

MARKET REVIEW

Enterprises Survey Results in the Real Sector of the Economy

Q2 2022



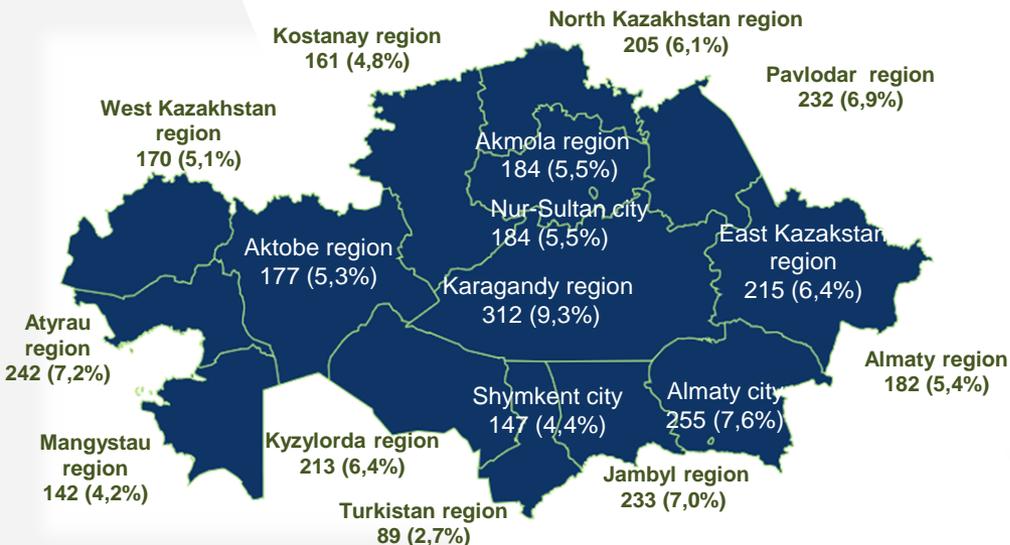
Monetary Policy Department
National Bank of Kazakhstan

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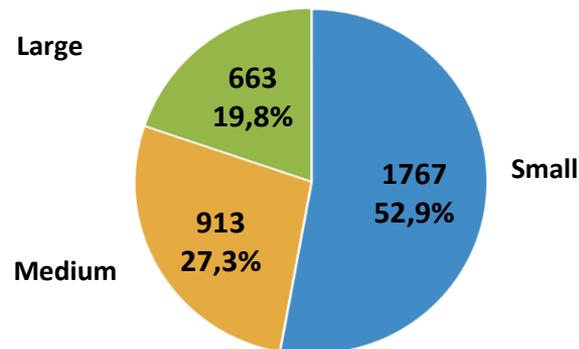
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DYNAMICS OF COMPOSITION OF MONITORING PARTICIPANTS

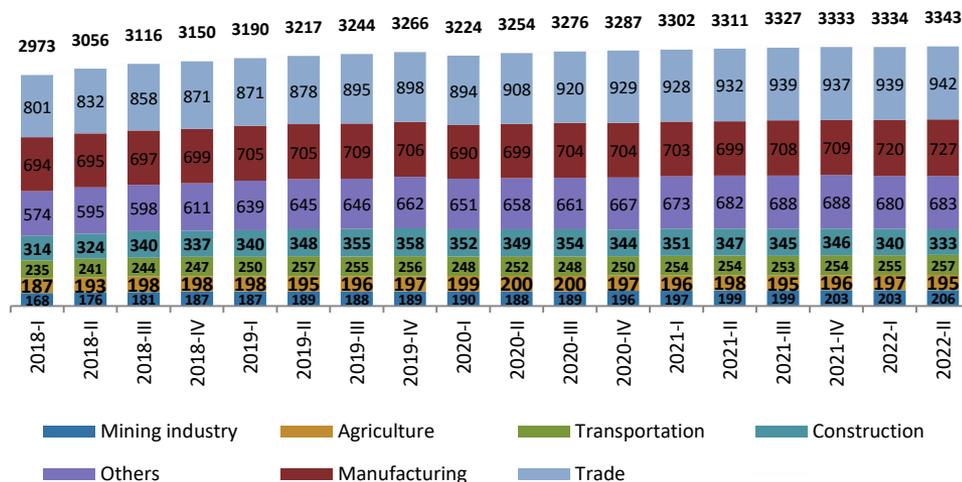
Regional structure of the enterprise survey participants in Q2 2022



Survey participants size structure



Survey participants sectorial structure



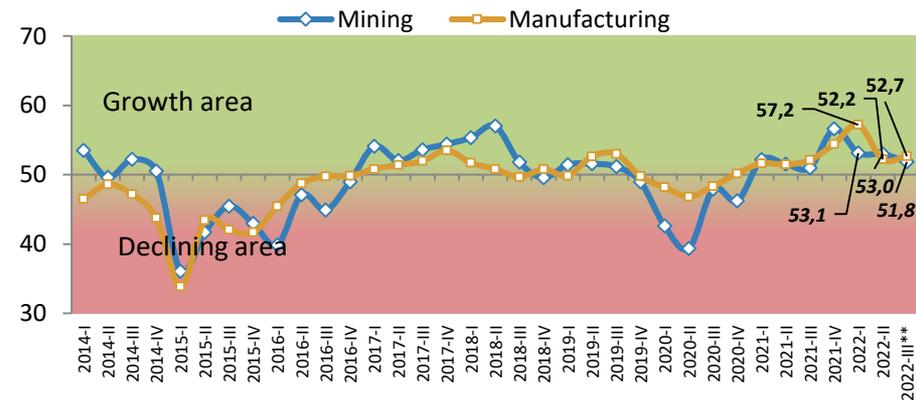
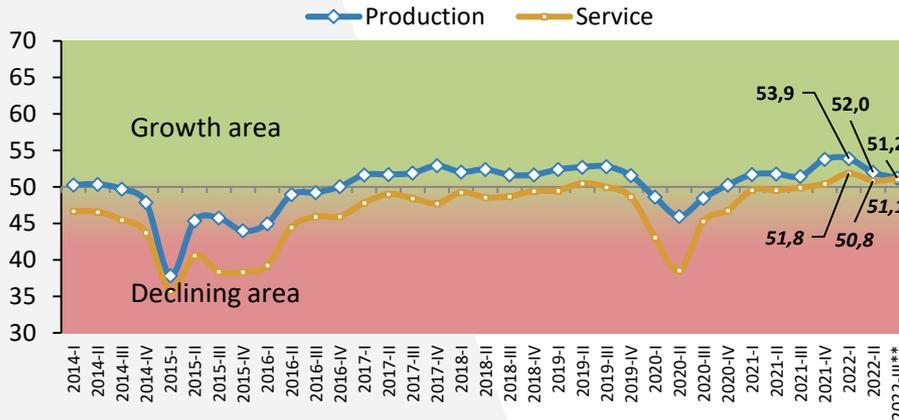
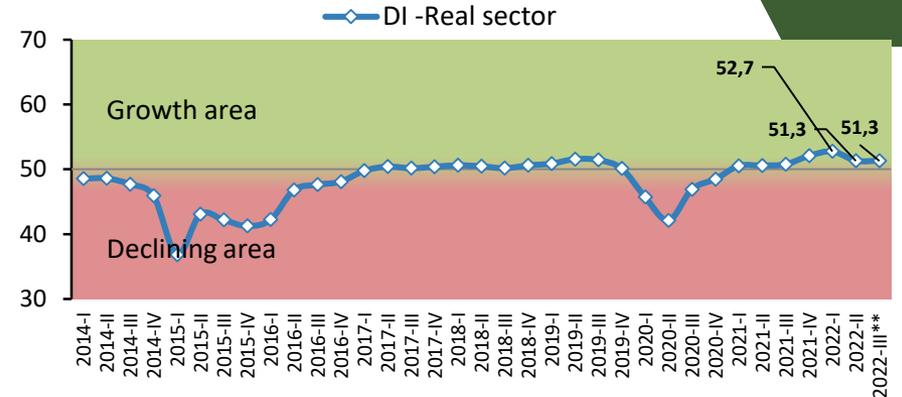
In Q2 of 2022 the number of respondents compared to the previous quarter increased by 9 enterprises and amounted to **3343**. 9 small and 2 medium-sized enterprises were involved in the survey and 2 large enterprises were dropped out.

In the sectoral context, an increase of enterprises was noted in manufacturing (7), as well as mining industry, trade and other industries (3 in each), transport (2), and a decrease - in construction (7) and agriculture (2).

DYNAMICS OF DEMAND FOR FINAL PRODUCTS

Final goods demand, DI*

Answers of enterprises, %	2020				2021				2022			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3**	
Increase	1	12,9	18,7	22,4	22,4	16,4	24,1	24,2	24,4	17,4	24,2	17,3
No changes	2	50,6	47,6	51,8	51,6	51,5	53,1	55,6	55,1	53,7	54,5	41,5
Decrease	3	33,8	30,7	22,6	22,9	28,5	19,1	16,4	17,3	25,4	17,9	8,4
Do not know	4	2,7	3,0	3,2	3,1	3,6	3,7	3,8	3,2	3,5	3,5	32,8
Diffusion index, DI=line1+0.5*(line2+line4)	5	39,6	44,0	49,9	49,7	43,9	52,5	53,9	53,6	46,0	53,2	54,5
DI, seasonal adjusted	6	45,7	42,1	46,9	48,5	50,5	50,6	50,7	52,0	52,7	51,3	51,3



In Q2 of 2022 the demand for final products in the real sector slowed down slightly. The diffusion index (hereinafter - DI) was **51,3**. The slowdown of the indicator was noted in production of goods (52,0) and service (50,8), as well as mining (53,0) and manufacturing (52,2).

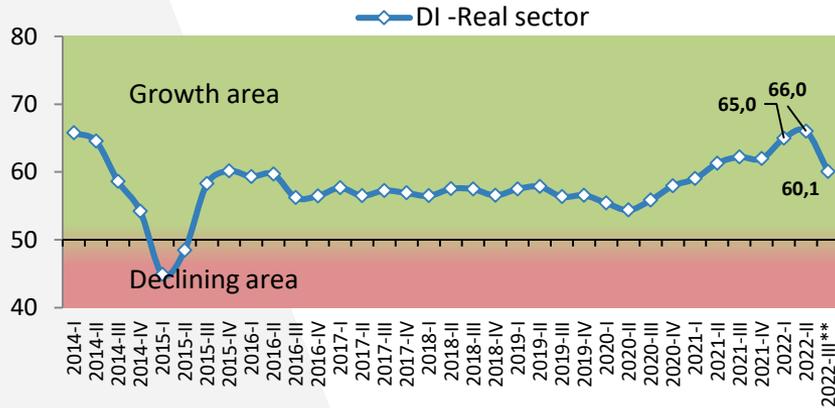
According to the expectations of enterprises in the real sector in Q3 of 2022 the process of recovery of demand will remain at the same level (DI=**51,3**).

*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

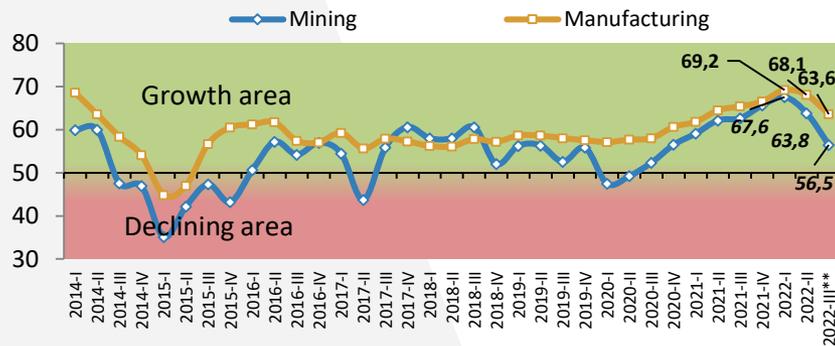
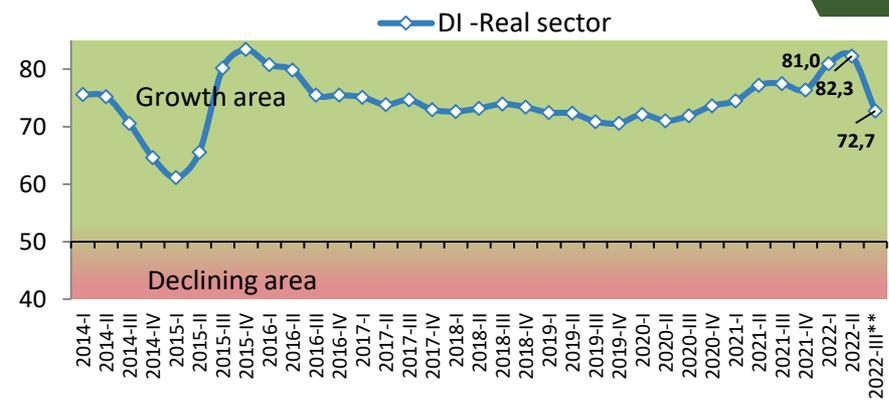
**The Figures show expectations of enterprises regarding the change in the parameter in Q3 2022

PRICES CHANGES IN THE REAL SECTOR

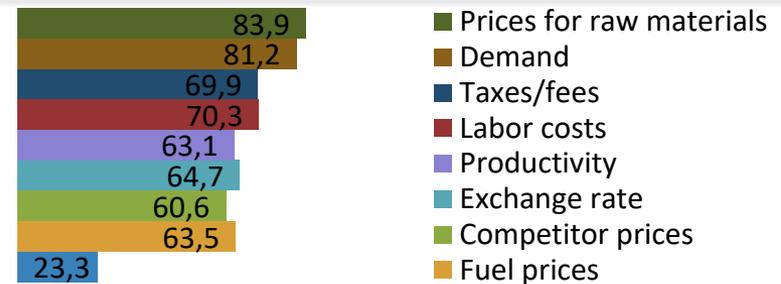
Final goods prices, DI*



Raw materials prices, DI*



Assessment of pricing factors importance, answers in%



In Q2 of 2022 the growth rate of prices for final products of enterprises in the economy accelerated (DI was **66,0**). However, a slowdown in prices was noted in mining and manufacturing industries (DI changed to 63,8 and 68,1, respectively).

For the vast majority of enterprises the most important factor in setting prices for final products is the price of raw materials (for 83,9% of enterprises) and demand (81,2%).

In Q3 of 2022 enterprises expect a slowdown in the growth rates of prices for raw materials (DI=72,7), and accordingly, for final products (DI=60,1).

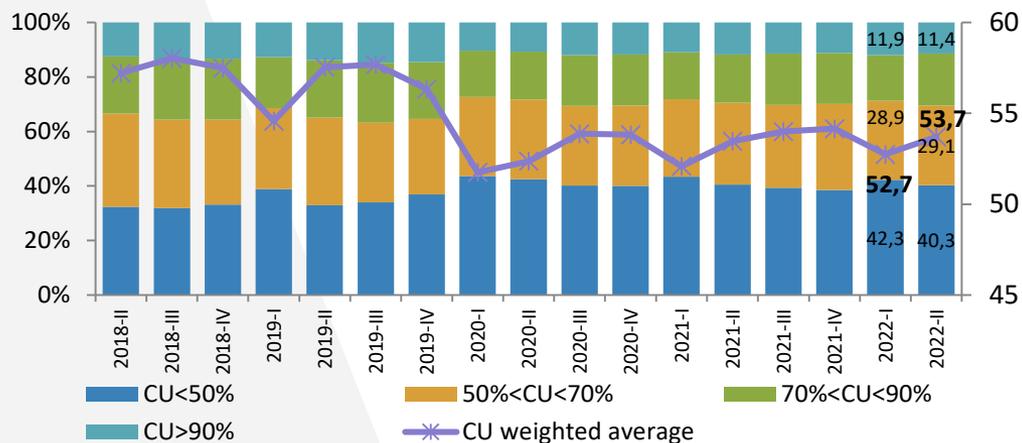
*Diffusion Index (seasonally adjusted). The higher (the lower) the DI deviates from 50, the higher (the lower) are the rates of growth (decline) in indicator; the level of 50 -the absence of any change

**The Figures show expectations of enterprises regarding the change in the parameter in Q3 2022

PRODUCTION OUTPUT

Capacity utilization level

(share of respondents, %)

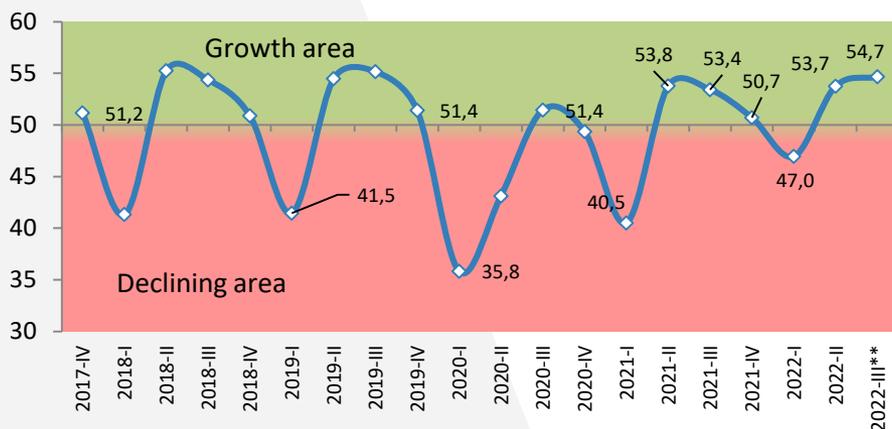


In Q2 of 2022 the capacity utilization (CU) of enterprises increased. The weighted average* level of the CU was **53,7%**.

Also in Q2 of 2022 the volume of production of final products (works, services) increased. DI moved into the positive zone, amounting to **53,7**.

In Q3 of 2022 enterprises expect an increase in production volume. The expected DI is **54,7**.

DI changes in production output, DI**

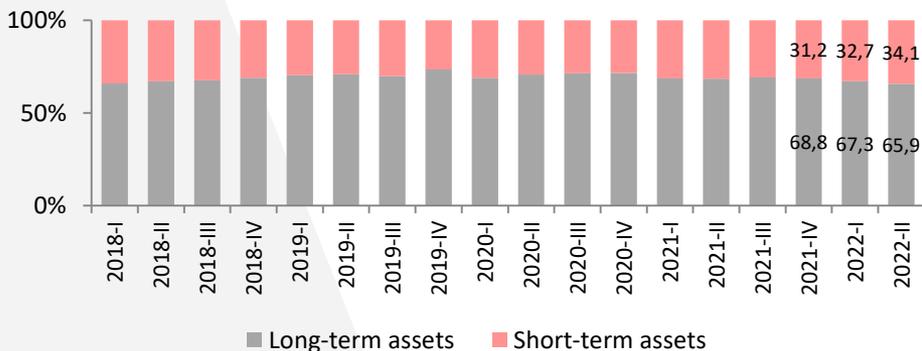


* Arithmetic weighted average is the average value of the interval, weighted by the share of enterprises.

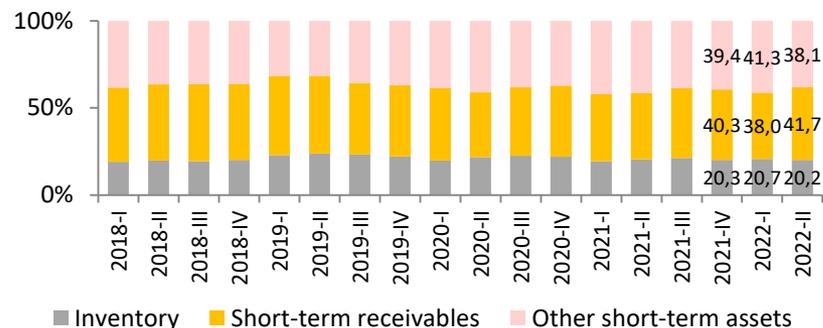
** The higher (lower) the DI from the level of 50, the higher (lower) the growth (fall) rate of the indicator, the level of DI = 50 means no change

BALANCE SHEET STRUCTURE: ASSETS

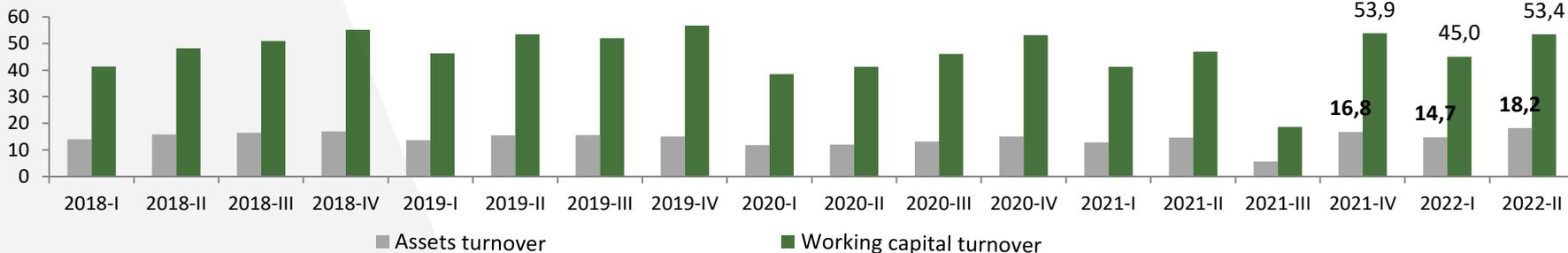
Assets structure



Short-term assets Structure



Assets turnover indicators



In Q2 of 2022 in the structure of assets of companies in the real sector of the economy, the share of short-term and long-term assets changed slightly, amounting to **34,1%** and **65,9%** (in Q1 of 2022 – 32,7% and 67,3%, respectively). Asset turnover* increased to **18,2%**, working capital turnover** – to **53,3%**.

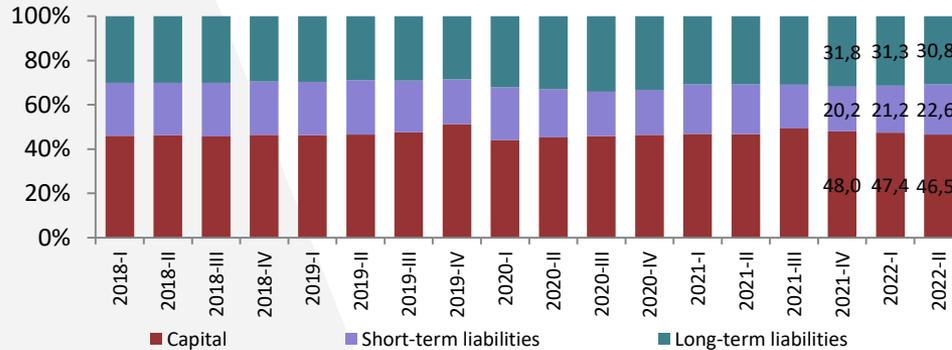
In the structure of short-term assets in the past quarter, the share of receivables slightly increased to **41,7%** (in Q1 of 2022 – 38,0%), while the share of inventories remained almost unchanged at **20,2%** (20,7% in Q1 of 2022).

Asset turnover = Income from product sales / Assets 100

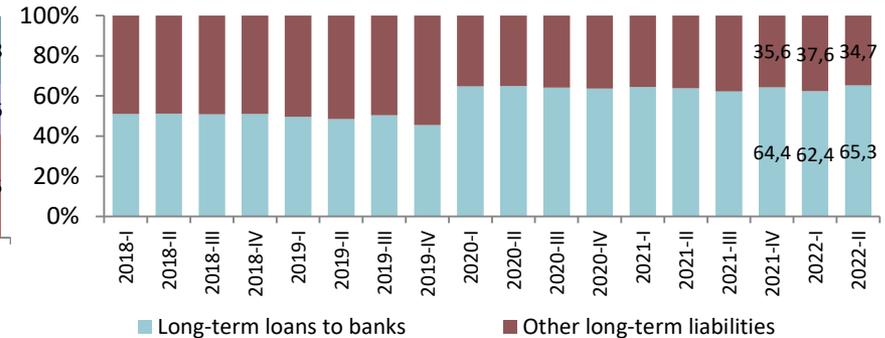
**Turnover of current assets = Income from product sales / Short-term assets* 100

BALANCE SHEETS STRUCTURE : LIABILITIES

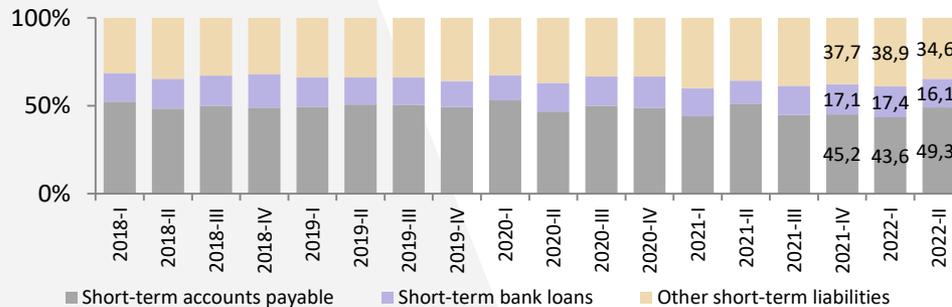
Liabilities structure



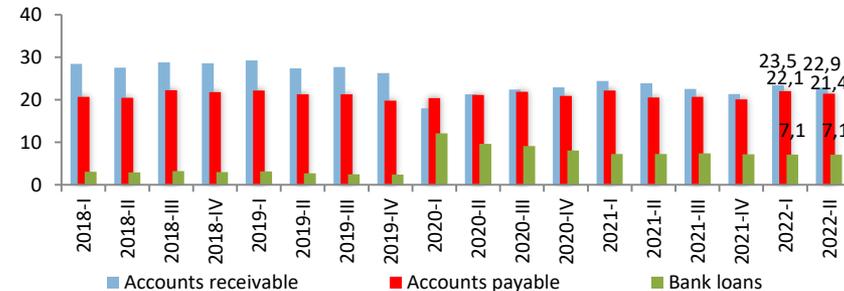
Long-term liabilities structure



Short-term liabilities structure



Share of enterprises with overdue debts

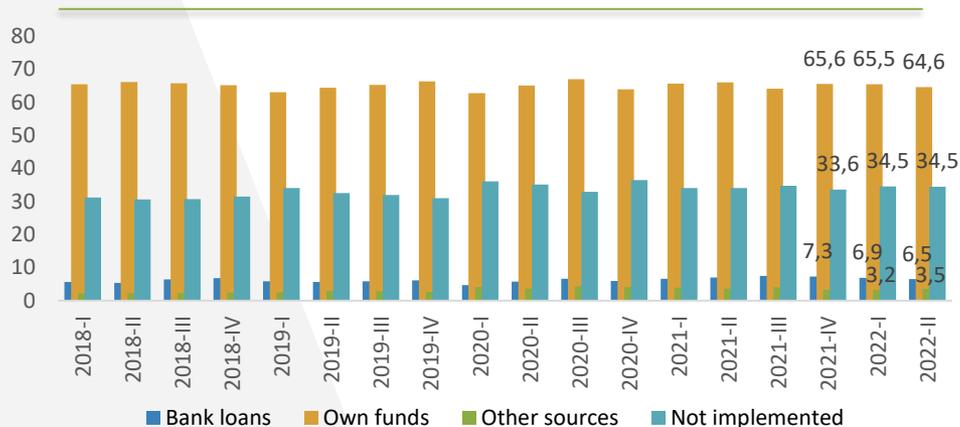


In Q2 of 2022 in the structure of liabilities was an increase in the share of short-term liabilities to **22,6%**, and a decrease in the share of long-term liabilities and capital to **30,8%** and **46,5%**, respectively. In the structure of short-term liabilities, the share of short-term accounts payable increased from 43,6% in Q1 of 2022 to 49,3% in Q2 of 2022.

The share of enterprises with overdue accounts receivable and accounts payable decreased to **22,9%** and **21,4%**, respectively. At the same time, the share of enterprises with overdue debt on bank loans remained at the previous level of **7,1%**.

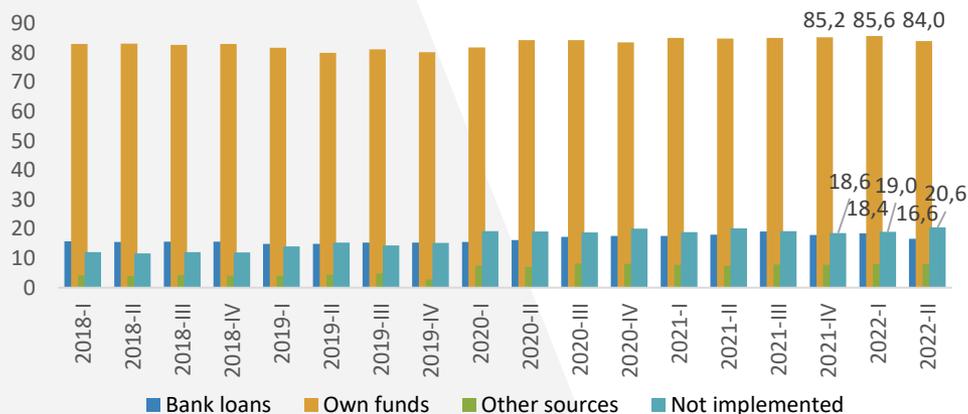
INVESTMENT ACTIVITY

Funding source for fixed assets, %



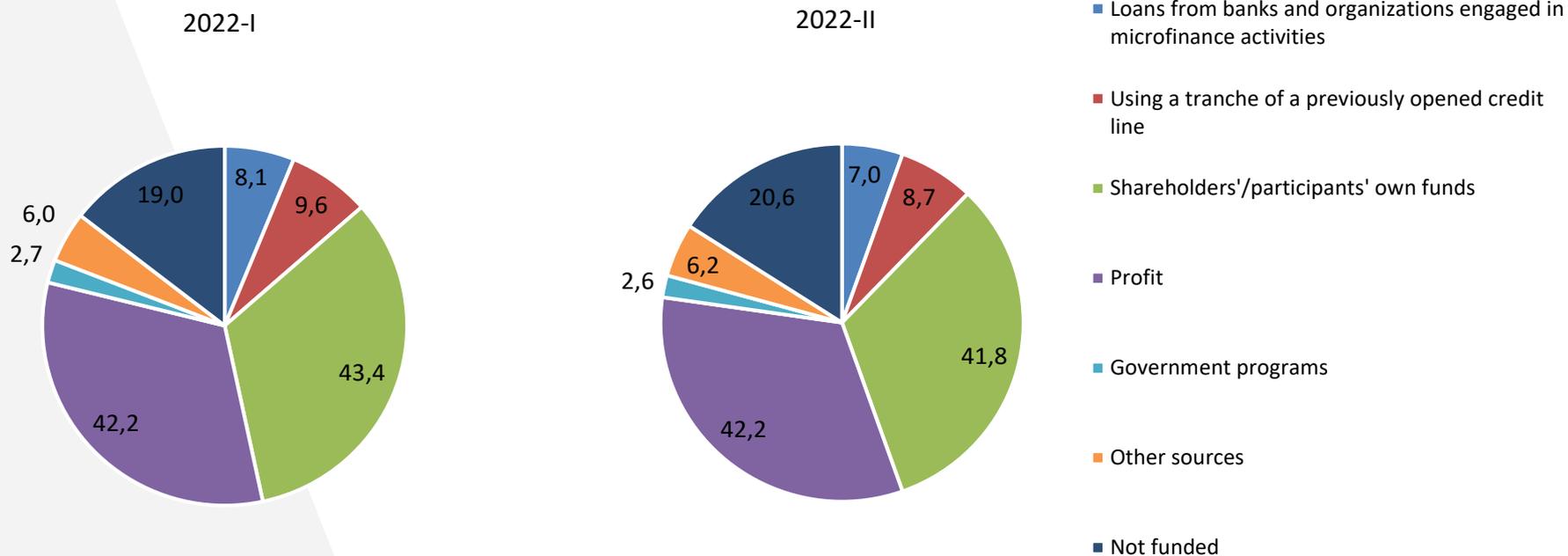
In Q2 of 2022 the investment activity of enterprises slightly decreased. The share of enterprises that did not finance fixed assets remained unchanged at the level of 34,5%, while the share of enterprises that financed fixed assets at their own expense slightly decreased to 64,6%. As before, most of the enterprises use their own funds to finance fixed and working capital (64,6% and 84,0%, respectively).

Funding source for working capital, %



SOURCES OF WORKING CAPITAL FINANCING

Sources of working capital financing

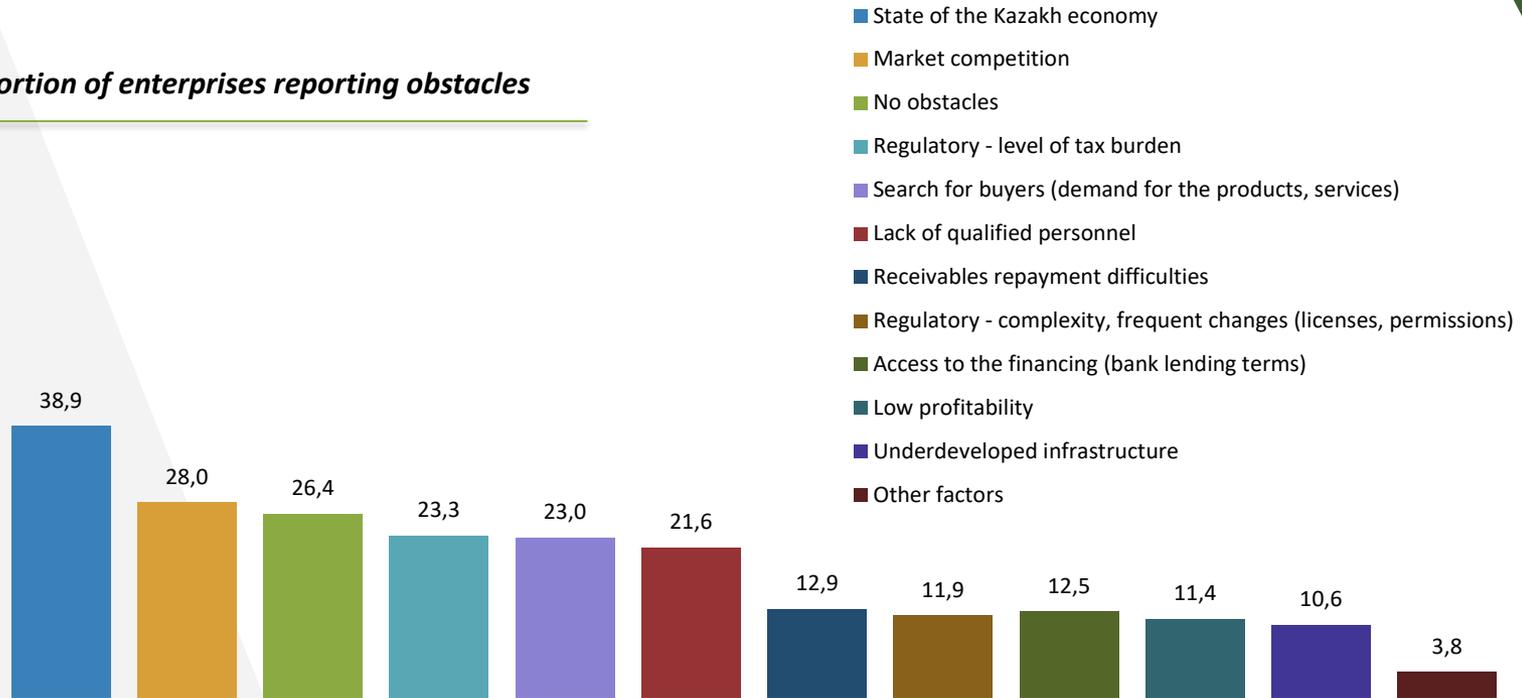


To finance **working capital**, the majority of enterprises (**84,0%**) used their own funds, of which **42,2%** were profits and **41,8%** were shareholders'/participants' own funds. Loans for these purposes were used by **16,6%** of enterprises (of which 8,7% used a tranche on a previously opened credit line, 7,0% - loans in Kazakhstan banks and organizations engaged in microfinance activities, 0,9% - loans abroad).

Among other sources, in addition to those presented in the graph, enterprises also indicate advances from customers, financial assistance, intra-group loans (between the parent company and affiliates) and subsidies.

OBSTACLES FOR DOING BUSINESS

Proportion of enterprises reporting obstacles



According to the results of survey in Q2 of 2022, for **38,9%** of enterprises the state of the economy of Kazakhstan is an obstacle to doing business (in Q1 of 2022 the share of such enterprises was 38,4%). According to **55,8%** (in Q1 of 2022 – 59,6%) of the respondents, the economic situation in Kazakhstan worsened in Q2 of 2022, and **40,2%** 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 (28,0%), tax burden (23,3%), the search for buyers (23,0%), the lack of qualified personnel (21,6%), receivables repayment difficulties (12,9%), while **access to financing is ranked 8th (12,5%)**.

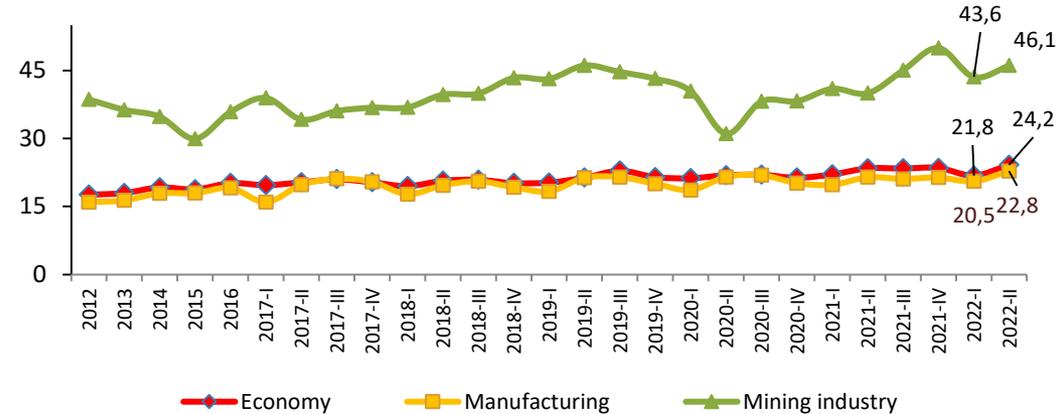
As other obstacles enterprises indicated sanctions against the Russian Federation, a decrease in the import of goods from the Russian Federation, the exchange rate, and a sharp rise in inflation.

FINANCIAL AND ECONOMIC PERFORMANCE CHANGE

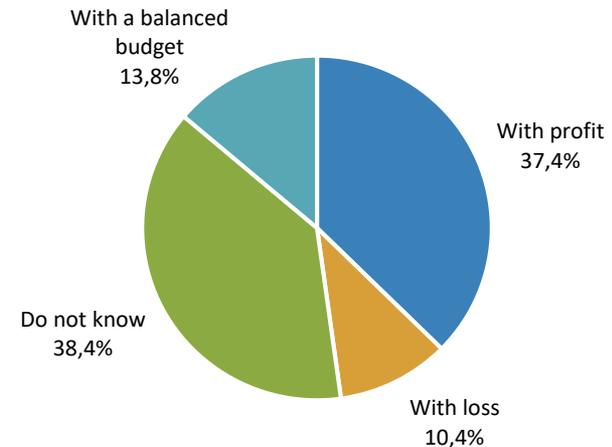
In Q2 of 2022 the average* return on sales** of enterprises in the mining industry increased to **46,1%** from 43,6% in Q1 of 2022. In manufacturing the return on sales also increased to **22,8%** from 20,5% in Q1 of 2022. As a result, the average return on sales in the economy as a whole increased, amounting to **24,2%**.

The share of enterprises planning to close the year with profit amounted to **37,4%**, **10,4%** believe that the year will end with a loss. At the same time, **13,8%** of the surveyed enterprises think to close the year with a balanced budget (without profit and loss), the remaining **38,4%** have difficulties in giving assessment about their financial condition by the end of the year.

Return on sales *, in %



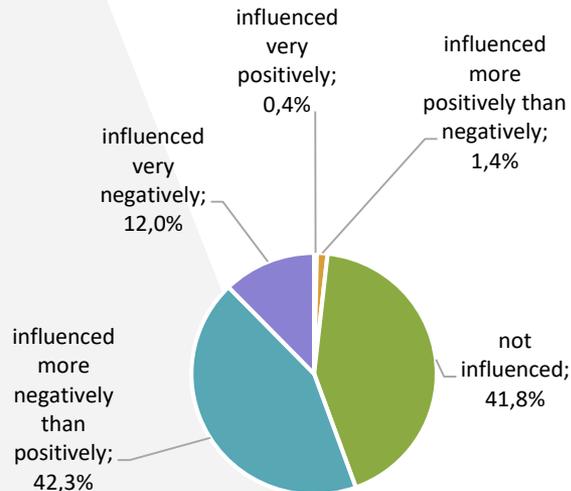
Share of enterprises planning to close the financial year with profit / loss, %



* 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

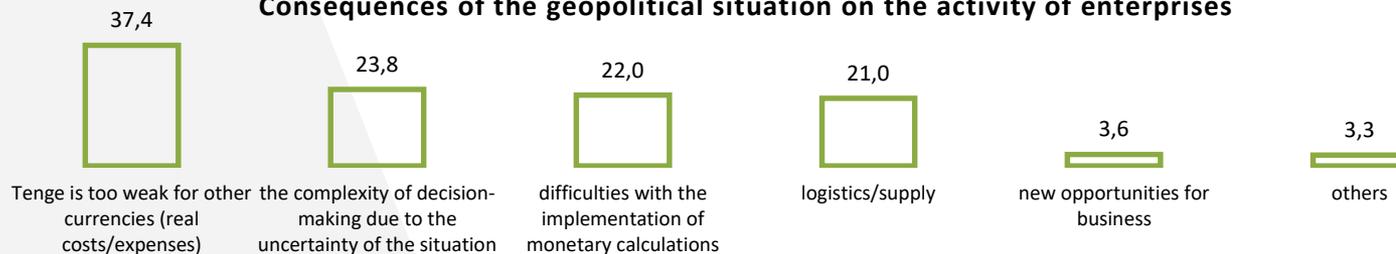
Influence of the geopolitical situation and sanctions imposed against the Russian Federation on the activities of enterprises



The activity of the majority of enterprises (54,3%) was negatively affected by the geopolitical situation and sanctions imposed against the Russian Federation, of which 12,0% suffered the most. Nevertheless, 41,8% of respondents noted that geopolitics had no influence on their activities.

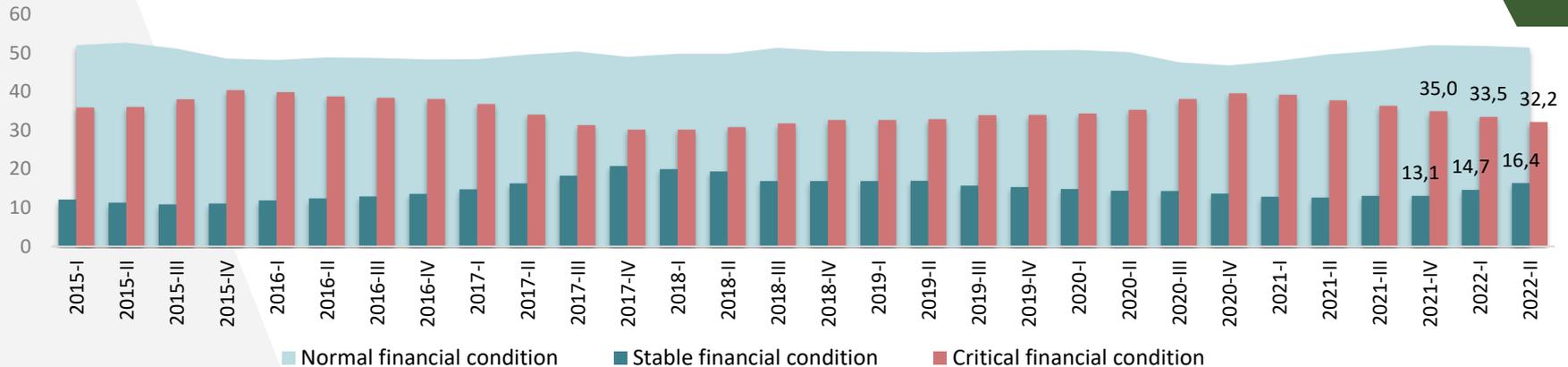
Among the enterprises that noted the consequences of the geopolitical situation, 37,4% said that the Kazakh tenge is too weak compared to other currencies. At the same time, 23,8%, 22,0%, 21,0% of the respondents noted such consequences as the complexity of decision-making due to the uncertainty of the situation, difficulties with the implementation of monetary calculations, problems with logistics/supply, respectively. Only 3,6% of enterprises found new opportunities for business.

Consequences of the geopolitical situation on the activity of enterprises



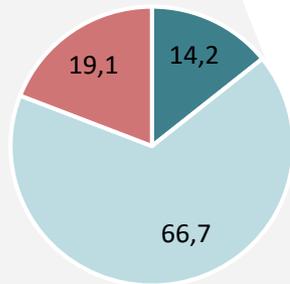
ASSESSMENT OF THE FINANCIAL CONDITION OF ENTERPRISES

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

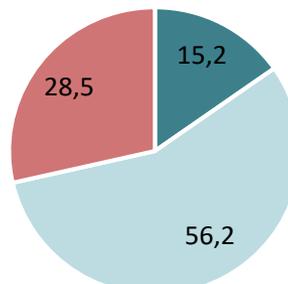


Enterprises distribution by degree of reliability by dimension in Q2 2022, share in %

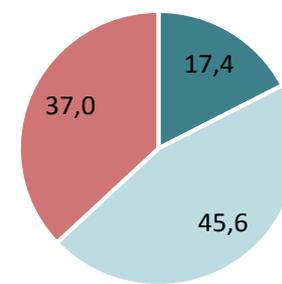
Large enterprises



Medium enterprises



Small enterprises



■ Stable
■ Normal
■ Critical

According to the results of a discriminant analysis based on the assessment of the financial coefficients of enterprises, the share of enterprises with a critical financial condition is continuing to decrease: in Q2 their share was **32,2%**.

By dimensions, the share of enterprises with a critical financial condition is significantly higher (**37,0%**) than among large (19,1%) and medium-sized (28,5%). At the same time, the share of stable enterprises in the structure of large enterprises is lower than among medium and small ones.

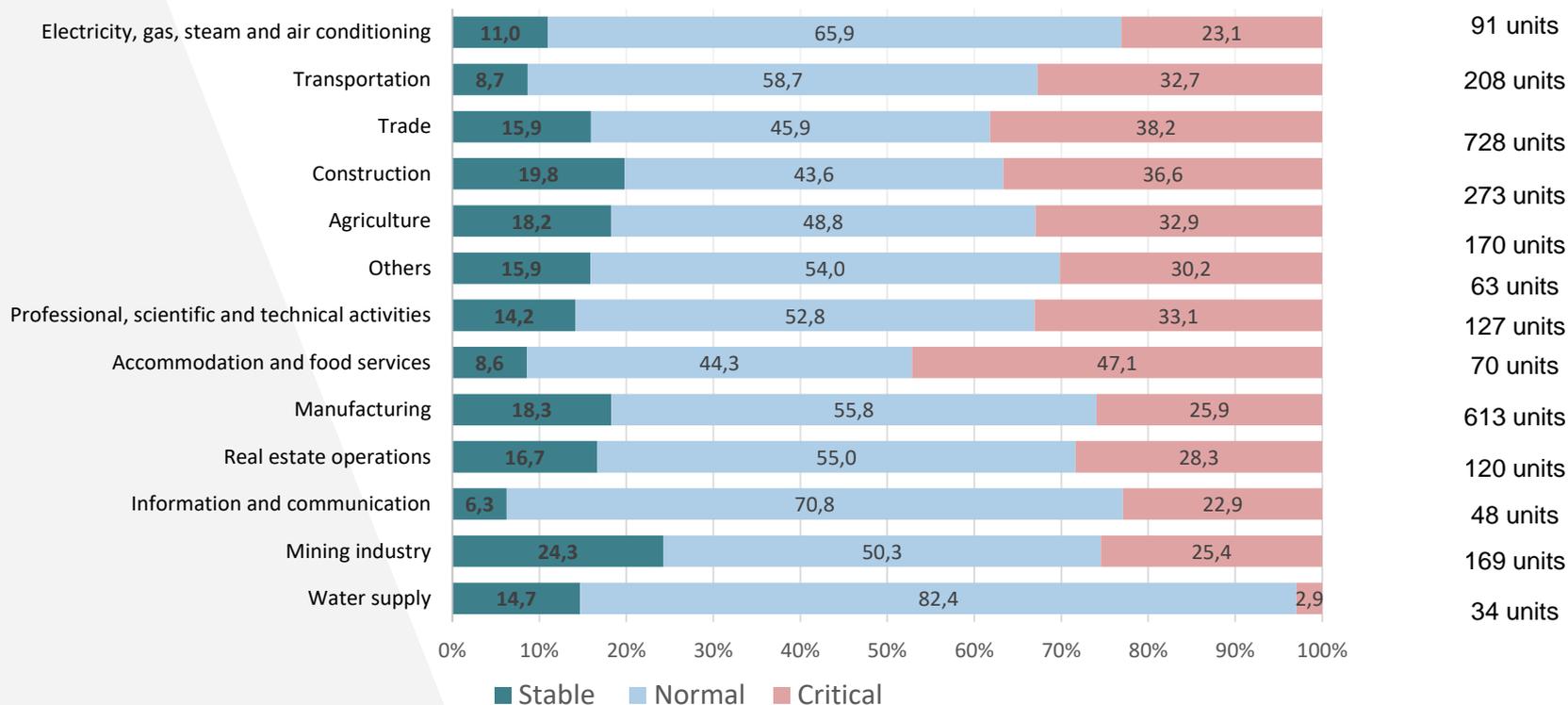
* The respondent enterprises are distributed according to the degree of reliability based on the values of financial indicators according to the results of discriminant analysis.

See the methodological commentary on slide 22.

ASSESSMENT OF THE FINANCIAL CONDITION OF ENTERPRISES

Enterprises distribution by degree of reliability by type of activity in Q2 2022, share in %

*Number of enterprises**



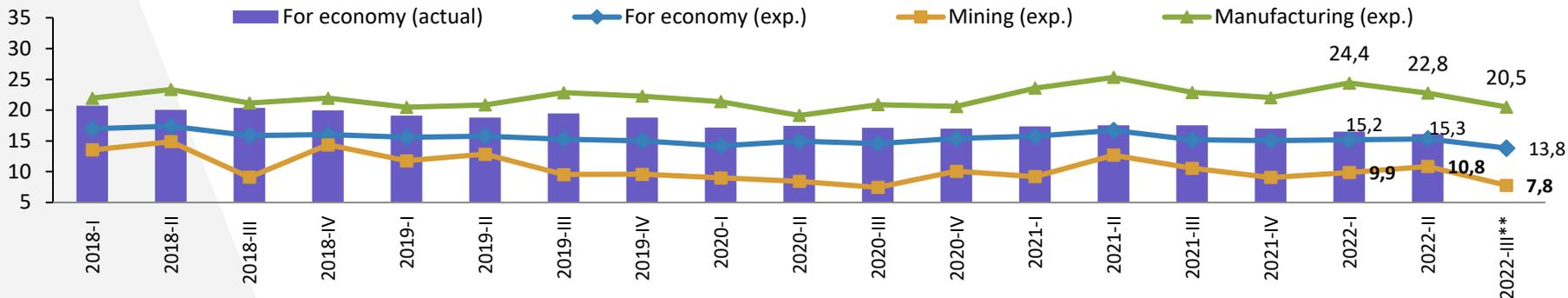
In Q2 of 2022 in all sectors, except for water supply, the share of enterprises with a critical financial condition was greater than the share of enterprises with a stable financial condition. The largest share of stable enterprises is in mining industry (**24,3%**) and construction (**19,8%**). The largest share of enterprises with a critical financial condition is in the “accommodation and food services” sector (**47,1%**). Water supply turned out to be the most stable sector, where the share of enterprises with a normal financial condition was **82,4%**.

* Companies participating in monitoring have been stable for 3 years

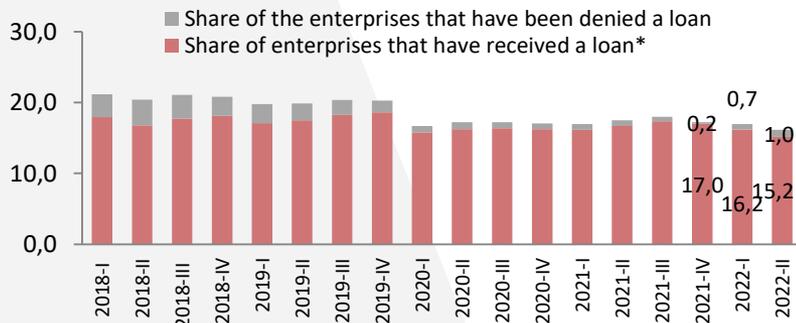
BANKING SYSTEM IMPACT ON THE REAL SECTOR OF THE ECONOMY

Loans demand, %

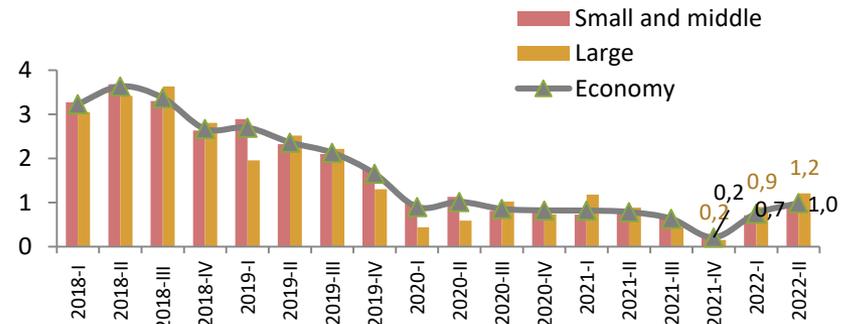
(share of enterprises applying for a loan from a bank)



Lending applications consideration



Share of enterprises that have been denied for a loan



In Q2 of 2022 **16,2%** of the surveyed enterprises applied to the bank for a loan, 15,2% of enterprises received a loan (or 93,9% of the number of those who applied for a loan). The share of loan refusals amounted to 1,0% of the total number of survey participants (6,1% of those who applied for a loan).

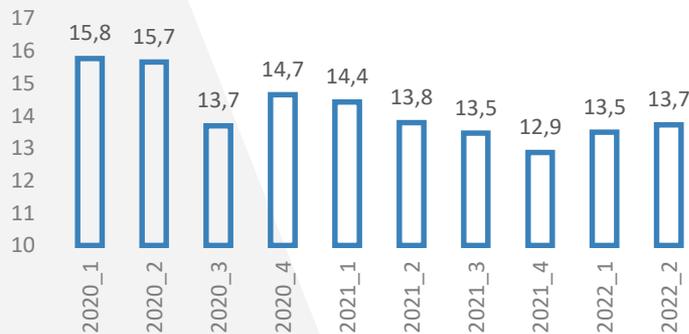
In Q3 of 2022 **13,8%** of the surveyed enterprises intend to apply for a loan. In the manufacturing industry the share of such enterprises is **20,5%**, in the mining industry – **7,8%**.

BANKING SYSTEM IMPACT ON THE REAL SECTOR OF THE ECONOMY

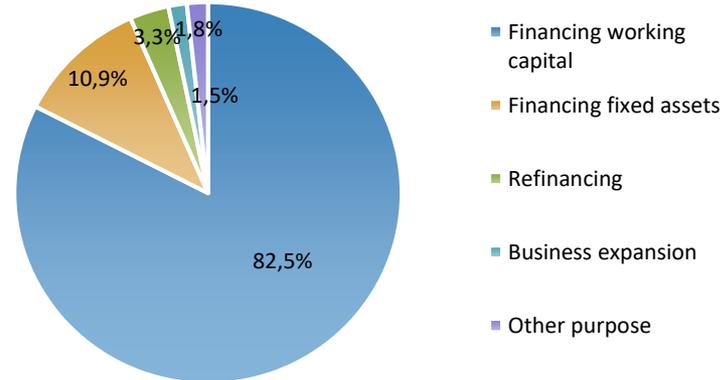
Debt burden estimations of enterprises *, %

Debt burden*	1%-20%	21%-30%	31%-40%	41%-50%	51%-60%	61%-70%	71%-80%	over 81%	no debt
share of enterprises, %	15,4	9,2	5,3	5,4	3,8	1,8	1,1	1,7	56,3

The weighted arithmetic mean value of the debt burden, %



The objectives of applying for loan in the past quarter, in %



In Q2 of 2022 56,3% of the enterprises that took part in the surveys **had no debt**. Most of those who had loans (15,4%) have a debt burden* within 20%. The weighted arithmetic average** value of the debt burden is **13,7%**.

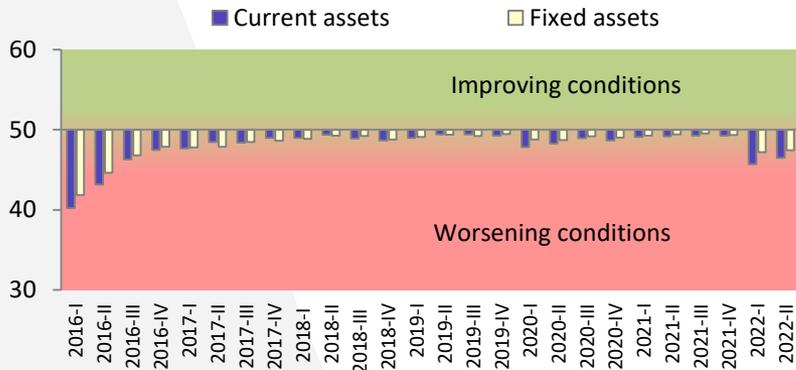
The vast majority of enterprises (**82,5%**) attracted a loan to finance working capital (purchase of materials, raw materials, semi-finished products, etc.), 10,9% - to purchase fixed assets (purchase of buildings, structures, vehicles, equipment, etc.), 3,3% of enterprises attracted loans for refinancing purposes, 1,7% for business expansion.

* Monthly payment / income from sales of products

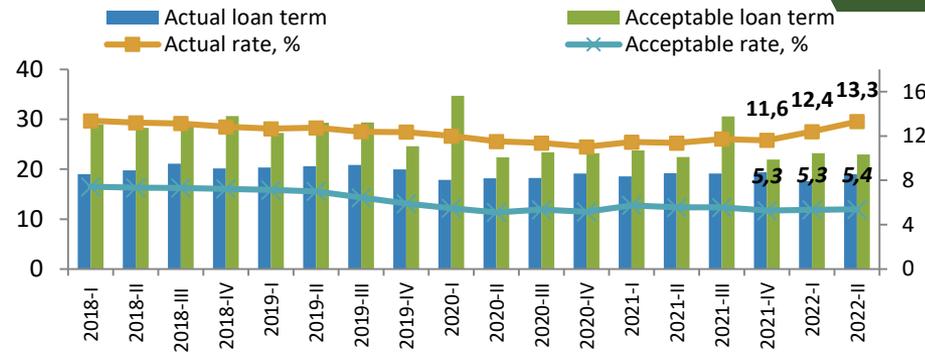
** Arithmetic weighted average is the average value of the interval, weighted by the share of enterprises.

BANKING SYSTEM IMPACT ON THE REAL SECTOR OF THE ECONOMY

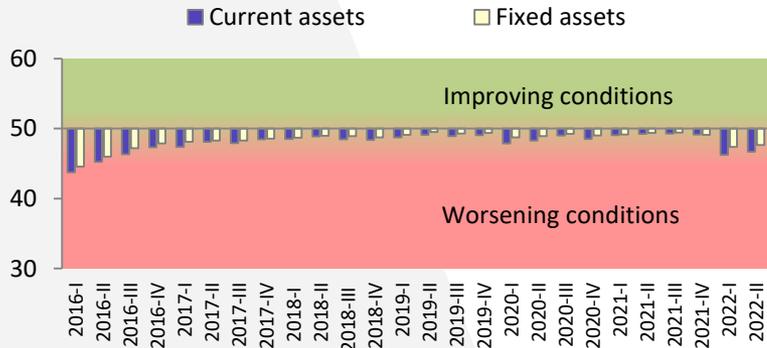
Price conditions



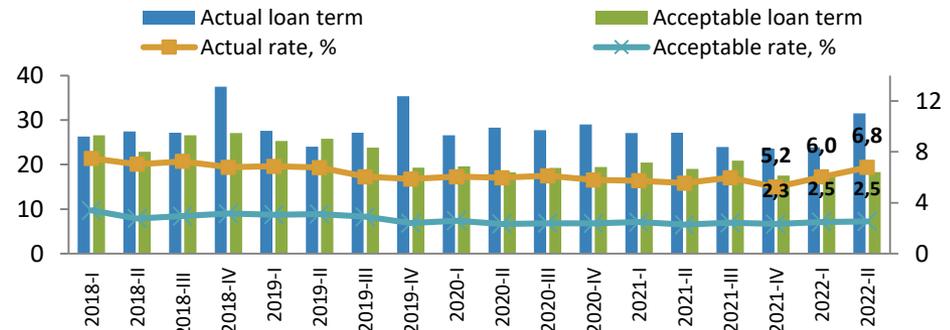
Loan terms and rates in tenge



Non-price conditions



Loan terms and rates in foreign currency

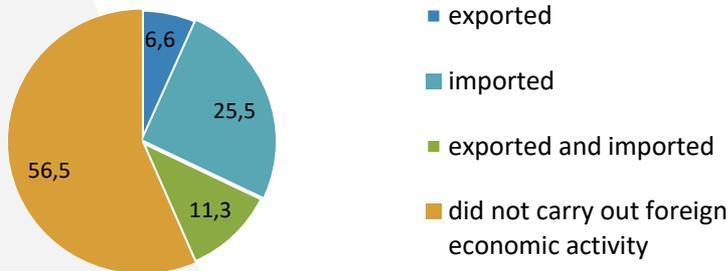


In Q2 of 2022 the assessments of enterprises regarding price (the level of interest rates on a loan, the amount of additional commissions) and non-price (the maximum size and term of the loan, requirements for the financial condition of the borrower, requirements for collateral) conditions of lending improved slightly, but remained negative.

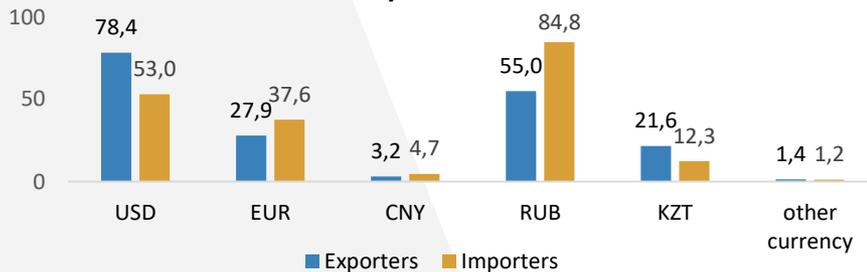
The average interest rates on loans received by the survey participants were **13,3%** in tenge and **6,8%** in foreign currency (12,4% and 6,0% in the previous quarter, respectively). According to enterprises, the acceptable interest rate for them on loans in tenge should be 5,4%, and on loans in foreign currency – 2,5%.

FOREIGN ECONOMIC ACTIVITIES OF ENTERPRISES (FEA)

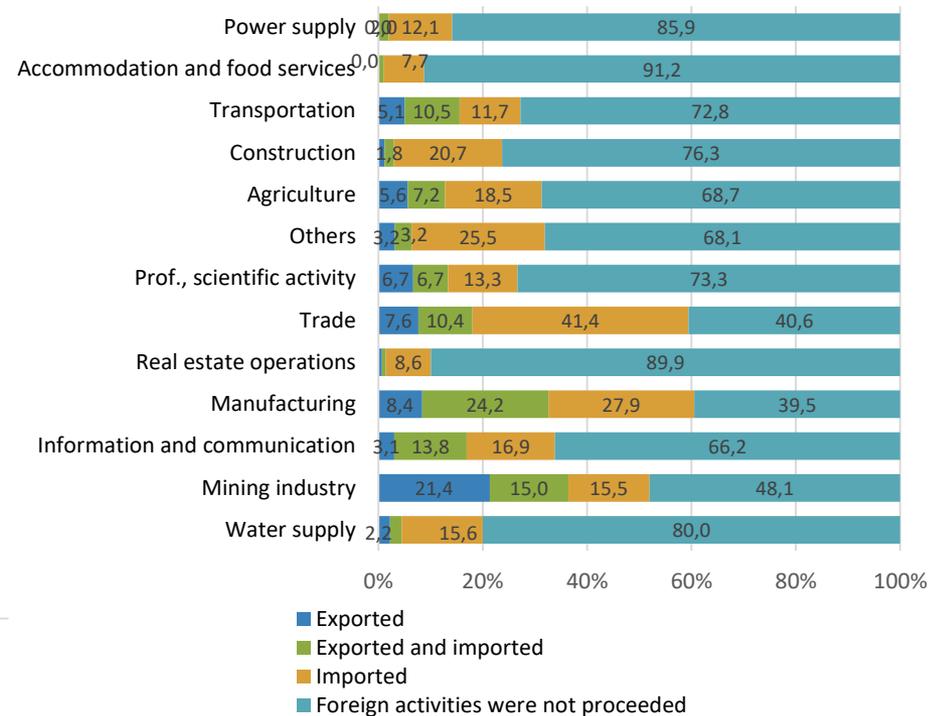
Implementation of foreign economic activity in the past quarter, the share of enterprises in %



Use of currency in calculations, share of enterprises in %



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

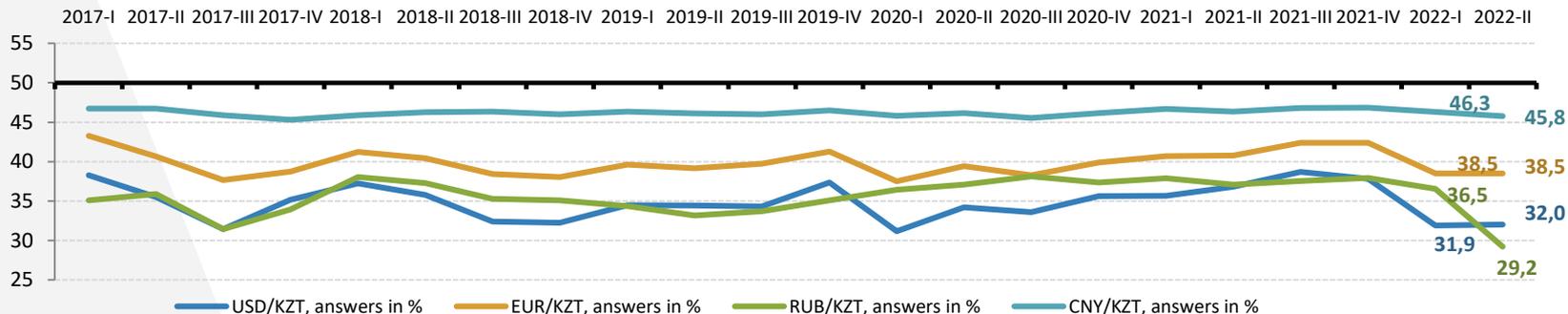


In Q2 of 2022 **25,5%** of respondents imported products to run their business, 6,6% exported, 11,3% exported and imported, and the vast majority (**56,5%**) had not foreign economic activity. The largest share of enterprises that exported products was in the mining industry (**21,4%**), the largest share of enterprises that imported products was in trade (**41,4%**). In the manufacturing industry the largest share of enterprises engaged in foreign economic activity.

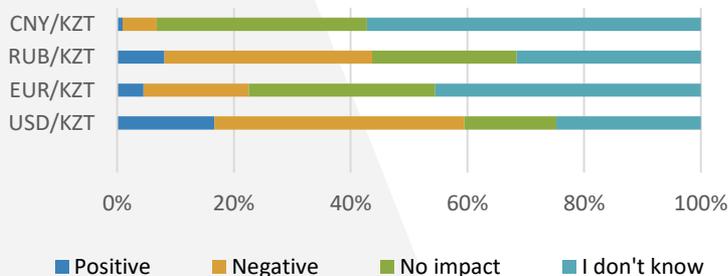
In settlements with foreign partners, exporters more often use the US dollar (**78,4% of exporters**), importers use the Russian ruble more (**84,8 of importers**). The British pound sterling, Swiss franc, Kyrgyz som and Turkish lira were also indicated as other currencies used in the settlements.

IMPACT OF EXCHANGE RATE CHANGES

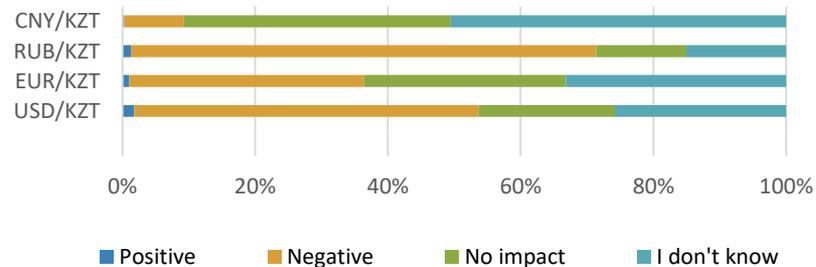
Dynamics of the impact of changes in the exchange rate, DI *



Impact of the exchange rate on the economic activities of exporters in Q2 2022



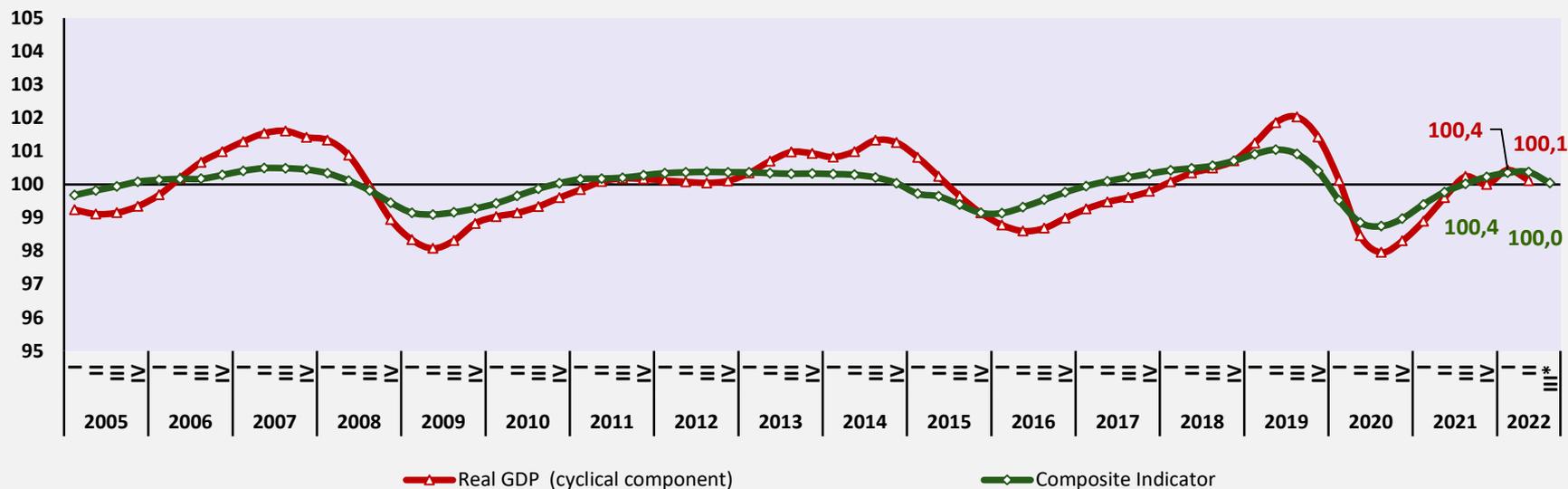
Impact of the exchange rate on the economic activity of importers in Q2 2022



In Q2 of 2022 the negative impact on the economic activity of enterprises increased due to changes in the exchange rates of the tenge to the Russian ruble and the Chinese yuan. Meanwhile the negative impact on the pair USD/KZT slightly softened, and EUR/KZT remained unchanged. The most negative impact was the change in the exchange rate of the tenge to the Russian ruble. Enterprises experience the least negative impact on their economic activities from the CNY/KZT exchange rate. The positive impact from the exchange rate in Q2 was indicated exporters more than importers. The change in the RUB/KZT exchange rate has a significant negative impact on importers.

* 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 2022 the dynamics of the composite leading indicator (CLI), which is an aggregated assessment of surveys of enterprises in the real sector, demonstrates the preservation of growth rates of economic activity in the real sector. CLI amounted to 100.4, as in the previous quarter.

World energy prices, growth in demand for final products in the real estate industry, reduction in the share of enterprises with critical financial condition, and increase in the level of utilization of production capacities continue to have a positive influence on the dynamic CLI, a decrease in the share of enterprises with a critical financial condition, and increase in the level of utilization of production capacities continue to have a positive influence on the dynamic CLI. The increase in interest rates on loans had a negative impact. In Q3 of 2022 a slowdown in growth is expected (CLI is expected to be 100,0). Enterprises expect a decrease in demand for final products in agriculture.

* 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 2022 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.

METHODOLOGICAL COMMENTS