

WORLD RANK:

44

REGIONAL RANK:

24

ECONOMIC FREEDOM STATUS:
MODERATELY FREE

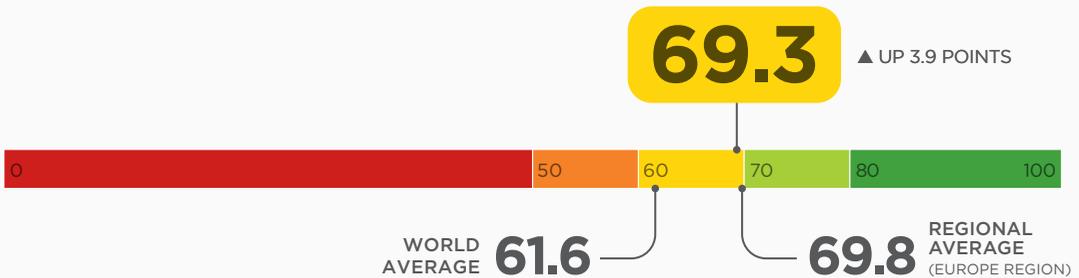
AZERBAIJAN

Azerbaijan's economic freedom score is 69.3, making its economy the 44th freest in the 2020 *Index*. Its overall score has increased by 3.9 points because of big gains in scores for **business freedom**, **investment freedom**, and **fiscal health**. Azerbaijan is ranked 24th among 45 countries in the Europe region, and its overall score is just below the regional average and well above the world average.

Azerbaijan has made progress in its economic freedom scores since first being included in the *Index* in 1996. Its economy is now on the verge of joining the ranks of the mostly free. GDP growth, however, has remained stagnant for the past five years.

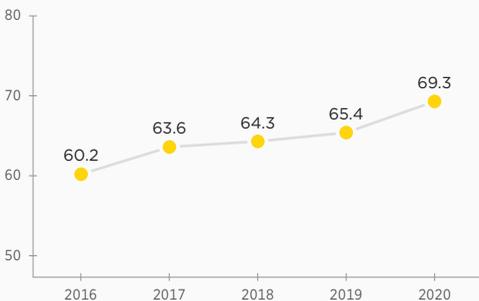
To set the conditions for greater economic freedom, the government will need to focus on improving government integrity and judicial effectiveness, and that will require significant institutional changes in the authoritarian political system, the overlapping of corporate and political interests, and the economy's highly concentrated ownership structure.

ECONOMIC FREEDOM SCORE



HISTORICAL *INDEX* SCORE CHANGE (SINCE 1996): +39.3

RECENT FREEDOM TREND



QUICK FACTS

POPULATION:
9.9 million

GDP (PPP):
\$179.7 billion
1.4% growth in 2018
5-year compound
annual growth 0.4%
\$18,076 per capita

UNEMPLOYMENT:
5.2%

INFLATION (CPI):
2.3%

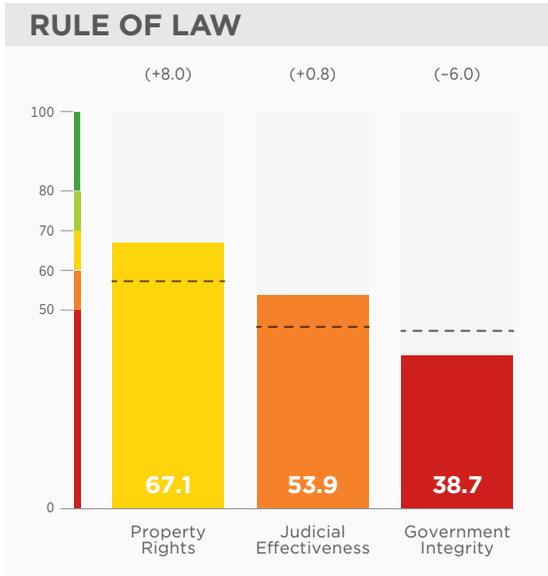
FDI INFLOW:
\$1.4 billion

PUBLIC DEBT:
19.4% of GDP

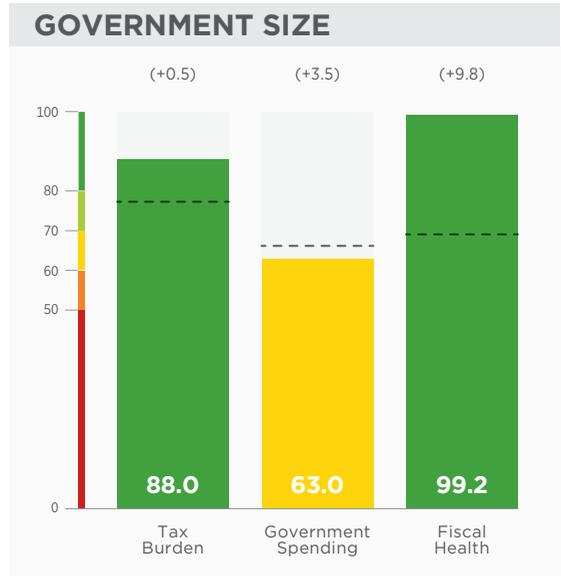
2018 data unless otherwise noted. Data compiled as of September 2019

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. Efforts to boost Azerbaijan's energy production are underway. The construction of the Southern Gas Corridor, which will increase gas exports, is expected to reach completion by 2020–2021. Some nonenergy segments of the economy, such as agriculture, logistics, and information technology, require more development.

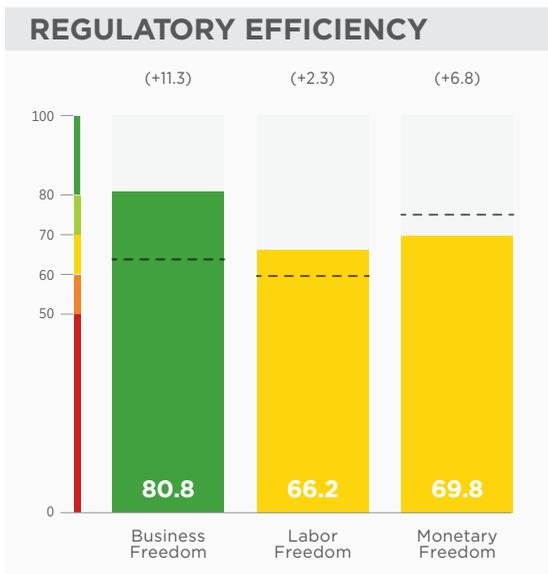
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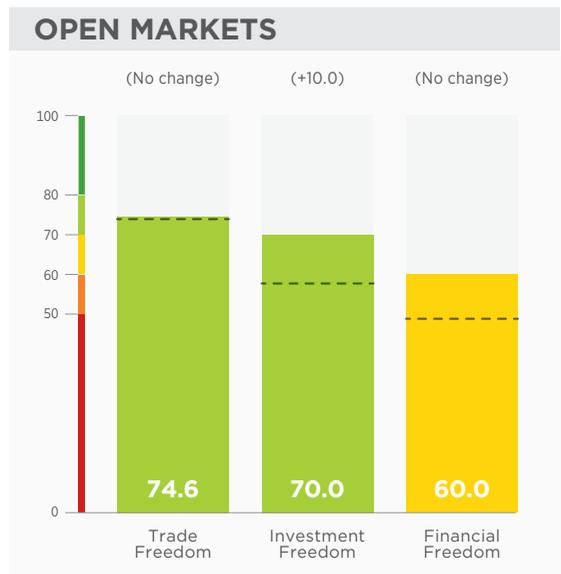
Amendments to Azerbaijan’s constitution in 2016 enabled authorities to expropriate private property, with compensation, for purposes of “social justice and efficient use of the land.” The corrupt and inefficient judiciary is subject to political pressure, and outcomes frequently appear to be predetermined. Corruption is widespread, and tax reforms announced in January 2019 were aimed partly at reducing corruption in tax administration.



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 13.3 percent of total domestic income. Government spending has amounted to 35.1 percent of the country’s output (GDP) over the past three years, and budget surpluses have averaged 0.5 percent of GDP. Public debt is equivalent to 19.4 percent of GDP.



Azerbaijan recently enacted a variety of reforms that have improved the business climate. Resolution of insolvency, for example, has been made easier. Government-connected holding companies’ dominance of the economy prevents the formation of a more fluid labor market. Ongoing subsidies continue to create price distortions for such goods as alcohol, drugs, energy, food and other agricultural products, and electricity.



The total value of exports and imports of goods and services equals 92.0 percent of GDP. The average applied tariff rate is 5.2 percent. Despite some progress in modernizing the trade regime, nontariff barriers linger. The oil and gas sectors have attracted the majority of foreign investment, but the country has moved toward diversification of its economy. The financial sector is dominated by state-owned banks but remains stable.