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**Amendments in the 2022 State Budget of Azerbaijan:
Impacts and Perspectives**

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Abstract

After the global pandemic, rising global demand, as well as the impact of geopolitical and military tensions, have led to a significant rise in the prices of major energy carriers in recent years.

In the context of this pandemic, the recession in the country's economy in 2020 was replaced by the process of rapid economic recovery in 2021. The significant increase in oil prices in Azerbaijan had a positive effect on the nominal amount of GDP, although the increase in nominal GDP was mainly due to the oil sector, the real growth was possible almost due to non-oil sectors.

The economic situation for the past period of the current year, the medium-term socio-economic forecast indicators, and the performance of budget revenues more than expected made it necessary to revise the state budget for 2022.

The main reasons for the budgetary amendments

Rising geopolitical tensions and the imposition of embargoes on energy products during the period under review resulted in a significant increase in prices for these products, with the highest prices observed in the last 9 years. In January-May 2022, the average monthly price of Brent oil was 102.0 US dollars, an increase of 60.9% compared to the same period last year. The highest price during the period under review was recorded in March at 112.5 US dollars, which is 1.7 times more than in March 2021. The rise in oil prices to \$ 18.4 in March was due to the possibility of a decline in oil supply due to rising tensions in Eastern Europe. Thus, in northwestern Europe, buyer interest in other oil brands has increased in search of an alternative to Urals oil, which has put increasing pressure on oil prices.

Table 1. Global oil demand and supply, mln. barrel / day

Indicators	2021				2022	2021	2022
	1st term	2nd term	3rd term	4th term	1st term		
Oil demand	94,05	95,6	97,66	100,3	99,28	96,92	100,29
Oil supply	93,01	94,15	95,82	97,89	99,08	95,23	-

Source: OPEC, 2022

The high growth rate observed in the country's economy in 2021 continued in the first 5 months of 2022. Over the past five months, the Gross Domestic Product exceeded 50 billion manats, and production in the oil sector exceeded 25 billion manats. The GDP growth rate exceeded 7.2 percent, and the growth rate of the oil sector exceeded 11.2 percent. It was noted that these figures are the highest in the last 12 years.

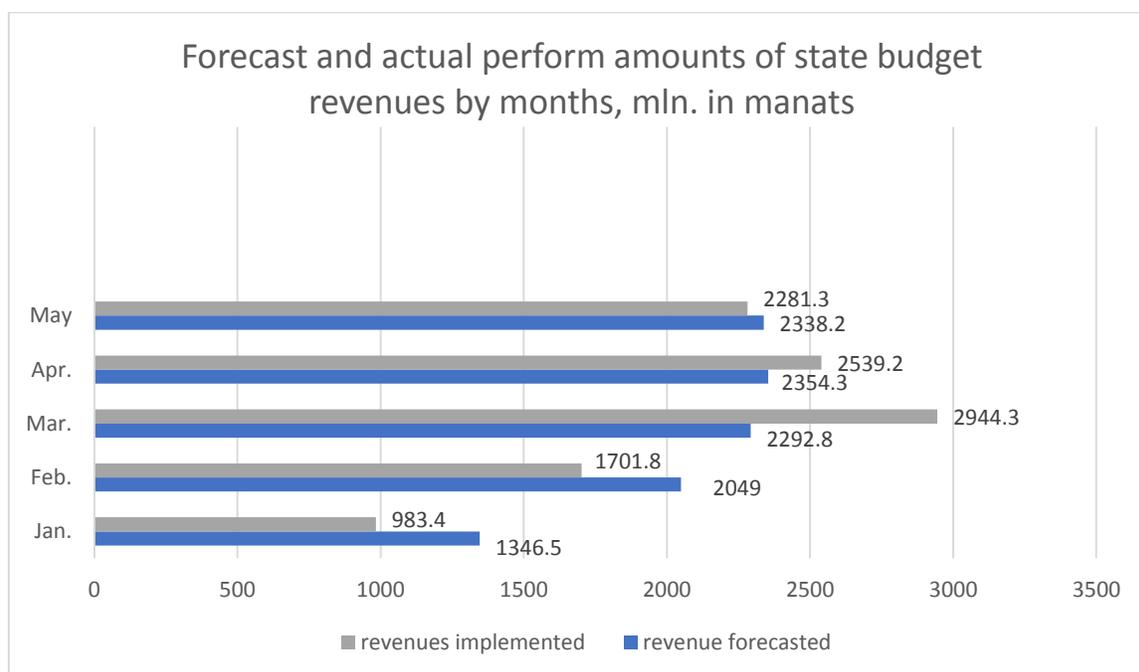
When the state budget was adopted last year, the price of a barrel of oil was set at \$ 50. During the first five months of this year, oil prices were \$ 106. During the first five months of this year, the state budget surplus amounted to 2 billion manats, which is four times more than planned. The consolidated budget surplus was about 4 billion manats, many times more than the planned deficit of about 2 billion manats. There are many factors that determine this. One of them is that for the first time in the first five months of this year, Azerbaijan's foreign exchange earnings from oil exports and revenues from gas exports have been almost equalized. During this period, the amount of taxes collected through the State Tax Service exceeded the forecast by about 2 billion manats. All these indicators make it necessary to reconsider the state budget and redistribute additional revenues. When the economic growth forecast is updated, the average annual export price of a barrel of crude oil is projected at \$ 85.

Revenues

In January-May 2022, there were discrepancies between the monthly forecast and actual performance of state budget revenues, and the forecast was exceeded for all other sources of income, except for transfers from the State Oil Fund.

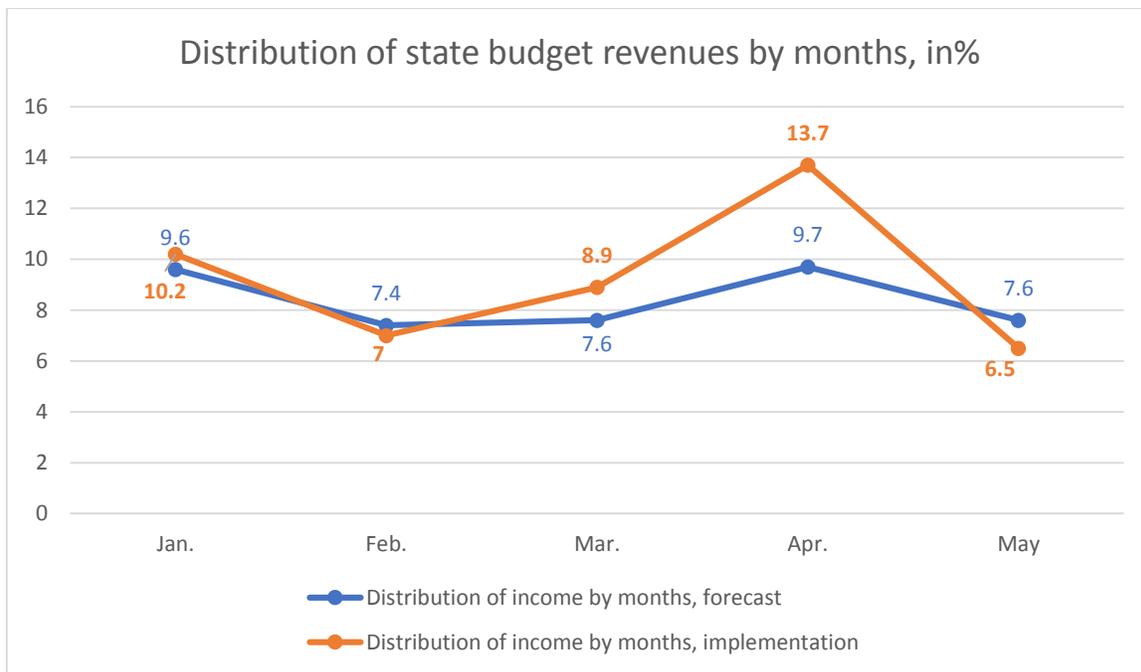
Performance of state budget revenues for the first 5 months of 2022 exceeded the forecast in other months, except for February and May (Figure 1)

Figure 1. Information on the forecast and actual performance indicators of state budget revenues in January-May 2022



Source: State Statistics Committee of Azerbaijan Republic, Ministry of Finance, 2022

During this period, the highest performance was observed in April, when performance exceeded the forecast. The actual performance of state budget revenues in April amounted to 3678.0 mln. manat, which is 1088.4 million manats or 42.0% more than the forecast. It should be noted that compared to the forecast for April, the largest amount of performance falls to the share of revenues through the State Tax Service. Revenues through the State Tax Service in April amounted to 2233.2 million manats, which is 2.1 times more than the forecast.



Source: State Statistics Committee of Azerbaijan Republic, Ministry of Finance, 2022

These also affected the indicators determined by the distribution of state budget revenues by quarters and months. Thus, although the indicator determined by the distribution of state budget revenues by quarters and months for April was 9.7%, the actual indicator was 13.7%, which is 4.0 percentage points more than the approved distribution.

The lowest performance was observed in May. In May, the actual performance of state budget revenues amounted to 1754.9 million. manat, which is 290.6 million manats or 14.2% less than the forecast. It should be noted that this amount was formed mainly due to the performance of transfers from the State Oil Fund in May, 53.9% less than forecast.

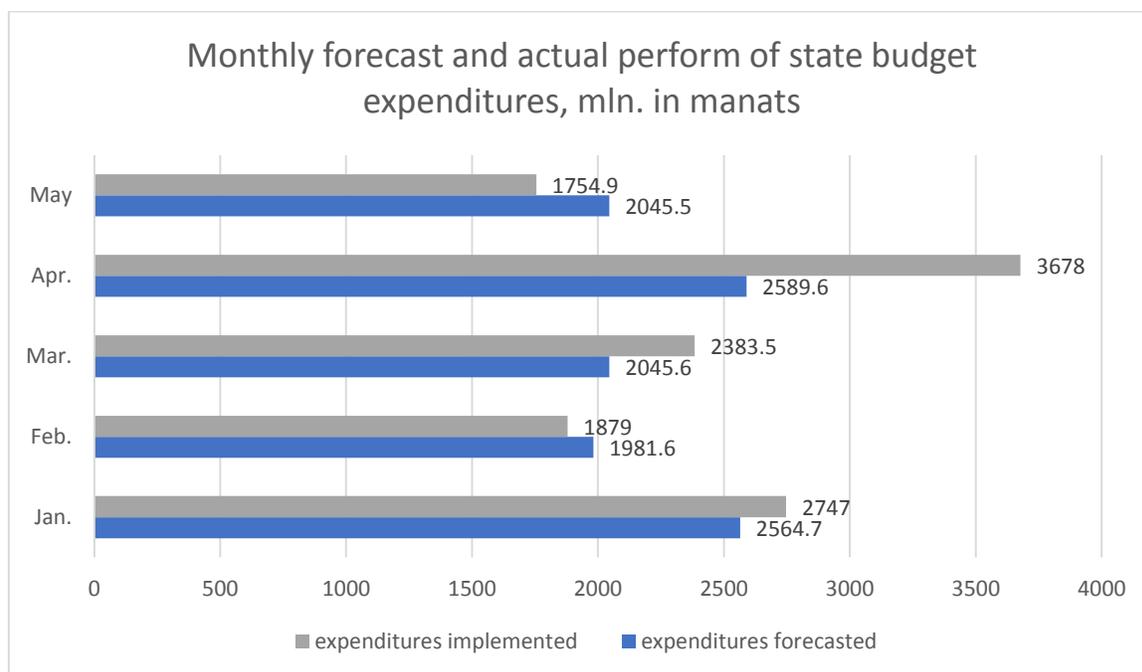
The approved state budget revenues are 26816,0 mln. manats and revised state budget revenues are 29197,8 mln. manats. 2.3 mln. manats residue were included in the revenue parameter of the state budget, referring to the revenues of the relevant funds for 2022.

Expenditures

During the first 5 months of 2022, the state budget expenditures were approved by months and there were differences between the actual amounts of performance, the highest performance compared to the forecast was recorded in March.

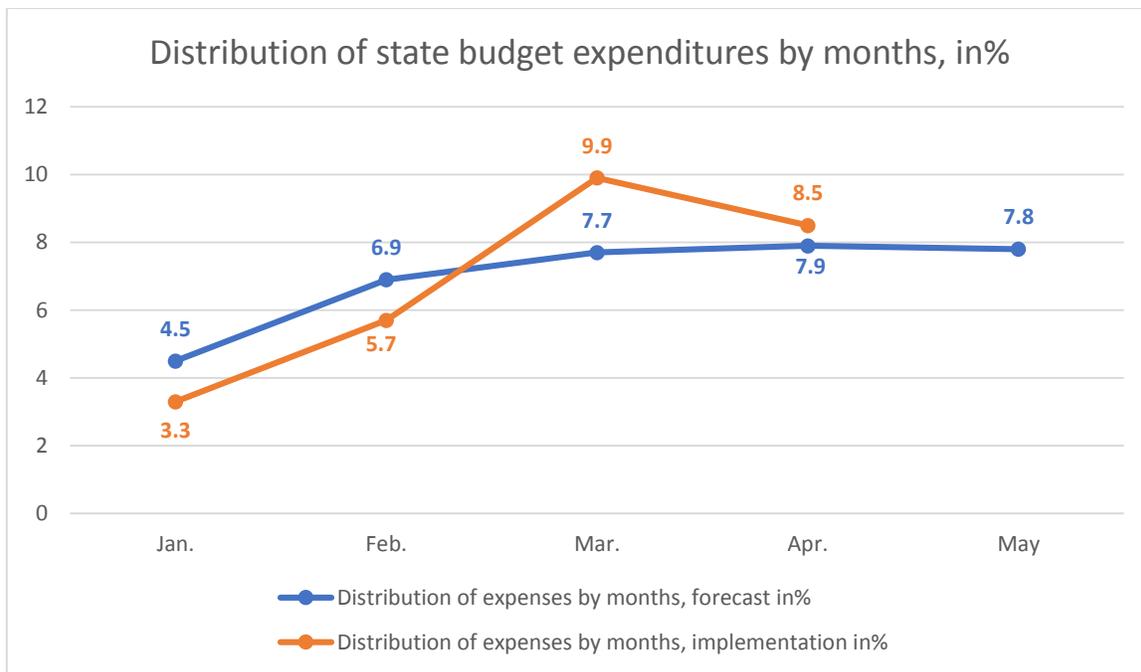
Expenditure performance in January, February, and May 2022 was lower than forecast, and higher in March and April (Figure 2).

Figure 2. Information on the forecast and actual performance indicators of state budget expenditures in January-May 2022



Source: State Statistics Committee of Azerbaijan Republic, Ministry of Finance, 2022

During the mentioned period, the performance of the state budget expenditures was the lowest than the forecast at 363.1 mln. manat was observed in January. Thus, although the indicator determined by the distribution of state budget expenditures by quarters and months for January was 4.5%, the actual indicator was 3.3%, which is 1.2 percentage points less than the approved distribution.



Source: State Statistics Committee of Azerbaijan Republic, Ministry of Finance, 2022

Performance exceeded the forecast by 651.5 million manats in March. Thus, the state budget for March is determined by the distribution of expenditures by quarters and months. Although the indicator was 7.7%, the actual indicator was 9.9%, which is 2.2 percentage points more than the approved distribution.

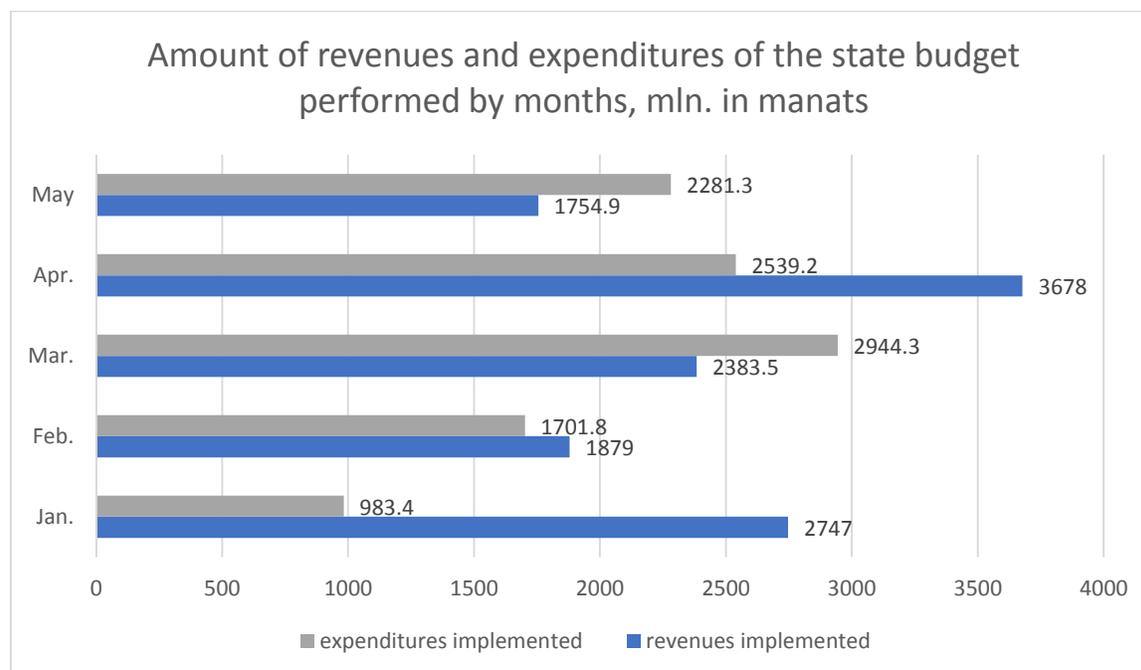
The amount of state budget expenditures is 32303.8 mln. manat, which is 8.1% more than the initial destination.

Deficit

In January-May 2022, the state budget was performed with a deficit of 2 months and a surplus in the other 3 months, the differences between the forecast and performance indicators of the state budget balance were observed.

The analysis of state budget revenues and expenditures during this period shows that in March and May expenditures exceeded revenues, and in the other 3 months, revenues exceeded expenditures (Figure 3).

Figure 3. Information on revenues and expenditures of the state budget for January-May 2022



Source: State Statistics Committee of Azerbaijan Republic, Ministry of Finance, 2022

During the period under review, the forecast and actual performance amounts of the state budget balance differed by months, and despite the forecast of a deficit in February, the budget was performed with a surplus. The largest surplus on the performed state budget is 1763.6 mln. manat in January, and the largest deficit was 560.8 mln. manat was observed in March.

In general, the state budget surplus in the first 5 months of 2022 amounted to 1992.4 million. manat, which is 2.4 times more than the projected surplus for the period (846.2 million manats).

The revised state budget: What is next?

One of the positive aspects of these changes is that the number of transfers from the state budget will decrease by 1 billion 192 million manats. This is also important in terms of reducing the budget's dependence on the State Oil Fund. At the same time, there will be an increase in the revenues of the oil sector. Still, more than half of the state budget will be formed at the expense of the oil sector, which means that the share of oil in the state budget will remain high after the changes. Recent changes show that the oil sector remains the leader in Azerbaijan's fiscal revenues.

There is an 8.1% increase in budget expenditures, the total budget will reach 32303.8 million manats. This indicates that going to drastic spending creates a fiscal risk for the next periods. The share of non-oil revenues of the state budget in non-oil GDP will decrease. So, if this figure was 22.3% in 2021, it will be 22.8% after the changes in 2022. This means that non-oil revenues do not yet have a special share in the non-oil sector economy. This is not considered desirable in terms of the sustainability of the economy.

The fact that some incomes almost doubled after the changes indicate that the budget forecasting problems remain, as the corporate income tax increased by 98.1% after the changes, including 36.7% including others. This raises the issue of revising budget forecasting and preparing it in accordance with international practice. Despite the increase in spending, the share of science and health spending in GDP is still far behind compared to international standards. This indicates that it is important to consider the proportional distribution of budget revenues.

Conclusion

Given that volatility in world markets leads to a review and reduction of growth rates in most countries, as well as in the global economy. By 2022, the growth rate in the global economy has been reduced from 4.1% to 2.9%. In developed countries, the percentage increase in GDP is 1.4 percentage points. However, despite all this, the GDP growth rate in Azerbaijan increased by about 1 percentage point, while the growth rate in the first 5 months was 3.3 percentage points higher. In fact, all this indicates that the opinion of the Chamber of Accounts of the Republic of Azerbaijan on the recently submitted and discussed draft law "On Amendments to the Law of the Republic of Azerbaijan" On the State Budget of the Republic of Azerbaijan for 2022 " The work done should be assessed as a result of economic and social reforms, which led to the revision and additional amendments to the 2022 state budget. It is related to the continuation of activities related to the diversification of the economy in accordance with development priorities and the reduction of transfers from the State Oil Fund to the state budget in the adjusted budget.

On the one hand, this will allow spending more funds, ie an additional 8.1%, through the state budget, while maintaining the assets of the State Oil Fund and increasing Azerbaijan's foreign exchange reserves as a whole. This, of course, is important in terms of the inclusion of the economy and the preservation of the funds obtained today for future generations in an inclusive manner, in accordance with the policy defined by the President. From that point of view, the revenue side of the proposed document is unequivocally important in terms of diversification opportunities in the economy, as well as the diversification of the economy and, in particular, the preservation of state reserves. If we pay attention to the expenditure part of the revised state budget, it is planned to allocate funds for quite fundamental areas. In short, social security will be one of the main directions.

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