B A L A N C E   OF   P A Y M E N T S

of the Azerbaijan Republic, on January-September 2006

Macroeconomic parameters of the balance of payments

The factors in September-January 2006, such as the continuation of the high rate economic growth, foreign demand (economic growth in partner countries) rise for national products, expansion of the capital flow in the condition of further betterment of the investment environment, and high level rise of the oil price in the world market, have paved a way for a significance improvement in the parameters of the balance of payments.

During the 9 months of 2006, the total saldo of the balance of payments has been positive, and has constituted 8.1% of GDP, increaseing by 2.7 times.

The successful realization of the high rate economic growth strategy and of an important part of its structure, the oil-gas strategy, have conditioned the growth of the country's export potential. Resultedly, in January-September 2006, compared with previous periods, the internal collection norm has preponderated the investments, and the negative balance that has been existent in the current account transactions in recent years have been substituted with a large-volume proficit,

During the 9 months of 2006, current account balance has been equal to 13.9% of GDP, amounting positive 1961.6 mln $.

The foreign trade positive balance compared to the same period of the previous year, has been equal to 38.0% of GDP, increasing by 3.2 times, and has been a factor that conditioned the current account transactions negative balance to result in the proficit. In its turn, it has conditioned the total positive balance of the balance of payments, financing the negative balance appeared in the capital and finance account.

The analyse of balance of payments with being broken down into the sectors, displays that the foreign economic transactions also in the 9 months of 2006, have had a positive balance on the *oil and gas sector* and negative balance on the non-oil sector, as it has been in the previous years.

The total accounts receivable on this sector form at the expense of the oil export and foreign capital attracted to this sector. Payments on the oil-gas sector reflect the profit and investments repatriation, the allocations spent for the financing of the machinery, mechanism and the other technological faclities import and of the construction of the Main Export pipelines in the territories of Turkey and Georgia. The general positive balance emerged on this sector has provided for the financing of the foreign currency demand of the other sectors of the economy, and the growth of the currency reserves of the country.

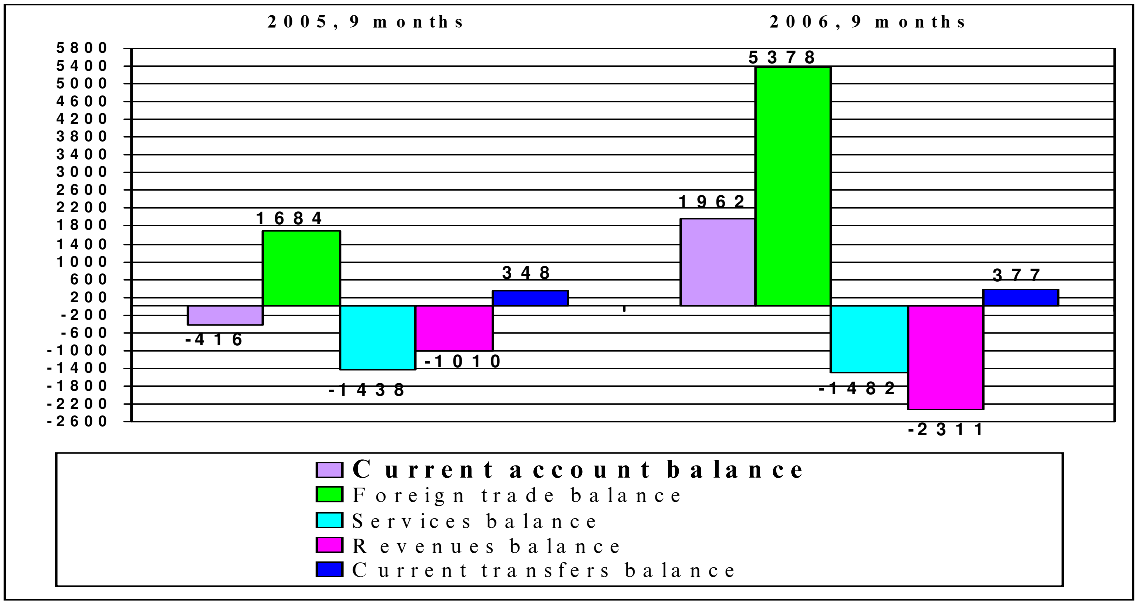
Key analytical indicators of the balance of payments

	2005, 9 months		**2006, 9 months**	
	Mln. $	In GDP, %	Mln. $	In GDP, %
I. Balance of current account transactions	***-415.9***	***-4.9***	***1961.6***	***13.9***
Foreign trade balance	1684.3	19.6	5377.8	38.0
Services balance	-1438.5	-16.8	-1482.0	-10.5
Revenues balance	-1009.6	-11.8	-2311.1	-16.3
-Investment revenues repatriation	-857.6	-10.0	-2052.1	-14.5
Current transfers balance	347.9	4.1	376.9	2.7
II. Capital and financial account balance	***834.8***	***9.7***	***-818.1***	***-5.8***
Direct investments	498.0	5.8	-375.0	-2.6
- To the economy of Azerbaijan	3087.4	36.0	3488.8	24.7
- To foreign economy	-782.7	-9.1	-625.9	-4.4
- İnvestments repatriation	-1806.7	-21.1	-3238.0	-22.9
Oil bonus	1.0	-	17.0	0.1
Credits and other investments	335.8	3.9	-460.1	-3.3
III.Total balance of payments	***418.9***	***4.8***	***1143.5***	***8.1***

Current account transactions

During 9 months of 2006, the proficit in the amount of **1961.6 mln. $** has emerged in the balance between the own accounts receivable and payable in all spheres of the international economic activity of the country on current transactions – **in the current account transactions.**

Mln. $



The emergence of the proficit in the current account transactions is mainly explicated with the merchandise export on the oil-gas sector. While the products export on the oil-gas sector has amounted 4.5 bln. $ in 9 months of 2005, this indicator amounted to 8.3 bln. $ in 9 months of 2006, increasing by 1.8 times. In its turn, it has conditioned also the foreign trade balance rise from 1.7 bln. $ to 5.4 bln. $.

Foreign trade balance

The foreign trade turnover has amounted 12.7 bln. $, and has been 52.2% more than the same indicator of 2005. The volume of goods imported to the country has amounted 3.7 bln. $ or constituted 26% of GDP, and the exports volume constituted 9.1 bln.$ or 64.1% of GDP. *The foreign trade balance has resulted in the positive balance in the amount of 5.4 bln. $ or to the extent of 38% of GDP.*

As a whole, the total volume of the foreign trade turnover has increased by 4.4 bln. $, out of which, the export increased by 4.0 bln. $, import 0.3 bln. $.

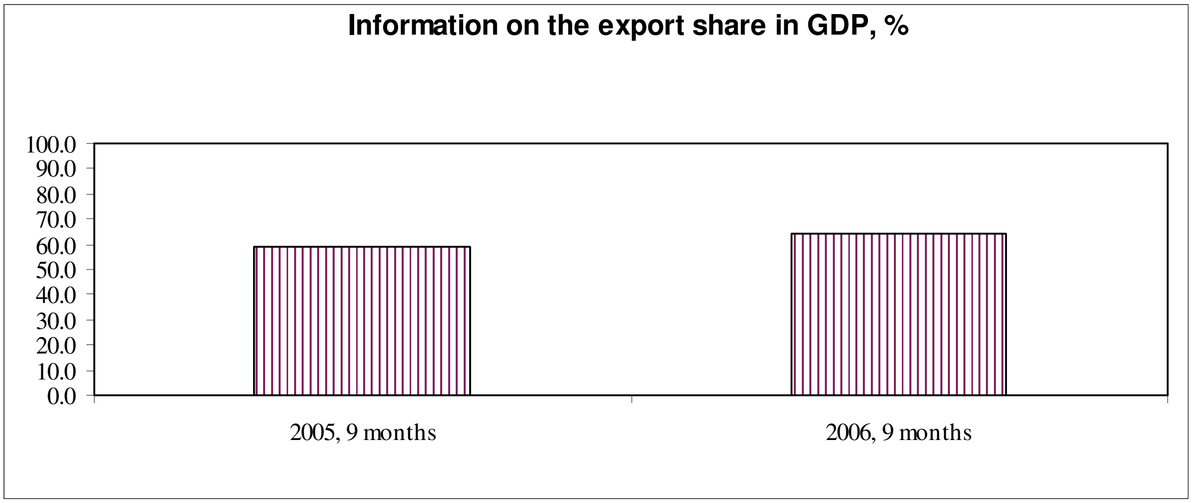
Azerbaijan has conducted the commodities trade with 133 states of the world, in the 9 months of 2006. The CIS member states accrue 14.4% of the foreign trade, and the other foreign states accrue 85.6%. Our state has conducted more intensive trade relationships with Italy, Russia, Turkey, Israel, the UK, Germany, France, Iran, Georgia and Ukraine. Wholly, 82.3% of the entire import-export transactions of the Azerbaijan Republic have been conducted with the aforementioned 10 partner countries mentioned above.

Key foreign trade partners in January-September 2006

(Mln. $)

	Commodities turnover	*Export*	*İmport*	*Balance*
Italy	*6557*	*6457*	*100*	*+6357*
Russia Federation	*1028*	*209*	*819*	*-610*
Turkey	*623*	*287*	*336*	*-49*
Israel	*544*	*522*	*22*	*+500*
United Kingdom	*366*	*9*	*357*	*-348*
Germany	*343*	*7*	*336*	*-329*
France	*324*	*278*	*46*	*+232*
Iran (Islamic Republic)	*287*	*195*	*92*	*+103*
Georgia	*214*	*200*	*14*	*+186*
Ukraine	*201*	*22*	*179*	*-157*
Others	*2249*	*871*	*1378*	*-507*
Total	***12736***	***9057***	***3679***	***+5378***
Out of which:				
CIS states	***1836***	***645***	***1191***	***- 546***
Other states	***10900***	***8412***	***2488***	***+5924***

Goods export. Increasingly easing of the foreign trade, development of the production in the export-oriented enterprises of the fuel complex, and the favourable price conjuncture of the oil in the world market and of the cotton, have increasingly stimulated the export growth, and the commodity export has been 9.0 bln. $ more, increasing by 1.8 times, compared to the same period of 2005. Resultedly, the share of the exportation in GDP has reached to 64.1%, increasing by 5.6%, compared with the same period of the previous year. This reflects the country's close integration to the world economy, and its rise of the *degree of openness*.



The oil products have kept its dominant place, accruing 92.1% of the total export, in the structure of the goods exported.

During the 9 months of 2006, the oil products amounted 8.3 bln.$ have been exported to the foreign states, and this is 2 times more than the same indicator of the same period of 2005. The oil processing products exported accrue only up to 1222.9 mln. USD of all oil products exported, and the crude oil export shares 7.1 bln. $. 6.8 bln. USD of the crude oil are the total value of the oil exploited by the Azerbaijan International Operating Company (AIOC). 1040 mln $ of this are the profit oil shared by Azerbaijan, 5.8 bln. $ are the repatriation of direct investments of the large oil companies (in the form of the crude oil) of the foreign countries, directed to Azerbaijan, connected with "The Contract of the century", that is, at the expense of reduction of foreign commitments of the oil-gas sector. 296.5 mln. $ of the total crude oil exported have been sent abroad by SOCAR and the other enterprises of the country.

Export structure

(Mln. $)

	2005, 9 months		2006, 9 months	
	Amount, mln.$	Share, %	Amount, mln.$	Share, %
Export - total	**5026.2**	**100.0**	**9056.9**	**100.0**
out of which				
1. Fuel – raw products	4515.1	89.8	8700.3	96.1
- oil products	4263.3	84.8	8338.7	92.1
- other raw products	251.8	5.0	361.6	4.0
2. Machinery and facility	292.6	5.8	122.8	1.4
- floating boring plant	264.8	5.3	-	-
3.Consumption goods	198.0	4.0	219.9	2.4
4.Other goods	20.5	0.4	13.9	0.1
- natural gas	-	-	3.2	-

It is estimable that during the 9 months of 2006, the total value of the export goods shared by the **non-oil sector** of the country has amounted to 714.9 mln $, increasing by 43.6%, compared with the same period of 2005. This growth has emerged at the expense of an increase in the export of machine building and chemical products, non-ferrous and black metals, raw cotton, and agricultural products.

Commodities import. It is estimable that the share of the food products in the structure of the goods imported to the country, has decreased by 3.4%, in 9 months of 2006, compared to the 9 months of 2005. The main reason of it is related with the development of the production of food products substituting the import.

İmport structure

(Mln. $)

	2005, 9 months		2006, 9 months	
	Amount, mln.$	Share, %	Amount, mln.$	Share, %
İmport – total	**3341.8**	**100.0**	**3679.0**	**100.0**
out of which:				
1.Consumption goods	1048.1	31.4	1253.4	34.1
- food products	402.5	12.0	438.8	11.9
- others	645.6	19.4	814.6	22.2
2.Investment directed goods	1449.7	43.4	980.8	26.7
- international oil-gas consortiums	1373.5	41.1	791.1	21.5
- others	76.2	2.3	189.7	5.2
3. Other goods	844.0	25.2	1444.8	39.2
- natural gas	222.7	6.7	352.4	9.6

During the 9 months of 2006, consumption goods amounted 1253.4 mln. $ have been brought to the country, including the physical persons' import (600.6 mln. $), and humanitarian goods (26.7 mln. $). 35%, that is 438.8 mln. $ of this are shared by the food products.

The share of the investment directed machinery-facilities and goods in the import concentration, has amounted 980.8 mln. $, constituting 26.7%. 80.7% of this are accrued by the goods imported to the country at the expense of the investments attracted to the country within international oil-gas contracts. Herewith, natural gas in the value of 352.4 mln.$ and production oriented machinery-facilities, chemical, black, and non-ferrous metals in the sum of 1092.4 mln. $, have been brought to the country.

Services balance

The mutual services in the economic relations of Azerbaijan with the foreign states have been in one of the main places, in January-September 2006, and the total volume of these services has constituted 2.8 bln $. 2.1 mln $ of this are the services rendered by non-residents to physical and juridical persons of Azerbaijan, and 676.1 mln.$ are the services rendered by the Azerbaijani residents to the residents of foreign countries. Thus the services balance has amounted negative 1482.0 mln. $, and it is equal to 10.5% of GDP. This indicator has been equal to 16.8%, in the 9 months of 2006.

The services balance deficit is connected mainly with the activity of the oil-gas sector of the country, within the international contracts, so that 1244.4 mln. $ from the direct foreign investments amounted 2.8 bln. $ used for the implementation of the works done in this sector during the report period , have been repaid to the foreign residents, for the expenses of construction-building and the other services, It constitutes 84.0% of the services balance deficit.

The services balance, excluding the import of services related with the activity of the oil-gas sector within international contracts, has resulted in the negative balance of 237.6 mln. $, according to the resultations of January-September 2006.

22.4% of the mutual services turnover reflected in the balance of payments are accrued by the conducted transport transactions. 55.3% of transport services totally amounted 633.6 mln $, are related with the utilization of the transport systems of foreign countries by the Azerbaijani residents.

In its turn, the total value of the transport services provided by the Azerbaijani residents, has amounted 283.5 mln $, increasing by 76.6%, compared to 9 months of 2005. A large part of this resource has been attained as a result of the intensification of the transit freight deliveries between the Middle Asian and European countries, and the increase of air transport services, through the territory of the country, within the TRASECA project.

The value of tourism services provided to the foreigners in the report period has been equal to 75.9 mln $, and 26.0% of this (19.7 mln. $) are related with non-residents' business visits to Azerbaijan. It is estimable that the value of the services rendered to the foreign businessmen related with these visits, have amounted to 19.7 mln. $, increasing by 10.2 mln. $, compared to the same period of the previous year. In its turn, the tourism services provided by foreign countries to the Azerbaijani residents have amounted 146.9 mln. $, increasing by 15.6%, compared to the same period of 2005. Major part of this (88.5%) is accrued by the expenditures of the Azerbaijani citizens (excluding the shuttle import) spent while visiting the foreign countries. Generally, the percentage of mutual services in the total import–export turnover of the country with foreign countries has constituted 17.9%.

Revenues

The total turnover of accounts receivable and payable on revenues has exceeded 2.7 bln. $. 92.7% (2.5 bln. $) of this are constituted by the payments from Azerbaijan. The major part (2052.1 mln. $) of this amount is constituted by repatriation of the revenues shared by the foreign investors of the Azerbaija International Operating Company (as the crude oil), wages paid to non-residents (97.2 mln. $) and the interest paid because of the utilization of foreign credits (including the oil-gas sector).

While the recource entered the country, connected with the revenues, has been equal to 150.3 mln. $, in the 9 months of 2005, this indicator has amounted to 198.3 mln. $ during the 9 months of 2006, increasing by 31.9%. The major part of this - 46.3 mln USD are the revenues on interests calculated to the State Oil Company resources, 48.2 mln. $ to the foreign currency reserves at the disposal of the National Bank, and 9.3 mln. $ to the 2nd degree banks' assets placed abroad.

Current transfers

The total value of the transactions conducted on the current transfers has been evaluated as 640.5 mln. $. Accounts receivable to the country constitute 79.4% of this amount so that the total value of the money orders, humanitarian goods, technical and other aids received from foreign countries, has reached to the level of 508.7 $, increasing by 51.3 mln. $, compared to the 9 months of 2005. 88.4% of this receivable are constituted by the money orders transfered to physical persons, 5.2% by the value of humanitarian import goods, and 6.4% by the other accounts receivable.

Entirely, the positive balance of transactions on the current transfers has amounted 376.9 mln.$ (2.6% of GDP), increasing by 8.3%, compared to the 9 months of 2005,

Capital and finance account

As a result of objective factors influence, the total volume of the foreign capital used in the country in January-September 2006, has been less by 1.5% than the same indicator of the previous year, amounting 3.6 bln $. The main reason for this is 6.9 % decrease compared to the same period of the previous year, in the foreign direct investments attracted to the oil and gas sector,which is related with that the financing of large project by foreign investors within the international oil-gas contracts has reached its completion phase. Consequently, the total amount of direct investments that have been used in the oil and gas sector has been equal to 2.6 bln. $, being 191.8 mln $ less, compared to the same period of the previous year.

Certain quantity and quality changes have happened in the structure of the foreign capital flow from the country, during the report period. The repatriation of investments used in the country economy in the previous periods and the total amount of direct investments directed to the foreign economy, have amounted to 3.9 bln.$., exceeding the indicator of the previous year's same period by 49.2%. This growth is chiefly related with the volume increase of the *repatriation* of direct investments of large oil companies of foreign countries directed to Azerbaijan, at the expense of reduction of foreign commitments of the oil-gas sector, connected with **"The Contract of the century".** While the volume of the repatriated investments amounted 1.8 bln.$ in the same period of 2005, this indicator has reached to the level of 3.2 bln.$, increasing by 79.2%.

Structure of flow of foreign capital used in the country

	2005, 9 months		2006, 9 months		2006, compared wit 2005, %
	Mln. $	Share, %	Mln. $	Share, %	
Direct investments	**2961.4**	**81.1**	**2864.9**	**79.6**	**96.7**
- oil-gas sector	2791.0	76.4	2599.2	72.2	93.1
- other sectors	170.4	4.7	265.7	7.4	155.9
Credits and other investments	**691.4**	**18.9**	**717.0**	**19.9**	**103.7**
- state guaranteed credits	193.7	5.3	302.4	8.4	156.1
- credits without state guarantee	338.9	9.3	332.6	9.2	98.1
- oil-gas sector	252.3	6.9	175.9	4.9	69.7
- others	86.6	2.4	156.7	4.3	180.9
- other investments	158.8	4.3	82.0	2.3	51.6
Oil bonus	**1.0**	**-**	**17.0**	0.5	17 time
T O T A L	**3653.8**	**100.0**	**3598.9**	**100.0**	**98.5**

Direct investments

The receivables to the country economy – from the point of view of stimulating the economy, most efficiently used in the form of foreign investments, have constituted 2.9 bln.$. The percentage of the oil-gas sector in the structure of these investments has constituted 90.7%, though decreased by 3.5%, compared to the previous year’s same period. These investment have been used related with large oil-gas projects, construction projects of BP Exploration (Shah Deniz) Ltd., and Southern Caucasus Pipelines (Baku-Tbilisi-Erzurum gas pipeline), and the investments that have been used in the country economy related with the intensification of works of Azerbaijan International Operating Company in Azeri-Chirag-Guneshli field.

Many enterprises and firms with the foreign investment on the non-oil sector have directed foreign capital in the large volume, as direct investments to the diverse spheres of our economy, during the report period. The total volume of direct investments directed to the non-oil sector has amounted 265.7 mln.$, increasing by 1.6 times, compared with the 9 months of the previous year. Consequently, the percentage of the non-oil sector in the foreign direct investments concentration has risen from 5.8% to 9.3%.

Credits and other investments

19.9% of the total volume of the foreign investments are constituted by direct state and state guaranteed credits, credits and loans, deposits, capital flows etc. directed to the private sector.

The total amount of these indicators reflected in the balance of payments during the 9 months of 2006, has amounted 717.0 mln $. 42.2% (302.4 mln $) of this have been attracted on the basis of the direct state and state guarantee. are the resources attracted from international financial organizations as loans within international oil-gas contracts, to finance the works done in the territory of the country. 18.8 mln $ of this have been received from the World Bank, and 283.6 mln $ are the used part of the credits allocated by international financial and other organizations to finance the investments projects on the reconstruction of “Azerenergy” Open Joint Stock Company, “Azerbaijan Airlines” State Concern and of Baku-Russia automobile road, rehabilitation of the Azerbaijan Silk Road, and irrigation-drenage system. 332.6 mln. $ are credits without the state guarantee, and 175.9 mln.$ of this are the resource attracted by the international financial organizations, to finance the implemented works within the international oil and gas contracts. 156.7 mln.$ are the credits mainly attracted by banks, joint companies and firms. It is 1.8 times more than the indicator of the previous year's same period, in its turn.

International investment position of the country

The transactions conducted during January-September 2006 in the capital and finance account on the balance of payments, have conditioned the assets and liabilities section of the country's international investments balance to increase in the amount of 2.5 bln. or 708.8 mln.$. Resultedly, the net international investment position change on transactions, has possessed a positive balance amounted 1.8 bln.$.

So 10230 mln.$ negative balance of the country's net international investment position for January 1, 2006, has amounted negative 8379 mln.$ for October 1, 2006, decreasing by 1851 mln.$, taking the rate difference into account.

The investment position conclusion still in a such negative balance is connected with the endurance of the evident foreign capital flow to the country, *posing a positive case emanated from the successful economic policy conducted by the state authority* in the last ten years. The total volume of the recource attracted in the form of direct investments - most effective form to stimulate the economy, has exceeded 23.5 bln.$. More than 10.5 bln.$ of this recource have been repatriated as the investments repatriation (mainly as crude oil), and resultedly, for October 1, 2006, the committments balance of the institutions in the private sector before the direct foreign investors, has amounted 13.0 bln.$. 84% or 10.9 bln. of these revenues are shared by the "Oil and gas sector", for the projects implemented within international oil and gas contracts.

It should be positively noted that the net international investment position of the country's *banking sector* has constituted 2.2 bln.$, for October 1, 2006. In its turn, it has influenced the country's international investment position negative balance to decline to a definite extent.

5.3 bln. $ of the negative balance of the country's international investment position, are the deposits, credits, debits receivable and other committments, included in another investments category. 36.1 % or 1916 mln.$ are accrued by the state debt emerged because of credits attracted directly in accordance with the state and state guarantee. The percentage of these committments in GDP volume has constituted 13.5 %, decreasing by 1.5%, compared to the 9 months of the previous year. Consequently, if the rate of foreign state debt on the results of 9 months of 2005, to country's strategic currency reserves was equal to 67.4%, this indicator has decreased by 50.8%, according to the results of 9 months of 2006. So the foreign state debt volume is 2 times less than the country's strategic currency reserves.

Change in the strategic currency reserves of the country

The incessant increasing of foreign investments directed to the Azerbaijani economy and of the country's export potential, and the conducted successful economic policy have provided also for an increase in the country's strategic foreign currency reserves, besides to completely finance the country's demand on the foreign debts and the value of commodities and services that have been imported**.**

During the report period, the strategic currency reserves of the country have had a volume of 3768.4 mln. $ for October 1, 2006, increasing by 46.5%. It is consisted of the State Oil Fund assets amounted 1569.4 mln.$, state deposits amounted 450.0 mln $, and of the National Bank own international assets amounted 1749.0 mln.$. 1522.3 mln.$ of this resource are the offcial currency reserves at the National Bank disposal, and it is sufficient for the financing of commodities and services import for 4.2 months, excluding the oil-gas sector, and this is over the internationally accepted sufficiency criteria.

As a whole, the parameters of the balance of payments in January-September 2006, show the existence of an durable equilibrium in the foreign sector, and it is as an important macroeconomic factor supporting the internal develpoment processes within the state.