

MARKET REVIEW

Enterprises Survey Results in the Real Sector of the Economy

Q1 2023



Monetary Policy Department
National Bank of Kazakhstan

CONTENT

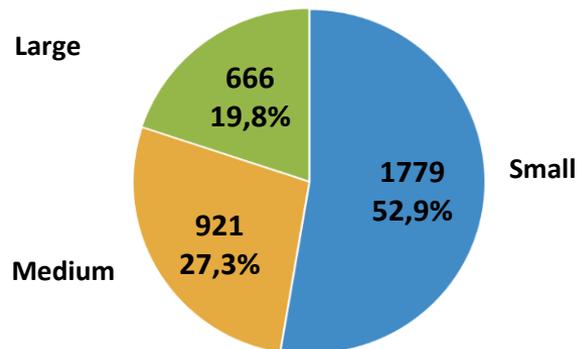
- I. Dynamics of composition of monitoring participants (p. 3)
- II. Dynamics of demand for final products (p. 4)
- III. Price changes in the real sector (p. 5)
- IV. Production output (p. 6)
- V. Balance sheet structure: assets (p. 7)
- VI. Balance sheet structure: liabilities (p. 8)
- VII. Investment activity (p. 9)
- VIII. Sources of working capital financing (p. 10)
- IX. Obstacles for doing business (p. 11)
- X. Financial and economic performance change (p. 12)
- XI. Influence and consequences of geopolitics (p. 13)
- XII. Assessment of the financial condition of enterprises (p. 14-15)
- XIII. Banking system impact on the real sector of the economy (p. 16-18)
- XIV. Foreign economic activities of enterprises (p. 19)
- XV. Impact of exchange rate changes (p. 20)
- XVI. Composite leading indicator (p. 21)
- XVII. Methodological comments (p. 22)

DYNAMICS OF COMPOSITION OF MONITORING PARTICIPANTS

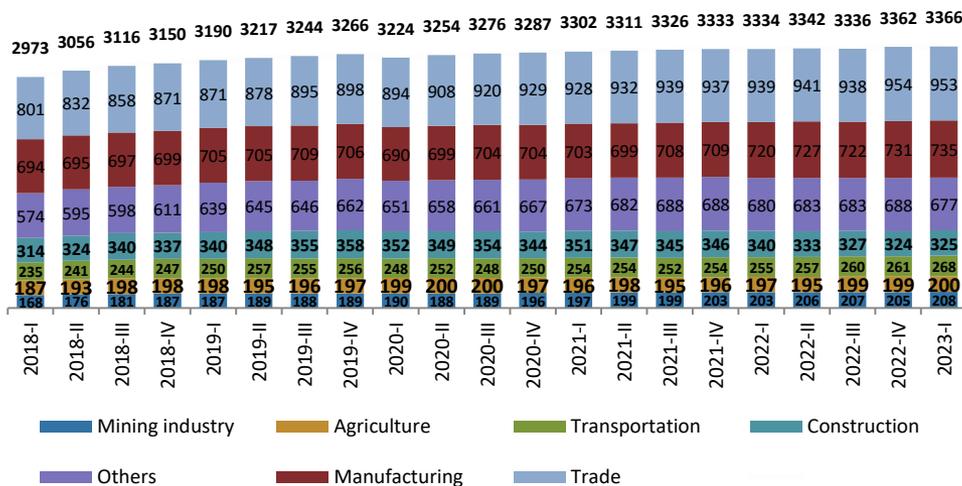
Regional structure of the enterprise survey participants in Q1 2023



Survey participants size structure



Survey participants sectorial structure

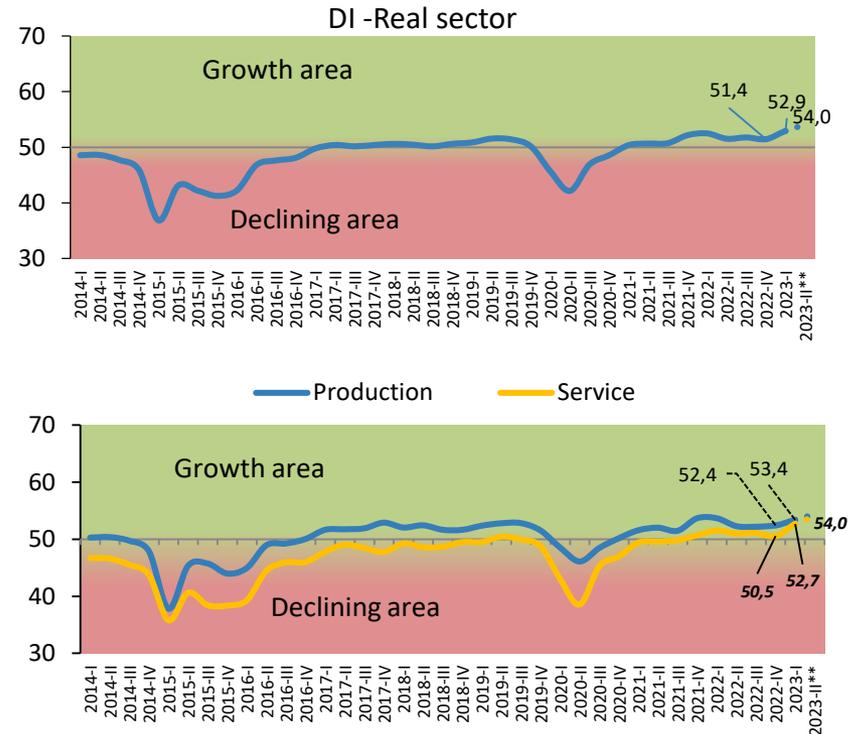


In Q1 of 2023 the number of respondents compared to the previous quarter increased by 4 enterprises and amounted to **3366**. 5 medium and 1 large enterprises were involved in the survey and 2 small enterprises left the survey.

DYNAMICS OF DEMAND FOR FINAL PRODUCTS

Final goods demand, DI*

	2021				2022				2023
	1 qtr.	2 qtr.	3 qtr.	4 qtr.	1 qtr.	2 qtr.	3 qtr.	4 qtr.	1 qtr.**
Answers of enterprises, %									
Increase	16,4	24,1	24,2	24,4	17,4	24,2	25,8	24,0	13,4
No changes	51,5	53,1	55,7	55,1	53,7	54,5	54,6	53,7	39,7
Decrease	28,5	19,1	16,4	17,3	25,4	17,8	15,9	18,2	13,7
Do not know	3,6	3,7	3,8	3,2	3,5	3,5	3,7	4,1	33,2
Diffusion index, DI=line1+0.5*(line 2+line4)	43,9	52,5	53,9	53,6	46,0	53,2	54,9	52,9	49,9
DI, seasonal adjusted	50,4	50,7	50,5	52,4	52,4	51,5	51,5	51,7	56,6



In Q1 of 2023 the demand for final products in the real sector improved. The diffusion index (hereinafter - DI) was **52,9**. The improvement of the indicator was noted in the production of goods sector (53,4), however a slight decrease was noted in services sector (52,7).

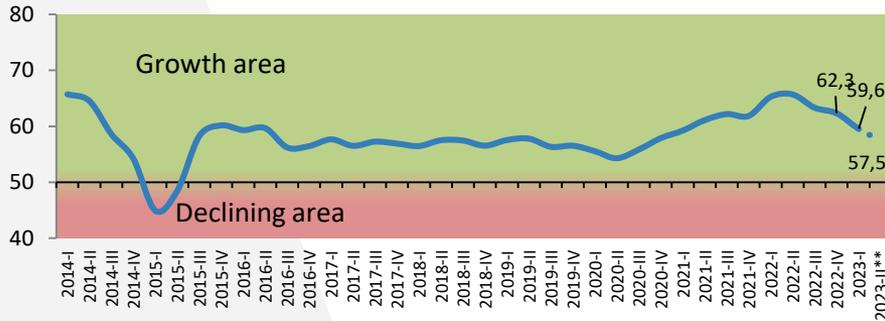
According to the expectations of enterprises in the real sector in Q2 of 2023, the demand for ready-made products will increase (DI=**54,0**).

*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

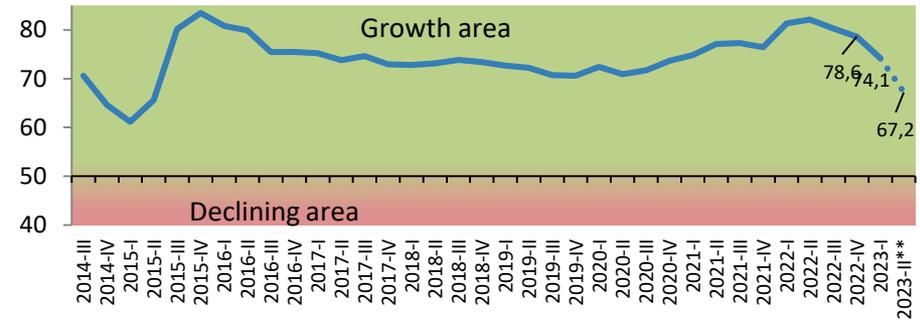
**The Figures show expectations of enterprises regarding the change in the parameter in Q2 2023

PRICES CHANGES IN THE REAL SECTOR

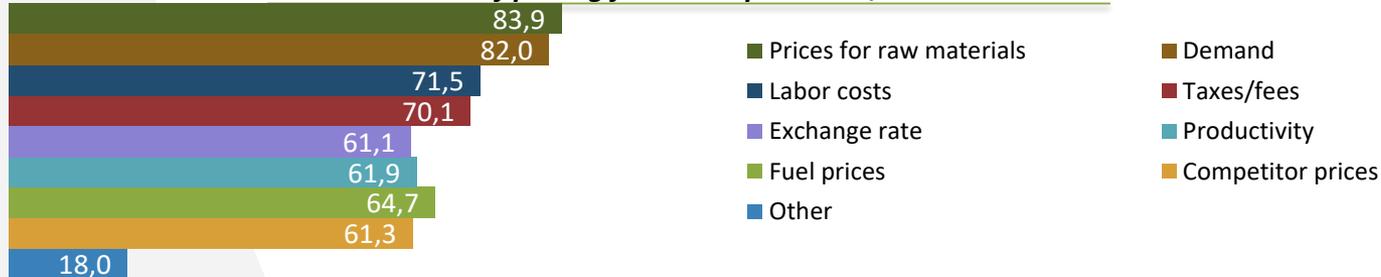
Final goods prices, DI*



Raw materials prices, DI*



Assessment of pricing factors importance , answers in %



In Q1 of 2023 the growth rate of prices for final products of enterprises in the economy slowed down (DI was **59,6**).

For the vast majority of enterprises the most important factor in setting the price of final products is the price of raw materials (for 83,9% of enterprises) and demand (82,0%).

In Q2 of 2023 enterprises expect a slowdown in the rate of growth of prices for raw materials and demand (DI = 67,2), and accordingly, for final products (DI = 57,5).

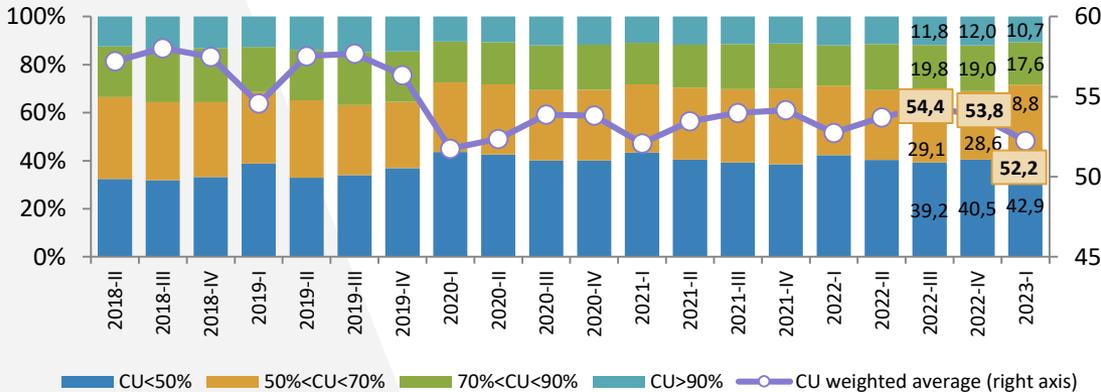
*Diffusion Index (seasonally adjusted). The higher (the lower) the DI deviates from 50, the higher (the lower) are the rates of growth (decline) in indicator; the level of 50 -the absence of any change

**The Figures show expectations of enterprises regarding the change in the parameter in Q2 2023

PRODUCTION OUTPUT

Capacity utilization level

(share of respondents, %)

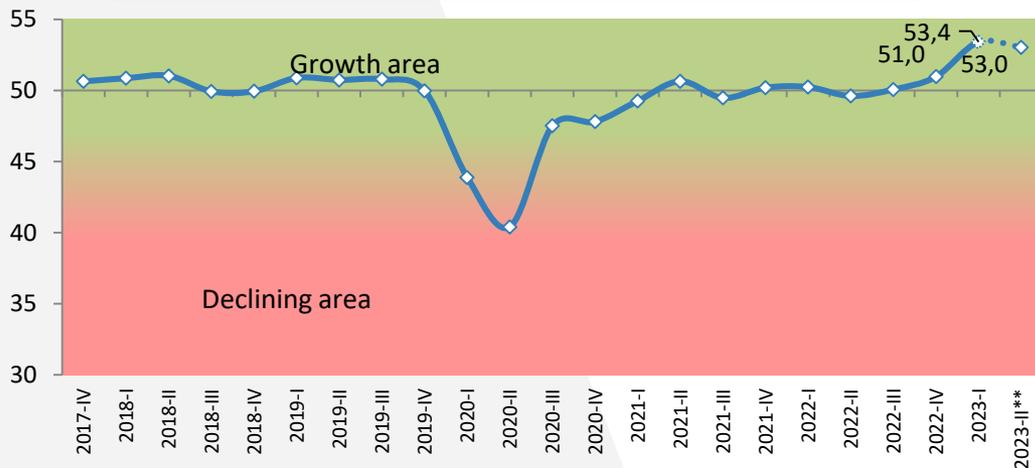


In Q1 of 2023 the capacity utilization (CU) of enterprises decreased slightly. The weighted average* level of the CU was **52,2%**.

Also in Q1 of 2023 the volume of production of final products (works, services) increased. DI was **53,4**.

In Q2 of 2023 enterprises expect a decrease in production volume growth. The expected DI is **53,0**.

DI changes in production output, DI**

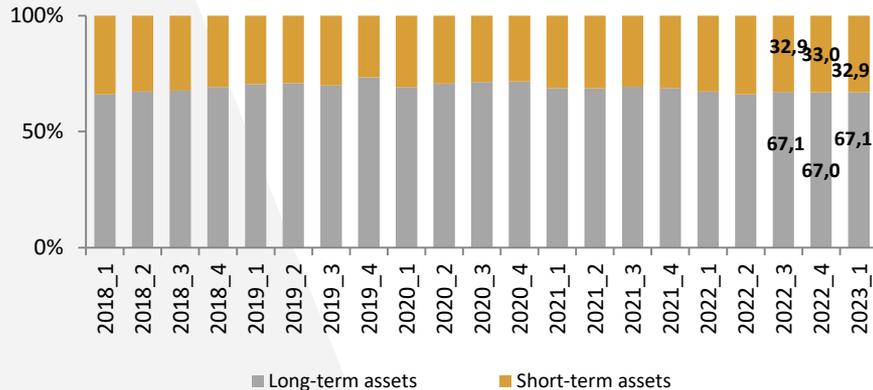


* Arithmetic weighted average is the average value of the interval, weighted by the share of enterprises.

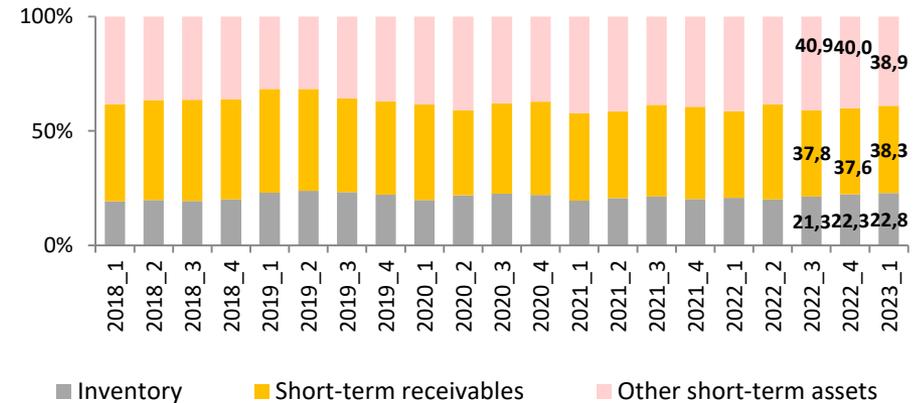
** The higher (lower) the DI from the level of 50, the higher (lower) the growth (fall) rate of the indicator, the level of DI = 50 means no change

BALANCE SHEET STRUCTURE: ASSETS

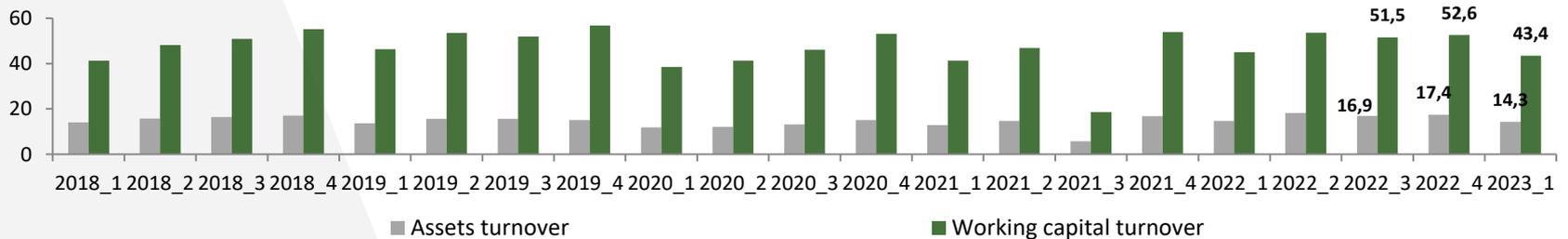
Assets structure



Short-term assets Structure



Assets turnover indicators



In Q1 of 2023 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 **32,9%** and **67,1%** (in Q4 of 2022 – 33% and 67%, respectively). Asset turnover* decreased to **14,3%**, working capital turnover ** – to **43,4%**.

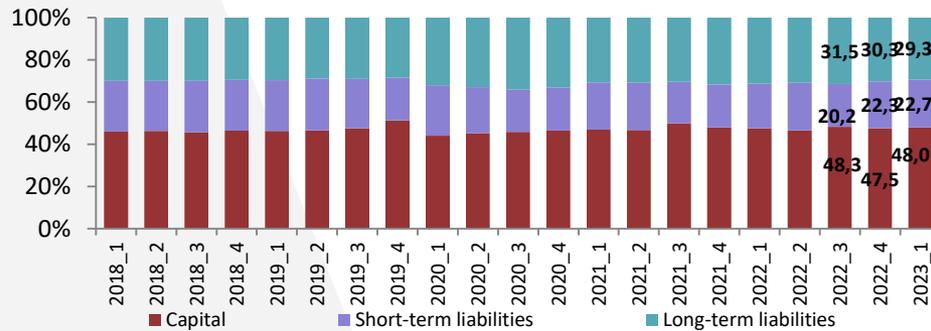
In the structure of short-term assets in the current quarter, the share of receivables increased to **38,3%** (in Q4 of 2022 – 37,6%), while the share of inventories slightly increased to the level of **22,8%** (22,3% in Q4 of 2022).

Asset turnover = Income from product sales / Assets 100

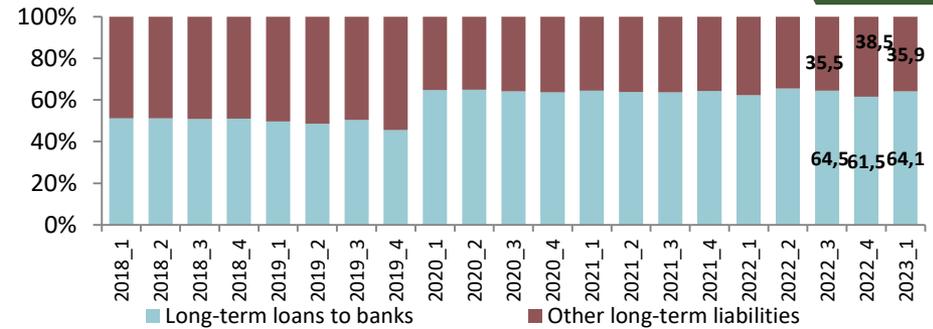
**Turnover of current assets = Income from product sales / Short-term assets* 100

BALANCE SHEETS STRUCTURE : LIABILITIES

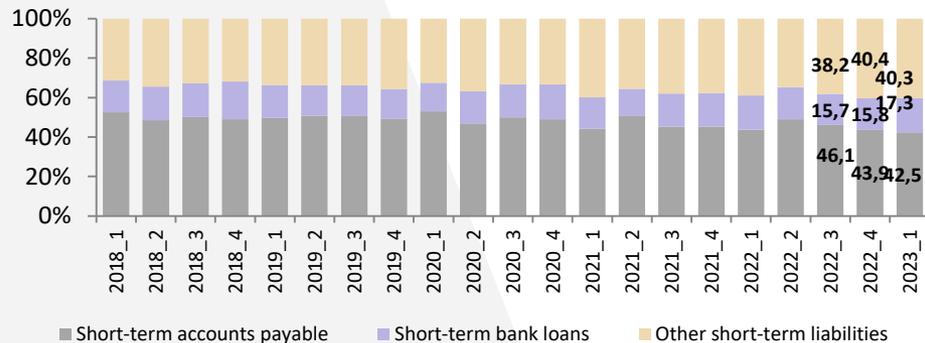
Liabilities structure



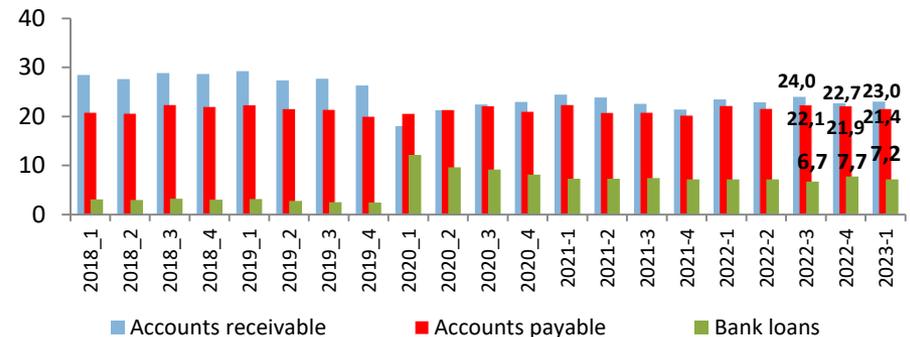
Long-term liabilities structure



Short-term liabilities structure



Share of enterprises with overdue debts

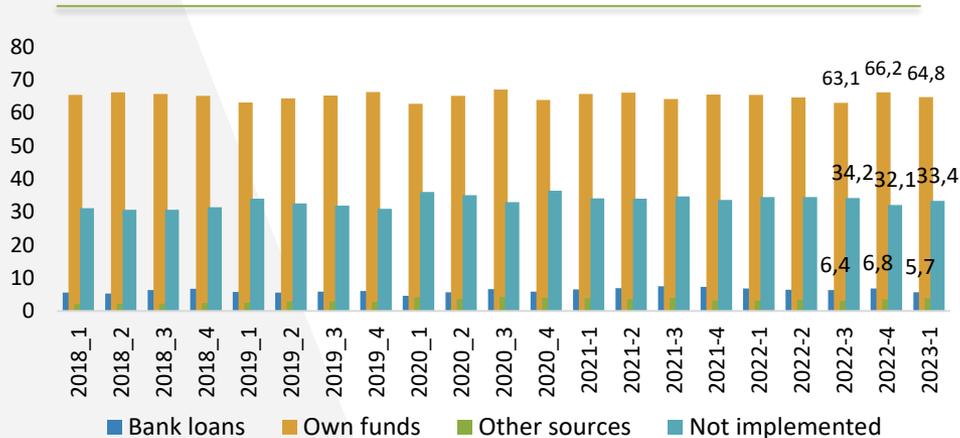


In Q1 of 2023 in the structure of liabilities there is an increase in the share of short-term liabilities to **22,7%**, as well as a decrease in the share of long-term liabilities to **29,3%** and rise of capital **48,0%**. In the structure of short-term liabilities, the share of short-term accounts payable decreased from 43,9% in Q4 of 2022 to 42,5% in Q1 of 2023.

The share of enterprises with overdue accounts receivable payable increased up to **23,0%** and accounts payable decreased up to **21,4%**. At the same time, the share of enterprises with overdue debt on bank loans decreased to the level of **7,2%**.

INVESTMENT ACTIVITY

Funding source for fixed assets, %

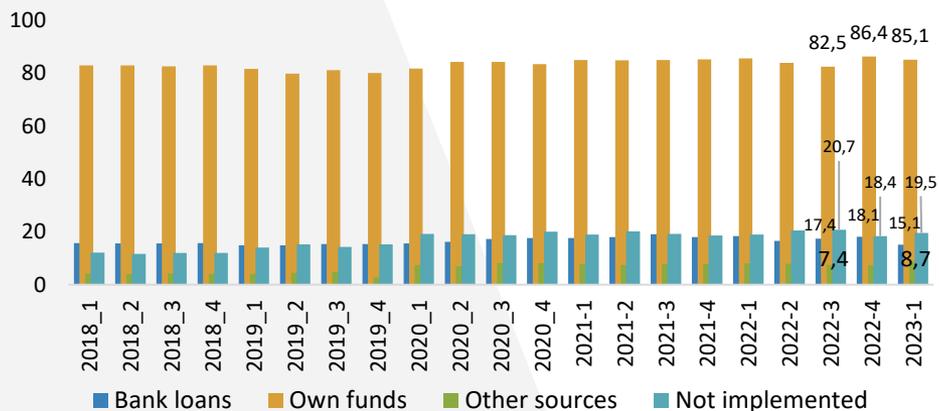


In Q1 of 2023 the investment activity of enterprises slightly decreased.

The share of enterprises that did not finance increased to 33,4%, while the share of enterprises that financed fixed assets at their own expense decreased to 64,8%.

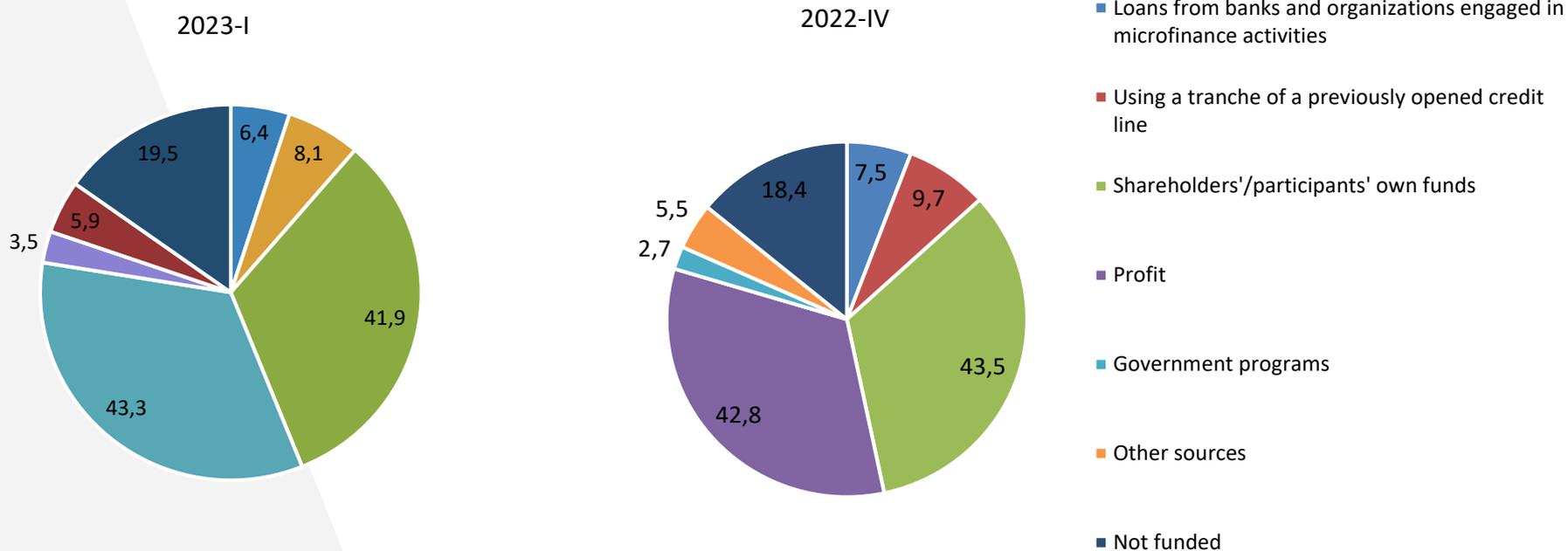
As before, most of the enterprises use their own funds to finance fixed and working capital (64,8% and 85,1%, respectively).

Funding source for working capital, %



SOURCES OF WORKING CAPITAL FINANCING

Sources of working capital financing

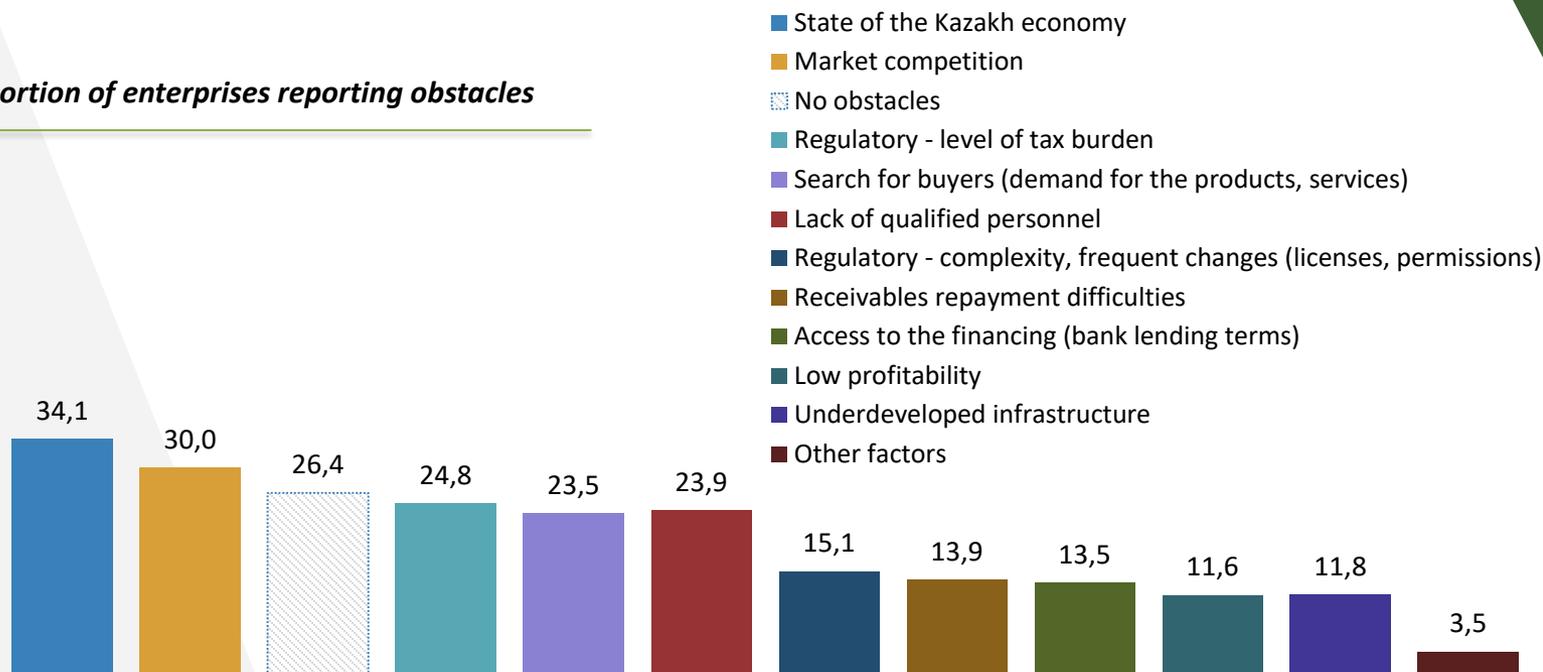


To finance **working capital**, the majority of enterprises (**85,1%**) used their own funds, of which **43,3%** were profits and **41,9%** were shareholders'/participants' own funds. Loans for these purposes were used by **14,5%** of enterprises (of which 8,1% used a tranche on a previously opened credit line, 6,4% - loans in Kazakhstan banks and organizations engaged in microfinance activities).

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 subsidiaries) and subsidies.

OBSTACLES FOR DOING BUSINESS

Proportion of enterprises reporting obstacles



According to the results of survey in Q1 of 2023, for **34,1%** of enterprises the state of the economy of Kazakhstan is an obstacle to doing business (in Q4 of 2022 the share of such enterprises was 35,4%). According to **34,3%** (in Q4 of 2022 – 40,9%) of the respondents, the economic situation in Kazakhstan worsened in Q1 of 2023, and **59,6%** 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 (30,0%), tax burden (24,8%), the lack of qualified personnel (23,9%), the search for buyers (23,5), regularity changes (15,1%), receivables repayment difficulties (13,9%), while **access to financing is ranked 8th (13,5%)** in terms of importance.

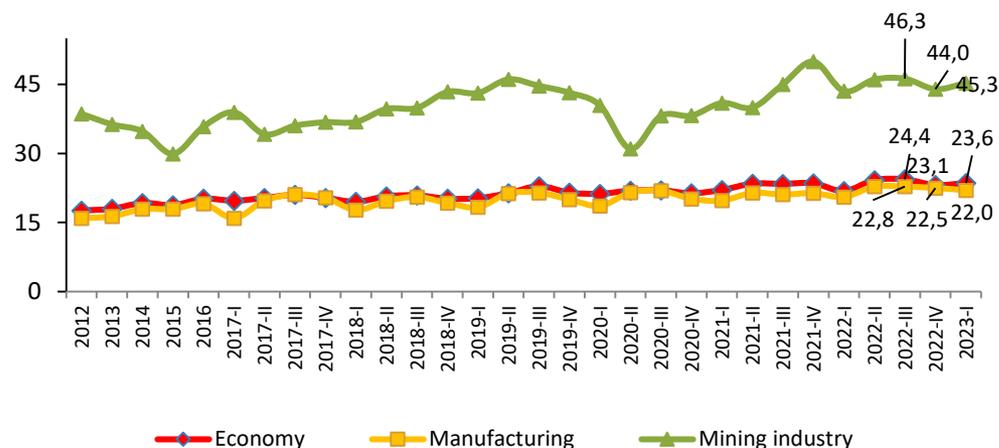
As other obstacles enterprises indicated sanctions against the Russian Federation, a decrease in the import of goods from the Russian Federation.

FINANCIAL AND ECONOMIC PERFORMANCE CHANGE

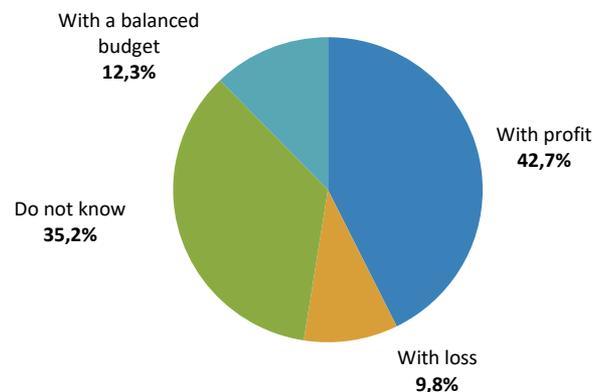
In Q1 of 2023 the average* return on sales** of enterprises increased in the mining industry - 45,3%, however decreased in manufacturing industry and amounted to 22,0%. As a result, the average return on sales in the economy as a whole amounted to **23,6%**.

The share of enterprises planning to close the year with a profit amounted to **42,7%** (in Q4 of 2022 – 43,1%), **9,6%** believe that the year will end with a loss. At the same time, **12,3%** of the surveyed enterprises think to close the year with a balanced budget (without profit or loss), the remaining **35,2%** 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, %

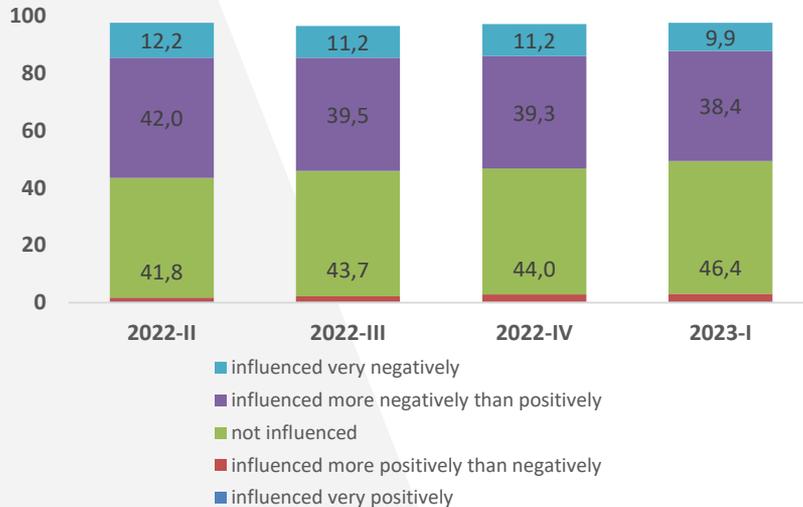


* Average median values are presented as they are less susceptible to extreme emissions than the arithmetic mean

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

INFLUENCE AND CONSEQUENCES OF GEOPOLITICS

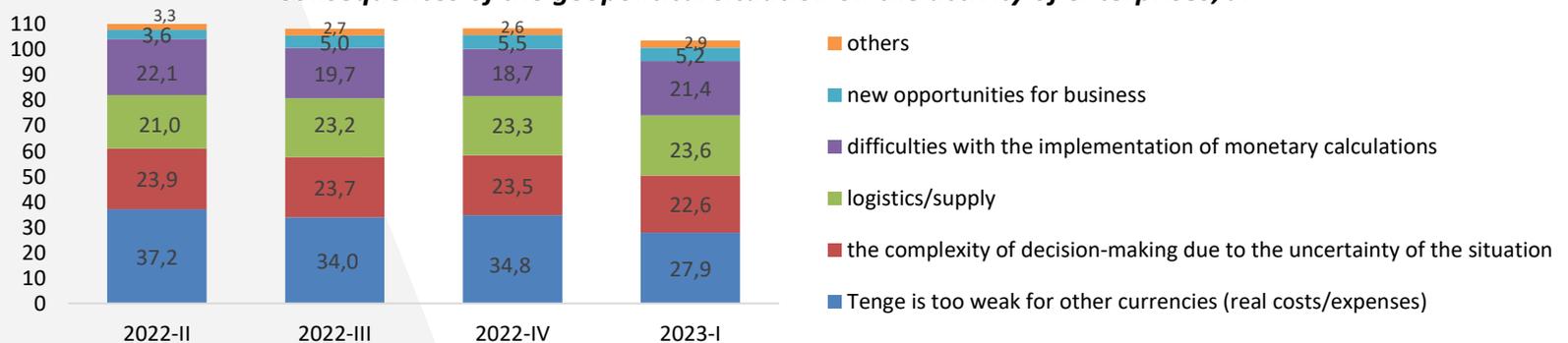
Influence of the geopolitical situation and sanctions imposed against the Russian Federation on the activities of enterprises, %



In Q1 of 2023 the activities of most enterprises – 48,3% (in Q4 – 50,5%) were negatively affected by the geopolitical situation and sanctions imposed against the Russian Federation, of which 9,9% were the hardest hit. However, 46,4% of respondents noted that geopolitics had no effect on their activities and only 3% noted a positive impact.

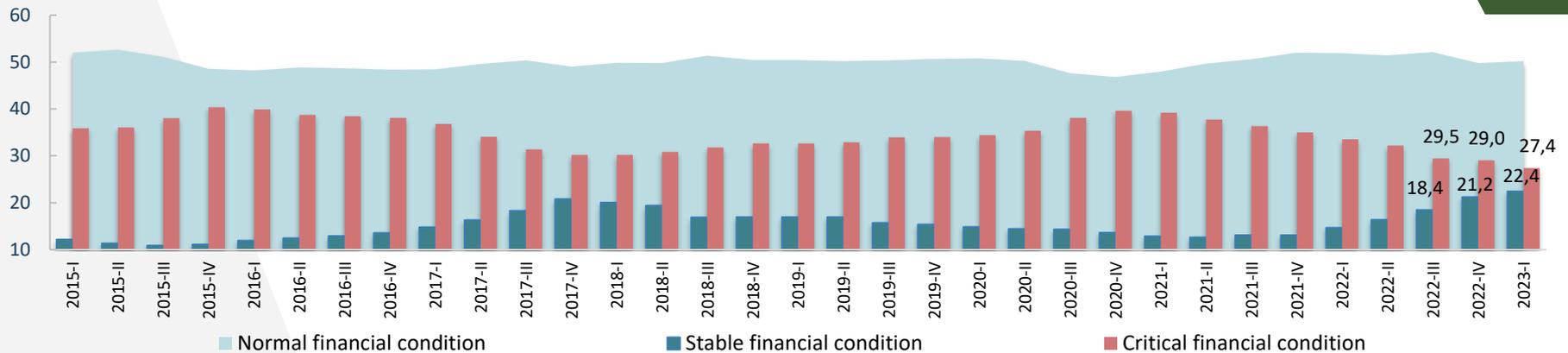
In Q1 of 2023, the number of enterprises that believed that the Kazakhstani tenge was too weak against other currencies decreased, and the situation with decision-making improved. Problems with logistics /supply have increased slightly, and to a greater extent - with the implementation of monetary settlements. 5.2% of enterprises have found new business opportunities in the current situation.

Consequences of the geopolitical situation on the activity of enterprises, %



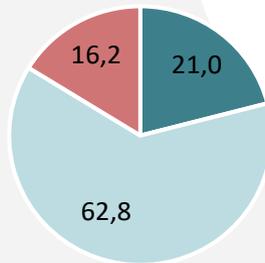
ASSESSMENT OF THE FINANCIAL CONDITION OF ENTERPRISES

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

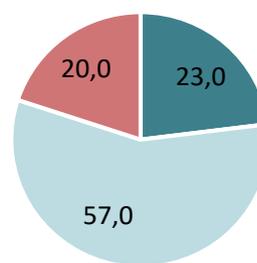


Enterprises distribution by degree of reliability by dimension in Q1 2023, share in %

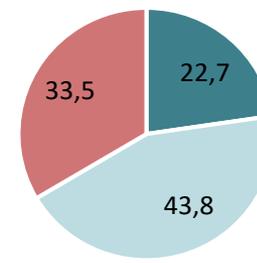
Large enterprises



Medium enterprises



Small enterprises



■ Stable
■ Normal
■ Critical

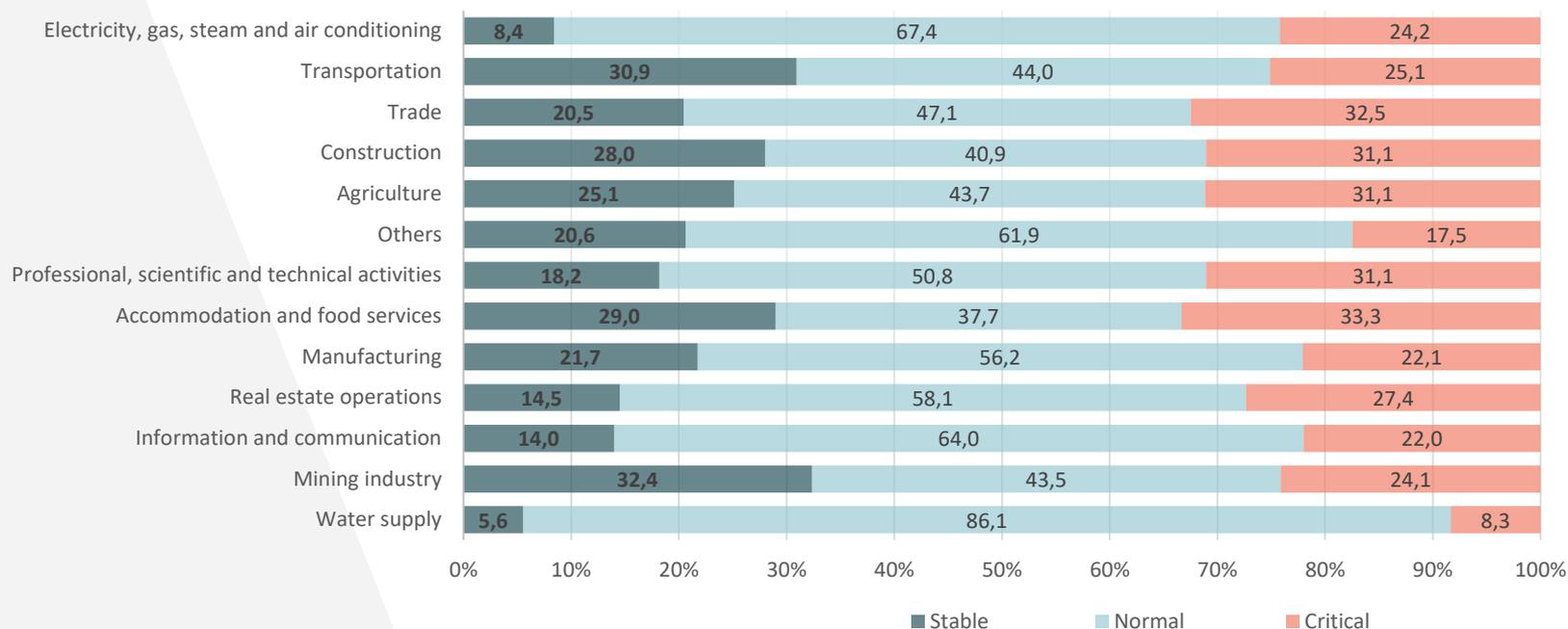
According to the results of a discriminant analysis based on the assessment of the financial coefficients of enterprises, the share of enterprises with a critical financial condition is continuing to increase: in Q1 their share was **22,4%**.

By dimensions, the share of enterprises with a critical financial condition among small enterprises is significantly higher (33,5%) than among large (16,2%) and medium-sized (20,0%).

* 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.

Enterprises distribution by degree of reliability by type of activity in Q1 2023, share in %

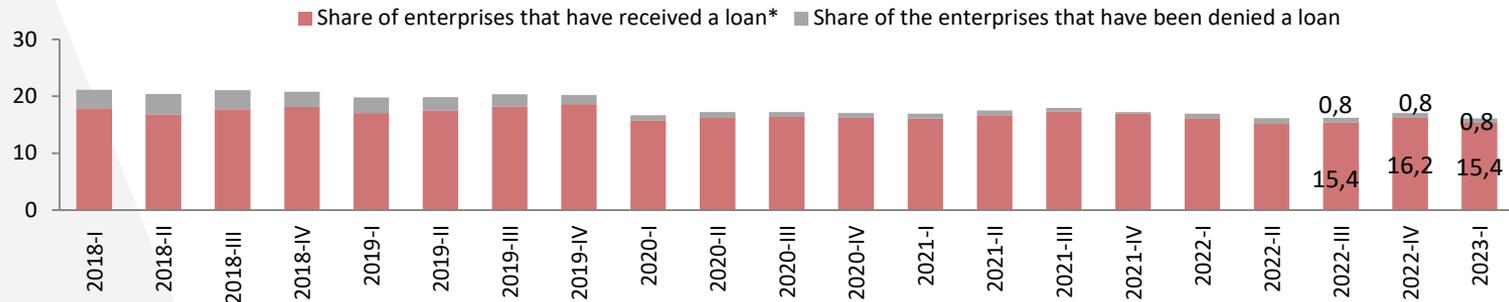


In Q1 of 2023 in all sectors the vast majority of enterprises have a stable or normal financial condition. The largest share of sustainable enterprises was in the mining industry (**32,4%**). The largest share of enterprises with a critical financial condition - in the industry "accommodation and food services" (**33,3%**). Water supply turned out to be the most stable sector, where the share of enterprises with a normal financial condition was **86,1%**.

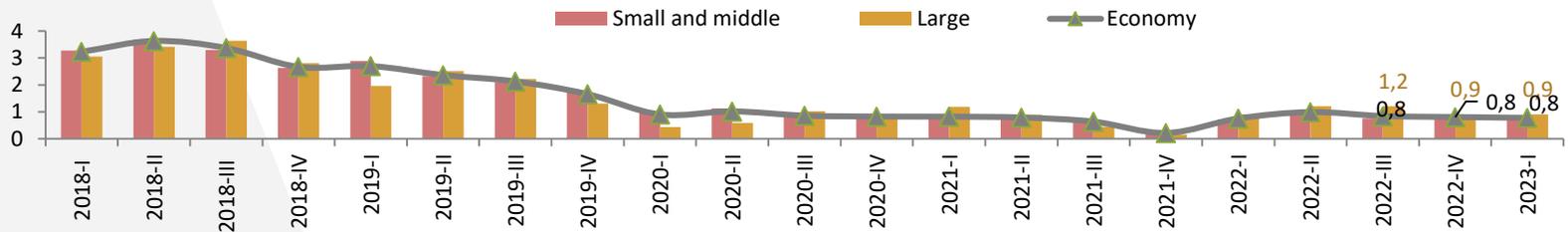
BANKING SYSTEM IMPACT ON THE REAL SECTOR OF THE ECONOMY

Loans demand

Lending applications consideration



Share of enterprises that have been denied for a loan



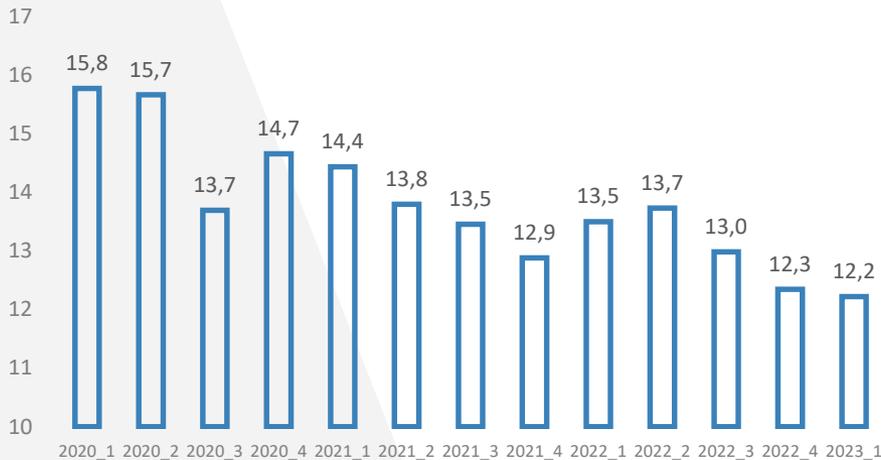
In Q1 of 2023 **16,2%** of the surveyed enterprises applied to the bank for a loan, **15,4%** of enterprises received a loan (or **95,1%** of the number of those who applied for a loan). The share of loan refusals amounted to **0,8%** of the total number of survey participants (**4,9%** of those who applied for a loan).

BANKING SYSTEM IMPACT ON THE REAL SECTOR OF THE ECONOMY

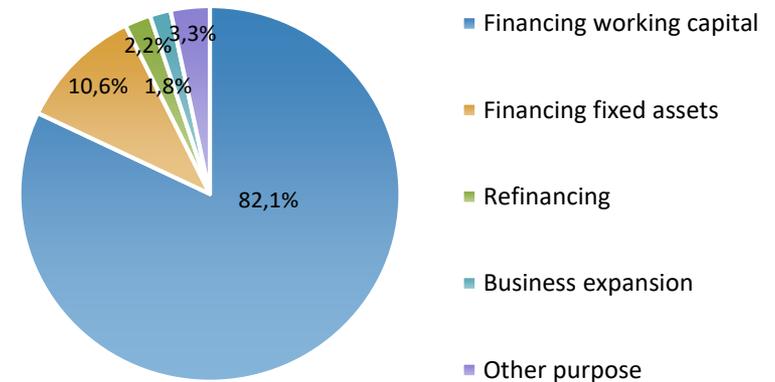
Debt burden estimations of enterprises *, %

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	9,8	5,6	5,1	3,3	1,5	1,2	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 Q1 of 2023 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 12,2%.

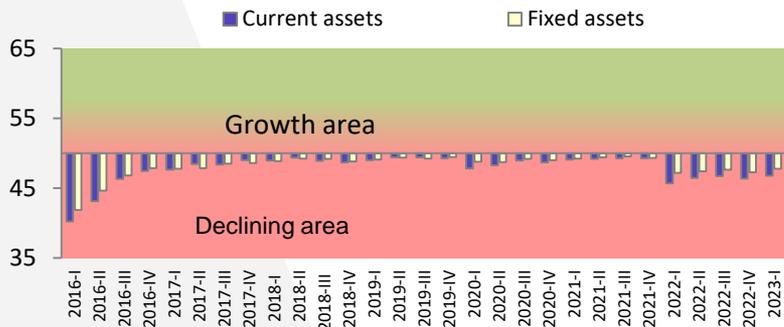
The vast majority of enterprises (**82,1%**) attracted a loan to finance working capital (purchase of materials, raw materials, semi-finished products, etc.), 10,6% - to purchase fixed assets (purchase of buildings, structures, vehicles, equipment, etc.) .d.), 2,2% of enterprises attracted loans for refinancing purposes, 1,8% for business expansion.

* Monthly payment / income from sales of products

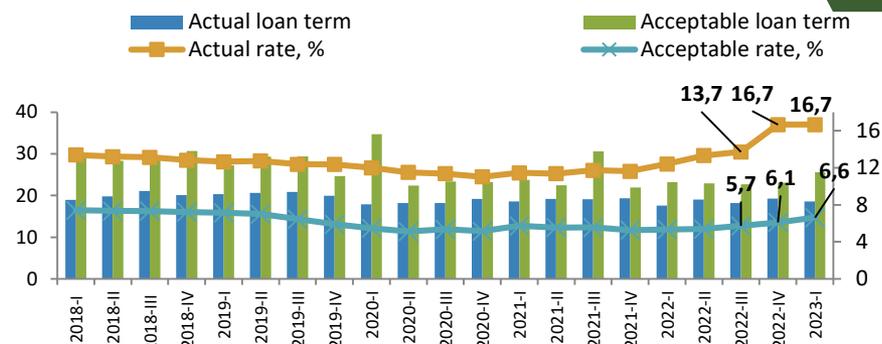
** Arithmetic weighted average is the average value of the interval, weighted by the share of enterprises.

BANKING SYSTEM IMPACT ON THE REAL SECTOR OF THE ECONOMY

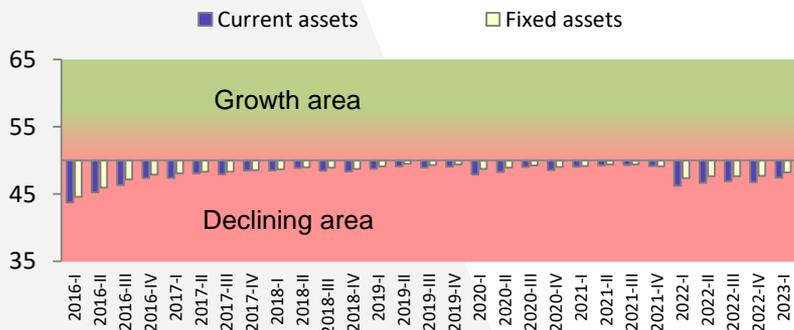
Price conditions



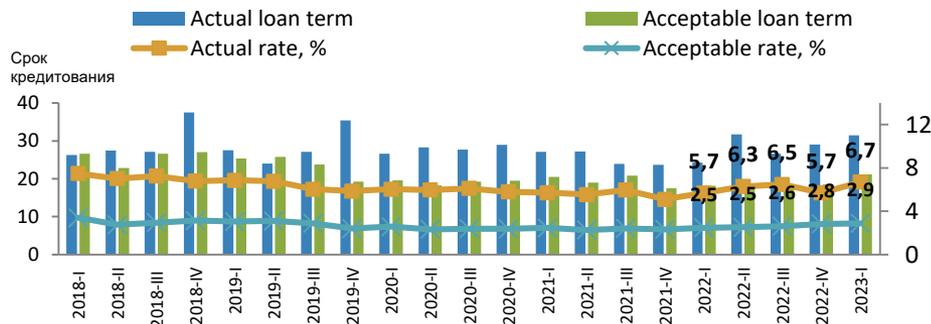
Loan terms and rates in tenge



Non-price conditions



Loan terms and rates in foreign currency

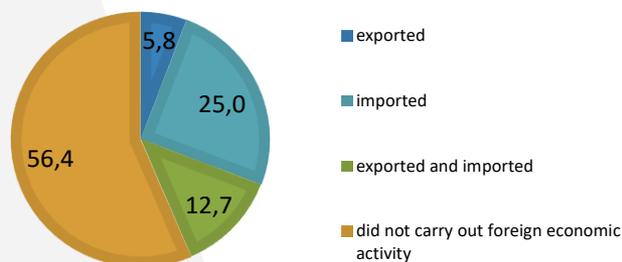


In Q1 of 2023 the assessments of enterprises regarding price (the level of interest rates on a loan, the amount of additional commissions) and non-price (the maximum size and term of the loan, requirements for the financial condition of the borrower, requirements for collateral) improved, but remained negative.

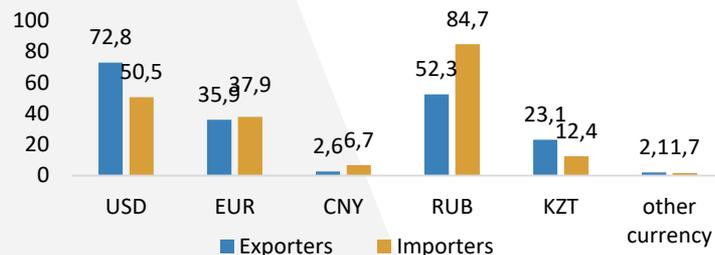
The average interest rates on loans received by survey participants were **16,7%** in tenge and **6,7%** in foreign currency (16,7% and 5,7% in the previous quarter, respectively). According to enterprises, the acceptable interest rate for them on loans in tenge should be 6,6%, and on loans in foreign currency – 2,9%.

FOREIGN ECONOMIC ACTIVITIES OF ENTERPRISES (FEA)

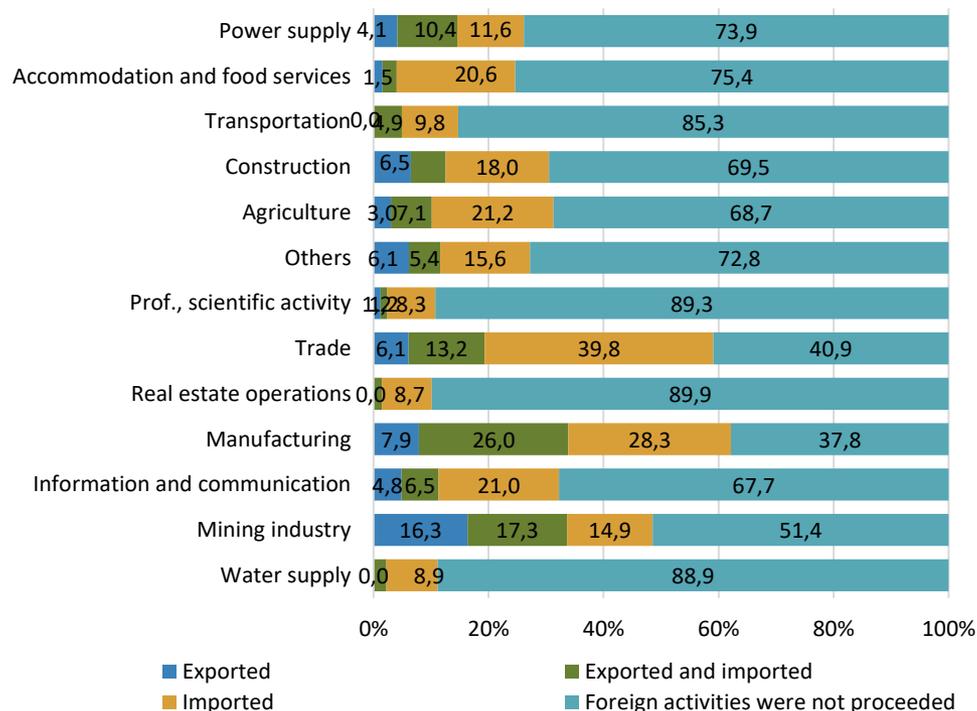
Implementation of foreign economic activity in the past quarter, the share of enterprises in %



Use of currency in calculations, share of enterprises in %



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

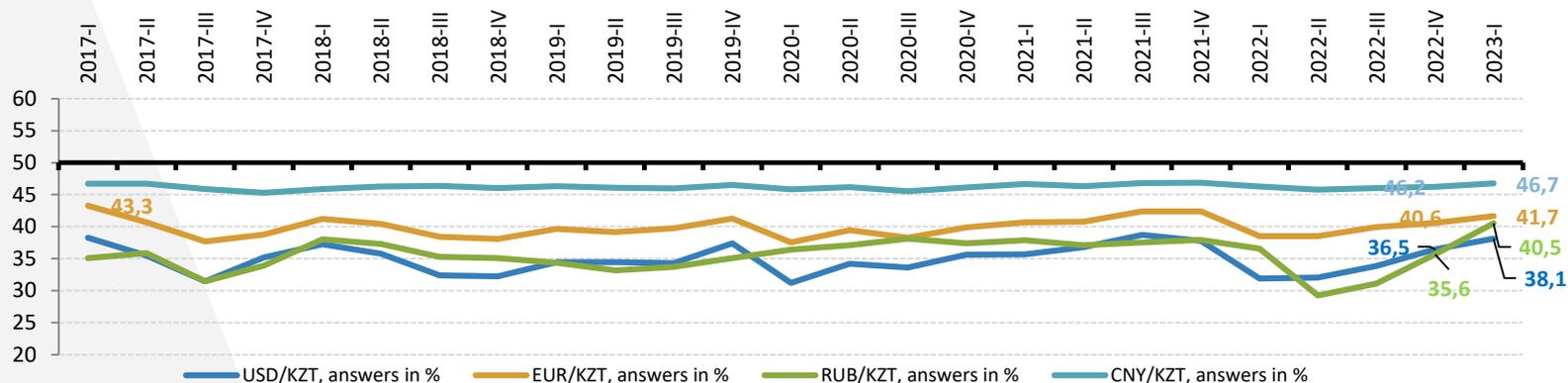


In Q1 of 2023 **25,0%** of respondents imported products to run their business, **5,8%** exported, **12,7%** exported and imported, and the vast majority (**56,4%**) had not carry out foreign economic activity. The largest share of enterprises that exported products was in the mining industry (**16,3%**), the largest share of enterprises that imported products was in trade (**39,8%**). In the manufacturing industry the largest share of enterprises engaged in foreign economic activity.

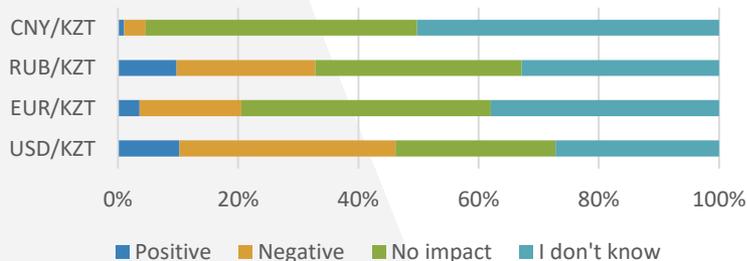
In settlements with foreign partners, exporters more often use the US dollar (**72,8% of exporters**), importers use the Russian ruble more (**84,7% of importers**). The British pound sterling, Swiss franc, Kyrgyz som and Turkish lira were also indicated as other currencies used in the settlements.

IMPACT OF EXCHANGE RATE CHANGES

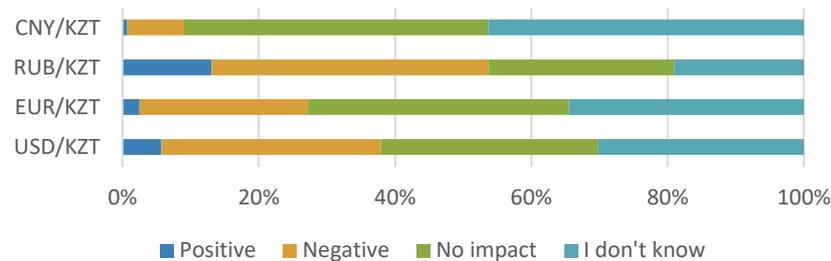
*Dynamics of the impact of changes in the exchange rate, DI **



Impact of the exchange rate on the economic activities of exporters in Q1 2023



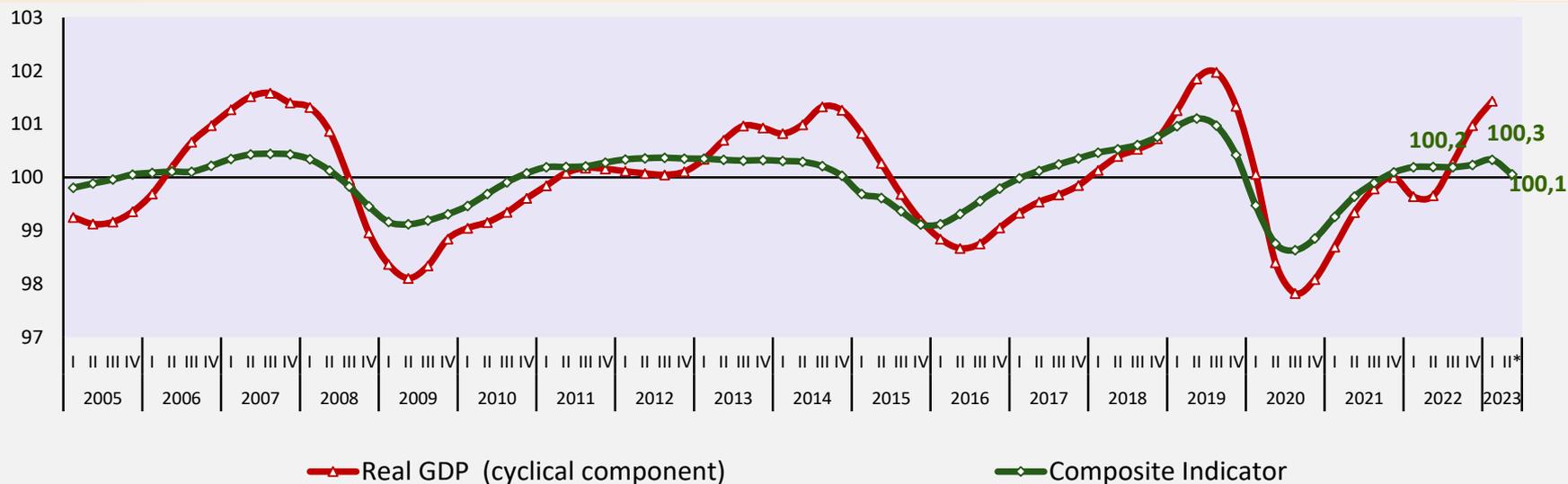
Impact of the exchange rate on the economic activity of importers in Q1 2023



In Q1 of 2023 the negative impact on the economic activity of enterprises of the change in exchange rates for all 4 major types of currencies slightly decreased. The most negative impact was the change in the exchange rate of the tenge to the USD. Enterprises experience the least negative impact on their economic activities from the CNY/KZT exchange rate. The positive impact from the exchange rate in Q1 was indicated importers more than others. The changes 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 Q1 of 2023 the dynamics of the composite leading indicator (CLI), which is an aggregate assessment of surveys of enterprises in the real sector, demonstrates a growth rate of economic activity in the real sector. CLI increased to 100,3.

The dynamics of CLI continue to be affected by decrease in the share of enterprises with a critical financial condition, a decrease in the share of enterprises that mark the state of the economy of Kazakhstan as an obstacle to doing business, an increase in the volume of inventories, an increase in average wages. The decline in energy prices and access to finance had a negative impact. Growth is expected to slow down further in Q2 of 2023 (CLI is expected to be 100,1). Enterprises expect increase demand for final products and a slowdown in the growth of prices for final products, raw materials.

* 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 Q2 2023 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