



## **Independent Assessment of the Implementation of the 2020 State Budget of Azerbaijan**

**Nigar Islamli**

**Center for Economic and Social Development (CESD)**

**Jafar Jabbarli 44,**

**Baku, AZ 1065,**

**Azerbaijan**

**Phone; (99412) 594-36-65**

**Email; [info@cesd.az](mailto:info@cesd.az)**

**URL; [www.cesd.az](http://www.cesd.az)**

**June 2021**

## **Abstract**

This independent evaluation aims to investigate the implementation of the 2020 State Budget of Azerbaijan. The pandemic, which has lasted since 2020, has brought significant changes in the world. The changes in terms of both quality and quantity were reflected in the economic environment and individual's livelihood. Because of the requirement for long-term quarantine conditions to battle the pandemic, both developed and developing countries have experienced economic downturns.

The research comprises forecast indicators defined by the appropriate executive authority during the year, as well as the draft legislation on 2020 state budget implementation, in addition to the forecast indicators represented in the material provided with the original and updated draft state budget for 2020.

The basic order is as follows; introduction, revenues, expenditures, fiscal sustainability, sequestration of costs, cost reduction, receipt of subsidies from the budget, optimization of receivables, distribution of expenditures, and debts. The results included graphical and tabular descriptions.

## 1. Introduction

Undoubtedly, the global impact on the execution of the state budget, such as the devastating fluctuations in oil prices and the transformation of coronavirus infection into a pandemic can be the reason for the imbalance in the budget. One of the other effects of the pandemic, the imbalance between the forecasts made at the beginning of the year and the performance indicators, was also reflected in the Azerbaijani budget.

Although the International Monetary Fund's (IMF) January 2020 “World Economic Outlook” predicted that economic stability will improve and positive trends will be observed based on the end of last year's US-China tensions, which were the main economic topic of the previous year, despite, the listed processes created conditions completely different for the end of the year. With a significant narrowing of global demand channels, the world economy shrank by 3.3% in the reporting year, paradoxical indicators were recorded against the initial forecasts for developed countries, as well as developing countries, and the widespread health crisis was accompanied by an economic crisis. According to the IMF, the damage caused by the pandemic and countermeasures in the reporting year were more pronounced in countries whose economies are based on tourism or directly dependent on exports of goods.

In 2020, oil prices, which showed a different dynamic than before, were severely affected by supply and demand factors. Oil prices fell sharply and remained low at \$ 50 by the end of the year due to negative forecasts. Regarding calculations by the Ministry of Finance, if the price of oil drops from 40 USD to 35 USD per barrel, it will get an influence on non-oil revenue and national budget revenue. Therefore, due to the indirect impact of the drop in the prices of oil on the non-oil sector, the non-oil revenue may drop by 0.5%, while national budget revenue may decrease by 1.3%. It raised a question about the method and whether the impact on the State Oil Fund was considered.

The Parliament of the Republic of Azerbaijan, guided by paragraph 5 of part 1 of Article 95 of the Constitution of the Republic of Azerbaijan, confirmed that the revenues of the state budget for 2020 amounted to 24 681734.6 thousand manat and executive expenditures 26416297.5 thousand manat.

In addition, 1390.6 million manat was allocated from the state budget for 2020 to diminish the negative influence of the coronavirus (COVID-19) pandemic on the country's economy, of which 1334.1 million manat was fully used. 2.5 billion manat was allocated from the budget and other sources for economic support measures.

All these are explained in more detail in the following sections. The document ranks the first state budget execution, followed by revenues and expenditures, fiscal sustainability, expenditure sequestration, expenditure reduction, state budget subsidies, receivables optimization, expenditure allocation, summaries and proposals, and finally a reference.

## 2. Assessment of the state budget execution

As noted earlier, the January 2020 issue of the International Monetary Fund's (IMF) "World Economic Outlook" predicted that global political conflicts will be resolved and positive steps will be taken in the economic sense, but the US-China conflict, pandemic and the disagreement over oil production has led to figures that are completely different from forecasts.

According to an International Monetary Fund (IMF) analysis, the harm caused by pandemics and countermeasures during the reporting year were more evident in countries whose economies are orientated toward tourism or rely on the export of certain items (Table 1).

The progress in indicators at the end of the year compared to the forecasts in October is explained by a minor easing of quarantine conditions in various regions in the second half of the year, the adaptation of economies to new situations and the development of different types of vaccines. In addition, the fulfillment of fiscal and monetary support in most countries (especially the US) has led to a more optimistic view of economic recovery.

Table 1. IMF forecasts and actual indicators, %

Countries \ Regions	2019			2020		
	Facts	January issue	April issue	Forecast	June issue	October issue
Economic growth						
World	2,8	3,3	-3,0	-4,9	-4,4	-3,3
Developed Countries	1,6	1,6	-6,1	-8,0	-5,8	-4,7
USA	2,2	2,0	-5,9	-8,0	-4,3	-3,5
Eurozone	1,3	1,3	-7,5	-10,2	-8,3	-6,6
Japan	0,3	0,7	-5,2	-5,8	-5,3	-4,8
United Kingdom	1,4	1,4	-6,5	-10,2	-9,8	-9,9

Canada	1,9	1,8	-6,2	-8,4	-7,1	-5,4
Developing Countries	3,6	4,4	-1,0	-3,0	-3,3	-2,2
China	5,8	6,0	1,2	1,0	1,9	2,3
Russia	2,0	1,9	-5,5	-6,6	-4,1	-3,1
Turkey	0,9	-	-5,0	-	-5,0	1,8
Iran	-6,8	-	-6,0	-	-5,0	1,5
Azerbaijan	2,2	-	-2,2	-	-4,0	-4,3
<b>Growth rate of trade (goods and services)</b>						
World	0,9	2,9	-11,0	-11,9	-10,4	-8,5
<b>The growth rate of raw material prices</b>						
Oil	-10,2	-4,3	-42,0	-41,1	-32,1	-32,7
<b>Inflation</b>						
Developed Countries	1,4	1,7	0,5	0,3	0,8	0,7
Developing Countries	5,1	4,6	4,6	4,4	5,0	5,1

*\*The oil price line reflects the change in the average price for Brent, Dubai and WTI. The average oil price per barrel was \$ 61.39 in 2019 and \$ 41.29 in 2020.*

*Source: The table is based on various editions of the IMF's "World Economic Outlook" review.*

According to global oil demand data, the lowest level of global oil demand, as in OPEC oil, was in the second quarter, and the average demand for 2020 was 90.5 million barrels per day, a 9.5 percent decline from the previous year. According to average annual demand and supply indicators, the oil market was oversupplied throughout the year, and oil supply, which reduced by 6.3 percent compared to the previous year, was insufficient to preserve market equilibrium. It should be emphasized that this level of imbalance between supply and demand in the oil market has not been recorded in recent years; instead, there is a balance with minor deviations (Table 2).

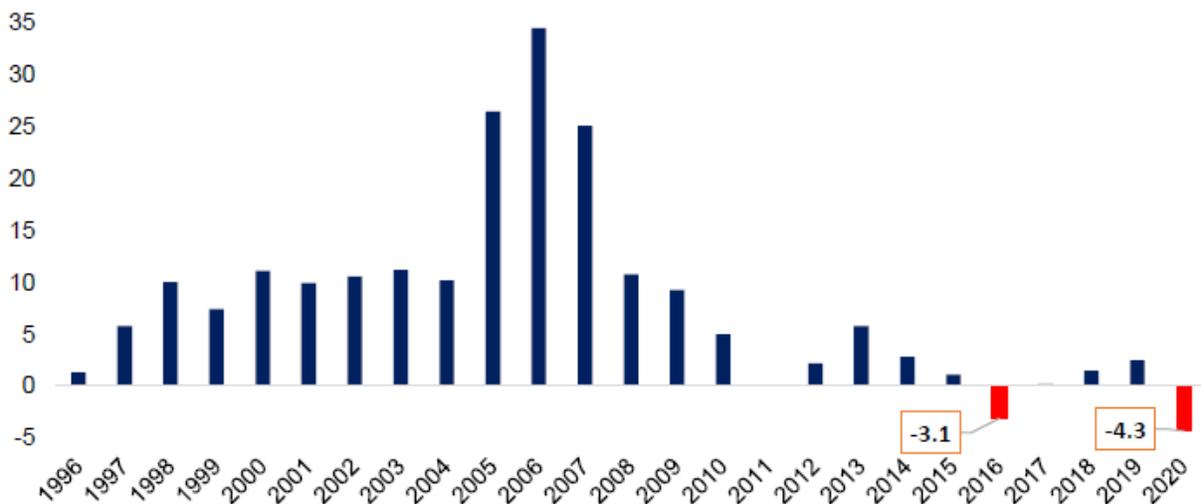
Table 2: Aggregate supply and demand in the world oil market, mln. barrel / day

Indicators	2012	2013	2014	2015	2016	2017	2018	2019	2020
Demand for oil	89,0	90,7	92,0	94,2	95,7	97,7	99,1	100,0	90,5
Oil supply	89,6	90,2	92,6	95,5	95,5	97,1	100,0	100,0	93,7
Balance (supply and demand)	-0,6	0,5	-0,6	-1,3	0,2	0,6	-0,9	0,0	-3,2

Source: The table is based on OPEC's monthly bulletins

In 2020, the quickly shifting components of supply and demand on a worldwide scale became a crucial element in defining Azerbaijan's economic landscape, and the global economy's deteriorating trend did not circumvent the local economy. Long-term internal isolationist policies resulted in a deterioration in the country's economy beginning in March of the reporting year (Figure1).

Figure 1. Dynamics of GDP in the last 25 years, in%



Source: The figure is based on data from the State Statistics Committee

According to the "Budget Envelope" presented (documents prepared and presented together with the draft of the national budget), in the macroeconomic framework for 2020 and the next three years, economic growth in 2020 was expected to be 3.0%, but then in the draft budget project correction, the forecast of GDP has also changed and GDP was expected to fall by 5.0%. In addition, during the review process, the world market price of crude oil, which is an important exogenous parameter of the macroeconomic framework, fell by 20.0 points and was set at US \$ 35.0 (Table 3).

Table 3. Forecast and fact indicators for 2020

Indicators	Unit of measurement	Forecast	Correction	Execution
GDP	mln. manat	83321,5	68339,9*	72432,2
Real growth	%	3,0	-5,0	-4,3
Oil prices (Azerilight)	USD	55,0	35,0	43,7

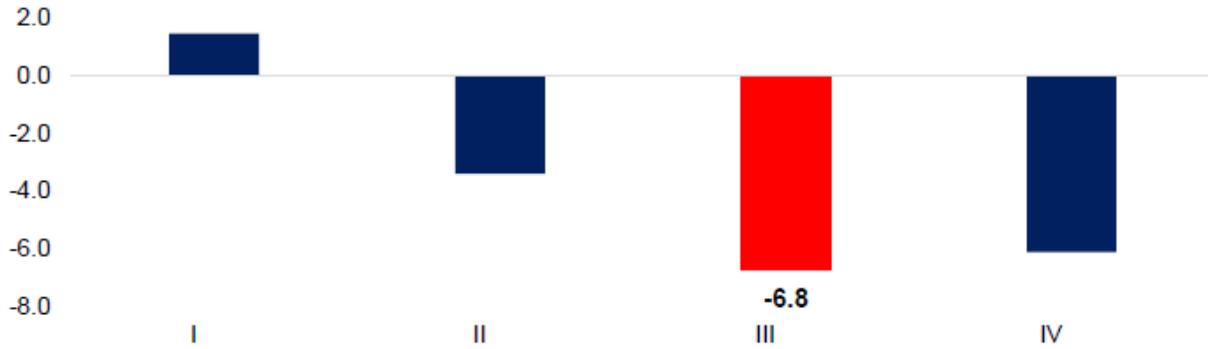
\* Since the documents submitted in connection with the correction do not show the forecast of GDP in nominal terms, it is an approximate figure calculated by us through the forecast of the ratio of budget revenues to GDP.

Source: The table is based on the information included in the "Budget Envelope" and the data of the State Statistics Committee.

According to State Statistics Committee estimates, economic growth peaked in the first quarter but slowed significantly in the third quarter due to a considerable drop in domestic and international demand as a result of the following actions (Figure 2).

Hotels and restaurants, two of the most hit sub-sectors by the pandemic, fell by more than 70% in the second quarter compared to the same period the previous year, however, production fell further in the third and fourth quarters. As a result, the mining industry has had the most severe impact.

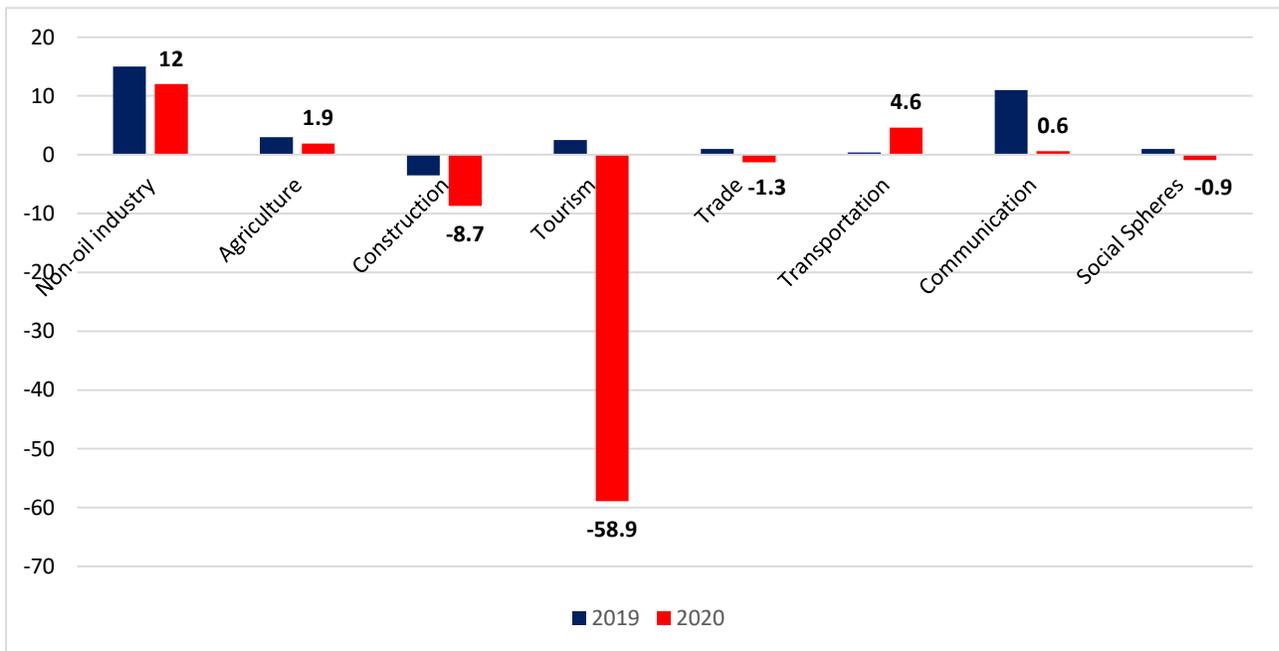
Figure 2. Real GDP growth rate, quarterly, compared to the corresponding quarter of the previous year, %



Source: The figure is based on data from the State Statistics Committee

The non-oil industry is one of the commercial sectors in the non-oil sector, so it is selected as the industry with the highest growth rate among all sectors. Therefore, the industry's greatest influence on the annual value-added changes comes from this sector. Although agriculture is another business sector's growth, growth has slowed significantly compared to the previous year, so there is hardly any support for changes in GDP (Figure 3).

Figure 3. Real change in value added in non-oil sectors, in%

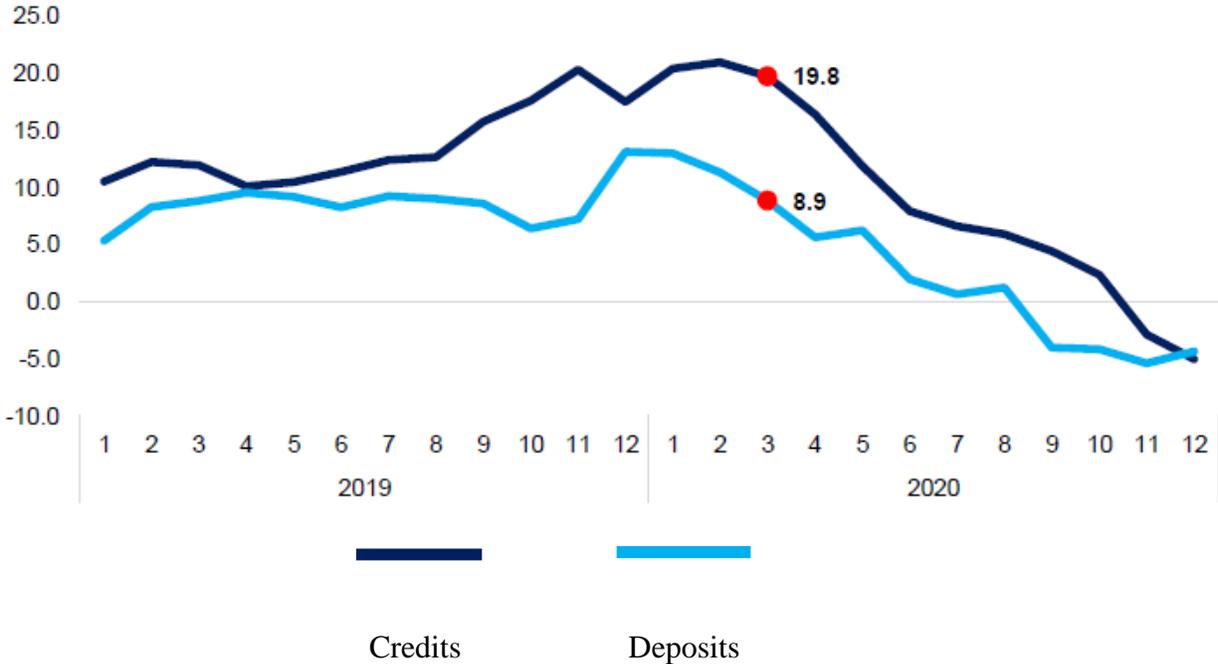


Source: The figure is based on data from the State Statistics Committee

During 2020, the Central Bank discussed the specifications of the interest rate corridor numerous times, progressively lowering the discount rate from 7.5 percent to 6.25 percent, and the measures made were intended to boost economic activity, but the number of loans continued to fall year on year.

Along with the lowering demand factor, the revocation of several banks' licenses at the start of the year had a significant part in the negative growth trajectory of loans and deposits. The volume of loans given throughout the year was 767.8 million manat, a 5.0 percent drop. In addition, compared to 2019, deposits totaled 1079.2 million manat, a 4.4 percent reduction, with deposits totaling 23666.9 million manat at the end of the year (Figure 4).

Figure 4. Growth rate of loans and deposits in 2020, %

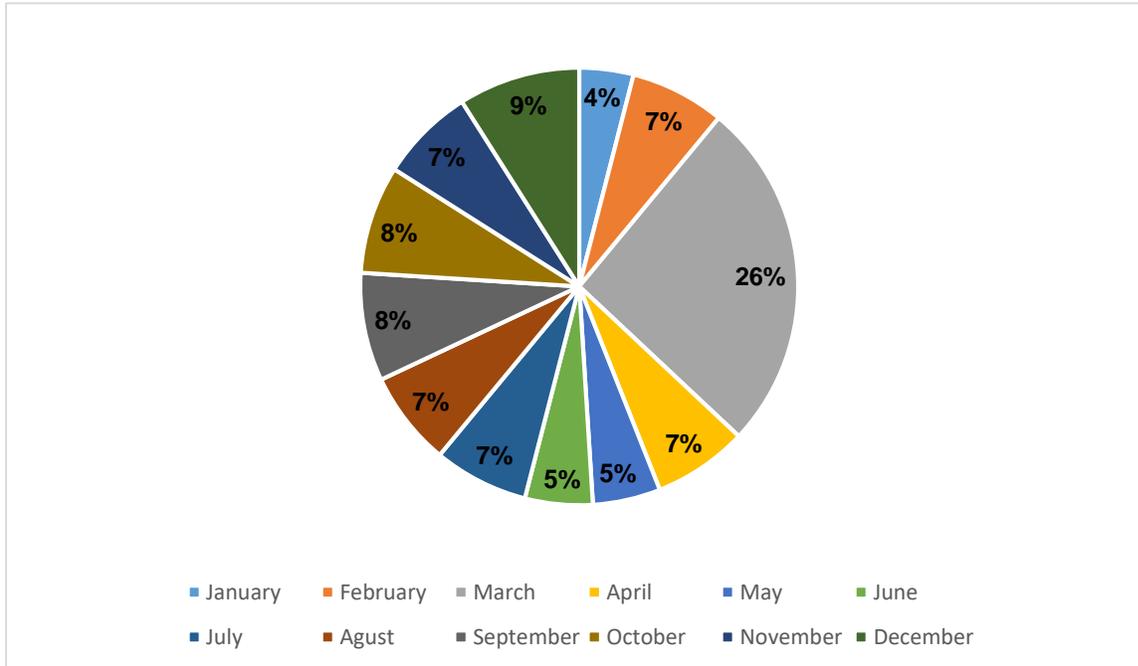


Source: The figure is based on data from the Central Bank

Because of the severe reduction in oil prices during the period, the volume of foreign exchange sales at auctions organized by the State Oil Fund and the Central Bank climbed to 1928.3 million

to assure a considerable increase in demand for foreign currency. It was 3.2 times greater in US dollars than in March of the previous year, accounting for 26 percent of total currency traded over the year (Figure 5).

Figure 5. Currency sales at auctions held during the year, monthly, mln. In US dollars



Source: The figure is based on data from the State Oil Fund

## 5. Analysis of the budget

### 5.1 Fiscal Sustainability

In 2020, the oil sector was about to maintain a dominant position in the formation of budget revenues. More than **14 billion manat** of revenues fell to the oil sector and a little over **10 billion manat** to the non-oil sector.

Since 2017, there was an increase in the volume of transfers from the State Oil Fund compared to the previous year. In 2020, the volume of transfers increased by 7.4 percent. **49.4%** of the budget fell to the fund. This means that in 2020, the State Oil Fund transferred **1 out of every 2 manat** received in the budget.

This imbalance is also reflected in SOFAZ's revenues and transfers. The amount of the transfer exceeded the annual income by 30%.

In the 2020 state budget, the price of oil was set at \$ 55 in the initial forecast and then at \$ 35 in the adjusted budget. Revenues from the oil sector totaled 12.2 billion manat from the State Oil Fund of the Republic of Azerbaijan (SOFAZ) and 18.021 billion manat from the State Tax Service (Table 4).

Table 4. Sustainability indicators related to the oil sector

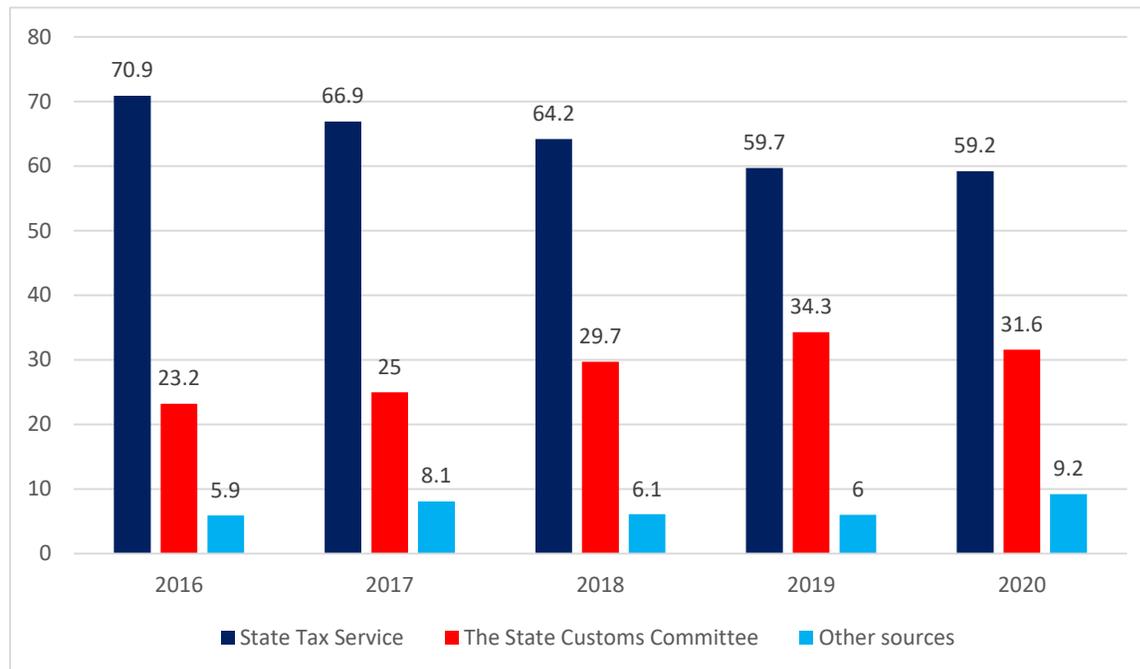
	2016	2017	2018	2019	2020
<b>Revenues from the oil sector, mln. in manat</b>	9225,0	7884,0	13400,5	13604.6	14002.1
<b>Including:</b>					
<b>Transfer of the State Oil Fund, mln. in manat</b>	7615,0	6100,0	10959,0	11364.3	12200.0
<b>In% compared to the previous year</b>	93,7	80,1	179,7	103.7	107.4
<b>Tax payments of SOCAR, mln. in manat</b>	1252,0	1317,5	1425,1	1409.3	1198.4
<b>In% compared to the previous year</b>	88,8	105,2	108,2	98.9	85.0
<b>Profit tax on production sharing, mln. in manat</b>	358,0	467,0	1016,4	831.0	603.7
<b>In% compared to the previous year</b>	52,6	130,5	217,9	81.8	72.6
<b>1. The share of the oil sector in the state budget, in%</b>	52,7	47,7	59,5	56,4	56,7
<b>Criterion: Low ratio in natural resource rich countries 20-40%</b>					
<b>2. The ratio of the transfer of the State Oil Fund to the state budget revenues, in%</b>	43,5	36,9	48,7	46.9	49.4

<b>Requirement: Must be used in accordance with the principle of fixed real costs</b>					
<b>3. Non-oil budget balance (calculated taking into account all oil components), in%</b>	-29,4	-33,9	-33,4	-27,3	-31,2
<b>Requirement: Continuous reduction is a must</b>					
<b>4. Non-oil budget balance (calculated less DNF revenues), in%</b>	-25,4	-29,9	-28,1	-22,8	-27,7
<b>Requirement: Continuous reduction is a must</b>					
<b>5. Non-oil initial budget balance (calculated taking into account all oil components), in%</b>	-33,8	-37,3	-38,2	-30,3	-34,6
<b>Requirement: Continuous reduction is a must</b>					
<b>6. The ratio of the transfer of the SOF to the income of the SOF, in%</b>	80,9	50,3	62,2	59,7	130,3

*Source: The table was prepared by the Chamber of Accounts*

In 2020, excluding transfers from the State Oil Fund, the state budget revenue was 124,113,346 manat, or 104.7%, and the approved forecast value was 1192400.00 manat. Compared with 2018, this represented an increase of 8.1% or 931864, while in comparison with 2019, a decrease of 2.9% or 372027,1 mln manat. Without considering the revenue of the State Oil Fund, the dynamics of the main administrative agencies' participation in the state budget revenue structure during the last 5 (five) years allow us to observe the following table (Figure 6).

Figure 6. Specific weights of receipts on the main institutions providing state budget revenues without taking into account receipts from the State Oil Fund, in%



Source: Report on the implementation of the state budget

## 5.2 Revenues

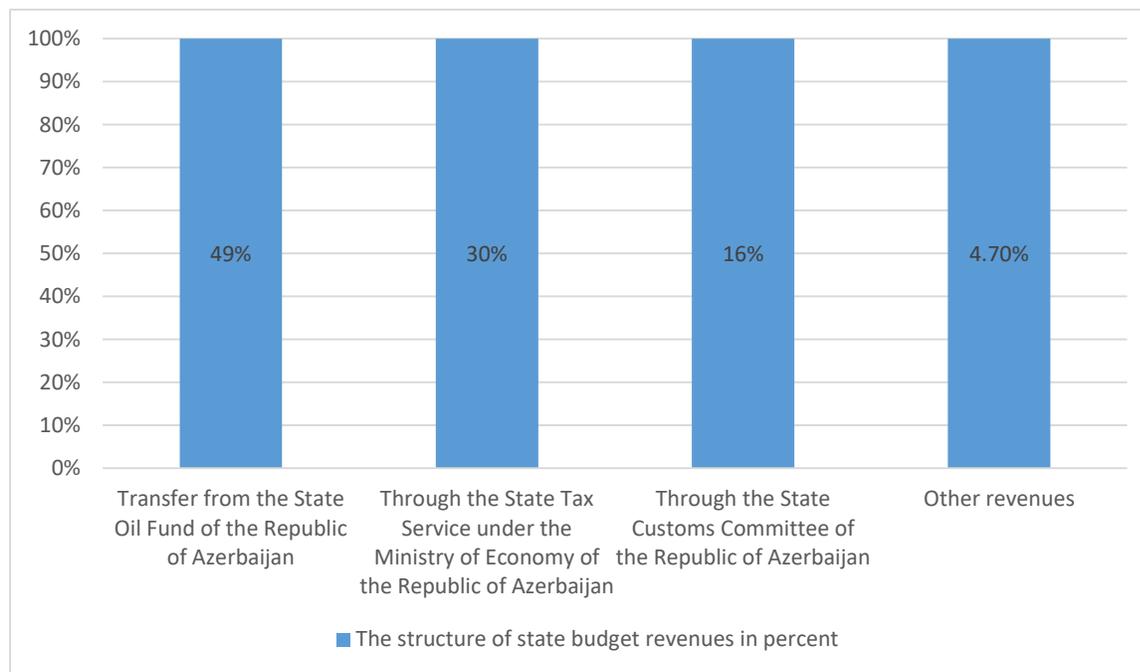
During the past year, state budget revenues were executed in less convenient macroeconomic situations due to full or partial restrictions on economic activity due to quarantine regimes in the fight against the COVID-19 pandemic, which has spread severely in a tense epidemiological situation at the global and local levels. Thus, compared to 2019, the main macroeconomic indicators influencing budget revenues in 2020 (compared to 2019) were Gross Domestic Product (GDP) by 4.3%, including 2.6% in the non-oil sector and in the oil sector. 7.0%, fixed capital 8.3%, including 12.3% in the non-oil sector, retail trade turnover 1.3%, paid services provided to the population 27.9%, nominal income of the population 1.8% decreased, the average monthly nominal wage increased by 11.4%, the consumer price index was 102.8%, at the same time foreign trade turnover at current prices was 26.8%, including exports of 30.6%, of which non-oil exports 5, 3%, while the volume of imports decreased by 21.5%.

In addition to the negative effects of the pandemic in 2020, instability in oil prices has had a significant negative impact on the country's economic growth, tourism, retail trade, and the transport sector. The sharp decline in crude oil prices on the world market and within the framework of the OPEC + agreement affected the country's oil industry, resulting in a 7.0 percent decline in GDP. Despite all this, the non-oil sector will grow by 12.0 percent in 2020.

Although the state budget revenues for 2020 were forecasted at 24124.0 million manat, they amounted to 24681.7 million manat. 557.7 million manat, 2.3% more than the forecast, and 463.6 million manat, or 1.9% more than in 2019.

The share of state budget revenues in GDP in 2020 was 34.1%, which is 4.5 percentage points more than in 2019.

Figure 7. The structure of state revenues in percent



### 5.3 Expenditures

As noted earlier, in 2020, the country's priorities of social and economic development, including the implementation of science, education, culture, health, sports, and physical infrastructure projects, social protection of the poor, and the intensification of other activities were tried to progress some extent due to the pandemic. Although the state budget expenditures for 2020 were projected at 27,492.2 million manat, 26,416.3 million manat or 96.1 percent have been implemented. This is 1990.4 million manat or 8.1 percent more than in 2019. The share of the state budget in 2020 was 36.5%, which is 6.7% more than in 2019.

The lowest performance of the forecast at 1342.4 million. manat was observed in November. Thus, although the indicator determined by the distribution of state budget expenditures by quarter and months for November was 10.1%, the actual indicator was 5.2%, which is 4.9 percentage points less than the approved distribution.



<b>142200</b>	State tax	<b>180 000,0</b>	<b>149 001,4</b>	<b>82,8</b>	<b>14 173,0</b>	<b>110,5</b>	<b>-42 296,0</b>	<b>77,9</b>
142210	For submission of lawsuits and complaints to the court, applications for determination of legally significant facts and appeals against court decisions, re-issuance of copies of documents by the court, registration of civil status acts, representation and branch of legal entities, as well as foreign legal entities in the Azerbaijan Republic for state registration and re-registration	3 584,0	3 174,3	88,6	-827,9	79,3	-301,4	91,3
142220	For conducting notarial acts by notary offices and state bodies, issuance of a certificate to engage in notarial activities and extension of its term	1 608,0	676,9	42,1	-679,2	49,9	-460,1	59,5
142230	Issuance of identity and permit cards, as well as refugee cards and travel documents to persons who have received refugee status, for admission, restoration or renunciation of citizenship of the Republic of Azerbaijan	18 382,0	13 977,7	76,0	-5 062,4	73,4	-8 326,2	62,7
142240	For conducting consular operations in the Republic of Azerbaijan or in diplomatic missions of the Republic of Azerbaijan abroad	10 454,0	5 715,8	54,7	-10 804,9	34,6	-15 442,2	27,0
142250	For licensing of licensed business activities, services in the field of food safety	3 625,0	2 893,5	79,8	1 432,5	198,1	2 045,0	3,4 times
142260	For issuance of a permit regulating international road	31 600,0	32 649,5	103,3	2 840,3	109,5	-867,4	97,4

	transport in the territory of the Republic of Azerbaijan and technical inspection of vehicles, trailers and semi-trailers							
142270	Registration and inclusion of securities in the state register, application to the Board of Appeals for inventions, utility models, industrial designs, trademarks, geographical indications, registration of works, objects of related rights, integrated circuit topology and data sets, issuance of relevant security documents and for other legal actions related to them, as well as for the issuance of certain types of permits, for the provision of services to legal entities and individuals related to vehicles and their management	59 370,0	41 229,6	69,4	14 304,6	153,1	8 444,6	125,8
142280	Issuance of documents related to the state registration of property and other property rights to real estate, as well as for the state registration of collateral	14 047,0	12 849,9	91,5	948,7	108,0	-713,3	94,7
142290	Due to other legal actions	37 330,0	35 834,3	96,0	12 023,3	150,5	-26 674,9	57,3

In the reporting year, many changes have taken place in the structure of national budget expenditures. Among the 12 parts of the expenditure function classification, the performance indicators of 11 departments are closer to the adjusted indicators, rather than the original purpose and revised amount. It is less than the approved quantity.

During the reporting year, the state budget expenditure was changed during the review and implementation process (Table 6).

Table 6. Initial, revised, adjusted and executed amounts of the state budget expenditures for 2020, mln. in manat

The direction of expenditures	Initially approved	Changes during the year		Executed
		Indicators revised by parliament	Accurate destination indicators (by relevant executive authorities)	
General public services	4009,7	3839,7 ↓	3716,9 ↓	3533,0
Defense and national security	3853,6	3804,2 ↓	3787,5 ↓	3755,1
Judiciary, law enforcement and the prosecutor's office	1970,4	1936,7 ↓	1912,7 ↓	1826,2
Education	3155,8	3034,8 ↓	2976,7 ↓	2774,3
Health	1369,0	1716,6 ↑	1714,5 ↓	1687,6
Social protection and social security	3244,6	3237,0 ↓	3221,2 ↓	3112,6
Culture, art, information, physical education, youth policy and other similar activities	441,9	426,1 ↓	386,6 ↓	342,0
Housing and utilities	249,1	248,2 ↓	248,0 ↓	245,7
Agriculture	921,0	897,7 ↓	876,5 ↓	862,2

Environmental Protection	279,9	273,3 ↓	261,3 ↓	240,6
Economic activity	5602,5	5832,8 ↑	5777,4 ↓	5545,6
Expenses not included in the main sections	1797,2	2245,1 ↑	2612,9 ↑	2491,4
<b>Total</b>	<b>26894,7</b>	<b>27492,2</b>	<b>27492,2</b>	<b>26416,3</b>

*Source: The Chamber of Accounts*

### **5.5 Cost reduction**

Reports covering 61.0% of the state budget expenditures executed in the reporting year were analyzed by the Chamber of Accounts. And during the compilation of the Opinion, the Chamber of Accounts considered treasury settlement acts and other documents (bank statements, references, etc.) covering 16.0 billion manat for 127 institutions and confirming the execution of funds, which consider 61.0% of budget expenditures.

Changes in the administrative grouping of state budget expenditures during the year led to changes in the amounts approved by legal acts, and the level of implementation in some enterprises was remarkably lower against the background of corrections.

Changes made by the current executive body during the execution process, together with the amounts established by law on the state budget, led to changes in the amounts established by the Decrees of the President of the Republic of Azerbaijan on the application of this law. Unlike in the past, in the reporting year, changes were made in the amounts of approved budget expenditures of most institutions, and the nature of these changes was multifaceted. Thus, the changes covered various sub-sections within the organization, the cost areas of the economic classification of the cost estimate of the organization, the total cost of the organization and other areas.

The analysis of the data shows that although the budget expenditures of some institutions were reduced during the year or by the time of the revision, additional funds were re-allocated to these institutions from the expenditures of the state budget during the year.

Reducing the costs or the redirected funds from other areas to some expenditure areas (by economic classification) or to subordinate entities are shown in the process of the execution of the Ministry of Transport, Communications and High Technologies, the State Agency for Citizen Services and Social Innovations under the President of the Republic of Azerbaijan, the National Oncology Center of the Ministry of Health, the Ministry of Ecology and Natural Resources, the State Committee for Refugees and Internally Displaced Persons.

Have the effects of cost reductions on economic efficiency been assessed?

The **OECD** recommends a performance assessment when sequestration is applied in the **Performance-Based Budgeting Principle**. Agriculture is one of the priority areas at 897.7 million manat, but 862.2 million manat has been allocated.

The income for managing or transferring the free surplus of a single treasury account is given in the subtopic "Management of free income surpluses" in the section "Taxes related to economic activities abroad" of the budget income classification. The funds received were 20513,0 million manat, which was 1.4487 million manat or 41.4% less than the forecast, and 1,338,889 manat or 18.2 times less than the performance indicator for 2019 (11,241 million manat). More than 62,552,200 manat or 4.0 times less than the 2018 performance indicator (830.65 million manat) (Table 7).

Table 7. Balance of the single treasury account, dynamics of receipts from its management and transfer to management, in thousand manat

Indicators	Date (current year)				
	01.01.2016	01.01.2017	01.01.2018	01.01.2019	01.01.2020
Balance of the single treasury account at the beginning of the year (free balance)	1433928,0	2307200,0	1644653,4	872352,7	2342195,3
Proceeds from the transfer of the free balance to management for the next year:					

Forecast	2678,0	3074,0	6300,0	1000,0	35000,0
Fact	17136,0	7153,9	83065,0	1124,1	20513,0
The ratio of receipts from the transfer of free balance to management at the beginning of the year, as a percentage:					
Ratio of projected revenues	0,19	0,13	0,38	0,12	1,49
Ratio of actual receipts	1,20	0,31	5,1	0,13	0,88

Although the appropriate executive authority raised the amount approved during the revision of three sub-sections throughout the enforcement procedure, the amount executed by the end of the year was less than the amount granted during the revision (Table 8).

Table 8. Auxiliary units, the approved amount of which was increased, and the execution of which was less than the revised figure, mln. in manat

Auxiliary sections	Indicators revised by parliament	Appointment indicators verified by relevant executive authorities	Execution
National security	244,2	245,8	240,7
Secondary special education	74,1	74,8	68,6
Television, radio and publishing	51,9	52,0	51,5

Source: Reports and indicators submitted on the state budget

## 5.5 Receipt of subsidies from the budget

A comparison of state budget revenues with some large state taxpayers and expenditures from the state budget for these enterprises shows that in most developed countries, profitable utilities receive significant subsidies from the budget.

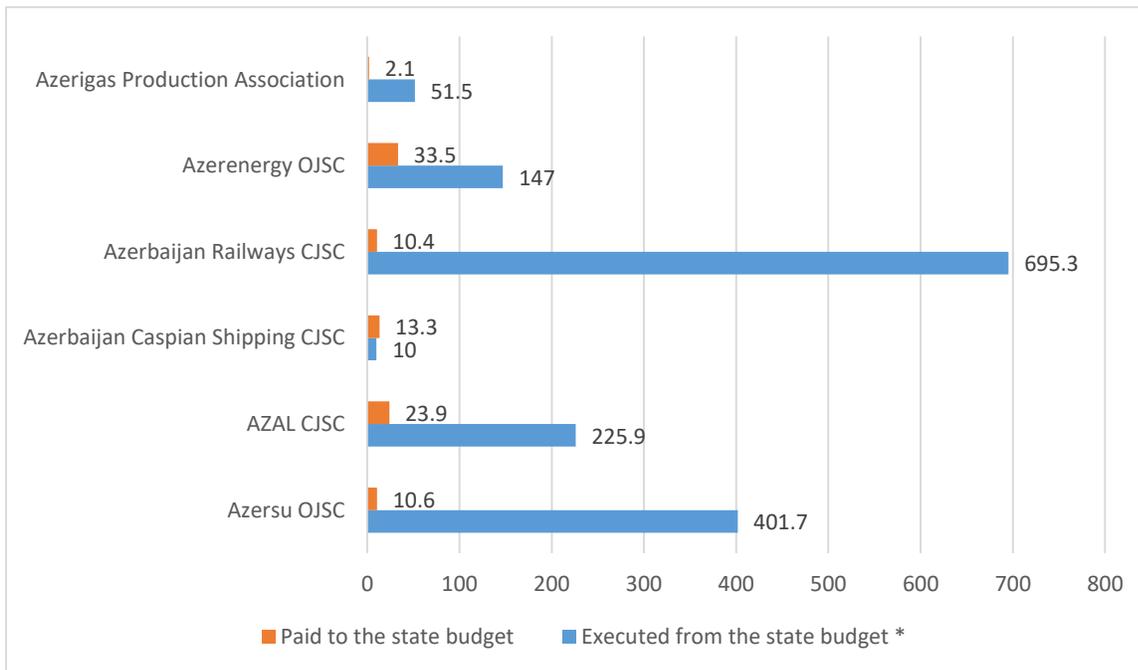
Azersu OJSC received 401.7 million manat and paid only 10.6 million manat to the budget.

Azerenergy OJSC received 147.0 million manat and paid only 33.5 million manat to the budget.

AZAL CJSC, which received 225.9 million manat, paid 23.9 million manat to the budget.

Compare the state budget compensation of 6 large state taxpayers and their payment to the state budget (collection by the tax authority). The results of the comparison show that, except for a large taxpayer, the taxes and other payments paid by other countries to the state budget are less than the amount of funds implemented by these companies from the state budget (Figure 8).

Figure 8. Comparison of revenues to the state budget for some large state taxpayers and expenditures from the state budget for these enterprises, mln. in manat



Source: The picture is based on various reports on the implementation of the state budget

\* Expenditures from the state budget in the form of subsidies, such as financial assistance, capital investment costs, etc. directions include costs.

## 5.6 Optimization of receivables

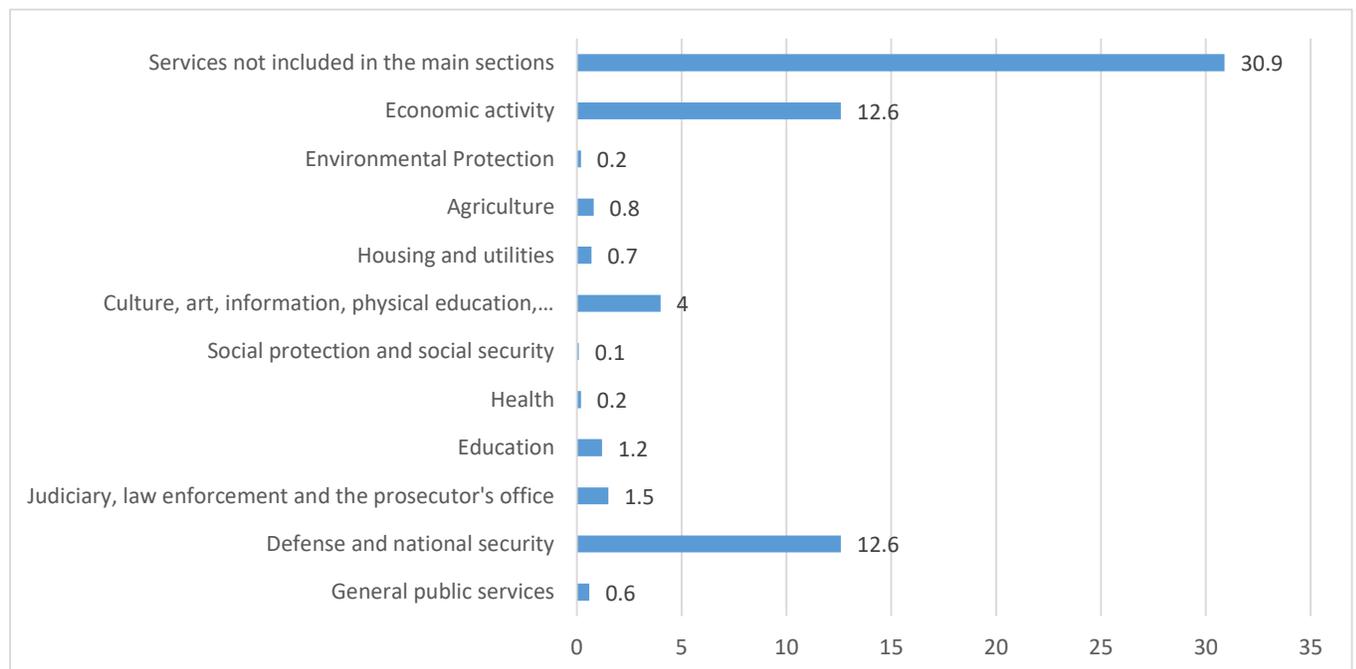
According to the report on the implementation of the state budget, as of 31.12.2020, the amount of receivables was 2 billion 52 million manat and the amount of receivables in 2020 was equal to **7.8% of total budget expenditures**.

As a result of receivables and long-term non-repayment, budget funds are diverted from the economic cycle. A significant increase in receivables is a factor that can affect financial stability by causing a shortage of funds. On the other hand, an increase in the amount of debt also creates the risk of non-payment of debts.

According to an analysis of the data supplied for the reporting year, accounts receivable for three functional classifications account for 94.6 percent of total receivables (Figure 9). Thus, "Services not linked to the major sectors" has a 37.5 percent share, "Economic activity" has a 34.0 percent part, and "Defense" has a 23.1 percent stake.

Regarding the loan expenditure ratio, in each part of the functional classification, the indicator ranges from 0.1% to 30.9%, of which the "services not related to the main part" has the highest share at 30.9%.

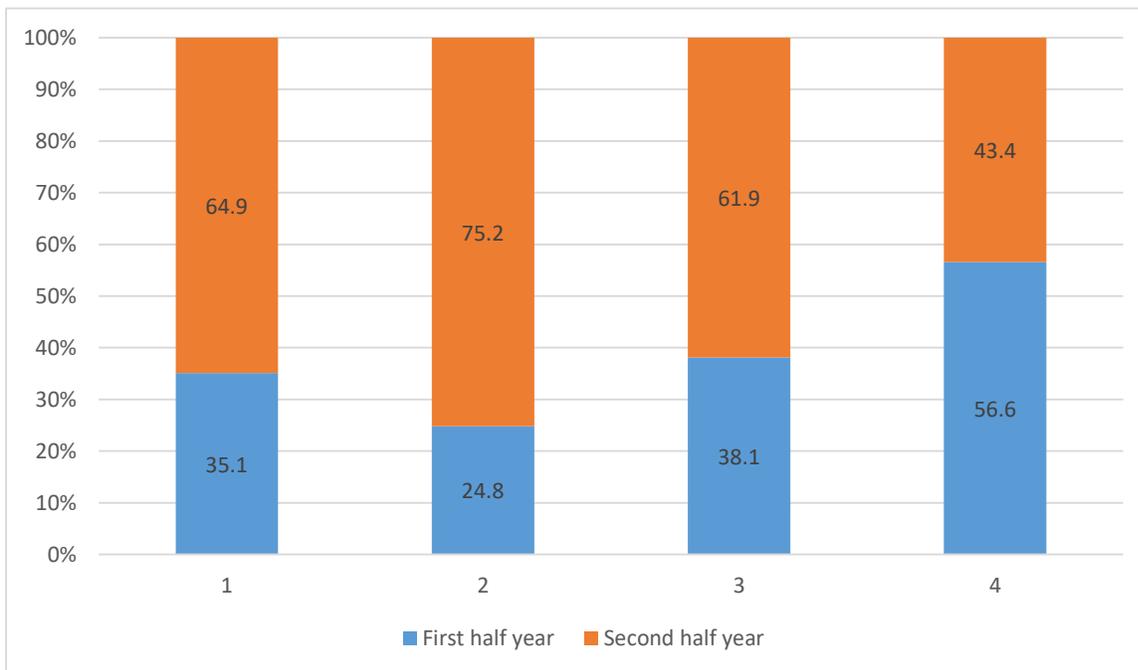
Figure 9. Ratio of receivables to functionalized expenses by functional classification units, in%



Source: Reports and indicators submitted on the state budget

According to last year's data, 35.6% of the recruitment method was adopted in the first half of this year and 64.4% in the second half of the year, which means that the proportion has increased by 20, 3%, which favors the second semester of the year. In terms of quantity, these indicators are 39.7% and 60.3% respectively. This means an increase of 14.7% in the second half of this year. Below is the semester split for competency-based procurement and single-source procurement methods (Figure 10).

Figure 10. Distribution of purchases in the 1st and 2nd half of the year, in%



### 5.7 Distribution of expenses

29.4% of expenditures exported in 2020 (31.7% in 2019) were executed in the last quarter of the year. **54.7%** of this amount fell to the share of **December**. Despite the fact that the average monthly budget expenditures for the first 11 months amounted to 2014.8 million manat,

expenditures in December were 2.1 times higher than the corresponding figure. Thus, the funds spent in December accounted for 16.1% of total budget expenditures last year.

In the last month of the year, it exceeded 4 billion manat and amounted to **4 billion 253 million manat**, while the monthly expenditure was less than 3 billion manat.

In 2020, the share of quotation inquiries was 56.08%, open tenders 26.23%, proposals request 2.18%, and single-source procurement method 15.5%.

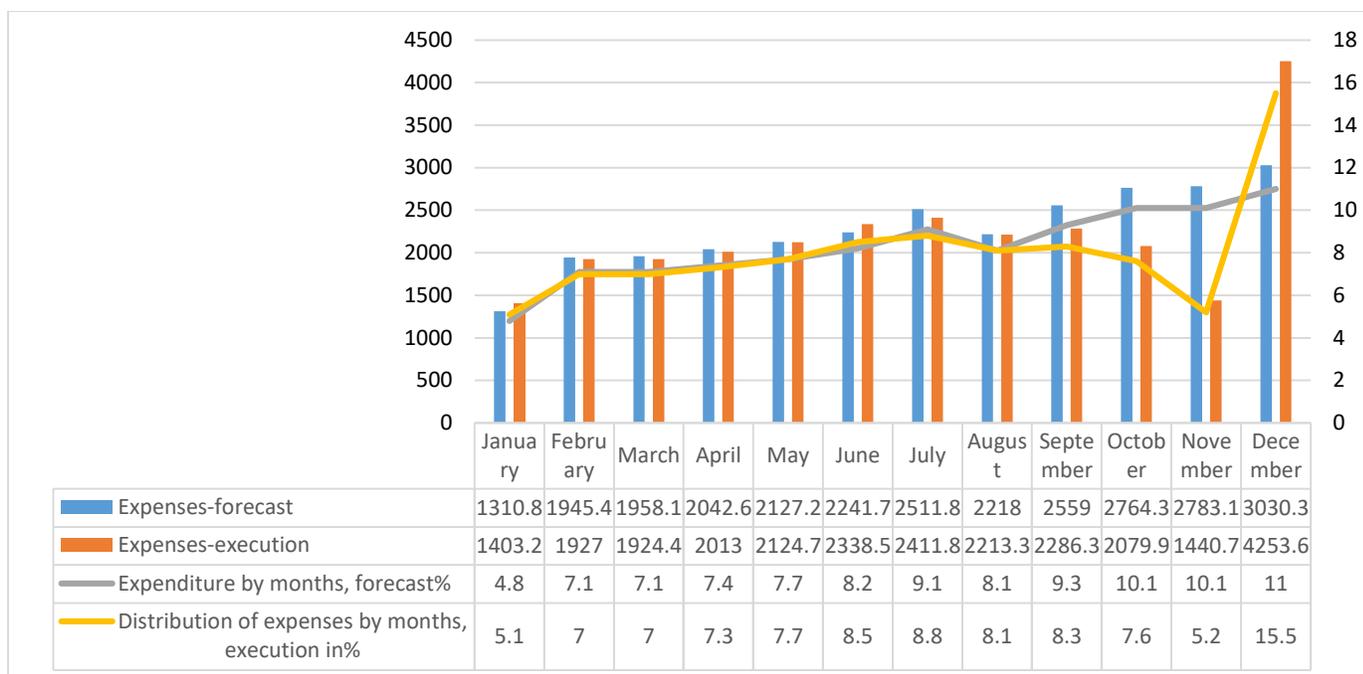
In terms of amount, the open tender had a share of 32.8% in the total amount, the request for proposals - 18.82%, the request for quotation - 1.7%, the method of procurement from one source - **46.7%**.

In the reporting year, competition-based procurement was carried out in the second half of the year, in terms of amount and quantity, and in the second half of 2020, despite the large number of single-source procurements, the volume of funds involved in procurement by this method more than half, more purchases were made in the 4th quarter for all procurement methods, more funds were attracted to procurements in this quarter on the basis of other methods, except for the single-source procurement method.

In 2020, there was a difference between the monthly approved expenditure indicators and the actual implementation volume. The biggest difference between the relative indicators and the absolute indicators was in November and December because, in previous years, the fourth quarter expenditure share was higher.

In January, June, and December, the spending performance of the reporting year exceeded the forecast for several months, while in other months it was lower than expected (Figure 11).

Figure 11. Monthly forecast and execution of state budget expenditures in 2020 (in million manat)

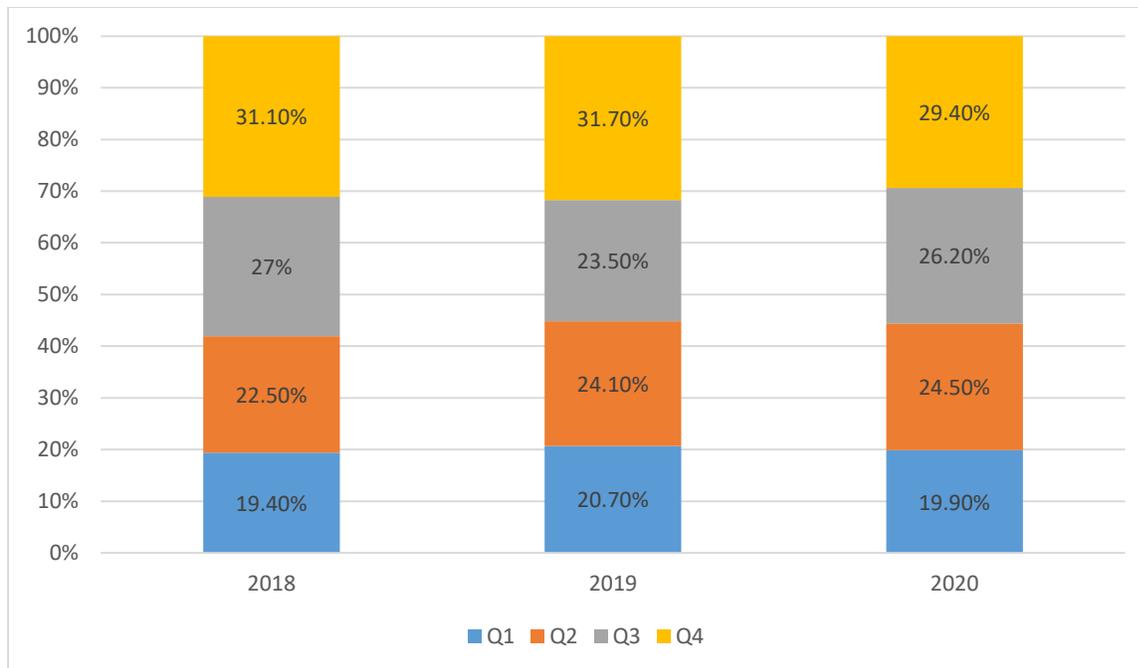


*Source: Reports and indicators on the implementation of the state budget*

The performance was observed in December. Therefore, although the indicator determined by the national budget expenditure was 11.0%, the actual indicator was 15.5%, which is 4.5 percentage points higher than the approved allocation.

29.4% of implementation costs in 2020 (31.7% in 2019) were implemented in the last quarter of the year (Figure 12). Of this, 54.7% (55.0% in 2019) fell to December's share. Data analysis shows that the average monthly budget expenditure for the first 11 months was 2.014.8 billion manat. In December, expenditure was 2.1 times higher than the corresponding figure. Therefore, the funds spent in December accounted for 16.1% of the total budgeted expenditures of the previous year (17.4% in 2019). The implementation of expenditures at the end of the year created conditions for the use of budget funds for letters of credit, deposits and transfers, and bank accounts.

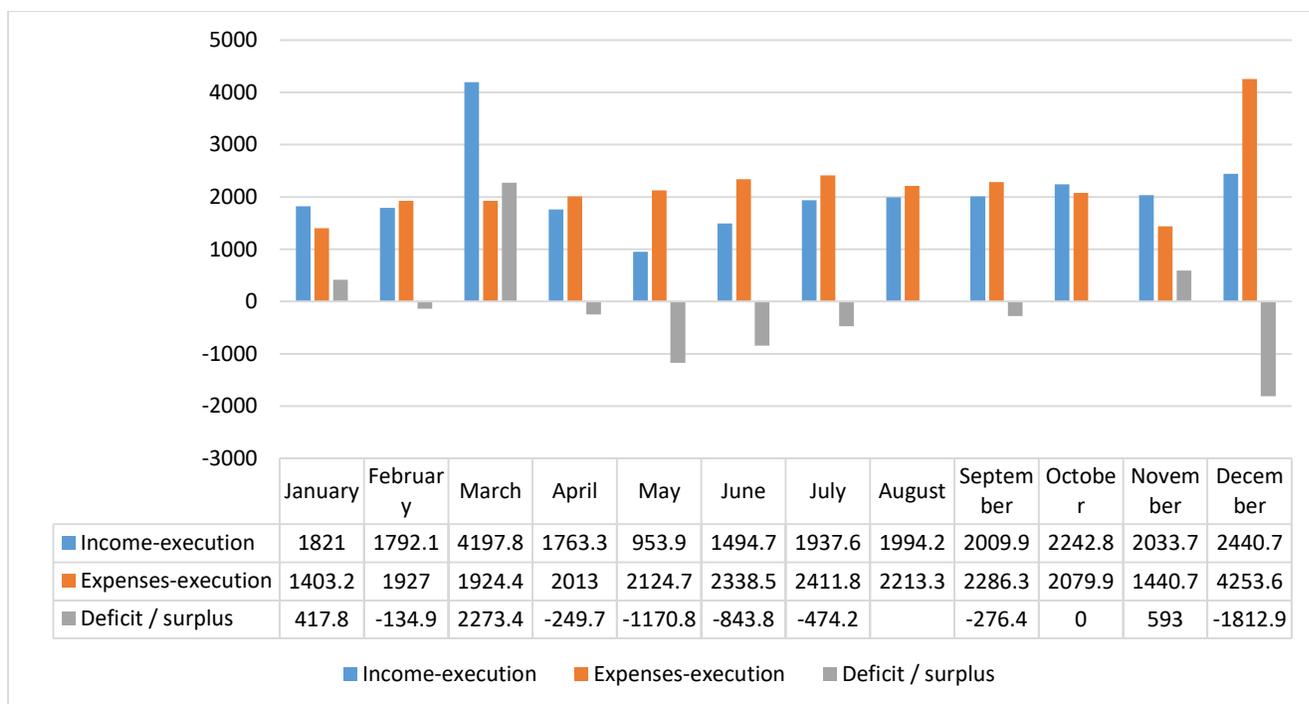
Figure 12. Quarterly distribution of state budget expenditures in 2018-2020, in%



*Source: Reports and indicators on the implementation of the state budget*

In 2020, 48.7% and 44.4% of the total budgeted revenue and expenditure were implemented in the first half of the year, and 51.3% and 55.6% of the total budget were implemented in the second half of the year. According to the monthly report on the revenue and expenditure of the state budget on a monthly basis, the analysis shows that in January, March, October and November, revenue exceeded expenditure, while the opposite trend was observed in other months (Figure 13).

Figure 13. Execution of state budget revenues and expenditures by months in 2020, mln. in manat



Source: Reports and indicators on the implementation of the state budget

Regarding to the information provided by the State Service for Antimonopoly and Control Over Consumer Market, in 2020, a total of 9,203 items were purchased nationwide, amounting to 6,567.2 million manat. (Table 9).

Table 9. Summary information on procurements and their comparison with 2019

Type of purchase	2019		2020		Difference		Percentage of difference	
	Number	Amount, in million manat	Number	Amount, in million manat	Number	Amount, in million manat	Inside the number	In the amount
Total	11457	5 720,02	9203	6 567,20	-2254	847,18	-19,67%	14,81%
Open tender	2917	2 156,47	2414	2 152,90	-503	- 3,57	-17,24%	-0,17%
Request for price	6323	140,94	5161	111,50	-1162	-29,44	-18,38%	-20,89%

Request for suggestions	418	371,54	201	1 236,10	-217	864,56	-51,91%	232,70%
Procurement from one source	1799	3 051,08	1427	3 066,70	-372	15,62	-20,68%	0,51%

## 6. Conclusion and Recommendations

The failure of OPEC + countries to agree on raw material production in the oil market in 2020 and the resulting sharp drop in oil prices along with the transition of countries to self-isolation after the declaration of a new coronavirus pandemic and its continuation at various intervals throughout the year had a negative impact on economic development. However, towards the end of the year, there were stages in the development of various types of vaccines and a positive trend in particular economic constituents.

All these influences and factors have led to significant changes in the forecasts prepared at the beginning of 2020, not only the budget, but also the forecasts of influential international organizations and analysts. This led to a significant difference between forecasts and performance indicators.

The following are some recommendations for minimizing the imbalance between forecasting and execution of the state budget:

1. Calculate basic and additional efficiency indicators for the activities of state-owned legal persons, compile and publish forecast indicators (targets) and annual reports on performance efficiency coefficients;
2. Revision of additional reports to reflect analytical indicators of receivables on budget expenditures in the reports on budget execution or in order to reflect additional indicators to existing reports;
3. Prohibition of advance payments for goods delivered later than 30 days (except for certain directions and contracts with small enterprises);
4. Strengthening current control over receivables and their continuous analysis, proper management of work with counterparties by institutions;

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