

## Russia

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### Macroeconomic overview

The global economical crisis and its consequences – mainly the scarcity of foreign direct investment and the fall in prices of exported raw materials - had severe consequences for the Russian economy such as a decline in industrial production, a fall in economic activity and a cut-down of investment. The year 2009 became the most difficult for the Russian economy in the last 10 years. According to estimates made by the Russian Statistical Institute, real GDP in the Russian Federation decreased by 7.9% in 2009.

### Housing and mortgage markets

The negative consequences of the global crisis influenced all components of Russian GDP, including housing construction. The total value of the construction sector in Russia amounted to RUB 3.9 trillion (EUR 88.4 billion), which was 16% lower than the level recorded in the previous year. The volume of completed dwellings fell by 6.7% and amounted to 59.8 million square meters (corresponding to over 700,000 apartments), while in 2008 it had reached 64.1 million square meters. The Russian housing market in 2009 was mainly characterised by a fall in house prices (by 9.1% in the primary market and by 6.3% on the secondary market). At the same time, a certain housing shortage is expected over the next few years (as a consequence of the fall in residential construction activity). However, despite this downturn in the housing market in comparison with the previous years, the current crisis, according to most estimates, had already bottomed out as early as in the first half of 2009.

This positive outlook on the housing market, which should be able to overcome the worst phase of the crisis, can also be applied to the mortgage market. The Russian mortgage market has developed very dynamically over recent years and the growth rates recorded were really impressive. The global economic crisis has seriously undermined the development of the mortgage market in Russia during 2009. This resulted in a decrease in the value of mortgage lending granted: several financial institutions quit the market and mortgage banks generally tightened their lending criteria. As a result, new residential construction has significantly declined (up to an actual stop), while mortgage lending activity on the secondary market was mostly performed by many of the largest banks which are partly state-owned. According to experts, the share of the top five mortgage lenders increased from 38% to 61% during the year. During 2009, approximately 130,000 mortgage loans, corresponding to a total amount of RUB 152.5 billion (EUR 3.5 billion) were granted. In comparison with the previous year, the fall was 2.7 times greater in number of loans and 4.3 times greater in value. The volume of mortgage loans granted in the national currency amounted to RUB 143.0 billion (EUR 3.2 billion), while mortgage loans granted in foreign currency amounted to RUB 9.5 billion (EUR 215 million). The amount of non-performing loans out of the total volume of mortgage loans increased from RUB 11.5 billion (EUR 260 million) to RUB 31 billion (EUR 702 million). Refinancing operations, according to the Bank of Russia, were concluded by 180 credit institutions. The volume of mortgage refinancing decreased in 2009 by approximately 33% (i.e. from RUB 97 billion, equal to EUR 2.2 billion, to RUB 65.4 billion, equal to EUR 1.5 billion). While in 2008, mortgage loans for a total amount of RUB 2 billion (EUR 45 million) were refinanced, in 2009 this value increased to RUB 15 billion (EUR 339 million).

Despite the substantial fall in mortgage lending values caused by the global recession, the Russian mortgage lending sector began to recover in the second half of 2009. Moreover, most experts started to forecast a pick-up in mortgage lending activity. The reason for such an optimistic outlook lies in the considerable increase (more than three times greater) of the number of loans granted - from 44,500 loans (as of July the 1<sup>st</sup>, 2009) to 130,100 loans (as of January the 1<sup>st</sup>, 2010). This positive new trend had been caused by measures aimed at supporting mortgage lending, which were undertaken by the Federal Government during 2009. In 2009, the capital of the Federal Agency for Housing Mortgage Lending (AHML) was substantially increased (approximately up by RUB 60 billion, which is equal to EUR 1.4 billion). The AHML is a state-owned body which was created 10 years ago in order to sustain the mortgage lending market.

In 2009, the AHML developed and started implementing the programme of refinancing of mortgage loans granted for the purchase of social dwellings. Low-price

dwellings and their sale at affordable prices is becoming one of the priorities of the National project called “Affordable and comfortable housing for Russian citizens”. In order to alleviate the problems faced by borrowers, who found themselves in a default situation due to partial or total loss of income, it was decided to establish the Agency for Housing Mortgage Loans Restructuring (AHMLR) which is a subsidiary of the AHML and has a registered capital of RUB 5 billion (EUR 113 million).

The programme launched by AHMLR has helped banks to set their own mortgage restructuring programmes, and thanks to this, approximately 37,000 borrowers received support in 2009. Different measures aimed at supporting borrowers whose financial situation had not yet stabilised were approved, such as extension of the support period, reduction of the interest rate, and agreement on individual payment schedules. As a result, when the support period expires, the financial burden which is carried by the borrower, compared to previous installments, does not increase. AHMLR is also entitled to buy out houses which have penalties imposed on them due to unpaid installments, to sell it to the municipal authorities with a five-year installment term and to form a pool of commercial loans or other type of loans.

In autumn 2009, the Government decided to entitle one of the largest Russian banks (Vnesheconombank) under partial State ownership – to use RUB 250 billion (EUR 5.7 billion) of their Pension Fund assets in order to support mortgage lending and provide financial support to residential construction activity. Finally, at the end of 2009, the Government of the Russian Federation approved a fundamental document, namely the “Development strategy of long-term housing mortgage lending in the Russian Federation until 2030”. In compliance with this document, mortgage loans will be the main financial tool for making house purchase affordable and for increasing home ownership. It is expected that housing prices, terms and conditions of mortgage lending, and consumer income will make house purchase affordable for 60% of the population. The income of these borrowers will be at least three times higher than the monthly instalment related to a mortgage loan which is associated with a standard dwelling.

Another positive factor that should enable the Russian mortgage market to quickly overcome the effects of the crisis are the legal regulations that ensure the security of legitimate interests of banks providing mortgage loans, and increase borrowers' liability. Furthermore, banks' claims in courts towards borrowers on mortgage loans have been sped up. Courts now can make prompt decisions (within 2 weeks) on cases of mortgage installment claims, which has a positive impact on mortgage liquidity and strengthens legal discipline of the mortgage market participants.

Legal decision-making procedures on default have also been sped up. Regarding this issue, some amendments have been introduced to the Criminal Code of the Russian Federation, and the work of the Federal Bailiff Agency of the Russian Federation has stepped up. In particular, as regards the initiative of the Mortgage Lending Committee of the Association of Russian Banks, a collaboration agreement between the Association of Russian Banks and the Federal Bailiff Agency of the Russian Federation has been signed in order to return loans to banks. All these decisions should create conditions, not only to restore mortgage market confidence quickly, but also to enhance further developments of mortgage lending.

Currently, mortgage market interest rates are lower than before (the Federal Central Bank of Russia has lowered its policy rate repeatedly since mid-2009 as a response to the economic situation of the country, as well as to the conditions of the mortgage market). The low interest rates are accompanied by an initial installment reduction and support to mortgages in the primary housing market. Parallel to the simplification of the procedure related to granting mortgage loans, refinancing is being developed as an effective tool that makes loans accessible to a wider range of citizens. The mortgage market is planned to be expanded due to the expansion of mortgage programmes and the increase in the number of banks operating in the mortgage market.

### Funding

As for mortgage market funding, three securitisation transactions were concluded in 2009, for a corresponding value of RUB 15 billion (EUR 339 million), RUB 2.2 billion (EUR 49 million), and RUB 15 billion (EUR 339 million) respectively.

	EU27, 2009	Russia, 2009	Russia, 2008
GDP growth (%)	-4.2	-7.9	5.6
Unemployment rate (%)	8.9	8.4	6.3
Inflation (%)	1.0	11.7	14.1
% owner occupied	68.2	63.8	63.8
Residential Mortgage Loans as % GDP	51.9	2.1	1.6
Residential Mortgage Loans per capita, EUR thousand	12.37	0.13	0.13
Total value of residential loans, EUR million	6,125,727	18,653	18,175
Annual % house price growth	-6.8	n/a	n/a
Typical mortgage rate (euro area), %	2.71	15.30	12.20
Outstanding Covered Bonds as % outstanding residential lending	23.2	n/a	n/a

### Notes:

- Typical mortgage rate in the euro area refers to the APRC (Source: ECB)
- EU owner occupation rate average derived from EMF calculations based on latest available data.

Russia= 2003

Source: EMF, Eurostat, ECB, IMF, ILO, Russian Federal Central Bank

