

What Explains the Increase in Non-Oil Revenues of Azerbaijan's State Budget?

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A short while ago, in June, the draft law on the execution of the 2024 state budget of the Republic of Azerbaijan was discussed and adopted in the Milli Majlis. At the beginning of July, it was signed by the president. According to the [Law on the execution of the 2024 state budget](#), state budget revenues in 2024 amounted to 37,1618 billion manats. Compared to [2023](#), revenues in 2024 increased by 1,9254 billion manats, or 5,5 percent. The government's report submitted to parliament on the execution of the 2024 state budget states that this growth in revenues was made possible specifically by inflows from the non-oil and gas sector.[\[1\]](#) Compared to 2023, revenues from the non-oil and gas sector rose by 12,4 percent, while revenues from the oil and gas sector fell by 1,0 percent.

During the [parliamentary discussions](#) of the draft law, the fact that revenues from the non-oil and gas sector increased so significantly in 2024 compared to 2023 was evaluated as a success of the government's economic policy. It was emphasized that this growth resulted from "stimulus measures directed at the development of the non-oil sector, which accelerated economic diversification, improved the investment climate, and supported structural transformation." This article examines to what extent the increase in non-oil and gas revenues of the 2024 state budget compared to 2023 is based on sources that will continue provide benefit to Azerbaijan.

Oil and gas revenues of the 2024 state budget

According to the government's annual report on the execution of the 2024 state budget, oil and gas revenues accounted for 48,35 percent of state budget revenues, while non-oil and gas

revenues accounted for 51,65 percent. Compared to 2023, the share of oil and gas revenues in the budget fell by 3,15 percentage points, while the share of non-oil and gas revenues rose by the same amount.

According to the report, direct oil and gas revenues in the 2024 state budget amounted to 17,9694 billion manats. This is 187,0 million manats, or 1,0 percent, less than in 2023. The decline in oil and gas revenues is explained by the fact that world market prices for crude oil and natural gas were lower than in the previous year.

Of the oil and gas revenues of the 2024 state budget, 3,006 billion manats, or 16,7 percent, came from profit tax payments by contractor companies under production sharing agreements. Of this, 2,341 billion manats came from the Shah Deniz project, and 665,0 million manats from the Azeri-Chirag-Gunashli project. Thanks to the high world market prices for crude oil and natural gas in 2022, these projects generated 5,4 billion manats in profit tax revenues for Azerbaijan's state budget. This led to a reduction in transfers from the State Oil Fund of Azerbaijan (SOFAZ) that year. In the following two years, prices fell somewhat, which resulted in lower profit tax revenues from these projects. Profit tax revenues from the projects amounted to 4,58 billion manats in 2023 and 3,0 billion manats in 2024. This means that revenues from these projects fell by 1,58 billion manats in 2024 compared to 2023. To offset these negative effects, the volume of transfers from SOFAZ to the state budget was increased.

The largest share of oil and gas revenues of the 2024 state budget – 71,1 percent, or 12,781 billion manats – came from SOFAZ transfers. In 2024, SOFAZ transfers accounted for 34,4 percent of total state budget revenues. Transfers from SOFAZ to the state budget in 2024 were 1,0434 billion manats higher than in 2023 and 4,858 billion manats higher than in 2022.

The remaining 2,1824 billion manats (12,14 percent) of oil and

gas revenues came from payments by the State Oil Company of the Republic of Azerbaijan (SOCAR). According to the government's report, 1,7745 billion manats of this amount came from SOCAR's tax payments of all kinds, including 317,0 million manats in profit tax. Compared to 2022, the decline in world market prices for crude oil and natural gas in 2024 also reduced the amount of profit tax paid by SOCAR to the state budget. The company paid 516,0 million manats in profit tax in 2022 and 370,0 million manats in 2023. In total, SOCAR's tax payments to the state budget in 2024 were 63,3 million manats less than in 2023.

The rest of the revenues from SOCAR were dividends. In 2024, the company paid the state dividends of 407,9 million manats for the first time. As a result, total revenues from SOCAR to the state budget were 344,6 million manats higher than in 2023.

Non-oil and gas revenues of the 2024 state budget

According to the government's annual report on the execution of the 2024 state budget, 51,6 percent of total budget revenues, or 19,1924 billion manats, came from the non-oil and gas sector. The government reports that non-oil and gas revenues increased by 2,1124 billion manats, or 12,4 percent, compared to 2023.

Of total non-oil and gas revenues in 2024, 11,275 billion manats (57,5 percent) were collected by tax authorities, 6,6487 billion manats (34,6 percent) by customs authorities, and the remaining 1,5163 billion manats (7,9 percent) came from other sources.

According to the report, of the 2,1124 billion manat increase in non-oil and gas revenues compared to 2023, 1,3194 billion manats (62,5 percent) came from tax authorities, 310,9 million manats (14,7 percent) from customs authorities, and 482,0 million manats (22,8 percent) from other sources.

The government's report notes that non-oil and gas revenues collected by tax authorities increased by 1,3196 billion manats, or 13,6 percent, compared to 2023. The main contributors to this increase were the following taxes:

- 592,7 million manats came from value added tax (VAT) on domestic operations in the non-oil sector. The government explains this increase by pointing to the growth in taxable turnover in 2024 compared to 2023. Retail trade turnover grew by 1,2236 billion manats (5,9 percent). Transport sector turnover grew by 1,108 billion manats (13,7 percent). Banking and insurance turnover grew by 1,0626 million manats (15,6 percent). Wholesale trade turnover grew by 858,8 million manats (4,0 percent). Construction sector turnover grew by 836,5 million manats (4,4 percent).
- 390,5 million manats came from profit tax revenues from the non-oil sector. The government notes that profit tax revenues in 2024 compared to 2023 rose in construction by 187,8 million manats (1,8 times), in retail trade by 27,6 million manats (1,5 times), in the information and communications sector by 14,0 million manats (16,3 percent), and in industry by 11,1 million manats (7,5 percent).
- 179,6 million manats came from income tax revenues from individuals. In general, income tax revenues from individuals in 2024 increased by 10,8 percent compared to 2023. The government explains this growth by noting that the average monthly nominal wage in the country rose by 8,1 percent and the total wage fund increased by 10,8 percent compared to the previous year.
- 118,8 million manats came from excise taxes on domestic operations in the non-oil and gas sector. Compared to 2023, these revenues were 21,3 percent higher. The increase is mainly linked to growth in revenues from tobacco products. Production of tobacco products increased by 4,1 percent compared to 2023.

- 25,9 million manats came from simplified tax revenues. The government explains this increase as the result of “growth in turnover by sectors of the economy under simplified taxation compared to 2023.”

According to government data, non-oil and gas revenues collected by customs authorities increased by 310,9 million manats, or 4,9 percent, compared to 2023. This growth is explained by the fact that imports (excluding gold imports) in 2024 were 463,2 million US dollars, or 2,7 percent, higher than in 2023. Of the total increase, 165,5 million manats came from VAT on imports, 163,6 million manats from customs duties, and 1,6 million manats from road tax on imported fuel and on vehicles registered abroad entering the country. Excise tax revenues collected by customs authorities on imported goods fell by 19,9 million manats compared to 2023.

Compared to 2023, 482,0 million manats of the increase in non-oil and gas revenues in 2024 came from other sources. Of this, 250,0 million manats were transferred to the state budget as the realized profit balance of the Central Bank of the Republic of Azerbaijan. In addition, in 2024 the state budget received an additional 67,1 million manats from paid services of budget organizations, 24,0 million manats from state duties, 3,9 million manats from leasing state-owned land, and 6,3 million manats from leasing state property and land under privatized state enterprises and facilities compared to 2023.

Conclusion

The analysis above shows clearly that the 12,4 percent increase in non-oil and gas revenues of the state budget in 2024 compared to 2023 was based mainly on the country's traditional economic resources

- On the one hand, this growth was driven above all by sectors such as construction and transportation, the

turnover of which increased thanks to investments financed from the state budget. In this regard, the role of reconstruction and rehabilitation work in the territories liberated from occupation in recent years should be emphasized. Capital investments financed from the state budget are realized mainly through revenues from the oil and gas sector. Non-oil and gas revenues are not sufficient to fully cover current expenditures of the state budget. For comparison, in 2024 non-oil revenues were 19,2 billion manats, while current budget expenditures amounted to 21,3 billion manats.

- On the other hand, high inflation in recent years played a major role in the growth of turnover in sectors such as wholesale and retail trade, public catering, social and other services, banking and insurance, and construction, as well as in the increase of wage levels. Average annual inflation in Azerbaijan was 6,7 percent in 2021, 13,9 percent in 2022, and 8,8 percent in 2023.
- Another factor that continues to play a significant role in the growth of non-oil revenues is the expansion of imports.
- Finally, the effects of measures taken to strengthen tax administration and tax discipline can be seen in this growth.

Thus, the dependence of the state budget on oil and gas revenues, both directly and indirectly, remains high. Despite the significant growth of budget revenues in recent years, qualitative changes in the structure of revenues remain far from desired levels.

Notes

[\[1\]](#) Note that the government's annual report on the execution of the 2024 state budget has not yet been published on the Ministry of Finance website.