SECTORAL MARKET REVIEW

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

Q1 2021

Monetary Policy Department
National Bank of Kazakhstan

General

I. Assessment of economic conditions:

- competitive environment (p. 4)

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II. Assessment of real performance indicators of enterprises

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- capacity utilization (p. 10)

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- debt burden in industries (p. 14)

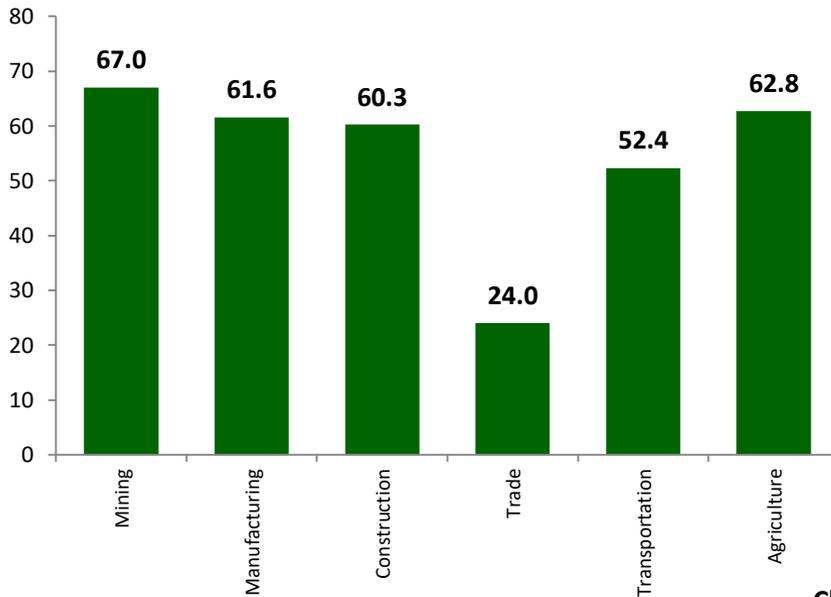- production and labor costs (p. 15)

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	➢ 1Q 2021
Total monitoring participants	3302

Sample details	
Mining enterprises	➢ 197
Manufacturing enterprises	➢ 703
Construction enterprises	➢ 350
Trade enterprises	➢ 929
Transport and warehouse enterprises	➢ 254
Agricultural enterprises	➢ 1976
Total respondents for the sample	➢ 2 629

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

The sample for the **mining industry** is represented mainly by large and medium-sized enterprises (**67,0**%), among which the largest share consists of companies extracting 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 **61,6**% 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 **agriculture and construction** (**62,8**% and **60,3**%, respectively).

In transport and warehousing, more than half of the sample is represented by large and medium-sized enterprises (**52,4**%), most of which provide services for the transportation of oil and oil products via 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 (**24,0**%).

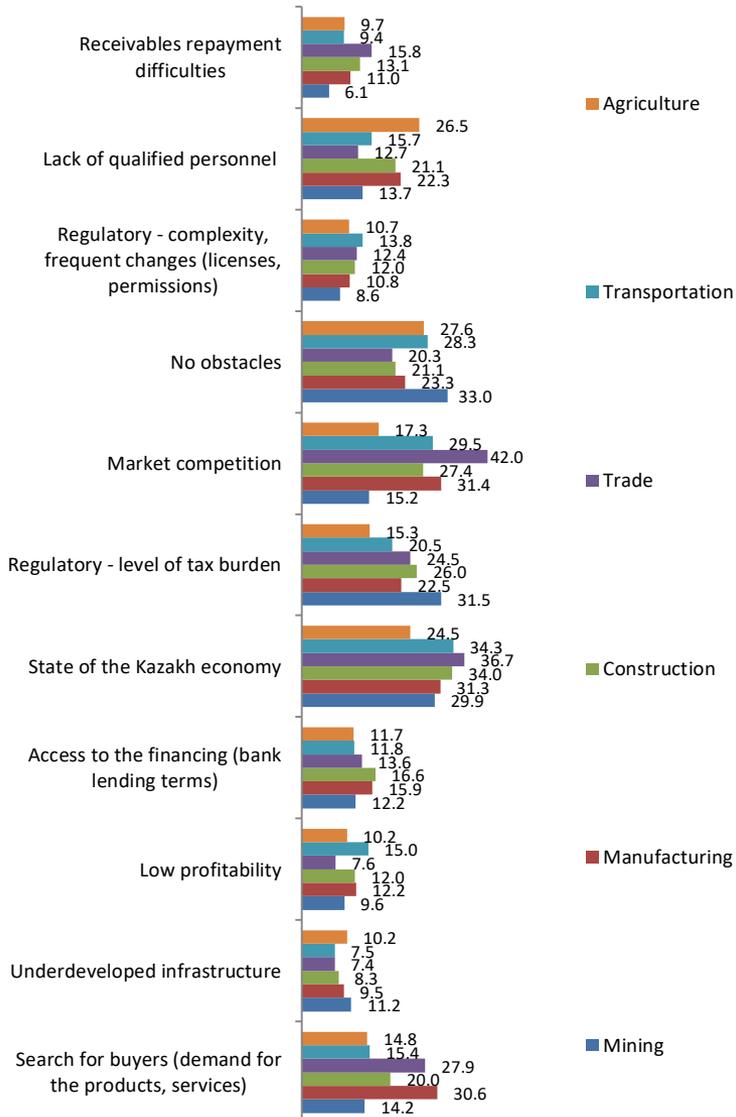The **representativeness*** of the sample for these industries is 48,5%.

In Q1 of 2021, the importance of competition has increased for all considered industries, except for agriculture.

Trade remains as the most affected industry by market competition, with **42,0**% of enterprises feeling the impact of market competition on their business. The share of enterprises in **manufacturing** reaches **31,4%,** In **transport and warehousing** – **29,5**%, in **construction** - **27,4**%. The smallest share is noted in **agriculture** and **mining** industry, the share of which is 17,3% and 15,2%.

Chart 2. The share of enterprises whose further development opportunities are limited by market competition from other enterprises (%)
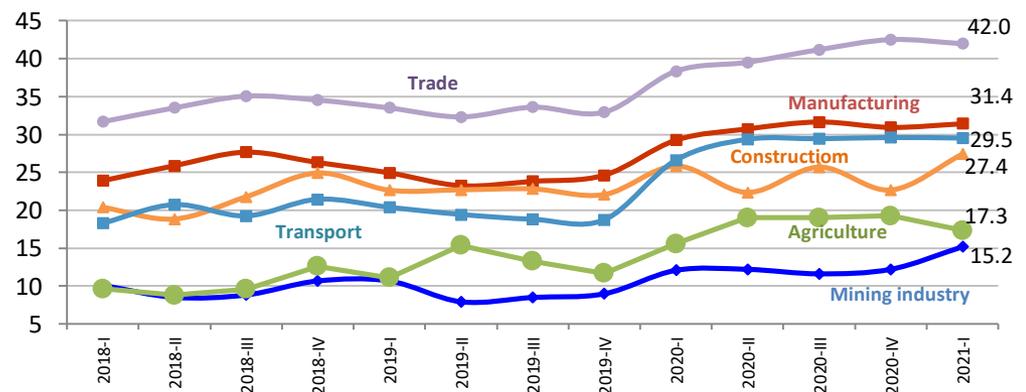
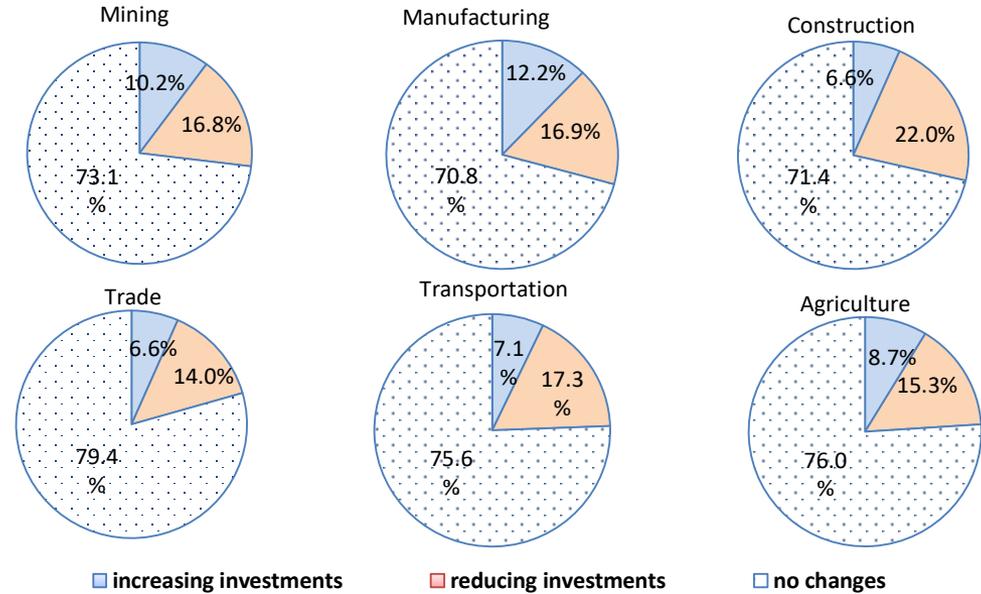** Representativeness in the monitoring of enterprises is assessed by the formula: SI ME / SI SC * 100, where SI ME is the income from product sales (SI) of enterprises participating in the NBRK monitoring; SI SC – sales income according to Statistics Committee.*

Chart 3. Restrictions on investment activity of enterprises

Receivables repayment difficulties
- 9.7
- 9.4
- 15.8
- 13.1
- 11.0
- 6.1

Lack of qualified personnel
- 26.5
- 15.7
- 12.7
- 21.1
- 22.3
- 13.7

Regulatory - complexity, frequent changes (licenses, permissions)
- 10.7
- 13.8
- 12.4
- 12.0
- 10.8
- 8.6

No obstacles
- 27.6
- 28.3
- 20.3
- 21.1
- 23.3
- 33.0

Market competition
- 17.3
- 29.5
- 42.0
- 27.4
- 31.4
- 15.2

Regulatory - level of tax burden
- 15.3
- 20.5
- 24.5
- 26.0
- 22.5
- 31.5

State of the Kazakh economy
- 24.5
- 34.3
- 36.7
- 34.0
- 31.3
- 29.9

Access to the financing (bank lending terms)
- 11.7
- 11.8
- 13.6
- 16.6
- 15.9
- 12.2

Low profitability
- 10.2
- 15.0
- 7.6
- 12.0
- 12.2
- 9.6

Underdeveloped infrastructure
- 10.2
- 7.5
- 7.4
- 8.3
- 9.5
- 11.2

Search for buyers (demand for the products, services)
- 14.8
- 15.4
- 27.9
- 20.0
- 30.6
- 14.2

Legend:
- Agriculture
- Transportation
- Trade
- Construction
- Manufacturing
- Mining

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

Mining: 10.2%, 16.8%, 73.1%

Manufacturing: 12.2%, 16.9%, 70.8%

Construction: 6.6%, 22.0%, 71.4%

Trade: 6.6%, 14.0%, 79.4%

Transportation: 7.1%, 17.3%, 75.6%

Agriculture: 8.7%, 15.3%, 76.0%

Legend:
- increasing investments
- reducing investments
- no changes

In Q1 of 2021, 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, **26,5%** of agricultural enterprises note the lack of qualified **personnel**.

In the next 12 months, financing across all sectors will remain mainly unchanged, with the largest increase in financing is planned in the manufacturing and mining, and the smallest - in construction and in the trade. The largest reduction in investment is expected in 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.**

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Chart 5. Use of foreign currency in settlements (share of enterprises,%)
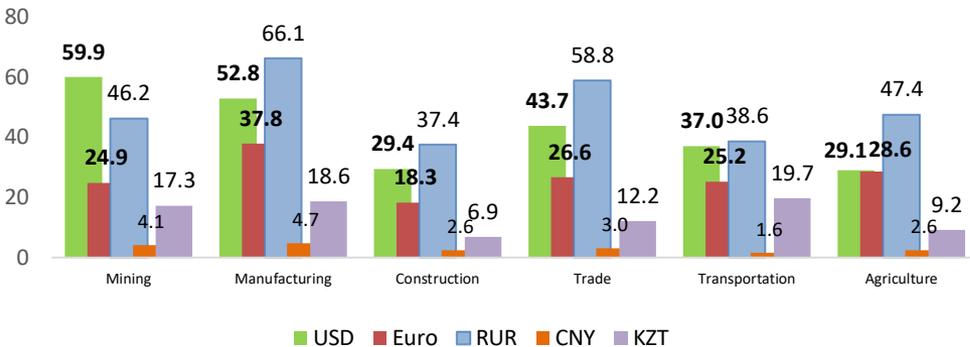
The main currency used in calculations with foreign partners for all the industries under consideration, except for the mining industry, is the Russian ruble (in the manufacturing industry the share of enterprises using the Russian ruble is **66,1**%, in trade – **58,8**%). The US dollar dominates only in the mining industry (**59,9%**). Tenge in the calculations in the 1st quarter of 2021 was the most used by transport industry enterprises (**19,7%).**

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)
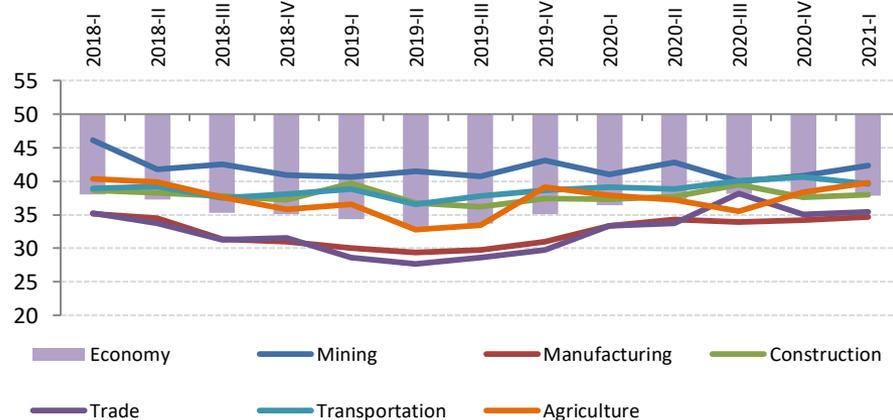
Chart 7. Impact of changes in the exchange rate of the tenge against the Russian ruble on the activities of the enterprise (DI by industry for the quarter)
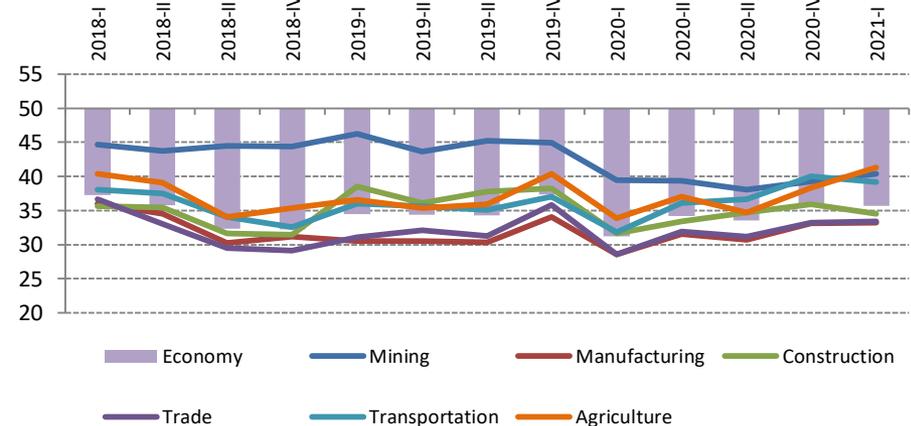
In Q1 of 2021, the negative impact of the change in the exchange rate of the tenge **against the Russian ruble increased** for transport industry enterprises, but **decreased** for other sectors, particularly for agricultural and mining enterprises.
The negative impact of the change in the exchange rate of the tenge **against the US dollar intensified** for construction, transport industry and decreased for all other considered sectors. As a result DI in the economy kept the same level (35.6).

* 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,%
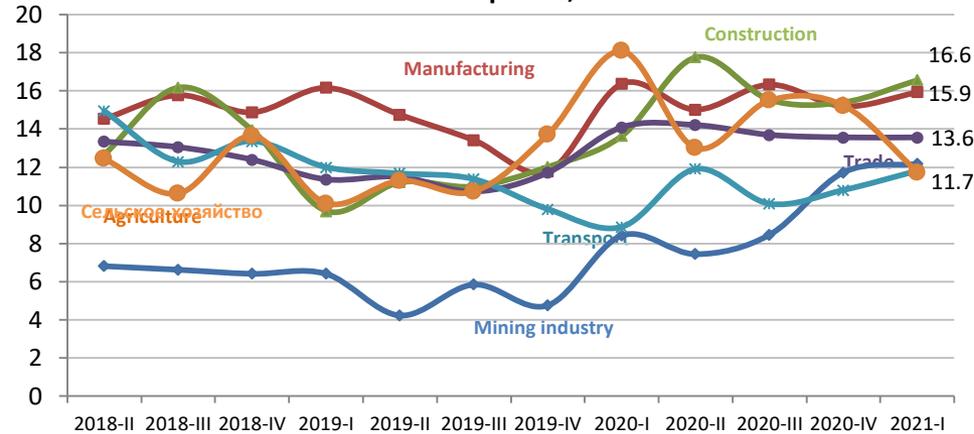
Table 1. Average lending rates,%

	In tenge		In foreign currency	
	in fact	preferred	in fact	preferred
Mining	11,3	4,1	4,6	1,9
Manufacturing	10,5	5,3	6,2	2,4
Construction	12,9	9,6	4,2	2,2
Trade	11,7	6,4	6,1	3,2
Transportation	12,5	4,3	5,1	1,7
Agriculture	10,9	4,8	-	2,4

Chart 9. Companies intending to apply for a loan in Q4 2020 and in Q1 2021,%
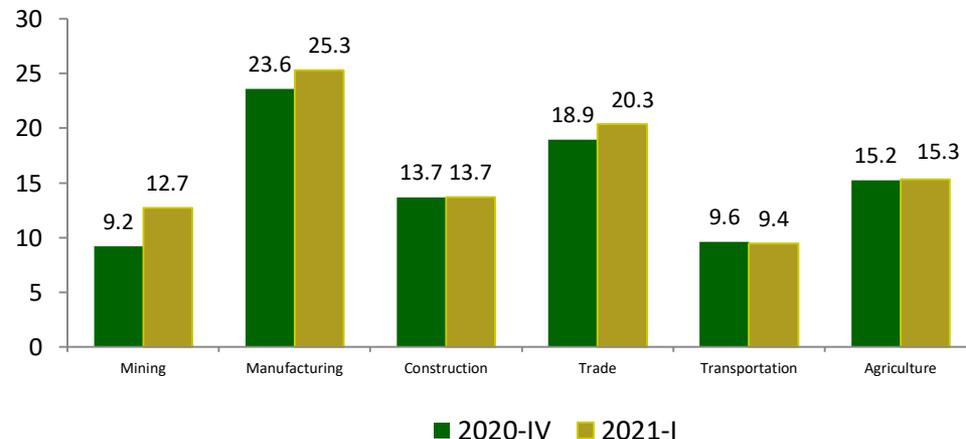
In Q1 of 2021, construction, manufacturing and transport sector enterprises note a worsening in access to bank loans, situation in trade and the mining sector remain unchanged, while agricultural enterprises report an improvement. The largest number of enterprises for which credit conditions are unacceptable belongs to the construction (**16,6**%), manufacturing (**15,9**%). A smaller number relates to agriculture, transport and mining.

The highest interest rates on loans received in tenge were observed in construction (**12,9**%), in foreign currency – in the manufacturing and trade (**6,2%** and **6,1%,** respectively).

The largest share of enterprises intending to apply for a loan in Q2 of 2021 is in the manufacturing industry and trade (**25,3% and 20,3%,** respectively), the smallest - in the "transport and warehousing" industry (**9,4**%).
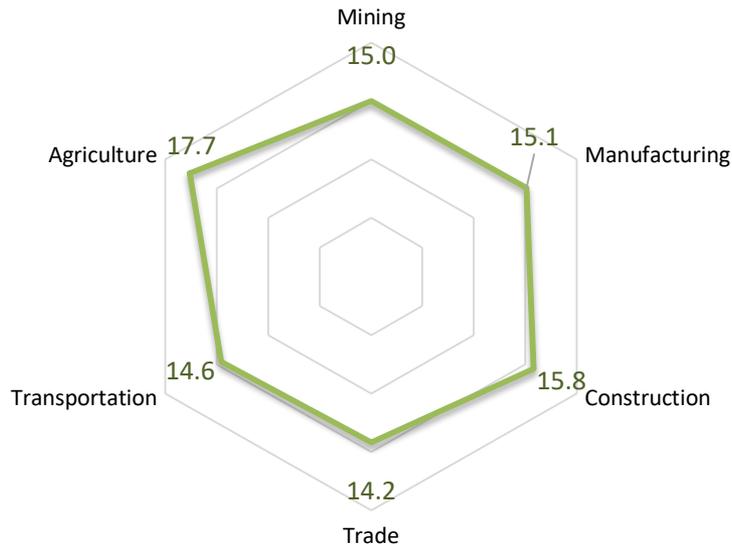
Chart 10. Weighted average * credit load **,%

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

Chart 12. Results for consideration of loan applications, number

■ Mining ■ Manufacturing ■ Construction ■ Trade ■ Transportation ■ Agriculture
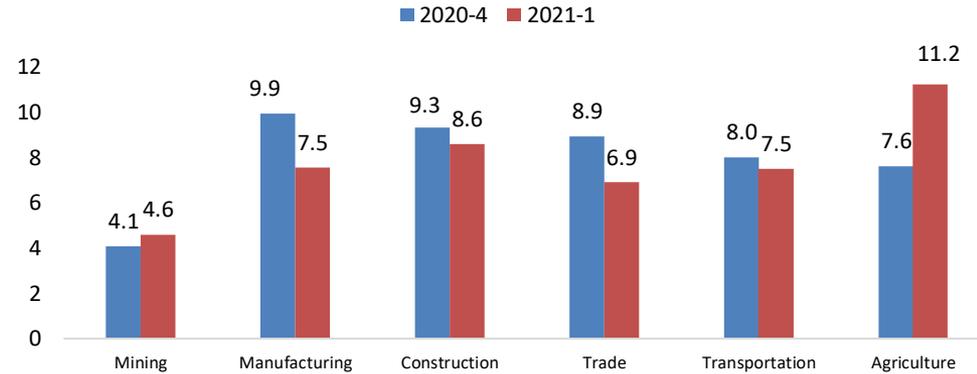
In Q1 2021, the weighted average credit burden in agriculture was higher than in other sectors. In agriculture, an average of **17,7**% of income from sales of products is spent on debt repayment. The lowest value of this indicator was noted in the trade and transport (**14,2**% and **14,6**%, respectively).

In all sectors, except for the mining and agriculture, the share of enterprises with overdue (more than 90 days) debt on bank loans decreased. The largest share of such enterprises is in agriculture (11,2%), the smallest - in the mining industry (**4,6**%).

In Q1 of 2021, out of the sample for the industries under consideration, **24 enterprises** were denied loans, a half of them are manufacturing enterprises (**12 enterprises**). The least quantity of such enterprises is transport and warehousing industry. There are no 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:
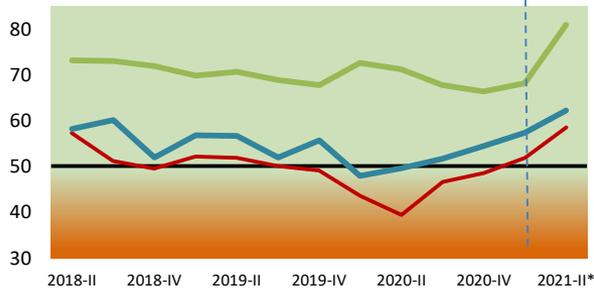
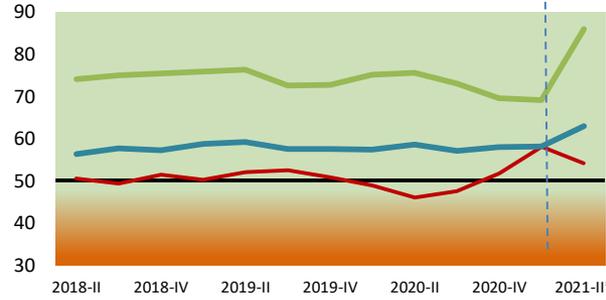### Chart 13. Mining industry, DI*

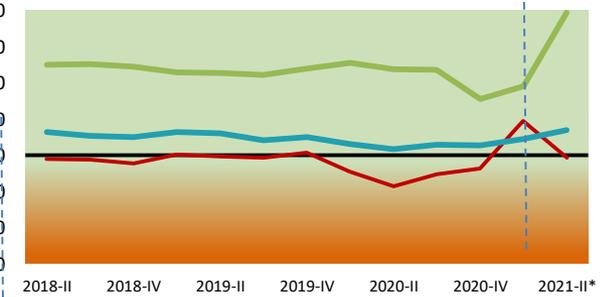### Chart 14. Manufacturing, DI*

Chart 15. Construction, DI*

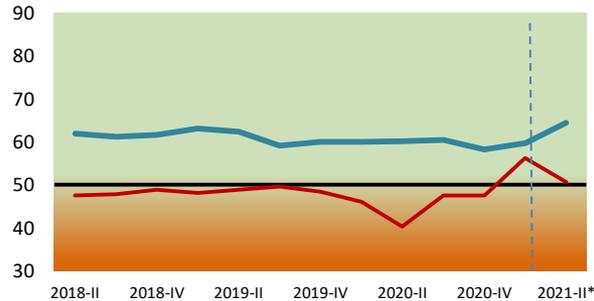### Chart 16. Trade, DI*

Chart 17. Transportation and warehousing, DI*
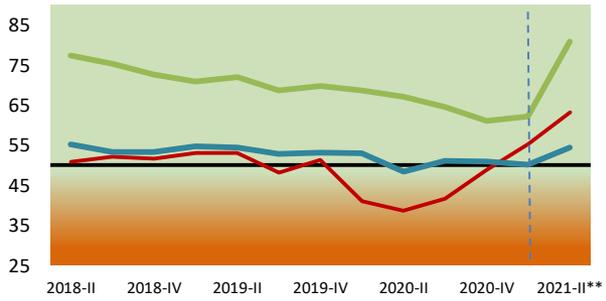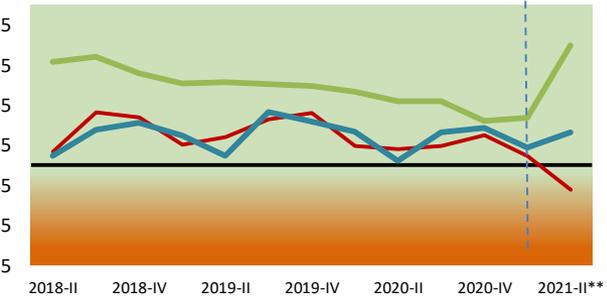

Chart 18. Agriculture, DI*

— Demand   — Production prices   — Prices for raw materials

In Q1 of 2021, an improvement in the situation with **the demand for final products** was noted. Demand continued to grow in all sectors except agriculture. Demand in the mining industry, construction, trade and in the "transport and warehousing" industry has moved to the positive area. In Q2 of 2021, further improvement in the **demand** is expected in the mining industry and transport, a slowdown is expected in manufacturing and trade, and a decline - in agriculture and construction.

Acceleration of the growth rate of prices for raw materials and supplies in the Q1 of 2021 was noted in all sectors, except for the manufacturing industry. In the Q2 of 2021, prices for raw materials and supplies, as well as for final products are expected to rise in all considered industries.

* 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 2nd quarter of 2021

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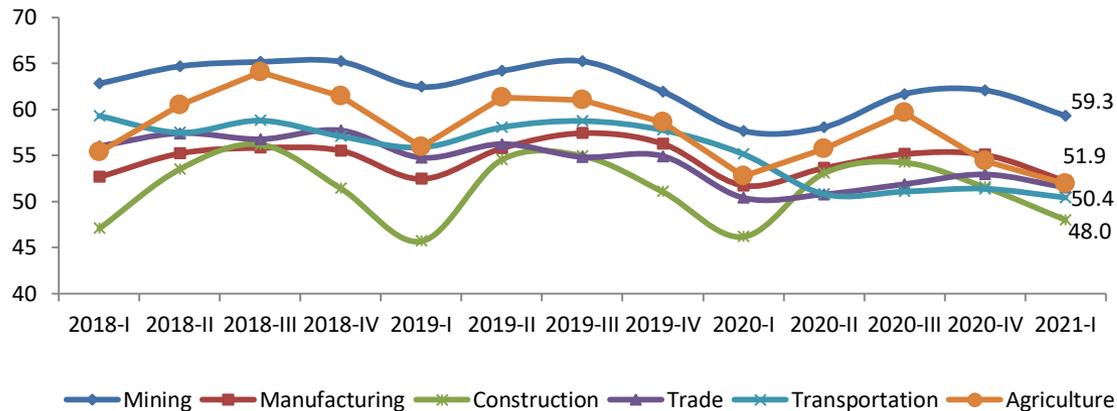

In Q1 of 2021, a decrease in the level of **capacity utilization** (CU) was noted in all industries

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 construction and "transport and warehousing industry".

The highest weighted average CU remains in the mining industry (59,3**%).** Trade, agriculture and the manufacturing industry have a CU above 51%. The transport and warehousing and construction sectors turned out to be the industries with the lowest levels of productive potential utilization. The volatility of the dynamics in the weighted average CU in construction and agriculture shows a strong dependence of the indicator on the seasonality.

Chart 20. The level of utilization of production capacities in the 1th quarter of 2021, the share of enterprises in %
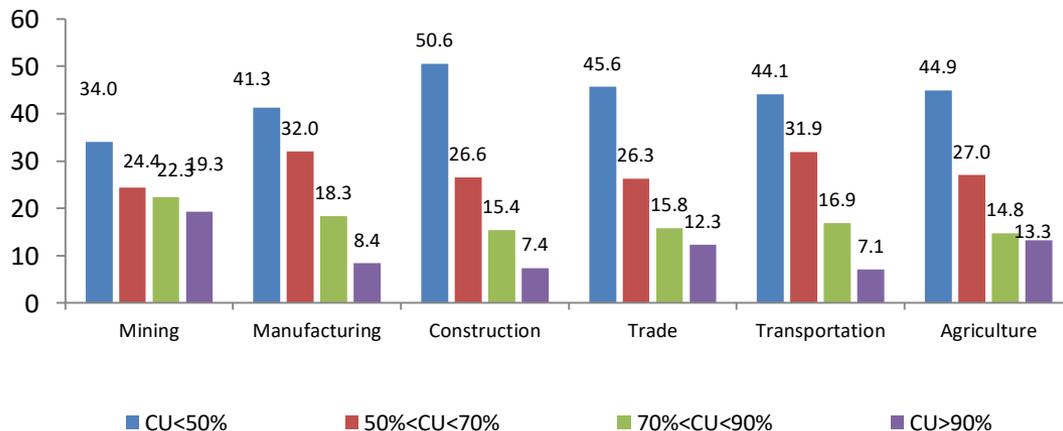
* The arithmetic weighted average is the average value of the interval, weighted by the share of answers to the question about the level of utilization of production facilities.

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Table 2. Median* value of main indicators

	CLR	SR	ATR	ROS**	SFR	SWCA
Mining	1,50	1,47	0,12	41,0	0,52	52,0
Manufacturing	1,44	1,37	0,19	19,8	0,37	62,6
Construction	1,15	1,23	0,13	16,6	0,31	65,8
Trade	1,16	1,18	0,32	18,6	0,18	82,7
Transportation	1,05	1,42	0,13	23,8	0,42	28,1
Agriculture	1,29	1,27	0,08	24,8	0,45	31,7

The main **indicators of the financial and economic** activities **of enterprises** in the 1st quarter of 2021 were as follows:
- mining and manufacturing companies have the highest liquidity (**CLR = 1,50** and **1,44**, respectively);
- mining and "transport and warehousing" industries are the most solvent (**SR = 1,47** and **1,42** respectively);
- business activity in trade is significantly higher than in other industries (**ATR=0,32**);
- mining companies are the most profitable (**ROS = 41,0**%), the least profitable - construction (**ROS = 16,6%**);
- the chance of financing investments from their own funds in the mining industry is higher than in other industries (**SFR = 0,52**);
- most of the assets of trade enterprises are current assets (**SWCA = 82,7%**).

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

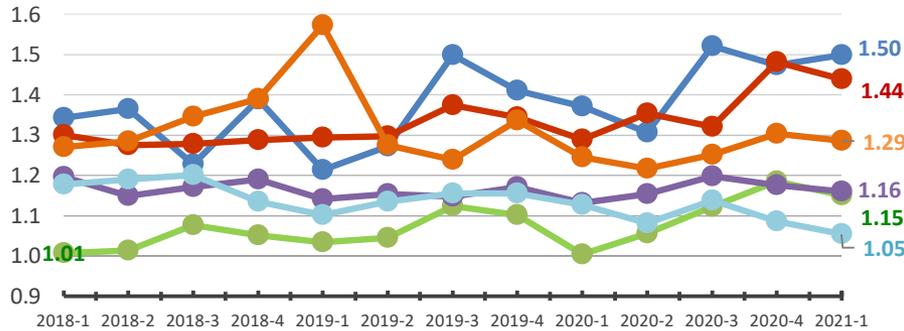### Chart 21. Current liquidity ratio dynamics (CLR)

Chart 23. Self-financing ratio dynamics (SFR)
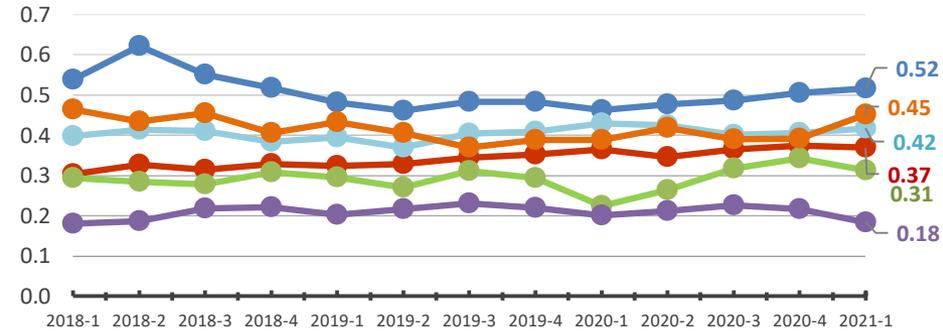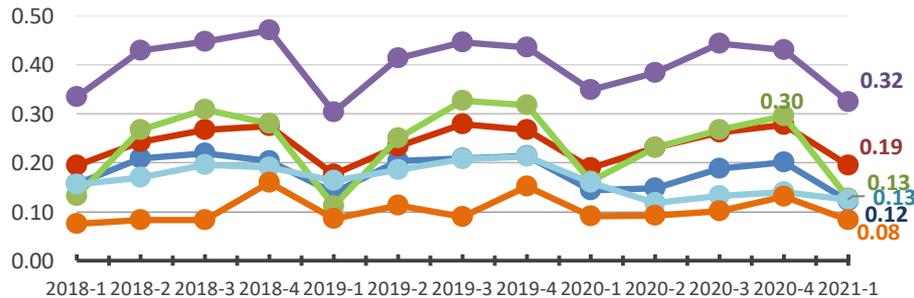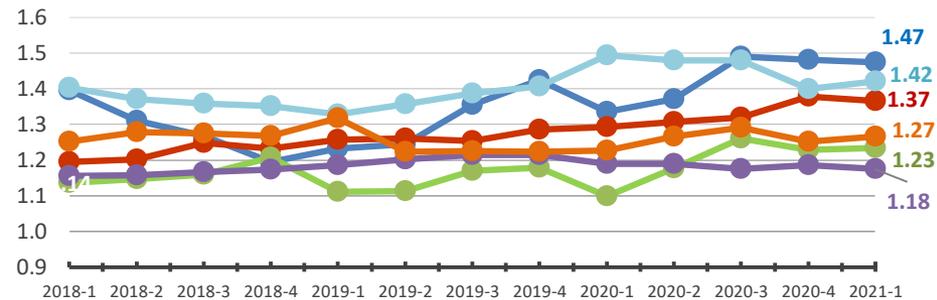

Chart 22. Asset turnover ratio dynamics (ATR)

Chart 24. Overall solvency ratio dynamics (SR)

Legend: Mining · Manufacturing · Construction · Trade · Transportation · Agriculture

In Q1 2021, **the ability of enterprises of considered sectors to pay off their short-term liabilities deteriorated,** except for the mining industry (**CLR = 1,50**). There was a seasonal weakening in the busyness activity, the biggest decline was in the construction (ATR declined from 0,30 to 0,13). The ability to cover liabilities kept the same level, with the exception of transport and agriculture sectors, where the indicator slightly improved (SR = 1.42 and 1.27, respectively) and declining in all other industries and decreased in the manufacturing industry (SR = 1.37).

The ability to finance investments from their own funds has increased for mining and agricultural enterprises (**SFR = 0,52** and **0,45**), a decrease in the indicator is noted for the construction and trade enterprises (**SFR= 0,31 and 0,18**).

The ability of mining companies to pay off their short-term and long-term liabilities is higher than in other industries (CLR = 1.50 and SR = 1.47, 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 *,%

Mining 41.0 / 38.2
Manufacturing 19.8 / 20.2
Agriculture 24.8 / 23.1
Transportation 23.8 / 19.3 / 18.7
Construction 17.0 / 16.6
Trade 18.6

Legend: 2020-4, 2021-1
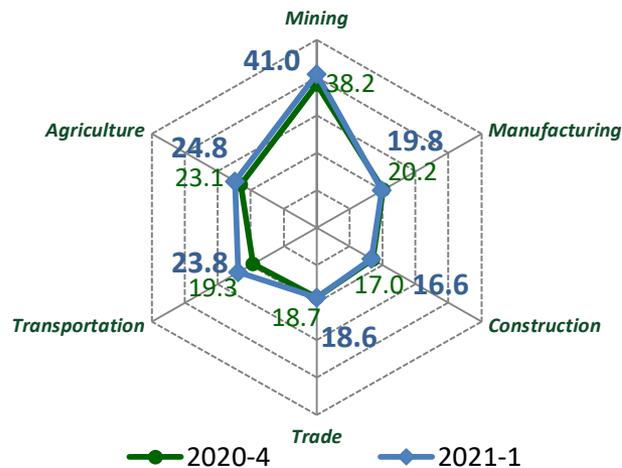
Chart 26. Dynamics of sales profitability *,%

41.0 / 24.8 / 23.8 / 18.6 / 16.6

X-axis: 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

Legend: Mining, Manufacturing, Construction, Trade, Transportation, Agriculture
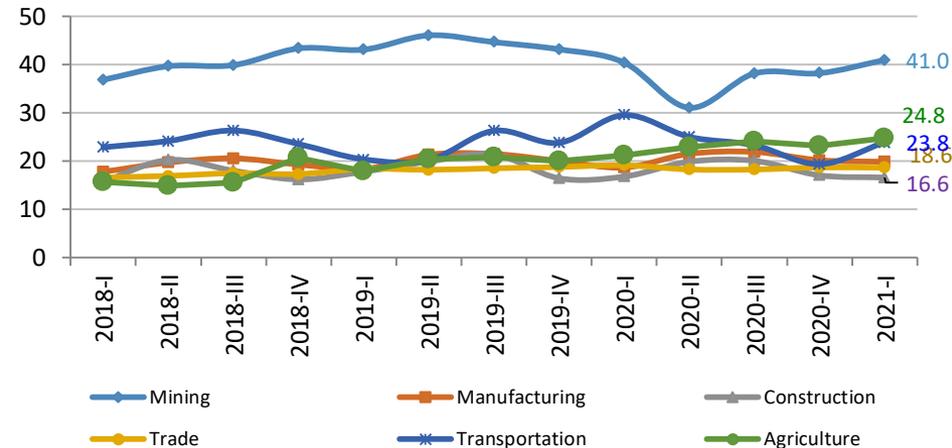
Chart 27. The share of enterprises planning to end the financial year with profit / loss,%

Industry	With profit	With loss
Mining	32.5	17.8
Manufacturing	42.2	12.2
Construction	30.6	12.3
Trade	39.4	7.5
Transportation	33.5	13.8
Agriculture	29.1	9.2

Legend: With profit, With loss
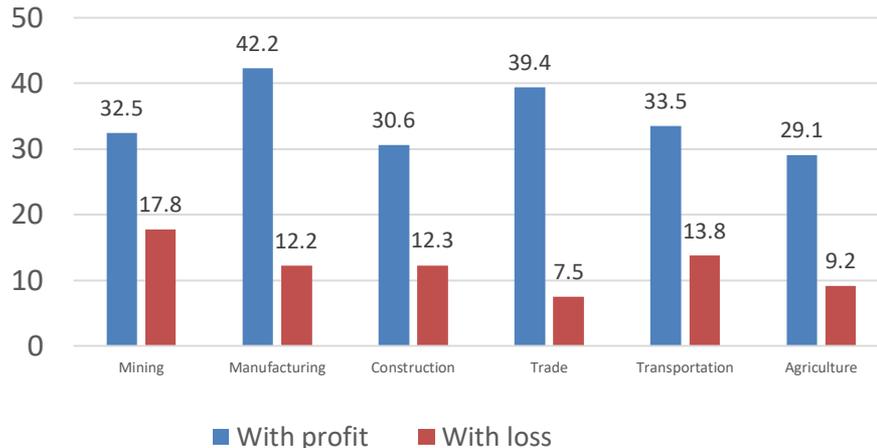
The return on sales (before tax and deduction of interest and depreciation expenses) in Q1 of 2021 has increased in the mining (41,0%), agriculture and transport (**24,8% and 23,8%, receptively**).

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 (**17,8%).** Manufacturing, trade and transport enterprises are much more optimistic in their estimates: their share of enterprises planning to close the year with a **profit** is **42,2%, 39,4%** and **33,5%,** 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 Q1 2021, the share of enterprises with overdue (more than 90 days) **accounts receivable** increased (from **22,9%** to **24,4%**) and **accounts payable** increased (from **20,9%** to **22,2%**) on average in the economy.

In trade, mining and manufacturing industry, the share of enterprises with overdue accounts receivable has **increased**. The share of enterprises with overdue accounts payable also **increased** in all industries, except transport. The largest number of enterprises with both overdue accounts receivable and overdue accounts payable was noted in the mining industry (**29,4%** and **34,5%,** 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 **15,8%,** in construction – **13,1%,** in the manufacturing industry – **11,0%,** in agriculture – **9,7%**, in transport and warehousing – 9,4**%,** in the mining industry – **6,1%.**
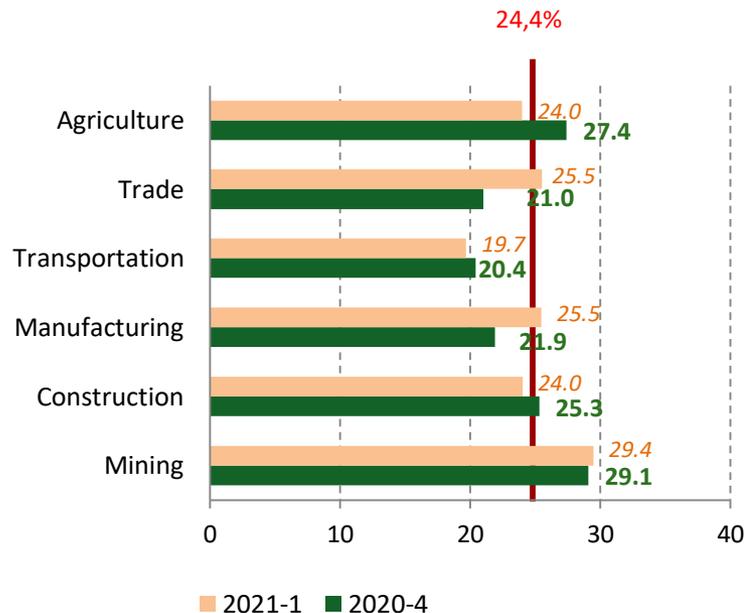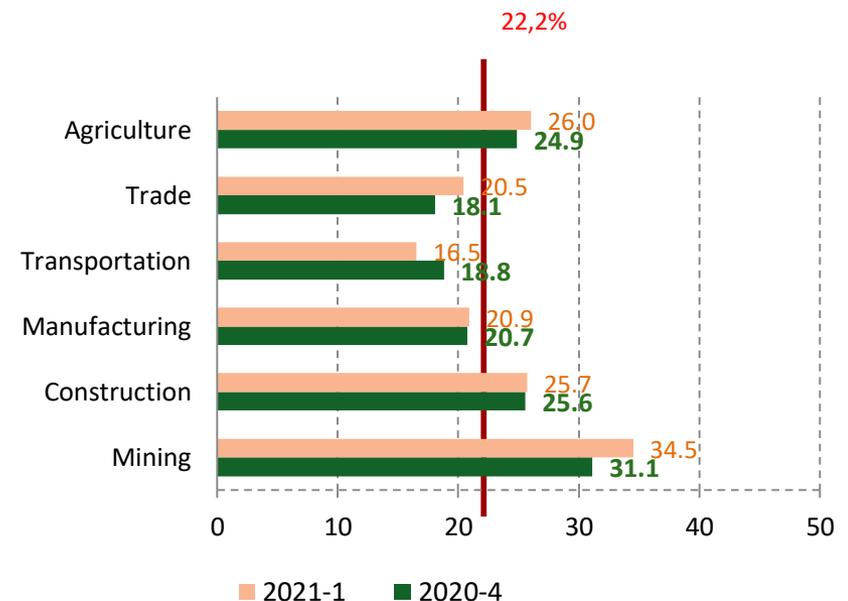
Chart 28. Overdue accounts receivable debt (%)

24,4%

Industry	2021-1	2020-4
Agriculture	24.0	27.4
Trade	25.5	21.0
Transportation	19.7	20.4
Manufacturing	25.5	21.9
Construction	24.0	25.3
Mining	29.4	29.1

■ 2021-1 ■ 2020-4

Chart 29. Overdue payables debt (%)

22,2%

Industry	2021-1	2020-4
Agriculture	26.0	24.9
Trade	20.5	18.1
Transportation	16.5	18.8
Manufacturing	20.9	20.7
Construction	25.7	25.6
Mining	34.5	31.1

■ 2021-1 ■ 2020-4

Chart 30. Production volume dynamics, DI *

Legend: Mining, Manufacturing, Construction, Trade, Transportation, Agriculture
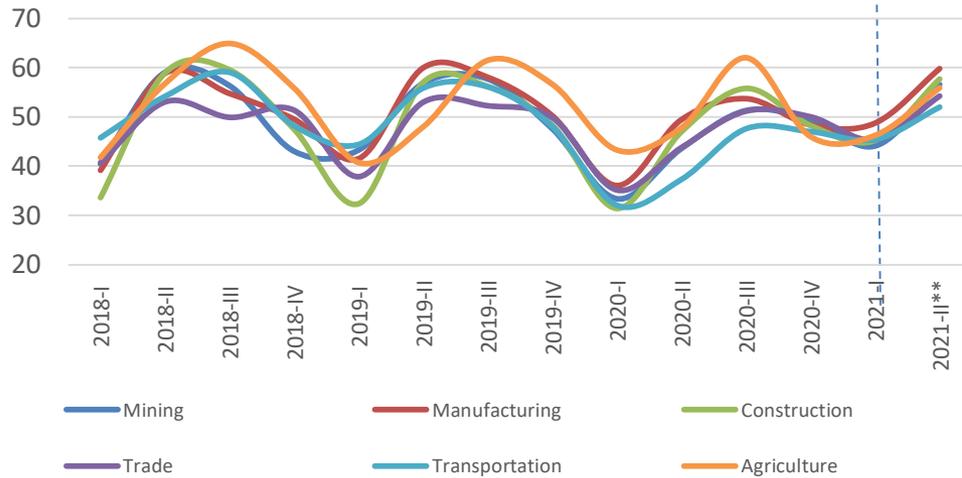
Chart 31. Number of employed dynamics, DI

Legend: Горнодобывающая промышленность, Manufacturing, Construction, Trade, Transportation, Agriculture
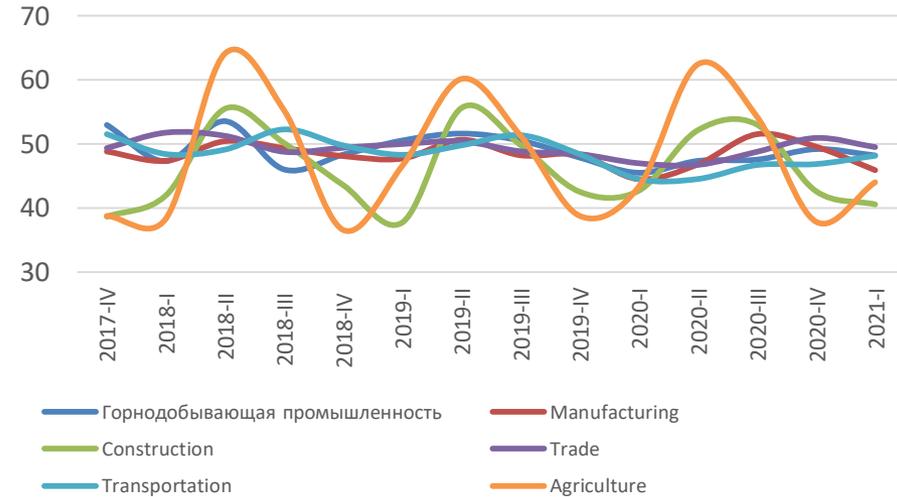
Chart 32. Dynamics of the share of enterprises that reduced average wages,%

Legend: Mining, Manufacturing, Construction, Trade, Transportation, Agriculture
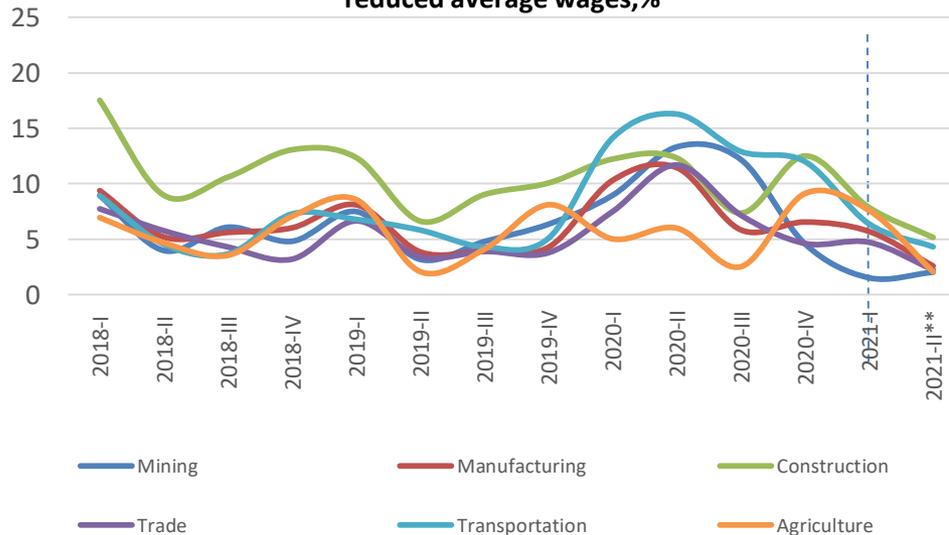
In Q1 of 2021, in all the industries under consideration a de**crease in production volumes** was noted, and DI moved into the area of decline. The largest decrease was noted in the mining industry. In Q2 of 2021 an increase in **production volume** is expected.

The number of employers decreased in almost all sectors, the biggest decrease was noted in Construction and agriculture, which is explained by the seasonal nature of their work.

In Q1 of 2021, the number of enterprises that reduced the average wages in construction, agriculture, transport, mining and manufacturing industries decreased. A slight increase was noted in trade.

* 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 2nd 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 Q1 of 2021, 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, transport and agriculture, the **largest** - by the manufacturing and trade enterprises. The main currency used in settlements with foreign partners is the Russian ruble (in manufacturing industry - 66.1%, in trade - 58.8%).

- In Q1 of 2021, in all considered industries, a decrease in production volumes and a decrease in the level of capacity utilization was noted. The highest capacity utilization remains in the mining industry (59.3%).

- In the Q1 of 2021, there was an improvement in the situation with **the demand for final products** in all sectors except the agriculture.

- The **ROS** in the mining industry is significantly higher than in other industries. An increase was noted in the mining (41,0%), agriculture and transport (24.8% and 23,8%, respectively).

- In agriculture, the share of enterprises with **overdue debts on bank loans** (more than 90 days) is noticeably higher than in other sectors.

- In Q2 of 2021, further improvement in the **demand** is expected in the mining industry and transport, a slowdown is expected in manufacturing and trade, and a decline - in agriculture and construction.