



Impact of COVID-19 on the key economic sectors of Kazakhstan

Opinion of market players

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Foreword



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KPMG in Kazakhstan
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Dear all,

I am delighted to present you with KPMG's survey on the impact of the spread of COVID-19 on enterprises of the key industries of the Republic of Kazakhstan.

According to the preliminary estimates of a number of economists, the current economic crisis may become the deepest since World War II. An abrupt contraction of sales markets and breaks in supply chains, the cancellation of flights and constraints on the free movement of citizens, as well as the large-scale transition to self-isolation and lockdown have resulted in a significant contraction of business in various industries.

A considerable decrease in demand for oil and the abortive OPEC+ negotiations (first and foremost, owing to the inability of Russia and Saudi Arabia to reach an agreement) resulted in a drastic fall in global oil prices. As oil storage tanks reach maximum capacity, against the backdrop of a surfeit of output, the trend of falling prices continues.

Certain countries (such as China and South Korea) have already ended quarantine and lockdown and have almost returned to the pre-crisis level of capacity utilisation in several industries. However, in many regions the virus is still spreading; at the same time, it is highly likely that the current decrease in demand and the likelihood of considerable changes in human behaviour globally will lead to a flatter (more protracted) trajectory before any return to pre-crisis levels around the world.

Falling global prices for oil and key metals, the cancellation of flights and the suspension of the operations of SMEs (small and medium-sized enterprises) during the lockdown may result in a significant drop in Kazakhstan's GDP and an exacerbation of the developing crisis in the Republic.

The current devaluation of the tenge is reducing consumer demand, but is at the same time enhancing the competitiveness of Kazakhstan's export-oriented industries.

Government support may slow the downturn. However, it is highly likely that the adverse macroeconomic factors taken as a whole (as is the case globally) will result in a recession and a protracted recovery period for enterprises operating in various industries. At present, the government has taken certain measures to support SMEs. However, our survey shows that big business also needs considerable state support to overcome the crisis.

According to our survey, many Kazakhstani enterprises managed to promptly and proactively respond to the new reality and transfer the bulk of their employees to remote work. These days, the majority of enterprises are reviewing their investment programmes, optimising their working capital, proceeding with the elaboration of anti-crisis plans and preparing to revise their development strategies.

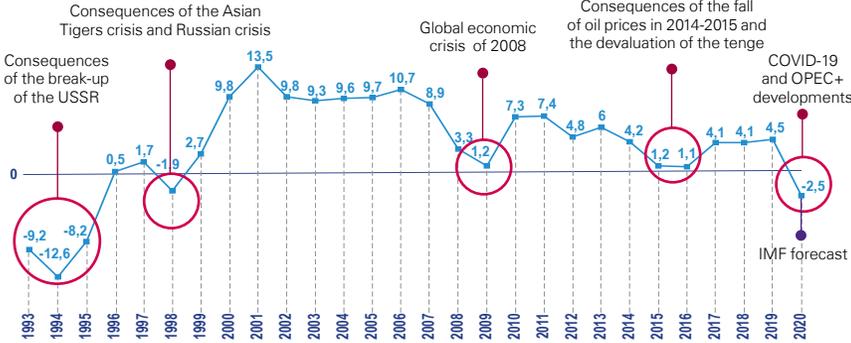
Respondents from the oil and gas industries gave incomplete/contradictory answers, which can be attributed not only to the impact of COVID-19, but also to the current turbulence in the global oil market. That is why we decided to omit this sector from our survey: it is highly likely that we will be able to present the sector's response to the current crisis in a subsequent report.

This KPMG survey is based on interviews with key players from various Kazakhstani industries. We have interviewed over 50 senior executives of the Kazakhstan business community. We extend our thanks to all the respondents for their valuable expert opinions without which this report could not have been prepared. We hope that you will find this document insightful for your daily work and for the adoption of strategic decisions.

After all, any crisis is a good reason to take a fresh look at the business development strategy and identify new opportunities!

The consequences of COVID-19 may have the biggest adverse impact on Kazakhstan's economy for the first time since the break-up of the USSR

Real GDP dynamics of Kazakhstan



Source: International Monetary Fund, KPMG analysis



For the first time since 1998, Kazakhstan forecasts negative real GDP growth



In April 2020, daily oil consumption decreased to the level of 1995



The budget transfer accounts for 20% of the National Fund's assets

GDP

According to the IMF forecast, the fall in GDP in Kazakhstan (in real terms) in 2020 will be (-2.5%) – against GDP growth in 2019 amounting to 4.5%. Kazakhstan's GDP may demonstrate negative dynamics for the first time since the crises caused by the break-up of the USSR in 1991 (crisis of 1991-1996), and also the Asian Tigers crisis and the Russian crisis (crisis of 1997-1998).

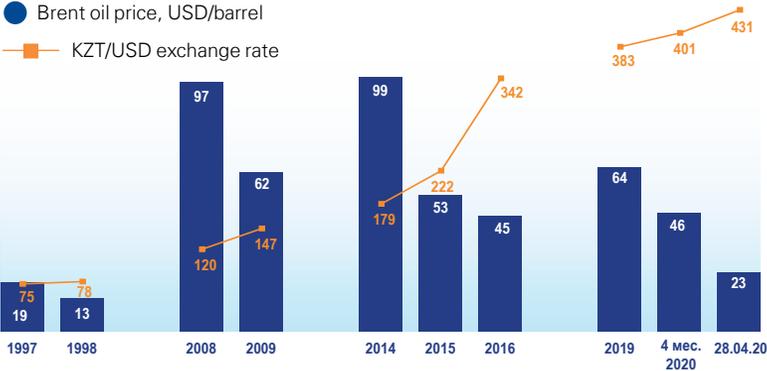
Oil prices and tenge exchange rate

The spread of COVID-19 and OPEC+ developments have had a considerable impact on oil prices and the tenge exchange rate. According to the estimates of the International Energy Agency, global oil demand in 2020 decreased because of the spread of COVID-19 by 9.3 million barrels per day (9%). In April, demand decreased by 29 million barrels per day – down to the lowest level ever since 1995.

State budget

On 2 April 2020, the Ministry of Finance of the Republic of Kazakhstan reported an increase in the state budget deficit from KZT 1.2 trillion to KZT 2.4 trillion, and also an increase in the transfer from the National Fund as budget revenue from KZT 2.7 trillion to KZT 4.77 trillion.

Tenge exchange rate dynamics and oil prices in recession years

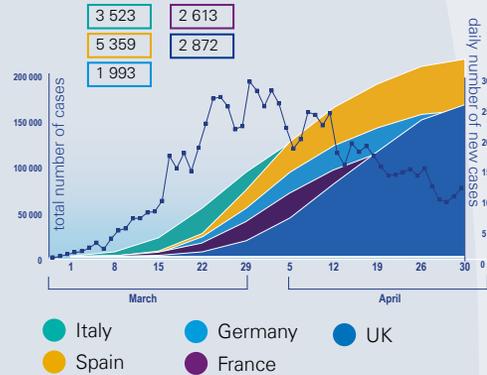


Source: National Bank of the Republic of Kazakhstan, International Energy Agency, KPMG analysis

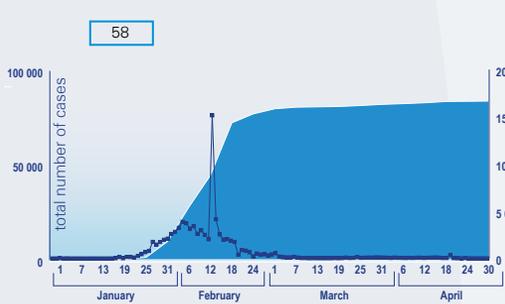
The lockdown in the Republic of Kazakhstan may last 7 to 12 weeks

Spread dynamics of COVID-19

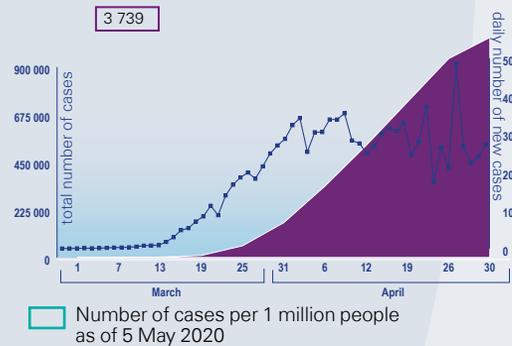
Europe



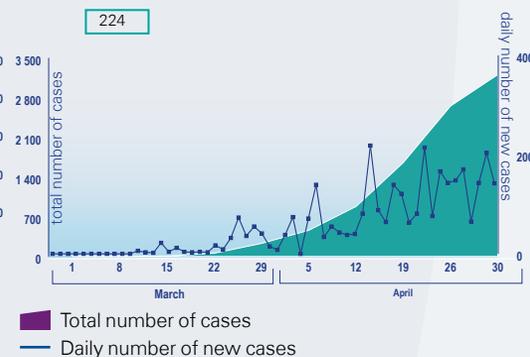
China



USA

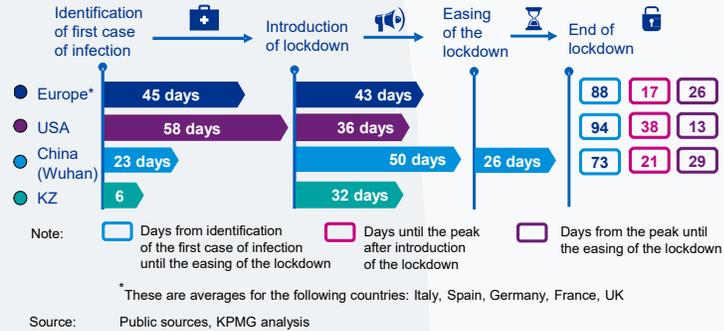


Kazakhstan



Source: EU open data portal, Worldometer, KPMG analysis

Quarantine, days



The duration of the lockdown and return to normal economic activity rate depend on three key drivers:

Speed of response after identification of the first case of infection

The experience of South Korea and Singapore indicates that the opportunity to avoid a strict lockdown is contingent on prompt large-scale testing, extensive tracing of the infected and contact persons and elective self-isolation. However, in the case of other countries which failed for some reason to implement this scenario, the only efficient way of curbing the pandemic is to introduce a national quarantine and lockdown. If a lockdown is introduced, the key issues concern its timeliness, scale and severity.

Efficiency of compliance with lockdown (if introduced)

The lockdown regime and severity of the measures vary depending on the country. As a rule, compliance with such measures is subject to administrative liability, while in certain countries (USA, Japan, Ukraine, Belarus), the lockdown measures are only recommendations.

Consistency and careful approach to the lifting of the lockdown (if introduced)

In many countries, the easing of the lockdown includes a step-by-step recovery plan and selective measures that are applicable if there is a decline in the rates of spread of COVID-19 and the burden on the healthcare system. That said, the first stages of the easing of the lockdown do not apply to public catering and consumer and entertainment services which may lead to mass gatherings.

Release from lockdown

Based on the experiences of other countries:

- 10-13 weeks pass from the registration of the first case of infection until the easing of the lockdown
- about four weeks pass from the peak of infection until the easing of the lockdown

As reported by the Minister of Health of the Republic of Kazakhstan E.A. Birtanov, Kazakhstan is now experiencing the peak of the Coronavirus outbreak. Effective 27 April 2020, the operations of enterprises in various industries have partially resumed in all regions, and from 1 May – in Shymkent.

Therefore, the estimate period of the gradual release from lockdown in Kazakhstan is between 8 May and 15 June.



Key conclusions (1/2)



1

It is highly likely that the current situation with COVID-19 will result in the onset of one of the deepest crises in Kazakhstan since the break-up of the USSR, as COVID-19 has caused a global economic crisis whose scope is still difficult to fully assess.



2

Based on the comparative analysis with other countries, the lockdown period in Kazakhstan may last 2-2.5 months.



3

In today's market, the most vulnerable industries are SMEs, non-food retail, aviation, oil and gas, mining, transport, the power and utilities sectors.



4

Measures to reduce administrative expenses have been taken by 74% of respondents. About half of respondents are working proactively on optimising procurement (restructuring of accounts payable, optimisation of logistics, reviews of order books, and the deferral of some procurements to a later date).



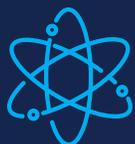
5

Companies operating in all sectors of the economy (other than telecoms) have put on hold implementation of capital-intensive investment projects or are considering "less costly" options for the implementation of such projects.





Key conclusions (2/2)



6

Most market players are developing and deploying an anti-crisis action plan and intend to revise their development strategy. Virtually all companies are focused on the accelerated digitisation of their sales channels, and interaction channels with clients in the near future.



7

The representatives of major Kazakhstani businesses consider the announced government support measures to be insufficient and expect assistance in the form of tax breaks (including VAT refunds to export-oriented enterprises and companies operating in the aviation sector), the reimbursement of some expenses and preferential loans.



8

About 86% of respondents believe that a gradual return to pre-crisis positions will occur no earlier than in three to four quarters (or later), which suggests that the consequences of the crisis may also be observed in 2021.



9

The crisis will lead to significant changes in behavioural responses and the need for the government to rethink approaches to maintaining health safety. In addition, the crisis will result in a significant change in the business landscape and adjustments to strategic goal setting by both the government and business.



10

The devaluation of the tenge caused by falling oil prices and decreasing demand for base metals will have an adverse impact on consumer demand, but will also strengthen the competitive positions of enterprises operating in the export-oriented industries of Kazakhstan.



Respondents cited as one area of change in their development strategies a focus on the accelerated digitisation of their businesses and sales channels in the near future

 **58%**

of surveyed companies are revising their strategic development plans for the next few years owing to the situation caused by COVID-19.



In the current conditions we are rapidly upgrading processes and deploying new solutions. What used to take several months is now being done far more quickly.

Participant in the financial sector

The current COVID-19 situation has enabled us to identify optimal forms of interaction. This is an incidental benefit for the further digitisation of all corporate processes.

*Viktoria Rassvetalova,
CFO, Sanofi-Aventis Kazakhstan LLP*

COVID-19 has once again confirmed that digital sales channels (such as digital social media marketing) are not only the future, but also the present of our industry. No one knows how long the lockdown will last and how investors' habits will change, but one thing is clear: the online world will prevail over offline.

*Nurdaulet Aidossov,
Chairman of the Board of Directors, Jysan Invest JSC*

The COVID-19 pandemic has led most companies to revise their strategic development plans



Food retail (Food Ret.)

The retail sector and food manufacturers are focused on reducing the product range and concentrating on the lower-price segment due to an anticipated reduction in purchasing power.

The retail sector is extensively developing online stores for product orders.



Aviation sector (Avia)

Airports are revising their commercial space management strategies (prioritising major players over SMEs) and are also considering the possibility of greater focus on freight transportation.



Financial sector (Finance)

When extending loans, banks intend to focus more on the stability of the sector in which the borrower operates.

Financial entities have shifted the focus to the accelerated creation and development of Digital products.



Real estate (RE)

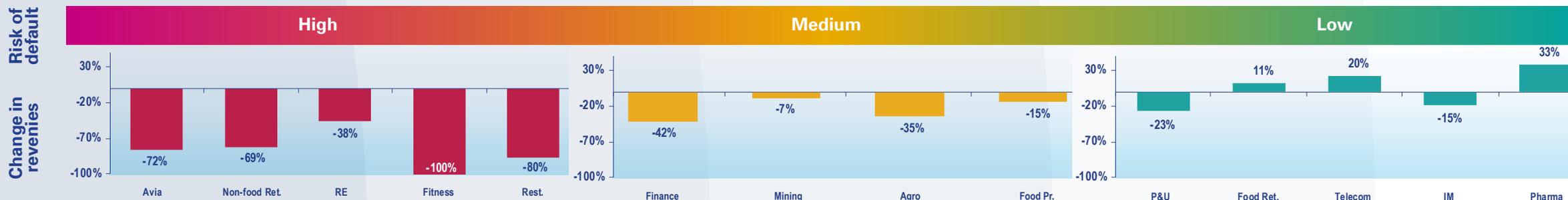
Real estate companies managing shopping and entertainment centres

are revising their marketing strategies to include a focus on social distancing and safety.

Legend (on this page and subsequently):

- Financial sector – Finance
- Mining sector – Mining
- Power and utilities sector – P&U
- Agricultural sector – Agro
- Aviation sector – Avia
- Food retail sector – Food Ret.
- Non-food retail sector – Non-food Ret.
- Telecommunications – Telecom
- Real estate – RE
- Industrial markets (manufacturing) – IM
- Food production – Food Pr.
- Pharmaceuticals – Pharma
- Restaurant business – Rest.
- Fitness – Fitness

COVID-19 has mostly affected the revenues of companies operating in the aviation, fitness, restaurant and non-food retail sectors



Aviation sector

- The cancellation of passenger flights has had a material impact on the revenues of airports and airlines.
- Airlines have increased the share of freight carriage, thereby partially offsetting significant losses resulting from the introduction of the lockdown and the restrictions on passenger carriage.
- Competition has significantly tightened among major airports when it comes to arranging transit flights.

Real estate

- The investment real estate sector is "frozen".
- Transactions with real estate, and also infrastructure and housing development programmes have been suspended.
- Construction projects have slowed because of delays in supplies and bureaucratic hurdles with the registration of real estate caused by the closure of public service centres.
- Shopping and entertainment centres were closed during the lockdown.
- Remote working is likely to lead to reduced demand for office space. At the same time, the residential real estate sector is anticipating increasing demand to take into the account the need for people to work from home (there will be significant demand for home offices in flats).

Non-food retail, Restaurant business and Fitness

- These sectors turned out to be among the most affected sectors. To partially offset lost revenues, non-food retail companies and restaurants are extensively developing online order and delivery services.
- As these sectors are primarily represented by SMEs with the lowest safety margin, bankruptcies of companies operating in these sectors are anticipated, and also a decrease in the number of branches of the companies that survive.

Financial sector

- A significant decline in fee income and decrease in interest income owing to the restructuring of loans.
- Increase in demand for forex transactions.
- Increase in demand for brokerage services against the backdrop of uncertainty about the prospects of the stock exchange.

Mining sector

- Revenues dynamics have varied: base metals manufacturers have recorded decreased revenues caused by falling metals prices, whereas precious metals manufacturers have witnessed corresponding growth.

Agricultural sector

- Insignificant decline in revenues in the poultry farming and cattle production sectors caused by the closure of catering outlets and hotels.
- Rising demand for frozen poultry and beef via retail trade channels. It is forecast that production will increase to cover the proportion of poultry imports in the Republic of Kazakhstan.
- Decrease in revenue in the grain product sector caused by a decline in demand for exports and non-competitiveness of prices on the domestic market.

Power and utilities sector

- Decrease in revenues caused by the closure of SMEs for the lockdown period. Demand from oil & gas and mining companies is expected to decrease owing to falling oil prices and the decrease in demand for base metals.
- Market players are actively discussing with the regulator the possibility of a revision to tariffs to offset losses caused by the existing tariff pricing mechanisms.

Telecommunications

- Restrictive measures on movements and the transition of companies to remote work have contributed to the rising revenues of home Internet and communications service providers.
- Companies lose income on the connection of new subscribers.
- Several players have implemented a number of initiatives on the orders of the public authorities to provide free communications services to health workers, and also to support socially vulnerable groups. Players have noted that such actions may lead to decline in the profitability of the business.

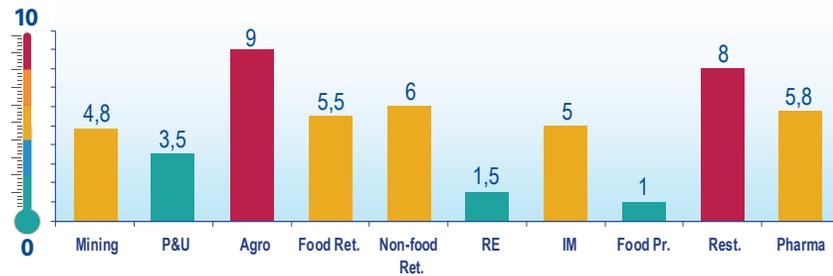
Pharmaceuticals

- Rise in revenue caused by a temporary increase in demand for medical protective products from manufacturers and for some non-prescription medicines from pharmaceutical companies. Players note state regulation of pricing for such products.
- Demand for certain product categories (beauty and auxiliary products) is expected to decline.

The pandemic has affected the supply chains of raw materials, goods and services in almost all key industries in Kazakhstan



To what extent has the COVID-19 pandemic affected the supply chains of raw materials, services and goods?



Score from 0 to 10, where 0 – no impact, 10 – material impact

Mining sector

- Equipment is held up at bonded warehouses.
- There are certain difficulties with timely supplies of consumables. However, to date production has not been affected.
- There has been a perceptible need to ramp up inventories of consumables and reagents to continue the operation of production lines.

Power and utilities sector

- Suspension on supplies of imported components and spare parts for implementation of the scheduled maintenance programme.
- Fuel is supplied as scheduled.

Agricultural sector

- Difficulties with imported raw materials supplies and goods; no alternatives on the local market.
- It is impossible to travel between cities and regions to collect seeds.

Food retail sector

- Broken supply chains from CIS countries.
- There has been a perceptible decrease in the range of goods on the shelves.
- Suppliers and distributors have to urgently respond to the need to replenish supplies of essential goods.

Non-food retail sector

- Distributors based in regions are subject to access restrictions to cities.
- Supplies from China are limited to railway deliveries.

Industrial markets (manufacturing)

- Difficulties with component supply deadlines.
- A decline in sales and increase in costs may result in defaults before distributors if there is a protracted delay in the resumption of financing provided to purchasers by leasing companies.



The paralysis caused by the worldwide lockdown will without a doubt reduce demand significantly for any products, thereby delaying supplies of any raw materials and stock.

Yersain Khamitov, Member of the Board of Directors of JSC Baiterek National Management Holding

Real estate

- Slowdown in construction caused by delayed supplies and obstacles with the registration of real estate in connection with the closure of public service centres.

Restaurants

- There have been no perceived difficulties with supplies from other countries, but movement inside the country is complicated.
- Optimisation of procurement through the creation of a single centre.

Pharmaceuticals

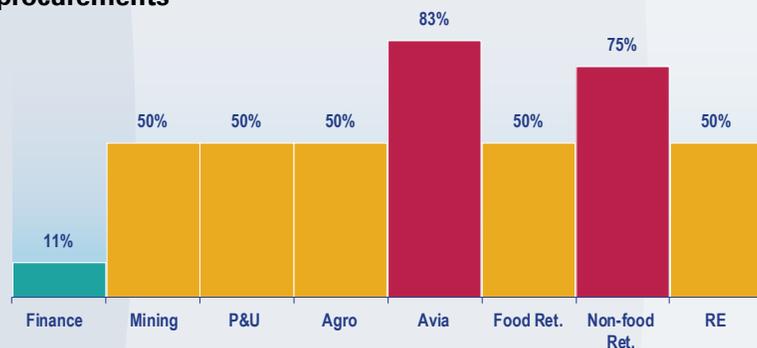
- Stock is purchased from abroad. Accordingly supplies at the start of the lockdown were interrupted. Work is under way to restore supplies and coordinate them with the legislative authorities.
- Increase in prices of medical stock from China.

A decrease in payroll and procurement restructuring are the most common short-term stabilisation tools



▶ What steps have been taken to support the company's sustainability?

Share of respondents who cited the optimisation of procurements



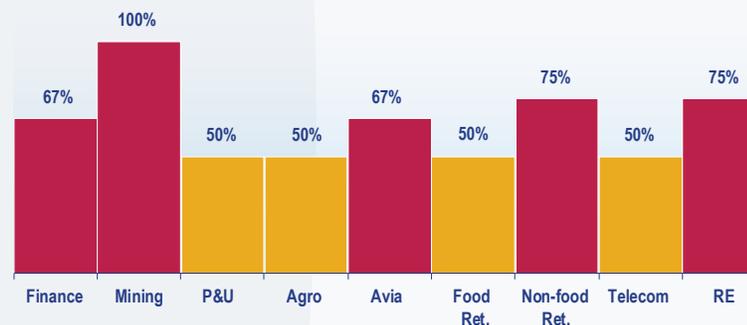
In total, 48% of respondents optimised their procurement structure. Companies focused on procurements of key goods and materials and temporarily suspended the acquisition of secondary products.

About 67% of non-food retail companies are restructuring their accounts payable by:

- agreeing to payment deferrals;
- carrying forward a portion of current supplies;
- postponing delivery deadlines.

Representatives of major food retailers said that they had optimised logistics chains by making the transition to sourcing several alternative local suppliers and creating micro supply chains.

Share of respondents who cited a reduction in general and administrative expenses



In total 70% of all respondents reduced their administrative expenses, including business trips, advisory, marketing, training and payroll expenses (about 53% of respondents).

Market players are revising their remuneration systems (by increasing the variable portion), reducing the salaries of employees working remotely and placing a number of their employees on paid vacation and unpaid vacation. The payroll cost reduction measures have been prevalent primarily in the aviation, finance and retail sectors.

Certain companies are proactively negotiating with their landlords and achieving 1-2 month rent holidays or reduced rents during the lockdown. Airports are closing down a portion of their buildings to reduce utilities expenses.



It's time to reduce costs and make changes to the development strategy in line with the new realities of the digital business.

*Yersain Khamitov,
Member of the Board of Directors of
JSC Baiterek National Management Holding*

The current situation is a good reason to review business processes and update some processes that have become inefficient.

Participant in the real estate sector

Other measures

In addition to the procurement optimisation and cost reduction measures, companies are trying to adapt to changing demand: airlines are using passenger aircraft to carry small freight, while airports are trying to attract more freight traffic. However, as all passenger carriage has been cancelled, these measures are insufficient to support the aviation sector for a lengthy period. Certain companies intend to restructure outstanding loans. Banks are limiting the disbursement of loans and are increasing interest rates on deposits to improve their liquidity.



Optimisation of payroll expenses during the COVID-19 outbreak is typical for the aviation, financial and retail sectors



What changes have you made to optimise headcount and payroll?

Has your company transferred its employees to remote work and has the IT department encountered any difficulties in this respect?

Change, %				
Average headcount*	-24%	-20%	-16%	-2%
Salary	-46%	-25%	-19%	-2%

Note: (*) The average headcount is the average number of employees, except for employees on paid vacation, including on unpaid vacation

Payroll optimisation measures primarily included placing employees on paid vacation and unpaid vacation, and also salary optimisation in accordance with a decrease in working hours. None of the respondent companies have cut staff.

Such optimisation measures were taken primarily in the aviation, financial, mining and retail sectors.

Several surveyed companies have reallocated employees to functions with a higher priority, with the retention of jobs. For example, in the telecommunications sector sales employees have been transferred to call centres, while in restaurants waiters have re-qualified as couriers.



Aviation sector

Flight operation services and aircraft crews were placed on paid vacation and unpaid vacation, if they had no accumulated days. The payroll system was also optimised as result of a reduction in working hours.



Retail

In the retail sector, salaries were decreased in proportion to the decrease in working hours, and employees who were not employed were placed on vacation.

In the non-food retail sector, the bonuses of sales agents linked to the attainment of sales targets have been reduced.



Financial sector

Most banks have decreased salaries in proportion to reduced working hours up to a limit of 25%. According to certain market players, the decrease was done in line with employee grades, with the highest proportion for senior management. Only a few respondents cited possible redundancies of employees in auxiliary functions.



Mining sector

In the mining sector, there were insignificant salary reductions and the placement of some employees on vacation.



The power and utilities sector is strategic, and the crisis has had a limited impact on power consumption. People work in dynasties in our industry, as a result, downsizing is not typical in this sector in general.

Participant in the power sector

Many companies have switched to remote working for the first time



After the introduction of the lockdown, all companies implemented a complete or partial transfer to remote working (primarily in the case of administrative staff). Operating staff has continued working on sites.

Market players cite difficulties in tracing labour productivity in the absence of efficient controls.

Companies that were unprepared for the transfer to remote working have urgently arranged for the acquisition of the required equipment.

According to certain respondents, in future they intend to consider the practicability of permanent remote working for some functions, thereby optimising rental costs.

In general, during the transfer to remote working, IT divisions and the IT infrastructure of companies have not experienced significant loads.

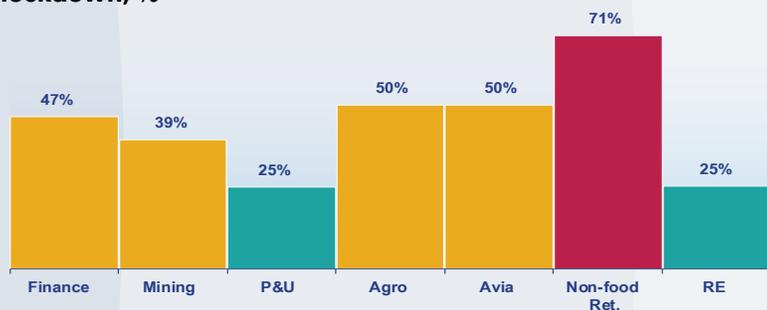
Some companies have delivered training courses on how to work efficiently remotely and on information security.

Investment projects have been revised substantially in all industries



What steps have been taken to support the company's sustainability? (continued)

Reduction in costs on investment projects during the lockdown, %



We had plans regarding investment projects, including access to international markets. However, owing to COVID-19, these plans have been put on hold due to uncertainty.

Participant in the real estate sector



of the surveyed companies either suspended or postponed planned investment projects:

54%

- Airports have only retained current projects related to the restoration of infrastructure that they have found hard to restore before due to high traffic density.
- 66% of the companies in the non-food retail sector have put their expansion plans on hold. The remaining companies will implement projects with a reduced budget to make savings.
- Companies in the mining sector have suspended capital-intensive projects and are revising their current capital expenditure plans.
- Virtually all banks have suspended or postponed major projects until next year.
- Agribusinesses have also suspended major project as they have found it difficult to obtain finance and are experiencing a fall in revenue.
- Real estate companies running shopping and entertainment centres have completely suspended expansion plans until the recovery of the industry.
- By contrast, telecommunications operators report that they have to upgrade their infrastructure due to the high usage of their networks.



We are optimising the budget and asking suppliers who can agree to a price reduction; if the price is still too high, we hold unscheduled tenders.

Participant in the pharmaceuticals sector

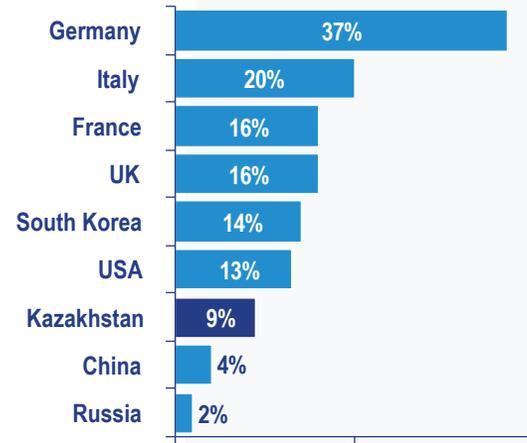
We are adjusting our investment programme and are only implementing projects that we must accomplish in accordance with localisation requirements. At the same time, we are optimising costs, cutting marketing expenses, pooling our efforts with other producers, and thoroughly reviewing our dealer network.

Participant in the mechanical engineering sector



Proactive government support is the only way to keep the economy afloat

Government support as a result of COVID-19 as a share of 2019 GDP



Note: The above data include the measures reported as at 27 April 2020.
Source: Public sources, KPMG analysis

~USD 14 billion

- Deferred repayment of loans issued to the public.
- Preferential loans and payment deferrals on loans to SMEs.
- Exemption of some groups of companies from property tax, land tax and income tax.
- Cash payments to the self-employed and other people who lost their jobs due to the pandemic.
- Funding of spring planting and procurement in the agricultural industry.

~USD 3 trillion

USD 500 billion in financing to enterprises affected by the pandemic; USD 350 billion in credits to small businesses to enable them to pay salaries to employees during the pandemic, which are subsequently transformed into grants if the number of staff remain unchanged; USD 250 billion in the extension of unemployment insurance cover; and USD 500 billion in one-off payments to citizens with an annual income of under USD 75,000.

~USD 1.4 trillion

Postponement of tax payments for SMEs, expanded child care allowances and social security benefits for the self-employed; payment to employees who were made redundant of up to 70% of their salaries; issue to companies of bank loan guarantees in total for more than USD 433 billion, the financing of companies, state purchase of the shares of the companies affected most by COVID-19.

~USD 760 billion

Suspension of payments on loans and mortgages for enterprises and the public; additional guarantees on loans to SMEs; funding and partial compensation of losses to companies affected by the pandemic; compensation to the unemployed.

~USD 610 billion

USD 398 billion: investments in infrastructure; USD 71 billion: caps on loans to SMEs; USD 50 billion: crediting of institutional banks (EXIM, ADIBC); tax concessions for the medical sector and logistics companies.

~USD 450 billion

Government guarantees on loans to SMEs, which equalled USD 325 billion, compensation to those who were made redundant; payments to affected enterprises; postponement and cancellation of a taxes and contributions.

~USD 400 billion

- Interest-free loans to SMEs, corporate finance to large enterprises, which constitutes the government's promise to buy short-term promissory notes from companies that are in good financial standing and have a high credit rating, but need help to increase cash flows.
- Payment of 80% of salaries to employees unable to work due to the pandemic.

~USD 200 billion

USD 23.5 billion: crediting of SMEs; USD 16.1 billion purchase of corporate bonds and the shares of companies on the verge of default; USD 29 billion to exporters; USD 14.3 billion in additional measures to maintain domestic demand; USD 75 billion in cash payments to everybody other than wealthy families.

~USD 30 billion

Deferral of tax payments (other than VAT), payment of social insurance and other payments to individuals for SMEs, maturing in four or more months.

Support of big business. Example in the power sector.

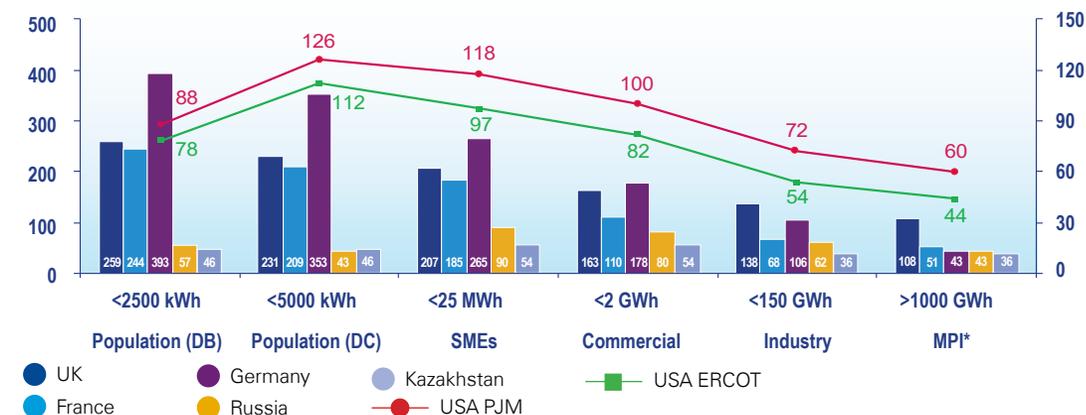


▶ **A completely transparent tariff regulation enables the government, business, the public, and the entire investment community to effectively manage various industries and knowingly achieve set goals, avoiding unnecessary imbalances**

Pricing specifics in developed countries

- **Concessions for energy-intensive industries** (consuming 1,000 to 10,000 GWh per year): deliberate tariff policy designed to support competitiveness ensures that the prices of the aluminium, petrochemical and metal industries are kept at the level of USD 40-60 per 1 MWh, including concessions of up to 90-100% on the payment of Surcharges and Charges, discounts on transmission, and the lifting of restrictions on own generation to ensure competitiveness on global markets. Germany has one of the most developed preferential pricing systems for energy-intensive industries, which include the petrochemical, pulp-and-paper, steel-making and other industries.
- **Balance of interests of strategic development and accessibility:** countries with high prices for individuals and legal entities ensure low prices for energy-intensive industries. The fundamental difference between the EU and US models is that the surcharges and charges are allocated to a separate category of costs, which ensures:
 - **The transparency of the accounting and assessment of the efficiency** of the subsidy programme for the regulator and market players.
 - **Retention of network tariffs** free from surcharges.
 - **Pricing flexibility** driven by the possibility of the redistribution of surcharges and fair allocation of the burden (the user is the party that pays). Classification of subsidies for renewable energy sources (RES) as Surcharges and Charges and the granting of benefits related to the payment of cross-subsidies and transmission for energy-intensive industries.

Electricity prices in the Republic of Kazakhstan and in global markets in 2018, USD /MWh



Note: *MPI – Major energy-intensive industries
 Source: Statistical Office of the European Communities (EUROSTAT), EIA, KPMG analysis

In leading countries, the government provides support to large export-oriented energy-intensive consumers (big businesses) which compete as a rule on international markets. A flexible and transparent regulatory system ensures the attainment of the approved development indicators of both utilities and systematically important companies of a country's economy. It is well known that big businesses are the largest employers. As a result, a key priority of the government is to support big businesses. Kazakhstan should learn from the experience of advanced countries in this sphere and implement global best practices to expedite economic recovery and overcome the crisis caused by COVID-19, and ensure sustainable development of the national economy in the long term.

At present anti-crisis measures focus primarily on support for SMEs. However, big business also needs government support



What steps have been taken by the government to support the industry's sustainability?

Anti-crisis measures have largely concerned SMEs. So far, big business has not received government support other than targeted aid to food retail and large shopping facilities. However, a significant number of big businesses have sent a request to the Ministry of National Economy of the Republic of Kazakhstan for tax concessions as government support. Tax breaks, in particular, concessions related to payroll taxes and preferential loans have become the main support tools for SMEs.



Food retail

The VAT on staple consumer goods has been reduced for all food supermarkets from 12% to 8% until 1 October 2020. This measure has enabled market players to adopt more flexible pricing policies and drive up demand.



Aviation

Airports classified as SMEs were provided with preferential loans and benefits for employees on leave without pay. In the case of other airports, no government support has been provided. However, the government is considering tax breaks, subsidising expenses and issuing preferential loans to businesses other than SMEs.



Financial sector

Banks have been provided with state finance to offer preferential consumer loans and preferential loans to SMEs in the priority sectors of the economy. Other financial institutions (e.g. brokers, investment companies) do not expect to receive government aid.



Real estate

All large shopping facilities, shopping and entertainment centres, cinemas and sports facilities have been exempted from the payment of property tax. This expense item is material for shopping and entertainment centres, while participants on the real estate market are positive about this exemption.



As a state-owned airport, we have suffered losses of aviation revenue, but also non-aviation revenue, providing rent free periods for our lessees and advertisers from SMEs. We expect the government to support us by providing partial compensation in the form of tax exemptions and the refinancing of current loans.

*Daulet Khamzin,
Vice President, International Airport, Nur-Sultan*

The restaurant sector employs 350,000 people, many of them have specific technical education. Where will they go?

*Almas Abdygapparov,
Founder of Parmigiano Group*

The government has imposed restrictions on the export of grains and flour for the period of the state of emergency, after reallocating up to 30% of planned grain crop exports to the domestic market. This restriction will reduce the company's revenue.

Participant in the agricultural sector

Without government support in the form of long-term loans to the construction sector, this sector will experience a long period of stagnation.

*Zhiger Suleimenov,
CEO of TSSP Kazakhstan*

The global economic crisis is the main cause for concern of respondents

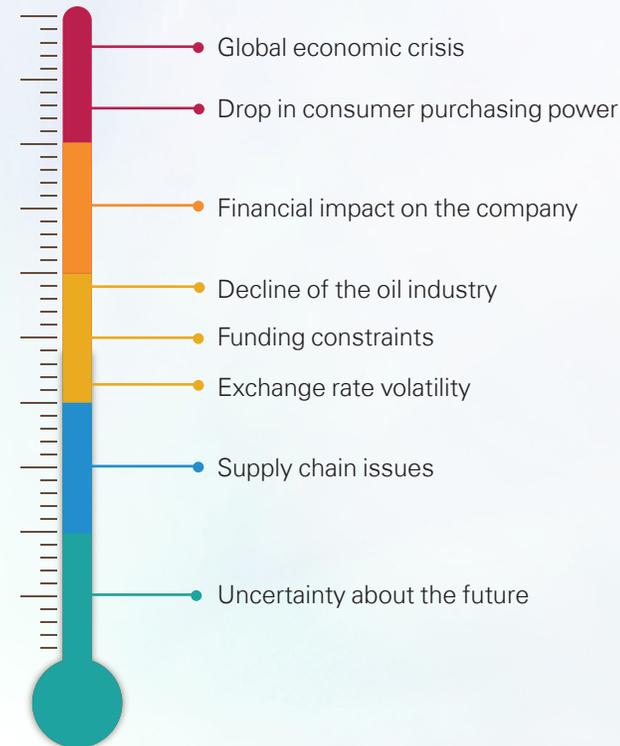


Correspondents were asked to rank issues of greatest concern with respect to COVID-19


~60%

Around 60% of respondents cite the global economic crisis as the issue of greatest concern.

More concerned with



Less concerned with

Source: KPMG analysis



“A fall in consumer purchasing power will cause consequences which will affect all economy sectors. The global economic downturn is a consequence of a fall in consumer demand. Uncertainty about the future prevents companies from developing in the current environment and making plans. In banking, one can expect a slowdown in lending and an increase in provisions.”

*Galim Khussainov,
Chairman of the Board of JSC Bank CenterCredit*

“The uncertainty is daunting. We do not know when and how the lockdown measures will be lifted. Some people say it will be in mid-May, others talk about the end of June, while others reckon that it will be at the beginning of autumn. With such uncertainty, it is hard to plan and structure production goals and objectives.”

*Daulet Khamzin,
Vice President, International Airport, Nur-Sultan*

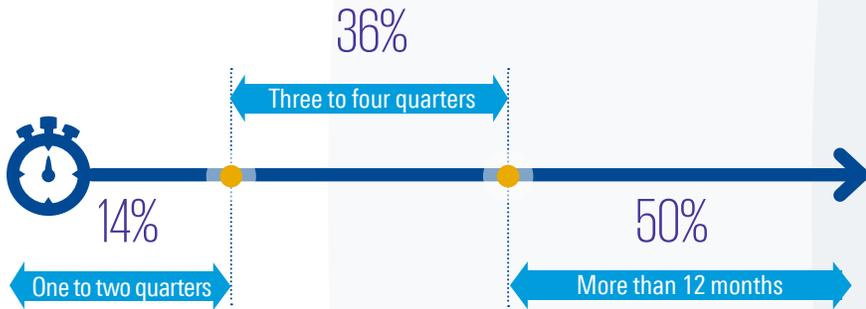
Gold will be in demand as people look for a safe haven.

*Nariman Absametov,
Director, Investment Department at JSC NMC Tau-Ken Samruk*

86% of respondents believe that a gradual return to pre-crisis positions will be achieved no earlier than three or four quarters or later



▶ **How long do you believe that it will take industry to recover after the situation with COVID-19 has passed?**



▶ **How do you think industry will develop over the next 12 months considering the current situation with COVID-19?**



The prices of basic metals such as zinc and copper, which depend on global production, are forecast to rise by the end of the year.

Nariman Absametov,
Director, Investment Department at
NMC Tau-Ken Samruk JSC

It is important for our factory to keep manufacturing regardless of the difficulties of production or prices of raw materials, as someone's life depends on us.

Yelena Lee,
Chairman of the Board of Directors, Dolce Group
(producer of disposable medical products)

The interchange income from the card business of all banks will fall 80% to 90%. The world will have to learn to live in the new reality, and this lockdown will have a significant impact in the long term in principle on the entire banking infrastructure and the ecosystem at large.

Alia Yeszhan,
CEO, Premier Banking Forte Bank JSC



The development of the power industry over the next 12 months is tied to a review of power tariffs and the introduction of a rate of return of 12%. Different industry development scenarios depend on whether the increase in the tariff is approved in the middle of this year.

Power and utilities sector market participant

Social distancing between passengers in airplanes will affect utilisation of aircraft, which will in turn have an impact on the price of a plane ticket.

Ruslan Gabbasov,
Managing Director, International Airport in Karaganda

Normally, the summer is the low season for the fitness industry. So we expect this industry to recover at some point in the autumn. However, at present people stay at home. Subsequently, they will probably travel less by air and may begin taking care of their health and body, and go to gyms in the summer.

Zhasulan Asanuly,
Fitness Director, Invictus Astana

Recommended to-do list - consequences of COVID-19



To-do list on the sequences of actions to take to retain and restore the economic activities of businesses



Turbulence

Current issues that require immediate attention



Stabilisation

Steps to maintain a sustainable business



Recovery

Steps to gradually resume normal the operations of the enterprise



Rethinking of business

Introducing changes to work in the «new normal» environment

	Employees	Suppliers	Clients	Finance
Turbulence Current issues that require immediate attention	<ul style="list-style-type: none"> — Continuous communication with employees. — Observance of robust health and safety regulations at workplaces. 	<ul style="list-style-type: none"> — Assessment of current demand and adjustment of the rate of orders. — Possibility of payment deferrals. 	<ul style="list-style-type: none"> — Flexibility and loyalty to regular customers. — Clear communication of on-site health and safety regulations; any changes in business activities (hours, places, expected delivery time, product launch deadlines). 	<ul style="list-style-type: none"> — Cutting of incidental expenses. — Review of inefficient remuneration plans.
Stabilisation Steps to maintain a sustainable business	<ul style="list-style-type: none"> — Remote project management in several locations. — Creation of a cross-functional management team to assess damages caused by the pandemic to business of the company and ensure post-pandemic damage control. — Clear goal setting for personnel. 	<ul style="list-style-type: none"> — Identification and replacement of inactive/ineffective links in the supply chain. — Reduction in the stock level to release working capital. — Provision of support to key suppliers experiencing difficulties with liquidity (loans, injection of working capital). 	<ul style="list-style-type: none"> — Creation/development of remote selling. — Face-to-face communication with clients. — Ensuring safety for clients. 	<ul style="list-style-type: none"> — Reduction in payments to key management personnel. — Focus on high-demand and high-margin goods. — Review of inefficient lengthy business processes.
Recovery Steps to gradually resume normal the operations of the enterprise	<ul style="list-style-type: none"> — Flexible sick leave system.. — Provision of more freedom and flexibility for employees to perform their work. 	<ul style="list-style-type: none"> — Development of a supply chain and levels of inventory with due account of restored links and established demand. 	<ul style="list-style-type: none"> — Tailoring of offers to cater for the current needs of the buyer. — Establishment of methods to obtain quick feedback. — Assessment of emerging opportunities to expand the customer base using empty niches. 	<ul style="list-style-type: none"> — Focus of the investment strategy on basic business goals and areas delivering maximum growth. — Focus on large-scale sales pipelines, adopting a delicate and non-aggressive marketing approach.
Rethinking of business Introducing changes to work in the «new normal» environment	<ul style="list-style-type: none"> — Identification of stand-ins for key professionals. — Development of emergency task delegation plans. 	<ul style="list-style-type: none"> — Building of trusting and transparent relationships with several alternative suppliers. — Creation of scalable micro supply chains with production located close to the points of sale. 	<ul style="list-style-type: none"> — Revision of customer loyalty programmes. — Elaboration of receivables management plan. 	<ul style="list-style-type: none"> — Strengthening of IT infrastructure and cybersecurity. — Review of the cost structure in favour of variable costs. — Review of the pricing structure. — Development of a flexible management

Instant transition to a more distributed business that can adapt rapidly to any changes is the beginning of structural transformations which will considerably change the business environment on a global basis

KPMG has life jackets and face masks



▶ **KPMG can leverage a wide range of market opportunities, drawing on crisis management and restructuring professionals and experts in all production and functional areas as and where necessary**



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Since 2008, **KPMG's** restructuring team has participated in more than **170 engagements** with a total indebtedness of more than **USD 70 billion**.



The KPMG team has **extensive experience in various sectors of the economy** and has an understanding of the **key risks**.



The KPMG team has participated in the largest restructuring projects in CIS, including **Mechel, Rusal, DTEK, ChelPipe and Utair**.



KPMG has established relationships with **key international and local investors**, which enables us to cover the entire range of investors in the quickest possible way at the marketing stage. **KPMG** is well aware of the strategies, requirements and expectations of potential investors, and is able to structure negotiations so as to obtain the most favourable terms of a deal as possible.



The KPMG team constantly works with Kazakhstan's largest banks and international banks and financial institutions.



Interesting quotes from market players (1/2)



▶ COVID-19 as a business development driver and more

“What can be good about the crisis? For the first time people thought about the opportunities open to them; they can develop themselves, begin fasting (once per week, for example, on Sundays they don't have meals from 8 AM to 8 PM – they only drink water. Well, this is a real science, one has to take a gradual approach...).

Zhasulan Asanuly, Fitness Director, Invictus Astana

The world will wake up completely different, we will see far more online technologies, business processes will be restructured.

*Yelena Lee, Chairman of the Board of Directors,
Dolce Group (producer of disposable medical products)*



▶ Impact of COVID-19 on revenue, the supply chains of raw materials, services and goods

“During the lockdown alone, our revenue from client services exceeded our revenue for all of 2019 from services rendered to clients from this item. Of course, this is related more to the impact of COVID-19 on stock markets. However, during the lockdown all services are centered only on online communication. We were ready for such a situation and have passed the test.

Nurdaulet Aidossov, Chairman of the Management Board, JSC Jysan Invest

Aviation was one of the first industries to suffer.

*Meruert Zholdybayeva,
Deputy Chairman of the Board of the Airport in Aktau*



▶ Changes in the strategic plan

“As long as we still have cars that we bought at the old prices, we are not going to raise retail prices.

Participant in the retail sector

We have not changed our strategic plans as yet. We don't take advantage of tax concessions, we pay rent in full, and we don't receive preferential loans.

Participant in the pharmaceuticals sector

People used to go to restaurants not only to have meals, but also to express their emotions and socialise, whereas delivery is simply food, and does not include any other components of visiting a restaurant.

Almas Abdygapparov, Founder of Parmigiano Group

A review of the credit risk acceptance strategy is inevitable. Industries affected by external factors will lose their “cash” cushion.

Participant in the financial sector

Interesting quotes from market players (2/2)



▶ Transition to remote working during the lockdown

“Office and management personnel at companies with well-organized electronic document management can calmly switch to remote working without any adverse impact on their productivity.”

Participant in the power sector

People who cannot work remotely (e.g. mechanical engineers) stay at home and get 50% of their salaries. Those who can and do work remotely, e.g. accountants, financial managers, etc., get 65% to 75% of their pre-crisis salaries. During the state of emergency, sales revenue fell 100%.

Participant in the retail sector



▶ Government support

“To a large extent, thanks to the state support measures, we are not talking about significant job cuts.”

Participant in the retail sector

We have always seen the problem of a shortfall during hospital infections, we warned and asked the government to create strategic stocks. However, unfortunately, we fell on deaf ears.

*Yelena Lee, Chairman of the Board of Directors,
Dolce Group (producer of disposable medical products)*



▶ Aspects causing the greatest concern

“Today, everybody is worried: what will happen to the exchange rate and the economy in general?”

Participant in the pharmaceuticals sector

Fuel prices have dropped. However, in Kazakhstan, they have not fallen as much as they have worldwide. Even in neighbouring Russia, the kerosene price in March dropped by 60- 70% compared to February, while in Kazakhstan it fell by only 20%.

Ruslan Gabbasov, Managing Director, International Airport in Karaganda



▶ Industry development in the next 12 months

“What should we call the end of the coronavirus situation? When the last barrier introduced in relation to this situation has been lifted, I would call that the end. However, this barrier may only be lifted in a year or so. In particular, there will be visa restrictions.”

Daulet Khamzin, Vice President, International Airport, Nur-Sultan

We expect the agribusiness to grow in Kazakhstan. The agribusiness sector will help the country overcome the after-effects of the crisis and enable it to become a leading exporter of products other than commodities.

Yernur Aidarkin, Managing Director, Kusto Agro (agro division of Kusto Group)

Any recession is followed by a recovery. However, how soon will the global economy be able to recover? I believe no development can be expected in the coming 12 months: we will only see a cost-reduction race and competition to retain a presence in the market in whatever way possible.

*Yersain Khamitov, Member of the Board of Directors of
JSC Baiterek National Management Holding*

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