



CENTRAL BANK
OF THE REPUBLIC OF AZERBAIJAN

BALANCE OF PAYMENTS REPORT

STATISTICS DEPARTMENT

2022
6 months

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STRUCTURE

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1. GLOSSARY OF TERMS

<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).

<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.
<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

	<p>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 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

Over 6 months of 2022, the balance of payments¹ was mainly driven by significant hike of prices in global commodity markets and high non-oil exports. Current account surplus amounted to \$10.3B, deficit in the capital and financial account made \$5.3B, reserve assets increased by \$4.6B. Average oil price was 101\$/barrel², non-oil export increased by 32.6% to \$1.4B.

TABLE 1. Main indicators of the balance of payments for 6 months of 2022, mln. \$.

Indicators	2022, 6 months
Current account balance	10 330.9
Foreign trade balance	13 022.4
Services balance	-1 331.7
Primary income balance	-2 653.5
- <i>Investment income repatriation</i>	-2 743.4
Secondary income balance	1 293.7
Capital account	-0.1
Financial account	-5 298.1
Net financial assets	3 376.3
- <i>direct investment abroad</i>	62.8
- <i>portfolio investment</i>	280.5
- <i>other investment</i>	3 033.0
Net financial liabilities	-1 921.8
- <i>direct investment to Azerbaijan</i>	3 220.6
- <i>attracted investment repatriation</i>	-5 256.3
- <i>oil bonus</i>	452.2
- <i>portfolio investment</i>	-153.4
- <i>other investment</i>	-184.9
Change in reserve assets	4 633.5
Net errors and omissions	-399.2

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

² The average actual oil price in calculations of the balance of payments was \$101.2 (yoy \$57.7).

3. CURRENT ACCOUNT BALANCE (CAB)

Current account surplus amounted to \$10.3B or 27.6% of GDP (yoy \$1.9B worth surplus). Oil and gas CAB surplus yoy increased by 2.7 times as much to \$12.5B, while non-oil CAB deficit decreased by 17.9% to \$2.2B.

TABLE 2. Main indicators of CAB for 6 months of 2022, mln. \$.

Indicators	2021, 6 months	2022, 6 months	Change
Current account balance	1 878.4	10 330.9	5.5 times
- Oil-gas sector	4 587.3	12 553.7	2.7 times
- Other sectors	-2 708.9	- 2 222.8	- 17.9%
Foreign trade balance	3 518.9	13 022.4	3.7 times
Services balance	- 1 300.5	- 1 331.7	2.4%
Primary income balance	- 558.4	- 2 653.5	4.7 times
Secondary income balance	218.4	1 293.7	5.9 times

3.1. External trade balance

External trade balance made up \$24.8B, \$16.4B worth oil-gas surplus covered \$3.4B non-oil deficit, resulting in \$13B worth surplus in external trade balance. Azerbaijan traded with 167 countries – CIS countries account for 9.9%, while other countries for 90.1% of foreign trade.

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

Indicators	2021, 6 months	2022, 6 months	Change
Foreign trade balance	3 518.9	13 022.4	3.7 times
- Total export	8 352.8	18 901.8	2.3 times
- Total import	-4 833.9	-5 879.4	21.6%
Oil-gas sector	6 453.1	16 437.3	2.5 times
- Export	7 289.1	17 490.8	2.4times
- Import	-836.0	-1 053.5	26.0%
Non-oil sector	-2 934.2	- 3 414.9	16.4%
- Export	1 063.7	1 411.0	32.6%
- Import	-3 997.9	-4 825.9	20.7%

Commodity export amounted to \$18.9B (up by 2.3 times). Oil-gas export increased by 2.4 times as much to \$17.5B due to yoy hike in crude oil and natural gas prices in global markets. Crude oil accounts for \$10B, natural gas \$7.2B and oil processing products for \$0.3B of exported oil-gas products (\$17.5 B). Non-oil export increased by 32.6% to \$1.4B.

Commodity import yoy increased by 21.6% to \$5.9B, total value of imported consumer goods amounted to \$2.6B (including \$938.7M worth food products). Non-oil import increased by 20.7% to \$4.8B: import of metals (79%), butter (47.7%), paper products (43.9%), cereals (40.2%), pharmaceuticals (30.5%), furniture (22.3%), wood ware (14.9%), alcoholic and non-alcoholic beverages (13.6%), vegetables (13.1%), stone and glass ware (9.8%), perfumes and cosmetics (5.3%), soaps and detergents (4.4%) and automobiles (0.6%) increased. Import of ships, boats and floating structures (30.7%), boilers, equipment and mechanical devices (22.8%), tobacco products (20.1%) and sugar (9.6%) decreased.

The share of vehicles, equipment and goods imported via foreign investments was 4.3% (\$254M).

TABLE 4. Import structure, mln. \$.

Indicators	2021, 6 months		2022, 6 months	
	Amount	Weight, %	Amount	Weight, %
Import	4 833.9	100.0	5 879.4	100.0
including:				
1. Consumer goods	2 351.0	48.6	2 586.2	44.0
- food	805.9	16.6	938.7	16.0
- other	1 545.1	32.0	1 647.5	28.0
2. Investment oriented goods	440.3	9.1	253.6	4.3
3. Other goods	2 042.6	42.3	3 039.6	51.7

3.2. Services balance

Total services in Azerbaijan's economic ties with foreign countries made up \$5.9B – \$3.6B worth services was rendered by non-residents to Azerbaijani residents, and \$2.3B by Azerbaijani residents to foreign residents. In general deficit in services balance increased by 2.4% to \$1.3B. Non-oil deficit was \$968.2M (down by 0.9%) (in particular in construction and other business services). Deficit in non-oil services balance was \$363.6M (up by 12.4%).

Transportation accounts for 36.5% of total mutual services turnover. Total size of transportation services made up \$2.2B, 60.4% 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 \$1.3B, while the value of travelling services provided by non-residents to Azerbaijani residents made up \$0.9B.

Non-oil export of transportation services yoy increased by 6.9%, while import increased by 18.1%. As a result, surplus on transportation services increased by 14.4% to \$445.6M over 6 months of 2022 (yoy \$389.5M).

Mutual tourism services increased by 2.9 times to \$739.6M. Tourism import (\$424.8M) prevailed over tourism export (\$314.8M), resulting in \$110M worth deficit. The

number of Azerbaijani citizens visiting foreign countries increased by 2.3 times, while the number of foreign citizens visiting Azerbaijan increased by 2.3 times. Foreign countries supplied \$424.8M worth tourism services to Azerbaijani citizens. Out of which personal expenditures of Azerbaijani citizens in foreign countries amount to 83.2% (excluding funds for shuttle trade import).

Cost of construction services to non-residents on the non-oil sector decreased by 13.8 times to \$22.9M, while cost of other business services to non-residents on the non-oil sector increased by 1.6 times to \$0.5B.

3.3. Primary income balance

Oil-gas deficit made up \$2.9B, while non-oil surplus amounted to \$0.3B, resulting in \$2.6B worth primary income balance deficit (up by 4.8 times).

Total turnover of income receipts and payments was \$4B. 83.1% (\$3.3B) of which were payments from Azerbaijan to non-residents: income repatriation (\$2.9B) (including \$2.8B worth repatriation on foreign investors in oil-gas consortiums as (in form of) crude oil and natural gas), interest payments to non-residents on securities portfolio (\$168.3M), interest payments on foreign loans (\$150.1M) and other payments (\$118.5M).

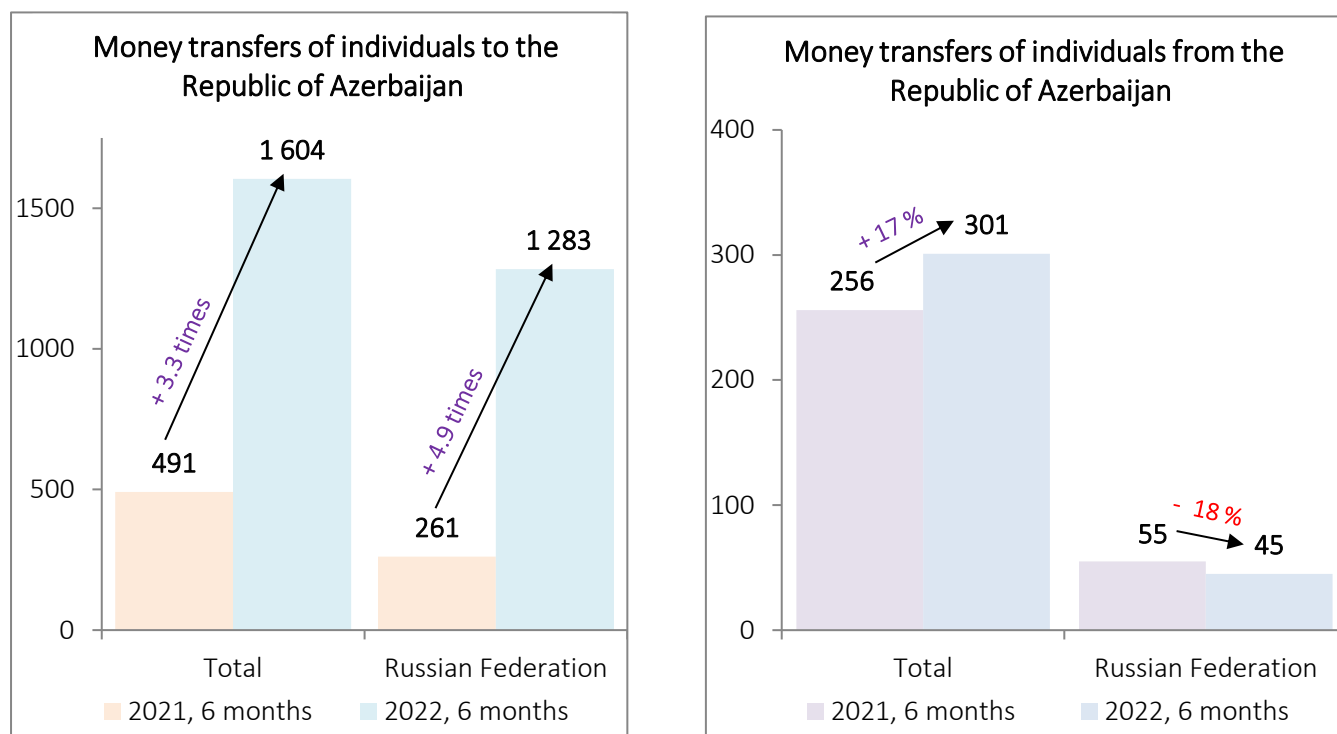
3.4. Secondary income balance

Total value of secondary income operations with foreign countries is estimated to equal \$2.1B – proceeds \$1.7B, and payments \$0.4B.

96.7% of total receipts on secondary income is comprised of remittances of individuals from foreign countries, 2.1% humanitarian aid goods, and 1.2% other receipts..

Remittances from foreign countries increased by 3.3 times to \$1.6B, while remittances to foreign countries increased by 17.4% to \$0.3B, resulting in \$1.3B worth positive surplus on remittances.

CHART 1. Main indicators of money transfers for 6 months of 2022, mln.\$.



In total, surplus of secondary income operations made up positive \$1.3B (up by 5.9 times).

4. CAPITAL AND FINANCIAL ACCOUNT³

Net acquisition of financial assets increased by \$3 376.3M: direct investment abroad (\$62.8M), portfolio investment (\$280.5M) and other investment (\$3 033M).

Net financial liabilities decreased by \$1 921.8M: net *foreign* direct investment (FDI) (\$-2 035.7M), oil bonus (\$452.2M), portfolio investment (\$-153.4M) and other investment (\$-184.9M).

TABLE 5. Net financial assets and liabilities for 6 months of 2022, mln. \$.

	Assets	Liabilities
Direct investment	62.8	-2 035.7
- <i>oil-gas sector</i>	-294.9	-3 122.5
- <i>other sectors</i>	357.7	1 086.8
Oil bonus		452.2
Portfolio investment	280.5	-153.4
Other investment	3 033.0	-184.9
- <i>Trade credits and advances</i>	1 345.0	186.6
- <i>Loans</i>	30.3	-754.3
- <i>Currency and deposits</i>	1 657.7	382.8
TOTAL	3 376.3	-1 921.8

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 investment*

Total FDI liabilities amounted to \$3.2B. The oil-gas sector accounts for 65.9% of FDIs. Drop in net financial liabilities (\$-3 122.4 M) on the oil-gas sector of the BoP's direct investments item stems from the difference between attracted investments (\$2 122.9M) and capital repatriation (\$5 245.3M) (mainly as (in form of) crude oil and natural gas which is the share of international oil and gas consortia)

Total amount of FDIs liabilities to the non-oil sector is estimated to equal \$1 097.7M (up by 2.4 times).

4.2. *Portfolio investment*

Receipts on portfolio investments made \$10.7M and payments made \$444.6M. Net financial assets on portfolio investments increased by \$280.5M, while net financial liabilities decreased by \$153.4M resulting in \$433.9M negative balance.

Assets on portfolio investments mainly increased due to the public (\$51.2M), banking (\$55.6M) and other sectors (\$168.9M) and securities guaranteeing equity participation (\$4.8M). Liabilities decreased due to the public (\$1.4M), banking (\$102.1M) and other sectors (\$49.9M).

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' 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 2022.

4.4. *Other investment*

Net financial assets on loans increased by \$30.3M, while net financial liabilities decreased by \$754.3M. Net financial liabilities on loans increased at the expense of the bank loans (\$30.4M), and decreased at the expense of loans of the oil and gas (\$387.5M), government loans (\$173.9M), government guaranteed loans (\$188.1M) and loans of enterprises (\$35.2M).

Net financial assets on currency and deposits increased by \$1.7B, while net financial liabilities increased by \$0.4B.

5. *RESERVE ASSETS*

Reserve assets increased by \$4.6B.⁴

6. *NET ERRORS AND OMISSIONS*

Net errors and omissions amounted to negative \$399M over the reporting period.

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