MARKET REVIEW

Enterprises Survey Results in the Real Sector of the Economy

Q1 2020
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In Q1 of 2020, due to the enterprise suspension because of the introduction of the emergency state and quarantine regime, the number of survey participants decreased by 72 enterprises. 16 large, 25 medium and 31 small enterprises dropped out of the sample.

In the sectorial structure, the largest decrease in enterprises was noted in manufacturing (18), trade (11), construction (10), transport and warehousing (8).
In Q1 of 2020, demand for final products in the real sector decreased markedly. The diffusion index (hereinafter referred to as DI) was 46.5 as a result of lower demand in all sectors. The smallest decrease in demand was noted in the manufacturing industry (DI = 49.3), the largest - in the mining industry (DI = 43.6). In the services sector, demand fell significantly more than in the manufacturing sector (DIs were 44.0 and 49.2, respectively).

According to the enterprises expectations, in Q2 of 2020, demand will continue to decline (DI = 42.4). The largest decline is expected in the service sector, where the DI dropped to 39.5. In general, enterprises in all sectors of the economy expect lower demand.

*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 2020
In Q1 of 2020, the growth rate of prices for final products of enterprises in the economy as a whole remained virtually unchanged (DI amounted to 56.0), with the exception of the mining industry, where there was a sharp decrease in prices for manufactured products (DI dropped to 48.2).

In Q2 of 2020, a slight decrease in the growth rate of prices for raw materials and materials (DI = 70.9) and prices for final products of enterprises (DI = 55.5) is expected.

For most enterprises, prices for raw materials and materials, as well as demand, are the most important factors in setting prices for final products (81.0% and 79.8%, respectively). In addition to the factors presented on the graph, enterprises also indicate the size of payments and interest on the loan, legislative restrictions, seasonality and inflation.

*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 2020
In Q1 of 2020, the level of utilization of production capacities of enterprises significantly decreased. The share of enterprises with a capacity utilization of more than 70% * decreased from 35.4% in the 4th quarter of 2019 to 27.2%. As a result, the production volume in Q1 of 2020 decreased to the level of Q1 of 2016 (DI = 35.9), although according to the expectations of enterprises in the last quarter, a seasonal decrease in DI was expected to 46.3.

In Q2 of 2020, according to the expectations of enterprises, the situation with the volume of production will improve: DI has risen to 44.6, but remains in the area of decline. The dynamics of past years shows that this improvement is due to seasonality.

* The group of enterprises with CUL more than 70% includes enterprises with CUL 70-90% and enterprises with CUL > 90%

** The higher (lower) DI from level 50, the higher (lower) the rate of increase (decrease) of the indicator, the level of DI = 50 means no change
In Q1 of 2020, the share of short-term assets increased in the structure of assets of companies in the real sector of the economy, which amounted to 30.5%, and, accordingly, the share of long-term assets decreased to 69.5%. As a result, asset turnover indicators decreased: asset turnover was 11.6%, current assets turnover was 38.0%.

Accounts receivable remain the main component of short-term assets, whose share in the 1st quarter of 2020 amounted to 41.5%. The share of reserves decreased to 19.5%, respectively, the share of other short-term assets increased to 39.1%.
In Q1 of 2020, the structure of liabilities has slightly changed: the share of equity decreased to 44.0%, the share of long-term liabilities increased to 32.3%, short-term liabilities - to 23.7%. In the structure of short-term liabilities, the share of short-term payables significantly increased (from 49.3% to 53.4%), respectively, the share of other short-term liabilities decreased (from 35.8% to 32.1%). In the structure of long-term liabilities, the share of long-term loans of banks significantly increased to 64.7% from 45.6% in Q4 of 2019.

The share of enterprises with overdue receivables on the balance sheet has noticeably decreased from 26.3% to 18.1%. At the same time, the share of enterprises with overdue debts on bank loans increased sharply from 2.4% in Q4 of 2019 to 12.1% in Q1 of 2020.
In Q1 of 2020, the investment activity of enterprise decreased: the share of enterprises that did not finance fixed assets (up to 36.0%) and working capital (up to 19.1%) increased, the share of enterprises that financed fixed assets from their own funds decreased (to 62.8% and 81.7%, respectively). As before, most enterprises use their own funds to finance fixed and current assets (62.8% and 81.7%, respectively).
Sources of fixed assets financing

To finance working capital, most enterprises (81.7%) used their own funds, of which 49.8% used their own funds of shareholders / participants, 31.9% - profit. Bank loans for this purpose were used by 15.1% of enterprises (of which 7.7% used a tranche from a previously opened credit line, 6.8% received a new loan from Kazakhstan banks, 0.3% received a loan abroad, 0.3% used loans from microfinance organizations).

Among other sources of financing, enterprises also indicate advances from customers and intragroup loans (between the parent company and branches).
According to surveys in Q1 of 2020, for 31.2% of enterprises, the state of the economy of Kazakhstan is an obstacle for doing business. According to 59.7% of the respondents, the economic situation in Kazakhstan worsened in Q1 of 2020, 38.8% believe that the situation has not changed.

Market competition from other enterprises (27.5%), customer search (insufficient demand) (21.1), and the tax burden (18.9) are also obstacles for many enterprises. At the same time, 9.2% of enterprises have problems with the return of receivables.

Other obstacles for the enterprises were factors such as state price regulation, tariff reduction, exchange rates, lower oil prices, as well as quarantine and emergency conditions.
In Q1 of 2020, the average * return on sales ** of enterprises in the economy as a whole remained virtually unchanged (21.3%), although a decrease was noted in the mining and manufacturing industries (to 40.5% and 18.5%, respectively).

The share of highly profitable enterprises decreased to 37.6% of the total number of survey participants, the share of low-profit enterprises increased from 21.8% in Q4 of 2019 to 23.3% in Q1 of 2020.

27.8% of the enterprises surveyed plan to end the year with a profit, 12.5% believe that the year will end with a loss.

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* 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
In Q1 of 2020, 16.7% of enterprises surveyed applied to the bank for a loan, 15.8% of enterprises received a loan (or 94.6% of the number of applicants for a loan). The share of loan refusals amounted to 0.9% of the total number of survey participants (5.4% of the number of applicants for a loan).

In Q2 of 2020, 15.0% of the enterprises surveyed intend to apply for a loan. In the manufacturing industry, the share of such enterprises is 18.9%, in the mining - 8.4%.
Debt burden as estimated by enterprises *, %

<table>
<thead>
<tr>
<th>Debt load *</th>
<th>Share of enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-20%</td>
<td>16,9</td>
</tr>
<tr>
<td>21-30%</td>
<td>9,9</td>
</tr>
<tr>
<td>31-40%</td>
<td>5,8</td>
</tr>
<tr>
<td>41-50%</td>
<td>7,8</td>
</tr>
<tr>
<td>51-60%</td>
<td>3,7</td>
</tr>
<tr>
<td>61-70%</td>
<td>2,1</td>
</tr>
<tr>
<td>71-80%</td>
<td>1,9</td>
</tr>
<tr>
<td>over 81%</td>
<td>1,4</td>
</tr>
<tr>
<td>no debt</td>
<td>48,0</td>
</tr>
</tbody>
</table>

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

- **77,9%** - for the purchase of working capital (purchase of materials, raw materials, purchased semi-final products, etc.).
- **11,3%** - for the purchase of fixed assets (purchase of buildings, structures, vehicles, equipment, etc.).
- **3,4%** - for business expansion.
- **2,8%** - for refinancing.
- **4,7%** - for settling accounts with suppliers and paying taxes.
- **2,8%** - for other purposes.

In Q1 of 2020, almost half of the enterprises (48.0%) that participated in the surveys had no debt. Most enterprises (16.9%) have a debt burden * within 20%. The arithmetic average weighted ** value of the debt load is 15.8%.

Most enterprises (77.9%) attracted loans to finance working capital (purchase of materials, raw materials, purchased semi-final products, etc.), 11.3% - for the purchase of fixed assets (purchase of buildings, structures, vehicles, equipment, etc.) .d.). In addition to refinancing (3.4%) and business expansion (2.7%), enterprises took loans to settle accounts with suppliers and pay taxes.
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 2020, assessments of enterprises regarding the price (loan interest rate, the size of additional commissions) and non-price (maximum loan size and term, requirements for the borrower’s financial condition, security requirements) loan conditions remained negative. At the same time, the number of enterprises reporting deteriorating lending conditions has increased.

Average interest rates on loans received by monitoring participants in tenge decreased and amounted to 12.0%, while in foreign currency, on the contrary, there was an increase to 6.5%. An acceptable interest rate for enterprises in loans in tenge is 5.5%, for loans in foreign currency - 2.6%.
In Q1 of 2020, the negative impact of the exchange rate on the economic activities of enterprises increased. The share of enterprises experiencing a negative impact on their activities from changes in the tenge to the US dollar increased to 40.8%, and the share of enterprises from changes in the tenge to the euro increased to 26.2%. At the same time, the share of enterprises that noted the negative impact of the Russian ruble exchange rate (up to 30.2%) slightly decreased.

The main currencies used in the calculations are the Russian ruble (48.7%), the US dollar (41.5%) and the euro (26.8%). Tenge is used in calculations by 14.7% of enterprises. Other currencies include British pound, Swiss franc and Kyrgyz som.
In Q1 of 2020, the dynamics of the composite leading indicator (CLI), which is an aggregate assessment of surveys of enterprises in the real sector, shows a decrease in business activity in the real sector. CLI moved into the area of decline, amounting to 99.9.

The dynamics of CLI was negatively affected by a decrease in demand for final products of enterprises, a decrease in investment activity, a decrease in oil prices, as well as a change in the tenge against the US dollar. From the positive factors, we can note a decrease in the average interest rates on loans in the national currency and the influence of the dynamics of the tenge against the Russian ruble on the economic activities of enterprises.

In Q2 of 2020, respondents expect a further decline in economic activity (CLI amounted to 99.6), which is mainly associated with the expected decline in demand.

* 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 2020 are calculated on the basis of expectations among enterprises in the real sector that participated in the survey.
The diffusion index (DI) as reflected in tables and in figures is calculated as a sum of positive responses and a half of “no change” responses. This index is a generalized indicator which characterizes the behavior of the reviewed indicator. If its value is above 50 – this means a positive change, if it is below 50, then the change is negative. In doing so, the further (the higher) the value of the diffusion index deviates from 50, the higher are the rates of change (increase or decrease) of the indicator.

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

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

The composite indicator (CI) possesses the forward-looking feature of the real GDP behavior for 1-2 quarters. The time series of the CI and the real GDP (in terms of prices of the year 2005) are cleared of seasonality and do not contain the trend, i.e. they only include a cyclical component as determined by short-term fluctuations of the economic market environment. For comparability purposes, the resulting cyclical components are standardized, i.e. they are reduced to one (non-dimensional) unit of measurement.

The CI serves to reflect short-term development trends in the real sector of the economy as a whole. It possesses the following features: 1) it has a forward-looking mature; 2) it reflects a cyclical nature in the development of the real sector of the economy; 3) it is quickly designed since it is built on the basis of on-the-spot interviews of enterprises.

Out of indicators built up based on interviews of enterprises, the following leading indicators were included as the CI components:

- The DI of the change in the demand for final products in economic sectors
- A group of indicators that reflect the change in prices:
  - the DI of the change in prices in the real sector as a whole;
  - the DI of the change in prices for raw materials and supplies.
- A group of indicators that reflect the change in the investment and lending activity:
  - the percentage of enterprises which obtained loans to finance their property, plant and equipment (including governmental programs);
  - the percentage of enterprises which use other sources apart from own funds and bank loans to finance their property, plant and equipment and working capital;
  - the percentage of enterprises which obtained a loan;
  - the percentage of enterprises which want to get a loan;
  - the level of actual interest rates on loans in the tenge and in foreign currency.
- The employment rate indicator: the percentage of enterprises where the number of employees decreased
- The indicator of the impact on activities of enterprises by the change in the exchange rate of the tenge (versus the US Dollar, Euro and Russian ruble)