

Revised Budget 2023: What has Changed?

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This year, the government of Azerbaijan again resorted to the practice of amending the budget in the middle of the year, which it has been doing for many years. According to the document submitted to parliament, both the revenue and expenditure parts of the budget will increase by an average of 10 percent. But what is the need for budget amendments, especially expenditure increases? Unfortunately, the information can only be obtained from the Accounting Chamber's conclusion on the explanatory note, which is not accessible to the public. It is clear from the document that the justification for the amendment was formulated as [follows](#): "strengthening the defense capability and security of the state, implementing a corresponding state program to rebuild the liberated territories, and applying a new approach to public debt management have necessitated additional expenditure." The additional revenues in both oil and gas and the non-oil/gas sectors create opportunities to meet this demand, and these conditions require revision of the state budget in line with budgetary legislation. Basic information on amendments to the 2023 state budget can be found in the Accounting Chamber's conclusion on this document, and the figures used in the article are all from that document.

Changes in budget revenues

According to the document, state budget revenues recorded an increase of 3 billion AZN (9,8%), compared to 2023 approved budget. Overall, this is an increase to 33,779 billion AZN from 30,774 billion AZN. This increase is mainly due to 3 kinds of additional revenue: 1,061 billion AZN in income tax, 1,110 billion AZN in VAT (including 832 million AZN in import VAT), and 458 million AZN in transfers from the State Oil Fund

of Azerbaijan (SOFAZ). The remaining 370 million AZN in additional revenue come from customs duties (108 million AZN), simplified tax (46 million AZN), payments for export of commodities whose prices are regulated (74 million AZN), and paid budgetary services (74,5 million AZN).

About half of the increase, or 1,443 billion AZN will be generated from oil and the remaining 1,563 billion AZN from non-oil sources. In fact, payments for the export of commodities, whose prices are regulated, are also related to the oil sector as this payment applies to almost all oil and gas products. Given this, more than 50% of the total increase (1,517 billion AZN) will come from the oil and gas sector.

The income from the oil and gas sector was approved at 16,297 billion AZN in the original 2023 budget. In the revised budget, this indicator is 17,740 billion AZN, including the tax liability of the State Oil Company (SOCAR), which increased from 1,650 billion AZN to 2 billion AZN (an increase of 350 million AZN), the liability of foreign oil and gas consortia, which increased from 3,367 billion AZN to 4,002 billion AZN (+ 635 million AZN), and transfers from SOFAZ, which grew from 11,280 billion AZN to 11,38 billion (+ 458 million AZN). According to the draft law, out of the total payments to be made by foreign oil and gas companies, 3,235 billion AZN and 767 AZN will be paid, respectively, under Shah Deniz and Azeri-Chirag-Guneshli Production Sharing Agreements. With the revised budget, the oil and gas sector will account for 52,5% of the 2023 budget, significantly higher than the 49,9% of 2022.

60% (940 million AZN) of the 1,563-billion AZN increase in the non-oil sector come from customs duties. Compared to the original 2023 budget, customs authorities' tax liability increased by about 20% to 5,7 billion AZN. Following this increase, the share of customs duties in total state budget revenue increases from 15,5% to 17%. This means that 1 out of every 6,5 AZN in the budget is secured through the customs

system. Note that such a sharp increase in customs duties and their high share in revenues occurs at a time when the country's consumer market is heavily dependent on imports—total imports, it should be noted, were significantly expanded this year—and there has been a high level of import inflation. Thus, according to the latest foreign [trade statistics](#) published by the State Statistics Committee in April, import prices were 20,5% higher than during the same period last year. If total imports increased by almost 30% during this period, about 21% of this growth was due to higher prices of imported goods and 9% due to a rise in the physical volume of imports.

Customs duties and oil and gas revenues will account for 70% of budget revenues, thanks to rising prices for both imports and oil and gas. Given this, it is obvious that under these conditions Azerbaijan's state budget is expanding at the expense of inflation, rather than at the expense of economic growth. This is risky from the point of view of fiscal sustainability because it encourages the government to remain focused on promoting imports and use its abundant petro revenue rather than promoting growth in the non-oil and gas sector.

Cost increases and reductions

State budget expenditures, compared to the 2023 approved budget, are increased by 3,2 billion AZN (9,6%) to 36,569 billion AZN from 33,353 billion AZN. The expenditure increases are mainly envisaged along the following lines:

- Expenditures to rebuild the liberated territories are up 1,8 billion AZN to 4,8 billion AZN. For reference, it is worth noting that 6,8 billion AZN had been spent in 2021-2022, with the expenditure allocated to reconstruct these areas in 2023 totaling 11,6 billion AZN;
- Defense expenditures are up 724 million AZN to 6,055 billion AZN from 5,331 billion AZN;

- Public administration expenditures are up 316 million to 4,124 billion AZN from 3,808 million AZN. Of these, 16 million AZN will be channeled to the organization of elections, 100 million AZN to foreign aid (possibly Türkiye's regions affected by the earthquake), and 182 million AZN to public debt payments. The originally approved budget envisaged public debt repayment to the extent of 1 billion AZN, and it is projected to stand at 1,182 billion AZN the budget revision;
- Judicial and law enforcement expenses are predicted to [increase](#) by 20 million AZN, while expenditures on "other services related to economic activities" by 733 million AZN. Since there is no detailed budget explanation, it is not possible to say anything about the purpose and destination of these increases.

The new modifications appear to involve reductions in some categories of spending alongside increases. For example, it is envisaged that the President's Reserve Fund will be reduced by 200 million AZN, while spending on transport and communication will decrease by 31,5 million AZN, on social protection by 100 million AZN, on health care by 102,4 million AZN, and on education by 16 million AZN.

The budget rule is not respected

The [article](#) on the new budget rule published by the Baku Research Institute a year and a half ago touched upon risks. Based on previous practice, it was noted that legal requirements allowing the suspension of the budget rule during the fiscal year are too soft, and under these circumstances, the regular suspension of the rule significantly reduces the role and authority of fiscal regulations. But it is clear from the Accounting Chamber's opinion that, unlike the practice in 2020, this time the government is not suspending the rule, but violating it. The opinion states that, the non-oil budget deficit for 2023 is set at 25% according to the current budget rule, but it is clear that this figure reached 25,4% after the

recent budget amendment. We might say that this is not a great deviation, but nevertheless, we can see that the Accounting Chamber has no power to restrain the executive from violations of the rule put in place by the legislature.

Problem of transparency

The problem of transparency observed in a budget modification is not new, and it is a challenge we have continually faced in recent decades. But because the problem continues, we must continue to note it.

First of all, the bills on amendments to the state budget were made publicly available very late—only after parliamentary debate had finished—via the websites of the legislature and the Ministry of Finance. And during parliamentary debates, other important documents—the explanatory note to the draft law, changes made to spending along administrative, economic and functional lines—were unavailable to the public.

The documents submitted to the legislature also seemingly saw no need to explain how much of the 1,8 AZN-billion increase in costs is destined for ongoing projects and how much of it is destined for new reconstruction projects in the liberated territories.