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The review provides a detailed analysis of main trends in Russia's economy in 2014. The paper contains 6 big sections that highlight single aspects of Russia's economic development: the socio-political context; the monetary and credit spheres; financial sphere; the real sector; social sphere; institutional challenges. The paper employs a huge mass of statistical data that forms the basis of original computation and numerous charts.

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The Market of Land Plots in Russia in 2014

According to the data of the Rosreestr, the area of land plots owned by Russian nationals keeps decreasing and as of 1 January 2014 amounted to 117,044,500 ha or 6.84% of the land of the Russian Federation against 118,281,900 ha (6.92%) as of 1 January 2013 (*Table 24*). On the contrary, the area of land in public and municipal ownership and ownership of legal entities keeps growing. Within a year, the area of land plots owned by legal entities increased by 1.2m ha and amounted to 15.92m ha or 0.93% of the land of the Russian Federation. The area of land plots in public and municipal ownership increased by 37,900 ha. As of 1 January 2014, individuals' land shares (including 656,600 ha in general joint ownership) decreased by 2.6m ha and amounted to 5.4% (92.3m ha) of the country's land or 69.4% of Russia's land in private ownership (*Table 24*). A decrease in the area of land in shared ownership is regarded as positive factor as land plots in shared ownership by virtue of incompleteness of that title are used inefficiently.

Table 24

The pattern of land plots of the Russian Federation by the form of ownership, the 2011–2014 period

Form of ownership	01.01.2011		01.01.2012		01.01.2013		01.01.2014	
	Million ha	%	Million ha	%	Million ha	%	Million ha	%
Public and municipal ownership	1576.4	92.2	1576.7	92.2	1576.8	92.22	1576.9	92.23
Individuals' ownership	121.4	7.1	119.6	7	118.3	6.92	117	6.84
including: Individuals' land shares; On the basis of individuals' other titles of ownership	100.8	5.9	97.6	5.7	94.9	5.55	92.3	5.4
	20.6	1.2	22	1.3	23.4	1.37	24.7	1.44
Legal entities' ownership	12.1	0.7	13.5	0.8	14.7	0.86	15.9	0.93
TOTAL land in ownership	133.4	7.8	133.1	7.8	133	7.78	132.9	7.77

Source: The State (National) Report on The State and Utilization of Land in Russian Federation in 2013

In 14 constituent entities of the Russian Federation, as of 1 January 2014 the share of privatized land exceeded 40% of the land of a constituent entity. It is mainly southern and south-western regions. In 15 constituent entities of the Russian Federation, the share of privatized land amounts to less than 0.40%. The Southern Federal District has the highest index (43.32%) while the Far Eastern Region, the lowest one (0.33%); Russia's average nationwide index amounts to 6.85%. In Moscow and St Petersburg individuals own 14.14% and 6.41% of land, respectively (*Table 25*).

Table 25

The level of privatization of land by federal districts and constituent entities of the Russian Federation as of 1 January 2014*

Federal districts and constituent entities of the Russian Federation	Total area, thousands ha	Land owned by individuals, thousand ha	Land owned by legal entities, thousand ha	Level of privatization by individuals, %	Level of privatization by legal entities, %	Place by the level of privatization by individuals
1	2	3	4	5	6	7
Southern Federal District	42087.6	18230.3	1569.8	43.32	3.73	I
Rostov Region	10096.7	6196.8	624.3	61.37	6.18	1
Volgograd Region	11287.7	6399.5	337.7	56.69	2.99	4
Astrakhan Region	4902.4	892.4	89.2	18.20	1.82	38
Central Federal District	65020.5	19357.6	5304.5	29.77	8.16	II
Orel Region	2465.2	1296.2	200	52.58	8.11	6
Voronezh Region	5221.6	2598.8	405.2	49.77	7.76	7
Moscow Region	4432.9	737.1	532.5	16.63	12.01	41
Moscow	256.1	36.2	10	14.14	3.90	43

Kostroma Region	6021.1	487.4	119.7	8.09	1.99	51
Privolzhsky Federal District	103697.5	30836	4880.1	29.74	4.71	III
Orenburg Region	12370.2	7251.2	301.5	58.62	2.44	3
Saratov Region	10124	5522.5	825.7	54.55	8.16	5
Perm Territory	16023.6	1270.1	329.8	7.93	2.06	52
North-Caucasian Federal District	17043.9	4231.9	480.2	24.83	2.82	IV
Stavropol Territory	6616	3931.2	457.2	59.42	6.91	2
Republic of Karachaevo-Cherkessia	1427.7	265.2	6.7	18.58	0.47	37
Republic of Dagestan	5027	4.1	1.6	0.08	0.03	76
The Russian Federation	1709825.0	117045	15919.7	6.85	0.93	V

Cont'd

1	2	3	4	5	6	7
Siberian Federal District	514495.3	29293.4	1829.4	5.69	0.36	VI
Altai Territory	16799.6	6268.9	338.7	37.32	2.02	18
Omsk Region	14114	4584.1	536.6	32.48	3.80	25
Republic of Tyva	16860.4	68.1	3.1	0.40	0.02	69
Urals Federal District	181849.7	8909	830.1	4.90	0.46	VII
Kurgan Region	7148.8	2990.3	233.4	41.83	3.26	12
Chelyabinsk Region	8852.9	2925	184.1	33.04	2.08	24
Yamalo-Nenets Autonomous Region	76925	1.4	0.7	0.00	0.00	81
North-Western Federal District	168697.2	4139.6	691.2	2.45	0.41	VIII
Kaliningrad Region	1512.5	449.1	140.6	29.69	9.30	27
Pskov Region	5539.9	1487.6	143.6	26.85	2.59	29
St. Petersburg	140.3	9	23.7	6.41	16.89	54
Murmansk Region	14490.2	6.8	4.3	0.05	0.03	78
Nenets Autonomous Region	17681	0.2	0.1	0.00	0.00	82
Far Eastern Federal District	616932.9	2046.7	334.4	0.33	0.05	IX
Maritime Territory	16467.3	700.3	151.3	4.25	0.92	58
Jewish Autonomous Region	3627.1	104.8	1.1	2.89	0.03	60
Chukotka Autonomous Region	72148.1	0.1	0.2	0.00	0.00	83

* In each federal district, two constituent entities of the Russian Federation with highest indices as regards the share of land plots in individuals' ownership and a constituent entity of the Russian Federation with the lowest index are presented. Additionally presented are the Moscow Region, Moscow and St. Petersburg.

Source: The State (National) Report on the State and Utilization of Land in the Russian Federation in 2013.

By the beginning of 2014, for the purpose of provision of housing development with land plots 7,882,600 households were provided with land plots with the total area of 987,500 ha which is 1.37% and 2.46% higher as regards the number of households and the area of land, respectively, than in 2012. It is to be noted that 29.4% of land for individual housing development was provided to households (2,317,500 households) on the basis of the titles (which do not exist any longer) of lifetime ownership with hereditary succession, permanent (timeless) utilization and limited utilization of state land, including land to which titles have not been executed (*Table 26*).

Table 26

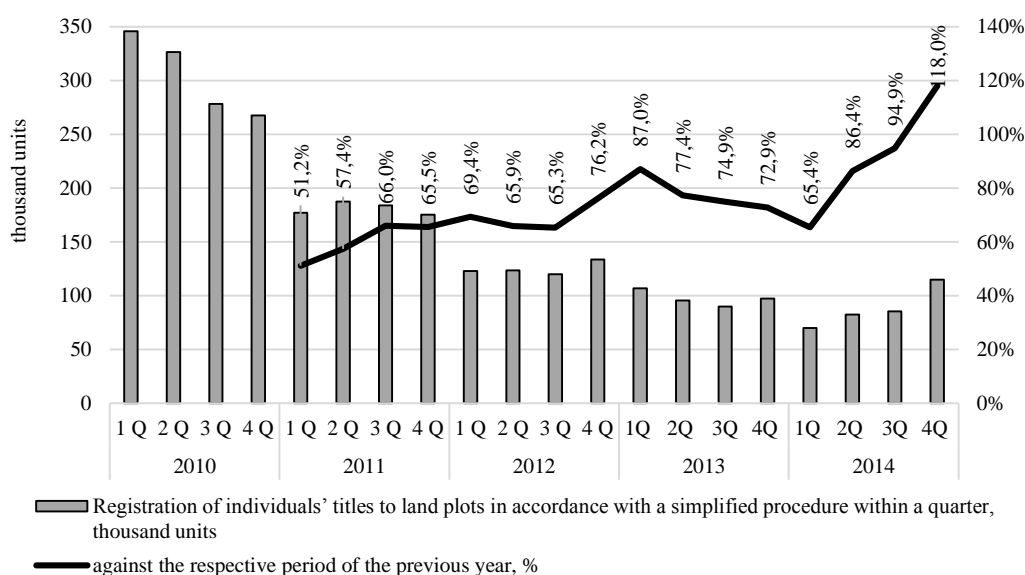
The pattern of ownership of land allocated for individual housing development, the 2011–2013 period

	2011		2012		2013	
	Thousand ha	%	Thousand ha	%	Thousand ha	%
Private ownership	514.3	55.3	546.2	56.7	576.9	58.4
State and municipal ownership, including:	416.5	44.7	417.6	43.3	410.6	41.6
Permanent (timeless) utilization	206.2	22.2	202.7	21.0	197.4	20.0
leasehold	110.8	11.9	119.1	12.3	120.4	12.2
Free of charge limited utilization (temporary utilization)	2.2	0.2	3.5	0.4	2.5	0.2
lifetime ownership with hereditary succession	56.2	6	54.8	5.7	54.0	5.5

Without execution of the title to land	41.1	4.4	37.5	3.9	36.3	3.7
Total	930.8	100	963.8	100	987.5	100

Source: The State (National) Report on The State and Utilization of Land in Russian Federation in 2013

According to the data of the Rosreestr, the process of the summer cottage amnesty, that is registration in accordance with a simplified procedure of individuals' title to land plots provided before approval of the Land Code of the Russian Federation for individual subsidiary, summer cottage husbandry, vegetable gardening, horticulture and individual garage and housing building slowed down (Fig. 3). In Q4 2014, as compared to Q4 2013 the excess of the volume of registration of titles in accordance with the "summer cottage" amnesty did not change much the situation within a year: in 2014 352,721 registrations of titles were made which is 9.51% less than in 2013. Due to a lack of proper registration of the title of ownership, land plots cannot be used in the economic turnover, nor can a property tax be charged from the owner of land.



Source: The Rosreestr.

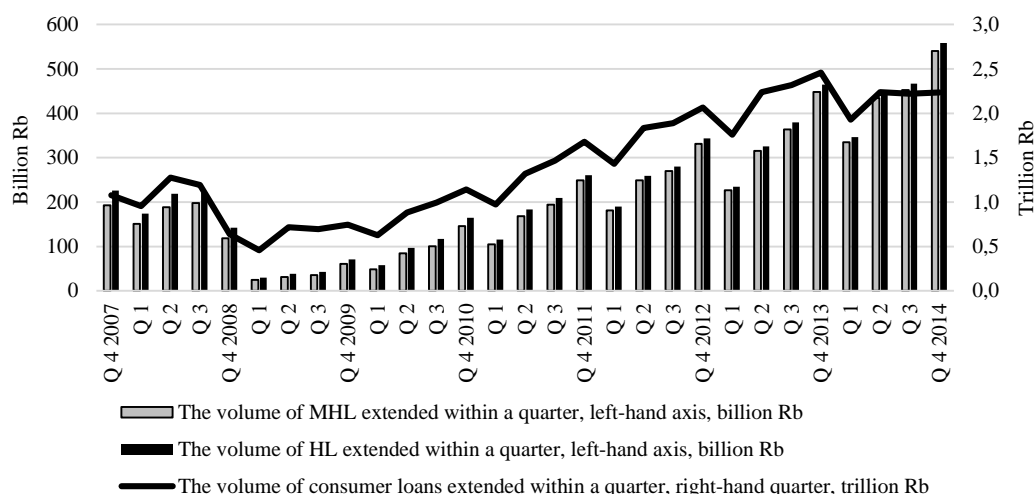
Fig. 3. Dynamics of registration of individuals' titles to land plots in accordance with the simplified procedure

According to the data of the Rosreestr, in 2014 the overall volume of registration of individuals' titles to land plots (5,992,002 certificates) increased by 2.65% as compared to 2013. The number of registered titles of legal entities to land plots rose by 5.14%, having amounted to 291,663 certificates as of 1 January 2015. In 2014, leasing of land plots by individuals (78,473 certificates) fell by 8.29% as compared to 2013, while that by legal entities (44,237 certificates), by 34.42%.

As compared to 2013, in 2014 the number of registered mortgages on land plots for individuals (694,657 certificates) rose by 26.11%, while that for legal entities (151,161 certificates) fell by 7.66%.

6.5.2. Home Equity Lending

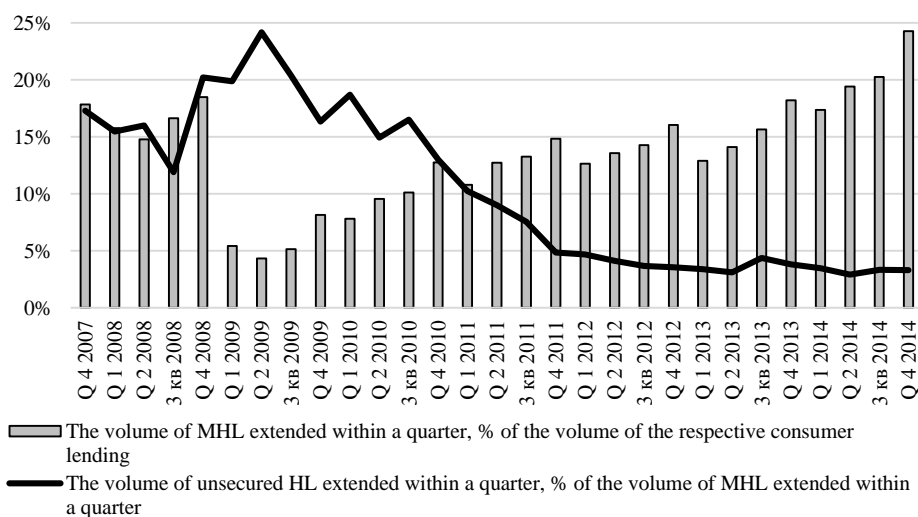
In 2014, according to the data of the Central Bank of the Russian Federation, 629 credit institutions provided 1,012,301 mortgage housing loans (MHL) for the total amount of Rb 1,762,523bn which exceeded by 22.7% and 30.18% the volume of MHL extended in 2013 and in monetary terms, respectively. In 2014, growth rates of MHL were close to those of the 2013 indices (growth of 19.27% and 31.20% as regards the number of loans and in monetary terms, respectively). In Q4 2014, they extended MHL for the total amount of Rb 540,661bn which is 20.7% more than in Q4, 2013 (Fig. 4).



Source: The Central Bank of the Russian Federation.

Fig. 4. Dynamics of mortgage housing lending to individuals, the 2007–2014 period

In 2014, the volume of consumer lending fell by 1.75%. In 2014, the share of MHL extended within a year in the volume of consumer loans rose by 5.02 p.p. as compared to 2013 and amounted to 20.44% against 16.13% in 2008. The share of MHL in the consumer lending volume amounted to 24.29% in Q4 2014 and increased by 6.08 p.p. as compared to Q4 2013 (Fig. 5). A trend of decrease in the share of unsecured housing loans (UHL) in the HL volume preserved with some fluctuations in 2014, too. In Q4 2014, the share of UHL in the MHL volume was 0.52 p.p. lower than that of UHL in Q4 2013. The above trend is underpinned by requirements of the Central Bank of the Russian Federation to provisions for unsecured loans (Resolution No. 254-P on The Procedure for Formation by Credit Institutions of Bad Loan Provisions and Provisions for Loan Debts and Debts Made Equal to Them).

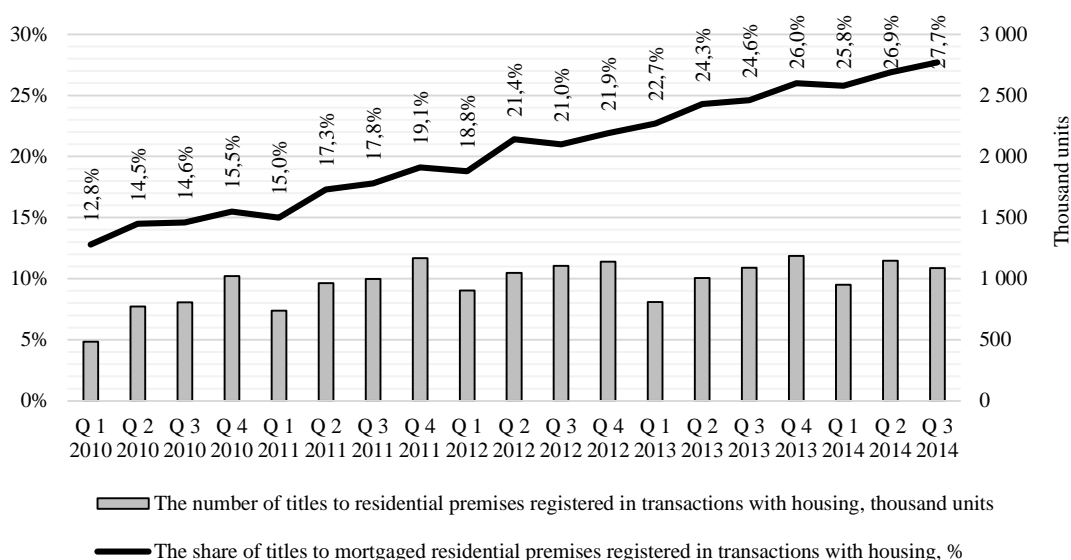


Source: The Central Bank of the Russian Federation.

Fig. 5. Dynamics of the ratio between the volumes of consumer lending and housing lending, the 2007–2014 period

According to the data of the Rosreestr provided by the OAO AHML (Fig. 6), in Q3 2014 the share of mortgaged real property units in the total number of real property units registered in transactions with housing increased by 3.1 p.p. as compared to Q3 2013 and amounted to 27.7%, that is, over a quarter of apartments bought with use of mortgage. Within that period, the number

of titles to residential premises registered in transactions with housing did not virtually change (a 0.1% decrease) and amounted to 1,086,753 certificates.



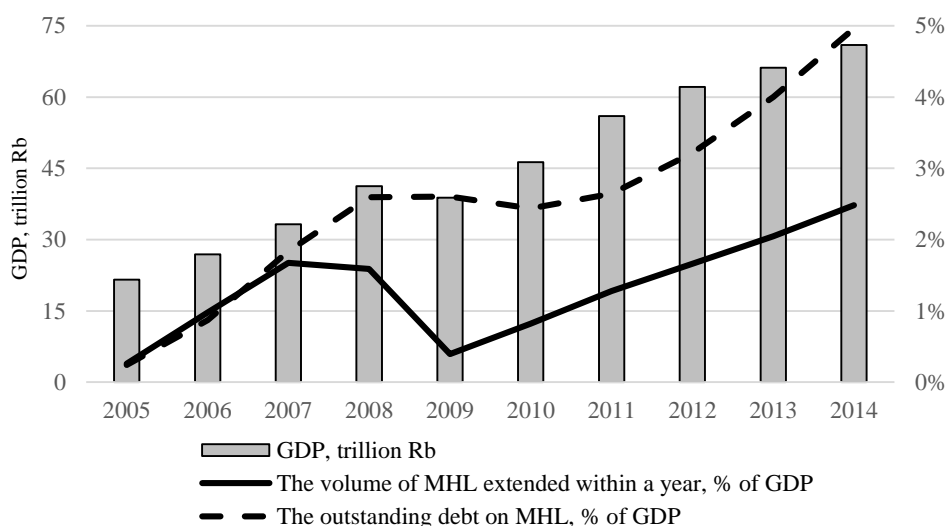
Source: The OAO AHML on the basis of the Rosreestr data.

Fig. 6. Dynamics of the number of real property units registered in transactions with housing (units) and shares of mortgaged real property units in the total number of real property units registered in transactions with housing (%)

In 2014, the volume of MHL in shares of the respective value of GDP rose to 2.48% against 2.05% in 2013 and exceeded the 2007 maximum historic value by 0.81 p.p. (*Fig. 7*). As of 1 January 2015, the debt on MHL amounted to 4.96% of the respective GDP, that is, a 0.96 p.p. increase as compared to the value of 1 January 2014 (*Fig. 7*). The share of debt on MHL in GDP of the European Union, the US and the UK amounts to about 40%, 50% and 60%, respectively. According to the World Bank, for countries with a medium level of development the benchmark for the share of MHL in GDP should be equal to about 25%.

As of 1 January 2015, the debt on MHL in rubles increased by 33.38% as compared to 1 January 2014 and amounted to Rb 3,383.7bn (*Fig. 8*). With substantial growth in MHL portfolio in rubles, the overdue debt on those loans (Rb 27,205bn) rose by the mere 13.8%, while as percentage of the outstanding debt it amounted to 0.86%, which is 0.15 p.p. lower than that as of 1 January 2014. The latter is the evidence of higher quality of the portfolio of ruble mortgages.

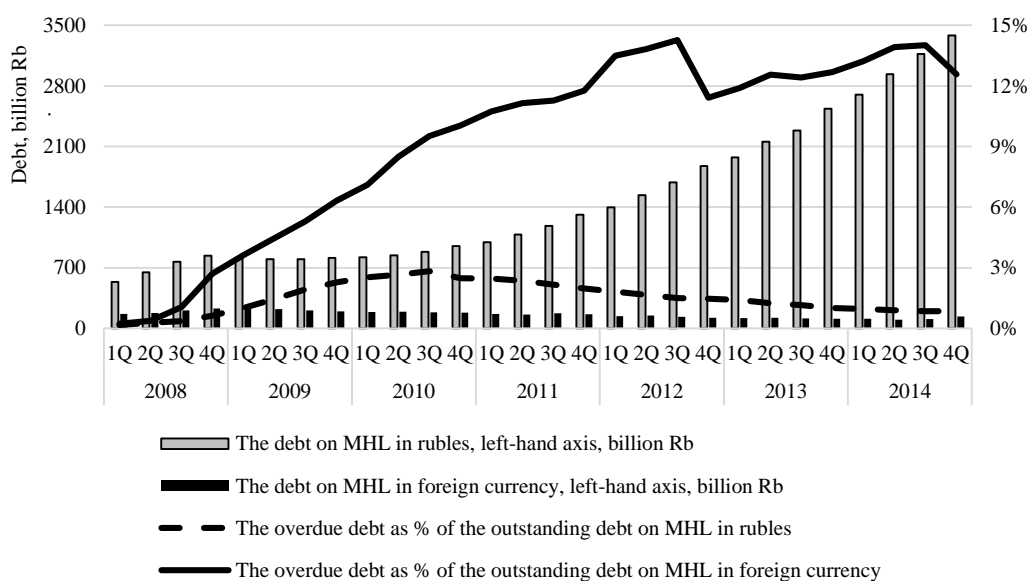
In 2014 the quality of the MHL portfolio in foreign currency which was below that in rubles even improved a little. The debt (Rb 136.37bn) increased by 21.77% with simultaneous growth of 20.67% in the overdue debt (Rb 17.14bn); it is to be noted that in 2014 the overdue debt as percentage of the outstanding debt fell by 0.12 p.p. to 12.57% (*Fig. 8*). In 2014 the share of the overdue debt on MHL in foreign currency as percentage of the total overdue debt varied from 34.6 to 40.22%. As of 1 January 2015, that share amounted to 37.19%, having decreased in December by 3.3 p.p.



Source: The Central Bank of the Russian Federation.

Fig. 7. Dynamics of mortgage housing lending, % of GDP

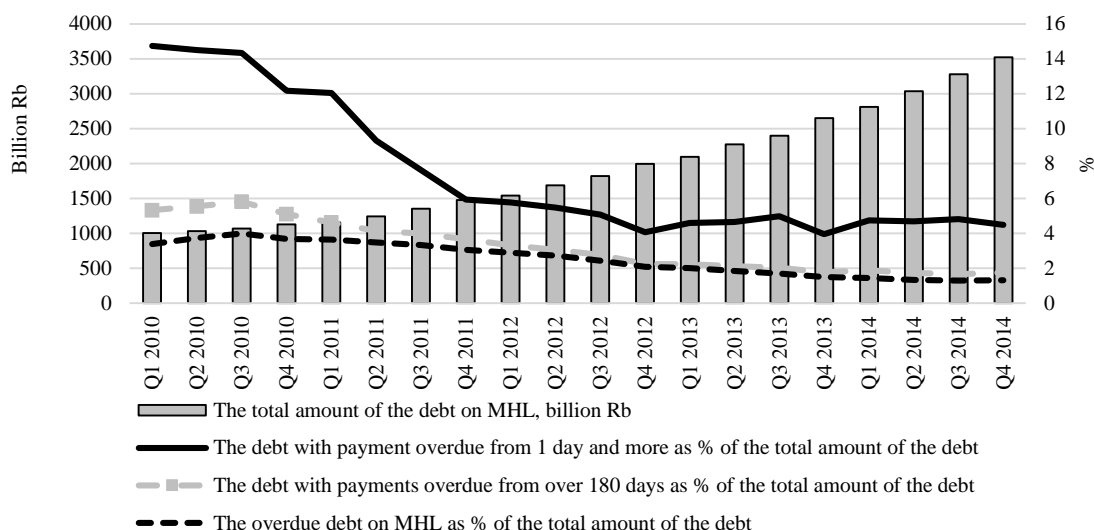
As of 1 January 2015, the total overdue debt as percentage of the total outstanding debt amounted to 1.31%.



Source: The Central Bank of the Russian Federation.

Fig. 8. Dynamics of outstanding and overdue debt on mortgage housing loans

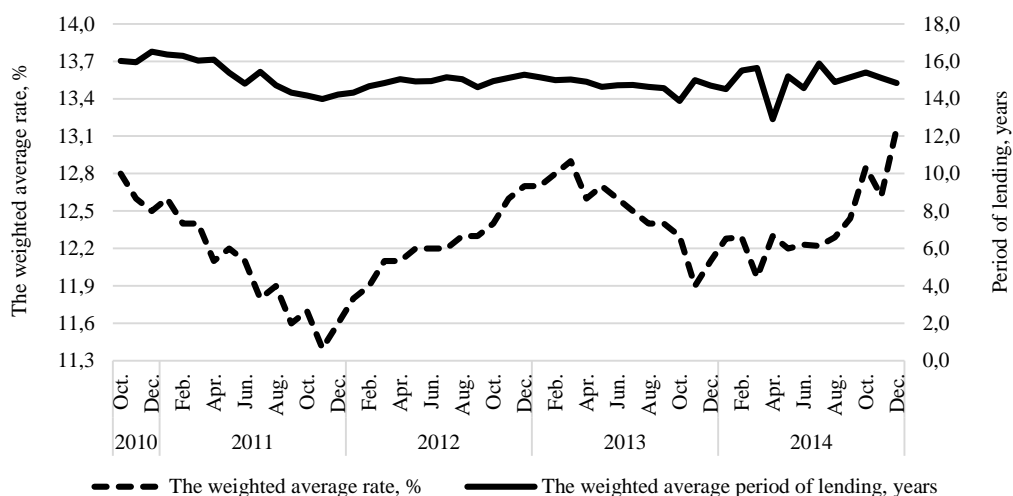
As of 1 January 2015, in the total amount of the debt the share of the overdue debt on MHL with payments overdue from 1 day and more amounted to 4.49%, which is 0.54 p.p. higher than that as of 1 January 2014. At the same time, the share of the debt on MHL with payments overdue for over 180 days (the debt on defaulted loans) in the total amount of the debt kept falling and as of 1 January 2015 amounted to 1.76%, that is, a decrease of 0.02 p.p. as compared to that as of 1 January 2014 (Fig. 9).



Source: The Central Bank of the Russian Federation.

Fig. 9. Dynamics of the debt on MHL by the period of delay in payments

In 2014 the weighted average rate on MHL in rubles extended within a month increased from the minimum value of 11.97% in March to 13.16% in December (Fig. 10). The weighted average period of lending as regards MHL in rubles extended within a month varied from 12.9 years to 15.9 years (Fig. 10).



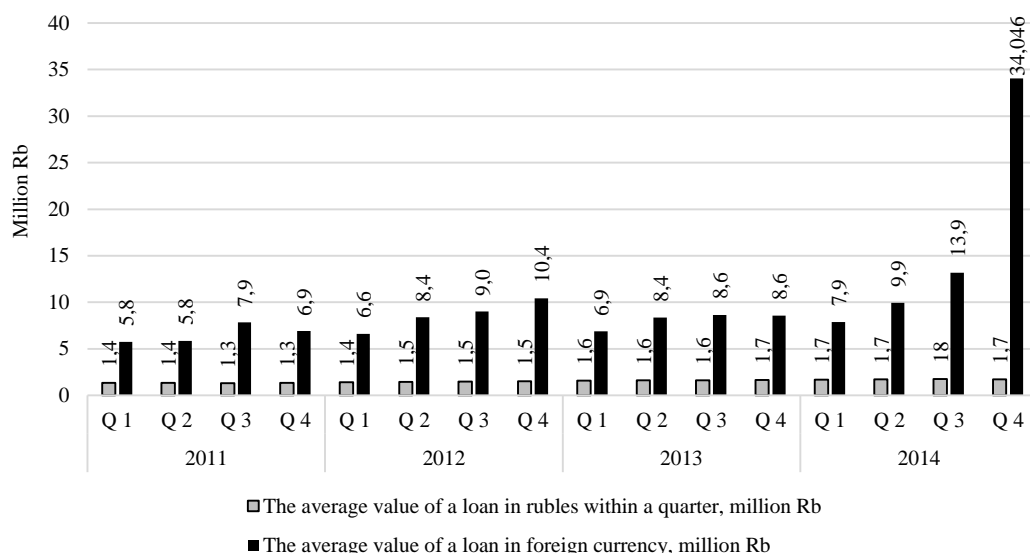
Source: The Central Bank of the Russian Federation.

Fig. 10. The weighted average rate and the period of lending as regards MHL in rubles extended within a month

As of 1 January 2015, the weighted average rate on MHL in foreign currency fell to 9.25% with the highest rate of 9.84% registered as of 1 February 2014. As of 1 January 2015, the weighted average period of lending as regards MHL in foreign currency extended from the beginning of the year amounted to 12.2 years.

In 2014, the share of the volume of MHL in foreign currency extended from the beginning of the year and the share of the debt on MHL in foreign currency in the total amount of the debt varied at the level of 0.5% and 4.0%, respectively and as of 1 January 2015 amounted to 0.61% and 3.87%, respectively.

In Q4 2014, the average value of the mortgage loan in foreign currency rose to Rb 34m, having exceeded nearly 20 times over MHL in rubles (Rb 1.74m) (Fig. 11).

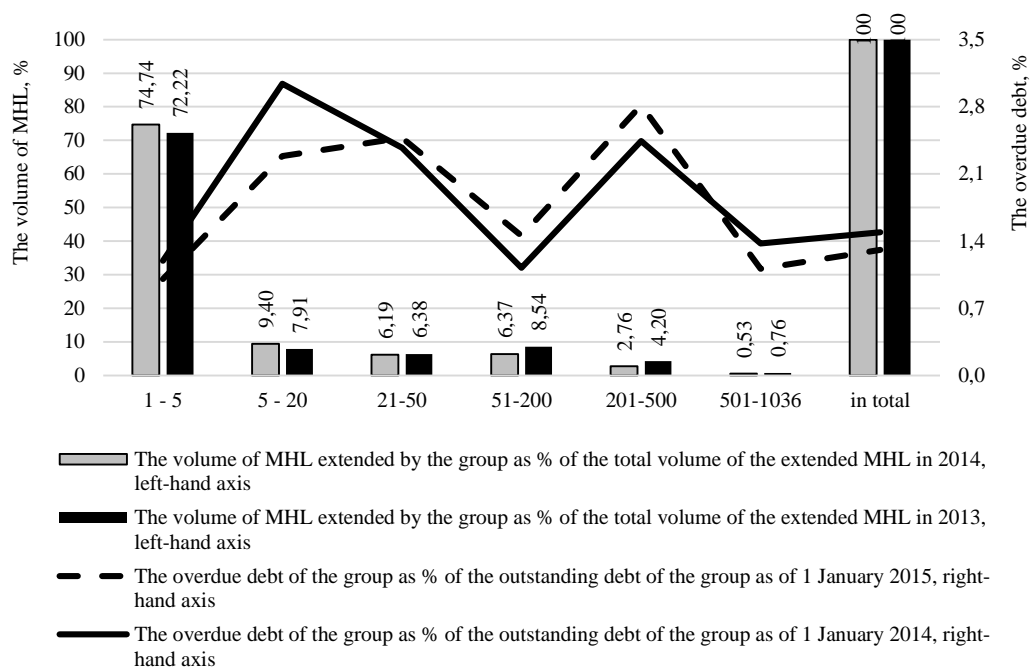


Source: The Central Bank of the Russian Federation

Fig. 11. The average value of MHL in rubles and foreign currency within a quarter

The share of the first group of five credit institutions (with largest assets) in the total volume of MHL extended in 2014 amounted to 74.74%, having gained 2.52 p.p. and 8.75 p.p. as compared to 2013 (Fig. 12) and 2012, respectively, which factor is evidence of continued concentration of the mortgage market. With reduction of the share of the overdue debt on MHL in the total debt in the Russian Federation (1.31% as of 1 January 2015 against 1.49% in 2013 and 2.08% in 2012), the leading position was taken over from the second group by the fifth largest group as regards the size of assets. That group has the largest value of the share of the overdue debt (2.82%), that is, the highest risk MHL portfolio. As of 1 January 2014, the first two groups (20 credit institutions out of 629) account for 84.14% of the Russian MHL market (Fig. 12).

As of 1 July 2014, Rb 154.6bn worth of MHL was repaid by borrowers prior to maturity which value is 36.8% higher than that as of 1 July 2013. The above sum amounts to 20.1% of the volume of MHL extended in H1 2014, while in the total volume of early repaid MHL it is equal to 76.42%, which is 0.39 p.p. lower than in H1 2013. It is to be noted that Rb 1.98bn worth of MHL was repaid early by means of funds received from sale of mortgaged property, that is, a decrease of 21.56% as compared to H1 2013.



Source: The Central Bank of the Russian Federation.

Fig. 12. Dynamics of the volumes of MHL extended to individuals and the overdue debt by the groups of credit institutions ranged by the value of assets, the 2013–2014 period.

In 2014, the OAO AHML maintained the volume of refinancing of AHL at the level of 2013. It is to be noted that 32,392 loans for the total amount of Rb 50.27bn were refinanced which was 4.73% higher and 0.98% lower in monetary and quantitative terms, respectively, than in 2013. As compared to 2012, the OAO AHML refinanced 17.54% and 40.04% less of MHL in monetary terms and as regards the number of mortgages, respectively. In 2014, the weighted average rate of repurchasing of mortgages by the OAO AHML amounted to 10.7%, while that on special products, to 10%, in particular, 9.7% on the *Military Mortgage* program. Generally, in 2014 within the frameworks of realization of special mortgage programs the OAO AHML refinanced 16,495 mortgage loans for the total amount of Rb 29.5bn (including 6,800 loans under the *Military Mortgage* program for the total amount of Rb 14.97bn). The share of mortgage loans refinanced by the OAO AHML within the frameworks of social mortgage programs amounted to 50.92% and 58.69% of the total volume of the OAO AHML's activities on the primary market in quantitative terms and monetary terms, respectively.

As of 1 January 2015, within the frameworks of the *Stimul* program the OAO AHML's existing liabilities as regards provision of loans to banks which finance housing development projects amounted to Rb 51.5bn. From 1 October 2009, the OAO AHML concluded agreements for the total of Rb 119.4bn which was to be spent on building of 6.9m sq. m of housing.

Growth in housing mortgages in a situation of the macroeconomic crisis is evidence of the fact that a mortgage loan is becoming an investment and savings instrument. In prospect, the above may result in growth in prices on housing which situation, in its turn, reduces short-term risks of housing lending and, thus stimulates relaxation in requirements to borrowers, that is, emergence of low-quality high-risk loans. A similar scheme of development resulted in the 2008 mortgage crisis in many OECD countries.