

MARKET REVIEW

Enterprise Survey in the Real Sector of the Economy

Q1 2019



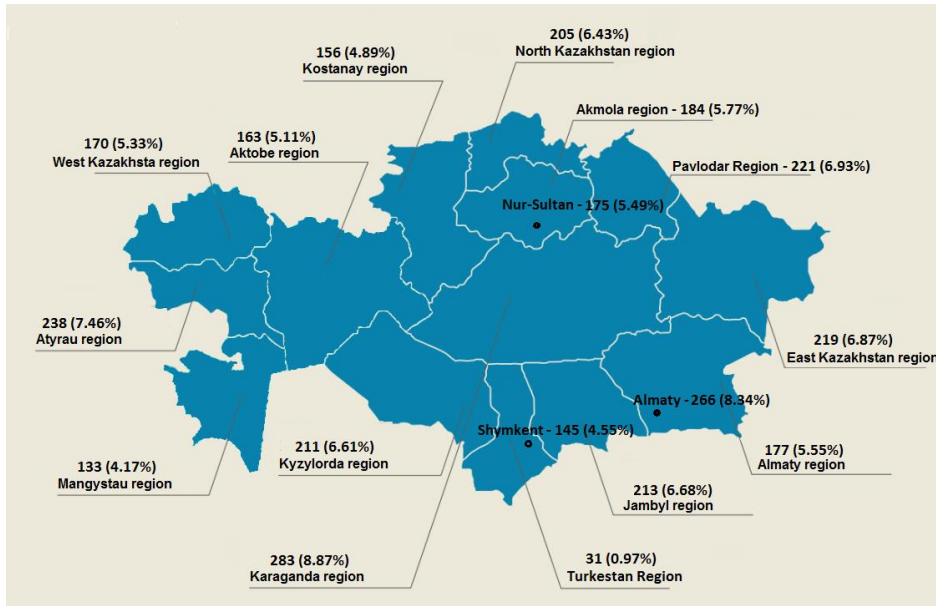
Research and Statistics Department
National Bank of Kazakhstan

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Composition of Enterprise Survey Participants

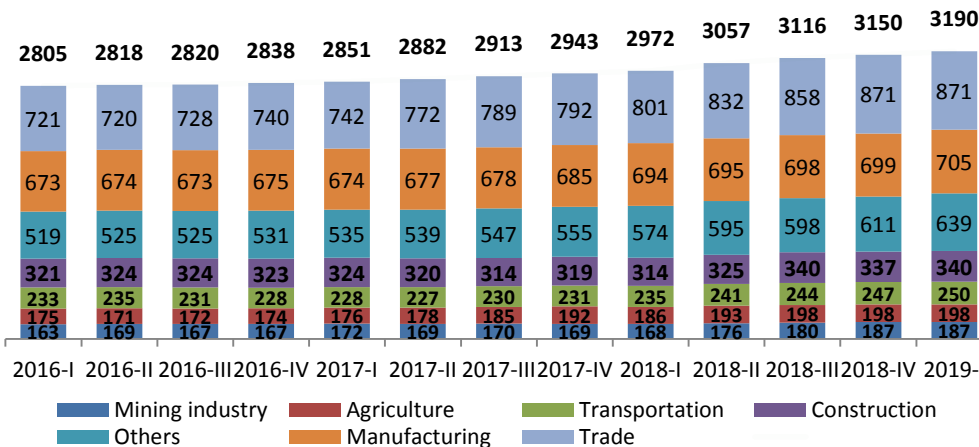
Regional structure of the enterprise survey participants in Q1 2019



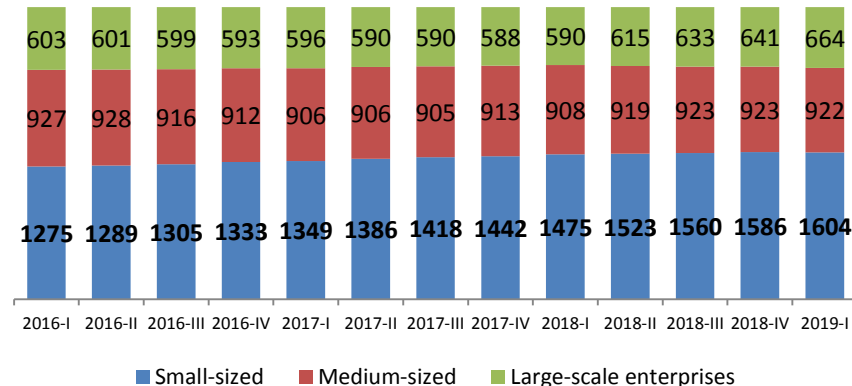
In Q1 of 2019 the number of respondents increased by 40, out of which 23 large-scale and 18 small-sized enterprises. At the same time the sample decreased by 1 medium-sized enterprise.

In the sectoral structure the biggest increase was noticed in industry (by 16).

Sectoral structure of the enterprises



Enterprise survey participants by size

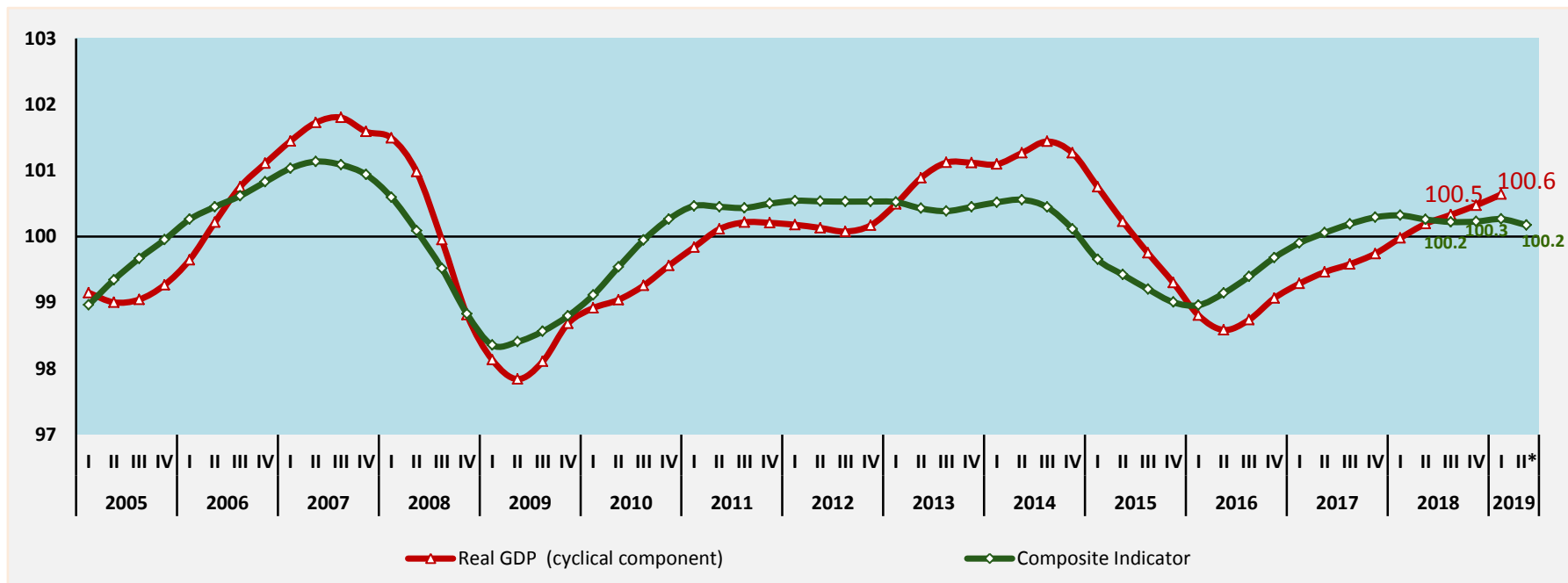


COMPOSITE LEADING INDICATOR*

In Q1 2019, the dynamics of the composite leading indicator (CLI) – an aggregated estimate of the survey of enterprises – shows that economic activity in the real sector continues to rise moderately.

The positive effect to the change of CLI was from the factors like decrease in the average interest rates for loans in Tenge, increase in the average return on sales, increase in the demand for final products, especially in construction, agriculture and service. Decline in the investment activity of the companies had negative impact to the dynamics of CLI. As a result, CLI showed a little improvement compared to Q4 2018 and amounted to 100,3.

In Q2 2019 respondents expect the slowdown of the economic activity (CLI is 100,2). This is related with expected slowdown in the demand for the production of mining industry.



* 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 Q2 2019 are calculated on the basis of expectations among enterprises in the real sector that participated in the survey.



DYNAMICS OF THE DEMAND FOR FINAL PRODUCTS

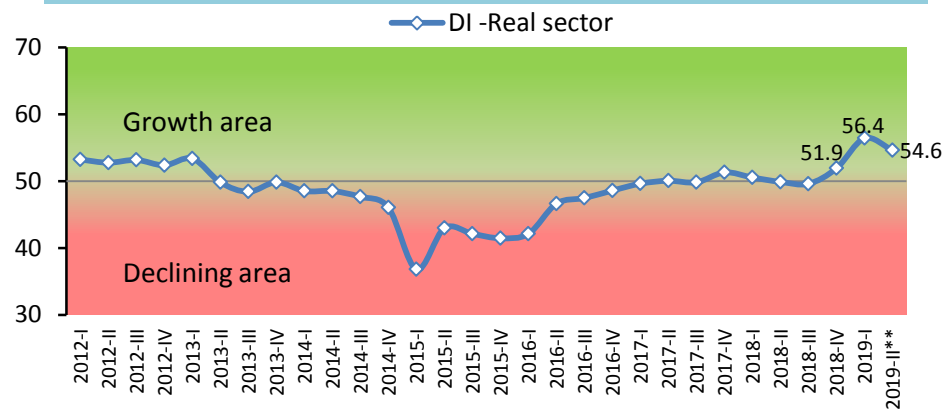
In Q1 2019, the demand in the real sector for final products increased noticeably; the diffusion index (DI) made up 56,4. Increase in the demand was noted both for goods and for services (DI = 56,9 and 56,1, respectively). Manufacturing companies pointed out bigger increase in the demand for their production, than mining companies (DI = 57,2 and 55,7, respectively).

In Q2 2019, enterprises expect the increase in the growth rates of the demand for final products, but by a lower rate (DI=54,6). Mining industry expect bigger slowdown in growth rates of demand.

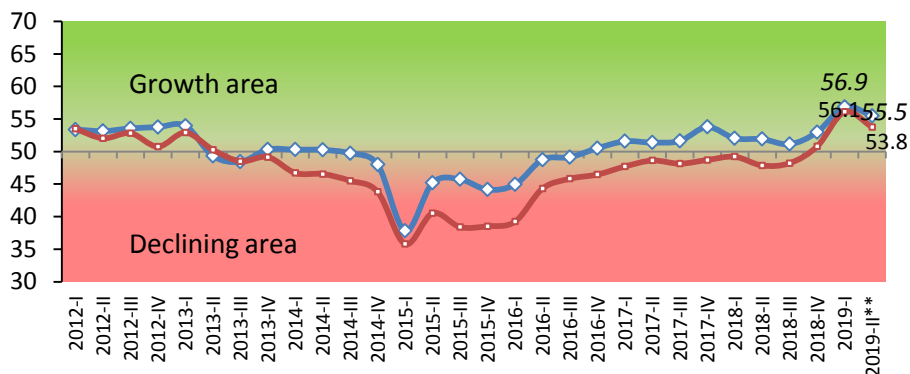
Demand for the finished goods, DI*

Answers of enterprises, %		2018				2019	
		Q1	2 кв.	3 кв.	4 кв.	1 кв.	2 кв.**
Increase	1	26.8	28.1	27.7	26.3	16.1	26.8
No changes	2	37.5	50.9	51.9	49.2	53.8	37.5
Decrease	3	9.3	20.7	19.9	24.0	28.7	9.3
Diffusion index, $DI = line1 + 0.5 * line2$	4	45.6	53.6	53.6	50.8	43.0	45.6
DI, seasonal adjusted	5	50.5	49.9	49.6	51.9	56.4	54.6

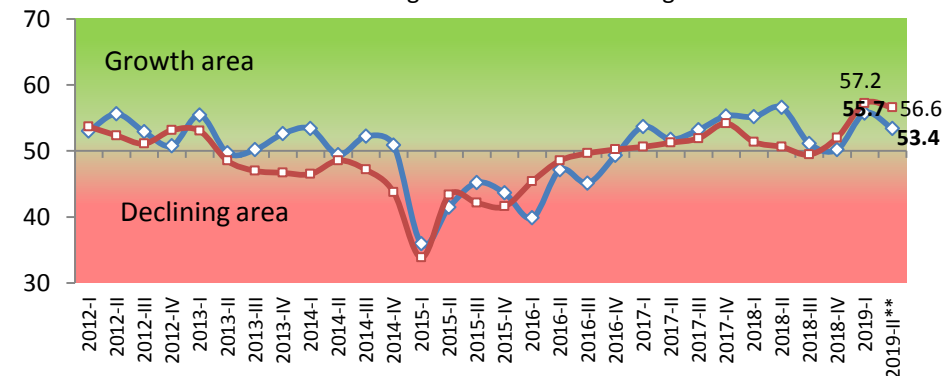
Demand for finished goods, DI *



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

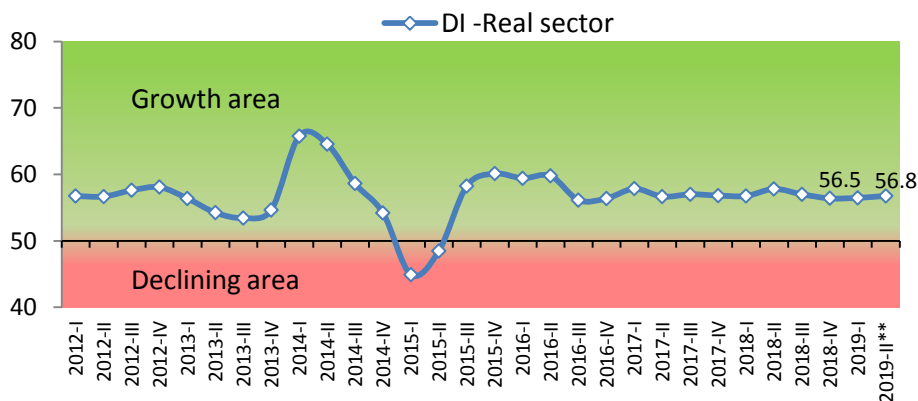
**The Figures show expectations of enterprises regarding the change in the parameter in Q2 2019.

CHANGES IN PRICES IN THE REAL SECTOR

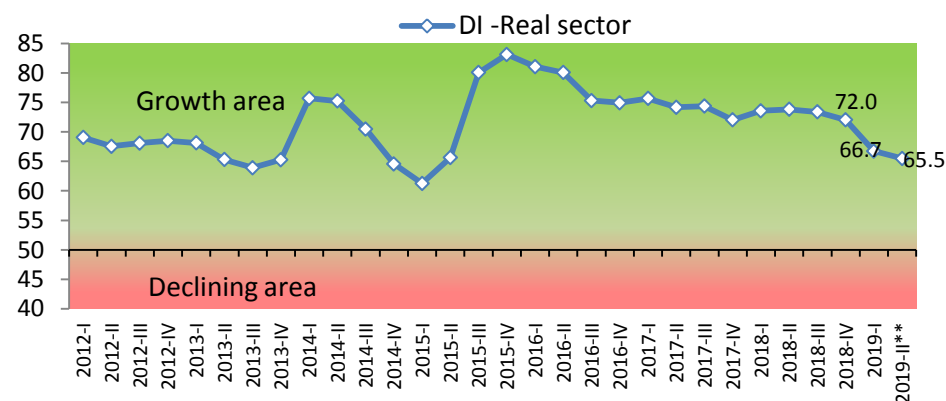
Despite some increase in the growth rates of prices for final products of mining industry, in Q1 2019 the growth rates of prices in the economy remained almost unchanged (DI=56,5). Growth rates of prices for raw materials slightly decreased in all sectors, as well as in the economy as a whole (DI=66,7).

In Q2 2019, the growth rates of the prices for final products, as well as for raw materials are expected to keep unchanged (DI = 56,8 and 65,5, respectively).

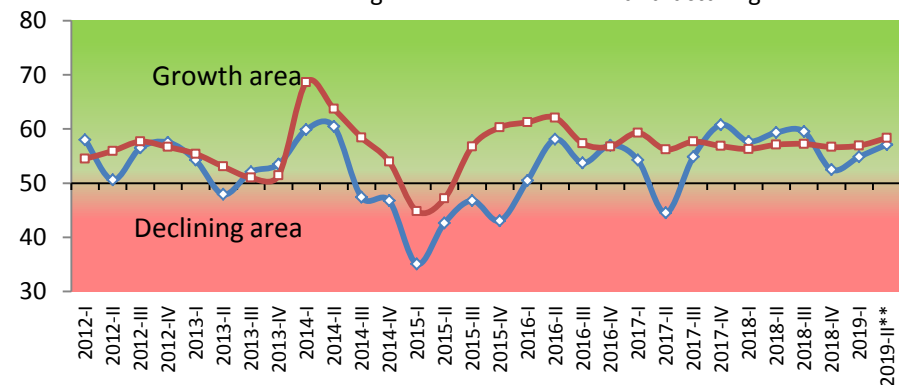
Prices for finished goods, DI*



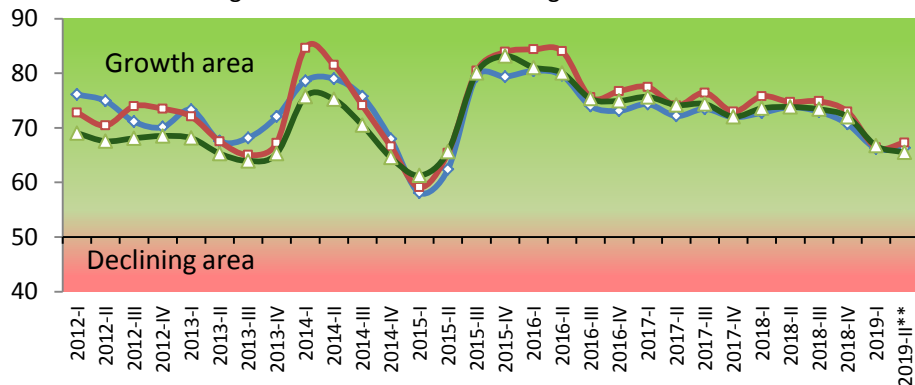
Prices for raw materials, DI*



Mining Manufacturing



Mining Manufacturing Construction



*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 Q2 2019.

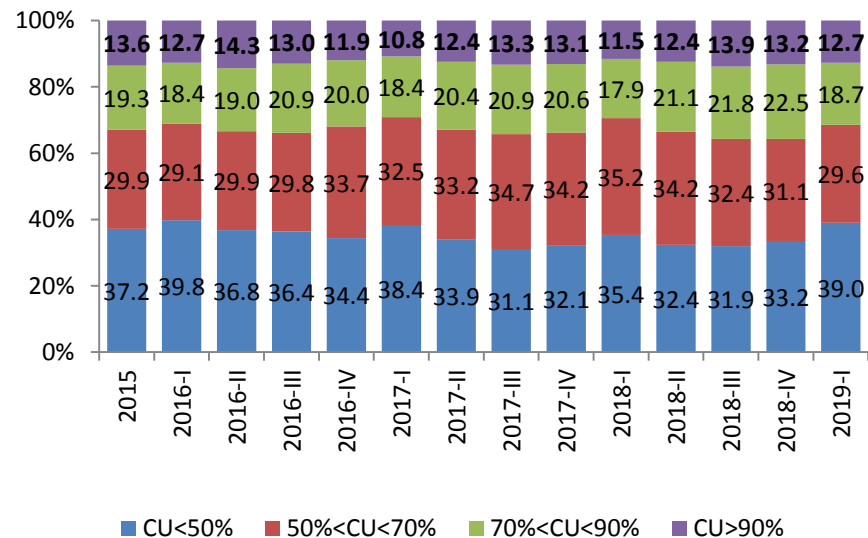


CHANGE IN THE PRODUCTION OUTPUT

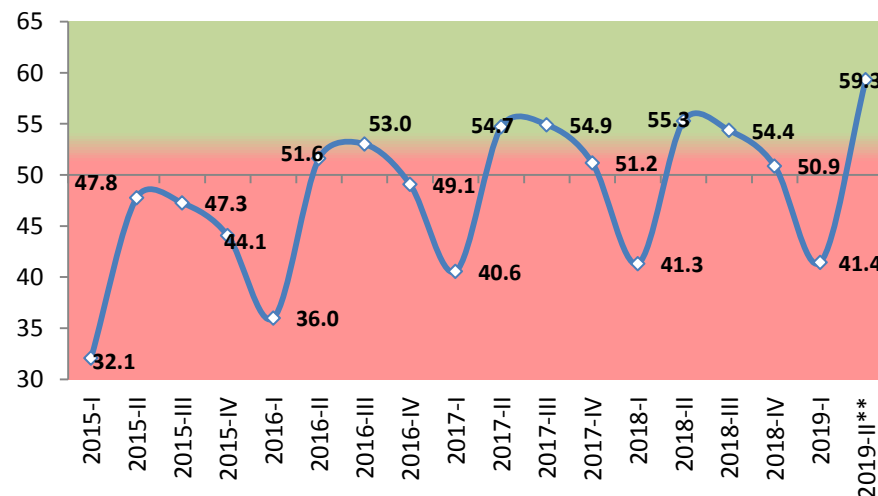
In Q1 2019 the level of capacity utilization of enterprises decreased significantly. The share of enterprises with the capacity utilization more than 70% declined from 35,7% in Q4 of 2018 to 31,4%. As a result, production volume in Q1 2019 also declined (DI = 41,4). Past movements show that this fluctuation have seasonal pattern.

In Q2 2019, enterprises intend to increase production volume significantly (DI= 59,3). Despite the fact that this increase has a seasonal nature, in general, there has been a positive trend in the dynamics of production volumes.

Capacity utilization level
(share of respondents, %)



DI changes in production output



*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

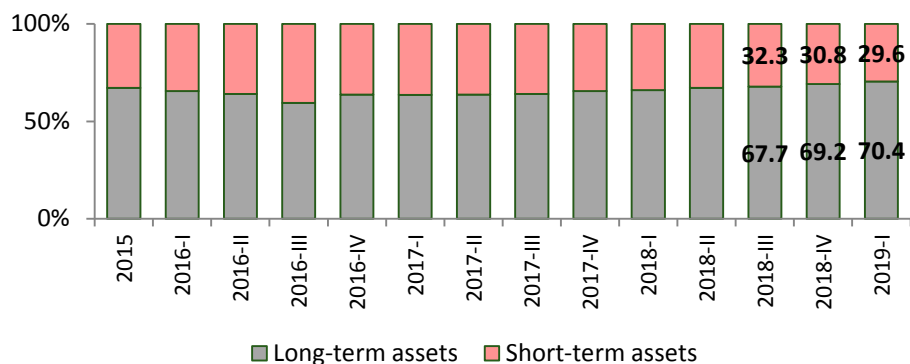
THE STRUCTURE OF BALANCE SHEETS: ASSETS

In Q1 2019, in the structure of assets the share of long-term assets increased and amounted to 70,4%, accordingly the share of short-term assets decreased to 29,6%.

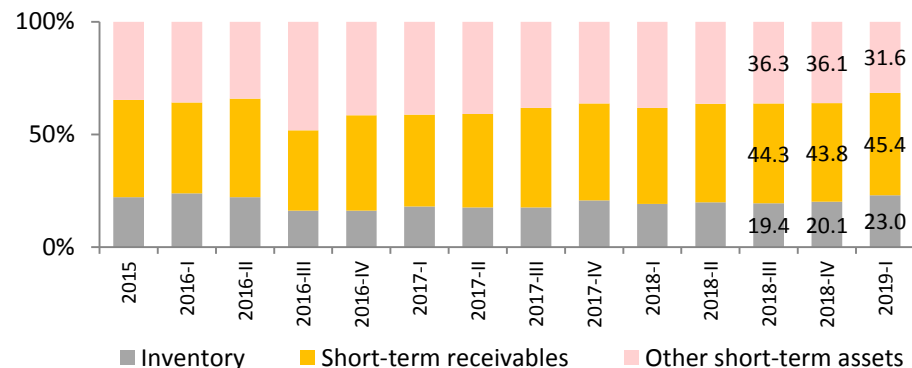
Short-term receivables remain major component of the short-term assets, which amounted to 45,4% in Q1 2019. Other short-term assets made up 31,6%, inventories – 23%.

Asset turnover and working capital turnover decreased (up to 13,7% and 46,2%, respectively) while the share of working capital in the assets of enterprises kept relatively stable.

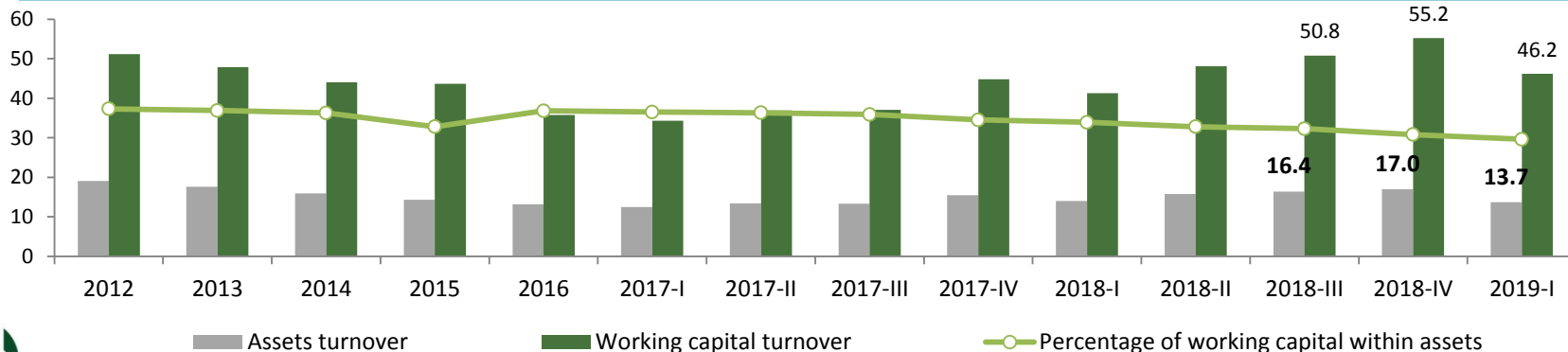
Structure of assets, %



Structure of short-term assets, %



Indicators of assets turnover, %



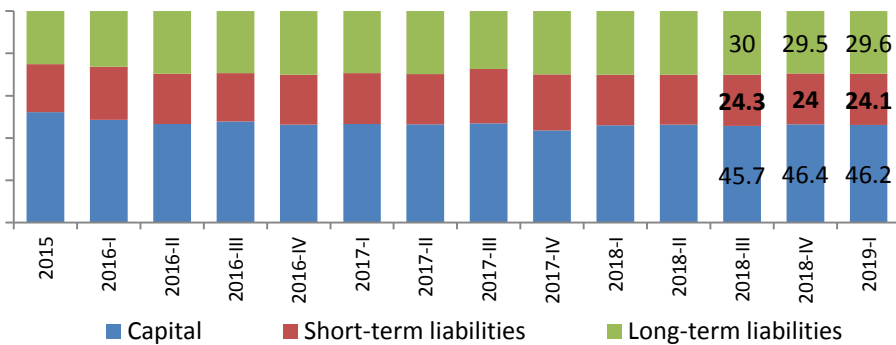
THE STRUCTURE OF BALANCE SHEETS: LIABILITIES

In Q1 2019, the structure of liabilities had not changed significantly: the share of equity capital made up 46,2%, the share of long-term liabilities – 29,6% and the share of short-term liabilities – 24,2%. In the structure of current liabilities, the share of short-term bank loans decreased (from 19,1% to 16,7%), almost half of the short-term liabilities are short-term accounts payable (49,5%).

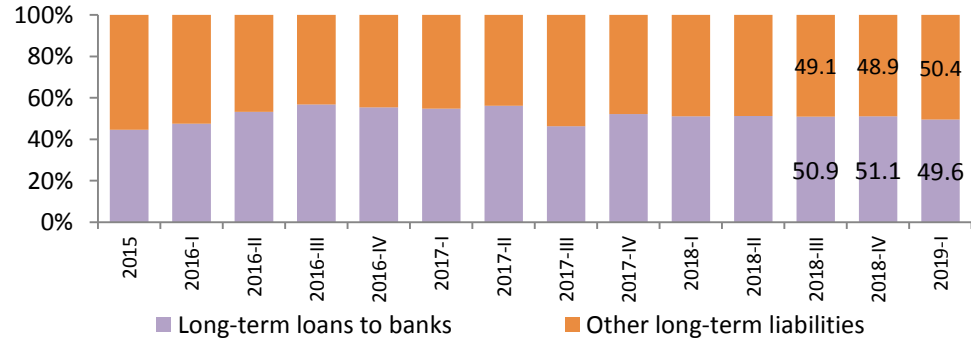
In the structure of long-term liabilities long-term bank loans makes almost half (49,6%).

The situation with arrears showed some deterioration: the share of enterprises with the overdue accounts payables amounted 29,2%, the share of enterprises with the overdue accounts receivables – 22,2%, share of enterprises with the overdue bank loans - 3,1%.

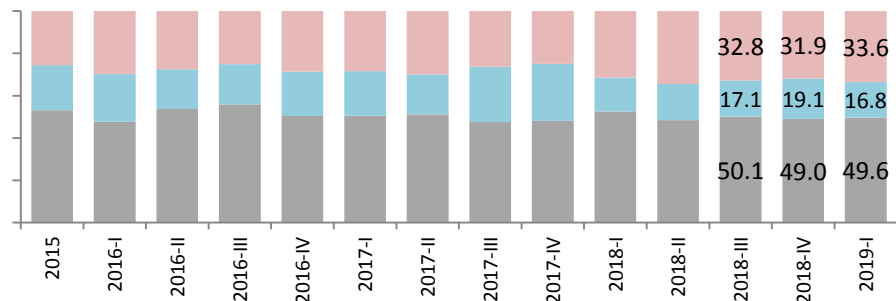
Structure of liabilities, %



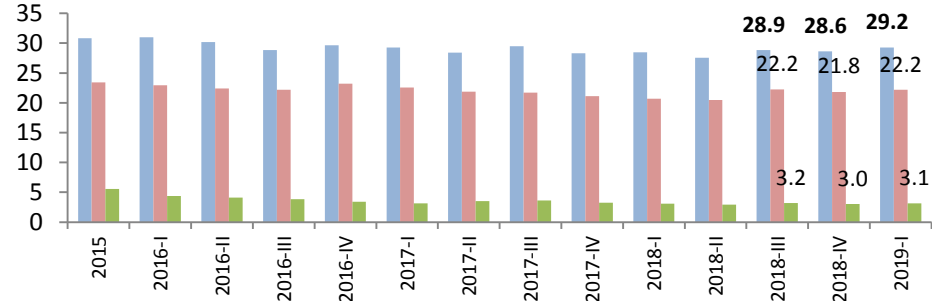
Structure of long-term liabilities



Structure of current liabilities, %



Percentage of enterprises with the past due, %



■ Short-term accounts payable
■ Short-term bank loans
■ Other short-term liabilities

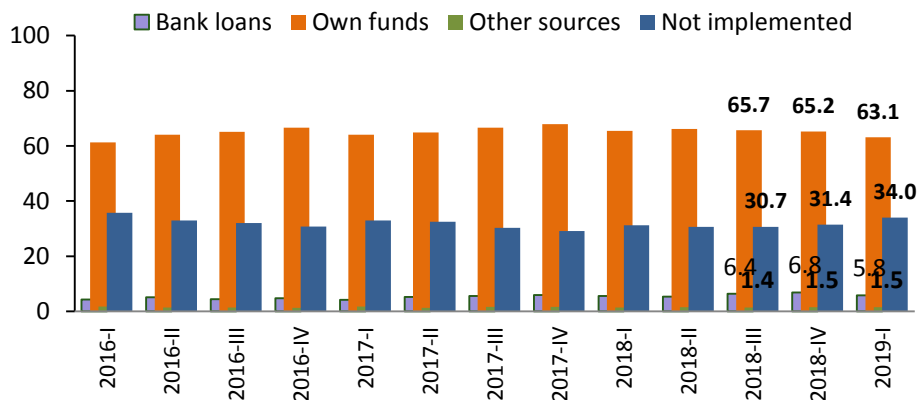
■ Accounts receivable
■ Accounts payable
■ Bank loans

INVESTMENT ACTIVITY

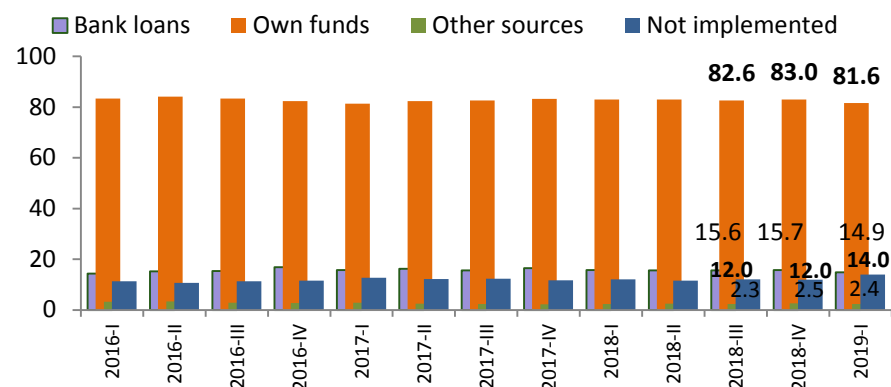
In Q1 2019 the investment activity of enterprises showed some decline. The share of enterprises that had not financed their fixed assets, and those who had not financed current assets increased to 34,0% and 12,0%, respectively. Most companies use their own funds to finance fixed and current assets (63,1% and 81,6%, respectively), which also showed some decrease.

Bank loans in financing the fixed assets were used by 5,8% of the enterprises, in financing the current assets – 14,9% of the enterprises. The main factors that limit financing opportunities of enterprises are the shortage of financial resources (31,8% of the enterprises) and market competition from the side of other enterprises (23,4% of the enterprises).

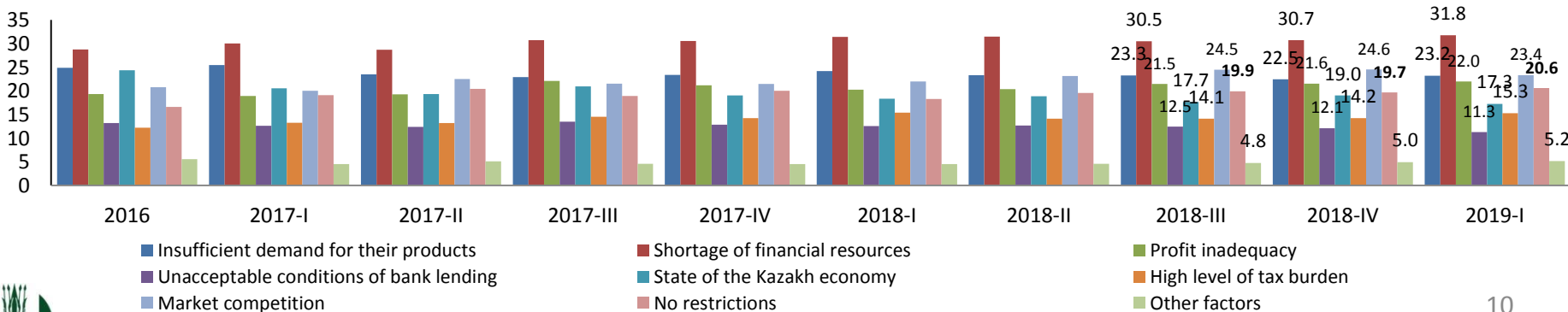
Funding source for fixed assets, %



Funding source for current assets, %



The main factors that limit financing opportunities of enterprises

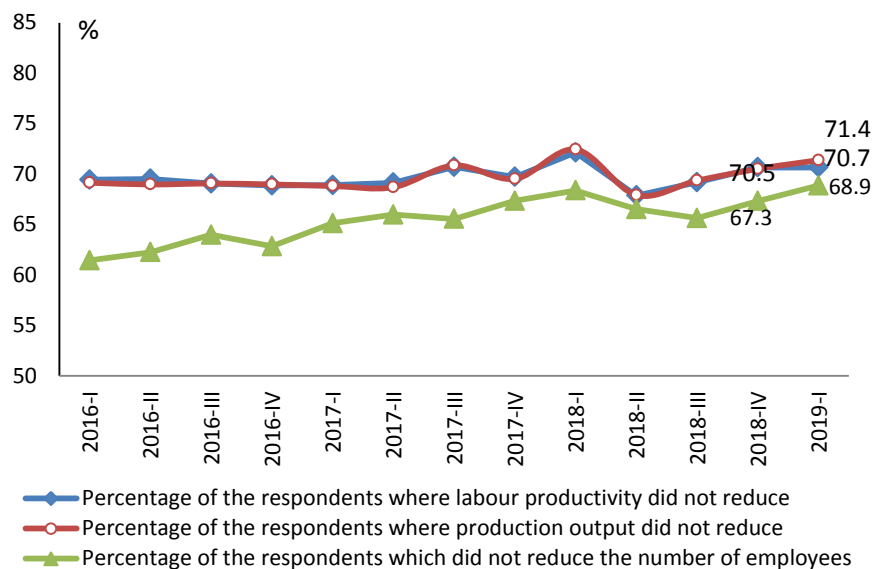


CHANGE IN THE FINANCIAL AND ECONOMIC PERFORMANCE

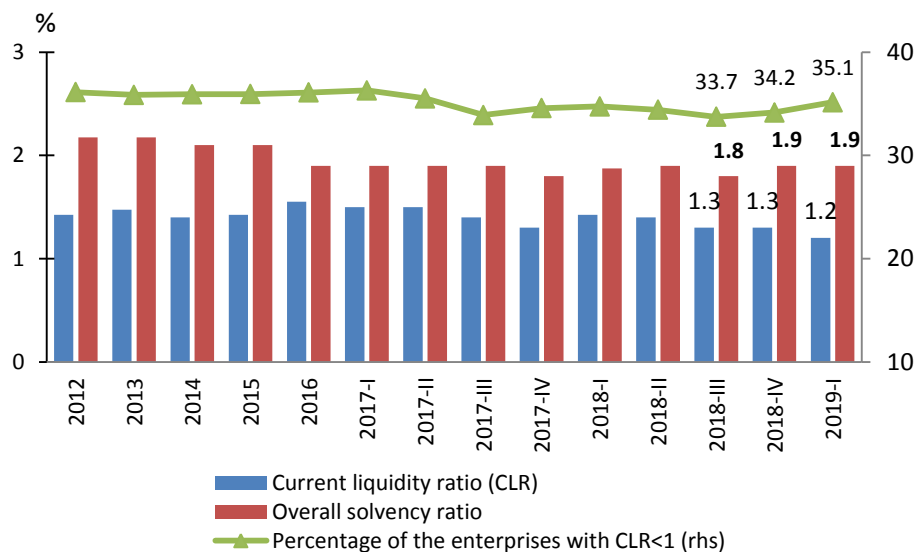
In Q1 2019 the share of enterprises, whose production volume and the number of employers did not reduce, increased (to 71,4% and 68,9, respectively). The share of enterprises, whose productivity had not decrease remained almost unchanged (70,7%).

Despite the increase in the share of enterprises with high liquidity the average rate of current liquidity ratio decreased. The difference in the value of current liquidity (1,2) and overall solvency (1,9) ratios represents, that for companies it is easier to serve long-term debts than short term debts.

Indicators of production performance



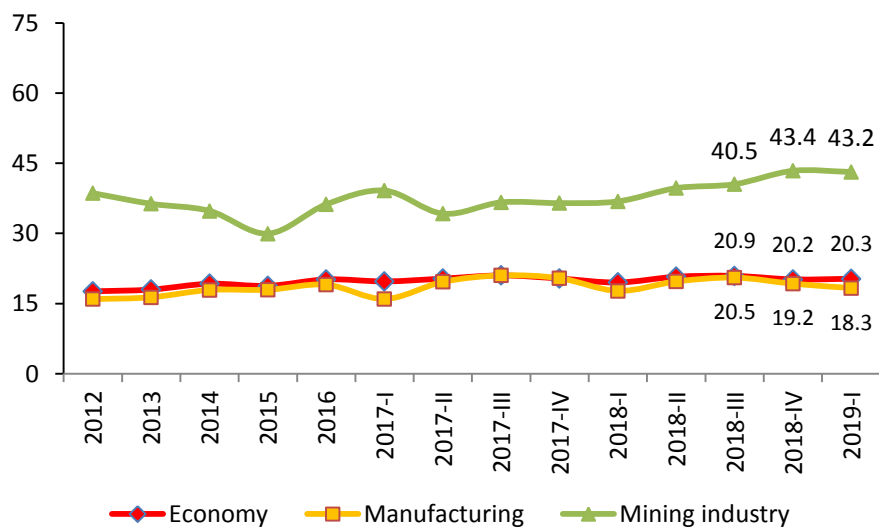
Indicators of liquidity and solvency of enterprises



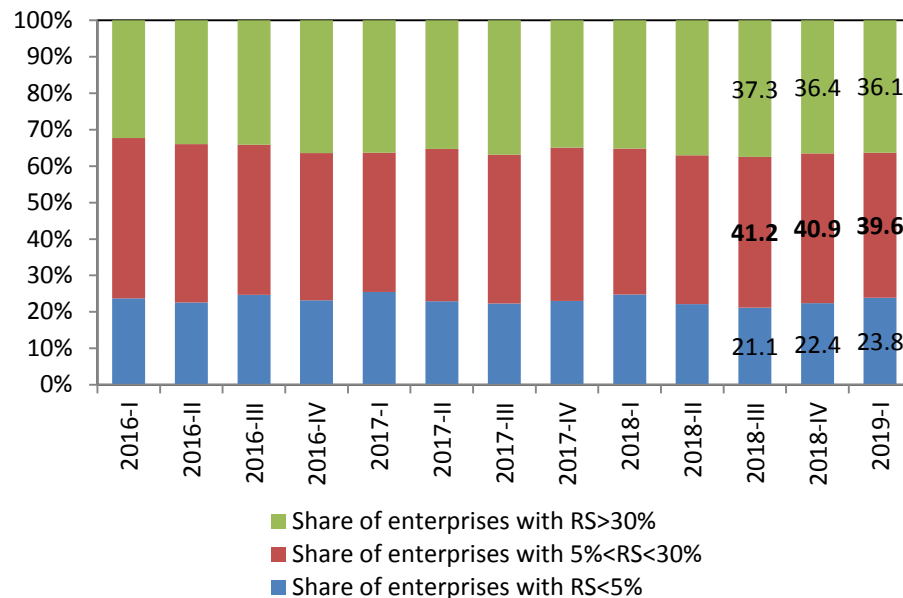
CHANGE IN THE FINANCIAL AND ECONOMIC PERFORMANCE

In Q1 2019, the average* return on sales** of enterprises slightly increased from 20,2% to 20,3%, despite the increase in the number of loss-making and low-profitable enterprises (to 23,8% of the respondents). Average return on sales in mining industry is much higher than in manufacturing (43,2% and 18,3%, respectively).

Return on sales, in %



Classification of enterprises in terms of return on sales (RS)



*Median is used in order to eliminate the impact of outliers

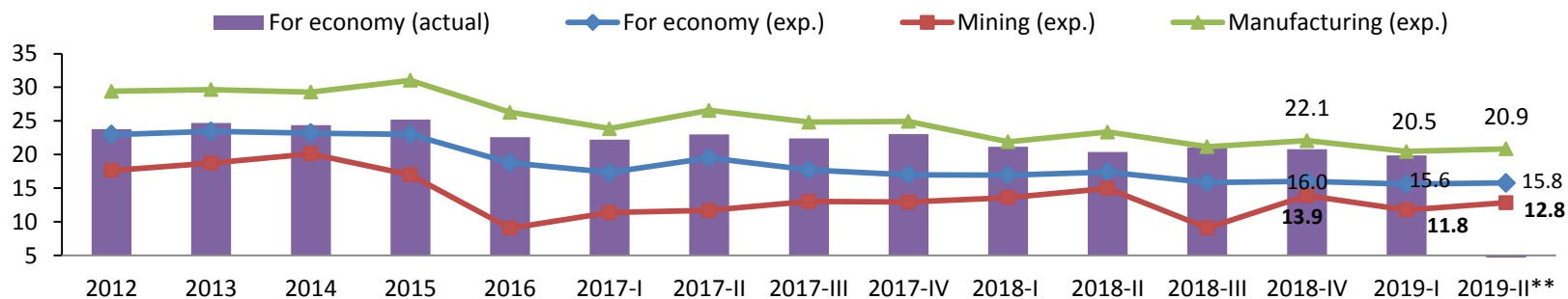
**Return on sales before deduction of interest payments, taxes and depreciation

Impact on the Real Sector of the Economy by the Banking System

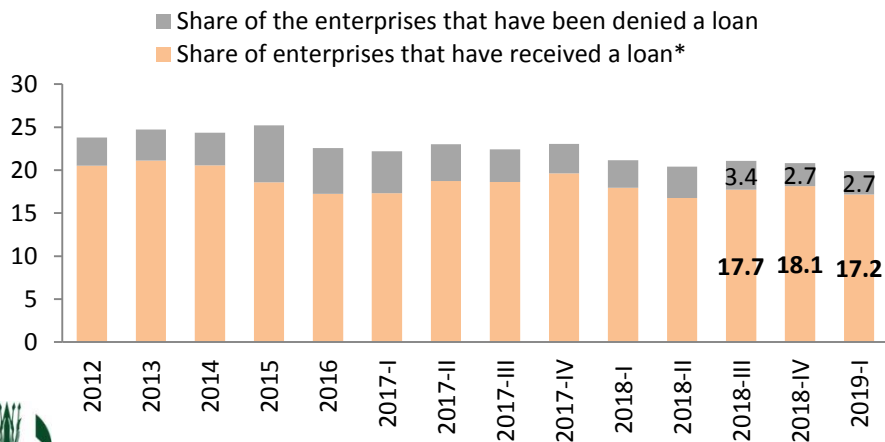
In Q1 of 2019 19,9% of the respondents applied for a bank loan, out of which 17,2% received the loan. At the same time the number of denials amounted 13,6% of the respondents applying for a loan, or 2,7% of the all respondents in the sample. Among large-scale companies their share is much lower.

In Q2 2019, 15,8% of the enterprises intend to apply for bank loans. In manufacturing their share is 20,9%, in mining – 12,8%.

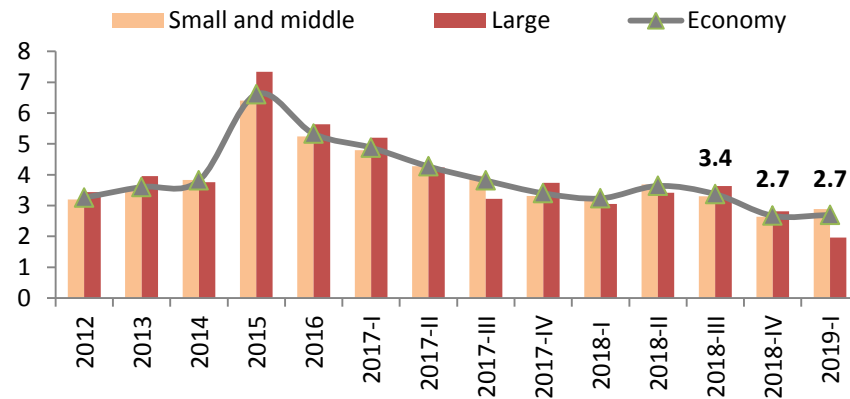
Demand for loans, %



Consideration of applications for lending, answers in %



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



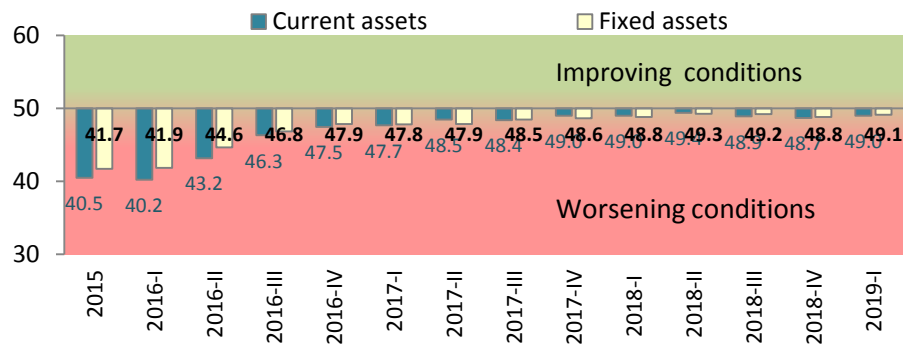
Impact on the Real Sector of the Economy by the Banking System

In Q1 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.

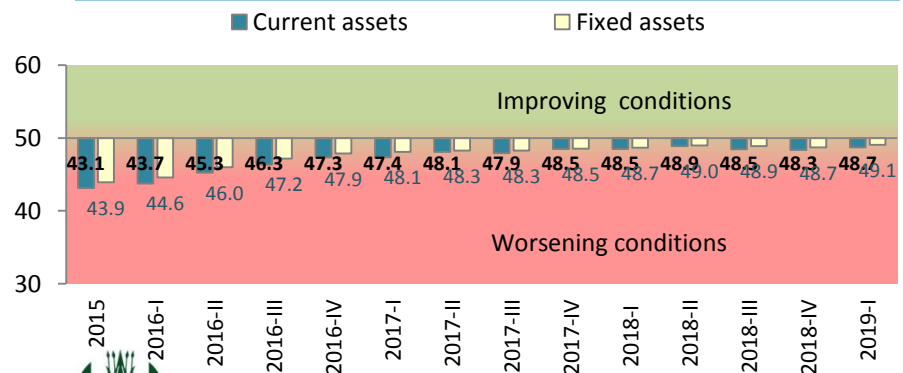
The average actual interest rates for loans issued in Tenge decreased to 12,6%; for loans issued in foreign currency increased (to 6,9%). Acceptable interest rates for loans both in Tenge is 7,1%, for loans in foreign currency - 3,1%.

Changes in the conditions of lending

Price conditions

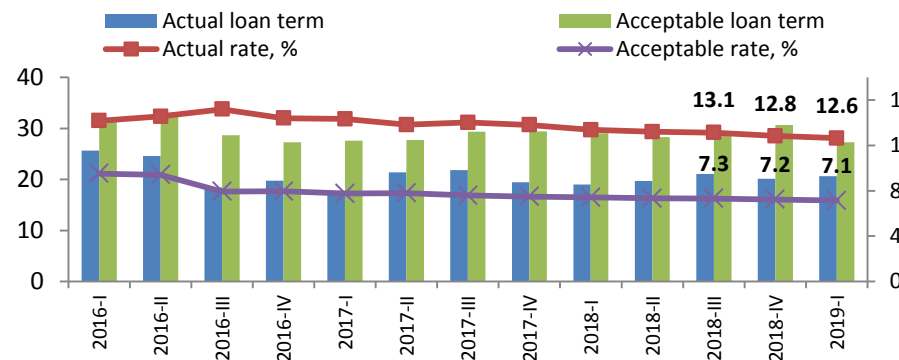


Non-price conditions

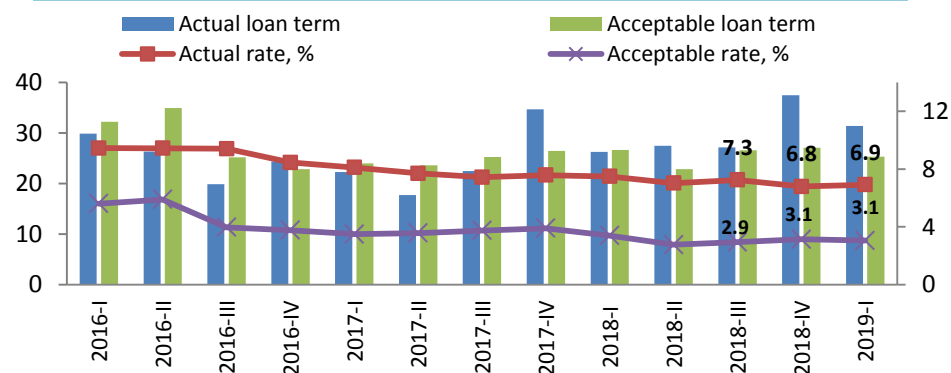


Loan rates and loan terms

In tenge



In foreign currency

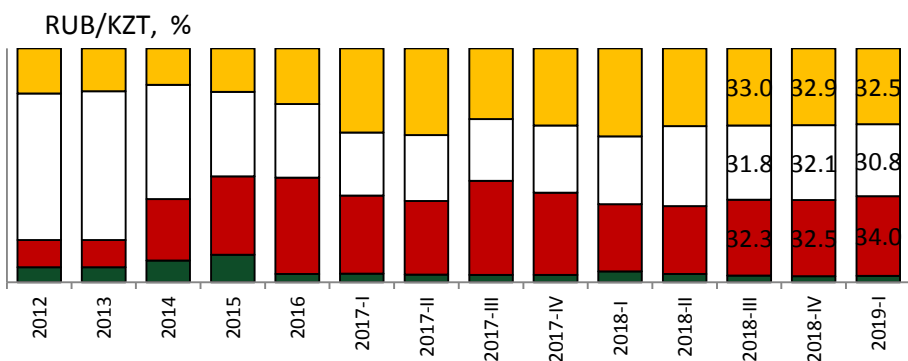
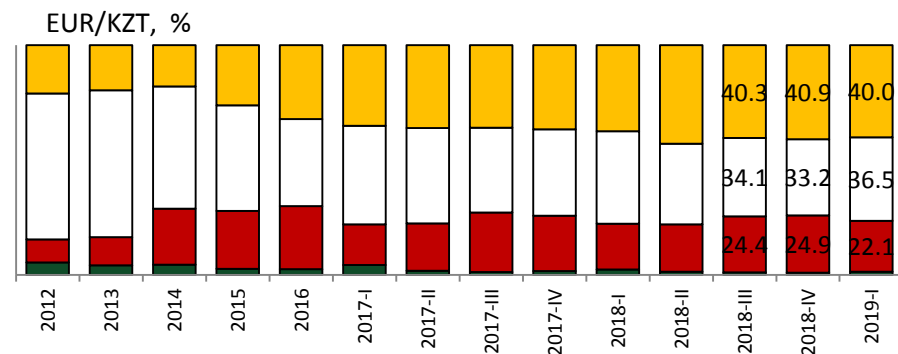
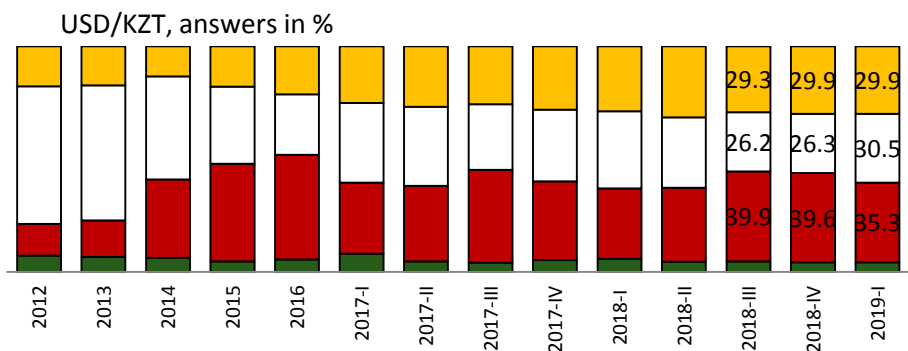


*Diffusion Index (seasonally adjusted). The higher (the lower) the DI deviates from 50, the higher (the lower) are the rates of growth (decline) in indicator; the level of 50 means the absence of any change

Impact of Changes in the Exchange Rate

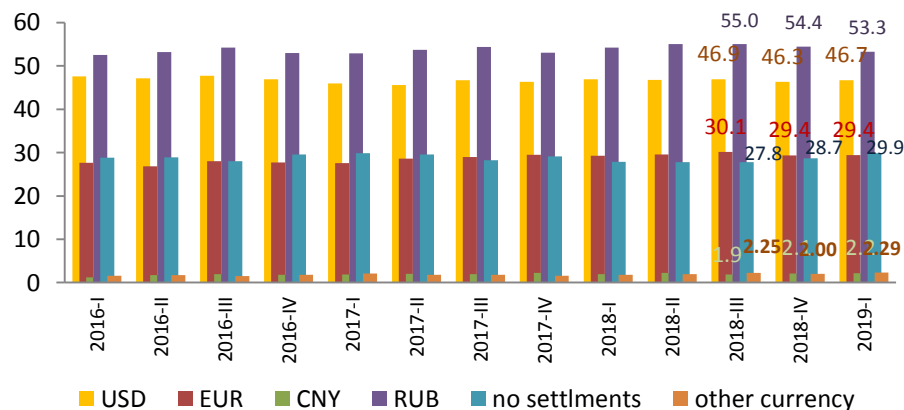
The fluctuations in exchange rate of Tenge in Q1 2019 had different effect on the enterprises business conditions. The number of companies, pointing negative impact of the fluctuation of **Tenge/US dollar** and **Tenge/Euro** exchange rate, decreased, at the same time the number of companies, who point negative impact of the fluctuation of **Tenge/Russian ruble** exchange rate, increased. The negative impact of the fluctuation of the Tenge/Russian ruble exchange rate was pointed by 34% of the respondents, (Tenge/Euro exchange rate – 22,1%, Tenge/US dollar exchange rate – 35,3%).

The Russian ruble and the US dollar remain the main currencies used for settlements with foreign partners (53,3% and 46,7% of the respondents, respectively).



■ positive
 ■ negative
 ■ no impact
 ■ I don't know

Usage of foreign currency in settlements (% by currency)



➤ 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)

