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## ASSESSMENT OF THE STATE OF LENDING TO THE REAL SECTOR AND ITS DEVELOPMENT TRENDS IN MODERN CONDITIONS

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*Formulation of the problem.* The tasks performed with the help of the budget help to define the essence of the budget. Without going into details of the controversy of the essence, functions and principles of budgeting, however, I believe it is necessary to determine the initial theoretical positions on these concepts, which have been debatable so far. *The purpose of the article* is conducting an assessment of the state of real sector crediting and its development trends in modern conditions. *Methods used in the research:* survey, quantification, ranking, scoring, etc. *The hypothesis of the study.* When issues related to ensuring sufficient transparency of the costs incurred for the maintenance of a particular state entity are resolved, a problem arises related to the relationship between budget-financed expenditures and expenditures through assistance (grants and sponsorship). Transparency requires the integration of aid-financed spending information for decision-making and budget reporting. *Presenting main material.* The state helps the formation of highly efficient economic organizations capable of operating in the domestic and world markets in an environment of fierce competition, and concentrating resources on promising areas for updating production. Instruments of direct state influence should be focused on supporting private initiative specifically for the development of modern and newest technological structures, stimulating investment activity in the relevant areas. *The originality and practical significance of the research.* How the term "budget" itself is defined is of fundamental importance to manage the budget process as effectively as possible. In most cases, this concept is limited to estimates relating to annual appropriations of funds by the relevant legislature. Such a concept, however, may cover only a small fraction of all fiscal transactions. *Conclusions.* The size of the budget deficit depends on many factors. For example, the government, under pressure from the public or the opposition, cannot stop unreasonable wage growth, especially in conditions of high inflation, while the volume of the budget deficit, respectively, increases by the amount of economically unjustified wages. In such cases, in the absence of other sources of covering the budget deficit, the government resorts to the "traditional" methods for such a situation to cover the budget deficit - a loan from the Central Bank.

### Key words:

budget, monetary policy, financial system, real sector, fiscal policy.

## ОЦІНЮВАННЯ СТАНУ КРЕДИТУВАННЯ РЕАЛЬНОГО СЕКТОРУ ТА ТЕНДЕНЦІЙ ЙОГО РОЗВИТКУ В СУЧАСНИХ УМОВАХ

*Постановка проблеми.* Завдання, які виконуються за допомогою бюджету, допомагають визначити сутність бюджету. Не вдаючись до подробиць дискусії щодо сутності, функцій і принципів

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бюджетування, вважаю, однак, за необхідне визначити вихідні теоретичні положення щодо цих понять, які досі були дискусійними. *Метою статті* є проведення оцінки стану кредитування реально-го сектору та тенденцій його розвитку в сучасних умовах. *Методи, використані в дослідженні*: опитування, кількісна оцінка, ранжування, бальна оцінка та ін. *Гіпотеза дослідження*. При вирішенні питань щодо забезпечення достатньої прозорості витрат на утримання того чи іншого державного об'єкта виникає проблема співвідношення видатків, що фінансуються з бюджету, та видатків за рахунок допомоги (грантів та спонсорства). Прозорість вимагає інтеграції інформації про витрати, фінансовані за рахунок допомоги, для прийняття рішень і бюджетної звітності. *Вклад основного матеріалу*. Держава сприяє формуванню високоефективних економічних організацій, здатних працювати на внутрішньому та світовому ринках в умовах жорсткої конкуренції, концентрації ресурсів на перспективних напрямках для оновлення виробництва. Інструменти прямого державного впливу мають бути спрямовані на підтримку приватної ініціативи саме для розвитку сучасних і новітніх технологічних структур, стимулювання інвестиційної діяльності у відповідних сферах. *Оригінальність та практична значущість дослідження*. Те, як визначається сам термін «бюджет», має принципове значення для максимально ефективного управління бюджетним процесом. У більшості випадків ця концепція обмежується оцінками, що стосуються щорічних асигнувань коштів відповідним законодавчим органом. Однак така концепція може охоплювати лише невелику частину всіх фіскальних операцій. *Висновки*. Розмір бюджетного дефіциту залежить від багатьох факторів. Наприклад, влада під тиском громадськості чи опозиції не може зупинити необґрунтоване зростання заробітної плати, особливо в умовах високої інфляції, а обсяг дефіциту бюджету, відповідно, збільшується на суму економічно необґрунтованої заробітної плати. У таких випадках, за відсутності інших джерел покриття дефіциту бюджету, уряд вдається до «традиційного» для такої ситуації методу покриття дефіциту бюджету – кредиту ЦБ.

**Ключові слова:**

бюджет, грошово-кредитна політика, фінансова система, реальний сектор, фіскальна політика.

**Formulation of the problem.** Thanks to the budget, each state collects parts of the country's financial resources in its own hands to fulfill the economic and social tasks assigned to it.

The need to single out individual links of the financial system is caused by the difference in the participation of subjects of economic relations in the formation, distribution and redistribution of GDP, the formation and use of income. The most important link in the financial system is state and municipal finance, which, in turn, is represented by:

- budgetary system, consisting of the state budget, the budget of the Nakhchivan Autonomous Republic, local budgets;
- target off-budget funds;
- state credit.

In general, I share this point of view on the structure of the links of the financial system. I believe that it is necessary to more accurately define the features of each link in the budget system. It is impossible to include in one group all off-budget funds and off-budget funds. Off-budget funds are state-owned, and their formation is carried out at the expense of relevant taxes and other revenues established by the legislative acts of the republic (for example, in Azerbaijan - the Social Protection Fund, Road Fund, Employment Fund, etc.), and extra-budgetary funds of ministries, departments,

budgetary organizations are formed by organizing paid services to individuals and legal entities. Therefore, in the above definition, targeted extra-budgetary funds can be divided into two groups: state extra-budgetary funds, and extra-budgetary funds of ministries, departments and budgetary organizations.

The concept of completeness of information goes beyond what is usually presented in the state budget and account statements. The available performance indicators of the state budget of the republic in terms of revenues and expenditures in recent years should be carefully analyzed according to a strictly substantiated group of reasons and factors, and conclusions and reasoned proposals based on the results of the analysis should be submitted to the Cabinet of Ministers and the Presidential Administration of Azerbaijan, and also serve as a subject of discussion in the Parliament republics.

**Analysis of recent research and publications.** The third principle is the openness of the preparation, results of budget execution and budget reporting. These are the traditional forms regarding the coverage, accessibility and reliability of fiscal information [1]. Particular attention should be paid to the development and harmonization of international statistical and accounting standards in relation to government reporting. Fourth, independent guarantees of validity. This

is the provision of transparency of statistical indicators through external audit, which, in turn, encourages public administration to conduct an independent audit. By following these principles, it will be possible to ensure transparency in the fiscal sphere.

Ensuring transparency in the fiscal sphere is one of the aspects of good governance in this area, and therefore it is useful to distinguish transparency from the effectiveness of government activities. At the same time, attention should be paid to all aspects of management that are clearly interconnected [2]. Fiscal reporting practices are central to effective fiscal management. Therefore, full, reliable and timely reporting on the budgetary and non-budgetary activities of government bodies acquires a special need. In setting priorities for transparent reporting, a detailed assessment of the existing fiscal management system should be undertaken to identify specific weaknesses [3].

**The purpose of the research** is conducting an assessment of the state of real sector crediting and its development trends in modern conditions.

**Presentation of the main material.** For the effective management of the fiscal sphere, it is important to centralize the powers to determine tax policy, spend and borrow funds in the Ministry of Finance. In recent years, a different practice has developed in Azerbaijan. The transformation of the State Tax Inspectorate into the Ministry of Taxes and the transfer to it of all powers in the field of determining tax policy, as well as the minimization of the role of the Ministry of Finance in borrowing funds under government guarantees, testify to this.

A major issue at any level of government is the distribution of responsibilities between central ministries (eg planning, economics and finance) and spending ministries. Different countries approach this issue differently. In countries with a tradition of central economic development planning, fiscal management functions are divided between the ministry of planning or economy (responsible for the investment or development budget) and the ministry of finance (responsible for the operating budget). In other countries, different ministries and departments are responsible for different fiscal management functions (eg macro-fiscal policy, budgeting, accounting).

Countries also differ in the relative powers of central ministries and spending ministries.

When issues related to ensuring sufficient transparency of the costs incurred for the

maintenance of a particular state entity are resolved, a problem arises related to the relationship between budget-financed expenditures and expenditures through assistance (grants and sponsorship). Transparency requires the integration of aid-financed spending information for decision-making and budget reporting.

The level of subsidizing lower budgets has been and remains relevant for any country, since it simultaneously indicates the level of economic development of each territory. The principle applies here: the better developed the region's economy, the lower the level of subsidies, and vice versa, the less developed the region's economy, the greater the level of subsidies from the higher budget.

The state helps the formation of highly efficient economic organizations capable of operating in the domestic and world markets in an environment of fierce competition, and concentrating resources on promising areas for updating production. Instruments of direct state influence should be focused on supporting private initiative specifically for the development of modern and newest technological structures, stimulating investment activity in the relevant areas.

Unemployment is one of the most important objects of study of macroeconomics. On a global scale, the unemployment rate, except for the economic depression of the 30s, did not exceed 5-6 percent of the total labor force.

Another, no less important object of study of macroeconomics is international trade, i.e., the country's trade balance. The trade balance says a lot about the state of the economy of each country. A positive trade balance means the excess of exports over imports and, conversely, a negative balance means the superiority of imports over exports. When analyzing the country's trade balance, it is possible to establish the reasons for this or that lag in certain sectors of the economy.

Fully share the point of view of the first group of economists who do not deny either the regulatory role of governments or the influence of fiscal and monetary policy in the economic development of the country. The example of the Republic of Azerbaijan has shown that the government's policy in the tax-budgetary and monetary areas not only influences general economic trends. There are reasons to say that general economic trends, especially in countries with economies in transition, depend on the correctness of fiscal and monetary policies. The budgetary policy of the government is interconnected with





general economic trends. During the implementation of economic and structural reforms in various areas, many problems arise that require urgent support from the state. For example, after the denationalization of enterprises and organizations, a large amount of financial resources is required to support private business by the state. As a result of the lack of primary capital in the hands of entrepreneurs, after the privatization period, it is practically impossible to establish production and output at most enterprises. In Azerbaijan, these are established farms and other private agricultural enterprises. After the land reform, farmers who do not have primary capital, equipment, fuel, mineral fertilizers, and other necessary funds for growing agricultural products are practically left alone with the plot of land that they got as a result of the land reform. At the same time, if the government, as a result of conducting a correct budget policy, supports a

certain category of entrepreneurs, then, without a doubt, this will have a positive impact on general economic trends.

After the implementation of government programs for financial stabilization, starting from 1997, lines on supporting the private sector, including farms, began to appear in the draft state budget of Azerbaijan.

The general economic level of the country also depends on the correct conduct of monetary policy. After economic and structural reforms, a sufficiently large amount of financial resources is required to support the private sector. But when implementing stabilization programs based on the principles of restrictive monetary policy, the Central Bank raises the discount rate to a level higher than the annual inflation rate, after which enterprises are practically deprived of a credit source of financing that replenishes working capital lost due to inflation (Figure 1).

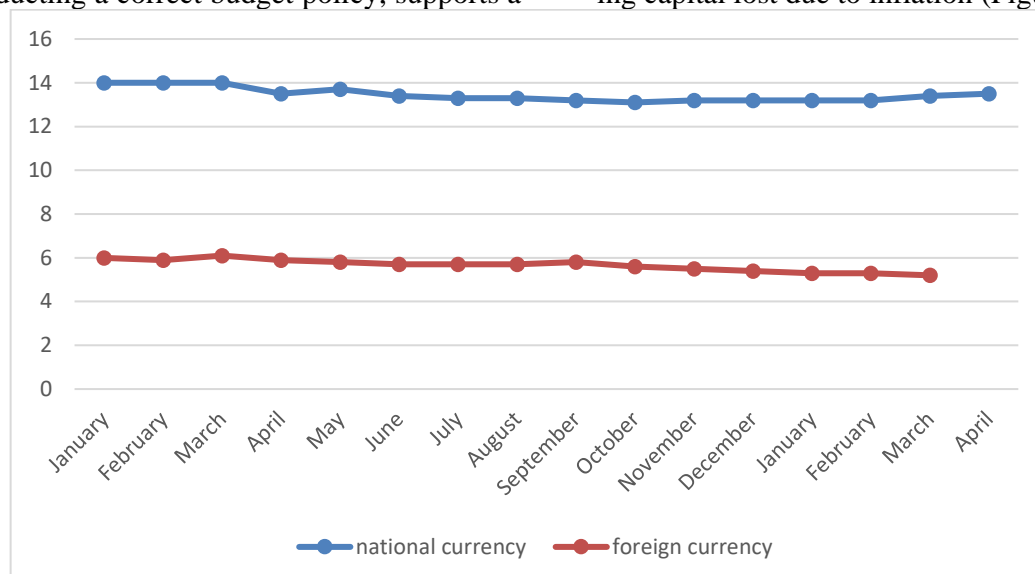


Figure 1 – Average Credit Interest Rate  
Source: compiled by the authors

The volume of long-term loans to the economy, which are the basis of its development, has practically contributed to the work of many enterprises and economic organizations. At the same time, deliberate stimulation of the issuance of short-term trade credits has led to the fact that most private enterprises are closely involved in the export of various consumer goods. Naturally, here certain interests of enterprises engaged in exporting goods to the country were stimulated by obtaining higher profits in comparison with production.

The result of such a policy was that Azerbaijan, which has 9 out of 11 climatic zones in the world, as well as almost all the necessary

natural resources, including huge reserves of oil and gas, fertile land, today exports many consumer goods, including food products.

If we add more positive phenomena in obtaining loans, which have become widespread in the banking system, starting from the National Bank of the Republic itself, then it will become clear why entrepreneurs apply to the banks of the republic for obtaining long-term loans for production. To analyze the reasons for the relatively greater interest in short-term loans, it is necessary to consider a number of issues related to the quality of goods imported into the republic, customs services for importers, smuggling of goods, etc.



If we talk about investment and innovation activity, the point of view of a prominent Russian economist S.Yu. Glazyev: "From the standpoint of modern practice and theory of economic growth, a way out of the crisis and a new economic recovery are excluded without the aiming of the state budget policy at the maximum stimulation of investment and innovation activity (as is known, innovations overcome depression). For this, both direct state investments and indirect stimulation of investors, including through the provision of state guarantees, are used. Development institutions play an important role in increasing investment in a non-equilibrium economy. Thus, with the help of the budget, the state is able to expand the final demand, helping to overcome the depression. Thus, at one time, a way out of the "Great Depression", the post-war reconstruction of the economy, as well as the rapid growth of new industrial countries were ensured.

The budget deficit is one of the most important characteristics of the state of the economy and finances of the country. Before turning to the problems of regulating and optimizing the sources of financing the budget deficit, we present the following conclusion of Dr. Econ. Sciences T.A. Pozdnyakova, who writes in her monograph "Finance in the System of State Regulation of Socio-Economic Processes" that "... the scientific basis of the ongoing transformations is significantly limited by the lack of clarity of the available general theoretical developments and the abundance of often opposing opinions on fundamental issues of financial science. The economic feasibility of a radical break in the ideas that have developed in this area requires a reassessment of the basic provisions of financial theory, in particular, such as:

- the boundaries of finance in the system of commodity-money management;
- evolution of financial relations in the conditions of market formation;
- reassessment of the peculiarities of functioning and importance of individual spheres and links of the financial system;
- quantitative and qualitative impact of financial relations on social reproduction;
- necessity, essence, scope and forms of financial regulation at micro and macro levels;
- the role of financial impact in the mechanism of state regulation of socio-economic processes;
- the importance of financial policy in the dynamic change of the economic model;

- improvement of the financial mechanism under the influence of changes in business conditions;

- transformation of the financial management process, including the regional aspect of this management".

**Conclusions and prospects for further research.** The resulting budget deficit is difficult to eliminate, including for political reasons. The countries that managed to avoid serious debt distress in the 1980s are precisely those countries that were able to control their budget deficits. Of course, the budget deficit needs to be financed. Experience and study of the relationship between loans and macroeconomic parameters, as well as the process of debt management, show that governments tend to first outline a program of public spending restructuring, and then, if domestic resources are not enough to finance it, they try to secure financing from external sources.

An external loan is a state debt to citizens and organizations of foreign states, as well as to international organizations. External debts are considered the most "dangerous" in comparison with internal debts, since the state is obliged to strictly comply with the agreed payment schedule for both interest and principal debt. In addition, late fulfillment of guaranteed obligations by the government may result in international complications, a scandal for the state, etc. Foreign loans allow the country to invest and consume in excess of what its economy produces. Efficient use of borrowed resources to finance capital accumulation accelerates economic progress. In fact, a country can finance capital accumulation not only by mobilizing domestic savings, but also by attracting savings from countries where there is a sufficient capital surplus. The gain from external borrowing can be faster economic growth. However, if a country attracts external resources, then it must also create and maintain an effective external debt management system.

The appearance of a deficit is evidence of a shortage of budget revenues to cover existing government spending. But with all this, the main thing is not what part of the budget expenditures after determining all sources of income remains unbalanced, but, no less important, what part of the expenditures can be considered quite reasonable. The availability of alternative sources to cover the resulting deficit is also important. After all, in principle, the budget deficit can be covered by several sources, including such an inflationary source as a loan from the Central Bank. Determining the most acceptable option



for covering the budget deficit can only take place if the government has a financial and budgetary policy justified for a given stage of economic development.

The size of the budget deficit depends on many factors. For example, the government, under pressure from the public or the opposition, cannot stop unreasonable wage growth, especially in conditions of high inflation, while the volume of the budget deficit, respectively, increases by the amount of economically unjustified wages. In such cases, in the absence of other sources of covering the budget deficit, the government resorts to the "traditional" methods for such a situation to cover the budget deficit - a loan from the Central Bank.

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