



NATIONAL BANK OF KAZAKHSTAN

MARKET REVIEW
Enterprise Survey in the Real
Sector of the Economy
2Q2017

CONTENTS

- I. Primary Development Trends (page 3)
- II. Demand for Final Products (page 4)
- III. Price Changes in the Real Sector (page 5)
- IV. Change in the Production Output (page 6)
- V. The Structure of a Balance Sheet: Assets (page 7)
- VI. The Structure of a Balance Sheet: Liabilities (page 8)
- VII. Change in the Financial and Economic Performance (page 10)
- VIII. Impact on the Real Sector of the Economy by the Banking System (page 12)
- IX. Impact of Changes in the Exchange Rate (page 15)
- X. Composite Indicator (page 16)
- XI. Methodological Comments (page 17)



PRIMARY DEVELOPMENT TRENDS IN KAZAKHSTAN'S REAL SECTOR

In Q2 2017, there was a weakening of negative processes in the economy, which was due to rising prices for oil products and the adaptation of agents to the new economic conditions. The demand for final products has increased, production efficiency indicators have improved, profitability of sales has increased, the share of enterprises with the overdue accounts payables has decreased. There was a slowdown in the growth of prices for raw materials.

The negative impact of changes in the Tenge exchange rate to the Russian ruble has decreased. Performance indicators of enterprises have improved:


- the share of enterprises that did not reduce the volume of production has increased;
- the share of enterprises that did not reduce labor productivity has increased.

At the same time, the deterioration of the price and non-price credit conditions has slowed down.

Primary Trends in the Real Sector


Market Demand and Prices for Final Products, Raw Materials and Supplies

The demand for final products increased 

Prices of raw materials and supplies are growing 


Assessment of the Financial and Economic Standing of Enterprises

Enterprises' liquidity ratios improved 


Profitability ratios improved 


The percentage of enterprises with arrears decreased 

The Effect from Changes in the Exchange Rate

The degree of negative impact of the change in the Tenge exchange rate to USD and EURO is increasing. 


Assessment of Business Activity among Enterprises and of Production Efficiency


The production output are growing 


Investment activity of enterprises improved 


Production efficiency indicators improved 


Influence of the Banking System

The percentage of enterprises that were rejected a loan has decreased 

Price and non-price terms and conditions of lending for property, plant and equipment and working capital deteriorated 

The gap between an actual and an acceptable interest rate on the Tenge loans reduced 

 - positive change

 - negative change

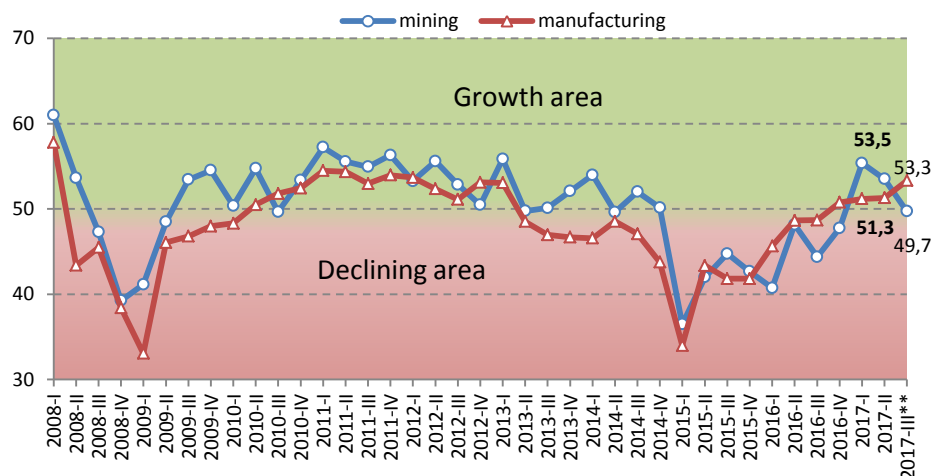
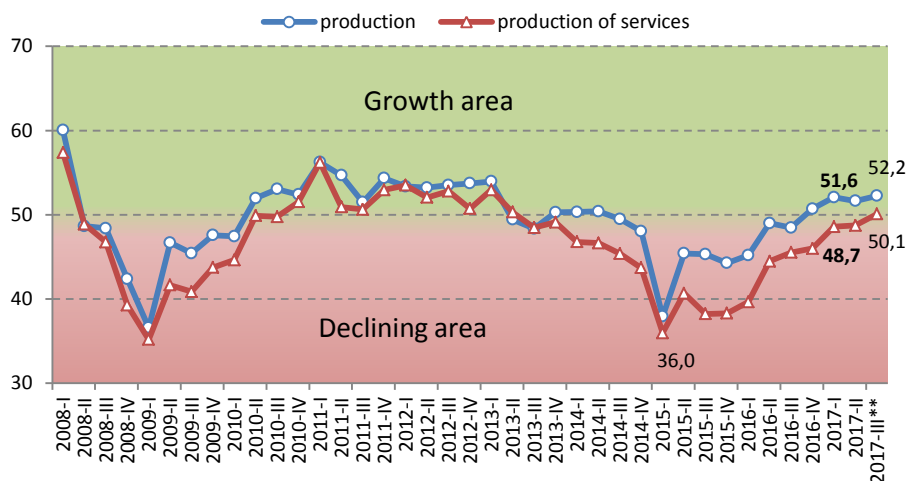
DYNAMICS OF THE DEMAND FOR FINAL PRODUCTS

In Q2 2017, the demand in the real sector for final products showed a slight increase; the diffusion index (DI) made up 50.2 as compared to 50.3 in Q1 2017. In Q3 2017, demand is expected to improve, DI is expected to grow to 51.1. Demand for goods in Q2 2017 increased to 51.6, the rates of decline in demand for services slowed down to 48.7.

In the mining and manufacturing industry the demand for final products increased to 53.5 and 51.3, respectively.

Demand for the finished goods, DI*

		2016				2017		
Answers of enterprises, %		Q1	Q2	Q3	Q4	Q1	Q2	Q3exp.
Increase	1	12.1	26.1	26.7	23.6	17.4	29.1	22.3
No changes	2	47.0	48.0	49.9	48.8	49.3	49.7	41.3
Decrease	3	40.6	25.8	23.4	27.6	33.3	21.2	9.7
Diffusion index, DI=line1+0.5*line2	4	35.8	50.2	51.6	48.0	42.1	53.9	56.3
DI, seasonal adjusted	5	42.5	46.8	47.0	48.5	50.3	50.2	51.1



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

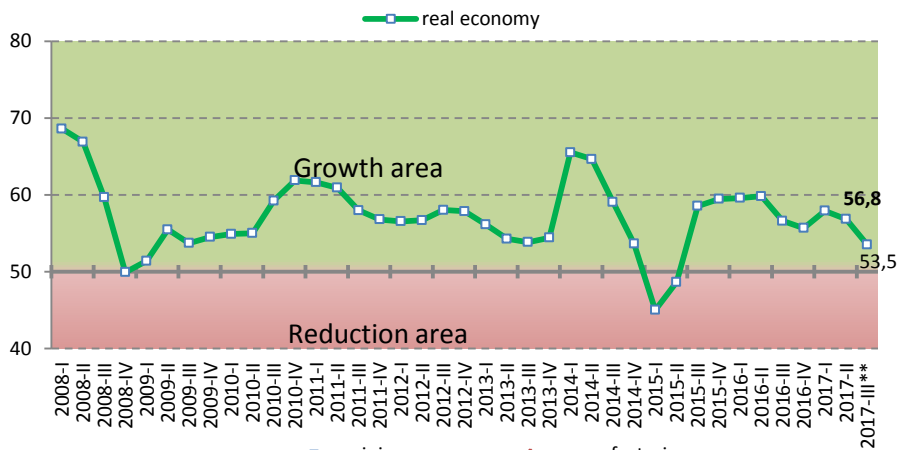
**The Figures show expectations of enterprises regarding the change in the parameter in 3Q2017.

CHANGE IN PRICES IN THE REAL SECTOR

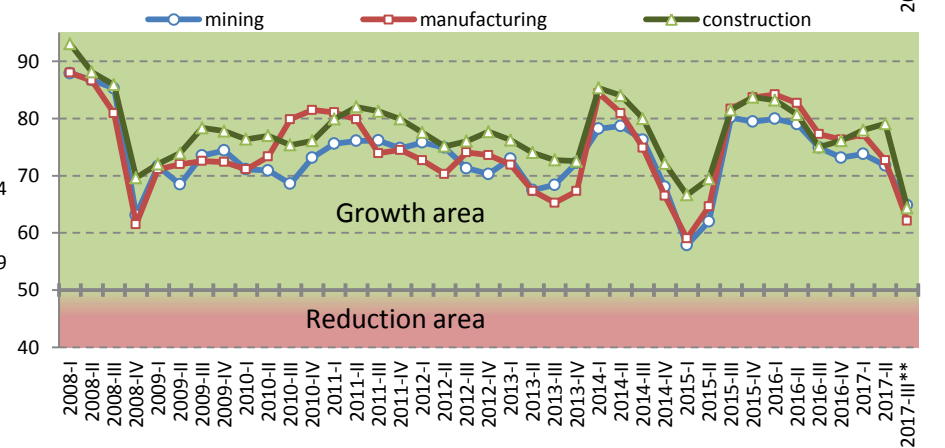
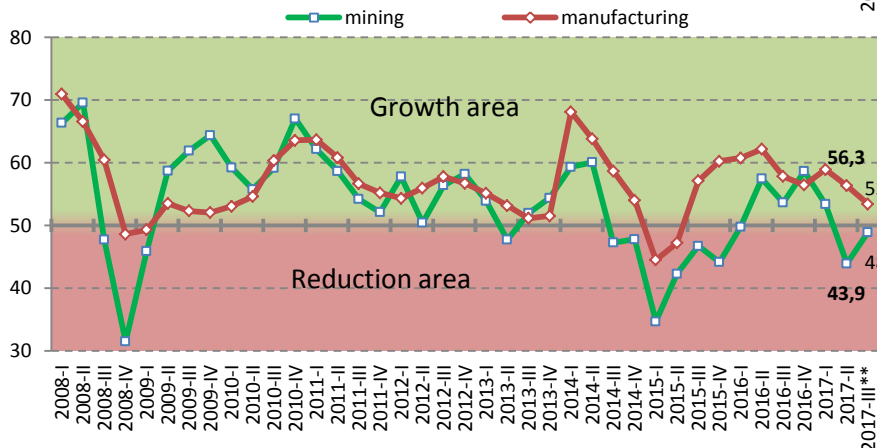
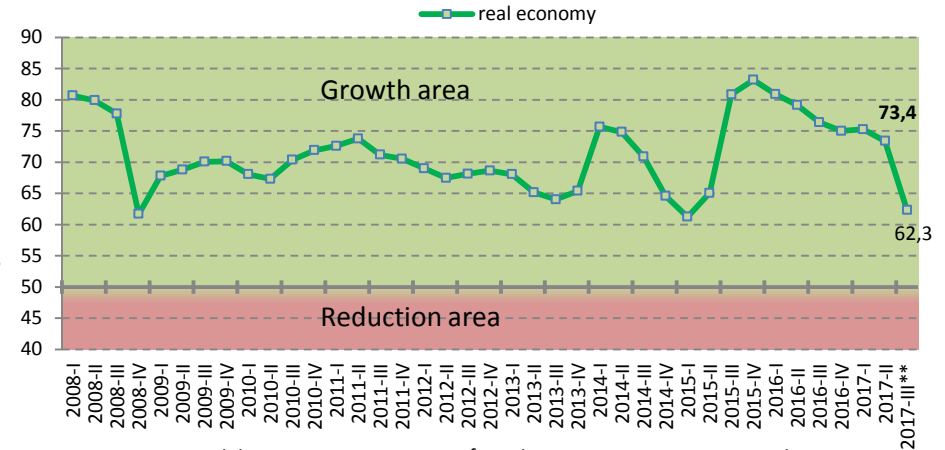
In Q2 2017, growth rates of prices for final products in the real sector slow down (DI was 56.8). In the manufacturing industry prices had increased DI=56.3, in the mining industry prices decreased DI=43.9. The tendency of price increase for raw materials and supplies persists (DI=73.4).

In the Q3 2017, the growth in prices of final products, raw materials and supplies is expected to slow down (DI from 56.8 to 53.5 and from 73.4 to 62.3, respectively).

Prices for finished goods, DI*



Prices for raw materials, DI*



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

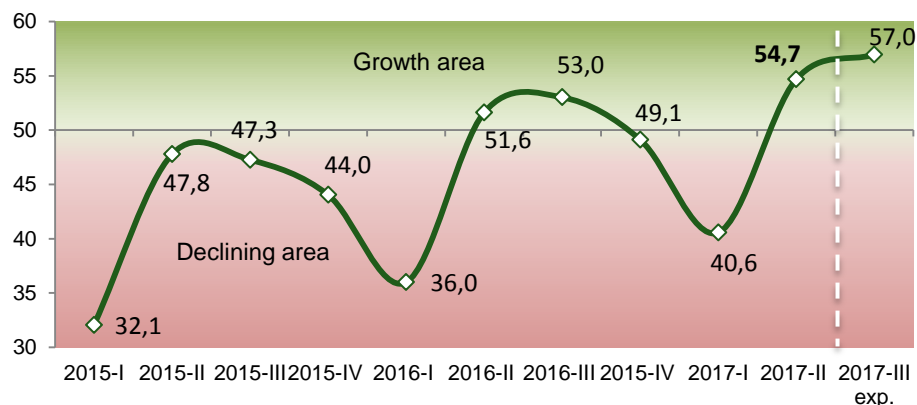
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CHANGE IN THE PRODUCTION OUTPUT

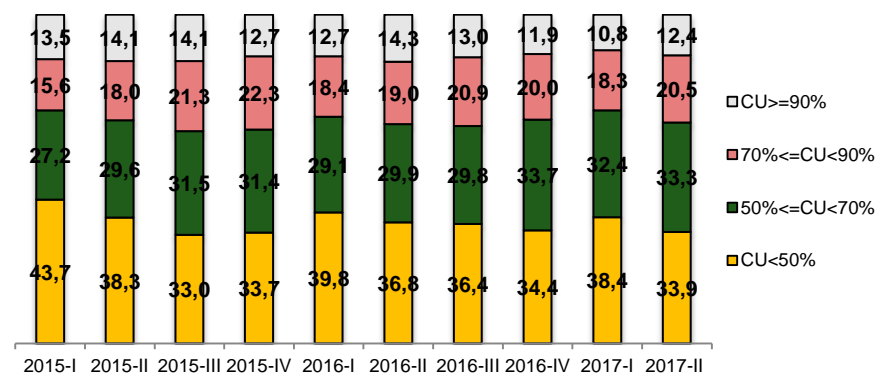
In Q2 2017, an increase in the production output was observed (DI = 54.7), in Q3 2017, enterprises also expect the production output to increase (DI = 57.0).

In Q2 2017, the percentage of enterprises with the capacity utilization more than 90% increased to 12.4%. The percentage of enterprises with capacity utilization below 50% decreased to 33.9%.

Changes in output volume



Level of capacity utilization (short of respondents, %)



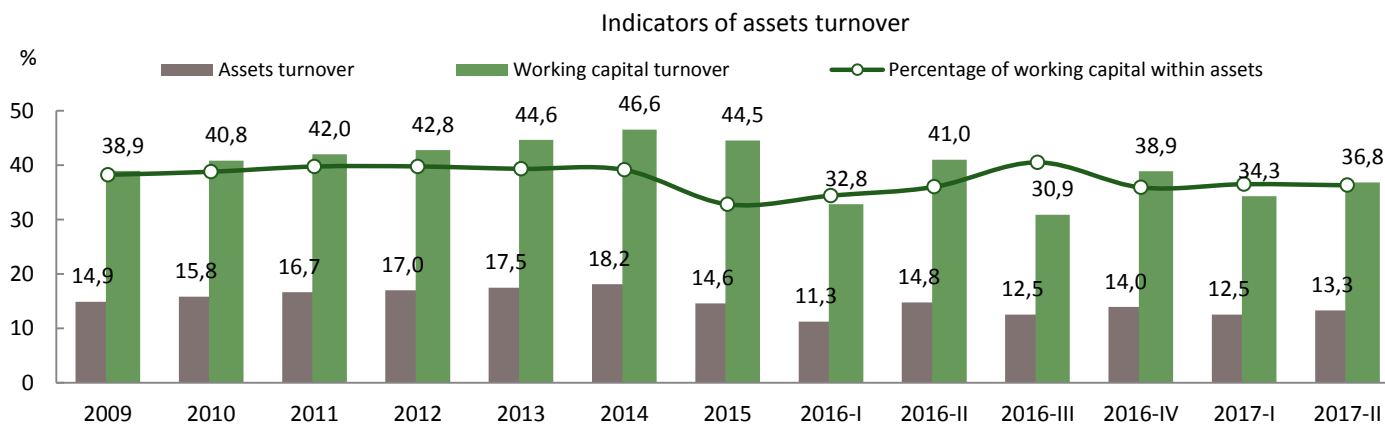
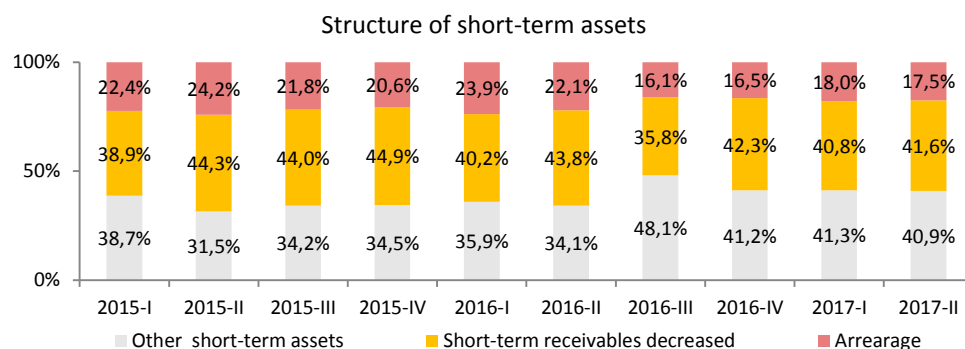
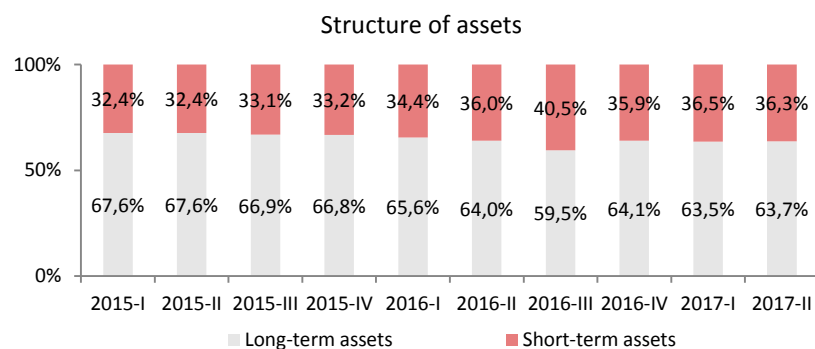
* The higher (the lower) the DI deviates from 50, the higher (the lower) are the rates of growth (decline) in prices; the level of DI=50 means the absence of any change



THE STRUCTURE OF A BALANCE SHEET: ASSETS

In the asset structure of enterprises of the real sector the share of short-term assets slightly decreased from 36.5% in Q1 2017 to 36.3% in Q2 2017. In the structure of short-term assets, the share of short-term receivables increased from 40.8% in Q1 2017 to 41.6% in Q2 2017, and the share of inventories decreased from 18.0% in Q1 2017 to 17.5% in Q2 2017.

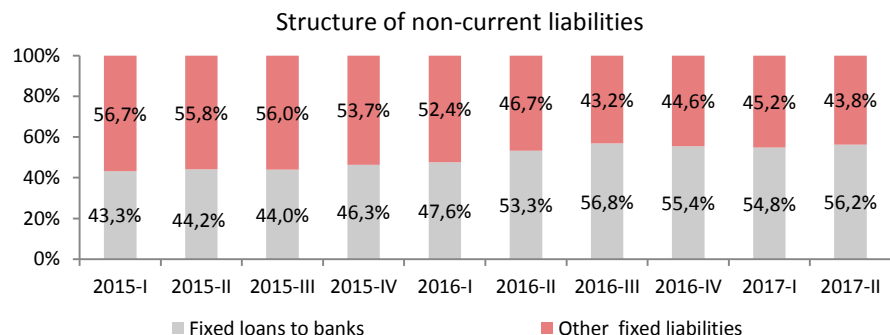
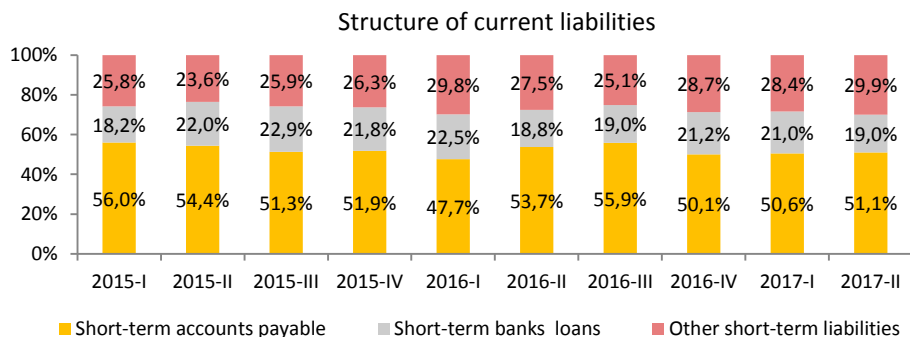
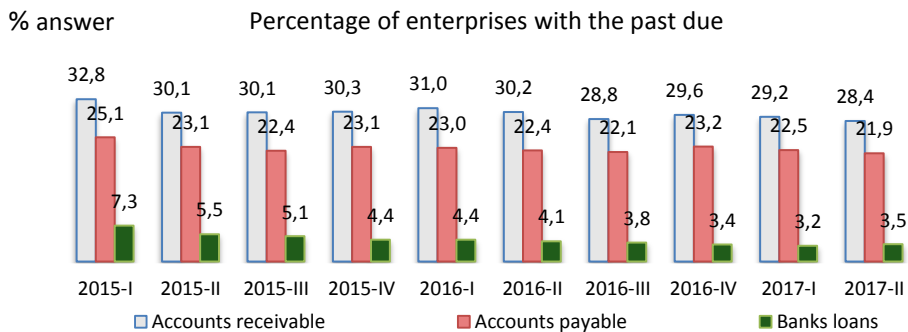
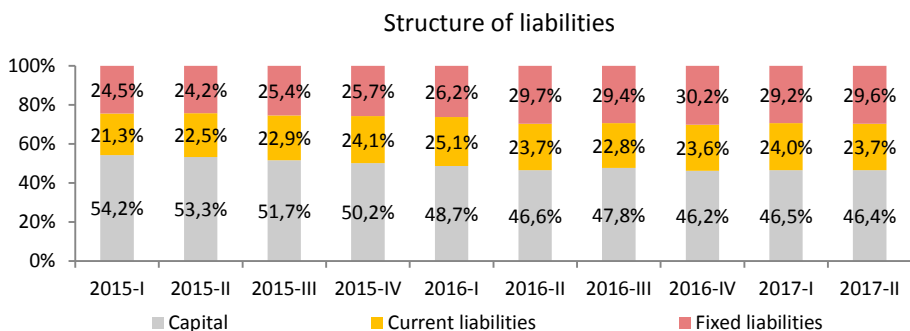
Turnover of assets and working capital increased to 13.3% and 36.8%, respectively. The share of working capital within assets increased (to 36.3%).



THE STRUCTURE OF A BALANCE SHEET: LIABILITIES

In the structure of liabilities the share of equity capital slightly decreased from 46.5% in Q1 2017 to 46.4% in Q2 2017. The share of fixed liabilities increased (from 29.2% to 29.6%), and the share of short-term liabilities decreased from 24.0% to 23.7%. The situation with arrears slightly improved: the share of enterprises with the overdue accounts payables decreased to 21.9%. Among enterprises which participated in the monitoring, the share of enterprises with the past due on bank loans accounted for 3.5%.

In the structure of current liabilities, the share of short-term accounts payables increased from 50.6% in Q1 2017 to 51.1% in Q2 2017, and the share of bank loans decreased (19,0%). In the structure of non-current liabilities, the share of fixed loans to banks increased from 54.8% in Q1 2017 to 56.2% in Q2 2017.



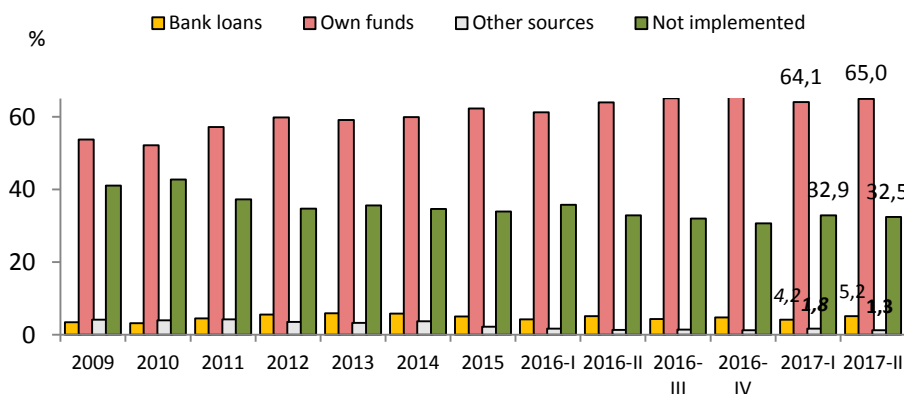
INVESTMENT ACTIVITY

The investment activity of enterprises in Q2 2017 slightly improved: the share of enterprises, which did not finance their investments, decreased to 32.5%. At the same time, the share of enterprises, which used their own funds for these purposes, increased to 65.0%.

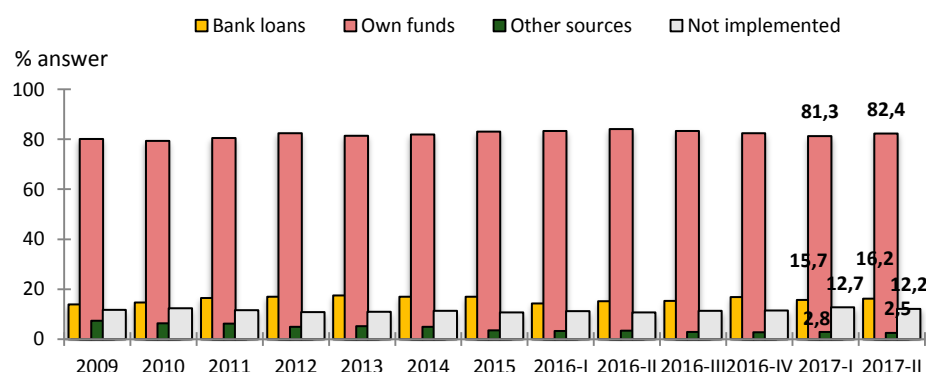
The main funding source for the working capital is still own funds of enterprises (82.4%). The number of enterprises, which use bank loans to replenish their working capital, in Q2 2017 increased (to 16.2%).

The main factors that limit financing opportunities of enterprises are the shortage of financial resources, insufficient demand for their products and competition from other companies.

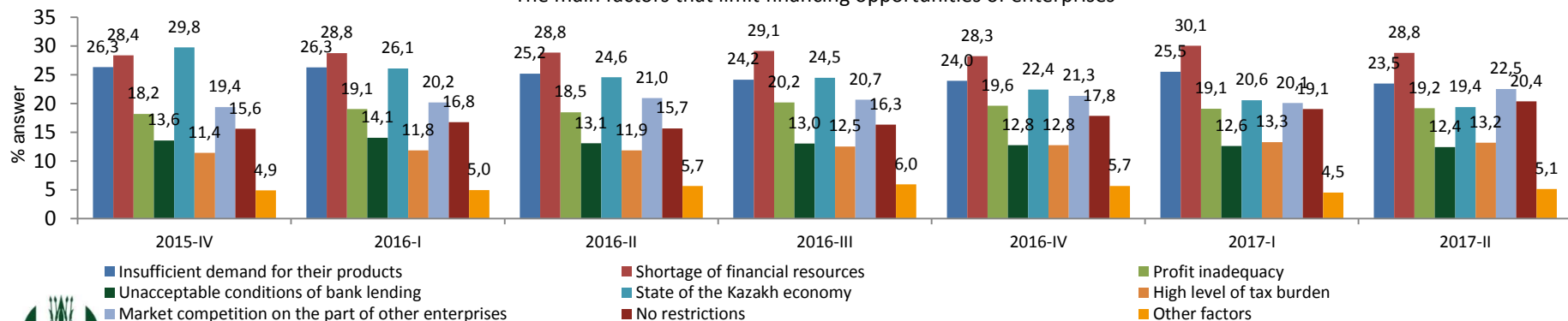
Funding source for the fixed assets



Funding source for the current assets



The main factors that limit financing opportunities of enterprises

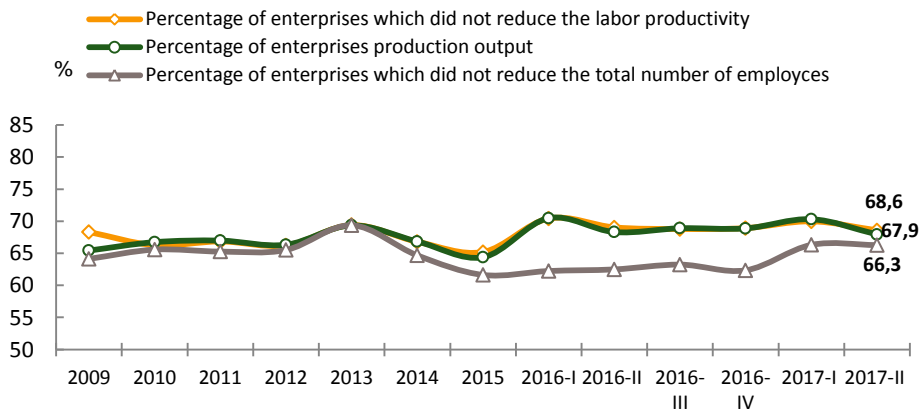


CHANGE IN THE FINANCIAL AND ECONOMIC PERFORMANCE

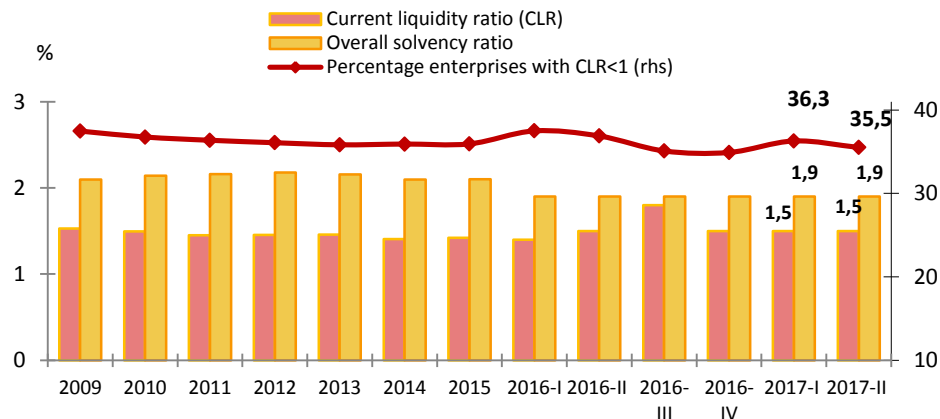
In Q2 2017, production performance indicators decreased. The share of enterprises, which did not reduce the production output and the labor productivity, decreased to 67.9% and 68,6%, respectively. The share of enterprises, which did not reduce the total number of employees, remained at the level of 66.3%.

In Q2 2017, the current liquidity and overall solvency ratio of enterprises in the real sector remained unchanged (1.5 and 1.9, respectively). The share of low-liquid enterprises (CLR<1) decreased to 35.5%.

Indicators of production performance



Indicators of liquidity and solvency of enterprises

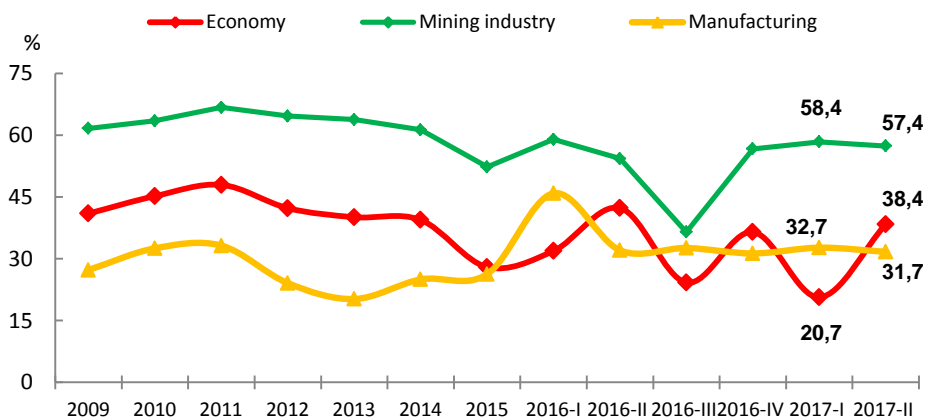


CHANGE IN THE FINANCIAL AND ECONOMIC PERFORMANCE

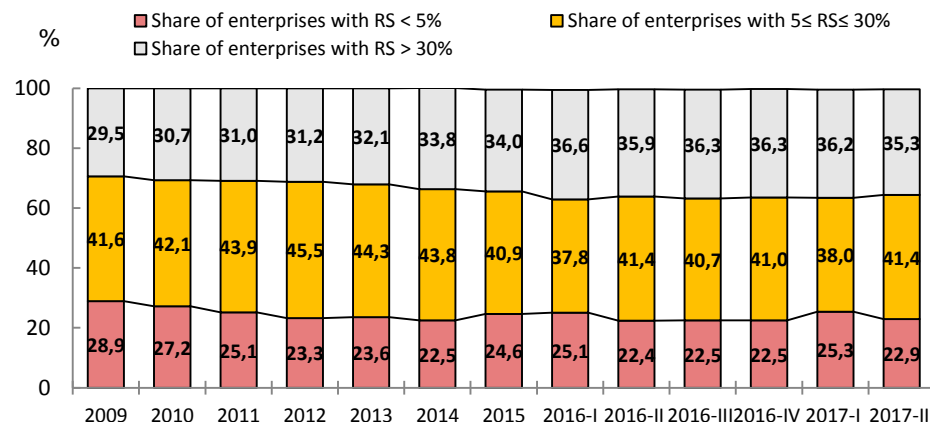
The return on sales (before taxes) of enterprises in the real sector has grown to 38.4% (20.7% in Q1 2017). The return on sales in the mining industry decreased to 57.4% (58.4% in Q1 2017).

In Q2 2017, the share of loss-making and low-profitable enterprises decreased to 22.9% (25.3% in Q1 2017), the share of highly profitable enterprises decreased to 35.3% (36.2% in Q1 2017). At the same time, the share of medium-profitable enterprises increased to 41.4% (38.0% in Q2 2017).

Return on sales, in %



Classification of enterprises in terms of return on sales

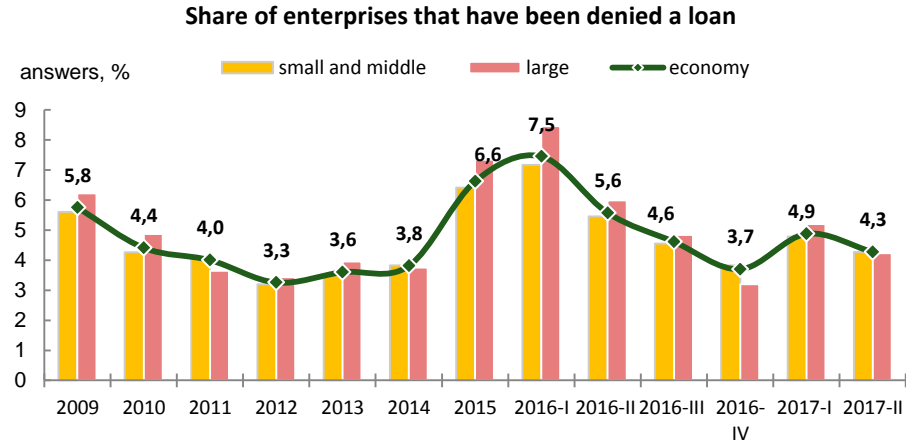
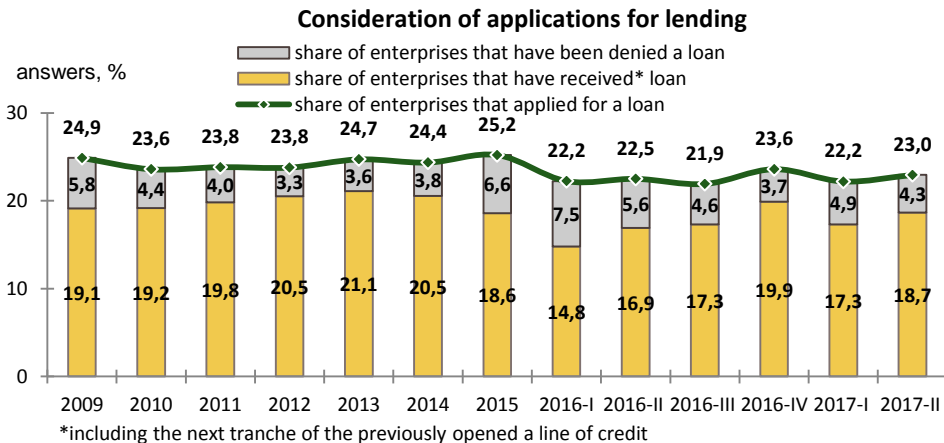
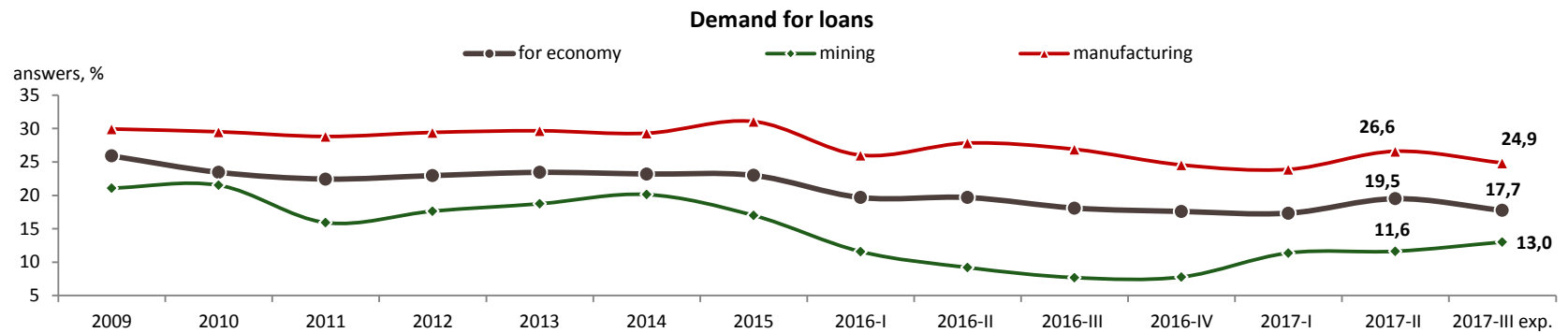


IMPACT ON THE REAL SECTOR OF THE ECONOMY BY THE BANKING SYSTEM

In Q2 2017, the demand of enterprises for bank loans showed growth.

In Q2 2017, the share of enterprises, which applied for a bank loan, increased to 23.0% (from 22.2% in Q1 2017). The share of enterprises, which obtained loans (including next tranche on an earlier credit line) increased to 18.7% (17.3% in Q1 2017). The level of rejected loans decreased: the share of enterprises that were rejected a loan decreased to 4.3% (4.9% in Q1 2017). Moreover, the share of large enterprises, which failed to obtain a loan, also decreased to 4.2% (5.2% in Q1 2017).

The share of enterprises, which intend to get a loan in Q3 2017, decreased to 17.7%. At the same time, the loan demand of enterprises in the mining industry increased to 13.0%, in the manufacturing industry decreased to 24.9%.



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

In Q2 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 of current and fixed assets slightly deteriorated.

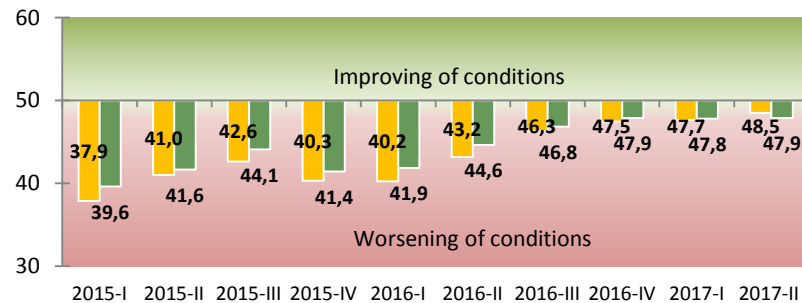
The annual average interest rate on loans in Tenge in Q2 2017 decreased to 13.8% (14.3% in Q1 2017). The gap between actual and acceptable interest rate on Tenge loans decreased: acceptable annual interest rates accounted for 7.8%. An actual loan tenor in Tenge increased as compared to the previous quarter and was 21 months, and an acceptable loan tenor for enterprises – 27 months.

In Q2 2017 interest rates on foreign currency loans decreased to 7.7% (8.1% in Q1 2017), and interest rates acceptable for enterprises – to 3.5%. Actual loan tenors in foreign currency were 18 months, and acceptable tenors – 24 months (in Q1 2017 – 22 and 23 months, respectively).

Changes in the conditions of lending

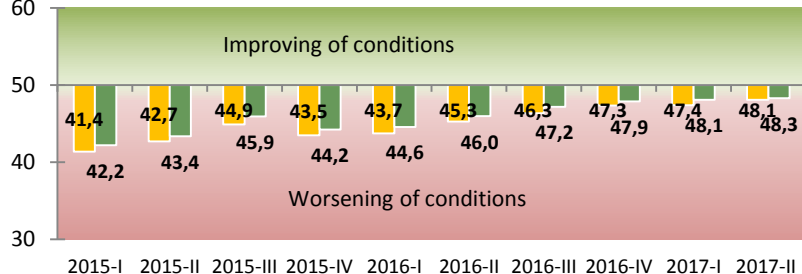
Price conditions

Current assets Fixed assets



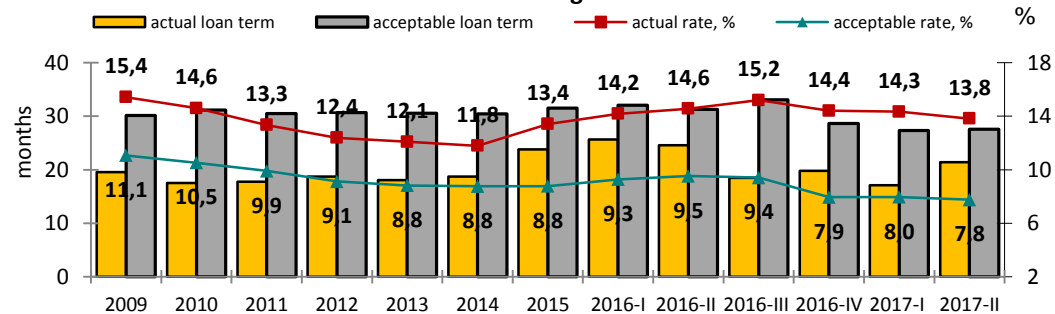
Non-price terms

Current assets Fixed assets

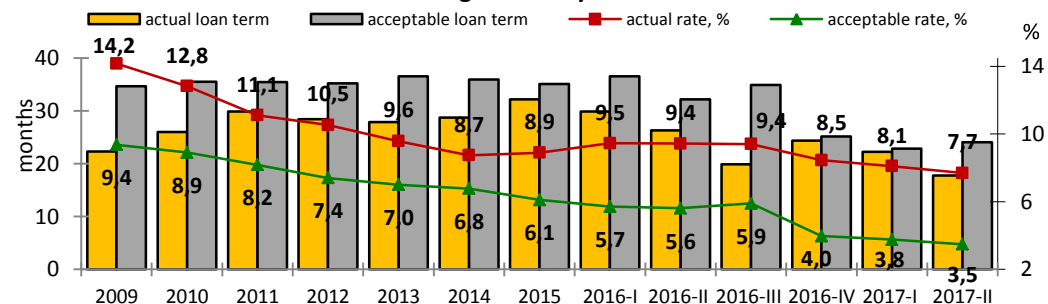


Loan rates and loan terms

In tenge



In foreign currency



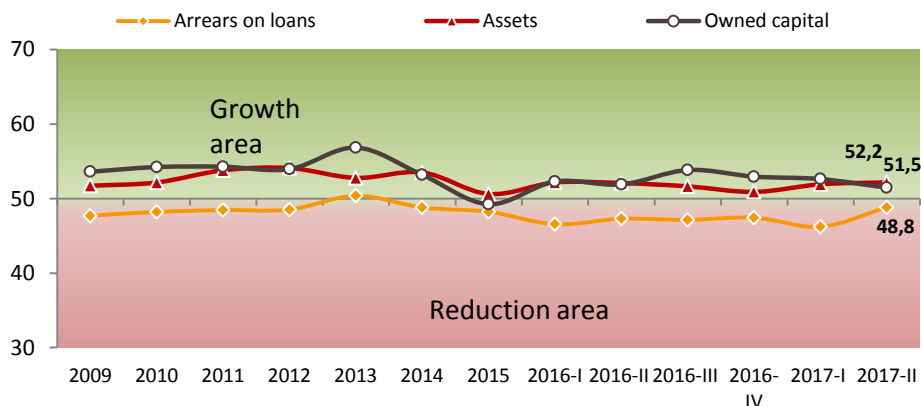
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IMPACT ON THE REAL SECTOR OF THE ECONOMY BY THE BANKING SYSTEM

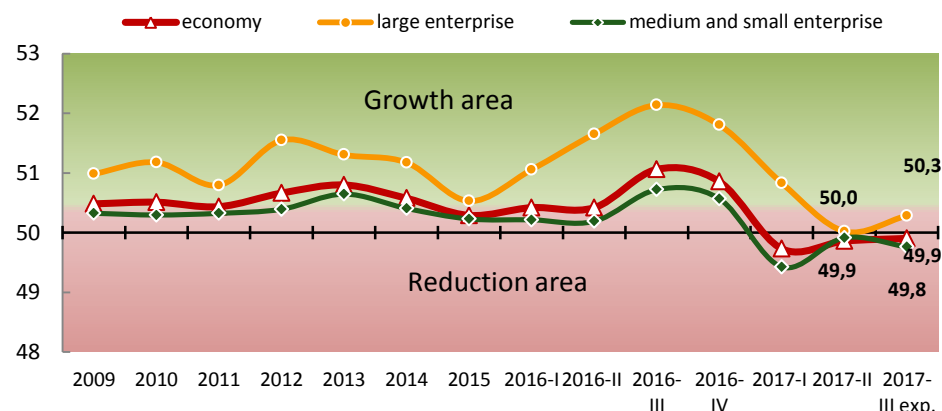
In Q2 2017, debt of enterprises on bank loans increased: DI=48.8(DI=46.2 in Q1 2017). Assets and net worth of enterprises increased as well: DI of assets and net worth made up 52.2 and 51.5, respectively.

In Q2 2017, the volume of deposits held by enterprises with banks declined (DI=49.9). The decline is noted both on deposits of large enterprises as well as small and medium-sized enterprises: DI = 50.0 and 49.9, respectively. In Q3 2017, enterprises expect a preservation in volume of deposits (DI= 49.9 as well as in Q2 2017).

Credit, assets and owned capital



Volume of deposits of enterprises



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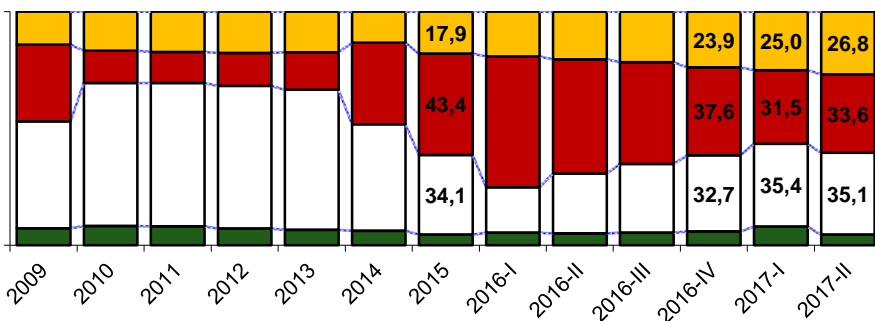


IMPACT OF CHANGES IN THE EXCHANGE RATE

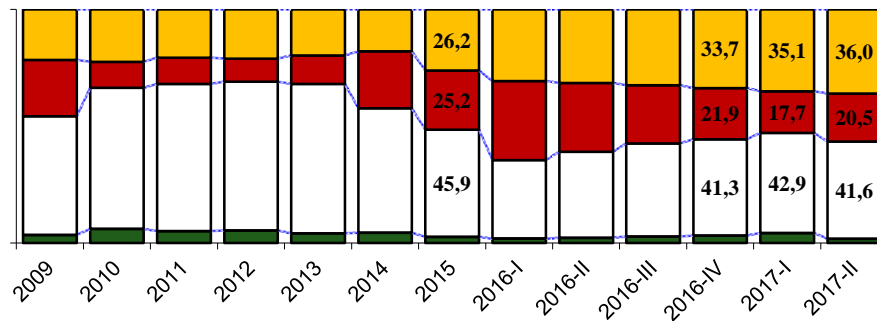
According to the results of the survey of enterprises in the real sector of economy in Q2 2017 the tendency for decreasing of negative impact of the exchange rate of Tenge to Russian ruble on their activity continued. At the same time, the share of enterprises that experienced a negative effect from change in the exchange rate of Tenge to US dollar and to euro increased to 33.6% and 20.5% of respondents.

US dollar is the second most used currency for transactions with foreign partners (in Q2 2017 in the basket of currencies the share accounted for 46%). Russian ruble remains the main currency (54%). At the same time, in the reported quarter the share of companies indicating negative effect of the change in the exchange rate of Tenge to US dollar decreased by 15,4 p.p. compared to the Q2 2016.

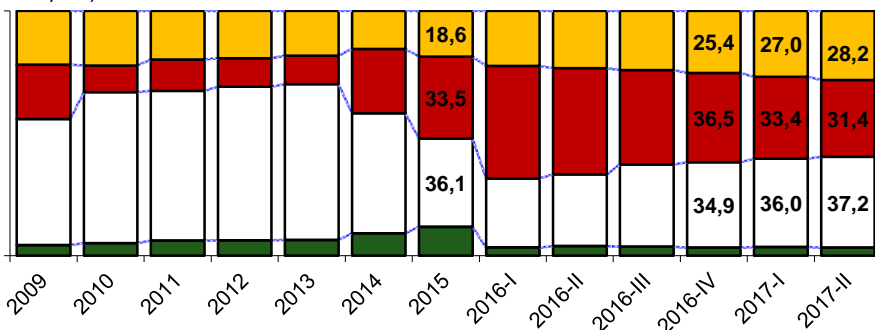
USD/KZT, answer %



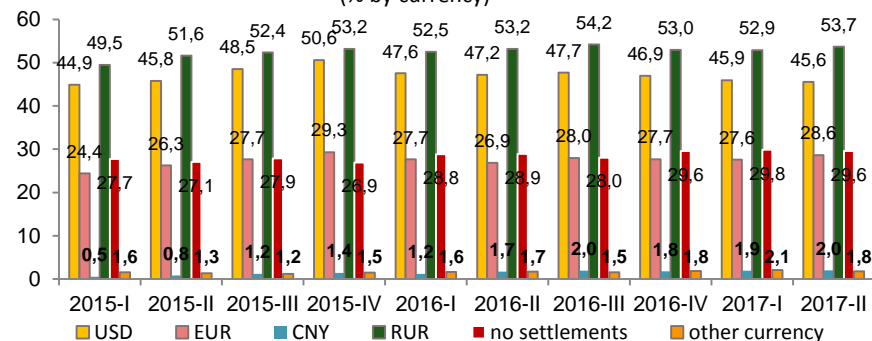
EUR/KZT, answer %



RUB/KZT, answer %



Usage of foreign currency in settlements (% by currency)



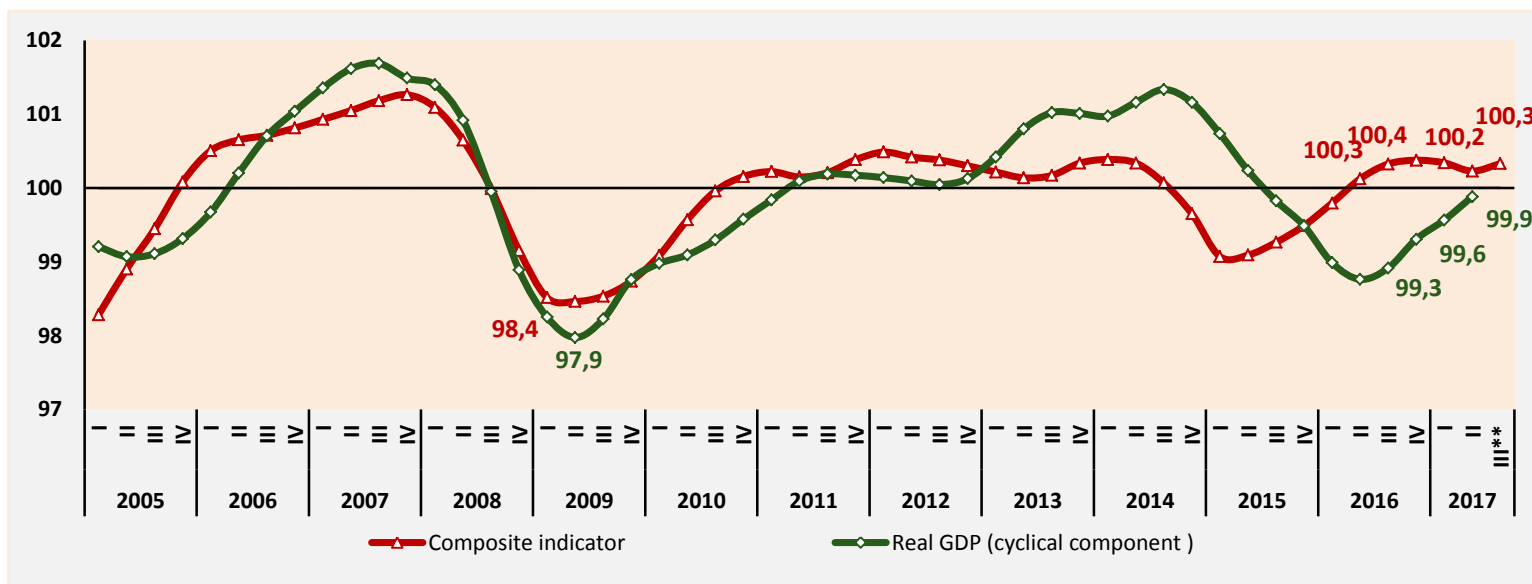
COMPOSITE LEADING INDICATOR*

In Q2 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 and internal demand.

In Q2 2017 growth in demand for their outputs is marked by companies in mining, manufacturing industries, agriculture, and production of consumer goods and services. At the same time, there was a slight decrease in demand for communication services and construction works compared to the previous quarter.

Respondents also note a slowdown in the growth rates of prices for final goods and raw materials, employment growth at enterprises, and a decrease in the interest rate on loans in Tenge and foreign currency. However, despite the relative improvement in lending conditions in the reporting quarter, the main source of financing for current assets and fixed capital, according to the surveyed enterprises, are own funds of the companies.

In Q3 2017, companies expect further improvement in the economic situation (CLI amounted to 100.3), as evidenced by high indicators for the expected level of demand for final goods in all sectors of the economy and slowdown in input prices.



* A composite 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 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 3Q2017 are calculated on the basis of expectations among enterprises in the real sector that participated in the survey.



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

