

Fiscal Reforms in Azerbaijan: The Current Process and Evaluation of Its Preliminary Results

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Fueled by oil revenues for a long time, Azerbaijani banks began to recover after the government's restrictive policy in 2015. This is the period when the price of crude oil, the main *contributor* to the Azerbaijani state budget, plunged in world markets, resulting in a sharp deterioration of Azerbaijan's budget revenues. In this situation, the government, unlike in previous years, adopted a *Roadmap* to ensure sustainable economic growth in the non-oil sector. The main approach of this *Roadmap* was to reduce the budget's dependence on transfers from the State Oil Fund (SOFAZ) and to find mechanisms to more effectively leverage expenditures.

According to the *Roadmap*, the budget mechanism shall be viewed as part of the Medium-Term Expenditure Framework (MTEF) and public financial resources shall be allocated as per programs and strategic objectives rather than as separate items. The government expected that the budget office lay the foundation for MTEF by the end of 2019, and that it adjust to performance-based budgeting (PBB) before late 2020.

The fiscal rule was first triggered in June 2018 by *amendments to the Law on the Budget System*. This rule was valid for only one year in 2019, and in 2020 the government decided to suspend the rule until 2022, pointing to the need for increased budgetary spending to address the negative effects of the COVID-19 pandemic. The fiscal rule was reinstated in 2022, but the previous rule applied in 2018 was repealed and a new fiscal rule was identified in accordance with *amendments*

to this Law.

Seven years have passed since the government-initiated reforms of the budget sector. As an expert group at BRI, we have sought to assess this 2016 policy shift by analyzing the budget reforms carried out during the period. We focus primarily on assessing the preliminary results of the budget rule reforms and provide a comparative explanation of the two different fiscal rules that the government has applied over the past 3 years. Next, we analyze the progress of reforms within the budget planning application. Since our analysis reveals a number of shortcomings, we trace the origins of these shortcomings.

Section 2 of this paper is devoted to the assessment of budget transparency and accountability. This is because budget transparency and accountability are an integral part of budget reforms. The key elements here are information transparency, citizen participation in the budget process, and available budget execution reports. In this regard, this section lists major international initiatives on budget transparency and accountability and reviews Azerbaijan's position in these initiatives. In addition, it analyses the current state of Azerbaijan's budget transparency and accountability.

You can read the report [here](#).