

WORLD RANK:
60

REGIONAL RANK:
13

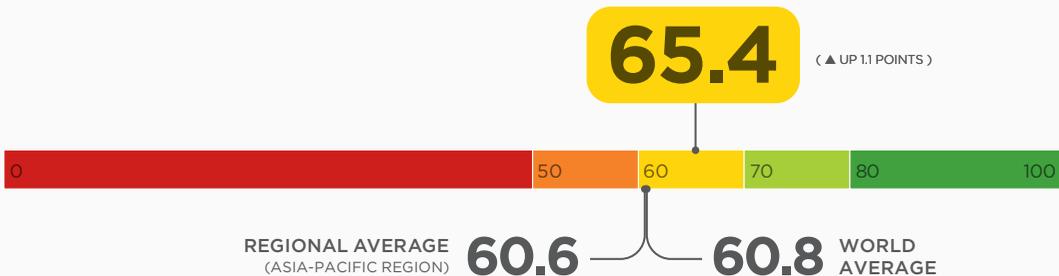
ECONOMIC FREEDOM STATUS:
MODERATELY FREE

AZERBAIJAN

Azerbaijan's economic freedom score is 65.4, making its economy the 60th freest in the 2019 *Index*. Its overall score has increased by 1.1 points, led by a dramatic rise in **judicial effectiveness** and higher scores for **property rights** and **government integrity** that offset declines in **labor freedom** and **fiscal health**. Azerbaijan is ranked 13th among 43 countries in the Asia-Pacific region, and its overall score is above the regional and world averages.

The government's goals are to join the World Trade Organization, develop Azerbaijan into a trade and transit hub by continuing investment in road and rail infrastructure, and diversify away from economic dependence on hydrocarbons. Continued market-based improvements in regulatory efficiency and further restructuring are needed to capitalize on the well-educated labor force and broaden the production base. There has been measurable progress to improve the rule of law in the past year, but corruption remains widespread.

ECONOMIC FREEDOM SCORE

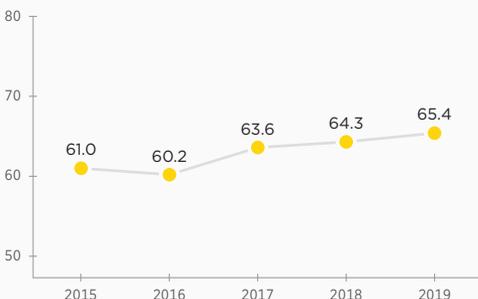


RELATIVE STRENGTHS:
Fiscal Health and Tax Burden

HISTORICAL INDEX SCORE CHANGE (SINCE 1996):
+35.4

CONCERNS:
Government Integrity and Judicial Effectiveness

FREEDOM TREND



QUICK FACTS

POPULATION:
9.8 million

GDP (PPP):
\$171.8 billion
0.1% growth in 2017
5-year compound annual growth 1.2%
\$17,492 per capita

UNEMPLOYMENT:
5.0%

INFLATION (CPI):
13.0%

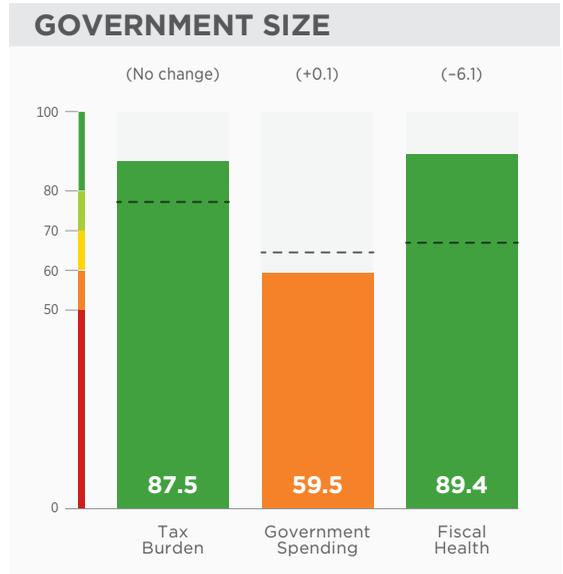
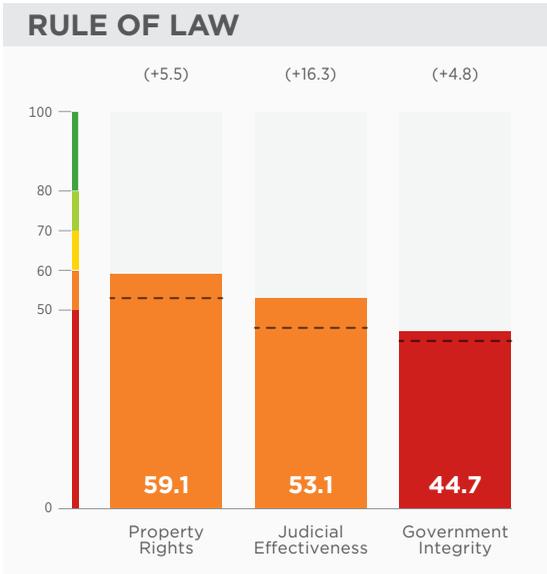
FDI INFLOW:
\$2.9 billion

PUBLIC DEBT:
54.7% of GDP

2017 data unless otherwise noted. Data compiled as of September 2018

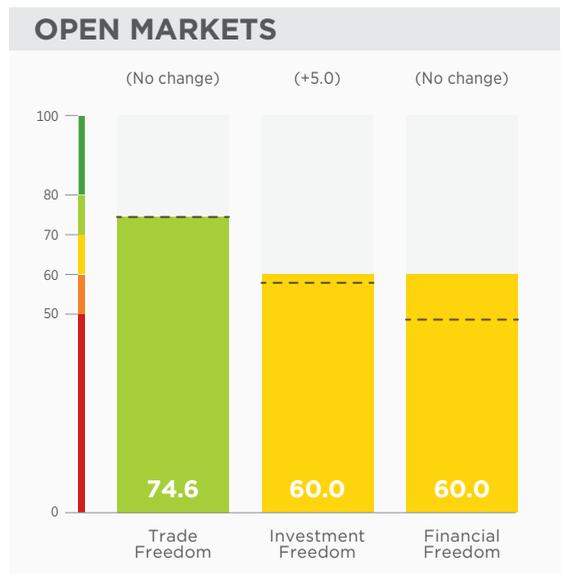
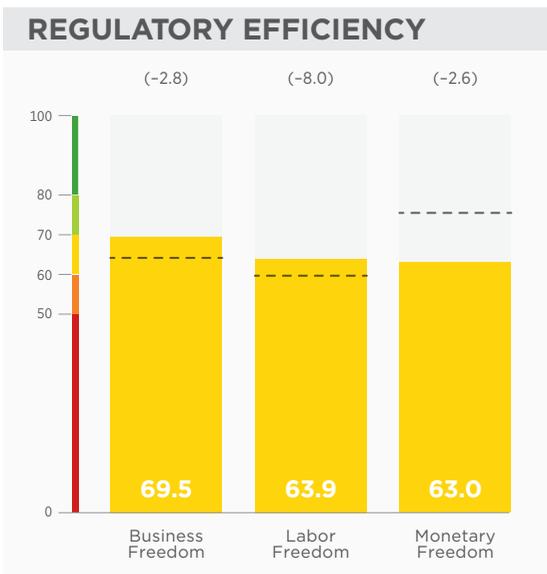
BACKGROUND: President Ilham Aliyev was elected to a fourth term in 2018 amid allegations of electoral fraud. His father, Heydar, ruled Azerbaijan as a Soviet republic and later as an independent country until his death in 2003, when his son succeeded him. Armenia's 25-year occupation of 20 percent of Azerbaijan's internationally recognized territory in the Nagorno-Karabakh region and seven neighboring districts is one of post-Soviet Europe's frozen conflicts and exacerbates regional instability. Falling oil production is expected to be partially offset by increased natural gas exports. In 2018, the Trans-Anatolian Natural Gas Pipeline, an important section of the Southern Gas Corridor, opened to export Azerbaijani gas through Turkey and ease Europe's dependence on Russia for energy.

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Although the state has seized property for development projects and inadequately compensated expropriations, some improvements in property registration and contract enforcement were made in 2016. The judiciary is corrupt, inefficient, and subject to political pressure; outcomes often seem to be predetermined. Corruption is widespread. Opposition politicians are subject to arbitrary arrest, physical violence, and other forms of intimidation.

The top individual income tax rate is 25 percent, and the top corporate tax rate is 20 percent. Other taxes include value-added and property taxes. The overall tax burden equals 14.9 percent of total domestic income. Over the past three years, government spending has amounted to 36.7 percent of the country's output (GDP), and budget deficits have averaged 1.7 percent of GDP. Public debt is equivalent to 54.7 percent of GDP.



Despite progress in streamlining the process for launching a business, other time-consuming requirements reduce regulatory efficiency. Labor regulations are somewhat flexible, but enforcement of the labor code remains uneven. Ongoing subsidies continue to create price distortions for such goods as alcohol, drugs, energy, food and other agricultural products, and electricity.

The combined value of exports and imports is equal to 90.7 percent of GDP. The average applied tariff rate is 5.2 percent. Nontariff barriers impede trade. Regulatory barriers impede foreign and domestic investment in Azerbaijan. The financial sector faces many challenges including currency weakness. The banking sector is dominated by a large state bank, and small private banks remain splintered.