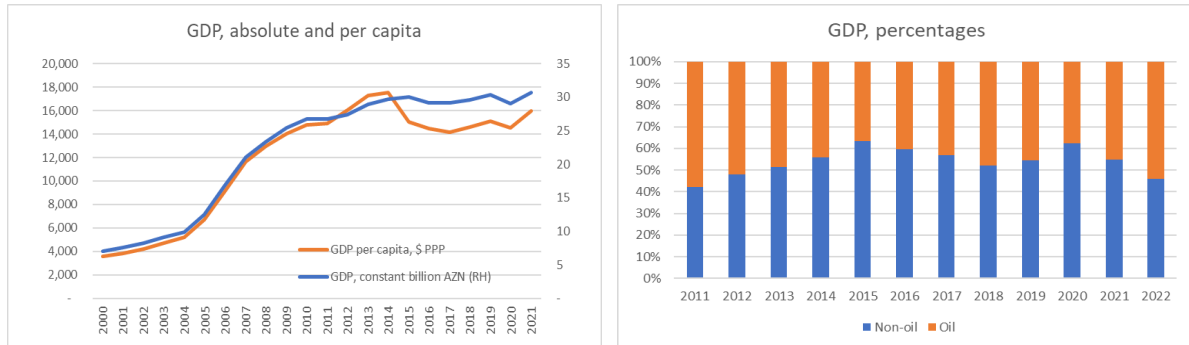


## AZERBAIJAN

### ***Hydrocarbons have driven rapid economic expansion***

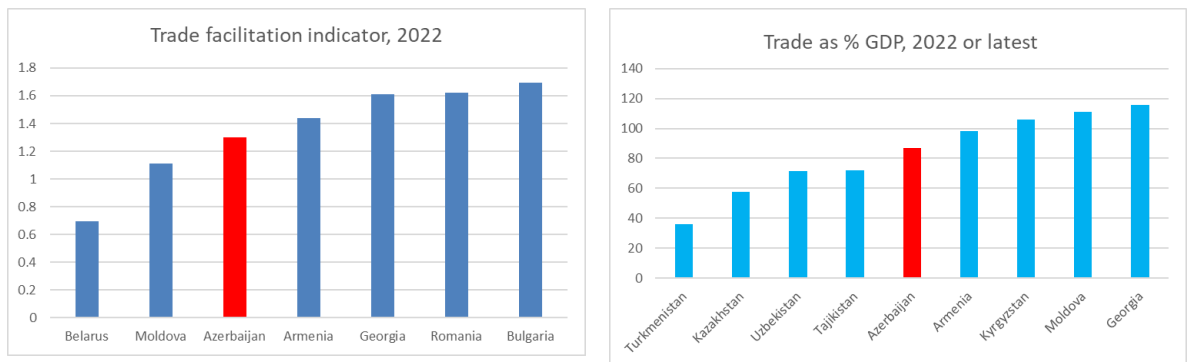
The economy of Azerbaijan has expanded rapidly over the last two decades, as a result of the exploitation of its hydrocarbon resources. It multiplied by a factor of almost 4 between 2000 and 2010 but growth was more volatile and subdued in the following decade. This dramatic growth has been accompanied by some limited economic diversification, which has been linked to a large extent to the domestic demand create by energy-related rents. Regional disparities are significant and agriculture remains the main source of employment, accounting for around 36% of total employment.



Source: IMF, Central Bank of Azerbaijan

### ***Further advances in trade facilitation would facilitate tapping into the country's transit potential***

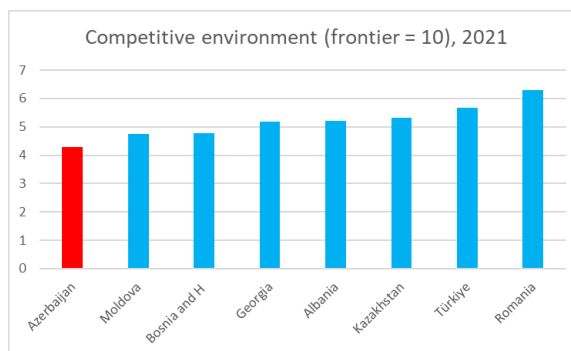
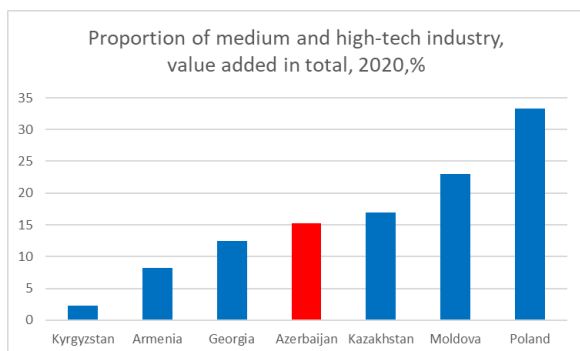
In order to address existing structural weaknesses arising from the lack of economic diversification, the authorities undertook a simplification of the trade and custom regime. However, despite improvements, an untapped potential to leverage the geographic position of the country as a transit route remains. Trade facilitation indicators still point to a situation where there is room for further advances, including on logistics aspects. The quality of roads has improved significantly in recent years and is among the best in the region. However, a recent World Bank study estimates that the cost of road accidents was about 2.0% of GDP in 2019.



Source: OECD, World Bank Development Indicators

### ***A stronger private sector would facilitate economic diversification***

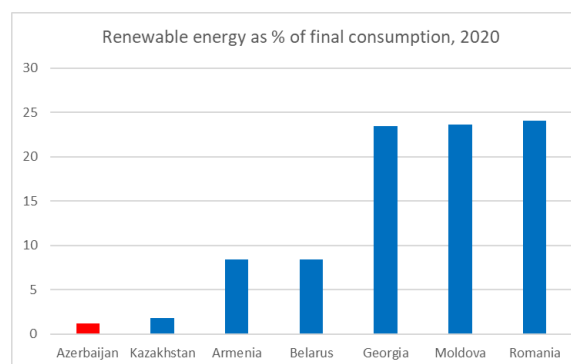
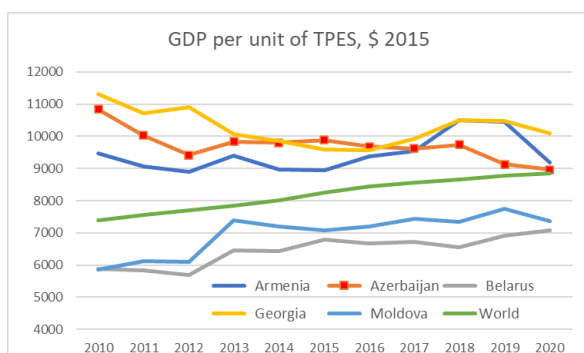
The necessary diversification of the economy depends on the development of the private sector. A high degree of informality constraints productivity increases. The strong state footprint restricts opportunities for private engagement. Regulatory quality has increased from rather low levels, but it has significant room for improvement. Competition is limited and leads to a high degree of concentration in some sectors. Innovation initiatives have focussed on high-tech sectors but the support to activities with lower technological intensity is more limited.



Source: SDG UNECE database, EBRD

**Fossil fuels dominate the energy mix and contribute to air pollution**

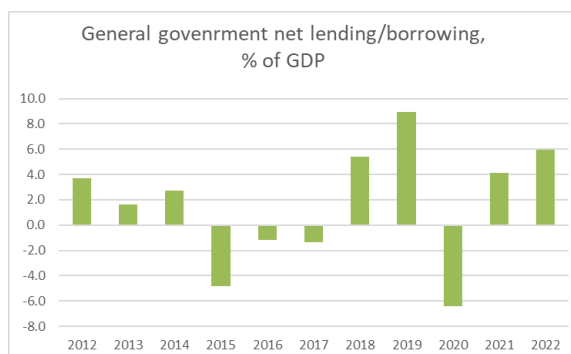
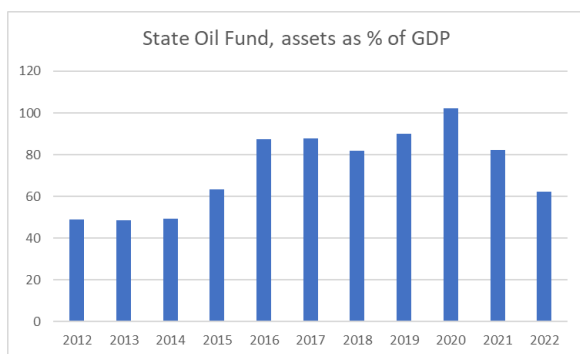
Energy efficiency compares well with other countries in the region but it has deteriorated. Fossil fuels subsidies, although they have been declining, are large, thus creating disincentives from saving and contributing to existing pollution problems. In line with what it is observed in other hydrocarbon producers in the region, the uptake of renewable energy is limited. However, recent initiatives have introduced favourable conditions to facilitate the development of renewable energy resources and tap into existing potential for development.



Source: OECD, SDG UNECE database

**Public finances are healthy but the financial sector remains underdeveloped**

General government debt was only about 17% of GDP by the end of 2022. While a public deficit emerged in 2020, under the impact of the COVID-19 pandemic, the budget has shown a surplus in recent years. The State Oil Fund has accumulated large savings from hydrocarbons revenues. By contrast, financial intermediation is limited with loans representing only 15% of GDP in 2022. Public-Private Partnerships are constrained by uncomplete legislative development. FDI outside the energy sector is limited.



Source: State Oil Fund of Azerbaijan, IMF