

MARKET REVIEW

Enterprises Survey Results in the Real Sector of the Economy

Q3 2020



Monetary Policy Department
National Bank of Kazakhstan

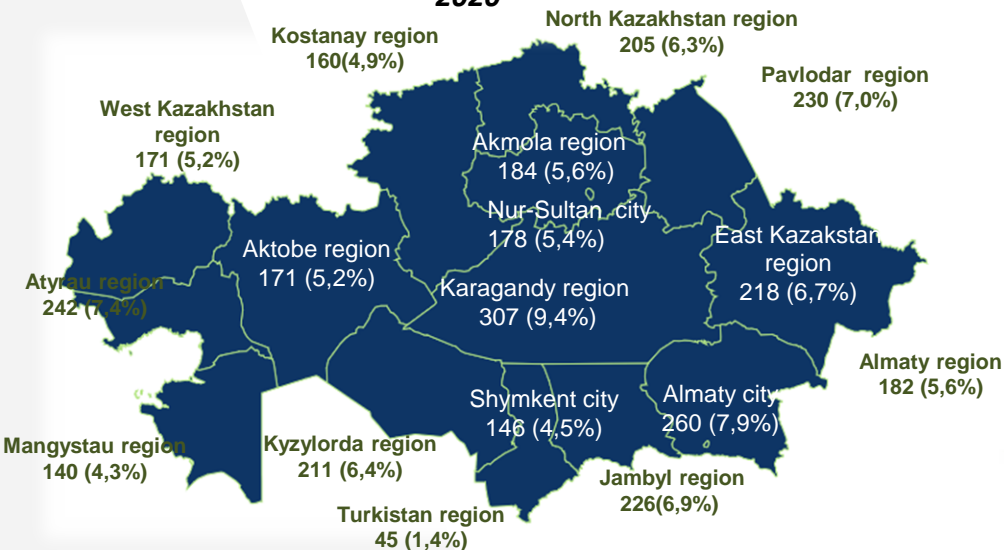
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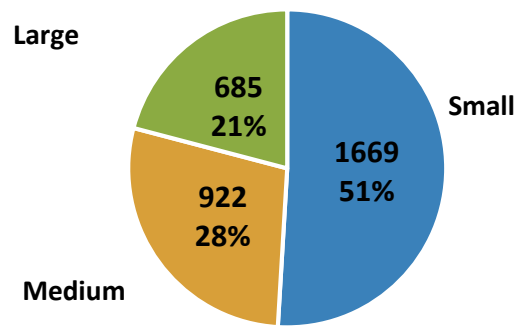
ENTERPRISE SURVEY PARTICIPANTS COMPOSITION

Regional structure of the enterprise survey participants in Q3

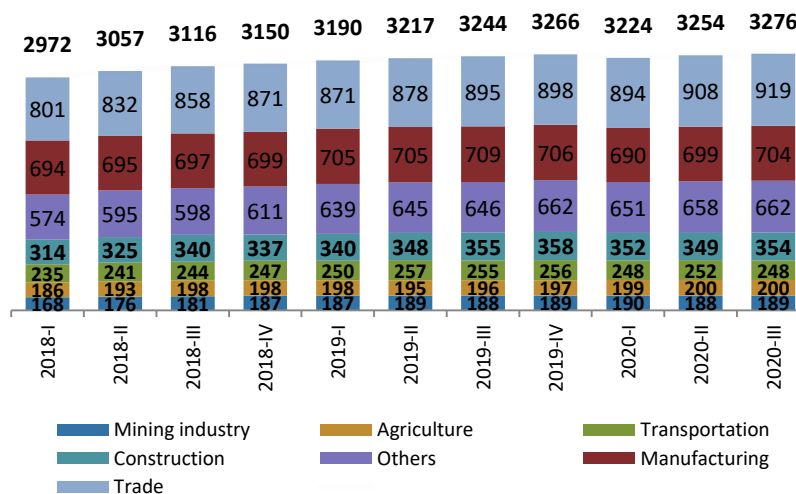
2020



Survey participants size structure



Survey participants sectorial structure



In Q3 of 2020, the number of respondents increased by 22 enterprises compared to the previous quarter and amounted to 3276 enterprises. The survey involved 18 small and 4 large enterprises.

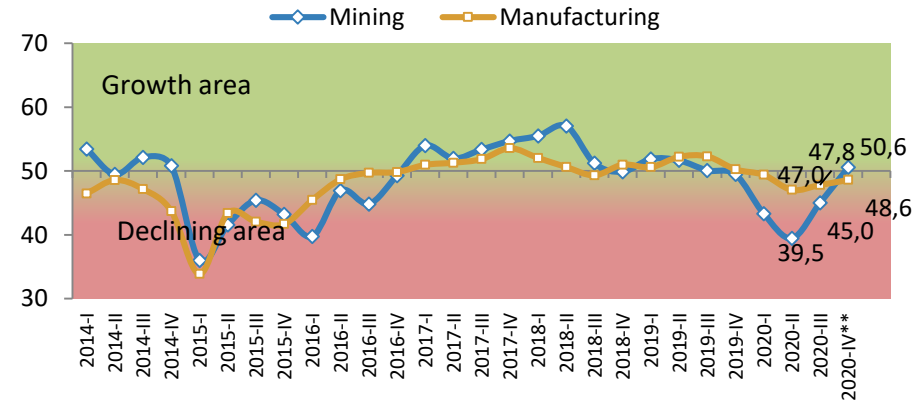
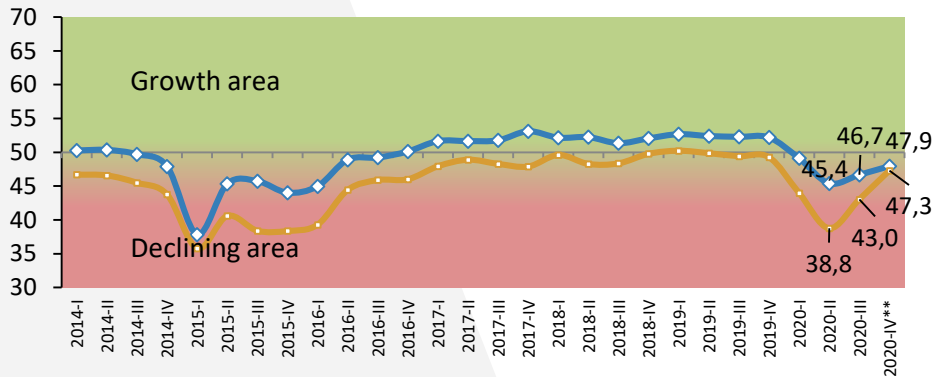
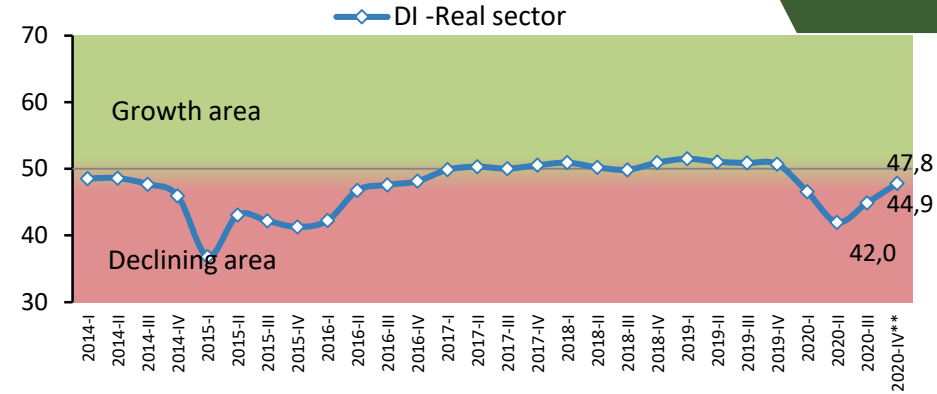
In the sectorial context, the largest increase in enterprises was noted in trade (11).

FINAL PRODUCTS DEMAND DYNAMICS

Final goods demand, DI*

Answers of enterprises, %	2019				2020				
	Q1.	Q2	Q3	Q4	Q1	Q2	Q3	Q4**	
Increase	1	16,1	26,7	26,5	22,9	12,9	18,7	14,5	14,9
No changes	2	53,8	53,4	54,5	54,0	50,6	47,6	37,8	37,6
Decrease	3	28,7	18,0	16,7	20,7	33,8	30,7	17,0	16,6
Diffusion index, $DI = line1 + 0.5 * line2$	4	43,0	53,4	53,7	49,9	38,2	42,5	33,4	33,7
DI, seasonal adjusted	5	51,5	51,0	50,9	50,7	46,6	42,0	44,9	47,8

—◆— Production —◆— Services



In Q3 of 2020, a gradual recovery in demand for final products in the real sector was noted. The diffusion index (hereinafter - DI) increased to **44,9**. An increase in the indicator was noted in all sectors: in the service sector (DI = 43,0), in the production of goods (46,7), in the mining and manufacturing industries (DI was 45,0 and 47,8, respectively).

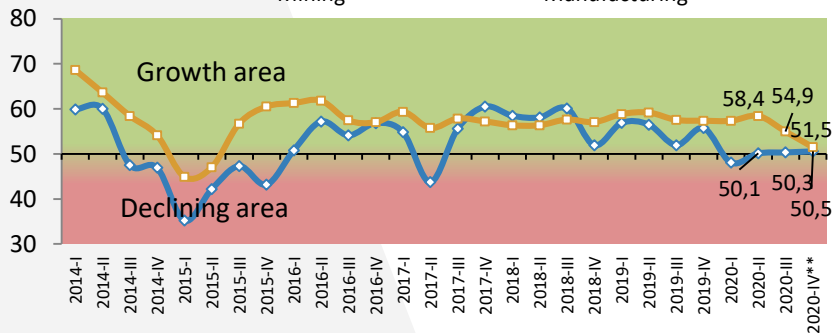
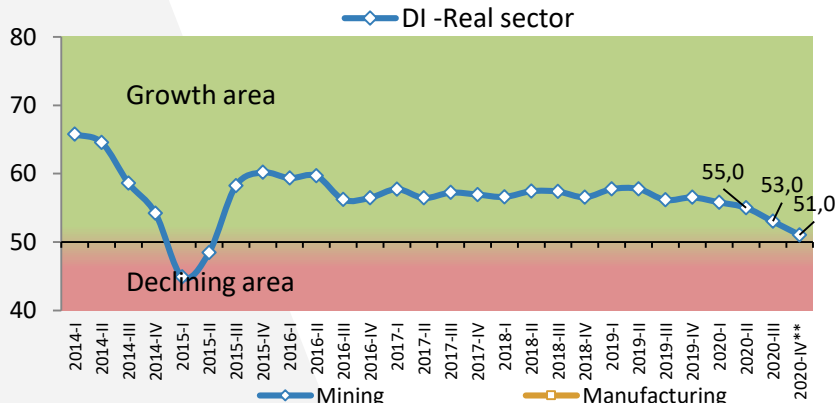
According to the expectations of enterprises, in the real sector in Q4 of 2020 the process of demand recovery will continue (DI = **47,8**).

*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 - the absence of any change

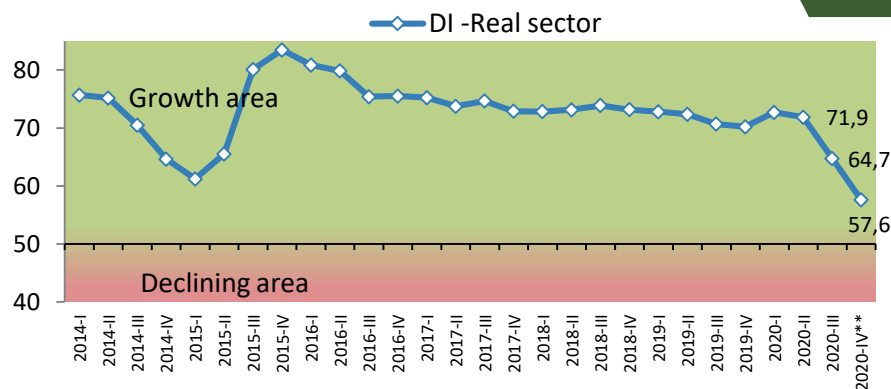
**The Figures show expectations of enterprises regarding the change in the parameter in Q4 2020

PRICES CHANGES IN THE REAL SECTOR

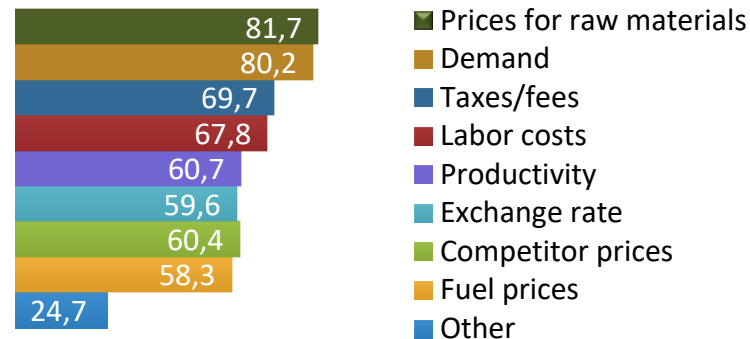
Final goods prices, DI*



Raw materials prices, DI*



Assessment of pricing factors importance, answers in%



In Q3 of 2020, the growth rate of prices for final products of enterprises in the economy as a whole continued to slow down (DI was **53,0**). In the mining industry, prices remained practically unchanged (DI was 50,3), in the manufacturing industry there was a slight decrease in the rate of price growth. The DI decreased from **58,4** in Q2 2020 to **54,9** in Q3 2020.

For the overwhelming majority of enterprises (**81,7%**), the most important factor in setting prices for final products is the price of raw materials and supplies. In Q4 of 2020, enterprises expect a slowdown in the growth of prices for raw materials and supplies (DI = 57,6), and, accordingly, for final products (51,0). The mining industry expects prices for their products to remain unchanged.

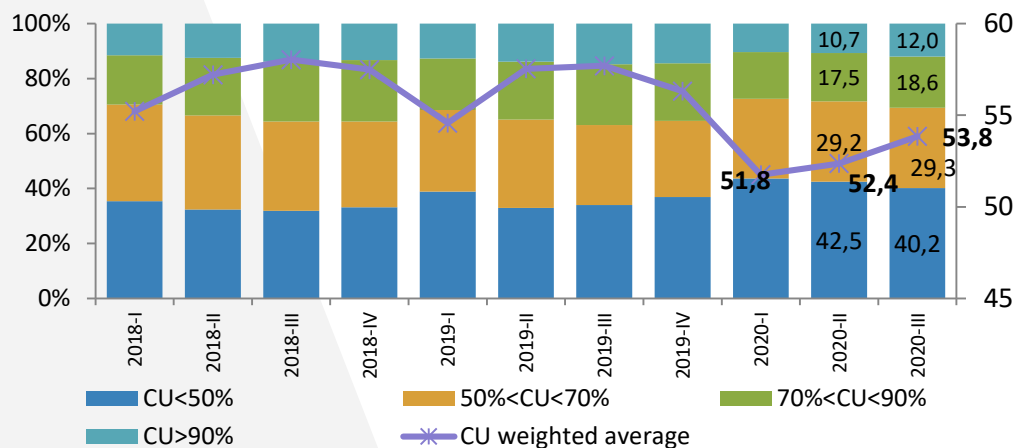
*Diffusion Index (seasonally adjusted). The higher (the lower) the DI deviates from 50, the higher (the lower) are the rates of growth (decline) in indicator; the level of 50 - the absence of any change

**The Figures show expectations of enterprises regarding the change in the parameter in Q4 2020

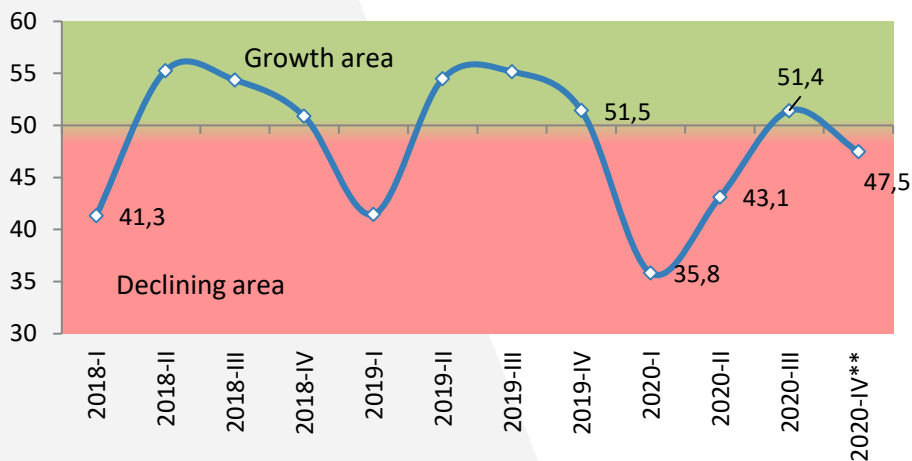
PRODUCTION OUTPUT

Capacity utilization level

(share of respondents, %)



DI changes in production output, DI**



In Q3 of 2020, the level of utilization of production capacities (CU) of enterprises slightly increased. The weighted average* CU level was 53,8% compared to 52,4% in Q2 2020.

As a result, in Q3 2020, production volumes increased to 51,4.

In Q4 of 2020, enterprises expect a decrease in production volumes, the DI is expected to be 47,5.

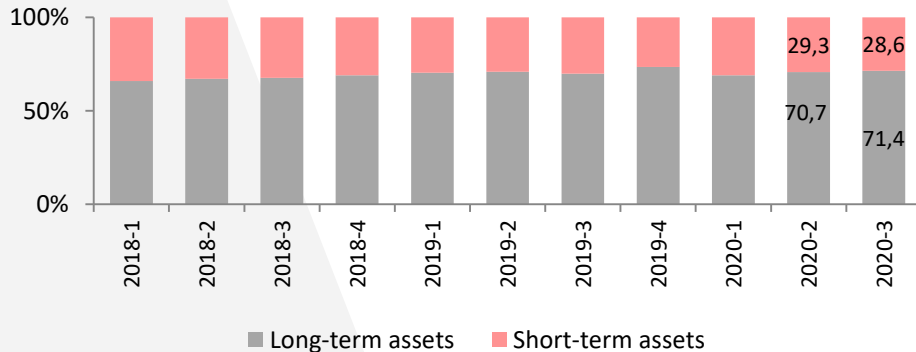
Due to the pandemic and quarantine measures, the dynamics of this year differs from the trend of the past three years, when the growth in production volumes began in the second quarter.

* Arithmetic weighted average is the average value of the interval, weighted by the share of enterprises.

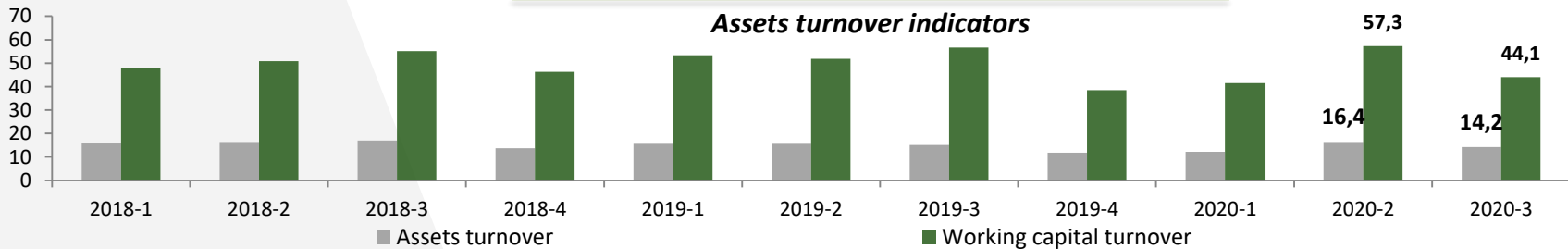
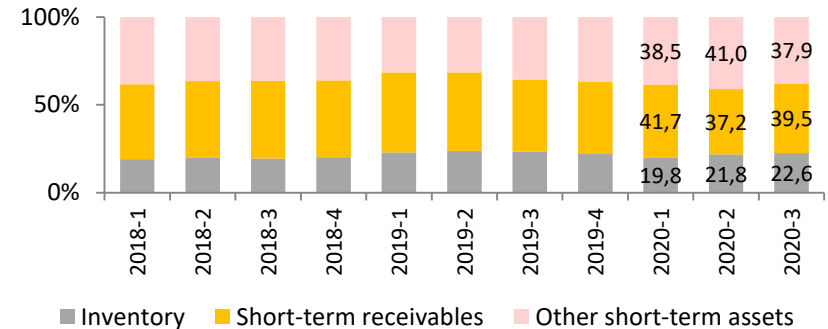
** The higher (lower) the DI from the level of 50, the higher (lower) the growth (fall) rate of the indicator, the level of DI = 50 means no change

BALANCE SHEET STRUCTURE: ASSETS

Assets structure



Short-term assets Structure



In Q3 of 2020, the share of long-term assets in the companies' assets structure in the real sector of the economy increased from 70,8% to **71,4%**. Asset turnover* was **14,2%**, working capital turnover** - **44,1%**.

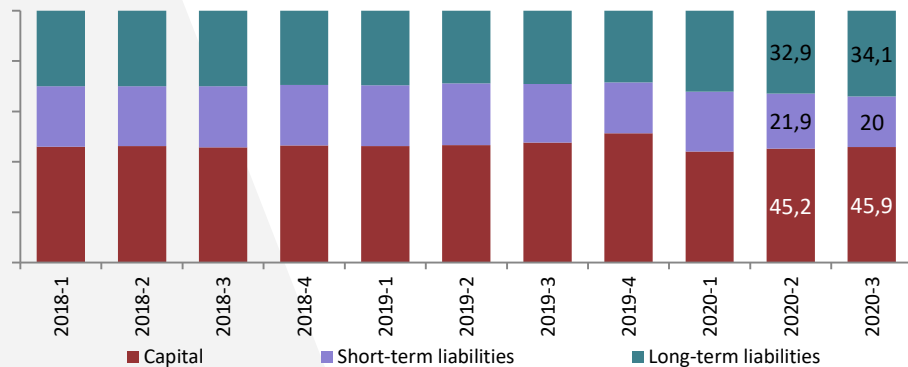
In the structure of short-term assets, the share of receivables increased from **37,2%** in Q2 2020 to **39,5%** in Q3 2020. Also, the share of reserves increased slightly to **22,6%**. At the same time, the share of other short-term assets decreased to **37,9%** (41,0% in Q2).

Asset turnover = Income from product sales / Assets 100

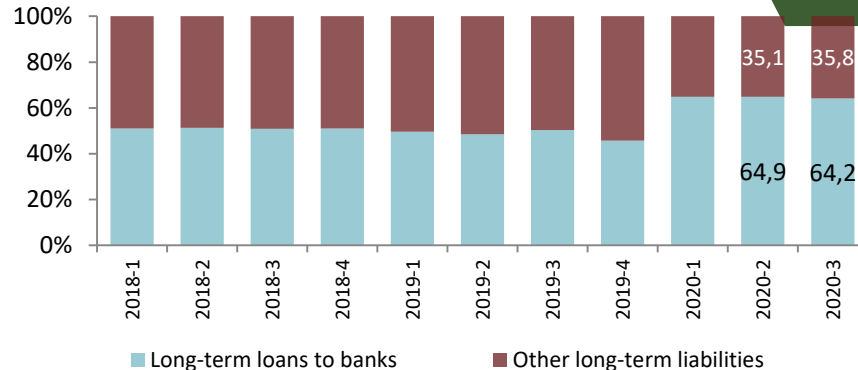
**Turnover of current assets = Income from product sales / Short-term assets* 100

BALANCE SHEETS STRUCTURE : LIABILITIES

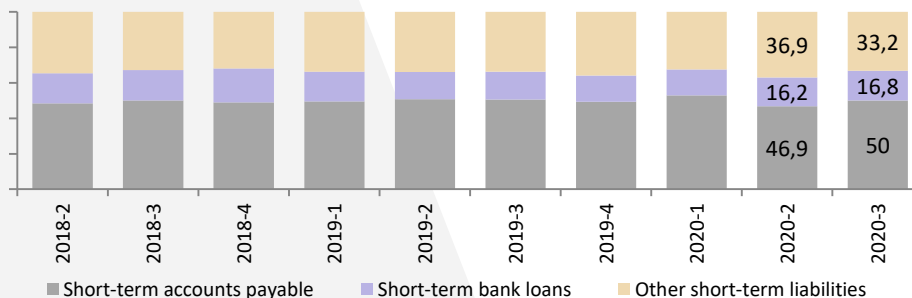
Liabilities structure



Long-term liabilities structure



Short-term liabilities structure



Share of enterprises with overdue debts

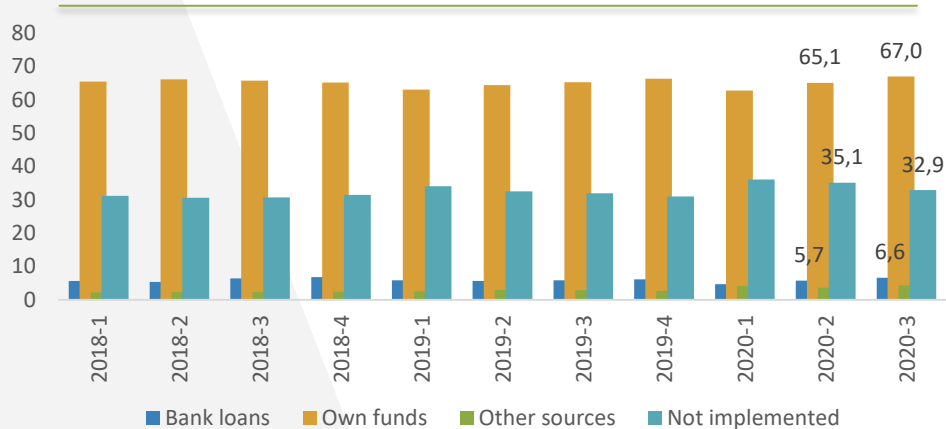


In Q3 2020, the structure of liabilities did not change significantly. The share of short-term liabilities slightly decreased from 21,9% to **20,0%**, capital increased to **45,9%**, long-term liabilities increased to **34,1%**. In the structure of short-term liabilities, the share of short-term payables increased significantly from 46,9% in Q2 2020 to 50,0% in Q3 2020. The structure of long-term liabilities remained practically unchanged.

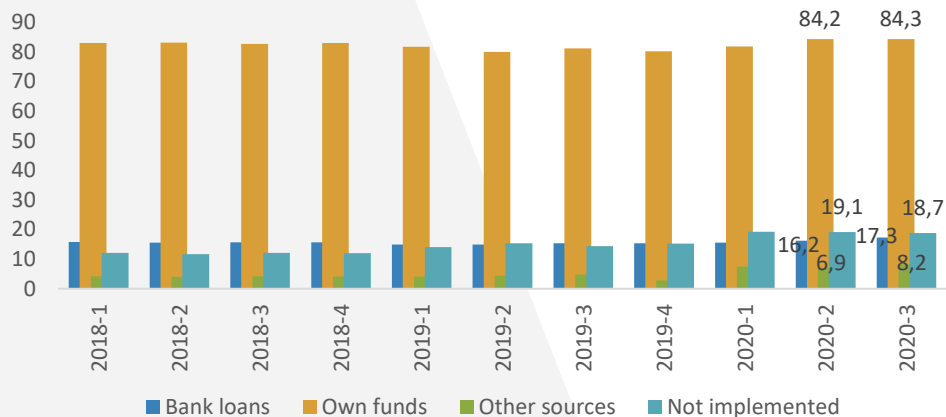
The share of enterprises with overdue bank loans on their balance sheets slightly decreased from **9,6%** to **9,0%**. At the same time, the share of enterprises with overdue receivables increased from 21,2% in Q2 of 2020 to **22,5%** in Q3 of 2020.

INVESTMENT ACTIVITY

Funding source for fixed assets, %



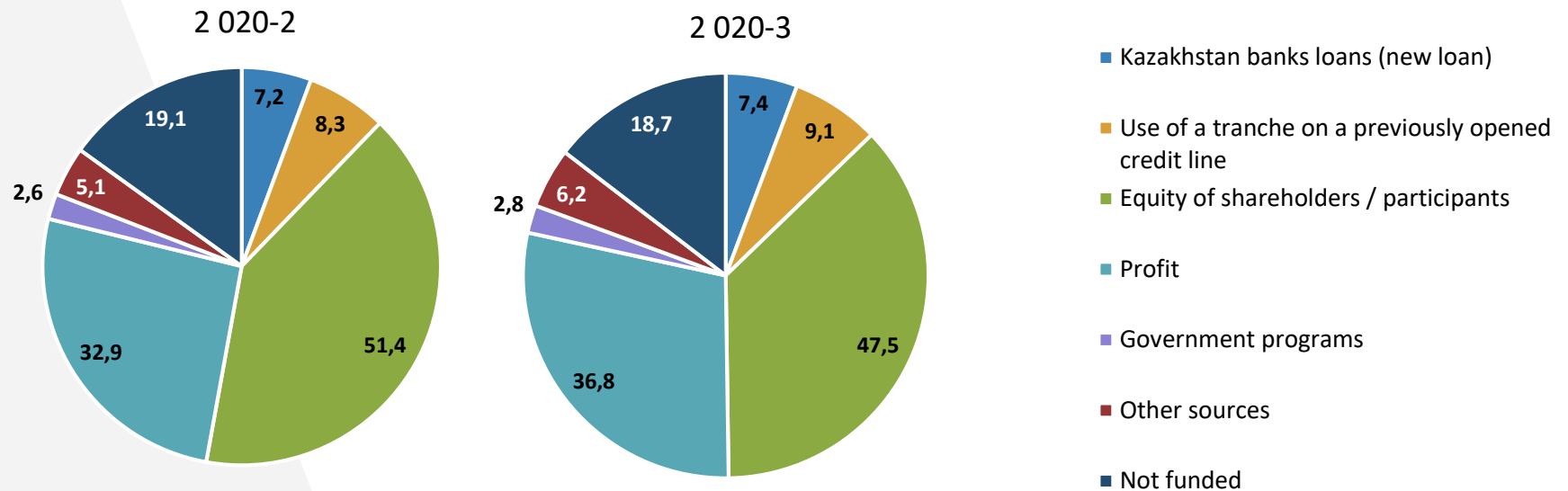
Funding source for working capital, %



In Q3 of 2020, the investment activity of enterprises increased slightly compared to Q2 of 2020: the share of enterprises that did not finance fixed assets decreased (to 32,9%), the share of enterprises that financed fixed assets from their own funds increased (to 67,0%) and bank loans (up to 6,6%). As before, most enterprises use their own funds to finance fixed assets and working capital (67,0% and 84,3%, respectively).

SOURCES OF WORKING CAPITAL FINANCING

Sources of working capital financing

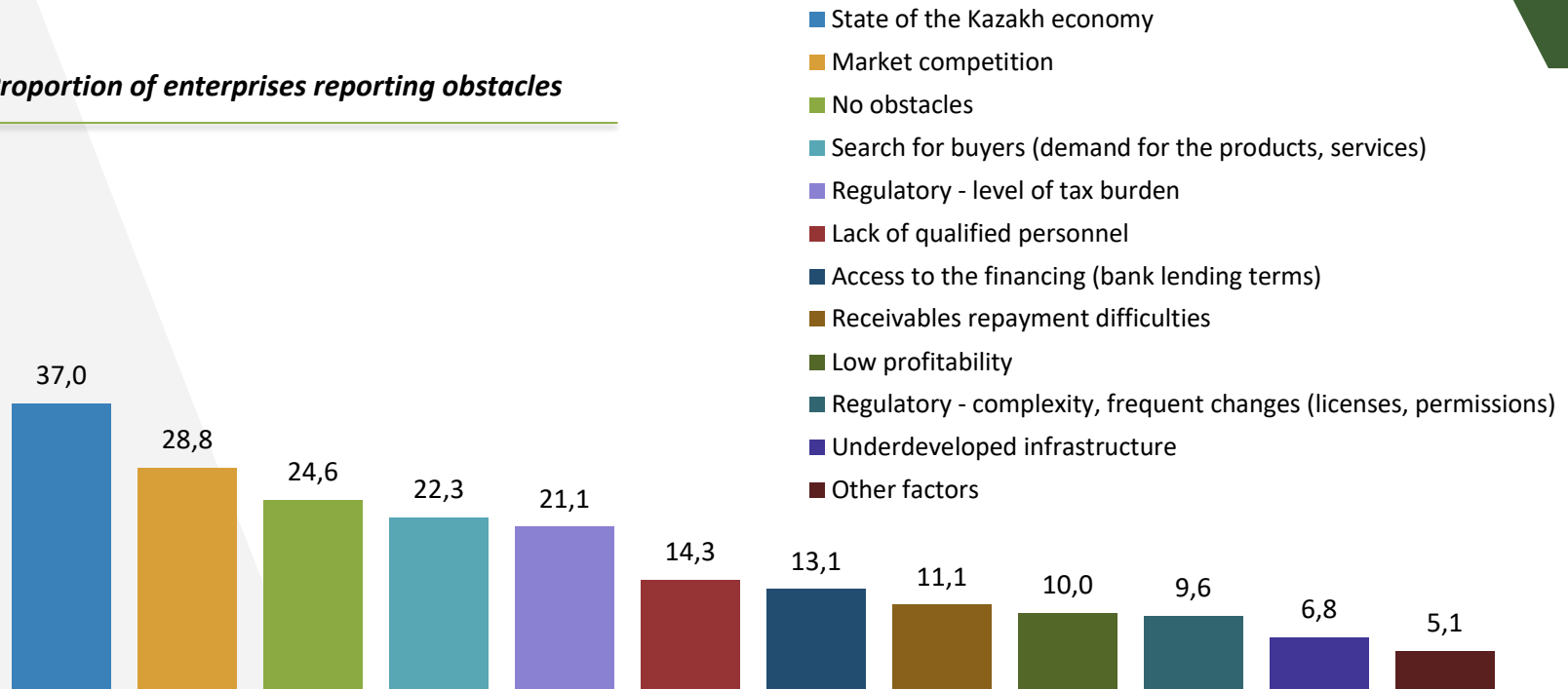


To finance **working capital**, most enterprises (**84,3%**) used their own funds, of which **47,5%** used their own funds of shareholders / participants, **36,8%** - profit. Bank loans for this purpose were used by 17,3% of enterprises (of which 9,1% used a tranche under a previously opened credit line, 7,4% received a new loan in Kazakhstan banks, 0,6% received a loan abroad, 0,2% used loans from microfinance organizations).

Among other sources of financing, in addition to those presented in the graph, enterprises also indicate advances from buyers and intra-group loans (between the parent company and branches), as well as interest income from the deposit.

OBSTACLES FOR DOING BUSINESS

Proportion of enterprises reporting obstacles



According to the results of surveys in Q3 of 2020, for **37,0%** of enterprises the state of the economy of Kazakhstan is an obstacle to doing business (in Q2, the share of such enterprises was 31,4%). According to **56,9%** of the interviewed respondents, the economic situation in Kazakhstan in Q3 of 2020 has worsened, **37,5%** believe that it has not changed.

The most important factors for enterprises are such factors as the state of the economy, market competition (28,8%), search for buyers (22,3%), the level of tax burden (21,1%), lack of qualified personnel (14,3%), **while access to financing is ranked only 7th in importance (13,1%).**

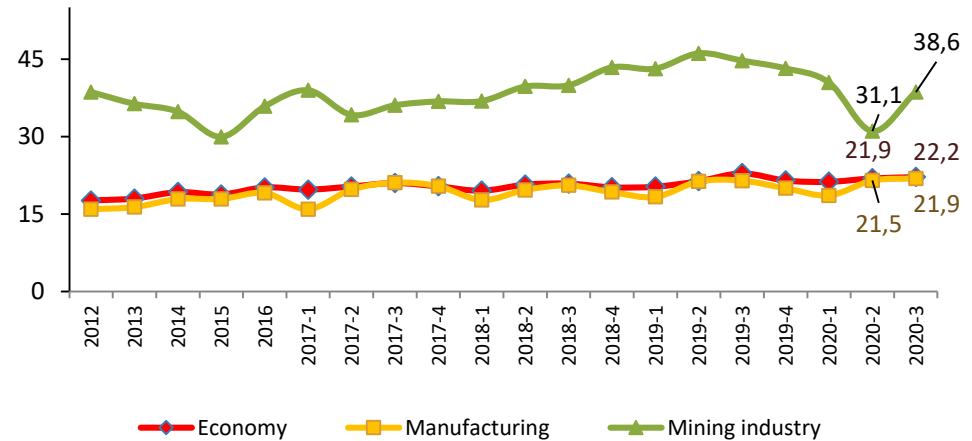
As other obstacles, the enterprises indicated low profitability, price regulation at the state level, lower tariffs, exchange rate, lower oil prices, export bans, low purchasing power, as well as quarantine and state of emergency.

THE FINANCIAL AND ECONOMIC PERFORMANCE CHANGE

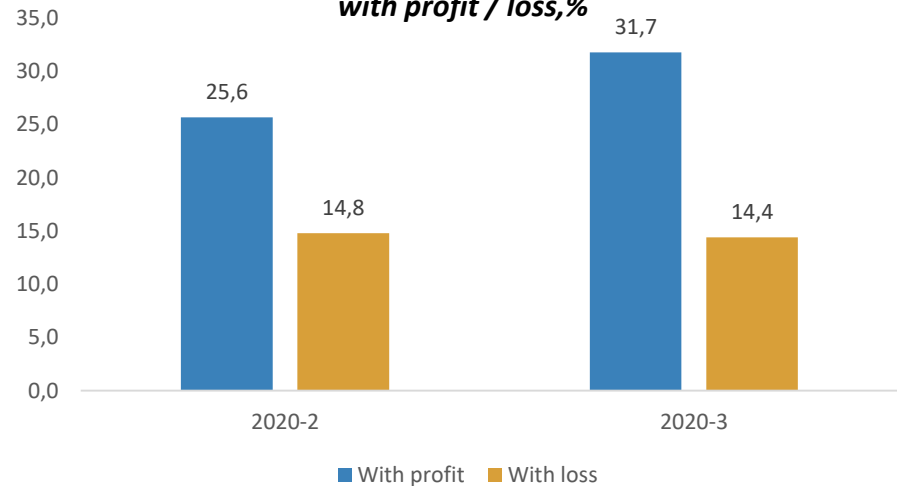
In Q3 2020, the average *return on sales** of enterprises in the mining industry increased, amounting to **38,6%**. In the manufacturing industry, the return on sales remained virtually unchanged (from 21,5% in Q2 2020 to 21,9%). As a result, the average return on sales for the economy as a whole increased slightly and amounted to **22,2%**.

In Q3 2020, the number of respondents planning to close the year with a profit increased from 25,6% to **31,7%**, and the number of respondents who believe that the year will end with a loss decreased from 14,8% to **14,4%**. At the same time, 13,1% of the surveyed enterprises think to close the year with a balanced budget (without profits and losses), the remaining 40,1% cannot assess the financial condition of the enterprise by the end of the year.

Return on sales *, in %



Share of enterprises planning to close the financial year with profit / loss, %

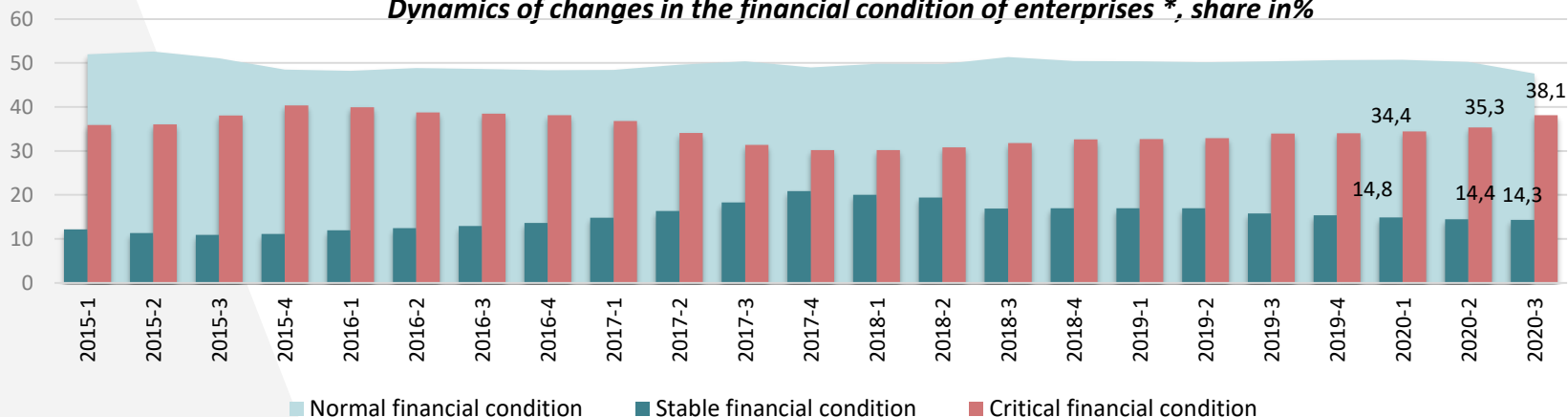


* Average median values are presented as they are less susceptible to extreme emissions than the arithmetic mean

** The sales profitability before expenses deduction on interest, taxes and depreciation is indicated

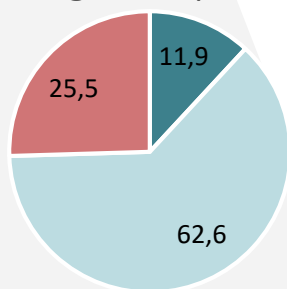
ASSESSMENT OF THE ENTERPRISES FINANCIAL CONDITION

*Dynamics of changes in the financial condition of enterprises *, share in%*

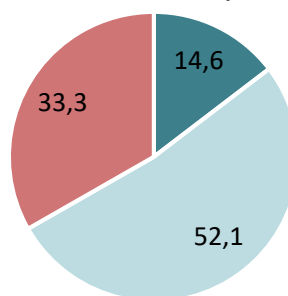


Enterprises distribution by degree of reliability by dimension in Q3 2020, share in%

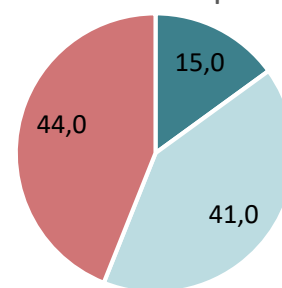
Large enterprises



Medium enterprises



Small enterprises



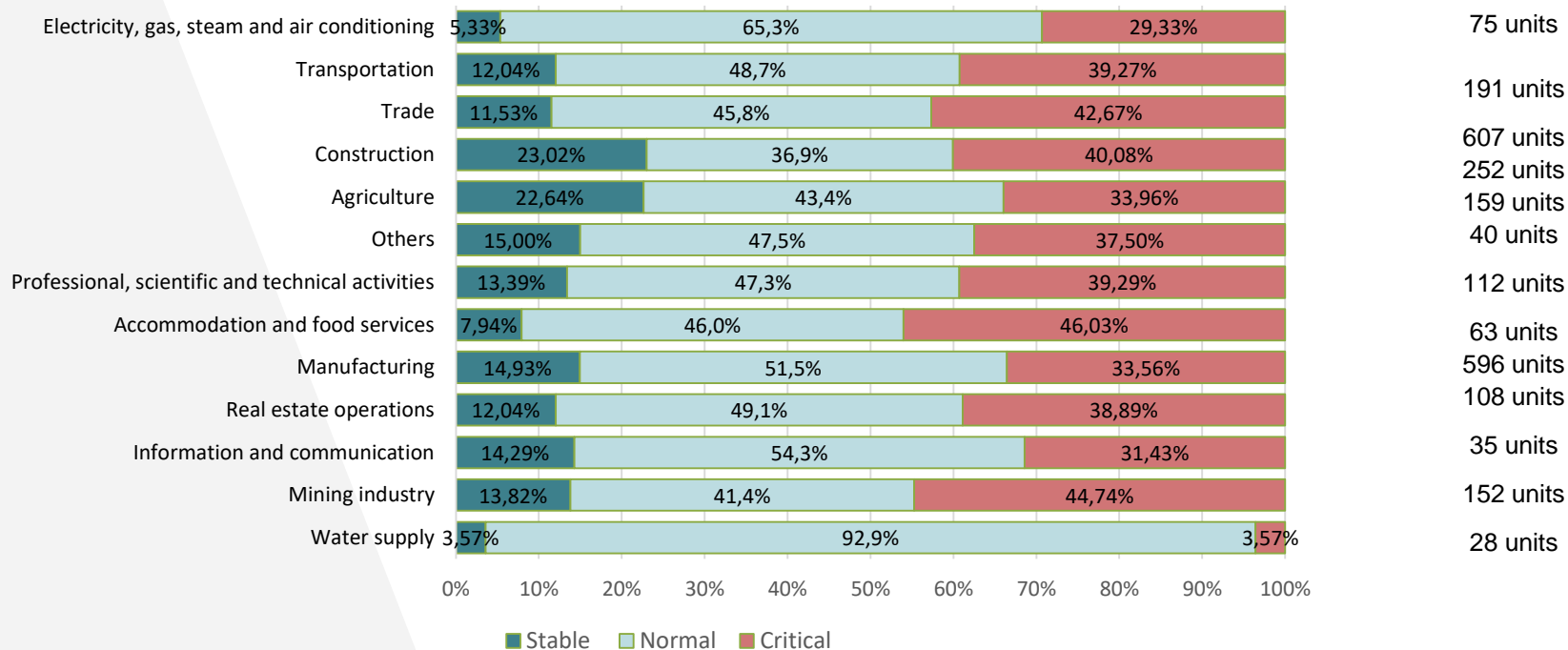
■ Stable
■ Normal
■ Critical

According to the results of discriminant analysis based on the financial ratios of enterprises assessment, the share of enterprises with a critical financial condition increased from 35,3% to **38,1%** in Q3 of 2020.

If we look at the dimensions, the share of enterprises with a critical financial condition among small enterprises is much higher (**44,0%**) than among large (25,5%) and medium-sized (33,3%). At the same time, the share of sustainable enterprises in the structure of small enterprises is higher than in medium and large ones.

ASSESSMENT OF THE ENTERPRISES FINANCIAL CONDITION

Enterprises distribution by degree of reliability by type of activity in Q3 2020, share in%



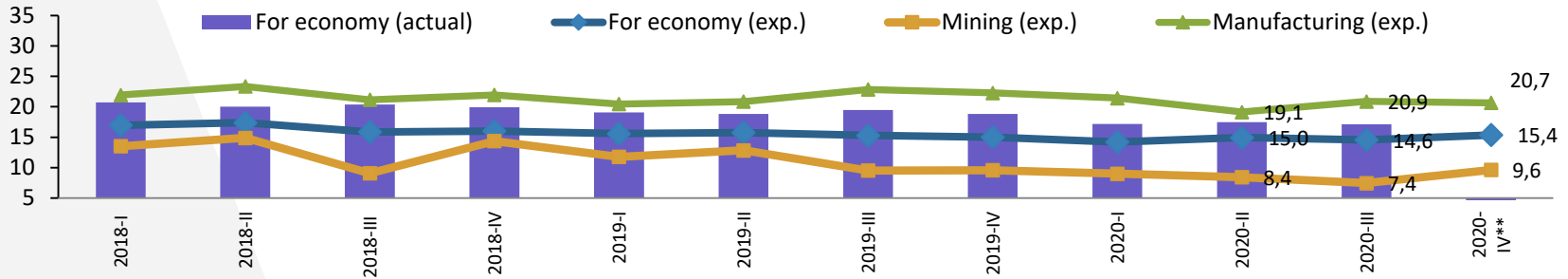
In Q3 of 2020, in all sectors, except for water supply, the share of enterprises with a critical financial condition was higher than the share of enterprises with a stable financial condition. The largest share of sustainable enterprises was found in construction (**23,0%**) and agriculture (**22,6%**). The largest share of enterprises with a critical financial condition is in the “accommodation and food services” industry (**46,0%**) and in the mining industry (**44,7%**). Water supply turned out to be the most stable industry with **92,9%** of enterprises with a sound financial condition.

* Companies participating in monitoring have been stable for 3 years

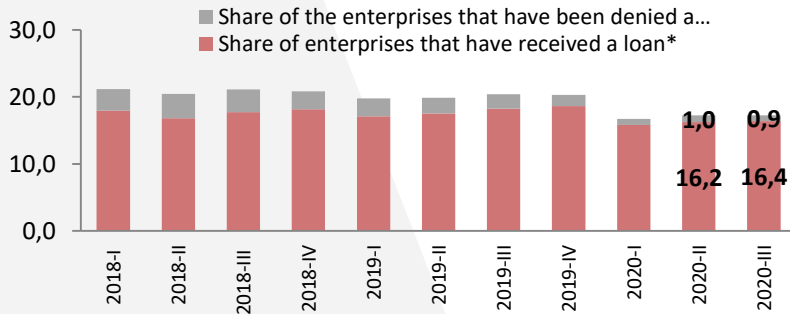
BANKING SYSTEM IMPACT ON THE REAL SECTOR OF THE ECONOMY

Loans demand, %

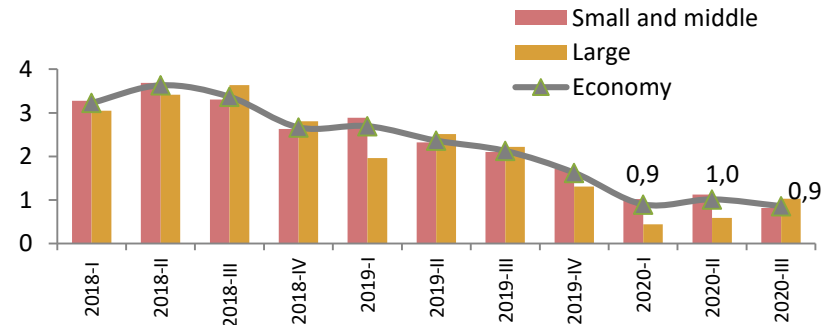
(share of enterprises applying for a loan from a bank)



Lending applications consideration



Share of enterprises that have been denied for a loan



In Q3 of 2020, **17,3%** of the surveyed enterprises applied to the bank for a loan, 16,4% of enterprises received a loan (or 94,8% of the number of those who applied for a loan). The share of refusals in lending was 0,9% of the total number of survey participants (5,2% of those who applied for a loan).

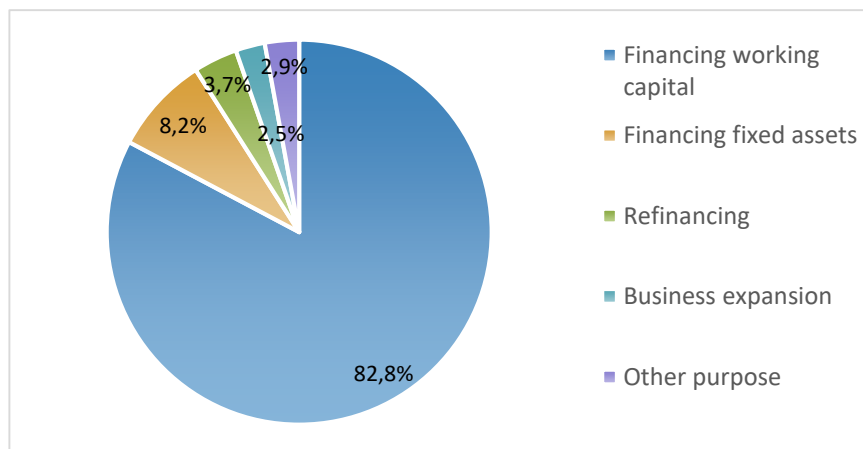
In Q4 of 2020, **15,4%** of the surveyed enterprises intend to apply for a loan. In the manufacturing industry, the share of such enterprises is **20,7%**, in the mining industry – **9,6%**.

BANKING SYSTEM IMPACT ON THE REAL SECTOR OF THE ECONOMY

Debt burden as estimated by enterprises *,%

Debt load *	Share of enterprises
1-20%	15,1
21-30%	9,3
31-40%	6,4
41-50%	4,5
51-60%	3,7
61-70%	1,6
71-80%	1,8
over 81%	1,3
no debt	56,3

The objectives of attracting a loan in the past quarter, in%



In Q3 of 2020, 56,3% of enterprises that took part in the surveys **have no debt**. The majority of enterprises (15,1%) have a debt burden* within 20%. The arithmetic weighted average** value of the debt burden is 13,7%.

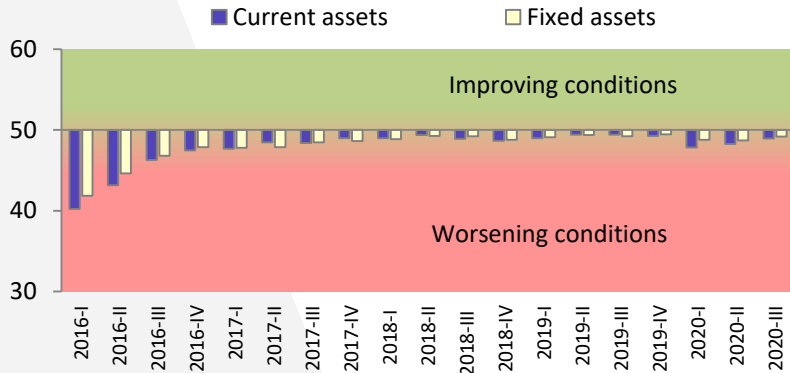
The overwhelming majority of enterprises (**82,8%**) attracted a loan to finance working capital (purchase of materials, raw materials, purchased semi-final products, etc.), 8,2% - for the purchase of fixed assets (purchase of buildings, structures, vehicles, equipment, etc.). Loans for refinancing purposes attracted 3,7% of enterprises, for business expansion – 2,5%.

* Monthly payment / income from sales of products

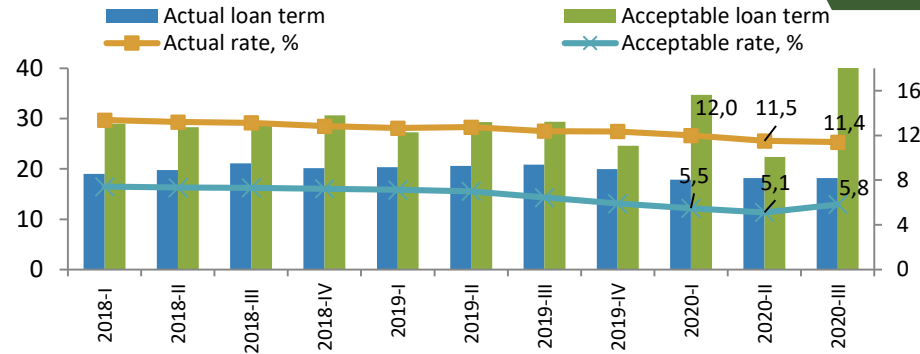
** Arithmetic weighted average is the average value of the interval, weighted by the share of enterprises.

BANKING SYSTEM IMPACT ON THE REAL SECTOR OF THE ECONOMY

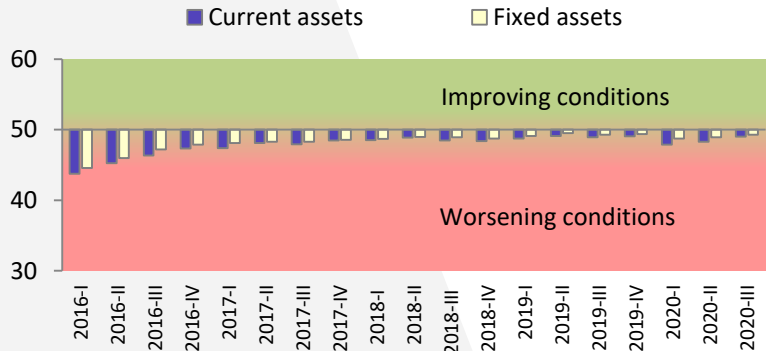
Price conditions



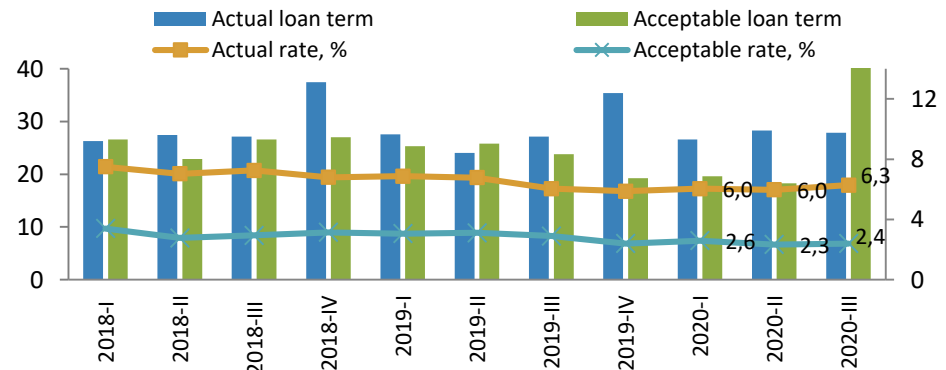
Loan terms and rates in tenges



Non-price conditions



Loan terms and rates in foreign currency

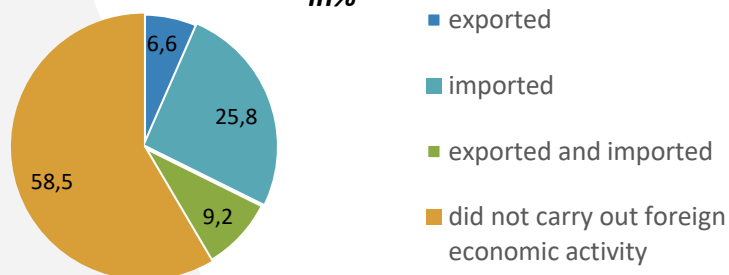


In Q3 2020, enterprises' assessments regarding price (level of loan interest rates, amount of additional commissions) and non-price (maximum size and term of a loan, requirements for the borrower financial condition, security requirements) of lending conditions remained negative. At the same time, the number of enterprises noting the deterioration of credit conditions slightly decreased.

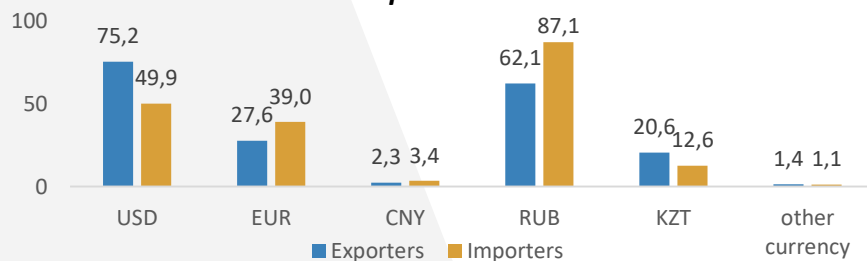
Average interest rates on loans received by the monitoring participants did not practically change and amounted to **11,4%** in tenges and **6,3%** in foreign currency. The interest rate acceptable for enterprises on loans in tenges is 5,8%, on loans in foreign currency – 2,4%.

FOREIGN ECONOMIC ACTIVITIES OF ENTERPRISES (FEA)

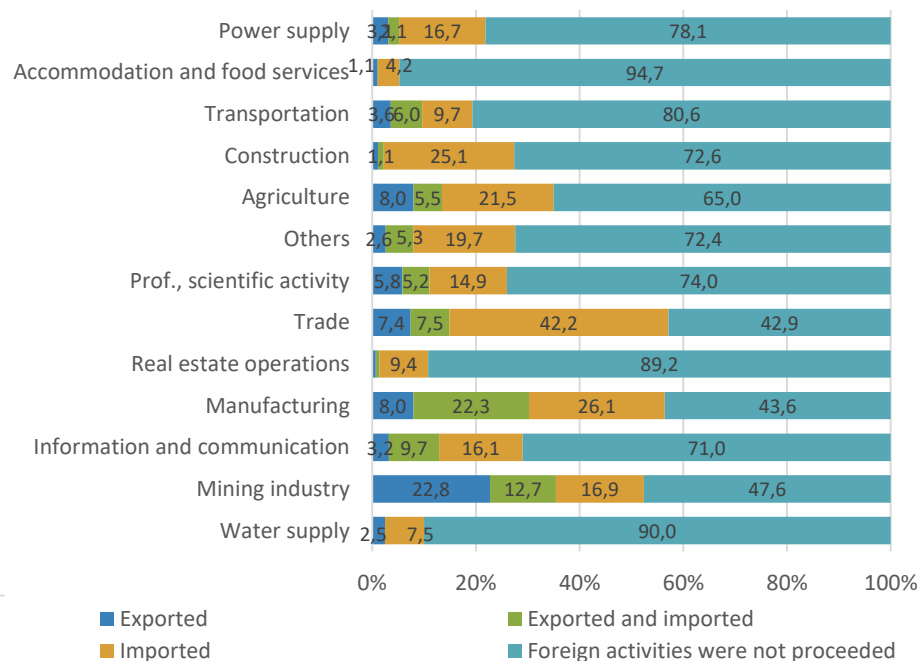
Implementation of foreign economic activity in the past quarter, the share of enterprises in%



Use of currency in calculations, share of enterprises in%



Foreign economic activity by activity type, share of enterprises in%

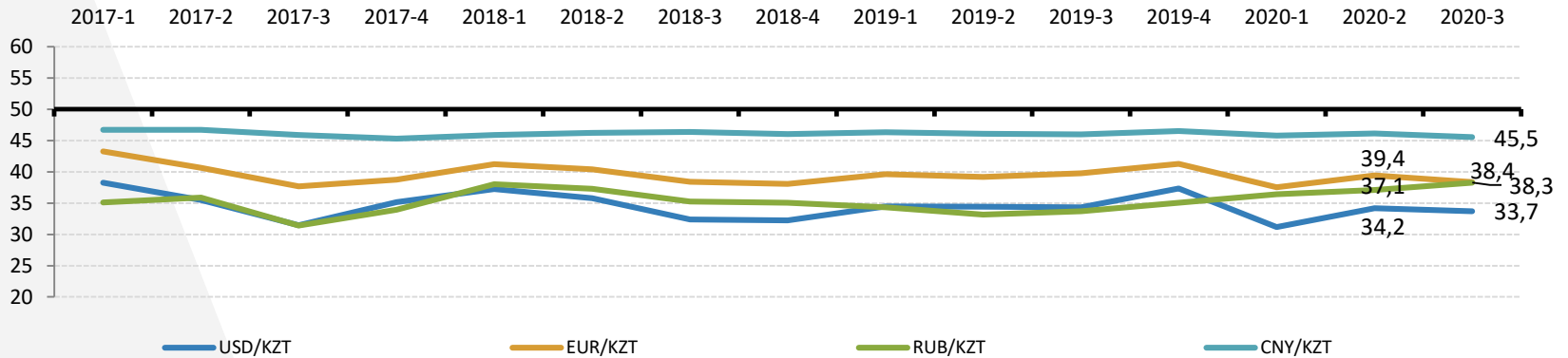


In Q3 of 2020, **25,8%** of respondents imported products to carry out their activities, 6,6% exported, 9,2% both exported and imported, and the overwhelming majority (**58,5%**) did not carry out foreign economic activity. The largest share of enterprises that exported products is in the mining industry (**22,8%**), the largest share of enterprises that imported products is in trade (**42,2%**). The largest share of enterprises engaged in foreign economic activity is in trade.

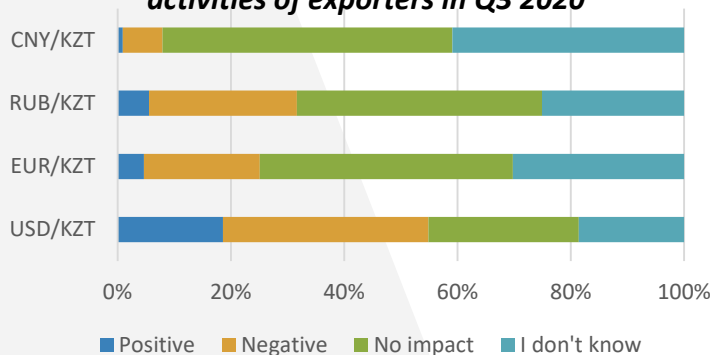
In calculations with foreign partners, exporters more often use the US dollar (75,2% of exporters), importers use the Russian ruble more (**87,1% of importers**). The other currencies used in the calculations of the company indicate the British pound sterling, Swiss franc, Kyrgyz som and Turkish lira.

IMPACT OF EXCHANGE RATE CHANGES

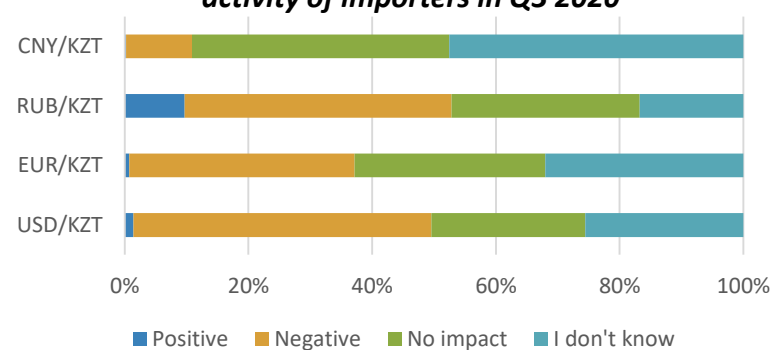
*Dynamics of the impact of changes in the exchange rate, DI **



Impact of the exchange rate on the economic activities of exporters in Q3 2020



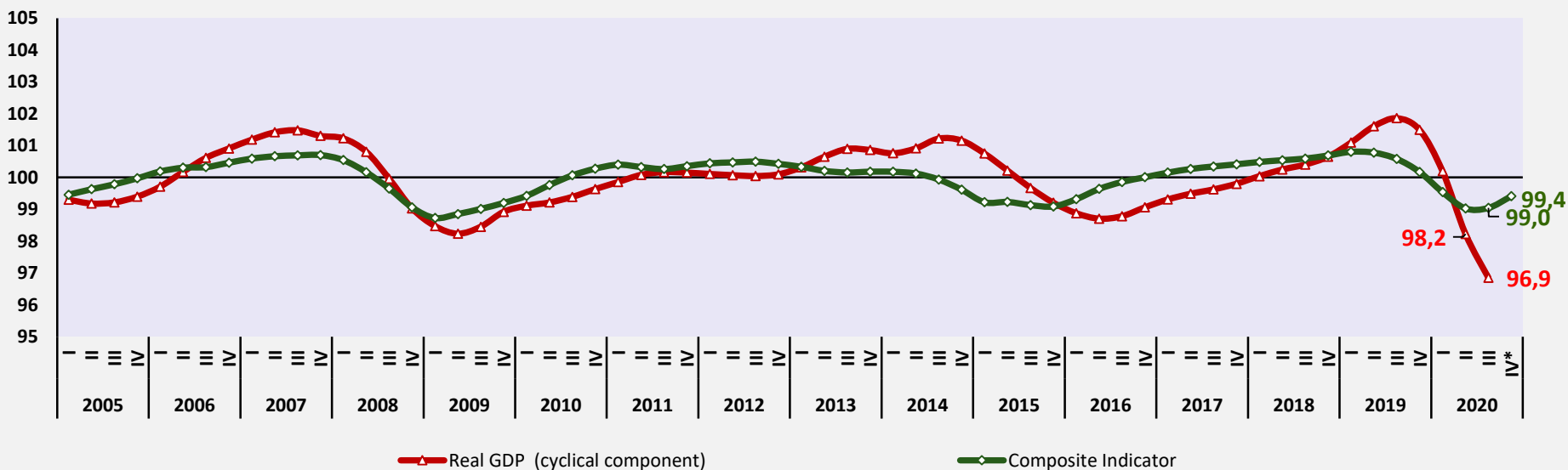
Impact of the exchange rate on the economic activity of importers in Q3 2020



In Q3 of 2020, the negative impact of the exchange rate on the economic activities of enterprises increased in all currencies, except for the impact of RUB/KZT (DI increased from **37,1 to 38,3**). Enterprises experience the greatest negative impact on their economic activities from changes in the EUR/KZT and USD/KZT exchange rates. The DI declined to **38,4** and **33,7** in Q3, respectively. Most of the enterprises exporting products indicated a positive impact from the change in the exchange rate in Q3.

* The higher (lower) the DI from the level of 50, the higher (lower) the growth (fall) rate of the indicator, the level of DI = 50 means no change

COMPOSITE LEADING INDICATOR*



In Q3 of 2020, the dynamics of the composite leading indicator (CLI), which is an aggregated assessment of surveys of enterprises in the real sector, demonstrates the continued low rates of business activity in the real sector at the level of Q2. CLI was 99,0.

The dynamics of CLI continues to be negatively influenced by the dynamics of world prices for energy carriers, a decrease in demand for final products of enterprises, an increase in the share of enterprises with a critical financial condition, and a decrease in the volume of inventories.

In Q4 2020, respondents expect some recovery in economic activity (CLI amounted to 99,4), which is mainly due to a slower decline in demand, the level of utilization of production facilities and the volume of inventories. Nevertheless, CLI remains in the area of decline (below 100).

- 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 2020 are calculated on the basis of expectations among enterprises in the real sector that participated in the survey.

- 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 sectors.
- Discriminant analysis allows to identify the most informative indicators of the financial condition of the enterprise and determine the approach of a crisis situation at the enterprise, and thus classify them according to the degree of reliability. The distribution of enterprises into groups (stable, normal and critical) is carried out using classification functions, including 3 financial indicators: the income growth rate from sales of products per employee, the coefficient of financial independence and the equity capital growth rate. Details in the economic research <https://www.nationalbank.kz/file/download/9013>
- The composite indicator (CLI) possesses the forward-looking feature of the real GDP behavior for 1-2 quarters. The time series of the CLI 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 CLI 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) DI changes in demand for final products in sectors of the economy
 - 2) DI changes in prices for final products of enterprises in sectors of the economy
 - 3) Credit activity indicator: share of enterprises intending to obtain a loan
 - 4) DI changes in the level of utilization of production facilities;
 - 5) DI changes in average wages;
 - 6) DI changes in inventories

METHODOLOGICAL COMMENTS