MARKET REVIEW

Enterprises Survey Results in the Real Sector of the Economy

Q1 2021

Monetary Policy Department
National Bank of Kazakhstan
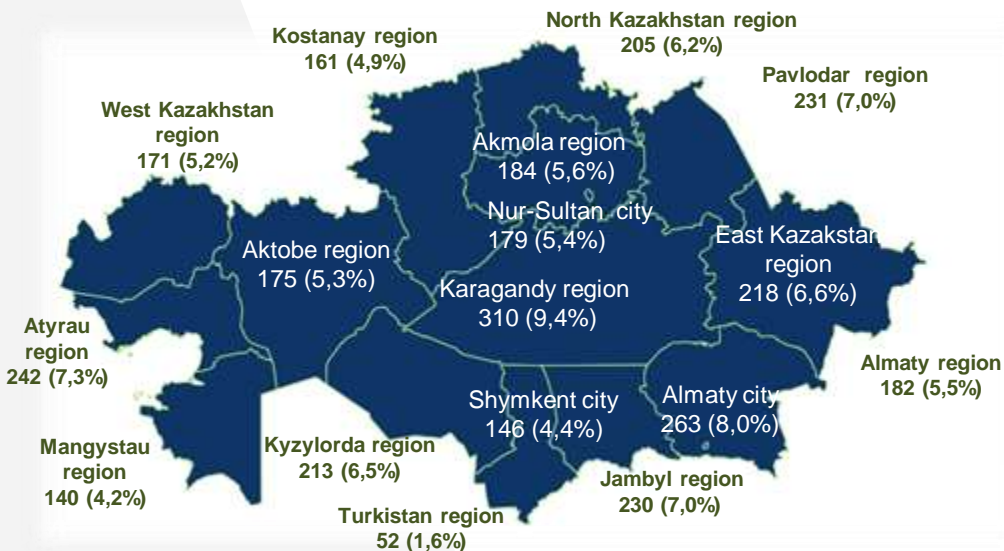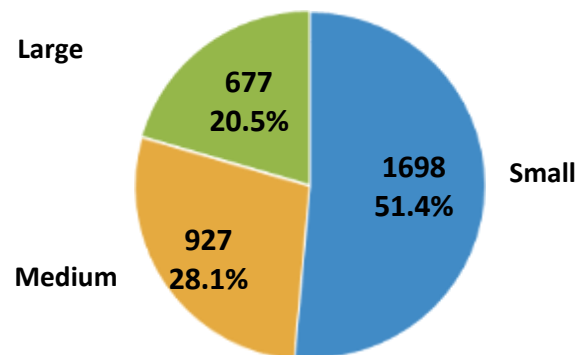
CONTENT

ENTERPRISE SURVEY PARTICIPANTS COMPOSITION

Regional structure of the enterprise survey participants in Q1 2021

Kostanay region 161 (4,9%)

North Kazakhstan region 205 (6,2%)

Pavlodar region 231 (7,0%)

West Kazakhstan region 171 (5,2%)

Akmola region 184 (5,6%)

Nur-Sultan city 179 (5,4%)

East Kazakhstan region 218 (6,6%)

Aktobe region 175 (5,3%)

Karagandy region 310 (9,4%)

Atyrau region 242 (7,3%)

Shymkent city 146 (4,4%)

Almaty city 263 (8,0%)

Almaty region 182 (5,5%)

Mangystau region 140 (4,2%)

Kyzylorda region 213 (6,5%)

Jambyl region 230 (7,0%)

Turkistan region 52 (1,6%)

In Q1 of 2021 the number of respondents compared to the previous quarter increased by 15 enterprises and amounted to **3302**. 9 small enterprises and 6 medium-sized enterprises were involved in the survey, 4 large enterprises left.

In the sectoral context, the largest increase in the number of enterprises was noted in construction (6) and in transportation and warehousing (4).

Survey participants size structure

Large 677 20.5%

Small 1698 51.4%

Medium 927 28.1%

Survey participants sectorial structure

	2018-I	2018-II	2018-III	2018-IV	2019-I	2019-II	2019-III	2019-IV	2020-I	2020-II	2020-III	2020-IV	2021-I
Total	2972	3057	3116	3150	3190	3217	3244	3266	3224	3254	3276	3287	3302
Trade	801	832	858	871	871	878	895	898	894	908	920	929	929
Manufacturing	694	695	697	699	705	705	709	706	690	699	704	704	703
Others	574	595	598	611	639	645	646	662	651	658	661	667	673
Construction	314	325	340	337	340	348	355	358	352	349	354	344	350
Transportation	235	241	244	247	250	257	255	256	248	252	248	250	254
Agriculture	186	193	198	198	198	195	196	197	199	200	200	197	196
Mining industry	168	176	181	187	187	187	189	188	190	188	189	196	197

Legend: Mining industry, Agriculture, Transportation, Construction, Others, Manufacturing, Trade

FINAL PRODUCTS DEMAND DYNAMICS

Final goods demand, DI*

Answers of enterprises, %		2019		2020				2021	
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2**
Increase	1	26,5	22,8	12,9	18,7	22,4	22,4	16,3	20,0
No changes	2	54,5	54,0	50,6	47,6	51,8	51,6	51,6	37,6
Decrease	3	16,7	20,7	33,8	30,7	22,6	22,9	28,5	10,4
Diffusion index, DI=line1+0.5*line2	4	53,7	49,9	38,2	42,5	48,3	48,2	42,1	38,7
DI, seasonal adjusted	5	51,1	50,2	46,1	42,5	45,1	48,7	55,4	52,4
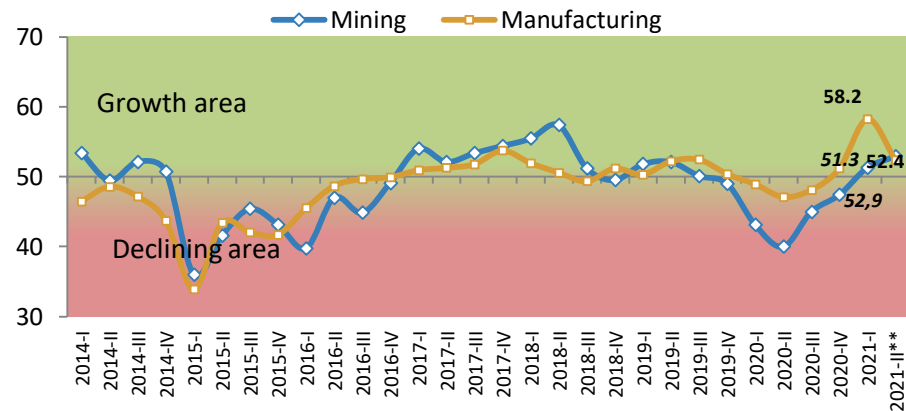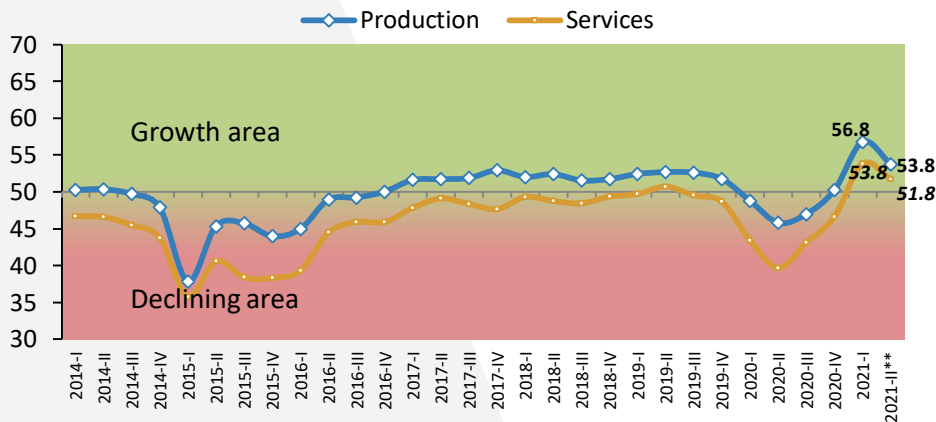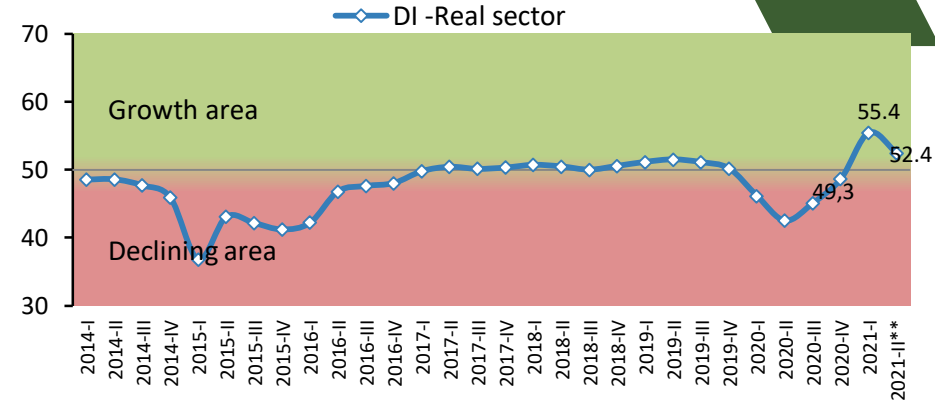
In Q1 of 2021 there was a noticeable increase in demand for final goods in the real sector. The diffusion index (hereinafter - DI) moved into the growth area, amounting to **55,4**. The growth of the indicator was noted in all sectors: in the service sector (DI = 53,8), in the production of goods (56,8), in the manufacturing industry (58,2) and the mining industry (51,3).
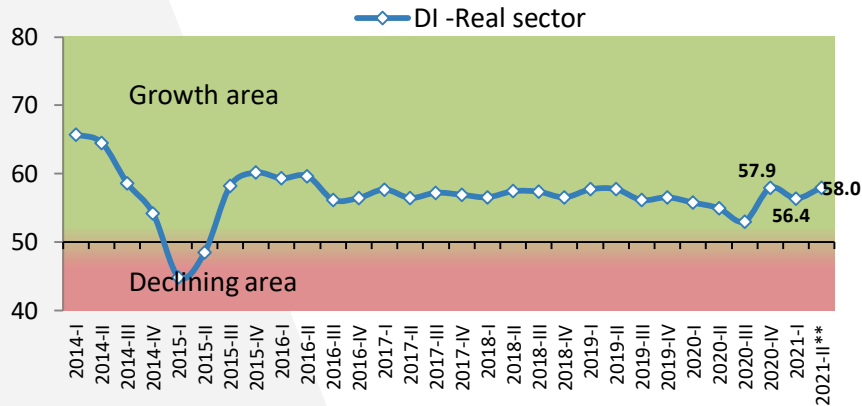
According to the expectations of the enterprises, the demand recovery process will slow down in Q2 of 2021 (DI = **52,4**).

Final goods prices, DI*

Raw materials prices, DI*
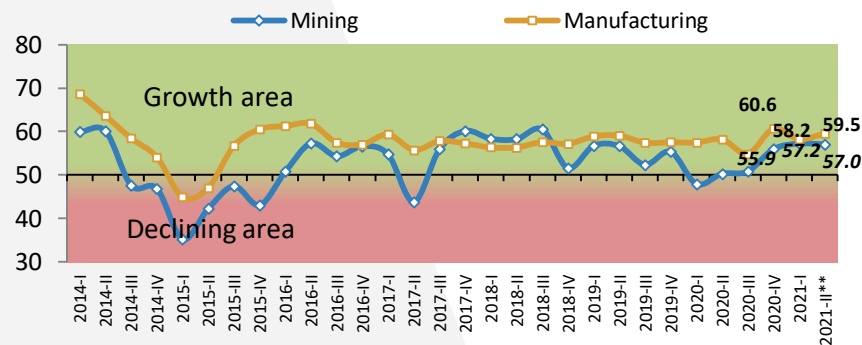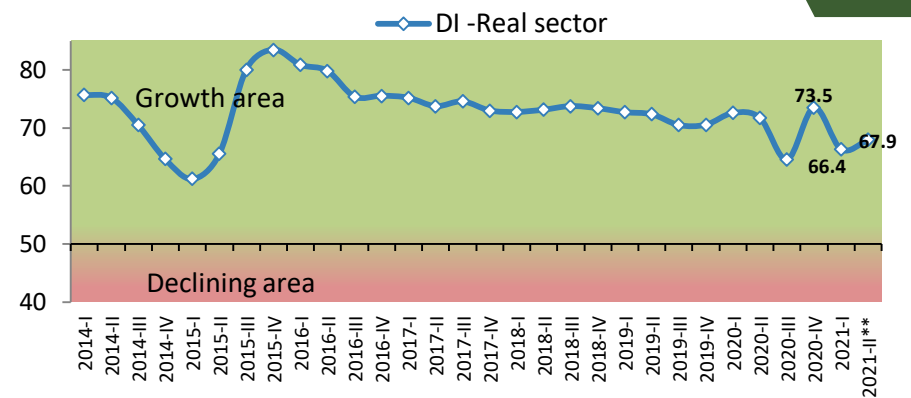
Assessment of pricing factors importance, answers in%

- 80.9 ■ Prices for raw materials
- 81.2 ■ Demand
- 69.1 ■ Taxes/fees
- 67.7 ■ Labor costs
- 60.1 ■ Productivity
- 57.5 ■ Exchange rate
- 58.5 ■ Competitor prices
- 58.8 ■ Fuel prices
- 20.1 ■ Other
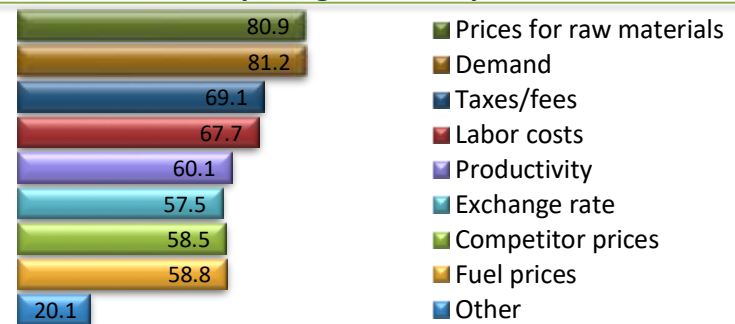
In Q1 of 2021 the growth rate of prices for final goods of enterprises in the economy as a whole slowed down slightly (DI was **56,4**). In the manufacturing industry a slowdown in the growth rate was noted (DI decreased to 58,2), while in the mining industry the growth rate increased (DI rose to 57,2).

For the overwhelming majority of enterprises the most important factor in setting prices for final goods is demand (for 81,2% of enterprises) and prices for raw materials and materials (80,9%). According to enterprises' estimates the growth rate of prices for raw materials has slowed down compared to Q4 of 2020.

In Q2 of 2021 enterprises expect an increase in the growth rate of prices for raw materials (DI = 67,9) and accordingly for final goods (DI = 58,0).
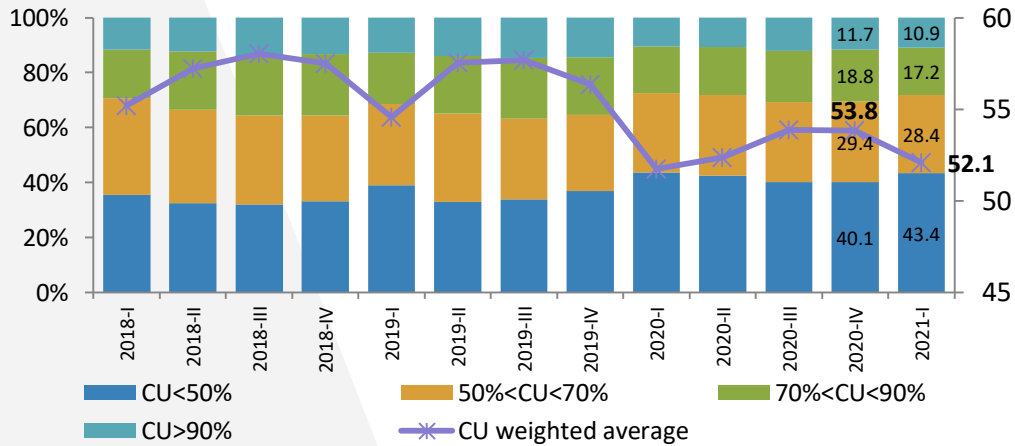
PRODUCTION OUTPUT

Capacity utilization level

(share of respondents, %)

Legend: CU<50% | 50%<CU<70% | 70%<CU<90% | CU>90% | CU weighted average

DI changes in production output , DI**
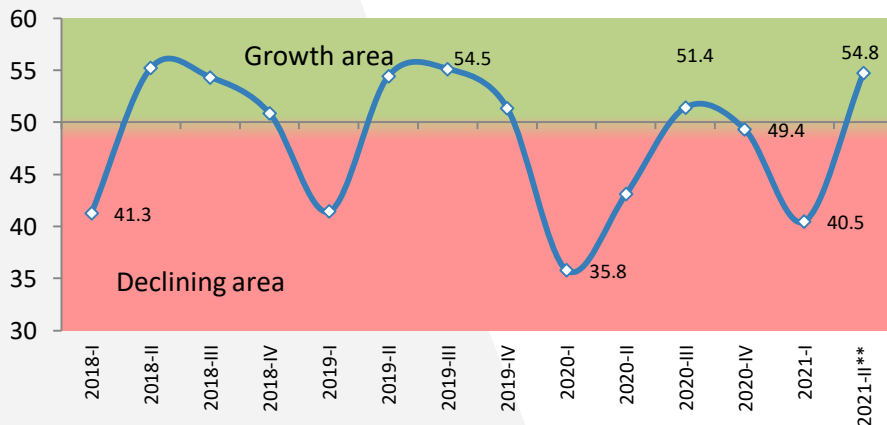
In Q1 of 2021 the level of utilization of production capacities (CU) decreased. The weighted average* level was **52,1%**.

As a result, production volumes fell in the Q1 of 2021. DI was **40,5.**

In Q2 of 2021 enterprises expect a seasonal increase in production volumes. The DI is expected to be **54,8** which is in line with the pre-pandemic level.

* 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

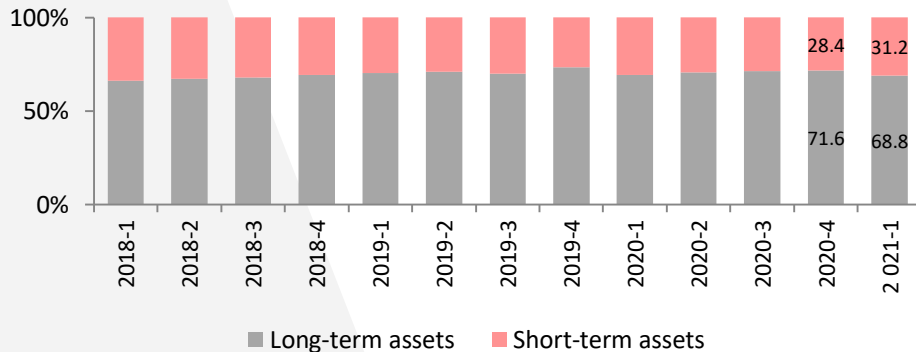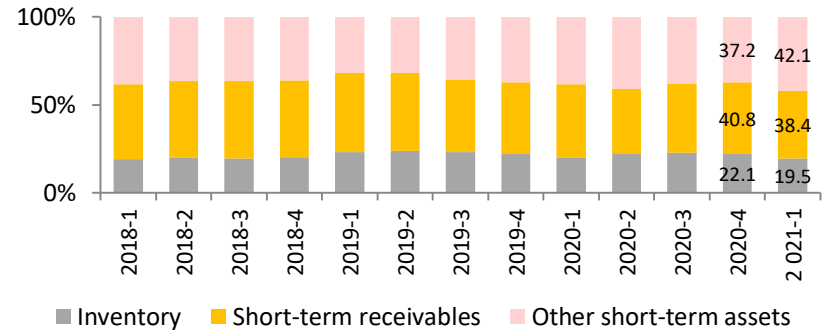### Assets structure

Long-term assets ▪ Short-term assets

Short-term assets Structure

Inventory ▪ Short-term receivables ▪ Other short-term assets

Assets turnover indicators

Assets turnover ▪ Working capital turnover
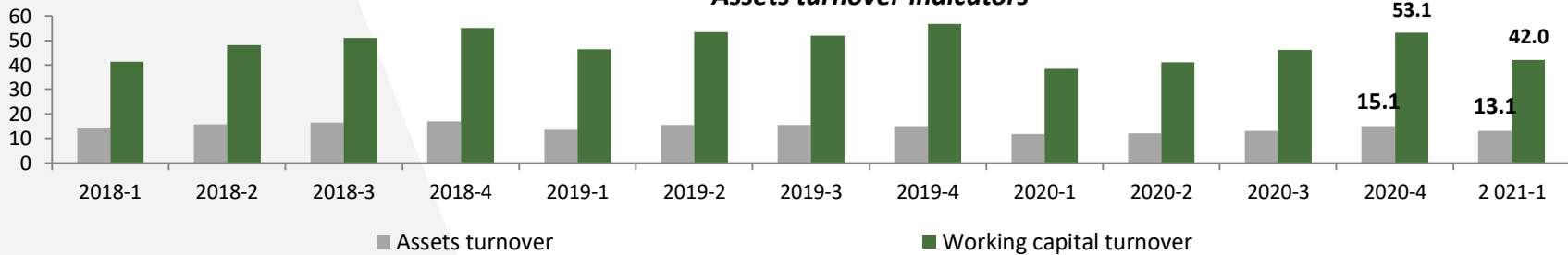
In Q1 of 2021 the share of short-term assets in the structure of assets of companies in the real economy slightly increased from 28,4% to **31,2%**, the share of long-term assets decreased from 71,4% to **68,8%**. Asset turnover* decreased to **13,1**%, working capital turnover** - to **42,0%**.

In the structure of short-term assets in the past quarter the share of receivables decreased to **38,4%** from 40,8% and the share of inventories decreased to **19,5%** (from 22,1% in Q4 of 2020).

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

Liabilities structure

Legend: Capital | Short-term liabilities | Long-term liabilities

Values shown (2020-4, 2021-1): Long-term liabilities 33.2, 30.8; Short-term liabilities 20.4, 22.4; Capital 46.4, 46.8

Long-term liabilities structure

Legend: Long-term loans to banks | Other long-term liabilities

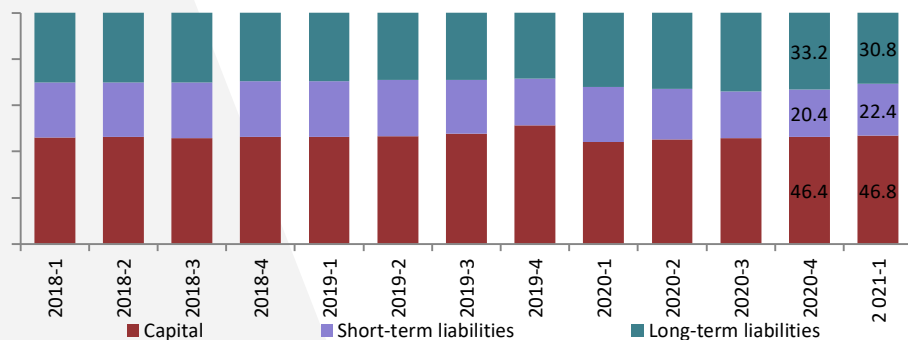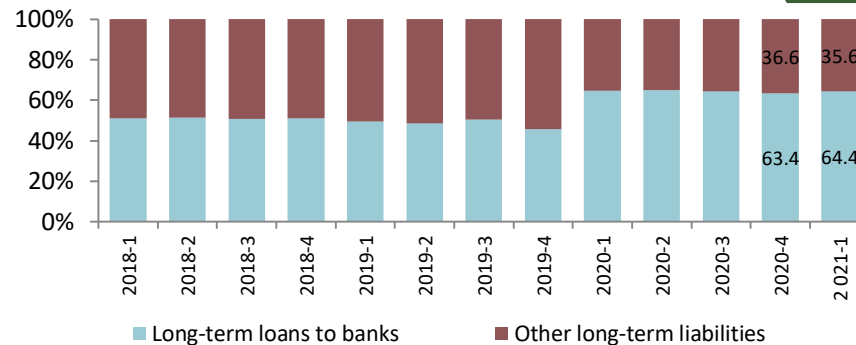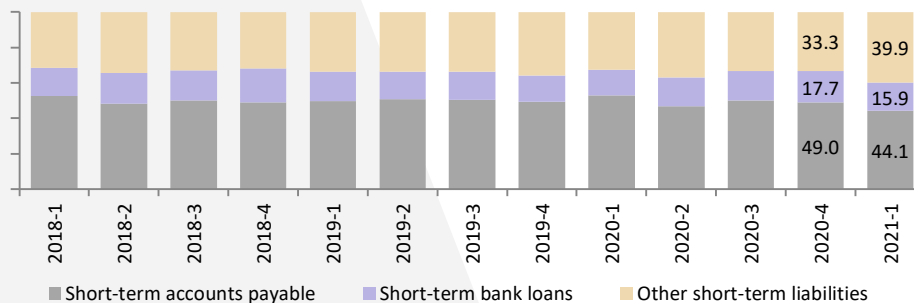Values shown (2020-4, 2021-1): Other long-term liabilities 36.6, 35.6; Long-term loans to banks 63.4, 64.4

Short-term liabilities structure

Legend: Short-term accounts payable | Short-term bank loans | Other short-term liabilities

Values shown (2020-4, 2021-1): Other short-term liabilities 33.3, 39.9; Short-term bank loans 17.7, 15.9; Short-term accounts payable 49.0, 44.1

Share of enterprises with overdue debts

Legend: Accounts receivable | Accounts payable | Bank loans

Values shown (2020-4, 2021-1): Accounts receivable 23.0, 24.4; Accounts payable 20.9, 22.2; Bank loans 8.1, 7.3

In Q1 of 2021 the share of short-term liabilities increased slightly from 20,1% to **22,4%** in the structure of liabilities, while the share of long-term liabilities decreased to **30,8%**. In the structure of short-term liabilities the share of short-term payables decreased from 49,0% to **44,1%** in Q1 of 2021. The share of short-term bank loans decreased to 15,9% (in Q4 of 2020 – 17,7%). The share of enterprises with overdue debts on bank loans decreased from 8,1% to **7,3%**. At the same time, the share of enterprises with overdue accounts receivable (from 23,0% to **24,4%**) and accounts payable (from 20,9% to **22,2%**) increased.

INVESTMENT ACTIVITY

Funding source for fixed assets, %

Legend: Bank loans, Own funds, Other sources, Not implemented

Funding source for working capital, %

Legend: Bank loans, Own funds, Other sources, Not implemented

In Q1 of 2021 the investment activity of enterprises slightly increased compared to Q4 of 2020: the share of enterprises that did not finance fixed assets decreased (to 34,1%), the share of enterprises that financed fixed assets using their own funds increased (to 65,7%) and bank loans (up to 6,6%). As before, the majority of enterprises use their own funds to finance fixed assets and working capital (65,7% and 84,9%, respectively).

SOURCES OF WORKING CAPITAL FINANCING

Sources of working capital financing

2 020-4

7.6 | 9.1 | 20.0 | 2.9 | 6.1 | 46.1 | 37.4

2 021-1

7.5 | 9.2 | 18.9 | 2.9 | 5.9 | 43.9 | 41.1

- ■ Kazakhstan banks loans (new loan)
- ■ Use of a tranche on a previously opened credit line
- ■ Equity of shareholders / participants
- ■ Profit
- ■ Government programs
- ■ Other sources
- ■ Not funded

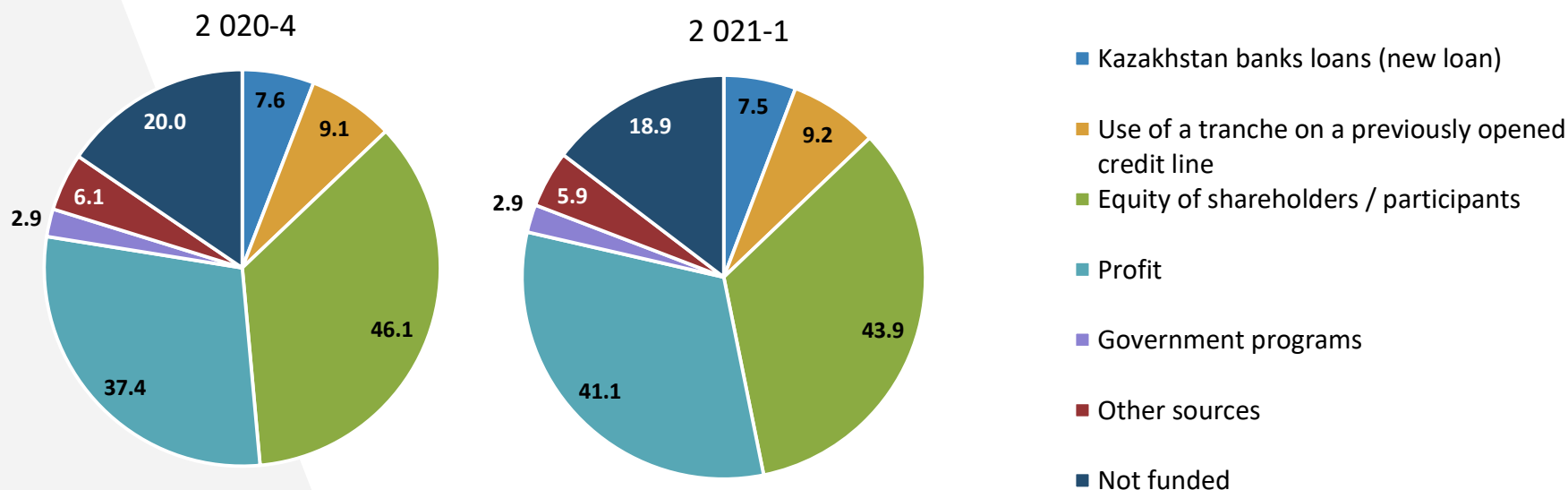To finance **working capital** the majority of enterprises (**84,9%**) used their own funds, of which **43,9%** used their equity of shareholders / participants, 41,1% - profit. Bank loans for this purpose were used by **17,6%** of enterprises (of which 9,2% used a tranche under a previously opened credit line, 7,5% received a new loan in Kazakhstan banks, 0,7% received a loan abroad, 0,3% used loans from microfinance organizations).

Among other sources of financing, in addition to those presented in the graph, enterprises also indicate prepaid expenses 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

Legend:
- State of the Kazakh economy
- Market competition
- No obstacles
- Search for buyers (demand for the products, services)
- Regulatory - level of tax burden
- Lack of qualified personnel
- Access to the financing (bank lending terms)
- Receivables repayment difficulties
- Low profitability
- Regulatory - complexity, frequent changes (licenses, permissions)
- Underdeveloped infrastructure
- Other factors

Bar chart values: 33.9, 29.7, 24.5, 23.3, 23.2, 17.2, 12.8, 12.5, 10.4, 11.4, 8.2, 5.6

According to the results of the survey in Q1 of 2021 for **33,9%** of enterprises the state of the Kazakhstan economy is an obstacle for doing business (in Q4 of 2020 was 35,1%). According to 44,2% (in Q4 of 2020– **47,2**%) of the respondents, the economic situation in Kazakhstan in Q1 of 2021 has deteriorated, **50,4%** believe that it has not changed.

The most important for enterprises in addition to the state of the economy are such factors as market competition (29,7%), searching buyers (23,3%), the level of tax burden (23,2%), lack of qualified personnel (17,2%), **while access to financing is ranked only 7th in terms of importance (12,8%).**

Other obstacles mentioned were: low profitability, price regulation, tariff cuts, exchange rates, export bans, low purchasing power and quarantine.

THE FINANCIAL AND ECONOMIC PERFORMANCE CHANGE

In Q1 of 2021 the average* return on sales** of enterprises in the mining industry increased to **41,0%** from 38,2**%** in Q4 of 2020. In the manufacturing industry, the return on sales slightly decreased (from 20,2% to 19,8%). As a result, the average profitability of sales in the economy increased and amounted to **22,1%.**

The share of enterprises planning to close the year with a profit amounted to **35,2%**, **12,9%** believe that the year will end with losses. At the same time, **39,2%** of the surveyed enterprises think to close the year with a balanced budget (without profit and loss), the remaining **12,7%** cannot assess the financial condition of the enterprise by the end of the year.

Return on sales *, in %

Legend: Economy — Manufacturing — Mining industry

Values shown: 41.0, 38.2, 21.4, 22,1, 20.2, 19.8
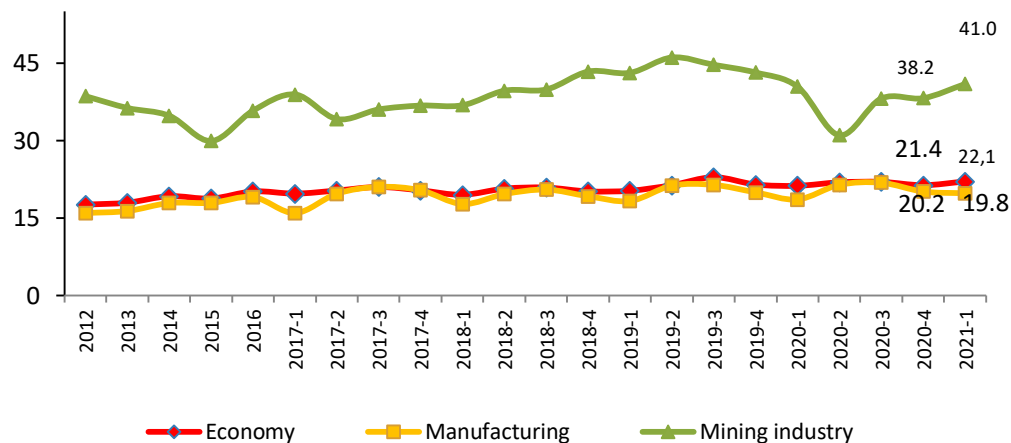
Share of enterprises planning to close the financial year with profit / loss,%

- With profit 35.2%
- With a balanced budget 39.2%
- Do not know 12.7%
- With loss 12.9%
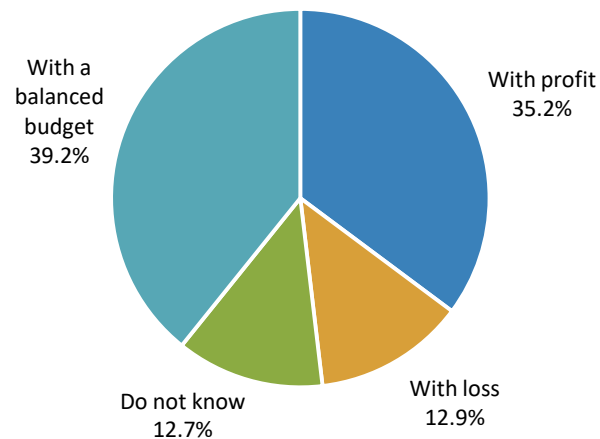
* Average median values are presented as they are less susceptible to extreme emissions than the arithmetic mean
** The sales profitability before expenses deduction on interest, taxes and depreciation is indicated
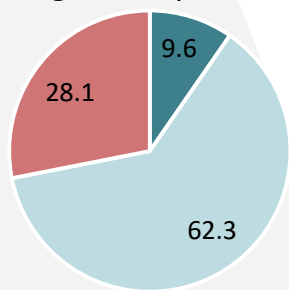
ASSESSMENT OF THE ENTERPRISES FINANCIAL CONDITION

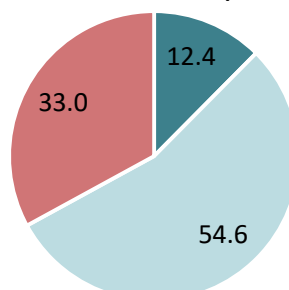### Dynamics of changes in the financial condition of enterprises *, share in%

Legend:
- Normal financial condition
- Stable financial condition
- Critical financial condition
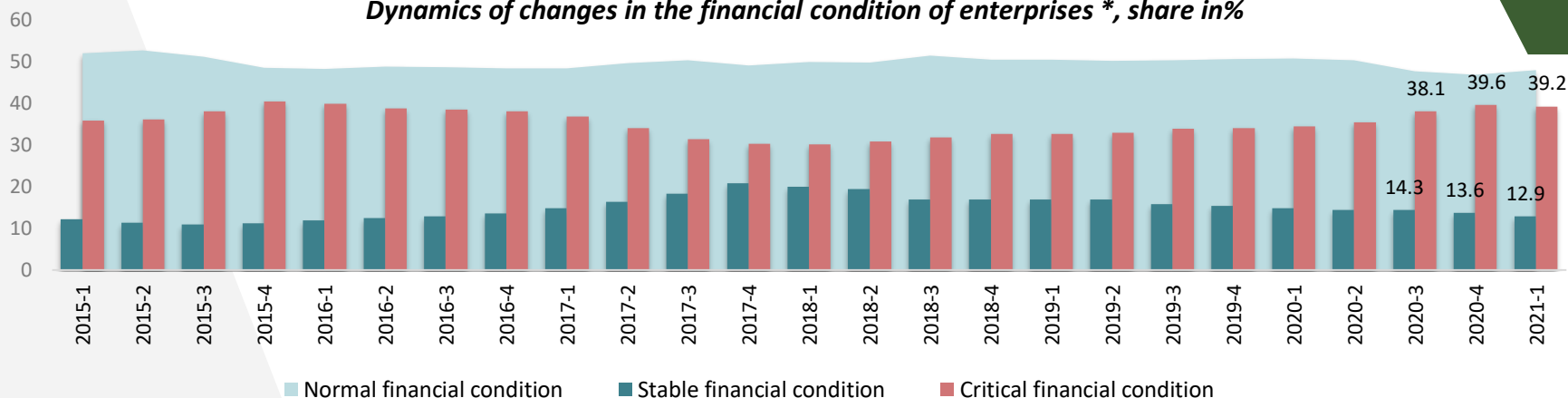
Enterprises distribution by degree of reliability by dimension in Q1 2021, share in%

Large enterprises
- Stable: 9.6
- Critical: 28.1
- Normal: 62.3

Medium enterprises
- Stable: 12.4
- Critical: 33.0
- Normal: 54.6

Small enterprises
- Stable: 14.0
- Critical: 44.8
- Normal: 41.2
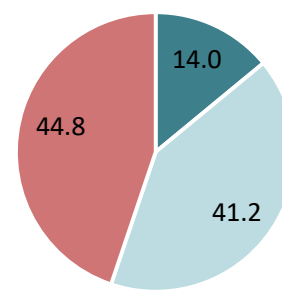
Legend:
- Stable
- Normal
- Critical

According to the results of discriminant analysis based on the assessment of the financial ratios of enterprises, the share of enterprises with a critical financial condition slightly decreased to **39,2**% in Q1 of 2021.

If we look by the sizes, the share of enterprises with a critical financial condition among small enterprises is much higher (**44,8%**) than among large (28,1%) and medium-sized (33,0%). At the same time, the share of stable enterprises in the structure of large enterprises is lower than in medium and small ones.

* The respondent enterprises are distributed according to the degree of reliability based on the values of financial indicators according to the results of discriminant analysis.
See the methodological commentary on slide 21.

ASSESSMENT OF THE ENTERPRISES FINANCIAL CONDITION

Enterprises distribution by degree of reliability by type of activity in Q1 2021, share in%

Number of enterprises*

| Type of activity	Stable	Normal	Critical	Number of enterprises*
Electricity, gas, steam and air conditioning	7.7	71.8	20.5	78 units
Transportation	7.0	46.3	46.8	201 units
Trade	12.1	45.2	42.6	659 units
Construction	23.4	34.9	41.8	261 units
Agriculture	17.3	50.0	32.7	162 units
Others	10.6	40.4	48.9	47 units
Professional, scientific and technical activities	11.6	46.3	42.1	121 units
Accommodation and food services	7.2	36.2	56.5	69 units
Manufacturing	12.7	54.7	32.6	598 units
Real estate operations	12.4	48.7	38.9	113 units
Information and communication	9.5	57.1	33.3	42 units
Mining industry	9.7	42.9	47.4	154 units
Water supply	13.8	82.8	3.4	29 units

■ Stable ■ Normal ■ Critical

In Q1 of 2021 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 stable enterprises was in construction (**23,4%**) and agriculture (**17,3%**). The largest share of enterprises with a critical financial condition is in the "accommodation and food services" industry (**56,5**). Water supply and electricity supply turned out to be the most stable industries, where the share of enterprises with a normal financial condition amounted to **82,8%** and **71,8%,** respectively.

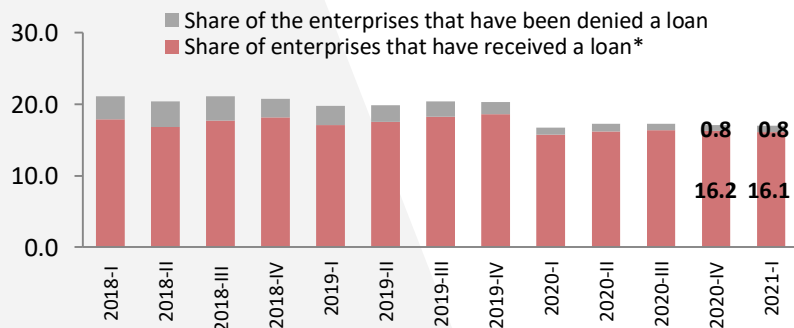* Companies participating in monitoring have been stable for 3 years

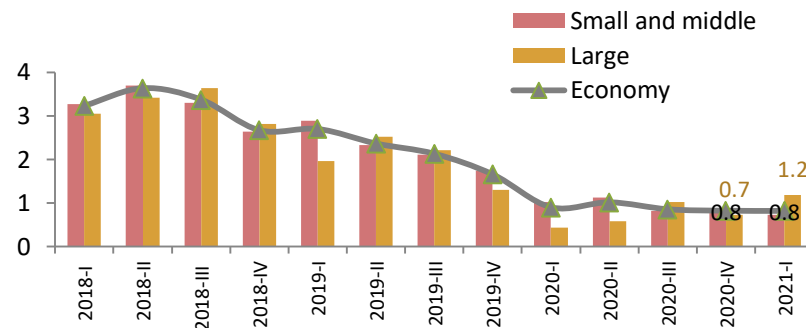# BANKING SYSTEM IMPACT ON THE REAL SECTOR OF THE ECONOMY

Loans demand, %

(share of enterprises applying for a loan from a bank)
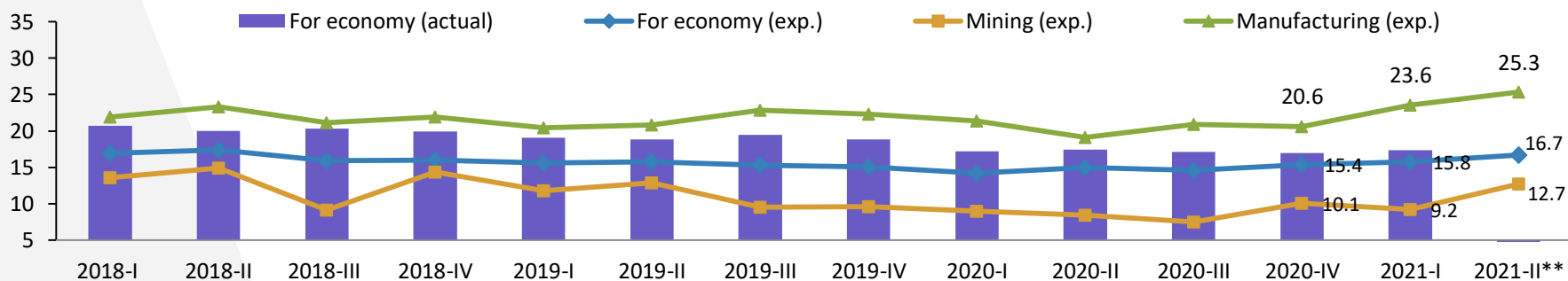
Lending applications consideration

Share of enterprises that have been denied for a loan

In Q1 of 2021 **16,9%** of surveyed enterprises applied to the bank for a loan, 16,1% of enterprises received a loan (or 95,3% of the number of those who applied for a loan). The share of refusals in lending was 0,8% of the total number of survey participants (4,7% of those who applied for a loan).
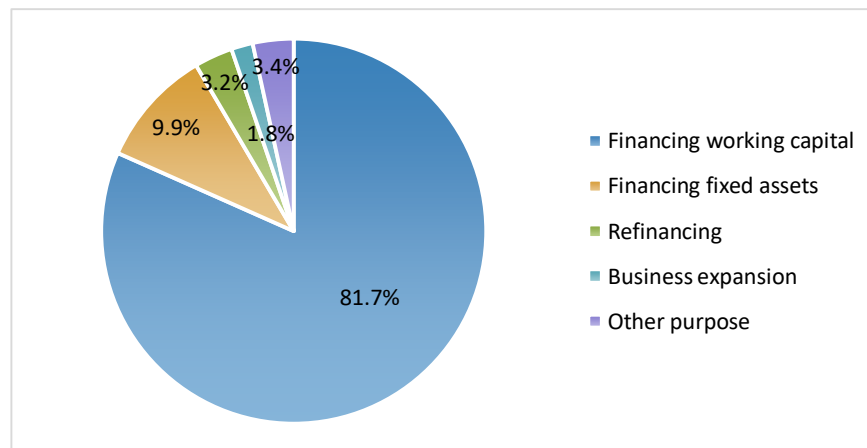
In Q2 of 2021 **16,7%** of the surveyed enterprises intend to apply for a loan. In the manufacturing industry the share of such enterprises is **25,3%**, in the mining industry – **12,7%.**

** The graphs reflect the expectations of enterprises for the change in the parameter in Q2 of 2021

BANKING SYSTEM IMPACT ON THE REAL SECTOR OF THE ECONOMY

Debt burden as estimated by enterprises *,%

Debt load *	Share of enterprises
1-20%	15,2
21-30%	9,5
31-40%	6,6
41-50%	4,8
51-60%	3,9
61-70%	1,6
71-80%	1,7
over 81%	1,8
no debt	54,9

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

- Financing working capital
- Financing fixed assets
- Refinancing
- Business expansion
- Other purpose

81.7%, 9.9%, 3.2%, 1.8%, 3.4%

In Q1 of 2021 54,9% of enterprises that took part in the surveys **had no debt.** The majority of those who have debt (15,2%) have a debt burden* within 20%. The arithmetic weighted average ** value of the debt burden is **14,4%.**

The overwhelming majority of enterprises (**81,7%**) received a loan to finance working capital (purchase of materials, raw materials, semi-finished products, etc.), 9,9% - to purchase fixed assets (buildings, structures, vehicles, equipment, etc.). Loans for refinancing purposes received 3,2% of enterprises, for business expansion – 1,8%.
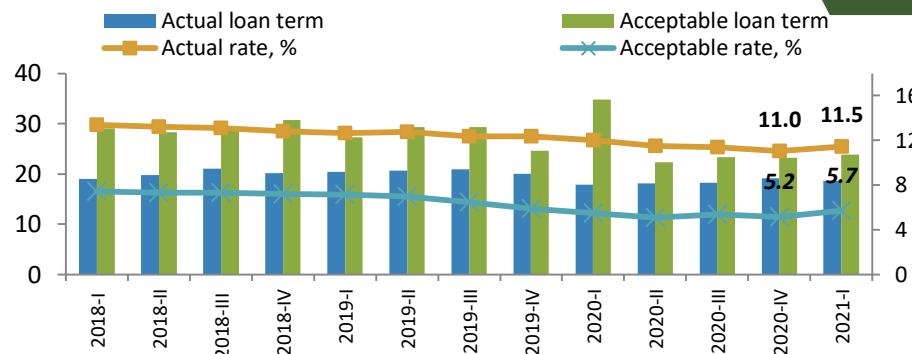
* Monthly payment / income from sales of products
** Arithmetic weighted average is the average value of the interval, weighted by the share of enterprises.

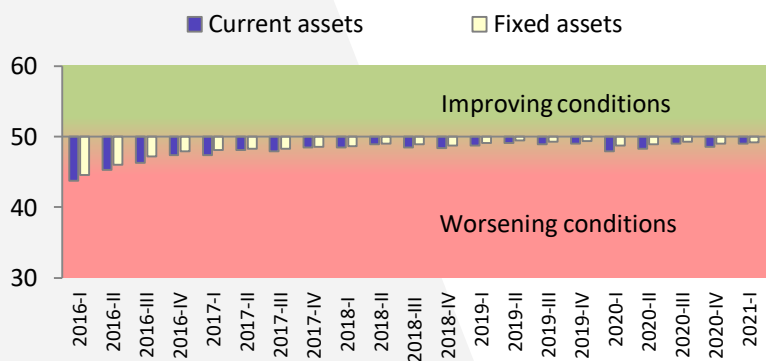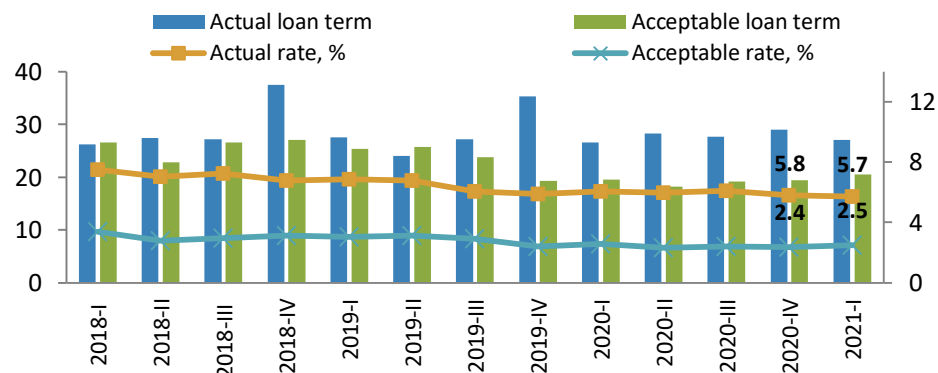# BANKING SYSTEM IMPACT ON THE REAL SECTOR OF THE ECONOMY

Price conditions
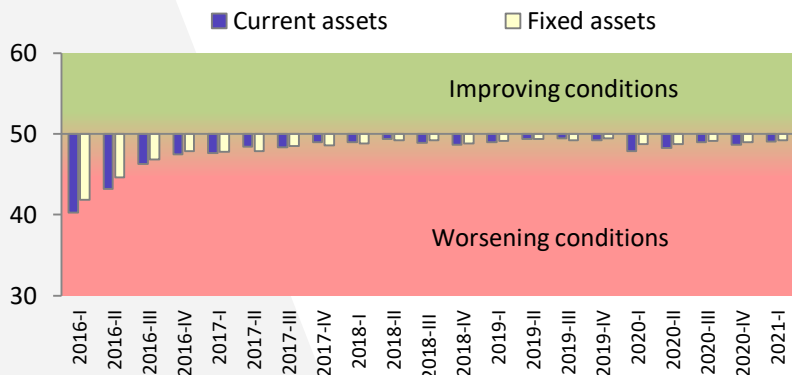
Loan terms and rates in tenge

Non-price conditions
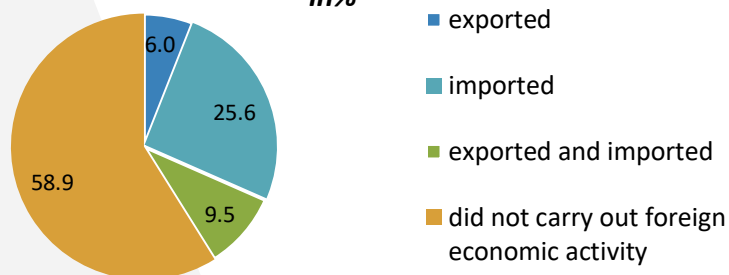

Loan terms and rates in foreign currency

In Q1 of 2021 the assessments of enterprises regarding price (level of interest rates on a loan, amount of additional commissions) and non-price (maximum size and term of a loan, requirements for the financial condition of the borrower, requirements for collateral) of lending conditions improved slightly, but remained negative.
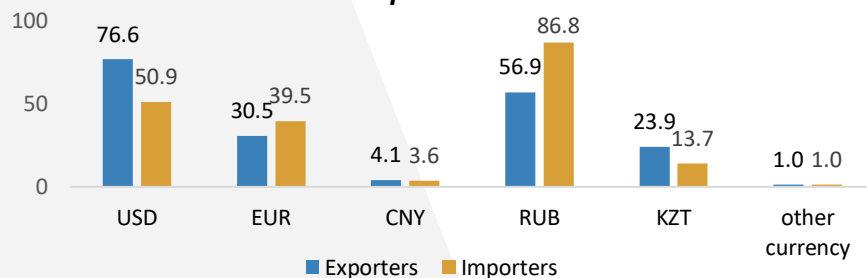
Average interest rates on loans received by the monitoring participants amounted to **11,5%** in tenge and **5,7%** in foreign currency (11,0% and 5,8% in the previous quarter, respectively). The interest rate acceptable for enterprises on loans in tenge is 5,7%, on loans in foreign currency – 2,5%.
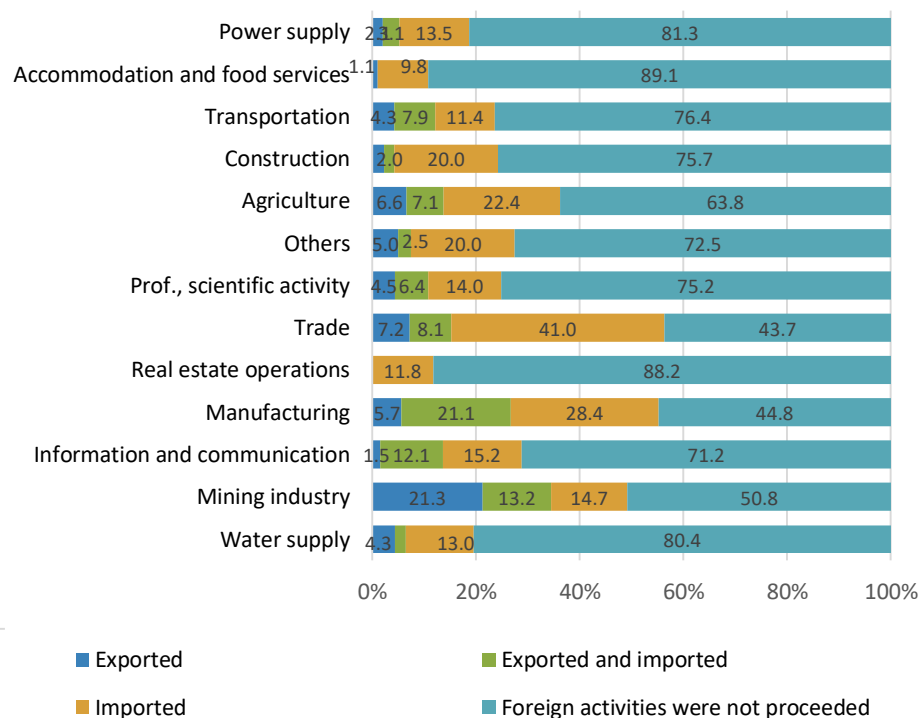
FOREIGN ECONOMIC ACTIVITIES OF ENTERPRISES (FEA)

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

- exported
- imported
- exported and imported
- did not carry out foreign economic activity

6.0
25.6
9.5
58.9

Use of currency in calculations, share of enterprises in %

Currency	Exporters	Importers
USD	76.6	50.9
EUR	30.5	39.5
CNY	4.1	3.6
RUB	56.9	86.8
KZT	23.9	13.7
other currency	1.0	1.0

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

Activity type	Exported	Exported and imported	Imported	Foreign activities were not proceeded
Power supply	2.1	3.1	13.5	81.3
Accommodation and food services		1.1	9.8	89.1
Transportation	4.3	7.9	11.4	76.4
Construction	2.0		20.0	75.7
Agriculture	6.6	7.1	22.4	63.8
Others	5.0	2.5	20.0	72.5
Prof., scientific activity	4.5	6.4	14.0	75.2
Trade	7.2	8.1	41.0	43.7
Real estate operations			11.8	88.2
Manufacturing	5.7	21.1	28.4	44.8
Information and communication	1.5	12.1	15.2	71.2
Mining industry	21.3	13.2	14.7	50.8
Water supply	4.3		13.0	80.4

In Q1 of 2021 **25,6%** of respondents imported products to carry out their activities, 6,0% exported, 9,5% both exported and imported, and the overwhelming majority (**58,9%**) did not carry out foreign economic activity. The largest share of enterprises that exported products is in the mining industry (**21,3%**), the largest share of enterprises that imported products is in trade (**41,0%**). In trade the largest share of enterprises engaged in foreign economic activity.
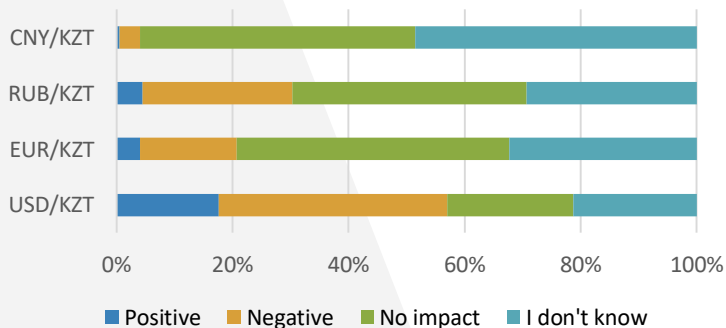
In settlements with foreign partners, exporters more often use the US dollar (**76,6% of exporters**), importers use the Russian ruble more (**86,8% of importers**). The other currencies used in the calculations of the company indicate the British pound sterling, Swiss franc, Kyrgyz som and Turkish lira.
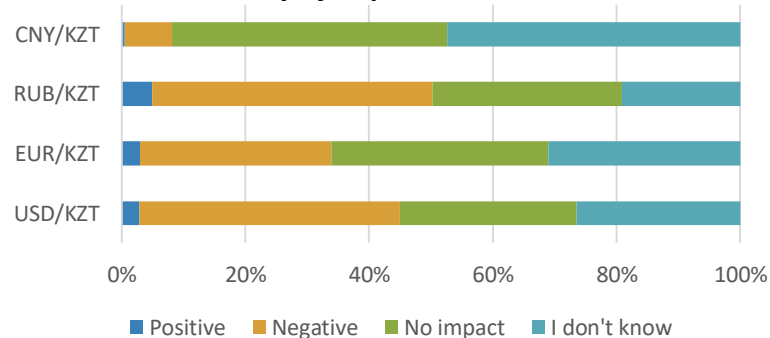
IMPACT OF EXCHANGE RATE CHANGES

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

Legend: USD/KZT, EUR/KZT, RUB/KZT, CNY/KZT
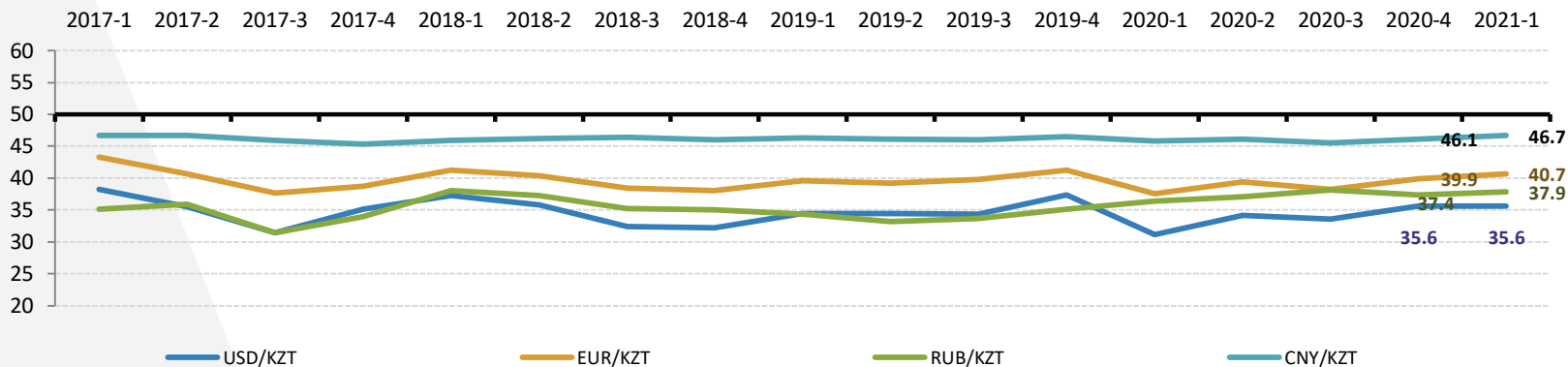
Impact of the exchange rate on the economic activities of exporters in Q1 2021

Legend: Positive, Negative, No impact, I don't know

Impact of the exchange rate on the economic activity of importers in Q1 2021

Legend: Positive, Negative, No impact, I don't know

In Q1 of 2021 the negative impact of the exchange rate on the economic activities of enterprises decreased in all currencies, except for the impact of USD/KZT (DI remained at 35,6). Enterprises experience the least negative impact on their economic activities from changes in the CNY/KZT exchange rate. The share of enterprises indicating a positive impact from the change in the exchange rate is higher among exporters.

* 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*

Legend: Real GDP (cyclical component); Composite Indicator
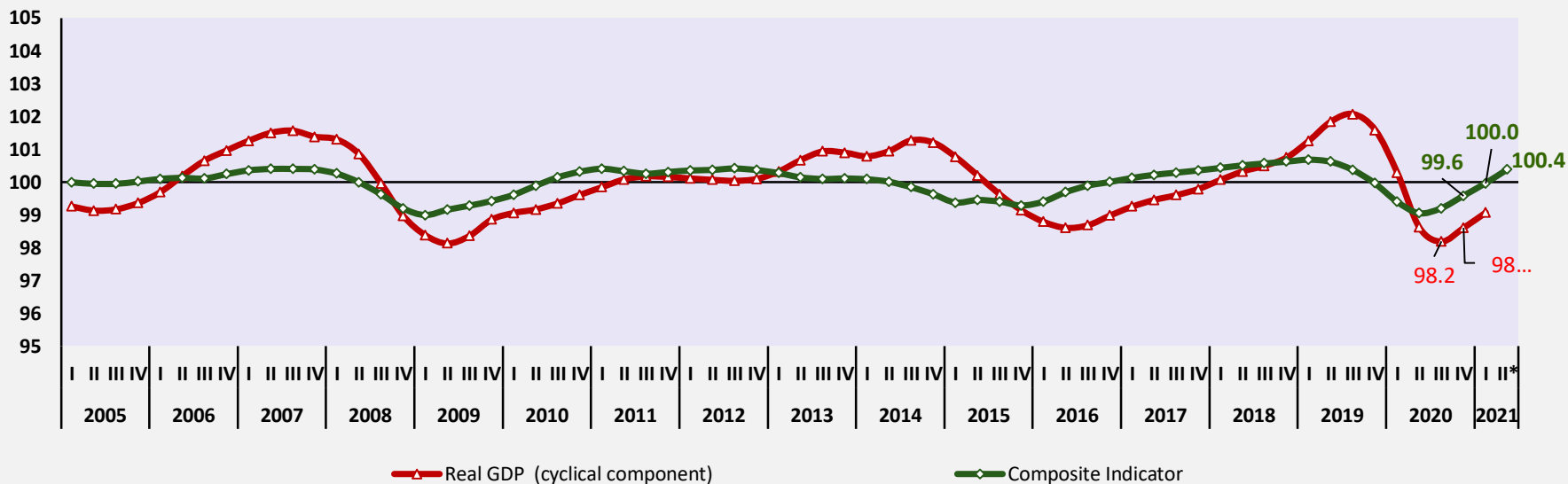
In Q1 of 2021 the dynamics of the composite leading indicator (CLI), which is an aggregated assessment of surveys of enterprises in the real sector, shows signs of a recovery in economic activity in the real sector. CLI rose to 100.0.

The dynamics of CLI was influenced by the recovery in demand in the industries, the growth of profitability of sales, the improvement of some financial indicators of enterprises and the dynamics of world prices for energy. A decrease in the level of capacity utilization and a high proportion of enterprises with a critical financial condition had a negative impact on CLI.

In Q2 of 2021 an increase in economic activity is expected (CLI moved into the growth area, amounting to 100.4), which is mainly associated with the expected increase in demand for final goods of enterprises, especially in the sectors of "transport and warehousing", "transactions with real estate" and in agriculture, as well as with the expected increase in production volumes and accordingly the capacity utilization level.

- 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 Q2 2021 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 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) 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