



NATIONAL BANK OF KAZAKHSTAN

MARKET REVIEW
Enterprise Survey in the Real
Sector of the Economy
Q4 2017

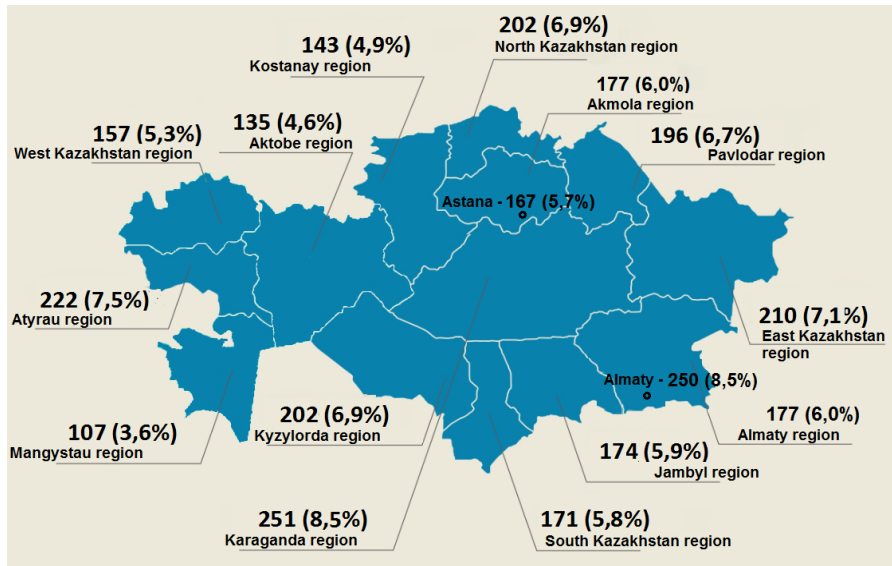
CONTENTS

- I. **Composition of Enterprise Survey Participants (page 3)**
- II. **Composite Leading Indicator (page 4)**
- III. **Demand for Final Products (page 5)**
- IV. **Price Changes in the Real Sector (page 6)**
- V. **Change in the Production Output (page 7)**
- VI. **The Structure of a Balance Sheet: Assets (page 8)**
- VII. **The Structure of a Balance Sheet: Liabilities (page 9)**
- VIII. **Change in the Financial and Economic Performance (pages 11-12)**
- IX. **Impact on the Real Sector of the Economy by the Banking System (pages 13-15)**
- X. **Impact of Changes in the Exchange Rate (page 16)**
- XI. **Methodological Comments (page 17)**



COMPOSITION OF ENTERPRISE SURVEY PARTICIPANTS

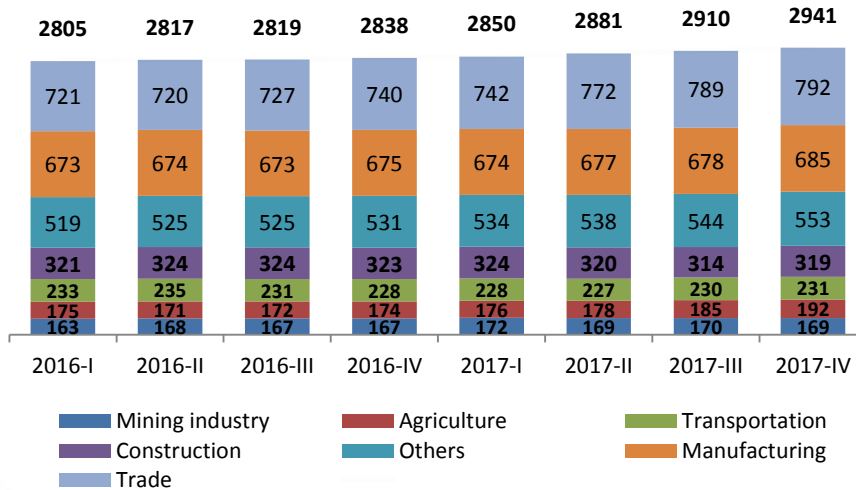
Regional structure of the enterprise survey participants in Q3 2017



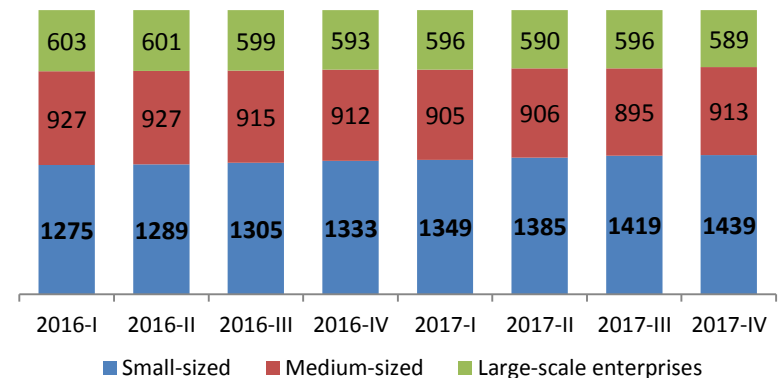
In Q4 of 2017 the number of respondents increased by 31.

The structure of the enterprises changed for benefit of the small and medium-sized enterprises.

Sectoral structure of the enterprises



Enterprise survey participants by size

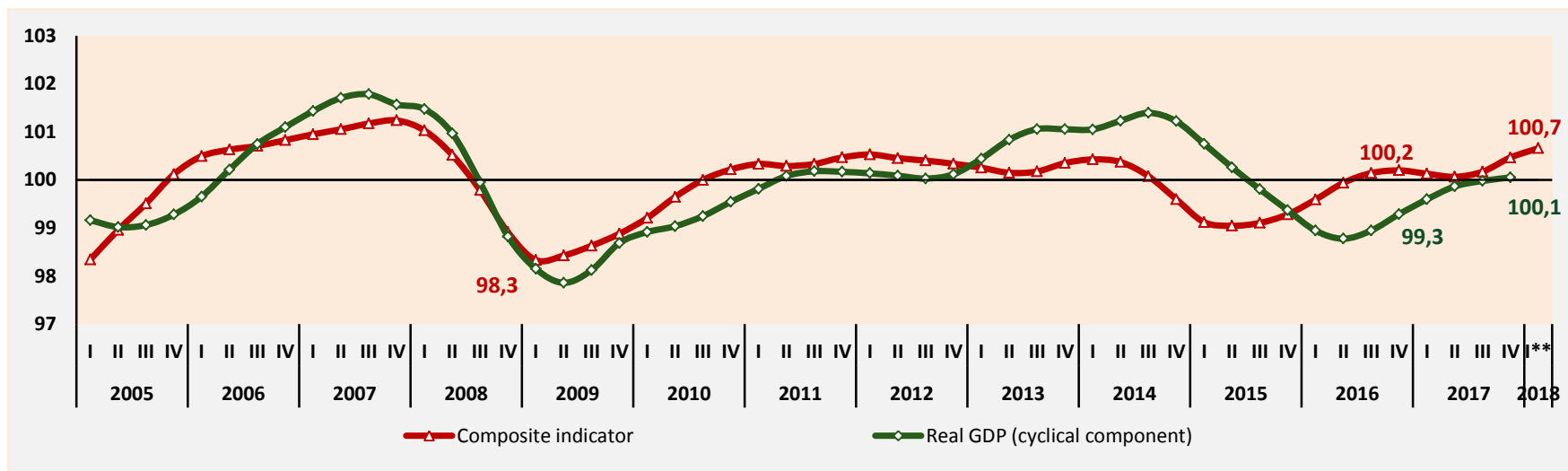


COMPOSITE LEADING INDICATOR*

In Q4 2017, 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, which is facilitated by further improvement of external demand and increase in the output volume of the industries.

Growth in demand for final products in Q4 2017 is indicated by enterprises in mining, manufacturing industry, agriculture, transport and producers of consumer goods and services. Respondents also note a slowdown in the growth rates of prices for final goods and raw materials, output volume growth, increase in assets turnover and a decrease in the interest rate on loans in foreign currency. However, despite the relative improvement in lending conditions in the reporting quarter, the main source of financing of current and fixed assets is own funds of enterprises.

In Q1 2018, enterprises expect further improvement of the economic situation (CLI amounted to 100.7), which is evidenced by high indicators of the expected level of demand for final goods in all sectors of economy and a slowdown in price increase of 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 Q4 2017 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

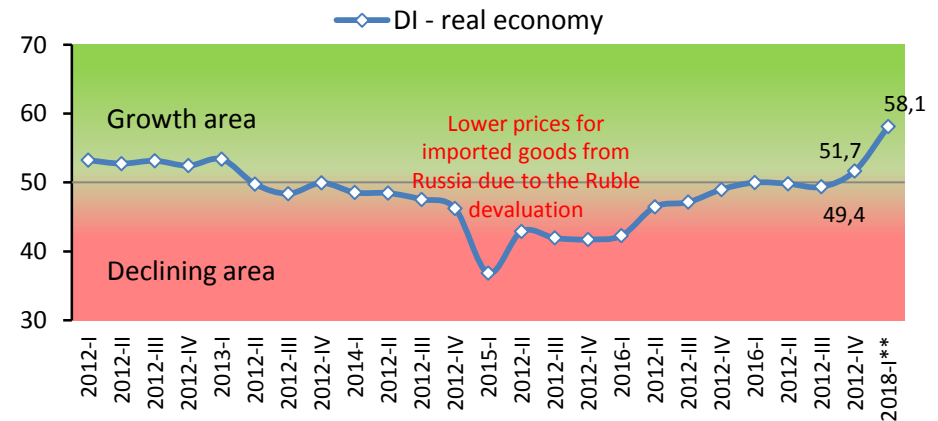
In Q4 2017, the demand in the real sector for final products showed a slight increase; the diffusion index (DI) increased from 49,4 to 51,7. Demand *for goods* increased (DI increased from 51,1 to 54,2), demand *for services* showed a little improvement, but still is in the negative area (DI increased from 48,0 to 48,6). In the mining and manufacturing industries the demand for final products went up (DI amounted to 53,2 and 55,2, respectively).

In Q1 2018, enterprises expect an increase in the growth rates of the demand for final products (DI=58,1).

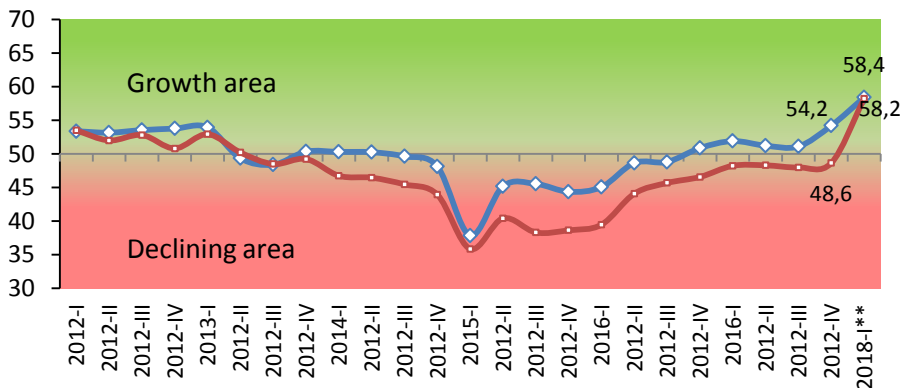
Demand for the finished goods, DI*

		2017				2018
Answers of enterprises, %		Q1	Q2	Q3	Q4	Q1 exp.
Increase	1	17.4	29.1	29,1	25.4	15.0
No changes	2	49.3	49.7	50,2	50.1	38.5
Decrease	3	33.3	21.2	20,7	24.4	17.2
Diffusion index, DI=line1+0.5*line2	4	42.1	53.9	54,2	50.5	48.9
DI, seasonal adjusted	5	50.0	49.2	49.4	51.7	58.1

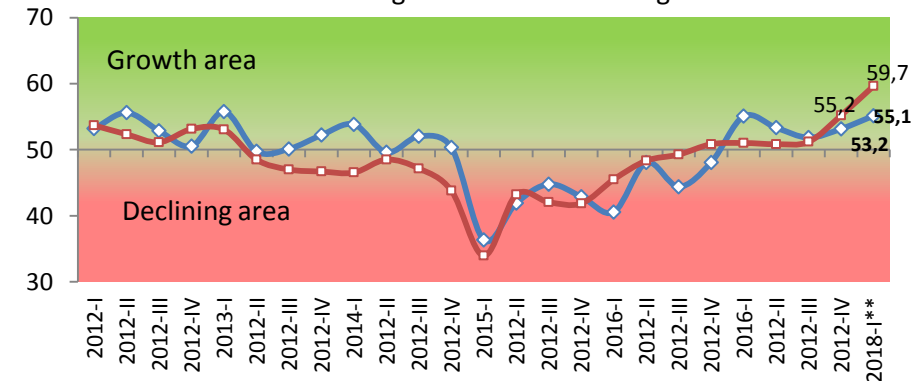
Demand for finished goods, DI *



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

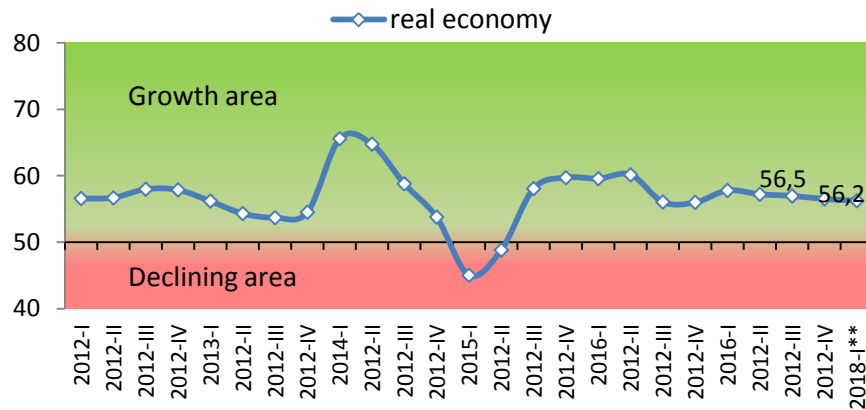
**The Figures show expectations of enterprises regarding the change in the parameter in Q4 2017.

CHANGES IN PRICES IN THE REAL SECTOR

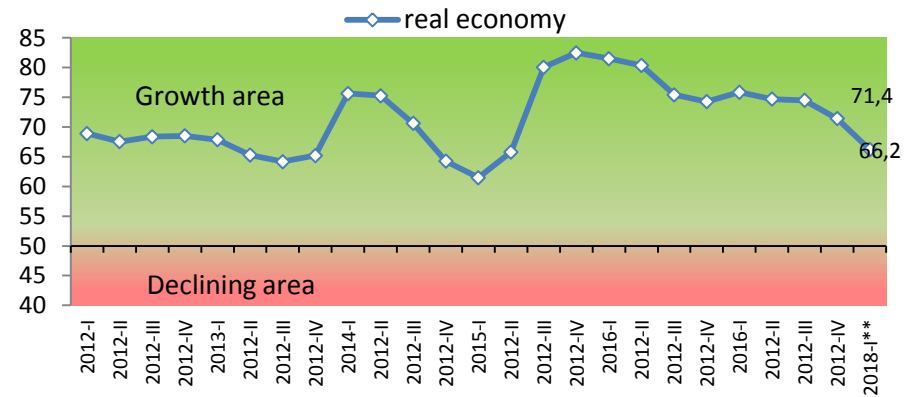
In Q4 2017, the prices for final products and for raw materials kept on rising, while the growth rates of the prices slowed down (DI=56,2 and 71,4 respectively). The price increase for final products in mining industry continued two consequent quarters, while in manufacturing slowdown of the growth rates was observed. The growth rates of the prices for raw materials in mining, manufacturing industry and construction are slowing down two consequent quarters.

In Q1 2018, the growth rates of the prices for final products and raw materials are expected to keep slowing down (DI went down to 56,2 and 66,2, respectively).

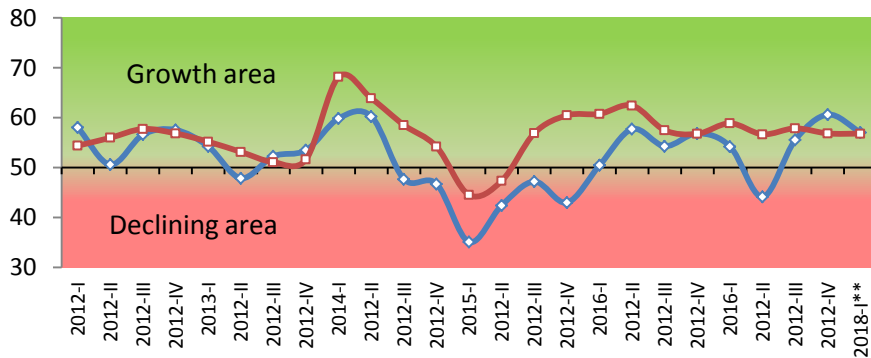
Prices for finished goods, DI*



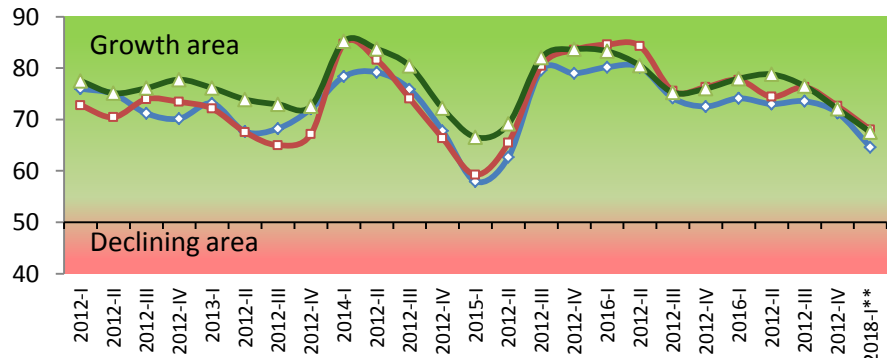
Prices for raw materials, DI*



Mining Manufacturing



Mining Manufacturing Construction



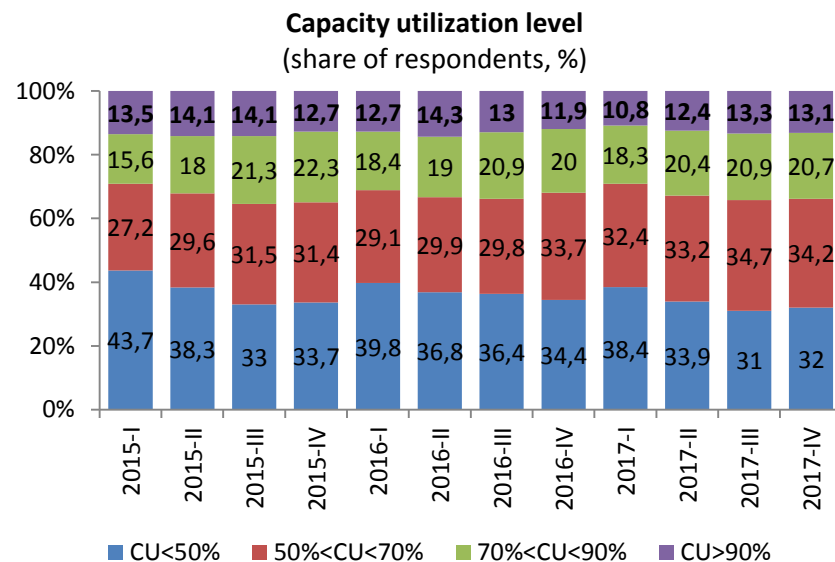
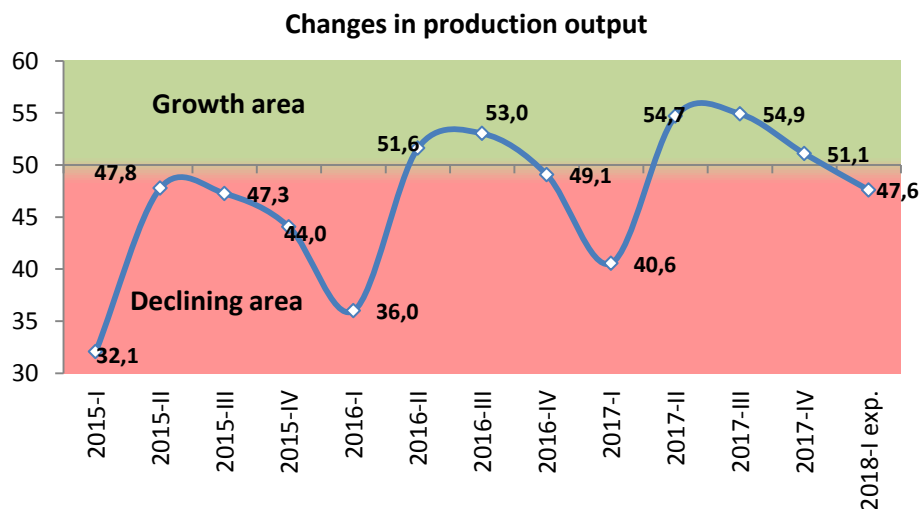
*Diffusion Index (seasonally adjusted). The higher (the lower) the DI deviates from 50, the higher (the lower) are the rates of growth (decline) in indicator; the level of 50 means the absence of any change

**The Figures show expectations of enterprises regarding the change in the parameter in Q4 2017.

CHANGE IN THE PRODUCTION OUTPUT

In Q4 2017, a slight increase in the production output was observed (DI = 51,1). Industrial structure of the production output shows that there was an increase in mining industry (DI=51,5), manufacturing industry (DI=52,3), trade (DI=50,4) and transport (DI=54,6). In Q1 2018 enterprises expect that the reduction of the production output (DI = 47,6). Past movements show that this fluctuation have seasonal pattern.

In Q4 2017, the level of capacity utilization of enterprises slightly decreased. The share of enterprises with the capacity utilization more than 50% decreased from 68,9% in Q3 2017 to 68,0% in Q4 2017. The biggest improvement in the level of capacity utilization was observed in mining industry and trade.



*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



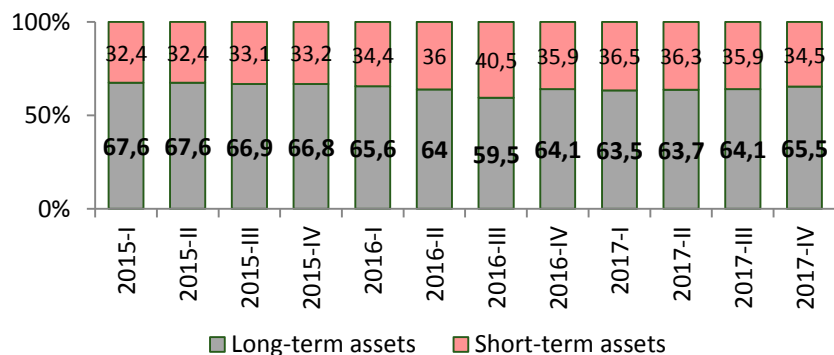
THE STRUCTURE OF BALANCE SHEETS: ASSETS

In Q4 2017, in the structure of assets some positive changes took place, particularly the share of long-term assets had increased (from 64,1% to 65,5%).

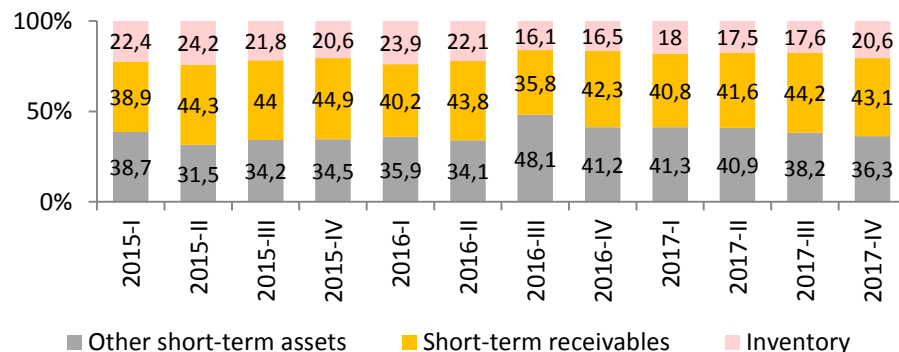
In the structure of short-term assets there was an increase in inventories and decrease in the share of short-term receivables.

Assets turnover significantly increased, making up 15,4%. Working capital turnover also showed a significant increase to 44,5%, when the share of short-term asstes in enterprises' assets were relatively stable (decrease from 35,9% in Q3 2017 to 34,5% in Q4 2017).

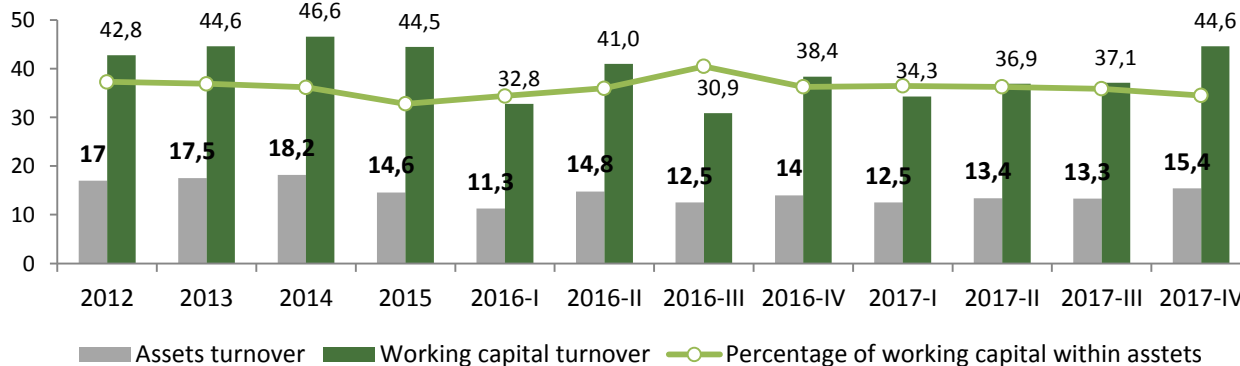
Structure of assets, %



Structure of short-term assets, %



Indicators of assets turnover, %

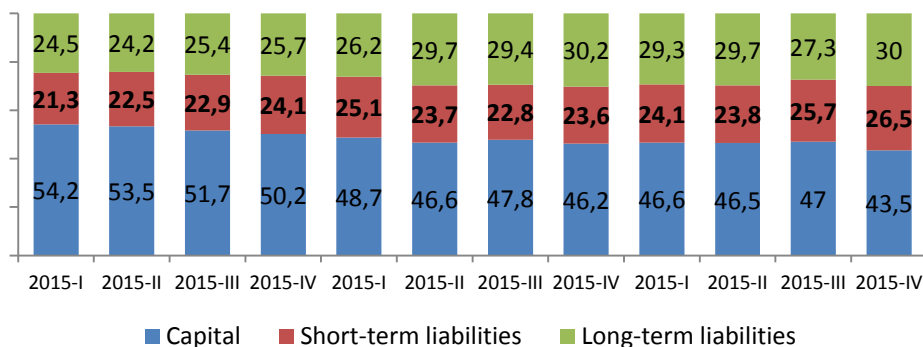


THE STRUCTURE OF BALANCE SHEETS: LIABILITIES

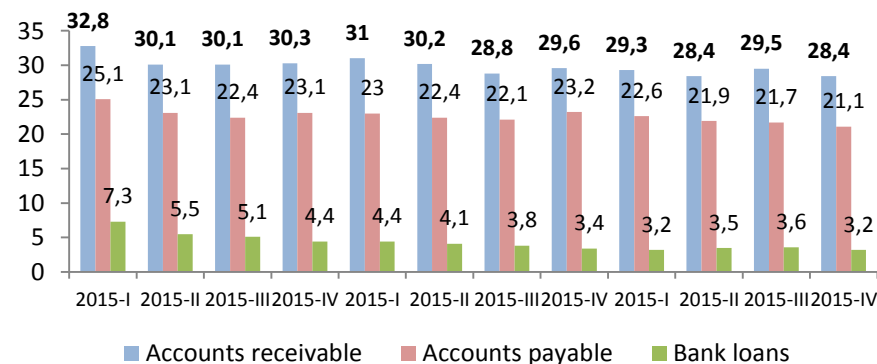
In Q4 2017, in the structure of liabilities the share of equity capital decreased from 47,0% to 43,5%. The share of long-term liabilities and the share of short-term liabilities increased from 27,3% to 30,0% and from 25,7% to 26,5%, respectively. The situation with arrears had not changed a lot: the share of enterprises with the overdue accounts payables and overdue bank loans slightly decreased. Meanwhile, the share of enterprises with the overdue accounts receivable showed slight increase.

In the structure of current liabilities, the share of short-term bank loans increased (to 26,9%), at the same time the share of long-term loans to banks in the structure of long-term liabilities increased (to 52,2%). The share of bank loans in the liabilities of the enterprises increased from 19,4% in Q3 2017 to 22,8% in Q4 2017.

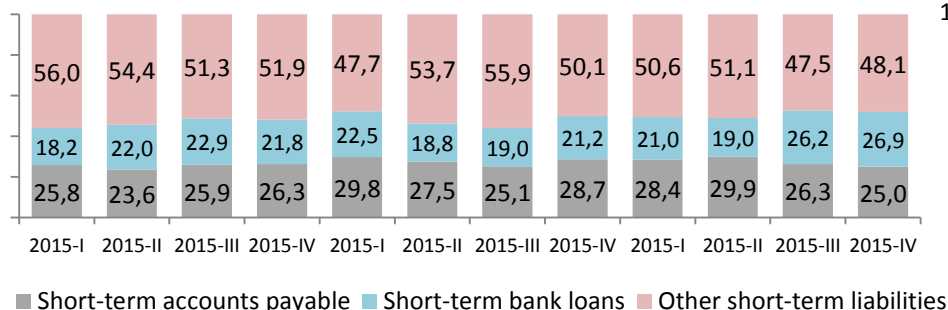
Structure of liabilities, %



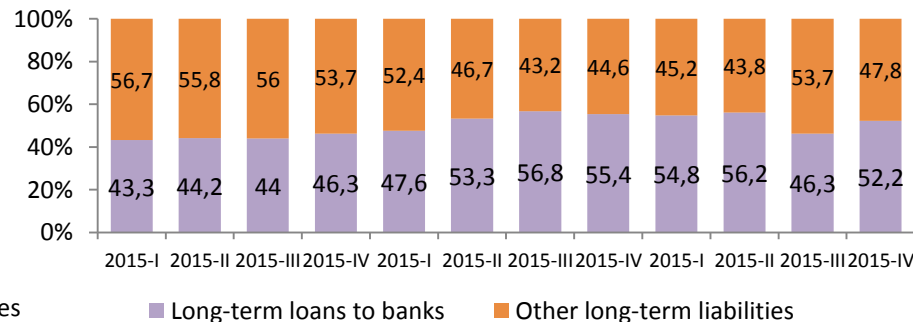
Percentage of enterprises with the past due, %



Structure of current liabilities, %



Structure of long-term liabilities



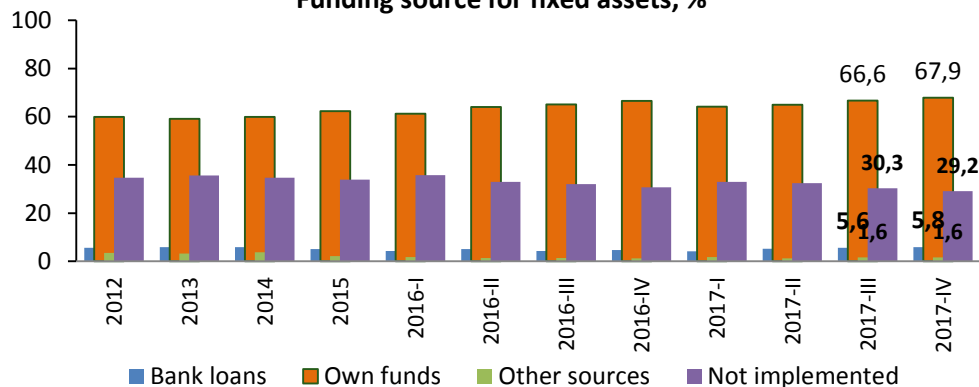
INVESTMENT ACTIVITY

In Q4 2017, the investment activity of enterprises has been sustained. There was an increase in the share of enterprises financing their fixed assets (70,8%), as well as current assets (88,3%).

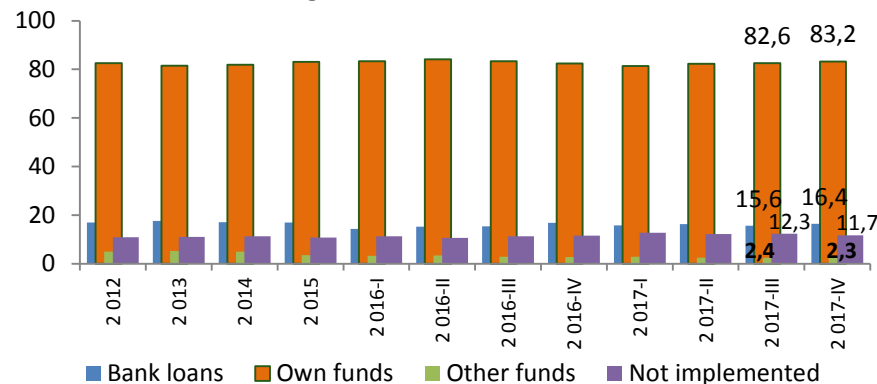
The main funding source of fixed and current assets is still own funds of the enterprises (67,9% and 83,2%, respectively). The bank loans continue to play an insignificant role in the investment policy of enterprises. The share of enterprises, which use bank loans to finance their *fixed assets* in Q4 2017 was 5,8%, *current assets* – 16,4%.

The main factors that limit financing opportunities of enterprises are the shortage of financial resources (30,6% of the enterprises), insufficient demand for their products (23,4%), and market competition from the side of other enterprises (21,5%).

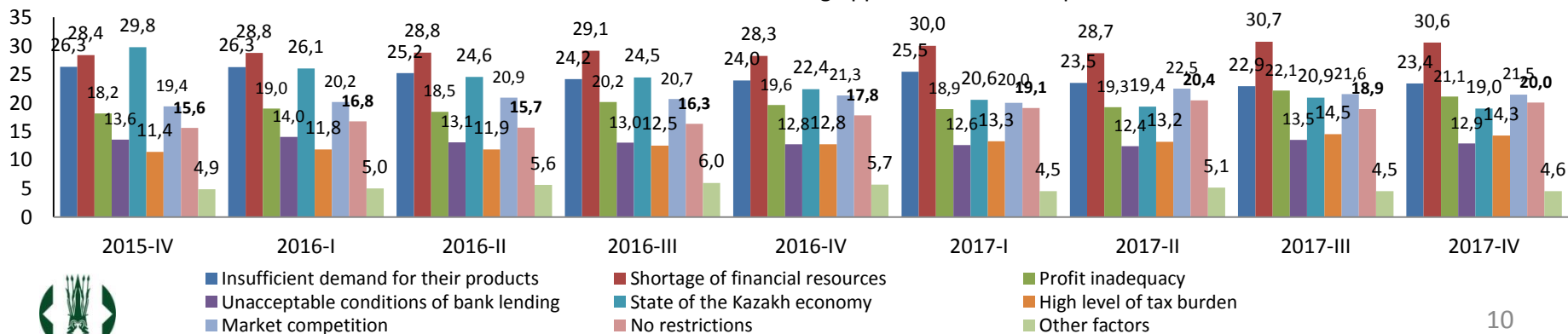
Funding source for fixed assets, %



Funding sources for current assets, %



The main factors that limit financing opportunities of enterprises

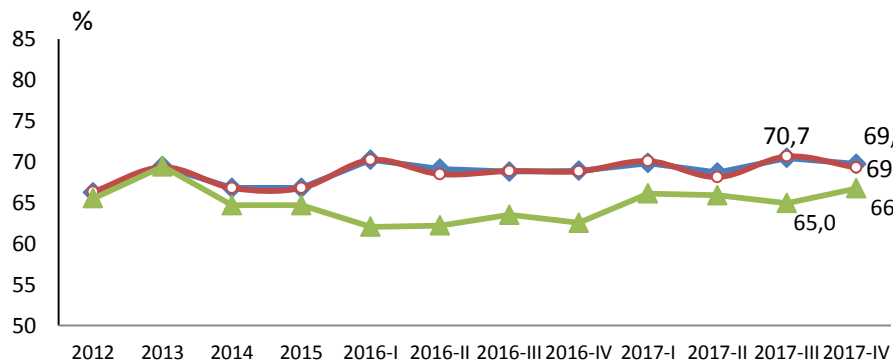


CHANGE IN THE FINANCIAL AND ECONOMIC PERFORMANCE

The production performance indicators showed slight decrease in Q4 2017. The share of enterprises, which did not reduce the production output and the labor productivity, decreased to 69,7% and 69,3%, respectively. Meanwhile, the share of enterprises, which did not reduce the number of employees, increased to 66,8%.

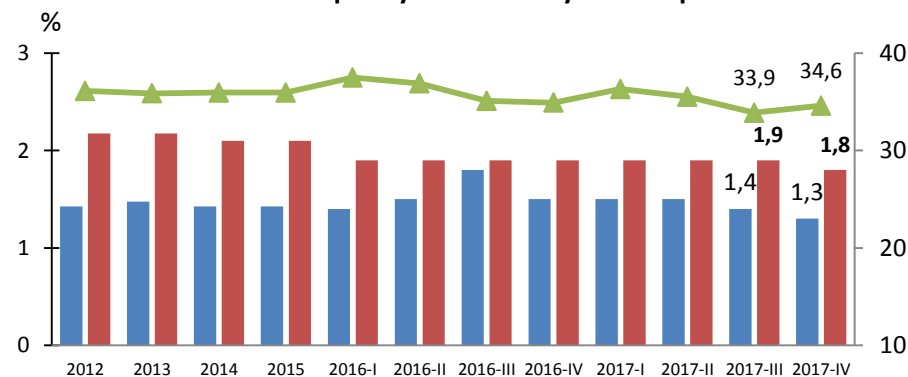
In Q4 2017, the current liquidity ratio (CLR) and overall solvency ratio (OSR) of enterprises in the real sector have not changed significantly (1,3 and 1,8, respectively). The share of low-liquid enterprises (CLR<1) increased from 33,9% to 34,6%.

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)

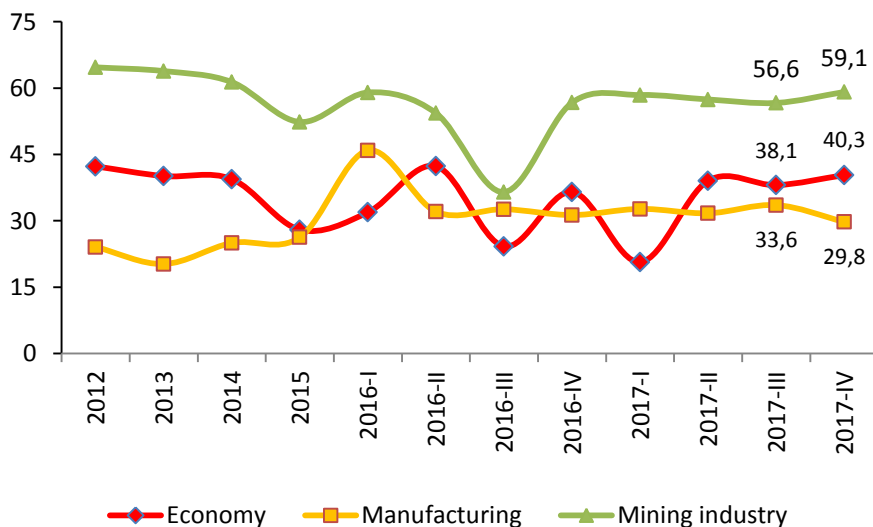


CHANGE IN THE FINANCIAL AND ECONOMIC PERFORMANCE

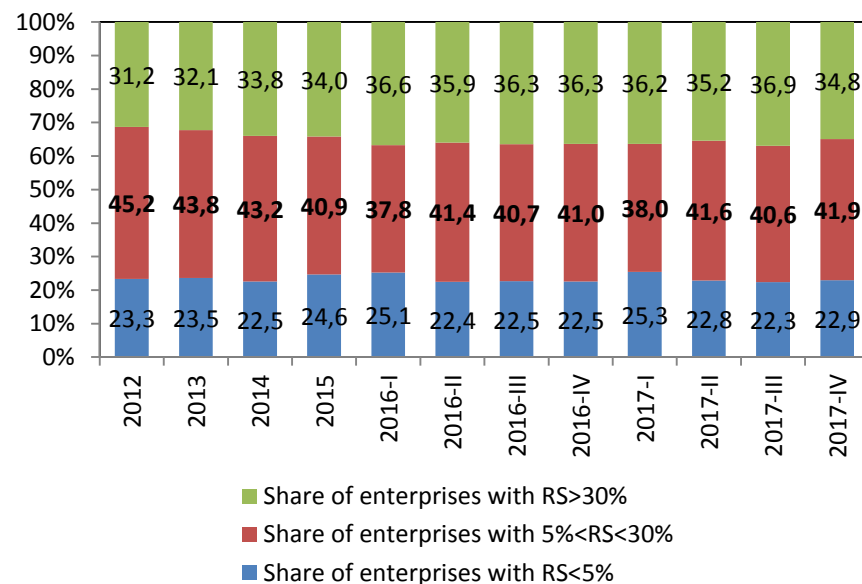
In Q4 2017, the return on sales (before taxes) of enterprises increased from 38,1% to 40,3%. This fluctuation is mainly explained by the increase of return on sales in the mining industry from 56,6% to 59,1%. The negative impact on the return on sales in the real sector was provided by the decrease in the return on sales in manufacturing industry –from 33,6% to 29,8%.

In Q4 2017, the share of loss-making and low-profitable enterprises increased from 22,3% to 22,9%, as well as the share of medium-profitable enterprises – from 40,6% to 41,9%. At the same time, a decrease of the share of highly profitable enterprises was observed (from 36,9% to 34,8%).

Return on sales, in %



Classification of enterprises in terms of return on sales



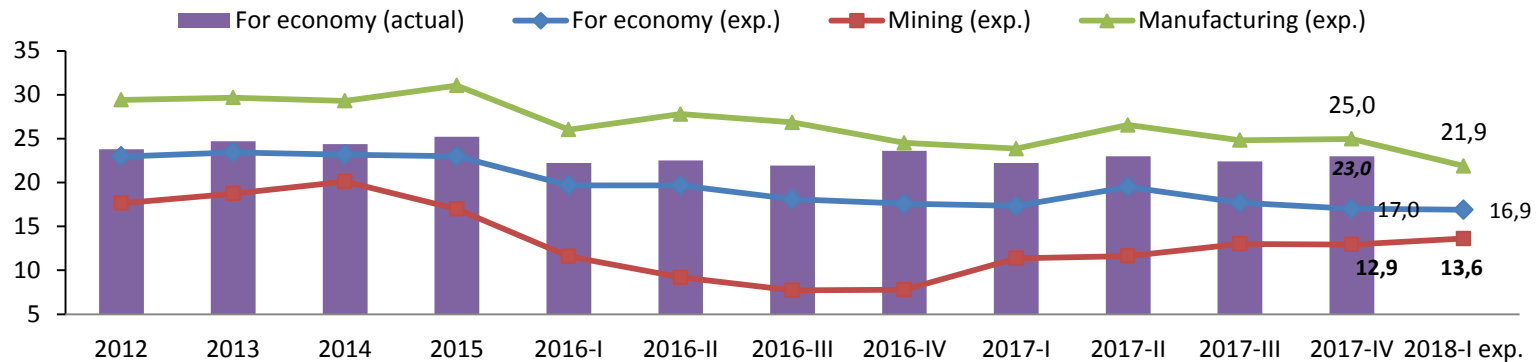
IMPACT ON THE REAL SECTOR OF THE ECONOMY BY THE BANKING SYSTEM

In Q4 2017, the demand of enterprises for bank loans slightly increased.

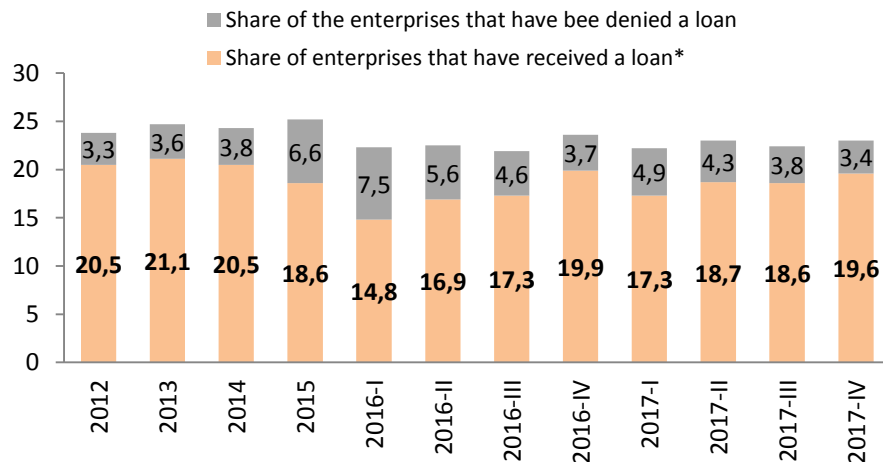
In Q4 2017, 23,0% of the enterprises applied for a bank loan, and 85% of them obtained loans (19,6% out of the all respondents). The number of the enterprises, which have been denied a loan, decreased.

In Q1 2018, the demand for bank loans is expected to decline, mainly in the manufacturing industry and construction.

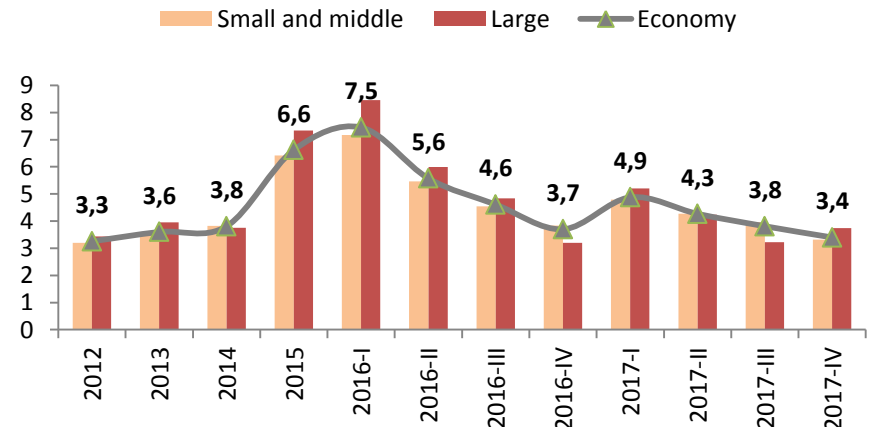
Demand for loans, answers in %



Consideration of applications for lending, answers in %



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

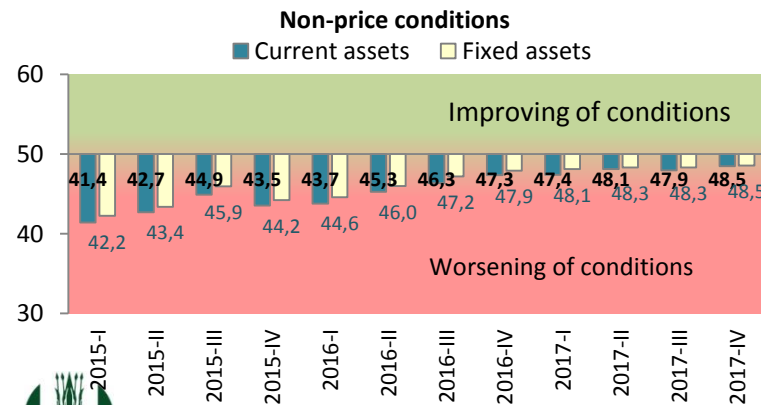
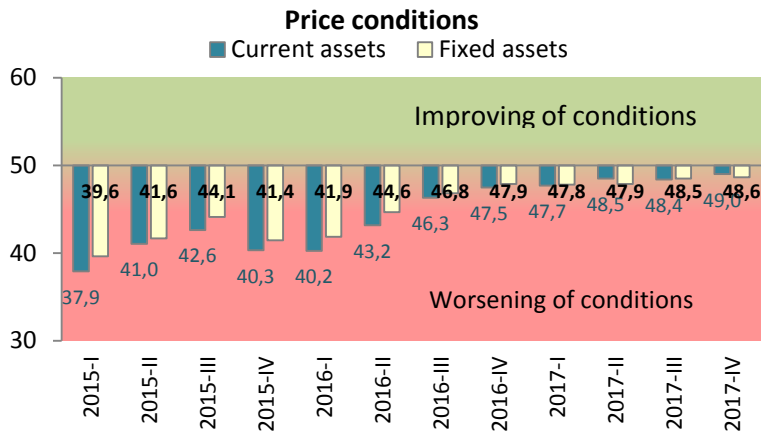


IMPACT ON THE REAL SECTOR OF THE ECONOMY BY THE BANKING SYSTEM

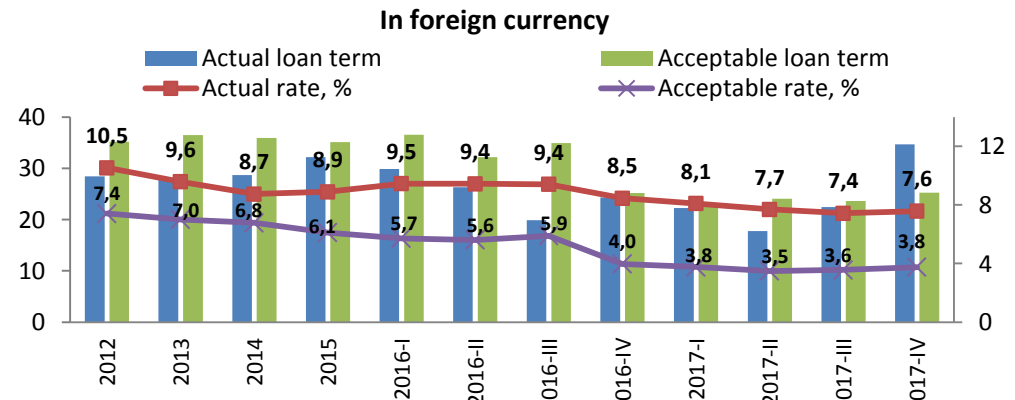
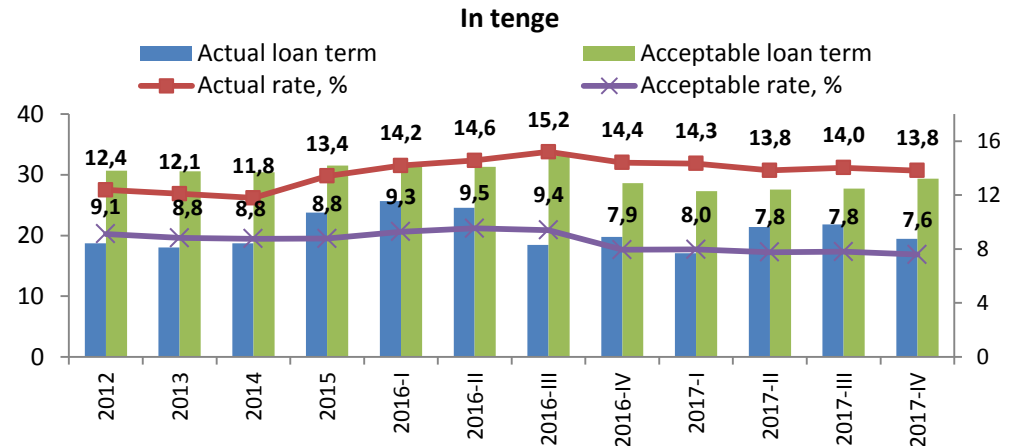
In Q4 2017, price conditions (interest rates on loans, commission fees) and non-price conditions (maximum amount and loan tenor, requirements to a borrower's financial position, collateral requirements) of lending remained negative. At the same time the number of enterprises indicating negative changes increased.

The gap between actual and acceptable interest rate loans kept unchanged, both on Tenge and on foreign currency loans. Acceptable loan tenors for enterprises in Tenge was 29 months (the actual loan tenors offered by banks – 19 months), in foreign currency – 25 months (the actual – 35 months).

Changes in the conditions of lending



Loan rates and loan terms



*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

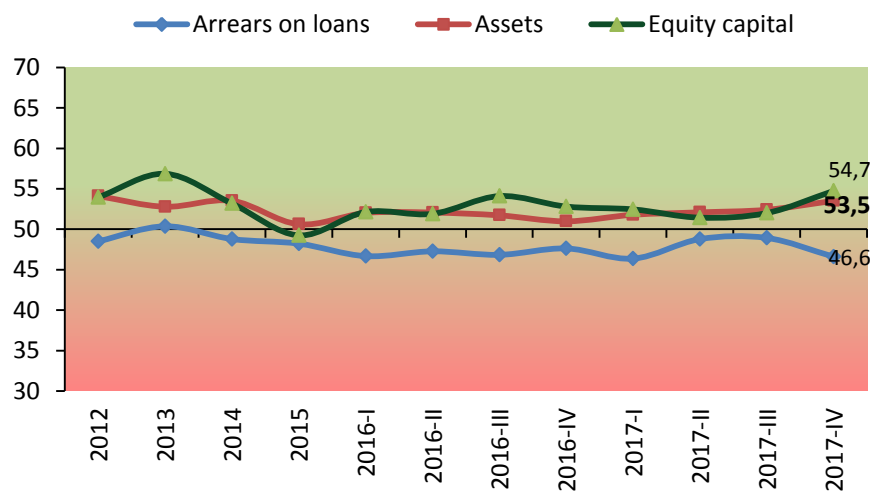
IMPACT ON THE REAL SECTOR OF THE ECONOMY BY THE BANKING SYSTEM

Debt indicator of enterprises is still in negative area, in Q4 2017 the diffusion index of arrears on loans decreased from 48,9 to 46,6.

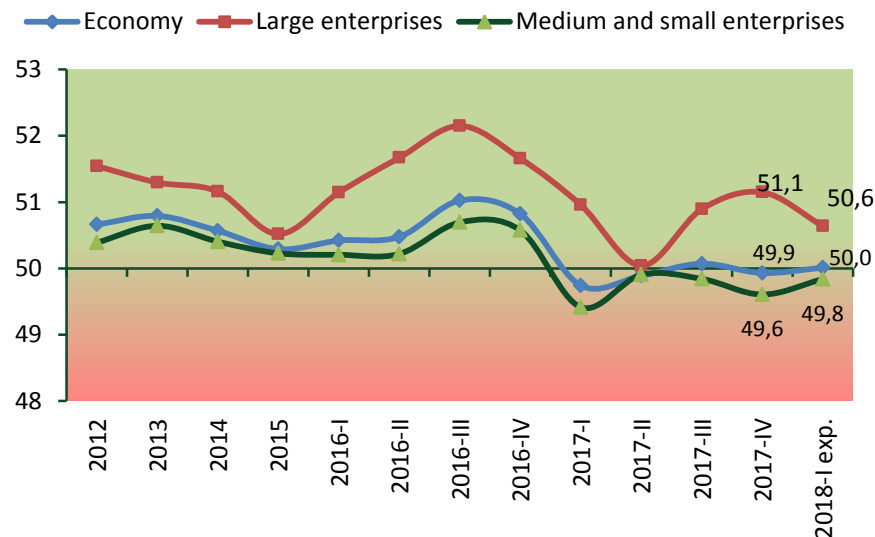
Assets and the equity capital of the enterprises remain in the growth area: DI of assets and equity capital made up 53,5 and 54,7, respectively.

In Q4 2017, the volume of deposits held by enterprises remained almost unchanged (DI=49,9). The minor growth of the deposits of large enterprises is noted (DI=51,1), which was escorted by slight decline in deposits of small and medium-sized enterprises (DI = 49,6). In Q1 2018, enterprises expect a that the amount of deposits remain unchanged (DI= 50,0).

Loans, assets and equity capital, DI*



Volume of the deposits, DI*



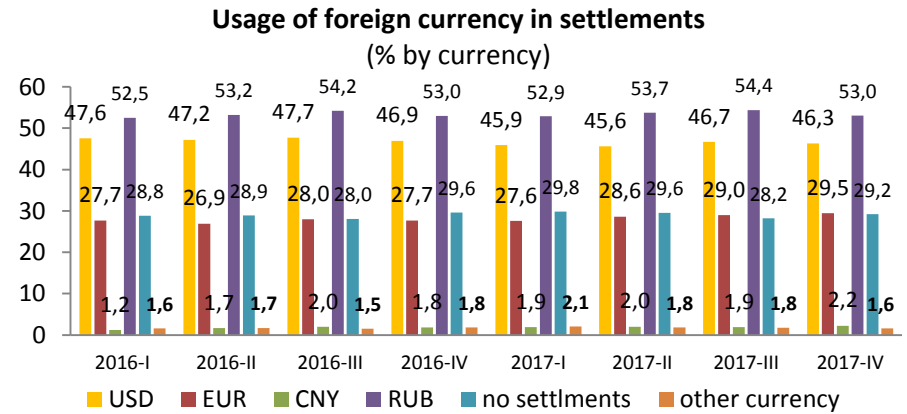
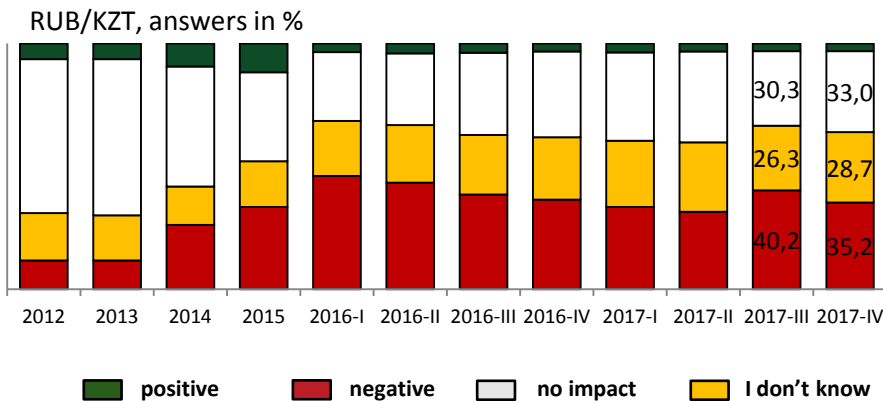
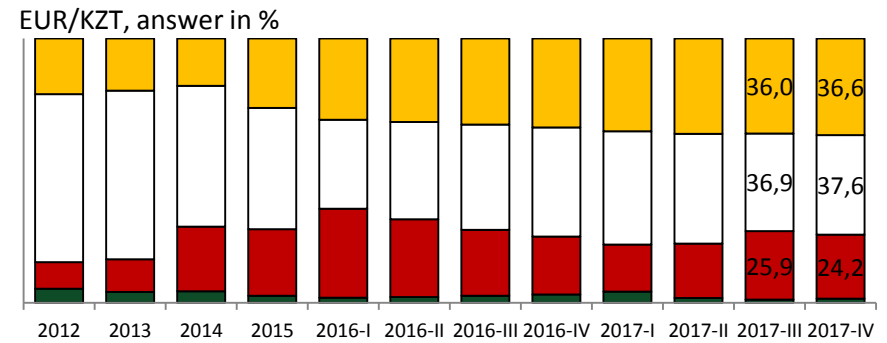
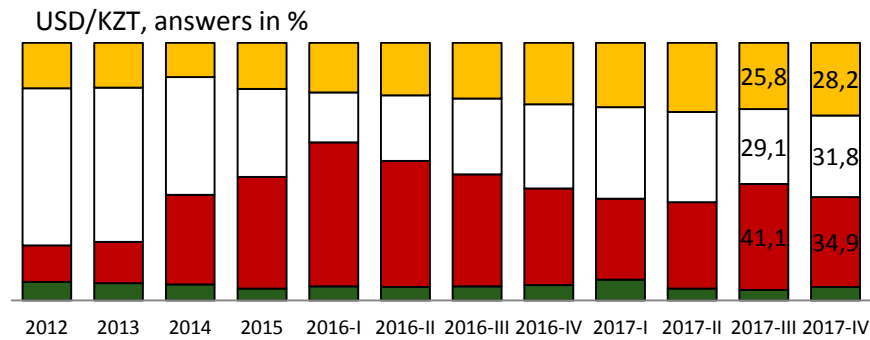
*Diffusion Index (seasonally adjusted). The higher (the lower) the DI deviates from 50, the higher (the lower) are the rates of growth (decline) in indicator; the level of 50 means the absence of any change



IMPACT OF CHANGES IN THE EXCHANGE RATE

According to the results of the survey of enterprises in the real sector of economy in Q4 2017 the negative impact of the exchange rate on the enterprises had slowed down. The share of enterprises indicating the negative impact from the fluctuation of the Tenge/US dollar exchange rate reduced from 41,1% in Q3 2017 to 34,9% in Q4 2017, from the fluctuation of Tenge/Russian ruble exchange rate – from 40,2% to 35,2% and from Tenge/Euro exchange rate – from 25,9% to 24,2%.

In Q4 2017, the share of enterprises using foreign currency in their settlements slightly increased. The US dollar and the Russian ruble remain the main currencies. At the same time, in Q4 2017, the share of enterprises, that prefer Chinese Yuan and EURO, increased.



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)



Research and Statistics Department
National Bank of Kazakhstan

