



NATIONAL BANK OF KAZAKHSTAN

BANK LENDING SURVEY

**3rd quarter
of 2022**

Bank lending survey

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Corporate lending

Demand for loans from small and medium-sized businesses continued to grow in the reporting quarter, but the growth rate decreased compared to the previous quarter (Figure 1). At the same time, lending conditions for small and medium-sized businesses have somewhat tightened in few banks (Figure 2). Interest rates on loans to businesses increased slightly (Figure 4).

The index of demand for loans from small businesses increased in the 3rd quarter, mainly in large banks. The number of loan applications increased by 35% quarter to quarter (q/q) to 417 thousand, and the average size of the application increased by 11% to 25.9 million tenge. Many banks among those who noted growth, explain this inflow of loan applications and increase in their average size by allocating funds under the state program "National Project for the Development of Entrepreneurship for 2021-2025" in the reporting quarter. Respondents state that the increase in the number of applications is also associated with the development of existing scoring credit products or the launch of new ones. For other products, including collateralized, large banks note an increase in the number of potential borrowers due to the withdrawal of particular banks from the market.

Demand for loans from medium-sized businesses was positive according to the results of the reporting quarter. However, opinions of banks who provide loans to medium-sized businesses were divided in the matter of demand assessment. A third of banks, the larger ones, noted an increase in credit demand, while the other third – a decrease¹. So, the number of loan applications increased by 12% q/q to 4.4 thousand, and the average size of the application decreased by 5% to 251 million tenge. Similar to small businesses, the main increase in the number of applications from medium-sized businesses accounted for unsecured credit products based on scoring models. Loans, in the framework of products based on scoring models of some banks, are also available to businesses under the state programs of Damu Fund, which due to another budget fund inflow supported demand. On the contrary, banks that noted a decrease in demand during 3rd quarter indicated a reduction in the inflow of customers from banks that fell under US and EU sanctions. Nevertheless, such clients continued to apply for new loans to large banks.

Demand from large businesses did not change relative to the previous quarter in most banks. Still in larger banks there is a decrease in the number of loan applications due to seasonal fluctuations and a high base of the previous period. As a result, the total number of loan applications decreased by 23% q/q to 156, and the average size of the application decreased by 23% to 5.8 billion tenge. The number of incoming applications from large businesses on average

for the quarter¹ decreased from 331 in 2019 to 181 in 2022², while their average size increased from 5.4 billion tenge to 6.3 billion tenge over the same period.

Loan application approval rates increased significantly for small businesses and slightly for large ones according to the results of the reporting quarter, while decreased slightly for medium-sized businesses, amounting to 40%, 58% and 48%, respectively. The share of approval of small business loan applications in specific banks had returned to relatively high levels of 2021. It was explained by recovery of borrowers' solvency, which depended on the stability and frequency of their cash flows. On the other hand, government programs of loan guarantees and interest rate subsidies had a positive effect on the approval of loans to small businesses. For large businesses, the share of approval had increased, mainly in large banks. Respondents explain the decrease in the loan approval rate in medium-sized businesses by the terms of scoring models and logistical difficulties owing to geopolitical tensions.

Business lending conditions have not changed in most banks. However, some banks note a tightening of lending conditions associated with a slight increase in interest rates, an increase in margins and a reduction in the maximum loan term for some products. Mainly, banks increased loan interest rates for large businesses, and in some cases the cost of loans also increased for SMEs.

According to banks, the demand for loans from small and medium-sized businesses will be negative in the next quarter, predominantly in large banks that plan to increase interest rates on loans (Figures 1 and 4). However, a slight increase in credit demand from large businesses is expected, as specific banks see a potential growth in the number of large borrowers in the market.

¹ The average quarterly values in 2020 are 237 applications by 5.45 billion, in 2021 – 245 applications by 6.28 billion.

² Average values of the number and size of applications for 2022, not including the 4th quarter

Retail lending

In the 3rd quarter of 2022, the demand for retail loans increased in the mortgage and consumer lending segments, while demand for car loans slightly decreased (Figure 5). Lending conditions for unsecured consumer loans continued to tighten, while for secured consumer loans loosened (Figure 6).

Demand for mortgage lending showed an increase, mainly, in large banks. According to the banks, the main factor that influenced the growth of demand in the reporting quarter was the season of commissioning. Nonetheless, there is a decrease in the number of received mortgage applications by 29.2% q/q, namely, their return to previous values after a sharp increase in the 2nd quarter in a separate bank. There were no significant changes in mortgage lending conditions (Figure 7), but one major bank raised interest rates. So, the number of received mortgage applications decreased from 258 thousand to 183 thousand applications, and the share of approval for them remained at the level of 38%.

Some banks associate the growth in demand for both unsecured and secured with collateral consumer loans with an increase in the household spending on durable goods, while others with marketing campaigns. Thus, the number of received applications in the 3rd quarter for unsecured and secured loans increased by 10.3% q/q and 15.3% q/q and amounted to 12 million and 14 thousand applications, respectively.

Lending conditions of unsecured consumer loans continued to tighten in the form of increase in interest rates by a large bank, as well as the requirements for customer solvency in another retail bank has also increased. In particular, the changes by The Agency of the Republic of Kazakhstan for Regulation and Development of Financial Market in the form of tightening customers` debt burden ratio calculation by banks came into force from July 1, 2022, which also affected an increase in the requirements of banks to the creditworthiness of customers. So, the share of rejected applications for unsecured loans remain at a high level (61%). At the same time, in the reporting quarter there was an increase in the credit limit and an increase in the maximum loan repayment period by a separate bank, which did not have a significant impact on the change of lending conditions in the whole system.

Meanwhile, there were no significant changes in the lending conditions of secured consumer loans. Even so, the mitigation of collateral requirements by a large bank affected the change in the general indicator of lending conditions towards loosening (Figure 8). Despite this softening, the share of approved applications for secured consumer loans remains at 68%, similar to the indicator of the previous quarter.

Nevertheless, a continued delay of cars` delivery to salons in the 3rd quarter was reflected in the overall decrease of demand indicator, while the number of received applications for them

increased from 393 thousand to 435 thousand. However, the growth of applications occurred in medium-sized banks, while conditions were tightened by a large bank in a form of interest rates increase, which, to a greater extent, affected the decline in the demand (Figure 9). Thus, the largest share of rejected applications among the retail lending was observed in the segment of car loans (88%).

Banks expect an increase in the demand for both unsecured and secured consumer loans in the next quarter, which will have a seasonal character associated with the holidays at the end of the year. In addition, tightening of mortgage lending conditions is expected due to the planned increase of interest rates by a separate large bank. It is important to note that in the first half of November, the operator of preferential car loan program will launch an online platform for the formation of queue, which is expected to have a positive impact on reducing the time for consideration of applications.

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).

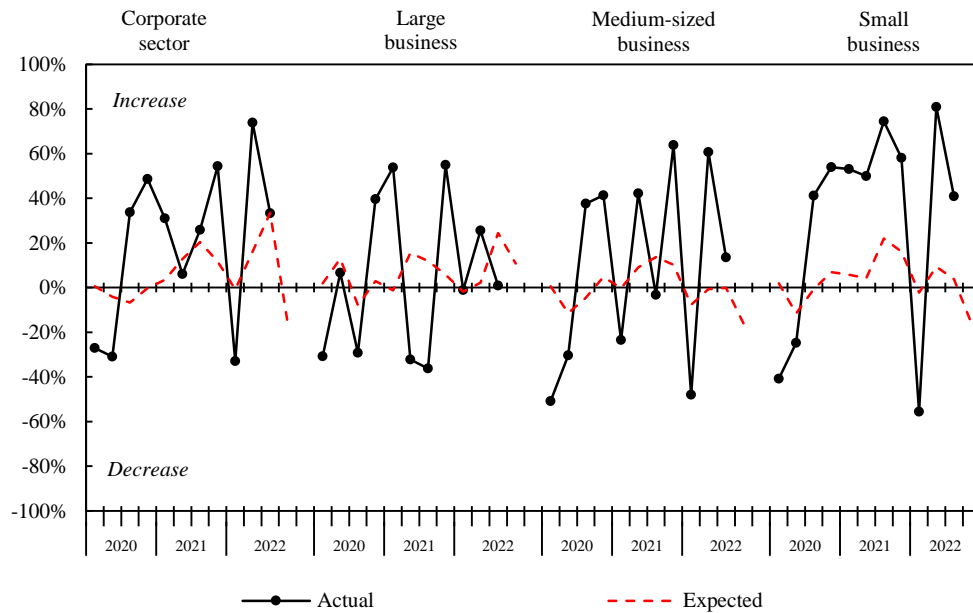
Starting from Q1 2018, the survey results are aggregated in the NPC, taking into account the bank's share in the corresponding segment of the lending market. The value of this indicator can vary from -100% - if all banks choose "decreased/tightened significantly" - to 100% - if all banks choose "increased/loosened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

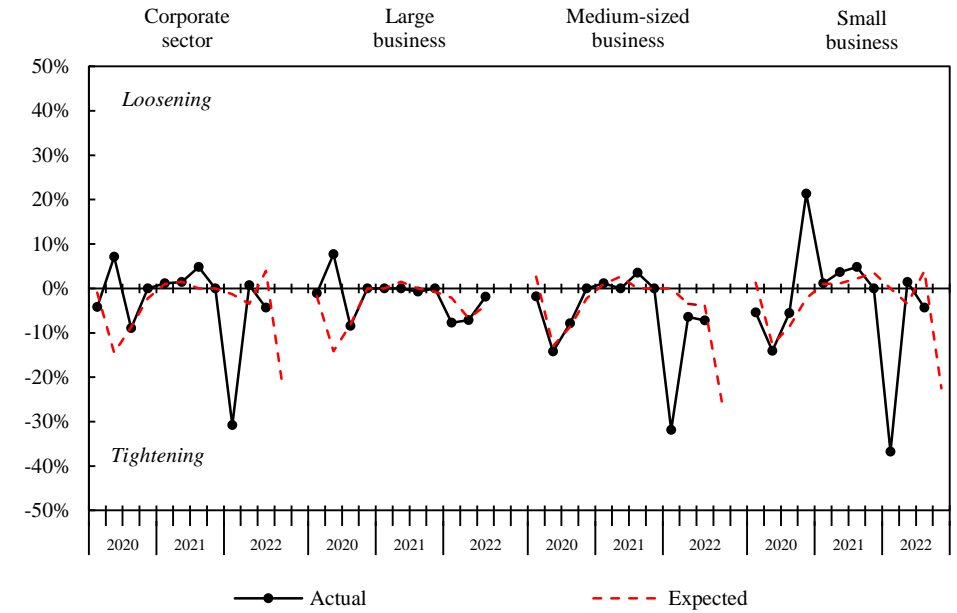


(a) Question №1: How has the demand of corporate business entities for loans changed over the past 3 months, excluding seasonal fluctuations? In your opinion, how will the demand of corporate business entities for loans change in the next 3 months?

(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

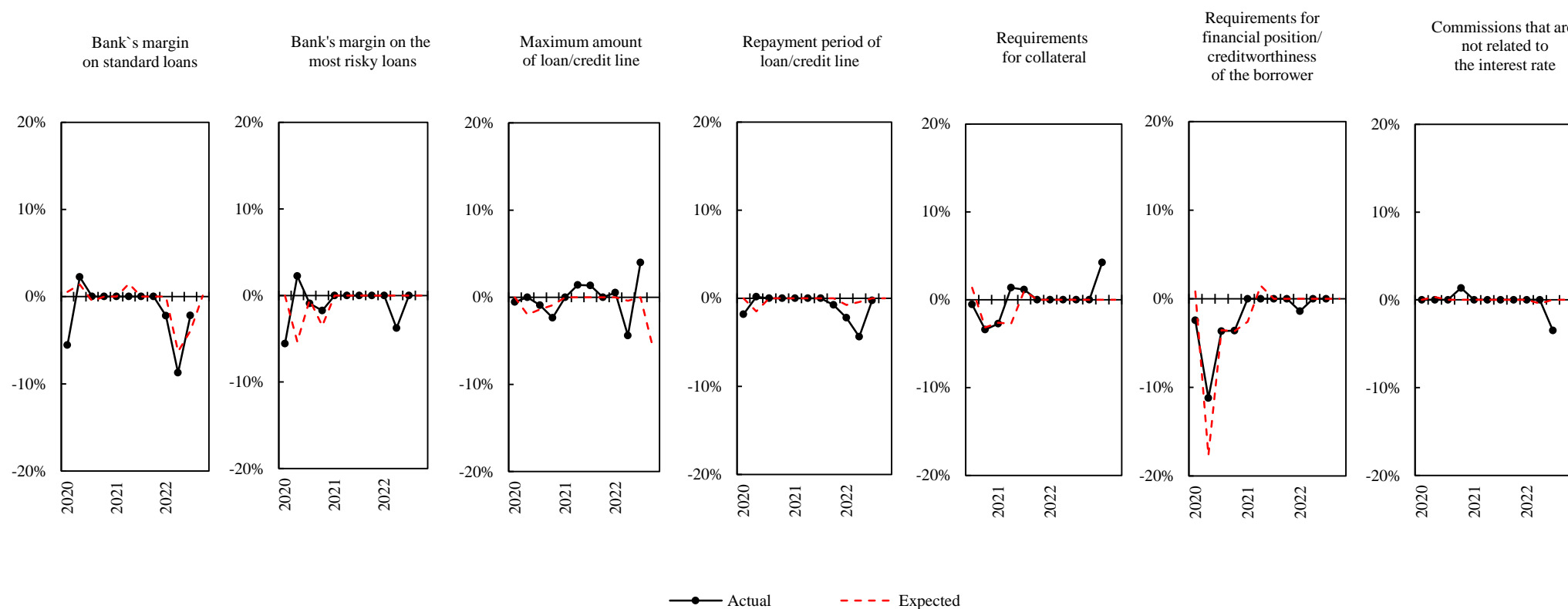


(a) Question №5: How have the lending terms to corporate business entities changed over the past 3 months? In your opinion, how will the lending terms to corporate business entities change in the next 3 months?

(b) A positive net percentage change is a sign of a loosening of lending terms.

Figure 3. Lending conditions

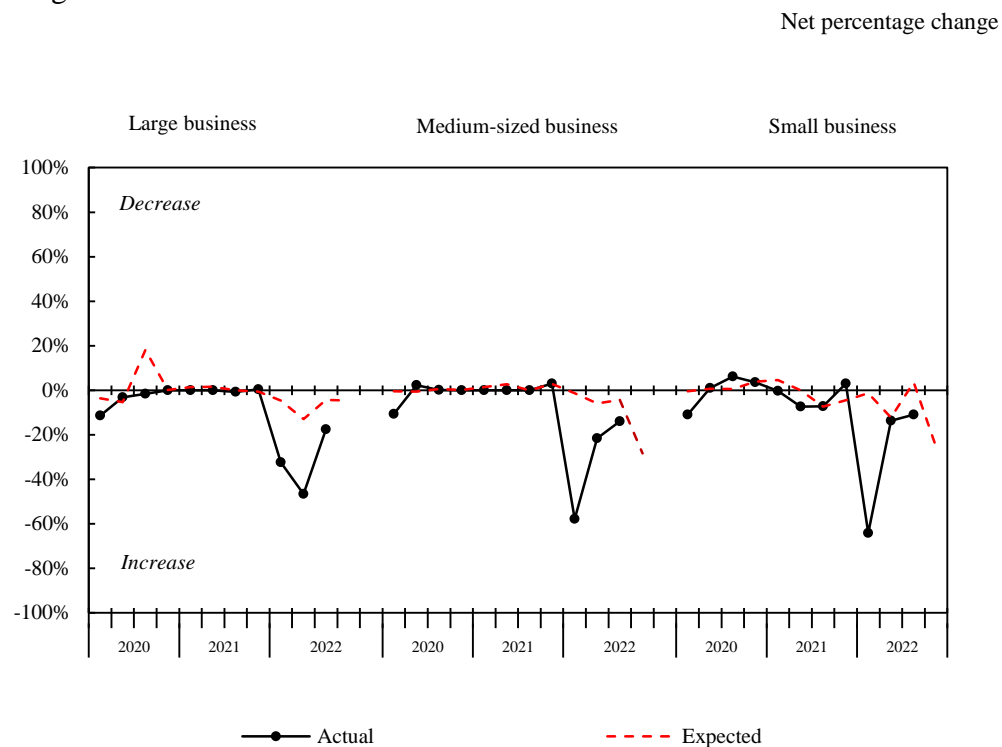
Net percentage change



(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

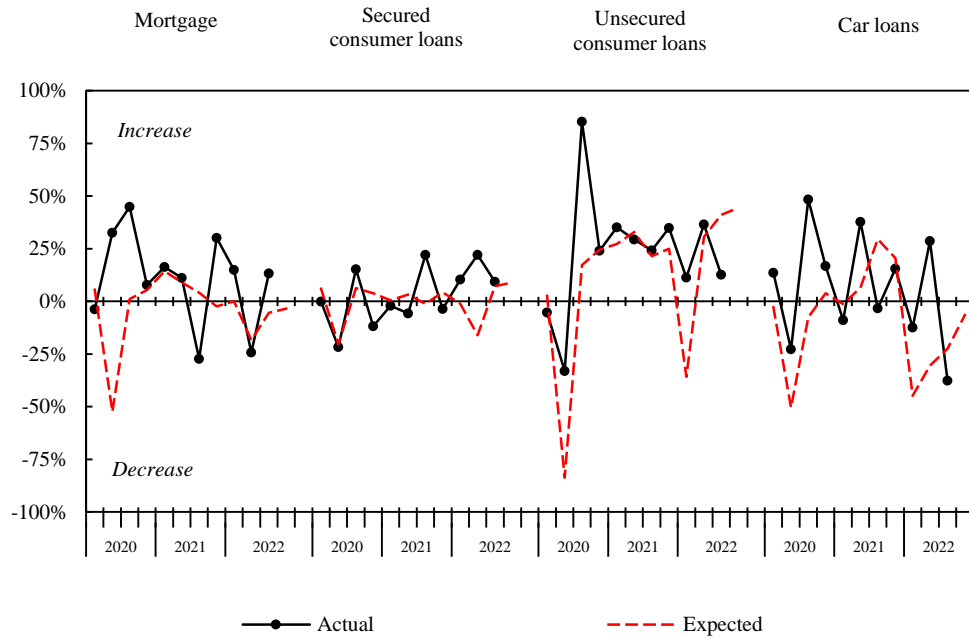


(a) Question №8: How have the interest rates on loans changed over the past 3 months? In your opinion, how will the interest rates on loans change in the next 3 months?

(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

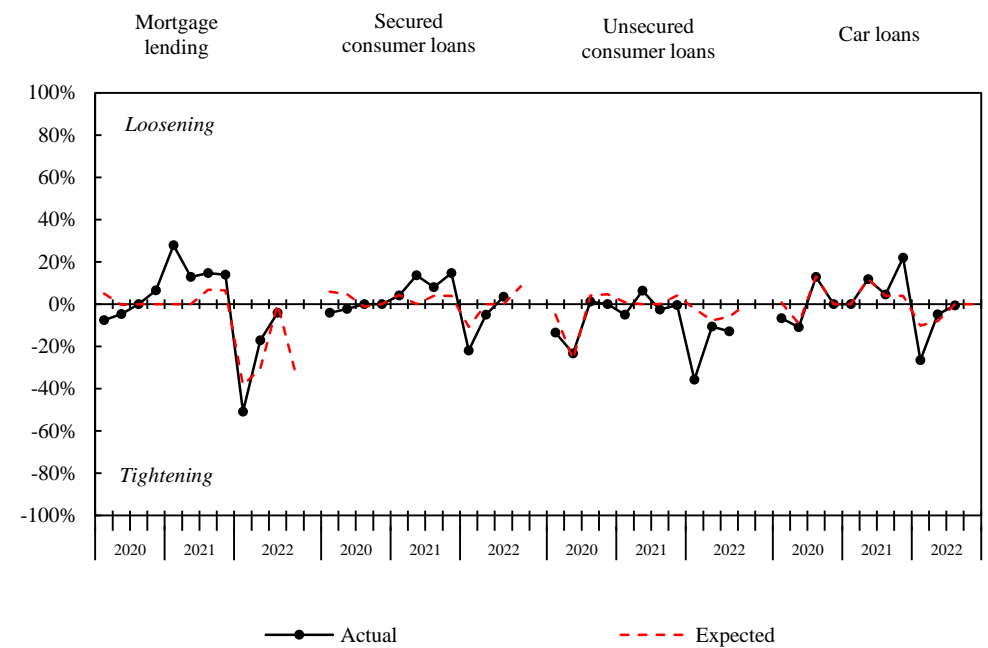


(a) Question №9: How has the demand of individuals for loans changed over the past 3 months, excluding seasonal fluctuations? In your opinion, how will the demand of individuals for loans change in the next 3 months?

(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

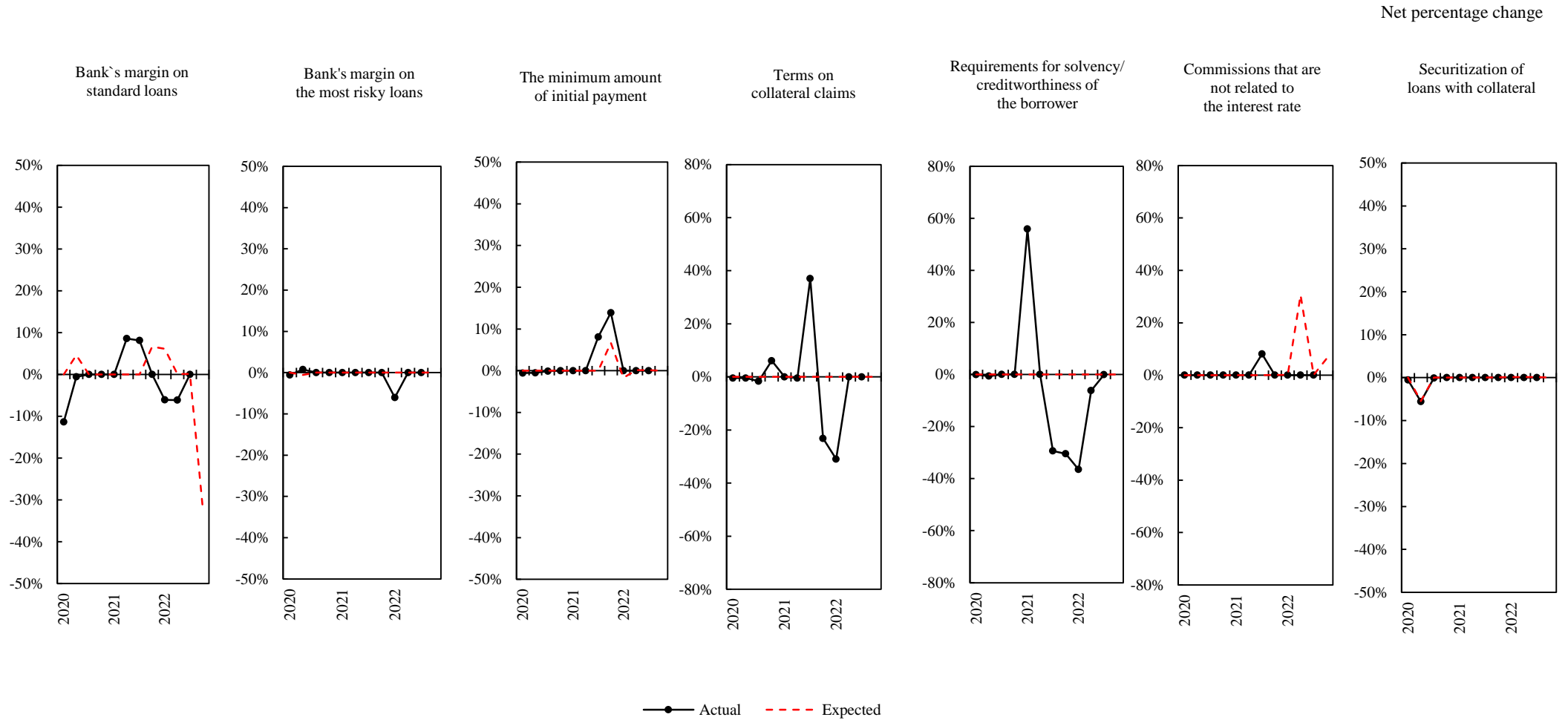
Net percentage change



(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.

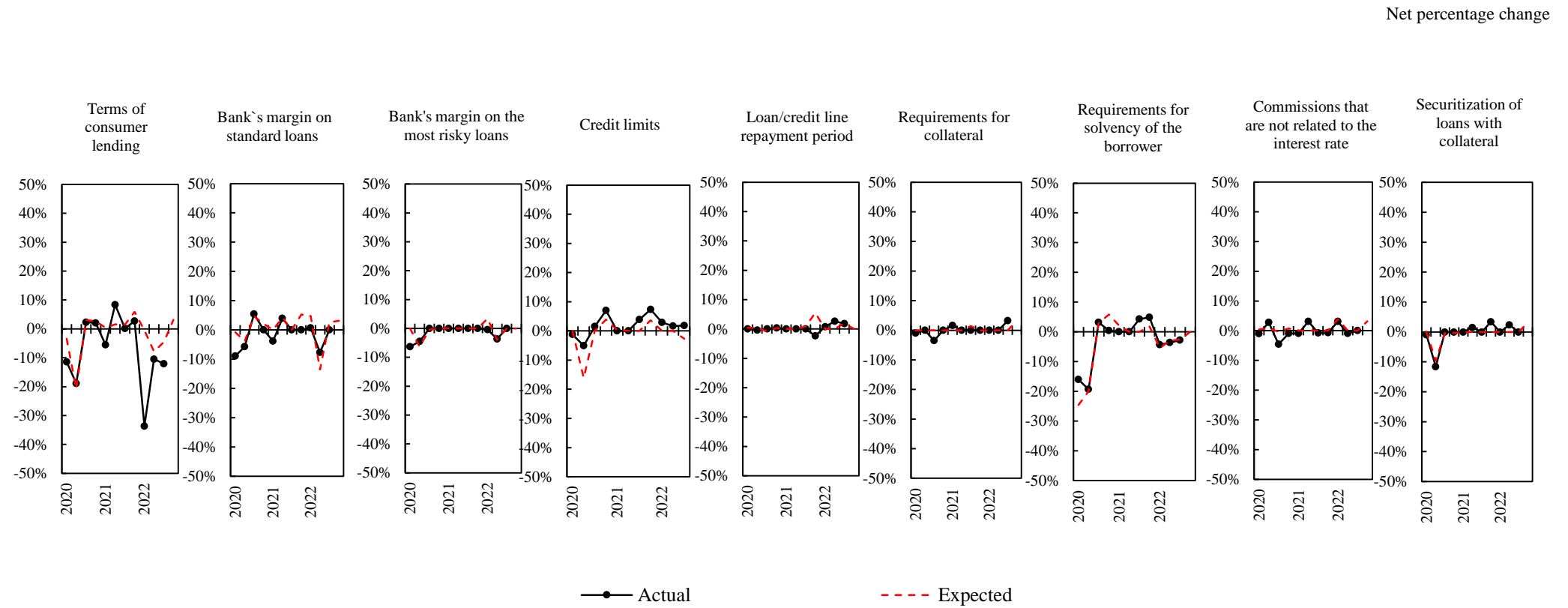
Figure 7. Mortgage lending terms



(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?

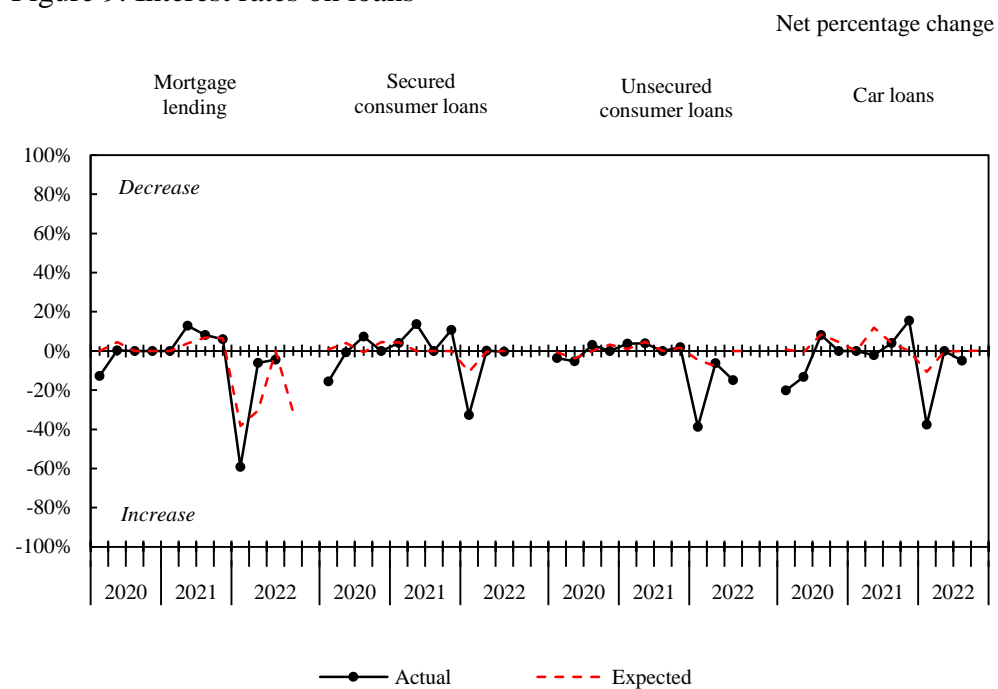
(b) A positive net percentage change is a sign of a loosening of mortgage lending terms.

Figure 8. Consumer lending terms



- (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.