

THE MINISTRY OF EDUCATION OF THE REPUBLIC OF AZERBAIJAN

AZERBAIJAN STATE UNIVERSITY OF ECONOMICS

INTERNATIONAL CENTER OF GRADUATE EDUCATION

MASTER DISSERTATION

on the topic

“FISCAL POLICY DURING COVID-19 PANDEMIC IN AZERBAIJAN”

İbrahimov Ajdar Nazim

BAKU – 2022

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AZERBAIJAN
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“FISCAL POLICY DURING COVID-19 PANDEMIC IN AZERBAIJAN”

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Elm andı

Mən, İbrahimov Əjdər Nazim oğlu and içirəm ki, “Fiscal Policy during COVID-19 Pandemic in Azerbaijan” mövzusunda magistr dissertasiyasını elmi əxlaq normalarına və istinad qaydalarına tam riayət etməklə və istifadə etdiyim bütün mənbələri ədəbiyyat siyahısında əks etdirməklə yazmışam.

AZƏRBAYCANDA COVID-19 PANDEMİYASI DÖVRÜNDƏ BÜDCƏ SİYASƏTİ

XÜLASƏ

Tədqiqatın aktuallığı: Dünya tarixində baş vermiş ən böyük hadisələrdən biri olan COVID-19 pandemiyası bütün dövlətlərdə yaratdığı kimi Azərbaycana da sosial-iqtisadi çətinliklər yaratmışdır. Bu səbəbdən dolayı, mövcud vəziyyətdən minimum zərərlə çıxmaq üçün bir sıra sosial yardım paketləri, monetar və fiskal siyasətlər tətbiq etməyə çalışılaraq makroiqtisadi sabillik əldə edilməs üçün zəruri addımlar atılmağa davam edir.

Tədqiqatın məqsədi: Azərbaycanda pandemiya nəticəsində fiskal mobilliyin mövcud vəziyyətini təhlil edilməsi və pandemiya nəticəsində Azərbaycanın fiskal siyasətinə dəymiş iqtisadi zərərin aradan qaldırılması yollarını araşdırılmasıdır.

İstifadə olunmuş tədqiqat metodları: İstifadə olunmuş tədqiqat metodları kimi sintez, empirik analiz, müqayisəli təhlilləri hesab etmək mümkündür. Bundan əlavə, induktiv və deduktiv metodların istifadə olunması tədqiqat işinin zəngiləşməsinə səbəb olmuşdur.

Tədqiqatın informasiya bazası: Tədqiqatda Dünya Bankının, Azərbaycan Respublikası Dövlət Statistika Komitəsinin, Maliyyə Nazirliyinin, Dövlət Vergi Xidmətinin, Dövlət Neft Fondunun dərc etdiyi hesabatlardan araşdırmalar edilmiş, mövzuyla bağlı hüquqi-normativ aktlar nəzərdən keçirilərək istifadə olunmuşdur.

Tədqiqatın məhdudiyyətləri: Mövzunun öyrənilməsində məhdudiyyət tədqiqat mövzusunun yeni və çevik olması nəticəsində statistik məlumatların sürətlə dəyişməsidir.

Tədqiqatın elmi yeniliyi və praktiki nəticələri: Azərbaycan iqtisadiyyatına dəyən zərərin aradan qaldırılması yolları müəyyən edilib. Tədqiqatın praktiki əhəmiyyəti nəticələrin pandemiya zərər çəkmiş sektorlara tətbiq edilməsidir.

Nəticələrin istifadə olunma biləcəyi sahələr: Nəticələr müxtəlif elmi araşdırmalarda, elmi konfrans və dərs materiallarında istifadə olunma bilər.

Açar sözlər: Azərbaycan, dövlət büdcəsi, pandemiya, fiskal siyasət, makroiqtisadi sabillik.

FISCAL POLICY DURING COVID-19 PANDEMIC IN AZERBAIJAN SUMMARY

The actuality of the subject: The COVID-19 pandemic, one of the largest events in the history of the world, has created socio-economic difficulties for Azerbaijan as well as for all countries. Therefore, the necessary steps are being taken to achieve macroeconomic stability by trying to implement a number of social assistance packages, monetary and fiscal policies to get out of the current situation with minimal damage.

Purpose and tasks of the research: The purpose of the study is to analyze the current state of fiscal mobility in Azerbaijan as a result of the pandemic and to explore ways to address the economic damage caused to fiscal policy in Azerbaijan as a result of the pandemic.

Used research methods: Synthesis, empirical analysis, comparative analysis can be considered as research methods used.

The information base of the research: The research includes reports published by the World Bank, the State Statistics Committee of the Republic of Azerbaijan, the Ministry of Finance, the State Tax Service, the State Oil Fund, and legal and regulatory acts on the subject.

Restrictions of research: The limitation of the study of the topic is the rapid change of statistical data as a result of the new and flexible research topic.

The novelty and practical results of research: Ways to eliminate the damage to the Azerbaijani economy have been identified. The practical significance of the study is that the results can be applied to sectors affected by the pandemic.

Scientific-practical significance of results: The results can be used in various scientific researches, scientific conferences and teaching materials

Keywords: Azerbaijan, state budget, pandemic, fiscal policy, macroeconomic stability.

ABBREVIATIONS

AR	Azerbaijan Republic
CBAR	Central Bank of Azerbaijan Republic
CIS	Commonwealth of Independent States
COVID-19	Coronavirus Disease
IMF	International Monetary Fund
GDP	Gross Domestic Product
SOFAZ	State Oil Fund of Azerbaijan
UK	United Kingdom
USA	United States of America
VAT	Value Added Tax
WB	World Bank

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INTRODUCTION

Relevance of the research topic: In the context of ongoing transformational processes in the modern Azerbaijani economy, the problem of improving and implementing an effective fiscal policy is of particular relevance. In turn, an effective fiscal policy of the state should determine the acceptable optimal level of the tax burden that ensures the maximum revenue effect of taxation, while respecting the interests of the state and taxpayers, on the one hand, it is also the most rational way to optimize state revenues using appropriate sources of their receipt, and on the other hand, provide for the reasonable use of public funds.

The problem of overcoming the consequences of the global financial crisis caused by the COVID-19 pandemic for the Azerbaijani economy necessitates the identification of patterns and trends in the development of fiscal policy as a mechanism for counter-cyclical regulation of the state. The process of formation and implementation of the fiscal policy of the state in modern Azerbaijani conditions is predetermined by a stable connection with certain stages of development, due to the passage of the economy through the corresponding phases of the economic cycle. In this regard, the task of researching and comprehending new relationships and trends in the impact of fiscal factors on smoothing cyclical fluctuations becomes relevant. There is also a need to establish and study new factors that have a direct impact on the fiscal policy of the state, and allow timely assessment of its effectiveness at the present time and make a forecast for the medium term. The relevance of the research topic is determined by the solution of the tasks set and implies the need to form an effective fiscal policy of the state in the modern Azerbaijani economy, which, in turn, requires a more detailed justification of theoretical and methodological approaches to solving this problem.

Statement of the problem and learning level: As an important component of its sustainable development, as a result of the coronavirus pandemic, the application of fiscal policy in Azerbaijan and the assessment of economic damage have been the subject of extensive research in the scientific works of various local and foreign writers.

Theses, articles and study materials on the subject have been published in different countries. Researchers who conduct research on this topic and have scientific works; Agapova T.A., Seregina S.F., Atashov B., Novruzov N., Ibrahimov.E., E.Balatsky., E. Laffer, Glazyev.S., Hajizade.E.M., Adda. J., Ananyev M., Guriev.S., Stock J. H., Thunstrom.L., Hasanov.R., Valiyev. Z., Hasanli.A., Bulut.C., Süleymanov.E., and we can set an example for others.

Purposes and objectives of the research: The main purposes of the study are:

- a) to study the theoretical and methodological bases of fiscal policy in the economy and the specific features of the financial market as a result of the pandemic;
- b) to analyze the current state of fiscal mobility in Azerbaijan as a result of the pandemic;
- c) investigate ways to address the economic damage caused to Azerbaijan's fiscal policy as a result of the pandemic.

The main objectives of the study are:

- a) To observe the role of fiscal policy in the economic development of the country and the justification of the impact of the pandemic on the country's economy;
- b) to study the specific features of fiscal policy as a result of the pandemic;
- c) to classify the concept of fiscal policy and to study the mechanism of action of the structures of modern world financial markets during the pandemic;
- d) to study the impact of the pandemic on the stock market in Azerbaijan;
- e) investigate ways to reduce inflation risks in the context of a coronavirus pandemic.

Object and subject of the research: The object of research is the budget and tax system of the Republic of Azerbaijan. The subject of the research is to study the financial and economic consequences of the interaction of fiscal policy and devaluation in the example of Azerbaijan.

Research methods: Synthesis, analysis and comparative analysis were comprehensively used in the research method.

Research database: The research database of the study includes reports published by the World Bank, the State Statistics Committee, the Ministry of Finance, the State Tax Service, the State Oil Fund, as well as economic and financial resources, books, library materials and Internet resources.

Research limitations: The limitation of the study of the topic is the rapid change of statistical data as a result of the new and flexible research topic.

Scientific novelty of the research: The scientific novelty of the research is as follows:

1. Theories of fiscal policy, mechanisms of implementation of this policy, theoretical and methodological principles of tasks and goals are scientifically substantiated.
2. The methods of analysis and evaluation of the effectiveness of fiscal policy in the domestic economy are substantiated from the point of view of application;
3. Important directions of tax policy in the field of national economy, directions of progress of fiscal policy were identified, on the basis of which he put forward scientifically substantiated proposals and recommendations.
4. The issues of conducting fiscal policy in Azerbaijan during the pandemic have been clarified.

Scientific and practical significance of the results: The practical significance of the dissertation research lies in the possibility of using the results in the development of programs to improve the efficiency of the implementation of the state's fiscal policy.

CHAPTER I. FISCAL POLICY DURING ECONOMIC DIFFICULTIES

1.1. Fiscal Policy usage in theory of practice.

Fiscal policy is a policy that involves using the government's capabilities: to collect taxes and spend state budget funds to regulate the level in conditions of business activity and to solve various social problems. The word "fiscal" is a Latin word meaning "basket". In ancient Rome, special collectors roamed the market area in large baskets and collected some of the goods sold by merchants. This was a kind of tax on the right to trade in ancient times. With the help of the fiscal function, taxes form the financial resources of the state and create a material basis for the activities of the state. The main task of implementing this function is to ensure the revenue base of the budget and attract as much money as possible to the state treasury (Atashov B., Novruzov.N., Ibrahimov.E., 2014., p.239).

This is the policy of the state in the field of government spending and taxes, which is carried out by the legislative authorities as they control taxation and the state budget. The main objectives of fiscal policy:

1. Smoothing fluctuations in the economic cycle.
2. Stabilization of economic growth rates.
3. Achievement of a high level of employment.
4. Decrease in inflation rates.

Fiscal policy affects the national economy through commodity markets. Changes in government spending and taxes are reflected in aggregate demand and, through it, affect macroeconomic goals. The main task of fiscal policy is to balance the macroeconomic system. In general, fiscal policy is aimed at saving full employment and producing a non-inflationary gross national product. Typically, fiscal policy is carried out in the definition of discretionary and non-discretionary instruments (in the form of a "fiscal mixture") and gives the maximum effect in the short term.

There are two types of fiscal policy. Discretionary is an active policy. This is deliberate manipulation of taxes and government spending. It is carried out in the long term. The main instruments of discretionary policy:

1. State employment program (financial labour exchanges, placement of government orders in private enterprises).
2. Development of various social programs.
3. The program of public works (production of public goods, public transport, communications, improvement of parks, squares).

Changing tax rates is the main tool. The policy of built-in stabilizers is passive. It is based on the fact that tax revenues and a significant portion of government spending automatically cause a change in the relative level of taxes and budgetary spending. The main instruments are income tax, unemployment benefits, social benefits, income indexation. During the recession, a stimulating fiscal policy (fiscal expansion) is in effect, consisting of an increase in government spending, tax cuts, a combination of an increase in government spending with a tax cut (Kamaev.V. D., 2008: p.52).

This leads to deficit financing but provides a reduction in the decline in production. In the face of inflation, a contractionary policy, called fiscal restriction, reduces government spending, increasing taxes, combining government spending cuts with increasing taxation. This policy focuses on a positive budget balance that causes a reduction in production. The policy of built-in stabilizers is an economic mechanism that automatically reacts to changes in the economic situation without the need to take any steps on the part of the government. The main stabilizers are changes in tax revenues. During a boom, tax revenues automatically increase, which reduces purchasing power and curbs economic growth; during a downturn, tax revenues decrease and there is a gradual increase in purchasing power that curbs the economic downturn (Bunkina. M. K, Semenov.V. A, 2007: p.27)

Fiscal policy in the state is carried out with the help of its own instruments. Fiscal policy instruments of the state are economic mechanisms through which the goals set for fiscal policy are achieved. The set of fiscal policy instruments includes government subsidies, manipulation of various types of taxes (personal income tax, corporate tax, excise taxes) by changing tax rates or lump-sum taxes. In addition, the instruments of fiscal policy include transfer payments and other types of government spending. Taxes and government spending are the main instruments of fiscal policy. Keynesians believe that prudent fiscal policy counteracts market failures through careful manipulation of taxes, government spending, and government budget balance sheets. The purpose of such a state policy is to bring GDP closer to its potential level and thereby ensure the sustainability of the national economy (Kamaev.V. D, 2008: p.192).

Different instruments have different effects on the economy. For example, an increase in the lump-sum tax results in a decrease in total expenses but does not change the multiplier, while an increase in personal income tax rates will cause a decrease in both total expenses and the multiplier. The choice of different types of taxes as a personal income tax, corporate tax or excise tax as a tool of influence has a different impact on the economy, including on incentives that affect economic growth and economic efficiency. The choice of a particular type of government spending is also important, since in each case the multiplier effect may be different. For example, there is a perception among policymakers that defence spending provides a lower multiplier than other types of government spending.

Reducing government purchases, increasing taxes, and reducing transfers, are instruments of a restraining fiscal policy. Fiscal policy as a way of financial regulation of the economy is carried out with a strong struggle with taxes and public spending. In this regard, two types of budget policy are implemented discretionary and internal (automatic) stabilizers (Glazyev. S., 2009: p.25).

The state influences the allocation of economic resources and the redistribution of income through fiscal policy. Thus, taxes as a factor shaping production costs

affect the level of use of economic resources in certain areas. Budget expenditures act as a direct redistribution mechanism. Three characteristics of taxes are important for economic growth and macroeconomic balance. First, when taxes have a high degree and duration of impact on the incentives of financial institutions, they can reduce economic efficiency by influencing the behavior of consumers, producers and workers. Second, while the distributional impact of a tax on personal income is costly in terms of economic efficiency, equity issues need to be considered, which must be determined dispassionately or critically. Thirdly, the costs associated with the practical application and implementation of tax rules affect public opinion about the economic efficiency and fairness of the tax system. The tax system should not only attract high-income individuals to higher taxes, but also create incentives to maintain high income levels. In this case, the size of the tax affects the distribution of assets according to aggregate demand and aggregate supply. The levels and structure of taxes are one of the main factors influencing the behavior of financial institutions. Therefore, by changing the tax structure, the state affects the amount of aggregate demand, aggregate consumption, national savings and investment spending. At the same time, an increase in the tax burden on certain types of activities has a negative impact on the behavior and economic growth of financial institutions. At the same time, it is important to note that the negative impact of a constant change in the level of taxes is greater than its stability. Thus, the economy does not immediately adapt to tax changes. This requires a certain period of time, as a result of which tax changes can create an imbalance in the country. (Hasanov.R., Hasanli.A.,2015: p.57).

Fiscal policy, including government spending and taxation, can influence economic growth and social development through a variety of channels. This channel covers both macroeconomic and microeconomic levels. From a macroeconomic point of view, prudent fiscal policy in developing countries, i.e. keeping the budget deficit and public debt low, is one of the main tools for economic growth. Fiscal policy is one of the main factors influencing the balance of markets and economic growth in the country through the level and structure of taxes, the

volume and structure of public spending and the level of public deficit. However, one of the main shortcomings of fiscal policy is that it is not flexible enough. This factor relatively limits the use of fiscal policy as a means of macroeconomic regulation. At the same time, the distribution of a significant part of the country's income through the state budget makes it necessary to study its impact on economic parameters. For example, according to M. Friedman, the volatility of inflation has a detrimental effect on economic growth. Fiscal policy affects inflation through an increase in the state budget deficit, as well as fiscal shocks. According to the Ricardo equivalence, borrowing is equivalent to raising the level of taxes in terms of financing state budget expenditures. Thus, if the level of taxes remains stable, financing the budget deficit through borrowing will make it necessary to pay these debts through taxes in the future. According to Keynes' theory, macroeconomic balance in a country is possible even before it reaches full employment. According to this theory, inflation at the expense of expenditures occurs mainly after the level of full employment. Keynes and his supporters believed that the reduction in autonomous spending in the country's economy had a multiplier effect. That is, the change in autonomous costs as a result of the multiplier effect, which is the opposite of the marginal propensity coefficient to savings, can change the volume of demand many times. Therefore, the state must regulate the volume of demand. At the same time, it should be noted that while changes in current budget expenditures are important in terms of regulating domestic demand, the investment capacity of expenditures is important in terms of economic growth. As is well known, fiscal policy has a different effect on economic parameters in the short and long term. Thus, in times of economic stagnation, stimulating fiscal policy creates favourable conditions for economic growth. In particular, an increase in public procurement has a stronger effect on demand than a reduction in taxes. At the same time, the long-term impact of fiscal policy on economic growth is mainly shaped by capital expenditures (Hasanov.R., Hasanli.A.,2015: p.58).

The policy of regulating public revenues through tax mechanisms is mainly ensured through the use of tax rates and tax incentives. Tax rates are the main tool

for implementing government policy to regulate revenues. The main role of tax rates in the implementation of state policy is that different types of tax rates are used - proportional, progressive and retrograde. With their help, only incomes of different categories of taxpayers are formed. The centralized tax system is very flexible due to the tax rate, which allows you to set tax rates annually and formulate an effective tax policy in accordance with the current economic situation in the country. One of the effective ways to implement tax policy is tax incentives. This is because any individual or entity that meets the required conditions may be eligible for full or partial tax exemption. By providing tax incentives to taxpayers, the state primarily enhances the impact of tax regulation on various economic processes. The legislation of individual countries provides for the use of tax incentives depending on the nature of certain types of entrepreneurial activity. The most commonly used tax incentives are: full or partial tax exemption of income, profit or other object of taxation;

- application of low tax rates;
- non-taxation of certain social groups;
- it is possible to show that the loss is written off at the expense of the profit of the following years (Rzayev.I.M.,2015: p.100).

The formation of the tax base is also a key tool of the state's tax policy. The increase and decrease of tax liabilities of different categories of taxpayers to the state depends significantly on this indicator. This, in turn, creates additional incentives for economic growth, expansion of production and implementation of investment projects, or vice versa. When implementing tax policy, the norms established by law for the regulation, planning and control of the state budget shall be implemented. Economically sound tax policy aims to optimize the collection of funds through the tax system. The main goals and objectives of tax policy depend on the specific economic situation. Once the goals and objectives are defined, the state develops methods for their implementation. The tax policy of the state is implemented through

the adoption of relevant regulations. The effectiveness of tax policy depends on the principles on which the state implements it.

Tax policy in our country is implemented taking into account the following principles:

- further improvement of the normative-legal base of the tax system and formation of tax culture;
- creation of more favourable conditions for the activity of taxpayers and maximum protection of their rights;
- coordination of the activities of the governing bodies of the tax system with the activities of other state bodies;
- creation of favourable conditions for the activity of employees of the state tax service bodies, provision of their social protection;
- use the proven experience of the tax system of developed countries, taking into account national and moral values;
- formation of a progressive tax system that stimulates entrepreneurship and investment activity.

Creating a scientifically based concept of taxation and a specific tax mechanism is a very complex task. In this case, each norm must be thoroughly analysed and only then concrete decisions must be made. Since tax relations are a legal economic phenomenon, the issue of forming its legal and economic bases and legal regulation of relations on the basis of the legal basis does not lag behind its economic side. The establishment and development of states in the process of formation of a civilized society can be considered the most important achievement of mankind. In turn, the formation and development of states has not been left out of the tax factor. In other words, the tax was formed with the establishment of the state and developed along with it. If we look at the stages of development of history, we can see that the formation and application of taxes had a direct impact on the formation of states. This depends on the legal and economic application of taxes. Therefore, both in ancient times and at the present stage of development, each country strives to create

an economically and legally justified effective system, focusing on the proper formation and regulation of the tax mechanism. Thus, the tax, which reflects the main part of the financial support of the activities of states, should be assessed as a product of socio-economic development of society. Since tax is a socio-economic phenomenon and category, the legal justification and regulation of these relations emerges as an important issue from a political and social perspective. Theoretically, a dual approach to the regulation of tax relations would be more effective. On the one hand, taxes are an economic category and act as a method of nationalization of part of the income of the population and enterprises, its redistribution among social strata, as well as part of the stimulation of economic development. On the other hand, taxes are a legal category that address the issue of social justice through their principles as general, mandatory, individual, gratuitous cash payments. The economic and legal aspects of the tax are intertwined, a special legal-economic mechanism used by the state to regulate economic relations. Tax legal relations differ from other types of relations by their specificity. Tax legal relations are by nature the most complex and at the same time important relationship in the system of financial legal relations. The same can be said about the structure of relations. The structure of tax legal relations includes elements of subject, object and content. Since the principle of social justice is directly related to the concept of economic interests, it has an important impact on the management of tax relations (Damirov.Y.S.,2015: p.285).

In this regard, the concept of interests should be taken into account when formulating tax legislation. Economic interests, in turn, have a very complex structure. Thus, the taxpayer acts both as an individual and as a representative of this or that class. Accordingly, they act as carriers of very different interests, which is reflected in tax policy. Along with the correct formation of principles in the legal regulation of tax relations, the definition of the elements of the legal component also appears to be one of the important issues. Because tax relations cannot exist without the legal components of the tax defined in the tax legislation. Certain elements of tax liabilities usually form tax relations. In the theory of tax law, the elements of

taxation can be classified into two groups. The first group combines basic and the second group combines optional elements. Determining a tax does not mean just naming it. Determining a tax means adopting the method and basis for fulfilling the tax liability. Thus, taxes must be clearly defined, and the law must contain sufficient information about each tax so that the person carrying the tax liability can determine for himself the extent and procedure for fulfilling this obligation. Incomplete and ambiguous information about the law and taxes leads to cases of tax evasion on the basis of the law, abuse by the tax authorities on the basis of incorrect interpretation of the law. The tax mechanism, as an integral part of state activity at all stages of socio-economic formation, has become a factor influencing the socio-economic relations taking place in society. Consequently, taxes formed the basis of the activity and existence of the state. The formation of the tax mechanism is based on specific principles and finds public importance in its functions. Since the principles of taxation determine the attitude of society to taxes, the effective regulation of tax relations requires a more democratic definition of these principles, taking into account the "theory of interests" (Damirov.Y.S.,2015: p.285-287).

As a rule, a system of tax incentives and other economic instruments is formed within the framework of tax policy to stimulate investment in production and scientific and technical research. Along with the application of tax benefits, the issues of expediency and, ultimately, the effectiveness of these benefits are also important. Because, on the one hand, the application of any concessions is a saving of a certain amount of money from the point of view of economic entities, on the other hand, it is a significant loss of funds in terms of budget revenues in general. Therefore, determining the optimal amount of tax benefits in a particular period and in a particular economic situation is important both in terms of maintaining the relative balance between the fiscal and regulatory functions of taxes, as well as the effectiveness of these benefits. In general, in order to determine the optimal amount of tax benefits and properly assess the effectiveness, it is first necessary to look at the anatomy of the concept of "tax benefits" and clarify it. Although the concept of tax exemption is expressed differently in different economic literatures and in the

legislation of different countries, they all have a common meaning and essence. A tax credit is a full or partial restriction of a tax liability established by law in accordance with the objectives of the fiscal policy pursued in accordance with this or that legislation. The nature of tax incentives may also vary according to the objectives of tax policy. Depending on the nature, social and economic benefits can be distinguished. Depending on the area of application, we can differentiate between the object of taxation and the taxpayer. In some literatures, exemptions for the object of taxation are also called tax exemptions. It should be noted that although the classification of benefits according to various characteristics is mainly a theoretical issue, decision-making in this area is of great practical importance in terms of analysis. Evaluation of the effectiveness of tax benefits is carried out in order to optimize the number of existing tax benefits, their compliance with public interests, increase the accuracy of forecasts on the results of tax benefits, ensure optimal selection of facilities to be provided financial support in the form of tax benefits. Assessing the effectiveness of tax incentives is a step-by-step and quite complex process, which in itself involves the calculation of various quantitative and qualitative indicators. In this case, it is first necessary to select the object of assessment of the effectiveness of tax benefits. The following criteria are used to assess the effectiveness of tax incentives:

- Fiscal efficiency,
- Social efficiency,
- Economic efficiency.

Fiscal efficiency means the impact of applied tax incentives on the formation of the country's budget. Social efficiency means the results of tax benefits for society, expressed in the social significance of the activities of taxpayers. Economic efficiency means the positive impact of the applied tax incentives on the economic activity of taxpayers who are legal entities and individuals.

The Tax Code of the Republic of Azerbaijan also provides for many tax benefits in accordance with the socio-economic goals set by the state, and depending on the

circumstances, when the tax legislation is revised, their composition is constantly changed. Of course, these changes should be made not just for the sake of change, but spontaneously, scientifically and economically justified, by assessing the extent to which the goal of applying the concession has been achieved before the next change. To do this, it is necessary to calculate the efficiency of each tax credit on the basis of the above criteria. Because the assessment of the effectiveness of tax benefits for previous periods is an important factor in determining the optimal limits of these benefits for subsequent periods, as well as the complete elimination of ineffective benefits. Optimally defined tax incentives, in addition to more effectively achieving their intended goals, prevent unnecessary losses from the budget as a whole, as well as negative changes in the level of tax potential for a particular region, sector or tax entity (Yadigarov.F.M.,2015: p.290-292).

1.2. Fiscal Policy during crises period.

Slowing down the spread of the virus reduces the number of patients requiring emergency medical care at any given time and allows the medical system to cope with the stress. This leads to a decrease in mortality even if it does not reduce the total number of cases. Thus, the main goal of introducing measures to curb the spread of the virus is the so-called "flattening the curve" of the incidence of reducing the number of cases on each separate day, and not the total number of cases for all time. And the more stringent social distancing measures are introduced, the more this curve is smoothed out. In the case of COVID-19, a relatively high infection rate and a high proportion of cases require an emergency hospital. The medical and economic consequences of flattening the morbidity curve lead to the fact that, in terms of reducing mortality, tough measures to contain the spread of the virus are optimal (Ferguson et al. 2020).

The reason for this is both a drop in production and a drop in demand. Production is declining both because some companies are forced to either partially or completely stop their work due to the imposed restrictions, and due to the disruption of production chains. The decrease in income and the growth of

uncertainty (both in terms of the development of the epidemic and in terms of the government measures taken) also leads to a reduction in demand from the population. At the same time, investments by companies are decreasing due to emerging liquidity problems and because of the same growth of uncertainty. At the same time, the drop in demand and production feed off each other, increasing the scale of the crisis. The state can prevent the unwinding of this downward spiral by actively intervening through large-scale budgetary and monetary interventions. Then the crisis will have a V-shape with a fairly quick recovery after the lifting of restrictive measures. Otherwise, especially if the crisis leads to serious problems in the financial sector, it can take an L-shape and turn into a prolonged depression.

Research on the relationship between epidemics and economics. Before the outbreak of the COVID-19 pandemic, there were only a small number of studies that examined issues related to the economic aspects of the spread of epidemics. One of the most notable works was a study on less dangerous viruses (such as influenza, gastroenteritis and chickenpox), which showed that school closures and restrictions on public transport significantly reduced the number of cases, but the economic costs of these measures outweighed the economic benefits of reducing the incidence (Adda, 2016). However, this article already pointed out that as even slightly more dangerous viruses spread, the comparison of benefits and costs changes, and closing schools is a profitable measure. In addition, it has been shown that increased interregional mobility through the development of a high-speed train network increases the spread of the virus and the associated medical and productivity costs are comparable in size to the benefits of increased travel speeds. The analysis also shows that the rate of spread of infections is closely related to economic activity; diseases spread faster during economic booms as people travel more during this time ([https://www.nes.ru/files/COVID19\(21apr2020\).pdf](https://www.nes.ru/files/COVID19(21apr2020).pdf)) .

After the outbreak of the COVID-19 pandemic, numerical models began to appear that includes both the epidemiological component, describing the spread and impact of the virus, and the economic component, assessing the impact of both the

virus itself and measures to contain it, and demonstrating the significant benefits of introducing strict measures to the containment of the disease. Thus, in the Thunstrom et al (2020) model, the introduction of social distancing measures in the United States in the baseline scenario results in a net gain of \$ 5 trillion. Specific numerical estimates of the payoff depend on assumptions about the cost of human life. But the qualitative result that the introduction of measures to contain the spread of the virus leads to a net gain turns out to be true for almost any realistic estimates of the cost of human life. Such models also point to the importance of using more targeted approaches to fighting the virus than introducing general quarantines and other non-targeted restrictions. For example, Berger et al (2020) show that mass testing for the presence of the virus and the introduction of selective quarantine significantly reduce both mortality and the economic costs of the disease caused by the virus. Such measures could be complemented by contact tracing measures for people who test positive for the virus. It is this approach that has successfully proven itself in South Korea, and it, but with more visible elements of general social distancing, has been applied in Singapore and Taiwan. The key is to test more randomly selected people, which allows for a more accurate understanding of the epidemiological characteristics of the virus, as well as the socio-economic characteristics of people most at risk of infection. Both are key parameters in determining which measures will achieve the desired results in the fight against the virus while causing the least economic damage (Stock, 2020). It should be noted that the numerical estimates in these works are very approximate since they do not take into account a huge number of important effects. So, on the one hand, the long-term damage to health in people who have had COVID-19 but survived, including by providing them with emergency assistance, is not assessed. Deaths and damage to the health of patients with other diseases who have not received medical care due to lack of medical resources are also excluded. On the other hand, the negative effects on the health of the population from the economic crisis and the reduction in incomes of the population, as well as the negative effects on health (primarily psychological) from social isolation, are not assessed. At the same time, the impact of the economic crisis

on mortality in a relatively poor country such as Russia can be much more serious than in Western countries (Yakovlev, 2020). In addition, these models do not take into account the spatial aspects of the spread of the virus and the corresponding restrictive measures, while in real life, regional factors, including those associated with migration flows, play a very important role both in the spread of the virus and in measures aimed at its containment.

Unlike the crises of 2008 or 1998, the crisis caused by the COVID-19 epidemic is not financial, but economic. Measures to combat the virus are hitting primarily the earnings of people and the profits of companies. Financial institutions will also incur losses, but this time as a result of these problems. That is why it will be the fiscal measures from the government that will be of paramount importance, although the actions of the monetary authorities can also play an extremely important role in overcoming the crisis. During such a crisis, government programs to support the economy are required in order to compensate for the losses to people whose incomes are sharply reduced due to the imposed restrictive measures, to prevent a collapse of aggregate demand and to provide the necessary liquidity to both the real and the financial sector. All three of these objectives are critical to ensure that temporary measures to combat the spread of the virus do not cause long-term damage to the economy, and it would be able to quickly recover from the lifting of restrictive measures. At the same time, since many companies, especially small and medium-sized businesses, run the risk of being on the verge of bankruptcy very quickly, the speed of state aid allocation also becomes a very important parameter. This is why leading economists have urged governments to act quickly, decisively, and at scale (Baldwin et al 2020).

From the point of view of maintaining aggregate demand, the size of state support becomes the main one, that is, how much the government will be willing to increase its spending. The size of this increase should be roughly equal to the expected contraction in GDP due to crisis. At the moment, it is difficult to estimate the exact scale of the economic decline, but one can proceed from an estimate of

10% of GDP. State aid packages of a similar or even larger volume have already been adopted in countries such as the UK, USA, France, Malaysia and many others. In Russia, comparable measures mean the allocation of a package of about 10 trillion rubles. This amount looks very impressive, especially in the context of falling oil prices leading to a significant reduction in budget revenues. However, Russia is approaching the crisis in an extremely advantageous position from a macroeconomic point of view (low inflation, low government debt, large reserves). So, there is actually an opportunity to allocate such an impressive amount either by increasing the state debt or by spending funds from the reserve fund. In addition to the overall size of the fiscal stimulus, it is also important what the money will be spent on. The key in this situation will be expenses that will make it possible to compensate for the losses of those who will suffer the most in the current situation. This is true both for companies most affected by the introduction of restrictive measures and for individual citizens who will receive less wages due to forced leave or lose their jobs, not to mention medical workers. In fact, in this situation, some citizens are forced to sacrifice their income for the sake of saving others (primarily the elderly). And it is the state that becomes the institution that, by its actions, can not only prevent the economy from sliding into recession, but also compensate for the losses to those who will have to bear the main burden in this struggle. Despite the fact that it seems optimal to allocate aid depending on what costs are borne by the recipients of this aid, the complexity of administering and determining who suffered to a greater or lesser extent becomes an argument in favor of allocating unconditional aid.

Moreover, in the case of Russia, the crisis and the accompanying drop in oil prices may provide another opportunity to increase the diversification of the Russian economy and reduce its dependence on resource exports. We can also expect that the crisis will give a powerful impetus to the development of online industries and remote work, significantly accelerating the long-observed trends. Another potentially important effect of the crisis could be change in the level of trust, nationalism and international cooperation. On the one hand, the crisis showed that biological threats do not have state borders and require coordination of efforts of

different countries to combat them. On the other hand, economic crises lead to a drop in the overall level of trust (Ananyev and Guriev, 2019) and can lead to an increase in nationalism and discrimination. At this stage, it is almost impossible to predict which of the many possible scenarios will come true, but the above (as well as many other) considerations regarding the possible long-term consequences of the crisis are extremely useful to keep in mind when discussing certain measures taken during a crisis since they can have a significant influence on the development of the economy after the end of the acute phase of the crisis. The quarantine plunges the economy into a deep recession, as it involves the almost complete closure of the sphere of public services restaurants, hotels, cinemas, museums, gyms, sports and cultural events, universities, schools, transport, tourism, etc. This directly affects more people. than 30-40% of the economy and jobs. In addition, this is the freezing of many investment projects, including construction projects, which means the loss of a part of this large sector of the economy. Production facilities, factories and plants are additionally closed for strict quarantine. A 2-3-month quarantine should be expected to result in a loss of half of GDP in the current quarter. The transition to the second post-quarantine stage is also likely to be associated with only a partial economic recovery. In this regard, a loss of 20% of annual GDP should be expected under the optimistic scenario with one wave of quarantine. This will be the deepest annual global recession in modern history. It should be emphasized that this is not a cyclical economic crisis caused by falling economic productivity or lack of demand. This is an epidemiological and medical crisis. States are forced to stop the economy in order to cope with the acute phase of the medical crisis, without the resolution of which it is impossible to restart the economy. In this regard, standard approaches to the economic crisis and anti-crisis policy are not directly applicable here. In particular, if epidemiological and medical problems are resolved, the subsequent recovery from the crisis may be much faster than, for example, the financial crisis of 2008-2009, after which almost 10% of unemployment in the United States did not fall for several years. years and remained above 8% four years after the end of the crisis. What does a 20% drop in GDP mean? First of all, it is the lost output of market

goods and services, which to a large extent cannot be replenished, and people are forced to reduce market consumption for the appropriate amount. It also means a loss of 20% of all annual wages, capital income and profits. However, throughout life, this annual loss is not so significant below 2% of net present value. This means that the economy can withstand such a crisis, despite its current severity([https://www.nes.ru/files/COVID19\(21apr2020\).pdf](https://www.nes.ru/files/COVID19(21apr2020).pdf)).

The problem is that the losses in the economy are very unevenly distributed and are especially acute in several personal services sectors, in which record unemployment and bankruptcies of firms are expected, which, in particular, may lead to a crisis in the financial system. The first task of the state is to redistribute losses and support the most affected segments of the population by providing very generous direct assistance to those who have lost their jobs, as well as financial assistance to firms that refuse to lay off their workers - in both cases, say, in proportion to 60-70% of lost earnings. The focus here is necessary not only on workers under a labour contract, but also on freelancers, workers on temporary contracts, and owners of small and medium-sized businesses. The first such programs have already been adopted in the USA, Germany and several Western European countries, and already reach more than 10% of their GDP (exceeding 3 times the total assistance provided to the economy in 2008-2009). One or more rounds of similar financial assistance can be expected, depending on the duration of the crisis. Funds for these programs should be drawn from the reserve fund or through an increase in government debt, which will lead to higher taxes in the future, thereby smoothing out losses between generations and periods. Such measures are not usually used during ordinary cyclical recessions, as the government tends to give incentives to those who have lost their jobs to find a new one as soon as possible. In this crisis, the opposite is true, we need people not to go to work, and therefore their losses must be compensated([https://www.nes.ru/files/COVID19\(21apr2020\).pdf](https://www.nes.ru/files/COVID19(21apr2020).pdf)).

It should be noted that this government spending will not compensate for the lost GDP, they only smooth out unequal losses in earnings among the population

(this is a redistributive measure, not a measure to stimulate aggregate demand since demand is limited by the epidemiological crisis). It is more correct to think of this crisis not as an economic one, but as a natural disaster (a widespread earthquake, hurricane or fire, only without destroying capital resources) where the role of the state is to introduce the economy into a controlled coma for the minimum necessary period and during this time to compensate for a significant part of the losses to all the victims. Decisive and bold measures by the state at the very beginning of the crisis, as well as clear communication of plans and forecasts for the entire population, will avoid panic, as well as coordinate the expectations and efforts of citizens to combat the virus and its economic consequences. In particular, the state must help to redirect people from closed sectors to sectors with acute labour shortages, primarily in the health care and the sector of production, distribution and delivery of food, hygiene and other essential goods. Two significant issues of government assistance to the economy are resolving the debt crisis and direct financial assistance to firms to prevent bankruptcies. It seems obvious that a debt "vacation" is necessary when debtors are allowed six months or a year not to pay on loans with the transfer (but not cancellation) of all payments for this period. At the same time, the state compensates for the temporary losses of creditors through direct financial assistance and also guarantees the financial stability of the banking system. A less obvious issue concerns the payment of rent for commercial and residential premises, the state may also require postponing payments (for example, by prohibiting eviction of non-payers in the next three months) or partially compensating rent.

Finally, should the state prevent bankruptcy and support financially all or some of the operating firms? If the government has this financial capacity, this is probably the simplest solution to temporarily support all companies so that they can immediately jump back into the economy after the medical crisis ends. However, if the crisis lasts for a long time, the financial capacity of any country will be limited, and assistance should be at least selective. It is important to understand here that the bankruptcy of a company, in this case, does not mean the closure of a business due

to its fundamental economic incapacity (as often happens during cyclical crises) in many respects it is just a transfer of ownership of production assets. For example, airlines suffering losses do not lose their planes and pilots, but current owners may be forced to transfer ownership of the airline's assets. At the same time, the state should help avoid the need for massive bankruptcies with the help of the above measures of direct financial assistance in paying salaries and deferring payments on loans and rent. In general, it is important to understand that government policy cannot completely neutralize this crisis, a drop in GDP, say, by 20%, is a real huge loss of the economy, which to one degree or another will affect each of us. The role of the state is to smooth out these losses between all members of society, to help the most vulnerable segments of the population, as well as, if possible, to avoid economic losses that are not necessary (in particular, massive bankruptcies of small and medium-sized businesses). State economic policy must ensure that the economy can recover quickly once the acute medical crisis is over([https://www.nes.ru/files/COVID19\(21apr2020\).pdf](https://www.nes.ru/files/COVID19(21apr2020).pdf)).

CHAPTER II. FISCAL STANCE IN AZERBAIJAN REPUBLIC

2.1 Public Finance in Azerbaijan since independence.

In the nearly 30 years since the restoration of state independence, the most important goals of economic development in Azerbaijan - the formation of an entire national economic system and the establishment of market principles based on liberal values in economic relations. In achieving these very broad and complex goals, the importance of targeting macroeconomic stability and reforms as a leading tool has always been high, as important points observed in the economic policy of the State in the past. In essence, these issues, which are in themselves a complex

socio-political phenomenon, are under the multi-vector pressures of more complex military-political and geoeconomic external influences. From time to time, our national economic development has faced serious challenges from such pressures. During this period, our country has repeatedly entered the stage of modern development, solving domestic and foreign, economic and non-economic problems. Unfortunately, it is impossible to say that the current stage of our development, with all its positive advantages, is devoid of systemic shortcomings. The best proof of this can be considered the constant exaggeration of the reform factor in our state policy at the highest levels in recent years (Rasim Hasanov, 2020).

What is the essence of the role of economic reforms as a political tool? As it is known, reforms are of an evolutionary nature and are carried out in several stages, such as defining goals and their priorities, formulating appropriate methodologies, developing strategies, implementing, monitoring and regulating reforms. The peculiarity of economic reforms is that each reform step is aimed at a specific task, restructuring, regulatory, organizational, personnel, information, evaluation, etc. Structural reforms, which are essentially the main carrier, must have the principles of purposefulness, systematicity, economic efficiency, comprehensiveness, continuity and regulation.

Thus the reforms:

- Consistent measures to restructure the economic system as a whole or in part (even in part);
- a complete or partial modification of the economic regulation or economic governance model;
- improving the economic mechanism, which will increase the efficiency of economic activity, to improve the business environment;
- formation of a new paradigm of economic development, etc. should include targeted and consistent policy in areas. (Rasim Hasanov,2020)

In our country, the history of reforms aimed at the formation of a new economic system, in essence, began in May 1991 with the adoption of the Constitutional Act

"On Economic Independence". This act has two important goals from a pragmatic economic perspective: the formation of the country's economic system on the basis of nationalization of resource potential and the transformation of the economic mechanism from a directive management model to a liberal market model.

Despite the declaration of the priority of independence, this Constitutional Act cannot be considered legitimate in many respects. With the declaration of political independence of the state on October 18, 1991, a new stage of economic reforms - the stage of legal legitimacy began. In 1991-1993, with the declaration of a number of fundamental transformation measures and even the adoption of some legislative acts, serious steps were taken towards the formation of a national economic system of reforms and the formation of a new economic mechanism (Constitutional law of the Azerbaijan Republic on bases of economic independence). The most important steps in this period were the liberalization of foreign economic activity, the adoption of laws on the privatization of property and land, the introduction of the national currency, the formation of a legislative framework for attracting foreign investment to finance oil production and the establishment of relations to ensure international support can be noted. In fact, despite the wide range, unpreparedness, incoherence and even "dilettantism" of the numerous reform acts adopted during this period, the most important feature in our opinion is the indecisiveness and incompleteness of the government in their implementation.

The most important feature that unites the steps of this period should be the definition of the priorities of real reforms and their final launch in accordance with the requirements of the time. Therefore, in our opinion, 1995-2003 should be considered a productive period in terms of creating a new economic system in Azerbaijan. Undoubtedly, the most important step of the period was to establish in the first national Constitution the diversity of property and the right to private property, and thus to ensure the legitimacy of the establishment of liberal relations. The leading role in the formation of the modern profile of the Azerbaijani economy belongs to the set of reforms carried out under the leitmotif of President Ilham Aliyev

"From Stability to Progress", which began in 2004 and accelerated with the inflow of large oil revenues (Rasim Hasanov,2020).

The main points of fundamental reforms at this stage are the elimination of inequality in regional development, systematic measures to restructure the non-oil sector, sharply expand the national economic turnover, strengthen systemicity through serious improvements in the economic mechanism, select a balanced and multi-dimensional development vector for economic integration, strengthening sustainability and inclusion in development, social orientation, re-formation of national economic and social infrastructure. Thus, we can say with full confidence that the main tool in the economic policy of the state during independence has been fundamental reforms aimed at the sustainability of economic development. Considering such an approach to be absolutely correct, we note that the most important modern challenge in the Azerbaijani economy at this stage is the rapid continuation of fundamental reforms on a new level of quality. Because despite the serious achievements, the formation of a system of sustainable economic relations that can ensure high efficiency in the economy of Azerbaijan is not complete.

The new management framework of economic policy should ensure the formation of a strategy aimed at accelerating the socio-economic development of the country and the modernization of the national economy in the post-pandemic period, especially the development and successful implementation of its economic reform program (Cihan Bulut, Elçin Süleymanov,2015).

The financial system is divided into two parts depending on the order of creation and use of monetary funds:

- Public finance (centralized finance);
- Finance of enterprises and organizations (economic entities) (decentralized finance).

Each of these units consists of several links with an organizational structure. The financial system in a broad sense also includes 3 credit-banking systems (a combination of the country's banks and other credit institutions):

The first section - the rings of public finance refer to centralized finance and are used to regulate the economy and financial-distribution relations at the macro level.

The second section - covers the finances of enterprises and organizations, decentralized finance and is used to regulate and stimulate economic and social relations at the micro level.

The credit-banking sphere consists of the country's banks and other credit institutions. The financial system of the country also includes state financial institutions (organizations and departments) that carry out and regulate financial activities (Cihan Bulut, Elçin Süleymanov,2015).

Different spheres and circles of the financial system differ from each other in their role in the financial system. The state budget of the Republic of Azerbaijan is the main financial plan for the establishment and use of the centralized funds of the state. The state budget provides financing of expenses related to the performance of state functions.

Extra-budgetary funds The next link in public finance is extra-budgetary public funds. Extra-budgetary state funds are financial funds owned by the state in accordance with the relevant normative legal acts of the Republic of Azerbaijan, but not included in the budget system. Extra-budgetary funds are both social and productive. The main purpose of establishing these funds is to expand social services to the population, stimulate the development of backward infrastructure, provide additional funding to leading sectors of the economy. During the transition of the economy to market conditions, the following extra-budgetary state social funds were established: pension fund, social insurance fund, compulsory health insurance fund. Thus, in order to strengthen control over the expenditure of extra-budgetary state

funds, they are concentrated in the Main State Treasury under the Ministry of Finance of the Republic of Azerbaijan (Cihan Bulut, Elçin Süleymanov,2015).

1) Government Loan. Expresses credit relations on attraction of temporarily free funds of the population, enterprises and organizations by the state to finance its expenses. Government credit is attracted through the placement of government bonds and other securities. Public credit is also the external debt of the state, in which case the state receives a loan from foreign countries to cover the budget deficit. One of the components of public finance is the insurance fund. The insurance fund provides compensation for damage caused by natural disasters and accidents and assists in the implementation of measures to prevent them. The next sphere of the financial system is the financing of economic entities - enterprises and organizations of various forms of ownership. Enterprises and organizations are independent economic entities and legal entities established in accordance with the law to produce goods, perform work and provide services in order to meet public needs. The main part of revenues is formed in enterprises and organizations, which are then redistributed through various channels (Cihan Bulut, Elçin Süleymanov,2015).

2) State and Municipal Institutions. An enterprise is an independent economic entity established in accordance with the legislation of the Republic of Azerbaijan, regardless of the form of ownership, and is a legal entity that produces and sells products, performs works and provides services to meet public needs and make a profit. A state-owned enterprise is state-owned and operates on a commercial basis.

3) Commercial Organizations. Under market conditions, enterprises carry out their activities on a commercial basis, in which costs are covered by their own income, and the main source of enterprise development is profit. Therefore, enterprises (organizations) must build their business on a commercial basis. According to the Civil Code of the Republic of Azerbaijan, legal entities are divided into commercial and non-commercial

organizations (enterprises). Thus, the financing of enterprises includes the following links of the financial system:

- Finance of enterprises operating on a commercial basis;
- Finance of non-profit enterprises;
- Finance of state and municipal enterprises;
- Finance of public organizations (associations);

4) Public and religious organizations (associations). It is a voluntary association based on the common interests of citizens to meet their spiritual and other material needs. Members of public and religious associations do not retain the rights to the property transferred to the property of these associations and organizations, including membership fees. Trade unions are a mass democratic organization that unites workers with common interests in production, services and culture. Trade unions are non-profit organizations. These organizations prepare financial estimates, regional trade unions, consolidated financial plans - budgets. (Cihan Bulut, Elçin Süleymanov,2015)

5) Bank-Credit System. It is a set of banks and other credit organizations that carry out credit relations. The temporarily released funds of economic organizations are mainly collected by banks and other credit institutions. In some foreign countries and Azerbaijan, there is a commercial loan provided by one economic organization (supplier) to another economic organization (buyer) and it is developing successfully. The leading position in credit relations belongs to bank loans. The possibility of using the loan allows enterprises to accelerate the implementation of planned activities (projects) without waiting for the accumulation of special funds. The use of these resources creates conditions for increasing efficiency and accelerating the turnover of funds (Cihan Bulut, Elçin Süleymanov,2015).

2.2 Implementation of Fiscal Policy in economic difficulties in Azerbaijan.

Having restored its independence in 1991, Azerbaijan faced many problems and risks. The economic growth of the country over the past 25 years can be classified into four stages:

1) The period of decline (1991-1994): this period coincides with the early years of the restoration of state independence, Azerbaijan was in a state of war, and as a result of military aggression by Armenia, more than a million refugees and internal migrants left their native lands, this characterized weakening trade relations and a sharp deterioration in the socio-economic situation.

According to the International Monetary Fund, during this period Azerbaijan lost about 60% of the country's economic potential, the existing industrial infrastructure was significantly uprooted, and hyperinflation was observed against the backdrop of a sharp increase in unemployment. During 1991-1994, the real GDP of Azerbaijan decreased by an average of 17 percent per year, while the state budget was financed mainly through emission channels, and the issued national currency fell sharply.

2) The period of deep economic reforms, the transition period and the recovery period (1995-2003). This period refers to the re-election of Heydar Aliyev to political power. After coming, Heydar Aliyev, first of all, directed his efforts to restore political stability in the country, after that, he undertook strategic economic reforms to restore and transition to a market economy, which formed the basis for high-quality economic growth as a result of its implementation.

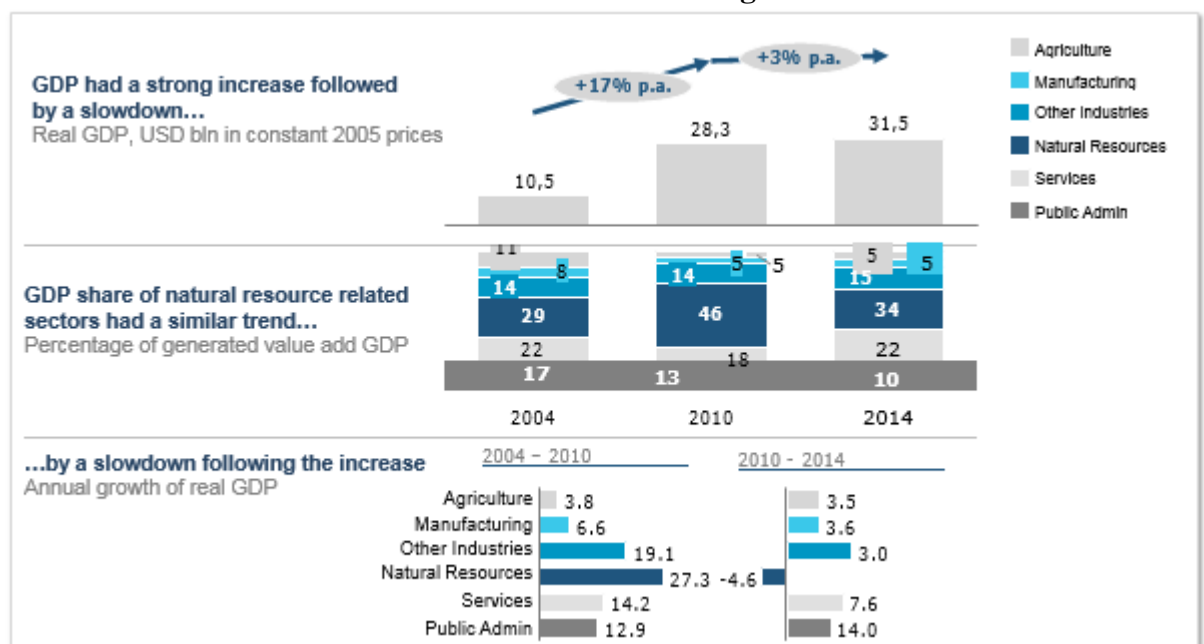
As a result of investing part of its oil revenues in the country's economy, Azerbaijan has recently become one of the high-middle income developing countries, with a completely renewed socio-economic infrastructure and ranked 37th in the world in terms of its global competitiveness (World Economic Forum's global competitiveness report for 2016–2017). The measures taken and the rise in prices for natural resources laid the foundation for the breakthrough development of their economy, and in 2004-2010, GDP grew by an average of 16.9 percent (State Statistics Committee, 2011). The increase in the volume and cost of oil and gas production has

helped attract foreign direct investment in the oil sector. In 2006, the Baku-Tbilisi-Ceyhan pipeline was officially opened and Azerbaijan maintained the continuity of oil and gas production and trade by improving (in the country, funneling finance into a range of other sectors such as construction, services, public administration, defense, and social welfare.

During this period, stability in the country was maintained by a significant increase in foreign exchange earnings. A large number of strategic foreign exchange reserves were formed and international competitiveness was maintained, preventing the appreciation of the national currency. During this period, activity in the banking sector increased, the volume of deposits increased 11 times, and the volume of loans increased 19 times (Central Bank of the Republic of Azerbaijan). One of the highlights during this period was the slowdown in economic growth in 2011. Despite increased investment in the economy, economic activity weakened during the period. After this period, the active asset acquisition model reached a saturation level.

4) Low oil prices: The fall in the price of oil has led to negative consequences on the world commodity markets and on Azerbaijan.

Picture 1: Sectoral economic growth



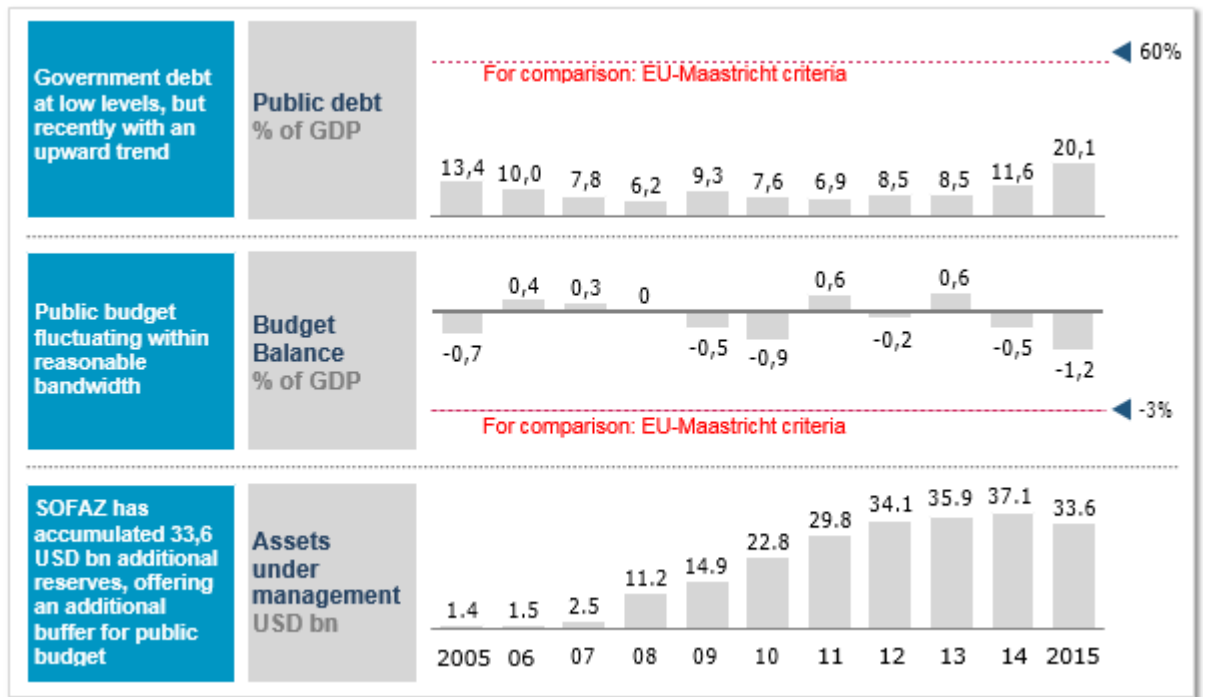
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A sectoral analysis of economic growth in 2014 shows that as a result of active public capital, about 80 percent of GDP was non-oil and about 60 percent of employment was generated in the non-profit sector. Non-oil sector of GDP is 28 percent for non-trading sectors, construction sector - 21 percent, trade sector - 13 percent, transport and storage - 7 percent. During this period, the non-oil industry formed only 8 percent of the non-oil sector of GDP (State Statistics Committee).

In 2014, the value added in the agricultural sector was 6 percent of GDP, while 36.7 percent of the country's employed population was in this sector. Other effects of active state capitalism on the structure of the economy show that the private sector is incompetent to compete with the investment activities of the state. As a result, there is a narrowing of private enterprise. Each macroeconomic policy implemented in Azerbaijan in 2004-2014 had two directions; the first is fiscal and the second is monetary policy, which has been focused on supporting economic growth. During this period, Azerbaijan achieved macroeconomic stability and this was the main reason for the significant increase in foreign-investment in the country. Recent analyzes for the period indicate that oil is considered an important factor in the formation and implementation of macroeconomic policies. Fiscal expansion the period of economic growth in Azerbaijan was high and the most important policy direction was fiscal policy. Fiscal indicators have improved significantly during this period, the state has made a big contribution, which led to a sharp economic growth. Large-scale financial resources were directed to the creation of high-quality socio-economic infrastructure, economic activity increased, and there was a significant recovery in the financial sector. In 2004-2014, state budget expenditures increased 12.5 times, GDP expenditure increased by 14 percent to 32 percent. The budgetary expansion is mainly due to the capital expenditures of the budget.

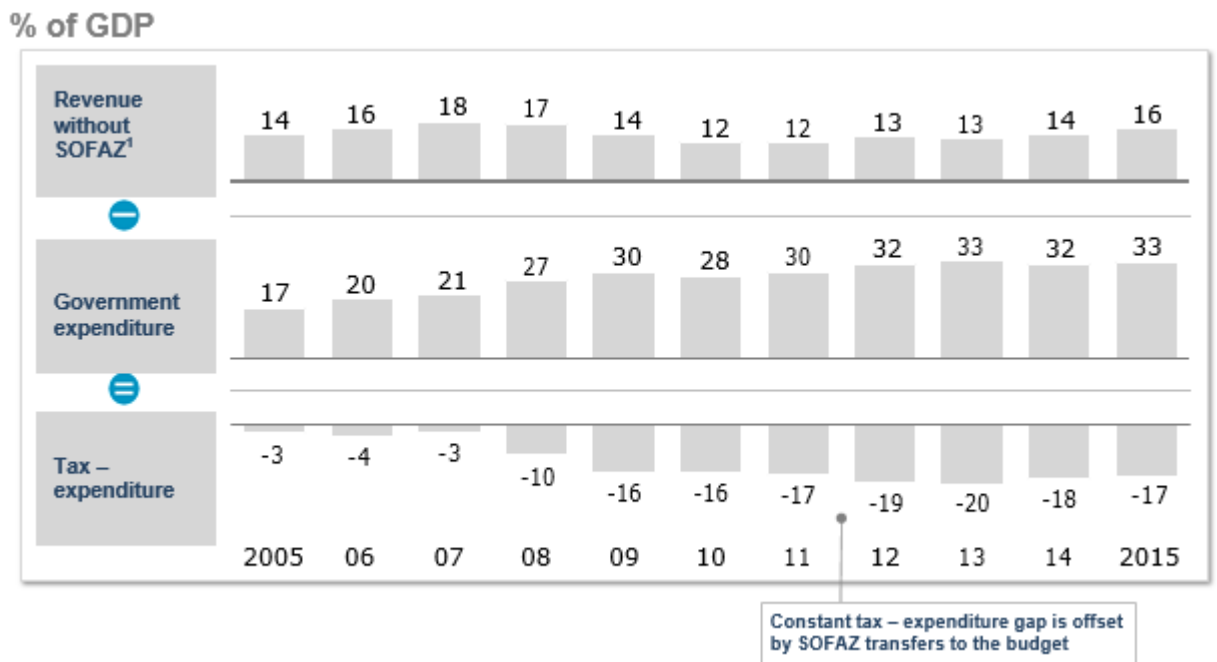
Picture 2: State debt and budget deficit levels



Source:

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Picture 3: Dependence of budget balance on SOFAZ transfers.44



Source:

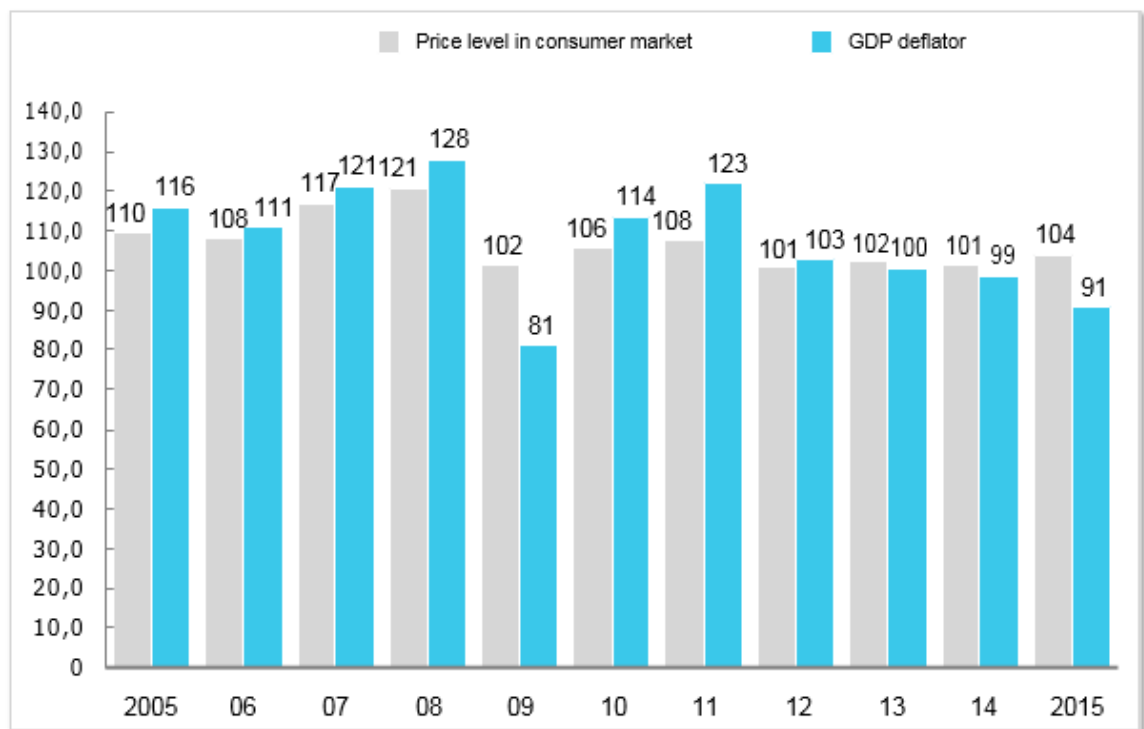
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The use of high oil revenues for development purposes through public finance channels has also had a significant impact on monetary and exchange rate policy. During 2004-2014 there was an increase in monetary policy indicators, increased financial activity in the country. According to the report of the International

Monetary Fund, the monetary policy regime of the Central Bank of the Republic of Azerbaijan (CBAR) was a de facto target. During this period, the stability of the exchange rate has prevented import inflation, given the large share of imported goods in the consumer basket.

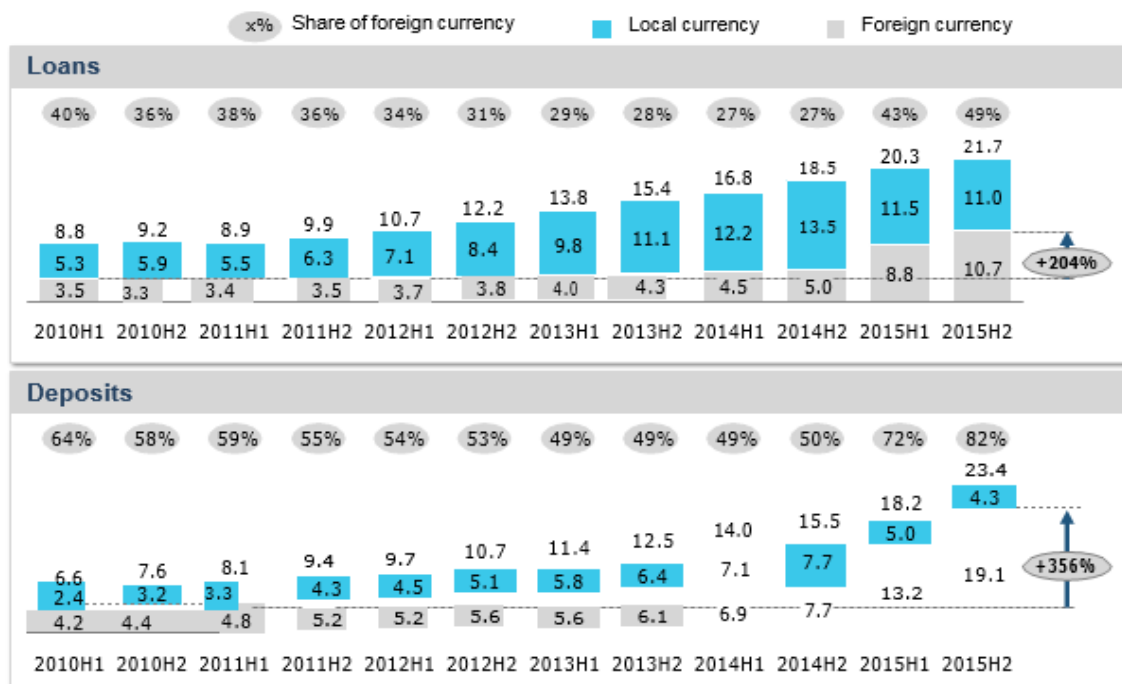
According to the Central Bank, the money supply in the national currency in Azerbaijan in 2004-2014 increased 18 times and amounted to 11.5 billion manats. Money in circulation 21 times, and liquid funds on correspondent accounts of banks increased 3.3 times. The expanded broad money supply (M2) increased 25 times to reach \$17 billion.

Picture 4: Dynamics of the inflation level in Azerbaijan⁴⁵



Source: State Statistic Committee, 2016.

Picture 5. Dollarization trend in the economy⁴⁶



Source: Central Bank of Azerbaijan Republic, 2016
<https://monitoring.az/assets/upload/files/15075d6928310402cd152c96db0d6835.pdf>

Another important precondition for an appreciation is the development of the interbank money market. Interbank money market is considered the most important link in the transmission channel corridor, the Central Bank's interest rates. Limiting money market interest rate adjustments to the value and volume of transactions would also have a negative impact on the transition of monetary policy to the economy. From this point of view, the financial and banking system of Azerbaijan requires a higher level of development of the money market (Strategic Roadmap for National Economy Perspective of the Republic of Azerbaijan).

The trend of the modern economy to place more emphasis on behavioral economics, including increasing consumer access to financial and banking services, requires attention to the transparency and accountability of monetary policy. When assessing the accountability and transparency of monetary policy according to the progressive criteria of the central bank, the result is satisfactory. However, greater focus on quality, a rapidly changing channel of expectations, and increased confidence in monetary policy remain important challenges. One of the achievements of monetary policy during the period 2004-2014 was the inadequate strengthening of the national currency during the boom-driven economic recovery,

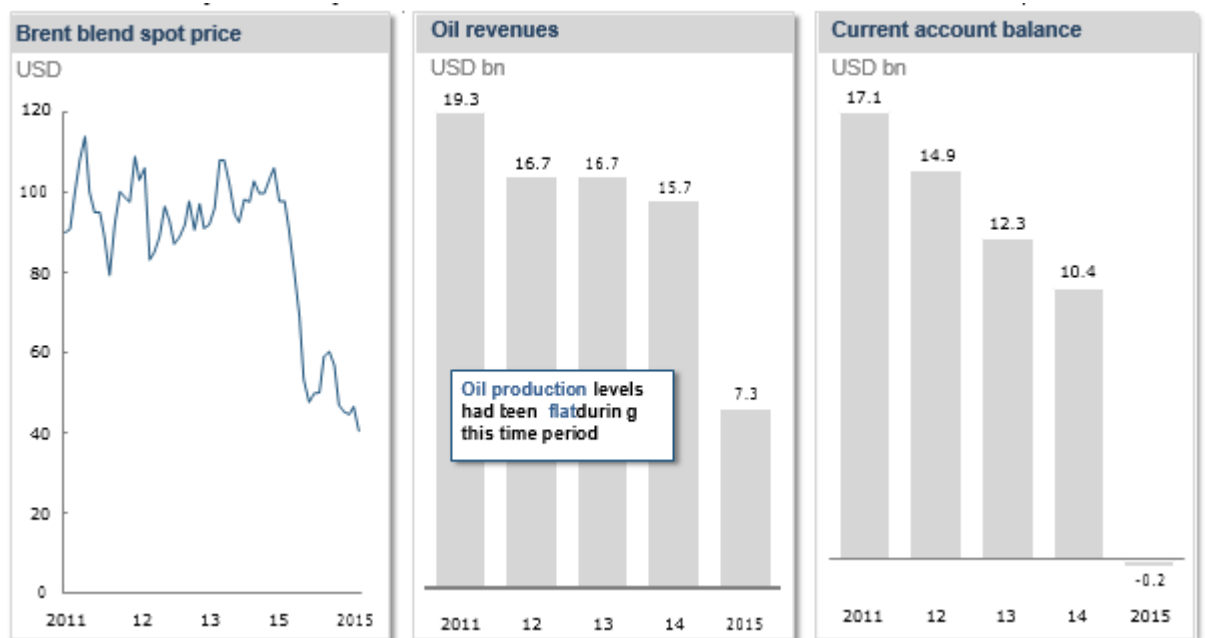
combined with the use of large oil revenues. The choice of the exchange rate regime as the main monetary policy regime during this period was essentially adequate for this economic cycle. In this economic cycle, high oil prices and an increase in oil exports are accompanied by a significant improvement in the external balance of the country's economy, the most important goals of the exchange rate policy are the accumulation of large amounts of foreign exchange reserves. As for the international demand for foreign exchange reserves (three-month gross bond, M2 monetary aggregate), the CBAR's reserves exceeded these requirements many times over. Nevertheless, keeping the low level of exchange rate dynamics at a low level, and on the other hand, significantly increasing the impact of exchange rate policy on the foreign sector remains an important task (Strategic Roadmap for National Economy Perspective of the Republic of Azerbaijan).

4) A new economic stage: a period of low oil prices. Since the end of 2014, a sharp decline in oil prices has begun on the world commodity market. As of the end of 2014, the price of Brent crude oil on the world market fell by 44 percent compared to the beginning of the year and amounted to \$62 at the end of the period ("Economist" Intelligence Unit). The decline in economic activity and the depreciation of the national currency, along with oil prices, affected the psychological tension in the financial market. Ensuring macroeconomic stability is one of the main priorities of the Azerbaijani state, minimizing the negative impact of new economic realities on the national economy and adjusting the external and internal balance. In this direction, the scope of institutional reforms has been expanded under the leadership of the President of the Republic of Azerbaijan, Mr. Ilham Aliyev, and measures have been taken to improve state regulation of the economy, tax and customs administration. The impact of the reforms has been seen in business and investment activities in the short term and is expected to have multiple effects over the medium term. The beginning of the period of cheap oil prices caused significant problems for the Azerbaijani economy (Strategic Roadmap for National Economy Perspective of the Republic of Azerbaijan).

Thus, the main channels of influence on the national economy are the external balance (balance of payments), internal balance (state funding, including strategic foreign exchange reserves, private investment demand → economic growth, macroeconomic stability), including the banking and financial sector (financial stability). The country's external balance sheet is the most affected economic channel. According to the State Customs Committee, in 2015 foreign trade turnover decreased by 33.3 percent and amounted to 20.7 billion US dollars, and in January-August 2016 it decreased by 24.9 percent compared to the same period last year to 11, 3 billion dollars. By the end of 2015, the balance of foreign trade was 2.2 billion US dollars (5.7 times lower) and 250.3 million US dollars in January-August 2016. In 2015, the country's balance of payments was the first deficit (\$222 million) since 2004.

Another important element of the balance of payments, the balance of capital and financial flows, failed to offset the CAB deficit in a 3-fold increase to \$9 billion.

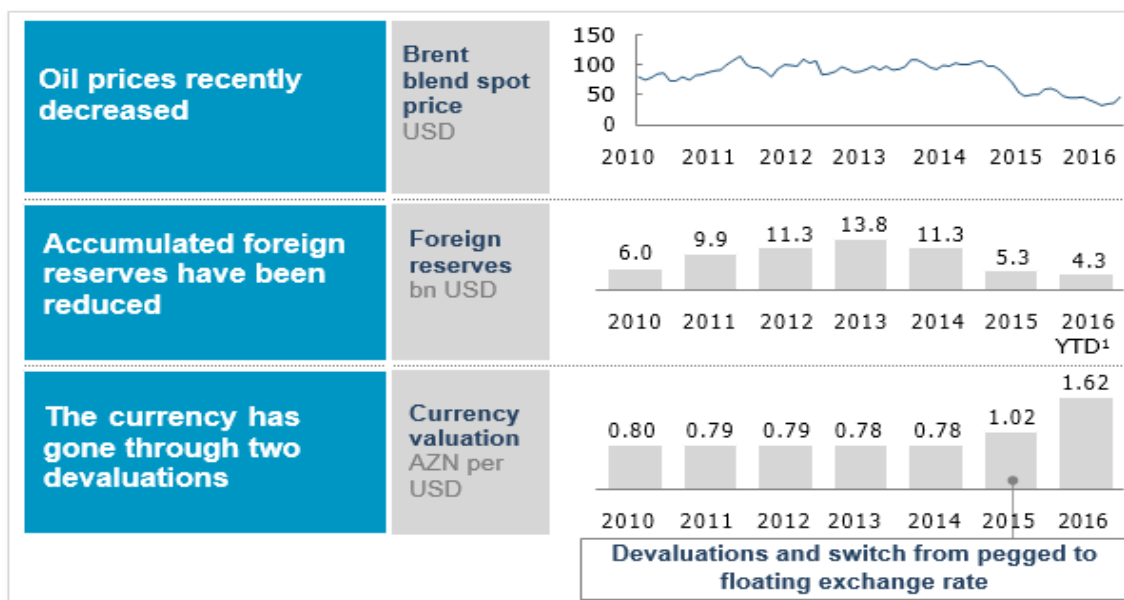
Picture 6. Oil prices impact on oil revenues and current account balance⁴⁹



Source: Economist Intelligence Unit, SOFAZ, Ministry of Finance

(<https://monitoring.az/assets/upload/files/15075d6928310402cd152c96db0d6835.pdf>)

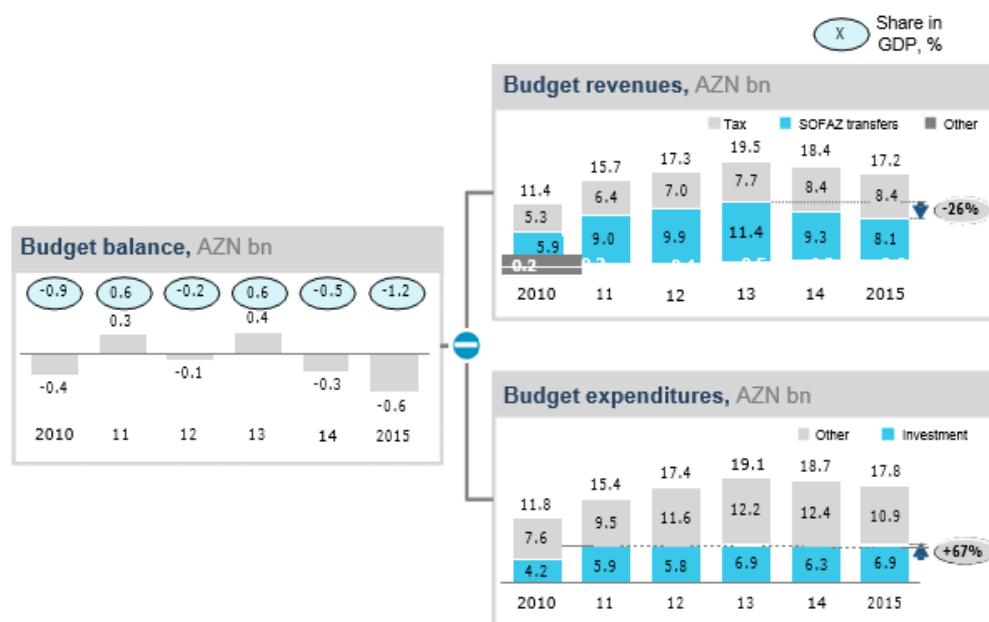
Picture 7: Factors bringing down exchange rate of manat⁴⁹



Source: Economist Intelligence Unit, SOFAZ, Ministry of Finance.

The depreciation of the national currency had a partial impact on the balance of payments at a new level. Thus, non-oil oil imports in the foreign trade balance decreased by only 7 percent. However, despite the exchange rate correction, oil sector imports increased by 1.7 times due to the implementation of large-scale new oil projects in the country. In general, the GDP deficit for the non-oil sector decreased by about \$1 billion. The new environment that was shaped by the cheap oil cycle also had an impact on public finances. SOFAZ's revenues, which are an important source of public finance, fell by 38 percent or £4.9 billion in 2015.

Picture 8: Ministry of Finance, Azerbaijan yearly budget laws and amendments⁵⁰



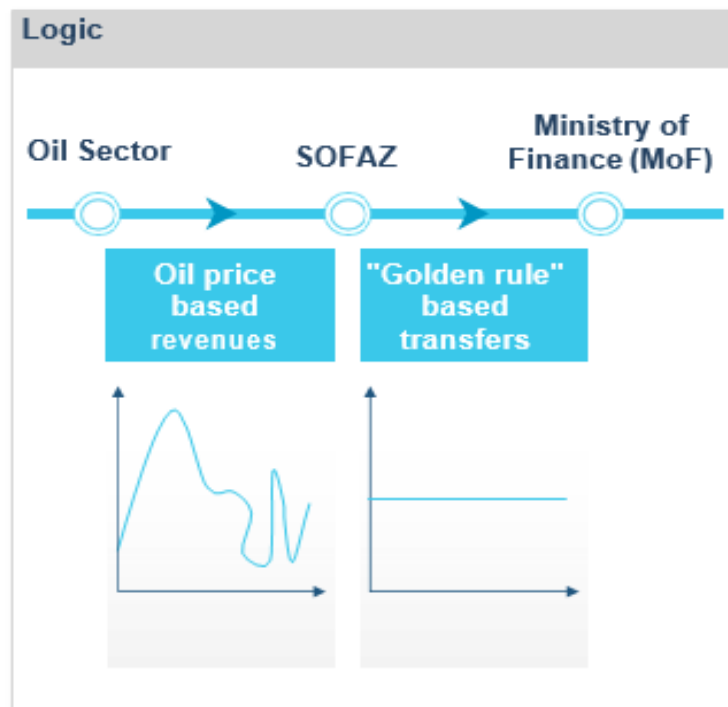
Source: Ministry of Finance, Azerbaijan yearly budget laws and amendments, 2016.

On the other hand, the correction of the national currency allowed the state budget to save foreign exchange reserves in the amount of transfers. According to the Central Bank, the country's total strategic foreign exchange reserves decreased by 24.4 percent or \$12.5 billion in 2015 to \$38.9 billion. The reserves of the Oil Fund, including 9.1 percent (\$3.3 billion), amounted to \$33.6 billion at the end of the period. In accordance with the realities of the new era, the Azerbaijani government has decided on fiscal consolidation to ensure the integrity of public finances.

Thus, the capital expenditures provided for in the state budget for 2016 have been significantly reduced. While fiscal consolidation is a positive trend in itself, a decline in economic activity, which is heavily dependent on public investment, is inevitable. One of the negative consequences of the new era for the banking sector, as well as the effective transmission of monetary policy, is the re-acquisition of the dollar trend in the economy. At the end of 2015, the level of dollarization in the economy increased sharply. This, in turn, will not only limit the maneuverability of restrictive economic policy, but may also aggravate the foreign exchange position of banks. The negative impact of cheap oil prices through the internal balance of channels of influence is also reflected in the dynamics of economic growth. According to official statistics, real GDP growth in 2014 was 1.1 percent (2.8 percent

in 2014), including 1.1 percent in the non-oil sector (7 percent in 2014), and 1.2 percent (a decrease of 2.9 percent in 2014) in the oil sector. In January-August 2016, GDP decreased by 3.1 percent in real terms, including 5.8 percent in the non-oil sector and 2.5 percent in the oil sector. In September 2016, inflation increased by 8.9 percent compared to the beginning of the year, the average annual inflation was 11.2 percent and 14.3 percent over the past 12 months. Since the beginning of the year, food products have grown by 10.9 percent (12.7 percent on average), non-food products - by 10.4 percent (15.9 percent on average) and services 5.1 percent (5.2 percent). The growth of inflation dynamics was mainly due to import prices, due to the exchange rate. At present, the volume of Azerbaijan's strategic foreign exchange reserves exceeds 100 percent of GDP(<https://monitoring.az/assets/upload/files/15075d6928310402cd152c96db0d6835.pdf>).

Picture 9: "Golden rule" principle53

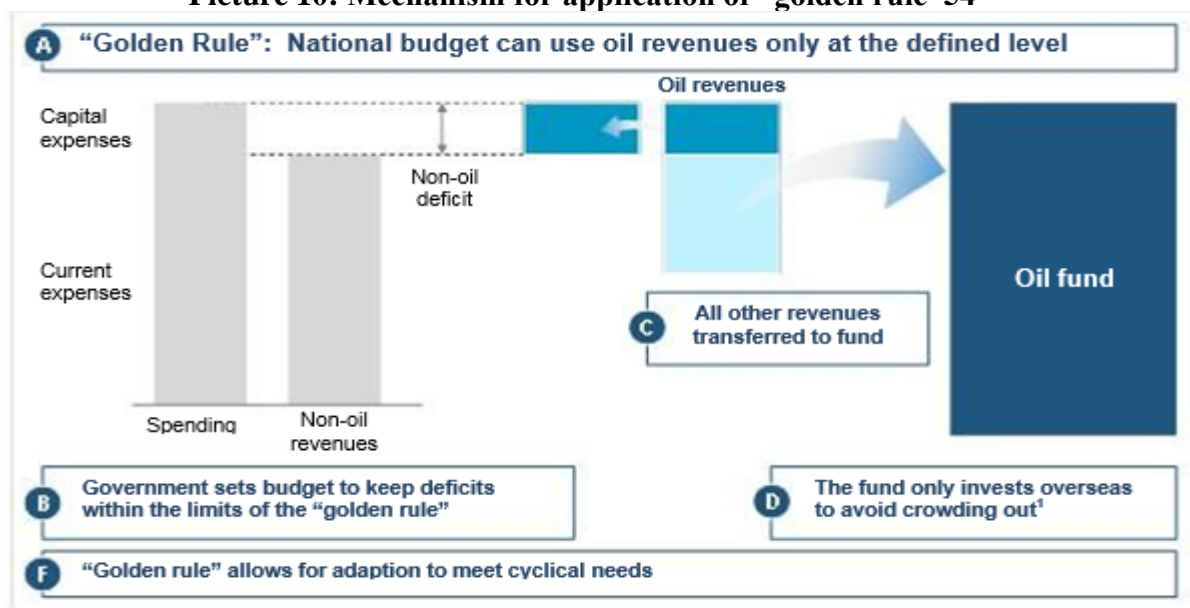


Source: Strategic Roadmap for National Economy Perspective of the Republic of Azerbaijan, 2016.

Thus, a fair distribution of accumulated oil revenues between generations will be ensured, and the volume of SOFAZ transfers to the state budget will be linked to the needs of sustainable economic development. In essence, a golden rule can help a country's budget wean itself off its reliance on oil earnings. This is how it works:

the government creates a budget for both current and capital expenditures. Because non-oil revenues cover the majority of projected spending and the non-oil deficit (the "tax-expenditure gap") is small enough, the difference is covered by a transfer amount from oil revenues set at a mean level, as stated by the golden rule. To avoid crowding out private investments, the remaining oil revenues are collected and invested in a separate fund. This separate fund accumulates wealth for the people throughout time.

Picture 10: Mechanism for application of “golden rule”⁵⁴



Source: Strategic Roadmap for National Economy Perspective of the Republic of Azerbaijan, 2016.

Price stability achieved through monetary policy will increase the credibility of the national currency, help in the formation of a disciplined fiscal policy and have a positive impact on economic growth. In short, the goals of monetary policy, the goals of expanding the fiscal framework and economic growth will support each other on a mutual basis. The depth of financial markets, as well as the variety of services, their quality and profitability will increase (<https://ereforms.gov.az/files/review/pdf/ru>).

CHAPTER III. CHANGES IN FISCAL POLICY DURING COVID-19 PERIOD

3.1 Government stimulus packages during Covid-19 in Azerbaijan.

The spread of the Covid-19 pandemic around the world from 2020 has led to the largest contractions in the world economy since the 2008 financial crisis and a significant weakening of economic growth. As a result of the pandemic, bans imposed in various countries around the world have led to unprecedented cessation of activities in various areas of economic activity, which has led to a significant weakening of economic activity. The pandemic also revealed the disadvantages of the global economic system's high dependence on countries. Thus, the disruption of the sustainability of the global supply chain under the influence of the pandemic has led to the deterioration of the production process in many areas and the emergence of shortages in a number of products. In particular, China's large role and share in the formation of the supply chain and the first mass spread of the pandemic in China made supply chain problems more severe at the beginning of the pandemic. In the following period, the problems related to the supply chain have decreased to some extent, but still remain and affect both production processes and product prices. The negative economic consequences of the pandemic are expected to be felt for a long time (<https://aircenter.az/uploads/files/post%20pandemiya.pdf>).

In the long run, the pandemic will continue to weaken investment, erode human capital and reduce jobs, reduce the effectiveness of education, undermine the sustainability of international trade, and increase confidence in economic isolation. Despite the large-scale support measures taken by various governments during the pandemic to support the economy and the population, it is still unable to offset the long-lasting effects of the pandemic on the world economy. All the problems that have arisen have shown that both developed and developing countries need to carry out and strengthen significant reforms in their health systems. The inability of both local and international health authorities to be effective in preventing the spread and eradication of the pandemic has led to the rapid spread of the virus and the creation

of economic and political risks for countries around the world. The main areas affected by the pandemic are both the labor market and poverty. The economic problems caused by the pandemic have affected young people, women and low-skilled workers the most. Those in this group have faced more unemployment as a result of the shrinking labor market. This has exacerbated inequalities in income distribution among population groups. At the same time, the problems in the field of education for low-income countries have become more uncontrollable, which has led to a further deterioration of the already weak education system in those countries (<https://aircenter.az/uploads/files/post%20pandemiya.pdf>).

The main areas affected by the pandemic are both the labor market and poverty. The economic problems caused by the pandemic have affected young people, women and low-skilled workers the most. Those in this group have faced more unemployment as a result of the shrinking labor market. This has exacerbated inequalities in income distribution among population groups. It is estimated that during the pandemic, 95 million people worldwide were living in extreme poverty compared to the pre-pandemic period. At the same time, the problems in the field of education for low-income countries have become more uncontrollable, which has led to the further deterioration of the already weak education system in those countries.

Both during the pandemic and in the post-pandemic period, the processes taking place in the world economy did not pass unnoticed to the Azerbaijani economy. Although the impact of these processes on the economy of Azerbaijan occurs in several areas, the most important in these areas, of course, were the processes taking place in world oil and gas markets. Therefore, it would be useful to first look at the developments in the international oil and gas market over the past two years. At the onset of the pandemic, a sharp decline in global economic activity also led to a decline in demand for energy, which in turn led to lower oil and gas prices on world markets. If in June 2019 the price of a barrel of Brent oil fluctuated between 62-65 US dollars (hereinafter - the dollar), in April 2020 this figure fell to

\$ 25. In order to prevent a sharp decline in oil prices, the Organization of the Petroleum Exporting Countries (OPEC) has repeatedly agreed to reduce oil production in member countries. For example, an agreement was reached to reduce daily oil production by 9.7 million barrels from May 1, 2020. Although these measures have affected the oil market and prices, the recovery in oil prices began mainly in October 2020, and the price of Brent oil in March 2021 was already close to \$ 70. Although short-term declines were observed in the following period, the process of price increase continued and in November 2021 approached \$ 83 (<https://aircenter.az/uploads/files/post%20pandemiya.pdf>).

A similar process took place in the gas market. Thus, during the pandemic, as a result of declining economic activity in the world, the price of gas on world markets decreased, but then the spread of the pandemic began to increase as it weakened. As part of this process, gas prices in Europe have seen the lowest and highest levels in history. Thus, in May 2020, the price of gas per 1,000 cubic meters fell to \$ 34. It then began to partially increase and in November 2020 increased to \$ 187. In the following period, it increased gradually, and from September 2021, as a result of cooling of the weather and a sharp increase in demand after the pandemic, a significant increase in gas prices was observed. After the price of a thousand cubic meters of gas in Europe exceeded \$ 700 in September, the price of gas futures for October was traded at \$ 800 per thousand cubic meters. However, gas prices rose more than expected in October and November futures topped \$ 1,600. The process of rising gas prices continued faster than expected, and in December, the price of January futures exceeded \$ 2,000. This was the highest price in European history. The sharp rise in prices was due to increased post-pandemic activity and cooling of the weather, as well as a reduction in gas exports to Europe by Russia, Europe's main gas supplier. This has led to higher-than-expected price increases. This increase, which is the result of more political processes, is likely to decrease once the political problems are resolved. However, in any case, the low-price level observed in the early stages of the pandemic will not be observed (<https://aircenter.az/uploads/files/post%20pandemiya.pdf>).

Azerbaijan is one of the first countries that was able to mobilize universal efforts to fight the COVID-19 pandemic. Thus, by the decree of the President of Azerbaijan, from January 24, 2020, an Operational Headquarters was created under the Cabinet of Ministers of Azerbaijan, which works around the clock, manages the activities of all state structures, controls and coordinates all work related to the disease (<https://nk.gov.az/az/article/680/>). Moreover, the Azerbaijani authorities, already at the beginning of the pandemic, due to the worsening situation with coronavirus infection, introduced a strict quarantine regime in many large cities of the republic. The population of cities could leave their apartments only on the basis of SMS permits and special permits. In these cities, the activities of shopping centers, beauty salons, hairdressers, museums were banned, catering facilities could only work for takeaway. Since March 3, 2020, the educational process has been suspended in all educational institutions of the country. On March 14, a special regime was introduced, including a number of social isolation measures, and on March 24, a special quarantine regime was introduced (<https://nk.gov.az/az/article/761/>).

The quarantine measures taken by the government in connection with the pandemic caused certain losses to the Azerbaijani economy. Air carriers, the tourism industry, as well as small and medium-sized micro-businesses operating in various sectors of the economy faced the greatest difficulties. Many people working in these industries have lost their jobs. According to the head of the Ministry of Economy of Azerbaijan, due to the coronavirus, the country's economy annually loses 120–150 million manats per day. As a result, by order of the President of the Republic of Azerbaijan, in April 2020, an Action Plan was signed to reduce the negative impact on the economy of Azerbaijan of the coronavirus pandemic (COVID-19) and sharp fluctuations in global energy and stock markets. In this document, programs were developed to provide state support to various sectors of the economy and the sphere of entrepreneurship, which includes 10 areas.

Table 1: Key tools to support economic growth and entrepreneurship development.

CONTENT

1. A financial support program to compensate the wages of 304,000 workers in sectors that have suffered losses from the coronavirus pandemic (in order to prevent job losses).
2. Financial support program for 292,000 individual (micro) entrepreneurs, workers in areas that have suffered losses from the coronavirus pandemic (in order to prevent job cuts).
3. The program of tax incentives, privileges and tax holidays for business entities operating in areas that have suffered losses from the coronavirus pandemic.
4. Credit and guarantee program to support new bank loans for business entities operating in areas that have suffered losses from the coronavirus pandemic (AZN 0.5 billion), etc.
5. Credit and guarantee program to support the existing loan portfolio for business entities operating in areas that have suffered losses from the coronavirus pandemic (AZN 1.0 billion).
6. Social package to support the financial situation of the population.
7. Program to support the payment of tuition fees for students who are members of families belonging to socially vulnerable groups.
8. Program of financial support for the mechanism of mortgage lending and loan guarantees.
9. Program to support utility bills for electricity consumption by the population.
10. Program to support vital areas for the implementation of passenger transportation.

Source: <https://www.taxes.gov.az/ru/post/1013>

According to the published document, the following compensations will be paid to citizens (Table 2)

Table 2: State support to various sectors of the economy and entrepreneurship.

Proposals.	Descriptions
1. Financial support for individual entrepreneurs employed in sectors affected by the pandemic and who were taxpayers in 2019.	AZN 80 million (\$47 million) was allocated to save jobs. These funds will be received by 300,000 people.
2. Workers employed in sectors affected by the suspension of commercial activities.	AZN 215 million (more than \$126 million) will be sent to 300,000 people.
3. In terms of tax benefits, small and medium-sized enterprises operating in areas affected by the coronavirus can count on:	Simplified tax exemption for micro businesses; temporary exemptions on property and land taxes; profit tax (income) and simplified tax benefits; for temporary exemption from current tax payments on income and property taxes.

4. Almost 200,000 people registered with the status of "unemployed" will receive 190 manats (\$110) each.	70 million manats (more than \$41 million) have been allocated for these purposes.
5 Azerbaijan to create 50,000 jobs during April and May 2020.	AZN 30 million (more than \$17.5 million) allocated for this.

Source: East European Scientific Journal #9(73), 2021

In particular, on May 4, 2020, in his opening speech at the Summit of the Non-Aligned Movement in the Contact Group format on the topic “We are together against COVID-19”, dedicated to the fight against coronavirus, the President of the Republic of Azerbaijan said: “To ensure economic stability in Azerbaijan, solve problems related to employment, ensuring macroeconomic and financial stability, a package of socio-economic support was adopted in the amount of more than 3.5 billion manats or 2 billion dollars. Until January 1, 2021, taxpayers in areas of activity that were directly affected by the pandemic will be provided with tax incentives and tax holidays. All this is just a part of the steps taken. In general, citizens highly appreciate the measures taken by the state," the President of the Republic noted (<https://president.az/en/articles/view/37705>). In March 2020, the Ministry of Economy of the Republic of Azerbaijan, the State Tourism Agency of Azerbaijan, the Agency for the Development of Small and Medium Enterprises, the State Employment Service, compiled a package that includes a number of necessary and urgent measures aimed at the rapid recovery of the tourism sector in Azerbaijan (Fig. 3).

Table 3: Developed proposals to minimize losses and complete destruction of the tourism industry in Azerbaijan.

Proposals	Description
1.Payment of salaries	It was decided to continue to pay salaries to hotel and restaurant workers using funds from the state budget. At the same time, it was proposed to suspend payments to the Social Protection Fund, as well as other mandatory payments from workers' salaries.
2. Credit holidays.	It was proposed to stop payments on loans to employees of travel agencies, hotels, restaurants, as well as entrepreneurs who have frozen their business for the quarantine period.

3. Tax holidays:	Tourism entrepreneurs will be able to temporarily take a break from paying simplified, income, land taxes, property tax, and value added tax.
4. Rent of premises:	It is proposed to reduce or suspend rent for office, facilities, utilities, telephone and Internet communications for entrepreneurs on the verge of bankruptcy.
5. Support for new beginnings	For the rapid recovery and development of the tourism industry, it is proposed to support start-ups, issue soft loans, for the secondary development of the tourism business in the country, it is planned to create a financial airbag or Tourism Fund.
6. Simplification of the visa regime:	It is proposed to reduce or completely eliminate the rates of visa fees. Tourism professionals insist that Azerbaijan finally use regional airports in the process of international air transportation; legalized freelance tourism workers; reduced the tax burden on seasonal tourist sites; gave preference to local specialists at the time of hiring.

Source: Source: East European Scientific Journal #9(73), 2021

This year, a record number of apartments and private houses, 400 cars will be provided to the families of martyrs and war invalids. The program of social services for the elderly over 65 years covers 15,000 people. During the special quarantine regime, more than 100,000 families were provided with 200,000 food rations. In total, social security programs covered more than 500,000 people and cost 200 million manats. At the same time, support was provided to 2 million people on social protection, 1,660,000 on labor protection, and more than 700,000 on low-income people who lost their income during unemployment and quarantine. Pandemic-related social support measures cover about 5 million people. All this once again shows that the welfare of Azerbaijani citizens is at the center of state policy. The point is that systematic measures have been taken in this direction in the country. Very few countries in the world have set such records during the pandemic. There is no other country in the region or in the post-Soviet space that has these indicators in terms of population. All this is an indication of the importance that the Azerbaijani state attaches to the social security of the population. The government is taking systematic measures to reduce the negative impact of the coronavirus pandemic on the country's economy and social life. According to the Action Plan, the full

implementation of the social package is a very serious contribution to the survival of citizens during the quarantine and pandemic. Azerbaijan is one of the few countries where, despite the pandemic, social programs have not been reduced. As a result, Azerbaijan is one of the few exemplary countries in the world in the fight against coronavirus (<https://ikisahil.az/post/164570-heyata-kechirilen-siyasetin-ana-xettini-vetendashlarin-sosial-teminati-teshkil-edir>).

Despite the complications and difficulties caused by the epidemic, no social projects have been reduced in the country. The number of social security measures has been further increased. According to the state support program, the number of paid public jobs will be increased to 90,000 to increase employment opportunities. In order to keep the social situation of the population stable under the special quarantine regime, the government has taken targeted measures to protect jobs in the public and private sectors, as well as the salaries of employees, and this work is currently underway (<https://ikisahil.az/post/164570-heyata-kechirilen-siyasetin-ana-xettini-vetendashlarin-sosial-teminati-teshkil-edir>).

Thus, analyzing the experience of economic development in the AR against the backdrop of the COVID-19 pandemic, we can say that in order to restore and exit the country from the current situation, first of all, it is necessary to form and study comprehensive, effective measures aimed at maintaining economic entities depending from existing financial resources and organizational structures, it is necessary to consolidate the subjects of the tourism services market in order to jointly confront the global problems of our time.

3.2 Implementation of Fiscal Policy tools in post pandemic period in Azerbaijan

Tax policy in the context of global instability, first of all, should be aimed at supporting the real sector, be stimulating in protecting investment policy and economic competitiveness, should be flexible and support the development of innovative areas. The need to revise the prevailing tax rates seems to be an urgent task from both economic and social points of view. The use of a progressive scale

will, firstly, increase the revenues of not only the republican, but also regional budgets, which can be used to implement social programs aimed at improving the quality of life of the population. Two Doing Business indicators, starting a Business and Paying Taxes, are directly related to taxation issues. Our country has significantly improved its positions in both indicators, over the past year Azerbaijan has risen from 18th to 9th place in terms of “Starting a business”, and from 35th to 28th place in terms of “Paying taxes”. Reducing the "shadow economy", developing the infrastructure of electronic payments and strengthening the institutional framework, expanding the introduction of innovative technologies, attracting individuals and business entities to the use of electronic payment services are of particular importance in the activities of the State Tax Service to achieve progress in increasing the volume of non-cash payments. In order to increase the volume and expand the coverage area of non-cash payments, the focus of the tax service is constantly on international trends in this area. The State Tax Service approved the Action Plan for the implementation of the “State Program to Expand Digital Payments in the Republic of Azerbaijan in 2018-2020” and set modern standards for more efficient organization of activities in this area(<https://e-qanun.az/framework/10190>).

At present, the tax system, which is an integral part of the ongoing economic reforms in the country and determines the socio-economic line of development of economic reforms, is in the process of reform. The ongoing tax reforms include supporting the development of entrepreneurship, reducing the "shadow economy", increasing transparency, expanding the tax base, increasing the economic efficiency of tax incentives, and improving tax administration. The ongoing reforms will open up new opportunities for the tax system to adapt to the tasks set, establish modern business relations and increase the role of the tax system in the development of the country's economy. Important tasks of the Action Strategy for the Further Development of Azerbaijan in the context of the pandemic are the improvement of tax administration, the continuation of the course towards reducing the tax burden and simplifying the taxation system. The main goals of the tax reform in Azerbaijan are to ensure financial security and development of small and medium-sized

businesses in the country, create favorable conditions for entrepreneurship and increase state budget revenues. Creating a favorable institutional environment for small and medium-sized businesses contributes to the diversification of the economy, the expansion of the non-oil sector according to the principle of branching, the opening of new jobs and, at the same time, its modernization. Timely reform of the public administration system allows Azerbaijan not only to adequately respond to challenges during the pandemic, but also to formulate tasks and protective mechanisms for the post-pandemic period in a number of key areas in the system of national interests of the country (Гасымов А., Вейсов Е.Н.,2021).

Azerbaijan has implemented economic support measures worth up to 3.3 billion manats (about \$2 billion, or 4% of GDP). The volume of support measures for the Azerbaijani economy following the results of 4 months of 2020 exceeds 4.3% of GDP. Obviously, the funds are used not only for anti-storm stabilization - support for citizens and business entities (by the end of May, a total of about 4 billion manats were spent directed to 1.4 million citizens), but also for a structural breakthrough of the national economy in new, globally changed conditions. The total volume of anti-crisis measures, including fiscal holidays and lower tax rates, reaches 4.3% of GDP in the first five months of 2020 (Mamedzade G.S., Karavaev A.V,2020).

In addition, on June 2, 2020, Azerbaijan adopted amendments to the Tax Code and introduced temporary tax breaks and holidays designed to reduce the negative impact on businesses. The measures included the abolition of land and property taxes throughout the year, as well as reductions in income tax and social security contributions for businesses hit particularly hard by the pandemic. The government is also seeking to provide financial support to self-employed and business owners and help them pay their wages; for this, an online platform is used that allows funds to be transferred directly to the bank accounts of the persons concerned. By the end of July, over 100,000 micro-entrepreneurs had received 63.55 million manats (\$37.4 million) and nearly 30,000 entrepreneurs were approved for salary assistance totaling around 98 million manats (\$57.7 million). In August, entrepreneurs who

retained their employees received additional financial assistance in the amount of a monthly payroll. In addition, the Agency for the Development of Small and Medium Enterprises has begun holding online seminars for entrepreneurs facing economic difficulties associated with the pandemic in order to raise their awareness and provide them with information about existing support measures (<https://www.oecd.org/eurasia/competitiveness-programme/eastern-partners/>).

According to the change, from January 1, 2020, the activities of hotels and other tourist facilities, activities of tour operators and travel agencies, catering area, road passenger transport, taxis etc. will be fully exempted from property and land tax for one year. In addition, service activities, organization of exhibition and theater activities, activities of cinema, museum, theater and concert halls, sports and recreation facilities, educational courses, additional educational institutions, psychological centers are exempted from property and land tax. This exemption will also apply to other areas, whose activities have been partially or completely suspended due to the quarantine arrangement imposed by the Council of Ministers. In addition, from January 1, 2020, a series of additional benefits for a period of one year has been introduced for the above regions on the basis of tax arrangements. Taxpayers of income tax (or income tax) will get benefits at the rate of 75% (of tax payable), simplified tax payers at 50%. For taxpayers who are not a small enterprise entity, the deadline for payment of profit (or income tax) and accumulated tax on property for 2019 has been postponed to September 1, 2020. Calculation of interest on unpaid taxes, compulsory social security and unemployment insurance. Contributions have also been postponed from April 1, 2020 to January 1, 2021. According to the Azerbaijani Ministry of Finance, these tax benefits are estimated at 114 million manat (\$ 67 million).

Table 4. The program of tax incentives, privileges and tax holidays for business entities operating in areas that have suffered losses from the coronavirus pandemic

Providing benefits for a certain period for micro-entrepreneurship entities under a simplified tax.

Exemption for a certain period of taxpayers from property and land tax.
Exemption in the appropriate amount and for a certain period of taxpayers from paying income tax (income tax).
For the public catering sector: reduction of the simplified tax rate, tax exemption for income tax payers (income tax).
Exemption for a certain period from VAT for certain categories of taxpayers.
Exemption from making current tax payments in areas of activity that will be granted benefits.
Extension of the deadline for paying income tax (income tax) based on the results of 2019.
Extension of deadlines for payment of taxes and deadlines for filing tax returns.
Exemption for a certain period from VAT for goods necessary to meet the food and medical needs of the population (exemption from VAT on imports and sales of certain goods).
For the purpose of flexible regulation and provision of food, medical and other important needs of the population, exemption of raw materials and materials used for the production of goods for the specified purpose from VAT.
Tax exemption for donations of individuals and legal entities to the Fund to Support the Fight against Coronavirus (in terms of income tax and income tax).
Applying VAT at zero (0) rate to gratuitous services provided in order to prevent a pandemic.

Source: <https://www.taxes.gov.az/ru/post/1013>.

In the post-pandemic period, the rise in prices allows Azerbaijan to ensure the sustainability of exports and further increase its extensive financial resources. It should be noted that the Southern Gas Corridor will be launched in 2020. The launch of this project, which will transport Azerbaijani gas to Europe, will make Azerbaijan one of Europe's main gas suppliers. It is in Azerbaijan's interest to have high gas prices in order for this project to be profitable and to be able to recoup the financial

costs that Azerbaijan has spent on its implementation. Therefore, the current changes in world gas prices serve the interests of Azerbaijan. The growing capacity to fight the pandemic and the fact that the pandemic is unlikely to cause as many economic problems as before also suggest that gas demand will remain high in the coming years and that Azerbaijan will be able to profit from gas sales. It should be noted that in recent years, Azerbaijan has taken substantial measures to develop the non-oil sector and achieved significant results in a short time. The main purpose of these measures is to reduce the economy's dependence on oil revenues. However, financial resources are needed to implement measures in this direction and to develop various sectors of the non-oil sector (<https://aircenter.az/>).

Therefore, revenues from the oil and gas sector have in recent years served as a source of funding that will enable the development of the non-oil sector. Therefore, high oil and gas prices will allow this process to continue, and in the near future the non-oil sector will be able to develop completely independently of the oil sector. From this point of view, we can say that one of the main directions of Azerbaijan's economic policy in the post-pandemic period will be to create an environment that will ensure the rapid development of other sectors at the expense of oil revenues. Along with the ongoing processes in the oil and gas sector, it should be noted that high inflation observed in the world during the post-pandemic period also affects the Azerbaijani economy. The significant share of imported products in the structure of consumer goods in Azerbaijan leads to an increase in inflationary imports. This has an increasing effect on prices in the local market. As a result, the purchasing power of the population is declining and the government is forced to increase social spending. In order to overcome the difficulties caused by inflation, an order has already been issued to increase wages from 2022 in many areas. In this sense, high gas and oil prices in the post-pandemic period allow to meet the additional socio-economic costs caused by high inflation. On the other hand, rising inflation imports increase the competitiveness of local producers. Therefore, it is possible to take advantage of the opportunities created by the negative inflation trend formed by the

pandemic. It would also be useful for the state to provide support to local producers in this direction (<https://aircenter.az/>).

To reduce the impact of the coronavirus epidemic on the activities of financial institutions, a temporary tax system was introduced last year. Many entrepreneurs were worried that the tax exemption imposed on private businesses in 2020 would continue in 2021. Therefore, those who pay VAT and work in the field of hospitality service after this period, if they continue their activities even after registering for VAT, it is necessary to provide information to the tax authority in the prescribed form for the goods available. The State Tax Service has continued the activity of VAT registration after January 1, 2021, for goods purchased by persons operating in the hotel area, for the simplified taxpayers to approve the information form, which these taxpayers must submit. This form is posted on the tax service's official website. The purpose of providing the information is to ensure that VAT is not re-taxed when submitting non-refundable items, meaning that the tax is not doubled for the same product.

Subsequent submissions of goods specified in the information provided will be deleted as part of the hotel services, which will not be considered turnover as part of VAT (<https://report.az/ru/analitika/bylo-stalo-cto-v-2021-godu-izmenilos-v-sistem-nalogooblozheniya-azerbajdzhana/>).

Meanwhile, for the construction and trade sector, from January 1, 2021 to January 1, 2026, the rate of deduction for compulsory social insurance will be 50% of the minimum wage, 25% - in other sectors (taking into account the coefficient of 50% to 100%). Varies by region). The following deductions for compulsory social insurance are provided for persons engaging in individual enterprises without engaging employees until January 1, 2026:

For organizers, musicians and dancers at weddings and other entertainment events and for those who provide personal photographic, audio and video services - 5% of the minimum wage;

Shoe makers, watch makers, tailors, people involved in repairing televisions, refrigerators and other home appliances, providing home services - 3% of the minimum wage (taking into account the differentiated coefficients by region) (<https://report.az/ru/analysis/bylo-stalo-cto-v-2021-godu-izmenilos-v-sistem-nalogooblozheniya-azerbajdzhana/>).

In addition, if a person has up to 5 hectares of land, if he has 5 plots of land, social security allowance will be given at the rate of 2 percent of the minimum wage of each family member (5 minutes). Up to 10 hectares - 6% (15 minutes per person), more than 10 hectares - 10% (25 minutes per person). In addition, from 20% of the minimum wage to 10% of the minimum wage, the amount of mandatory social security deductions for members of the Advocacy Chamber, auditors and accountants has been reduced. In addition, tax exemptions are provided for the entire group of food and non-food products, as well as an increase in tariffs on excise goods. Initially, import and sale of wheat, production and sale of flour and wheat bread were tax-exempt till January 1, 2021. Restrictions have now been added for next year (<https://report.az/ru/analytics/bylo-stalo-cto-v-2021-godu-ismenilos-v-system-nalogooblozheniya-azerbajdzhana/>).

Until March 1, 2022, the tax exemption for the production and sale of bran has been extended. This decision expired on March 1, 2021. This decision shows the importance of this industry for the development of animal husbandry and poultry. Also, by the end of 2021, along with the presentation of banking assets, the provision of non-performing (toxic) assets by banks that have lost solvency, as part of the settlement and restoration measures in the manner determined by the relevant executive officer. As part of the bankruptcy proceedings, VAT is waived. Also, until January 1, 2022, the VAT exemption has been extended for the provision of performance of services and services on the basis of an agreement with the executive authority, the body (structure) established by the legal entities of public law. Created on behalf of the state. According to the revision of the tax code, the country imports vaccines against the Covid-19 corona virus epidemic and syringes for it, as well as

goods and materials for the reconstruction of an oil refinery with a capacity of at least 3 million tons annually. , Tax-exempt. They have also been exempted from paying customs duty for a period of 2 years from January 1, 2021. To make effective use of the gold reserves in the black market, the government has exempted VAT on imports of machinery, equipment and tools for production and processing of gold and silver jewelry for three years from January 1, 2021. The amendment also provides for complete exemption from value added tax on the sale of gold and silver in the form of rods, coins and grains. Azerbaijani authorities do not include imports of platinum, gold and diamonds processed, sorted, framed and fixed by excise duty in the country until the end of 2023. Earlier, Azerbaijan imported 20 grams of gold, jewelry and other household items made from it. 0.5 carat refined, sorted, framed and fixed diamonds for personal consumption are exempted from excise duty (nalogooblozheniya-azerbajdzhana /).

In contrast, all types of tobacco products except hookah and industrial tobacco are proposed to be included in the list of excise dutyable items. Thus, excise duty will now be levied on similar tobacco, chewing gum and inhalers (produced in Azerbaijan), as well as on tobacco and tobacco products used for heating. According to the revision of the tax code, excise duty on all types of tobacco except hookah and industrial tobacco including homogeneous, chewing and sucking tobacco has been fixed at 30 minutes per kilogram. The excise duty on heated tobacco and tobacco products is fixed at 12.9 minutes per 1000 pieces. The changes envisage an increase in excise tariffs on cigarettes produced in Azerbaijan - from 31 manats per 1,000 pieces to 43 manats (an increase of 38.7%), tobacco cigarettes and their substitutes - from 31 manats per thousand to 35 manats. (12.9% increase), e-cigarette juice - 20 minutes to 100 minutes per liter (increase 5 times) (<https://report.az/ru/analitika/bylo-stalo-cto-v-2021-godu>) - izmenilos-v-system-nalogooblozheniya-azerbajdzhana /).

Also, as Imanov points out, it is planned that tax law is in line with international experience and improve accounting policies. While updating the tax code, he explained with a number of factors, in particular, the need to make the document "more competitive and understandable". In addition, according to Imanov, the country needs to attract investment, increase the stability of the tax code and ensure integration into international tax relations (<https://report.az/ru/analitika/bylo-stalo-cto-v-2021-godu-izmenilos-v-sisteme-nalogooblozheniya-azerbajdzhana/>).

CONCLUSIONS AND RECOMMENDATIONS

The main means of regulating the tax system is tax policy. In addition to purely financial functions, the tax system acts as a mechanism to accelerate economic impact on social production, its structure and dynamics, as well as scientific and technological progress. When building a tax system, national characteristics are paramount, not foreign experience. It is necessary to take into account the nature of capital market development, number of investors and debtors, types of legal system, participation in international capital market, size and organizational structure of enterprises, level of inflation, education. . In addition to the level of pure economic differences, the political, social, geographical, historical and other characteristics of the country should be taken into consideration while formulating tax policy.

The strategic goal of the tax policy in Azerbaijan is to create a tax system that will adequately meet the needs of the fund to fulfill the main functions of the state, as well as encourage the development of productive sectors of the economy, small businesses and agriculture. Area. As the market is one of the key elements of the economy, the tax system is also the main tool for setting priorities for social and economic development. Therefore, Azerbaijan's tax system needs to adapt to new economic relations and world experience. In the tax system of Azerbaijan, the rights and responsibilities of the respective levels of government (state and local) in tax matters are more clearly defined. The introduction of local taxes, in addition to the list of existing state taxes provided by law, made it possible to take the needs of local budgets and the various types of local revenues more fully.

Despite a series of measures taken by the Azerbaijani government during the epidemic, it has not stopped the economic downturn. One of the main reasons for this is the sharp fall in oil prices. Against this background, Azerbaijan, unlike some of the world's leading countries, has been able to fulfill its obligations in a unique way. Unfortunately, there is no universal way out of the epidemic. In such a situation, efforts can be made to implement various low-risk socio-economic and financial policies.

Although the Corona Epidemic (COVID-19) has brought fluctuations in the country's revenue and expenditure, it has been recommended to reduce the imbalance between the projection and implementation of the state budget keeping in view the implementation of the measures planned by the government.

1. Development and use of mechanisms for re-application of fiscal rules;
2. Calculation of main and additional efficiency indicators for the activities of state-owned legal entities, preparation of forecast (target) indicators and annual reports on Performance Efficiency Coefficients;
3. Revision of additional reports to reflect analytical indicators of receivables on budget expenditures in the budget execution reports or in order to reflect additional indicators to existing reports;
4. Strengthening current control over receivables and their continuous analysis, proper management of work with counterparties by institutions;
5. Expanding measures to reduce the share of oil in budget revenues and closely apply the principles of fiscal diversification;
6. Targeting tax breaks and strikes, reducing variance and simplifying the mechanism.

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