MARKET REVIEW
Enterprise Survey in the Real Sector of the Economy

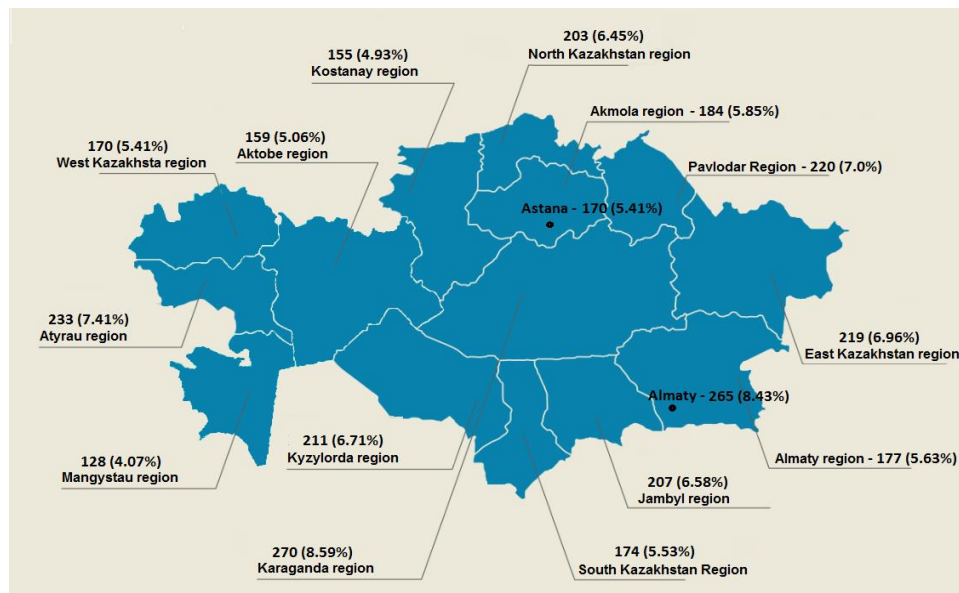Q4 2018

Research and Statistics Department
National Bank of Kazakhstan

CONTENTS

Composition of Enterprise Survey Participants

Regional structure of the enterprise survey participants in Q4 2018

203 (6.45%) North Kazakhstan region

155 (4.93%) Kostanay region

Akmola region - 184 (5.85%)

159 (5.06%) Aktobe region

170 (5.41%) West Kazakhsta region

Pavlodar Region - 220 (7.0%)

Astana - 170 (5.41%)

233 (7.41%) Atyrau region

219 (6.96%) East Kazakhstan region

Almaty - 265 (8.43%)

128 (4.07%) Mangystau region

211 (6.71%) Kyzylorda region

Almaty region - 177 (5.63%)

207 (6.58%) Jambyl region

270 (8.59%) Karaganda region

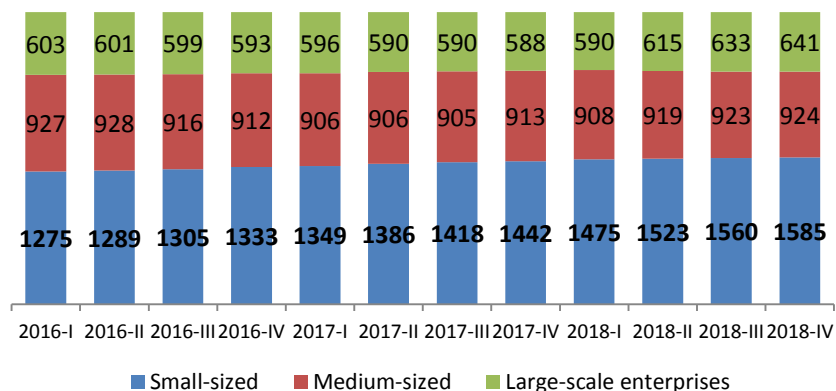174 (5.53%) South Kazakhstan Region

In Q4 of 2018 the number of respondents increased by 34. The number of participants increased by 25 small-sized, 8 large-scale and 1 medium-sized enterprises.

In the sectoral structure the biggest increase was noticed in trade (by 15) and mining industry (by 8).

Sectoral structure of the enterprises

	2016-I	2016-II	2016-III	2016-IV	2017-I	2017-II	2017-III	2017-IV	2018-I	2018-II	2018-III	2018-IV
Total	2805	2818	2820	2838	2851	2882	2913	2943	2972	3057	3116	3150
Trade	721	720	728	740	742	772	789	792	801	832	858	873
Manufacturing	673	674	673	675	674	677	678	685	694	695	698	699
Others	519	525	525	531	535	539	547	555	574	595	598	610
Construction	321	324	324	323	324	320	314	319	314	325	340	337
Transportation	233	235	231	228	228	227	230	231	235	241	244	247
Agriculture	175	171	172	174	176	178	185	192	186	193	198	198
Mining industry	163	169	167	167	172	169	170	169	168	176	180	186

■ Mining industry ■ Agriculture ■ Transportation ■ Construction
■ Others ■ Manufacturing ■ Trade

Enterprise survey participants by size

	2016-I	2016-II	2016-III	2016-IV	2017-I	2017-II	2017-III	2017-IV	2018-I	2018-II	2018-III	2018-IV
Large-scale enterprises	603	601	599	593	596	590	590	588	590	615	633	641
Medium-sized	927	928	916	912	906	906	905	913	908	919	923	924
Small-sized	1275	1289	1305	1333	1349	1386	1418	1442	1475	1523	1560	1585

■ Small-sized ■ Medium-sized ■ Large-scale enterprises

In Q4 2018, the dynamics of the composite leading indicator (CLI) – an aggregated estimate of the survey of enterprises – shows that economic activity in the real sector continues to rise moderately.

The improvements in the loan availability had a positive impact on the change of CLI, more precise: decrease in the average interest rates for loans in Tenge; decrease in the share of the enterprises that have been denied a loan, and increase in the share of the enterprises that received a loan. Other factors (demand for goods, capacity utilization, production volume, investment activity) remained unchanged. As a result, CLI showed a little improvement compared to Q3 2018 (from 100,26 to 100,35).

One of the negative tendencies is decrease in the average return on sales in manufacturing. In general the liquidity, assets turnover indicators improved in the economy, as well as the share of enterprises that did not reduce the number of employers and productivity.

In Q1 2019 respondents expect the same tendency (CLI is 100,28). This is related with expected increase in the demand in construction and service sector.

Legend: Real GDP (cyclical component) — Composite Indicator
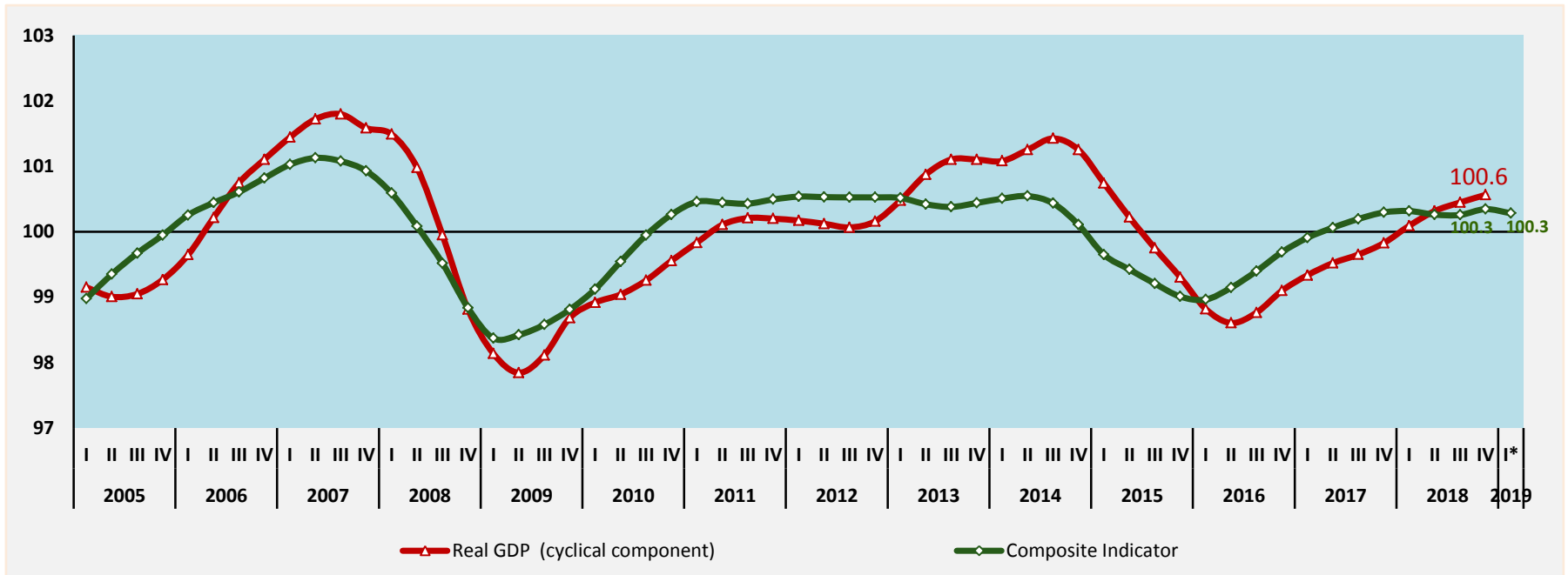
*   A composite leading indicator is used to identify turning points in the business cycle and provides good quality information about the state and directions of trends in the economic activity. A composite leading indicator reflects a summarized evaluation of opinions of managers of the interviewed enterprises regarding the existing and anticipated situation in their enterprises and possesses the forward-looking feature of the real GDP behavior for 1-2 quarters. Construction of CLI is based on the OECD methodology («OECD System of Composite Leading Indicators, Methodology Guideline», OECD 2012).

**   The CLI parameters for Q1 2019 are calculated on the basis of expectations among enterprises in the real sector that participated in the survey.

DYNAMICS OF THE DEMAND FOR FINAL PRODUCTS

In Q4 2018, the demand in the real sector for final products slightly increased; the diffusion index (DI) made up 51,9. Increase in the demand was noted both for goods and for services (DI = 53,0 and 50,8, respectively).

Manufacturing companies pointed out a small increase in the demand for their production (DI = 52,0), while mining companies noted that the demand for their goods slowed down slightly (DI = 49,9).

In Q1 2019, enterprises expect the increase in the growth rates of the demand for final products with a higher rates (DI=56,8). Increase in demand is expected by the enterprises of all industries.

Demand for the finished goods, DI*

Answers of enterprises, %		2018				2019
		Q1	2 кв.	3 кв.	4 кв.	1 кв.**
Increase	1	17.6	28.1	27.7	26.2	14.2
No changes	2	50.9	50.9	51.9	49.2	38.9
Decrease	3	31.4	20.7	19.9	24.0	17.9
Diffusion index, DI=line1+0.5*line2	4	43.0	53.6	53.6	50.8	33.7
DI, seasonal adjusted	5	50.8	49.7	49.6	51.9	56.8

Demand for finished goods, DI *
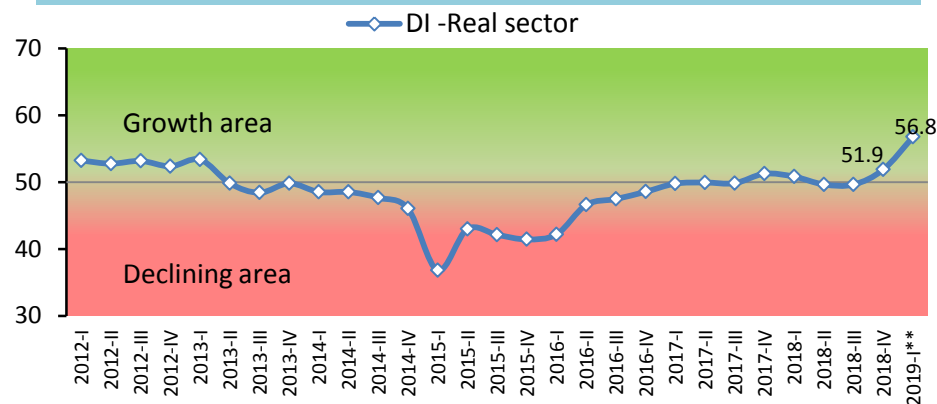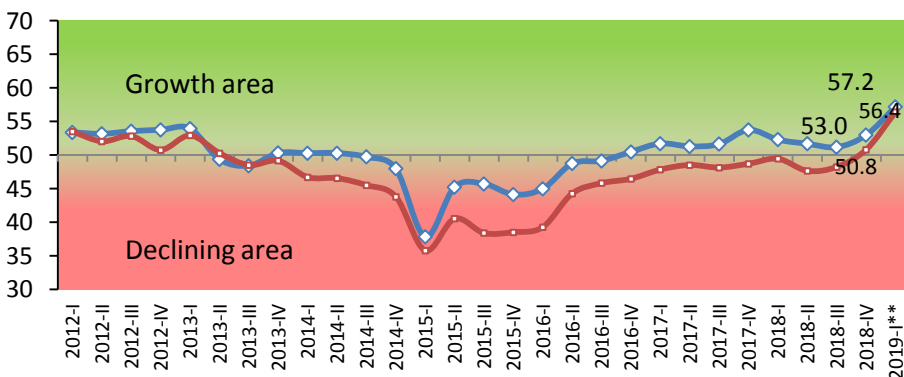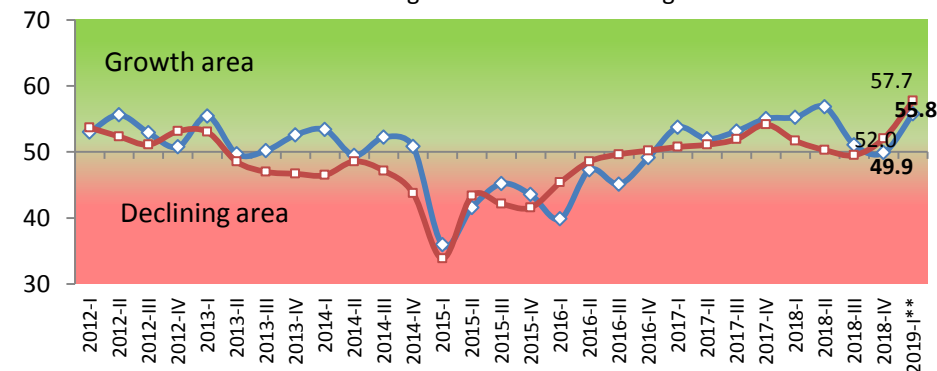
*Diffusion Index (seasonally adjusted). The higher (the lower) the DI deviates from 50, the higher (the lower) are the rates of growth (decline) in indicator; the level of 50 means the absence of any change
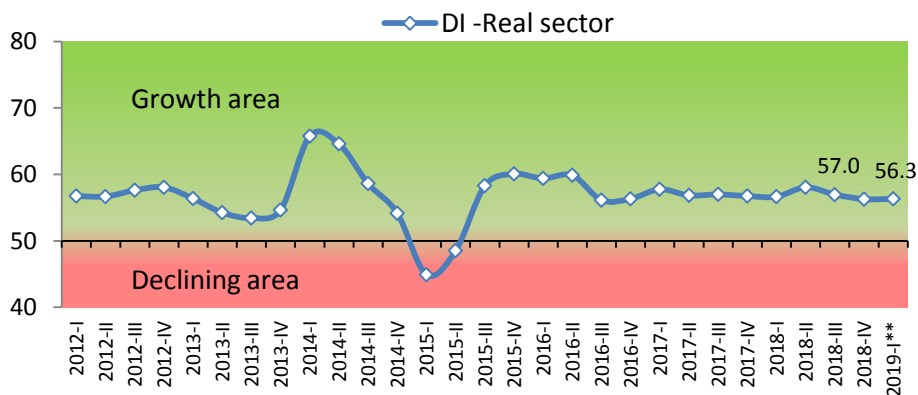
**The Figures show expectations of enterprises regarding the change in the parameter in Q1 2019.

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In Q4 2018, the growth rate of prices for final products slightly declined compared to previous quarter (DI=56,3), which is possibly due to a decrease in the growth rates of prices for raw materials (DI = 72). The slowdown in price growth rate was mainly in the mining industry.

In Q1 2019, the growth rates of the prices for final products are expected to keep unchanged even though growth rates of prices for raw materials are expected to decrease (DI = 56,3 and 66,5, respectively).
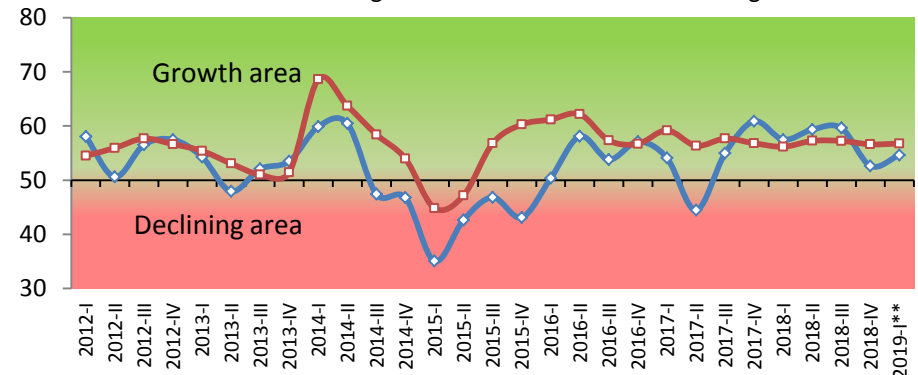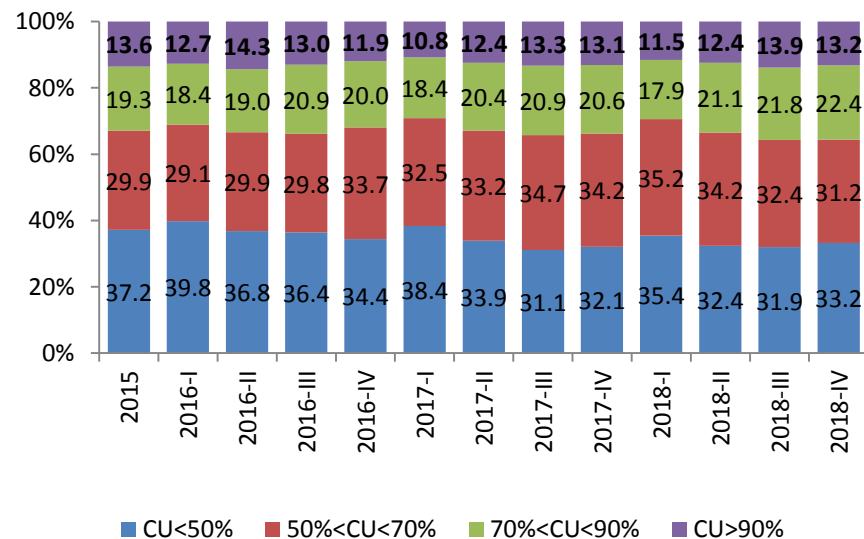

Prices for finished goods, DI*

Prices for raw materials, DI*
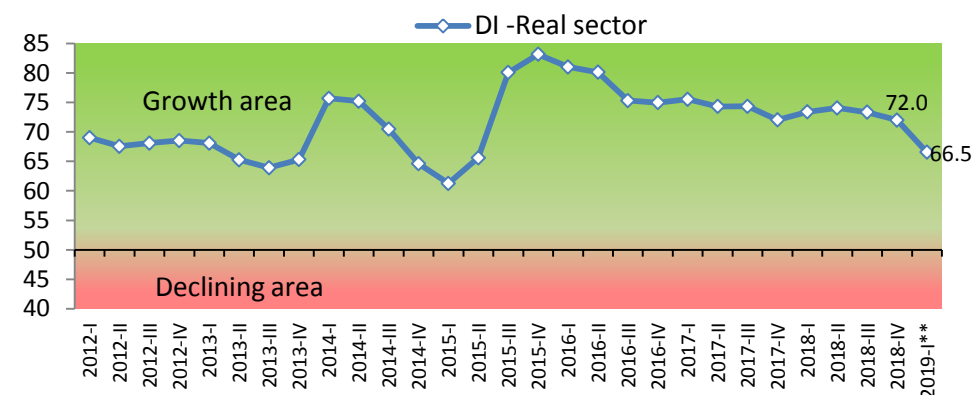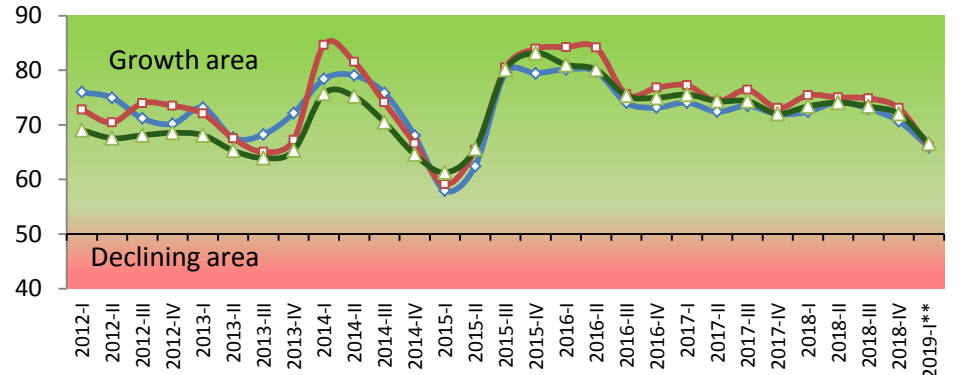
*Diffusion Index (seasonally adjusted). The higher (the lower) the DI deviates from 50, the higher (the lower) are the rates of growth (decline) in indicator; the level of 50 means the absence of any change
**The Figures show expectations of enterprises regarding the change in the parameter in Q1 2019.
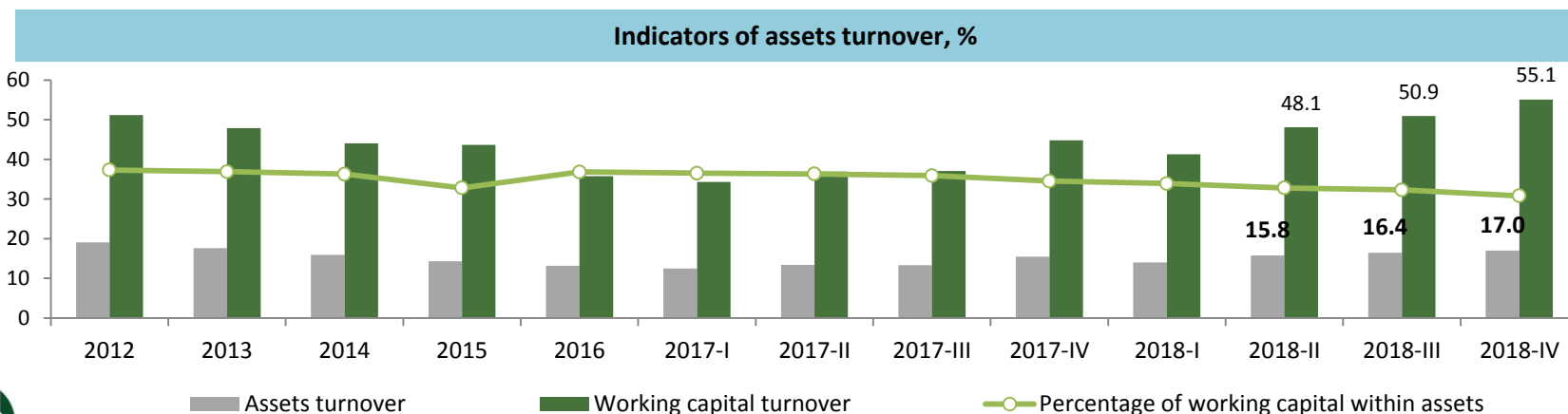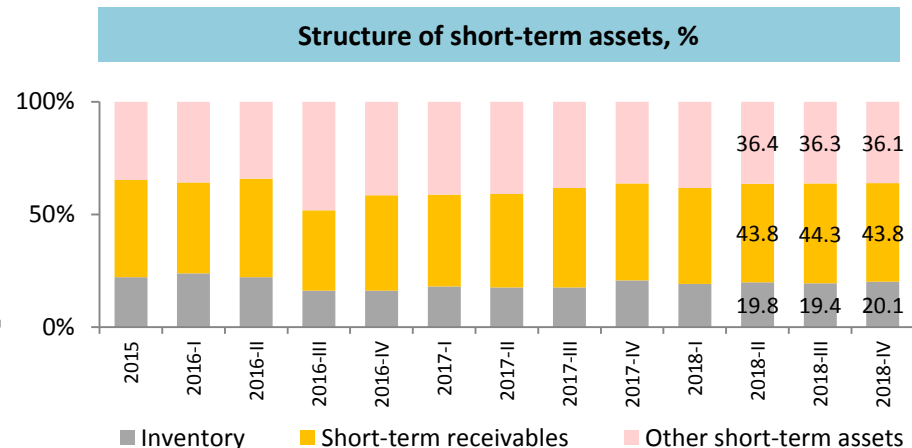
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In Q4 2018, there was no significant changes in the level of capacity utilization of enterprises. The share of enterprises with the capacity utilization more than 70% made up 35,6%. As a result, production volume in Q4 2018 kept unchanged (DI = 50,9).

In Q1 2019, enterprises intend to reduce production volume (DI= 47,2). According to the dynamics of the past years, it is explained by seasonality. It should be noted that decrease in the production volume in the beginning of the year becomes less critical.

Capacity utilization level
(share of respondents, %)

DI changes in production output
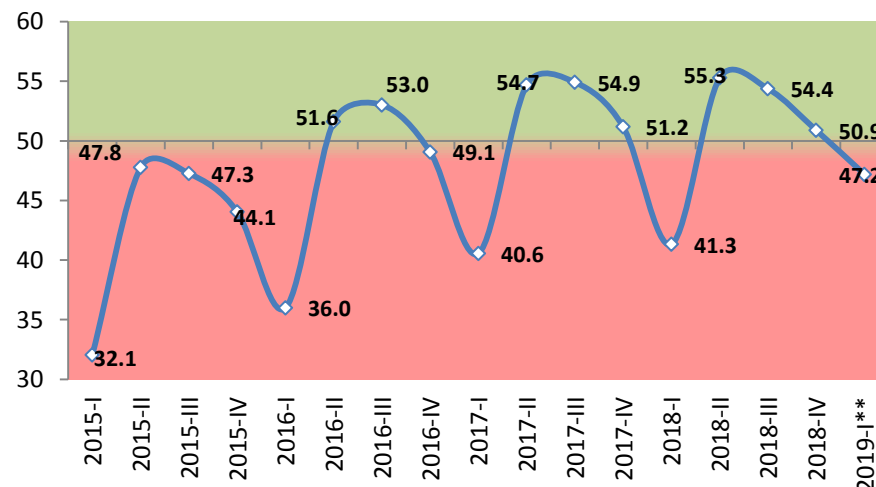
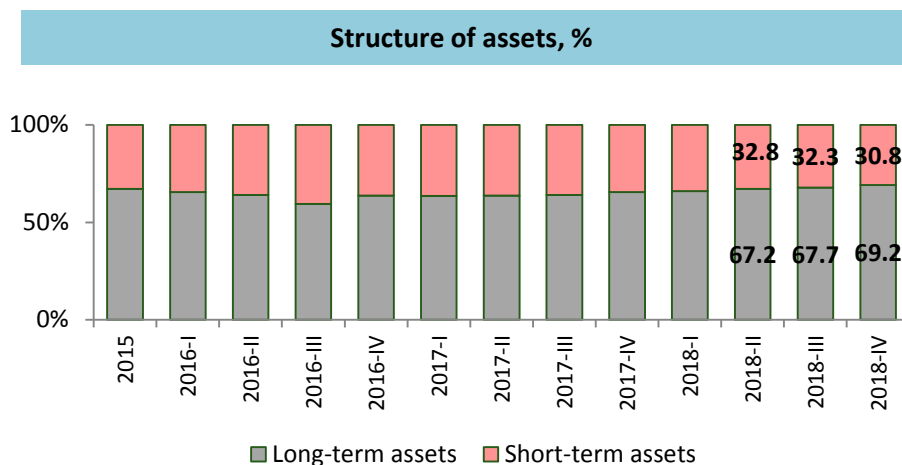CU<50%   50%<CU<70%   70%<CU<90%   CU>90%

*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 STRUCTURE OF BALANCE SHEETS: ASSETS

In Q4 2018, in the structure of assets the share of long-term assets increased and amounted to 69,2%, accordingly the share of short-term assets decreased to 30,8%.

Short-term receivables remain major component of the short-term assets, which amounted to 43,8% in Q4 2018. Other short-term assets made up 36,1%, inventories – 20,1%.

Asset turnover increased to 17%. Working capital turnover also showed an increase (up to 55,1%) while the share working capital in the assets of enterprises kept relatively stable.
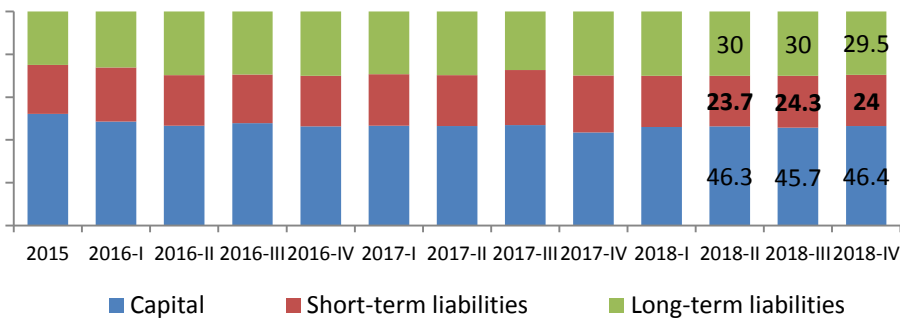
Structure of assets, %

Long-term assets ■ Short-term assets

Structure of short-term assets, %

■ Inventory ■ Short-term receivables ■ Other short-term assets

Indicators of assets turnover, %

■ Assets turnover ■ Working capital turnover ─○─ Percentage of working capital within assets

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In Q4 2018, the structure of liabilities did not change significantly: the share of equity capital made up 46,4%, the share of long-term liabilities – 29,5% and the share of short-term liabilities – 24%. In the structure of current liabilities, the share of short-term bank loans increased (from 17,1% to 19,1%), almost half of the short-term liabilities are short-term accounts payable.
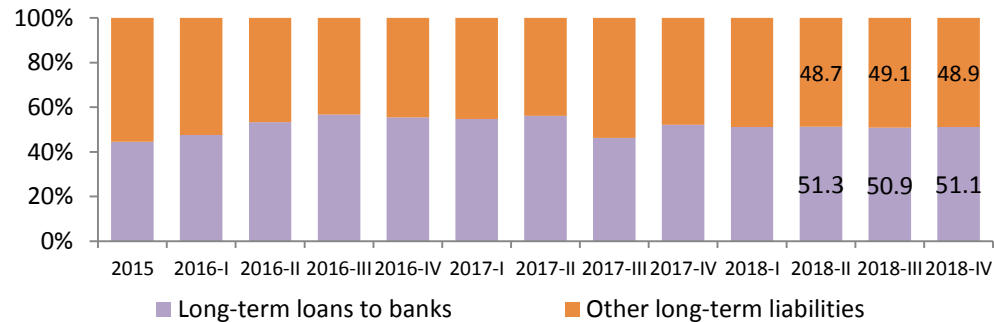
In the structure of long-term liabilities long-term bank loans make up more than half (51,1%).

The situation with arrears also had not changed a lot: the share of enterprises with the overdue accounts payables amounted 28,6%, the share of enterprises with the overdue accounts receivables – 21,8%, share of enterprises with the overdue bank loans - 3,0%.
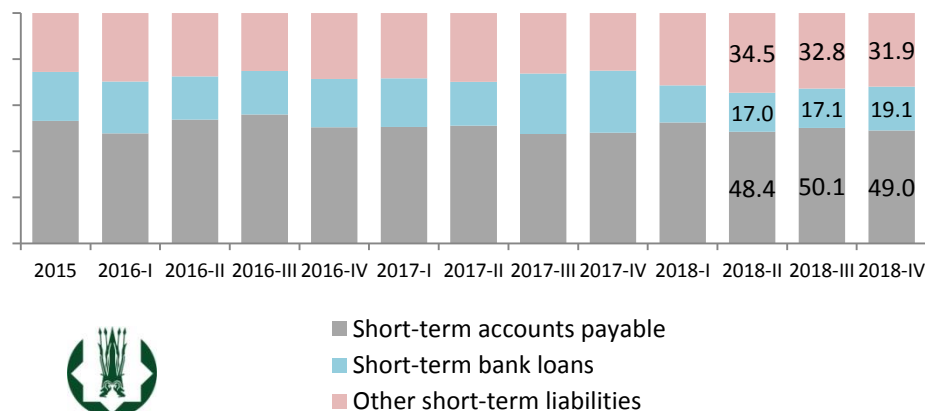
Structure of liabilities, %

- Capital
- Short-term liabilities
- Long-term liabilities

Structure of long-term liabilities

- Long-term loans to banks
- Other long-term liabilities

Structure of current liabilities, %

- Short-term accounts payable
- Short-term bank loans
- Other short-term liabilities

Percentage of enterprises with the past due, %


- Accounts receivable
- Accounts payable
- Bank loans

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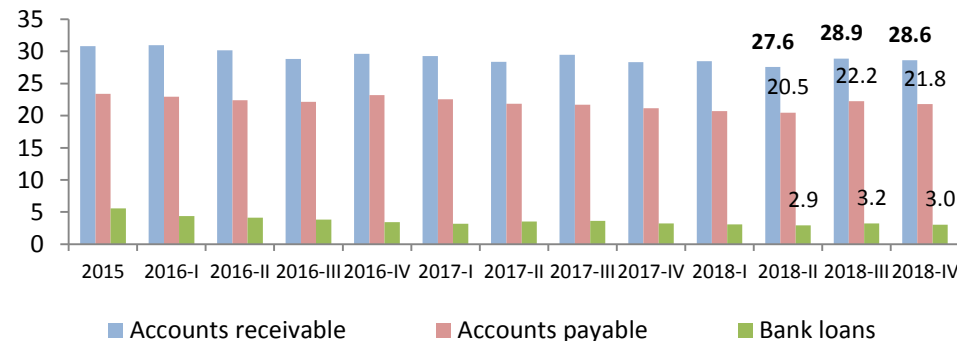
In Q4 2018 significant changes in the investment activity of enterprises were not noted. The share of enterprises that had not financed their fixed assets made 31,5%, those who had not financed current assets – 12,0%. Bank loans in financing the current assets were used by 15,7% of the enterprises, in financing fixed assets – 6,8% of the enterprises. Most companies use their own funds to finance fixed and current assets (65,2% and 83%, respectively).

The main factors that limit financing opportunities of enterprises are the shortage of financial resources (30,8% of the enterprises) and market competition from the side of other enterprises (24,5% of the enterprises).
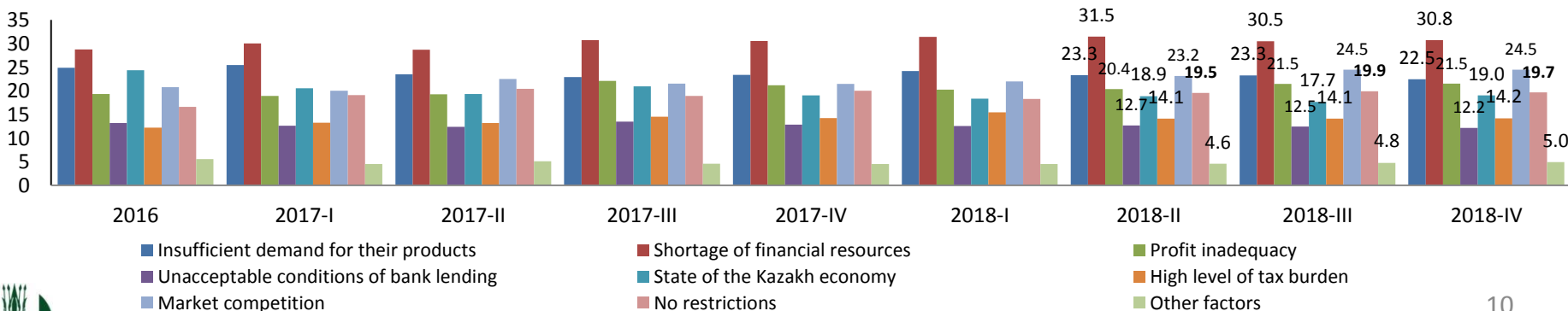

Funding source for fixed assets, %
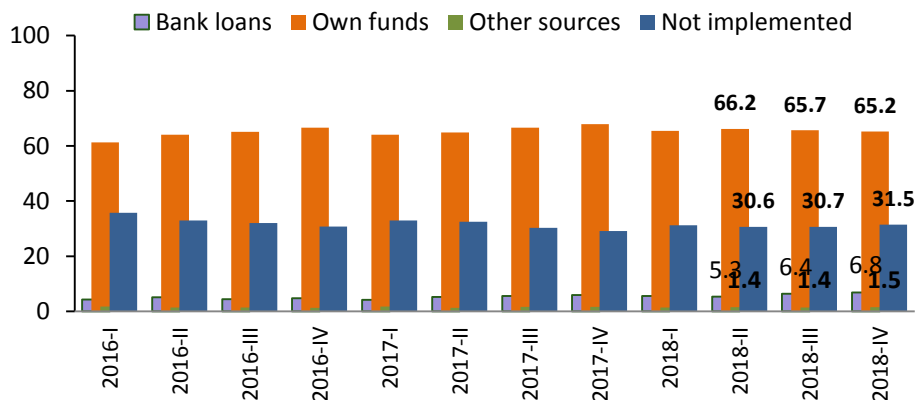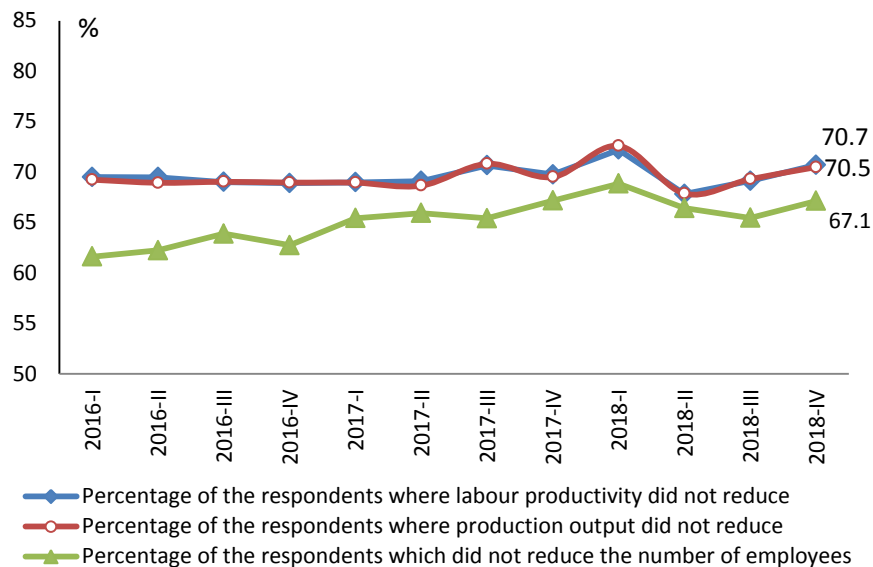
Funding source for current assets, %
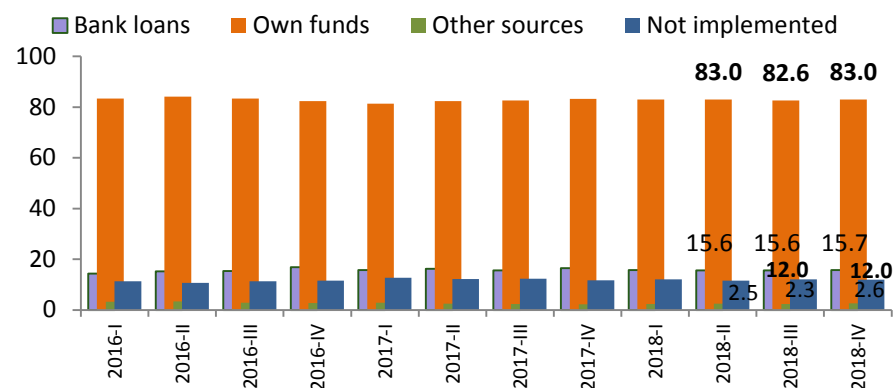
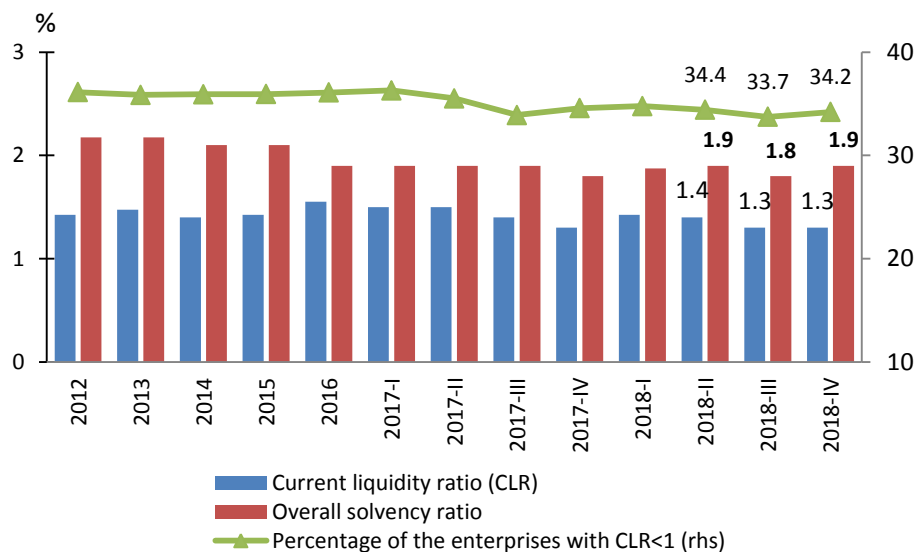**The main factors that limit financing opportunities of enterprises**

In Q4 2018 the share of enterprises, whose productivity, production volume and the number of employers did not reduce, increased (to 70,5%, 70,7% and 67,1%, respectively). This is explained by the improvement in the liquidity and solvency indicators of the enterprises, as well as the increase in the number of enterprises with high liquidity.

## Indicators of production performance

Legend:
- 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

Indicators of liquidity and solvency of enterprises

Legend:
- Current liquidity ratio (CLR)
- Overall solvency ratio
- Percentage of the enterprises with CLR<1 (rhs)

In Q4 2018, the return on sales* of enterprises slightly decreased from 41,5% to 40,6%. This is also shown by the decrease in the number of high profitable enterprises (36,4% of the respondents) and by increase in the number of loss-making and low-profitable enterprises (22,5% of the respondents). This dynamic mainly explained by the decrease of the return on sales in manufacturing from 35,5% to 31,2%.

Return on sales, in %
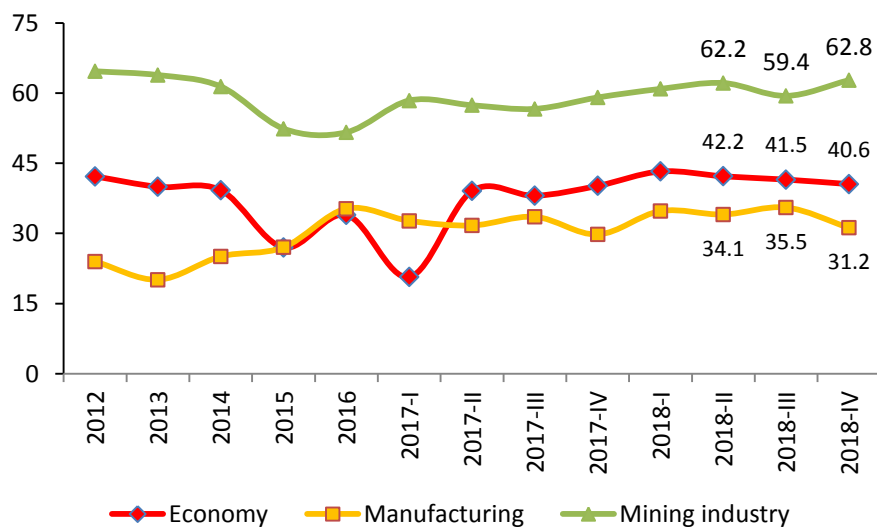
**Classification of enterprises in terms of return on sales (RS)**
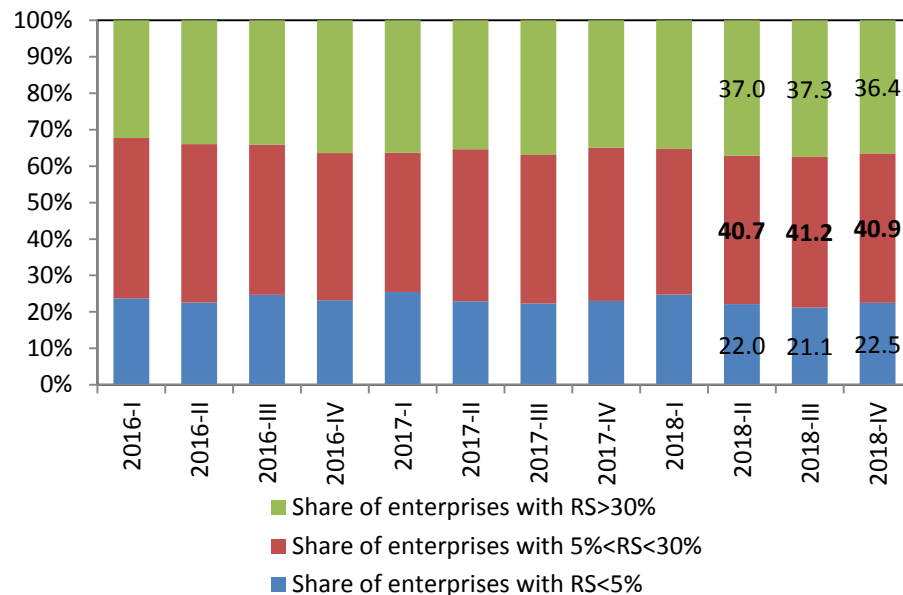
*Return on sales before deducting interest payments, taxes and depreciation

In Q4 of 2018 20,8% of the respondents applied for a bank loan, out of which 18,1% received the loan (87% the respondents applying for a loan). At the same time the number of denies decreased and amounted 12,9% of the respondents applying for a loan, or 2,7% of the all respondents in the sample.

In Q1 2019, 15,6% of the enterprises intend to apply for bank loans. In manufacturing their share is 20,3%, in mining – 11,8%.
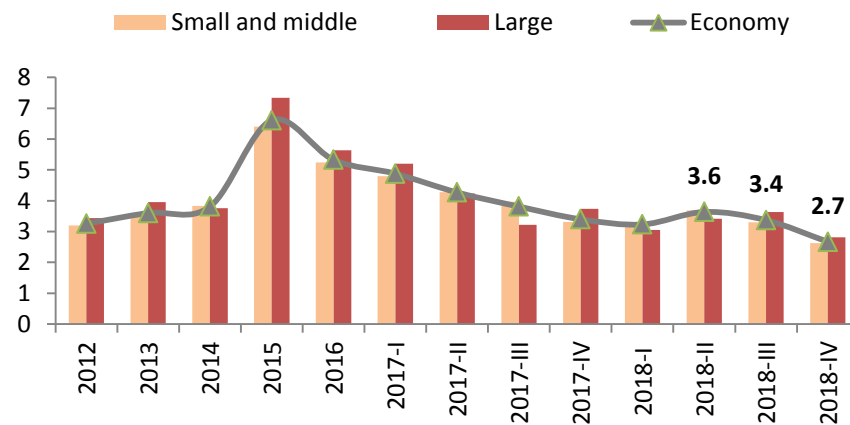
Demand for loans, %
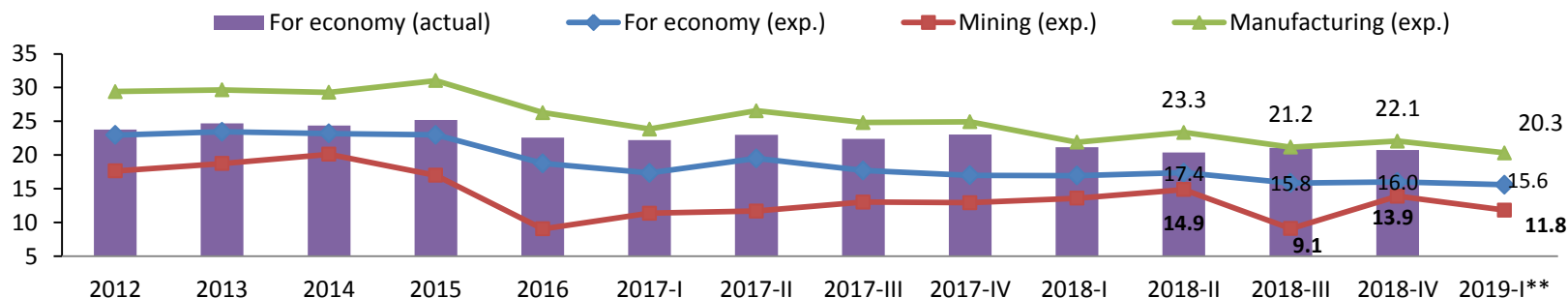
Consideration of applications for lending, answers in %
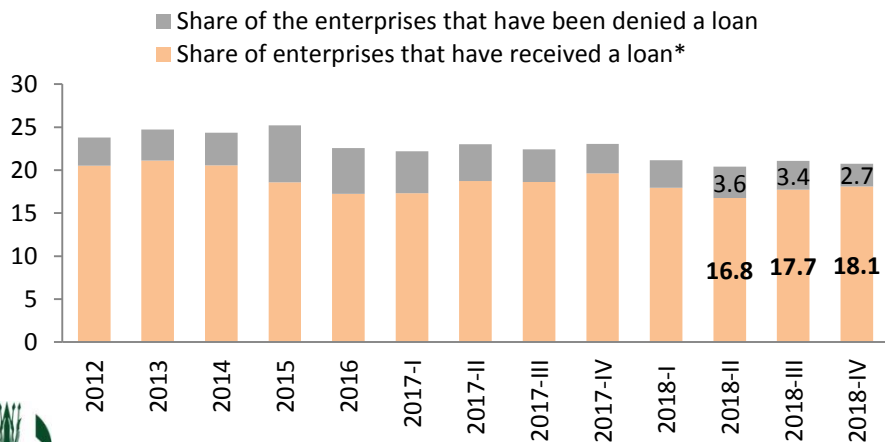
**Share of enterprises that have been denied for a loan,** answers in %

In Q4 2018, 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.
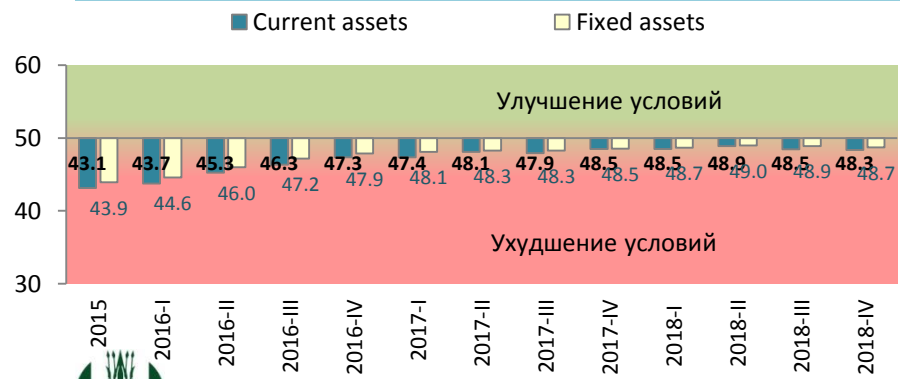
The gap between actual and acceptable interest rates for loans both in Tenge and foreign currency decreased due to the decline in the average actual interest rates for loans issued in Tenge and foreign currency to 12,8% and 6,7% respectively.

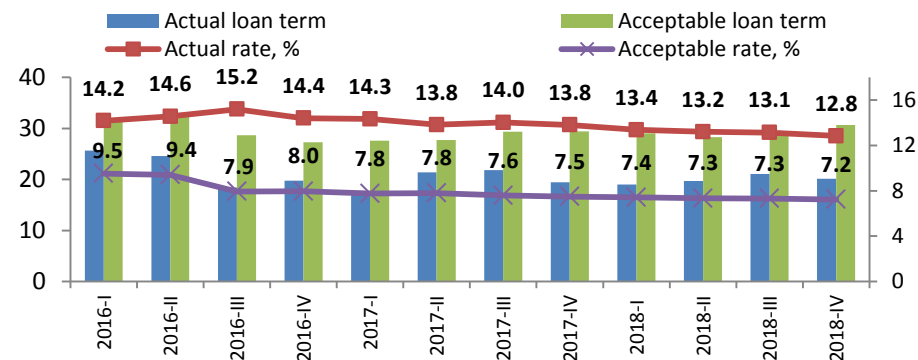## Changes in the conditions of lending
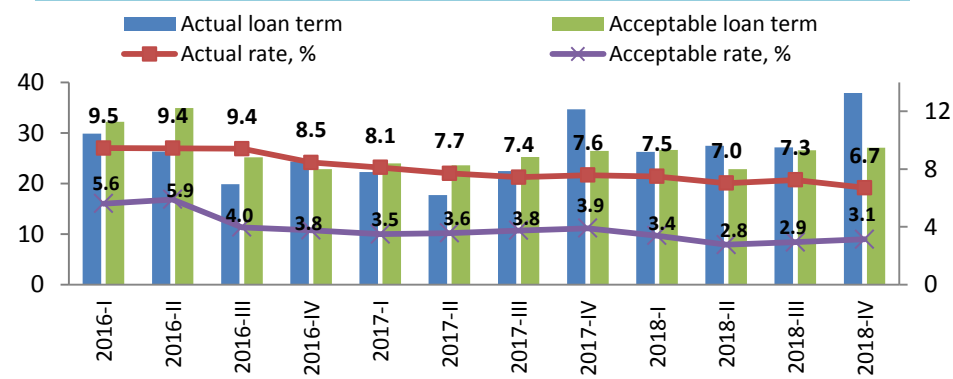
Price conditions
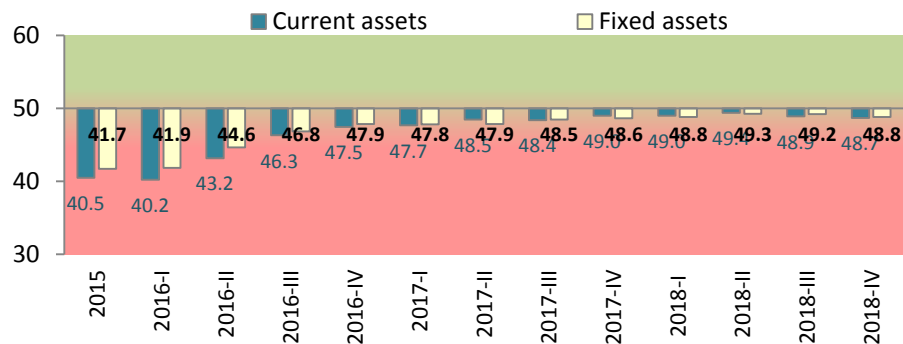
Non-price conditions

Loan rates and loan terms

### In tenge

In foreign currency

*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

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In Q4 2018 the impact of the exchange rate on the enterprises business conditions remained almost unchanged. As before most of the respondents (39,7%) indicate the negative impact of the fluctuation of the **Tenge/US dollar** exchange rate for their business. Negative impact from the **Tenge/Russian ruble** exchange rate noted by 32,4% of the respondents, from the fluctuation of **Tenge/Euro** exchange rate – by 24,8% of the enterprises in the sample.

In Q4 2018, 71,3% of enterprises used foreign currency in their settlements. The Russian ruble and the US dollar remain the main currencies used for settlements with foreign partners (54,4% and 46,3% of the respondents, respectively).

USD/KZT, answers in %

EUR/KZT, %

RUB/KZT, %
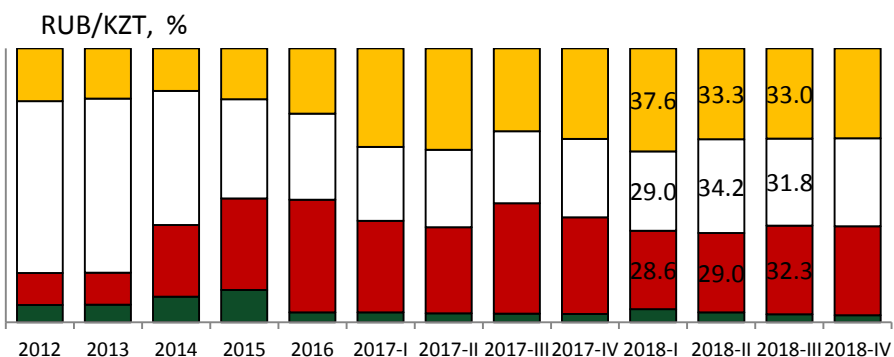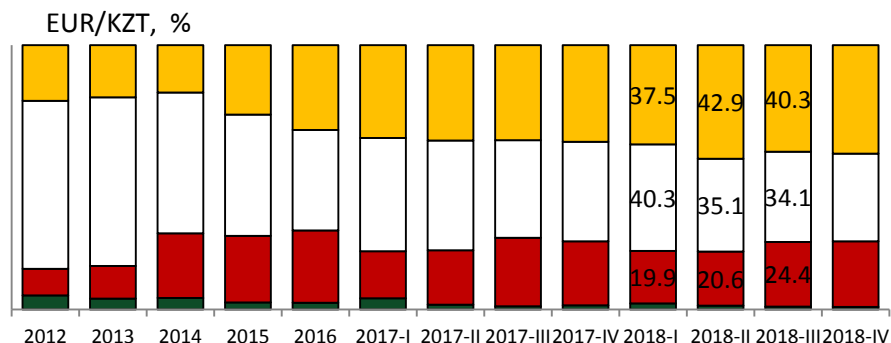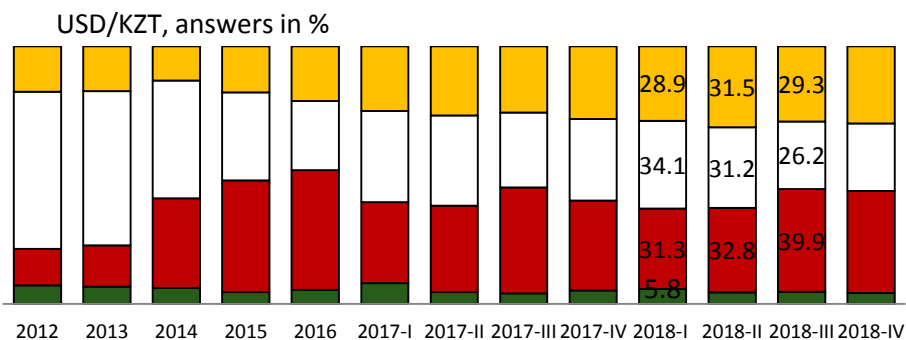
positive   **negative**   **no impact**   **I don't know**

Usage of foreign currency in settlements
(% by currency)

USD   EUR   CNY   RUB   no settlments   other currency

METHODOLOGICAL COMMENTS
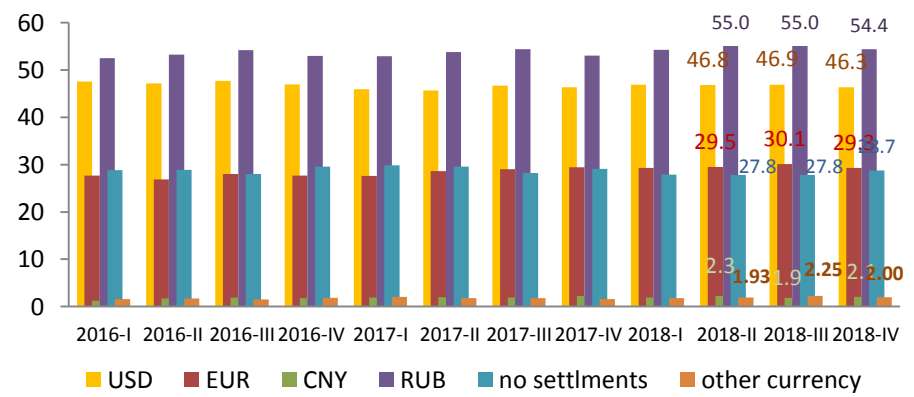
➢ The diffusion index (DI) as reflected in tables and in figures is calculated as a sum of positive responses and a half of "no change" responses. This index is a generalized indicator which characterizes the behavior of the reviewed indicator. If its value is above 50 – this means a positive change, 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)

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