SECTORAL MARKET REVIEW

Enterprises Survey Results in the Real Sector of the Economy
(Sectors: Mining, Manufacturing, Construction, Trade, Transportation and Warehousing, Agriculture)

Q4 2020

Monetary Policy Department
National Bank of Kazakhstan

Content

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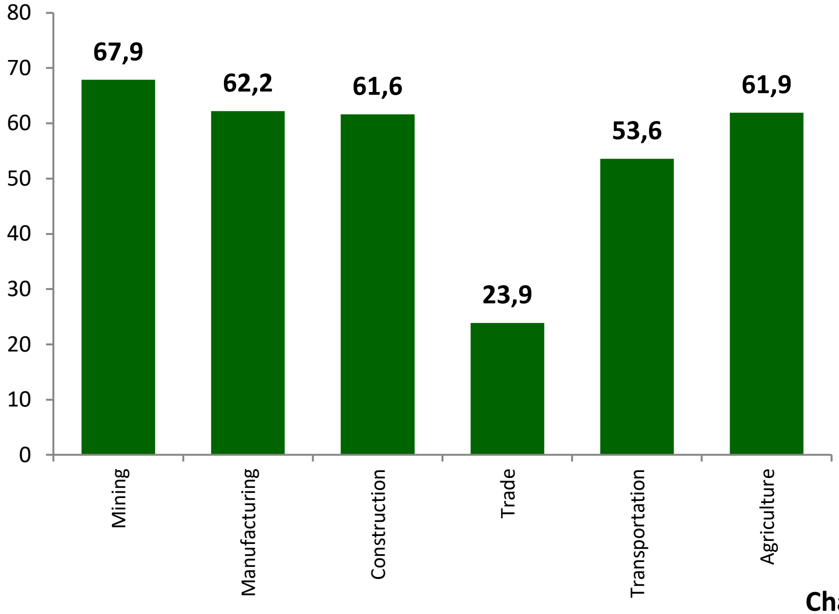
- financial performance of enterprises (p. 11-13)
- debt burden in industries (p. 14)
- production and labor costs (p. 15)

Conclusions

Survey details	
The purpose of the survey	➢ Identification of the main trends in the business environment in industries
Respondents	➢ Heads of enterprises, employees of financial departments
Survey method	➢ Questionnaire
Period of the survey	➢ 4Q 2020
Total monitoring participants	**3287**

Sample details	
Mining enterprises	➢ 196
Manufacturing enterprises	➢ 704
Construction enterprises	➢ 344
Trade enterprises	➢ 929
Transport and warehouse enterprises	➢ 250
Agricultural enterprises	➢ 197
Total respondents for the sample	➢ 2 620

Chart 1. Share of large and medium-sized enterprises, %



The sample for the **mining industry** is represented mainly by large and medium-sized enterprises (**67,9**%), among which the largest share is taken by enterprises for the extraction of oil and natural gas, metal ores, as well as enterprises providing technical services in the industry.

Large and medium-sized enterprises in the **manufacturing industry** make up **62,2**% of the total number of surveyed enterprises in the industry. The largest volumes in the industry are produced by enterprises of the metallurgical industry.

Large and medium-sized enterprises also prevail in **construction** and **agriculture** (**61,6**% and **61,9**%, respectively).

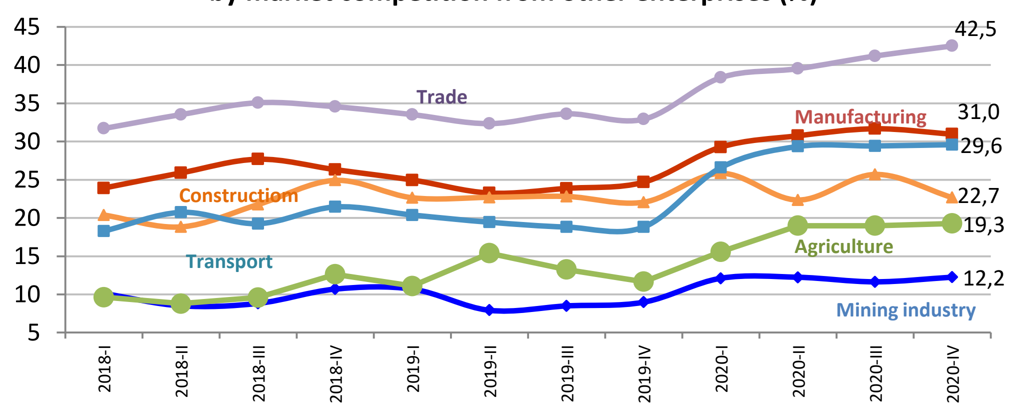
In transport and warehousing, more than half of the sample is represented by large and medium-sized enterprises (**53,6**%), most of which provide services for the transportation of oil and oil products via trunk pipelines. Among them there are many enterprises from the register of natural monopoly entities.

In **trade**, the share of large and medium-sized enterprises in the sample, as well as in the general population, is low (**23,9**%).

The **representativeness** * of the sample for these industries is **53,3**%.

In Q4 of 2020, the importance of competition has increased for all considered industries, except for manufacturing and agriculture. **Trade** remains as the most affected industry by market competition, with **42,5**% of enterprises feeling the impact of market competition on their business. In **transport and warehousing**, the share of such enterprises reaches **29,6**%, while in the **mining** industry this figure is only **12,2**%.

Chart 2. The share of enterprises whose further development opportunities are limited by market competition from other enterprises (%)



** Representativeness in the monitoring of enterprises is assessed by the formula: SI ME / SI SC * 100, where SI ME is the income from product sales (SI) of enterprises participating in the NBRK monitoring; SI SC – sales income according to Statistics Committee.*

Chart 3. Restrictions on investment activity of enterprises

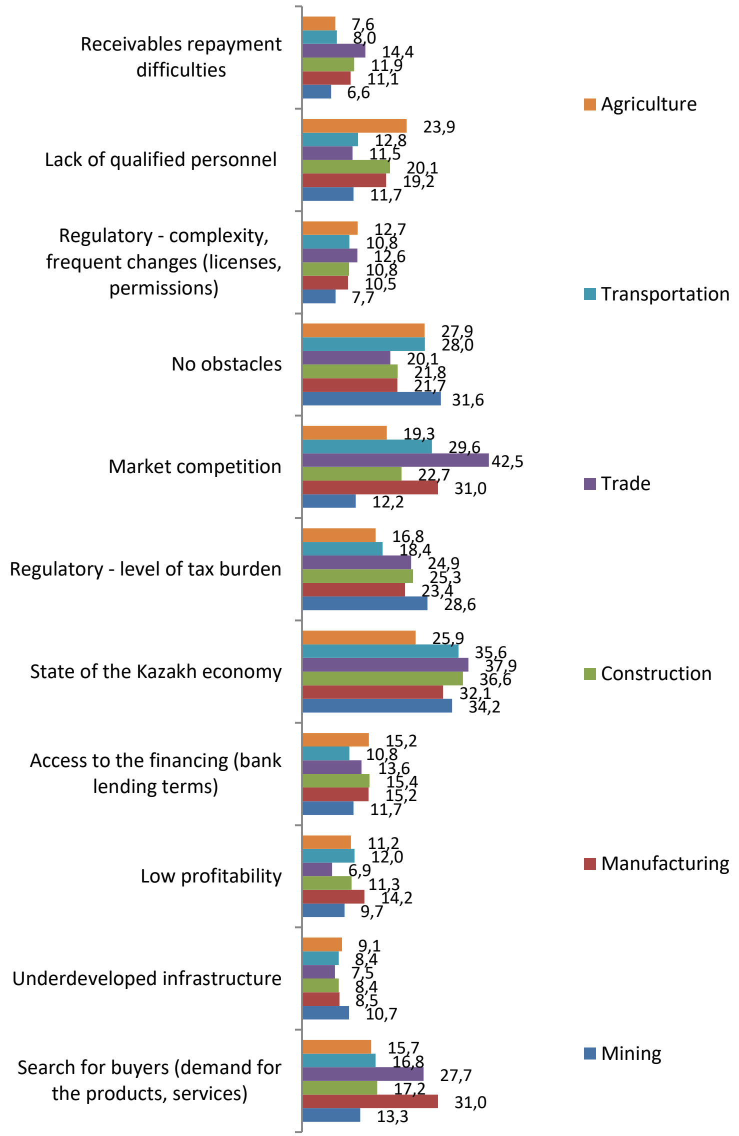
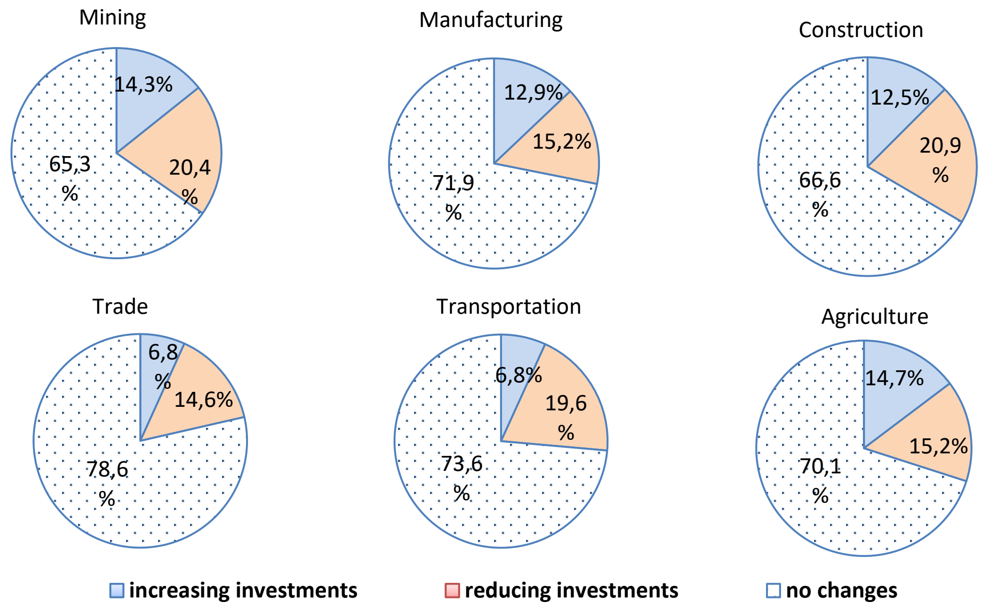


Chart 4. Expectations of enterprises for changes in investments in the next 12 months,%
График 4.



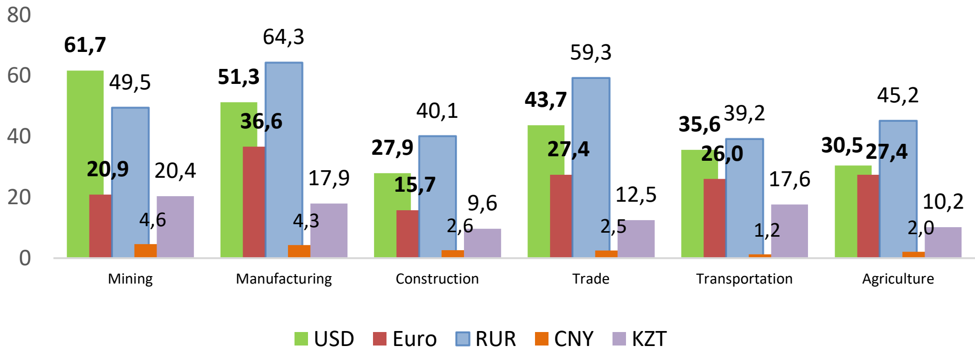
In Q4 of 2020, according to many enterprises, **the state of the economy of Kazakhstan** was the main obstacle to doing business.

For trade enterprises, the most important factor is **competition** from other businesses. For manufacturing and trade enterprises, an important factor hindering business development is **insufficient demand** for products. **23,9**% of agricultural enterprises note the lack of qualified **personnel**.

In the next 12 months, financing across all sectors will remain largely unchanged, with the largest increase in financing is planned in the agriculture, and the smallest - in the transport and warehousing sector and in the trade. The largest reduction in investment is expected in the mining industry and construction, the smallest - in the trade. In all the industries under consideration, the share of enterprises planning to reduce investments is greater than the share of those planning to increase them.

The main source of financing is still the **own funds of enterprises.**

Chart 5. Use of foreign currency in settlements (share of enterprises,%)



The main currency used in calculations with foreign partners for all the industries under consideration, except for the mining industry, is the Russian ruble (in the manufacturing industry, the share of enterprises using the Russian ruble is **64,3**%, in trade – **59,3**%). The US dollar dominates only in the mining industry (**61,7**%). Tenge in the calculations in the 4th quarter of 2020 was the most used by mining enterprises (20,4%).

Chart 6. Impact of changes in the exchange rate of the tenge against the US dollar for the activities of the enterprise (DI * by industry for the quarter)

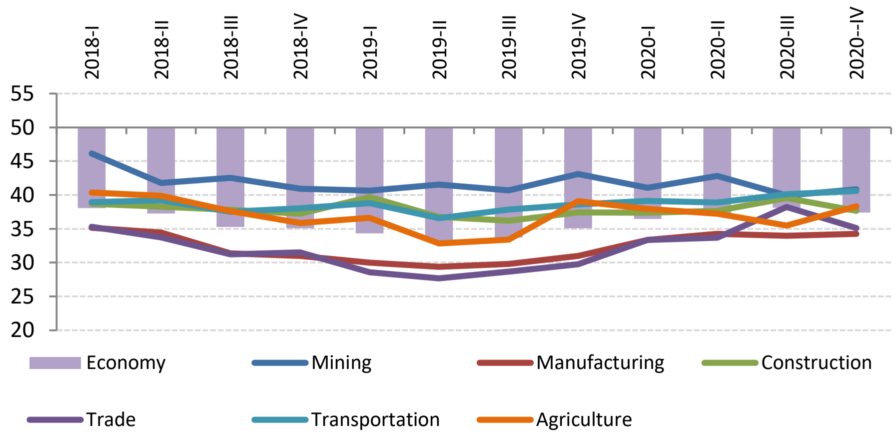
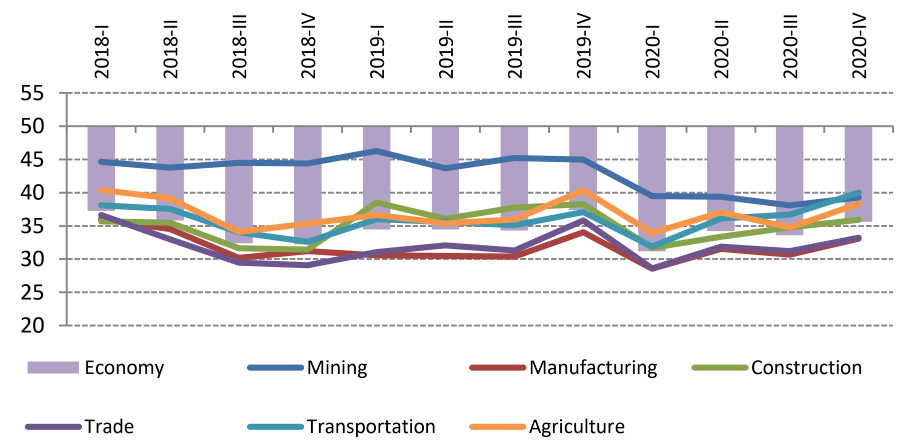


Chart 7. Impact of changes in the exchange rate of the tenge against the Russian ruble on the activities of the enterprise (DI by industry for the quarter)



In Q4 of 2020, the negative impact of the change in the exchange rate of the tenge **against the Russian ruble increased** for construction and trade enterprises, but **decreased** for other sectors, particularly for agricultural enterprises. The negative impact of the change in the exchange rate of the tenge **against the US dollar intensified** for enterprises in all industries. The least negative impact in the analyzed period was experienced by enterprises of the mining industry, the greatest - by enterprises of the manufacturing industry and trade.

* DI, diffusion index, the higher (lower) from the level 50, the more positive (negative) the influence of the indicator, the level 50 means no influence

Chart 8. Share of enterprises for which bank lending conditions are unacceptable,%

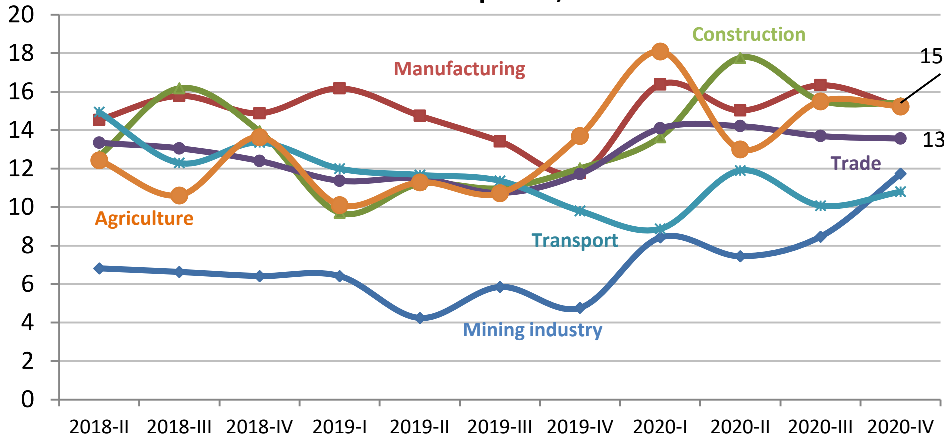
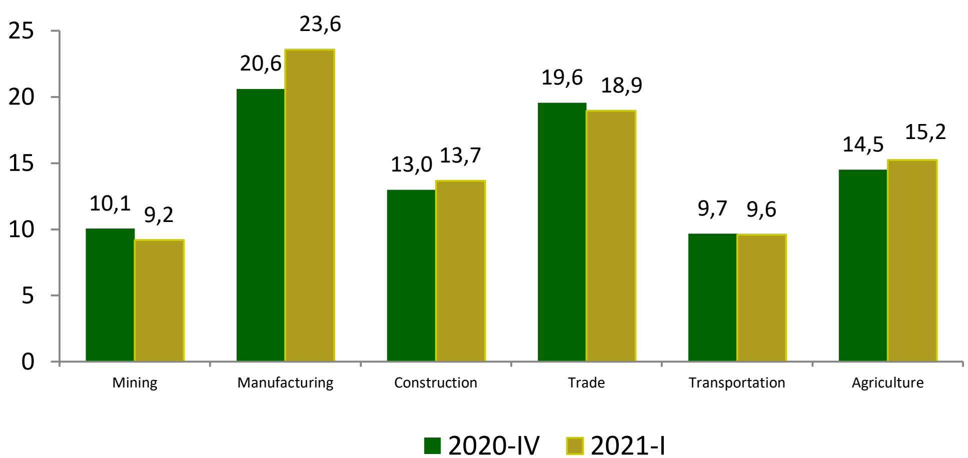


Table 1. Average lending rates,%

	In tenge		In foreign currency	
	in fact	preferred	in fact	preferred
Mining	11,2	3,8	3,4	2,1
Manufacturing	10,3	5,2	5,0	2,4
Construction	13,1	5,2	8,0	2,3
Trade	11,0	6,6	6,3	3,2
Transportation	11,3	3,9	4,3	1,7
Agriculture	10,4	4,5	6,0	1,7

Chart 9. Companies intending to apply for a loan in Q4 2020 and in Q1 2021,%



In Q4 of 2020, manufacturing and transport sector enterprises note a deterioration in access to bank loans. The largest number of enterprises for which credit conditions are unacceptable belongs to the construction (**15,4**%), manufacturing and agriculture (15,2%). A smaller number relates to trade. In the mining industry and in the "transport and warehousing" industry, their share is even much lower.

The highest interest rates on loans received both in tenge and in foreign currency were observed in construction (**13,1**% and 8,0%, respectively).

The largest share of enterprises intending to take out a loan in the Q1 of 2021 falls on the manufacturing industry and trade (23,6% and 18,9%, respectively), the smallest - in the "transport and warehousing" industry (**9,6**%).

Chart 10. Weighted average * credit load **,%

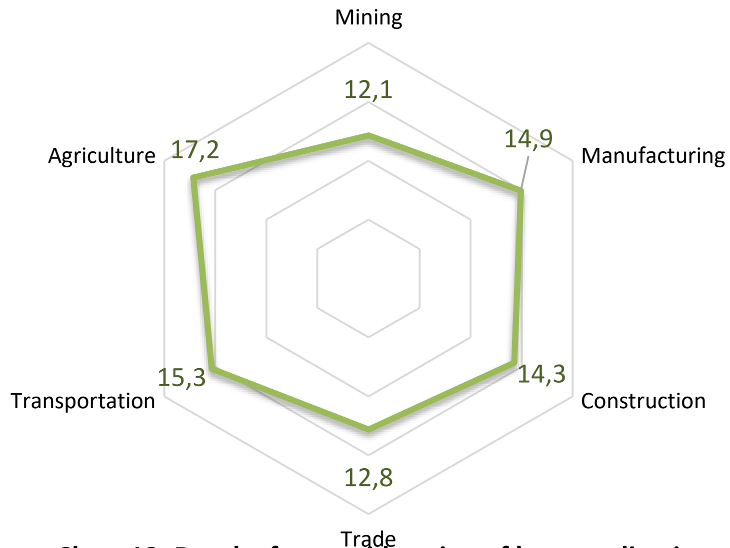


Chart 11. The share of enterprises with overdue * debt on bank loans,%**

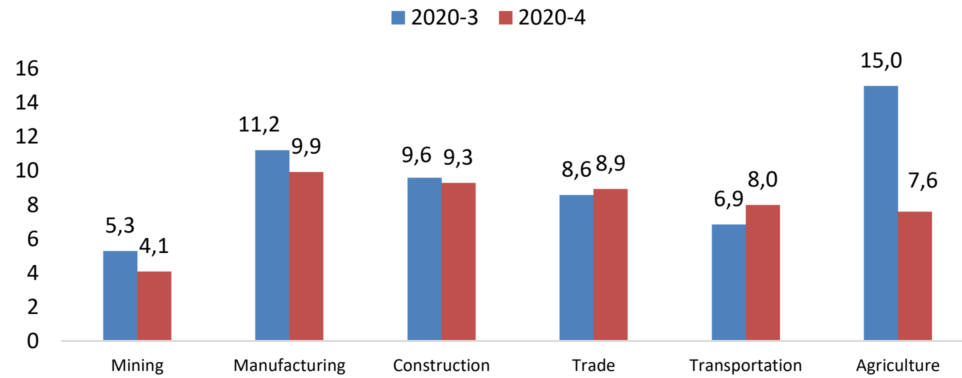
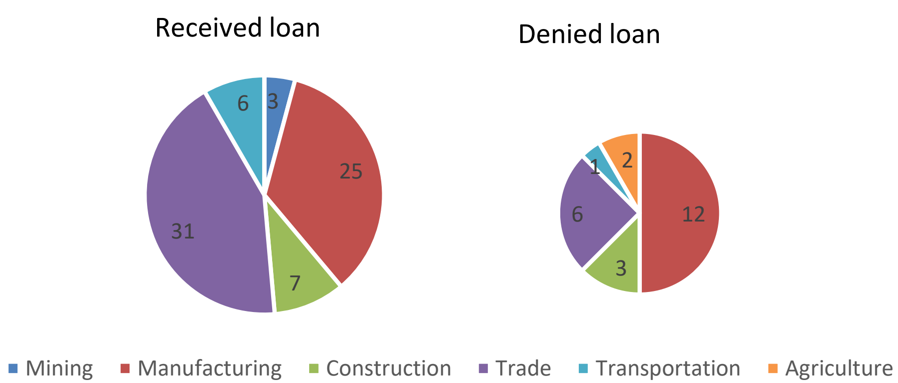


Chart 12. Results for consideration of loan applications, number



In Q4 2020, the weighted average credit burden in agriculture was higher than in other sectors. In agriculture, an average of **17,2**% of income from sales of products is spent on debt repayment. The lowest value of this indicator was noted in the mining industry and trade (**12,1**% and **12,8**%, respectively).

In all sectors, except for the "transport and warehousing" and trade sector, the share of enterprises with overdue (more than 90 days) debt on bank loans decreased. The largest share of such enterprises is in manufacturing industry (9,9%), the smallest - in the mining industry (**4,1**%).

In Q4 of 2020, out of the sample for the industries under consideration, **23 enterprises** were denied loans, a half of them are manufacturing enterprises (**12 enterprises**). There are no such enterprises transport and warehousing industry. There is not such kind of companies in the mining industry.

* Arithmetic weighted average is the average value of the interval, weighted by the share of enterprises
** Monthly payment / Income from product sales * 100
*** more than 90 days

Assessment of real performance indicators of enterprises:

Chart 13. Mining industry, DI*

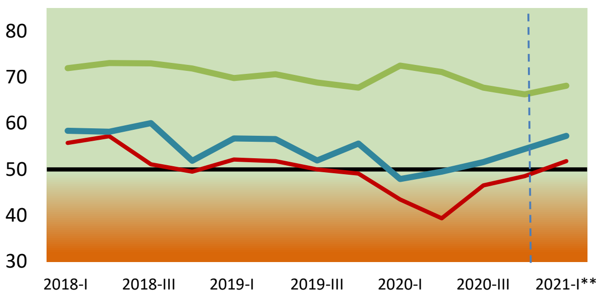


Chart 14. Manufacturing, DI*

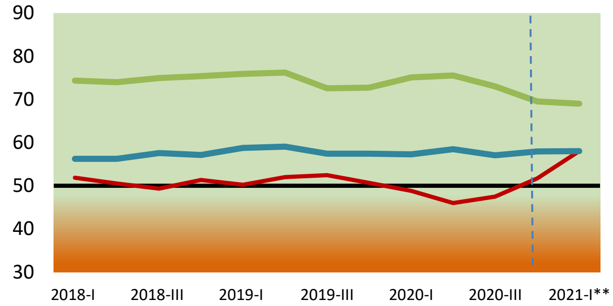


Chart 15. Construction, DI*

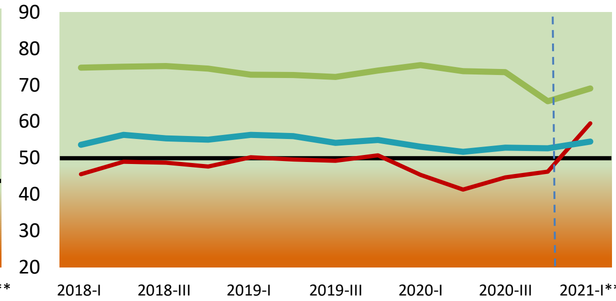


Chart 16. Trade, DI*

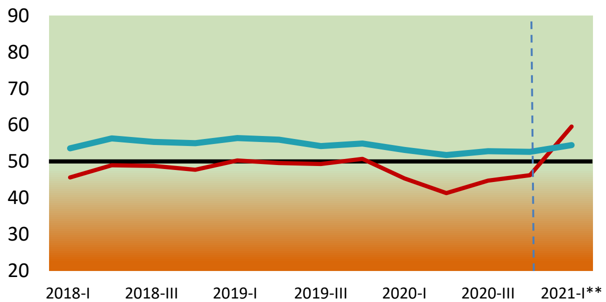


Chart 17. Transportation and warehousing, DI*

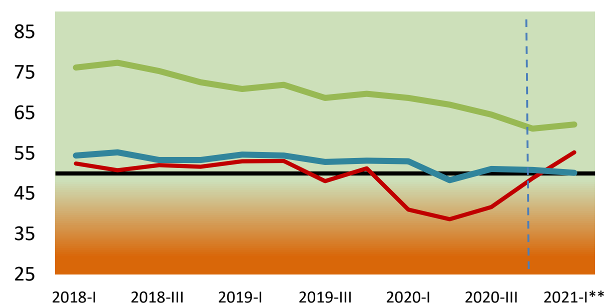
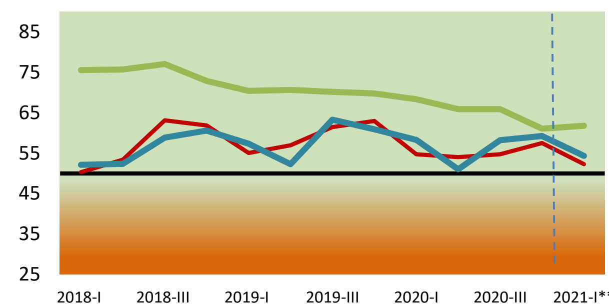


Chart 18. Agriculture, DI*



Demand   Production prices   Prices for raw materials

In Q4 of 2020, an improvement in the situation with **the demand for final products** was noted in all sectors except trade. Demand in agriculture continued to grow, demand in manufacturing entered a positive zone, and the decline in transport, construction and mining slowed down. In Q1 of 2021, enterprises of all industries expect an increase in demand for final products, while in agriculture, due to the influence of the seasonal factor, the growth rate of demand will slow down significantly.

A decrease in the growth rate of prices for raw materials and supplies in the Q4 of 2020 was noted in all industries, the largest decrease was in construction. In the Q1 of 2021, the growth rates of prices for raw materials and supplies are expected to accelerate in all sectors under consideration.

* DI, diffusion index, the higher (lower) the level of 50, the more positive (negative) the influence of the indicator, level 50 means no influence

** The graphs reflect the expectations of enterprises for the change in the parameter in the 1st quarter of 2021

Chart 19. Weighted average utilization of production capacities by industry, *%

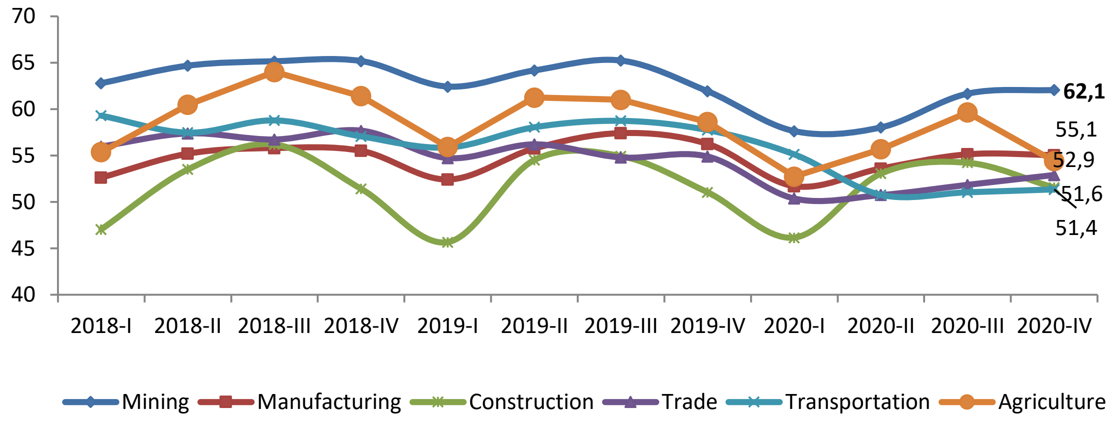
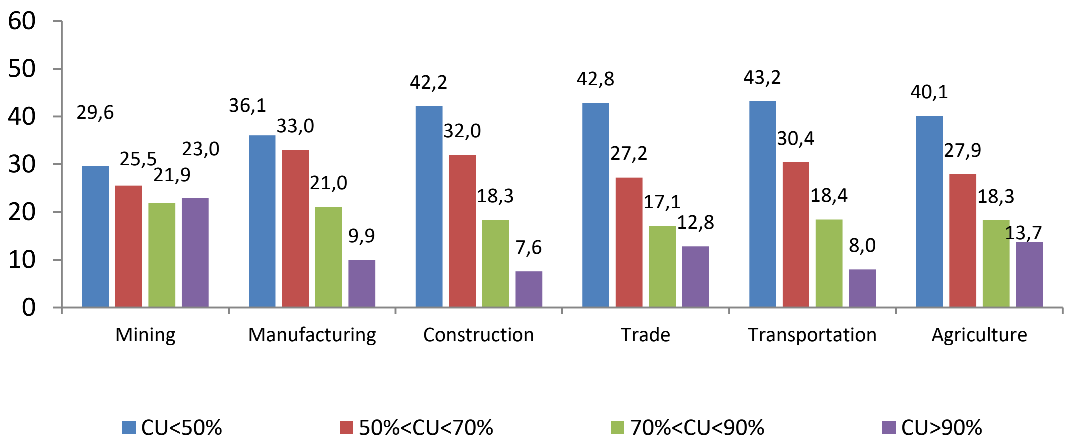


Chart 20. The level of utilization of production capacities in the 4th quarter of 2020, the share of enterprises in %



In Q4 of 2020, an increase in the level of **capacity utilization** (CU) was noted in the mining industry, transport and warehousing and trade, and a decrease was noted in agriculture and construction.

The best situation is in the mining industry, where the share of enterprises with the maximum CU (**CU>= 90%**) is higher than in other sectors, and the share of enterprises with **CU<50%** is less than in others. The worst situation with CU is in the "transport and warehousing industry".

In all sectors, the majority of enterprises have **CU<50%.**

As a result, the highest weighted average CU remains in the mining industry (**62,1%).** Trade, construction and the "transport and warehousing" industry turned out to be the industries with the lowest levels of productive potential utilization. The volatility of the changes dynamics in the weighted average CU in construction and agriculture shows a strong dependence of the indicator on the seasonality factor.

* The arithmetic weighted average is the average value of the interval, weighted by the share of answers to the question about the level of utilization of production facilities.

Table 2. Median* value of main indicators

	CLR	SR	ATR	ROS**	SFR	SWCA
Mining	1,47	1,48	0,20	38,2	0,50	47,2
Manufacturing	1,48	1,38	0,28	20,2	0,37	62,7
Construction	1,18	1,23	0,30	17,0	0,34	66,3
Trade	1,18	1,19	0,43	18,7	0,22	82,5
Transportation	1,09	1,40	0,14	19,3	0,41	30,3
Agriculture	1,30	1,25	0,13	23,1	0,39	36,1

The main **indicators of the financial and economic activities of enterprises** in the 4th quarter of 2020 were as follows:

- enterprises of the manufacturing and mining industries have the highest liquidity (**CLR = 1,47** and **1,48**, respectively);
- the enterprises of the mining and “transport and warehousing” industries are the most solvent (**SR = 1,48** and **1,40** respectively);
- business activity in trade is significantly higher than in other industries (**ATR=0,43**);
- mining enterprises are the most profitable (**ROS = 38,2**%), the least profitable - trade (**ROS = 17,0%**);
- the possibility of financing investments from their own funds in the mining industry is higher than in other industries (**SFR = 0,50**);
- most of the assets of trade enterprises are current assets (**SWCA = 82,5%**).

Table 3. Financial indicators overview

	Formula	Short description
CLR (current liquidity ratio)	Current assets / Current liabilities	It characterizes the company's ability to repay current (short-term) liabilities using only current assets. The higher the indicator, the better the company's solvency. The standard is 1.2-2.0
SR (solvency ratio)	Assets / Liabilities	Shows the ability to cover all the liabilities of the enterprise (short-term and long-term) with all of its assets
ATR (asset turnover ratio)	SI / Assets SI - income from product sales	Shows the intensity of use (rate of turnover) of assets. It serves as an indicator of the business activity of the enterprise
ROS (return on sales)	(SI – COGS) / SI * 100 COGS - cost of goods sold	An indicator of the financial performance of the organization, showing what part of the organization's revenue is profit (before tax)
SFR (self-financing ratio)	E / (E + Liabilities) E – equity	The ratio of own investment funds to the total amount of funds required for investment
SWCA (share of working capital in assets)	Short-term assets / Assets * 100	Allows to judge the liquidity of the balance as a whole

* The median values are presented due to the lower degree of exposure to the influence of extreme values, in contrast to the arithmetic mean.

** Sales before deducting interest, taxes and depreciation expenses

Assessment of enterprises real performance indicators:

Financial performance of enterprises

Chart 21. Current liquidity ratio dynamics (CLR)

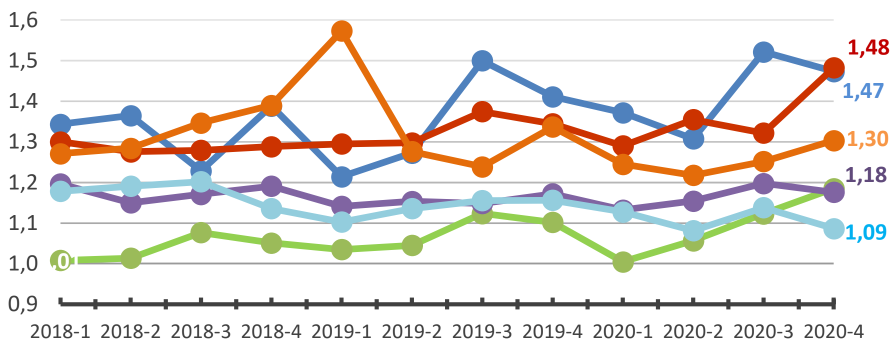


Chart 23. Self-financing ratio dynamics (SFR)

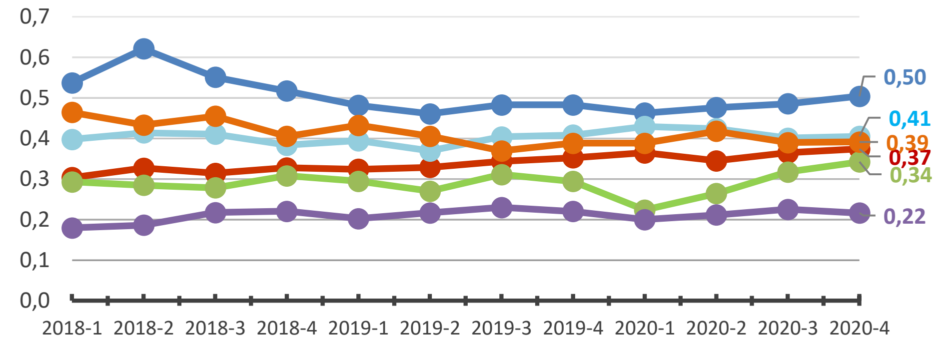


Chart 22. Asset turnover ratio dynamics (ATR)

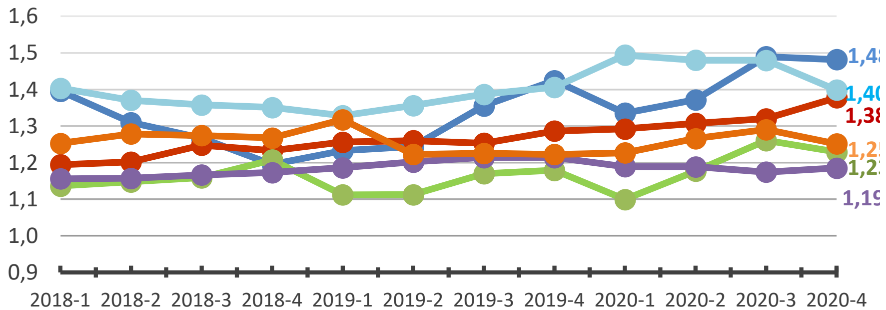
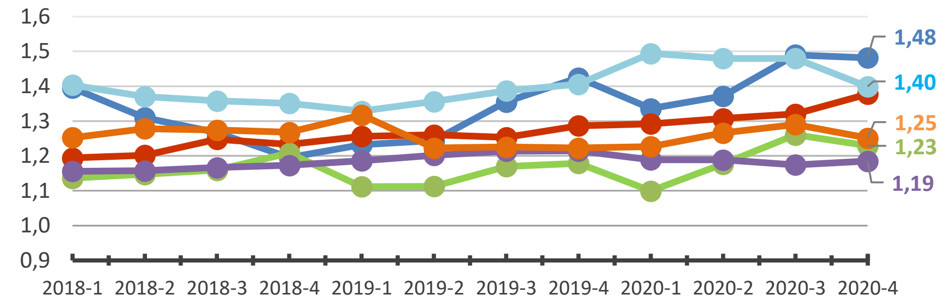


Chart 24. Overall solvency ratio dynamics (SR)



Mining Manufacturing Construction Trade Transportation Agriculture

In Q4 2020, **the ability of manufacturing, construction and agricultural enterprises to pay off their short-term liabilities improved**. A significant improvement is noted in the manufacturing industry (**CLR = 1,48**). The business activity of enterprises showed multidirectional dynamics, increasing in the manufacturing industry and trade (ATR = 1.38 and 1.19, respectively) and declining in all other industries.

The ability to finance investments from their own funds has increased for construction enterprises (**SFR** increased from **0,32** to **0,34**), a decrease in the indicator is noted for the trade enterprises (**SFR** decreased from **0,23** to **0,22**).

The enterprises of the mining industry have a same ability to repay their long-term obligations and short-term obligations, the SR is the same to the CLR (**1,48** and **1,48**, respectively).

* The median values are presented due to the lower degree of exposure to the influence of extreme values, in contrast to the arithmetic mean

** Formula and the short description of the financial indicators are on the table 3 (page 11)

Chart 25. Return on sales *,%

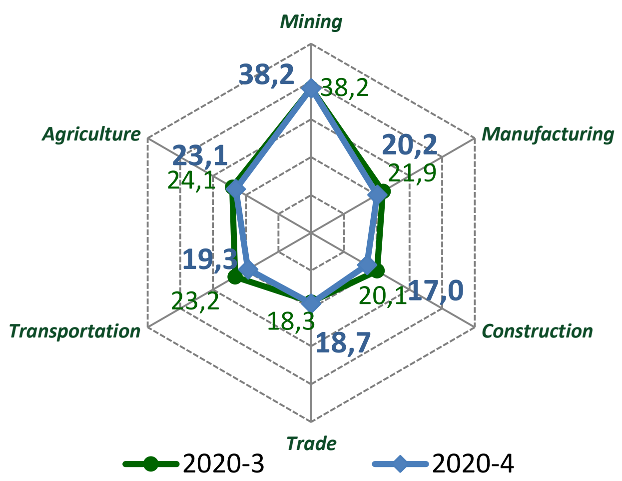


Chart 26. Dynamics of sales profitability *,%

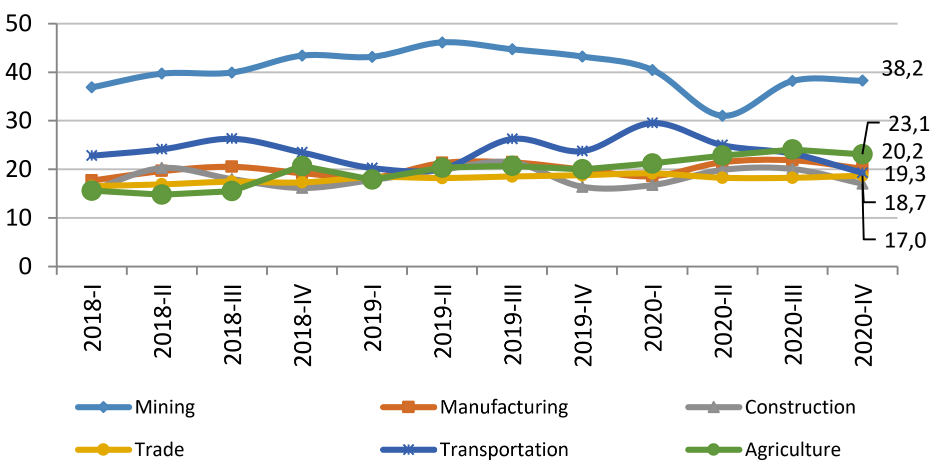
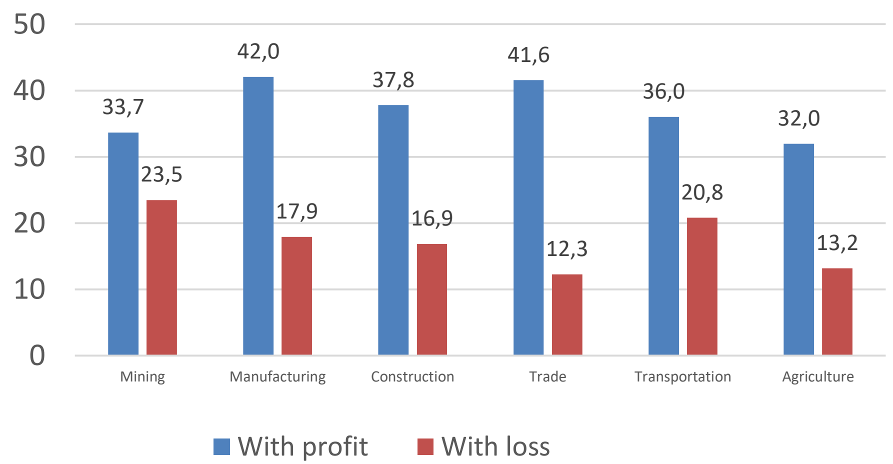


Chart 27. The share of enterprises planning to end the financial year with profit / loss,%



The return on sales (before tax and deduction of interest and depreciation expenses) in Q4 of 2020 in the mining has developed in the level of Q3 (**38,2%**). A decrease was noted in all industries, the slight decrease was in construction (from **20,1%** to **17,0%**).

Despite the fact that the return on sales in the mining industry is significantly higher than in other industries, the share of enterprises planning to close the financial year with **losses** in the mining industry is higher than in other industries (**23,5%**). Manufacturing, trade and construction enterprises are much more optimistic in their estimates: their share of enterprises planning to close the year with a **profit** is **42,0%, 41,6%** and **37,8%,** respectively.

In all the industries under consideration, the share of enterprises planning to close the year with a profit is greater than the share of those planning to close the year with a loss.

* The median values are presented due to the lower degree of exposure to the influence of extreme values, in contrast to the arithmetic mean.

The situation with overdue debt outside the banking sector has changed, that is, for mutual calculations with suppliers, contractors, customers, buyers, etc. According to the results of Q4 of 2020, the share of enterprises with overdue (more than 90 days) **accounts receivable** increased (from **22,4%** to **22,9%**) and **accounts payable** decreased (from **21,9%** to **20,9%**) on average in the economy.

In all the industries under consideration, except for the trade and manufacturing industry, the share of enterprises with overdue accounts receivable **increased**. The share of enterprises with overdue accounts payable also **increased** only in "transport and warehousing" and construction industries, in all other considered industries decline was noted. The largest number of enterprises with both overdue accounts receivable and overdue accounts payable was noted in the mining industry (**29,1%** and **31,1%,** respectively).

It should be noted that **all** of the enterprises participating in the surveys have difficulties with the return of receivables. In trade, this indicator is **14,4%,** in construction **– 11,9%,** in the manufacturing industry – **11,1%,** in the "transport and warehousing" industry – **8,0%,** in agriculture – **7,6%**,in the mining industry – **6,6%.**

Chart 28. Overdue accounts receivable debt (%)

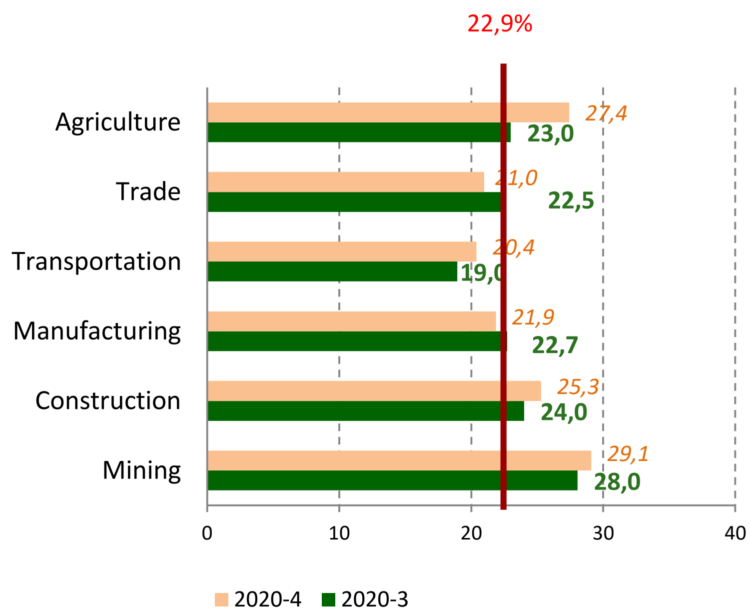


Chart 29. Overdue payables debt (%)

Chart 30. Production volume dynamics, DI *

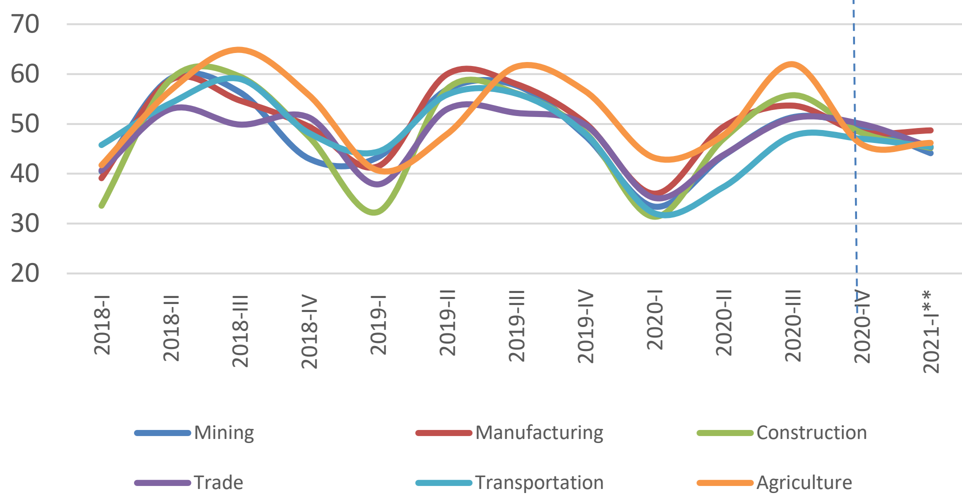


Chart 31. Number of employed dynamics, DI

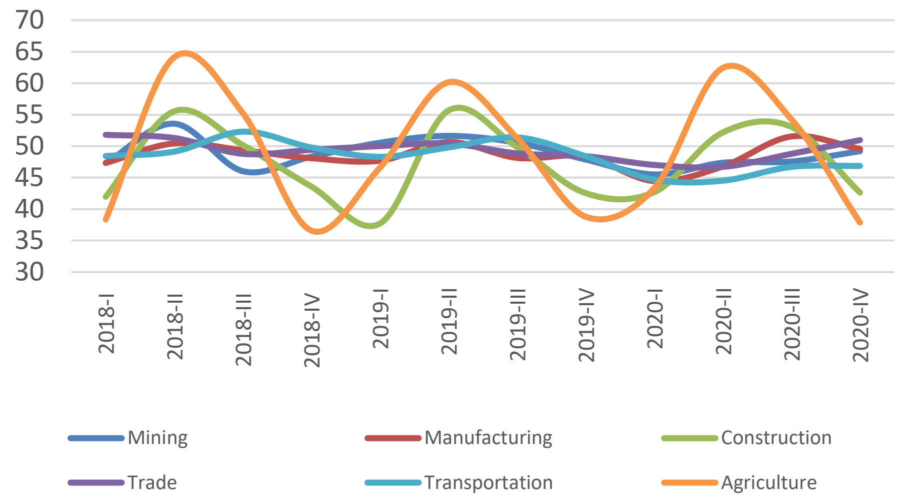
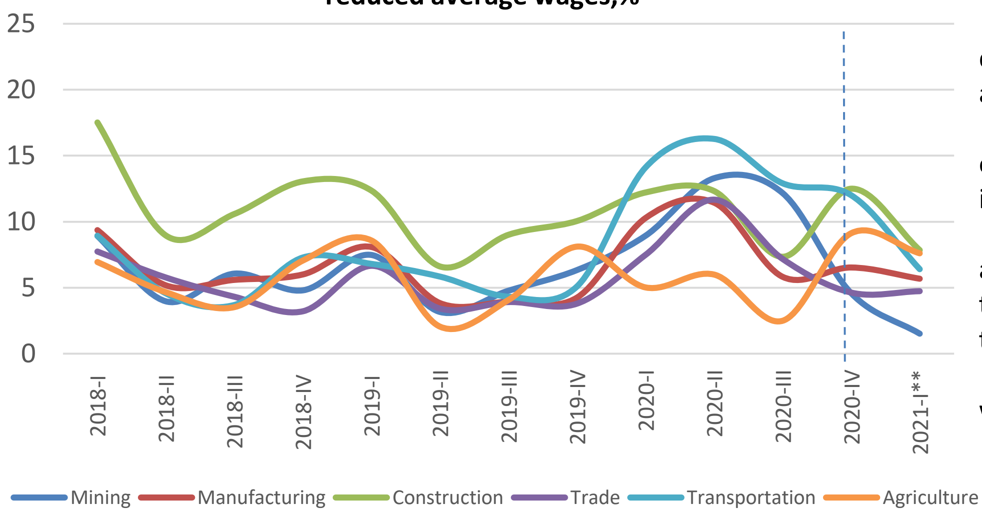


Chart 32. Dynamics of the share of enterprises that reduced average wages,%



In Q4 of 2020, in all the industries under consideration a de**crease in production volumes** was noted, and DI moved into the area of decline. The largest decrease was noted in agriculture.

The decrease in production volumes affected wages and employment at enterprises. The number of employed has decreased in almost all sectors.

In Q4 of 2020, **the average salary decreased** in construction and agricultural enterprises, which is explained by the seasonal nature of their activities. A slight decrease was noted in manufacturing sector too.

In Q4 of 2021, the number of enterprises planning to reduce wages is expected to decrease.

* DI, diffusion index, the higher (lower) the level of 50, the more positive (negative) the influence of the indicator, level 50 means no influence
** The graphs reflect the expectations of enterprises for the change in the parameter in the 1st quarter of 2021

- The highest **degree of competition remains** in trade.
- Most enterprises point to **the state of the economy of Kazakhstan** as the main obstacle to doing business.
- In Q4 of 2020, the **least** negative impact from the change in the exchange rate of the tenge **against the US dollar and the Russian ruble** in the analyzed period was experienced by the mining industry, the **largest** - by the manufacturing and trade enterprises.
- The highest **capacity utilization** remains in the mining industry.
- In the Q4 of 2020, there was an improvement in the situation with **the demand for final products** in all sectors except the trade industry. Demand in agriculture continued to grow, demand in the manufacturing industry entered a positive zone, and the decline in transport, construction and the mining industry slowed down.
- The **ROS** in the mining industry is significantly higher than in other industries. A decrease was noted in all industries, the largest of which is observed in the construction industry (from 20.1% to 17.0%).
- In manufacturing industry, the share of enterprises with **overdue debts on bank loans** (more than 90 days) is noticeably higher than in other sectors.
- In Q1 of 2021, further improvement in the **demand** situation is expected, an acceleration in the growth of **prices for raw materials and supplies** and an improvement in the situation with **wages**. At the same time, a seasonal decline in **production volumes** is expected.