NATIONAL BANK OF KAZAKHSTAN

# BANK LENDING SURVEY

## 1th quarter of 2022

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## Corporate lending

Demand for loans from business entities in many banks decreased quarter on quarter (q/q) in the 1st quarter of 2022, especially for small and medium-sized businesses (Figure 1). There was also a decrease in banks' willingness to lend to small and medium-sized businesses. Credit conditions tightened slightly, while the cost of credit sources increased noticeably (Figures 2, 4).

Half of the banks noted a decrease in demand from small businesses compared to the previous quarter in the reporting period, while a third of the banks assess the decline in the demand index as significant. The total number of loan applications for the quarter decreased for the first time since the 2nd half of 2020. Thus, the number of applications decreased by 3% q/q to 260 thousand applications, and the average application size increased almost 4 times to 25.3 million tenge. The main drop in the number of loan applications was caused by Russian subsidiary banks in Kazakhstan, which were under US and EU sanctions. Other banks attribute the decrease in credit demand to the restrictions during the state of emergency (SE) in January, the increase in the cost of credit sources in March due to National Bank's base rate hike, as well as the temporary lack of government program funding in the 1st quarter of 2022. Major banks also note some tightening in conditions of state lending programs of Damu Fund. Thus, certain sectors of the economy were excluded and the loan terms were somewhat shortened.

Demand for loans from medium-sized businesses decreased and a third of banks considered it as significant. The number of loan applications decreased by 32% q/q to 1.1 thousand according to the results of the 1st quarter, and the average size of the application decreased by 11% q/q, amounting to 517 million tenge. Some large banks explain the decline in demand by the action of the state of emergency in January as well as the increase in cost of credit sources. In particular, there was a decrease in the number of profitable projects for business under high interest rate conditions.

Unlike small and medium-sized business entities, banks' estimates of credit demand from large businesses were diverse, but still the overall demand index shaped negative. There was a significant decrease in the number of incoming loan applications from large business clients of Russian subsidiary banks, some of whom went to other banks both to obtain new and refinance current loans. In addition, some respondents note historically low activity from large borrowers in the first quarter of the year in comparison with other periods. As a result, the total number of applications decreased by 30% to 184, and the average application size decreased by 12% to 5.5 billion tenge.

Banks' willingness to lend business entities decreased significantly. Approval ratios for applications from small, medium and large businesses for loans approached historical minimum values in the 1st quarter of 2022, decreasing to 33%, 50% and 45%, respectively. The decrease is explained by tightening of business lending conditions. Many banks tightened their risk policies and increased the requirements for the quality of borrowers as a result of the state of emergency in January, which increased the number of customer deferral requests due to uncertainty related to the impact of sanctions against the Russian Federation on the economy of Kazakhstan, and also owing to subsequent logistical problems in the world and rising prices. At the same time, the internal and external shocks in the reporting quarter reduced the cash flows of individual business groups, which also limited their ability to borrow. Furthermore, large banks significantly restricted or temporarily suspended the issuance of online loans with credit scoring to businesses due to increased risks in the reporting quarter.

Interest rates on business loans have increased noticeably mostly for large and medium-sized businesses. Meanwhile, half of the banks consider the increase in the cost of credit sources to be significant. The increase in interest rates occurred for almost all credit products of banks according to respondents.

Many banks expect a slight increase in demand for loans from small businesses in the next quarter, while demand from medium and large businesses will remain on average at the level of the 1st quarter (Figure 1). Banks' willingness to lend to business entities, especially medium and large ones, will continue to decline slightly in the next quarter. An extra slight increase in interest rates on loans is also expected (Figure 4).

## Retail lending

In the 1st quarter of 2022, the demand in retail lending increased q/q for mortgage and consumer loans, while the demand for car loans decreased (Figure 5). The willingness to provide loans decreased to some extent, mainly, in large banks. Lending conditions were tightened for all types of retail loans (Figure 6).

Growth in the demand for mortgage lending is mostly related to the increase of threshold for the minimum sufficiency of pension savings` withdrawal in order to purchase or repair housing from April 1, 2022. Banks note that within the framework of this program, the largest inflow of customers during the reporting quarter fell on the month of March. However, due to the suspension of banking activities during the state of emergency introduced in January, the number of mortgage applications in the reporting quarter remained at the level of the previous period and amounted to 135 thousand applications (in the 4th quarter of 2021 – 137 thousand applications).

A slight increase in the demand for consumer lending is associated with an increase in spending on durable goods among the population and a marketing campaign by a separate retail bank. Despite such an increase in demand, the suspension of lending during the state of emergency and the impact of the sanctions imposed on the activities of subsidiary Russian banks were reflected in a decrease in the number of received applications for secured and unsecured consumer loans by 16% and 10%, and amounted to 9 thousand and 10.5 million applications, respectively (in the 4th quarter of 2021 – 11 thousand and 11.7 million applications, respectively).

In the 1st quarter of 2022, a decrease in the demand for car loans has occurred mainly in large banks. Such decrease in the demand was due to the suspension of providing car loans under preferential programs, and the lack of cars in showrooms negatively affected the issuance of loans. Thus, the number of requests for them decreased by 21% and amounted to 411 thousand applications (in the 4th quarter of 2021 – 519 thousand applications) in the reporting quarter. Noticeably, in February 2022, it was announced that funds were allocated for a preferential car loan program, under which banks expect to receive the first tranche in the next quarter.

In the reporting quarter, the requirements for collateral and the solvency of customers increased, and due to the increase of the base rate of the National Bank, banks revised the interest rates on their products. Thus, the bank margin on loans has significantly narrowed in the mortgage lending (Figure 7). In the 1st quarter of 2022, the share of mortgage loan approvals decreased from 56% to 52%, and the share of rejected application increased from 35% to 44% q/q. Consumer lending conditions were tightened in terms of the borrower's creditworthiness requirements (Figure 8), and with the increase in interest rates, banks also revised the thresholds in the scoring model of unsecured consumer loans and car loans. The approval rate for them decreased from 37% to 34% and from 13% to 10%, and the share of rejected applications increased from 61% to 64% and from 86% to 90%, respectively (Figure 9). At the same time, there is a slight loosening of unsecured consumer lending`s conditions in the form of an increase in the credit limit in a separate retail bank.

In the 2nd quarter of 2022, banks expect a decrease in the demand for mortgage and collateralized consumer loans, while they expect an increase in the demand for unsecured consumer loans. Despite the fact that in the next period banks expect to receive a tranche under the preferential car loan program, they claim that the demand for car loans will decrease to some extent. Also, banks are planning to tighten lending conditions and increase interest rates for all segments of retail lending.

# General information about the survey

The Bank lending survey is conducted by the National Bank on a quarterly basis to assess the changes in supply and demand for credit resources. The Survey is addressed to bank managers who are responsible for the formation of bank's general credit policy and risk management. During the research, all banks are surveyed out by filling questionnaires and subsequent interviews with representatives of individual banks.

The choice of answers to the most of questions assume one of the following:

-1 = will decrease/decreased significantly

-0,5 = will decrease/decreased slightly

0 = will remain/remained at the same level

0,5 = will increase/increased slightly

1 = will increase/increased significantly

Prior to Q1 2018 survey results were aggregated as a simple average by calculating the net percentage change (NPC)– difference between the proportion of respondents who have noted an increase (loosening) in parameter and the proportion of respondents who have noted its decrease (tightening).

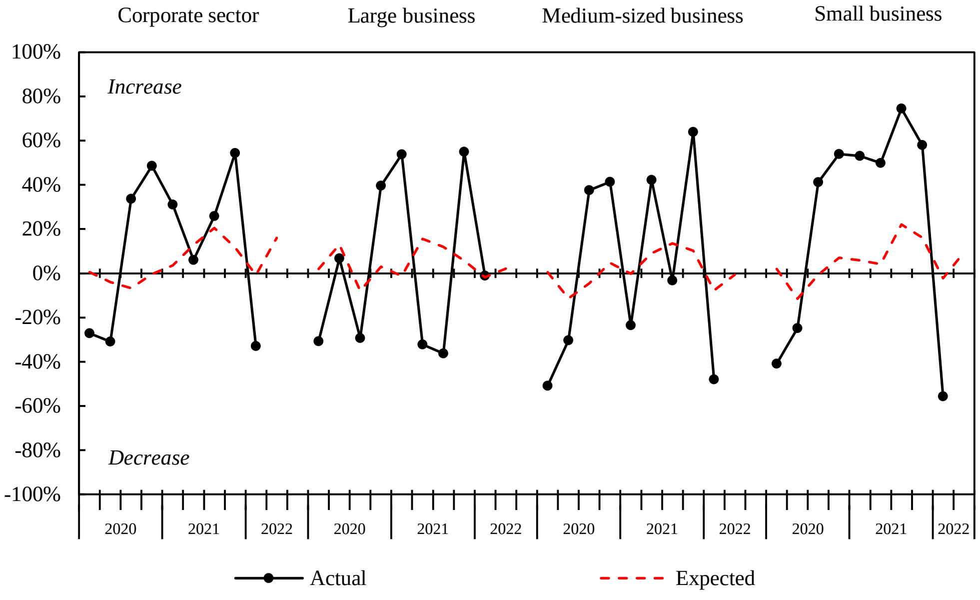
Starting from Q1 2018, the survey results are aggregated in the NPC, taking into account the bank's share in the corresponding segment of the lending market. The value of this indicator can vary from -100% - if all banks choose "decreased/tightened significantly" - to 100% - if all banks choose "increased/loosened significantly"

A positive value of this NPC indicator reflects a growth trend (loosening), a negative value indicates a decrease (tightening) of the parameter. At the same time, value of the net percentage change does not show the amount of change in the parameter, but only indicates the change itself.

Also, starting from Q1 2018, questions of received and approved loan applications were included to the questionnaire (Questions №21, 22, 23). The total number of received applications includes both, applications for which a credit decision was already made (approved/rejected), and applications that were on consideration during the time of conducting the survey.

## Figure 1. The demand of corporate business entities for credit resources

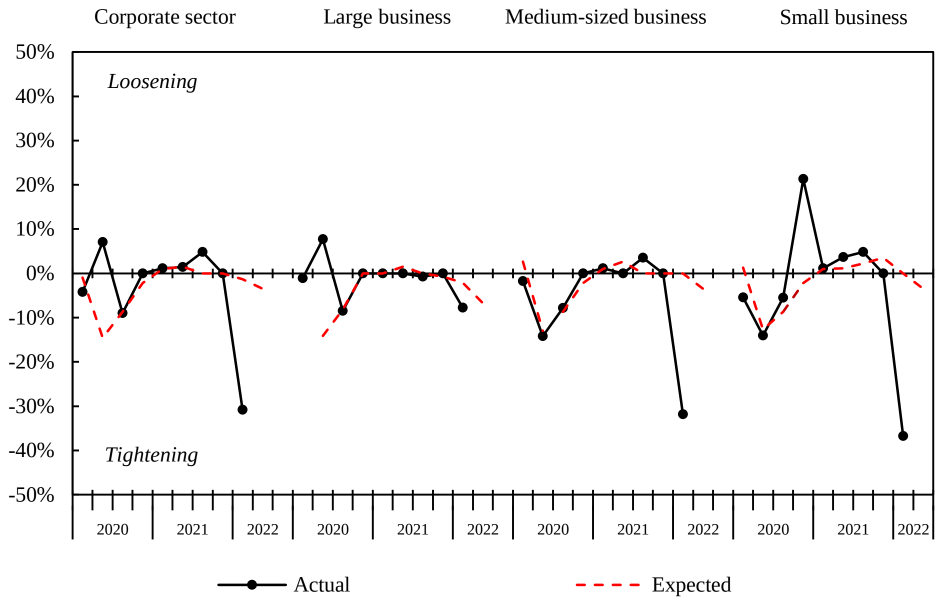
Net percentage change




(a) Question №1: How has the demand of corporate business entities for loans changed over the past 3 months, excluding seasonal fluctuations? In your opinion, how will the demand of corporate business entities for loans change in the next 3 months?
(b) A positive net percentage change is a sign of an increase in the demand for credit resources by entrepreneurs.

## Figure 2. Lending terms to corporate business entities

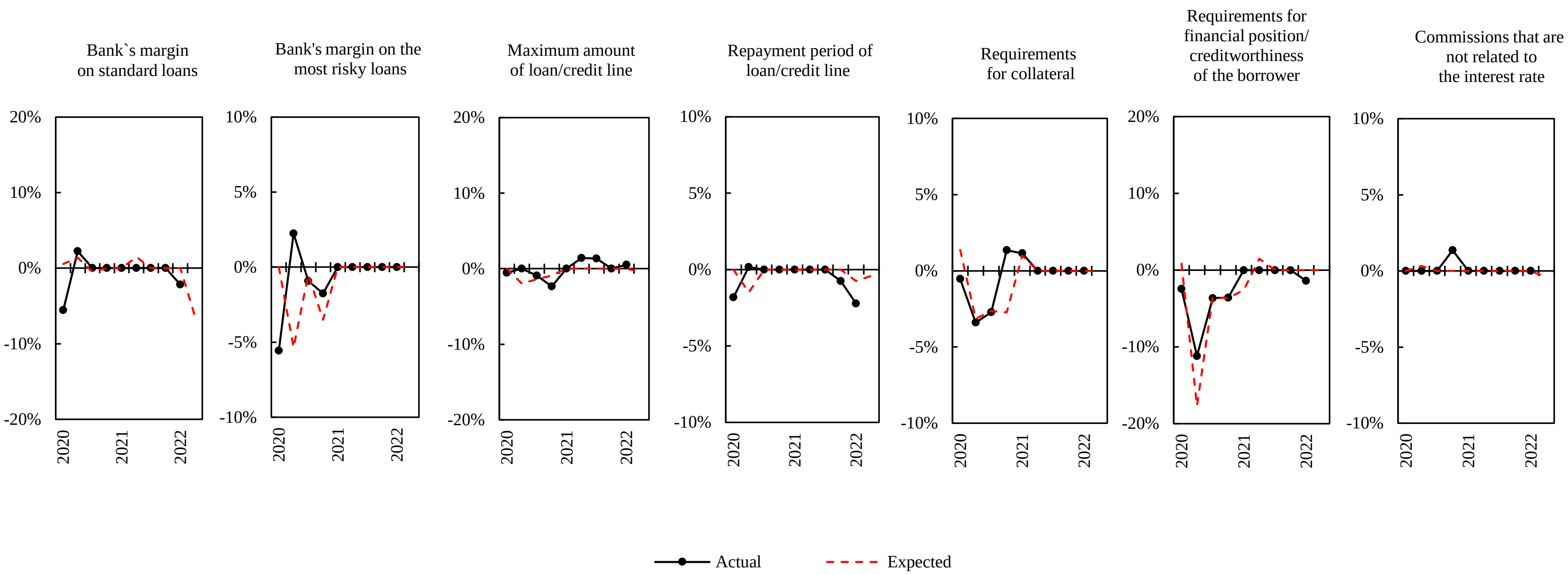
Net percentage change




(a) Question №5: How have the lending terms to corporate business entities changed over the past 3 months? In your opinion, how will the lending terms to corporate business entities change in the next 3 months?
(b) A positive net percentage change is a sign of a loosening of lending terms.

# Figure 3. Lending terms

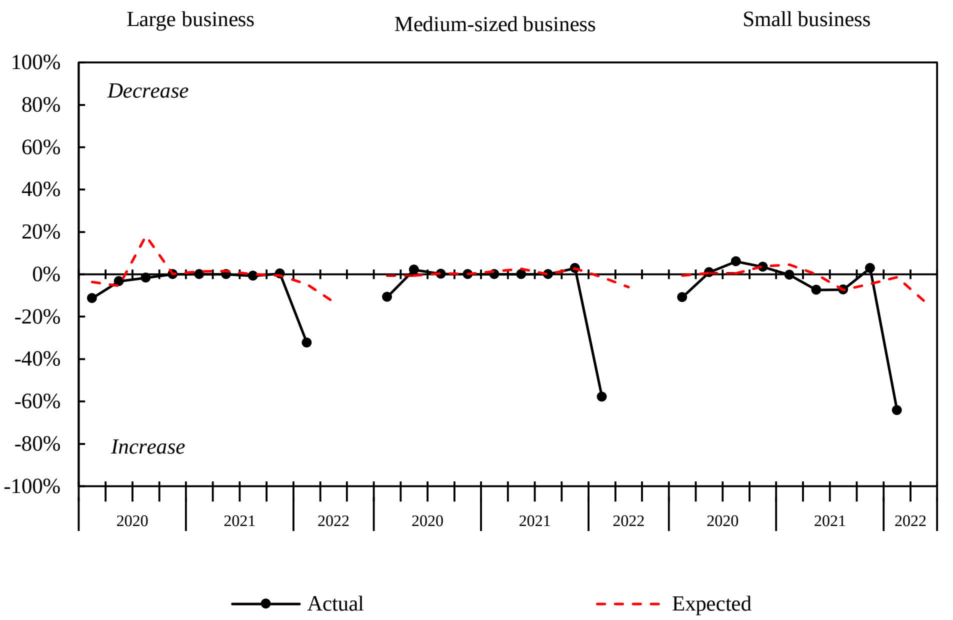
Net percentage change




(a) Question №7: How have the following lending terms to corporate business entities changed over the past 3 months? In your opinion, how will the following lending terms change in the next 3 months?
(b) A positive net percentage change is a sign of a loosening of lending terms.

# Figure 4. Interest rates on loans

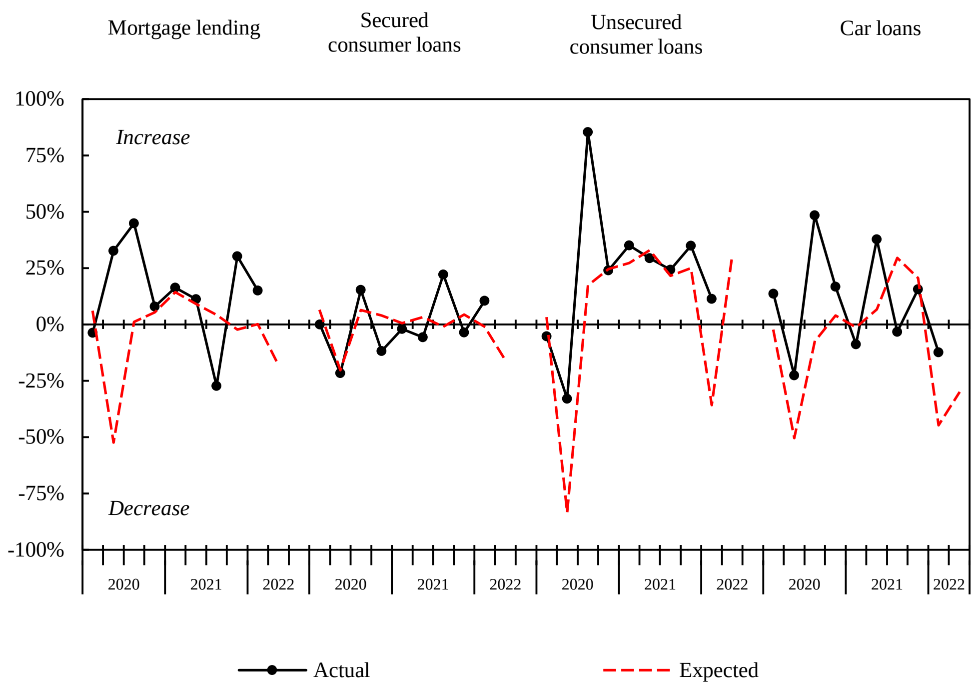
Net percentage change




(a) Question №8: How have the interest rates on loans changed over the past 3 months? In your opinion, how will the interest rates on loans change in the next 3 months?
(b) A positive net percentage change is a sign of a decrease in the interest rates on loans to the corporate sector.

Figure 5. The demand of individuals for credit resources

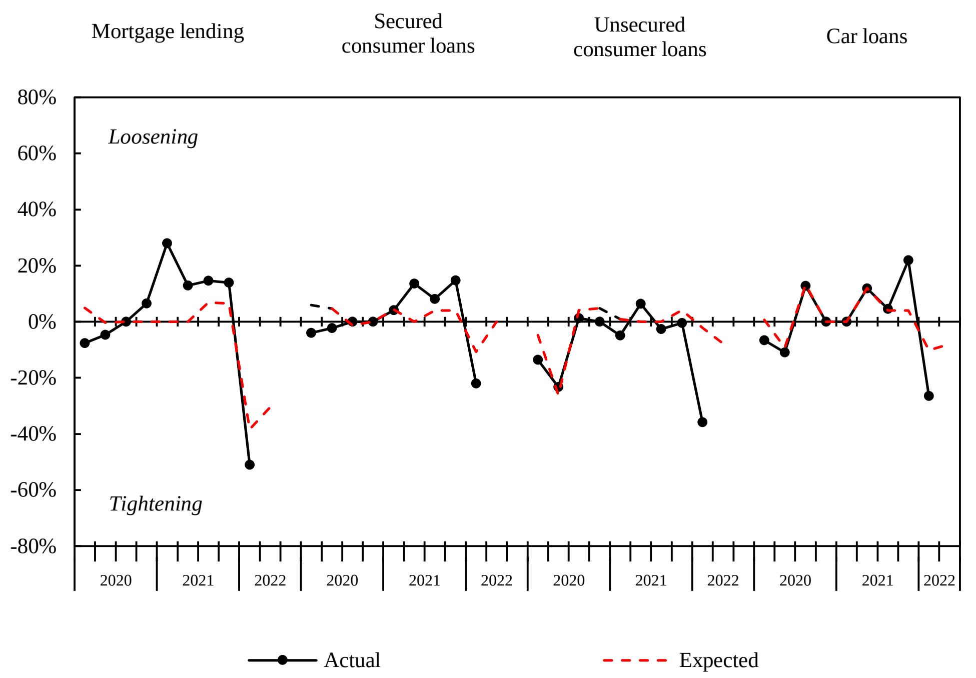
Net percentage change




(a) Question №9: How has the demand of individuals for loans changed over the past 3 months, excluding seasonal fluctuations? In your opinion, how will the demand of individuals for loans change in the next 3 months?
(b) A positive net percentage change is a sign of an increase in the demand of individuals for credit resources.

Figure 6. Lending terms to individuals

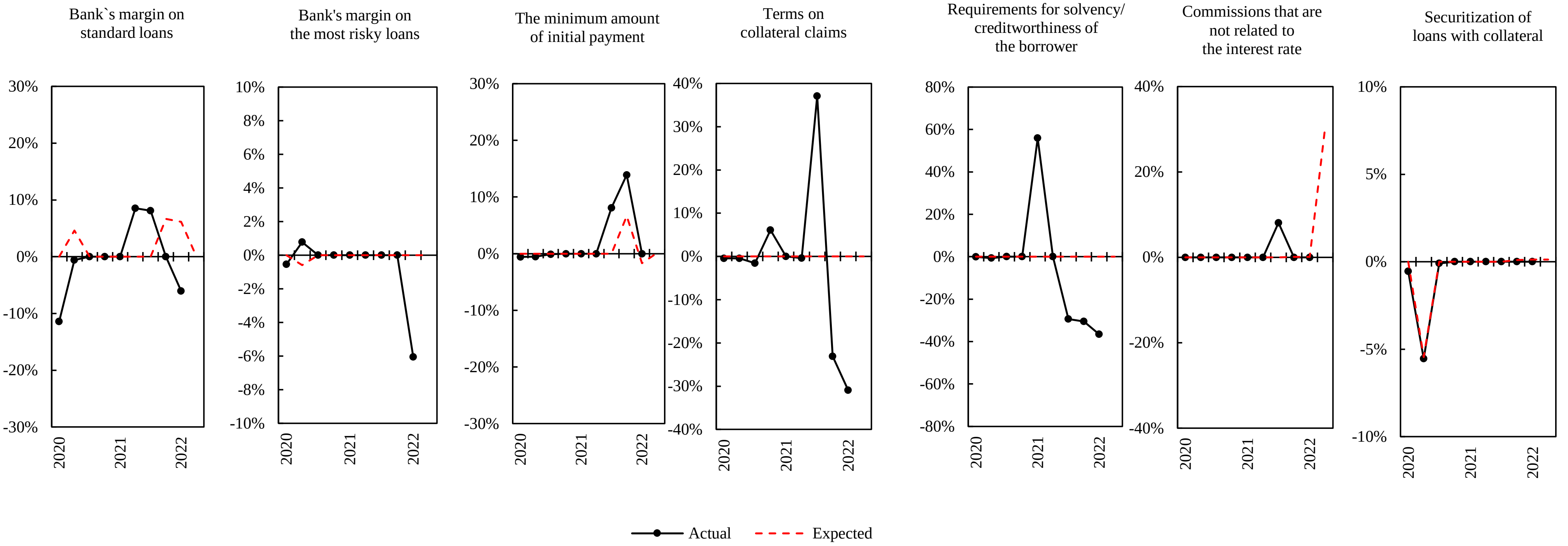
Net percentage change




(a) Question №13: How have the lending terms to individuals changed over the past 3 months? In your opinion, will the lending terms to individuals change in the next 3 months?
(b) A positive net percentage change is a sign of a loosening of lending terms.

## Figure 7. Mortgage lending terms

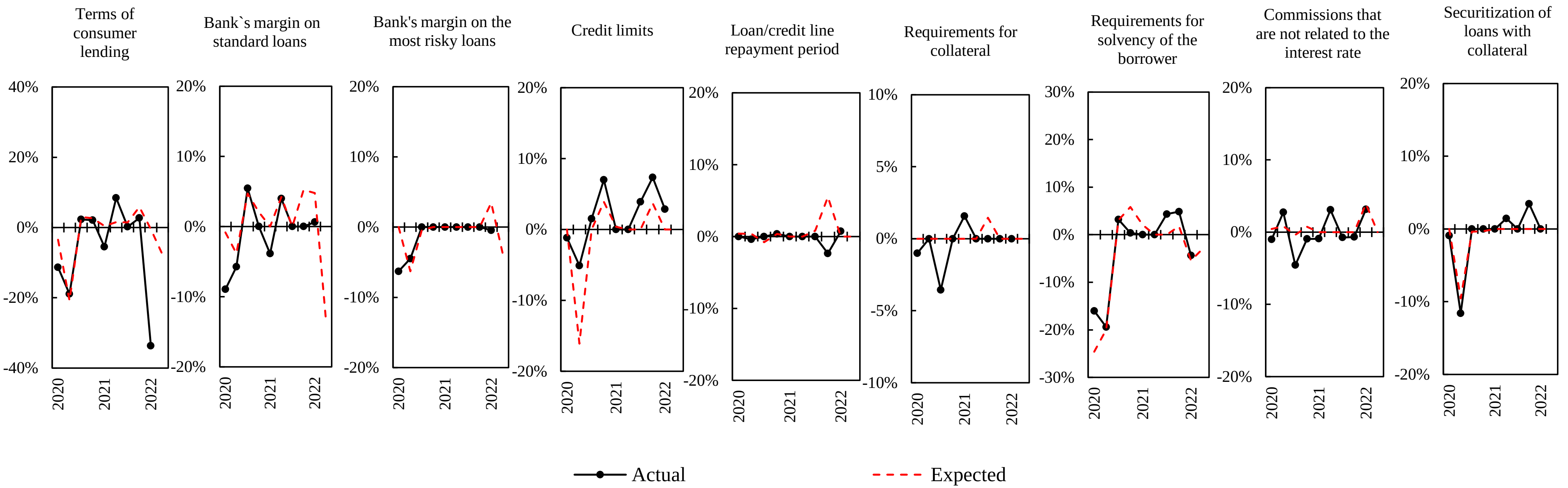
Net percentage change




(a) Question №16: How have the following mortgage lending terms changed over the past 3 months? In your opinion, how will the following mortgage lending terms change in the next 3 months?
(b) A positive net percentage change is a sign of a loosening of mortgage lending terms.

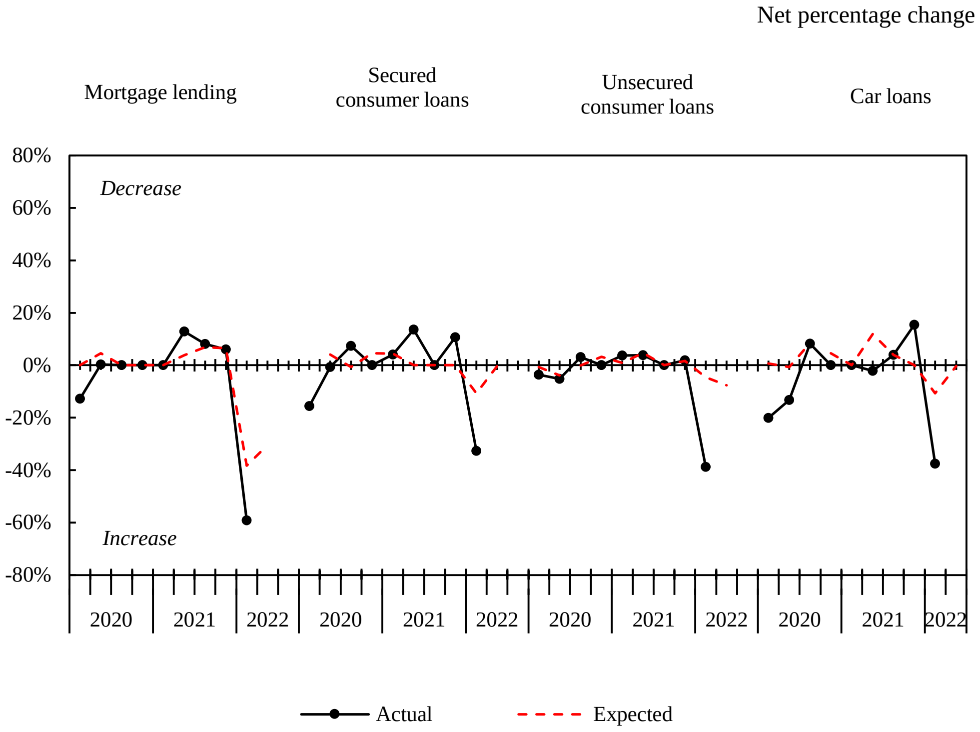
# Figure 8. Consumer lending terms

Net percentage change




(a) Question №13: How have the lending terms to individuals changed over the past 3 months? In your opinion, will the lending terms to individuals change in the next 3 months?
(b) Question №17: How have the following consumer lending terms changed over the past 3 months? In your opinion, how will the following consumer lending terms change in the next 3 months?
(c) A positive net percentage change is a sign of a loosening of consumer lending terms.

## Figure 9. Interest rates on loans




(a) Question №18: How have the interest rates on loans changed over the past 3 months? In your opinion, how will the interest rates on loans change in the next 3 months?
(b) A positive net percentage change is a sign of a decrease in the interest rate on loans to individuals.