Azerbaijan

CRT-4

August 22, 2019

Region: Asia

Country Risk Criteria Procedures

Guide to Best's Country Risk Tiers

- Azerbaijan, a CRT-4 country, has high levels of economic, political, and financial system risk.
- The country has high economic potential due to its rich natural resources, strategic geography, and geopolitical position. Because of its reliance on exports, Azerbaijan’s economy is vulnerable to shifts in global demand, as well as price fluctuations.
- Economic growth is expected to increase to 3.4% in 2019, following growth of 1.4% in 2018. Medium term growth is expected to range between 1.5% and 3.0%.
- The countries pictured in the map hold a great deal of the world’s economic potential.

Regional Summary: Central Asia

- Economic growth in the region is expected to remain stable, although GDP growth is likely to be below potential owing to incomplete structural reforms. A main challenge for countries in this region is their reliance on commodity export revenues and the resulting vulnerability to shocks.
- Political power is highly concentrated. The region suffers from high levels of corruption, a lack of transparency, and government interference in the judicial process. A lack of political succession plans in some countries could lead to social unrest and political uncertainty.
- Although global financial conditions have eased somewhat, a change in market sentiment could cause an increase in interest rates, resulting in higher debt burdens. State debt levels have risen due to state support to stimulate the economy following the economic shocks in 2014-2015.
- An economic slowdown in Russia, the region’s largest economy, has the potential to affect the entire region given its importance in trade linkages. Other risks include exchange rate and commodity price volatility, tightening of global financial conditions, and high levels of corruption.

Vital Statistics 2018

- Nominal GDP: USD bn 45.42
- Population: mil 9.9
- GDP Per Capita: USD 4,569
- Real GDP Growth: % 1.4
- Inflation Rate: % 2.3

United Nations Estimates

- Literacy Rate: % 99.8
- Urbanization: % 55.3
- Dependency Ratio: % 41.4
- Life Expectancy: Years 72.1
- Median Age: Years 30.3

Insurance Statistics

- Insurance Regulator: Financial Market Supervisory Authority (FIMSA)
- Premiums Written (Life): USD mil 103
- Premiums Written (Non-Life): USD mil 220
- Premiums Growth (2017 - 2018): % 6.2

Regional Comparison

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Sources: IMF, UN, Swiss Re, Axco and AM Best
Economic Risk: High

- Helped by oil price stability, GDP growth rates have increased since the recession of 2016. Greater domestic demand, an increase in exports, and higher oil production will drive the economic expansion in 2019.

- However, Azerbaijan will need to diversify its economy away from the hydrocarbon sector to protect itself from changing external demand and volatility in commodity prices.

- The government uses revenues from the hydrocarbon sector to finance public investment in both infrastructure and social programs.

- The State Oil Fund of Azerbaijan (SOFAZ) was founded in 1999 and helps partially insulate the country from external shocks.

- Exchange rate stabilization has helped bring down inflation levels from 12.8% in 2017. Inflation is expected at 2.5% in 2019.

Political Risk: High

- In October 2013, current President Ilhan Aliyev took over from his father, who had been president since 1991 (when the country became independent from the Soviet Union).

- In April 2018, Aliyev won his fourth term in office with over 80% of the vote. His current term is expected to run until 2025, as the length of the president’s term was lengthened to seven years following a 2016 constitutional referendum.

- Political power is highly concentrated; the president exercises control over the political and economic environment, leaving very little room for dissent or debate of policy matters.

- Azerbaijan faces major challenges due to a high level of corruption, patronage networks that infiltrate most areas of public government, a lack of civil liberties, and a lack of transparency. The country ranked 152 out of 180 countries in Transparency International's latest Corruption Perceptions Index.

Financial System Risk: High

- The insurance industry in Azerbaijan is regulated by the Financial Market Supervisory Authority (FIMSA), which was approved by the president in March of 2016.

- After significant devaluations of the currency in 2015, the Central Bank of Azerbaijan switched to a managed float, to increase macroeconomic stability and improve foreign exchange rate flexibility. Inflation levels have come down from double digits in 2017.

- The country continues to address its legacy stock of non-performing loans. While these loans have decreased, they are still elevated.

- The financial sector would benefit from continued market development to facilitate improved liquidity. Additionally upgrading financial regulations and regulation would strengthen the sector overall.