

THE IMPACT OF GLOBAL ECONOMIC UNCERTAINTY ON OIL PRICES, INVESTMENT FLOWS, AND THE ECONOMY OF AZERBAIJAN

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Abstract

This article provides a comprehensive analysis of the impact of global economic uncertainty on oil prices, investment flows, and the economy of Azerbaijan. The main objective of the study is to identify the transmission mechanisms through which global risks affect Azerbaijan's economy. Both theoretical and empirical approaches are applied, examining the interrelationship between the oil market, investment dynamics, and the development of the non-oil sector. The findings indicate that global economic uncertainty primarily influences Azerbaijan's economy through oil prices and their volatility. Fluctuations in oil prices weaken the investment environment, particularly leading to a decline in capital investments in the energy sector. This process, in turn, has an indirect negative effect on the growth rate of the non-oil sector. The analysis shows that the potential growth rate of non-oil GDP is approximately within the range of 4–5%, and the sustainability of this growth largely depends on investment flows. At the same time, it is determined that economic growth does not always generate direct inflationary pressure; the level of capacity utilization plays a crucial role in this context. The results of the study demonstrate that exchange rate stability and coordination of fiscal policy play a significant role in mitigating the negative effects of global risks. In particular, the expansion of the non-oil sector and improvement of the investment climate are key conditions for ensuring economic resilience. The scientific novelty of the article lies in presenting the relationship between global uncertainty, oil prices, investment flows, and non-oil growth within a unified analytical framework. The practical significance of the research is that the findings can be useful for improving economic diversification, fiscal sustainability, and investment policy.

Keywords: *global economic uncertainty, oil prices, investment flows, Azerbaijan economy, non-oil sector.*

QLOBAL İQTİSADI QEYRİ-MÜƏYYƏNLIYIN NEFT QIYMƏTLƏRİNƏ, İNVESTİSİYA AXINLARINA VƏ AZƏRBAYCAN İQTİSADIYYATINA TƏSİRİ

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Xülasə

Bu məqalə global iqtisadi qeyri-müəyyənliyin neft qiymətlərinə, investisiya axınlarına və Azərbaycan iqtisadiyyatına təsirinin kompleks təhlilini təqdim edir. Tədqiqatın əsas məqsədi global risklərin Azərbaycan iqtisadiyyatına hansı ötürmə mexanizmləri vasitəsilə təsir etdiyini müəyyənləşdirməkdir. Məqalədə həm nəzəri, həm də empirik yanaşmalardan istifadə olunaraq neft bazarı, investisiya dinamikası və qeyri-neft sektorunun inkişafı arasındakı qarşılıqlı əlaqə araşdırılır. Nəticələr göstərir ki, global iqtisadi qeyri-müəyyənlik Azərbaycan iqtisadiyyatına əsasən neft qiymətləri və onların dəyişkənliyi vasitəsilə təsir edir. Neft qiymətlərindəki dalğalanmalar investisiya mühitini zəiflədir, xüsusilə enerji sektorunda kapital qoyuluşlarının azalmasına səbəb olur. Bu proses isə öz növbəsində qeyri-neft sektorunun artım tempinə dolayı mənfi təsir göstərir. Təhlil göstərir ki, qeyri-neft ÜDM-in potensial artım tempi təxminən 4–5% intervalında dəyişir və bu artımın davamlılığı böyük ölçüdə investisiya axınlarından asılıdır. Eyni zamanda müəyyən edilir ki, iqtisadi artım hər zaman birbaşa inflyasiya təzyiqi yaratmır; bu baxımdan istehsal güclərindən istifadə səviyyəsi mühüm rol oynayır. Tədqiqatın nəticələri göstərir ki, məzənnə sabitliyi və fiskal siyasətin koordinasiyası global risklərin mənfi təsirlərinin azaldılmasında mühüm əhəmiyyət kəsb edir. Xüsusilə, qeyri-neft sektorunun genişləndirilməsi və investisiya mühitinin yaxşılaşdırılması iqtisadi dayanıqlığın təmin edilməsi üçün əsas şərtlərdir. Məqalənin elmi yeniliyi global qeyri-müəyyənlik, neft qiymətləri, investisiya axınları və qeyri-neft sektorunun artımı arasındakı əlaqələrin vahid analitik çərçivədə təqdim olunmasından ibarətdir. Tədqiqatın praktiki əhəmiyyəti isə nəticələrin iqtisadi diversifikasiya, fiskal dayanıqlıq və investisiya siyasətinin təkmilləşdirilməsində faydalı ola bilməsidir.

Açar sözlər: *global iqtisadi qeyri-müəyyənlik, neft qiymətləri, investisiya axınları, Azərbaycan iqtisadiyyatı, qeyri-neft sektoru.*

ВЛИЯНИЕ ГЛОБАЛЬНОЙ ЭКОНОМИЧЕСКОЙ НЕОПРЕДЕЛЁННОСТИ НА ЦЕНЫ НА НЕФТЬ, ИНВЕСТИЦИОННЫЕ ПОТОКИ И ЭКОНОМИКУ АЗЕРБАЙДЖАНА

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Резюме

В данной статье представлен комплексный анализ влияния глобальной экономической неопределённости на цены на нефть, инвестиционные потоки и экономику Азербайджана. Основной целью исследования является выявление механизмов передачи, через которые глобальные риски воздействуют на экономику Азербайджана. В работе применяются как теоретические, так и эмпирические подходы, исследуется взаимосвязь между нефтяным рынком, динамикой инвестиций и развитием ненефтяного сектора. Результаты показывают, что глобальная экономическая неопределённость оказывает влияние на экономику Азербайджана прежде всего через цены на нефть и их волатильность. Колебания цен на нефть ослабляют инвестиционную среду, в частности приводят к снижению капитальных вложений в энергетический сектор. Этот процесс, в свою очередь, оказывает косвенное негативное влияние на темпы роста ненефтяного сектора. Анализ показывает, что потенциальный темп роста ненефтяного ВВП составляет примерно 4–5%, и устойчивость этого роста в значительной степени зависит от инвестиционных потоков. В то же время установлено, что экономический рост не всегда напрямую вызывает инфляционное давление; важную роль в этом контексте играет уровень загрузки производственных мощностей. Результаты исследования демонстрируют, что стабильность обменного курса и координация фискальной политики играют значительную роль в смягчении негативных последствий глобальных рисков. В частности, расширение ненефтяного сектора и улучшение инвестиционного климата являются ключевыми условиями обеспечения экономической устойчивости. Научная новизна статьи заключается в представлении взаимосвязи между глобальной неопределённостью, ценами на нефть, инвестиционными потоками и ростом ненефтяного сектора в рамках единой аналитической модели. Практическая значимость исследования состоит в том, что полученные результаты могут быть полезны для совершенствования экономической диверсификации, фискальной устойчивости и инвестиционной политики.

Ключевые слова: *глобальная экономическая неопределённость, цены на нефть, инвестиционные потоки, экономика Азербайджана, ненефтяной сектор.*

INTRODUCTION

In recent years, the increasing uncertainty in the global economic environment has led to structural changes in the world economic system. Geopolitical tensions, international trade conflicts, tightening monetary policy and fluctuations in the energy market act as the main sources of this uncertainty. In particular, changes in the energy resources market have a serious impact on global economic stability. As a result of these processes, the expectations of market participants become unstable and economic decision-making is carried out in a riskier environment. In such conditions, global risk appetite decreases and investment decisions are postponed. This leads to a strengthening of the general slowdown trends in the world economy.

Global economic uncertainty poses a greater risk, especially for economies based on natural resources. Oil-exporting countries are considered more vulnerable in this regard, since their income and economic stability directly depend on energy prices. Changes in oil prices directly affect the fiscal policy, balance of payments and macroeconomic stability of these countries. This effect is more clearly observed in economies such as Azerbaijan. The decrease in global risk appetite reduces the demand for oil, and as a result, price fluctuations occur. This has a chain effect on economic processes within the country.

Along with oil prices, the impact of global uncertainty on investment flows is also of particular importance. In conditions of uncertainty, investors move away from risky assets and turn to more stable markets. This leads to a decrease in capital flows in developing countries. Investment flows in the Azerbaijani economy are particularly closely linked to the energy sector. Changes in oil prices directly affect the formation of investment decisions. In this regard, the analysis of investment dynamics is important for understanding economic development.

The relevance of the topic is that in modern times, volatility and economic uncertainty in the oil market are one of the main factors shaping the economic development model of Azerbaijan. In particular, the sharp decline in oil prices in 2014–2015 and the resulting devaluation revealed the structural weaknesses of the economy. At the same time, the decline in global economic activity during the COVID-19 pandemic had a serious impact on the energy market. These events have shown how vulnerable the Azerbaijani economic system is to global shocks. In this regard, a systematic analysis of existing risks is of great scientific and practical importance.

On the other hand, the economic reforms and diversification policies implemented in recent years are aimed at increasing the role of the non-oil sector. The growth of non-oil GDP acts as one of the main indicators of economic stability. However, the development of this sector also indirectly depends on oil revenues and investment flows. This shows that global economic uncertainty affects not only the energy sector, but also the economic system as a whole. The study of these relationships is important in terms of the correct formulation of economic policy.

The purpose of the study is to comprehensively analyze the impact of global economic uncertainty on the Azerbaijani economy through oil prices and investment flows. To achieve this goal, both theoretical and empirical approaches were used. In particular, the relationship between investment dynamics and macroeconomic factors was investigated based on the ARDL model. At the same time, the potential growth opportunities of the non-oil sector were assessed using various methods. As a result of the analyses conducted, the main transmission mechanisms existing in the economic system were identified.

1. Global economic uncertainty and the oil market: a theoretical approach

Global economic uncertainty has become one of the main topics of macroeconomic analysis in recent years. This concept is associated with volatility in economic policy, geopolitical risks and instability of market expectations. In particular, the Economic Policy Uncertainty (EPU) index is widely used to measure this uncertainty and acts as an important indicator in the economic decision-making process. Increased uncertainty strengthens the risk-averse behavior of investors, which leads to a

decrease in investment flows. This situation can result in a weakening of production and employment in the real sector. These effects are felt more sharply in energy markets, since energy prices are highly sensitive to global demand and supply shocks. In this regard, the oil market is considered one of the most important transmission mechanisms of global uncertainty. Oil prices act as one of the main indicators of global economic activity and reflect the change in economic cycles. An increase in prices is usually associated with the acceleration of economic growth, as it indicates an increase in energy demand. However, price volatility creates a serious risk factor for investors. In conditions of high volatility, it becomes difficult to predict future returns, which leads to the postponement of investment decisions. This effect is especially strong in the energy sector, since projects are long-term and capital-intensive. Empirical studies show that volatility has a stronger impact on investment decisions than the direct price level (Yadigarov et al., 2025). Therefore, uncertainty and price volatility should be considered together.

There is a mutual and complex relationship between oil prices and economic uncertainty. Increased global uncertainty can lead to a decrease in energy demand, which can lower oil prices. At the same time, sharp price changes increase economic risks and destabilize the behavior of market participants. As a result of this interaction, instability arises in the economic system and long-term planning becomes difficult. This situation is especially pronounced in developing and resource-based economies. Azerbaijan is considered a typical example in this regard, since its economy has long been dependent on oil revenues. Therefore, global uncertainty directly affects the macroeconomic indicators of this country.

Table 1. Mechanisms of impact of global economic uncertainty on the oil market

Factor	Direction of Impact	Result
Geopolitical risks	Negative	Demand decreases, prices fall
Monetar siyasət sərtləşməsi	Negative	Capital inflows decrease
EPU artımı	Negative	Investment is delayed
Oil price volatility	Negative	Risk increases
Energy transition (green transition)	Mixed	Long-term price uncertainty
Decisions of OPEC+	Positive/Negative	Affects the offer

Source: Yadigarov et al. (2025); Ismayilov (2025), compiled by the author.

Table 1 systematically presents the main mechanisms of global economic uncertainty affecting the oil market. As can be seen, these effects are multifaceted and interconnected. Geopolitical risks can cause sharp changes in prices by creating uncertainty about energy supplies. Tightening monetary policy, on the other hand, reduces liquidity in financial markets and accelerates capital outflows from developing countries. This indirectly reduces demand for oil.

An increase in the EPU index leads to a delay in investment decisions, as investors are reluctant to make long-term commitments in an uncertain environment. This is especially pronounced in the energy sector, since investments in this area are high-risk and require large capital. Oil price volatility, on the other hand, increases investors' risk perception, leading to the postponement or cancellation of projects. This creates an investment shortage in the market and weakens economic activity.

On the other hand, the energy transition (green energy policies) can reduce demand for oil in the long term. This leads to structural changes in the market and makes price forecasts uncertain. OPEC+ decisions, on the other hand, directly affect prices by regulating the supply side of the market. Although these decisions sometimes play a stabilizing role, they can sometimes create additional uncertainty in the market. Overall, the table shows that the oil market is a complex system that is directly and indirectly affected by global economic uncertainty.

Uncertainty in the energy market is formed under the influence of both global and regional factors. OPEC+ countries' production quotas, international sanctions, and regional conflicts play an important

role in this process. These factors affect the formation of prices by causing changes in the supply in the market. At the same time, energy transition policies reduce long-term demand for oil, creating structural changes in the market. This leads to more complex and risky investment decisions. In such circumstances, the energy policy of states is of great importance. These processes are also strategically important for Azerbaijan.

In conditions of global uncertainty, the role of fiscal and monetary policy in ensuring stability in the oil market increases. The dependence of state budget revenues on oil further increases risks in this area. Therefore, a conservative approach is applied in budget policy (Ismayilov, 2025). Reserve funds play an important role in ensuring the stability of the economy in the event of a decline in oil prices. This helps to maintain macroeconomic stability. At the same time, the development of the non-oil sector is one of the main directions for reducing risks.

The impact of global uncertainty is not limited to the energy sector, but also spreads to other economic sectors. In particular, the decrease in investment flows weakens the pace of development of the non-oil sector. This acts as one of the main obstacles to economic diversification. Azerbaijan's economic policy is aimed at minimizing these effects. For this purpose, improving the investment climate and supporting entrepreneurship have been identified as priority areas. Thus, maintaining economic stability in conditions of global uncertainty requires a comprehensive approach.

2. Oil prices and investment flows: an empirical analysis

The relationship between oil prices and investment flows has been extensively studied in the economic literature and confirmed by empirical models. In particular, the ARDL model used in time series analysis allows us to assess both the short and long-term aspects of this relationship. Studies have shown that oil prices have a positive effect on investment flows in the long term. This effect is mainly explained by the increase in income in the energy sector and the expansion of fiscal opportunities. However, the elasticity of the effect is relatively low, which is due to the long-term and capital-intensive nature of investment projects. In the short term, this relationship is observed weaker. This is due to the delay in market reactions. The empirical results show that although the increase in oil prices stimulates the growth of investments, this effect is not immediate, but manifests itself after a certain time interval. This delay is mainly explained by the long duration of the planning and implementation stages of projects. Investment decisions in the energy sector in particular are strategic in nature and are based on long-term forecasts. Therefore, the effect of price changes is not immediately reflected in investment flows. In addition, indirect effects are also observed in the non-oil sector. The increase in government revenues increases investments in this sector.

On the other hand, the volatility of oil prices is one of the main factors that negatively affect the investment climate. Volatility makes investors' expectations about future income uncertain and increases the level of risk. This leads to the postponement or cancellation of investment decisions. Empirical studies show that volatility has a negative impact on investments in both the short and long term (Ismayilov, 2025). This effect is especially stronger in developing countries. Thus, uncertainty acts as one of the main weakening factors of the investment climate.

Table 2. The impact of oil factors on investment flows

Factor	Short-term impact	Long-term impact
Oil price	Weak positive	Positive
Volatility	Negative	Strong negative
EPU (uncertainty)	Weak negative	Weak
Exchange rate	Lagged impact	Strong impact

Source: Yadigarov et al. (2025); Ismayilov (2025), compiled by the author.

Table 2 presents the systematic impact of the main macroeconomic factors related to the oil market on investment flows. As can be seen, oil prices have a mainly positive impact on investments, but this impact is more pronounced in the long term. This is because planning and implementation of investment projects takes time. The fact that this impact is weak in the short term is due to the delay in market reactions.

The most striking point in the table is the impact of volatility. Volatility is one of the strongest factors that negatively affect investments in both the short and long term. The fact that this impact is stronger, especially in the long term, is explained by the fact that investors are reluctant to make risky decisions in an uncertain environment. This leads to a decrease in new projects in the energy sector and a delay in existing projects. Thus, a stable price environment is considered one of the main conditions for investment.

The impact of the EPU index is weaker, but significant. Increased uncertainty strengthens investors' risk-averse behavior, but this impact is not direct, but is implemented through indirect mechanisms. The exchange rate plays a special role in investment decisions. Especially in the long term, exchange rate changes directly affect investment costs and profitability. This has a significant impact on the volume of foreign investments.

Investment dynamics have historically developed in parallel with oil prices. In particular, the increase in oil prices between 2000 and 2008 resulted in a rapid expansion of investment flows. During this period, the Azerbaijani economy demonstrated high growth rates. Large-scale investments in the energy sector led to the development of infrastructure and an increase in overall economic activity. This played the role of the main locomotive of economic development. Thus, a strong positive relationship was observed between oil prices and investments.

However, the oil price shock that occurred in 2014–2015 showed that this relationship was weakening. As a result of the sharp drop in prices, state revenues decreased and investment projects were limited. At the same time, the devaluation of the national currency increased investment costs. This had a negative impact, especially on projects based on imported technologies. As a result, investment activity decreased sharply. This process created serious pressure on economic stability.

Since 2021, with the recovery of oil prices, an increase in investment flows has also been observed. During this period, the recovery of global economic activity has led to an increase in energy demand. As a result, oil prices have increased, which has relatively improved the investment climate. This trend has also been observed in the Azerbaijani economy. Public investments and foreign capital flows have begun to increase. This has had a positive impact on the recovery of economic activity.

The exchange rate is one of the factors that plays an important role in investment decisions. Exchange rate changes especially affect the price of imported equipment and technologies. This increases the total cost of investment projects. As a result, some projects may become economically inefficient. This situation causes investors to make their decisions more cautiously. This factor is of particular importance for Azerbaijan.

In general, empirical analyses show that there is a relationship between oil prices and investment flows, but this relationship is nonlinear and multifactorial. Global uncertainty, volatility, and exchange rate changes can weaken or strengthen this relationship. In this regard, the goal of economic policy should be to balance these effects. In particular, creating a stable investment environment is a priority. This is important for ensuring long-term economic sustainability.

3. The role of the non-oil sector in the Azerbaijani economy

The development of the non-oil sector in the Azerbaijani economy has become one of the main priorities of economic policy in recent years. High dependence on oil revenues has long been assessed as a risk factor for economic stability. For this reason, the state has implemented an economic diversification strategy. The development of the non-oil sector is of great importance both in terms of ensuring macroeconomic stability and sustainable economic growth. The expansion of this sector

reduces the country's vulnerability to external shocks. At the same time, it contributes to the creation of new jobs and the increase in social welfare. Thus, the non-oil sector acts as the main pillar of the long-term development model.

In recent years, the growth rate of non-oil GDP has demonstrated positive dynamics. Calculations conducted using various methods show that this growth is on average at the level of 5% (Yusibov et al., 2025). This indicator reflects the potential growth level of the economy and indicates a stable development trajectory. However, the sustainability of this growth depends on a number of factors. In particular, investment flows play a key role in this process. Changes in the oil sector indirectly affect the non-oil sector. This indicates the structural dependence of the economy.

The development of the non-oil sector is closely related not only to internal factors, but also to the external economic environment. Global uncertainty and changes in the energy market indirectly affect the non-oil sector by affecting investment flows. A decrease in state budget revenues can limit investment opportunities. This weakens the pace of development of the non-oil sector. At the same time, a decrease in foreign investments also creates a capital shortage in this sector. From this point of view, the development of the non-oil sector should be assessed as a complex and multifactorial process.

Table 3. Non-oil GDP growth indicators

Method	Increase (%)
HP Filter	4.5
Kalman Filter	4.0
Cobb-Douglas	4.35
VAR model	5.5 – 6.5

Source: Yusibov et al. (2025), compiled by the author.

Table 3 reflects the assessment of the potential growth rate of the non-oil sector through various economic models. As can be seen, despite the application of different methodologies, the results are concentrated in a close interval to each other. Statistical methods such as HP filter and Kalman filter allow determining the trend component of economic growth, and according to these methods, growth is estimated at approximately 4–4.5%. This reflects the structural capabilities of the economy.

The Cobb-Douglas production function explains economic growth based on the influence of capital and labor factors. According to this model, growth in the non-oil sector is approximately 4.35%. This result shows that economic growth mainly depends on the efficiency of production factors. On the other hand, dynamic models such as the VAR model provide higher growth indicators. Since this model reflects short and medium-term forecasts, the results are in a higher interval.

In general, the table shows that the potential growth of the non-oil sector is formed around 5%. This result can be considered as a common point of various methods. This is an important indicator in terms of economic policy planning. At the same time, this result shows that the economy can expand to a certain level with additional demand and investment. However, exceeding this potential can create additional risks.

One of the main determinants of economic growth in the non-oil sector is capital investment. Empirical results show that the elasticity of capital is approximately 0.54. This means that capital growth is the main driver of economic growth. Investments in infrastructure, industry and services in particular increase economic activity. Investment programs implemented by the state play an important role in this regard. Foreign investments, on the other hand, create additional advantages in terms of technology transfer and innovation.

The impact of the labor factor is statistically weaker. This situation is mainly explained by structural problems in the labor market. The quality and productivity of human capital are not yet at the desired

level. The mismatch between the education system and the labor market deepens this problem. This limits the potential for economic growth. In this regard, the development of human capital acts as a priority direction.

The relationship between inflation and economic growth also plays an important role in the development of the non-oil sector. According to classical economic theory, economic growth can lead to inflationary pressures. However, modern research shows that this relationship is not always direct. In particular, the level of capacity utilization plays a key role in this relationship. If the economy is not operating at full capacity, additional demand may not create inflation. This indicates that the economy is more elastic.

This trend is also observed in the Azerbaijani economy. Some areas in the non-oil sector are not yet operating at full capacity. This indicates that additional economic activity is possible without creating inflationary pressures. In such conditions, economic growth is more sustainable. This creates additional opportunities for economic policy. In particular, expansionary policy measures can be more effective in these conditions.

In general, the development of the non-oil sector is one of the main conditions for the sustainability of the Azerbaijani economy. Strengthening this sector allows reducing the impact of global risks. Improving the investment climate and continuing structural reforms are important in this regard. At the same time, the development of human capital and promoting innovations are also priority areas. Thus, the development of the non-oil sector plays a decisive role in ensuring long-term economic stability.

4. Mechanism of impact of global risks on the Azerbaijani economy

The impact of global risks on the Azerbaijani economy is multi-channel and systemic. These impacts are mainly realized through the oil market, investment flows and exchange rates. In resource-based economies such as Azerbaijan, these channels are closely interconnected. The increase in global uncertainty primarily affects the energy market. This leads to fluctuations in the oil sector, which is the country's main source of income. As a result, macroeconomic stability is at risk. In this regard, a systematic analysis of the impact mechanism is of great importance.

The first and most important channel is oil prices. As global economic uncertainty increases, energy demand decreases, which leads to a decrease in prices. The decline in oil prices directly affects the revenues of the state budget. Since a significant part of the Azerbaijani budget is formed from oil revenues, this impact is felt more strongly. This impact was clearly observed especially in the 2014–2016 and COVID-19 periods. During these periods, the decline in oil prices led to a weakening of economic activity. Thus, oil prices act as the main transmission mechanism of global risks.

The second main channel is investment flows. Global uncertainty reduces investors' risk appetite and causes capital to be directed to safer markets. This leads to a decrease in the volume of investment in developing countries. The Azerbaijani economy is also affected by this process. Large-scale investment projects, especially in the energy sector, are delayed or postponed in conditions of uncertainty. This negatively affects the long-term economic growth rate. Thus, the investment channel becomes one of the main limiting factors of economic development.

Table 4. Global risk factors and economic indicators in 2024–2025

Indicator	2024	2025 (forecast)	Direction of impact
Brent oil price (USD/barrel)	~82–90	~80–95	Positive (stable)
EPU index (global)	High	Medium-high	Negative
Non-oil GDP growth (%)	~5.0	~5.0–5.5	Positive
Investment growth (%)	~3–4	~4–6	Medium positive
Inflation (%)	~4–5	~4–6	Controlled
AZN/USD exchange	Stable (1.7)	Stable	Stabilizing

Source: Ibadoghlu (2024); Ismayilov (2025), compiled by the author.

Table 4 summarizes the main macroeconomic indicators and the impact of global risk factors for 2024 and 2025. As can be seen, oil prices fluctuate in a relatively stable range, which is considered a positive factor for the Azerbaijani economy. Remaining at a high price level ensures the stability of budget revenues and supports state investments. This, in turn, strengthens the sustainability of economic growth.

On the other hand, the high EPU index, which is an indicator of global economic uncertainty, has a negative impact on the investment climate. This factor complicates the decision-making process of investors and leads to a decrease in capital flows. However, the stable growth rate of the non-oil sector indicates that economic diversification has yielded certain results. This proves that the structural stability of the economy has increased.

The table also highlights the stability of the exchange rate. The stability of the AZN/USD exchange rate plays an important role in maintaining macroeconomic stability. This has a positive effect, in particular, on the price stability of imported technology and equipment. In general, the table shows that global risks still exist, but the impact of these risks is reduced to some extent through domestic economic policy.

The third transmission channel of global risks is the foreign exchange market. Global financial shocks can affect the value of the national currency. In particular, the decrease in capital flows creates currency pressure. However, as a result of the policy of the Central Bank of Azerbaijan, the exchange rate of the manat has been maintained stable in recent years. This stability has a positive effect on the formation of expectations in the economy. At the same time, it helps to keep inflation under control. Thus, the foreign exchange channel plays an important role in maintaining economic stability.

The mechanism of influence of global risks can be summarized as the following chain:

Global risk → **oil price** ↓ → **investment** ↓ → **economic growth** ↓.

This chain reflects the structural features of the Azerbaijani economy. In particular, the high dependence of fiscal revenues on oil further strengthens this effect. In such conditions, the economy becomes more vulnerable to external shocks. This increases the role of macroeconomic policy. As a result, state intervention becomes an important tool.

The economic diversification policy implemented in recent years is aimed at reducing the impact of these risks. The development of the non-oil sector acts as a key priority in this regard. Infrastructure projects and the creation of industrial parks support this process. At the same time, the development of the agricultural and service sectors is also in the spotlight. These measures increase the stability of the economy. Thus, the impact of global risks is gradually weakened.

State policy plays a decisive role in this mechanism. It stimulates economic activity by increasing state investments through fiscal policy. In particular, increasing budget expenditures can compensate for the impact of the investment decline. Monetary policy ensures inflation and exchange rate stability. Coordination of these policies is important for economic stability. Otherwise, policy inconsistency can create additional risks.

Consequently, the impact of global risks on the Azerbaijani economy is multifaceted and complex. These impacts are mainly realized through oil prices, investment flows and currency channels. However, the right economic policy can mitigate these impacts. In particular, the development of the non-oil sector is a key condition for long-term stability. Thus, the transition of the economy to a more sustainable model can be ensured.

CONCLUSION

The results of the study demonstrate that global economic uncertainty affects the Azerbaijani economy through a multi-channel transmission mechanism, where oil prices, investment flows, and exchange rate stability act as the main channels of influence. In particular, oil price volatility increases uncertainty in investment decisions, leading to a decline in capital investments, especially in the

energy sector. This effect is observed in both the short and long term. Empirical findings confirm that volatility has a stronger negative impact on investment activity than the absolute level of oil prices, highlighting the critical importance of risk management and macroeconomic stability in economic policy.

It is also determined that the decline in investment flows indirectly constrains the development of the non-oil sector. Although the potential growth rate of non-oil GDP is estimated at approximately 4–5%, the sustainability of this growth largely depends on the stability and continuity of investment inflows. Given that capital investment serves as the primary driver of economic expansion, a reduction in investment weakens overall economic growth. Therefore, structural transformation and economic diversification emerge as key strategic priorities, with particular emphasis on strengthening investment activity in the non-oil sector.

Furthermore, the study reveals that the relationship between economic growth and inflation differs from classical theoretical assumptions. In conditions where production capacity is not fully utilized, an increase in aggregate demand does not necessarily generate inflationary pressure. This finding underscores the importance of considering capacity utilization levels in macroeconomic analysis and policy design. For the Azerbaijani economy, this implies that relying solely on GDP growth indicators is insufficient for a comprehensive assessment of economic conditions.

The scientific novelty of the study lies in the integrated analytical framework that systematically explains the interrelationship between global economic uncertainty, oil prices, investment flows, and non-oil sector growth in the context of Azerbaijan. In particular, the study substantiates that oil price volatility, rather than the price level itself, plays a more decisive role in shaping investment dynamics. The practical significance of the research is reflected in its policy implications. The findings can be used to improve fiscal and monetary policy coordination, enhance the investment climate, and support the expansion of the non-oil sector. In particular, the results provide a basis for developing targeted measures aimed at stabilizing investment flows and mitigating external economic shocks.

The economic efficiency of the proposed approach is associated with increasing the resilience of the Azerbaijani economy to global risks, ensuring sustainable economic growth, and strengthening long-term macroeconomic stability through diversification and improved investment policies.

- Based on the results of the study, the following proposals are put forward:
- Increasing investments directed to the non-oil sector and expanding state incentives in this area;
- Strengthening fiscal stabilization mechanisms (e.g., reserve funds) against oil price volatility;
- Improving institutional reforms and the legal framework to improve the investment climate;
- Maintaining stability in the foreign exchange market and effectively managing exchange rate risks.

The implementation of these measures will contribute to enhancing the resilience of the Azerbaijani economy to global uncertainties. In particular, the continuation of economic diversification policies, supported by coordinated fiscal and monetary strategies, will play a key role in strengthening the investment environment and ensuring sustainable long-term development. Consequently, the negative effects of global economic risks can be mitigated through a comprehensive and well-coordinated economic policy framework.

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