NATIONAL BANK OF KAZAKHSTAN

BANK LENDING SURVEY

1st quarter of 2023

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Corporate lending

Based on the 1st quarter results of 2023, the corporate segment has witnessed a continued decline in demand, primarily driven by small and medium-sized businesses.

The persistent negative trend in loan demand from small businesses, especially in large banks (Figure 1), can be attributed to the high cost of credit resources and the temporary suspension of financing under the state program «National Project for Entrepreneurship Development for 2021-2025» (hereinafter referred to as the National Project) during the 1st quarter. Meanwhile, certain large banks with a smaller market share in business lending have observed an increase in applications for unsecured credit products based on scoring models. Consequently, the total number of loan applications from small businesses grew by 7% q/q, reaching 546 thousand. The relatively low loan amounts requested for such loans resulted in a 12% decrease in the average application size, which stood at 19.9 million KZT.

The index of demand from medium-sized businesses also continued to decline in certain large banks (Figure 1). These banks attribute this decrease largely to the rise in the cost of loan, prompting several business entities to suspend long-term and capital-intensive projects. Nevertheless, the number of loan applications received from medium-sized businesses increased by 21% q/q, amounting to 6.5 thousand, with the average application size for these loans rising by 17% to 320.3 million KZT.

In most banks, the demand for loans from large business entities remained stable compared to the 4th quarter of 2022 (Figure 1). However, some medium-sized banks experienced an increase in demand during the reporting quarter, which they believe is a temporary effect resulting from appeals from a significant group of customers in the construction industry. Consequently, the total number of loan applications received increased by 20% q/q, reaching 254, while the average application size rose by 4% to 6.9 billion KZT.

It is important to highlight that several banks have reported a slight ongoing decrease in demand for long-term loans in both local currency and foreign currency, which can be attributed to changes in interest rates during the 4th quarter of 2022.

The willingness of the majority of banks to lend to businesses in the 1st quarter of 2023 has remained relatively unchanged. The approval rate for loan applications from small businesses has remained at 39%. However, this rate has decreased for both medium-sized (by 3%) and large businesses (by 25%) compared to the 4th quarter of 2022, amounting to 48% for both medium-sized and large businesses. Several large banks have contributed to this decline, which they attribute to businesses completing their financial year and submitting applications later, resulting in a significant proportion of decisions not being made within the quarter. Additionally, some respondents have noted the impact of online lending, where the number of applications increases disproportionately to the number of approvals due to the simplified application process.

Banks have made no significant changes to lending terms during the reporting quarter. However, a number of large banks have improved their services for small businesses. These improvements include enhancing the scoring model for assessing customer solvency, digitalizing collateralized and unsecured products, and increasing the share of guarantees provided by JSC «Damu» EDP» (Figure 2). Despite maintaining interest rates at the same level (Figure 4), some banks have highlighted the impact of the previous quarter's increase in funding costs.

The majority of banks anticipate an increase in demand from entities in the corporate segment during the 2nd quarter of 2023 (Figure 1). This positive outlook from several banks is based on several factors, including the launch of financing under government programs, further digitalization of services through improved scoring products, and the introduction of digital products that will incorporate public services. However, some large banks have noted the influence of changes to the National Project, which entails strengthened monitoring of the targeted utilization of funds under government programs. This may, to some extent, result in a reduction in the approval rate and the number of loans issued.

Retail lending

During the 1st quarter, there was an increase in demand for retail loans in the segments of unsecured consumer loans and car loans, while mortgage loans and consumer collateralized loans experienced a slight decline (Figure 5).

The decrease in demand for mortgages primarily occurred in large banks. Banks attribute this decline to the rapid utilization of monthly limits on funds allocated under the state program «7-20-25». Additionally, banks acknowledge the influence of seasonal factors, as the 1st quarter tends to exhibit lower demand for mortgages at the beginning of each year. The number of applications received for mortgage lending decreased by 13% q/q to 194 thousand applications. Despite a minor decrease in collateral requirements in one particular large bank, overall mortgage lending conditions tightened (Figure 6) due to an increase in interest rates. As a result, the high cost of mortgage loans has contributed to a reduction in mortgage lending under bank's own programs.

The demand for consumer loans displayed varied trends during the reporting quarter. Specifically, the demand for secured consumer loans experienced a more significant decline, primarily driven by decreased demand in one particular large bank. The number of applications received for such loans decreased by 37% q/q to 11 thousand applications. There has been a tightening in the issuance of secured consumer loans, primarily due to increased interest rates and stricter customer solvency requirements (Figure 7). Consequently, the approval rate for applications received in this lending segment decreased to 46.7% (compared to 57.8% in the 4th quarter 2022).

In unsecured consumer lending, several banks have reported an increase in demand despite the absence of active marketing campaigns. Furthermore, one specific bank has introduced the option to apply for an unsecured consumer loan online, while others have conducted promotional contests among loyal customers, contributing to the heightened demand in this lending segment. The number of applications received for unsecured consumer loans has experienced a slight increase of 8% q/q to 15.9 million applications. There have been no significant changes in the conditions of unsecured consumer lending, except for stricter creditworthiness requirements. As a result, the rejection rate for applications received in this lending segment has risen to 68.3% (compared to 64.7% in the 4th quarter 2022).

Several banks have noted an increase in demand for car loans during the 1st quarter, particularly in the secondary car market. This growth is attributed to a lower average waiting time for cars and a decreased deficit of cars in the market. Additionally, public interest in preferential car loan programs has also influenced the increased demand in the reporting quarter. Consequently, the number of applications received for car loans has risen by 7% q/q to 532 thousand applications. There has been a general relaxation in lending conditions; however, one specific large bank has reduced the credit limit and tightened customer solvency requirements. Overall, many banks have acknowledged the impact of changes in interest rates on the conditions for issuing consumer loans and car loans in the 1st quarter (Figure 9).

Looking ahead to the next quarter, banks anticipate that demand for consumer lending will remain at the same level as the 1st quarter. However, they expect an increase in demand for mortgages and car loans due to promotional efforts for their own products. In retail lending, banks, as a whole, do not plan significant changes to lending terms. Nevertheless, they anticipate a potential review of interest rates, which will depend on the decision regarding the base rate set by the National Bank of Kazakhstan.

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).

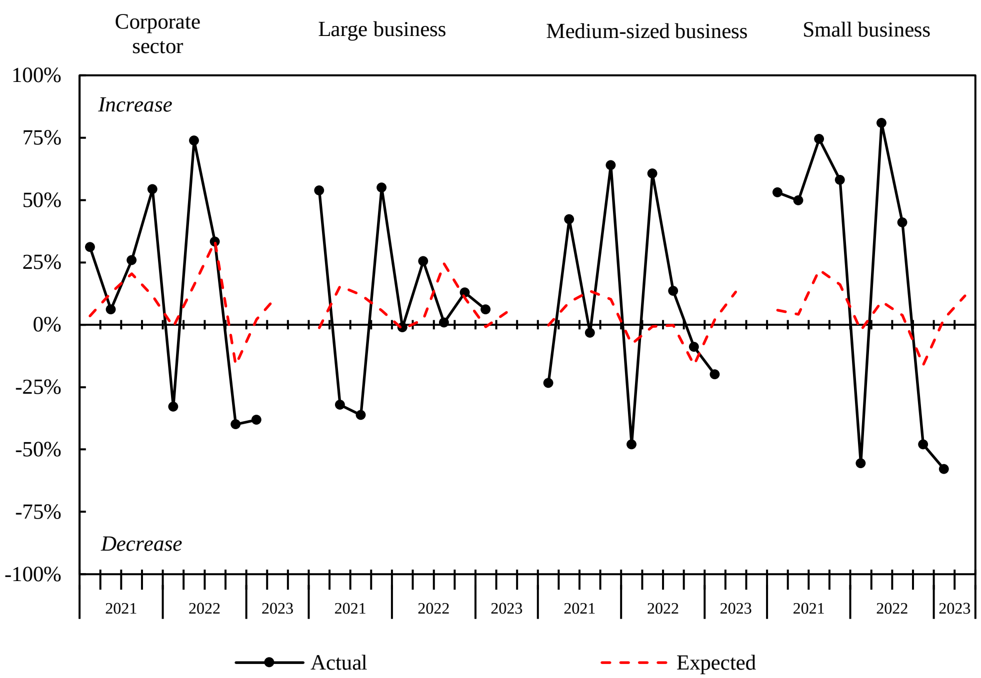
Starting from Q1 2018, the survey results are aggregated in the NPC, taking into account the bank's share in the corresponding segment of the lending market. The value of this indicator can vary from -100% - if all banks choose "decreased/tightened significantly" - to 100% - if all banks choose "increased/loosened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

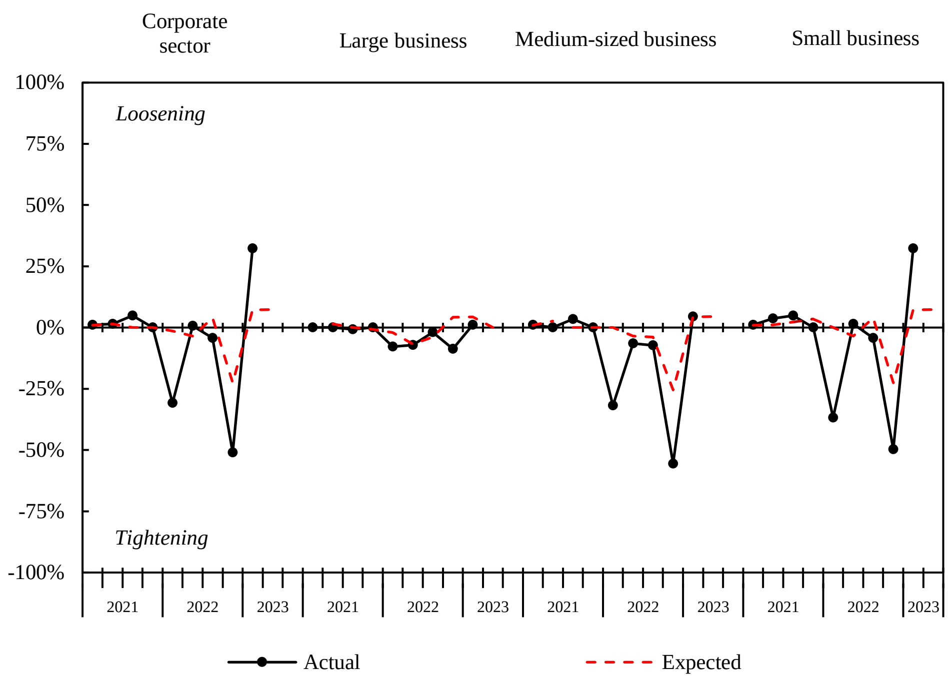
Net percentage change



(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

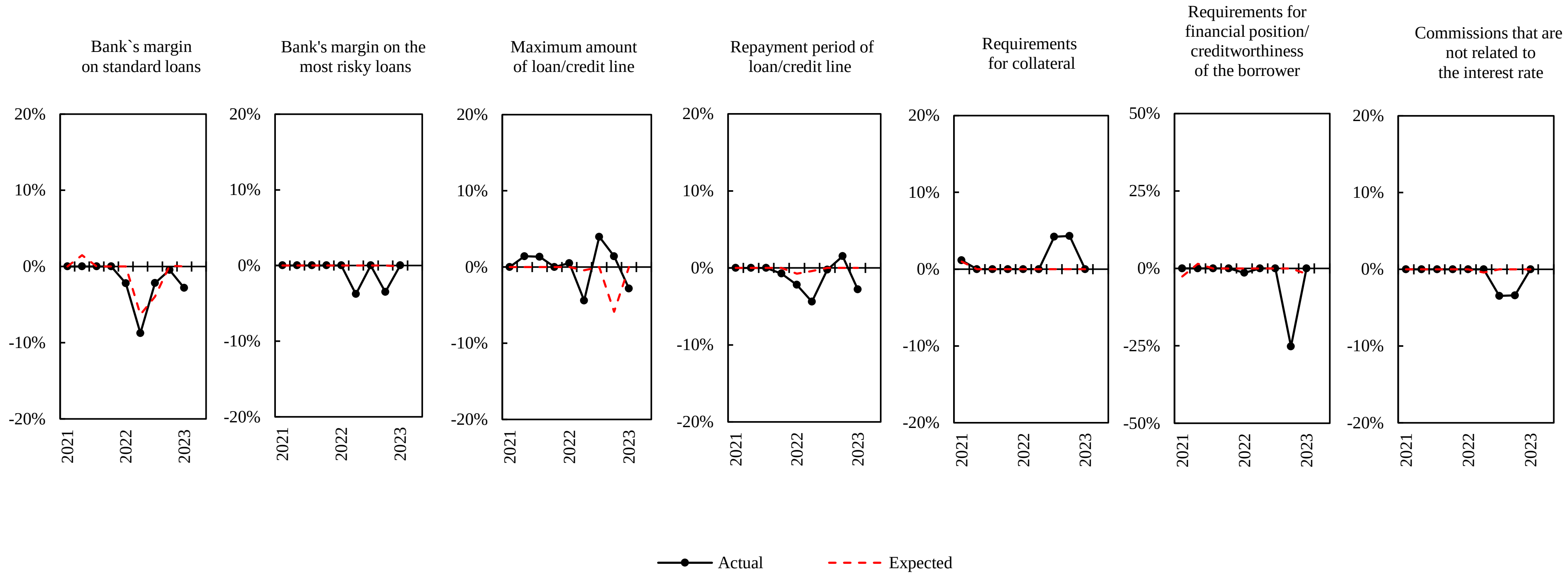
Net percentage change



(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.

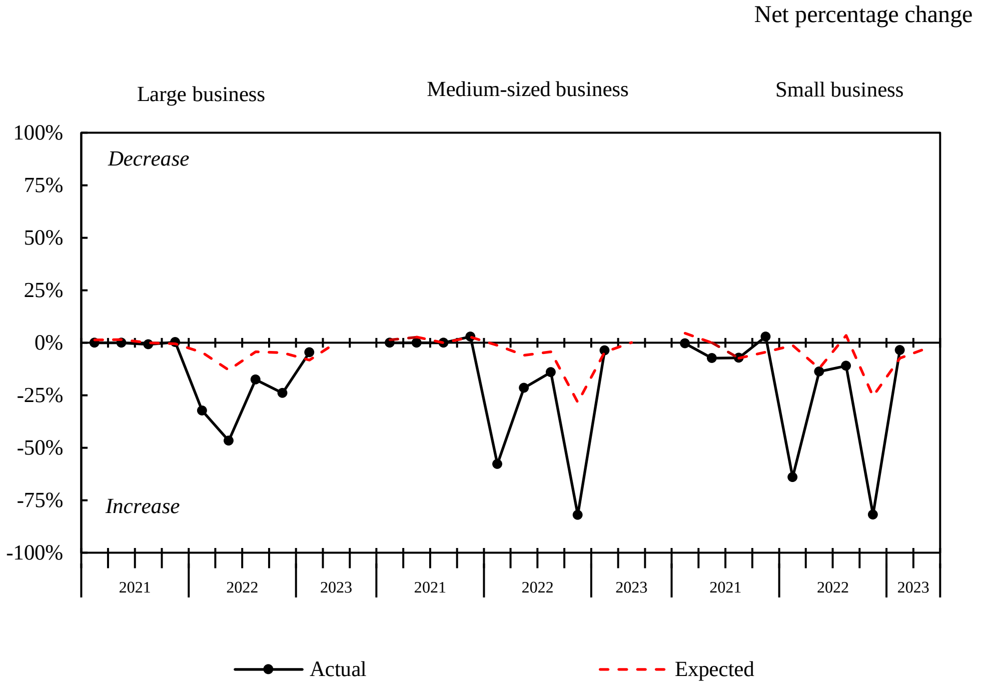
Figure 3. Lending conditions

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.

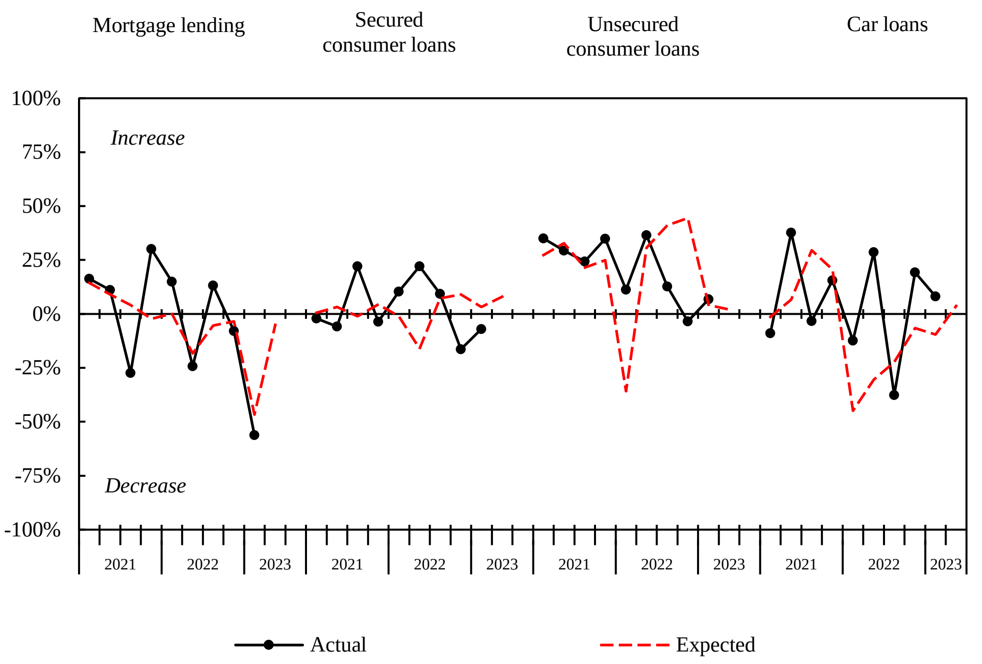
Figure 4. Interest rates on loans



(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

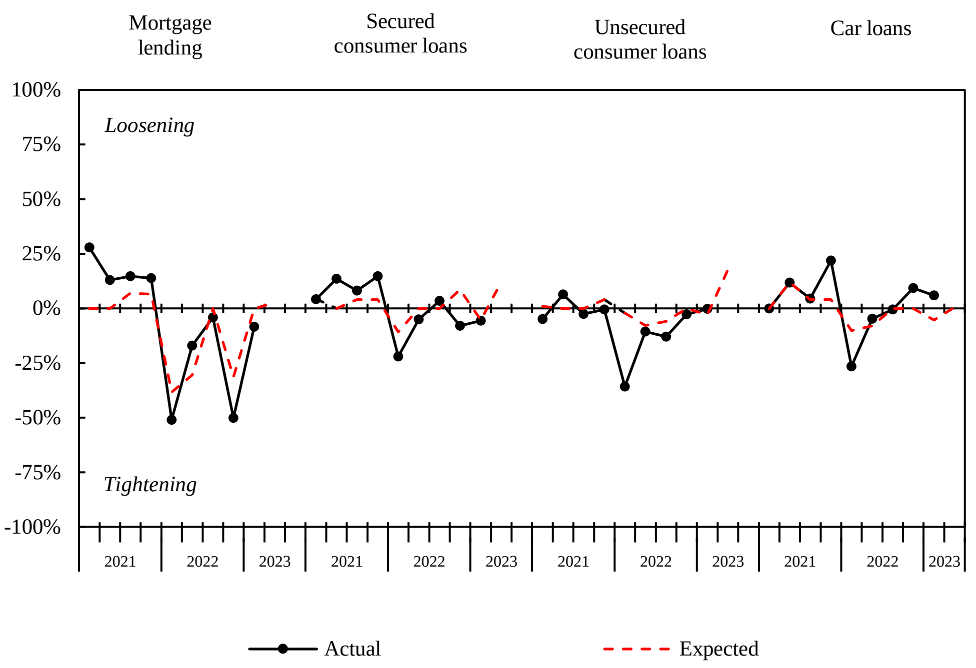
Net percentage change



(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

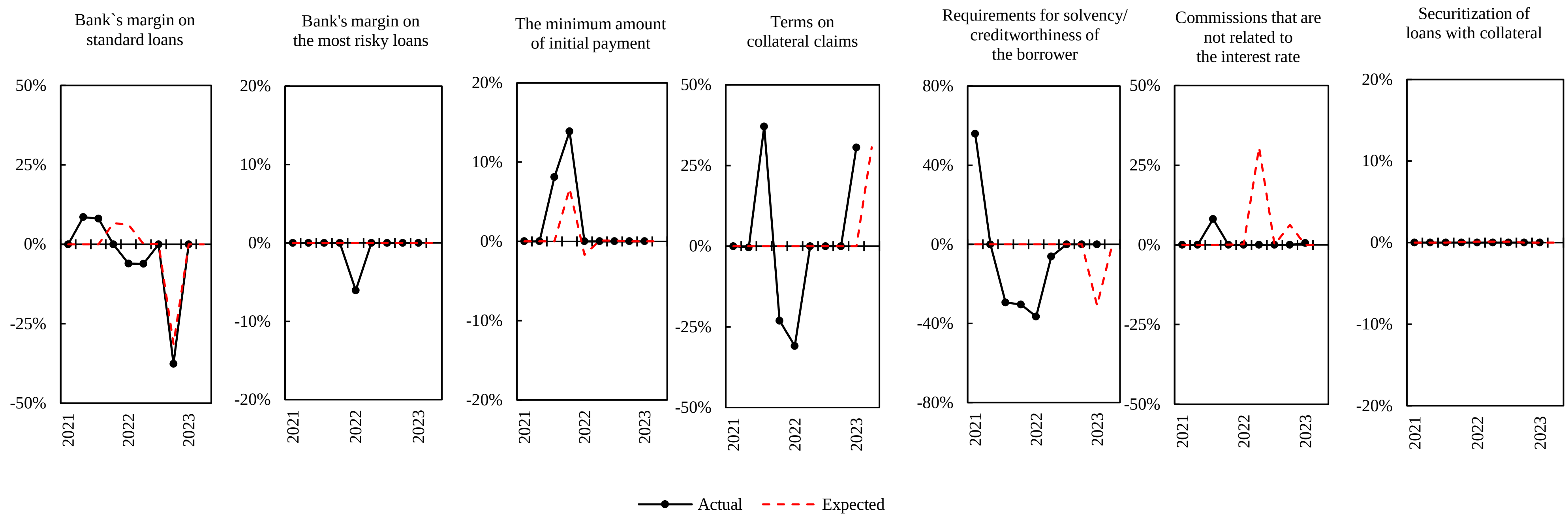
Net percentage change



(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

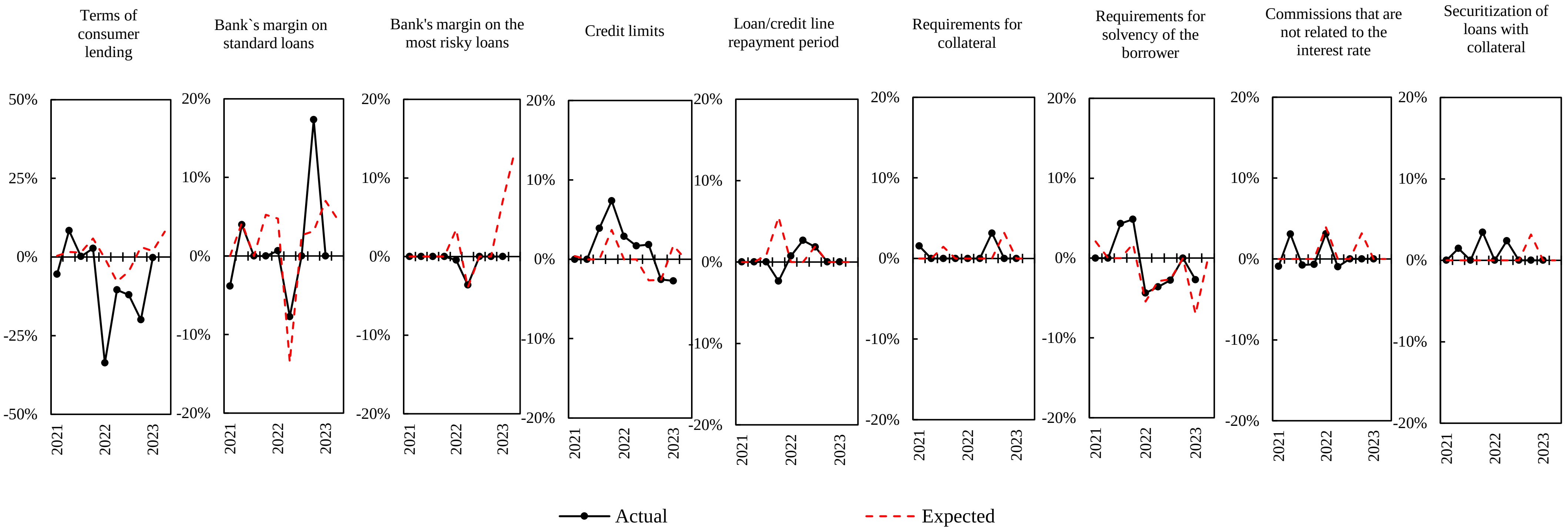
Net percentage change



(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.

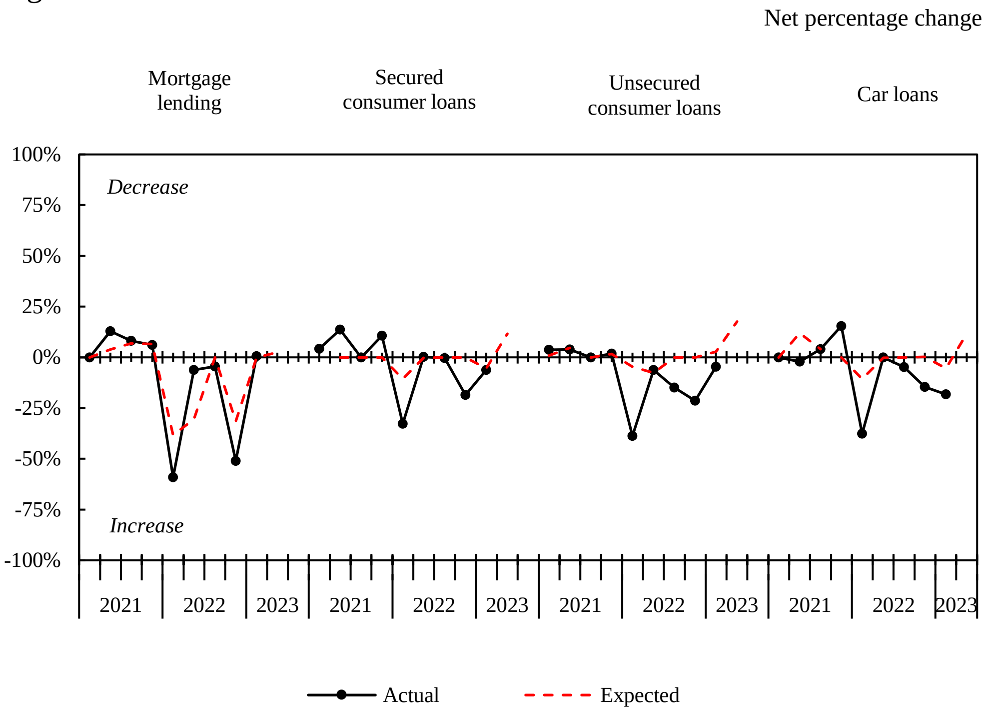
Figure 8. Consumer lending terms

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.