MARKET REVIEW

Enterprises Survey Results in the Real Sector of the Economy

Q2 2021

Monetary Policy Department
National Bank of Kazakhstan

CONTENT

ENTERPRISE SURVEY PARTICIPANTS COMPOSITION

Regional structure of the enterprise survey participants in Q2 2021

Kostanay region
161 (4,9%)

North Kazakhstan region
205 (6,2%)

Pavlodar region
231 (7,0%)

West Kazakhstan region
171 (5,2%)

Akmola region
184 (5,6%)

Nur-Sultan city
175 (5,3%)

East Kazakstan region
218 (6,6%)

Aktobe region
175 (5,3%)

Karagandy region
310 (9,4%)

Atyrau region
242 (7,3%)

Almaty region
182 (5,5%)

Shymkent city
147 (4,4%)

Almaty city
266 (8,0%)

Mangystau region
141 (4,3%)

Kyzylorda region
213 (6,4%)

Jambyl region
230 (7,0%)

Turkistan region
57 (1,7%)

In Q2 of 2021 the number of respondents increased by 6 enterprises compared to the previous quarter and amounted to **3308**. 20 small enterprises were involved in the survey, 12 medium-sized enterprises and 2 large enterprises left.

Increase in the number of enterprises was noted in trade (4), mining (2) and agriculture (2).

Survey participants size structure

Large
675
20,4%

Small
1719
52,0%

Medium
914
27,6%

Survey participants sectorial structure

|	2018-I	2018-II	2018-III	2018-IV	2019-I	2019-II	2019-III	2019-IV	2020-I	2020-II	2020-III	2020-IV	2021-I	2021-II
Total	2972	3057	3116	3150	3190	3217	3244	3266	3224	3254	3276	3287	3302	3308
Trade	801	832	858	871	871	878	895	898	894	908	920	929	928	932
Manufacturing	694	695	697	699	705	705	709	706	690	699	704	704	703	699
Others	574	595	598	611	639	645	646	662	651	658	661	667	673	680
Construction	314	325	340	337	340	348	355	358	352	349	354	344	351	346
Transportation	235	241	244	247	250	257	255	256	248	252	248	250	254	254
Agriculture	186	193	198	198	198	195	196	197	199	200	200	197	196	198
Mining industry	168	176	181	187	187	189	188	189	190	188	189	196	197	199

Legend: Mining industry, Agriculture, Transportation, Construction, Others, Manufacturing, Trade

FINAL PRODUCTS DEMAND DYNAMICS

Final goods demand, DI*

Answers of enterprises, %		2019		2020				2021		
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3**
Increase	1	26,5	22,8	12,9	18,7	22,4	22,4	16,4	24,2	17,1
No changes	2	54,5	54,0	50,6	47,6	51,8	51,6	51,5	53,0	40,3
Decrease	3	16,7	20,7	33,8	30,7	22,6	22,9	28,5	19,1	9,1
Diffusion index, DI=line1+0.5*line2	4	53,7	49,9	38,2	42,5	48,3	48,2	42,1	50,7	33,5
DI, seasonal adjusted	5	51,1	50,3	46,1	41,9	46,5	48,8	51,1	50,2	50,3
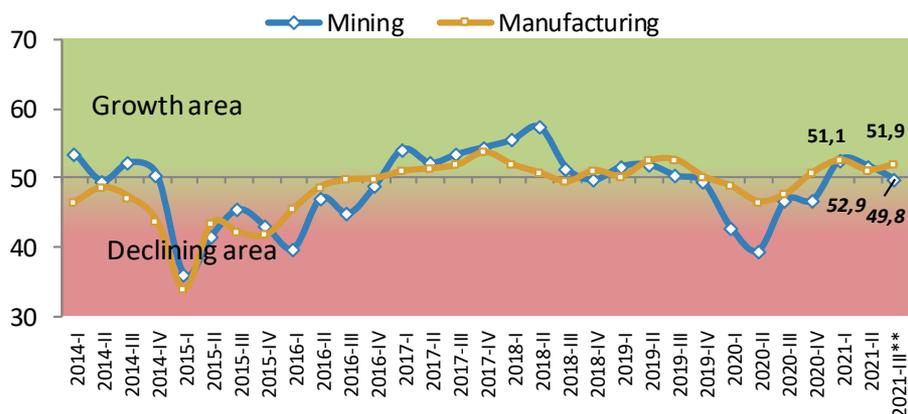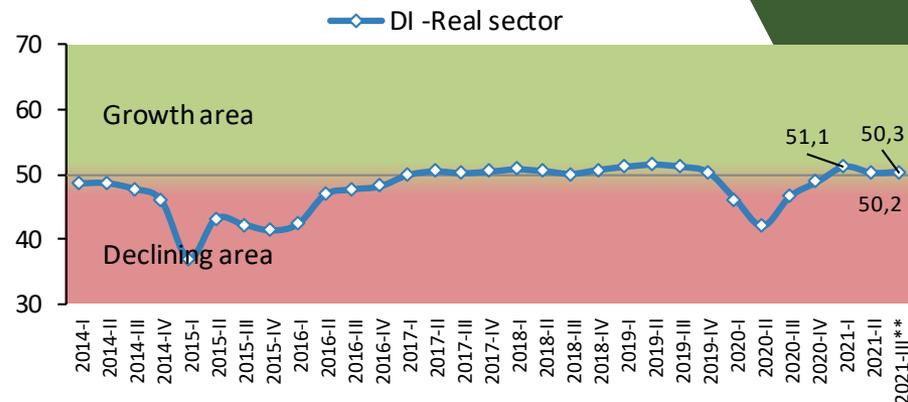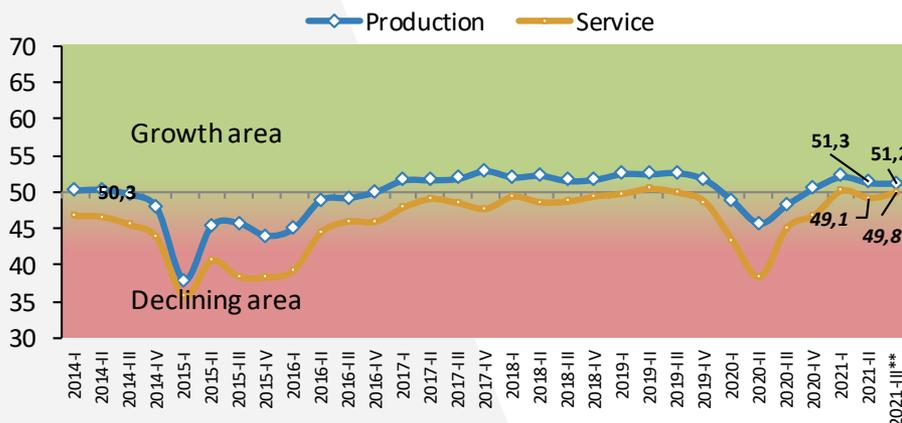
In Q2 of 2021 the demand for final goods in the real sector decreased slightly. The diffusion index (hereinafter –DI) remained in the growth area, amounting to **50,2**. The decline was observed in all sectors: in production of goods (51,3), in the service sector (DI=49,1), in the mining industry (51,8) and manufacturing (51,1).

According to the expectations of enterprises in the real sector in Q3 of 2021 the process of recovery of demand will almost remain unchanged (DI=**50,3**).

PRICES CHANGES IN THE REAL SECTOR

Final goods prices, DI*
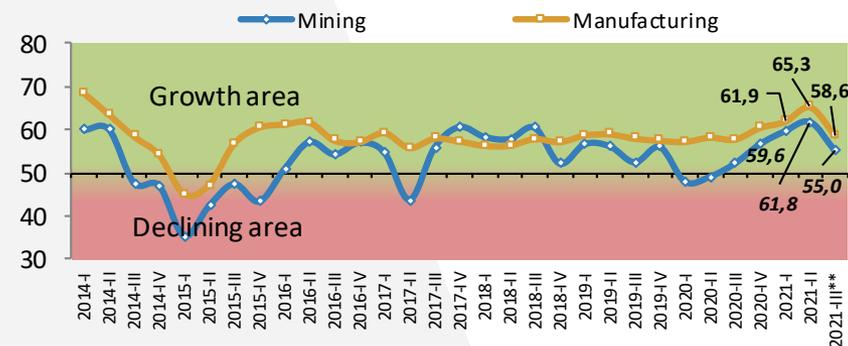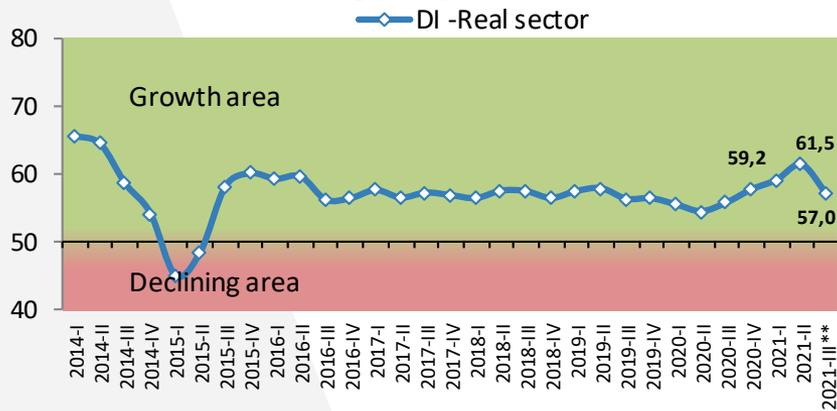
Raw materials prices, DI*
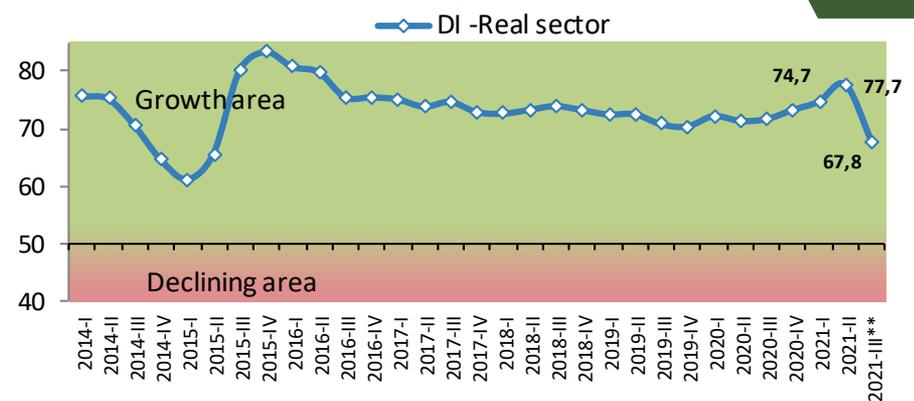
Assessment of pricing factors importance, answers in%

82,4	Prices for raw materials
81,7	Demand
70,7	Taxes/fees
69,6	Labor costs
62,3	Productivity
59,2	Exchange rate
61,3	Competitor prices
62,5	Fuel prices
21,1	Other
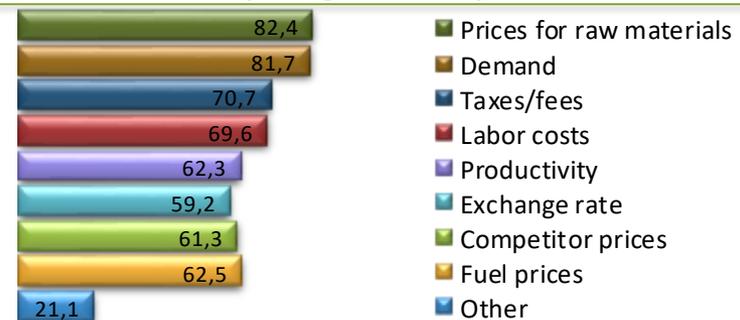
In Q2 of 2021 the growth rate of prices for final goods of enterprises in the economy as a whole increased (DI = **61,5**). There was an increase in price growth rate in the manufacturing and mining industry (DI rose to 65,3 and 61,8, respectively).

For the vast majority of businesses the most important factor in setting prices for final goods are the prices for raw materials (82,4% of companies) and demand (81,7%).

In Q3 of 2021 enterprises expect lower growth of prices for raw materials (DI=67,8), and for final goods (DI = 57,0).

Capacity utilization level

(share of respondents, %)

Legend:
- CU<50%
- 50%<CU<70%
- 70%<CU<90%
- CU>90%
- CU weighted average
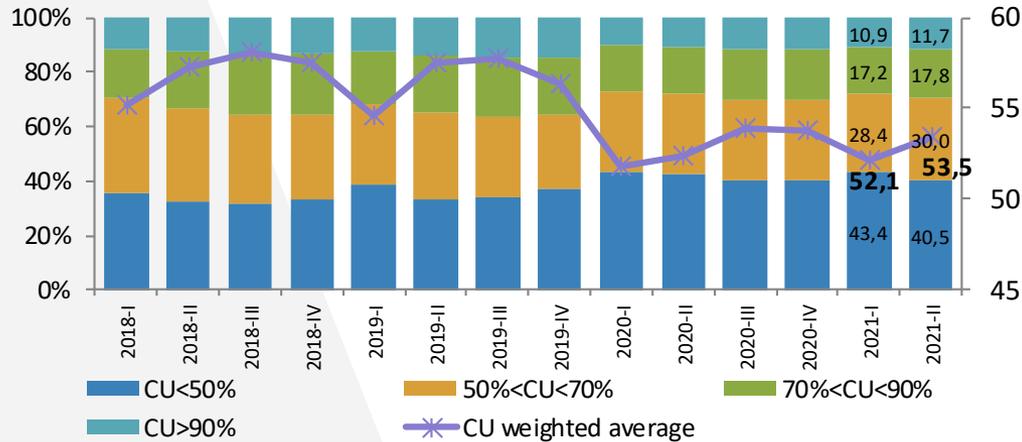
DI changes in production output , DI**

Growth area
Declining area

Values labeled: 41,3 · 54,5 · 51,4 · 49,4 · 53,8 · 40,5 · 35,8 · 53,8
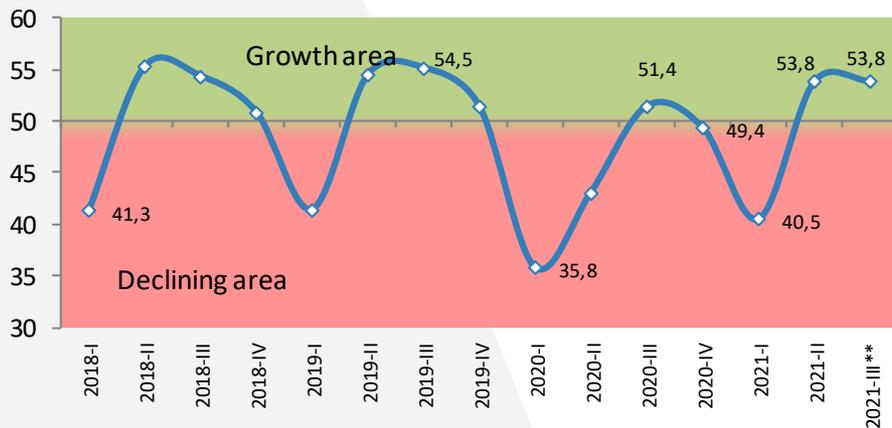
In Q2 of 2021 the capacity utilization (CU) of enterprises increased. The weighted average* level of the CU was **53,5%.**

As a result, production volumes increased in Q2 of 2021. DI amounted to **53,8** and moved into the growth area.

In Q3 of 2021 enterprises expect the volume of production to remain at the same level. DI is expected to be **53,8**, which corresponds to the pre-pandemic level.

* Arithmetic weighted average is the average value of the interval, weighted by the share of enterprises.
** The higher (lower) the DI from the level of 50, the higher (lower) the growth (fall) rate of the indicator, the level of DI = 50 means no change

BALANCE SHEET STRUCTURE: ASSETS

Assets structure

Legend: Long-term assets, Short-term assets

Values shown: 31,2 31,4 / 68,8 68,6
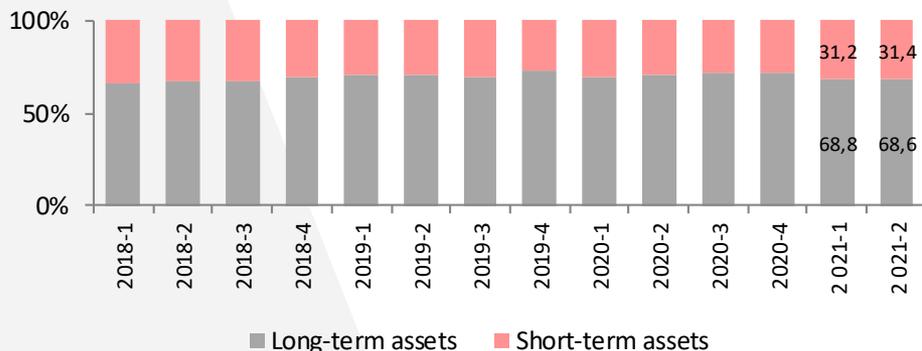
Short-term assets Structure

Legend: Inventory, Short-term receivables, Other short-term assets

Values shown: 42,2 41,4 / 38,3 38,0 / 19,5 20,6

Assets turnover indicators

Legend: Assets turnover, Working capital turnover

Values shown: 13,1 / 42,1 / 15,0 / 47,7
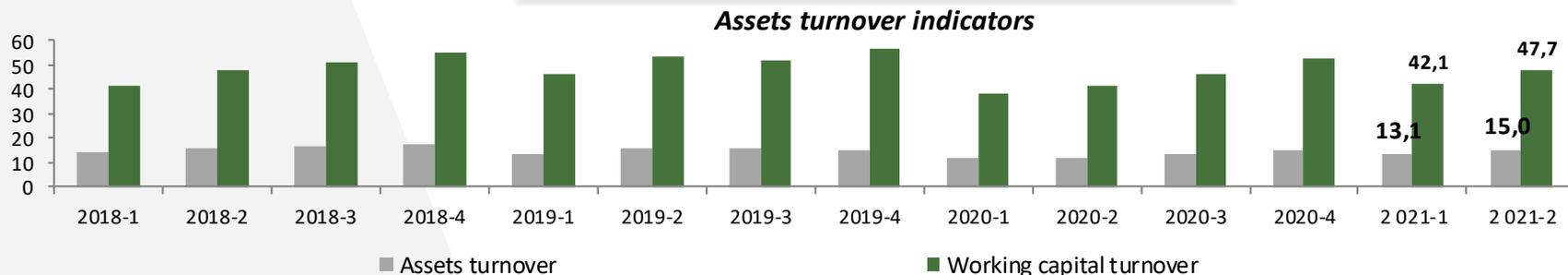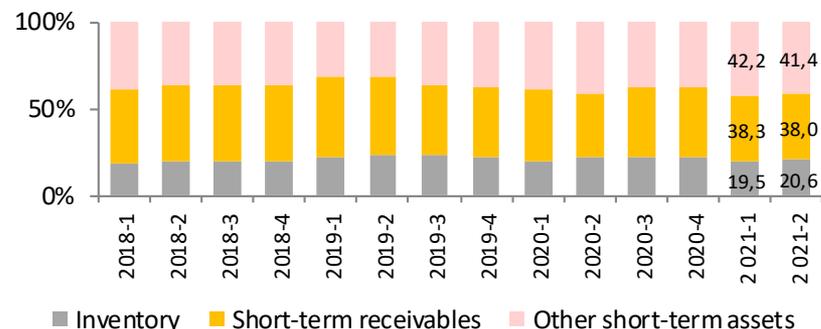
In Q2 of 2021 there was almost no change structure of assets of companies in the real sector of the economy. The share of short-term assets amounted to **31,4%** and the share of long-term assets was **68,6%** (in Q1 – 31,2% and 68,8%, respectively). The assets turnover* increased to **15,0%**, working capital turnover** - to **47,7%**.

In the structure of short-term assets the share of short-term receivables remained almost unchanged – **38,0%** (in Q1 – 38,3%), and the share of inventories increased to **20,6%** (from 19,5% in Q1).

BALANCE SHEETS STRUCTURE : LIABILITIES

Liabilities structure
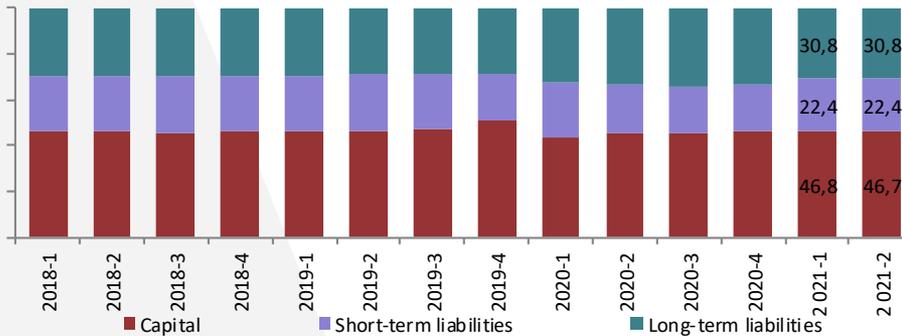
Long-term liabilities structure
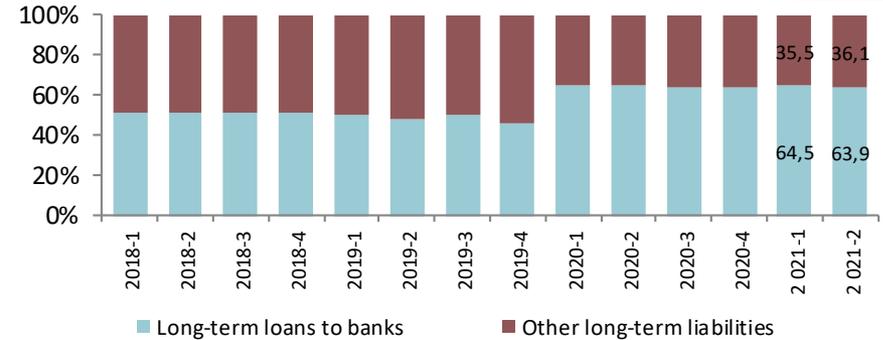
Short-term liabilities structure
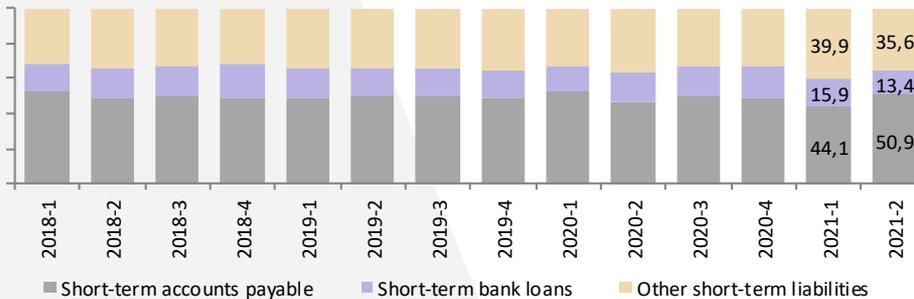
Share of enterprises with overdue debts
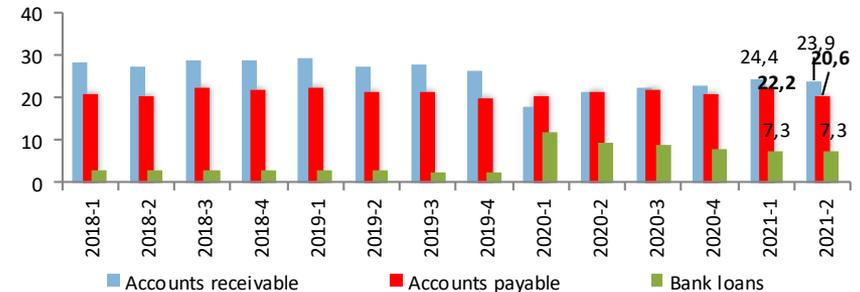
In Q2 of 2021 the structure of liabilities remained almost unchanged, the share of long-term and short-term liabilities was **30,8%** and **22,4%**, respectively. The share of short-term accounts payable in the structure of short-term liabilities increased from 44,1% in Q1 to 50,9% in Q2 of 2021. The share of short-term bank loans decreased to 13,4% (in Q1 – 15,9%).

The share of enterprises with overdue debts on bank loans kept the same level of **7,3%**. At the same time, the share of enterprises with overdue accounts receivable decreased (from 24,4% to **23,9%**) and accounts payable (from 22,2% to **20,6%**).

INVESTMENT ACTIVITY

Funding source for fixed assets, %
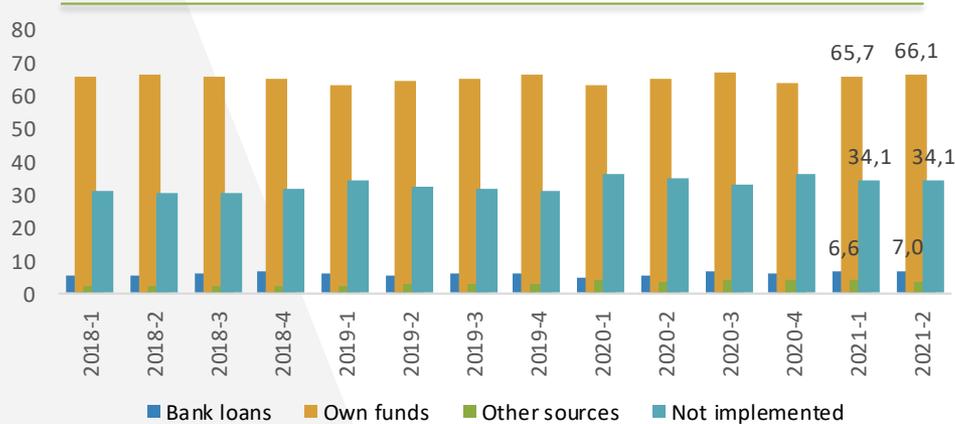
In Q2 of 2021 the investment activity of enterprises slightly increased compared to Q1: the share of enterprises that financed fixed assets from their own funds increased (up to 66,1%) and bank loans (up to 7,0%), and the share of enterprises that did not finance fixed assets remained at the same level (34,1%). As before, most of the enterprises use their own funds to finance fixed assets and working capital (66,1% and 84,8%, respectively).

Funding source for working capital, %
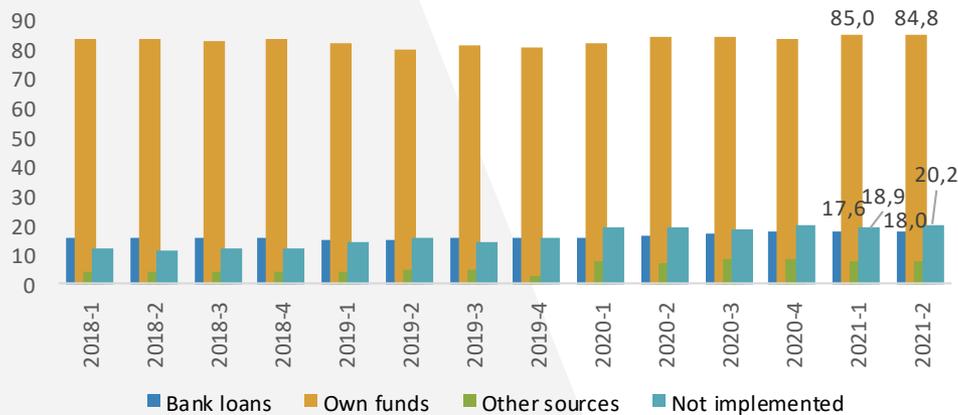
SOURCES OF WORKING CAPITAL FINANCING

Sources of working capital financing

2 021-1

7,5
9,2
18,9
2,9
5,9
43,9
41,1

2 021-2

7,9
9,3
20,2
2,8
5,4
40,6
44,2

- Kazakhstan banks loans (new loan)
- Use of a tranche on a previously opened credit line
- Equity of shareholders / participants
- Profit
- Government programs
- Other sources
- Not funded
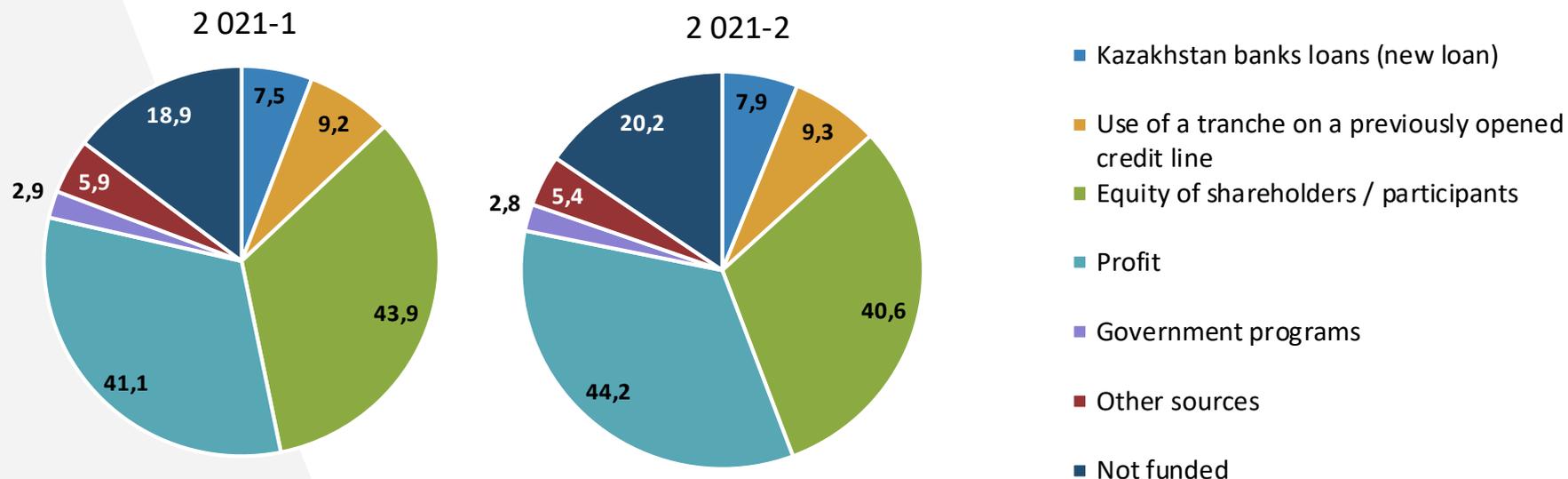
To finance **working capital** the majority of enterprises (**84,8%**) used their own funds, of which **44,2%** used profit, **40,6%** - equity of shareholders/participants. **17,6%** of enterprises used bank loans for this purpose (of which 9,3% used a tranche on a previously opened credit line, 7,5% issued a new loan from Kazakhstan banks, 0,7% received loan abroad, 0,3% used loans from microfinance organizations).

Among other sources of financing, in addition to those presented on the graph, enterprises also indicate prepaid expenses from buyers and intra-group loans (between the parent company and branches), as well as interest income from the deposit.

OBSTACLES FOR DOING BUSINESS

Proportion of enterprises reporting obstacles

Legend:
- State of the Kazakh economy
- Market competition
- No obstacles
- Search for buyers (demand for the products, services)
- Regulatory - level of tax burden
- Lack of qualified personnel
- Receivables repayment difficulties
- Access to the financing (bank lending terms)
- Regulatory - complexity, frequent changes (licenses, permissions)
- Low profitability
- Underdeveloped infrastructure
- Other factors

Chart values: 34,1 | 28,9 | 26,8 | 22,8 | 22,4 | 18,1 | 12,2 | 11,9 | 11,5 | 10,5 | 9,2 | 4,5

According to the results of survey in Q2 of 2021, for **34,1%** of enterprises, the state of the economy of Kazakhstan is an obstacle to doing business (in Q1, the share of such enterprises was 33,9%). According to 46,2% (in Q1- **44,2%**) of respondents, the economic situation in Kazakhstan worsened in Q2 of 2021, **49,5%** believe that it has not changed.

The most important factors for enterprises, in addition to the state of the economy, are such factors as market competition (28,9%), the search for buyers (22,8%), the level of tax burden (22,4%), the lack of qualified personnel (18,1%), receivables repayment difficulties (12,2%), while **access to the financing is in 8th place in importance (11,9%).**

Other obstacles the enterprises indicate low profitability, price regulation at the state level, tariff reduction, exchange rate, export ban, low purchasing power and quarantine.

THE FINANCIAL AND ECONOMIC PERFORMANCE CHANGE

In Q2 of 2021 the average* return on sales** of enterprises in the mining industry decreased to **40,0**% from 41,0% in Q1. In manufacturing the return on sales increased to **21,4%** from 19,8% in Q1. As a result, the average return on sales in the economy increased and amounted to **23,4%**.

The share of enterprises planning to close the year with profit was **35,9%, 11,9%** believe that the year will end with loss. At the same time, **37,5%** of the surveyed enterprises think to close the year with a balanced budget (without profit and loss), the remaining **14,7%** cannot assess the financial condition of the enterprise by the end of the year.

Return on sales *, in %

Legend: Economy — Manufacturing — Mining industry
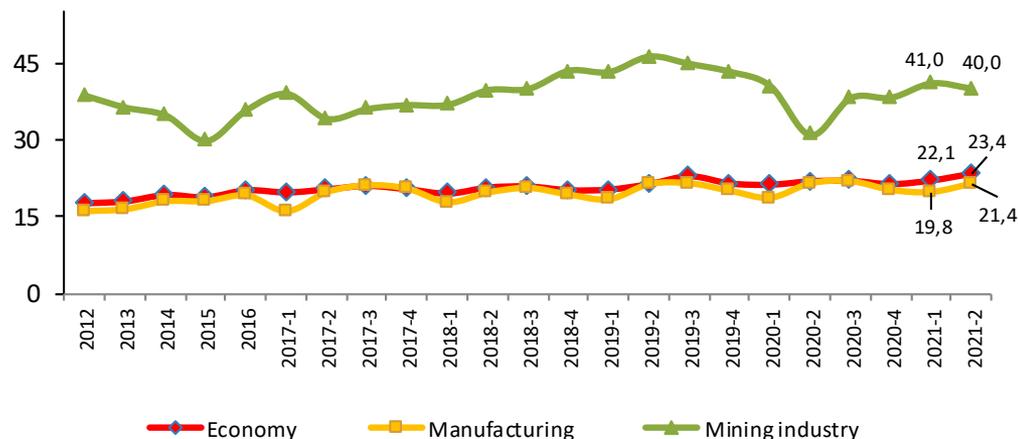
Share of enterprises planning to close the financial year with profit / loss,%
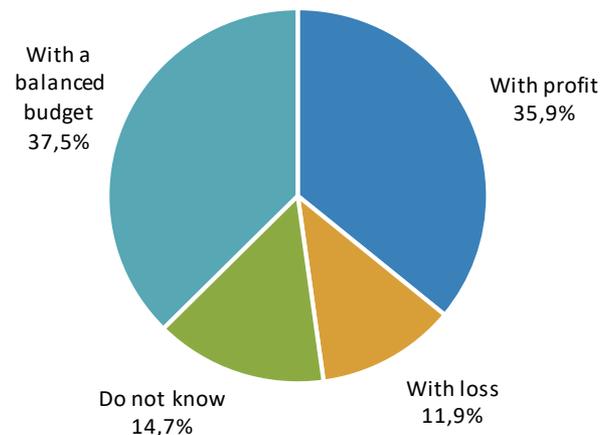
- With a balanced budget 37,5%
- With profit 35,9%
- With loss 11,9%
- Do not know 14,7%

ASSESSMENT OF THE ENTERPRISES FINANCIAL CONDITION

Dynamics of changes in the financial condition of enterprises *, share in%

Legend: Normal financial condition · Stable financial condition · Critical financial condition
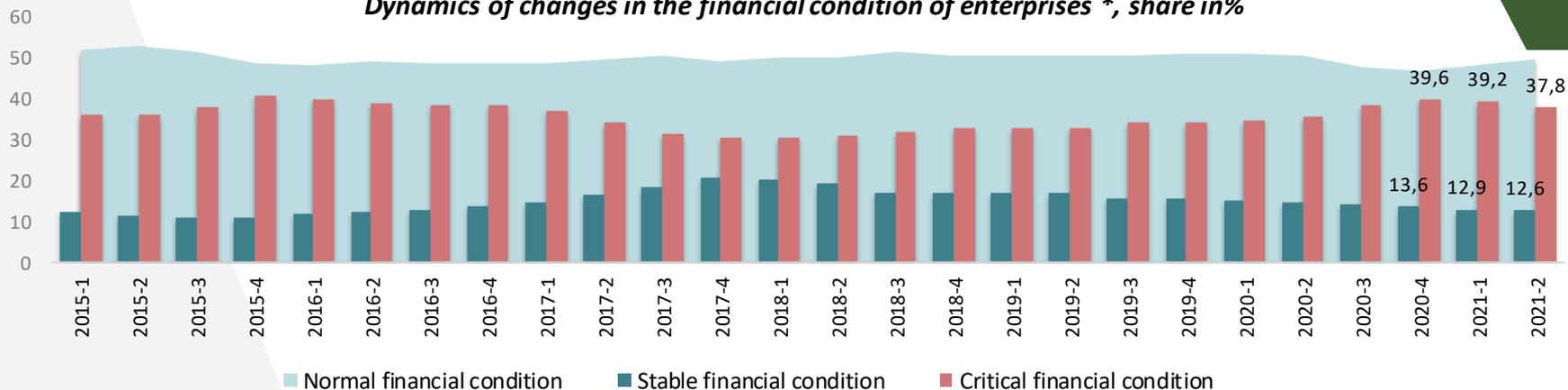
Enterprises distribution by degree of reliability by dimension in Q2 2021, share in%

Large enterprises — Stable 9,0; Critical 24,9; Normal 66,1

Medium enterprises — Stable 14,3; Critical 31,2; Normal 54,5

Small enterprises — Stable 13,2; Critical 44,0; Normal 42,8

Legend: Stable · Normal · Critical
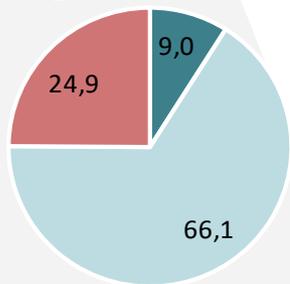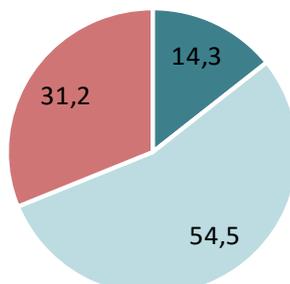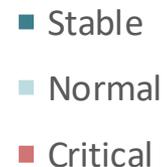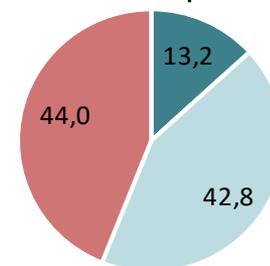
   According to the results of the discriminant analysis based on the assessment of the financial coefficients of enterprises, the share of enterprises with a critical financial condition decreased from 39,2% in Q1 to **37,8%** in Q2.

   By dimension, the share of enterprises with a critical financial condition among small enterprises is significantly higher (**44,0%**) than among large (24,9%) and medium-sized (31,2%). At the same time, the share of stable enterprises in the structure of large enterprises is lower than in medium and small ones.

* The respondent enterprises are distributed according to the degree of reliability based on the values of financial indicators according to the results of discriminant analysis.
   See the methodological commentary on slide 21.

ASSESSMENT OF THE ENTERPRISES FINANCIAL CONDITION

Enterprises distribution by degree of reliability by type of activity in Q2 2021, share in%

Number of enterprises*

| Type of activity	Stable	Normal	Critical	Number of enterprises*
Electricity, gas, steam and air conditioning	5,1	75,9	19,0	79 units
Transportation	8,9	51,7	39,4	203 units
Trade	11,9	46,1	41,9	687 units
Construction	22,2	37,8	40,0	270 units
Agriculture	12,6	50,9	36,5	167 units
Others	12,0	42,0	46,0	50 units
Professional, scientific and technical activities	9,9	44,6	45,5	121 units
Accommodation and food services	5,4	40,5	54,1	74 units
Manufacturing	13,5	56,1	30,4	601 units
Real estate operations	12,3	49,1	38,6	114 units
Information and communication	9,5	61,9	28,6	42 units
Mining industry	11,4	44,3	44,3	158 units
Water supply	13,3	83,3	3,3	30 units

■ Stable ■ Normal ■ Critical

In Q2 of 2021 in all sectors, except for water supply, the share of enterprises with a critical financial condition was greater than the share of enterprises with a stable financial condition. The largest share of stable enterprises was in construction (**22,2%**). The largest share of enterprises with a critical financial condition is in the "accommodation and food services" industry (**54,1%**). Water supply and electricity supply were the most stable sectors, where the share of enterprises with a normal financial condition was **83,3%** and **75,9%**, respectively.

BANKING SYSTEM IMPACT ON THE REAL SECTOR OF THE ECONOMY

Loans demand, %

(share of enterprises applying for a loan from a bank)

Legend: For economy (actual) · For economy (exp.) · Mining (exp.) · Manufacturing (exp.)
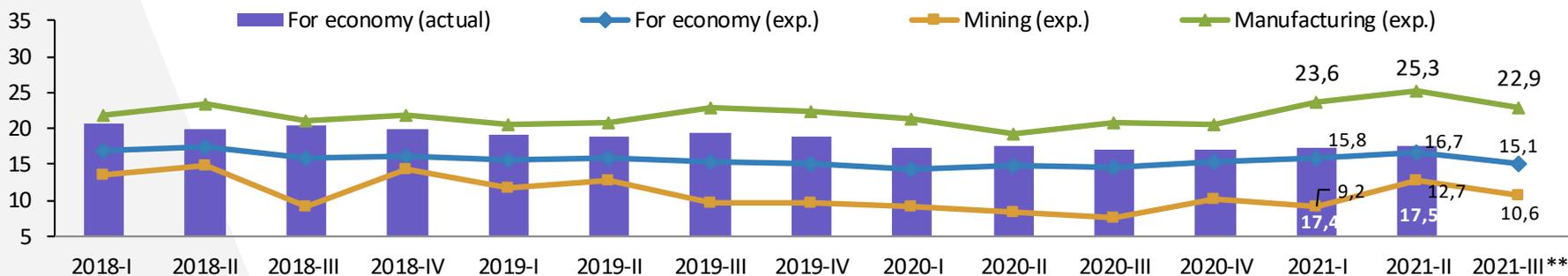
Lending applications consideration

Legend: Share of the enterprises that have been denied a loan · Share of enterprises that have received a loan*
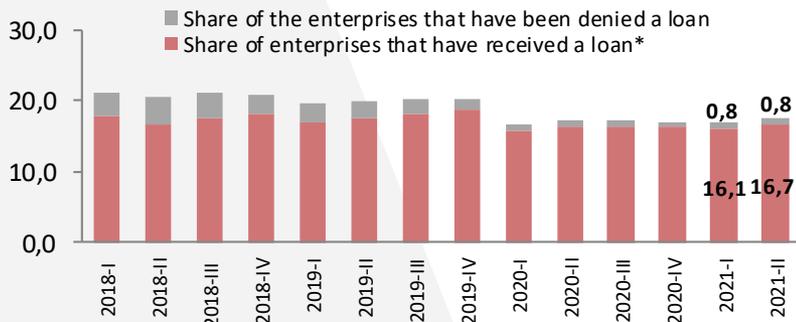
Share of enterprises that have been denied for a loan

Legend: Small and middle · Large · Economy
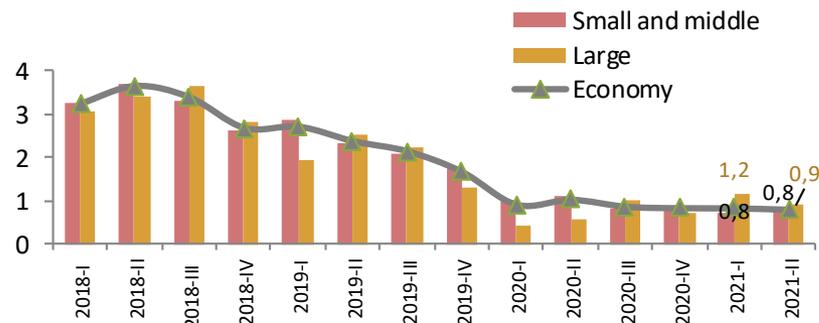
In Q2 of 2021 **17,5%** of the surveyed enterprises applied to the bank for a loan, 16,7% of enterprises received a loan (or 95,4% of the number of those who applied for a loan). The share of refusals in lending was 0,8% of the total number of survey participants (4,6% of the number of those who applied for a loan).

In Q3 of 2021 **15,1%** of the surveyed enterprises intend to apply for a loan. In the manufacturing industry the share of such enterprises is **22,9%**, in the mining industry - **10,6%**.

BANKING SYSTEM IMPACT ON THE REAL SECTOR OF THE ECONOMY

*Debt burden as estimated by enterprises *,%*

Debt load *	Share of enterprises
1-20%	16,6
21-30%	10,4
31-40%	7,0
41-50%	4,3
51-60%	3,7
61-70%	1,4
71-80%	1,2
over 81%	1,5
no debt	53,9

The objectives of attracting a loan in the past quarter, in %

Pie chart legend:
- Financing working capital — 84,6%
- Financing fixed assets — 9,3%
- Refinancing — 2,2%
- Business expansion — 1,2%
- Other purpose — 2,8%

(2,2% and 1,2% labels shown on chart)
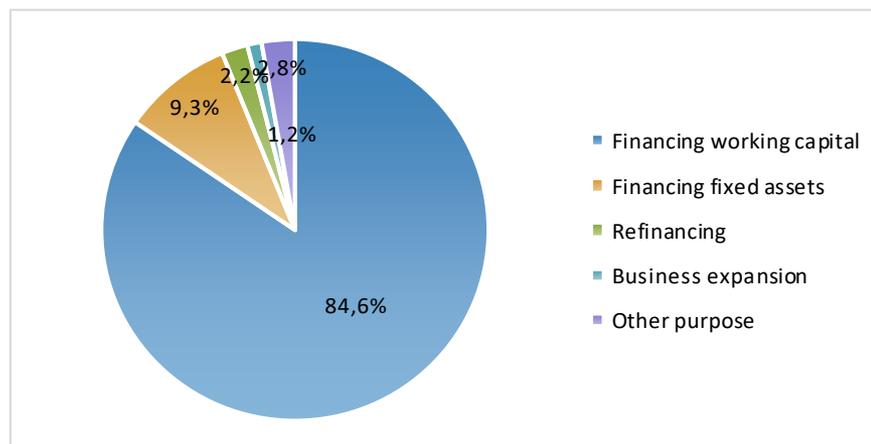
In Q2 of 2021 53,9% of enterprises that took part in the survey **had no debt**. Among who took part in the survey the majority (16,6%) have a debt load* within 20%. The weighted arithmetic mean value** of the debt load is **13,8%**.

The vast majority of enterprises (**84,6%**) get loan to finance working capital (purchase of materials, raw materials, semi-finished products, etc.), 9,3% – to purchase of fixed assets (buildings, vehicles, equipment, etc.). Loans to refinance were received by 2,2% of enterprises, to expand business –1,2%.

* Monthly payment / income from sales of products
** Arithmetic weighted average is the average value of the interval, weighted by the share of enterprises.

# BANKING SYSTEM IMPACT ON THE REAL SECTOR OF THE ECONOMY

Price conditions
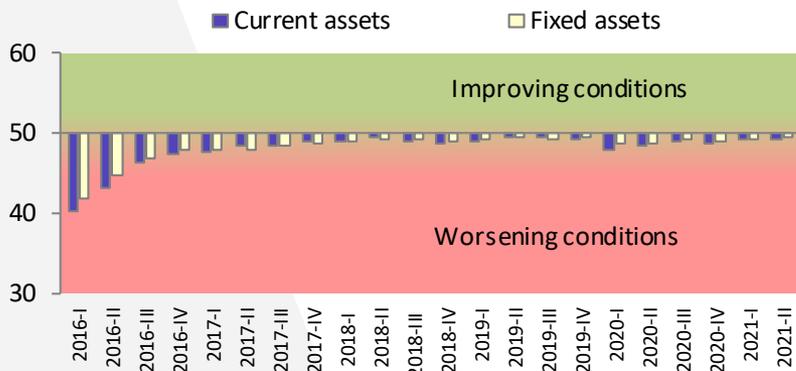
Loan terms and rates in tenge
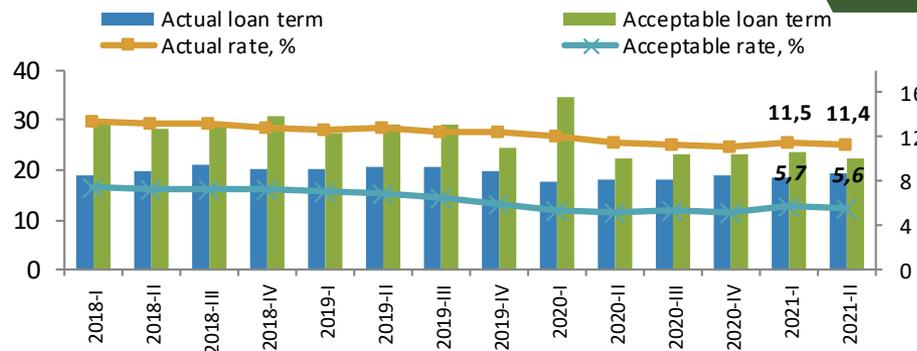
Non-price conditions
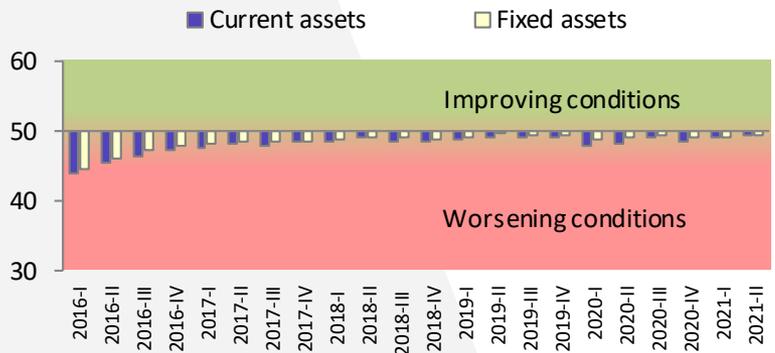
Loan terms and rates in foreign currency
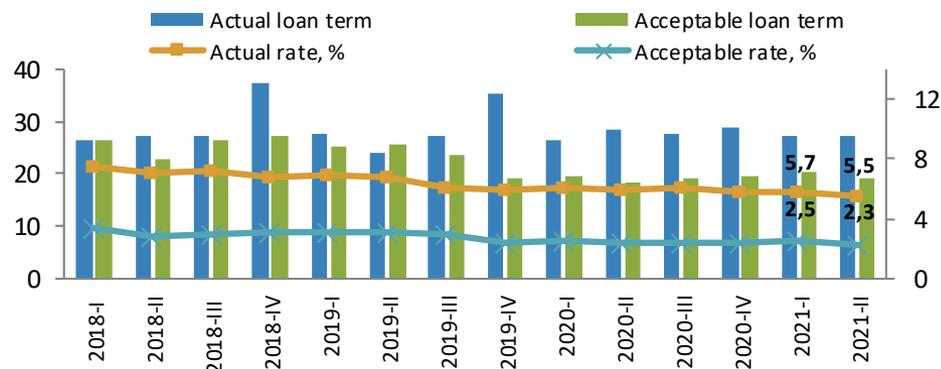
In Q2 of 2021 the assessments of enterprises regarding price (the level of loan rates, the amount of additional commissions) and non-price (the maximum size and term of the loan, requirements for the financial condition of the borrower, requirements for collateral) lending conditions improved slightly, but remained negative.

The average interest rates on loans received by the monitoring participants amounted to **11,4%** in tenge and **5,5%** in foreign currency (11,5% and 5,7% in the previous quarter, respectively). The interest rate acceptable for enterprises on loans in tenge is 5,6%, on loans in foreign currency - 2,3%.

FOREIGN ECONOMIC ACTIVITIES OF ENTERPRISES (FEA)

Implementation of foreign economic activity in the past quarter, the share of enterprises in %

- exported
- imported
- exported and imported
- did not carry out foreign economic activity

- 6,2
- 26,8
- 9,4
- 57,6

Foreign economic activity by activity type, share of enterprises in %

	Exported	Exported and imported	Imported	Foreign activities were not proceeded
Power supply	3,2	2,1	16,5	78,4
Accommodation and food services		1,1	7,7	91,2
Transportation	3,9	6,3	10,2	79,5
Construction	3,2		19,9	75,7
Agriculture	6,6	7,1	21,7	64,6
Others	3,7	2,5	19,8	74,1
Prof., scientific activity	5,1	5,7	12,7	76,6
Trade	6,5	7,8	45,5	40,1
Real estate operations			12,9	85,0
Manufacturing	7,6		21,5	28,6	42,3
Information and communication	3,0	10,4	14,9	71,6
Mining industry	21,1	12,6	16,6	49,7
Water supply	2,2		8,7	82,6

Use of currency in calculations, share of enterprises in %

|	Exporters	Importers
USD	77,9	51,8
EUR	30,4	39,2
CNY	3,9	4,2
RUB	55,9	87,1
KZT	22,1	11,9
other currency	1,0	1,3

In Q2 of 2021 **26,8%** of respondents imported products to carry out their activities, 6,2% exported, 9,4% both exported and imported, and the vast majority (**57,6%**) did not carry out foreign economic activities. The largest share of enterprises exporting products is in the mining industry (**21,1%**), the largest share of enterprises importing products is in trade (**45,5%**). In trade the largest share of enterprises that carried out foreign economic activity.

In settlements with foreign partners, exporters use the US dollar more often (**77,9% of exporters**), importers use the Russian ruble more (**87,1% of importers**). The British pound sterling, Swiss franc, Kyrgyz som and Turkish lira are indicated as other currencies used.

IMPACT OF EXCHANGE RATE CHANGES

*Dynamics of the impact of changes in the exchange rate, DI **

Legend: USD/KZT — EUR/KZT — RUB/KZT — CNY/KZT

Values shown: 46,7   46,3   40,7   40,7   37,9   37,1   35,7   36,8
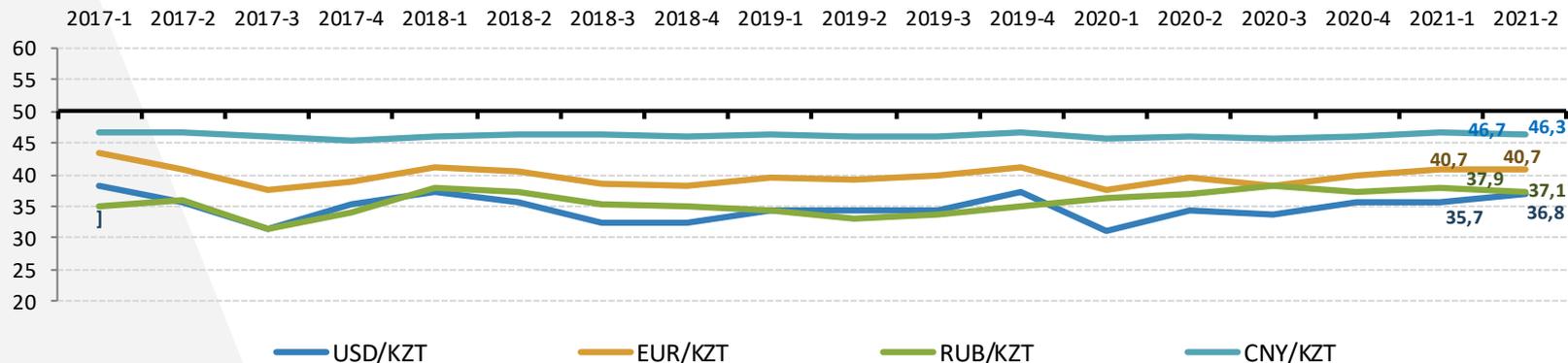
Impact of the exchange rate on the economic activities of exporters in Q2 2021

Categories: CNY/KZT, RUB/KZT, EUR/KZT, USD/KZT

Legend: Positive, Negative, No impact, I don't know
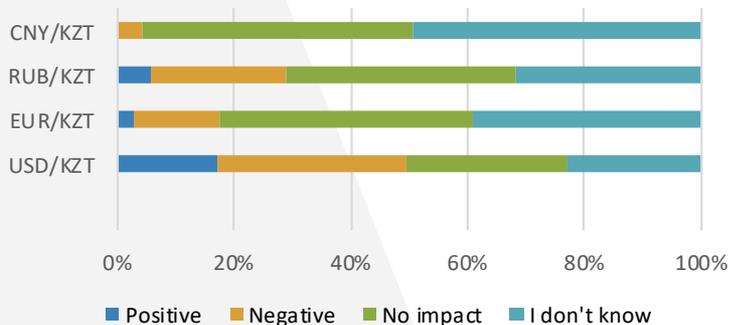
Impact of the exchange rate on the economic activity of importers in Q2 2021

Categories: CNY/KZT, RUB/KZT, EUR/KZT, USD/KZT

Legend: Positive, Negative, No impact, I don't know
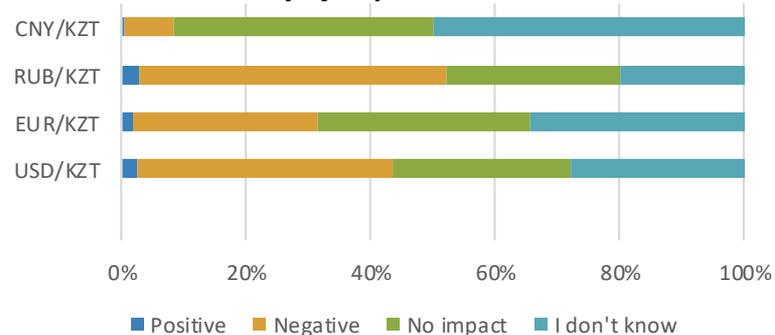
In Q2 of 2021 the negative impact on the economic activities of enterprises from the change in the USD/KZT exchange rate decreased, while the impact of the EUR/KZT pair remained the same. While the impact of the RUB/KZT exchange rate worsened (DI decreased to the level of 37,1). Enterprises experience the least negative impact on their economic activities from the CNY/KZT exchange rate. The positive impact of changes in the exchange rate in Q2 was indicated by more enterprises exporting products.

* The higher (lower) the DI from the level of 50, the higher (lower) the growth (fall) rate of the indicator, the level of DI = 50 means no change
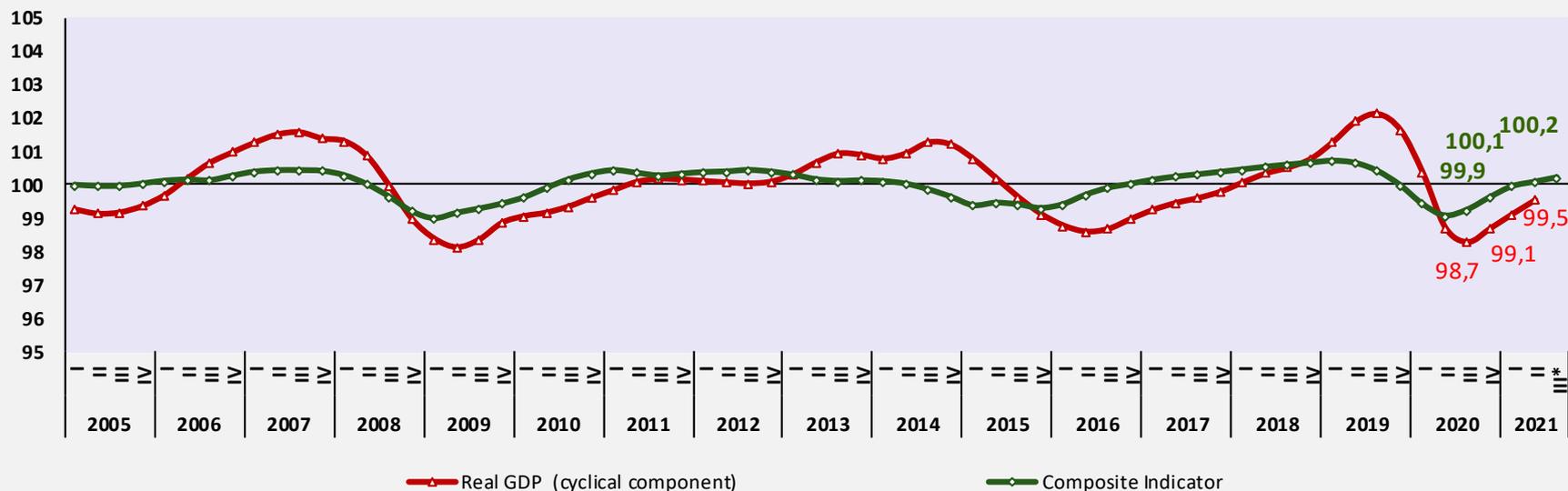
In Q2 of 2021 the dynamics of the composite leading indicator (CLI), which is an aggregated assessment of surveys of enterprises in the real sector, shows signs of a recovery in economic activity in the real sector. The CLI moved into the positive area and amounted to 100,1.

The dynamics of CLI was positively influenced by the energy prices, the recovery of demand in industries, increase in the utilization of production capacities and the volume of products produced. Large share of enterprises with a critical financial condition, and prices for raw materials and materials, had a negative impact on the CLI.

In Q3 of 2021 a slight improvement in economic activity is expected (CLI is expected to be 100,2), which is mainly due to the expected increase in demand for final goods of enterprises, especially in the "real estate transactions" industry, and an expected increase in the level of capacity utilization.

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

** The CLI parameters for Q3 2021 are calculated on the basis of expectations among enterprises in the real sector that participated in the survey.

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

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

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

➢ Discriminant analysis allows to identify the most informative indicators of the financial condition of the enterprise and determine the approach of a crisis situation at the enterprise, and thus classify them according to the degree of reliability. The distribution of enterprises into groups (stable, normal and critical) is carried out using classification functions, including 3 financial indicators: the income growth rate from sales of products per employee, the coefficient of financial independence and the equity capital growth rate. Details in the economic research

https://www.nationalbank.kz/file/download/9013

➢ The composite indicator (CLI) possesses the forward-looking feature of the real GDP behavior for 1-2 quarters. The time series of the CLI 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 CLI 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) DI changes in demand for final products in sectors of the economy
2) DI changes in prices for final products of enterprises in sectors of the economy
3) Credit activity indicator: share of enterprises intending to obtain a loan
4) DI changes in the level of utilization of production facilities;
5) DI changes in average wages;
6) DI changes in inventories

METHODOLOGICAL COMMENTS