

## *Keynote Thesis of Deputy Governor Akylzhan Baimagambetov on the current indicators and the forecasts of the Balance of Payments*

*During the forecasting round “August – September 2022” the National Bank of Kazakhstan updated estimates of the key macroeconomic indicators of the country. It’s expected that the current account of the Balance of Payments will shift into a positive zone and end up with a surplus. Akylzhan Baimagambetov, Deputy Governor of the National Bank, spoke about the key drivers of export growth this year, as well as medium-term forecasts of the Balance of Payments and their prerequisites.*

### **Regarding the trajectory prospects of the Current Account of Balance of Payments**

In the current forecasting round, under the baseline scenario, it is assumed that a gradual decline in oil prices from current levels to an average of **USD 90 per barrel** in 2023. With such a forecast price trajectory, the current account of the Balance of Payments this year will move into the positive zone, that is, it will end up with a **surplus**. This will be the first surplus in the last eight years. It will be provided by **high commodity prices**, which are the core of Kazakhstan’s exports. Even taking into account high levels of imports and income payments to foreign direct investors in the commodity sector, under the baseline scenario the surplus would be **USD 7.0 billion**.

In 2023, also due to high level of exports, the surplus will expand to **USD 7.5 billion**.

### **Regarding the impact of the oil price dynamics on the export indicators**

Exports by the Balance of Payments methodology will grow significantly in 2022, by **35.2%** to **USD 81.6 billion**. The growth will be observed in sales of both **oil and non-oil products** – ferrous, non-ferrous metals, uranium, as well as grain crops. Along with that, key contribution to the increase in exports, of course, will be made by oil. Historically, oil accounts for nearly 60% of all Kazakhstan’s exports.

Gradual recovery of the global economic activity after the pandemic and subsequent geopolitical crisis are supporting high commodity prices. This affects the expected increase in the cost of sales this year.

## **Regarding the forecasted exports in 2023**

In 2023, the value of exports in the baseline scenario will also be high, it is projected to grow up to **USD 83.3 billion**. Due to a high base of the current year, the growth itself will not be very large, plus 2.2%. Such a level will be achieved due to an increase in production volumes forecasted by the Ministry of Energy, up to 92.6 million tons from 85.7 million tons in 2022, which will be offset by a scenario adjustment of high commodity prices of previous years towards some reduction.

## **Regarding the current estimates of oil exports**

The main export channels for Kazakhstan's oil are the CPC and Atyrau-Samara pipelines. CPC accounts for a large share of oil exports. Historically, it is about 80%. Therefore, the risks of CPC shutdowns are very significant for the state of Kazakhstan's Balance of Payments.

The estimates for oil exports in the baseline scenario rely on the forecasts of Ministry of Energy for production volumes. According to expectations, production volumes for this year will remain at the level of the previous year and will amount to 85.7 million tons.

Indeed, during the first half of the year both partial and complete shutdowns in the work of CPC were witnessed. However, according to the data of Ministry of Energy, in the first half of 2022, physical volumes of exported oil were almost at the level of the previous year, slightly falling by 2.2%, to 33 million tons.

Given this factor, according to the State Revenue Committee, the growth of oil exports by 84.7% to USD 24.8 billion in the first half of this year was primarily due to the price factor despite the discount to Brent oil.

## **Regarding the specific traits of the Kazakhstani oil exports**

About 20% of the exported oil was sold at a large discount. This oil is transported mainly through **Atyrau-Samara pipeline** together with Russian Urals oil. According to Reuters, the average discount of the Urals to Brent since the beginning of the year was about USD 18 per barrel. Meanwhile, **the overwhelming share** of Kazakhstan's oil, as mentioned earlier, is exported under the CPC Blend brand through **the CPC pipeline**. Average discount for it was USD 3 per barrel this year. It turns out that Kazakhstan sells major oil volumes abroad with **a minimum discount**.

Given this and the projected production volumes, under the baseline scenario expected growth of oil exports by 60.7%, to USD 50 billion in 2022 is deemed realistic.

## Regarding the export diversification

– In the first half of 2022, total official exports doubled, increasing by 56.2% to USD 42.2 billion compared to the same period last year. When decomposing this growth into the components, the picture is as follows: 52.3% is provided by commodities and their primary processing, while **only the remaining 3.9%** by manufactured goods.

On the other hand, share of manufactured goods in exports continues to grow from 5.1% in 2014 to 8.5% in 2021. In nominal terms, from USD 4.1 billion to USD 5.1 billion. This is, among other things, facilitated by the growth of price competitiveness due to the free floating of tenge. However, the existing **potential** for growth of non-commodity exports has **not** been fully **realized**, and the indicator still remains at a low level.

Export diversification is not a one-day job. It is ongoing. The government has set targets for growth of **non-commodity exports of goods and services** to USD **41 billion** by 2025, including goods for USD 29.5 billion. Work in this direction must be continued and enhanced.

## Regarding the dynamics of imports of goods

**Pressure** on the current account from imports **persists**. It should be indicated that according to results of the first half of this year, compared to the same period of the last year, import of goods by the balance of payments methodology rose by 15.9% to USD **20.7 billion**. And this happened despite the disruption of global supply chains. According to the forecasts, by the end of 2022 the growth will be 11.3% to USD **44.2 billion**, and in 2023 will be 3.4%, to USD **45.7 billion**.

**Growing needs** of the population and business in the absence of Kazakhstan's production continue and will further continue to contribute to expanding volumes of imports. Moreover, large volumes of **budget expenditures** allocated for implementation of government programs and measures to support the economy have an impact.

## Regarding key driving force of purchases from abroad in the medium term

– The largest growth in imports on the forecasting horizon is expected for intermediate and investment goods. Imports of these goods are projected to grow by 11.4% to USD **32.0 billion** in 2022 and by 0.9% to USD **32.3 billion** in 2023. This is due to the growing cost of raw materials, as well as implementation of investment projects and programs in both public and private sectors.

Such projects and programs, for example, are implemented in the car market. Preferential car loans, expansion of domestic production capacity and other initiatives will support import of large-scale components for car assembly. We already see in statistics how their imports doubled to USD 1.0 billion in the first half of this year.

Intermediate and investment goods in the first half of this year surged by 17.8% to USD 15.0 billion compared to the same period of the previous year. They were supplied mainly from Russia and China. Compared to a corresponding month of the previous year, growth was reported in each individual month. And this is despite the geopolitical crisis. In case of imports from Russia, a slight decrease was recorded only in April. However, if further purchases from the Russian Federation nevertheless shrink, the upward trend in imports of intermediate and investment goods will persist due to a partial reorientation of demand to new markets.

### **Regarding the consumer goods imports volumes**

Consumer imports are also growing, but at a slightly slower pace than imports of intermediate and investment goods. Consumer imports reached USD **12.4 billion** in 2021, which is the **highest** level since 2014. According to the forecast for the current year, it will exceed that level and reach USD **13.5 billion**. Expectations for 2022 are based on multidirectional factors.

### **Regarding the impact of the geopolitical situation on the import indicators**

A drop in supply due to disruption of logistics supply chains and Russia's restrictions on exports of some goods, such as sugar and cars, will lead to a reduction in consumer imports. Re-orientation to new transit routes will, of course, take time and affect prices. And it will restrain demand to a certain extent. For example, the ban imposed by Russia in March on sugar exports already led to a decrease in the volume of its imports from this country by 57.6 thousand tons in the second quarter as compared to the first. The resulting deficit in the domestic market of Kazakhstan was partially covered by a completely new supplier which is India. In the second quarter, India sold 17.7 thousand tons of sugar to Kazakhstan.

On the other hand, domestic needs **growing** from year to year in the **absence of Kazakhstan's production** will contribute to the growth of import of consumer goods. Effective demand will be supported both by personal funds of the population and borrowed funds in the form of consumer loans.

These factors together will drive a projected 8.6% growth in consumer imports in 2022.

## **Regarding the estimates and statistics of consumer goods imports**

This month it is expected that **estimate of “gray” car imports** will be included in the final balance of payments indicators. Over the past few years, official car imports have tripled, from USD 417 million in 2016 to USD 1.3 billion in 2021. At the same time, Kazakhstani car market has been actively expanding due to unofficial import of cars by individuals from the EAEU countries, mainly from Russia. This category of car imports was not included in official statistics due to the absence of customs duties within the EAEU and the possibility for the Bureau of National Statistics to bind individuals to reporting. The National Bank conducted its **own assessment of this “gray” import of cars**. It is planned to release more detailed information on performed calculations in October.

## **Regarding the structural problems of the Balance of Payments**

The current account of the balance of payments demonstrates how much a country has to pay in case of a deficit or earn in case of a surplus for a certain period of time on current operations with the rest of the world. These are export and import of goods and services, wages, investment income, as well as international transfers.

When there is a current account deficit, the macroeconomic indicators of a country are under pressure. Especially if this is accompanied by shrinking foreign investments.

The current account in Kazakhstan has been in a deficit zone for the last seven years. But by the end of 2022, a transition to a surplus zone is expected. In the short term, it will **somewhat reduce the pressure** on macroeconomic indicators of the country, but it does **not bring structural changes**. This is because the surplus will be provided only by the growth of oil and metals prices, thereby emphasizing the high exposure of the country to global shocks.

Reducing the dependence on changes in the external environment is possible only by **solving structural problems** of the balance of payments: low diversification of exports, high dependence on imports, concentration of foreign investment in the commodity sector of the economy.