



## Press-Release № 46

### On balance of payments current account forecast

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Almaty

The National Bank of the Republic of Kazakhstan (NBRK) presents the balance of payments current account forecast for 2018-2019. The forecast was developed in the framework of NBK's quarterly forecast rounds that are carried out for monetary policy decision making process.

#### Initial assumptions

The base scenario for the current forecast is the price of Brent crude oil at \$60 per barrel starting from December 2018 (*the average price in 2018 is \$71.8; in 2019 – \$60*).

In comparison with the previous forecast round, some internal and external forecast parameters were revised.

The forecast for Kazakhstan's economic growth in the medium term is slightly better than previous expectations. The production of oil and gas is expected to reach 90 million tons in 2018 and 91 million tons in 2019 (*The previous forecast was 91 million and 93 million tons, respectively*). The revision of the forecasts is due to the release of actual data for 10 months of 2018 and the expected repair project at the Kashagan field in spring 2019.

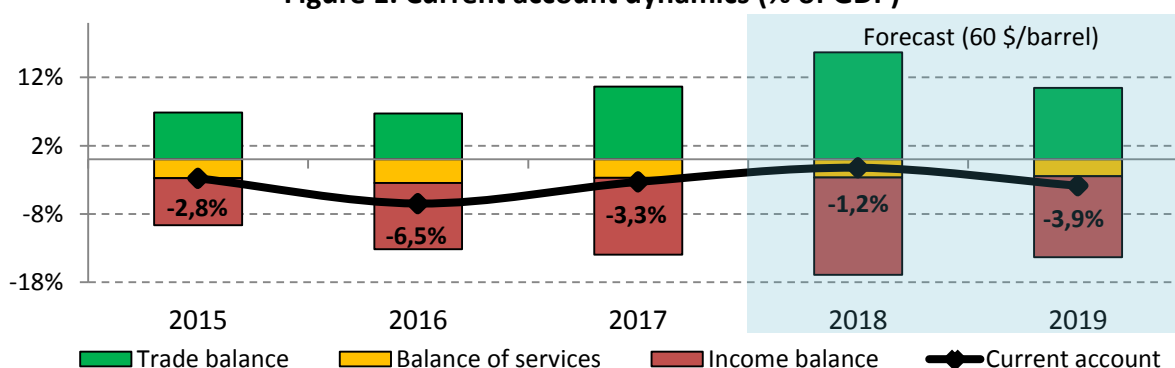
Indicators of external demand were revised downwards due to the slowdown in the economic growth of the Eurozone and China.

#### 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 (-)1.2% of GDP (*previous forecast – (-)2.3% of GDP*). In 2019, the deficit is anticipated to increase to (-)3.9% of GDP (*previous forecast – (-)3.8% of GDP*) due to lower average annual price of oil and lower production volumes compared to the previous forecast round.

Increase in imports of goods necessary for the implementation 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)



**Export of goods** is expected to increase by 22.2% (*previous forecast – 18.6%*) to \$60.4 billion in 2018 due to higher average annual oil prices. In 2019 export is expected to decline by 8.8% (*previous forecast - 1.1%*) to \$55.1 billion due to the anticipated slowdown in the growth of oil production and a scenario decline in prices.

**Import of goods** is expected to increase by 7.8% (*previous forecast – 8%*) to \$34.4 billion in 2018 and by 3.3% (*previous forecast – 10%*) to \$36 billion in 2019. The lower growth rates of imports compared with previous forecasts are due to changes in the initial assumptions of the forecast: a slight slowdown in the growth rates of new consumer loans is assumed. However, a high level of consumer imports will be maintained by increasing real incomes of individuals.

Intermediate and investment imports will continue to grow due to the recovery of business income, the implementation of government programs<sup>1</sup>, as well as the implementation of investment projects<sup>2</sup>, mainly in the oil and gas sector.

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.

In the forecasting period the deficit of income balance is expected to increase to (-)\$23.6 billion in 2018 and (-)\$22 billion in 2019. Such a dynamic is explained by growing income of foreign investors in the commodities sector of Kazakhstan, which, in turn, is ensured by the growth of oil production. The current forecast trajectory of the income balance is slightly better than the forecasts of the previous review. This is due to a reduction in expected oil production.

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<sup>1</sup> «7-20-25», «Nurly Zher», etc.

<sup>2</sup> FGP-WPMP TCO, investments in Karachaganak (KGDBN, KEP), «Saryarka» gas pipeline, Integrated gas chemical complex in Atyrau jointly with Austrian company «Borealis», 4<sup>th</sup> oil refinery, Big Almaty ring road, LRT in Astana, low-cost airline «Fly Arystan», «Nomad» and «Baikonur» solar power plants, etc.