



TECHNICAL ASSISTANCE REPORT

REPUBLIC OF AZERBAIJAN

Government Finance Statistics and Public
Sector Debt Statistics Mission
(March 11–17, 2025) – (April 28–May 2, 2025)

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CCAMTAC

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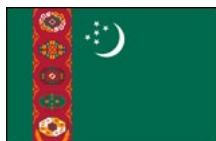
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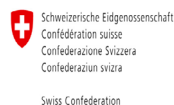


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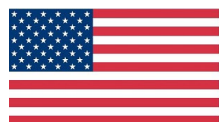


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Acronyms and Abbreviations

AM	Azerbaijani Manat
CBA	Central Bank of the Republic of Azerbaijan
CCAMTAC	Caucasus, Central Asia, and Mongolia Regional Capacity Development Center
CFC	Consumption of Fixed Capital
CG	Central Government
COA	Chart of Accounts
COFOG	Classification of Functions of Government
PDFLMA	Public Debt and Financial Liabilities Management Agency
EBF	Extrabudgetary Fund
GFS	Government Finance Statistics
<i>GFSM 2001</i>	<i>Government Finance Statistics Manual 2001</i>
<i>GFSM 2014</i>	<i>Government Finance Statistics Manual 2014</i>
GG	General Government
KRF	Karabakh Revival Fund
LEPL	Legal Entities of Public Law
LG	Local Government
MCD	Middle East and Central Asia Department
MCGF	Mortgage and Credit Guarantee Fund
MOF	Ministry of Finance
MOU	Memorandum of Understanding
MTEF	Medium-Term Expenditure Framework
PSDS	Public Sector Debt Statistics
PSIT	Public Sector Institutional Table
QPSD	Quarterly Public Sector Debt (IMF-World Bank Database)
ROA	Republic of Azerbaijan
SAMHI	State Agency on Mandatory Health Insurance
SB	State Budget
SEA	State Employment Agency
SG	State Government
SOFAZ	State Oil Fund of the Republic of Azerbaijan
SSA	Social Services Agency
SSPF	State Social Protection Fund
TA	Technical Assistance
TD	Treasury Department

Summary of Mission Outcomes and Priority Recommendations

1. In response to a request from the Ministry of Finance (MOF) of the Republic of Azerbaijan (ROA), and with the support of the IMF's Middle East and Central Asia Department (MCD), the Caucasus, Central Asia, and Mongolia Regional Capacity Development Center (CCAMTAC) conducted a hybrid technical assistance (TA) mission during March and May 2025 to assist the authorities in developing capacity to compile and disseminate quarterly and annual fiscal statistics that support policy making and IMF surveillance. The mission consisted of: (i) the remote segment which took place remotely via Zoom during March 11–17, and (ii) the in-person segment, which took place in Baku during April 28 – May 2, 2025. The remote segment focused on eliminating inconsistencies in the preliminary annual Government Finance Statistics (GFS) questionnaire for 2023 (Questionnaire), compiled by the GFS data suppliers such as the State Oil Fund of the Republic of Azerbaijan (SOFAZ), the State Employment Agency (SEA), the State Social Protection Fund (SSPF) and the State Agency on Mandatory Health Insurance (SAMHI) prior to the mission.

2. The main objectives of the mission were to: (i) provide an outline of GFS concepts specifically targeted for source data providers; (ii) assist the Medium Term Expenditure Framework (MTEF) Development Center staff in compiling annual GFS for general government (GG) for 2023; (iii) extend work on developing quarterly GFS and PSDS that support Fund surveillance; and (iv) review progress since the last TA mission in 2024. The mission also focused on further strengthening the capability and confidence of the compilers of fiscal statistics and the source data providers in addressing issues in the source data and the compilation processes, identifying areas for improvement, and promoting collaboration among agencies involved in the fiscal statistics compilation.

3. The classification of several Legal Entities of Public Laws (LEPLs) would result in the expansion of the general government (GG) sector coverage. The mission discussed with the authorities the classification of the Karabakh Revival Fund (KRF), the Mortgage and Credit Guarantee Fund (MCGF), State Agency for Housing (SAH) and the Social Services Agency (SSA). Most of these LEPLs rely on government support for their activities and show features of government entities. However, in a significant number of cases the net effect on net lending/borrowing would be relatively minor as they receive all their funding from the State Budget (SB) in the first instance, hence these flows would be consolidated.

4. The mission highlighted the importance of economic activity of these LEPLs and their possible impact on the government finances, which need to be reflected in GFS in a transparent and comprehensive manner. Based on the information provided by the staff of the agencies, while the entities are autonomous, from a statistical viewpoint, they are likely to be under the control of government and therefore should be treated as an extrabudgetary funds (EBF) in central government (CG) subsector. All transactions in revenue and expenditure as well as in assets and liabilities between the CG budget and LEPLs should be shown appropriately in GFS.

5. The mission noted that the annual GFS should be transmitted to the IMF as soon as possible after the end of the reference year, stressing the importance of having timely data available for users. The mission also encouraged the authorities to start disseminating quarterly GFS. It was agreed that the GFS dataset for 2023 would be submitted to the IMF by end July 2025 and the data for 2024 including several LEPLs by November 2025. The authorities undertook to investigate compiling

quarterly data for 2024 which would be examined in more detail by a subsequent mission (tentatively penciled in for November 2025).

6. Further progress in the compilation of sound fiscal statistics depends on the political support and effective building capacities. The Assistant Director of MTEF Development Center confirmed interest in further development of GFS, focusing on expanding sector coverage in a short term. The mission emphasized that the pace of future developments depends purely on capacity and recommended that the MOF senior staff ensure adequate resources be allocated to the MTEF Development Center. The authorities were encouraged to continue engaging with the CCAMTAC GFS-PSDS resident advisor on the necessary follow-up actions.

7. Besides the staff capacities, consideration should be given to collecting comprehensive source data needed to develop GFS data for entities to be included in the central government (CG) sector (e.g. LEPLs). To strengthen the institutional foundation for collaboration among compilers and users of fiscal and debt data for policy making, a technical working group comprising MTEF Development Center, Budget Department, Treasury Department (TD) and Agency for Managing Public Debt and Financial Obligations (AMPDFL) should be established with support by MOF management.

8. To support progress in the above work areas, the mission recommended a detailed one-year action plan with the following priority recommendations to make headway in improving the quality of GFS and PSDS:

TABLE 1. Priority Recommendations

Target Date	Priority Recommendation	Responsible Institutions
July 2025	<i>Submit annual GFS dataset for 2023 to IMF</i>	MTEF
November 2025	<i>Submit annual GFS dataset for 2024 to IMF to include several LEPLs</i>	MTEF
March 2026	<i>Compile an updated Public Sector Institutional Table to clarify what LEPLs should be brought into the EBF Sector</i>	MTEF

Further details on the priority recommendations and the related actions/milestones can be found in the action plan under *Detailed Technical Assessment and Recommendations*.

Detailed Technical Assessment and Recommendation

TABLE 2: Action Plan for GFS Development for Authorities in Azerbaijan

Priority	Action/Milestone	Target Completion Date
Outcome: Further development of GFS data in Azerbaijan.		
Outcome: Data is compiled and disseminated using the coverage and scope of the latest manual/guide.		
Outcome: Data are compiled and disseminated using the classification of the latest manual/guide.		
H	Increase capacity and efficiency of the GFS team.	As soon as possible/ongoing
H	Finalize and transmit the 2023 annual GFS questionnaire to IMF STA.	End July 2025
H	Finalize and transmit the 2024 annual GFS questionnaire to IMF STA.	End November 2025
H	Review and include as many LEPLs as possible in the 2024 GFS return.	End November 2025
H	Develop time series on quarterly CG debt in conjunction with PDFLMA.	End December 2025
H	Develop updated PSIT to take account of LEPLs and other EBFs.	End March 2026.
H	Maintain regular discussions with other bodies in Government on recording the amount of government securities held by them to avoid discrepancies in GFS questionnaires.	Ongoing
M	Explore and use supplementary data sources for GFS and PSDS	Ongoing

A. IMPROVING QUALITY OF GFS

Background

9. Azerbaijan is a regular provider of annual GFS for GG and its subsectors to the IMF's GFS database. GFS are compiled using an Excel file which contains the source data, bridging sheets, and output tables. The IMF's annual GFS database (managed by STA's Government Finance Division) contains Azerbaijan's time series data for 2008–2022 for GG and its subsectors (central government, social security funds, and local government). Staff of the MTEF Development Centre is currently compiling GFS for 2023 and will submit data for 2024 before the end of the year.

10. The source data for GFS is a mixture of IFRS and IPSAS-based annual financial statements which are sufficiently comprehensive and detailed to compile annual GFS. The GFS team in the MTEF Development Center has a good working knowledge of the source data as well as the framework, principles, concepts, and classification system of GFS. It also has access to qualitative information from

the sources, which enables them to understand and explain fiscal events underlying the reported numbers.

11. Data provided to the IMF for surveillance should be consistent with the data submitted to the parliament and those published in the IMF GFS database. As noted by the previous missions, there are several flows of data dissemination by MOF. The TD uses a cash-based accounting system. However, the mission was informed that the TD was able to produce budget execution reports on an accrual basis. These reports are prepared for reporting to the parliament but not submitted to the IMF for surveillance purposes. The mission suggested to the authorities (specifically the staff in the MTEF Center) to use the accrual data that is available as a source of data for their IMF returns and that this data should also be given to the Area Department for surveillance purposes.

Findings: Compilation Issues

12. The mission reviewed the significant discrepancies that arose from the GFS source data at individual entity level and reduced them significantly to near zero in all cases. A common issue the mission noted was the misclassification of net acquisition of non-financial assets by the receiving entities, which were transferred from the SBSB. These should be classified as other 'change in volume' with the non-financial transaction being recorded as a notional capital transfer in revenue and as acquisition of non-financial assets on the expenditure side. A good example of this type of error in compilation was the State Agency on Mandatory Health Insurance who receive transfers from the state budget (for example, medicines or capital equipment such as vehicles etc.) Given the Agency did not pay for these items, it should not affect the net lending/borrowing of either the financial or non-financial accounts. Rather, as mentioned earlier, it should be classified as another change in volume, which would explain the change in inventories and non-financial assets. In essence, they were over-declaring their expenditure without a corresponding change in the financial accounts. When this error was corrected, the statistical discrepancy was reduced to near 0 in all cases.

13. The mission also assisted the authorities in the reconciliation of other accounts payable. As mentioned in the previous paragraph, several agencies were showing significant discrepancies. While some of the discrepancies were dealt with in the previous paragraph, the mission noted that another source of discrepancies was due in part to the authorities including a figure as part of other accounts payable which should not have been included in the financial accounts. The economic reality was that the agency was including transfers which they got for free as part of the other accounts payable figure, which is not in line with the GFSM 2014. Rather, such transfers should again be recorded as another change in volume, thereby having no overall impact on the net-lending borrowing for both the financial and non-financial accounts.

14. As a result, the statistical discrepancies for each agency were further reduced and the MTEF team can compile and submit the annual data for 2023 by end July 2025. The authorities also undertook to submit the annual data for 2024 to the IMF by the end of this year. In addition, the authorities will compile and possibly disseminate quarterly data for existing bodies for 2024 data with the LEPLs. The mission also met with officials from the PDFLMA to discuss issues relating to debt and possible issues of consolidation.

Recommendations:

- Authorities to submit GFS dataset for 2023 by end July 2025 to IMF's Statistics Department.
- To use the accrual data that is available as a source of data for their IMF returns and transmit this data also to the Area Department for surveillance purposes.

- Consult (on an ongoing basis) with the mission and the CCAMTAC GFS-PSDS resident advisor on specific source data and compilation issues as they arise.
- Consider making the necessary changes to allow for more timely collection and dissemination of quarterly data. For example, to collect information on financial assets and liabilities a questionnaire could be sent each quarter to agencies requesting financial information on debt liabilities and holdings of currency and deposits for GFS and PSDS compilation.
- Authorities to submit GFS dataset for 2024 by end 2025.
- Authorities to gather quarterly information for LEPLs for 2025.

B. DETAILS OF LEPLS EXAMINED

Background

15. The appropriate classification of the LEPLs in line with GFSM2014 is an important step towards expanding the GG sector coverage and enhancing the GFS data comprehensiveness. Like several other countries in the region, Azerbaijan have set up several organizations under legislation entitled legal entities under public law (LEPLs). These entities can act in their own name, represent themselves legally, and own property. The mission met with the management teams of several LEPLs (KRF, SAH, MCGF, SSA) to seek relevant information to assess the entities according to the GFS sector classification. From a classification viewpoint, the key question to address here is to assess whether government provides a level of support without which the entity could not survive on its' own and/or government's control over the entity. If either condition is satisfied, then the body should be classified in the GG sector, otherwise the entity should be a part of public sector. Following discussions with the agencies during the mission, it became apparent that most of them rely on government support for their activities and should be classified as EBFs within the GG sector. However, it should be noted that the effect of the LEPLs on net lending/borrowing will be relatively minor as they receive all their funding from the SB in the first instance which is already recorded by GFS compilers. The only extra requirement would be to include revenues that the LEPLs generate themselves for inclusion in the government accounts as well as expenditure. Naturally, the level of consolidation between sectors would also increase due to the inclusion of LEPLs. The meeting with the representatives of these entities also addressed the possibility of the LEPLs providing estimates for quarterly data on the understanding that the agencies could revise their data based on more up to date data when it became available.

Findings: Compilation Issues

16. Based on the results of the discussions with the representatives of LEPLs, it was agreed that these entities should all be included as EBFs as part of the CG Sector. In most cases, the agencies receive a large majority, or all of their funding from the SB and are effectively carrying out government policy. For example, the MCGF is a state-owned non-commercial organization which channels low-cost funding to make mortgage accessible to citizens. In addition, the board of trustees is appointed by the President of Azerbaijan which clearly indicates a significant degree of control over the entity. Along with receiving funding from the SB this places these agencies in the general government (GG) sector. For GFS purposes, the expenditure is already recorded for these agencies as it comes from the SB but would require the necessary adjustments for consolidation at BCG and EBF level.

17. In relation to a body that receives non-government revenue, such as the KRF, the issue of control remains a critical one for classification purposes. It appears that a significant level of control is exercised by the Government over the KRF through appointments to the board. It was noted that the

current management of the KRF's activities is carried out by the management board consisting of three members – the Chairman and his two deputies. The composition of the supervisory board was signed into law by the head of state which indicates a strong degree of government control over the KRF. While this is called a Fund, given the level of control that is exercised by government, it should be treated as an EBF. As mentioned earlier, while Government grants would already be recorded in GFS, the remaining revenue from the private sector as well as their remaining expenditure would need to be recorded at the EBF level. The authorities undertook to supply the latest annual report for the KRF so that the GFS team can estimate the best approach for the inclusion of the Fund under the EBF subsector.

Findings: Areas for Improvement

18. The mission advised the GFS compilation team to investigate other cases of LEPLs that may have a significant impact on the GFS balances. Based on the work done by the mission, the authorities should examine other LEPLs and try to identify those belonging to GG. The subsequent mission would review the results and assist as necessary in finalizing the list of LEPLs, which should be classified as government entities.

Recommendations

- The LEPLs that were examined during the mission should submit financial information from their annual accounts for inclusion in the 2024 GFS dataset.
- These LEPLs should also include quarterly information for inclusion starting in 2025.
- The MTEF should investigate further examples of LEPLs that have significant revenue and expenditure.

C. INITIATING DISSEMINATION OF PSDS

Findings: Areas for Improvement

19. The statistics for quarterly dissemination of debt securities and loans for budgetary central government (BCG) are readily available for dissemination but pending the approval of the MOF management. The BCG data could be further complemented by the LEPLs or EBFs (as relevant) which would allow for expanding the sector coverage to the CG level. The mission also noted that when compiling debt statistics in line with the Public Sector Debt Statistics Guide for Compilers and Users, the compilers need to be aware of the consolidation issues and reconciliation of the PSDS figures with GFS. The mission suggested that a working group consisting of the PSDS and GFS compilers should be established for that purpose.

Recommendations

- Contact the World Bank to initiate reporting to the QPSD database.
- Set up a PSDS working group to discuss and report on debt issues to the GFS working group.

D. OFFICIALS MET DURING THE MISSION

TABLE 3.

Name	Institution
Jeyhun Aghayev	Deputy Director, MTEF
Elnare Kazimova	MTEF
Gunel Eliyeva	MTEF
Anar Mehdiyev	MTEF
Lamiya Karimova	SOFAZ
Kamal Amirasalanov	SOFAZ
Nigar Isgandarova	PDFLMA
Kamil Aliyev	PDFLMA
Parvia Maharramov	PDFLMA
Sevinj Agayeva	State Social Protection Fund
Farid Rasulov	State Social Protection Fund
Laman Yusifzade	State Social Protection Fund
Ramil Shamlizadeh	State Agency on Mandatory Health Insurance
Dinara Pashayeva	State Employment Agency
Elnara Ahmadova	State Employment Agency
Gunel Huseynova	Karabakh Revival Fund
Vusala Abasova	Karabakh Revival Fund
Khayal Raqiboglu	Karabakh Revival Fund
Konul Maksudova	Karabakh Revival Fund
Nizami Mammadov	Karabakh Revival Fund
Anar Mansurov	Central Bank of Azerbaijan
Mehriban Janmammadova	Central Bank of Azerbaijan
Javidan Akhmedly	Central Bank of Azerbaijan
Huseynov Jeyhun	State Agency of Housing
Aykhana Alasgarov	State Agency of Housing
Kamran Huseynov	The Mortgage and Credit Guarantee Fund
Mahira Aliyeva	The Mortgage and Credit Guarantee Fund
Alishaha Kovarov	The Social Services Agency
Zaur Novruzov	The Social Services Agency
Mulayim Dadashova	The Social Services Agency
Konul Yusifova	The Social Services Agency