

## **Consumer Goods became the main drivers of Imports**

### **Growth of consumer goods imports restrains appreciation of Tenge**

**Despite the significant growth in global prices of the main goods exported by Kazakhstan, such as oil and metals, the current account remains in deficit. According to preliminary estimates, for 9 months of 2021 it amounted to (-)3 billion USD. Meruyert Almagambetova, Head of the External Sector Analysis Division of the Balance of Payments Department of the National Bank of Kazakhstan, talked about the pressure of consumer goods imports on the balance of payments and exchange rate of the tenge.**

#### **– What is the situation with imports of goods?**

– Amid increasing exports of goods, imports of goods are also growing. It used to be that the main drivers of import growth were intermediate goods and means of production. Nowadays the picture is somewhat different: imports of intermediate and investment goods are falling (-5%), and the reported growth in imports is caused by increased imports of consumer goods, primarily non-food goods.

Since the beginning of the year, we observe an increase in imports of consumer goods in relation to both the previous year (+ 21% to 9 months of 2020) and to the pre-pandemic 2019 (+ 27%). Share of consumer goods in the structure of imports also rose from 25% in the 9 months of 2020 to 30% this year.

Generally, import of consumer goods consists of food (share – 28%) and non-food (share – 72%) goods.

#### **– What kind of food products does Kazakhstan mainly import?**

– For the 9 months of 2021, main imported food products were beverages (141 million USD), flour confectionery (134 million USD), sugar (119 million USD), chocolate (109 million USD) and poultry meat (104 million USD).

In the period from January to September of this year, food imports increased by 11%, amounting to 2.4 billion USD. The largest increase was reported in supply of such goods as beverages (+60 million USD), mainly from Russia, nuts (+28 million USD) from China and Iran, sausages (+21 million USD) from Russia and Belarus, frozen fish (+18 million USD) from Norway, bananas (+14 million USD) from Ecuador and flour confectionery (+13 million USD) from Russia. Imports of these items also expanded in relation to 2019.

Main supplier of imported food products is Russia, with a share of about a half of all foreign food products. Uzbekistan has a share of 7.4%, Belarus and China – 5% and 4.9%, respectively.

Food products are imported to Kazakhstan for a number of reasons. The main one is a lack of production of some items in Kazakhstan. Incomplete coverage by domestic production is reported for such goods as sugar, sausages, cheese, apples and margarine.

Moreover, there are other factors that stimulate imports. These are more favorable foreign prices and a variety of product lines as well as climatic specifics of cultivation and production of certain types of products.

**– What are the trends in imports of non-food products, especially cars, given their shortage and even absence in Kazakhstan’s car showrooms?**

– This year there is a high rate of growth in imports of non-food products. For the 9 months of 2021, supply of non-food products soared by 25.9% compared to 2020 and by 30.7% compared to the pre-crisis 2019, amounting to 6.3 billion USD. The biggest increase was in import of cars (+501 million USD, up to 1 billion USD) from Russia, Uzbekistan and Japan, footwear (+164 million USD, up to 417 million USD) from China, clothes (+161 million USD, up to 627 million USD) from China and Turkey as well as monitors and projectors (+71 million USD, up to 164 million USD) from Russia. Satisfaction of domestic demand with imported non-food products is due to insufficient development of production in Kazakhstan.

Non-food products are mainly imported from Russia (30.1%) and China (28.3%). Top five suppliers of non-food products also include the EU (14.2%), Turkey (5%) and Uzbekistan (4.8%).

It also should be noted that there is a shortage of cars worldwide which is associated with restrictions from production side due to a shortage of components, in particular micro-chips. In Kazakhstan, demand is also growing. According to the Association of Kazakh Auto Business, for the 9 months of this year, car sales in Kazakhstan’s market surged by 36.3%, up to 86.6 thousand pieces. Value of imports for the covered period has doubled. Since growth rates of sales of cars exceed rates of their domestic production (30% against 21%), the existing demand stimulates import of finished cars.

Along with that, domestic production of cars is still highly dependent on import of components. In this context, increased demand from the population stimulates either demand for ready-made cars or import of components for further assembly inside the country.

**– What are reasons behind such a sharp increase in imports of consumer goods?**

– The main reasons for growing imports of consumer goods are *the recovery of the economic activity* in the country and *growth of effective demand* of the population.

Since the beginning of the year, we have seen a systematic recovery of the country's economy. Thus, in January-September 2021 GDP growth was 3.4%.

Effective demand of the population is mainly caused by higher income of households and growing consumer loans. According to the Bureau of National Statistics, for the 9 months of 2021, there was an increase in both real income (+5.0%) and nominal income (+13.2%) per capita. Growth of income as an indicator of the creditworthiness of the individuals contributes to an increase in the issuance of new consumer loans. Thus, over the 9 months of 2021, consumer loans to households almost doubled compared to the 2020 crisis year and increased by 54.3% compared to 2019.

Strong recovery in demand for consumer goods from households amid lagging domestic production as well as global inflationary trends in growth of prices for food, raw materials, metals and cars, create *pro-inflationary pressure* in the economy. The recovery of the effective demand of households puts pressure on prices through the *exchange rate channel* due to ***increased demand for foreign currency***.

Specifics of imports of goods is such that investment imports are most often financed by foreign direct investment. Thus, pressure of purchases of such goods on the exchange rate and on the foreign exchange market in general is less significant. The same cannot be said in case of consumer imports. Foreign currency to pay for supply of foreign consumer goods is usually purchased in the domestic foreign exchange market. Significant increase in consumer imports, in turn, entails a higher demand for foreign currency, preventing a positive conditions in the global oil markets from affecting movement of the exchange rate.