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Azerbaijan's state budget 2025: Perspectives and Challenges

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Abstract

The purpose of the study is to analyze and evaluate the current state of the state budget of Azerbaijan for 2024, in accordance with the requirements of the country's dynamic, economic and social development, and the budget forecast indicators for 2025. The study examines the mechanisms of the impact of the structure of budget expenditures on economic development.

The applied significance of the study is to examine the current socio-economic situation in the economy of Azerbaijan, which is essentially different from previous years, against the background of geopolitical and macroeconomic processes taking place in the world in recent years. Against the background of the tension of international relations, the possibilities of neutralizing the impact of risks that may arise in trade, supply and financial chains on the country's economy have been analyzed.

Here, the budget process is justified in accordance with new requirements based on the analysis of the dynamics of the budget revenue and expenditure system. It is shown how the effective redistribution of resources will affect economic development.

Keywords: state budget, budget revenues and expenditures, macroeconomic indicators, GDP, oil and gas and non-oil and gas sectors.

Introduction

As is well known, one of the most important areas in the economic and social policy of any country, as well as in its overall development course, is the tasks set before the state budget and the organization of the budgeting process. The state budget, as we know, plays a decisive role in the implementation of the state's functions and responsibilities, being the primary financial plan for both the creation of the central fund of state financial resources and their use. To maintain the dynamics of sustainable development in the country and respond optimally and positively to international processes, it has become an objective necessity to organize the state's main financial document, the budget, and the budgeting process based on scientifically grounded principles and to strengthen financial control over it.

It should be noted that in 2025, the state budget revenues are projected to amount to 38 billion 316 million manat(22.54 billion USD), while the expenditures are expected to be 41 billion 367.6 million manat(24.4 billion USD). For budget expenditures to have a greater impact on factors influencing economic development, successful continuation of structural reforms, financial provision of social and investment projects carried out through the budget system, as well as more optimization of the economic financial justification of large financial capacity facilities and technologies, and the implementation of preventive measures to avoid additional financial obligations for these projects in the future, are significant tasks to be addressed in 2025 and subsequent years.

The macroeconomic indicators of Azerbaijan's economic and social development from January to October 2024:

In the period from January to October 2024, the total gross domestic product (GDP) produced by enterprises, organizations, and individual entrepreneurs in the country amounted to 103.5 billion manat, which is 4.9% higher compared to the corresponding period of 2023 (Table 1). Compared to the same period last year, the added value in the oil and gas sector increased by 1.7%, while in the non-oil and gas sector, it increased by 6.8%. Of the added value, 37.1% was produced in industry, 10.0% in trade and vehicle repair, 7.0% in transport and warehousing, 6.3% in construction, 6.2% in agriculture, forestry, and fishing, 2.4% in tourism and public catering, 1.8% in information and communication, and 19.2% in other sectors. Net taxes on products and imports accounted for 10.0% of GDP. The GDP per capita was 10,146.5 manat.

In January-October 2024, industrial enterprises and individual entrepreneurs in this sector produced 53.3 billion manat worth of industrial products, which is 2.2% more than in the same period of 2023. Production in the oil and gas sector increased by 1.5%, while the non-oil and gas sector grew by 8.7%. Of the industrial output, 64.0% came from the mining sector, 30.3% from manufacturing, 4.7% from the production, distribution, and supply of electricity, gas, and steam, and 1.0% from water supply, waste treatment, and processing. In the mining sector, crude oil production decreased by 3.5%, while natural gas production increased by 6.8%. In the manufacturing sector, production of pharmaceutical products rose by 68.4%,

automotive production increased by 58.4%, furniture production grew by 40.7%, production of finished metal products increased by 38.9%, metallurgy products by 30.3%, electrical equipment by 29.6%, wood processing and wood product production by 22.3%, rubber and plastic products by 20.4%, construction materials by 19.6%, beverage production by 18.1%, tobacco products by 14.3%, chemicals by 10.3%, paper and cardboard by 9.7%, food products by 8.7%, and computer, electronic, and optical products by 4.3%. However, the production of textiles declined by 4.8%, while other industrial products increased by 6.8%. Machine and equipment installation and repair work grew by 8.0%, while printing products increased by 24.9%. The production of other transport vehicles decreased by 52.8%.

In the electricity, gas, and steam production, distribution, and supply sector, production volume decreased by 0.4%, while the water supply, waste treatment, and processing sector grew by 8.0%. A large portion of industrial products were sent to consumers, and taking into account the stocks accumulated in previous periods, industrial enterprises' warehouses contained 911.4 million manat worth of finished goods as of November 1, 2024.

Agricultural crop harvesting is nearing completion. By November 1, 3,195.9 thousand tons of cereal and leguminous crops (0.7% more than the previous year), 1,785.6 thousand tons of vegetables (1.8% more), 1,118.2 thousand tons of fruits and berries (3.1% more), 914.5 thousand tons of potatoes (7.6% less), 490.0 thousand tons of melon crops (11.8% more), 200.6 thousand tons of grapes (7.8% less), 164.5 thousand tons of sugar beet (31.5% more), 139.5 thousand tons of cotton (17.4% less), 31.1 thousand tons of sunflower (6.3% more), 5,588.1 tons of tobacco (34.0% more), and 1,041.7 tons of green tea leaves (5.5% less) were harvested.

In January-October 2024, 491.4 thousand tons of meat, 1,880.3 thousand tons of milk, 1,917.6 million eggs, 14.8 thousand tons of wool, and 239.4 tons of silkworm cocoons were produced. Compared to the same period in 2023, meat production increased by 1.2%, milk production by 0.8%, and egg production by 4.6%, while wool production decreased by 2.1%, and silkworm cocoon production dropped by 32.9%.

In January-October 2024, total agricultural production increased by 1.0%, including livestock production by 1.5% and crop production by 0.5%.

Investment in fixed capital in January-October 2024 amounted to 14.39 billion manat, a 4.4% decrease compared to the previous year. Investment in the oil and gas sector decreased by 9.1%, while investment in the non-oil and gas sector declined by 2.0%. Of the total investment, 7.31 billion manat (4.3 billion USD) (50.8%) was allocated to product manufacturing, 5.16 billion manat (3.04 billion USD) (35.9%) to service sectors, and 1.92 billion manat (1.13 billion USD) (13.3%) to residential construction. Domestic investments accounted for 83.0% of total investments in fixed capital.

In the transport sector, 193.8 million tons of cargo and 1.695 million passengers were transported in January-October 2024, marking an increase of 4.1% in cargo transport and 9.2% in passenger transport compared to the same period in 2023. Of the cargo, 59.3% was transported by road, 28.8% by pipeline, 8.0% by railway, 3.7% by sea, and 0.2% by air. Among passengers, 88.2% traveled by road, 11.1% by metro, and the remainder by other transport types.

Information and communication services amounted to 2.86 billion manat(1.68 billion USD), with 72.3% of services provided to the population. The volume of information and communication services increased by 12.1% compared to the same period last year, with 84.3% of the revenue coming from the non-state sector.

In January-October 2024, 48.34 billion manat(28.44 billion USD) worth of products were sold through the retail trade network, and service providers generated 10.19 billion manat in paid services. The total turnover increased by 3.7%, while the income from paid services grew by 8.3%. Sales included 26.47 billion manat(15.57 billion USD) worth of food products, beverages, and tobacco products, and 21.87 billion manat(12.86 billion USD) worth of non-food goods.

In January-September 2024, the country's foreign trade turnover amounted to 34.17 billion USD, a 1.5% decrease in nominal terms, but an increase of 4.9% in real terms compared to the previous year. Exports amounted to 19.53 billion USD (57.2% of the turnover), and imports totaled 14.64 billion USD (42.8%), resulting in a positive trade balance of 4.89 billion USD. Non-oil and gas exports in January-September 2024 reached 2.47 billion USD, which represents a 1.3% increase in nominal terms, but a 10.3% decrease in real terms.

In January-October 2024, the consumer price index increased by 1.7%, with food prices increasing by 0.6%, non-food prices by 1.5%, and paid services by 3.6%.

The average nominal monthly salary for wage workers in January-October 2024 was 993 manat, a 8.0% increase compared to the same period in 2023. The total income of the population amounted to 68.1 billion manat(40.06 billion USD), a 5.8% increase in nominal terms.

According to the Ministry of Finance, the state budget revenues in January-October 2024 amounted to 31.54 billion manat(18.55 billion USD), with expenditures of 28.11 billion manat(16.54 billion USD), resulting in a budget surplus of 3.43 billion manat(2.02 billion USD).

According to the Central Bank, as of October 1, 2024, the total credit portfolio of the country's banks and other credit institutions was 28.4 billion manat, with 23.83 billion manat in long-term loans. Non-performing loans accounted for 1.7% of the total credit portfolio. Deposits in banks amounted to 14.16 billion manat.

In the period from January to October 2024, the exchange rate of the national currency was 1.70 manat to 1 USD, 1.85 manat to 1 EUR, 5.24 manat to 100 Turkish lira, and 1.87 manat to 100 Russian rubles.

As of October 1, 2024, the population reached 10,214,441 people, an increase of 0.3% compared to the previous year.

According to DGK's data as of September 1, 2024, the foreign trade turnover declined due to a decrease in exports. However, nominal imports related to the public sector increased by 63%. DGK's revenues in the current period amounted to 4.38 billion manat, showing a 5.3% increase compared to the same period of the previous year.

In the first nine months of the year, investment in fixed capital amounted to 12.71 billion manat, a 3.9% decrease compared to the previous year. The increase in domestic demand was driven by internal factors, and foreign investments, which had increased rapidly at the beginning of the year, began to decrease towards the end of the year.

Table 1. Macroeconomic indicators of the country's economic and social development in January-October 2024.

Name of indicator	January-October 2024, actual		January-October 2024 compared to January-October 2023, in percent
	manat	US dollar	
Gross Domestic Product, million manats (dollars)	103495,80	60879.88	104,9
including non-oil and gas GDP	68 685,70	40403.35	106,8
GDP per capita manat (dollars)	10 146,50	5968.53	104,4
Industrial output, million manat (dollars)	53 304,30	31335.47	102,2

including non-oil and gas industry	15 346,20	9027.2	108,7
Funds directed to fixed capital, million manat (dollars)	14 391,10	8465.35	95,6
including to the non-oil and gas sector	9 867,90	5804.6	98
from it to non-oil and gas industry	883,8	519.9	119,6
Agricultural output, million manats (dollars)	11 407,10	6710.1	101
including: crop production	5 866,90	3451.12	100,5
Livestock	5 540,20	3258.94	101,5
Information and communication services, million manat (dollars)	2 863,60	1684.47	112,1
Retail trade turnover, million manat (dollars)	48 343,00	28437.1	103,7
Paid services provided to the population, million manat (dollars)	10 192,40	5995.53	108,3
State budget revenues, million manat (million dollars)	31 542,50	18554.41	119,4
State budget expenditures, million manat (million dollars)	28 108,20	16534.24	105,5
State budget surplus, million manat (million dollars)	3 434,30	2020.2	x
Nominal income of the population, million manat (dollars)	68 097,20	40057.2	105,8
Nominal income per capita of the population, manat (dollars)	6 676,10	3927.1	105,3
Deposits of the population in banks, as of October 1, 2024, million manat (million dollars)	14 164,00	8331.7	111,5
Loan investments, as of October 1, 2024, million manats (million dollars)	28 404,60	16708.6	123,4

Cargo transportation in the transport sector, million tons	193,8		104,1
Passenger transportation in the transport sector, million passengers	1 695,00		109,2

Source: Statistical Committee of the Republic of Azerbaijan.

Macroeconomic Projections for 2025

The "State Budget of the Republic of Azerbaijan for 2025" law draft, presented by the President to the Milli Majlis, is currently under discussion in the parliament. According to the draft, the projected revenues for the state budget in 2025 are 38 billion 316 million manats(22.54 billion USD), and the expenditures are 41 billion 367.6 million manats(24.33 billion USD), with the upper limit of the budget deficit projected to be 3 billion 51.6 million manats. The draft also forecasts a GDP growth rate of 3.5%, a growth rate of 4.9% for the non-oil and gas GDP, an average annual inflation rate of 4.6%, a price of 70 USD per barrel for crude oil, an export price of 242 USD per 1,000 cubic meters of natural gas, and an exchange rate of 1 USD for 1.7 manats.

According to the draft, the state budget expenditures for 2025 are projected to be 41 billion 367.6 million manats(24.33 billion USD), which is an increase of 1 billion 625.3 million manats(956.03 million USD), or 4.1%, compared to 2024. In the structure of the budget expenditures, current expenditures will account for 60.1% or 24 billion 845.2 million manats(14.62 billion USD), capital expenditures will make up 34.1% or 14 billion 122.8 million manats(8.3 billion USD), and expenditures related to servicing state debt will constitute 5.8% or 2 billion 399.6 million manats(1.41 billion USD).

For social expenditures in 2025, an increase of 1 billion 370 million manats or 8.8% is planned, bringing the total to 16 billion 909.7 million manats(994.7 million USD) compared to 2024. Of this amount, 4 billion 812 million manats(2.83 billion USD) are planned for social protection and social security expenditures. According to the draft, the state budget revenues for 2025 are projected to be 38 billion 316 million manats, which is an increase of 1 billion 928 million manats(1.13 billion USD) or 5.3% compared to the 2024 forecast. Revenues from the oil and gas sector will account for 49% or 18 billion 773 million manats(11.04 billion USD), while revenues from the non-oil and gas sector will account for 51% or 19 billion 543 million manats(11.5 billion USD). The budget deficit as a percentage of GDP will be 2.4%.

For the consolidated budget of 2025, the total revenues are expected to be 43 billion 910.5 million manats(25.83 billion USD), with expenditures projected at 47 billion 589.4 million manats(27.99 billion

USD), and the deficit of the consolidated budget is forecasted to be 3 billion 678.9 million manats(2.16 billion USD) (Table 2).

Table 2. Indicators on macroeconomic parameters.

	2024	2025
	Expected.	Forecast.
GDP billion manats	124.364	129.1776
Real growth rate compared to the previous year	4.2%	3.5%
GDP annual growth billion manats	1.4	4.8
GDP oil and gas sector billion manats	39.6	37
Real growth rate compared to the previous year	0.3%	0.5%
Oil production million tons	29.2	28.7
Real growth rate compared to the previous year	-3%	-1.7%
Commodity gas production billion m3	37.8	38.4
Real growth rate compared to the previous year	3.8 %	1.6%
GDP non-oil and gas sector billion manats	84.8	92.2
Real growth rate compared to the previous year	6.4%	4.9%
State budget revenues billion manats	36.4	38.3
Transfers from the National Fund to the state budget	12.8	14.5
Tax revenues from the oil and gas sector billion manats	5.0	4.3
State budget expenditures billion manats	39.7	41.4
State debt (external and domestic) billion manats	28.1752	29.75
Public debt to GDP ratio	22.7%	23%
Average annual inflation	2.7%	4.6%
Manat exchange rate AZN/USD	1.7	1.7
Price of 1 barrel of oil in US dollars	80	70
Natural gas in US dollars per thousand cubic meters		242

Research shows that in developed countries, approximately 50% of GDP is redistributed through the budget system. When examining the socio-economic development indicators of the Republic of Azerbaijan, it becomes clear that between 2024 and 2028, around 26-29% of GDP will be formed as state budget revenues, which is influenced by various economic and fiscal factors. Below are several key reasons explaining this relationship: the tax system and rates, the shadow economy, revenues from natural resources, the role of the state in the economy, macroeconomic conditions, and so on. Therefore, the fact that up to 30% of GDP is recorded as budget revenue reflects both the active role of the state in the economy and the characteristics of the tax policy and economic structure.

The role of the budget in the distribution and redistribution of gross domestic product can be seen in the following data (Table 3). The ratio of government spending to GDP is crucial for the country's economic policy. A high ratio may indicate significant state investment in social sectors and infrastructure, which, in

turn, can help improve the living standards of the population. However, excessive expenditures could lead to an increase in state debt and inflation. Therefore, balance in this indicator is essential for sustainable economic development. The main advantage of this indicator is its versatility and the possibility for comparison across different regions. Additionally, it is used for the allocation of resources in areas such as education, healthcare, and social security. Current empirical research reliably shows that having a certain level of government spending (as a share of GDP) contributes to economic growth, but if this level is exceeded, it can have a negative impact on economic development. This threshold can vary significantly between developing and developed countries. General government expenditures constitute 35-40% of GDP, and according to a number of economists (see: Idrisov, Sinelnikov-Murylev, 2013), exceeding these limits under the current institutional conditions will not stimulate economic growth.

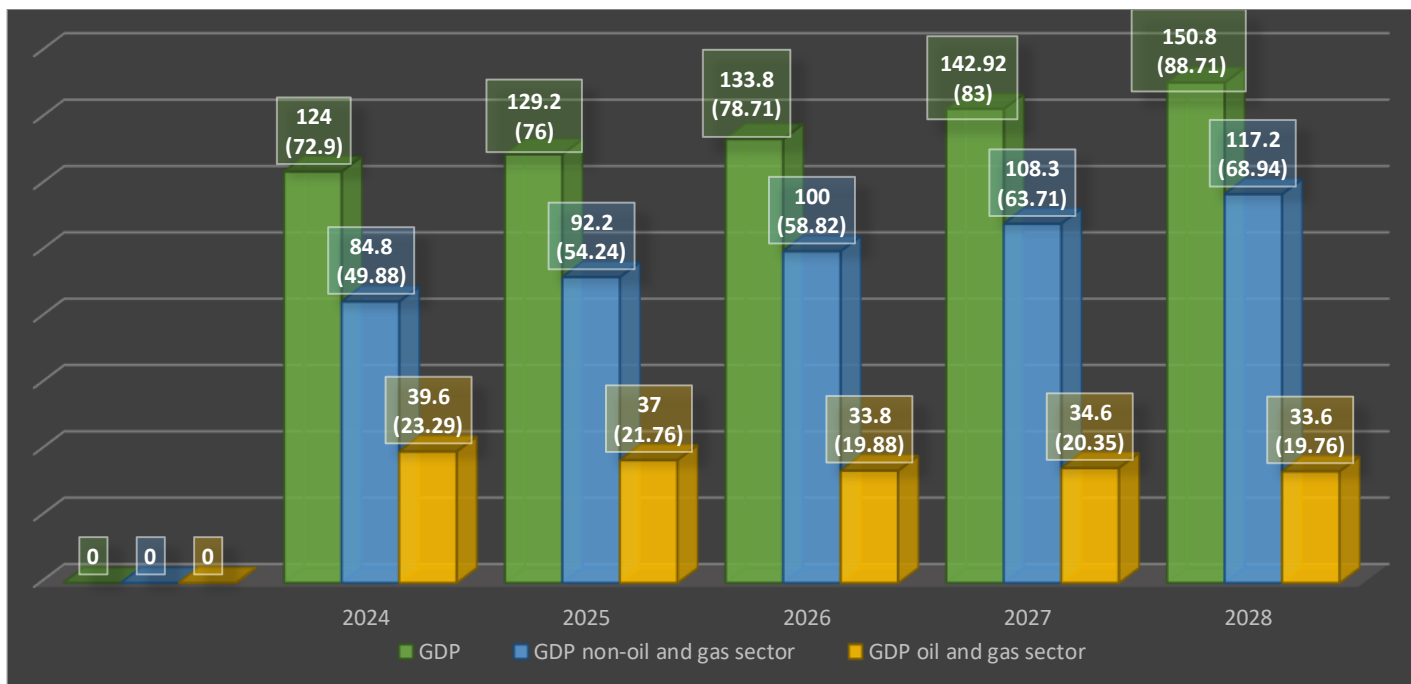
Table 3. Share of state budget revenues and expenditures in GDP.

Years Indicators	2024	2025	2026	2027	2028
GDP billion manats or dollars (billion US dollars)	124.000 (72.9)	129.200 (76)	133.800 (78.71)	142.900 (84)	150.800 (88.71)
State budget revenues million manats or dollars (billion US dollars)	36.388 (21.4)	36.616 (21.54)	38.123 (22.43)	39.152 (23.03)	39.750 (23.38)
in % relative to GDP	29.3	28.3	28.5	27.4	26.4
State budget expenditures in million manats (billion US dollars)	36.458 (21.45)	39.742 (23.38)	39.668 (23.33)	40.797 (24)	42.378 (24.93)
in % relative to GDP	29.4	30.7	29.6	28.5	28.1

According to forecasts, by the end of 2025, the GDP is expected to reach 129.2 billion manat(76.0 billion USD), including the non-oil/gas GDP, which is projected to be 92.2 billion manat(54.24 billion USD). By 2028, the GDP is anticipated to increase to 150.8 billion manat(88.71 billion USD), with the non-oil/gas GDP reaching 117.2 billion manat(68.94 billion USD). Over the medium term, the real annual growth rate of GDP is projected to be 3.35%, while the non-oil/gas GDP is expected to grow at 5.0% annually. In 2024, a 0.3% real growth in the oil and gas sector's GDP is forecasted.

For the following year, compared to the current year, the GDP and non-oil/gas GDP are expected to increase by 4.8 billion manat (3.9%) to reach 124.2 billion manat (76.0 billion USD) and by 7.4 billion manat(4.35 billion USD) (8.7%) to reach 92.2 billion manat(54.24 billion USD), respectively. It is predicted that oil production will decrease by 500,000 tons, while gas production will increase from 37.8 billion m³ to 38.4 billion m³. As a result, the oil and gas sector's GDP will decrease from 39.6 billion manat(23.3 billion USD) to 37 billion manat(21.76 billion USD) in 2024 (Figure 2).

Figure 2. GDP, Non-Oil/Gas GDP, and Oil/Gas Sector GDP in Billion Manat (Billion USD)



Source: Ministry of Economy of the Republic of Azerbaijan.

According to the data presented in next year's "Budget Envelope," the price of oil is assumed to be 70 USD per barrel. However, as oil is a strategic commodity, its price is influenced not only by economic factors but also by political ones. According to the United Nations, the automotive industry accounts for 3% of global GDP and 16% of global greenhouse gas emissions from vehicles. As a result, the traditional automotive market is undergoing significant transformation. Consequently, the production and export of electric vehicles have increased substantially. Due to China's rapid advancement in this field, the global trade and supply system is undergoing significant changes. For example, China's share of vehicle exports has increased from 1% to 20%, while the US share has decreased from 30% to 7%. These shifts in the automotive industry contribute to a reduced demand for oil and oil products. Additionally, the increased production by OPEC member countries impacts oil prices.

At the same time, the growing geopolitical tensions in the Middle East and the Russia-Ukraine conflict also influence oil prices. According to Finance Minister S. Sharifov, "If oil prices decrease, the revenues of the State Tax Service are projected to decrease by 340 million manat. Regarding the State Oil Fund's revenues, the impact is even higher, amounting to 2.1 billion manat." On the other hand, the decline in oil prices, which were in the range of 80-85 USD per barrel at the beginning of the year, was influenced by China's preference for electric vehicles and OPEC's announcements about increasing production. However, even as conflicts in the Middle East have escalated, there have been no significant surges in oil prices. Therefore, it can be argued that, at present, economic factors have a greater impact on oil prices than geopolitical ones. Many influential organizations predict that the price of oil will remain in the range of 70-80 USD per barrel next year (Table 3).

As for natural gas, the average annual export price of 1,000 cubic meters is assumed to be 242 USD for 2025 in the base scenario, and 236 USD for the years 2026-2028.

Table 3. Brent crude oil forecasts, in US dollars

Organizations	2024	2025
IMF	81.3	72.8
WB	84	79
EDB	83	81
US Energy Information Agency	81	78
ECB	83.2	76.1
Goldman Sachs	-	76
Fitch	80	70

According to the data from the IMF, the global government debt is projected to reach 100 trillion USD by 2024, which will account for 93% of global GDP. In many developed countries, government debt is around 100% of GDP (Figure 3).

As of July 1, 2024, the total government debt of the Republic of Azerbaijan (including both external and internal debt) amounts to 25.686 billion manats(15.11 billion USD), or 21.2% of GDP. Compared to the beginning of the year, the total government debt has increased by 1.164 billion manats(680 million USD) (4.3%) in absolute terms, while the share of government debt in GDP has decreased by 0.6 percentage points.

According to next year's budget documents, capital investments are expected to be 14.1228 billion manats(8.31 billion USD), which is 1.253 billion manats(737.06 billion USD) less than this year. This could impact the efficiency of some of these investment expenditures, although it may also lead to growth. According to the 2025 budget, 1.1 billion manats(647.06 million USD) is allocated for state orders for 56 public legal entities, which is 11.2% more than the amount allocated in this year's budget. The allocation of subsidies to state enterprises or public legal entities has several negative aspects, as these off-budget operations are harder to monitor and can remain outside of control.

In the medium term, capital investments in fixed assets are expected to increase at an average annual rate of 3.0%. From 2025 to the end of 2027, an increase is expected in capital investments directed toward the oil and gas sector, as well as in domestic investments.

Of the total government debt, 9.1142 billion manats (5.3613 billion USD), or 35.5%, is external debt, while 16.5719 billion manats(9.75 billion USD) (64.5%) is internal debt. The increase in government debt could lead to a reduction in expenditures for social services, healthcare, education, and other areas. The 2025 budget allocates 2.3996 billion manats(1.41 billion USD) for servicing state debts. The impact of increasing government debt on the economy and management policies can be both positive and negative, depending on the purpose of borrowing. In 2025, debt servicing costs are 2.05 times higher than the expenditures allocated to agriculture (1.1719 billion manats).

These effects can be grouped as follows:

Positive aspects:

- 1) Infrastructure development: Funds directed towards infrastructure development (e.g., roads, bridges, hospitals, and schools) can stimulate economic growth and yield long-term economic benefits.
- 2) Support for economic development: Government debt, especially during a recession, can be used to stimulate the economy, helping to create new jobs and supporting economic activity.
- 3) Resolution of short-term financial problems: Government debt can be used to address urgent financial needs during emergencies.
- 4) Support for social programs: Borrowing to finance social programs, such as education, healthcare, and social security, can improve the well-being of the population and contribute to a more productive society in the future.

Negative aspects:

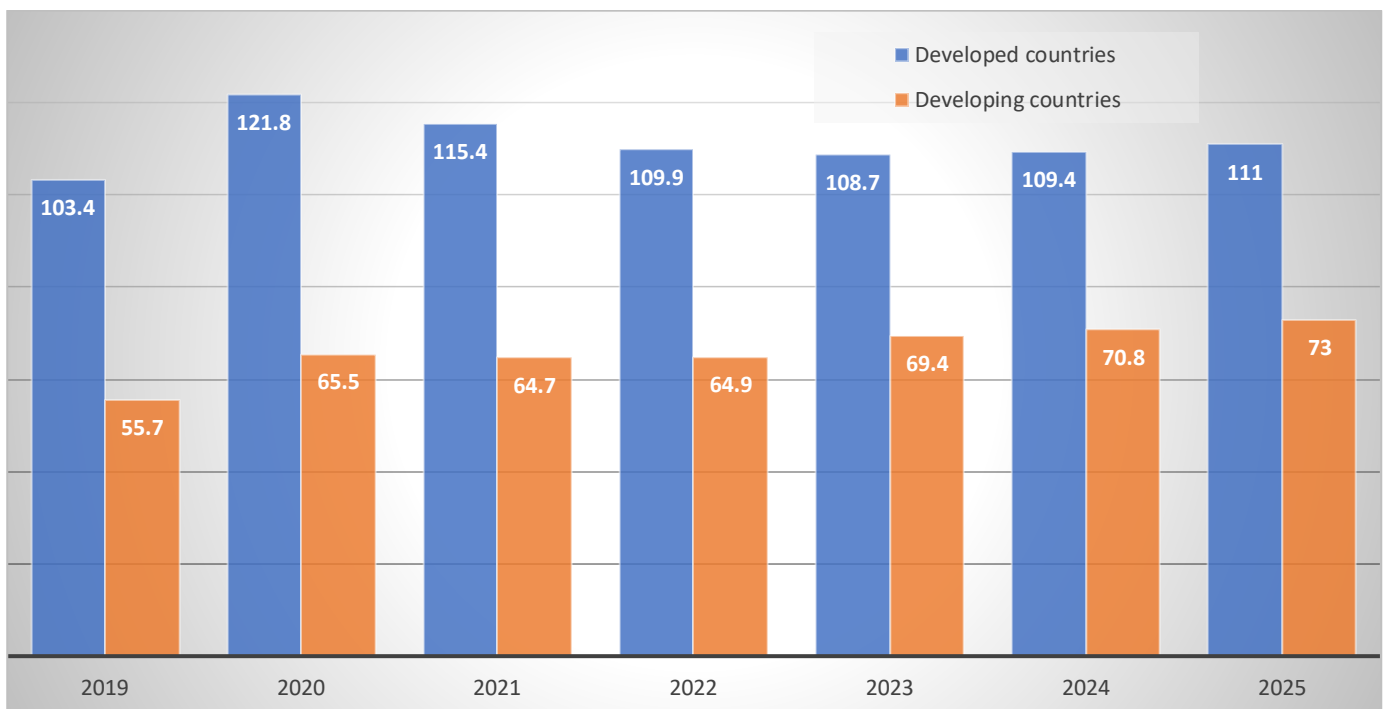
- 1) Burden of interest payments: As government debt increases, the burden of interest payments may become significant, which can lead to reduced resources for other critical areas in the future.
- 2) Inflation risk: High government debt can increase the risk of inflation.
- 3) Foreign dependence: Rising external debt may force the country to align its financial decisions with the interests of foreign creditors, weakening economic independence.

4) Increased budget deficit: A high level of debt can create imbalances in the state budget, and additional taxes may be imposed to service the debt, which could reduce the well-being of citizens.

5) Decreased credibility: If government debt reaches an unsustainable level, investor confidence in the government may decline, which would raise borrowing costs and put the economy in a difficult position.

When properly managed, government debt can be beneficial for economic development and social welfare. However, if the sustainability of debt is not ensured in the long run, it could lead to economic risks and financial problems. Therefore, a targeted and efficient approach should be applied when taking on debt.

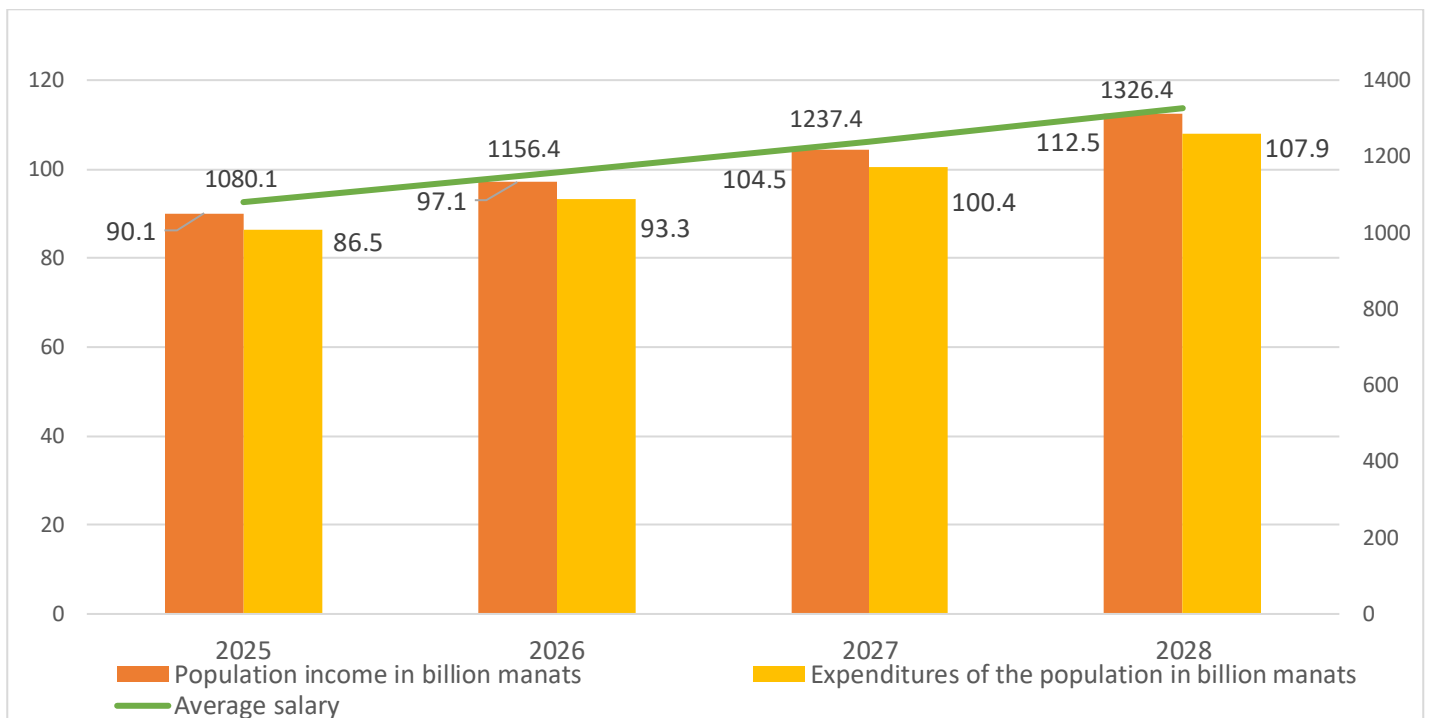
Figure 3. The ratio of government debt to GDP in developed and developing countries , %



The figure is based on IMF data.

According to the macroeconomic forecasts for 2025-2028 presented by the Ministry of Economy, in the medium term, the population's income is expected to increase from 90.1 billion manats(53 billion USD) in the next year to 112.5 billion manats(66.18 billion USD) in 2028, and its expenses are expected to increase from 86.5 billion manats(50.88 billion USD) to 107.9 billion manats(63.47 billion USD). The average wage is expected to reach 1326.4 manats from 1080.1 manats (Figure 4).

Figure 4. Population's income and expenses in billion manats, average wage in manats

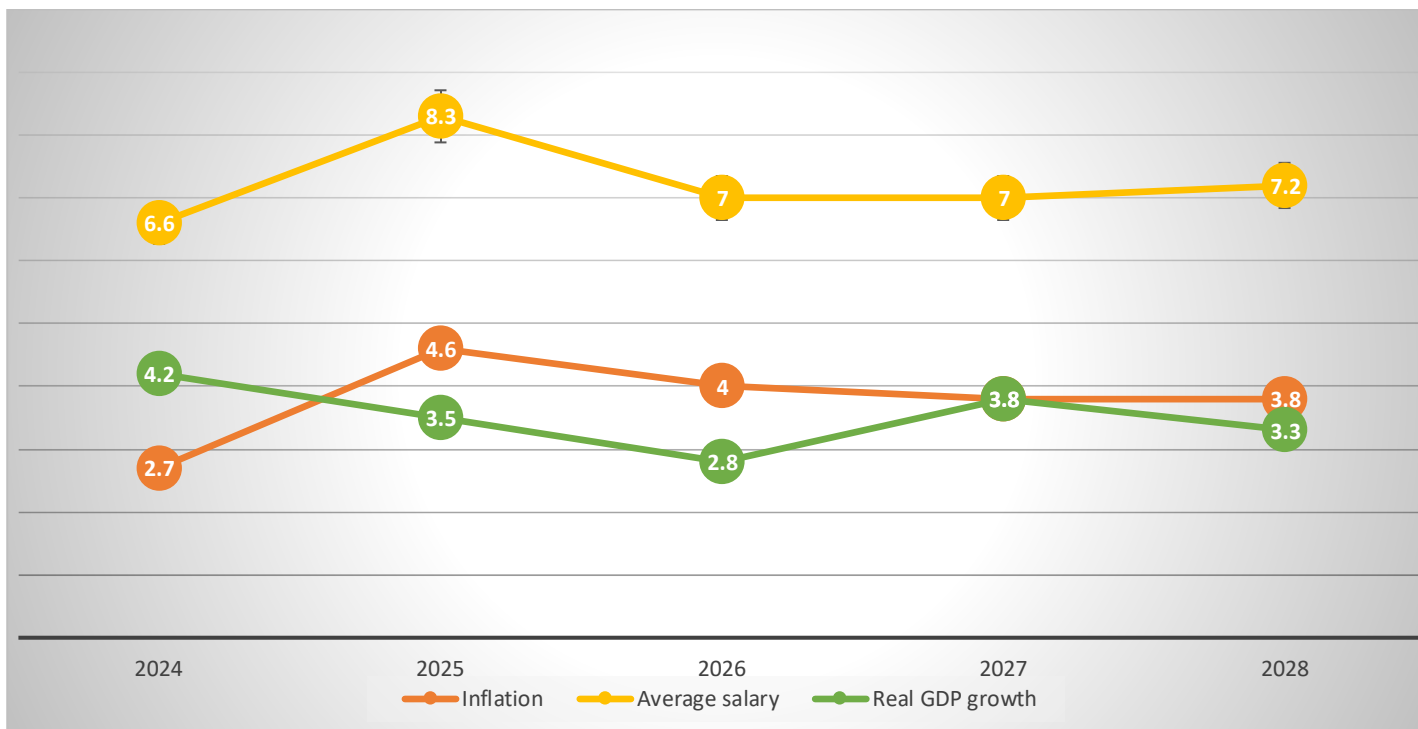


Source: Ministry of Economy of the Republic of Azerbaijan

The State Social Protection Fund's revenues for 2025 are projected to be 7.676 billion manats, which represents an increase of 726 million manats or 10.45% compared to 2024. This growth is primarily driven by compulsory state social insurance contributions and transfers from the state budget. Through the State Tax Service, it is forecasted that in 2025, revenues will account for 42.3% of the state budget's total income, or 15,500.0 million manats. Additionally, in the coming year, 12,781.0 million manats, or 34.9% of the state budget revenues, will come from transfers from the State Oil Fund of the Republic of Azerbaijan, 6,600.0 million manats, or 18.0% will come from the State Customs Committee of the Republic of Azerbaijan, 840.0 million manats, or 2.3% will be from non-budgetary revenues of budgetary organizations, and 895.0 million manats, or 2.4%, will come from other sources.

In 2025, the main priorities in the revenue sector will focus on accelerating the country's economic development, strengthening competitiveness, and making the investment climate more attractive. Measures in this context will include optimizing the tax burden, supporting entrepreneurship, promoting investments in strategic sectors, improving tax and customs administration mechanisms, and increasing the circulation of environmentally friendly vehicles.

Figure 5. Dynamics of GDP Growth, Inflation, and Average Wage, in Percentage



The image was prepared by ISIM based on data from the Ministry of Economy of the Republic of Azerbaijan.

One of the factors affecting the nominal effective exchange rate of the manat is the depreciation of the national currencies of our key trading partners, Turkey and Russia. On the other hand, the high level of imports for many products remains one of the conditions that positively influence inflation in the country. According to the State Statistical Committee, from January to August, the price indices of imported products increased by 17%. As shown in the 2025 budget forecast indicators and Figure 5, the inflation rate is projected to be higher than the economic growth rate. This could be attributed to several factors, including import inflation, monetary policy, the structural nature of economic growth, an increase in budget expenditures, and global economic influences.

Both the state and private sectors have experienced growing domestic demand for imported goods, and in response, the Central Bank of Azerbaijan conducted 70 foreign exchange auctions, selling a total of 5.377 billion USD. The increasing demand for foreign currency has limited savings in the State Oil Fund's transfers. For instance, foreign currency receipts in the state budget, planned for this year, have decreased by 51.6% compared to the same period last year, including profits tax from oil and gas sector contractors (41.4% of the annual amount), while the service of foreign state debt has been fully executed, further increasing the demand for foreign currency.

Table 5. Summary and State Budget Parameters for 2025 and the Next Three Years

Indicators	Implementation 2023	Approved 2024	Forecast			
			2025	2026	2027	2028
Summary budget						

Income	50049,0	43515,0	44371,4	43929,7	45498,7	46815,4
Expenditure	40333,3	45626,8	45867,0	47401,5	48850,3	49922,2
Deficit (surplus)	9715,7	-2111,8	-1495,6	-3471,7	-3351,7	-3106,8
State budget						
Income	35236,4	36388,0	36616,0	38123,3	39151,9	39753,6
Oil and gas revenues, including	18156,4	17769,0	17073,0	16767,0	16555,4	15761,2
Transfers from the SOF to the state budget	11737,6	12781,0	12781,0	12781,0	12611,4	12012,2
Non-oil and gas revenues	17080,0	18619,0	19543,0	21356,3	22596,5	23992,4
Expenditure	36457,9	39742,3	39667,6	40797,0	41791,0	42377,9
Current expenditure	20268,1	23070,9	24957,4	25770,4	26600,3	27561,4
Capital expenditure	15007,3	15375,8	12310,6	12399,5	12261,1	11794,4
Expenditures related to servicing public debt	1182,5	1295,6	2399,6	2627,1	2929,6	3022,1
Deficit (surplus)	-1221,5	-3354,3	-3051,6	-2673,7	-2639,1	-2624,3
Sources of financing the deficit	2062,6	3354,3	3051,6	2673,7	2639,1	2624,3

State Budget Revenues

In 2025, with the average annual export price of crude oil set at 70 USD per barrel, the state budget revenues are projected to be 36 billion 616 million manats(21.54 billion USD), which corresponds to 28.3% of GDP. Of this amount, 46.6%, or 17 billion 73 million manats(10.43 billion USD), will come from the oil and gas sector, and 53.4%, or 19 billion 543 million manats(11.5 billion USD), will be derived from the non-oil/gas sector.

In 2025, revenues from the State Tax Service are expected to account for 42.3% of the state budget revenues, amounting to 15 billion 500 million manats(9.12 billion USD). This represents an increase of 230 million manats, or 1.5%, compared to the revised forecast for the current year, and a decrease of 626.7 million manats, or 3.9%, compared to the 2023 execution figures.

Additionally, next year, the revenues of the state budget will include 12 billion 781 million manats(7.52 billion USD), or 34.9%, from transfers from the State Oil Fund of the Republic of Azerbaijan, 6 billion 600 million manats(3.88 billion USD), or 18.0%, from revenues through the State Customs Committee of Azerbaijan, 840 million manats(494.12 million USD), or 2.3%, from non-tax revenues of budget organizations, and 895 million manats(526.47 million USD), or 2.4%, from other sources.

In 2025, revenues from the oil and gas sector will constitute 74.9% of state budget revenues, or 12 billion 781 million manats(7.52 billion USD), from transfers from the State Oil Fund of Azerbaijan (at the same level as the current year), 22.4% or 3 billion 830 million manats(2.52 billion USD), from tax revenues in the oil sector, and 2.7% or 462 million manats(271.76 million USD), from other oil-related revenues (dividends from SOCAR). In the coming year, revenues from the non-oil/gas sector are projected to be composed of 59.7% from tax revenues, 33.8% from customs revenues, 4.3% from non-budgetary funds from services rendered by budget-financed organizations, and 2.2% from other revenues.

Table 6. 2025 State Budget Tax and Non-Tax Revenue Forecasts (Million Manats)

Bodies providing budget revenues		Forecast
State budget revenues, including		36616,0
Tax revenues, including		19647,0
	State Tax Service under the Ministry of Economy, including	14857,0
	Individual income tax	1989,0
	Profit tax of legal entities	6344,0
	Value added tax	3758,2
	Excises	1655,7
	Property tax of legal entities	392,6
	Land tax of legal entities	46,7
	Mining tax	160,0
	Simplified tax	405,0
	Road tax	105,8
	State Customs Committee, including	4790,0
	Value added tax	4568,0
	Excises	185,0
	Road tax	37,0

Non-tax revenues, including		16969,0
State Tax Service under the Ministry of Economy, including		643,0
	State duty	390,0
	Other revenues	253,0
State Customs Committee, including		1810,0
	Customs duties	1810,0
State Service for Property Issues under the Ministry of Economy		34,0
Incomes from the State Oil Fund		12781,0
Incomes from paid services of budget organizations		840,0
Other		861,0

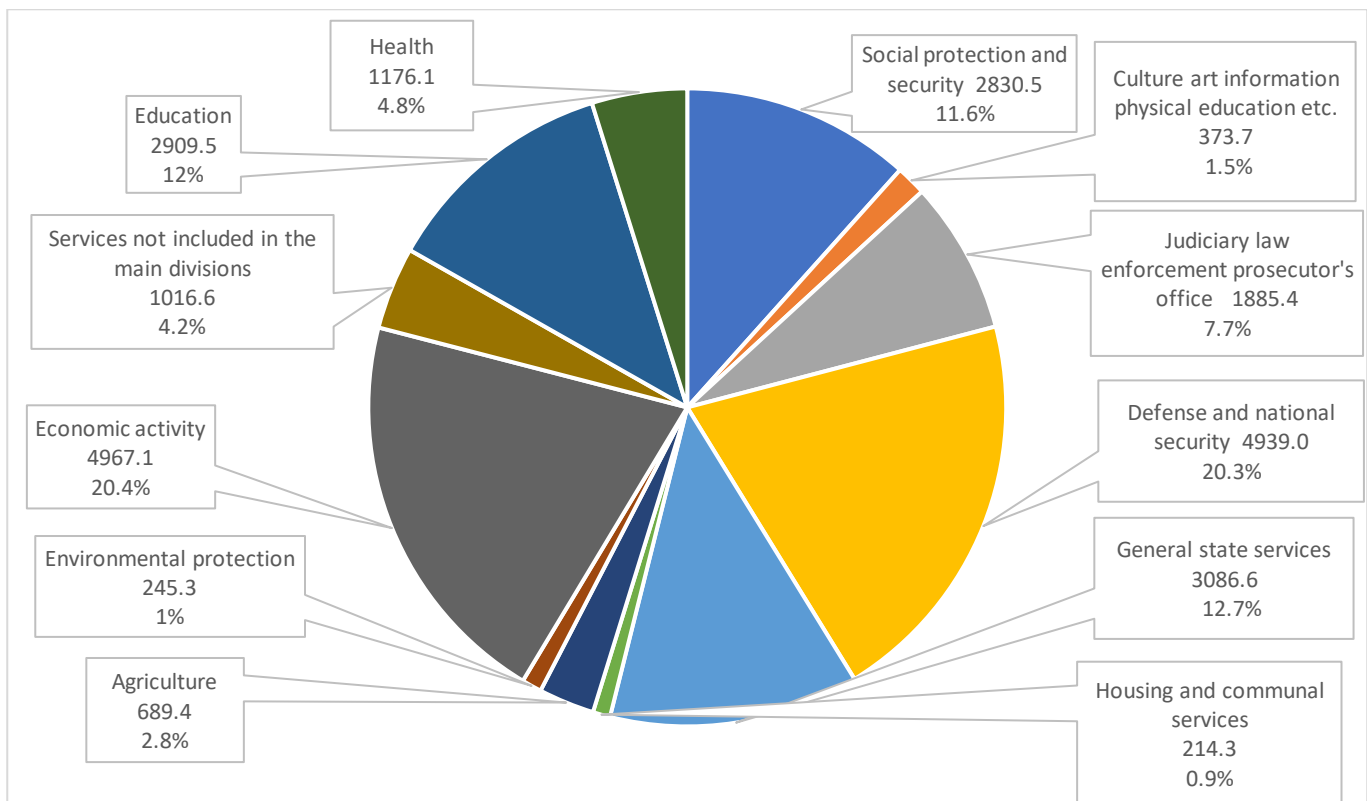
Source: Ministry of Economy of the Republic of Azerbaijan.

Expenditures of State Budget

State budget expenditures are projected to increase for 2025. Compared to the current year's budget, there was an increase in 8 sections and a decrease in 4 sections. The expenditures for defense and national security formed the basis of this increase. The budget expenditures for next year are expected to be 41 billion 367.6 million manats(24.34 billion USD), which is 1 billion 625.3 million manats(956.06 million USD) or 4.1% more than the current year's budget.

According to functional classification, in 2025, 8 billion 455.0 million manats(4.97 billion USD) will be spent on economic activity expenses (specific weight 21.3 percent), 5 billion 241.3 million manats(3.08 billion USD) on general public services expenses (specific weight 13.2 percent), 6 billion 658.3 million manats(3.92 billion USD) on defense and national security expenses (specific weight 16.8 percent), 4 billion 945.8 million manats(2.91 billion USD) on education expenses (specific weight 12.5 percent), 1 billion 997.2 million manats(1.17 billion USD) on healthcare expenses (specific weight 5.0 percent), 4 billion 998.0 million manats(2.94 billion USD) on social protection and social security expenses (specific weight 12.6 percent), 3 billion 207.7 million manats(1.89 billion USD) on judiciary, law enforcement and prosecutor's office expenses (specific weight 8.1 percent), 635.3 million manats(373.71 million USD) on culture, art, information, physical education, youth policy and other similar activity expenses (specific weight 1.6 percent), 1 billion 573.2 million manat(925.41 million USD) (specific weight 4.0 percent) is projected to be spent on services not included in the main sections, 417.7 million manat(245.71 million USD) (specific weight 1.1 percent) on environmental protection expenses, 1 billion 171.9 million manat(689.35 million USD) (specific weight 3.0 percent) on agricultural expenses, and 366.2 million manat (specific weight 0.9 percent) on housing and communal services expenses (Figure 6).

Figure 6. State budget expenditures by functional classification, in million US dollars and shares, in %



Source: Ministry of Economy of the Republic of Azerbaijan.

In addition to the above, the expenditure policy will be implemented based on the following directions:

- Financial coverage of healthcare expenses, including Compulsory Health Insurance;
- Meeting the growing demand for educational expenses, including increasing the number of state-funded higher education recipients, scholarship places, and student loans, and implementing information and communication technologies in educational institutions;
- Ensuring the country's food security, stimulating the agricultural sector, and allocating financial support and subsidies for the development of leading sectors of agriculture;
- Financial coverage of protected expenses, including wages, pensions, other social benefits, and expenses related to servicing the state debt;
- Financial support for other state programs and measures intended to be implemented at the expense of the state budget.

The largest increase in next year's budget is projected for the "Defense and National Security" section, with an increase of 8 billion 396.3 million manat, or 20.3% of the anticipated budget (Table 7). The primary reason for this increase is the rise in expenditures related to specific defense-related projects and activities. Naturally, ensuring security, including funding for "power" components, is crucial for maintaining the state's continuous operation and preserving social-economic stability during internal and external threats. However, a balanced approach is required to determine the necessary level of non-productive expenditures by understanding the "cost" that society must pay for a certain budget structure.

The second-largest increase in expenditures is expected in the "General Public Services" section, with 5 billion 247.3 million manat(3.09 billion USD) forecasted (Table 7), primarily due to the increase in state debt servicing costs. The increase in debt servicing is linked to "Agrarkredit" OJSC's government-backed obligations to the Central Bank, as well as the corresponding bonds and their interest debts, along with the guaranteed state debt for two state-owned enterprises. Additionally, payments related to the government's direct borrowing from international financial and credit organizations also contribute to this increase.

Another section with significant projected growth in expenditures is "Social Protection and Social Security." This section is forecasted to amount to 4 billion 811.8 million manat(2.83 billion USD). In the 2025 budget, an 8% increase in pensions and allowances is planned. Member of Parliament Vugar Bayramov has proposed a differentiated increase in pensions to make these payments more socially inclusive. He suggests that citizens receiving minimum pensions should have their pensions increased by more than 8%, while those with higher pensions should see an increase of less than 8%. The dynamics of the increase in the State Social Protection Fund (SSPF) payments indicate the uncertainty of expenditures in this area. The lack of alignment between insurance principles and the insurance funds negatively impacts the sustainability of these funds.

Table 7. State Budget Expenditures by Functional Classification, in Million Manat

Sections of functional classification	2023	2024	2025
	Implementation.	Expected.	Forecast.
Services not included in the main divisions	2612.0	1733.1	1573,2
Economic activity	9320.3	9835.3	8455
Environmental protection	358.6	371.2	417,7
Agriculture	947.6	1184.6	1171,9
Housing and communal services	332.4	361.6	364,2
Culture, art, information, physical education, youth policy and other similar activities	463.4	567.0	635,3
Social protection and social security	4281.5	4325.6	4998
Health	1722.1	1838.4	1999,4
Education	4124.8	4482.1	4946,1
Judicial power, law enforcement and prosecutor's office	2671.3	3043.5	3207,7
Defense and national security	5854.8	7019.5	8396.3
General state services	3769.0	4494.1	5247.3

Source: Chamber of Accounts of the Republic of Azerbaijan.

The largest decrease in expenditures for the upcoming year is projected for the "Economic Activities" section, with a reduction of 1 billion 458.6 million manat(858.0 million USD) (14.7%) compared to the current year (Table 7). In the next year's budget, this section will still hold the largest share of expenditures,

with 8 billion 444.1 million manat(4.97 billion USD) (20.4%) allocated. The main reasons for this decrease are related to a reduction in expenditures for the reconstruction and rehabilitation of liberated territories (855.8 million manat) and a decrease in state capital investment expenditures (568.6 million manat).

The expenditures for the "Education" section in the upcoming year's state budget are projected to be 4 billion 946.1 million manat(2.91 billion USD), accounting for 12% of the total 2025 budget. According to the submitted budget documents, except for the "Vocational Education" and "Higher Education" subsections, no increase is projected for other subsections.

In the next year, the "Health" section is expected to reach 1 billion 999.4 million manat(1.176 billion USD) (4.8%), an increase of 161 million manat(94.71 million USD) or 9% compared to the current year. The increase in this section is primarily related to the rise in the budget allocation for the Mandatory Health Insurance Fund (9%).

Studies conducted between 1970 and 1990 in 30 developing countries (see: Bose et al., 2007) found that education expenditures had a significant positive impact on economic growth, while the impact of expenditures in other sectors was insignificant. Analyzing data from 118 developing countries between 1971 and 2000, authors (Baldacci et al., 2008) discovered that public expenditure on education had a positive and significant effect on economic growth, with health expenditures contributing to growth in these areas through capital accumulation. Moreover, a reciprocal relationship exists between education and health expenditures: more educated individuals demand higher quality and quantity of health services, while conversely, the growth of the health sector requires higher knowledge and qualifications from medical professionals trained in educational institutions. According to the same study, a 1 percentage point increase in education spending as a share of GDP raises the average annual per capita GDP growth rate by 1.4 percentage points over the next 15 years. Similarly, a 1% increase in health expenditures as a share of GDP leads to a 0.5% annual increase in per capita GDP. The study also highlighted a significant time lag in the positive effects of these expenditures on economic growth: the direct effects of educational expenditures are observed within the first 5 years, but the full effect may take 10-15 years to materialize.

Next year, state capital investment expenditures are projected to reach 2 billion 685.4 million manat, a decrease of 17.5% compared to the current year. In the state budget's capital investment section, infrastructure projects will account for a large portion in terms of amounts, while the share of social-oriented projects (50.3%) will dominate in terms of number.

In the 2025 state budget, the amount allocated for the construction and rehabilitation of the liberated territories is set at 4 billion manat(2.35 billion USD), which is 17.6% or 855.8 million manat(503.41 million USD) less than the current year's allocation. This reduction may lead to an extension of the timeline for the "Great Return" State Program.

The "Environmental Protection" section in the upcoming year's budget is allocated 417.7 million manat(245.71 million USD). Improving environmental quality is one of the most critical global issues today. As many of the problems caused by climate change continue to worsen, the economic losses also grow, leading to an increase in state expenditures. Over the past decade, the global temperature has risen by 1.22

degrees Celsius, resulting in an increase in natural disasters, which in turn creates significant socio-economic challenges for governments. Therefore, states are allocating significant funds to address these problems. In general, the development of a green economy offers not only environmental benefits, such as reducing carbon emissions, improving air and water quality, and preserving biodiversity, but also economic and social advantages. Given Azerbaijan's geographic position, it stands to benefit significantly from the development of a green economy. Integrating green economic policies into Azerbaijan's existing economic strategy could accelerate the country's sustainable economic development.

For the first time, under the 2022-2026 socio-economic development strategy, the government has begun to allocate funds for environmental protection, the agricultural sector, ecological-oriented targeted budget funds, and a "green budget." In 2025, 1.3 billion manat (760 million USD) is allocated for this direction, with 1 billion manat (590 million USD) earmarked for climate change adaptation and mitigation measures, and 300 million manat (176.47 million USD) allocated for environmental protection activities. In the field of ecology, funds for the "Vehicle Utilization Fund" are forecasted to increase to 50 million manat (29.41 million USD) in the upcoming year, which is twice the current year's allocation.

State Budget Deficit

In 2025, the state budget deficit is projected to be 3 billion 51.6 million manat, of which 2 billion 672.3 million manat (1.572 billion USD) (87.6%) is expected to be financed through borrowing, 250.0 million manat (147 million USD) (8.2%) from the balance of the single treasury account, 110.0 million manat (64.71 million USD) (3.6%) from privatization revenues, and 19.3 million manat (0.6%) from the balance of special budgetary funds. According to the provided information, the implementation of 12 prioritized projects (4 of which are ongoing and 8 of which are expected to be signed) in the next year is projected to require 895.9 million manat (527.0 million USD) (29.4% of the budget deficit), which will be financed through foreign loans.

Conclusion and Recommendations

This article describes the dynamic analysis of budget expenditures and ways to manage them. It discusses the functional structure of the state budget, the main functions it performs and their explanation. It also provides information on the directions of budget expenditures in the country for 2025, a dynamic analysis of the current state of expenditures, proper spending of budget expenditures and how to adapt them to the current situation. An analysis of the budget indicators for the next year shows that, as in previous years, the budget's dependence on oil and gas revenues remains high. The same is also evident in transfers from the

State Oil Fund. This gives reason to say that there is a need for the development of other economic sectors and greater diversification of the economy.

Taking into account the realities occurring in the world and in the country, the decline in oil revenues, deepening geopolitical and economic risks in the world, its effects, and based on a serious austerity regime, the following are proposed to ensure the sustainability of Azerbaijan's economic growth in 2025 and subsequent years in order to fulfill the forecasts for the state budget;

- Protection of the short and medium-term budget balance from risks;
- Ensuring long-term fiscal sustainability;
- Creating favorable conditions for economic growth.
- Analysis, assessment of the dynamics of budget expenditures and substantiation of development trends;
- Improving the methods of efficient use of budget expenditures;
- Studying the impact of efficient and correct use of budget expenditures on the country's economy;
- Taking measures to more closely coordinate monetary and fiscal policy in accordance with the new conditions in the country;
- Implementing measures to develop agriculture and industry in the form of interaction in order to increase exports in the non-oil sector through greater diversification of the economy;
- Reviewing the expenditure norms of budget organizations in order to improve the budget process, determining appropriate expenditure norms and standards;
- Using transfers from the National Fund only for strategic purposes (for example, expanding the material base of education and healthcare);
- Developing a green economy.

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