

May 25, 2022

*Dynamic growth in prices in 1Q2022 for the main goods of Kazakhstani exports against the backdrop of restrained growth in imports led to the highest foreign trade surplus since 2014 at \$9.6 billion. Exports of goods in January-March increased by 65.8% yoy to \$19.1 billion, while import volumes grew only by 16.5% yoy to \$9.5 bn.*

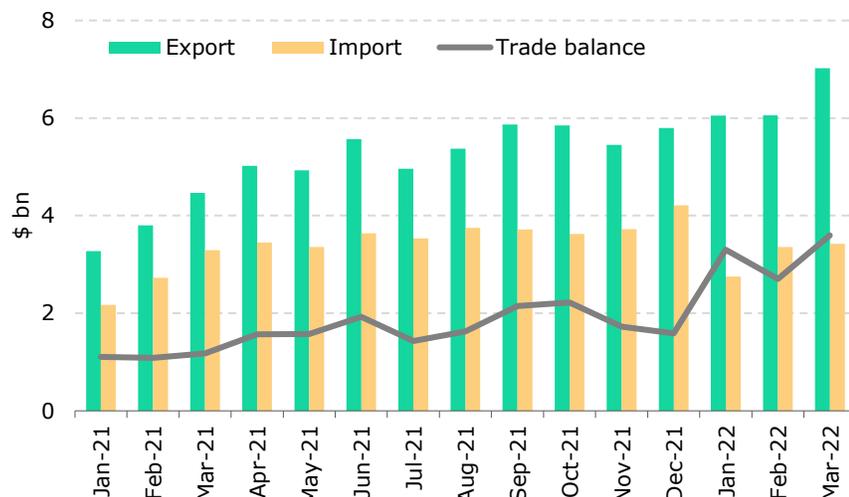
*We expect a significant trade surplus to remain in the near term, however, the projected economic growth against the backdrop of a strengthening national currency will stimulate the expansion of imports of goods and services, which will lead to the reduction of surplus in the second half of this year.*

According to the Bureau of National Statistics of the Republic of Kazakhstan, exports of goods in January-March increased by 65.8% yoy to \$19.1 billion, while in monthly terms, continuous growth in exports has been observed for the fourth month in a row. In turn, import volumes increased only by 16.5% yoy to \$9.5 bn, while growth in March amounted to only 2.1% mom. As a result, the trade surplus almost tripled to \$9.6 billion in the first three months of this year, which exceeds the volume of imports of goods in the same period (\$9.5 billion).

The main driver of Kazakh export growth in 1Q2022 was a significant increase in the cost of hydrocarbons, which rose by 63% yoy to a quarterly average of \$99 per barrel. While the volume of oil exports in physical terms in 1Q2022 expanded by only 11.8% yoy to 18 million tons. As a result, revenues from oil sales for 3 months of this year doubled compared to the same period last year and amounted to \$11 billion (58% in the total export structure). At the same time, trade in hydrocarbons provided 72% of the total increase in exports (\$5.5 billion out of \$7.6 billion).

In addition to the oil market, a favorable price environment has developed in other commodity markets. Thus, prices for aluminum in March increased by 48% yoy, for zinc – by 56% yoy, for copper – by 13% yoy, while nickel prices doubled.

Fig. 1. Trade balance of RK



Source: BNS

Accelerated export growth in 1Q2022 was observed to the European countries, increasing by 67.9% yoy (\$8.4 billion) and to other non-CIS countries – by 125.4% yoy (\$5.1 billion), which in general provided 70% of Kazakhstan’s foreign trade deliveries. Exports to China in 1Q2022 increased by 48.4% yoy to \$2.6 bn, however, its share in the total structure of Kazakhstani exports decreased to 14% compared to 16% in 2021.

Against the backdrop of high growth rates of exports to European countries and China, deliveries to the Russian Federation increased by only 12.8% yoy, and to other CIS countries – by 30.5% yoy. Export volumes to Russia are continuously declining from \$554 million in January to \$536 million in February and to \$516 million in March. As a result, the share of exports to the Russian Federation in the overall structure of Kazakhstani exports has decreased from 13% to 8% since the beginning of this year.

Fig. 2. External trade of RK by country

USD mn	Jan-Mar22	Jan-Mar21	Change, abs.	Change % yoy	Share, % Jan-Feb22	2021	Share, % 2021
<b>External trade turnover</b>	<b>28 651</b>	<b>19 715</b>	<b>8 935</b>	<b>45.3</b>	<b>-</b>	<b>101 513</b>	<b>-</b>
Europe	9 811	6 354	3 457	54.4	34	31 531	31
China	4 676	3 448	1 228	35.6	16	18 195	18
RF	5 315	4 734	581	12.3	19	24 243	24
Other CIS countries	2 173	1 703	471	27.7	8	8 566	8
Other countries	6 676	3 477	3 199	92.0	23	18 979	19
<b>Export</b>	<b>19 125</b>	<b>11 538</b>	<b>7 586</b>	<b>65.8</b>	<b>-</b>	<b>60 340</b>	<b>-</b>
Europe	8 414	5 011	3 403	67.9	44	25 239	42
China	2 594	1 749	846	48.4	14	9 874	16
RF	1 606	1 424	183	12.8	8	6 917	11
Other CIS countries	1 449	1 110	339	30.5	8	5 479	9
Other countries	5 061	2 246	2 815	125.4	26	12 831	21
<b>Import</b>	<b>9 526</b>	<b>8 177</b>	<b>1 349</b>	<b>16.5</b>	<b>-</b>	<b>41 174</b>	<b>-</b>
Europe	1 397	1 343	54	4.0	15	6 292	15
China	2 082	1 700	382	22.5	22	8 322	20
RF	3 708	3 310	398	12.0	39	17 326	42
Other CIS countries	725	593	132	22.2	8	3 087	7
Other countries	1 615	1 231	383	31.1	17	6 148	15
<b>Trade balance</b>	<b>9 599</b>	<b>3 361</b>	<b>6 238</b>	<b>185.6</b>	<b>-</b>	<b>19 166</b>	<b>-</b>

Source: BNS

The growth of imports at the level of 16.5% yoy was noticeably inferior to the indicators of exports, although it was higher than the values of the previous year. Imports of goods from Russia in March this year decreased by 5.9% mom, but in the 1st quarter of this year it increased by 12% yoy. Against the background of such restrained growth, the share of imports from the Russian Federation in the total import structure decreased to 39% from 42% last year. The emerging decline in Kazakhstan's foreign trade with the Russian Federation is an expected phenomenon against the backdrop of sanctions pressure and a reduction in domestic household demand. Under the influence of sanctions, the Russian industry lost access to imported components, which in turn led to a decline in the output of finished products within the country. Thus, in March 2022, the production of cars in the Russian Federation decreased by 72% yoy, washing machines – by 50% yoy, and refrigerators – by 53% yoy. In addition, in order to maintain food security, the Russian Federation introduced restrictions on the export of certain types of agricultural commodities and food products.

The expansion of the foreign trade surplus was facilitated by a more restrained pace of growth in imports, which was reflected in the January events and a sharp depreciation of the tenge in February-March. In addition, the increase in the price of imported products also has an impact, the price growth for which for 3 months of the current year amounted to 12.8% yoy. At the same time, imports of goods from neighboring countries grew in price by 19.1% yoy, and from non-CIS countries – by 6.6% yoy, which reflected the process of transferring growing producers' costs into the prices of final products. In turn, increased geopolitical risks and accelerating global inflation against the backdrop of a shortage of supply support high prices for Kazakhstan's exported products, which rose in price by 48% yoy in 1Q2022.

### Our opinion

A significant surplus in foreign trade acts as a factor of strengthening exchange rate of the national currency due to the inflow of foreign exchange earnings into the country. However, further strengthening of the tenge, given its return to the previous levels seen at the beginning of the year, will be held back by an increase in foreign currency purchases due to a gradual recovery in domestic demand for imported goods and services. Thus, the projected growth of the economy against the background of the current strengthening of the national currency will stimulate the expansion of imports of goods and services, which will affect the trade surplus in the second half of this year.

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Contacts:

**Research department** mail to: [research@halykfinance.kz](mailto:research@halykfinance.kz)

**Sales department** mail to: [sales@halykfinance.kz](mailto:sales@halykfinance.kz)

**Address:**

Halyk Finance  
Abay av., 109 «B», 5th fl  
A05A1B4, Almaty, Kazakhstan  
Contact. +7 727 357 59 77  
[www.halykfinance.kz](http://www.halykfinance.kz)

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