

BEST'S COUNTRY RISK REPORT

Azerbaijan

CRT-4

August 22, 2018

Region: Asia

[Country Risk Criteria Procedures](#)

[Guide to Best's Country Risk Tiers](#)

- The Country Risk Tier (CRT) reflects A.M. Best's assessment of three categories of risk: Economic, Political, and Financial System Risk.
- 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. After an economic contraction in 2016, Azerbaijan returned to economic growth in 2017 and is forecast to grow at 2.0% in 2018 and 3.9% in 2019.
- The countries pictured in the map hold much of the world's economic potential.



Economic Risk



Political Risk



Financial System Risk

- **Country Risk Tier 1 (CRT-1)** Very Low Level of Country Risk
- **Country Risk Tier 2 (CRT-2)** Low Level of Country Risk
- **Country Risk Tier 3 (CRT-3)** Moderate Level of Country Risk
- **Country Risk Tier 4 (CRT-4)** High Level of Country Risk
- **Country Risk Tier 5 (CRT-5)** Very High Level of Country Risk

Regional Summary: Central Asia

- Economic prospects remain vulnerable due to sanctions against Russia, the region's largest economy, and potential changes in trade policy. Uncertainty surrounding the sanctions, and the potential ripple effects on other countries in the region could lead to slower economic growth, given Russia's importance for trade and remittances.
- Political power is highly concentrated. The region suffers from high levels of corruption, a lack of transparency, and regular government interference in the judicial process. A lack of political succession plans in some countries could lead to social unrest and political uncertainty.
- State support of the financial system in recent years has been substantial and will likely remain necessary, to strengthen buffers and facilitate lending growth. Weak banking systems in several countries will continue to lead to higher government debt.
- Additional risks for the region include tightening of global financial conditions, commodity price and exchange volatility, delays in implementing structural reforms, and the potential for trade restrictions.

Vital Statistics 2017

Nominal GDP	USD bn	40.67
Population	mil	9.8
GDP Per Capita	USD	4,141
Real GDP Growth	%	0.1
Inflation Rate	%	13.0

United Nations Estimates

Literacy Rate	%	99.8
Urbanization	%	55.2
Dependency Ratio	%	40.2
Life Expectancy	Years	72.8
Median Age	Years	31.3

Insurance Statistics

Insurance Regulator	Financial Markets Supervision Chamber	
Premiums Written (Life)	USD mil	103
Premiums Written (Non-Life)	USD mil	220
Premiums Growth (2016 - 2017)	%	6.2

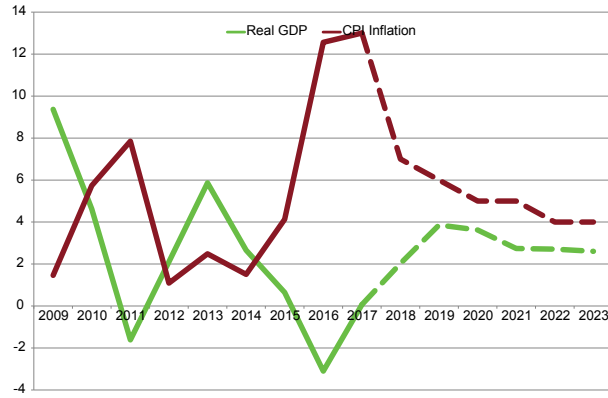
Regional Comparison

	Country Risk Tier
Azerbaijan	CRT-4
Kazakhstan	CRT-4
Russia	CRT-4
Turkey	CRT-4
Ukraine	CRT-5
Uzbekistan	CRT-5

Sources: IMF, UN, Swiss Re, Axco and A.M. Best



Economic Growth (%)



Source: IMF World Economic Outlook and A.M. Best

Economic Risk: High

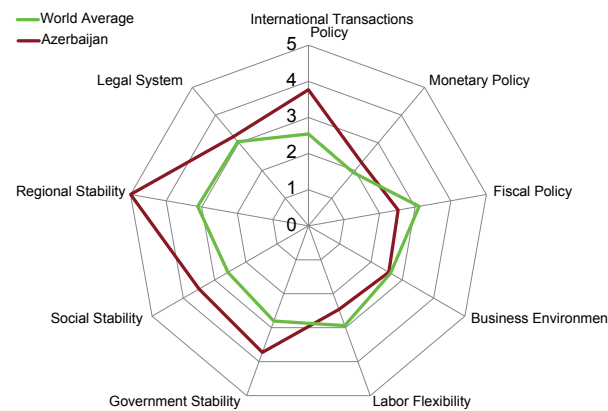
- The country relies highly on oil and gas exports. The recovery in crude prices since the latter half of 2016 helped the country return to economic growth in 2017.
- The government uses revenues from the hydrocarbon sector to finance public investment in both infrastructure and social programs.
- For greater macroeconomic stability, Azerbaijan must diversify its economy away from the hydrocarbon sector, to better insulate the country from terms of trade shocks. Oil accounts for approximately 90% of all exports.
- The State Oil Fund of Azerbaijan (SOFAZ) was founded in 1999 and helps partially insulate the country from external shocks.

Political Risk: High

- In October 2013, current President 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 increased 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.
- The legal system has little independence and is largely controlled by the office of the president.
- 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 conflict with Armenia over Azerbaijan's Nagorno-Karabakh region has escalated. The government has called increasingly for the withdrawal of Armenian troops from that region.

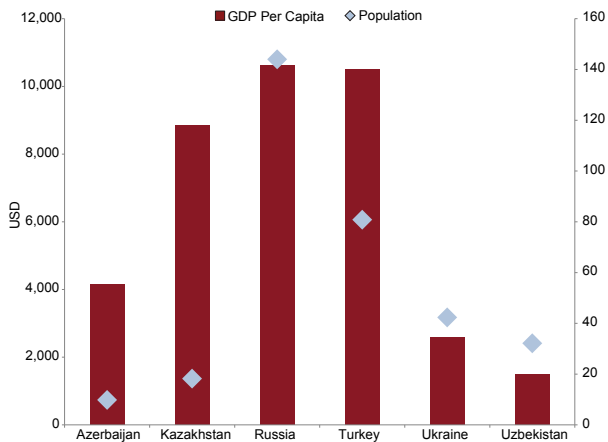
Political Risk Summary

Score 1 (best) to 5 (worst)



Source: A.M. Best

GDP Per Capita and Population



Sources: IMF and A.M. Best

Financial System Risk: High

- The insurance industry in Azerbaijan is regulated by the Chamber for Control of Financial Markets, which was approved by the president in March of 2016.
- The government has undertaken measures to improve banking sector stability. Problem loans from the majority-state-owned International Bank of Azerbaijan were restructured in 2017, costing the government over USD2 billion. The country continues to implement reforms measures recommended by the IMF.
- 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.