BALANCE OF PAYMENTS[1]
of the Republic of Azerbaijan for January – June, 2018

The country's balance of payments (BoP) had total $1.7 B worth of surplus due to both 40% rise in oil prices and positive trends in non-oil CAB. Surplus of the CAB amounted to $3.5 B. Non-oil CAB deficit y/y increased by 25.7% ($564 M) to $2.8 B.

Key indicators of the balance of payments for January – June, 2018

Mln.$

Current operations	***3 522.8***
Foreign trade balance	5 018.9
Services balance	- 953.7
Primary income balance	- 905.8
- Investment income repatriation	*- 752.4*
Secondary income balance	363.4
Capital account	***0.6***
Financial account	***- 1 789.4***
Net financial assets	2 699.5
including:	
- direct investments abroad	*1 320.4*
- portfolio investments	*492.5*
- derivatives	*- 3.2*
- other investments	*889.8*
Net financial liabilities	910.1
including:	
- direct investments attracted to Azerbaijan	*2 053.5*
- attracted investment repatriation	*- 1 713.0*
- oil bonus	*450.1*
- portfolio investments	*- 140.6*
- derivatives	*- 3.6*
- other investments	*263.7*
Net errors and omissions	***685.0***
Total surplus of the BOP (change in reserve assets of the country; '+' increase, '-' decrease)	***2 419.0***

Note: The BOP was calculated at the 69.q$ (y/y 49.4$) average actual oil price.

Current account

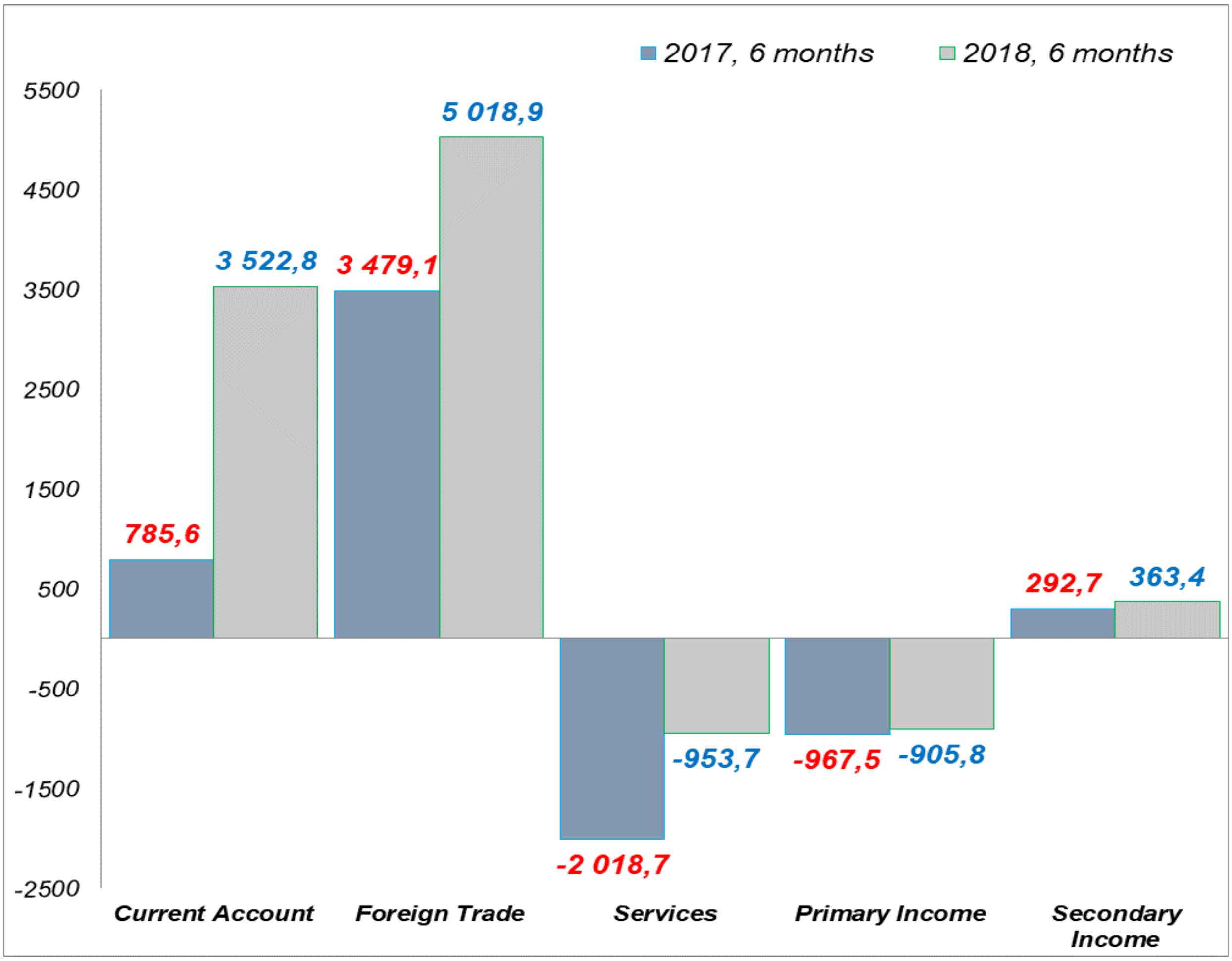
Current account surplus amounted to $3.5 B, surplus on the oil-gas sector was $6.3 B. Whereas non-oil current account deficit y/y increased by 25.7% ($564M), oil-gas

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

current account surplus y/y rose 2.1 times ($3.3 B). $6.3 B worth of oil-gas current account surplus fully covered $2.8 B worth of non-oil deficit. Current account surplus is driven by:

- *1.4 times jump in foreign trade balance;*
- *42.3% rise in oil-gas export and 14.1% rise in non-oil export;*
- *2.1 times drop in deficit of services balance, including 2 times ($726 M) drop in deficit in construction services and $223 M (up 20%) worth of positive balance in tourism;*
- *6.4% drop in primary income balance deficit;*
- *24.2% rise in surplus in secondary income balance ($71 M).*

Mln.$



External trade balance

External trade turnover made $14.8 B, while *positive external trade balance amounted to $5 B (up by 44%).*

Azerbaijan traded with up to 166 countries around the world in January – June 2017: CIS countries account for 13%, while other countries for 87% of foreign trade.

Commodity export amounted to $9.9 B (up by 40%).

$8.2 B worth of oil products were exported to foreign countries: $277.1 M oil processing products, and $7.9 B crude oil.

Non-oil export, posting growth, y/y increased by 14% to $813.5 M.

Commodity import constituted $4.9 B, total value of imported consumer goods amounted $2.3B (including $718M worth of food products). Non-oil import y/y increased 36% to $4.2B. Import of cars (2.2 times), chemical products (2 times), ferrous metals and products (1.5 times), furniture (30.8%), paper products (24.5%), alcoholic and non-alcoholic beverages (23%) increased, while import of sugar (2.2 times), tobacco and products (17%), vegetables (15%) decreased.

The share of vehicles, equipment and goods imported via foreign investments was 8.4% ($411.9M).

Services balance

One of the major items in economic relations of Azerbaijan with other countries was mutually provided services ($5.9B): $3.4 B was rendered by non-residents for Azerbaijani residents, and $2.5B by Azerbaijani residents for foreign residents, resulting in $953.7M worth of deficit in services balance.

Non-oil deficit amounted to $975.7 M (in particular $729.2M worth of construction services and $316.3M other business services). $173.3M worth of non-oil services sector deficit of January – June 2017 y/y was replaced by $22.1M worth of surplus.

The share of transportation in total services turnover was 20%. Total size of transportation services made up $1.2B: 47.6% use of transportation systems of Azerbaijan by non-residents. Total cost of transportation services provided by Azerbaijani residents to non-residents made up $561.6 M, while cost of travelling services provided by non-residents to Azerbaijani residents made up $618.7M. Non-oil exports of transportation services increased by 1.6 times.

Mutual tourism services y/y increased by 7.3% to $2.7 B. Surplus on tourism services y/y increased by 20% to $223.4 M ($186.3M in 2017) (the number of foreign citizens visiting Azerbaijan increased by 10.3% in January – June, 2018).

In its turn, cost of travel provided by foreign countries for Azerbaijani residents was $1.2B. 79% of which private expenditures of Azerbaijani citizens in foreign countries (funds for shuttle import excluding).

Cost of construction services paid to non-residents y/y decreased by 1.6 times to $12.8M, while cost of other business services paid to non-residents on the non-oil sector decreased by 9.8% to $347.9M.

Primary income balance

The oil-gas sector witnessed $1166.7M worth of deficit, while the non-oil sector surplus amounted to $260.9M, resulting in y/y decrease in primary income balance deficit by 6.4% to $905.8M. Total turnover of income receipts and payments made up $2.6B. 67% ($1774.3M) of which were payments from Azerbaijan to non-residents: income repatriation ($1144.4M) of foreign investors in oil-gas consortiums (mainly as crude oil), interest payments to non-residents on the securities portfolio ($181.1M) and interest payments on foreign loans ($190.0M).

Secondary income balance

Total cost of secondary income operations with foreign countries is estimated to equal $783.7M – receipts $573.5M, and payments $210.2M.

92% of total receipts on secondary income is comprised of remittances of individuals from foreign countries, 7% humanitarian goods, 1% other receipts. Remittances from foreign countries increased by 15.8% to $527.8M, while remittances to foreign countries increased by 4.3% to $170.2M, resulting in $357.6M positive surplus on remittances.

In total, surplus of secondary income operations made up positive $363.4M.

Financial account [2]

Net acquisition of financial assets increased by $2699.5M: direct investments abroad ($1320.4M), portfolio investments ($492.5M), derivatives ($-3.2M) and other investments ($889.8M).

Net financial liabilities made up $910.1M: FDIs ($340.5M), oil bonus ($450.1M), portfolio investments ($-140.6M), derivatives ($-3.6M) and other investments ($263.7M).

Net financial assets and liabilities in January – June, 2018

Mln.$

	Assets	*Liabilities*
Direct investments	**1 320.4**	**340.5**
- oil-gas sector	480.3	206.1
- other sectors	840.1	134.4
Oil bonus		**450.1**
Portfolio investments	**492.5**	**-140.6**
Derivatives	**-3.2**	**-3.6**
Other investments	**889.8**	**263.7**
- trade credits and advances	1 675.3	404.6
- credits and loans	113.6	22.6
- deposits and cash currency	-899.1	-163.5
T O T A L	**2 699.5**	**910.1**

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 79.4% of $2053.5M worth of FDIs.

*In January – June, 2017 rise in net financial liabilities **($340.5 M)** on the oil-gas sector of the BoP's direct investments item stems from the difference between attracted investments **($2053.5M)** and capital repatriation **($1713.0M)**.*

Total amount of FDIs to the non-oil sector is estimated to equal $423.3M.

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 $113.6 M, while net financial liabilities increased by $22.6 M. Net financial assets on credits and loans mainly decreased at the expense of loans of the oil-and gas sector, loans of companies and other entities and bank loans, and increased at the expense of government and government guaranteed loans.

Net financial assets on deposits and cash decreased $899.1 M, while net financial liabilities decreased $163.5 M.

Reserve assets

Over the reported period country's reserve assets increased by $2419 M.

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'.