



NATIONAL BANK OF KAZAKHSTAN

MARKET REVIEW  
Enterprise Survey in the Real  
Sector of the Economy  
Q2 2018

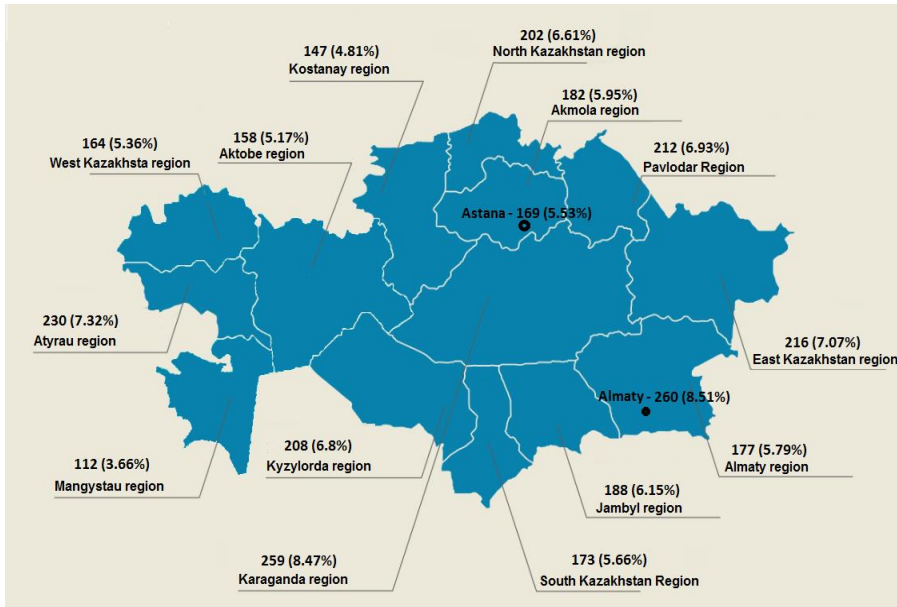
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# COMPOSITION OF ENTERPRISE SURVEY PARTICIPANTS

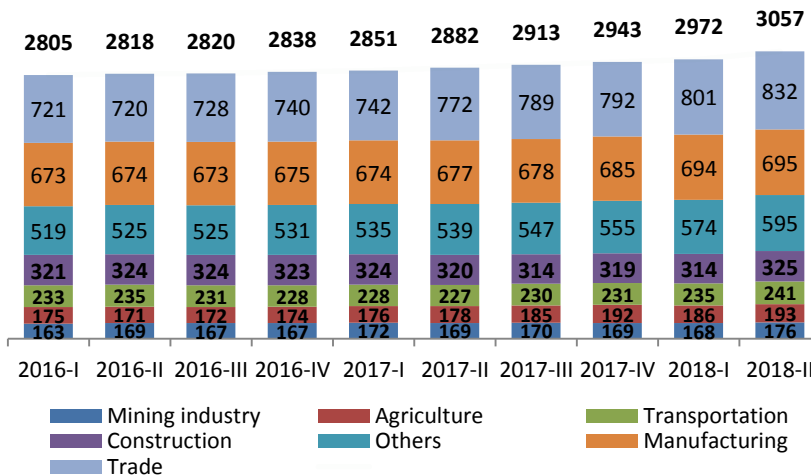
Regional structure of the enterprise survey participants in Q1 2018



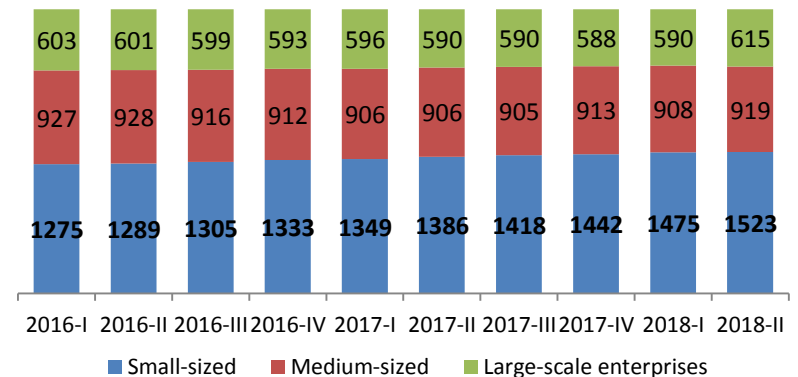
In Q2 of 2018 the number of respondents increased by 85, which is noticeably higher than before. Number of small-sized enterprises increased by 48, large-scale – by 26 and medium-sized by 11.

In the sectoral structure of the enterprises the biggest increase was noticed in trade (by 31) and construction (by 11).

Sectoral structure of the enterprises



Enterprise survey participants by size

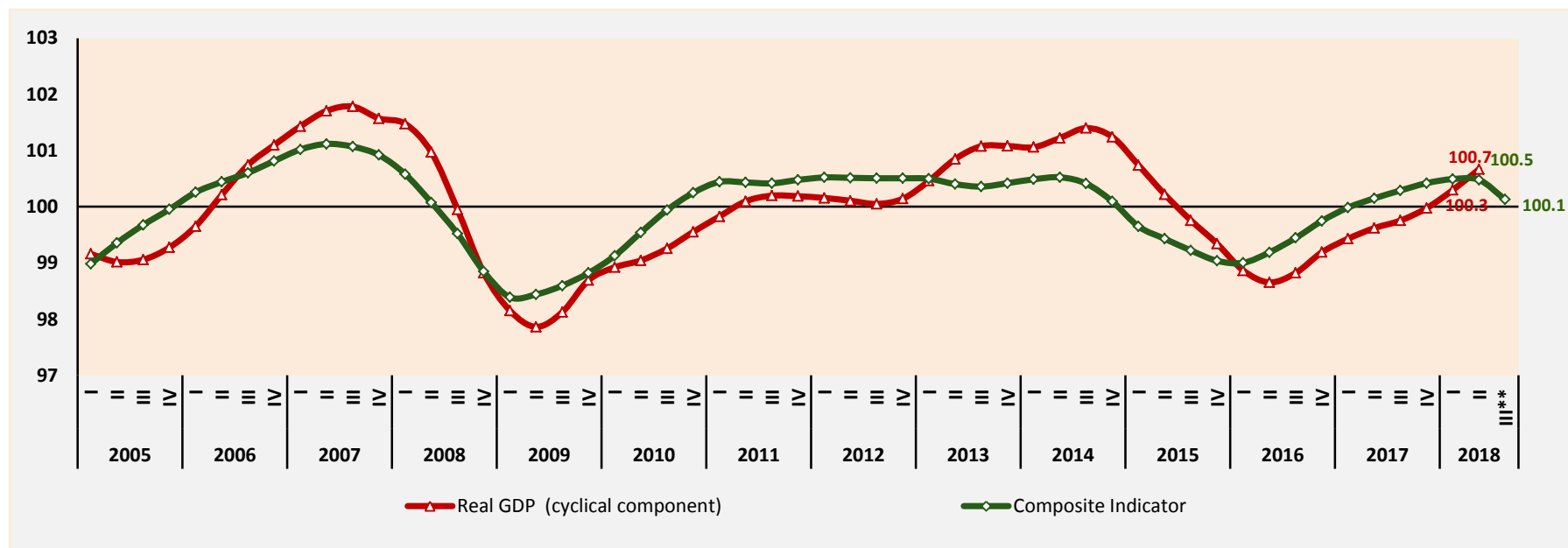


# COMPOSITE LEADING INDICATOR\*

In Q2 2018, the dynamics of the composite leading indicator – an aggregated estimate of the survey of enterprises – shows that economic activity in the real sector continues to recover.

The positive effect to the change of CLI was from the factors like increase in demand for goods, oil price improvement, average increase in return on sales of mining industry and decrease of the interest rates for loans in Tenge. At the same time the number of enterprises that have received a loan decreased.

In Q3 2018, enterprises expect slowdown in the improvement of the economic situation (CLI amounted to 100.1), which is related with the expected slowdown in the prices for final goods in economy and in consumer goods and services.



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

\*\* The CLI parameters for Q3 2018 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 Q2 2018, the demand in the real sector for final products continued increasing; the diffusion index (DI) made up 53,3. Demand *for goods* increased with higher rates (DI = 54,6), demand *for services* with lower rates (DI = 52,1).

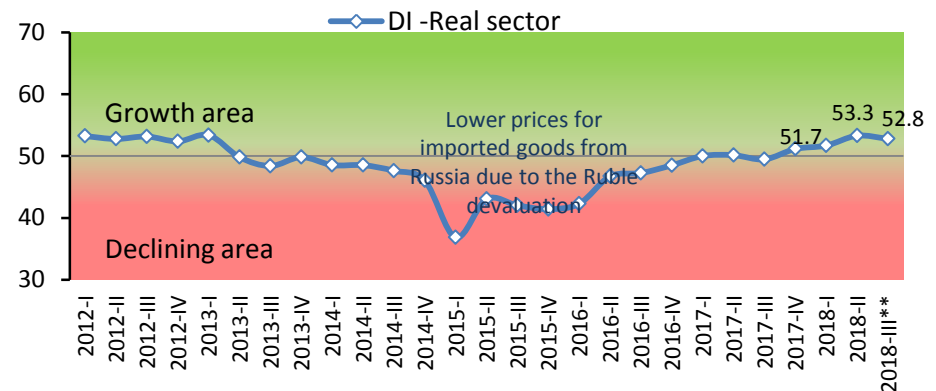
Mining companies pointed out notable increase in the demand for their production, while manufacturing companies noted that the demand for their goods is slowing down (DI amounted to 54,9 and 53, respectively).

In Q3 2018, enterprises expect same increase in the growth rates of the demand for final products (DI=52,8).

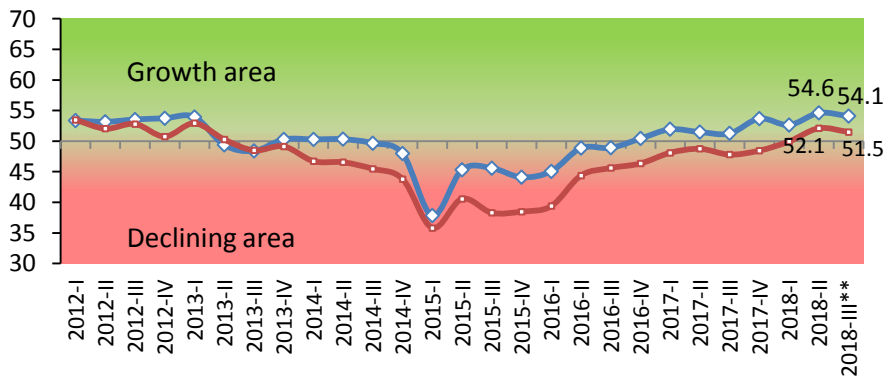
Demand for the finished goods, DI\*

Answers of enterprises, %		2017				2018		
		Q1	Q2	Q3	Q4	Q1	2 кв. **	3 кв. **
Increase	1	17.4	29.1	29.1	25.5	17.6	28.1	23.6
No changes	2	49.3	49.7	50.2	50.0	50.9	50.9	38.4
Decrease	3	33.3	21.2	20.7	24.4	31.4	20.8	8.7
Diffusion index, DI=line1+0.5*line2	4	42.1	53.9	54.2	50.5	43.0	53.5	42.7
DI, seasonal adjusted	5	50.4	49.6	49.7	51.2	51.6	53.3	52.8

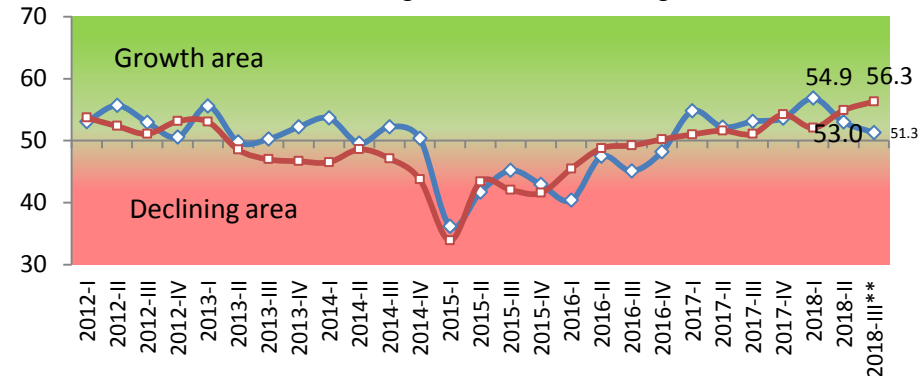
Demand for finished goods, DI \*



Production Services



Mining Manufacturing



\*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

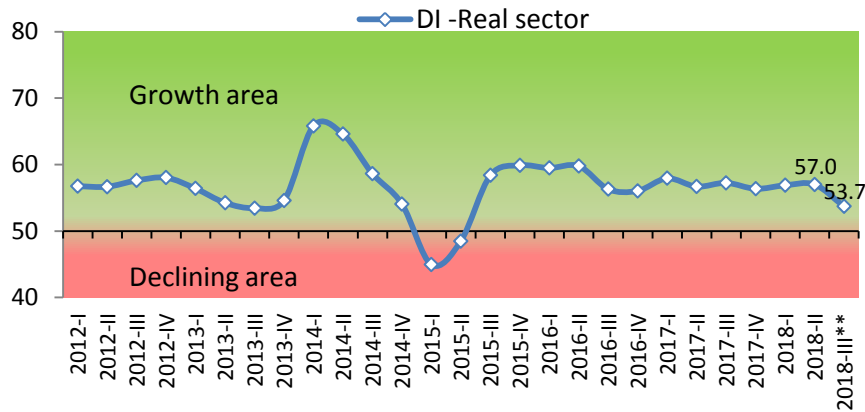
\*\*The Figures show expectations of enterprises regarding the change in the parameter in Q3 2018.

# CHANGES IN PRICES IN THE REAL SECTOR

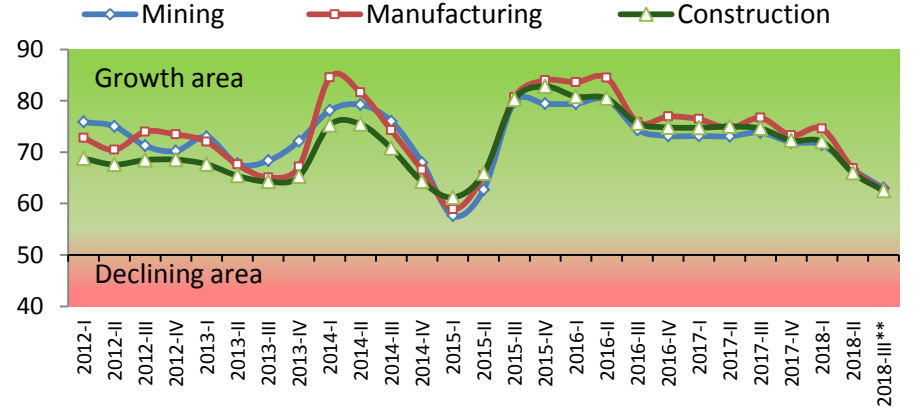
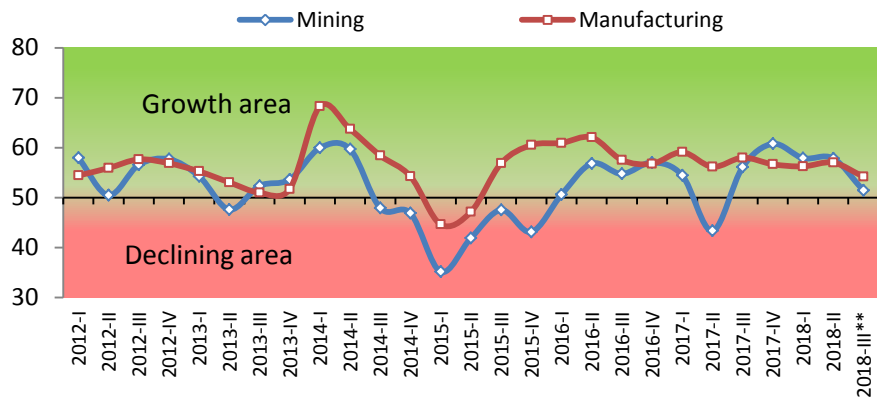
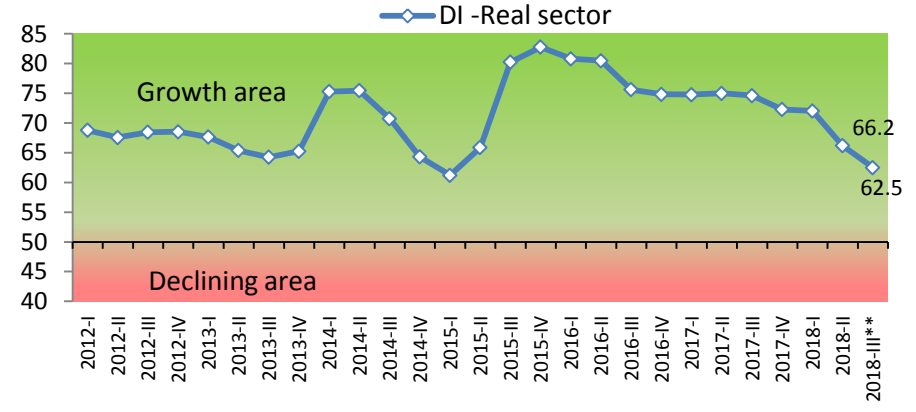
In Q2 2018, the prices for final products and for raw materials kept on rising by the same rates as in previous quarter (DI = 57). Despite the significant drop in the movement of growth rates, prices for raw materials rose with higher rates than the prices for final products (DI = 66,2).

In Q3 2018, the growth rates of the prices for final products and raw materials are expected to slow down (DI went down to 53,7 and 62,5, 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

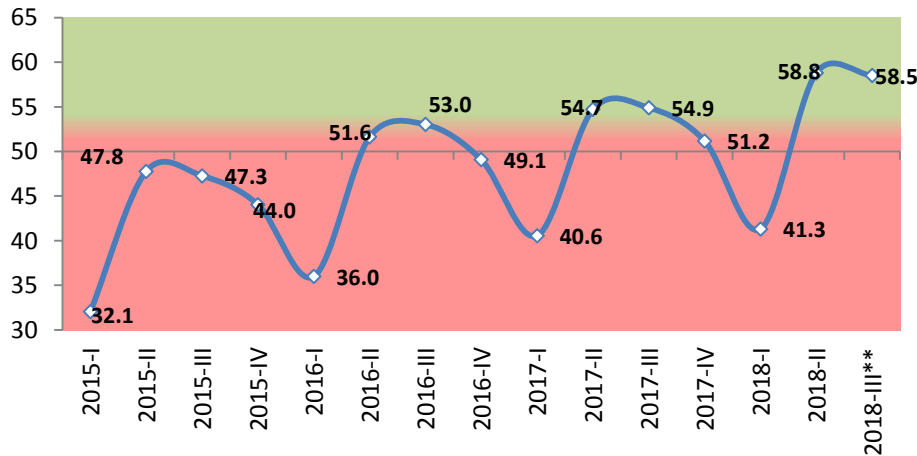
\*\*The Figures show expectations of enterprises regarding the change in the parameter in Q3 2018.

# CHANGE IN THE PRODUCTION OUTPUT

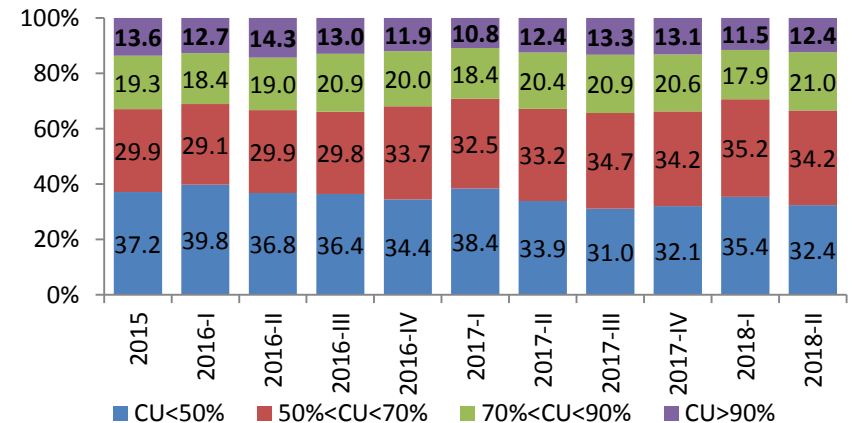
In Q2 2018, a recognizable increase in the production output was observed (DI = 58,8). Past movements show that this fluctuation have seasonal pattern. In Q3 2018 enterprises intend to increase the production output by the same rate (DI = 58,5).

In Q2 2018, the level of capacity utilization of enterprises increased. The share of enterprises with the capacity utilization more than 70% increased from 29,4% in Q1 2018 to 33,4% in Q2 2018. The highest level of capacity utilization was observed in mining industry, the lowest – in construction.

Changes in production output



Capacity utilization level  
(share of respondents, %)



\*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

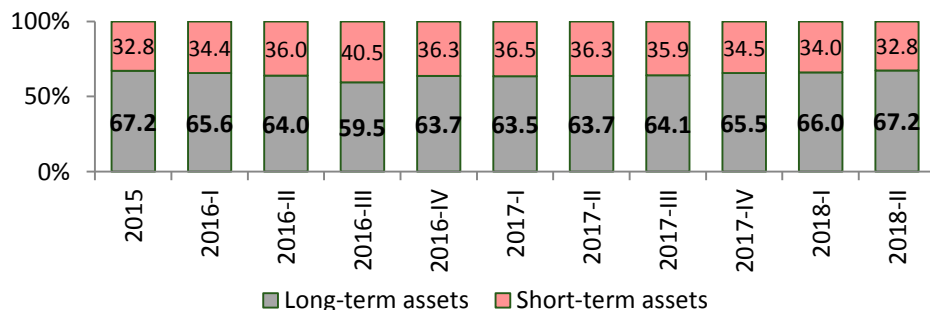
In Q2 2018, in the structure of assets the share of long-term assets made 67,2%, share of short-term assets – 32,8%.

In the structure of short-term assets prevalent majority is short-term receivables (44,1%). Other short-term assets made up 36,1%, inventories – 19,8%.

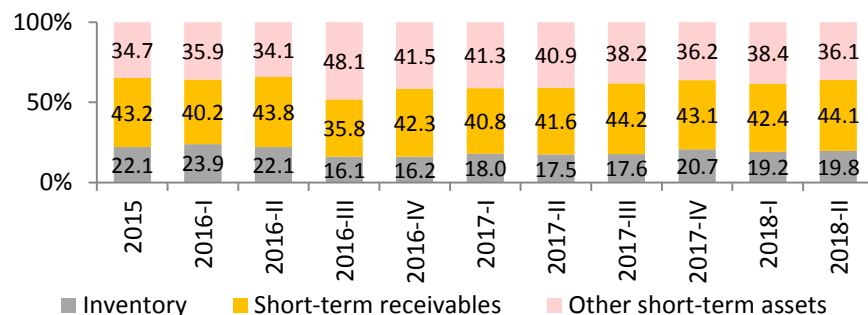
The volume of deposits held by enterprises in Q2 2018, in the economy decreased by lower rates than in the previous quarter (DI=49,6). In Q3 2018, enterprises expect a that the amount of deposits keep decreasing (DI=49,8).

Assets turnover significantly increased, making up 15,8%. Working capital turnover also showed a significant increase to 48,2%, while the share of short-term assets in enterprises' assets were relatively stable.

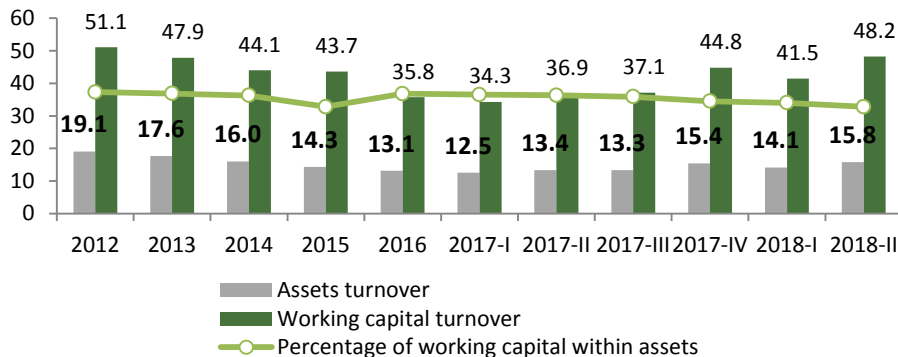
Structure of assets, %



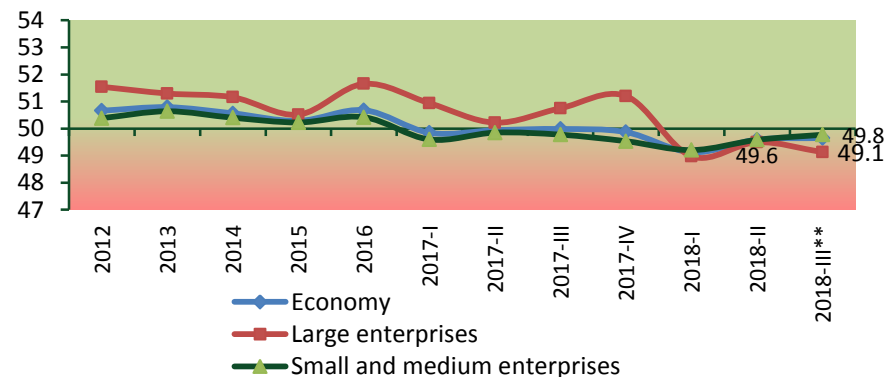
Structure of short-term assets, %



Indicators of assets turnover, %



Volume of the deposits, 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



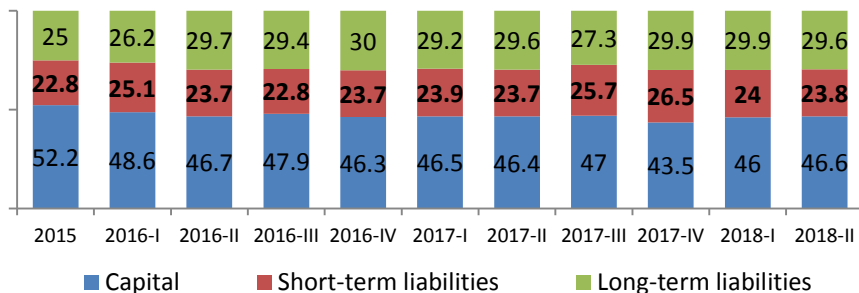
# THE STRUCTURE OF BALANCE SHEETS: LIABILITIES

In Q2 2018, the structure of liabilities did not change significantly: the share of equity capital made up 46,6%, the share of long-term liabilities -29,6% and the share of short-term liabilities – 23,8%. In the structure of current liabilities, the share of short-term accounts payables decreased (from 51,8% to 48,5%), the share of bank loans had not changed a lot (17%).

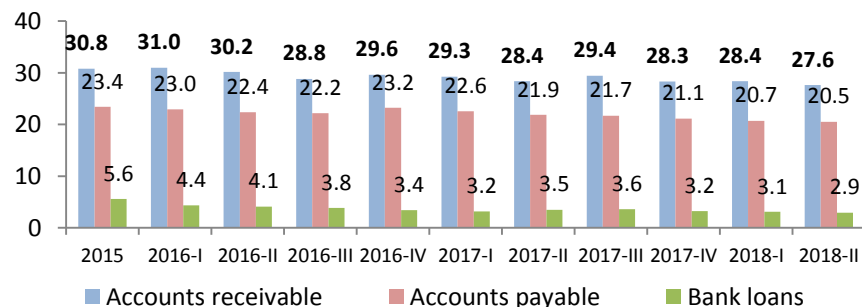
In the structure of long-term liabilities long-term bank loans make up more than 50,4%.

The situation with arrears improved slightly: the share of enterprises with the overdue accounts payables decreased to 27,6% (from 28,4% in Q1 2018), share of enterprises with the overdue bank loans slightly decreased – to 2,9%.

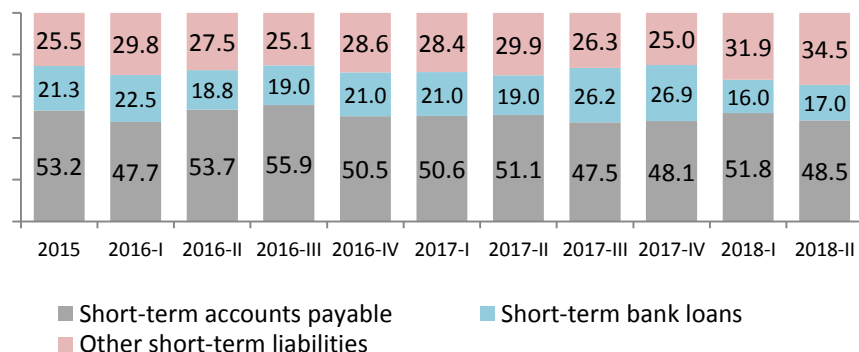
Structure of liabilities, %



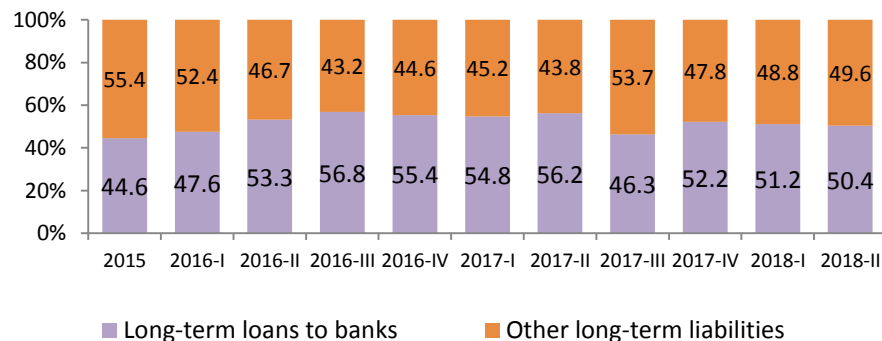
Percentage of enterprises with the past due, %



Structure of current liabilities, %



Structure of long-term liabilities

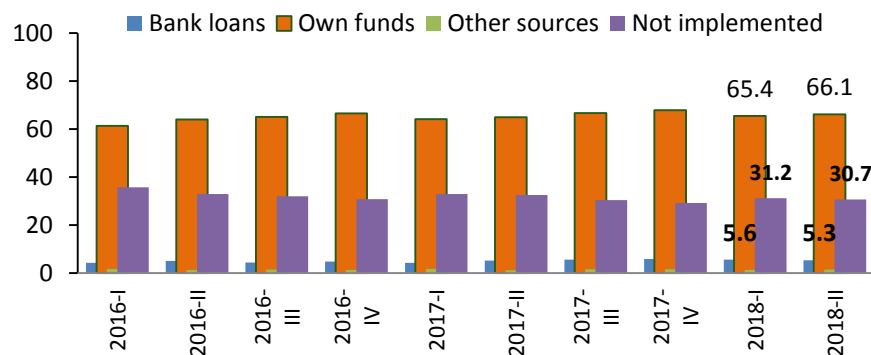


# INVESTMENT ACTIVITY

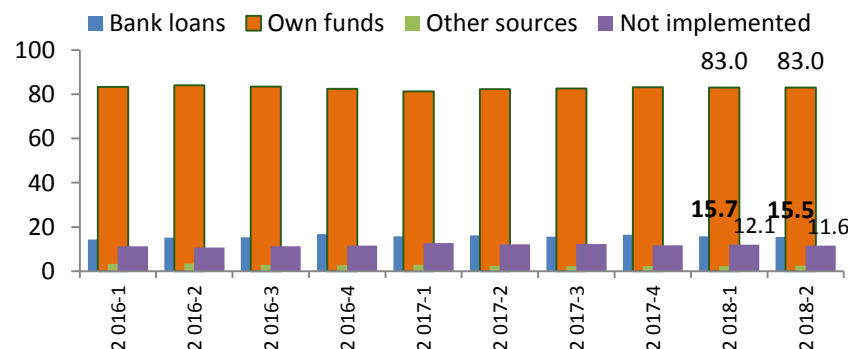
In Q2 2018, the investment activity of enterprises had not changed a lot. Most of the enterprises financed their fixed assets and current assets using their own funds (66,1% and 83%, respectively). The bank loans were used to finance the *current assets* by 15,5% of the respondents, and 5,3% of the respondents – to finance their *fixed assets*.

The main factors that limit financing opportunities of enterprises are the shortage of financial resources (31,5% of the enterprises), insufficient demand for their products (23,3%), and market competition from the side of other enterprises (23,2%).

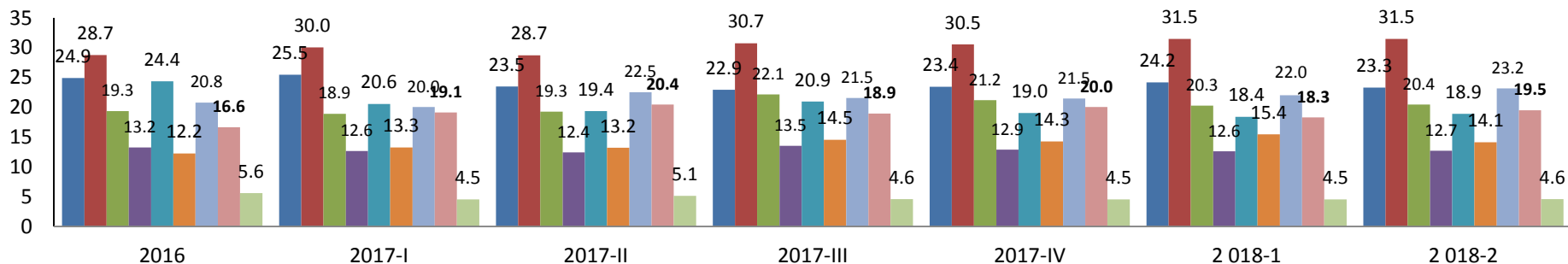
Funding source for fixed assets, %



Funding source for current assets, %



The main factors that limit financing opportunities of enterprises



■ Insufficient demand for their products  
 ■ Unacceptable conditions of bank lending  
 ■ Market competition

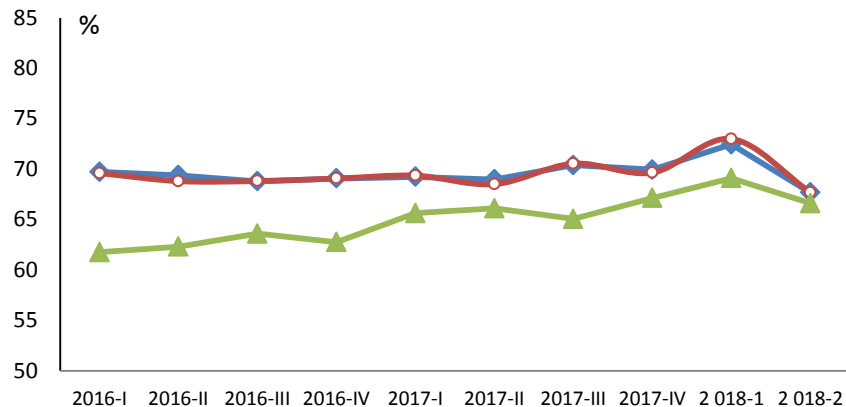
■ Shortage of financial resources  
 ■ State of the Kazakh economy  
 ■ No restrictions

■ Profit inadequacy  
 ■ High level of tax burden  
 ■ Other factors

# CHANGE IN THE FINANCIAL AND ECONOMIC PERFORMANCE

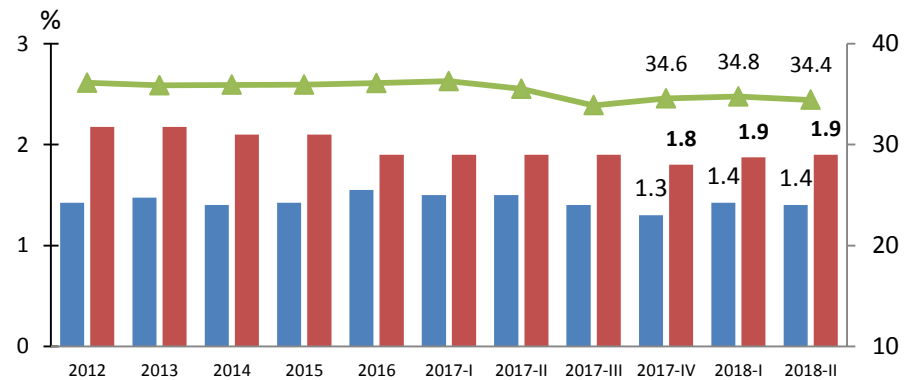
Despite the stable liquidity and solvency indicators, the production performance indicators showed decrease in Q2 of 2018. The share of enterprises, which did not reduce the production output and the labor productivity, decreased to 67,7%, 66,6% and 67,7%, respectively.

Indicators of production performance



- ◆ 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



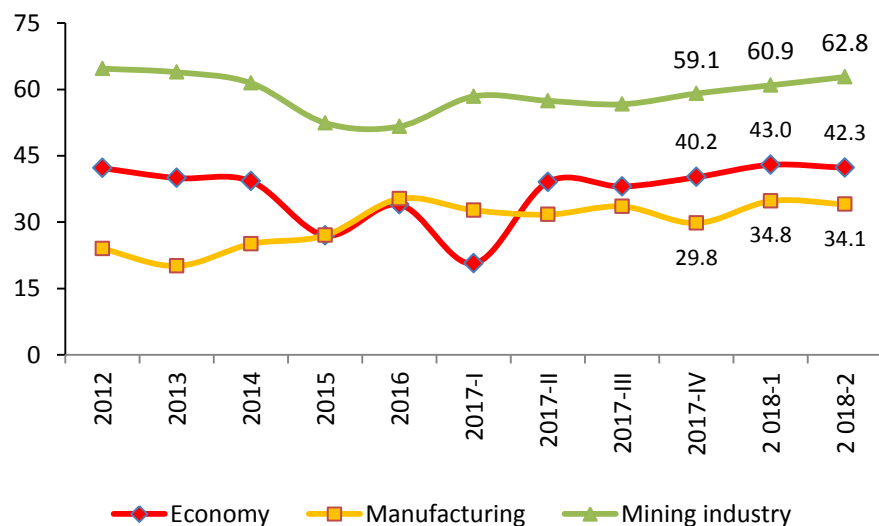
- Current liquidity ratio (CLR)
- Overall solvency ratio
- ▲ Percentage of the enterprises with CLR < 1 (rhs)



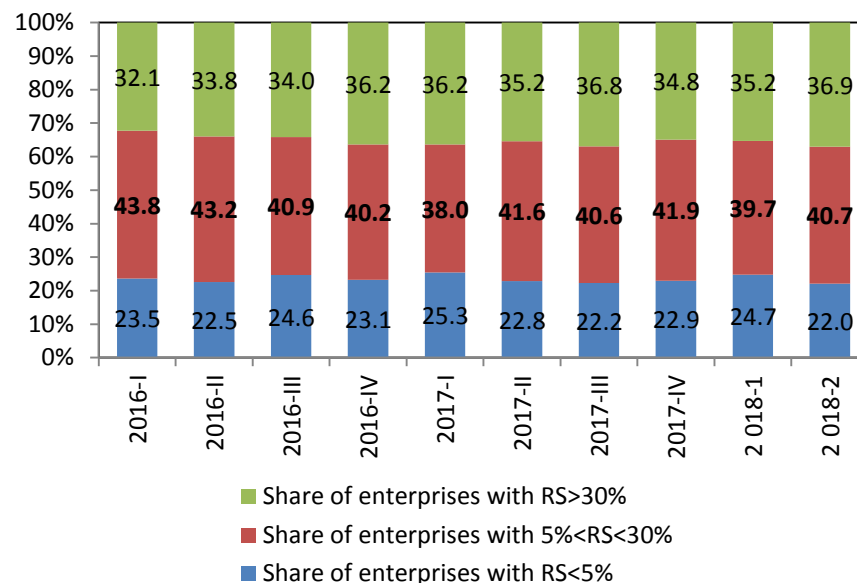
# CHANGE IN THE FINANCIAL AND ECONOMIC PERFORMANCE

In Q2 2018, the return on sales\* of enterprises slightly decreased from 43% to 42,3%. This fluctuation is mainly explained by the decrease of return on sales in the manufacturing industry from 34,7% to 34,1%. However, in Q2 2018, the share of highly profitable enterprises increased from 35,2% to 36,9%, and the share of loss-making and low-profitable enterprises decreased from 24,7% to 22%, which might be related with increase in the average return on sales in mining industry (to 62,8%).

Return on sales, in %



Classification of enterprises in terms of return on sales



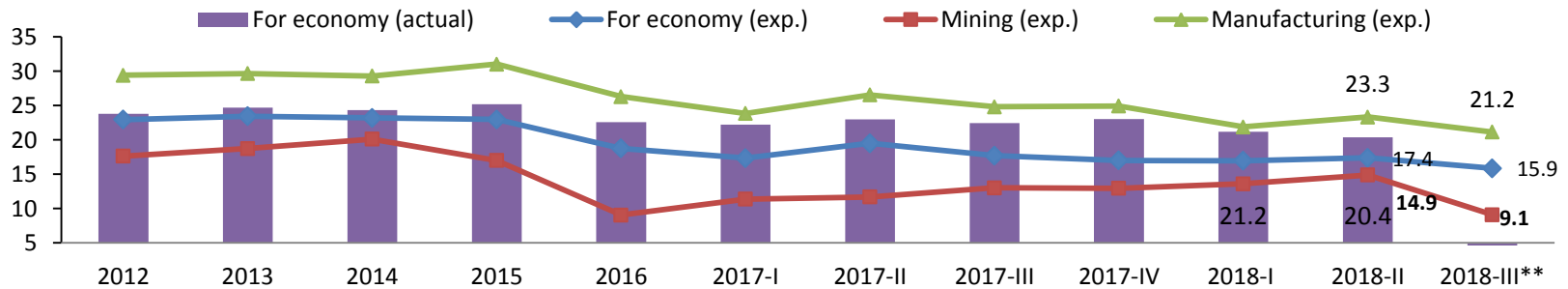
\*Return on sales before deduction of interest payments, taxes and depreciation

# IMPACT ON THE REAL SECTOR OF THE ECONOMY BY THE BANKING SYSTEM

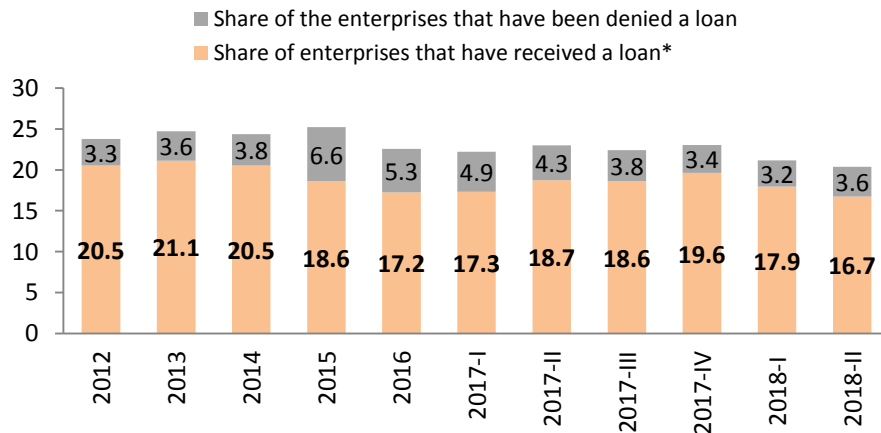
In Q2 of 2018, the demand of enterprises for bank loans slightly decreased. In Q2 2018, 20,4% of the enterprises applied for a bank loan, and 81,8% of them obtained loans (16,7% out of the all respondents). The number of the enterprises, which have been denied a loan also decreased, which affected large companies as well as small and middle enterprises.

In Q3 2018, the demand for bank loans is expected to decline. 15,9% of the enterprises intend to apply for bank loans. In manufacturing their share is 21,2%, in mining 9,1%.

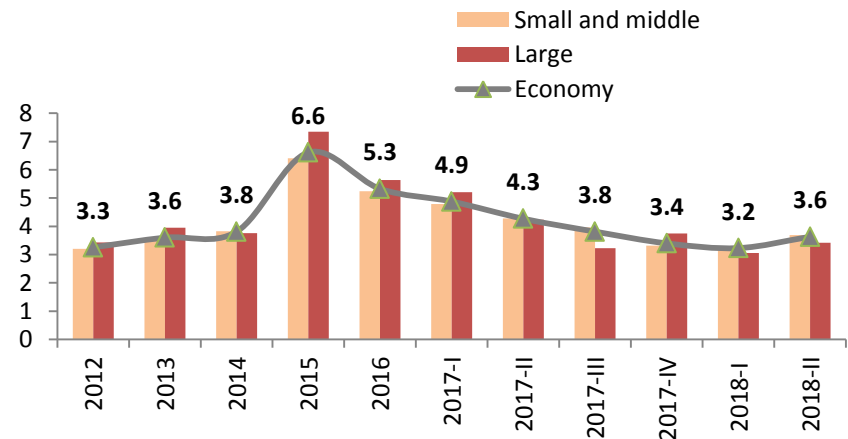
**Demand for loans, %**



**Consideration of applications for lending, answers in %**



**Share of enterprises that have been denied for a loan, answers in %**



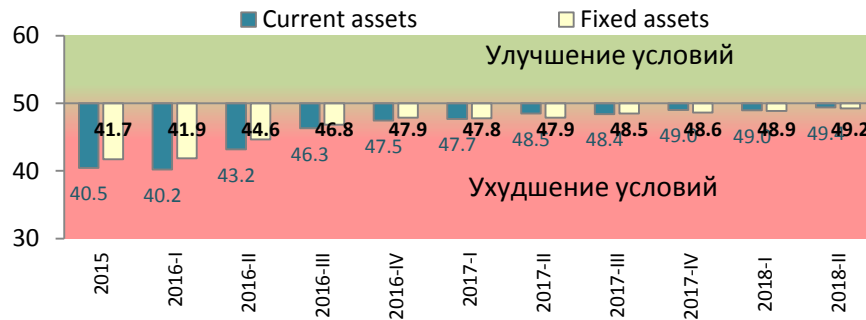
# IMPACT ON THE REAL SECTOR OF THE ECONOMY BY THE BANKING SYSTEM

In Q2 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 decreasing.

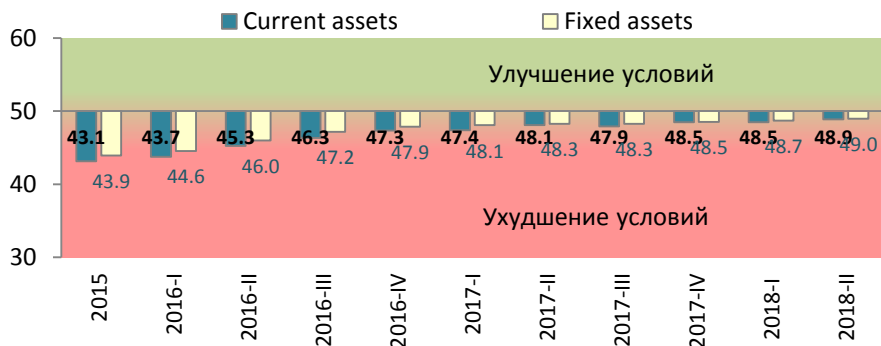
The gap between actual and acceptable interest rate for loans had not changed a lot, both in Tenge and in foreign currency loans. Average interest rates for loans in foreign currency decreased (to 7%), at the same time acceptable interest rates also decreased (to 2,8%). Actual average interest rates in tenge made 13,2%, acceptable interest rates – 7,3%.

Changes in the conditions of lending

## Price conditions

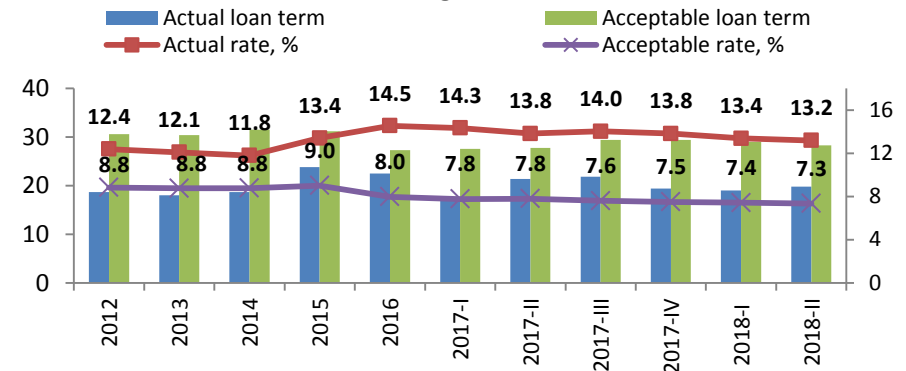


## Non-price conditions

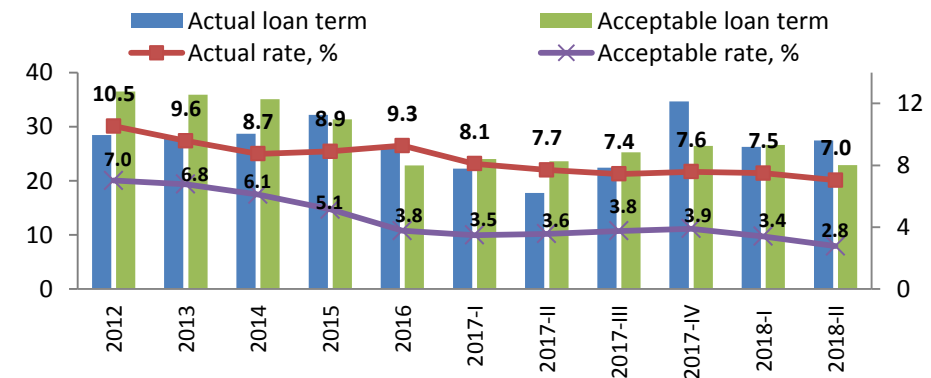


Loan rates and loan terms

## In tenge



## In foreign currency

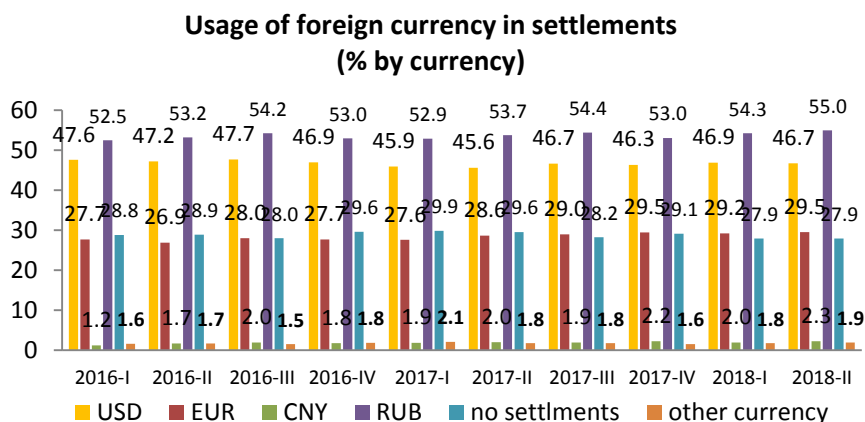
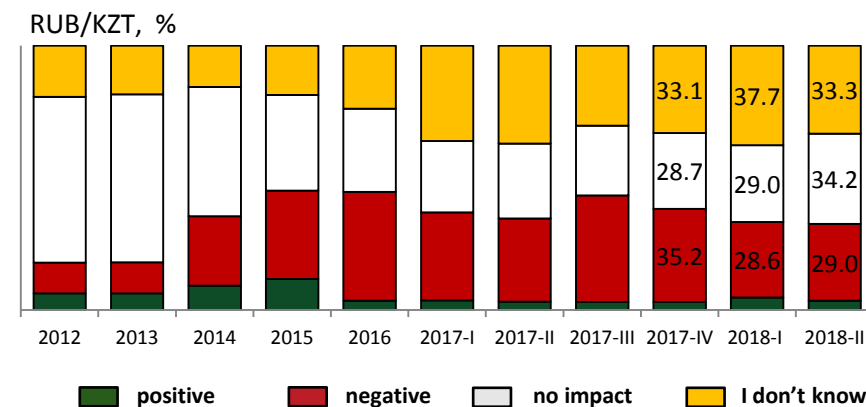
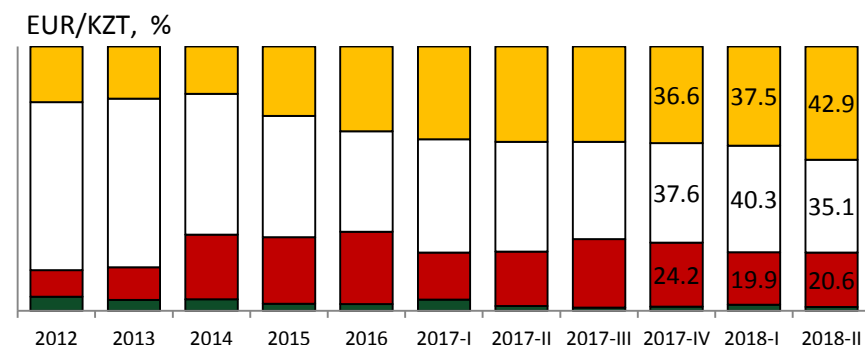
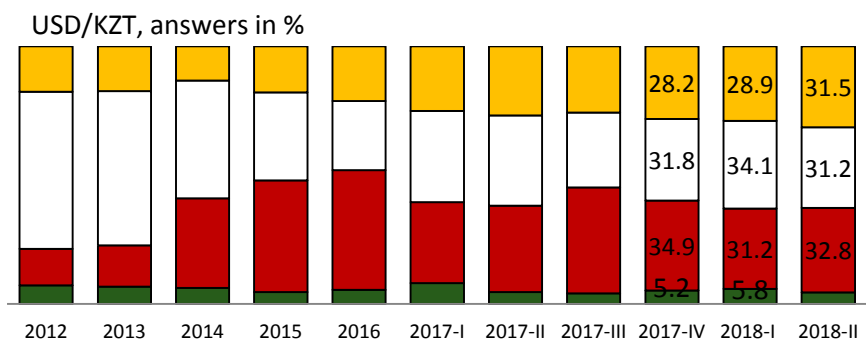


\*Diffusion Index (seasonally adjusted). The higher (the lower) the DI deviates from 50, the higher (the lower) are the rates of growth (decline) in indicator; the level of 50 means the absence of any change

# IMPACT OF CHANGES IN THE EXCHANGE RATE

According to the results of the survey of enterprises in the real sector of economy in Q2 2018 the negative impact of the exchange rate on the enterprises increased. The share of enterprises indicating the negative impact from the fluctuation of the Tenge/US dollar exchange rate increased from 31,2% in Q1 2018 to 32,8% in Q2 2018, from the fluctuation of Tenge/Euro ruble exchange rate – from 19,9% to 20,6% and from Tenge/Russian exchange rate – from 28,6% to 29%, respectively.

In Q2 2018, 72,1% of enterprises used foreign currency in their settlements. The US dollar (55% of respondents) and the Russian ruble (46,7% of respondents) remain the main currencies.



# 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 nature; 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)

