MARKET REVIEW
Enterprises Survey Results in the Real Sector of the Economy

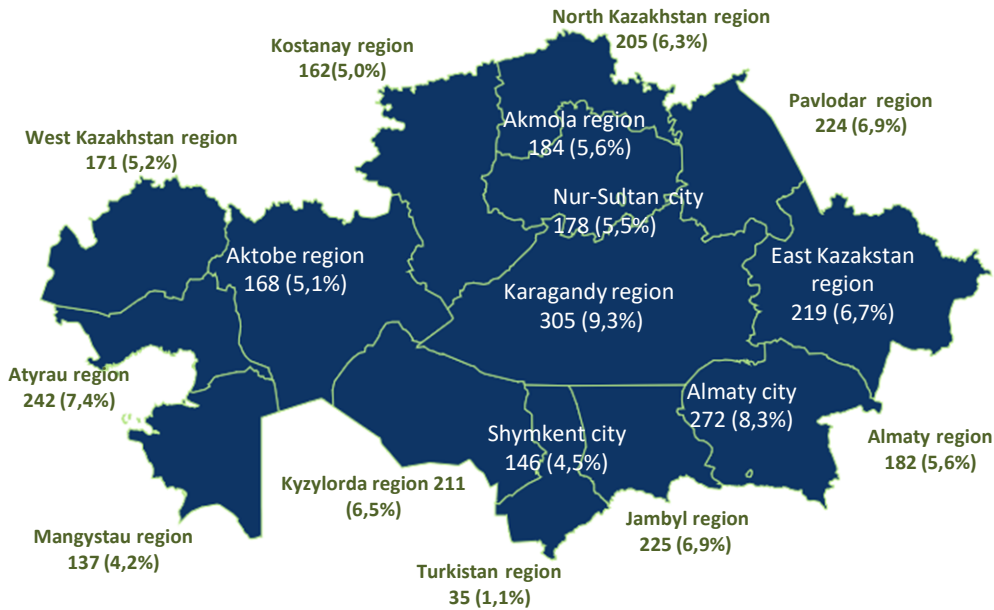Q4 2019

Monetary Policy Department
National Bank of Kazakhstan

CONTENTS

ENTERPRISE SURVEY PARTICIPANTS COMPOSITION

Regional structure of the enterprise survey participants in Q3 2019

North Kazakhstan region
205 (6,3%)

Kostanay region
162 (5,0%)

Pavlodar region
224 (6,9%)

Akmola region
184 (5,6%)

West Kazakhstan region
171 (5,2%)

Nur-Sultan city
178 (5,5%)

Aktobe region
168 (5,1%)

East Kazakstan region
219 (6,7%)

Karagandy region
305 (9,3%)

Atyrau region
242 (7,4%)

Almaty city
272 (8,3%)

Shymkent city
146 (4,5%)

Almaty region
182 (5,6%)

Kyzylorda region 211 (6,5%)

Mangystau region
137 (4,2%)

Jambyl region
225 (6,9%)

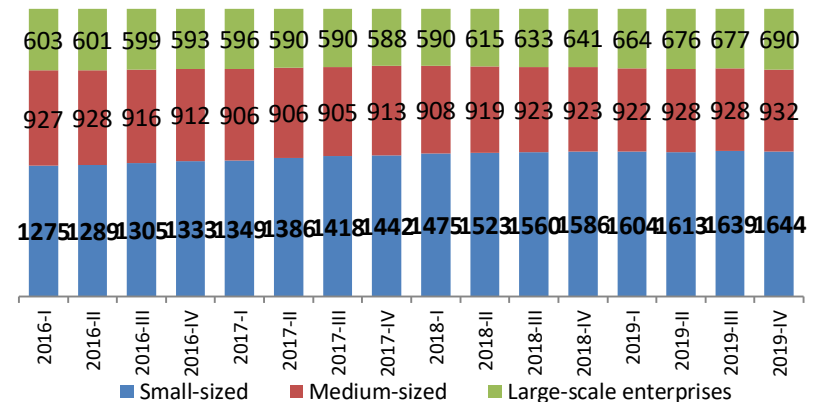**Turkistan region**
35 (1,1%)

> In Q4 2019 the number of survey participants increased by 22. 5 small, 3 medium-sized and 14 large-scale enterprises were involved in monitoring.
>
> By industry, the largest increase was noted in trading.

Survey participants sectorial structure

Legend: Mining industry, Agriculture, Transportation, Construction, Others, Manufacturing, Trade
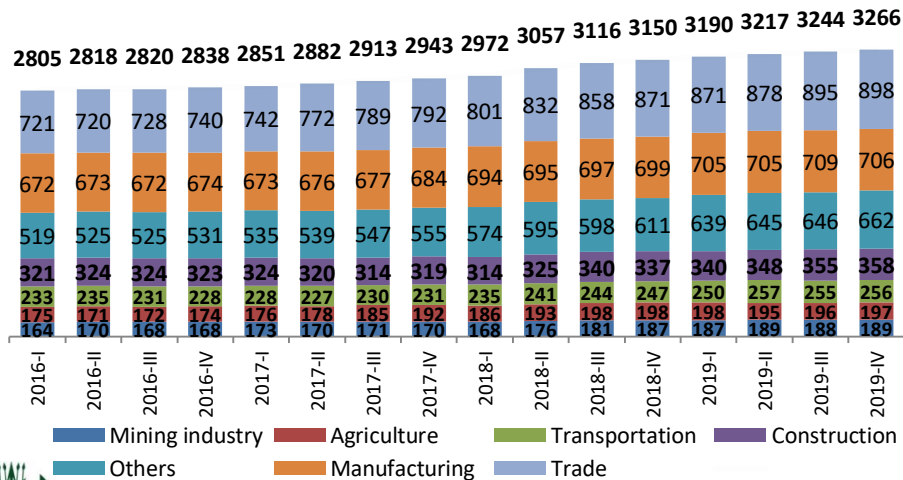
Survey participants size structure

Legend: Small-sized, Medium-sized, Large-scale enterprises
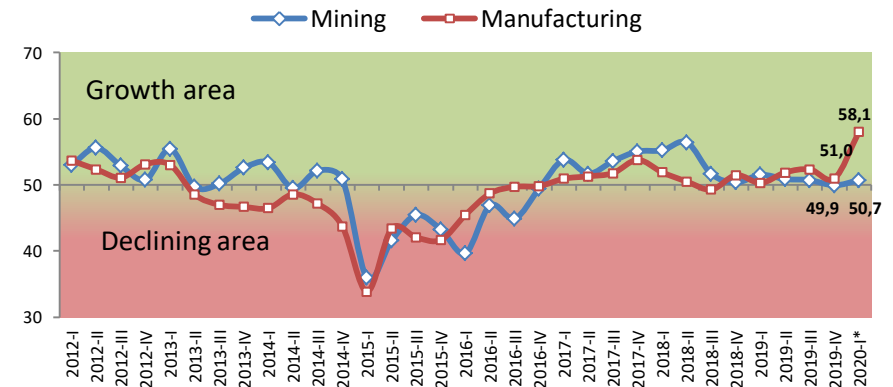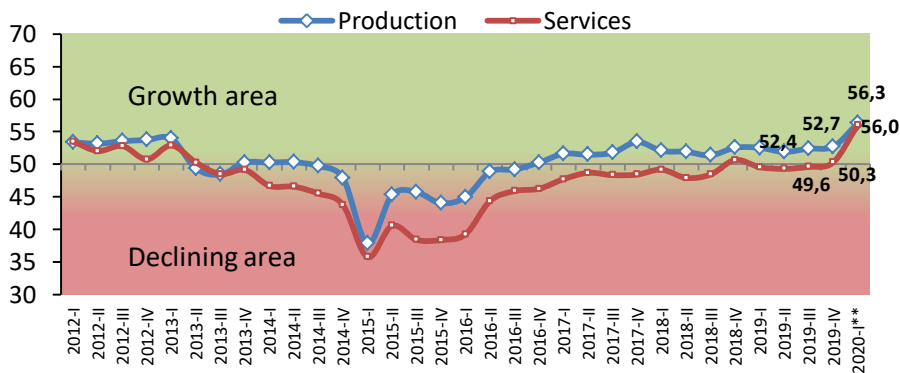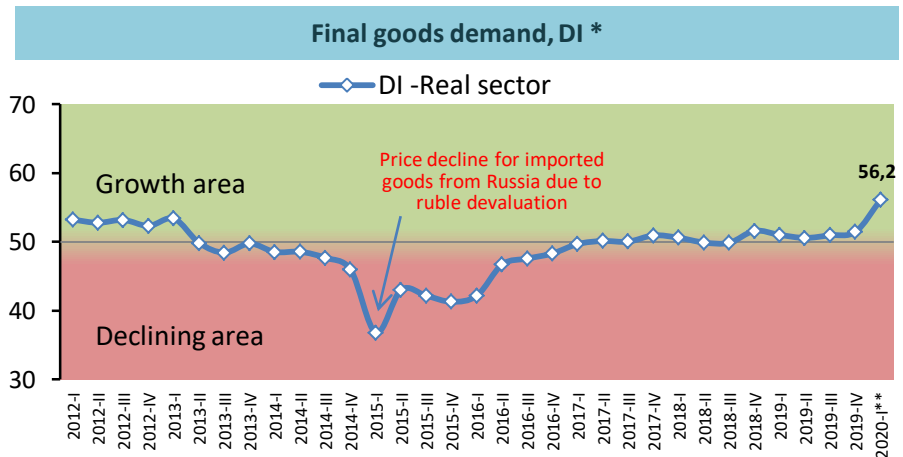
In Q4 2019, the economy showed ат exhilaration in demand for final products. The diffusion index (hereinafter - DI) amounted to 52.4 as a result of increased demand in all sectors. The highest growth was recorded in the sector of production of goods, the smallest growth was in the sector of services. Demand for the products of manufacturing enterprises was slightly higher than for the products of the mining industry (DI = 51.0 and 49.9, respectively).

According to the expectations of enterprises, in Q1 of 2020 there will be an increase in the growth rate of demand for finished products (DI = 56.2). In general, enterprises of all sectors, except the mining sector, expect growth in demand.

Final goods demand, DI*

Answers of enterprises, %		2018		2019				2020
		Q2.	Q3	Q1	Q2	Q3	Q4	Q1**
Increase	1	27,6	26,3	16,1	26,7	26,5	22,8	12,8
No changes	2	51,9	49,2	53,8	53,5	54,6	54,1	42,1
Decrease	3	19,9	24,0	28,7	18,0	16,7	20,7	16,4
Diffusion index, DI=line1+0.5*line2	4	53,6	50,8	43,0	53,4	53,7	51,1	48,2
DI, seasonal adjusted	5	50,0	51,3	56,5	50,5	51,0	52,4	56,2

Final goods demand, DI *

DI -Real sector

Growth area

Declining area

Price decline for imported goods from Russia due to ruble devaluation

56,2

Production — Services

Growth area

Declining area

52,4 52,7 56,3 56,0 49,6 50,3

Mining — Manufacturing

Growth area

Declining area

58,1 51,0 49,9 50,7

*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
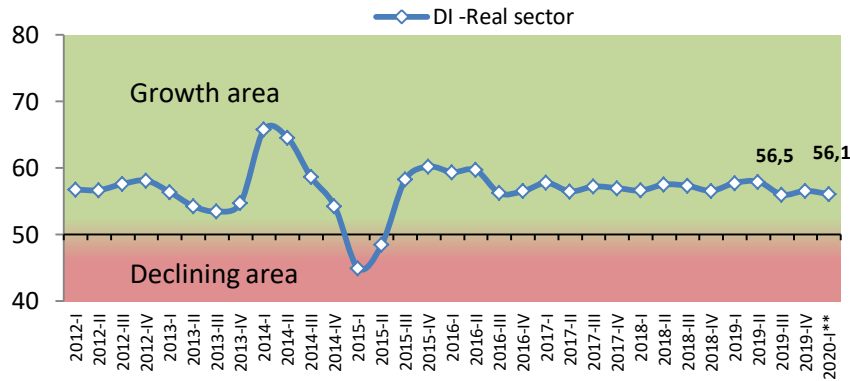
**The Figures show expectations of enterprises regarding the change in the parameter in Q4 2019.

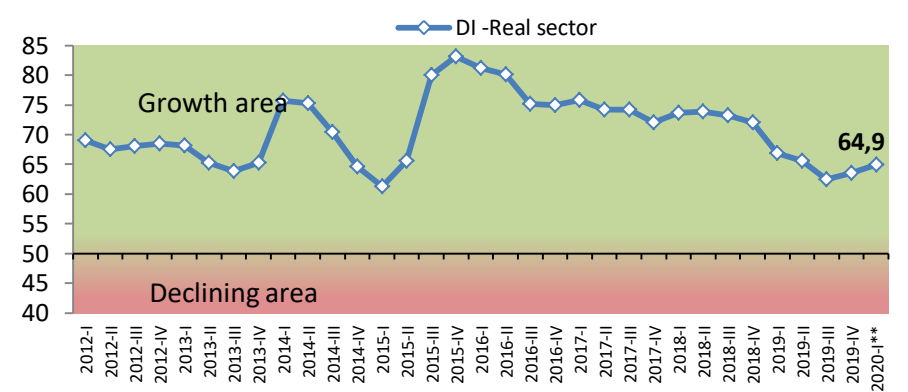# PRICES CHANGES IN THE REAL SECTOR

In Q4 of 2019, the prices growth rate for finished products of enterprises slowed down (DI amounted to 55.1). Slow growth in prices for manufactured products was noted in the manufacturing and mining industries. At the same time, there was a slowdown in the growth rate of prices for raw materials in all considered sectors and the economy as a whole (DI = 63.5).

In Q1 of 2020, enterprises in the real sector expect a slight increase in the prices growth rate for raw materials (DI = 64.9), while they do not plan to lower prices for finished products.
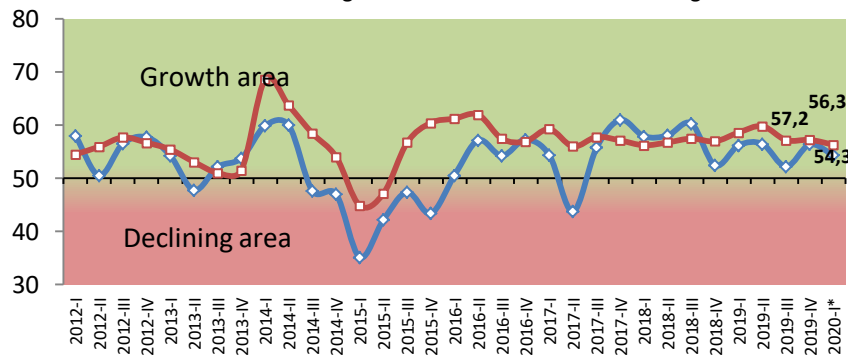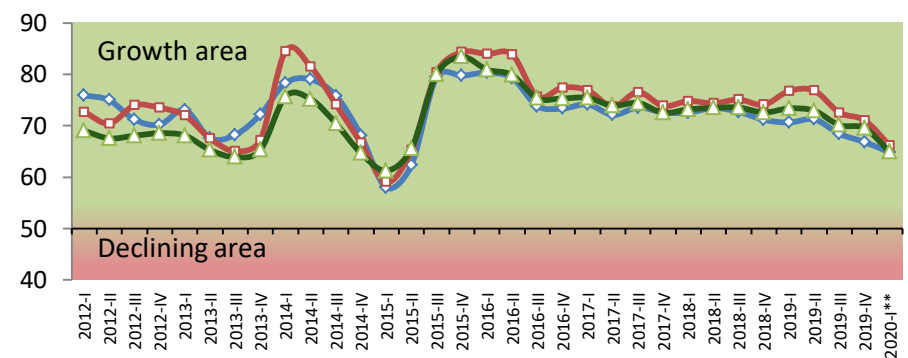

Final goods prices, DI*

Raw materials prices, DI*

In Q4 of 2019, the capacity utilization level of enterprises decreased. The share of enterprises with a capacity utilization of more than 70% * decreased from 36.9% in Q3 of 2019 to 35.4%. As a result, production in Q4 of 2019 also decreased (DI = 51.4). The dynamics of past years shows that this decline is seasonal.

In Q1 of 2020, enterprises expect a decrease in production volumes (DI = 46.3).

Capacity utilization level
(share of respondents, %)
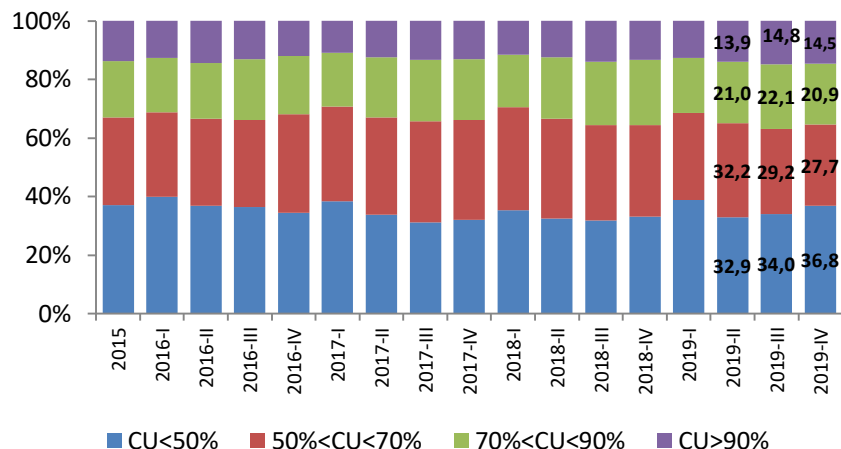
DI changes in production output
(50 = no change compared to previous q.)

Legend: CU<50% | 50%<CU<70% | 70%<CU<90% | CU>90%
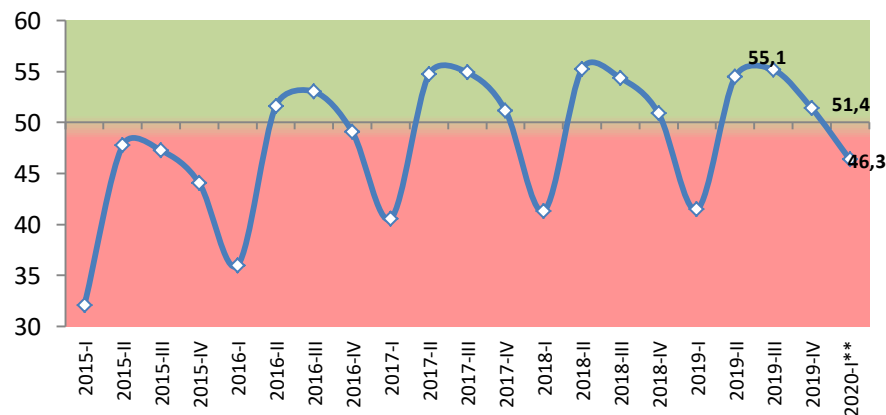
* The group of enterprises with CUL more than 70% includes enterprises with CUL 70-90% and enterprises with CUL> 90%
** The higher (lower) DI from level 50, the higher (lower) the rate of increase (decrease) of the indicator, the level of DI = 50 means no change

6

In Q4 of 2019, the short-term assets share in the structure of assets of companies in the real sector of the economy decreased, which amounted to 26.5%, and, accordingly, the long-term assets share increased to 73.5%.

Accounts receivable remain the main component of short-term assets, whose share in Q4 of 2019 amounted to 40.9%. The share of other short-term assets increased to 37.0%, the share of inventories decreased to 22.1%.

Working capital turnover increased (up to 56.7% from 51.9% in Q3) while there is relative stability of asset turnover and the share of working capital in the enterprises assets.
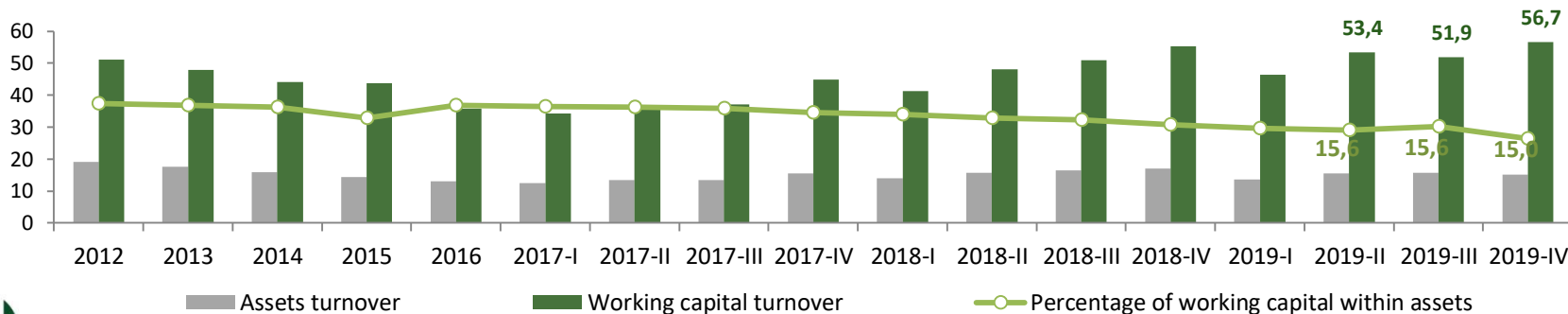
Assets structure, %
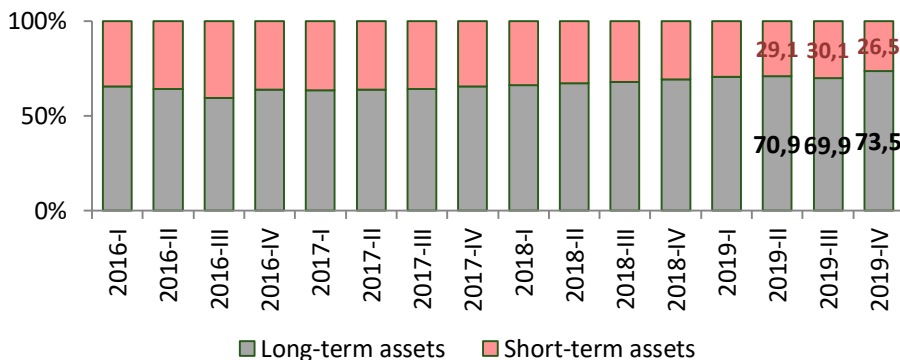
### Short-term assets Structure, %
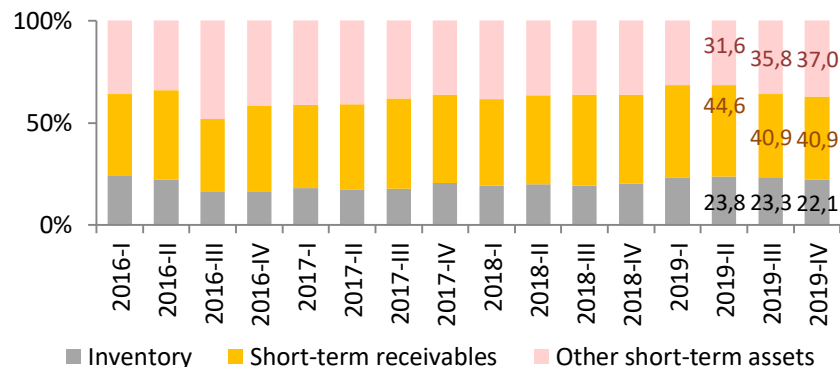
Assets turnover indicators, %

In Q4 of 2019, the liabilities structure slightly changed: the capital share increased to 51.3%, the share of long-term liabilities decreased to 28.5%, short-term liabilities - to 20.2%. In the short-term liabilities structure, the share of short-term payables decreased insignificantly (from 50.5% to 49.4%) and the share of short-term bank loans (from 15.7% to 14.8%), while the share of other short-term liabilities increased (from 33 , 7% to 35.7%).

In the structure of long-term liabilities, long-term bank loans slightly decreased and amounted to 54.4%.

The share of enterprises with overdue receivables on the balance sheet decreased to 26.3%, the share of enterprises with overdue accounts payable decreased to 19.8%. Also, the share of enterprises with overdue debts on bank loans decreased to 2.4%.
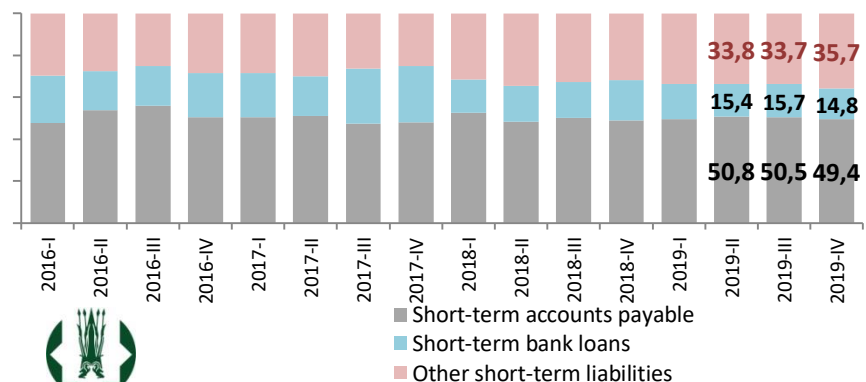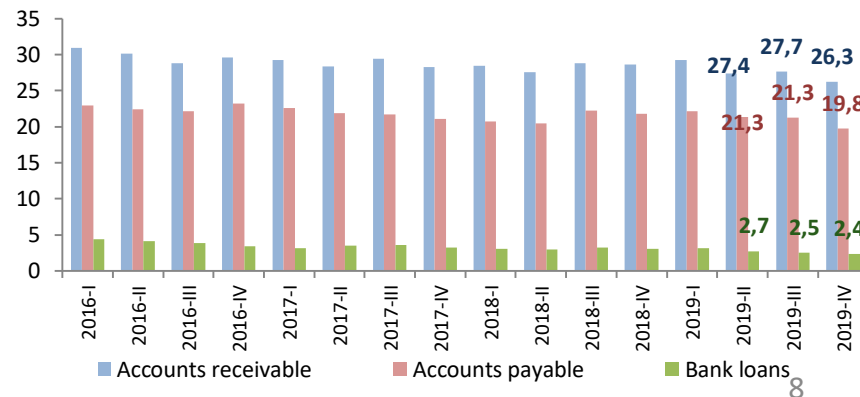
Liabilities structure, %
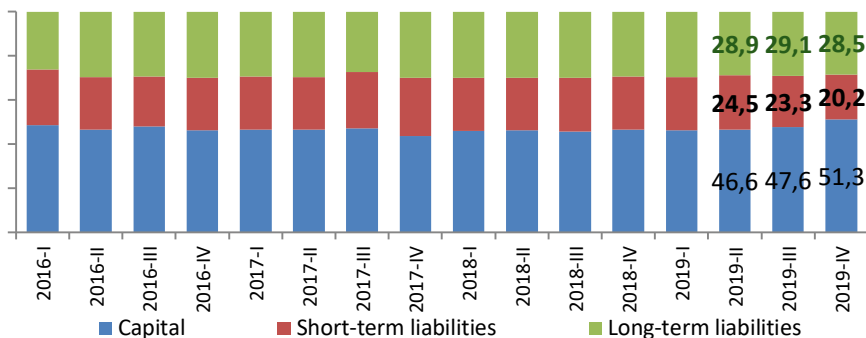
Long-term liabilities structure
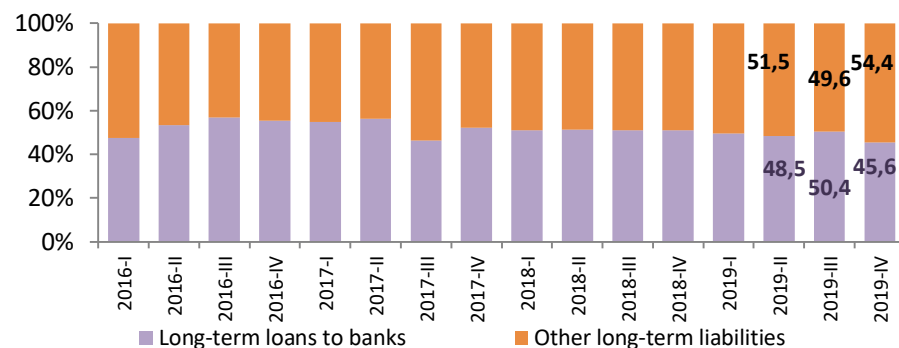
Current liabilities structure, %

Percentage of enterprises with the past due, %


8

In Q4 of 2019, the investment activity of enterprises slightly improved: the enterprises share that financed fixed assets from their own funds and bank loans increased, and the enterprises share that did not financed decreased. Most enterprises use their own funds to finance fixed and current assets (66.4% and 80.1%, respectively).

Slightly, but the enterprises share that used bank loans to finance fixed assets and working capital increased (6.1% and 15.3% of enterprises, respectively). The main reasons limiting the investment activity of enterprises are the lack of financial resources (27.0% of enterprises) and market competition from other enterprises (22.7% of enterprises).
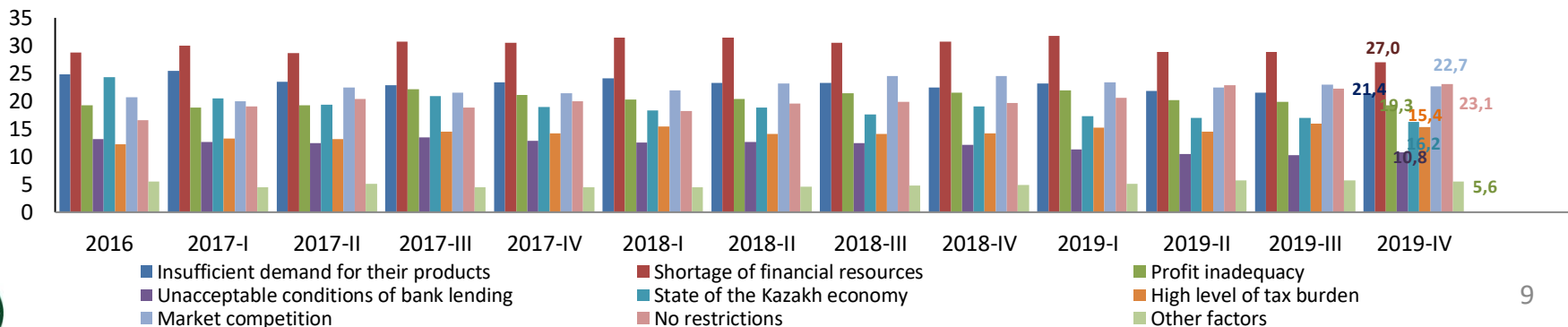
Funding source for fixed assets, %
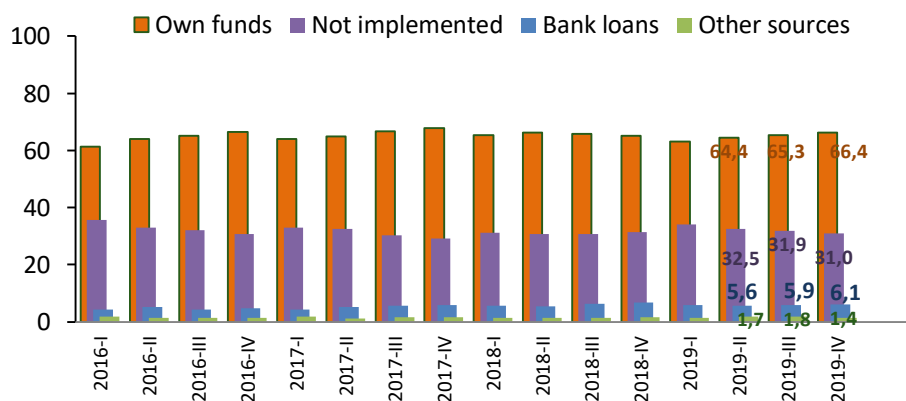
Funding source for current assets, %
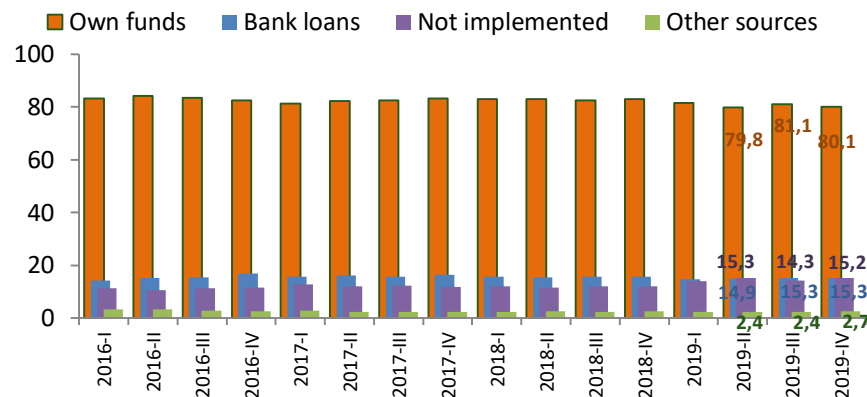
## The main factors that limit financing opportunities of enterprises

9

In Q4 of 2019, an increase (from 69.5% in the 3rd quarter to 71.8%) of the enterprises share in which the volume of production increased or did not change, with a slight increase in the enterprises share that did not reduce the number of employees, led to an increase in labor productivity.

The enterprises share with good liquidity increased (up to 34.0%), the average value of the current liquidity ratio did not change. The difference in average values of current liquidity ratios (1.3) and total solvency (2.1) suggests that it is easier for enterprises to repay long-term liabilities than short-term ones.

Production performance indicators
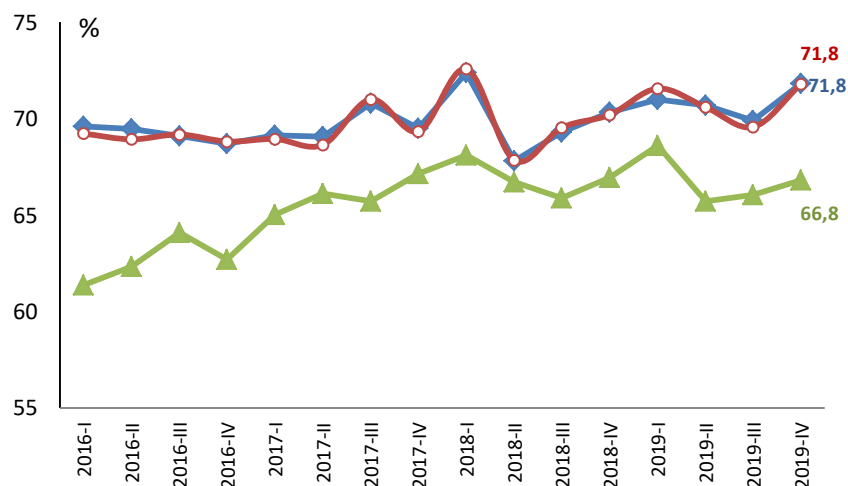
- Percentage of the respondents where labour productivity did not reduce
- Percentage of the respondents where production output did not reduce
- Percentage of the respondents which did not reduce the number of employees

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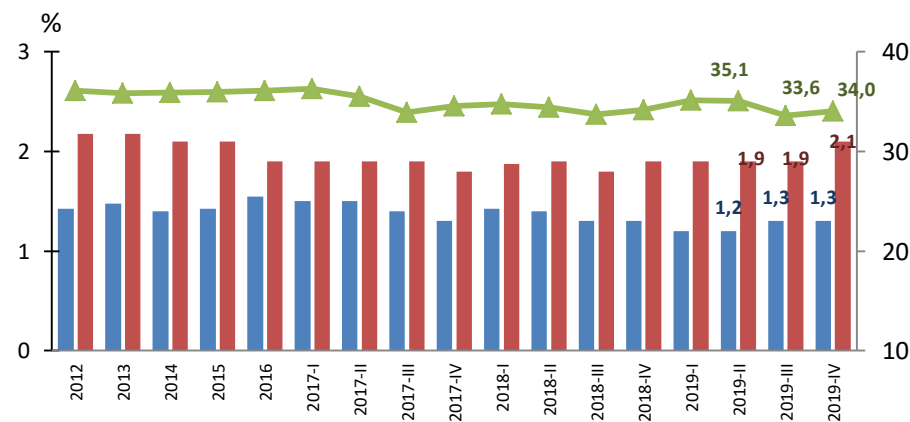
- Current liquidity ratio (CLR)
- Overall solvency ratio
- Percentage of the enterprises with CLR<1 (rhs)

In Q4 of 2019, a decrease in the average * return on sales** of enterprises in the mining and manufacturing industries affected the decline in the economy (21.4%).

The share of highly profitable enterprises decreased to 38.2% of the total number of survey participants. The average return on sales in the mining industry is noticeably higher than in the manufacturing industry (43.2% and 21.4%, respectively).

Return on sales *, in %
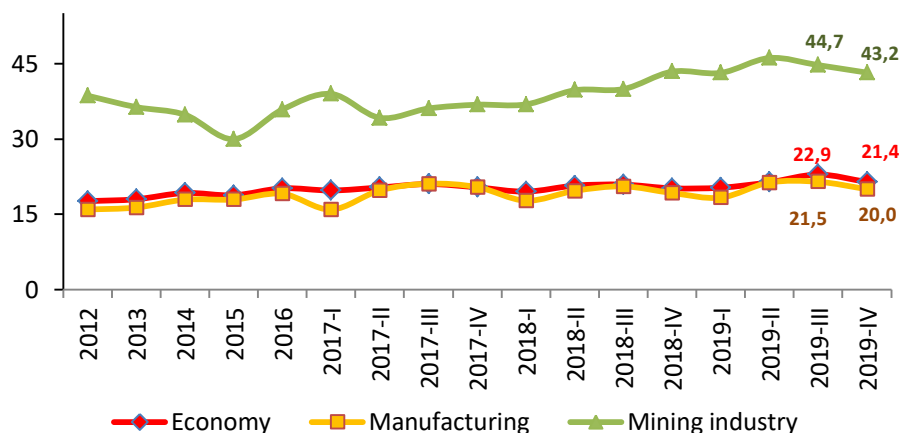
Distribution by return on sales
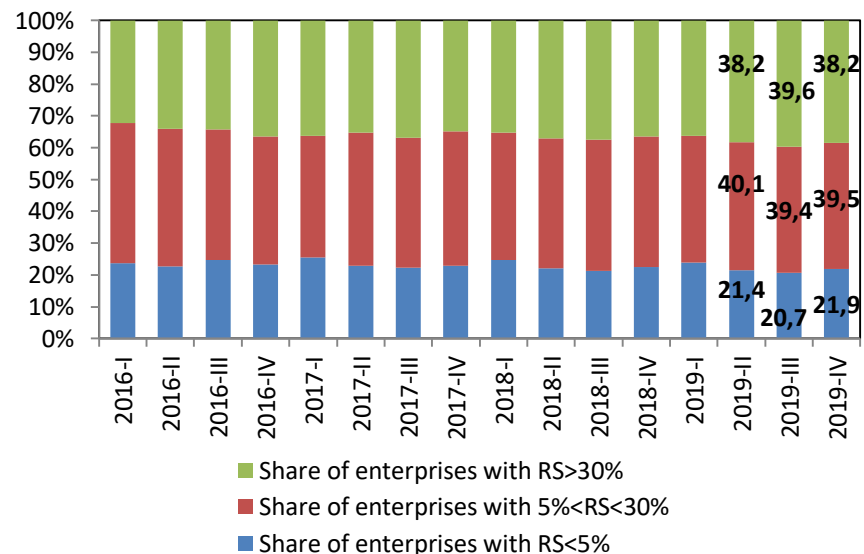
* Average median values are presented as they are less susceptible to extreme emissions than the arithmetic mean

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

In Q4 of 2019, 20.3% of the enterprises surveyed applied to the bank for a loan, 18.6% of enterprises received a loan (or 91.6% of the number of applicants for a loan). The share of loan refusals amounted to 1.7% of the total number of survey participants (8.4% of the number of applicants for a loan).

In Q1 of 2020, 14.2% of the enterprises surveyed intend to apply for a loan. In the manufacturing industry, the share of such enterprises is 21.4%, in the mining - 9.0%.

Loans demand, %
(share of enterprises applying for a loan from a bank)
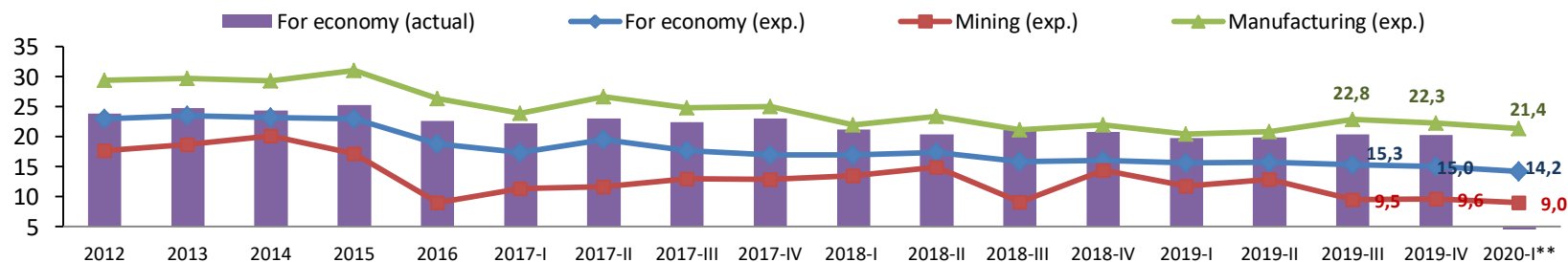
Lending applications consideration ,
answers in %
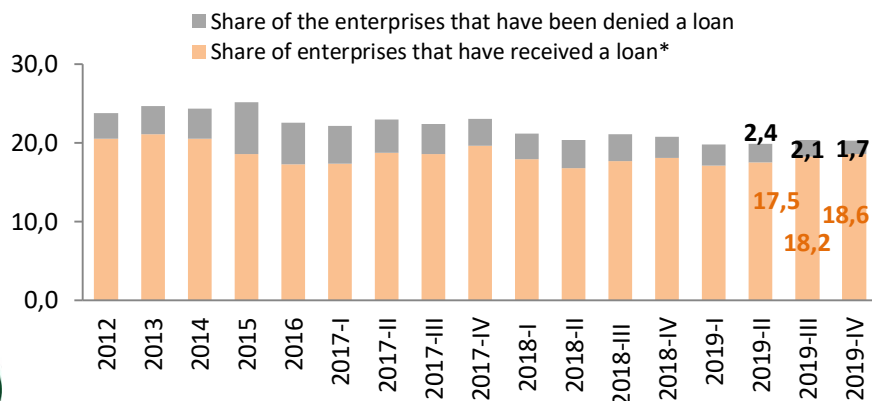
Share of enterprises that have been denied for a loan,
answers in %

In Q4 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.
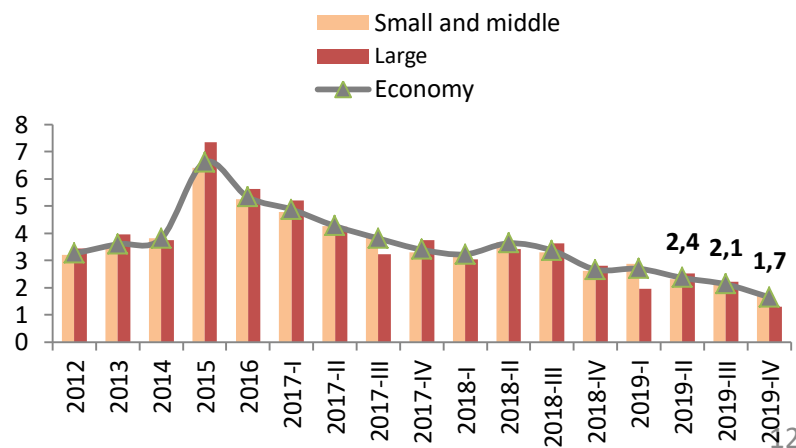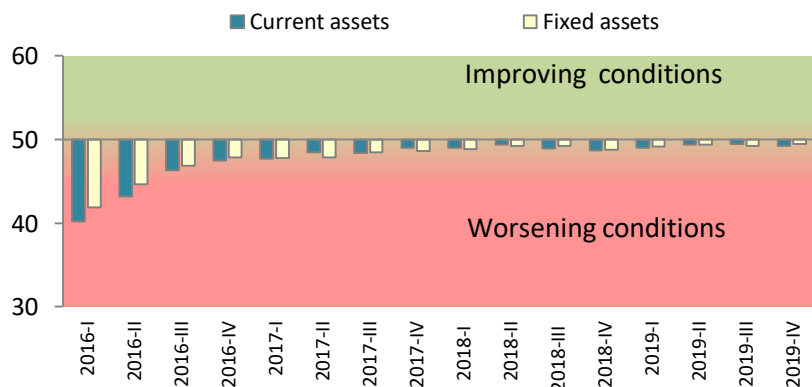
The average interest rates on loans received by monitoring participants slightly decreased and amounted to 12.3% in tenge and 5.9% in foreign currency. The interest rate for loans in tenge is acceptable for enterprises at 6.4%, and for loans in foreign currency - 2.9%. Also, enterprises want the terms for loans in tenge to be increased and for loans in foreign currency to be reduced.

Changes in the conditions of lending

Loan rates and terms

Price conditions

Current assets ▪ Fixed assets

Improving conditions

Worsening conditions

Loan terms and rates in tenge

Actual loan term ▪ Acceptable loan term
Actual rate, % ▪ Acceptable rate, %

12,4 12,4
7,0 6,4

Non-price conditions

Current assets ▪ Fixed assets

Improving conditions

Worsening conditions
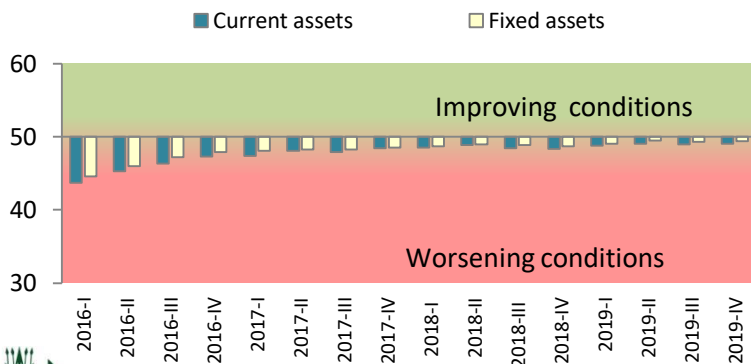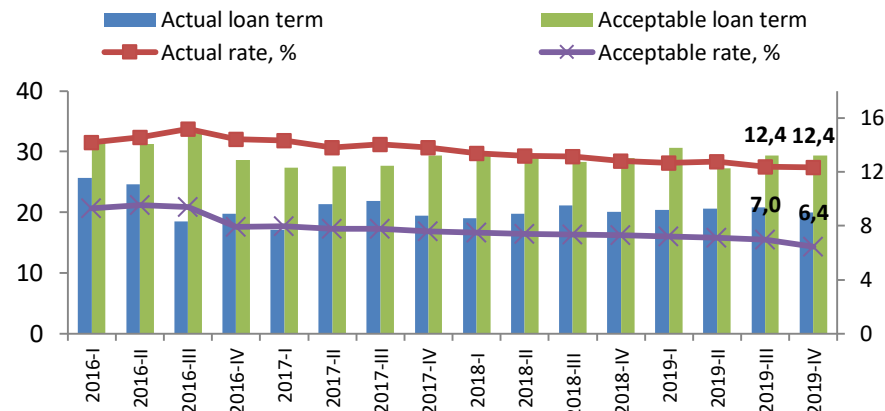
Loan terms and rates in foreign currency
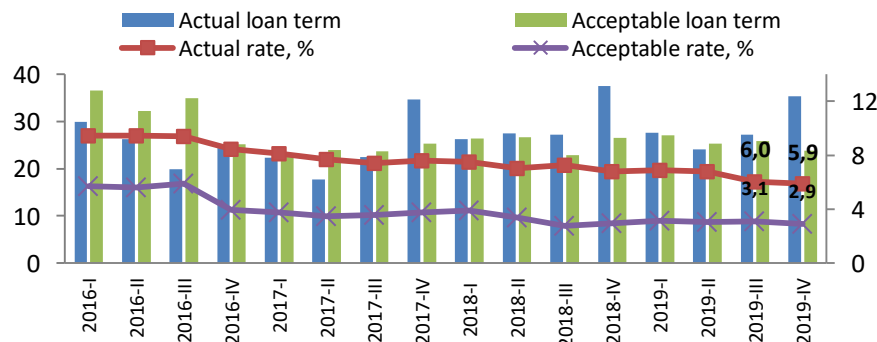
Actual loan term ▪ Acceptable loan term
Actual rate, % ▪ Acceptable rate, %

6,0 5,9
3,1 2,9

*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

In Q4 of 2019, the negative impact of the exchange rate on the enterprises economic activities decreased. The share of enterprises that experienced a negative impact on their activities from changes in tenge to US dollar decreased to 29.6%, and the shares of enterprises that noted the negative impact of the euro and the Russian ruble decreased to 18.6% and 32.0%.

The main currencies used in the calculations continue to be the Russian ruble (53.3% of enterprises) and the US dollar (45.0% of enterprises).

USD/KZT, answers in %

EUR/KZT, %

RUB/KZT, %

Foreign currency usage in settlements (% by currency)
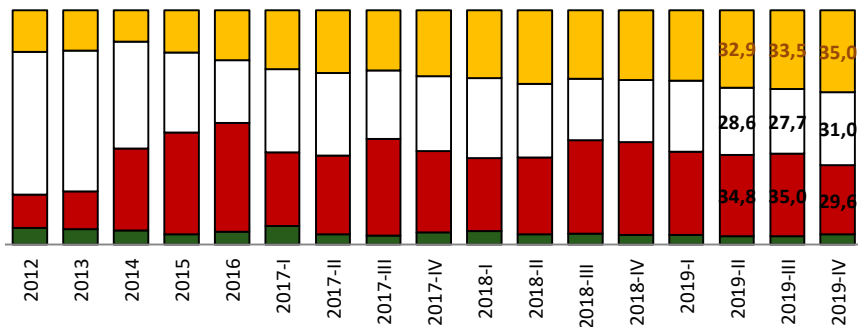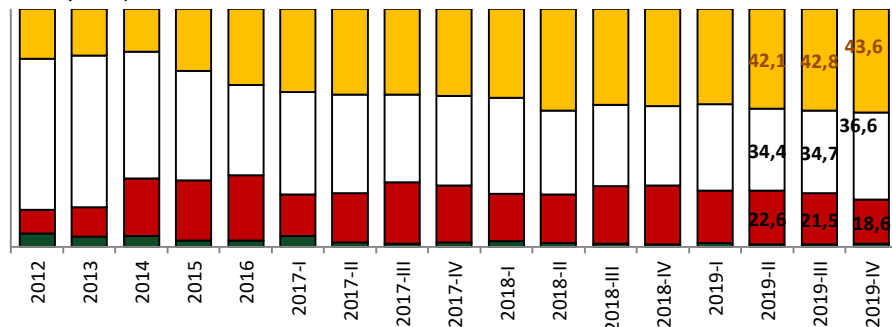
Legend: positive — negative — no impact — I don't know

USD — EUR — CNY — RUB — no settlments — other currency

14

In Q4 of 2019, the dynamics of the composite leading indicator (CLI), which is an aggregate assessment of surveys of enterprises in the real sector, demonstrates the growth of business activity in the real sector. CLI was 100.3, reaching its highest value since 2014.

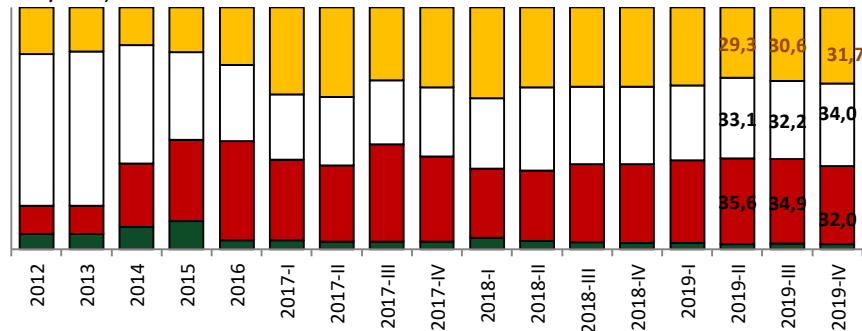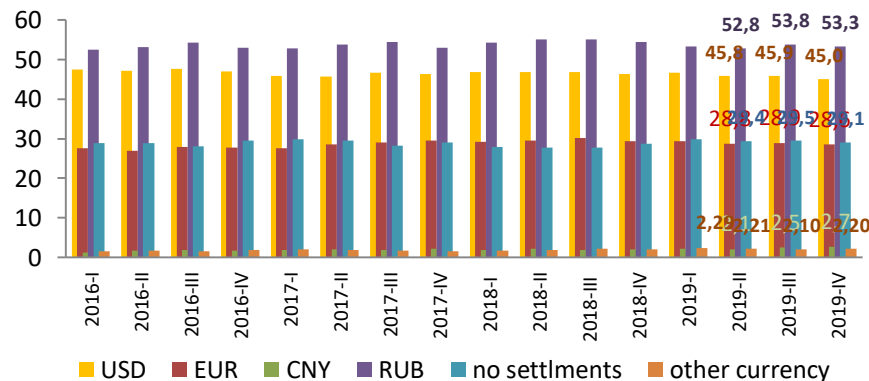The dynamics of CLI was positively affected by the improvement in the investment activity of enterprises, due to a decrease in the average interest rates on loans in tenge and in foreign currency. Among the positive factors, one can also single out a decrease in the share of enterprises that experienced the negative impact of changes in the tenge against the US dollar, Euro, and Russian ruble, an increase in the volume of loans issued in the economy, and an increase in the share of enterprises that received a loan.

In Q1 of 2020, respondents expect a slight slowdown in economic activity (CLI is 100.2), however, the indicator remains in the growth area.
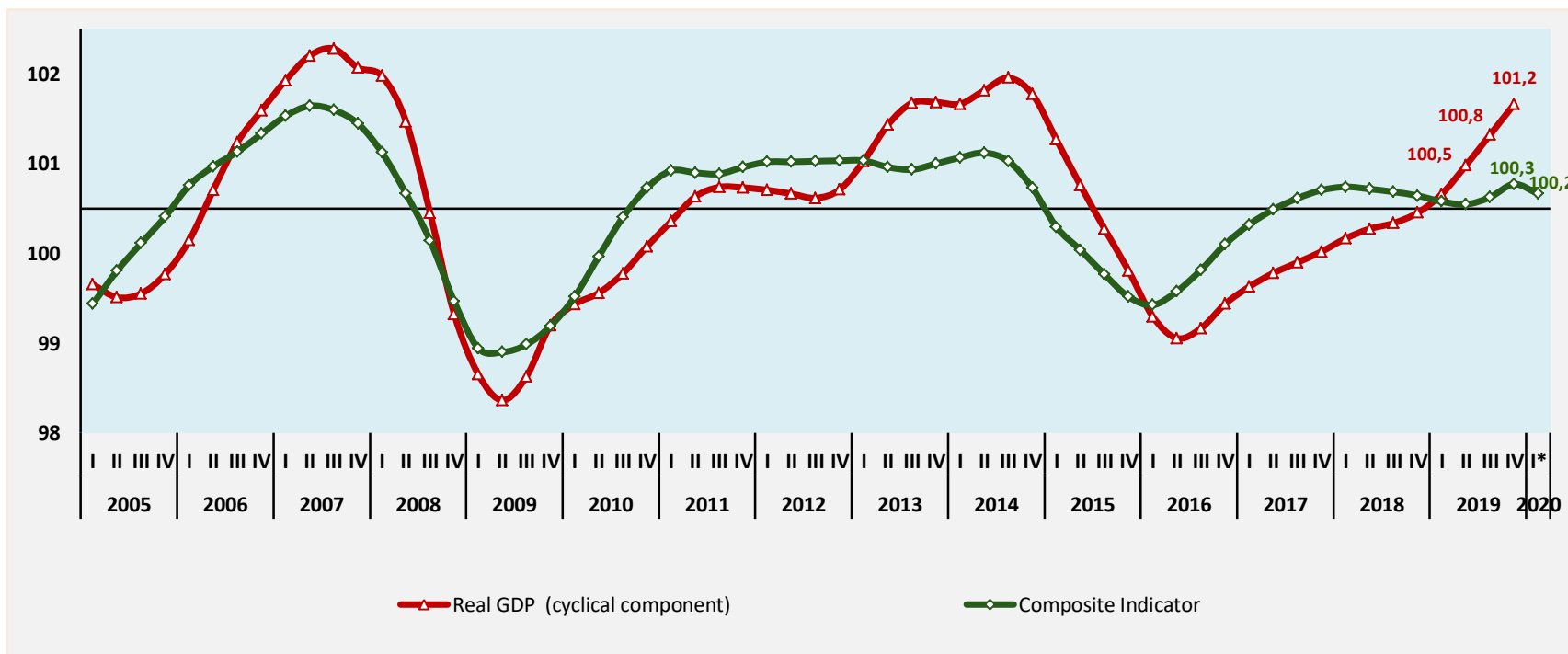
* A composite leading indicator is used to identify turning points in the business cycle and provides good quality information about the state and directions of trends in the economic activity. A composite leading indicator reflects a summarized evaluation of opinions of managers of the interviewed enterprises 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 Q1 2020 are calculated on the basis of expectations among enterprises in the real sector that participated in the survey.

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 mature; 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)

Monetary Policy Department
National Bank of Kazakhstan