NATIONAL BANK OF KAZAKHSTAN

MARKET REVIEW
Enterprise Survey in the Real Sector of the Economy

4Q2016

CONTENTS

PRIMARY DEVELOPMENT TRENDS IN KAZAKHSTAN'S REAL SECTOR

In Q4 2016 the negative effect associated with a decrease in demand for finished products weakened. The weakening of negative processes was related to the growth of prices for oil products and adaptation of agents to the new economic environment. The profitability of companies of the real sector improved as a result of significant growth of profitability in the mining industry and in professional, scientific and technical activities. There was a slowdown in the growth of raw material prices.

The negative impact from changes in the exchange rate of tenge versus USD, EUR and RR diminished. Performance ratios of enterprises improved:
- investment activities of enterprises increased;
- the percentage of enterprises which did not decrease productivity grew.

Nevertheless, the indicators of price and non-price conditions of lending worsened.

Primary Trends in the Real Sector	
Market Demand and Prices for Final Products, Raw Materials and Supplies	**Assessment of Business Activity among Enterprises and of Production Efficiency**
The demand for final products continued to decline ⬇	The production output decreased ⬇
Prices of raw materials and supplies are growing ⬇	Investment activity of enterprises improved ⬆
	Production efficiency indicators improved ⬆
Assessment of the Financial and Economic Standing of Enterprises	
Enterprises' liquidity ratios worsened ⬇	**Impact by the Banking System**
Profitability ratios improved ⬆	The percentage of enterprises that were rejected a loan has decreased ⬆
The percentage of enterprises with arrears increased ⬇	Price and non-price terms and conditions of lending for property, plant and equipment and working capital deteriorated ⬇
The Effect from Changes in the Exchange Rate	
The degree of negative impact of the change in the exchange rate of the tenge versus the USD, EURO and RR is decreasing. ⬆	The gap between an actual and an acceptable interest rate on the tenge loans increased ⬇

⬆ - positive change   ⬇ - negative change

DYNAMICS OF THE DEMAND FOR FINAL PRODUCTS

In Q4 2016, the demand for output in the real sector as a whole declined; the diffusion index (DI) made up 48.7 as compared to 47,1 in Q3 2016. In Q4 2016, the rates of decline in demand for services slowed down to 45.8, demand for goods increased to 51.1.

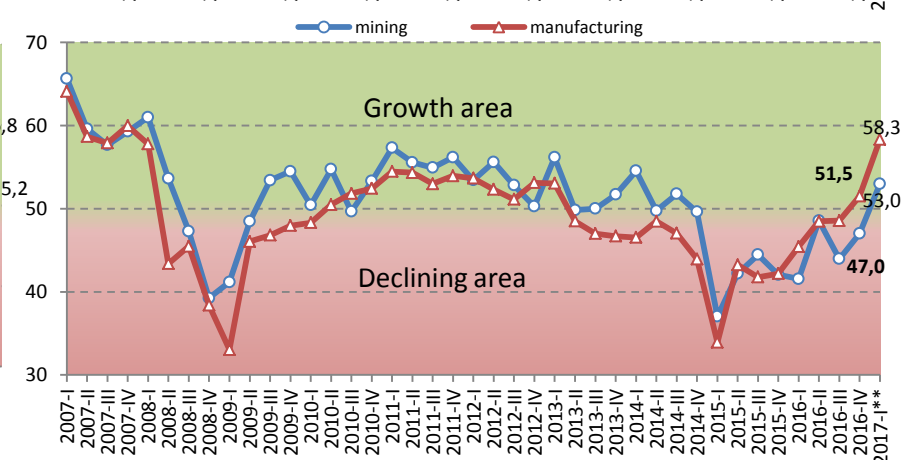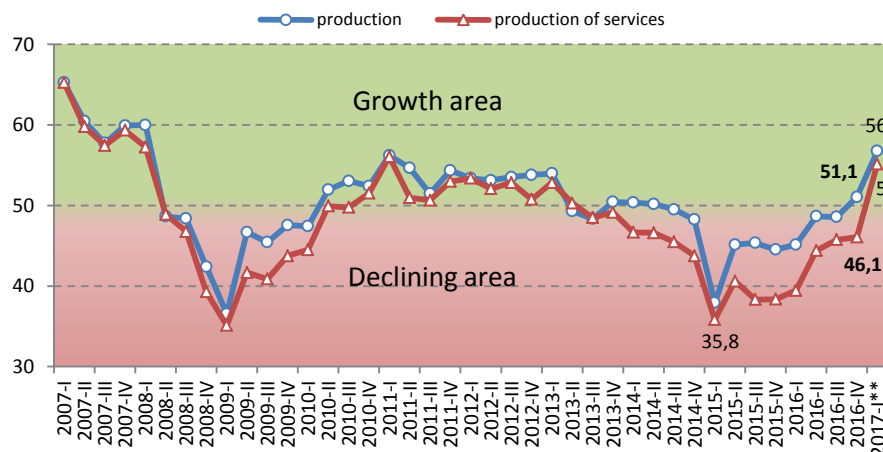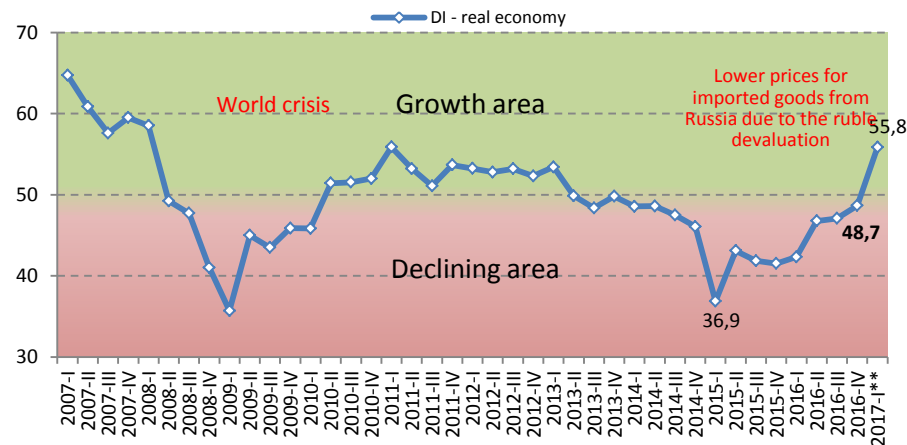In the mining industry the demand for final products declined (DI=47), and in the manufacturing industry the demand for final products grew (DI=51.5).

Demand for the finished goods, DI*

Answers of enterprises, %		2015				2016				2017
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1 exp.
Increase	1	9.8	23.1	22.2	18.4	12.1	26.1	26.7	23.6	13.7
No changes	2	43.2	46.0	47.1	45.1	47.0	48.0	49.9	48.9	38.3
Decrease	3	47.0	30.9	30.6	36.4	40.6	25.8	23.4	27.5	19.8
Diffusion index, DI=line1+0.5*line2	4	31.4	46.1	45.8	41.0	35.8	50.2	51.6	48.0	46.9
DI, seasonal adjusted	5	36.9	43.1	41.9	41.5	42.3	46.8	47.1	48.7	55.8

Demand for finished goods, 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
**The Figures show expectations of enterprises regarding the change in the parameter in 1Q2017.

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CHANGE IN PRICES IN THE REAL SECTOR

In Q4 2016, growth rates of prices for final products in the real sector remain the same (DI was 55.8). In the mining and the manufacturing industry prices had increased (to 56.1 and 58.2, respectively). The growth trend in prices of raw materials and supplies persists (DI=74.6).

In Q1 2017, the growth in prices of raw materials and supplies is expected to slow down from 74.6 to 67.6. However, the prices of finished products are expected to increase from 55.8 to 58.2.

Prices for finished goods, DI*

Prices for raw materials, DI*
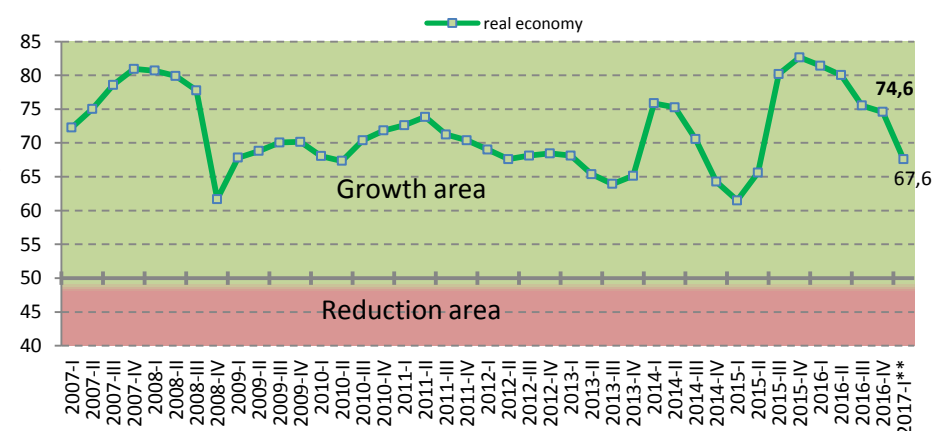
*The higher (the lower) the DI deviates from 50, the higher (the lower) are the rates of growth (decline) in the demand; the level of 50 means the absence of any change
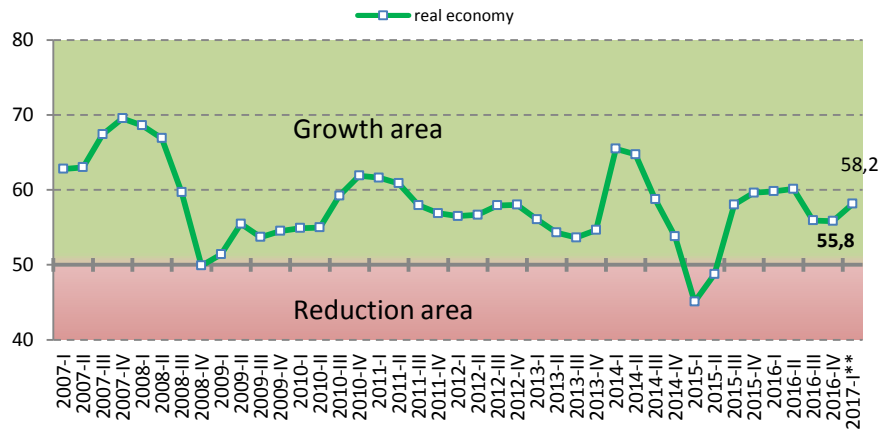
**The Figures show expectations of enterprises regarding the change in the parameter in 1Q2017.
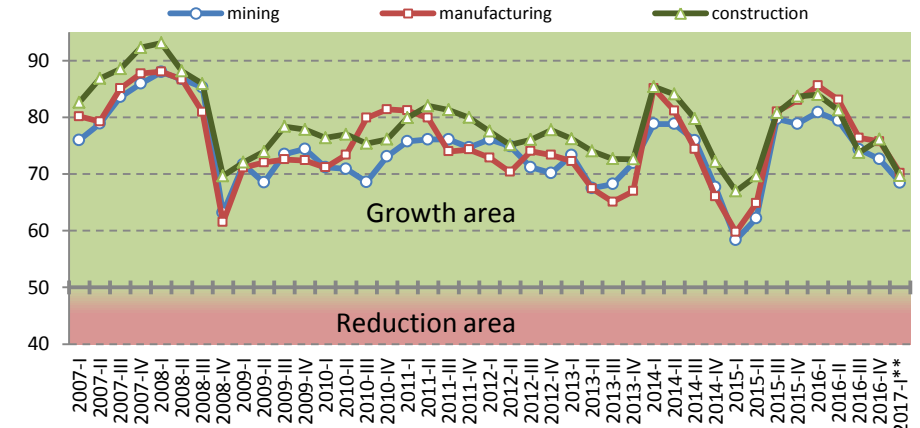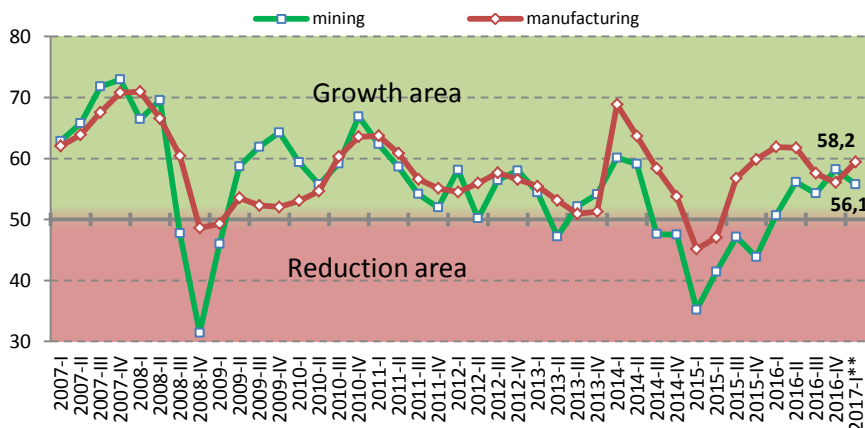
CHANGE IN THE PRODUCTION OUTPUT

In Q4 2016, decrease of the production output was observed (DI = 49.1), and in Q1 2017 enterprises anticipate a minor decrease in the production output (DI = 45.1).

In Q4 2016, the percentage of enterprises with the capacity utilization of more than 90% decreased to 11.9%. The percentage of enterprises where the capacity utilization is below 50% slightly decreased to 34.4%.

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

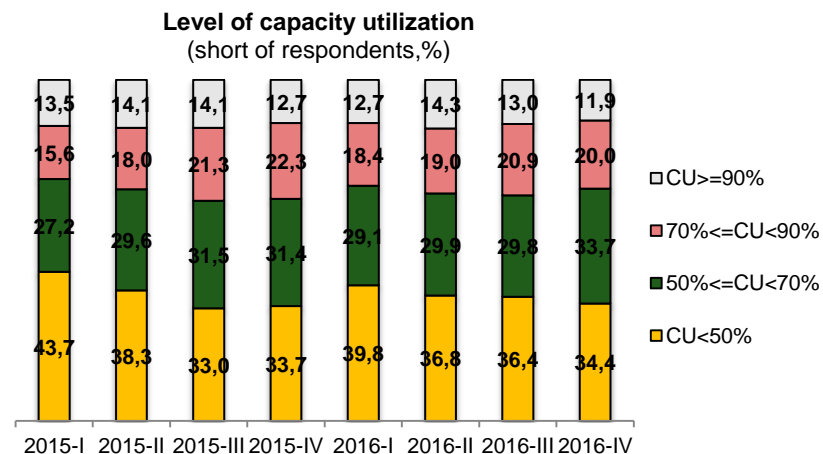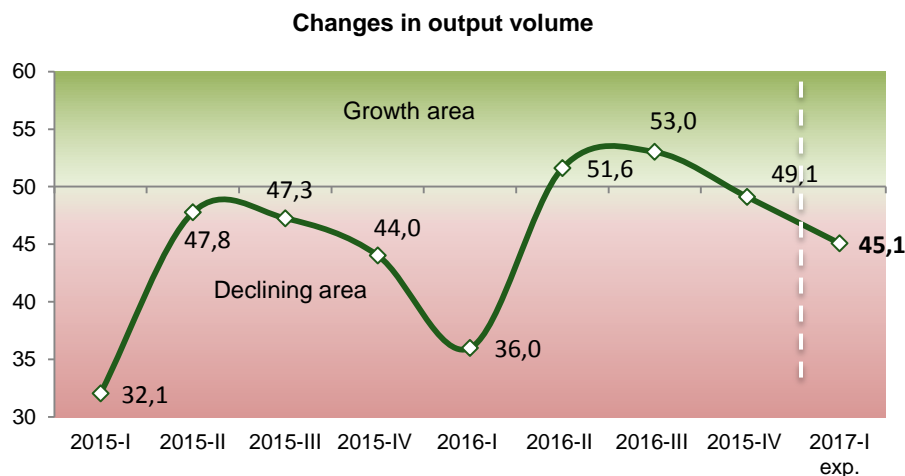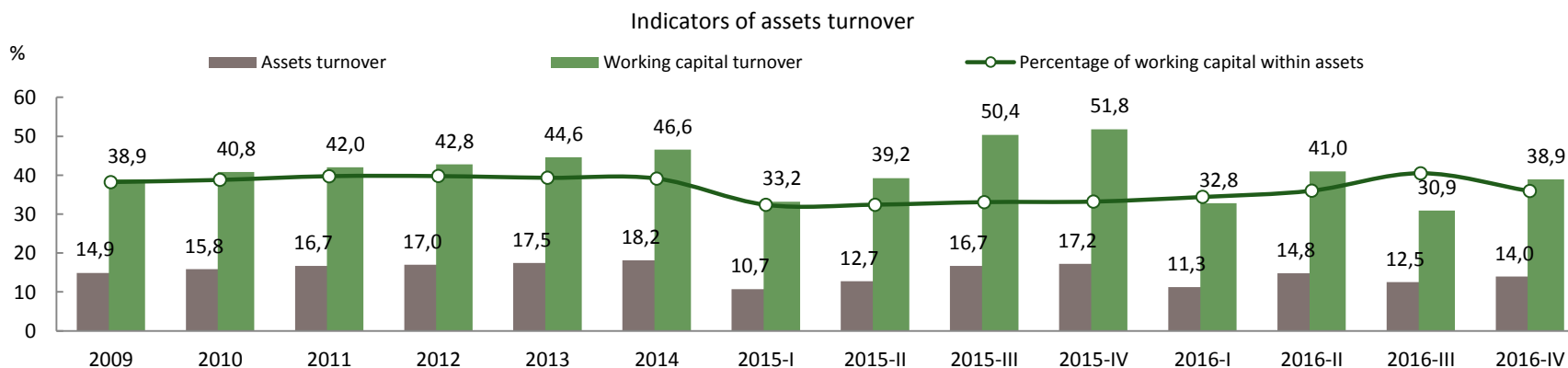In the asset structure of enterprises operating in the real sector the share of current assets decreased from 40.5% in Q3 2016 to 35.9% in Q4 2016. In the structure of current assets, the percentage of short-term receivables increased from 35.8% in Q3 2016 to 42.3% in Q4 2016, and the percentage of inventories increased from 16.1% in Q3 2016 to 16.5% in Q4 2016.

Turnover of assets and working capital increased to 14% and 38.9%, respectively. The percentage of working capital within assets decreased (to 35.9%).

Structure of assets

	2015-I	2015-II	2015-III	2015-IV	2016-I	2016-II	2016-III	2016-IV
Short-term assets	32,4%	32,4%	33,1%	33,2%	34,4%	36,0%	40,5%	35,9%
Long-term assets	67,6%	67,6%	66,9%	66,8%	65,6%	64,0%	59,5%	64,1%

Structure of short-term assets

	2015-I	2015-II	2015-III	2015-IV	2016-I	2016-II	2016-III	2016-IV
Arrearage	22,4%	24,2%	21,8%	20,6%	23,9%	22,1%	16,1%	16,5%
Short-term receivables decreased	38,9%	44,3%	44,0%	44,9%	40,2%	43,8%	35,8%	42,3%
Other short-term assets	38,7%	31,5%	34,2%	34,5%	35,9%	34,1%	48,1%	41,2%

Indicators of assets turnover

Assets turnover — Working capital turnover — Percentage of working capital within assets

	2009	2010	2011	2012	2013	2014	2015-I	2015-II	2015-III	2015-IV	2016-I	2016-II	2016-III	2016-IV
Assets turnover	14,9	15,8	16,7	17,0	17,5	18,2	10,7	12,7	16,7	17,2	11,3	14,8	12,5	14,0
Working capital turnover	38,9	40,8	42,0	42,8	44,6	46,6	33,2	39,2	50,4	51,8	32,8	41,0	30,9	38,9

THE STRUCTURE OF A BALANCE SHEET: LIABILITIES

In the structure of liabilities the percentage of net worth decreased from 47.8% in Q3 2016 to 46.2% in Q4 2016. The decrease in the percentage of net worth was offset by the growth in non-current liabilities (their share increased from 29.4% to 30.2%), and the percentage of current liabilities also increased from 22.8% to 23.6%. The situation with arrears slightly deteriorated: the percentage of enterprises with the overdue payables increased to 23.2%. Among enterprises which participated in the monitoring process, the percentage of enterprises with the past due on bank loans accounted for 3.4%.

In the structure of current liabilities, the percentage of short-term payables decreased from 55.9% in Q3 2016 to 50.1% in Q4 2016, and the percentage of bank loans increased from 19% to 21,2%. In the structure of non-current liabilities, the percentage of long-term bank loans decreased from 56.8% in Q3 2016 to 55.4% in Q4 2016.

Structure of liabilities

	2015-I	2015-II	2015-III	2015-IV	2016-I	2016-II	2016-III	2016-IV
Fixed liabilities	24,5%	24,2%	25,4%	25,7%	26,2%	29,7%	29,4%	30,2%
Short-term liabilities	21,3%	22,5%	22,9%	24,1%	25,1%	23,7%	22,8%	23,6%
Capital	54,2%	53,3%	51,7%	50,2%	48,7%	46,6%	47,8%	46,2%

Legend: Capital, Short-term liabilities, Fixed liabilities

Percentage of enterprises with the past due

% answer

	2015-I	2015-II	2015-III	2015-IV	2016-I	2016-II	2016-III	2016-IV
Accounts receivable	32,8	30,1	30,1	30,3	31,0	30,2	28,8	29,6
Accounts payable	25,1	23,1	22,4	23,1	23,0	22,4	22,1	23,2
Banks loans	7,3	5,5	5,1	4,4	4,4	4,1	3,8	3,4

Legend: Accounts receivable, Accounts payable, Banks loans

Structure of current liabilities

	2015-I	2015-II	2015-III	2015-IV	2016-I	2016-II	2016-III	2016-IV
Other short-term liabilities	25,8%	23,6%	25,9%	26,3%	29,8%	27,5%	25,1%	28,7%
Short-term banks loans	18,2%	22,0%	22,9%	21,8%	22,5%	18,8%	19,0%	21,2%
Short-term accounts payable	56,0%	54,4%	51,3%	51,9%	47,7%	53,7%	55,9%	50,1%

Legend: Short-term accounts payable, Short-term banks loans, Other short-term liabilities

Structure of non-current liabilities

	2015-I	2015-II	2015-III	2015-IV	2016-I	2016-II	2016-III	2016-IV
Other fixed liabilities	56,7%	55,8%	56,0%	53,7%	52,4%	46,7%	43,2%	44,6%
Fixed loans to banks	43,3%	44,2%	44,0%	46,3%	47,6%	53,3%	56,8%	55,4%

Legend: Fixed loans to banks, Other fixed liabilities

INVESTMENT ACTIVITY

The investment activity of enterprises in Q4 2016 slightly improved: the percentage of enterprises which did not finance their investments decreased to 30.7%. At the same time, the percentage of enterprises which used their own funds for these purposes increased to 66.6%.

The main funding source for the working capital is still represented by own funds of enterprises (82.4%). The number of enterprises which use bank loans to replenish their working capital in Q4 2016 increased (to 16.8%).

The main factors that limit financing opportunities of enterprises are the shortage of financial resources, insufficient demand for their products and the state of the Kazakh economy.
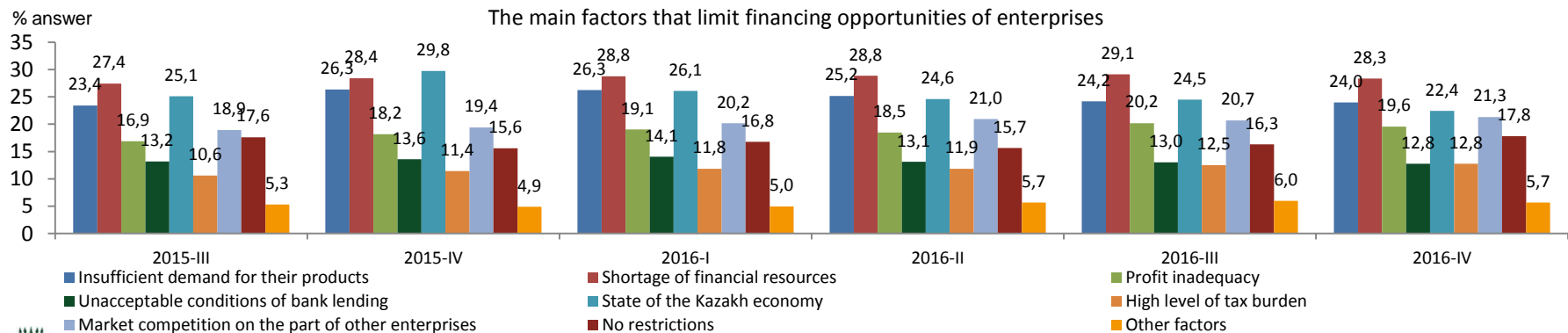

Funding source for the fixed assets
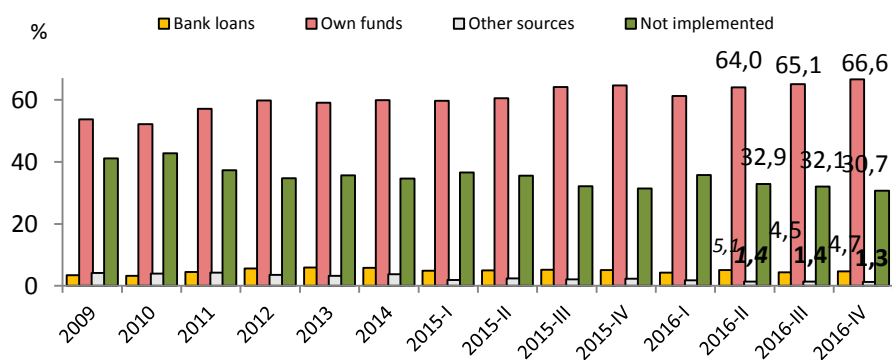
Funding source for the current assets
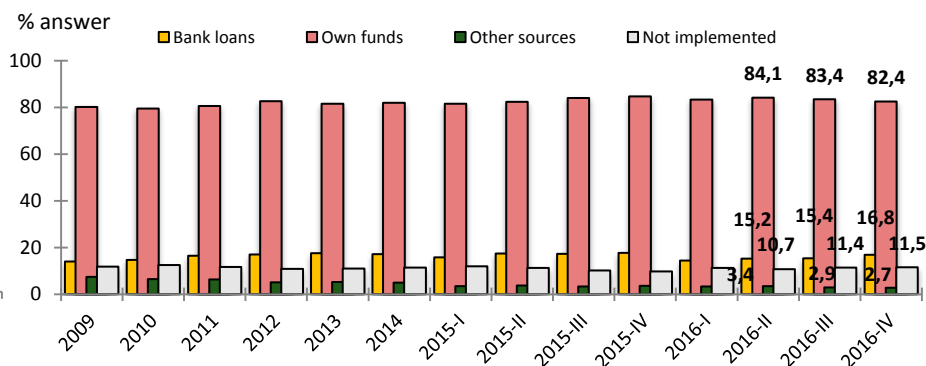
The main factors that limit financing opportunities of enterprises

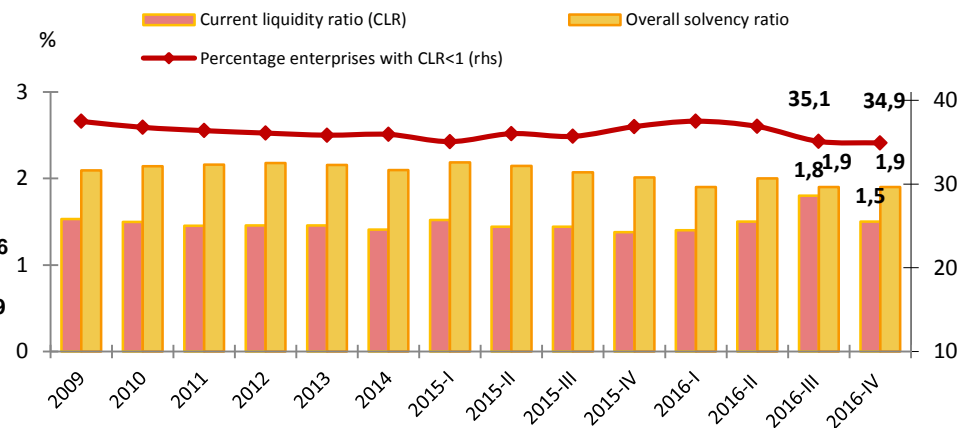# CHANGE IN THE FINANCIAL AND ECONOMIC PERFORMANCE

In Q4 2016, production performance indicators did not change as a whole. The percentage of enterprises, which did not reduce the total number of the employees, decreased to 61.9%.

In Q4 2016, the current liquidity ratio of enterprises in the real sector decreased to 1.5. The percentage of low liquidity enterprises (CLR<1) decreased to 34.9%, and the overall solvency ratio remain the same (1.9).

Indicators of production performance
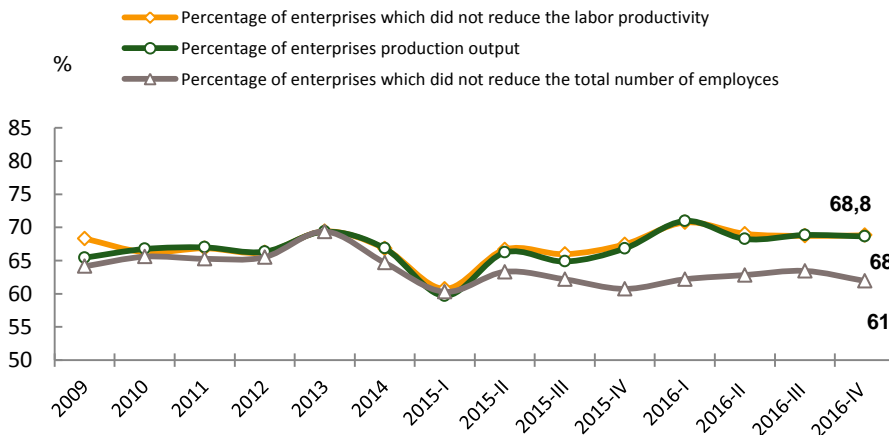
**Indicators of liquidity and solvency of enterprises**

# CHANGE IN THE FINANCIAL AND ECONOMIC PERFORMANCE

The return on sales (before tax) of enterprises in the real sector increased to 36.5% (24.2% in Q3 2016), being caused by the increased return on sales in the mining industry and the professional, scientific and technical activity. The return on sales in the manufacturing industry decreased to 31,3% (32,6% in Q3 2016).

In Q4 2016, the percentage of loss-making and low profitable enterprises did not change and accounted for 22.4% (22.5% - in Q3 2016), the percentage of highly profitable enterprises – 36.3% (from 36.2% in Q3 2016). At the same time the percentage of enterprises with medium profitability increased to 41.1% (from 40.8% in Q3 2016).

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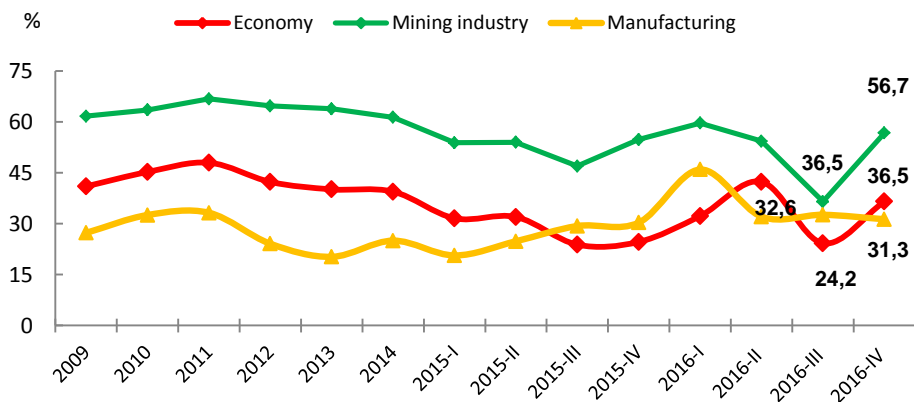
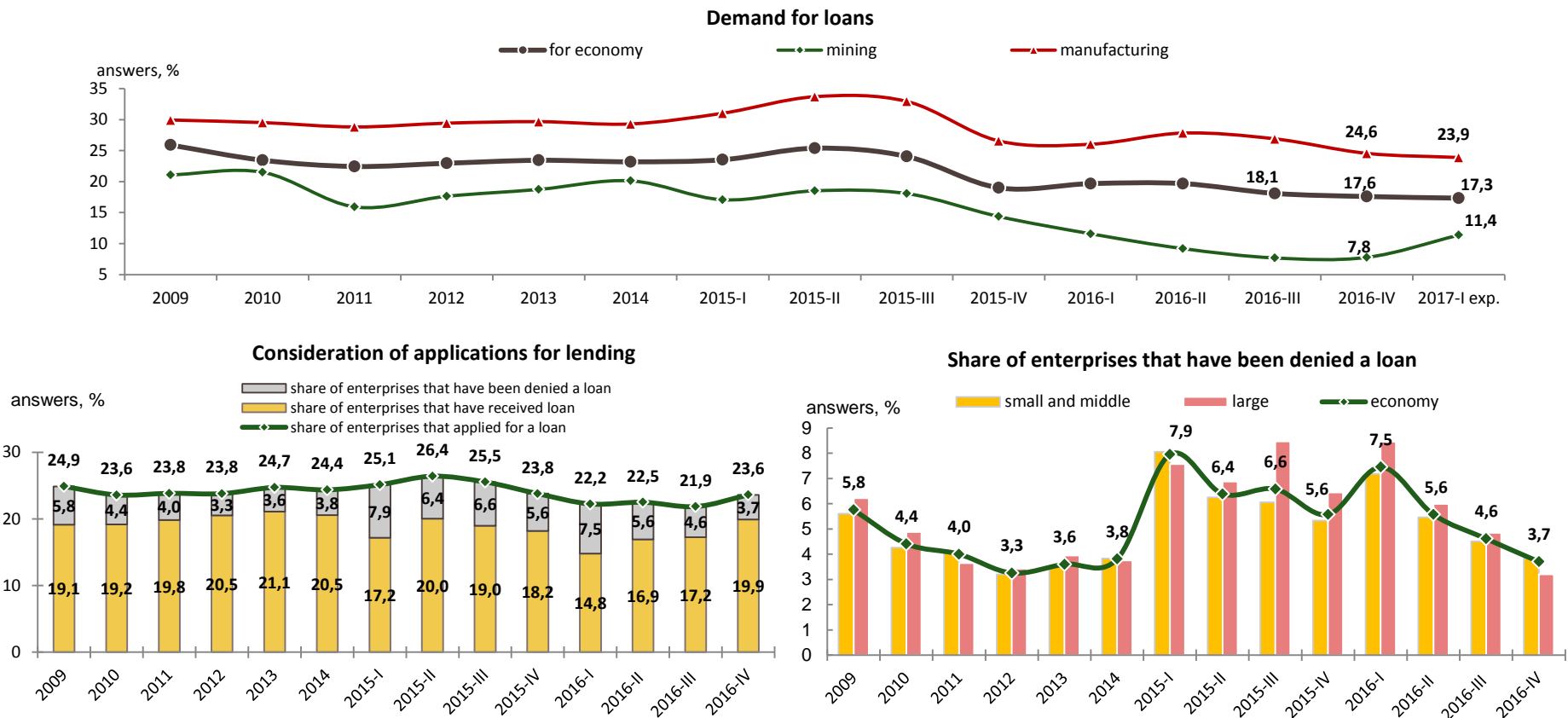**Classification of enterprises in terms of return on sales**
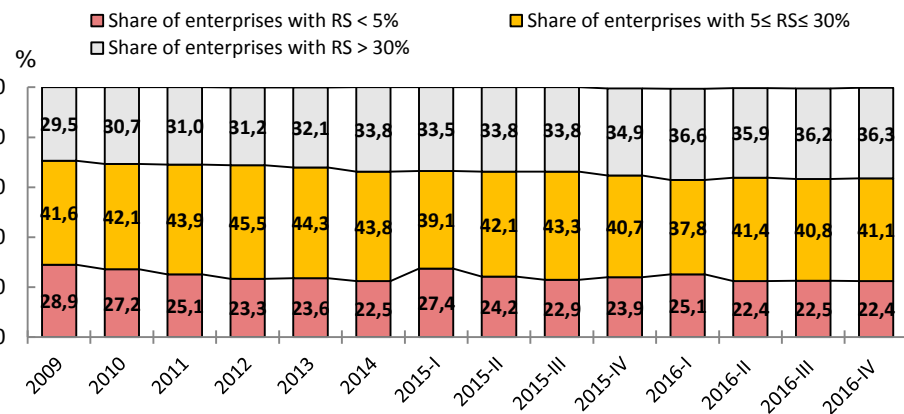
IMPACT ON THE REAL SECTOR OF THE ECONOMY BY THE BANKING SYSTEM

In Q4 2016, the demand of enterprises for bank loans decreased in the economy as a whole.

In Q4 2016, the percentage of enterprises which applied for a bank loan increased to 23.6% (from 21.9% in Q3 2016). The percentage of enterprises which obtained loans (including a regular tranche on an earlier credit line) increased to 19.9% (17.2% in Q3 2016). The percentage of rejected loans decreased: the percentage of enterprises that were rejected a loan decreased to 3.7% (from 4.6% in Q3 2016). Moreover, the percentage of large enterprises which failed to obtain a loan also decreased, to 3.2% (from 4.8% in Q3 2016).

The percentage of enterprises which intend to get a loan in Q1 2017 decreased to 17.3%. The loan demand of enterprises in the manufacturing industry decreased to 23.9%. In the mining industry, the loan demand increased to 11,4% (from 7.8% in Q3 2016).

Demand for loans

Consideration of applications for lending

Share of enterprises that have been denied a loan

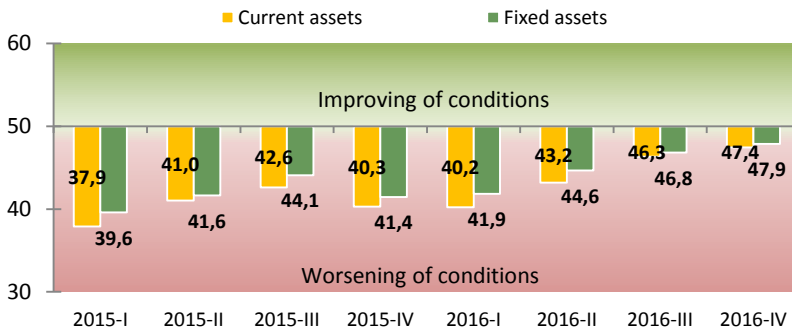*including the next tranche of the previously openeda line of credit

In Q4 2016, price terms and conditions of lending (interest rates on loans, amount of additional fee) and non-price terms and conditions of lending (maximum amount and tenor of a loan, requirements to a borrower's financial standing, collateral requirements) regarding loans for working capital and property, plant and equipment, continued to slow down their deterioration.

The average interest rate on loans in the tenge in Q4 2016 decreased to 14.4% per annum (15.2% in Q3 2016). The gap between an actual and an acceptable interest rate on the tenge loans increased: acceptable interest rates accounted for 7.9% per annum. An actual loan tenor for loans in the tenge increased as compared to the previous quarter and was 20 months, and an acceptable loan tenor for enterprises – 29 months.
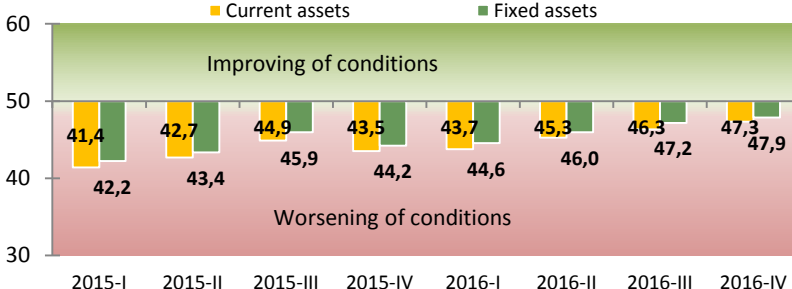
In Q4 2016 interest rates on foreign currency loans decreased to 8,5% (9.4% in Q3 2016), and interest rates acceptable for enterprises decreased to 4%. Actual tenors on foreign currency loans were 24 months, and acceptable tenors – 25 months (in Q3 2016: 20 and 35 months, respectively).
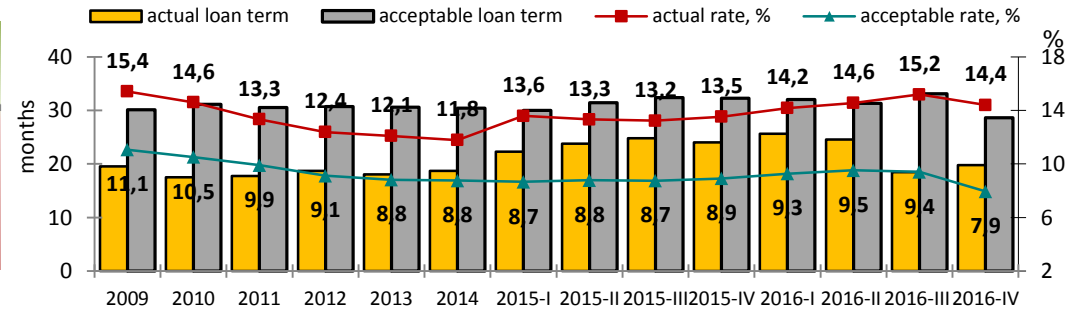
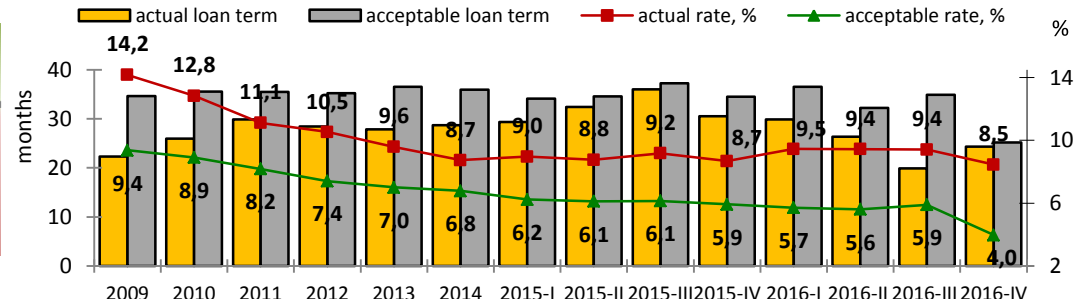**Changes in the conditions of lending**

Loan rates and loan terms

Price conditions

■ Current assets ■ Fixed assets

Improving of conditions

Worsening of conditions

	2015-I	2015-II	2015-III	2015-IV	2016-I	2016-II	2016-III	2016-IV
Current assets	37,9	41,0	42,6	40,3	40,2	43,2	46,3	47,4
Fixed assets	39,6	41,6	44,1	41,4	41,9	44,6	46,8	47,9

In tenge

■ actual loan term ■ acceptable loan term ■— actual rate, % ▲— acceptable rate, %

Year	actual loan term	actual rate, %
2009	11,1	15,4
2010	10,5	14,6
2011	9,9	13,3
2012	9,1	12,4
2013	8,8	12,1
2014	8,8	11,8
2015-I	8,7	13,6
2015-II	8,8	13,3
2015-III	8,7	13,2
2015-IV	8,9	13,5
2016-I	9,3	14,2
2016-II	9,5	14,6
2016-III	9,4	15,2
2016-IV	7,9	14,4

Non-price terms

■ Current assets ■ Fixed assets

Improving of conditions

Worsening of conditions

	2015-I	2015-II	2015-III	2015-IV	2016-I	2016-II	2016-III	2016-IV
Current assets	41,4	42,7	44,9	43,5	43,7	45,3	46,3	47,3
Fixed assets	42,2	43,4	45,9	44,2	44,6	46,0	47,2	47,9

In foreign currency

■ actual loan term ■ acceptable loan term ■— actual rate, % ▲— acceptable rate, %

| Year	actual loan term	actual rate, %
2009	9,4	14,2
2010	8,9	12,8
2011	8,2	11,1
2012	7,4	10,5
2013	7,0	9,6
2014	6,8	8,7
2015-I	6,2	9,0
2015-II	6,1	8,8
2015-III	6,1	9,2
2015-IV	5,9	8,7
2016-I	5,7	9,5
2016-II	5,6	9,4
2016-III	5,9	9,4
2016-IV	4,0	8,5

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

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

In Q4 2016, the rates of decline of the debt of enterprises on bank loans virtually did not change: DI=47.7. Assets and net worth of enterprises were growing: the DI of assets and net worth made up 50.8 and 52.9, respectively.

In Q4 2016, the growth rates of the volume of deposits held by enterprises with banks slowed down in the economy as a whole (DI=50.9). The slow down is noted both on deposits of large enterprises as well as small and medium-sized enterprises: DI = 51.8 and 50.6, respectively. According to expectations of enterprises, in Q1 2017 insignificant growth in deposit volumes in the economy as a whole is expected (DI= 50.1).

Credit, assets and owned capital
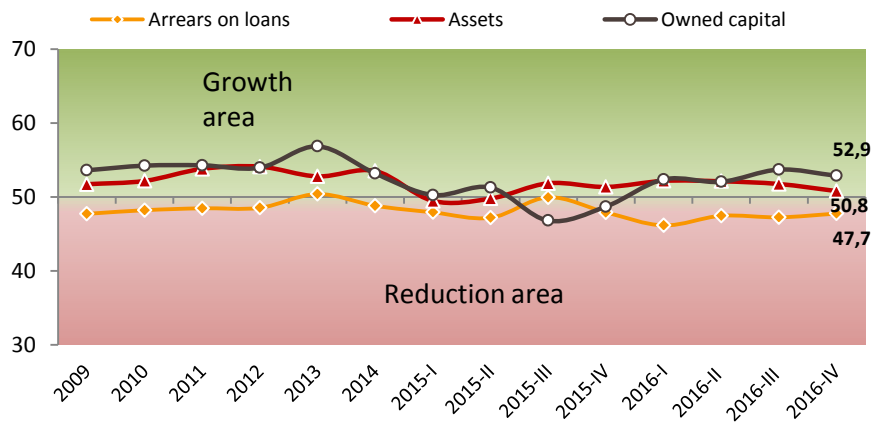
Volume of deposits of enterprises
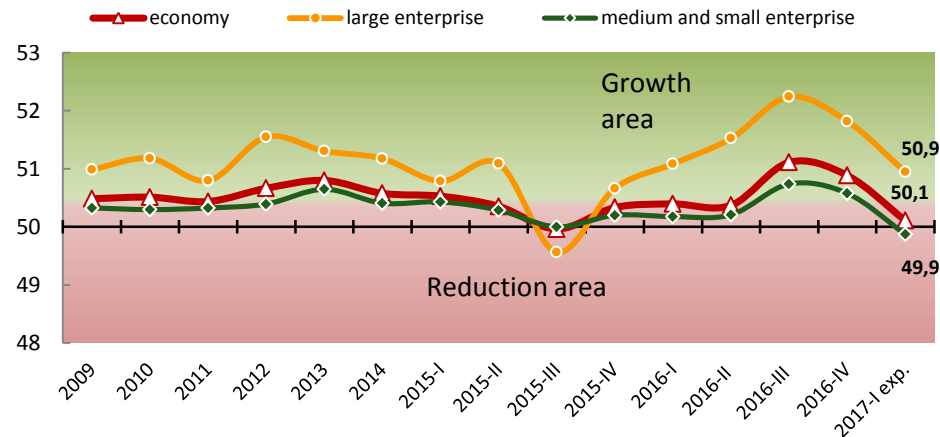
* The higher (the lower) the DI deviates from 50, the higher (the lower) are the rates of growth (decline) in the indicator; the level of DI=50 means the absence of any change
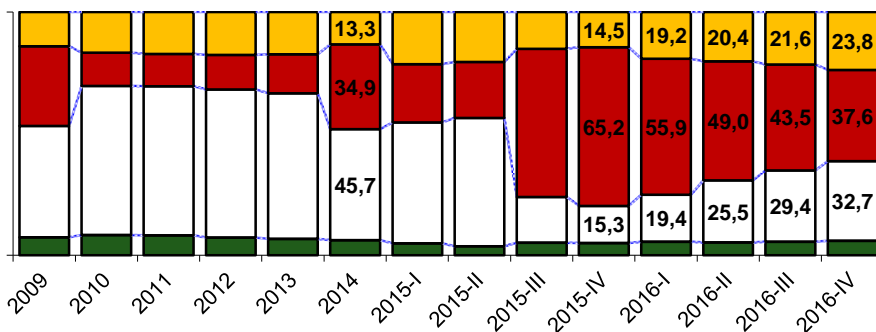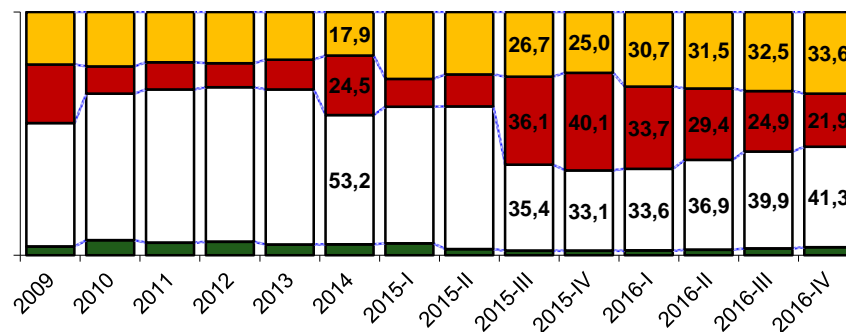
IMPACT OF CHANGES IN THE EXCHANGE RATE

According to the results of the survey of enterprises in the real sector of economy in Q4 2016 the tendency for decreasing of negative impact of exchange rate of tenge to foreign currencies on their activity continued. In general, this was induced by the stabilization of the exchange rate of tenge and gradual adaptation of the economic agents to the free floating exchange rate regime.

In the reported quarter the share of companies indicating negative effect of the change of exchange rate of tenge to USD decreased by 20% compared with Q3 2015. Furthermore, USD is the second most used currency for transactions with foreign partners (in Q4 2016 share in the basket of currencies accounted for 47%). Russian ruble remains the main currency (53%).
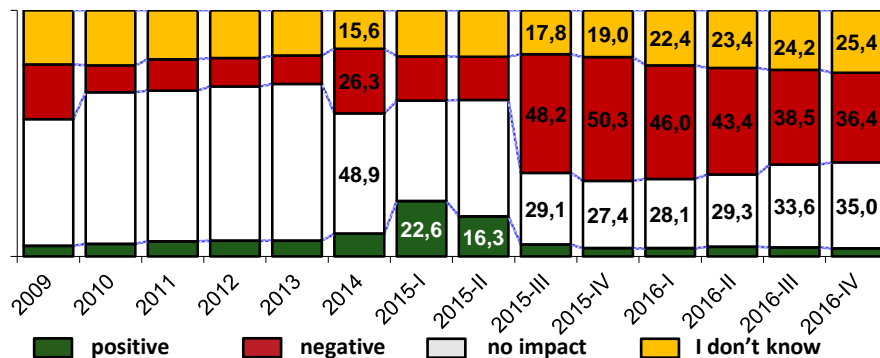
USD/KZT, answer %

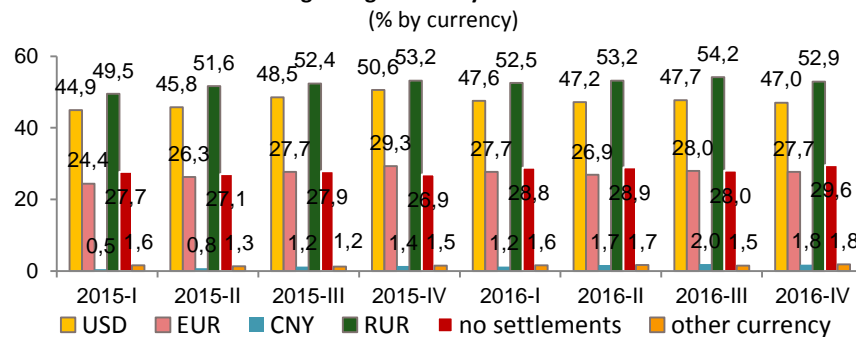EUR/KZT, answer %

RUB/KZT, answer %

Using foreign currency in settlements
(% by currency)

Legend:
- **positive** (green)
- **negative** (red)
- **no impact** (white)
- **I don't know** (yellow)

USD · EUR · CNY · RUR · no settlements · other currency

COMPOSITE INDICATOR*

Based on findings from the survey of enterprises in the real sector of the economy, in Q4 2016 the composite leading indicator (CLI) accounted for 100,6 and increased by 0,2p.p. compared to the previous quarter. Preservation of CLI values in the positive region relative to the long-term trend of GDP (100) over the last three quarters indicates the transition of the economic cycle to the growth phase and a continuation of the recovery in economic activity.

According to the survey among the factors that influenced the improvement in business activity, it is possible to note an increase in demand for agricultural products, manufacturing industry, as well as companies producing consumer goods and services. In other sectors of the economy demand for output is improving.

In addition, according to the respondents in Q4 2016 the share of enterprises that finance working capital through bank loans (increase by 1.5%) and fixed assets – using their own funds (increase by 1.5%) increased, indicating improvement in investment activity in the real economy.

In Q1 2017 respondents expect a further improvement of the economic situation (CLI accounted for 100.7), as evidenced by the strong performance expected in the next quarter, the level of demand for finished products in all branches of the economy and slower growth in prices for raw materials.
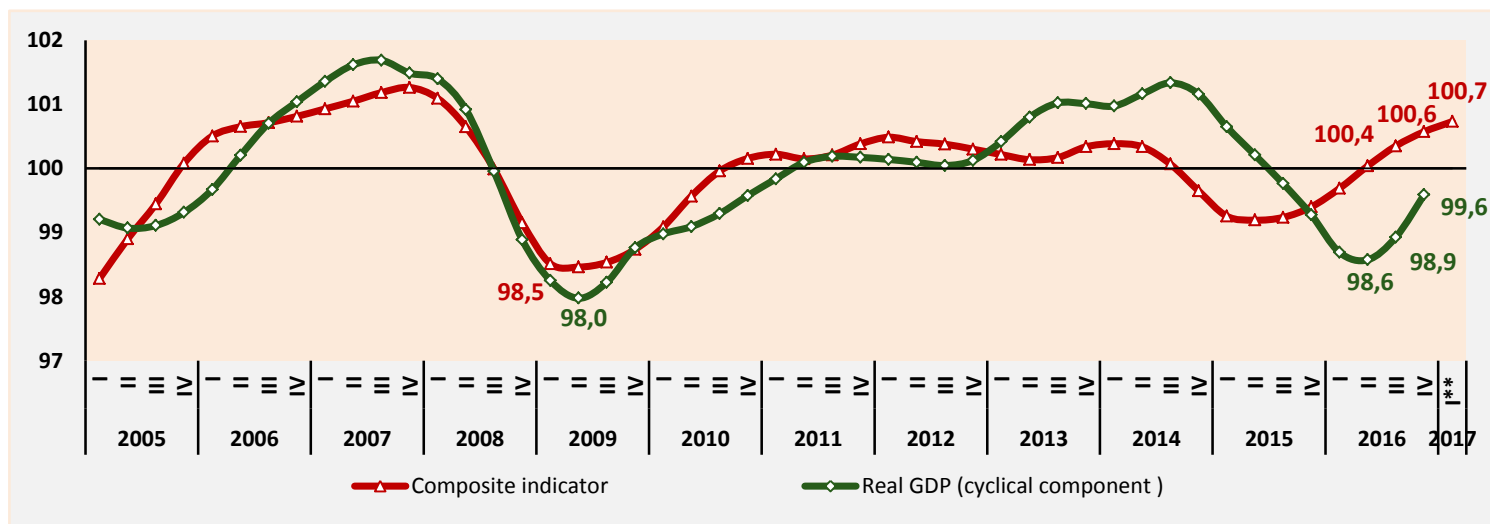
* A composite indicator is used to identify turning points in the business cycle and provides good quality information about the state and directions of trends in the economic activity. A composite indicator reflects a summarized evaluation of opinions of managers of the interviewed enterprises regarding 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 1Q2017 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 mature; 2) it reflects a cyclical nature in the development of the real sector of the economy; 3) it is quickly designed since it is built on the basis of on-the-spot interviews of enterprises.

Out of indicators built up based on interviews of enterprises, the following leading indicators were included as the CI components:

1) The DI of the change in the demand for final products in economic sectors
2) a group of indicators that reflect the change in prices :
• the DI of the change in prices in the real sector as a whole;
• the DI of the change in prices for raw materials and supplies.
3) a group of indicators that reflect the change in the investment and lending activity:
• the percentage of enterprises which obtained loans to finance their property, plant and equipment (including governmental programs);
• the percentage of enterprises which use other sources apart from own funds and bank loans to finance their property, plant and equipment and working capital;
• the percentage of enterprises which obtained a loan;
• the percentage of enterprises which want to get a loan;
• the level of actual interest rates on loans in the tenge and in foreign currency.
4) the employment rate indicator: the percentage of enterprises where the number of employees decreased
5) the indicator of the impact on activities of enterprises by the change in the exchange rate of the tenge (versus the US Dollar, Euro and Russian ruble)

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