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Amendments to the 2018 State Budget in Azerbaijan: Back to the oil boom period?

RASHAD HASANOV

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Abstract

As expected, in the 2nd week of June, the Azerbaijani government started to revise the state budget and make amendments to it. It should be noted that the higher-than-expected prices of hydrocarbon products in global markets have created a basis for the revision of the state budget, a practice frequently seen in the Azerbaijani experience.

The main points relevant to public interest can be grouped as follow:

- What changes in fiscal policy will occur following the increase in oil prices?
- Will spending of oil revenues accelerate?
- Which functional expenses will increase most in the case budget expenditures are increased?
- Will social expenditures (salaries, funds, pensions and social allowances) increase?

The Center for Economic and Social Development (CESD) constantly focuses on important social and economic processes in Azerbaijan. In this paper, we will try to answer the questions that are written above based on officially publicized information. We note with regret that the level of public participation in the budget process remains low and the law on amendments of the state budget is not entirely publicized yet, limiting our access to information. It is expected that the law will be discussed in the National Assembly session scheduled for June 29.

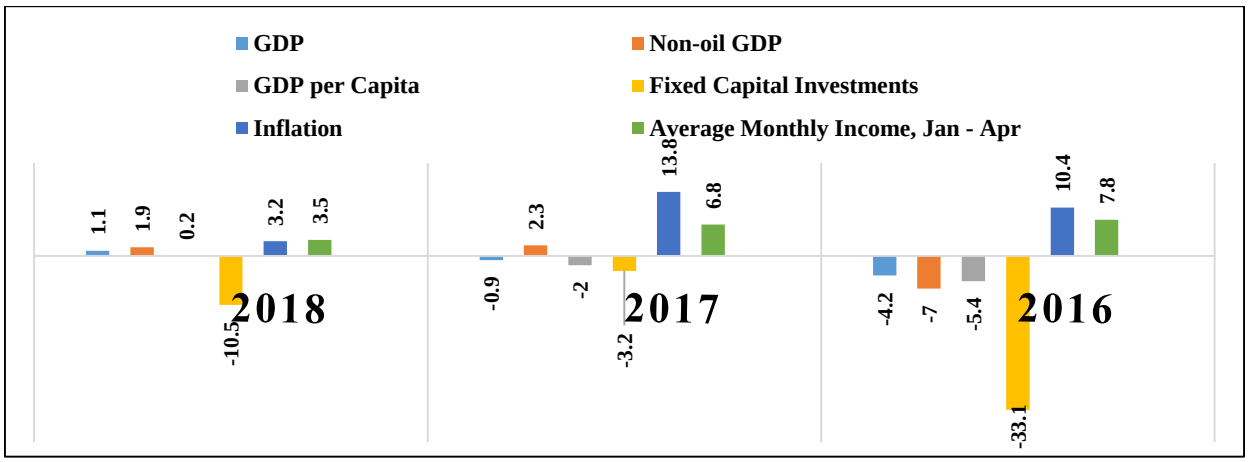
I. Macroeconomic environment

1.1. *Brief review of macroeconomic indicators of the country*

Compared to 2015-2017, the economy is showing more desirable dynamics in the first months of 2018. Compared to the same period last year, the Gross Domestic Product increased by 1.1% during January - May. The expansion was due to growth of the non-oil sector, which equaled 1.9%[1][***see: diagram 1***]. It should be noted that the government predicts a 1.5% growth for the economy overall and 2.9% growth for the non-oil sector during 2018[2].

The GDP per capita increased by 0.2% and reached 2991 manat during the reporting period. Let us remind readers that the corresponding indicator was -2% (negative) during January – May of 2017[3].

Graph 1: Comparison of macroeconomic indicators for January – May, 2016 - 2018



Source: State Statistical Committee of Azerbaijan, 2018

As can be seen from the graph, the rate of inflation has fallen compared to the last two years. Despite the inflation rate standing at 10.4% and 13.8% during the January – May period of 2016 and 2017, respectively, it has fallen to 3.2% during the same period in 2018. This means that the real income of the population did not contract, because this rate is equal to the rate of increase of average monthly income.

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[1] ARDSK, "2018-ci ilin yanvar-may aylarında Ümumi Daxili Məhsul istehsalı", 14.06.2018
https://www.stat.gov.az/news/index.php?id=3892

[2] Maliyyə Nazirliyi, "Azərbaycan Respublikasının 2018-ci ilin dövlət və icmal büdcələri üzrə layihələrin təqdimatı", baxış tarixi: 14.06.2018, səh: 6
http://www.maliyye.gov.az/sites/default/files/Budce-19.10.2017.pdf

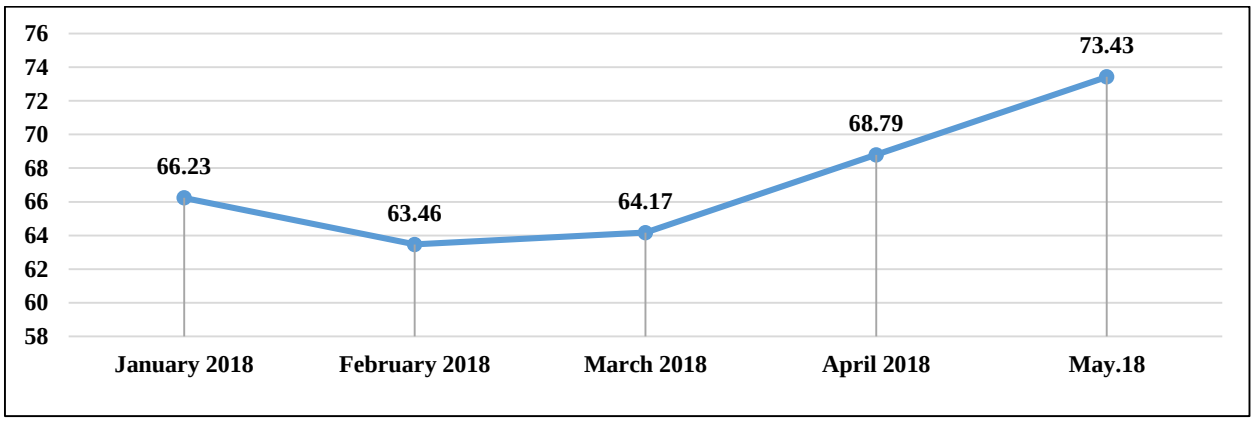
[3] ARDSK, "2018-ci ilin yanvar-may aylarında ölkənin iqtisadi və sosial inkişafının makroiqtisadi göstəriciləri", 14.06.2018
https://www.stat.gov.az/news/macroeconomy.php?page=1

The exchange rate of the national currency against the US dollar has been stable during the first five months of 2018[4]. The Central Bank decreased the discount rate by only 5 percentage points over February, April and June, and made it 10%[5]. However, regardless of this development, there has been no major change in the lending policy of the bank. No significant increases were observed in the volume of loans in the country. At present, the level of loans is equal to 11.4 billion manat, which is 24% less than the same period of the last year[6]. Overall, the steps taken for strengthening the banking sector are not sufficient to solve its problems.

1.2. *Global economic environment*

The trend of increasing oil prices in global markets continued in 2018. At the moment, one barrel of Azerbaijani oil of "AzerLight" is sold for around 77 USD[7]. The average price of BRENT crude oil was 67.2 USD for the last five months [***see: graph 2***]. This amount is 33% higher than the estimated price of oil used in calculating the state budget; while preparing the 2018 State Budget, the export price of one barrel of oil was taken as 45 USD[8].

Graph 2: Average monthly price dynamic of BRENT crude oil



Source: YCHARTS, 2018

The higher-than-expected oil prices positively impacted the trade balance, surplus of the balance of payments and strategic reserves of Azerbaijan. In other words, there was a trade surplus

[4] CBAR, "AZN Rates" https://en.cbar.az/other/azn-rates?act=betweenForm&from%5Bday%5D=1&from%5Bmonth%5D=1&from%5Byear%5D=2018&to%5Bday%5D=14&to%5Bmonth%5D=6&to%5Byear%5D=2018&rateID=usd

[5] CBAR, "Refinancing rate", 10.04.2018 https://en.cbar.az/infoblocks/corridor_percent

[6] CBAR, "Loans", 01.05.2018 https://en.cbar.az/infoblocks/bank_credit

[7] APA, "Azərbaycan nefti ucuzlaşıb", 14.06.2018 http://m.apasport.az/iqtisadiyyat-xeberleri/birja-xeberleri/azerbaycan-nefti-ucuzlasib-6340.html

[8] Maliyyə Nazirliyi, "Azərbaycan Respublikasının 2018-ci ilin dövlət və icmal büdcələri üzrə layihələrin təqdimatı", baxış tarixi: 14.06.2018, səh: 10 http://www.maliyye.gov.az/sites/default/files/Budce-19.10.2017.pdf

of 3266.6 million manat in the January – May period[9]. The surplus in the balance of payments amounted to 1.1 billion USD, or 15.4% of GDP, during the first quarter of the year[10]. Finally, assets of SOFAZ grew by 5.1%, or 1.8 billion USD, compared to the beginning of the year[11].

The potential risk of high volatility in the exchange markets of countries like Russia, Turkey and Iran, who are Azerbaijan's main trade partners, was neutralized with tight exchange and monetary policies.

A surplus of 650.8 million manat was created during the execution of the state budget during January – May of the current year. Budget revenues amounted to 8.25 billion manat (30.1% higher than the same period of the last year), while expenditures reached 7.59 billion manat (12.9% higher than the same period of the last year)[12].

[9] ARDSK, "Xarici ticarət əlaqələri haqqında", 13.06.2018 https://www.stat.gov.az/news/index.php?id=3885

[10] Mərkəzi Bank, "2018-ci ilin yanvar-mart ayları üçün Azərbaycan Respublikasının tədiyə balansı", https://www.cbar.az/assets/4667/XSB.2018_1-ci_r%C3%BCb_-_Pressa.pdf

[11] SOFAZ, "SOFAZ revenue and expenditure Statement for January-March 2018", baxış tarixi: 14.06.2018 http://www.oilfund.az/en_US/hesabat-arxivi/rublukh/2018_1/2018_1_1/

[12] ARDSK, "Macro-economic indicators and social development of the country (January-May, 2018)", 14.06.2018 https://www.stat.gov.az/news/macroeconomy.php?page=1?lang=en

II. State budget: important changes and fiscal policy

2.1. *Amendments to the state budget*

According to the Ministry of Finance, the draft bill on amendments to the state budget of 2018 was submitted to the National Assembly for discussion after considered acceptable by the Cabinet of Ministers and the President of the Republic of Azerbaijan[13]. The reasons listed by the Ministry for the revision of the budget are as follows:

- Strengthening the social protection of the population,
- Enhancing defense and security,
- Development of the tourism sector,
- Implementation of certain social and infrastructure projects,
- Agriculture, supply of water, melioration and irrigation projects.

2.2. *Changes in the revenues of the state budget*

State budget revenues for 2018 are expected to reach 22.1 billion manat after the amendments. This number is 9.9%, or 1 billion and 983 million manat. more than the approved budget revenues of 2018. As a result of the increase, budget revenues will be 5 billion 466 million manat, or 33.9%, more compared to 2017[14]. It should be noted that a significant part of the increase comes from transfers from SOFAZ to the state budget. In the new proposal the amount of transfers is equal to 10 billion 966 million manat, which is 1 billion 750 million manat, or 19%, larger than the approved budget[15]. In other words, the proposed increase in transfers from the oil fund is equal to 88.3% of the total increase in budget revenues. Meanwhile, the tax revenues of the state budget coming from the oil sector will also increase because of the higher price of oil, which means that the increase in budget revenues almost completely comes from the oil sector.

Given the current situation of the market, authorities will increase their estimates regarding the price of a barrel of oil by 10 USD, to a total 55 USD, when making changes to the state budget.

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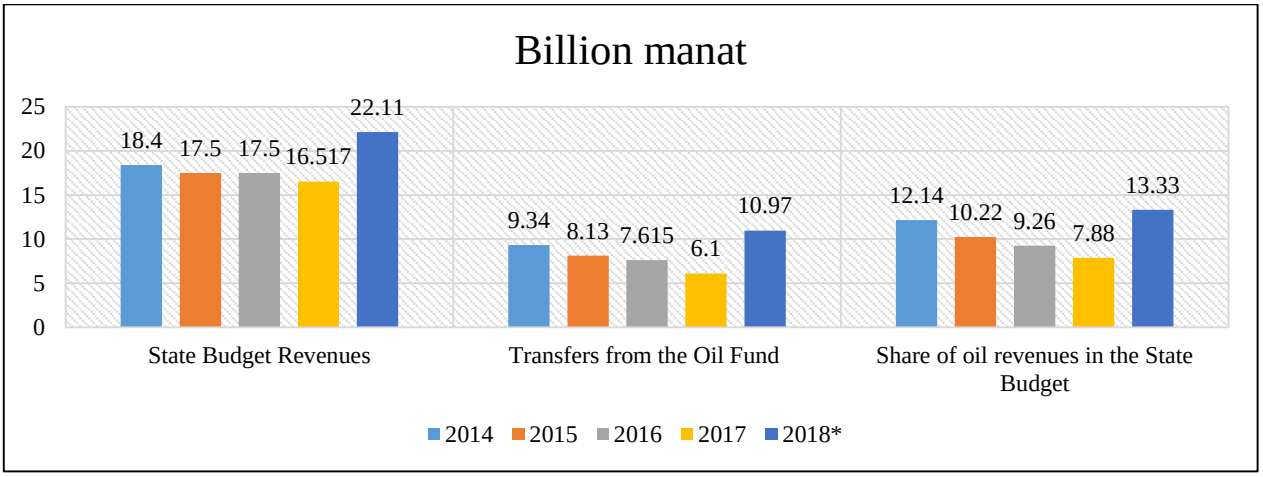
[13] Maliyyə Nazirliyi, "2018-ci il dövlət büdcəsinə dəyişikliklər edilməsi ilə bağlı qanun layihəsi Azərbaycan Respublikasının Milli Məclisinə təqdim olunub", 12.06.2018
http://www.maliyye.gov.az/node/2187

[14] APA, "2018-ci ilin dövlət büdcəsinin gəlir və xərcləri artırılır", 12.06.2018
http://apa.az/maliyye_xeberleri/2018-ci-ilin-dovlet-budcesinin-gelir-ve-xercleri-artirilir-6172.html

[15] Marja.az, "Dövlət Neft Fondundan büdcəyə transfertlərin artırılması valyuta bazarına təsir etməyəcək", 14.06.2018
http://marja.az/news/26279?title=neft-fondundan-budceye-kocurmenin-artmasi-dollara-tesir-edecek-aciqlama

This change can be considered as acceptable considering that the average oil price in the last five months was 67 USD. However, the increase in transfers from the oil fund shows that the government is returning to an expansionary fiscal policy, again, under the existing conditions. This is in contrast to the trend of fiscal consolidation observed after 2015.

Graph 3: Role of the oil sector, including transfers from the oil fund, in the formation of budget revenues



Source: Republic of Azerbaijan Chamber of Accounts, 2018

As can be seen form the graph above, despite the volume of transfers from SOFAZ to the state budget decreasing steadily since 2014, it rose sharply in 2018 (79.8%). As a result, oil revenues from the state budget are predicted to reach 13.33 billion manat, which is 69.2% more than in 2017. This indicator of 2018 is 60.3%, or 13 percentage points, higher than last year's indicator. Hence, the oil sector has once again dominated state budget revenues.

Overall, we can say that the increase in oil prices has undermined the importance of fiscal policy reforms for the government. Economic activity is planned to be restored by state budget expenditures. This will ultimately create new challenges for the formation of a competitive real sector and the diversification of the economy. Also, this development puts the fiscal sustainability of the country at risk.

Revenues from the Ministry of Taxes are reduced by 6.7%, or, in other words, 627 million manat, after the amendments. Decreases in budget revenues from taxes are mainly driven by tax revenues of the non-oil sector, which is 1 billion 27 million less than the approved amount. The increase in oil prices, on the other hand, caused tax revenues from the oil sector to increase by 500 million manat. Taking into the account the fact that an increase in budget expenditures will take place, under the current legislation, the revenues of the state budget from the taxation of the non-oil sector should also increase. Considering the general reduction and the highlighted point, we

can argue that serious steps should be taken to reduce the tax burden of the non-oil sector. During the past few months we have proposed in the local press that the revision of the 2018 state budget should be carried out in parallel with tax reforms (reduction of tax burden)[16].

Additionally, it should be noted that after the appointment of the new Minister of Taxes at the end of 2017, a person who does not represent local oligarchs, fiscal pressure on economic entities under the name of tax administration has dropped. It seems that the government has finally decided that the tax burden is an important factor for the development of the real economy, including expanding small- and medium-sized businesses, increasing fixed capital investments, liberalizing investment environment and business legalization. Despite making around 200 changes to the Tax Code on 30 December 2016, there was no reduction of the tax burden. According to the evaluation of the World Bank, the tax burden on commercial activities in Azerbaijan stood at 39.8% for 2017, which is same as the indicator for 2016[17].

For a country that receives more than 60 percent of its fiscal revenues from oil and gas extraction, this indicator can be considered high. Moreover, the existing tax policy cannot be considered as desirable for developing new private entrepreneurship activities (Azerbaijan has decided to move to a free market economy from a planned economy after re-proclaiming its independence in 1991). Let us mention that, according to the same World Bank report, the tax burden in regional countries was 16.4% in Georgia and 18.5% in Armenia, while for other oil and gas rich countries, the indicator stood at 29.2% for Kazakhstan, 15.7% for Saudi Arabia, 15.9% for United Arab Emirates. As a further example, in the case of one of the highly developed Asian countries, Singapore, which is considered a model of development for Azerbaijan, the tax burden on commercial activities is 20.3%.

According to available public data, the government is expected to take concrete steps on Value Added Tax (VAT). Namely, the amount of revenues to be collected from VAT has been decreased by 770 million manat, or 29.8%, and fell to 1 billion 813 million manat[18]. Based on that information we can expect that amendments to relevant articles of the Tax Code will be adopted and, most likely, lead to the application of differential VAT. Even though the application of a differential VAT was added to the list of tax reforms following the decree on "Approval of

[16] Yeni Musavat, "Büdcəyə yenidən baxılarsa, artan neft gəlirləri haraya yönəldilə bilər?", 01.05.2018 http://musavat.com/news/budceye-yeniden-baxilarsa-artan-neft-gelirleri-haraya-yoneldile-biler_523296.html
[17] World Bank, "Total tax rate (% of commercial profits)", baxış tarixi: 15.06.2018 https://data.worldbank.org/indicator/IC.TAX.TOTL.CP.ZS?view=chart
[18] APA, "Vergilər Nazirliyinin xətti ilə daxilolmalar üzrə proqnoz 6% artırılır", 12.06.2018 http://apa.az/iqtisadiyyat-xeberleri/maliyye_xeberleri/vergiler-nazirliyinin-xetti-ile-daxilolmalar-uzre-proqnoz-6-artirilir-72.html

strategies of reforms to be carried out in the tax field in 2016 improving the tax administration" by President of Azerbaijan Republic on 4 August 2016, it has yet to materialize.

One of the points to be clarified during the amendment process is the profit tax of legal entities. Budget revenues in this direction will increase by 213 million manat, or 9.2%, compared to the approved indicator[19]. The increase will be due to the profit tax paid by legal entities operating in the oil sector. Revenues in this area will be increased by 40.5%, or 342 million manat, and reach 1 billion 186 million manat. The reason for this rise is the higher oil price. However, the profit tax from entities operating in the non-oil sector is going to be decreased by 9.2%, or 129 million manat[20]. This gives grounds to say that there will be amendments in tax administration and a decrease of the tax burden.

In general, revenues to the state budget from the non-oil sector through the Ministry of Taxes will amount to 5 billion manat after amendments, which is 17%, or 1 billion 27 million manat, less than the approved indicator.

Another source of growth in budget revenues is going to be the State Customs Committee. During the amendments, the volume of funds transferred from the Customs Committee to the budget has increased by 30%, or 725 million manat. As a result, the Committee's budget commitments for 2018 are planned to be 3 billion 155 million manat[21]. This indicator is 20.9% more than in 2017. It should be noted that the main reason behind the increase in customs revenues is a hike in imports. An increase of 34.9% was observed during the January – April period of the current year[22]. As a result, the Customs Committee transferred 1 billion 326 million manat to the state budget in January-May 2018, which is 37.4%, or 361 million manat, more than the approved forecast[23]. If the current trends continue, the Committee will not face any severe difficulties in fulfilling its commitments to the state budget.

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[19] APA, "Vergilər Nazirliyinin xətti ilə daxilolmalar üzrə proqnoz 6% artırılır", 12.06.2018
http://apa.az/iqtisadiyyat-xeberleri/maliyye_xeberleri/vergiler-nazirliyinin-xetti-ile-daxilolmalar-uzre-proqnoz-6-artirilir-72.html

[20] **Qeyd:** müqayisə Hesablama Palatasının 2018-ci ilin dövlət büdcəsi layihəsinə rəyində əksini tapan məlumatlar əsasında aparılıb, baxış tarixi: 15.06.2018
http://sai.gov.az/upload/files/REY_Layihe2018_27oktyabr_F.pdf

[21] APA, "Dövlət Gömrük Komitəsinin xətti ilə daxilolmalar üzrə proqnoz 30% artırılır", 12.06.2018
http://apa.az/iqtisadiyyat-xeberleri/maliyye_xeberleri/dovlet-gomruk-komitesinin-xetti-ile-daxilolmalar-uzre-proqnoz-30-artirilir-5936.html

[22] Dövlət Gömrük Komitəsi, "Azərbaycan Respublikası Xarici Ticarətinin Gömrük Statistikası", baxış tarixi: 14.06.2018
http://customs.gov.az/modules/pdf/pdffolder/71/FILE_C11E44-0ABA87-95C871-5CF707-A61BC1-370204.pdf

[23] APA, "Bu ilin 5 ayında DGK dövlət büdcəsinə 1,3 mlrd. manat köçürüb", 13.06.2018
http://apa.az/maliyye_xeberleri/bu-ilin-5-ayinda-dgk-dovlet-budcesine-1-3-mlrd-manat-kocurub-7999.html

Another factor that is expected to contribute to increasing budget revenues are non-budget revenues of state institutions. In this regard, revenues will be 35 million higher than the approved amount[24].

The increment of the increase in oil prices in global markets will naturally impact the budget revenues of the State Oil Fund for 2018. Given this point, the Fund's revenues will be increased by 48.4%, or 5 billion and 600 million manat, in the budget clarifications[25]. 31.2% of this increase will be used to increase transfers to the state. The Fund's revenues in the first quarter of the current year amounted to 4.3 billion manat[26], which is approximately 48.7% more than the previously forecasted amount. As a result, the Oil Fund can carry out the sale of approximately 6.4 billion USD worth of foreign currencies, with the current exchange rate, throughout the year.

Summarizing

If we do a brief summarization:

- *The domestic and foreign economic environment will support the execution of revenues of the state budget after amendments.*
- *Changes in expected revenues of the state budget of 2018 are positive developments in terms of reducing the tax burden of businesses and negative for existing oil revenue spending and fiscal consolidation policies.*

[24] APA, "Dövlət Gömrük Komitəsinin xətti ilə daxilolmalar üzrə proqnoz 30% artırılır", 12.06.2018 http://apa.az/iqtisadiyyat-xeberleri/maliyye_xeberleri/dovlet-gomruk-komitesinin-xetti-ile-daxilolmalar-uzre-proqnoz-30-artirilir-5936.html

[25] Report.az, "Dövlət büdcəsində neftin baza qiyməti 10 dollar artırılır", 12.06.2018 https://report.az/energetika/dovlet-budcesinde-neftin-baza-qiymeti-10-dollar-artirilir/

[26] ARDNF, "Azərbaycan Respublikası Dövlət Neft Fondunun 2018-ci ilin yanvar-mart ayları üzrə gəlir və xərclərinə dair məlumat", baxış tarixi: 15.06.2018 http://www.oilfund.az/az_AZ/hesabat-arxivi/rublukh/2018_1/2018_1_1/

2.3. *State budget expenditures after amendments*

State budget expenditures for 2018 will increase to 23.1 billion manat after the new amendments. This indicator is 9.6%, or 2 billion 14 million manat, larger than the approved number[27]. Let us remind readers that the state budget expenditures for 2017 were equal to 17 billion 595 million manat[28]. Thus, the state budget expenditures for 2018 are forecasted to be 5 billion 466 million, or 31.1%, higher compared to the previous year. As we noted in the previous sections, an important part of this growth will be ensured by revenues coming from the oil sector, which ultimately leads to the increasing dependence of fiscal revenues on resources, once again.

Increasing expenditures will mainly cover the following areas:

- *Financing of measures for increasing state defense and security;*
- *Strengthening social security;*
- *Increasing the equity capital of the State Oil Company of Azerbaijan Republic;*
- *Compensation of losses of "Azerenerji" Open Joint Stock Company;*
- *Expansion the scope of agriculture, water supply, melioration and irrigation activities;*
- *Promoting tourism industry of the country*
- *Adjusting costs, construction, rehabilitation and maintenance of road infrastructure;*
- *Financing several new infrastructure and social projects*[29]*;*

It should be noted that on April 11, 2018, the Presidential Decree on "the increasing of salaries, pensions and allowance of workers in organizations funded by the state budget" was signed. It set commitments that were impossible to implement within the framework of the previously approved budget. In other words, it was predicted that amendments would be made to form a fiscal framework suitable for the financing of these costs. However, this fact leads to a false hope by citizens that wages, pensions and allowances will be increased again. In reality, funds allocated for social protection will be directed to financing of the above-mentioned costs only.

According to the new amendments, 963.2 million manat will be allocated to SOCAR from the state budget. This is equivalent to 47.8% of the funds intended for growth of budget

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[27] Azeuronews, "2018-ci ilin dövlət büdcəsinin gəlir və xərcləri artırılır", 12.06.2018 https://azeuronews.com/?p=86216

[28] Prezident.az, "Azərbaycan Respublikasının 2017-ci il dövlət büdcəsinin icrası haqqında Azərbaycan Respublikasının Qanunu", 11.06.2018 https://static.president.az/media/W1siZiIsIjIwMTgvMDYvMTEvOXU1c2czeTAxbF9RQU5VTl9CVURDRS5wZGYiXV0?sha=db36750b2f10d824

[29] APA, "Dövlət büdcəsinə yenidən baxılmasını zəruri edən səbəblər açıqlanıb", 12.06.2018 http://apa.az/maliyye_xeberleri/dovlet-budcesine-yeniden-baxilmasini-zeruri-eden-sebebler-aciqlanib-1026.html

expenditures in general. Of that amount, 663.2 million manat is allocated as a part of state support to SOCAR on drilling works for the Umid, Qarabagh and Babak fields. 300 million manat will be used to subsidize the losses formed by selling imported gas below its contract price to "Azerenerji" OJSC[30]. The allocation of 663 million manat to support SOCAR when oil prices are experiencing a significant increase creates questions, as well as brings forward issues such as the lack of financial transparency in state enterprises, high risks of corruption and weak corporate governance.

81.4 million manat will be allocated to "Azerenerji" OJSC according to the new budget project. These funds will be directed to repay the debt of "Azerenerji" to the "Wartsila" company of Finland. Note that the debt of "Azerenerji" to "Wartsila" was created because of the purchase of equipment for the installation of a 385 megawatt thermal power plant[31].

While reviewing the state budget of 2018, "Azerbaijani Railways" CJSC will get 100 million manat for increasing its equity capital. The allocated funds are expected to be directed to the reconstruction of the communication and signaling system of the Baku-Boyuk Kesik line of the East-West railway corridor.

One of the spheres of expenditure, which is allocated from the funds of the state budget, is the social protection of those who were killed for the territorial integrity of the Republic of Azerbaijan and family members of military serviceman who were lost during military operations[32]. It should be noted that with the Decree of the President of the Republic of Azerbaijan dated April 19, 2018 "On Additional Measures to Improve Social Protection of Family Members of the Deceased Military Servicemen, and those Announced to be Deceased due to Being Lost During Military Operations"[33], an appropriate commitment was made to relevant state bodies. Funds allocated from the state budget are intended to fulfill this commitment.

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[30] Qafqazinfo.az, "SOCAR-a 963,2 milyon manat ayrılacaq", 12.06.2018
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Summarizing

Brief Summary:

- *Because of increasing oil prices in global markets, the fiscal consolidation policy has lost its importance. The fiscal expansion policy, which has been observed since the second half of 2017, is accelerating throughout 2018;*
- *During the amendments to the state budget, an important part of the increase in budget expenditure is allocated to large state-owned enterprises, such as CJSC "Azerbaijan Railways" (100 million manat), "Azerisiq" OJSC (81.4 million manat), and SOCAR (963.2 million manat). The amount of funds allocated only for these three entities is 1 million 144.6 million manat, which is 56.9 percent of total growth.*
- *Funds allocated for social protection will be spent on the fulfillment of obligations under orders and decrees signed by the President of Azerbaijan. During the amendments, salaries, social allowance, pensions and other social-related expenditures are not considered to increase any further.*

III. Potential risks for the execution of the state budget after amendments

As it was mentioned above, to implement existing fiscal policy, assumptions were made for both the domestic and foreign environment for the first five months of the 2018. As before, the existing risks for the implementation of the new budget commitments remain high. They can be classified as the following:

1. ***The price of oil in global markets*** **-** because of changes in the state budget, the share of the oil sector in the revenues of the state budget has been increasing. As a result, the dependency of fiscal earnings on the price of oil and, hence, its risk level has increased. Presently, we have come upon a period of the intersection of significant factors that direct the future dynamics of global oil prices. One such example being that OPEC might decide to increase production at its next meeting, especially given the position of major oil producers such as the United States, Saudi Arabia and Russia, this scenario is more likely to take place.

2. ***Regional conflicts*** **-** The transition of political tensions among Iran, the United States and Israel to the military scale might negatively affect economic processes in the region. It should be noted that in that case, Azerbaijan may encounter a massive influx of refugees, which will eventually threaten the predicted economic cycle. Such a development will have a negative impact on maintaining a stable environment in the country and the implementation of large-scale projects, including the inflow of foreign investment.

3. ***Ineffective execution of the restructuring processes of the financial sector*** – The banking sector's recession continues from the second half of 2014 and the lack of specific steps to reduce toxic assets has exacerbated the problem. Under certain conditions, the license of some banks may be eliminated, which can form a serious fiscal burden for the government that guarantees 100% of deposits regardless of the amount of money deposited (3% in foreign currency and 15% in manat), since 2016.

Result

The following conclusions were reached during the analysis of available data relating to changes to the state budget for 2018:

I. *Quality Amendments:*

1.1. *Strengths*

- Increase in the amount of social protection expenditures in the state budget;
- Decrease in the tax burden of the non-oil sector;
- Creation of the base for the transition to differential VAT;

1.2. *Weaknesses*

- Fiscal consolidation policy goes to the backburner;
- Increase in oil dependence rates of budget revenues;
- Problem of public participation in the budgeting process remains unresolved;
- Increase in the amount of state budget expenditures allocated to state enterprises;

II. *Quantitative Amendments:*

2.1. *The state budget revenues*

a) State budget revenues increase by 9.9%,

b) Weight of the oil sector in budget revenues is brought up to 60.3%;

- The base price for one barrel of oil in the state budget is increased by 22.2%, or 10 USD per barrel, reaching 55 USD per barrel.
- The volume of transfers from the Oil Fund to the state budget is increased by 1 billion 750 million manat, or by 19%. This takes up 88.3% of increases in state budget revenues. Overall, the volume of transfers is predicted to be 79.8% higher in 2018, compared with the previous year. As a result, one of every two manat of state budget revenues for 2018 will be formed from the transfers of the Oil Fund.
- Tax revenues from the oil sector are increased by 500 million manat through the Ministry of Taxes.
    - Revenues generated as profit tax from the legal entities operating in the oil sector are increased by 342 million manat, or 40.5%.

c) Revenues from the non-oil sector through the Ministry of Taxes are reduced by 1 billion 27 million manat, or 17%;

- Collection of VAT via the Ministry of Taxes is reduced by 770 million manat, or 29.8%. The reduction is planned for the non-oil sector.

- Income tax for legal entities operating in the non-oil sector is reduced by 8.7%, or 129 million manat.
- The liabilities of the State Customs Committee of the Republic of Azerbaijan to the state budget are increased by 30%. It should be noted that the reason for growth is the rapid surge of imports compared to last year;

2.2. ***State budget expenditures***

a) State budget expenditures are increased by 9.6%, or 2 billion 14 million manat;

b) 963.2 million manat is allocated to State Oil Company of the Azerbaijan Republic with the amendments;

- 663.2 million manat to develop fields,
- 300 million manat to “Azerenerji” OJSC to compensate for the loss of gas sold at a low price.

c) 81.4 million manat will be allocated from the state budget for the implementation of the external debt commitment of “Azerenerji” OJSC;

d) Additional allocation of 100 million manat is planned for improving infrastructure of “Azerbaijan Railways" CJSC;

e) 58.3 million manat will be allocated for the implementation of the additional commitments coming from the decree "On Additional Measures to Improve Social Protection of Family Members of the Deceased Military Servicemen, and those Announced to be Deceased due to Being Lost During Military Operations"

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