

# **SANCTION REBOUND**

*Kazakhstan companies told how  
they are affected by sanctions  
against the Russian Federation*

**One-time study  
June 2022**

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# Main conclusions



The survey results confirm the existence of a strong dependence of business on the Russian Federation – 41%. More than half of the companies interacting with the Russian Federation cannot switch to other partners



Anti-Russian sanctions harm the domestic business: purchase prices are rising, problems with bank transfers, and the supply of goods are appearing



The inevitable import of inflation through trade channels with Russia during the maintenance of the volume of demand in Kazakhstan. The surveyed companies do not feel a decrease in demand



After the sanctions shock in business issues, there were problems with payments and transfers. To date, we do not note the presence of this problem while considering banking business processes. The presence of such a problem could affect the extension of the supply chains of goods if it were not for the rapid reorientation of the STB



Domestic business is highly dependent on external factors, primarily the exchange rate volatility, and to a lesser extent on internal, operational ones.



37% of respondents noted that they expect a decrease in production. It is due to disruption and extension of supply and production chains, not an internal economic downturn or a demand contraction

# Main conclusions



Kazakh businesses are planning to increase prices for their goods or services. It is the most optimal business solution to maintain marginality in the prevailing conditions. If administrative regulation is introduced, the business will be forced to decrease production. It may lead to an even further decline in GDP growth and an increase in unsatisfied demand, prices



The businesses are going to increase prices in the next 3 months by an average of 5.36 p.p. Selling final goods companies - by 6.52 p.p. Companies that are selling raw materials and goods for further processing by 5.57 p.p. Companies providing services – 3.3 p.p.

227 companies took part in the survey:



44%



43%



10%



3%

## Survey structure

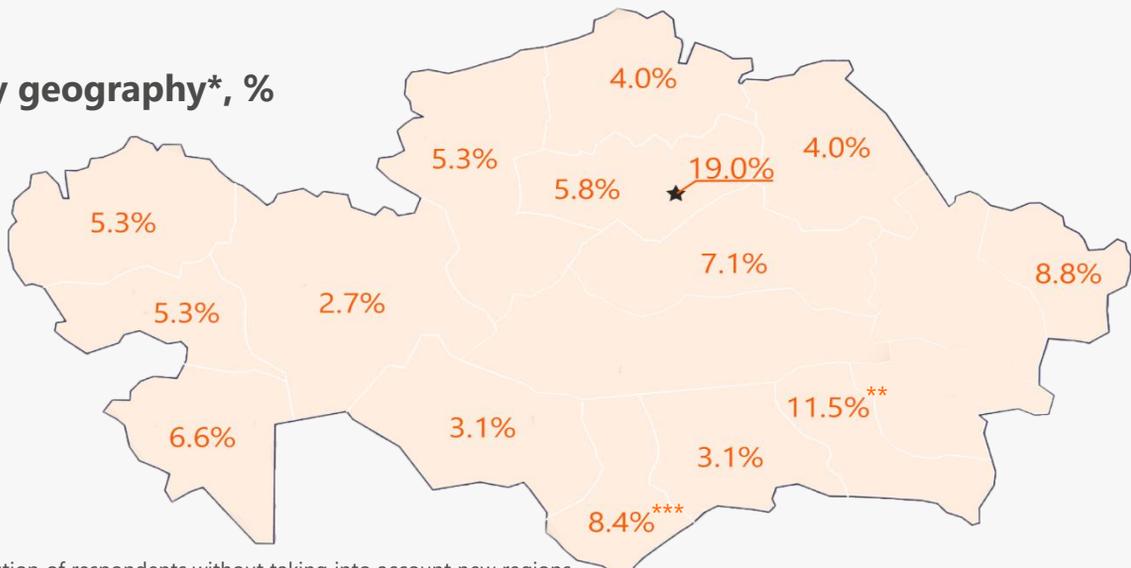
Jusan Analytics team surveyed representatives of small and medium-sized businesses - clients of Jusan Bank. The purpose of the survey is to determine the scale of the impact of anti-Russian sanctions on Kazakhstan business. Specifically, some questions allowed us to determine the degree of business dependence on the Russian Federation to assess its subsequent reaction to the growth of economic uncertainty.

Their distribution according to the regions is quite diversified. According to the number of employees, 44% of the surveyed companies are representatives of microbusinesses, 43% – are small-sized, 10% – are medium-sized, and 3% – are large businesses. Thus, the presented sample can be considered transparent and can reliably reflect the current trends.

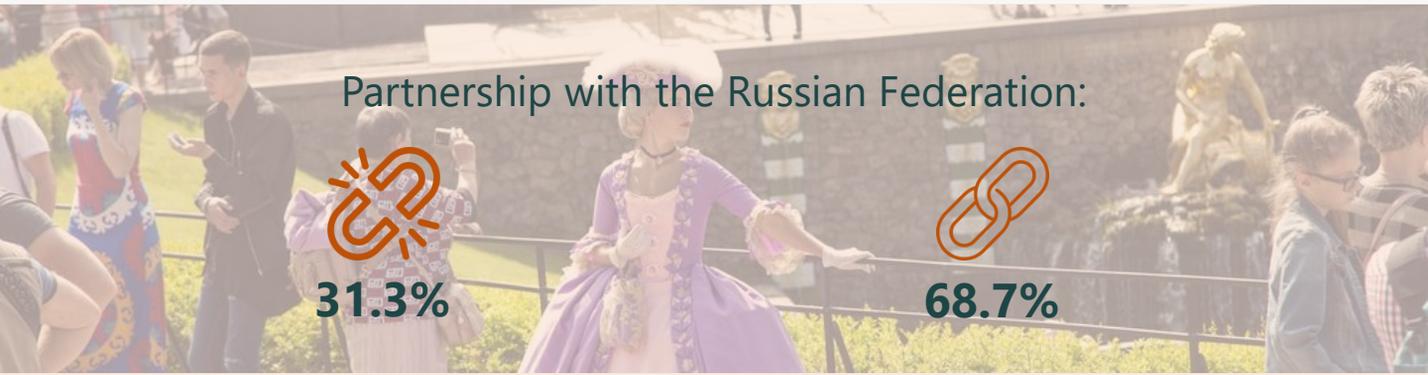
Either way, 57% of respondents sell goods, 33% provide services, and 10% sell raw materials and materials for further processing.

**The survey was conducted in May 2022 and was attended by 227 respondents-companies from all over Kazakhstan.**

## Survey geography\*, %



\* Distribution of respondents without taking into account new regions  
 \*\* Almaty and Almaty region  
 \*\*\* Shymkent and Turkestan region



Partnership with the Russian Federation:

  
**31.3%**

  
**68.7%**

**Interaction with the Russian Federation**

According to the survey results, 31% of the companies do not interact with the Russian Federation in any way. And **40.5% confirmed that they have an extremely strong degree of interaction with Russia**, of which 67% cannot switch to suppliers or partners from other countries in the short term.

The most frequent choice of those who are planning or considering a change of partnership with the Russian Federation is **China**. About 41% of respondents answered this way. But the logistical possibilities of trade with China are much lower than with Russia.

And the expansion of partnership with China may lead to additional logistical and time costs, which will also be reflected in the cost of final products and internal inflation.

Among those who interact with the Russian Federation, perceived problems are the increase in purchase prices (77.6%), problems with payment and bank transfers (77.6%), and difficulties with the supply of products or equipment from the Russian Federation (75%). The assessment of the average negative impact of these factors on a 5-point scale was 3.9, 3.5 and 3.

**Assessment of negative factors, %**





In current conditions of sanctions and forecasts for the decline in production in the Russian Federation, inflationary pressure will increase

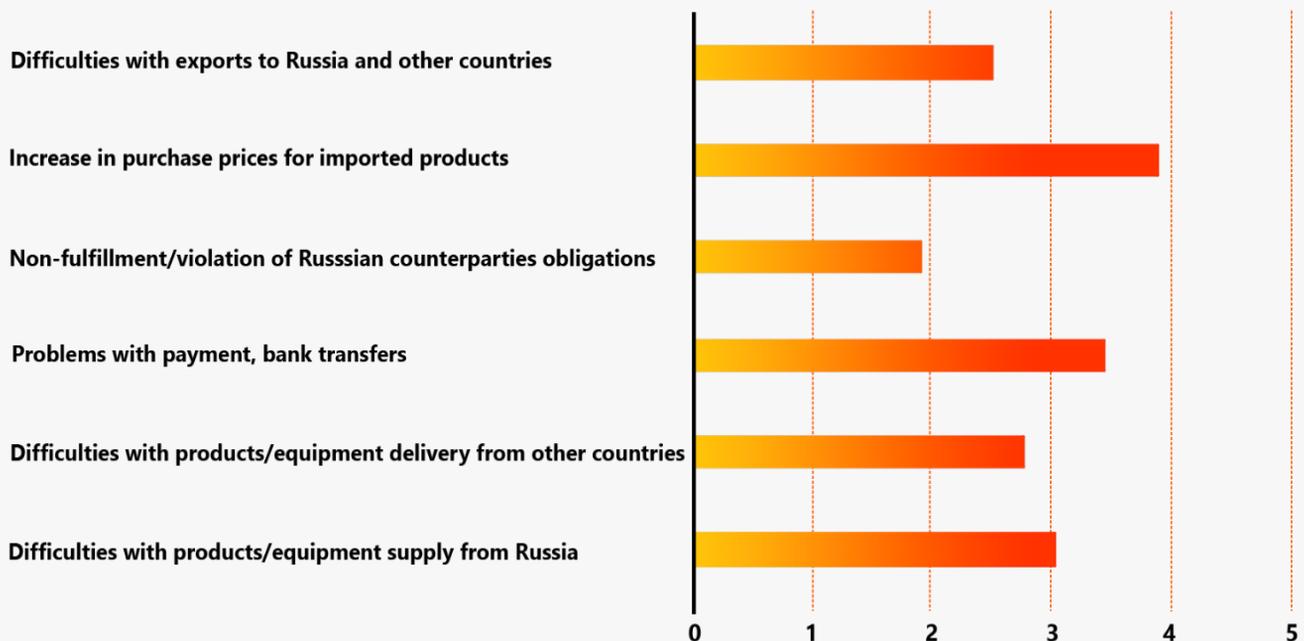
**As a result, it can be concluded that one of the significant negative factors is the forced import of inflation from the Russian Federation.** Import reorientation, tightening of fiscal and monetary policy are effective tools for the inflationary spiral risk reduction.

The problem settlement of payment by bank transfers with counterparties from the Russian Federation can lead to a decrease in the physical imports and a

temporary deficit for certain goods, which will exacerbate the already negative background for inflation.

The lowest problem related to sanctions against the Russian Federation for domestic companies is "non-fulfillment of obligations of counterparties": 38.5% of respondents think so, and the average score was 1.92. It indicates the absence of evident signs of a financial crisis in the Russian Federation and the presence of a financial safety margin.

### Assessment of negative factors



The exchange rate instability and the increase in purchase prices are the main negative consequences for business

### Impact assessment

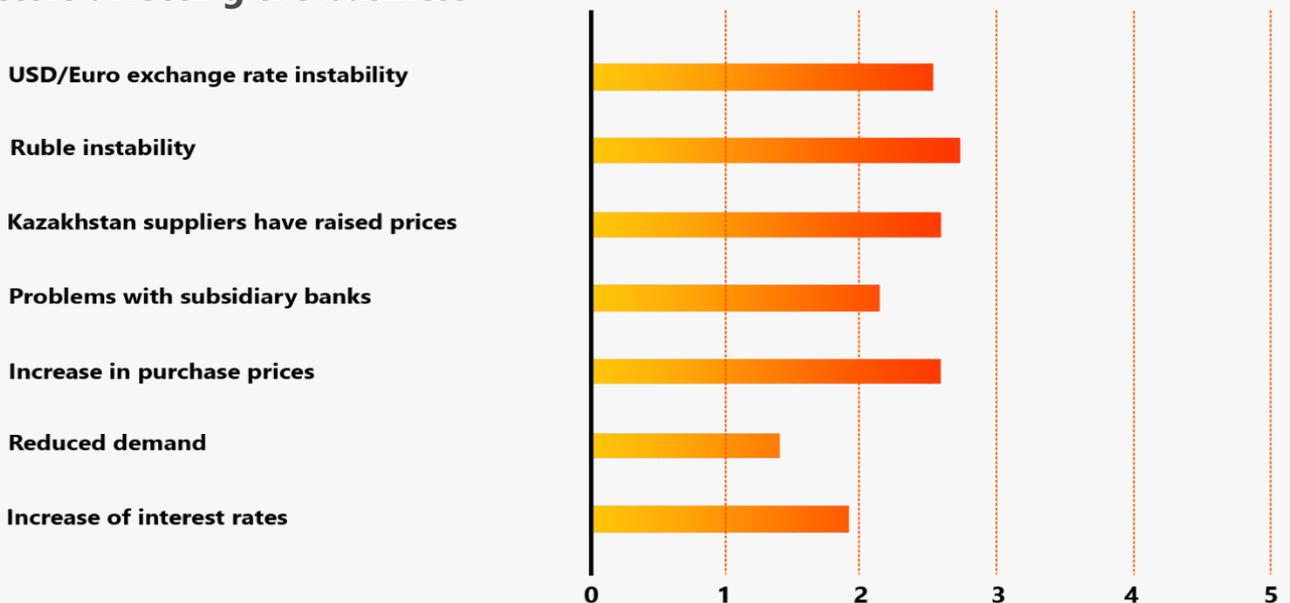
We also have asked all our respondents (regardless of interaction degree with the Russian Federation) to evaluate on a 5-point scale how the consequences of anti-Russian sanctions affect business.

The respondents noted the instability of the ruble (the average estimate is 2.73), the growth of purchase prices (2.59) and prices of domestic suppliers (2.59), and the instability of the dollar/euro exchange rate (2.54) as factors negatively affecting business development.

Most of these factors mainly reflect the impact of external shocks that are independent of domestic economic development and its growth.

Less significant factors for respondents were a decrease in demand (the average estimate is 1.4) and an increase in interest rates (1.9). However, these factors primarily reflect domestic economic development.

### Factors affecting the business



Average assessment of the impact of factors on business:

**3.8**

*USD/Euro exchange rate instability*

**3.91**

*Ruble exchange rate instability*

**3.97**

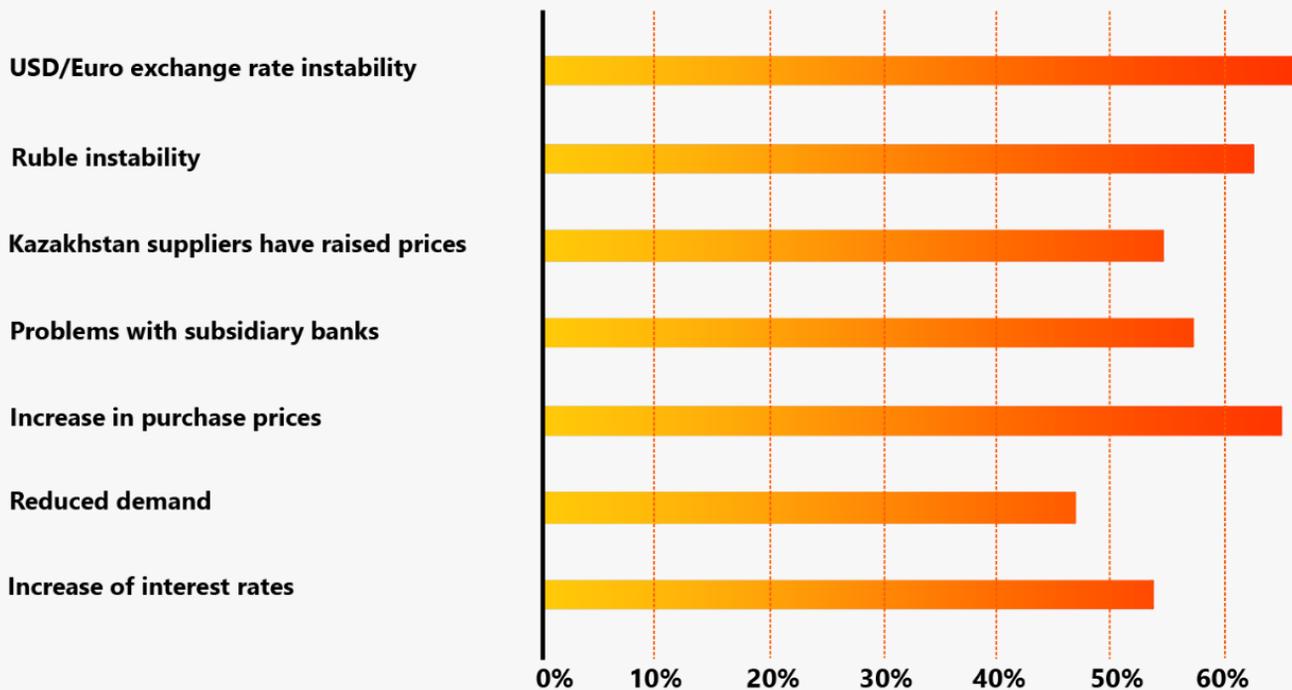
*Increase in purchase prices*

According to the survey results, business does not expect a decrease in consumer demand. On the one hand, such optimism looks excessive and can lead to incorrect planning. On the other hand, despite the ongoing monetary policy, it may indicate the absence or insignificant change in aggregate demand.

At the same time, almost half of the respondents believe that their business is not affected by the instability of the ruble (37%), the USD/Euro instability (34%), and the increase in purchase prices (35%). They have rated the impact as 0 out of 5.

Among those who directly assessed their impact, the average estimate except for the demand reduction factor was more than 3.5.

**Factors affecting the business , %**



37% of the respondents expect a decrease in production this year

Expectations on the production volume compared to the results of last year among the respondents were as follows:

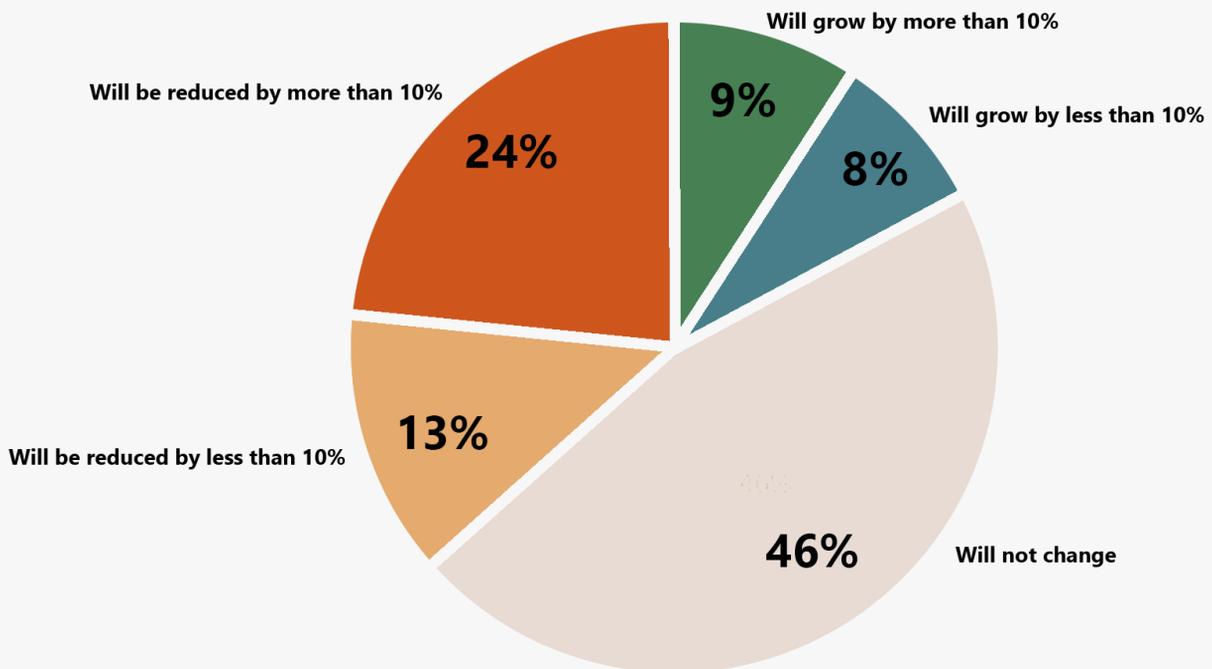
- 46.3% do not expect any changes;
- 13.2% expect a reduction of less than 10%;
- 23.3% expect a reduction of more than 10%;
- 17.2% expect an increase in production volumes.

Similar results show a probable decline in GDP growth compared to last year's values (forecast for 2022 – 2.8%).

Thus, 63.5% of the respondents do not expect a decrease in production, as they are still in demand. An increase in interest rates will not significantly affect their business. Most likely, domestic companies are planning to increase final price costs to maintain their profitability.

Regarding the expectations for the staff, only 11% of the respondents are planning to slash jobs soon.

**Expected production volume, %**



Companies in the field of sales of finished goods are going to increase prices by an average of 6.52 pp in the next 3 months

### **Inflation expectations**

65% of the surveyed companies that are related to the sale of goods are planning to raise prices in the next 3 months. Namely:

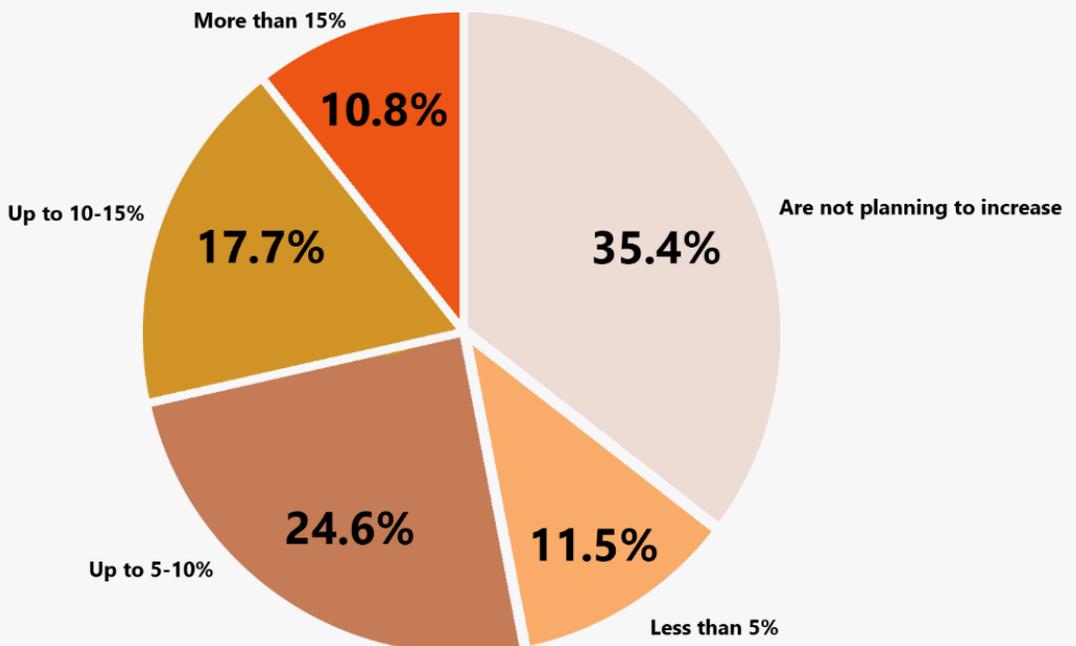
- 11% are planning to increase by more than 15 p.p.;
- 18% up to 10-15 p.p.;
- 25% up to 5-10 p.p.;
- 11% less than by 5 p.p.

47% of these companies have indicated an extremely strong dependence on the Russian Federation – the largest share among other groups.

According to statistics, the share of the Russian Federation in total imports is on average about 35%.

These inflation expectations reflect the further potential for accelerating inflation in consumer and non-consumer goods. And considering that the surveyed companies do not see and do not forecast a decrease in consumer demand, the final values of price growth may be 1.5 – 2 p.p. higher than those that are indicated in the survey. So, the decrease in product supply is not compensated by a corresponding decrease in demand.

### **Estimated increase in commodity prices, %**



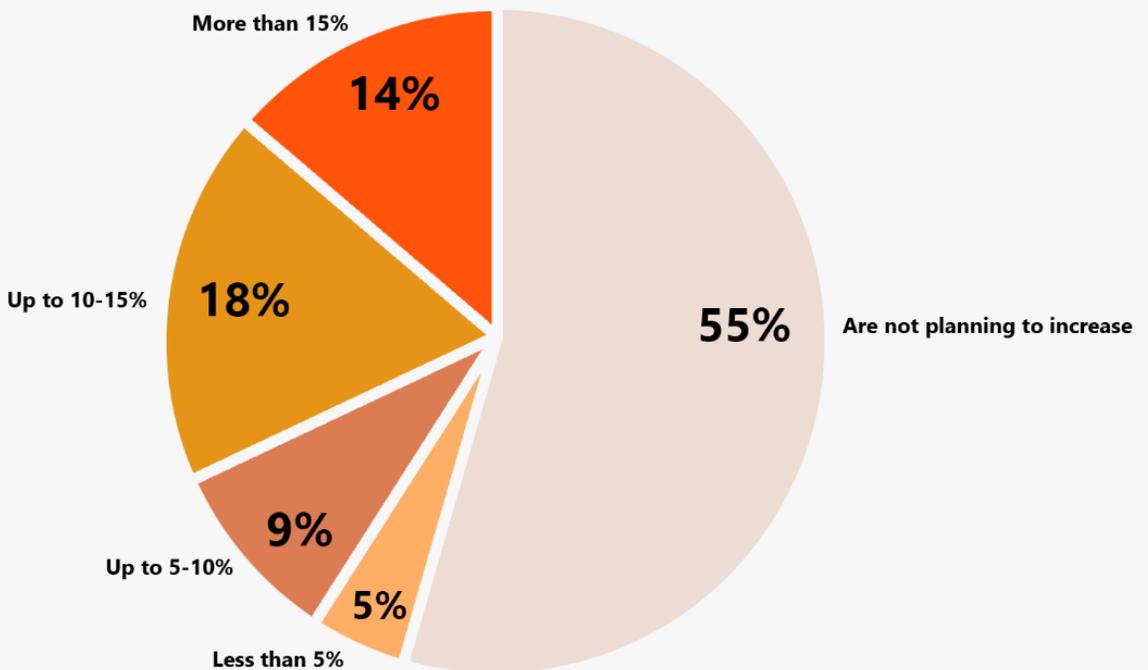
Companies in the field of raw materials sales are planning to increase prices by an average of 5.57 p.p. in the next 3 months

55% of the companies associated with the sale of raw materials and materials for further processing do not plan to raise prices in the next 3 months. Of those who plan, 14% will increase by more than 15 p.p., 18% – by 10-15 p.p., and 9% – by 5-10 p.p.

These inflation expectations reflect the further potential for accelerating inflation at manufacturing prices. The growth of these prices has an impact

on the internal production chains, which in business conditions, as we pointed out above, leads to the transfer of increased costs and production cost into the final product costs. Thus, the need to increase prices may also affect those who do not directly interact with the Russian Federation (61% were not going to raise prices among those who do not interact with the Russian Federation).

**Estimated increase in raw materials prices, %**

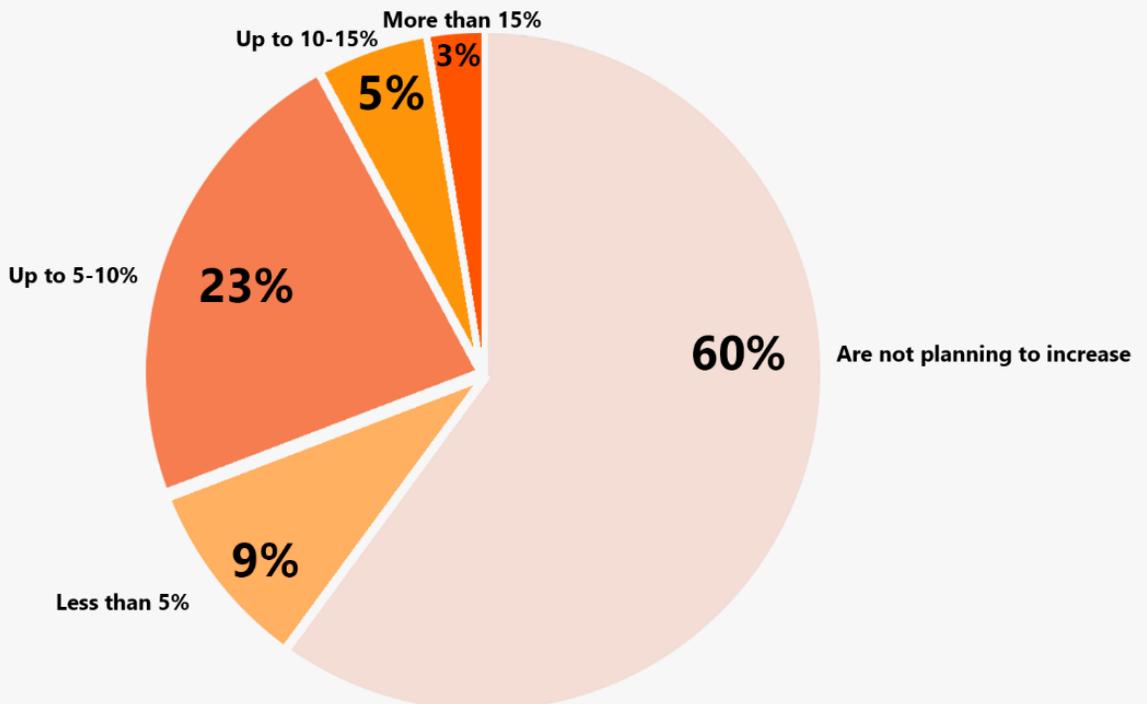




Companies in the service sector are planning to increase prices by an average of 3.3 p.p.

60% of the companies involved in the rendering of services are not planning to raise prices in the next 3 months. 23% of the companies are going to increase them by 5-10 p.p. So, we should expect a fairly moderate increase in prices for paid services since they are less affected by macroeconomic uncertainty and are more associated with an increase in excess demand of the population and consumption patterns.

**Estimated increase in prices for services, %**



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