

Assessment of Azerbaijani 2022 State Budget in Context of COVID-19

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Abstract

The budget plan for 2022 envisages the primary goals for insurance of the economic growth in the upcoming year, emphasizing economic diversification as one of the key targets. Followed by the restoration of the liberated territories and recovery after the negative impact of the pandemic, the plan outlines a detailed analysis of fiscal policy forecasted for the year. An overview of the planned budget envisages the reliance of the economy on oil reserves and transfers obtained throughout it. To that end, approaches for further policies cover the creation of a favorable environment for the gradual replacement of oil revenues with non-oil revenues.

Key Words: Budget, Azerbaijan, Diversification, Oil, Pandemic

Introduction

Following the challenges that emerged in the background of pandemic and economic downturn, the state budget of Azerbaijan has passed through several changes. The provision of additional support packages along with the flexible management of the quarantine regime led to the update of the existing budget plan. The establishment of the new infrastructure in the liberated territories takes a considerable part in the formation of the new budget plan as well.

The goals, directions, and objectives of the budget policy for the short and medium-term have been determined in accordance with the document "Azerbaijan 2030: National Priorities for Socio-Economic Development". The formation of a macro-fiscal framework will be one of the main directions of medium-term budget policy.

On the other hand, the transition to a green economy and extensive usage of alternative energy has its reflection on the fiscal policy in the medium-term. Since the global oil demand is declining, the global energy market may face some considerable challenges. Taking into account that the economy of Azerbaijan is still highly dependent on oil and its revenues, there emerges a need to adjust the fiscal policy in an appropriate path.

Main policy priorities are built on the perspective of economic diversification and strengthening of the economic resilience to external shocks. The development of the private sector with the improved business environment and better access to finance have been taken into consideration as well.

As it was outlined in the macroeconomic forecast submitted by the Ministry of Economy of the Republic of Azerbaijan, the key priorities of future budget policies will be aimed at the economic recovery and maintaining of the level of transfers to ensure public spending.

The main fundamentals of the newly developed budget plan for 2022 envisage a contribution to stable economic growth, ensuring the economic balance, inflation rate, and unemployment, along with the balance of payments via fiscal instruments.

Literature Review

Analysis of the previous studies devoted to the assessment of the economic environment in Azerbaijan depicts that the country is still highly dependent on oil resources. With this regard, the development of the budget policy has to consider this fact to provide better management of the resources allocated for public spending.

The vulnerability of the Azerbaijani economy to external shocks was studied by [Bayramov and Orujova \(2017\)](#). An analysis covered the challenges faced by the country after the oil shock in 2014-2015 and outlined the necessity for economic diversification by [Bayramov and Abbas \(2017\)](#). Bayramov also listed recommendations how to promote diversification policy ([Bayramov, 2009](#)).

Assessment of further budget policies depicted the strategy aimed at the economic diversification implemented in the long-term perspective. An independent assessment of the 2021 budget illustrated the recovery path paved by the government in relation to the economic recession that occurred in the background of the pandemic ([CESD Press, 2020](#)).

More detailed analysis reflecting the negative impact of the pandemic on the Azerbaijani economy demonstrated that forehanded measures aimed at combating the COVID-19 outcome were rational in their manifestation as the economy had an opportunity to bear comparatively lower risks ([CESD Research Group, 2020](#)).

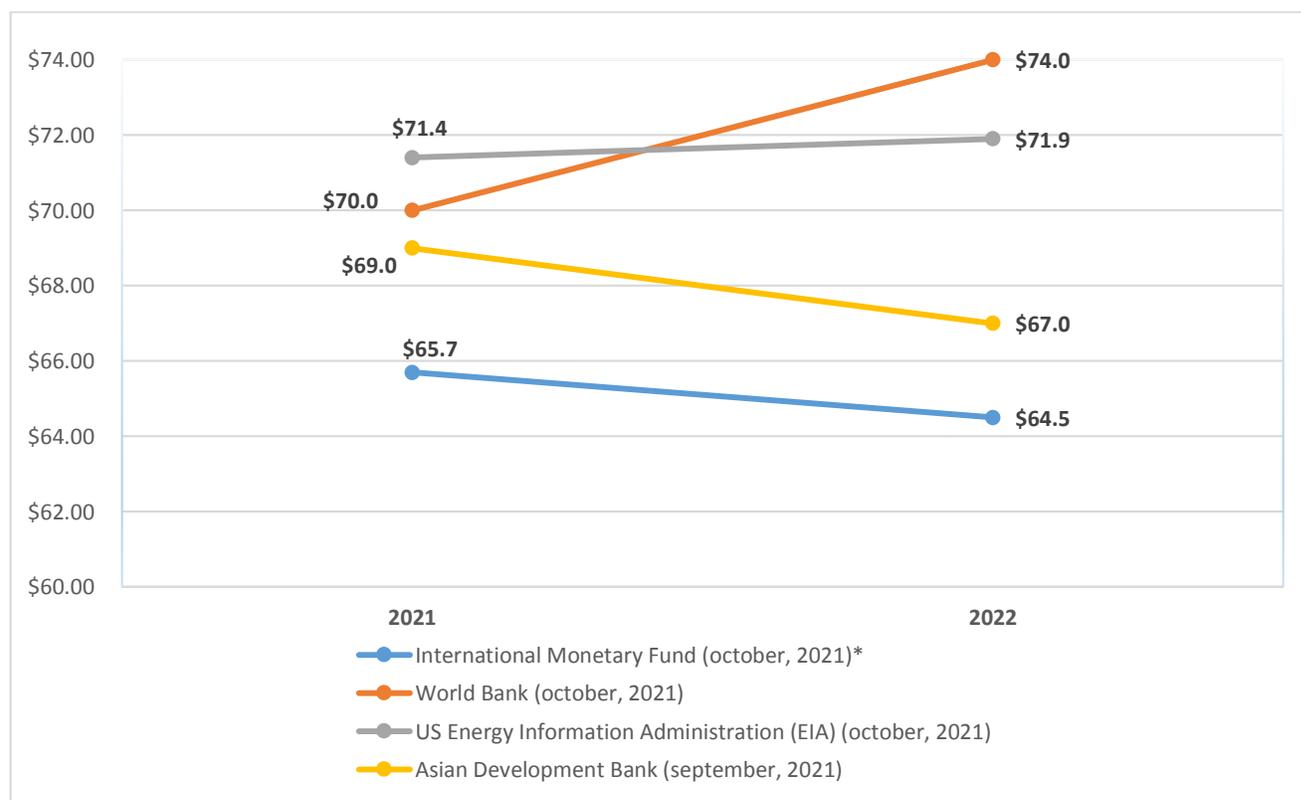
National Priorities for Socio-Economic Development¹ outline five main policies implemented in the following spheres: a steadily growing, competitive economy; a dynamic, inclusive society based on social justice; areas of modern innovations and competitive human capital; the great return to the territories liberated from occupation; a clean environment and country of "green growth".

Main constituencies of the 2022 budget

Revenues of the state budget for 2022 are projected at 26 billion 816 million manat, while expenditures are projected at 29 billion 879 million manat. It has to be mentioned that state budget revenues are projected at an average export price of \$ 50 per barrel.

Graph 1 illustrates several projections of the world's leading financial institutions, along with agencies specializing in the forecasting of oil prices, on the average annual price of 1 barrel of Brent oil. According to the fact that Azerbaijan remains dependent on oil, despite the increase in prices, volatility remains high.

Graph 1. The projected average annual price of 1 barrel of Brent oil (in \$)

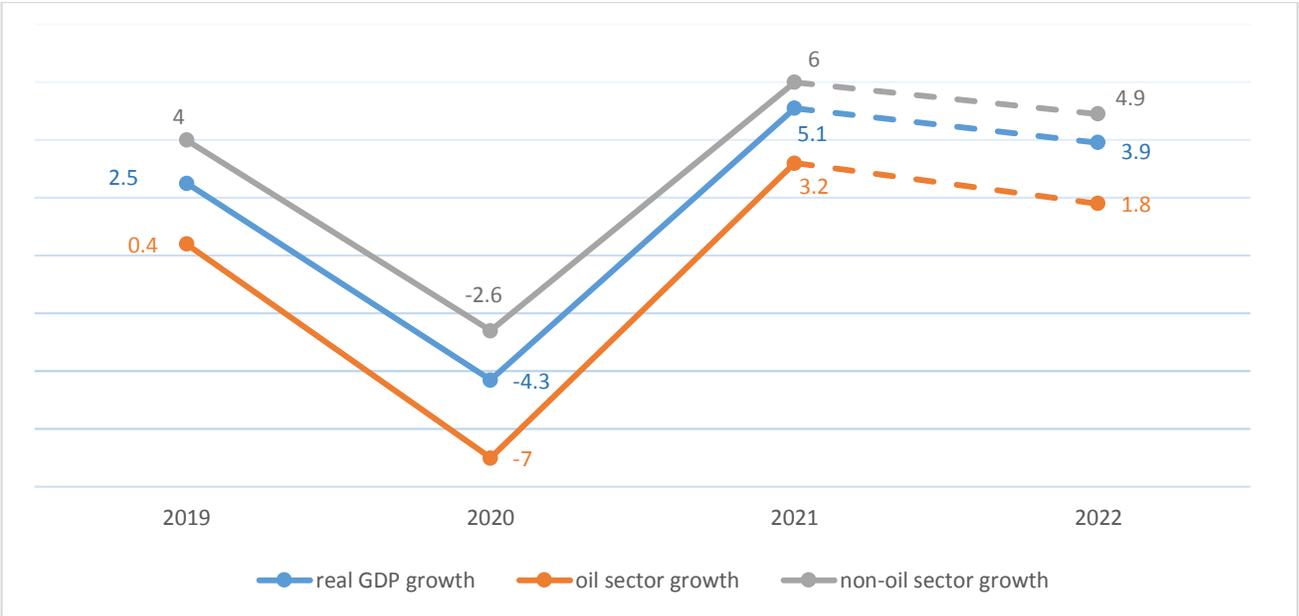


Source: IMF 2021, WB 2021, ADB 2021, EIA

¹ <https://en.president.az/articles/50474>

The macroeconomic forecast prepared by the Ministry of Economy of the Republic of Azerbaijan for the next 4 years (the average annual price of a barrel of oil is \$ 55), forecasts that the real GDP growth in the country will compose 3.9 %, along with non-oil GDP growth indicated at 4.9 % (Graph 2). As it may be observed from Graph 2, less GDP growth is expected over the next year.

Graph 2. GDP real growth (in %)

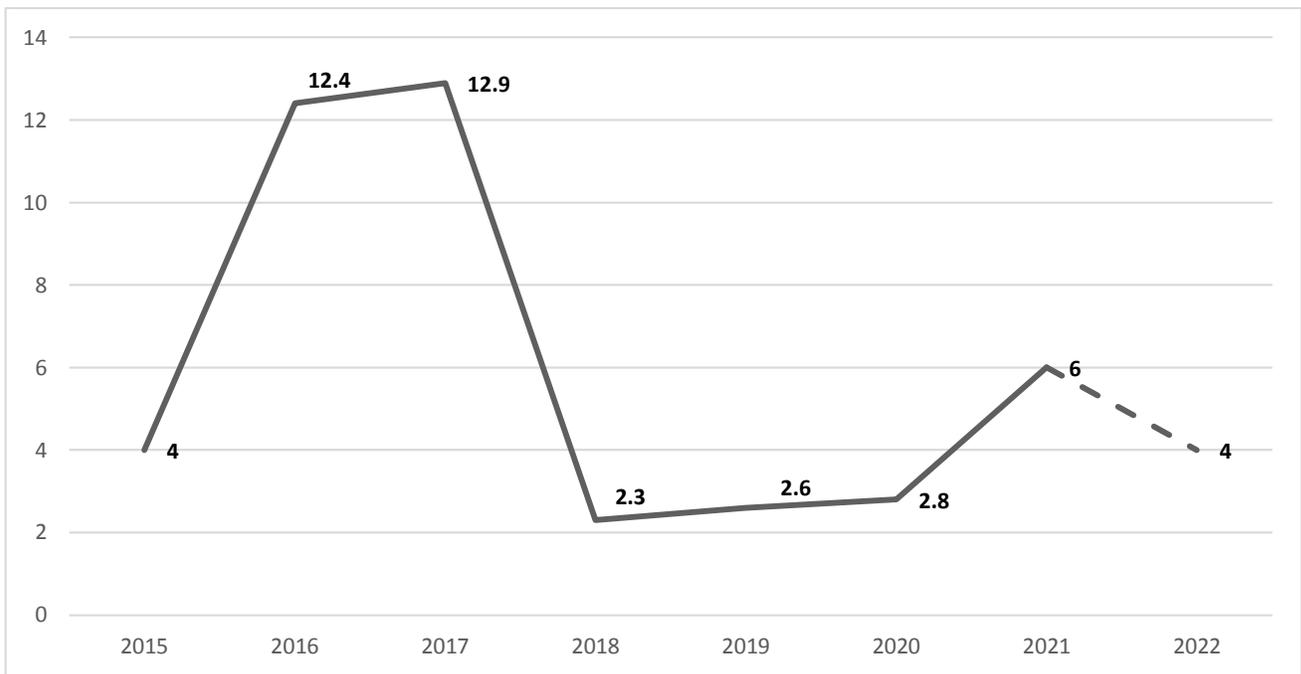


Source: Ministry of Economy of the Republic of Azerbaijan

Following the project, inflation is expected to decline to 4 % in 2022. In order to ensure economic stability, there is a need to strengthen and maintain the coordination of fiscal and monetary policies. This, in turn, will support the exchange rate of the national currency to remain stable over the next year. It is worth mentioning that the regulation of inflation may have a positive impact on the social welfare of the population in the medium-term perspective.

Graph 3 indicates the inflation rate set at 4 % in 2022. However, the real inflation rate is expected at higher indicator than the projected band.

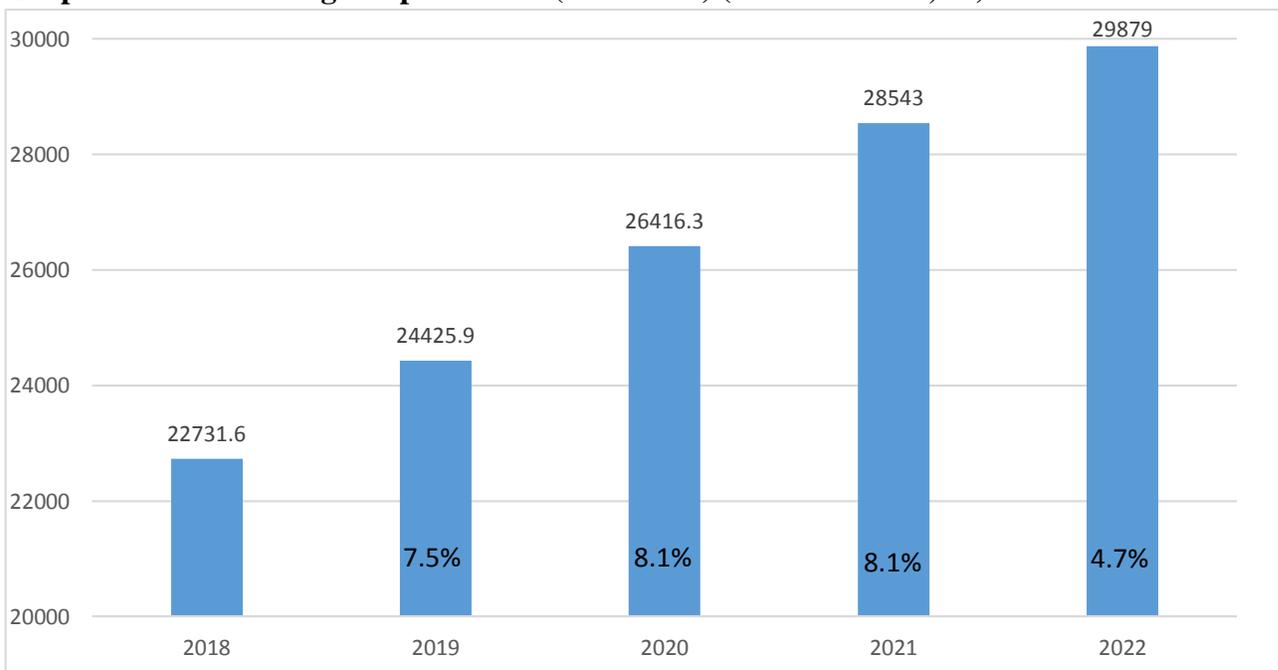
Graph 3. Average annual inflation rate (in %)



Source: Ministry of Economy of the Republic of Azerbaijan

As it was mentioned above, expenditures of the state budget for 2022 are projected at 29 billion 879.0 million manat. The share of state budget expenditures in GDP will be 34.5 %. Graph 4 demonstrates an overview of the past 5 years. It becomes clear that over the past 5 years (2018-2022), state budget expenditures increased by 31.4 % or 7 billion 147.4 million manat.

Graph 4. The state budget expenditures (2018-2022) (in mln. manat., %)

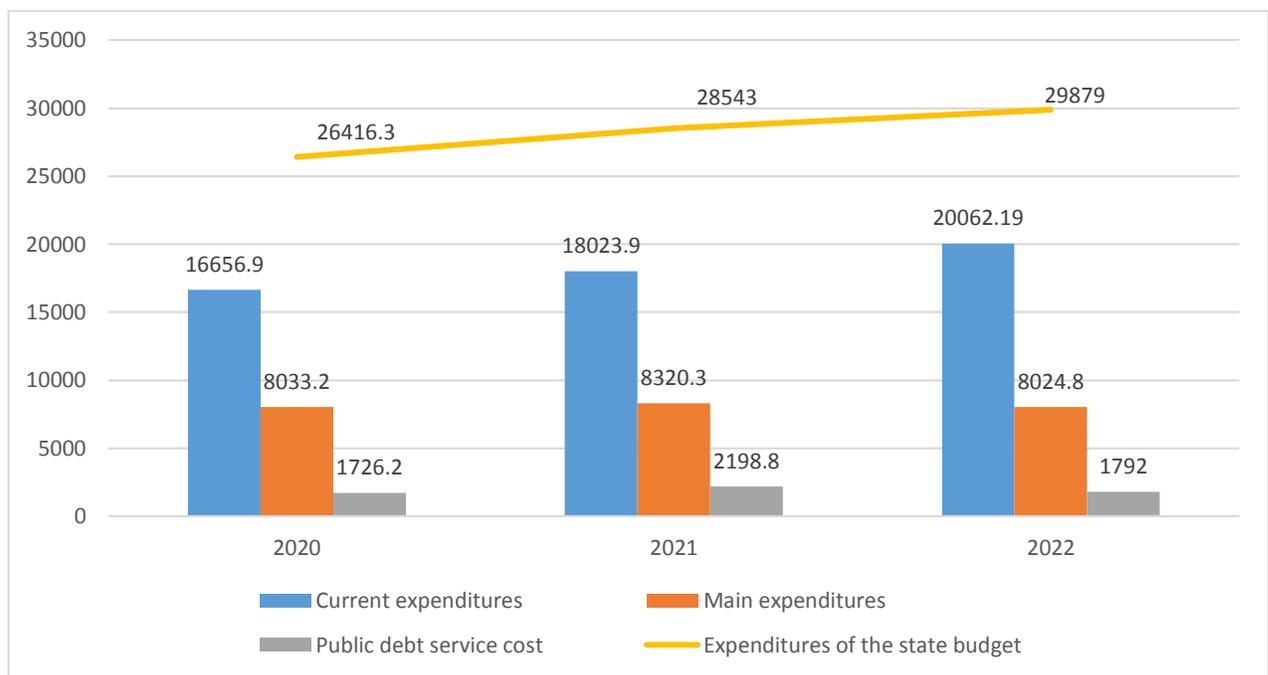


Expenditure priorities for 2022-2025 reflect the global economic environment and trends, including 2 main primary areas: restoration of the liberated territories and support of the priority sectors.

In recent years, especially in the post-devaluation period, a fairly dynamic increase in budget expenditures has not been accompanied by a proportional growth in the non-oil sector.

Graph 5 reflects the continuation of the growth in the current expenditures over the next year. In a meantime, a significant shift in the public debt service cost may be observed as well.

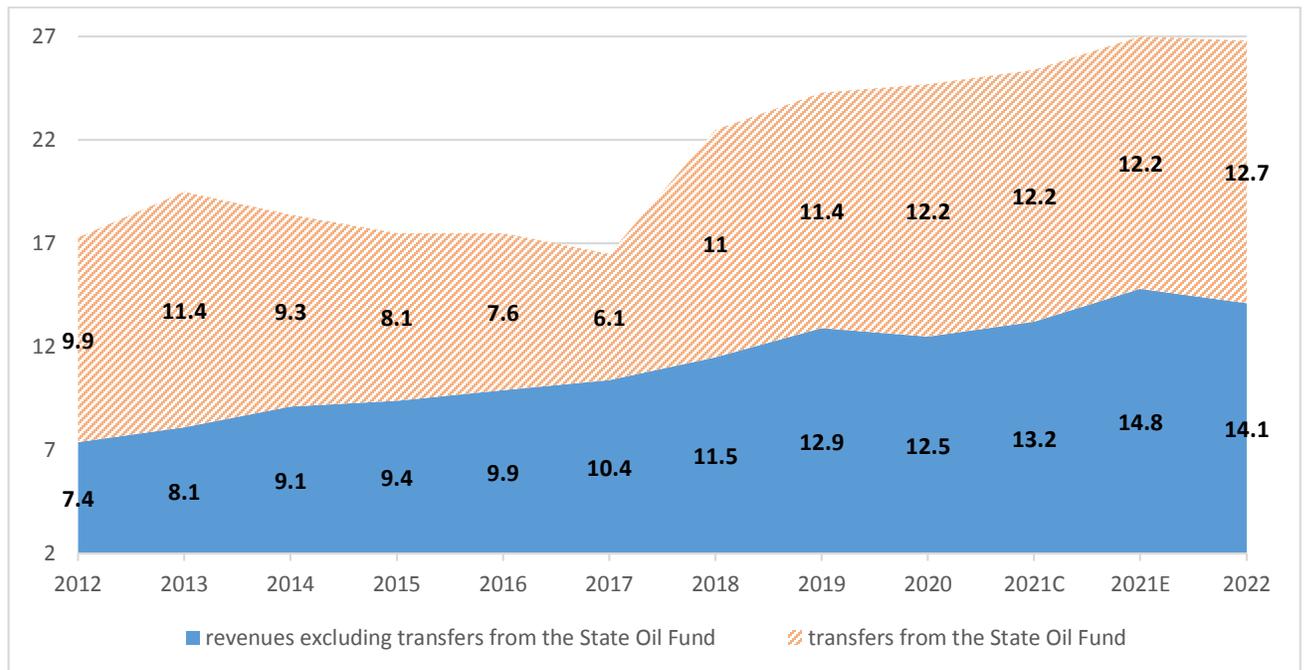
Graph 5. The structure of state budget expenditures in 2022



Excluding transfers from the State Oil Fund of the Republic of Azerbaijan, the state budget revenues are expected to be 14 billion 106 million manat (Graph 6). 54.8 % or 14 billion 690 million manat of the projected state budget revenues for 2022 fall to the oil sector, while 45.2 % or 12 billion 126 million manat refers to the non-oil sector. 86.5% or 12 billion 710 million manat of the state budget revenues in the oil sector refer to the transfers from the State Oil Fund of the Republic of Azerbaijan, whereas 13.5% or 1 billion 980 million manat refer to the revenues from the tax authorities.

It is hard not to notice that SOFAZ composed around 90% of the total revenues of the state budget, which reveals its crucial role.

Graph 5. Revenues of the state budget for 2021-2022, excluding the transfers from the SOFAZ (in bln. manat)



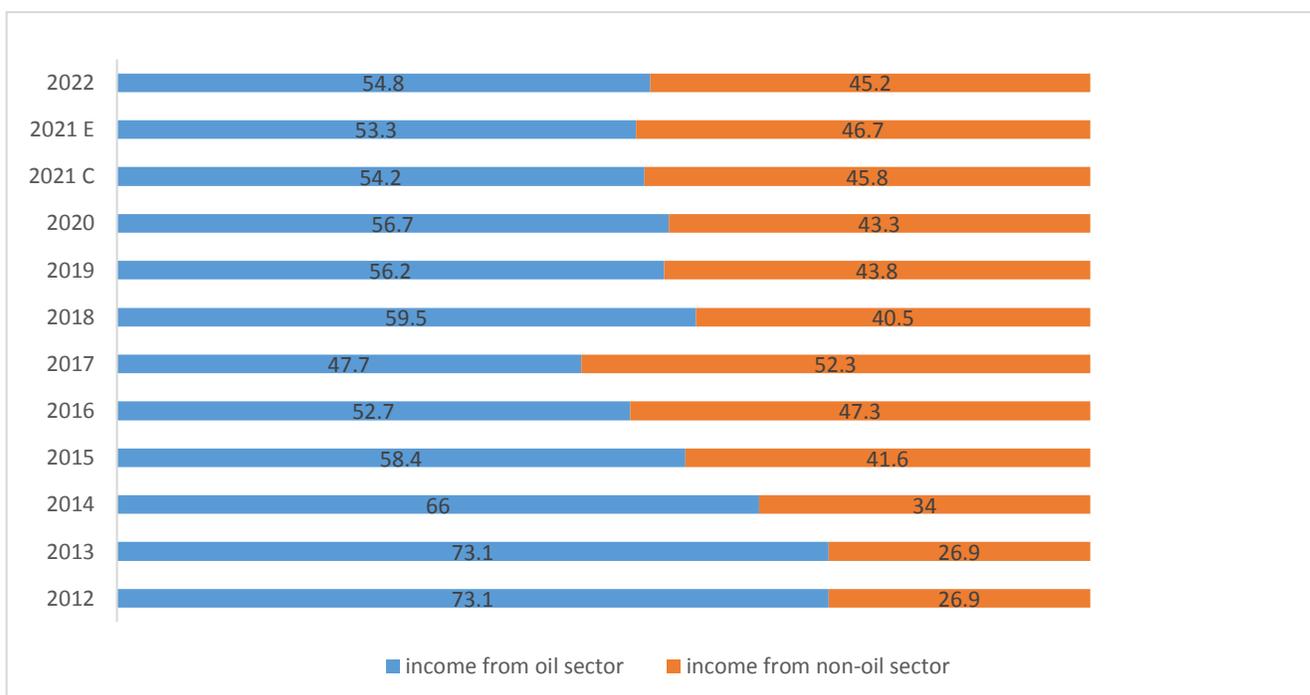
Note: C- confirmed, E- expected

56.4 % or 6 billion 840 million manat of the state budget revenues in the non-oil sector will be received through the tax authorities, 35.1 % or 4 billion 260 million manat through the customs authorities, 8.5 % or 1026, 0 million manat refer to other income.

Following the indicators provided in Graph 7, it may be observed that income from the non-oil sector will be comparatively decreased.

An increase in the share of non-oil revenues in budget revenues may be ensured through the introduction of improved budget rules along with the reduction of transfers from the State Oil Fund.

Graph 7. The share of oil and non-oil sector incomes in the state budget revenues for 2012-2022



Note: C- confirmed, E- expected

Conclusion

The budget plan envisages the main goals and objectives aimed at the provision of supporting measures for economic recovery. Restoration of the liberated territories and improvement of the healthcare system remains of particular importance.

The current environment leads to a conclusion that the Azerbaijani economy is at a transitional period which requires a detailed approach to maintain the sustainable development of the economy. In this regard, several recommendations may suit the overall assessment of the provided budget plan.

It is important to use additional fiscal instruments in order to minimize the inflationary effects of the projected budget deficit.

There is a need to provide detailed information on all programs in the three sectors covered by the results-based budget. In order to further increase transparency, it would be expedient to prepare and present the concrete results of the work carried out on expenditure items in accordance with the principle of performance budget.

Following the budget plan, high dependence on oil remains. Thus, an extension of the policies aimed at economic diversification has to be implemented within the shortest time.

Analyzing the sustainability of the budget revenues, reducing the dependency on the transfers from the State Oil Fund seems important in this regard.

An increase in the subsistence level seems reasonable.

Fiscal policy has to strengthen financial and debt discipline. Primary areas of an extended fiscal policy direction have to establish a balance between budget revenues and expenditures.

Since the transparency of budget compositions plays one of the major roles in ensuring a sustainable economy, its appliance has to be strengthened and expanded.

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