Current account balance struck in surplus – for the first time in four years

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According to the preliminary data of the NBK, current account balance in 2018 struck in surplus of US925 mn (0.5% of GDP). Current account deficit narrowed throughout 1Q and 2Q of 2018 and reached a surplus in 3Q and 4Q 2018 amidst energy exports growth to 71.5 mn tons (+ 2.4% q/q –prelim estimate) as well as uptrend of oil prices to US71.7 per barrel of crude (+ 31% y/y). Quarterly data shows that in 3Q2018 a surplus of US180.2 mn (for the first time since Q4 2014) expanded significantly in 4Q2018 to a record high US1.4 bn (prelim estimate). Expansion of current account surplus in 4Q2018 was favored by outpacing growth in exports (+ 3.7% q/q) over imports (-1.0% q/q) that positively affected trade balance (+ 3.7% q/q). Shrunken surplus of secondary income account by 39.1% q/q also supported current account surplus.

According to the preliminary estimate by the NBK, exports of goods in 2018 increased by 25.2% y/y and amounted to US61.9 bn. According to preliminary data from the CS MNEC Kazakhstan, the share of mineral products was 74.4% (68.2% for 11M2018) of total exports in January-November 2018 and the growth of exports value reached 37.9% y/y. In nominal terms, according to the CS MNEC Kazakhstan, exports of mineral products amounted to US40.7 bn.

According to the preliminary data from the NBK, imports of goods in 2018 increased by 7.5% y/y and amounted to US34.5 bn. According to preliminary data of the CS MNEC Kazakhstan, the main import nomenclature for 11M2018 was represented by machines and equipment by 40.3% (37.2% 11M2017), by 16% (16.8% 11M2017) by chemical and related industries, as well as by 12.6% (11.8% 11M2017) of metals and products from them. Decrease in imports of mineral products from 9.3% in 11M2017 to 7.8% in the same period of 2018 occurred in imports' structure due to a decline in imports of high-octane distillates from the Russian Federation. At the same time, expansion in imports of machinery and equipment is primarily associated with projects in energy complex of the country. Last year weakening of the national currency from 318 tenge to 384 tenge played a significant role in reducing consumer imports.

Trade balance surplus in 2018 expanded by 57.9% y/y to US27.4 bn. The surplus covered primary income account deficit, which grew by 25.4% y/y and was at US22.4 bn, as well as services account deficit, which shrank by 6.7% y/y and amounted to US4.1bn. In 2018, we observe an increase of secondary income account surplus to US50.5 mn from a deficit of US456.9 mn in 2017.We attribute the change in the balance of secondary income account to the reduction of labor migrants in Kazakhstan. According to official statistics of the CS MNEC Kazakhstan, labour migrants decreased from 8,429 in 9M2017 to 7,302 people in 9M2018 which resulted in decrease of money transfers (transfers of funds out of the republic) by 16.3% y/y and also increased money transfers (transfers to Kazakhstan) by 18.1% y/y in 9 months of the last year.

Financial account in 2018 evidences an outflow of financial resources in the amount of US4.5 bn against inflows of US6.0 bn in 2017. Net outflow in financial account was observed during the whole of 2018 and was associated with a tightening of the monetary policy the US Federal Reserve, which contributed to the outflow of capital from emerging markets. Expansion of sanctions against the Russian Federation, also contributed to the uncertainty regarding the prospects for nominal holding by non-residents of the sovereign debt of Kazakhstan. As a part of financial account, there is an increase in the inflow of direct investment account in the amount of US4.1 bn. (+ 9.8% y/y). The movement of capital under this item of financial account was irregular during the year and the net inflow US4,885 mn was observed mainly in 1Q - 3Q of the last year, while in 4Q there was a net outflow of US824 mn.

Portfolio investment account evidences a net outflow of US5.8 bn in 2018 vs. a net inflow of $ 5.4 billion in 2017. Cancellation of external debt of the Samruk-Kazyna Fund, JSC NC KazMunayGas, as well as Samruk Energy JSC resulted in outflow under portfolio investment account. In addition to the reduction in net borrowing from the rest of the world, the United Accumulative Pension Fund increased assets denominated in foreign currency to 12.71% of the total asset (5.46% in 2017). Mid-term and long-term investment account in 2018 showed a net outflow of US2.6 bn vs. US431 mn inflow in

2017. Short-term capital flows account evidences a decrease in net capital outflow from US3.5 bn in 2017 to US180 million in 2018.

Our opinion

Uptrend of oil prices at global commodity markets observed over the past two years has contributed to a significant improvement of the external accounts of the Republic of Kazakhstan. Downtrend in oil prices to US45.1 per barrel of Brent in 2016 had a negative impact on the republic’s current account, which was struck a record high deficit of US8.9 bn (-US8.4 bn in 2007). Uptrend of the prices to an average of US54.7 per barrel in 2017 resulted in current account deficit reduction to US5.4 bn. Further recovery of the average prices to US71.7 per barrel in 2018 led to current account surplus of US925 mn.

Along with oil prices recovery at global commodity markets, there has been an increase in the physical volumes of crude oil exports. Thus, according to the TradeMap, in 2017 there was an increase in oil exports by 10.4% y/y to 68.7 million tons, while in 2018, according to the preliminary data, exports of crude increased by 2.4% and amounted to 71.5 million tons. Since mineral products share at least 70% of exports, and in some years (2013) hit 80%, it is obvious that there is a “pass-through” effect of prices on the nominal value of energy exports. Since balance of trade is the only balancing item in current account, the "pass-through" effect of energy prices is immediately transmitted to balance of the account itself.

Forecasted energy prices for 2019 are at the level of $ 66-68 per barrel of Brent, while oil exports at 70-72 million tons, as well as the policy of "weak" tenge will support current account this year. However, expansion of primary income account deficit and expansion of investment imports in the oil and gas isectgor in 2019 will put additional pressure on current account and hamper its further improvement.

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