



Baku Research Institute

**2023 STATE BUDGET AND NON-BUDGETARY
STATE FUNDS**

ECONOMIC BULLETIN

BAKU – 2022

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Introduction

The laws on the 2023 state budget and extra-budgetary funds were endorsed by Azerbaijan's president on the last working day of last year (December 30). The hike in energy prices amid the Russia-Ukraine war, which caused inflationary expectations, forces governments to pursue a tight monetary policy. The Azerbaijani government also should review its monetary and fiscal policy as a result. On the one hand, rising energy prices significantly increase Azerbaijan's oil and gas revenues, which boost the revenue capacity of the budget, but, on the other hand, the government's efforts towards increasing social spending to mitigate the social impact of growth become an additional burden on the budget. Not coincidentally, the share of socially oriented expenditures in the 2023 state budget has grown 45.7%. In addition, the implementation of construction works to rebuild the liberated territories has created an additional concern for budget expenditures for the last 3 years.

According to the [amendments](#) to the Law on the Budgetary System, dated December 9, 2022, revenues and expenditures of the Compulsory Health Insurance Fund are also included in the consolidated budget, and, unlike in previous periods, the Fund's revenues and expenditures are approved separately by the president, like other extra-budgetary funds.

In this regard, this Bulletin analyzes and compares revenues and expenditures of the 2023 state budget and extra-budgetary funds with those of the previous year.

It consists of 3 main sections.

The first section highlights the structure and main trends of 2023 state budget revenues and reveals the structure of state budget revenues by sources, sectors and organizations, and conducts a comparison of those sources with 2022. The section also contains information on the structure of state budget revenues by taxes and non-tax revenues, and the composition and structure of taxes on goods and services.

The second section provides readers with an analysis of the 2023 state budget expenditure structure. It focuses on expenditures related to governance, public safety and security, social spending, and spending related to sustaining the economy, as well as a brief overview of expenditures. The section also examines the economic structure of the 2023 state budget expenditures, in addition to its functional distribution.

The third section analyzes revenues and expenditures of the extra-budgetary state funds. Revenues and expenditures of the extra-budgetary state funds are also taken into account in compiling revenues and expenditures of the consolidated budget. In this context, the 2023 budget revenues and expenditures of the four currently operating extra-budgetary state funds - the State Oil Fund of the Republic of Azerbaijan, the State Social Protection Fund, the Unemployment Insurance Fund and Compulsory Health Insurance Fund - are compared with the previous year, with all changes noted.

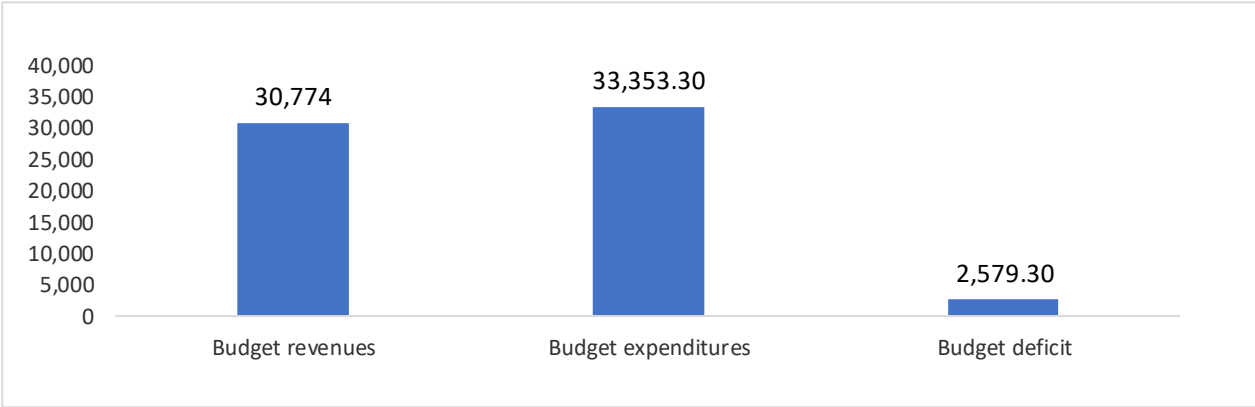


2023 State Budget Revenues and Expenditures

According to the Law on the 2023 State Budget of the Republic of Azerbaijan (dated December 9, 2022), budget revenues are projected at 30 774.0 million AZN, expenditures at 33 353.3 million AZN, and the upper limit of the budget deficit at 2 579.3 million AZN.

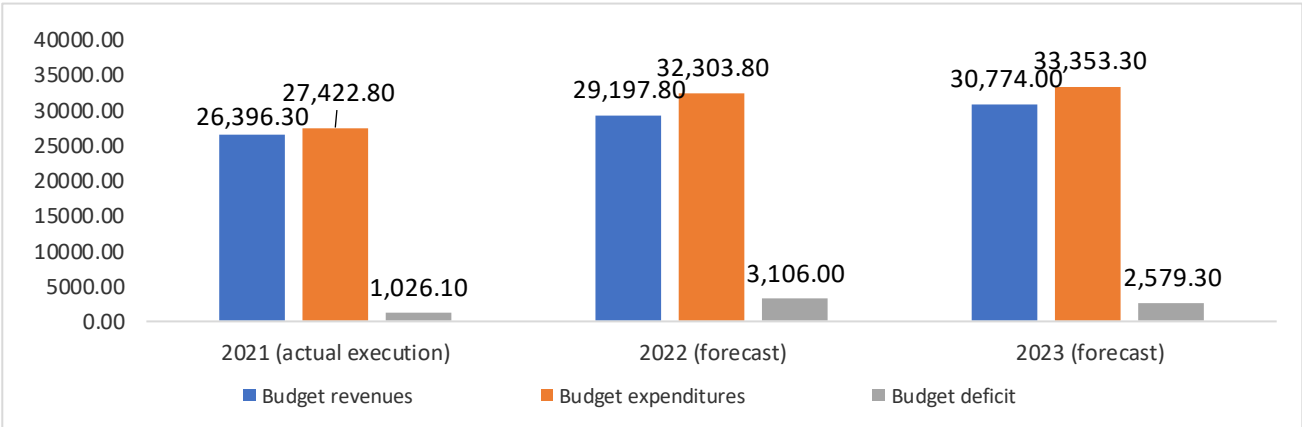
The 2023 state budget revenues and expenditures are expected to be equal to 26.2% and 28.4%, respectively, of the projected annual gross domestic product (GDP), with the budget deficit ceiling accounting for 2.2% of GDP.

Figure 1. 2023 Budget Revenue and Expenditure Forecasts, Million AZN



2023 state budget revenues exceed the revised forecast of 2022 by 1 576.2 million AZN or 5.4% and they exceed the actual level of 2021 state budget revenues by 4 377.7 million AZN or 16.6%. 2023 state budget expenditures exceed the revised forecast of 2022 by 1 049.5 million AZN or 3.2%, and they exceed the actual level of 2021 state budget expenditures by 5 930.9 million AZN or 21.6% (see Figure 2).

Figure 2. Comparison of the Main Indicators of the 2023 State Budget with the Actual Figures for 2021 and Forecast for 2022, Million AZN



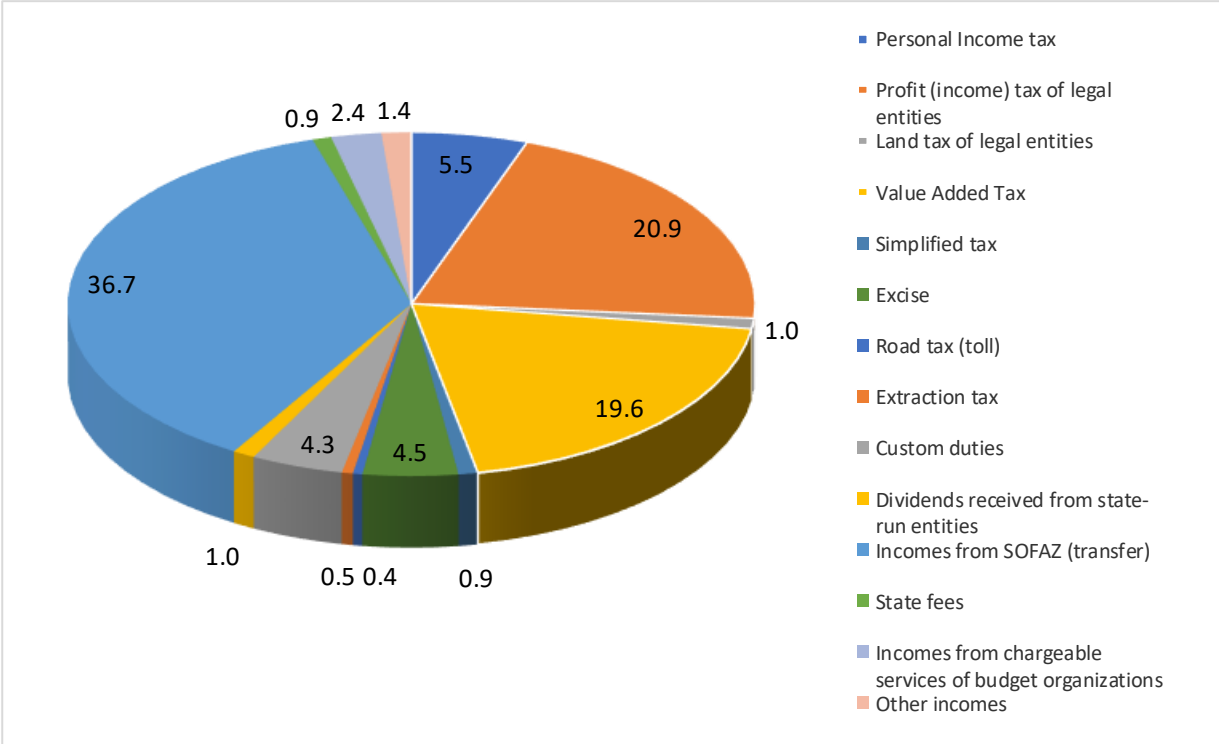
The upper ceiling of the 2023 state budget deficit is expected to be greater than the actual deficit recorded in the 2021 state budget by 1553.2 million AZN (51.4%), and 526.7 million AZN (17.0%) less than the projected deficit for 2022.

The Structure and Main Trends of 2023 State Budget Revenues

The structure of budget revenues by sources. Below are the three sources with the largest share in the 2023 state budget revenues:

- 1) Transfer from the State Oil Fund of the Republic of Azerbaijan (SOFAZ) - \$11 280.0 million AZN (36.7%);
- 2) Profit (income) tax of legal entities – 6 417.0 million AZN (20.9%);
- 3) Value Added Tax – 6 042.4 million AZN (19.6%).

Figure 3. Structure of the 2023 State Budget by Income Sources, as Percent to Total (%)



Incomes from these three sources account for roughly 77.2% of total 2023 budget revenues. This reflects a very high degree of concentration of the budget revenues.

The next three places in terms of share of budget revenues belong to the following income sources:

- (4) Personal income tax—1680.0 million AZN (5.5%);
- (5) Excise—1377.8 million AZN (4.5%);
- (6) Custom duties—1348.4 million AZN (4.3%).

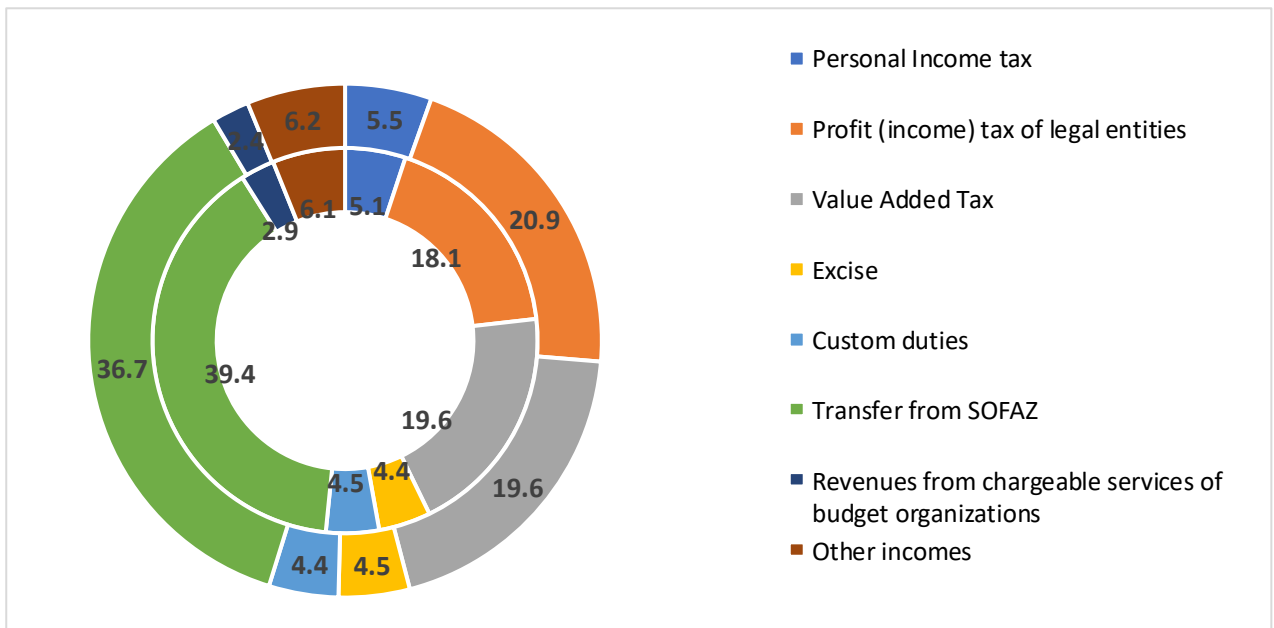


Incomes from these six sources account for 91.5% of the 2023 state budget revenues.

Besides these sources, revenues from chargeable services of budget organizations will comprise 2.4% of the 2023 state budget revenues (726.5 million AZN), while dividends received from the entities with state shares of their stock will account for 1.0% (321.2 million AZN), property tax of legal entities 1.0%, simplified tax 0.9 % (278.6 million AZN) and state fees 272.0 million AZN), extraction tax 0.5% (160.4 million AZN) (see Figure 3).

Comparison of the structure of budget revenues with the 2022 forecast. When comparing the composition and structure of 2023 state budget revenues with the adjusted forecast of 2022 budget revenues, there are no significant changes in the structure of revenues: the structure of revenues by source is almost identical (see Figure 4).

Figure 4. Share of Revenue Sources in State Budget Revenues for 2023 (Outer Circle) and for 2022 (Inner Circle), as Percent to Total (%)



Among the changes that have occurred are a decrease in the SOFAZ transfer share in budget revenues from 39.4% in 2022 to 36.7% in 2023 (-2.7%) and an increase in the share of corporate income tax revenues in budget revenues from 18.1% to 20.9% (+2.8%). Another noteworthy point is the threefold increase in the amount of dividends received from the entities with state shares on their stock, and an increase of the share of revenues from this source in budget revenues from 0.4% to 1.0% (+0.6%).

Compared to the adjusted 2022 state budget revenue forecast, 2023 budget revenues are expected to increase by 1 576.2 million AZN (or 5.4%). According to calculations, in comparison with the previous year, the 2023 budget revenues from 15 sources will increase by 2 187.1 million AZN, and



from 4 sources will decrease by 610.8 million AZN. The biggest absolute growth is expected on the profit tax of legal entities: the revenues from this source are projected at 1 127.0 million AZN (21.3%) due to the growth of natural gas prices in the world market and the increase of profit tax to be paid by BP's partners in the Shah Deniz Production Sharing Agreement (PSA). Beyond that, revenues to be generated from the following items are also poised for growth, compared to the previous year: VAT – 323.7 million AZN (5.7%), dividends received from entities with state shares in their stock 214.7 million AZN (threefold), personal income tax 195.0 million AZN (13.1%), property tax of legal entities 66.8 million AZN (28.3%), custom duties 48.4 million AZN (3.7%), simplified tax 43.6 million AZN (18.6%), and extraction tax 18.4 million AZN (13.0%) (see Table 1).

Table 1. Comparison of 2023 State Budget Expenditures Forecast with 2022 State Budget Expenditures Forecast

	2023 forecast, Million AZN	2022 forecast, Million AZN	Deviation in comparison with 2022 (+increase; - decrease)	
			Million AZN	%
Budget revenues, total	30,774.0	29,197.8	1,576.2	5.4
Personal income tax	1,680.0	1,485.0	195.0	13.1
Profit (income) tax of legal entities	6,417.0	5,290.0	1,127.0	21.3
Land tax of legal entities	46.0	46.0	0.0	0.0
Property tax of legal entities	302.8	236.0	66.8	28.3
Value Added Tax	6,042.4	5,718.7	323.7	5.7
<i>Value Added Tax for import of goods into the Republic of Azerbaijan</i>	<i>3,228.1</i>	<i>3,085.0</i>	<i>143.1</i>	<i>4.6</i>
Simplified tax	278.6	235.0	43.6	18.6
Excise	1,377.8	1,276.8	101.0	7.9
<i>Excise for import of goods into the Republic of Azerbaijan</i>	<i>176.8</i>	<i>170.0</i>	<i>6.8</i>	<i>4.0</i>
Road tax (toll)	135.9	126.5	9.4	7.4
Extraction tax	160.4	142.0	18.4	13.0
Custom duties	1,348.4	1,300.0	48.4	3.7
Incomes received from variations between the in-country wholesale prices and contract (procurement) prices of goods produced in the Republic of	112.0	95.4	16.6	17.4

Azerbaijan with regulated prices				
Incomes received from the credits provided to foreign countries from the Budget	1.9	1.8	0.1	5.6
Dividends received from the entities with state shares on their stock	321.2	106.5	214.7	201.6
Incomes from the State Oil Fund (transfer)	11,280.0	11,517.5	-237.5	-2.1
Incomes from state property rent	20.0	16.0	4.0	25.0
Incomes from the rent of state property lands	10.0	9.0	1.0	11.1
Other incomes collected through tax bodies	22.0	21.0	1.0	4.8
State fees	272.0	363.5	-91.5	-25.2
Incomes from chargeable services of budget organizations	726.5	834.0	-107.5	-12.9
Surplus of the targeted budgetary fund established by the relevant executive authority as of January 1, 2023	9,0	183,3	-174,3	4,9
Other incomes	210,1	193,7	16,4	108,5

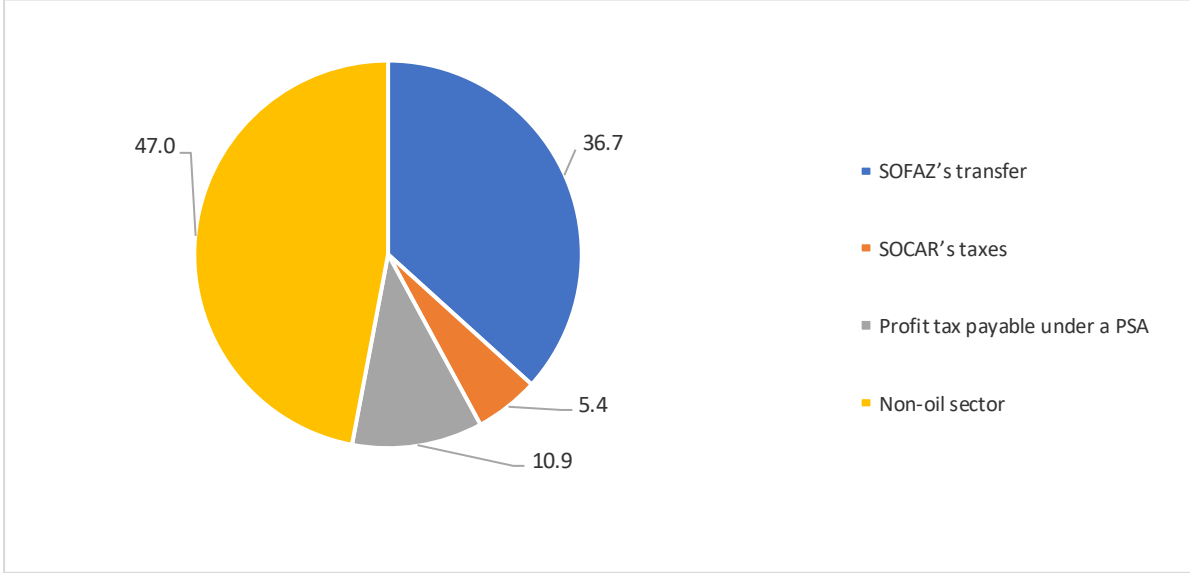
Compared to 2022 budget revenues, the 2023 budget revenues are expected to see decreases from 4 sources. The largest absolute decline is foreseen in SOFAZ's transfer – 237.5 million AZN (2.1%). The biggest relative decline will be in the surplus of the targeted budgetary fund, which is expected to fall by 95.1%: at the beginning of the year. The surplus of funds from this source decreased by 174.3 million AZN to 9.0 million AZN. In addition, incomes from chargeable services of budget organizations will decrease by 107.5 million AZN (12.9%), and from state fees by 91.5 million AZN (25.2%), compared to the previous year.

Structure of 2023 state budget revenues by sectors. It is forecasted that 53.0% (16 297.0 million AZN) of 2023 state budget revenues will be generated from the oil and gas sector, while 47.0% (14 477.0 million AZN) from the non-oil and gas sector. Of the total incomes from the oil and gas sector, 11 280.0 million AZN (36.7% of total budget revenues) will comprise SOFAZ's transfer, 2 875.0 million AZN (10.9%) income from the foreign contractors' profit tax under PSA, 1 650.0 million



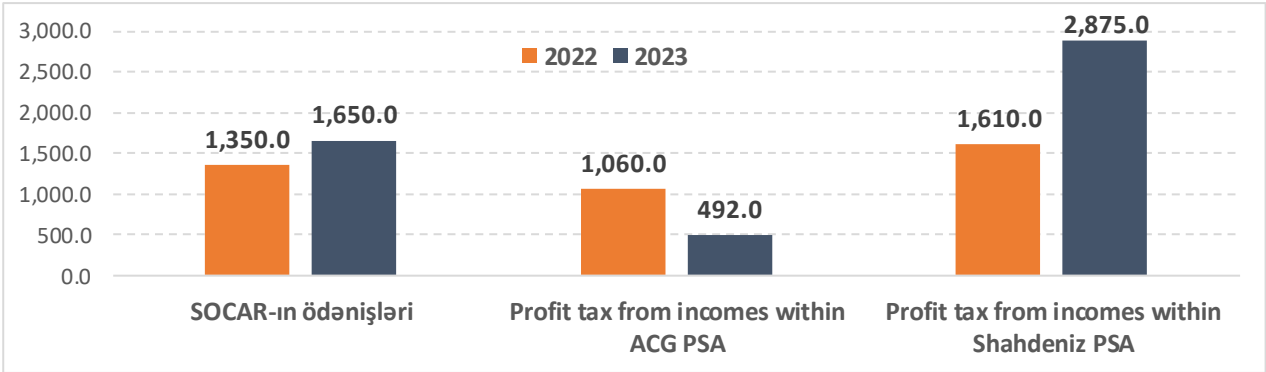
AZN (5.4%) from the payments of the State Oil Company of the Republic of Azerbaijan (SOCAR) to the budget (see Figure 5).

Figure 5. Structure of 2023 State Budget Revenues by Oil&Gas and Non-Oil&Gas Sectors, as Percent to Total (%)



Compared to the revised 2022 budget revenue forecast, the total amount of 2023 budget revenues from the oil and gas sector will increase by 4.9% (759.5 million AZN). However, revenues from two sources are expected to decrease, and revenues from two sources to increase. The profit tax payments by foreign contractors - BP's partners in the Shah Deniz PSA—will increase by 78.6% (1265.0 million AZN) and SOCAR's payments by 22.2% (300,0 million AZN) (see Figure 6), while profit tax payments of foreign contractors - BP's partners in the Azeri-Chirag-Guneshli PSA - will decrease by 53.6% (568.0 million AZN) and SOFAZ's transfer by 2.1% (237.5 million AZN).

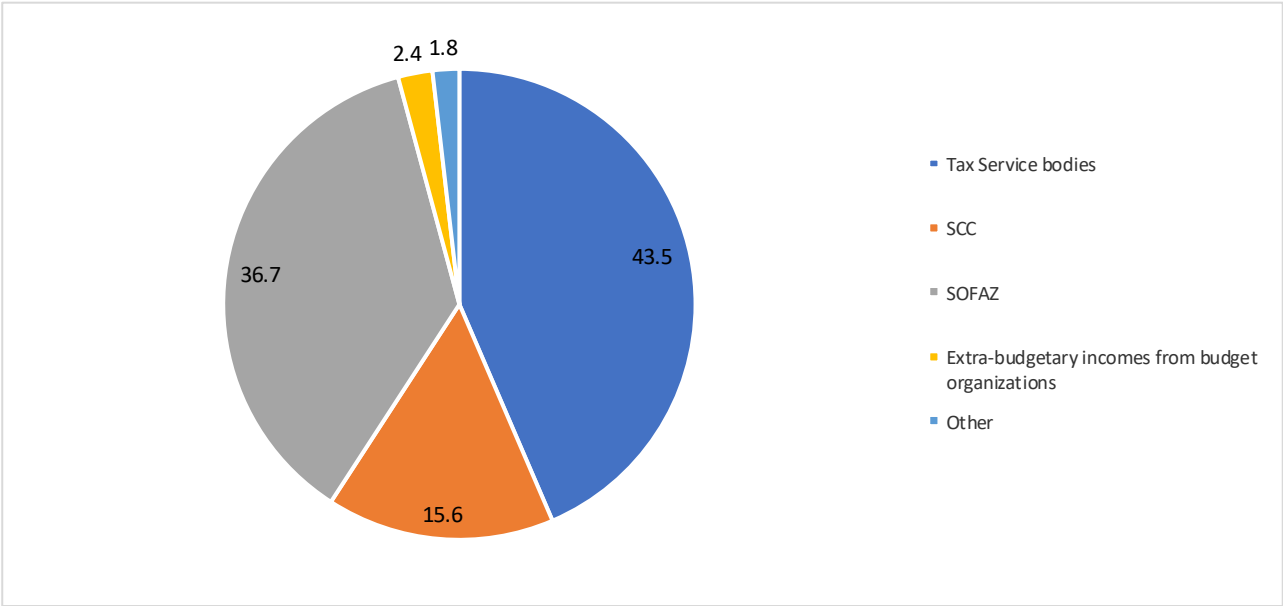
Figure 6. Comparison of Tax Incomes in 2022 and 2023 State Budgets from Oil and Gas Sector (Million AZN)



According to the Ministry of Finance, Azerbaijan's 2023 budget was based on an average oil price forecast of \$50 per barrel. But during the budget forecasting, the government did not make any statement about an average natural gas price in the 2023 budget. However, since the incomes paid within the Shah Deniz PSA have an important role in the 2023 budget revenues, it is clear how crucial it is to disclose the forecasted price of natural gas to the National Assembly (Azerbaijan parliament), as well as to the public.

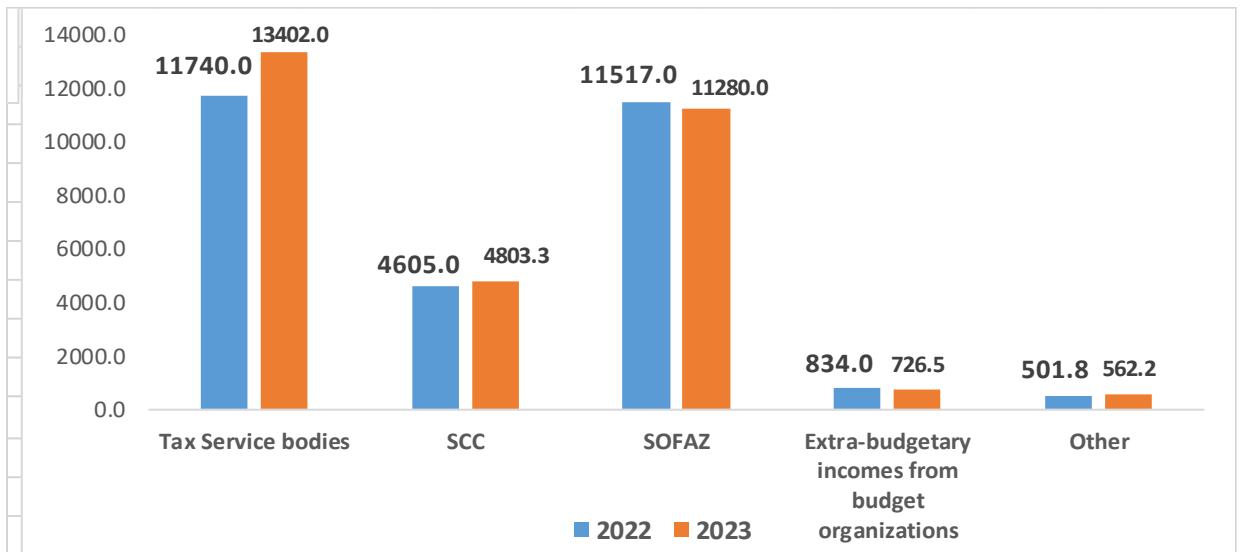
Structure of state budget revenues by organizations. 13 402.0 million AZN (43.6%) of the 2023 state budget revenues will be provided by Tax Service bodies, while 11 280.0 million AZN (36.7%) by SOFAZ, 4 803.3 million AZN (15.6%) by the State Customs Committee (SCC). In addition, 726.5 million AZN obtained from chargeable services of budget organizations will also be added to the budget revenues, and its share in the budget revenues will be 2.4%. The remaining 562.2 million AZN (1.8%) will be shared by other organizations (see Figure 7).

Figure 7. Structure of 2023 State Budget Revenues by Authorized Bodies, as Percent of Total (%)



Compared to the adjusted 2022 forecast, 1 662.0 million AZN (14.2%) will be collected by the tax authorities, 198.3 million AZN (4.3%) by the State Customs Committee (SCC) and 60.4 million AZN (4.3%) by other entities. A 12% rise is expected in 2023 (see Figure 8).

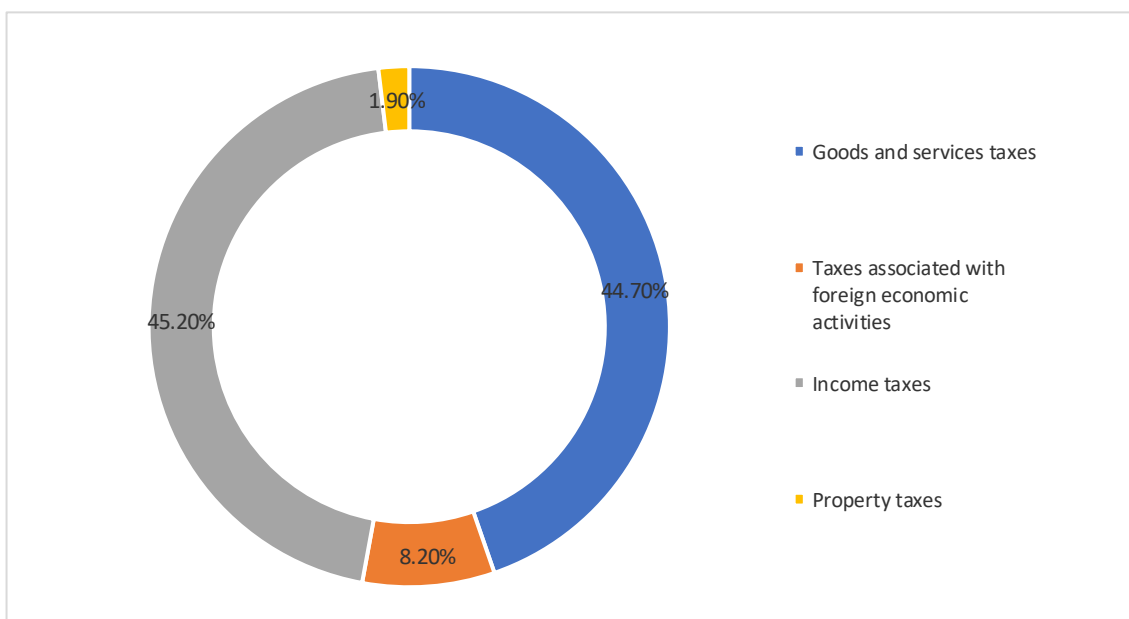
**Figure 8. Comparison of 2022 and 2023 State Budgets Revenues by Organizations
(million AZN)**



The non-oil and oil sectors are projected to account for 62.6 percent 2023 (8 385 million AZN) and 37.4 percent (5.017 million AZN), respectively, of the state budget revenues through the State Tax Service bodies.

The structure of state budget revenues from taxes and non-tax revenues. 17 901.3 million AZN (or 58.17%) of the 2023 state budget revenues are taxes, the remaining 12 872.7 million AZN (41.83%) are non-tax revenues.

Figure 9. Structure of Tax Revenues for the 2023 State Budget, as Percent of Total (%)



Nearly 90 percent of tax incomes for the state budget consist of two types of taxes: income taxes and goods and services taxes. Thus, income taxes and goods and services taxes, accordingly, account for 45.2% (8 970.0 million AZN) and 44.7% (7 995.1 million AZN) of tax incomes for the budget. It is forecasted that 1 460.4 million AZN will be added to state revenues from taxes related to foreign economic activity, which is 8.2% of total tax revenues (see Figure 9).

348.8 million AZN will be paid to the state budget in the form of property taxes.

Composition and structure of income tax revenues. Out of total income tax revenues of 8 970.0 million AZN, 6 417.0 million AZN (79.35%) come from profit (income) tax of legal entities, the remaining 1 680.0 million AZN (20.7%) come from the personal income tax. As noted above, compared with the adjusted forecast for 2022, 1 127.0 million AZN (+21.3%) will be added to the profit (income) tax of legal entities and 195.0 million AZN (+13.1%) to personal income tax.

Income tax from employment accounts for 86.5% (1 454.0 million AZN), income tax from non-employment 6.9% (115,5 million AZN), other personal income 6.6 percent (110.5 million AZN) of overall revenues from personal income tax.

68.9% (1 billion 002.5 million AZN) of revenues from employment-related income tax will be generated from the public sector in one form or another, including 561.0 million AZN from budget organizations, 295.0 million AZN from the entities with state shares of at least 51% of their stock, 140.0 million AZN from public legal entities created on behalf of the state, and 6.5 million AZN from state funds.

337.5 million AZN of revenues from employment-related income tax will be generated by taxes levied on the income of employees of contractors and subcontractors acting under PSAs (see Table 2).

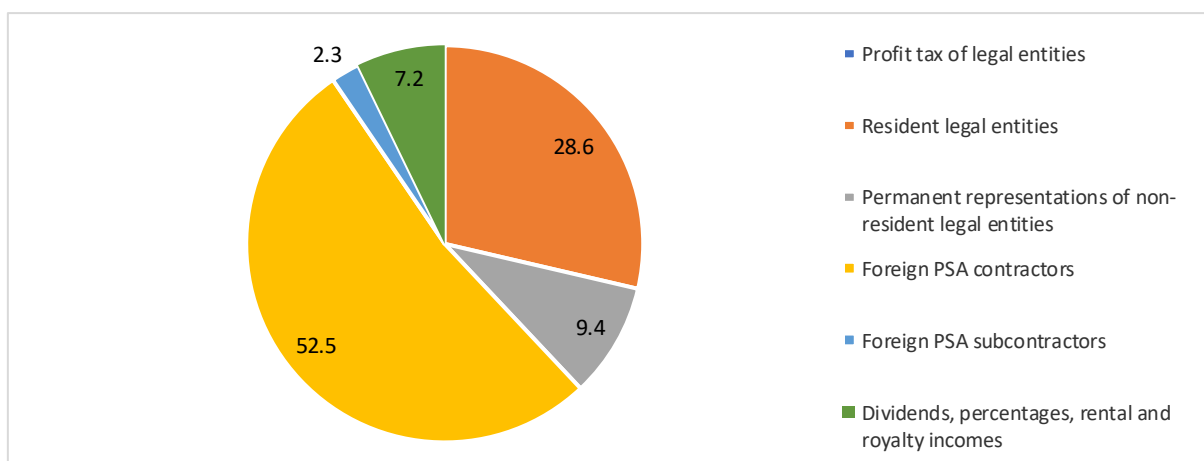
Table 2. Composition and Structure of Incomes to the 2023 State Budget Relating to Profit Tax from Employment

	M AZN	as percent of total (%)
Income derived from employment in the Republic of Azerbaijan	1,454.0	100.0
Taxpayers employed by the non-oil and gas private sector	91.0	6.3
Employees of contractors acting under a PSA	137.5	9.5
Employees of foreign and local sub-contractors acting under a PSA	200.0	13.8
Employees in budget organizations	561.0	38.6
Public entities created on behalf of the state	140.0	9.6

State enterprises	295.0	20.3
Taxes on income generated from employment in other state-owned funds	6.5	0.4
Other	23.0	1.6

More than half—52.5% (3 367.0 million AZN) - of the 2023 budget incomes from the profit tax of legal entities are taxes to be paid by foreign contractors acting under PSAs. As already noted above, of these, 2.9 billion AZN are expected to be paid within the Shah Deniz PSA. If we take into account the profit tax to be paid by subcontractors under a PSA (150.0 million AZN) and SOCAR, then we see that approximately 60% of all revenues from this source will be formed directly from the oil and gas sector (see Figure 10).

Figure 10. Composition and Structure of Revenues for the 2023 State Budget from Profit Tax of Legal Entities, as Percent of Total (%)



1 837.5 million AZN of the budget revenues from this source will be provided by resident legal entities, 600.0 million AZN will be generated in the form of taxes levied on the profit of non-resident legal entities.

Composition and structure of goods and services taxes. The revenue for the 2023 state budget of taxes is projected at a total of 7 995.1 million AZN, including 6042.3 million AZN (75.6%) to be generated from VAT, 1377.8 million AZN (17.2%) from excise, 278.6 million AZN (3.5%) from simplified tax, 160.4 million AZN (2.0%) from extraction tax and 135.9 million AZN (1.7%) from road tax.

More than half of the total revenue from VAT – 53.4% or 3 228.1 million AZN - will be generated from goods imported into the Republic of Azerbaijan, while 46.6% (2 814.3 million AZN) will come from value added tax on goods, works and services in the country.

Out of 1 377.8 million AZN of revenues from excise taxes to be provided to the 2023 state budget, 87.2% (1 201.0 million AZN) are excises on products manufactured in the country, 657.0 million AZN of which are accrued on petroleum products and 450.1 million AZN on tobacco products,

Out of 176.8 million of revenues from excise taxes on imported goods, 60.0 million AZN will be collected from cars and buses, 45.0 million AZN from tobacco products, and more than 60.0 million AZN from excise taxes applied to various types of alcoholic beverages.

Composition and structure of revenues from taxes associated with foreign economic activities. 1 460.4 million AZN to the 2023 state budget revenues will be generated from taxes and fees associated with foreign economic activities. Of these, 1 254.4 million AZN (85.9%) will be collected from import duties and 112.0 million AZN from payments to the budget from variations between the contract price of the products and the wholesale price inside the country while exporting products with regulated prices (mainly crude oil, natural gas, and petroleum products). Another 90.1 million AZN will come from custom duties levied on imported vehicles.

Composition of other revenues. 2023 state budget revenues are projected at 12 872.2 million AZN (it is projected that 41.8% of total budget revenues will be generated from other revenues. Of these, 11 637.8 million AZN are property incomes, including 11 280.0 million AZN (96.9%) to be transferred by SOFAZ. 321.2 million AZN of property incomes are dividends from state institutions, including 101.2 million AZN from financial institutions (for example, the International Bank of Azerbaijan, Azer-Turk Bank, among others), and 220.0 million AZN will be from state-owned non-financial organizations.

Other incomes to the extent of 1 196.3 million AZN are revenues from the sale of goods and services. Of these, 272.0 million AZN (22.7%) will be in the form of state fees, 197.8 million AZN (16.5%) in revenues from commercial activities of state non-profit organizations, 726.5 million AZN (60.7%) in revenues on chargeable services of budget organizations, as well as incomes on financial sanctions and administrative fines.

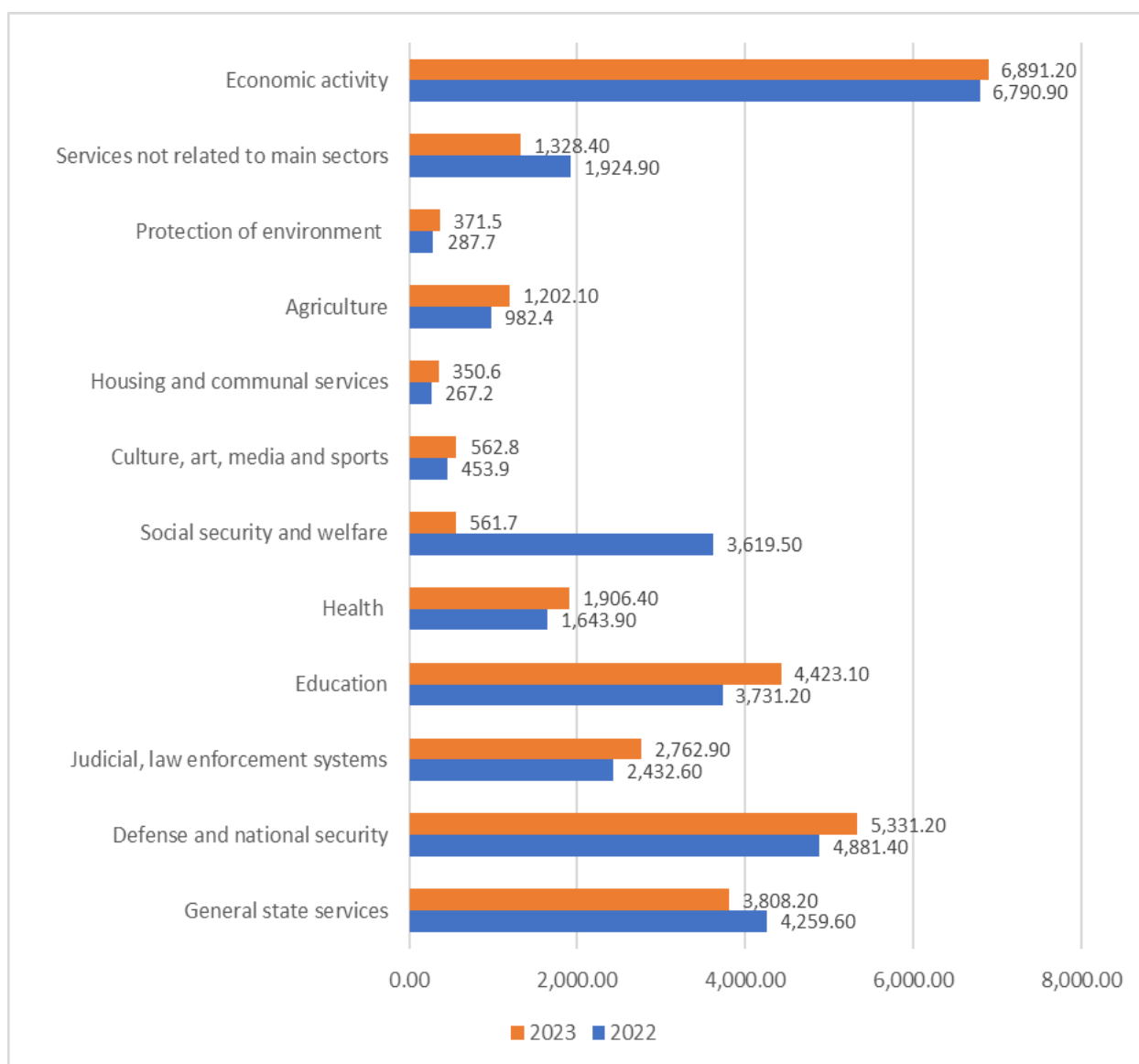
Another 38.6 million AZN are incomes on sanctions and fines, including 21.15 million AZN (54.8%) are revenues from violations of tax legislation.

Review of 2023 State Budget Expenditure Patterns

A Brief Overview of Expenditures

2023 state budget expenditures are projected at 33 353.3 million AZN, up 6.2% (2077.9 million AZN) from 2022.

Figure 11. Sectors of State Budget Expenditures, 2022-2023 (Million AZN)

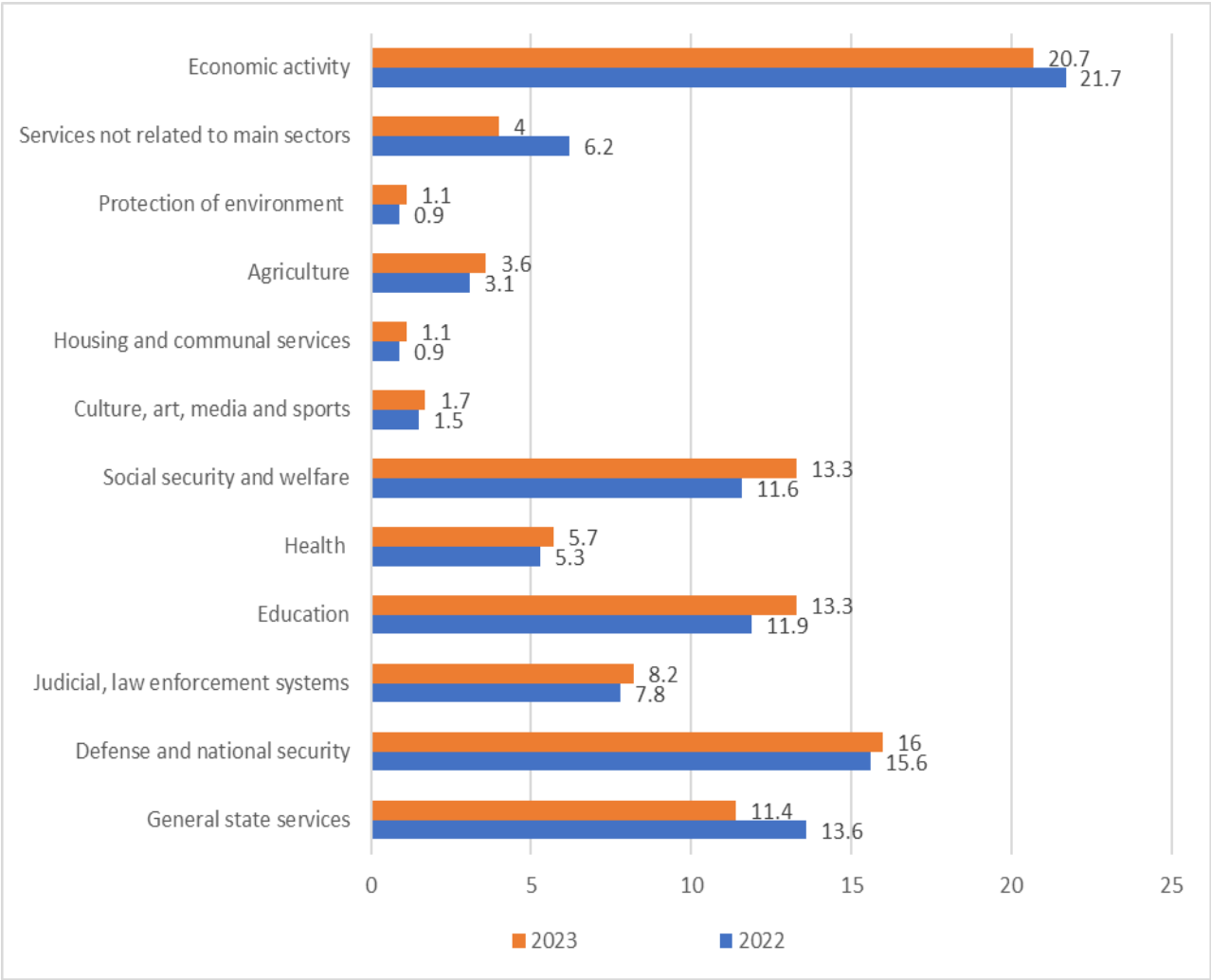


The highest growth rate is predicted in social protection - 22% (796.3 million AZN), while education expenses will increase by 18.9% (691.9 million AZN), defense and national security by 9.2% (449.8 million AZN), judicial and law enforcement systems by 13.6% (330.3 million AZN), health by 16% (262.5 million AZN), agriculture by 22.4% (219.7 million AZN), culture and art by 24% (108.9 million AZN), economic activities by 1.5% (100.3 million AZN), yet services not related

to main sectors will decrease by 31% (596.5 million AZN) and general state services by 10.6% (451.4 million AZN).

There is also a change in the share of separate expenditure fields in the budget. For example, compared to 2022, the share of education expenses in total 2023 budget expenditures will increase from 11.9% to 13.3%, the share of social protection expenses will increase from 11.6% to 13.3%, judicial and law enforcement systems from 7.8% to 8.2%, defense from 15.6% to 16%, and agriculture from 3.1% to 3.6%.

Figure 12. Changes in Sectors’ Share of Budget Expenditures, 2022-2023

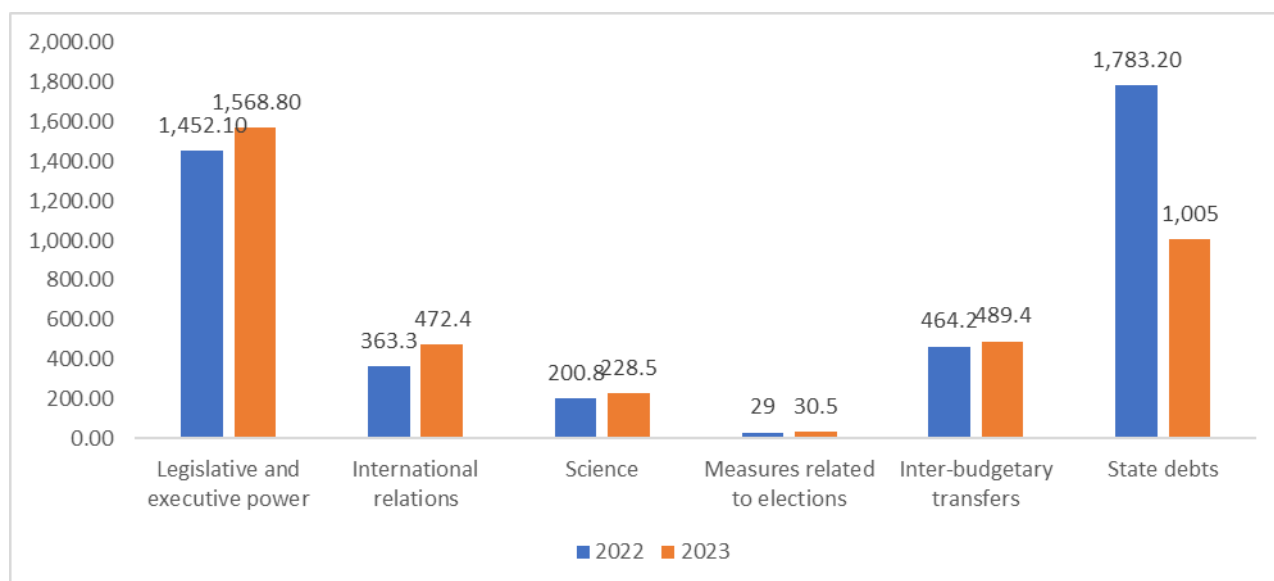


In turn, the share of total public service spending decreased from 13.6% to 11.4% from 2022 to 2023, while the specific weight of expenses related to economic activity decreased from 21.7% to 20.7%, and the share of expenses for services not included in the main sectors decreased from 6.2% to 4%.

Management Expenditures

Expenditures related to the activity of central and local governments are distributed through the “General state service” sector, which includes the maintenance of central and local executive authorities, payment of state debts, as well as financing of events related to elections and international events, inter-budgetary transfers, and science.

Figure 13. Structure of General State Service Expenditures, Million AZN



2023 budget expenditures on the maintenance of central authorities are projected to be 1 568.8 million AZN, exceeding 2022's indicator by 112.6 million AZN (7.8%), including 220.4 million AZN to be allocated to the maintenance of the Presidential Administration. 53.2 million AZN for the National Assembly (Azerbaijani parliament), 30.8 million AZN for the Cabinet of Ministers.

Expenditures related to the maintenance of state debts and commitments are projected at 1005 million AZN, exceeding 2022's indicator by 778.2 million AZN (43.6%).

Expenditures related to international relations are projected at 472.4 million AZN (+93.2 million AZN or 25.7%), including 220 million AZN to be allocated to organize international events, 145.9 million AZN for the maintenance of diplomatic structures abroad and 75.5 million AZN to further establish cooperation with international organizations.

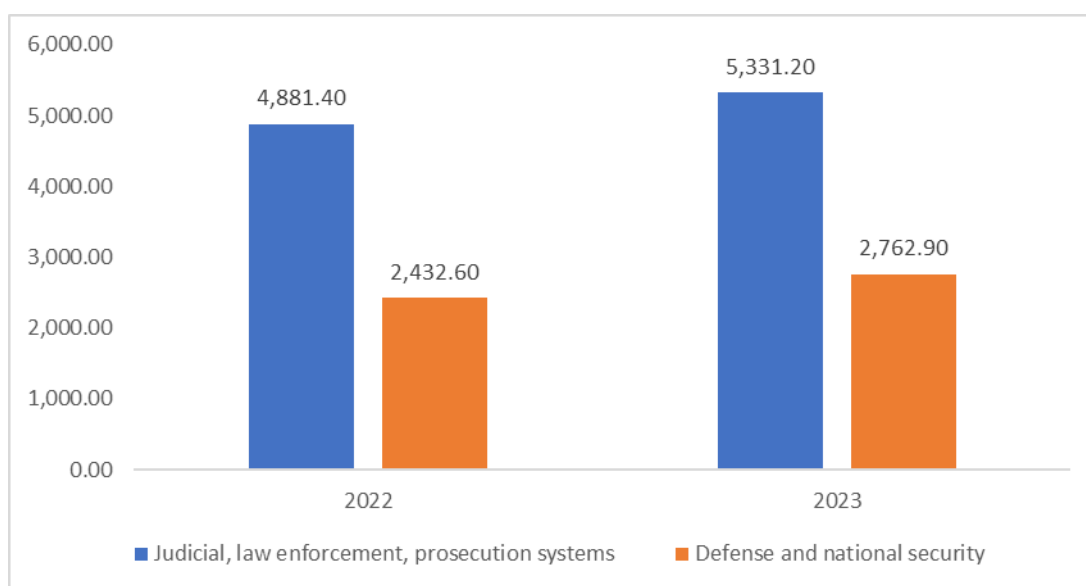
489.4 million AZN are envisaged for inter-budgetary transfers (+25.2 million AZN), including 482.4 million AZN to be allocated to Nakhchivan AR and 7.0 million AZN to municipal budgets.

1253 million AZN (33%) will be directed to cover labor costs, exceeding 2022's indicator by 98.2 million AZN (8.5%).

Government Expenditures on Public Order and Safety

Expenditures on the maintenance of judicial, law enforcement and prosecution systems are projected at 2762.9 million AZN, exceeding 2022's indicator by 330.3 million AZN (13.6%), including 145.6 million AZN (+14.6 million AZN) to be allocated to the judicial, 2059.8 million AZN (+276.1 million AZN) to law enforcement and 124 million AZN (+17,7 million AZN) to prosecution systems.

Figure 14. Expenditures on the Judicial, Law Enforcement, Prosecution Systems, Defense and National Security, Million AZN



The state budget expenditures for defense and national security are projected at 5331.2 million AZN, exceeding 2022's indicator by 449.8 million AZN, or 9.2%.

Social Expenditures

The state budget's social expenditures mainly cover 4 sectors of classification: (i) education, (ii) health, (iii) social protection, (iv) culture, art and sport.

2023 budget expenditures on the "Education" sector are projected at 4423.1 million AZN, exceeding 2022's indicator by 692 million AZN (18.5%), including 3076.9 million AZN (69.6%) to be allocated to labor costs, up 18.3% (476.7 million AZN) over the previous year.

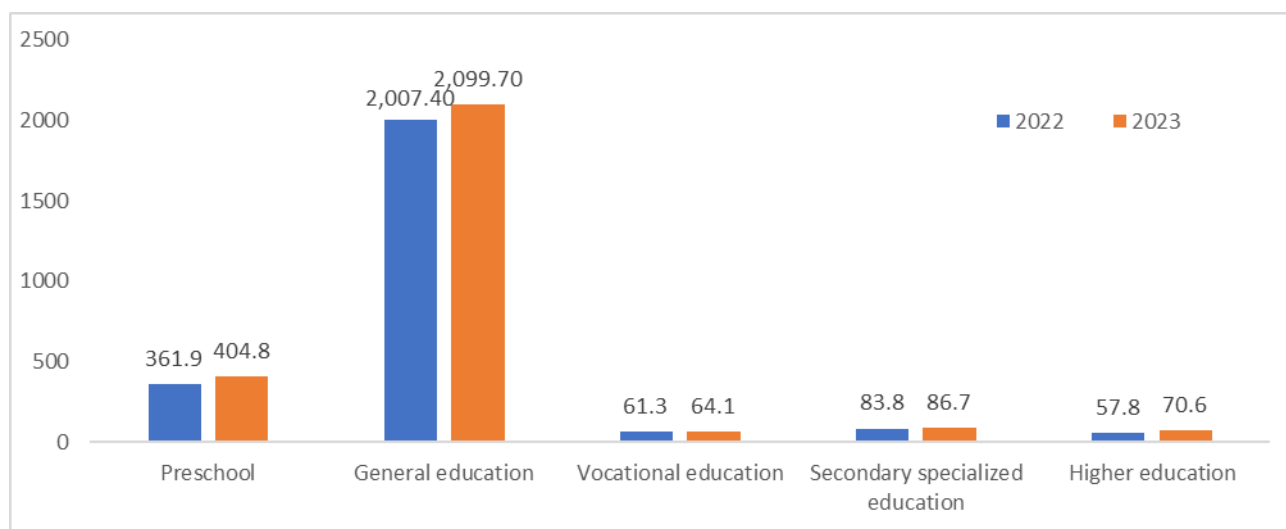
In the allocation of education costs, general education ranks first among 5 main education levels: expenditures from the 2023 state budget on this level of education are projected at 2099.7 million AZN (+92.3 million AZN), while on preschool education at 404.8 million AZN (+42.9



million AZN or 11.9%). Expenditures on higher education are projected at a total of 328.3 million AZN (+19.7 million AZN), including 257.7 million AZN (compared to 250.8 million AZN in 2022) to cover the expenses of those studying for bachelor's and master's degrees on the basis of the state order according to the Cabinet of Ministers' decision No. 120 dated 25 June 2010. Another 70.6 million, in addition to this amount for higher education students on the basis of the state order, are mainly allocated to 4 universities: 21.2 million AZN to the National Aviation Academy, 24.8 million AZN to ADA University, 7.7 million AZN to the Baku branch of Moscow Medical University, and 13.0 million AZN to the Baku branch of Moscow State University.

Expenditures related to specialized secondary education are to be increased by 2.9 million AZN to 86.7 million AZN, and for vocational education by 2.8 million AZN to 64.1 million AZN.

Figure 15. Allocation of Expenditures by Education Level, Million AZN



Expenditures on these levels are projected at 2892.9 million AZN in absolute term, accounting for 65% of the total education expenditures of the state budget. The remaining 1530.2 million AZN are allocated as follows:

- *Additional education* – 11.8 million AZN. This encompasses expenditures on several educational structures operating under higher state bodies (for example, the Justice Ministry's Academy of Justice, the Finance Ministry's Scientific-Educational Center, the Institute of Advanced Medical Training, the State Tax Service's Educational Center).
- *Applied research in the field of education* – 6.8 million AZN. This includes expenditures on research centers (for example, the Institute of Education, the Scientific Research Institute at Baku State University).
- *Student scholarships* – 149.1 million AZN. It is provided to students receiving scholarships at all levels of education.

- *Expenditures on children's schools through the Ministry of Culture – 175.5 million AZN.* This includes expenses related to children's music, art and painting schools.
- *Extra-budgetary expenditures of educational institutions – 25.1 million AZN.* This includes expenditures of part of extra-budgetary revenues of educational institutions as envisioned in the state budget.
- ▣ 178.9 million AZN for the realization of goals related to education, according to the "Strategy of Socio-Economic Development for 2022–2026." The distribution of these funds for specific purposes is not reflected in the budget document.
- ▣ Expenditures on out-of-school educational institutions – 65.2 million AZN.
- Expenditures on preschool, higher and other educational institutions run by the Ministry of Internal Affairs – 16.4 million AZN. This includes expenses related to the Police Academy, Sergeants' School, and preschools.
- *Financing of programs and activities through the Ministry of Science and Education – 660.5 million AZN.* These are expenditures associated with the publication of textbooks, provision of grants for innovation, organization of training on information and communication technologies, financing of various programs in connection with the development of curriculums for vocational education, as well as maintenance of children's and youth sports-chess schools and child and youth development centers, territorial financial settlement centers.
- ▣ Expenditures related to the regulation of labor costs in the education system – 171.9 million AZN. No information is reflected in the budget document on the distribution of expenditures for the adjustment of salaries by specific level of education.
- ▣ Expenditures on other sectors – 69 million AZN. This includes expenditures to finance various education-related activities within the various supplementary sectors.

The 2nd important direction of social spending of the budget is the financing of social protection interventions. Expenditures on this sector are projected at 4415.9 million AZN, exceeding 2022's indicator by 796.3 million AZN (22%). Below are items and amounts of projected spending for the main social protection measures:

- *Targeted state social assistance – 277.7 million AZN (+45 million AZN or +19.4% versus the previous year).*
- *Child benefits given to children of low-income families – 15.2 million AZN (+15 million AZN or +11.2%). This includes allowances paid to children of martyrs, those disabled in the war and January 20 events, those who have completed military service, and low-income families with children under 1 year old.*
- *Guardianship allowance – 0.354 million AZN.*

- *Burial allowance – 2.6 million AZN.*
- *One-time allowance for the birth of a child – 21.990 million AZN (+0.8 million AZN or +3.7%).*
- *Payments for work injury or occupational disease – 2.4 million AZN.*
- *Supporting employment through the organization of paid public works – 265.8 million AZN (+21.7 million AZN or 8.9%).*
- *Age allowance – 296.6 million AZN (+35.9 million AZN or 13.8%).*
- *Disability benefits – 319.7 million AZN (+19.5 million AZN or 6.5%).*
- *Allowance for care for disabled children under 16 years of age – 131.2 million AZN (+3.4 million AZN or +2.6%).*
- *Survivor's benefits – 72.3 million AZN (+2.9 million AZN or +3.3%).*
- ▣ *Pensions – 555.9 million AZN (+16.4 million AZN or 3%). Allowances to National Heroes, families of martyrs, as well as families of January 20 martyrs, individual scholarships, pensions to war veterans who took part in military operations for the territorial integrity of the country, to the families of servicemen killed in the course of international duty in the Soviet Army in Afghanistan, to persons with disabilities of the 1st group for injuries incurred in participation in the liquidation of the accident at the Chernobyl NPP, to participants of the Great Patriotic War of 1941-1945, to various persons who were under the siege of Leningrad during the Second World War, to persons with 81-100 percent impairment of body functions, to disabled persons under the age of 18, to persons with first-degree disabilities or persons caring for disabled children under the age of 18, as well as benefits to persons with disabilities of the 1st group due to general illness and illness during military service, injury and occupational disease, due to being in the zone of military operations.*
- ▣ *Social protection of refugees and internally displaced persons – 366.7 million AZN (+10.2 million AZN or +2.9%).*
- ▣ *Transfer to the State Social Protection Fund – 1467.7 million AZN (+272.6 million AZN or +22.8%).*
- ▣ *For the implementation of targets relating to social protection as part of the "Strategy for Socio-Economic Development in 2022–2026" – 454,0 million AZN.*

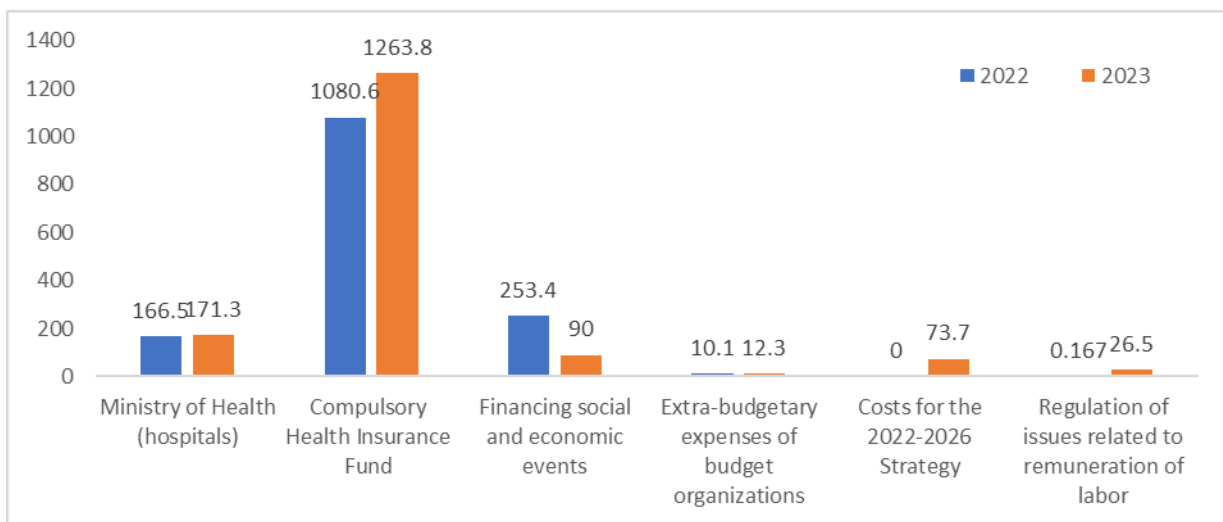
The 3rd direction of the budget's social spending is the financing of healthcare measures. 2023 state budget expenditures for the protection of public health are estimated at 1906.4 million AZN, exceeding 2022's indicator by 262.5 million AZN (16%). In the general structure of healthcare expenses, the lion's share belongs to transfers to the Compulsory Health Insurance Fund in connection with the implementation of the mechanism of compulsory medical insurance – 1263.8 million AZN

(183.2 million AZN or 17% more than the previous year). Transfers to the Fund account for 66.3% of total healthcare expenses.

Based on the *2022–2026 Socio-Economic Development Strategy*, the budget plans to spend 73.0 million AZN for the realization of goals related to social protection.

Costs for hospitals are projected at 171.3 million AZN, including 2.1 million AZN to be allocated for general purposes, 26.5 million AZN to specialized hospitals, 8.3 million AZN to recovery-treatment sanatoriums, 48.3 million AZN to sanitary-epidemiological service, 10.5 million AZN to the Special Medical Service, 13.8 million AZN to medical centers of various institutions, 45.7 million AZN to the National Oncology Center, 8.4 million AZN to the National Center of Ophthalmology, 6.1 million AZN to the Baku Health Center. Extra-budgetary expenses, formed at the expense of part of the extra-budgetary income of health care institutions included in the budget, amount to 12.3 million AZN. Of the total expenses reflected in the “Hospital” supplementary sector, 97.8 million AZN are managed by the Ministry of Health.

Figure 16. Sectors of Healthcare Expenses (2022-2023), Million AZN



The 2023 state budget forecast allocates funds to health institutions run by a number of entities under the “health” sector. For example, 16.3 million AZN will be provided to the Ministry of Internal Affairs to meet health care expenses, while 8.989 million AZN to the Ministry of Emergency Situations, 12.4 million AZN to the Penitentiary Service, 12.3 million AZN to the State Customs Committee, 10.6 million AZN to State Railways JSC. With the exception of costs for hospitals, 179.3 million AZN will be provided to the Ministry of Health for the financing of various events and programs, which is greater than that allocated the previous financial year by 115.2 million AZN (nearly 3-fold). The growth is due to the purchase of medicines and dressing materials, as well as various consumer-oriented services.

As for specific healthcare programs, the budget forecast allocates 52.8 million AZN for diabetes, 45.7 million AZN for oncological diseases, 42.7 million AZN for chronic kidney failure, 23.7 million AZN for thalassemia patients, etc.

In addition, 90 million AZN are to be allocated from the health sector under the item “funding of socio-economic and other measures” and 26.6 million AZN under the item “Regulation of issues related to remuneration of labor.”

Of the total healthcare costs, 189.3 million AZN will be allocated to cover labor costs (+37.3 million AZN or +24.5% from last year).

Finally, the last item of socially-oriented budget expenditures is the financing of cultural, artistic and sport events. The expenses for this item for 2023 are projected at 561.7 million AZN, which is 24% (107.8 million AZN) more than the expected expenditures of the previous fiscal year. Of total spending per this item, 199.2 million AZN will be provided for culture and art, 61 million AZN for state support of media, 46.3 million AZN for sports and youth, 255.2 million AZN for cultural, artistic, media, sport and other events related to youth policy. And 61.3 million AZN of the expenditures related to culture and art will be provided to libraries (including 8.2 million AZN for the M.F.Akhundov National Library), 38 million AZN for museums and exhibitions, 46 million AZN for palaces of culture and clubs, and 49.3 million AZN for theaters and music groups.

Funds targeted for media financing mainly include those for two television channels, including Public Television (21.6 million AZN) and Azerbaijan State Television (36.1 million AZN).

In the expenditures related to the financing of cultural and artistic events, media, sports, and other enterprises and activities related to youth policy, a number of fields that might be of concern to the public include:

- Promotion of Azerbaijani culture on reputable global TV channels and information portals, support for the development in the spheres of art for this purpose – 5 million AZN.
- Creation of media platforms in the spheres of culture and art – 2 million AZN.
- Support for Diaspora Committee’s projects – 6.6 million AZN.
- Support for the Fund for the Promotion of Spiritual Values – 12.1 million AZN.
- Subsidy to the Media Development Agency – 6.8 million AZN.
- Support to the Heydar Aliyev Center – 12.7 million AZN.
- Allocations to the Agency for State Support of NGOs – 6.6 million AZN.
- Financial assistance to NGOs – 6.4 million AZN.
- Support for the state information agency AZERTAG – 9.3 million AZN.
- Financial assistance to political parties – 5 million AZN.
- Financing the activities of the Baku Congress Center – 7.5 million AZN.
- Support for the Youth Fund – 8.9 million AZN.

- Support for the Cinema Agency – 7 million AZN.
- ▣ Financing the implementation of targets in the field of culture, art, sports as part of the "Strategy for Socio-Economic Development in 2022-2026" – 47.5 million AZN.

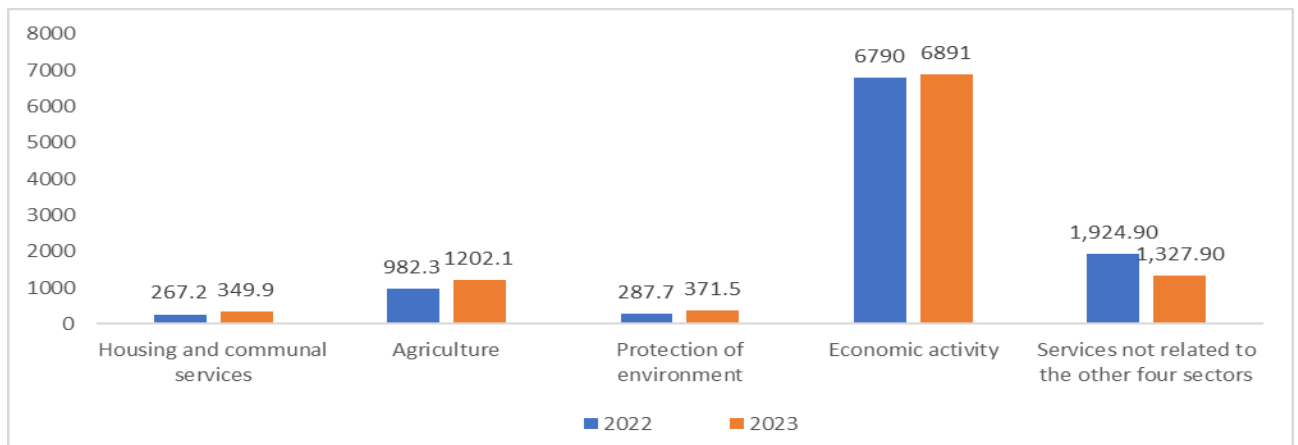
Costs to Support the Economy

Expenses of economic purpose are concentrated in 5 different sectors: housing and communal services, agriculture, protection of the environment, economic activity and services not related to main sectors.

Expenditures for housing and communal services are projected at 350.6 million AZN, which are 82.7 million AZN or 31% more than the expected indicator for the previous year. Of this total, 68.2 million AZN will be allocated to local executive authorities for capital repairs of residential buildings and the subsidizing of elevators as part of the supplementary sector of housing services, including 33.6 million AZN for lighting and 49.8 million AZN for landscaping services as part of the supplementary sector of communal services. In addition, 41 million AZN in subsidies will be allocated to Azeristiliktajhizat JSC as part of the supplementary sector. The budget documents reflect the allocation of the remaining funds within the sector of housing and communal services as follows:

- ▣ 40.3 million AZN for the implementation of targets related to education as part of the "Strategy for Socio-Economic Development in 2022–2026."
- 9.9 million AZN for "Azersu" OJSC.
- 3.150 million AZN for the State Committee on Affairs of Refugees and Internally Displaced Persons.
- 44.9 million AZN to local executive authorities for subsidizing various enterprises.
- 3.770 million AZN for Icherisheher State Reserve.
- 35 million AZN for special events within the framework of communal and communication services.
- ▣ 12.9 million AZN for the Seaside Boulevard Office.

Figure 17. Allocation of Expenditures from the State Budget to Support the Economy by Sector, Million AZN (2022-2023)



The 2023 state budget provides for the implementation of agriculture programs in the amount of 1.202 billion AZN, which is 219.8 million or 22.4% more than the expected indicator for the previous year. Over half of the sector's spending - 625.2 million AZN—will be provided for subsidizing farmers whereof 180 million AZN will go directly to entities that sow wheat using modern irrigation methods and 445.2 million AZN to both various types of crops and the payment of subsidies in the livestock sector. 465.8 million AZN are envisaged for reclamation activities.

Next year the the protection of the environment sector foresees 371.5 million AZN from the state budget (83.8 million AZN or 29% more compared to the previous year). The most important items of expenditure by sector include:

- Cleaning of territories, collection and treatment of waste water – 295.2 million AZN, including 9.5 million AZN through the State Committee on Affairs of Refugees and Internally Displaced Persons, 37.5 million through the "Temiz Sheher" Open Joint Stock Company, 243.5 million AZN through local executive authorities.
- Forestry – 15.5 million AZN
- Land management and surveying through the State Property Service – 14.8 million AZN.
- Activities of the National Hydrometeorological Service – 9.5 million AZN.
- Organization of protection and research activities in state nature reserves and national parks – 7.8 million AZN.

The 2023 expenditures to be allocated to the sector of economic activity is 6891 million AZN (+101 million AZN or 1.5% compared to the expected indicator for 2022). The scope of expenditures by sector is extensive enough, yet construction accounts for the significant portion. Of these, 5652 million AZN will constitute investment costs, including 3000 million AZN for rebuilding the

liberated territories and 2 652 million AZN for other areas and directions. The rest—nearly 1.2 billion AZN—will be directed to the following items:

- 66.4 million AZN for roads and road transport, including 13,8 million AZN to the Ministry of Ecology, 1,5 million AZN to the State Committee on Affairs of Refugees and Internally Displaced Persons, and 51.1 million AZN to local executive bodies.
- 7.8 million AZN for subsidies to some state companies, including 31.2 million AZN for the Baku Transport Agency, 6 million AZN for the Land Transport Agency, 10 million AZN for AZAL, 56.9 million for Baku Metro, 18 million AZN for Azercosmos, and 6.2 million AZN for the State Maritime and Port Agency.
- ▣ 46.7 million AZN for the communications and transport sector within the "Strategy for Socio-Economic Development in 2022—2026."
- 100 million AZN to finance activities related to public utilities and communication services.
- 24 million AZN to finance reforms in transportation and communication.

Another item to which expenditures in this sector are directed is economic and commercial activity. Of the total amount of 56 million AZN, 12 million AZN will be spent to compensate damage to "Shahdag Tourism Center" and 43,9 million AZN to support the tourism sector, including 25 million AZN and 3.5 million AZN, respectively, for the implementation of a marketing and commercial plan to boost the country's tourism potential and the promotion of the tourism potential of the country on popular foreign TV channels.

Finally, the last direction of expenditure in the sector of economic activities is activities financed under the supplementary sector "Other fields of economic activities." Below are some of its main fields:

- 330 million AZN for SOCAR.
- 6 million AZN for the activities of trade missions in diplomatic corps abroad.
- 52.5 million AZN for the development of new generation identity cards and biometric passports.
- 100 million AZN for the Mortgage and Credit Guarantee Fund.
- 20 million AZN for the Small and Medium Business Development Agency.
- 13.3 millions for the promotion of non-oil exports.
- 19.1 million AZN for financing social activities within the "Socio-Economic Development Strategy for 2022—2026."
- 10.3 million AZN for the authorized body of the Free Economic Zone.
- 6 million AZN for the Export and Investment Promotion Agency (AZPROMO).
- 7 million AZN for the Innovation and Digital Development Agency.

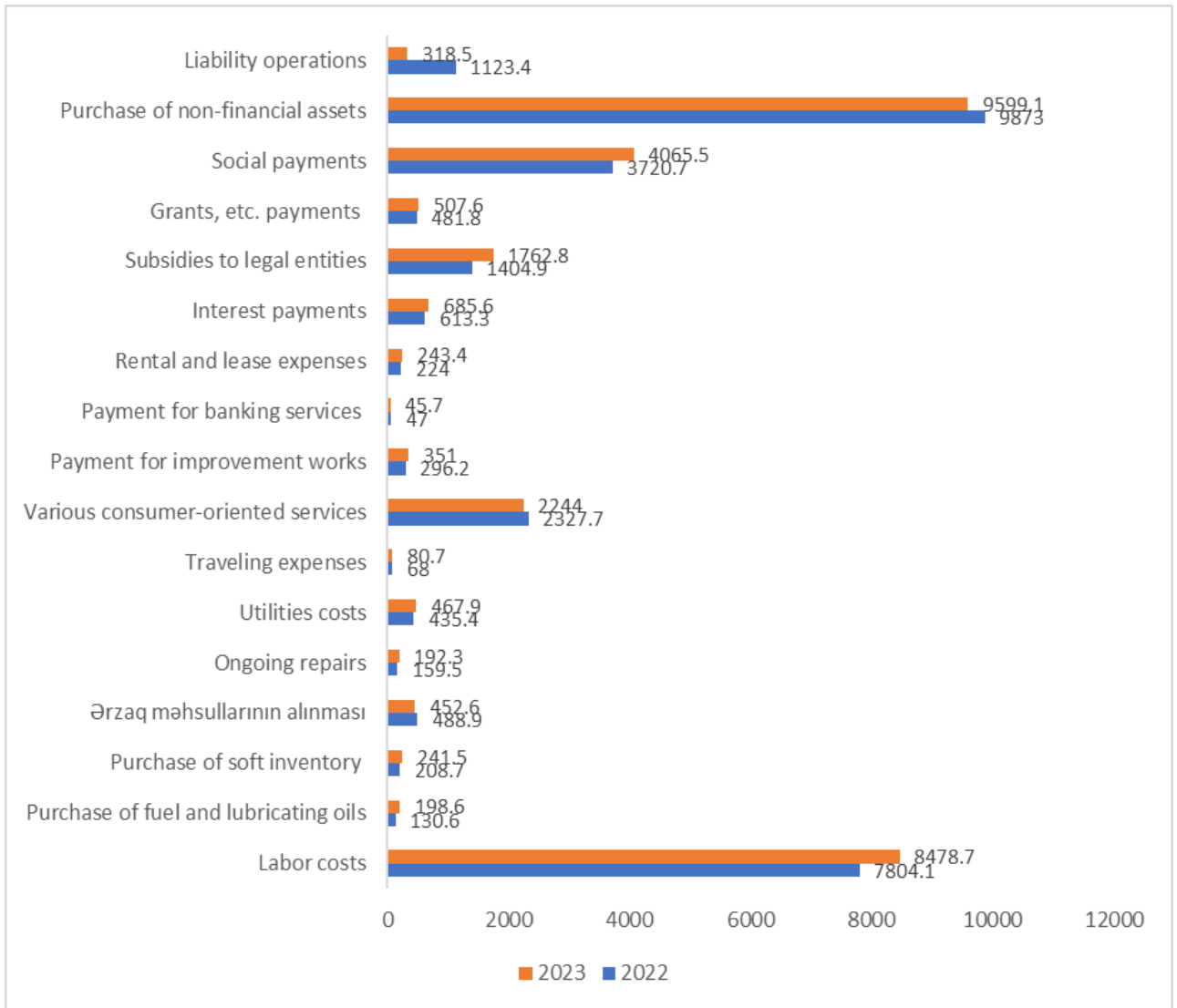
- 10 million AZN for the Food Safety Institute.
- 11 million AZN for the “Restoration, Construction, and Management Service of the Karabakh Economic Region” public legal entity.
- 6 million AZN for the “Restoration, Construction, and Management Service No. 1 of the East Zangezur Economic Region ” public legal entity.

1328 million AZN will be allocated for the last sector of the state budget—“Other expenditures not related to the main sectors.” 1328 million AZN is down 31% (597 million AZN) over the expected indicator of the previous year. Of these, 110 million AZN will be allocated to the reserve fund of the Cabinet of Ministers, 500 million AZN to the reserve fund of the president, 348.9 million AZN to specific budgetary funds. And 20 million AZN will be allocated to the elimination of losses due to emergency situations, 12.1 million AZN to the financing of social and economic events not covered by local expenses, 40 million AZN to the creation of state reserves, 30 million AZN to the financing of necessary events related to residential areas.

The Economic Structure of 2023 State Budget Expenditures

Expenditures on the acquisition of non-financial assets comprise the largest portion in the economic structure of the 2023 state budget. These expenditures will be mainly spent on the construction of buildings and structures, the purchase of machinery and equipment, if not more precisely, on the creation of basic funds for the economy at the expense of the budget through budget investments and capital expenditures. 2023 foresees the allocation of 9 599.1 million AZN for these purposes, accounting for 28.8% of the total projected budget expenditures.

Figure 18. Classification of Budget Expenditures, by Expenditure Item in AZN (2022-2023)



Another direction, which has a high share in the structure of economical costs, are labor costs. Expenses for this item amount to 8 478.7 million AZN, accounting for 25.4% of the total projected budget expenditure. Of these, 4 065,5 million AZN will be spent on social benefits, 2 244 million AZN on various consumer-oriented services, 1762.8 million AZN on subsidies to legal entities, 318.5 million AZN on debt liabilities, 685.6 million AZN on interest payments, 507.6 million AZN on grants, 467.9 million AZN on utilities, and 452.6 million AZN on the purchase of food products.

Extra-Budgetary State Funds

One of the institutions forming the budgetary system of the Republic of Azerbaijan is the state extra-budgetary funds. According to the Law on the Budgetary System, the extra-budgetary state funds are the targeted state financial funds, which have the status of juridical entities and independent budgets outside of the State Budget.¹

When drafting the revenues and expenditures of the country's consolidated budget, those of extra-budgetary state funds are also taken into account. Bills on the budgets of extra-budgetary state funds are submitted to the National Assembly (Parliament) annually as part of the budget envelope, while other documents are adopted jointly. Only the annual budget of SOFAZ is approved by the president without parliamentary debates.

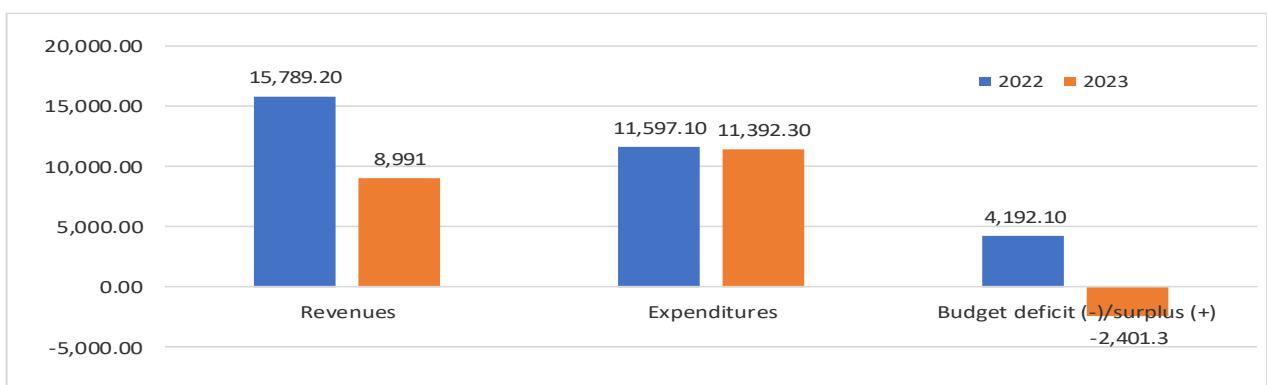
The audit of extra-budgetary state funds, as well as the state budget, is carried out by the Chamber of Accounts in accordance with the law on the Chamber of Accounts. Extra-budgetary state funds shall not invest in commercial activities, offer loans and debt guarantees within the country under the law. These funds must be spent properly, and their misappropriation is not allowed.

There are currently four extra-budgetary funds: 1) the State Oil Fund of the Republic of Azerbaijan; 2) the State Social Protection Fund; 3) the Unemployment Insurance Fund; 4) the Compulsory Health Insurance Fund.

State Oil Fund (SOFAZ)

The oil and gas revenues of the State Oil Fund of the Republic of Azerbaijan (SOFAZ) for 2023 are projected at 8 991 million AZN, down 6 798.2 million AZN, or 75.6%, from the 15 789.2 million AZN projected for the 2022 budget (*see Figure 18*).

Figure 19. Changes in Total Budget Revenues and Expenditures of SOFAZ (Million AZN)



¹ <https://e-qanun.az/framework/1126>

The main source of the Fund's revenues, as in previous years, will be *net revenues² obtained from the sales of hydrocarbons accounted for by Azerbaijan*. The volume of revenues from this source is projected at 6 571.4 million AZN, down 8 422 million AZN, or 56.2%, from the projected figures for 2022. Thus, the share of revenues from this source in the total budget revenues fell to 73.1% from 95%, due to a decline in output at the Azeri-Chirag-Deepwater Guneshli (ACG) field. Total ACG production for 2023 is projected at 129.6 million barrels, to drop by 23.5 million barrels from 153.1 million barrels in 2022. Based on the forecast figures, the downward trend is expected to continue in the years ahead. More than 1.5 standard cubic metres (bscm) of gas will be added to the existing Shah Deniz facilities' production capacity. At the same time, Azerbaijan's 2023 budget will be based on an average oil price forecast of \$50 per barrel. Although the market price for crude oil, which is the baseline of the Fund's 2022 budget, was initially set at \$50 a barrel, that price rose to \$70 a barrel in the middle of the year. The average export price of Azerbaijani oil was \$100.8 during the first nine months of 2022.³

The revenue source from acreage fees paid by investors for land used for the exploitation of hydrocarbon reserves is projected to shrink by 1 million AZN, or 23.3%, compared with the previous year. The decline in this item was due to the unscheduled payment of *acreage fees* for the Ashrafi-Dan Ulduzu-Aypara (ADUA) exploration area and unscheduled exploration of 113 km² in the shallow water area around the Absheron peninsula.⁴

In contrast to the previous items, the forecast of revenues from transportation of oil and gas through the territory of the Republic of Azerbaijan projects an increase of 1.8 million AZN (8.4%) to 23.6 million AZN. The growth of revenues from transit fees in 2023 is explained by a tariff increase for the pipeline for the next year, taking inflation into account.

Bonus payments made by investors within the framework of signing and executing oil and gas contracts are projected to increase by to 800.8 million AZN, an increase of 32.1 million AZN (4.4%) compared to the 2022 forecast. These payments are expected to be boosted by bonus payments (USD 20.8 million) for the Absheron offshore block, which were not envisaged in previous years, but are expected to be received as a lump sum bonus next year. The share of proceeds from bonus payments in SOFAZ's total budget revenues increased from 4.9% to 8.9%.

The revenues to be generated from managing SOFAZ's assets in 2023, the source that has the second largest share (17.7%) in the Fund's budget revenues, are projected at 1590.9 million AZN. In

² Excluding expenditures on transportation, customs clearance and banking services, independent surveyor services, marketing and insurance costs, as well as shareholder incomes received by SOCAR in the capacity of investor, shareholder or partner in different projects to which it is a party.

³ Azərbaycan Respublikası Dövlət Neft Fondunun 2023-cü il büdcəsinin layihəsinə Azərbaycan Respublikası Hesablama Palatasının Rəyi - <https://sai.gov.az/rej/106>

⁴ Azərbaycan Respublikası Dövlət Neft Fondunun 2023-cü il büdcəsinin layihəsinə Azərbaycan Respublikası Hesablama Palatasının Rəyi - <https://sai.gov.az/rej/106>

2022, revenues from managing these assets were initially projected at 1216.8 million AZN, but amid inflation and shortages in the global commodity market, the forecast for this source was reduced to 0 AZN by a presidential decree⁵ dated 22 July 2022. According to the conclusion by the Chamber of Accounts,⁶ there was a loss of 4521 million AZN from managing SOFAZ assets based on indicators for 9 months of 2022.

2023 expenditures of SOFAZ are projected at 11392.3 million AZN, which is or 1.8% (204.8 million AZN) less than the forecast frametime of 2022 (see Figure 18).

The decrease in the annual expenditures of SOFAZ is associated with *a reduction in the volume of transfers to the state budget*. The transfer from SOFAZ to the state budget in 2023 amounts to 1280 million AZN, down 2.1% (237,5 million AZN) over 2022. This item, as a rule, accounts for about 99% of the Fund's expenditures.

Unlike the transfer to the state budget, there has been growth in each of the other 3 items of the Fund's expenditures, compared to the previous year.

Expenditures *to finance the implementation of the "State Program for Increasing the International Competitiveness of Higher Education in the Republic of Azerbaijan for 2019-2023"* are to be increased by 38.5% (10,7 million AZN) from the previous year, to 38,5 million AZN. The increase is due to higher spending on doctoral studies, dual degree programs, and funding for the Management Team of the State Program. Of these, 11.37 million AZN will be provided for financing doctoral studies abroad, 26.4 million AZN for dual degree programs, 747.000 AZN for the annual expenses for the State Program's Management Group in 2023.⁷

Expenditures to finance the "State Program for the Education of Young People in Prestigious Higher Educational Institutions of Foreign Countries in 2022-2026" have more than doubled to stand at 36.7 million AZN. The growth can be tied to the creation of conditions for education of more young people in 2023 as part of this state program. Thus, the "State Program for the Education of Young People in Prestigious Higher Educational Institutions of Foreign Countries in 2022-2026" was approved by Presidential Decree №3163 dated 28 February 2022. Under this program, 400 people every year will have the opportunity to study in bachelor's and master's programs in 15 prioritized specialties in higher educational institutions.

Expenditures related to the management of SOFAZ are to be increased by 9.1%. The budget forecasts an allocation of 37.1 million AZN to this item in 2023. The increase is associated with the

⁵ <https://e-qanun.az/framework/50017>

⁶ Azərbaycan Respublikası Dövlət Neft Fondunun 2023-cü il büdcəsinin layihəsinə Azərbaycan Respublikası Hesablama Palatasının Rəyi - <https://sai.gov.az/reyl/106>

⁷ Hesablama Palatasının Dövlət sosial müdafiə fondunun 2023-cü il üçün büdcə layihəsinə rəyi - <https://sai.gov.az/reyl/103>

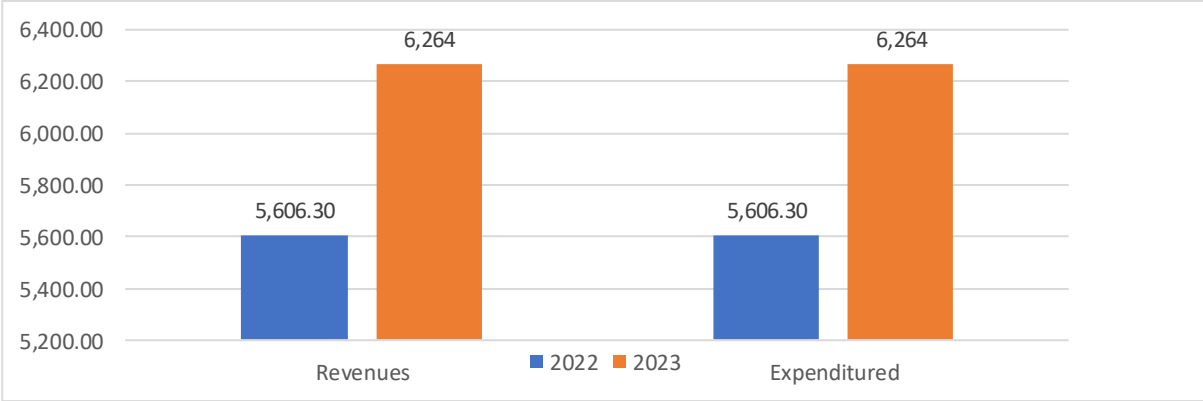
higher expenditures of the Fund related to investment activities and upgrading of the information technology infrastructure.

There has been an insignificant decrease in expenditures (1.8%) in 2023 against the background of a sharp decrease (75.6%) in revenues of SOFAZ compared to 2022. Thus, in 2022 there was a surplus of 4192.1 million AZN, while 2023 is expected to see a deficit of 2401.3 million AZN.

State Social Protection Fund (SSPF)

2023 revenues and expenditures of the State Social Protection Fund (SSPF) are projected both at 6 264 million AZN, up 11.7% (657,7 million AZN) over the forecast for 2022 (see Figure 19).

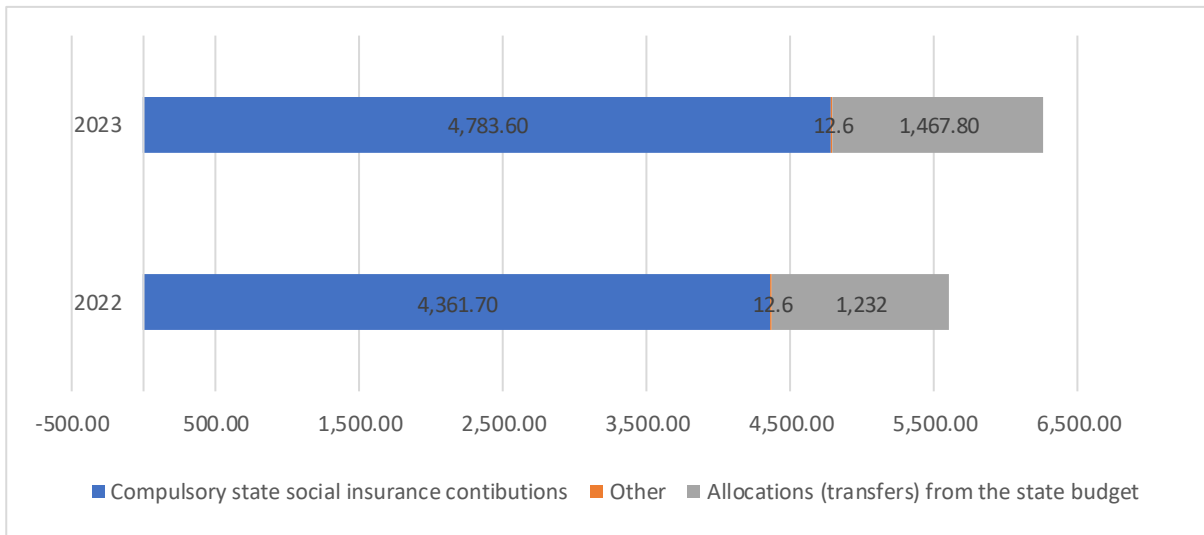
Figure 20. Total Revenues and Expenditures of the the State Social Protection Fund for 2023 (Million AZN)



The increase in SSPF’s budget revenues is due to the growth in *mandatory state social insurance contributions and deductions from the state budget*, with 45.2% to come from *mandatory state social insurance contributions* and 54.8% from *state budget deductions*.

Mandatory state social insurance contributions account for 23.4% of budget revenues. The amount of revenues from this item is projected to increase by 9,8% (421.9 million AZN) to 4783.6 million AZN. The increase can be directly tied to contributions from both budgetary and non-budgetary organizations, with the growth rate of contributions from budgetary organizations (12,5%) exceeding the growth rate of those from non-budgetary organizations (5.2%). Revenues to SSPF’s 2023 budget from the two items include 3000.5 million AZN and 1 783,1 million AZN, respectively.

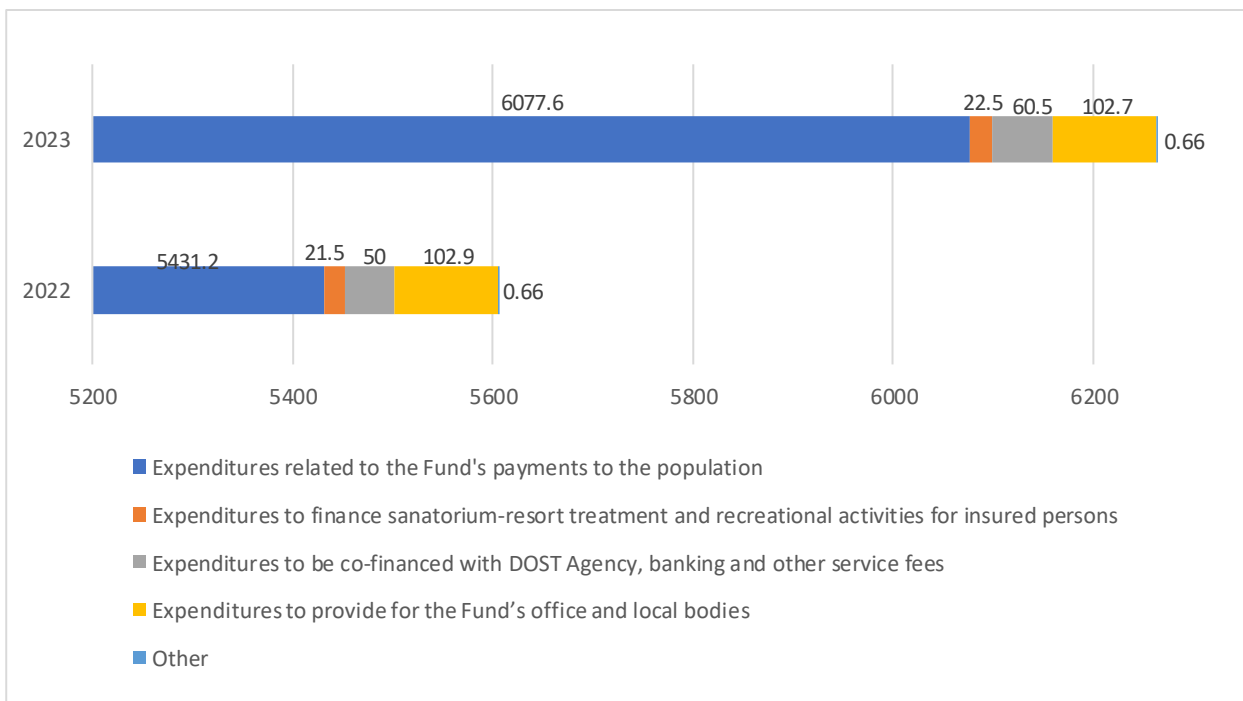
Figure 21. Revenue Structure of the State Social Protection Fund, 2023



In order to balance the 2023 budget of the State Social Protection Fund, allocations from the state budget amount to 1467.8 million AZN, which is an increase of 235.8 million AZN (+19.1%) over the forecasted figures for 2022.

Out of the total expenditures of the Fund, 97% will be spent on making payments to the population, 0.4% on sanatorium-resort treatment and recreational activities for insured persons, 1% co-financing expenditures with Dost Agency as well as providing banking and other services for banking operations, including payment of pensions and benefits, and 1.6% financing expenditures to provide for the Fund's office and local bodies.

Figure 22. 2023 Budget Expenditure Items of the State Social Protection Fund (Million AZN)



2023 foresees *allocation* of 6 077.6 million AZN to the population, which is 11.9% (646.4 million AZN) greater than the amount spent on this item in 2022. The increase is due to the growth of payments to labor pensioners. Thus, compared to the previous year, *labor costs* were increased by 12.4% (650,2 million AZN) to 5907.2 million AZN, while *benefit expenditures at the expense of compulsory state social insurance contributions* shrank by 3.2% (3.8 million AZN) to 170.4 million AZN.

Expenditures to finance sanatorium-resort treatment and recreational activities for the insured through the Azerbaijan Trade Unions Confederation are projected at 22.5 million AZN, which is an increase of 1 million AZN over 2022.

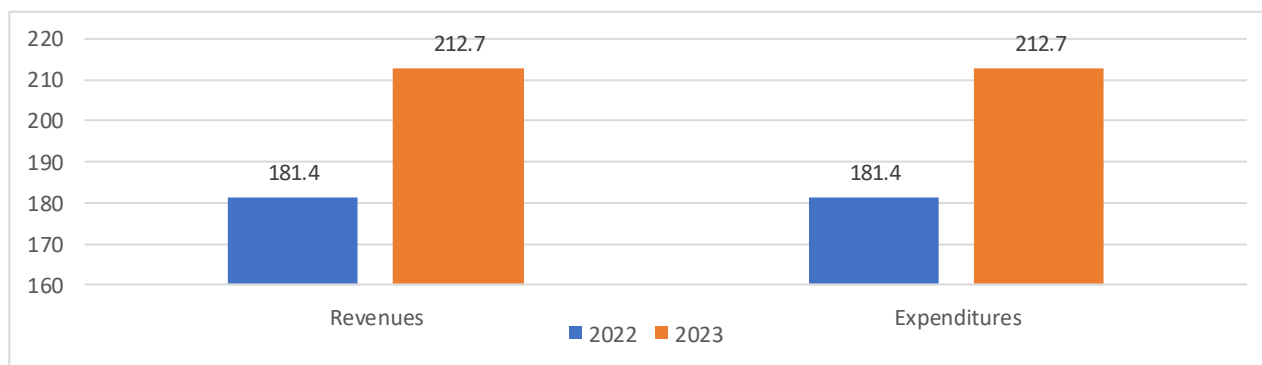
The budget of DOST Agency (the Agency for Sustainable and Operative Social Provision) includes 60.5 million AZN for bank transactions and other service fees to pay pensions and allowances. This expenditure item is increased by 10.5 million AZN. The increase is related to the opening of new centers in Shusha in January 2023; in Agjabedi, Yevlakh, Shirvan, Neftchala and Beylagan in July; and in Guba, Sumgayit, Sabirabad, Ganja, Agdam, Imishli, Saatly, Shabran and Siyazan in December.⁸

Expenditures to provide for the *Fund's office and local bodies* in 2023 is projected at 102.7 million AZN, which is 0.2% less (0,2 million AZN) than the forecast for 2022.

Unemployment Insurance Fund

The 2023 budget revenues and expenditures of the Unemployment Insurance Fund amount each to 212.7 million AZN, which is by 17.3% (31.3 million AZN) greater than the forecast for 2022.

Figure 23. Total Revenues and Expenditures of the Unemployment Insurance Fund for 2023 (Million AZN)



The budget of the Fund will be formed from three sources. 75% of the revenues are generated from *unemployment insurance contributions*, 24.9% from *unused money of the unemployment insurance fund as of the end of 2022* and 0.1% from *other*.

Revenues from *unemployment insurance contributions* are projected at 159,6 million AZN, which are 11.3% (16.3 million AZN) greater than the forecast for 2022. Growth is expected both in the budgetary and non-budgetary sectors. Revenues from *budgetary organizations and their staff* are projected to grow by 8.8% to 22.4 million AZN, while *the non-budgetary sector* foresees 12.6% growth, with 114.7 million AZN to be generated from this source.

The projected receipts in the item of *other incomes* in the budget revenue sources are increased by 20% to 60000 AZN.

One of the sources of income of the Fund's budget is the unencumbered balance of previous years. In 2023, the amount allocated from the Fund's *unutilized balances to the current year's expenses* is increased by 39.7% to 53 million AZN. According to the Chamber of Accounts,⁹ the biggest amount of unused money in the formation of the Fund's revenues in 2023, compared with the previous year, is associated with the growth of proceeds in the form of unemployment insurance premiums, the lack of some expenditure items in 2023 (items contained in the Law "On the Unemployment Insurance Fund's Budget for 2022" but not in the corresponding law for 2023), and the low level of some expenditure items.

As for expenditures of the Fund, 57.3% of them are allocated to *provide employment of the population*, 5.2% to pay *unemployment insurance benefits*, 21% to maintain the State Employment Agency, the National Observatory of the Labor Market and Problems of Social Protection, and 16.5% to co-finance activities of *the Agency for Sustainable and Operative Social Provision to organize services in the social sphere*.

2023 expenditures for *employment of the population* amounts to 133 million AZN, which is 23.6% (25,4 million AZN) more than the forecasted figure for 2022.

In general, there were no changes compared to 2022 in six of the 13 items of expenditure. These activities include provision of counseling services for vocational guidance, organization of paid public works, development of professional standards, creation of social enterprises and implementation of targeted programs, creation of additional employment for citizens who need special social protection and experience employment difficulties, and other active measures provided for by law for the implementation of labor law.

Two areas of activity foresee less spending. Expenditures to *organize labor fairs and labor exchanges* shrank by half to 0.5 million AZN, while those to *finance part of salaries of social service providers* fell by 33.3% to 2 million AZN.

The increases are also envisaged in other items of expenses, with the biggest growth (144.4%) to be seen in *professional training and organization of additional education*. The budget forecasts spending 22 million AZN on this item. 11 million AZN (up 29.4% from a year ago) will be allocated for *unemployment insurance payments*. *Expenses for organization of self-employment activities* will be increased by 15% to 87.5 million AZN.

In 2023, 44.7 million AZN (+2.1%) will be spent to *maintain the staff of the State Employment Agency and its local bodies and the the National Observatory of the Labor Market and Problems of Social Protection*, and 35 million AZN (+16.7%) to co-finance DOST Agency's activities to organize services in the social sphere. The significant increase in expenses for DOST Agency is related to the opening of new centers in Shusha in January 2023; in Agjabedi, Yevlakh, Shirvan, Neftchala and Beylagan in July; and in Guba, Sumgayit, Sabirabad, Ganja, Agdam, Imishli, Saatly, Shabran and Siyazan in December.

Compulsory Health Insurance Fund

A proposed amendment to the law “On the Budget System” envisages the creation of a new off-budget state fund: the Compulsory Health Insurance Fund. To that end, while calculating the 2023 consolidated budget, revenues and expenditures of the State Compulsory Health Insurance Fund were taken into account, and both were projected at 2393.2 million AZN.

The main source of income for the Fund are *transfers from the state budget*—1.263,8 million AZN are to be allocated in 2023. Of these, 1 134.1 million AZN will be spent on *the mandatory health insurance of the population at the expense of the state budget*, while 129.7 million AZN are aimed at *financing state programs and activities in the health sector*.

Last year, the state budget forecasted the provision of 1 125.7 million AZN to *finance compulsory health insurance expenses and a number of state programs and measures in the field of public healthcare*.