External trade of RK
in January-February 2022

April 22, 2022

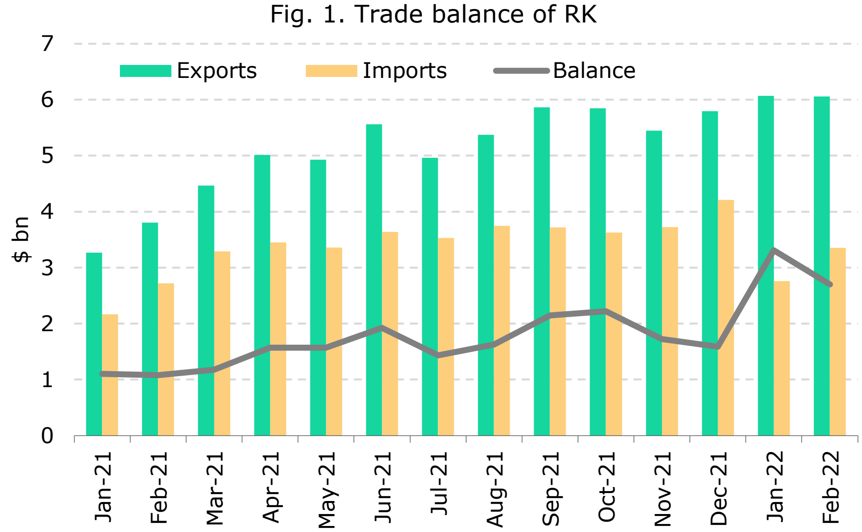
Strong external demand for commodities supported favorable terms for Kazakhstan's foreign trade. Exports of goods in January-February increased by 71.4% yoy to $12.1 billion. At the same time, under the effect of seasonal factors and "January events", imports increased more moderately – by 25.1% yoy to $6.1 billion. As a result, trade surplus widened to $6 billion, the highest since 2015.

In the coming months, the trade surplus will keep on due to high prices for almost entire commodity range exported by Kazakhstan. The trade surplus will also be supported by lower growth rates of imports due to the increase in the cost of imported products and the depreciation of the national currency. In turn, the increased volume of foreign exchange earnings coming into the country as a result of the growth of the trade balance surplus will contribute to the gradual stabilization of the national currency exchange rate.

According to the Bureau of National Statistics, exports of goods in January-February increased by 71.4% yoy to $12.1 billion. At the same time, imports also grew by 25.1% yoy to $6.1 billion. As a result, trade balance almost tripled to $6 billion, which is comparable to the trade surplus accumulated over 5 months of last year.

Trade of hydrocarbons had a decisive impact on the growth of merchandise exports, the volume of which over 2 months of this year increased by 2.1 times compared to the same period last year and amounted to $7.2 billion. Thus, hydrocarbon trade provided 76% of the total export growth ($3.8 billion out of $5 billion). At the same time, the physical volumes of exports increased only by 11.5% yoy to 11.7 million tons. The growth in trade in liquid hydrocarbons was driven by an increase in oil prices in January-February 2022 by 56% yoy to $91 per barrel (average price). In addition to the favorable situation in the oil market, prices for metals and other raw materials in the world market in February showed an increase of 23% yoy, prices for agricultural products – by 18% yoy, energy products in general became more expensive by 63% yoy.

Fig. 1. Trade balance of RK



Source: BNS

Breakdown of countries in terms of exports, the European countries were in the lead, to which Kazakhstani products worth $5.5 billion were shipped. This volume corresponded to almost half of the country's total exports. The growth rate of export revenues from this direction was one of the highest among the main trading partners (+74% yoy). Along with Europe, there was an accelerated increase in exports to other countries of the world – by 147% yoy to $3.2 billion. Among them, of note South Korea with an 11-fold increase to $601 million, the USA with an almost 3-fold increase to $359 million, Turkey with an approximately 2-fold increase to $723 million. The multiple growth of exports to these countries was due to an increase in hydrocarbon supplies.

Against the backdrop of such strong growth rates of exports to other countries, deliveries to the Russian Federation increased by only 32% yoy, and to other CIS countries a little higher – by 34% y/y. Among the CIS countries, there were also countries whose exports increased times, but their shares in the total volume of deliveries remain insignificant. For example, exports to Azerbaijan and Turkmenistan increased 3-4 times, but the total volume of exports to these countries was less than $100 million.

Fig. 2. External trade of RK by country

USD mn	Jan-Feb22	Jan-Feb21	Change, abs.	Change %	Share, % Jan-Feb22	2021	Share, % 2021
External trade turnover	**18 241**	**11 962**	**6 279**	**52**	**-**	**101 513**	**-**
Europe	6 380	3 938	2 443	62	35	31 531	31
China	2 650	2 119	531	25	15	18 195	18
RF	3 526	2 829	697	25	19	24 243	24
Other CIS countries	1 404	1 030	374	36	8	8 566	8
Other countries	4 281	2 046	2 234	109	23	18 979	19
export	**12 126**	**7 073**	**5 053**	**71**	**-**	**60 340**	**-**
Europe	5 517	3 173	2 344	74	45	25 239	42
China	1 336	1 071	265	25	11	9 874	16
RF	1 091	823	268	32	9	6 917	11
Other CIS countries	921	688	233	34	8	5 479	9
Other countries	3 261	1 318	1 944	147	27	12 831	21
import	**6 114**	**4 889**	**1 226**	**25**	**-**	**41 174**	**-**
Europe	863	765	98	13	14	6 292	15
China	1 314	1 048	266	25	21	8 322	20
RF	2 435	2 006	430	21	40	17 326	42
Other CIS countries	483	342	140	41	8	3 087	7
Other countries	1 019	729	291	40	17	6 148	15
trade balance	***6 012***	***2 184***	***3 828***	***175***	***-***	***19 166***	***-***

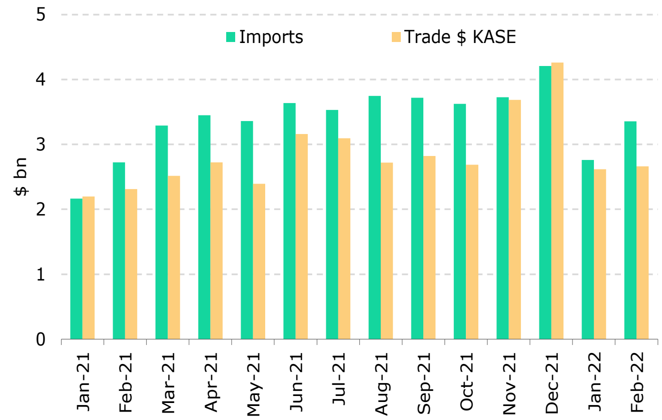
Source: BNS

The growth rates of imports, as noted above, were significantly inferior to the outstripping dynamics of exports. Thus, the import of goods from European countries to Kazakhstan in January-February increased by 13% yoy. Imports from the Russian Federation increased by 21% yoy, and from China by 25% yoy. Deliveries from other countries increased by more than 40% yoy. At the same time, if the countries of Europe were in the lead in the structure of exports by weight, then their share in the structure of imports was only 14%, while the weight of the Russian Federation in imports was predominant – at the level of 40%.

Favorable external economic situation due to high prices of raw materials contributed to the nominal growth of exports, which, in turn, increased the inflow of freely convertible currency into domestic market of the republic. At the same time, seasonal factors, to which the "January" events were added, led to a decrease in imports in January and February, which prompted a reduction in the volume of foreign currency purchases. Thus, the average monthly trading volumes of "American" on KASE for the first two months of the current year decreased to $2.6 bn by month against $4.2 bn in December. It should be noted that there is a rather close relationship between the volumes of commodity imports and dollar trades on KASE – the correlation coefficient is 0.75.

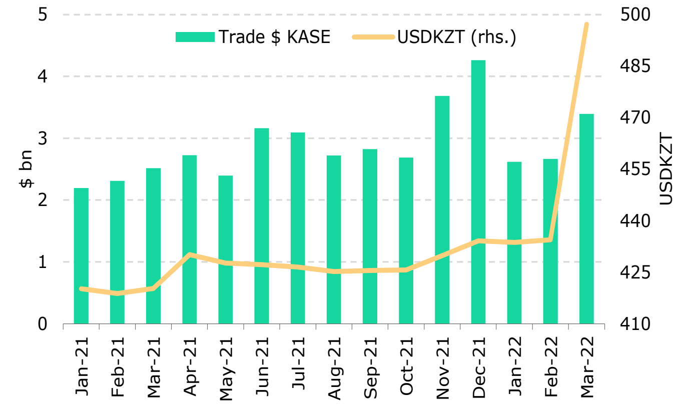
Statistics on export-import transactions for March has not yet been published, but the volume of trading of US dollars in March increased immediately by 27.5% mom and 35% yoy to $3.4 billion. For comparison, in March last year, the volume of dollar trades on the KASE currency platform increased by only 9% mom. The "flight to the dollar" against the backdrop of growing geopolitical tensions led to the weakening of the national currency in March by 14% mom to 497 per 1 dollar (on average per month). As it adapts to external shocks, the demand for the currency will begin to stabilize and will be largely determined by supply and demand in the framework of transaction flows for servicing foreign trade operations and external debt. However, volatility for the USDKZT pair during the current year is not ruled out, since the US dollar in Kazakhstan is largely a hedge tool for the population from political and economic uncertainty.

Fig. 3. Imports and volume of $ trade at KASE



Source: BNS

Fig. 4. $ trade at KASE and tenge FX rate



Source: BNS

Our opinion

The formation of a significant trade surplus in January-February of the current year was supported by a favorable price environment in foreign markets, especially for energy, combined with a seasonally more moderate increase in the volume of imports of goods, typical for the beginning of the year. Along with this, in the first two months of this year, there was an increase in output in the extractive industry of industrial production in Kazakhstan by 6.4% yoy, and in the manufacturing industry – by 3.9% yoy, which allowed to increase the physical volumes of raw materials supplies to foreign markets.

In the coming months, the foreign trade surplus will remain due to an increase in the cost of imports, which reduces the demand for imported products, inflation for which over the 2 months of this year amounted to 12.5% yoy. At the same time, imports from the CIS countries rose in price by 20.7% yoy, and from non-CIS countries by 4.9% yoy. In turn, real demand, increased risks and global inflation support high prices for products exported by Kazakhstan.

As a result of an accident that occurred at the CPC infrastructure at the end of February, through which approximately 80% of Kazakhstan's exported oil is pumped, supplies through it were reduced. According to preliminary plans announced by the Ministry of Energy of the Republic of Kazakhstan, oil exports through the CPC may increase at the end of this week to the level observed before the accident. In turn, the new forecast of the Ministry of Energy, published in April, assumes that oil production in the country this year will not change and will amount to 85.7 million tons, while the previous forecast assumed an increase in oil production to almost 88 million tons. At the same time the agency doesn’t rule out that with the use of additional routes for oil exports and prompt elimination of the consequences of the accident, the Ministry of Energy may return to the original production forecast of 87.5 million tons (+2% yoy).

The surplus in foreign trade creates conditions for the gradual stabilization of the exchange rate of the national currency due to the inflow of foreign exchange revenues.

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