



CONSUMER LENDING IN KAZAKHSTAN

Due to the globalization, thriving consumer society, and rapid development of the financial intermediation, consumer lending, which includes unsecured loans lent to individuals, has become a fast-growing area of the banking services over the past ten years in developing countries, such as Kazakhstan. Moreover, as a result of the world financial crisis, some commercial banks decided to focus on consumer lending sector rather than previously highly growing sectors, such as mortgage, trade, and construction, which were seriously affected by the crisis. Consequently, in the last few years consumer lending sector has become one of the growth drivers in the banking system of the country.

Regarding that consumer lending sector provides higher interest yield with lower risks, the share of consumer loans in total loans in the banking sector has increased from 12.2% to 21% since the beginning of 2012 until the mid-2014, for example. In 2012 the average interest rate for consumer loans was 24%, for mortgage loans and construction loans 11%, and for loans to non-banking legal entities 10% in Kazakhstan. Therefore, it is not surprising that the second-tier banks such as Kaspi Bank, Eurasian Bank, ATF Bank, Forte Bank, Home Credit Bank, and Nurbank started to focus on consumer lending. This step was a means of ensuring a stable pace of growth for these banks, especially for Kaspi Bank. The growth rate of Kaspi Bank held steady at 40% in 2012 and 2013, decreased to 17% in 2014 and then reached 24.4% in 2015, which allowed the bank to have 6.2% share of total assets in the banking sector. According to the financial statement of the bank, more than 79% of the bank's portfolio consisted of consumer loans in 2015.

It should also be admitted that since the high growth in consumer lending might have created a lending bubble in Ka-

zakhstani banking system, the National Bank of Kazakhstan (NBK) decided to bind these loans to prevent the system from a financial bubble. Thus, in the beginning of 2014, the NBK introduced prudential norms, which would limit the growth of the consumer loans. The first prudential norm prohibited to lend a loan to an individual if the monthly loan payments are greater than 50% of the individual's monthly salary. The second norm directly limited the growth rate of consumer lending. According to this second norm, the growth rate of the consumer loan portfolio should not exceed 30% in one year. These norms definitely have had a negative effect on the growth rate of consumer loans. The growth of consumer loans decreased from 47.87% in 2013 to 17.27% in 2014. However, the rapid decline in consumer lending took place in 2015. During that time, the consumer lending sector came under considerable strain growing only by 1.37%. Moreover, according to the monthly statistical bulletin of the NBK, consumer loans in Kazakhstan decreased by 6.23% in the first half of 2016. It is widely believed that the current decrease is a result of low economic growth, currency devaluation, high inflation and high interest rates in the financial markets, which were followed by a sharp decline in oil prices in the middle of 2014. The current macroeconomic fluctuations significantly decreased the purchasing power in the economy of Kazakhstan, affecting dramatically consumer lending sector. For instance, low economic growth negatively affected the unemployment rate and income level in the country. The second factor that decreased the purchasing power is high inflation, which is usually treated as the main detrimental factor for purchasing power. The other factor is August 2015 currency devaluation. Due to the fact that most of the non-food consumer products

are imported, tenge devaluation made the consumer products too expensive to be consumed in the domestic economy. It should be highlighted that despite a sustained decline in interest rates on loans (22.9% in 2014, 21.7% in 2015 and 19.8% in 2016), the consumer loans decreased.

Thus, decreased consumer lending seriously affected the banks, which focused on consumer lending sector. According to the NBK, the profits of 5 out of 6 second-tier banks, which focused on consumer lending decreased in the first half of 2016 compared with the same period of 2015. Only the profits of Kaspi Bank increased, demonstrating a considerable growth rate by more than 20%. However, this increase in profits were mainly a result of the currency exchange and dealing operations rather than lending operations, which means that Kaspi Bank also has problems in consumer loans.

The decreased level of purchasing power affected not only the profitability of consumer loans but also significantly increased the level of Non-Performing Loans (NPLs). For instance, the share of NPLs in consumer loans increased rapidly from 14.5% in the beginning of 2015 to 23.0% at the end of June 2016.

In conclusion, it is obvious that due to current macroeconomic fluctuations, the consumer loans sector in the economy of Kazakhstan faces some difficulties. However, the situation could be improved in case oil prices rise enough to increase oil production in the country and recommission the Kashagan oil field. A significant increase in oil revenues in national budget would positively affect the employment rate, households' income level, the value of tenge and the interest rates in the financial market of the country.

Politics, Foreign Affairs and Security

- According to the Constitution of Uzbekistan, the Senate Chair, Nigmatilla Yuldashev, became the acting President of the country taking over the position after Islam Karimov's death. Uzbekistan's President, Islam Karimov, who ruled the country for 27 years, died at the age of 78 after suffering a stroke. Heads and high-ranking officials of Eurasian countries attended the funeral ceremony of first Uzbekistan's President, who was buried in his hometown, Samarkand.
- During his visit to Berlin, the President of Turkmenistan, Gurbanguly Berdimuhamedov, and the Federal Chancellor of Germany, Angela Merkel, discussed current issues on regional and international topics of mutual interest highlighting the necessity to strengthen bilateral partnership. After a 2-days visit, over 13 Memorandums of Understanding and bilateral agreements were signed between two countries.
- During his official visit to Tehran, the Deputy Minister of Foreign Affairs of Russia, Sergey Ryabkov, met the Deputies of the Minister of Foreign Affairs of Iran, Abbas Araghchi and Majid Takht-Ravanchi. During the meeting, the parties discussed cooperation for more efficient and complete implementation of the Joint Comprehensive Plan of Action, an international agreement on Iran's nuclear program and some other bilateral issues.
- During his official visit to Baku, the Prime Minister of Georgia, Giorgi Kvirikashvili, and the President of Azerbaijan, Ilham Aliyev, discussed the ways to promote the strengthening of bilateral relations in political spheres and further development of economic relations in future.
- During the 11th Summit of the Group of 20 (G20) held in Hangzhou, the leaders of G20 countries and invited guests from Chad, Egypt, Kazakhstan, Laos, Senegal, Spain, Singapore and Thailand discussed prospective ways to build an innovative, healthy, coherent and inclusive global economy.
- According to the National Security Committee of Kazakhstan, three radical groups in the West Kazakhstan and Aktobe regions were suppressed as part of the special antiterrorist operation. It was announced that ten people were arrested in the West Kazakhstan region and 11 in the Aktobe region. The extremists were planning attacks against law enforcement officers and terrorist acts in crowded places.
- The U.S. Embassy in Dushanbe announced about a donation of \$12 million worth of the U.S. equipment to Tajikistan's Border Guard Agency within the framework of the U.S. Central Command's Counter-Narcotics Program. It was stated that the donation consisted of two primary components, namely, \$9 million dollars' worth of communication equipment, including radios and software, and \$3 million dollars' worth of Jeep Wranglers.
- According to the CEO of the Rosneft, Igor Sechin, the volume of foreign investments attracted by the company for its projects in the Russian Far East in the last decade exceeded \$22.98 billion. It was also noted that, despite the sanctions, the company would invest more than \$1.9 billion in exploration of the continental shelf of the Far East by 2021.
- The Government of Uzbekistan adopted a resolution stipulating to increase the fee for entry and transit of vehicles from Tajikistan. According to the decree, the additional fee for entry or transit through the territory of the country for trucks and buses coming from Tajikistan was increased from \$118 to \$180.
- The Asian Development Bank (ADB) announced about approval of a \$240.3 million loan for modernization of Kazakhstan's transport system. It was announced that the amount would be spent on the reconstruction of 299 km section of the Aktobe - Makat road in the western part of the country and improvement of transportation links connecting Astana and Aktobe with the major oil and mineral-rich city of Atyrau, and the country's only international commercial seaport in Aktau.

Economy, Finance and Energy

- The Turkmen Oil and Gas Complex announced that the construction of a terminal for reception, storage and shipment of oil products at the Ymannazar customs point in the Lebap region of Turkmenistan was completed. It was noted that the commissioning of the terminal with capacity of 540,000 tons would provide opportunities to increase the volumes of exported oil products to other countries.
- The Minister of Energy of Ukraine, Ihor Nasalyk, reported about reaching an agreement with Kazakhstan's Ministry of Energy on establishing a joint venture for uranium mining. It was noted that uranium would be mined in both countries.
- The German engineering company, Siemens, announced about its plans to supply two gas-insulated high-voltage switchgear (GIS) for the Rogun hydropower plant in Tajikistan. According to the company, the GIS will protect the power generation and transmission systems in the hydropower station against short circuits and overloading. The company plans that the switchgear will be fully installed and ready for operation by 2018.

Society and Culture

- The President of Kyrgyzstan, Almazbek Atambaev, ordered the Government to step up counterterrorism measures after a suicide car bomber struck the Chinese Embassy in Bishkek committing a suicide and wounding three Kyrgyz employees of the mission.
- The President of Turkmenistan, Gurbanguly Berdimuhamedov, signed a decree on the issue of opening the country's permanent representative office under the International Atomic Energy Agency. According to the decree, the Turkmen Embassy in Austria was charged with the functions of the representative office.
- The President of Azerbaijan, Ilham Aliyev signed an order to develop and implement a special program dedicated to the 200th anniversary of the establishment of German settlement in the South Caucasus region.