

REPUBLIC OF AZERBAIJAN

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ABSTRACT

of the dissertation for the degree of Doctor of Science

FINANCING PROBLEMS OF THE BUDGET DEFICIT WITH SECURITIES IN THE REPUBLIC OF AZERBAIJAN

Speciality: 5301.01 – Internal fiscal policy and public finance

Field of science: 53 – Economic sciences

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BAKU – 2023

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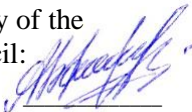
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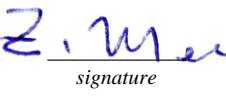
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THE WORK'S GENERAL CHARACTERISTICS

Relevance and development of the topic: In the Republic of Azerbaijan, which regained its independence at the end of the 20th century, one of the main tasks facing the state was to ensure the transition to a new economic system and to find new models of the country's socio-economic development. With the adoption and implementation of the strategy of using the large amount of oil and gas resources, including the foreign currency income obtained from these sources for the reconstruction of the socio-economic system of the country, our national economy has entered its new and long-term development highway.

As a result, macroeconomic stability and economic growth in all areas of the country's economy were achieved in a short period of time. Mainly due to targeted use of oil and gas revenues through fiscal channels, in other words, due to the increase of state demand in the economy, the real sector and, on its basis, the financial sector entered the stage of rapid development. As a result, our country is currently included in the group of middle-income countries of the world.

Regardless of the level of development, making the economic system work in every country and achieving its development, another main task of the economic policy is to ensure the stability of the achieved economic growth and human development tendencies as a result. This task is also relevant for the economy of Azerbaijan, and the issues of achieving balanced and sustainable development in the real sector, especially in the public finance sector, as an economic system formed from natural resource sources, are becoming more and more important.

At present, the country's fiscal sector is significantly dependent on resource revenues. This shows that the net revenues of the state budget, which is the country's largest financial fund, excluding resource revenues, are largely negative. In other words, the scale of the non-oil deficit of the country's fiscal sector, including the state budget, is large and unsustainable in relation to the country's gross domestic product.

On the other hand, regional diversification of economic growth

and development is weak, so there are large deficits in fiscal funds at the regional level. Currently, the budgets of most regional units are significantly dependent on subsidies.

This shows that the root of the budget deficit problems in both the sectoral and regional division, arising from the low level of diversification of the country's economy, is deeper. From this point of view, when we say the problems of financing the state budget deficit in the country, it should be understood not to fill the existing financial gaps with free financial resources, but to solve the structural and economic problems that create the budget deficit and achieve fiscal stability on this basis.

World experience shows that the main way to achieve efficiency in the fiscal sector in resource countries, including the management of the government budget deficit, is to ensure rational use of the opportunities of the financial markets, including the securities market.

In accordance with the ideas and directions of development mentioned in the Strategic Road Map of the national economy perspective of the Republic of Azerbaijan, which are currently accepted as the highest economic policy documents of the country, and the implementation of which has started, as well as in the Strategic Road Map of the development of financial services in the Republic of Azerbaijan, as one of the resource countries, the economic growth of the economy in Azerbaijan. In order to achieve qualitative transformation of development and its sustainability, there is a great need to deeply study the problems of stability of the fiscal sector, determine the solution directions and propose relevant models.

Thus, the study of fiscal fund management models in the Republic of Azerbaijan, the determination of the rational basis of the system of generation and use of natural resource income, the achievement of the efficiency of the fiscal sector, including the financing mechanism of the state budget deficit, the rational management of the financial gaps of the fiscal sector due to the opportunities of the securities market, as a result, the need to deeply study the problems of increasing the efficiency of the state's financial funds in terms of the national economy and to determine the solution directions determined the selection of the subject of the dissertation and the relevance of its

investigation.

The role of the state budget in the country's economic development, management of the budget deficit, scientific and practical approaches related to its direct and indirect effects in terms of economic security, and the theoretical and methodological foundations of state finance in general have ancient historical roots.

Even in the early days when economic theoretical concepts complete from a collective, systematic and ideological point of view began to emerge, theoretical ideas with these characteristics can be found in our holy book, the heavenly system of social and moral values, the Holy Qur'an. Here, in essence, we find clear ideas about the functional bases of the state budget and the principles of state finance relations.

Although the first theoretical views in this direction were put forward by classical theorists, especially A. Smith, the beginning of deep study of this topic is connected with the name of C. M. Keynes school. At the same time, the conceptual approaches of the Keynes school regarding the theoretical foundations of the state budget and budget deficit financing are different from those of the classics. Followers of J. Keynes, L. Larnier, V. Nordhaus, P. Samuelson, S. Harris and others have also mentioned the state financial funds, including the state budget, as the main influence of the state on the economy. Other authors of which I. Fischer, Laffer, J. Eaton, M. Hersovich, G. Moulton, E. Seligman, L. Pasvolski, T. Freeman and others, as well as Y. Vavilov, A. Zalshupin, M. Bogolepov in the post-soviet space, K. Kolas, P. Migulin, B. Heifech and others can be attributed to this order.

M. Friedman, O. Fayt, A. Burns and others, representatives of the monetarist school, denied the unequivocal approach to the state budget deficit and were able to reveal very important differences in terms of the efficiency of its management.

In recent years, economists of our country have published a number of scientific works in the field of researching problems related to the fiscal sector. Regarding the topic of the dissertation, the works of A.H. Abasov, S.A. Abdullayev, D.A. Baghirov, M.M. Baghirov, A.I. Bayramov, R.A. Bashirov, A.A. Alakbarov, Sh.H. Hajiyev, M.Kh.

Hasanli, N.N. Khudiyev, E.A. Ibrahimov, G.C. Imanov, A.E. Karimov, F.A. Ganbarov, M.Kh. Meybullayev, Z.F. Mammadov, A.J. Muradov, N.A. Novruzov, V.A. Rustamov, M.M. Sadigov, Z.A. Samadzada, Z.T. Valiyev and others can be especially mentioned.

These works are mainly related to the issues of providing financial resources, including the state budget, and financing the budget deficit in the traditional sense, and they cover aspects of national economic security at the macro level. However, in addition to the above, the study of progressive models related to the management of fiscal funds, the determination of the rational basis of the system of generation and use of natural resource revenues, the achievement of the efficiency of the financing mechanism of the fiscal sector, including the state budget deficit, and finally the financial gaps of the fiscal sector due to the opportunities of the securities market. There is a great need to investigate management issues on a rational basis.

It should also be noted that until now, the problems of ensuring fiscal stability in the context of rational management of oil and gas revenues in the Republic of Azerbaijan, and in this regard, the problems of financing the state budget deficit with effective securities, have not been selected as a research object in doctoral dissertations. In this regard, the presented dissertation is the first doctoral dissertation in which the listed issues are studied.

The state budget deficit management system in the Republic of Azerbaijan is taken as the **object of research**.

The subject of research is the issue of effective securities for financing of the state budget deficit.

Goals and objectives of the study: The purpose of the research work is to study the current characteristics of the mechanisms of financing the state budget deficit with securities in the Republic of Azerbaijan and to determine the directions for their improvement based on the results of international experience.

In order to realize this goal, the following tasks have been solved:

- multi-faceted approach to the concept of budget deficit, research and generalization of the theoretical and methodological bases of its management, systematization of various theoretical views on this problem;

- study of the structure of the fiscal system at the global level, especially in advanced countries, and the problems of financing the budget deficit;

- financing of the budget deficit with securities in countries with different levels of economic development, as well as evaluation of the features of the internal and external state debt management mechanism arising on this basis;

- determination of directions for analysis and improvement of the features of the state budget deficit financing system and the legislative framework and institutional mechanism of the debt securities market in the country;

- analysis of the economic bases of the debt state securities market in the country, assessment of improvement opportunities and justification of development directions;

- developing effective models of financing non-oil budget deficit and regional deficits in the fiscal sector and determining ways of their effective management;

- development of a new mechanism for efficient use of state securities in financing the budget deficit;

- assessment of medium and long-term treasury notes circulation possibilities;

- studying the prospects of emission and circulation of Eurobonds as one of the sources of financing the budget deficit.

Research methods: Various methods were used depending on the selected research object, tasks and goals. The theoretical-methodological basis of the research is classical, neoclassical and modern theories on the problem, researches of foreign and national scientists, experience of the development of public finance and securities market relations on a global and local scale, as well as the official position in the tactical and strategic directions of the economic policy of the Azerbaijan state.

The methodological basis of the work is a wide range of general scientific and special economic methods, which were applied according to the specific tasks of the research. Logical and historical, systematic-structural approach, complex and factor analysis, statistical observation, induction, deduction, systematic and comparative

analysis, as well as economic-mathematical methods were used in the research work.

The main provisions of the defence:

1. The study of the stability of the fiscal sector, including the theoretical and methodological bases of the management of the budget deficit, shows that the management of the budget deficit should be approached comprehensively based on the principles of the cyclical flow model of the economy, rational fiscal policy should aim at economic growth and, as a result, economic development, in strict coordination with other directions of economic policy should be implemented.

2. Counter-cyclical fiscal policy tactics, the correct and active use of the opportunities of the state debt securities market are necessary for the management of the budget deficit in various divisions, as a result, for the purposes of effective fiscal policy, and this is the most progressive method of financing the budget deficit from the point of view of macroeconomic stability.

3. According to progressive world practices in the field of state budget deficit management, in countries with a large amount of mono-resources, including oil and gas revenues, with special fiscal rules, the levels of use and collection of those revenues significantly characterize fiscal stability and determine the quality of current and strategic economic development.

4. In terms of economic growth, macro-fiscal stability, as well as the rational use of resource revenues within the conditions of diversified development of the non-oil and gas sector, the main elements of the economic model of successful countries, as well as the state regulation practices of developed countries on the securities market, should be used in the national economy. .

5. The macro-fiscal policy in the economy of Azerbaijan, including the economic adjustment of the budget system, as well as the high sensitivity of the budget deficit management parameters to the export prices of oil, necessitates a new approach to fiscal policy, especially to the use of resource revenues, and this will ensure the stability of the country's socio-economic development .

6. Ensuring the harmony of economic growth, minimizing

dependence on external factors, strengthening institutional and economic mechanisms for the protection of macroeconomic stability, comprehensive assessment of its effects on the level of social well-being, proper coordination between fiscal policy and monetary policy are the most important economic security aspects of ensuring fiscal balance in the country should become the priorities of economic policy.

7. Analyzes of the state's debt securities market in Azerbaijan show that there is a necessary legal and institutional basis for the regulation of financial instruments that are in circulation and serve to finance the state budget deficit in the current state of the fiscal sphere, but the concept of budget deficit management put forward in the research, including its issues related to financing with more advanced methods require a comprehensive revision of the framework of regulation of state securities, as a result, expansion of their circulation opportunities.

8. The mission of the fiscal sector and the main institutions of the financial markets, a strategic view of the budget deficit policy, strategic and tactical risks of the fiscal sector, the values created by the fiscal sector and policy in the economy and social sector, strategic economic policy goals and sub-goals, tactical behavior map, related quantity and quality criteria, finally transparency and accountability mechanisms should be identified as priorities of the new fiscal policy framework.

9. Improving the market infrastructure in the state's debt securities market, including the creation of new institutions, should become a strategic and operational goal of improving the state budget deficit management mechanism in the country.

10. Adaptation of the organizational and legal structure of the debt-obligated state securities market to advanced international standards, the introduction of a new trading system, along with other instruments, leading to the expansion of trading opportunities for debt-obligated primary and derivative financial instruments intended for direct fiscal purposes, ultimately leading to a stable macro-fiscal policy will become a practical guarantee.

Scientific originality of the research. The scientific originality of

the dissertation is the determination of the scientific and practical foundations of the stability of the fiscal sector in the Republic of Azerbaijan, the determination of the priorities of the state's fiscal policy, the formation of the mechanism for financing the state budget deficit on an efficient basis and the assessment of its operational characteristics, the directions for solving the problems of effectively using the financial potential of the debt state securities market. It consists of its scientific justification and preparation of specific proposals in this direction.

The important aspects that determine the scientific novelty of the dissertation work include the following:

- the sustainability of the fiscal policy and the financing of the state budget deficit in various divisions, the scientific-theoretical bases of the management of the public debt arising in this direction, as well as relevant scientific generalizations were made regarding the progressive world experience in this field, the rational use of resources on the domestic and foreign financial markets in accordance with specific conditions possibilities have been determined. A new classification system of the state budget deficit was proposed and the need to implement management based on a new model based on this classification was justified;

- numerous theoretical approaches to the efficiency of the fiscal sector, including the budget deficit, were analyzed and systematized in reliable scientific sources, and the possibilities of their practical application in the country were evaluated. Macroeconomic efficiency conditions of public debt aimed at financing the budget deficit have been determined, and their economic security aspects have been studied.

- the economic-theoretical advantages of using domestic and foreign securities market resources in ensuring fiscal balance, including financing the state budget deficit in various divisions;

- the international experience in the field of government securities market and budget deficit financing was studied in a systematic and unified manner, including the development features of the government securities market in high and middle-income countries were systematized, the issues of applying various models of budget deficit

financing to the country's economy were assessed from the perspective of macroeconomic balance and economic security ;

- the problems of financing the budget deficit in different divisions of the country are listed, the historical and local aspects of the tradition of unsustainable financing of the budget deficit are analyzed, including the conceptual and practical aspects of the management of the non-oil budget deficit are studied, and the listed issues are the economic means of ensuring fiscal balance in the country in the medium and long term. agreed with security conditions;

- on the basis of the comparative analysis of the legal bases and institutional mechanism of the debt state securities market, circulation prospects of various types of treasury bonds were evaluated, the development directions of this segment of the debt market were studied. Also, new directions of circulation of short-term treasury bonds and the theoretical and practical basis of attracting financial resources from the profitable government bond market were determined;

- the ways of improving the mechanism of financing the budget deficit with securities in the country were proposed, including the directions for ensuring the efficiency of the budget deficit, the possibilities of releasing medium and long-term treasury notes into circulation, as well as the emission and circulation prospects of Eurobonds were determined;

- as a result, taking into account the development challenges facing the national economy in complex global conditions, as well as the strategic and operational goals of the fiscal and monetary policy, a new mechanism for the rational use of state securities in financing the state budget deficit in various divisions in the country was proposed.

Theoretical and practical significance of the research. The theoretical propositions and practical recommendations put forward in the research work are to determine the priorities of the fiscal policy and the budget deficit financing mechanism in the country, to improve the structure of the public debt in terms of increasing national economic efficiency, to strengthen the legislative framework and institutional mechanism in the field of budget deficit management, to develop the debt state securities market, can be used in the assessment of access to

international financial markets. Theoretical methodological bases of the research work, experimental materials can be proposed for use in scientific research, as well as in the teaching process.

Proposed tasks, used methods, assessment of fiscal policy and budget deficit in terms of economic security and efficiency, determination of ways to achieve sustainable development of the fiscal sector, determination of development prospects of the debt state securities market based on the progressive management model, including the existing institutions on the securities market reconstruction, creation of their research and analytical laboratories; creation of collective investment schemes, promotion of financial intermediation activities in the state securities market, support of demand and supply in the securities market, deepening of the market through the strengthening of supply and demand channels both directly and indirectly by the state, expansion of the application of the principles of financial transparency, market participants and potential improving the system of informing target groups, strengthening the processes of training professional personnel for the market, etc. Such proposals embody the scientific-theoretical importance of the research.

The main provisions, practical results and proposals of the research allow to increase the efficiency in ensuring fiscal stability in the country, as well as financing the budget deficit with effective securities in the conditions of large-scale use of resource revenues. The proposals and recommendations developed can be used both in legislative acts and in the practical activities of relevant executive structures.

Approval of research results: The results obtained in the research, proposed proposals and recommendations were presented at the scientific-practical seminars of the Central Bank of Italy and the Joint Vienna Institute, as well as in discussions at relevant institutions. An opinion was expressed about the high necessity and possibility of applying the results.

The results obtained in the research process were published in the form of monographs, articles and theses. The author's works have been published in Azerbaijan, Italy, Turkey, Russia, and Iran. At the same time, many of the articles and theses have been approved at international, republican and local scientific-practical conferences.

The main theoretical and practical issues of the research work are

covered in a total of 93.1 printed pages entitled "Financing the budget deficit: new challenges and perspectives" (Baku, Ulu, 232 p., 2017), "State debt and its management" (Baku, Sharg-Garb, 320 p., 2002), as well as more than 40 scientific works published in scientific journals and conference collections.

Name of the organization where the dissertation work has been carried out: Azerbaijan State University of Economics

Structure and scope of the dissertation: The research paper, including introduction (20491 characters), five chapters (Chapter I - 70434, Chapter II - 87160, Chapter III - 110192, Chapter IV - 39006, Chapter V - 418108 characters), conclusion (34871 characters), without a bibliography. It consists of 243 pages with 371448 characters. 18 tables, 30 pictures and 138 references were used in the work consisting of 5 chapters and 22 paragraphs.

The structure of the dissertation

Introduction

Chapter I. Theoretical and methodological foundations of budget deficit management

- 1.1. Theoretical approaches to budget deficit management issues
- 1.2. Theoretical foundations of budget deficit financing: principles and methods
- 1.3. Different approaches to budget deficit efficiency
- 1.4. Theoretical foundations of the government securities market

Chapter II. International experience in the field of government securities market and budget deficit financing

- 2.1. Development of the government securities market in high-income countries
- 2.2. Circulation problems of government securities in developing countries
- 2.3. Issues of budget deficit efficiency in countries
- 2.4. Different models of budget deficit financing
- 2.5. International financial institutions approaches to public debt management

Chapter III. Budget deficit financing issues in Azerbaijan

- 3.1. The role of the state budget in the socio-economic development of the country
- 3.2. Budget deficit and its financing problems
- 3.3. Budget deficit financing tradition
- 3.4. Managing the non-oil budget deficit
- 3.5. Assessment of economic security aspects of ensuring fiscal balance

Chapter IV. Problems of the development of state securities with debt obligations in Azerbaijan

- 4.1. Legislative framework of the state securities market
- 4.2. Debt government securities market development issues
- 4.3. Circulation problems of short-term government bonds
- 4.4. Analysis of the winning government bond market

Chapter V. Improving the budget deficit financing mechanism in Azerbaijan

- 5.1. Directions for ensuring the efficiency of the budget deficit
- 5.2. Issues of formation of the efficient financing mechanism of the budget deficit
- 5.3. A new mechanism of efficient use of state securities in financing the budget deficit
- 5.4. Possibilities of issuing medium and long-term treasury notes

Conclusion

Bibliography

List of abbreviations

MAIN PROVISIONS PROVIDED FOR DEFENSE

1. The study of the stability of the fiscal sector, including the theoretical and methodological bases of the management of the budget deficit, shows that the management of the budget deficit should be approached comprehensively based on the principles of the cyclical flow model of the economy, rational fiscal policy should aim at economic growth and, as a result, economic development, in strict coordination with other directions of economic policy should be implemented.

We use the periodic flows model to study the important features of the role of the state budget in the economic system. The state budget actually affects two major streams within the framework of economic regulation, which is derived from the direction of its social and economic policy.

In the model of periodic flows, if the state takes a step for its social goals, it is usually possible at the expense of a partial restriction of general economic interests. The effective side of the mentioned issue is that the social value created on the basis of economic value becomes the basis for the creation of economic value again in the next phase, resulting in both social and economic value. This happens precisely at the expense of the state finances, the fiscal sector, including the state budget.

For the purpose of financing the increased budget expenses, in other words, the budget deficit by the state, attracting debt funds in the domestic market reduces the aggregate demand in the initial phase, then it increases the demand again in the next phase. Here, private demand is replaced by state demand. Thus, rebalancing of economic growth takes place. As a result, fiscal policy and public debt policy affect the source of economic growth in the real sector in another important direction. This shows that the impact of the state budget on income flows in the model of cyclical flows affects various parameters of economic balance.

The theoretical and conceptual study of the budget deficit issue reveals the importance of a correct and comprehensive approach to this concept. Thus, as can be seen from table 1, we can demonstrate several approaches to the concept of budget deficit.

Table 1

Features and macroeconomic effects of budget deficit forms

FORM AND CHARACTERISTICS	MACROECONOMIC IMPACT
<p>The first form - the budget deficit, which is calculated as the excess of the necessary budget expenditures for the next financial year over the amount covered by taxes and other state revenues</p> <p><i>It is predicted . Funding sources are determined in advance.</i></p>	<p>In terms of economic security and macroeconomic balance, 2-3% of the gross domestic product is considered normal in modern world experience (Maastricht according to the criterion : 3%). When it exceeds the normal limit, it may necessitate reforms such as increasing the tax burden and attracting expensive debt funds. In the medium and long term, it may seriously damage fiscal stability.</p>
<p>the budget deficit calculated without taking into account the debt burden created by the borrowed funds used to finance the previous budget deficits - the initial budget deficit</p> <p><i>It occurs as a result of budget planning . Direct analysis is essential. The main goal is the realistic assessment of the budget burden . That is, since the debt is a budget burden acquired in previous years, the goal is to evaluate the real budget burden for that period .</i></p>	<p>In the modern world experience, there is no normative limit. It sends messages in the direction of changing the fiscal policy in the short and medium term . If it shows the weight of the real budget burden, it may make it necessary to explore the possibility of fiscal consolidation .</p>
<p>The third form is the budget deficit, which occurs as an expenditure surplus during the cash flow of the budget</p> <p><i>It is caused by the failure of revenue streams to meet expenditure streams during the fiscal year . In respect of floating public debt (sovereign debt instruments). since it is financed, it usually has a short-term nature.</i></p>	<p>In the modern world experience, there is no normative limit. If it becomes chronic, it may require extraordinary budget corrections . It weakens the fiscal multiplier and increases the state's current debt burden.</p>

<p>The fourth form is the budget deficit that occurs at the end of budget processes</p> <p><i>budget revenues being executed below the projected amount and/or unplanned expenses. This is answered by budget sequestration, or by transferring expenses to the next fiscal year.</i></p>	<p>In essence, the budget deficit created in this form is more technical in nature, so it does not have significant macroeconomic effects. If the causes of the deficit arise from fundamental economic problems, for example, the reduction of tax revenues due to the reduction of supply, and it becomes chronic, in this case, it is required to launch the necessary macro- fiscal policy tools.</p>
<p>The fifth form – sectoral or sectoral budget deficit (for example, non-oil budget deficit)</p> <p><i>Calculated for analytical purposes. Usually, in the context of the dominance of resource sectors in the economy, institutions that promote diversification policy, including the state, analyze the fiscal contribution or balance of the weak sector.</i></p>	<p>It has significant macroeconomic implications. It shows the level of monotonous development of the economy and the strength of the dominant sector. Especially if the dominant sector is connected with depleting natural resources (oil, gas, etc.), the sectoral budget deficit becomes an actual phenomenon for macroeconomic stability problems. (For example, non-oil budget deficit in Azerbaijan and its management issues) For economies dominated by the oil and gas sector, the ratio of the non-oil budget deficit to GDP of 5% is considered an unstable situation.</p>
<p>Sixth form - calculated budget deficit for different budget levels (for example, general budget deficit, regional budget deficit, etc.)</p> <p><i>It is calculated in order to analyze the budget processes both in full and in different divisions. If the general budget is not in deficit, but at the same time the deficits in the regional budgets are at an unsustainable level, this is fiscal provides a basis for decentralization policy.</i></p>	<p>It determines the fiscal "capability" of the regional or central economy. It allows to view the budget processes completely and separately. At the same time, the possibilities and realities of balancing budget links within the overview budget are evaluated.</p>

Note: Compiled by the author based on theoretical summation.

In order to ensure the efficiency of budget deficit management, most countries' fiscal consolidation plans mainly cover the medium

term, but in some countries this period is relatively long. Although market pressures differ, overall the scale and pace of announced consolidation maintain a balance between reducing the budget deficit and supporting economic growth.

In the fiscal stability prescriptions, most of the plans involve expenditure-oriented consolidation, and the rest involve mixed or revenue-oriented consolidation. Research and past experience show that expenditure-oriented fiscal consolidation is less harmful to economic growth than when accompanied by monetary stimulus. But it is difficult to succeed with just consolidation. Therefore, it is possible to achieve the goals without negatively affecting economic growth through strict coordination of fiscal policy with other policy areas, and at the same time, by carrying out structural reforms in parallel.

2. Counter-cyclical fiscal policy tactics, the correct and active use of the opportunities of the state debt securities market are necessary for the management of the budget deficit in various divisions, as a result, for the purposes of effective fiscal policy, and this is the most progressive method of financing the budget deficit from the point of view of macroeconomic stability.

One of the useful issues of the recent global financial crises in terms of macroeconomic, including fiscal policy of national economies was the emergence of the need to distinguish between pro-cyclical and counter-cyclical policies and the advantages of counter-cyclical policies. Thus, there was a need for a new model of macroeconomic regulation in the countries.

Pro-cyclical macroeconomic policy is the increase of budget expenditures in the high phases of economic growth, that is, the use of financial resources in good periods of the economy. Counter-cyclical macroeconomic policy is saving fiscal resources in high phases of economic growth, stimulating economic growth and aggregate demand by increasing expenditures in low phases of economic growth. Thus, in the counter-cyclical macroeconomic policy approach, the concept of mobilizing financial resources for difficult periods of the economy is envisaged.

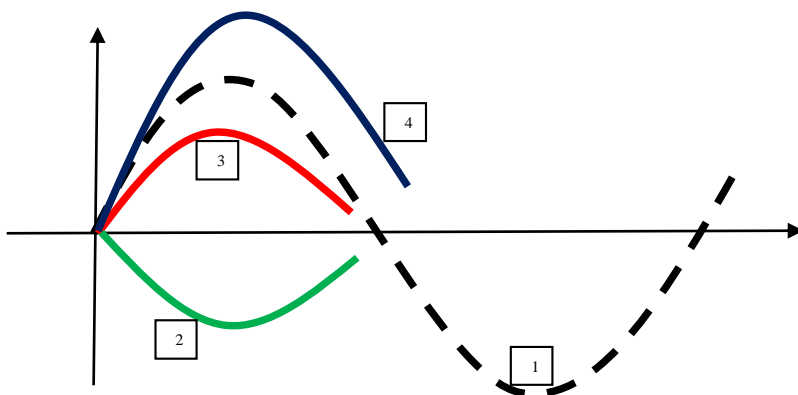


Figure 1. Graphical representation of pro-cyclical and counter-cyclical policy.

Broken line (1) – economic cycle

Colored lines (2, 3 and 4) – real growth rate of fiscal expenditure (in different options) 2 - counter-cyclical, 3 and 4 - pro-cyclical

Source: Compiled by the author based on theoretical summation.

The development of the state securities market within the counter-cyclical fiscal policy, the functional base that can serve the country's financial stability, directly requires that it has sound institutional foundations. It is these features that allow the correct and active use of the market of debt-obligated state securities for fiscal purposes, which ensures the rational management of the budget deficit for various divisions based on macroeconomic stability criteria.

3.3. According to progressive world practices in the field of state budget deficit management, in countries with a large amount of mono-resources, including oil and gas revenues, with special fiscal rules, the levels of use and collection of those revenues significantly characterize fiscal stability and determine the quality of current and strategic economic development.

Fiscal rules applied in world practice have a different impact on target indicators such as debt sustainability, macroeconomic stabilization and the share of the state in the economy through automatic stabilizers and the effectiveness of discrete fiscal policy. This effect can be strongly positive, weakly positive and neutral.

The rules are aimed at correcting distortion initiatives in the formation of fiscal policy. Such distortions involve two unavoidable problems; i) the lack of vision of politicians - the tendency to spend due to the desire for re-election; ii) "public pool problem" - high group interests over budget funds.

At the same time, parallel to the advantages mentioned above, fiscal rules have a number of weaknesses. First, as seen in the various country examples in Table 2, without the necessary political commitment to the rules and established preconditions, fiscal rule cannot be sustainable, and ultimately the credibility of fiscal policy is further undermined. Second, regulations, especially deficit and debt regulations, can cause procyclicality. Such a situation is possible due to insufficient savings during the expansion phase of the cycle and excessive spending restrictions during the recession. Third, regulations can lead to a decline in the quality of fiscal policy. Thus, during fiscal consolidation, capital expenditures are subject to significant reductions, which may have a negative impact on the country's long-term development. Fourth, regulations can encourage the development of "double" accounting.

Table 2.
Fiscal rules of countries.

COUNTRY	NATURE OF FISCAL RULE
Germany	The rule stipulates that the cyclical budget deficit should be 0.35% of GDP. The Constitutional Court has the right to dismiss the government that does not comply with this rule and at the same time, the establishment of a Stabilization Council outside the government is envisaged (the purpose of which is to conduct monitoring and provide early warning).
Chile	Cyclically adjusted budget balance is set at the level of 0.5% of GDP. Consisting of 15 experts independent Board Copper, submits forecasts of molybdenum price (main export earnings) and total output deficit to the government, on the basis of which the medium - term budget envelope is developed.

Turkiye	The budget deficit of the current year is calculated by the formula depending on the difference between the previous year and the difference between the actual economic growth and the medium-term economic growth. The rule envisages less borrowing if the budget deficit is higher than in previous years or the rate of economic growth is lower than the target.
Bulgaria	Budget expenses cannot exceed 40% of GDP .
Denmark	The rule assumes that the cyclically adjusted budget should have no deficit. According to the rule, direct and indirect taxes cannot be increased.
Norway	The non-oil cyclical adjusted budget deficit cannot exceed the income from the management of the State Pension Fund.
Kenya	Includes that the ratio of budget revenues to GDP should not exceed 22% , and the ratio of public debt to GDP should not exceed 40% .
Botswana	Budget expenses cannot exceed 40% of GDP.

Source: <https://www.imf.org/en>

Although the budget deficit is expected to decrease in the medium term in most countries, the budget policies of the states are not sufficiently developed. Firstly, the methods of consolidation are often not defined precisely and in detail. Second, although reforms in the social sector have been envisaged in the short term, extensive reforms in the medium and long term needed to reduce costs in this area have not been announced. Third, very few countries have made long-term commitments regarding the amount of public debt.

Our research shows that fiscal policy plays an important role in stabilizing the economy during cyclical fluctuations in countries. In this regard, the main advantage of automatic fiscal stabilizers is that they provide a self-sustaining and immediate fiscal response. The size of automatic stabilizers depends on the size of the public sector and the cyclical nature of the tax system.

4. In terms of economic growth, macro-fiscal stability, as well as the rational use of resource revenues within the conditions of diversified development of the non-oil and gas sector, the main elements of the economic model of successful countries, as well as the state regulation practices of developed countries on the securities market, should be used in the national economy.

Norway, the world's fifth largest oil exporter, has a long-term fiscal policy framework in place. is about. Here, the current fiscal rule targeting a 4% ratio of non-oil fiscal deficit to sovereign fund assets is applied.

The government's fiscal forecasts show that within the framework of the 4% fiscal rule, it will be necessary to finance the cost growth resulting from the aging of the population. According to these forecasts, maintaining the fiscal order even in the conditions of higher than expected oil price and high level of employment will require serious financial maneuvers. These expectations are also consistent with the results of surveys by the IMF as well as other international financial institutions.

One fiscal rule with an important advantage is the fixed income rule (Permanent Income Rule). This involves the government spending a fixed fixed income rather than a current income. With this rule, the stable effective level of the non-oil fiscal deficit is equal to 6% of GDP, which is significantly different from the 4% fiscal rule in the short and medium term.

The management system of debt securities differs in each country in terms of the forms of development of these relations. As systematized in Table 3, there are differences between countries in the following directions from this aspect:

Group A - countries with a high level of development of the financial market and a high international credit rating;

Group B – countries with a relatively well-developed financial market and medium-level credit rating;

Group C - countries with a relatively low credit rating, where the financial market has started to form relatively recently, where foreign government debts prevail.

Table 3
Comparison of country groups on debt securities management.

	Group A	Group B	Group C
Activity of the central bank and the ministry of finance as an issuer	active	medium	passive
Activity of the central bank as a creditor in covering the budget deficit	completely passive	passive	active
Activity of financial intermediaries in the market of government debt securities	active	partially passive	completely passive
Activity of regulatory professional state bodies	active	passive	completely passive
Activity of register keepers (registrars) and depositories	active	partially passive	passive
Activities of agencies on debt instruments	active	passive	completely passive
Activities of other professional participants	active	passive	completely passive
Guarantee activities of state agencies of foreign creditors	passive	active	active
Institutions related to the insurance of debt instruments	active	passive	completely passive

Source: Compiled by the author based on international experiences.

5. The macro-fiscal policy in the economy of Azerbaijan, including the economic adjustment of the budget system, as well as the high sensitivity of the budget deficit management parameters to the export prices of oil, necessitates a new approach to fiscal policy, especially to the use of resource revenues, and this will ensure the stability of the country's socio-economic development.

The analysis of fiscal indicators in the country shows that (as can be seen from Figure 2) the level of budget revenues and expenditures relative to GDP tends to rational quantities in recent years. Qualitative decompositions of the income and expenses of the state budget can be evaluated as the support of macro-economic policy to macro-fiscal stability along with economic growth.

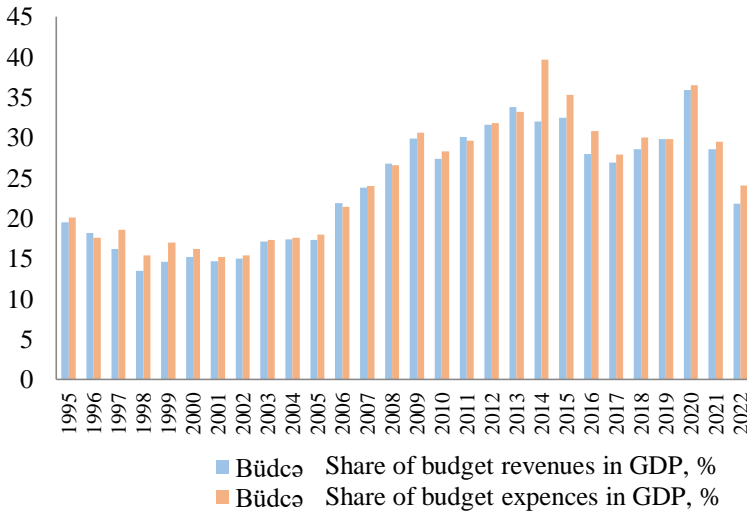


Figure 2. The share of budget revenues and expenses in GDP of Azerbaijan.

Source: <https://www.maliyye.gov.az/>

Note: The diagram was compiled by the author based on the information of the AR Ministry of Finance.

Fiscal policy in the countries is more focused on eliminating the risk of a decline in economic growth. In our country, this policy is used as a mechanism to support economic growth. This allows the implementation of the revenue and expenditure parameters of the state budget in the intended quality. At the same time, it increases the role of the state budget as one of the main mechanisms of economic regulation.

Thus, the rationalization of fiscal expenses, including the optimization of borrowed funds for the financing of the budget deficit, significantly contributes to the reduction of the aggregate output deficit (output gap - the difference between the potential and the actual gross domestic product), thereby increasing employment in the economy.

Until recent years, the expected performance indicators of the ratio of the income and expenses of the state budget to GDP were higher than the forecast level, as well as the provision of protection of such quality indicators in the coming years, as well as strengthening the share of budget parameters in GDP, quality fulfillment of the state's budget obligations and the potential of the budget we are witnessing the

implementation of purposeful activities in the direction of rational use of its capabilities to achieve the intended goals of economic development.

Non-oil sector revenues are expected to be 4-8% higher than the state budget's revenues every year. However, within the framework of the current budget and tax policy, the specific weight of non-oil revenues of the state budget in relation to GDP is below the level of strategic goals.

6. Ensuring the harmony of economic growth, minimizing dependence on external factors, strengthening institutional and economic mechanisms for the protection of macroeconomic stability, comprehensive assessment of its effects on the level of social well-being, proper coordination between fiscal policy and monetary policy are the most important economic security aspects of ensuring fiscal balance in the country should become the priorities of economic policy.

While predicting the financing sources of the budget deficit, the trend of the previous years, the trend and the foreign and domestic economic policy of the government are taken into account. (Figure 3.) In general, targeting fiscal revenues and the deficit of non-oil public finances and its correct forecasting are important in maintaining macroeconomic stability in the country.

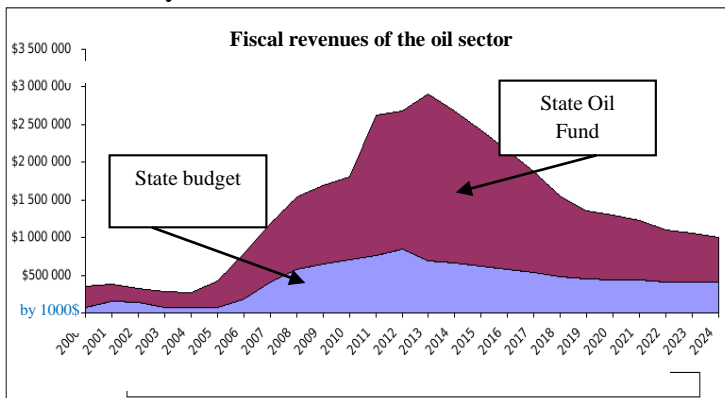


Figure 3. Revenue scenario in the 40 usd oil price

Source: <https://www.oilfund.az/>

Note: Compiled by the author based on the materials of the State Oil Fund.

As a target indicator, current expenditures of the state budget should remain at a stable level relative to non-oil GDP, so that the effect of unlimited social priorities does not arise. This is one of the main conditions for maintaining macroeconomic stability in the country in general.

Investment priorities of fiscal spending in the country are not active. Although these priorities have a stimulating effect on the realization of the investment potential of the non-oil sector, the processes of processing projects based on complex policy programs and calculating the results are weak.

Fiscal expansion needs to be completed with structural-institutional measures that are important for the development of the non-oil sector. It is especially necessary here that tax incentives to the non-oil sector in the country should be one of the top priorities from now on.

7. Analyzes of the state's debt securities market in Azerbaijan show that there is a necessary legal and institutional basis for the regulation of financial instruments that are in circulation and serve to finance the state budget deficit in the current state of the fiscal sphere, but the concept of budget deficit management put forward in the research, including its issues related to financing with more advanced methods require a comprehensive revision of the framework of regulation of state securities, as a result, expansion of their circulation opportunities.

In Azerbaijan, government securities are the most reliable financial instruments compared to their alternatives. As a result, in general, the placement of domestic debt instruments costs the government at favorable interest rates. At the same time, retrospective analyzes show that the dynamics of the level of profitability of the government's financial instruments in question is decreasing. So, if the average profitability level of government short-term bonds (STB) was 16-18% in the initial circulation years, this indicator is 4% now. However, despite this, the perimeter of the securities market in the country, especially the short-term debt securities market, is small. The main reason for this is the insufficient development of this sector of

the financial market, including the fact that perfect competition has not yet been formed in this financial market.

The analysis of circulation statistics of financial instruments shows that the volume of submitted orders for these financial instruments in each issue significantly exceeds the volume of the issue. This indicates that there is a high market demand for the mentioned financial instruments. As a result, according to the analysis of the actual indicators for all issues, the issued bonds were fully placed. This leads to the conclusion that the government has the ability to mobilize funds from the state's debt securities market in a larger volume than the current scale.

In addition to the mentioned feature, a qualitative analysis of the market in question shows that a small number of investor institutions are behind the potentially high demand. This can also be explained by the lack of supply. It should also be taken into account that the volume of the offer for one issue is quite small compared to the financial capabilities of commercial banks, which are currently the main investors of SSCs.

The experience of the country's economic subjects, especially the population, with profitable bonds is older. Even during the USSR, there was a great demand for the winning bonds issued for circulation among the population. These highly liquid assets, which can be exchanged for money at any time, have given their investors the opportunity to regularly participate in sweepstakes and win money, as well as household goods and even cars.

One of the main advantages of the circulation of the mentioned debt bonds was the presence of high confidence in these financial assets. Namely, this factor made it possible to direct the free and passive monetary capital at the disposal of the population to the economic circulation and capitalization of the national economy.

In modern conditions, the market of winning bonds in the country as a whole is very small. One of the debt securities with a winning income in circulation at the moment is the winning nameless bonds issued by several commercial banks in the country. Although these securities do not belong to the country's fiscal sector, they are a

competitor and proxy for the government's winning debt securities market.

8. The mission of the fiscal sector and the main institutions of the financial markets, a strategic view of the budget deficit policy, strategic and tactical risks of the fiscal sector, the values created by the fiscal sector and policy in the economy and social sector, strategic economic policy goals and sub-goals, tactical behavior map, related quantity and quality criteria, finally transparency and accountability mechanisms should be identified as priorities of the new fiscal policy framework.

Expanding the perimeter and increasing the depth of the state's debt securities market is the only way to effectively finance the budget deficit in the country in a broad sense. In this direction, the policy structure and the corresponding system of measures, which must be implemented in this direction, can be divided into three large groups:

- the policy aimed at the general development goals of the securities market in the country and the system of corresponding measures;
- a new and improved model of the direct government debt securities market;
- circulation system of state debt securities, which allows borrowing on rational financial terms in foreign financial markets.

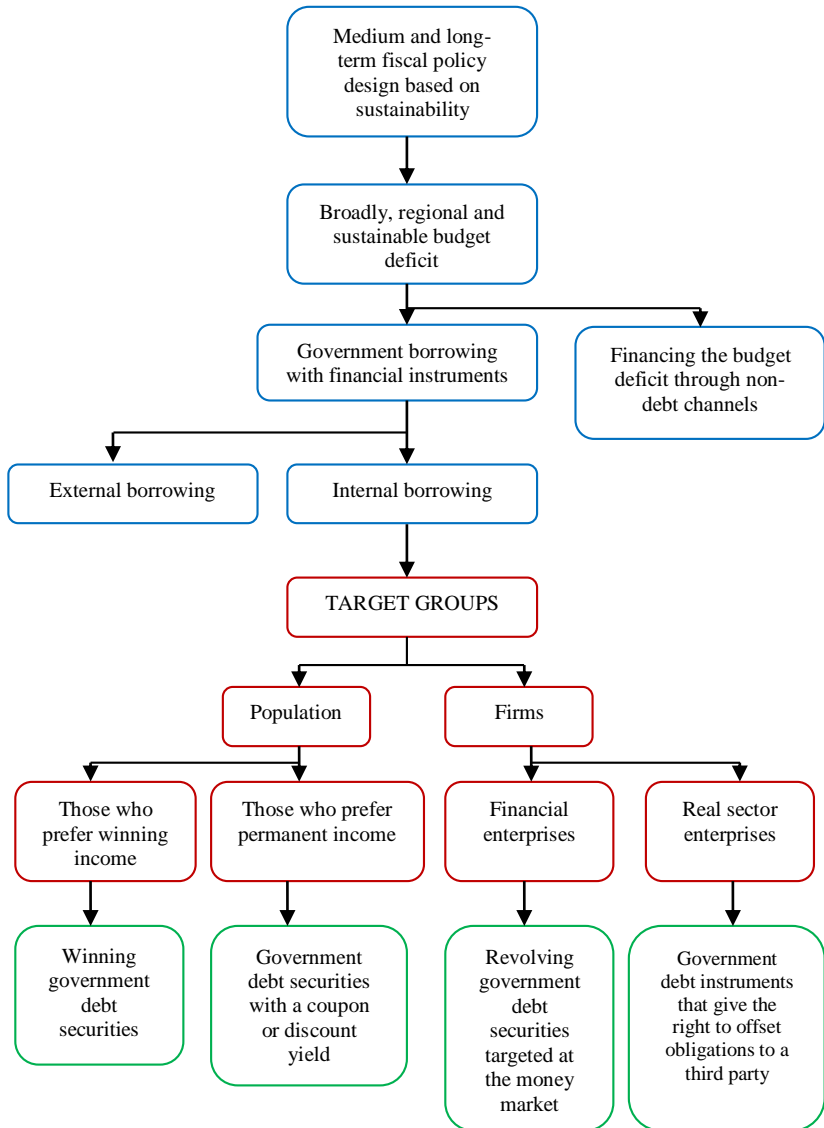


Figure 4. A new diversification model for target groups of government securities

Source: Compiled by the author.

The system of policies and measures aimed at the general development goals of the securities market in the country should include the following issues:

- reconstruction of existing institutions on the securities market, creation of their research and analytical laboratories;
- creation of collective investment schemes;
- promotion of financial intermediation activities in the securities market;
- supporting supply and demand in the securities market, including strengthening supply and demand channels by the state both directly and indirectly, and thereby deepening the market;
- strengthening of corporate management in this segment of the financial market;
- expanding the application of financial transparency principles;
- improvement of the legal basis of the debt securities market;
- improvement of the information system of market participants and potential target groups;
- strengthening the processes of training professional personnel for the market.

9. Improving the market infrastructure in the state's debt securities market, including the creation of new institutions, should become a strategic and operational goal of improving the state budget deficit management mechanism in the country.

As the main element of budget processes, the mechanism of debt securities management of the fiscal structure and the resulting budget deficit should be evaluated in a very simple, but properly prepared macro-economic and socio-economic framework.

Thus, the macro-economic and socio-economic framework evaluated when the construction of the fiscal policy is prepared should be able to answer the following questions:

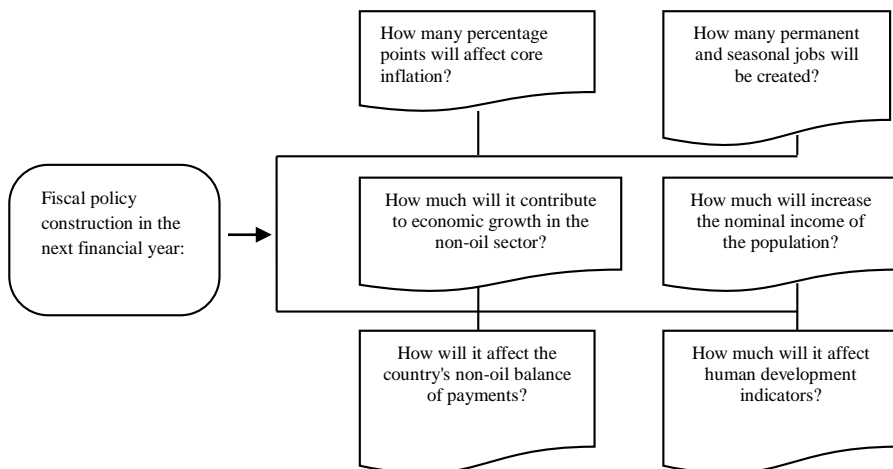


Figure 5. Constructive questions of fiscal policy

Source: Compiled by the author.

One of the most important issues during the preparation of the fiscal policy is the lack of assessment of the state budget deficit, as well as the possibility of transformation of the mechanism of managing and bringing the overall fiscal deficit to an efficient level from a simple model to a market model.

There is one important criterion question that must be answered constantly when preparing the country's fiscal structure in the short, medium, and long term: from what source will each increased budget expenditure unit and thus each increased budget deficit unit be financed in the following years.

One of the important directions during the development of budget deficit financing mechanisms should be the targeting of sectors of the economy where surplus monetary resources are saved. Thus, the possibilities of financing the fiscal deficit should be reconciled with the areas of the economic system that are "clotted" with surplus monetary resources.

10. Adaptation of the organizational and legal structure of the debt-obligated state securities market to advanced international standards, the introduction of a new trading system, along with

other instruments, leading to the expansion of trading opportunities for debt-obligated primary and derivative financial instruments intended for direct fiscal purposes, ultimately leading to a stable macro-fiscal policy will become a practical guarantee.

In order to organize the circulation of medium and long-term treasury notes, it is required to satisfy many conditions related to the country's macroeconomic system, economic policy constructions, and technical aspects. These are the following:

- Ensuring macroeconomic stability in the country;
 - Lowering inflation expectations;
 - Failure to observe the negative results of anti-inflationary measures in the general macro-fiscal framework;
 - Eliminating the problem of "twin deficits";
 - Reducing the total output deficit;
 - Increasing the level of tax collection;
 - Timely execution of fiscal obligations and ensuring high fiscal trust.
- Debt instruments have a nameless form and have the ability to replace all legal obligations in the country.
 - Availability of its sale at all official points of the state (post offices, etc.).

In addition to the above, the organization and promotion of collective investment systems and financial intermediation should be based on the progressive experience of advanced countries. In this framework, the formation of the necessary normative-legal framework that regulates the activities of investment companies in the country and promotes the activities of companies on asset management, as well as investment funds and other collective investment schemes, in accordance with the parameters of the new model to be developed, should be completed.

Work on the formation of the secondary market of stable primary and liquid government bonds, which is expected to be implemented by relevant state institutions in the country in the near future, should be accelerated. Also, it will depend on the level of implementation of measures to promote the activity of market-making institutions in the market and create a normative-legal basis for their activity. The

creation of an alternative stock trading platform for small and medium-sized entrepreneurs will serve to expand the perimeter of the market.

Thus, the systematic research of the problems of financing the budget deficit with securities in the Republic of Azerbaijan has given the basis for drawing the following **scientific-theoretical conclusions** and putting forward relevant proposals:

1. It is very important to take a local approach to the issues of rational fiscal policy, increasing the efficiency of the state budget in the economy, that is, to consider it within the framework of the national economic model of each country. Besides, tactically and strategically, the fiscal policy of the country should be developed and implemented in mutual unity with the policy elements under the "macroeconomic umbrella", especially the development of the real sector, social protection, regional development, monetary and price policies. This should not be of a formal nature, but should take place in the mode of indicative planning and result-oriented policy. That is, it should be determined in what quantity and quality the effect of a conventional single social efficiency (social value) or economic development impulse resulting from fiscal policy on efficiency in other policy blocks.

The theoretical and conceptual study of the budget deficit issue reveals the importance of a correct and comprehensive approach to this concept. Thus, in the research study, the concept of budget deficit was approached based on several criteria.

Of the budget deficits in different directions (see Table 1.), only the first one has been studied more so far, its macroeconomic effects and characteristics in terms of economic balance have been studied. However, the current development of state financial relations, macroeconomic balance issues, features of national fiscal constructions that concern the modern economic schools of the world, and the problems faced show that the budget deficit problem should be studied on a broad and deep basis.

Thus, the issues of the budget deficit should be approached in a complex way, and the issues of managing budget deficits that exist or may arise in all directions should become a policy priority.

2. The rational limit of the budget deficit (where the criteria of rationality mainly consist of a harmonious relationship with a successful macro-fiscal design, the rational limit of budget expenditures and

revenues, and the value of sources involved in financing) should be determined in the following order:

The first step is to forecast the main indicators of the sectors of the economy (real sector, foreign sector, monetary sector, etc.) in several scenarios. Here, the scenarios should be developed according to the main macroeconomic variables. For example, macroeconomic simulations should be carried out according to oil price scenarios in the world oil market in countries with oil economies.

The second step is to determine the tax revenues of the state on the basis of the legislation in force in several areas selected as a result of macroeconomic simulations.

The third step is the study of the current tax burden of the economy in both general and sectoral distribution, including a comparative study with the countries of the world.

The fourth step is to assess the possibility of rationalizing tax rates separately for each macroeconomic scenario. Calculation of tax revenues of the budget on possible tax reforms.

The fifth step is the determination of non-tax revenues of the budget (apart from large-scale direct transfers from resource funds, for example, direct budget transfers from the Oil Fund in the case of some oil countries) under different scenarios.

The sixth step is the determination of budget expenditures by the "bottom-up" principle (submission of estimate documents to the government by budget organizations that will implement budget expenditures, i.e., ultimately turn them into socio-economic value). Here the result-oriented budgeting and indicative planning methodology should be used as a basis. That is, in the end, the executive power body, which spends a conditional single budget fund, must describe its social and economic result with a measurable quantity. For example, the local executive authority, which implements the financing of maternity homes, should take as a target how the number of maternal and child deaths will change as a result and should be inclined towards it. At this time, the report of spent budget funds should be drawn up based on those target indicators.

The seventh step is the reconciliation of the aggregated budget expenditures with the total revenues of the budget (except for direct large-

scale transfers from resource funds, as mentioned above) in several scenarios, the assessment of the most preliminary budget balance.

Eighth step - exclusion of non-deficit budget scenarios. Because, in this case, more optimistic scenarios will belong to the exception. For example, if we take the example of our country, the budget will be surplus and will be excluded in the upper versions of oil export prices. This will enable more conservative and cautious scenarios to prevail.

The ninth step - determination of the upper limits of the budget deficit under deficit budget scenarios. If there is no deficit option according to the budget scenarios, the most conservative option should be chosen and the method of increasing expenses due to the increase of the reserve fund should be used. The reserve fund of the budget is its financial buffer. It is such an expense item of the budget that allows correction of other expenses, and at the same time, the principles of socio-economic efficiency of budget expense items are not violated.

The tenth step is to determine the rational limit or range of the budget deficit based on benchmark indicators, local economic characteristics and budget deficit financing costs (on the basis of "cost-benefit" analysis). After that, the rational upper limit of the budget deficit is found and the general construction of the budget is completed.

3. A strong flow of oil and gas revenues is an income that cannot be determined in advance in the state budget. Fluctuations in these revenues also have an impact on the level of government spending, which can ultimately lead to unstable development in the non-oil sector. The reaction of the level of expenses to fluctuations in the level of oil and gas revenues has been particularly evident in recent years. In different years, the deterioration of the price situation in the world market of energy carriers caused a significant decrease in oil revenues of the state budget, which caused a decrease in real budget expenses.

Despite the fact that the growth rate of taxes paid by non-oil sector entities lags behind that of the oil and gas sector, the first group of payments has a more stable growth rate. Also, the amount of taxes paid by the oil and gas sector depends more on price volatility in the world market. In certain years, the deterioration of the world oil market has significantly reduced the amount of taxes paid by the oil sector.

In most years, the taxes paid by the oil sector play a significant role

in the increase of state budget revenues in the country, which is directly related to the increase in prices in the world market. Of course, in periods when prices are at a favorable level for oil-exporting countries, the income of the state budget increases, on the contrary, when the prices fall to an unfavorable level, tensions arise in ensuring fiscal revenues, as well as in financing corresponding expenses.

The increase in the amount of taxes paid by the non-oil sector is primarily the result of economic revival in the said sector. Thus, tax revenues from this sector are not subject to exogenous price fluctuations and create conditions for the stability of the fiscal sector. It should be noted here that the increase in the amount of taxes paid by non-oil sector subjects in real terms occurs precisely in the conditions of lowering some tax rates. This also shows that lowering the tax burden in the non-oil sector creates conditions for economic activation here, and as a result, an increase in the amount of taxes to be paid in the future.

4. "Twin deficits" are one of the important indicators reflecting the problem of macroeconomic stability characteristic of most resource countries, including the economy of Azerbaijan. In recent years, on average, the ratio of non-oil general budget deficit to non-oil GDP in the country varies between 45-55%, and the ratio of non-oil GDP deficit to non-oil GDP varies between 20-22%. The high "twin deficits" of the non-oil sector are unsustainable in the long run as they are mainly financed by resource revenues.

5. By building a conceptual algorithm of the use of income from the exploitation of natural resources, it is possible to determine possible options for realizing the said choice at a better level. In this regard, economic, fiscal and social goals related to the rational use of mono-resource income are highlighted. Economic goals include stimulating economic development through diversification, investing in the physical infrastructure system, social goals are the redistribution of oil revenues and meeting the needs of various social and public services, and collection goals are the use of oil revenues in payments for the formation of a collection fund or the reduction of the state's debt burden. implies that.

6. It should be noted here that while the economic and social goals involve the stimulation of consumption and investments, the savings goal focuses on goals such as fiscal stability and non-exhaustion of the fund's

financial resources. These also contradict each other.

The logic of the accumulation goal is that, since it is based on a non-renewable source, if mono-resource revenues are used in the current phase, especially for current consumption expenditures, like other fiscal revenues, it will be impossible to provide an alternative revenue base for maintaining the previous levels of these expenditures if those resources are exhausted.

7. Still, in a number of regions, the subsidy amount exceeds even local revenues, which does not allow for the gradual migration of centralized revenues and expenditures from the center to the regions, that is, for the successful and sustainable decentralization of the fiscal sector. As a result, the possibilities of local fiscal support for the implementation of regional socio-economic development programs, which are one of the main economic policy documents of the state, remain limited.

8. In the conditions of Azerbaijan, fiscal stability is mainly related to reducing the budget's dependence on oil and limiting the use of oil revenues. As the research shows, among the resource countries, Norway applies a similar limit, which is limited to the income from the management of the assets of the country's sovereign wealth fund. The principle of "perpetual income" implies that the government will keep a stock of oil revenues for the next 25 years and spend only the interest income. Applying such a limit in the economy of Azerbaijan can create conditions for more reliable protection of funds accumulated in the Oil Fund. This will allow achieving fiscal stability in the long term.

9. Increasing the role of fiscal policy in terms of countercyclical macroeconomic stabilization in the country:

- rules regulating budget expenditures according to economic cycles;
- automatic stabilizers that will increase the impact of the composition of budget expenditures on economic cycles contains the application.

The rules that correct the budget expenditures according to economic cycles mainly include the targeting of the cyclically cleaned budget balance, the application of the rules that directly correlate the level of the budget deficit with the rate of economic growth.

10. Lags in the implementation of fiscal policy, as well as its

implementation against the background of economic and political constraints, reduce its effectiveness somewhat during recessions. We believe that automatic stabilizers should be applied within the framework of budget income and expenses in order to eliminate these types of problems in the economy of Azerbaijan.

Strengthening the automatic response of budget revenues to cycles:

- the existence of a progressive tax system;
- the return of a certain part of the taxes paid by the low-income population;
- requires that investment funds be exempted from taxation depending on the cycles.

As automatic stabilizers in budget expenditures, transfers for the population below a certain level of income, the unemployment benefit system, etc. the implementation of social insurance programs covering

11. The application of various rules in the implementation of fiscal policy in our country has the potential to somewhat limit fiscal policy. This may prevent the realization of more fiscal stimulus programs than allowed by fiscal rules in severe recessionary situations.

In this regard, any fiscal rule should include a number of exceptions for recessionary situations. However, these exceptions existing on the country's economy should be explained in detail, especially these exceptions should not be used for political purposes.

Analysis shows that:

- reconciliation of fiscal policy, especially budget expenditures, with the country's strategic goals;
- ensuring efficiency in budget spending attention should be increased.

In order to ensure this, it is especially necessary to implement a medium-term spending strategy in the country. This strategy helps to achieve a more rational use of resources by aligning government policy with strategic goals in the medium term. This implies a "top-down" approach to budget expenditure planning.

In addition to the above, the development of the securities market as one of the leading elements of the financial system should occupy an important place in the economic and financial policy of the state, and should be defined as one of the most important implementation links of

the economic development strategy.

In this field, continuous legal and organizational measures should be implemented, the necessary normative legal framework and regulation mechanisms, trade, clearing and settlement systems, and financial mediation institutions should be established in the securities market.

12. A diversified financial sector and, in particular, the existence of a highly efficient securities market are necessary for a developed model of market relations. As the most dynamic element of the financial system, securities, especially the raising of the state securities market to a qualitatively new level, expands the possibilities of regulating the economy, facilitates the attraction of financial resources to the real sector and cross-sectoral investment flows. At the same time, it creates conditions for the efficient operation of the economic system by promoting a system of necessary requirements such as increasing transparency in corporate management and economic activity.

13. In the country, there is a serious need to expand the offer of highly competitive financial instruments in the debt securities market, to apply the experience of financing infrastructure projects with stock market instruments in order to increase the interest of foreign investors in the Azerbaijani securities market, and to create various debt securities and futures contracts trading mechanisms.

In addition to the above, the existence of a favorable tax environment in the country is important for the efficient functioning of the capital markets, financing from the capital markets of the private sector and the expansion of investment opportunities as a whole. However, currently, the improvement of the mechanism of taxation in the securities market in the country based on advanced international experience, as well as the mechanisms of applying tax benefits to investment income obtained from financial instruments, income obtained from securities trading, have not been fully developed and implemented. Also, there is a need to create favorable fiscal conditions in the country that will encourage the activity of investment funds and the listing of companies on the stock exchange.

In this direction, tactical goals should be very specific and few in number. They are such target points that the achievement of these targets is the key to the successful establishment of the new system.

A medium-term strategy for the financing of the fiscal sector in the country with effective debt instruments should be prepared. This general document should itself be part of another more comprehensive and comprehensive policy document. It is a development concept that is a long and medium term development document of the country.

The main feature of the development stage is related to higher-level, multifaceted objectives and taking into account the challenges of the time. This requires the application of the most modern management methods based on strict scientific foundations. Strategic approaches need to cover a longer period.

One of the main lines of the concept should be related to the fiscal policy. In the initial approaches to the framework part of the document, it should be noted that, first of all, it is necessary to achieve sustainable economic development due to the expansion of the non-oil sector in the country. The directions of economic development should be diversified. In the composition of the gross domestic product and the formation of the state budget, the factor of natural resources should be reduced and the advantage of the non-oil factor should be ensured.

Within the framework of the general development concept of the country, the preparation of the medium-term fiscal policy strategy document should be started. An appropriate commission can be created for the preparation of this strategy document.

Thus, the reconstruction of the financing mechanism of the state budget deficit in the design proposed in the research work should be closely related to the issues of establishing the institutional foundations of this problem at the same time.

14. In order to increase the efficiency in the management of the budget deficit in the country, to ensure transparency and, most importantly, to achieve flexible rationality in the fiscal policy, it is considered necessary to implement further measures in the direction of improving the institutional mechanism:

- establishment of budget deficit management departments in all departments within the relevant government institution (Ministry of Economic Development or Ministry of Finance);
- activation of the state's investment policy in the debt securities market, as well as the involvement of leading local insurance

companies in order to intensify the circulation of new financial instruments;

- attraction of international investment companies to the market of government debt securities;
- management of exchange rate risk in foreign public debt relations, including the involvement of insurance companies in the process after determining the model of insuring the exchange rate risk of loans purchased with free currency by international and local insurance institutions for the purposes of financing the budget deficit;
- concrete determination of the rights and duties of the government institutions that directly implement the management of the state budget deficit based on new models.

15. In addition to the above, improving the market infrastructure of the state's debt securities market, including the creation of new institutions, are important elements of improving the state budget deficit management mechanism in the country.

The analysis of the circulation of treasury bonds shows that the volume of submitted orders for these financial instruments in each issue significantly exceeds the volume of the issue. This proves that there is a high market demand for the mentioned financial instruments. As a result, according to the analysis of the actual indicators for all issues, the issued bonds were fully placed. This point leads to the conclusion that the government has the potential to mobilize larger amounts of funds from the state's debt securities market than the current scale.

In addition to the listed feature, a qualitative analysis of the debt securities market shows that a small number of investor institutions are behind the potentially high demand. This can also be explained by the lack of supply. It should be noted here that the volume of the offer for one issue is small, which is small enough considering the financial capabilities of commercial banks, which are currently the main investors of government short-term bonds. Demand significantly outstrips supply, causing bond yields to fall, which gives the government a chance to borrow at a cheaper cost than the domestic market.

16. Expanding the perimeter and increasing the depth of the state's debt securities market is the only way to effectively finance the budget

deficit in the country in a broad sense. In this direction, the policy structure and the corresponding system of measures, which must be implemented in this direction, can be divided into three large groups:

- the policy aimed at the general development goals of the securities market in the country and the system of corresponding measures;
- a new and improved model of the direct government debt securities market;
- circulation system of the state's debt securities, which allows borrowing on rational financial terms in foreign financial markets.

17. The system of policies and measures aimed at the general development goals of the securities market in the country should include the following issues:

- reconstruction of existing institutions on the securities market, creation of their research and analytical laboratories;
- creation of collective investment schemes;
- promotion of financial intermediation activities in the securities market;
- supporting demand and supply in the securities market, including strengthening of supply and demand channels by the state both directly and indirectly, and thereby deepening the market;
- strengthening of corporate governance in this segment of the financial market;
- expanding the application of financial transparency principles;
- improvement of the legal basis of the debt securities market;
- improvement of the information system of market participants and potential target groups;
- strengthening the processes of training professional personnel for the market.

In addition to the above, the organizational and legal structure of the stock exchange in the country should be adjusted to international standards, and a new trading system should be introduced. These reform directions will lead to the expansion of trading opportunities for debt-based and derivative financial instruments intended for direct fiscal purposes, among other instruments.

At the same time, there is a need to simplify the accounting of

debt securities, as well as its legal structure. In this regard, the completion of the work related to the centralized single deposit center for state and corporate securities, which is planned to be established in the country in the near future, will encourage the rapid implementation of the above-mentioned reform provisions.

Actions on automation and rationalization of securities collateral guarantee procedure are being accelerated in the country. After that, the integration of the transaction-calculation system of the over-the-counter organized securities market into the clearing system should be ensured.

The organization and promotion of collective investment systems and financial intermediation should be based on the progressive experience of advanced countries. In this framework, the formation of the necessary regulatory and legal framework, which regulates the activities of investment companies in the country and promotes the activities of companies on asset management, as well as investment funds and other collective investment schemes, in accordance with the parameters of the new model to be developed, should be completed.

18. The main fiscal body of the country should implement consistent measures on the development of the financial reporting practice of private and state enterprises. With this, the application of international and national financial reporting standards should be ensured in the country. In addition to these, work on the formation of a normative-legal framework for regulating the activity of rating agencies and promoting their activity should be started.

Undoubtedly, the listed reform directions require the existence of an adequate legal basis for the activities that have been started and are intended to be implemented immediately. Thus, there is a great need to adopt a new law that meets the advanced practices of advanced countries.

19. The strengthening of the legal base will allow, among other things, the creation of a rational system for the issuance and registration of securities and the introduction of the international digitization (coding) system of securities.

20. Increasing awareness and training of professional personnel within the mentioned reforms is also one of the important issues. In this regard, the strengthening of the organizational and functional potential of the relevant institutions on a regular basis, the development of the

personnel potential, the intensive organization of the necessary training courses, as well as the implementation of certified programs on the capital market are directly important directions.

21. One of the initial links in the chain of reforms in the debt securities market is the macro and micro regulation of this market by the state. In other words, in this market, the state should promote both demand and supply channels, and in this way, the point where the demand and supply curves intersect - the interest rates on these debt instruments - should be reconciled with the interest rates of the money market, as well as other segments of the financial market.

22. At the initial stage, the potential donor capacity of the domestic debt market may be limited. However, this limitation should not be considered as an obstacle to increasing the range of instruments, in other words, diversifying the terms of borrowing. Thus, the diversity of borrowing conditions for financial instruments will allow investors to be more actively involved.

One of the important issues here is that the government clearly defines its target groups in the debt market. In particular, this applies to population groups that are ready to participate in public borrowing as investors. Offering only one type of public debt instrument to this group is like offering that group a product with no alternative in the market for goods and services. In this case, the government encourages its potential investors to prefer the financial instruments offered by the private sector.

23. Issuance of treasury notes with a circulation period of 1 to 10 years should be the next direction of reform in the market of government debt instruments. Income payment on these financial instruments can be made every six months in the form of coupon payment. The nominal value of these treasury notes can average, for example, 1,000 manats, and the annual yield can be offered close to the refinancing rate for these financial assets (3-5%). Investors of these longer-dated securities in advanced countries should consider medium and long-term macroeconomic trends and local government economic policy perspectives when investing in these financial assets. As these financial instruments begin to circulate, the government and the Central Bank should strengthen the communication of fiscal and monetary policy and improve the content quality of economic policy documents.

24. For a longer period, the circulation of treasury bonds can be arranged. The income payment of these financial instruments, which promise investors a stable income for 20 to 30 years, can be realized on the basis of a coupon. Like Treasury notes, these bonds will have the ability to pay dividends to their owners every six months. These securities will have high liquidity in the secondary market. The yield rate of these long-term, mostly 30-year bonds serves as a proxy (example, substitute) for long-term interest rates in local financial markets in most advanced countries.

25. As a country where the level of inflation is not at all minimal, the circulation of inflation-protected treasury securities is also very important for the qualitative diversification of the government's debt instruments market. These debt instruments of the Treasury must be indexed annually with the official inflation rate (consumer price index). These securities can be put into circulation for a period of 5, 10, or even 30 years.

26. In order to organize the circulation of medium and long-term treasury notes, it is required to satisfy many conditions related to the country's macroeconomic system, economic policy constructions, and technical aspects. These are the following:

- Ensuring macroeconomic stability in the country. This should mainly combine two directions: first, low inflation; second, financial stability;
- Timely execution of fiscal obligations and ensuring high fiscal trust;
- That the said debt instruments have a nameless form and have the ability to replace all legal obligations in the country;
- Availability of its sale at all official points of the state (post offices, etc.);
- Having an elegant design and rich security elements.

27. One of the directions of efficient financing of the budget deficit is related to the placement of government debt securities in foreign financial markets, in other words, the use of foreign borrowing opportunities through financial loans.

28. At the same time, the organization of the issuance and circulation of Eurobonds by the government will stimulate the

development of the securities market in the country. Institutional development of the securities market, promotion of collective investment schemes and financial intermediation activities, support of demand and supply in the securities market, expansion of the application of corporate governance and financial transparency principles, improvement of the legal framework in this area, increase of information and training of professional personnel, issues of ensuring access to international financial markets and will enable the management of foreign debt obligations on a progressive basis.

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A. Həsənov

The defense will be held on “25” october 2023 at ED 2.10 Dissertation council of Supreme Attestation Commission under the President of the Republic of Azerbaijan operating at Azerbaijan State University of Economics.

Address: AZ 1001, Baku, Istiglaliyat street 6

The dissertation is accessible at the Azerbaijan State University of Economics Library.

Electron versions of dissertation and its abstract are available on the official website of the Azerbaijan State University of Economics.

Abstract was sent to the required addresses on “22” september 2023

Signed for print: 13.09.2023

Paper format: 60x84 1/16.

Volume: 74015 Symbols

Number of hard copies: 20

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