

**A STUDY ON THE HOUSING POLICY IN THE REPUBLIC OF
KAZAKHSTAN**

By

Kuzenbayeva Dina Urazalievna

THESIS

Submitted to
KDI school of Public Policy and Management
in partial fulfillment of the requirements
for the degree of

MASTER OF PUBLIC POLICY

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ABSTRACT

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This paper, first, reviews the housing policy in Kazakhstan for certain period of time. It evaluates the effects of this policy on the social welfare, economic situation.

Through empirical studies of Housing policies in Korea, USA and Europe, it analyzes their experience in this field. It also stresses the lessons learnt from past policies of these countries. In addition, it raises the general question as whether or not the provision of housing efficiently and effectively meets the demands and needs of the population.

There will be described whether Governmental policy in Housing in practice could be efficient and some policy suggestions for the future reform on the Housing market, which meets public needs, will be discussed.

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INTRODUCTION

Kazakhstan passage to the market economy objectively led to revision of the housing policy. New policy which was created to solve the housing problem is based on housing market formation, provision of conditions to be met by households in different housing need, and balancing the housing cost with household income. What households have in mind first and foremost is to purchase their own homes and under this situation one can't move on to discuss social priorities without mentioning that for home ownership of each..

There are plenty of legislative and subordinate regulatory acts in Kazakhstan which provide with objective possibilities of the housing market development, activation of banks participation in crediting and housing purchase by citizens, creation of the main legal guarantees of mortgage lending. First of all these are Laws of the Republic of Kazakhstan President "About the mortgage" and "About the government registration of rights on immovable property and deals with it".

This paper, first, reviews the housing policy in Kazakhstan for certain period of time. It evaluates the effects of this policy on the social welfare and economic situation.

Through empirical studies of housing policies in Korea, it analyzes its experience in this field. It also stresses the lessons learnt from past Korean policies. In addition, it raises the general question as to whether or not the provision of housing efficiently and effectively meets the demands and needs of the population. There will be described whether Government housing policy in practice could be efficient, and some policy suggestions for the future reform on the Housing market, which meets public needs, will be discussed.

Nowadays the market of mortgage lending is developing rather stably. And most people have the possibility to purchase housing on credit. Thereby, the main goal of this work is a study of the policy in the Republic of Kazakhstan.

According to this goal there are the following purposes:

- To research current situation and governmental policy on housing in Kazakhstan
- To describe evaluation of the efficiency and effectiveness of the chosen policy
- To make a comparative study of the Korean housing policy and its affect on the economy

Newness of this work is that the researching theme is not elaborated enough in our country; there are no monographic works of the home authors, publications, scientific articles on the theme of housing policy in Kazakhstan.

The structure of this work is introduction, the main part, which includes three interconnected chapters, conclusion and sources.

CURRENT HOUSING SITUATION AND GOVERNMENT POLICY ON HOUSING IN KAZAKHSTAN

Over the past 15 years, Kazakhstan has made great strides in building a firm economic foundation and expanding opportunities for its people. Kazakhstan is no longer a low-income nation burdened with the legacy of a command economy, suffering from economic mismanagement, environmental degradation and stagnating social standards.

There is a renewed sense of vitality and hope in Kazakhstan's society, brought about by one of the fastest growth rates among transition economies. Global investors and financial markets are increasingly focusing their attention on Kazakhstan as "the next big event" on the international financial scene.

Given this progress, Kazakhstan is now moving towards second-generation reforms that aim to improve governance, the investment climate and the quality of life for everyone.

To sustain the success to date, it is not enough to continue with strong macroeconomic and fiscal policies, and to build further its extractive sector. It will be essential to adopt and implement reforms to increase productivity of labor, diversify into manufacturing, improve the business climate, and—most importantly—the quality of public services.

Our brainstorming event is inspired by the Government's program for 2007-2009, which focuses on three strategic goals: (i) increased effectiveness of public administration with the aim of significantly improving the quality of government services; (ii) economic diversification and improving and sustaining the country's competitiveness; and (iii) managing the risks of overheating through prudent macroeconomic and fiscal policy. [6]

Conversion of Kazakhstan to free market economy led to reconsideration of conception in the housing policy. In solution of the housing problems, the new policy is grounded on forming of housing market, creation of conditions for the housing earning of population, achievement of balance of the housing cost and actual citizens income. At the same time, our social state itself preserved liability of provision with housing of definite citizens categories. Housing construction is included in priorities of social and economic politics of the Republic of Kazakhstan.

There were plenty of legislative and subordinate regulatory acts in Kazakhstan, which insure objective possibilities of the housing market development, activization of second level banks participation in loans of construction and housing purchase. Beside, these banks create the main legal guaranties of mortgage crediting.

First of all, there are two Laws of the President of the Republic of Kazakhstan, which have effect of the law “About the mortgage” and “About government registration of laws on real property and deals with it”. [1]

Under the constitution of the Republic of Kazakhstan which was promulgated August 30, 1995, the government is to create all conditions to provide Kazakhstan citizens with decent housing. Nowadays the housing problem is one of the most serious social problems and even K. Marks said: “Before producing something, people must have food, clothes and dwelling...” [2]

The governmental program of housing construction is winded up, volumes of housing bringing into exploitation reduced rapidly, the cost of housing increased in several times, queue on receiving governmental and municipal housing assistance does not move nowadays. In this sphere there is ownership and social splitting of society.

Thereby, on the following stage of the housing problem there are as positive as negative tendencies. Positive is that citizens widened their possibilities and they can

dispose of privatizes or buying houses as they want. Also, citizens have the right to alienate their property, pass it to their heirs and etc. negative aspects are that prospects of housing receipt for most people who are in queue is absolutely impossible. At the same time credits do not defray expenses on housing purchase and the question about its return worsen rising inflation. In addition, with day- to- day payment for the dwelling rising, most people cannot afford to pay in connection with delay of pension, wage and grants.

It is very important to restore governmental direction by system of housing and communal services, based on citizens' calculation of the need in dwelling, and to understand that, without government's immediate actions, the level of housing and communal services will be absolutely deteriorated. Besides, it is necessary to remember, that dwellings were mostly built twenty to thirty years ago and such buildings demand a serious improvement, and most of them do not meet modern requirements of improvement and health standards for adequate living.

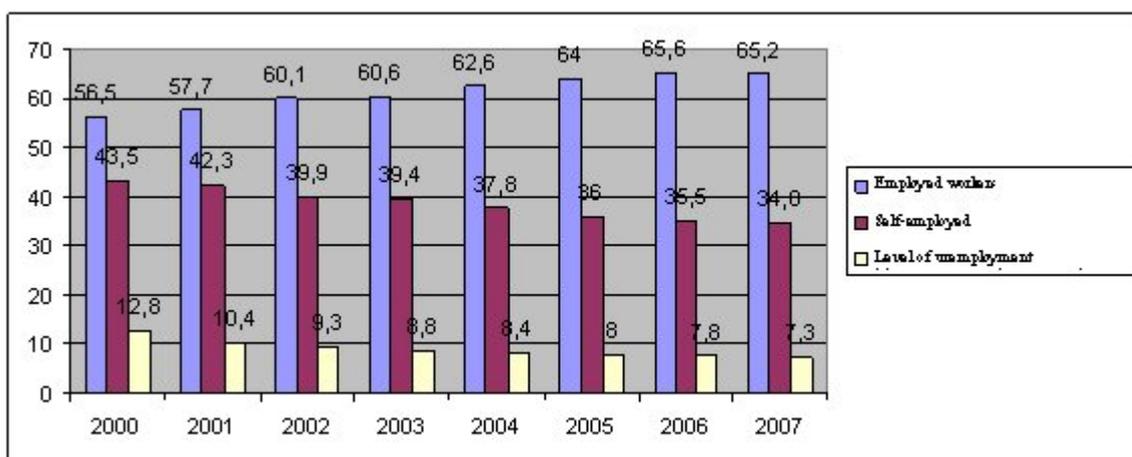
Statistics of the housing conditions and municipal services studies point out that existing housing stocks are poor in structure and inadequate in housing conditions and thus, their improvements are immanent. Consequently firms provide their employees with water, heat, gas, sewage services and also hotels and other kinds of facilities are being used to house the housing poor.

There are some statistics that demonstrate how bad the overall housing situation is. The sources of data include; government statistical observations, departmental statistics, population and household census, micro-census, and statistics on the special inspection of housing conditions. The housing conditions are characterized by the following indicators: housing stocks, movement of housing stocks, reconditioning and reconstruction of housing stocks, housing stock improvements and provision of

dwelling for selected group of people. Available housing is totality of all dwelling units, regardless of dwelling forms, including dwelling units and specialized units such as hostels, children’s homes, boarding schools, flats, service dwelling houses, and other dwelling types, which are suitable for living. The facilities of available houses include; water supply system, sewage, central heating, bathtub (shower), gas and hot water supply. Provision of housing is amount of the total and dwelling square, which is due on every citizen.

To understand the housing problem it is necessary to study living standard in the Republic of Kazakhstan. Economically active population is a part of the population, mostly working people who produce goods and services for the country as a whole.

Employment trends, 2000-2007



In the table below there is a comparison of the living standard in Kazakhstan and other countries of Europe and this comparison shows a huge difference between several countries.

Table 1. Living standard of the population in Kazakhstan and other countries in Europe, 2008. [3]

Activities	Estonia	Hungary	Kazakhstan	Poland
rate of unemployment, %	5.9	7.5	7,8	13
Minimal wage (Euro)	158	210.6	54	189.98

Population with minimum wage, %	4.8	7.8	8.4	2.8
Unevenness of distribution of income	5.5	5.5	4.8	5.6

Indicators of rate of employment and that of unemployment are one of the main indicators for evaluating the level of economics and poverty level. The last data of the RK Agency says that the unemployment rate is gradually falling, and employment is growing. At the same time, during the last five years the rate of unemployment felt only by 4 % and in January 2007 it was 9,5 %, but in September it was 8,0 %. The total number of the unemployed in Kazakhstan was 718 thousand in January and down to 634,2 thousand in September.

During the last five years the employment rate increased by 3,5 % and in September 2007 it was 92,0 % from economically active population of the country.

However it is rather difficult to calculate such data, because to indicate the level of unemployment is almost impossibly. In fact, the most part of unemployment is added to the category of self-employed population. This category has not any deduction to saving pension funds, they have no legal seniority. Most people of this category have no regular wage, and they have money time to time. In the beginning of 2008, as the RK Agency said, 40 % of employment was selfbusy population.

In consideration of economic crisis the amount of liquidated enterprises were partially responsible for increasing number of the unemployed, and the joblessness is one of the main problems for Kazakhstan. The biggest unemployment problems lie with women older than thirty five years, the youth, people of preretirement age, and people who live in a displaced company town with no jobs.

Comparing with 2007 year, households' nominal money income in 2008 increased by 20,5 %. Index of real income increased by 10,7 % relative to that of 2001, but relative to the last year it decreased to 1,8 %. [3]

Up to the July 1, 2008 the average size of subsistence minimum(SSM) per capita income was 10515 tenge, but later SSM increased up to 13183, including foodstuffs – 7910 tenge, non foodstuffs and paid services – 5273 tenge.

There will be no essential growth of income, because if government increases income too fast, this process will cause new growth of inflation. The same situation happened in 2005 during the election of the President of Kazakhstan, when government decided to increase pension, grants, benefits and wage for employee of a government-financed organization. At the same time people could see that the prices on provisions increased rapidly. Besides there will be new rise of prices for electricity, gas and water, and it will be a real problem for people who are unemployed. The table below shows income and costs per capita.

Table 2. Subsistence Level Minimum Wages by the End of 2008.

	size of subsistence minimum	Including		Correlation with the average size per capita (%)	Change (%) by:	
		Provisions	Nonfoods and paid services		2008	2007
In average per capita	11079	6648	4431	100,0	106,7	133,6
Socio-demographic group						
Children, up to 13	9514	5709	3805	85,9	105,1	144,4
Teenagers, 14-17						
boys	13802	8281	5521	124,6	107,0	132,0
girls	10573	6344	4229	95,4	106,9	132,0
capable of working, elder that 18						
men	13084	7850	5234	118,1	107,0	132,3

women	10378	6227	4151	93,7	107,0	132,1
Retired people	10260	6156	4104	92,6	107,0	132,5

Thereby, Kazakhstan government limits its population not only in good facilities but in housing also. According these data, population, who do not have their own housing should rent it. Housing shortage is particularly severe among the young people who are just married, students from other cities of the Republic of Kazakhstan and those, who migrated from rural areas to cities in search for well-paid jobs. Researching this aspect of life, one came up with some rather interesting findings.

There are only a few estate agents operating Kazakhstan's rental housing market in a civilized manner; for instance, observing all the requirements and standards stipulated by the legislations, paying taxes, observing contracts and so on. The share of civilised business in this sector does not exceed 10% and is mainly based on the so-called elite housing, whereas the lion's share of market players is working in the shadows. These are people who rent out their own flats or houses, and grey estate agents who offer their intermediary services for fees. In contrast to disruptions on the property markets in major Kazakh towns, for example a sharp rise in prices, the rental market has a relatively steady growth in rents. The property market, experts believe, will stagnate and saturate in the next few years, but the rental market will only grow further. There are already more people who want to rent flats than those who want to lease them out now. This segment of the market has been developing the past several years in a way that the number of permanent tenants slowly increases after the New Year's holiday. Between May and September, the demand grows so much that it is several times greater than the supply. The growth rate of this segment, developed by leading Kazakhstan estate agents, makes it the most profitable segment of the property market. For example, according to information from "UMEX Realty" agency, the flow of

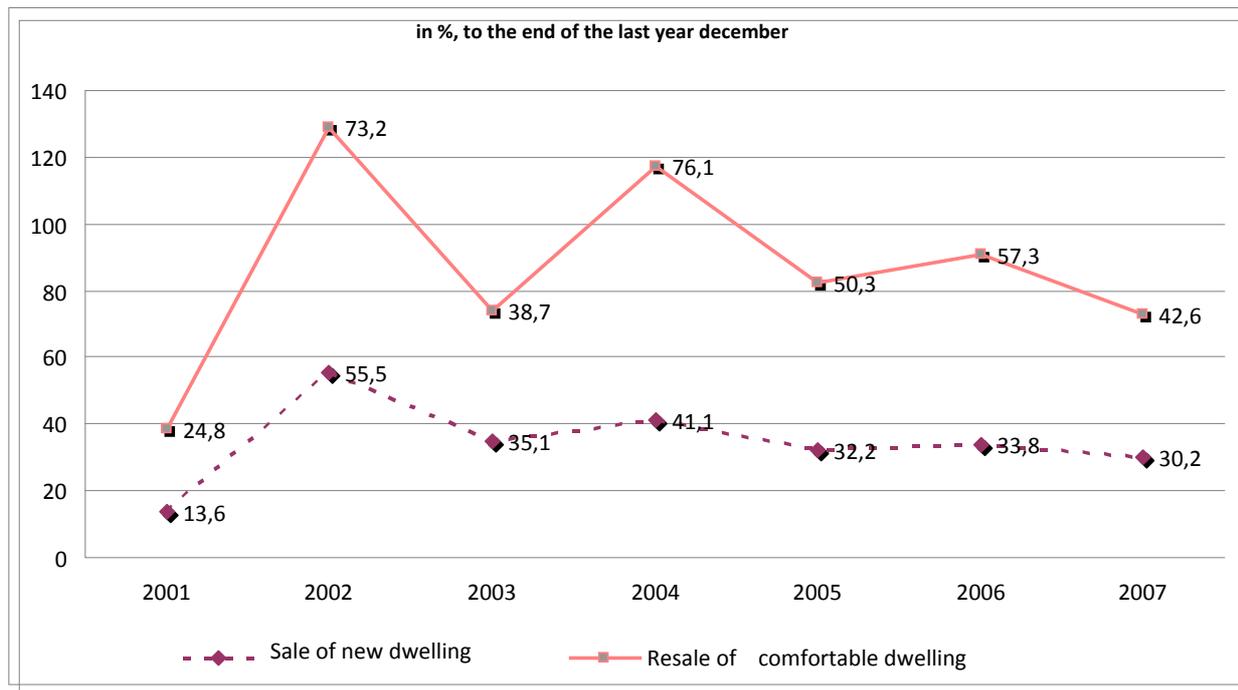
foreign labour has been increasing in Kazakhstan in recent years and this has boosted the demand for flats and detached houses that are rented long-term.

“UMEX Realty” agency is operating in the city’s business centre and upper parts, where some 20-25% of the total housing is rented out. This figure is somewhat smaller in the detached house sector – about 15-18%. Even this figure is quite significant, especially as the market is constantly changing and there are always new players – owners of detached houses who want to make money by renting their houses. The number of landlords who are making their living solely by renting their flats or houses is constantly growing. These people are not just renting their flats or houses for a certain time to solve their financial problems, restraining their comforts, as was the case a few years ago. Landlords are increasingly investing in new and old housing to rent it on a permanent basis.

The nature of supply on the rental market has been changing over the past several years. According to UMEX Realty, the total supply can provisionally be divided into three categories: economy class, business class and elite. Economy-class housing is a flat in a typical block of flats. It features modest repairs, a standard set of second-hand furniture and a minimum set of home appliances. It is usually a one- or two-room flat in the city’s residential areas. The rent for this housing ranges from \$400 to \$700 a month (as of August 2007).

Business-class housing is a flat that is rented for at least \$1,500 a month. It is distinguished by quality repairs and good furniture without any special detailing. As a rule, this type of housing is located in new monolithic blocks of flats that are built neither in the city’s business centre, nor in old blocks of flats in the town centre. [7] Thereby, people do not want to buy houses, as it is too expensive. Citizens prefer to buy not a new flat, but that one, which is more comfortable.

Figure 1. Housing sales over 2001-2007



Elite housing is a flat built in design blocks of flats or detached houses in the city's upper parts. This type of housing is characterised by quality decorations, a fenced-off territory, modern technical equipment, a multilevel security system and a car park. The flats themselves are individually designed (often to meet landlords' tastes) and cover an area of at least 100-140 sq. m. The rent for this housing can be as high as \$4,000-\$5,000 a month, and ranges between \$2,500 and \$5,000 a month.

According to UMEX Realty's statistics, the highest demand is for two- or three-room flats, ranging on average between \$1,500 and \$2,500 a month. There is less demand for four- or five-room flats with a size of 150 sq. m. and an average rent of \$4,000 a month.

Our calculations (based on open sources) show that elite housing accounts for no more than 20% of the consumer demand. The bulk of demand is for standard housing.

In conditions of recession in investment activity in construction field it is necessary to make new mechanisms to attract non-budget means in construction sector, using

mortgage lending as it really can help in development of constructive field, improving employment indicator and solving lots of questions of social plan.

By the end of 1999 in Kazakhstan there were positive premises for the real development of normative and legal base of mortgage lending and housing building programs adoption.

In November 2000, there were some changes and add-ins in the project of the law “About the construction savings in the Republic of Kazakhstan”. It is recognized that the aim of the building savings system is that citizens, who want to improve their housing conditions can save up some part of the necessary amount of money in specializes building savings financial institution. This financial institute undertakes to give its depositors a housing loan within limit of the difference between housing cost and that sum, which could save depositor.

The system of construction savings is unique itself; depositor and recipient of the loan are in the one face, thereby the system is closed and it helps to achieve such cheap credits and possibility to get it free. Nowadays household deposits in banks have risen by 1.4% up to KZT 1635.2 bln in June 2009. Deposits in the national currency were raised by 4.4% up to KZT 700.7 bln, foreign currency deposits lowered by 0.7% up to KZT 934.6 bln. The ratio of national currency deposits rose from 41.6% to 42.8%. Long-term crediting rose by 0.3% up to KZT 6690.3 bln, short-term crediting lowered by 2.6% up to KZT 1418.9 bln. As result, in comparison with May 2009 the ratio of long-term credits increased from 82.1% to 82.5%”. [5]

After the housing price increases of previous years, starting from the end of the first quarter of 2008, the Kazakhstan real estate market began to flatten and even decrease. Market movement to the bottom price will take place in fluctuations, with periodic

variations both towards growth and towards decreases in the average price. Prices are most likely to “bottom out” in the second quarter of this year.

The home market shows the sustained solvency of the population and enterprises. There is no mass formation of debts to creditors by the population or by legal entities. As of January 1, 2008 default debts under the credits granted by second-tier banks for construction were 1.39%, including mortgage debts of only 0.33%.

FINANCING OF HOUSING CONSTRUCTION

First of all it is necessary to remember about crisis in Kazakhstan which had a strong implication on its housing and construction policy.

In the years following financial liberalization, Kazakhstan has seen a spectacular construction boom and an inflation of real estate assets, driven by internal and external investment. The country has boasted the highest per capita foreign investment and the most developed banking system in the CIS. From 1999 to 2007, the economy displayed steady GDP growth of about 10 percent per year. However, the country's achievements in attracting foreign capital and developing its financial sector are now seen as a mixed blessing. The banking sector of Kazakhstan, which is in a deep structural crisis, has been accused of inflating the housing bubble through extensive external borrowing and aggressive lending policies

Today, big players like banks are routinely criticized for pumping money into the housing bubble and construction. The big players should not be acquitted of the responsibility they bear. However, it should be noted that although the real estate and construction boom was economically a result of the influx of capital and banks were instrumental in channeling it, it was also culturally and socially a result of the desires for buying new and different types of housing unimaginable under socialism.

The government hoped the construction boom could become a locomotive for the country's development, improving people's living and housing standards, creating jobs, and even stimulating industrial output in related spheres such as construction materials production. Today, all of these hopes are in question due to the volatile connection between construction and short and medium-term foreign capital.

According to the Kazakh National Central Bank, the increase in the country's external debt in previous years (from 2003 to 2007) was mainly due to the banking sector's borrowing, which by the end of 2008 had totaled US\$40 billion. A significant part of the capital invested in construction came from international financial institutions, lending money to Kazakh commercial banks, which in turn lent it as home, consumer, and SME (small and medium enterprise) loans. The global financial environment of cheap credit and competition among national banks encouraged dependence on short- and medium term borrowing through the bond market, rather than dependence on banks' own internal deposits and savings. In this quantity-driven environment, the way to success was through more borrowing abroad and more lending at home while quality became a secondary matter.[18]

The total amount of investments into housing construction for the period January – December 2008 compared to the same period of the previous year has increased by 26.2%.

During the years of housing development program implementation the structure of investments into housing construction has considerably changed 2005 – 2007. As a result:

- the share of borrowings increased from practically zero in 2003 to 31.4% in 2008;
- the share of enterprises means decreased from 81% to 60%;
- the share of all level budgets decreased from 15.5 to 8.9 %.

This is an important signal for the banking sphere, the reaction to which should be to strengthen repayment guarantees for the funds received.

A regional breakdown of all investments in housing construction shows that the largest volume (55-60%) takes place in Almaty and Astana. Accordingly, the greatest number of incomplete construction sites is in these two cities. The tendencies of housing construction finance in Kazakhstan shown by the analysis, especially structural ones, will occur long-term as well.

As for the regions, we expect a shift of emphasis from Almaty and Astana to regional centers and other cities. High volumes of borrowing for housing construction will continue, though rates of growth will decrease considerably compared to current levels. This is connected with the outrunning growth in prices for contract works, land and construction materials. As for housing construction itself, the building of residential space intended for commercial use will develop.

The survey of the end of 2008 shows that the situation becomes better and now people can make an effort themselves for better living standard than it was in the end of 2007. “Total volume of residents' deposits in the banks has risen by 2.8% and has made KZT 5,967.5 bln in June, 2009, Chief banker of Kazakhstan Grigory Marchenko has announced at the press conference in Almaty. Legal bodies' deposits have been increased by 2.7% up to KZT 4,360.8 bln while individuals' deposits rose by 2.8% up to KZT 1,606.7 bln. In June 2009 foreign-currency deposits declined by 30.1% up to KZT 2,706.4 bln. As for national-currency deposits, their volume, on the contrary, grew by 8.2% up to 3,261.2 bln since the moment of devaluation. As a result, the ratio of deposits in the tenge rose from 51.9% to 54.6%.” – Kazinform says. [8]

Thereby a major aspiration in Kazakhstan is to considerably improve the living standards by 2020 for those among the rural population who are living in especially poor social, housing and environmental conditions. In the past 10 years there has been a noteworthy increase in the average housing supply as shown in table below. Dwellings in cities have been built very rapidly. Investment in housing construction in Kazakhstan in one year alone (2008) rised by 60%. [4]

Table 3. Housing supply in Kazakhstan

Years	2003	2004	2005	2006	2007	2008
Average housing supply in square metres of total living space per inhabitant, including:	16.6	17.0	17.3	17.5	17.6	17.9
Urban areas	17.3	18.0	18.4	18.7	18.9	19.4
Rural areas	15.6	15.8	15.9	16.0	15.9	16.2
Standard of housing stock by % of homes equipped with:						
A domestic water supply	52.4	52.8	53.5	54.4	54.9	56.3
Plumbing	43.1	43.3	43.7	44.6	54.0	45.6

MORTGAGES AND HOUSING CONSTRUCTION

As the housing situation in the Republic of Kazakhstan became worse, the government needed to correct not only social, but its economical position also. Thereby, to solve the housing problem Kazakhstan government should correct its economic system in a whole, but not its parts separately. Thereby there were topics for discussion suggested by the government, on brainstorming session with the government of Kazakhstan in Astana this year. The following Economy Policies which were focused on the financial system risks and inflation were discussed:

1. Identification of the symptoms of overheating (comparative analysis of Kazakhstan and other countries; factors and consequences of economy overheating; international experience in fighting inflation in oil-extracting countries);
2. Kazakhstan's position in terms of Dutch disease (extent of Kazakhstan's economy diversification; positive and negative experience of its prevention in other countries; measures of public regulation);
3. Policy of foreign borrowings in Kazakhstan and other countries (comparative analysis of borrowing policies in Kazakhstan and other countries; existing legislative borrowing norms in other countries);
4. Factors of possible financial crisis in Kazakhstan (analysis of banking crisis risks; international experience in exchange rate policy and national reserve management);
5. Measures of real estate prices regulation (international experience in public regulation, related to overcoming a real estate market crisis ("real estate bubble"); symptoms of possible real estate crisis in Kazakhstan);
6. Development of capital market in Kazakhstan; challenges and solutions;
7. Deposit policy of banks; conditions of interest rate regulation; deposit guarantee fund.

To improve housing problem, there was a summit, where the future housing construction 2005-2007 was discussing.

Economic growth as well as wish of most of the population for improvement of their living conditions called for a large number of housing construction. Housing construction is accepted as a priority sector in the Kazakhstan 2030 Development Strategy and is one of the important tasks to be raised at the nation-wide level.

Improvement of the Kazakhstan's competitiveness in the mid run requests a new housing construction policy.

In this regard, the major vectors of the State-run Program of Housing Construction are overall solution of problems relating to housing construction development; and provision of all segments of population with affordable housing. The said Program was developed with consideration of the Presidential Address to the Nation of Kazakhstan as of March 19, 2004 – “Towards competitive Kazakhstan, competitive economy, and competitive nation”.

The following objectives have been fixed as steps to the final goal:

- to ensure balance of supply and demand at the housing market;
- to attract private investments into the housing construction sector and encourage private housing construction;
- to facilitate shaping of an efficient construction segment;
- and to ensure accessibility of mortgage programs and housing construction savings programs for all segments of population.

The 3-year program implementation will require KZT 150 billion of budget funds: KZT 60.5 billion in 2005; KZT 63.7 billion in 2006; and KZT 25.8 billion in 2007. Besides, a loan extended in 2005 worth KZT 42 billion is going to be reinvested in 2007. The Program will be financed out of the state budget, as well as private funds and legal entities' funds.

As of today, 96.8% of the housing stock in Kazakhstan is privately owned and remaining 3.2% belongs to the state.

With the current norms 18 m² of housing per capita, as of the end of 2003 the actual rate stood at 17 m².

One of the factors deterring growth of housing construction is its high cost.

According to the Agency of Statistics, over the period of 2000 – 2003, average actual cost of 1 m² of housing in all towns of Kazakhstan - except for Astana and Atyrau, where the cost exceeded average level - stood at KZT 47.5 – 60.3 thousand.

To achieve the affordable level of the housing for larger proportion of the population, the said Program provides actions to decrease the construction cost by encouraging the competition among construction companies. A major mechanism to strengthen competition will be bids held by local authorities when placing orders for construction of municipal housing and when extending credits to developers, with further distribution of the housing among certain categories of citizens through mortgage programs and housing construction savings programs.

Mortgages are one of the most effective ways of attracting investments into the housing construction sector. Mortgage programs allow harmonizing the interests of the participating parties – interest of the population in improvement of living conditions, interest of the banks in profitable work, interests of construction companies in effective work peak, and interest of the Government in economic growth encouraged by mortgages.

Second tier banks have been providing mortgage services to the population since 1998. At the beginning, interest rates on mortgage credits made 20%; starting from 2003 they have been changing within the range of 12-15%, and the first installment amount has been reduced. But even with these terms of mortgage, selected segments of the population can afford it. The reason is lack of enough funds for the first installment and for repayment of accrued interest. Within the framework of the Housing Construction Program, Kazakhstani Mortgage Company (KMC) was established. Its equity capital as of today totals KZT 28.93 billion.

Over the Program Implementation period, it's expected that demand of mortgage programs' participants will cover supply of housing units under the Program. It is estimated, that 49 thousand families will be able to use mortgage loan system, including 11,7 thousand families in 2005, 16,5 thousand families in 2006, and 20,8 thousand families in 2007.

As of early 2006, 1364 applications for mortgage loan totaling KZT 5,2 billion were submitted to the Kazakhstani Fund for Guaranteeing of Credits. Second-tier banks and mortgage companies – participants of the State-run Housing Construction Program - have extended mortgage loans according to 383 applications totaling KZT 924,9 million.

According to the Agency of Statistics, KZT 16,3 billion were invested in total into housing construction, as of January 2006. The total floor area of the housing put into operation made up 328.9 thousand m², which is 111,9% as compared to January 2005.

Major shares in those housing made by the following cities: Astana (22%), Southern Kazakhstani oblast (15%), Almaty (12,2%), Atyrau oblast (8,5%).

Over three years, while it is expected that housing units put into operation will increase, the following outcomes will be achieved:

- the total floor area will make up over 12 million square meters;
- over 45 thousand new jobs will be created;
- more amenities will be provided for new housing;
- safety level of new housing will be increased;
- cities and other human settlements will become developed in terms of architecture;
- primary market of housing will get boosted;

- construction materials imports will be diminished;
- adoption of estimated norms will ensure investments efficiency and cost optimization;
- collectability of taxes imposed on the construction activities will be raised, including that of the property tax and income tax imposed on developers;
- positive effect will be exerted on associated segments – construction materials, electric and chemical industries, metallurgy and home appliances production. [9]

It was the first step to improve not only economy as a whole, but its separate part also, especially the housing problem, which is becoming one of the most serious one. Thereby mortgage lending is one of the best solutions and the main policy of the Kazakhstan government. Besides, it is very important to describe possible models of development of mortgage lending in Kazakhstan that is one of the most effective methods of the housing financing. At the same time, it is essential to mark that there are two models of the development of mortgage lending system.

1) European

It foresees banks' support, which implement mortgage lending. The main instruments of this support are preferential taxation, preferential crediting end other ways of preferential service. The main institutions there are high-capitalized private organizations.

The European Union's mortgage finance systems remain diverse, despite the introduction of the European Single Market. However, 11 of the 15 members of the European Union have now entered the Economic and Monetary Union (EMU). A three-part typology of convergence is created and linked to two meanings of efficiency. The typology is used to assess the impact of EMU on mortgage system convergence. It is suggested that the single currency will help to shift European

mortgage markets from their currently diverse positions, with a variety of intermediation systems, mortgage products and prices, towards an intermediate position of financial integration ('financially competitive convergence') whereby the risk and option-adjusted prices of mortgages will be similar, although institutions and mortgage products will continue to vary. This will be achieved through two mechanisms: first the much greater transparency of pricing of mortgages, and second by making retail savings markets more competitive. However, convergence will also be inhibited by the continued privileged availability of cheap funds to some intermediaries. Even if this barrier were removed, non-financial features of mortgage systems, such as legal frameworks, will prevent the development of a fully integrated market with a standard pan-European mortgage product.

2) American

This system foresees forming with government participation of the institutions, which can guarantee issues of mortgage lending obligations property against a pledge. Among participants of mortgage obligations market are institutions, which have the following functions:

- organizer of mortgage lending
- investors
- mediators, who are busy with mortgage lending insurance
- mediators, who implement securization of mortgage lending

American model foresees the market of mortgage lending development, as the government creates some mechanisms of redemption of mortgage lending and its redemption for refinancing of mortgage obligations. Mortgage organizations created with participation of the government guarantee issues of obligations under mortgage

that can provide its liquidity. It is necessary to discuss briefly what institutions implement these or those functions.

Recyclable mortgage market exists in Kazakhstan with the help of many key mechanisms such as checking of creditworthiness, protection and insurance of ownership on housing, market and open determination of prices on immovable property, stable legal base.

Though mortgage securities have a high liquid level, they do not involve big risk and consequently they do not bring high interest rates.

It attracts mostly institutional investors, who try to achieve diversity and to safe large investment portfolios. It is necessary to take into account, that secondary market of mortgage is called to enter liquidity and effectiveness in the existence mortgage and crediting market and it can not be observed independently from this context.

Positive sides of the American mortgage lending model are high development of primary and secondary mortgage lending markets, because of functioning of special mortgage lending organizations, which form mortgage lending system in a whole.

However, mortgage is not only crediting against a pledge of immovable property, but it is also assignment of purpose loan for construction and housing purchase. The loan can be given for construction of dwelling house, with providing flats, unfinished constructions with need materials and equipment, which belong to the depositor. But in detail this order of purpose loan assignment by banks for construction and housing purchase is regulated by the regulations about housing loans.

During crediting of construction or housing purchase three kinds of the housing credit can be granted by bank:

1. the loan which is granted to legal entities and individuals, for purchase or provision of the necessary facilities of the land under the future housing construction.

2. short-term loan for construction (reconstruction) of dwelling assignable to legal entities and individuals for construction works financing.

3. long-term loan assignable to legal entities and individuals for housing purchase.

Credit guaranteeing is a mortgage of immovable property (including constructing and purchasing for the credit) and ownership rights on it by depositor. Total sum of the bank credit should not be higher than 70 % from the total cost of the land assignment or provision of the necessary facilities, construction (reconstruction) or the cost of housing purchase that fixed in mortgage on conditions that depositor will put missing means at the rate not less of 30 % of the crediting object cost. Besides the main conditions, there are several aspects which are formed in the loan agreement, such as getting the loan, the way and forms of checking of purpose loan using and sanction for its misuse.

The subject of loan could be a plot of land and ready dwelling or unfinished construction. If there is misuse of credit, which was granted for construction or housing purchase, the bank can demand the granted loan to be payable before the maturity.

Despite of the fact, that the Order about housing loans was approved more than three years ago, Kazakhstan banks became to grant purpose loans for housing purchase not long ago.

In conditions of crisis in 2007-2008, Kazakhstan Prime Minister's Press Service gave the following information about the relationships of banks and construction companies.

“As commercial banks tighten their lending operations in response to the changes in the global funding conditions, some creditworthy borrowers may not get access to

financing. Such effects can be observed in certain areas of in-process construction today. Construction companies heavily rely on bank credit. Due to the funding issues, even reputable construction companies are facing difficulties with completing construction of multiple-family housing units. Providing adequate housing to citizens of Kazakhstan is one of the basic duties of the Government. In order to alleviate pressures on the construction industry, support job growth and to help mortgage owners secure their housing, the Government will provide alternative sources of financing via several government-owned vehicles. A pilot project was launched in 2007 for Astana region, with more regions planned for inclusion in 2008". [10]

For instance, Nurbank can be observed, as one of the participant of the meeting, which was direct on the improvement of the housing facilities for citizens. M. Zairov was appointed the Chairman of the Board of Nurbank JSC. Changes in the leadership were forced by the accomplishment of the stabilization stage and the necessity to strengthen bank's further development. Nurbank is planned to repay USD 100 million syndicated loan in April 2009 and USD 150 million Eurobond in 2011 from own funds. Household deposits increased by 104% following the results of 2008. [11]

According to Minister of Finance Bolat Zhamishev, the first half of 2009 budget incomes made KZT 1 trln 701 bln and were executed by 95%. Local budget spending in the first half of 2009 amounted to KZT 967.9 bln. According to him the amount of unused budget funds against the same period of the last year increased by KZT 3.3 bln and amounted to KZT 44.3 bln. The following functional groups of expenditures having main budget non-fulfillment are: housing and utilities infrastructure - KZT 14.2 bln, education - KZT 6.6 bln, healthcare system - KZT 5.0 bln, transport and communications - KZT 4.8 bln, culture, sport, tourism and information space - KZT 3.4 bln. The Minister also informed of that relevant transfers amounted to KZT 312

bln was transferred to the local executive bodies from the national budget whereas KZT 292.3 bln was used only (or 93.7 per cent). "However, it should be noted that the pace of economic development is lower than it was in the first half of the last year...it means we have unaccounted revenues" B. Zhamishev noted. Though the budget have already assign means to solve the housing problem, the situation has not change in a whole.

74 investment projects and productions to the amount of KZT 115 bln were launched in Kazakhstan in the first half-year of 2009, and 4, 641 jobs were created. Along with the Antirecessionary program realized by the Government implementation of the complex of measures on forced industrial-innovative development of the economy is underway.

In July 2009 the company experienced growth in volumes of cargo transportation and this tendency is kept on. Production capacity of Kazakhtelecom JSC has been expanded by 9% in the first half of 2009. The number of subscribers of mobile network of Kazakhtelecom's subsidiary companies rose twofold in this period and reached 1.8 mln clients. It was also reported on completion of construction of 21 housing complexes with 4 538 flats in Almaty and Astana cities. 3 831 housing investors got their flats. Around 31 thousand borrowers started to pay 30% less to the banks due to mortgage refinancing program. State Commission on Modernization of Economy has approved 128 projects with 35 thousand flats for financing. 21.6 thousand housing investors will receive new flats. Small and medium business enterprises of the republic are actively involved in purchases initiated by the national companies as well as in realization of large investment projects. Thereby the situation was becoming less intense as for the government as for people, who could not get their own dwelling. [12]

Deputy Prime Minister S. Akhmetov will administer transport and infrastructure, development of small and medium businesses, and deal with the issues of increasing Kazakhstan's participation, regional policy and housing maintenance and utilities.

At the Government meeting on Monday, Prime Minister K. Massimov urged to put the program of mortgage refinancing under public control. The Prime Minister assigned mass media to actively participate in the coverage of the implementation of this program. «You should broadcast those who obtained mortgage loans and those who did not. This way the work must be brought to the public attention».The Government budgeted KZT 120 bln for the mortgage refinancing program which started on March 1. [13]

According to Agency of Statistics, in July, 2009 in comparison with the last month, the price for well-equipped apartments has decreased by 1.6 % and ill-equipped apartments - by 1.5 %. Rent payment of the well-equipped apartments has decreased by 0.2 %. In comparison with the corresponding month of 2008, the price in the primary and secondary markets has decreased by 9.3 % and 11.3 % and in comparison with December, 2008 - by 6.4 % and 4.8 % accordingly. [13]

The Government acknowledges that property ownership is important for the poor. Therefore, affordable housing provision became a vital issue. The Government is authorized to provide the population with an adequate housing, by enhancing and maintaining acceptable living and working conditions. Also the Government should guarantee the home ownership and security of tenure for the majority of the population.

The Government will be continuing all of its current programmes as well as introducing some new policies to assist the poorest citizens in accessing affordable housing. Some of the policies will:

- Provide more housing solutions in the marketplace (i.e. joint private-public property development);
- Provide security of tenure (i.e. sale of rental units);
- Ensure private low-income rental accommodation have: running and potable water, waterborne facilities and electricity;
- Ensure that dwellings are structurally sound and safe for habitation and conform to the standards of the Kazakhstan National Building Code;
- Encourage large property developers to invest in low-income housing as part of proposed projects;
- Continue Housing Program, which allows tenants to buy land at affordable (government-subsidized) prices;
- Upgrade urban housing and neighbourhoods to provide better amenities and disaster preparedness. Security of tenure will also be addressed;
- Rehabilitate abandoned or vacant properties to make way for suitable housing or greenspace.

Major challenges / weaknesses

- International financial institutions (IFIs) consider small-scale housing approaches to upgrade housing for the poor in Kazakhstan (i.e. the "boutique approach") undesirable. They are usually in favour of large-scale replication of housing.
- Additionally, new and existing housing stock must also be made resilient to natural disasters.
- Ensure that low-income earners have access to adequate insurance coverage.

Thereby, the latest results show that the housing problem is becoming more solvable. The Prime Minister of Kazakhstan, Karim Masimov, during the meeting regarding

realization of the anti-recessionary measures with participation of the head of the state informed all the problems in the housing market of Kazakhstan will be solved until the end of the year, "Kazakhstan Today" agency reports. "As of today, 60 billion KZT out of 95 billion KZT has been transferred to constructors from the Samruk-Kazyna fund," K. Masimov informed. "As of today, problems of more than 25 thousand shareholders have been solved. Construction of 184 objects has been completed in the real estate market," the Prime Minister informed. "More than 25 thousand shareholders will receive apartments until the end of the year." [14]

In May 2009 there was a Minister-level summit in Astana, where the main problems of housing were discussing. The Government of Kazakhstan has adopted a concept of modernization and development of housing and utilities infrastructure and a complex plan for 2010-2014.

According to Deputy Prime Minister Serik Akhmetov, through adoption of the concept the Government will solve the tasks on raising efficiency of state management of municipal housing economy, investment attractiveness of the sector, encouragement of state-private partnership and usage of energy saving technologies, improvement of tariff system and legal framework for the housing and utilities sector.

«To raise efficiency of state management in the sphere of housing and utilities infrastructure it is necessary to establish a special agency as a central authorized body in the sector», the Vice Premier said.

According to him, KZT 60 billion will be annually budgeted in realization of the concept and the plan, including repair of water, heat, power supply networks and organization of public services and amenities.

The Vice Prime Minister noted that probably a new law concerning this sector would be developed. [15]

KOREA'S HOUSING POLICY AND ITS IMPLICATIONS ON THAT OF KAZAKHSTAN

The housing market and related issues have strong implications for the Korean economy. As of the end of 2003, the market value of houses and residential land in Korea exceeded 781 trillion won, which was larger than Korea's nominal GDP for the same year. Also, it is believed in Korea that the real estate market is closely linked to the national economy, in particular, business cycles. At the same time, the right to reside in a 'humanistic' environment is regarded as one of the most basic rights.

The housing market in Korea has heated up dramatically at least three times during the past 30 years: the late 1970s, early 1990s and early 2000s. It is argued that the rapid increase in house prices magnifies the sense of alienation among people who feel relatively deprived, and brings along with it the risk of inflation. The real estate market, in particular the housing market, is of tremendous importance for countries like Korea, which has a very limited amount of area for residential dwelling combined with a high population density. [19]

Public sector workers will be provided by housing under a newly developed Government program; also individual housing construction development program is being prepared. According to the Presidential decree, every citizen of Kazakhstan has right to own 10 sotoks (equal to 0.1 hectares)[16] of land free of charge for individual housing construction.

Economic growth as well as better living conditions' requirement of most of the population led for massive housing construction. In this context, the major goals of

the State-run Housing Construction Program are to provide solutions to problems relating to housing construction development; and the provision of all segments of the population with affordable housing. The following objectives have been fixed as steps to the final goal:

- to ensure a balance of supply and demand at the housing market;
- to attract private investments into the housing construction sector and encourage private housing construction;
- to facilitate shaping of an efficient construction sector;
- and to ensure accessibility of mortgage programs and housing construction savings programs for all segments of population.

To ensure affordability of housing for wider segments of the population, the said Program provides actions to reduce the cost of construction by encouraging the competition amidst construction companies. A major mechanism to enhance competition will be bids carried by local authority bodies for municipal housing construction and for providing the developers with loans, the result of which will be the certain group of citizens provided by housing through mortgage programs and housing construction savings programs. [17] The law states that appropriate hygienic and environmental living standards must be maintained. Economical stability index raise, increase of productive land per inhabitant and environment feature improvement are planned in order to accomplish this provision. This will result in noticeably higher living standards (by 1.4 times in 2009, 1.8 times in 2012 and 3.4 times in 2018) and an improved quality of life (by 1.5 times in 2009, 2 times in 2012 and 3.7 times in 2018), which will themselves effect a multiple improvement in the indicators for housing provision.

Macroeconomic data such as GDP, CPI, housing investment, quantity of money, and corporate bond yield were compiled from the Bank of Korea and KOSIS database of the National Office of Korea. Housing price data were collected from a survey, 'Urban Housing Price Movement,' which was conducted by *Kookmin* (Korea Housing) Bank. Since 1986, the bank has been publishing various housing price indices including purchase price indices and *chonsei* price indices for major cities by dwelling type. As the data are made available on a monthly base, for this study, the data is converted into a quarterly basis. Land price indices are published on a quarterly basis by the Ministry of Construction and Transportation (MOCT) for different regions, which are further categorized by land use and zoning status. The indices of residential zones for entire nation and Seoul are used.

This paper categorizes the government's policy into two groups: those that discourage the market and those that encourage the market.

Table 4 shows the goal of housing policies to now from the demand and supply point of view. We found that the MOCT-oriented goals, previous policy and policy newly proposed by previous studies care more on the supply part rather than the demand part. Also, the grouping the goals related to the supply section with similar characteristic is divided to 3 types. Type 1 is characterized by mass supply and construction of house, including setting, development, and supply of land, mass construction and supply of house. Type 2 is characterized by living stability and dwelling improvement for the low income bracket, for example, housing improvement, public rent housing, redevelopment or reconstruction of housing. And Type 3 is characterized by vitalization of housing market such as housing construction economy control or housing construction economy invigorating etc.

From the point of view of demand, the type is characterized by the stability of house price or the control of real estate speculation.

Table 4. Review of current housing policy goals

		MOCT	Executed policies	Previous studies
Goal	Supply	National housing funds and housing loan Public land development and supply Mass construction and supply of housing units Construction or control standards	Land setting for housing New town or new city development Housing funds and loan Standards controlling Housing company	Construction of housing units Land supply
		Decrepit housing improvement Public rental house and small house supply	Rural district reform Housing reconstruction	Housing management Redevelopment or reconstruction Living level or public wealth improvement
		Housing construction economy control	Housing construction economy-invigorating	
	Demand	Stability of house prices	constraint of real estate speculation	Stability of dwelling

From the review of the above three views, we can categorize 4 types of policy goals for this study as follows: the mass supply and construction of housing units or relative standards, the stability of house prices or control of real estate speculation, the living stability for the low income bracket, and the vitalization housing market.

Housing policy instruments can also be divided into 6 types with respect to supply and demand was done to achieve the housing policy goals. Table 5 summarizes the instruments selected by MOCT, used to execute the policy, and proposed by previous studies. With respect to supply, Type 1 is characterized by the land development projects, for example, site development, large land setting project etc. type 2 is

characterized by housing units supply programs including mass housing construction plans, construction funds support, new city plans, etc. type 3 is characterized by reconstruction or redevelopment programs to improve dwelling level, such as the housing management monitoring system, support for tenants. Type 4 is the public housing supply or support instruments including small housing units supply plans, tax benefits, low land price, and fund supports etc.

With respect to demand section, type 1 is characterized by tax benefits and housing fund or loan supports, for example, private housing loan, rental loan, housing tax benefits. Type 2 is the strength or weakness of restriction, including housing price restrictions, subscription deposit condition changes, sell and buy restrictions, and speculation area designation and so on.

Table 6. Review of current housing policy instruments

		MOCT	Executed policies	Previous policies
Inst.	Supply	Site development projects	Large land setting projects	Site development projects Large land setting projects
		Public projects for housing unit Housing construction and housing funds	Housing construction funds and supports	Housing construction housing unit Construction company system
		Redevelopment	Redevelopment Reconstruction	Redevelopment Reconstruction housing management monitoring system Support for tenants
		Tax benefits for small housing construction Low land price for public housing	Public housing supports	
	Demand	Private housing loan and rental cost loan	Housing tax benefits	Housing tax benefits Private housing loan

		Housing price and rental price restrictions Subscription deposit condition changes Speculation area designation	Subscription deposit condition changes Housing price restrictions	Housing price restrictions Subscription deposit condition changes Sell and buy restrictions Speculation area designation
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From the investigation of the above housing policy instruments, we can categorize 6 types of housing policy instruments for the study as follows: land development projects, housing units supply programs, reconstructions or redevelopment programs, tax benefits and housing fund or loan supports, strengthen or weak restriction.

The impact of the fluctuation in one variable to another is better understood by way of impulse response analysis, with identification restriction using the Choleski decomposition. Figures 2 to 4 show the impulse response of housing prices and chonse prices to one standard deviation shock in the error terms of each variable.

Several features are found from the figures. First, the responses of housing prices and chonse prices to their own shocks are, in general, substantial in Seoul. Comparing housing price in Gangnam and Gangbuk, the effect disappears in Gangnam in after seven quarters while it persists in Gangbuk longer.[Appendix 1]

Second, the shock from the interest rate has negative effects on both housing prices and chonse prices for all three cases. The response is stronger in Gangnam than Gangbuk, indicating greater changes in housing and chonse prices in Gangnam when interest rates change. For all three cases, the effects seem substantially strong, and do not fade even after several quarters have passed by.

Third, the shock in land prices and chonse prices are also very strong and persistent for all three cases. For both Gangnam and Gangbuk areas, chonse prices have the strongest effect on itself, which is followed by land prices. For

housing prices, shocks in the two prices - land and chonseil - show about the same effects, however, in the long run, the land price shock appears to be more substantial. Fourth, the shock from the expected growth rate of housing prices affects Gangnam housing price positively and the effect is persistent for more than 30 months. However, it affects chonseil prices negatively, implying that when participants anticipate an increase in housing prices, housing price increases, however, chonseil prices fall. From this, we can reasonably consider that chonseil can be a substitutive residential tenure choice for owning a house. It may be concluded that the anticipation of future increases in housing prices accelerates the rise in housing prices in the Gangnam area, as usually argued in Korea.

However there are some rough errors that can affect this policy. While the unrestricted VAR is overparameterized and not particularly useful for short-term forecasting, understanding the properties of the forecasting errors is helpful in finding interrelationships among the variables in the system. The forecasting error variance decomposition shows the proportion of movements in one variable due to its "own" shock versus shocks to other variables. If shocks in the error sequence of one variable (say x) cannot explain any of the forecasting error variances of another variable (say y) at all forecast horizons, we can say that the $\{y\}$ sequence is exogenous. In this case, the variable y is deemed to evolve independently of the shocks and innovation in the other variable x .

Utilizing a 10 quarter forecasting horizon, the variance decompositions are reported in Figures 5 to 7. [Appendix 2] Each figure shows the percentage of forecasting error variance attributable to each of the other variables. The results indicate that while there are housing prices and chonseil prices in one nation, the

contribution from each of the other variables to their forecasting error variances are considerably different.

For the entire nation, housing prices and chonseil prices are found to be the most significant variables for housing prices in the short and mid run, however, in the long run, the interest rate becomes the most important variable contributing to the forecasting error of housing prices. In fact, the interest rate is either the most important or the second most important factor in purchasing and chonseil prices for Gangnam, Gangbuk and the entire nation, in the long run. For most cases, while the importance of other variables decreases, that of interest rates increases with a forecast horizon of 30 months. In other words, the importance of housing prices and chonseil prices in comprising their forecasting error variance diminishes over time, while the more significant portion of the forecasting errors becomes attributable to interest rates. It is noteworthy that while the decomposition of forecasting error indicates that the contribution of most variables converge, interest rates do not show any evidence of converging with other variables.

It is noteworthy that the expected growth rate of housing prices is important in explaining the forecasting error of housing prices in the Gangnam area. In contrast, it is not as important in terms of chonseil prices in the same region or housing price.

While the housing market has been experiencing some dramatic fluctuations due to a variety of reasons, the VECs applied in this study indicate that the long run equilibrium relationship among crucial variables is confirmed, for housing prices and chonseil prices in the Gangnam and Gangbuk areas, as well as, the whole nation. The variables considered in this relationship include interest rate, GDP, land price and expected growth rate of housing prices, as well as, housing and chonseil prices themselves. The coefficients of all of these variables possessed the expected signs.

The second role in forming of housing market in Korea plays taxation. The current situation should be changed in order to prevent some problems. [Appendix 3]

The current housing taxes, classified into capital gains tax, property tax, acquisition and registration tax, is problematic in the following senses.

In designing a reform in the housing taxation scheme, a primary focus should be laid on the creation and abolishment of certain tax items as well as the rate adjustments of various taxes. However, a most fundamental reform package should include discussion over the optimal allocation of tax bases between the central vs. local or local vs. local governments, considered that the revenues from the housing related taxes (specifically registration and acquisition taxes) comprises a significant portion in the local government revenue. Therefore, the reform in the housing taxation should be scheduled in accordance with a reform in local fiscal system.

Of course, in presence of information asymmetry, the number of tax items tends to increase rather inevitably. Though, the complication of the current tax system evidenced by several factors of inefficiency, such as overlapping tax bases requires a tax reform in a grand scale.

Housing taxes (real estate taxes) are categorized into three groups by the assignment of tax right. Capital gains tax is attributed to the central government, registration and acquisition taxes to the prefectures, and property and aggregate land taxes are to the municipalities. The assignment of the tax right across the different level of governments makes it politically difficult for the central government to change tax rates. Considering that sum of aggregate land tax, property tax, urban planning tax, common facility tax takes 16.2% of the revenue, it seems that the local government revenues are heavily dependent on the transaction taxes.

A reform in the housing taxation should be motivated not by the need for controlling business cycles but by the need for raising government revenues and enhancing the efficiency of land utilization. At the same time, the existing exemption and deduction clauses as well as the number of tax items should be reduced in order to simplify the whole tax system and magnify its effectiveness.

In regard to the recent over-heated housing market, there have been many discussions about the readjustment of tax rates for property tax, aggregate land tax, and transfer of income tax in consideration of intergovernmental tax bases allocation. In the following, we summarize the focal points of the discussion.

In order to strengthen fiscal independence of local governments and alleviate the regional disparity, tax bases, which are less susceptible to economic fluctuations, should be assigned to the local governments. In addition, the role of the local share tax should be minimized to induce more responsibility of the local governments. To implement this, acquisition and registration taxes should be directed to the central government, and the property tax should be reassigned to the prefectures. Instead the local governments should be assigned to the relatively stable (across time and states) tax bases, such as local consumption tax.

The current heavy dependence on transaction taxes is likely to block trades of houses in the market thorough lock-in-effect or distort resource allocation between housing market and the other markets. Furthermore, transaction taxes are known to be more sensitive to economic fluctuations. Thus, it would be desirable that the transaction tax rates should be lowered and reassigned to the central government. In regard to the transfer of income tax, the effective tax rate should be raised by scaling back the scope of exemption and deductions.

In property tax and aggregate land tax, it should be given a priority to maintaining the tax bases closely to the market prices. To do so, the databases separately managed by NTO(income) and MOHAGA(property holdings) should be integrated. Property taxes based on the marked-to-market tax base is taxation to unrealized income, which is in contrast with the transfer of income tax(realized gains). However, levying property taxes on a basis of the marked-to-market tax base is justifiable on a ground that it is taxation on imputed rent.

Finally, the increase of tax burden on holding real estate should be matched with reduction in other taxes.

And the last thing which influence housing policy in Korea is mortgage. Later its position on the housing market was awful, Korea had a lot of debts, but the situation started to change when the government decided to enter new policy. “The need for an overall, stable mortgage market strategy in Korea is suggested by the opportunistic incorporation of Komoco under a mixed public-private ownership model in 1999 followed almost immediately by a change in policy direction with the incorporation of the fully public Korea Housing Finance Corporation in December 2003, which took over the business of Komoco”. [20]

Interest rates have declined globally due to a very high level of liquidity in the world economy. Interest rates reached their lowest level in 40 years for the US in 2004. The volume of loans rolled over in 2004 was estimated at Won 42 trillion or over 5% of GDP. By some estimates the volume of housing loans that will need to be refinanced this year could rise as high as 9% and 12% of GDP. But the loan supply suggest systemic risks in Korea. First, Korean loans are amortizing ARM loans of long maturity and not very short, variable rate bullet loans. Second, this portfolio is not concentrated into a single bank but is dispersed across a diversity of

national and provincial institutions with diversified lines of business. Therefore the likelihood that a single bank may fail is lower and the possibility that the failure of one bank could lead to a housing market shut down is even more remote. Finally, acting on the well-known fact that bank lending to the real estate sector is strongly pro-cyclical with rising asset prices, Korea is the first country to have implemented 'dynamic' provisioning regulations for banks and other lenders.

Korean housing policy had a great influence on Kazakhstan policy. For example, when Korea had a lot of debts in the 1990 Kazakhstan did not follow its policy and refused to give mortgage in big amount. The problem was that people had no money to pay huge credits and Korean banks could not pay to investors. In spite of this, people had dwelling, though ea bit earlier it was impossible to get it. Seeing this difficulties Kazakhstan chose another policy. First of all the government of Kazakhstan let people to privatize their dwelling in order to give more possibilities for good living standards. The government hoped that in post Soviet time it could help to improve people's life. However, that step did not bring stability and though people could sell or buy and even rent the dwelling. Thereby people from other towns had not to buy the flat they could just rent it. Then when the economy in the whole world became more stable Kazakhatan government should chanhe its policy, but on the example of Korean crisis it created a construction boom. Instead of giving mortgage Kazakhstan investors invest they money not in loans for dwelling, but in construction as they hope to attract people by rather cheap dwelling. Unfortunately the crisis broke all pans again, and the prices on dwelling were too high. People had no money to buy dwelling, as here were no job place, no work for people and people from other towns had to come back home. The situation became worse and according to the Korean housing policy Kazakhstan government decided

to make the taxes higher. Accordingly, the banks increase the interest rates that led to more debts. And consequently, there were no good lessons taken from Korean housing policy and no ways to improve the situation except cooperating two countries.

In the result, in order to follow new housing policy, Kazakhstan and Korea collaborated to solve the housing problem. Both countries have change their bank system, to make the mortgage more accessible for people. Although such Korean banks as Shinhan, Hana and Woori Bank have all been touted as potential acquirers of banks in Kazakhstan, the recent turmoil that has hit the currency and capital markets in Korea means that further M&A activity looks unlikely for the moment. "In the short term – that's to say the next 12 months or so – we don't expect to see more M&A by Korean banks as they will likely be focused on their home markets," says Milena Inanova-Venturini, banking analyst at Renaissance Capital in Almaty. "Once global markets normalize, though, which they will at some point, based on economic fundamentals, Kazakhstan remains an attractive banking market and interesting to buyers from Korea and elsewhere."

As well as Korean interest in commercial banking, there has been activity in investment banking. Daewoo Securities, the leading Korean investment bank, has linked up with Halyk Finance, owned by Kazakhstan's number-three banking player, Halyk Bank, to develop investment banking activities in Kazakhstan and central Asia.

While some of the areas that Korean investors initially focused on – such as banking and real estate – have been hit hard by the global credit contraction and economic downturn, Usatov says that Halyk Finance is sourcing deals in more defensive sectors such as agriculture, utilities, and oil and gas services.

As well as the Halyk-Daewoo link-up there is Seven Rivers Capital Asset Management Company, a joint venture between Korea's Hanwha Securities and Kazakhstan's Caspian Group that in December 2007 launched the Hanwha Kazakhstan Fund, the first Korean retail fund focusing on the Kazakh capital markets. President Youngho Yun says that of the \$125 million under management in the Hanwha Kazakhstan Fund about \$100 million came from Korean clients looking to diversify away from the tech-heavy Korean markets into commodities-rich Kazakhstan.

Recent events would seem to suggest that Kazakh-Korean business ties are unlikely to unravel soon, with several investments reaffirmed in recent months despite a deteriorating economic outlook for both countries.

Most notably, Korea's largest financial institution, Kookmin Bank, signalled its belief that Kazakhstan has a bright economic future, pressing ahead with its acquisition of a stake in Bank CenterCredit (BCC).

With fears about the financial stability of the Kazakhstan banking sector having soared as the year progressed, the announcement in September that Kookmin Bank had secured regulatory approvals for the BCC deal from the Kazakh and South Korean authorities couldn't have been better timed. It enabled BCC to post sector-high deposit growth figures of 60% last year at a time when many of its rivals' deposit bases have shrunk.

Other Korean companies active in real-estate development include Woolim, which is developing the elite AppleTown residential project in Almaty.

Despite prices of residential real estate in Kazakhstan having fallen by as much as 65% in the past year or so, Kim Jin Sil, director general of Woolim Kazakhstan,

remains confident about the long-term prospects, which will be cost over \$4 billion, which on completion in 2014 will provide housing for more than 6,000 people.

While acknowledging that initial sales have been lower than hoped for, the company is well positioned to push on with construction as it has been fully financed by Korean banks while at the same time the downturn in the construction industry in Kazakhstan means that it is benefiting from lower labour and material costs.

Situation with affordable housing and realty market development in Kazakhstan today is different that in Korea. For two years of state-run program for house construction it was put up more than 11 millions square meters. In 2007 it will be put up 7 million square meters. As you remember, we indented to put up 12 million square meters, but in practice it is put up 18 millions. By now 100 thousand families have received apartments; 60 thousand will get this year and therefore more than half of a million people will live in new houses. The program is implemented with 30 percent advance.

Kazakhstan government implemented this program and defined those who will receive mortgage accommodation. They are young families, teachers, medical workers, then state officials. [21]

Mayor of Almaty Akhmetzhan Yessimov said that 3 105 interest holders got apartments in Almaty last year. A number of interest holders is 12 460 people for today. Construction of 11 objects will be continued this year through the “Samruk-Kazyna Fund’s” financing. 3 714 interest holders finish building of 25 objects at their expense. This year Kazakhstan continue realization of the three-year state program of housing construction. About 4 thousand apartments are planned to be built. Young families having children, public sector workers will get an

opportunity to take mortgage loans at 4% per annum. Today's demand in housing exceeds parameters and opportunities of the state program threefold. The alternative is rental housing. About 25 thousand square meters of rental housing will be constructed in 2009. In whole 1.1 million square meters of housing is planned to be commissioned in 2009 that is by 10% more than in 2008. [22]

CONCLUSION

This work examined the main problem of the housing policy in Kazakhstan and Korea; its causes and ways to solve it. Besides, there is brief information about housing policy categorization, effectiveness, and impact analysis of housing policies. Study results suggest that the goals of the housing policy can be multiple, including mass supply and construction of housing units, the stability of house price or the control of real estate speculation, housing stability for the low income families, and revitalization of housing market.

In this work it is found that housing problem is closely related with economic problems and thus, to solve the former, one must look into the connectivity of the latter, particularly availability of financing resources and lending mechanism, banking institutions, interest rates, and government control over the financial institutions. Besides, the study made a comparative analysis of housing policy of Kazakhstan and Korea. Although these two countries have different economic and social systems, they have been collaborating with each other in order to improve dwelling and living conditions in Kazakhstan. Both countries used different ways to solve the housing problem, but Kazakhstan became the first country which chose mortgage lending system as the main policy tool to help increase homeownership.

This policy resulted in substantial amount of mortgage funds set aside for housing improvement: a total of KZT120 billion (about \$800 million at current rates) has been allocated to Kazakhstan's 12 most active mortgage lenders to refinance existing mortgages. The program is specifically targeted at the middle and working classes. Only customers with only one property, not more than 120 square meters in size, can be refinanced under the program. It is also limited to customers who are not overdue with their mortgage payments. Besides, in 2007 there were placed in operation 1822

units of housing – more than over three last years taken together; 1413 flats were bought, built and completely overhauled, 409 rooms were allocated in hostels. In spite of that there is still high percent of military men and reserve officers who are not provided with housing. The biggest quantity of military men queuing on getting housing is in Akmoliskiyi, Almaty, Karaganda garrisons. The most unfavorable situation among military men dismissed from the Armed Forces of the Republic of Kazakhstan and not provided with housing is Oskemen, Kapshagai, Saryozek and Almaty garrisons.

The government of Kazakhstan began realization of large-scale program on building and complete overhaul of housing is to solve the accumulated problems. The program is to be realized during 2008–2011 years. The transformation and infrastructure of the housing over 2008–2011 years building of new, reconstruction and repair of the existing housing fund will be realized annually in volume not less than 75 thousands m² or 1500 flats and rooms of small family type. There will be placed in operation additional housing complexes in distanced garrisons. In my opinion, to improve the current situation the government should take all possible measures for realization of provided by Laws of the Republic of Kazakhstan rights on housing provision of citizens, who are not provided with dwelling. This is the objectives to be done for achievement of the final goal: supply and demand balance at the housing market; private investments into the housing construction and private housing construction; housing construction efficiency; and easy of use of mortgage programs and housing construction savings programs for the whole population.

However, the government of Korea took the following steps as six main policy instruments: land development projects, housing provision programs, reconstruction

or redevelopment programs, public housing supply or support instruments, tax benefits and housing fund or loan supports, and the strength or weaken of restriction.

In the goal achievement evaluation, 4 categories of policy goals have been achieved in almost all outcome indices or some impact indices. In house price impact analysis, apartment price and row house price were affected by the housing policy, and impact of the effect of 4 policy goals on prices categories, except the living stability for the low income group, was statistically different. Finally, Korean housing policies have been investigated through different objectives and tools. These policies were effective, though affected to house prices.

Thereby, the situation in both countries is rather complex, but is can be solved. Though Korea and Kazakhstan choose different policies and direction, all of them are direct on making its economical position stronger and successful.

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Appendix 1.

Figure 2. Impulse Response - Entire

Nation

Housing Price -

Price

- Chonsej

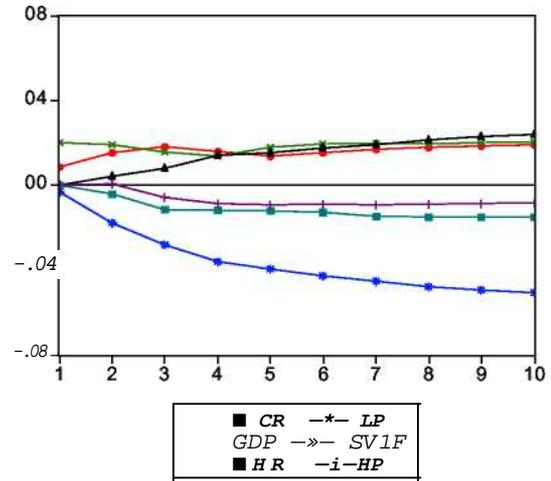
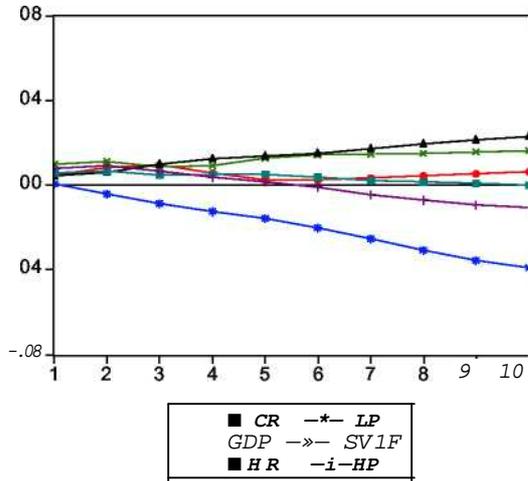


Figure 3. Impulse Response - Gangnam Area

- Housing Price -

- Chonsej Price -

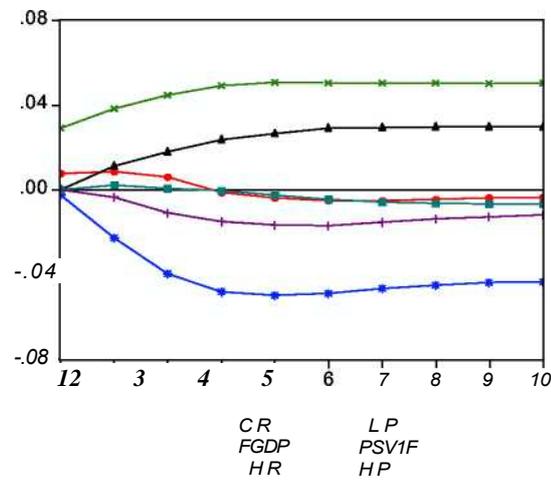
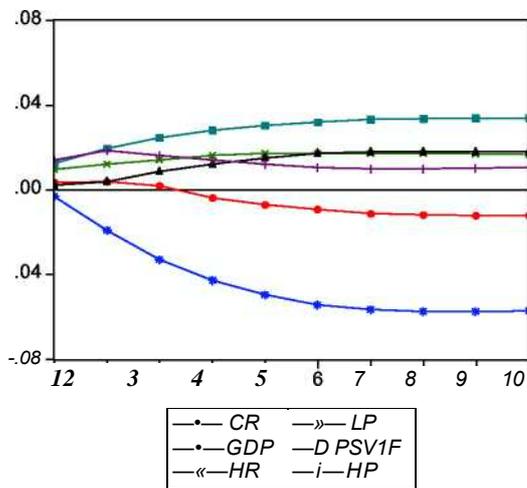
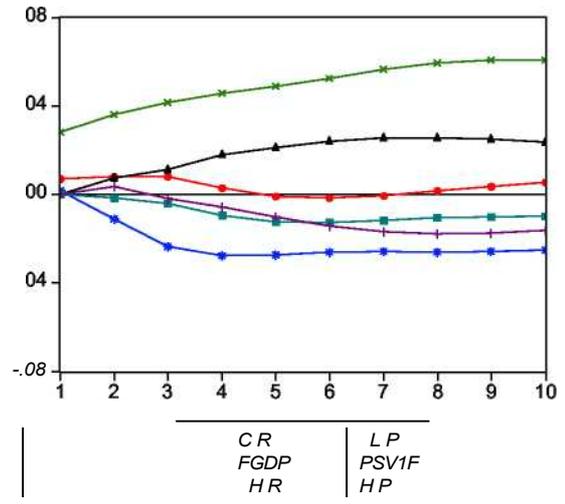
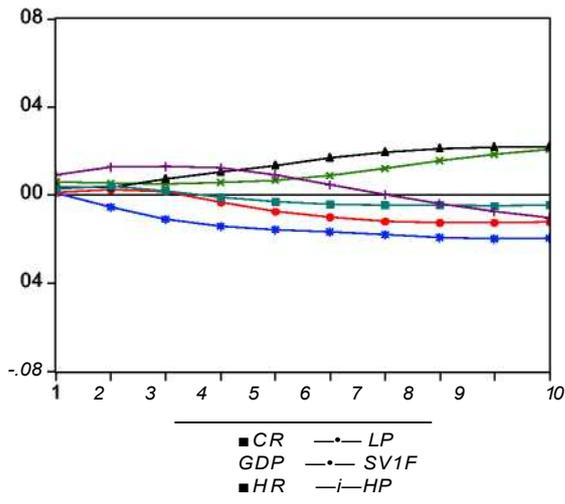


Figure 4. Impulse Response - Gangbuk Area

Housing Price -

- Chonsej Price -



Appendix 2.

Figure 5. Variance Decomposition - Entire Nation
 - Housing Price
 - Chonseil Price

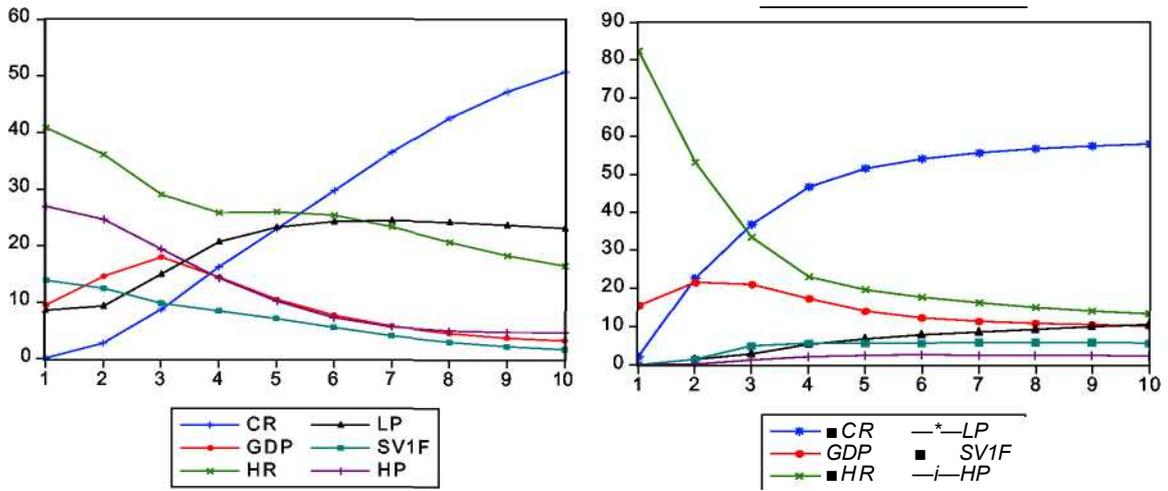
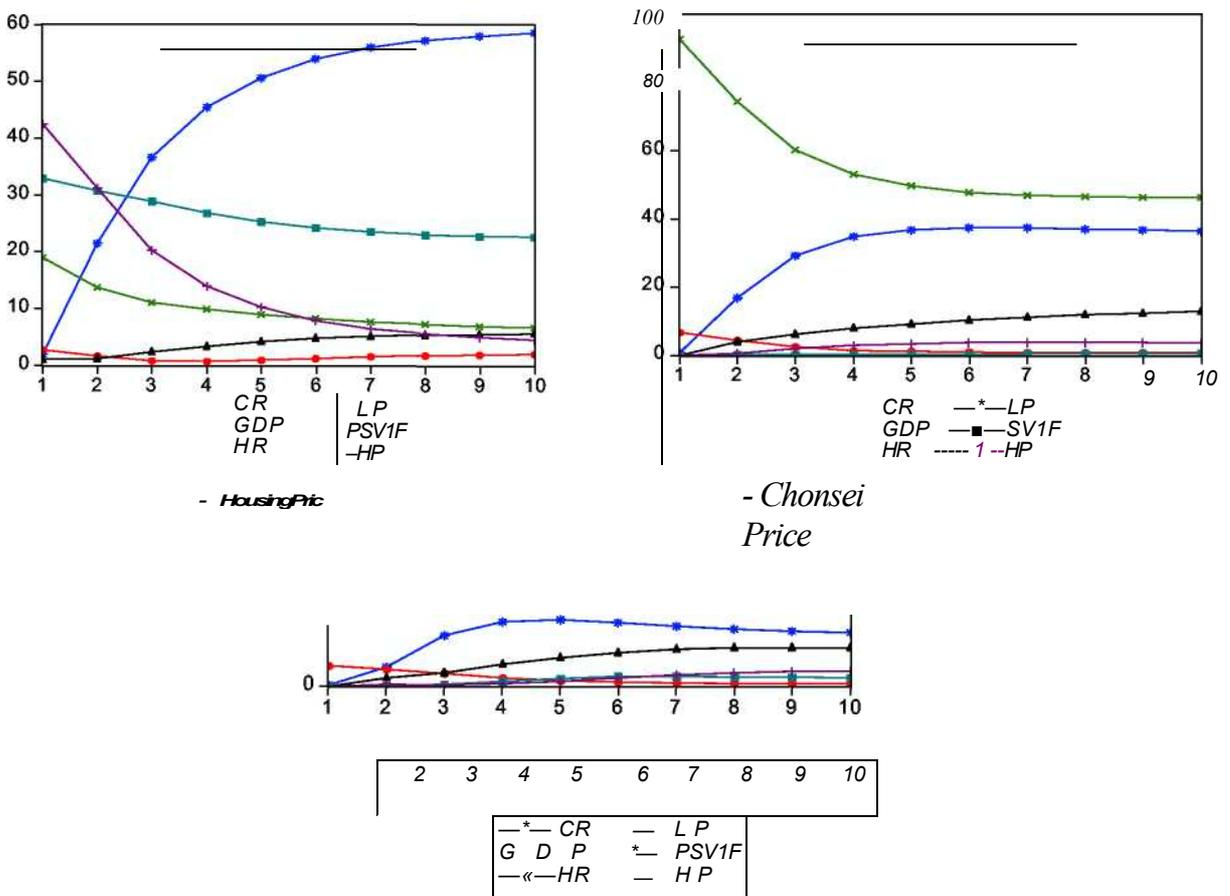
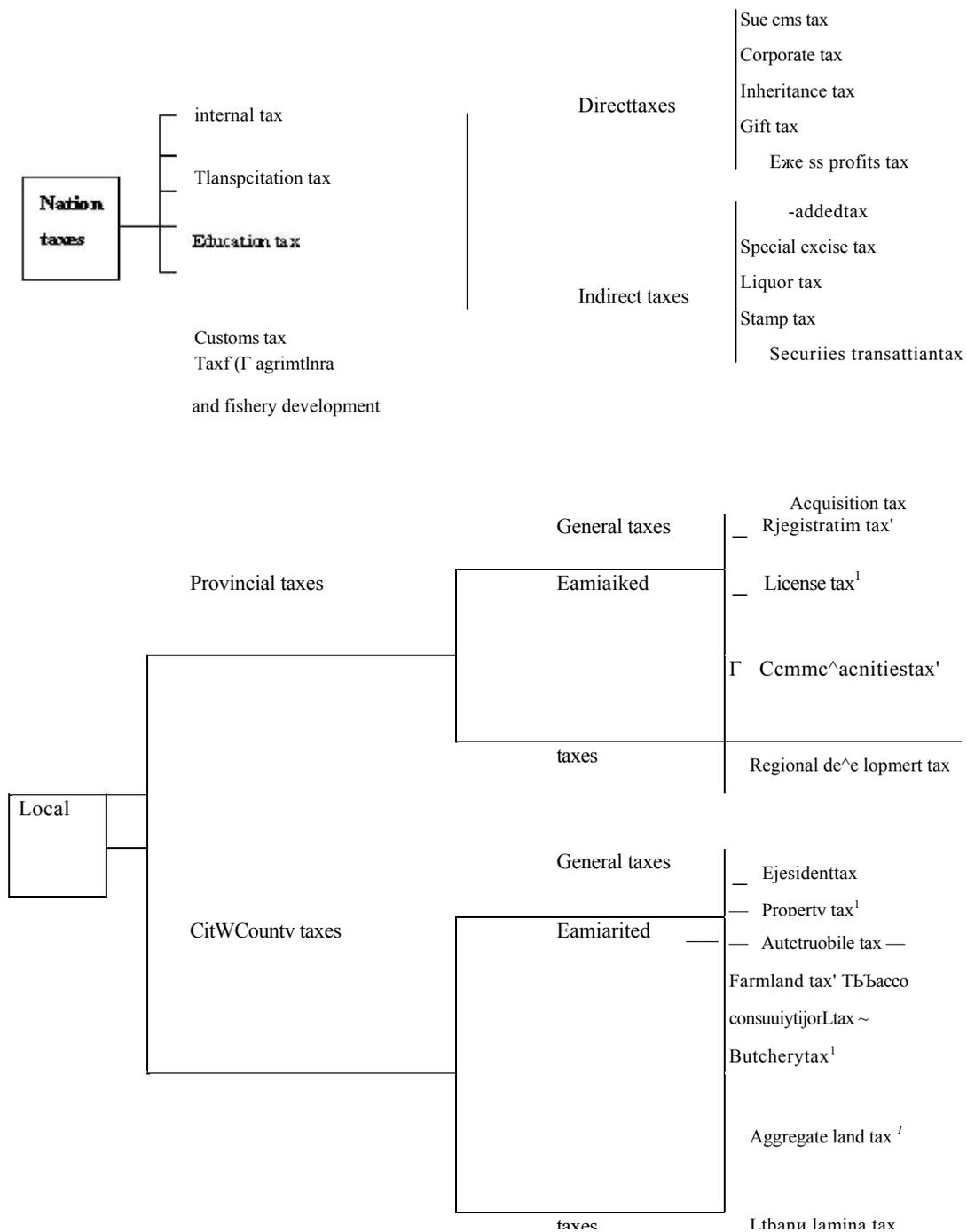


Figure 6. Variance Decomposition - Gangnam Area
 - Housing Price -
 - Chonseil Price



Appendix 3.

[Figure 2] The Current Tax System in Korea



Note: 1) Special Metropolitan City and Metropolitan Cities taxes.
 2) Autonomous District taxes. Source: Korean Taxation 2002, Ministry of Finance and Economy

