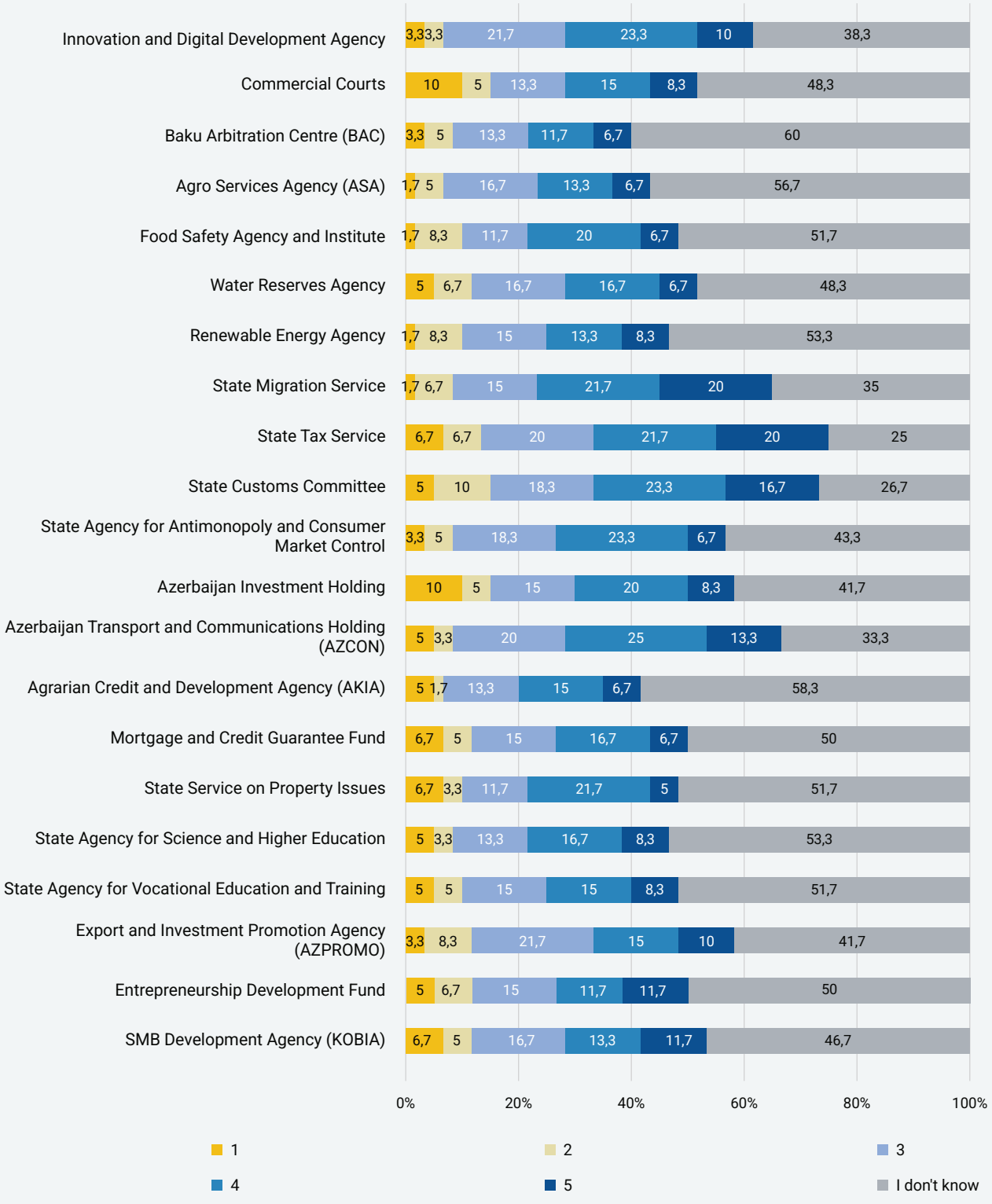
Q.19.1 sub-question for those who answered (a) and (b)
To what extent current capacity and operations quality in Middle Corridor meet the needs of the market?
(Multiple answers are allowed)



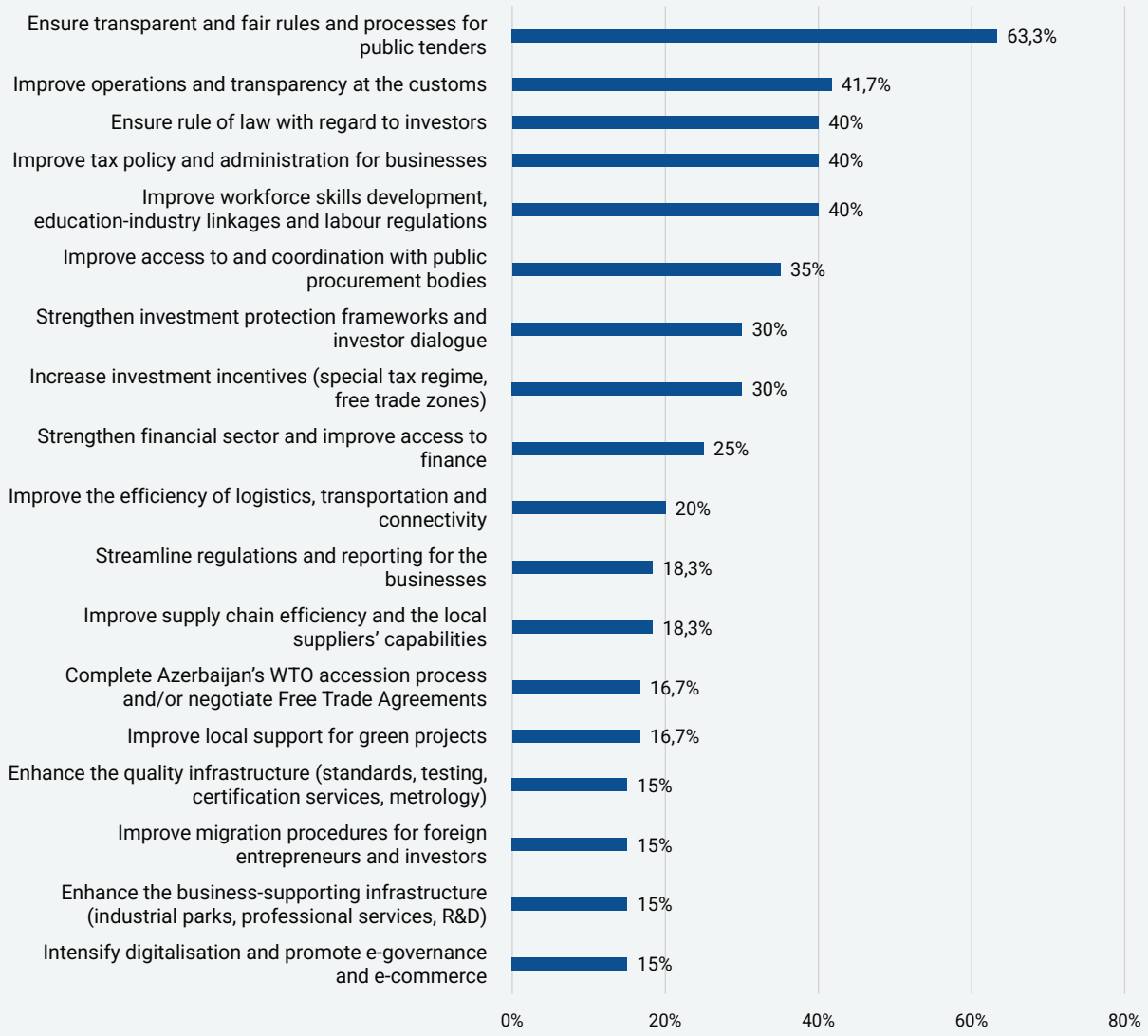
Q21. To what extent do you perceive the effectiveness of the following governmental bodies? Please, rate from 1 to 5 (Where 1 - ineffective, 5 – very effective + I don't know)



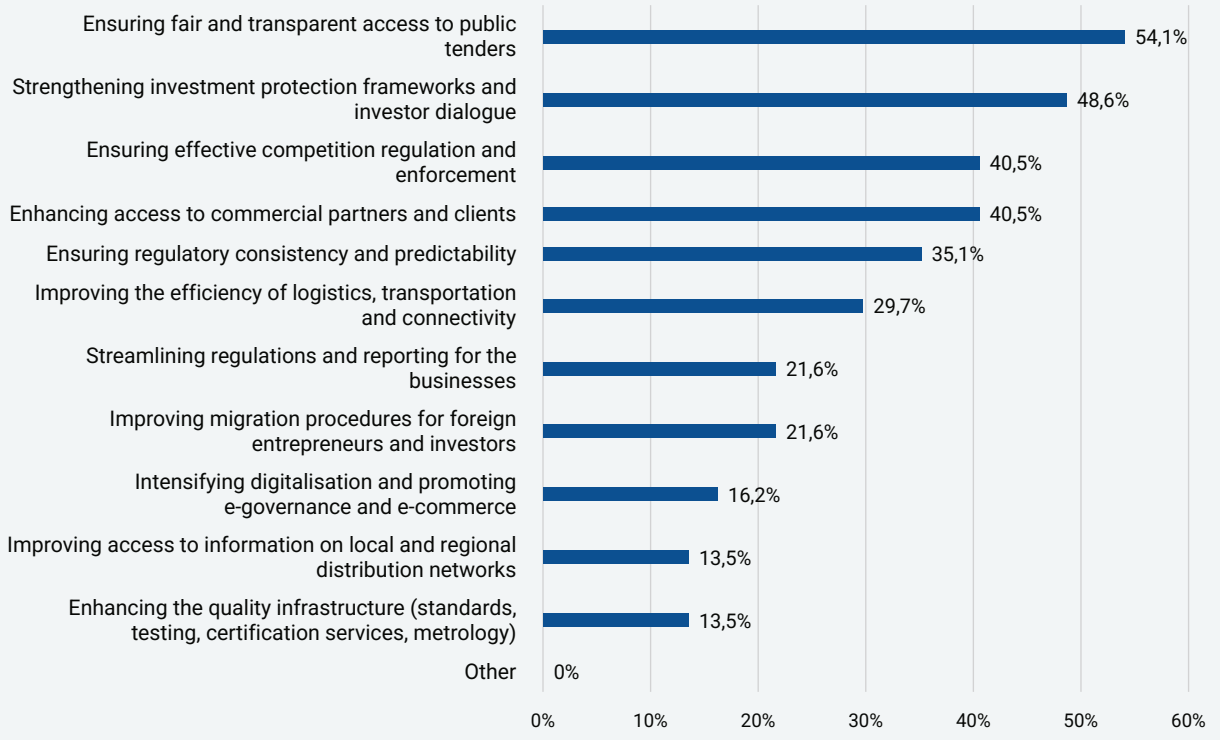
Q21. To what extent do you perceive the effectiveness of the following governmental bodies? Please, rate from 1 to 5 (Where 1 - ineffective, 5 – very effective + I don't know)



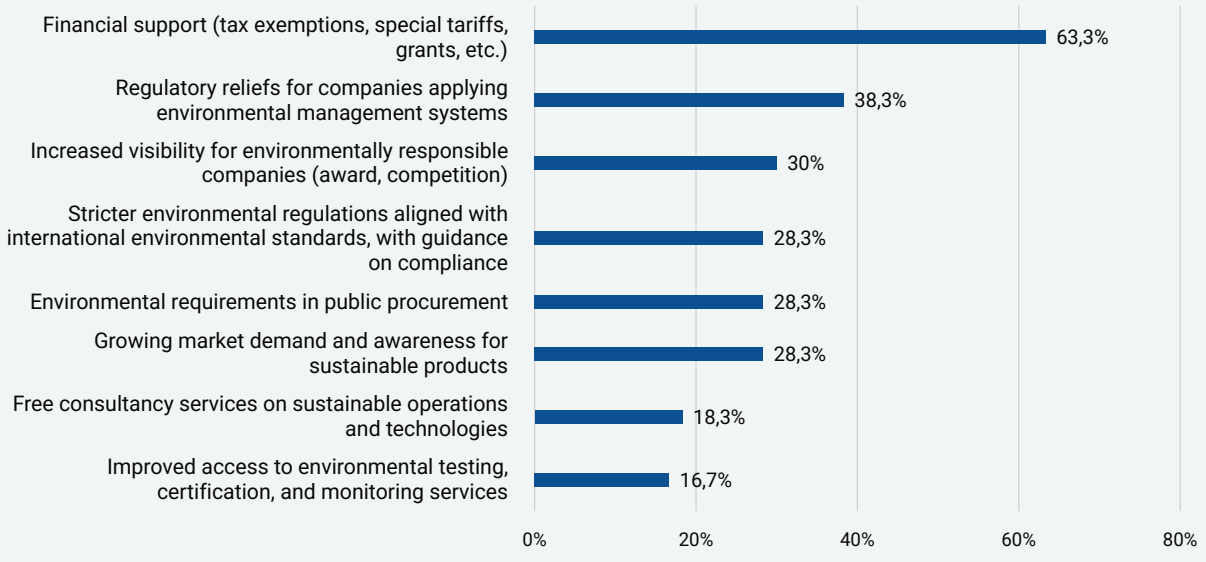
Q22. Which of the following reforms do you consider most important to further improve the business and investment climate in Azerbaijan? (Select max. 5 that apply)



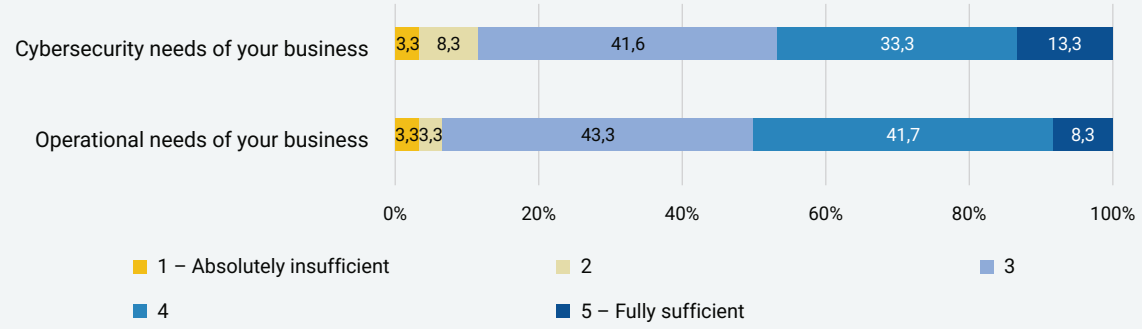
Q22.1 sub-question for the Q22. **From your perspective, what measures could help to ensure a level playing field for European companies, operating in Azerbaijan?** (Select max.3)



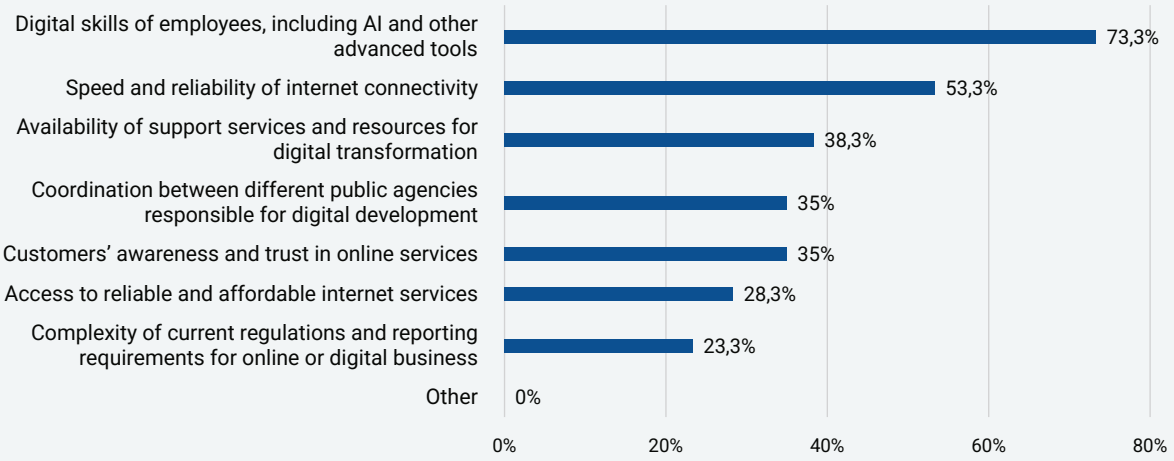
Q23. **What measures would stimulate your company to further use sustainable practices in its operation?** (Select max. 3 that apply)



Q24. Please, evaluate to which extent IT infrastructure in Azerbaijan is sufficient to:
Operational needs of your business (From 1 to 5) Cybersecurity needs of your business (From 1 to 5)
Please, rate from 1 to 5 (Where 1 – absolutely insufficient, 5 – fully sufficient)



Q25. Which areas of your company's digital infrastructure still need improvement to support ongoing digitalization, including the use of modern tools such as AI, cloud services, and high-speed networks like 5G?
(Multiple answers can be selected)



ANNEX 2: ABOUT EU-AZERBAIJAN BUSINESS FORUM 2024-2026

Funded by the European Union



The project is funded by the European Union and aims to promote economic cooperation between the EU and Azerbaijan by strengthening awareness of the business climate in Azerbaijan, highlighting investment opportunities, and enhancing public-private dialogue. The project is implemented by VM EUROPE in collaboration with business chambers and InvestBaku.

PROJECT`S ACTIVITIES

EU BUSINESS CLIMATE REPORTS AZERBAIJAN

Based on independent surveys of EU investors, we prepare comprehensive annual publications dedicated to the experiences of European companies operating in Azerbaijan. Over the last decade, EU Business Climate Reports have become a reliable source of information about the local business climate, investment opportunities, and progress in local reforms.

EU-AZERBAIJAN BUSINESS FORUMS

Annual high-level business events in Baku are designed to strengthen EU-Azerbaijan cooperation. These forums serve as a solid platform for public-private dialogue, enabling European companies to engage with the local government on key topics. The engaging format of the events provides exceptional networking opportunities for both EU and Azerbaijani businesses.

DIGITAL PLATFORM FOR BUSINESS NETWORKING – euazbusinessforum.az

The platform gathers reliable, up-to-date information for existing and potential EU investors, including major regulatory changes, business events, investments, and public procurement opportunities. The digital networking tool allows EU and Azerbaijani companies to search for potential partners, establish direct contacts, and share their knowledge and experiences.

SECTOR-SPECIFIC BUSINESS MISSIONS TO REGIONS

The business missions with a focus on specific sectors aim to explore current developments and investment opportunities for EU businesses in the Azerbaijani regions. During the missions, EU businesses get a chance to network and meet potential partners outside of Baku.

OVERVIEW OF EU – AZERBAIJAN INTERNATIONAL TRADE

A study provides insights into the international trade relations and tendencies between the countries. The overview has a future-oriented perspective and a special focus on the business environment, as well as practical information on import-export activities.

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For more information
scan the QR code or visit
https://euazbusinessforum.az/

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Business Services & Investments

METHODOLOGY

Target group

Target group for this study includes:
- ~300 European companies operating in Azerbaijan: businesses from EU member states, EFTA countries, and the UK,
- ~400 Azerbaijani companies, whose primary business operations are related to the collaboration with EU partners,
- ~40 European companies that are interested in entering the Azerbaijani market but have not yet started local operations.

The database of the companies was collected via cooperation with the EU Delegation, the embassies of the EU member states in Azerbaijan, bilateral chambers, organisations of bilateral economic cooperation, and open sources. The database was verified through direct contact with the companies.

Quantitative research

The quantitative data for the Report was collected through an **anonymous online survey**, which took place between March and June 2026. The **2025/2026 questionnaire** was based on the previous surveys and adjusted to reflect current local and global trends. The questionnaire contained 25 obligatory + 4 conditional/optional questions and was split into six sections: i) Business climate; ii) Investment climate and opportunities; iii) Connectivity, Trade and Infrastructure; iv) Reforms-meter; v) Green practices; vi) digitalisation and IT infrastructure.

The online questionnaire was distributed to companies via official channels and advertised on the official web pages of the implementing organisations and the "EU-Azerbaijan Business Forum". After the quality check of the received forms, **69 responses were approved for inclusion in the sample**, which represents businesses from 29 countries, including 25 EU Member states, 2 EFTA countries, the UK and Azerbaijan. The respondents operate in 19 industries, and 78% represent the SME sector.

The survey was distributed via the open channels which ensured equal chance for companies to participate.
The obtained sample represents companies of various sizes, sectors and countries and operating in Azerbaijan over different periods of time. Based on this, it can be assumed that the sample broadly represents the population of European businesses in Azerbaijan. The expected confidence level is 95% with the margin of error of 8%.

Qualitative research

The qualitative data was collected via in-depth interviews with representatives of European companies and organisations, conducted between March and July. A total of 22 one-on-one interviews were conducted with companies representing retail, wholesale, FMCG, construction and engineering sectors, business services, consulting and legal services, transportation, logistics and freight forwarding, renewables and energy efficiency, telecommunications / ICT & digital infrastructure, finance, education sectors, IFIs, as well as independent experts. The study also included information gathered from bilateral chambers, EU Delegation and the European Commission, EU initiatives and projects, EU banks, as well as international organisations.

Desk research

Sources for the overviews of the main trends in this report include official Azerbaijani sources of information, such as legislation, the State Statistics Committee of the Republic of Azerbaijan, the Centre for Analysis of Economic Reforms and Communication of the Republic of Azerbaijan, the Central Bank of the Republic of Azerbaijan, and official state media, as well as publications from international organisations, such as ADB, EBRD, EIB, ETF, ILO, IMF, ITU, OECD, UN, UNCTAD, UNDP, UNEP, UNFPA, UNWTO, WB, WHO, and others.

ACRONYMS AND ABBREVIATIONS

ABDF	Azerbaijan Business Development Fund
ADB	Asian Development Bank
AFEZ	Alat Free Economic Zone
AI	Artificial Intelligence
AIH	Azerbaijan Investment Holding
AIIB	Asian Infrastructure Investment Bank
AML	Anti-Money Laundering
AZCON	Azerbaijan Transport and Communications Holding
AZIR	Azerbaijan Interbank Rate
AZN	Azerbaijani Manat
AZPROMO	Export and Investment Promotion Agency of the Republic of Azerbaijan
AZQR	Azerbaijan National QR Standard
B-READY	Business Ready
BTK	Baku–Tbilisi–Kars Railway
CAREC	Central Asia Regional Economic Cooperation
CBAR	Central Bank of the Republic of Azerbaijan
CERT	Computer Emergency Response Team
CFT	Countering the Financing of Terrorism
CIS	Commonwealth of Independent States
EBRD	European Bank for Reconstruction and Development
e-CMR	Electronic Consignment Note under the Convention on the Contract for the International Carriage of Goods by Road
EGIS	Electronic Government Information System
ESG	Environmental, Social and Governance
EU	European Union
EUR	Euro
FDI	Foreign Direct Investment
FIRST	Forum of Incident Response and Security Teams
GDP	Gross Domestic Product
HCI+	Human Capital Index Plus
IaaS	Infrastructure as a Service
ICAO	International Civil Aviation Organization
ICT	Information and Communication Technology
ID	Identification / Digital Identity

IDDA	Innovation and Digital Development Agency
IFI	International Financial Institution
ILO	International Labour Organization
IMF	International Monetary Fund
IPS	Instant Payment System
IT	Information Technology
ITF	International Transport Forum
KOBIA	Small and Medium Business Development Agency
KYC	Know Your Customer
MDB	Multilateral Development Bank
MSME	Micro, Small and Medium-sized Enterprise
MTEF	Medium-Term Expenditure Framework
NAR	Nakhchivan Autonomous Republic
NDICI	Neighbourhood, Development and International Cooperation Instrument
PaaS	Platform as a Service
PPP	Public-Private Partnership
QR	Quick Response
REIS	Digital Ecology Information System
SaaS	Software as a Service
SME	Small and Medium-sized Enterprise
SOC	Security Operations Center
SOCAR	State Oil Company of the Azerbaijan Republic
SOE	State-Owned Enterprise
SOFAZ	State Oil Fund of the Republic of Azerbaijan
STEM	Science, Technology, Engineering and Mathematics
TEU	Twenty-foot Equivalent Unit
TRIPP	Trump Route for International Peace and Prosperity
UN	United Nations
UN/CEFACT	United Nations Centre for Trade Facilitation and Electronic Business
U.S.	United States
USD	United States Dollar
VAT	Value Added Tax
VET	Vocational Education and Training
WB	World Bank
WEF	World Economic Forum
WTO	World Trade Organization

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PUBLICATION

The EU Business Climate Report Azerbaijan 2025/2026 is prepared within the “EU-Azerbaijan Business Forum” 2024-2026 funded by the European Union

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ACKNOWLEDGEMENTS:

Embassies of the EU member states in Azerbaijan

European Bank for Reconstruction and Development

European Training Foundation

Organisation for Economic Co-operation and Development (OECD)

The Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH

European bilateral chambers of commerce and business associations in Azerbaijan



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