NATIONAL BANK OF KAZAKHSTAN

ASSESSMENT OF THE IMPACT OF ANNUAL EFFECTIVE INTEREST RATE CAP REDUCTION ON THE MICROFINANCE MARKET

Department – Research and Analytics Center

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Abstract

This paper analyzes structural changes in the microfinance sector in the context of lowering the maximum annual effective interest rate (AEIR) thresholds. A reduction in the number of participants, primarily companies specializing in PDL microloans, is noted. The microfinance sector's loan portfolio continues to grow rapidly, and unsecured microloans for entrepreneurial purposes are also increasing. This trend may reflect both the adaptation of business models to new regulatory conditions and other factors, which require further monitoring. The paper notes the impact of tightened regulation on the microfinance market as a whole, including the changes introduced to the AEIR threshold.

Key words: *regulation, interest rate caps, microcredit*

***JEL classification**: G23, O15, O16*

In August 2024, a decision[3] was made to reduce the maximum annual effective interest rate (AEIR) for loans from commercial banks and microfinance organizations (MFOs). In the MFO market, the change affected two segments:

(1) standard microloans – the AEIR was reduced from 56% to 46%;

(2) microloans with terms of up to 45 days, so-called PDL loans – the effective annual interest rate was reduced from 1% to **0.3%**, a maximum AEIR of **179%** was introduced, and the maximum loan amount was reduced from 50 to **45 MCI** (monthly calculation indicator is used for determining all social payments in Kazakhstan, in 2025 is equal to 3932 tenge). Previously, a different regulatory regime was in effect for such short-term and small-amount microloans (hereinafter referred to as PDLs), which provided for a cap on the nominal interest rate only, which, in annual effective terms, was significantly higher than the maximum level introduced in 2024 (Table 1).

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[3] Joint Resolution of the Board of the Agency for the Regulation of Financial Markets of the Republic of Kazakhstan dated August 16, 2024 № 62 and the Board of the National Bank of the Republic of Kazakhstan dated August 19, 2024 № 45 «On Determining the Maximum Amounts of the Annual Effective Interest Rate».

Table 1. Retrospective of interest rate restrictions for short-term microloans issued for a period of less than 45 days (PDL)

Year	microloans ≤ 20 000 MCI	PDL (≤45 days)	Interest (limits)		Penalty	Total Payment Cap
			collateralized	uncollateralized		
2020	56% AEIR	≤50 MCI	up to 30% of the loan amount		≤0,5% per day	≤50% of the loan amount
2021			up to 20% of the amount	up to 30% of the amount		
2022			up to 20% of the amount	up to 25% of the amount		
2023			<1% per day, but no more than 20% of the amount; term extension – ≤0.35% per day			
2023			0.8% per day, no more than 20% of the amount; term extension – ≤0.4% per day	<30 MCI: <1% per day, ≤20% of the amount; 30-50 MCI: <1% per day, ≤15% of the amount; term extension – ≤0.4% per day		
2024-present	46% AEIR	≤45 MCI	≤0,3% per day (≈179% AEIR)		≤0,3% per day	

Loan Portfolio

The overall MFOs portfolio demonstrates steady growth – **39%** year-on-year (as of June 1, 2025), even as the number of active companies declines (Charts 1 and 2). At the same time, the **proportions** of the portfolio's main components **are changing**. In response to stricter regulation and the revocation of licenses from unscrupulous companies, the **PDL loan subportfolio is declining**. Meanwhile, growth rates in other microlending segments are positive.

Chart 1. Growth rates of microfinance organization portfolio components, year-on-year

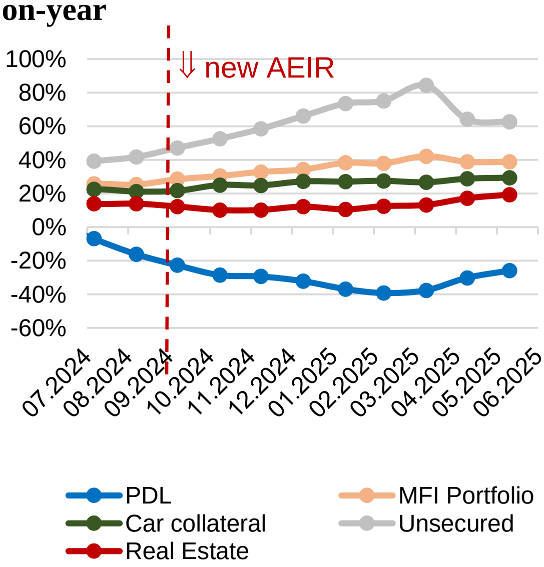
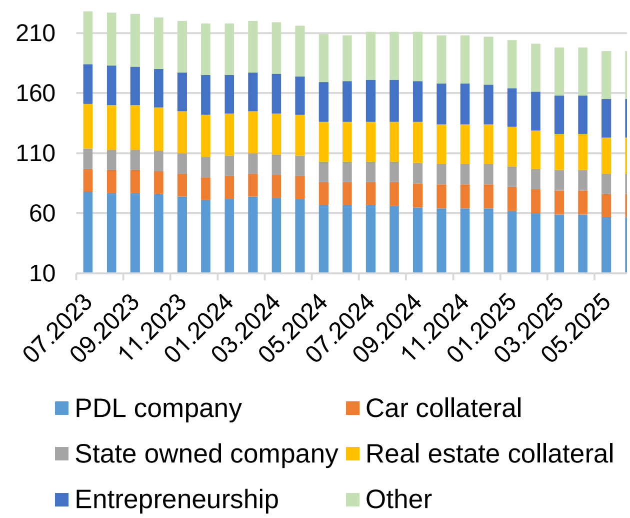


Chart 2. Dynamics of the number of operating companies



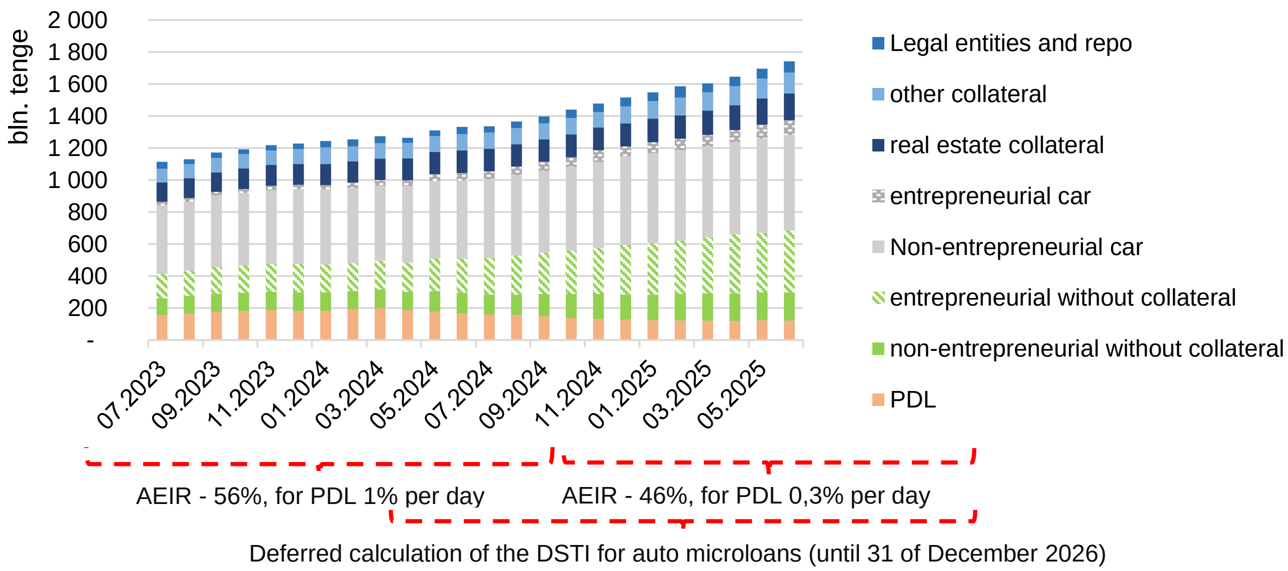
For the purposes of analysis, we grouped microfinance institution market participants based on their business profile and portfolio structure as of April 1, 2025. The classification criterion was the prevalence of the corresponding loan type *in the company's portfolio (on average, over 70% of the volume): (1) payday loans (PDLs), (2) those aimed at car buyers, (3) with state participation, (4) those aimed at entrepreneurial purposes, (5) those with a portfolio secured by real estate, and (6) other universal microfinance institutions with a diversified portfolio.*

The dynamics of the microloan portfolio (the volume has doubled in two years) demonstrates continued demand for MFOs market products, with **unsecured loans remaining the key driv**er. Furthermore, a new trend has been noted: an increase in unsecured loans issued **for business purposes** (Chart 3).

The **MFOs auto loan portfolio** continues to grow steadily, at around **15-20%**, reflecting stable demand in this niche. The expansion of this lending segment is also linked to regulatory easing, including the introduction of an **exception for calculating the DSTI** for auto loans. Given the trend of several of the largest MFOs transforming into second-tier banks, an increased concentration of auto products in the overall portfolio is expected.

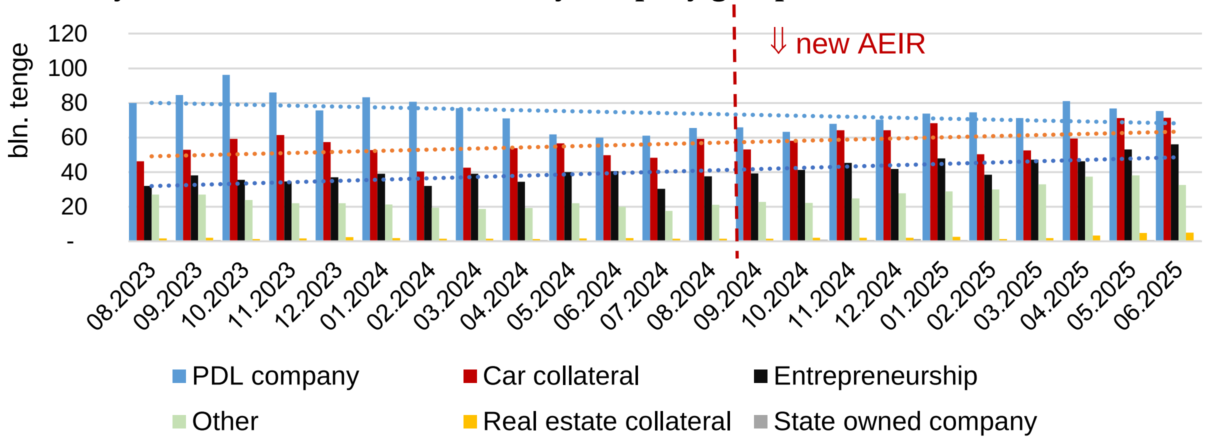
The change in the AEIR did not significantly impact other portfolio segments. For example, at the MFOs sector level, the share of loans secured by real estate remained at 10% for the period from June 2023 to June 2025, as did the share of loans to legal entities, at around 4%.

Chart 3. Dynamics of portfolio distribution by types of collateral



The main lenders by loan volume are companies focused on the personal loan segment, auto loans, and entrepreneurial borrowers (Chart 4). The overall trend over the two years has been upward for auto and entrepreneurial loans and downward for the personal loan segment, which is losing significance under the pressure of regulatory restrictions.

Chart 4. Dynamics of microloan issuance by company group



Activity in the PDL loan market is significantly declining, but a **shift** in the microloan **portfolio structure has been observed** among companies that previously focused only on short-term, small-amount PDL loans (Figure 5). For example, the portfolio of PDL companies has seen a significant increase in unsecured loans, but these are **for business purposes**. The average loan amount for such agreements differs by 10,000 tenge, while the total number remains roughly the same (Figure 6). Therefore, assessing the extent to which this trend is due to changes in the business models of these companies, rather than other factors (such as a formal change in the intended purpose), is only possible through supervisory inspections.

Furthermore, since the beginning of 2025, these companies have added loans secured by real estate, which were previously largely absent.

Chart 5. Structure of the PDL companies' portfolio by type of microloans

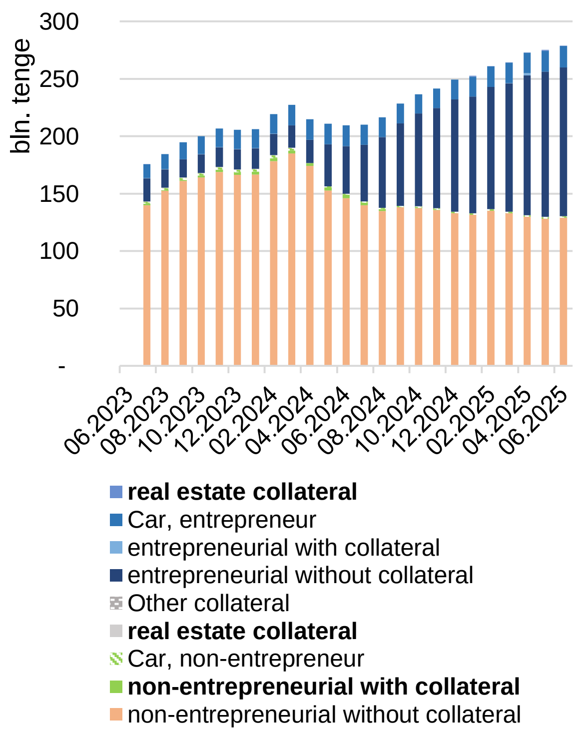
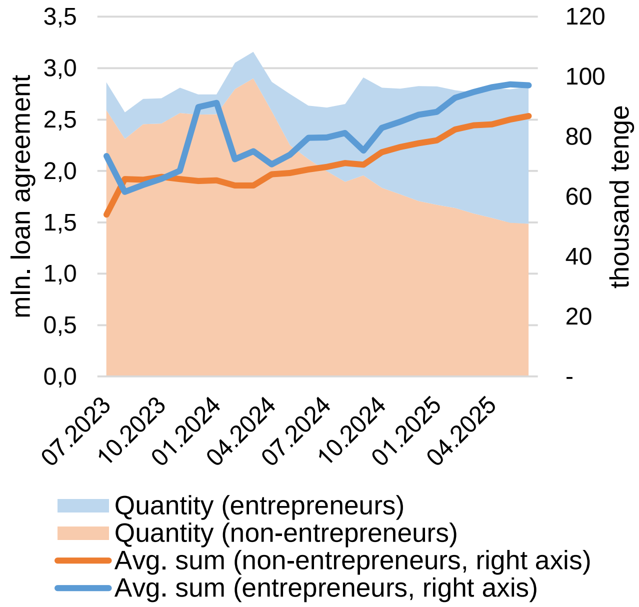


Chart 6. Average amount and number of unsecured microloans of PDL companies



Portfolio turnover in the microfinance sector demonstrates pronounced **differentiation between business models** and is **gradually declining** in response to changes in portfolio structure (Table 2).

Table 2. Portfolio turnover (12-month rolling)

	07.24	08.24	09.24	10.24	11.24	12.24	01.25	02.25	03.25	04.25	05.25	06.25
MFOs Portfolio	1,8	1,8	1,8	1,7	1,7	1,7	1,6	1,6	1,6	1,6	1,6	1,6
PDL Company	4,5	4,3	4,2	4,0	3,8	3,7	3,6	3,5	3,5	3,5	3,5	3,4
Car	1,3	1,3	1,3	1,3	1,2	1,2	1,2	1,2	1,2	1,2	1,2	1,2
Collateral	0,2	0,2	0,2	0,2	0,3	0,3	0,3	0,3	0,3	0,3	0,3	0,3
Government Company	1,0	0,9	0,9	0,9	0,9	0,9	0,9	0,9	0,9	1,0	1,1	1,2
Real Estate	1,3	1,3	1,3	1,3	1,3	1,3	1,3	1,3	1,3	1,3	1,3	1,3
Other	1,6	1,5	1,4	1,4	1,4	1,4	1,4	1,4	1,4	1,5	1,5	1,5

The highest turnover ratios are observed in the portfolio of PDL companies, which is explained by the predominance of microloans with short contract terms (up to 45 days). A year ago, the **portfolio of PDL companies** was updated **4.5 times** over 12 months. Currently, this figure has decreased to **3.4**, which may be due to both the increased share of other credit products and a slowdown in loan repayments. No significant changes have been observed for other groups of companies.

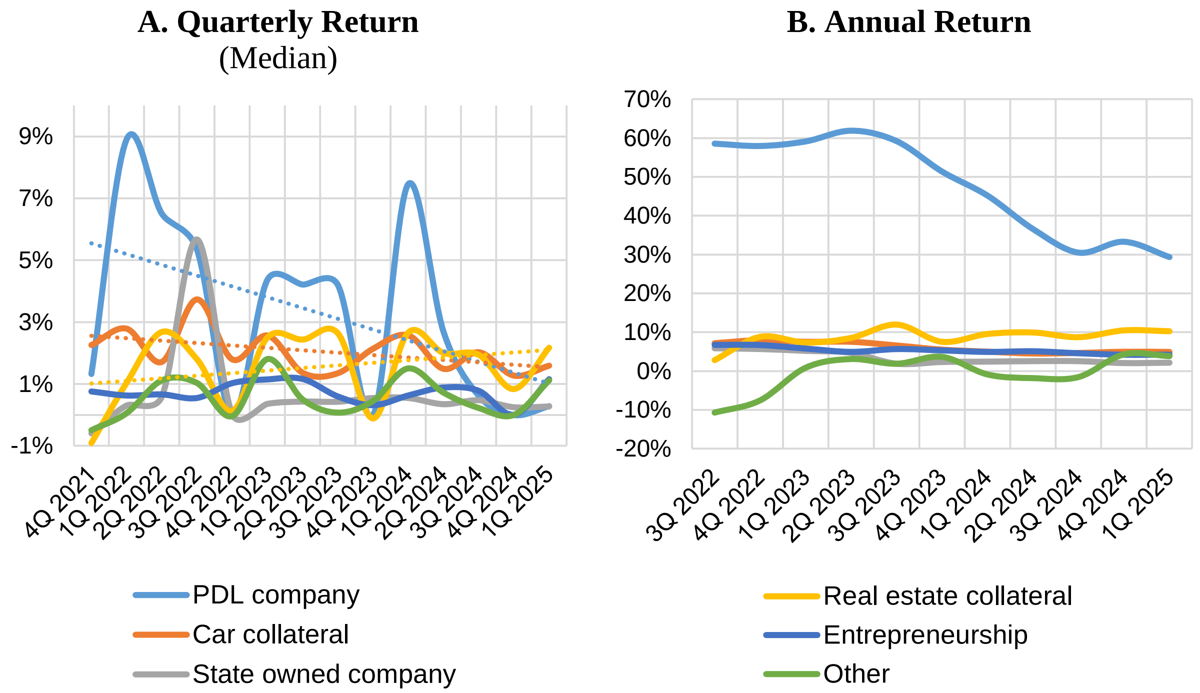
Profitability

Overall, the MFOs market is characterized by fairly high profitability, the level of which depends on the microlending sector (Charts 7, a and b). The highest values, as well as the most significant decline in profitability, are observed among companies active in the PDL loan market. At the beginning of 2022, their **quarterly profitability** rose to **8-9%** due to the high margins of short-term loans and rapid growth in demand. However, gradually, given the introduction of regulatory changes, the trend reversed. The **annual profitability of PDL companies**, exceeding 60% in 2023 and declining to around **30%** by the beginning of 2025, still significantly outperformed other company groups.

The median quarterly profitability for the PDL segment exhibits seasonality, which may be related to the demand cycle for short-term loans: peak activity in 2022-2024 occurred at the beginning of the year, following a potential period of increased consumer spending (New Year's expenses, school season). However, in 2025, half of the PDL companies demonstrated profitability of **less than 1%** per quarter. The reasons for this significant decline were a tightening of the regulatory environment (gradual reduction of nominal rates, the introduction of AEIR and requirements for DSTI, etc.), as well as measures to restructure and forgive microloans for individuals (at the end of 2022 and 2023).

Companies with portfolios dominated by microloans secured by real estate, cars, business loans, and general-purpose products have demonstrated more stable profitability levels, but there has also been a slight overall decline. Overall, since the reduction of the maximum AEIR to 46% in August 2024, there has been no clear impact on the profitability of these companies. This is explained by the lower level of portfolio risk and, consequently, lower interest rates compared to the PDL.

Chart 7. Return on Income-Generating Assets



Taken together, these dynamics confirm a structural transformation of the market: the high profitability of short-term online products is declining, and players are gradually beginning to reorient themselves toward longer-term strategies, which is reducing the overall profitability of the sector as a whole.

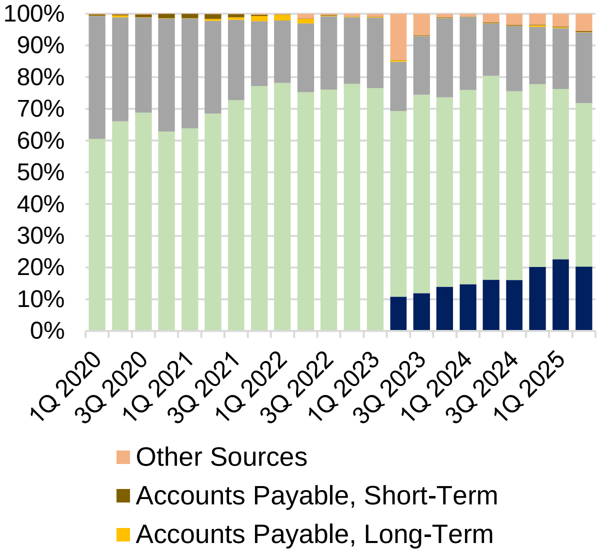
Funding

Until mid-2023, funding for MFOs sector was based almost entirely on long-term borrowings and partially on accounts payable, with no capital market debt instruments (Charts 8 A and B). Since July 2023, issued securities have been included in the structure for the first time, and their share has gradually increased, reaching approximately 15-20% by mid-2025. The share of long-term loans, however, remains dominant.

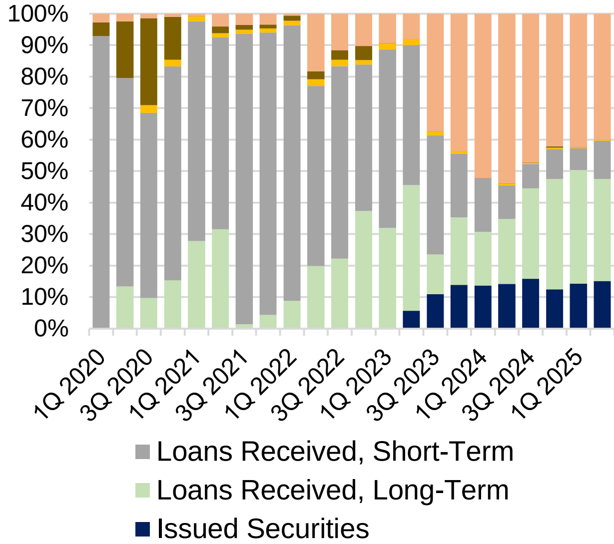
In the funding structure of PDL companies, the share of short-term debt has decreased, while long-term loans have stabilized at approximately 30% of the total. At the same time, the share of other sources has increased significantly, which may require additional disclosure. Current trends indicate a transition in the PDL segment from a model dominated by short-term borrowing to a more balanced funding system, which is also accompanied by a gradual change in the structure of their microloan portfolio.

Chart 8. Funding structure

A. Funding structure excluding PDL companies



B. Funding structure of PDL companies

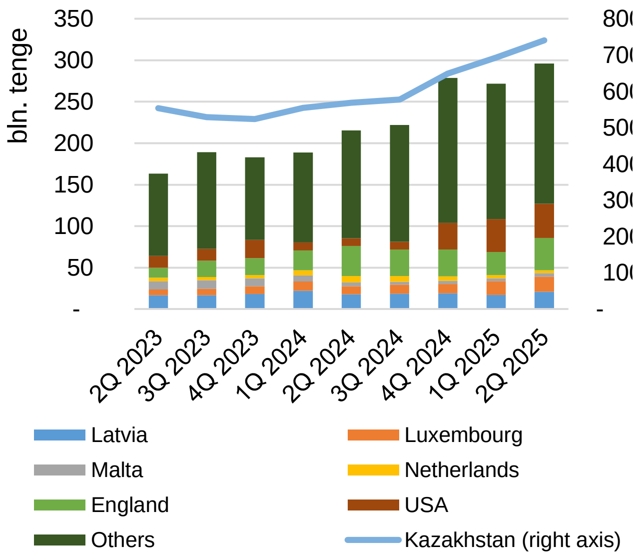


Note: issued securities of MFO are recorded in the financial statements from Q3 2023.

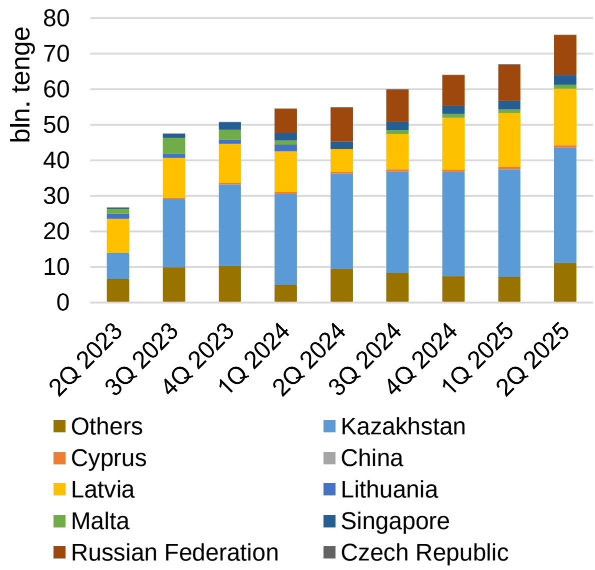
In terms of capital jurisdiction, Kazakhstan remains the key source, providing more than half of all funding (Figures 9 A and B). However, the list of countries funding PDL companies and other IFIs differs. Baltic jurisdictions (Latvia) and Cyprus also play a significant role, steadily increasing their share. Since 2024, the participation of the Russian Federation and, to a certain extent, the Czech Republic has increased significantly, while other sources remain relatively small. Overall, the total volume of capital raised by PDL companies is increasing, reflecting the active expansion of the sector.

Chart 9. Main funding jurisdictions excluding

A. Excluding PDL companies



B. PDL companies



Conclusion

The microfinance (MFOs) sector continues to undergo structural changes, both in response to increased regulation and due to the evolution of the industry itself. The number of players is declining, primarily due to companies focused on short-term and small-amount unsecured microloans (PDLs). Several large MFOs have completed or are in the process of transforming into banks.

The MFOs loan portfolio continues to grow at a high rate (39% year-on-year as of June 1, 2025), primarily driven by the unsecured and car-secured segments. A new trend is observed: the growth of unsecured microloans for entrepreneurial purposes. There are a number of specific features of this process, the presence of which does not allow us to draw conclusions about the true processes of this market shift based on the available data.

Overall, the effect of tightened regulation, including the AEIR for microloans and the PDL segment in August 2024, on the loan portfolio and profitability of the MFOs market is being observed. However, the changes introduced under the AEIR rather continued and strengthened existing trends in the market than were the cause itself.