BALANCE OF PAYMENTS[1]

of the Republic of Azerbaijan for 9 months of 2019

Total surplus of the balance of payments (BoP) over 9 months of 2019 stemmed from both high oil prices and positive trends in current accounts balance (CAB). $4B worth of surplus in the CAB contributed to $4.2B increase in reserve assets.

Key indicators of the balance of payments for 9 months of 2019

Mln.$

Current operations	***4 003.0***
Foreign trade balance	6 896.7
Services balance	-1 841.4
Primary income balance	- 1 446.7
- Investment income repatriation	*- 1 257.8*
Secondary income balance	394.4
Capital account	***- 3.7***
Financial account	***- 339.9***
Net financial assets	590.3
including:	
- direct investments abroad	*1 665.1*
- portfolio investments	*299.1*
- other investments	*- 1 373.9*
Net financial liabilities	250.4
including:	
- direct investments to Azerbaijan	*2 669.8*
- attracted investment repatriation	*- 2 365.6*
- oil bonus	*450.8*
- portfolio investments	*- 199.8*
- derivatives	*- 3.9*
- other investments	*- 300.9*
Net errors and omissions	***507.4***
Total surplus of the BOP (change in reserve assets of the country; '+' increase, '-' decrease)	***4 166.8***

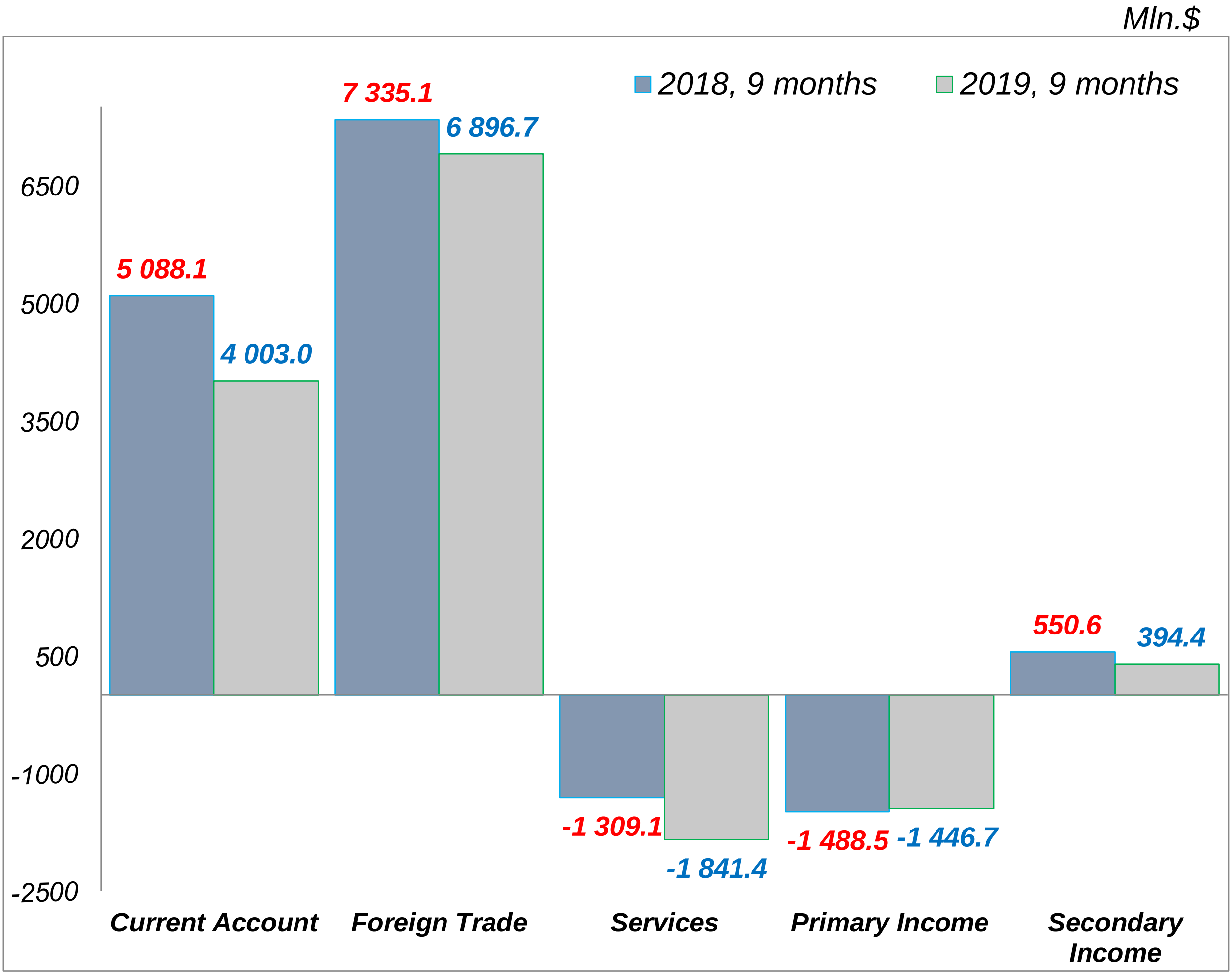
Note: The BOP was calculated at the 64$ (71$ over 9 months of 2018) average actual oil price.

Current account

Current account surplus amounted to $4B (y/y down by 21.3%), non-oil surplus y/y decreased by 6.9% ($677M) to $9.2B, while non-oil current account deficit increased by 8.5%

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

($408M) to $5.2B. Oil-and-gas current account surplus fully covered non-oil deficit. The main reason for current account surplus is attributable to full coverage of the deficit of services and primary income balances by surplus in trade and secondary income balances.



External trade balance

External trade balance made up $23.1B, $12.4B worth of oil-gas surplus covered $5.5B non-oil deficit, resulting in $6.9B worth of positive external trade balance (y/y down 6%).

Azerbaijan traded with up to 186 countries – CIS countries account for 13.6%, while other countries for 86.4% of foreign trade.

Commodity export amounted to $15B (down by 1.4%). Oil-gas export decreased by 1.3% to $13.7B (due to 9% slump in crude oil prices in global markets). $11.6B worth of oil products were exported to foreign countries: $436M oil processing products, and $11.2B crude oil.

Non-oil export**,** posting growth, y/y increased by 16.5% to $1.3B.

Commodity import y/y increased by 2.9% to $8.1B, total value of imported consumer goods amounted to $3.8B (including $1.2B worth of food products). Non-oil import y/y slightly increased (1%) to $6.8B; import of automobiles (1.5 times), sugar (29.8%), railway vehicles (2 times), cereals (49.2%), paper products (20.4%), vegetables (21.1%) and chemicals (26.9%) increased, while import of tobacco and products (15%), alcoholic and non-alcoholic beverages (16.9%), furniture (3.7%), ferrous metals and products (1.8%) and wood ware (5.3%) decreased.

The share of vehicles, equipment and goods imported via foreign investments was 8% ($652M).

Services balance

Total services in Azerbaijan's economic ties with foreign countries made up $7.6B – $4.7B worth of services was rendered by non-residents to Azerbaijani residents, and $2.9B by Azerbaijani residents to foreign residents, resulting in $1.8B worth of deficit in services balance (y/y up by 40.6%).

Non-oil deficit was $1.3B (in particular $762M in construction and $710M other business services). Deficit in non-oil services balance was $513.5M.

Transportation accounts for 24.4% of total mutual services turnover. Total size of transportation services made up $1.8B, 44.4% 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 $816.5M, while the value of travelling services provided by non-residents to Azerbaijani residents made up $1B. Non-oil export of transportation services y/y decreased by 9%, while import decreased by 5.1%. As a result, $339.4M worth of related deficit y/y increased by 3.5% to $351.4M.

Mutual tourism services y/y decreased by 1.7 times to $2.7B. Tourism export ($1.4B) prevailed over import ($1.3B), resulting in $80M worth of surplus (the number of Azerbaijani citizens visiting foreign countries y/y increased by 18%, while the number of foreign citizens visiting Azerbaijan increased by 10%).

Foreign countries supplied $1.3B worth of touristic services to Azerbaijani citizens. Out of which private expenditures of Azerbaijani citizens in foreign countries account for 90% (funds for shuttle import excluding).

Cost of construction services to non-residents on the non-oil sector y/y decreased by 13% to $28.1M, while cost of other business services to non-residents on the non-oil sector increased by 31% to $686.6M.

Primary income balance

Oil-gas deficit made up $1.8B, while non-oil surplus amounted to $399.4M, resulting in y/y decrease in primary income balance deficit by 2.8% to $1.4B.

Total turnover of income receipts and payments was $3.4B, 71.2% ($2.4B) of which were payments from Azerbaijan to non-residents: income repatriation ($1446.9M) of foreign investors in oil-gas consortiums (mainly in terms of crude oil), interest payments to non-residents on the securities portfolio ($356.1M), interest payments on foreign loans ($331.9M) and other payments ($292.6M).

The main reason for $399.4M worth of surplus in non-oil primary income balance is attributable to public sector's rising income from governance.

Secondary income balance

Total value of secondary income operations with foreign countries is estimated to equal $1.1B – receipts $761M, and payments $367M.

91% of total receipts on secondary income is comprised of remittances of individuals from foreign countries, 6% value of humanitarian goods, and 3% other receipts. Remittances from foreign countries decreased by 13.7% to $692.8M, while remittances to foreign countries increased by 18.9% to $311M, resulting in $381.8M worth of surplus on remittances.

In total, surplus of secondary income operations made up positive $394.4M (y/y down by 28.4%).

Financial account [2]

Net acquisition of financial assets increased by $**590.3M**: direct investments abroad ($1665.1M), portfolio investments ($299.1M), and other investments ($-1373.9M).

Net financial liabilities made up **$250.4M**: FDIs ($304.2M), oil bonus ($450.8 M), portfolio investments ($-199.8M), derivatives ($-3.9M) and other investments ($-300.9M).

Net financial assets and liabilities for 9 months of 2019

Mln.$

	Assets	Liabilities
Direct investments	**1 665.1**	**304.2**
- oil and gas sector	*879.4*	*-104.8*
- other sectors	*785.7*	*409.0*
Oil bonus		**450.8**
Portfolio investments	**299.1**	**- 199.8**
Derivatives		**- 3.9**
Other investments	**- 1 373.9**	**- 300.9**
- trade credits and advances	*703.0*	*199.0*
- loans	*8.4*	*- 515.9*
- currency and deposits	- 2 085.3	16.0
T O T A L	**590.3**	**250.4**

[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 FDIs liabilities is amounted to $2.7B.

The oil-gas sector accounts for 84.2% of FDIs.

Rise in net financial liabilities (**$304.2M**) on the oil-gas sector of the BoP's direct investments item stems from the difference between attracted investments (**$2669.7M**) and capital repatriation (**$2365.5M**).

Total amount of FDIs liabilities to the non-oil sector is estimated to equal $421.2M.

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

Assets on portfolio investments increased by $299.1M and liabilities decreased by $199.8M.

Assets on portfolio investments mainly increased at the expense of the public sector and commercial banks, while liabilities decreased at the expense of the oil-and-gas sector.

Loans and other investments

Net financial assets on loans increased by $8.4M, while net financial liabilities decreased by $515.9M. Net financial liabilities on loans mainly decreased at the expense of public) government guaranteed loans, loans of commercial banks, companies and other enterprises, and increased at the expense of loans of the oil and gas sector and public (general) government loans.

Net financial assets on currency and deposits decreased by $2.1B, while net financial liabilities increased by $16M.

Reserve assets

Over the reported period country's reserve assets increased by $4.2B.

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'.