

## DEVELOPMENT OF THE LONG-TERM SYSTEM OF HOUSING FINANCING IN THE REPUBLIC OF KAZAKHSTAN (Mortgage Lending System)

Over the last ten years the housing system of Kazakhstan met significant changes. The mass privatization of the state housing resources, which had started in 1991 and mostly finished in 1995, was an important step of housing reform. As a result, almost 95% of housing resources were privatized.

Profound changes covered the structure of housing construction by forms of ownership and financing. The share of private sector has increased significantly and the state discontinued to be the main participant in this market.

The share of state owned companies involved in construction industry has decreased significantly, though in 2001 this tendency insignificantly changed. By the end of the first half of 2002 the share of state owned enterprises was 17.1%. The private enterprises have constructed 82.9% of dwelling, including 34.9% at the expense of population.

Table 1.

The share of enterprises of different ownership forms in housing construction  
in the Republic of Kazakhstan, %

	Enterprises		
	State owned	Private	Including:
			at the expense of population
1991	74.2	25.8	18.5
1992	65.6	34.4	22.2
1993	57.1	42.9	27.4
1994	39.8	60.2	32.9
1995	33.4	66.6	37.8
1996	20.8	79.2	49.7
1997	17.0	83.0	63.3
1998	15.4	84.6	71.0
1999	9.6	90.4	76.5
2000	9.0	91.0	29.2
2001	15.5	84.5	29.1
6 months, 2002	17.1	82.9	34.9

Since 2000 the growth of total square of dwelling has been in place. The most high growth was in 2001 – by 22.6%. Besides, in the first half of 2002 it has come up to 6.3%.

Table 2.

## Housing Construction

	Constructed Dwelling		including:		
	Thousands of sq. meters of total square	Per cent in comparison with the same period of the previous year	By state owned enterprises	By private enterprises	Including: at the expense of population
1991	6130	-	4547	1583	1133
1992	5046	82,3	3308	1738	1122
1993	3856	76,4	2202	1654	1057
1994	2322	60,2	925	1397	764
1995	1663	71,6	556	1107	628
1996	1407	84,6	293	1114	699
1997	1344	95,5	229	1115	851
1998	1132	84,2	174	958	803
1999	1105	97,6	108	997	843
2000	1201	108,6	130	1071	902
2001	1493	122,6	118	1375	1090
6 months, 2002	729	106,3	48	681	546

The medium square of flats is also has been rising. Thus, it was 72.5 sq. meters in 1990, and 111.5 sq. meters in 2001. Aside from that, the quality of dwelling improved significantly, the convenience and comfort has been increasing. The quantity of buildings, which equipped with running water, sewer, heating has been growing up.

Strong development of housing construction industry was reached due to the efforts of the National Bank of Kazakhstan and the government, which have been promoting activity of commercial banks to credit the economy.

Total equity capital in the banking sector is 147.45bln. tenge. (about \$954mln.)\*. Kazakhstan remains a leader among the CIS countries since here one bank has on average approximately \$27mln. of equity. In future, measures to increase capitalization will be needed in order to increase banks' stability and activate channel investments into real sector of the economy.

Total assets in the banking sector are 994.4bln. tenge or more than \$6.4bln. The assets of the banking sector have increased more than 1.5 times over the last 12 months. Now one Kazakhstani bank has on average \$183mln. of assets.

\* without data on Development Bank, Eximbank, Abidbank

Improved macroeconomic conditions and increased banking resource base have led to a surge in bank loans. Today about 60 per cent of all assets of the banking sector are channeled into corporate sector as loans. The total amount of loans injected into the economy is 588.7bln. tenge (exceeding \$3.8bln.). Only over the last two years the amount of loans has increased 2.7 times.

In particular, construction industry also attracts a big amount of banks loans. Moreover, the situation is constantly improving.

Table 3.

**Banks Loans (including closing transactions)\*, mln.\$.**

Period	for new construction and reconstruction	for individuals for dwelling construction and purchasing
<b>1999</b>	57,0	18,0
<b>2000</b>	104,5	21,3
<b>2001</b>	180,8	36,9
<b>September, 2002</b>	199,5	50,3

\*The rest for the end of the period ( without overdued debt )

Our System of Mortgage Lending wins a special interest. As of October 1, 2002 actual debt on mortgage loans of banks to individuals for housing construction and reconstruction has reached \$34,8mln.

At present mortgage lending is under development in Kazakhstan. The total number of banks and non-banking organizations which drive mortgage lending has been growing, the new types of mortgage loans have been implementing, the term of lending has been becoming longer, the rate on loans has been going down. All this proves positive changes in the banking system as a whole.

The system of mortgage lending is oriented for people with middle and higher levels of income and allows to improve their living conditions immediately.

The Kazakhstani system of mortgage lending comprises two levels. The first level is represented by primary creditors, banks and non-banking organizations issuing loans. The Kazakhstani Mortgage Company (KMC) refinances those institutions and acquires claims on long-term mortgage loans. The KMC was established as a specialized financial institute by the National Bank of Kazakhstan in the beginning of 2001. The KMC become an operator of secondary market of mortgage loans on the analogy of such well known companies as Fannie Mae in the USA and Cagamas Berhad in Malaysia.

Principle standards and requirements to mortgage loans, which meet all international standards of mortgage lending are developed by the KMC. At present, creditors even on independent loans programs strive to meet standards of the KMC.

The KMC refinances creditors according to the floating quotation rate determined every month on the base of floating annual inflation rate. Creditors have a right to fix

their own margin, which does not exceed the certain size. Thus, the final interest rate for lenders is determined by a creditor and that is why is different at various banks. This fact stimulates competition among creditors, which contributes to decrease in the level of loan rates depending on market demand.

Another important issue is that mandatory insurance of life and ability to work of the borrower as well as a mandatory insurance of an acquired habitation are the certain requirement for mortgage lending. The insurance industry is also getting a strong impulse to development due to mortgage lending.

The establishment of the mortgage loans insurance system will allow to increase significantly the share of population, which will be able to take mortgage loans. At present the work on development of the legislative framework for foundation of the specialized in mortgage lending insurance company is conducted. The National Bank of Kazakhstan will be one of the founders of this company, which is planned to be created in the first half of 2003.

The present experience of functioning of the mortgage lending system shows its effectiveness. It was achieved due to the progress of development of mechanism of creditors refinancing in mortgage lending, mechanism of mortgage securitization and mechanism of the KMC collaboration with bank-lenders.

Nevertheless, there are still to be some problems in the development of mortgage lending in Kazakhstan. Particularly these problems are present in legislative framework of mortgage lending mainly because it was forming in the period when the possibility of mortgage lending implementation in Kazakhstan was impossible.

The mortgage lending system started to operate and the following problems were noted: imperfection of the state registration of settlements, high registration fees, which make loans to population more expensive.

Also problems with taxation are in place. There are no tax preferences for individuals which purchase dwelling in credit. And there are no tax preferences for mortgage – backed bonds holders (investors).

Besides, the other significant problem is, that secondary housing market needs development because the growth of housing construction is rather lower than amortization of housing dwelling which present on the market at present time.

The level of population incomes is low and not sufficient the individuals were significantly involved in the process of mortgage lending.