BALANCE OF PAYMENTS[1]

of the Republic of Azerbaijan for Quarter I, 2019

Total surplus of the balance of payments (BoP) in QI, 2019 stemmed from both high oil prices and positive trends in current accounts balance (CAB). $1.6 B worth of surplus in the CAB contributed to increase in reserve assets.

Key indicators of the balance of payments for QI, 2019

Mln.$

Current operations	***1 602.7***
Foreign trade balance	2 486.2
Services balance	-500.4
Primary income balance	- 516.5
- Investment income repatriation	*- 412.9*
Secondary income balance	133.4
Capital account	***- 1.9***
Financial account	***- 215.1***
Net financial assets	1 254.8
including:	
- direct investments abroad	*817.2*
- portfolio investments	*402.2*
- derivatives	*- 0.2*
- other investments	*35.6*
Net financial liabilities	1 039.7
including:	
- direct investments attracted to Azerbaijan	*808.7*
- attracted investment repatriation	*- 740.8*
- oil bonus	*450.8*
- portfolio investments	*- 14.0*
- other investments	*535.0*
Net errors and omissions	***633.6***
Total surplus of the BOP (change in reserve assets of the country; '+' increase, '-' decrease)	***2 019.3***

Note: The BOP was calculated at the 62$ (65$ in QI, 2018) average actual oil price

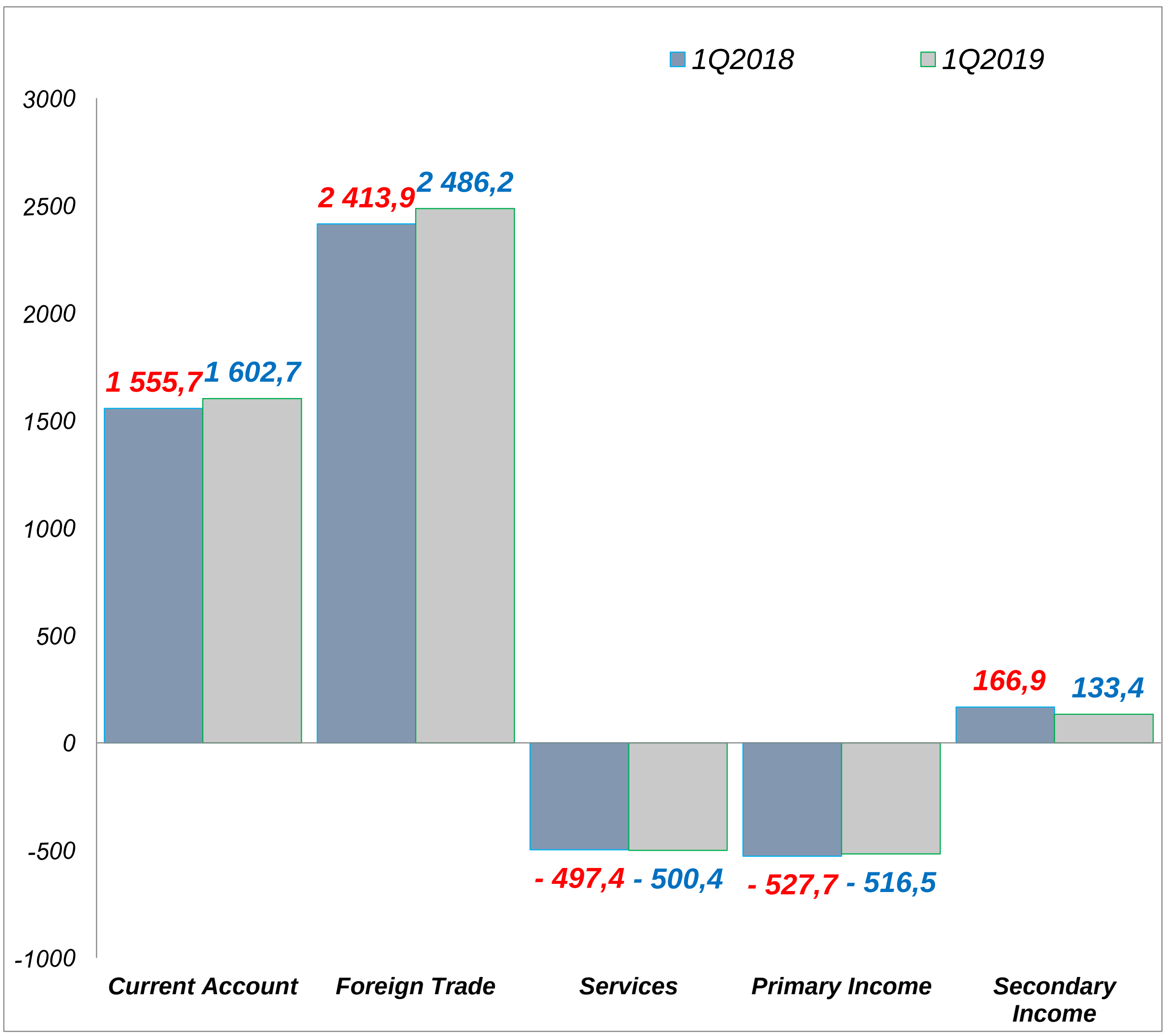
1 ***Go to http://cbar.az/assets/1186/final_metod.pdf for Methodological Guidelines on Compiling the Balance of Payments.***

Current account

Current account surplus amounted to $1.6 B (y/y up by 3%) in QI, 2019, surplus on the non-oil sector increased by 4.6% ($129 M) to $3 B, while non-oil current account deficit increased by 6.4% ($82 M) to $1.4 B. Oil-and-gas current account surplus fully covered non-oil deficit. Current account surplus is driven by:

- *3% ($72 M) rise in foreign trade balance;*
- *2.6% rise in oil-gas export and 17.2% rise in non-oil export;*
- *2.1% ($11 M) drop in deficit in primary income balance.*

Mln.$



External trade balance

External trade balance made up $7 B, $4 B worth of oil-gas surplus covered $1.5 B non-oil deficit, resulting in $2.5 B worth of positive external trade balance (y/y up by 3%).

Azerbaijan traded up to 155 countries – CIS countries account for 11%, while other countries for 89% of foreign trade.

Commodity export amounted to $4.7 B (up by 3.7%).

$3.6 B worth of oil products were exported to foreign countries: $129 M oil processing products, and $3.5 B crude oil.

Non-oil export, posting growth, y/y increased by 17.2% to $396 M.

Commodity import y/y increased by 4.4% to $2.3 B, total value of imported consumer goods amounted to $1.1 B (including $403 M worth of food products). Non-oil import y/y increased by 4.1% to $1.9 B; import of automobiles (1.8 times), sugar (2.4 times), cereals (43.7%), vegetables (16.3%), paper products (18.6%) and chemicals (14.1%) increased, while import of railway vehicles (60.5%), furniture (20.3%), ferrous metals and products (13.2%), stone and glass ware (5%) and wood ware (10.4%) decreased.

The share of vehicles, equipment and goods imported via foreign investments was 10.8% ($244.2 M).

Services balance

Total services made up $2.1 B. Out of which $1.3 B was rendered by non-residents for Azerbaijani residents, and $0.8 B – by Azerbaijani residents for foreign residents, resulting in $500.4 M worth of deficit in services balance (y/y up by 0.6%).

Non-oil deficit was $378.3 M (in particular $230 M worth of construction services and $194 M worth of other business services). Non-oil services balance $14.8 M worth of deficit y/y increased by 8.2 times to $122.1 M.

The share of transportation in total mutual services turnover was 25.8%. Total size of transportation services made up $552.6 M, 51.7% 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 $285.6 M, while the value of travelling services provided by non-residents to Azerbaijani residents made up $267 M.

Non-oil exports of transportation services y/y increased by 13.7%, while imports decreased by 9.4%. As a result, $83.6 M worth of related deficit y/y decreased by 3.1 to $27 M.

Mutual tourism services y/y made up $672 M. Import of tourism made up $352 M, while export made up $319 M – the number of Azerbaijani citizens visiting foreign countries made 1.2 millioni, while number of foreign citizens visiting Azerbaijan was 610.8 thousand.

Private expenditures of Azerbaijani citizens in foreign countries account for 80% of touristic services for Azerbaijani residents by foreign countries (funds for shuttle import excluding).

Cost of construction services paid to non-residents on the non-oil sector y/y increased by 30% to $16.7 M, while cost of other business services paid to non-residents on the non-oil sector increased by 44% to $221 M.

Primary income balance

Oil-gas deficit made up $645.2 M, while non-oil surplus amounted to $128.7 M, resulting in y/y decrease in primary income balance deficit by 2.1% to $516.5 M.

Total turnover of income receipts and payments was $1.2 B, 72% ($846.6 M) of which were payments from Azerbaijan to non-residents: income repatriation ($476.1 M) of foreign investors in oil-gas consortiums (mainly in terms of crude oil), interest payments to non-residents on the securities portfolio ($177.2 M) and interest payments on foreign loans ($89.6 M). 2.4 times y/y rise in surplus of 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 $344.4 M – receipts $238.9 M, and payments $105.5 M.

90% of total receipts on secondary income is comprised of remittances of individuals from foreign countries, and 3% other receipts. Remittances from foreign countries decreased by 11% to $215 M, while remittances to foreign countries increased by 7.3% to $89.3 M, resulting in $125.7 M worth of positive surplus on remittances.

In total, surplus of secondary income operations made up positive $133.4 M (y/y up 20%).

Financial account[2]

Net acquisition of financial assets increased by $**1 254.8** M: direct investments abroad ($817.2M), portfolio investments ($402.2M), derivatives ($-0.2M) and other investments ($35.6M).

Net financial assets and liabilities in QI, 2019

Mln.$

	Assets	***Liabilities***
Direct investments	**817.2**	**67.9**
- oil and gas sector	*636.2*	*-54.2*
- other sectors	*181.0*	*122.1*
Oil bonus		**450.8**
Portfolio investments	**402.2**	**- 14.0**
Derivatives	**- 0.2**	
Other investments	**35.6**	**535.0**
- trade credits and advances	*410.1*	*330.1*
- credits and loans	*- 6.5*	*155.6*
- deposits and cash currency	- 368.0	49.3
T O T A L	**1 254.8**	**1 039.7**

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.

Net financial liabilities made up $**1 039.7** M: FDIs ($67.9 M), oil bonus ($450.8 M), portfolio investments ($-14 M), derivatives ($-4.5 M) and other investments ($535 M).

Direct investments

Total FDIs amounted to $808.7 M.

The oil-gas sector accounts for 84.3% of FDIs.

In QI, 2019 rise in net financial liabilities (**$67.9M**) on the oil-gas sector of the BoP's direct investments item stems from the difference between attracted investments (**$808.7 M**) and capital repatriation (**$740.8 M**).

Total amount of FDIs to the non-oil sector is estimated to equal $126.7 M.

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 decreased by $6.5 M, while net financial liabilities increased by $155.6 M. Net financial assets on credits and loans mainly increased at the expense of government guaranteed loans, and decreased at the expense of bank loans, direct government loans, loans of firms and other enterprises and direct state loans.

Net financial assets on deposits and cash decreased by $368 M, while net financial liabilities increased by $49.3 M.

Reserve assets

Over the reported period country's reserve assets increased by $2 B.

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'.