BALANCE OF PAYMENTS[1]
of the Republic of Azerbaijan for January – September, 2017

The country's balance of payments (BoP) had $1.4 B worth of surplus in the current accounts balance (CAB), due to both 25% rise in oil prices, and positive trends in non-oil CAB resulting from actions taken to safeguard macroeconomic and financial stability and financing of oil-gas sector related projects with foreign loans. Non-oil CAB deficit y/y decreased by 5% ($207 M) to $3.9 B.

Key indicators of the balance of payments for January – September 2017

Mln.$

Current operations	***1 062.7***
Foreign trade balance	4 401.7
Services balance	-2 582.3
Primary income balance	-1 261.4
- Investment income repatriation	-879.1
Secondary income balance	504.7
Capital account	***100.5***
Financial account	***279.1***
Net financial assets	*4 455.4*
including:	
- direct investments abroad	1 610.8
- portfolio investments	-4.7
- derivatives	-3.3
- other investments	2 852.6
Net financial liabilities	*4 734.5*
including:	
- direct investments attracted to Azerbaijan	4 500.3
- attracted investment repatriation	-2 102.9
- oil bonus	1.4
- portfolio investments	2 763.5
- other investments	-427.8
Net errors and omissions	***760.3***
Total surplus of the BOP (change in reserve assets of the country; '+' increase, '-' decrease)	***2 202.6***

Note: The BOP was calculated at the 50$ (y/y 40$) average actual oil price.

Current account

Current account surplus amounted to $1.1 B, surplus on the oil-gas sector was $5.0B. Whereas oil-and-gas current account surplus y/y rose $2.0 B 2, non-oil current

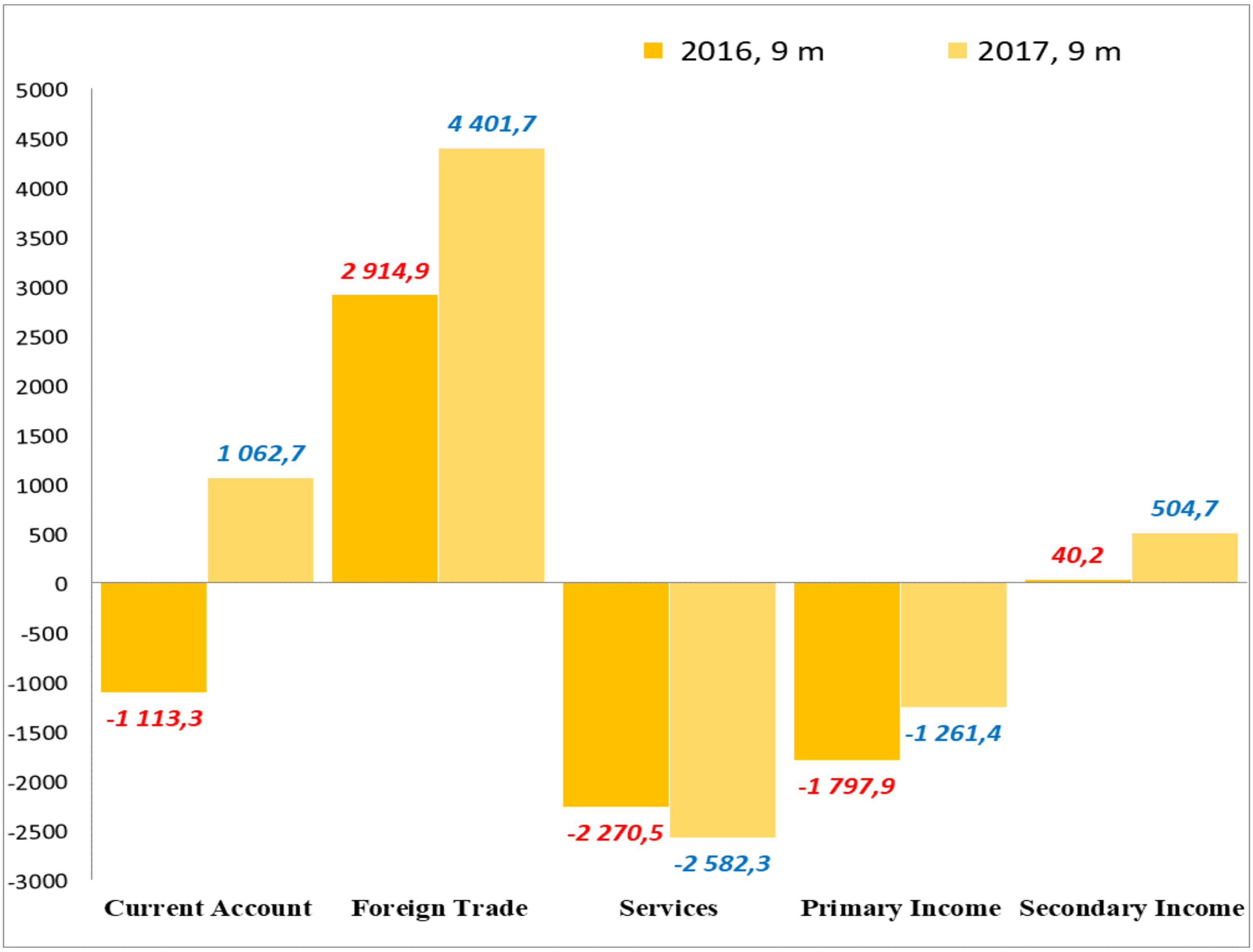
1 Go to http://cbar.az/assets/1186/final_metod.pdf for Methodological Guidelines on Compiling the Balance of Payments.

account deficit decreased by $207 M. Oil-gas current account surplus fully covered $3.9 B worth of non-oil deficit.

Current account surplus is driven by:

- *1.5 times jump in foreign trade balance;*
- *11.6 % rise in oil-and-gas export and 1.9 times drop in import;*
- *drop in deficit of non-oil services balance and $331 M worth of positive balance in travelling;*
- *$536 M worth of y/y drop in primary income balance deficit;*
- *surplus in secondary income balance ($505 M).*

Mln.$



External trade balance

External trade turnover made $17.2 B, while *positive external trade balance amounted to $4.4 B.*

Azerbaijan traded with up to 184 countries around the world in January – September 2017. CIS countries account for 13.3%, while other countries for 86.7% of foreign trade.

Commodity export amounted to $10.8 B.

$8.7 B worth of oil products were exported to foreign countries: $275.8 M oil products, and $8.4 B crude oil.

Non-oil export, posting growth on the backdrop of a favorable exchange rate, y/y increased by 31.3% to $1029.5 M.

Commodity import constituted $6.4 B, total value of imported consumer goods amounted $2.8 B (including $1.0 B worth of food products). Decrease in non-oil import is attributable to the fact that most projects devolved upon the phase of services. Non-oil import y/y increased by 12.8% to $5.4 B. Whereas import of vehicles (1.6 times), rail transport facilities (4 times), paper products (13.9%), chemical products (11.8%), and alcoholic and non-alcoholic beverages (11.3%) increased, import of ships, boats and floating constructions (16.4 times), ferrous metals and products (1.7 times), cereals (24.1%), and furniture (26.2%) decreased.

The share of vehicles, equipment and goods imported via foreign investments was 12.4% ($793.4 M).

Services balance

One of the major items in economic relations of Azerbaijan with other countries was mutually provided services ($9.7 B). Out of which $6.1 B was rendered by non-residents for Azerbaijani residents, and $3.5 B – by Azerbaijani residents for foreign residents, resulting in $2.6 B worth of deficit in services balance. Non-oil services balance deficit y/y decreased by 2.5 times to $124 M.

95% ($2.5 B) of the deficit relates to the oil-gas sector (in particular $2.0 B worth of construction services and $656 M other business services).

The share of transportation in total services turnover was 14.5%. Total size of transportation services made up $1.4 B, 48.4% 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 $679.9 M, while the value of travelling services provided by non-residents to Azerbaijani residents made up $725.8 M. Non-oil exports of transportation services increased by 5%.

Mutual touristic services y/y increased 12% to $4.4 B. Positive balance on touristic services y/y jumped by 1.6 times to $331.2 M ($207.3 M over 9 months of 2016) (the number of visitors to Azerbaijan increased by 20.5% over current 9 months).

In its turn, the cost of travel provided by foreign countries for Azerbaijani residents was $2.0 B. 72.5% of this amount falls to the share of private expenditures of Azerbaijani citizens in foreign countries (funds for shuttle import excluding).

The value of construction services paid to non-residents on the non-oil sector y/y decreased by 2.5 times to $34 M, while the value of other business services paid to non-residents on the non-oil sector increased by 30.2% to $562.6 M.

Primary income balance

The oil-gas sector witnessed $1326 M worth of deficit, while the non-oil sector surplus amounted to $65 M, resulting in y/y decrease in primary income balance deficit by 1.4. times to $1261 M. Total turnover of income receipts and payments made up $3.0 B. 71.3% ($2.1 B) of which were payments from Azerbaijan to non-residents: income repatriation of foreign investors in oil-and-gas consortiums (mainly in terms of crude oil) ($1.2 B), interest payments to non-residents on the securities portfolio ($277.8 M) and interest payments on the use of foreign loans ($331.9 M).

Secondary income balance

Total value of secondary income operations with foreign countries is estimated to equal $1.1 B – receipts $801 M, and payments $296 M.

90.6% of total receipts on secondary income are comprised of remittances of individuals from foreign countries, 5.1% - value of humanitarian goods, 4.3% other receipts. Remittances from foreign countries rose 1.7 times to $725.5 M, while remittances to foreign countries decreased 1.5 times to $248.3 M (remittances dropped upon tightening of currency regime), resulting in $477.2 M worth of positive surplus on remittances.

In total, surplus of secondary income operations made up positive $504.7 M.

Financial account[2]

Net acquisition of financial assets increased by $4.5 B: direct investments abroad ($1610.8 M), portfolio investments ($-4.7 M), derivatives ($-3.3 M) and other investments ($2852.6 M).

Net financial liabilities made up $4.7 B: FDIs ($2397.4 M), oil bonus ($1.4 M), portfolio investments ($2763.5 M) and other investments ($-427.8 M).

Net financial assets and liabilities in January – September, 2017

Mln.$

	Assets	Liabilities
Direct investments	**1 610.8**	**2 397.4**
- oil-gas sector	1 159.0	1 684.8
- other sectors	451.8	712.6
Oil bonus		**1.4**
Portfolio investments	**-4.7**	**2 763.5**
Derivatives	**-3.3**	
Other investments	**2 852.6**	**-427.8**
-trade credits and advances	1 553.9	366.0
- credits and loans	15.7	351.7
- deposits and cash currency	1 283.0	-1 145.5
T O T A L	**4 455.4**	**4 734.5**

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, due to which table indicators are designed accordingly.***

Direct investments

The oil-gas sector accounts for 83.8% of $4.5 B worth of FDIs.

*In January – September, 2017 rise in net financial liabilities (**$1684.8 M**) on the oil-gas sector of the BoP's direct investments item stems from the difference between attracted investments (**$3771.5 M**) and capital repatriation (**$2086.7 M**).*

Total amount of FDIs to the non-oil sector is estimated to equal $728.7M.

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).

Credits and other investments

Net financial assets on credits and loans increased by $15.7 M, while net financial liabilities increased by $351.7 M. Net financial assets on credits and loans mainly decreased at the expense of bank loans, and increased at the expense of government and government guaranteed loans.

Net financial assets on deposits and cash increased $1283.0 M, while net financial liabilities decreased $ 1145.4 M.

Reserve assets

Over the reported period country's reserve assets increased by $2.2 B.

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'.