NATIONAL BANK OF KAZAKHSTAN

BANK LENDING SURVEY

2nd quarter of 2023

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Corporate lending

In the reporting quarter there was a substantial increase in demand from corporate entities, primarily driven by the surge in demand from small businesses.

The loan demand index for small businesses witnessed a noteworthy raise, particularly within major banking institutions (Figure 1). This increase can be attributed primarily to the resumption of financing in the first direction of the state program «National Project for Entrepreneurship Development for 2021-2025» (hereinafter referred to as the National Project). Furthermore, several major banks have noted the softening of application review parameters, the expansion of partner-shop networks, the launch of new products and intensified marketing efforts. Consequently, the aggregate quantity of loan applications from small businesses has surged by 26% (q/q), reaching a total of 687 thousand applications, and the average size of applications increased by 21% (q/q) and constituted around 24.1 million KZT.

Despite a decline in the number of applications received, the demand index from medium-sized enterprises during the reporting quarter remained relatively stable, displaying modest growth within the positive range (Figure 1). The elevation in the demand index can be attributed to a minor growth in credit demand observed in certain major banks. Meanwhile, the overall reduction in incoming applications is due to a decrease in demand for loans in a number of banks. According to respondents, the decline in applications is primarily a consequence of the ceasing of funding for the second direction of the National Project by the end of the reporting quarter (the amount of funds planned and allocated for 2023 has been used up). Furthermore, some banks have shifted their lending strategy, moving from medium-sized enterprises to a more active lending approach targeting small businesses for working capital replenishment. Consequently, the number of loan applications received from medium-sized enterprises has declined by 19% (q/q) to 5.3 thousand, while the average application size has risen by 16% (q/q) to 372.1 million KZT.

Demand for loans from large corporate entities in most banks experienced a slight contraction in the 2nd quarter compared to the preceding quarter (Figure 1). Several major banks attribute this decline to the elevated cost of credit resources and unfavorable macroeconomic conditions, leading to the suspension of capital-intensive and long-term projects by major corporate entities. Consequently, the total amount of loan applications received diminished by 15% (q/q) to 217 applications, with the average application size contracting by 28% (q/q) to 4.9 billion KZT.

Approval rates for loan applications slightly decreased for small and medium-sized enterprises, while experiencing an upturn for large enterprises, and reached 36%, 40%, and 58%

respectively for the reporting quarter. The decline in approval rates for small business applications was mainly due to the renewed funding for the first direction of the National Project, leading to a substantial influx of incoming applications. Additionally, certain banks have reported the influence of an enhanced scoring models. The decrease in loan approval ratio for medium-sized enterprises is primarily associated with specific major banks that have reevaluated their lending strategy. For large enterprises, the approval rate has predominantly risen within major banks. Banks explain such increase by made decisions on applications received towards the end of the 1^{st} quarter, concurrently with a decline in application volume during the 2^{nd} quarter.

Lending conditions provided by banking institutions for the corporate sector have mostly remained unaltered (Figure 2). Nevertheless, several major banks have reported certain modifications unrelated to loan cost, including the softening of certain application review parameters, the launch and enhancement of scoring models, and the expansion of the range of financial products.

Anticipating the 3^{rd} quarter, the majority of major banks project a decline in loan demand from corporate entities, primarily driven by small and medium-sized enterprises (Figure 1). The expected decrease based on the early disbursement of the entire allocated fund amount and the suspension of funding under government-initiated programs. At the same time, a number of banks foresee a minor upswing in demand from small and medium-sized enterprises due to the expansion and development of the product portfolio.

Retail lending

In the designated reporting quarter, there was a significant surge in demand from individuals, exhibiting notable growth compared to the preceding quarter. This surge is primarily attributable to a high demand for consumer loans (Figure 5). Concurrently, the demand index for mortgage loans has also demonstrated positive formation.

Several financial institutions attribute the modest increase in demand for mortgage loans to an increase in demand from individuals for banks' own programs. Additionally, certain respondents highlighted the promotion of their own mortgage programs through the development of partner products with construction organizations. A prominent major bank has introduced online mortgage product for the secondary real estate market. At the same time, lending conditions have remained largely steady (Figure 6), except for a few instances of slightly tightened conditions for products of a specific major bank (Figure 7). Consequently, the number of applications received in comparison to the 1st quarter has shown a 17% increase, totaling 228 thousand applications, while the average application size has witnessed a 7% decrease (q/q) to 16.1 million KZT.

A number of large banks associate the growth in demand for secured consumer loans with the marketing promotion of such products. Furthermore, some banks note strategic targeting and more active collateral lending for consumer purposes. As a result, lending terms for secured loans have experienced a slight relaxation, including the elimination of transaction organization fees (Figure 8), along with a reduction in interest rates (Figure 9). Consequently, the total amount of loan applications in this category has more than doubled (q/q), reaching 25 thousand applications, while the average application size has remained consistent with the 1st quarter, at 13.5 million KZT.

According to banks, the surge in demand for unsecured consumer loans is a consequence of active promotion of consumer loans for the purchase of goods. Certain banks have extended their partner network for such loans and launched marketing campaigns, offering extended-term installments. Additionally, a particular major bank notes the impact of adjustments made to the cost of unsecured consumer loans at the start of the 2nd quarter (Figure 9). Consequently, there has been a slight increase in the amount of applications received for unsecured consumer loans by 17% rise (q/q) to 18.8 million, with an average application size increase of 28% (q/q) to 1 million KZT. Most banks have maintained lending terms without substantial alteration, although certain major banks have slightly enhanced their solvency prerequisites (Figure 8).

The elevated demand for car loans in the 2nd quarter predominantly emanates from the primary market. A substantial increase in supply as a result of the restoration of logistics supply chains, as well as the active promotion of Chinese manufacturers' cars in the domestic market, has fostered collaborative relations between banks and car dealerships. This has led to the provision of favorable car loan terms for certain vehicle models by subsidizing part of the rate by bank partners. Furthermore, the list of banks active in the car loan segment has expanded, with specific major banks introducing new products in this sector. As a result, the number of applications received for car loans has grown by 26% (q/q), to 671 thousand applications, while the average application size has risen by 15% (q/q) to 6 million KZT. Nonetheless, some banks have slightly elevated collateral requirements for loans (Figure 8), and a separate major bank has noted a minor increase in interest rates (Figure 9).

Approval rates for loan applications during the 2nd quarter have, on average, experienced a 4-7% increase (q/q) across all segments of individual lending, except for unsecured consumer loans, which registered a 4% decrease (q/q), settling at 27%. This decrease is attributed by banks to enhancements in scoring models.

Moving into the 3rd quarter, financial institutions anticipate a moderate upswing in demand for individual lending (Figure 5). According to bank projections, demand for unsecured consumer loans will moderately rise, owing to planned alterations in lending conditions and strategic marketing campaigns. Simultaneously, lending terms for secured consumer loans are not anticipated to undergo significant modification. Within the car loan segment, banks anticipate a continued demand increase due to further partnership developments and a slight easing of lending conditions. Despite planned enhancements in mortgage lending conditions and the introduction of partner products, banks expect mortgage demand to remain consistent with the levels observed in the 2nd quarter.

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).

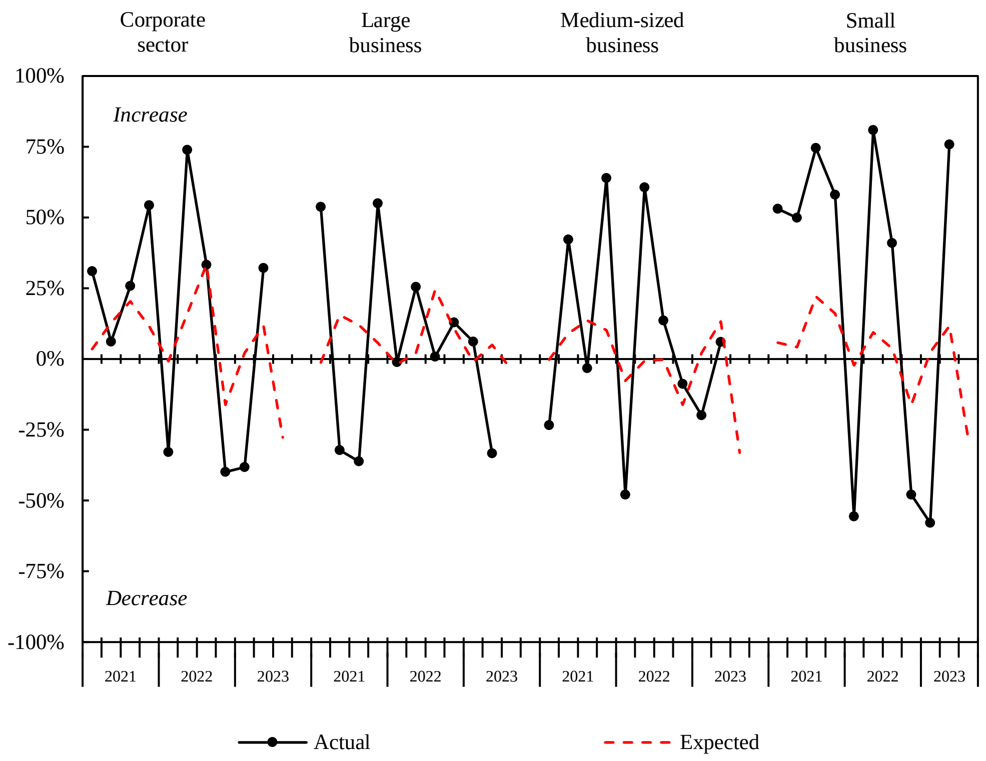
Starting from Q1 2018, the survey results are aggregated in the NPC, taking into account the bank's share in the corresponding segment of the lending market. The value of this indicator can vary from -100% - if all banks choose "decreased/tightened significantly" - to 100% - if all banks choose "increased/loosened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

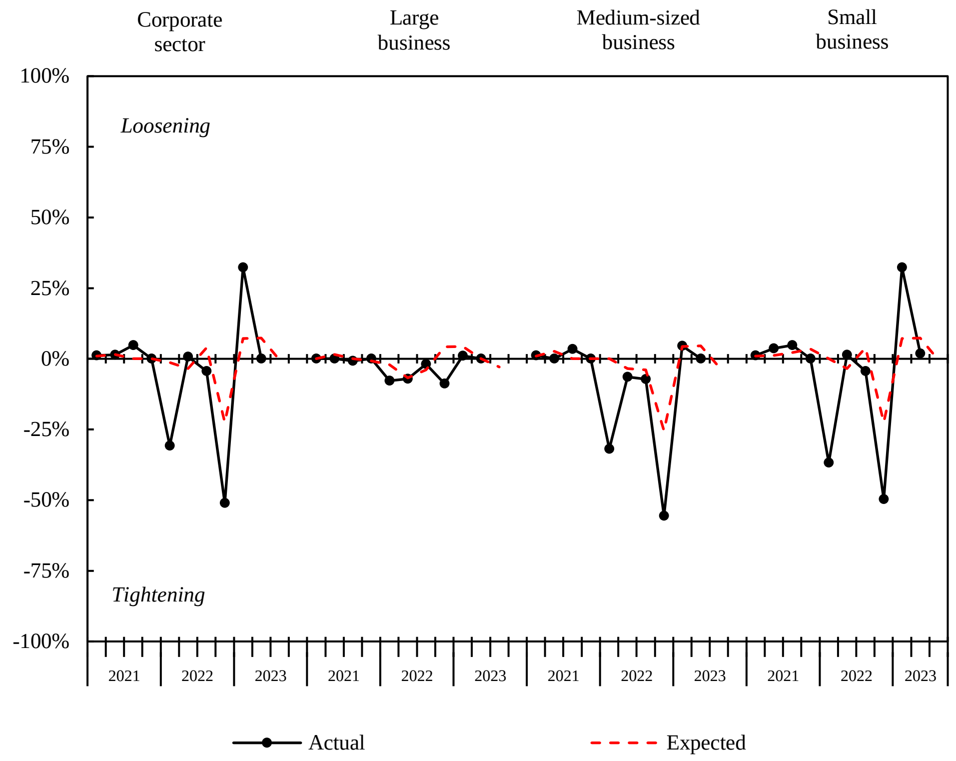
Net percentage change



(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

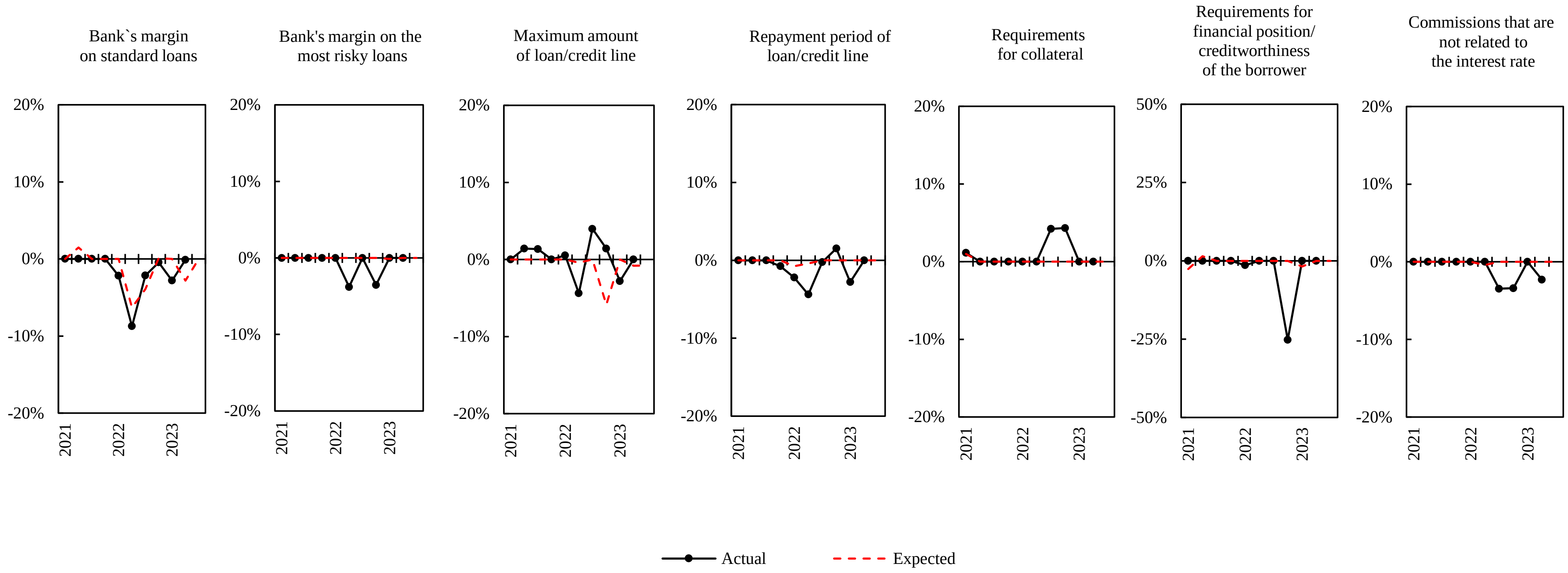
Net percentage change



(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.

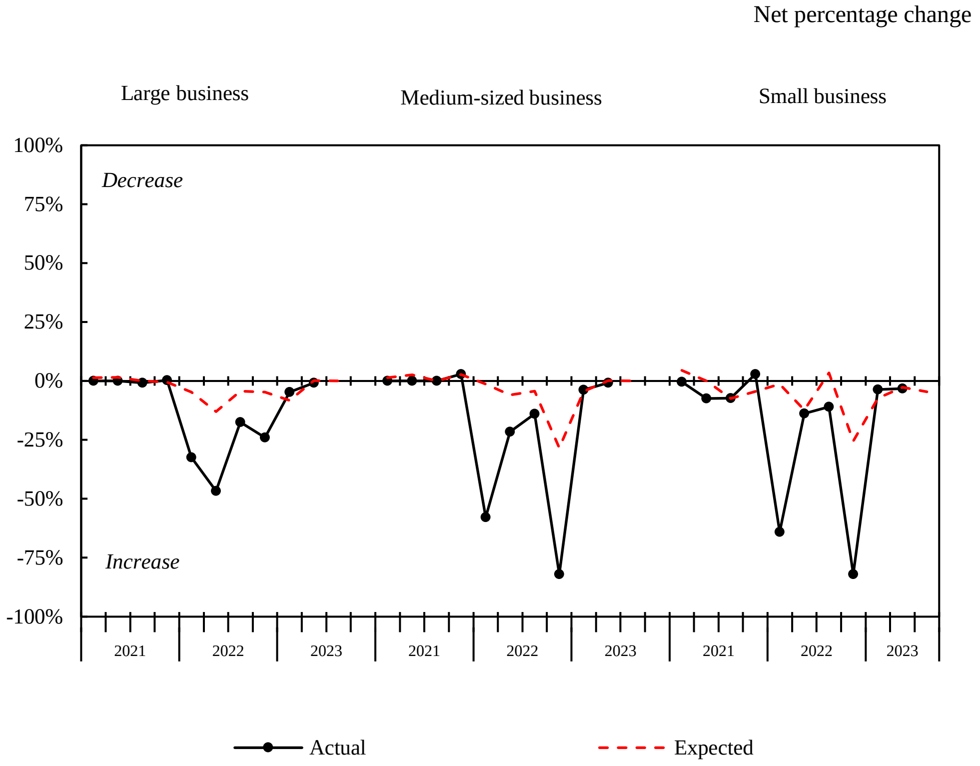
Figure 3. Lending conditions

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.

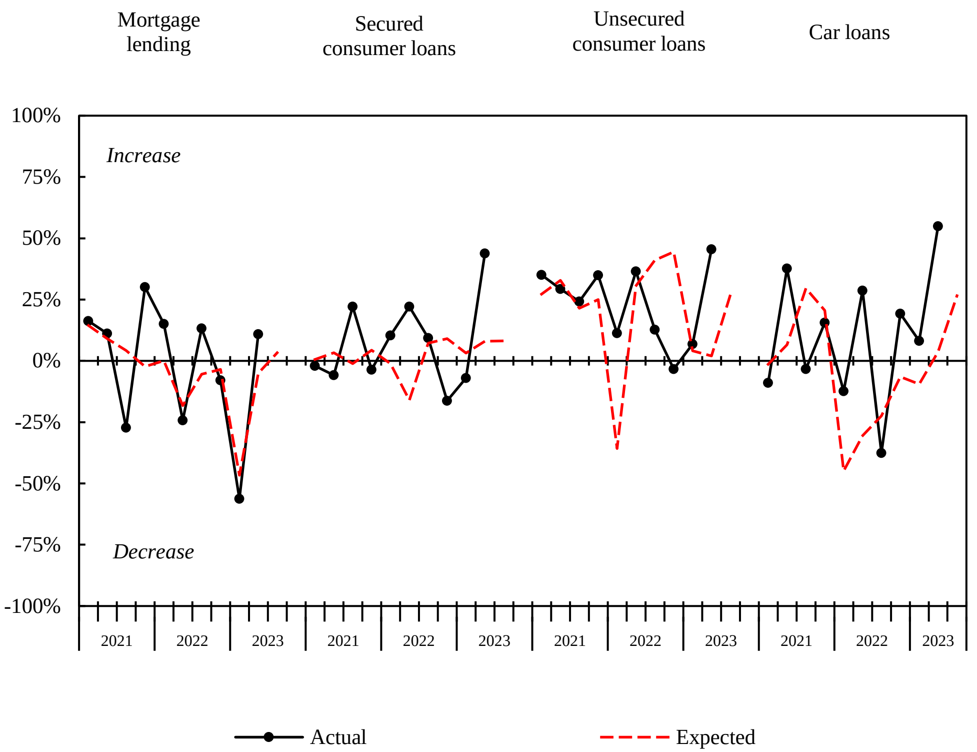
Figure 4. Interest rates on loans



(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

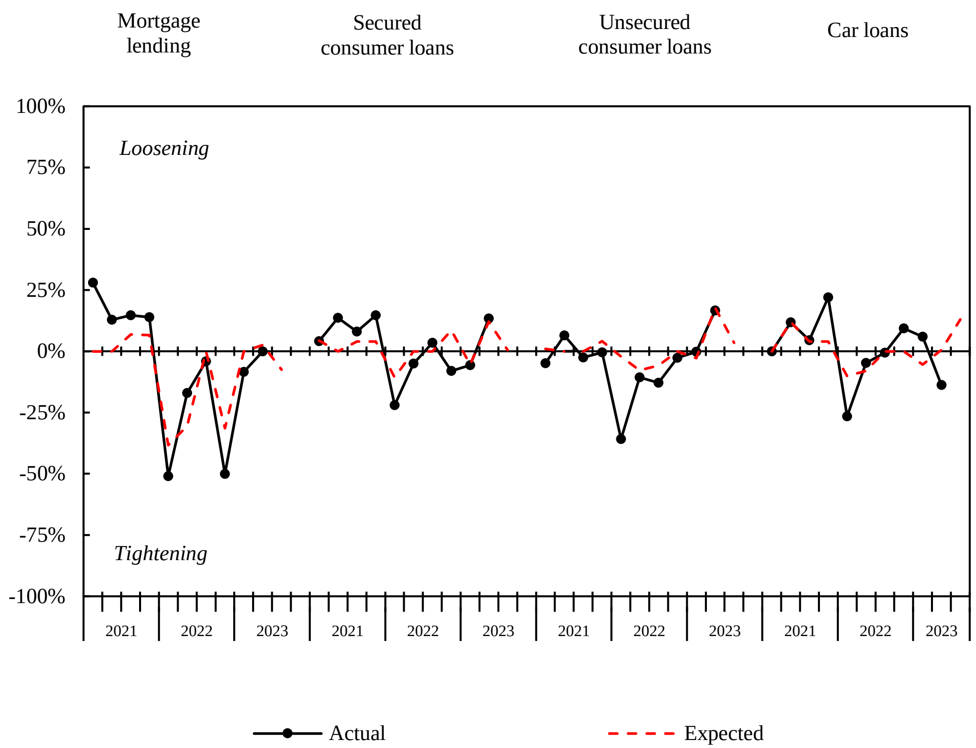
Net percentage change



(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

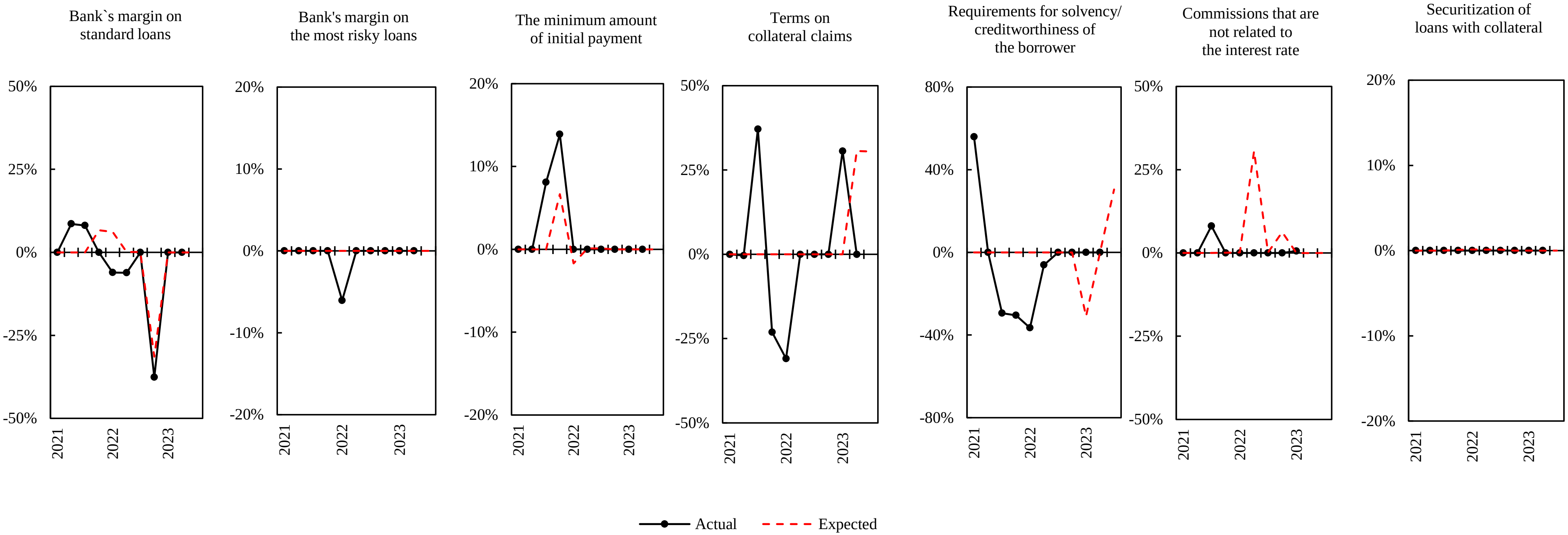
Net percentage change



(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

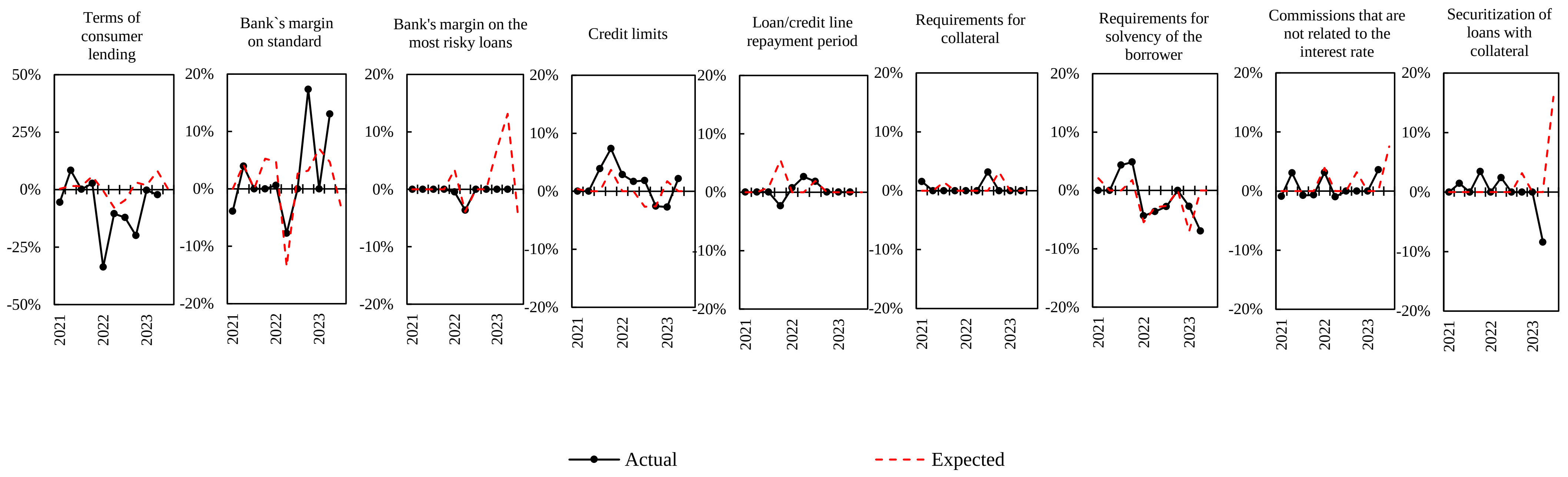
Net percentage change



(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.

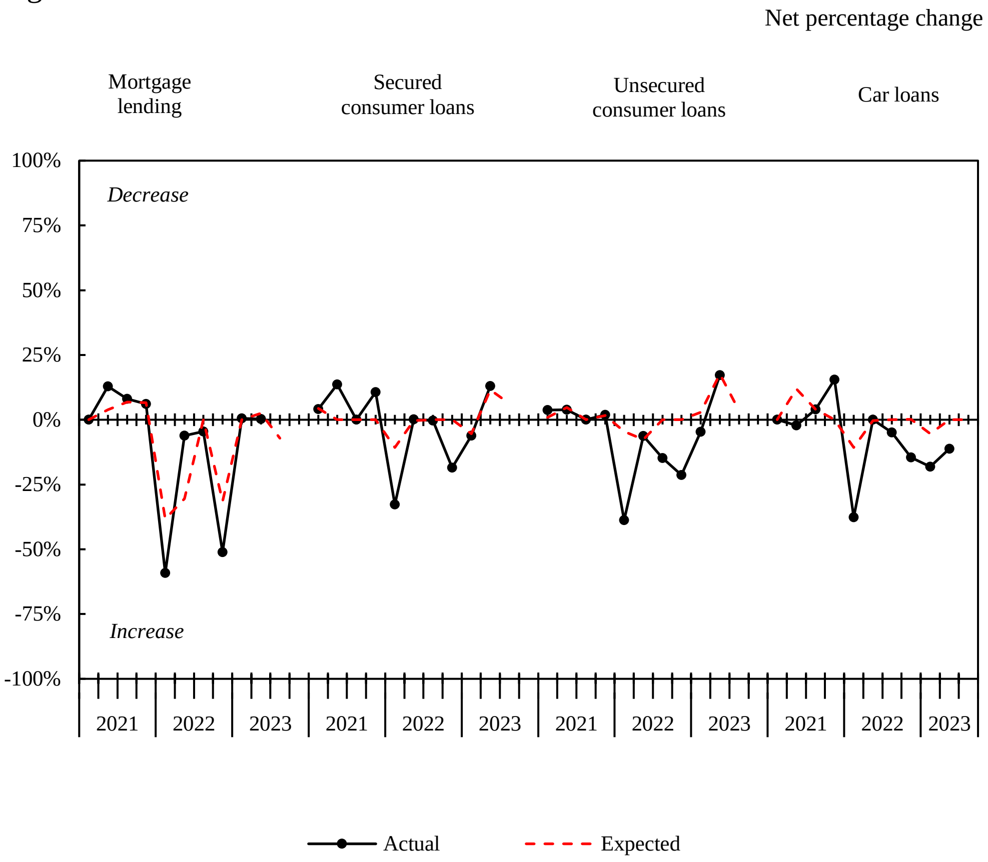
Figure 8. Consumer lending terms

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.