

MARKET REVIEW

Enterprises Survey Results in the Real Sector of the Economy

Q4 2020



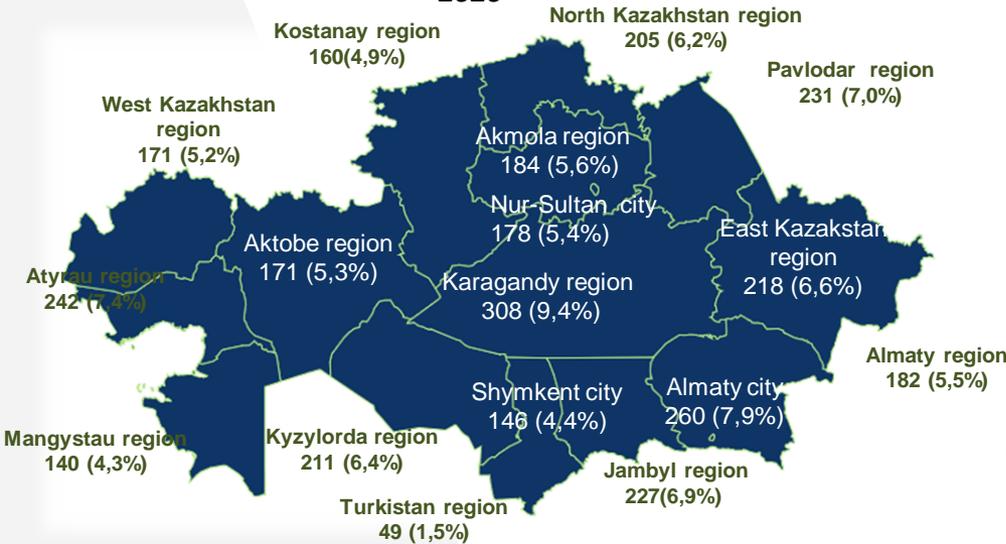
Monetary Policy Department
National Bank of Kazakhstan

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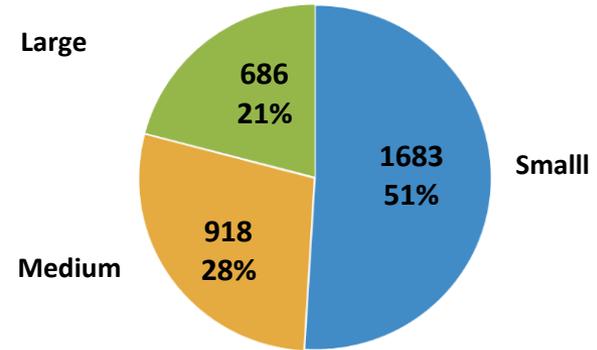
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ENTERPRISE SURVEY PARTICIPANTS COMPOSITION

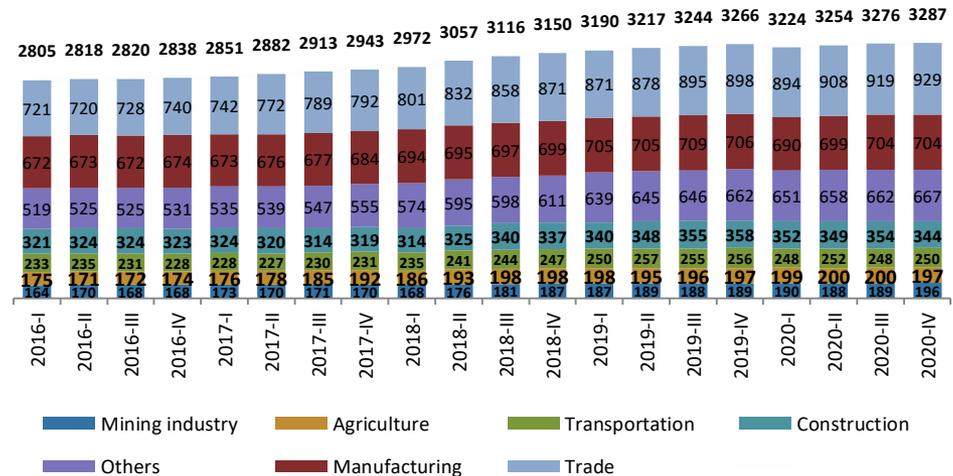
Regional structure of the enterprise survey participants in Q4 2020



Survey participants size structure



Survey participants sectorial structure



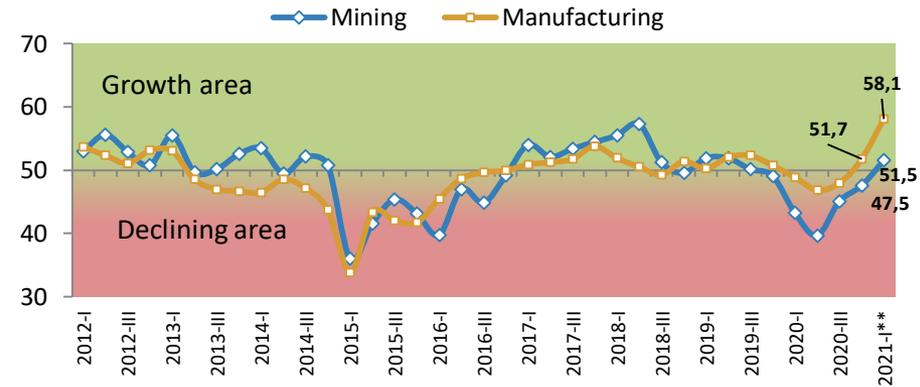
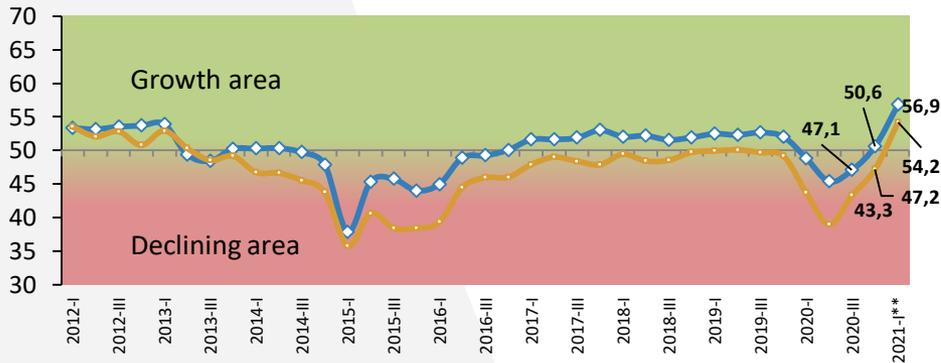
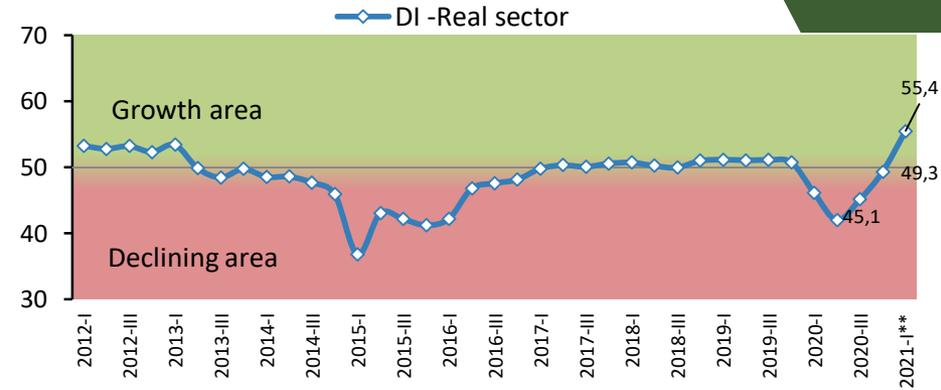
In Q4 of 2020, the number of respondents increased by 11 enterprises compared to the previous quarter and amounted to **3287** enterprises. 14 small enterprises and 1 large enterprise were involved in the survey, 4 medium enterprises dropped out.

In the sectorial context, the largest increase in enterprises was noted in trade (10).

FINAL PRODUCTS DEMAND DYNAMICS

Final goods demand, DI*

Answers of enterprises, %	2019				2020				2021
	1 кв.	2 кв.	3 кв.	4 кв.	1 кв.	2 кв.	3 кв.	4 кв.	1 кв.**
Increase	1	16,1	26,7	26,5	22,9	18,7	22,4	22,4	12,0
No changes	2	53,8	53,4	54,5	54,0	47,6	51,8	51,6	38,4
Decrease	3	28,7	18,0	16,7	20,7	33,8	30,7	22,9	16,9
Diffusion index, DI=line1+0.5*line2	4	43,0	53,4	53,7	49,9	38,2	42,5	48,3	48,2
DI, seasonal adjusted	5	51,1	51,1	51,1	50,7	46,2	42,0	45,1	49,3



In Q4 of 2020, a gradual recovery in demand for final products in the real sector was noted. The diffusion index (hereinafter - DI) increased to **49,3**. The growth of the indicator was noted in all sectors: in the service sector (DI = 47,2), in the production of goods (50,6), in the mining and manufacturing industries (DI was 47,5 and 51,7, respectively).

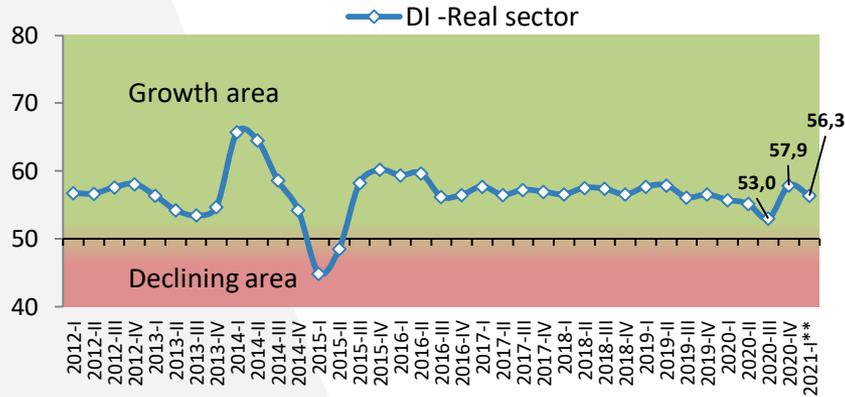
According to the expectations of enterprises, in the real sector in Q1 of 2021 the process of demand recovery will continue (DI = **55,4**).

*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

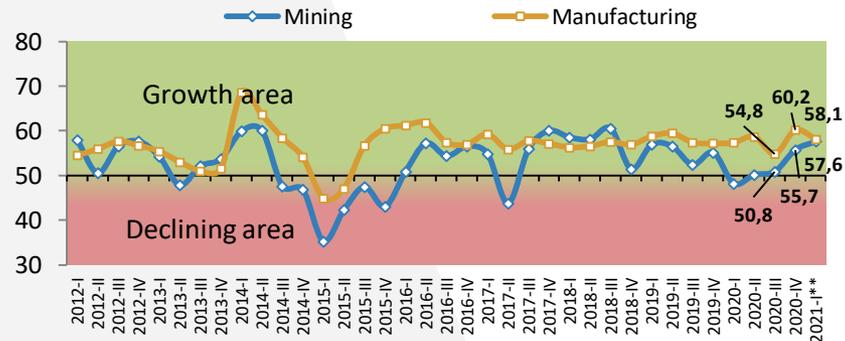
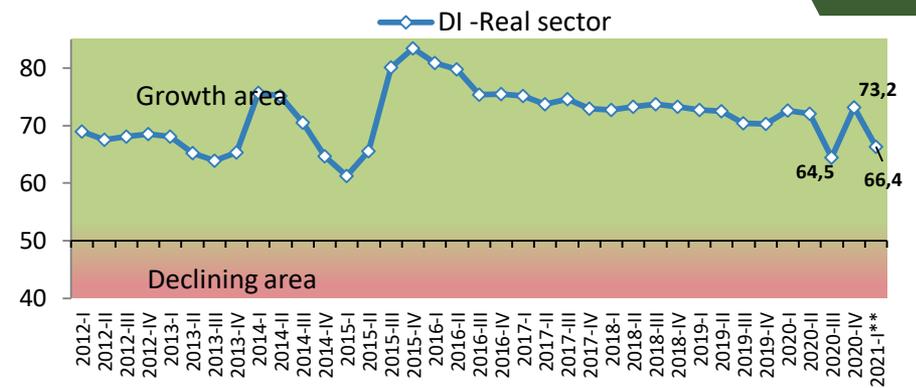
**The Figures show expectations of enterprises regarding the change in the parameter in Q1 2021

PRICES CHANGES IN THE REAL SECTOR

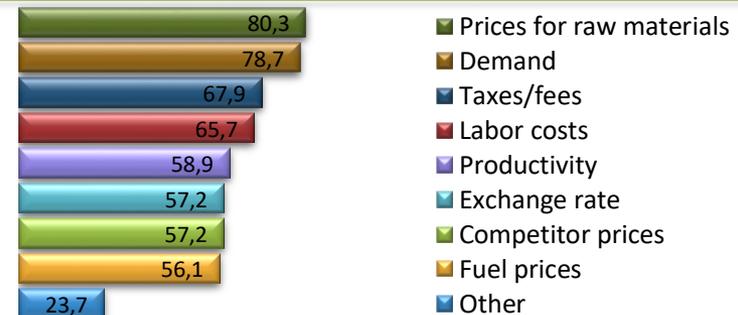
Final goods prices, DI*



Raw materials prices, DI*



Assessment of pricing factors importance, answers in%



In Q4 of 2020, the growth rate of prices for final products of enterprises as a whole across the economy accelerated (DI was 57,9). In the mining industry, prices increased (DI was 55,7), in the manufacturing industry, an acceleration in the rate of price growth was also noted. The DI increased from 54,8 in Q3 2020 to 60,2 in Q4 2020.

For the overwhelming majority of enterprises (**80,3%**), the most important factor in setting prices for final products is the price of raw materials and supplies. Compared with the increase in the growth rate of prices for raw materials and supplies in Q4 of 2020 (DI = 73,2), in Q1 of 2021 enterprises expect a slowdown in the growth rate of prices (DI = 66,4), and accordingly for final products (56,3). The mining industry expects prices for their products to continue to rise.

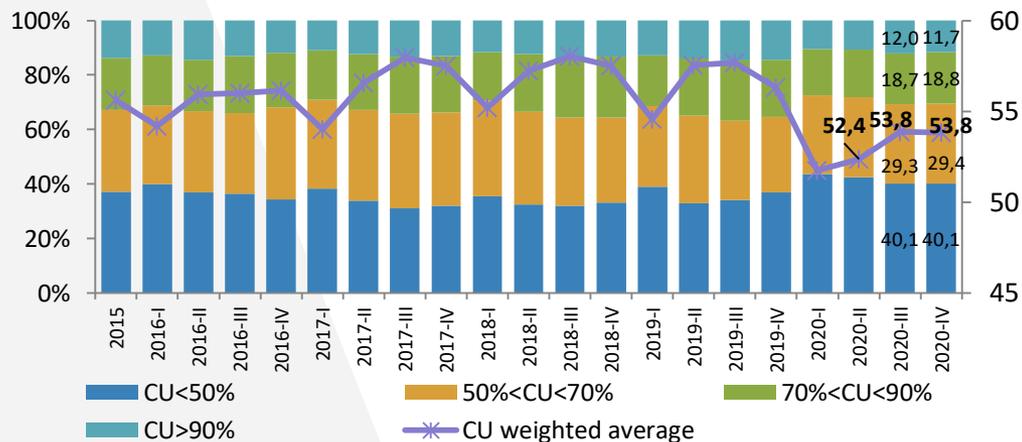
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**The Figures show expectations of enterprises regarding the change in the parameter in Q1 2021

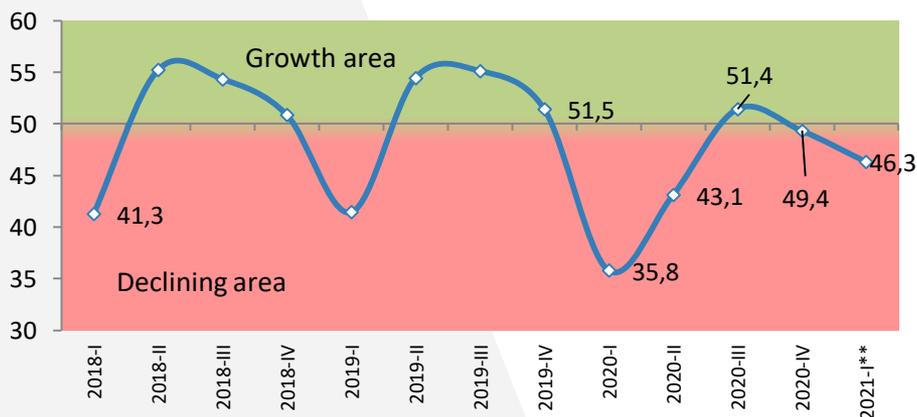
PRODUCTION OUTPUT

Capacity utilization level

(share of respondents, %)



DI changes in production output , DI**



In Q4 of 2020, the level of utilization of production capacities (CU) of enterprises remained at the same level. The weighted average* salary level was 53,8%.

As a result, in Q4 2020, production volumes fell to 49,4.

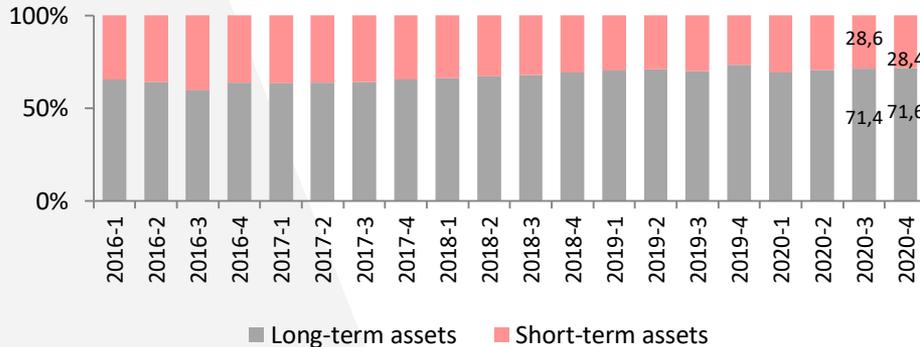
In Q1 of 2021, enterprises expect a further decrease in production volumes, the DI is expected to be 46,3.

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

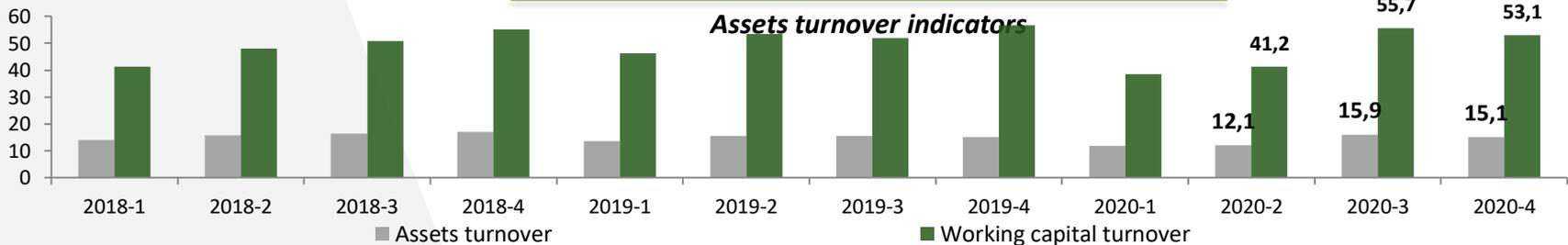
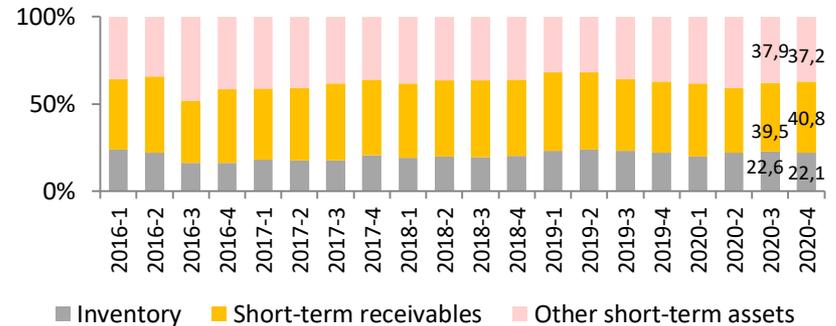
** The higher (lower) the DI from the level of 50, the higher (lower) the growth (fall) rate of the indicator, the level of DI = 50 means no change

BALANCE SHEET STRUCTURE: ASSETS

Assets structure



Short-term assets Structure



In Q4 of 2020, the share of long-term assets in the companies' assets structure in the real sector of the economy slightly increased from 71,4% to **71,6%**. Asset turnover* was 15,1%, working capital turnover** - **53,1%**.

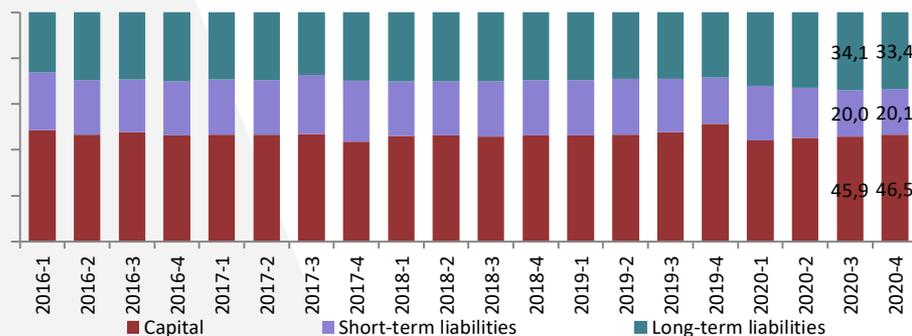
In the structure of short-term assets, the share of receivables increased from 39,5% in Q3 2020 to 40,8% in Q4 2020. The share of reserves also slightly decreased to 22,1%. At the same time, the share of other short-term assets decreased to 37,2% (37,9% in Q3).

*Asset turnover = Income from product sales / Assets * 100

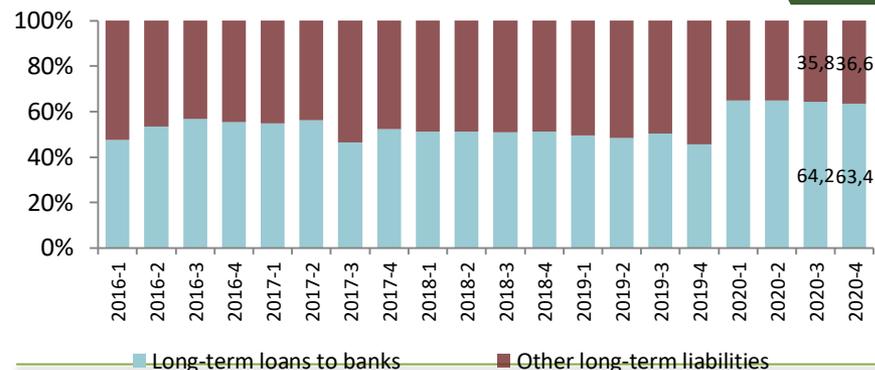
**Turnover of current assets = Income from product sales / Short-term assets * 100

BALANCE SHEETS STRUCTURE : LIABILITIES

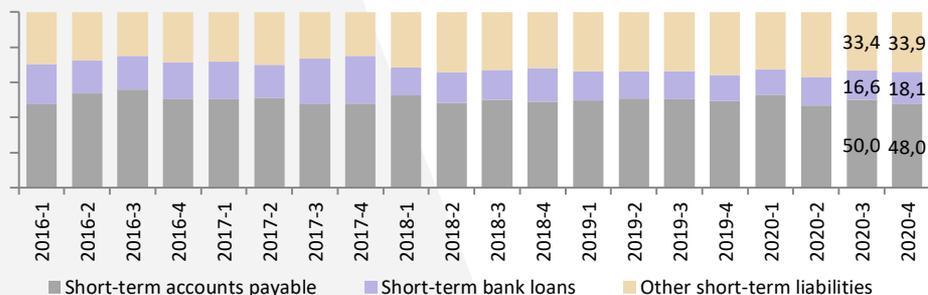
Liabilities structure



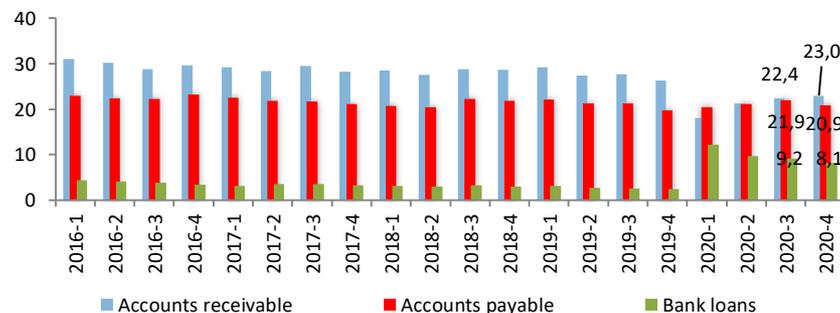
Long-term liabilities structure



Short-term liabilities structure



Share of enterprises with overdue debts

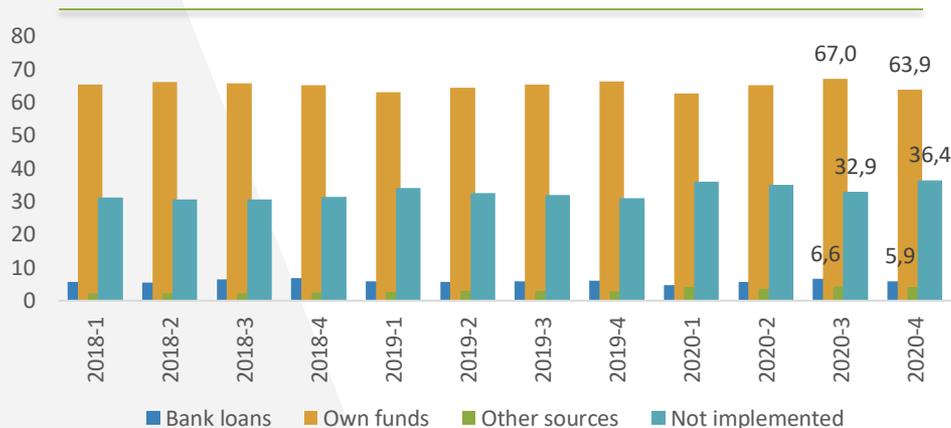


In Q4 of 2020, the share of short-term liabilities increased slightly from 20,0% to **20,1%**, equity capital increased to **46,5%**, long-term liabilities decreased to **33,4%**. In the structure of short-term liabilities, the share of short-term payables decreased from 50,0% in Q3 2020 to 48,0% in Q4 2020. The structure of long-term liabilities has not changed significantly.

The share of enterprises with overdue bank loans on their balance sheets slightly decreased from 9,2% to **8,1%**. At the same time, the share of enterprises with overdue receivables increased from 22,4% in Q3 2020 to **23,0%** in Q4 2020.

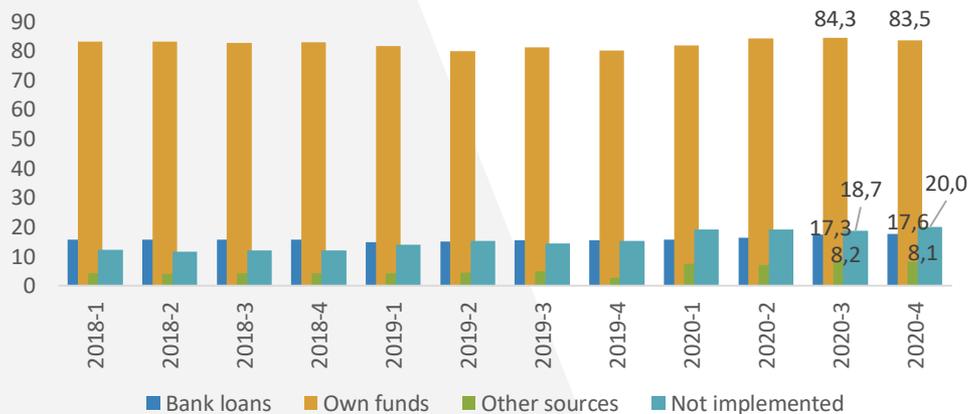
INVESTMENT ACTIVITY

Funding source for fixed assets, %



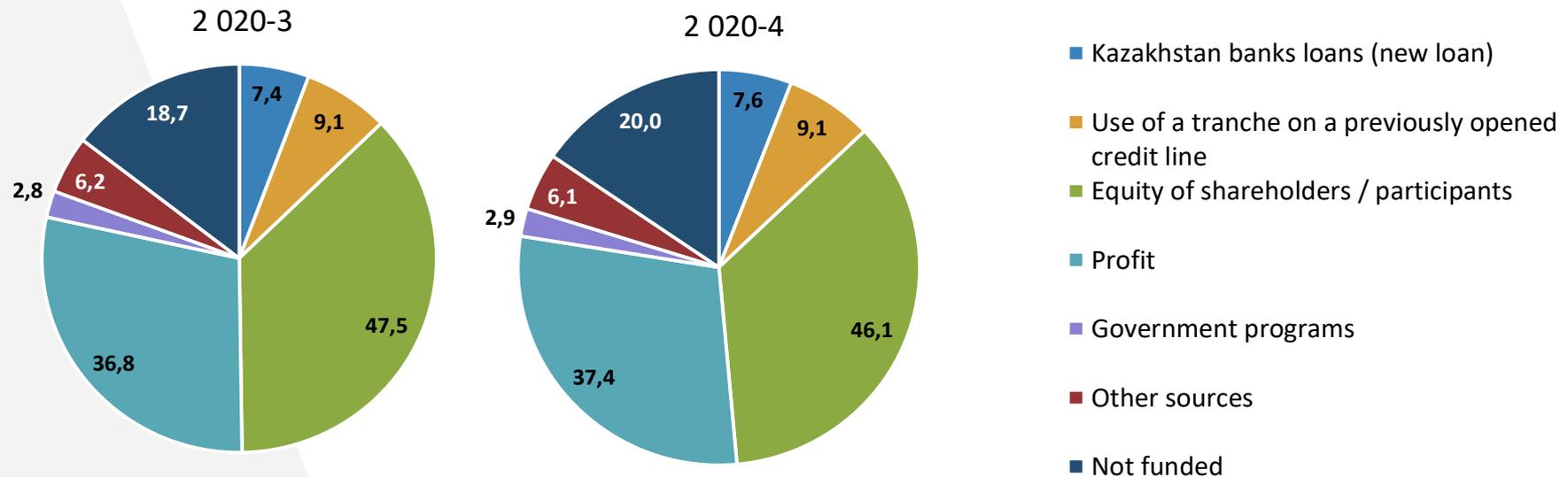
In Q4 of 2020, the investment activity of enterprises slightly decreased compared to Q3 of 2020: the share of enterprises that did not finance fixed assets increased (up to 36,4%), the share of enterprises that financed fixed assets from their own funds decreased (up to 63,9%) and bank loans (up to 5,9%). As before, most enterprises use their own funds to finance fixed assets and working capital (63,9% and 83,5%, respectively).

Funding source for working capital, %



SOURCES OF WORKING CAPITAL FINANCING

Sources of working capital financing

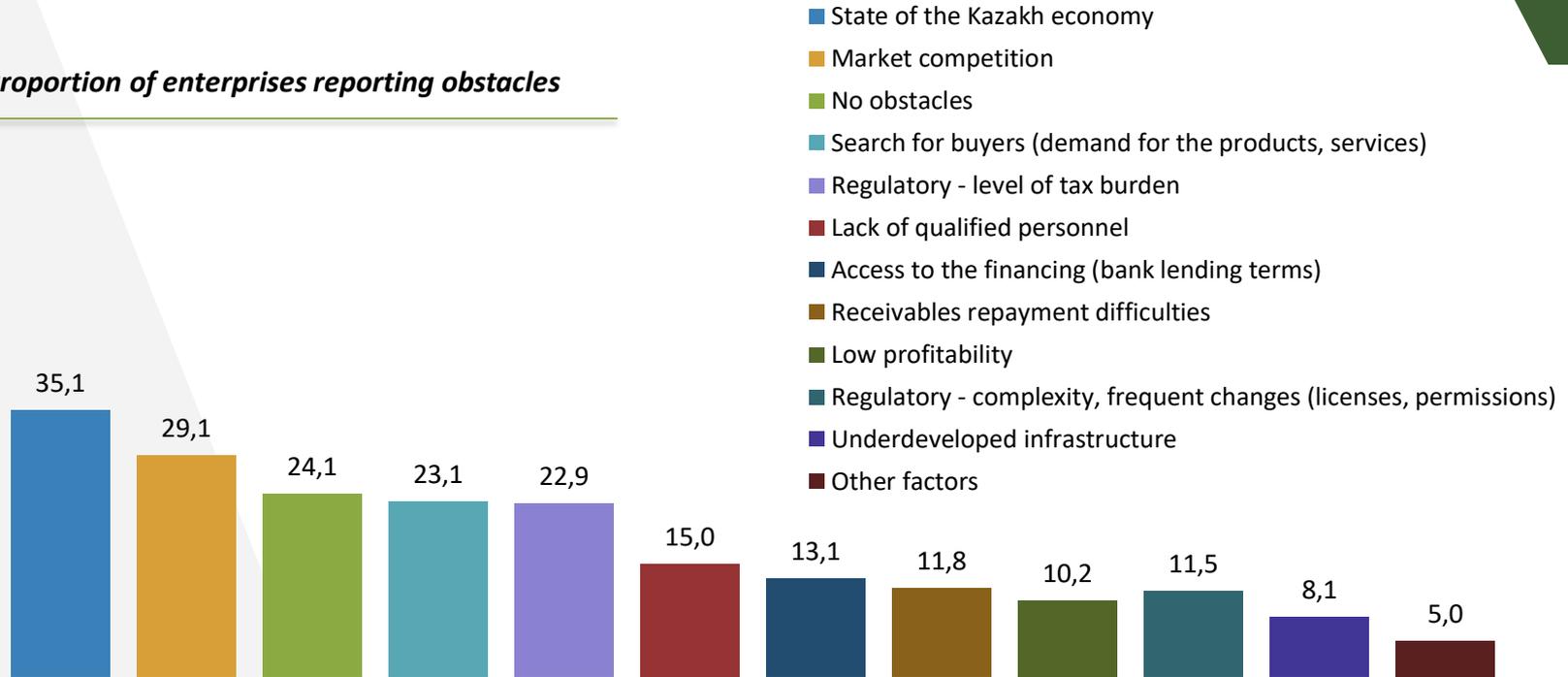


To finance **working capital**, most enterprises (**83,5%**) used their own funds, of which **46,1%** used their own funds of shareholders/participants, **37,4%** - profit. Bank loans for this purpose were used by 17,6% of enterprises (of which 9,1% used a tranche under a previously opened credit line, 7,6% received a new loan in Kazakhstan banks, 0,6% received a loan abroad, 0,3% used loans from microfinance organizations).

Among other sources of financing, in addition to 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 Q4 of 2020, for 35,1% of enterprises, the state of the economy of Kazakhstan is an obstacle to doing business (in Q3 the share of such enterprises was 37,0%). According to 47,2% of respondents, the economic situation in Kazakhstan in Q4 of 2020 has worsened, 47,8% believe that it has not changed.

The most important factors for enterprises are such factors as the state of the economy, market competition (29,1%), search for buyers (23,1%), the level of the tax burden (22,9%), lack of qualified personnel (15,0%), while access to financing is ranked only 7th in importance (13,1%).

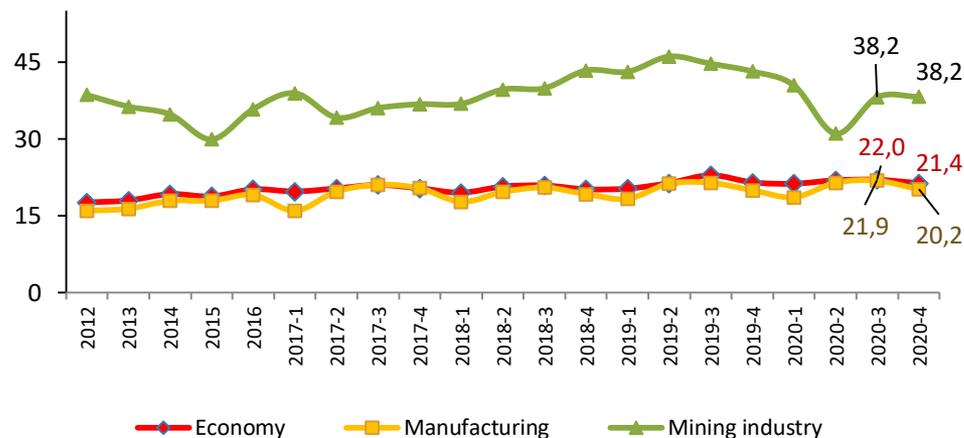
Other obstacles were low profitability, price regulation at the state level, lower tariffs, exchange rates, lower oil prices, export bans, low purchasing power, and quarantine.

THE FINANCIAL AND ECONOMIC PERFORMANCE CHANGE

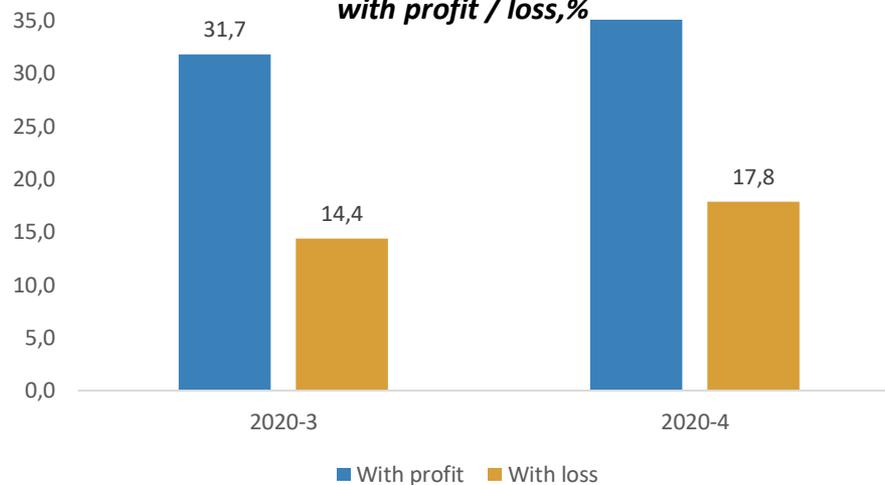
In Q4 2020, the average *return on sales** of enterprises in the mining industry remained at the same level, amounting to **38,2%**. In the manufacturing industry, the profitability of sales decreased slightly (from 21,9% in Q3 2020 to 20,2%). As a result, the average return on sales in the economy as a whole decreased and amounted to **21,4%**.

In Q4 of 2020, the number of respondents who plan to close the year with a profit (from 31,7% to **37,1%**) and the number of respondents who believe that the year will be ended with losses (from 14,4% to **17,8%**) increased. At the same time, 14,2% of the surveyed enterprises think to close the year with a balanced budget (without profits and losses), the remaining 30,9% 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, %

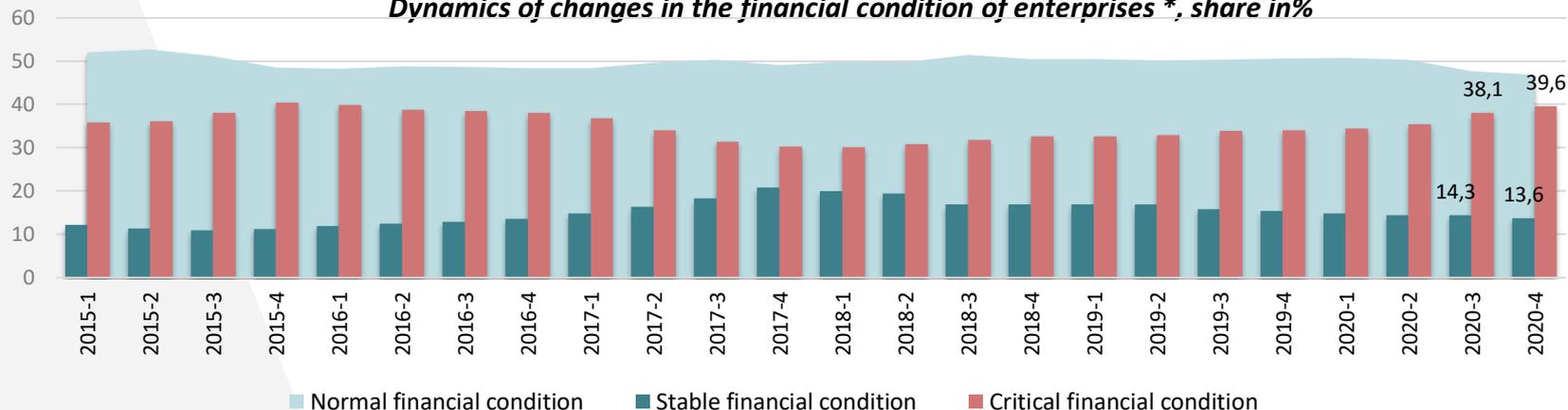


* Average median values are presented as they are less susceptible to extreme emissions than the arithmetic mean

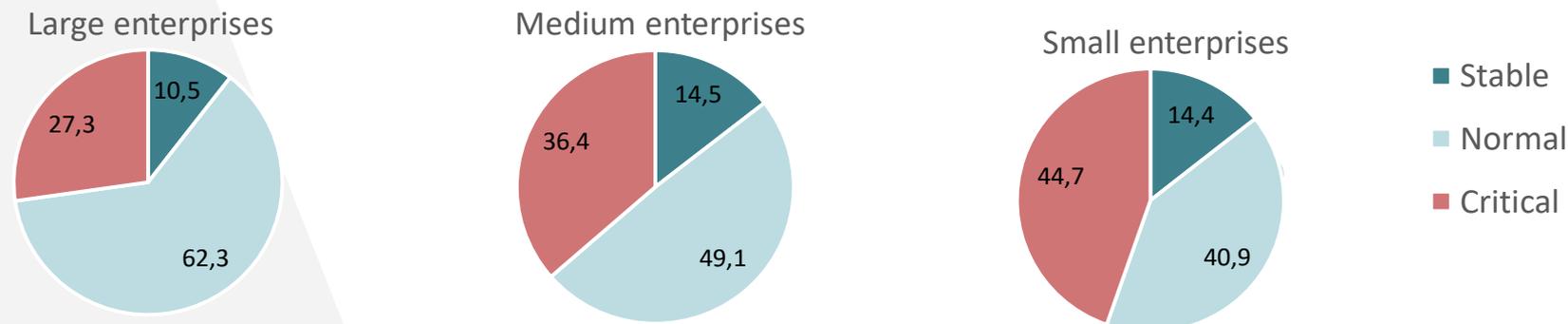
** The sales profitability before expenses deduction on interest, taxes and depreciation is indicated

ASSESSMENT OF THE ENTERPRISES FINANCIAL CONDITION

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



Enterprises distribution by degree of reliability by dimension in Q4 2020, share in%

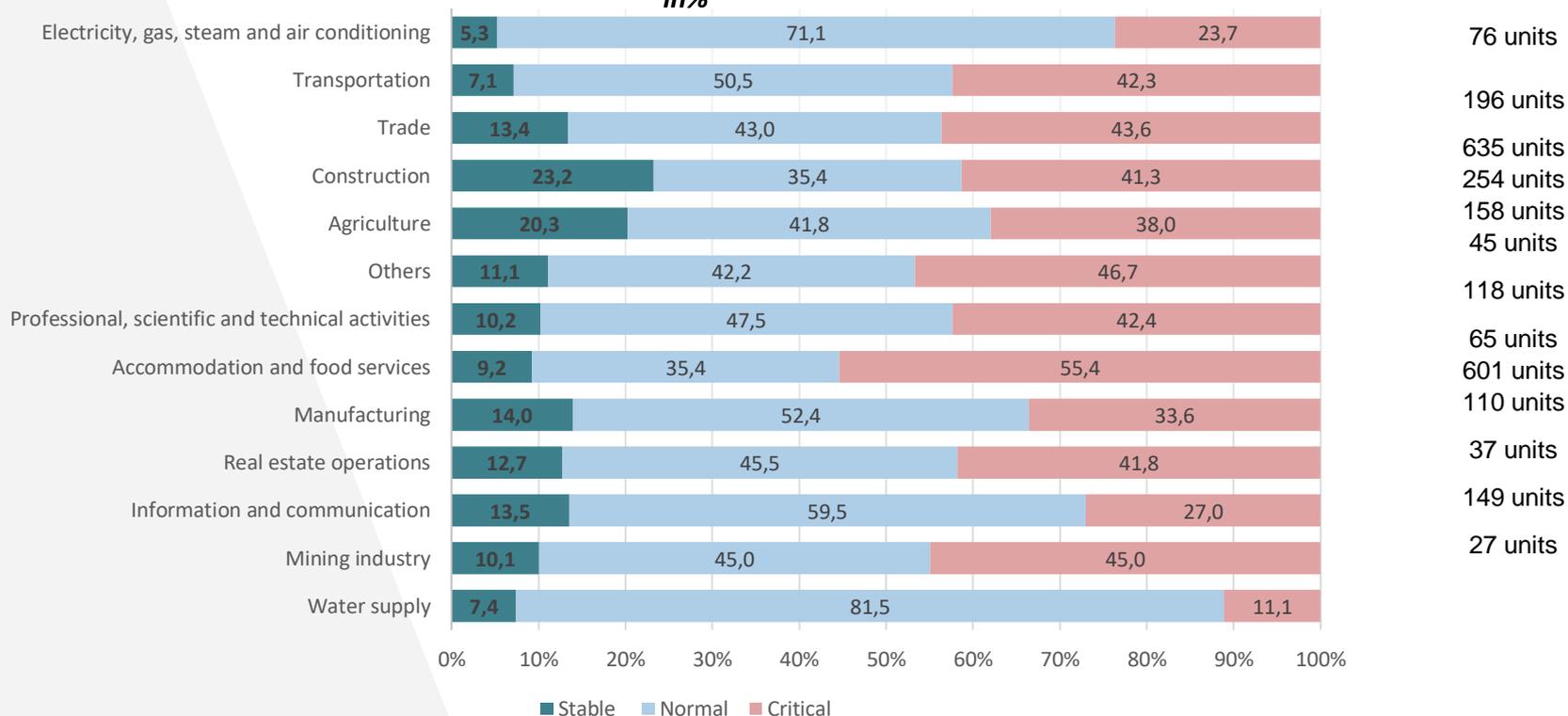


According to the results of discriminant analysis based on the assessment of the financial ratios of enterprises, the share of enterprises with a critical financial condition increased from 38,1% to 39,6% in Q4 of 2020.

In terms of dimensions, the share of enterprises with a critical financial condition among small enterprises is much higher (44,7%) than among large (27,3%) and medium-sized (36,4%). At the same time, the share of sustainable enterprises in the structure of large enterprises is lower than in medium and small ones.

ASSESSMENT OF THE ENTERPRISES FINANCIAL CONDITION

Enterprises distribution by degree of reliability by type of activity in Q3 2020, share in%



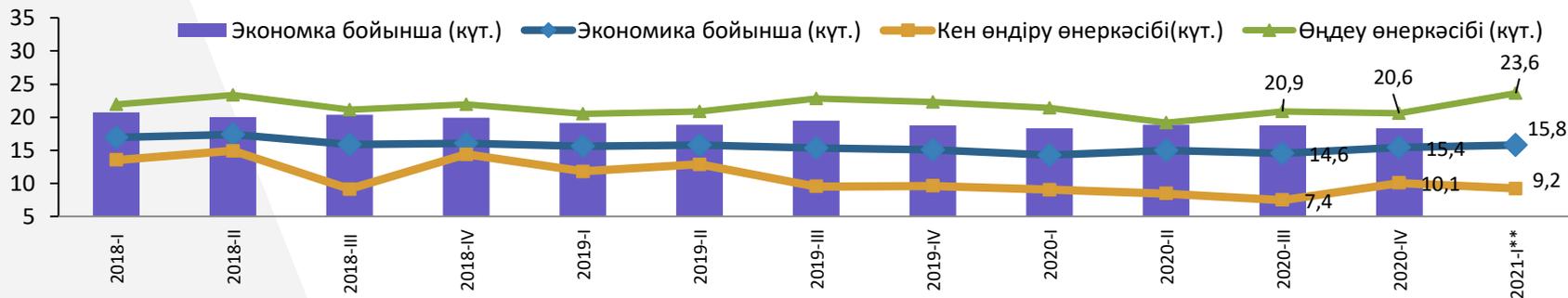
In Q4 of 2020 the share of enterprises with a critical financial condition was greater than the share of enterprises with a stable financial condition in all industries. The largest share of sustainable enterprises was found in construction (23,2%) and agriculture (20,3%). The largest share of enterprises with a critical financial condition is in the “accommodation and catering services” industry (55,4%). Water supply and electricity supply turned out to be the most stable industries, where the share of enterprises with a normal financial condition was 81,5% and 71,1%, respectively.

* Companies participating in monitoring have been stable for 3 years

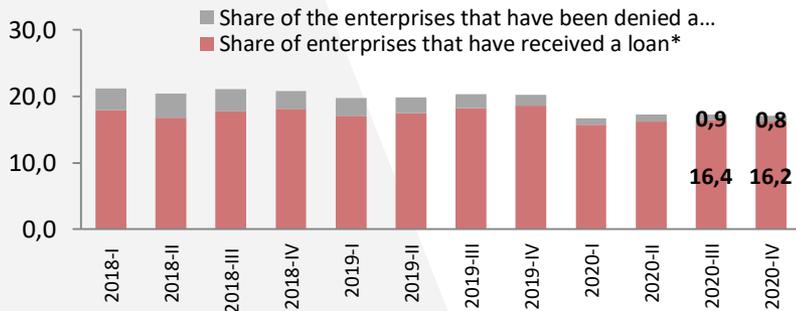
BANKING SYSTEM IMPACT ON THE REAL SECTOR OF THE ECONOMY

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 Q4 of 2020, 17,0% of the surveyed enterprises applied to the bank for a loan, 16,2% of enterprises received a loan (or 95,3% 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 (4,7% of those who applied for a loan).

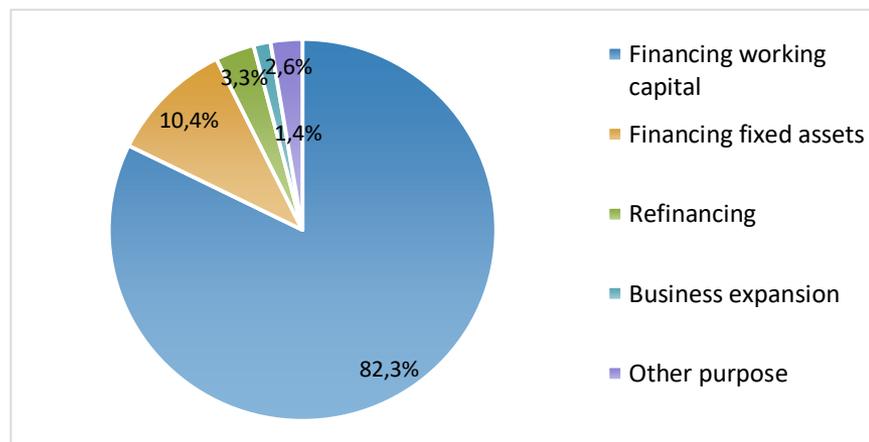
In Q1 of 2021, 15,8% of the surveyed enterprises intend to apply for a loan. In the manufacturing industry, the share of such enterprises is 23,6%, in the mining industry – 9,2%.

BANKING SYSTEM IMPACT ON THE REAL SECTOR OF THE ECONOMY

*Debt burden as estimated by enterprises *,%*

Debt load *	Share of enterprises
1-20%	14,9
21-30%	9,2
31-40%	6,6
41-50%	4,7
51-60%	3,6
61-70%	2,3
71-80%	2,1
over 81%	1,6
no debt	55,0

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



In Q4 of 2020, 55,0% of enterprises that took part in the surveys have no debt. The majority of enterprises (14,9%) have a debt burden* within 20%. The arithmetic weighted average** value of the debt burden is 14,7%.

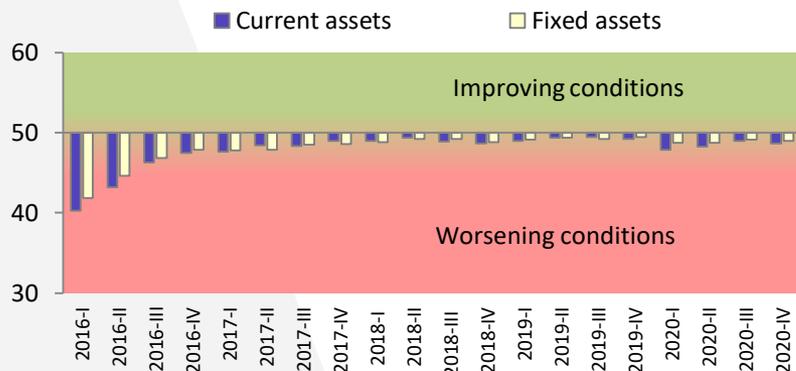
The overwhelming majority of enterprises (82,3%) took a loan to finance working capital (purchase of materials, raw materials, semi-finished products, etc.), 10,4% - to purchase fixed assets (purchase of buildings, structures, vehicles, equipment, etc.). 3,3% of enterprises took loans for refinancing, and 2,6% - for business expansion.

* Monthly payment / income from sales of products

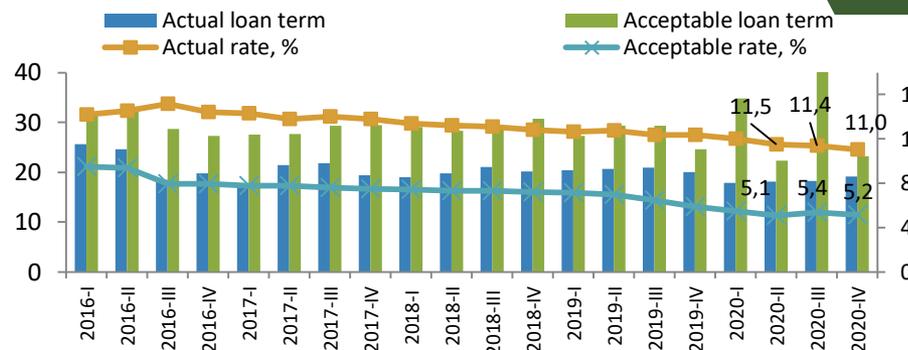
** Arithmetic weighted average is the average value of the interval, weighted by the share of enterprises.

BANKING SYSTEM IMPACT ON THE REAL SECTOR OF THE ECONOMY

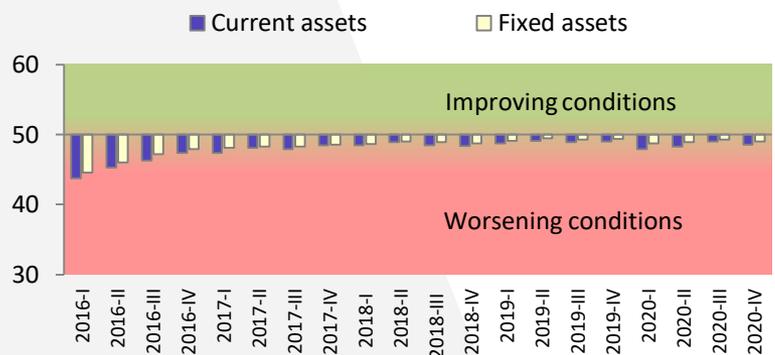
Price conditions



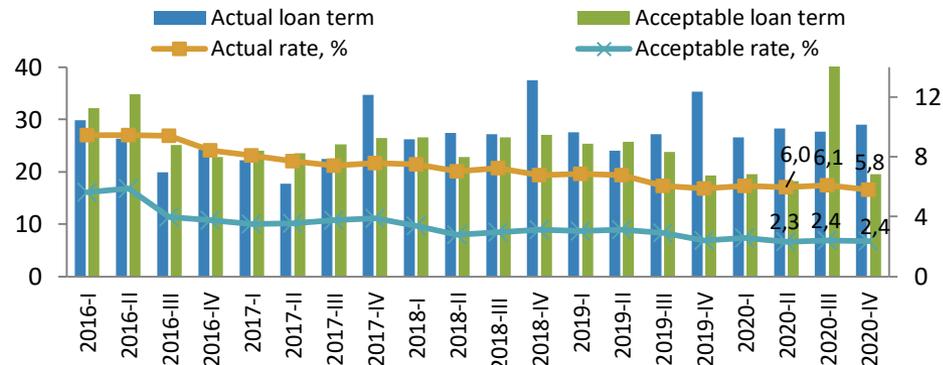
Loan terms and rates in tenge



Non-price conditions



Loan terms and rates in foreign currency

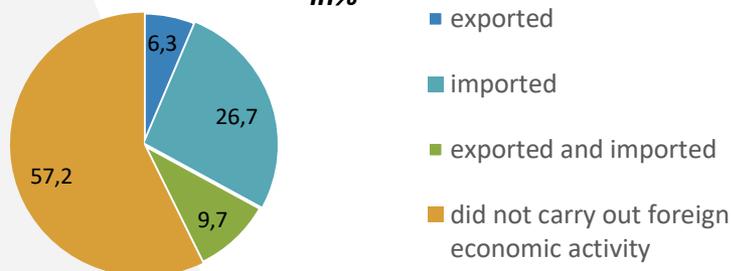


In Q4 of 2020, enterprises' assessments regarding price (level of interest rates on a loan, amount of additional commissions) and non-price (maximum size and term of a loan, requirements for the financial condition of the borrower, requirements for collateral) of lending conditions remained negative. The number of enterprises, noting the deterioration of credit conditions, slightly increased.

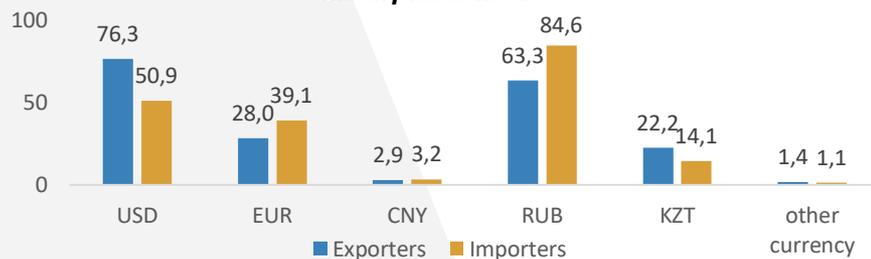
Average interest rates on loans received by monitoring participants amounted to **11,0%** in tenge and **5,8%** in foreign currency (11,4% and 6,1% in the previous quarter, respectively). The interest rate acceptable for enterprises on loans in tenge is 5,2%, on loans in foreign currency – 2,4%.

FOREIGN ECONOMIC ACTIVITIES OF ENTERPRISES (FEA)

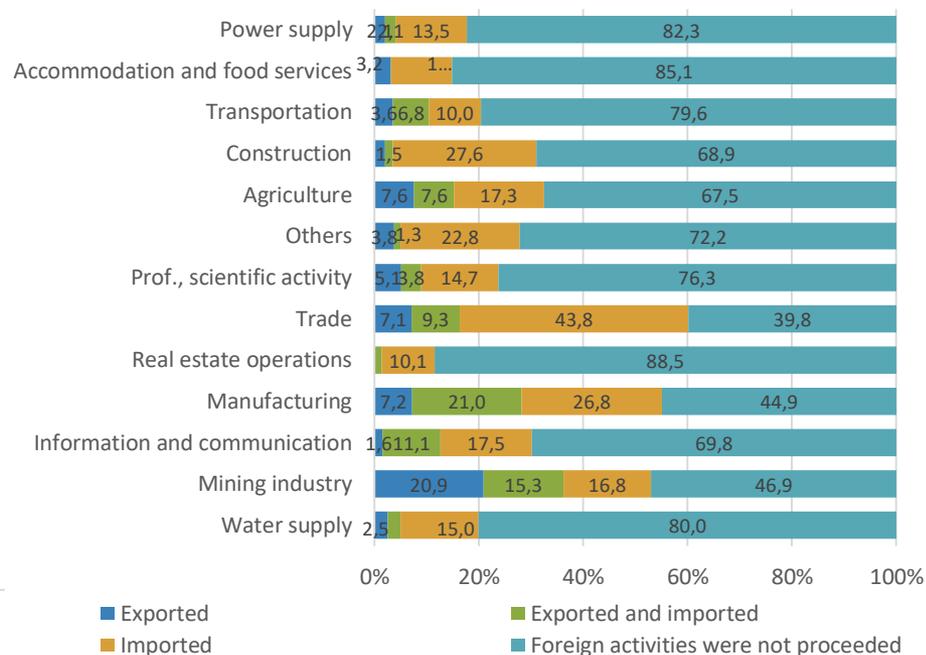
Implementation of foreign economic activity in the past quarter, the share of enterprises in%



Use of currency in calculations, share of enterprises in%



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

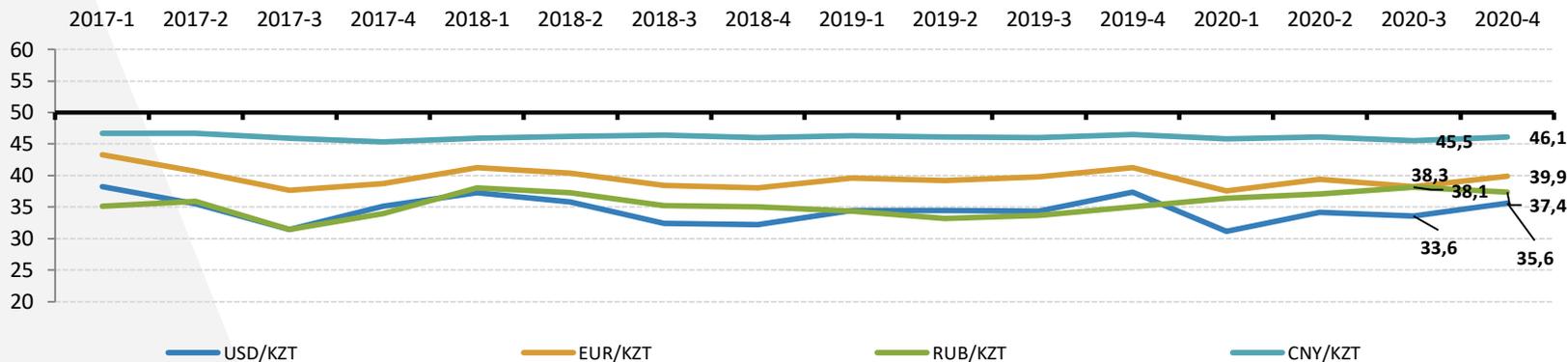


In Q4 of 2020, 26,7% of respondents imported products to carry out their activities, 6,3% exported, 9,7% both exported and imported, and the vast majority (57,2%) did not carry out foreign economic activity. The largest share of enterprises that exported products is in the mining industry (20,9%), the largest share of enterprises that imported products is in trade (43,8%). In trade, the largest share of enterprises engaged in foreign economic activity.

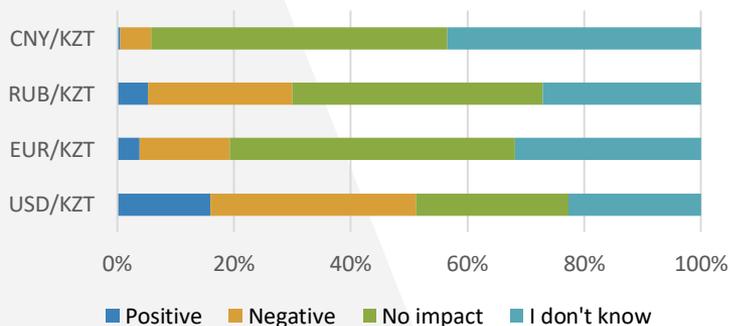
In settlements with foreign partners, exporters more often use the US dollar (76,3% of exporters), importers use the Russian ruble more (84,6% of importers). The other currencies used in the calculations of the company indicate the British pound sterling, Swiss franc, Kyrgyz som and Turkish lira.

IMPACT OF EXCHANGE RATE CHANGES

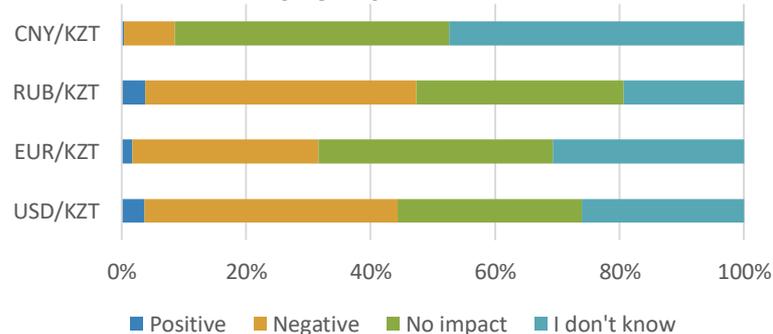
*Dynamics of the impact of changes in the exchange rate, DI **



Impact of the exchange rate on the economic activities of exporters in Q4 2020



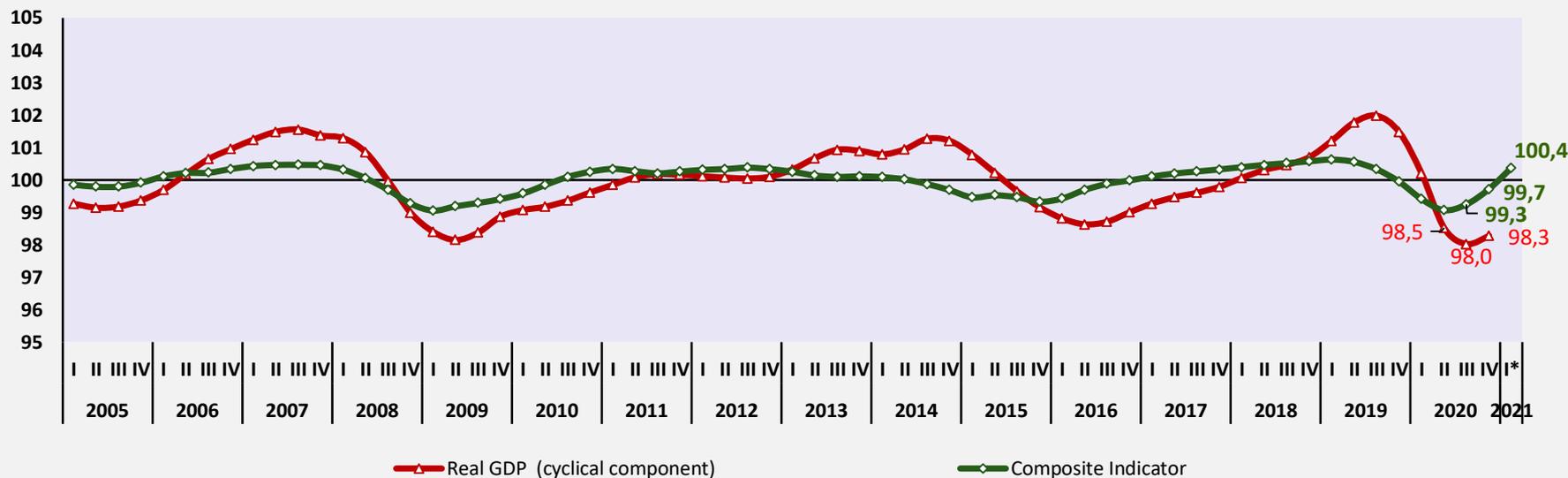
Impact of the exchange rate on the economic activity of importers in Q4 2020



In Q4 of 2020, the negative impact of the exchange rate on the economic activities of enterprises decreased in all currencies, except for the impact of RUB/KZT (DI decreased from 38,1 to 37,4). 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 Q4.

* 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 Q4 of 2020, the dynamics of the composite leading indicator (CLI), which is an aggregated assessment of enterprises surveys in the real sector shows signs of a gradual recovery in economic activity in the real sector. CLI climbed to 99,7.

The dynamics of CLI was influenced by a slower decline in demand in industries, an increase in prices for final products, a decrease in the negative impact of the exchange rate and the dynamics of world prices for energy carriers. An increase in the share of enterprises with a critical financial condition and a decrease in production volumes had a negative impact on CLI.

In Q1 of 2021, respondents expect a weak growth in economic activity (CLI moved into the growth area, reaching 100,4), which is mainly due to the expected increase in demand for final products of enterprises, especially in the construction and services sector.

- 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 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 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) 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