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RESEARCH ARTICLE

PERFECTION OF THE FINANCIAL SYSTEM AS A GUARANTOR OF ECONOMIC STABILITY.

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Manuscript Info

Abstract

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Keyword:-

state budget, non-oil sector, GDP,
economy, financial policy.

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Formulation of the problem:-

After the restoration of its state independence, Azerbaijan, acting as one of the subjects of the system of international economic relations, initially faced economic, political and military problems, and therefore could not continue the successes achieved in the previous period. In order to change this difficult situation, it became necessary to take radical steps. However, this inevitability was not at all able to provide everything necessary for the country. This was due to the fact that for the implementation of cardinal changes, a strong political, administrative and financial base was required. Therefore, the foundation for the reforms carried out in our country was to be laid by a leader with a strong political will, foreign investments must necessarily have been present there. Creation of a healthy financial system in Azerbaijan is considered the main guarantor of economic stability in the whole society and economic development of all business entities. Improving the financial system, regulating taxes, solving problems of domestic and foreign debt, balancing the revenues and expenditures of the state budget, creating acceptable conditions for state and local enterprises, financing the program of long-term development of production, and improving the country's stock market are the priorities of any state [1].

The state budget, being the central link of the financial system, plays an indispensable role in the development of material and non-material production industries. The state budget performs important economic functions. Through a distributive function, the state budget creates the conditions for ensuring balance and proportionality between the material and non-material sectors of the economy. Thus, the national income arising as a result of material production accumulates in the revenue side of the budget and is subsequently spent on the payment of wages of workers engaged in the sectors of intangible production, as well as for the payment of other services. The control function of the budget as well as the distribution function is quite significant, it allows you to trace the outflow of financial resources on a large scale from one part of the economy to another. The process of budgetary construction is the most essential part of ensuring the rationality of the budget. One of the stages in accomplishing the tasks set is to consider the adoption of the concept of the transition from resource management to managing the effectiveness of the budget process [2].

Significant investments in large scale in the Azerbaijani economy became possible thanks to the oil strategy, which was successfully developed and implemented by the National Leader of Azerbaijan HeydarAliyev. In this sense, the

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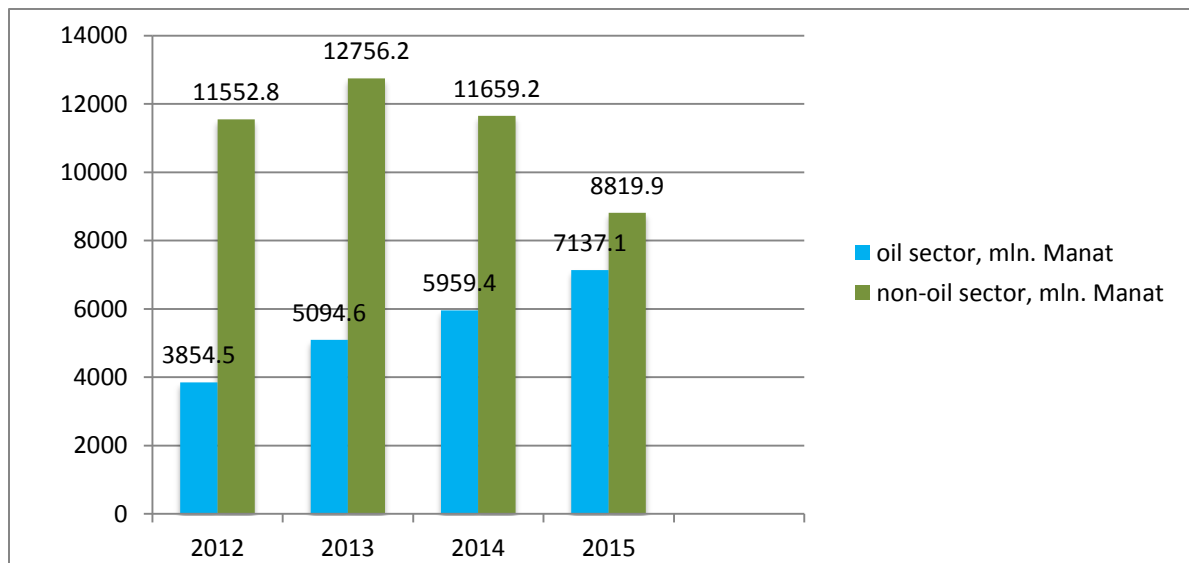
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signing of the "Contract of the Century" meant the implementation of huge projects that create a favorable ground for the integration of the Azerbaijani economy into the world space.

An analysis of the main achievements:-

The main priority of the state economic policy, including fiscal policy, in 2017 was the dynamic development of the non-oil sector, as well as an increase in the share of this sector in non-oil GDP and budget revenues. In preparing the articles of the revenues of the state and consolidated budgets, calculations were made in accordance with macroeconomic forecasts. Taking into account the mentioned, the revenues of the state budget in 2017 amounted to 15955.0 million manats, which is 26.0% and in comparison with the forecast of 2016 it was less by 867.0 million manat or 5.2% [3].

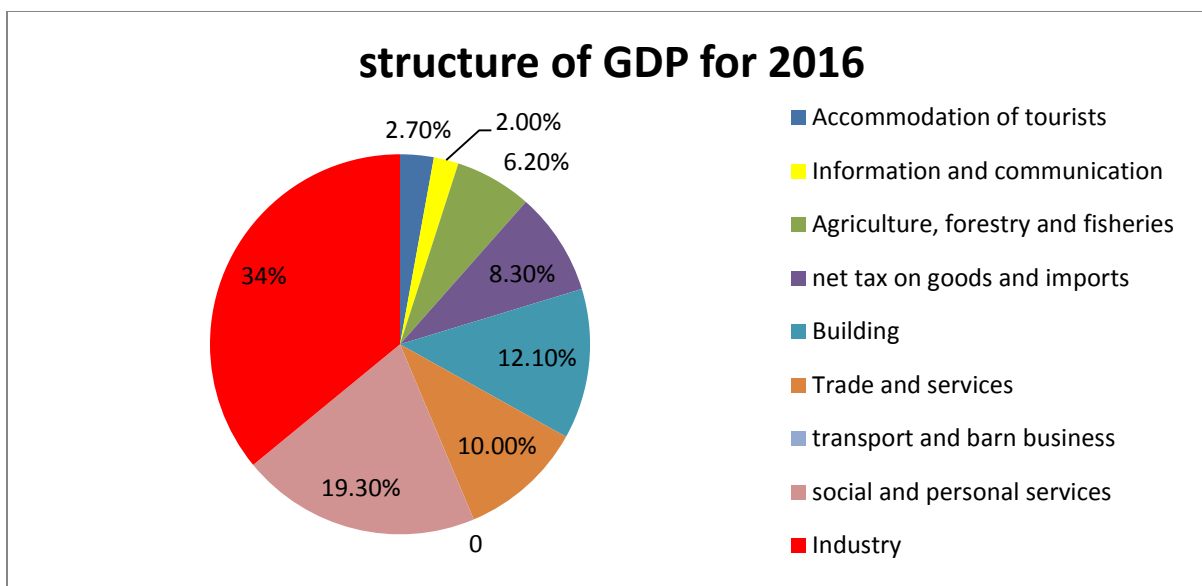
If we look at the dynamics of the funds allocated to fixed assets in the oil and non-oil sectors in 2012-2015, we will be able to observe continued stable growth in the oil sector, and in the non-oil sector we see an increase in these funds, starting in 2013. However, in subsequent years there was a decline in indicators.



Source: Statistical indicators of Azerbaijan, 2016.

Diagram 1:-Funds directed to the fixed capital of the oil and non-oil sectors.

The development of the non-oil sector of the Azerbaijani economy is becoming increasingly important, and this is a priority direction of the economic policy of our state.



Source: Statistical indicators of Azerbaijan, 2016.

Chart 1:-GDPstructurefor 2016

The share of revenues from the oil sector as part of the state budget revenues was stipulated in the amount of 49.2 percent or 7855.0 million manat, which is less by 1370.0 million manat or 14.9 percent compared to the forecast of 2016. The oil sector in budget revenues is: 77.7 percent or 6100.0 million manat transfers from SOCAR (State Oil Company of the Republic of Azerbaijan) (in comparison with the current year forecast it is less by 1515.0 million manat or 19.9 percent) , 22.3 percent or 1755.0 million manats - receipts from the oil sector through the tax authorities (in comparison with the current year forecast it is more by 145.0 million manat or 9.0 percent). In revenues from the oil sector, according to the SOCAR tax authorities, budgetary payments amounting to 1,280.0 million manats were provided, which is 72.9 percent of revenues from the oil sector through the tax authorities and, in comparison with the forecast of the current year, is more by 40 , 0 million manat or 105.0 million manat. The share of budget revenues from non-oil sector in total budget revenues was assumed at the level of 50.8% or 82100.0 million manat, which is by 503.0 million manat or 6.6% more compared to 2016, and in comparison with 2015 - by 821.9 million manats or by 11.3%. Budget revenues received by the tax authorities amounted to 67.7% or 5455.0 million manats, receipts from the State Customs Committee of the Republic of Azerbaijan - 27.2% or 2200.0 million manats. Compared to 2016, revenues from the non-oil sector through the tax authorities grew by 55.0 million manats or 1.0%, receipts from the State Customs Committee of the Republic of Azerbaijan - by 390.0 million manat or 21.5% while other revenues increased by 58.0 million manat or 15.0% [4].

A number of measures have been taken to eliminate dependence on oil revenues. Strategic road maps in general on the national economy and its main sectors will provide even greater growth of its competitiveness, growth of an inclusive economy and social welfare. Responding to global challenges and as a result of attracting investments, developing a free business environment, entering markets and human capital, Azerbaijan will strengthen its position in the world economy and join the group of high-income countries. Thanks to the Resolution "The Main Directions of the Strategic Roadmap for the National Economy and the Main Sectors of the National Economy" approved by the President of the Republic of Azerbaijan on March 16, 2016, numbered 1897, a total of 12 strategic road maps for the national economy as a whole and 11 sectors were prepared. The Strategic Road Map on the outlook for the national economy covers short-term, medium and long-term periods, consists of a strategy and plan for economic development until 2020, a long-term view of the period until 2025, and a targeted view of the period after 2025 [5].

Over the past 10 years, Azerbaijan has taken the leading positions in the world in terms of economic growth. Based on the successful oil strategy, Azerbaijan has made a big profit, due to which it modernized its infrastructure, developed the non-oil sector of the economy, improved the welfare of the population, increased assets on the balance of the state and created foreign exchange reserves at a level exceeding the GDP. Starting in 2014, oil prices began to fall sharply. In addition, there was an economic crisis in the trading partners of Azerbaijan, as a result of all this, there was a need to move to a new approach to economic development in Azerbaijan against the backdrop of a

slowdown in economic growth in the country, institutional and structural challenges, a balance of payments deficit and a non-oil budget, and processes occurring in the financial and banking sector. Updating the structure of the national economy is possible by further improving the business environment, applying the new policy as part of the medium-term expenditure strategy, improving the financial and banking system, and improving monetary policy through a floating exchange rate regime, as well as expanding opportunities to enter foreign markets [6]. Therefore, within the framework of the national economic prospects, four strategic goals were chosen. As a result of these goals and strategic road maps for 11 sectors, a continued economic development will be possible by balancing the real and financial sectors. In accordance with the first strategic goal, fiscal stability will be ensured in Azerbaijan and monetary policy will be built on a floating exchange rate regime. The alignment of fiscal and monetary policies will ensure macroeconomic stability. The second goal in the future of the national economy is to increase the rationality of legal entities, controlling the state's controlling interest, as well as ensuring economic dynamism through privatization. The third goal is related to the development of human capital, due to which the development of the labor market will correspond to the national economic perspective. Finally, the fourth goal implies an even greater improvement in the business environment. Common issues were covered that would ensure the sustainable development of 11 sectors identified in the perspective of the national economy [7].

Based on the analysis of the distribution of public expenditures for central and local expenditures, it is established that, in accordance with the legislation, a number of general expenses of state significance are fully attributed to central expenditures. These include: defense of the country, social protection costs, industry and construction, public investment, payment of external and internal debts, creation of reserve funds, etc [8].

If you look at the last 5 years, you can see that the cost of general government services has increased by 50% in recent years. Similarly, one can observe defense spending growth of 33%. And the costs of industry, construction and minerals compared to previous years, on the contrary, decreased by 50%.

In preparing the state budget for 2018 in accordance with the existing macroeconomic climate, the focus was on financial support for the country's long-term development, measures aimed at developing the regions, providing incentives and development of agriculture, implementing educational, medical, social, cultural sports projects and physical projects infrastructure, as well as measures related to the fulfillment of obligations on external public debt and obligations related to the implementation of (wages, salaries, pensions, other social benefits and payments, expenses related to the external and internal indebtedness of the state, the costs of purchasing food, medical and dressing materials). In comparison with the previous year, a smaller amount of funds was projected for other expenditures. In 2017, an even greater improvement was continued in linking relevant government programs and activities with medium-term budgetary expenditures, identifying programs and activities, which are provided from the state budget [9].

The running costs of organizations financed from the state budget, as well as the funds needed to provide financial assistance to organizations partially funded from the state budget, were also budgeted. Expenses of the state budget for 2017 were provided at the level of 27.0% of GDP. The expenditures of the state budget for 2017 were in the amount of 16.6 million manats, which is less by 1895.0 million manat or 10.2% compared to 2016. For current expenditures included in the structure of the state budget expenditures for 2017, funds were allocated in the amount of 58.7% of total expenditures (in comparison with the previous year, by 19.5% less), for capital expenditures - 31.4% (in comparison with the previous year more by 13.0%), and expenses related to servicing the public debt - 9.9% (in comparison with the previous year, by 7.5% less). In comparison with the previous year, there was an increase in the share of capital expenditures in the state budget by 6.5 percentage points, expenditures related to servicing the public debt by 0.3 percentage points, and the share of current expenses decreased by 6.8 percentage points.

The macroeconomic processes taking place in the world have had their impact also on the economy of Azerbaijan. And in the last period the country has formed a macroeconomic situation, different from the situation of previous years. The growth in supply in the world energy markets and the lack of parallelism in the growth of supply and the increase in demand cause a still low level of oil prices, which is the main source of income and foreign exchange earnings. This, in turn, caused a decrease in foreign currency earnings. In addition, despite the significant limitation in the current year of the volume of imports, it still remains at a high level, and there is a deficit in the balance of payments of the country. After two devaluations that occurred in 2015, this year there is still a pressure on the exchange rate of the national currency.

In 2017, the protection of socially sensitive sections of the population was strengthened (increase of pensions and social benefits, targeted social assistance, monthly allowances for food for internally displaced persons, etc.), and also increased by 10% the wages of employees of budgetary organizations (working in the region science, education, health, culture, sport, agriculture and civilians who are not government employees). In order to strengthen the confidence of depositors in the banking system, a state guarantee was given for the return of deposits at 100 percent.

$ABDUDM = 748.97523227 + 0.000326343181309 * EKYI$ Regression model, indicating that the GDP per capital GDP (ABDUDM) is based on fixed capital investment (EKYI) is as follows.

$ABDUDM = C(1) + C(2) * EKYI$

Using statistical data, we set up a regression model and have the following setbacks.

$ABDUDM = 748.97523227 + 0.000326343181309 * EKYI$

As a result, it was revealed that the increase in capital investment in the country would increase by 1 billion manat, which would increase the per capital GDP by 326.

Today, the provision of socially sensitive segments of the population continues to increase, the business environment is more favorable with the help of tax, customs and other structural reforms and other countercyclical measures, as a result of fiscal tightening and a rigid policy of monetary and financial stabilization, excessive emission of manat is not allowed, the process continues restructuring and recovery in the banking sector. In the main, speculative pressure on the manat rate has been eliminated. As a result, it was possible to reduce the balance of payments deficit, including reduce the volume of imports, keep inflation under control and soften a bit the deep economic recession. According to the State Statistics Committee of the Republic of Azerbaijan, for 8 months of 2016 the country produced GDP of 38.0 billion manat, of which 65.7% is non-oil GDP. Of the total gross product, 38.0% were produced in industry, 11.7% in trade and repair of vehicles, 5.7% in agriculture, forestry and fisheries, 2.7% in accommodation and catering, 1, 9% in the field of information and communication, and 16.4% in other industries [10].

Conclusions and offers:-

The narrowing of the volume of lending to the economy by banks took place against the backdrop of dollarization and the acceleration of inflation, together with the factors listed above. And for the past period of this year, the gross domestic product has decreased, which characterizes the complicated macroeconomic situation that our country has faced. For the current year, under the leadership of the President of the Republic of Azerbaijan, Mr. Ilham Aliyev, macroeconomic stability is being restored, and important countercyclical policies are being implemented to accelerate structural and institutional reforms.

All this combines measures such as strengthening the protection of socially sensitive segments of the population, tightening monetary and fiscal policies, restoring healthy and sustainable financial intermediation in financial and foreign exchange markets, branching out the economy, identifying and prioritizing the growing branches of agriculture and industry in order to increase non-oil exports and import substitution.

Summary:-

In the article, the author points out that the state budget, being the central link of the financial system, plays an indispensable role in the development of material and non-material production industries. Therefore, the main priority of the state economic policy, including fiscal policy, in 2017 was the dynamic development of the non-oil sector, as well as an increase in the share of this sector in non-oil GDP and budget revenues.

Thus, in order to eliminate dependence on oil revenues, a number of measures were taken. A strategic roadmap for the national economy and the main sectors of the economy will ensure its greater growth in competitiveness, inclusive economy and social well-being. Responding to global challenges as a result of attracting investments, will allow the development of a free business environment, access to the markets of human capital Azerbaijan, which in turn will strengthen its positions in the world economy and enter the group of high-income countries.

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