The CESD Assessment on the 2019 State Budget Project

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Baku, November, 2018
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Abstract

The current external macroeconomic conditions observed throughout the year of 2018, such as increasing rates by FED/ECB, exerts certain pressure on the economies of developing nations. Despite hovering well-over its predicted value for most of the year, the recent decline in the price of oil once again puts question marks for the future of the commodity. Considering all of the above mentioned facts in mind, dependence of 2019 state budget of Azerbaijan on oil, where 50.4% of revenues directly come from the oil sector further makes the country more vulnerable to oil price fluctuations. The largest hike is observed in the amount of revenues collected through the excise taxes while the biggest decline is in income taxes, reflecting the new amendments to the tax code. Expenditures of the state budget are going to be 7.3% higher in 2019, with the most significant boost observed in construction sector. This fact undermines the efficiency of the public funds, as the expenditures towards construction are more likely to become subject of mismanagement. When looking at the SOFAZ’s budget, a clear trend of increasingly allocating more and more funds to the state budget can be seen. As expected, new amendments were made to the fiscal rule in order to make it more flexible, however, the effectiveness of these changes are still unclear.
1. Global Economic Trends

The state budget of Azerbaijan is highly reliant on transfers from the oil sector, which intrinsically, makes it vulnerable to price fluctuations in the global oil market. With the exception of a drop in February, Brent Crude’s trajectory in the first 10 months of 2018 has been steadily increasing, reaching a 4 year high of just over $86 per barrel on the 3\textsuperscript{rd} of October. This sharp increase was mainly due to fears of the expected decline in Iranian oil exports as US sanctions came into effect on 4\textsuperscript{th} of November and the sustained under production in Venezuela. In June, OPEC and Russia agreed to increase oil production in line with the 2016 agreement. By the third quarter of 2018 the increase in production, mainly from Saudi Arabia and Libya, managed to more than offset the decline of production in Iran and Venezuela. However, it is difficult to predict the exact degree of production decline in Venezuela and Iran, which raises uncertainty whether OPEC along with Russia can be able to offset a sustained production cut from the former. The delicate equilibrium between supply and demand and the lack of confidence from investors in energy stocks manifested itself in November, as Brent Crude tumbled down to $58 per barrel on the 22\textsuperscript{nd} November, slightly recovering to $60 as of writing this paper.

Based on the latest forecasts, the U.S Energy Information Administration (EIA) predicts that global oil demand growth in 2019 will grow with 1.5 million barrels per day (bpd), while according to OPEC’s latest forecast global demand is expected to increase with 1.41 bpd, having cut down its forecast for the third month in a row. The International Energy Agency (IEA) takes a more pessimistic view expecting global demand to grow with 1.36 million bpd.

Non-OPEC output in 2019 is expected to expand with 2.38 million bpd according to the EIA, with 2.12 million bpd based on OPEC’s forecast, and with 1.8 million bpd in 2019 as stated by the IEA. The main Non-OPEC growth driver will be the US, but also Canada and Brazil are expected to greatly expand their outputs. The US’s shale oil production is pushing US total output to a record level of 11.7 million bpd. Moreover, Russia has likewise seen its production reaching a post-Soviet high of 11 million bpd. On the other hand, OPEC’s crude oil output is estimated to shrink with 300,000 bpd in 2019, based on EIA’s statistics. The group of nations is scheduled to meet in Vienna on the 6\textsuperscript{th} of December and is expected to announce production cuts to address the current price slump. Depending on the degree of output cut, agreed upon at the meeting, Brent Crude could return to the $70s margin. However, should no agreement materialize, we can expect Brent Crude to float in the high $50s in 2019. Yet, there
are several more factors that could affect the balance between supply and demand in the near future.

As mentioned above, it is uncertain how deep the cut in production from Iran and Venezuela will be. OPEC’s attempt to offset the declines in Iran and Venezuela has resulted in a decrease in its spare oil production capacity, dropping down to 1.4 million bpd in September, the lowest level since December 2016. Non-OECD countries are expected to be main source of global demand in 2019. However, several emerging markets are facing high levels of depreciation of their local currencies against the dollar, particularly Turkey and Argentina, on the back of the Fed’s interest rate hike. A sustained depreciation of local currencies in these major oil-importing economies will raise their energy bills and put downward pressure on demand, with crude already reaching record prices in Brazil and Turkey this year. On the other hand, the long-term outlook for oil demand remains uncertain as China-US trade war escalates, potentially decelerating economic growth in both countries causing rippling effects on global oil markets.

2. Macroeconomic Overview

The political and economic collisions in 2018 mostly affected developing countries, including Azerbaijan. Increments of the key interest rates in USA, surge of oil prices and appreciation of US dollar directly or indirectly altered the international trade: it touched Azerbaijan’s economic relations with its neighbouring countries too. Firstly, the increase and stability of target interest rates of FED and ECB accordingly might lead to less foreign direct investment to industrial countries, hence growing their foreign debt and depreciating their local currencies in real terms. Subsequently, a skyrocket of oil prices in a short period during the recent months depicted positive influence onto oil producing countries. Finally, depreciation of Russian ruble, Turkish lira and Iranian rial due to sanctions obstacles the exports to these countries, whilst stimulating imports. This, consequently, hurts the trade with mentioned region and real effective exchange rates: depreciation of Kazakhstan’s tenge and Belorussia’s ruble can be cited as examples upon the dependency on trade with Russian Federation. 1

1 Azərbaycan Respublikasının 2019-cu ilin dövlət və ictimai büdcələri üzrə layihələrin təqdimatı http://www.maliyye.gov.az/node/2240
Graph 1. Dynamics of GDP (mln USD) and GDP per capita (USD) in Azerbaijan

Source: State Statistical Committee of Azerbaijan Republic, 2018

As it is reflected in the graph above, the nominal GDP of Azerbaijan is demonstrating the positive trend beginning from the year of 2015, when economy fell into recession after two devaluations. In 2018 (till September, included) it constituted nearly 34 billion USD (58 billion manat). This statistic, in comparison with the date of the according period of January-September in 2017, depicted an increase of 15.4% (4.5 billion USD), while the Real GDP increased 0.8%. 56.8% of GDP falls on non-oil sector (19.3 billion USD), which constituted 62.6% in the first nine months of previous year. GDP per capita pursued the similar trend, increasing by 14.4% (435 USD) and no change relatively to previous year in nominal and real terms respectively. The average monthly salary ended up with 318 USD (till August) and Consumer Price Index escalated by 2.6%.

The respective figures of total imports and exports of 6863.5 million USD (1,166.8 million manat) and 13412.2 million USD (22,801 million manat) constitute the foreign trade turnover of Azerbaijan in January-August of 2018. 8.2% of all exports belongs to the non-oil sector. A year before this ratio was 13.3%, meaning that the share of oil in exports surged, presumably due to the upturn of oil prices in the beginning of the last quarter. Furthermore, particularly exports and imports of Azerbaijan escalated 38% and 29.5% accordingly within a year.

The current official currency rate of manat due to November is 1 USD to 1.7 AZN. Despite the fact that the exchange rates of Russia, Iran and Turkey faced depreciation and devaluations of local currencies against USD, AZN rate has been stable at the current rate since
the beginning of 2018. Since the currencies of neighbouring countries lose value while manat keeps the rate, domestic products are estimated to be more expensive for Azerbaijan’s main trade partners, therefore leading to the fall in exports. Inasmuch as the exports and exchange rates have opposite relationship, manat might lose the value against foreign currencies as well. However, as oil prices demonstrated high numbers in recent months, the flow of foreign currencies into the country boosted, hence supporting the stability of manat.

The foreign debt of Azerbaijan as of 1st July was 9,600.2 million USD (equivalent 16,320.3 million manat). The Debt to GDP ratio stood at 21.9%.  

The state budget surplus of 254.2 million USD (432.7 million manat) resulted from the difference of its income of 9.5 billion USD (16.1 billion manat) and expenditures of 9.2 billion USD (15.7 billion manat). This budget surplus constituted just 0.75% of GDP. By this token, the according period of first 9 months of previous year indicated the state budget shortage of 434.5 million USD (738.6 million AZN); it is associated with the budget surplus of the State Oil Fund of the Republic of Azerbaijan (SOFAZ) for the period, which reached 3.8 billion USD (6.4 billion manat). This figure a year ago was 1.1 billion USD (1.9 billion manat).

Graph 2. State Budget Surplus of Azerbaijan Republic, in million USD

Source: State Statistical Committee of Azerbaijan Republic, 2018

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3 [Azərbaycan Respublikası Dövlət Neft Fondu nun 2018-ci ilin yanvar–sentyabr ayları üzrə qalır va xarəclərinə dair malumat](http://www.oilfund.az/az_AZ/hesabat-archivi/rublukh/2018_1/2018_1_3/)
3. Revenues of the state budget

The revenues of the state budget next year will amount to 22.9 billion manat (13.47 billion USD). The average price of BRENT crude oil has been calculated as 60 USD per barrel while estimating the state budget revenues of 2019. Considering the recent slump of Brent Crude, as well as the above mentioned risk factors for the near future, the government should consider amending its threshold of 60 USD per barrel to 50 USD to avoid any revenue crunch in the coming year.

The largest source of revenue for the state budget is yet again the State Oil Fund of Azerbaijan (SOFAZ), which is going to transfer 11.55 billion manat (6.79 billion USD) next year. With that, the share of direct oil revenues in the state budget comes to 50.4%. When we add indirect revenues from the oil sector, such as taxation of oil companies, this indicator reaches 59.8%, a slight decrease from 60.2% of 2018. Although there has been a marginal decrease, it is still undeniable that state budget revenues are fundamentally dependent on oil income.

\[\text{Graph 3: Timeline of SOFAZ share in state budget revenues (in million manat)}\]

\[
\begin{array}{c|c|c|c|c|c|c|c|c|c}
\hline
\text{Share} & 51.5\% & 48.1\% & 42.7\% & 42.7\% & 41.7\% & 49.3\% & 53.5\% & 56.5\% & 63.1\% & 50.5\% \\
\end{array}
\]

Source: State Statistical Committee, Ministry of Finance
In the graph above, some of the non-oil categories that have changed over the past years are given. The exact numerical representation of the changes during 2018 & 2019 are also presented in table 1. These categories can be interpreted as following:

- No significant difference can be observed in Value Added Tax (VAT), which will experience a 1.8% growth next year.
- The largest hike is by far Excise Tax. It will gain an additional 153 million manat (90 million USD), of which the majority will come from the State Customs Committee, due to planned increases in excises exposed on alcohol, cigarettes and vehicles.
- In order to decrease the size of the shadow economy, the government has taken steps to reduce the overall tax burden on individuals and encourage them to legalize their activities. Starting from January 1st of 2019, individuals working in the non-oil and non-public sectors will be free from income taxes as long as their income is below 8,000 manat (4705 USD). For those whose incomes are above this threshold, are required to pay an income tax of 14%. Thus, naturally the revenues from Income Tax will decrease by 26.4% in the budget for the next year.
- There is a slight increase in Corporate Tax, equal to 5.4%. The reasons for the increase are: the growth of the non-oil sector, expiration of exemptions provided to non-public entities operating in non-oil sector and limiting the scope of simplified tax with the new amendments to the tax code.
Due to the above-mentioned reason, simplified taxes are also going to experience a decline of 15.3% next year.

Table 1: Observed change from a number of revenue sources in 2019 in million manat

<table>
<thead>
<tr>
<th>Source: Ministry of Finance</th>
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<table>
<thead>
<tr>
<th></th>
<th>Income Tax</th>
<th>Simplified Tax</th>
<th>Corporate Tax</th>
<th>VAT</th>
<th>Excise Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018 (expected)</td>
<td>1196</td>
<td>380</td>
<td>2533</td>
<td>4033</td>
<td>726</td>
</tr>
<tr>
<td>2019 (expected)</td>
<td>880</td>
<td>322</td>
<td>2670</td>
<td>4106.6</td>
<td>879</td>
</tr>
<tr>
<td>Change (%)</td>
<td>-26.4%</td>
<td>-15.3%</td>
<td>5.4%</td>
<td>1.8%</td>
<td>21.1%</td>
</tr>
</tbody>
</table>

4. Expenditures of the state budget

Expenditures in the 2019 state budget are estimated to amount to 24.8 billion manat (14.59 billion USD), which is 7.3% more than the same indicator for the previous year. The share of government expenses for the overall economy will reach 30.2% next year, from a low of 25% in 2017 when a potential path of fiscal consolidation was being considered. When you take into account indirect state expenditures, such as those of State Owned Enterprises (SOEs), the public sector takes up an even larger slice of the economy. It is apparent that, with crude oil recovering much of its lost value, the Azerbaijani state has once again turned to expansionary fiscal policy by increasing budget expenditures in order to foster economic growth. The low levels of inflation observed throughout 2018, averaging 2.6% year on year, certainly enhances the ability of the government to pursue such a policy without risking high inflation.

The contribution of higher budget expenditures to the Gross Domestic Product is surely positive, however, such a growth is not sustainable in the long run due to a variety of reasons. Firstly, above all, it is undeniable that this policy makes the economy more vulnerable to fluctuations in oil price. Secondly, the majority of the increased expenditures go to fixed capital investments by the state (in other words, construction), due to the facts that (a) construction expenditures have a much shorter payback period than the rest and (b) unlike education, healthcare and social security, construction expenditures carry no social importance and can be cut easily in case the need arises. Lastly, allocating more resources to the public sector, particularly towards construction, underlines the efficiency of these funds due to higher likelihood of corruption and ineffective spending.
When we look at the graph above, which shows the different categories of state budget expenditures, on the left horizontal axis, against GDP Growth, on the right axis, the positive correlation between GDP growth and fixed capital expenditures is clear. For years, construction has been used as a tool to artificially hike economic growth. However, once oil prices plunged downwards towards the end of 2015, construction expenditures had to experience a significant cut equal to 46%. In the absence of large construction expenditures, the economy went into recession during 2016 and logged a 3.1% shrinkage. The above-mentioned factors (high oil price alongside low inflation) allow the government to increase these expenses once again, which, as a result, puts economic growth under risk. Given that the government will continue its current fiscal policy, another round of oil price slump will give rise to severe problems for the economy.
5. SOFAZ budget transfers & State budget

SOFAZ revenue is predicted to amount to 15.579 billion manat (9.16 billion USD) in 2019 compared to 15.310 billion manat (9.01 billion USD) in 2018. This translates into a 1.8% year-on-year increase in terms of revenue. Expenditures in 2019 are expected to total 11.364 billion manat (6.68 billion USD), while in 2018 they will reach 11.448 billion manat (6.73 billion USD). In other words, a 0.7% year-on-year decrease. It is important to point out that according to the Government’s 2019 forecast report, the complete sum of SOFAZ’s expenditures is to be allocated to the state budget. However, this seems highly unlikely, what is more plausible is that SOFAZ has not yet calculated to where the expenditures will be allocated. In comparison, for 2018, 10.966 billion manat (6.45 billion USD) will be transferred to the state budget, or 95.8% of SOFAZ’s total expenditures. In 2017 both SOFAZ’s revenue and expenditures totalled 12.137 billion manat (7.14 billion USD) and 11.015 billion manat (6.48 billion USD) respectively. Out of this 11.015 billion manat (6.48 billion USD), 6.1 billion manat (3.59 billion USD) was transferred to the state budget, which equals to about 55.4% of total expenditures. Another 3.949 billion manat (2.32 billion USD) was directed to the Central Bank for “preserving macroeconomic stability”. Overall, we see a pattern of increasingly allocating SOFAZ’s expenditures solely to the state budget. Likewise, transfer to the state budget in terms of total annual revenue accumulation of SOFAZ will see a surge from 50.25% in 2017 to 71.62% in 2018 and slightly increase to 72.94% in 2019. SOFAZ maintained a budget surplus in 2017 of 1.122 billion manat (0.66 billion USD), 9.24% of total annual revenue, while for 2018 it is estimated to be 3.861 billion (2.27 billion USD), 25.22% of total annual revenue, and 4.214 in 2019, about 27% of total annual revenue. This is understandable considering that Brent Crude averaged around USD54 in 2017 while in 2018 it is estimated to reach, as mentioned earlier, USD74 to the barrel.

State budget revenue in 2018 is predicted to be around 22.149 billion manat (13.03 billion USD) and 22.917 billion manat (13.48 billion USD) in 2019. This translates to a year-on-year increase of 3.35% or 768 million manat (451.76 million USD). In 2018, 13.346 billion manat (7.85 billion USD), or 60.25% of total state budget revenue, will come from oil, while the remaining 8.803 billion manat (5.18 billion USD), or 39.75%, will come from non-oil. On the other hand, in 2019, 13.7 billion manat (8.05 billion USD), or 59.8% of total state revenue, makes up the oil revenue and 9.217 billion manat (5.42 billion USD), 40.1%, constitutes non-
oil revenue. In other words, oil revenue’s share of the state budget will increase with 2.7% year-on-year in 2019, as well as non-oil revenue’s share which is expected to grow with 4.7% year-on-year. State budget expenditures are expected to reach 23.1 billion manat (13.6 billion USD) in 2018 and then increase to 24.78 billion manat (14.58 billion USD) in 2019, a relatively modest increase of 6.77% year-on-year. In other words, the state budget will continue to run on a deficit of about 951 million manat (559.4 million USD) in 2018 and 1.863 billion manat (1.09 billion USD) in 2019. For 2017, the state budget accumulated 16.446 billion manat (9.67 billion USD) while expenditures amounted to 17.588 billion manat (10.35 billion USD). This resulted in a budget deficit of 1.141 billion manat (0.67 billion USD) for the aforementioned year. If we compare these numbers to those of 2018, we see an increase of 5.703 billion manat (3.35 billion USD) in budget revenue, a year-on-year increase of 25.75%, and 5.512 billion manat (3.24 billion USD) for budget expenditures, or 23.86%. In terms of budget deficit, as seen above, in 2018 the deficit is actually expected to decrease with about 84% year-on-year compared to 2017. However, in 2019 this trend is estimated to reverse with the deficit progressively widening with 51.33% year-on-year.

6. Fiscal Policy

The State and consolidated budgets of the Republic of Azerbaijan are compiled under the requirements of the “Law on the Budget System”. The Law on the Budget System forms the economic, organizational and legal basis for the preparation, approval, execution and control of these budgets. It also creates a legal basis for linking local budgets and extra-budgetary state funds to the state budget.

Since 2014, the development trajectory of the external and internal economic environment has created a critical demand for improving the fiscal rules, ensuring flexibility and implementing a policy of fiscal sustainability. As a result, the "Strategic Road Map of the Republic of Azerbaijan for the National Economy Perspectives" that was approved in December 2016, identified several specific commitments to improve fiscal policy, including determining expenditure of oil revenues and increasing fiscal sustainability as one of the main threats to the road map. In order to achieve the goals laid out in the strategic road map, the Cabinet of Ministers of the Republic of Azerbaijan has set forth obligations in the following
areas in accordance with Article 3.7 of the Decree of the President of the Republic of Azerbaijan on the application of the “Law on the State Budget of the Republic of Azerbaijan for 2017”:

- Application of the decisions of the Financial Stability Council of the Republic of Azerbaijan and preparations of the decision making mechanisms,
- Preparation of the rules for determining the upper limit of transfers to the state budget from SOFAZ,
- Development of a medium-term expenditure framework,
- Development of a public debt management strategy.

To be able to successfully implement the above-mentioned requirements, the fiscal legislation of the Republic of Azerbaijan has undergone serious amendments in 2018 and the fiscal framework has been defined to some extent. These include amendments to the “Law on the Budget System”, the "Medium-Term Expenditure Framework”, the "Medium and Long Term Strategy for Public Debt Management in the Republic of Azerbaijan" and the "Uniform Budget Classification of the Republic of Azerbaijan" in accordance with new rules.

There are a number of vital issues upon the new requirements for changes to the “Law on the Budget System”, such as the limitation of the upper limit of the consolidated budget and the limitation of non-oil base deficit, the definition of the specific boundaries of the spendable part of oil revenues and the changes to the approved budget. Thus, according to the new law, the upper limit of the reviewed budget should not exceed 103% of the current year's indicator. The total of transfers from SOFAZ to the state budget, in accordance with the rules on oil revenues that can be spent, should not exceed the sum of the 20% of the difference between the 30% of net financial assets at the beginning of the forecasted year and oil revenues and the minimum index of these variables, and should be less than the figure of the current year’s non-oil GDP deficit of the non-oil base deficit of the consolidated budget. However, only a part of the changes will be reflected to the 2019 state budget.

The preparation and implementation of the Medium-Term Expenditure Framework (MTEF) can further increase the sustainability of financial stability by creating more flexible and fiscal policies, including for the state and consolidated budgets, on a more effective and strategic planning basis. Hence, the budgeting process will be divided into two consecutive stages: a strategical and a technical one. The strategic stage will include the preparation of the MTEF, while the technical phase – includes the preparation of the annual budget. Although the
Ministry of Finance of the Republic of Azerbaijan is responsible for the preparation of the MTEF, all state institutions and budget organizations will participate in the preparation process. The MTEF will consist of the following three main documents:

- **medium-term resource envelope** (total of the consolidated budget and state budget's estimated revenues over the next and three subsequent years);
- **medium-term budget policy** (a statement describing the current economic situation of the country for the next and following three years and reflecting the main goals of the fiscal policy, as well as national expenditure priorities);
- **national expenditure priorities** (expenditure trends according to the medium and long-term goals).

According to the legislation, the preparation of the METF should be started no later than February 15 and should be submitted to the President of the Republic of Azerbaijan no later than May 25. The process ends with the president's approval of the document no later than June 15. The implementation of the medium-term expenditure framework, on the other hand, will be launched in 2020 and 2021.

The Government’s main purpose for approving the “Medium and Long Term Strategy for Public Debt Management of the Republic of Azerbaijan” consists of objectives such as: strengthening the government’s durability against fluctuations of external economic pressures and global financial markets, enhancing and increasing the effectiveness of the borrowing power of the public sector, managing risks rationally and enhancing the control mechanisms. The strategy covers 2018-2025 with the strategic goals listed below:

- Until 2020, the ratio of public debt to GDP to be more than 30%
- Until 2025, ensuring that the ratio will be less than 20%
- Maintain the current regulation – general public debt’s service costs to be less than 15% within the state budget’s expenditures
- Until 2025, decreasing foreign debt obligations by 7.3% to reach 87%
- Preventing the proportion of debts borrowed with variable interest rate to exceed 56% of total debt
- Organizing events supporting the development of local financial markets
This being said, The Republic of Azerbaijan’s state debt consists of loans borrowed directly from financial institutions by the government, state securities and bonds invested in domestic and foreign financial markets and contingent liabilities (liabilities occurred from borrowing with government guarantees).

In October 2018, a new form of “Unified Budget Classification” was passed into law in order to enhance the legal framework for the budget system and adapted to any amendments to legislative acts, including laws listed above. Thus, in the budget classification, the income derived from budgetary institutions from paid services has been comprehensively categorized, requirements of the law on social insurance have been added and the economic classification of the budget expenditures has been cut down to 10 sections (previously 11 sections). The implementation of the new unified budget classification will begin during the preparation of the 2020 state and consolidated budget, in other words, from 2019.

One of the important changes to the “Law on the Budget System” is the procedure of determining the share of disposable revenue from oil. However, the relevant adjustment was not applied during the preparation of the state budget for 2019. The reason for this is due to the approval of the changes to the law occurred after drafting the state projects. Nevertheless, during the preparation of the budget project for 2019, the upper limit of consolidated budget’s expenditure was determined according to a new fiscal policy. According to legislation, the summary of the consolidated budget consists of the following:

1. Disposable revenue from oil.
2. Non-oil revenues and income
3. State taxes paid from the non-oil sector, duties and other incomes relevant to the classification of budget revenues
4. Non-subsidized revenue of Nakhchivan Autonomous Republic’s budget
5. Revenue from the State Social Protection Fund, excluding transfers from the state budget
6. Revenue from Unemployment Insurance Fund, excluding public sector payments
7. The expended revenue of foreign loans income
8. Income sources for the compensation of state and consolidated budgets deficits, that are determined by law
During the preparation of the 2019 state budget, the ratio of consolidated budget’s non-oil deficit to non-oil GDP is forecasted to be 29.5%. Relevant figure for current year is expected to be 33.2%. Hence, as one of the changes to the “Law on the Budget System”, the ratio of consolidated budget’s non-oil deficit to non-oil GDP should be less than the current year’s ratio.

In general, it should be noted that, only a small part of the new framework requirements for fiscal rules and fiscal policies that were approved in the current year have been reflected in the preparation of the 2019 state budget. This should be considered more as a technical problem. Because, the adoption of the law and approval of the strategy took place at the end of the third quarter of 2018, which is 7 months after the beginning of the budget process.

There are a few worrying changes to the fiscal rules which is that the new framework for spending of oil revenues depend on quite variable and complicated factors (remaining balance of SOFAZ, remaining balance of state treasury in the banking and financial accounts, unified treasury account’s fund allocated to management, obligations within the contracts signed on behalf of the Republic of Azerbaijan, debt to be paid by foreign governments and total amount of current year’s sum of public enterprises obligations by services towards the state budget, domestic and foreign public debt). In the coming years, this can weaken the durability of the fiscal policy towards external fluctuations and the financial stability policy implemented by the government.

One of the other problems is that no steps have been taken to improve public participation and public control mechanisms during the legal amendments, including the “Law on the Budget System”. Furthermore, this means that the existing risks will continue during the budget execution process.

Finally, it should be noted that there are certain points, which cast doubt on the descriptiveness of the government’s fiscal policy. Thus, according to the Strategy for Public Debt Management approved on August 24, despite the fact that the state budget revenues of 2019 have been projected at 18.8 billion manats (11.06 billion USD) and expenditures - 18.9 billion manats (11.1 billion USD), the actual budget project put on debate was 22.9 billion manats (13.5 billion USD - 21.8% more) and 24.8 billion manats (14.6 billion manat - 31.2% more). This also proves that the government’s fiscal policy is volatile and risky, and hereby does not follow the fiscal consolidation policy.
References


