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National Budget Brief

Investing in children in Azerbaijan

2022

Preface

This budget brief explores the extent to which the national budget addresses the needs of children in Azerbaijan.

The analyses presented in this brief are based on two datasets:

A) budget allocations for the fiscal year 2022, to assess the size and composition of priority sectors for children, namely health, education, and social protection;

B) budget execution of 2021 and the past 4 years, which offers insights into the efficiency, effectiveness, and adequacy of public expenditure.

The budget brief aims to synthesize complex budget information from a children's rights perspective in Azerbaijan and open discussions on how government can improve investments in children.

Key Highlights

• In the context of complex global economic challenges, many sectors of the Azerbaijan economy have also declined. In 2020, GPD in the oil and non-oil sector decreased by 7.0 percent and 2.6 percent, respectively. The country's economy produced a GDP worth of USD 42.6 billion (4.3 percent less than in 2019). In 2021, the economy began to recover and the country produced GDP worth USD 54.6 billion, or 5.6 percent more than 2020 in real terms. Despite a 5.1 percent increase in the non-oil sector, the oil and gas sector decreased by 4.7 percent.

• Expenditures of the state budget for 2022 are projected at USD 17576.0 million, which is 4.7 percent more compared to the approved figure for 2021. The share of state budget expenditures in GDP will be 34.5 percent. Over the past 5 years (2018-2022), state budget expenditures increased by 31.4 percent (USD 4204.3 million).

• The education allocations will comprise 13% of the 2022 state budget which is 1.5% more than the figure for 2021. While the share of health sector allocations in the state budget will be 6%, in GDP it will represent 2.1% (0.1% more than the 2021 figure). Despite the increase, the share of health allocations in GDP remains low. The share of social protection allocations in the state budget for 2022 will be 12.2%. Overall, the share of social protection and social welfare allocations in the state budget increased by 3% (USD 0.83 billion) for the last 5 years (2018-2022). COVID-19 Response allocations of the government are projected to be USD 206 million (1.2% share in the state budget).

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Person under 18 according to the "Law on child right of Azerbaijan Republic"

AZERBAIJAN MACROECONOMIC PERFORMANCE

In the context of complex global economic challenges, many sectors of the Azerbaijan economy have also declined. In 2020, GDP in the oil and non-oil sector decreased by 7.0 percent and 2.6 percent, respectively.
The country's economy produced a GDP worth of USD 42.6 billion (72.4 billion AZN) and it is 4.3 percent less than in 2019 in real terms.
In 2021, the economy began to recover and the country produced GDP worth USD 54.6 billion (92.8 billion AZN), or 5.6 percent more than 2020 in real terms.

Despite a 5.1 percent increase in the non-oil sector, the oil and gas sector decreased by 4.7 percent.

The government has determined the goals, directions, and objectives of the budget policy for the short and medium-term following the document
"Azerbaijan 2030: National Priorities for Socio-Economic Development" approved in 2021, considering the existing global economic challenges. In the short term, the main goal of budgetary policy is to maintain macroeconomic balance by contributing to economic growth and ensuring the stability of inflation, unemployment, and payments balance through fiscal instruments. In the medium term, the main goal of budget policy is to ensure budget balance, macro-economic and fiscal sustainability
by maintaining the budget deficit and public debt at a manageable level.

To achieve this goal, the development of a macro-fiscal framework based on an improved budget rule and an updated borrowing strategy will be one of the main directions of medium-term budget policy.

Exchange rate 1 USD=1.70 AZN

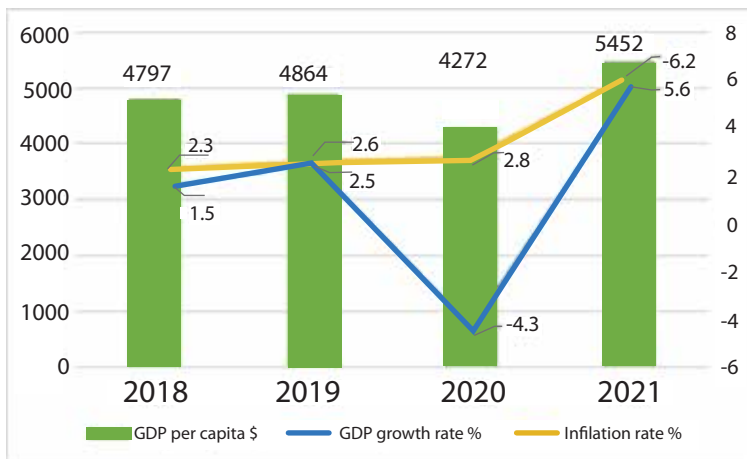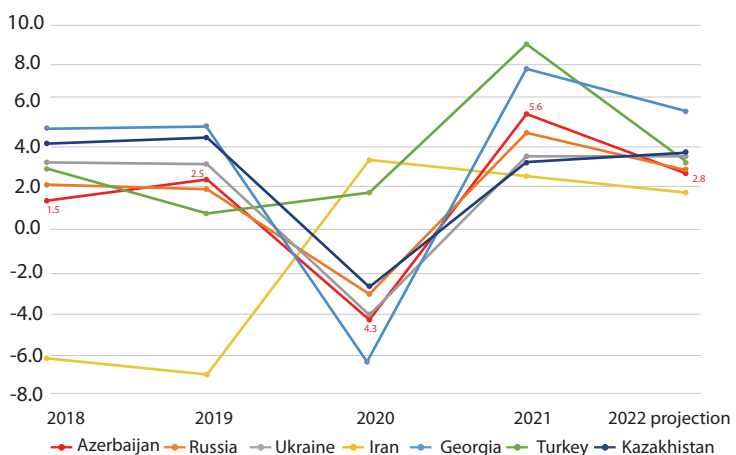**Figure 1.** Economic performance of Azerbaijan by years

Figure 2. The structure of GDP by years

**Figure 3.** GDP growth rate among selected countries

COVID 19 RESPONSE

The Government established the Task Force under the Cabinet of Ministers on 27 February 2020, consisting of senior officials of the relevant authorities to coordinate the measures taken by the Government in response to the spread of the coronavirus in the country. Response Fund was established to provide financial assistance to the country's response measures.

In 2020, the Azerbaijani government announced, a support package worth USD 1.94 billion (4% of GDP) to businesses and individuals to reduce the negative impact of COVID-19.

1   Expansion of the unemployment insurance coverage to 20,000 persons;

2   One-time cash transfer (paid sixth times) to 600,000 individuals (6 % of the population) (USD 400 million for 2020-2021)

3   Use of reserves of 2019 of the State Social Protection Fund for the period from April until December 2020 to ensure the sustainability of social payments (pensions and benefits) to the population;

4   Extension of the payment of targeted state social assistance to low-income families until the end of the quarantine regime;

5   Expansion of the coverage of targeted state social assistance programs;

6   Payment of annual tuition fees from the state budget (USD 24 million) for students from socially vulnerable families;

7   Allocation of funds from the state budget to meet the needs of citizens for medical masks (USD 2,7 million);

8   Temporary increase of existing discount limits on electricity use (USD 5,9 million).

9   Direct financial support to 300,000 individual entrepreneurs in the affected sectors of the economy (USD 47 million);

10 Partial payment of salaries to 300,000 employees in these sectors (USD 127 million);

11 Temporary exemptions from taxes, insurance, and customs payments in affected sectors of the economy (USD 68 million);

12 Providing financial support to vital passenger transportation systems (USD 165 million);

13 Issuance of state guarantees and subsidizing interest rates on bank loans to businesses operating in pandemic-affected areas (USD 300 million);

14 Subsidizing part of the interest rate on existing bank loans without state guarantees (USD 600 million);

Figure 4. COVID 19 Response allocations from the budget
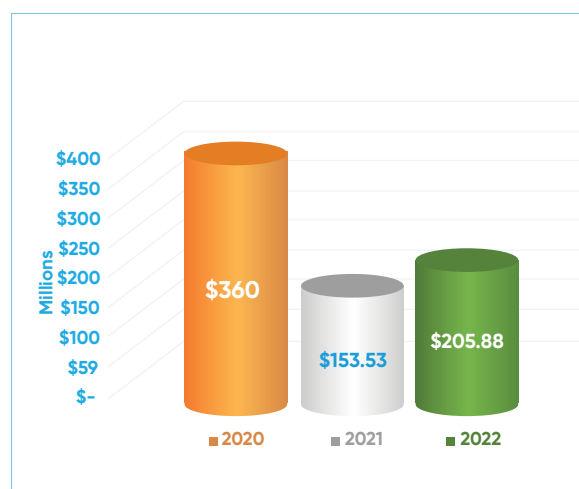
These COVID 19 response allocations only encompass the purchase of vaccines, tests, medicines, medical supplies, equipment, and other goods and medical services for vaccination coverage, as well as salaries of employees and periodic bonuses

BUDGET TRENDS

Revenues of the state budget for 2022 are projected at 15774.0 million USD, which is 31.0 percent of GDP. While the 54.8 percent (8641.1 million USD) of the projected state budget revenues for 2022 is from the oil sector, the non-oil sector accounts for 45.2 percent (7132.9 million USD).

Expenditures of the state budget for 2022 are projected at 17576.0 dollar USD, which is 4.7 percent more compared to the approved figure for 2021. The share of state budget expenditures in GDP will be 34.5 percent. Over the past 5 years (2018-2022), state budget expenditures increased by 31.4 percent (4204.3 million USD).
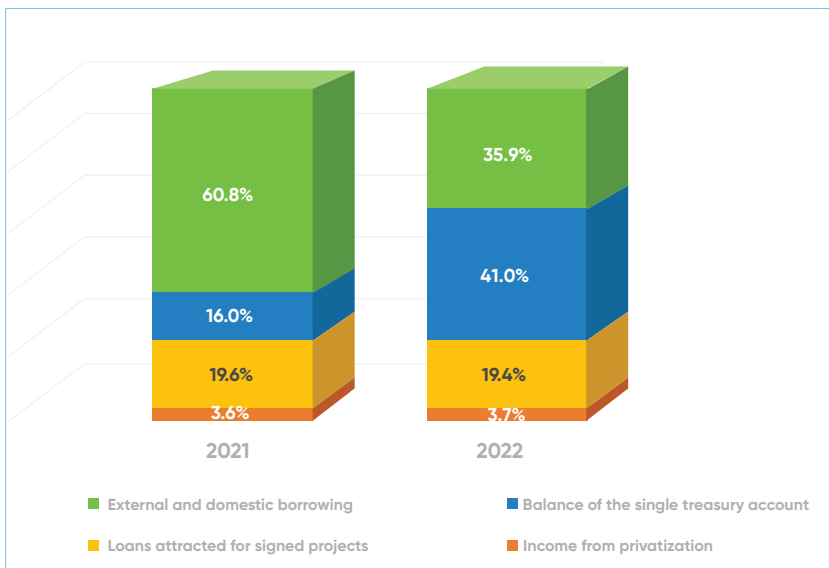
Financing the state budget deficit

In 2021, much of the budget was financed through foreign and domestic borrowing. In 2022, the share of foreign and domestic borrowing is expected to fall to 35.9 percent as a source of financing the deficit. At the same time, the share of loans attracted by signed projects is expected to fall to 19.4 percent in financing the budget deficit. In the context of economic recovery, the balance of the single treasury account (41.0 percent) is projected to emerge as the main source of financing for next year's budget deficit.
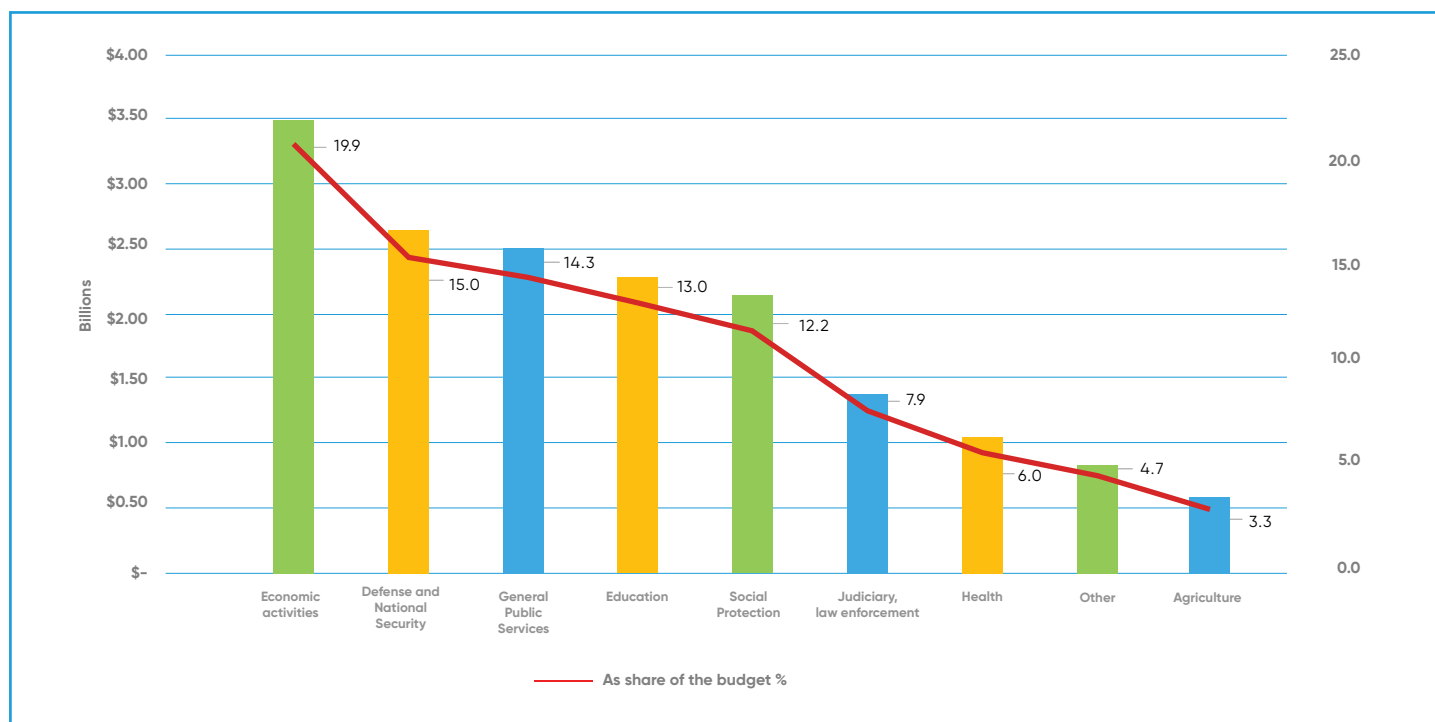

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Figure 5. The sources of financing budget deficit

	2021	2022
	60.8%	35.9%
	16.0%	41.0%
	19.6%	19.4%
	3.6%	3.7%

- External and domestic borrowing
- Balance of the single treasury account
- Loans attracted for signed projects
- Income from privatization

Per IMF definition a single treasure account is a unified structure of government bank accounts that gives a consolidated view of government cash resources. It is an essential tool for consolidating and managing governments' cash resources, thus minimizing borrowing costs.

2022 STATE BUDGET

Figure 6. 2022 budget allocations by sectors and share of the budget

Chart data:
- Economic activities: ~$3.48 billion, 19.9%
- Defense and National Security: ~$2.65 billion, 15.0%
- General Public Services: ~$2.50 billion, 14.3%
- Education: ~$2.28 billion, 13.0%
- Social Protection: ~$2.15 billion, 12.2%
- Judiciary, law enforcement: ~$1.35 billion, 7.9%
- Health: ~$1.05 billion, 6.0%
- Other: ~$0.83 billion, 4.7%
- Agriculture: ~$0.58 billion, 3.3%

— As share of the budget %

2022 BUDGET ALLOCATIONS BY PRIORITY SECTORS FOR CHILDREN

USD 2.28 billion will be allocated from the state budget for education next year, which is USD 356.8 million or 18,5% more than the allocations for 2021. The education allocations will comprise 13% of the 2022 state budget which is 1.5% more than the figure for 2021. It will be equal to 4,5% of GDP based on projections and it is 0.5% more than the 2021 figure.

The state budget for 2022 allocates USD 1,05 billion for the health sector. It is 7.1% (USD 69.7 million) more than the 2021 figure. While the share of health sector allocations in the state budget will be 6%, in GDP it will represent 2.1% (0.1% more than the 2021 figure). Despite the increase, the share of health allocations in GDP remains low. For comparison, these figures are 5.6% in Russia and 4.3% in Turkey.

COVID-19 Response allocations of the government are projected to be USD 206 million (1.2% share in the state budget).

The USD 2.14 billion are projected allocations for social protection and social welfare for 2022. That is USD 29.5 million or 2.4% less than the figure for 2021. Social protection and social welfare allocations will comprise 12.2 % of the state budget. In addition, it will constitute 3.9 % of GDP.

As the government describes it, the main reason for the decrease in social protection allocations is raising the income of the Social Security Fund and lessening transfers to the fund from the state budget.

Overall, the share of social protection and social welfare allocations in the state budget increased by 3% (USD 0.83 billion) in the last 5 years (2018-2022).

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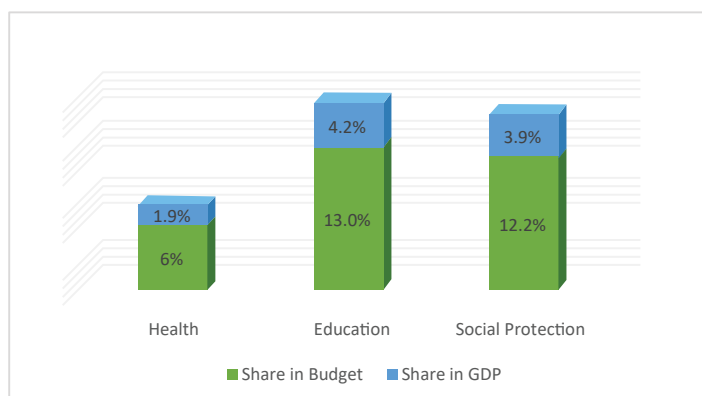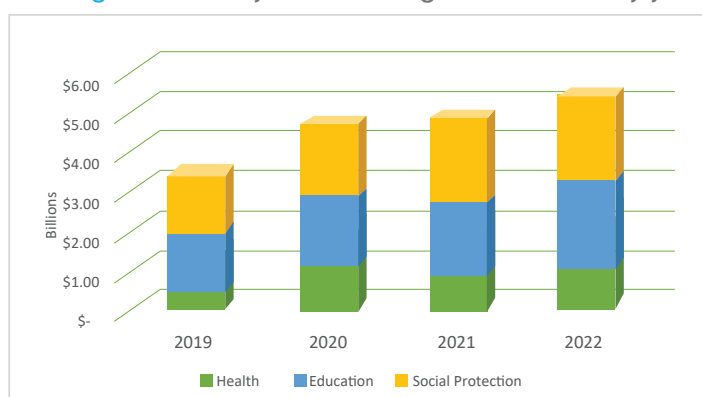**Figure 7.** Priority sectors budget allocations as a share of 2022 total national budget and GDP

	Health	Education	Social Protection
Share in GDP	1.9%	4.2%	3.9%
Share in Budget	6%	13.0%	12.2%

Figure 8. Priority sectors budget allocations by years

Health Education Social Protection

2021 BUDGET EXECUTION

State budget revenues

The state budget revenues for 2021 amounted to USD 15526.7 million beating the projection by 3.8 percent (USD 569.7 million). This is 6.9 percent (USD 1008.1 million) more compared to 2020 figures. Revenues from the non-oil sector amounted to USD 7564.2 million, which is 10.4 percent (USD 710.7 million) more than the projection, and 20.4 percent (USD 1282.1 million) more compared to 2020 numbers.

State budget expenditures

The state budget expenditures in 2021 amounted to USD 16125.5 million or 96.0 percent compared to the forecast. This is 3.8 percent more (USD 586 million) than the 2020 numbers.
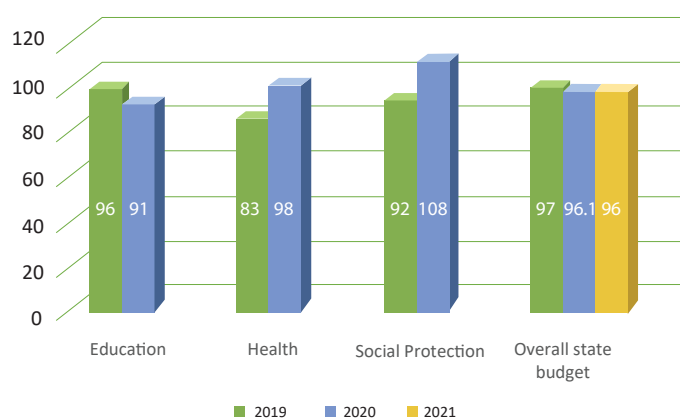
The state budget deficit for 2021 was USD 598.2 million against USD 1832.8 million projection (67,4 less). The share of the budget deficit in GDP was 1.1 percent (2.7 percentage less than forecast). The deficit was financed through foreign loans (USD 203.8 million), domestic and foreign borrowing (USD 328 million), and privatization of state property (USD 66.2 million).

Consolidated Budget

The revenues of the consolidated budget for 2021 amounted to USD 19942.8 million, which is 42.3 percent (USD 5926.3 million) more than the fore-cast. In addition, this is 38.6 percent (USD 5551.5 million) more compared to 2020. Expenditures of the consolidated budget amounted to USD 17635.6 million, which is 2.8 percent (USD 482.6 million) more than in 2020. Although the deficit of the consolidated budget was projected as USD 4314.8 million, it ended with a 2307.2 million USD budget surplus.

Figure 9. Budget Execution rate (%) by years

Education: 96, 91
Health: 83, 98
Social Protection: 92, 108
Overall state budget: 97, 96.1, 96

■ 2019   ■ 2020   ■ 2021

# PUBLIC FINANCE MANAGEMENT. MİD-TERM MACRO-FİSCAL FRAMEWORK 2022-2025

In 2021, the Ministry of Finance of the Republic of Azerbaijan (MoF) developed the "Macro-fiscal Framework for 2022-2025. The document contains macroeconomic forecasts for 2022 and the medium term, priorities of government spending for the socio-economic development of the country's economy, and accordingly, the main directions of fiscal policy, state budget revenues and expenditures, as well as basic information on government debt.

In addition, in early 2021 MoF introduced a mid-term expenditure framework tool, to enhance the effectiveness and productivity of state budget expenditures. The expenditure framework encompasses strategic and action plans with targets and performance indicators, as well as the programs to be implemented to achieve these goals for the education, agriculture, and environmental protection sectors. Overall, these initiatives are described as a big shift to results-based budgeting.

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Figure 10. Priority sectors as a share of mid-term budget expenditures (%)
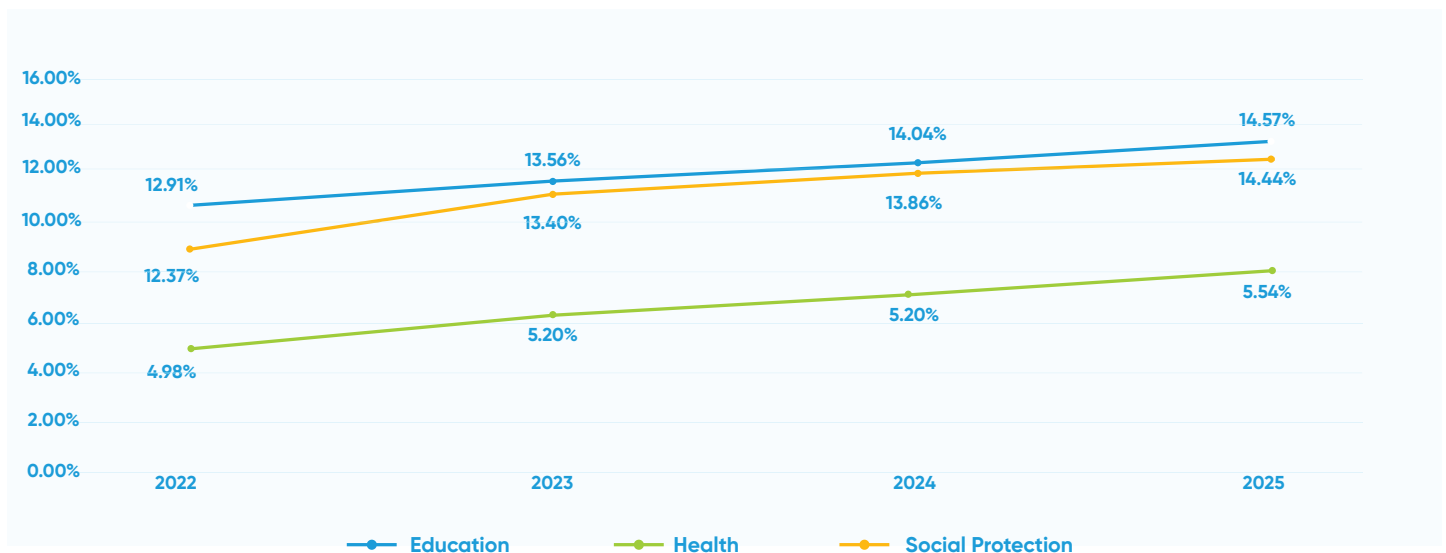
Public expenditure for children might be found in other categories like environment, economic activities, public services, etc., which are not reflected in these analyses. In addition, allocations in priority sectors do not mean all these allocations directly go to children and households with children. For example, based on the rough analysis from social protection allocations only around USD 0.2 billion are social transfers to children or households with children.

UNICEF Azerbaijan is committed to supporting the government in its efforts to improve the way public expenditure for children is tracked and budgeting is made.

Annex 1: The state budget for 2022-2025

Projection of the State Budget for 2022-2025				
	2022	2023	2024	2025
Revenue	⬇ $ 15,533,529,412	⬆ $ 15,611,176,471	⬆ $ 15,779,411,765	⬆ $ 15,957,058,824
Expenditure	⬆ $ 17,043,529,412	⬇ $ 16,823,529,412	⬆ $ 16,835,294,118	⬆ $ 16,847,058,824

Annex 2: Key Development Indicators

Total population (2021)	10,119,100
Child population 0–17 years (2021)	2,634,600
Share of child population (0–17 years old) to the total population	26%
GDP per capita (USD, 2021)	5 452
Poverty rate (2020)	6.2%
Extreme poverty rate	0%
Total government expenditure as a percent of GDP (2021)	29.5 %
Total social spending (education, health, social protection) allocations as a percent of the national budget (2022)	31.2 %
Share of budget deficit (2021) to GDP	1%
External public debt ratio to GDP (2021)	18.2%
Inflation rate (2021)	6.2 %

Annex 3: Key events in the budget calendar

Month	Activity
January(last ten days)	The process of drafting the state budget begins for the next year and three following years begins with the order of the Cabinet of Ministers.
February-March	The Ministry of Economy prepares the country's medium-term economic and social development forecasts. Based on these forecasts, the Ministry of Finance develops initial medium-term forecasts of state and consolidated budgets. Prepared documents are presented to the Cabinet of Ministers by the Finance and Economics ministries
April	Ministry of Finance sends instruction letters for the drafting budget and indicators of the consolidated budget for the following three years to organizations involved in the drafting process
May	The organizations contributing to revenues and financed through state budget prepare a draft budget and submit it to the Ministry of Finance.
June-July	The Ministry of Economy clarifies next year and medium-term macroeconomic indicators, as well as social, economic, and investment programs. The Ministry of Finance recalculates revenues and expenses of the state budget based on detailed forecasts and developed programs.
August	Specified figures are officially agreed with organizations. Ministry of Finance submits the state budget and consolidated draft budget and the indicators of the consolidated state budget for the next three years to the Cabinet of Ministers and the Chamber of Accounts
September	The Cabinet of Ministers submits budget documents to the President
October (no later than October 15)	The President submits the draft budget the Milli Majlis for discussion
November-December	Draft state budget and consolidated budget are discussed and adopted in parliamentary committees and plenary sessions.
December	The President officially approves the budget.

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- Mid-Term Macro-Fiscal Framework 2022-2025 (2022-2025), available at
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- Information on the implementation (operational) of the state and consolidated budget of the Republic of Azerbaijan for 2021, available at
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- Children in Azerbaijan Statistical Yearbook 2021.

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