

MARKET REVIEW

Enterprises Survey Results in the Real Sector of the Economy

Q2 2020

Monetary Policy Department
National Bank of Kazakhstan



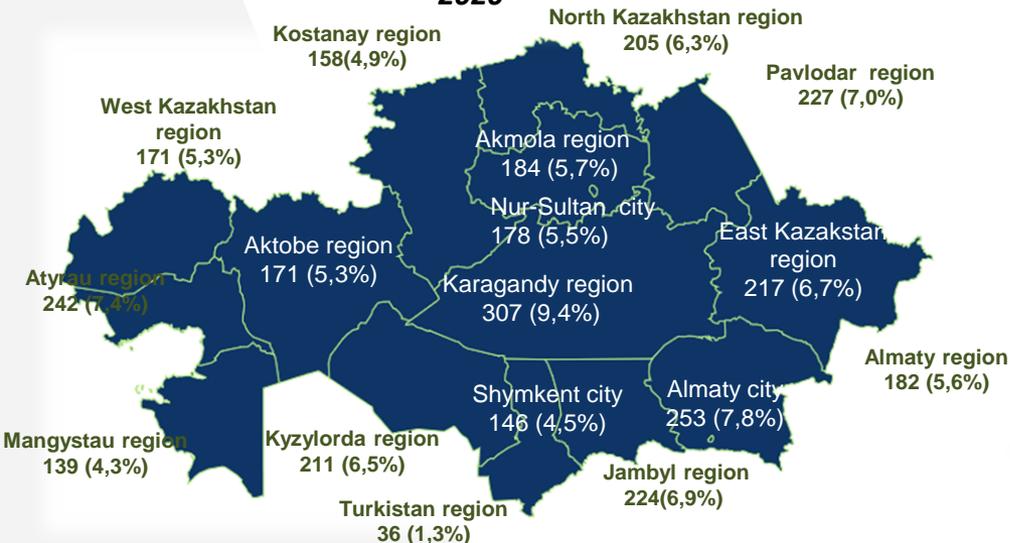
CONTENT

- I. Enterprise Survey Participants Composition Dynamics (page 3)
- II. Final Products Demand (page 4)
- III. Price Changes in the Real Sector (page 5)
- IV. Production Output (page 6)
- V. Balance Sheet structure : Assets (page 7)
- VI. Balance Sheet structure : Liabilities (page 8)
- VII. Investment activity (page 9-10)
- VIII. Obstacles for doing business (p. 11)
- IX. Financial and Economic Performance Change (pages 12)
- X. Banking System Impact on the Real Sector of the Economy (pages 13-15)
- XI. Enterprises foreign economic activity (page 16)
- XII. Impact of exchange rates changes (page 17)
- XIII. Composite Leading Indicator (page 18)
- XIV. Methodological Comments (page 19)

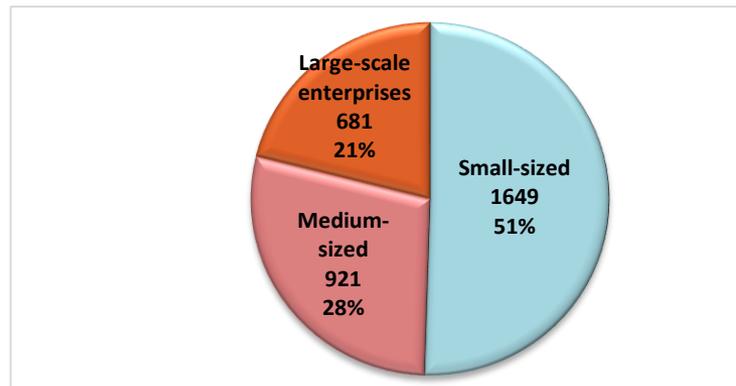
ENTERPRISE SURVEY PARTICIPANTS COMPOSITION

Regional structure of the enterprise survey participants in Q2 2020

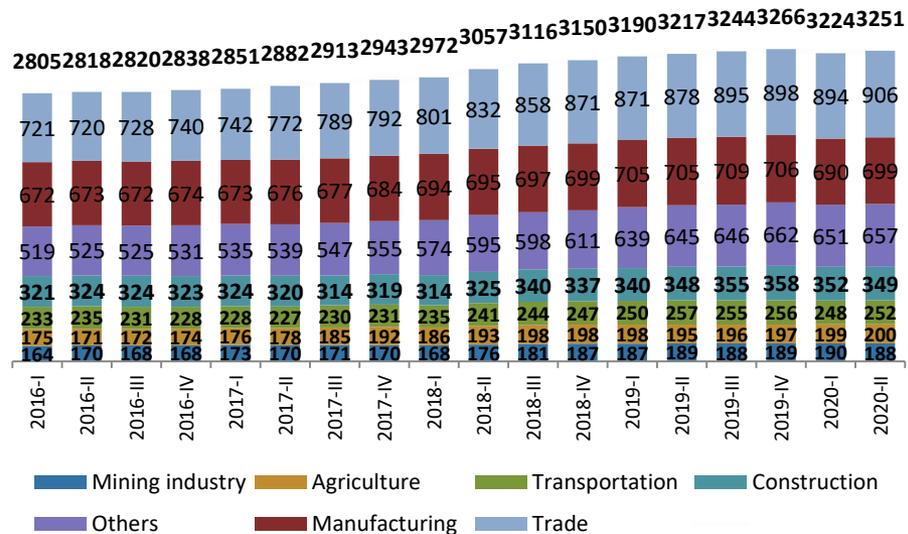
2020



Survey participants size structure



Survey participants sectorial structure



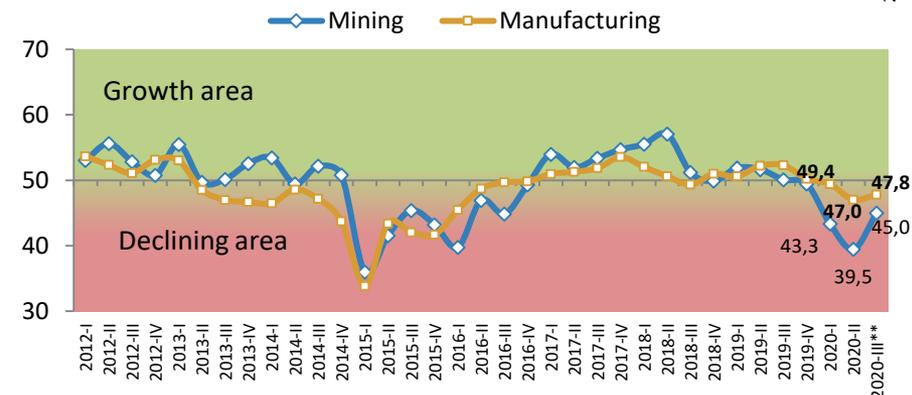
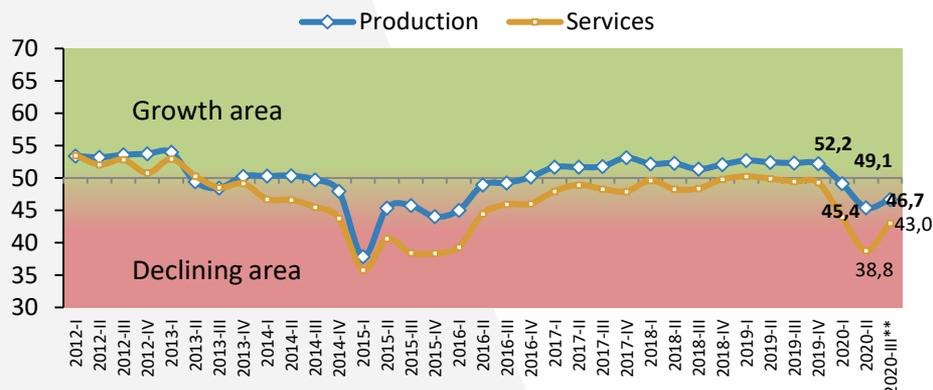
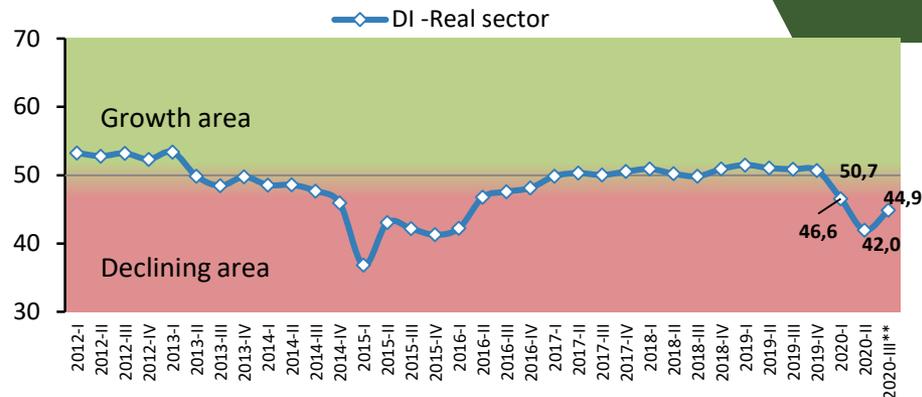
In Q2 of 2020 after the easing of quarantine, the number of respondents increased by 27 enterprises compared to the previous quarter. The survey involved 18 small, 10 medium-sized enterprises, but 1 large enterprise dropped out.

In the sectorial context, the largest increase in enterprises was noted in trade (12) and manufacturing (9).

FINAL PRODUCTS DEMAND DYNAMICS

Final goods demand, DI*

Answers of enterprises, %		2019				2020		
		Q1	Q2	Q3	Q4	Q1	Q2	Q3**
Increase	1	16,1	26,7	26,5	22,9	12,9	18,7	14,5
No changes	2	53,8	53,4	54,5	54,0	50,6	47,6	37,8
Decrease	3	28,7	18,0	16,7	20,7	33,8	30,7	17,0
Diffusion index, DI=line1+0.5*line2	4	43,0	53,4	53,7	49,9	38,2	42,5	33,4
DI, seasonal adjusted	5	51,5	51,0	50,9	50,7	46,6	42,0	44,9



In Q2 of 2020, the decline in demand for final products in the real sector continued, as expected in the last quarter. The diffusion index (hereinafter - DI) amounted to 42.0, having decreased to the level of 2016. A decrease in demand was noted both in the service sector (DI = 38.8) and in the production of goods (45.4). In the mining industry, demand decreased significantly more than in the manufacturing industry (DIs were 39.5 and 47.0, respectively).

Enterprises expect the decline in demand to slow down in Q3 2020 (DI = 44.9). Slowdown in demand is expected by enterprises of all sectors.

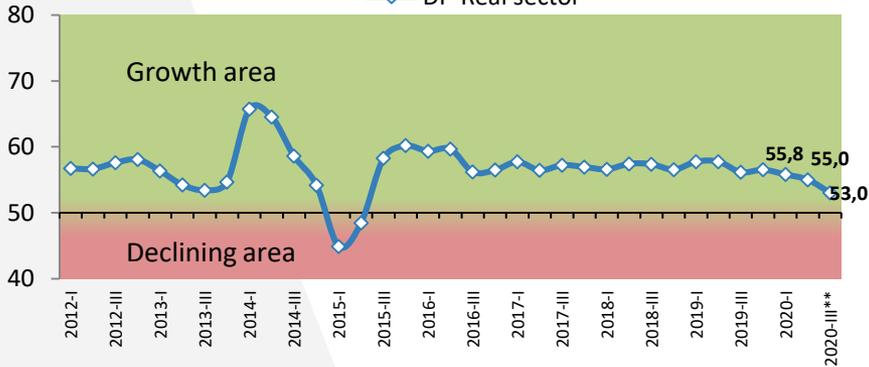
*Diffusion Index (seasonally adjusted). The higher (the lower) the DI deviates from 50, the higher (the lower) are the rates of growth (decline) in indicator; the level of 50 -the absence of any change

**The Figures show expectations of enterprises regarding the change in the parameter in Q3 2020

PRICES CHANGES IN THE REAL SECTOR

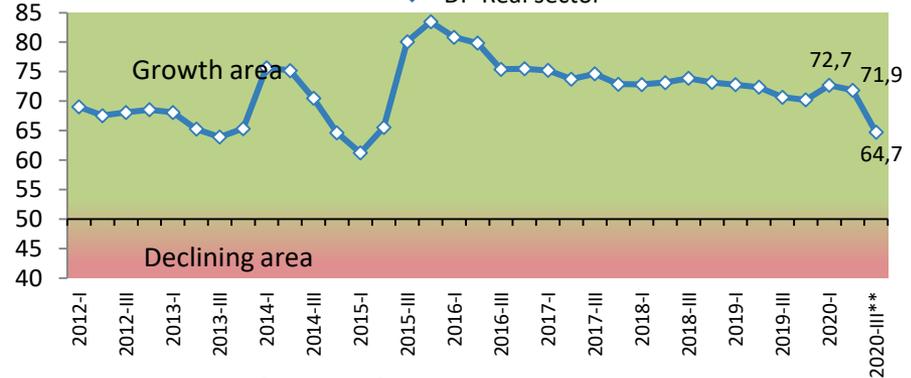
Final goods prices, DI*

DI -Real sector

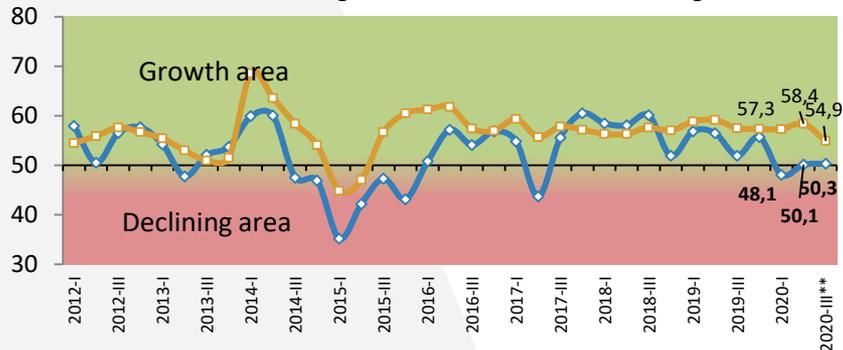


Raw materials prices, DI*

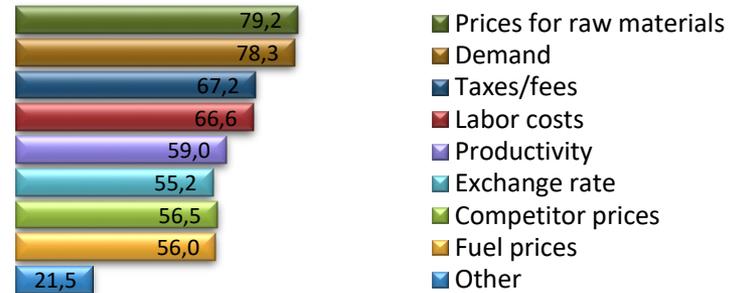
DI -Real sector



Mining Manufacturing



Assessment of pricing factors importance , answers in%



In Q2 of 2020, the growth rate of prices for final products of enterprises in the economy as a whole did not change much (DI was 55.0). In the mining industry, prices are recovering (DI was 50.1), while in the manufacturing industry there has been a slight increase in the rate of price growth. The DI grew from 57.3 in Q1 2020 to 58.4 in Q2 2020.

For the majority of enterprises (79.2%), the most important factor in setting prices for final products is the prices for raw materials and supplies. In Q3 of 2020, enterprises expect a slowdown in the growth rate of prices for raw materials and supplies (DI = 64.7), and, accordingly, for final products (53.0). The mining industry expects the prices of their products to remain unchanged.

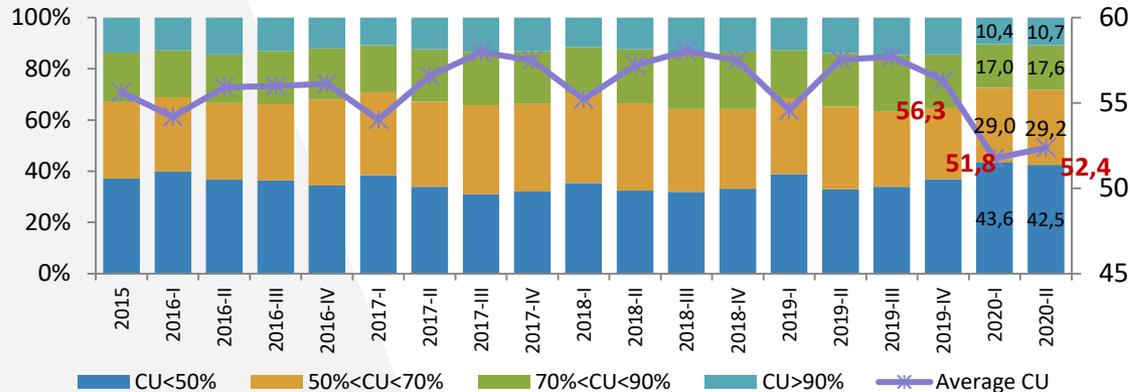
*Diffusion Index (seasonally adjusted). The higher (the lower) the DI deviates from 50, the higher (the lower) are the rates of growth (decline) in indicator; the level of 50 - the absence of any change

**The Figures show expectations of enterprises regarding the change in the parameter in Q3 2020

PRODUCTION OUTPUT

Capacity utilization level

(share of respondents, %)



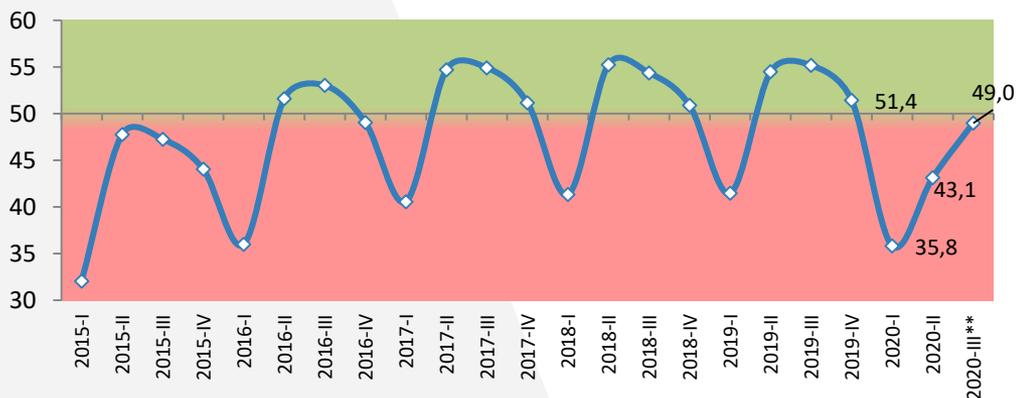
In Q2 of 2020, the level of utilization of production capacities of enterprises significantly slightly increased. The weighted average* level of capacity utilization was 52.4% versus 51.8% in Q1 2020.

As a result, in Q2 of 2020, the rate of decline in production slowed down (DI = 43.1).

In Q3 of 2020, enterprises hope for a recovery in production volumes, the DI is expected to be 49.0, remaining in the area of decline.

Due to the pandemic and quarantine measures, the dynamics of this year differs from the trend of the past three years, when the growth in production volumes began in the second quarter.

DI changes in production output, DI**

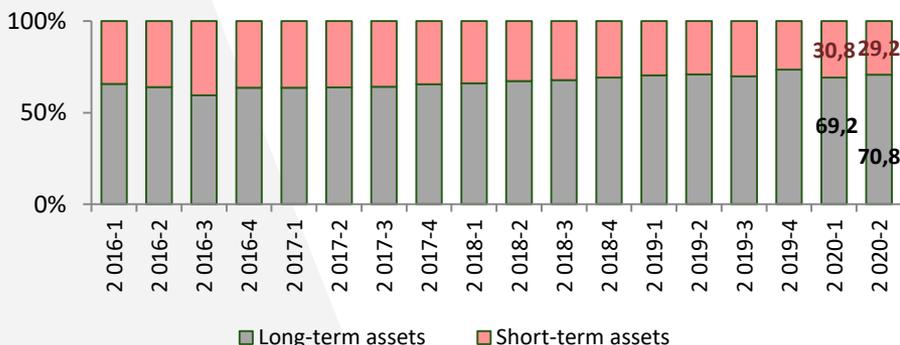


* Arithmetic weighted average is the average value of the interval, weighted by the share of enterprises.

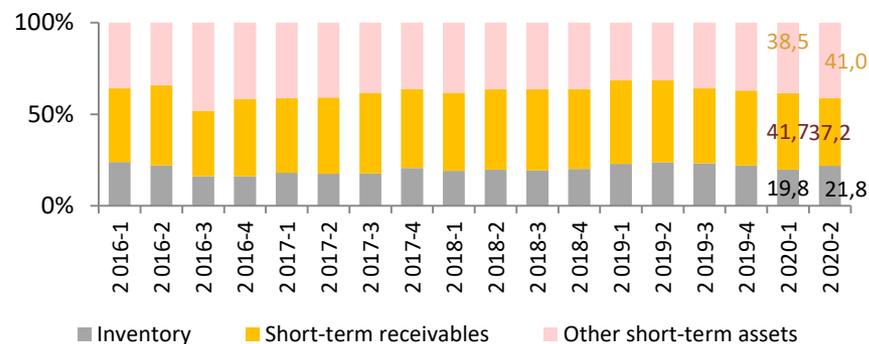
** The higher (lower) the DI from the level of 50, the higher (lower) the growth (fall) rate of the indicator, the level of DI = 50 means no change

BALANCE SHEET STRUCTURE: ASSETS

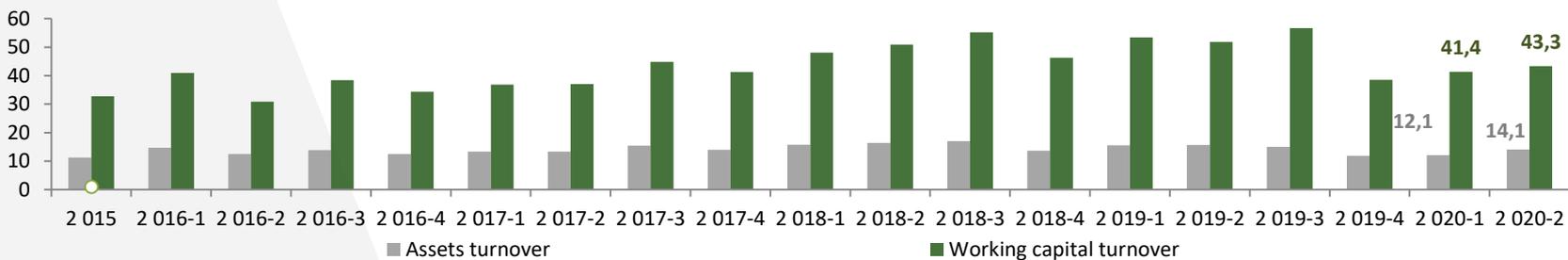
Assets structure



Short-term assets Structure



Assets turnover indicators

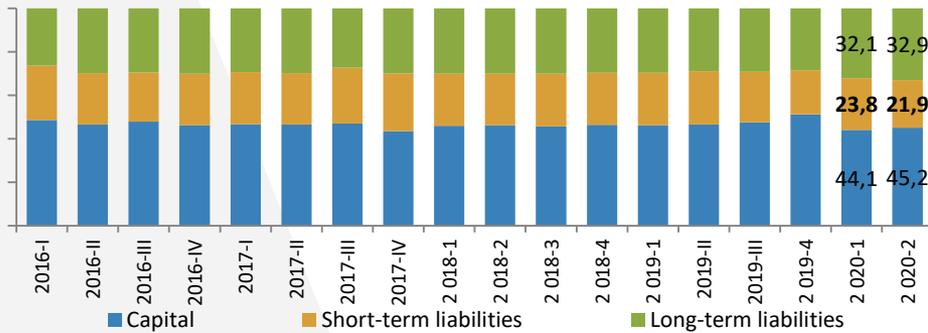


In Q2 of 2020, the share of long-term assets in the structure of companies assets in the real sector of the economy increased, which amounted to 70.8%, and, accordingly, the share of short-term assets decreased to 29.2%. The asset turnover was 14.1%, the working capital turnover - 43.3%.

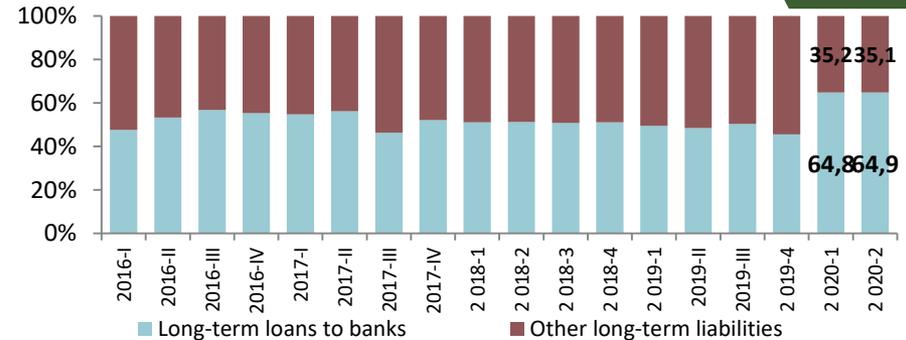
In the structure of short-term assets, the share of receivables decreased from 41.7% in Q1 2020 to 37.2% in Q2 2020. At the same time, the share of inventories increased to 21.8% and the share of other short-term assets to 41.0%.

BALANCE SHEETS STRUCTURE : LIABILITIES

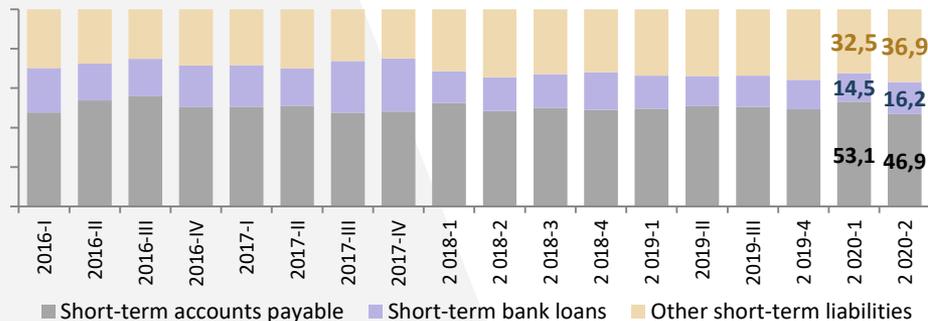
Liabilities structure



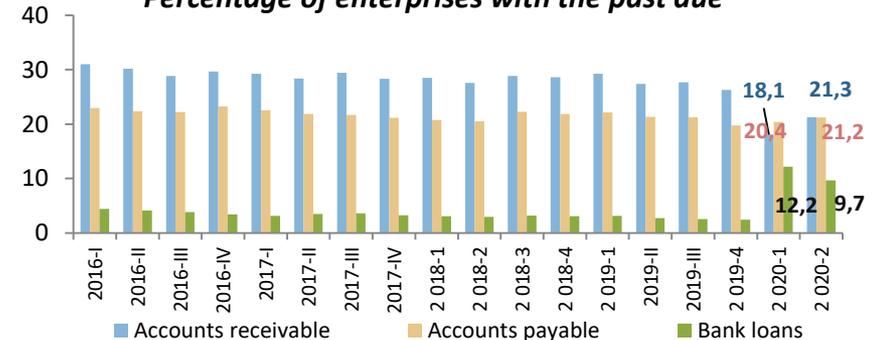
Long-term liabilities structure



Current liabilities structure



Percentage of enterprises with the past due

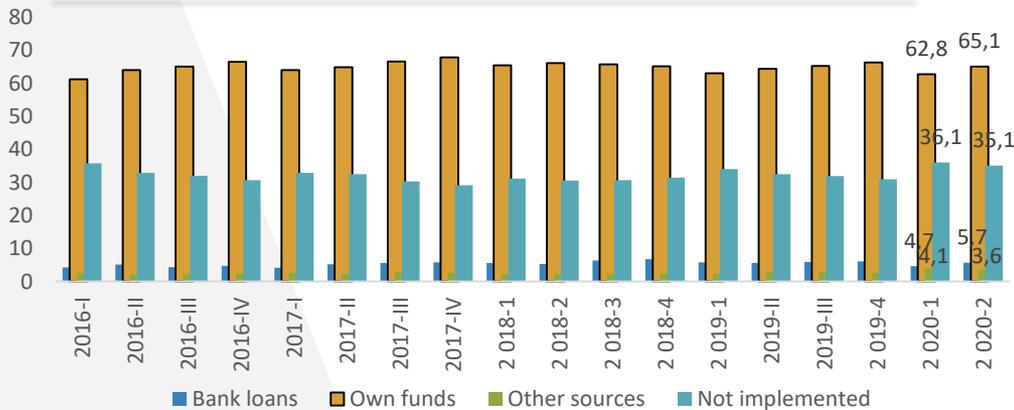


In Q2 of 2020, the structure of liabilities did not change significantly: the share of short-term liabilities (to 21.9%) slightly decreased in favor of capital (45.2%) and long-term liabilities (32.9%). In the structure of short-term liabilities, the share of short-term payables decreased significantly from 53.1% in Q1 2020 to 46.9% in Q2 2020. The structure of long-term liabilities remained practically unchanged.

The share of enterprises with overdue debts on bank loans on their balance sheets has noticeably decreased, from 12.2% to 9.7%. At the same time, the share of enterprises with overdue receivables increased from 18.1% in Q1 2020 to 21.3% in Q2 2020.

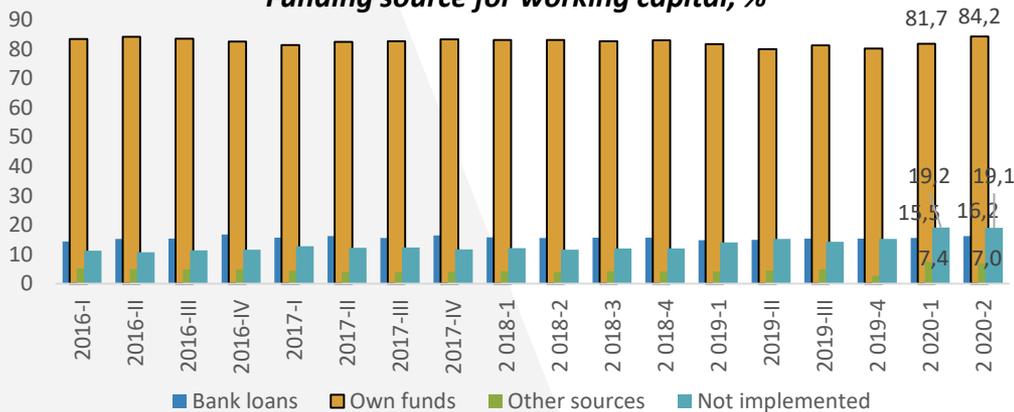
INVESTMENT ACTIVITY

Funding source for fixed assets, %



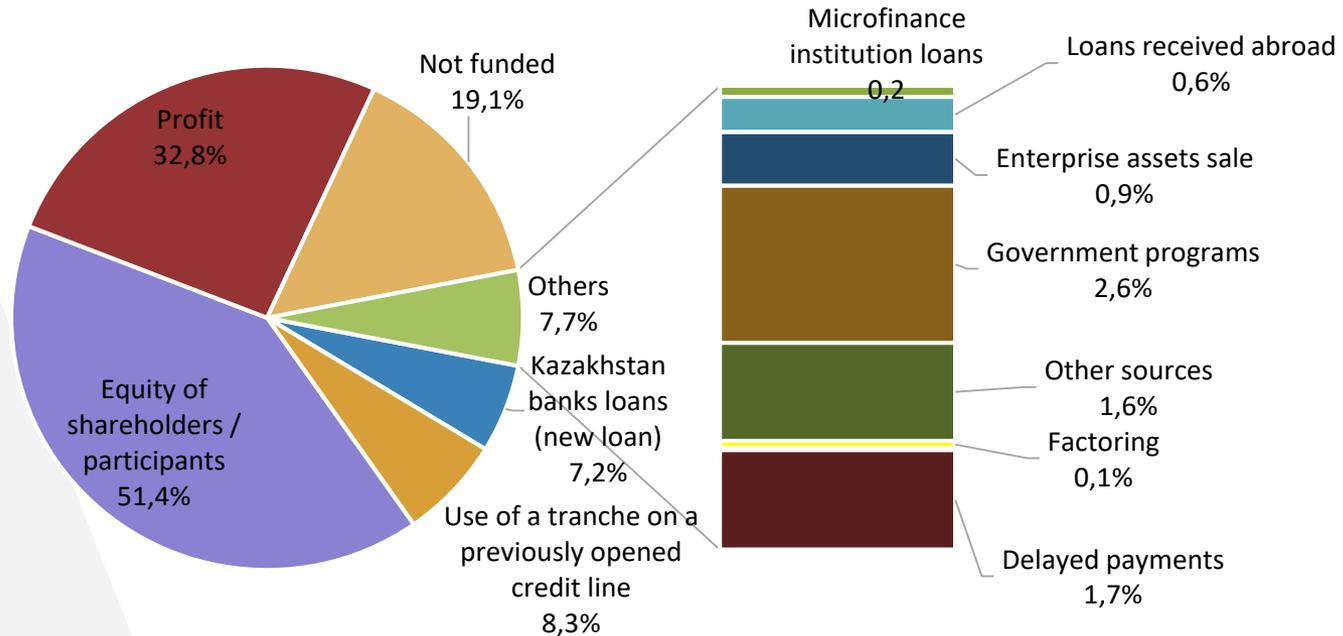
In Q2 of 2020, the investment activity of enterprises increased slightly compared to Q1 of 2020: the share of enterprises that did not finance fixed assets decreased (to 35.1%), the share of enterprises that financed fixed assets from their own funds increased (to 65.1%) and bank loans (up to 5.7%). As before, the majority of enterprises use their own funds to finance fixed and circulating assets (65.1% and 84.2%, respectively).

Funding source for working capital, %



INVESTMENT ACTIVITY

Sources of fixed assets financing

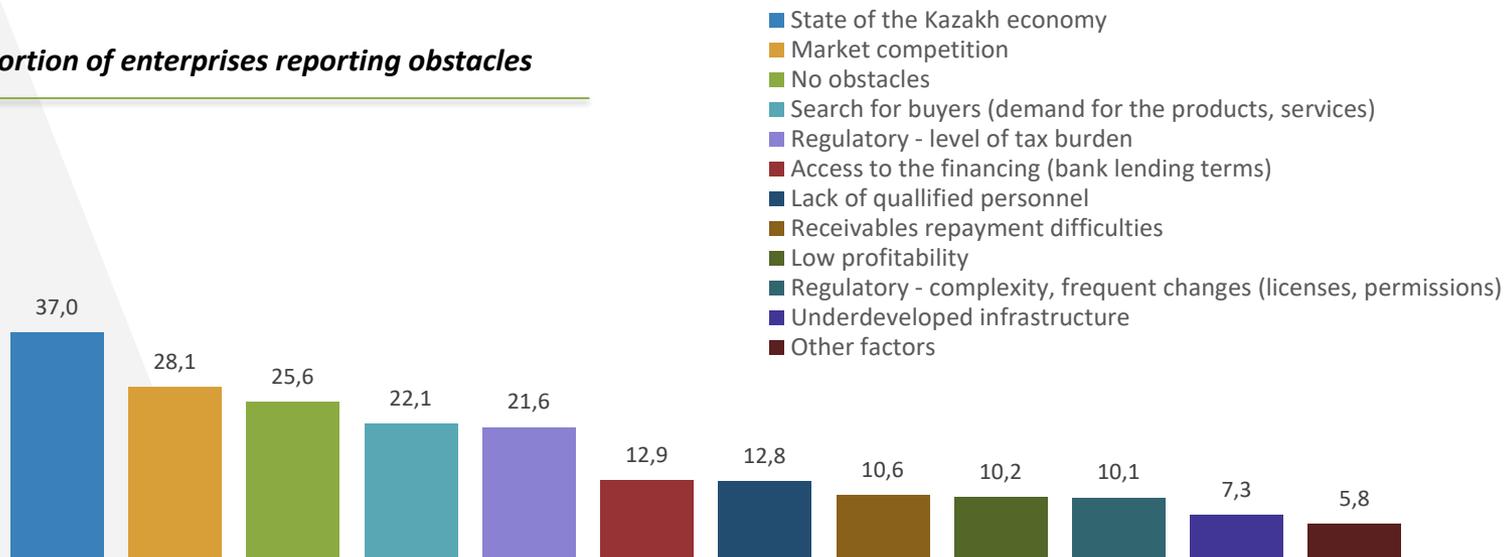


To finance working capital, most enterprises (84.2%) used their own funds, of which 51.4% used their own funds of shareholders / participants, 32.8% - profit. Bank loans for this purpose were used by 16.2% of enterprises (of which 8.3% used a tranche on a previously opened credit line, 7.2% received a new loan in Kazakhstan banks, 0.6% received a loan abroad, 0.2% used loans from microfinance organizations).

Among other sources of financing, besides those presented in the graph, enterprises also indicate **advances 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



According to the results of surveys in Q2 of 2020, for 37.0% of enterprises, the state of the economy of Kazakhstan is an obstacle for doing business (in Q1 the share of such enterprises was 31.4%). According to 71.7% of respondents, the economic situation in Kazakhstan in Q2 of 2020 worsened (in Q1 of 2020, 59.8% noted a deterioration), 25.0% believe that it has not changed (38.5% in Q1 of 2020 year).

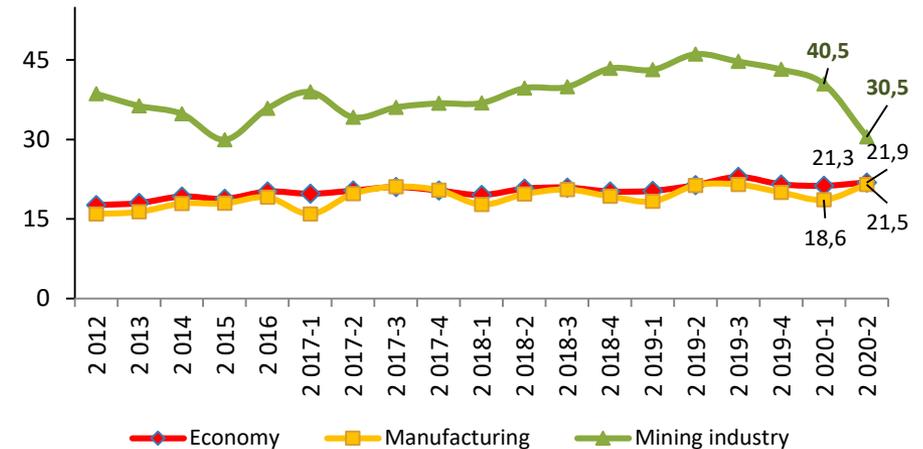
Market competition from other enterprises (28.1%), search for buyers (insufficient demand) (22.1), the level of tax burden (21.6) are also obstacles for many enterprises. 12.9% of enterprises have difficulties in accessing financing, 12.8% of enterprises experience a shortage of qualified personnel. As other obstacles, the enterprises indicated such factors as **price regulation at the state level, lower tariffs, exchange rate, lower oil prices, export bans, low purchasing power**, as well as **quarantine and state of emergency**.

THE FINANCIAL AND ECONOMIC PERFORMANCE CHANGE

In Q2 of 2020, the average* return on sales** of enterprises in the mining industry fell sharply to the level of 2015, amounting to 30.5%. In the manufacturing industry, an increase in sales profitability is noted from 18.6% in Q1 of 2020 to 21.5%. As a result, the average return on sales for the economy as a whole increased slightly and amounted to 21.9%.

In Q2 of 2020, the number of respondents planning to close the year with a profit decreased from 27.9% to 25.7%, and the number of respondents who believe that the year will end with a loss increased from 12.4% to 14.8%. 11.5% of the surveyed enterprises think to close the year with a balanced budget (no profit and loss), the remaining 48.0% cannot assess the financial condition of the enterprise by the end of the year.

Return on sales *, in %



Share of enterprises planning to close the financial year with profit / loss, %



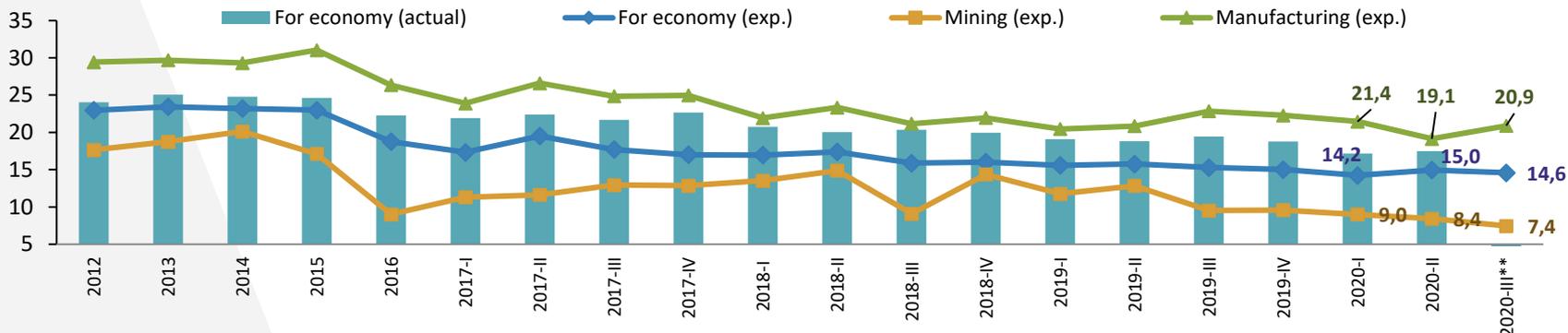
* Average median values are presented as they are less susceptible to extreme emissions than the arithmetic mean

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

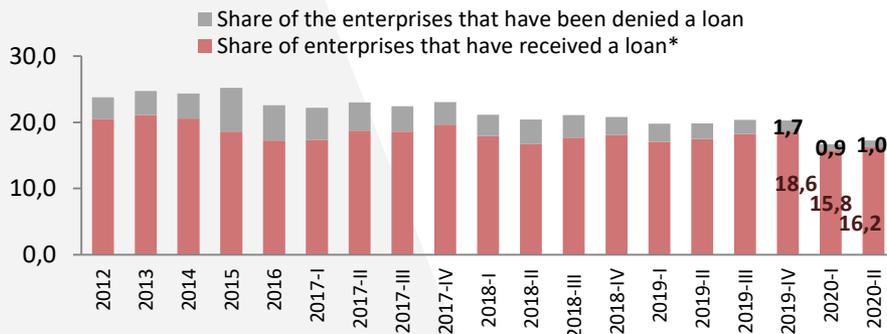
BANKING SYSTEM IMPACT ON THE REAL SECTOR OF THE ECONOMY

Loans demand, %

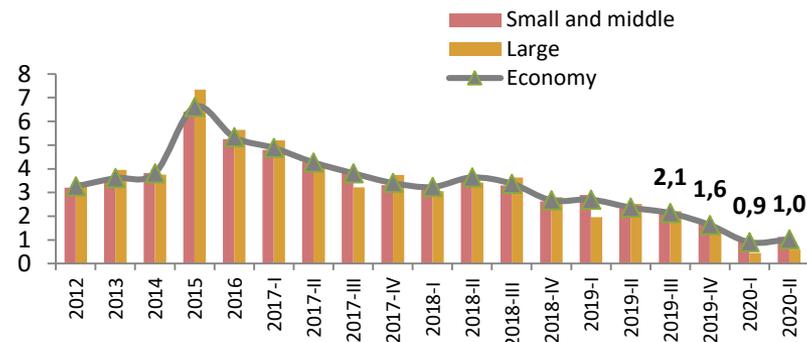
(share of enterprises applying for a loan from a bank)



Lending applications consideration



Share of enterprises that have been denied for a loan



In Q2 of 2020, 17.2% of surveyed enterprises applied to the bank for a loan, 16.2% of enterprises received a loan (or 94.2% of the number of those who applied for a loan). The share of refusals in lending was 1.0% of the total number of survey participants (5.8% of those who applied for a loan).

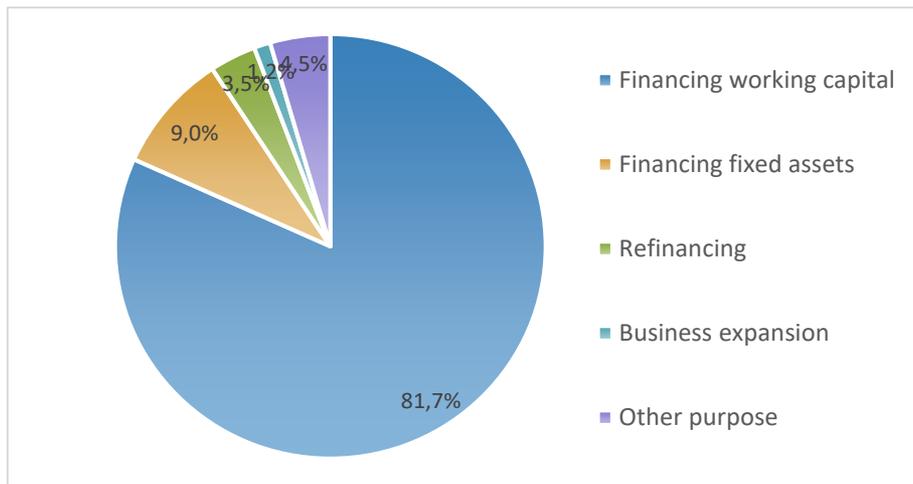
In Q3 of 2020, 14.6% of surveyed enterprises intend to apply for a loan. In the manufacturing industry, the share of such enterprises is 20.9%, in the mining industry - 7.4%.

BANKING SYSTEM IMPACT ON THE REAL SECTOR OF THE ECONOMY

*Debt burden as estimated by enterprises *,%*

Debt load *	Share of enterprises
1-20%	15,1
21-30%	10,8
31-40%	7,9
41-50%	5,2
51-60%	3,4
61-70%	1,9
71-80%	2,1
over 81%	1,8
no debt	51,8

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



In Q2 of 2020, more than half of the enterprises (51.8%) that took part in the surveys have no debt. The majority of enterprises (15.1%) have a debt burden* within 20%. The arithmetic weighted average** value of the debt burden is 15.7%.

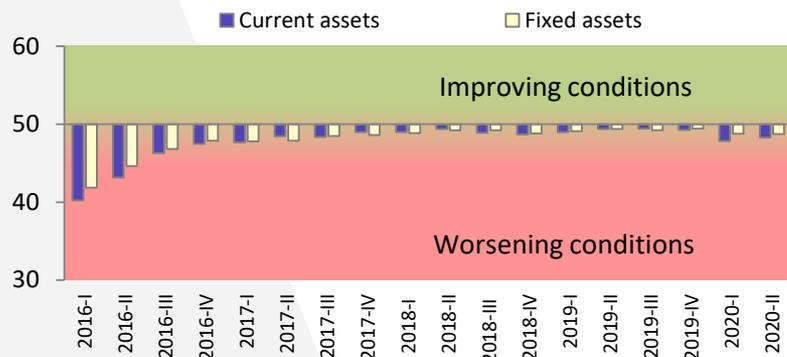
The majority of enterprises (81.7%) attracted loans to finance working capital (purchase of materials, raw materials, purchased semi-final products, etc.), 9% - to purchase fixed assets (purchase of buildings, constructions, vehicles, equipment, etc.). In addition to refinancing (3.5%) and business expansion (1.2%), enterprises took out loans **to settle with suppliers and pay taxes**.

* Monthly payment / income from sales of products

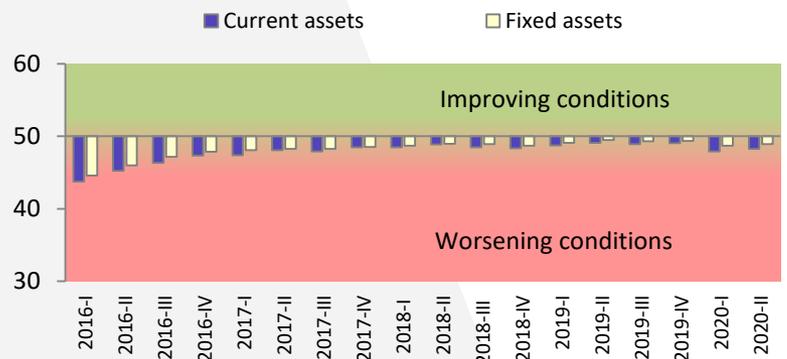
** Arithmetic weighted average is the average value of the interval, weighted by the share of enterprises.

BANKING SYSTEM IMPACT ON THE REAL SECTOR OF THE ECONOMY

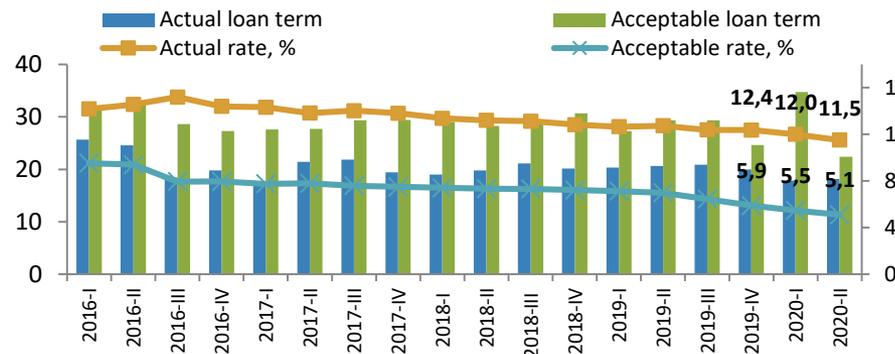
Price conditions



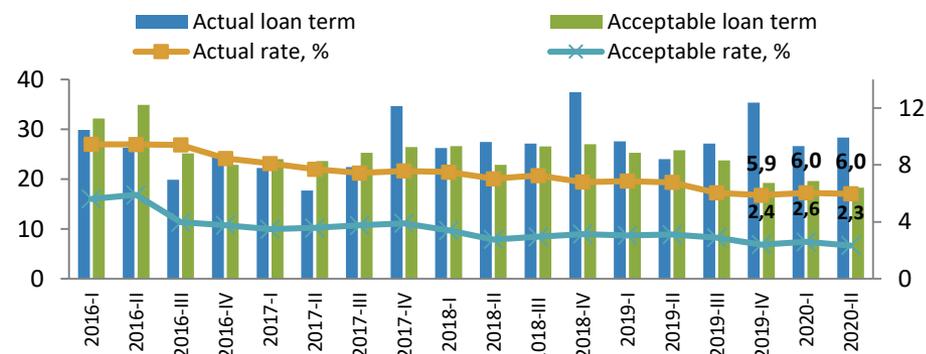
Non-price conditions



Loan terms and rates in tenges



Loan terms and rates in foreign currency

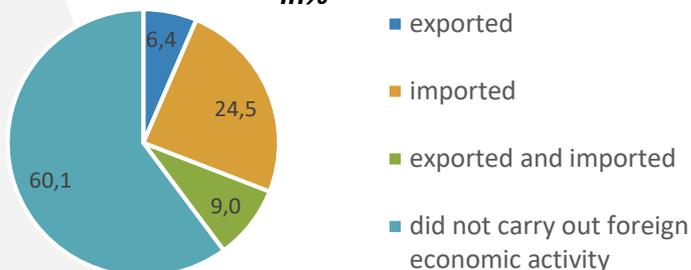


In Q2 of 2020, the assessments of enterprises regarding price (level of interest rates on a loan, amount of additional commissions) and non-price (maximum size and term of a loan, requirements for the borrower financial condition, security requirements) lending conditions remained negative. At the same time, the number of enterprises noting the deterioration of credit conditions slightly decreased.

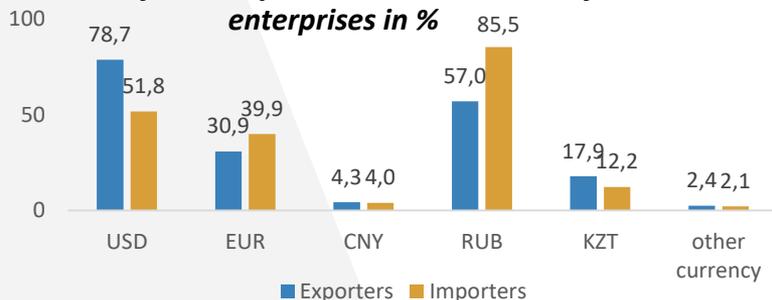
Average interest rates on loans received by monitoring participants in tenges decreased and amounted to 11.5%, in foreign currency remained unchanged (6.0%). The interest rate acceptable for enterprises on loans in tenges is 5.1%, on loans in foreign currency - 2.3%.

FOREIGN ECONOMIC ACTIVITIES OF ENTERPRISES (FEA)

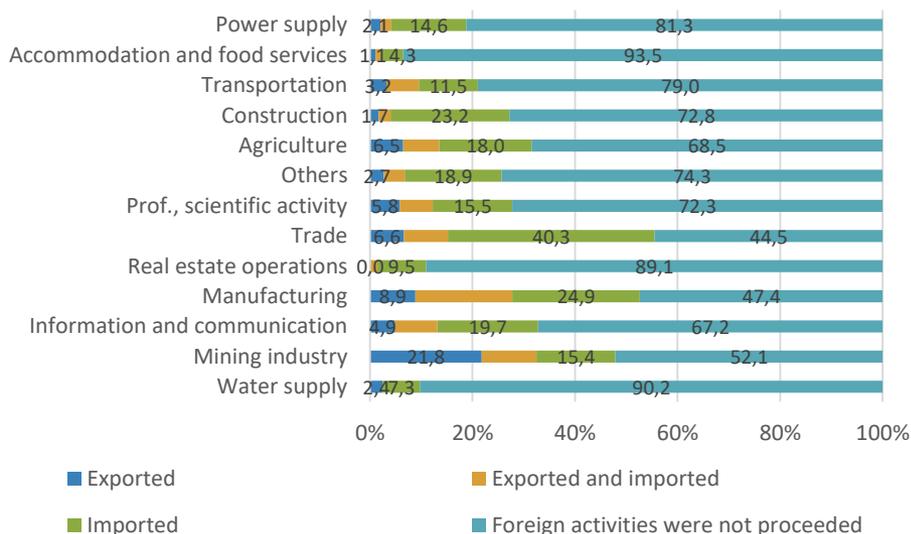
Implementation of foreign economic activity in the past quarter, the share of enterprises in%



Use of currency in calculations, share of enterprises in %



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

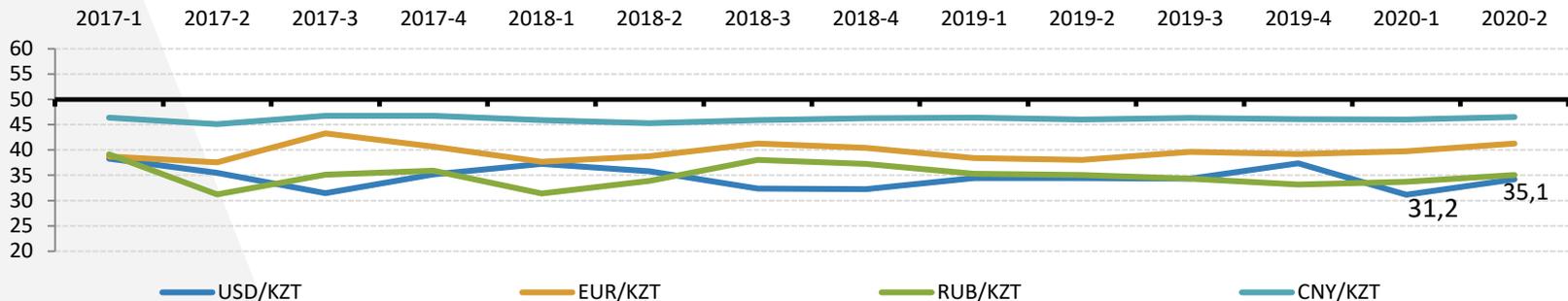


In Q2 of 2020, 24.5% of respondents imported products to carry out their activities, 6.4% exported, 9.0% both exported and imported, and the overwhelming majority (60.1%) did not carry out foreign economic activity. The largest share of enterprises that exported products is in the mining industry (21.8%), the largest share of enterprises that imported products is in trade (40.3%). In trade, the largest share of enterprises engaged in foreign economic activity.

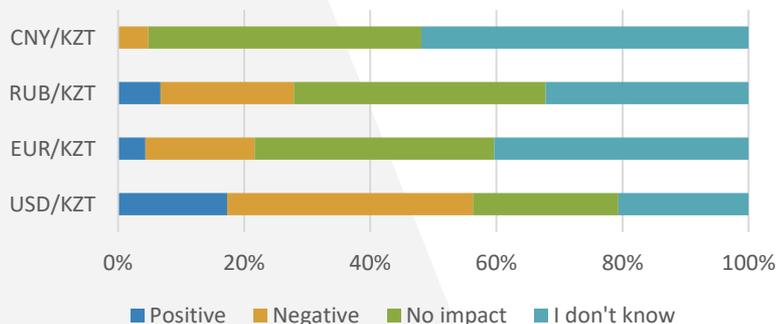
In calculations with foreign partners, exporters use the US dollar more (78.7% of exporters), while importers use the Russian ruble more (85.5% of importers). The other currencies used in the calculations of the company indicate the British pound sterling, Swiss franc, Kyrgyz som and Turkish lira.

IMPACT OF EXCHANGE RATE CHANGES

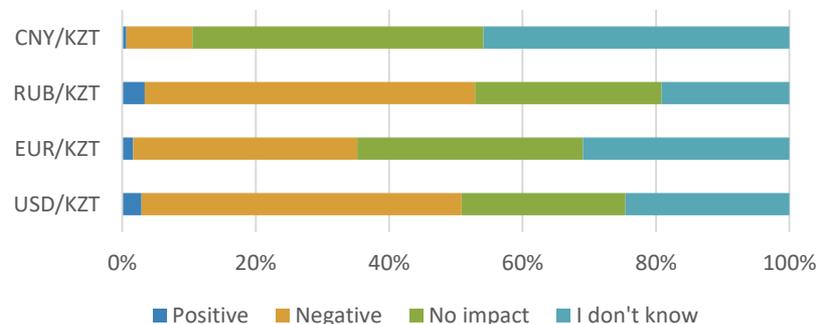
*Dynamics of the impact of changes in the exchange rate, DI **



Impact of the exchange rate on the economic activities of exporters in Q2 2020



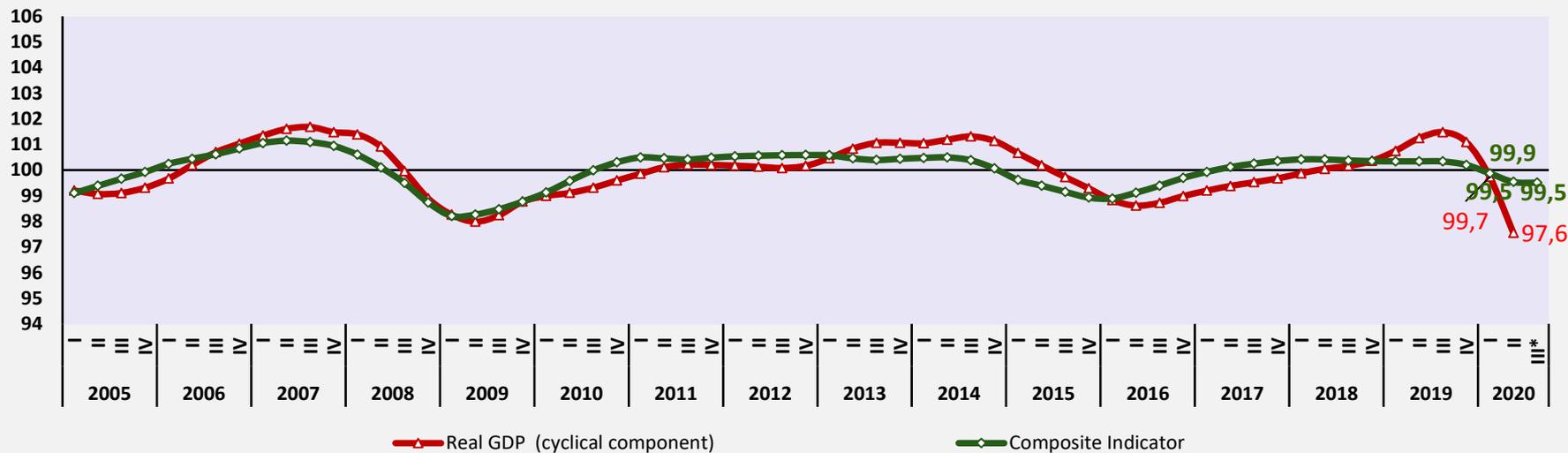
Impact of the exchange rate on the economic activity of importers in Q2 2020



In Q2 negative impact of the exchange rate on the economic activity of enterprises in all currencies decreased, the negative impact of USD / KZT decreased especially noticeably. The DI increased from 31.2 to 35.1. Enterprises experience the least negative impact on their economic activities from changes in the CNY / KZT exchange rate. Most of the enterprises exporting products indicated a positive impact from the change in the exchange rate in Q2.

* 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

COMPOSITE LEADING INDICATOR*



In Q2 of 2020, the dynamics of the composite leading indicator (CLI), which is an aggregate assessment of surveys of enterprises in the real sector, demonstrates a further decline in business activity in the real sector. CLI decreased from 99.9 to 99.5.

The dynamics of CLI was negatively affected by a decrease in demand for enterprises final products, a drop in production volumes, sales profitability of enterprises in the extractive industry, and low oil prices. Among the positive factors, a decrease in average interest rates on loans in national currency and an increase in the volume of loans issued in the economy can be noted/

In Q3 of 2020, respondents expect the data of economic activity low rates to persist (CLI amounted to 99.5), which is mainly due to the expected decline in demand and a slow recovery in production volumes.

- 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 2020 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 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:
- The DI of the change in the demand for final products in economic sectors
 - 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.
 - 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.
 - the employment rate indicator: the percentage of enterprises where the number of employees decreased
 - 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)

METHODOLOGICAL COMMENTS