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SME sector of Kazakhstan

Abstract

While the economy shows a steady growth of 4% for the third year in a row, the growth rate of SME output is moving at a significantly faster rate close to 9%. As a result, SME became one of the important drivers of economic growth, but due to the low transparency of its activities, there is not enough clarity on the sources of such rapid growth, as a result, the dynamics of the main indicators of SME are poorly or inconsistent with the accompanying indicators for the economy as a whole.

Rapid growth in business activity of SME led to an increase of its share in the economy to 28.3% in 2018 from 25.6% a year earlier. The share of SME in non-oil GDP is about 4pp higher and equals to 32.4% of GDP and increased from 28.8% of GDP in 2017. At the same time, judging by the prevalence of the shadow economy, the low share of SME in the economy, the potential of SME sector is not fully realized.

According to the data as at the end of April, the number of existing individual entrepreneurs increased to 856 thousand, in 2018 there were 809 thousand, in 2017 there were 747 thousand. The number of small enterprises at the end of April 2019 reached 243 thousand and demonstrated steady growth: 231 thousand in 2018, 209 thousand in 2017. On the contrary, the number of medium-sized enterprises is unchanged – 2.6 thousand since 2017. Thus, it can be stated that small business is gaining more and more foothold, while medium-sized enterprises are virtually not growing, including due to the lack of organic growth of small enterprises.

On the back of growth in the number of entrepreneurs, the penetration rates of small and medium businesses improved in 2018, the number of individual entrepreneurs per 1,000 residents of working age increased from 69 to 74, the number of small and medium enterprises per 1,000 inhabitants (excluding individual entrepreneurs) increased by 10% to 22. Compared to other countries, SME penetration in Kazakhstan is at least two times lower than in Europe, and even lower than in Russia.

Faster development of SME is observed in Nur-Sultan and Almaty cities, where the share of SME in the gross regional product is 55% and 40%, respectively. In the regions, the similar indicators are quite modest – 22% on average only. By the share of employed in SME among the regions also leads Nur-Sultan and Almaty cities, with 68% and 62% employed in small and medium-sized businesses, respectively. With such indicators, these cities are close the level of developed countries, while in the regions the share of employed in SMEs is less than a third.

Due to the service orientation of small and medium-sized businesses, a high share of output of products and services by SME accounts for trade, which occupies almost 25% share in the total volume, followed by construction with a share of 17%, and agriculture with 8%. At the same time, the share of these industries in GDP corresponds to 16%, 5% and 4%, which indicates a high activity of SMEs in these industries.

Investments by business size in 2018 showed an increase of 9.7% for small enterprises, by 30.3% for large enterprises, and for medium-sized enterprises a 20% drop. Continuation of reduction of investment by medium-sized enterprises calls into question their future existence and may lead to the situation where this business format (100-250) simply dissolves among small businesses (<100). The initial stage of the development of SME sector is reflected in the fact that it mainly invests in capital construction (68%), while only 25% of its investments were directed into machinery and equipment, for comparison, in France and Italy 60% and more of all investments were spent by SMEs on machines and equipment and less than 30% on construction.

In the bank loan portfolio, the SME segment accounts for almost a third of all loans, at the same time there is a tendency for the SME loan portfolio to decline in relative terms by almost 40% from 2016 to 6.7% of GDP. It is a matter of concern that almost half of all bad bank loans come from SME loans. The combination of a shrinking SME portfolio, together with an increase in overdue loans, can lead to stricter conditions for accessing bank loans and worsening business conditions.

The number of people employed in SME in 2018 reached a new milestone of 3.3 million people and increased from 3.1 million in 2016-2017, 3.2 million in 2015. The structure of the employed is distributed by 40% between individual entrepreneurs and small enterprises, 1.3 million each, 11% fall on medium-sized enterprises (365 thousand) and the remaining 9% farms (KFH) (281 thousand).

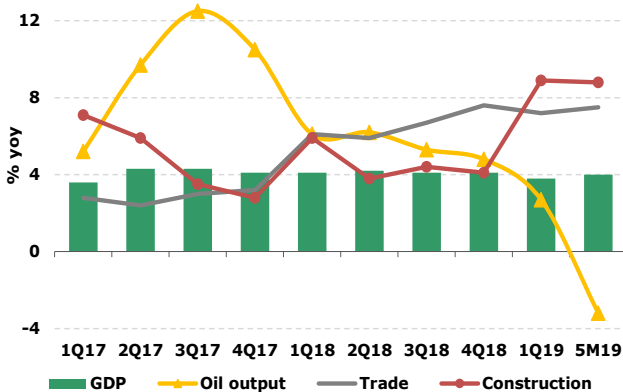
In 2018, labor productivity in small business, according to our estimates, grew by 13.5% to \$13.5 thousand per employee, repeating the high growth in output and wages. In medium-sized enterprises, labor productivity grew more significantly by 23.3% to the equivalent of \$26,000 per employee. At the same time, high growth is recovery-driven after a fall in 2015–2016 and is not sustainable. In addition, the wages of those employed in small enterprises are not included in the calculation of the average monthly wage, which apparently reflects the low reliability of the data and its lower level compared to the average wage in the country, which could decrease significantly if the small enterprise’s wages were included in its calculation.

Economic growth and SME sector

Economic growth in the first half of 2019 has been around 4% for the third year in a row. At the same time, at the beginning of this year, due to the planned stop at Kashagan, oil production for the first time in three years went into the negative zone of -3.2% yoy in 5M2019. The situation in the oil market is unstable, although oil prices climbed to \$66 on average over five months from the bottom of \$50 per barrel at the end of 2018, and by 5% below \$69.8 in the same period of 2019. The exchange rate of the tenge to the US dollar declined significantly by 14% to 378.5 on average for 5M2019. Concomitant inflation and devaluation expectations were partially offset by administrative reduction of state monopoly tariffs, which resulted in a slowdown in inflation to 5.3% yoy in May 2019 from 6.2% yoy in May 2018. On this background, in April, the regulator went on reducing the base rate to 9% after its previous increase to 9.25% in October 2018. Amid a slowdown in industry, investment with a growth rate of 7.8% yoy over 5 months of 2019 became an important driver of economic growth. Approximately half of the investment activity is maintained at the expense of the mining sector and public investment, which simultaneously gives rise to construction activities, where growth was 8.8% yoy in 5M2019, (Fig.1). The growth of real wages at the level of 5% yoy coincided with the growth of retail trade in the same period, while the wholesale trade turnover amounted to 8% due to the large trade in oil and oil products. Thus, on the surface, the situation in the economy looks quite optimistic, however, the qualitative changes in the structure of economic growth are still weak: real wages grow due to an increase in state budget expenditures, and the tenge’s mostly one-sided downward movement suggests that the republic remains lagging by the labor productivity.

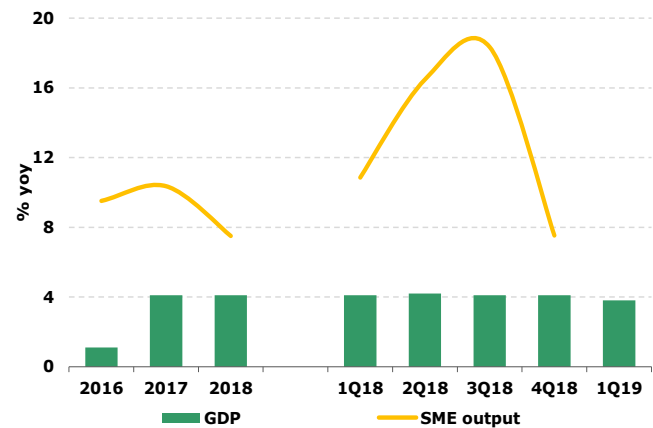
While the economy shows an increase of 4% since 2017, the growth rate of SME output is moving ahead at around 9.5% in 2016, 10.4% in 2017 and 7.5% in 2018 (Fig.2). It could be assumed that under the influence of the crisis, small and medium-sized businesses turned from an outsider into one of the leading drivers of economic growth, but its high rates of activity are doubtful given the lack of transparency of SME activities.

Figure 1 GDP growth 4%



Source: CS MNE

Figure 2. SME grow faster than GDP



Source: CS MNE

SME role in the economy

Recall that the most common criterion used to classify a business by size is the number of employees less than 250 persons. Since 2014, the following gradation has been applied in Kazakhstan for statistics: up to 15 employees micro-enterprise, up to 100 small enterprises, 100-250 medium-sized enterprises (Fig.3). The classification of enterprises by size in Kazakhstan coincides with that in Russia and is slightly different from that used in the EU in the context of micro-enterprises. For comparison, in Canada, SMEs are enterprises with fewer than 500 employees, but there is a distinction that depend on the industry and the service sector profile. In the United States, a borderline of 500 workers is often used, but taking into account industry differences. In China, small enterprises, depending on the industry, may include enterprises with up to 1,000 employees. Thus, national particulars dictate their criteria for dividing the business by size, besides there is categorization based on the size of assets, turnover, which, for example, local banks use for their own classification of SMEs.

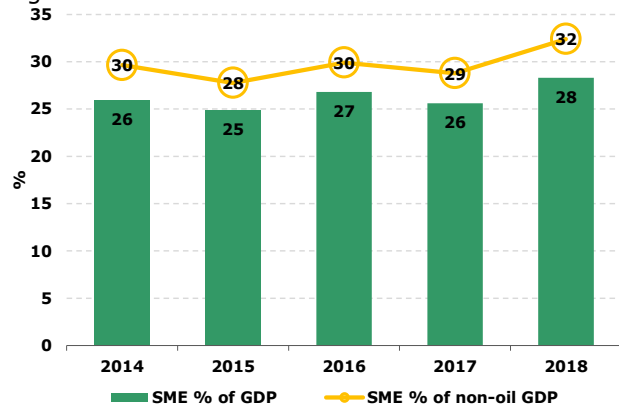
Figure 3. SME division by size

Size	EU Number of employees	Canada Number of employees	Russia Number of employees	Kazakhstan Number of employees
Medium	51-250	100-500	51-250	51-250
Small	10-50	5-100	<100	<100
Micro	<10	<5	<15	<15

Source: CS MNE, stat.agencies

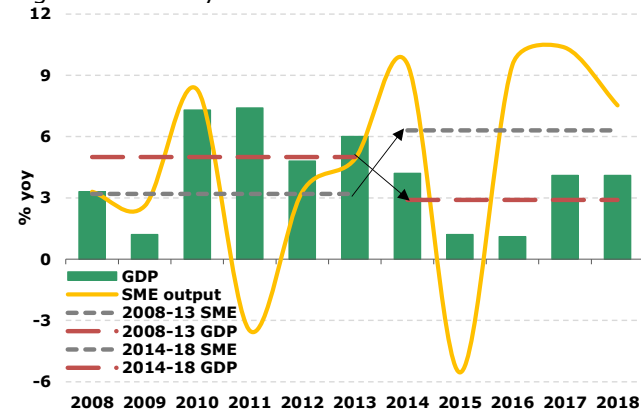
The outpacing growth of the activities of SMEs led to an increase of its share in the economy to 28.3% in 2018 from 25.6% a year earlier. The share of SMEs in non-oil GDP is about 4pp higher and equals 32.4% of GDP and increased from 28.8% of GDP in 2017 (Fig.4). Recall in 2014, changes were made in the criteria for attributing to SMEs for statistical purposes, with the result that from 2014 the share of SMEs in GDP jumped to 25.9% from 16.7% in 2013. At the same time, this process was accompanied by rather contradictory and inexplicable statistics affecting small and medium businesses. For example, in 2008-2013, GDP growth averaged 5%, while SME output was 3.2%, but starting from 2014, the average SME growth more than doubled over the GDP growth rate: 6.2% versus 2,9% (Fig.5). In terms of types of SME activities, industry growth in 2016 exceeded 20%, while in the economy as a whole the decline amounted to 0.4%, in 2017 the trade turnover of SMEs grew by 31.5%, while in the economy as a whole only by 3.2%. For 2018, the industry statistics of SMEs has not yet been published, but in terms of areas, SMEs grew by 41.4% in the Atyrau region, by 39% in the Mangistau region, where there was an increase in the wholesale trade of oil and oil products of small enterprises, which we assume as a sheer resale of these products without generating real value added for the economy, but nevertheless, it supports good GDP growth on paper.

Figure 4. SME role



Source: CS MNE

Figure 5. SME dynamics

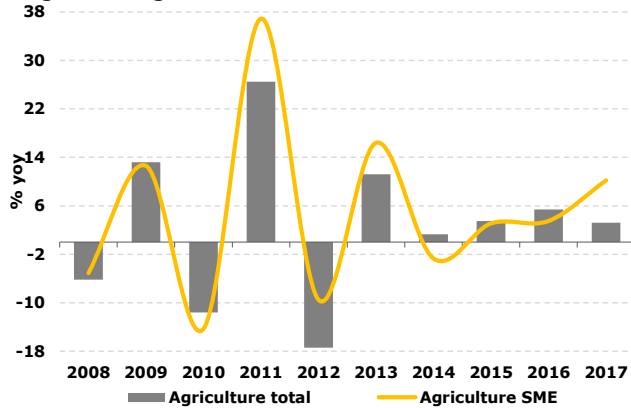


Source: CS MNE

In the sectoral context, activities of SMEs correlate well only with agricultural statistics (Fig.6). In the sphere of trade as the most representative branch of SME activity, on the contrary, there is a very weak relationship between the official statistics (Fig.7), although small and medium businesses account for the lion's share of the wholesale and retail trade — more than 90%. This state of affairs is a consequence of the high share of shadow turnover, the prevalence of bazaar trade, and the weak economic development of the regions, which hinders the penetration of modern trade formats.

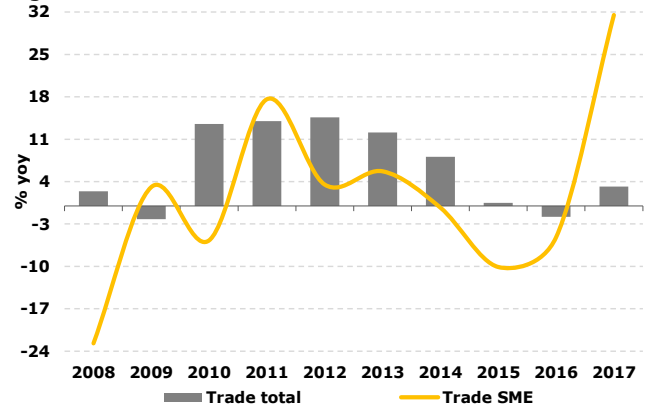
Considering the fact that SMEs are primarily focused on the service sector, which in turn is closely dependent on household incomes, but at the same time, household incomes have grown very weak and mainly due to social expenditures from the budget in recent years. Rapid growth in the scope of SME activities in comparison with the economy leaves questions as regard to the quality of statistical data. One of the possible explanations for the rapid growth of SME indicators can be the ongoing privatization. Since 2014, the state has sold about 500 state-owned objects covering almost all sectors of the economy in the amount of approximately T330 billion, of which most of them in 2017 and 2018.

Figure 6. Agriculture



Source: CS MNE

Figure 7. Trade



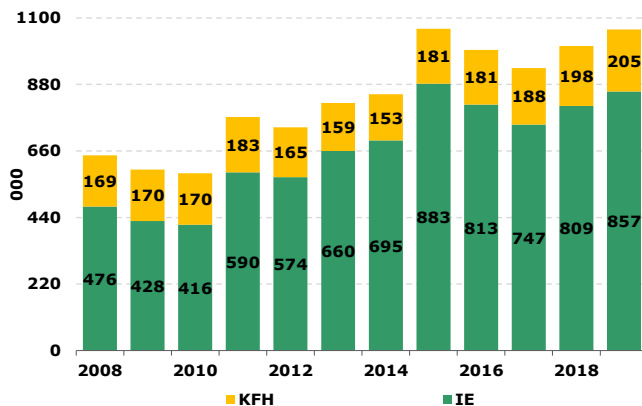
Source: CS MNE

SME entities

As at the end of April, the number of active individual entrepreneurs (IE) increased to 856 thousand, in 2018 there were 809 thousand, in 2017 there were 747 thousand (Fig.8). The output per person employed in the individual entrepreneurship amounted to T2.2 million in 2018 and increased by 4.8% over the year nominally that is below inflation, thereby showing extremely weak effectiveness of this activity. The number of peasant farms and farms (KFH) at the end of April 2019 was 205 thousand, at the end of 2018 198 thousand and 187 thousand in 2017. Similarly, with IE, the output per person employed with farms showed a very modest increase of 3.7%. Weak performance indicators of small businesses can be called a consequence, among other things, of the state support of entrepreneurship, through which the unemployed get access to microfinance to start small businesses in the countryside, that gives them the opportunity to secure a small source of income from self-employment. As a result, there is an increase in the number of small entrepreneurs, including at the expense of the self-employed, on the one hand, this is an increase in the quantity without quality, on the other hand, the fact that these individuals leave the shadow activity can be considered as a positive sign.

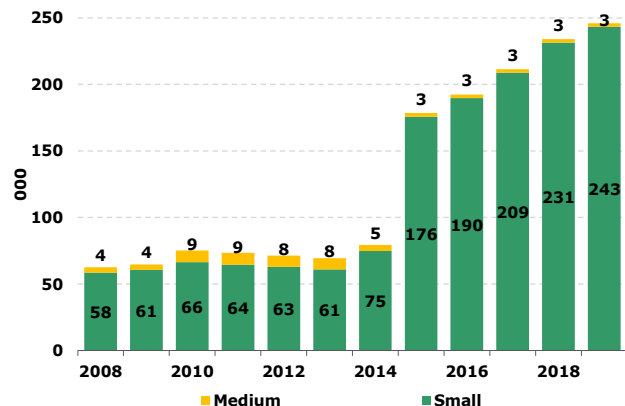
The number of small enterprises at the end of April 2019 reached 243 thousand and demonstrated steady growth: 231 thousand in 2018, 209 thousand in 2017. On the contrary, the number of medium-sized enterprises is stuck at 2.6 thousand since 2017. Thus, it can be stated that small business is gaining more and more foothold, while medium-sized enterprises have stayed unchanged after a continuous decline since 2011. Since 2014, when there have been changes in the criteria for attributing to SMEs, small enterprises have grown 3.3 times, while medium-sized enterprises have decreased by 40%. It is difficult to conclude from such dynamics that small business is successfully developing and organically moving into the category of medium ones. At the same time medium-sized businesses is an important link not only in the hierarchy of companies, but also in the economy as a whole, for example, in the EU, medium-sized enterprises form 18% of GDP and provide 17% in employment, while in Kazakhstan the corresponding figures are only 5.5% and 4%.

Figure 8. Number of farms, IE



Source: CS MNE

Figure 9. Number of companies



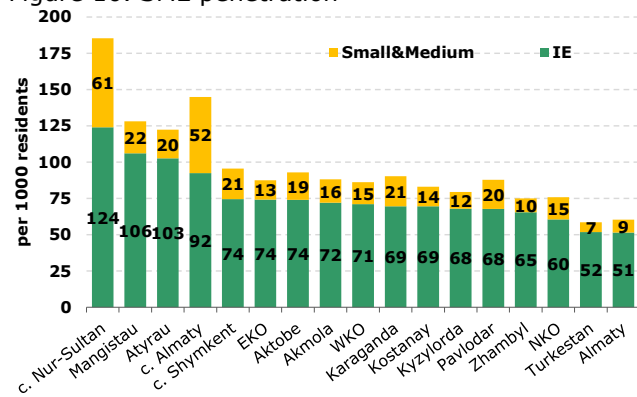
Source: CS MNE

SME development by region

Due to the good growth in the number of entrepreneurs, the penetration rates of small and medium-sized businesses improved slightly in 2018 (Fig.10). The number of individual entrepreneurs per 1,000 residents of working age increased from 69 to 74 in 2018. The largest number of individual entrepreneurs was observed in Nur-Sultan 124 per 1,000 population against 94 a year earlier, in Almaty decreased from 95 to 92. Among the oblasts, a high number of IEs are shown by the Mangystau oblast 106 (+5 yoy) and Atyrau 103 (+6 yoy), the smallest number, oddly enough is in Almaty only 51 (+3 yoy), given that this region borders with China and Kyrgyzstan, and there is the largest city of the country located in this region.

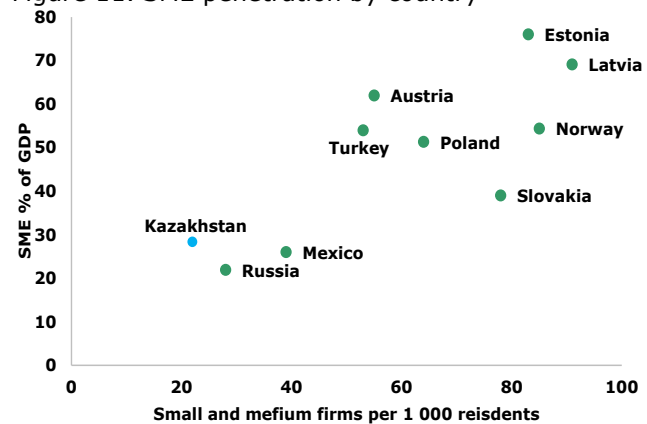
The number of small and medium-sized enterprises per 1,000 inhabitants (excluding individual entrepreneurs) in 2018 increased by 2 to 22, as in the case of individual entrepreneurs, the city of Nur-Sultan leads with 61 enterprises and Almaty with 52 enterprises. In terms of the number of small and medium-sized enterprises, the Almaty region is again in the lead of anti-rating with 9 enterprises per 1,000 residents and Turkestan with 7 enterprises, which is two times lower than the average regional value of 15 enterprises. Compared to other countries, SME penetration in Kazakhstan is at least two times lower than in Europe, and also lower than in Russia (Fig.11), against this background, the share of SME in Kazakhstan GDP at 28% looks overestimated relative to 22% share of SME in Russia's GDP.

Figure 10. SME penetration



Source: CS MNE

Figure 11. SME penetration by country

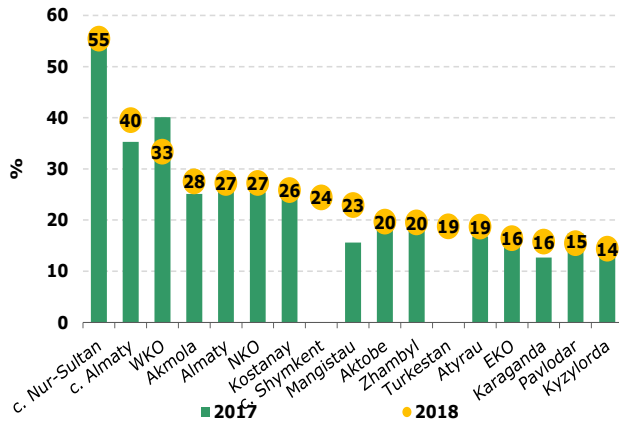


Source: CS MNE, OECD, stat.agencies

Small and medium-sized businesses have the largest weight in the gross regional product (GRP) in Nur-Sultan at 55%, its share in 2018 has grown moderately by 1 percentage point, but remains below the 2014 figure of almost 62% of the capital GRP. A strong increase in the share of SMEs in GRP in 2018 occurred in Almaty from 35% to almost 40%, the reason for such strong growth was the trade sector, which generally grew by more than 12% in real terms, while Almaty is the largest consumer market in the country. The indicators of SME development in the regional context are quite modest, on average only 22% of the regional GRP is created by small and medium businesses, with a minimum value of 14% in the Kyzylorda region and a maximum of 33% in West Kazakhstan. The strong lag of the regions from the figures of Nur-Sultan and Almaty is dictated by regional differences in incomes of the population, low population density, weak economic base. It should be noted that the share of SME in GDP is targeted at 50% by 2050, based on this target, Nur-Sultan city has already surpassed it ahead of schedule. With the current figure at 40% of SME share in the GRP of Almaty, the target level will be attained in advance there too.

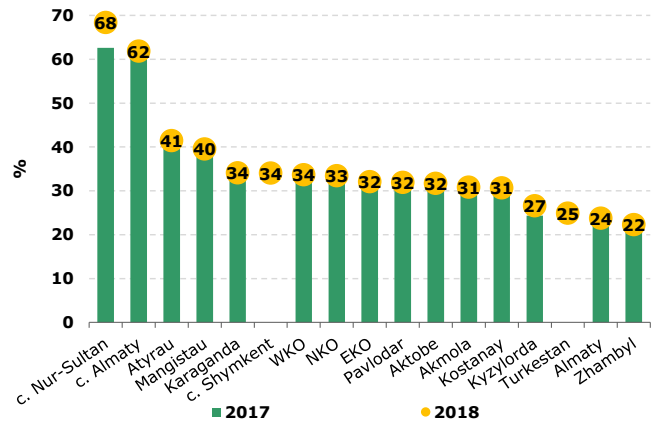
The share of those employed in SME among the regions is also led by the city of Nur-Sultan, where this figure rose by 5pp to 68% in 2018, in Almaty the share of employed in small and medium business is slightly lower at 62%, with such numbers these cities are quite close to the level of developed countries, for example, in France this figure is 63%, in Australia 68%. However, at the regional level, the share of employed in SMEs is significantly lower and varies from 22% in Zhambyl oblast to 41% in Atyrau. Note that the statistics on SMEs, in our opinion, is not reliable, thus the share of employed in SMEs in Almaty oblast corresponds to 24% in the workforce, but the share of SMEs in the GRP is 27% (Fig.12,13), which should indicate a very high productivity of small and medium-sized businesses in this region, which is not confirmed, as in this area, SME productivity per employee is 40% lower than the national average.

Figure 12. SME value added



Source: CS MNE

Figure 13. SME share of employment



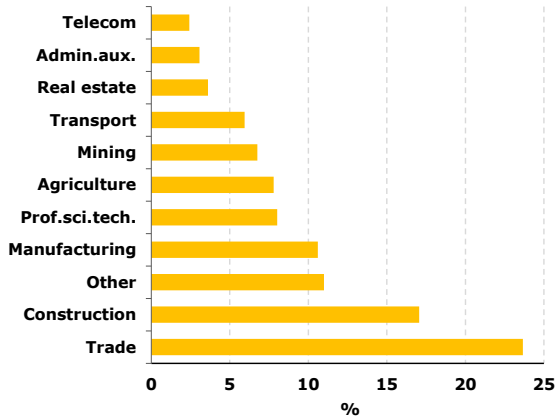
Source: CS MNE

SME activity by sectors of the economy

Due to the predominantly service-oriented activities of small and medium-sized businesses, a high share of output of products and services in SMEs accounted for trade, which accounts for almost a quarter of the total, followed by construction with a share of 17%, agriculture at 8% (Fig.14). At the same time, the share of these industries in the gross domestic product corresponds to 16%, 5% and 4%, which indicates the high priority given to these spheres by small and medium businesses. At the same time, according to the Ministry of Finance of Kazakhstan, these industries are the most opaque and with the highest share of shadow turnover.

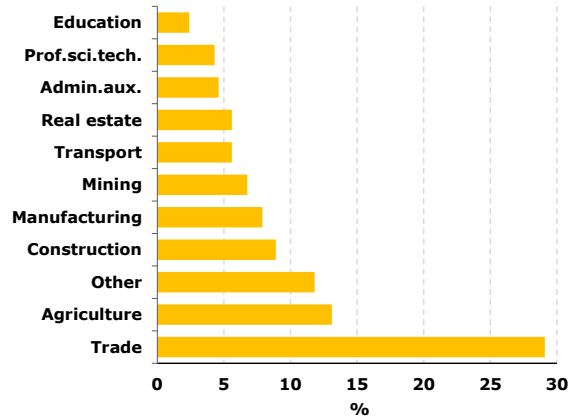
The structure of employed in SMEs follows the sectoral structure of output, the trade sector is in the first place with 29% of all employed, or about 930 thousand persons, in the second place is agriculture with 13% of all employed, or about 420 thousand people. The backlog of construction from a similar share in terms of output can be attributed to the high share of unregistered foreign workers from neighboring southern republics (Fig.14,15). Note that the salaries of those employed in SMEs are not included in the calculation of the average monthly salary, which apparently reflects the low reliability of the data and its lower level compared to the average salary in the country, which could significantly decrease if SME sector wages included in the calculation.

Figure 14. Structure of SME output



Source: CS MNE

Figure 15. Structure of SME employment by sector

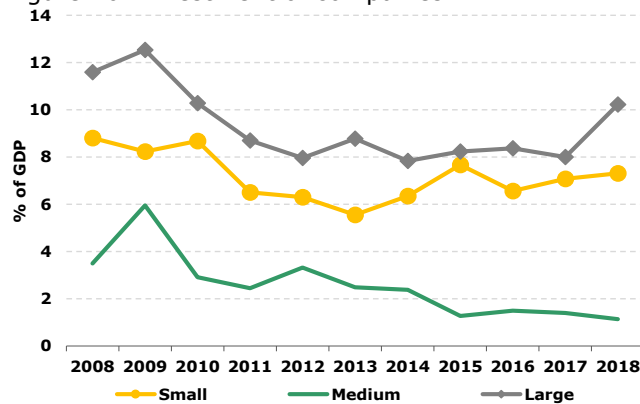


Source: CS MNE

SME investments

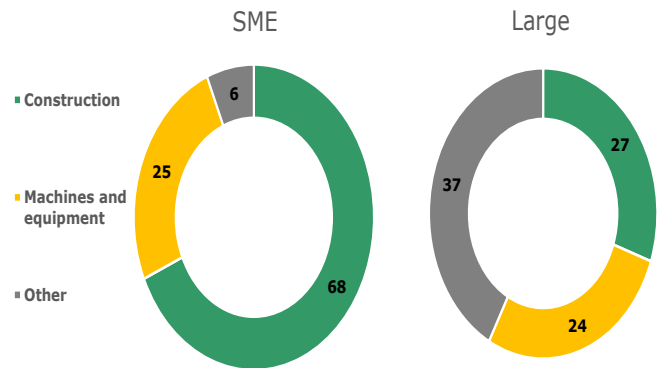
Investments by business size showed an increase of 9.7% for small enterprises in 2018, by 30.3% for large enterprises, and for medium-sized enterprises there was a significant drop of 20% (Fig.16). At the same time, the investments of small enterprises amounted to 7.3% of GDP, for medium 1.1% of GDP, for large enterprises it increased by 2pp to 10% of GDP. As we see investments of medium-sized enterprises continue to decline, which calls into question their future existence, since without investing in the development of this business format, it will simply dissolve among small businesses. Besides, as can be seen from the structure of investments, depending on the size of the business, small and medium-sized businesses mainly invest in capital construction (68%), and only 25% of their investments went into machinery and equipment (Fig.17), for example in France and Italy, 60% and more of all SME investments are directed to machinery and equipment and less than 30% to construction. Unlike SMEs, the structure of large business investments is more diversified: 27% is directed to capital construction, 24% into machinery and equipment and 37% other investments. Based on the structure of small and medium business investments, it can be concluded that it incurs large costs for construction work resulting from the difference in scale – thousands of separate objects for SMEs, or one plant for a large enterprise. As a result, it has less resources left to invest in machinery and equipment, which entails the production of uncompetitive products, technological backwardness, and a lack of competence.

Figure 16. Investment of companies



Source: CS MNE

Figure 17. Structure of investment of companies, %

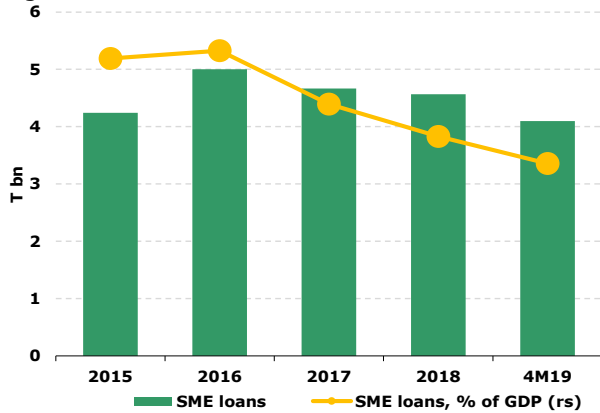


Source: CS MNE

The SME segment occupies a significant part in the loan portfolio of banks, accounting for almost a third of all loans. The trend of reduction of SME loan portfolio continues, at the end of April it reached T4.1 trillion (Fig.18) and decreased from T4.6 trillion at the end of 2018, in relative terms it fell by almost 40% from 2016 to 6,7% of GDP. At the same time, the quality of SME loan portfolio is not encouraging. Amid the contraction of the loan portfolio, the growth in the share of overdue loans to 13.5% at the end of April from slightly higher than 9% in 2017 and 2018 raises concerns about the future situation with lending to the sector, especially considering that the share of bad loans to SMEs construct almost half of the entire loan portfolio of banks (Fig.19).

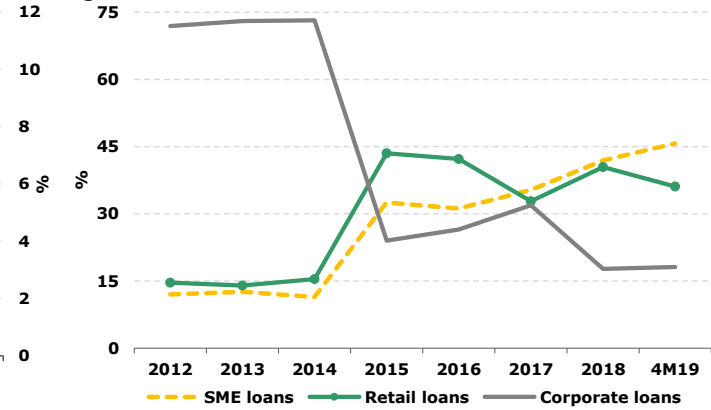
As noted above, the situation in the economy has now stabilized, the growth rate of the economy is around 4%, both investment and consumption are on the growth path, with accompanying increase in wages. At the same time, the base rate from the past year is at the level of 9% with a break for a small increase of 0.25pp from October 2018 to February of this year. The exchange rate depreciated by 14% over the year and is trading near the mark of 380 tenge per dollar. Thus, a somewhat confusing situation has arisen, when the conditions for the development of a business are quite good on the surface, but in the financial sphere there are elements of instability and unpredictability with the interest rates and exchange rate. Ultimately, all this does not contribute to the growth of lending to SMEs and it is unclear when the reversal in the trend of lending contraction will take place.

Figure 18. SME bank loans



Source: CS MNE

Figure 19. Structure of bad loans



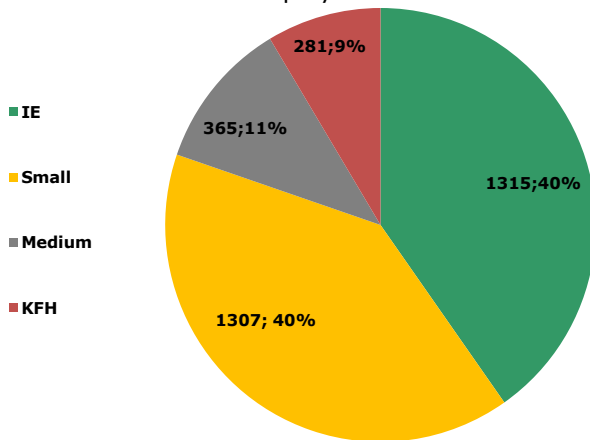
Source: CS MNE

SME human resources

The number of people employed by SMEs reached a new milestone of 3.3 million people in 2018 and increased from 3.1 million in 2016-2017, 3.2 million in 2015. The structure of employed is distributed by 40% between individual entrepreneurs and small enterprises at 1.3 million each, 11% are for medium-sized enterprises (365 thousand) and the remaining 9% of KFH (281 thousand) (Fig.20). Over the past three years, the number of people employed in individual entrepreneurs decreased by 3% (+6% in 2018), growth in small enterprises was 10% (+4% in 2018), in medium-sized enterprises the number of employees increased by 4% (+1% in 2018), in KFH a reduction by 2% (-2% in 2018). A high number of people employed in private entrepreneurship is not representative, since this mode of business is widely used by landlords who rent out apartments, and private entrepreneurship is also used by individuals working out of staff of companies.

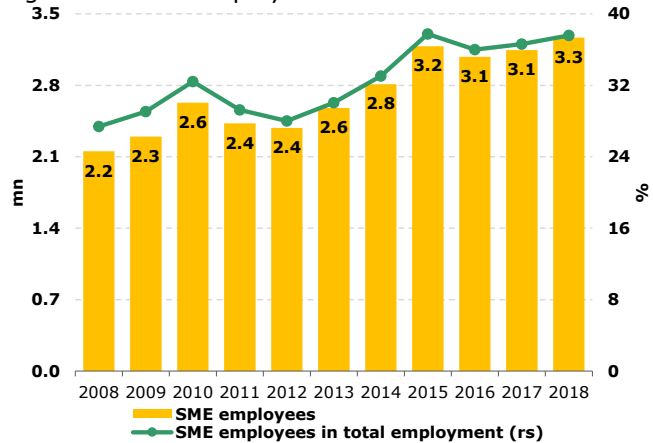
In relative terms, the share of people employed with small and medium-sized businesses returned to the level of 2015 at 38% of all employees after it was at the level of 36% in 2016 and 37% in 2017 (Fig.21). By Western standards, the share of people employed in SME in Kazakhstan is very low, compared to France, the share of people employed in this sector is 63%, in Norway 69%, in the Baltic countries it is close to 80% of all employed, therefore Kazakhstan has long way to go in this field.

Figure 20. Structure of employment



Source: CS MNE

Figure 21. SME employment

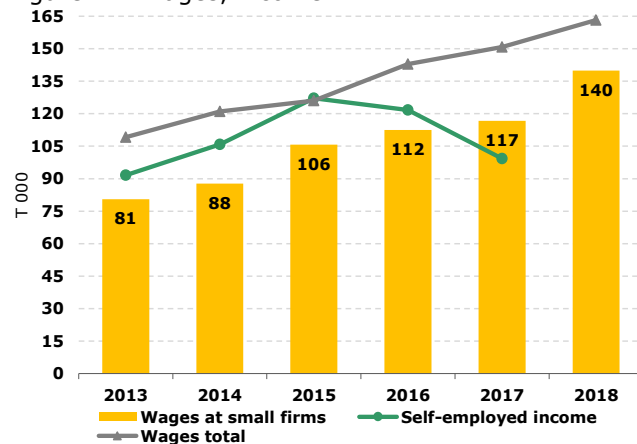


Source: CS MNE

Wages in 2018 showed the best dynamics since 2015 and grew by 8% nominally, by 2% in real terms. In turn, wages in small enterprises showed growth immediately by 20% nominally and by about 13% in real terms. It is worth noting that the statistics do not include the salaries of small enterprises in the calculation of the average monthly salary, which implies a low quality of data on them and, accordingly, there are doubts that such a strong increase in the salaries of small enterprises took place. Accordingly, with a strong growth in wages of small enterprises, their level relative to the average for the economy has risen to 86% from 74% in 2017 and 76% on average since 2000.

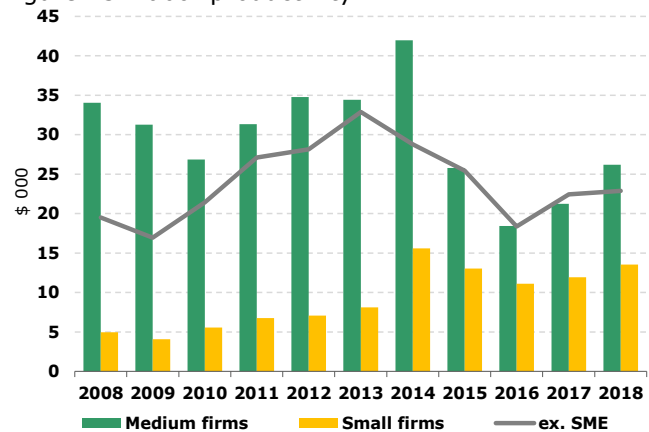
Labor productivity in small and medium-sized businesses is at a low level relative to other sectors, but in the context of small business and medium-sized enterprises there are serious differences. So in 2018, labor productivity in small business, according to our estimates, increased by 13.5%, to the equivalent of \$13,5 thousand per employee, repeating the growth in output and wages. In medium-sized enterprises, labor productivity grew more significantly by 23.3% to the equivalent of \$26 thousand per employee (Fig.23). Excluding the SME sector, labor productivity increased by only 2% in 2018. As a result of faster growth of labor productivity in medium-sized enterprises, the gap with small businesses widened slightly to 48% from 44% in 2017, and it is unlikely that this gap will change significantly given that small businesses often receive state support as a way of setting up people’s employment rather than developing competitive businesses. For example, in 2018, 12,367 self-employed and 1,686 unemployed received microloans, most in rural areas with an average microloan of T3.5 million (~\$10,000).

Figure 22. Wages, income



Source: CS MNE

Figure 23. Labor productivity

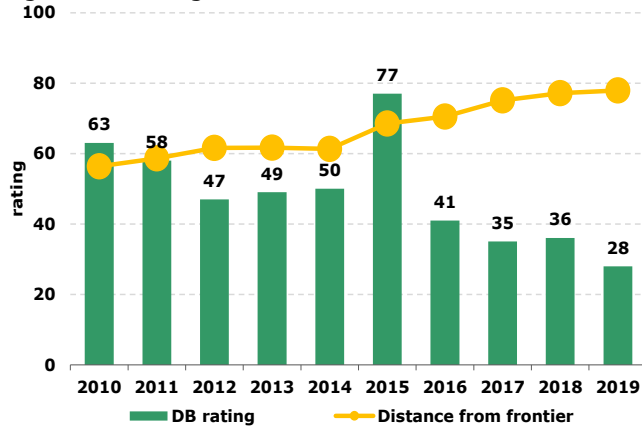


Source: CS MNE

International ratings

Due to the fall in oil prices from a level above \$100 per barrel and their staying below \$60 per barrel on average since the fall of 2014, the government agencies began to pay more attention to the business climate in the country and finding ways to attract foreign investment. One of the tools for achieving these goals by government agencies is the work on indicators of the Doing Business index. In the World Bank's rating on the ease of doing business 2018-2019, Kazakhstan rose by 8 lines and ranked 28th – the best result for all the years of participation in the rating. Improvements have come from the facilitation of the registration of enterprises, the system of electronic customs declaration, reduction of administrative customs fees and others. In general, since 2010, Kazakhstan in the ranking of countries has shifted by 35 positions, entering the top thirty countries. In terms of distance from frontier, the backlog since 2010 has decreased by 21pp (Fig.24), thereby making significant progress, although the subnational rating says that there are problems of differences in ease of doing business at the regional level. In addition to the “Doing Business” rating, there are also improvements in Kazakhstan’s position in the “Economic Freedom” rating, as well as in the “Global Competitiveness” rating (Fig.25).

Figure 24. Doing Business



Source: CS MNE WB

Figure 25. International ratings

Period	Doing Business	Economic Freedom	Global Competitiveness
2019	28	59	59
2015	77	69	42
2010	63	82	67
2006	86	113	61

Source: CS MNE WB, WEF, HF

State support of SME

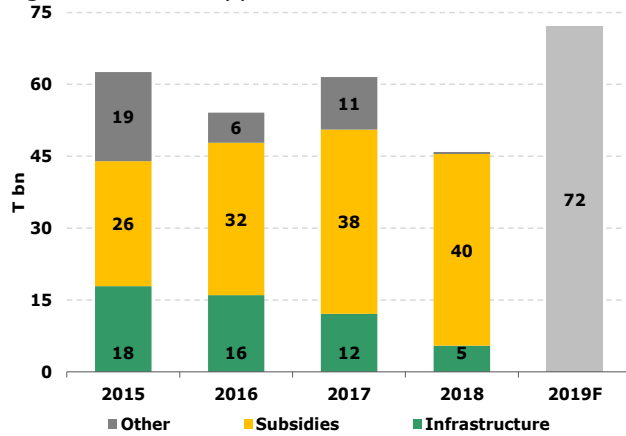
State support of small and medium-sized businesses in 2018 declined to T46 billion from T62 billion in 2017 (Fig.26). The reduction affected such items as providing SMEs with infrastructure and other items. The interest rate subsidies have steadily increased, reaching T40 billion, and grew by 50% since 2015, and now this support channel is the key, accounting for 87% among other support measures. In the current year, the volume of state support for business is increased to T72 billion in the framework of the Business Road Map 2020 program.

A new program "The Economy of Simple Things" is also launched, focused on the production of goods for the consumer market, for which T600 billion is envisaged, where it is also possible for SMEs to attract long-term financing at subsidized rates of up to 7%. Thus, the volume of state aid to small and medium-sized businesses will increase, meanwhile it is planned to extend the "Business Road Map 2020" for another five-year period. The form of support for SMEs also includes the tax amnesty held in the current year, which allow to write off penalties and fines on taxes amounting to T130 billion for 90 thousand taxpayers.

The target remains the ambitious task of achieving a 35% share of SMEs in 2025, and the entire growth of this indicator, according to the idea of government agencies, should be at the expense of medium-sized businesses – from the current 5.5% of GDP to 15% of GDP, while the share of small businesses already accounts for almost 23% of GDP.

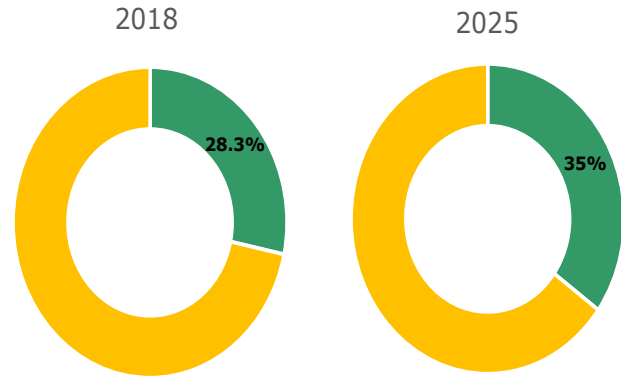
We believe that in order to increase the volume of production of medium-sized businesses, it is vitally necessary to seriously improve the operating conditions of this business segment, to stimulate organic growth of small enterprises to the level of medium ones, increase investment volumes several times, for example, in 2018 small business investments were 6 times higher than investments of medium sized companies, and the volume of investments of large enterprises exceeded them by 9 times. At present, the growth of labor productivity is observed both at small and medium-sized businesses, but this growth is driven by recovery after a slide in 2015 and 2016, and this factor has apparently already been exhausted. Whereas domestic and foreign markets can be conquered only through the production of popular competitive products, and independent of state subsidies. On this basis, it is important to promote export-oriented small and medium-sized businesses, including the expansion of interregional trade, which requires investment in infrastructure with the support from the state.

Figure 26. SME support



Source: CS MNE FinMin RK, Damu, HF

Figure 27. SME share in GDP target 35% in 2025



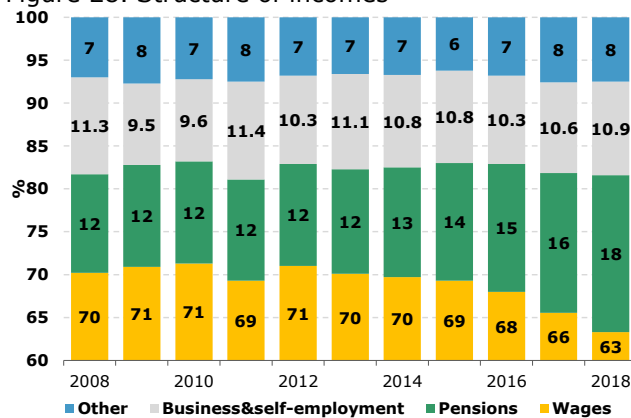
Source: CS MNE

Incomes from entrepreneurship

The share of income from entrepreneurship in the structure of income of the population slightly increased from 10.6% to 10.9% in 2018 (Fig.28), which is the highest figure in the last 5 years. At the same time, the general structure of incomes of the population does not look quite well, the share of income from wages has been falling continuously since 2012, when it was 71% versus 63% by the end of 2018, this reduction is partly offset by the increase in income from pensions.

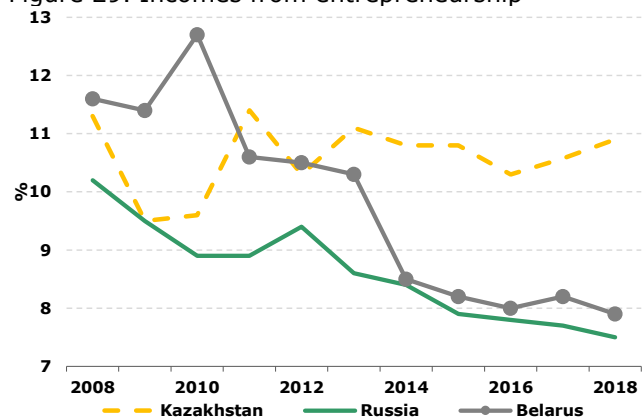
The current situation indicates the growing dependence of the economy on the budget and the weakness of the private sector. By the way, here we are faced with one of the paradoxes of the statistics of the SME sector in Kazakhstan – with a stable share of income from entrepreneurship at 11% on average over the past 10 years, the share of the SME sector in the economy grew by 70% from 16.7% in 2008 to 28.3% in 2018, which can be explained by low incomes in small businesses, where people are often forced to do business because they have no alternative of hired employment. The dynamics of the share of income from entrepreneurship, as already noted, was restored in 2017 and 2018 and reached an average annual level of 11% in 2018 (Fig.29), compared with the same indicator in Russia, where the share of these incomes fell to 7.5% in the structure of revenues from 10% in 2008 and Belarus, where it also decreased from 12% to 8%, the situation with business income in Kazakhstan looks better. However, it should be noted that the share of income from wages in the population’s income structure in Kazakhstan for the period from 2008 to 2018 fell much more strongly from 70% to 63%, while in Russia it decreased moderately from 68% to 66%, and in Belarus virtually did not change from 64%.

Figure 28. Structure of incomes



Source: CS MNE

Figure 29. Incomes from entrepreneurship



Source: CS MNE, stat.agencies

Outlook

The small and medium-sized business sector showed good growth rates, at an average of 9% in 2016-2018, and three times faster than GDP growth over the same period. Such strong performance against the background of significantly more modest economic growth rates and a very weak correlation on the industry level can indicate the impact on the growth of SMEs of the ongoing privatization of state property and some transit of certain entrepreneurs from the shadow economy, which can be regarded as a positive change. The achieved quite good growth rates of the economy at the level of 4% create good conditions for the development of SMEs, including at the expense of state support, which gives businesses access to long term resources at a reasonable interest rate. The allocation of T1 trillion in wage increases from the budget as part of a package of T2.4 trillion in additional spending on the economy over the next three years can be viewed as a powerful stimulus for the growth of the domestic market and, accordingly, SMEs because, unlike subsidies that receive only a few companies, demand will be distributed more evenly among the entire business. Although inflation has slightly increased recently, and risks of price rises in the consumer market on the horizon of one year have increased, the general trend for slowing inflation, in our opinion, will continue, opening up opportunities for continuing the policy of lowering interest rates, which, given sufficient liquidity in the financial market will increase the availability of borrowed funds, including for SMEs.

Appendix 1. SME in Kazakhstan and by country

	SME share in GDP	SME share of employed	SME per 000 residents (15-64)	Shadow economy, % GDP	SME, % of exports	SME, % of imports
Russia	22	30	28	34	-	-
Kazakhstan	28	38	22	33	18	62
Canada	58	58	35	9	30	37
Mexico	37	68	39	28	5	8
Brazil	50	62	23	35	15	-
Japan	50	53	37	8	54	-
USA	50	48	28	7	34	27
Ireland	39	72	78	10	35	67
Poland	51	68	64	17	47	52
UK	48	54	50	8	43	49
Hungary	54	70	83	21	48	50
Australia	55	68	98	8	5	-
Germany	55	63	45	8	33	45
Turkey	54	74	53	27	55	38
Czech	55	71	145	11	56	62
Slovakia	55	70	117	11	37	48
France	55	63	72	12	32	39
China	58	82	79	12	42	-
Finland	61	66	66	13	39	53
Denmark	60	65	59	15	56	68
Sweden	61	65	111	12	41	59
Spain	61	72	86	22	54	54
Austria	62	68	55	9	51	63
Netherlands	63	66	101	9	76	74
Italy	67	79	96	23	56	62
Norway	54	69	85	15	61	62
Latvia	69	79	91	17	68	83
Lithuania	68	75	101	19	82	71
Estonia	76	78	83	19	73	79
Greece	64	87	112	27	51	57

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