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Azerbaijan's state budget 2025: New Realities and Challenges

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INTRODUCTION

According to legislation, the budget package was first approved by the Cabinet of Ministers in September and submitted to the President. Following its submission by the President, the draft law "On the State Budget of the Republic of Azerbaijan for 2027" was brought forward for discussion at a meeting of the Milli Majlis Committee on Economic Policy, Industry and Entrepreneurship in early November. The main priorities of next year's budget policy are to support sustainable economic growth, maintain macroeconomic stability, improve public welfare and ensure full financing of social measures, strengthen defence capabilities and security, promote the development of the Karabakh and East Zangezur economic regions, expand the application of digital technologies and innovations, support the development of the education and healthcare sectors, comply with the budget rule while maintaining fiscal discipline, ensure the targeted and efficient execution of budget expenditures through the State Treasury, and further accelerate the development of the real sector[1].

The study consists of an introduction, an overview of trends in the global oil market, an assessment of Azerbaijan's socio-economic situation during January–September, an analysis of the projected indicators of state budget revenues, expenditures and deficit, as well as conclusions and recommendations. The study draws on information published by reputable international organisations, the Milli Majlis of the Republic of Azerbaijan, the Cabinet of Ministers, the Ministry of Economy, the Ministry of Finance, the State Statistics Committee, the State Customs Committee, the Chamber of Accounts, the Azertac News Agency and other websites. The relevant URLs of the information sources have been provided.

GLOBAL OIL MARKET TRENDS

The share of the oil and gas sector in Azerbaijan's economy remains relatively high. Consequently, global oil prices have a significant impact on the development of our economy. Given the influence of geopolitical and other factors on oil prices, it is essential to take all possible and plausible scenarios into account when preparing short-term forecasts. According to the World Oil Outlook (WOO 2026), global primary energy demand is projected to increase from approximately 312 million barrels of oil equivalent per day (MBOE/day) in 2025 to around 383 MBOE/day by 2050. This represents an increase of approximately 23% over the forecast period, equivalent to an average annual growth rate of 0.8%. This growth will be driven almost entirely by developing countries and regions, primarily India, other Asian countries, the Middle East, Africa and Latin America. Meanwhile, primary energy demand in developed countries is expected to increase only moderately or, in some cases, decline[2].

The report also states that oil will continue to account for a substantial share of global energy demand, reaching 124 million barrels per day by 2050, and that peak oil demand is not yet expected[3].

In the long term, by 2050, demand for oil in electricity generation is expected to decline slightly, while oil demand in road transportation, aviation and the petrochemical industry is projected to increase by 5.7 million barrels per day (mb/d), 4.2 mb/d and 4.6 mb/d, respectively[4].

The OPEC WOO 2050 report states that the global vehicle fleet is projected to increase from 1.75 billion vehicles in 2025 to approximately 3 billion by 2050. The fastest growth is expected in the electric vehicle (EV) segment, while internal combustion engine (ICE) vehicles are also expected to remain dominant in the global

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[1] https://azertag.az/xeber/2027_ci_il_uzre_budce_siyasetinin_esas_istiqametleri_ve_prinsipleri_achiqlanib-4494129
[2] https://publications.opec.org/woo/chapter/157/2942
[3] Ibid
[4] https://publications.opec.org/woo/chapter/157/2943

vehicle fleet[5]. It is reported that these vehicles are expected to account for approximately 73% of the total number of vehicles by 2050[6].
According to the US EIA report, US oil production is projected to fluctuate within a relatively narrow range during this period: declining slightly in the early 2030s, increasing again from 2040 onwards, and subsequently declining once more in the 2050s[7]. These fluctuations are expected to occur against a backdrop of stable but moderate growth in Brent crude oil prices. It is projected that the price of Brent crude oil will remain below USD 70 per barrel until 2030, while exceeding USD 75 per barrel by the end of the 2030s[8].

However, according to the EIA's latest report, the average oil price is projected to reach USD 96 per barrel in the current year and USD 84 per barrel in the following year (Table 1).

Table 1. Oil price assumptions, 2026-2027, USD

Sources	2026 average (Brent)	2027 average (Brent)	Links
EIA (ABŞ)	**96**	**84 (Q4 2026: $105)**	**STEO**
World Bank	**91**	**79 (unfavorable scenario:105)**	**WB CMO**
Goldman Sachs	**Dekabr $90**	**80**	**The Economic Times**
IMF	**95.74**	**87.39**	**IMF WEO**
OIES	**99**	**87**	**OIES**

Sources: CESD

International organisations have revised their economic forecasts for Azerbaijan for 2026 and 2027 downwards. These revisions are attributable to developments in the region, responses to the evolving relations between the United States, Israel and Iran, growing trade uncertainty, geopolitical tensions, the natural decline in oil production, the slow pace of diversification of the economy's non-oil and gas sector, and the stabilisation of economic growth dynamics.

The ADB, IMF and World Bank forecast average GDP growth of 1.6% by the end of the current year and 2.1% for the following year. For 2027, the World Bank and ADB have maintained their GDP growth forecasts at 1.8%, while the EBRD has kept its current and previous forecasts unchanged at 2.5%. The IMF, however, has lowered its forecast by 0.2 percentage points, from 2.5% to 2.3% [9] (Table 2).

Table 2. GDP forecasts of international organizations, 2026-2027, in %

Dates of announcement of reports	International organizations	2026	Diff with pre	2027	Diff with pre
September 2026	Cur ADB	1,6	-0,4	1,8	0
July 2026	Pre ADB	2		1,8	
October 2026	Cur İMF	1,7	-0,5	2,3	-0,2
July 2026	Pre İMF	2,2		2,5	

[5] Ibid
[6] Ibid
[7] https://www.eia.gov/outlooks/aeo/
[8] Ibid
[9] ADB (ADO, Sep 2026), IMF (WEO, Oct 2026), World Bank (CMO, Oct 2026), EBRD (REP, Sep 2026)
https://www.adb.org/sites/default/files/publication/1174871/asian-development-outlook-september-2026.pdf
https://www.worldbank.org/ext/en/research-publications
https://www.ebrd.com/content/dam/ebrd_dxp/assets/pdfs/office-of-the-chief-economist/economic-surveys/regional-economic-prospects/2026/Regional%20Economic%20Prospects%20September%202026.pdf
https://www.imf.org/-/media/files/publications/weo/2026/october/english/text.pdf

October 2026	Cur WB	1,2	-0,8	1,8	0
June 2026	Pre WB	2		1,8	
September 2026	Cur EBRD	2	0	2,5	0
June 2026	Pre EBRD	2		2,5	

Sources: ADB (ADO, Sep 2026), IMF (WEO, Oct 2026), World Bank (CMO, Oct 2026), EBRD (REP, Sep 2026).

The cautious approach adopted by international organisations in their medium-term growth forecasts for Azerbaijan reflects the expectation that the structural decline in the oil and gas sector will remain a limiting. factor, while, amid the shift of economic growth towards the non-oil sector, growth is expected to materialise at more moderate rates compared with previous periods.

SOCIO-ECONOMIC SITUATION AND FORECASTS IN AZERBAIJAN DURING THE FIRST NINE MONTHS OF THE CURRENT YEAR

According to data from the State Statistics Committee of the Republic of Azerbaijan, during January–September of the current year, GDP increased by 1.5% in relative terms compared with the corresponding period of the previous year, reaching AZN 102.01 billion (USD 60 billion).

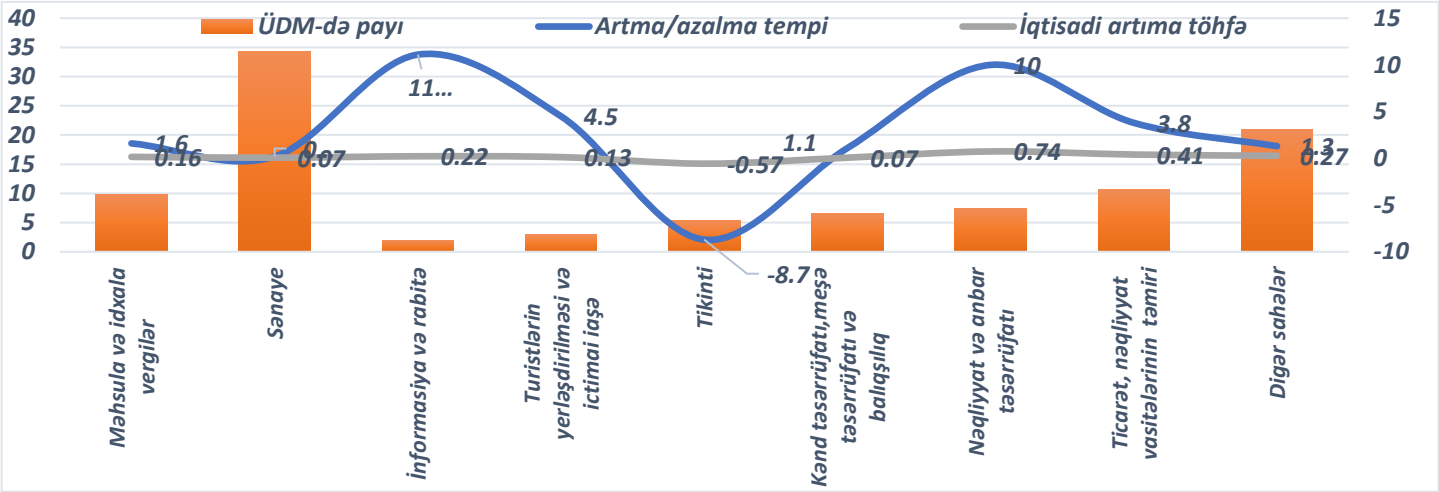
During the reporting period, value added in the oil and gas sector of the economy declined by 1.2%, while the non-oil and gas sector recorded growth of 2.6%.

During January–August of the current year, the distribution of value added across economic sectors was as follows:

- Industry accounted for 34.3% of total value added, amounting to AZN 35 billion (USD 20.588 billion), representing an increase of 0.2% compared with the corresponding period of the previous year.
- Trade and repair of transport vehicles accounted for 10.7%, generating AZN 10.94 billion (USD 6.435 billion), an increase of 3.8%.
- Transportation and storage accounted for 7.4%, reaching AZN 7.596 billion (USD 4.47 billion), an increase of 10.0%.
- Agriculture, forestry and fishing accounted for 6.6%, reaching AZN 6.687 billion (USD 3.934 billion), an increase of 1.1%.
- Construction accounted for 5.4%, amounting to AZN 5.5 billion (USD 3.235 billion), representing a decline of 8.7%.
- Accommodation and food service activities accounted for 2.9%, reaching AZN 2.91 billion (USD 1.71 billion), an increase of 4.5%.
- Information and communication accounted for 2.0%, reaching AZN 2.05 billion (USD 1.2 billion), an increase of 11.1%.
- Other sectors accounted for 20.7%, generating AZN 21.4 billion (USD 12.6 billion) in value added, an increase of 1.3%.

Net taxes on products and imports accounted for 9.8% of GDP, amounting to AZN 9.977 billion (USD 5.87 billion), representing an increase of 1.6% (Figure 1).

Figure 1. Shares of economic sectors in GDP (left scale), growth rates and contribution to economic growth (right scale), January-September 2026, in %



Source: Prepared based on data from the State Statistics Committee of the Republic of Azerbaijan.

During January–September of the current year, net taxes on products and imports increased by 1.6%, contributing 0.16 percentage points to economic growth. Industry recorded growth of 0.2%, contributing 0.07 percentage points to economic growth. Information and communication grew by 11.1%, contributing 0.22 percentage points, while accommodation and food service activities contributed 0.13 percentage points. Construction, which declined by 8.7%, had a contractionary effect of -0.57 percentage points on economic growth. Agriculture, forestry and fishing grew by 1.1%, contributing 0.07 percentage points to economic growth. Transportation and storage increased by 10%, contributing 0.74 percentage points, while trade and repair of transport vehicles grew by 3.8%, contributing 0.41 percentage points. Other sectors recorded growth of 1.3%, contributing 0.27 percentage points to economic growth.

During the first nine months of the current year, investment in fixed capital increased by 10.9% compared with the corresponding period of the previous year, reaching AZN 14.7 billion (USD 8.65 billion). Domestic sources accounted for 75% of total investment. Compared with the corresponding period of the previous year, investment in the oil and gas sector increased by 30.8%, while investment in the non-oil and gas sector rose by 3.1%.

Of total investment, 54.8%, or AZN 8.05 billion (USD 4.74 billion), was allocated to production, 31.1%, or AZN 4.57 billion (USD 2.688 billion), to services, and 14.1%, or AZN 2.07 billion (USD 1.22 billion), to residential construction.

During the reporting period, state budget revenues amounted to AZN 26.4865 billion (USD 15.58 billion), while expenditures totalled AZN 22.771 billion (USD 13.4 billion), resulting in a budget surplus of AZN 3.7159 billion (USD 2.186 billion).

According to the Ministry of Economy of the Republic of Azerbaijan, GDP is projected to grow by 1.7% in the current year, with non-oil and gas GDP expected to increase by 3.1%, while oil and gas GDP is projected to decline by 1.8% (Figure 2).

For the following year, GDP is expected to grow by 3.3%, while the non-oil and gas sector is projected to expand by 4.8%, accounting for 77.4% of GDP. Against the backdrop of declining production from mature fields, the oil and gas sector is expected to contract by 1.8%.

Over the medium term, real GDP growth is projected to average 3.3% annually, while non-oil and gas GDP is expected to grow by 4.4%. By 2030, the share of the non-oil and gas sector in GDP is projected to reach 82%, while the share of the oil and gas sector is expected to decline to 18% (Figure 3)[10].

Figure 2. GDP Growth Dynamics (in %)

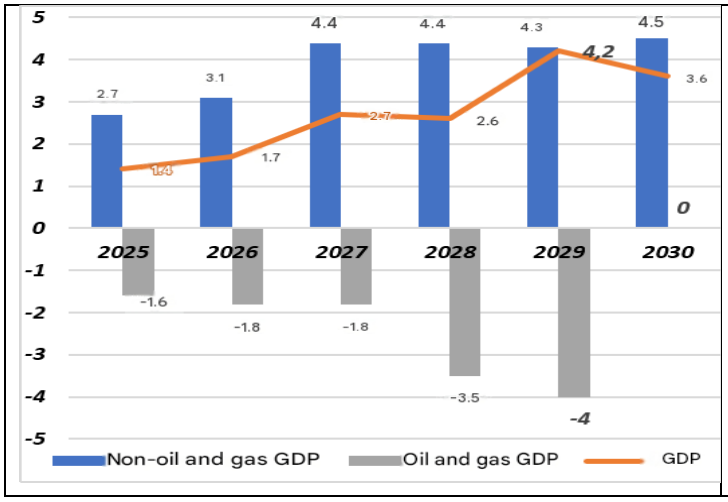
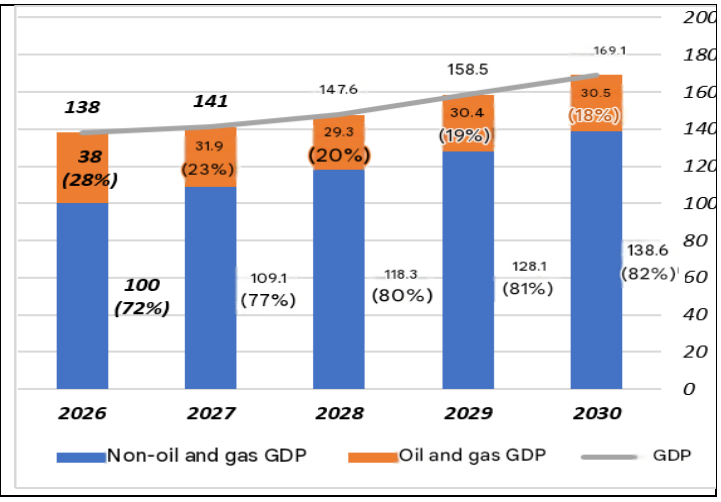


Figure 3. GDP Structure



Source: Ministry of Economy of the Republic of Azerbaijan
https://www.maliyye.gov.az/scripts/pdfjs/web/viewer.html?file=/uploads/static-pages/files/6aaac62e097a3.pdf

During the first nine months of the current year, household incomes increased by 9.6% compared with the same period of the previous year, reaching AZN 72.7 billion (USD 42.7 billion). The Consumer Price Index (CPI) increased by 5.7%, while the average monthly nominal wage rose by 7.2%, reaching AZN 1,173.
By the end of the year, household incomes are projected to reach AZN 98.6 billion (USD 58 billion), expenditures are expected to amount to AZN 96.4 billion (USD 56.7 billion), and the average monthly wage is forecast to reach AZN 1,185.5 (USD 697.35) (Figure 4).

Figure 4. Household Nominal Income and Expenditure (left axis, AZN billion) and Average Monthly Wage Forecast (right axis, AZN).

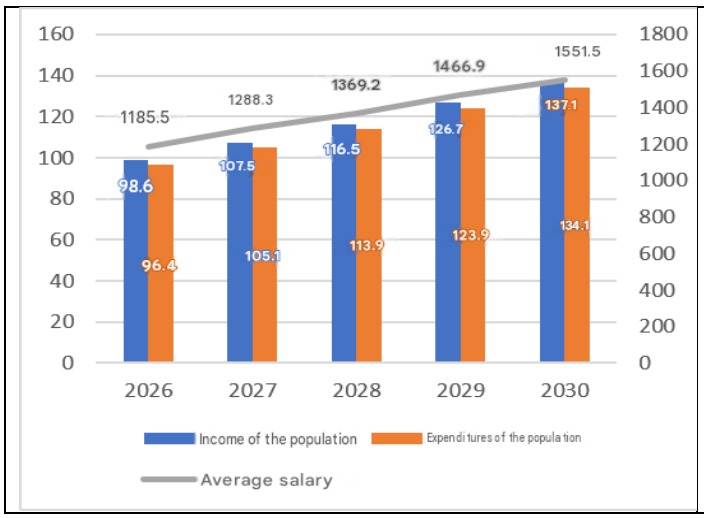
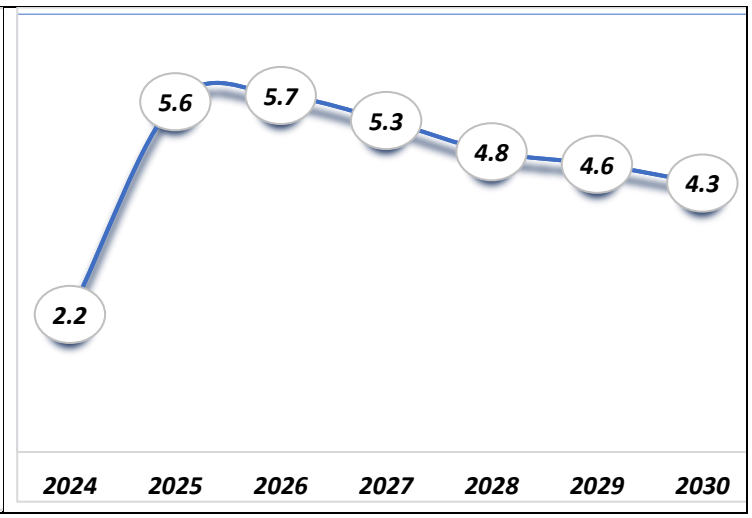


Figure 5. Average Annual Inflation Rate by Year (in %).



Source: Ministry of Economy of the Republic of Azerbaijan
https://www.maliyye.gov.az/scripts/pdfjs/web/viewer.html?file=/uploads/static-pages/files/6aaac62e097a3.pdf

[10] https://www.maliyye.gov.az/scripts/pdfjs/web/viewer.html?file=/uploads/static-pages/files/6aaac62e097a3.pdf

The Ministry of Economy of the Republic of Azerbaijan assumes that, over the medium term, by 2030, household incomes will reach AZN 137.1 billion, expenditures will amount to AZN 134.1 billion, and the average monthly wage will rise to AZN 1,551.5. The Consumer Price Index (CPI) is projected to stand at 5.7% by the end of the current year and 5.3% in the following year, before declining in subsequent years to 4.3% in 2030 (Figure 5).

During the first nine months of the current year, foreign trade turnover increased by 5.2%. Despite a 28.3% increase in exports and a 20.4% decrease in imports, the foreign trade surplus increased 5.8-fold. The volume of oil and gas products in total exports declined by 13.6%, while the volume of non-oil and gas products increased by the same percentage.

Of Azerbaijan's total exports, 72.13% consisted of goods belonging to the oil and gas sector, while 27.87% comprised goods belonging to the non-oil and gas sector. The latter included agricultural products (2.8%), unwrought, semi-manufactured or powdered gold (including gold plated galvanically with platinum) (15.85%), and other goods (3.81%).

The three largest categories of imports were machinery, mechanical appliances, electrical equipment and apparatus, and parts thereof (23.06%); vehicles and parts thereof (14.25%); and food products (15.5%).

Regarding Azerbaijan's foreign trade flows, exports to the CIS and EU countries increased by 15.5% and 0.7%, respectively. Imports from the CIS declined by 36.1%, while imports from the EU increased by 3.3%. Exports to other countries increased 2.1-fold, while imports from these countries declined by 18.9%.

In terms of total trade turnover, Italy accounted for 24.69%, Türkiye for 11.63%, the United Kingdom for 10%, China for 9.3%, and the Russian Federation for 7.21%.

On the export side, Italy's share increased by 3.0% to 36.83%; the United Kingdom's share increased 13.44-fold to 14.6%; Turkey's share declined by 0.6% to 10.7%; while Russia's and the Czech Republic's shares increased by 3.7% and 29.5%, respectively, with each accounting for 3.8%.

On the import side, China's share increased by 1.4% to 25.3%; Russia's share declined by 36.3% to 13.2%; Turkey's share increased by 0.5% to 13.2%; and the United States' share decreased by 29.4% to 5.1%.

Azerbaijan has diversified the geographical destinations of its exports, redirecting energy products towards Asian markets—with exports to India increasing sevenfold and exports to Indonesia increasing 3.1-fold—and gold exports towards the United Kingdom. At the same time, benefiting from higher oil prices and implementing fiscal consolidation measures, the country's external public debt declined by 7.8% to USD 4.509 billion during January–September of the current year, while the state budget recorded a surplus of AZN 3.964 billion (USD 2.33 billion)[11].

Although Azerbaijan earns substantial revenues from oil exports, its dependence on imports of many goods means that rising energy prices lead to higher prices for imported goods, thereby also importing inflation. During the first nine months of the current year, the state budget recorded a surplus equivalent to 3.9% of GDP, while the country's strategic foreign exchange reserves increased by 9.7%.

[11] https://customs.gov.az/uploads/foreign/2026/2026_9.pdf?v=1792388537

According to the current year's budget forecast, the budget deficit is projected to account for 2.3% of GDP. The deficit is expected to be financed through privatisation proceeds, domestic and external borrowing, and the balance remaining in the State Budget's Single Treasury Account as of 1 January 2026.

FORECAST REVENUE INDICATORS OF THE 2027 STATE BUDGET

In 2027, state budget revenues are expected to amount to AZN 39.07 billion (USD 22.98 billion), representing an increase of 1.69%, or AZN 649.5 million (USD 382.06 million), compared with the 2026 forecast figures.

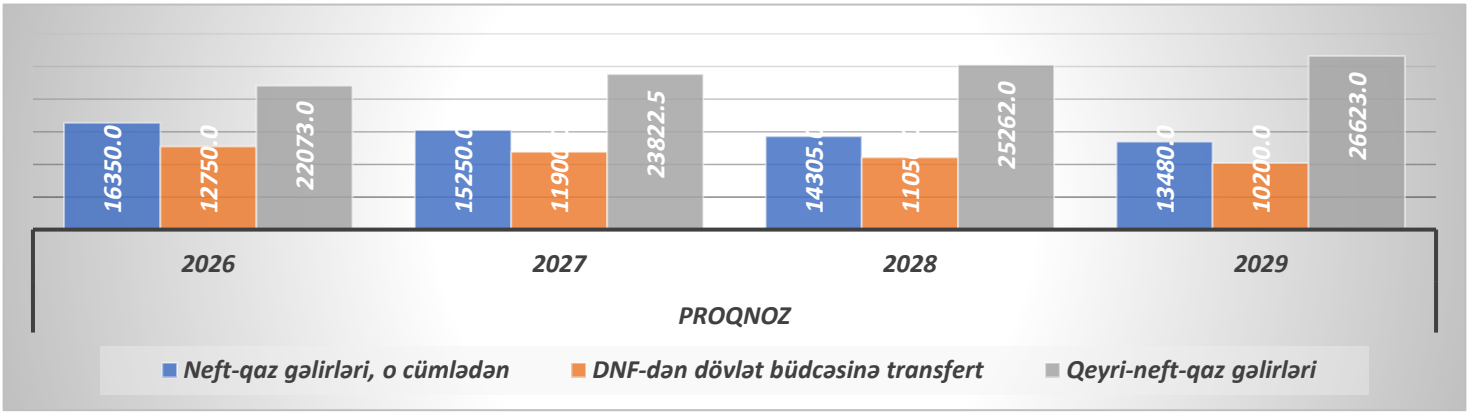
In 2027, oil and gas revenues are expected to decrease by 6.73%, or AZN 1.1 billion (USD 647.06 million), compared with the current year's forecast. Transfers from the State Oil Fund of the Republic of Azerbaijan (SOFAZ) are projected to decline by 6.67%, or AZN 850 million (USD 500 million), while non-oil and gas revenues are expected to increase by 7.93%, or AZN 1.75 billion (USD 1.03 billion) (Figure 6)[12].

Next year, tax revenues of the state budget are expected to increase by 7%, or AZN 1.496 billion (USD 880 million), compared with the current year's forecast figures.

Revenues collected through the State Tax Service under the Ministry of Economy of the Republic of Azerbaijan are projected to increase by 9.4%, or AZN 1.527 billion (USD 898.24 million), reaching AZN 17.785 billion (USD 10.462 billion).

This increase is expected to be driven by the following taxes: personal income tax, which is projected to rise by 19.6%, or AZN 503.2 million (USD 296 million), compared with the same period

Figure 6. Parameters of state budget revenues for 2026-2029, in million manats



Source: Ministry of Finance of the Republic of Azerbaijan https://www.maliyye.gov.az/static/253/ilkin-budce-gostericileri

Corporate income tax revenues are expected to increase by 6.1%, or AZN 403 million (USD 237.06 million); value added tax (VAT) revenues by 5.7%, or AZN 251.2 million (USD 147.76 million); excise duty revenues by 12.6%, or AZN 187 million (USD 110 million); corporate property tax revenues by 6.4%, or AZN 24 million (USD 14.12 million); corporate land tax revenues by 2.1%, or AZN 1 million (USD 590,000); mining tax revenues by 2.6%, or AZN 4 million (USD 2.35 million); simplified tax revenues by 8.9%, or AZN 38 million (USD 22.35 million); and road tax revenues by 60.4%, or AZN 115.6 million (USD 68 million).

Revenues collected through the State Customs Committee of the Republic of Azerbaijan (SCC) are expected to decrease by 0.6%, or AZN 31 million (USD 18.24 million). VAT, which accounts for 94% of the SCC's revenue collections, is projected to decline by 1.1%, or AZN 50 million (USD 29.4 million). Excise duty

[12] https://www.maliyye.gov.az/static/253/ilkin-budce-gostericileri

revenues are forecast to increase by 2.6%, or AZN 6 million (USD 3.53 million), while road tax revenues are projected to rise by 27.1%, or AZN 13 million (USD 7.65 million).

The decline in VAT revenues collected by the SCC is attributable to the expansion of import exemptions for certain goods and activities in the liberated territories. In particular, several areas of agricultural production, winemaking, as well as the production of certain construction materials have been added to the list of activities eligible for tax exemptions[13]. Accordingly, imports of certain raw materials, materials, machinery, technological equipment and installations used in these activities have also been included in the list of goods exempt from value added tax and customs duties.

Although the share of VAT revenues in total tax revenues is expected to decrease by 1.94 percentage points next year, their share in overall budget revenues is projected to increase slightly (by 0.018 percentage points). This increase will be passed on to the final consumer through prices.

Non-tax revenues are projected to decrease by 2.3%, or AZN 389 million (USD 228.2 million), compared with the previous year's forecast figures. This is attributable to the projected decline in transfers from the State Oil Fund of the Republic of Azerbaijan (SOFAZ) by 6.7%, or AZN 850 million (USD 500 million), and in revenues from paid services provided by budget-funded organisations by 12.3%, or AZN 126 million (USD 74.12 million).

Among non-tax revenues, collections through the State Tax Service are projected to increase by 14.6%, or AZN 82 million (USD 48.24 million); revenues collected through the State Service for Property Issues are expected to rise by 20%, or AZN 8 million (USD 4.71 million); and other revenues are forecast to increase by 47.9%, or AZN 451 million (USD 265.3 million).

Table 3. Ratio of state budget revenues and non-oil and gas revenues to GDP, in percent

Indicators	EXECUTION			CONFIRMATION	FORECA
	2023	2024	2025	2026	2027
GDP, million manats	123128	126337	129178	134141,9	141000
State budget revenues, million manats	35236,4	37161,8	38356	38609	39234
Ratio to GDP, percentage	28,6	29,4	29,7	28,8	27,8
Non-oil GDP, percentage	78990,3	85712,4	92166,5	101717,1	109100
Non-oil revenues of the state budget, million manats	17080	19600,2	20045	22174	23754
Non-oil and gas GDP ratio, percentage	21,6	22,9	21,7	21,8	21.8

Source: Prepared based on the budget parameters of the Ministry of Finance of the Republic of Azerbaijan and data from the Chamber of Accounts.

The slowdown in the growth rate of budget revenues next year is attributable to the natural decline in oil production and the reduction in transfers from the State Oil Fund to the state budget. The projected decrease in the ratio of budget revenues to GDP next year may be due to GDP growing at a faster rate than budget revenues. Specifically, GDP growth is forecast at 2.7% next year, while budget revenues are projected to increase by 2.1%.

FORECAST EXPENDITURE INDICATORS OF THE 2027 STATE BUDGET

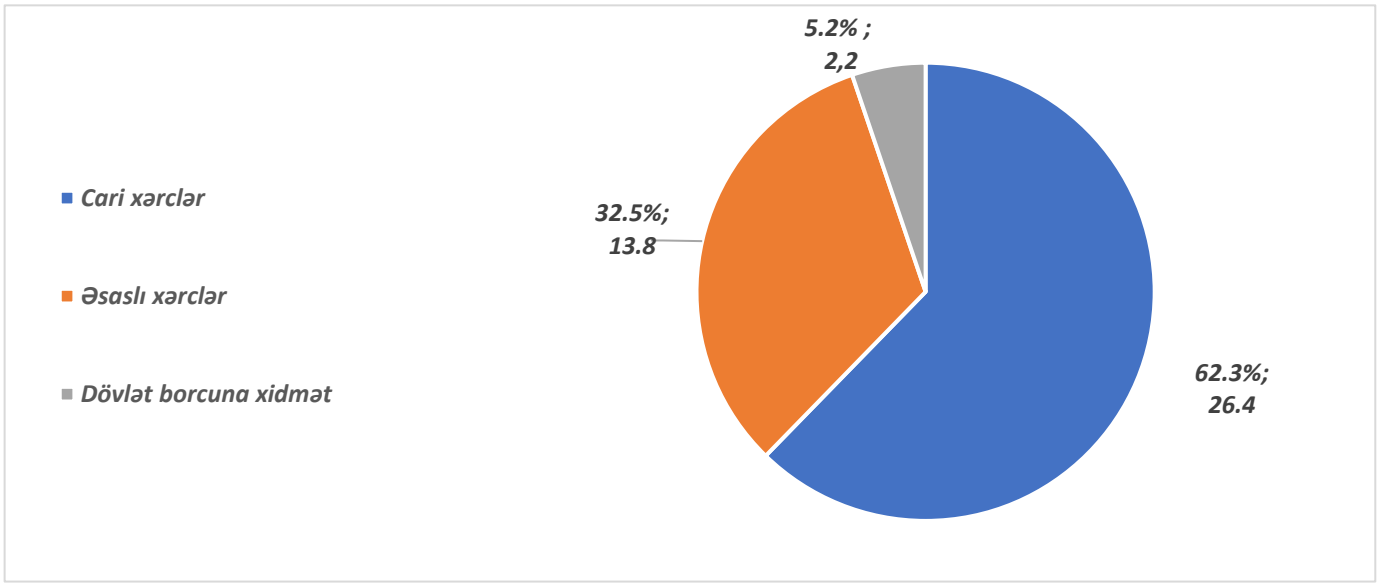
[13] https://nk.gov.az/az/senedler/qerarlar/azerbaycan-respublikasi-nazirler-kabinetinin-2023-9742

Next year, state budget expenditures are projected to amount to AZN 42.4 billion (USD 24.94 billion), equivalent to 30.1% of GDP. This represents an increase of 1.7%, or AZN 696.4 million (USD 409.65 million), compared with the current year's budget expenditures.

Of the projected budget expenditures, 62.3%, or AZN 26.4 billion (USD 15.53 billion), will be allocated to current expenditures; 32.5%, or AZN 13.8 billion (USD 8.12 billion), to capital expenditures; and AZN 2.2 billion (USD 1.3 billion), or 5.2%, to expenditures related to servicing public debt and liabilities (Figure 7)[14].

[1] https://nk.gov.az/az/senedler/qerarlar/azerbaycan-respublikasi-nazirler-kabinetinin-2023-9742

Figure 7. Structure of state budget expenditures, in percentage and billion manats



Source: Ministry of Finance of the Republic of Azerbaijan
https://www.maliyye.gov.az/scripts/pdfjs/web/viewer.html?file=/uploads/static-pages/files/6aaac62e097a3.pdf

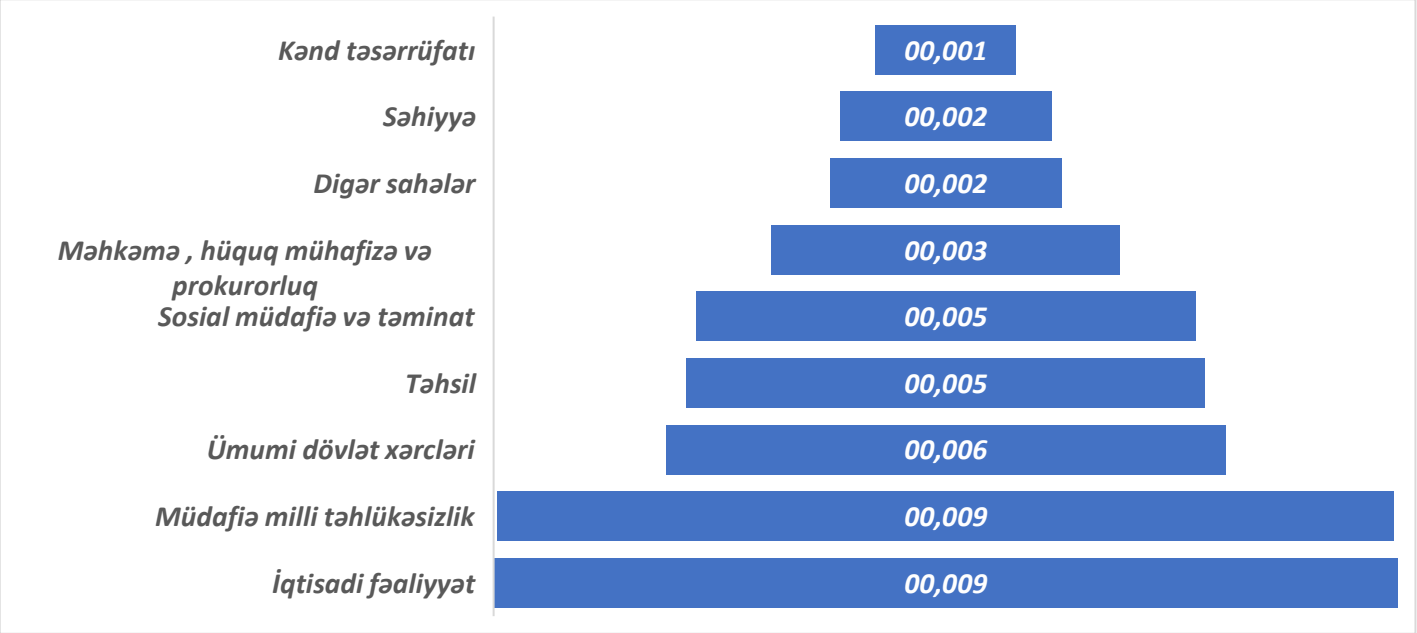
In 2027, according to the functional classification of expenditures, AZN 5.5063 billion (USD 3.239 billion), or 13% of total budget expenditures, is allocated to general public services, representing an increase of 1.7%. Expenditures on defence and national security are projected to increase by 1.17%, accounting for 20.8% of total budget expenditures, or AZN 8.8164 billion (USD 5.186 billion). Expenditures on the judiciary, law enforcement and prosecution are expected to increase by 2.84%, accounting for 8.1% of total budget expenditures, or AZN 3.4336 billion (USD 2.02 billion).

Education expenditures are projected to increase by 1.66%, accounting for 12% of total budget expenditures, or AZN 5.0982 billion (USD 2.999 billion). Healthcare expenditures are expected to rise by 2.95%, accounting for 4.9% of total budget expenditures, or AZN 2.0826 billion (USD 1.225 billion). Expenditures on social protection and social security are projected to increase by 0.84%, accounting for 11.6% of total budget expenditures, or AZN 4.916 billion (USD 2.89 billion).

Expenditures on economic activities are expected to increase by 13.37%, accounting for 21% of total budget expenditures, or AZN 8.891 billion (USD 5.23 billion). Funding allocated to agriculture is projected to increase by 12.88%, accounting for 5.4% of total budget expenditures, or AZN 2.2765 billion (USD 1.34 billion) (Figure 8).

[14] https://www.maliyye.gov.az/scripts/pdfjs/web/viewer.html?file=/uploads/static-pages/files/6aaac62e097a3.pdf

Figure 8. Breakdown of state budget expenditures by functional classification in 2027, billion manats



Source: Ministry of Finance of the Republic of Azerbaijan

Under general public services, funding for supporting the activities of legislative and executive authorities and local self-government bodies is planned to increase by 11.14%, or AZN 226.5 million (USD 133.26 million), next year compared with the current year. Allocations for foreign aid are expected to increase by 73.7%, or AZN 14 million (USD 8.24 million), while funding for the development of science is projected to rise by 12.6%, or AZN 28.9 million (USD 17 million).

At the same time, the allocation for the subsidy to the budget of the Nakhchivan Autonomous Republic (NAR) is projected to decrease by 6.4%, to AZN 13.6 million (USD 8 million), while expenditures on public debt servicing are expected to decline by 10.5%, to AZN 257.6 million (USD 151.5 million)[15],[16].

Regarding expenditures on the judiciary, law enforcement and prosecution, funding for the judiciary is projected to increase by 17.5%, representing an additional AZN 26.9 million (USD 15.8 million). Meanwhile, allocations for law enforcement agencies are expected to decrease by 0.5%, or AZN 12.74 million (USD 7.5 million).

Regarding education expenditures, allocations for pre-school and general education are projected to decrease by AZN 33.4 million (USD 19.66 million) and AZN 229.4 million (USD 134.9 million), respectively. Meanwhile, funding for vocational, secondary specialised and higher education is expected to increase by AZN 9.94 million (USD 5.85 million), AZN 7.9 million (USD 4.65 million) and AZN 28 million (USD 16.5 million), respectively.

The reduction in allocations to pre-school and general education under the “Education” section of budget expenditures next year may be related to lower funding for the construction of kindergarten and school buildings.

Additional education covers professional development, advanced training, retraining and internships for personnel, further training of staff, second higher education and secondary specialised education, upgrading of

[15],https://www.meclis.gov.az/news-layihe.php?id=2730&lang=az&par=0
[16]https://www.meclis.gov.az/news-layihe.php?id=2536&lang=az&par=0

qualifications, and adult education [17]. Funding for this area is projected to decrease by 14.4%, or AZN 2.9 million (USD 1.7 million), next year.

The increased allocations for vocational, secondary specialised and higher education next year are associated with plans to increase the number of students studying at these institutions at the state's expense. In addition, improving the per capita financing mechanism requires additional funding, contributing to the increase in budget expenditures[18].

Regarding healthcare expenditures, the allocation to the Compulsory Health Insurance Fund is planned to increase by 22.2%, or AZN 200 million (USD 117.65 million), next year, while funding for hospitals is expected to rise by 15.3%, or AZN 33.6 million (USD 19.78 million). These increases are related to the digitalisation of the healthcare system, improvements in the quality of medical services, higher expenditure on medical personnel's salaries, and the expansion of social programmes[19].

Under the “Social Protection and Social Security” section of the 2027 state budget, the allocation intended to finance state budget obligations for balancing the budget of the State Social Protection Fund is projected to decrease by 5.9%, or AZN 100 million (USD 58.8 million). However, allocations for other institutions and measures in the areas of social protection and social security are expected to increase by AZN 95.6 million (USD 56.24 million).

In the next year's state budget, socially oriented expenditures are projected to amount to AZN 18.7334 billion (USD 11.02 billion), accounting for 44.2% of total budget expenditures[20].

Under the “Agriculture” section of next year's state budget, expenditures are planned to increase by AZN 157.4 million (USD 92.6 million) compared with the current year, while allocations for agricultural measures are expected to rise by AZN 247.4 million (USD 145.5 million). These funds will primarily be used to provide various types of subsidies to farmers, compensate for part of the costs of purchasing agricultural inputs, increase production and productivity, and support the financial capacity of agricultural producers[21].

Expenditures under the “Economic Activities” section of the 2027 state budget are projected to increase by 13.37%, or AZN 1.05 billion (USD 618 million), next year compared with the current year.

Expenditures on economic activities cover the funds allocated by the state to support economic development, implement infrastructure projects, and ensure the development of transport, communications, energy and other economic sectors[22].

Within this section, construction and urban development, which accounts for 67.4% of total expenditures, is projected to receive AZN 198.5 million (USD 118.78 million) less funding next year than in the current year, representing a decrease of 3.2%. Meanwhile, allocations for transport and communications are expected to increase by 173.66%, or AZN 498.2 million (USD 293.07 million); funding for geodesy and mineral resources by 110%, or AZN 4.9 million (USD 2.9 million); and allocations for measures related to economic activities by 54%, or AZN 707.56 million (USD 416.2 million).

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[17] https://edu.gov.az/az/additional-education
[18] https://nk.gov.az/az/senedler/qerarlar/ayri-ayri-ixtisaslar-uzre-pese-tehsili-muessiseler-9586
[19] https://azertag.az/xeber/2027_ci_il_uzre_icbari_tibbi_sigorta_fondunun_umumi_xercleri_2_milyard_980_milyon_manat_hecminde_proqnozlasdirilir-4498380
[20] https://sai.gov.az/files/R%C9%99y_2027_HP-445443151.pdf
[21] https://az.trend.az/business/4242968.html
[22] https://az.trend.az/business/4242849.html

Investment expenditure, or state capital investment, accounts for 59.5% of the expenditures under this section.

Expenditures under the “Expenditures Not Classified under Main Sections” category are projected at AZN 822.5 million (USD 483.8 million) next year, representing a decrease of 53.07%, or AZN 930 million (USD 547 million), compared with the current year. Of this amount, AZN 300 million (USD 176.5 million) is planned to be allocated to the Contingency Fund of the President of the Republic of Azerbaijan and AZN 110 million (USD 64.7 million) to the State Budget Contingency Fund.

Next year, compared with the current year, expenditures are projected to increase by 1.8% under the “Culture, Arts, Information, Physical Education, Youth Policy and Other Related Activities” category, by 0.2% under the “Housing and Communal Services” category, and by 4.4% under the “Environmental Protection” category.

FORECAST INDICATORS OF THE 2027 STATE BUDGET DEFICIT

In 2027, the state budget deficit is projected to amount to 2.2% of GDP, or AZN 3.166 billion (USD 1.86 billion). Of this amount, 86.9%, or AZN 2.751 billion (USD 1.62 billion), is planned to be financed through borrowing; 8.7%, or AZN 275 million (USD 161.7 million), through the balance of the Single Treasury Account; and 4.4%, or AZN 140 million (USD 82.35 million), through proceeds from the privatisation of state property[23].

CONCLUSIONS AND RECOMMENDATIONS

The main directions of state budget policy for 2027 and the medium term are focused on accelerating economic growth, improving the investment climate, developing the non-oil sector, and enhancing social welfare. The key priorities of revenue policy include broadening the tax base, improving tax and customs administration, strengthening voluntary tax compliance, and promoting entrepreneurship. At the same time, to support the development of the non-oil and gas sector, extending the validity of expiring tax incentives and exemptions or introducing new ones on the basis of businesses' actual performance during the relevant period would constitute a more results-oriented approach.

Expenditure policy, in turn, prioritises strengthening defence capabilities, restoring the liberated territories, social protection, digital transformation, and the development of agriculture and the green economy.

Furthermore, expanding the scope of programme- and performance-based budgeting is an important institutional reform aimed at improving the efficiency of public expenditure. The allocation of programme-based funding for education, healthcare, social protection and other sectors in 2027 demonstrates a stronger results-oriented approach to budget planning.

Nevertheless, the sustainability of budget policy should be assessed not merely by the growth of revenues and the financing of expenditures, but also by the actual impact of allocated funds on economic growth, productivity and employment.

Recommendations

1. Diversification of the revenue base: Measures should be strengthened to reduce the state budget's dependence on oil and gas revenues, broaden the tax base in the non-oil sector, and curb the shadow economy.

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[23] https://www.maliyye.gov.az/scripts/pdfjs/web/viewer.html?file=/uploads/static-pages/files/6aaac62e097a3.pdf

2. Promotion of entrepreneurship: Tax incentives should be temporary and results-oriented, with priority given particularly to export-oriented production, innovation, and sectors generating high value added.

3. Efficiency of public investment: The economic and social returns of investment projects should be assessed, and conditions should be created for public capital investment to stimulate private investment and productive employment.

4. Improvement of performance-based budgeting: Specific and measurable performance indicators should be established for each government programme, and the allocation of budget funds should be linked to the achievement of these indicators.

5. Targeting of social expenditure: Social protection measures should be aligned with needs-based eligibility criteria, the effectiveness of social payments should be improved, and investment in human capital should be expanded.

6. Green and digital economy: Investments in green energy, digital infrastructure, artificial intelligence and innovative technologies should become one of the principal instruments of economic diversification.

Overall Assessment

The main challenge for budget policy in 2027–2030 is not so much to increase the volume of fiscal resources as to improve their economic efficiency. In this regard, broadening the tax base under revenue policy, together with performance-oriented financing, investment efficiency and economic diversification under expenditure policy, should constitute the key priorities.

Such an approach could strengthen the long-term sustainability of the state budget while contributing to the development of the non-oil economy and improvements in public welfare.

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