MARKET REVIEW
Enterprises Survey Results in the Real Sector of the Economy

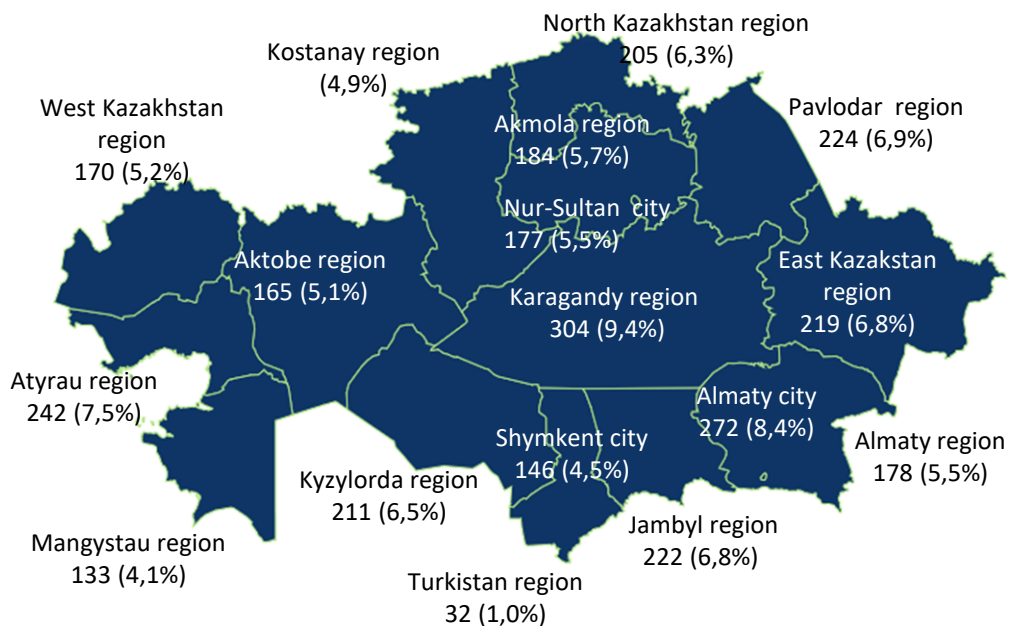Q3 2019

Monetary Policy Department
National Bank of Kazakhstan

CONTENTS

ENTERPRISE SURVEY PARTICIPANTS COMPOSITION

Regional structure of the enterprise survey participants in Q3 2019

North Kazakhstan region
205 (6,3%)

Kostanay region
(4,9%)

Pavlodar region
224 (6,9%)

West Kazakhstan region
170 (5,2%)

Akmola region
184 (5,7%)

Nur-Sultan city
177 (5,5%)

East Kazakstan region
219 (6,8%)

Aktobe region
165 (5,1%)

Karagandy region
304 (9,4%)

Atyrau region
242 (7,5%)

Almaty city
272 (8,4%)

Shymkent city
146 (4,5%)

Almaty region
178 (5,5%)

Kyzylorda region
211 (6,5%)

Jambyl region
222 (6,8%)

Mangystau region
133 (4,1%)
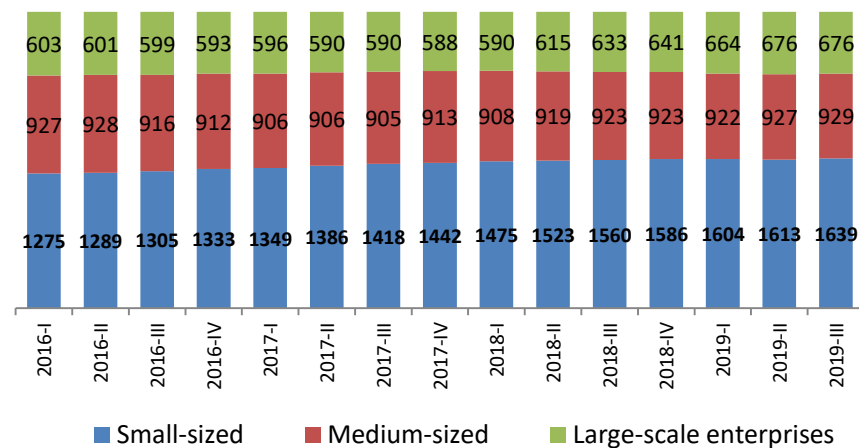
Turkistan region
32 (1,0%)

In Q3 2019 the number of survey participants increased by 28. 26 small and 2 medium-sized enterprises were involved in monitoring.

By industry, the largest increase was noted in trading and construction.

Survey participants sectorial structure

Legend: Mining industry, Agriculture, Transportation, Construction, Others, Manufacturing, Trade
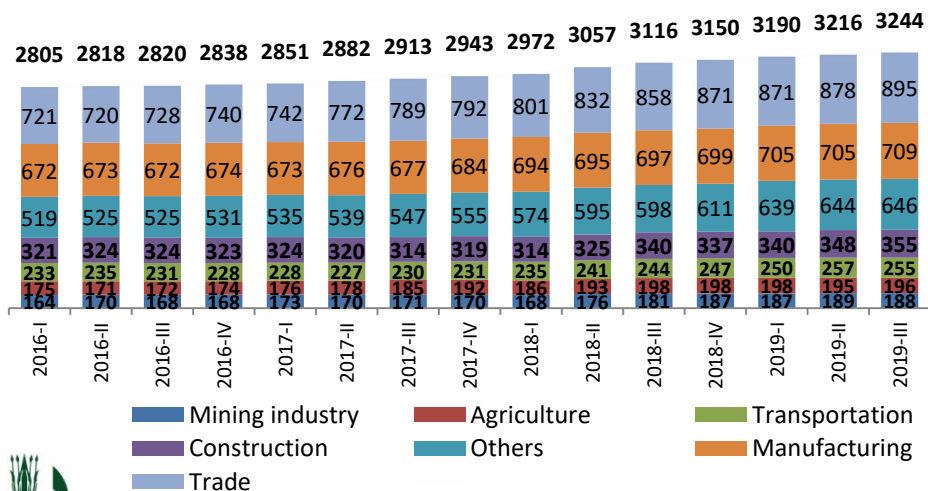
Survey participants size structure

Legend: Small-sized, Medium-sized, Large-scale enterprises

FINAL PRODUCTS DEMAND DYNAMICS

In Q3 2019, the economy showed ат exhilaration in demand for final products: the diffusion index (hereinafter - DI) amounted to 51.0 due to the demand increase in the production of goods sector (DI = 52.5) with a simultaneous decrease in demand in the services sector (DI = 49.7). Demand for of manufacturing products was higher than for mining products (DI = 52.9 and 50.8, respectively).

According to the expectations of the enterprises, in Q4 of 2019, a slight increase in the demand growth rate for final products is expected (DI = 52.4). In general, demand growth is expected by enterprises of all sectors.
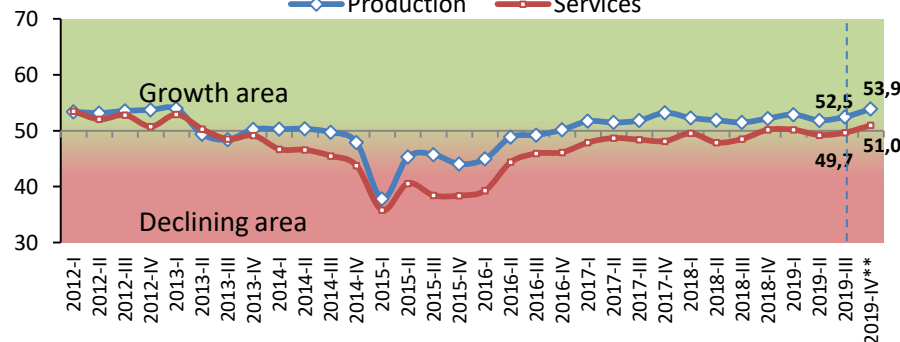
Final goods demand, DI*

Answers of enterprises, %		2018			2019		
		Q2	Q3	Q4	Q1	Q2	Q3**
Increase	1	28,1	27,7	26,3	16,0	26,7	22,2
No changes	2	50,9	51,9	49,2	53,9	53,4	42,8
Decrease	3	20,7	19,9	23,9	28,7	18,0	8,2
Diffusion index, DI=line1+0.5*line2	4	53,6	53,6	50,9	43,0	53,4	43,6
DI, seasonal adjusted	5	49,6	50,1	51,8	56,3	54,3	53,1

Final goods demand, DI *
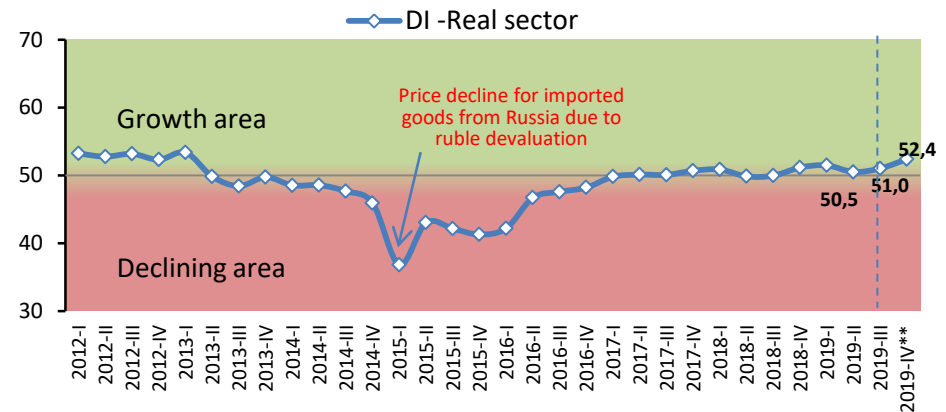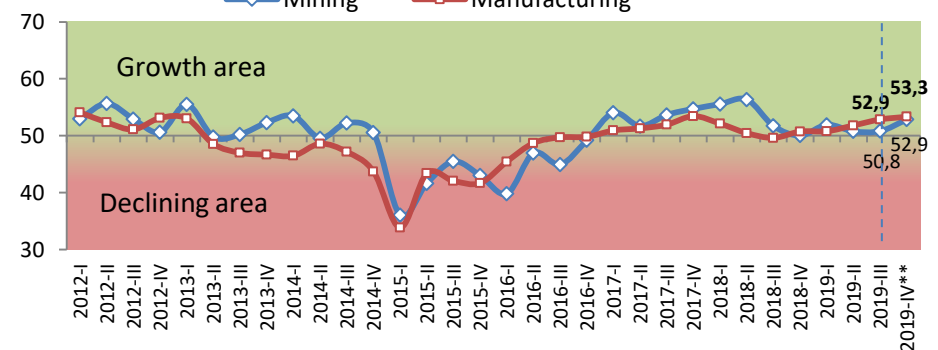
*Diffusion Index (seasonally adjusted). The higher (the lower) the DI deviates from 50, the higher (the lower) are the rates of growth (decline) in indicator; the level of 50 means the absence of any change
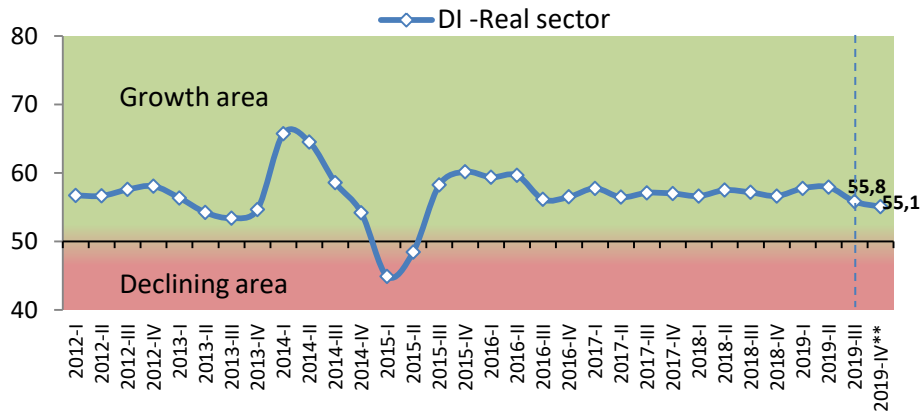
**The Figures show expectations of enterprises regarding the change in the parameter in Q4 2019.

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In Q3 of 2019, the final products prices growth rate of enterprises slowed down (DI amounted to 55.8). A deceleration in the prices growth rate for final products was noted in the manufacturing and mining industries. This decrease is associated with a decrease in the cost of production, since the prices growth rate for raw materials and supplies slowed down in all considered sectors and overall in the economy (DI = 69.6).

In Q4 of 2019, enterprises in the real sector expect a continuation of a slowdown in the growth rate of raw materials and supplies prices (CI = 63.5), while they do not plan to reduce prices substantially for final products.
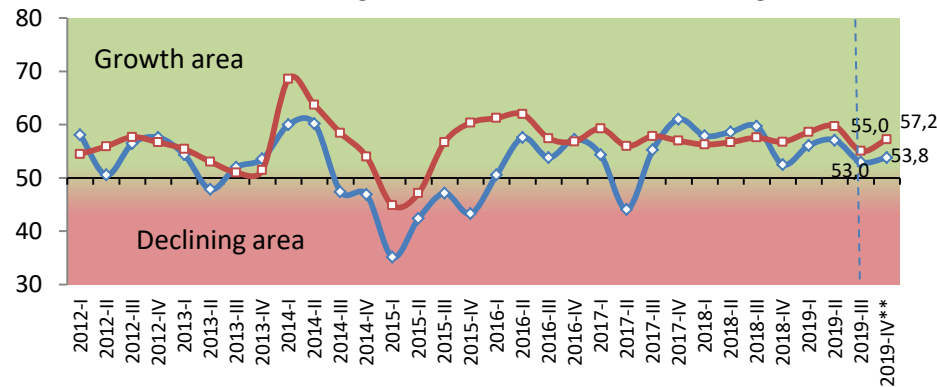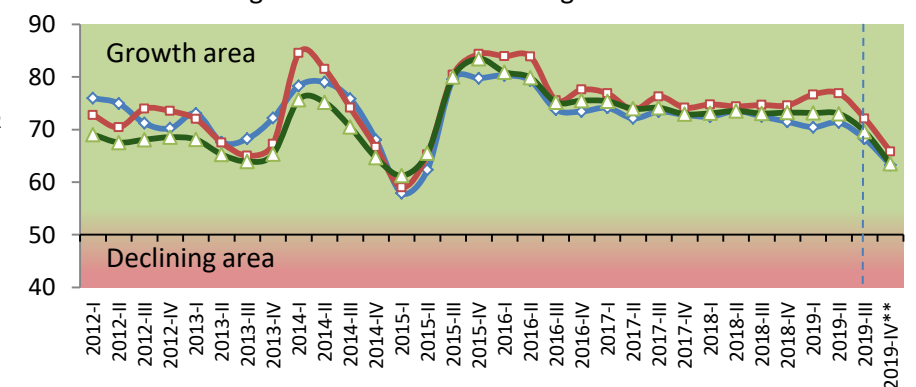

Final goods prices, DI*

Raw materials prices, DI*
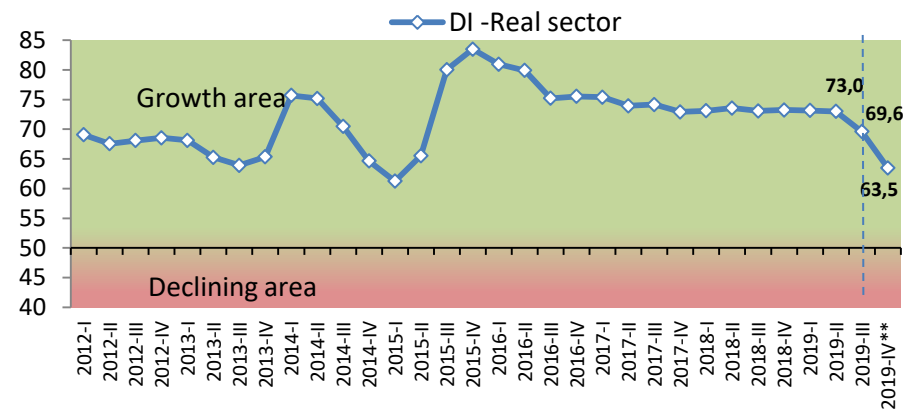
*The higher (the lower) the DI deviates from 50, the higher (the lower) are the rates of growth (decline) in indicator; the level of 50 means the absence of any change

**The Figures show expectations of enterprises regarding the change in the parameter in Q4 2019.

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In Q3 of 2019, the utilization level of enterprises production capacities significantly increased. The share of enterprises with a capacity utilization of more than 70%* increased from 34.9% in Q2 of 2019 to 36.9%. As a result, the production volume in Q3 of 2019 also increased (DI = 55.1). The dynamics of past years show that this increase is seasonal.

In Q4 of 2019, enterprises intend to reduce the growth rate of production volumes (DI = 52.7). Despite the seasonal nature of this decline, in general, there was a positive trend in the dynamics of enterprises production volumes.

Capacity utilization level
(share of respondents, %)
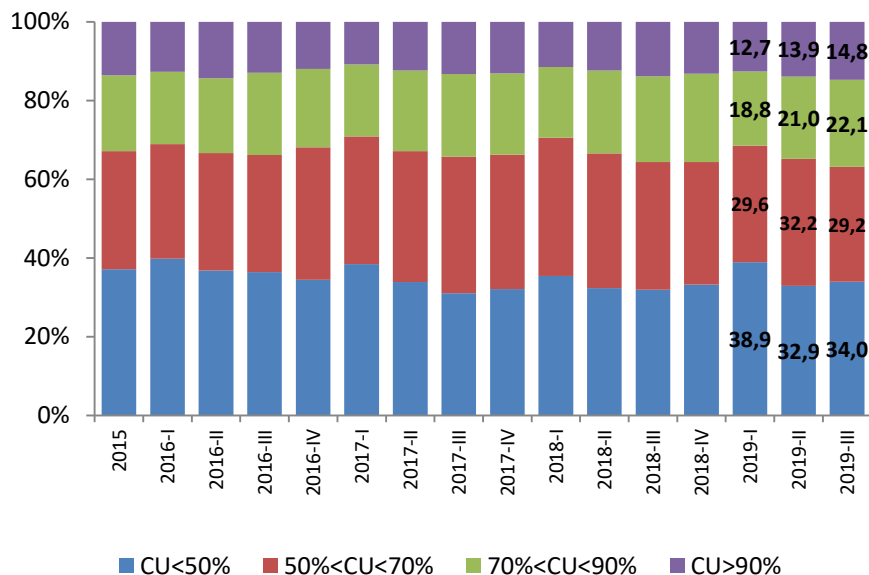
DI changes in production output
(50 = no change compared to previous q.)

Legend: CU<50% | 50%<CU<70% | 70%<CU<90% | CU>90%
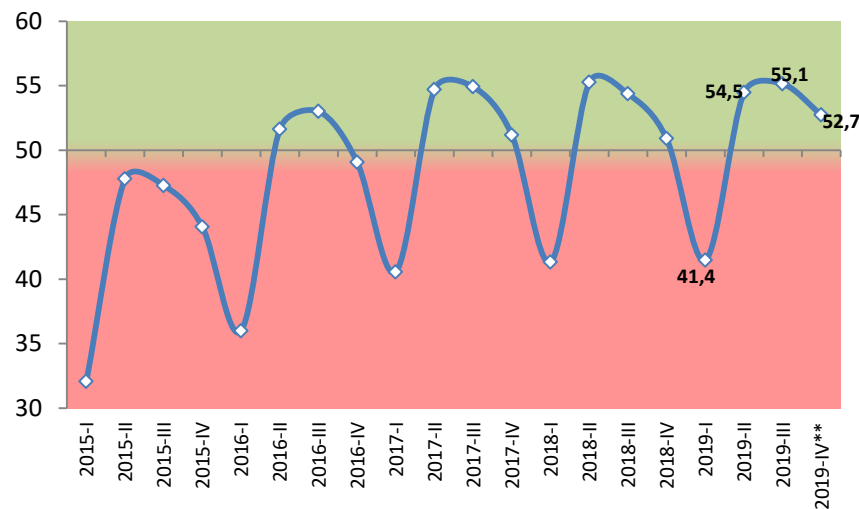
* The group of enterprises with CUL more than 70% includes enterprises with CUL 70-90% and enterprises with CUL> 90%
** The higher (lower) DI from level 50, the higher (lower) the rate of increase (decrease) of the indicator, the level of DI = 50 means no change
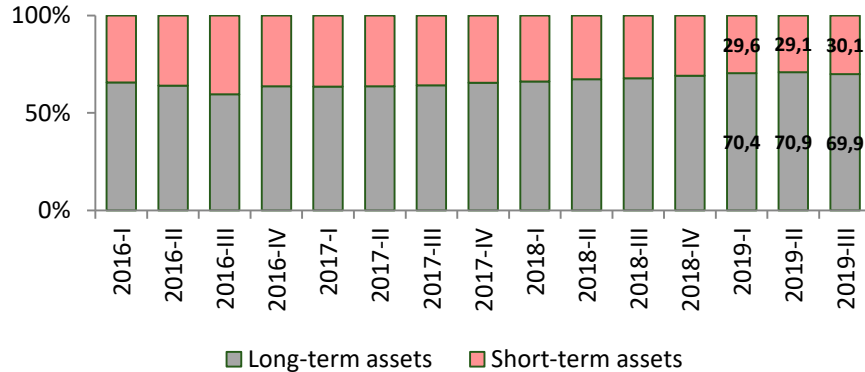
In Q3 of 2019, the short-term assets share in the companies assets structure in the real sector of the economy slightly increased, which amounted to 30.1%, and, accordingly, the share of long-term assets decreased to 69.9%.

Despite a noticeable decrease, accounts receivable remain the main component of short-term assets, whose share in Q3 of 2019 amounted to 40.9%. The share of other short-term assets increased to 35.8%, reserves did not change - 23.3%.

Working capital turnover decreased (to 51.9% from 53.4% in Q2) while asset turnover and the share of working capital in the assets of enterprises kept stable.
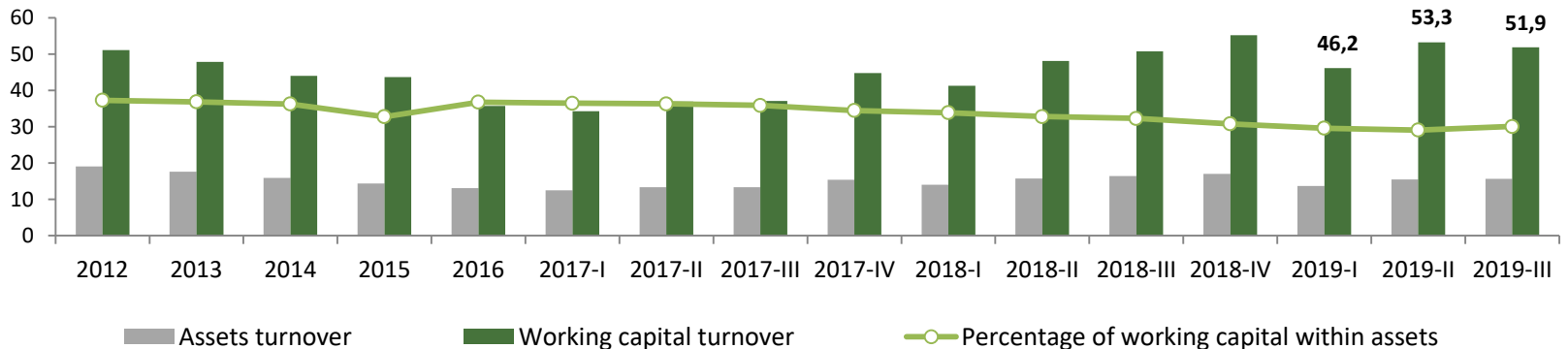
Assets structure, %

Short-term assets Structure, %
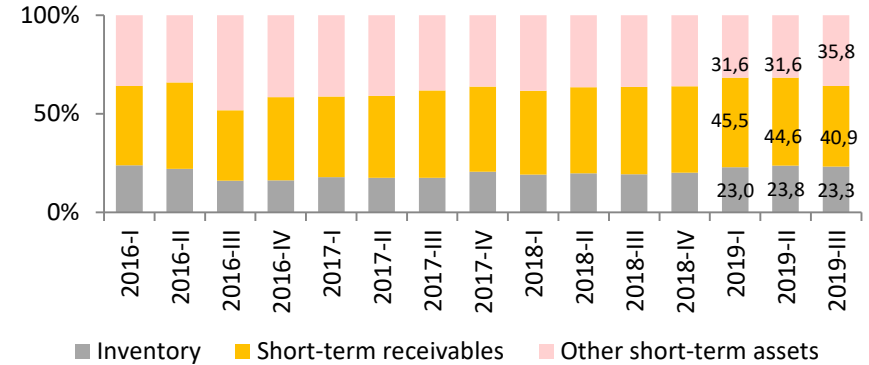

Assets turnover indicators, %

BALANCE SHEETS STRUCTURE : LIABILITIES

In Q3 of 2019, the liabilities structure did not change significantly: the share of equity amounted to 47.6%, long-term liabilities - 29.1%, short-term liabilities - 23.3%. In the short-term liabilities structure, the short-term bank loans share slightly increased (from 15.4% to 15.7%), and the share of short-term accounts payable decreased (50.5%).

In the long-term liabilities structure, long-term bank loans slightly increased and amounted to 50,4%.

The enterprises share with overdue receivables on the balance sheet increased to 27.7%, while enterprises share with overdue accounts payable remained at the same level - 21.3%. At the same time, enterprises share with overdue debts on bank loans decreased and amounted to 2.5%.
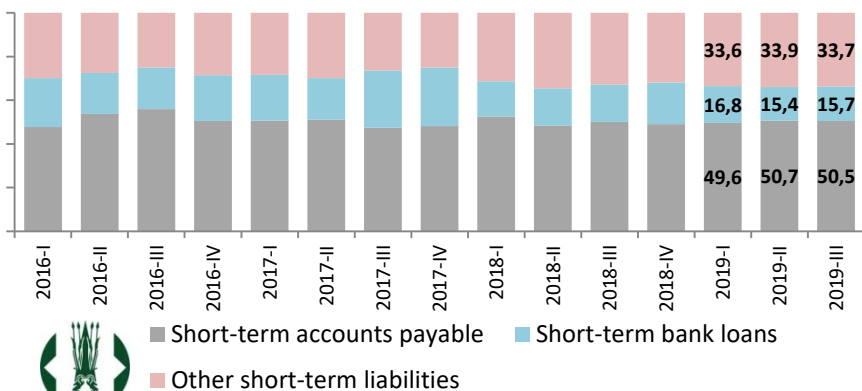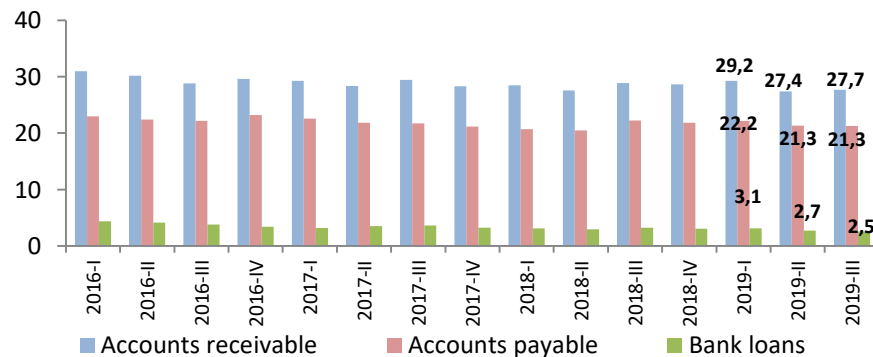

Liabilities structure, %
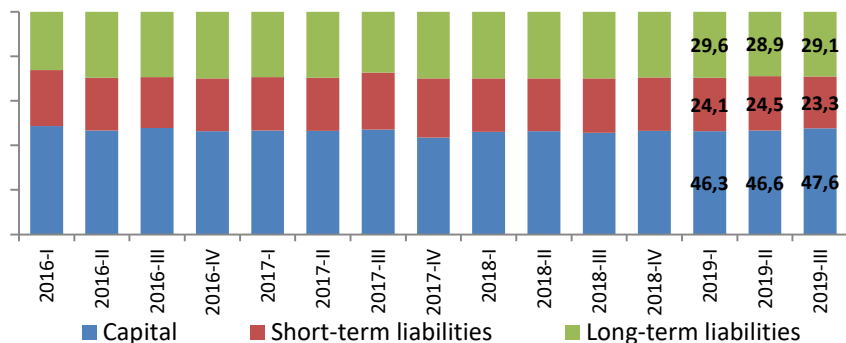
Long-term liabilities structure
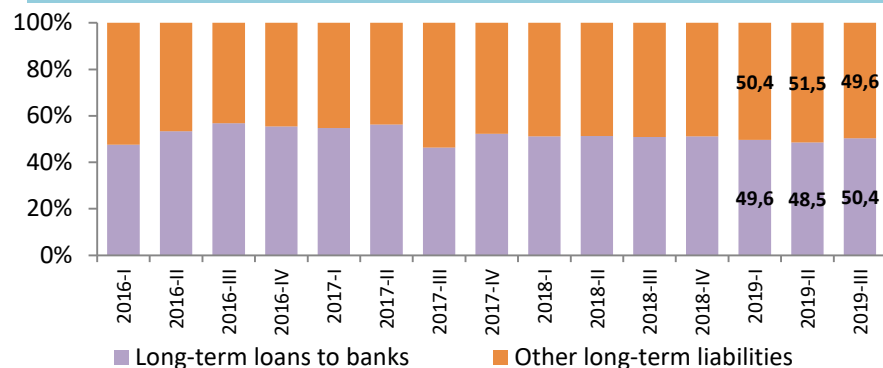
Current liabilities structure, %

Percentage of enterprises with the past due, %

In Q3 of 2019, the investment activity of enterprises slightly improved: the share of enterprises financing fixed and working capital from their own funds and bank loans increased, and the share of enterprises without financing decreased. Most enterprises use their own funds to finance fixed and current assets (65.3% and 81.1%, respectively).

The share of enterprises using bank loans to finance fixed assets and working capital increased insignificantly (5.9% and 15.3% of enterprises, respectively). The main reasons limiting the investment activity of enterprises are the lack of financial resources (28.9% of enterprises) and market competition from other enterprises (22.9% of enterprises).
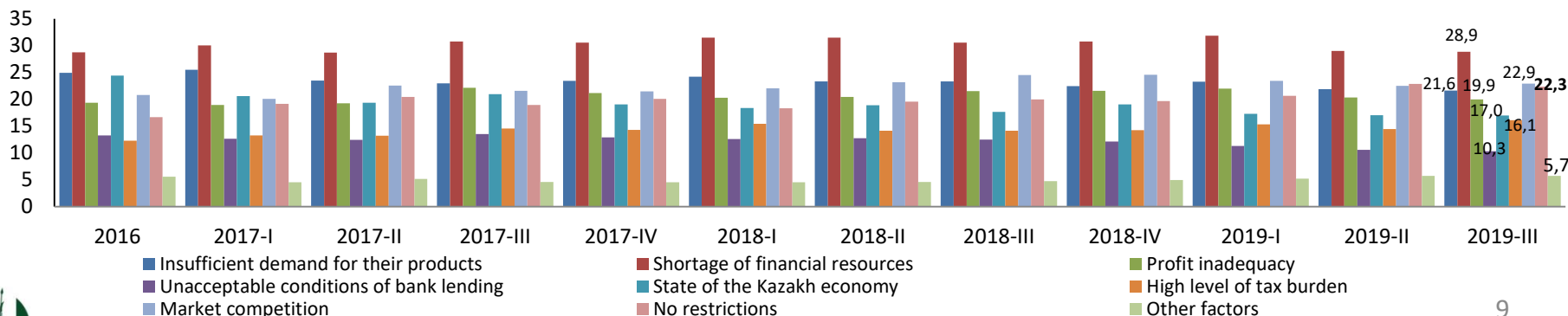
Funding source for fixed assets, %
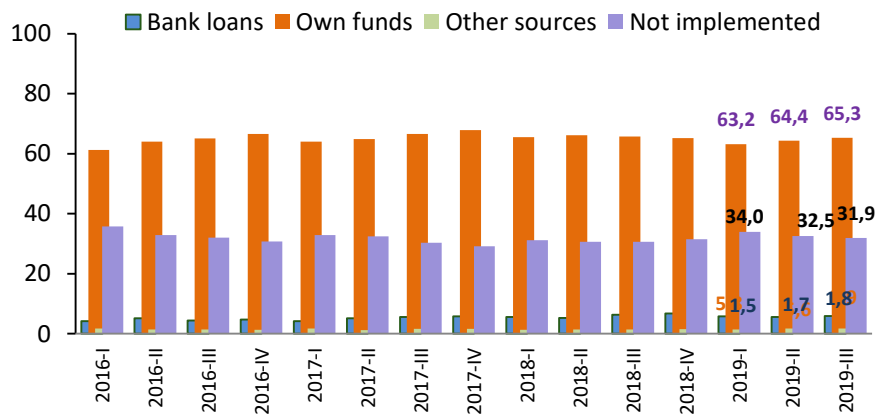
Funding source for current assets, %
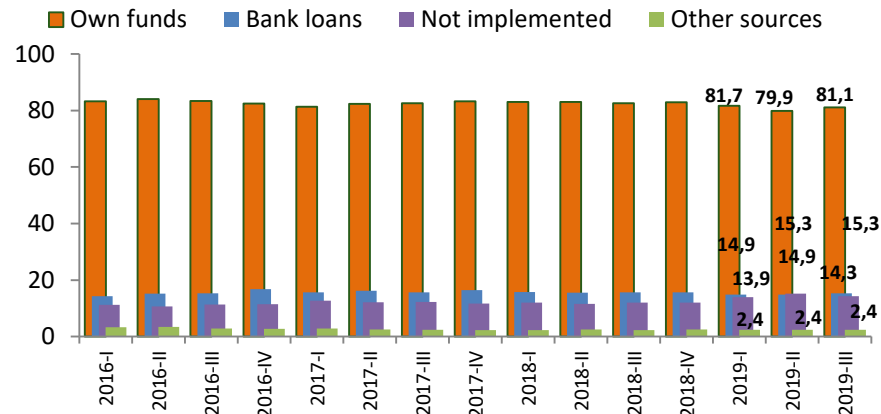
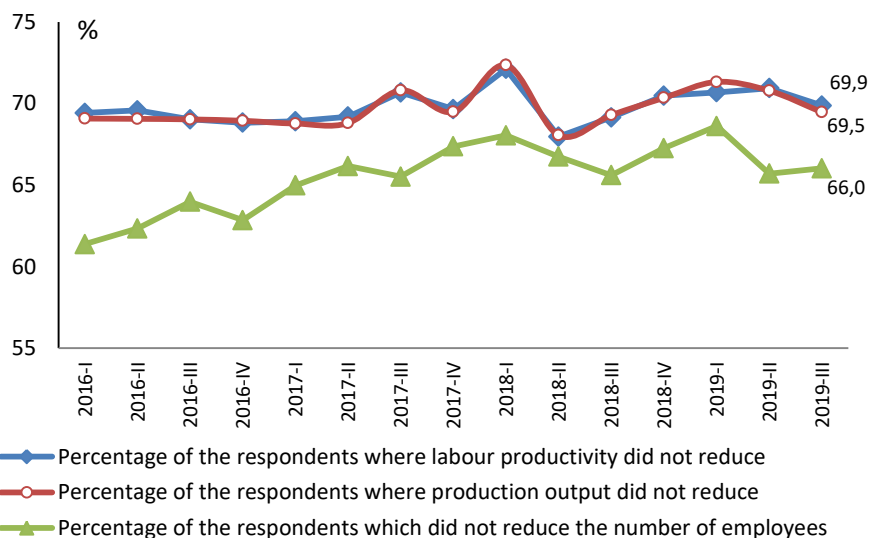## The main factors that limit financing opportunities of enterprises

In Q3 of 2019, the enterprises share whose production volume increased or did not change decreased insignificantly (from 70.7% in the 2nd quarter to 69.5%), and the share of enterprises that did not reduce the number of employees increased slightly. As a result, labor productivity slightly declined.

The enterprises share with high liquidity level decreased (to 33.6%), the average value of the current liquidity ratio remained nearly unchanged. The difference in the average values of current liquidity ratio (1.3) and total solvency (1.9) suggests that it is easier for enterprises to repay long-term liabilities than short-term ones.

Production performance indicators

- Percentage of the respondents where labour productivity did not reduce
- Percentage of the respondents where production output did not reduce
- Percentage of the respondents which did not reduce the number of employees

Liquidity and enterprises solvency Indicators

- Current liquidity ratio (CLR)
- Overall solvency ratio
- Percentage of the enterprises with CLR<1 (rhs)
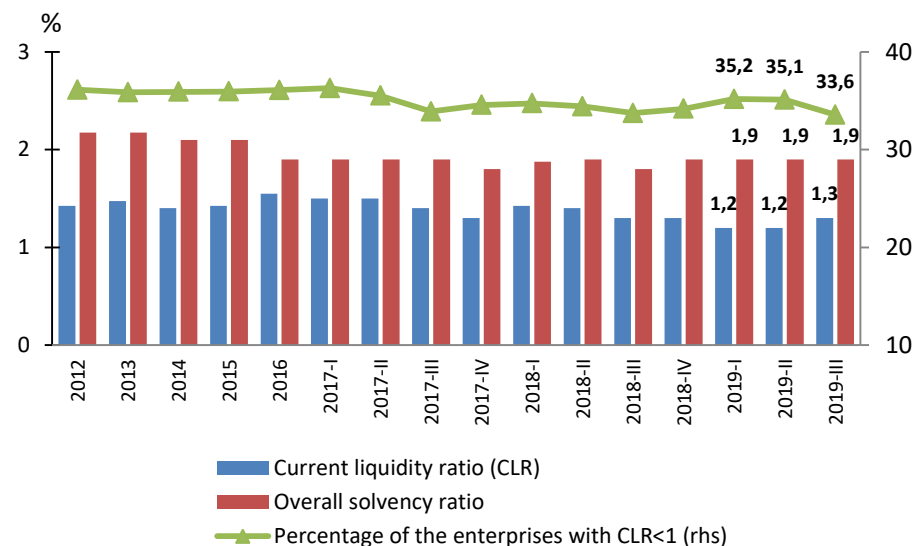
In Q3 of 2019, despite a slight decrease in the average* return on sales** of enterprises in the mining industry, the economic indicator increased from 21.4% to 22.9%. The share of high-profitable enterprises increased to 39.6% of the total number of survey participants. The average profitability in the mining industry is noticeably higher than in the manufacturing industry (44.7% and 21.4%, respectively).

Return on sales *, in %

Legend: Economy — Manufacturing — Mining industry
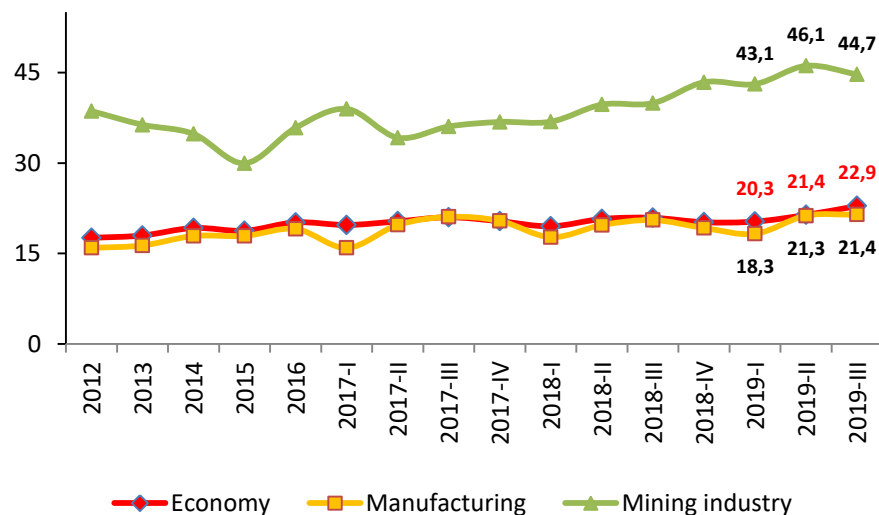
Distribution by return on sales

Legend:
- Share of enterprises with RS>30%
- Share of enterprises with 5%<RS<30%
- Share of enterprises with RS<5%
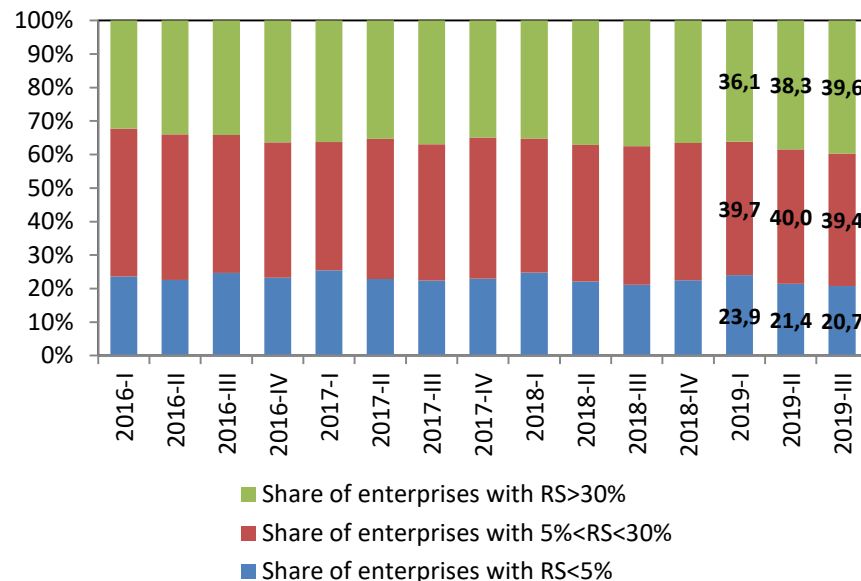
* Average median values are presented as they are less susceptible to extreme emissions than the arithmetic mean

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

In Q3 of 2019, 20,3% of enterprises surveyed turned to a bank for a loan, 18.2% of enterprises received a loan (or 89.7% of the number of loan applicants). The loan refusals share amounted to 2.1% out of the total number of survey participants (or 10.3% of the number of loan applicants).

In Q4 of 2019, 15% of the surveyed enterprises intend to apply for a loan. In manufacturing, the share of such enterprises is 22.3%, in mining - 9.6%.

Loans demand, %
(share of enterprises applying for a loan from a bank)
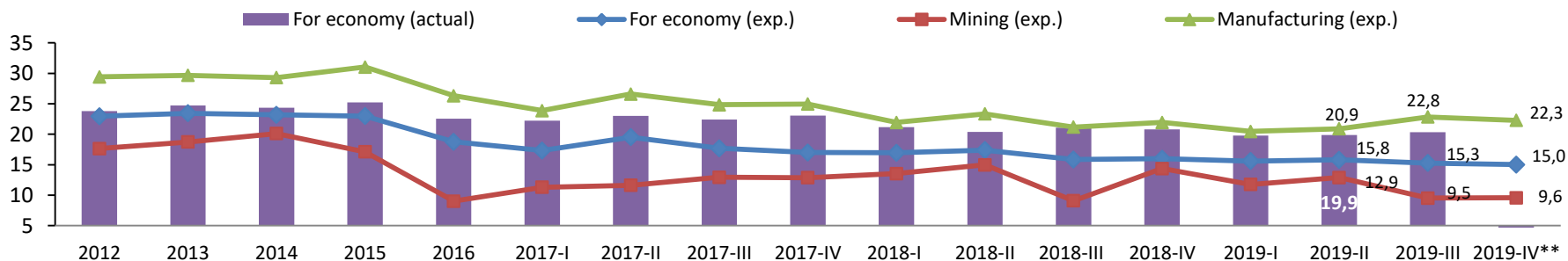
Lending applications consideration,
answers in %
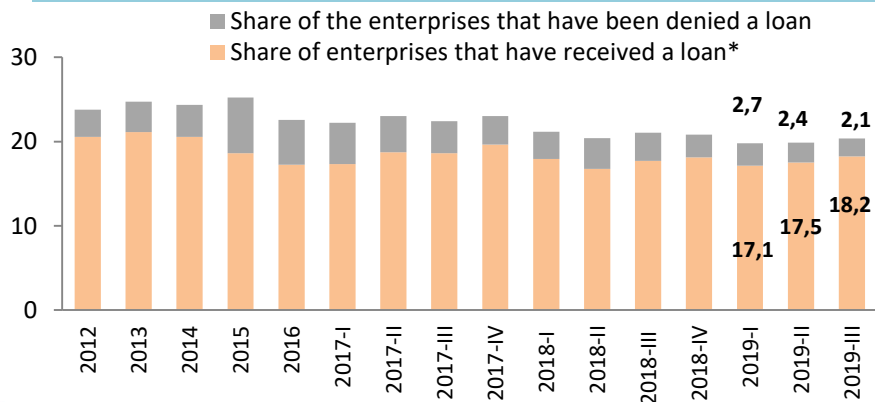
Share of enterprises that have been denied for a loan,
answers in %

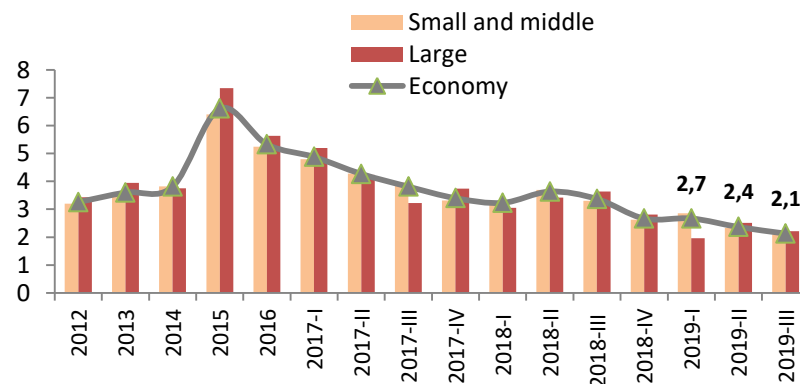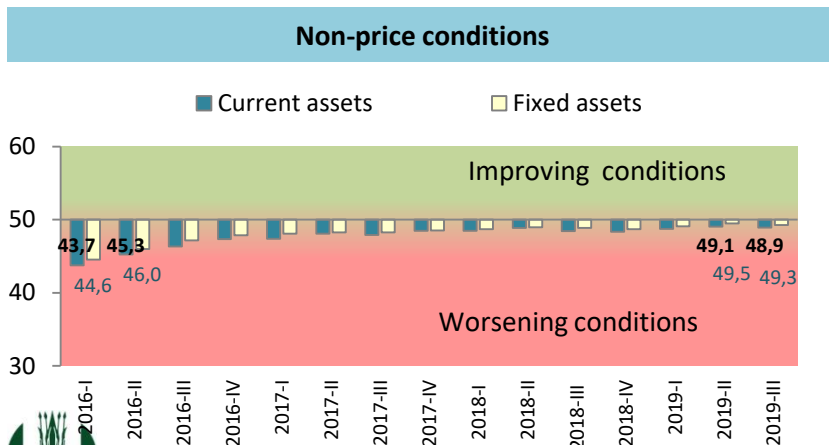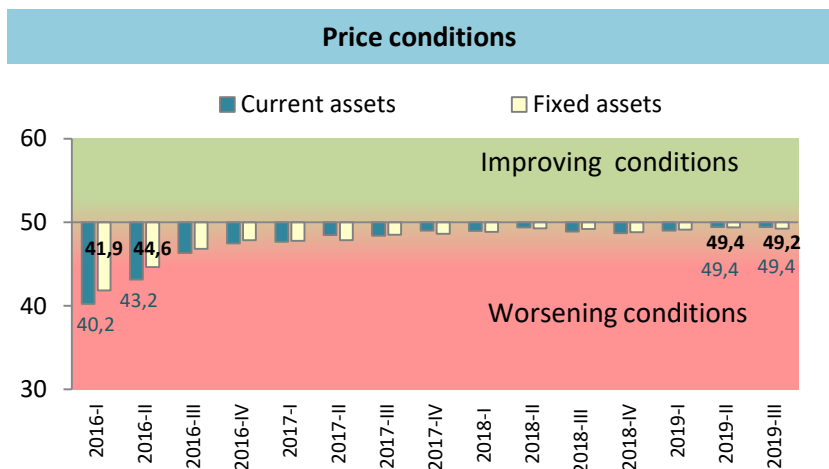In Q3 2019, price conditions (interest rates on loans, commission fees) and non-price conditions (maximum amount and loan tenor, requirements to a borrower's financial position, collateral requirements) of lending remained negative. At the same time the number of enterprises indicating negative changes is gradually decreasing.

The average interest rates on loans both in tenge and in foreign currency received by survey participants decreased (to 12.4% and 6.0%, respectively) The interest rate for loans in tenge is acceptable for enterprises at 6,4%, and for loans in foreign currency – 2,9%.

Changes in the conditions of lending

Loan rates and terms
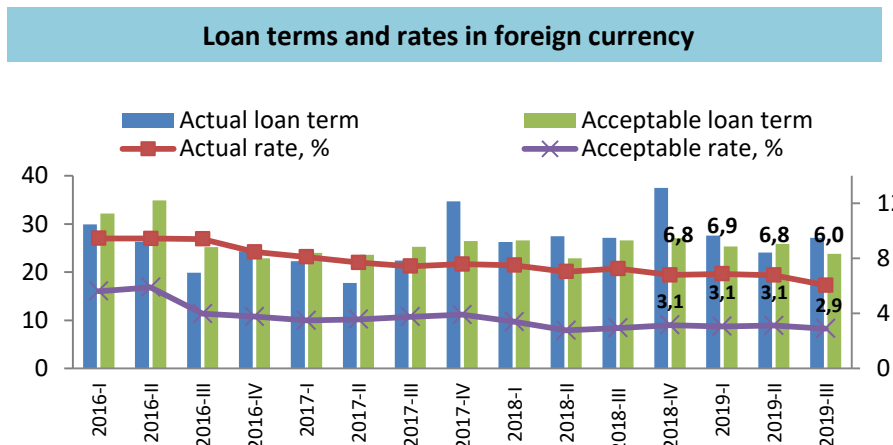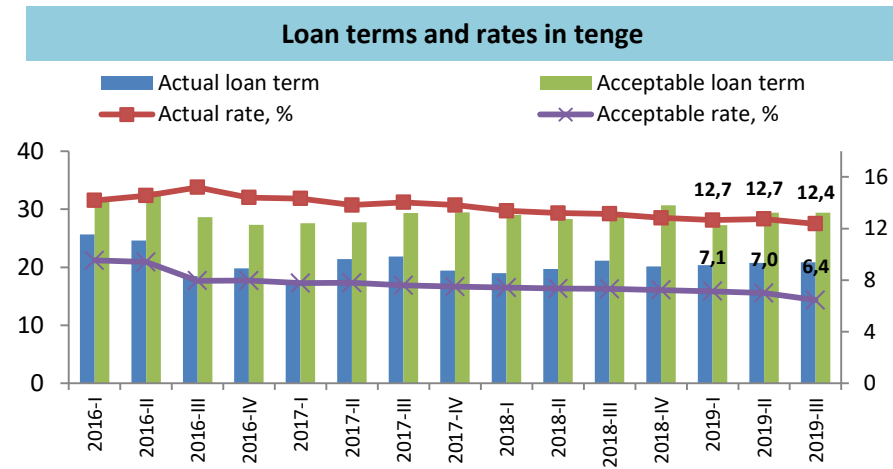
Price conditions

Loan terms and rates in tenge

Non-price conditions

Loan terms and rates in foreign currency

*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 means the absence of any change

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In Q3 of 2019, the impact of the exchange rate on the enterprises economic activities was multidirectional. The share of enterprises that experienced a negative impact on their economic activity from the fluctuation of KZT/USD exchange rate increased to 35.0%. At the same time, there was an decrease in the share of enterprises experiencing negative impact from KZT/EUR and KZT/RUB (21.5% and 34.8%, respectively).

Russian ruble (53.7% of enterprises) and the US dollar (45.9% of enterprises) remain the main currencies used for the settlements.

USD/KZT, answers in %

EUR/KZT, %

RUB/KZT, %

Foreign currency usage in settlements (% by currency)
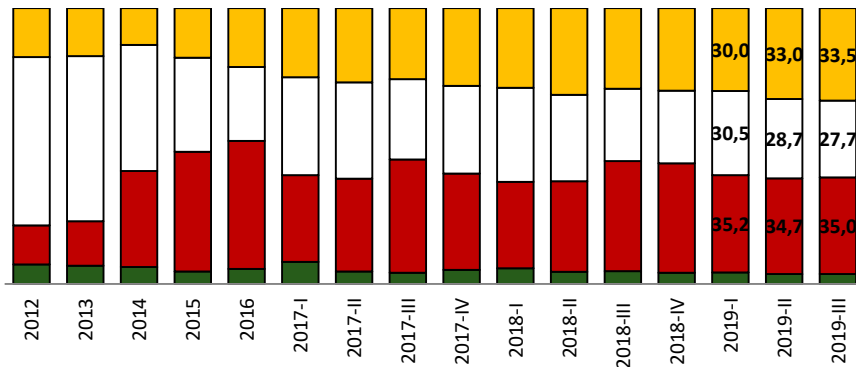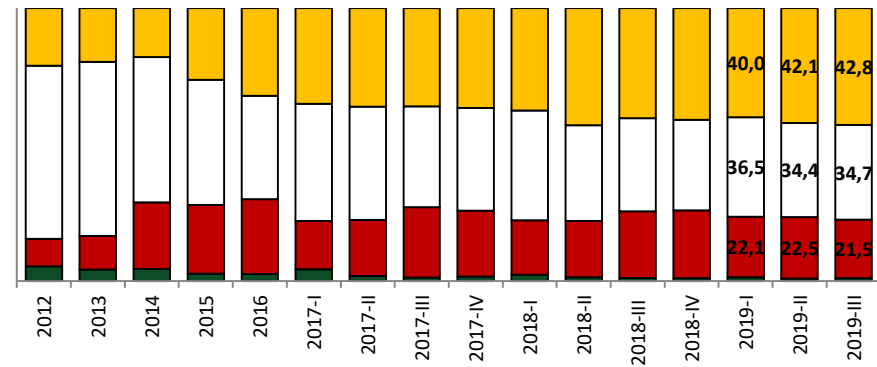
positive   negative   no impact   I don't know

USD   EUR   CNY   RUB   no settlments   other currency

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COMPOSITE LEADING INDICATOR*

In Q3 of 2019, the dynamics of the composite leading indicator (CLI), which is an aggregate assessment of enterprises in the real sector, indicates a weak growth in business activity in the real sector.

The dynamics of CLI was positively affected by a decrease in average interest rates on loans in tenge and in foreign currency, an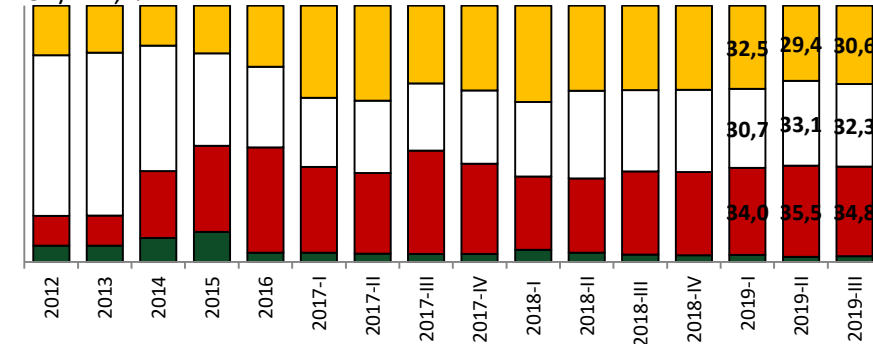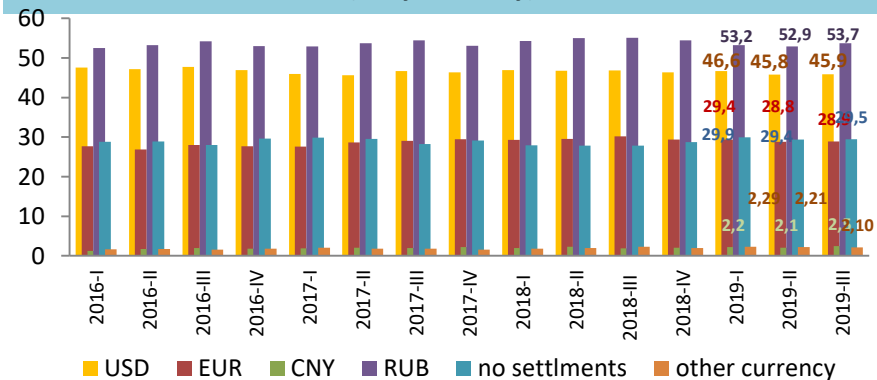 increase in the volume of loans issued and an increase in the share of enterprises that received loans. The negative impact was the decrease in the share of enterprises with high liquidity. As a result, CLI slightly increased compared to the Q2 of 2019 and amounted to 100.2.

In the Q4 of 2019, respondents expect economic activity to remain at the level of the Q3 of 2019 (CLI amounted to 100.0), which is associated with the expected slowdown in prices and production volumes in the economy.
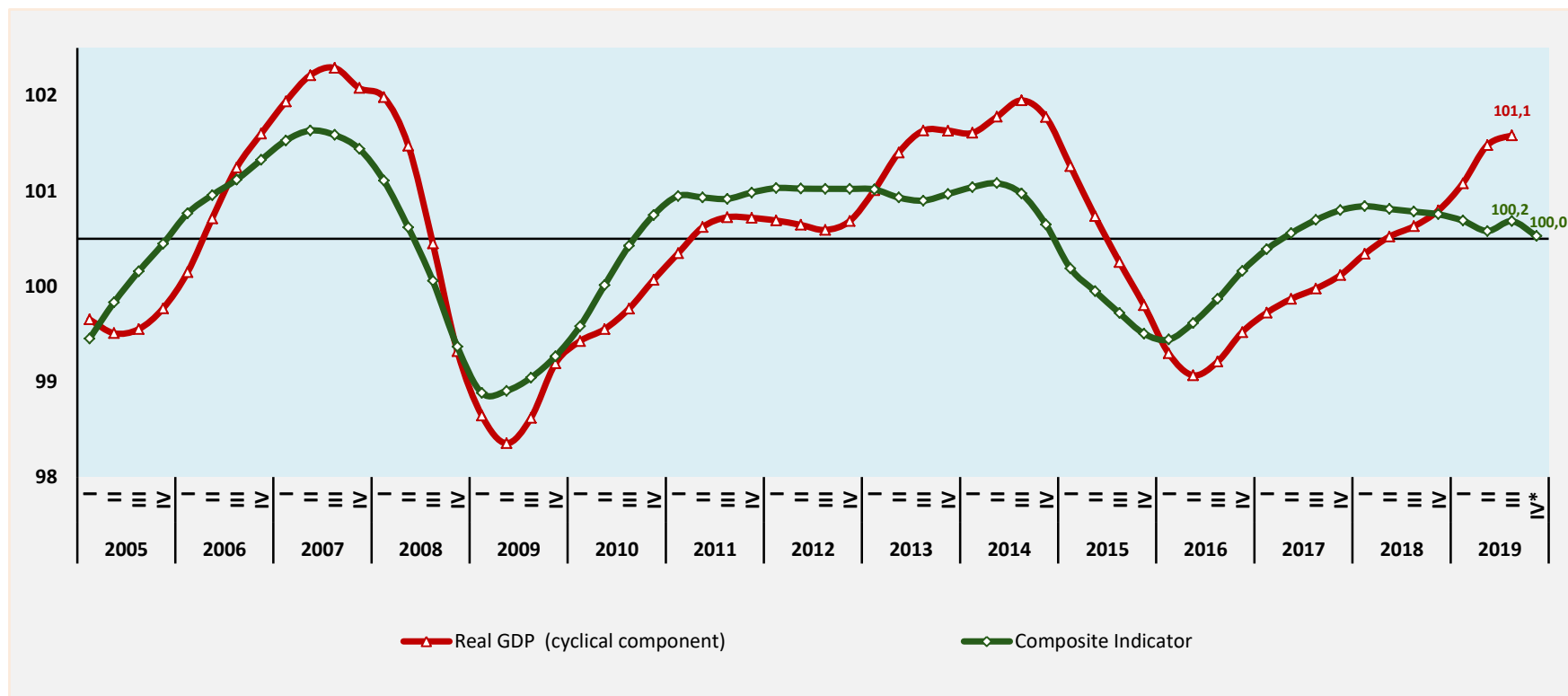
*   A composite leading indicator is used to identify turning points in the business cycle and provides good quality information about the state and directions of trends in the economic activity. A composite leading indicator reflects a summarized evaluation of opinions of managers of the interviewed 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 Q4 2019 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:
1) The DI of the change in the demand for final products in economic sectors
2) 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.
3) 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.
4) the employment rate indicator: the percentage of enterprises where the number of employees decreased
5) 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)

Monetary Policy Department
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