

Statement on outcomes and policy recommendation of the Country Profile Kazakhstan

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Financial frameworks

With the transition to a market economy after gaining independence, the housing finance policy of Kazakhstan has changed. There was a shift from distribution of public housing stock where the State was the main source of financing, to acquisition of housing at people's own expense.

In 2000, the Law "on Housing Constructions Savings" was adopted and the joint-stock company Kazakhstan Mortgage Company (hereinafter, KMC) was founded. The KMC was tasked to refinance mortgage loans issued by banks to increase affordability of housing for the population. The KMC is the primary implementing institution of public housing programmes.

The profound effect of the global crisis on the mortgage market put a stop to a large number of construction projects. The Government invested a significant amount of financial resources to facilitate the completion of the projects, refinanced foreign currency mortgage borrowings through second-tier banks, and adopted some measures to ensure social and economic stability, including a devaluation of its currency.

Kazakhstan experienced again a financial crisis at the end of 2014, and a more serious devaluation of the national currency took place. The latest crisis has caused a significant reduction in demand in the real estate market and sharp decline in the volume of mortgage lending and financing of housing construction.

The Government has been implementing various mechanisms to increase the availability of housing finance and improve lending conditions. A large amount of the State budget is invested in the housing sector but its share in the total funding is less than 10 per cent.

Despite the achievements of these State housing programmes, housing is still inaccessible for most households. According to Ministry of National Economy, around 71.4 per cent of the economically active population could not afford to buy housing on market terms. At the same time, the number of people on housing waiting lists continues to grow.

Currently, long-term investment in the economy to develop housing finance does not exist. Foreign and private investments are on a short-term basis. There is also a shortage of long-term liquidity sources in the national currency. Credit institutions remain the main channel of stimulating financial resources for the economy.

The securities market of the country also doesn't serve as a channel of attraction of long-term debt financing and the domestic securities market and institutional investors also needs development. In particular, the market of mortgage-backed securities is not developed due to lack of investors in long-term assets.

The housing construction sector in Kazakhstan is characterized by low competition, high administrative barriers, high risks and low transparency of lending, and dependence on direct investment of the population.

State Housing programmes are mainly focused on increasing housing affordability in urban areas. The new housing programme "Nurly Zher" will shift financing of housing construction from budgetary to extra-budgetary.

The government recognizes the micro-finance industry as an important element of development. Currently, microfinance is used mainly for lending to business activities in private farming and housing renovations for energy efficiency improvement. However, the loan amount that micro-finance organizations could provide is limited.

Recommendations

The Government should promote implementation of measures to stimulate the development of internal long-term financing in the national currency and "dedollarization" of the economy.

The formation of a full-fledged pension system will ensure demand for mortgage-backed securities and eventually become one of the long-term funding sources for mortgage lending. Increasing the liquidity and transparency of the securities market will form the basis for the expansion of longterm lending by credit institutions, including mortgage;

It is important to ensure a provision for long-term funding for mortgage lending in conjunction with the implementation of risk mitigation measures. This will contribute to reduction in mortgage rates, which will increase the affordability of mortgages for the population.