



## MORTGAGE LENDING IN KAZAKHSTAN: ANALYSIS OF RECENT YEARS

The possibility of owning a home by getting a mortgage loan is a well-established practice worldwide. Quite low interest rates and acceptable payment terms make mortgage lending attractive for the population, especially in developed countries. However, the situation in Kazakhstan's market of mortgage lending has a number of distinctive features. Due to high housing prices in both primary and secondary markets, it is extremely difficult for the vast majority of Kazakhstani citizens to buy a house or an apartment without a mortgage. Moreover, the mortgage conditions, such as qualification requirements for a borrower, loan terms, and interest rates, not only vary from bank to bank, but also are subject to annual changes. Since there is a sustained trend towards the steady increase in the country's population, the issue of providing citizens with decent living conditions becomes one of the high-priority tasks for the government of Kazakhstan.

It should be noted that in the past few years the Kazakhstani authorities have significantly stepped up the pace of new housing construction. For example, 979.8 billion tenge was invested in housing construction in 2017. As a result, more than 11 million square meters of housing were built in Kazakhstan, which is a 6.2% increase compared to 2016. It is noteworthy that over the past three years the volume of commissioned housing has not fallen below the mark of 9.3 million square meters. As of 2017, the total housing stock of Kazakhstan amounted to 353 million square meters, which means that over the past 10 years the country's housing supply ratio has grown by 30%, namely, from 16.5 square meters per person in 2007 to 21.6 square meters per person in 2017. However, this indicator is still below the UN standards, according to which the housing supply ratio should reach 30 square meters per person.

Speaking about the access to mortgages for the purchase of housing under construction in Kazakhstan, it should be noted that payments on a mortgage loan provided by private commercial banks, with annual rates ranging from 14% to 17%, are a serious burden on the household budget. In fact, an average monthly mortgage payment exceeds the cost of rent by 20-30%; moreover, a monthly loan payment in Kazakhstan, on average, exceeds 40% of an average borrower's monthly income, which is considered as extremely burdensome by the standards of developed countries. After the 2008 economic crisis, which put an end to the banking system's external borrowing at low

interest rates, Kazakhstan's financial institutions had to take expensive loans with 8-10% interest rates. Moreover, the second-tier banks have had to add surcharges to the interest rate, taking into account the risk of non-repayment, which has ultimately led to such high mortgage rates that not everyone could afford a mortgage given a decrease in real incomes of the population. As a result, at present only 18 out of 33 second-tier banks officially functioning in Kazakhstan provide mortgages, and 12 of those 18 banks issue loans only after a down payment of up to 30%.

In order to stimulate mortgage lending in the country, the Kazakhstani authorities have created a number of institutions, such as the House Construction Savings Bank of Kazakhstan (HCSB), which was established to support the implementation of the low-interest mortgage programs under the housing construction savings system, and the Kazakhstan Mortgage Company (KMC), established for repurchasing mortgage loans from the second-tier banks. Working in tandem with KMC, the HCSB has become the largest player in the mortgage lending market, owning the bulk of housing loans provided over the past years. In 2017, 75% of all mortgage loans worth 290 billion tenge (\$889.5 million) were issued through the HCSB. However, sustained high inflation rates coupled with low economy growth rates caused by a sharp drop in oil prices in 2014 significantly reduced incentives of the population to obtain a housing loan given that housing prices remained high. Indeed, over the past three years house prices in the primary market have increased by 18%. As a result, in 2017, in order to revive the mortgage market, the government of Kazakhstan launched the Nurlı Zher state program aimed to subsidize mortgage loans for the purchase of primary housing. According to the program conditions, a borrower is provided with a mortgage at an annual rate of 10%, while the difference with the interest rate of a bank is reimbursed to a financial institution by the KMC. Currently, the Nurlı Zher state program includes seven banks of the country, namely, Sberbank, Bank CenterCredit, ATF Bank, HCSB, Tengri Bank, Tsesnabank, and Bank RBK. It should be noted that the involvement of the private commercial banks in this program has enabled them to increase the issued mortgage loans by up to 50%, which can be regarded as a positive signal for the market as a whole. It can also be noted that the state program has had a positive impact on the housing construction sector. However, due

to the fact that there is a constant growth in the number of the HCSB's depositors, which increased from 814.6 thousand in 2016 to 1 million in 2017, the majority of Kazakhstani citizens still prefer the housing construction savings system.

If we compare the conditions of the state mortgage assistance program with the conditions provided by Astana's partners within the Eurasian Economic Union, it becomes obvious that Kazakhstan has one of the highest mortgage rates. The most affordable interest rate on mortgage loans is observed in Armenia, where the minimum annual interest rate is 5%, while in Russia and Kyrgyzstan citizens can purchase housing under state mortgage assistance programs at the annual rates of 6% and 8%, respectively. In these circumstances, President of Kazakhstan Nursultan Nazarbayev has recently proposed to launch the "7-20-25" program to reduce the mortgage loan costs. During the joint session of the Chambers of the Parliament of Kazakhstan held on March 5, 2018, the head of state announced that within the framework of the new state program the annual interest rate on mortgage loans would be decreased to 7% with a down payment not exceeding 20%, while the loan term would be increased to 25 years. Such an innovative scheme is expected to reduce the amount of monthly mortgage payments providing an opportunity to buy housing to all segments of the population. According to the National Bank, the new "7-20-25" mortgage program is expected to be launched in May 2018, while mortgage loans under the program will start to be issued in the second half of this year.

It can be observed that in Kazakhstan the mortgage market is shifting to the state mortgage segment. In general, it can be assumed that in 2018, due to the strengthening of the state's role through the "7-20-25" and Nurlı Zher programs, as well as increased activities of the HCSB, the mortgage market will continue to recover. At the same time, it is expected that in 2018 lower mortgage rates will create excess demand in the housing market that will result in an upward adjustment of housing prices. It should also be noted that the implementation of the government policy aimed at improving the population's housing conditions will become an additional financial burden for the state budget. Therefore, with the launch of the new initiative, there will be a strong need for more effective management of the allocated funds in order to eliminate the dependency attitude and reduce corruption.

## Politics, Foreign Affairs and Security

- According to the Central Election Commission of Russia, incumbent Russian President Vladimir Putin won the presidential elections with 76.65% of votes. Pavel Grudinin came second with around 11.8% of votes followed by Vladimir Zhirinovskiy with 5.67% of votes. Other candidates, namely, Ksenia Sobchak, Grigory Yavlinsky, Boris Titov, Maxim Suraykin, and Sergey Baburin received around 1.67%, 1.04%, 0.76%, 0.68% and 0.65%, respectively. The election turnout reached 67%.
- During the first consultative meeting of the heads of the Central Asian states held in Astana, presidents of Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan Nursultan Nazarbayev, Sooronbai Jeenbekov, Imomali Rahmon and Shavkat Mirziyoyev, together with Chairwoman of the Mejlis of Turkmenistan Akja Nurberdiyeva discussed further prospects of regional cooperation in the trade, economic, transport, communication, cultural and humanitarian spheres. As a result of the meeting, the parties suggested holding annual consultative meetings between the heads of states on the eve Navruz, with the next meeting to be organized in Tashkent.
- During his official visit to Baku, President of Moldova Igor Dodon met with President of Azerbaijan Ilham Aliyev to determine joint activities in the political, economic, humanitarian, investment and other spheres.
- During the first quadrilateral meeting of the foreign ministers of Azerbaijan, Turkey, Iran and Georgia held in Baku, the parties discussed the ways to consolidate the format of cooperation that would help develop new transport routes. As a result of the meeting, the participants signed a joint declaration focused on strengthening cooperation in a number of areas, including infrastructure, transport, and agriculture.
- During his visit to Islamabad, Chief of the General Staff of the Armed Forces of Kyrgyzstan Raimberdi Duisenbiev met with Chairman of the Joint Chiefs of Staff of Pakistan General Zubair Mahmud Hayat to discuss a further strengthening of cooperation in the field of peacekeeping, training of military personnel and other joint military activities.
- According to the Russian Ministry of Defense, the Caspian Fleet and duty air defense forces held an exercise to locate unidentified air targets. The exercise involved the crews on alert of more than

ten naval surface ships, boats and vessels of the fleet, including the missile ships Tatarstan and Dagestan and the small-size missile ships Grad Sviyazhsk and Veliky Ustyug.

- According to the General Staff of the Armed Forces of Kyrgyzstan, one of the military units of the Kyrgyz Armed Forces participates in the joint military exercise entitled Kanjar-2018 in India. The Kyrgyz-Indian exercise is aimed at the training of special forces in conducting a joint special operation to destroy illegal armed formations in a mountainous terrain.

## Economy, Finance and Energy

- According to the Statistics Committee of the Ministry of National Economy of Kazakhstan, in January-February 2018 the volume of the country's industrial production increased by 5.6% as compared to the same period of 2017. During the reporting period, the highest increase, or 6.1%, was registered in the manufacturing industry, while the production in the mining industry and power generation increased by 5.7% and 5.5%, respectively.
- According to the State Statistics Committee of Azerbaijan, in January-February 2018 the country's GDP exceeded 11.54 billion manats (\$6.78 billion) that is 1.3% more than in January-February 2017. The volume of GDP per capita stood at 1,178.7 manats (\$691). In January-February 2018, the volume of GDP produced in the non-oil sector increased by 2.3%, while no growth was observed in the oil and gas sector as compared to January-February 2017.
- According to the National Statistics Committee of Kyrgyzstan, in January 2018 the country's foreign trade turnover amounted to about \$489 million increasing by 45.3% compared to the same period last year.
- According to the International Monetary Fund (IMF), the average annual inflation rate officially announced in Turkmenistan in 2017 increased up to 8% in connection with the subsidy reform, as well as the monetary expansion aimed at financing large-scale investments from the state budget. In addition, the IMF notes that Turkmenistan's current account deficit decreased from about 20% of GDP in 2016 to 11.5% of GDP in 2017.
- According to the State Statistics Committee of Uzbekistan, the country's foreign trade turnover reached \$3.9 billion in January-February 2018, including

\$1.5 billion of exports and \$2.4 billion of imports. Among the CIS countries, Russia, Kazakhstan, Belarus, Ukraine, Tajikistan, and Kyrgyzstan accounted for 40.7% of the total foreign trade turnover of Uzbekistan, while among the rest of the world, China, Turkey, Korea, Afghanistan, Germany, Latvia, the United States, and India accounted for 40.9% of the total foreign trade turnover.

- According to the National Statistics Committee of Belarus, in February 2018 the consumer price index for goods and services totaled 0.9% as against January 2018. Food prices rose by 0.6% over January 2018, while non-food prices went up by 0.2%.

## Society and Culture

- The World Bank announced about its decision to allocate additional €12 million to finance the Forestry Development Project in Belarus. The project aims to help the country cope with extreme weather events. It was also noted that improved forestry practices would boost the rural economy by creating more jobs and business opportunities.
- President of Kazakhstan Nursultan Nazarbayev and his Uzbek counterpart Shavkat Mirziyoyev declared the Year of Uzbekistan in Kazakhstan officially open. During the opening ceremony held in Astana, the presidents noted that the two countries consistently demonstrated common views on key international and regional issues.
- According to the Agency for External Labor Migration of Uzbekistan, the country begins an organized dispatch of migrants to work in Turkey. It is noted that a group of citizens is being recruited to work in the hotels of Antalya.
- According to the Foreign Ministry of Uzbekistan, a grand opening of the Consulate General of Uzbekistan was held in St. Petersburg. It was attended by head of the Russian Ministry of Foreign Affairs office in St. Petersburg Vladimir Zapevalov and other high-ranking officials. It was noted that the opening of the consulate general is an important step aimed at protecting the legitimate rights and interests of Uzbek citizens abroad, as well as developing mutually beneficial cooperation between Uzbekistan and the regions of Russia.