



Press-Release №30

On balance of payments current account forecast

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Almaty

According to the theory of macroeconomic interrelations, the state of the current account is a visible indicator of a country's economic security. The current account of the balance of payments demonstrates the sufficiency of domestic savings necessary to maintain the level of investment essential to ensure economic growth.

Positive current account balance provides high levels of domestic savings and creates a base for foreign expansion of domestic capital, leading to domestic currency strengthening. In the case of negative current account, the lack of domestic funds is covered by attracting foreign capital or external borrowings, or is covered by accumulated reserves of the state. In this regard, balance of payments forecasting plays an important role in economic policy implementation.

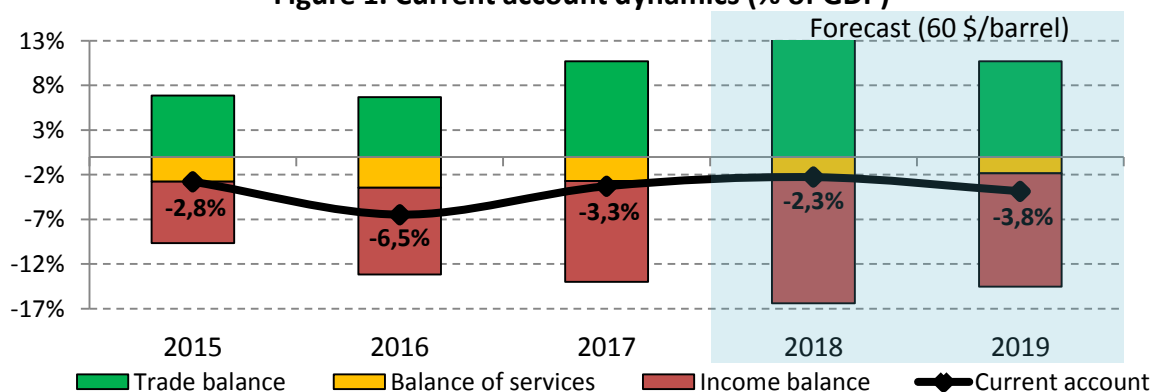
Current account forecasts are carried out on quarterly basis within the framework of "forecasting rounds" of the National Banks of the Republic of Kazakhstan (NBK) and the forecast results are used in the monetary policy decision making process. Assumptions of the NBK, the Government of the Republic of Kazakhstan and international analytical agencies are used as initial parameters of the forecast. The base scenario of the most recent forecasting round has Brent oil fixed at \$60 per barrel starting from the 4th quarter of 2018 (the average price in 2018 is \$70.9; in 2019 – \$60).

Forecast

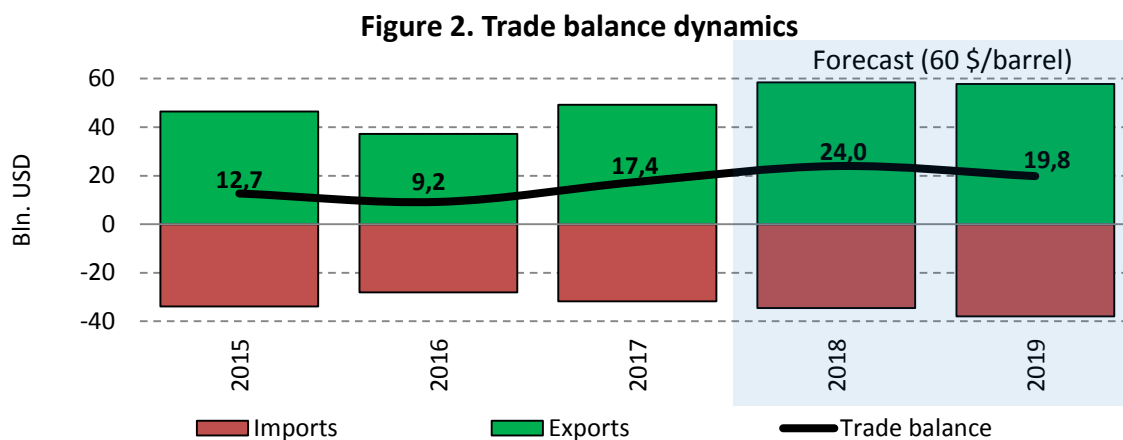
The balance of the current account in Kazakhstan is determined by the dynamics of the trade balance and income balance. The dynamics of the balance of services is stable and its impact on the current account indicators is limited (figure 1). By the end of 2018, the current account is expected to improve to a level of (-)2.3% of GDP. In 2019, the deficit is anticipated to increase to (-)3.8% of GDP due to lower average annual price of oil.

Increase in imports of equipment and pipes due to the launch of investment projects in the oil and gas sector, as well as increase in payments to foreign direct investors as a result of realization of joint investment projects are offsetting potential current account improvements.

Figure 1. Current account dynamics (% of GDP)



In 2018, rapidly rising export of goods, that outpace growing imports, is expected to contribute to increasing surplus of the **trade balance**. At the same time, in 2019, lower oil prices combined with increase in the volume of imports of goods necessary for the implementation of large-scale infrastructure projects in the oil and gas industry is expected to lead to a decrease in the trade surplus (figure 2).



Note: Exports and imports are presented using the balance of payments methodology

Export of goods is the key component determining the state of the current account. The main export goods are oil and gas condensate (in 2017 – 59.8%), ferrous metals (8.7%) and non-ferrous metals (10.1%).

The production of oil and gas is expected to reach 91 million tons this year and 93 million tons in 2019. Favorable environment on the world commodity markets remains. Stable growth of the economies in the key export markets of Kazakhstan is expected. In 2018, export of goods is expected to increase by 37.4%. In the scenario of oil prices dropping to \$60 per barrel in 2019, exports are projected to decline by 1.1%.

Further increase in **import of goods** is expected within the forecasting horizon. Under the baseline scenario, an increase in domestic demand will boost import of goods by 8% in 2018 and 10% in 2019.

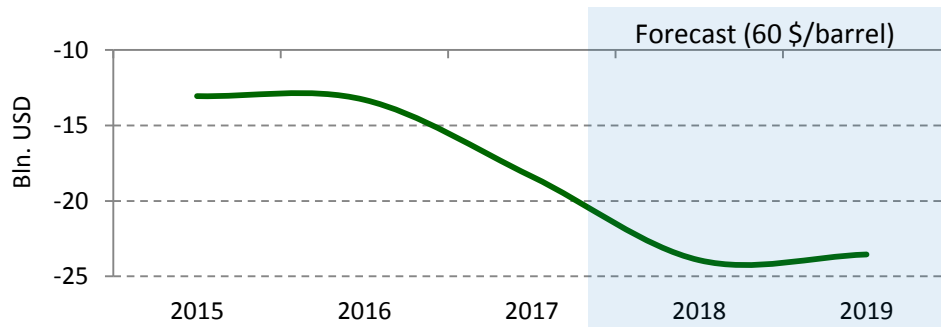
Import of consumer goods (27.3% of total import of goods in 2017) is the most sensitive component of imports. Changes in import of consumer goods are explained by exchange rate fluctuations and dynamics of consumer loans.

At the same time, the dependence of intermediate and investment imports on the exchange rate is relatively low. This is due to the fact that a significant proportion of those goods are imported for oil and gas investment projects. The implementation of such projects does not depend on changes in the exchange rate.

The **income balance** reflects the flows of income from investments, labor remuneration and transfers. The negative balance of income shows that the income to be paid to foreign investors exceeds the income to be received by domestic economic entities.

Under the forecasting period, the widening of the deficit of income balance is expected. Such a dynamic is explained by growing income of foreign investors in the commodities sector of Kazakhstan, which, in turn, is ensured by the stabilization of oil prices and the growth of oil production (figure 3).

Figure 3. Balance of income dynamics



According to the results of the forecasting round "August 2018", the following is expected:

- In 2018, the current account deficit is expected to shrink, indicating a reduction in economic imbalances;
- Rising oil prices and increasing production in the oil and mining industry is expected to lead to the current account improvement;
- Further increase in imports is expected across all product groups. The main factors of growth are increase in domestic demand and continued implementation of large-scale investment projects;
- Further improvement of the current account is being prevented by growing income of foreign investors.

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