

Ibadoghlu, Gubad

Preprint

What Does the 2025 Budget Promise?

Suggested Citation: Ibadoghlu, Gubad (2024) : What Does the 2025 Budget Promise?, SSRN, Rochester, NY,
<https://ssrn.com/abstract=5091291>

This Version is available at:

<https://hdl.handle.net/10419/309061>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

What Does the 2025 Budget Promise?

Gubad Ibadoghlu, a senior policy analyst at the Economic Research Center

Abstract

This article provides a comparative analysis of the main parameters of the 2025 state budget with those of neighboring countries. It examines the structural and trend analysis of budget revenue sources and expenditures while also evaluating the expectations of consumers, businesses, and state organizations for the 2025 budget. Additionally, the article identifies weaknesses in the upcoming state budget, assessing budget oversight regarding transparency and public participation. The relationship between the parliament and the executive branch during the allocation of budget expenditures and its impact on budget management is also discussed.

Specific and institutional risks that may affect budget implementation and the corruption potential of the 2025 state budget are evaluated.

Keywords: Azerbaijan, budget, revenue, expenditures, transparency, accountability, public participation, corruption

Introduction

The Ministry of Economy has forecasted the nominal Gross Domestic Product (GDP) for 2025 at 129.2 billion AZN, with the non-oil and gas sector contributing 92.2 billion AZN of this amount. Consequently, the 2025 budget expenditures are expected to equal 32% of the projected GDP. For budget calculations, the average annual export price of crude oil is set at \$70 per barrel, natural gas at \$242 per 1,000 cubic meters, and the exchange rate of the manat is projected to remain at 1 USD = 1.7 AZN.

The Milli Majlis (National Assembly) has approved the draft law “On the State Budget of the Republic of Azerbaijan for 2025.” During discussions lasting from November 25¹ to December 16², spanning three weeks, members of parliament made a 40 million AZN adjustment to both the revenues and expenditures of the state budget, amounting to approximately 1% of the total budget expenditures. This increase is linked to higher off-budget revenues and expenditures formed from these revenues.

Specifically, 36 million AZN was freed up through the optimization of expenses for goods and services procurement by budget organizations. This amount was allocated as follows:

- 815,000 AZN to the financial support of the Milli Majlis,
- 1 million AZN to financial aid for political parties,
- 24 million AZN to international activities,
- 10 million AZN to promote the country's export and investment potential.

In addition, certain reallocations were made within the overall expenditure framework of the state budget. It was noted that expenditures in some areas were reduced by a total of 229.8 million AZN, while the same amount was added to other areas.

As a result, the projected revenues for the 2025 state budget³ are set at 38.356 billion AZN, and expenditures at 41.4076 billion AZN. A detailed overview of the main parameters of the state budget for the medium term can be found in Table 1.

Table 1. Key Parameters of the State Budget for 2024–2028, in Billion AZN

Year	2024 Revised	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
State Budget Revenues	36.4	38.3	38.1	39.2	39.8
Transfers from SOFAZ to State Budget	12.8	14.5	12.8	12.6	12.0
Tax Revenues from Oil and Gas Sector	5.0	4.3	4.0	3.9	3.7

¹ <https://meclis.gov.az/news.php?id=5794&lang=az>

² <https://meclis.gov.az/news.php?id=5840&lang=az>

Year	2024 Revised	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
State Budget Expenditures	39.7	41.4	40.8	41.8	42.4

Source: Accounts Chamber of Azerbaijan⁴

From the table, it is evident that revenues in the 2025 budget draft are forecasted to increase by 5.4% compared to the approved 2024 forecast, while expenditures are expected to rise by 4.2%. Projections indicate that state budget revenues will decrease in 2026 compared to 2025, but are expected to grow in 2027 and 2028. Although transfers from SOFAZ (State Oil Fund of Azerbaijan) to the state budget for 2026 are forecasted at 2024 levels, tax revenues from the oil and gas sector are projected to decrease by up to 1 billion AZN. The highest level of transfers from SOFAZ to the state budget is anticipated in 2025. Regarding expenditures, the 2026 budget is noted as the year with the lowest forecasted budget spending in the medium term.

⁴ https://sai.gov.az/files/R%C9%99y_30.10.2024-767648285.pdf

Comparative budgets

Despite being the largest budget in the 33 years since Azerbaijan regained independence, the 2025 budget falls behind Georgia and Armenia in some per capita parameters. For 2025, per capita budget revenues are projected at 3,753.7 AZN, equivalent to 2,208 USD at the current exchange rate. A comparison of Azerbaijan's primary budget parameters with those of Georgia and Armenia for the upcoming year's expenditures is presented in Table 2.

Table 2. Comparison of Key Budget Parameters for 2025: Azerbaijan, Georgia, and Armenia

Parameter	Azerbaijan	Georgia	Armenia
Budget Expenditures (billion USD)	24.4	9.9	7.4
Per Capita Budget Expenditures (USD)	2,392	2,632	2,466
Defense Expenditures (billion USD)	4.6	1.73	1.7
Per Capita Defense Expenditures (USD)	451	460	566
Social Protection and Healthcare (billion USD)	4.0	3.14	2.7
Per Capita Social Protection and Healthcare (USD)	392	835	900
Education Expenditures (billion USD)	2.9	1.1	0.78
Per Capita Education Expenditures (USD)	284	292	260

Source: Ministries of Finance of Azerbaijan⁵, Georgia⁶, and Armenia⁷

From the data, it is clear that in 2025, Georgia is projected to allocate more funds per capita for overall budget expenditures compared to Armenia and Azerbaijan. Georgia also leads in per capita education expenditures among neighboring countries. However, Armenia surpasses its neighbors in per capita defense expenditures as well as social protection and healthcare spending. Regrettably, Azerbaijan lags behind Georgia and Armenia in all selected per capita budget parameters.

In terms of revenue and expenditure metrics, Azerbaijan leads the South Caucasus countries for the 2025 state budget. Azerbaijan's projected state budget revenues for 2025 are up to 2.5 times higher than Georgia's and more than three times higher than Armenia's. The 2025 state budget revenues are forecasted to increase by 1.928 billion AZN, or 5.3%, compared to the 2024 projection, reaching 38.316 billion AZN (equivalent to 22.5 billion USD at the current exchange rate).

⁵ <https://www.maliyye.gov.az/static/111/budce-layihelerinin-teqdimati-ve-parametrleri>

⁶ <https://civil.ge/archives/643485>

⁷

https://minfin.am/en/content/the_government_has_approved_the_draft_law_on_the_state_budget_of_the_republic_of_armenia_for_2025_/#sthash.qssSkdDp.dpbs

Budget revenues

For 2025, the share of state budget revenues in GDP is expected to increase by 0.4 percentage points compared to 2024, reaching 29.7%. However, the share of non-oil and gas revenues in the corresponding sector's GDP is projected to decrease by 0.8 percentage points to 21.2%. This decline in non-oil and gas revenues relative to non-oil and gas GDP compared to the current year's projection is explained by the absence of planned transfers from the Central Bank's realized profits and a reduction in revenues from non-oil and gas GDP sources.

It is anticipated that oil and gas revenues will account for 49% of state budget revenues in 2025, with non-oil and gas revenues comprising the remaining 51%. This is 0.2 percentage points lower than the expected figure of 51.2% for 2024. Analyzing the structure of budget revenues for 2025, corporate profit tax is projected to decrease. Specifically, revenues from this source are forecasted to decline by 418.6 million AZN, or 6.2%, compared to the revised 2024 projection. Land tax revenues from legal entities are also expected to drop by 2.7 million AZN, or 5.5%, compared to the previous year.

The decline in revenues from corporate profit and land taxes is primarily due to decreasing income from the oil and gas sector's profit tax, another component of state oil revenues. Additionally, the unfavorable business environment in Azerbaijan, marked by the growing dominance of monopolies, has led to a negative trend of businesses ceasing operations.

As of December 1, 2024, the State Tax Service reported 188,877 registered commercial entities in the country, 65.48% (123,682) of which were active and 34.52% (65,195) inactive. This means approximately one-third of registered businesses are non-operational. Interestingly, during the first 11 months of 2024, the number of active commercial entities increased by 10.9% compared to the same period in 2023. Despite this growth, the projected decline in corporate profit and land tax revenues for 2025 raises questions.

According to the Accounts Chamber's review of the 2025 state budget draft⁸, the amount of tax and customs exemptions granted but not accounted for in state budget revenues is forecasted at 6.8903 billion AZN for 2025, an increase of 522.8 million AZN, or 8.2%, compared to 2024. Of this amount, 63.6% (4.3841 billion AZN) pertains to domestic operations, while 36.4% (2.5062 billion AZN) relates to import operations. Both categories are expected to grow in 2025.

The Accounts Chamber notes that⁹, even without considering exemptions, the ratio of non-oil and gas revenues to non-oil and gas GDP is expected to decline. Although tax and customs exemptions characterize added value growth, their transformation into direct budget revenues remains a distant prospect. This negative trend is expected to persist in 2025, with no positive changes anticipated, as confirmed by actual figures from 2024.

For example, during the first eight months of 2024, tax revenues for the state budget amounted to 14.052 billion AZN, a decrease of 739.7 million AZN compared to the same period in 2023. This

⁸ https://sai.gov.az/files/R%C9%99y_30.10.2024-767648285.pdf

⁹ https://sai.gov.az/files/R%C9%99y_30.10.2024-767648285.pdf

decline was primarily driven by a significant reduction in corporate profit tax revenues, which fell by 1.5383 billion AZN. The decrease in 2024 tax revenues has impacted the formation of 2025 revenues, with the role of taxes in next year's budget expected to diminish further compared to the previous year.

Table 3 provides a breakdown of the main revenue sources for the 2025 budget.

Table 3. Projected Tax and Non-Tax Revenues of the 2025 State Budget (in Million AZN)

Revenue-Generating Entities	Forecast
State Budget Revenues, including	38,316.0
Tax Revenues, including	19,647.0
- State Tax Service under the Ministry of Economy	14,857.0
- Income tax from individuals	1,989.0
- Profit tax from legal entities	6,344.0
- Value-added tax (VAT)	3,758.2
- Excise taxes	1,655.7
- Property tax from legal entities	392.6
- Land tax from legal entities	46.7
- Mining tax	160.0
- Simplified tax	405.0
- Road tax	105.8
- State Customs Committee, including	4,790.0
- Value-added tax (VAT)	4,568.0
- Excise taxes	185.0
- Road tax	37.0
Non-Tax Revenues, including	16,969.0
- State Tax Service under the Ministry of Economy	643.0
- State duties	390.0
- Other revenues	253.0
- State Customs Committee, including	1,810.0
- Customs duties	1,810.0
- State Service for Property Issues under the Ministry of Economy	34.0
- Transfers from the State Oil Fund (SOFAZ)	14,481.0
- Dividends from state-owned enterprises	612.2
- Paid services of budgetary organizations	840.0
- Miscellaneous	861.0

Source: Calculations based on data from the “Budget Package” and the Accounts Chamber’s review of the 2025 budget.

As indicated in the table, the transfer from SOFAZ to the state budget for 2025 is projected to reach 14,481 million AZN, marking a historic peak. These calculations likely consider factors such as the return rate on SOFAZ's assets, as SOFAZ's projected revenues for 2025 are 14,452 million AZN, slightly lower than the forecasted transfer to the state budget.

The declining trend in tax revenues from the oil and gas sector, another component of oil revenues, is evident in Table 1. While this sector was projected to contribute 5 billion AZN in 2024, the forecast for 2025 anticipates a 700 million AZN decrease, or a 14% drop.

Nevertheless, the share of oil revenues in total state budget revenues for 2025 is expected to remain high at 48.8%, thanks to a 13.3% increase in SOFAZ transfers (an additional 1.7 billion AZN compared to the previous year).

This trend contradicts the objectives outlined in the "Strategic Roadmap for the Development of the National Economy of the Republic of Azerbaijan,"¹⁰ approved by a presidential decree on December 6, 2016. The roadmap aimed to reduce the share of SOFAZ transfers in state budget revenues to 15% by 2025.

The 2025 state budget plans an increase in transfers from the State Oil Fund by 13.3 percent or 1.7 billion manats compared to previous years, which deviates from the target indicator outlined in the "Strategic Road Map"¹¹ for the National Economic Perspective of the Republic of Azerbaijan" by 2025. Although the Strategic Road Map aimed to reduce the specific weight of SOF transfers in budget revenues to 15 percent, it is expected that oil and gas revenues will make up 49 percent of budget revenues in the adjusted budget for 2024, amounting to 10.5 billion U.S. dollars, and 48.8 percent in 2025.

Despite the ongoing depletion of reserves and the consequent reduction in crude oil production volumes, filling the state budget through oil and gas revenues has become an irreversible process. Considering that international organizations predict a decrease in oil prices next year, both the reduction in production volumes and the lowering of prices will create difficulties in balancing the state budget over the long term. Therefore, ensuring the budget's balance through consistent revenue sources and increasing the efficiency of expenditures remains an urgent task for the government.

Given that the measures taken so far to ensure budget revenues replace oil and gas revenues with new, permanent, and inexhaustible sources have not been satisfactory, let's examine the projected expenditures for the budget of 2025.

¹⁰ <https://static.president.az/pdf/38542.pdf>

¹¹ <https://static.president.az/pdf/38542.pdf>

Budget expenditures

The state budget expenses for 2025 are projected at 41 billion 367.6 million manats, which is 1 billion 625.3 million manats or 4.1 percent more than the confirmed figures for 2024. By the end of the medium-term period, state budget expenses are expected to be 2 billion 635.6 million manats or 6.6 percent higher than the confirmed budget for 2024, amounting to 42 billion 377.9 million manats. For 2025, it is anticipated that 24 billion 845.2 million manats or 60.1 percent of the state budget expenses will be allocated to current expenses (an increase of 1,774.3 million manats or 7.7 percent compared to 2024), 14 billion 122.8 million manats or 34.1 percent to capital expenses (a decrease of 1,253.0 million manats or 8.1 percent compared to 2024), and 2 billion 399.6 million manats or 5.8 percent to servicing the state debt and obligations (427.0 million manats more than the initially confirmed figures for 2024)¹².

By 2028, that is, by the end of the medium-term period, current expenses are forecasted to increase by 4 billion 490.5 million manats, or 19.5 percent, amounting to 27 billion 561.4 million manats compared to the confirmed figures for 2024.

As it appears, for the state budget of 2025, three out of every five manats of budget expenses are allocated to current expenses, and the growth rate of current expenses exceeds the overall growth rate of budget expenses. Additionally, a higher growth rate for current expenses is predicted for the medium-term expense strategy. However, based on the dynamics of budget expenses from 2017 to 2023, during this period, budget expenses increased by an average annual rate of 11.2 percent, current state budget expenses by 8.6 percent, and capital expenses by 22.5 percent.

Moreover, according to the performance indicator for 2023, non-oil and gas revenues of the state budget accounted for 84 percent of current expenses. This figure is expected to be 80.7 percent in 2024 and is forecasted at 78.7 percent for 2025. Over the medium term, the ratio of the state budget's non-oil and gas revenues to current expenses is projected to be around 75-80 percent. This means that non-oil revenues do not even cover four-fifths of Azerbaijan's state budget's current expenses.

The structural analysis of the state budget expenses for 2025 shows that expenditures on economic activities amount to 8 billion 444.1 million manats (20.4 percent of total budget expenses), general government services to 5 billion 247.3 million manats (12.7 percent of total budget expenses), defense and national security to 8 billion 396.3 million manats (20.3 percent of total budget expenses), education to 4 billion 946.1 million manats (12.0 percent of total budget expenses), healthcare to 1 billion 999.4 million manats (4.8 percent of total budget expenses), social protection and social security to 4 billion 811.8 million manats (11.6 percent of total budget expenses), judicial authority, law enforcement, and prosecution to 3 billion 205.2 million manats (7.7 percent of total budget expenses), expenses on culture, arts, information, physical education, youth policy, and other related activities to 635.3 million manats (1.5 percent of total budget expenses), services not related to main sections to 1 billion 728.3 million manats (4.2 percent), environmental protection to 417.7 million manats (1.0 percent), and agricultural expenses to 1 billion 171.9 million manats (2.8 percent). This means that for every 100 manats of the projected

¹² https://sai.gov.az/files/R%C9%99y_30.10.2024-767648285.pdf

budget for 2025, 20 manats 40 qəpiks will be spent on economic activities, 20 manats 30 qəpiks on defense and national security, 12 manats 70 qəpiks on general government services, 12 manats on education, 11 manats 60 qəpiks on social protection and social security, 7 manats 70 qəpiks on judicial authority, law enforcement, and prosecution, 4 manats 80 qəpiks on healthcare, 2 manats 80 qəpiks on agriculture, 1 manat 50 qəpiks on culture, arts, information, physical education, youth policy, and other related activities, and 1 manat on environmental protection. The dynamics of expenses at the functional classification level for the previous and following three years relative to 2025 can be understood from Table 4.

Table 4. Indicators of Expenses by Functional Classification Level for the State Budget Draft for 2022-2028, in Million Manats

	Execution		Forecast				
Category	2022	2023	2024	2025	2026	2027	2028
Total Expenses	32,064.5	36,457.9	39,742.3	41,367.6	40,797.0	41,791.0	42,377.9
1. General Public Services	4,099.4	3,769.0	4,542.8	5,247.3	5,645.7	5,957.7	6,168.1
2. Defense and National Security	4,896.2	5,854.8	7,126.3	8,396.3	6,076.4	6,311.3	6,543.5
3. Judiciary, Law Enforcement, and Prosecution	2,366.6	2,671.3	3,089.8	3,205.2	3,337.1	3,441.4	3,565.9
4. Education	3,696.4	4,124.8	4,550.3	4,946.0	5,125.0	5,307.2	5,486.2
5. Healthcare	1,417.9	1,722.1	1,866.4	1,999.4	2,114.2	2,196.9	2,279.9
6. Social Protection and Social Security	3,464.3	4,281.4	4,391.4	4,811.7	5,045.4	5,319.4	5,612.9
7. Culture, Arts, Information, Physical Education, Youth Policy, and Related Activities	404.5	463.4	575.6	635.3	622.9	640.7	658.3
8. Housing and Utilities	267.2	332.4	367.0	364.2	371.0	376.6	382.1
9. Agriculture	920.1	947.6	1,202.6	1,171.8	1,179.5	1,184.0	1,153.8
10. Environmental Protection	281.6	358.5	376.8	417.6	426.4	436.2	445.9
11. Economic Activities, including	6,961.2	9,320.3	9,902.7	8,444.1	9,229.7	8,788.4	8,262.2
11.1 Capital Investments (Investment Expenses)	3,280.4	2,660.4	3,254.0	2,685.4	3,853.9	3,736.2	3,442.2
11.2 Reconstruction and Restoration of Liberated Territories (Great Return Project)	2,665.4	4,800.0	4,855.8	4,000.0	3,712.0	3,400.0	3,500.0

	Execution		Forecast				
Category	2022	2023	2024	2025	2026	2027	2028
12. Services Not Classified in Major Sections	3,288.5	2,612.0	1,750.2	1,728.3	1,622.5	1,830.7	1,818.7

Source: Ministry of Finance¹³

As the table data shows, considering the medium-term expenditure strategy, the peak levels of expenses in most categories are projected to occur by the end of the period in 2028. However, peak levels for defense and national security expenses are expected in 2025, and for economic activities, a peak is recorded in 2023.

Regarding the allocation of state budget expenses according to strategic programs, approximately 54.8 billion manats are required for the implementation of the "Social-Economic Development Strategy of the Republic of Azerbaijan for 2022-2026" during these years. From the state budget of 2020-2024, approximately 23.2 billion manats have been allocated for this purpose, and 6.8 billion manats are planned to be allocated from the 2024 state budget for the execution of the mentioned Program. Additionally, a total of 13.3 billion manats is planned to be allocated for 2025-2026. Thus, taking into account the projected funds, the total amount of funds allocated for the implementation of the Program for 2020-2026 will be increased to 36.4 billion manats. Although a presentation of the monitoring portal¹⁴ under "azerbaijan2030.gov.az" for the "Social-Economic Development Strategy of the Republic of Azerbaijan for 2022-2026" was held at the Cabinet of Ministers, this portal is not operational and inactive. Up to 2025, no results of monitoring for the 5 national priorities, 10 goals, or 20 main target indicators related to the execution of this program have been published, nor have annual work plans been approved, and no reports on their implementation have been disclosed. This is because, among the national priorities, the balance in the program's implementation in the initial years was disrupted, with more funds being spent on the 4th national priority "Great Return to the territories liberated from occupation," and less on the 5th national priority "Clean environment and 'green growth' country." Specifically, from 2020, including up to 2025, nearly 22 billion manats, including 4 billion manats in 2025, have been allocated from the state budget for restoration and construction works in the liberated territories.

The full transition to outcome-based budget programs for the distribution of state budget expenses was planned by 2022, yet there are still no significant changes in this direction. This creates difficulties in assessing the efficiency and effectiveness of budget expenditures and expands the potential for corruption. The next and final article will be dedicated to this topic.

¹³ <https://www.maliyye.gov.az/static/11/icmal-budce-ve-dovlet-budcesi>

¹⁴ <https://ereforms.gov.az/az/media/xeberler/azerbaycanin-2022-2026-ci-illerde-sosial-iqtisadi-inkisaf-strategiyasinin-monitorinq-portalinin-teqdimati-olub-766>

Budget corruption

In previous articles, we discussed the poor management of the budget and the corruption risks during its implementation phase (Ibadoghlu, G, 2021)¹⁵. Despite more than four years passing, we still share the same conclusions about the 2025 budget. This is because the budget work in Parliament is nominal, and the Ministry of Finance presents the budget for the following year to Parliament, with at least 40 percent of the budget's classifications not detailed. As a result, not only ordinary citizens but even members of Parliament lack detailed information about the budget. However, despite this, the budget documents are unanimously approved in Parliament. Neither committee nor plenary-level budget hearings are held in Parliament. In the presentation of the budget documents, only government officials and members of Parliament participate; other interest groups, including independent civil society and the free press, are not invited to these discussions. Thus, Parliament approves the government's budget, which has high corruption risks, in accordance with their own interests. As a result, Parliament leaves the final decision on at least 40 percent of expenditures to be carried out by the executive authority. During budget discussions in Parliament, the share of expenditures that lack functional, economic, and sometimes even administrative classification in the total expenditures increases year by year. In this case, the final decision on where, how much, and by whom over 40 percent of state budget funds are spent is made during the execution process. Let's focus on the corruption risks observed in the 2025 state budget.

1. **Unallocated (Blocked) Expenditures.** According to the opinion of the Chamber of Accounts, more than 16.3 billion manat, or about 40 percent of the total projected state budget expenditures of 41.4 billion manat for 2025, are expenditures whose allocation is carried out during the execution process. These expenditures include blocked expenditures, off-budget expenditures, reserve fund expenditures, investment expenditures, membership fees, aid-related expenditures, and others.

For comparison, according to the expected execution indicators for 2024, unallocated expenditures are projected to reach approximately 16.1 billion manat, which will constitute about 41% of total state budget expenditures. The reduction of this ratio in the 2025 budget proposal, compared to 2024, should not be associated with a decrease in corruption risks. This is because the forecast for 2025 mainly involves a reduction in state capital investment (investment), the reconstruction and restoration of liberated territories, and other expenses. Nevertheless, the 2025 state budget proposal foresees an increase in blocked expenditures within the unallocated expenditure category. Specifically, in 2025, blocked expenditures are expected to exceed 8 billion manat, accounting for approximately 19 percent of total state budget expenditures. This is 1.4 billion manat, or 2.5 percentage points more than the expected execution indicators for 2024.

Additionally, the Chamber of Accounts' opinion reveals¹⁶ that in the 2025 state budget proposal, some expenditure categories are not specified for particular institutions. Furthermore, the legal act related to the implementation of the relevant budget does not

¹⁵ Ibadoghlu, Gubad, Corruption Risks in the State Budget of Azerbaijan and Their Management (June 21, 2021). Available at SSRN: <https://ssrn.com/abstract=3871136> or <http://dx.doi.org/10.2139/ssrn.3871136>

¹⁶ https://sai.gov.az/files/R%C9%99y_30.10.2024-767648285.pdf

include any requirement for the allocation of these expenditures. For instance, analysis shows that although there is a legislative requirement for the allocation of certain targeted budget fund expenditures throughout the year, no such allocation has been defined for the "Automobile Roads" Targeted Budget Fund. Similarly, a similar issue is observed regarding the maintenance of city and district executive authorities and the funds allocated for this purpose.

Regarding the distribution of the 2.4587 billion manat allocated for the 2022-2026 Social and Economic Development Strategy (excluding the 4th priority), it should be noted that 892.6 million manat of this amount is projected as unallocated expenditures in the 13 subcategories of the functional classification of expenditures under the heading of financing projects of the Strategy.

Let's highlight another issue that creates a corruption risk in this area. In 2025, 1.7283 billion manat is projected for the "Services not included in main sections" category. More than 70% of the expenditures planned for this category fall under unallocated expenditures. These include expenditures for reserve funds, creation of state reserves, elimination of emergency situations, as well as social, economic, and other measures, among others.

The Chamber of Accounts, considering the existence of relevant projects for the distribution of unallocated expenditures in certain areas of the budget process, has indicated that there is a possibility of slightly reducing the share of unallocated expenditures, but this suggestion is not taken into account.

2. **Subsidies.** Another factor that increases corruption risks in the state budget is the growing number of subsidies year by year. In 2025, subsidies are expected to be allocated in 46 areas (institutions and unallocated expenditures) amounting to 1.321 billion manat, which is 273.5 million manat (26.1%) more than the revised figures for 2024. In the upcoming year, a decrease in subsidies to state institutions is expected, while other subsidies to non-state institutions and legal entities will increase. As in 2024, in 2025, other subsidies to legal entities will have the highest share (62.0%) in total subsidies. In an environment where financial control over the allocation and expenditure of subsidies is weak, and public oversight is absent, some of the funds allocated from the state budget for these purposes become fodder for corruption. Particularly, the cases of subsidies allocated for agriculture being diverted from their intended purposes are increasingly frequent.
3. **Public Legal Entities (PHEs).** Regarding subsidies to state enterprises, public legal entities are the main executors. In the 2025 state budget, 1.1 billion manat is allocated for state orders to 56 public legal entities, which is 111.9 million manat, or 11.2%, more than the expected execution for 2024. In fact, one of the main purposes of creating public legal entities (PHEs) on behalf of the state was to increase the efficiency of budget management by reducing the budget funds allocated to PHEs. However, it should be noted that in addition to state orders, funds are also directed to other areas, and the share of these funds in budget expenditures is significant. The comparison of the economic classification of the funds allocated to public legal entities in 2024-2025 shows that there

is an increase in this area. Despite the 2024 expected execution, which forecasts 1.1054 billion manat for PHEs, the 2025 budget proposal increases this figure by 57.2 million manat to 1.1626 billion manat.

The Chamber of Accounts' opinion¹⁷ notes that the non-disclosure of annexes to contracts for state orders in public legal entities receiving financial assistance from the state and the planning of capital expenditures as current expenditures limit the correct identification of capital expenditures in the state budget. Therefore, the Chamber of Accounts suggests improving the mechanism for the payment (allocation) of targeted funds to public legal entities from the state budget.

Targeted funds allocated to public legal entities from the state budget are forecasted in accordance with Article 11 of the "Budget System" Law of the Republic of Azerbaijan and are included in each year's state budget. After forecasting the funds, a contract is concluded between the relevant executive authority and the PHE, taking into account the unspent funds from the previous year's projects, which were planned to be implemented but not completed. However, audits by the Chamber of Accounts show¹⁸ that in some cases, the contracts for state orders are not concluded when funds are paid (allocated) to PHEs, which, in addition to the absence of a unified approach towards PHEs, results in legal grounds for tax obligations on the funds paid (excluding VAT and funds directed towards increasing charter capital), leading to the failure to make relevant calculations and payments.

In conclusion, unallocated expenditures, subsidies, and funds allocated to public legal entities in the state budget pose potential corruption risks. Despite the Chamber of Accounts' opinions and analytical writings each year raising concerns about these three significant problems and offering suggestions for their resolution, the government does not consider them. Thus, the unaccounted and non-transparent state budget management increases corruption

¹⁷ https://sai.gov.az/files/R%C9%99y_30.10.2024-767648285.pdf

¹⁸ <https://sai.gov.az/audit/146>