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The Russian-Ukraine War: Impacts on the bank and business transfers between Azerbaijan and Russia

Murad Aghayev

Researcher

CESD Press

Center for Economic and Social Development (CESD)

Jafar Jabbarli 44,

Baku, Az 1065,

Azerbaijan

Phone; (99412) 597-06-91

Email; info@cesd.az

URL; www.cesd.az

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Abstract

This paper analyzes the possible effects of the sanctions imposed against Russia as a result of the Russia-Ukraine war on bank transfers and business transfers between the Republic of Azerbaijan and the Russian Federation. The existence of extensive economic relations between Azerbaijan and Russia as a country with more expats from Azerbaijan than any other, and being the main export country for Azerbaijan in the non-oil sector coupled with more than 50% of the volume of remittances of individual persons to the country makes this issue worth necessary. The article considers the period of 2018, 2019, 2020, 2021 and January-October 2022. This assessment identified more of the initial effects of the war as war still continues. Using the official statistics of recent years, the effects on these areas are investigated. It seems that the sanctions are already having an increasing effect. The statistics exhibit that there is a significant increase in investments and remittances of individuals from Russia to Azerbaijan, whereas a sharp decrease from Azerbaijan to Russia is observed. This growth will lead to positive dynamics for Azerbaijan in the short term. The situation in trade relations is variable. Although the situation in exports remains relatively stable, there is a significant increase in imports in the first 11 months of 2022 compared to the same period last year. There is also an increase in the total trade turnover compared to last year. In the short term, the sanctions have already had their effect on the banking and business spheres, and this effect has changed more against Russia in the banking sphere.

1. Introduction

The historical connection between the Republic of Azerbaijan and the Russian Federation was observed by the presence and deepening of close economic, political, social and other relations during the years of independence. Every past year, the growth of economic relations between the two countries is observed, and the relations are of mutual importance. Currently, Russia is the main import partner of Azerbaijan and ranks first in the export of non-oil products. The Republic of Azerbaijan accounts for 45% of Russia's trade in the South Caucasus region. A positive trend is observed in the area of investment and trade turnover between the two countries. Both countries are moving forward in the non-oil sector: numerous joint projects are being implemented in such fields as machine building, production equipment, chemical industry, pharmaceuticals, energy, transport. It encourages the diversification of transport and other transit infrastructure between the two countries. The creation of the North-South Corridor connecting Western Europe and Asia was possible under the conditions of cooperation between Azerbaijan and Russia. The first trade representative office of Azerbaijan outside the country was opened in Russia. Relations between the two countries are important in many ways. First, in order to realize its export potential, Azerbaijan gets access to a large market like Russia. Also, Russia benefits from investment opportunities in Azerbaijan, and this is essential for Azerbaijan as a foreign investment. Russia is the 3rd largest trade partner of Azerbaijan after Italy and Turkey. Russia is Azerbaijan's main trade partner in trade relations in the non-oil sector. Considering that both countries are dependent on the oil sector, the importance of this relationship increases even more. It is no coincidence that the first trade representative office of Azerbaijan was opened in Russia. This paper examines the impact of sanctions against Russia on business and bank transfers between Azerbaijan and Russia. The war between Russia and Ukraine, which started on February 24, 2022, is still ongoing, and as the war continues, its damage to various sectors, including the economy, is increasing. So far, 9 sanctions packages have been applied. The impact of sanctions on Azerbaijan is likely, and if we take into account the economic relations between Russia and Azerbaijan, this possibility increases even more. It is likely to create impacts in the form of import-export disruptions, supply chain disruptions, and shortfalls in remittance flows. In the world of globalized economic interdependence, disruption of the import-export and supply chain, additional inflationary pressures, lack of remittance flow, food shortages and the effects of sanctions in other areas are inevitable for Azerbaijan. As the number of sanctions against Russia increases, the negative impact on the overall economic structure also increases. Part 2 of the article provides information on the sanctions package. As for the economic relations between Azerbaijan and Russia, after the sanctions, there was a sharp increase in the volume of direct investment from Russia to Azerbaijan,

and a sharp decrease in the volume of direct investment from Azerbaijan to Russia. In the 3rd part of the article, more detailed information is given on the changes in the investment volume using official statistical indicators. The volume of money transfers of individual persons increased from Russia to Azerbaijan, and decreased from Azerbaijan to Russia. This is also detailed in the 3rd section of the article. There was an increase in the volume of trade turnover between Russia and Azerbaijan. The change statistics of the volume of import, export and trade turnover in general are mentioned in the 4th section of the article.

2. Sanctions package

1. The first package of sanctions was applied to 351 deputies of the Russian State Duma who voted in favor of recognizing the independence of Donetsk and Lugansk regions and 27 individuals and legal entities who played a role in violating and threatening the independence of Ukraine. Economic restrictions on non-government-controlled areas of Donetsk and Lugansk regions and a number of restrictions on Russia's access to EU capital, financial markets and services have also been imposed.

2. The 2nd package of sanctions was applied against Russian President Vladimir Putin, Foreign Minister Sergey Lavrov and members of the National Security Council. The 2nd package of sanctions was also applied to the financial, transport, technology and energy sectors. In addition, the possibility of a simplified visa for diplomats, Russian government officials and businessmen was canceled.

3. Within the framework of the 3rd package of sanctions, operations with the Central Bank of Russia and the passage of Russian air carriers into EU airspace and EU airports have been banned. Sanctions were also applied to 26 individuals and 1 institution. A support package of 500 million euros was allocated for the financing of equipment and supplies to the armed forces of Ukraine. As part of this package of sanctions, Bank Otkritie, Novikombank, Promsvyazbank, Rossiya Bank, Sovcombank, VNESHECONOMBANK (VEB) and VTB BANK were banned from providing specialized financial messaging services used for the exchange of financial information (SWIFT). Prohibited from investing in, participating in or otherwise contributing to future projects co-financed by the Russian Direct Investment Fund and selling, supplying, transferring or exporting euro banknotes to Russia or any natural or legal person in Russia.

4. Under the 4th package of sanctions, all transactions with certain state-owned enterprises, the provision of credit rating services to any Russian person or organization, and new investments in Russia's investment sector are prohibited. Trade restrictions were imposed on iron, steel and luxury goods. 15 more individuals and 9 legal entities were added to the sanctions.

5. In the 5th package of sanctions, the import of coal and other solid fossil fuels from Russia, the access of all Russian ships to EU ports, the entry of Russian and Belarusian road transport operators into the EU, the import of other goods such as wood, cement, seafood and beverages, jet fuel to Russia and other export of goods, deposits to crypto wallets were banned. As part of these sanctions, 217 individuals and 18 organizations were sanctioned. These include the 4 main Russian banks, which have a 23% share of the Russian banking sector.

6. In the 6th package of sanctions, the EU additionally adopted sanctions against 65 individuals and 18 institutions. These include those responsible for the events in Bucha and Mariupol. The sanctions also banned the import of crude oil and refined petroleum products from Russia, with limited exceptions, the use of SWIFT for an additional 3 Russian banks and 1 Belarusian bank, and EU broadcasting for three more Russian state channels. This SWIFT ban was not limited to Sberbank and Gazprombank, the main big banks in Russia. These banks are exempted from this ban because they make payments with the EU in the field of oil and gas. SWIFT is a messaging system used by banks to facilitate money transfers around the world. More than 11,000 organizations from 200 countries have joined the SWIFT international payment system. Before the sanctions, Russia was in the top 3 among the largest users of SWIFT. Currently, except for Gazprombank and Sberbank, small and small Russian banks continue to use SWIFT.

7. In the 7th package of sanctions, a ban was imposed on the purchase, import or delivery of gold of Russian origin, including jewelry. As part of these sanctions, export controls on dual-use goods were strengthened and existing port bans were further expanded. Clarifies existing measures in public procurement, aviation and justice. An additional 54 individuals and 10 legal entities, including the mayor of Moscow and the large financial institution Sberbank, were also sanctioned.

8. Within the 8th package of sanctions, the rules regarding the facilitation of more Schengen visas were changed. The visa fee for all applicants has increased from 35 euros to 80 euros. The processing time will be 10 to 15 days typical for consulates, but this time can be extended up to a maximum of 45 days if a decision on visa applications is required, especially in closer situations. It also called for stricter requirements and a longer list of supporting documents for multiple-entry visas.

9. Within the 9th package of sanctions, officials, parties, the Armed Forces of Russia, the Federal Service for Control of Communications, Information Technologies and Mass Media have already been included in the list of sanctions. In total, 1386 individuals and 171 organizations were included in the sanctions package. Also, the Russian Regional Development Bank and 2 more banks were included in the sanctions list.

Starting with the 3rd package of sanctions, the main banks of Russia have started to be removed from SWIFT. SWIFT enables interbank payments and settlements between banks. SWIFT is used by more than 11,000 institutions in more than 200 countries around the world. As a result of the sanctions, 10 Russian banks were excluded from the SWIFT system. As a result, these banks can neither acquire foreign currency nor transfer assets abroad. Technically, these banks can carry out

some international transactions without SWIFT, but this is expensive and complex and requires mutual trust between financial institutions. In February 2022, Russia's international reserves amounted to 643 billion dollars (579 billion euros). The European Union has banned the sale, delivery, delivery and export of euro banknotes to Russia within the framework of sanctions. The purpose of this sanction is to limit the access of the Central Bank of Russia, as well as individuals and legal entities, to cash in euros. Due to the ban on transactions from the EU and other countries, almost more than half of Russia's reserves have been frozen. As a result, Russia cannot use these foreign reserves to mitigate the impact of sanctions on its banks. Given that the presence of foreign currency reserves helps to keep the exchange rate of the country's national currency stable, the value of the ruble is expected to fall in the long term as a result of these sanctions.

3. Impact of sanctions on bank transfers

3.1 Impact of sanctions on investments

The main body responsible for investment promotion in Azerbaijan is the Export and Investment Promotion Agency (AZPROMO). Russia and Azerbaijan have close economic ties, and Azerbaijan is one of Russia's main trading partners. These close economic relations have also manifested themselves in the field of investment. There is effective bilateral investment cooperation. More than 1,000 Russian companies operate in Azerbaijan, and so far 6.3 billion dollars have been invested in Azerbaijan's economy by Russia, and 1.2 billion dollars by Azerbaijan in Russia. Russia has directed 5 billion dollars of investment in Azerbaijan to the oil sector, and 1.3 billion dollars to the non-oil sector. In Azerbaijan, more than a thousand companies with Russian capital work in the fields of production and hydrocarbon transportation, chemical industry, energy, petrochemical, pharmaceutical, engineering and cargo transportation. Azerbaijan's investment in the neighboring country is almost completely accounted for by the non-oil sector. As is known, investment opportunities are one of the main indicators characterizing the country's economic development. The country's economic potential, wealth of raw materials and mineral resources, natural conditions and favorable economic-geographical position increase the opportunities for cooperation. Considering that both Azerbaijan and Russia are oil-dependent countries, the importance of investment relations for the development of the non-oil sector of both countries is increasing.

3.1.1 Foreign Direct Investment

Foreign direct investment is the transfer of resources to another country that can be invested by one or more international investors as a whole or jointly with one or more local firms. Foreign direct investments are realized through multinational companies. The reason why multinational companies invest in other countries is that the investment is more profitable than in their own country. Foreign direct investments create different effects in the country they enter. This not only increases investment and capital stock, but also leads to increased output and creation of new jobs, which ultimately leads to higher employment levels. There is great potential for developing countries to achieve higher growth by attracting foreign direct investment, increasing exports, and ensuring capital flows. Attracting direct foreign investments in non-oil sectors, especially in the processing industry, is of particular importance for Azerbaijan, which wants to reduce the level of

dependence on oil and gas income in a short time by diversifying its economy and exports. The main part of the investment flow from Russia to Azerbaijan falls on the share of the oil and gas sector. The investment decision takes into account not only profitability, but also investment risk. These risks can be economic and political, depending on the country and time of investment. The economic and political instability in Russia is already affecting the investment relations between Azerbaijan and Russia. This level of instability in the host country represents a high level of systematic risk. This can lead to capital loss of the investing country. Table 1 shows the statistics of direct investments from Russia in the period of 2019-2022.

Table 1. Directly attracted investments from Russia to Azerbaijan's economy, thousand \$



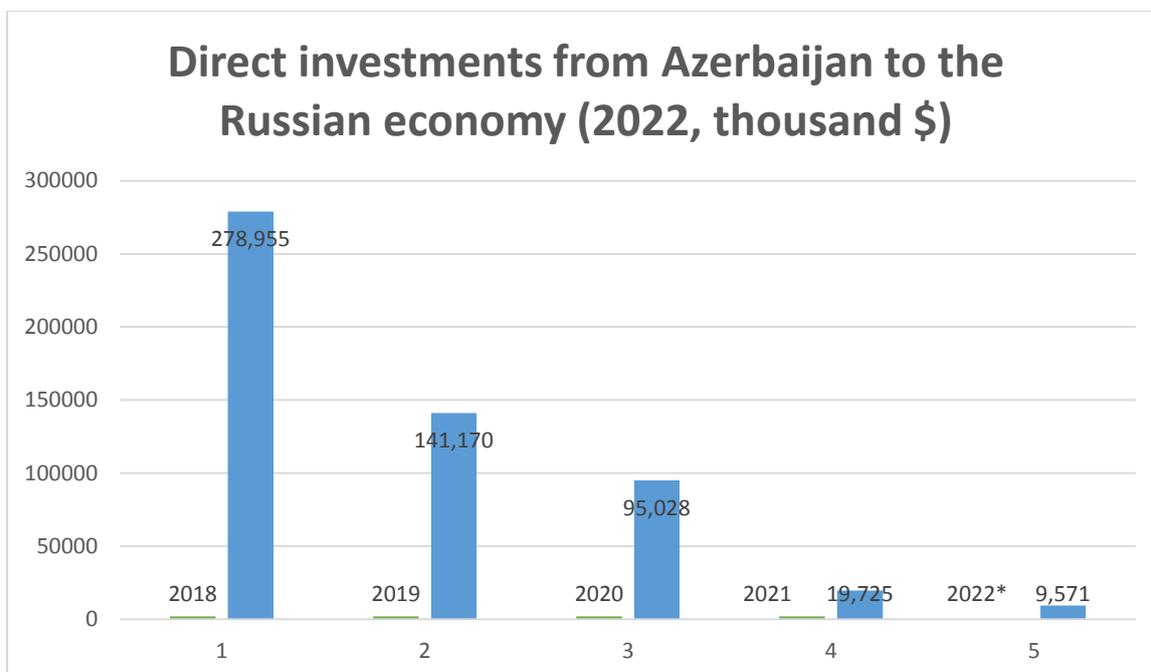
Source: Central Bank of the Republic of Azerbaijan, 2022

* The statistical indicator of the first 9 months was taken into account.

As can be seen from this table, the volume of investment attracted from Russia to Azerbaijan's economy in 2018, 2019 and 2020 was almost the same with little difference. In 2021, as it coincided with the pandemic period, there was a sharp decrease in the investment volume. The investment volume in 2021 decreased more than 3 times to \$50,744 thousand. However, in the first 9 months of 2022, \$377,687,000 of direct investment was attracted from Russia to Azerbaijan, and this statistic was \$35,914,000 in the first 9 months of 2021. This means an increase of more than 10 times. This number not only returned to its previous indicator, but even exceeded the indicators of previous years, even though it is the first 9 months statistics. In the first 9 months of 2021, the investment from Russia to Azerbaijan was approximately 1% of the total attracted investment indicator, while this indicator was approximately 8.3% in 2022. The main reason for these statistics is the sanctions imposed on Russia. Russian businessmen are greatly affected by

the sanctions. Hundreds of foreign companies have already left Russia and this process continues, despite Russian officials making the process of exiting the country difficult. Businessmen affected by these sanctions invest their assets in other countries to reduce the risk. When investing, businessmen choose a country that is safer, both economically and politically, for themselves. Azerbaijan's economic and political stability and security make Azerbaijan one of the best choices for businessmen who want to invest in another country. As a result, there is a sharp increase in the 9-month indicator of the investment. However, it cannot be said that this growth will continue in the long term. 9-month statistical indicators do not provide an opportunity for a full investigation of investment relations and a concrete conclusion. A sharp decrease in the volume of investment from Azerbaijan to Russia is observed. Using more detailed official statistics, Table 2 provides an indicator of investment from Azerbaijan to Russia.

Table 2. Direct investments from Azerbaijan to the Russian economy (2022, thousand \$)



Source: Central Bank of the Republic of Azerbaijan, 2022

* The statistical indicator of the first 9 months was taken into account.

If we look at the statistics in Table 2, we will see that the investment volume from Russia to Azerbaijan in 2018 was the maximum indicator of the investment volume between 2018 and 2022. In the periods after 2018, a decrease in the investment volume was observed. Due to the impact of the pandemic, this decrease was accelerated, a sharp decrease in the investment volume was observed in 2021, so that the investment volume invested in Russia in 2021 decreased by 79.2% compared to 2020 and reached \$19,725 million. This downward trend was expected to increase in the following years due to the reduction of the impact of the pandemic, but this did not happen

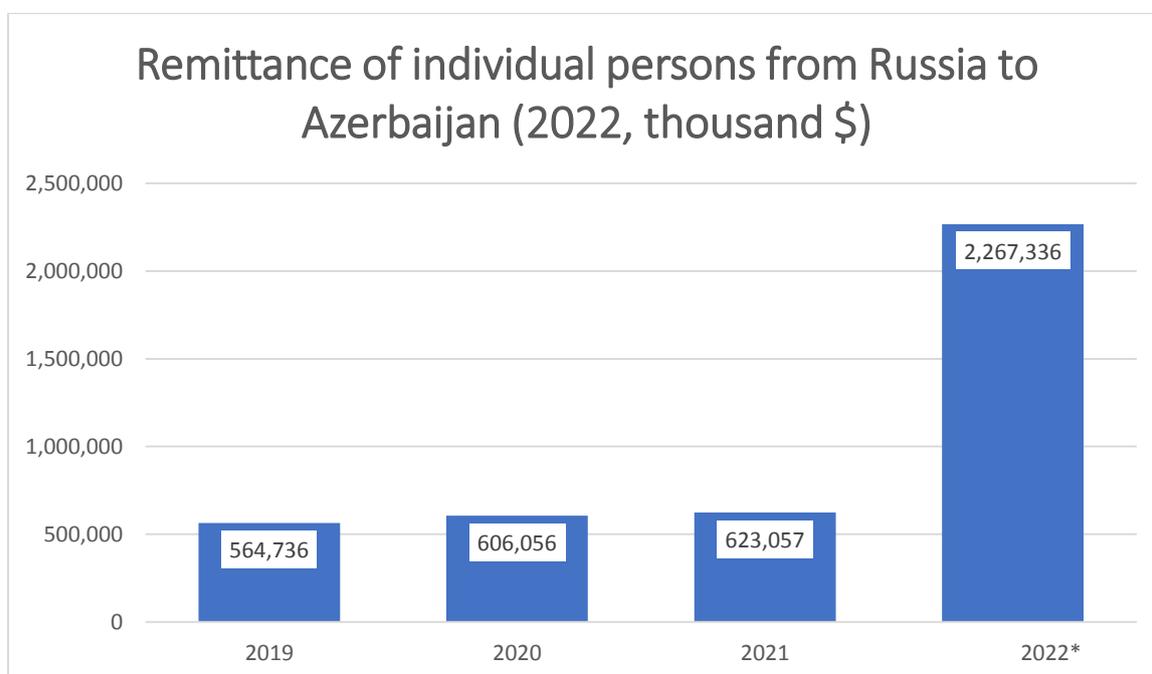
against the background of the war between Russia and Ukraine, which began in the first months of 2022, but instead sharply decreased again. In the first 9 months of 2022, the investment volume was \$9,571 thousand, which means a decrease compared to the same period of 2021 (\$11,610 thousand). If there is economic and political instability in the country where the investment is made, it constitutes a risk for the investor and his country, and he refrains from investing in that country. The loss of foreign direct investment for Russia is considered one of the most devastating effects of the sanctions. The flow of foreign direct investment into Russia from other countries decreased sharply in the period after the sanctions were imposed. This instability, which prevails as a result of the sanctions against Russia, will have a negative impact on the amount of investment invested in Russia from Azerbaijan, and it seems that a sufficient decrease has already occurred in the 9-month statistics of 2022. The statistics of 9 months are not enough to come to a complete conclusion. However, considering the current economic and political situation in Russia, this statistic is not expected to increase towards the end of 2022.

3.2 The effect of sanctions on the transfer of money by natural persons

The flight of intensive companies increased unemployment in Russia. About 2 million people are expected to lose their jobs in Russia. This growing unemployment in Russia mainly affects labor migrants and their incomes are drastically reduced. More than 2.5 million Azerbaijanis live in Russia. Most of the able-bodied Azerbaijanis are active. The closure of jobs as a result of sanctions will create a large army of unemployed people, and there is no doubt that the number of Azerbaijanis is not small in this list. Considering that more people in the regions of the Republic of Azerbaijan turn to Russia for work, the increase in unemployment as a result of sanctions will have a negative impact on the income level of the people in the regions. Azerbaijanis who have not lost their jobs also face a number of difficulties, first of all, Russia's withdrawal from the SWIFT international payment system created difficulties in the interbank payment system. As a result of the fall of the ruble exchange rate in the first months of the war, it led to a decrease in the number of remittances from Russia to Azerbaijan. In the following months, as a result of the recovery of the ruble's value, the number of remittances increased again. Despite the increase, the change in the exchange rate of the ruble against the background of increasing sanctions is not an exception. Although the exchange rate of the ruble is mostly determined by administrative sterilization methods, the supply and demand in the market is also not unaffected. The restriction of currency withdrawal from Russia affects the balance in the market and the official exchange rate has a greater buying rate effect. The share of foreign currency sales in large amounts has

decreased sharply. Considering all this, it can be concluded that the exchange rate of the ruble will not remain stable in the long term. The depreciation of the ruble will, of course, affect the volume of transfers. In order to facilitate money transfer, "Azerpocht" LLC operating under the Ministry of Digital Development and Transport and "Azerbaijan International Bank - Moscow" LLC cooperated and introduced the "Granat" money transfer system, a new channel for transferring money from Russia to Azerbaijan. This system is available to everyone in the Russian Federation. It is possible to send money to Azerbaijan through "ABB-Moscow" points located on the territory of Russia and the "Granat" mobile application, as well as from service points belonging to other partners. Table 3 shows the statistics of remittances of natural persons from Russia to Azerbaijan between 2019 and 2022.

Table 3. Remittance of individual persons from Russia to Azerbaijan (2022, thousand \$)



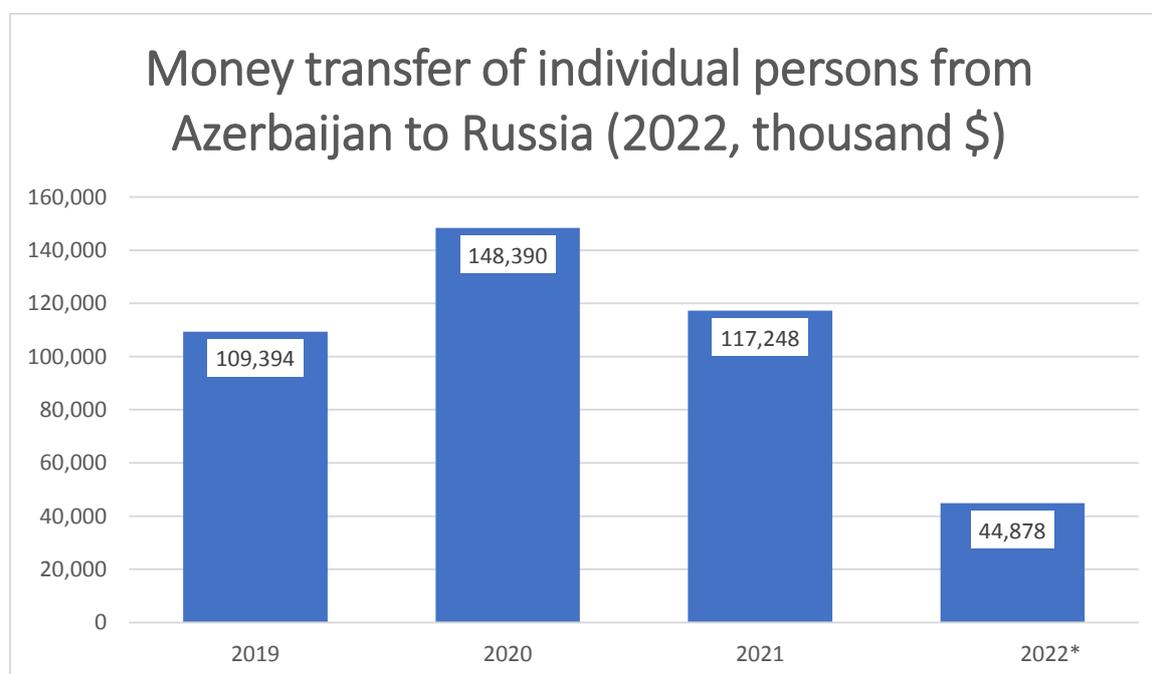
Source: Central Bank of the Republic of Azerbaijan, 2022

** The statistical indicator of the first 9 months was taken into account.*

In 2019, there was a remittance of \$564,736 thousand, which continued to increase in subsequent years, reaching \$606,056 thousand in 2020, and \$623,057 thousand in 2021. In 2022, this statistic reached a record level, the 9-month statistics already exceeded last year's statistics many times and amounted to \$2,267,336 thousand. More than 50% of remittances to Azerbaijan are carried out as a result of transfers from Russia. However, in the first 9 months of 2022, the amount of money transferred by individuals from Russia to Azerbaijan made up 81.6% of the total money transfer. For comparison, we can note that this statistic was 53% in the same period of 2021 (\$409,353 thousand). Although the sharp drop in the ruble exchange rate in the first months of the war led to

a decrease in remittances in the first quarter of 2022, the gradual recovery of the ruble in the subsequent period led to an increase in the number of remittances. In the first months of the war, the Russian government took a number of restrictive measures to prevent the outflow of currency from the country. However, in the following period, these restrictions were removed, and as a result, the volume of remittances increased again. Against the backdrop of deepening sanctions and the subsequent announcement of partial mobilization in Russia, there was an explosion in the volume of remittances from Russia to Azerbaijan, and the volume of money transferred in 9 months sharply exceeded previous years. One of the main reasons for this growth is the legalization of transfers. As the land borders are closed, bank transfers are preferred, and as a result, the volume of remittances increases. Inflation also plays a big role in increasing the volume of transfers, as a large part of the money transferred to Azerbaijan is carried out by Azerbaijanis engaged in trade in Russia. Although inflation increases their cost, there are growths in terms of national currency in general circulation, which affects the volume of transfers. Also, redirecting investments to Azerbaijan affects the increase of this volume. This increasing pace is expected to continue as a result of increasing sanctions over time. Table 4 illustrates the statistics of money transfers of natural persons from Azerbaijan to Russia between 2019 and 2022.

Table 4. Money transfer of individual persons from Azerbaijan to Russia (2022, thousand \$)



Source: Central Bank of the Republic of Azerbaijan, 2022

* The statistical indicator of the first 9 months was taken into account.

As can be seen from the statistics, individuals transferred \$109,394,000 to Russia in 2019, \$148,390,000 with an increase in 2020, and \$117,248,000 with a decrease in 2021. In 2021, there

was a decrease due to the pandemic. During the first 9 months of 2022, \$68,158 thousand was remitted to Russia, which means 13.1% of the total remittance. For comparison, we can note that this statistic was 21.2% in the same period of 2021 (\$85,462 thousand), which means a decrease of 8.1%. These statistics are not expected to increase compared to previous years due to the current economic and political situation.

4. Impact of sanctions on business transfers

The Republic of Azerbaijan and the Russian Federation have long historical trade relations. Azerbaijan's independence gave impetus to the growth of economic and foreign trade relations with neighboring states and world states. As a result of reforms carried out in the field of foreign trade, the foreign trade sector has become one of the main sectors of the economy. During certain periods, there have been changes in the structure of foreign trade and also in foreign trade partners. Earlier, the main partner was the CIS countries, but as time passed, the share of European countries in this partnership increased. Among the CIS countries, Azerbaijan has a large trade turnover with Russia. The main reason for the greater share of Russia compared to other CIS countries is that the Russian market is a large market for Azerbaijan's agricultural products. The past economic and trade relations between Azerbaijan and Russia and the neighborhood play a big role in increasing the volume of this turnover. Azerbaijan accounts for 45% of Russia's trade in the South Caucasus region. After Italy and Turkey, Russia is one of the main trade partners of Azerbaijan. The sanctions applied against Russia will also have an impact on trade relations. In 2021, Azerbaijan's product export volume to Russia covered only 4.2% of the total product export volume. This indicator was 5% in 2020, 3.7% in 2019, and 3.4% in 2018. As can be seen from these statistics, Russia has a very small share in Azerbaijan's exports. However, the leadership in the export of non-oil products of Azerbaijan belongs to Russia. The import situation is also variable, so that in 2021, Azerbaijan's imports from Russia was 17.7% of total imports, 18.3% in 2020, 16.8% in 2019, and 16.4% in 2018. Azerbaijan's trade turnover with Russia was 8.2% of the total trade turnover in 2018, 9.1% in 2019, 10.9% in 2020, and 8.8% in 2021. These statistics are shown in more detail in Table 5.

Table 5. Russia-Azerbaijan trade turnover (2022, thousand \$)



Source: State Statistics Committee, State Customs Committee, 2022

** The first 11-month statistical indicator is taken into account.*

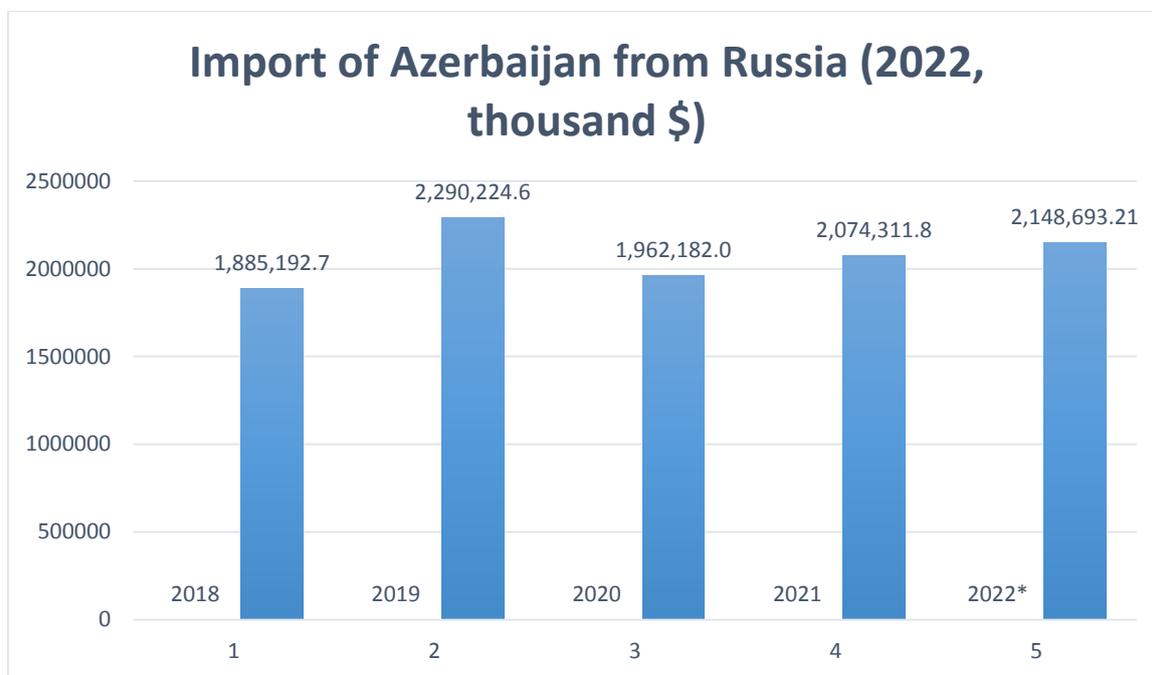
Russia is Azerbaijan's 3rd largest partner in terms of total trade volume. The volume of trade turnover with Russia was 8.2% of the total turnover in 2018, 9.1% in 2019, 10.9% in 2020, and 8.8% in 2021. In 2020, as a result of the interruption of the consumption chain due to the pandemic, there was a decrease in the trade turnover, and in 2021, the turnover volume increased and was close to the pre-pandemic indicator. According to the statistics of the first 11 months of 2022, the trade turnover with Russia was 6.2% of the total turnover and was \$2,867,784.82 thousand. This statistic means an increase of 22.3% compared to the same period of 2021. The main reason for this increase is the abolition of trade restrictions between the two countries. Russia facilitated trade for countries that did not join the sanctions against it. As Azerbaijan is one of the countries that did not join the sanctions, there is an increase in the trade turnover with Russia. Despite the continuation of the sanctions, if Azerbaijan does not join these sanctions, this trade cycle is expected to continue with a rising trend.

4.1 Impact of sanctions on Azerbaijan's imports from Russia

Russia is the largest import partner of Azerbaijan. Azerbaijan imports wheat, forest materials, wood boards and plywood, sunflower oil, cars and other products from Russia. Wheat, forest materials and vegetable oils dominate among these imported products. The largest part of the

import is wheat, in 2021, \$315,192 million worth of wheat was supplied to Azerbaijan from Russia. The import volume of the Republic of Azerbaijan from the Russian Federation was 16.4% of the total import volume in 2018, 16.8% in 2019, 18.3% in 2020, and 17.7% in 2021. These statistics are studied in more detail in Table 6.

Table 6. Import of Azerbaijan from Russia (2022, thousand \$)



Source: State Statistics Committee, State Customs Committee, 2022

* The first 11-month statistical indicator is taken into account.

In 2019, there was a sharp increase in import value. Compared to 2018, the import value increased by 21.5%. This increase is due to the fact that in 2019, the volume of wheat supplied by Azerbaijan from Russia increased by more than 3 times. In 2020, Azerbaijan's imports from Russia decreased by 14.3% due to the pandemic, and in 2021, they increased by 5.7%. If we look at the import indicator of the first 11 months of 2022, we will see that products and services worth \$2,148,693.21 thousand were imported, which is 30.4% more than the same period last year, that is, \$500,480.30 thousand more. This is an indicator of a fairly high growth. According to this import indicator, Russia has retained the first place among the countries where Azerbaijan imports the most products. Azerbaijan mainly imports wheat, forest materials, wooden boards and plywood, sunflower oil, cars and other products from Russia. If we look at the statistics of the main products imported during the first 11 months published by the State Statistics Committee, it can be seen that the volume and value of Azerbaijan's total imports are indicated in Table 7. If we take into account that the products in this list are also the main products that Azerbaijan imports from Russia, we can see that the increase in the value of the products is greater than the increase in their volume.

Based on the experts' research and the statistical indicators in the table, it can be noted that the reason for this increase is related to inflation rather than the increase in the volume of the product.

Table 7. Products imported by Azerbaijan (total)

	2021		2022	
	Volume(ton)	Value (thousand dollar)	Volume(ton)	Value (thousand dollar)
Cereal plants	1099,351.37	332,969.18	1,279,325.76	460,418.32
Ferrous metals and products made from them	509,958.22	782,673.68	654,489.83	922,107.10
Fertilizers	123,722.03	42,491.00	97,320.85	81,855.39
Pharmaceutical products	19,900.73	477,148.88	24,858.41	601,164.57
Vegetable and animal fats and oils	135,984.90	190,736.62	132,642.83	235,657.52
Milk and cream	9,856.70	12,958.56	9,213.04	16,916.91
Fruits and vegetables	356,464.65	196,166.32	342,069.18	208,367.49
Butter and other fats made from milk	13,480.19	70,111.82	16,755.46	96,765.16
Tea	12,669.23	55,545.84	13,155.38	68,802.19
Plastics and products made from them	166,740.89	347,833.54	201,234.00	434,642.89
Meat	36,303.90	62,293.32	38,348.14	72,201.90

Source: The State Customs Committee

* Not all imported products are listed in this table.

4.2 Impact of sanctions on Azerbaijan's exports to Russia

In terms of export relations, the Russian Federation is the 3rd largest partner of Azerbaijan after Italy and Turkey. According to the State Customs Committee, the Republic of Azerbaijan exports 41.6% to Italy, 12.7% to Turkey, and 4.1% to Russia of its export. The situation is different in the non-oil sector. Russia is Azerbaijan's main partner in this sector. Russia (32.3%), Turkey (24.9%) and Switzerland (8.3%) are the first 3 countries in the value of exports in the non-oil sector. Agricultural products take the main place in exports to Russia. Table 8 illustrates Azerbaijan's export statistics to Russia.

Table 8. Export of Azerbaijan to Russia (2022, thousand \$)



Source: State Statistics Committee, State Customs Committee, 2022

** The first 11-month statistical indicator is taken into account.*

In 2019, exports increased by 10.5% compared to 2018. In 2020, exports to Russia decreased due to the pandemic. 94.4% of exports in 2019 fell to the non-oil sector. This statistic was 97.4% in 2020 and 95.3% in 2021. In 2021, exports to Russia recovered after the pandemic, and were much higher than in previous years. This is related to both the weakening of the impact of the pandemic and the further development of trade relations. The export of non-oil products accounts for 95.5% of the export volume in the statistics of the first 11 months of 2022. This statistic slightly exceeds non-oil sector exports for the first 11 months of 2021. If we consider that the main part of the products exported by Azerbaijan to Russia are agricultural products, the risk for this sector also continues against the background of the continuation of sanctions.

5. Conclusion and Recommendations

Nine sanctions packages have already been applied against Russia. The sanctions imposed on Russia showed that the sanctions against the country are not the optimal way out. Thus, these sanctions applied against Russia have a negative impact not only on its economy, but also on the economy of other countries, especially the economies of countries with close economic relations with it. As Azerbaijan is a country with close economic relations with Russia, the sanctions had a certain impact on Azerbaijan's economy. These effects were not very evident in the initial period. In the case of considering statistics, it can be seen that the effect is already visible in some areas. Sanctions imposed on Russia had a limited impact on the banking sector of Azerbaijan in the short term. The fact that the amount of assets of Azerbaijani banks in the banks on which sanctions are applied in Russia is small limits the impact on the financial stability of the banking system of Azerbaijan. In other words, the sanctions imposed on Russian banks as a result of the low volume of funds of Azerbaijani banks in Russian banks was not subject a serious impact on Azerbaijani banks. As a result of the removal of Russian banks from SWIFT, banks faced difficulties in settlements with correspondent accounts, but the settlement of Azerbaijani banks with correspondent accounts has had a limited impact so far. The case of increasing this effect is not an exception. In the first 9 months of 2022, although there was no sharp change in the amount of money transfers made by individuals from Azerbaijan to Russia, a sharp increase in the amount of money transferred by individuals from Russia to Azerbaijan was observed. There are 3 main reasons for the increase in the amount of transferred money. First of all, we can note that the ruble, which lost value in the first months of the war, regained its value in the later period and the ruble strengthened against the manat. The second reason is the legalization of the money transfer system. The main reason for this is that the land borders are closed, and as a result, the transferors prefer banks. On the other hand, it can be noted that the strengthening of the fight against illegal money transfers from Azerbaijan abroad and from abroad to Azerbaijan and the adoption of a law in this field will have a positive effect on the legalization process. The third reason is inflation. A large

part of the money transferred to Azerbaijan is carried out by Azerbaijanis engaged in trade in Russia. Although inflation increases their cost, there are growths in terms of national currency in general circulation, which also affects the volume of transfers. But it cannot be said that these growth statistics will continue in the long term. This change will not cause a serious change in the GDP of Azerbaijan, because the volume of remittances from Russia has a very small share in the GDP of Azerbaijan. But especially as a result of the dependence of a part of the population living in the regions on transfers from Russia, we can say that this will affect the financial well-being of the population. In particular, it should be emphasized that the increased unemployment due to the reduction of jobs will also affect Azerbaijani labor migrants, and taking into account that more than half of the remittances of natural persons to Azerbaijan are made by Azerbaijanis in Russia, this volume is expected to decrease in the long term. In addition, we can note that the number of unemployed people will increase not only in Russia, but also in Azerbaijan, so if we consider that more than 2.5 million Azerbaijanis live in Russia and those of them who are able to work are active, it is not an exception that some Azerbaijanis in Russia will be unemployed. Most of the unemployed Azerbaijanis will return to their native lands, which will lead to an increase in the number of unemployed in Azerbaijan. According to the statistics of the same period of 2022, there has been a sharp increase in the volume of direct investment invested in the economy of Azerbaijan from the Russian economy. There has been a enormous decrease in the amount of direct investment from the Azerbaijani economy to the Russian economy. Azerbaijan has large trade relations with Russia, the sanctions did not have a negative impact on the volume of these trade relations, on the contrary, as a result of the removal of trade restrictions between Azerbaijan and Russia, there was a significant increase in trade turnover. Most of this increase was caused by the rise in the volume of imports from Russia. The main part of this increase occurred as a result of inflation, that is, an increase in the amount of money paid more than the amount of traded products. In the conditions of the ongoing war, the increase in the price of oil made it possible for Azerbaijan to obtain increased income in the short term. However, long-term growth in remittances and investments cannot be expected. Businesses are looking for new markets, and Russian tourists are looking for new countries to visit. This will increase the demand for dollars. Sanctions are expanding and the pressure against the ruble is increasing. As for the result, the value of the ruble is expected to decrease against the background of the expansion of sanctions. If the value of the ruble decreases, in the long term it will be observed with a decrease in the volume of remittances and investments. Considering the statistical indicators, it can be concluded that the war had a limited effect on the economy of Azerbaijan, but it is not an exceptional case that these effects will increase. 9 month statistics do not create conditions to draw more accurate conclusions about these areas. This conflict is another hurdle for Azerbaijan after the pandemic. Azerbaijan taking the development

of non oil sector as a priority issue, should draw conclusions from these sanctions. Although it is not possible in the short term, it should diversify its investment, trade and other relations across countries in the long term. Of course, one of the possible priority issues of Azerbaijan should be the increase of domestic production, as a result of which both the domestic market will develop and a certain amount of products imported from Russia will be compensated.

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