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MORTGAGE LOAN IN KAZAKHSTAN: FORMATION AND IMPROVEMENT

Abstract. In the article, the chronology of the mortgage lending formation in Kazakhstan is given; its characteristics are revealed and the impact of the financial crisis on the real estate market in Kazakhstan is assessed. Based on the comparative analysis of investments profitability in real estate and interest rates on deposits and mortgages, the recommendations on improving of banks' credit risks assessment methods in order to prevent a sharp decrease in the quality of loan portfolios in case of subsequent prices falling in the market.

Key words: mortgage lending, risk management system, credit risks assessment methodology, the profitability of real estate investments, the program «Affordable Housing 2020».

JEL classification: E50, E51, E59

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ИПОТЕЧНОЕ КРЕДИТОВАНИЕ В КАЗАХСТАНЕ: СТАНОВЛЕНИЕ И СОВЕРШЕНСТВОВАНИЕ

Аннотация. В статье представлена хронология становления ипотечного кредитования в Казахстане, выявлены его особенности и оценено влияние финансового кризиса на рынок недвижимости страны. На основе проведенного сравнительного анализа доходности вложений в недвижимость и процентных ставок по депозитам и ипотечным кредитам даны рекомендации по совершенствованию банками методик оценки кредитных рисков с целью недопущения резкого снижения качества кредитных портфелей в случае повторного падения цен на рынке недвижимости.

Ключевые слова: ипотечное кредитование, система управления рисками, методика оценки кредитных рисков, доходность вложений в недвижимость, Программа «Доступное жилье-2020».

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ИПОТЕЧНЕ КРЕДИТУВАННЯ В КАЗАХСТАНІ: СТАНОВЛЕННЯ ТА ВДОСКОНАЛЕННЯ

Анотація. У статті представлено хронологію становлення іпотечного кредитування в Казахстані, виявлено його особливості та оцінено вплив фінансової кризи на ринок нерухомості країни. На основі проведеного порівняльного аналізу прибутковості вкладень у нерухомість і процентних ставок за депозитами та іпотечними кредитами дано рекомендації з удосконалення банками методик оцінки кредитних ризиків задля недопущення різкого зниження якості кредитних портфелів у випадку повторного падіння цін на ринку нерухомості.

Ключові слова: іпотечне кредитування, система керування ризиками, методика оцінки кредитних ризиків, прибутковість вкладень у нерухомість, Програма «Доступне житло-2020».

Introduction. In Kazakhstan conditions, with the lack of previous periods of economic recession, mortgage was considered only as a progressive element of economic development. Due to the tightening of conditions in the market, many banks face difficulties in managing the mortgage portfolio, which cause significant non-payment and unpredictable behavior of the market and borrowers. Objectively changing environmental conditions in the world and within the country set the new framework to improve the banks risk assessment methodologies in the case of repeated falling of real estate prices.

Brief Literature Review. Separate analysis of the theoretical aspects of mortgage lending and mortgage lending mechanism content are conducted by such international economists as: R. Struyk, J. Friedman, N. Ordway, A Davidson, S. Hudson-Wilson, A Levine [1-4], et al.

Results. The mortgage penetrated the Republic of Kazakhstan (RK) only in 1999–2000 years. Kazakhstan gained

its independence in 1991, but was not able to introduce mortgage lending. The main reason for this was the high inflation.

Only by 1999–2000 growth rate of inflation and the country's financial system reached an acceptable level, which was necessary for the introduction of mortgage lending. Also, it was facilitated by [1]: positive economic situation in the country; transfer of state property into private ownership (privatization); fundamental change in the house building finance system, where after the «reincarnation» the individual and private developers began to play an important role; presence of competently planned system of rights on real estate registration, as well as transactions, associated with it; appearance of desires and possibilities among the population to improve housing conditions.

Briefly, the chronology of mortgage lending development in Kazakhstan could be represented as follows:

- reform of housing and communal services;
- 1994 and 1999 – The Civil Code;

- 1995 – Law «On Mortgage of real estate», «On banks and banking activities in the Republic of Kazakhstan», «On state registration of rights on real estate and transactions with it»;
- 1997 – The Law «On housing relations»;
- 1998 – the period of the beginning of mortgage lending by commercial banks (interest rate up to 20%, the amount of an initial payment – up to 50%, the loan term – 10 years);
- 2000 – The concept of long-term financing of housing construction and the development of mortgage lending in the Republic of Kazakhstan;
- 2001 – adoption of the program of long-term financing of housing construction and development of mortgage lending, established the operator of the secondary mortgage market the Joint Stock Company «Kazakhstan Mortgage Company» (JSC «KMC»);
- 2001–2002 – the launch of the first (test) project of JSC «KMC» in Almaty and Astana, the seizure of the regional markets, the issue of first mortgage bonds;
- 2003 – The concept of the development of the financial sector in the Republic of Kazakhstan;
- 2004 – State housing program in the Republic of Kazakhstan for 2005–2007, the Law «On investment funds in the Republic of Kazakhstan», «On the formation of credit bureaus and credit histories in the Republic of Kazakhstan»;
- since 2003 the decrease of interest rates in second-tier banks – no more than 15% initial payment down up to 20% the loan term extended to 15 years;
- input of the guarantee system (insurance) of deposits – the creation of the Kazakhstan Mortgage Guarantee Fund;
- housing construction – a priority of the Strategy of Development of Kazakhstan till 2030;
- strategy of Industrial and Innovation Development until 2015;
- development of new building technologies;
- beginning of the industry development Action Plan implementation for the building materials production;
- since 2012 «Affordable Housing 2020» program.

Funding mechanism takes one of the most important places in the mortgage. This mechanism is widely used by JSC «ZhylyStroySberBank of Kazakhstan» (JSC «ZHSSBK»). The distinguishing feature of this method is that the mortgage interest rate is relatively low – about 5–7% per annum. There is no so-called initial payment but you need to accumulate a certain amount on a special account (currently it is at least 25% of the property value). In addition, it could take a long time (usually about 3–5 years).

System of housing construction savings is a mechanism for financing of housing, based on the accumulation of personal savings in order to obtain a loan to improve living conditions on the territory of the Republic of Kazakhstan. This system of housing construction savings is for people, who do not have

enough funds to make the initial installment for mortgage loans in the second-tier banks, but with a rather stable income. Role of the state in the relationship between the subjects of building savings is to support the system of housing construction savings by paying to the citizens of Kazakhstan – depositors, a bonus on deposits in savings. The mortgage credit is given for a part of the housing costs. The rest of the purchase price is to be paid from the borrower's own funds, and is called the initial payment. There is a mortgage «without an initial payment», but with an increased risk for the borrower. Without an initial payment mortgage is a loan for the purchase of apartments on the secondary market for borrowers, who have sufficient income to service and repay the standard long-term credit, owners of residential property who do not have an initial payment. The family should have a sufficient level of income, so the total amount of loans should be sufficient to purchase housing. Total usage of the mortgage «without an initial payment» has greatly increased. Kazakhstan chose Malaysian model of mortgage lending. It is based on Western know-how – the two-tier structure of the market, due to which the banks accumulate on the stock market «long» target money, intended for a mortgage, and have an ability to give both «long» and «soft» (under the low percentage) housing loans. The primary level here – loans themselves and the secondary – special mortgage-backed securities (bonds, mortgages) to help «feeding» the banks-creditors. At the end of December 2000, the National Bank of Kazakhstan established CJSC (now JSC) «Kazakhstan Mortgage Company» – by analogy with the Malaysian mortgage company «Kagamas Bernhard» It was organized for the specific purpose of formation of the country's mortgage securities market. According to the plan, on behalf of its partner banks, it should work with the public, implementing of mortgage bonds in the secondary market, and with this money to purchase mortgage loans from banks and then make them available to the public. The mortgage company is working on the primary market through commercial banks and on the secondary acts as operator, to refinance banks by purchasing their standard mortgage loans and issue mortgage bonds secured by these loans. More completely, the mechanism of the two-tier system of mortgage lending in the Republic of Kazakhstan is represented on Figure 1.

The activities of mortgage banks are the basis of so-called one-tier system of mortgage lending. Such systems dominate in Denmark, Sweden and Canada, as well developed in Germany, Austria, the Netherlands, Great Britain, and Finland. In France and Spain, one-tier system is represented by the state monopoly mortgage banks [6]. Since 1900 there is a special network of mortgage banks in Germany, they pay interest on mortgage bonds to their shareholders, even during the First and Second World Wars. Mortgage banks first appeared in Germany in the

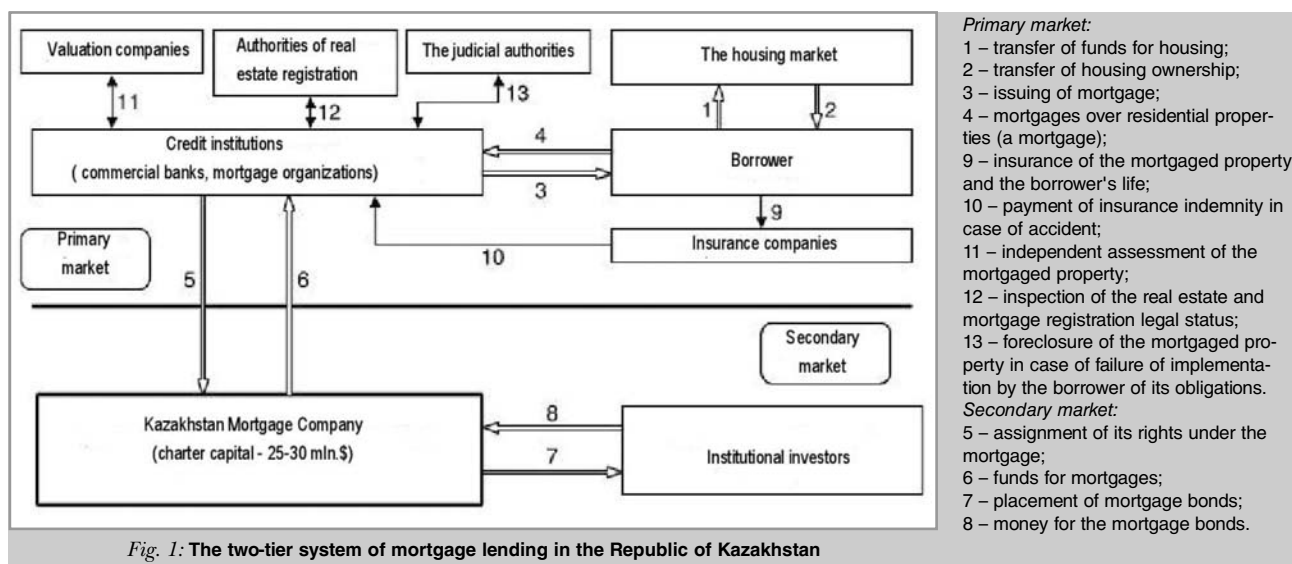


Fig. 1: The two-tier system of mortgage lending in the Republic of Kazakhstan

XVIII century [7]. Mortgage lenders in Europe differ by various different methods of provided mortgages financing. Using methods depend largely on the type of mortgage lender and varies by country. Most common sources of funds for residential mortgages in Western Europe are the resources obtained in the form of retail deposits. According to the European Mortgage Federation, at the end of 2000, the share of deposits in the financial support of mortgage loans was 62% of total loans. Other significant sources of financial residential mortgage are mortgage bonds issued by banks (19%) and housing savings accounts (5%) [8]. In the end of 2004 – the beginning of 2005, mortgage loans were divided into two parts: to provide well-heeled citizens with existing bank mortgage, the less well-warranted – by government loan programs [9].

Kazakhstan is one of the countries, most affected by the crisis on the real estate market. Along with Estonia, Lithuania, Latvia, Ireland, Bulgaria, the U.S. and the UK, the Republic of Kazakhstan is included in group of states, where the decline of real prices (house prices minus inflation) was more than 20%. In the years before the crisis the real estate price in the country grew up dramatically [10]. From 2005 to 2007, the whole country prices in USD increased by 148% for new housing and by 272% in the secondary market. During this period, price growth in Almaty was 354% and 318% respectively. Since the beginning of the crisis to December 2010, in the primary market prices adjusted for inflation (KZT) declined by 37%, on the secondary market – by 46%. Only in the second part of 2010, there was barely noticeable growth in prices in Kazakhstan real estate market. However, high potential demand for housing in Kazakhstan remains. The average supply of housing in the country is 18.3 sq.m. per person. In the U.S. this figure is 65 square meters, in Austria and France – 38 sq.m, Ukraine – 23 sq.m, Russia and Moldova – 22 sq.m., Kyrgyzstan – 14 sq.m., Azerbaijan – 13 sq. m. At the same time only 58% of Kazakh houses and apartments have water supply, 40% have central heating.

An income property shows the percentage of the annual rental income (before taxes and other additional costs), and the price of housing. Attractiveness of investments in real estate is defined as profitability plus growth in house prices. Attractiveness of investment in investment-apartments was very high until mid-2007 due to the rapid rise in prices, despite the fact that the profitability from renting gave away interest rates on long-term deposits (6.3%). Comparative profitability of investments in real estate in January 2007 and October 2011 is shown in Figure 2.

Comparing the profitability of investments in deposits and average interest rates on mortgage loans for the same period (Figure 3) we could see, that the investment in the apartment became unprofitable.

According to a comparative analysis of the investments in real estate profitability and interest rates on deposits and mortgages in the future, the authors suggest further growth in property prices. Attractiveness of investing in real estate is still low, as interest rates on long-term deposits are kept at the same level, and prices move slightly. The above factors determine the necessity to develop and improve techniques of credit risk assessment by banks, in order to prevent a sharp drop in the quality of loan portfolios in the case of repeated falling prices in the market.

The authors see the following trends of the risk management development in banks of Kazakhstan in order to integrate into the global financial system: there will be transition to «Basel» standards on Banking Supervision. However, the transition will be implemented mainly by large banks, which are now developing effective risk assessment system for small and medium-sized banks, adequate systems of risk assessment will be extremely costly. As a result, this may cause the appearance of large banks' competitive advantage, allowing them to reduce the size of their reserves and increase the capital. Consequently, there will be an increase of the large international banks influence on economic development.

The main advantages of implementing Basel 2 standards, the authors see in the following: the creation of more risks sen-

sitive weighted calculation of regulatory capital, based on quantitative risk assessment conducted by the banks themselves; increased recognition of credit risk mitigation instruments; expansion of supervisory authorities role; full disclosure of information by banks and methodology.

As for the introduction of the newly develop requirements of Basel 3 in Kazakhstan, it is early to talk about any accordance now. Basel 3 requirements are focused on large bank holding companies of developed countries. In particular, they affect the increase banks' capital and asset structure in order to cover possible losses of the banking sector – increasing the share of liquid assets. Kazakh banks are simply not ready now to consider the introduction of Basel 3 standards, which will force the economy to limit lending under current conditions. Government decided to start the program «Affordable Housing 2020» for solving the housing problems of Kazakhstan. It is planned to put in operation about 69 million square meters in 2012–2020. The program «Affordable Housing 2020» provides the implementation of the following directions: 1. Housing for local executive authorities persons on the affordable housing waiting list (LEA); 2. Housing under the JSC «ZHSSBK» (for all categories of the population, young families etc); 3. Housing of JSC «KMC»; 4. Repair of housing by improvement program in the Republic of Kazakhstan for 2011–2020 (secondary market); 5. Housing in the pilot projects for the demolition of dilapidated housing; 6. Individual housing construction; 7. Construction of engineering and communication infrastructure; 8. Housing construction within the Employment Programme 2020; 9. JSC «Real Estate Fund «Samruk-Kazyna» housing construction.

Design, construction and purchase of ready rental houses of 4 comfort classes will be at the expense of budget funds. Construction costs and purchase from private developers of 1 square meter of public rental houses of 4 comfort classes will not exceed 80 thousand tenge in the regions, in Astana and Almaty – within 120 thousand tenge (not including utilities). JSC «KMC» attracts private investment by issuing secured bonds with a state guarantee, securitized bonds on foreign and domestic stock markets among an unlimited number of investors,

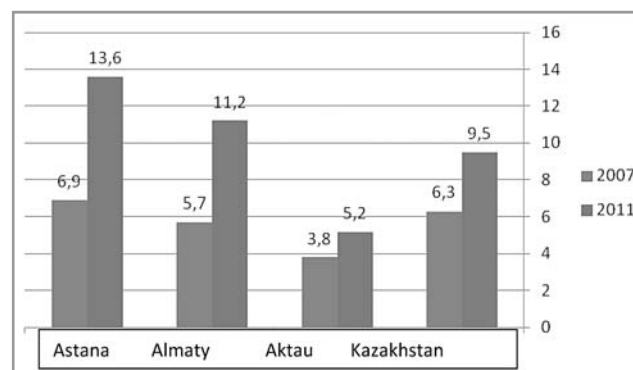


Fig. 2: Comparative profitability of investments in real estate in January 2007 and October 2011 [11]

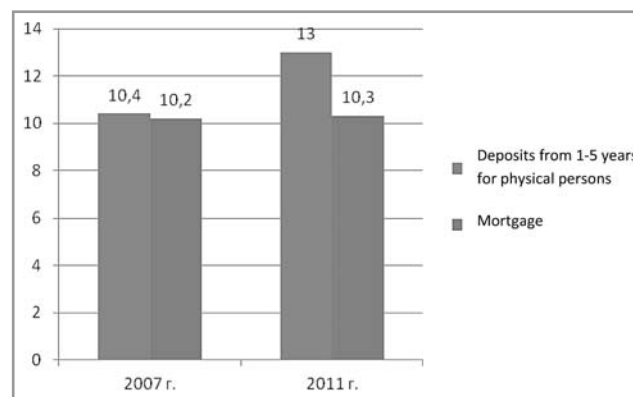


Fig. 3: Interest rates on deposits and mortgage loans in comparison in January 2007 and October 2011 [11]

loans from international financial institutions and instruments of Islamic finance. It is planned to attract private investment for 2015 – 2030 years, for a total of 1 080.456 billion, including: in 2015–2020 – 318.452 billion tenge and in 2021–2030 – 762.004 billion.

Low-income families will receive housing assistance to pay for the repair the common property of the condominium facility and contributions for accumulation of funds for capital repairs in accordance with the rules of housing assistance, approved by the decree. The Program housing and communal services repair of existing housing stock is to reduce the share of the condominium facilities that need capital repairs from 32% to 22% by 2015, and to 10% by 2020.

Individual housing construction (individual housing) occupies the major part (50–60%) of the total housing construction in Kazakhstan. In order to encourage individual housing it is necessary to provide: 1) development of the local building materials production for the construction of new technology houses; 2) organization of LEA work for spreading of low-rise residential buildings construction projects; 3) sites for individual housing should be distributed in accordance with the approved general plans, projects, detailed planning and building regulations settlements; 4) allotted for individual housing construction areas should be provided with engineering infrastructure before houses construction; 5) provision of citizens with the land. For the construction of rental housing, in 2012 8.9 billion tenge were allocated, and 115 thousand square meters of housing were built. Since 2012, it has been planned to build up 165.0 thousand square meters of rental housing under the Employment Programme 2020.

Conclusions. Attractiveness of investing in real estate is still low, as interest rates on long-term deposits vary slightly. As

soon as the house price growth will accelerate, and that is when it will be much higher, not only interest rates on deposits, but on borrowings and investing in real estate will be updated. Above-mentioned factors predetermine the necessity to develop and improve methods of credit risk assessment by banks, in order to prevent a sharp plunge of the loan portfolios quality in case of repeated price decrease in the market.

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СУЧАСНІ СТРУКТУРНІ ЗРУШЕННЯ У МІЖНАРОДНОМУ ВИКОРИСТАННІ ВАЛЮТ

Анотація. У статті аналізуються зрушення у структурі міжнародного використання валют. Обґрунтовується зростання ролі валют нових ринкових країн у світовій економіці та перспективи зміни статусу валют країн БРИКС із національного на міжнародний.

Ключові слова: міжнародне використання валют, міжнародна валюта, валюти нових ринкових країн, БРИКС.

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СОВРЕМЕННЫЕ СТРУКТУРНЫЕ СДВИГИ В МЕЖДУНАРОДНОМ ИСПОЛЬЗОВАНИИ ВАЛЮТ

Аннотация. В статье анализируются сдвиги в структуре международного использования валют. Обосновывается повышение роли валют новых рыночных стран в мировой экономике и перспективы изменения статуса валют стран БРИКС с национального на международный.

Ключевые слова: международное использование валют, международная валюта, валюты новых рыночных стран, БРИКС.

Постановка проблеми. Нинішня світова валютна система характеризується домінуванням долара США, ключовою роллю євро, фунта стерлінгів, єни та обмеженням використанням декількох інших валют країн із розвинутою економікою. Попри зростання ролі нових ринкових країн у розвитку світової економіки, торгівлі й фінансів ви-

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MODERN STRUCTURAL SHIFTS IN THE INTERNATIONAL USAGE OF CURRENCIES

Abstract. In the paper the author analyzes the changes in the structure of currencies international usage. She substantiates the growing role of emerging markets currencies in the world economy and the prospects for change in the currencies' status of BRICS from national to international.

Key words: international usage of currency, international currency, emerging markets currencies, BRICS.

JEL classification: F01, F31, F39

користання їх валют залишається незначним. Таке становище суперечить тенденції формування багатополарності світу і збільшує вразливість світової економіки через надто нерівномірний розподіл валютних ризиків між країнами – емітентами міжнародних валют. Глобальна фінансова криза та проблеми обслуговування зовнішнього боргу