

# What is a Social Budget?

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Parliament has wrapped up a debate over the 2025 state budget, which will go into effect within the coming days after receiving approval from the president. This year, as in previous years, official propaganda vastly overstated the social spending portion of the budget. During the discussion of the budget at parliamentary committee sessions, the Minister of Labor and Social Protection of the Population Sahil Babayev [stated](#) that 41% (AZN 16,7 billion) of the 2025 state budget will be directed toward socially oriented expenditures. According to the minister, social budget expenditures also include funds allocated from the state budget to pay labor remuneration of employees of budget-financed institutions. And that's where the main problem begins: If we look at the approach of influential international organizations, it becomes clear that Azerbaijani officials have a difficult time understanding *social expenditure* or the concept of a *socially oriented budget*. Unlike Azerbaijan, budgeted wage expenditures are not categorized as "social" by EU or OECD (Organization for Economic Cooperation and Development) member countries.

According to OECD [definition](#), to be considered "social", social expenditures have to: (i) comprise cash benefits and direct in-kind provision of goods and services to be targeted at different population groups; and (ii) involve redistribution of resources across households.

Benefits may be targeted at low-income households, the elderly, disabled, sick, or unemployed. Benefits in kind as cash equivalent may vary from country to country. For example, children from poor families in a country may receive free milk, or access to essential medicines or fuel. Social benefits in cash recognize the possibility of households to freely use cash like income they receive from other sources.

But households entitled to social benefits in kind have no freedom to choose how to use them.

In addition to benefits in kind as cash equivalent, social transfers in kind also fall under social budget spending according to the national accounts' methodology. According to [The System of National Accounts 2008 \(2008 SNA\)](#), produced and released under the auspices of the United Nations, the European Commission, the Organisation for Economic Co-operation and Development, the International Monetary Fund and the World Bank Group, the whole of individual consumption expenditure of households is treated as social transfers in kind. This includes expenditures on four classes: education, health, social protection and culture. According to the above-mentioned international methodology, free services related to education, health and culture provided by the government to the population are treated as social transfers in kind.

Given that all benefits in cash and in kind are paid through the functional division of the social protection budget, and social transfers in kind are provided within the sections of education, health and culture, the *socially oriented* budget should be calculated on the basis of these 4 expenditure items.

The 2nd criterion mentioned above is also important. Expenditure arises as a result of the process of redistribution of national income considered *social*. According to the methodology of national accounts, labor costs are not formed in the process of distribution or redistribution of income, but at the stage of formation of national income.

Thus, if we proceed from the international methodology of national accounts, the social orientation of the budget cannot be calculated by adding wage costs paid to officials, police, military, and agricultural workers from the budget.

According to the Ministry of Finance's budget execution [report](#), budget figures for the social expenditure directions

of the 2023 consolidated budget were as follows:

- State budget expenditure on education – 4,2 billion AZN;
- State budget expenditure on health – 1,7 billion AZN;
- State budget expenditure on social protection – 4,3 billion AZN;
- State budget expenditure on culture and art – 463 million AZN;
- Expenditures of extra budgetary funds on social protection excluding inter-budgetary transfers – 5,3 billion AZN.

If we proceed from the OECD standard, in Azerbaijan, the total amount of social expenses from the 2023 consolidated government budget amounted to 15,9 billion AZN, which is 12,9% of the GDP of that year (123,1 billion AZN). But if the standard of the Azerbaijani government was taken as a basis, the share of social spending in the consolidated budget would come in at more than 51%, and its share in GDP would exceed 16,5%.

According to data published in the 2025 budget envelope submitted to parliament, social expenditures from the consolidated budget (excluding expenditure on salaries in social spheres) are forecast to be about 19,5 billion AZN, that is, 15% of the projected GDP for 2025 (129 billion AZN).

By comparison, it is useful to note that [data](#) from Eurostat show that the share of social spending in EU budget was 33% in 2022, 2,2 times greater than Azerbaijan's figures. But it is also necessary to take into account that local budgets have great potential in EU countries and alongside the central budget, local governments make social expenditures. Because of that, there can be no doubt that EU countries allocate many more budget expenditures to social spending than does Azerbaijan.