

**Evaluation of the target indicators of the Strategic Roadmap:
the effects of "twin deficits" and "spending of unearned money"**

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Although it is the third decade that Azerbaijan has been able to maintain balance in sectors that cannot meet its needs, as well as rationality in the state budget due to oil and gas revenues obtained with the involvement of foreign companies, currently, the decrease in revenues from this source creates fundamental problems for sustainable development. The lack of restrictions on the spending of oil and gas revenues, which have played an essential role in the economy of Azerbaijan in the past two decades, has led to an increase in the current expenditures of the state budget, as well as to the escalation of corruption in state investments made without ensuring accountability and transparency, leading to a decrease in the effectiveness of capital expenditures of the state budget. In the current condition, where access to unique financial sources formed outside the oil and gas sector is still limited, the national economy has again faced the effects of "twin deficits" and "spending of unearned money." So, on the one hand, non-oil foreign trade, and on the other hand, the ratio of the summary budget's non-oil base deficit to non-oil GDP is increasing, and Azerbaijan is not able to achieve the implementation of the target indicators defined in the "Strategic Roadmap¹ for the perspective of the national economy", the implementation of which ended this year.

According to the Customs Statistics² of the Foreign Trade of the Republic of Azerbaijan, the export of non-oil and gas goods last year amounted to 3,267.1 billion US dollars by the end of the period, which account for 18.93 percent of the import in that period.

¹ <https://azertag.az/store/files/untitled%20folder/ STRATEJI%20YOL%20XERITESI .pdf>

² https://customs.gov.az/uploads/foreign/2023/2023_12.pdf?v=1705581222

Although the increase compared to the previous year (11.1 percent) was double-digit, the small amount of exports for the non-oil sector did not lead to a decrease in the share of the oil and gas sector in total exports. According to the latest statement³ of the State Statistics Committee, in January-March 2024, the export of non-oil and gas products decreased by 26.2 percent in actual prices and by 33.3 percent in real terms compared to January-March 2023, amounting to 673.7 million dollars. The negative trend of this indicator in the first 4 months of the current year determines the growth of the non-oil foreign trade deficit.

According to the opinion⁴ of the Chamber of Accounts on the draft law of the Republic of Azerbaijan on the implementation of the state budget of the Republic of Azerbaijan for 2023 and the annual report on the implementation of the state budget of the Republic of Azerbaijan for 2023, last year, the ratio of the non-oil base deficit of the summary budget to the non-oil GDP was 22.5 percent, which is 0.1 percentage point higher than the previous year.

Failure to achieve the goal of reducing the dependence of the state budget on SOFAZ transfers, as well as considering the increase of foreign public debt to the level of approximately 10 billion dollars, referring⁵ to the Minister of Finance, Samir Sharifov, at the meeting of the Economic Policy, Industry, and Entrepreneurship Committee of the Milli Majlis held on May 23, can be evaluated as the acceleration of "spending of unearned money" in the national economy, which does not have access to sufficient financial sources outside the oil and gas sector. The Minister of Finance linked the need to increase the state's foreign borrowing with the availability of sufficient payments during the year and the implementation of large infrastructure projects. So, it is known from the

³ https://www.stat.gov.az/news/source/doklad_2024-04.pdf

⁴ https://sai.gov.az/files/2023_icra_rey-336563546.pdf

⁵ <https://turan.az/az/iqtisadiyyat/azerbaycan-xarici-borclanmani-iki-defe-artira-biler-tendensiya-tehlukeidir-780865>

information⁶ on the implementation of summary and state budgets (operational) of the Ministry of Finance for the 1st quarter of 2024 that 640 million dollars or 13.0 percent of the total expenditures are directed to the expenses related to servicing the state debt, which 523.5 million dollars or 5.5 times more compared to the same period of 2023.

It should be noted that in this statement, the Minister of Finance, Samir Sharifov, refers to the Framework⁷ for updating the medium and long-term Strategy for 2022-2025 on public debt management in the Republic of Azerbaijan approved by Decree No. 3702 of the President of the Republic of Azerbaijan dated December 30, 2022. So, according to the latest amendment⁸ made to the framework document, up to 5 billion US dollars of foreign debt will be attracted to finance investment projects in priority areas, based on the goals of giving additional impetus to the socio-economic development rates of the country. Thus, the indicator of the ratio of foreign public debt to GDP (10 percent) was replaced by the upper limit indicator of foreign public debt determined in nominal terms (10 billion US dollars).

As of April 1, 2024, the foreign public debt was recorded at 5,507.3 million US dollars. As per the amendment to the framework document, this figure is expected to rise to 7.1 billion US dollars, accounting for 10.7 percent of GDP by the end of 2025. Such a significant increase in foreign public debt could potentially impact the country's economic stability and fiscal health, necessitating careful monitoring and strategic planning.

The implementation of the Strategic Roadmap approved by the Decree of the President of the Republic of Azerbaijan, dated December 6, 2016, ends this year. In the Strategic Roadmap, five target indicators have been set until 2025. It has been envisaged to ensure

⁶ <https://www.maliyye.gov.az/news/6028/2024-cu-ilin-1-ci-rubu-uzre-icmal-ve-dovlet-budcelerinin-icrasina-operativ-dair-melumat>

⁷ <https://e-qanun.az/framework/53086>

⁸ <https://e-qanun.az/framework/54871>

an average annual real growth in GDP of more than 3 percent (1), increase the share of foreign direct investments in the non-oil sector to 4 percent in non-oil GDP (2), raise exports in the non-oil sector to 450 US dollars per person (3), reduce the dependence of the state budget on SOFAZ transfers to 15 percent (4) and create 150 thousand additional jobs in the commercial goods and services sector, production or tourism sectors, more than 450 thousand new jobs in total (5).

Although Strategic Roadmaps⁹ for 11 sectors of the economy have been adopted to achieve these goals, the initial results are still not desirable. The evaluation table based on the initial results¹⁰ of the target indicators defined in the Strategic Roadmap until 2025 allows us to characterize the current situation.

Table 1. Evaluation of the initial results of the target indicators defined in the Strategic Roadmap

Target indicators	Target indicators defined in the Strategic Roadmap until 2025	Actual results achieved by 2023
1) Increasing the average annual real growth of GDP	Average annual real growth of more than 3 percent	1.71 percent*
2) Raising the share of foreign direct investments directed to the non-oil sector in the non-oil GDP	More than 4 percent of the share of foreign direct investments in the non-oil GDP directed to the non-oil sector	4.38 percent
3) Increasing exports per capita in the non-oil sector	USD 450 per capita of non-oil exports	324.1 dollars

⁹ <https://static.president.az/pdf/38542.pdf>

¹⁰ Ibadoghlu, Gubad, An Assessment of Socio-Economic Development Strategy for 2022-2026 of the Republic of Azerbaijan (August 7, 2022). Available at SSRN: <https://ssrn.com/abstract=4183827> or <http://dx.doi.org/10.2139/ssrn.4183827>

4) Reducing the dependence of the state budget on SOFAZ transfers	Reducing the dependence of the state budget on SOFAZ transfers to 15 percent	33.3 percent
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* During the reporting period, the average annual real GDP growth was calculated for eight years (2017-2024), taking into account the forecast indicators of 2024 and other target indicators based on the actual indicators of 2023.

As can be seen from the table data, based on the preliminary results, targeted result was achieved on only one of the four target indicators of the Strategic Roadmap, the implementation of which began in 2017 and ends at the end of this year. First, let's analyze and evaluate that target indicator, and then the target indicators on which we could not achieve a targeted result.

Calculations show that in 2023, the share of foreign direct investments (FDI) directed to the non-oil sector in the non-oil GDP was 4.38 percent against the targeted 4 percent by Strategy Roadmap. The growth of foreign direct investments and the growth rate of non-oil GDP play an essential role in forming this indicator.

So, according to the information¹¹ of the Central Bank of Azerbaijan, the share of the non-oil sector in FDI in 2013-2018 was on average 18 percent. Although the FDI directed to the non-oil sector decreased during the COVID-19 pandemic, it increased again after its softening. In 2021, the share of FDI invested in the non-oil sector in total foreign direct investments was 21.2%. In 2022, the amount of FDI to the economy of Azerbaijan increased by 30.9 percent compared to 2021 and amounted to \$6.27 billion. In 2023, the amount of FDI to the economy of Azerbaijan amounted to \$6,658,068, which is 6.1 percent more than in 2022. In 2023, the volume of foreign direct investments in the non-oil sector amounted to \$2 billion (an increase of 11.1 percent compared to the previous year), and its share in total FDI was 30.1 percent (in 2022 - 29 percent).

¹¹ <https://cbar.az/page-40/statistical-bulletin>

At the same time, capital repatriation (capital leaving the country) in the form of crude oil and natural gas and the share of international oil and gas consortia and foreign companies operating in Azerbaijan is increased. Thus, in 2023, FDI in the amount of 6.7 billion US dollars will be invested in the economy of Azerbaijan, while capital repatriation will amount to 6.9 billion dollars. Furthermore, in 2023, foreign direct investments from Azerbaijan to abroad amounted to 3.1 billion US dollars.

As can be seen, more than two-thirds of FDI attracted from abroad is still directed to the oil and gas sector. In contrast, capital repatriation in the form of crude oil and natural gas, which is the share of international oil and gas consortia, is increasing. However, the dividend income of the shareholders and shareholders of the legal entities resident in the territory liberated from occupation has also been exempted from taxation for ten years starting from January 1, 2023. Entrepreneurs who will operate in the liberated areas are also given concessions in utility payments. According to the relevant decision of the Cabinet of Ministers, entrepreneurs who are engaged in production activities in the territories liberated from occupation shall receive financial assistance from the state budget in the amount of 20 percent of the funds paid by domestic tariffs for utility services (electricity and natural gas sales, water supply, and wastewater discharge services) consumed within ten years from January 1, 2023.

The stimulating steps of the government do not positively attract foreign investors to the territories liberated from occupation. The main reasons for this are difficulties regarding non-compliance with the principles of market economy in the country, the strengthening of monopoly and corruption, the breakdown of free entrepreneurship, the registration and non-protection of property rights, lack of independence and independence of the judicial system, the lack of implementation of corporate governance and financial transparency, slowing down of projects planned for construction at the expense of state capital investment, non-disclosure of projects jointly financed by foreign loans and state capital investment, non-disclosure of their list, and failure to provide a report on the

implementation of the project included in the division of state capital investment (investment costs) in the state budget.

The dynamics of foreign direct investments (FDI) in the non-oil sector among the target indicators defined in the Strategic Roadmap¹² for the Perspective of the National Economy (Strategic Roadmap) and the continuation of the positive dynamics observed after the COVID-19 pandemic is important for the modernization of the economy. So, while the FDI amounted to 606 million dollars in 2020, it increased to 790 million dollars in 2021, 1.8 billion dollars in 2022, and exceeded 2 billion dollars in 2023. In order to continue the positive dynamics in this area, one of the amendments made to the Socio-Economic Development Strategy¹³ of the Republic of Azerbaijan in 2022-2026 (Strategy) by order of the President of the Republic of Azerbaijan dated August 4, 2023, is the provision of a 10-15 percent annual increase in the volume of foreign direct investments in the non-oil and gas sector until 2026. Furthermore, according to the Strategic Framework for a Sustainable Growing Competitive Economy clause of the Strategy, by the end of 2026, it is aimed that the share of the total public debt in GDP should not exceed 30 percent, and the share of the foreign public debt should not exceed 10 billion US dollars.

One of the dynamic balanced economic growth models should be chosen to achieve the goals defined in the Strategic Roadmap to ensure sustainable economic development. In the "Azerbaijan 2020: Look into the Future" Development Concept adopted in 2012, although tasks such as accelerating the diversification of the economy based on the export-oriented economic model, maintaining the high growth rate of the non-oil sector regardless of the level of oil revenues and expanding its export opportunities, as well as increasing the competitiveness and improving the structure of the economy, and promoting and expanding innovation activities, are envisaged, until now, the existing

¹² https://azertag.az/store/files/untitled%20folder/_STRATEJI%20YOL%20XERITESI_.pdf

¹³ <https://e-qanun.az/framework/53086>

problems in this field remain unresolved; therefore, the targeted growth of the economy and exports in the non-oil sector was not achieved according to the indicators defined in the Strategic Roadmap.

Preliminary assessments show that the Strategy Roadmap did not achieve an average annual real GDP growth of more than 3 percent until 2025. The reason for this is the observation of a slowdown in GDP growth over the years of implementation of the Strategic Roadmap, and a 4.2 percent economic decline was recorded in 2020 due to the global COVID-19 pandemic.

If the gross domestic product produced in Azerbaijan during 1991-1995 decreased by 13-20 percent yearly, its volume index increased by 1.3 percent in 1996 compared to 1995. In the subsequent period, this growth continued with short breaks. So, after the 11.8 percent drop in GDP in 1995, a 1.3 percent increase was started in 1996. Since 1996, the GDP decreased twice - 3.1 percent in 2016 and 4.2 percent in 2020. The economy grew by 5.8 percent in 1997, 10 percent in 1998, 7.4 percent in 1999, 11.1 percent in 2000, 9.9 percent in 2001, 10.6 percent in 2002, 11.2 percent in 2003, 10.2 percent in 2004, 26.4 percent in 2005, 34.5 percent in 2006, 25 percent in 2007, 10.8 percent in 2008, 9.3 percent in 2009, 5 percent in 2010, 0.1 percent in 2011, 2.2 percent in 2012, 5.8 percent in 2013, 2.8 percent in 2014, 1.1 percent in 2015, 0.2 percent in 2017, 1.5 percent in 2018, 2.5 percent in 2019, 5.6 percent in 2021, 4.6 percent in 2022¹⁴, and 1.1 percent in 2023. If we classify these indicators into three groups by decades, then the average indicator of GDP production by groups is shown in the table below.

Table 2. GDP production in Azerbaijan for 1996-2025

	1996-2005, on average	2006-2015, on average	2016-2025*, on average
GDP growth	10.39 percent	9.66 percent	1.29 percent

¹⁴ Ibadoghlu, Gubad, Assessment and Retrospective Analysis of the Economic Results of 2022 (January 3, 2023). Available at SSRN: <https://ssrn.com/abstract=4317133> or <http://dx.doi.org/10.2139/ssrn.4317133>

*GDP growth forecasts for 2024 and 2025 are 2.3 and 2.4 percent, respectively.

During the period covered by the “Azerbaijan 2020: Look into the Future” Development Concept¹⁵ (Concept), approved by Decree No. 800 of the President of the Republic of Azerbaijan dated December 29, 2012, the average annual real growth rate of GDP in the non-oil sector was expected to be higher than 7 percent. Calculations show that the growth rate was not higher than 7 percent, as envisaged in the Concept; even though some oil and gas-related areas were included in the non-oil sector, the average annual real growth rate of the GDP in the non-oil sector was up to 4 percent during this period. The average annual real GDP growth of more than 3 percent, which was determined as one of the target indicators in the Strategic Roadmap until 2025, was not achieved. During this period, GDP growth was 1.71 percent, taking into account the forecast indicator for the current year.

As you may recall, our country's economy has been grappling with the challenge of ensuring continuous GDP growth. However, it seems impossible to achieve this unless fundamental changes and serious reforms are implemented in the economy. So, the long-term growth simulations of the World Bank show¹⁶ that facing difficulties and without any policy response to them, Azerbaijan's economic growth may average only 0.5 percent in 2024-2050, and GDP per capita may only increase by 11 percent over the next 30 years.

According to the January issue of the Export Summary¹⁷ prepared by the Center for Analysis and Communication of Economic Reforms, Azerbaijan's total exports during January-December 2023 were 33.9 billion US dollars, but only 3.3 billion US dollars or 9.73 percent fell to the non-oil sector, which refers to all goods and services not related

¹⁵ <https://e-qanun.az/framework/25029>

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<https://documents1.worldbank.org/curated/en/099100009222236784/pdf/P17532606988e2056084e603c9c48ddc618.pdf>

¹⁷ <https://ereforms.gov.az/az/media/xeberler/ixrac-icmali-nin-yanvar-sayi-aciqlanib-959>

to the extraction or production of oil. Although this indicator of last year increased by 9.8 percent compared to the previous year's corresponding period, non-oil exports per capita are not expected to reach 450 US dollars by 2025, as stipulated in the Strategic Roadmap. So, the calculations show that last year, exports in the non-oil sector amounted to 324.1 US dollars per person. This indicator is expected to worsen in the previous year after implementing the Strategic Roadmap. So, according to the information released by the State Statistics Committee, the export of non-oil and gas products in January-March 2024 decreased by 26.2 percent in actual prices and by 33.3 percent in real terms, compared to January-March 2023, to 673.7 million dollars.

As can be seen, the non-oil export index per capita may drop from last year's level by the end of the year. At the same time, according to last year's results, electricity (402.5 million US dollars) was the first, and gold (162.8 million US dollars) was the second in the list of non-oil goods exported in Azerbaijan. However, since both products belong to the resource economy, their inclusion in the list of non-oil sector goods also raises questions. If the export indicator for these products is not considered, then the non-oil export per capita last year would be 268.6 million dollars or 59.6 percent of the target indicator.

One of the target indicators to be implemented by 2025 in the Strategic Roadmap¹⁸, which defines the development prospects of the national economy from 2017, is to reduce the dependence of the state budget on transfers from the State Oil Fund of the Republic of Azerbaijan (SOFAZ) to 15 percent. The purpose of determining this target indicator is to reduce the significant role of oil revenues in ensuring budget income and to weaken the adverse effects of the factors that depend on the foreign market situation on the state's financial security. However, the low growth of the non-oil sector during the reporting

¹⁸ https://azertag.az/store/files/untitled%20folder/_STRATEJI%20YOL%20XERITESI_.pdf

period creates problems for achieving the goal of reducing the state budget's dependence on oil revenues.

Even before the adoption of the Strategic Roadmap in December 2016, the Long-Term Strategy for the Management of Oil and Gas Revenues¹⁹ was adopted on September 27, 2004, to solve such problems and regulate the relations between SOFAZ and the state budget. This strategy defined the principles of long-term use of oil and gas revenues. Based on these principles, when revenues from oil and gas revenues reach their peak, no less than 25 percent of them will be directed to savings. The strategy stated that the accepted spending rules of oil and gas revenues remain unchanged during the period covered by the long-term strategy for managing oil and gas revenues, and at this time, the projected spending limit is observed based on the principle of unchanged real costs. However, by the Decree²⁰ of the President of the Republic of Azerbaijan dated April 15, 2019, the Long-Term Strategy for the Management of Oil and Gas Revenues was canceled. During the 15-year period (2004-2019) of the Strategy, the main part of the revenues from oil and gas exports went to spending, and the principle of not less than 25 percent of them being directed to savings was violated. So, the level of expenditure of the funds received during the years 2012 and 2013²¹, which is considered the peak period of oil revenues, was 78.4 percent. At the same time, during that period, the limit of projected costs was not determined based on the principle of unchanged real costs.

Thus, due to the non-application of limits and necessary rules for transferring oil and gas revenues collected in SOFAZ to the state budget, most of the expenditures from the state budget were mainly financed from this source. So, during the peak period of oil revenues - during the years 2010-2014 - more than half of the budget revenues of SOFAZ were

¹⁹ <https://e-qanun.az/framework/6336>

²⁰ <https://e-qanun.az/framework/42001>

²¹ Ibadoghlu Gubad, and Alasgarov Kamil, and Bayramov Galib, Oil and Gas Revenue Management in Azerbaijan (November 02, 2013). Policy Paper on Revenue Management in Azerbaijan, November 2013, Available at SSRN: <https://ssrn.com/abstract=3104106> or <http://dx.doi.org/10.2139/ssrn.3104106>

made up of transfers, and in 2013, this indicator rose to a peak level of 58 percent. The processes that started in the second half of 2014 against the backdrop of the drop in oil prices in the world markets led to the manat's devaluation in 2015. After that, as a result of discussions on the issues of efficient management of oil revenues, one of the leading target indicators of the Strategic Roadmap was determined to reduce the dependence of the state budget on SOFAZ transfers. At the same time, to implement the measures required for the transition to the result-based budgeting mechanism within the framework of medium-term expenditures, by the Decree of the President of the Republic of Azerbaijan dated August 24, 2018, the Rule on Preparation of the Medium-Term Expenditure Framework was approved, and by the Decree dated December 18, 2018, the Rule on Calculating the Upper Limit of Summary Budget Expenditures in Line with the Budget Rule was approved. After that, by the Decree²² of the President of the Republic of Azerbaijan dated December 30, 2021, the Rule for Calculating the Upper Limit of Summary Budget Expenditures in Line with the Budget Rule and Rule on Preparation of the Medium-Term Expenditure Framework were canceled. Thus, the 75/25 percentage limit that regulates the ratio of oil and gas revenues between consumption and saving, the principle of unchanged actual costs, and the concepts of "expendable oil revenues" have been removed from the legislation. The Rule applied to the summary budget 2019, which provides for certain restrictions on spending oil revenues, was effective only for one financial year²³. The government suspended the application of this Rule in 2020-2023, citing the need to increase budget expenditures during the COVID-19 pandemic²⁴. Finally, the new budget rule determined by the Decree²⁵ of the President of the Republic

²² <https://e-qanun.az/framework/40972>

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²⁴ Ibadoghlu, Gubad and Bayramov, Galib and Imanov, Rajab, Policy Paper on Assesses the Financial and Operational Effectiveness of the Azerbaijani Government's Efforts to Reduce the Negative Impact of the COVID-19 Pandemic (January 31, 2021). Available at SSRN: <https://ssrn.com/abstract=3776862> or <http://dx.doi.org/10.2139/ssrn.3776862>

²⁵ <https://president.az/az/articles/view/61953>

of Azerbaijan dated October 24, 2023, on determining the target upper limits of the ratio of the non-oil base deficit of the summary budget to the non-oil GDP and the ratio of the public debt to GDP for the medium-term period, as well as the upper limit of the ratio of the non-oil base deficit to the non-oil GDP of the target summary budget for the end of 2024, was used for the first time in the preparation of the 2024 budget project. With this decree, the target upper limit of the ratio of the non-oil base deficit of the summary budget to the non-oil GDP for the medium-term period was determined as 17.5 percent, and 24.0 percent by the end of 2024, and the target upper limit of the ratio of public debt to gross domestic product for the medium-term period was determined as 30.0 percent²⁶.

As can be seen, in the last 20 years, the fiscal policy in Azerbaijan has been in line with the cycle of oil revenues, and since the legislative and regulatory steps taken in the direction of limiting revenues from this source were not applied in practice, revenues from oil revenues played the main role in the financial provision of the state budget; therefore, as of April 1, 2024, SOFAZ financed 91 billion 21 million 353 thousand US dollars for various projects²⁷. Over this period, the high degree of procyclicality in Azerbaijan's fiscal policy has emerged as a significant concern, with oil revenues taking the lead as the primary driver of the budget expenditure increase.

It is concerning to see that the target indicator provided in the Strategic Roadmap for spending oil revenues has not been achieved. The calculations, based on indicators that characterize the share of SOFAZ transfers in budget revenues, indicate that the corresponding indicator for the results of 2023 was more than two times higher than the level projected in the target indicator. Thus, against the target indicator of 15 percent, the corresponding indicator was 33 percent. Deviation from this target indicator was not observed only during the 2023 year. During the reporting period (2017-2023), the highest level of SOFAZ transfers was recorded in 2020 (49.4 percent), and the lowest level was

²⁶ <https://sai.gov.az/files/r%C9%99y%202024%20layih%C9%99-892107023.pdf>

²⁷ https://oilfund.az/report-and-statistics/get-download-file/flip/7_2022_tam.pdf

recorded in 2017 (36.9 percent). This indicator was 44.6 percent in 2018, 45.2 percent in 2019, 42.9 percent in 2021, and 47.1 percent in 2022. Thus, the average indicator of the specific weight of SOFAZ transfers in the state budget revenues for the years 2017-2023 was 42.7 percent, and if we add to this the forecast indicator of the renewed budget of 2024 (35.2 percent), then the average indicator for the years 2017-2024 will be 41.8 percent, which is up to 3 times higher than the target of 2025 (15 percent) in the Strategic Roadmap. At the same time, the average indicator during the period is higher than the initial indicator in the starting year (36.9 percent).

Amidst the backdrop of declining oil and gas GDP in real and nominal terms, and the decrease in oil production and revenues since 2010, the specific weight of oil revenues in the state budget is projected to rise this year compared to 2023. If this trend persists, and if the world market prices of oil stabilize, the oil and gas revenues of SOFAZ will fall short of financing the budget transfer until 2034 at the 2024 level. It's crucial to note that the state budget expenditures of Azerbaijan are consistently increasing each year. The updated state budget expenditures for 2024 stand at 23,357.3 million dollars, which is 1,731.9 million dollars or 8.0 percent more than the approved amount. Oil revenues continue to play a pivotal role in funding the expenditures driven by this rapid growth. However, this situation may force the Azerbaijani government to make a difficult compromise between sharp and painful fiscal correction or further reduction of SOFAZ assets²⁸. Recall that according to the statement²⁹ of SOFAZ, as of March 31, 2024, the Fund's assets increased by 2.3 percent compared to the beginning of 2024 (\$ 56,069.7 million) and amounted to \$ 57,372.8 million.

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<https://documents1.worldbank.org/curated/en/099100009222236784/pdf/P17532606988e2056084e603c9c48ddc618.pdf>

²⁹ <https://oilfund.az/fund/press-room/news-archive/1636>

Azerbaijan must manage these challenges by implementing policies based on a solid macroeconomic framework (fiscal, monetary, credit, and exchange rate) to maintain stability and strengthen social inclusion. However, maintaining a balance in this area is much more difficult when oil revenues decrease due to lower production and gas revenues decline due to falling prices.

In conclusion, I would also like to note that the diagnosis of economic growth in Azerbaijan in recent years shows that the main motive of economic growth was not to increase the total factor productivity (TFP) and achieve inclusive development but the maximum exploitation of natural resources with the participation of foreign investors and the sharing of the obtained rent, which did not lead to sustainable development in the long term. Although oil and gas revenues were used to create economic opportunities during past two decades, due to the dominant position of the existing monopoly, equal access to such opportunities was not ensured, and only a tiny group benefited from it. According to World Bank report on Azerbaijan Economic Memorandum, September 2022³⁰, growth in Azerbaijan has been driven by physical capital accumulation and oil rents, with little contribution from human capital and limited contribution from non-oil/gas sector productivity. Prior to 2005, more than half of GDP growth was attributed to physical capital accumulation due to high state investment in physical infrastructure, exploration of hydrocarbon resources, and investments in transportation capacity. The oil boom period of 2005-2008 was predominantly characterized by TFP gains within the energy industry and oil rents. Post-global financial crisis, physical capital accumulation continued as the country invested heavily in natural gas exploration and built new transport infrastructure. The

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<https://documents1.worldbank.org/curated/en/099100009222236784/pdf/P17532606988e2056084e603c9c48ddc618.pdf>

contribution from human capital accumulation to GDP growth was close to zero during 1995-2018, while non-oil/gas sectors' TFP contribution was also limited.

Therefore, the growth of social indicators - real incomes, rationalization of savings, and personal consumption, in short, social inclusiveness, that is, improving the standard of living, has yet to be sustainable. In such a situation, the current level of foreign state debts will be doubled to 10 billion dollars in the future. The government, which has yet to reach the goals defined in the Concept and the Strategic Roadmap, despite spending 154 billion 746 million 500 thousand manat oil revenues by April 1, 2024, will use the money not earned by attracting loans, indicates a tendency. Under the current conditions, where public spending is carried out in a non-transparent and unaccountable manner, such decisions serve the development of more corruption.