

BALANCE OF PAYMENTS

of the Republic of Azerbaijan for Quarter I, 2021

In Q1 2021, the balance of payments¹ was mainly driven by recovery of prices in global commodity markets, increased non-oil exports, as well as positive trends in capital and financial flow account. Surplus in current account amounted to \$627.7M and \$15M in the capital and financial flow account, reserve assets increased by \$325.9M. Over the period average quarterly oil price was 52.4\$/barrel, non-oil export increased by 11%.

Table 1. Key indicators of the balance of payments for Q1 2020, mln.\$

Current operations	627.7
Foreign trade balance	1 548.8
Services balance	- 818.2
Primary income balance	-200.1
- Investment income repatriation	-163.6
Secondary income balance	97.2
Capital account	0.6
Financial account	14.4
Net financial assets	524.4
including:	
- direct investments abroad	106.2
- portfolio investments	76.2
- other investments	342.0
Net financial liabilities	538.8
including:	
- direct investments to Azerbaijan	1 400.9
- attracted investment repatriation	-1 279.6
- oil bonus	450.5
- portfolio investments	- 1.1
- other investments	- 31.9
Net errors and omissions	- 316.8
Total surplus of the BOP (change in reserve assets of the country; '+' increase, '-' decrease)	325.9

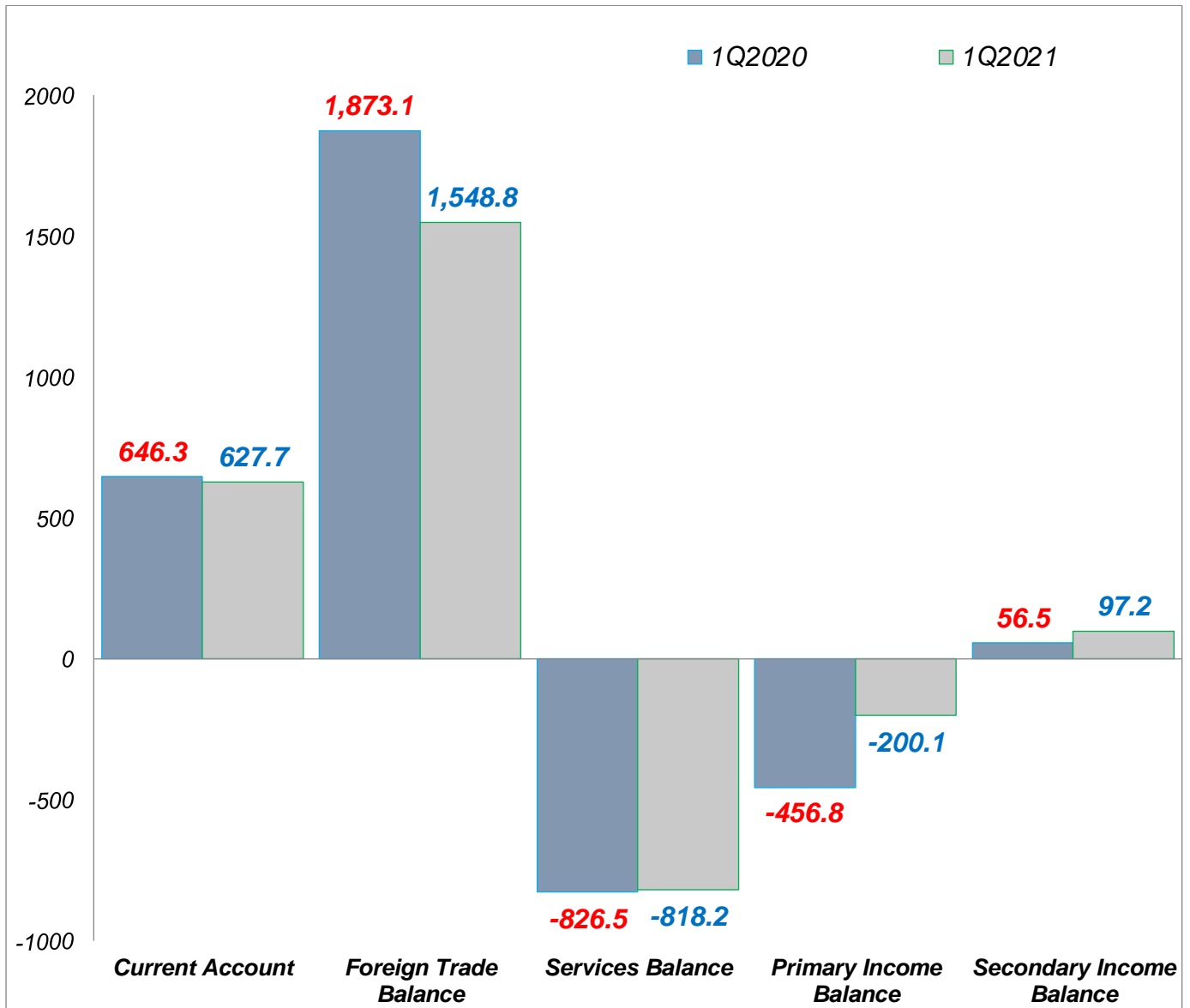
Note: The BOP was calculated at the \$52 (y/y \$58) average actual crude oil price.

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 \$627.7M or 5.6% of GDP (\$646.3M in Q1 2020). Oil and gas current account surplus y/y decreased by 19.9% to \$1.9B, while non-oil current account deficit decreased by 26.1% to \$1.3B.

Chart 1. Current account in Q1 2021, mln.\$



External trade balance made up \$6.1B, \$2.9B worth oil-gas surplus covered \$1.4B non-oil deficit, resulting in \$1.5B worth positive external trade balance. Azerbaijan traded with 155 countries – CIS countries account for 12.7%, while other countries for 87.3% of foreign trade.

Commodity export amounted to \$3.8B (down by 13.9%). Oil-gas export decreased by 16.5% to \$3.4B due to y/y cheaper crude oil prices in global markets (-9%). Crude oil accounts for \$2.6B and oil processing products for \$125.4M of exported oil products (\$2.7B). Non-oil export increased by 11.2% to \$457.3M.

Commodity import y/y decreased by 11.5% to \$2.3B, total value of imported consumer goods amounted to \$1.1B (including \$401.7M worth food products). Non-oil import decreased by 11.7% to \$1.9B: import of ships, boats and floating structures (23.3 times), sugar (3 times), railway vehicles (1.8 times), fertilizers (1.7 times), pharmaceuticals (48.3%), cereals (24.6%), tobacco and tobacco products (20.7%) and vegetables (15.1%) increased, while import of aircrafts (6.9 times), metals (50.3%), wood ware (13.3%), paper products (8.5%), furniture (6.1%), automobiles (5.5%) decreased.

The share of vehicles, equipment and goods imported via foreign investments was 8.6% (\$0.2B).

Table 2. Import structure, mln.\$

	Q1 2020		Q1 2021	
	<i>Amount</i>	<i>Weight, %</i>	<i>Amount</i>	<i>Weight, %</i>
Import - total	2 590.1	100.0	2 291.8	100.0
including:				
1. Consumer goods	1 128.1	43.6	1 090.7	47.6
- food products	352.0	13.6	401.7	17.5
- other	776.1	30.0	689.0	30.1
2. Investment-oriented goods	184.4	7.1	198.2	8.6
3. Other goods	1 277.6	49.3	1 002.9	43.8

Services balance

Total services in Azerbaijan's economic ties with foreign countries made up \$2.2B – \$1.5B worth services was rendered by non-residents to Azerbaijani residents, and \$0.7B by Azerbaijani residents to foreign residents, as a result deficit in services balance decreased by 1% to \$818.2M. Non-oil deficit was \$680.2M (up by 7.2%) (in particular in construction and other business services). Deficit in non-oil services balance was \$138M (down by 28.2%).

Transportation accounts for 39.2% of total mutual services turnover. Total size of transportation services made up \$872.7M, 62% 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 \$540.9M, while the value of travelling services provided by non-residents to Azerbaijani residents made up \$331.8M.

Non-oil export of transportation services y/y increased by 39.6%, while import decreased by 14.1%. As a result, \$91.7M worth related deficit (Q1 2020) was replaced by \$209.1M surplus (Q1 2020).

Mutual tourism services decreased by 5 times to \$110.8M. Tourism import (\$84.7M) prevailed over export (\$26.1M), resulting in \$58.6M worth deficit. The number of Azerbaijani citizens visiting foreign countries decreased by 8.4 times, while the number of foreign citizens visiting Azerbaijan decreased by 4.4 times.

Foreign countries supplied \$84.7M worth touristic services to Azerbaijani citizens. Out of which private expenditures of Azerbaijani citizens in foreign countries account for 91.7% (*funds for shuttle import excluding*).

Cost of construction services to non-residents on the non-oil sector decreased by 3.2 times to \$1.7M, while cost of other business services to non-residents on the non-oil sector increased by 22.9% to \$172.5M.

Primary income balance

Oil-gas deficit made up \$377.1M, while non-oil surplus amounted to \$177.0M, resulting in 2.3 times decrease in primary income balance deficit to \$200.1M.

Total turnover of income receipts and payments was \$1.2B. 58.6% (\$683.3M) of which were payments from Azerbaijan to non-residents: income repatriation (\$351.1M) of foreign investors in oil-gas consortiums (mainly in terms of crude oil), interest payments to non-residents on securities portfolio (\$173.8M), interest payments on foreign loans (\$52.8M) and other payments (\$105.6M).

Secondary income balance

Total value of secondary income operations with foreign countries is estimated to equal \$397.7M – proceeds \$247.4M, and payments \$150.3M.

91.6% of total receipts on secondary income is comprised of remittances of individuals from foreign countries, 7.3% humanitarian aid goods, and 1.1% other receipts.

Remittances from foreign countries increased by 20.6% to \$226.6M, while remittances to foreign countries decreased by 0.3% to \$121.9M, resulting in \$104.7M worth surplus on remittances.

In total, surplus of secondary income operations made up positive \$97.1M (up by 1.7 times).

Financial account²

Net acquisition of financial assets increased by \$524.4M: direct investments abroad (\$106.2M), portfolio investments (\$76.2M) and other investments (\$342M).

Net financial liabilities increased by \$538.8M: net FDIs (\$121.3M), oil bonus (\$450.5M), portfolio investments (\$-1.1M) and other investments (\$-31.9M).

² Under the IMF's Balance of Payments Manual (6th Edition), the capital and financial account in the BOP structure is classified under the Assets/Liabilities principle.

Table 3. Net financial assets and liabilities in Q1 2021, mln.\$

	Assets	Liabilities
Direct investments	106.2	121.3
- <i>oil-and-gas sector</i>	3.1	-28.5
- <i>other sectors</i>	103.1	149.8
Oil bonus		450.5
Portfolio investments	76.2	-1.1
Other investments	342.0	-31.9
- <i>trade credit and investments</i>	-108.0	225.6
- <i>loans</i>	-4.9	-207.6
- <i>currency and deposits</i>	454.9	-49.9
TOTAL	524.4	538.8

Direct investments

Total FDI liabilities amounted to \$1.4B.

The oil-gas sector accounts for 89.2% of FDIs

Drop in net financial liabilities (\$-28.5M) on the oil-gas sector of the BoP's direct investments item in Q1 2021 stems from the difference between attracted investments (\$1 249.4M) and capital repatriation (\$1 277.9M).

Total amount of FDIs liabilities to the non-oil sector is estimated to equal \$151.5M (down by 36.1%).

Portfolio investments

Net financial assets on portfolio investments increased by \$76.2M, while net financial liabilities decreased by \$1.1M, resulting in \$77.3M negative surplus.

Assets on portfolio investments mainly increased due to the public sector, while liabilities decreased due to the oil and gas sector.

Loans and other investments

Net financial assets on loans decreased by \$4.9M, while net financial liabilities decreased by \$207.6M. Net financial liabilities on loans decreased at the expense of direct government loans (\$80.6M), government guaranteed loans (\$20.9M), bank loans (\$3.5M), loans of the oil and gas sector (\$58.8M) and loans of companies and other enterprises (\$43.8M).

Net financial assets on currency and deposits increased by \$454.9M, while net financial liabilities decreased by \$49.9M.

Reserve assets

In Q1 2021 country's reserve assets increased by \$325.9M.