PRESS

BALANCE OF PAYMENTS

of the Republic of Azerbaijan for 9 months of 2020

On the backdrop of unfavorable external environment current account (CAB), the main component of the balance of payments[1] was close to equilibrium. Changes in export prices weighed in on the balance of payments (BoP). Over the period non-oil CAB kept improving. Low import of non-oil goods and services had a balancing effect on the BoP.

Key indicators of the balance of payments for 9 months of 2020

Mln.$

Current operations	***- 208.3***
Foreign trade balance	2 343.6
Services balance	- 2 052.2
Primary income balance	- 800.3
- Investment income repatriation	*- 642.4*
Secondary income balance	300.6
Capital account	***-7.6***
Financial account	***- 2 105.6***
Net financial assets	512.8
including:	
- direct investments abroad	*519.5*
- portfolio investments	*- 18.5*
- other investments	*11.8*
Net financial liabilities	- 1 592.8
including:	
- direct investments to Azerbaijan	*3 390.5*
- attracted investment repatriation	*- 3 717.8*
- oil bonus	*451.6*
- portfolio investments	*- 303.1*
- other investments	*-1 414.0*
Net errors and omissions	***517.8***
Total surplus of the BOP (change in reserve assets of the country; '+' increase, '-' decrease)	***- 1 803.7***

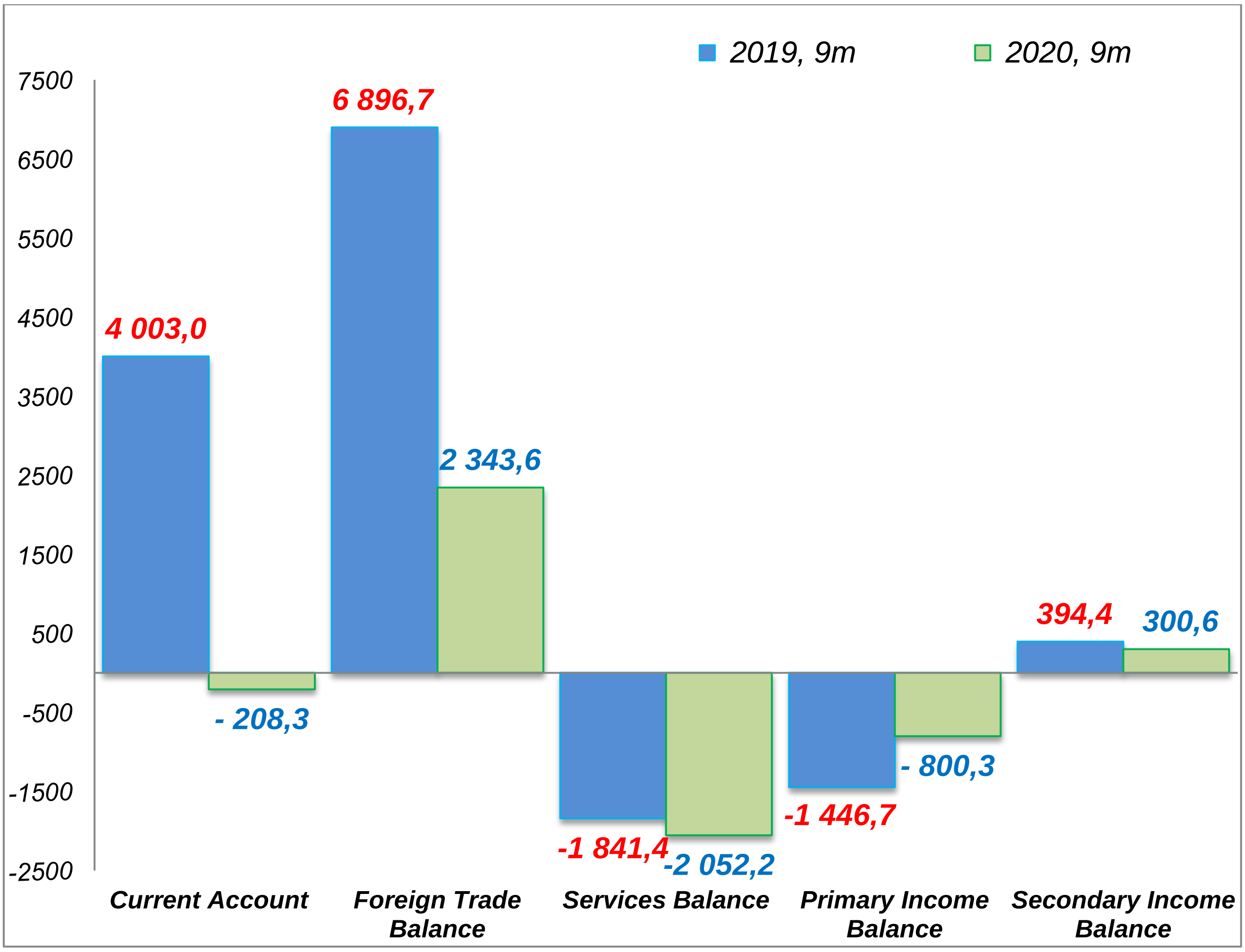
Note: The BOP was calculated at the $41.6 (y/y $64.2) average actual crude oil price.

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

Current account

Current account deficit amounted to $208.3M (0.7% of GDP) over 9 months of 2020 (y/y surplus amounted to $4B). Oil and gas current account surplus y/y decreased by 2.3 times ($5.2B) to $4B, while non-oil current account deficit decreased by 19.1% ($1B) to $4.2B.

Mln.$



External trade balance made up $17.2B, $7.2B worth oil-gas surplus covered $4.8B non-oil deficit, resulting in $2.4B worth positive external trade balance (y/y down by 2.9 times). Azerbaijan traded with 186 countries – CIS countries account for 16%, while other countries for 84.0% of foreign trade.

Commodity export amounted to $9.8 B (down by 35%). Oil-gas export decreased by 37.5% to $8.5B (due to 11% drop in oil extraction and 35.2% slump in crude oil prices in global markets to average annual $41.6/barrel over 9 months of 2020). Crude oil accounts for $6.5B and oil processing products of $0.3B of exported oil products ($6.8B). Non-oil export decreased by 9.3% to $1.2B.

Commodity import y/y decreased by 8.7% to $7.4B, total value of imported consumer goods amounted to $3.2B (including $1.1B worth food products). Non-oil import decreased by 11% to $6.1B: import of butter (29.8%), vegetables (14.2%), automobiles (5.5%) and paper products

(2.5%) increased and import of railway vehicles (3.8 times), tobacco and products (29.7%), furniture (28.2%), metals (16.2%), chemicals (15.2%), stone and glass ware (10.7%), cereals (10%), alcoholic and non-alcoholic beverages (10.6%), sugar (4.4%), wood ware (4%) decreased.

The share of vehicles, equipment and goods imported via foreign investments was 7.6% ($0.6B).

Services balance

Total services in Azerbaijan's economic ties with foreign countries made up $6B – $4B worth services was rendered by non-residents to Azerbaijani residents, and $2B by Azerbaijani residents to foreign residents, as a result deficit in services balance increased by 11.4% to $2B.

Non-oil deficit was $1.8B (up by 38.7%) (in particular in construction and other business services). Deficit in non-oil services balance was $0.2B (down by 2.4 times).

Transportation accounts for 35% of total mutual services turnover. Total size of transportation services made up $2.1B, 55.1% 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 $1.2B, while the value of travelling services provided by non-residents to Azerbaijani residents made up $0.9B.

Non-oil export of transportation services y/y increased by 31.7%, while import decreased by 7.9%. As a result, $0.2B worth related deficit (9 months 2019) was replaced by $0.2B surplus (9 months 2020).

Mutual tourism services decreased by 4.3 times to $0.6B. Tourism import ($352.6M) prevailed over export ($286.4M), resulting in $66.2M worth deficit. The number of Azerbaijani citizens visiting foreign countries decreased by 74.5%, while the number of foreign citizens visiting Azerbaijan decreased by 71.6%.

Foreign countries supplied $352.6M worth touristic services to Azerbaijani citizens. Out of which private expenditures of Azerbaijani citizens in foreign countries account for 87% (funds for shuttle import excluding). Cost of construction services to non-residents on the non-oil sector decreased by 26.6% to $20.6 M, while cost of other business services to non-residents on the non-oil sector decreased by 29.1% to $486.5M.

Primary income balance

Oil-gas deficit made up $1.4B, while non-oil surplus amounted to $0.6B, resulting in 44.7% decrease in primary income balance deficit to $0.8B.

Total turnover of income receipts and payments was $3.1B. 62.8% ($2B) of which were payments from Azerbaijan to non-residents: income repatriation ($0.9B) of foreign investors in oil-gas consortiums (mainly in terms of crude oil), interest payments to non-residents on securities portfolio ($0.3B), interest payments on foreign loans ($0.4B) and other payments ($0.4B).

Secondary income balance

Total value of secondary income operations with foreign countries is estimated to equal $1.2B – proceeds $742.6M, and payments $442M.

91.8% of total receipts on secondary income is comprised of remittances of individuals from foreign countries, 6.7% value of humanitarian aid goods, and 1.5% other receipts.

Remittances from foreign countries decreased by 1.6% to $681.9M, while remittances to foreign countries increased by 23.2% to $383M, resulting in $298.9M worth surplus on remittances (down by 21.7%).

In total, surplus of secondary income operations made up positive $300.6M (down by 23.8%).

Financial account [2]

Net acquisition of financial assets increased by $512.8M: direct investments abroad ($519.5M), portfolio investments ($-18.5M) and other investments ($11.8 M).

Net financial liabilities decreased by $1592.8M: FDIs ($-327.3M), oil bonus ($451.6M), portfolio investments ($-303.1M) and other investments ($-1414.0M).

Net financial assets and liabilities for 9 months of 2020

Mln.$

	Assets	***Liabilities***
Direct investments	**519.5**	**-327.3**
- oil and gas sector	*145.8*	*-509.7*
- other sectors	*373.7*	*182.4*
Oil bonus		**451.6**
Portfolio investments	**-18.5**	**-303.1**
Other investments	**11.8**	**-1 414.0**
- trade credits and advances	*-86.7*	*-290.4*
- loans	*-2.4*	*-708.3*
- currency and deposits	*100.9*	*-415.3*
TOTAL	**512.8**	**-1 592.8**

[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 $3.4B (up by 27%). The oil-gas sector accounts for 85.3% of FDIs.

Drop in net financial liabilities ($-509.7M) on the oil-gas sector of the BoP's direct investments item stems from the difference between attracted investments ($2893.4M) and capital repatriation ($3403.1M).

Total amount of FDIs liabilities to the non-oil sector is estimated to equal $497.1M (up by 18%).

Portfolio investments

Receipts on portfolio investments made $0.2B, payments made $0.5B, resulting in $0.3B 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 $2.4M, while net financial liabilities decreased by $708.3M. Net financial liabilities on loans decreased at the expense of direct government loans ($137.6M), government guaranteed loans ($176.5M), bank loans ($29.7M), loans of the oil and gas sector ($279.8 M) and loans of companies and other enterprises ($84.7M).

Net financial assets on currency and deposits increased by $100.9M, while net financial liabilities decreased by $415.3M.

Reserve assets

Over 9 months of 2020 country's reserve decreased by $1.8B.