

# **MARKET REVIEW**

## **Enterprise Survey in the Real Sector of the Economy**

Q3 2018



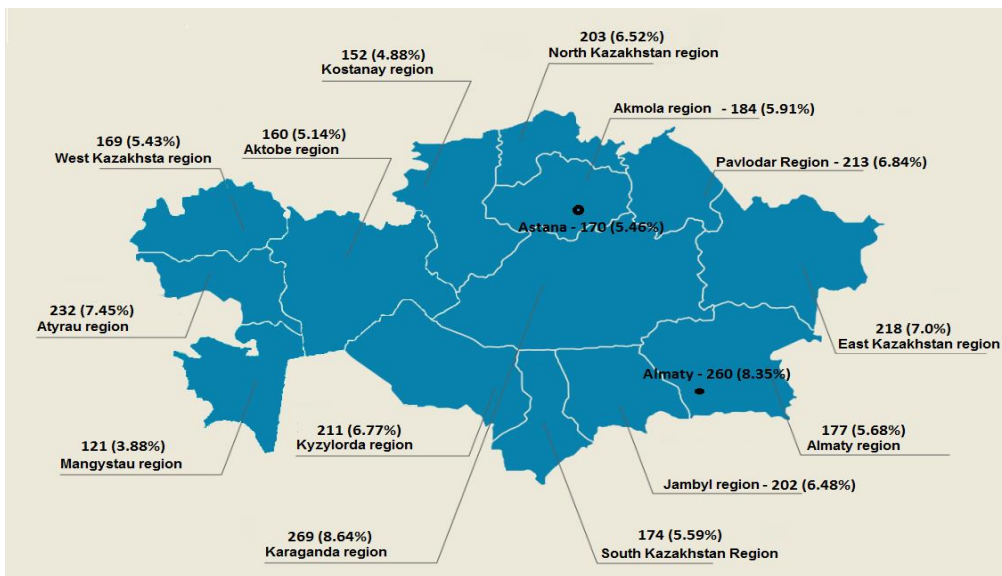
Research and Statistics Department  
National Bank of Kazakhstan

- I. **Composition of Enterprise Survey Participants (page 3)**
- II. **Composite Leading Indicator (page 4)**
- III. **Demand for Final Products (page 5)**
- IV. **Price Changes in the Real Sector (page 6)**
- V. **Change in the Production Output (page 7)**
- VI. **The Structure of a Balance Sheet: Assets (page 8)**
- VII. **The Structure of a Balance Sheet: Liabilities (page 9)**
- VIII. **Change in the Financial and Economic Performance (pages 11-12)**
- IX. **Impact on the Real Sector of the Economy by the Banking System (pages 13-15)**
- X. **Impact of Changes in the Exchange Rate (page 16)**
- XI. **Methodological Comments (page 17)**



# Composition of Enterprise Survey Participants

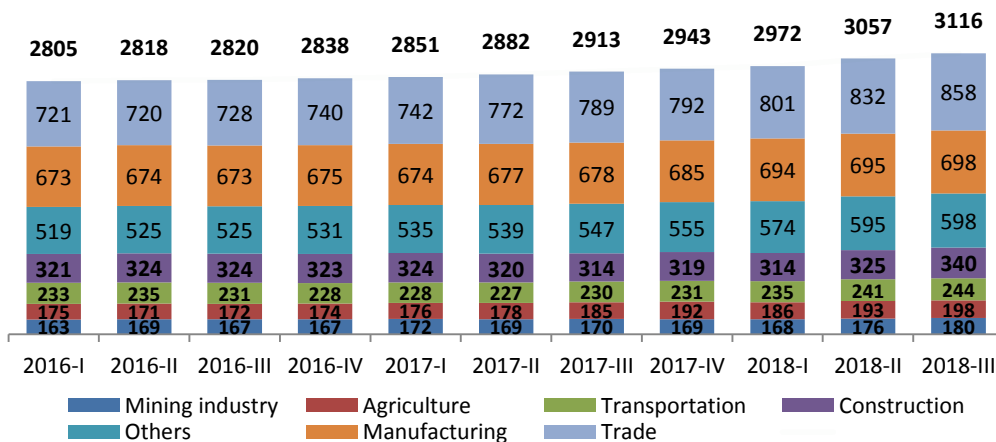
## Regional structure of the enterprise survey participants in Q3 2018



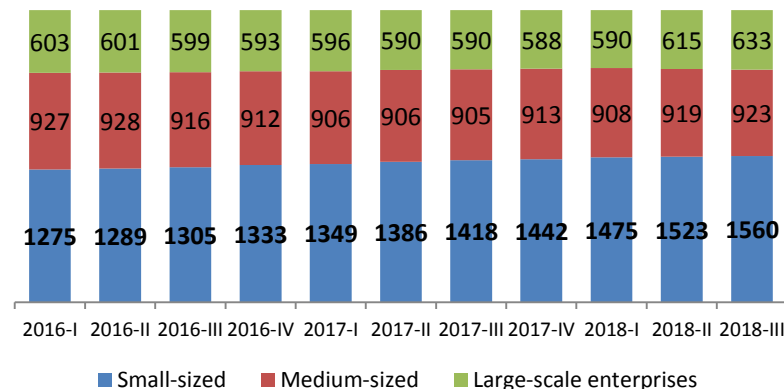
In Q3 of 2018 the number of respondents increased by 59. The number participants of monitoring increased by 37 large-scale, 18 medium-sized and 4 small-sized enterprises.

In the sectoral structure the biggest increase was noticed in trade (by 26) and construction (by 15).

## Sectoral structure of the enterprises



## Enterprise survey participants by size



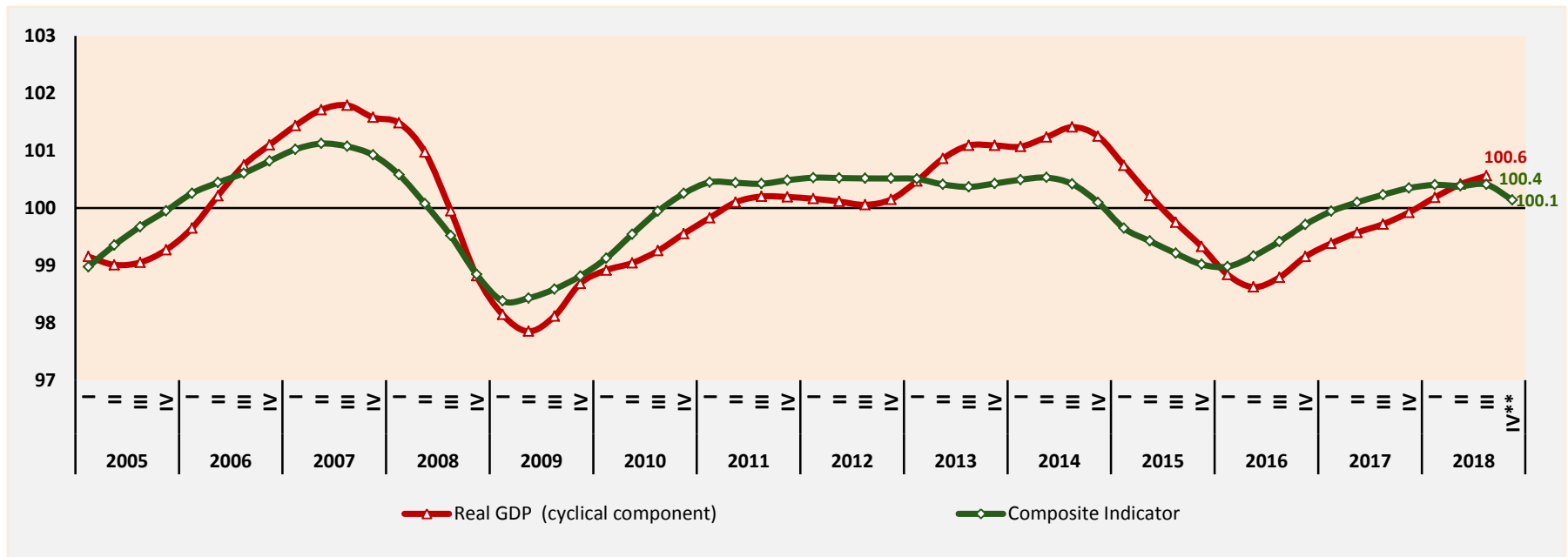
# COMPOSITE LEADING INDICATOR\*

In Q3 2018, the dynamics of the composite leading indicator – an aggregated estimate of the survey of enterprises – shows that economic activity in the real sector continues to recover.

In the economy growth in demand for finished products of enterprises continued. The growth rate of demand for goods was higher than for services. The level of capacity utilization increased, production volumes increased, the situation with investment activity of enterprises improved. the growth rate of prices for finished products of enterprises, as well as for raw materials slowed down.

The demand of enterprises for bank loans has slightly increased, while the conditions for lending are still evaluated by enterprises as negative. The negative impact on the activities of enterprises of the exchange rate tenge against foreign currencies increased, especially against the US dollar.

In Q4 2018, enterprises expect a slowdown in the improvement of the economic situation (CLI amounted to 100.1), which is related with the slowdown in the growth of 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 Q4 2018 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 Q3 2018, the demand in the real sector for final products continued increasing; the diffusion index (DI) made up 52,5. Demand for goods increased with higher rates (DI = 53,8), demand for services with lower rates (DI = 51,2).

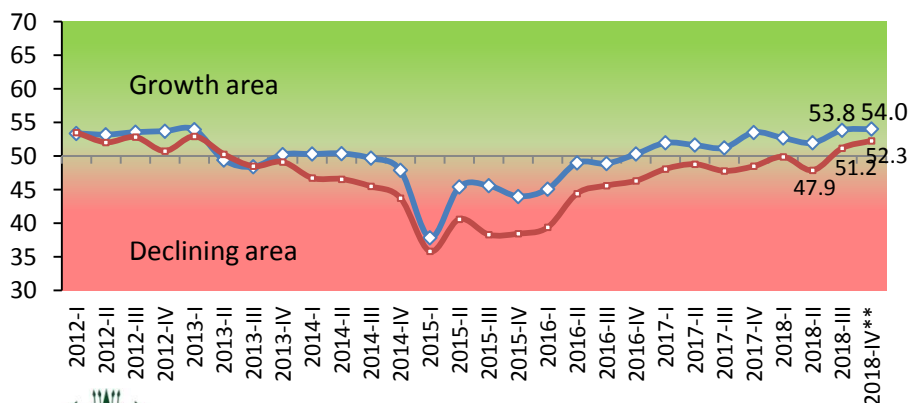
Manufacturing companies pointed out notable increase in the demand for their production, while mining companies noted that the demand for their goods is slowing down (DI amounted to 55,5 and 51,5, respectively).

In Q4 2018, enterprises expect the increase in the growth rates of the demand for final products with a higher rates (DI=53,2).

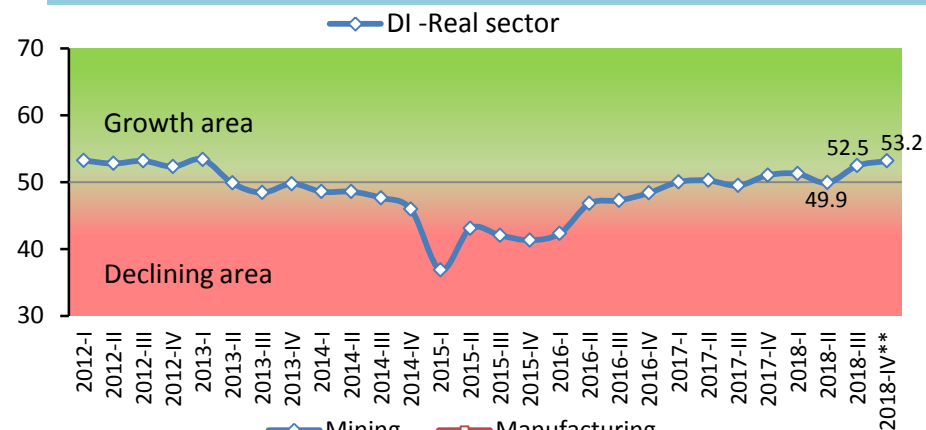
**Demand for the finished goods, DI\***

	2017				2018			
Answers of enterprises, %	Q1	Q2	Q3	Q4	Q1	2 кв.	3 кв.	4 кв. **
Increase	1	17.4	29.1	25.5	17.6	28.1	27.6	19.5
No changes	2	49.3	49.7	50.0	50.9	50.9	51.9	37.8
Decrease	3	33.3	21.2	24.4	31.4	20.7	19.9	14.2
Diffusion index, DI=line1+0.5*line2	4	42.1	53.9	54.2	50.5	43.0	53.6	38.3
DI, seasonal adjusted	5	50.0	50.2	49.5	51.0	51.2	49.9	52.5

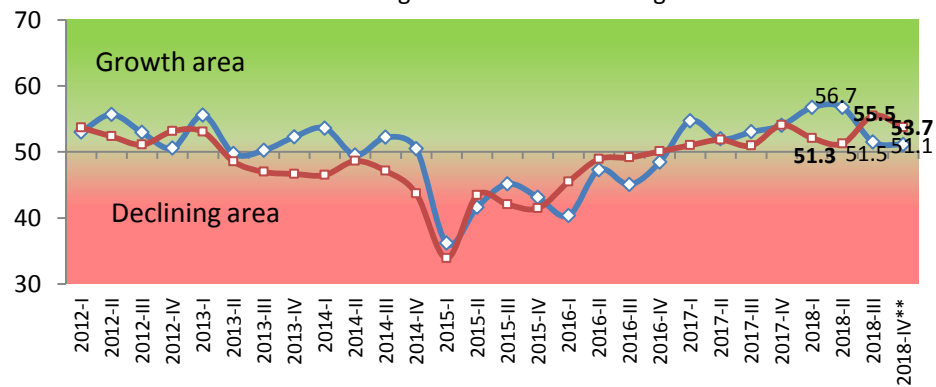
—◇— Production    —○— Services



**Demand for finished goods, DI \***



—◇— 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

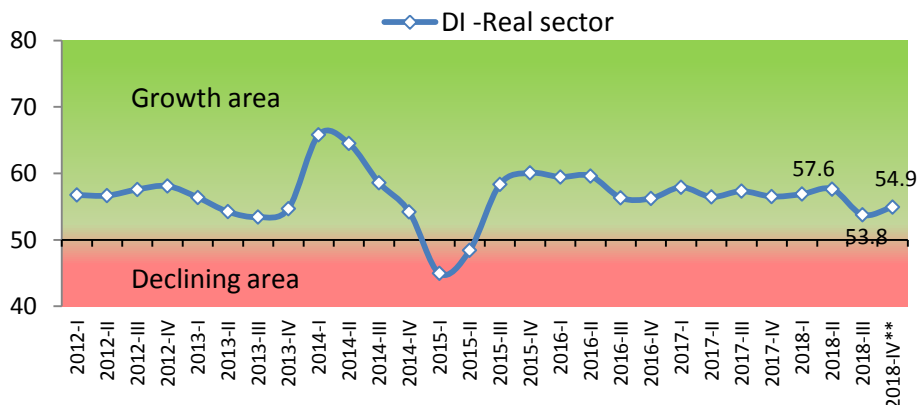
\*\*The Figures show expectations of enterprises regarding the change in the parameter in Q4 2018.

# CHANGES IN PRICES IN THE REAL SECTOR

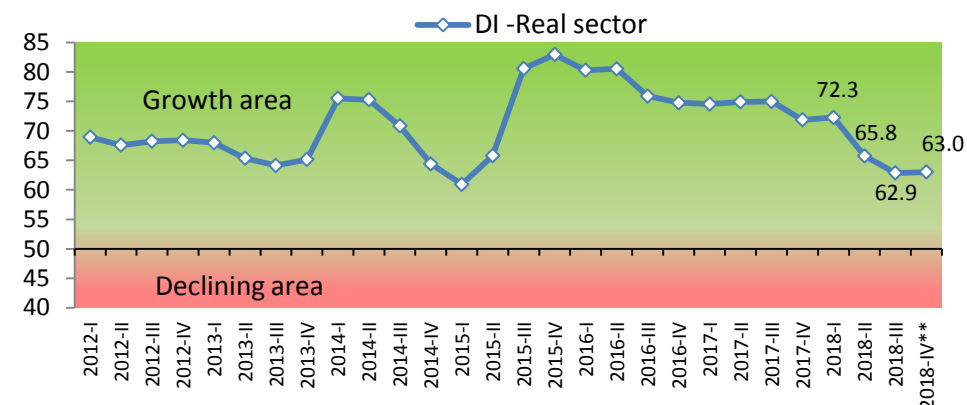
In Q3 2018, the growth rate of prices for final products, as expected, declined compared to previous quarter (DI=53,8), which is possibly due to a decrease in the growth rates of prices for raw materials (CI = 62,9 ). The slowdown in price growth rate was noted in all the sector.

In Q4 2018, a slight increase in the growth rate of the prices for final products is expected even though growth rates of prices for raw materials is keeping unchanged (CI = 54,9 and 63,0, respectively).

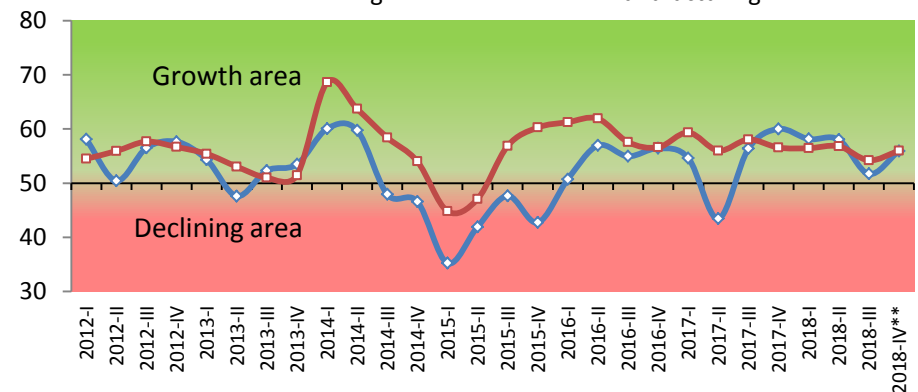
Prices for finished goods, DI\*



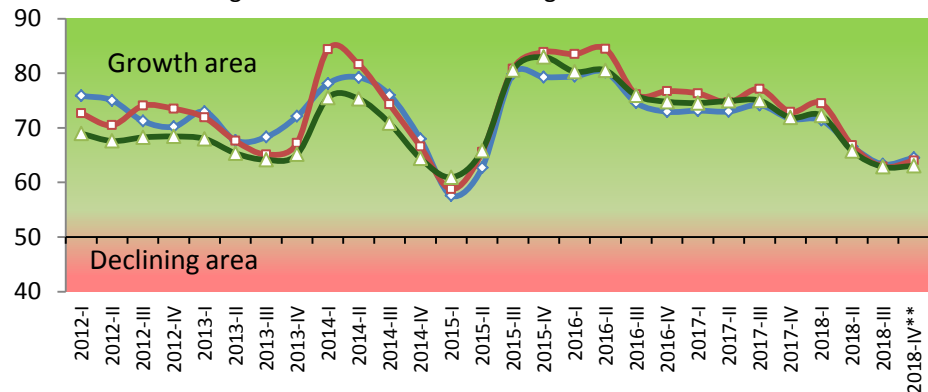
Prices for raw materials, DI\*



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 Q4 2018.

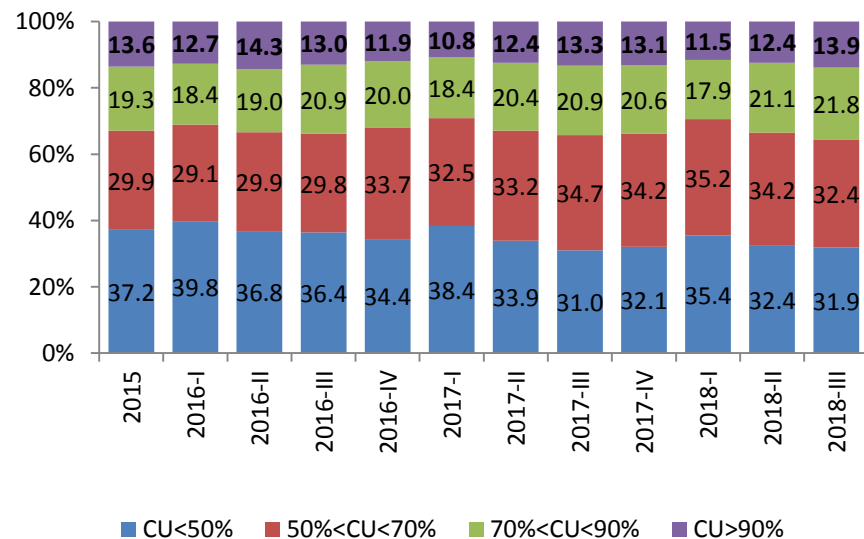
# CHANGE IN THE PRODUCTION OUTPUT

In Q3 2018, the level of capacity utilization of enterprises significantly increased. The share of enterprises with the capacity utilization more than 70% increased from 33,4% in Q2 2018 to 35,7% in Q3 2018.

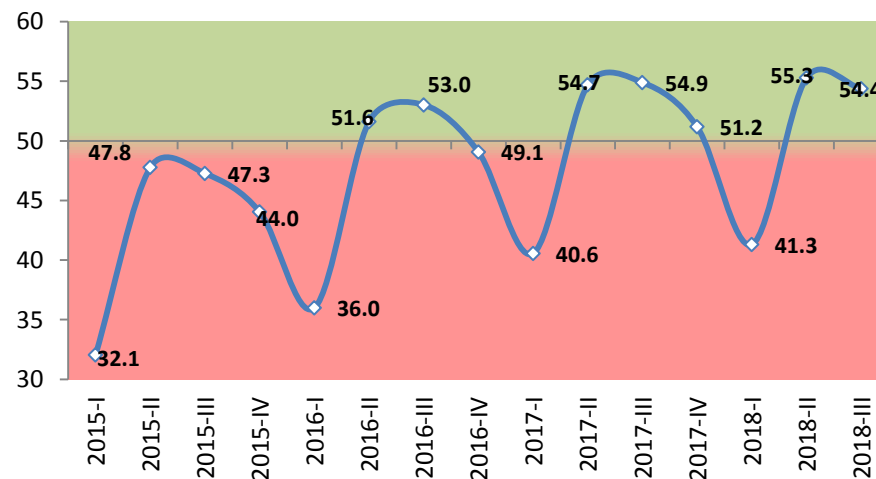
As a result, in Q3 2018, there was a significant increase in production volumes (DI = 58,5). Despite the fact that this increase has a seasonal nature, in general, there has been a positive trend in the dynamics of production volumes.

In Q4 2018, enterprises intend to reduce the rate of increase in production volumes (CDI= 52,4), which, according to the dynamics of past years, is also associated with seasonality.

**Capacity utilization level**  
(share of respondents, %)



**DI changes in production output**



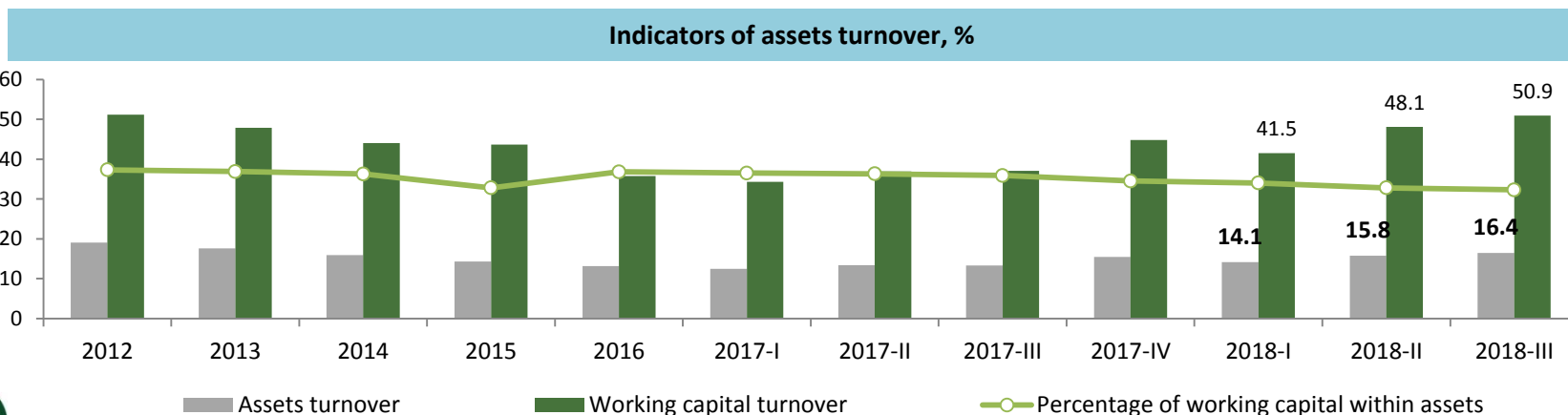
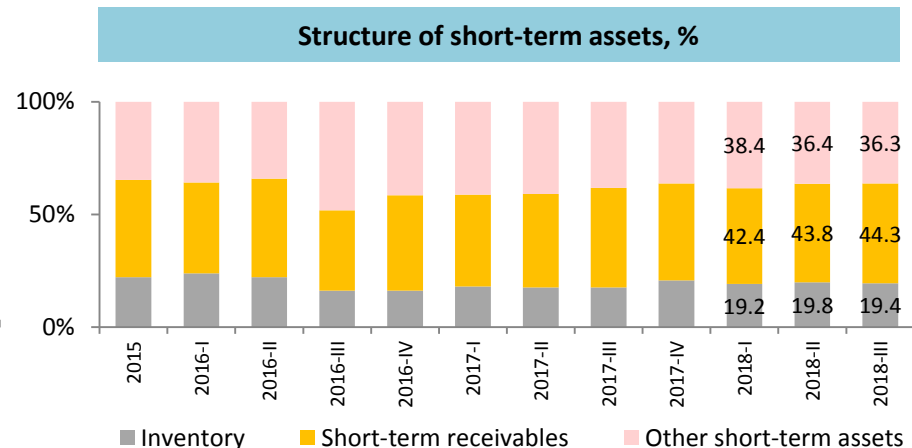
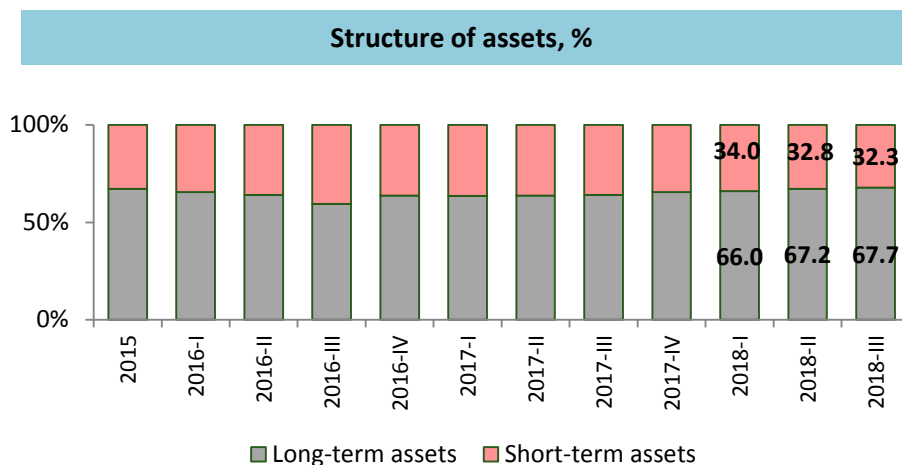
\*Diffusion Index (seasonally adjusted). The higher (the lower) the DI deviates from 50, the higher (the lower) are the rates of growth (decline) in indicator; the level of 50 means the absence of any change

# THE STRUCTURE OF BALANCE SHEETS: ASSETS

In Q3 2018, in the structure of assets the share of long-term assets made 67,7%, share of short-term assets – 32,3%.

In the structure of short-term assets prevalent majority is short-term receivables (44,3%). Other short-term assets made up 36,3%, inventories – 19,4%.

Asset turnover increased by 16,4%. Working capital turnover also showed an increase (up to 50.9%) while the share working capital in the assets of enterprises kept relatively stable.





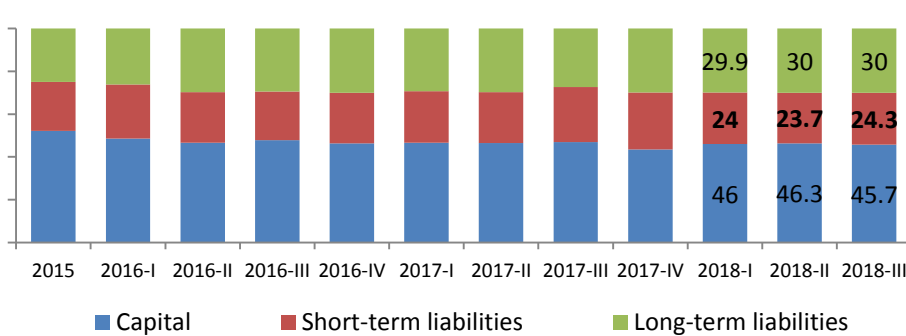
# THE STRUCTURE OF BALANCE SHEETS: LIABILITIES

In Q3 2018, the structure of liabilities did not change significantly: the share of equity capital made up 45,7%, the share of long-term liabilities - 30,0% and the share of short-term liabilities – 24,3%. In the structure of current liabilities, the share of short-term accounts payables increased (from 48,4% to 50,1%), the share of bank loans had not changed a lot (17,1%).

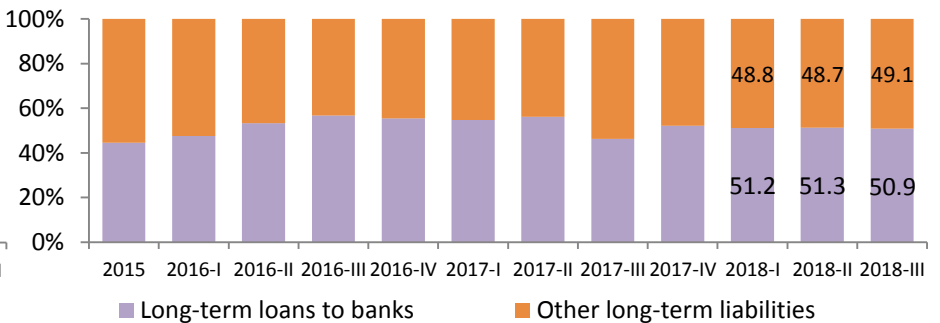
In the structure of long-term liabilities long-term bank loans make up more than half (50,9%).

The situation with arrears deteriorated slightly: the share of enterprises with the overdue accounts payables increased to 28,8% (from 27,6% in Q2 2018), share of enterprises with the overdue bank loans also increased to 3,2%.

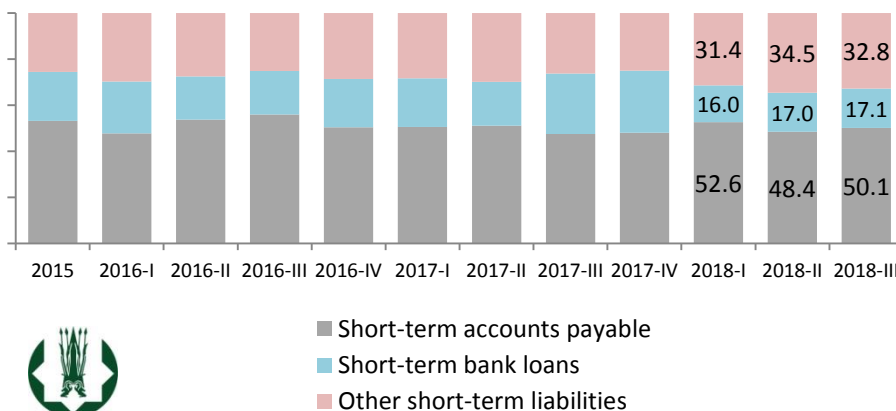
### Structure of liabilities, %



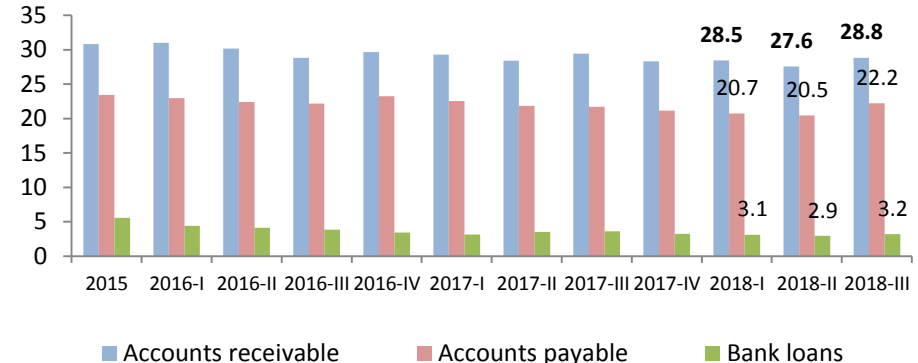
### Structure of long-term liabilities



### Structure of current liabilities, %



### Percentage of enterprises with the past due, %

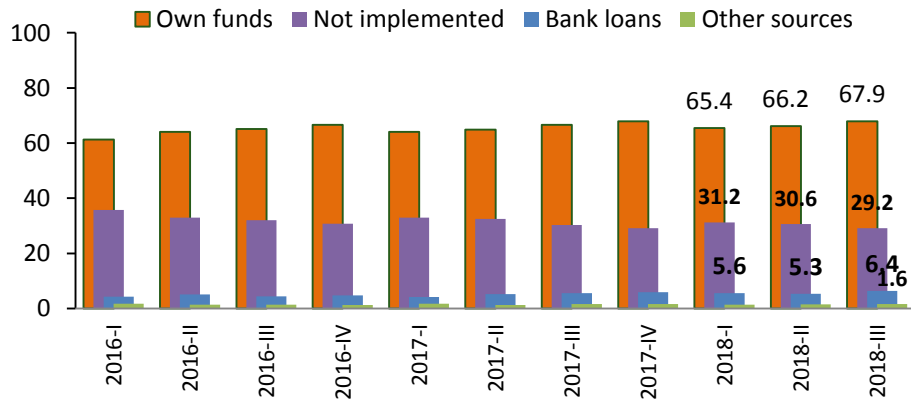


# INVESTMENT ACTIVITY

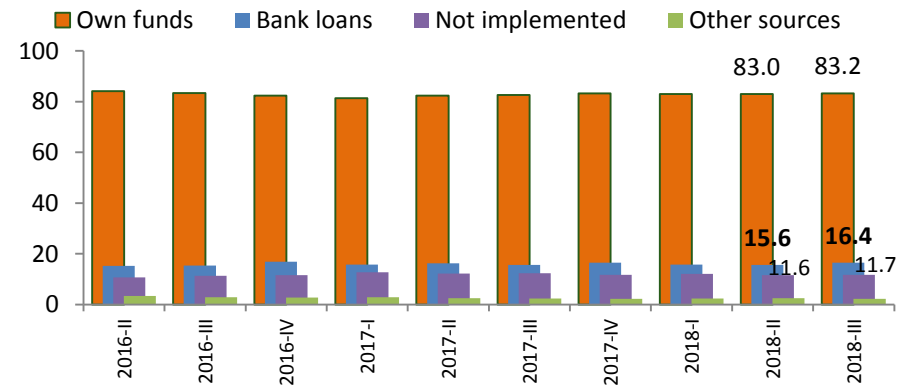
In Q3 2018, the investment activity of enterprises improved slightly. The share of enterprises that financed fixed assets using their own funds increased from 66,1% in the Q2 to 67,9%. The role of bank loans in financing fixed and current assets slightly, but increased (6,4% and 16,4% of the respondents, respectively, used bank loans for these purposes).

The main factors that limit financing opportunities of enterprises are the shortage of financial resources (30,5% of the enterprises), insufficient demand for their products (23,3%). The importance of market competition from the side of other enterprises as a factor restricting investment activity is gradually increasing (24,5% of the enterprises) .

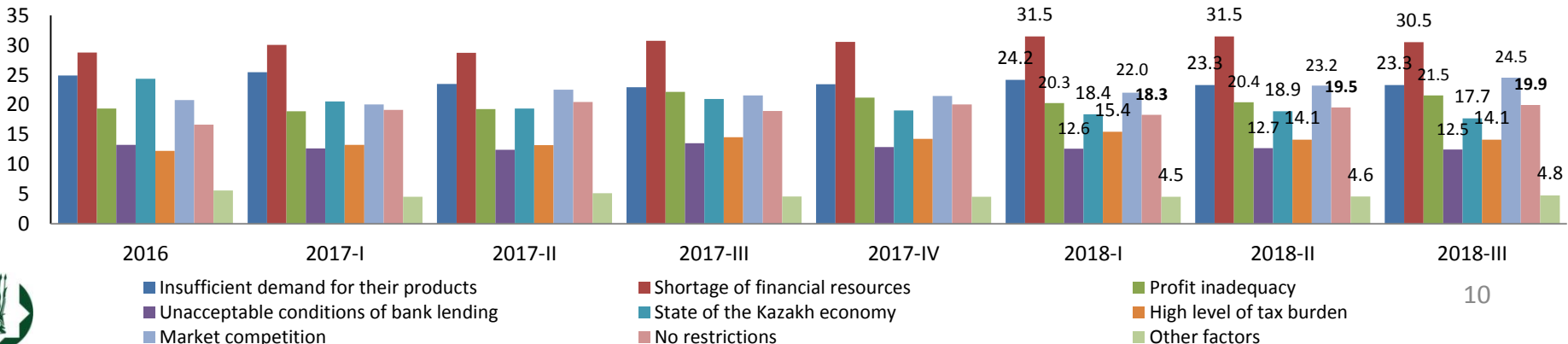
### Funding source for fixed assets, %



### Funding source for current assets, %



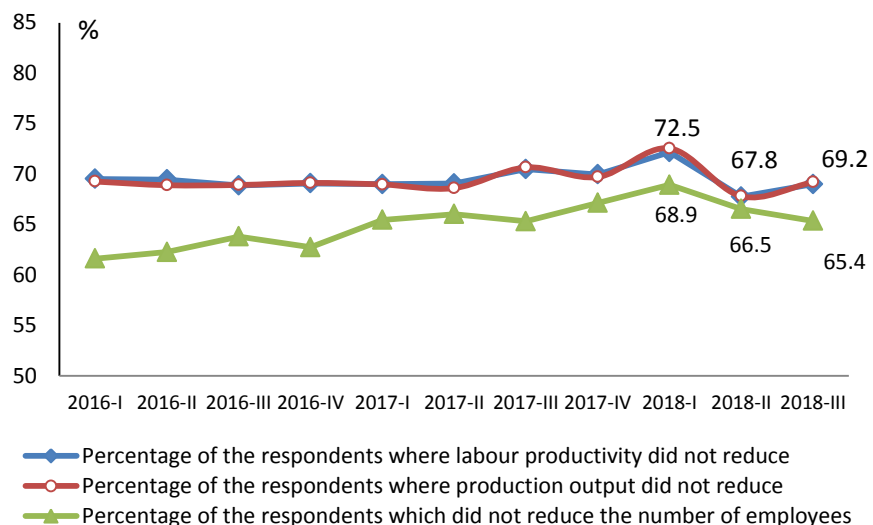
### The main factors that limit financing opportunities of enterprises



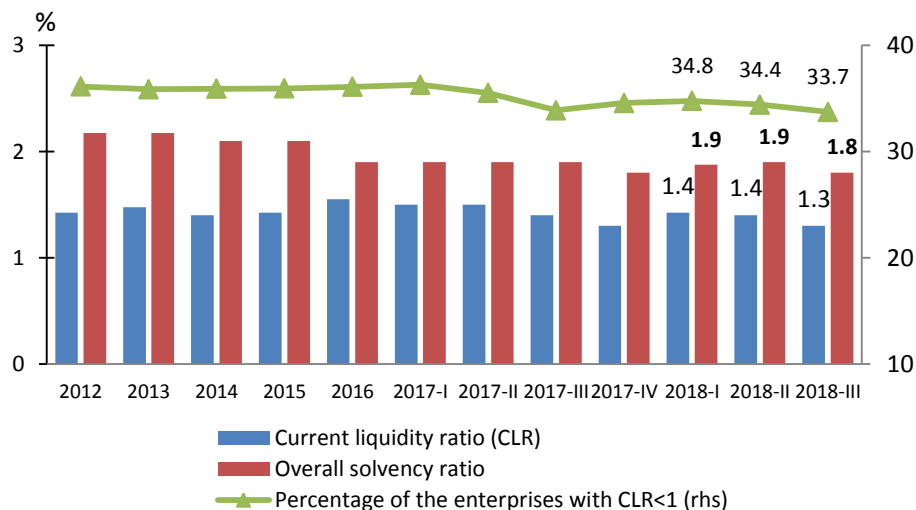
# CHANGE IN THE FINANCIAL AND ECONOMIC PERFORMANCE

Despite the stable liquidity and solvency of enterprises, in Q3 2018 the share of enterprises, whose production volumes did not decrease, increased (to 69,2%). At the same time, the share of enterprises that did not reduce the number of employees continued to decline (to 65,4%). As a result, the share of enterprises, which has increased or not changed productivity, in Q3 2018 increased and amounted to 69,0%.

### Indicators of production performance



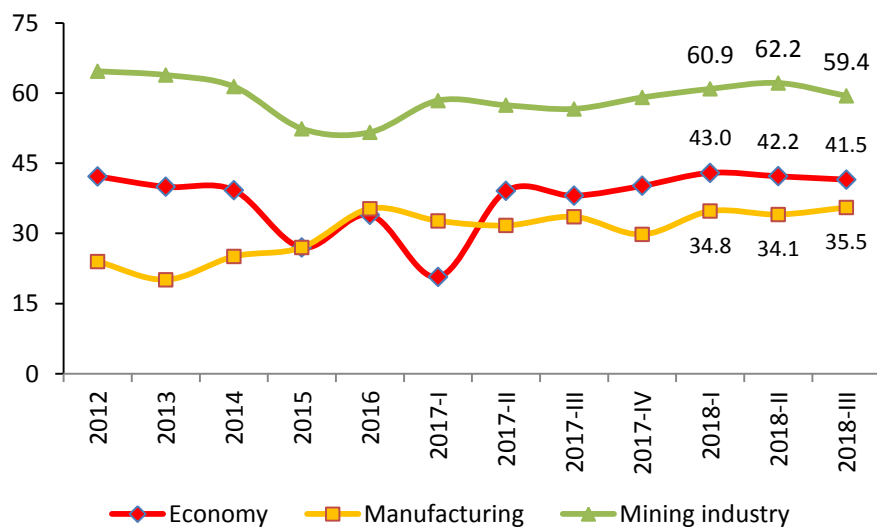
### Indicators of liquidity and solvency of enterprises



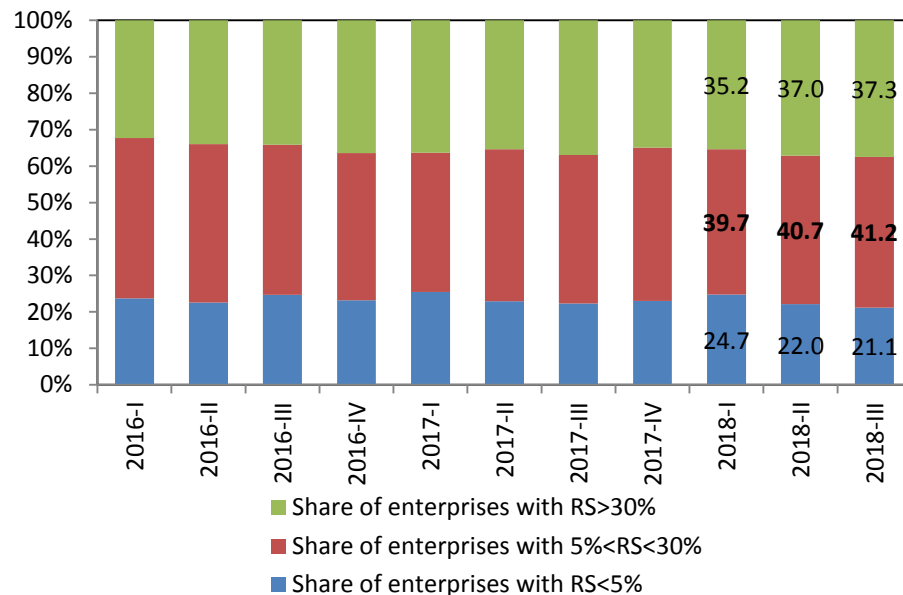
# CHANGE IN THE FINANCIAL AND ECONOMIC PERFORMANCE

In Q3 2018, the return on sales\* of enterprises slightly decreased from 42,3% to 41,5%. This dynamic was largely due to a decrease in profitability in the mining industry from 62,8% to 59,4%. However, in Q3 2018, the share of high profitable enterprises increased from 37,0% to 37,3%, and the share of loss-making and low-profitable enterprises decreased from 22% to 21,1%, which might be related with increase in the average return on sales in manufacturing (to 35,5%).

### Return on sales, in %



### Classification of enterprises in terms of return on sales



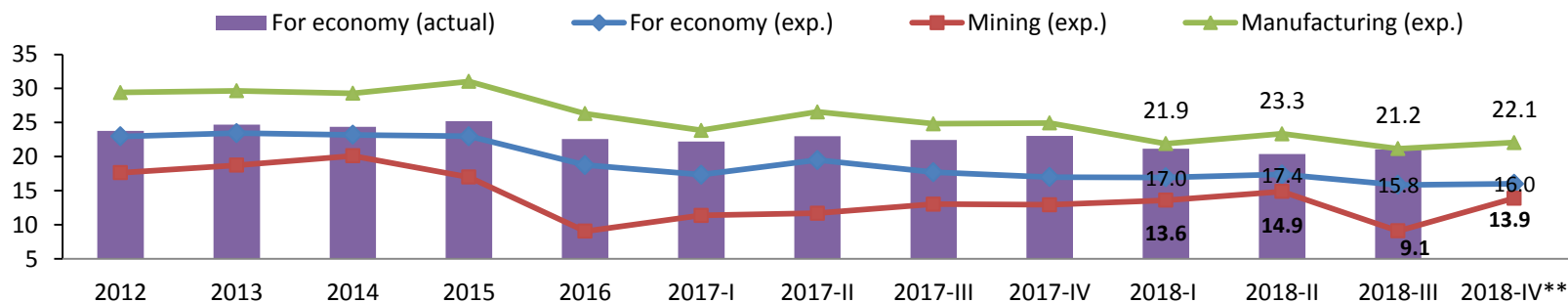
\*Return on sales before deduction of interest payments, taxes and depreciation

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

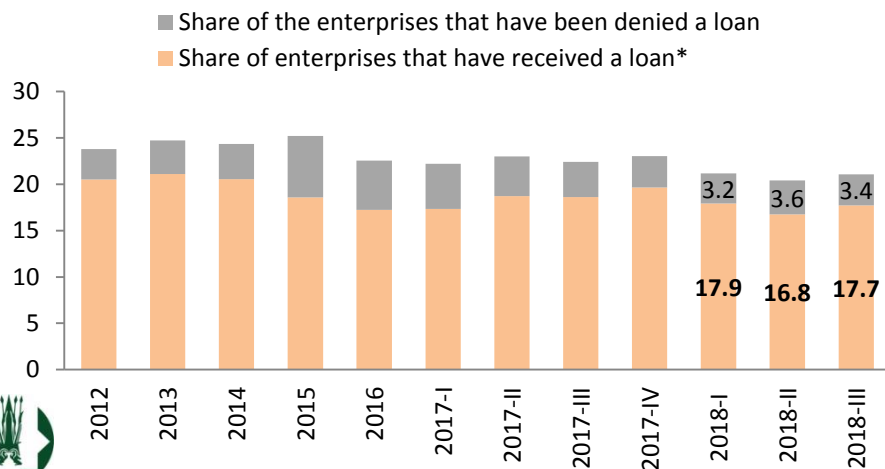
In Q3 of 2018, the demand of enterprises for bank loans slightly increased. In Q3 2018, 20,4% of the enterprises applied for a bank loan, and 17,7% of them obtained loans (83,9% out of respondents, which applied for a loan). At the same time, the number of refusals in lending decreased and amounted to 16,1% out of the number that applied for a loan, or 3,4% out of the total number survey participants.

In Q4 2018, 16% of the enterprises intend to apply for bank loans. In manufacturing their share is 22,1%, in mining 13,9%.

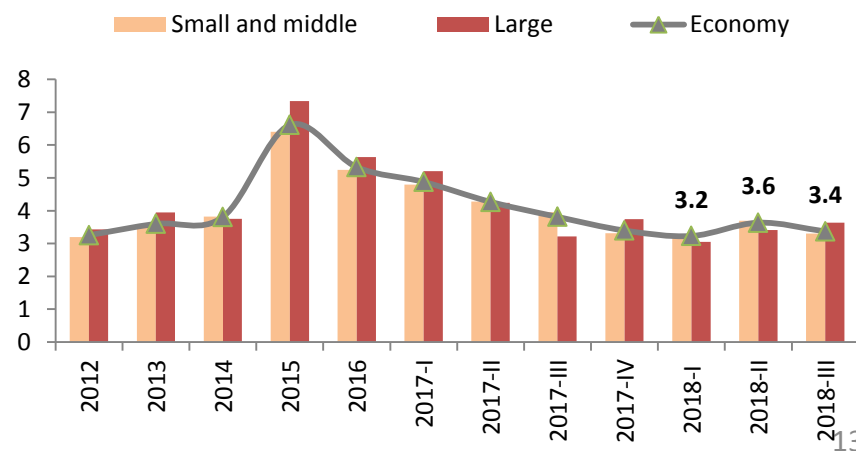
### Demand for loans, %



### Consideration of applications for lending, answers in %



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

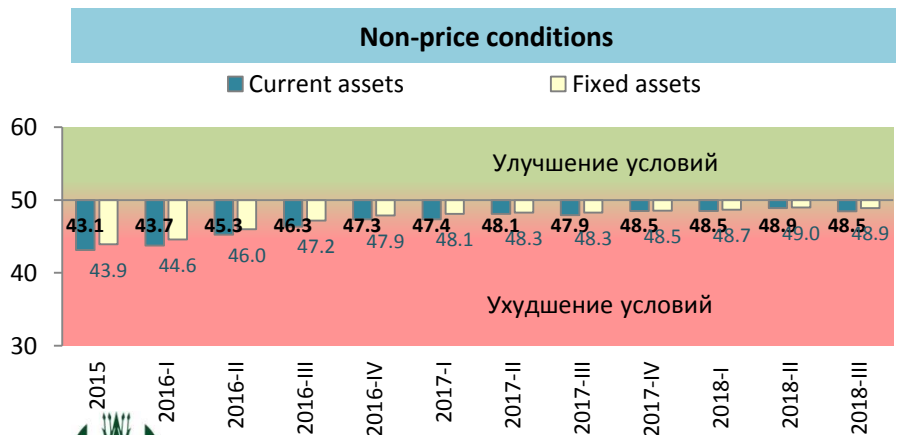
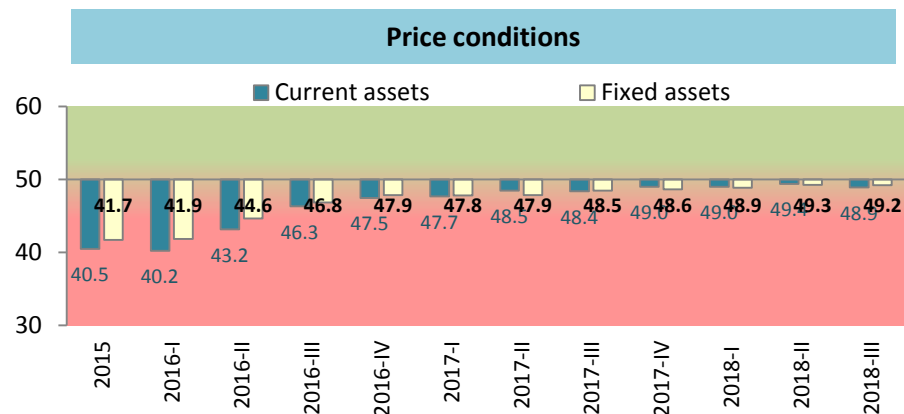


# Impact on the Real Sector of the Economy by the Banking System

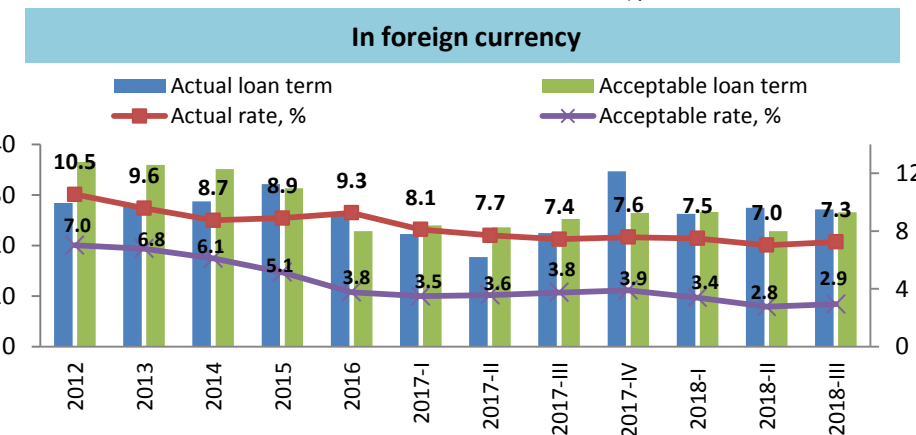
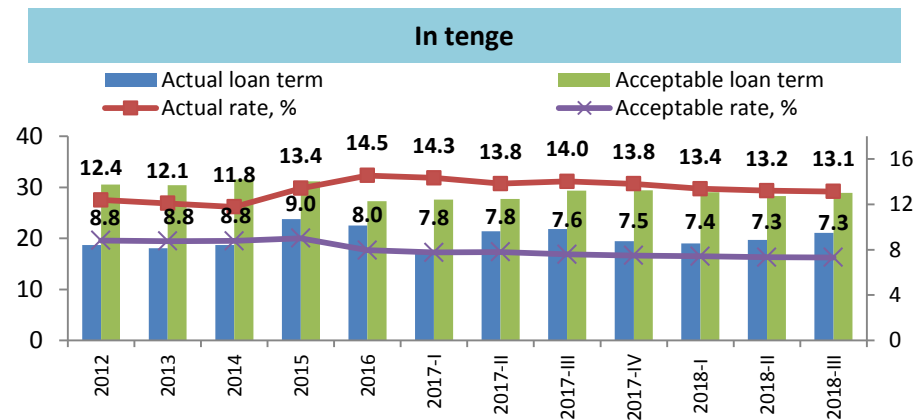
In Q3 2018, price conditions (interest rates on loans, commission fees) and non-price conditions (maximum amount and loan tenor, requirements to a borrower's financial position, collateral requirements) of lending remained negative. Despite the fact that from the beginning of 2016, the deterioration in lending conditions has gradually decreased, in Q3 2018, the share of enterprises that noted a deterioration in price and non-price terms for lending working capital increased slightly.

The gap between actual and acceptable interest rate for loans had not changed a lot in Tenge. Average interest rates on loans in foreign currency increased (actual up to - 7,3%, acceptable - up to 2,9%). For loans issued in Tenge, the average interest rate slightly decreased (to 13,1%), acceptable remained unchanged - 7,3%.

Changes in the conditions of lending



Loan rates and loan terms



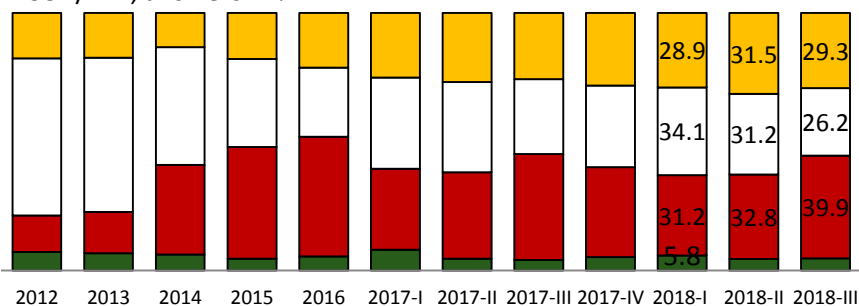
\*Diffusion Index (seasonally adjusted). The higher (the lower) the DI deviates from 50, the higher (the lower) are the rates of growth (decline) in indicator; the level of 50 means the absence of any change

# Impact of Changes in the Exchange Rate

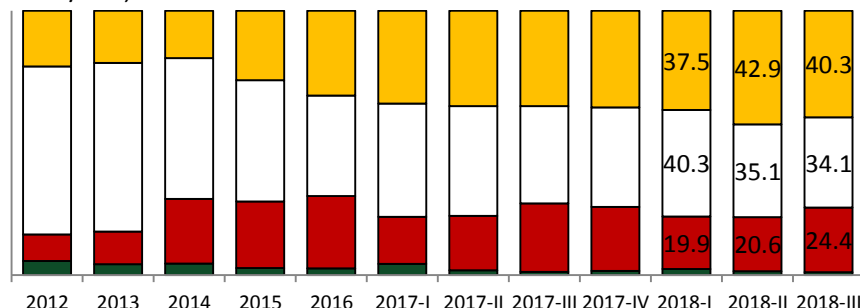
According to the results of the survey of enterprises in the real sector of economy in Q3 2018 the negative impact of the exchange rate on the enterprises increased. The share of enterprises indicating the negative impact from the fluctuation of the Tenge/US dollar exchange rate increased from 32,8% in Q2 2018 to 39,9% in Q3 2018, from the fluctuation of Tenge/Euro ruble exchange rate – from 20,6% to 24,4% and from Tenge/Russian exchange rate – from 29% to 32,3%, respectively.

In Q3 2018, 72,2% of enterprises used foreign currency in their settlements. The US dollar (46,9% of respondents) and the Russian ruble (55% of respondents) remain the main currencies.

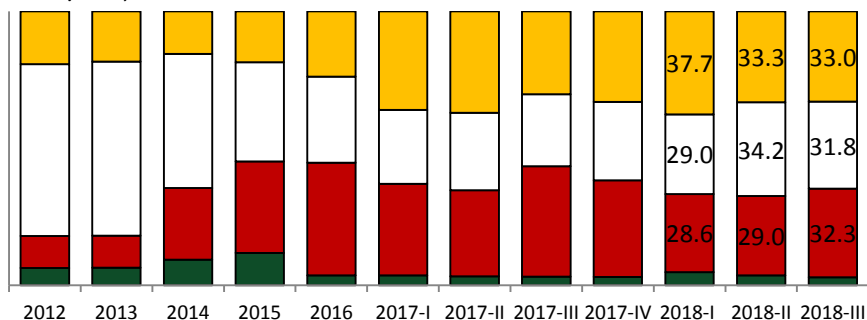
USD/KZT, answers in %



EUR/KZT, %

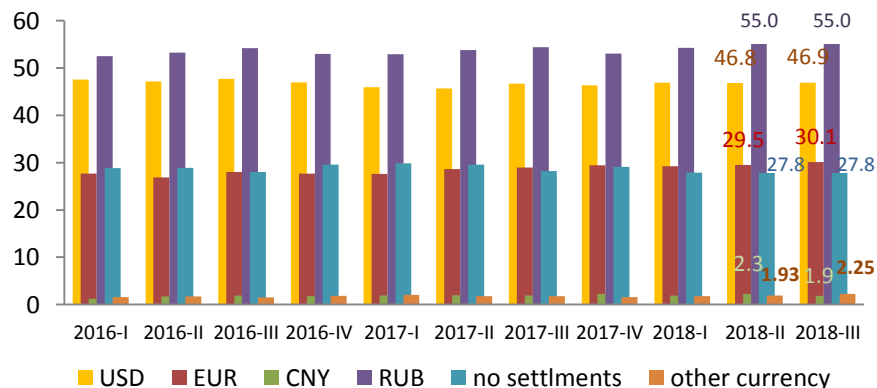


RUB/KZT, %



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)

