PRESS

BALANCE OF PAYMENTS[1]

of the Republic of Azerbaijan for 6 months of 2020

On the backdrop of unfavorable external environment current account (CAB) surplus was $598.2M, capital and financial account deficit was $956.4 M, and reserve assets decreased by $957.5M. Average oil price was $41.9 a barrel, non-oil export decreased by 6.1%.

Key indicators of the balance of payments for 6 months of 2020

Mln.$

Current operations	***598.2***
Foreign trade balance	2 287.1
Services balance	-1 328.6
Primary income balance	- 505.8
- Investment income repatriation	*- 513.7*
Secondary income balance	145.5
Capital account	***-7.7***
Financial account	***-948.7***
Net financial assets	803.1
including:	
- direct investments abroad	*519.0*
- portfolio investments	*-49.0*
- other investments	*333.1*
Net financial liabilities	-145.6
including:	
- direct investments to Azerbaijan	*2 107.0*
- attracted investment repatriation	*- 1 856.9*
- oil bonus	*451.6*
- portfolio investments	*- 87.0*
- other investments	*-760.3*
Net errors and omissions	***-599.3***
Total surplus of the BOP (change in reserve assets of t country; '+' increase, '-' decrease)	***-957.5***

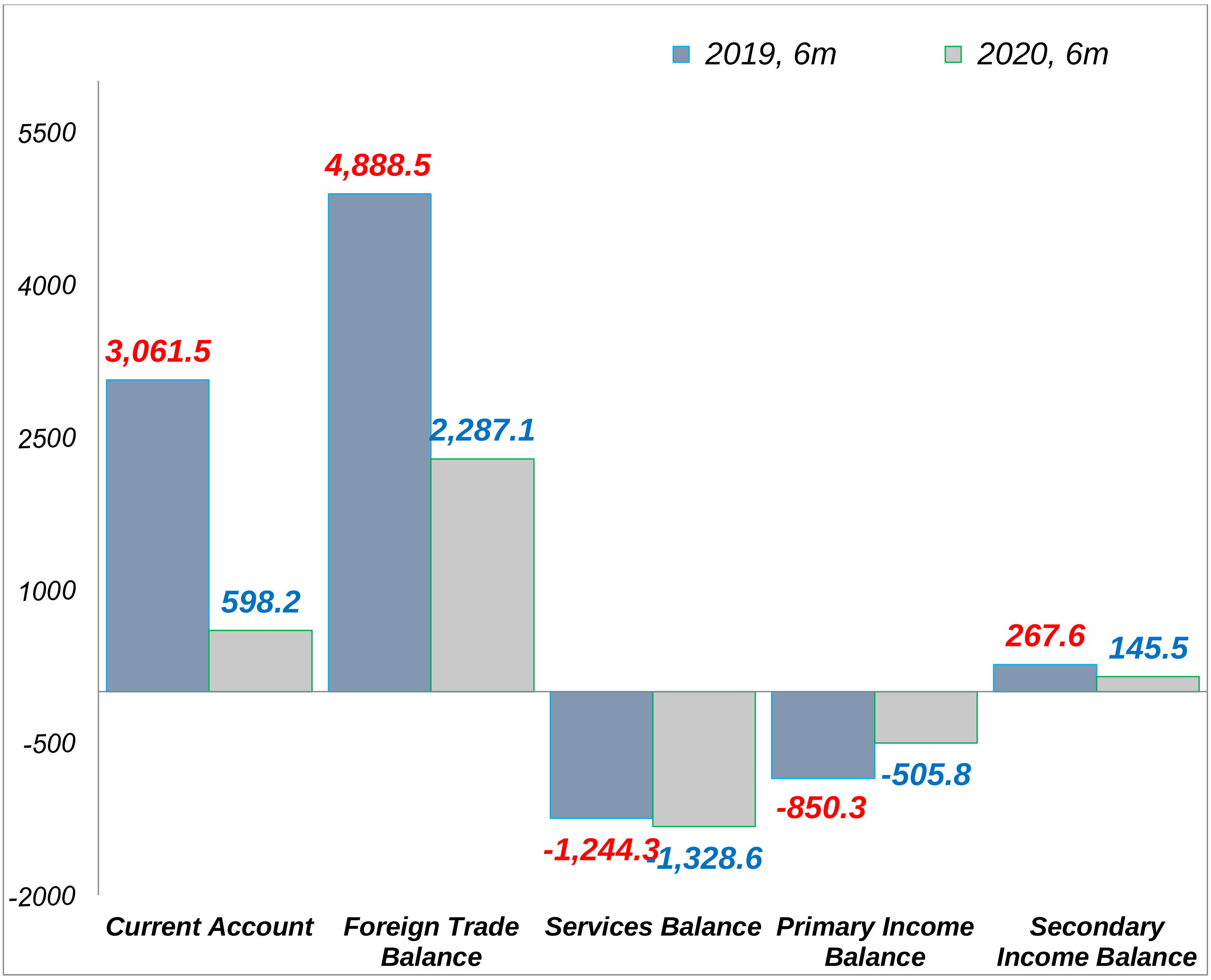
Note: The BOP was calculated at the $41.9 (y/y $64.6) average actual crude oil price.

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

Current account

Current account surplus y/y decreased by 5.1 times to $598.2M, non-oil surplus y/y decreased by 1.9 times ($2.8B) to $3.3B, while non-oil current account deficit decreased by 12.1% ($0.4B) to $2.7B. As a result, oil-and-gas current account surplus fully covered non-oil deficit. Current account surplus mainly stemmed from foreign trade surplus.

Mln.$



External trade balance

External trade balance made up $11.9B, $5.4B worth oil-gas surplus covered $3.1B non-oil deficit, resulting in $2.3B worth positive external trade balance (y/y down by 53.2%). Azerbaijan traded with 167 countries – CIS countries account for 16.0%, while other countries for 84.0% of foreign trade.

Commodity export amounted to $7.1B (down by 28.8%). Oil-gas export decreased by 31.2% to $6.2B (due to 35.3% slump in crude oil prices in global markets to average annual $41.9/barrel over 6 months of 2020). Crude oil accounts for $4.6B and oil processing products of $192.9M of exported oil products ($4.8B).

Non-oil export decreased by 6.1% to $887.7M.

Commodity import y/y decreased by 5.1% to $4.8B, total value of imported consumer goods amounted to $2.1B (including $730.0M worth food products). Non-oil import decreased by 5.8%

to $4.0B: import of butter (37.8%), vegetables (17.5%), metals (16.2%), automobiles (5.6%), paper products (2.3%) and sugar (1.4%) increased, import of railway vehicles (23.1 times), cereals (28.4%), furniture (28.0%), tobacco and products (23.2%), stone and glass products (9.3%), chemicals (8.0%), wood ware (5.2%), alcoholic and non-alcoholic beverages (2.2%) decreased.

The share of vehicles, equipment and goods imported via foreign investments was 7.8% ($375.5M).

Services balance

Total services in Azerbaijan's economic ties with foreign countries made up $3.9B – $2.6B worth services was rendered by non-residents to Azerbaijani residents, and $1.3B by Azerbaijani residents to foreign residents, as a result deficit in services balance increased by 6.8% to $1.3B.

Non-oil deficit was $1.2B (up by 37.0%) (in particular in construction and other business services). Deficit in non-oil services balance was $106.0M (down by 3.3 times).

Transportation accounts for 33.4% of total mutual services turnover. Total size of transportation services made up $1.3B, 52.1% 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 $689.0M, while the value of travelling services provided by non-residents to Azerbaijani residents made up $632.4M.

Non-oil export of transportation services y/y increased by 35.0%, while import increased by 1.3%. As a result, $113.7M worth related deficit (6 months 2019) was replaced by $56.5M surplus (6 months 2020).

Mutual tourism services decreased by 2.7 times to $559.8M. Tourism import ($287.9M) prevailed over export ($271.9M), resulting in $16.0M worth deficit. The number of Azerbaijani citizens visiting foreign countries decreased by 61.7%, while the number of foreign citizens visiting Azerbaijan decreased by 58.2%

Foreign countries supplied $287.9M worth touristic services to Azerbaijani citizens. Out of which private expenditures of Azerbaijani citizens in foreign countries account for 85.2% (funds for shuttle import excluding). Cost of construction services to non-residents on the non-oil sector y/y decreased by 3.1 times to $7.0M, while cost of other business services to non-residents on the non-oil sector decreased by 1.6 times to $292.8M.

Primary income balance

Oil-gas deficit made up $887.7M, while non-oil surplus amounted to $381.9M, resulting in 40.5% decrease in primary income balance deficit to $505.8M.

Total turnover of income receipts and payments was $1.9B. 63.2% ($1.2B) of which were payments from Azerbaijan to non-residents: income repatriation ($631.3M) of foreign investors in oil-gas consortiums (mainly in terms of crude oil), interest payments to non-residents on the securities portfolio ($169.6M), interest payments on foreign loans ($225.4M) and other payments ($201.3M).

Secondary income balance

Total value of secondary income operations with foreign countries is estimated to equal $675.1M – receipts $410.3M, and payments $264.8M.

90.7% of total receipts on secondary income is comprised of remittances of individuals from foreign countries, 7.7% value of humanitarian goods, and 1.6% other receipts.

Remittances from foreign countries decreased by 16.0% to $372.4M, while remittances to foreign countries increased by 15.0% to $221.3M, resulting in $151.1M worth surplus on remittances.

In total, surplus of secondary income operations made up positive $145.5M (down by 45.6%).

Financial account[2]

Net acquisition of financial assets increased by $803.1M: direct investments abroad ($519.0 M), portfolio investments ($-49.0M) and other investments ($333.1M).

Net financial liabilities increased by $145.6M: FDIs ($250.1M), oil bonus ($451.6M), portfolio investments ($-87.0M) and other investments ($-760.3M).

Net financial assets and liabilities on 6 months of 2020

Mln.$

	Assets	Liabilities
Direct investments	**519.0**	**250.1**
- oil and gas sector	*282.9*	*-65.6*
- other sectors	*236.1*	*315.7*
Oil bonus		**451.6**
Portfolio investments	**-49.0**	**-87.0**
Other investments	**333.1**	**-760.3**
- trade credits and advances	*11.6*	*42.7*
- loans	*-12.8*	*-530.9*
- currency and deposits	*334.3*	*-272.1*
T O T A L	**803.1**	**-145.6**

[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.

Direct investments

Total FDI liabilities amounted to $2.1B.

The oil-gas sector accounts for 84.4% of FDIs.

Drop in net financial liabilities ($-65.6M) on the oil-gas sector of the BoP's direct investments item stems from the difference between attracted investments ($1 778.4M) and capital repatriation ($1 844.0M).

Total amount of FDIs liabilities to the non-oil sector is estimated to equal $328.6M.

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).

Portfolio investments

Receipts on portfolio investments made $174.3M, payments made $212.2M, resulting in $37.9M negative surplus.

Assets on portfolio investments mainly decreased due to banks and the public sector, while liabilities decreased due to the oil and gas sector.

Loans and other investments

Net financial assets on loans decreased by $12.8M, while net financial liabilities decreased by $530.9M. Net financial liabilities on loans decreased at the expense of direct government loans ($142.0M), government guaranteed loans ($133.4M), bank loans ($23.1M), loans of the oil and gas sector ($202.0M) and loans of companies and other enterprises ($30.3M).

Net financial assets on currency and deposits increased by $334.3M, while net financial liabilities decreased by $272.1M.

Reserve assets

Over 6 months of 2020 country's reserve assets decreased by $957.5M.

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'.