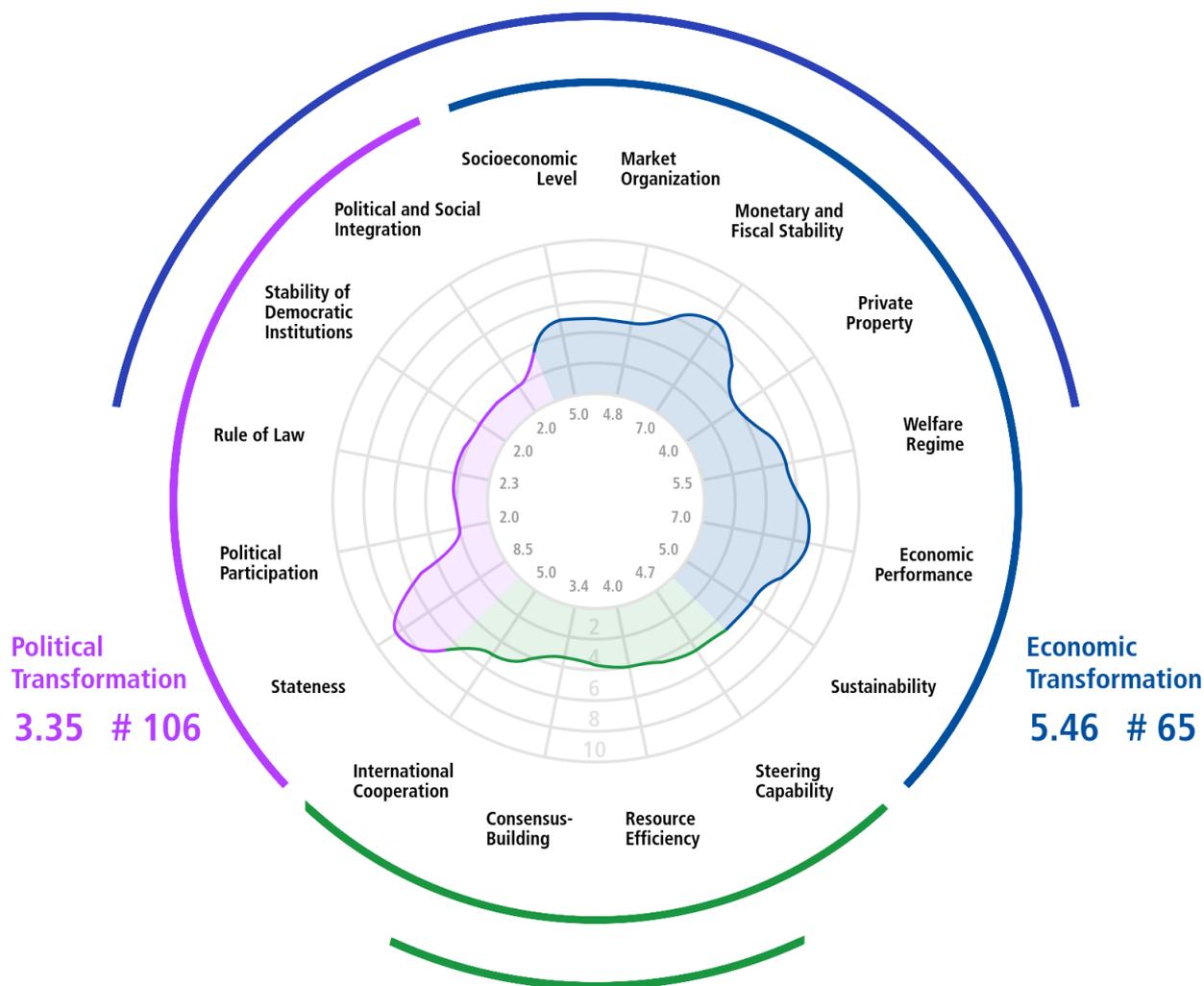


# Azerbaijan

## Status Index

**4.41 # 90**

on 1-10 scale out of 137



This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2026**. It covers the period from February 1, 2023 to January 31, 2025. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

Please cite as follows: Bertelsmann Stiftung, BTI 2026 Country Report – Azerbaijan. Gütersloh: Bertelsmann Stiftung, 2026.

This work is licensed under a [Creative Commons Attribution 4.0 International License](https://creativecommons.org/licenses/by/4.0/).

## Contact

Bertelsmann Stiftung  
Carl-Bertelsmann-Strasse 256  
33111 Gütersloh  
Germany

### **Sabine Donner**

Phone +49 5241 81 81501  
[sabine.donner@bertelsmann-stiftung.de](mailto:sabine.donner@bertelsmann-stiftung.de)

### **Hauke Hartmann**

Phone +49 5241 81 81389  
[hauke.hartmann@bertelsmann-stiftung.de](mailto:hauke.hartmann@bertelsmann-stiftung.de)

### **Sebastian Plate**

Phone +49 5241 81 81263  
[sebastian.plate@bertelsmann-stiftung.de](mailto:sebastian.plate@bertelsmann-stiftung.de)

### **Sabine Steinkamp**

Phone +49 5241 81 81507  
[sabine.steinkamp@bertelsmann-stiftung.de](mailto:sabine.steinkamp@bertelsmann-stiftung.de)

**Key Indicators**

Population	M	<b>10.2</b>	HDI	<b>0.789</b>	GDP p.c., PPP \$	<b>25089</b>
Pop. growth <sup>1</sup>	% p.a.	<b>0.5</b>	HDI rank of 193	<b>81</b>	Gini Index	<b>26.6</b>
Life expectancy	years	<b>74.4</b>	UN Education Index	<b>0.728</b>	Poverty <sup>3</sup>	<b>0.3</b>
Urban population	%	<b>58.0</b>	Gender inequality <sup>2</sup>	<b>0.315</b>	Aid per capita \$	<b>12.1</b>

Sources (as of December 2025): The World Bank, World Development Indicators | UNDP, Human Development Report 2025. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.65 a day at 2017 international prices.

## Executive Summary

During the reporting period, the consolidation of political and economic power in the hands of the ruling family continued. In recent years, the president has repeatedly replaced long-serving senior officials with young and loyal cadres, many of whom have built their careers in companies linked to the ruling family. This trend has significantly improved the government's ability to coordinate policy. However, it also further consolidates the ruling family's undisputed monopoly over the country's economy and politics.

In recent years, authorities have persistently targeted dissidents, opposition figures, civil society representatives, journalists, academics and religious activists. Repression has intensified particularly within the past two years. Most prominent dissidents are either in prison or have already left the country. As a result, in early 2024, the Parliamentary Assembly of the Council of Europe (PACE) refused to confirm the credentials of the Azerbaijani group in that body. Also, in December 2023, abuses of religious freedom by the state, as well as concerns about policies affecting the Armenian Christian religious heritage in Azerbaijan, led to Azerbaijan being placed on the Special Watch List by the U.S. Secretary of State for engaging in or tolerating severe violations of religious freedom.

Early presidential and parliamentary elections were held in Azerbaijan in 2024. In their preliminary reports, the OSCE/ODIHR Election Observation Missions concluded that both elections took place in a restrictive environment. The presidential elections were marked by the suppression of critical voices and a lack of political alternatives, while the parliamentary elections did not allow for genuine pluralism and resulted in a non-competitive contest.

Rising oil and gas prices fueled economic growth during the reporting period. However, falling oil production volumes could create problems down the road. Azerbaijan has worked to strengthen its role as an energy exporter and transport hub in the global economy. While it has achieved some success, new challenges have also emerged.

The country has taken steps to diversify its production and reduce its dependence on fossil fuel revenues, and there has been progress over the period. However, oil and gas still account for about 88% of foreign revenues, 34% of total GDP and 48% of government budget revenues.

After more than 30 years of armed conflict with neighboring Armenia, Azerbaijan finally regained sovereignty over its entire territory in September 2023. While extensive post-conflict reconstruction is underway in the reclaimed territories, a comprehensive peace with Armenia has yet to be achieved. Azerbaijan has advanced new demands, including for a change in the Armenian constitution, which it claims threatens Azerbaijan's territorial integrity. In addition, there is still disagreement over the so-called Zangezur corridor. Azerbaijan wants unhindered access to its Nakhchivan region through Armenia, without the interference of Armenian checkpoints. Armenia recognizes the need to open transport links but refuses to grant the corridor extraterritorial status.

## History and Characteristics of Transformation

In the early 19th century, Russia conquered the South Caucasus region and incorporated it into its empire, including the territory of what is now the Republic of Azerbaijan. At the time, most of the local population consisted of Turkic-speaking Shi'a and Sunni Muslims. Under Russian rule, a new class of intellectuals known as the national intelligentsia emerged, aiming to modernize society and secularize the region's Muslim inhabitants into Azerbaijanis.

After the Russian Empire collapsed in 1918, the short-lived Democratic Republic of Azerbaijan was founded, only to be crushed by the Bolsheviks in 1920. Nevertheless, nation-building continued and gained momentum during the Soviet era. During Soviet leader Mikhail Gorbachev's perestroika era in the late 1980s, tensions between Azerbaijan and Armenia over Nagorno-Karabakh reignited the Azerbaijani national movement, led by the Popular Front as an alternative to Soviet leadership. On October 18, 1991, Azerbaijan declared independence and, in the midst of the escalating conflict with Armenia, the Popular Front soon deposed the last communist leader, Ayaz Mutallibov.

In June 1992, the Popular Front's Abulfaz Elchibey won what is often considered to have been the most democratic presidential election in the country's modern history, and subsequently successfully negotiated with Russian President Boris Yeltsin for the withdrawal of Soviet troops. However, Elchibey was overthrown a year later in a military coup allegedly backed by Russian security forces. With civil war looming, former communist leader Heydar Aliyev (1969 – 1982), who had also served on the Soviet Politburo (1982 – 1987), seized power. Aliyev stabilized Azerbaijan by negotiating a cease-fire with Armenia, appeasing Russia by taking membership in the Commonwealth of Independent States (CIS) and subduing local warlords. His signature achievement was the so-called Contract of the Century – opening Azerbaijan's oil fields to Western companies. He also championed the construction of new oil and gas pipelines to help Europe diversify its energy supplies away from Russia. Despite these gains, Azerbaijan's economy became heavily reliant on fossil fuels – a source both of prosperity and vulnerability.

Heydar Aliyev also failed to implement much-needed democratic reforms. Before his death in 2003, he managed to transfer power to his son Ilham, marking the first dynasty-like transfer of power in the post-Soviet space. Ilham Aliyev maintained his father's energy policies but curtailed opportunities for independent political activity, the media and civil society. His continued repression has transformed Azerbaijan from a partially free country into a fully authoritarian regime.

In 2009, he amended the constitution to remove the two-term limit on the presidency. This change allowed Ilham Aliyev to seek a third term in an election that was widely criticized. In 2016, another referendum extended the presidential term from five to seven years and expanded presidential powers, further consolidating the authoritarian nature of the regime. In 2017, President Aliyev appointed his wife as first vice president, consolidating power within the family. In February 2024, Aliyev was elected to a fifth seven-year term.

Following the 2020 war with Armenia – which ended in a military victory for Azerbaijan – Aliyev was able to further consolidate his power. In September 2023, after a brief military operation, he dismantled the self-proclaimed Nagorno-Karabakh Republic and restored Azerbaijan's territorial integrity within its internationally recognized borders. However, the operation triggered the exodus of around 100,000 ethnic Armenians from Karabakh and drew international criticism, including accusations of ethnic cleansing. Moreover, despite the military success, a comprehensive peace agreement with Armenia remains elusive.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

## Transformation Status

### I. Political Transformation

#### 1 | Stateness

On September 19, 2023, Azerbaijan launched a brief military operation to fully reclaim its formerly autonomous region of Nagorno-Karabakh, which was populated by Armenians. In May 2024, Russian peacekeepers – who had been deployed there since 2020 – withdrew after failing in their mission, marking a historic turning point, as this meant that no foreign troops remained on Azerbaijani soil for the first time in the country’s modern history. That same month, Armenia also returned to Azerbaijan four border villages that it had seized decades earlier. As a result, the Azerbaijani government now wields full, undisputed authority across its entire territory, maintaining a complete monopoly on the legitimate use of force. However, Azerbaijan’s military success precipitated the departure of the entire Armenian population from the region, drawing widespread international criticism, including accusations of ethnic cleansing. Despite having effectively reasserted its authority over its internationally recognized territory, Azerbaijan had yet to sign a formal peace agreement with Armenia by the end of the review period, leaving the broader political reconciliation still unresolved.

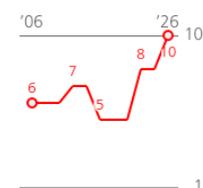
Following Azerbaijan’s military action in 2023 to reassert full control over Nagorno-Karabakh, that formerly autonomous region’s Armenian population departed en masse, prompting widespread international criticism. Under Azerbaijani law, all citizens are formally guaranteed equal rights and access to full citizenship – regardless of race, gender, religion or ethnicity. In practice, the government acts to foster loyalty to the state through school curricula, textbooks, official media and other means.

A significant factor in the consolidation of Azerbaijan’s state identity is the cult of personality surrounding former President Heydar Aliyev, the current president’s father – a policy that may not be sustainable. Meanwhile, discussions of allowing Armenians to return to Nagorno-Karabakh continue internationally, although many observers and human rights groups allege that Azerbaijani authorities are actively erasing signs of historic Armenian cultural presence in the region.

Question  
Score

Monopoly on the  
use of force

10



State identity

8



Furthermore, the government has linked the question of a potential return of Nagorno-Karabakh Armenians to the parallel issue of Azerbaijani refugees expelled from Armenia in the late 1980s. Officials appear keen to sustain nationalist sentiment as a means of uniting the population behind the government – a stance that some critics say fosters an expansionist outlook and could ultimately make the government a hostage of its own rhetoric. Collectively, these developments raise questions and potential ambiguities regarding the evolution of Azerbaijan’s state identity.

Azerbaijan is a secular state, and its legal system is based on positive law. Although Azerbaijan is a Muslim-majority country, the constitution provides for the equality of all religions before the law, and no preference is given to Islam in either the constitution or the country’s laws.

In fact, all religious denominations are under firm state control – despite the fact that relations between Muslim communities and the government are not without challenges. Through the State Committee for Work with Religious Associations, the state has complete control over the appointment of Muslim clerics to mosques and other places of worship. The implementation of state policy is often accompanied by numerous restrictions on religious freedom. During the reporting period, believers were subjected to almost continuous persecution, particularly those belonging to Shi’a Islam. Muslim believers make up the majority of political prisoners in Azerbaijan, according to local human rights activists. Abuses of religious freedom by the state, as well as concerns about the treatment of the Armenian Christian religious heritage in Azerbaijan, led to the country being placed on the Special Watch List by the U.S. Secretary of State in December 2023 for engaging in or tolerating severe violations of religious freedom.

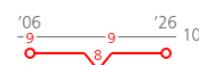
The state provides basic services such as health care, education, tax collection, social security and transport through a fully functioning bureaucratic system and infrastructure. The quality and standards of these services showed steady improvement over the review period.

According to the 2023 annual report of the World Health Organization’s country office in Azerbaijan, 100% of the population is covered by the mandatory health care insurance program, and the health benefits package was expanded in 2023 to encompass 3,344 services. It is reported that 96.1% of Azerbaijan’s population has access to at least basic sanitation, while 69% have access to safely managed sanitation. In addition, 71.6% of people use drinking water from safely managed sources and 97.6% have access to at least basic water services. Notably, 100% of the population has access to electricity.

However, corruption and inefficiency remain problems, and socioeconomic differences between the capital and other regions of Azerbaijan continue to be significant. According to national statistics agency (2023) data, Baku accounts for 80.8% of the nation’s GDP. The city attracts 76.5% of credit-based investment in the

No interference of religious dogmas

9



1

Basic administration

7



1

country, and is home to 51.8% of the total workforce. Although the public transport system continued to improve during the reporting period, the influx and general growth of the capital's population, combined with the slow expansion of the city's metro system and the lack of sufficient numbers of modern buses, metro trains and suburban railway lines, are putting serious pressure on Baku's transport network. Traffic congestion in Baku's central districts has become a major problem that needs to be addressed. Moreover, Baku's burden could be exacerbated by the fact that reconstruction of the greater Karabakh region has become a major priority since 2020. This has the potential to deprive regions other than Karabakh of much-needed investment.

## 2 | Political Participation

The laws of the country and international commitments signed by Azerbaijan, such as the OSCE Copenhagen Document, ostensibly guarantee universal and equal suffrage by secret ballot. However, elections in Azerbaijan are neither free nor fair. In a highly controversial referendum in 2009, the constitution was amended to remove the two-term limit on the presidency. In 2016, another referendum extended the presidential term from five to seven years and introduced a vice presidency. Both referendums took place in a repressive environment. In February 2017, the president appointed his wife as first vice president, further consolidating the power of the ruling family.

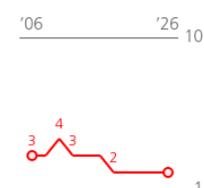
Early presidential and parliamentary elections were held in Azerbaijan in 2024. In their preliminary reports, the OSCE/ODIHR Election Observation Missions concluded that both elections took place in a restrictive environment. The presidential elections were characterized by the suppression of critical voices and the absence of political alternatives, and the parliamentary elections did not allow for genuine pluralism and ultimately resulted in a non-competitive contest. It should also be noted that major cities, including the capital, do not have elected mayors.

In early 2024, the Parliamentary Assembly of the Council of Europe did not ratify the Azerbaijani delegation's credentials, concluding that the country had not fulfilled key obligations arising from its accession to the Council of Europe in 2001.

In general, the reporting period was marked by an unprecedented attack by authorities on critical voices, independent media, opposition and civil society. By the end of 2024, dozens of journalists and civil society activists had been imprisoned on trumped-up charges.

Free and fair elections

2



President Ilham Aliyev has been the country's undisputed ruler for many years. However, by fall 2020, the president's approval ratings were falling and dissatisfaction with his government was steadily rising. The situation changed drastically after Azerbaijan launched a successful military campaign against Armenia in late September 2020. This military triumph catapulted the president's popularity to unprecedented levels, further consolidating his hold on power. In 2023, Azerbaijan fully restored its territorial integrity, further increasing the president's power and authority. However, while the reporting period was marked by further consolidation of one-man rule, dissatisfaction with social, economic and environmental problems, as well as the government's inability to tackle massive corruption, led to a resurgence of criticism and unauthorized protests against the authorities.

The ability of the bureaucratic system to promote meritocracy has long been hampered by entrenched patronage, cronyism and nepotism. Historically, two major regional groups closely aligned with the regime – the Nakhchivanis and ethnic Azerbaijanis from Armenia – have dominated this system. However, the appointment of relatively young officials whose careers initially flourished in the economic, political and non-governmental sectors associated with the president's wife has posed a formidable challenge to the monopoly of high-level positions held by these two regional groups.

Freedom of assembly and association is guaranteed by the constitution, but in practice it is severely restricted. In January 2019, the opposition, led by the Popular Front Party and the National Council for Democratic Forces – an umbrella group of opposition parties – held the largest rally in recent years to demand the release of political prisoners and reforms. However, this was the last officially sanctioned rally by the opposition. Immediately afterward, the government effectively banned demonstrations by refusing to issue permits.

During the reporting period, a large unauthorized protest took place in the village of Soyudlu in the Gadabay region. On June 20, 2023, more than 100 residents of the village gathered to protest the pollution of the area by a mining company, assembling near an artificial lake used to dump acid waste from the mine. The protests were sparked by the construction of a second, similar artificial waste lake. According to the villagers, waste from the mines has caused significant damage to both human health and the region's natural environment. The government responded forcefully to the protests. According to local media, riot police used excessive physical force, rubber bullets and tear gas against villagers. Many residents were placed under administrative detention. One person who made posters during the protests was sentenced to three years in prison on bogus drug charges. A former member of parliament who expressed support for the villagers was sentenced to eight years in prison on false extortion charges. Since the protests, a police checkpoint has controlled entry to the village.

Effective power to govern

2

'06 \_\_\_\_\_ '26 10



Association / assembly rights

2

'06 \_\_\_\_\_ '26 10



The constitution of Azerbaijan guarantees freedom of expression. However, the country lacks independent television, radio and print media. On February 8, 2022, President Aliyev signed a new media law. The Council of Europe’s Directorate General for Human Rights and the Rule of Law, together with the Venice Commission – an advisory body on constitutional law – cautiously expressed the view that the law has “a problematic focus on restricting the activities of the media rather than creating the necessary conditions enabling the media to fulfill their ‘public watchdog’ role.” The reporting period was particularly challenging for the independent media in Azerbaijan. The sector has been severely affected by massive repression. Almost all journalists working for outlets such as Toplum TV and Abzas Media have been arrested on false charges. In December 2024, authorities arrested seven journalists from the most popular independent media network, Meydan TV. As a result, Azerbaijan’s ranking on the World Press Freedom Index (WPFI) has continued to deteriorate. The 2024 WPFI ranks Azerbaijan at 164th place out of 180 countries.

It should be noted that until recently, social media and independent web-based video channels acted as watchdogs, playing an important role in pressing the government to address public concerns. In recent years, however, authorities have managed to secure their dominance over the Azerbaijani segment of social media by mobilizing substantial human and financial resources. Government-sponsored websites and news channels have proliferated, leading to a significant increase in targeted attacks on government critics through fake social media profiles. These attacks often use fake news to harass independent voices and opponents of the regime.

### 3 | Rule of Law

Although there is a formal separation of powers, the executive dominates the other branches of government, and there is virtually no functioning system of checks and balances in the country. All major decisions are effectively made by the presidential administration and rubber-stamped by the parliament.

The executive continued to consolidate power during the reporting period. Snap parliamentary elections held in early September 2024 demonstrated that the executive now has even greater power to shape the legislative branch as it desires, and that the outcome of the elections cannot be influenced by political parties at all.

The executive has transformed the courts into mere tools for punishing opponents, despite reforms to the system over the past decade. These reforms have made the selection process for judges more efficient and meritocratic, and the gender balance has improved as well. However, despite these changes, the judiciary has not secured independence from the executive branch. Selection for key posts depends on loyalty to the ruling elite, ensured through careful background checks and the interview stage in the selection process. The judiciary’s independence has also been undermined by constant pressure on defense lawyers, including reprimands and the disbarment of

Freedom of expression

2

'06 \_\_\_\_\_ '26 10



Separation of powers

2

'06 \_\_\_\_\_ '26 10



human rights lawyers. The courts cannot scrutinize the president and his family, and investigations of other high-ranking executives are possible only with the unofficial approval of the presidential office.

It should also be noted that ongoing repression during the reporting period completely shut down any space for independent internet media outlets.

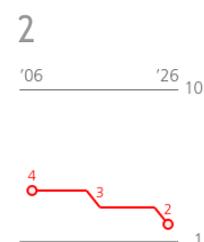
There is no independent judiciary in the country. The courts primarily serve as a punitive tool for the executive to punish dissenters, government critics and officials who fall out of favor with the ruling family. Although the selection process for judges includes professional examinations, political loyalty to the regime – as determined by background checks and interviews – remains a top priority. The government interferes heavily within the system, and retains the final say in court decisions relating to political and economic matters as well as in other sensitive cases. While the administrative capacity of the courts has improved, their political independence has declined. There has been no significant progress in addressing widespread corruption in the courts, which continues to undermine the adjudication of ordinary civil and criminal cases and seriously affects decision-making. Defense lawyers play a largely ceremonial role and have minimal influence on court decisions. The executive branch controls the Bar Association, excluding lawyers who are critical of the government and those who work independently. Lawyers remain subject to disciplinary proceedings as a means of pressure. Human rights lawyers with independent legal backgrounds are not admitted to the bar. Previously, lawyers outside the Bar Association were allowed to practice noncriminal law. However, since a new law took effect in January 2018, attorneys must be admitted to the bar association in order to enter a courtroom. The European Court of Human Rights (ECHR) remains the last resort for those seeking justice in Azerbaijan, and many rely on it. However, the European Parliament's resolution of October 24, 2024, on the situation in Azerbaijan noted that more than 320 ECHR judgments against Azerbaijan have yet to be executed or have been only partially executed – the highest number of any state party to the European Convention on Human Rights.

Political rule in the country is based on informal practices such as nepotism, patronage, corruption and personal loyalty rather than the rule of law. High-ranking officials are immune from prosecution. However, violations of personal loyalty to the president are severely punished.

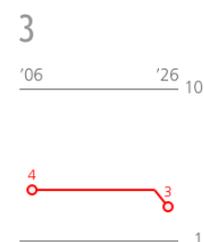
Over the past several years, the president's strongman rule has been reinforced by sidelining formerly influential high-ranking officials. The ruling family's monopoly over the country's economy has also been further consolidated.

Ilham Aliyev won his fifth consecutive term in the snap presidential election held in February 2024 with 92% of the vote, the highest share he has ever received in his electoral history. In fact, the ruling family's unprecedented grip on political and economic power has transformed President Aliyev into an absolute ruler with almost no limits on his actions.

Independent  
judiciary



Prosecution of  
office abuse



During the reporting period, the authorities continued to use widespread repression to persecute dissidents, opposition politicians, independent media, civil society groups, academics, minority and peace activists religious believers. Physical attacks, including allegations of participation in a fatal assault, were also reported against the most extreme critics of the government living in political asylum in European countries.

Legally, Azerbaijan is fully committed to gender equality. The constitution contains provisions to this effect, and the country is a party to numerous international conventions. However, patriarchal norms and values still prevail in society. As a result, Azerbaijan was ranked at 103rd place out of 146 countries in the World Economic Forum's Global Gender Gap Report 2024. Although Azerbaijan has decriminalized homosexuality, serious violations of the rights of sexual minorities still take place. The country was long ranked as the worst place in Europe to be an LGBTQ+ citizen, according to the ILGA-Europe Rainbow Index. In the latest 2024 index, Azerbaijan was ranked above Russia, which now has the worst score. The reporting period continued to be challenging for Shi'a believers. According to local human rights defenders, they make up the largest group of political prisoners.

During the reporting period, Azerbaijan had no open land borders with its neighbors, as they have been closed since the outbreak of the COVID-19 pandemic in 2020. The government now cites security concerns as the reason for keeping the borders shut. This restriction significantly limits the freedom of movement for Azerbaijani citizens, who are unable to travel to neighboring countries by land.

#### 4 | Stability of Democratic Institutions

Azerbaijan is a consolidated autocratic state with nominally democratic institutions. In reality, all power is concentrated in the executive. Parliament has been dominated by the ruling New Azerbaijan Party since 1995, and the government has gradually restricted opposition parties through electoral manipulation. The government facilitates the mimicry of a multiparty system, tolerating only parties that agree not to criticize it directly. In 2002, a referendum abolished party-list proportional representation and replaced this with a majoritarian (single-member constituency) system. On January 11, 2023, President Aliyev signed a new law

on political parties, which the opposition says is another step toward codifying a one-party system.

Since the 2010 elections, the only political parties to have been granted seats in parliament are those that do not challenge the government's authority and operate under its control – the so-called systemic opposition. Real opposition parties – the nonsystemic groupings – are not represented. The parliamentary elections held in September 2024 did not change this situation.

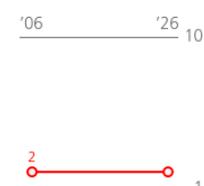
#### Civil rights

2



#### Performance of democratic institutions

2



There are no elected mayors of cities or elected regional governors. Nor are there regional or local parliaments. All power is held by local executive chiefs appointed by the president. The judiciary is likewise fully controlled by the executive.

Until recently, the Azerbaijani government claimed to be committed to strengthening democratic institutions.

For years, authorities have cited geopolitical threats within their tense neighborhood and the existence of the Nagorno-Karabakh conflict to justify autocratic rule, while maintaining that their ultimate goal is a gradual transition to democracy. However, by launching an unprecedented, massive crackdown during the reporting period aimed at completely eliminating genuine political opposition, independent civil society groups and free media organizations, the ruling elite demonstrated that it was no longer interested in maintaining the status quo. Azerbaijani authorities have publicly voiced their disdain for liberal democracy and the West. Their need to seek international legitimacy through collaboration with the West and its institutions has diminished. The current focus is on being recognized as an ardent critic of a global order based on liberal-democratic values. The foreign policy discourse of Azerbaijani authorities revolves around criticizing the West, its alleged neoimperialism, and its liberal-democratic values and institutions.

The main opposition party, the nationalist Popular Front, has repeatedly said that democratizing the country is its top priority. However, the party's unchallenged leadership for more than two decades as well as the often controversial statements and behavior of senior party officials cast doubt on its reputation as an organization committed to democratic principles.

Independent Islamic groups, particularly Shi'i communities connected to religious centers in Iran, are potentially significant political players who regularly question the compatibility of liberal democracy with Azerbaijan's Muslim society.

## 5 | Political and Social Integration

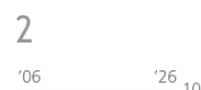
For nearly three decades, a single party has held power, dominating the country's political system. Officially, 11 political parties are represented in parliament, most of them nominally in opposition. In reality, however, all the so-called parliamentary opposition parties are controlled by or dependent on the ruling party, and there is no political plurality in the legislative assembly.

On December 16, 2022, parliament passed a new law on political parties, which was signed by the president in January 2023. According to local independent NGOs and (real) opposition forces, the law's provisions serve to further restrict political parties and diminish the already shrinking legal space accorded to genuine political opposition in the country. The new law requires parties to re-register under new rules.

Commitment to democratic institutions



Party system



Some parties failed to meet the new requirements, resulting in their dissolution or merger with other parties. According to the Central Election Commission, the number of registered political parties decreased from 59 in 2022 to 26 in 2023.

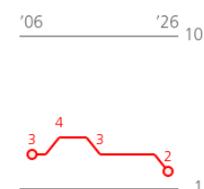
Over the past two decades, the ruling regime has pursued a policy of marginalizing the real opposition, with mixed success. The most radical registered opposition party – the Azerbaijan Popular Front Party – boycotted both the 2020 and 2024 elections due to the restrictive environment. The party faced severe repression throughout the reporting period and had previously been stripped of its headquarters. In 2023, the Popular Front Party held a conference to meet the requirements of the new law for re-registration. Although it was initially re-registered, the district court annulled the results of the conference in July 2024. Thus, the implementation of the new law resulted in the government’s refusal to recognize the party’s leadership.

The government has never tolerated dissent or independent voices, but it has not been able to stamp them out completely. Even in this repressive climate, various groups and movements continue to emerge. Many observers expected that the victorious war in Karabakh, which raised the government’s approval ratings to unprecedented heights, would herald a new openness for the activities of civil society organizations. Given its high levels of public support, the government might subsequently begin a genuine process of democratization, some thought. Unfortunately, the authorities did the opposite, using the opportunity to consolidate authoritarian rule and further suppress independent activity. The reporting period was particularly challenging for independent groups, as the government engaged in widespread repression aimed at eliminating any form of dissent or opposition and any critical voices. The ongoing repression has targeted all independent groups. This includes students and youth groups, feminist activists, an alternative trade union confederation, advocates for minorities, believers who oppose restrictions on freedom of conscience, peace activists, academics who promote academic freedom, and others. The government has intensified conservative and nationalist discourse and anti-Western and anti-liberal rhetoric as a means of rallying public opinion around its authoritarian rule.

Although Azerbaijani citizens lacked broad knowledge or experience with basic democratic institutions such as the separation of powers or multiparty systems, there was strong popular support for democracy and Euro-Atlantic integration after the collapse of the Soviet Union. However, the crackdown on secular political parties and free media, as well as the shrinking space for civil society, stalled the democratization process and led to the rise of authoritarianism and personalist rule. In recent years, a growing number of Western-educated individuals have become involved in public life through civic initiatives supported by national and international non-governmental organizations. This trend has led to a wider understanding of the basic principles of democracy, fostering optimism for a progressive evolution that could eventually lead to a transformation of the political system. However, the government’s subtle criticism of democratic principles and

#### Interest groups

2



#### Approval of democracy

n/a

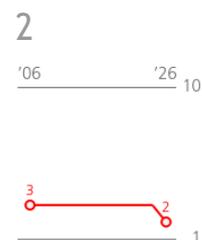


human rights as a means of promoting “Western imperialism” has raised doubts about liberal-democratic values among sections of the population. The global decline of democracy and the rise of authoritarianism, as well as propaganda from neighboring Iran, Türkiye and Russia, have contributed to these doubts. Despite official turnout figures, citizens have been disengaged from the political process in recent elections, including the presidential and parliamentary elections in 2024, due to mistrust and fear. Still, it is reasonable to assume that the majority in Azerbaijan believe free and fair elections, government accountability, and the rule of law provide the best conditions for creating prosperity and justice.

Most social capital in Azerbaijan is found in relatively homogeneous family and kinship ties, regional identities and groups of close friends. Membership in such associations is based on birth, marriage or high levels of interpersonal trust. These forms of social trust and relationships have traditionally been more prevalent in rural areas outside the capital and have gradually declined with increasing urbanization and modernization. Widespread corruption and the absence of the rule of law have also seriously damaged social trust. According to the joint report of the European Values Study and the World Values Survey (2017 – 2022), 90.7% of Azerbaijanis say that family is very important in their lives. Although participation in formal civil society associations such as NGOs has generally been limited, it has steadily increased in the capital over the past decade. However, waves of government repression have negatively affected political and social participation.

The government tends to view independent public initiatives as a threat to its authority and does not tolerate them. For example, during the 2020 Karabakh war, several successful grassroots initiatives collected aid for soldiers at the front. Authorities noticed their success and launched similar government-sponsored efforts to monopolize the process and bring it under official control. Later, one of the initiators of the independent fundraising campaign, Harvard-educated activist Bakhtiyar Hajiyev, was imprisoned. Speaking from prison, Hajiyev said he had been subject to substantial government pressure ever since launching his successful fundraising campaign during the war. Under these conditions, society grows accustomed to demanding action from the government rather than taking action itself.

Social capital



## II. Economic Transformation

### 6 | Level of Socioeconomic Development

Azerbaijan ranks 89th out of 193 countries in the 2024 Human Development Index (HDI), with a score of 0.760. This is the lowest score among the three South Caucasus countries. The country is classified as an upper-middle-income country in the 2024 World Social Protection Report. According to the report, only 35.2% of Azerbaijan's population was covered by at least one social protection cash benefit in 2023. This compares with a global average of 52.4% and an average of 71.2% for upper-middle-income countries.

According to official government statistics, the poverty rate in 2023 was 5.2%. However, this figure does not inspire confidence, because data and indicators on the population's actual standard of living are either limited or inaccessible. For example, there is no data on the distribution of total income by quintiles (20%) or deciles (10%) of the population; statistical data on the share of income received by each population group is not disclosed; data on household median income is not made available; local statistics currently offer no calculation of the Gini coefficient; the poverty depth index is not calculated; and the rate of chronic poverty is not assessed.

The share of households living at a subsistence level was relatively high in the 1990s. However, the influx of oil money since the early 2000s, rising demand for local agricultural production, increasing export opportunities, and the accessibility of cash even in remote rural areas due to the expansion of the banking sector – including e-banking and ATMs – over the past decade have reduced the share of households living on a subsistence basis to negligible levels.

The World Inequality Database (2023) indicates that the richest 10% of the population own 57.9% of the country's wealth. However, Azerbaijan does not disclose the P80/20 and P90/10 ratios. These ratios reflect the difference in income between the poorest and richest 10% and 20% of the population. Income inequality indicators within wealthy groups themselves are also not publicly disclosed.

There is a significant economic gap between the capital, Baku, and the rest of the country. In 2020, Baku accounted for 65% of gross national product, while Ganja, the third-largest city, contributed only 1.2%. According to official statistics, 23% of Azerbaijan's population lives in the capital. However, experts estimate this figure at over 30%.

Question  
Score

Socioeconomic  
barriers

5

'06 '26 10



1

Economic indicators		2021	2022	2023	2024
GDP	\$ M	54825.4	78807.5	72428.5	<b>74315.9</b>
GDP growth	%	5.6	4.7	1.4	<b>4.1</b>
Inflation (CPI)	%	6.7	13.9	8.8	<b>2.2</b>
Unemployment	%	6.0	5.7	5.6	<b>5.6</b>
Foreign direct investment	% of GDP	-3.1	-5.7	0.3	<b>0.3</b>
Export growth	%	-	-	-	-
Import growth	%	-	-	-	-
Current account balance	\$ M	8203.0	23478.1	8329.4	<b>4671.1</b>
Public debt	% of GDP	26.3	17.3	21.8	<b>21.7</b>
External debt	\$ M	15648.0	15277.1	14532.7	-
Total debt service	\$ M	2147.1	1623.4	1840.9	-
Net lending/borrowing	% of GDP	4.8	10.2	-	-
Tax revenue	% of GDP	13.4	15.4	-	-
Government consumption	% of GDP	13.9	11.6	13.8	<b>14.4</b>
Public education spending	% of GDP	3.7	3.0	3.7	-
Public health spending	% of GDP	1.5	1.2	-	-
R&D expenditure	% of GDP	0.2	0.2	0.2	-
Military expenditure	% of GDP	4.9	3.8	4.6	-

Sources (as of December 2025): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

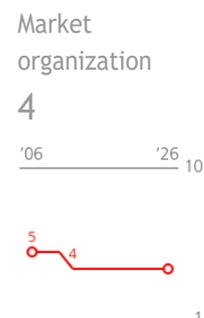
## 7 | Organization of the Market and Competition

Azerbaijan can be characterized as a state-influenced market economy in which state-owned companies and politically connected conglomerates play a dominant role. Even though monopolistic powers may not be explicitly granted, state-owned companies and businesses owned by the ruling family benefit from preferential treatment, market dominance and informal state backing. Personal connections are very important in these markets, even for small and medium-sized enterprises. During the period under review, the ruling family continued its expansion into the non-oil sector by eliminating potential competitors.

Key characteristics of the country's economy include state control over key industries, particularly in utilities, energy, transportation and banking; limited competition, as large conglomerates and state-owned companies crowd out smaller private firms; political influence in business decisions, with major firms maintaining close ties to the government; and price-setting power in critical sectors due to state influence, which impacts consumer costs and economic efficiency. The state controls prices in some sectors of the economy, including oil, electricity and gas. The exchange rate set by the central bank is rigid. As a result, the USD to AZN rate did not change during the reporting period. Prices of unregulated goods and services are also influenced by regular informal payments to tax and customs authorities.

Historically, Azerbaijan has attracted significant foreign investment in the oil and gas sector. Recently, there has been growing interest in renewable energy and energy efficiency. The government recognizes renewable energy as a means to diversify energy sources, meet climate policy objectives and attract foreign investment. Under Azerbaijani law, foreign investment receives extensive legal protection and is generally shielded from nationalization or expropriation. Foreign citizens, organizations and companies may lease land but are not permitted to own it. Significant challenges persist in resolving disputes that involve government agencies or companies with close ties to influential officials. This challenge stems from the judiciary's lack of independence. Judicial and legal reforms are not being addressed within a comprehensive strategy. Given the additional considerable presence of state-owned companies and high customs tariffs, the investment climate is strained, and the investor base remains limited. Investor appetite is also dampened by the slow, insufficient implementation of deregulation. It is also notable that Azerbaijan has chosen not to become a member of the World Trade Organization (WTO).

State-owned banks account for one-third of the total assets in the financial and banking sector. The capital market is underdeveloped, and SMEs' limited access to credit remains an issue.



Ensuring transparency in the economy is a constant challenge. Tendering procedures lack transparency. Small businesses face many obstacles, particularly because of the preferential treatment given to large and state-owned companies.

According to World Economics, Azerbaijan’s informal economy is estimated to account for 36.7% of GDP, an annual amount of about \$82 billion at purchasing power parity levels. However, the IMF notes, “Azerbaijan has recently adopted several tax policy and administrative measures aimed at reducing the size of the informal economy.”

There are a number of safeguards in place to protect competition, but enforcement has been challenging over the years. Rules and laws intended to promote market competition are often circumvented because of high levels of corruption in government agencies. Despite significant efforts to open the business environment, the structural reforms necessary to establish a diversified and competitive private sector have been slow to materialize.

The Azerbaijani government exerts strong influence over certain sectors of the economy such as energy, transport and telecommunications. Safeguards are in place to ensure that public sector monopolies do not unduly stifle competition, but enforcement can be undermined by state interests. Despite significant diversification efforts, Azerbaijan remains a primarily oil-based economy, and the state is involved in the oil and gas industry through the state oil company SOCAR. SOCAR enjoys a near monopoly in the oil industry, and is also the state’s largest company and taxpayer.

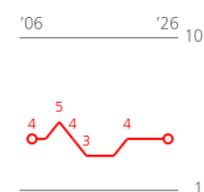
On August 27, 2024, the State Service for Anti-monopoly and Consumer Market Control under the Ministry of Economy was reorganized into the State Agency for Anti-monopoly and Consumer Market Control. It is now a separate state agency responsible for enforcing competition law – including investigating anti-competitive behavior, imposing fines and, in some cases, blocking mergers that could significantly harm competition.

However, despite this legal framework, enforcement of competition law in Azerbaijan has been uneven. The effectiveness of the State Agency has often been questioned – in particular because all large local companies are concentrated in the hands of high-ranking officials with monopoly interests. Similarly, many medium-sized companies are either owned by officials or are informally linked to larger companies.

The International Competition Network (ICN) lists Azerbaijan among its members, but its information on Azerbaijan is outdated. In turn, the State Agency does not list the ICN among its international partners.

#### Competition policy

4



Azerbaijan's economy relies heavily on oil and gas exports, which account for more than 90% of the country's total exports. Production sharing agreements in the sector typically exempt parties from import duties or restrictions, customs duties, and value-added tax on imported goods and equipment. Energy exports make Azerbaijan the only country in the South Caucasus region to maintain a trade surplus with the European Union. However, the European Union and Azerbaijan have struggled to establish comprehensive trade and investment agreements due to Baku's divergence from fundamental European values – such as human rights, the rule of law and democracy – that are essential elements within the European Union's broader trade framework.

Azerbaijan's total foreign trade turnover in 2024 was \$47.61 billion, with exports amounting to \$26.55 billion and imports reaching \$21.06 billion, resulting in a trade surplus of \$5.50 billion. Compared to 2023, foreign trade turnover declined by 6.98% in U.S. dollar terms, driven by a 21.67% decrease in the value of exports, while the value of imports rose by 21.82%. These changes were even more pronounced compared to 2022, with total trade turnover falling by 9.64%, exports dropping by 30.39% and imports surging by 44.82% in U.S. dollar terms.

The country has free trade agreements (FTAs) with 10 former Soviet republics. Under the FTAs, goods from these countries can be imported without tariffs. Azerbaijan has also established bilateral agreements to prevent double taxation with 55 countries.

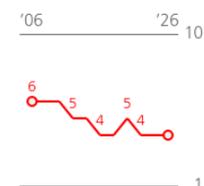
Increasing demand for energy diversification has reinforced Azerbaijan's role as a vital energy supplier and transport hub, sparking renewed interest in the Middle Corridor route and its trade potential. Although much of this potential remains unrealized, the government is actively advancing multimodal projects to strengthen the country's connectivity within international transport networks. For this reason, in 2020, the Alat Free Economic Zone was established on the shores of the Caspian Sea.

Agriculture reportedly provides more jobs than any other sector in Azerbaijan. Tariffs and import restrictions on agricultural products remain common, and the government often uses subsidies to protect domestic producers. Agricultural products are generally subject to a 15% tariff.

Trade liberalization has been uneven, and state control remains significant in key sectors such as oil and gas, telecommunication and infrastructure. These sectors are protected for strategic or political reasons. Most non-oil exports are also concentrated in the hands of a few companies, most of which are owned either by government officials or their relatives. Azerbaijan currently shows no intention of seeking membership in the World Trade Organization in the near future, although it has been an observer since 1997. This reluctance stems from the fact that membership would require compliance with international standards, some of which the country appears unwilling to meet. Azerbaijan's most-favored-nation tariff averages around 8.2%.

#### Liberalization of foreign trade

4



During the review period (2023 – 2024), Azerbaijan made some progress in strengthening its banking system and developing a functioning capital market.

In January 2024, the Central Bank of Azerbaijan approved the Financial Sector Development Strategy 2024 – 2026, which aims to strengthen the resilience of the banking sector and ensure the development of insurance, capital market and payment functions. Over the past two years, three more banks – Gunay Bank, Mugan Bank and Nakhchivan Bank – have ceased operations, bringing the number of banks in the country from 25 to 22.

As of January 1, 2025, the total assets of the banking sector reached about \$31.2 billion, while liabilities totaled \$27.28 billion, resulting in balanced capital of \$3.9 billion. In 2024, banks' loan portfolios grew by 18.5% compared to the previous year. Despite several government initiatives, the supply of credit to small and medium-sized enterprises remains limited. According to CEIC Data, Azerbaijan's bank lending rate was 14.64% in 2024.

According to the International Monetary Fund, the banking sector's capital adequacy ratio remained relatively high at 18.5% in September 2023. The U.S. Department of State's 2024 Investment Climate Statements reports that the non-performing loan ratio declined to a historic low of 2.6% of gross loans in 2023. However, according to the IMF, "non-performing loan classification still lacks adequate qualitative criteria."

According to official data, the sum of individual savings investments in Azerbaijan increased by 13.6% to reach AZN 14.3 billion by January 2025.

Although Russia is an important trading partner, sanctions against Russia have to date had a limited impact on Azerbaijan's banking sector. Azerbaijani banks have few deposits in Russian-sanctioned banks and two-thirds of Azerbaijani banks have correspondent accounts with U.S. and European banks.

Azerbaijani banks are subject to prudential supervision by the country's central bank and comply with international standards defined in the Basel Accords. The stock market is currently very weak.

## 8 | Monetary and fiscal stability

Although the central bank officially announced the transition from a fixed to a floating exchange rate in 2017, it did not implement a true floating regime. In practice, the exchange rate of the Azerbaijani manat (AZN) is pegged to the U.S. dollar, and during the reporting period the AZN/USD exchange rate did not change, remaining constant at 1.70:1. The government views a strong currency as being a prestigious indicator of strength and stability. The central bank lacks transparency and is heavily influenced by political decisions.

### Banking system

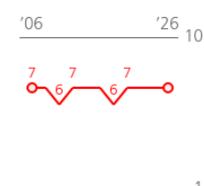
7



1

### Monetary stability

7



1

Azerbaijan is widely regarded as an inflationary country because of its substantial dependence on imports and the significant institutional and structural issues in its economy, including strict monopolies, state intervention in prices, limited competition in markets, and informal or economically unjustified official payments that drive up prices. According to the State Statistics Committee, the annual inflation rate dropped from 8.8% in 2023 to 2.2% in 2024. The average annual inflation rate was 1.3% for food prices, 1.6% for non-food products and 4% for services.

According to official statistics, which independent researchers view with skepticism, per capita income grew by 3.6% in 2024 compared to 2023, suggesting that the per capita income growth rate exceeded the inflation rate.

During the period under review (2023 – 2024), Azerbaijan’s fiscal policy was focused on maintaining economic stability, managing public expenditure and addressing inflationary pressures. In 2024, the state budget recorded revenues of AZN 37.16 billion and expenditures of AZN 37.72 billion, resulting in a deficit of AZN 555.5 million, or 0.4% of GDP. The central bank’s international reserves declined to \$10.9595 billion at the end of 2024. Fitch reports that the country’s net external creditor position strengthened to 153% of GDP in 2024 – the strongest among BBB countries.

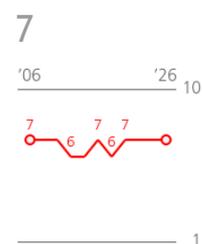
According to official data, public debt is estimated at AZN 27,432 billion as of January 1, 2025, up 2% from AZN 26,884 billion at the beginning of 2024. Overall, Azerbaijan has maintained a low level of public debt, with the debt-to-GDP ratio even declining slightly to 21.7%.

According to the Ministry of Finance, external debt fell by 20% to AZN 8.772 billion, or 6.9% of GDP. Domestic debt will increase by 17.6% between 2023 and 2024, reaching AZN 18.66 billion or 14.8% of GDP.

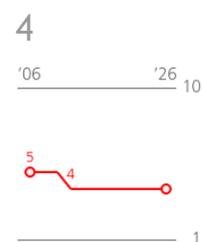
## 9 | Private Property

Property rights are not secure in Azerbaijan. They are often violated by the state and powerful oligarchs. Although legislation on property rights exists, there are still gaps in the law and enforcement remains very weak. The constitution and other laws list conditions under which expropriation is allowed, but limit this to cases of “state needs.” The Civil Code defines “state needs” as the construction of roads or strategic defense facilities. However, the 2010 Law on Expropriation of Land for State Purposes expanded the definition of “state needs,” leading to the large-scale demolition of buildings and entire neighborhoods in the capital. While the law ostensibly protects private property from any encroachment, widespread corruption within the system allows government officials and oligarchs to circumvent these protections and expropriate private homes and retail spaces for personal gain.

### Fiscal stability



### Property rights



There are also numerous loopholes in the legislation governing property registration, with state officials often interfering with legal procedures in order to extort bribes. Politically motivated violations of property rights compound the problem. However, the establishment of the ASAN state agency for public services, along with its service centers, has significantly streamlined the property registration process and, most importantly, made it corruption-free.

Unregistered private houses, and unlicensed buildings and apartments remain among the most pressing problems. Promises to accelerate the legalization process before each election have failed to materialize, leaving hundreds of thousands of such properties in legal limbo. These are concentrated mainly in the capital, Baku, and its suburbs.

The law protects copyrights, patents, trademarks and industrial designs. However, enforcement of intellectual property rights in Azerbaijan is weak. There are significant problems with counterfeit goods and the use of unlicensed software. Media and publishing houses also frequently infringe on copyrights.

The 2024 International Property Rights Index, which assesses factors such as the legal and political environment, physical property rights, and intellectual property rights, reported a drop in Azerbaijan's score by 0.087 to 5.008, placing it 13th in the Central Eastern Europe and Central Asia region and 61st in the world.

Widespread corruption remains the biggest obstacle to doing business in Azerbaijan. Extensive bureaucracy and weak legal institutions pose significant challenges to private enterprise. Privatization procedures are well defined on paper but often favor companies with close ties to the government, and tenders lack transparency. Since the dissolution of the Soviet Union, many large enterprises have been privatized, but most remain under the control of monopolies linked to influential government officials.

The private sector accounts for approximately 82% of GDP. However, this figure includes contributions from foreign energy companies, with no separate data available on the share associated solely with local private enterprises. Additionally, information on the private sector's contribution to tax revenues is not provided. Private companies account for approximately 60% of non-oil exports, but their contribution to the state budget remains undisclosed.

Private enterprise

4

'06 '26 10



1

## 10 | Welfare Regime

National legislation provides for pensions; sickness, disability and unemployment benefits; and maternity leave, but the social security system in Azerbaijan is seriously underfunded. Wages, pensions and sickness benefits are low and do not cover the cost of living. Health care is inadequate, especially for poorer segments of the population.

It should be noted that during the period under review, the main objective of the state was not to improve the social condition of the population, but to reduce spending on social policy. The government has consistently reduced expenditure from the State Social Protection Fund with the aim of making it a self-sustaining fund and reducing the drain on the state budget. However, a significant part of the population has suffered as a result. Certain vulnerable groups, such as the elderly and children from low-income families, have been deprived of social support. For example, the complex bureaucratic procedures involved in assessing disability have left many people with disabilities with no benefits or with reduced financial support.

Obtaining a pension is a challenge, with less than 40% of working-age men (15+) and 25% of women currently able to save for their future retirement. The government has introduced various measures to reduce the number of pensioners. The retirement age has been gradually raised to 65 for both men and women. According to the World Health Organization, the average lifespan at birth is currently 72.9 years, broken out as 75.2 years for women and 70.5 years for men. As a result of pension reforms, the number of pensioners on official rolls has continued to fall. Official statistics show that the number of pensioners was more than 18,000 lower at the beginning of 2024 than at the beginning of 2023.

In December 2024, President Aliyev signed a decree on “Improving Social Welfare,” which raised the minimum pension from AZN 280 to AZN 320, effective February 1, 2025.

Fewer than 10% of unemployed people in 2024 received unemployment insurance payments. There is also a discrepancy between the published unemployment rate and the actual scale of unemployment.

The issue of child benefits remains highly controversial, with only 10.3% of children in the country receiving at least one social protection cash benefit. In addition, the criteria used to define poverty and the minimum consumer basket to determine the subsistence minimum further contribute to the difficult circumstances faced by people in need.

Social safety nets

5

'06 \_\_\_\_\_ '26 10



1

Government officials and parliamentarians often emphasize the large share of the state budget allocated to social spending. However, experts argue that only a portion of what government officials label as social spending can genuinely be considered social protection or social security spending, since some items are not directly related to social costs.

In 2024, the budget of the State Social Protection Fund increased by 0.4% from AZN 6.92 billion to AZN 6.95 billion. The fund's revenues totaled AZN 7.02 billion. According to the State Social Protection Fund, its expenditures on pensions, allowances and targeted state social assistance amounted to AZN 6.89 billion, a 13% increase from the previous year.

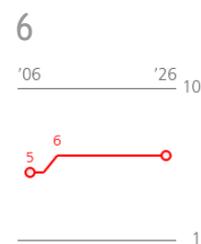
In December 2024, the minimum monthly wage was increased by 18% from AZN 335 to AZN 400 by the aforementioned presidential decree. However, people whose monthly income falls below this threshold are not officially classified as poor. The poverty rate is instead determined by the minimum consumption basket, which is currently set at AZN 270 per person per month (AZN 287 for people of working age, AZN 222 for pensioners and AZN 235 for children).

According to UNICEF, Azerbaijan allocated \$1.1 billion to the health sector in 2023, an 11.6% increase from 2022. This represented 1.8% of GDP. The gradual introduction of compulsory health insurance in Azerbaijan began in early 2020, and since April 1, 2021, the entire population has been covered by a compulsory health insurance program. In 2023, an additional 794 new medical services were added to the list of services covered by compulsory health insurance. However, services for cardiovascular and oncological diseases are not covered, even though these are the most common diseases among the population. In 2024, 5.2 million people, or 54% of the population, used medical services under the compulsory health insurance scheme.

The constitution guarantees equal rights to all citizens. In principle, everyone has equal opportunities to access education and employment. Almost everyone in the country receives at least some form of basic education. Gross enrollment rates indicate a high level of participation, with a rate of 95.8% at the primary level, 94.1% at the secondary level and 35.2% at the tertiary level. In terms of gender balance, Azerbaijan reported a female-to-male enrollment ratio of 1.0 at the primary level, 1.0 at the secondary level and 1.2 at the tertiary level in the 2020 – 2021 period. In rural areas, the influence of religious and parochial traditions can sometimes lead to young girls dropping out of school.

Legally, women have the same rights as men, and actively participate in the labor force. In 2023, the labor force participation rate among women was 67.4%, compared with 73.2% for men. In 2024, Azerbaijan was ranked 103rd out of 146 countries on the Global Gender Gap Index, with a score of 0.685. It received a score of zero with regard to women in ministerial positions. Although women continue to face gender discrimination in leadership and often are stuck in underpaid roles, their access to

Equal opportunity



public office has improved in recent years. Compared with previous periods, local authorities now include more women representatives. The number of women appointed as judges, prosecutors and ambassadors has also increased in recent years, and the absolute number of female lawyers has tripled. The speaker of the Azerbaijani parliament is also a woman.

The World Bank’s “Women, Business and the Law 2024” report assigned Azerbaijan a score of 85.0 out of 100.0, slightly below the regional average of 85.8 for Europe and Central Asia. This score reflects the country’s legal framework regarding women’s rights in business and employment contexts. It should be noted that this data refers to the laws and regulations applicable to the main business city, Baku, but different rules may apply in other jurisdictions.

There is a notable discrepancy in labor force participation rates between rural and urban areas. In general, urban areas have higher unemployment rates because a significant portion of the rural population is engaged in subsistence agriculture. There is also a significant wage gap between urban and rural areas.

There are no meaningful mechanisms to promote the increased representation of women and ethnic or religious minorities. The government has actively worked to stifle public expressions of ethnic Talysh and Lezgin identity, among other targeted groups. Members of ethnic minority groups have reported discrimination in education, employment and housing.

## 11 | Economic Performance

Azerbaijan’s economy remains heavily dependent on oil and gas production, which poses significant risks to economic development. Despite a decline, oil and gas accounted for about 87% of total exports in 2024. Official statistics indicate that the oil and gas sector made up 32% of GDP. Azerbaijan’s oil and gas export revenues fell by 24% in 2024 compared to 2023, and relatively low prices also resulted in lower export revenues.

In 2024, Azerbaijan’s GDP reached \$74.29 billion, up 4.1% from the previous year. GDP per capita was \$7,284. According to the Ministry of Economy, tax revenues flowing into the state budget totaled AZN 15.8 billion in 2024, a slight decrease from AZN 16.1 billion in 2023. Official data shows Azerbaijan attracted \$6.7 billion in foreign direct investment (FDI) that year.

Official statistics for 2023 put the unemployment rate at 5.5%. In 2024, the official rate fell slightly to 5.3%. The central bank announced that the annual inflation rate was 8.8% in 2023 and 4.4% in December 2024. It estimates that the inflation rate will be 5.5% in 2025.

Output strength

7

'06 '26 10



1

## 12 | Sustainability

Azerbaijan has enacted numerous laws and programs to address environmental concerns, but challenges remain in ensuring effective implementation and enforcement of policies.

In 2023, the government committed to reducing emissions by 40% by 2050. According to official sources, more than AZN 360 million was allocated to environmental protection in the 2023 state budget, an increase of more than 24% compared with the approved forecast for 2022. The Socioeconomic Development Strategy of the Republic of Azerbaijan for 2022 – 2026 outlines a number of measures aiming to secure a clean environment and transform Azerbaijan into a country of green growth.

In November 2024, Azerbaijan hosted the COP29 climate summit in Baku. Yet the country faced significant criticism for its lack of commitment to fossil fuel divestment in its own agenda. The Climate Action Tracker (CAT) has given Azerbaijan an overall rating of “critically insufficient.” It states that “Azerbaijan’s target and current policies are far from consistent with the Paris Agreement’s 1.5°C temperature limit.” CAT projects that Azerbaijan’s emissions will increase by around 20% by 2030.

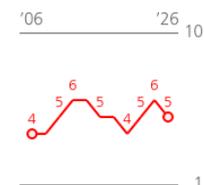
In 2022, the Ministry of Energy, in collaboration with the World Bank and the International Finance Corporation (IFC), released the Azerbaijan Offshore Wind Roadmap. However, the government’s commitment to transitioning the power sector remains questionable. In 2023, fossil fuels accounted for 94% of Azerbaijan’s electricity generation, with total production reaching 29.3 billion kWh – 92% derived from natural gas and 2% from oil. Hydropower contributed 5%, making it the largest source of green energy, while other renewables accounted for less than 1%.

In recent years, the government has advanced several renewable energy projects, aiming to bring nine solar and wind farms online by 2027 with a combined capacity of 2,000 MW. By 2030, an additional 10 projects are planned, bringing total capacity to 5,000 MW. While Azerbaijan is on track to meet its renewable energy targets, these goals are relatively unambitious. By 2030, the government aims to generate 30% of energy from renewable sources. Although new wind projects were expected to drive progress, most recent gains came from hydropower and some solar. If implemented as planned, Azerbaijan’s renewable energy projects could surpass its 2030 target. However, installed capacity does not necessarily translate into electricity generation, as renewables accounted for less than 5% of the country’s electricity production in 2022.

In November 2018, Azerbaijan approved a National Strategy on Improving Solid Waste Management (2018 – 2022). Despite this, illegal waste dumping remains widespread. Although sanitary landfills exist, a significant amount of waste is still disposed of illegally. In rural areas, waste disposal is mostly uncontrolled, with

Environmental  
policy

5



practices such as open burning and unauthorized dumping remaining common. Proper waste disposal is still unfamiliar to many people, and recycling initiatives have been inconsistent due to insufficient awareness campaigns. The major obstacles to waste management are the absence of clear rules and responsibilities and the poor classification of waste under applicable laws.

Access to formal education in Azerbaijan is universal and free. The country has a literacy rate of 100%. The gross enrollment rate is 95.8% at the primary education level, 94.1% at the secondary level and 35.2% at the tertiary level. In 2024, the state budget allocated AZN 4.95 billion for education in 2025, an increase of AZN 395.7 million, or 8.7%, over the previous year. This budget allocation for education represents 3.8% of GDP, an increase of 0.1% from 2024.

Despite ongoing efforts, corruption continues to pose a significant problem in state kindergartens and secondary schools.

Private tutoring, which is in high demand for students seeking to pass standardized state exams for university admission, also comes at a high cost.

The politicization of social science curricula by the authoritarian state has become an increasing issue in education. During the reporting period, the political instrumentalization of education was also evident in the establishment of Karabakh University in Khankendi – a city previously called Stepanakert and dominated by Armenians before their departure from the region – as well as in the closure of the Baku French Lyceum amid deteriorating relations between Azerbaijan and France.

Despite the investment in education, research remains an underdeveloped sector of the economy. In 2022, only 0.15% of GDP was spent on research and development, according to the World Bank.

Some academics faced repression during the reporting period due to the government's opposition to their research topics or because of criticism from the ruling elite.

Education policy /  
R&D

5

'06 '26 10



1

## Governance

### I. Level of Difficulty

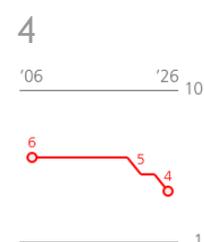
Azerbaijan has favorable conditions for good governance. However, several factors have hindered the country's development. Since its independence in 1991, Azerbaijan has faced many challenges, the most prominent being the long-standing conflict with Armenia over Nagorno-Karabakh. Much territory lost in the early 1990s was regained by Azerbaijan in 2020. Following a brief military operation in the conflict region in 2023, Azerbaijan regained full control of its internationally recognized state territory, resulting in the flight of more than 100,000 Armenians from Nagorno-Karabakh. Russian peacekeepers, who had been stationed in the region since 2020, also withdrew. However, as of the time of writing, a comprehensive peace agreement with Armenia was still pending.

Azerbaijan is an oil- and gas-producing state, and nearly 90% of its foreign trade revenue comes from the export of oil and natural gas. Despite this dependence, the Azerbaijani economy did not suffer significant setbacks during the reporting period as a result of high oil prices. However, Azerbaijan's oil production has been declining steadily. Furthermore, Azerbaijan has no prospective gas fields, and existing ones are hardly able to meet its growing international commitments and domestic needs. Moreover, as a landlocked country, Azerbaijan depends on its neighbors for the transit of oil and gas exports.

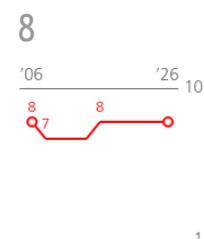
For some time, Azerbaijan's leaders have attempted to address potential economic problems raised by these factors. However, all efforts to diversify the economy have failed to yield tangible results due to widespread corruption and mismanagement. Under these circumstances, the Azerbaijani government is seeking to turn the country into a major transport hub – east-west as well as north-south – and views this as the most promising solution to potential economic challenges.

The historical roots of civil society in Azerbaijan are weak. In terms of local traditions, Azerbaijan is characterized by a hierarchical social structure that emphasizes obedience to authority and lacks a tradition of collective action and organization. Nevertheless, in the late 19th and early 20th centuries, Azerbaijan showed signs of developing its own intelligentsia and political culture within the context of the wider Muslim world. This could potentially have served as the basis for a modern civil society. However, this potential was extinguished during the period of Soviet rule.

Structural constraints



Civil society traditions



Since independence, NGOs supported by international agencies have become important actors in public life. They have been effective in mobilizing public opinion on various social issues. However, these efforts face challenges in a deeply entrenched authoritarian environment that does not tolerate independent activity and seeks to monopolize all aspects of public life.

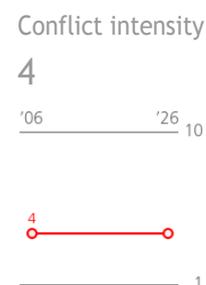
Over the years, the government has launched several waves of repression against independent civil society groups. The latest wave persisted throughout the reporting period and was deliberately aimed at undermining international support for Azerbaijani civil society organizations and independent media. However, the government has as yet failed to silence independent groups altogether. Nevertheless, most NGOs in the country are often referred to as government-operated NGOs (GONGOs).

The reporting period saw a further consolidation of authoritarian practices in Azerbaijan. The ruling family maintains complete political and economic control of the country and suppresses any form of dissent, whether political, social, ethnic or religious. However, this approach has not prevented rising social and other tensions between the government and the population. For example, in June 2023, environmental protests in the village of Soyudlu in the Gadabay region sparked a national outcry. Although the government severely suppressed the protests, social, environmental and civil rights problems persist throughout the country. It seems clear that the events in Soyudlu will not remain isolated, and that protests could erupt in other parts of the country.

Relations between the government and the main opposition party, the Popular Front Party, remain tense. Repression of the party continued during the reporting period. Its members were arrested, detained and harassed throughout the period, and the court annulled the results of the party's last congress in 2023. Its leader, who has been denied a national passport for the past 20 years and cannot travel abroad, was also fined by the court in 2024.

In September 2023, Azerbaijan launched a brief military operation to take control of the breakaway Republic of Nagorno-Karabakh, which had declared its secession from Azerbaijan in the early 1990s. The military operation resulted in the restoration of Azerbaijan's territorial integrity within its internationally recognized borders. However, the departure of the entire Armenian population from the region has drawn international condemnation and negatively affected the normalization process between the two countries. In addition, as of the time of writing, a peace agreement between Azerbaijan and Armenia had not yet been reached due to various conditions set by the Azerbaijani side.

Despite the relative thaw, relations with Iran remain a potential source of conflict. Hundreds of Shi'ite believers, portrayed in government propaganda as Iranian spies, remain imprisoned. In addition, the government's religious policy, which demands



total loyalty from religious communities to the ruling elite, has alienated many Shi'a religious communities. Thus, relations between the government and the overall Shi'a community remain a potential source of conflict within society.

Relations between Azerbaijan and Western countries, as well as international institutions such as the Parliamentary Assembly of the Council of Europe, also deteriorated during the reporting period. This was due to Azerbaijan's disregard for human rights, the decline of its democratic institutions and its policy toward Armenia.

## II. Governance Performance

### 14 | Steering Capability

For many years, the government sought to convince external and internal actors that it was pursuing a gradual and deliberate strategy to build democracy. However, as it gained confidence from the influx of oil revenues, it began openly discussing a special approach to democratic development – effectively signaling a move toward an authoritarian regime. Although the government has adopted strategic roadmaps, restructured ministries, created new agencies, dismissed notorious senior officials and cooperated with international aid organizations following the economic downturn in 2014, its strategic and institutional capacity to set priorities and implement policies remains limited.

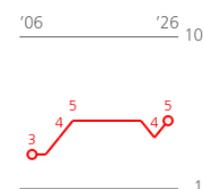
The ruling elite's top priority remains maintaining its grip on power. As a result, the government continued efforts to further consolidate authoritarian rule during the reporting period. Fundamental structural problems in the economy – including entrenched high-level corruption, oligarchic monopoly and weak political institutions characterized by the absence of the rule of law, the lack of genuinely free and fair political competition, and widespread violations of civil liberties – have largely persisted. In addition, the combination of rising energy prices and Azerbaijan's growing importance as a potential energy supplier to Europe in the context of the Ukraine war has boosted the ruling family's confidence and political influence in recent years.

During the period under review, however, external factors negatively affected this strategic priority. For example, price disputes strained relations with Turkmenistan and caused that country's gas supply to Azerbaijan to fall by almost 50% in 2024. In addition, Azerbaijan's purchase of Russian gas for domestic use to free up domestically produced gas to supply growing international commitments raised questions.

Question  
Score

Prioritization

5



Since the fall in oil prices in 2014, the Azerbaijani government has made diversifying the economy one of its top priorities, but results have been somewhat mixed to date. As a result, the economy remains heavily dependent on revenues from the oil sector. Moreover, a steady decline in oil production over the years means the country could be facing a very difficult economic outlook in the future. To address this, the government is considering major transformational projects, including efforts to transform the country into a transport hub. One of these major projects is to strengthen ties with the Central Asian region through the Trans-Caspian International Transport Route, known as the Middle Corridor. So far, however, implementation of this plan has been very limited.

Using Azerbaijani pipelines to transport Kazakh oil and Turkmen gas to European markets is another strategic priority. Kazakh oil and Turkmen gas exports could benefit from this promising alternative. Building pipelines under the Caspian Sea is the optimal way to achieve this. However, the legal issues surrounding the Caspian Sea – which is shared by five countries – complicate matters. Alternatives to the pipeline, such as delivering Kazakh oil to Baku in tankers, are very costly and time-consuming. Although Kazakhstan decided to export a small amount of its oil by this route in 2024, it is still three times more expensive than transport via Russia. Meanwhile, the gas swap deal between Azerbaijan and Turkmenistan has stalled due to disagreements over prices.

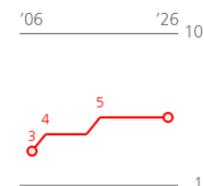
In addition, Azerbaijan has recently begun to focus on renewable energy production. The government has pledged to diversify its existing energy system and increase renewable energy capacity to 30% by 2030. European Commission President Ursula von der Leyen has noted that Azerbaijan has significant renewable energy potential, and that Azerbaijan and the European Union are laying the foundations for cooperation in this sector in order to transform Azerbaijan from a supplier of fossil fuels into a reliable and important EU partner in this field.

Azerbaijan hosted the COP29 climate conference in 2024, but assessments of the results were somewhat mixed. The event was marred by the ongoing repression of civil society and independent media in Azerbaijan.

One of the major policy priorities has been the post-conflict reconstruction of the broader devastated Karabakh region and the return of internally displaced persons (IDP) from the first war in the early 1990s. Since 2020, approximately \$13 billion has been allocated from the state budget for the restoration and reconstruction of the liberated territories. According to the president, “more than 10,000 IDPs have already been provided with homes and are living there.”

## Implementation

5



Overall, Azerbaijan’s ruling elite has never prioritized long-term development plans. Moreover, most existing plans have never been fully implemented. Typically, Azerbaijani authorities ignore problems until they pose an immediate threat to the regime. This pattern was vividly demonstrated during the economic downturn following the collapse of oil prices in late 2014, which exposed the government’s incompetence, flawed policies and corrupt practices. The crisis left the government on the back foot, although it did learn some lessons from its own mistakes. To consolidate its own control over the economy, it temporarily liberalized somewhat and cooperated more with Western institutions in implementing economic reforms.

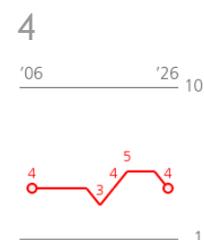
This pattern of addressing urgent problems and then reverting to old practices has also been evident in the government’s monetary policy. When forced to reluctantly devalue the AZN twice in 2015 in the wake of falling oil prices, the authorities even considered moving to a floating exchange rate. However, this never materialized, as the crisis was eventually overcome. The discourse on the urgency of diversifying the economy also intensified after the downturn in 2014. In practice, little has been achieved since then.

This pattern continues today. When Azerbaijan was selected to host the COP29 climate conference in 2024, it became clear that pollution control had never been a priority for the Azerbaijani government. The government has preferred building airports rather than developing the country’s rail network for passenger transport. It has failed to invest significantly in the current metro system in the capital, and its expansion over more than 30 years of independence leaves much to be desired. The electric tram system that was once in use in the capital after 1924 no longer exists. The first set of electric buses was added to the capital’s transport system only in 2024, just before COP29.

During the climate conference itself, the president told delegates that oil and gas were a “gift from God.” The country plans to increase its gas production by up to a third over the next decade, which is not in line with the government’s targets to reduce greenhouse gas (GHG) emissions by 35% by 2030 and 40% by 2050 compared to 1990 levels.

Prior to the second Karabakh war in 2020, when the government’s approval ratings were in free fall, its public messaging focused on fighting corruption and implementing reforms. However, once the war was successfully brought to an end, the government stopped discussing these issues and allowed old corrupt practices such as bribery in the law enforcement sector and embezzlement in government offices to continue virtually unimpeded. Nevertheless, the government is willing to seek advice from international organizations in areas that do not threaten its authoritarian character or the vested interests of senior officials. When it comes to issues such as political reform, strengthening civil society or enforcing the rule of law, the government completely ignores Western advice.

#### Policy learning



## 15 | Resource Efficiency

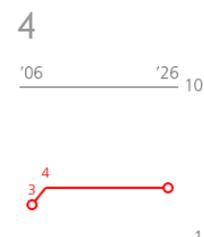
The state budget is heavily dependent on hydrocarbon revenues, which led to high GDP growth rates for a number of years until oil prices fell in late 2014. In the absence of economic diversification, it was feared that growth would slow once the country's oil reserves were depleted, eventually leading to economic decline. The decline in GDP in 2015 (to \$53.07 billion) and 2016 (\$37.87 billion) confirmed these fears. In 2017, real GDP recovered to \$40.75 billion, and in 2019 its growth rate exceeded 2% for the first time in five years. However, the shutdown during the COVID-19 outbreak and a further collapse in oil prices at the start of the year caused GDP to fall by more than 4% in 2020. Nonetheless, GDP growth rebounded to \$54.62 billion in 2021 thanks to rising oil prices, and by the end of 2022, the country's GDP reached an all-time high of \$78.81 billion, according to the World Bank. As hydrocarbon export revenues dropped sharply in 2023, GDP fell to \$72.36 billion before rebounding to \$74.31 billion in 2024, according to official statistics.

Public debt remains well under control. According to the Ministry of Finance, foreign debt amounts to just 6.9% of GDP – about \$5.16 billion – and is manageable thanks to the country's strong liquidity buffers. However, the budget is not effective because it is not audited. Formally, there is an independent audit by parliament. However, parliament itself is not an independent body, as it is controlled by the executive. Planning and implementation of the state budget are not transparent. Stakeholders are not involved in the planning process. As a result, important budget expenditures are hidden from the public. Deviations of actual budget expenditures from the planned budget have been common practice for many years. The current budgetary law grants the executive branch extensive independence in amending the budget without obtaining prior approval from parliament.

The government has introduced several examination procedures, conducted by the State Examination Center, to hire state employees based on merit principles. Although the exams have gained the public's trust, the final stages of the selection process – interviews – remain a powerful tool for authorities to reject “potentially disloyal” candidates.

The lack of political will to decentralize has caused the country to lag behind its South Caucasus neighbors in reforming the territorial and administrative systems inherited from the Soviet past. Azerbaijan has 76 rayons (districts), led by local executive body heads who are granted relative independence and broad administrative powers. These leaders are directly responsible for economic performance and social well-being, as well as for political stability and promoting popular loyalty to the regime within their regions. On July 7, 2021, however, the president signed a decree “On the New Division of Economic Regions in the Republic of Azerbaijan,” increasing the number of economic regions to 14. Subsequently, the office of the president's special

Efficient use of assets



representative was established to oversee these regional units, which are larger than the rayons. It can thus be assumed that these regions will soon replace the rayons as the country's new, much larger administrative units. However, this is not yet a transformation into regional self-administration, since the regions too are governed by appointed executive body heads who are not accountable to the local population, and there are no elected entities such as regional councils or governors. It should also be noted that most of these new appointees to senior positions are specially trained individuals who started or built their careers in the ruling family's companies, such as Pasha Holding.

In the past, the government has faced a major challenge in coordinating its policies. The Nakhchivanis and the other population serving as a power base, Azerbaijanis born in Armenia, have historically enjoyed a privileged status. Some ministers and senior officials have acted independently, with little regard for accountability or responsibility to their peers. The cabinet of ministers has often struggled to operate as a unified body. Historically, the prime minister's role has been more bureaucratic than political, and that remains true today. Meanwhile, oligarchs with significant economic interests have pursued their own private ventures, often creating near-monopolies in certain sectors.

In recent years, however, the president and his family have removed oligarchs, including those from Nakhchivan and Armenia, from key economic and administrative positions. This has reinforced the centralization of authoritarian power, with the ruling family exerting complete control over the nation's political, economic and cultural life. Nevertheless, representatives from these two regions remain President Aliyev's most loyal base – for example, heading key agencies such as the State Security Service and the Ministry of the Interior.

Keeping control of law enforcement agencies in the hands of the historically loyal regional base has helped ensure the security of the ruling elite. However, the gradual allocation of economic management functions to young technocrats selected on the basis of merit is intended to erode the economic control wielded by previously powerful oligarchs. This trend is reducing the influence of the government's loyal regional base in governance, and is enhancing the state's administrative and coordination capabilities. The shift is also aimed at reducing corruption at the highest level of economic governance. However, despite some positive movement, the results have still not been far-reaching.

Policy  
coordination

5

'06 '26 10



1

Entrenched corruption and elite influence continue to hinder governance and the sustainability of development. State-owned enterprises controlling fossil fuel resources have enabled elites to consolidate power and wealth by frequently awarding contracts based on political connections rather than competence. These elites obstruct progress toward the development of the sustainable energy sector. Their opaque procurement processes allow them to appropriate resources intended to support climate resilience and renewable energy projects.

Rampant, centralized corruption in Azerbaijan remains a major problem in government spending, procurement, the education system, the national health service, the police, the courts, local government, and the tax and customs administrations.

Despite legislation such as the Law on Ethics and Conduct of Public Officials and the Law on Prevention of Conflicts of Interest in the Activities of Public Officials, conflicts of interest stemming from the overlapping family interests of public officials at the central and local levels remain a significant problem for decision-making and the functioning of state institutions.

The law requires civil servants to declare their finances. In practice, this is only marginally enforced. In 2012, after independent and international media exposed questionable business deals involving the ruling family, the government amended state laws to restrict access to corporate information.

## 16 | Consensus-Building

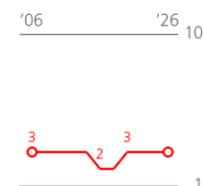
Until recently, the ruling elite claimed they were on a path to democracy, but insisted that stability, security and social order were prerequisites for democracy and that the democratization process should be gradual, cautious and based on cultural modernization. The authorities also used the ongoing Karabakh conflict with Armenia as a pretext for postponing democratic reforms. Throughout the reporting period, President Aliyev repeatedly asserted there had never been any intention of pursuing integration with the European Union. However, he also maintains that Azerbaijan has already made the transition to democracy, albeit on a special path. It should be noted that the credentials of the Azerbaijani delegation to the Parliamentary Assembly of the Council of Europe were frozen in early 2024 due to the country's failure to implement democratic reforms.

On the other hand, the secular opposition has consistently accused the ruling family of monopolizing political power and the economy, and of using the goals of stability, social order and cultural progress as pretexts to turn the republic into a de facto monarchy. In their statements, the main secular opposition parties reaffirm their commitment to democratic reforms and eventual EU integration.

It is worth noting that Islamists, an influential group in society, explicitly reject liberal democracy as a goal for the country's transformation.

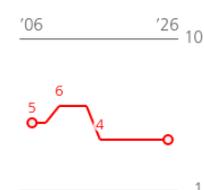
### Anti-corruption policy

3



### Consensus on goals

4



In their statements, all major political actors in Azerbaijan – except for some radical left-wing youth groups – agree on the need for a market economy. However, the nature of Azerbaijan’s ruling regime has hindered the development of a fully functioning market economy. In addition to its monopoly on political power, the ruling family holds an almost complete monopoly over the country’s economic life. All major businesses – including holdings, banks, manufacturing, wholesale and retail companies, cell companies, and private land – are owned in one way or another by the ruling family. Pasha Holding, the ruling family’s private holding company, is the largest in the country. Almost all those appointed to the highest government positions in recent years have made their careers at Pasha Holding. There are no independent large companies, and medium-sized businesses struggle to compete with the ruling family’s enterprises, often falling victim to unfair competition or outright intervention by state authorities. Azerbaijan has not joined the WTO because the government is unwilling to enforce fair competition rules and fight corruption. Although there are no officially listed billionaires in the country, international investigations often uncover huge amounts of wealth amassed by the authorities or their relatives and kept off-shore.

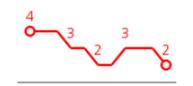
For a long time, the group of powerful state officials known as the old guard was seen as the main obstacle to democratic transformation. In contrast, the president and his family were considered the likely leaders of a gradual democratic transition. However, in recent years, old, established members of the elite have been replaced in key government posts by relatively young officials, many of whom were educated in the West. This series of reshuffles raised hopes that the government might finally move in the direction of liberalization.

However, the hope that the ruling family would begin a gradual transformation after dismissing those powerful state officials has been crushed. It became clear that the ruling family holds the strongest anti-democratic veto power in the country. Since establishing absolute control over the country’s politics and economy, the ruling family has taken a path clearly diverging from democratic principles and the market economy. In addition to rigged elections and the elimination of the last vestiges of the rule of law, the crackdown on independent media, Azerbaijani and foreign NGOs, civil society, and human rights activists; the persecution of political dissidents; and further restrictions on civil liberties are among the most important indicators of the regime’s undemocratic nature. Moreover, upon attaining complete control over the country’s political and economic affairs, the president initiated an ongoing and explicit attack on liberal-democratic values, international organizations and the Western countries that condemn his government for human rights violations. The regime’s declining interest in collaboration with democratic international institutions resulted in the freezing of the credentials of the Azerbaijani PACE delegation in early 2024.

Anti-democratic actors

2

'06 '26 10



The government prioritizes maintaining stability as its main policy objective. Accordingly, national stability is held up as the government's greatest achievement. All potential conflicts – whether religious, ethnic or social – are prevented and suppressed. The government has often sought to stifle dissent rather than build consensus. The lack of a comprehensive long-term policy, authoritarian measures to achieve short-term goals, and above all the government's rejection of genuine democratic opposition all contribute to perpetuating and even exacerbating the problems.

The perception that the ruling elite is often dominated by Azerbaijanis from Nakhchivan and Armenia is also a potential source of tension in society, as individuals from other regions resent the unequal access to power and wealth. However, policies and changes initiated by first lady Mehriban Aliyeva, who was appointed first vice president in 2017, appear to be aimed at addressing this unease.

The government frequently praises religious tolerance in the country as part of the national tradition. It hosts many international pro forma events on multiculturalism, religious tolerance and dialogue. However, critics often accuse the government of suppressing religious freedom. In January 2024, Azerbaijan was placed on the Special Watch List by the U.S. Secretary of State for engaging in or tolerating severe violations of religious freedom.

During the reporting period, the government renewed and accelerated its crackdown on independent activity and critical voices in an effort to further shrink civic space. Both Azerbaijani and international NGOs now face significant restrictions. This has resulted in the expulsion of many international donors and NGOs from the country. Harsh laws have been passed, trumped-up criminal cases have been filed, and many Azerbaijani NGO activists and journalists working for independent outlets have been imprisoned, while many others have sought refuge abroad. There is almost no space left for independent NGO activity. As a result, civil society in Azerbaijan has been effectively stifled.

The government has attempted to replace real NGOs with GONGOs (government-organized non-governmental organizations) to create a mimicry of true civil society. It should be noted that the advent of social media in 2010, as well as the introduction of high-speed internet in the country a couple of years earlier, dealt a serious blow to the government's monopoly on information. Social networks afterward played an important role in empowering the vox populi, including civil society. In recent years, however, the authorities have managed to gain dominance in the social media sphere by mobilizing extensive financial, organizational and human resources.

Cleavage /  
conflict  
management

5

'06 '26 10



1

Public  
consultation

2

'06 '26 10



1

Any genuine and comprehensive process of reconciliation with political opponents would have to be initiated by the ruling elite, which to date has shown no interest in doing so unless former rivals pledge their loyalty to the regime. A few years ago, the government began a dialogue process with the secular opposition, to which government critics responded with skepticism. The main government negotiator was Adalat Valiyev, head of the presidential administration’s department for relations with political parties and the legislature. The process began immediately after the early parliamentary elections in February 2020. However, the public does not consider most of the political parties involved to be genuine opposition to the government.

The largest and most vocal opposition group, the Popular Front Party, refused to take part in the dialogue from the outset. The party’s leader, Ali Karimli, insisted that a specific agenda for the dialogue be announced in advance – arguing that the talks were, in fact, a sham of a political dialogue.

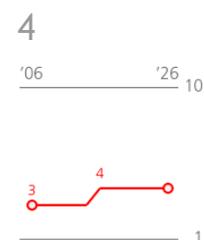
During the reporting period, Azerbaijan conducted a brief military operation in Nagorno-Karabakh that resulted in the restoration of the country’s territorial integrity within its internationally recognized borders. Although no peace agreement had been reached with Armenia as of the time of writing, the door remained open and, at a later stage, the process of rapprochement may also include reconciliation with Armenia.

## 17 | International Cooperation

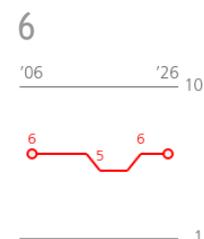
Maintaining power within the ruling family and creating favorable conditions for a smooth dynastic transition in the future is the regime’s top political priority. This goal is incompatible with the prospect of democratic transition. The aim of eradicating any opposition or criticism within the country has produced conditions of continuous repression. In addition, the persistent use of irredentist nationalistic rhetoric (such as the term “West Azerbaijan”) to keep the population energized in support of the ruling elite and to distract from everyday social and economic problems negatively impacted initial efforts to reach a peace settlement with neighboring Armenia.

As a result of these factors, relations between Azerbaijan and the Council of Europe worsened during the reporting period. In early 2024, the Parliamentary Assembly of the Council of Europe (PACE) declined to ratify the credentials of the Azerbaijani parliamentary delegation, citing the country’s failure to meet significant commitments. PACE also voiced dissatisfaction with Azerbaijan’s lack of cooperation with the Assembly. In response, the Azerbaijani government barred PACE members who voted against ratifying the credentials from traveling to Azerbaijan. Furthermore, the PACE resolution noted that over 320 judgments by the European Court of Human Rights against Azerbaijan have not been implemented or have been only partially implemented – the highest such number among all signatories to the European Convention on Human Rights.

### Reconciliation



### Effective use of support



In the economic sector, the government is focusing on identifying alternative revenue sources as oil production declines continuously. Therefore, Azerbaijan has prioritized green growth and a clean environment as one of its five key development objectives. Achieving this goal requires strong international collaboration. In 2022, European Commission President Ursula von der Leyen and President Aliyev released a joint statement highlighting that their partnership seeks to transition Azerbaijan from a fossil fuel supplier to a trusted and leading renewable energy partner for the European Union.

It should be noted that the government generally collaborates with international partners and neighboring countries on issues of economic development and technical cooperation. Foreign partners play a crucial role in implementing major economic projects, and Azerbaijan often brings in international experts – mainly from Western countries – to oversee key national initiatives and state-owned enterprises. However, challenges arise because the current ruling elite’s long-term development strategy does not include democratization or the establishment of the rule of law. In addition, policy inconsistencies negatively impact the use of international assistance.

The exodus of the entire Armenian population from the breakaway Nagorno-Karabakh region following Azerbaijan’s successful military operations to reassert its territorial integrity in 2020 and again in 2023 sparked international criticism, including allegations of ethnic cleansing.

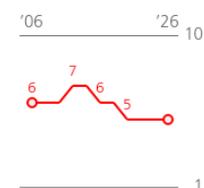
As of the time of writing, a comprehensive peace agreement with Armenia was still pending due to various conditions set by the Azerbaijani side. The Azerbaijani government has pressured Armenia to establish an extraterritorial corridor linking Azerbaijan’s Nakhichevan region through Armenian territory. To this end, Azerbaijan has intensified discussions over what it calls the “West Azerbaijan problem” – a term it uses to describe the southern parts of Armenia’s internationally recognized territory. This debate centers on the right of return of Azerbaijanis who left Armenia in the late 1980s.

To date, the Azerbaijani government has largely fulfilled its international economic and trade obligations in the oil and gas sector. Since Russia’s invasion of Ukraine, energy cooperation between Azerbaijan and the European Union has intensified. Moreover, Azerbaijan’s purchase of Russian gas – intended to free up its own natural gas for export to Europe – has demonstrated its readiness to make considerable efforts to meet its international commitments.

Largely because of the specific political and economic interests of the ruling elite, Azerbaijan has not concluded negotiations for an association agreement with the European Union or joined the WTO. Furthermore, it has entirely failed to uphold the international human rights standards it pledged to meet upon joining the Council of Europe.

Credibility

5



Türkiye has emerged as Azerbaijan's foremost political partner and military ally, with this bond rooted in deep historical and cultural ties. The two nations are growing increasingly close, particularly on defense matters. Meanwhile, the Azerbaijani government has prioritized trilateral cooperation with Türkiye and Georgia. Energy infrastructure – such as the Baku-Tbilisi-Ceyhan oil pipeline and the Baku-Tbilisi-Erzurum gas pipeline – has historically reinforced their interdependence. Adding to this dynamic, the Baku-Tbilisi-Kars (BTK) railway connects the port of Baku in Azerbaijan to Türkiye via Georgia and is a vital component of the Trans-Caspian International Transport Route (Middle Corridor). After its upgrade and reopening in May 2024, the BTK's annual freight capacity surged to 5 million tons, quintuple its previous output. In 2024, the China-Europe Railway Express also introduced a new southern route that links China to Türkiye via the BTK railway.

The reporting period also saw Azerbaijan deepen its strategic ties with Central Asian states, with joint efforts to bolster trans-Caspian freight transport along the Middle Corridor. In 2024, for instance, Kazakh oil was exported by tanker to Baku for the first time, destined for European markets via the Baku-Tbilisi-Ceyhan pipeline. However, a gas swap deal with Turkmenistan has stalled over pricing disputes, resulting in nearly a 50% drop in Turkmen gas supplies to Azerbaijan during the same period.

Additionally, Azerbaijan accords significant importance to the Organization of Turkic States. Alongside Azerbaijan and Türkiye, the Central Asian nations of Kazakhstan, Kyrgyzstan and Uzbekistan are also members. Azerbaijan has been a leading advocate for this organization as a platform for international cooperation.

In late 2024, Azerbaijan also joined the D-8, an economic cooperation organization primarily composed of Muslim-majority countries. The D-8 was established in 1997 under the leadership of former Turkish Islamist Prime Minister Necmettin Erbakan. However, bilateral relations between Azerbaijan and Iran – which is also a member of the D-8 – have experienced their share of ups and downs, with the two countries remaining strategic adversaries.

Despite the strategic partnership agreement signed by Aliyev and Putin on February 22, 2022 – just two days before Russia's invasion of Ukraine – Azerbaijan has emerged as a key provider of humanitarian aid to Ukraine in the South Caucasus region. In addition, Azerbaijan's political relations with Russia soured during the reporting period following the fatal crash of an Azerbaijani passenger plane over Russian territory, reportedly downed by Russia's air defense systems.

Energy cooperation between the European Union and Azerbaijan has gained increased significance since the onset of the Russia-Ukraine war. Azerbaijan has expanded its gas exports to Europe, supplying 11.8 billion cubic meters (bcm) in 2023. This figure grew by 9.3% in 2024 to reach 12.9 bcm. However, tensions persist in Azerbaijan-EU relations, particularly over the EU monitoring mission in Armenia,

#### Regional cooperation

4



which is stationed along the Azerbaijani border. The Azerbaijani government considered this mission an additional obstacle to finalizing a peace agreement with Armenia. A lasting peace with Armenia remains uncertain, with concerns persisting over a potential resurgence of conflict. Nevertheless, bilateral peace negotiations between the two sides continued through the end of the review period, and on August 30, 2024, Armenia and Azerbaijan signed a regulation outlining the joint activities of their border delimitation commissions.

## Strategic Outlook

The Azerbaijani government has maintained power by providing security and stability for the country. The influx of oil revenue has enabled it to meet basic needs, reduce poverty and modernize national infrastructure. However, the current economic system has significant flaws. The concentration of wealth in the hands of the ruling family stifles political competition and hinders the development of a true market economy. Despite some progress in diversifying into sectors like agriculture and tourism, the economy remains heavily dependent on international fuel prices.

Corrupt practices involving extortion by law enforcement agencies, which force local businesses to make semi-legal contributions, remain a serious problem. Such practices undermine business activity and could lead to the collapse of small and medium-sized enterprises. The government must stop these actions to prevent serious economic consequences.

The stark economic disparity between greater metropolitan Baku and the rest of the country remains a major challenge. During the reporting period, the government's focus on Karabakh's reconstruction has led to the neglect of investment in other regions, further deepening this imbalance. As a result, poverty and social issues have worsened in multiple areas. To prevent growing discontent, the government must prioritize equitable development across all regions. One critical issue is the continued closure of land borders with neighboring countries – a policy that has intensified economic and social pressures in border regions. Reopening these borders is essential to alleviating hardships and supporting local economies.

Authoritarian rule has been reinforced by expanding the executive's powers and granting it complete control over every aspect of political life. The president's surge in popularity after Azerbaijan's 2020 war with Armenia allowed the government to restrict independent political and economic activity. In 2023, a brief military campaign restored the country's territorial integrity. However, the ruling elite's assumption that a victorious leader would enjoy endless credit from the public – and that successive military campaigns would make people forget their social problems – has been disproved.

Many Azerbaijani citizens expected that once the conflict ended, their social conditions would improve, with the government tackling corruption and building a fairer system, but that has not materialized. Environmental protests in the village of Soyudlu in the Gadabay region in 2023, along with resurgent criticism of the government, show that protest energy is regaining momentum. The government has responded by stepping up repression aimed at eliminating dissent. While the regime may manage to suppress dissent in the short term, long-term stability and sustainable growth will ultimately depend on implementing meaningful political, economic and legal reforms. Azerbaijan's future depends on political and economic liberalization. The government must halt repression and release all political prisoners.

The Azerbaijani government's overconfidence following its military victory has led to significant foreign policy challenges. The once highly regarded, geopolitically balanced approach – marked by patience and stable relations with neighboring countries, global powers and international organizations – has been replaced by impatience and confrontational rhetoric and actions. Throughout the reporting period, this shift has periodically led to heightened tensions with foreign nations, including neighboring states and major global players. To navigate this increasingly volatile landscape, Azerbaijan must reassess and recalibrate its foreign policy priorities and strategies in line with its long-term development needs, prioritizing meaningful diplomacy. A crucial first step would be ensuring compliance with PACE requirements in order to restore the credentials of its delegation. In addition, genuine dialogue with Armenian society is essential, while relying on peace enforcement tactics is unlikely to foster lasting regional stability. The Azerbaijani leadership should actively embrace opportunities provided by Western partners to secure a comprehensive and lasting settlement with Armenia.