



NATIONAL BANK OF KAZAKHSTAN

MARKET REVIEW  
Enterprise Survey in the Real  
Sector of the Economy  
Q1 2018

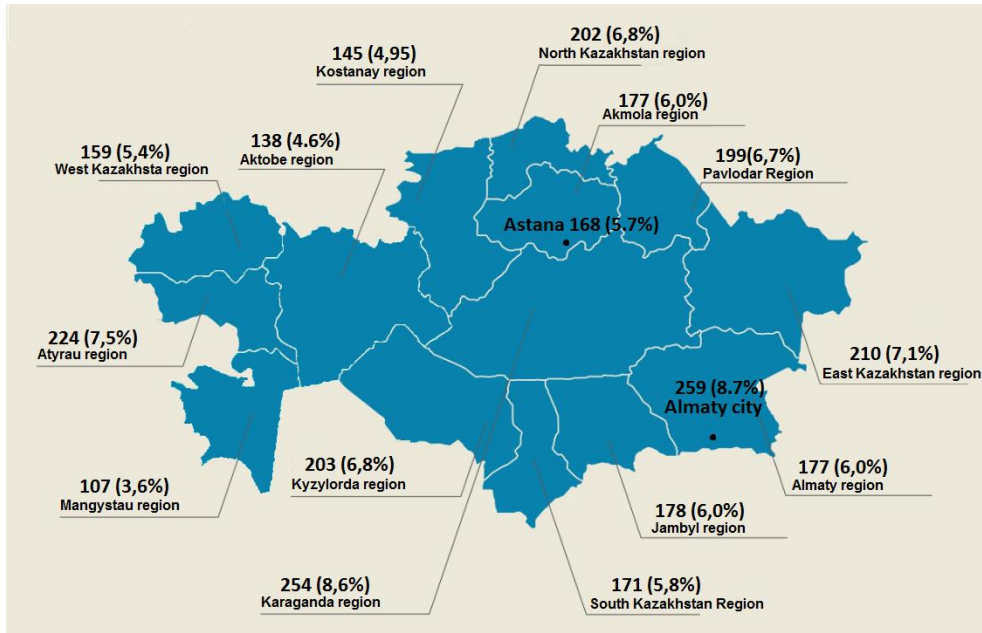
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# COMPOSITION OF ENTERPRISE SURVEY PARTICIPANTS

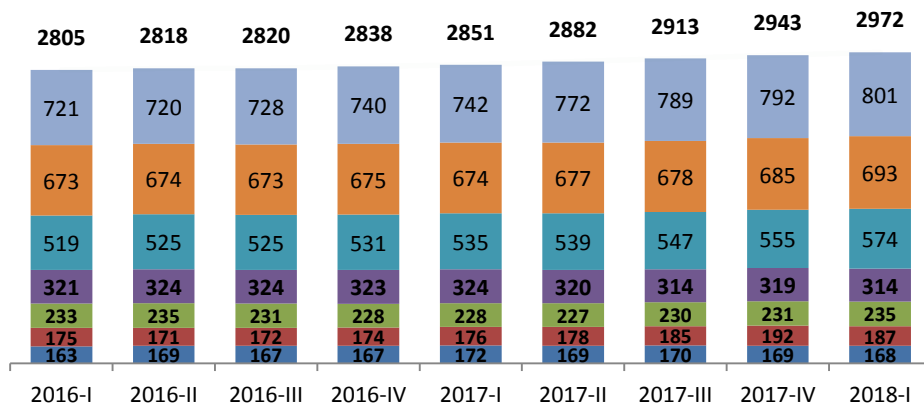
Regional structure of the enterprise survey participants in Q1 2018



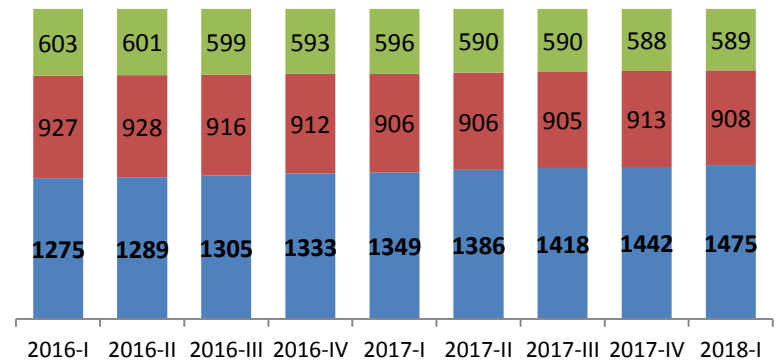
In Q1 of 2018 the number of respondents increased by 29, most of which are small companies. 33 small-sized companies and 1 large-sized company were involved in the survey, at the same time 5 middle-sized companies left the survey.

In the sectoral structure of the respondents the number of participants increased in all sectors except construction and agriculture.

Sectoral structure of the enterprises



Enterprise survey participants by size



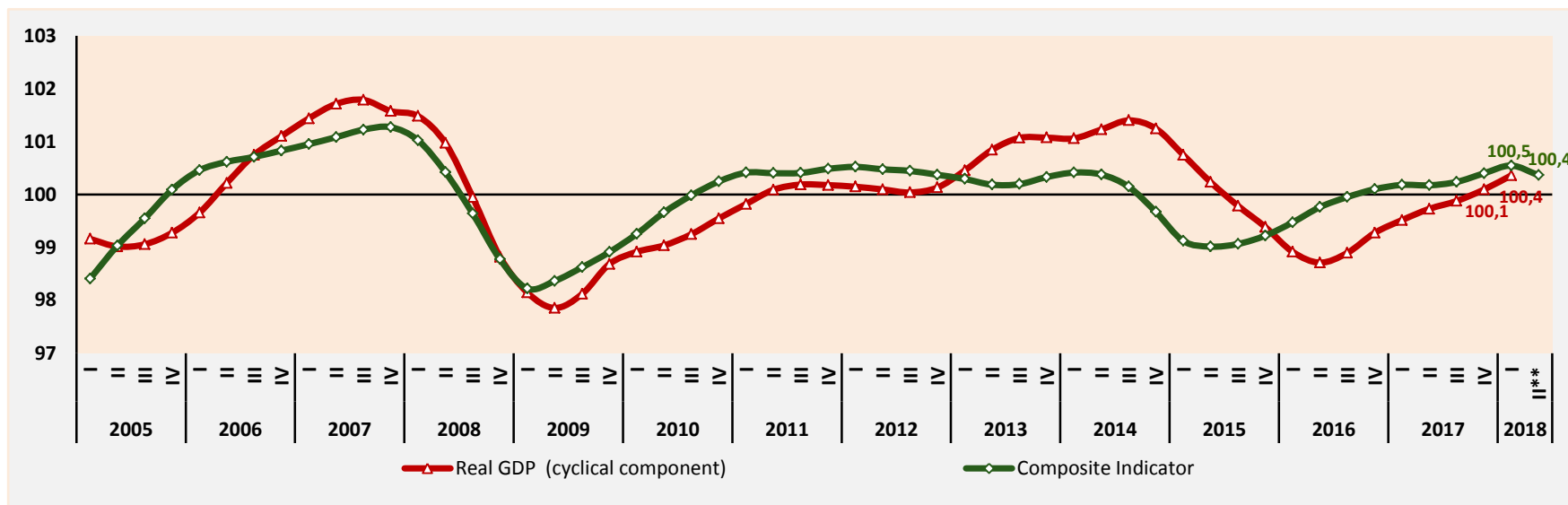
■ Mining industry    ■ Agriculture    ■ Transportation  
■ Construction    ■ Others    ■ Manufacturing  
■ Trade

# COMPOSITE LEADING INDICATOR\*

In Q1 2018, 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 recover, which is facilitated by the stable increase in the output volume of the industries, improvement of external demand and labor market.

The positive effect to the change of CLI was from the factors like average increase in return on sales, growth in demand for consumer goods and services, demand for the production of mining industry and transportation, as well as oil price improvement. A little negative effect was from the slowdown of investment activity.

In Q2 2018, enterprises expect a slowdown in the improvement of the economic situation (CLI amounted to 100.4), 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 2017 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

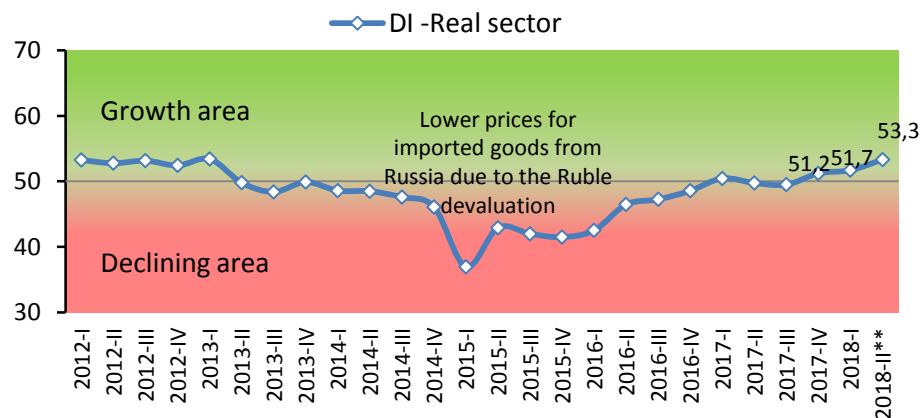
In Q1 2018, the demand in the real sector for final products showed a slight increase; the diffusion index (DI) amounted 51,7. Despite the slowdown compared with the previous quarter demand *for goods* was higher than the demand *for services* (DI = 53,0). Demand for services first time in 5 years moved to the growth area (DI = 50,5). Mining companies pointed out notable increase in the demand for their production, while manufacturing companies noted that the demand for their goods slowing down (DI amounted to 56,7 and 52,7, respectively).

In Q2 2018, enterprises expect an increase in the growth rates of the demand for final products (DI=53,3).

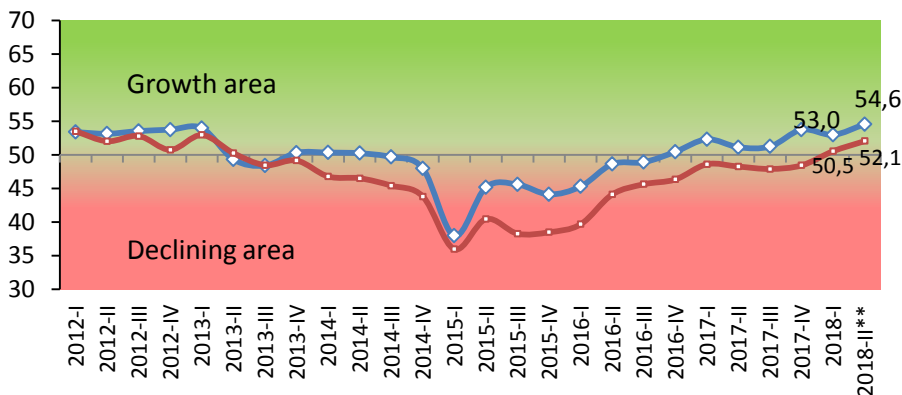
Demand for the finished goods, DI\*

Answers of enterprises, %		2017				2018	
		Q1	Q2	Q3	Q4	Q1	Q2 exp.
Increase	1	17,4	29,1	29,1	25,5	17,6	25,5
No changes	2	49,3	49,7	50,2	50,0	50,9	35,3
Decrease	3	33,3	21,2	20,7	24,4	31,4	9,6
Diffusion index, DI=line1+0.5*line2	4	42,1	53,9	54,2	50,5	43,0	43,1
DI, seasonal adjusted	5	50,4	49,7	49,5	51,2	51,7	53,3

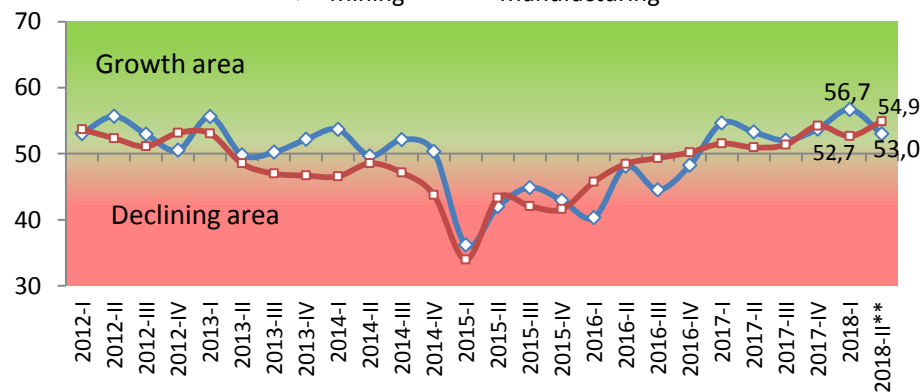
Demand for finished goods, DI \*



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

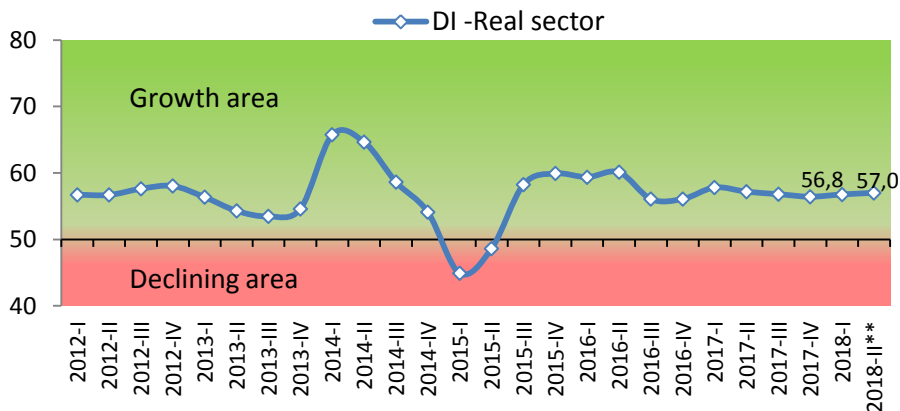
\*\*The Figures show expectations of enterprises regarding the change in the parameter in Q4 2017.

# CHANGES IN PRICES IN THE REAL SECTOR

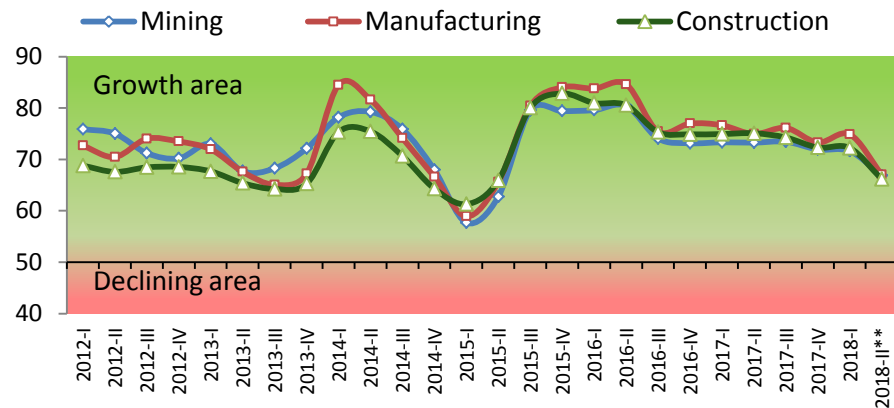
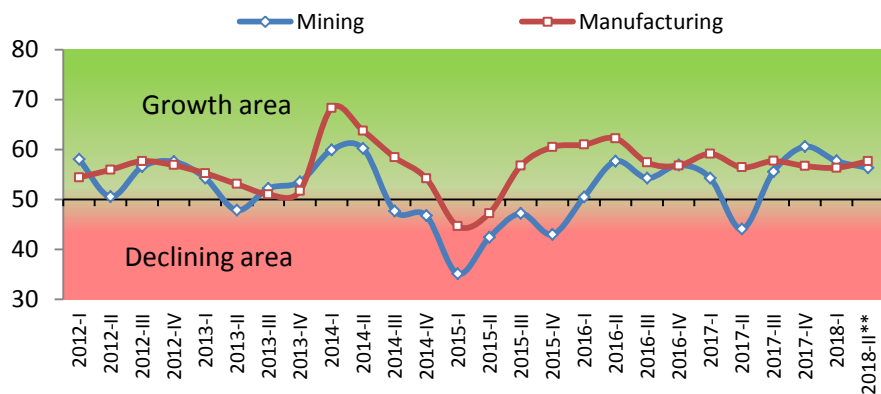
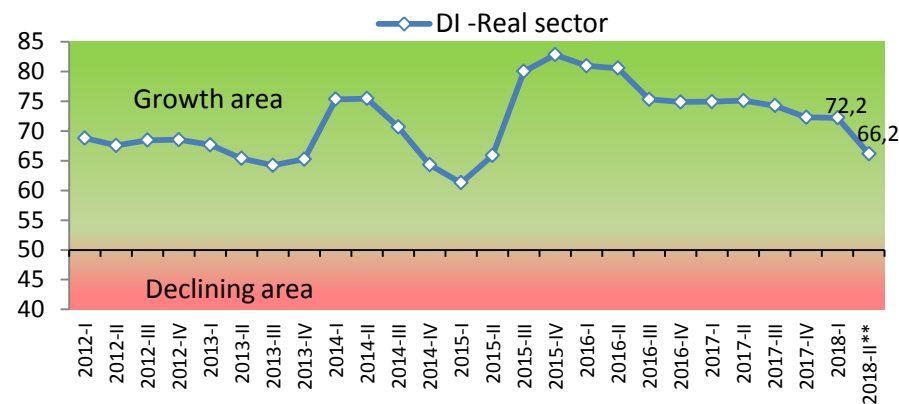
In Q1 2018, the prices for final products kept rising by the same growth rates as in previous quarter (DI = 56,8), the slowdown in the growth rates was noted in the mining industry (DI decreased from 60,6 to 56,3). Prices for raw materials grew faster than the price for final goods (DI = 72,2), manufacturing companies noted some increase in the growth rates of prices for raw materials.

In Q2 2018, the growth rates of the prices for final products will not change (DI = 57,0), while growth rates of the prices for raw materials will slow down (DI = 66,2).

Prices for finished goods, DI\*



Prices for raw materials, DI\*



\*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

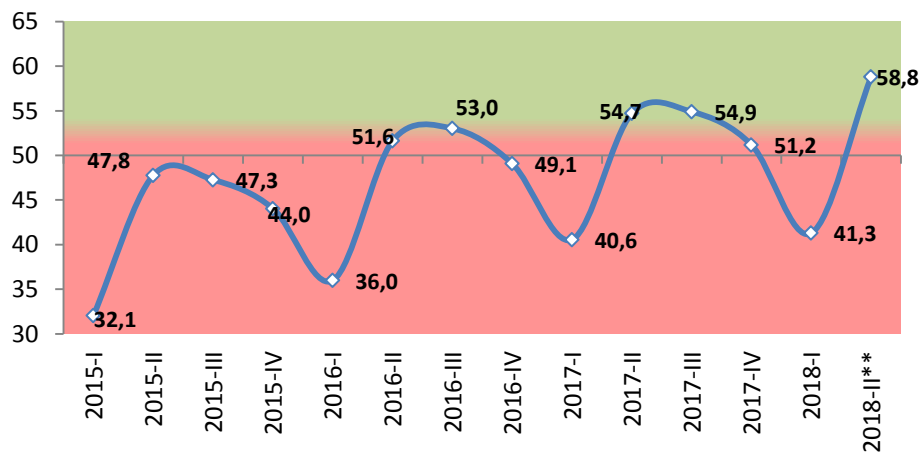
\*\*The Figures show expectations of enterprises regarding the change in the parameter in Q4 2017.

# CHANGE IN THE PRODUCTION OUTPUT

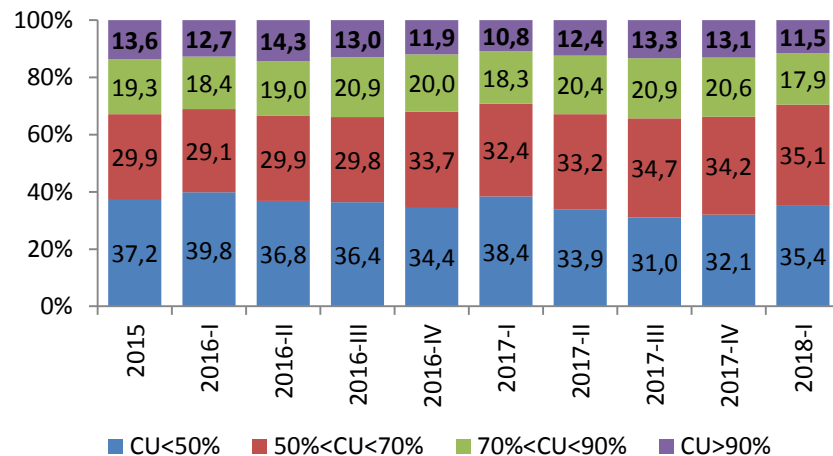
In Q1 2018, a slight decrease in the production output was observed (DI = 41,3). Past movements show that this fluctuation have seasonal pattern. Decrease in the production output took place in the all main sectors of economy. In Q2 2018 enterprises intend to increase the output volume considerably.

In Q1 2018, there was a noticeable decrease in the level of capacity utilization. The share of enterprises with the capacity utilization more than 70% decreased from 33,7% in Q4 2017 to 29,4% in Q1 2018. The highest level of capacity utilization was observed in mining industry, the lowest – in construction.

Changes in production output



Capacity utilization level  
(share of respondents, %)



\*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

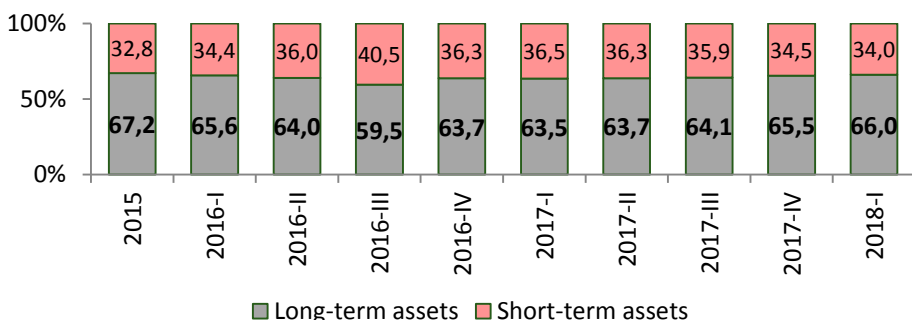
In Q1 2018, in the structure of assets share of long-term assets composed 66%, short-term assets – 34%.

In the structure of short-term assets prevalent majority is short-term receivables (42,5%). Other short-term assets made up 38,3%, inventories – 19,2%.

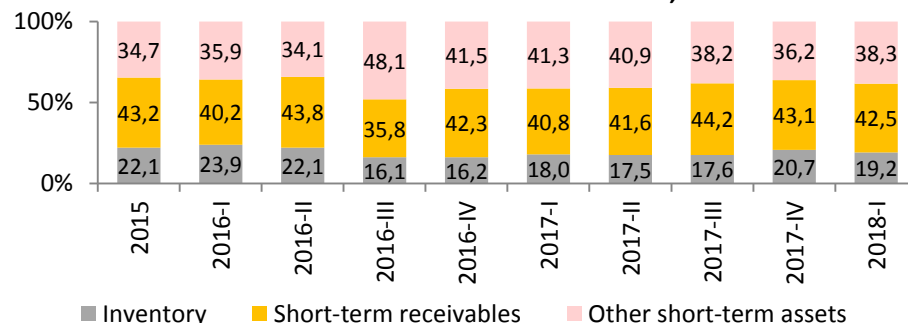
The volume of deposits held by enterprises in Q1 2018, in the economy decreased slightly (DI=49,2). In Q2 2018, enterprises expect a that the amount of deposits keep decreasing with a lower rate.

Assets turnover significantly decreased, making up 13,7%. Working capital turnover also showed a significant decrease to 38,3%, when the share of short-term assets in enterprises' assets were relatively stable.

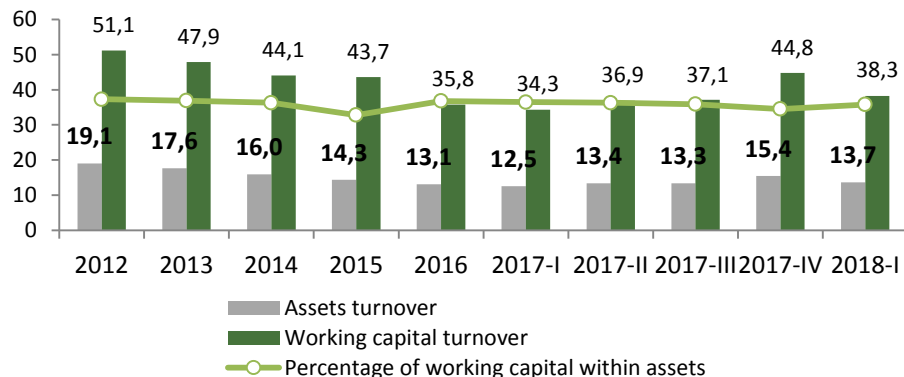
Structure of assets, %



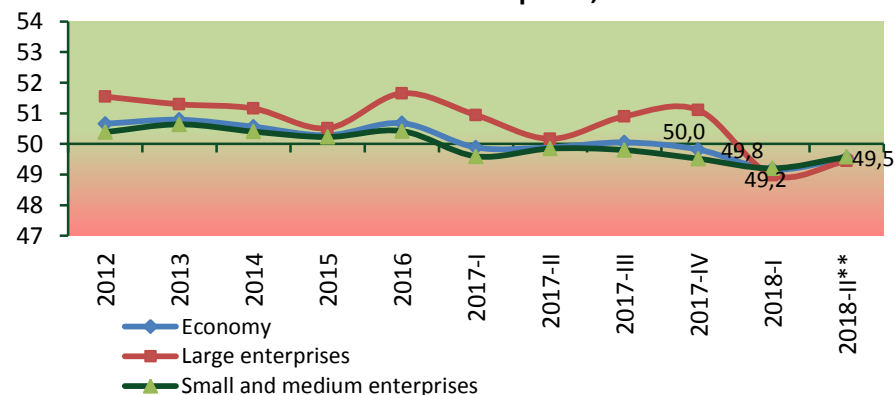
Structure of short-term assets, %



Indicators of assets turnover, %



Volume of the deposits, DI\*



\*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



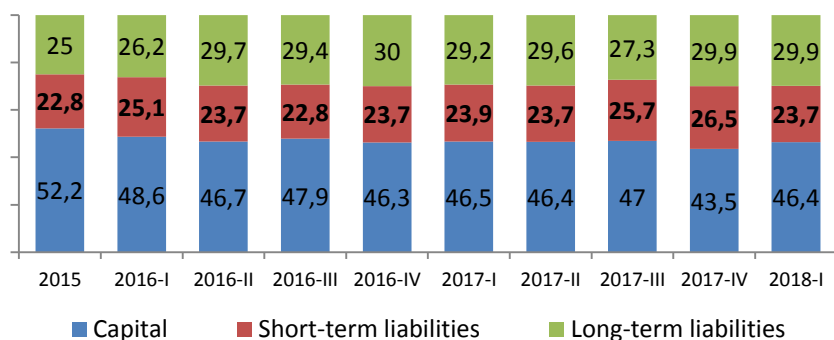
# THE STRUCTURE OF BALANCE SHEETS: LIABILITIES

In Q1 2018, in the structure of liabilities the share of equity capital increased from 43,5% to 46,4%. A noticeable decrease in the share of short-term liabilities occurred (from 26,5% to 23,7%) due to a significant decrease in the share of short-term bank loans, which dropped from 26,9% to 16,3%.

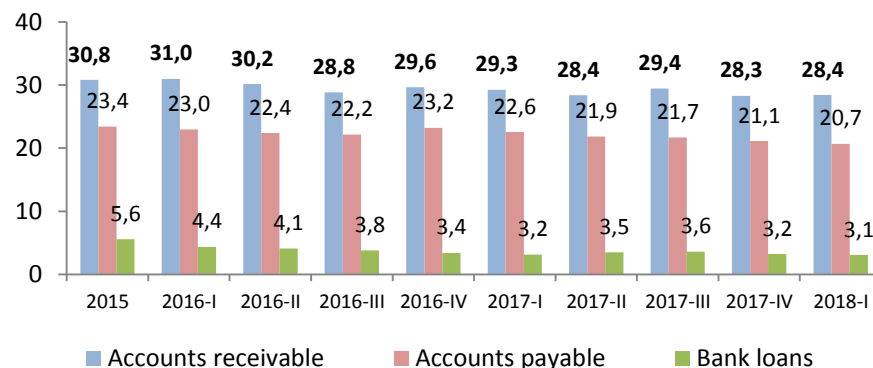
In the structure of long-term liabilities long-term bank loans made up more than 50%.

The situation with arrears had not changed a lot: the share of enterprises with the overdue accounts receivable made up 28,4%, overdue accounts payable – 20,7%, overdue bank loans – 3,1%.

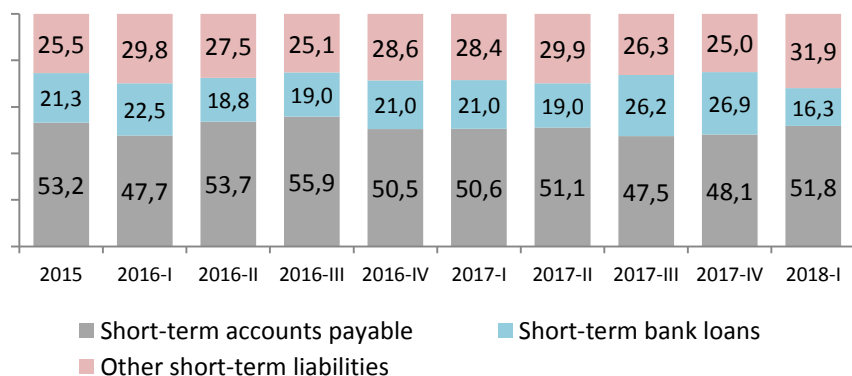
Structure of liabilities, %



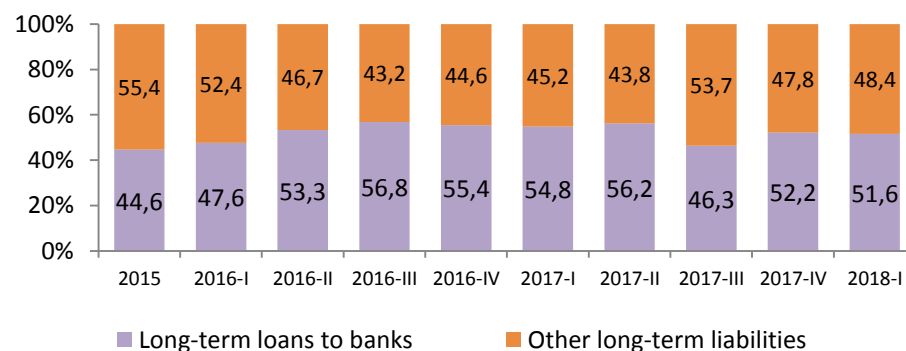
Percentage of enterprises with the past due, %



Structure of current liabilities, %



Structure of long-term liabilities



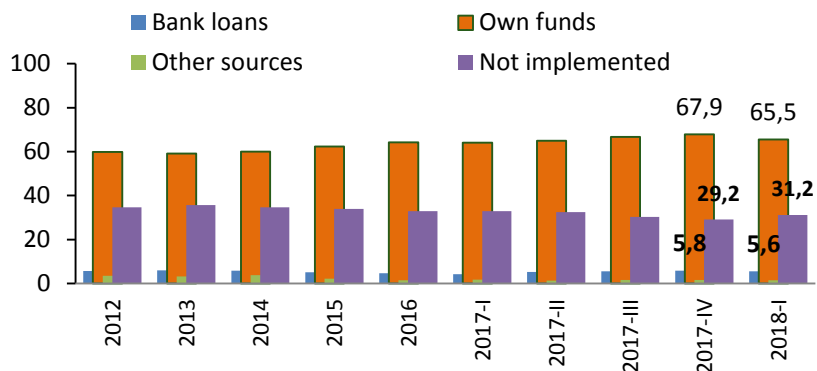
# INVESTMENT ACTIVITY

In Q1 2018, the investment activity of enterprises decreased slightly: there was an increase in the share of enterprises which did not finance their fixed assets (from 29,2% to 31,2%), in financing the current assets the role of bank loans decreased (15,7%).

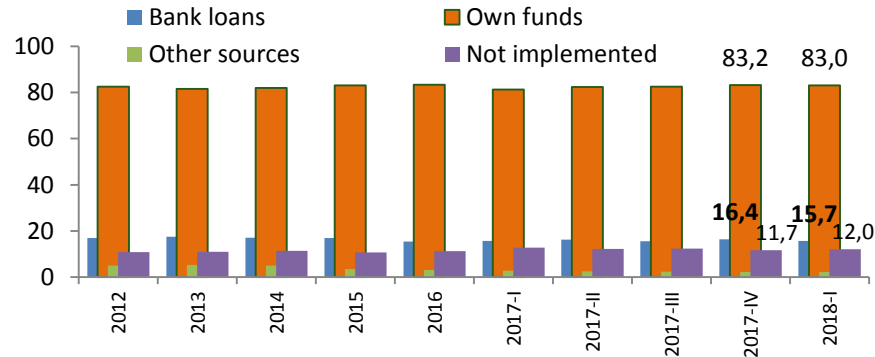
The main funding source of fixed and current assets is still own funds of the enterprises (65,5% and 83%, respectively). The bank loans continue to play an insignificant role in the investment policy of enterprises. The share of enterprises, which use bank loans to finance their *fixed assets* in Q1 2018 was 5,6%, *current assets* – 15,7%.

The main factors that limit financing opportunities of enterprises are the shortage of financial resources (31,5% of the enterprises), insufficient demand for their products (24,2%), and market competition from the side of other enterprises (22%).

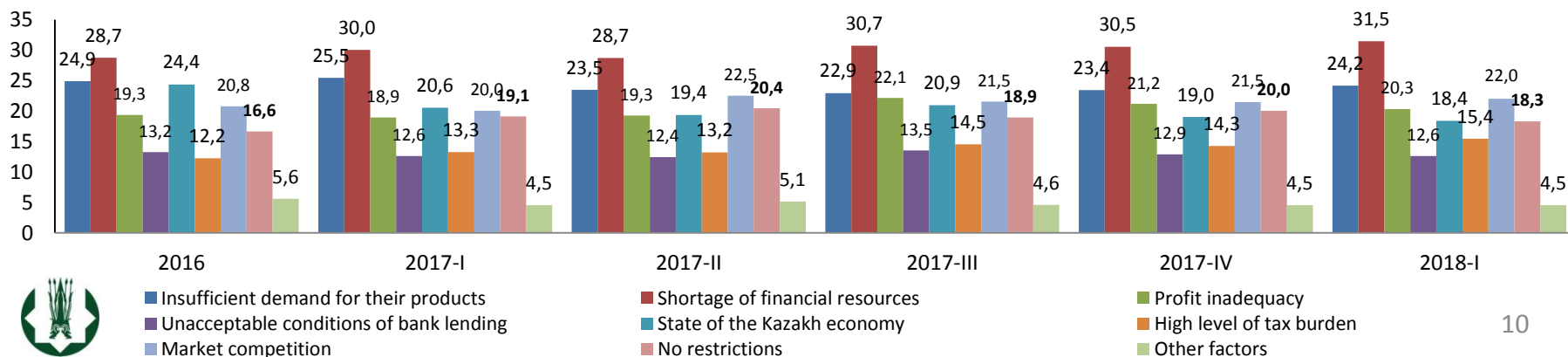
Funding source for fixed assets, %



Funding source for current assets, %



The main factors that limit financing opportunities of enterprises

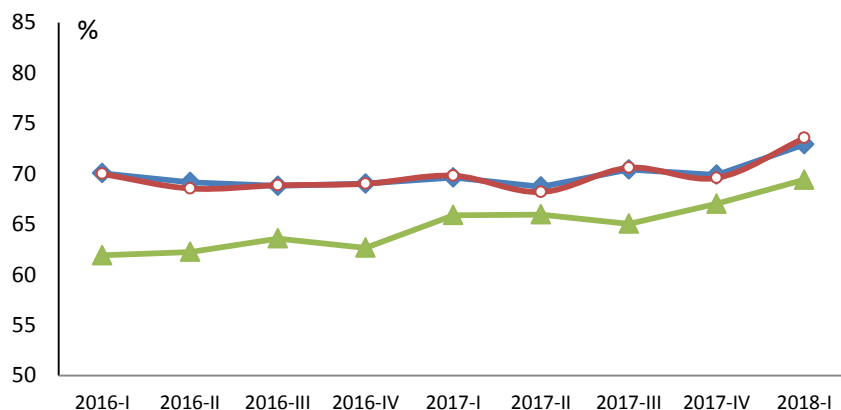


# CHANGE IN THE FINANCIAL AND ECONOMIC PERFORMANCE

The production performance indicators showed significant increase in Q1 2018. The share of enterprises, which did not reduce the production output, the number of employees and the labor productivity increased and amounted to 73,5%, 72,9% and 69,4%, respectively.

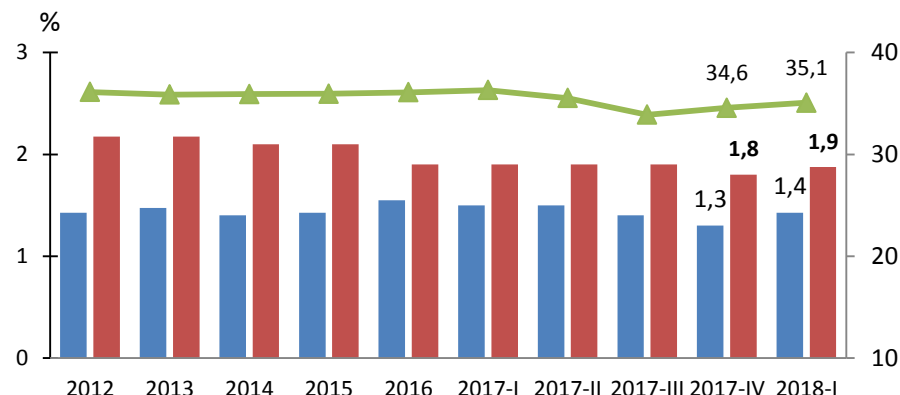
In Q1 2018, the current liquidity ratio (CLR) and overall solvency ratio (OSR) of enterprises in the real sector grew up (to 1,4 and 1,9, respectively). Meanwhile the share of low-liquid enterprises (CLR<1) increased from 34,6% to 35,1%.

Indicators of production performance



- ◆ Percentage of the respondents where labour productivity did not reduce
- Percentage of the respondents where production output did not reduce
- ▲ Percentage of the respondents which did not reduce the number of employees

Indicators of liquidity and solvency of enterprises



- Current liquidity ratio (CLR)
- Overall solvency ratio
- ▲ Percentage of the enterprises with CLR<1 (rhs)

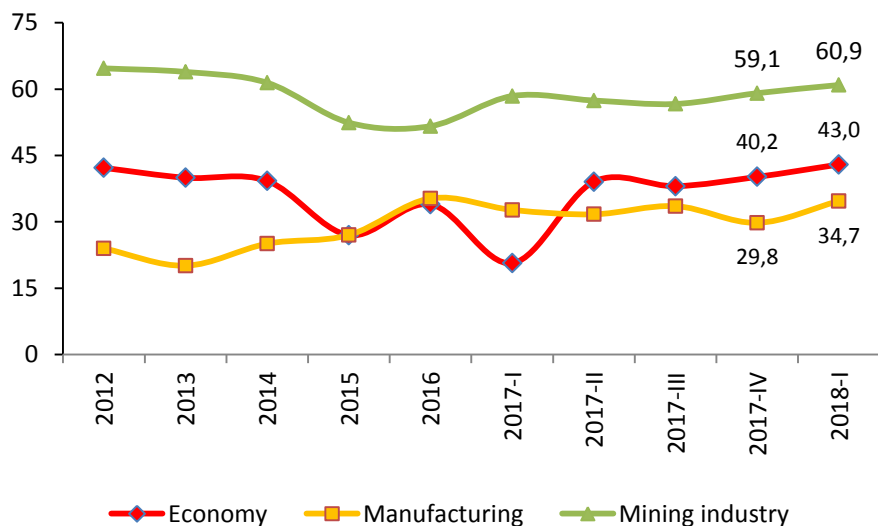


# CHANGE IN THE FINANCIAL AND ECONOMIC PERFORMANCE

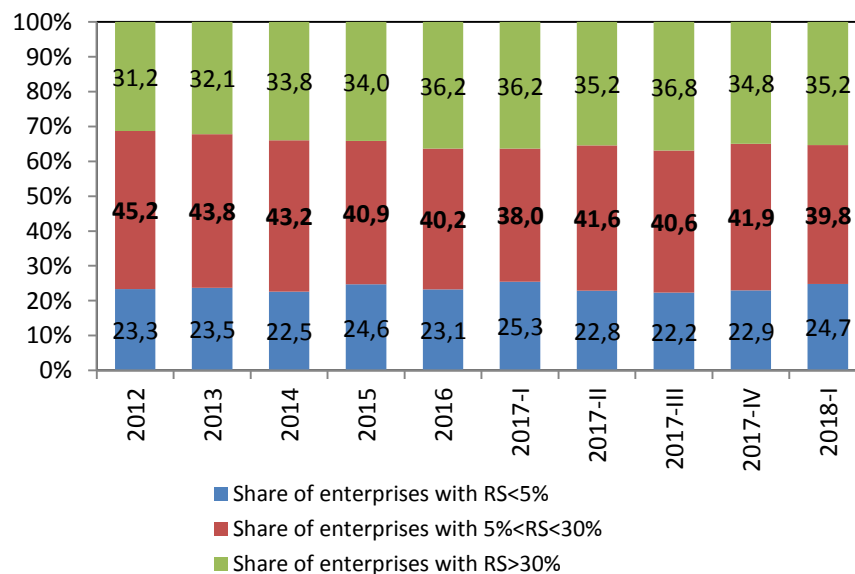
In Q1 2018, the return on sales (before taxes) of enterprises increased from 40,2% to 43,0%. This fluctuation is mainly explained by the increase of return on sales in the manufacturing from 29,8% to 34,7%.

In Q1 2018, the share of loss-making and low-profitable enterprises increased from 22,9% to 24,7%. At the same time, an increase of the share of highly profitable enterprises was observed (from 34,8% to 35,2%).

Return on sales, in %



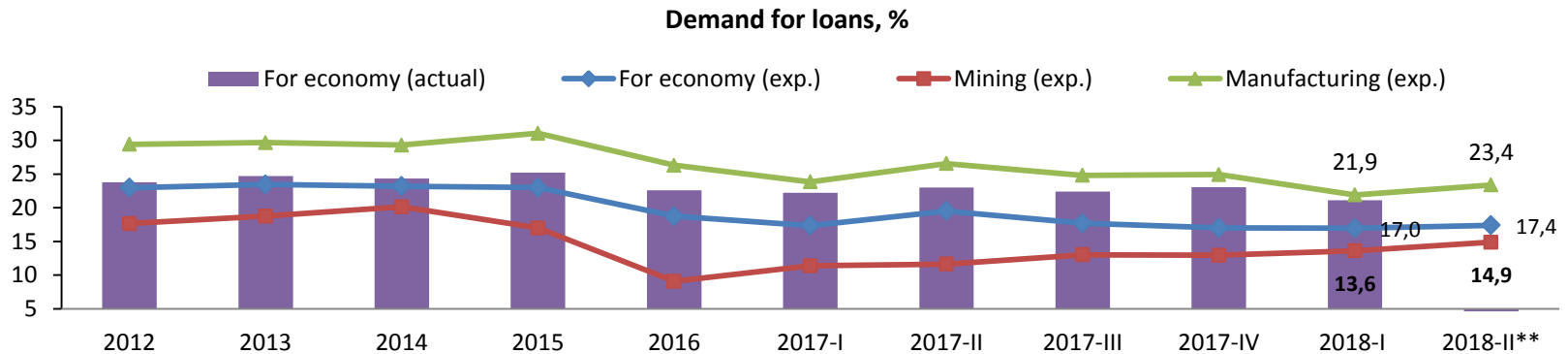
Classification of enterprises in terms of return on sales



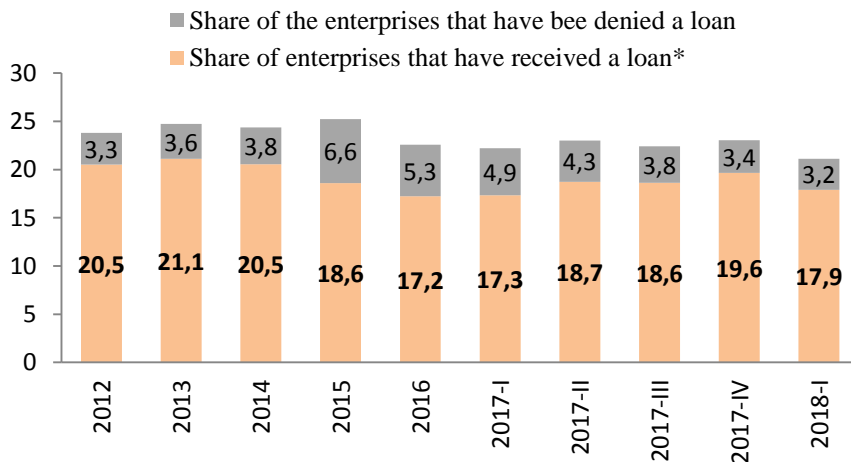
# IMPACT ON THE REAL SECTOR OF THE ECONOMY BY THE BANKING SYSTEM

In Q1 2018, the demand of enterprises for bank loans slightly decreased. 21,1% of the enterprises applied for a bank loan, and 84,8% of them obtained loans (17,9% out of the all respondents). The number of the enterprises, which have been denied a loan, decreased.

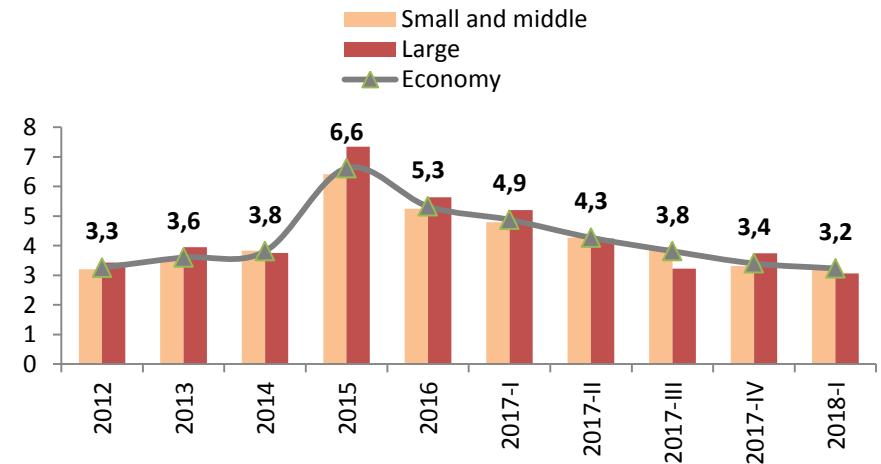
In Q2 2018, 17,4% of the enterprises intend to apply for bank loans. In manufacturing their share is 23,4%, in mining 14,9%.



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



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



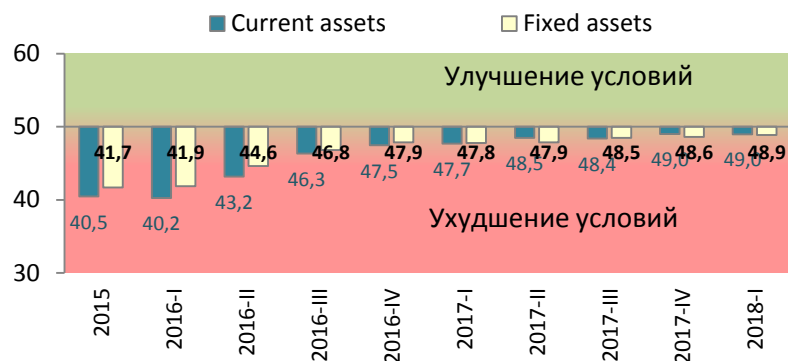
# IMPACT ON THE REAL SECTOR OF THE ECONOMY BY THE BANKING SYSTEM

In Q1 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. At the same time the number of enterprises indicating negative changes is decreasing.

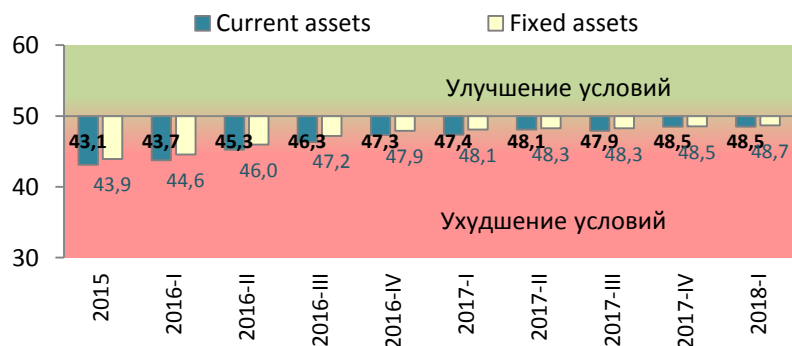
The gap between actual and acceptable interest rate of bank loans **in Tenge** narrowed due to a decrease of actual interest rates (to 13,4%). The gap **in foreign currency** loans broadened due to a decrease of acceptable interest rates (to 3,4%).

Changes in the conditions of lending

Price conditions, DI\*

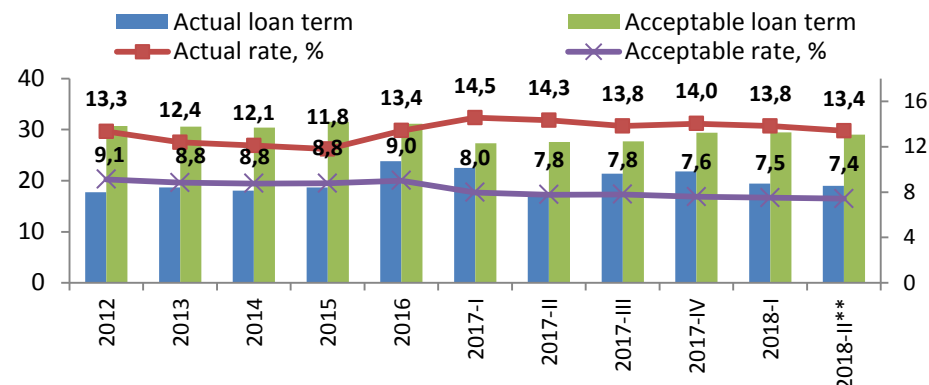


Non-price conditions, DI

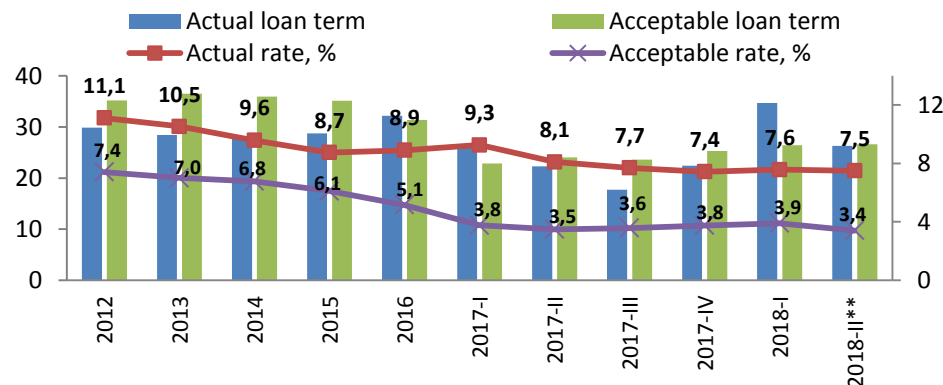


Loan rates and loan terms

In tenge



In foreign currency



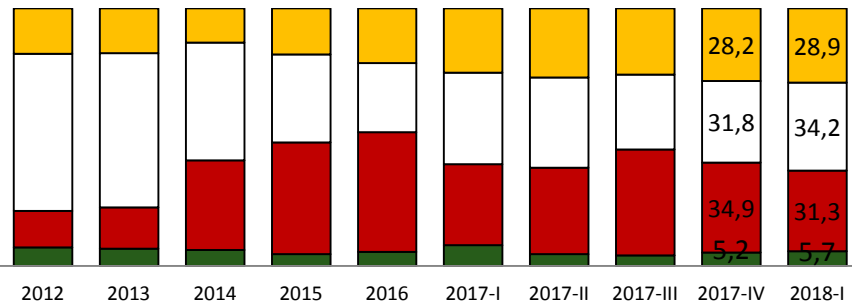
\*Diffusion Index (seasonally adjusted). The higher (the lower) the DI deviates from 50, the higher (the lower) are the rates of growth (decline) in indicator; the level of 50 means the absence of any change

# IMPACT OF CHANGES IN THE EXCHANGE RATE

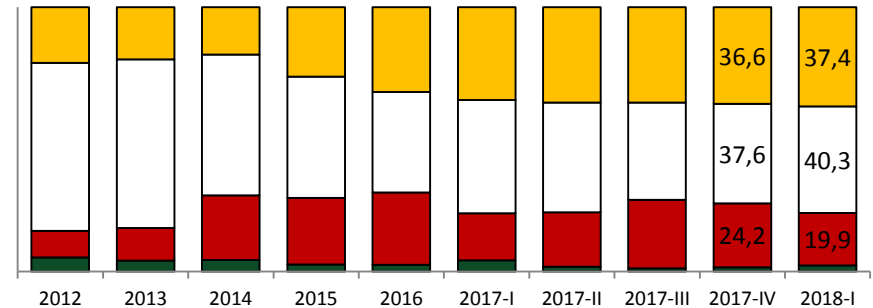
In Q1 2018, the share of enterprises using foreign currency in their settlements slightly increased (to 72,1%). The US dollar and the Russian ruble remain the main currencies.

According to the results of the survey of enterprises in the real sector of economy in Q1 2018 the negative impact of the exchange rate on the enterprises had slowed down. The share of enterprises indicating the negative impact from the fluctuation of the Tenge/US dollar exchange rate reduced from 34,9% in Q4 2017 to 31,3% in Q1 2018, from the fluctuation of Tenge/Euro exchange rate – from 24,2% to 19,9% and from Tenge/Russian ruble exchange rate – from 35,2% to 28,6%.

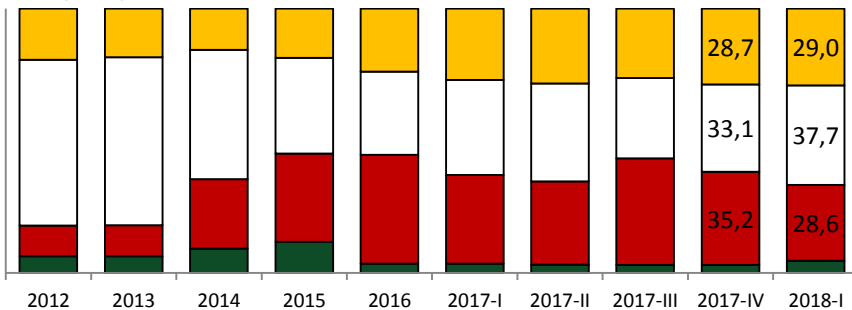
USD/KZT, answers in %



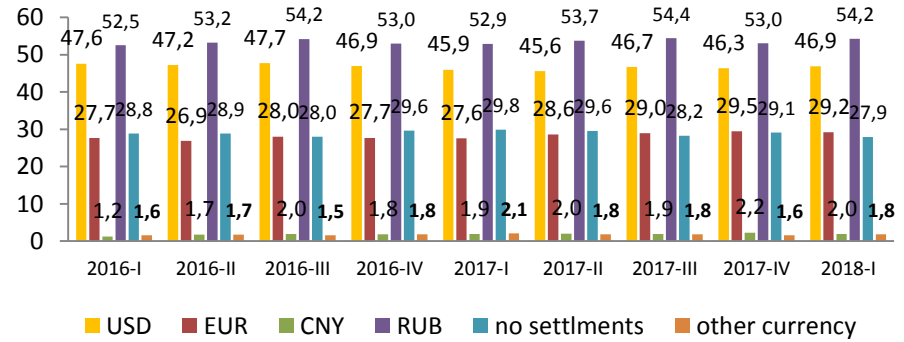
EUR/KZT, %



RUB/KZT, %



Usage of foreign currency in settlements (% by currency)



positive negative no impact I don't know



# METHODOLOGICAL COMMENTS

➤ 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)

