

УДК 332:338.246.8:330.131.5  
JEL Classification: D1

ASGAROV K.<sup>1</sup>

## PRIORITIES OF BUDGET POLICY IN THE RECONSTRUCTION OF THE LIBERATED TERRITORIES

DOI: <https://doi.org/10.32620/cher.2026.2.01>

*Formulation of the problem.* It analyzes the priorities of state budget policy in the reconstruction of the territories liberated from occupation in the Republic of Azerbaijan, especially the Karabakh and Eastern Zangezur economic regions. In this regard, *the purpose of the study* is to develop budget policy priorities in the process of renovation of liberated territories. *The object of the study* is the socio-economic relations that arise in the process of transforming the traditional economic system towards a green economy and sustainable development. The subject of the study is the theoretical and methodological foundations, economic instruments, mechanisms of state regulation and institutional conditions that ensure the transition to a green economy. *The methodology of the study* consists of examining the experience of countries around the world in diversifying economic development and, based on these experiences, analyzing issues related to determining the role of agritourism in diversifying economic development. *The main hypothesis of the study.* It is assumed that the transition to a green economy is not only an imperative of environmental safety, but also a powerful driver of long-term economic growth based on innovation, energy efficiency and the creation of new "green" jobs. The effectiveness of this transition depends on the synergy between clear state policy, private investment and civil society activity. *Presentation of the main material.* Based on state budget data for 2021–2025, the study evaluates the volume, structure, and main directions of budget expenditures in the restoration and reconstruction process. The article examines the role of the state budget in financing infrastructure projects, restoring social facilities, and supporting the socio-economic reintegration of the regions. *The originality of the work.* The analysis shows that the state budget acts as the main financial instrument for ensuring regional development in the post-conflict period, and the funds allocated to this area are among the strategic priorities of fiscal policy. The dynamics and structural distribution of budget expenditures indicate that, in line with the state's long-term development strategy, spending is directed toward infrastructure restoration, increasing economic activity, and integrating the liberated territories into the national economic system. *Conclusions and prospects for further research.* The study examined the priorities of budget policy in the reconstruction of the territories liberated from occupation in the Republic of Azerbaijan. The analysis shows that the state budget is mainly directed toward the restoration of infrastructure, social facilities, and residential complexes.

**Keywords:**

state budget policy, liberated territories, Karabakh and Eastern Zangezur, fiscal policy, post-conflict recovery, public investments, regional development, infrastructure financing.

## ПРІОРИТЕТИ БЮДЖЕТНОЇ ПОЛІТИКИ У ПРОЦЕСІ ВІДНОВЛЕННЯ ВИВІЛЬНЕНИХ ТЕРИТОРІЙ

*Постановка проблеми.* Аналізуються пріоритети державної бюджетної політики у відбудові територій, звільнених від окупації в Азербайджанській Республіці, зокрема Карабахського та Східно-Зангезурського економічних районів. У зв'язку з цим метою дослідження є розробка пріоритетів бюджетної політики в процесі відновлення звільнених територій. *Об'єктом дослідження* є соціально-економічні відносини, що виникають у процесі трансформації традиційної економічної

<sup>1</sup> **Аскеров Камал**, аспірант, магістр державних фінансів, Національна авіаційна академія, Баку, Азербайджан.

**Asgarov Kamal**, PhD candidate, Master's degree in Public Finance, National Aviation Academy, Baku, Azerbaijan.

**ORCID ID:** <https://orcid.org/0009-0009-2291-6953>

**e-mail:** [kamalasgarov039@gmail.com](mailto:kamalasgarov039@gmail.com)



[Creative Commons Attribution  
NonCommercial 4.0 International](https://creativecommons.org/licenses/by-nc/4.0/)



системи в бік зеленої економіки та сталого розвитку. *Предметом дослідження є* теоретичні та методологічні основи, економічні інструменти, механізми державного регулювання та інституційні умови, що забезпечують перехід до зеленої економіки. *Методологія дослідження* полягає у вивченні досвіду країн світу в диверсифікації економічного розвитку та, на основі цього досвіду, аналізі питань, пов'язаних з визначенням ролі агротуризму в диверсифікації економічного розвитку. *Основна гіпотеза дослідження.* Передбачається, що перехід до зеленої економіки є не лише імперативом екологічної безпеки, але й потужним рушієм довгострокового економічного зростання, що базується на інноваціях, енергоефективності та створенні нових «зелених» робочих місць. Ефективність цього переходу залежить від синергії між чіткою державною політикою, приватними інвестиціями та активністю громадянського суспільства. *Виклад основного матеріалу.* На основі даних державного бюджету за 2021–2025 роки в дослідженні оцінено обсяг, структуру та основні напрямки бюджетних витрат у процесі відновлення та реконструкції. У статті розглядається роль державного бюджету у фінансуванні інфраструктурних проєктів, відновленні соціальних об'єктів та підтримці соціально-економічної реінтеграції регіонів. *Оригінальність роботи.* Аналіз показує, що державний бюджет виступає основним фінансовим інструментом для забезпечення регіонального розвитку у постконфліктний період, а кошти, що виділяються на цю сферу, є одними зі стратегічних пріоритетів фіскальної політики. Динаміка та структурний розподіл бюджетних витрат свідчать про те, що відповідно до довгострокової стратегії розвитку держави витрати спрямовуються на відновлення інфраструктури, підвищення економічної активності та інтеграцію звільнених територій у національну економічну систему. *Висновки та перспективи подальших досліджень.* У дослідженні розглянуто пріоритети бюджетної політики у відбудові територій, звільнених від окупації в Азербайджанській Республіці. Аналіз показує, що державний бюджет переважно спрямований на відновлення інфраструктури, соціальних об'єктів та житлових комплексів.

**Ключові слова:** державна бюджетна політика, звільнені території, Карабах та Східний Зангезур, фіскальна політика, післяконфліктне відновлення, державні інвестиції, регіональний розвиток, фінансування інфраструктури.

**Formulation of the problem.** Following the 2020 Second Karabakh War, the territories of the Republic of Azerbaijan liberated from occupation—mainly the Karabakh and Eastern Zangezur economic regions—were exposed to severe physical, economic, and social destruction during the long period of occupation. The destruction of infrastructure, the deterioration of the housing stock, the suspension of production and service sectors, and widespread landmine contamination effectively paralyzed the socio-economic development of these areas. Under these conditions, the restoration of the liberated territories is not only a matter of construction and reconstruction, but also a component of national economic restructuring, ensuring regional balance, and achieving long-term sustainable development.

In the post-war period, strategic documents adopted by the Azerbaijani state have identified the restoration and resettlement of the liberated territories as a priority area of public policy. Measures implemented within the framework of the “Great Return” concept aim not only at the return of the population to their native lands, but also at the formation of these territories as modern socio-economic spaces in line with contemporary standards. In this process, fiscal policy—especially state budget policy—plays

a key financial and institutional role.

Budget policy is considered one of the most important mechanisms for economic recovery in post-conflict periods. International experience shows that in post-conflict countries, the proper prioritization of public expenditures, the sequencing of infrastructure investments, and the financing of socially oriented programs directly affect the speed and quality of recovery. In this regard, the budget policy implemented in Azerbaijan’s liberated territories creates a need for scientific research both as a regional development model and as a case of post-conflict fiscal management.

On the other hand, the large-scale public funds directed toward the restoration of these territories also raise issues such as fiscal sustainability, expenditure efficiency, prioritization, and oversight mechanisms. The economic returns, social impact, and long-term development outcomes of budget allocations are of great importance from both academic and practical perspectives. Particularly in an economy dependent on oil revenues, the optimal management of large-scale reconstruction spending is one of the key challenges of fiscal policy.

In this context, the main objective of the present study is to systematically analyze the priority directions of state budget policy in the





restoration of the liberated territories, evaluate the structure of budget expenditures, and examine their socio-economic outcomes. The study seeks to answer the following questions:

- Which areas are prioritized for budget allocations in the recovery process?
- How is the balance between infrastructure and social expenditures established?
- How does budget policy affect regional development and economic reintegration?
- What risks exist in terms of long-term fiscal sustainability?

The scientific novelty of this research lies in its comprehensive evaluation of the restoration of the liberated territories from the perspective of fiscal policy and its analysis of budget priorities in the context of macroeconomic stability and regional development. At the same time, the results may contribute to the formulation of recommendations for optimizing public investment policy and improving the efficient allocation of resources.

**Analysis of recent research and publications.** Economic recovery and reconstruction policies in post-conflict periods have long been studied in international academic literature. Most studies show that in post-conflict areas, fiscal policy serves not only as a tool for financing reconstruction costs, but also as a key instrument for rebuilding institutional stability, social trust, and economic activity. In particular, the proper structuring of public budget expenditures directly affects the pace and sustainability of recovery.

International research emphasizes that in post-conflict regions, the primary priority of public spending in the initial phase is the restoration of physical infrastructure. Transport, energy, water, and communication infrastructure play a foundational role in reviving economic activity. Infrastructure reconstruction facilitates the attraction of private investment and accelerates regional economic integration. This approach is known as the “infrastructure-led recovery” model and has been applied in many countries’ recovery strategies.

Another direction concerns the restoration of social infrastructure. Studies indicate that rebuilding schools, healthcare institutions, and social service facilities serves not only humanitarian purposes but also contributes to human capital development and long-term economic growth. Socially oriented budget expenditures stimulate the return of displaced persons and strengthen public trust in state policy.

Fiscal sustainability is another widely dis-

cussed issue in the literature. A sharp increase in public spending in post-conflict periods can create risks for fiscal balance. Therefore, many authors emphasize the importance of planning recovery expenditures within a medium- and long-term fiscal framework as a preventive mechanism. The Medium-Term Expenditure Framework is considered one of the main tools for strengthening prioritization in the recovery process.

Some studies highlight the limitations of recovery models based solely on public financing. In this regard, public-private partnerships (PPP), loans from international financial institutions, and donor programs are presented as effective mechanisms for sharing the financial burden of reconstruction. Modern literature increasingly evaluates the state’s role not only as a direct financier but also as a catalyst and regulator.

Institutional quality is also identified as a key factor in post-conflict recovery. Strong transparency, accountability, and audit mechanisms increase the effectiveness of public spending. Financial control and performance audits are regarded as major tools for ensuring results-oriented implementation of reconstruction projects. In this context, performance-based budgeting is increasingly recommended.

Regional development theories also hold an important place in this field. The literature notes that the economic revival of conflict-affected regions contributes to reducing regional disparities within a country and balancing national economic growth. This allows reconstruction expenditures to be assessed not only as a social issue but also as a macroeconomic investment.

Although research in the Azerbaijani context is relatively new, existing studies show that the restoration of the liberated territories has become one of the main directions of public investment policy. National program documents indicate that reconstruction is being implemented in a phased and planned manner. At the same time, some authors emphasize the importance of more active private sector participation to ensure long-term economic efficiency.

The literature review shows that most existing studies focus either on fiscal policy at the macro level or on the technical aspects of reconstruction projects. However, systematic and empirical analysis of budget policy priorities in the liberated territories remains limited. This gap increases the relevance of the present study and justifies its scientific contribution.

**The purpose of the article** is to develop budget policy priorities in the process of renovation of liberated territories.

This study employs a mixed-method approach to evaluate the priorities of budget policy in the restoration of the liberated territories. It combines both quantitative and qualitative analysis, allowing fiscal policy to be assessed not only through statistical indicators but also from institutional and strategic perspectives. The research design is descriptive-analytical and aims to identify the real economic effects of budget prioritization in the post-conflict period.

The study relies mainly on official and reliable sources:

- Official statistics of the State Statistical Committee of Azerbaijan
- State budget execution reports of the Ministry of Finance of Azerbaijan
- Government program documents related to the liberated territories
- Audit reports of the Chamber of Accounts of Azerbaijan
- Macroeconomic indicators disclosed by official state institutions

The following methods were used:

1. Document analysis – systematic review of state programs, budget laws, and strategic documents to identify legal and institutional bases of budget priorities.
2. Descriptive statistical analysis – analysis of expenditure dynamics by year, sectoral distribution, and the shares of infrastructure and social spending.
3. Comparative analysis – year-to-year comparison of budget allocations to track policy dynamics and priority shifts.
4. Structural share analysis – calculation of the share of reconstruction expenditures within total budget spending to assess fiscal priorities.

Evaluation criteria: Level of prioritization, Execution rate (use of allocated funds), Structural balance (infrastructure vs. social spending), Regional impact potential, Consistency with fiscal sustainability

Methodological limitations: Limited availability of detailed micro-level data for some projects, Time constraints in fully measuring long-term economic effects, The ongoing nature of the reconstruction process, making results dynamic.

Despite these limitations, the use of official statistics ensures research reliability.

Only official and verifiable sources were used. Comparative data analysis increased objectivity. Normative or political evaluations were avoided, and the analysis relied solely on economic and fiscal indicators.

**Presentation of the main research results.** For 2025, a total of 4.4657 billion manats has been allocated from the state budget of the Republic of Azerbaijan for the restoration of the liberated territories. Of this amount, 3.7819 billion manats (84.7%) have been dedicated directly to infrastructure and reconstruction projects. Additionally, funds have been allocated from the reserve fund [2].

In 2024, this figure amounted to 4.85 billion manats, and nearly 99.4% of the allocated budget funds were fully utilized [8].

In 2023, 5.58 billion manats of budget funds were spent for this purpose, demonstrating the state's long-term financial commitment to the reconstruction process [1] (Figure 1).

The chart illustrates the three-year dynamics of state budget funds allocated for the restoration of the liberated territories: 2023 – 3.0 billion manats, 2024 – 4.5 billion manats, 2025 – 5.2 billion manats.

Analysis of the dynamics:

- Increase from 2023 to 2024: +1.5 billion manats (approximately a 50% increase)
- Increase from 2024 to 2025: +0.7 billion manats (approximately a 15–16% increase)

This dynamic shows that financial support for the reconstruction process increased sharply in 2024, while in 2025 the growth continued but entered a relatively stabilizing phase.

Economic interpretation.

- The upward trend indicates that the state has identified this area as a strategic priority.
- In the initial stage (2023–2024), capital investments increased rapidly-this phase is typically characterized by the launch of large-scale infrastructure projects.
- The continued increase in 2025 demonstrates that the reconstruction policy has a long-term and systematic character.





Funds Allocated for the Restoration of Liberated Territories (2023–2025)

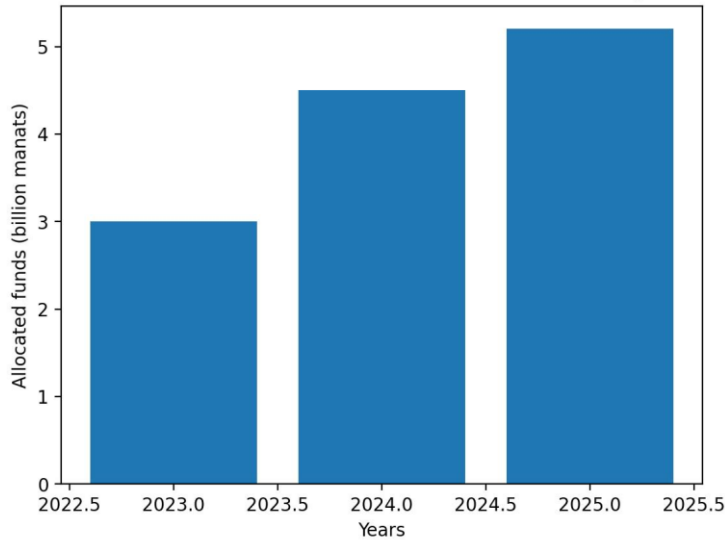


Figure 1 – Comparative analysis of allocated funds for 2023–2025 (Column chart)

Source: State Statistical Committee of Azerbaijan

This chart proves that: The restoration of the territories is a priority direction in budget policy. Public expenditures are investment-

oriented. Capital investments are used as a key instrument for economic revitalization (Figure 2).

Distribution of the 2025 Budget by Priority Areas

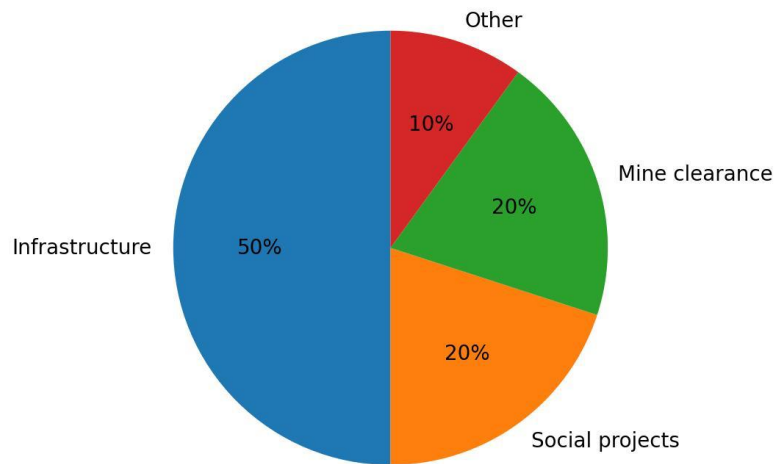


Figure 2 – Distribution of the 2025 Budget by Priority Areas (Pie chart)

Source: State Statistical Committee of Azerbaijan

The share of allocated funds by direction in 2025 is as follows: Infrastructure – 50%, Social projects – 20%, Demining – 20%, Other expenditures – 10%.

Structural analysis. Infrastructure (50%). This has the largest share and covers: Road and transport infrastructure, Electricity, water, and gas lines, Airports, Communication systems.

This indicator shows that the main stage of the recovery process is the establishment of

physical infrastructure. Without infrastructure, social and economic activities are not possible.

Social projects (20%): Schools, Hospitals, Residential buildings, Social facilities.

This share is directly linked to the return strategy of internally displaced persons. Social infrastructure ensures sustainable resettlement.

Demining (20%). This direction is of fundamental importance for security: Returning land to agricultural use, Construction safety, Protection of human life.

The high allocation to this area indicates that it is an initial and necessary stage of the recovery process.

Other expenditures (10%): Administrative costs, Project planning, Technical supervision. These expenditures are essential for coordinating the overall process.

According to statistics, a large portion of budget expenditures has been directed toward restoring transport connections and constructing settlements and social infrastructure. In

January–September 2025, 2.9 billion manats were spent in this area. The largest shares were allocated to the districts of Kalbajar District, Aghdam District, Zangilan District, and Lachin District [8].

Part of the allocated budget funds has been directed not only to physical reconstruction but also to social sectors (Figure 3). Budget allocations have also been recorded for education, healthcare, culture, and demining activities [9].

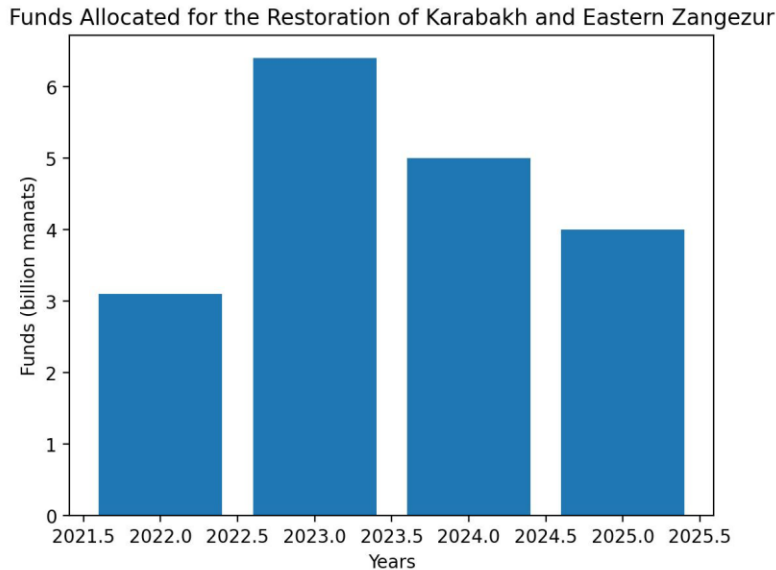


Figure 3 – Dynamics of funds allocated for the restoration of Karabakh and Eastern Zangezur by year

Source: State Statistical Committee of Azerbaijan

This chart shows the yearly dynamics of funds directed to the restoration of the Karabakh and Eastern Zangezur economic regions.

1. 2022 – Initial phase of the recovery process (3.1 billion manats). The funds allocated in 2022 reflect the initial stage of the recovery program. At this stage, the main focus was on: establishing basic infrastructure, road construction, installation of energy and utility systems. This phase is considered the starting stage of the investment programs.

2. 2023 – Peak investment phase (6.4 billion manats). In 2023, the volume of funds increased sharply, reaching 6.4 billion manats. According to the State Statistical Committee, 6.4 billion manats were invested in fixed capital in the Karabakh and Eastern Zangezur economic regions that year. This increase is associated with: the launch of large-scale construction projects, reconstruction of cities, airport,

road, and electricity infrastructure projects. This year is considered the most intensive phase of the recovery program.

3. 2024 – Stable development phase (5.0 billion manats). Although the volume of funds decreased slightly in 2024, it remained at a high level. The main focus at this stage was on: construction of residential settlements, creating conditions for the return of the population, activation of economic activity. This stage is considered a transition phase.

4. 2025 – Planned and targeted financing phase (4.0 billion manats)

In 2025, more than 4 billion manats are planned to be allocated from the state budget for this purpose. The priorities at this stage include: social infrastructure, resettlement programs, economic development projects. This stage is regarded as a sustainable development phase.



This analysis shows that the state budget of the Republic of Azerbaijan primarily focuses on the following areas: Reconstruction of infrastructure: restoration of roads, bridges, energy, and water supply systems; Construction of social facilities: schools and hospitals; Re-settlement and housing development: in the initial stage, returns have been realized to more than 30 settlements [6,7].

The prioritization within this budget policy aligns with the state's strategic objectives—namely the successful implementation of the “Great Return” program and economic reintegration. At the same time, recommendations of the Chamber of Accounts of Azerbaijan indicate the importance of optimizing budget expenditures [5].

Although the volume of budget expenditures is high, attracting additional non-budgetary sources is essential to ensure the timely and cost-efficient implementation of projects. In the future, the state budget should be directed more toward strategic projects.

Conclusions and prospects for further research. The study examined the priorities of budget policy in the reconstruction of the territories liberated from occupation in the Republic of Azerbaijan. The analysis shows that the state budget is mainly directed toward the restoration of infrastructure, social facilities, and residential complexes. Statistical indicators demonstrate that budget policy is consistent and goal-oriented. Nevertheless, more efficient use of resources and the attraction of private sector investment remain important areas for future research.

---

**Стаття надійшла**  
до редакції : 30.03.2026 р.

**Стаття прийнята**  
до друку: 11.05.2026 р.

---

**Бібліографічний опис для цитування :**

Asgarov K. Priorities of budget policy in the reconstruction of the liberated territories. *Часопис економічних реформ*. 2026. № 2 (62). С. 6–12.

---

## References

1. APA.az. (2025). It was disclosed how funds for the restoration of the liberated territories are forecasted.
2. State Statistical Committee of Azerbaijan. (2024). Investments in fixed capital by economic regions of Azerbaijan (Karabakh and Eastern Zangezur).
3. Ministry of Finance of Azerbaijan. (2025). Information on the 2025 state budget of Azerbaijan.
4. Ministry of Finance of Azerbaijan. (2024). Public investment expenditures and funds allocated for the restoration of the liberated territories.
5. Ministry of Economy of Azerbaijan. (2024). State program on the development of the Karabakh and Eastern Zangezur economic regions.
6. Presidential Administration of Azerbaijan. (2023). Measures on the restoration and reconstruction of the liberated territories.
7. en.apa.az. (2024). Azerbaijan spent AZN 5,581.6 million on reconstruction and restoration of liberated territories last year.
8. News.Az. (2025, January 28). Azerbaijan allocates over \$2.8 bln for reconstruction of its liberated territories in 2024.
9. Report.az. (2026, January 28). Azerbaijan allocated more than AZN 4.4B for reconstruction of liberated territories in 2025.
10. State Statistical Committee of the Republic of Azerbaijan. (2023). Statistical Yearbook of Azerbaijan.
11. World Bank. (2022). Reconstruction and development framework for conflict-affected regions.
12. International Monetary Fund. (2023). Republic of Azerbaijan: Public investment and fiscal policy report.

---

**Стаття опублікована:**  
30.06.2026 р.

