NATIONAL BANK OF KAZAKHSTAN

MARKET REVIEW
Enterprise Survey in the Real Sector of the Economy

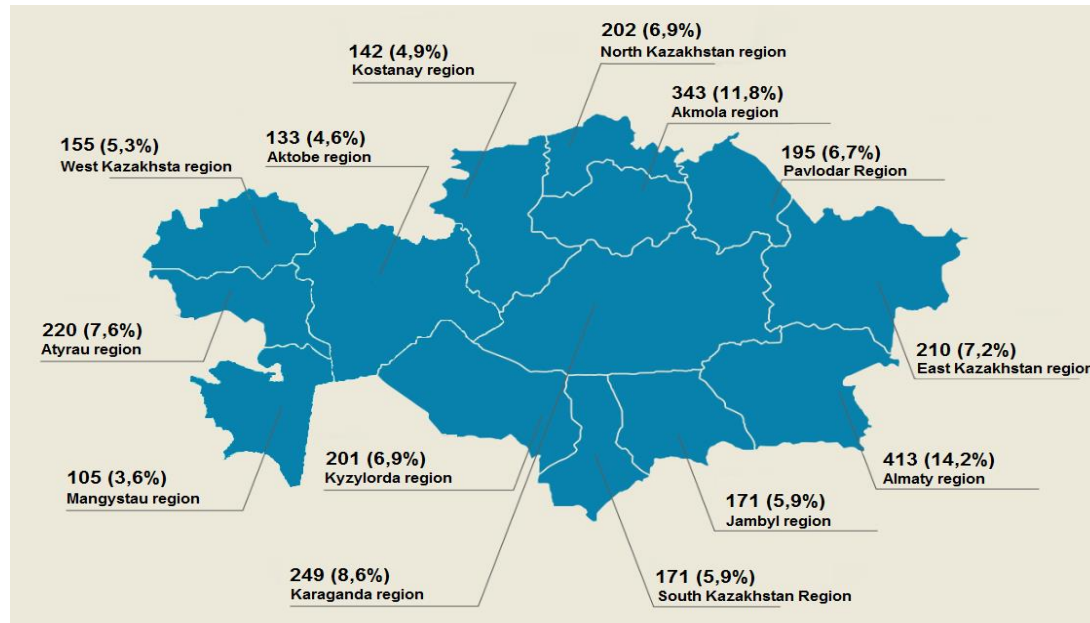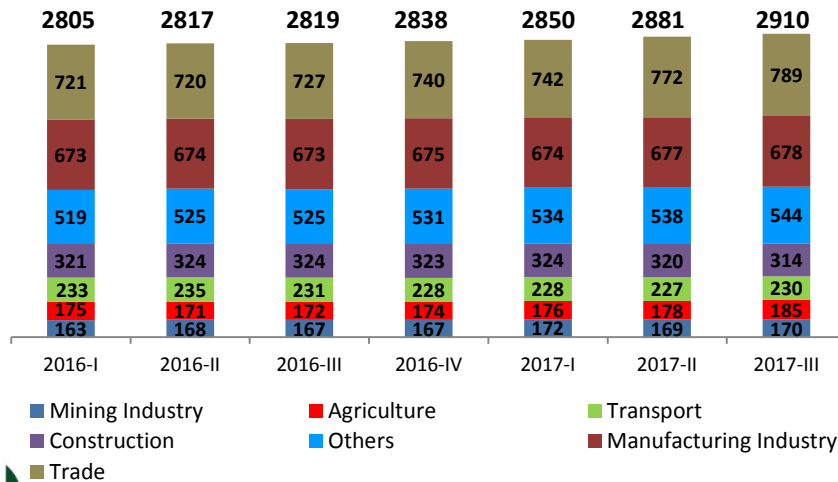Q3 2017

CONTENTS

COMPOSITION OF ENTERPRISE SURVEY PARTICIPANTS

Regional structure of the enterprise survey participants in Q3 2017

202 (6,9%) North Kazakhstan region
142 (4,9%) Kostanay region
343 (11,8%) Akmola region
155 (5,3%) West Kazakhsta region
133 (4,6%) Aktobe region
195 (6,7%) Pavlodar Region
220 (7,6%) Atyrau region
210 (7,2%) East Kazakhstan region
105 (3,6%) Mangystau region
201 (6,9%) Kyzylorda region
413 (14,2%) Almaty region
171 (5,9%) Jambyl region
249 (8,6%) Karaganda region
171 (5,9%) South Kazakhstan Region

Sectoral structure of enterprise survey participants

	2016-I	2016-II	2016-III	2016-IV	2017-I	2017-II	2017-III
Total	2805	2817	2819	2838	2850	2881	2910
Trade	721	720	727	740	742	772	789
Manufacturing Industry	673	674	673	675	674	677	678
Others	519	525	525	531	534	538	544
Construction	321	324	324	323	324	320	314
Transport	233	235	231	228	228	227	230
Agriculture	175	171	172	174	176	178	185
Mining Industry	163	168	167	167	172	169	170

- Mining Industry
- Agriculture
- Transport
- Construction
- Others
- Manufacturing Industry
- Trade

Enterprise survey participants by size

	2016-I	2016-II	2016-III	2016-IV	2017-I	2017-II	2017-III
Large-scale enterprises	603	601	599	593	596	590	596
Medium-sized	927	927	915	912	905	906	895
Small-sized	1275	1289	1305	1333	1349	1385	1419

- Small-sized
- Medium-sized
- Large-scale enterprises
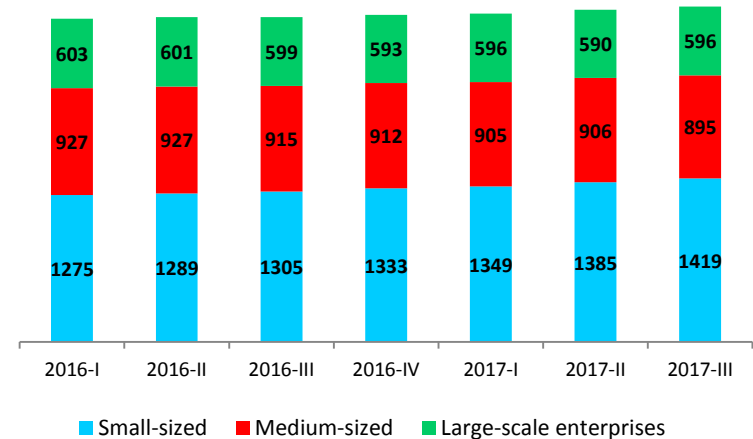
COMPOSITE LEADING INDICATOR*

In Q3 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.

In Q3 2017, growth in demand for final products is indicated by enterprises in manufacturing industry, agriculture, transport and producers of consumer goods and services. Stable demand was observed in mining industry, slowdown of the growth rates compared to previous quarter – in the real estate market.

Respondents also note a slowdown in the growth rates of prices for final goods and raw materials, output volume growth, 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 Q4 2017, enterprises expect further improvement of the economic situation (CLI amounted to 100.3), 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.
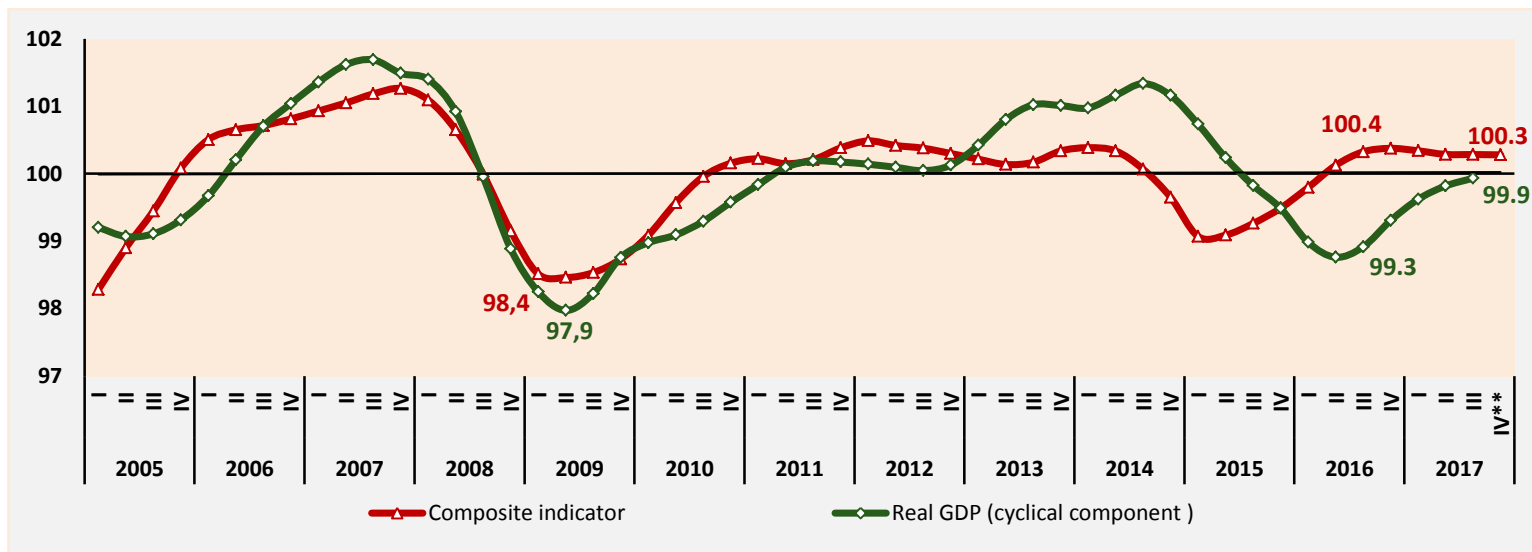
* A composite leading indicator is used to identify turning points in the business cycle and provides good quality information about the state and directions of trends in the economic activity. A composite leading indicator reflects a summarized evaluation of opinions of managers of the interviewed enterprises 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.

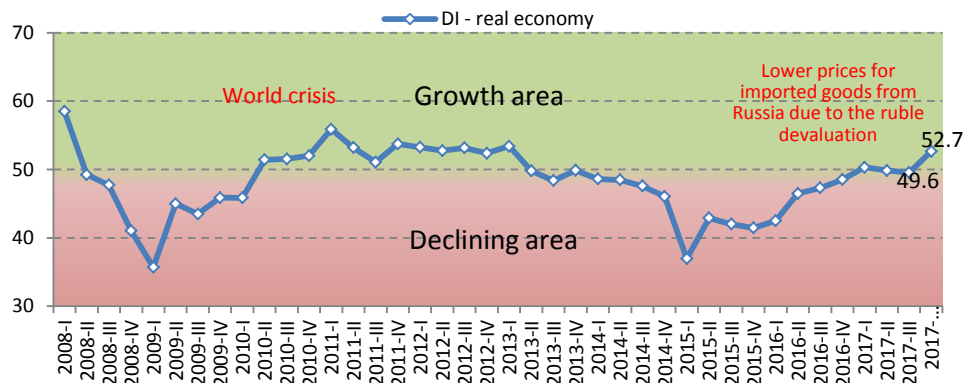# DYNAMICS OF THE DEMAND FOR FINAL PRODUCTS

In Q3 2017, the demand in the real sector for final products showed a slight decrease; the diffusion index (DI) decreased from 49,9 to 49,6. Demand *for goods* showed a stable growth (DI did not change, making up 51,2), demand *for services* slightly declined (DI decreased from 48,4 to 48,1). In the mining industry the growth rates of the demand for final products slowed down (DI decreased from 53,5 to 51,6), in the manufacturing industry – went up (DI=51,1).

In Q4 2017, enterprises expect the increase of the demand for final products (DI=52,7).

Demand for the finished goods, DI*

Answers of enterprises, %		2016				2017			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4exp.
Increase	1	12.1	26.1	26.7	23.6	17.4	29.1	29,1	19,4
No changes	2	47.0	48.0	49.9	48.8	49.3	49.7	50,2	37,8
Decrease	3	40.6	25.8	23.4	27.6	33.3	21.2	20,7	15,5
Diffusion index, DI=line1+0.5*line2	4	35.8	50.2	51.6	48.0	42.1	53.9	54,2	52,0
DI, seasonal adjusted	5	42.5	46.8	47.0	48.5	50.3	50.2	49,6	52,7

Demand for finished goods, DI *

Demand for finished goods, DI * — DI - real economy; World crisis; Growth area; Declining area; Lower prices for imported goods from Russia due to the ruble devaluation; 52.7; 49.6

production; production of services; Growth area; Declining area; 54.5; 51.2; 50.5; 48.1; 39.7
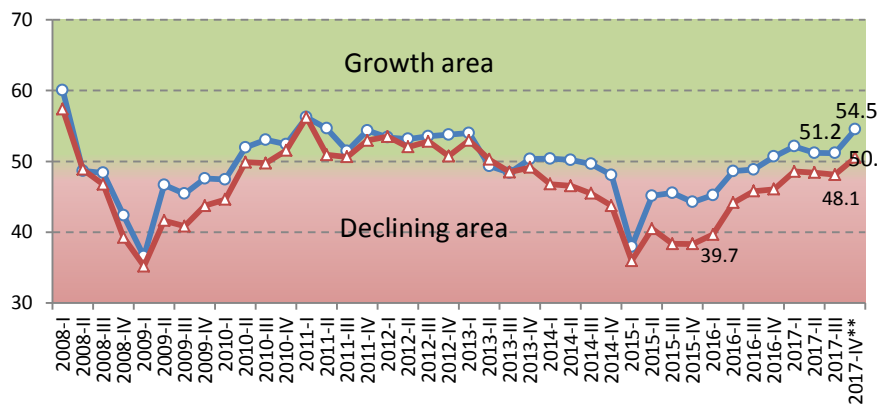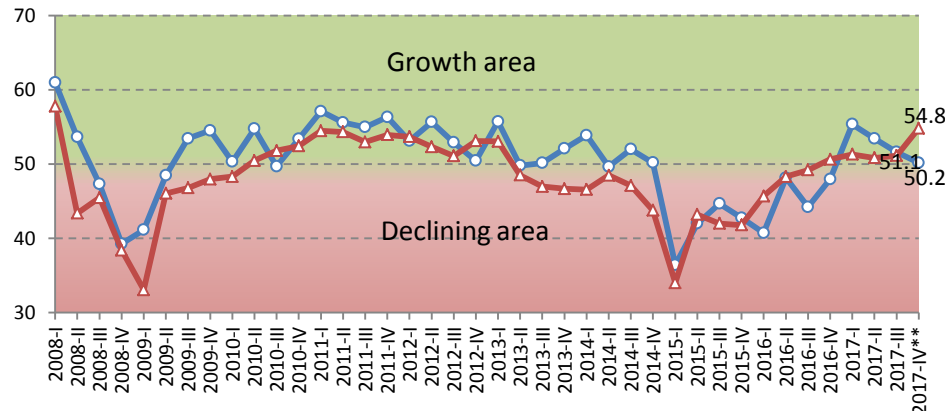
mining; manufacturing; Growth area; Declining area; 54.8; 51.1; 50.2

*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
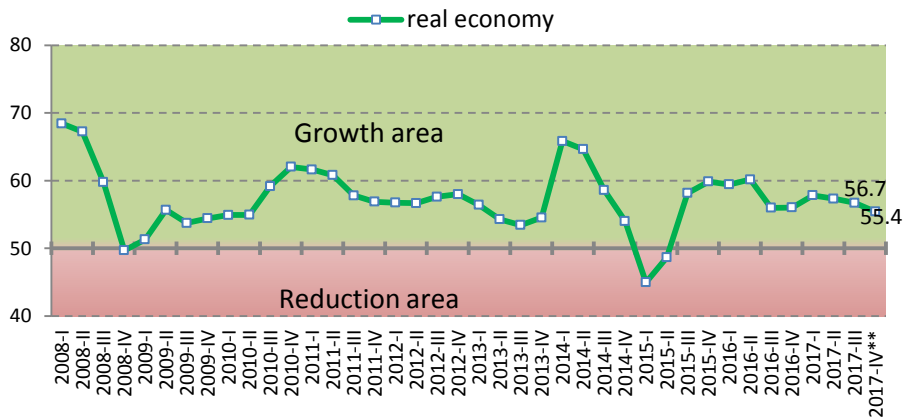
**The Figures show expectations of enterprises regarding the change in the parameter in Q4 2017.
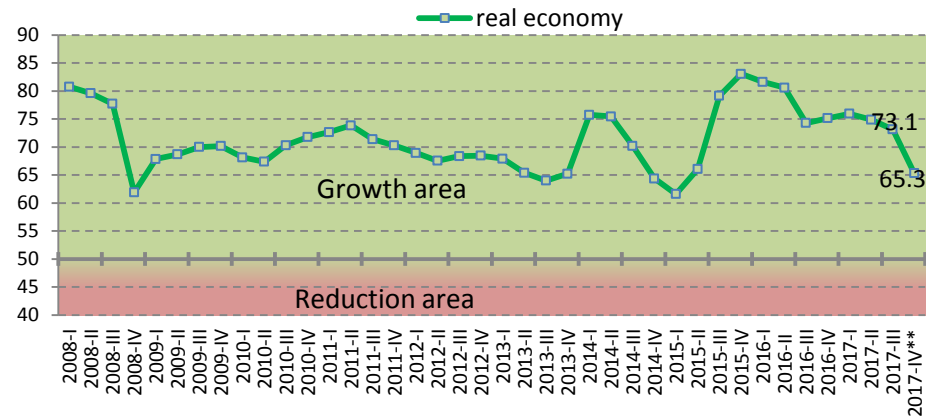
CHANGES IN PRICES IN THE REAL SECTOR

In Q3 2017, the prices for final products and for raw materials kept on rising, meanwhile the growth rates of the prices slowed down (DI=56,7). The prices increase for final products in the mining and manufacturing industries continued (DI=55,0 and 57,8, respectively). The tendency of the growing prices for raw materials in the real sector persists (DI=73,1), including the manufacturing industry (DI=75,7). Slowdown was observed in the construction (DI was 74,6).

In Q4 2017, the growth rates of the prices for final products and raw materials are expected to slow down (DI went down to 55,4 and 65,3, respectively).

Prices for finished goods, DI*
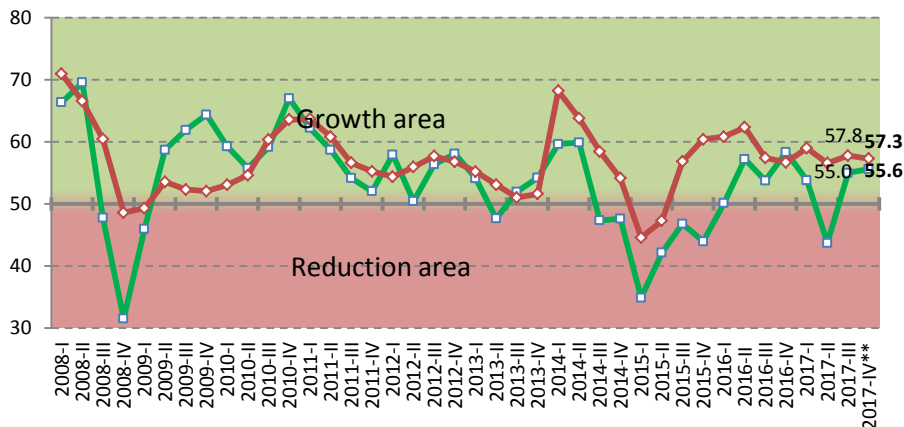
Prices for raw materials, DI*

*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 Q4 2017.

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# CHANGE IN THE PRODUCTION OUTPUT

In Q3 2017, an increase in the production output was observed (DI = 54.9). In Q4 2017 enterprises expect that the production output will keep increasing , however its growth rates will decrease (DI = 51,4). Past movements show that this fluctuation have seasonal pattern, with minimal value in Q1. Industrial structure of the production output shows that there was an increase in mining industry (DI=52,6), manufacturing industry (DI=57,6), construction (DI=53,7), trade (DI=51,6) and transport (DI=60,4).

In Q3 2017, the level of capacity utilization of enterprises increased. The share of enterprises with the capacity utilization more than 50% increased from 66,1% in Q2 2017 to 68,9% in Q3 2017. The biggest improvement in the level of capacity utilization was observed in mining industry, construction and transport.

Changes in production output
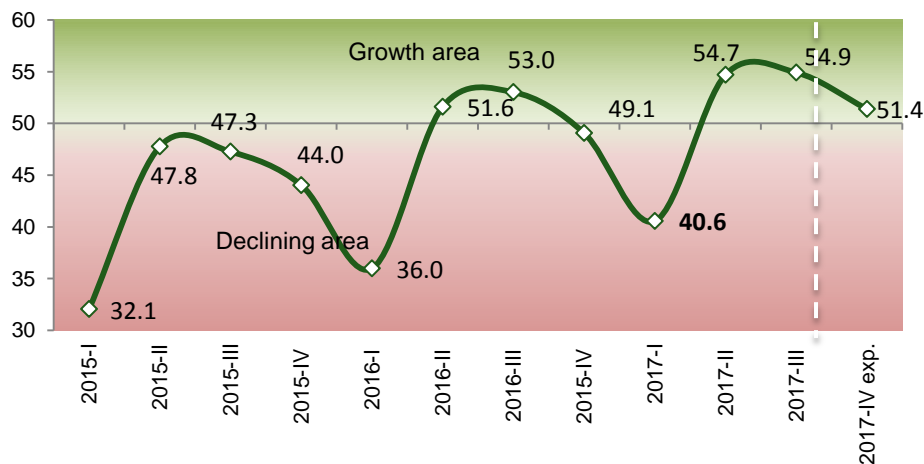
Capacity utilization level
(share of respondents,%)
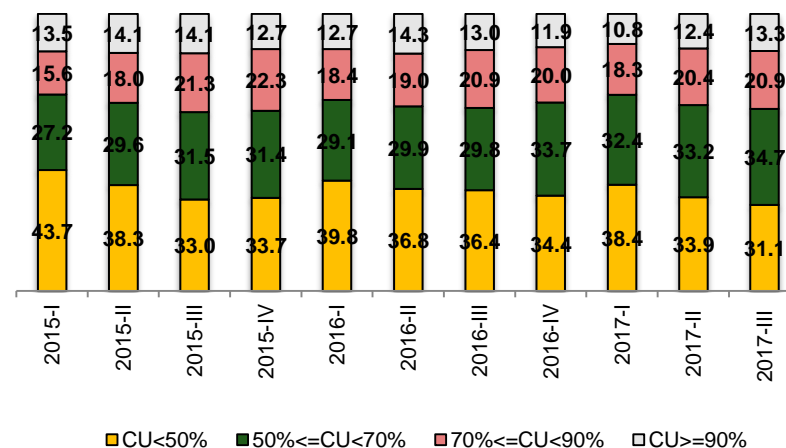
*Diffusion Index (seasonally adjusted). The higher (the lower) the DI deviates from 50, the higher (the lower) are the rates of growth (decline) in indicator; the level of 50 means the absence of any change
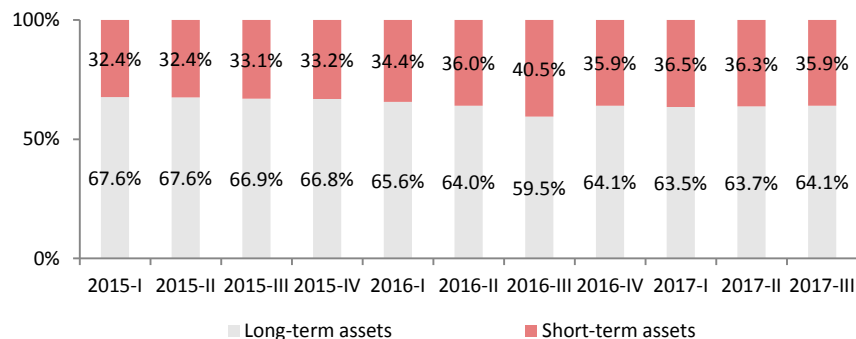
THE STRUCTURE OF BALANCE SHEETS: ASSETS

In Q3 2017, in the asset structure of the enterprises some positive changes took place, particularly the share of long-term assets had increased (from 63,7% to 64,1%).
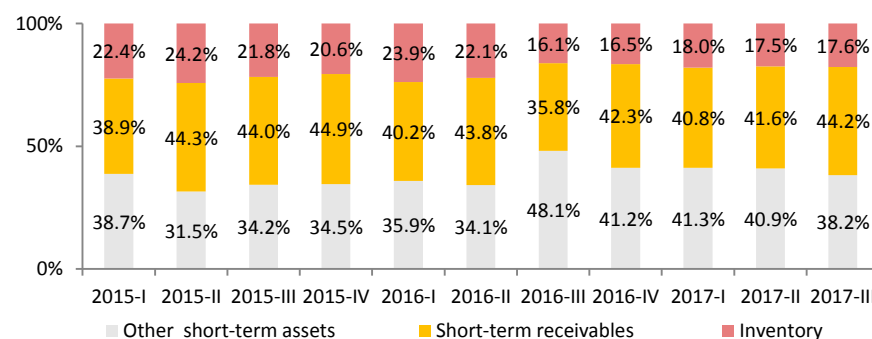
In the structure of short-term assets there was an obvious increase in the share of short-term receivables and a slight increase in inventories.

Assets turnover nearly did not change, making up 13,3%. Insignificant growth (to 37,1%) of the current assets turnover occurred, when the share of current assets in enterprises' assets were relatively stable (decrease from 36,6% in Q2 2017 to 35,9% in Q3 2017).



Structure of assets

Structure of short-term assets

Indicators of assets turnover
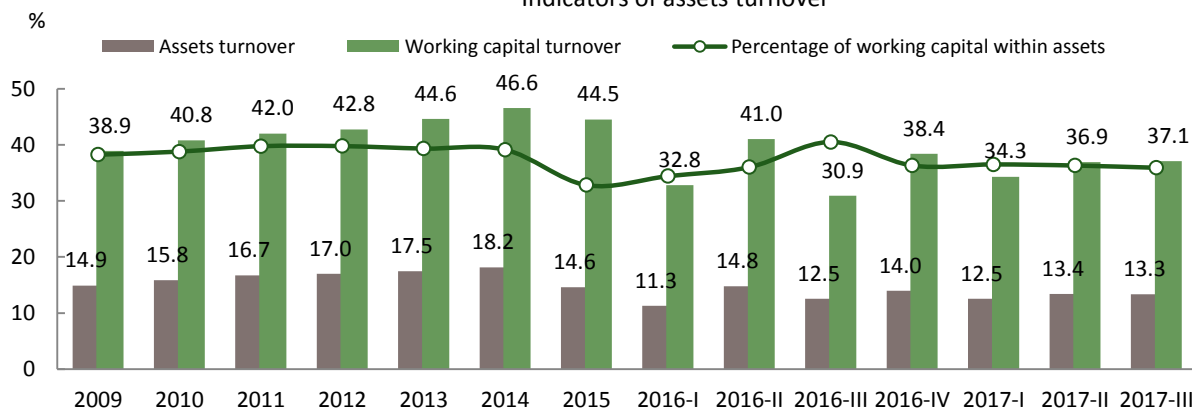
THE STRUCTURE OF BALANCE SHEETS: LIABILITIES

In Q3 2017, in the structure of liabilities the share of equity capital increased from 46,5% to 47,0%, as well as the share of short-term liabilities – from 23,8% to 25,7%. The share of long-term liabilities decreased from 29,7% to 27,3%. The situation with arrears had not changed: the share of enterprises with the overdue accounts payables and overdue bank loans particularly had not changed. Meanwhile, the share of enterprises with the overdue accounts receivable slightly increased.

In the structure of current liabilities, the share of short-term bank loans increased (to 26,2%), while in the structure of long-term liabilities the share of fixed loans to banks decreased (to 46,3%). The share of bank loans in the liabilities of the enterprises decreased from 21,1% in Q2 2017 to 19,4% in Q3 2017.

Structure of liabilities

Percentage of enterprises with the past due

Structure of current liabilities


Structure of long-term liabilities
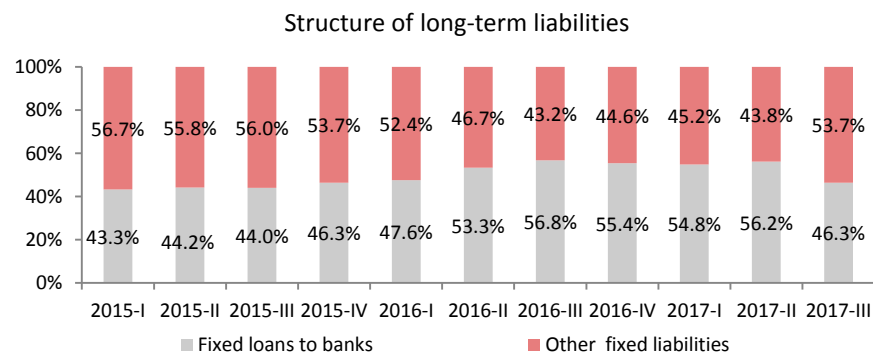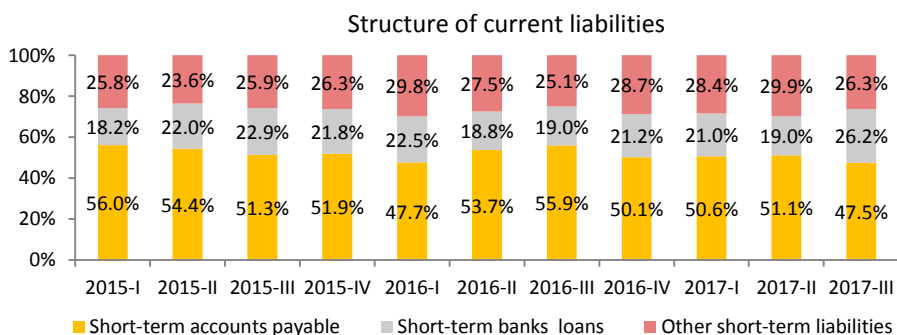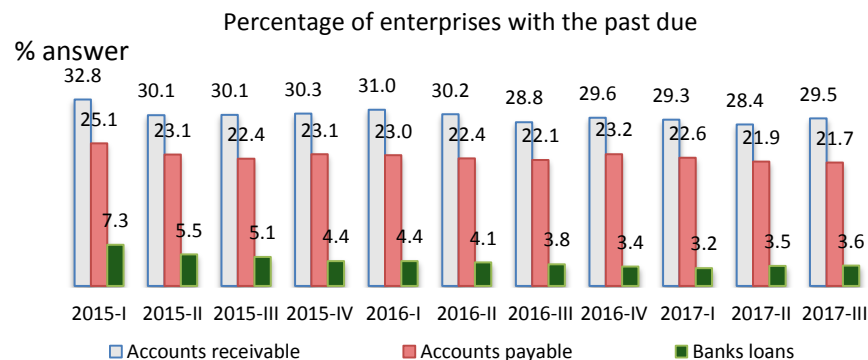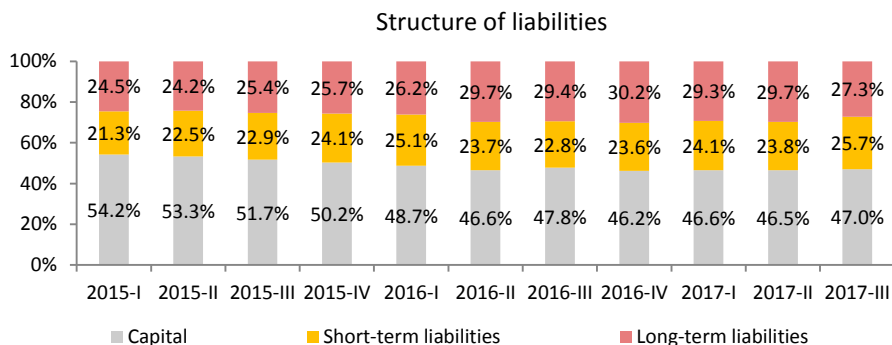
INVESTMENT ACTIVITY

In Q3 2017, the investment activity of enterprises has been preserved. The share of enterprises, which financed their fixed assets, increased (69,7%), the share of enterprises, which financed their current assets, particularly had not changed (87,7%).

The main funding source of fixed and current assets is still own funds of the enterprises (66,6% and 82,6%, 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 Q3 2017 was 5,6%, *current assets* – 15,6%.

The main factors that limit financing opportunities of enterprises are the shortage of financial resources (30,7% of the enterprises), profit shortage (22,1%), and insufficient demand for their products (22,9%).
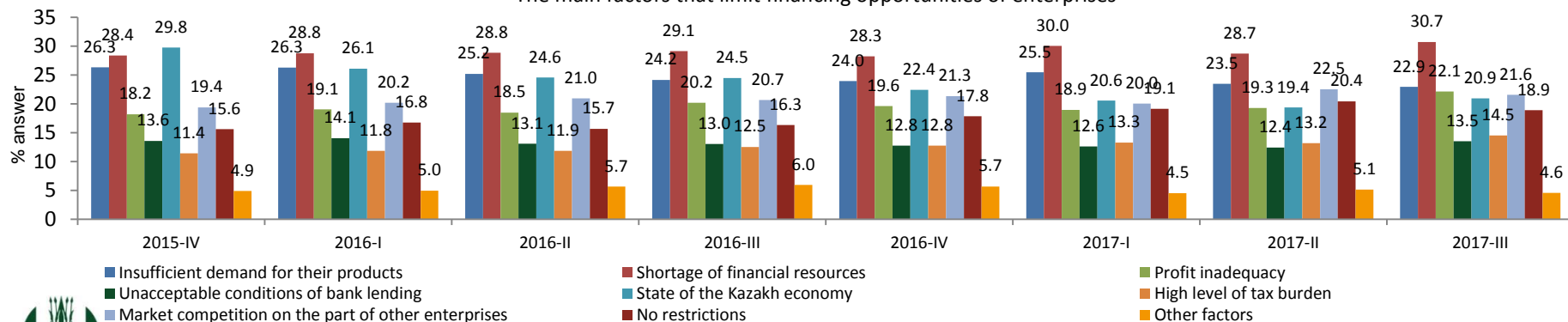

Funding source for the fixed assets
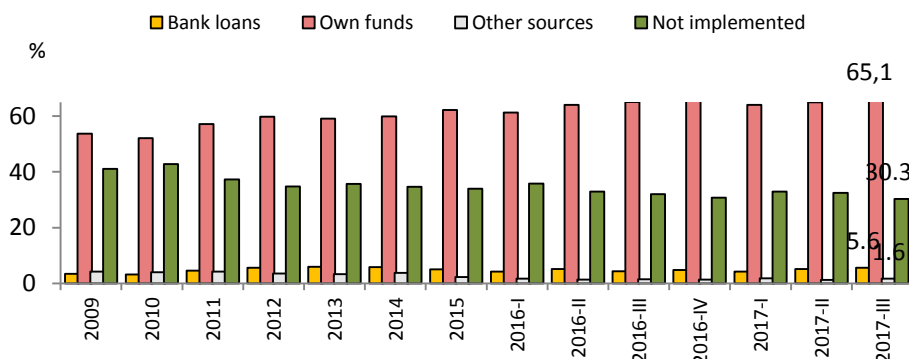
Funding source for the current assets
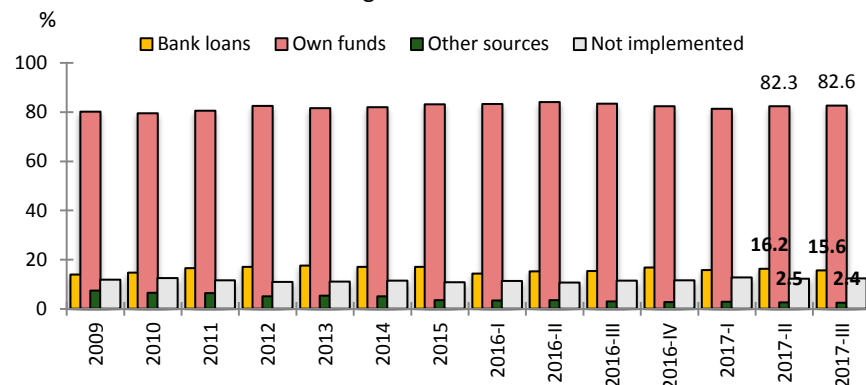
The main factors that limit financing opportunities of enterprises
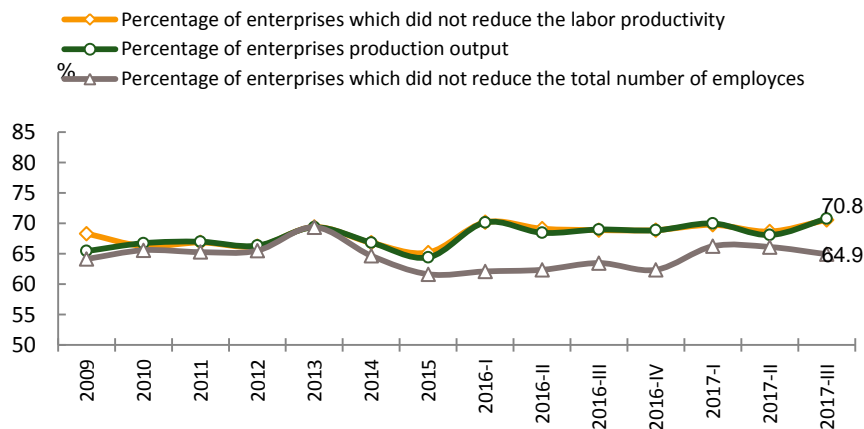
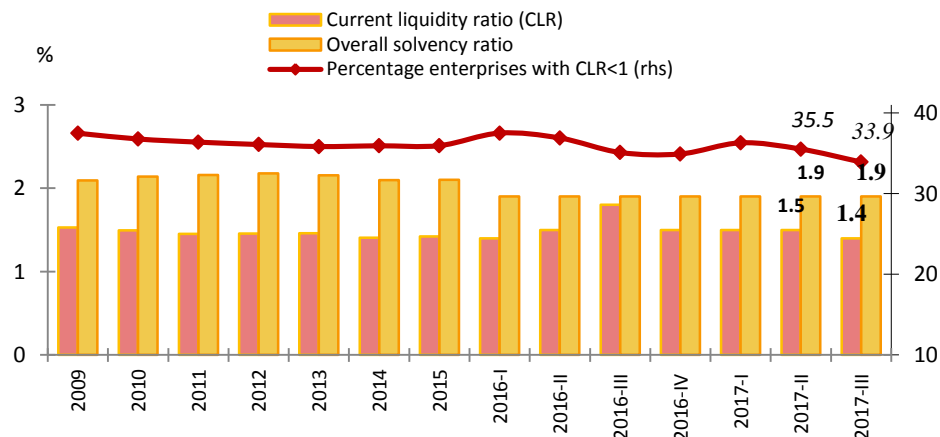# CHANGE IN THE FINANCIAL AND ECONOMIC PERFORMANCE

The production performance indicators showed some increase in Q3 2017. The share of enterprises, which did not reduce the production output and the labor productivity, increased to 70,8% and 70,6%, respectively. Meanwhile, the share of enterprises, which did not reduce the number of employees, decreased to 64,9%.

In Q3 2017, the current liquidity coefficient and overall solvency ratio of enterprises in the real sector have not changed significantly (1,4 and 1,9, respectively). The share of low-liquid enterprises (CLR<1) decreased from to 35,5% to 33,9%.

Indicators of production performance

**Indicators of liquidity and solvency of enterprises**

# CHANGE IN THE FINANCIAL AND ECONOMIC PERFORMANCE

In Q3 2017, the return on sales (before taxes) of enterprises reduced from 39,1% to 38,1%. This fluctuation was mainly explained by the decline of return on sales in the mining industry from 57,4% to 56,6%. The positive impact on the return on sales in the real sector was provided by the increase in the return on sales in manufacturing industry –from 31,7% to 33,6%.

In Q3 2017, the share of loss-making and low-profitable enterprises decreased from 22,8% to 22,3%, as well as the share of medium-profitable enterprises – from 41,6% to 40,6%. At the same time, an increase of the share of highly profitable enterprises was observed from 35,2% to 36,9%.

Return on sales, in %
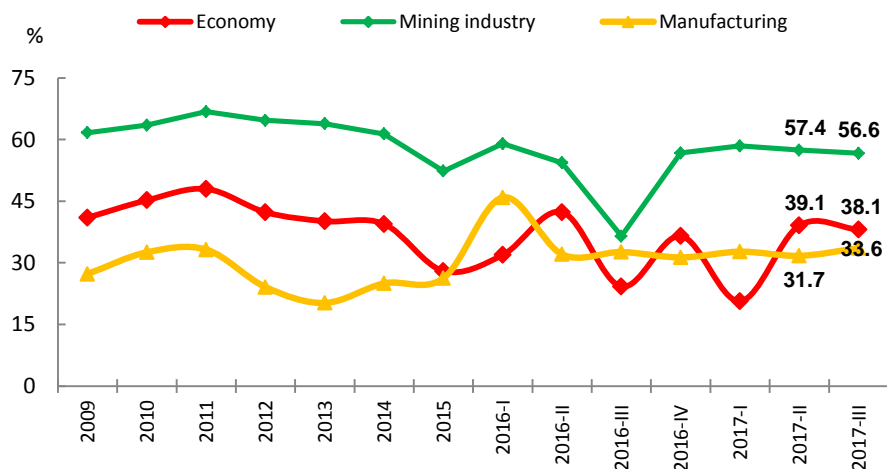
Classification of enterprises in terms of return on sales
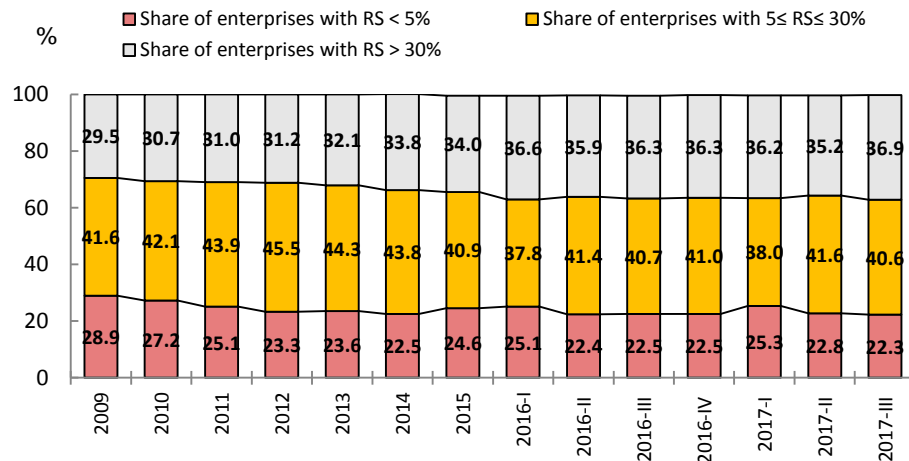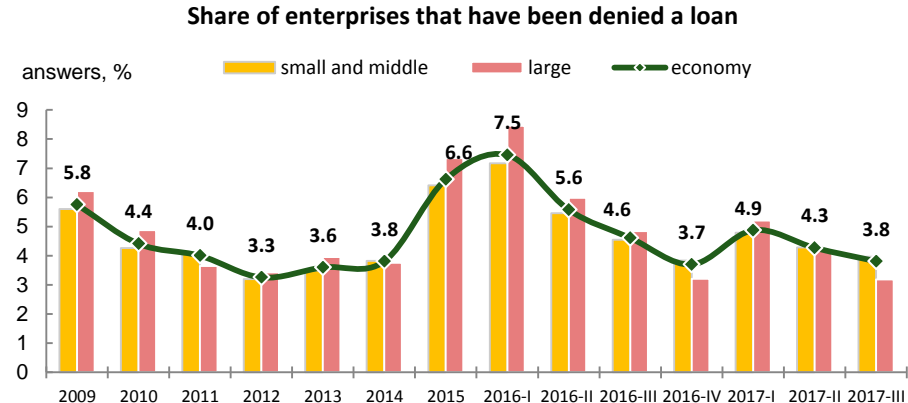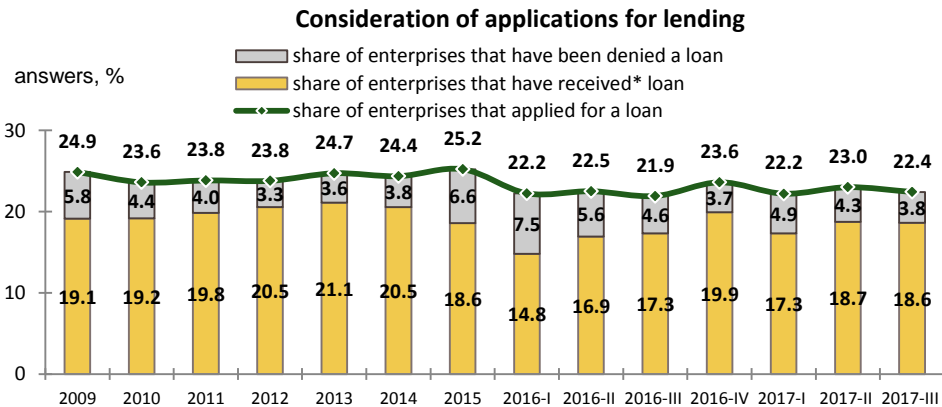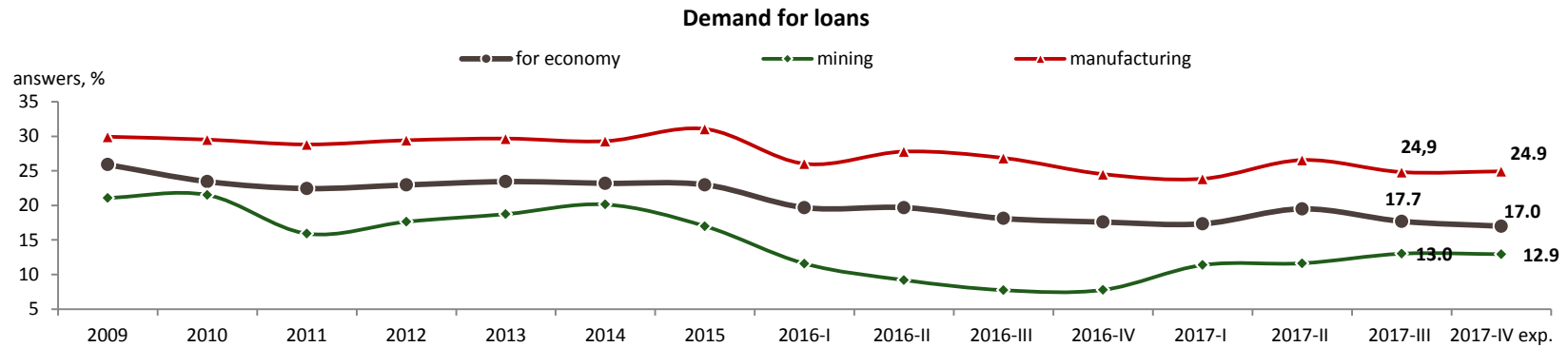
IMPACT ON THE REAL SECTOR OF THE ECONOMY BY THE BANKING SYSTEM

In Q3 2017, the demand of enterprises for bank loans slightly decreased.

In Q3 2017, 22,4% of the enterprises applied for a bank loan, and 83% of them obtained loans (18,6% out of the all respondents). The number of the enterprises, which have been denied a loan, decreased.

In Q4 2017, the demand for bank loans is expected to decline, at the expense of construction and transport.

Demand for loans

Consideration of applications for lending

*including the next tranche of the previously opened line of credit

Share of enterprises that have been denied a loan

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

In Q3 2017, price conditions (interest rates on loans, commission fees) and non-price conditions (maximum amount and loan tenor, requirements to a borrower's financial standing, collateral requirements) of lending remained negative. At the same time the number of enterprises indicating negative changes is gradually reducing.

The gap between actual and acceptable interest rate on Tenge loans slightly increased, on foreign currency loans – decreased. Acceptable loan tenors for enterprises in Tenge was 28 months, in foreign currency – 24 months (the actual loan tenors offered by banks – 22 months).
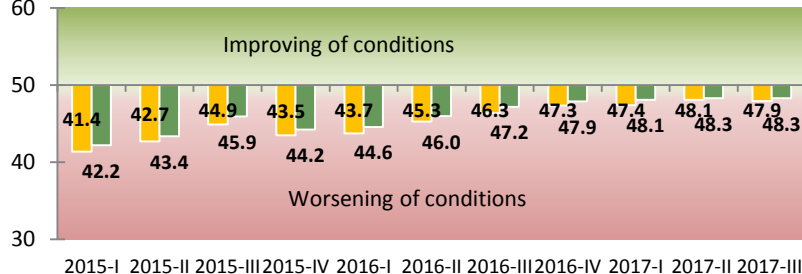
Changes in the conditions of lending
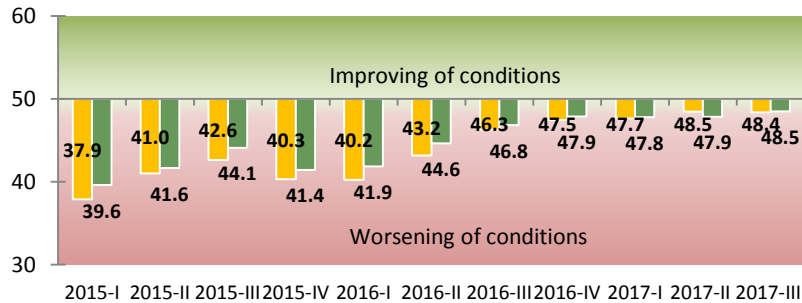
Loan rates and loan terms

Price conditions

In tenge

Non-price terms
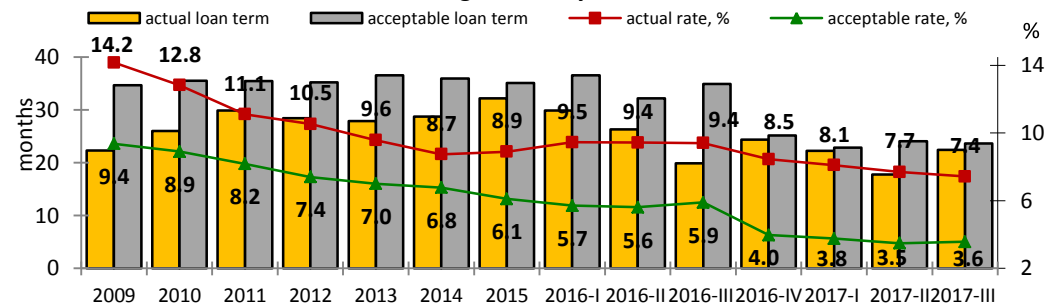

In foreign currency

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

Despite the fact that debt indicator of enterprises is still in negative area, in Q3 2017 the diffusion index showed the progress, growing from 48,8 to 49,1.

Assets and the equity capital of the enterprises remains in the growth area: DI of assets and equity capital made up 52.3 and 51.8, respectively.

In Q3 2017, the volume of deposits held by enterprises remained unchanged (DI=50,0). 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 = 49,8). In Q4 2017, enterprises expect a small decline in deposits (DI= 49,3).

Credit, assets and owned capital
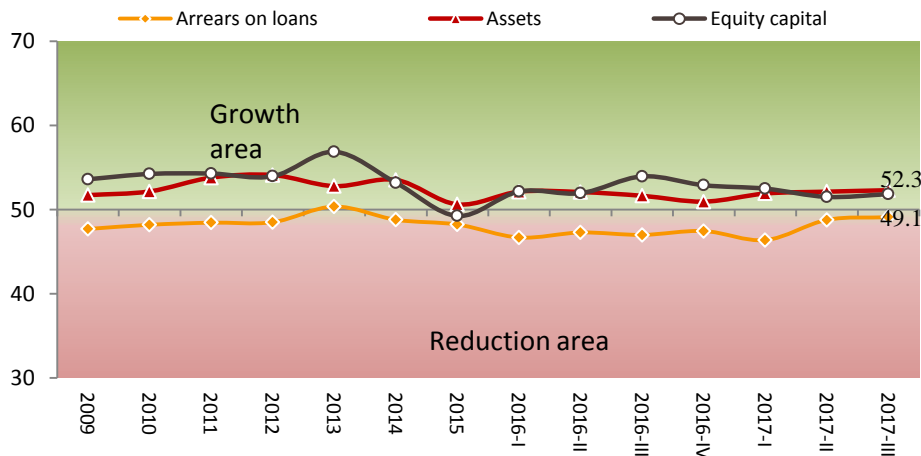
Volume of deposits of enterprises
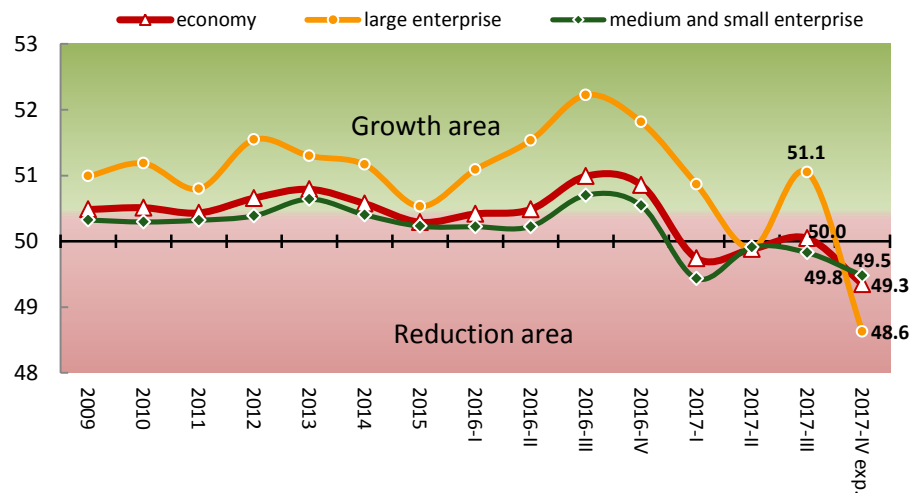
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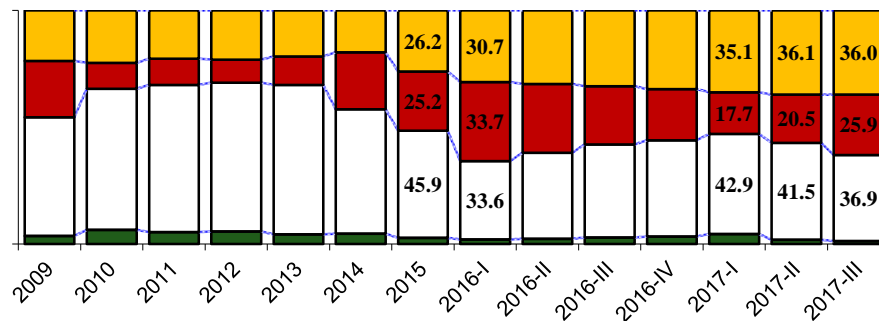
IMPACT OF CHANGES IN THE EXCHANGE RATE

According to the results of the survey of enterprises in the real sector of economy in Q3 2017 the negative impact of the exchange rate on the enterprises had grown. Worsening of the situation was related with the negative impact of the exchange rate of Tenge to US dollar and to Russian ruble, which was caused by increase in devaluation expectations on foreign exchange market in August 2017.

In Q3 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 Q3 2017, the share of enterprises, that prefer US dollar and EURO, increased.
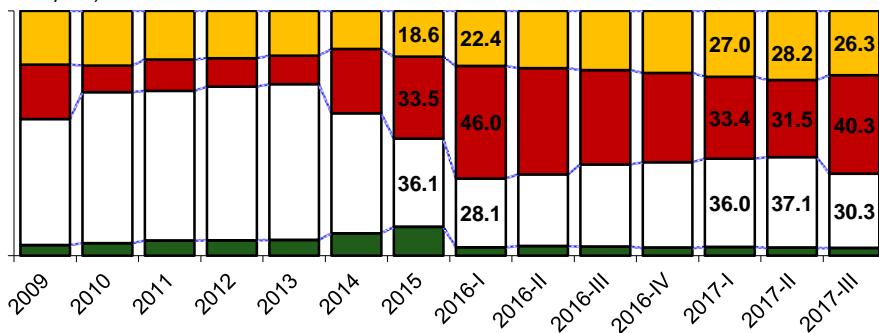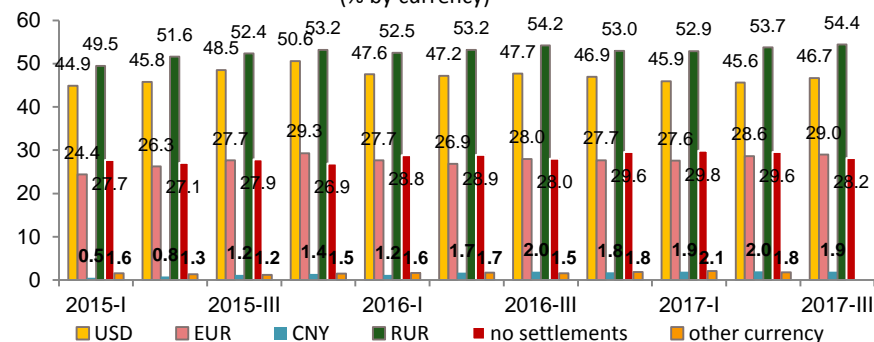
USD/KZT, answer %
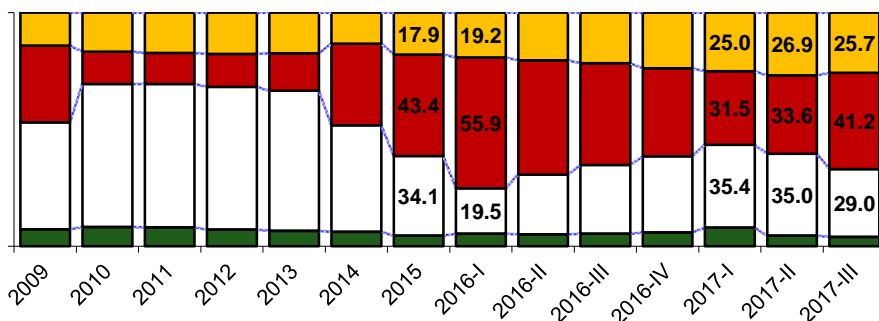
EUR/KZT, answer %

RUB/KZT, answer %

Usage of foreign currency in settlements
(% by currency)

positive   negative   no impact   I don't know

USD   EUR   CNY   RUR   no settlements   other currency

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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)

Research and Statistics Department
National Bank of Kazakhstan