

BALANCE OF PAYMENTS

of the Azerbaijan Republic, on the quarter I, 2006

1. Macroeconomic parameters of the balance of payments

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

The total saldo of the balance of payments in January-March 2006, has been in the amount of 30.5 mln. USD, and constituted 0.8% of the GDP.

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.

The current account balance has been equal to 14% of the GDP, having been in the amount of 494.8 bln. USD.

Key indicators of balance of payments

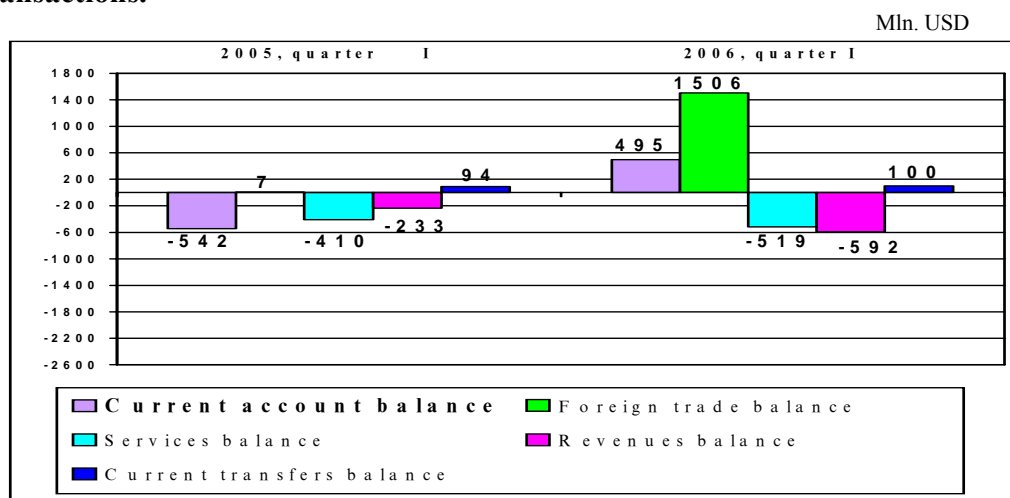
	2005, quarter 1		2006, quarter 1	
	Mln. \$	In GDP, %	Mln. \$	In GDP, %
<i>I. Balance of current account transactions</i>	-541.5	-24.8	494.8	14.0
Foreign trade balance	7.2	0.3	1505.6	42.7
Services balance	-409.8	-18.8	-519.0	-14.7
Revenues balance	-233.3	-10.7	-592.0	-16.8
Current transfers balance	94.4	4.4	100.2	2.8
<i>II. Capital and financial account balance</i>	499.6	22.9	-464.3	-13.2
Direct investments	300.3	13.8	-50.6	-1.5
Credits and other investments	199.3	9.1	-413.7	-11.7
<i>III. Total balance of payments</i>	-41.9	-1.9	30.5	0.8

The foreign trade positive balance has been equal to 42.7% of the GDP, having amounted 1.5 bln. USD, and has conditioned the current account transactions negative balance to result in the profit.

The analyse of balance of payments with being broken down into the sectors, displays that the foreign economic transactions also in January-March 2006, have had a positive balance on the **oil-gas** sector. 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 facilities import and of the construction of the Main Export pipelines in the territories of Turkey and Georgia. The general positive saldo 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.

2. Current account transactions

The profit in the amount of **494.8 mln. USD** 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**.



The emergence of the profit in the current account transactions is mainly explicated with the growth of the merchandise on the oil-gas sector. While the products export on the oil-gas sector, in the first quarter of 2005, has amounted 1.0 bln. USD, this indicator amounted to 2.3 bln. USD, in the first quarter of 2006. In its turn, this has conditioned the the foreign trade balance rise up to 1.5 bln. USD.

2.1. Foreign trade balance

The foreign trade turnover has amounted 3.4 bln. USD, and has been 52.7% more than the same indicator of 2005. The volume of goods imported to the country has amounted 958 mln. USD or constituted 27.2% of GDP, and the exports volume constituted 2464 mln. USD or 69.9% of GDP. *The foreign trade balance has resulted in the positive balance, with the amount of 1.5 bln. USD or to the extent of 42.7% of GDP.*

Azerbaijan has conducted the commodities trade with 113 states of the world, in the first quarter of 2006. The CIS member states accrue 15.4% of the foreign trade, and the other foreign states accrue 84.6%. Our state has conducted more intensive trade relationships with Italy, Russia, Turkey, Israel, Iran, the UK, Romania, Germany, Georgia and Turkmenia. 83.4% of the entire import-export transactions of the Azerbaijan Republic have been conducted with the aforementioned 10 partner countries.

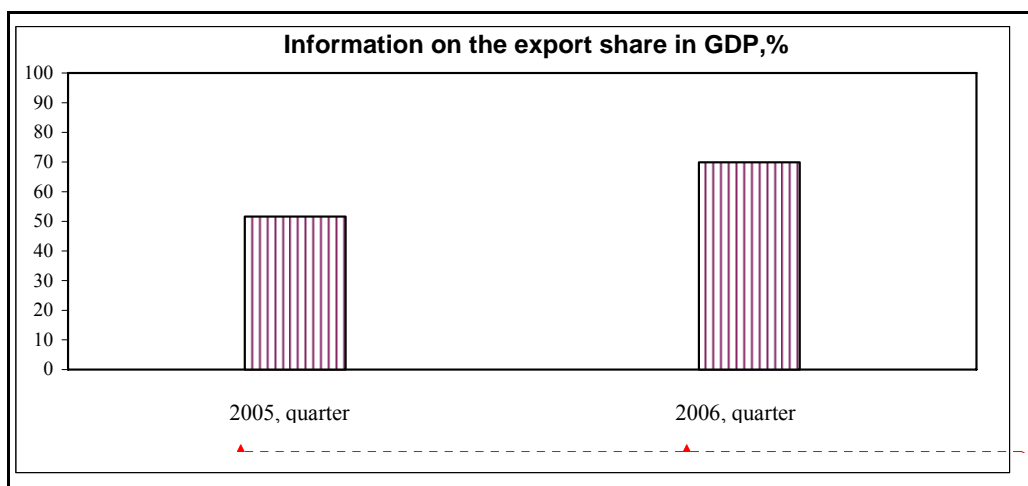
Key foreign trade partners in 2006, quarter I

Mln.USD

	Goods turnover	Import	Import	Balance
Italy	1886	1855	31	+1824
Russia Federation	300	54	246	-192
Turkey	129	52	77	-25
Israel	104	95	9	+86
Iran (Islam Republic)	95	70	25	+45
United Kingdom	81	3	78	-75
Romania	81	79	2	+77
Germany	78	3	75	-72
Georgia	51	47	4	+43
Turkmenia	51	3	48	-45
Others	566	203	363	-160
Total	3422	2464	958	+1506
out of which:				
CIS states	526	155	371	-216
Other states	2896	2309	587	+1722

Entirely, the overall volume of the foreign trade turnover has increased by 1.2 bln. USD, export increased by 1.3 bln.USD, and import decreased by 0.1 bln.USD.

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 amounted to 2.5 bln.USD, increasing by 2.2 times, in January – February 2006, compared to the same period of 2005. Resultedly, the share of the exportation in GDP has reached to 69.9%, increasing by 18.3%, 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**.



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The oil products have accrued 92.5% of the total export, in the structure of the goods *exported*. The oil products amounted 2.3 bln.USD have been exported to the foreign states, and this is 2.3 times more than the same indicator of the first quarter of 2005. The oil processing products exported accrue only up to 371 mln. USD of all oil products exported, and the crude oil export shares 1.9 mln. USD. 1.8 bln. USD of the crude oil exported have been processed by Azerbaijan International Operating Company (AIOC). 346 mln USD of this are the profit oil shared by Azerbaijan, 926 mln 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, and 532 mln USD have been exported as the profit oil of the consortium’s foreign shareholder companies. 103 mln USD of the total crude oil exported have been sent abroad by SOCAR and the other enterprises of the country.

The total value of the export goods of the shared by the non-oil sector of the country has amounted to 185.4 mln USD, increasing by 48.8%, during the first quarter of 2006, compared with the same period of 2005. This growth has emerged at the expense of an increase in the export of chemical products, non-ferrous and black metals, raw cotton, and agricultural products.

Export structure

Mln.USD

	2005, quarter 1		2006, quarter 1	
	Sum, mln. \$	Percentage,%	Sum, mln. \$	Percentage,%
Export - total	1124.3	100.0	2463.7	100.0
out of which:				
1. Fuel – raw products	1066.0	94.8	2384.3	96.8
- oil products	999.7	88.9	2277.4	92.5
- other raw products	66.3	5.9	106.9	4.3
2. Machinery and facility	9.0	0.8	10.4	0.4
3. Consumption goods	46.0	4.1	61.2	2.5

4. Other goods	3.3	0.3	7.8	0.3
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Commodities import. Consumption goods in the amount of 350 mln USD have been brought into our country in the first quarter of 2006, taking physical persons' *import* (177.8 mln USD) and the humanitarian goods into consideration. 40.5% of this are shared by the food products amounted 141.9 mln USD.

It is estimable that the percentage of the food products in the structure of the consumption goods being imported to the country, has fallen back by 1.0%, compared to the first quarter of 2005. It's ascribed to the development of the domestic production substituting the import.

The share of the investment oriented machinery – facilities and goods in the structure of the import has totaled 231 mln USD, constituting 24.1%. 78.5% of this are constituted by the goods imported at the expense of investments attracted to the country within the international oil-gas contracts. Besides this, also the natural gas in the value of 121.2 mln USD and the production-oriented machinery – facility, chemical, black and non-ferrous metals totally amounted 256 mln USD, have been brought into the country during January-March 2006.

Import structure

	2005, quarter 1		2006, quarter 1	
	Sum, mln. \$	Percentage,%	Sum, mln. \$	Percentage,%
Import – total	1117.1	100.0	958.1	100.0
out of which:				
1. Consumption goods	305.2	27.3	350.4	36.6
- food products	126.6	11.3	141.9	14.8
- others	178.6	16.0	208.5	21.8
2. Investment goods	695.0	62.2	230.7	24.1
- international oil-gas consortiums	672.6	60.2	181.0	18.9
- others	22.4	2.0	49.7	5.2
3. Other products	116.9	10.5	377.0	39.3
- natural gas	76.4	6.8	121.2	12.7

2.2. Services balance

The mutual services in the economic relations of Azerbaijan with the foreign states have been in one of the main places, in the first quarter of 2006, and the total volume of these services has constituted 896.1 mln USD. 707.5 mln USD of this are the services rendered by non-residents to physical and juridical persons of Azerbaijan, and 188.6 mln USD are the services rendered by Azerbaijan to the residents of foreign countries. Thus the services balance has amounted up to negative 519.0 mln USD, and it is equal to 14.75 of GDP. This indicator has been equal to 18.8%, in the same period of 2005.

The services balance deficit is connected mainly with the activity of the oil-gas sector of the country, within the international contracts, so that 411.6 mln USD have been repaid to the foreign residents, related to the expenses of construction-building and the other services, from the direct foreign investments amounted 924.2 mln USD, used for the implementation of the works done in this sector during the report period. It constitutes 79.3% 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 107.3 mln USD, according to the sum of 2006.

18.5% of the mutual services turnover reflected in the balance of payments are accrued by the conducted transport transactions. 56.5% of transport services totally amounted 166.0 mln USD, are related with the utilization of the transport systems of foreign countries by the Azerbaijani residents.

In its turn, the value of the transport services provided by Azerbaijan to the other states, has amounted 72.2 mln USD, increasing by 73.7%, compared to the first quarter 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 17.1 mln USD, and 29.8% of this (5.1 mln USD) are related with non-residents' business visits to Azerbaijan. In its turn, the tourism services provided by foreign countries to the Azerbaijani residents have amounted 42.6 mln USD. Major part of this (88.9%) 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 20.8%.

2.3. Revenues

The total turnover of accounts receivable and payable on revenues has been in the volume of 703.6 mln USD. 92.1% (647.8 mln USD) of this are constituted by the payments from Azerbaijan. The major part (532.1 mln USD) of these revenues is constituted by repatriation of the revenues shared by the foreign investors of the Azerbaijan International Operation Company (as the crude oil), wages paid to non-residents (34.7 mln USD) and the interest paid because of the utilization of foreign credits (including the oil-gas sector).

While the resource entered the country, connected with the revenues, has been equal to 42.4 mln USD in the first quarter of 2005, this indicator has amounted to 55.8 mln USD in the first quarter of 2006, increasing by 31.4%. 12.7 mln USD of this are the revenues on interests calculated to the State Oil Company resources, 10.2 mln USD to the foreign currency reserves at the disposal of the National Bank, and 1.8 mln USD to the 2nd degree banks' assets placed abroad.

2.4. Current transfers

The total value of the humanitarian goods, technical and other aids purchased from foreign countries has amounted 15.2 mln USD on current transfers, in the first quarter of 2006.

The humanitarian import goods constitute a considerable part of the aids. The total volume of the humanitarian import goods brought into the country within the 3 months of 2006, has been estimated as 8.6 mln USD. The positive balance of the transactions on current transfers entirely, has amounted to 100.2 mln USD, increasing by 5.8 mln USD (2.8% of GDP).

3. Capital and finance

The volume of the foreign capital used in the country's economy in the first quarter of 2006 has been equal to 1.2 bln USD, displaying the same indicator of the previous year.

Certain quality changes have happened in the structure of the foreign capital used in the country's economy, during the report period. While the percentage of the foreign capital flow that belongs to the category of credits emanating foreign debts, and of the other investments, has constituted 23.2% in the same period of 2005, in the first quarter of 2006 this indicator has constituted 14.7%, decreasing by 1.6%. In its turn, the percentage of the investment used in the country economy in the most effective method – as direct investments, has reached to 85.3%, increasing by 8.5%, compared with the same period of the previous year.

The total sum of the repatriation of direct investments used in the country economy in the previous periods, and of direct investments directed to the foreign economy, has been 67.6% more than the indicator of the previous year, amounting 1.1 bln USD. 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 centry**”.

Structure of foreign capital flow used in the country

	2005, quarter 1		2006, quarter 1		2006, compared to 2005, %
	Mln. \$	Percentage, %	Mln. \$	Percentage, %	
Direct investments	893.2	76.8	981.0	85.3	109.8
- oil-gas sector	862.6	74.2	914.3	79.5	106.0
- other sectors	30.6	2.6	66.7	5.8	218.0
Credits and other investments	269.2	23.2	168.7	14.7	62.7
- state guaranteed credits	39.3	3.4	108.2	9.4	275.3
- credits without state guarantee	114.6	9.9	39.5	3.4	34.5
- BTC project	55.1	4.7	-	-	-
- SOCAR	28.6	2.5	9.9	0.8	34.6
- others	30.9	2.7	29.6	2.6	95.8
- other investments	115.3	9.9	21.0	1.9	12.4
TOTAL	1162.4	100.0	1149.	100.0	98.9

3.1. Direct investments

Direct investments accrue 981.0 mln USD of the foreign investments that have been used in the country's economy. The percentage of the oil-gas sector in the structure of these investments has constituted 93.2%, and this is related with large oil-gas projects, construction projects of BP Exploration (Shah Deniz) Ltd., Baku-Tbilisi-Ceyhan and Southern Caucasus Pipelines, 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 volume of direct investments directed to the non-oil sector has amounted 66.7mln USD, increasing by 2.2 times, compared with the same period of the previous year.

3.2. Credits and other investments

14.7% 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 sum of these indicators reflected in the balance of payments during the first quarter of 2006, has amounted 168.7 mln USD. 5.9% (9.9 mln USD) of this 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. The resource of 108.2 mln USD has been attracted on the basis of the direct state and state guarantee. 18.8 mln USD of this have been received from the World Bank, and 89.4 mln USD are the used part of the credits allocated by international financial and other organizations to finance the investments projects on "Azerenergy" Open Joint Stock Company, Ministry of Transport, reconstruction of irrigation-drenage systems, and "Azersu" Joint Stock Company.

The credits, deposits attracted by banks, joint enterprises and firms, and the other capital flows share 50.6 mln of credits and the other investments.

4. Change in the reserve assets 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 (taking into consideration the rate distinction) have had a volume of 2616.0 mln USD for April 1, 2006, increasing by 1.7%. It is consisted of the State Oil Fund assets amounted 1463.5 mln

USD, and of the National Bank own international assets amounted 1152.5 mln USD. 1026.6 mln USD of this fund are the official currency reserves at the National Bank disposal, and it is sufficient for the 4.4 months financing of commodities and services import, excluding the oil-gas sector, and this is over the internationally accepted sufficiency criteria.

The parameters of the balance of payments as a whole in the first quarter of 2006, show the existence of an durable equilibrium in the foreign sector, and this as an important macroeconomic factor supporting the internal development processes within the state.