



THE LAW OF AZERBAIJAN REPUBLIC ON BUDGET SYSTEM

Including the addendums and amendments according to the laws of the Republic of Azerbaijan № 452-IIQD dated May 13, 2003, № 791-IIQD December 3, 2004, № 876-IIQD April 5, 2005, № 36-IIIQD December 23, 2005 and № 488-IIIQD November 30, 2007

CHAPTER I

General Provisions

This Law defines the main principles of budget formation and inter-budgetary relations, budget constitution, approval, execution and supervision of their formation, application of legal and economic bases, establishment and operation of extra-budgetary funds and rules of their utilization.

Article 1. Main Definitions

1.1. For the purposes of this Law the following definitions will be used:

1.1.1. budget – a main financial document for accumulation and utilization of cash funds to fulfill the functions of the state and municipalities through the relevant authorities and self-government bodies;

1.1.2. budget classification – a grouping of revenues, expenditures and financial sources of State Budget, the budget of Nakhchivan Autonomous Republic, local budget and state extra-budgetary funds based on the functional, economic, organizational and other principles;

1.1.3. budget year – a period from January 1 to December 31;

1.1.4. approved budget provisions – a maximum level of expenditure estimates of State Budget, the budget of the Nakhchivan Autonomous Republic and local budgets;

1.1.5. extra-budgetary state funds – Following the legislation of Azerbaijan Republic, the extra-budgetary state funds are the purposeful state financial funds those have status of juridical entity and an independent budget outside of State Budget

1.1.6. extra-budgetary operations – revenues outside of the State Budget and budget on Nakhchivan Autonomous Republic, expenditures and other financial operations conducted by the relevant bodies of executive authority and budget organizations;

1.1.7 consolidated budget –financial document reflecting revenues and expenditures of the State Budget, the budget of the Nakhchivan Autonomous Republic (including off-budget operations), and extra-budgetary state funds on the paragraph level according to the functional and economic classification;

1.1.8. deficit of budget – an amount of budget expenditures exceeding budget revenues;

1.1.9. surplus of budget – an amount of budget revenues exceeding budget expenditures;

1.1.10. cash execution of budgets – an execution mechanism of securing the budget earnings and their targeted utilization through the treasury, in accordance with the budget classification;

1.1.11. budget revenues – taxes, non-tax revenues, other payments and earnings to the State Budget, to the budget of the Nakhchivan Autonomous Republic and to the local budgets in accordance with the relevant laws and regulations of Azerbaijan Republic, the Nakhchivan Autonomous Republic and self-government authorities;

1.1.12. budget expenditures – allocations from the State Budgets, the budget of the Nakhchivan Autonomous Republic and local budgets in accordance with the budget classification, to meet the demand stipulated in the legislation;

1.1.12-1. centralized revenue – revenues formed from the State Budget revenues in accordance with the normative defined in the State Budget less local revenues;

1.1.12-2. centralized expenditures – expenditures concerned with financing of the activity and actions of the corresponding organs provided in the State Budget in accordance with the budget classification;

1.1.12-3. local revenues – revenues by cities and rayons formatted based on the normative defined in the State Budget;

1.1.112-4.local expenditures – expenditures which execution is financed from the local revenues and the funds appropriated from the centralizes expenditures in accordance with the Budget Classification;

1.1.13. budget loans – allocations provided from the State Budget to the budget of the Nakhchivan Autonomous Republic, local budgets and organizations and from the local budgets to the municipality organizations for a certain period of time and subject to repayment;

1.1.14. donation – gratis financial resources provided from the State Budget to the budget of the Nakhchivan Autonomous Republic and local budgets in order to balance their revenues and expenditures;

1.1.15. grants – donated special purpose financial resources from domestic and external sources;

1.1.16. subvention – resources provided from the State Budget to the budgets of the Nakhchivan Autonomous Republic and local budgets for financing special purpose events, which are to be retrieved if not spent for these purposes or within determined period of time;

1.1.17. subsidies - gratis resources provided from the State Budget to the budget of the Nakhchivan Autonomous Republic, local budgets and legal entities;

1.1.18. special purpose budget funds – in-cash resources formed and to be utilized for conducting specific events from the State Budget, the budget of the Nakhchivan Autonomous Republic and local budgets;

1.1.19. cut-off – reduction of the State Budget, the budget of the Nakhchivan Autonomous Republic and local budgets in case of non-execution of revenues except for secured items according to the identification of other expenditures for the rest of the budget year;

1.1.20. secured expenditures – the budget expenditures that are not subject for the reduction and in accordance with the legislation are subject for financing;

1.1.21. state debt – total outstanding financial liabilities under contracts that are signed between relevant executive authorities on behalf of the Azerbaijan Republic and foreign and domestic legal entities and individuals (non-residents), as well as international public and financial institutions;

1.1.22. consolidated financial statement – a financial document, which covers

certain period of time and reflects information about domestic sources of generation of funds and purposes they are used for;

1.1.23. budget organization—agencies and organizations which financing is executed directly from the State Budget of the Azerbaijan Republic and the budget of the Nakhchivan Autonomous Republic;

1.1.24. organizations participating in the budget formulation process – central and local executive power organs and their structural departments, organs providing execution of the budget revenues, organizations financed and (and or) subsidized from the State Budget, extra-budgetary state funds, and taxpayers, in case of necessity municipalities.

Article 2. The Legislation of the Azerbaijan Republic on Budget System

2.1. The Legislation of the Azerbaijan Republic on the budget system consists of the Constitution of Azerbaijan Republic, this Law, the law on the State Budget to be passed for every budget year according to this Law, other laws and normative legal acts and international agreements that the Azerbaijan Republic is counterpart to.

2.2. Provisions that are related to financial guarantee by the State Budget shall not be included to other laws of the Azerbaijan Republic excluding this Law, international agreements that the Azerbaijan Republic is counterpart to, laws on annual State Budget, on its execution and amendments to it and on state debt.

Article 3. Budget system

3.1. The budget system in Azerbaijan Republic consists of the State Budget of Azerbaijan Republic (hereinafter referred as the State Budget), the budget of the Nakhchivan Autonomous Republic and local budgets.

3.2. The budget system shall be constituted based on the principles of unity and independence of the budgets included in this budget system.

3.3. In accordance with the legislation the unity of the budget system is based on the inter-budgetary relations of different levels through the utilization of adjustable sources of revenues, creation of special purpose and regional budget funds and distribution of financial resources among the budgets of different levels. The unity of the budget system is provided through the use of the same budget classification, budget documentation and forms, preparation and submission of reports on budget execution and consolidated budget statements according to the rules stipulated in the legislation.

3.4. In accordance with the existing legislation the independence of the budget is

ensured through the right to identify within the budget classification the sources of revenues and purposes of allocating expenditures.

Article 4. Budget Classification

4.1. A common budget classification is applied to ensure the reconciliation of the financial operations of the budgets and budget organizations as well as extra-budgetary state funds (including extra-budgetary operations of budget organizations) that are included in the budget system of Azerbaijan Republic.

4.2. Budget classification contains the budget revenues classification, the expenditures classification based on functional, economic, organizational and other principles. The content of budget classification related to revenues, functional, economic, and organizational principles is identified by the legislation.

Article 5. Special Purpose Budget Funds

5.1. Special purpose budget funds can be created as a constituent part of the State Budget, the budget of the Nakhchivan Autonomous Republic and the local budgets. Special purpose budget funds may have independent sources of revenues.

5.2. Earnings and expenditures with regard to the special purpose budget funds are carried out by being separately shown in the revenue and expenditure parts of the budget and through the treasury.

5.3. Resources of the special purpose budget funds shall not be spent for other purposes except for stipulated ones.

5.4. Balance remaining at the accounts of the special purpose budget funds at the end of the year shall be included into the budget revenues of the next year.

5.5. If the special purpose budget funds are formed with allocations from relevant budgets without having independent revenue sources, these funds shall be reflected in the expenditure part of those budgets. Any unused amount remaining at accounts of those funds as of the year-end shall be returned to the source of financing.

Article 6. Reserve Funds

6.1. A Reserve Fund with an identified amount of resources shall be established for the expenditures not foreseen in the state budget, budget of Nakhichevan Autonomous Republic and local budgets, for prevention and response to natural disasters and other emergencies, as well as for conducting activities of state and local importance.

6.2. The amount of provisions in the reserve fund shall be determined by taking into account the previous years' statistics on actual spending on emergency situations and other activities provided in the article 6.1, but it shall not exceed 5% of next budget year's revenues.

6.3. The term of utilization of the provisions in the reserve fund expires at the end of the budget year.

6.4. The rules of utilization of the provisions in the reserve fund shall be regulated by the regulations approved by the relevant bodies of executive authorities and municipalities.

6.5. For activities, which are important for socioeconomic life of the country, but are not allocated any funds for financing, a Reserve Fund of the President of the Azerbaijan Republic in the amount not exceeding 2% of budgetary expenditures shall be established within the state budget.

6.6. Resources of the Reserve Fund of the President of the Azerbaijan Republic shall be used only to finance the expenditures determined by the orders of the respective executive authority.

6.7. Resources of the Reserve Fund of the President of the Azerbaijan Republic may not be used for the holding of elections and a referendum in the country, as well as to advocate activity of the President of the Azerbaijan Republic.

Article 7. Secured Expenditures

7.1. Expenditures on the economic classification items, which are shown below, shall be considered as secured expenditures and shall not be subject to cut-offs regardless of the situation with budget receipts.

7.1.1. Salaries;

7.2.2. Salary supplements;

7.1.3. Pensions, other social allowances and payments;

7.1.4. Expenditures for servicing the internal and external debts of the state

7.1.5. Expenditures on other items that require securing, in accordance with annual budget law.

CHAPTER II

STATE BUDGET

Article 8. Objective of the State Budget

The objective of the State Budget of the Azerbaijan Republic is to ensure collection and utilization of financial resources in a manner determined by the legislation, in order for the State to implement its functions and to address economic, social and other strategic programs and problems of the country. The State Budget of the Azerbaijan Republic consists of the centralized revenues and expenditures local revenues and expenditures

Article 9. State Budget Revenues

9.1. The State Budget revenues consist of the following:

- 9.1.1.** state taxes;
- 9.1.2.** grants;
- 9.1.3.** other revenues;

9.2. Actual collection of the revenues shall be carried out in accordance with the Tax Code of Azerbaijan Republic and other legislation and regulations. These revenues shall not be limited by the expected levels of the revenues in the budget.

9.3. Retrieval from the State Budget of the overpaid taxes, duties, other payments and revenues to the State Budget, shall be considered as reduction of budget revenues.

Article 10. Budget Expenditures

10.1. The State Budget expenditures are as follows:

- 10.1.1.** Current expenditures including salaries, supplements to the salaries, pension and other social allowances and payments, purchase of goods and other services, the interest rate payments, grants, subsidies and current transfers;
- 10.1.2.** Capital expenditures including purchase of fixed assets, capital investments and purchase of shares;
- 10.1.3.** Loan debts and interest servicing, as well as share contributions.

10.2. The budget expenditures in accordance with the budget classification on the level of the approved budget allocations shall be spent to finance the current, investments, innovations and other expenditures;

10.3. The expenditures approved by the legislation relevant to annual State

Budget for a known reason show the highest level of the expenditures. Actual expenditures in the course of the year shall not exceed this amount;

10.4. The term of execution of the approved allocations with regard to annual State Budget shall expire in the end of the budget year.

Article 11. Process of compilation of the state draft budget and the budget calendar

11.1. Process of compilation of the state draft budget starts when 11 month are left before the next budget year starts and covers the period up to the time when the draft budget goes to the Milli Mejlis of Azerbaijan Republic;

11.2. The draft State Budget for the next budget year without dependence on the macroeconomic forecasts of the economic and social development of the country, special purpose programs, sectors of economy, administrative districts, form of ownership shall be prepared on the bases of the evaluation results of the financial-economic activities of all enterprises for the current and next year;

11.3. The process of the compilation of the draft State Budget starts within the third decade of January according to the published resolution of the relevant executive authority. In accordance with this resolution the relevant executive authority shall specify the state medium-term economic and social development program by the end of February;

11.4. According to the specified medium-term economic and social development program the relevant executive authority shall compile the initial medium-term budget forecast for the next year (revenues, expenditures, deficit and financing) and the investment program in March of the current year;

11.5. The initial drafts of the State Budget and investment program along with the main directions of fiscal policy, indication of the highest levels of revenues and expenditures according to budget classification items, the state debts, priority expenditures, the summarized budget forecast for the next fiscal year and following three years, are submitted to the relevant body of executive authorities for their consideration before April 15 of the current year;

11.6. The relevant body of executive authorities shall prepare instruction on compilation the draft next year State Budget and the following three years consolidated budget indicators and send it to organizations involved in budget compilation. This instruction along with relevant documentation contains information on the highest levels of enterprises and sectors expenditures, approved norms of the current expenditures, forms, supporting documents, detailed budget proposal, supporting documentation and information for the revenues and expenditures analysis (evaluation);

11.7. The enterprises extra-budgetary funds are taken into account in the course of their expenditures determination;

11.8. The draft budget prepared in accordance with the instruction by the body involved in execution of budget revenues and organizations financed from the State Budget of the Azerbaijan Republic shall be submitted to the relevant body of executive authorities before July 1 of the current year;

11.9. Based on the Article 11.8 of this Law, the submitted draft budget shall contain the following:

11.9.1. According to the functional and economic classification the amount of actual budget expenditures of the previous year and expected for the end of the current year, the amount of actual revenues of the previous year and the expected for the end of the current year according to the taxpayers groups in the Nakhchivan Autonomous Republic and the cities and rayons as well as those defined by the corresponding executive power organs, the actual amount of the estimated budget revenues for the previous year and expected in the current year, the balance of the budget revenues actual of the previous year and expected for the end of the current year;

11.9.2. The amount of the extra-budgetary revenues and expenditures in the course of last year, the balance of revenues and expenditures at the end of last year, the amount of the extra-budgetary revenues and expenditures for the current year and next budget year with breakdown by functional and economic paragraphs, Nakhchivan Autonomous Republic, towns and districts of the country;

11.9.3. The proposed amount of revenues and expenditures, payments and taxes to be paid and indicators for fiscal policy measures evaluation with breakdown by functional and economic paragraphs, Nakhchivan Autonomous Republic, towns and districts of the country and by tax-payers groups defined by the relevant body of executive authorities;

11.9.4. Evaluation of the following three years revenues and expenditures with breakdown by functional and economic paragraphs, Nakhchivan Autonomous Republic, towns and districts of the country and by tax-payers groups defined by the relevant body of executive authorities;

11.9.5. The amount of expenditures on investment programs for the next year and for the following three years with indication of the financing source and breakdown by functional and economic paragraphs;

11.10. The relevant body of executive authorities shall specify the next year and mid-term macroeconomic indicators as well as the social, economic and

investment programs taking into account the actual results of six months activities before August 1;

11.11. The relevant body of executive authorities shall recalculate the revenues and expenditures of the draft State Budget based on revised macroeconomic indicators' forecast and prepared programs;

11.12. Based on the revised indicators of the draft State Budget the relevant executive authority shall conduct in July-August mutual discussions with the bodies involved in providing the execution of the State Budget revenues and budget organizations, as well as executive authorities of Nakhchivan Autonomous Republic and, if necessary, with municipalities and regardless the form of ownership with legal entities on the received draft budgets. These discussions results are documented.

11.13. The relevant executive authority may require the confirming materials and calculations necessary for the State Budget compilation from the central and local bodies of executive authority, their structural units, State Budget, budget organizations, and, regardless their ownership and organizational-legislative form, from other legal bodies, municipalities and extra-budgetary funds;

11.14. The municipalities that require the financial support from the State Budget not later than May 1 of the current year shall submit to the relevant executive authority the following documents and information:

11.14.1. information on the expected results for the current year budget and actual results of the budget for the last year;

11.14.2. justification of the amounts of the subsidies to be allocated from the State Budget and other financial support, the expected local budgets revenues and expenditures for the next budget year;

11.14.3. the audit check results of the last year local budget execution;

11.14.4. other materials upon the request of the relevant executive authority.

11.15. The draft State Budget and the consolidated budget for the next budget year along with indicators for the following three years consolidated budget shall be submitted to the relevant executive authority not later than September 15 of the current year;

11.16. The draft State Budget and the consolidated budget for the next budget year along with indicators for the following three years' consolidated budget and other documents indicated in this Law shall be submitted to the relevant executive authority not later than September 25;

11.17. If organizations participating in the formulation process of the drafts of the State Budget and the consolidated budget for the next and the consolidated budget

for the following three years do not timely submit to the corresponding executive power documents defined in the legislation which will become a reason for breach of the budget formulation process, so officials of those organizations are respond in the manner envisaged in the legislation.

Article 12. Documents to be prepared and submitted together with the draft State Budget

12.1. The relevant executive authority shall prepare and submit to the Milli Mejlis of Azerbaijan Republic the following documents with regard to the State Budget for the next budget year:

- 12.1.1.** draft law on the State Budget for the next budget year and the explanation note on the draft law;
- 12.1.2.** conceptual and forecast indicators of the economic and social development of Azerbaijan Republic for the next budget year and the following three years;
- 12.1.3.** main directions of the fiscal policy;
- 12.1.4.** special purpose programs to be financed by the State Budget;
- 12.1.5.** draft budget revenue classification, draft revenues and expenditure with breakdown by functional, economic and organizational items;
- 12.1.6.** information on the state debts, state guaranteed and other liabilities;
- 12.1.7.** Draft consolidated budget of next year at paragraph level by functional and economic classification;
- 12.1.8.** according to drafts of the next year State Budget and consolidated budget, as well as the following three years consolidated budget draft state investment programs draft which reflect the important investment projects;
- 12.1.9.** consolidated financial balance sheet for the whole territory of Azerbaijan Republic;
- 12.1.10.** draft laws on budgets of extra-budgetary state funds for the next budget year if they are to be approved by the Azerbaijan Republic Milli Mejlis prepared in accordance with the legislation;
- 12.1.11.** compare of the next budget year revenues and expenditures with the actual results of the previous year and expected results of the current year (according to the revenues classification, at the paragraph level of functional, economic and organizational classification of the expenditures);
- 12.1.12.** information on the expected execution of the consolidated budget for the current year;
- 12.1.13.** summary statement with regard to the extra-budgetary operations;
- 12.1.14.** statement on the actual financial sources for the last budget year and expected sources for the current year;
- 12.1.15.** other documents that the relevant executive authority considers expedient.

Article 13. Submission of the documents to the Milli Mejlis of Azerbaijan

Republic with regard to the State Budget for the next budget year The draft law on the State Budget for the next budget year together with the other documents defined by this law shall be submitted to the Milli Mejlis of Azerbaijan Republic for discussions and approval according to paragraph 2 of article 109 of the Constitution of Azerbaijan Republic not later than October 15 of the current year.

Article 14. Issue of the draft law on the State Budget

The draft budget for the next year along with other documents indicated in Articles 12.1.1 – 12.1.10 of this Law is published in media in the course of ten days after their submission to Azerbaijan Republic Milli Mejlis.

Article 15. Discussion and approval of the State Budget for the next budget year

15.1. Discussion and approval of the State Budget for the next budget year shall be conducted in accordance with the internal regulations of the Milli Mejlis of Azerbaijan Republic;

15.2. By the instruction of the relevant executive authority its authorized representative shall make a speech in the meeting of the Milli Mejlis of Azerbaijan Republic dedicated to the next budget year of the State Budget;

15.3. The draft law on the State Budget for the next budget year shall be approved in the Milli Mejlis of Azerbaijan Republic not later than December 20 of the current year;

15.4. If the draft budget for the next year will not be adopted within the prescribed time, the corresponding state executive body will determine the temporary regulations for the monthly financing of the state expenditures based on monthly allocation of 1/12 of last year's budget (for protected expenditures is full). The same regulation should be applied to administrative and operational expenditures of the extra-budgetary funds.

15.5. Taking into account amendments and additions to the current year the state budget according to the legislative initiative and the 2-paragraph of Article 109 of the AR Constitution, the issue to the Milli Majlis of the Republic of Azerbaijan can be lifted

This created a need to consider changes and additions to the state budget, if this law in 23.2, 23.3 and 23.4 apply to the provisions of items.

Article 16. The main indicators approved by the law on State Budget of the next year

16.1. The law on the State Budget for the next budget year shall approve the following indicators:

- 16.1.1.** total amount of revenues and expenditures;
- 16.1.2.** tax rates;
- 16.1.3.** amount of revenues by the sources of profit;
- 16.1.4.** grants and transfers by the sources;
- 16.1.5.** norms of distribution and allocation various of revenues among the budgets;
- 16.1.6.** amount of expenditures by the functional and economic breakdown on the paragraph level;
- 16.1.7.** amount of the grants, donations, subsidies and subventions delivered to the budget of the Nakhchivan Autonomous Republic and local budgets;
- 16.1.8.** total amount and directions of budget loans;
- 16.1.9.** interest rates and principals' payments on the internal and foreign state debts;
- 16.1.10.** the highest level of the state liabilities to the third party;
- 16.1.11.** amount of other international liabilities;
- 16.1.12.** amount of the Reserve Funds;
- 16.1.13.** upper ceiling for the domestic and external debts of the Azerbaijan Republic (Government's borrowing capacity for current year, including amount funds attracted by state bonds) and state financial guarantees for the budget year;
- 16.1.14.** continuity of the expenditures financing;
- 16.1.15.** list of secured expenditure items of the State Budget;
- 16.1.16.** highest level of the State Budget deficit;
- 16.1.17.** upper ceiling amount of the consolidated budget deficit excluding revenues of the State Oil Fund of the Azerbaijan Republic;
- 16.1.18.** upper limit amount of the consolidated budget expenditures;
- 16.1.19.** other indicators that are considered to be approved.

16.2. The amount of funds allocated for budget organizations and their activity shall be approved by the relative executive body according to the organizational classification within expenditures framework approved by the law.

16.3. The State Budget for the next year after approval and signing in the order stipulated in the legislation shall be published in press.

Article 17. Transfer of the approved indicators of the State Budget to the budget organizations for the next budget year

17.1. The relevant executive authority shall define the quarterly, if necessary,

monthly distribution of the revenues and expenditures according to the budget classification based on the approved indicators of the State Budget for the next budget year;

17.2. The relevant executive authority shall send to the budget organizations the approved indicators of the State Budget, distribution of the revenues and expenditures within one month;

17.3. The officials of the relevant bodies of executive authority carry responsibilities according to the legislation of Azerbaijan Republic for transferring allocations within due time to the budget organizations envisaged in the supervision over the distribution of the State Budget expenditures to organizations;

Article 18. Execution of the State Budget

18.1. The State Budget is executed through treasury by the relevant bodies of executive authority and the institutions under their subordination.

18.2. The officials of budget-financed institutions are responsible for implementation of financial operations and complying with the relevant expenditure norms and financial rules.

18.3. In accordance with the format defined by the relevant body of executive authorities the bodies that ensure execution State Budget revenues shall submit monthly, quarterly and cumulative annual reports with the revenues classification breakdown.

18.3-1. Budget organizations and organizations assisted from the State Budget submit monthly, quarterly and progressive total reports on usage of those funds in defined forms to the corresponding executive power organ according to the functional, economic, and organizational classification.

18.4. If needed, the relevant executive authority may, within approved budget allocation limits, make certain changes between the expenditure items and the economic classification subparagraphs at the level of functional classification paragraphs.

Article 19. The in-cash execution of the State Budget

19.1. The in-cash execution of the State Budget shall be done through the state treasury. To ensure the transparency in the area of the state finances usage the state treasury shall keep the records of all budget-financed enterprises and

organizations' operations in accordance with the relevant norms of record-keeping.

19.2. All State Budget receipts and payments, extra-budgetary settlements (payments), extra-budgetary state funds, (excluding revenues, operational expenditures, costs for placement of funds of the State Oil Fund of the Azerbaijan Republic at international banks and other financial institutions), transactions with loans borrowed under the state guarantees in order to cover budget deficit, and other state financial transactions are to be executed by the state treasury in accordance with the regulations determined by the legislation.

19.3. The state treasury shall assume in advance the state (budget) liabilities for goods, works and services purchased by the budget organizations and within the framework of these liabilities the state treasury pays for the creditor debt originated as a result of these purchases;

19.4. Budget operations on liabilities adopted in the course of the State Budget execution process shall not be conducted after the end of the budget year. These liabilities can be paid at the expense of the next budget year allocations;

19.5. At the end of the year all the balances of the treasury accounts can be directed for the financing of the State Budget deficit to the single treasury account (except for the special purpose financing) and these funds shall be used to finance the expenditures of the next year.

19.6. The funds for motivation and development of the tax bodies shown in the article 22.2 of the Azerbaijan Republic Tax Code shall be executed at the expense of the reduction of the tax revenues of the same year;

19.7. Treasury cash funds are kept at the treasury single account in authorized banks identified by the relevant body of executive authorities;

19.8. The state treasury is the only body to make decision on the treasury single account funds' operations and writing off. Without prior consent of the treasury no amounts can be transferred or withdrawn from this account;

19.9. All budget and extra-budgetary revenues received by budget organizations are to be timely transferred in full volume to the treasury single account;

19.10. The relevant executive authority shall prepare the draft report on the execution of the State Budget and the consolidated report.

19.11. Purchase of goods (works and services) by budget organizations shall be regulated by relevant laws of Azerbaijan Republic.

19.12. Organizations financed from the State Budget and the budget of Nakhchivan Autonomous Republic can not open the bank account or use it without special written permission of the state treasury. State treasury is authorized to revoke any previously given permission

Article 20. State Budget execution report

20.1. Monthly report on execution of the State Budget shall be prepared by 25th of the month coming after reporting period and be submitted to the relevant executive authority. The report shall contain the up-going results as of the beginning of the year based on the functional and economic breakdown of the State Budget.

20.2. State Budget execution quarterly report not later than end of the first month of the next quarter shall be submitted to the Milli Mejlis of Azerbaijan Republic and to relevant executive authorities. Report shall be published in press. Together with other indicators a quarterly report contains macroeconomic, budget and tax systems reports of indicators, revenues and expenditures compared to forecasts, explanations of differences and information on execution of state significance projects;

20.3. State Budget execution annual report and relevant draft law not later than May 15 of the next year shall be submitted to the Milli Mejlis of Azerbaijan Republic by the relevant executive authority for approval. Report contains with other information all state debts, annual debts and sovereign guarantees and information on usage of reserve fund during the year.

20.4. State Budget execution report shall be prepared based on reports presented by the budget revenue generating bodies and the treasury under classification of monthly, quarterly and annual cumulative revenues, in a format established by relevant executive authority.

20.5. The Chamber of Accounts of the Azerbaijan Republic shall render its opinion regarding the State Budget execution reports and relevant draft laws, in accordance with its Charter.

20.6. The Milli Mejlis shall discuss the submitted documents and adopt the law on execution of the State Budget for relevant reporting year.

20.7. Quarterly and annual reports on execution of consolidated budgets (including information about budget revenues, expenditures, amount of state debt, loans, etc.) shall be published in press.

Article 21. Supervision over State Budget execution

21.1. The Milli Mejlis of Azerbaijan Republic and the Chamber of Accounts supervise the execution of the State Budget.

21.2. Relevant executive authority conducts a control within its competence of State Budget execution.

21.3. Heads of budget organizations shall be responsible, in accordance with the legislation, for maintaining records of all revenues and expenditures of their organizations in a determined manner, as well as for purposeful use of funds.

21.4. In case of violation of the financial discipline in the financial and economic activity of the enterprises and organizations financed from the State Budget the corresponding executive organ shall take measures defined in the legislation.

Article 22. Audit of the State Budget and the consolidated budget

In accordance with the legislation the Chamber of Accounts of Azerbaijan Republic is responsible for carrying out an audit of the revenues and expenditures of State Budget and consolidated budget, as well as the audit of the extra-budgetary funds.

Article 23. Revision of the State Budget and expenditure cut-offs

23.1. Balancing revenues and expenditures in the State Budget is the main condition of its constitution and execution.

23.2. If there is danger of disruption of a balance between revenues and expenditures in the process of State Budget execution, an issue may be raised in Milli Mejlis about revision of the State Budget, based on proposal by relevant executive authority. In such case, an opinion of the Chamber of Accounts regarding the situation with State Budget execution is required.

23.3. If, in the process of State Budget execution, the incoming revenues appear to be less than adopted amount, the expenditures by functional and economic classifications (except for secured expenditure items) shall be reduced proportionally, while the expenditures by organizational classification shall be reduced in a manner determined by relevant executive authority.

23.4. In State Budget quarterly execution reports if in the budget revenues the actual earnings were less than 20% of actual revenues approved for this period of the year then these accounts are subject for discussions in the commissions in the Milli Mejlis of Azerbaijan Republic.

23.5. In State Budget execution if the actual earnings in the budget revenues for the first half of year were less than 30% of the expected amounts and if there is insufficient funds to finance secured items, budget deficit exceeded the approved level and there were no proposals made to improve the situation then the relevant executive authority shall raise this issue in the Milli Mejlis of Azerbaijan Republic not later than October 1. The law on specified State Budget shall be passed not later than October 15 of the current year.

Article 24. State Budget deficit

24.1. The amount of the State Budget deficit shall be defined for the next budget year in the law on State Budget.

24.2. Financing of the budget deficit is carried out through state borrowings, loans and other sources.

Article 25. State debt and debt service

25.1. For the purpose of ensuring implementation of the country's social and economic development programs, borrowings can be made under the state guarantee, upon decision of a relevant executive authority.

25.2. The relevant executive authority shall have right to borrow on behalf of the state and to manage these borrowings.

25.3. The amount of state debt received during the budget year, the disbursement of this amount, as well as the expenditures related to state debt servicing, shall be reflected in the State Budget.

25.4. Regardless of the volume of budget revenues and the level of allocations, service of the state debt (principal amount and interest) shall be done at full and in a timely manner. Interest and principal amounts shall be timely repaid based on credit agreements or terms of government securities.

25.5. Maximum limit for domestic and external state borrowing is determined by the budget law for relevant budget year.

25.6. The relevant executive authority shall keep records of the state debts according to the original documents with regard to these debts and publish the information about these debts on a quarterly basis.

Article 26. Interrelations of the State Budget with the budget of the Nakhchivan

Autonomous Republic and with local budgets Interrelations of the State Budget with the budget of the Nakhchivan Autonomous Republic and with local budgets shall be executed through the distribution of sources of revenues, subsidies, subventions and budget loans.

Article 27. Interrelations between the State Budget and the state extra-budgetary funds

27.1. In order to ensure the close coordination of the operations with regard to the constitution, execution and supervision over the execution of the State Budgets, budgets of the state extra-budgetary funds the relevant body of executive authorities and state extra-budgetary funds in accordance with the relevant regulations shall prepare and publish a joint plan of actions.

27.2. All expenditures of the extra-budgetary funds (excluding operation expenses of the State Oil Fund of the Azerbaijan Republic and expenses on placement of its funds in international banks and other financial institutions) should be included into the consolidated budget. All the capital expenditures should be directed to finance only those projects included into the State Investment Program.

27.3. The funds, which are allocated from the state extra-budgetary funds for financing of projects included in the local budgets, shall be used through relevant local budgets.

27.4. Extra-budgetary funds should not allocate any investments, credits, and debt guarantees into domestic commercial activity. State Oil Fund of the Azerbaijan Republic should purchase the shares only involving the highly rated professional portfolio managers, those operating at the international market.

27.5. The corresponding state executive body, taking into account the recommendations of the Chamber of Accounts and Extra-budgetary state funds, should define the regulations and schedule for submission of the financial reports (revenues and expenditures) by the extra-budgetary state funds. Extra-budgetary state funds should provide the corresponding state executive body and Chamber of Accounts with those reports and publish them in the press on the quarterly basis.

CHAPTER III

PREPARATION, APPROVAL, EXECUTION AND SUPERVISION OVER EXECUTION OF THE BUDGET OF THE NAKHCHIVAN AUTONOMOUS REPUBLIC

Article 28. Budget of Nakhchivan Autonomous Republic

28.1. The budget of the Nakhchivan Autonomous Republic is based on its administrative-territorial constitution and defined by this Law and other laws of the Azerbaijan Republic and the Nakhchivan Autonomous Republic.

28.2. The budget of the Nakhchivan Autonomous Republic is formed by state taxes and other fees, as provided in the Tax Code, as well as by interest and fines that are calculated over those taxes and fees.

28.3. Budget funds of the Nakhchivan Autonomous Republic are used for financing of activities that are related to social and economic development and improvement of welfare of the population in the autonomous republic.

Article 29. Preparation, approval, execution and supervision over execution of the budget of Nakhchivan Autonomous Republic

29.1. Draft budget of the Nakhchivan Autonomous Republic is prepared in accordance with the State Budget calendar, as determined by this Law, and the legislation of the Nakhchivan Autonomous Republic.

29.2. The budget of the Nakhchivan Autonomous Republic for next year shall be approved by the Supreme Mejlis of the Nakhchivan Autonomous Republic not later than December 25 of current year, and shall be published in press of the Nakhchivan Autonomous Republic.

29.3. Execution of the budget of the Nakhchivan Autonomous Republic shall be carried out in accordance with this Law and the legislation of the Nakhchivan Autonomous Republic.

29.4. Cash execution of the budget of the Nakhchivan Autonomous Republic shall be carried out through the state treasury.

29.5. Supervision over execution of the budget of the Nakhchivan Autonomous Republic shall be carried out by the Chamber of Accounts of the Azerbaijan Republic and the Supreme Mejlis of the Nakhchivan Autonomous Republic.

CHAPTER IV

PREPARATION, APPROVAL, EXECUTION AND SUPERVISION OVER EXECUTION OF THE LOCAL BUDGET

Article 30. Local budget

30.1. Local budget in accord with municipality status is the financial resources formed and used to realize the self-governance principles, to fulfill municipality authorities defined by the Constitution of the Azerbaijan Republic and its laws.

30.2. Preparation and execution of local budget is done based on common principles, as determined by the legislation on budget system, and the budget classification that is applied in the Azerbaijan Republic.

Article 31. Independence of local budget

31.1. Independence of the local budget is secured by the availability of the income sources and the exclusive rights of the municipalities to give resolutions with regard to the funds of the local budget.

31.2. Legislative and executive authorities shall not interfere with the budget activities of the municipalities except for the cases of requests from the municipalities and as of the relevant legislation;

31.3. Municipalities can give resolutions independently as regard to the free balances of the local budget as of the end of the fiscal year.

Article 32. Budget relations between municipalities and government bodies

32.1. Municipalities are independent in preparation, approval and execution of local budgets.

32.2. Financial support of the state to local budgets is done in the following ways:

32.2.1. create conditions for development of production and service sectors by improving investment climate and implementing an effective economic policy;

32.2.2. allocate subsidies and subventions from the State Budget, when it is impossible to finance local social-economic development programs with local budget funds;

32.3. If the legislation and executive authority bodies provide the municipalities with additional powers, they shall provide them with sufficient financial resources to exercise these powers;

32.4. If the revenues of municipalities drop or their expenditures rise as a result of the resolutions made by executive authorities, the executive authorities that adopt such resolutions shall compensate relevant reduced or increased amounts.

32.5. Municipalities shall provide the statistic bodies and relevant executive authorities with information about execution of the local budget, in a manner determined by the legislation.

32.6. Excluding the cases prescribed by the legislation, state is not responsible for any payment obligation made by the municipalities.

Article 33. The local budget revenues

33.1. The local budget revenues include taxes and other fees, as determined by relevant legislation of the Azerbaijan Republic, as well as interest and fines calculated over those taxes and fees.

33.2. The rules for calculation and payment of local taxes and fees, as well as for provision of discounts establishment of the lowest and highest rates for those taxes and fees and shall be defined by the legislation, while the necessity of application of those taxes and fees as well as the concrete rates shall be defined through resolutions by municipalities.

33.3. According to the legislation, in order to finance the issues of local significance, municipalities can make decisions with regard to voluntary single fees. These voluntary fees shall be used only for due purposes.

Article 34. The local budget expenditures

34.1. Municipalities shall define the amount and directions of the local budget expenditures in accordance with budget classification.

34.2. A portion of the local budget expenditures that is not secured by the revenues (the local budget deficit) can be covered by subsidies from the State Budget.

34.3. Norms used in the calculations of the local budget expenditures receiving subsidies, subventions and loans from the State Budget shall not exceed the norms of expenditures applied to the estimated expenditures of the State Budget.

34.4. In calculating the maximum level of subsidies, the number of population living in that municipal area, and its share in generation of the country's financial resources, as well as other factors, may be taken into consideration.

34.5. Targeted funds that are allocated by the legislative and executive authorities in order to fulfill additional powers, including the financing of expenditures through subventions, shall be shown in the expenditure part of the local budget as a separate item.

Article 35. Preparation of the local budget

35.1. Draft local budgets shall be formed based on evaluation of economic activities of municipal enterprises and other legal entities and individuals operating in relevant municipal area, as well as in accordance with socio-economic forecasts and targeted programs.

35.2. If it is envisaged to obtain subsidy from the State Budget, the draft local budget shall be submitted to a relevant executive authority by May 1, together with documents and information, that is mentioned in paragraph 11.14 of this Law.

35.3. The process of local budget formulation starts 11 months before next budget year begins, and continues to the day when budget draft is submitted to the municipality meeting. The Chief of Municipality is responsible for the formulation and submission of local budget to the municipal meeting. And for this purpose he can involve permanent and other municipal commissions, municipality workers and specialists.

Article 36. Discussion and approval of the local budget

36.1. Draft on decree on local budget for the next year together with appropriate documents shall be submitted to the discussion and approval of municipal meeting before October 15 of current year. Local budget during 10 days after the its submission to the municipal meeting shall be published for the purpose of local population get familiar with it.

36.2. A draft local budget for next year shall be approved through resolution of municipality not later than December 25 of current year.

Article 37. Execution of the local budget

37.1. Upon request by municipality, the in-cash execution of the local budget may be done either through the state treasury, or through other methods defined by the legislation.

37.2. If, based on request of municipalities, the revenue and expenditure transactions of those municipalities are done through the state treasury, the state treasury shall provide technical maintenance of accounting/reporting arrangement.

If financial transactions of municipalities are not carried out through the state treasury, the rules for payments against those transactions and accounting/reporting procedures shall be determined by the legislation.

37.3. Municipalities may refuse from processing of revenue and expenditure transactions through the state treasury, on the first working day of the year coming after the budget year.

37.4. In the process of execution of local budgets, municipalities may issue decision about clarification of the budget, and, except for targeted funds received from the State Budget, may make changes in revenue and expenditure items within the loan limits approved upon budget classification.

37.5. Operations with respect to the assumed obligations during the local budget execution shall be finished as per the expiry of the budget year and the unused resources shall remain at disposal of municipalities;

37.6. When conducting financial operations, municipalities shall bear responsibility for purposeful use of financial resources, and for compliance with all financial procedures.

37.7. Annual report on execution of local budgets shall be approved in a manner determined by regulations of municipalities, and the population living in the municipal area shall be informed about this.

Article 38. Local budget balancing

If in the local budget execution the received funds reduce against the revenue sources exceeding the final level of the deficit, except for the secured items of expenditures, then the expenditures shall be cut off.

Article 39. Supervision over the local budget

39.1. Municipality carries out the control on the execution of local budget, and compliance of spent funds with the budget indicators, and for this purpose involves the independent auditors not rare than once a year.

39.2. In order to ensure the fulfillment of powers that have been given to municipalities by the legislative and executive bodies, the supervision over spending of the allocated resources shall be done by these bodies.

Article 40. Final Provisions

40.1. This Law shall become effective from January 1, 2003.

40.2. Once this Law becomes effective, the Law “On Budget System”, the Milli Mejlis Resolution on Procedures for Enforcement of the Law “On Budget System”, and the Law “On State Budget” shall be considered invalid.

Heydar Aliyev
President of Azerbaijan Republic

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