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TRENDS AND OUTLOOKS
(ISSUE 38)**

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The review provides a detailed analysis of main trends in Russian economy in 2016. The paper contains 6 big sections that highlight single aspects of Russia's economic development: the socio-political context; the monetary and budget spheres; financial markets; 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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5.6. Housing market in Russia in 2016¹

5.6.1. Mortgage lending

According to the data released by the Bank of Russia, as of July 1, 2016, the number of credit institutions issuing residential loans (RL) and housing mortgage loans (HML) fell to 680 and constituted 85.3% of their number as of July 1, 2015 (*Table 16*). Herewith, the number of credit institutions issuing RL came to 522 and those extending HML – 499, and those attracting refinancing on the HML secondary market – 34. Moreover, the number of credit institutions extending housing mortgage loans secured by the right of foreclosure on agreements of participation in shared construction came to 212 as of July 1, 2016.

Table 16

Number of credit institutions

	Active	Extending RL	Extending HML	Acquiring rights of foreclosure on HML	Providing on-lending on previously extended HML	Attracting refinancing on secondary mortgage market
As of 07.01.2015, entities	797	606	574	153	24	88
As of 01.01.2016, entities	733	587	559	141	34	110
As of 07.01.2016, entities.	680	522	499	140	34	73
July 16/July 2015, %	85.3	86.1	86.9	91.5	141.7	83.0
July 16/January 2016, %	92.8	88.9	89.3	99.3	100.0	66.4

Source: data released by Bank of Russia.

In 2016, according to the Bank of Russia data, credit institutions originated 856,378 HML totaling to RUB 1,473.227 bn, which in quantitative terms constituted 122.4% of HML and in value terms came to 126.8% of housing mortgages loans originated in 2015. During the same period 863,809 RL were originated to the tune of RUB 1,483.052 bn, which in quantitative terms came to 121.6% and in monetary terms – to 126.2% of loans extended in 2015. Decline posted in 2015 was stronger compared to 2014 than upsurge registered in 2016 against 2015 reflecting a decrease of extended HML in 2015 compared to 2014 by 30.9% and proceeds in cash down 34.1%. The volume of consumer lending in 2016 up by 23.01% against 2015 to RUB 7,210.266bn (*Fig. 31*).

¹ Authors of chapters: 5.6.1 и 5.6.2 G. Zadonsky – RANEPА; chapters 5.6.3–5.6.7 G. Malginov – Gaidar Institute, RANEPА, G. Sternik – JSC ‘Sterniks Consulting’, S. Sternik – Financial Institute under the RF Government, JSC ‘Sterniks Consulting’.

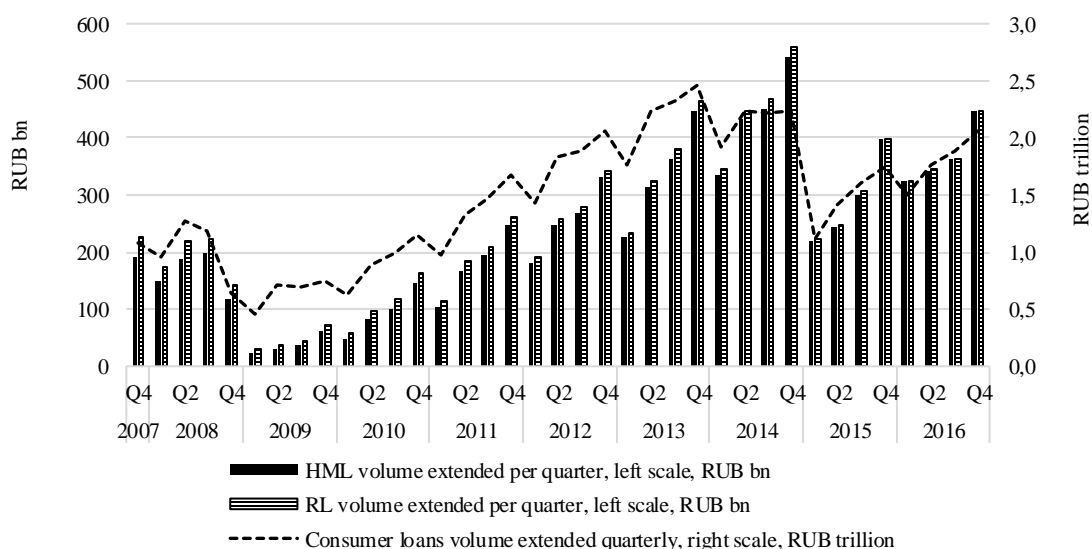


Fig. 31. Dynamics of personal loans origination quarter-on-quarter, 2007–2016

Source: data released by Bank of Russia.

The share of extended in 2016 HML (RUB 1,473.227bn) in the volume of consumer credits increased to 20.43% (by 0.61 percentage point) compared to 2015. Downward trend of the share of unsecured housing mortgage loans in the issuance volume of RL was retained in 2016. The share of unsecured mortgage loans (UML) in the issuance volume of HML (0.67%) down 0.48 percentage point in 2016 compared to 2015. Fig. 32 demonstrates that following a significant contraction of the share of HML in the volume of consumer lending in 2009, it started growing from the next year and reached 21.7% in Q4 2016, followed by a decline in UML issuance volumes in HML to 0.59% during that period.

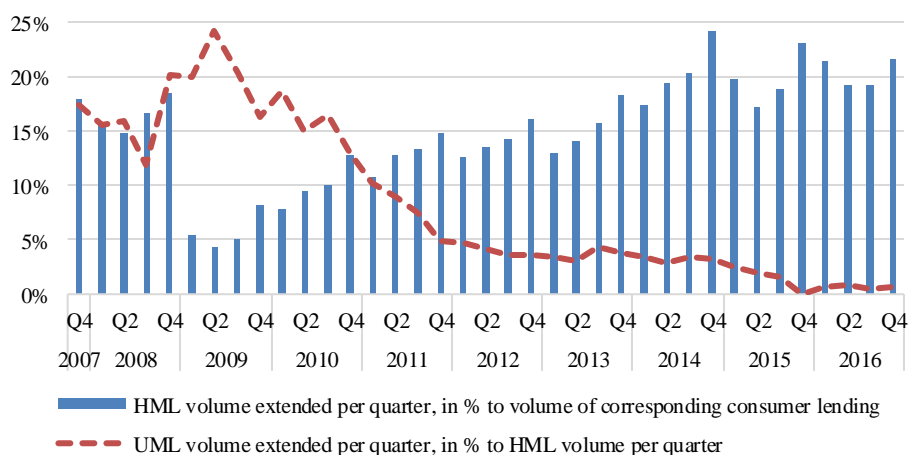


Fig. 32. Dynamics of ratio between volumes of HML, UML and consumer lending, 2007–2016

Source: data released by Bank of Russia.

The volume of originated housing mortgage loans in 2016 went up to 1.72% of GDP against 1.40% of GDP in 2015 and 2.23% in 2014. HML arrears in 2016 moved up to 5.23% of GDP against 4.78% in 2015 and 4.46% of GDP in 2014 (Fig. 33).

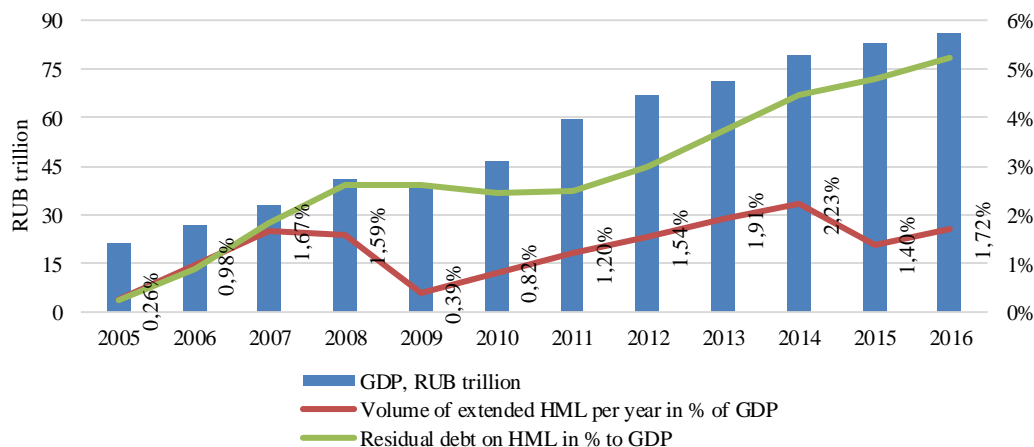


Fig. 33. Dynamics of housing mortgage loans, % of GDP

Source: data released by Bank of Russia.

In 2016, arrears on housing mortgage loans denominated in rubles increased by 14.74% compared to 2015 and amounted to RUB 4,418.892bn. Overdue payment on HML denominated in rubles (RUB 48.04bn) went up by 21.55% against 2015 and in residual debt amounted to 1.09%, up 0.06 percentage point on 2015 (Fig. 34).

Arrears on HML denominated in foreign currency (RUB 71.187bn) contracted in 2016 by 45.69% on 2015 with a reduction of the past-due debt by 16.48%. During the same period, the volume of past-due debt in the residual debt volume increased by 10.95 percentage point to 31.31% (Fig. 34). Total past-due debt in total residual debt amounted to 1.57% in 2016.

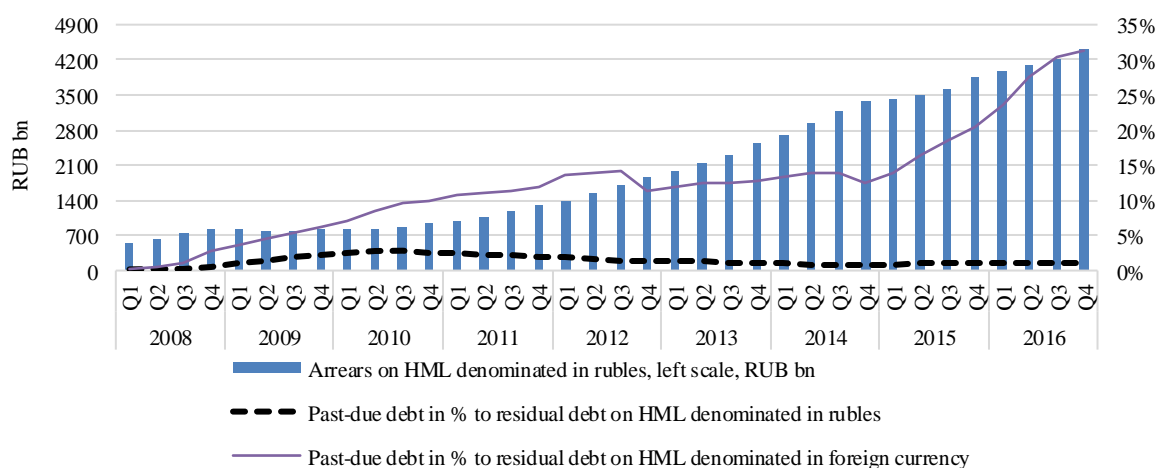


Fig. 34. Dynamics of residual and past-due debt on HML

Source: data released by Bank of Russia.

The share of debt on HML with 1 day and more past due in the overall debt in 2016 constituted 4.44%, down 0.9 percentage point against 2015. At the same time, the share of debt on HML with 180 days past due (debt on default loans) in the overall debt amount declined in 2016 and came to 2.34% down 0.13 percentage point on 2015. Past-due debt on HML in percent of the total debt amount came in 2016 to 1.57%, down 0.09 percentage point against 2015 (Fig. 35).

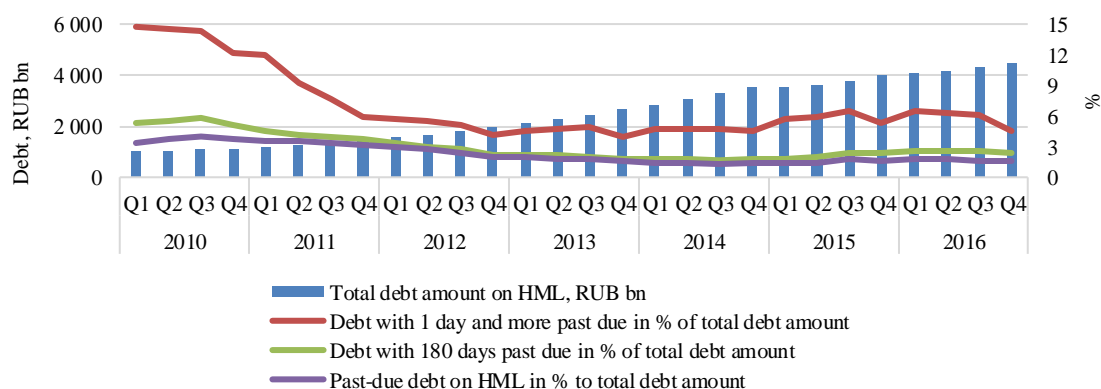


Fig. 35. Dynamics of debt on HML across lead time before payment, % of total debt amount

Source: data released by Bank of Russia

The weighted average rate on extended in December HML denominated in rubles declined to 11.55% against 12.48% throughout the year. The weighted average loan term on extended during the month HML denominated in rubles in 2016 ranged from 15.05 years to 15.38 years (Fig. 36).

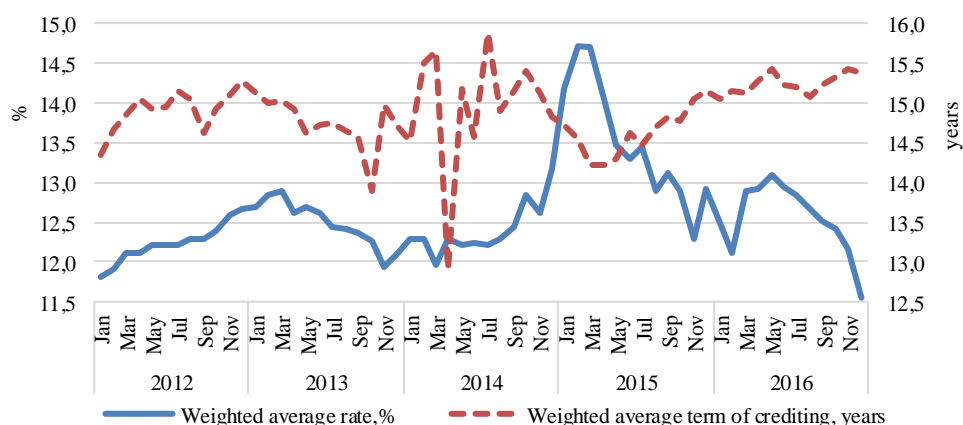


Fig. 36. Weighted average rate and loan term on HML denominated in rubles extended per month

Source: data released by Bank of Russia.

The weighted average rate on extended year-to-date housing mortgage loans (HML) denominated in foreign currency declined from its peak of 11.46% as of January 2016 to 6.87% posted in February 2016 and constituted 8.65% in 2016. The average HML amount

denominated in foreign currency amounted to RUB 31.97m and exceed average HML amount denominated in rubles (RUB 1.72m) by 18.6-fold (Fig. 37). The weighted average loan term on extended year-to-date HML denominated in foreign currency came to 3.34 years in 2016.

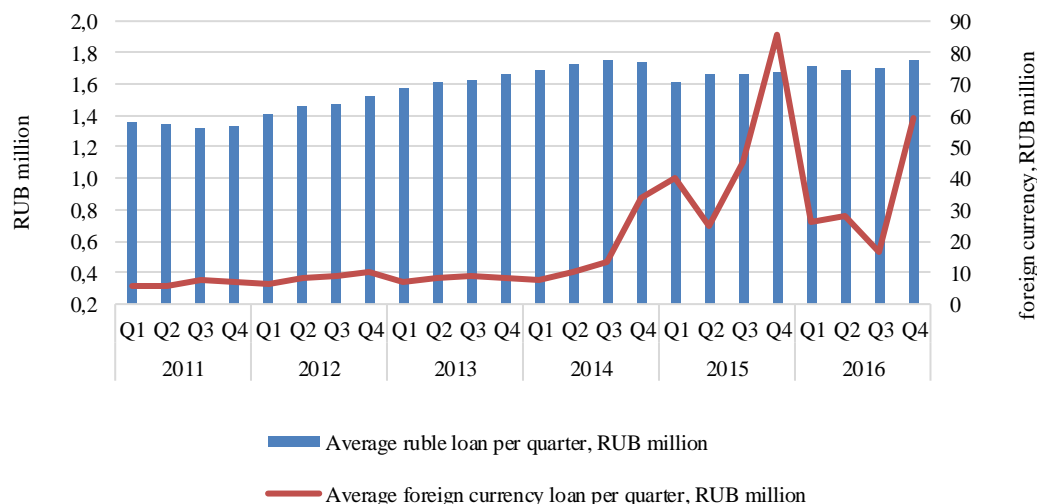


Fig. 37. Average quarterly extended HML denominated in rubles and in foreign currency

Source: data released by Bank of Russia.

The share of the topmost group of five credit institutions with the largest assets in the total volume of extended year-to-date housing mortgage loans came to 77.61% down 2.20 percentage point against 2015. However, coupled with the second group (6-20 entities) they originated 84.12% of HML in 2016 against 86.52% in 2015. Small reduction of mortgage origination was also registered with the third, fourth, and sixth group. Past-due debt of the first, third and seventh groups against residual debt declined in 2016 compared to 2015 (Fig. 38).

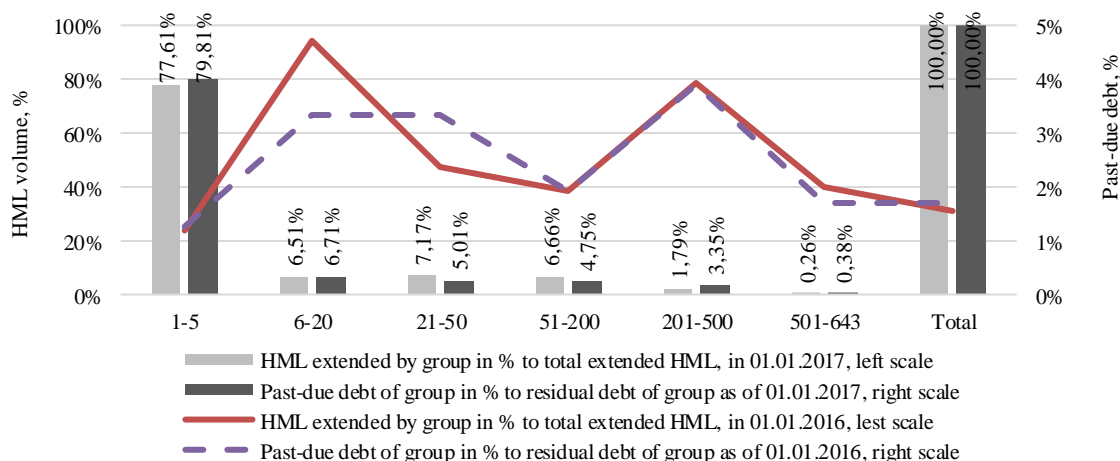


Fig. 38. Dynamics of HML volumes expended to individuals and past-due debt of credit institutions grouped across asset amounts for 2015–2016

Source: data released by Bank of Russia.

As of July 1, 2016, borrowers made early housing mortgage loans repayments to the tune of RUB 223.594bn up 38.0% against July 1, 2015. This amounts to 73.1% of the HML issuance volume originated in H1 2016. Proceeds from disposal of pledged property were directed to early HML repayments to the tune of RUB 1.87bn up 13.0% against H1 2015.

According to the Agency for Housing Mortgage Lending (AHML), as of December 30, 2016, there are 184 mortgage-backed securities (MBS) issues in circulation (non paid-off) totaling to RUB 379.7bn. Lombard List of the Bank of Russia numbers 63 issues totaling to RUB 217bn (57% of the total amount of mortgage-backed securities in circulation). Overall there are in circulation 111 residential mortgage-backed securities issues totaling to RUB 328.5bn (87% of the total residential MBS in circulation), which are traded on stock exchange (on quotation lists).

From late June 2016, the market turned to issuing only single-tranche securities due to the fact that from January 2016, within the framework of Basel III standards implementation the Bank of Russia raised the ratio on risk-based junior mortgage-backed securities tranches 12.5-fold from 100% to 1,250%. In 2016, within the state program on interest rates subsidization for newly constructed building mortgage loans 304,000 HML were originated to the tune of RUB 556bn, which constituted 38% of the total HML issuance volume throughout 2016.

According to AHML experts, the mortgage lending market put behind ramifications of the early 2015 crisis and in 2017 will move to growth. It is projected that at year-end 2017 the HML issuance volumes will peak to RUB 1.8 trillion and mortgage rates will decline to 11% and lower.

5.6.2. Mortgages on plots of land

According to Rosreestr, in 2016, the total number of registered titles on land plots by individuals (5,574,116 titles) down 6.84% compared to 2015. Lease of land plots by individuals (61,827 titles) down 31.80% in 2016 compared to 2015.

The number of registered mortgages on land plots by individuals up 12.25% in 2016 (689,989 titles) compared to 2015 (by contrast, down 11.51% in 2015 against 2014).

The number of registered mortgages on land plots by individuals in proportion to the number of registered rights of shared and joint ownership of land plots came to 32.2 in Q4 2016 against 29.2 in Q4 2015 (Fig. 39).

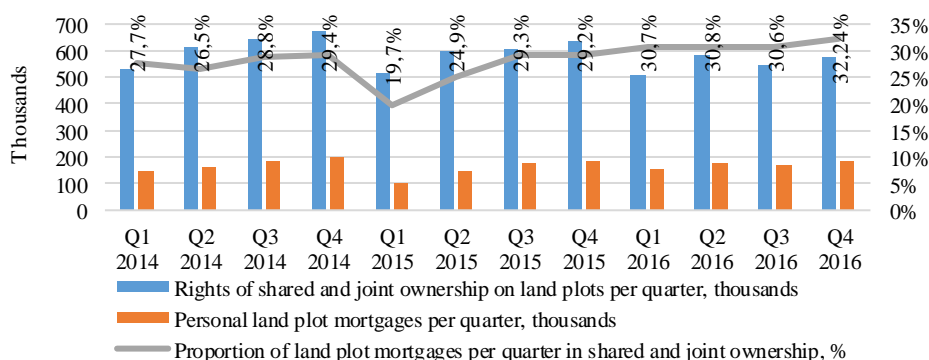


Fig. 39. Dynamics of registration of personal land plot mortgage

Source: data released by Rosreestr.

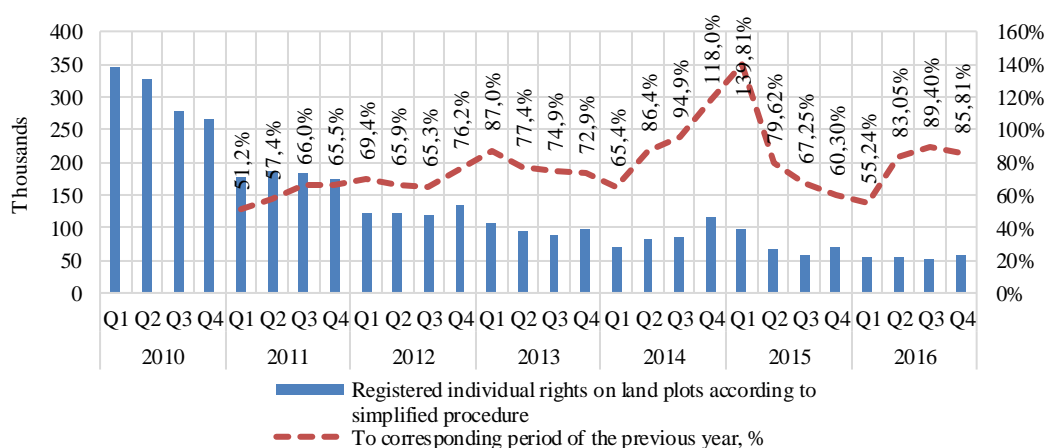


Fig. 40. Dynamics of registration on simplified procedure of individual rights on land plots

Source: data released by Rosreestr.

According to data released by Rosreestr, the process of “summer cottage” amnesty slowed down: the number of registered titles in 2016 on land plots according to the simplified procedure went down 14% against 2015. Declined volume of registered titles in Q4 2016 (“summer cottage” amnesty over 59,400 titles) constituted 14.2 percentage point compared to Q4 2015 (Fig. 40).