



CENTRAL BANK
OF THE REPUBLIC OF AZERBAIJAN

Balance of payments report

Q1 2024

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 regarding 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 resulting from transactions in the current account and the capital and financial account. In practice, when the current account is in surplus, the surplus funds 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 several 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 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

	<p>debit sides of the BoP are not equal, 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

The balance of payments for Q1 2024¹ was mainly driven by various trends in the external environment. Current account surplus amounted to \$1.7B, deficit in the capital and financial account made \$1.6B (due to the drop in financial liabilities). Amid the balance of payments surplus strategic reserve assets of the country increased by \$116M. Average crude oil price was 88\$/barrel over the period.

TABLE 1. Main indicators for the balance of payments for Q1 2024, mln.\$.

Indicators	Q1 2024
Current account balance	1 729.8
Foreign trade balance	2 669.4
Services balance	-552.1
Primary income balance	-566.4
- <i>Investment income repatriation</i>	-784.9
Secondary income balance	178.9
Capital account	-0.7
Financial account	-1 594.5
Net financial assets	-463.9
- <i>direct investments abroad</i>	-11.9
- <i>portfolio investments</i>	4.4
- <i>other investments</i>	-456.4
Net financial liabilities	-2 058.4
- <i>direct investments to Azerbaijan</i>	1 508.5
- <i>attracted investment repatriation</i>	-1 867.1
- <i>oil bonus</i>	456.4
- <i>portfolio investments</i>	-898.8
- <i>other investments</i>	-1 257.4
Change in reserve assets	116.0
Net errors and omissions	-18.6

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

3. CURRENT ACCOUNT BALANCE (CAB)

Current account surplus amounted to \$1.7B or 10.1% of GDP (yoy \$3.4B worth surplus). Oil and gas CAB surplus yoy decreased by 28.2% to \$3.6B, while non-oil-gas CAB deficit increased by 12.8% to \$1.9B.

TABLE 2. Main indicators of CAB for Q1 2024, mln.\$.

Indicators	Q1 2023	Q1 2024	Change, %
Current account balance	3 376.2	1 729.8	-48.8
- Oil-gas sector	5 063.2	3 633.1	-28.2
- Other sectors	- 1 687.0	-1 903.3	12.8
Foreign trade balance	4 720.7	2 669.4	-43.5
Services balance	- 686.8	-552.1	-19.6
Primary income balance	-955.9	-566.4	-40.7
Secondary income balance	298.2	178.9	-40.0

3.1. Foreign trade balance

Foreign trade turnover made up \$9.7B, \$5.0B worth oil-gas surplus covered \$2.3B non-oil-gas deficit, resulting in \$2.7B worth foreign trade surplus. Azerbaijan traded with 153 countries – CIS countries account for 12.7%, while other countries for 87.3% of foreign trade.

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

Indicators	Q1 2023	Q1 2024	Change, %
Foreign trade balance	4 720.7	2 669.4	-43.5
- Total export	8 483.8	6 184.5	-27.1
- Total import	-3 763.1	-3 515.1	-6.6
Oil-gas sector	6 735.5	5 015.1	-25.5
- Export	7 584.3	5 520.9	-27.2
- Import	-848.8	-505.8	-40.4
Non-oil-gas sector	-2 014.8	-2 345.7	16.4
- Export	899.5	663.6	-26.2
- Import	-2 914.3	-3 009.3	3.3

Commodity export decreased by 27.1% to \$6.2B. Oil-gas export amounted to \$5.5B amid various trends in global oil-gas markets. Crude oil accounts for \$3.8B, natural gas for \$1.6B and oil processing products for \$107M of exported oil-gas products (\$5.5B). Non-oil-gas export decreased by 26.2% to \$663.6M.

Commodity import yoy decreased by 6.6% to \$3.5B, total value of imported consumer goods amounted to \$1.5B (including \$0.5B worth food products). Non-oil-gas import increased by 3.3% to \$3.0B: import of metals (31.2%), vegetable oils (24.9%), sugar (15.6%), butter (14.8%), cars (13.7%), perfume and cosmetics (11.1%), alcoholic and non-alcoholic beverages (9.4%), vegetables (2.5%) and tobacco products (0.5%) increased. While import of ships, boats, and floating structures (63.2%), internal combustion engines (44.3%), cereals (41.6%), pharmaceuticals (36.2%), wood ware (8.7%), furniture (8.3%), stone and glass ware (8.0%), paper products (6.3%) and soaps and detergents (4.1%) decreased.

The share of vehicles, equipment and goods imported via foreign investments was 3.4% (\$121M).

TABLE 4. Import structure, mln.\$.

Indicators	Q1 2023		Q1 2024	
	Amount	Weight, %	Amount	Weight, %
Import	3 763.1	100.0	3 515.1	100
<i>including:</i>				
1. Consumer goods	1 538.1	40.9	1 488.5	42.4
- food	534.1	14.2	533.5	15.2
- other	1 004.0	26.7	955.0	27.2
2. Investment oriented goods	129.4	3.4	120.9	3.4
3. Other goods	2 095.6	55.7	1 905.7	54.2

3.2. Services balance

Total services in Azerbaijan’s economic ties with foreign countries made up \$3.8 B – non-residents rendered \$2.2B worth services to Azerbaijani residents and Azerbaijani residents rendered \$1.6B worth services to foreign residents. In general, deficit in services balance decreased by 19.6% to \$0.6B. Oil-gas deficit was \$475.5M (down by 6.5%) (in particular, in construction and other business services). Deficit in non-oil-gas services balance was \$76.6M (down by 57.0%).

Transportation accounts for 30.2% of total mutual services turnover. Total size of transportation services made up \$1.2B, 62.0% 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 \$718.0M, while the value of transportation services provided by non-residents to Azerbaijani residents made up \$439.3M.

Non-oil-gas export of transportation services yoy increased by 5.9% and import increased by 6.3%. As a result, surplus on transportation services increased by 5.6% to \$278.7M (yoy \$264.0M).

Mutual tourism services increased by 61.7% to \$690.9M. Tourism export (\$359.1M) prevailed over tourism import (\$331.9M), resulting in \$27.2M worth surplus. The number of Azerbaijani citizens visiting foreign countries increased by 31.7%, while the number of foreign

citizens visiting Azerbaijan increased by 39.2%. Foreign countries supplied \$331.9M worth tourism services to Azerbaijani citizens. Out of which personal expenditures of Azerbaijani citizens in foreign countries amounted to 77.6% (excluding funds for shuttle trade import).

Cost of construction services to non-residents on the non-oil-gas sector decreased by 56.8% to \$5.0M, while cost of other business services to non-residents on the non-oil-gas sector decreased by 3.8% to \$325.9M.

3.3. Primary income balance

Oil-gas deficit made up \$906.5M, while non-oil-gas surplus amounted to \$340.1M, resulting in \$566.4M worth primary income balance deficit (down by 40.7%).

Total turnover of income receipts and payments was \$1.7B. 66.8% (\$1.1B) of which were payments from Azerbaijan to non-residents: income repatriation (\$837.3M) (including \$786.1M worth repatriation on foreign investors in oil-gas consortiums in the form of crude oil and natural gas), interest payments to non-residents on the securities portfolio (\$146.6M), interest payments on foreign loans (\$89.4M) and other payments (\$53.3M).

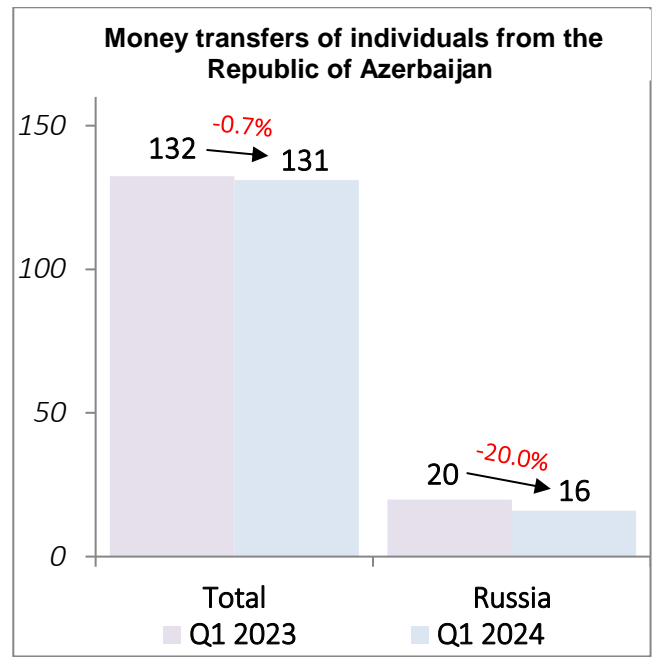
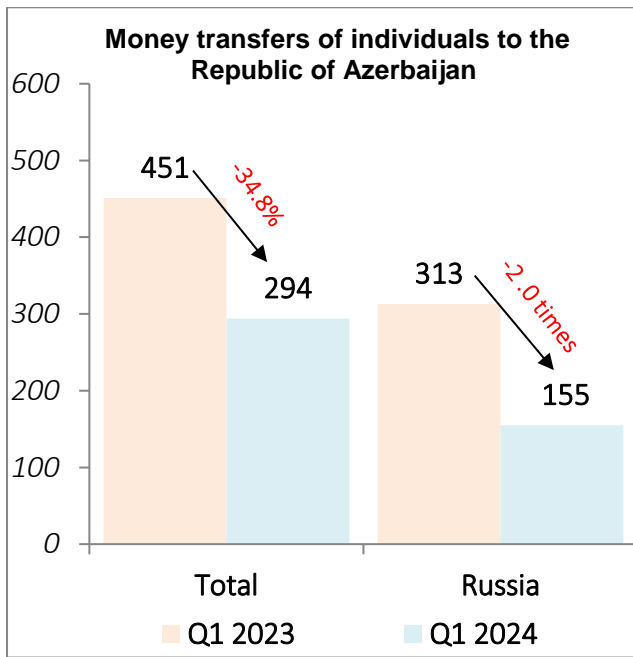
3.4. Secondary income balance

Total value of secondary income operations with foreign countries was estimated to equal \$492.3M – proceeds \$335.6M and payments \$156.7M.

87.7% of total receipts on secondary income includes money remittances of individuals from foreign countries, 11.0% humanitarian goods and other aids, and 1.3% other receipts.

Money transfers of individuals from foreign countries decreased by 34.8% to \$294.4M and money transfers of individuals to foreign countries decreased by 0.7% to \$131.5M, resulting in \$162.9M worth surplus on money remittances of individuals (down by 48.9%).

CHART 1. Main indicators of money transfers for Q1 2024, mln.\$.



In total, surplus of secondary income operations made up \$178.9M (down by 40.0%).

4. CAPITAL AND FINANCIAL FLOW ACCOUNT²

Net acquisition of financial assets decreased by \$463.9M: direct investments abroad (\$-11.9M), portfolio investments (\$4.4M) and other investments (\$-456.4M).

Net financial liabilities decreased by \$2 058.4M: net FDIs (\$-358.6M), oil bonus (\$456.4M), portfolio investments (\$-898.8M) and other investments (\$-1 257.4M).

TABLE 5. Net financial assets and liabilities for Q1 2024, mln.\$.

	Assets	Liabilities
Direct investments	-11.9	-358.6
- oil-gas sector	-276.4	-357.1
- other sectors	264.5	-1.5
Oil bonus		456.4
Portfolio investments	4.4	-898.8
Other investments	-456.4	-1 257.4
- Trade credits and advances	-417.1	-797.2
- Loans	-34.6	-260.2
- Currency and deposits	-4.7	-200.0
TOTAL	-463.9	-2 058.4

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.

4.1. *Direct investments*

Net FDI assets decreased by \$11.9M, net FDI liabilities decreased by \$358.6M.

Total FDI liabilities amounted to \$1.5B, total investments abroad amounted to \$330.5M. In general, there was \$346.7M worth negative balance on FDIs.

The oil-gas sector accounted for 87.6% of FDIs. Drop in net financial liabilities (\$-357.1M) on the oil-gas sector of the BoP's direct investments item stems from the difference between attracted investments (\$1 322.0M) and capital repatriation (\$1 679.1M) (in the form of crude oil and natural gas, which is the share of international oil and gas consortia).

Total FDI liabilities to the non-oil-gas sector was estimated to equal \$186.5M.

4.2. *Portfolio investments*

Net financial assets on portfolio investments increased by \$4.4M, while net financial liabilities decreased by \$898.8M.

Assets on portfolio investments mainly increased at the expense of public (\$10.7 M), securities guaranteeing equity participation (\$32.9M) and banks (\$7.6M) and decreased at the expense of other sectors (\$46.8M). Liabilities decreased at the expense of the public sector (\$902.8M) and increased at the expense of securities guaranteeing equity participation (\$0.4M), banks (\$0.4M) and other sectors (\$3.2M).

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' ("AÇG HPBS") 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 2024.

4.4. *Other investments*

Net financial assets on other investments decreased by \$456.4M, and net financial liabilities decreased by \$1.3 B.

Net financial assets on loans decreased by \$34.6 M, and net financial liabilities decreased by \$260.2. Net financial liabilities on loans increased at the expense of bank loans (\$3.7M) and loans of enterprises (\$6.8M) and decreased at the expense of oil-gas loans (\$158M), government loans (\$53.2M) and government guaranteed loans (\$59.5M).

Net financial assets on trade credits decreased by \$417.1M and net financial liabilities decreased by \$797.2M (liabilities decreased due to payments made in the current year for the goods and services imported during the previous periods).

Net financial assets on currency and deposits decreased by \$4.7B, and net financial liabilities decreased by \$200.0M.

5. *RESERVE ASSETS*

Reserve assets of the balance of payments increased by \$116.0M³.

6. *NET ERRORS AND OMISSIONS*

Net errors and omissions amounted to \$18.6M over the reporting period.

³ Without taking into account exchange rate changes, revaluation, and other changes.