

BALANCE OF PAYMENTS

of the Republic of Azerbaijan for Quarter I, 2022

In Q1 2022, the balance of payments¹ was mainly driven by a significant increase of prices in global commodity markets and increased non-oil exports. Surplus in current account amounted to \$4B, deficit in the capital and financial flow account amounted to \$1.2B, reserve assets increased by \$1.6B. Over the period average oil price was 87\$/barrel, non-oil export increased by 54.7% to \$708M.

Table 1. Key indicators of the balance of payments for Q1 2022, mln.\$

Current operations	3 952.7
Foreign trade balance	5 447.0
Services balance	-627.5
Primary income balance	-961.8
- Investment income repatriation	-993.4
Secondary income balance	95.0
Capital account	-0.3
Financial account	-1 195.6
Net financial assets	848.9
including:	
- direct investments abroad	-36.3
- portfolio investments	119.2
- other investments	766.0
Net financial liabilities	-346.7
including:	
- direct investments to Azerbaijan	1 814.1
- attracted investment repatriation	-2 842.0
- oil bonus	450.2
- portfolio investments	-48.8
- other investments	279.8
Net errors and omissions	-1 184.4
Total surplus of the BOP (change in reserve assets of the country; '+' increase, '-' decrease)	1 572.4

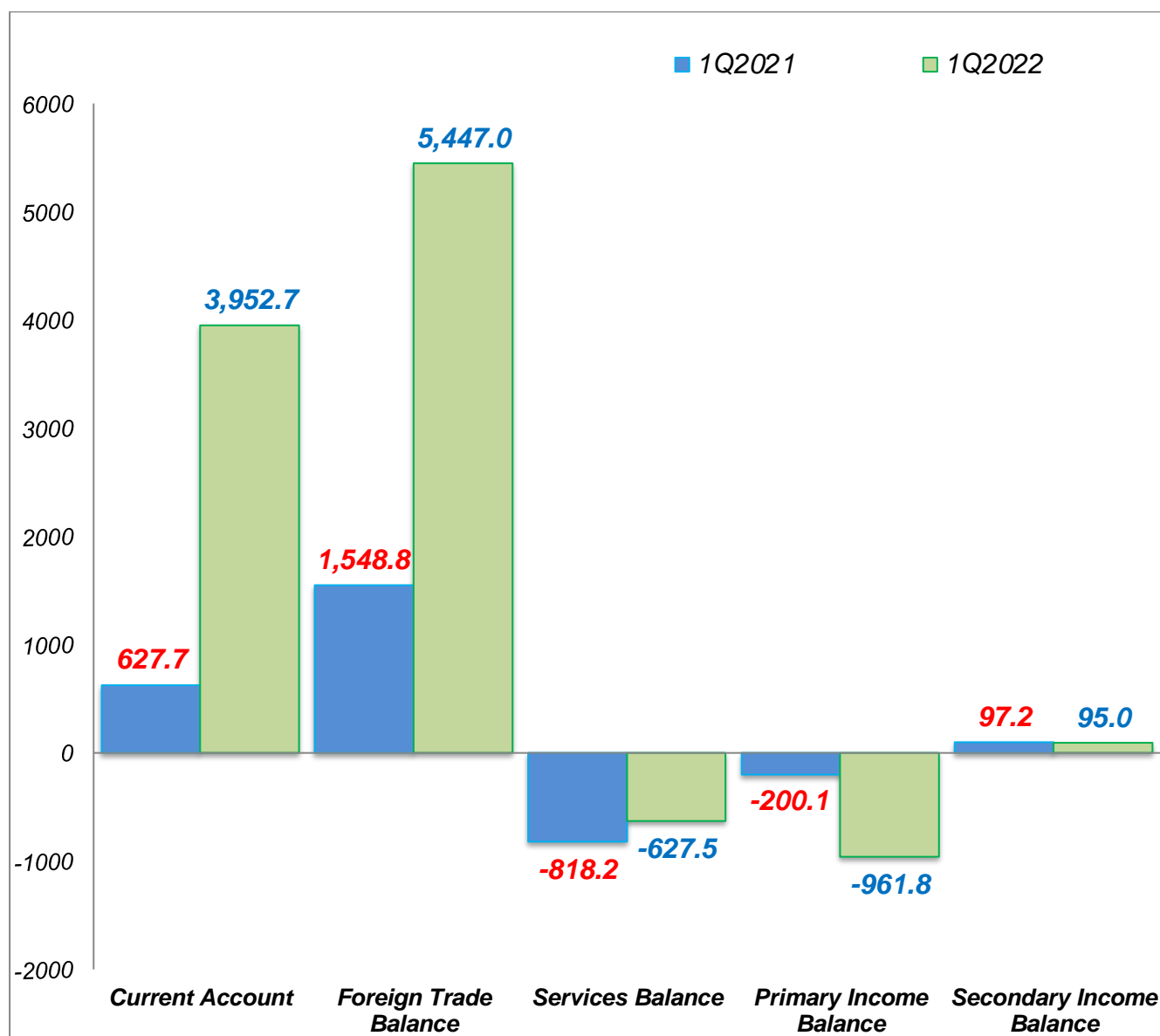
Note: The BOP was calculated at the \$86.5 (y/y \$52.4) average actual crude oil price.

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 \$4B or 22.4% of GDP (\$628M in Q1 2021). Oil and gas current account surplus y/y increased by 2.9 times to \$5.5B, while non-oil current account deficit increased by 18.2% to \$1.5B.

Chart 1. Current account in Q1 2022, mln.\$



External trade balance made up \$10.8B in Q1 2022, \$7.1B worth oil-gas surplus covered \$1.6B non-oil deficit, resulting in \$5.5B worth positive external trade balance. Azerbaijan traded with 152 countries – CIS countries account for 10.6%, while other countries for 89.4% of foreign trade.

Commodity export amounted to \$8.1B (increase by 2.1 times). Oil-gas export increased by 2.2 times to \$7.4B due to y/y rising crude oil and gas prices in global markets. Crude oil accounts

for \$3.8B, natural gas accounts for \$3.5B and oil processing products for \$0.1B of exported oil products (\$7.4B). Non-oil export increased by 54.7% to \$0.7B.

Commodity import y/y increased by 16.8% to \$2.7B, total value of imported consumer goods amounted to \$1.2B (including \$433M worth food products). Non-oil import increased by 24.2% to \$2.3B: import of metals (93.1%), paper products (57.9%), pharmaceuticals (44.3%), butter (30%), cereals (29.4%), perfumes and cosmetics (26.4%), ships, boats and floating structures (19.8%), furniture (17%), wood ware (15.6%), automobiles (12.1%), stone and glass products (10.4%), vegetables (5%), vegetable oils (1.8%) and alcoholic and non-alcoholic beverages (0.2%) increased, while import of aircrafts (80.1%), railway vehicles (78.8%), tobacco products (35.1%), boilers, equipment and mechanical devices (17.5%), sugar (10.7%) decreased.

The share of vehicles, equipment and goods imported via foreign investments was 4.5% to \$121M.

Chart 2. Import structure, mln.\$

	Q1 2021		Q1 2022	
	<i>Amount</i>	<i>Weight, %</i>	<i>Amount</i>	<i>Weight, %</i>
Import - total	2 291.8	100.0	2 677.2	100.0
including:				
1. Consumer goods	1 090.7	47.6	1 189.4	44.4
- food products	401.7	17.5	433.4	16.2
- other	689.0	30.1	756.0	28.2
2. Investment-oriented goods	198.2	8.6	120.9	4.5
3. Other goods	1 002.9	43.8	1 366.9	51.1

Services balance

Total services in Azerbaijan's economic ties with foreign countries made up \$2.6B – \$1.6B worth services was rendered by non-residents to Azerbaijani residents, and \$1B by Azerbaijani residents to foreign residents, as a result deficit in services balance decreased by 23.3% to \$627.5M. Oil-gas deficit (in particular in construction and other business services) was \$477.3M (down by 29.8%). Deficit in non-oil services balance was \$150.2M (up by 8.8%).

Transportation accounts for 37.5% of total mutual services turnover. Total size of transportation services made up \$994.5M, 61.6% 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 \$612.6M, while the value of travelling services provided by non-residents to Azerbaijani residents made up \$381.9M.

Non-oil export of transportation services y/y increased by 3.6%, while import increased by 15.1%. As a result, surplus on transportation services increased to \$230.6M (up by 10.3%) (\$209.1M surplus in Q1 2021).

Mutual tourism services increased by 2.9 times to \$318M. Tourism import (\$196.8M) prevailed over export (\$121.3M), resulting in \$75.5M worth deficit. The number of Azerbaijani citizens visiting foreign countries increased by 2.7 times, while the number of foreign citizens visiting Azerbaijan increased by 2.1 times.

Foreign countries supplied \$196.8M worth touristic services to Azerbaijani citizens. Out of which private expenditures of Azerbaijani citizens in foreign countries account for 82.9% (funds for shuttle trade import excluding).

Cost of construction services to non-residents on the non-oil sector decreased by 16.2 times to \$1.9M, while cost of other business services to non-residents on the non-oil sector increased by 42.5% to \$245.8M.

Primary income balance

Oil-gas deficit made up \$1.1B, while non-oil surplus amounted to \$164M, resulting in 4.8 times increase in primary income balance deficit to \$1B.

Total turnover of income receipts and payments was \$1.8B. 77.3% (\$1.4B) of which were payments from Azerbaijan to non-residents: income repatriation (including \$1.1B worth repatriation on foreign investors in oil-gas consortiums mainly in terms of crude oil and natural gas), interest payments to non-residents on securities portfolio (\$166.9M), interest payments on foreign loans (\$52.5M) and other payments (\$78.3M).

Secondary income balance

Total value of secondary income operations with foreign countries is estimated to equal \$449.2M – proceeds \$272.2M, and payments \$177.2M.

88.2% of total receipts on secondary income is comprised of remittances (money transfers) of individuals from foreign countries, 6.9% humanitarian aid goods, and 4.9% other receipts.

Remittances from foreign countries increased by 5.9% to \$240M, while remittances to foreign countries increased by 24.3% to \$151.6M, resulting in \$88.4M worth surplus on remittances.

In total, surplus of secondary income operations made up positive \$95M (down by 2.2%).

Financial account²

Net acquisition of financial assets increased by \$848.9M: direct investments abroad (-\$36.3M), portfolio investments (\$119.2M) and other investments (\$766M).

Net financial liabilities decreased by \$346.7M: net FDIs (-\$1027.9M), oil bonus (\$450.2M), portfolio investments (-\$48.8M) and other investments (\$279.8M).

Table 3. Net financial assets and liabilities in Q1 2022, mln.\$

	Assets	Liabilities
Direct investments	-36.3	-1 027.9
- oil and gas sector	-134.2	-1 760.4
- other sectors	97.9	732.5
Oil bonus		450.2
Portfolio investments	119.2	-48.8
Other investments	766.0	279.8
- trade credit and advance payments	521.0	292.4
- loans	9.7	-254.7
- currency and deposits	235.3	242.1
TOTAL	848.9	-346.7

Direct investments

Total FDI liabilities amounted to \$1.8B.

The oil-gas sector accounts for 59.5% of FDIs.

Drop in net financial liabilities (-\$1760.4M) on the oil-gas sector of the BoP's direct investments item in Q1 2022 stems from the difference between attracted investments (\$1 079.4M) and capital repatriation (\$2839.4M worth capital repatriation of international oil-gas consortiums as crude oil and natural gas).

Total amount of FDIs liabilities to the non-oil sector is estimated to equal \$735.2M (up by 4.9 times).

Portfolio investments

Net financial assets on portfolio investments increased by \$119.2M, while net financial liabilities decreased by \$48.8M, resulting in \$168.M negative surplus.

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.

Assets on portfolio investments mainly increased due to the securities (\$4.7M), public sector (\$7.9M), bank (\$47.7M) and private (\$58.9M), while liabilities decreased due to the public sector (\$3.1M), bank sector (\$45M) and other sectors (\$0.7M).

Loans and other investments

Net financial assets on loans increased by \$9.7M, while net financial liabilities decreased by \$254.7M. Net financial liabilities on loans increased at the expense of bank loans (\$21.2M) and decreased at the expense of oil-gas sector loans (\$168.6M), government loans (\$61M), government guaranteed loans (\$37.1M) and loans of enterprises (\$9.2M).

Net financial assets on currency and deposits increased by \$235.3M, while net financial liabilities increased by \$242.1M.

Reserve assets

In Q1 2022 country's reserve assets increased by \$1.6B.