

AZERBAIJAN

World Rank: **88**

Regional Rank: **14**

Azerbaijan's economic freedom score is 59.7, making its economy the 88th freest in the 2013 Index. Its overall score is 0.8 point higher than last year, reflecting improved scores in the management of public finance and property rights. Azerbaijan is ranked 14th out of 41 countries in the Asia-Pacific region, and its overall score is above the regional and global averages.

Azerbaijan's strong economic growth has been driven mainly by development of the energy sector. Substantial challenges to diversification and sustainable growth remain, and deeper systemic reforms are critically needed to strengthen the foundations of economic freedom. Despite some improvement, property rights are weak, and the level of corruption continues to be substantial. Government regulations add to the costs of foreign investment, and monetary instability adds to uncertainty.

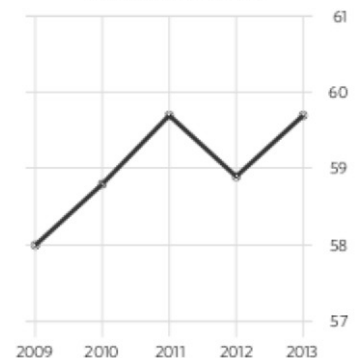
Openness to global trade, recent tax reforms, and some improvements in regulatory efficiency have aided Azerbaijan's transition to a more market-based system. Continued transformation and restructuring are needed, both to capitalize on the well-educated labor force and to broaden the production base.

BACKGROUND: Azerbaijan's continuing dispute with Armenia over Nagorno-Karabakh has cost tens of thousands of lives and the loss of a fifth of Azerbaijan's territory. A constitutional amendment abolishing presidential term limits, passed by referendum in 2009, allows President Ilham Aliyev to seek a third term in 2013. In 2011, the government cracked down on protests and jailed leading opposition figures. Economic growth almost halted in 2011, but expanded oil and gas production and increased private investment and consumption reflect growing investor confidence. Azerbaijan has increased its gas exports to Russia to 3 billion cubic meters per year. In June 2012, Turkey and Azerbaijan agreed to build the Trans-Anatolian

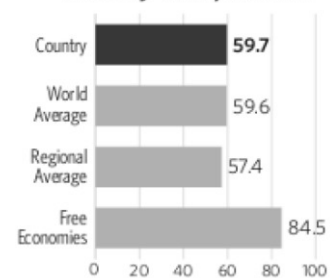
Economic Freedom Score



Freedom Trend



Country Comparisons



Quick Facts

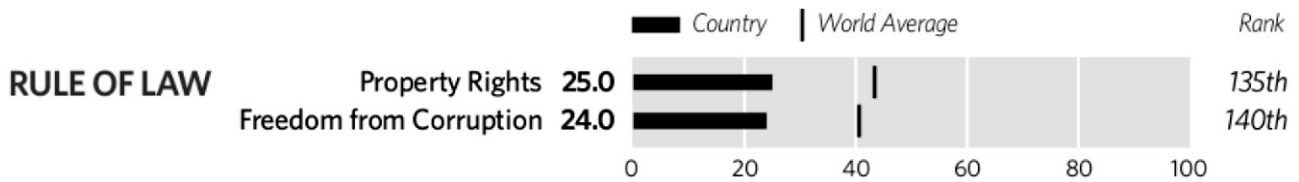
Population: 9.1 million
GDP (PPP): \$93.1 billion
 0.1% growth in 2011
 5-year compound annual growth 9.7%
 \$10,202 per capita
Unemployment: 1.0%
Inflation (CPI): 7.9%
FDI Inflow: \$1.5 billion
Public Debt: 10.2 % of GDP

2011 data unless otherwise noted.
 Data compiled as of September 2012.

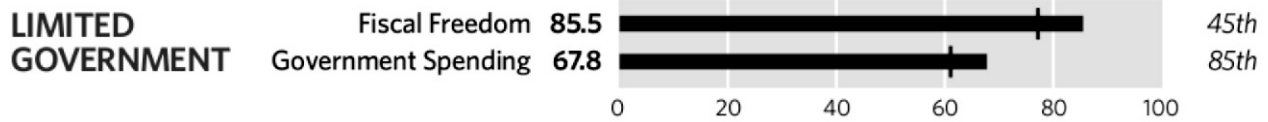
How Do We Measure Economic Freedom?

See page 477 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

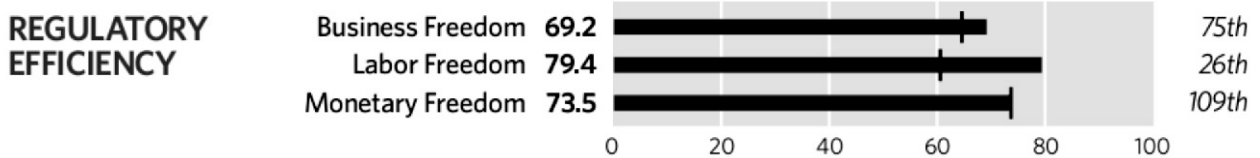
THE TEN ECONOMIC FREEDOMS



Natural Gas Pipeline, which would ease Europe's dependence on Russian gas. World Trade Organization accession negotiations are ongoing. The judiciary is burdened by extensive non-transparent regulations and interference from the executive.



Contract enforcement can be lax. Despite some progress, corruption continues to cause concern. The judiciary and police are susceptible to bribery, and businesses abuse their relations with government to gain monopoly control of major industries. The property registration system is awash with bureaucratic requirements.



The top individual income tax rate is 30 percent, and the top corporate tax rate is 20 percent. Other taxes include a value-added tax (VAT) and a property tax. The overall tax burden equals 12.4 percent of total domestic income. Government spending has fallen to 32.8 percent of GDP. Large revenues from the energy sector enable



budget surpluses, but strong growth in the non-energy sector has also encouraged fiscal health. Public debt remains low.

Despite progress in streamlining the process for launching a business, other time-consuming requirements reduce regulatory efficiency. Completing licensing requirements takes more than 150 days. Labor regulations

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	+5.0	Fiscal Freedom	+0.6	Business Freedom	+0.6	Trade Freedom	0
Freedom from Corruption	0	Government Spending	+4.1	Labor Freedom	-2.2	Investment Freedom	0
				Monetary Freedom	-1.0	Financial Freedom	0

have become relatively more flexible, but enforcement of the labor code remains uneven. Inflation has risen, partly as a result of customs restrictions that limit import competition.

The trade-weighted average tariff rate is 3.9 percent, and non-tariff barriers such as arbitrary customs administration raise the cost of trade. Foreign investment is allowed in most sectors, but bureaucratic controls and lack of transparency hinder dynamic investment growth. The financial sector weathered the recent crisis relatively well, but the banking sector is dominated by a large state bank, and small private banks remain fragmented and inefficient.