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Azerbaijan State Budget for 2014: Brief Description

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Main Trends

- It is a first time in the last decade that the State Budget incomes will decrease in 2014;
- Transfers from State Oil Fund to The State Budget will be decreased by 17.7% or 2.013 billion manat (\$ 2, 58 billion US);
- It is the first time that the share of budget deficit will increase to 3% in GDP;
- The dependence of the State Budget on the oil sector, will decrease from 75,0 % to 66, 0%;
- The share of non-oil sector revenues in the State Budget will increase by 9,0 %;
- Because of reduction in oil revenues, income tax amounts will decrease in the State Budget;
- The share of social expenses in the State Budget will increase 3.9%;
- The share of salary payments in the State Budget expenses will increase to 24,0%;
- There will not any increasing on salaries in the organizations which financed by the State budget, pensions and other social expenses;
- The expenses for education and health will be increased compared with 2013 budget;
- It is first time that essential state investments will be decreased;
- The expenses planned for mortgage credits will not be increased in the State Budget;

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- The amounts of agriculture subsidies will be increased two times;
- The regional budgets will keep the high dependence on the Central Budget ;
- The State Budget of Nakhcivan will be subsidized by the more than 80% donation from The Government;

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Macroeconomic conditions (based on official figures)

GDP growth will be around 5,8 % in Azerbaijan in 2014 according to the Ministry of Economy and Industry (former Ministry for Economic Development of Azerbaijan Republic) forecasts. 58.6 billion manat (\$ 75,12 billion US) GDP will be produced next year. The ministry also forecast positive growth in non-oil sector in 2014: growth in non-oil sector will be 10%. As a

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result, the share of non-oil sector in GDP, will increase by 3.1% in comparison with 2013- as a value 36,0 billion manat (\$ 46,15 billion US). Meanwhile oil output will decrease by 1.5 %. The share of oil sector in GDP will be 38.5% - as a value, the sector will have 22.5 billion manat (\$ 28,97 billion US).

Due to decline in oil sector, the government's share in the economy will decrease by 0.9% to 16.8% in 2014.

It is forecasted that, investments in the economy will be increased to 18.4 billion manat (\$23,58 billion US), a 0.5% increase in comparison with last year's statistical data. The share of Government's planned investment direct to the economy will be 9.7 billion manat (\$ 12,43 billion US). Due to high public spending domestic investments to the economy will contribute 70.4 % in total investments.

Consolidated state budget of 2014

The revenues of consolidated state budget will be 21.986 billion manat in 2014 (28, 187 billion US). Oil sector will contribute 65,6 % of total budget income. Transfers from the State Oil Fund to the state budget will be 11.627 billion manat (\$ 14, 906 billion US) since tax collection from the oil sector will be around 2.802 billion manat (\$ 3,593 billion US). Hereby, the diversification of the economy should be accelerated in 2014, too.

The State Oil Fund revenues will decrease by 1.6% or 191.2 million manat (\$245,2 million US) in comparison with previous year. But – unlike previous year, the expenses of the fund are budgeted at 11.3 billion manat (\$ 14,5 billion US), which does not exceed total revenues. In

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2013, The Oil Fund expenses did exceed revenues by 1.78 billion manat (\$ 2,28 billion US), causing increased dependence of the budget on oil the sector which is contradictory to managing resources obtained from oil.

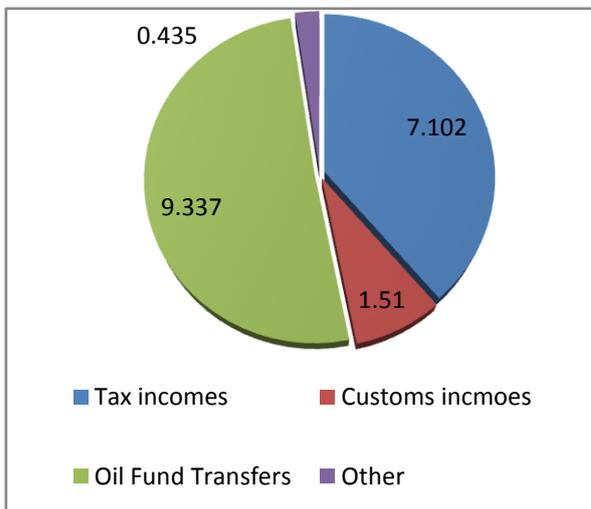
In 2014, The Budget of Social Support Fund will increase by 11.2% or 2.93 billion manat (\$ 3,75 billion US) over last year's. The increased resources will be directed to implement the declaration of the president to increase pension and social support expenses/payments.

Revenues of State Budget

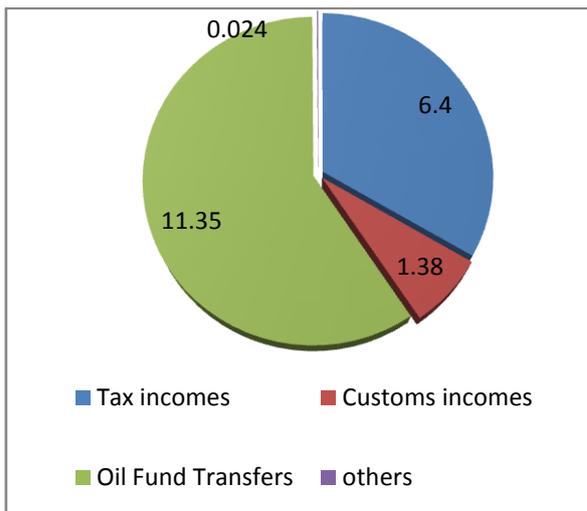
The Ministry of Finance predicts the revenue of the State Budget in 2014 around 18.384 billion manat (\$ 23,569 billion US), which will be 775,0 million manat (\$ 993, 58 million US) less than previous year's income. It is important to note that, after continuing increases to budget incomes for last decade, a 4% decreasing in 2014 state budget is considered as a signal.

Diagram 1: State Budget for 2014

Diagram 2: State Budget for 2013



for 2014: Brief Description



In 2014, 9.337 million manat (\$ 11,97 billion US) is identified to be transferred from the Oil Fund to the State Budget. This sum is less than previous year's total by 2.013 million manat (\$,58 billion US), or 17.7%. As a result, the transfers from the SOF to the State Budget have been decreased by 8.4% to 50.8%. This trend has a great importance by decreasing the share of oil revenues in the budget total and continuing this trend until it reaches 25 -30% , will help to protect from future problems while continuing to contribute financial resources in the future.

When the State Budget was forecast, the price of a barrel of oil was projected at 100 US dollar. This pricing assumption has a likelihood to cause increased risks to budget revenues. Also in the document it is noted that, the ongoing financial crisis has been taken into consideration. If this note has been taken, it is not clear why oil revenues have been calculated based on high price of oil, 100 US dollar. In this context, it does make less sense if the oil price has been based on high prices why revenues decreased.

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For the next year, share of tax income in the revenues of the State Budget will be 7,012 billion manat (\$ 8,989 billion US). Tax incomes are predicted to increase by 11% or 0.7 billion manat (\$ 0,897 billion US) compared to 2013. As a result, The Ministry of Taxes will increase its contribution to the State Budget by 5.2 %, and the total incomes from taxes to the budget will be 38.6 %. Of special note share of non-oil sector revenue in tax income is 77% which is why there is encouragement in the economy of growth in the non-oil sector. As a result, the income from taxes has increased by 1.5 % compared year of 2013. Finally, in 2014, the State Budget will consist of 66,0manat per 100,0 manat from oil revenues. So, the income of the State Budget from non-oil sector will be 6.25 billion manat (\$8, 012 billion US).

Budget deficit to increase

The 2014 budget deficit is predicted at 1,679 billion manat (\$ 2,152 billion US), approximately 3% of GDP. This case alarms the Government because of Maastricht indicators. It is the first time that, the total Budget deficit shares 8.4% of State Budget. If the decreasing oil revenues are taken into consideration, the Budget Deficit should increase rapidly in the next years, and it is alarming that financial stability should take a risk.

The State Budget Expenditure

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The expenses of State Budget have been increased by 1, 1 % compared to 2013 budgeted expenses, even though total revenues have decreased. Primarily due to increased expenses for social services which have been increased.

The increase social services expenses have caused current expenses to increase by 3, 9 %. It is the first time that, essential expenses have been decreased by 673,0 million manat (\$ 862,82 million US) or 7,0 %. This implementation should be accepted positively because due to economic and logical reasons. The huge amounts of expenses which were used for re-build infrastructure in this sector, had to cause to recover the gap and had to cancel the need to for extra amount during operating period. Normally, the government has to decrease the investment expenses and has to increase the social expenses. However, we have to note regrettably that, the income from non-oil sector will not be enough to cover the increased expense.

Social expenses to pay salaries, pensions and other social need in the amount of 4.855 billion manat (\$ 6,224 billion US) or 24,0 % of expenditures of the State Budget. This amount exceeds previous year's expense by 282,0 million manat (\$ 361,53 million US) , as a percent 6.2%. It is appropriate to increase these expenses of the budget classified this way. However, it is clearly known that, because of the amount which is for this purpose, salaries and pension will not be increased.

Although social expenses have been increased, in 2014, the amounts which are planned to be used for mortgage credits will not be increased. So, as in 2013, 40,0 million manat (\$ 52,28 million US) will be transferred for those credits. Actually people need some increase to the amounts of preferential mortgage credits which is planned in the State Budget. The amounts

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decided to be used for preferential mortgage credits, prove that, the maximum limit for those credits will not be increased in the next year. Otherwise if the limit is increased, then the limit for the number of people should demand to be decreased.

For the next year, expenses of education have been forecasted 1.65 billion (\$ 2,11 billion US) which is more than last year's by 8%. The expenses of 2014 exceed last year's budget of education by 1.2%, but taking into consideration that expenses have been increased compared to 2013, the whole amount of education expenditure has increased in the share of State Budget of 2014 by 0.5%, which the total of education expenses are 8.2%.

Health expenses have been increased by 8.4% compared with 2013 and the total amount of health expenses will be 0.72 billion manat (\$ 0,92 billion US). Although the amounts are not enough to achieve development of this sector, it is optimistic as the amounts of expenses for Health sector have been increased 17 times compared to 2013. The share of Health expenses in the whole State Budget expenses have been increased by 0.2%.

Generally, the education and health expenses will have 11.8% of the whole amount in The State Budget Expenses.

More Subsidies

The total amount of subsidies will be increased 2.1 times in the year of 2014, and will total 661.8 million manat (\$ 848, 46 million US). As a result, the share of subsidies in the Budget Expenses will be increased by 1.6%, and the total is 3.3%. For the note, in the this year's budget, the expenses for subsidies were 344.4 million manat (\$ 441,53 million US). As in last years'

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decisions, in 2014, the most percent of the subsidies is conserved for the agriculture sector. Based on last years' experiences, this policy for agriculture cannot provide the sector to achieve development. In contrast, the policy has caused the agriculture sector to depend on subsidies. Taking into consideration this practice, it has to be noted that, only innovation and investing in the field will have comparative advantages that will create development in the agriculture sector.

The Internal incomes and expenses of The State Budget

As last year, the internal expenses of the State Budget have been increased. Although these expenses are focused to improve infrastructure, because of the lack of internal incomes, it makes the regions dependent on central expenses. The Budget of Nakhcivanis formed by only 19.1% support of internal incomes, which is an improvement but continues to be alarming and unacceptable.

Total of The State Budget is formed only 4.2% by internal incomes, in contrast the internal expenses exceed the incomes by 50% which proof dependence on donations that, total internal expenses are 8.1%. Up to date, 3 cities (Sumqayıt, Mingachevir, Shirvan) and 2 districts (Absheron, Imishli) have refused to accept donations from The State, these shows effectiveness on the polices implemented in the regions.

The official exchange rate is 0.7924 manat to \$1 on November,04, 2013

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Appendix

2014 State Budget of Azerbaijan Republic (Draft)

Forecasting of The State Budget Income for 2014 (million manat)

The Ministry of Taxes	total: 7102.0
tax on the income of physical persons	882.0
tax on the profit of legal entities	2217.0
value added tax	2139.0
excise tax	784.5
property tax levied from legal persons	132.0
land use tax levied from legal persons	48.0
road fund taxes	49.5
mineral royalty tax	116.0
simplified tax	130.0
state charges	123.0
possession of state land lease rents	8.0
income of the difference *	313.0
other incomes which are non-taxes	160.0
The State Customs Committee	total: 1510.0
value added tax	1070.0
excise tax	90.0
customs duties	330.0
road fund taxes	20.0
Transfers from The State Oil Fund	9337.0
Income from the lease of state property	5.0
Off-budget income of the organizations financed by the State Budget	400.0

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TOTAL	18384.0
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Forecasting of The State Budget Expenditures for 2014 (thousand manat)

1. general public services	1996799.5
1.1 expenditure on Science	146816.0
2. expenditure on public defence	1637362.4
3. judicial authorities, law enforcement and prosecution	1240298.0
4. education	1653445.0
5. health care	725586.2
6. social protection and social security	2072233.9
7. culture, art, information, sport and other activities	311410.4
8. housing and utilities	457144.0
9. expenditure on energy and fuel	3487.5
10. agriculture, forestry, fishery, hunt and protection of environment	562887.3
11. expenditure on industry and construction	6281954.7
11.1 state capital investment	6260000.0
11.2 other expenditures	21954.7
12. transport and communication	121437.6
13. other expenditures on economic activity	328156.9
14. services not related to main sections	2670796.6
TOTAL	20063000.0

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