BALANCE OF PAYMENTS

of the Republic of Azerbaijan for Quarter 1, 2020

Amid unfavorable oil prices, surplus of the current account balance (CAB) amounted to $646M and deficit of the capital and financial account amounted to $1.4B, main items of the balance of payments (BoP), reserve assets decreased by $1.3B. Average quarterly oil price over the period was $58/barrel, non-oil export increased by 4%.

Key indicators of the balance of payments for Q1, 2020

<table>
<thead>
<tr>
<th>Current operations</th>
<th>646.3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign trade balance</td>
<td>1 873.1</td>
</tr>
<tr>
<td>Services balance</td>
<td>-826.5</td>
</tr>
<tr>
<td>Primary income balance</td>
<td>-456.8</td>
</tr>
<tr>
<td>- Investment income repatriation</td>
<td>-358.1</td>
</tr>
<tr>
<td>Secondary income balance</td>
<td>56.5</td>
</tr>
</tbody>
</table>

Financial account

-1 394.1

Net financial assets

1 526.7

including:

- direct investments abroad
  336.6
- portfolio investments
  -144.9
- other investments
  1 335.0

Net financial liabilities

132.6

including:

- direct investments to Azerbaijan
  1 188.3
- attracted investment repatriation
  -999.9
- oil bonus
  451.6
- portfolio investments
  -50.2
- other investments
  -457.2

Net errors and omissions

-595.7

Total surplus of the BOP (change in reserve assets of the country; ‘+’ increase, ‘-’ decrease)

-1 343.5

Note: The BOP was calculated at the $57.6 ($61.9 in Q1, 2019) average actual crude oil price

Current account

Current account surplus y/y decreased by 2.5 times to $646.3M, non-oil surplus y/y decreased by 19.2% ($0.6B) to $2.4B, while non-oil current account deficit increased by 28.4% ($0.4B) to $1.8B in Q1, 2020. Oil-and-gas current account surplus fully covered non-oil deficit. Current account surplus mainly stemmed from foreign trade surplus.

External trade balance

External trade balance made up $7.1B, $3.6 B worth of oil-gas surplus covered $1.7B non-oil deficit, resulting in $1.9B worth of positive external trade balance (y/y down 24.7%). Azerbaijan traded with 155 countries – CIS countries account for 13%, while other countries for 87% of foreign trade.

Commodity export amounted to $4.5B (down by 6%).
Oil-gas export decreased by 6.9% to $4.1B (due to 7% slump in crude oil prices in global markets). Crude oil accounts for $3.2B and oil processing products for $95M of exported oil products ($3.3B).

Non-oil export y/y increased by 3.9% to $411M.

**Commodity import** y/y increased by 14.6% to $2.6B, total value of imported consumer goods amounted to $1.1B (including $352M worth food products). Non-oil import increased by 12.4% to $2.1B; import of automobiles (52%), metals (48.3%), vegetables (13.9%), paper products (12.6%), wood ware (11.2%), stone and glass products (4.4%) increased, while import of railway vehicles (93.5%), sugar (61.2%), cereals (52.3%), tobacco and products (9%), chemicals (2.9%), alcoholic and non-alcoholic beverages (2%), furniture (1.1%) decreased.

The share of vehicles, equipment and goods imported via foreign investments was 7.1% ($184.4M).

**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, $0.7B by Azerbaijani residents to foreign residents, resulting in $0.8B worth deficit in services balance (y/y up by 1.7 times).

Oil and gas services balance deficit was $634.3M (in particular in construction and other business services). Deficit in non-oil services balance was $192.2M.

Transportation accounts for 30% of total mutual services turnover. Total size of transportation services made up $681, 43.3% 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 $295M, while the value of travelling services provided by non-residents to Azerbaijani residents made up $386M.

Non-oil export of transportation services y/y decreased by 0.2%, while import increased by 44.7%. As a result, $27.1M worth related deficit y/y increased by 5.4 times to $146M.

Mutual tourism services decreased by 18% to $549M. Tourism import ($281.7M) prevailed over export ($267.4M), resulting in $14.3 M worth deficit (y/y down by 2.3 times). The number of Azerbaijani citizens visiting foreign countries decreased by 23%, while the number of foreign citizens visiting Azerbaijan decreased by 15%.

Foreign countries supplied $281.7M worth touristic services to Azerbaijani citizens. Out of which private expenditures of Azerbaijani citizens in foreign countries account for 86% (funds for shuttle import excluding). Cost of non-oil construction services to non-residents on the sector y/y
decreased by 3.1 times to $5.4M, while cost of other business services to non-residents on the non-oil sector decreased by 1.6 times to $140.3M.

**Primary income balance**

Oil-gas deficit made up $566.5M, while non-oil surplus amounted to $109.7 M, resulting in 11.2% decrease in primary income balance deficit to $456.8M.

Total turnover of income receipts and payments was $1.1B, 71.5% ($759.1M) of which were payments from Azerbaijan to non-residents: income repatriation ($407.1M) of foreign investors in oil-gas consortiums (mainly in terms of crude oil), interest payments to non-residents on the securities portfolio ($169.5M), interest payments on foreign loans ($88.7M) and other payments ($93.8M).

**Secondary income balance**

Total value of secondary income operations with foreign countries is estimated to equal $356.9M – receipts $206.7M, and payments $150.2 M.

91% of total receipts on secondary income is comprised of remittances of individuals from foreign countries, 7.2% value of humanitarian goods, and 1.8% other receipts.

Remittances from foreign countries decreased by 12.6% to $188M, while remittances to foreign countries increased by 37% to $122.3 M, resulting in $65.6M worth surplus on remittances.

In total, surplus of secondary income operations made up positive $56.5M (y/y down by 2.4 times).

**Financial account**

Net acquisition of financial assets increased by $1 526.7M: direct investments abroad ($336.6 M), portfolio investments ($144.9M) and other investments ($1 335M).

Net financial liabilities increased by $132.6M: FDIs ($188.4M), oil bonus ($451.6M), portfolio investments ($-50.2M) and other investments ($-457.2M).

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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.
Net financial assets and liabilities for Quarter 1, 2020

<table>
<thead>
<tr>
<th></th>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct investments</td>
<td>336.6 Mlн. $</td>
<td>188.4 Mlн. $</td>
</tr>
<tr>
<td>- oil and gas sector</td>
<td>199.0 Mlн. $</td>
<td>-38.9 Mlн. $</td>
</tr>
<tr>
<td>- other sectors</td>
<td>137.6 Mlн. $</td>
<td>227.3 Mlн. $</td>
</tr>
<tr>
<td>Oil bonus</td>
<td></td>
<td>451.6 Mlн. $</td>
</tr>
<tr>
<td>Portfolio investments</td>
<td>-144.9 Mlн. $</td>
<td>-50.2 Mlн. $</td>
</tr>
<tr>
<td>Other investments</td>
<td>1 335.0 Mlн. $</td>
<td>-457.2 Mlн. $</td>
</tr>
<tr>
<td>- trade credits and advances</td>
<td>733.2 Mlн. $</td>
<td>-177.8 Mlн. $</td>
</tr>
<tr>
<td>- loans</td>
<td>-9.6 Mlн. $</td>
<td>-199.6 Mlн. $</td>
</tr>
<tr>
<td>- currency and deposits</td>
<td>611.4 Mлн. $</td>
<td>-79.8 Mлн. $</td>
</tr>
<tr>
<td>TOTAL</td>
<td>1 526.7 Mлн. $</td>
<td>132.6 Mлн. $</td>
</tr>
</tbody>
</table>

**Direct investments**

Total FDI liabilities amounted to $1.2 B.

The oil-gas sector accounts for 80% of FDIs.

Rise in net financial liabilities ($38.9 Mлн.) on the oil-gas sector of the BoP’s direct investments item stems from the difference between attracted investments ($951.1 Mлн.) and capital repatriation ($990 Mлн.).

Total amount of FDI liabilities to the non-oil sector is estimated to equal $237.2 Mлн.

**Box 1.** The size, and structure of investments attracted to the Azerbaijani oil-and-gas sector, distribution of shares among investors with their further repatriation in the form of income and capital are being managed under international oil-and-gas contracts and recommendations of the IMF.

Repatriation of income under signed contracts is defined as the income a foreign investor earns from his/her investment. To note, under these contracts investors of relevant consortiums take back all of their investments to the Azerbaijani economy over the reported period in the form of extracted and exported crude oil (capital repatriation). In fact, this operation is the decrease in country’s foreign liabilities in the financial account of the BoP ("-" net incurrence of liabilities).

**Portfolio investments**

Receipts on portfolio investments made up $197.5 Mлн., and payments made up $102.9 Mлн., resulting in $94.6 Mлн. worth positive balance.
Assets on portfolio investments mainly decreased due to banks and the public sector, while liabilities decreased due to the oil and gas sector.

**Loans and other investments**

Net financial assets on loans decreased by $9.6M, while net financial liabilities decreased by $199.7M. Net financial liabilities on loans decreased due to direct public loans, government guaranteed loans, bank loans, loans of the oil and gas sector, companies and other enterprises. Net financial assets on currency and deposits increased by $611.4M, while net financial liabilities decreased by $79.8 M.

**Reserve assets**

In Q1, 2020 reserve assets decreased by $1.3B.

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**Box 2.** The Reserve Assets item stands for increase/decrease in country's foreign exchange reserves resulting from operations in current operations and financial accounts. In practice, in the event of current account deficit/surplus, the deficit/surplus should be financed/covered at the expense of the surplus/deficit of the capital and financial account. However, if the current deficit/surplus is not fully financed/covered at the expense of the surplus/deficit of the capital and financial account, then this gap may be financed/covered at the expense of reserve assets (foreign exchange reserves). If total BoP deficit is not financed by reserve assets (or by contrast, the surplus is not reflected in the rise of reserve assets), the resulting gap is reflected as surplus in the ‘Net errors and omissions’.