Azerbaijani State Budget in 2016
Perspectives and Challenges

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ABSTRACT

The principal plan emerged from the next 2016 budget is to increase to achieve a substantial tightening of the budget in order to allocate recent budget deficit. State Oil Fund’s contribution to public revenues is projected to decline by unprecedented scale in 2015-2016. The recent revenue volatility further reinforces the urgent need for economic diversification and non-oil sector investments. While public spending on all departments has grown steadily prior to the recent sharp decline in oil prices, the latest 2016 budget projection suggests that the next public spending will be squeezed for the half of the main departments. The expenditure structure of the state budget for 2016 reveals more socially oriented targets of the government. The main spending growth areas of the 2016 budget are education, defense and security, agriculture and related fields and housing. This paper aims to describe the current trends in the projected state budget for 2016 and provide the summary of analysis of revenues and spending changes over the last five years.
THEORETICAL SECTION


According to the literature analyze there are some ideas about the fiscal policy on managing oil revenues, making the budget in the oil exporting countries. Matthias L. (2010) demonstrate that, when the government revenue fluctuates with the world crude oil price market, then medium-term expenditure plans should base on caution assumption about the future price. By origin, when the oil price high, government should spend less than current revenues and accumulative savings, which may be keep the expenditures stable when the price is low. The stabilization and savings fund is effective in collecting assets for the medium and long run. Paulo M. and Daria Z. (2009) indicates that, reduce the macro-fiscal costs associated with revenue volatility, the evolution of government expenditure should be de-linked from the short-term developments in oil revenue. Maintaining a non-oil revenue base can create greater budgetary flexibility to manage shocks, while expanding the coverage of fiscal indicators. Teresa Ter.M. (2007) indicates that, oil funds can play advantageous role in asset management, provided they are decently integrated with other government financing operations. The resources in the oil funds should be controlled in order to support the government’s overall asset and liability management strategy.

Azerbaijan is an oil exporter country, which has traditional energy resources. Most of the oil exporter countries’ economy related to the oil. Therefore, the oil exporter countries use the same model in order to manage the oil revenue and transfers to the state budget. The objective of stabilization funds is to minimize the transmission of oil price volatility to fiscal policy by smoothing budgetary oil revenue. The paper analyzes and compares the major oil-exporting countries Russian Federation, Norway and Saudi Arabia.

As mentioned before, most oil-exporting countries have set up oil stabilization and or savings funds, which manage part of the country’s foreign assets. Usually the stabilization funds invest to foreign assets more aggressively than central banks invest traditional foreign exchange reserves. The stabilization function of oil funds appeal the short-term challenges of fiscal policy and aims to make the manner of policy less volatile. When oil prices are high, the funds may also help contain inflation and escape over-heating in the economy. When oil prices are low, they can increase the intervention costs in terms of the help to the national currency or national economy. The savings function of oil funds apply the long-term challenges of equity and fiscal sustainability that accompany nonrenewable resources. The funds can also be drawn upon for capital spending where there is a high return (for economic diversification). However, oil funds have a number of challenges of their own, including with regard to governance, transparency and accountability.
The stabilization funds of selected oil-exporting countries

<table>
<thead>
<tr>
<th>Oil-exporting Countries</th>
<th>Stabilization Fund</th>
<th>Year of establishment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Azerbaijan</td>
<td>State Oil Fund of Azerbaijan Republic (SOFAZ)</td>
<td>1999</td>
</tr>
<tr>
<td>Russian Federation</td>
<td>Reserve Fund</td>
<td>2004</td>
</tr>
<tr>
<td>Norway</td>
<td>Government Pension Fund – Global</td>
<td>1990</td>
</tr>
</tbody>
</table>

Source: Naotaka Sugawara 2014: viewed at 28th of September; From Volatility to Stability in Expenditure: Stabilization Funds in Resource-Rich Countries; IMF working paper

Saudi Arabia does not have oil stabilization or savings fund, unlike other GCC oil-exporting countries. Foreign assets are mainly collected by the Saudi Arabian Monetary Agency (SAMA), Saudi Arabia’s central bank. The volume of these assets are not formally classified as foreign exchange reserves.

Norway is one of the most developed oil countries in the world. As other oil countries’ budget, revenues from oil sector have a share in the state budget of Norway too. Since the 2000th year the high level of demand at oil sector has supported Norwegian economy. Norway successfully manages oil revenues and the impact of oil revenues in the formation of state budget. This is a Norwegian model, which contains a long term planning. Economic policy of the Norway Government is based on spending oil revenues to the development of education and infrastructure in country. Government regulates the use of revenues gained from oil sector within their fiscal policy. Revenues gained from oil and gas industries are saved as a reserve, which is approximately more than $870 billion. In the state budget of Norway, State Pension Fund has a transfer from oil sector revenues. The State Pension Fund aims to contribute to the government to increase the public pension, to support the government in spending of oil revenues and to implement the benefit from oil sector for the next generations. The Norwegian government planned to spend $19.15 billion gained from oil sector, in the 2015 state budget. This is 3% of State Pension Fund. Oil activities have a large share in the whole Norwegian economy but every year they aim to decrease the share of petroleum activities in the total revenues of the Fiscal Budget.

Decreasing oil prices in the world market influenced to the oil revenues exactly. But the negative effect of low oil prices to Norway was less than other oil countries.\(^1\) Government counted the losses from low oil prices and the effect of decreasing oil prices in the state budget. The losses will be approximately $10 billion. The share of oil and gas sector on GDP of Norway is 20 per cent.

\(^1\) EITI (Extractive Industries Transparency Initiative), 27 May 2015.
The analysis of the budget of another oil country, Russian Federation. Russia has a great share in the world oil market. As one of the world's largest oil and gas producing countries, Russia received significant revenues from the use of its resources; most of these earnings are withdrawn to the budget system of the country in the form of taxes and fees. Last two years in the formation of federal budget, the country experiences low oil prices effects and the high share of petroleum industry, and low level of diversification make increase some expenditures in the federal budget. The share of petroleum and gas revenues in the federal budget is 52% approximately. The aim of Russian government is to decrease the share of oil and gas in the formation of budget and make it 45-47% until 2035 year.\textsuperscript{2}

The degree of exemption varies with time. So, in the course of large-scale tax reform that was conducted in Russia in the 2000s, it has radically changed the system of taxation of the commodity sector: held resetting mechanism introduced export duties and the tax on extraction of mineral resources, which increased the share of oil and gas rents of captured state budget.

The other big oil country is Saudi Arabia. The state budget of Saudi Arabia also was influenced by low oil prices. Because the state budget in Saudi Arabia is largely depended on oil industry. GDP growth in Saudi Arabia will continue to slow in 2016, as low oil prices forced the country to cut costs, predicts the International Monetary Fund (IMF).\textsuperscript{3}

The IMF notes that the decline in oil prices had a negative impact on exports of Saudi Arabia and revenues, but the impact on the overall economy of the country has so far been limited. According to analysts of the fund, in 2015 the country's GDP will increase by 3.5% and at the end of 2015 the country's budget deficit will amount to about 20% of GDP and to reduce its government will allocate government bonds. It shows that like most oil rich countries, in Saudi Arabia also there is a large share and impact of oil sector in the state budget.

\textsuperscript{2} Russian news agency, the share of oil and gas in Russian federal budget, 6 February 2015
\textsuperscript{3} IMF (International Monetary Fund), June 2015
INTRODUCTION

Analyzing the state budget of the Republic of Azerbaijan for 2016 gives the comprehensive framework about the budget balance, deficit, budget inputs, budget outputs and budget inputs, capital expenditures/spending and other components of the budget. The expenditures of the state budget decreases in terms of low oil price. In comparison with the previous years, we see that concrete cuts on total spending in order to achieve balancing the all expenditures. Some areas of expenditures are increasing steadily in 2016. However, the financial situation of the country still going negatively in terms of low oil price. Therefore, government adopts to manage the expenditures effectively.

This paper provides an overview of 2016 budget in Azerbaijan. It begins in Section 2 with a description of total public revenue in Azerbaijan, size of revenues from main sources, how this has changed between 2011 and 2016, and a brief review of components. Section 3 provides detailed account of how public allocation of spending has changed over 2011 and 2015, its structure and individual spending components. Nine main spending components considered include social security, education, health, legislative bodies, defense, housing, agriculture, transport and economic activities assistance, which collectively account for about 50% per cent of overall spending.

The Ministry of Finance of the Republic of Azerbaijan represented a draft state and consolidated budgets for 2016. Revenues of the state budget of Azerbaijan for 2016 are projected as AZN 14.566 billion, which is 25.2% of GDP, expenses – AZN 16.264 billion (28.2%). The budget deficit for 2016 is forecast at AZN 1 698 million. Last year the instability in the world economy, low crude oil prices in the world market effectively influenced to the Azerbaijan Economy. As it’s known, Azerbaijan is an oil country and after the twice decrease of oil prices in the world market also decreased incomes of Azerbaijan from oil. This economic situation makes formalize the state budget more effective and realistic. The paper concludes with conclusion.
2. Public revenues in Azerbaijan

Current trends in the economy, decreasing in world stock market as well as reducing of oil price in world market influence negatively to oil exporter countries and especially which countries have exceed size on the revenues from oil of budget. In the framework of decreasing price of oil, countries doing devaluations in terms of prevent budget surplus, financial stability of country and to continue current plans. Starting from 3\textsuperscript{rd} quarter of 2014, the oil revenue started to decrease in terms of low oil price. This process impacted to the oil-reach countries economy negatively.

The major part of Azerbaijan economy based on oil and oil industry. The decreasing of oil prices also impacted to the country economy as oil producer country. The state budget mostly depended on oil revenue, which showed the negative impact to the budget revenues over the years (see Figure 2.1).

![Figure 2.1: Revenues of the state budget over the years (AZN million)](image)


Decreasing of oil price, as well as seriously impact to budget of Republic of Azerbaijan. As you know, state budget is formed with transfers of Oil Fund, Taxes of Ministry and the StateCustoms Committee. According to the last 5 years, we can observe an increase on the transfers from the Oil Fund between 2011 and 2013. In 2011, AZN 9 billion ($114504 million) or 57\% (the export price of Azeri light is $113.7) of the revenues - AZN 15.7 billion, in 2012, AZN 9.9 billion ($ 12611.5 million) or 58\% (the export price of Azeri light is $112) of the revenues – AZN 17 billion ($21655.6 million), in 2013, as the highest point of last 5 years, AZN 11.4 billion ($ 14540.8 million) or 60\% (the export price of Azeri light is $111.1) of the revenues – AZN 19 billion ($24234.6 million) were formed by the transfer the from Oil Fund. Since 2014, on the occasion of decreases on the budget revenues related to the decreases of the oil prices. Thus, in 2013, the average price of oil was $108, in 2014; the average price was $99. In 2014, AZN 9 billion ($114504 million) or 49\% (the export price of Azeri light is $100.9) of the revenues of state - AZN 18.4 billion ($22296.0 million) was formed by the transfer from
OilFund. In 2015, predicted amount of revenues is AZN 19.4 billion ($18,095.0 million) and according to the numbers of first 6 month, AZN 7.8 billion ($6.6 billion) or 40.2% was realized.

**Figure 2.2: The share of transfers from Oil Fund to the State budget**

![Chart showing the share of transfers from Oil Fund to the State budget from 2011 to 2014.](chart)

Source: SOFAZ, key transfer to the budget analysis 2011-2014

The average annual price of Brent crude oil in the world currently shown as USA dollar 57, the highest figure in the last 5 years, this figure (111.63) 51%, 42% less in 2014 compared to previous years in 2015. According to Ministry of Finance statement that, to decreasing policy transfer from Oil Fund, as well will continue in 2016. According to forecast of state budget of 2016 that on the priorities and parameters will activity relevant to when a barrel of oil 60 USA dollar will be optimist, when a barrel of oil USA dollar 50 will be base, when a barrel of oil USA dollar 40 will be pessimist script.

**Figure 2.3: Comparison of Azeri Light price with world crude oil price over years ($ million)**

![Chart showing the comparison of Azeri Light price with world crude oil price from 2011 to 2015.](chart)

Revenues of the consolidated budget for is formed by the revenues of state budget of the Azerbaijan Republic, revenues of the Nakhchivan Autonomous Republic, revenues of the State Oil Fund and revenues the State Social Protection Fund. Total revenues of the state budget of the Azerbaijan Republic is AZN 14566.0 million, AZN 6000.0 million of them is formed by the transfer from State Oil Fund. Total revenues of the Nakhchivan Autonomous Republic is AZN 351.4 million and AZN 282.4 million is formed by subsidies from the state budget, which is 80% of the budget of Nakhchivan Autonomous Republic. Revenues of the State Oil Fund are AZN 6711.6 million. Revenues of the State Social Protection Fund is AZN 3078.6 million, AZN 1100.0 million of them or 35.7% is formed by the transfers from the state budget. Other part, 65.3% of the revenues of the State Social Protection Fund is formed by the compulsory social insurance premiums, organizations financed from the budget and their workers, entities and individuals engaged in entrepreneurial activities, profits derived from the partial cost of sanatorium-resort repayment.

**Chart 2.1: Consolidated budget revenues of 2016**


The main formed sources of state budget is formed by Ministry of Taxes, Oil Fund and State Customs Committee transfers. According to last 5 years transfers from taxes was increased between 2011-2013 years. Thus, that was AZN 5472.0 million, 34.8% of the budget in 2011, which in 2012 was AZN 6025.3 million, 34.9% of the budget, which in 2013 was 6664.0 million manat, 34.1% of the budget and in 2014 was AZN 7113.6 million of the budget amounted to 38.7%. We observe to increasing amount of transfers and to decreasing percentage of transfer. The reason is more share in transfers from Oil Fund to state budget. According to the average of the previous years, the statistical series transfers to state budget when oil price was higher, the share of oil revenues from the increase in the figure expression tax transfers 2011 - 2013 years of increases. According to first six years of 2015 transfers was AZN 3328.8 million to state budget. Given that the, forecast for 2015 was AZN 7112.0 million, 46.8% of the forecast was fulfilled.
According to the latest forecast of the Ministry of Finance in 2016 AZN 6602.0 million of tax payments that, in comparison with 18.2% in 2011, 9.8% more than in 2012, but in 2013, compared to 1%, and the year 2014 for the year 2015, 7.2% less than the forecast. AZN 812 million of the $4 billion in tax transfers (72.9%), non-oil sector and 1 billion 790 million (27.1%) accounted for the oil sector.

Table 2.1: Transfers from the taxes to the budget

<table>
<thead>
<tr>
<th></th>
<th>2015 forecast</th>
<th>The expected performance for the year 2015</th>
<th>2016 forecast</th>
<th>Per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size of revenues</td>
<td>19,438,00</td>
<td>17,080,00</td>
<td>14,566,00</td>
<td>-25,1</td>
</tr>
<tr>
<td>Taxes of Ministry</td>
<td>7,112,00</td>
<td>7,012,00</td>
<td>6,602,00</td>
<td>-7,2</td>
</tr>
<tr>
<td>Income tax on individuals</td>
<td>982</td>
<td>982</td>
<td>957</td>
<td>-2,5</td>
</tr>
<tr>
<td>Profit Tax</td>
<td>2,211,00</td>
<td>2,111,00</td>
<td>1,821,60</td>
<td>-17,6</td>
</tr>
<tr>
<td>Land Tax</td>
<td>48</td>
<td>48</td>
<td>50</td>
<td>4,2</td>
</tr>
<tr>
<td>Property Tax</td>
<td>148</td>
<td>148</td>
<td>159,2</td>
<td>7,6</td>
</tr>
<tr>
<td>VAT</td>
<td>2,352,00</td>
<td>2,352,00</td>
<td>2,326,00</td>
<td>-1,1</td>
</tr>
<tr>
<td>Excise taxes</td>
<td>564</td>
<td>564</td>
<td>532</td>
<td>-5,7</td>
</tr>
<tr>
<td>Mining tax</td>
<td>116</td>
<td>116</td>
<td>107,2</td>
<td>-7,6</td>
</tr>
<tr>
<td>State duty</td>
<td>115</td>
<td>115</td>
<td>105</td>
<td>-8,7</td>
</tr>
<tr>
<td>Other embedding</td>
<td>381</td>
<td>381</td>
<td>304</td>
<td>-20,2</td>
</tr>
<tr>
<td>Simplified tax</td>
<td>145</td>
<td>145</td>
<td>170</td>
<td>17,2</td>
</tr>
<tr>
<td>Road tax</td>
<td>50</td>
<td>50</td>
<td>70</td>
<td>40</td>
</tr>
</tbody>
</table>

Source: Ministry of Taxes of the Republic of Azerbaijan, key transfers to the budget analysis 2015-2016
The main share is VAT and Profit taxes that relevant to 35.2% and 27.5% in revenues on the line of Ministry of Taxes. On VAT received AZN 3446.00 thousand (excluding transfer of SOFAZ) that estimated at budget revenues nearly 40.2 %, At GDP nearly 6 %. According to last 5 years statistics on the VAT it was growth between 2011 and 2014 as well as according to budget forecast of 2015 the growth will expected. But according to budget forecast of 2016, compared to the current year will be observed 26000 or 1.2 % decreasing. Profit taxes revenues is 27.6 % of budget revenues, it will be forecast 1821.6 million which compared to 2015 is less AZN 38904 million or 17.6%. To the last years of statistics of the profit tax it was decreasing from 2014. The observed decreasing on VAT and Profit taxes in according forecast budget for 2016 is reduction in investment costs and the reduction tax withheld of the price of oil in significant reductions background.

In the next year in accounting revenues of oil sector 1 barrel of oil in the middle export prices compared to the current year is accepted 40 dollar less and in determination forecast of the affection to the revenues of the non-oil sector of this fact is considered.

**Figure 2.4: Profit taxes and VAT historical statistics (AZN million)**

![Graph showing historical statistics for Profit taxes and VAT](image)


The Excise Taxes revenues is 7.6 % of budget revenues (excluding transfer of SOFAZ), it will be forecast AZN 637 million. AZN 532 million or 83.5 % relevant to Ministry of Taxes, the other AZN 105.5 million or 16.5% relevant to The State Customs Committee of The Republic of Azerbaijan. The decreasing in Excise Taxes depends on the decline in the production of excise goods. The mining tax revenues is AZN 107.2 million which compared to 2015 is less AZN 8.8 million or 7.6 %.

The Corporate Property Tax revenues which will be growth in the forecast of 2016 will be forecast AZN 159.2 million which compared to current year is more AZN 11.2 million. In determination forecasting country's economy is considered the increasing of the value of fixed
capital investments. According dynamics on Corporate Property Tax, it was observed the growth 0.5% and 0.1% relevant to between 1995-2000, between 2001-2010 One of the taxes of forecasting in growth the Land tax be AZN 50 million, which compared to 2015 year is more AZN 2.0 million or 4.2%.

Ministry of Taxes and State Customs Committee realize incomes from taxes AZN 70 million through the taxes, AZN 17 million through the customs and this is AZN 19.4 million or 28.7% higher than forecast for this year. We can note that AZN 6341.5 million decreases was observed according to the incomes from road taxes, in 2012-2014. In 2015, income from road taxes was AZN 50 million, also AZN 70 million is planned in 2016 and accordingly these are 43% and 59% more than in 2012, which is the highest for the last 5 years (AZN 28655.3 million), also 54.2% and 67.3% more than in 2014 (AZN 22313.9 million).

AZN 170 million is prognoses through the simplified taxes for the next year; this is AZN 25.0 million or 17.2% more than compared 2015 year. If we observe last 5-year statistics, we can see that there is AZN 52.971 million or 65.4% increase for the incomes through simplified taxes between 2011-2014 years. Prognoses for the 2015 are AZN 145 million and compared with 2014 are observed AZN 8.7 million or 5.7% decrease.

Planned income from state duties for 2016 is less calculated than last 5 years. Thus, planned AZN 105 million for 2016 is 15% less than in 2013, which is the highest point for the last 5 years (AZN 123229.5 thousand), 8.7% less than in 2015. The reason of decrease is the expansion of activities of the Public Service and Social Innovations under the President and according to the legislation, transfer of 70% of state duties to the state budget and 30% od them was added to the non-tax incomes.

**Chart 2.3: Size of revenues from Ministry of Taxes to state budget**

- Income tax on individuals: 14%
- Profit Tax: 28%
- Land Tax: 1%
- Property Tax: 2%
- VAT: 8%
- Excise taxes: 5%
- Mining tax: 2%
- State duty: 2%
- Other embedding: 1%
- Simplified tax: 35%

Source: Ministry of Taxes of the Republic of Azerbaijan, size of main revenue from taxes to budget of 2016
Between 2011 and 2014 was observed an increase on incomes through the State Customs Committee of Azerbaijan. According to the predictions of 2015 and 2016 years, the transfers to the budget will be AZN 1590.0 million. According to the analysis, there is a 29.3% increase compared with 2011, 25.1% increase compared with 2012, 14.1% increase compared with 2013 and 5% increase compared with 2014.

Figure 2.5: Transfers from the State Customs Committee (million AZN)

Source: State Customs Committee of the Republic of Azerbaijan, transfers to the budget updates 2011-2016

Customs revenues into the budget through VAT, excise duty, road tax and duties are carried out. According to the 2016 budget in line with the VAT that has been derived 1120.0 thousand, 16.0 thousand compared to 2015, or an increase of 14.0%. Revenues on the excise taxes are decreased compared to current 15.0 thousand AZN or the 12.5%, via the revenues of the customs duties are decreased compared to current year 0.4 thousand AZN or the 0.1%, via the revenues of the road taxes are decreased compared to current year 0.6 thousand AZN or 3.4%.

Table 2.2: The transfers from the taxes to the budget

<table>
<thead>
<tr>
<th>Tax Type</th>
<th>2015 forecast</th>
<th>The expected performance for the year 2015</th>
<th>2016 forecast</th>
<th>(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customs Committee</td>
<td>1590,00</td>
<td>1590,00</td>
<td>1590,00</td>
<td></td>
</tr>
<tr>
<td>VAT</td>
<td>1104,00</td>
<td>1104,00</td>
<td>1120,00</td>
<td>16</td>
</tr>
<tr>
<td>Excise taxes</td>
<td>120,00</td>
<td>120,00</td>
<td>105,00</td>
<td>-15</td>
</tr>
<tr>
<td>Customs duties</td>
<td>348,4</td>
<td>348,4</td>
<td>348</td>
<td>-0.4</td>
</tr>
<tr>
<td>Road tax</td>
<td>17,6</td>
<td>17,6</td>
<td>17</td>
<td>-0.6</td>
</tr>
</tbody>
</table>

Source: Ministry of Taxes of the Republic of Azerbaijan, key transfer to the budget 2015-2016
3. Public spending in Azerbaijan

3.1 Total public spending

The expenditure structure of the state budget for 2016 is more social and targets to support economic and social reforms, the defense of the state, food and environmental safety, support to the development of non-oil sector and etc. The main target for 2016 is to increase the efficiency and to keep the structure of the budget. Also in 2016, the priority for government is to continue the realization of the social expenditures, states programs, education, health, cultural, sports and financial provision of physical infrastructure. The state budget expenditures for 2016 are predicted as 28.2% of GDP. Comparing with previous year, it is 7.1% less than 2015.

The expenditures of the state budget for 2016 is predicted as AZN 16264.0 million ($15489.5 million) and this is AZN 4836.0 million ($4605.7 million) or 22.9 % less than previous year. In 2016, AZN 10188.3 million ($ 9703.1 million) or 62.6% of expenditures will be directed to the current expenses, AZN 4826.0 million ($ 4596.2 million) or 29.7% - to the capital expenditures and AZN 1249.7 million ($ 1190.2 million) or 7.7% - to the expenditures related to state debts. (See: the Table 3.1, below)

Table 3.1 The structure of the state budget for the year 2016

<table>
<thead>
<tr>
<th>Expenditures, million AZN (million, dollars)</th>
<th>Current expenses</th>
<th>Capital expenditures</th>
<th>Expenditures related to state debts</th>
</tr>
</thead>
<tbody>
<tr>
<td>10188.3 (9703.1)</td>
<td></td>
<td>4826.0 (4596.2)</td>
<td>1249.7 (1190.2)</td>
</tr>
<tr>
<td>Percentage</td>
<td>62.6%</td>
<td>29.7%</td>
<td>7.7%</td>
</tr>
</tbody>
</table>


Below on the Table 3.2, shows the structure of the state budget expenditures for last 5 years and also predicted expenditures for 2016 year. Comparing last 5 years and next 2016 year, the highest point of current expenses in the state budget was in 2015 with AZN 10928.5 million ($10408.1 million), the lowest point of current expenditures was in 2012 with AZN 8794 million ($ 11202.5 million). Comparing last 5 years and next 2016 year for capital expenditures, the highest point was in 2013 with AZN 8696.3 million ($ 11092.2 million) and the lowest point is the predicted amount for 2016 with AZN 4826 million ($ 4596.2 million). It means that next year predicted capital expenditures would be the lowest for the last 5 years. Comparing last 5

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4 1 US Dollar = 1.05 AZN in 2015
5 1 US Dollar = 0.785 AZN in 2012; before the devaluation of AZN in February 2015.
6 1 US Dollar = 0.784 AZN in 2013; before the devaluation of AZN in February 2015.
years and 2016, the highest point for expenditures for state debts will be next year, in 2016 with AZN 1249.7 million ($1190.2 million) and the lowest point was in 2011 with AZN 343.1 million ($436.5 million). Below in addition to the Table 3.2, also indicated Graph 1, which shows the same numbers with comparison of years.

**Table 3.2 The structure of state budget expenditures for the last 5 years and 2016**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Current expenses</td>
<td>7190.7</td>
<td>8794</td>
<td>9688.1</td>
<td>10882</td>
<td>10928.5</td>
<td>10188.3</td>
</tr>
<tr>
<td>Capital expenditures</td>
<td>7860.9</td>
<td>7828</td>
<td>8696.3</td>
<td>8400.5</td>
<td>9375.3</td>
<td>4826</td>
</tr>
<tr>
<td>Expenditures related to state debts</td>
<td>343.1</td>
<td>362.4</td>
<td>728.2</td>
<td>780.5</td>
<td>776.2</td>
<td>1249.7</td>
</tr>
</tbody>
</table>


**Graph 1. The comparison of the structure of state budget expenditures for the last 5 years and 2016**


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71 US Dollar = 0.786 AZN in 2011; before the devaluation of AZN in February 2015.
3.2 Social security

The social expenditures of State budget for 2016 is predicted as AZN 5867.9 million ($5,588.5 million) and this is AZN 41.9 million ($39.9 million) or 0.7% less than previous year. The share of total salary is AZN 3523.7 million ($3355.9 million) or 21.7% of state budget. Total salary is the biggest of these. The share of pension and social benefits is AZN 1827.1 million ($1740.1 million) or 11.2%, the purchase of food product is AZN 309.3 million ($294.6 million) or 1.9% and the purchase of medicines and dressing materials is AZN 207.8 million ($197.9 million) or 1.3% of the State budget. (See: the Table 3.2.1, below)

Table 3.2.1 The directions of social expenditures in the state budget for 2016

<table>
<thead>
<tr>
<th>Expenditures</th>
<th>Total salary</th>
<th>Pension and social benefits</th>
<th>The purchase of food products</th>
<th>The purchase of medicines and dressing materials</th>
</tr>
</thead>
<tbody>
<tr>
<td>Million AZN</td>
<td>3523.7</td>
<td>1827.1</td>
<td>309.3</td>
<td>207.8</td>
</tr>
<tr>
<td>(million, dollars)</td>
<td>(3355.9)</td>
<td>(1740.1)</td>
<td>(294.6)</td>
<td>(197.9)</td>
</tr>
<tr>
<td>Percentage</td>
<td>21.7%</td>
<td>11.2%</td>
<td>1.9%</td>
<td>1.3%</td>
</tr>
</tbody>
</table>

Source: Ministry of Finance of the Republic of Azerbaijan, key direction of social expenditures 2016

Table 3.2.2, below represents the directions of social expenditures in the state budget between 2012 and 2016. It helps to compare the expenditures year by year. In 2016, predicted expenditure for total salary is the highest point of expenditure for last 5 years, with AZN 3523.7 million ($3355.9 million) and this is 2% more than previous year. In previous year, total salary expenditure was AZN 3452.4 million ($3288 million). The lowest expenditure for total salary was in 2012 with AZN 2595.2 million ($3306 million). A briefly comparison of the purchase of medicines and dressing materials shows that the highest expenditure was in 2015 with AZN 209.3 million ($199.3 million), predicted 2016 expenditure is AZN 207.3 million ($197.4 million) and this is 0.9% less than in 2015. The lowest point of expenditures for the medicines and dressing materials was in 2012 with AZN 140.1 million ($178.5 million). The purchase of food products is another direction of social expenditures. Next year predicted budget shows that the expenditures for food products are AZN 309.3 million ($294.6 million) and this is AZN 10.4 million ($9.9 million) or 3.2% less than previous year. The lowest point of expenditures for last 5 years was in 2012 again. Pension and social benefits are the second high social expenditures. For the next year AZN 1827.1 million ($1740.1 million) is predicted for this purpose. Previous year, in 2015 this expenditures was AZN 1845.0 million ($1757.1 million) and this is 0.9% more the predicted in 2016. But the lowest point in pension and social benefits expenditures was in 2012 with AZN 1714.8 million ($2192.8 million).
Table 3.2.2 The directions of social expenditures in the state budget between 2012 and 2016

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total salary</td>
<td>2595.2</td>
<td>2822.6</td>
<td>3034.7</td>
<td>3452.4</td>
<td>3523.7</td>
</tr>
<tr>
<td>The purchase of medicines and dressing materials</td>
<td>140.1</td>
<td>168.6</td>
<td>176.9</td>
<td>209.3</td>
<td>207.3</td>
</tr>
<tr>
<td>The purchase of food products</td>
<td>263.2</td>
<td>295.7</td>
<td>305.3</td>
<td>319.7</td>
<td>309.3</td>
</tr>
<tr>
<td>Pension and social benefits</td>
<td>1714.8</td>
<td>1750.2</td>
<td>1820.3</td>
<td>1845</td>
<td>1827.1</td>
</tr>
</tbody>
</table>

Source: Ministry of Finance of the Republic of Azerbaijan, key social expenditures analysis 2012-2016

Graph 2 also represents the directions of social expenditures in the state budget between 2012 and 2016. This graph shows the comparisons year by year (2012-2016).

Graph2. The direction of social expenditures in the state budget between 2012 and 2016


In Table 3.2.3, we can see the expenditures for science, education, health, social protection and social security, culture, art, information, physical education and for other non-related categories are predicted as AZN 5139.4 million ($ 4894.7 million) and this is AZN 111.2 million ($ 105.9 million) or 2.2% less than previous year. The share of these expenditures on the
state budget is 31.6% and this is 7.8% more than compared with previous year. AZN 131.7 million ($ 125.4 million) is predicted for science, AZN 1712.5 million ($ 1630.9 million) for education, AZN 744.9 million ($ 709.4 million) for health, AZN 1896.6 million ($ 1806.3 million) for social protection and social security and AZN 654.7 million ($ 623.5 million) for culture, art, information, physical education and other categories. Also, in 2016, AZN 871.3 million ($ 829.8 million) is predicted for financing the state programs and activities in science, education, health, social protection and social security, culture, art, information, physical education and other categories. This is AZN 60.0 million ($ 57.1 million) or 8.1% more than previous year.

Table 3.2.3. The expenditures for science, education, health, social protection and social security, culture, art, information, physical education and for other non-related categories

<table>
<thead>
<tr>
<th></th>
<th>Science</th>
<th>Education</th>
<th>Health</th>
<th>Social protection and social security</th>
<th>Other categories</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenditures</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Million AZN (million, dollars)</td>
<td>131.7 (125.4)</td>
<td>1713.5 (1630.9)</td>
<td>744.9 (709.4)</td>
<td>1896.6 (1806.3)</td>
<td>652.7 (623.5)</td>
</tr>
<tr>
<td>Percentage</td>
<td>0.8%</td>
<td>10.5%</td>
<td>4.6%</td>
<td>11.7%</td>
<td>4.0%</td>
</tr>
</tbody>
</table>


On the Table 3.2.4, we observe separately all social expenditures and it allows us to analyze and to compare the expenditures for the last 5 years. Table 3.2.4 and Graph 3 below show that, in 2014 Azerbaijani Government spent AZN 146.8 million ($ 139.8 million) to science and this is highest point for last 5 year and for the predicted 2016 year. We see that next year the expenditures for science will be decreased. The lowest point was in 2011 with AZN 108.7 million ($ 138.3 million). Expenditures to education will be increased next year, if compare the previous year. This is AZN 20.8 million ($ 19.8 million) or 1.2% more than in 2015 year and its predicted expenditure for education is the highest for last 5 years and for the next year. The lowest expenditure was in 2011, AZN 1338.5 million ($1702.9). According to the predicted state budget for 2016, next year state expenditures for health will decrease comparing with last year. Predicted expenditure for 2016 is AZN 744.9 million ($ 709.4 million) which is AZN 14.3 million ($ 13.6 million) or 1.9% less than in 2015. Table 6 shows that, the lowest expenditure for health was in 2011 with AZN 546.1 million ($ 694.8 million). Social protection and social security expenditures for the next year is predicted as AZN 1896.6 million ($ 1806.2 million) and this is less than in 2015. Last 5 years, the highest point of social protection and
social security expenditures was in 2014, AZN 2972.2 million ($3791.0 million)\(^8\) and the lowest point of expenditure were in 2011, AZN 1324.0 million ($1684.5 million). Other categories expenditures will be increased next year, AZN 652.7 million ($621.6 million). This is the highest point for the last 5 years. The lowest point of expenditure was in 2011 with AZN 202.3 million ($257.4 million). If we briefly analyze and summarize the predicted expenditures for the next year and for the last 5 years, we can see that social expenditures of the government will increased particularly.

**Table 3.2.4. The direction of social expenditures in the state budget, from 2011 to 2016 (mln. AZN)**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Science</td>
<td>108.7</td>
<td>123.3</td>
<td>130.4</td>
<td>146.8</td>
<td>140.0</td>
<td>131.7</td>
</tr>
<tr>
<td>Education</td>
<td>1338.5</td>
<td>1511.5</td>
<td>1530.4</td>
<td>1653.4</td>
<td>1692.7</td>
<td>1713.5</td>
</tr>
<tr>
<td>Health</td>
<td>546.1</td>
<td>652.7</td>
<td>669.2</td>
<td>725.6</td>
<td>759.2</td>
<td>744.9</td>
</tr>
<tr>
<td>Social protection and social security</td>
<td>1324</td>
<td>1785.7</td>
<td>1813.5</td>
<td>2972.2</td>
<td>2022.0</td>
<td>1896.6</td>
</tr>
<tr>
<td>Other categories</td>
<td>202.3</td>
<td>254.7</td>
<td>289.7</td>
<td>311.4</td>
<td>313.8</td>
<td>652.7</td>
</tr>
</tbody>
</table>


**Graph 3** also indicates the comparison of the state budget expenditures for the last five years and predicted 2016.

**Graph 3. The comparison of the structure of state budget expenditures for the last 5 years and 2016**


---

81 US Dollar = 0.784 AZN in 2014; before the devaluation of AZN in February 2015.
Science - The share of science expenditures on the State Budget for 2016 is predicted as 0.8% and this is 0.1% more than previous year. AZN 131.7 million ($ 125.4 million) is predicted to financing of science is directed to the fundamental scientific researches, financing of existing scientific researches.

3.3 Education

Education – Expenditures for education is predicted as AZN 1713.5 million ($ 1631.9 million) and the share of education expenditures will be 10.5% of the State Budget in 2016 and this is 2.4% more than in 2015. AZN 940.1 million ($ 895.3 million) or 54.9% of allocated funds is directed to education expenditures, AZN 497.9 million ($ 474.2 million) or 29.0% of allocated funds is directed to the educational organizations and events, AZN 157.4 million ($ 149.9 million) or 9.2% to the pre-school education, AZN 37.2 million ($ 35.4 million) or 2.2% to the higher education, AZN 43.6 million ($ 41.5 million) or 2.5% to the secondary education, AZN 33.7 million ($ 32.1 million) or 2.0% to the first-vocational education and AZN 3.6 million ($ 3.4 million) or 0.2% to the financing of additional education activities. (See: Table 3.3, below)

### Table 3.3. The main directions on expenditures for education, in 2016

<table>
<thead>
<tr>
<th>Expenditures, million, AZN</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education expenditures</td>
<td>940.1 (895.3)</td>
</tr>
<tr>
<td>Educational organizations and events</td>
<td>497.9 (474.2)</td>
</tr>
<tr>
<td>Pre-school education</td>
<td>157.4 (149.9)</td>
</tr>
<tr>
<td>Higher education</td>
<td>37.2 (35.4)</td>
</tr>
<tr>
<td>Secondary education</td>
<td>43.6 (41.5)</td>
</tr>
<tr>
<td>First-vocational education</td>
<td>33.7 (32.1)</td>
</tr>
<tr>
<td>Additional education activities</td>
<td>3.6 (3.4)</td>
</tr>
</tbody>
</table>


3.4 Health

Expenditures for health is predicted as AZN 744.9 million ($ 709.4 million) and the share of health expenditures will be 4.6% of the State Budget in 2016, 0.9% more than in previous year. AZN 352.7 million ($ 335.9 million) is predicted for hospitals, AZN 108.3 million ($ 103.1 million) for polyclinics and dispensaries, AZN 6.8 million ($ 6.5 million) for other health care services and AZN 277.1 million ($ 263.9 million) for Health sector applied research. (See: Table 3.4, below)
Table 3.4. The main directions on expenditures for health, in 2016

<table>
<thead>
<tr>
<th>Expenditures, million, AZN</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hospitals</td>
<td>352.7 (335.9)</td>
</tr>
<tr>
<td>Polyclinics and dispensaries</td>
<td>108.3 (103.1)</td>
</tr>
<tr>
<td>Other health care services</td>
<td>6.8 (6.5)</td>
</tr>
<tr>
<td>Health sector applied research</td>
<td>277.1 (263.9)</td>
</tr>
</tbody>
</table>

Source: Ministry of Finance of the Republic of Azerbaijan, expenditure for the health in 2016

Social protection and social security – AZN1896.6 million ($ 1806.2 million) is predicted for pensions, social assistance, social problems of IDPs and other social activities on State Budget for 2016. The share of social protection and social security expenditures in the state budget is 11.7% and this is 2% more than previous year.

Culture, art, information, physical education and for other non-related categories – AZN 652.7 million ($ 621.6 million) is predicted for culture, art, information, physical education and activity in other categories on State Budget for 2016 and this is 4% of Budget, 2.3% more than the previous year.

Directions of capital expenditures – AZN4826.0 million ($ 4596.2 million) are allocated for the capital expenditures in the state budget for 2016 and its share is 29.7%.

Defense and security, court, law enforcement and prosecution – 18.3% of state budget is allocated for defense and security, court, law enforcement and prosecution expenditures.
3.5 Judiciary, law enforcement and prosecution

Spending on judiciary, law enforcement and prosecution constituted 3.1 per cent of the total public expenditure in 2011-2012, and is projected to rise to 6.3 per cent in 2015-2016. Figure 3.5 illustrates that judiciary, law enforcement and prosecution spending experienced steady increase in real terms from 2011 to 2016, at a real annual average rate of 30 per cent, which represents one of the higher growth areas examined in this report. After double increase between 2011 and 2013, spending on judiciary, law enforcement and prosecution leveled off in real terms, at an average annual real rate of 3 per cent between 2013 and 2016.

**Figure 3.5 Judiciary, Law Enforcement and Prosecution spending in real terms, 2011-2016**

![Judiciary, Law Enforcement and Prosecution spending in real terms, 2011-2016](image)

Sources: Ministry of Finance, key Budget Analysis updates 2012-2016; “Projected GDP Deflators for Baseline Countries/Regions” US Department of Agricultural Economic Research Service;

Between 2011 and 2013 there was a period of rapid economic growth, after which spending on law enforcement related measures as a share of gross national income increased at a much lower pace. Over the period between 2011 and 2015 spending on judiciary, law enforcement and prosecution as a share of national income fluctuated around a very insubstantial gradual upward trend, increasing from 1 per cent in 2011-2012 to 1.4 per cent in 2014-2015.

To some extent, comparatively high annual growth rate of judiciary, law enforcement and prosecution spending between 2011 and 2013 can be justified by increased number of courts, judges and prosecutors, as well as upgrading of the material and technical base of the legislative

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<http://en.cbar.az/other/azn-rates>
bodies around the same period. Given the spending restraints faced by the government in the wake of the sharp decline of oil prices, judiciary, law enforcement and prosecution spending was reduced from AZN 1208.6 million ($1151 million) in 2015 to AZN 1138.5 million ($1084.3 million) in 2016 in nominal terms. Despite the spending squeezes, nominal spending related to the legislative branch of the government as a share of total public expenditure is expected to increase from 5.7 per cent in 2015 to 7.0 percent in 2016.

3.6 Defense and security

Defense and security spending increased steadily, both as a share of national income and in real terms, between 2011 and 2015 period. Despite the steady increase in defense and security expenditure (Figure 3.6) between 2011 and 2016, at real annual average rate of growth of 1.1 per cent, defense spending as a share of gross national income has decreased from average 2.7 per cent in 2011-2013 to 2.1 per cent in 2013-2015. Moreover, although the share of defense and security spending in total public expenditure has also decreased by approximately 0.5 per cent between 2011 and 2015, it is projected to account for significant 9.6 per cent in 2016, which is 1.6 per cent higher than in 2015.

Figure 3.6 Defense and security spending in real terms, 2011-2016

Sources: Ministry of Finance, key Budget Analysis updates 2012-2016; “Projected GDP Deflators for Baseline Countries/Regions” US Department of Agricultural Economic Research Service;

According to Global Militarization Index Azerbaijan ranked ninth and tenth among 151 countries in the period from 2011 to 2013. In Azerbaijan, defense and security spending is


intended to strengthen security forces, national defense and applied research.\(^{12}\) As might be expected, defense and security spending is difficult to forecast, because the costs of military operations and conflict prevention vary from year to year. When the fights with Armenia escalate, money has to be found at a quick notice. For example, in 2011-2012 they equaled to 1332 million AZN in real terms, while in 2015-2016 they are projected to rise to AZN 1729,5 million ($ 1815.4 million) in real terms.

3.7 Housing and communal services

Housing and communal services is a rubric that covers water, sanitation, and social security. There has been little change in average housing and amenities expenditure since 2011. In 2016 housing and communal expenditure real annual average rate equals to

In 2016 housing and communal services are projected to comprise 2.3 per cent of the total expenditure, which is 0.4 per cent and 0.2 per cent higher than in 2015 and 2013 accordingly. Figure 3.7 below illustrates the general trend of the housing and amenities spending in real terms. As shown, the general projected reduction in total expenditure from 2015 to 2016 is reflected in housing and amenities spending to a very small extent.

Figure 3.7 Housing and communal services spending in real terms, 2011-2016

Sources: Ministry of Finance, key Budget Analysis updates 2012-2016; “Projected GDP Deflators for Baseline Countries/Regions” US Department of Agricultural Economic Research Service;

3.8 Agriculture, Forestry, Fishery, Hunting and Environment

Spending on agriculture has shown an overall rising trend – both as a share of total expenditure and as a share of gross national income. In 2011 it was 2.0 per cent of total expenditure and 0.6 per cent of national income, and in 2015 the same figure was 2.6 per cent and 0.7 per cent accordingly.

Figure 3.8 shows that spending on agriculture, forestry, fishery, hunting and environment has grown steadily in real terms. From 2011 to 2013 the spending increased at an average annual real rate of 25 per cent, however the average annual growth rate has slowed down and only increased by an average 7.3 per cent between 2014 and 2016. The annual average growth rate between 2015 and 2016 is expected to be 9 per cent, same as the growth rate between 2014 and 2015. In 2016 the share of agriculture, forestry, fishery, hunting and environment spending in total public expenditure is projected to be higher than the four year’s average share by 1 per cent, i.e. equal to 3.7 per cent.

**Figure 3.8** Agriculture, Forestry, Fishery, Hunting and Environment spending in real terms, 2011-2016

Sources: Ministry of Finance, key Budget Analysis updates 2012-2016; “Projected GDP Deflators for Baseline Countries/Regions” US Department of Agricultural Economic Research Service;

Increased spending per person may partially reflect growing industries within agriculture, forestry, hunting and fishery. Moreover, both the increase in the annual average growth rate of this department’s spending and its increase as a share of total public expenditure are partially explained by the rise in the amount of subsidies for agricultural producers and grain manufacturers.\(^\text{13}\) The government plans to improve Azerbaijan’s long-term food security and elimination of food import dependence within "Azerbaijan-2020: Vision into the Future" concept also explain the higher agricultural spending each year.\(^\text{14}\)


3.9 Transport and communication

Figure 3.9 demonstrates a substantial increase in real transport and communication spending between 2011 and 2016. Under current year inflation expectations, Azerbaijan’s transport and communication spending is expected to decrease in real terms by an average annual rate of 4 per cent between 2015 and 2016. However the general trend of real transport and communication spending was positive with an average annual rate of 33 per cent between 2011 and 2016.

Figure 3.9: Transport and Communication spending in real terms, 2011-2016

![Graph showing transport and communication spending](image)

Sources: Ministry of Finance, key Budget Analysis updates 2012-2016; “Projected GDP Deflators for Baseline Countries/Regions” US Department of Agricultural Economic Research Service;

The share of transport and communication in total expenditure rose gradually from 0.2% to 0.7% in the period between 2011 and 2016. Similarly, transport and communication spending as a share of national income rose by insignificant amount. The rapid growth in real transport and communication spending from 2011 to 2013 can be explained by creation of ambitious Intelligent Traffic Management System aimed at improving Azerbaijan’s transport infrastructure. The share of transport and communication in total expenditure rose gradually from 0.2% to 0.7% in the period between 2011 and 2016. Similarly, transport and communication spending as a share of national income rose by insignificant amount. The rapid growth in real transport and communication spending from 2011 to 2013 can be explained by creation of ambitious Intelligent Traffic Management System aimed at improving Azerbaijan’s transport infrastructure. In the light of forecasted spending constraints, nominal transport and communication spending was revised downward from 120 million AZN in 2015 to 114.8 million AZN in 2016.

3.10 Economic activities assistance

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Economic activities assistance in 2014-2015 was 264.7 million AZN, equivalent to mere 0.3 per cent of gross national income. The projected 2016 economic activities assistance spending comprises cost of credits given to: farmers producing agricultural products within “Aqrolizing” Open Joint-Stock Company (32 million AZN), credits to Ministry of Agriculture’s Agricultural Credits Agency (5 million AZN), Mortgage Fund’s implementation project of social mortgage (50 million AZN), cost related to recruiting independent financial advisers for state property privatization project, provision of data security, expansion of enterprises before privatization and protection of property rights(26 million AZN).

**Figure 3.10 Economic activities assistance spending in real terms, 2011-2016**

![Graph showing economic activities assistance spending in real terms from 2011 to 2016.](image)

Sources: Ministry of Finance, key Budget Analysis updates 2012-2016; “Projected GDP Deflators for Baseline Countries/Regions” US Department of Agricultural Economic Research Service;

Economic activities expenditure in nominal terms is to be reduced in 2015-2016, given recent fall in oil prices and the subsequent plan to tighten the budget spending. As shown in Figure 3.9, real spending on economic activities assistance has increased from 2011 to projected 2016 at a real annual average rate of 30 per cent. There was a steep increase from 2011 to 2013 at a real annual average rate of 50 per cent and subsequent slowdown at a real annual average rate of growth of 5 per cent from 2013 to 2016.

### 3.11 Functional distribution of local expenditures for 2016

According to the annual report of Ministry of Finance of the Republic of Azerbaijan, the forecast of local revenues for 2016 is AZN 766.3 million ($729.9 million) which is less than AZN 68.2 million or 8.2% comparing with 2015. The local revenues are forecasting AZN 1541.3 million($1496.4 million)which is less than AZN 112.7 million Or 6.8% comparing with 2015.
3.1.1 Functional distribution of local expenditures for 2016 (AZN million, US $ dollar)

<table>
<thead>
<tr>
<th>Functional distribution</th>
<th>AZN Million ($ dollar)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education</td>
<td>936.8 (892.2)</td>
</tr>
<tr>
<td>Executive authorities</td>
<td>116.7 (111.1)</td>
</tr>
<tr>
<td>Housing-communal</td>
<td>181.4 (172.8)</td>
</tr>
<tr>
<td>Culture sport</td>
<td>74.4 (70.1)</td>
</tr>
<tr>
<td>Health</td>
<td>213.7 (203.5)</td>
</tr>
<tr>
<td>Other</td>
<td>18.3 (17.4)</td>
</tr>
</tbody>
</table>


According to the chart, it is clearly seen that the government separates the main part of the local expenditures to the education sector. Comparing with 2014\textsuperscript{16}, the detachable expenditures to the education sector is higher than AZN 819.2 million in 2016.

The financing of the state budget deficit

Government predicted AZN 1698.0 million ($1617.0 million) in order to financing of the state budget deficit. The financing of the state budget deficit forms at the expense of foreign grants, profits from domestic and foreign borrowing and privatization.

The budget of State Oil Fund of the Republic of Azerbaijan (SOFAZ) for 2016

The oil boom impact to the all oil exporter countries as well as Azerbaijan. The revenues of the SOFAZ budget for 2016 predicted AZN 8200.0 million ($7809.0 million) which is less than AZN 4104.8 million or 33.4% comparing with 2015. The AZN 6000, 0 million ($5714.2 million) or 73.2% of the Fund’s budget will direct to the state budget with intended transfer which is less than 2011 and 2013 indicators. AZN 2150, 5 million ($2048.0 million) 26.2% to the infrastructure projects, AZN 49.5 million ($47.1 million) or 0.6% implementation of the state program, on education of Azerbaijani youth abroad in the years 2007-2015”.

The budget of State Social Protection Fund of Azerbaijan Republic for 2016

Predicted budget for the State Social Protection Fund of Azerbaijan Republic for 2016 is AZN 3078, 6 million ($2932.1 million). The 35, 6% or AZN 1100,0 million ($1047.6 million) of expenses of the fund forms from direct transfer from state budget another 64,4% or AZN 1978,6 million($1884,3 million) arranges from compulsory state social insurance and others. The 95, 5% or AZN 2923,6million($2784,3million) of the expenses of fund will spend to the pensions, AZN 155,0 million ($147,6mln) or 5,0% compulsory state social insurance and sanatorium treatment of insured and others.

The budget of Nakhchivan Autonomous Republic for 2016

\textsuperscript{16}http://www.maliyye.gov.az/en/node/1805
According to the report of the Ministry of Finance, the predicted budget for Nakhchivan Autonomous Republic (NAR) is AZN 351,4 million (334, million) in 2016. The 19,6% or AZN 69,0 million ($65,71mln) forms from at the expenses of the revenues of the NAR, another 80,4% AZN 282,4 million ($268,9mln) arranges from subsidized from the state budget. Comparing to the previous year, the subsidized from the state budget has decreased AZN 15,4million($14,6mln) or 5.2%.
CONCLUSION

The first chapter of this paper showed predicted revenues on the consolidated and state budget for 2016. As a conclusion we can mention that the revenues of consolidated budget is AZN 16 720,1 million (USA dollar 15 923,9 million) and this is AZN 3996,7 million or 19,3 % less than previous year. The decreasing rate of oil price influences to the transfers and state budget revenues. Clearly seen that, the revenues from oil started to decrease from 2014 related to the low oil prices in the world oil market. However we can observe increasing process in the oil prices between the 2011-2014 years. According to statement of Ministry of Finance of 2016 budget forecasts, we can see decreasing line on the Taxes of Ministry. Given that the transfers from taxes are main part of the budget (45%), revenues increased compared to 2011 and 2012, but reduces compared to 2013, 2014 and 2015. Profit tax and VAT decreasing in transfer as well as which they are the main shares of transfer from Ministry of Taxes. We can observe growth only land taxes, property taxes, simplified taxes and road taxes. At the end we can see decreasing transfers (USA dollar 1 457,1 million) of State Custom Committee.

This paper showed predicted expenditures in the state budget for 2016. As a conclusion of this paper we can mention that, the expenses of this state budget is AZN 16.264 billion ($15 489.5 billion) and this is AZN 4836.0 million ($4605.7 million) or 22.9 % less than previous year. Thus, expenses noticeably decreased. But the next year government aims to implement social policy as an important direction and 2016 state budget now is more social and this is 28.2% of GDP, 7.1% less than in 2015. The main directions of expenses of the state budget are the defense, social reforms, food and environmental safety, education, science, social security, health and etc. According to the structure of the state budget expenditures for last 5 years and also predicted expenditures for 2016 year we compared year by year and we conclude that, the highest point of current expenses in the state budget was in 2015, the lowest point of current expenditures was in 2012. Tables, figures and graphs also showed these numbers and comparison year by year according to the Ministry of Finance of the Republic of Azerbaijan. One of the main directions of the state budget expenditures is the social expenditure but predicted expenditures for social activities are less than last year. The directions of the social expenditures are total salary, pension and social benefits, purchase of food products and purchase of medicines and dressing materials. The comparisons of social expenditures for the last five years are represented in the second chapter. Predicted expenditures for science, education, health, social protection and social security, culture, art, information, physical education and for other non-related categories are one of main are shown here and there is a comparison of them for the last five years by table and graphs. Educational expenditures for the next year are planned more than in previous year. Health as the main direction of expenditures is also increased comparing with last year.

The transfers of SOFAZ to the state budget are expected to decrease by a staggering 40 per cent from 2015 to 2016. The same downward trend holds for State Social Protection Fund and the Budget of Nakhchivan Autonomous Republic. Spending on other public components (such as judiciary, law enforcement and prosecution, defense and security, housing and communal services, agriculture, forestry, fishery, hunting and environment, transport and
communication, economic activities assistance) has experienced an overall positive upward trend in the period between 2011 and 2016, both as a share of total public expenditure and as a share of gross national income. Compared to 2015, the nominal amount of government’s allocated spending for 2016 has decreased insubstantially for judiciary, prosecution and law enforcement, transport and communication and economic assistance spending. It is not yet clear whether these planned small spending cuts will be sufficient to fulfill the government’s aims of significant budget cuts. Therefore, it is possible that the spending for the latter and some other components will be further revised downwards, given the next year’s spending restraints caused by sharp decline of oil prices.
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