

BALANCE OF PAYMENTS

of the Republic of Azerbaijan for 6 months of 2021

In the first half of 2021, the balance of payments¹ was mainly driven by recovery of prices in global commodity markets and high non-oil exports. Surplus in current account amounted to \$1.9B, deficit in the capital and financial flow account made \$0.6B, reserve assets increased by \$1.3B. Over the period average oil price was 58\$/barrel, non-oil export increased by 20%.

Table 1. Key indicators of the balance of payments for 6 months of 2021, mln.\$

Current operations	1 878.4
Foreign trade balance	3 518.9
Services balance	- 1 300.5
Primary income balance	-558.4
- <i>Investment income repatriation</i>	-586.3
Secondary income balance	218.4
Capital account	-4.6
Financial account	-578.5
Net financial assets	695.6
<i>including:</i>	
- <i>direct investments abroad</i>	182.7
- <i>portfolio investments</i>	255.0
- <i>other investments</i>	257.9
Net financial liabilities	117.1
<i>including:</i>	
- <i>direct investments to Azerbaijan</i>	2 635.7
- <i>attracted investment repatriation</i>	-2 559.1
- <i>oil bonus</i>	452.1
- <i>portfolio investments</i>	0.6
- <i>portfolio investments</i>	- 412.2
Net errors and omissions	- 34.0
Total surplus of the BOP (change in reserve assets of the country; '+' increase, '-' decrease)	1 261.3

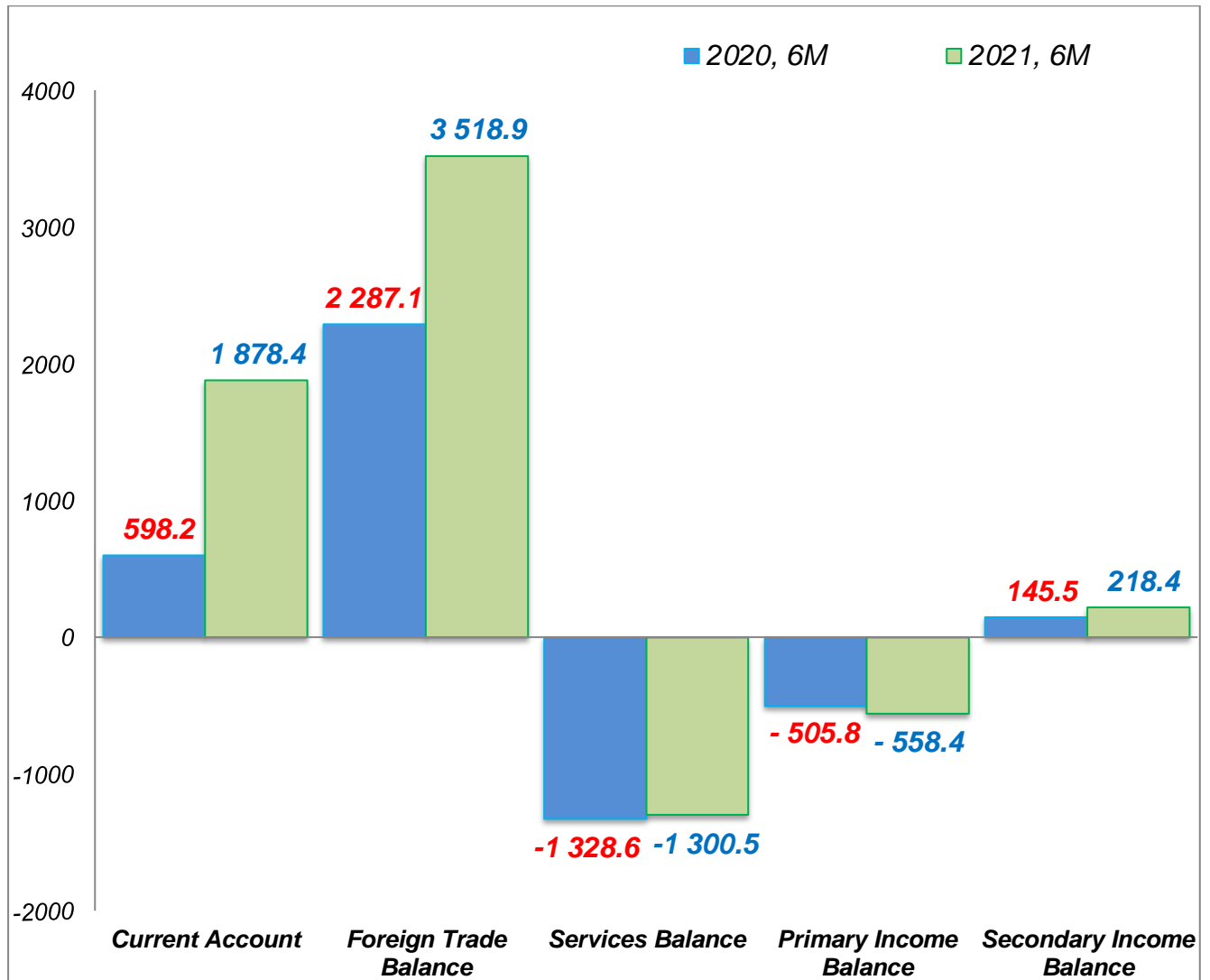
Note: The BOP was calculated at the \$57.7 (y/y \$41.8) average actual crude oil price.

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

Current account

Current account surplus amounted to \$1.9B or 8% of GDP (\$598.2M in H1 2020). Oil and gas current account surplus y/y increased by 40.7% to \$4.6B, while non-oil current account deficit increased by 1.8% to \$2.7B.

Chart 1. Current account in H1 2021, mln.\$



External trade balance made up \$13.2B, \$6.4B worth oil-gas surplus covered \$2.9B non-oil deficit, resulting in \$3.5B worth positive external trade balance. Azerbaijan traded with 172 countries – CIS countries account for 13.6%, while other countries for 86.4% of foreign trade

Commodity export amounted to \$8.4B (up by 18%). Oil-gas export increased by 17.8% to \$7.3B due to y/y hike in crude oil prices in global markets (38%). Crude oil accounts for \$5.6B and oil processing products for \$352M of exported oil products (\$5.9B). Non-oil export increased by 19.8% to \$1.1B.

Commodity import y/y increased by 0.9% to \$4.8B, total value of imported consumer goods amounted to \$2.4B (including \$806M worth food products). Non-oil import increased by 0.7% to

\$4B: import of ships, boats and floating structures (5.7 times), sugar (47.6%), railway vehicles (2.7 times), pharmaceuticals (40.2%), automobiles (39.3%), tobacco and tobacco products ((28.5%), furniture (25.3%), wood ware (15.8%), cereals (15.5%), vegetables (9.2%) and paper products (8.1%) increased, while import of aircrafts (6.6 times), metals (39.6%) and soaps and detergents (10.4%) decreased.

The share of vehicles, equipment and goods imported via foreign investments was 9.1% (\$0.4B).

Table 2. Import structure, mln.\$

	2020, 6 months		2021, 6 months	
	<i>Amount</i>	<i>Weight, %</i>	<i>Amount</i>	<i>Weight, %</i>
Import - total	4 789.6	100.0	4 833.9	100.0
including:				
1. Consumer goods	2 115.7	44.2	2 351.0	48.6
- food products	730.0	15.2	805.9	16.7
- other	1 385.7	29.0	1 545.1	31.9
2. Investment-oriented goods	375.5	7.8	440.3	9.1
3. Other goods	2 298.4	48.0	2 042.6	42.3

Services balance

Total services in Azerbaijan's economic ties with foreign countries made up \$4.4B – \$2.9B worth services was rendered by non-residents to Azerbaijani residents, and \$1.5B by Azerbaijani residents to foreign residents, in general deficit in services balance decreased by 2.1% to \$1.3B. Non-oil deficit was \$976.9M (down by 20.1%) (in particular in construction and other business services). Deficit in non-oil services balance was \$323.6M (up by 3.1 times).

Transportation accounts for 41.6% of total mutual services turnover. Total size of transportation services made up \$1.8B, 60.6% 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 \$1.1B, while the value of travelling services provided by non-residents to Azerbaijani residents made up \$721.6M.

Non-oil export of transportation services y/y increased by 11.9%, while import increased by 14.1%. As a result, \$56.5M worth surplus (H1 2020) increased by 6.9 times to \$389.5M surplus (H1 2021).

Mutual tourism services decreased by 2.2 times to \$252.1M. Tourism export amounted to \$63.6M; import amounted to \$188.5M, resulting in \$124.9M worth deficit. The number of

Azerbaijani citizens visiting foreign countries decreased by 3.3 times, while the number of foreign citizens visiting Azerbaijan decreased by 2.1 times

Foreign countries supplied \$188.5M worth touristic services to Azerbaijani citizens. Out of which private expenditures of Azerbaijani citizens in foreign countries account for 90.2% (*funds for shuttle import excluding*).

Cost of construction services to non-residents on the non-oil sector decreased by 4.2 times to \$1.7M, while cost of other business services to non-residents on the non-oil sector increased by 42.7% to \$418M.

Primary income balance

Oil-gas deficit made up \$888.9M, while non-oil surplus amounted to \$330.4M, resulting in \$558.4M worth primary income balance deficit.

Total turnover of income receipts and payments was \$2.3B. 62.1% (\$1.4B) of which were payments from Azerbaijan to non-residents: income repatriation (\$989.9M) of foreign investors in oil-gas consortiums (mainly in terms of crude oil), interest payments to non-residents on securities portfolio (\$173.9M), interest payments on foreign loans (\$147.3M) and other payments (\$126.6M).

Secondary income balance

Total value of secondary income operations with foreign countries is estimated to equal \$844M – proceeds \$531.2M, and payments \$312.8M.

92.5% of total receipts on secondary income is comprised of remittances of individuals from foreign countries, 6.2% humanitarian aid goods, and 1.3% other receipts.

Remittances from foreign countries increased by 32% to \$491.4M, while remittances to foreign countries increased by 15.8% to \$256.1M, resulting in \$235.3M worth surplus on remittances

In total, surplus of secondary income operations made up positive \$218.4M (up by 1.5 times).

Financial account²

Net acquisition of financial assets increased by \$695.6M: direct investments abroad (\$182.7M), portfolio investments (\$255M) and other investments (\$257.9M).

Net financial liabilities increased by \$117.1M: net FDIs (\$76.6M), oil bonus (\$452.1M), portfolio investments (\$0.6M) and other investments (\$-412.2M).

² 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.

Table 3. Net financial assets and liabilities over 6 months 2021, mln.\$

	Assets	Liabilities
Direct investments	182.7	76.6
- <i>oil-and-gas sector</i>	46.0	-367.6
- <i>other sectors</i>	136.7	444.2
Oil bonus		452.1
Portfolio investments	255.0	0.6
Other investments	257.9	-412.2
- <i>trade credit and investments</i>	243.1	194.1
- <i>loans</i>	4.8	-574.8
- <i>currency and deposits</i>	10.0	-31.5
TOTAL	695.6	117.1

Direct investments

Total FDI liabilities amounted to \$2.6B.

The oil-gas sector accounts for 82.8% of FDIs.

Drop in net financial liabilities (\$-367.6M) on the oil-gas sector of the BoP's direct investments item over 6 months of 2021 stems from the difference between attracted investments (\$2 182.0M) and capital repatriation (\$2 549.6M).

Total amount of FDIs liabilities to the non-oil sector is estimated to equal \$453.7M (up by 38.1%).

Portfolio investments

Net financial assets on portfolio investments increased by \$255M, while net financial liabilities increased by \$0.6M, resulting in \$254.4M negative surplus.

Assets on portfolio investments mainly decreased due to the oil-and-gas sector (\$11.4M), and increased due to the public (\$125.6M), banking (\$100.2M) and private (\$40.6M) sectors. Liabilities decreased due to the public sector (\$2.9M) and increased due to the private sector (\$3.5M).

Loans and other investments

Net financial assets on loans increased by \$4.8M, while net financial liabilities decreased by \$574.8M. Net financial liabilities on loans increased at the expense of the bank loans (\$1.9M), and decreased at the expense of direct government loans (\$254M), government guaranteed loans (\$151.8M), loans of the oil and gas sector (\$142.1M), and loans of companies and other enterprises (\$28.8M)

Net financial assets on currency and deposits increased by \$10M, while net financial liabilities decreased by \$31.5M.

Reserve assets

In H1 2021 country's reserve assets increased by \$1.3B.