

MARKET REVIEW

Enterprises Survey Results in the Real Sector of the Economy

Q2 2019



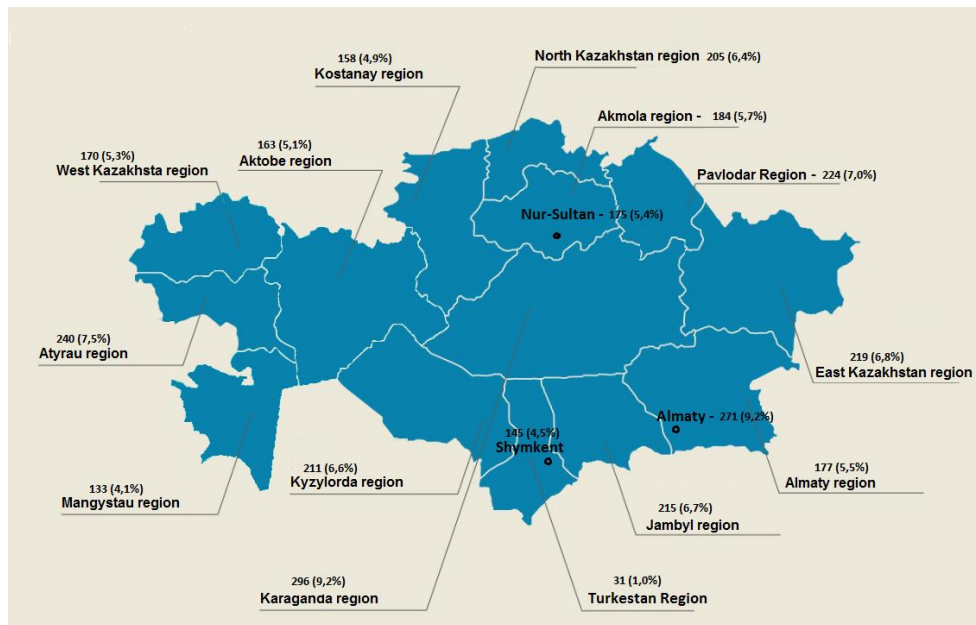
Monetary Policy Department
National Bank of Kazakhstan

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ENTERPRISE SURVEY PARTICIPANTS COMPOSITION DYNAMICS

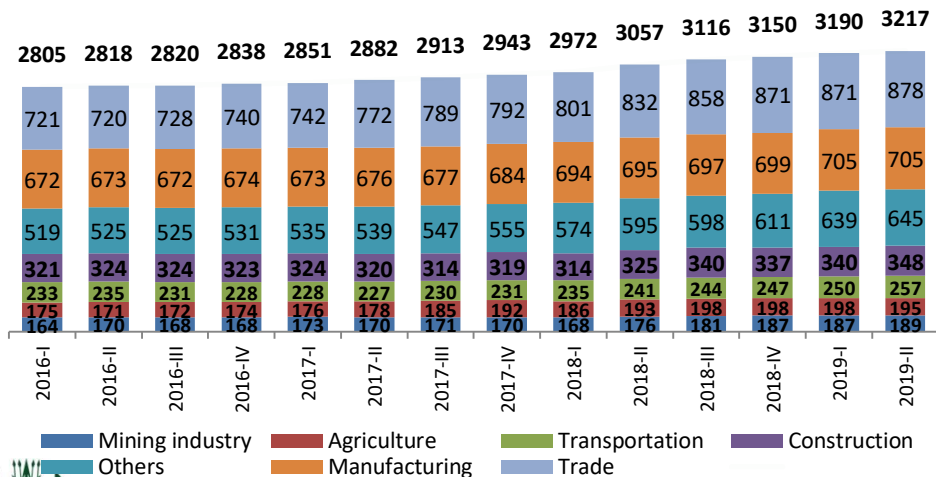
Regional structure of the enterprise survey participants in Q2 2019



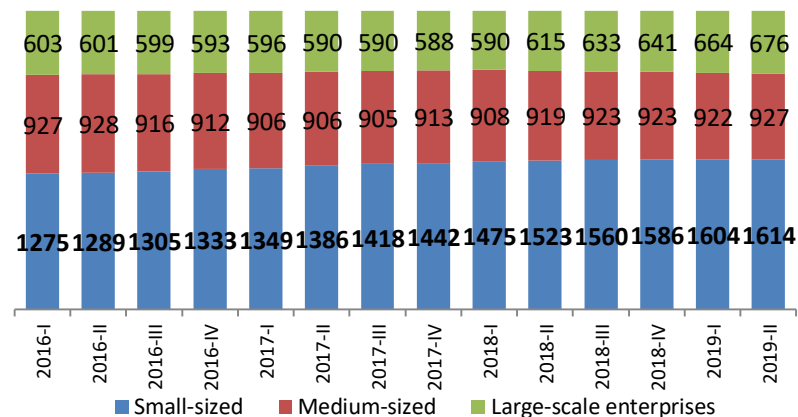
According to the results of Q2 2019, the number of survey participants increased by 27.12 large, 10 small and 5 medium-sized enterprises were involved in monitoring.

By industry, the largest increase was noted in the construction and service sector.

Monitoring participants sectorial structure



Monitoring participants size structure



FINAL PRODUCTS DEMAND DYNAMICS

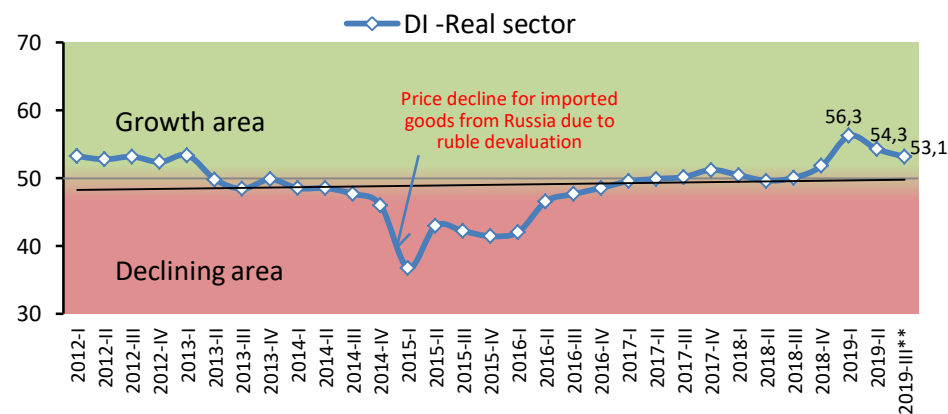
In Q2 2019, the economy showed a slowdown in the demand growth rate for final products: the diffusion index (hereinafter - DI) amounted to 54.3. Demand growth inhibition was recorded for both goods and services (DI = 55.1 and 53.5, respectively). According to enterprises, demand for manufacturing enterprises products was higher than for mining products (DI = 56 and 53.2, respectively). In general, demand growth is noted by enterprises of all sectors.

According to the enterprises expectations, in Q3 of 2019, a slight decrease in the demand growth rate for final products is expected (DI = 53.1), a slowdown in growth is expected in all sectors of the economy.

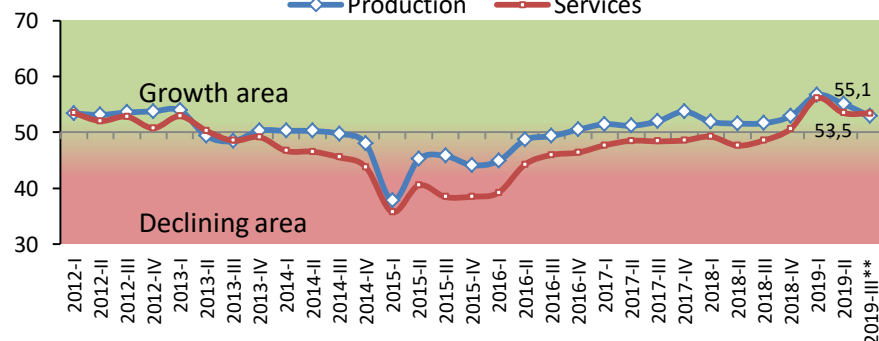
Final goods demand, DI*

Answers of enterprises, %		2018			2019		
		Q2	Q3	Q4	Q1	Q2	Q3**
Increase	1	28,1	27,7	26,3	16,0	26,7	22,2
No changes	2	50,9	51,9	49,2	53,9	53,4	42,8
Decrease	3	20,7	19,9	23,9	28,7	18,0	8,2
Diffusion index, DI=line1+0.5*line2	4	53,6	53,6	50,9	43,0	53,4	43,6
DI, seasonal adjusted	5	49,6	50,1	51,8	56,3	54,3	53,1

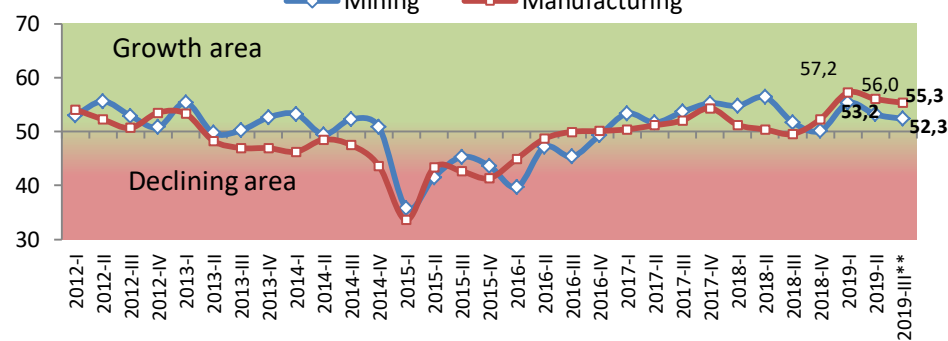
Final goods demand, DI *



Production Services



Mining Manufacturing



*Diffusion Index (seasonally adjusted). The higher (the lower) the DI deviates from 50, the higher (the lower) are the rates of growth (decline) in indicator; the level of 50 means the absence of any change

**The Figures show expectations of enterprises regarding the change in the parameter in Q3 2019.

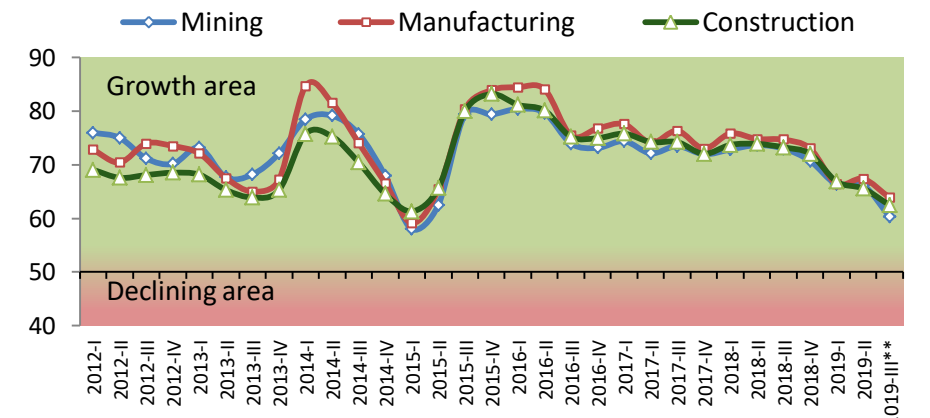
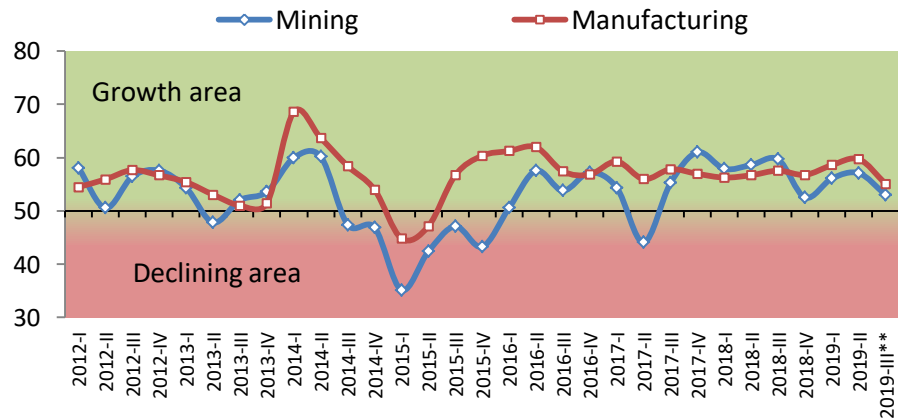
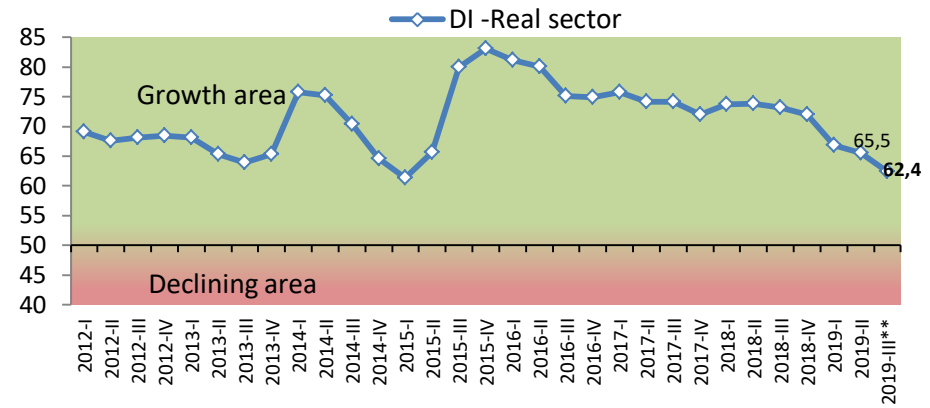
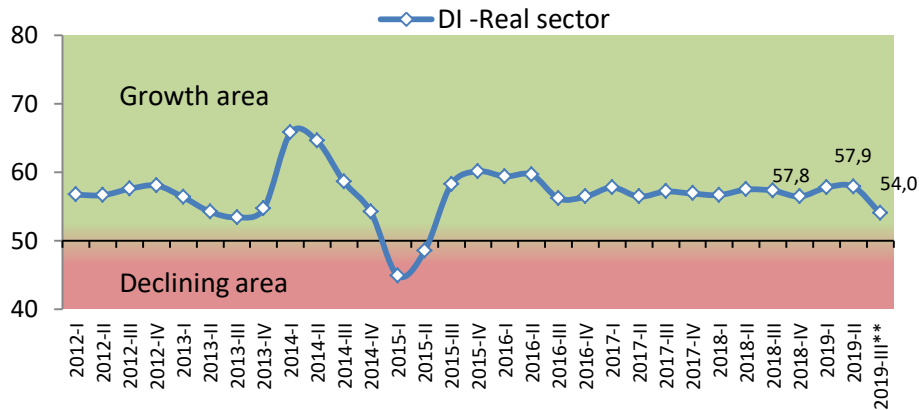
PRICES CHANGES IN THE REAL SECTOR

In Q2 of 2019, the final products prices growth rate of enterprises remained virtually unchanged (DI amounted to 57.9). A slight increase in the prices growth rate for final products was noted in the manufacturing and mining industries. At the same time, the prices growth rate for raw materials and supplies continues to slow down in all considered sectors and overall in the economy (DI = 65.5).

In Q3 of 2019, enterprises in the real sector expect a decrease in the growth rate of final products prices, as well as the prices downward trend continuation for raw materials and supplies (DI = 54 and 62.4, respectively).

Final goods prices, DI*

Raw materials prices, DI*



*The higher (the lower) the DI deviates from 50, the higher (the lower) are the rates of growth (decline) in indicator; the level of 50 means the absence of any change

**The Figures show expectations of enterprises regarding the change in the parameter in Q3 2019.

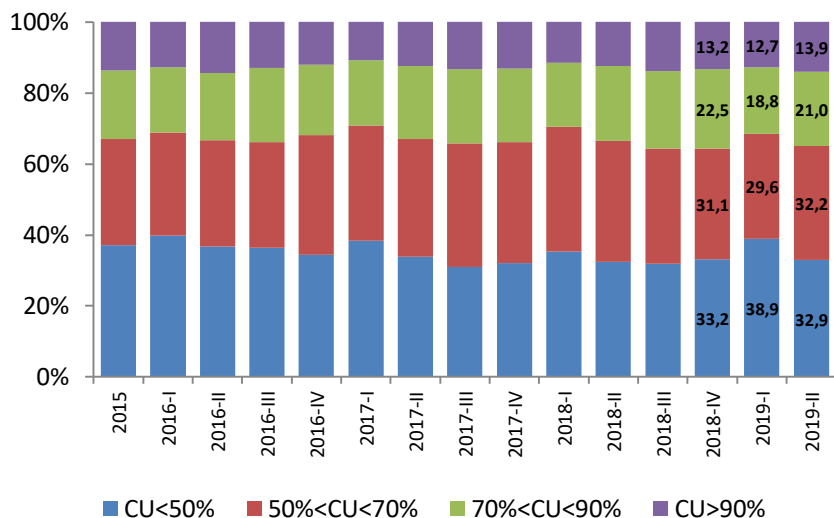


PRODUCTION OUTPUT

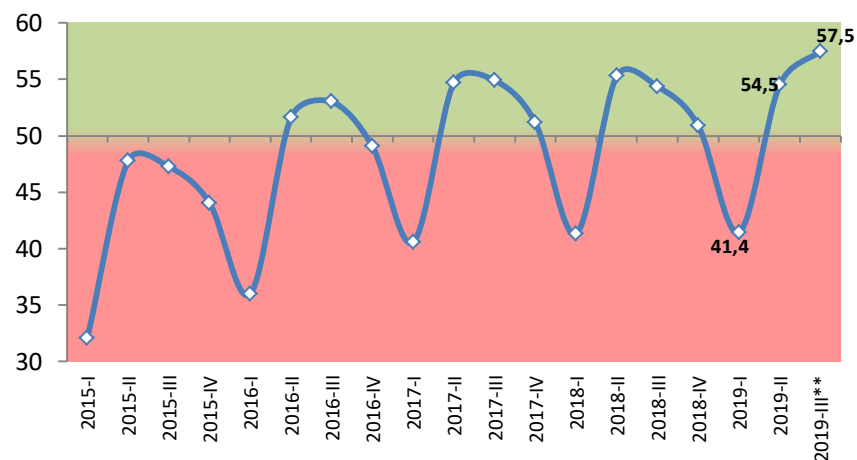
In Q2 of 2019, the utilization level of enterprises production capacities significantly increased. The share of enterprises with a capacity utilization of more than 70%* increased from 31.5% in Q1 of 2019 to 34.9%. As a result, the production volume in Q2 of 2019 also increased (DI = 54.5). The dynamics of past years shows that this increase is seasonal.

In Q3 of 2019, enterprises intend to continue to increase production volumes (DI = 57.5). Despite the seasonal nature of this increase, in general, there was a positive trend in the dynamics of enterprises production volumes.

Capacity utilization level
(share of respondents, %)



DI changes in production output
(50 = no change compared to previous q.)



* The group of enterprises with CUL more than 70% includes enterprises with CUL 70-90% and enterprises with CUL > 90%

** The higher (lower) DI from level 50, the higher (lower) the rate of increase (decrease) of the indicator, the level of DI = 50 means no change

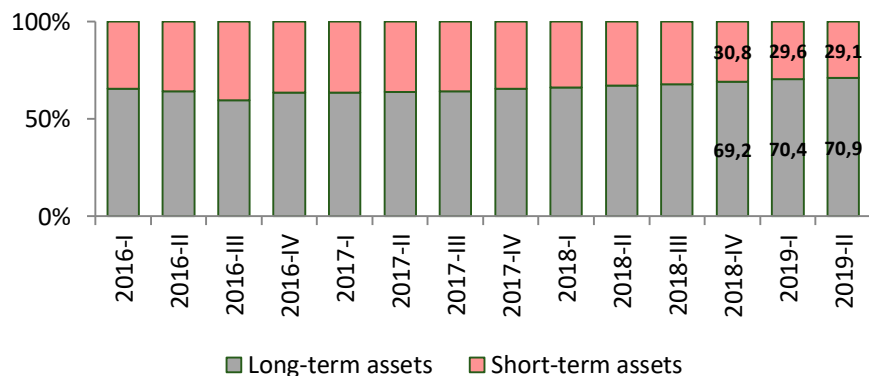
BALANCE SHEET STRUCTURE: ASSETS

In Q2 of 2019, the long-term assets share in the companies assets structure in the real sector of the economy increased, which amounted to 70.9%, and, accordingly, the share of short-term assets decreased to 29.1%.

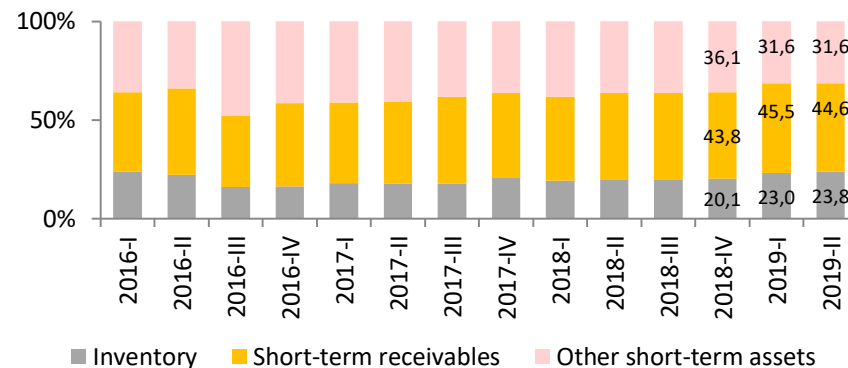
Accounts receivable remain the main component of short-term assets, whose share in Q2 of 2019 amounted to 44.6%. Other short-term assets amounted to 31.6%, reserves - 23.8%.

The assets turnover and working capital increased (up to 15.5% and 53.3%, respectively) against the background of the working capital share relative stability in the enterprises assets.

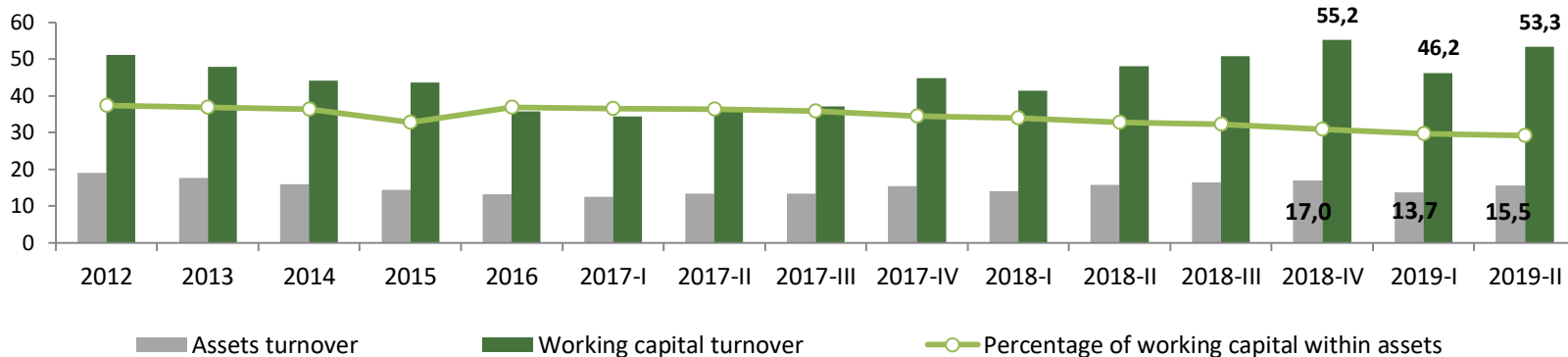
Assets structure, %



Short-term assets Structure, %



Assets turnover indicators, %



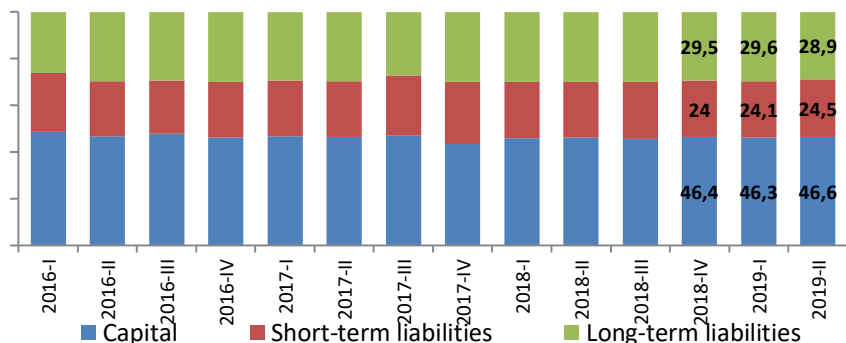
BALANCE SHEETS STRUCTURE : LIABILITIES

In Q2 of 2019, the liabilities structure did not change significantly: the share of equity amounted to 46.6%, the share of long-term liabilities - 28.9%, the share of short-term liabilities - 24.5%. In the short-term liabilities structure, the short-term bank loans share decreased (from 16.8% to 15.4%), slightly more than half of short-term debt falls on short-term accounts payable (50.7%).

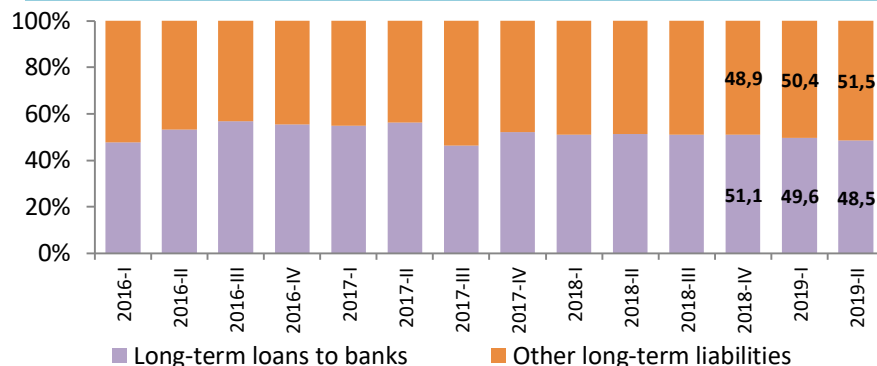
In the long-term liabilities structure, long-term bank loans slightly decreased and amounted to 48.5%.

The situation with overdue debt slightly improved: the enterprises share with overdue receivables on the balance sheet amounted to 27.4%, overdue payables - 21.3%, overdue loans from banks - 2.7%.

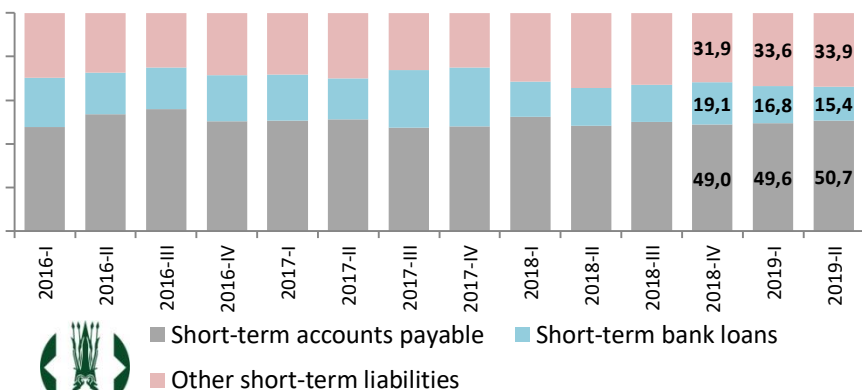
Liabilities structure, %



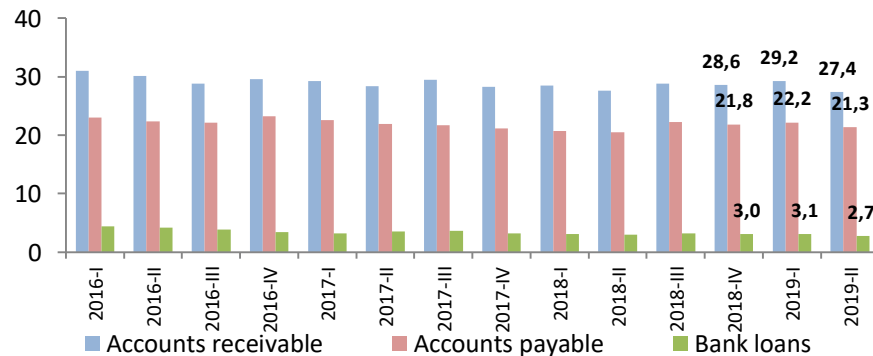
Long-term liabilities structure



Current liabilities structure, %



Percentage of enterprises with the past due, %

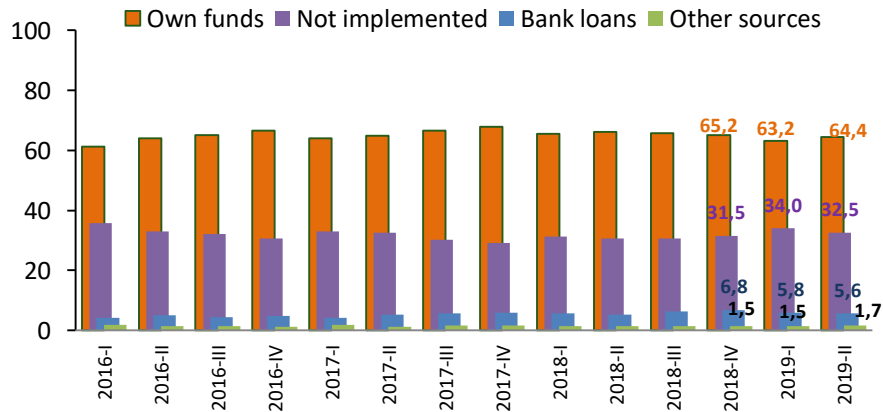


INVESTMENT ACTIVITY

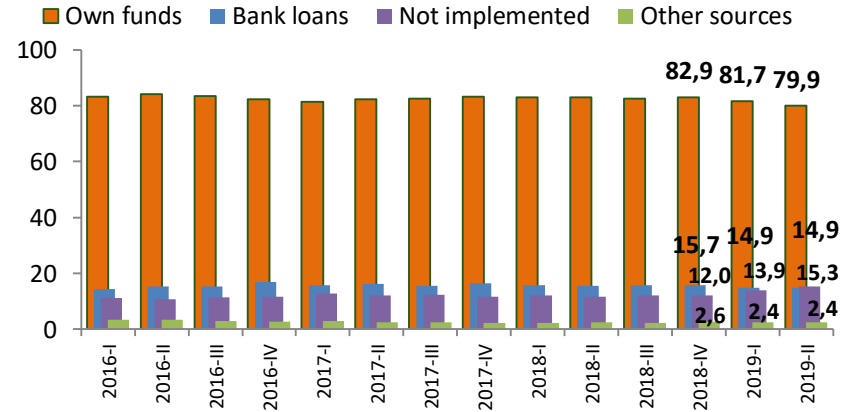
In Q2 of 2019, the investment activity of enterprises was multidirectional. In terms of financing fixed assets, investment activity has improved, while investment in working capital has declined. Most enterprises use their own funds to finance fixed and current assets (64.4% and 79.9%, respectively).

5.6% of enterprises used bank loans to finance fixed assets, and 14.9% used enterprises to finance working capital. The main reasons limiting the investment activity of enterprises are the lack of financial resources (29% of enterprises) and market competition from other enterprises (22.5% of enterprises).

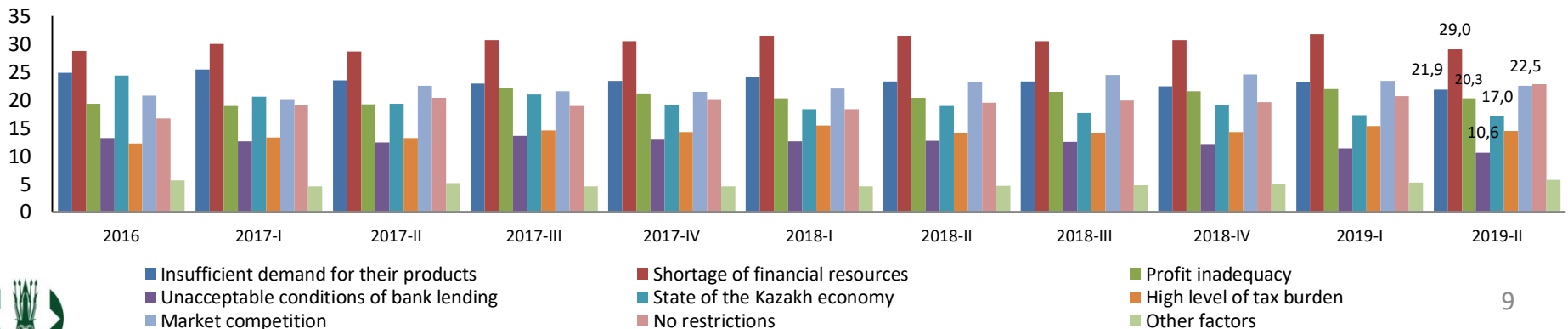
Funding source for fixed assets, %



Funding source for current assets, %



The main factors that limit financing opportunities of enterprises

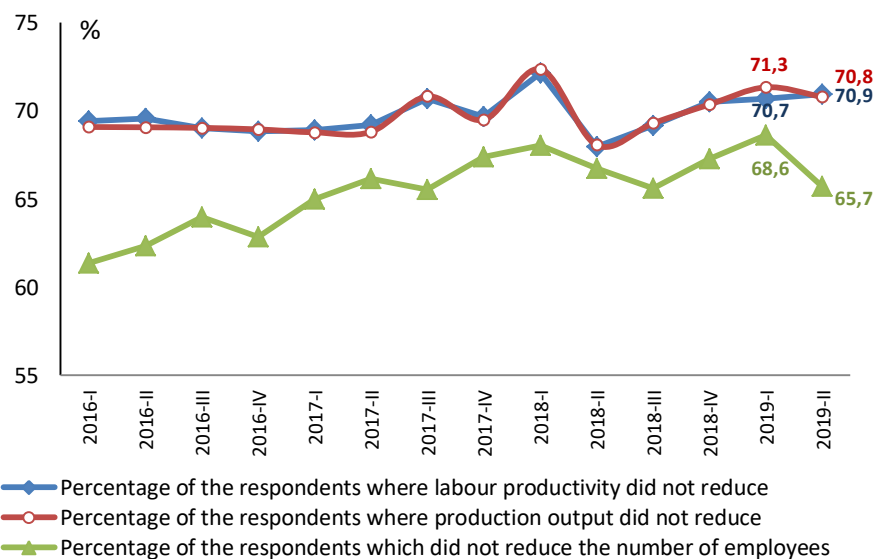


THE FINANCIAL AND ECONOMIC PERFORMANCE CHANGE

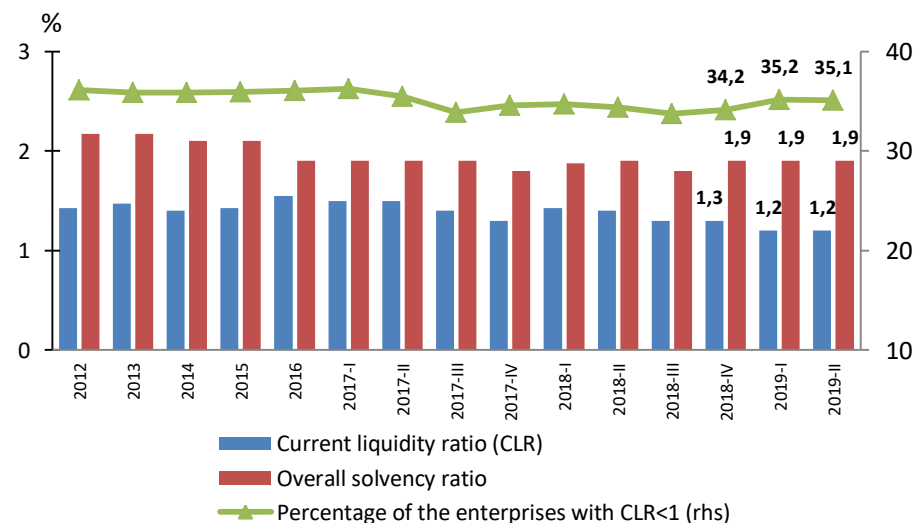
In Q2 of 2019, the enterprises share in which employees number increased or remained unchanged, decreased (from 68.6% to 65.7%, respectively). Despite that, this fact practically did not affect the enterprises labor productivity. The enterprises share for which the production volume has not decreased (from 71.3% to 70.8%) also declined.

The enterprises share with good liquidity decreased (to 35.1%), the average value of the current liquidity ratio did not change. The difference in the average values of current liquidity ratios (1.2) and total solvency (1.9) suggests that it is easier for enterprises to repay long-term liabilities than short-term ones.

Production performance indicators



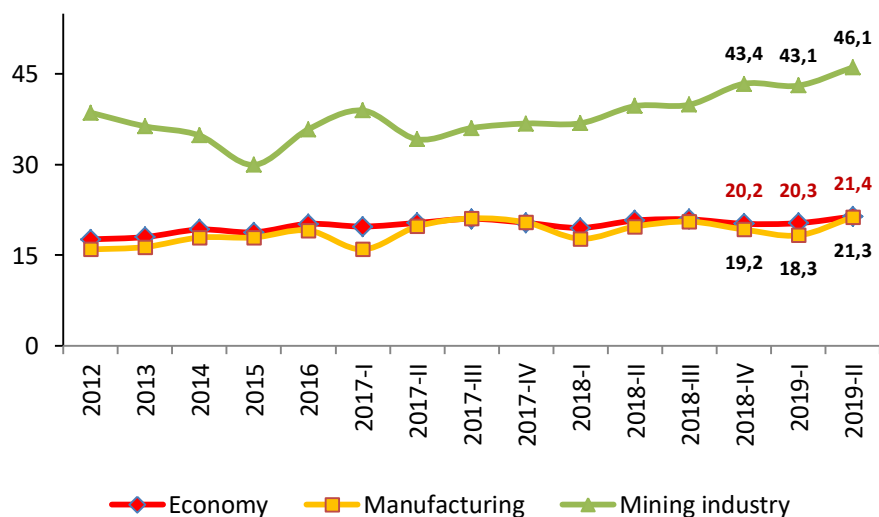
Liquidity and enterprises solvency Indicators



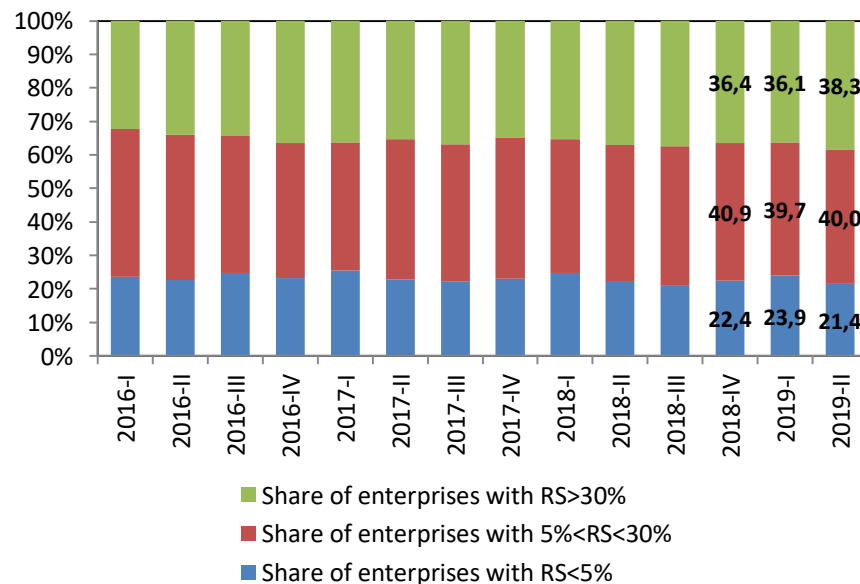
THE FINANCIAL AND ECONOMIC PERFORMANCE CHANGE

In Q2 of 2019, the average* return on sale** of real sector enterprises increased from 20.3% to 21.4%, the share of medium and highly profitable enterprises increased significantly (to 40% and 38.3% of the total number of survey participants, respectively). The average profitability in the mining industry is noticeably higher than in the manufacturing industry (46.1% and 21.3%, respectively).

Return on sales *, in %



Distribution by return on sales



* Average median values are presented as they are less susceptible to extreme emissions than the arithmetic mean

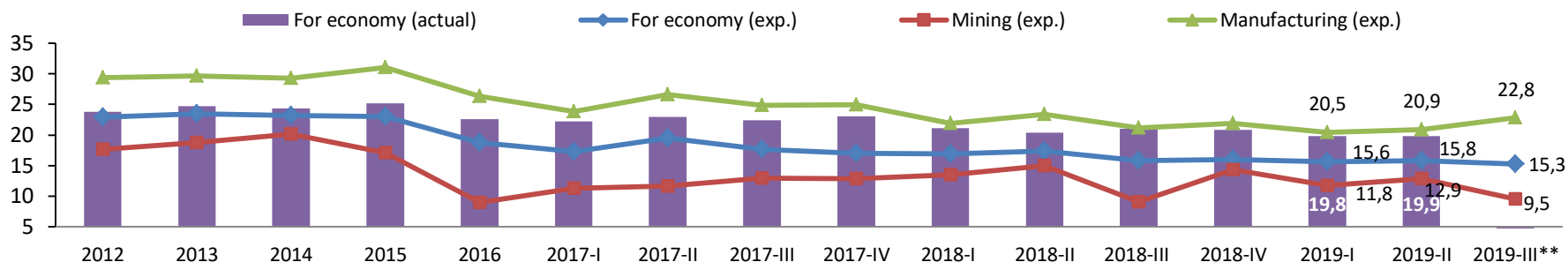
** The sales profitability before expenses deduction on interest, taxes and depreciation is indicated

BANKING SYSTEM IMPACT ON THE REAL SECTOR OF THE ECONOMY

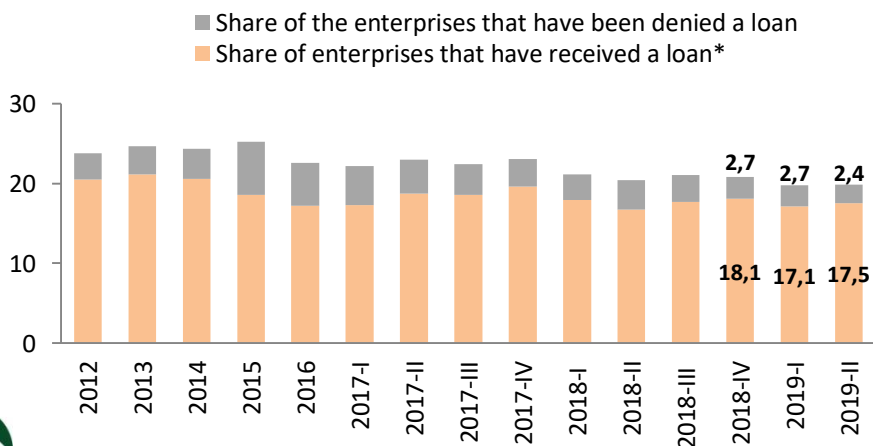
In Q2 of 2019, 19.9% of enterprises surveyed turned to a bank for a loan, 17.5% of enterprises received a loan (or 87.9% of the number of loan applicants). The loan refusals share amounted to 2.4% out of the total number of survey participants.

In Q3 of 2019, 15.3% of the surveyed enterprises intend to apply for a loan. In manufacturing, the share of such enterprises is 22.8%, in mining - 9.5%.

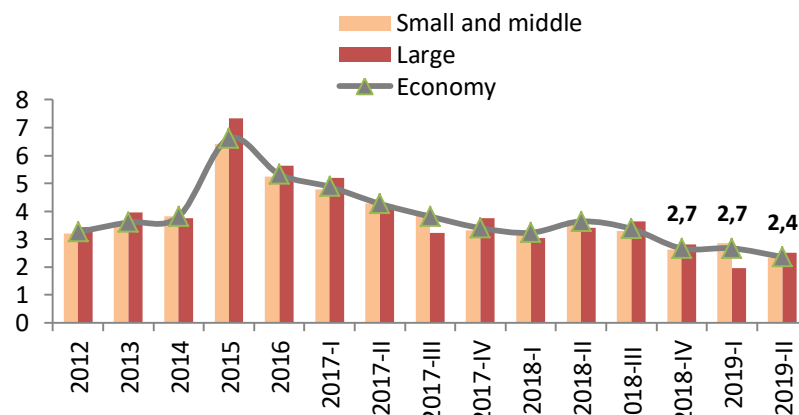
Loans demand, %
(share of enterprises applying for a loan from a bank)



Lending applications consideration, answers in %



Share of enterprises that have been denied for a loan, answers in %

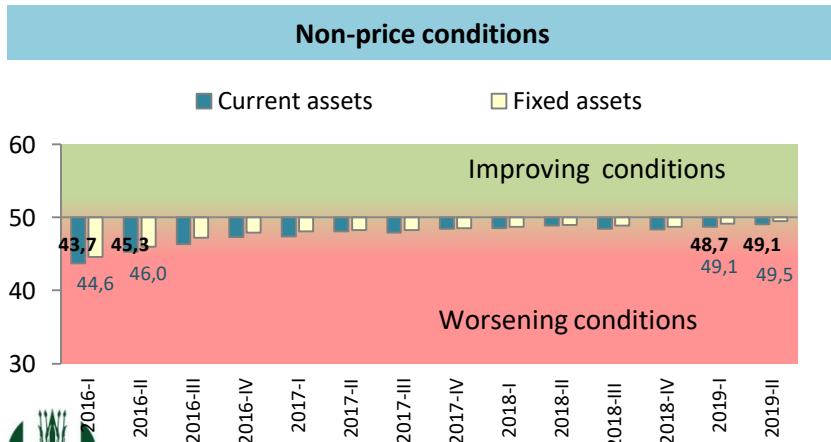
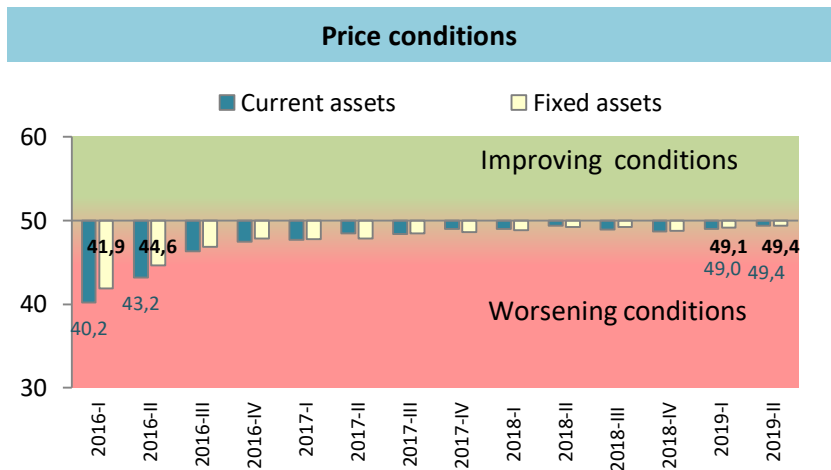


BANKING SYSTEM IMPACT ON THE REAL SECTOR OF THE ECONOMY

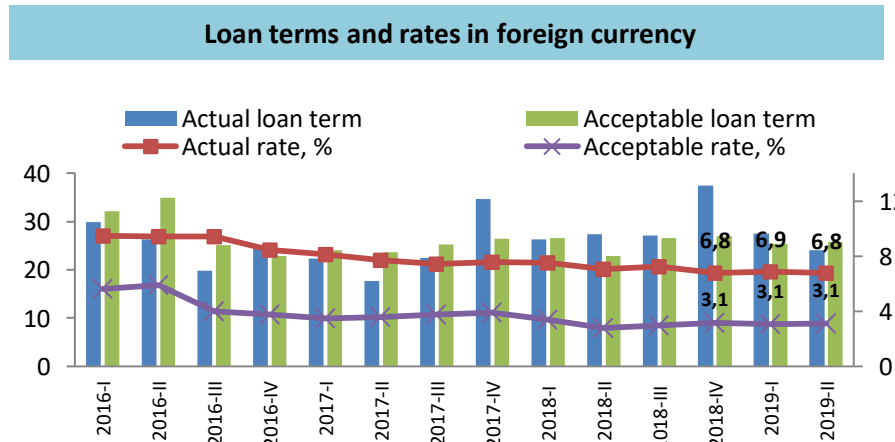
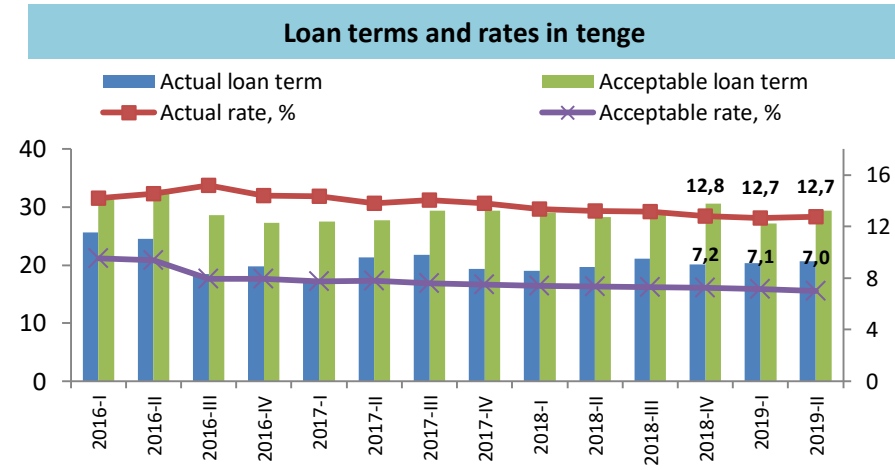
In Q2 2019, price conditions (interest rates on loans, commission fees) and non-price conditions (maximum amount and loan tenor, requirements to a borrower's financial position, collateral requirements) of lending remained negative. At the same time the number of enterprises indicating negative changes is gradually decreasing.

The average interest rates on loans in tenge received by monitoring participants increased slightly and amounted to 12.7%, while a slight decrease was noted for loans in foreign currency (up to 6.8%). The interest rate for loans in tenge is acceptable for enterprises at 7%, and for loans in foreign currency - 3.1%.

Changes in the conditions of lending



Loan rates and terms

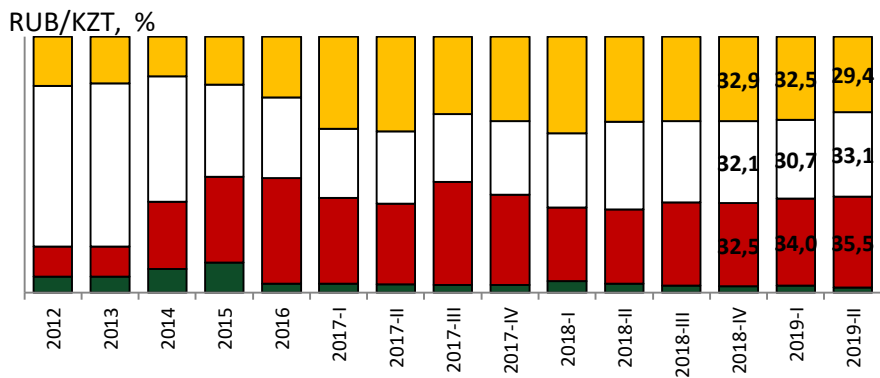
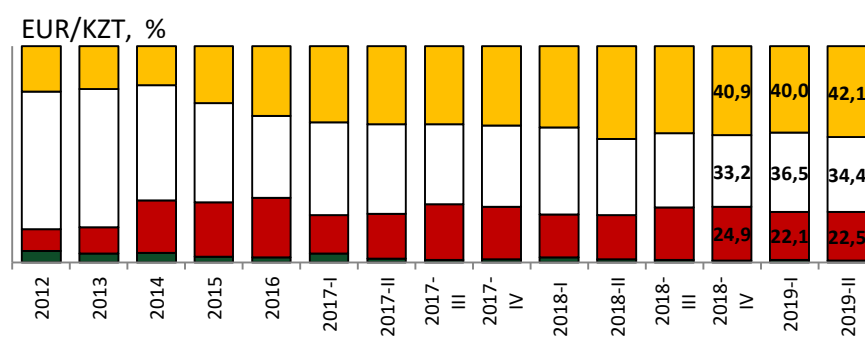
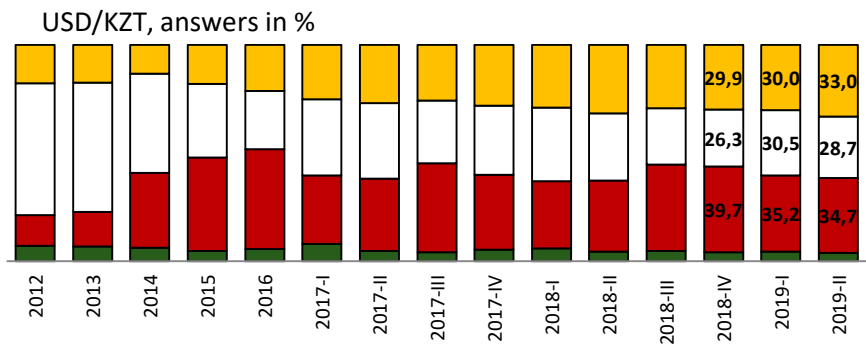


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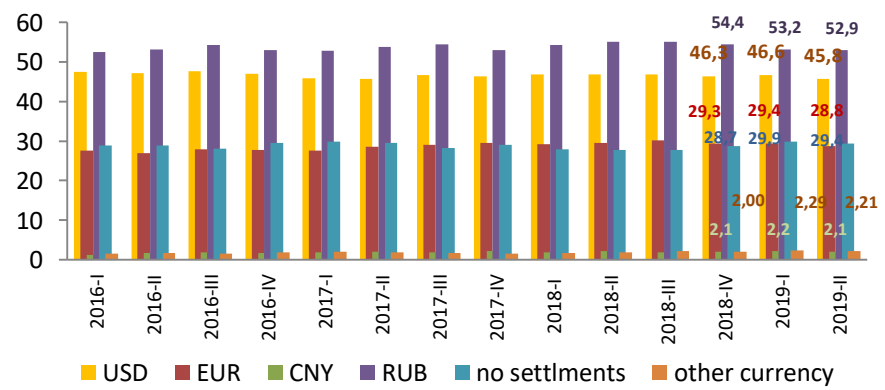
IMPACT OF EXCHANGE RATE CHANGES

In Q2 of 2019, the impact of the exchange rate on the enterprises economic activities was multidirectional. The share of enterprises that experienced a negative impact on economic activity from a change in the tenge to the US dollar decreased, while at the same time, there was an increase in the share of enterprises experienced a negative impact from a change in the tenge against the euro and the Russian ruble. 35.5% of enterprises experienced a negative impact from a change in the tenge against the Russian ruble, 34.7% against the US dollar, and 22.5% from a change in the tenge against the euro.

Russian ruble (52.9% of enterprises) and the US dollar (45.8% of enterprises) remain the main currencies used in the calculations.



Foreign currency usage in settlements (% by currency)

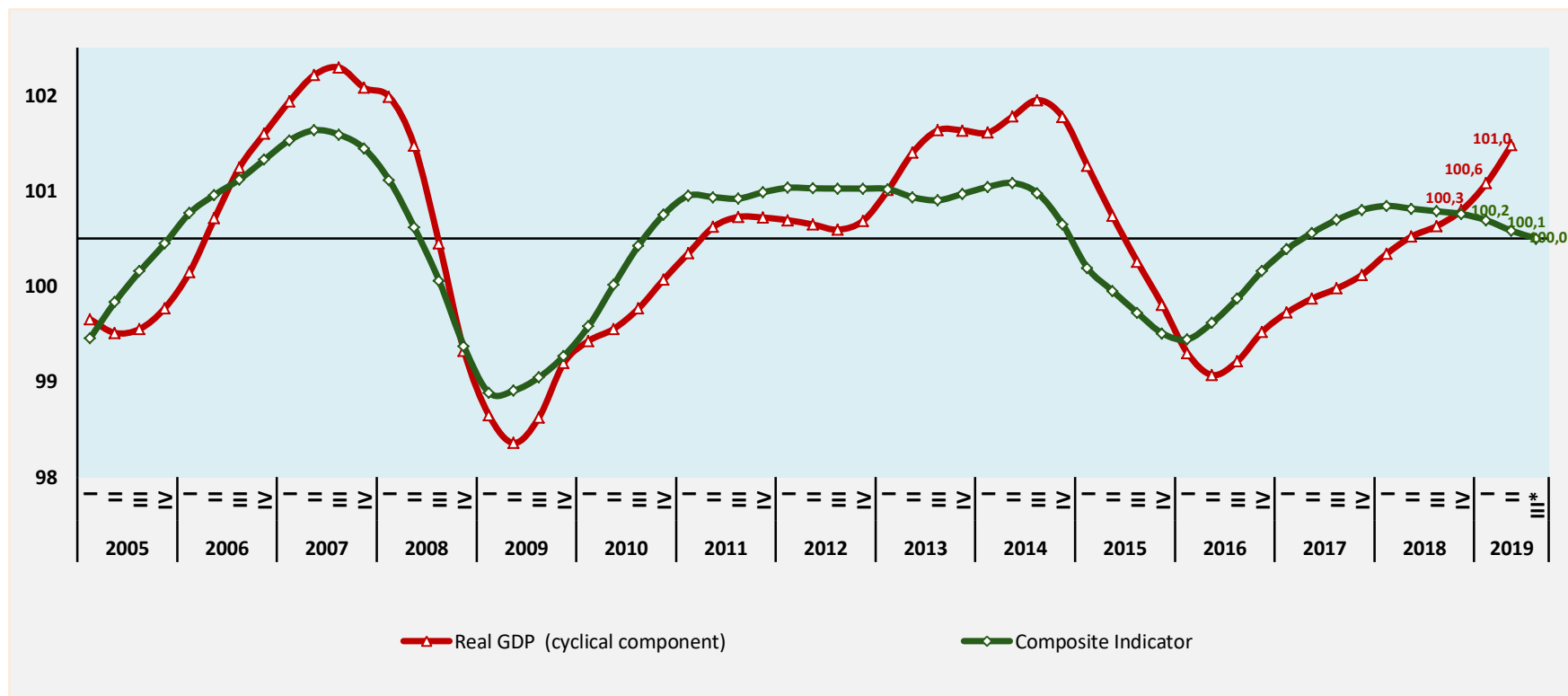


COMPOSITE LEADING INDICATOR*

In Q2 of 2019, the dynamics of the composite leading indicator (CLI), which is an aggregate assessment of enterprises surveys in the real sector, indicates a gradual slowdown in business activity in the real sector.

Despite the positive impact of external factors, such as an increase in world energy prices in Q2 of 2019, the dynamics of the CLI were more negatively affected by such factors as an increase in the average interest rate on loans received in tenge and a decrease in the share of enterprises using own funds to finance working capital. As a result, CLI slightly decreased compared to the Q1 of 2019 and amounted to 100.1.

In Q3 of 2019, respondents expect a further slowdown in economic activity (CLI was 100.0). This is due to the expected slowdown in the growth of demand for final products by mining enterprises, and a slowdown in price growth in the economy.



* A composite leading indicator is used to identify turning points in the business cycle and provides good quality information about the state and directions of trends in the economic activity. A composite leading indicator reflects a summarized evaluation of opinions of managers of the interviewed enterprises regarding the existing and anticipated situation in their enterprises and possesses the forward-looking feature of the real GDP behavior for 1-2 quarters. Construction of CLI is based on the OECD methodology («OECD System of Composite Leading Indicators, Methodology Guideline», OECD 2012).

** The CLI parameters for Q3 2019 are calculated on the basis of expectations among enterprises in the real sector that participated in the survey.



➤ The diffusion index (DI) as reflected in tables and in figures is calculated as a sum of positive responses and a half of “no change” responses. This index is a generalized indicator which characterizes the behavior of the reviewed indicator. If its value is above 50 – this means a positive change, if it is below 50, then the change is negative. In doing so, the further (the higher) the value of the diffusion index deviates from 50, the higher are the rates of change (increase or decrease) of the indicator.

➤ The indicator of “an acceptable interest rate on bank loans” is calculated as the average of interest rates indicated by enterprises participating in the monitoring process as acceptable rates for these enterprises in terms of the existing level of profitability of production.

➤ Numbers reflecting financial ratios are provided as average values calculated based on the whole sample of interviewed enterprises as well as broken down by sector, where necessary, based on estimates of the quarter-end balance sheet numbers received from enterprises. In doing so, the evaluation data as well as the averages calculated on their basis are not aiming at obtaining the absolute precision of their values (since they are not the reporting ones) but rather serve for obtaining updated estimates and for analyzing the trends of the change in the state of the non-financial sector of the economy and its branches.

➤ The composite indicator (CI) possesses the forward-looking feature of the real GDP behavior for 1-2 quarters. The time series of the CI and the real GDP (in terms of prices of the year 2005) are cleared of seasonality and do not contain the trend, i.e. they only include a cyclical component as determined by short-term fluctuations of the economic market environment. For comparability purposes, the resulting cyclical components are standardized, i.e. they are reduced to one (non-dimensional) unit of measurement.

The CI serves to reflect short-term development trends in the real sector of the economy as a whole. It possesses the following features: 1) it has a forward-looking nature; 2) it reflects a cyclical nature in the development of the real sector of the economy; 3) it is quickly designed since it is built on the basis of on-the-spot interviews of enterprises.

Out of indicators built up based on interviews of enterprises, the following leading indicators were included as the CI components:

- 1) The DI of the change in the demand for final products in economic sectors
- 2) a group of indicators that reflect the change in prices :
 - the DI of the change in prices in the real sector as a whole;
 - the DI of the change in prices for raw materials and supplies.
- 3) a group of indicators that reflect the change in the investment and lending activity:
 - the percentage of enterprises which obtained loans to finance their property, plant and equipment (including governmental programs);
 - the percentage of enterprises which use other sources apart from own funds and bank loans to finance their property, plant and equipment and working capital;
 - the percentage of enterprises which obtained a loan;
 - the percentage of enterprises which want to get a loan;
 - the level of actual interest rates on loans in the tenge and in foreign currency.
- 4) the employment rate indicator: the percentage of enterprises where the number of employees decreased
- 5) the indicator of the impact on activities of enterprises by the change in the exchange rate of the tenge (versus the US Dollar, Euro and Russian ruble)

