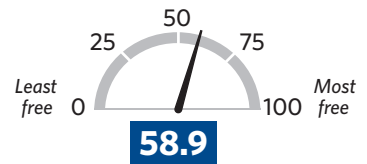


AZERBAIJAN

Economic Freedom Score



World Rank: **91** Regional Rank: **15**

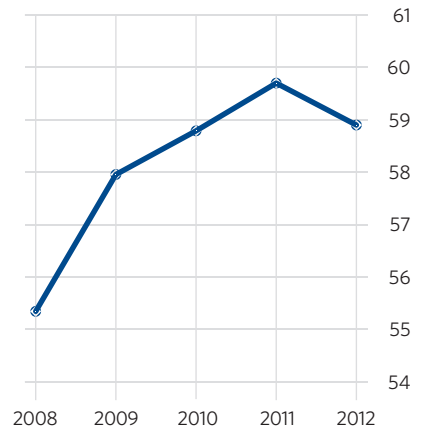
Azerbaijan's economic freedom score is 58.9, making its economy the 91st freest in the 2012 *Index*. Its overall score is 0.8 point lower than last year, reflecting worsened performance in government spending and business freedom. Azerbaijan is ranked 15th out of 41 countries in the Asia-Pacific region, and its overall score is above the regional average.

Wide-ranging reforms have resulted in some progress in regulatory efficiency and economic diversification, improving Azerbaijan's overall macroeconomic and entrepreneurial environments. Openness to global trade and investment, coupled with recent tax reforms, has aided the country's transition to a more market-based system.

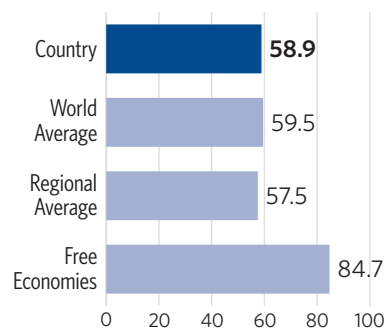
Nonetheless, substantial challenges remain, particularly in implementing deeper institutional and systemic reforms that are critical to strengthening the foundations of economic freedom. Property rights and freedom from corruption remain weak, and government interference and control hurt overall monetary stability and foreign investment. The overall regulatory reform process has slowed, eroding some of the gains from earlier years.

BACKGROUND: President Ilham Aliyev's New Azerbaijan Party won the November 2010 parliamentary elections, but questions of electoral fairness and legitimacy persist. A constitutional amendment to abolish presidential term limits, passed by national referendum in 2009, will allow Aliyev to seek a third term in 2013. Restraints on the media have included suspension of some foreign radio broadcast licenses. In 2010, Azerbaijan resumed its World Trade Organization accession negotiations. Oil-rich Azerbaijan's dispute with Armenia over Nagorno-Karabakh has cost thousands of lives and a fifth of Azerbaijan's territory. Hoping to gain Russia's support, Baku has increased its gas exports to Russia by 2 billion cubic meters per year. Economic growth slowed in 2010, but expanded oil and gas production and increased private investment and consumption reflect growing investor confidence.

Freedom Trend



Country Comparisons



Quick Facts

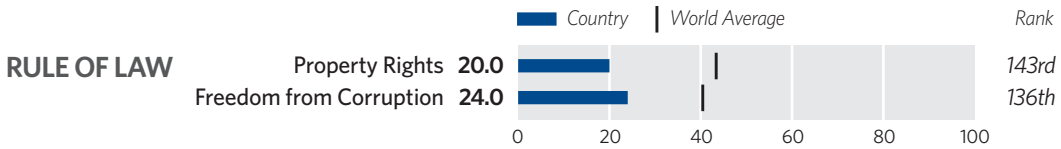
- Population:** 9 million
- GDP (PPP):** \$90.8 billion
- 5.0% growth in 2010
- 5-year compound annual growth 16.4%
- \$10,033 per capita
- Unemployment:** 0.9%
- Inflation (CPI):** 5.7%
- FDI Inflow:** \$563.1 million
- Public Debt:** 10.8% of GDP

How Do We Measure Economic Freedom?

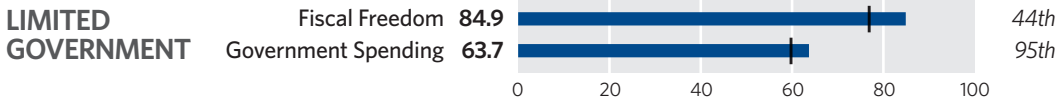
See page 455 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

2010 data unless otherwise noted.
Data compiled as of September 2011.

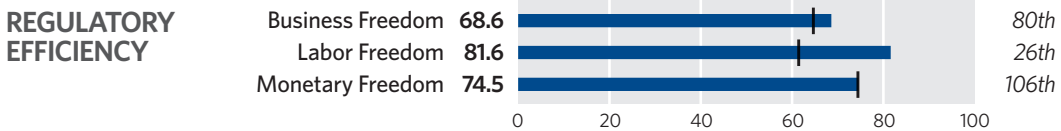
THE TEN ECONOMIC FREEDOMS



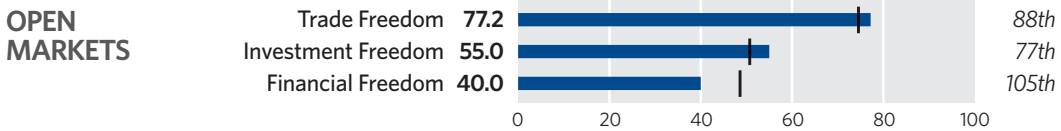
The judiciary is burdened by extensive non-transparent regulations and interference from the executive. Contract enforcement can be lax. Despite some progress, corruption continues to cause concern. The judiciary and police are susceptible to bribery, businesses abuse their relations with government to gain monopoly control of major industries, and arbitrary tax administration raises question of fairness and equitable treatment.



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, with the total tax burden amounting to 14.4 percent of total domestic income. Government spending has grown to about one-third of total domestic output. Large revenues from the energy sector have enabled budget surpluses, and public debt is quite low at 10.8 percent of GDP.



The business start-up process has been streamlined, but licensing requirements remain time-consuming and bureaucratic, taking twice the world average of 15 procedures and over 200 days. Relatively flexible employment regulations have recently been implemented, but enforcement has been uneven in practice. Price controls are in place for most energy products, and inflation has come down to around 6 percent from 20 percent in 2008.



The trade weighted tariff rate is 3.9 percent, with non-tariff barriers such as arbitrary customs administration and import controls raising the cost of trade. Foreign investment is allowed in most sectors, but lack of transparency and bureaucratic controls hinder dynamic investment growth. Private banks have grown faster than state-owned banks, but the availability of long-term financial instruments for small and medium-sized enterprises is still limited.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+1.0	Business Freedom	-4.3	Trade Freedom	+0.1
Freedom from Corruption	+1.0	Government Spending	-7.3	Labor Freedom	+0.5	Investment Freedom	0
				Monetary Freedom	+1.9	Financial Freedom	0