



CENTRAL BANK
OF THE REPUBLIC OF AZERBAIJAN

BALANCE OF PAYMENTS REPORT

STATISTICS DEPARTMENT

2023
6 months



STRUCTURE

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1. GLOSSARY OF TERMS

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| <u>Current account balance</u> | The current account balance includes i) foreign trade balance, ii) services balance, iii) primary income balance and iv) secondary income balance. |
| <u>Foreign trade balance</u> | Foreign trade balance is the balance of import and export operations of goods. |
| <u>Services balance</u> | Services balance is calculated based upon the balance of export and import operations on i) processing and repair, ii) transportation, iii) tourism, iv) royalty and licensing, v) telecommunication and communication, vi) construction, vii) insurance, viii) financial, ix) government, x) other business, xi) personal, cultural and entertainment services. |
| <u>Primary income balance</u> | Primary income balance is generated based upon the balance of revenue and spending operations on earned and paid factor income, including salaries, direct investment income, dividends, interest, rent and other items. |
| <u>Secondary income balance</u> | Secondary income balance is generated based upon the balance of revenue and spending operations on current transfers, including money transfers, humanitarian aid, grants, and other items. |
| <u>Capital and financial flow account</u> | The capital and financial flow account indicates the in- and outflow of capital to/from the country. Capital in- and outflow may be as i) direct, ii) portfolio, iii) trade credits and advances, iv) loans, v) currency and deposits, and in other forms. |
| <u>Capital account</u> | The capital account shows transactions with the rest of the world on non-produced non-financial assets (e.g., transfers of sportsmen), as well as other capital-oriented transfers (e.g., humanitarian aid in the form of equipment). |

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| <u>Financial account</u> | The financial account records net foreign financial assets and liabilities and includes various investment flows, acquisition of financial liabilities and claims (direct and portfolio investments, loans, currency and deposits and others). |
| <u>Direct investments</u> | A direct investment is an investment by a resident of a country that entitles to exercise control over the management of an enterprise owned by a resident of another country. |
| <u>Oil bonus</u> | Premiums paid to the Republic of Azerbaijan with regard to the signing or implementation of Production Sharing Agreements in the oil and gas sector. |
| <u>Portfolio investments</u> | Portfolio investments are investments in securities made by a resident of a country without active participation in the management of an enterprise owned by a resident of another country to earn income. This item includes investments in securities not attributable to direct investments. |
| <u>Other investments</u> | Other Investments include i) trade credit and advances, ii) loans, iii) currency and deposits operations. Other investments not attributable to direct and portfolio investments and financial derivative instruments are included to this item. |
| <u>Trade credits</u> | Trade credits (debts) are amounts unpaid by residents in exchange for goods (or supplied services) provided by non-residents to residents, or amounts unpaid by non-residents in exchange for goods (or supplied services) provided by residents to non-residents. |
| <u>Trade advances</u> | Trade advances are amounts paid in advance (in part or in full) by residents in exchange for goods to be delivered (or services to be supplied) by non-residents to residents, or amounts paid in advance (in part or in full) by residents in exchange for goods to be delivered (or services to be supplied) by residents to non-residents. |

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| <u>Loans</u> | Loans are money lent in a certain amount, with or without collateral, on the condition that it will be reimbursed in accordance with the concluded contract, for a certain period (with the right to extend the period) and on the condition that interest (commission fees) will be paid. |
| Currency and deposits | Currency and deposits are money deposited or transferred to current, savings (deposit), correspondent or other accounts, which are to be returned or transferred to another account at the request of investors (depositors) with or without payment of interest or commission fees under relevant contractual conditions, and cash foreign currency. |
| <u>Reserve assets</u> | Increase/decrease in country's strategic foreign reserves as a result of transactions in the current account and the capital and financial account. In practice, when the current account is in surplus, this surplus finances the capital and financial account deficit. If the current account surplus exceeds the capital and financial account deficit, the difference may increase reserve assets. |
| <u>Net errors and omissions</u> | Net errors and omissions may be generated as a result of operations not registered on corresponding items of the balance of payments. In practice, it is impossible to ensure that net errors and omissions are '0' in the preparation of the BoP. Experience shows that accurate registration of a number of transactions in liberal and open economies and on the backdrop of rapid expansion of foreign economic relations is a complicated process, due to incomplete information, time lag between information sources, deviations in assessments and other factors. In most cases, different sources of information are used to record credit and debit sides of a transaction. When one or more of these sources are incomplete, the credit and |

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| | <p>debit sides of the BoP are not equal to each other, resulting in a certain gap. These gaps are summarized and recorded in the net errors and omissions section at the end. For example, if the surplus resulting from the gap between the balance of current account and the balance of capital and financial account flows in the BoP exceeds the increase in reserve assets, this gap should be recorded with a negative sign in the net errors and omissions section.</p> |
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2. EXECUTIVE SUMMARY

The balance of payments for 6 months of 2023¹ was mainly driven by favorable oil and gas prices, high non-oil-gas exports and positive trends in the capital and financial account. Current account surplus amounted to \$5.2B, surplus in the capital and financial account made \$0.5B, reserve assets increased by \$5.2B. Average crude oil price was 81\$/barrel², non-oil-gas export increased by 23% to \$1.7B.

TABLE 1. Main indicators for the balance of payments for 6 months of 2023, mln.\$.

| Indicators | 6 months 2023 |
|--|----------------|
| Current account balance | 5 154.6 |
| Foreign trade balance | 7 488.9 |
| Services balance | -1 113.8 |
| Primary income balance | -1 817.6 |
| - <i>Investment income repatriation</i> | -2 040.3 |
| Secondary income balance | 597.1 |
| Capital account | -6.8 |
| Financial account | 508.6 |
| Net financial assets | -10.0 |
| - <i>direct investments abroad</i> | -102.5 |
| - <i>portfolio investments</i> | 500.6 |
| - <i>other investments</i> | -408.1 |
| Net financial liabilities | 498.6 |
| - <i>direct investments to Azerbaijan</i> | 2 979.5 |
| - <i>attracted investment repatriation</i> | -3 647.6 |
| - <i>oil bonus</i> | 450.2 |
| - <i>portfolio investments</i> | -582.3 |
| - <i>other investments</i> | 1 298.8 |
| Change in reserve assets | 5 245.0 |
| Net errors and omissions | -411.4 |

¹ Go to <https://uploads.cbar.az/assets/4f9ced2ebffd8b2fb6149f920.pdf> for Methodological Guidelines on Compiling the Balance of Payments.

² The actual average oil price was 80.6\$ (101.2\$ in 6 months of 2022) in BoP estimations.

3. CURRENT ACCOUNT BALANCE (CAB)

Current account surplus amounted to \$5.2B or 14.5% of GDP (yoy \$10.3B worth surplus). Oil and gas CAB surplus yoy decreased by 34.5% to \$8.2B, while non-oil-gas CAB deficit increased by 37.8% to \$3.1B.

TABLE 2. Main indicators of CAB for 6 months of 2023, mln.\$.

| Indicators | 6 months 2022 | 6 months 2023 | Change, % |
|--------------------------|---------------|---------------|-----------|
| Current account balance | 10 330.9 | 5 154.6 | -50.1 |
| - Oil-gas sector | 12 553.7 | 8 217.4 | -34.5 |
| - Other sectors | - 2 222.8 | -3 062.8 | 37.8 |
| Foreign trade balance | 13 022.4 | 7 488.9 | -42.5 |
| Services balance | - 1 331.7 | -1 113.8 | -16.4 |
| Primary income balance | - 2 653.5 | -1 817.6 | -31.5 |
| Secondary income balance | 1 293.7 | 597.1 | -53.8 |

3.1. Foreign trade balance

Foreign trade turnover made up \$22.8B, \$11.5B worth oil-gas surplus covered \$4.0B non-oil-gas deficit, resulting in \$7.5B worth foreign trade surplus. Azerbaijan traded with 188 countries – CIS countries account for 13.5%, while other countries for 86.5% of foreign trade.

TABLE 3. Foreign trade balance structure, mln.\$.

| Indicators | 6 months 2022 | 6 months 2023 | Change, % |
|------------------------------|-----------------|-----------------|--------------|
| Foreign trade balance | 13 022.4 | 7 488.9 | -42.5 |
| - Total export | 18 901.8 | 15 157.3 | -19.8 |
| - Total import | -5 879.4 | -7 668.4 | 30.4 |
| Oil-gas sector | 16 437.3 | 11 451.8 | -30.3 |
| - Export | 17 490.8 | 13 417.9 | - 23.3 |
| - Import | -1 053.5 | -1 966.1 | 86.6 |
| Non-oil-gas sector | -3 414.9 | -3 962.9 | 16.0 |
| - Export | 1 411.0 | 1 739.4 | 23.3 |
| - Import | -4 825.9 | -5 702.3 | 18.2 |

Commodity export decreased by 19.8% to \$15.2B. Oil-gas export amounted to \$13.4B due to favorable crude oil and natural gas prices in global markets. Crude oil accounts for \$8.0B, natural gas for \$5.0B and oil processing products for \$0.4B of exported oil-gas products (\$13.4B). Non-oil-gas export increased by 23.3% to \$1.7B.

Commodity import yoy increased by 30.4% to \$7.7B, total value of imported consumer goods amounted to \$3.1B (including \$1.0B worth food products). Non-oil-gas import increased by 18.2% to \$5.7B: import of cars (95.6%), furniture (41.9%), perfume and cosmetics (41.8%), tobacco products (40.9%), soaps and detergents (29.4%), wood ware (20.7%), stone and glass ware (17.6%), metals (13.3%), alcoholic and non-alcoholic beverages (11.0%), sugar (9.7%) and cereals (4.6%) increased. While import of ships, boats, and floating structures (81.2%), vegetable oils (36.7%), butter (19.2%), boilers, equipment, and mechanical devices (14.9%), vegetables (14.5%) and pharmaceuticals (2.4%) decreased.

The share of vehicles, equipment and goods imported via foreign investments was 3.8% (\$293.4M).

TABLE 4. Import structure, mln.\$.

| Indicators | 6 months 2022 | | 6 months 2023 | |
|------------------------------|---------------|-----------|---------------|-----------|
| | Amount | Weight, % | Amount | Weight, % |
| Import | 5 879.4 | 100.0 | 7 668.4 | 100.0 |
| <i>including:</i> | | | | |
| 1. Consumer goods | 2 586.2 | 44.0 | 3 079.2 | 40.2 |
| - food | 938.7 | 16.0 | 967.4 | 12.6 |
| - other | 1 647.5 | 28.0 | 2 111.8 | 27.6 |
| 2. Investment oriented goods | 253.6 | 4.3 | 293.4 | 3.8 |
| 3. Other goods | 3 039.6 | 51.7 | 4 295.8 | 56.0 |

3.2. Services balance

Total services in Azerbaijan's economic ties with foreign countries made up \$6.9B – non-residents rendered \$4.0B worth services to Azerbaijani residents, and Azerbaijani residents rendered \$2.9B worth services to foreign residents. In general, deficit in services balance decreased by 16.4% to \$1.1B. Oil-gas deficit was \$979.1M (up by 1.1%) (in particular, in construction and other business services). Deficit in non-oil-gas services balance was \$134.7M (down by 63.0%).

Transportation accounts for 32.6% of total mutual services turnover. Total size of transportation services made up \$2.2B, 62.8% of which relates to the use of transportation systems of Azerbaijan by non-residents. Total value of transportation services provided by Azerbaijani residents to non-residents made up \$1.4B, while the value of travelling services provided by non-residents to Azerbaijani residents made up \$0.8B.

Non-oil-gas export of transportation services yoy decreased by 6.0% and import decreased by 2.0%. As a result, surplus on transportation services increased by 28.5% to \$572.8M in H1 2023 (\$445.6M in H1 2022).

Mutual tourism services increased by 45.7% to \$1.1B. Tourism export (\$589.4M) prevailed over tourism import (\$488.2M), resulting in \$101.2M worth surplus. The number of Azerbaijani citizens visiting foreign countries increased by 16.3%, while the number of foreign

citizens visiting Azerbaijan increased by 43.9%. Foreign countries supplied \$488.2M worth tourism services to Azerbaijani citizens. Out of which personal expenditures of Azerbaijani citizens in foreign countries amounted to 71.5% (excluding funds for shuttle trade import).

Cost of construction services to non-residents on the non-oil-gas sector decreased by 31.2% to \$15.8M, while cost of other business services to non-residents on the non-oil-gas sector increased by 25.5% to \$577.3M.

3.3. Primary income balance

Oil-gas deficit made up \$2.2B, while non-oil-gas surplus amounted to \$0.4B, resulting in \$1.8B worth primary income balance deficit (down by 31.5%).

Total turnover of income receipts and payments was \$3.5B. 76.0% (\$2.7B) of which were payments from Azerbaijan to non-residents: income repatriation (\$2.1B) (including \$2.0B worth repatriation on foreign investors in oil-gas consortiums in the form of crude oil and natural gas), interest payments to non-residents on securities portfolio (\$161.6M), interest payments on foreign loans (\$232.1M) and other payments (\$142.8M).

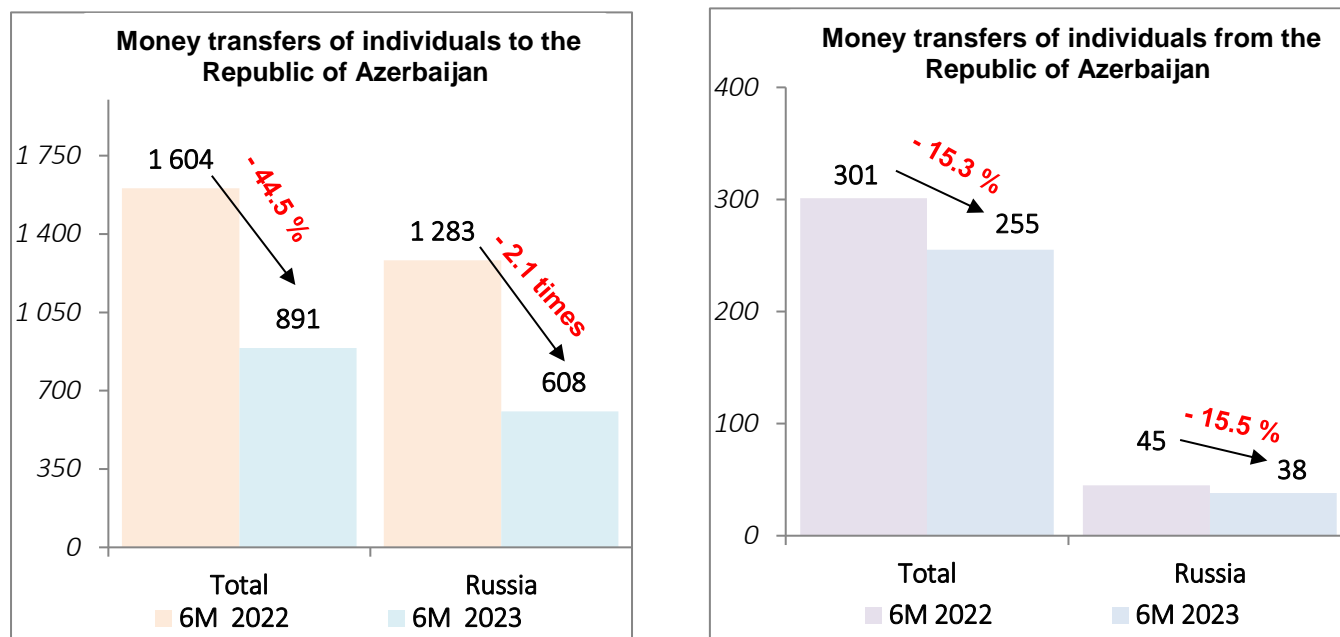
3.4. Secondary income balance

Total value of secondary income operations with foreign countries was estimated to equal \$1.3B – proceeds \$937.3M and payments \$340.2M.

95.0% of total receipts on secondary income includes money transfers of individuals from foreign countries, 4.1% humanitarian goods and other aids, and 0.9% other receipts.

Money transfers of individuals from foreign countries decreased by 44.5% to \$890.7M and money transfers of individuals to foreign countries decreased by 15.3% to \$254.7M, resulting in \$636.0M worth surplus on money transfers of individuals.

CHART 1. Main indicators of money transfers of individuals for 6 months of 2023, mln. \$.



In total, surplus of secondary income operations made up \$597.1M (down by 2.2 times).

4. CAPITAL AND FINANCIAL FLOW ACCOUNT³

Net acquisition of financial assets decreased by \$10.0M: direct investments abroad (\$-102.5M), portfolio investments (\$500.6M) and other investments (\$-408.1 M)

Net financial liabilities increased by \$498.6M: net FDIs (\$-668.1M), oil bonus (\$450.2M), portfolio investments (\$-582.3M) and other investments (\$1298.8M).

TABLE 5. Net financial assets and liabilities for 6 months of 2023, mln.\$.

| | Assets | Liabilities |
|------------------------------|--------|-------------|
| Direct investments | -102.5 | -668.1 |
| - oil-gas sector | -536.4 | -1 359.5 |
| - other sectors | 433.9 | 691.4 |
| Oil bonus | | 450.2 |
| Portfolio investments | 500.6 | -582.3 |
| Other investments | -408.1 | 1 298.8 |
| - Trade credits and advances | 367.9 | 1 345.4 |
| - Loans | 55.9 | -570.2 |
| - Currency and deposits | -831.9 | 523.6 |
| TOTAL | -10.0 | 498.6 |

³ Under the IMF's Balance of Payments Manual (sixth edition), the capital and financial account in the BOP structure is classified under the Assets/Liabilities principle.

4.1. *Direct investments*

Net FDI assets decreased by \$102.5M, net FDI liabilities decreased by \$668.1M.

Total FDI liabilities amounted to \$3.0B, total investments abroad amounted to \$0.6B. In general, there was \$0.6B worth negative balance on FDIs.

The oil-gas sector accounted for 75.9% of FDIs. Drop in net financial liabilities (\$-1359.5M) on the oil-gas sector of the BoP's direct investments item stems from the difference between attracted investments (\$2 262.0M) and capital repatriation (\$3 621.5M) (in the form of crude oil and natural gas, which is the share of international oil and gas consortia).

Total FDI liabilities to the non-oil-gas sector was estimated to equal \$717.5M (down by 34.6%).

4.2. *Portfolio investments*

Net financial assets on portfolio investments increased by \$500.6M, while net financial liabilities decreased by \$582.3M.

Assets on portfolio investments mainly increased at the expense of government (\$74.4M), oil-gas (\$922.2M) and other sectors (\$87.7M) and securities guaranteeing equity participation (\$37.5M) and decreased at the expense of banks (\$621.2M). Liabilities decreased at the expense of banks (\$7.4M) and other sectors (\$594.5M) and increased at the expense of the government sector (\$18.0M) and securities guaranteeing equity participation (\$1.6M).

4.3. *Oil bonus*

According to Article 29.2 of the 'Agreement on joint development and production sharing for the Azeri and Chirag fields and the Deep Water Portion of the Gunashli field located in the Azerbaijani sector of the Caspian Sea' ("AÇG HPBS") dated 14 September 2017, total \$3,6B worth oil bonus is planned to be paid in 2018-2025. Annual payment of this

amount is \$450M. Funds intended for the current year were paid to Azerbaijan in January 2023.

4.4. *Other investments*

Net financial assets on other investments decreased by \$408.1M, while net financial liabilities increased by \$1.3B.

Net financial assets on loans increased by \$55.9M, while net financial liabilities decreased by \$570.2M. Net financial liabilities on loans increased at the expense of bank loans (\$49.5M) and decreased at the expense of oil-gas loans (\$270.2M), government loans (\$133.4M), government guaranteed loans (\$184.1M) and loans of enterprises (\$32.0M).

Net financial assets on currency and deposits decreased by \$0.8B, while net financial liabilities increased by \$0.5B.

5. *RESERVE ASSETS*

Reserve assets of the balance of payments increased by \$5.2B⁴ over 6 months of 2023.

6. *NET ERRORS AND OMISSIONS*

Net errors and omissions amounted to negative \$411.4M over the reporting period.

⁴ Without taking into account exchange rate changes, revaluation and other changes.