

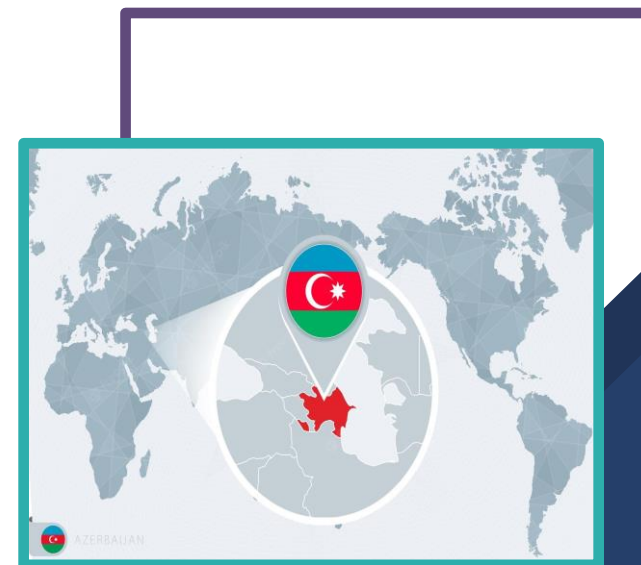
Global fragmentation:

opportunities and vulnerabilities for Azerbaijan economy

Aygun Garayeva
Central Bank of the Republic of Azerbaijan*

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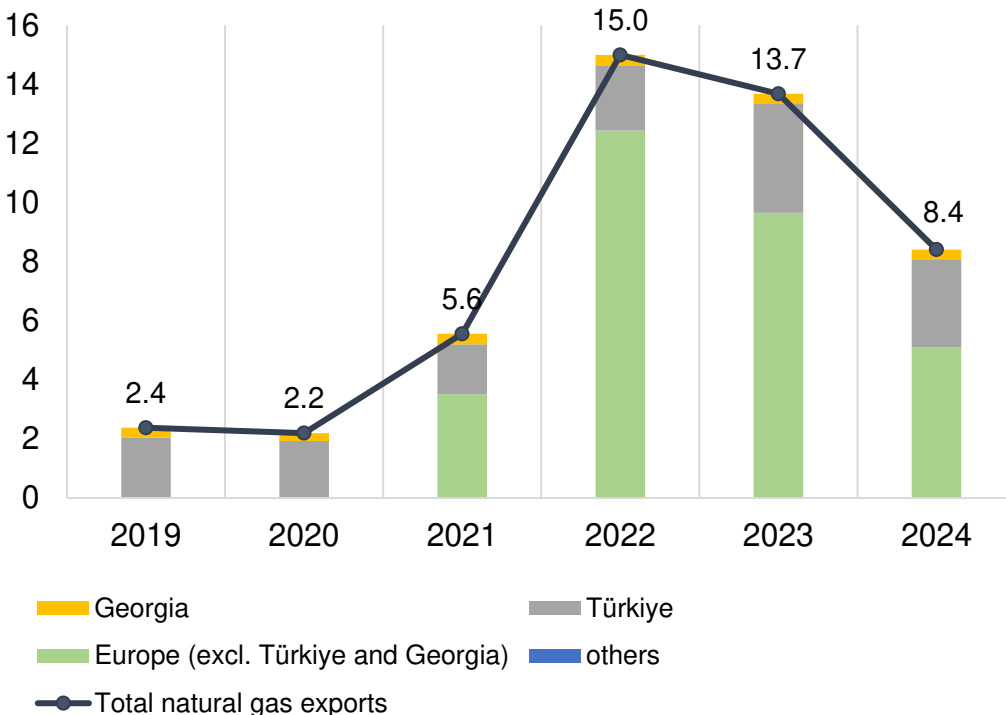


*The views in this presentation are those of the author and do not necessarily represent the views of the Central Bank of Azerbaijan.

- Integration opportunities for Azerbaijan in the face of global trade fragmentation
- Vulnerabilities stemming from indirect effects of global fragmentation
- Key takeaways and policy considerations

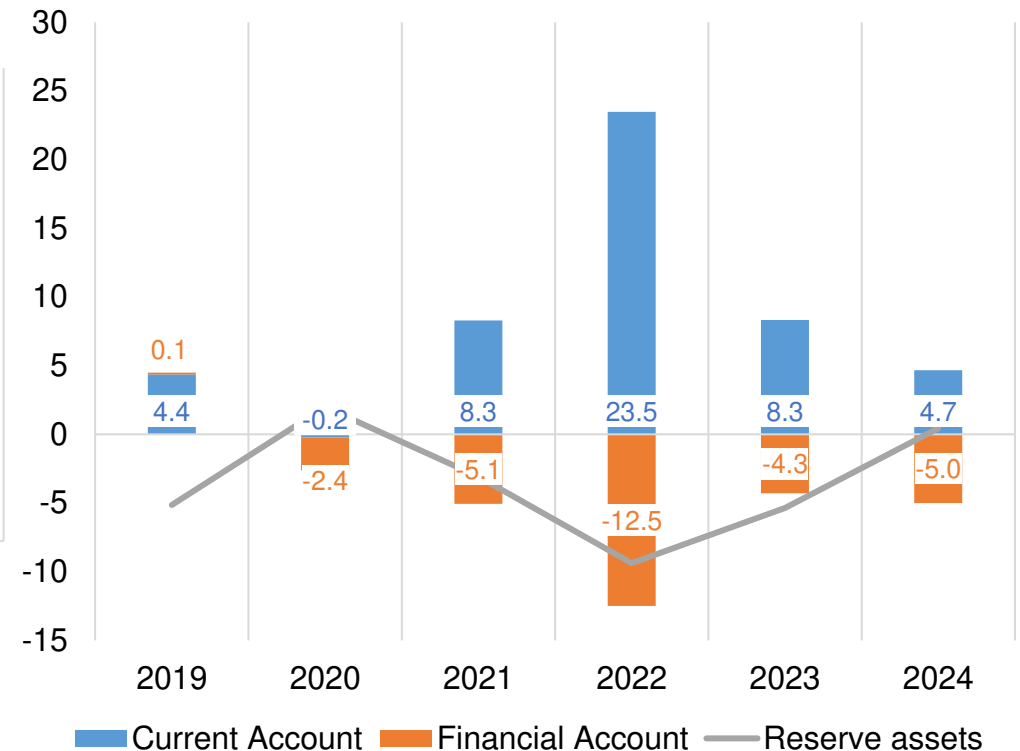
Opportunities: Energy Exports and Market Diversification

Natural gas exports of Azerbaijan, millions \$



Source: Trademap

Balance of payments of Azerbaijan, billions \$

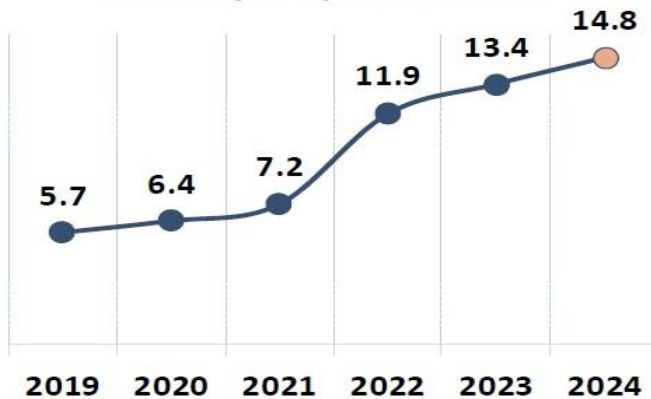


Source: Central Bank of the Republic of Azerbaijan (CBAR)

- Azerbaijan has expanded its exports of natural gas, especially to European markets.
- Elevated oil and gas prices in international markets caused high surpluses in both current and financial accounts of BoP, and resulted in an increase in reserve assets.
- External sector position has been strong and favorable for last years, supporting the macroeconomic stability.

Opportunities: Azerbaijan as a Strategic Transit Hub

Transit volume dynamics
recent years, million tons

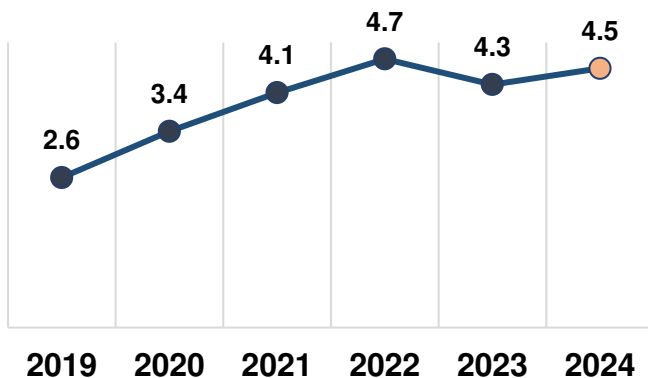


Year to year
vs.
2019
x2.6
growth

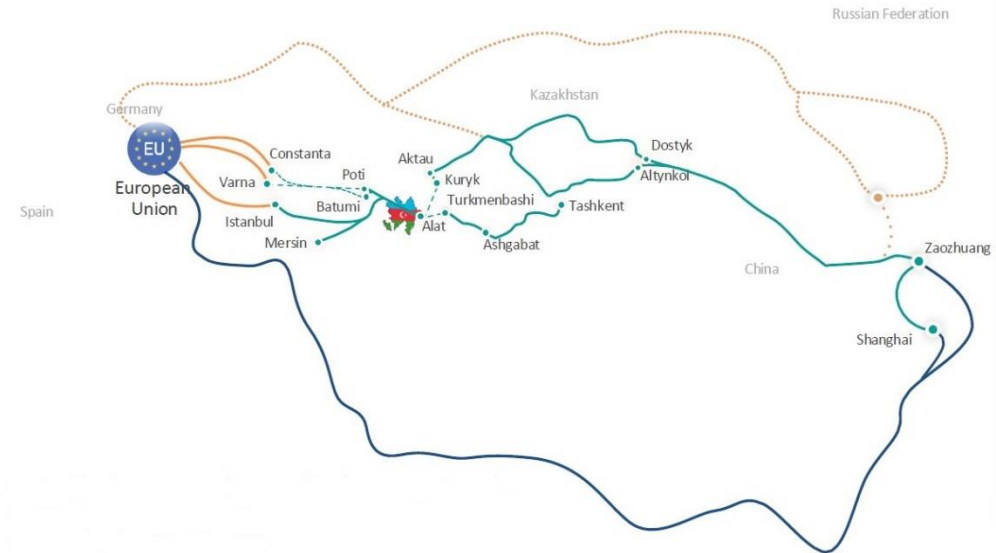
TransCaspian

4.5 Mt

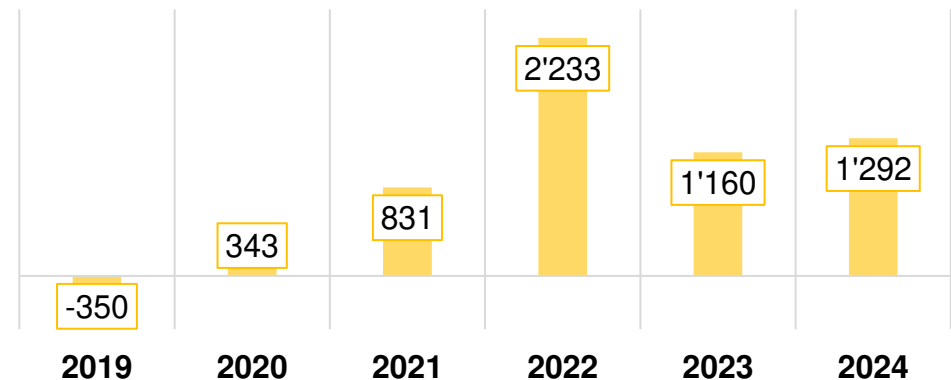
Transit volume via Middle Corridor,
million tons



Year to year
vs.
2019
73%
growth



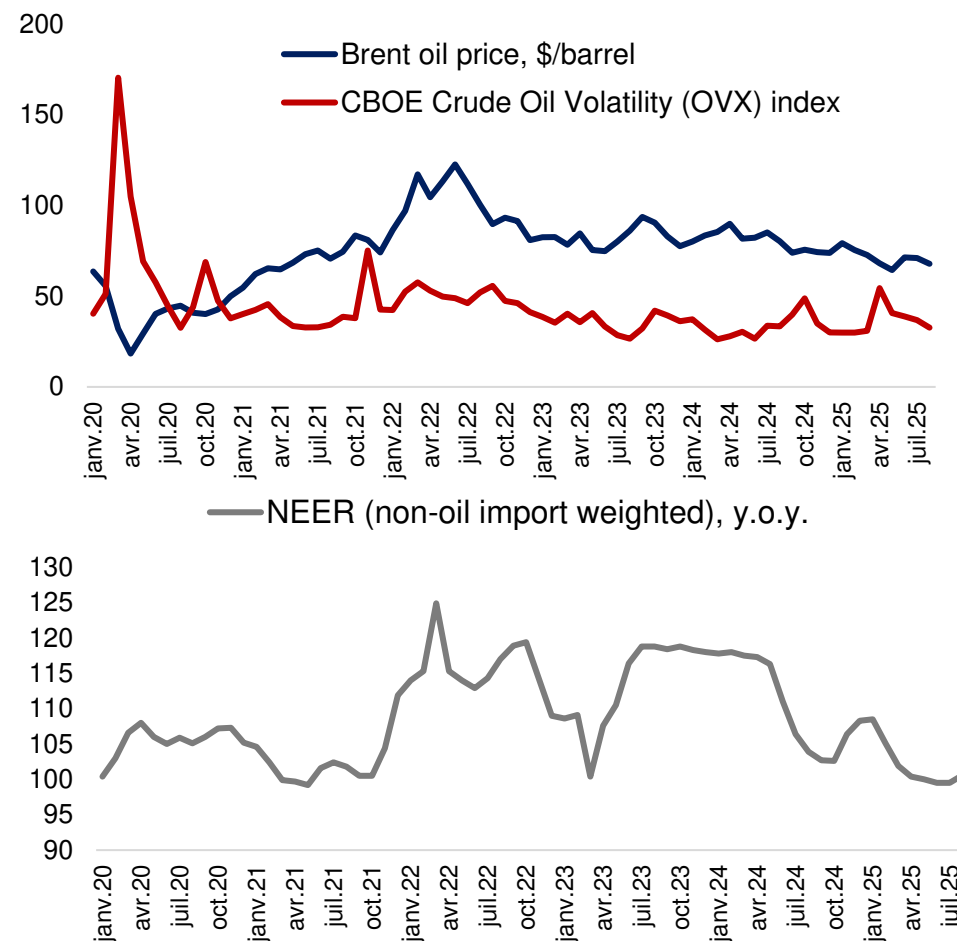
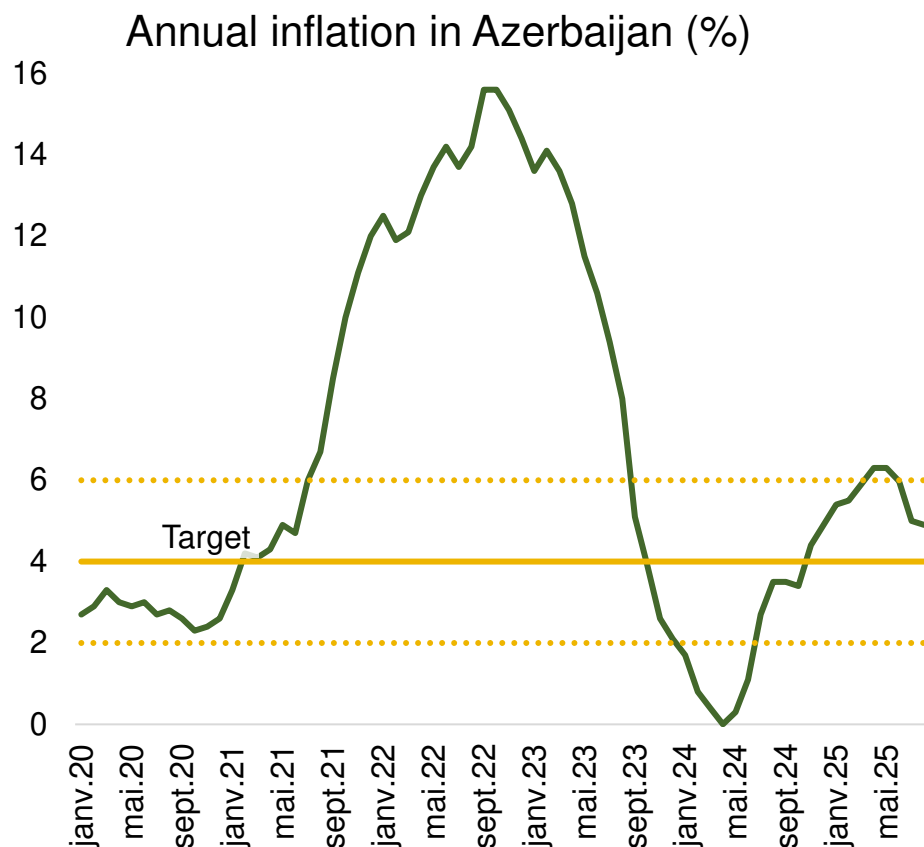
Net export of transport services in BoP, mln. USD



Source: The Ministry of Digital Development and Transport of the Republic of Azerbaijan, CBAR

- Azerbaijan is strategically located in the Middle Corridor, which gained importance lately as an alternative reliable route connecting Asia and Europe.

Vulnerabilities: Macroeconomic Risks from Fragmentation



Source: State Statistical Committee of Azerbaijan, CBAR, US Energy Information Administration, investing.com

- Elevated commodity prices in global markets following the start of the Russia-Ukraine war caused a surge in imported inflation.
- Much of the inflationary pressures were mitigated by appreciation of NEER.
- External sector position could be affected by the changes in the volatility of commodity prices.

Key takeaways and policy considerations

- For Azerbaijan, global trade and financial fragmentation has been both a source of opportunity and vulnerability.
- The medium-term outlook is stable and positive with positive growth rate projections around long-term equilibrium and favorable external sector position.
- The opportunity lies in deepening our role as a strategic transit and energy partner.
- The risk over the medium-term include energy price volatility, supply-driven external inflationary pressures, and capital flow uncertainties.
- Diversification, prudent macroeconomic management, and closer integration with a wider set of partners will be key in converting short-term shifts into long-term resilience.

Thank you for your attention