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STATE SUPPORT OF MORTGAGE LENDING AS A CONDITION FOR ENSURING STABLE DEVELOPMENT OF THE NATIONAL ECONOMY

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Introduction. The efficiency of construction and the housing market is a powerful driver of development with a significant multiplier effect on the whole economy. In particular, in the EU, the construction sector generates about 9% of GDP, provides 18 mln. jobs primarily for small and medium-sized businesses, creates new jobs, contributes to solving social, climate and energy problems [1]. In Ukraine, the contribution of the construction sector to GDP does not exceed 3%, which is three times more than in the EU.

The development of the sector is provided by various instruments, among which mortgage lending plays an important role. This tool is especially important in markets with high unmet demand for quality and affordable housing. Therefore, the expansion of the mortgage market is an important condition for ensuring the stable development of the national economy. This will help to address both the social problems of providing different segments of the population (especially young people) to meet their housing needs through the mechanisms of the financial market, and the stability and sustainability of the financial sector related to the construction of economic sectors. The scale of the housing issue requires proper state regulation of the mortgage lending market to create favourable conditions for all market participants – housing consumers, developers, lenders.

Background. Among the key problems limiting mortgage lending in Ukraine are the high cost of credit resources, low incomes of the majority of the country's population, especially young people, gaps in the legal protection of housing market participants, and the weak attractiveness of long-term bank lending. A number of conflicts related to new buildings are not conducive to the development of the mortgage market, especially in the primary housing market. And inconsistent monetary policy does not encourage banks to expand their high-risk mortgage portfolio in the presence of more profitable consumer loans and DGFs (Domestic Government Bonds). The problem of fragmentation of state regulation and support programs in

the primary and secondary housing markets exacerbates weak market trends. Moving away from such fragmentation will allow more efficient use of state support potential and targeted use of state resources.

Analysis of recent research sources and publications. Problems and prospects for the development of mortgage lending in Ukraine were considered by the following well-known Ukrainian scientists: L. Svystun, Yu. Dovhal [2], I. Liutyi, V. Savych, O. Kolivoshko [3], K. Borysiuk [4], A. Diachenko [5] et al.

However, the validity of government programs to stimulate the housing market through credit instruments, which will help attract domestic investors, reduce the cost of mortgages and address other legal and financial obstacles to the development of the mortgage market, remains insufficiently studied.

Setting objectives. The purpose of the article is to substantiate the directions of increasing the efficiency of state support of the housing market in Ukraine and the development of mortgage lending. Disclosure of the purpose requires the definition of trends in the formation of housing, the peculiarities of bank mortgage lending, the specifics of the application of state incentive programs in the housing market.

Results. The housing issue remains extremely relevant to the general population. The vast majority of the country's housing stock (70%) is built to Independence with low standards of quality, convenience, energy efficiency. According to the Ministry of Regional Development, in Ukraine 54% of the country's citizens live in overcrowded housing (in many EU countries it is only 2–7 %), and 39% of families have less than the sanitary norm (13.65 m²) of living space per person [6]. That in the conditions of development of technologies and increase of well-being has formed considerable postponed demand for new habitation or updating of available. The construction sector does not play a proper role in shaping the country's GDP, forming, in particular, in 2019 only 6.4% of the total output of products and services in the country and 2.7% of GDP. Such a limited contribution of the construction sector to the economy indicates a significant unrealized potential that needs proper government incentives. In general, it is the duty of the state, which according to Article 47 of the Constitution, should create conditions under which every citizen will be able to build housing, buy it or rent it [7].

The housing stock of Ukraine at the beginning of 2020 exceeded 1.01 bln.m², reaching a record for the entire period of independence growth of total living space by 18.1 mln.m² in 2019 (Figure 1). The level of total living space per capita reached a maximum – 24.2 m² (in 1990 – 17.8 m², in 2014 – 22.6 m²).

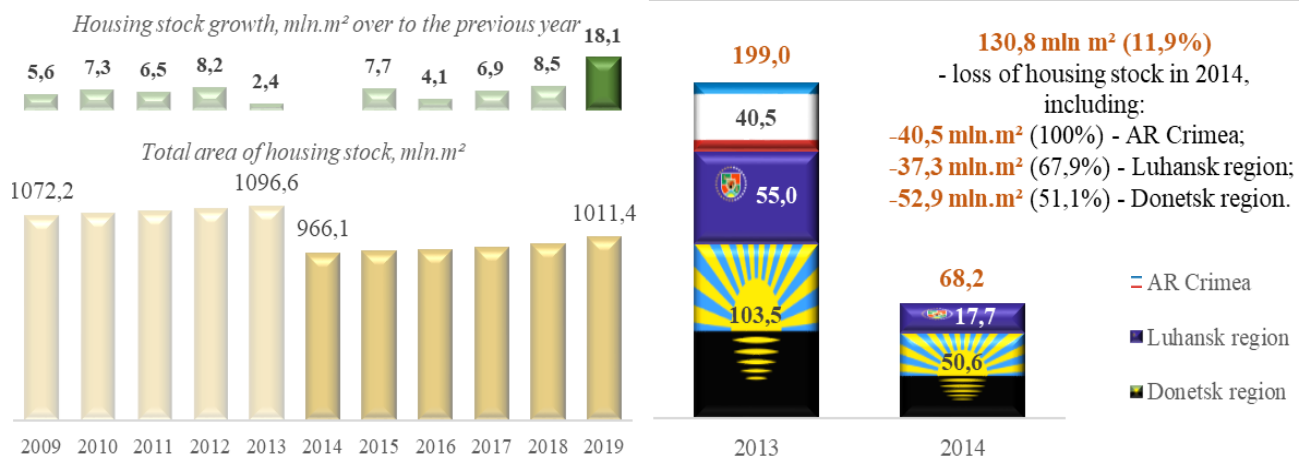


Fig.1 Dynamics of housing stock in Ukraine in 2009–2019, mln.m²

Source: State Statistics Service of Ukraine [8]

Due to the aggression of the Russian Federation, Ukraine in 2014 lost almost 12% of the available housing stock of Ukraine: all housing in the Autonomous Republic of Crimea (40.5 mln.m²), two-thirds of housing in the Luhansk region (67.9% or 37.3 mln.m²) half of the housing stock of the Donetsk region (51.1% or 52.9 mln.m²). However, significant unmet demand, including due to forced internal migration, contributed to the active growth of the housing stock, the growth rate of which in 2015–2019 averaged 9.0 mln.m² per year, which is 1.5 times higher than the corresponding average growth rate before aggression (6.0 mln.m² on average in 2009–2013).

The downturn in the economy in 2020 reflected the high dependence of the construction sector on changes in consumer sentiment, the purchasing power of the population and the solvency (profitability) of business. The index of residential real estate construction fell to a record high of – 16.5%, which is largely due to falling demand for new construction due to the pandemic and declining resources among developers (Figure 2).

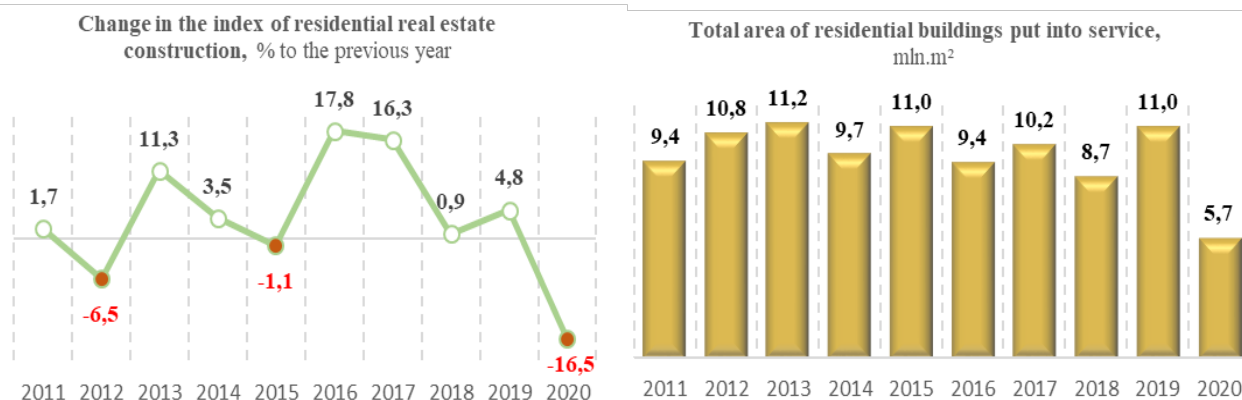


Fig. 2 Dynamics of housing commissioning and changes in the index of residential real estate construction in Ukraine in 2011–2020, mln.m² and %

Source: State Statistics Service of Ukraine [9]

The commissioning of residential real estate has halved (to 5.7 mln.m² against 11.0 mln.m² in 2019). Even taking into account the possible adjustment of this indicator, it reflects the high sensitivity of the sector to general economic trends and requires a proactive government policy in the housing market.

The introduction of state support programs requires taking into account the current state of the market and the peculiarities of its functioning in the country. It should be noted that residential real estate in Ukraine is mainly privately owned, so it is advisable to regulate the housing market as widely as possible on a commercial basis. And such instruments include mortgage lending. Figure 3 shows the main components of the functioning of the housing market in Ukraine.

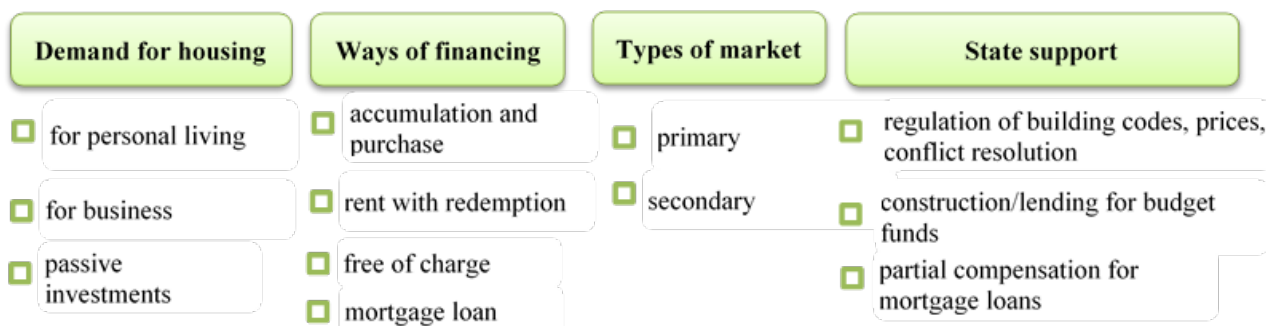


Fig. 3 The main types of demand for housing, financing ways, markets and state support

Given the low incomes of the general population and the availability of housing for most citizens, the demand for housing is limited due to the accumulation of the entire amount. Opportunities to receive housing free of charge from the state or enterprise are also reduced. Budget resources are increasingly refocused on social protection, and private enterprises, in general, do not have the practice of providing housing for their employees free of charge. There is a higher potential for increasing the demand for housing for further commercialization – renting, resale, passive investments to save capital. For such demand, the possibility of purchasing housing in a short time is relevant, which will increase the possibility of obtaining income from such investments. For such purposes, government support for mortgage lending can be a significant impetus for both the credit and housing markets.

Mortgage lending is still inaccessible to the general population due to the high cost of housing and the cost of servicing such loans. The average size of new loans ranges from UAH 485.4 ths. (July 2019) to UAH 761.0 ths. (November 2020) (Figure 4).

However, rising average monthly wages are expanding the effective demand for mortgages.

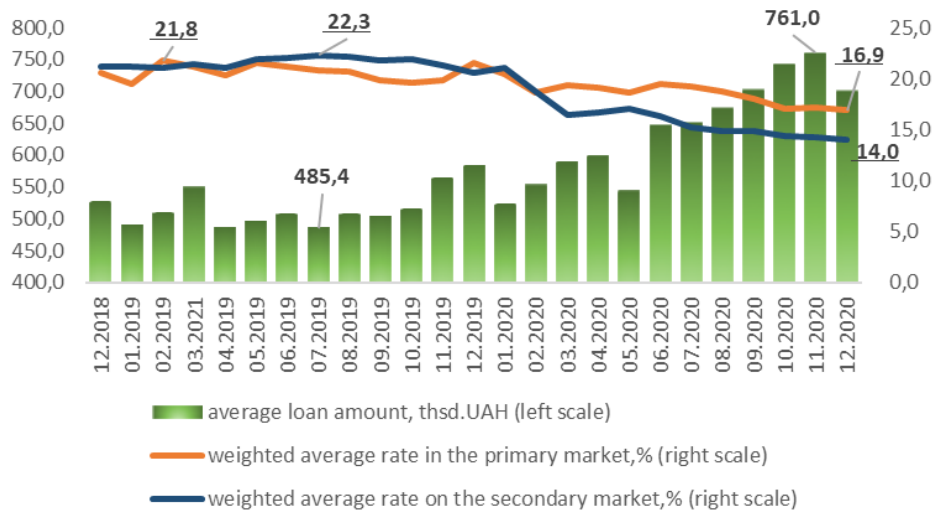


Fig. 4 Dynamics of the average size of a new mortgage loan in Ukraine in 2018–2020, ths. UAH
 Source: National Bank of Ukraine [10]

Thus, the average mortgage loan in December amounted to UAH 702 ths., which if repaid in equal instalments over 10 years (120 months), the monthly payment on the body of the loan would be UAH 6.2 ths. The average monthly salary in December 2020 increased to UAH 14.7 ths. In the case of sustainable economic growth and job retention, servicing such a loan does not seem to be critically burdensome.

According to the National Bank of Ukraine (NBU), in July–September 2020, in banks the demand for mortgages among the population, especially among young people, increased by a record. Banks informed the NBU that in December 2020 they issued 743 mortgage loans worth UAH 521 mln., and in 2020 as a whole – by UAH 3.8 bln., which is 36% more than in 2019 (Figure 5).

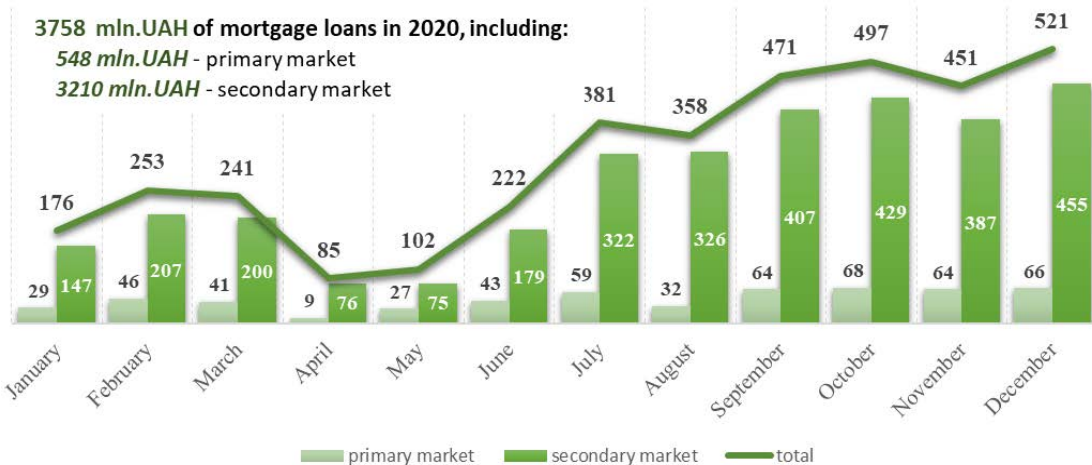


Fig. 5 Volumes of mortgage lending in the primary and secondary markets in Ukraine in 2020, mln. UAH
 Source: National Bank of Ukraine [10]

An important factor in such dynamic growth in demand is the reduction of interest rates on mortgage loans.

Also, the domestic mortgage market is excessively concentrated, and almost 88% of new transactions amount to UAH 3.3 bln. concluded only five banks. A feature of mortgage lending in the country is the dominance of transactions in the secondary market, which accounts for almost 85% of new mortgages. In the regional context, the largest number of mortgage loans was issued: in Kyiv – 1.5 ths. agreements worth UAH 1.4 bln. (37% of the total amount), in Kyiv region – 646 agreements worth UAH 605.1 mln. (16% of the total amount), in Kharkiv region – 617 contracts for a total amount of almost UAH 296 mln (8%), in Lviv region – 345 contracts for a total amount of UAH 240 mln. and in Dnipropetrovsk region – 388 contracts for a total amount of UAH 192.6 mln.

Ukraine implements a number of state programs in the housing market, which have the following problems: limited allocation of resources for programs; the ambiguity of conditions of participation in programs; narrow target (departmental) orientation; the short period of action; high official and unofficial price of participation in the program; inconsistency of responsibility of program participants.

In particular, the current State program for providing youth with housing for 2013-2023 [11] is designed for 10 years, but since 2015 the state budget does not provide for its implementation, and partial funding is provided within separate local budgets. In general, the State Youth Housing Fund implements housing programs in 7 areas: loans from the authorized capital; loans for IDPs (Internally Displaced Persons) and Participants in hostilities (Joint Forces Operation); affordable housing; preferential youth lending; cheaper mortgages; partial compensation and lending to condominiums [12]. In particular, in the direction of cheaper mortgages for 2012-2020 compensations of UAH 484 mln. were paid, of which UAH 34.5 mln. in 2020. And under the program "Affordable Housing" in 2010-2020 from the state budget financed UAH 897 mln., a third of which – in 2019 (UAH 347 mln.), and from the local UAH 81.7 mln. (of which UAH 54.2 mln. – in 2019-2020).

Limited and uneven funding under the budget program KPKVK 2751190 "Providing state support for the construction (purchase) of affordable housing" is considered among the key obstacles to achieving the goals of the program. This is analysed in more detail in the report of the Ministry of Regional Development of Ukraine [6]. The positive effect of state support programs is the involvement of citizens' own resources in the construction industry.

Given the experience of developed countries, the best example of finding a domestic investor may be to expand the availability of mortgages, which primarily depends on the cost of resources: the NBU discount rate and market rates on deposits. Since, as of today, the discount rate of the NBU is 6.5%, and rates on hryvnia deposits of the population have dropped to 7-9% per annum, the mortgage rate of 7-9% per annum may become a reality.

It is also necessary to provide legal protection for the two parties to the loan agreement – the investor and the lender. To protect the rights of the investor, it is necessary to provide the depositor with housing in a timely manner, and to protect the rights of the creditor there is a need to regulate the acquisition of property rights by the investor only on full repayment of the loan. That is, in a contractual manner to protect the investor (consumer) from the problems of long-term construction. On the way to overcoming all obstacles, the mortgage needs to be completely "reboot", and the main task of the Government is to create legal conditions and a transparent mechanism for all players in the real estate market.

The active policy of the Government on the renewal of affordable lending programs, including mortgages, has significant stimulating potential and corresponds to the one set in 2004. The purpose of creating a national system of mortgage lending – the formation of effective market mechanisms to attract long-term financial resources that reduce the cost of mortgage loans for individuals and businesses and increase lending time [13]. In particular, the new program "Affordable Mortgage", which is implemented through the Fund for Entrepreneurship Development (Fund) under the program "Affordable loans" 5-7-9% "[14]. An important condition of the new mortgage program is that it provides simplified access to the target audience to purchase housing in the primary and secondary market. Among the planned parameters of such a program – up to UAH 5 bln. of loans for 5 thousand families.

On the positive side, there is a greater systematization and amendments to regulations that will ensure the practical implementation of the declared initiatives. In particular, it concerns the Cabinet of Ministers resolutions "Some issues of reducing the cost of mortgage loans" [15], "On approval of the Procedure for providing financial state support to small and medium enterprises" [16], "On approval of the Procedure for using state budget funds for ensuring the functioning of the Fund for Entrepreneurship Development" [17].

The updated procedure for reducing the cost of mortgage loans determines the conditions, criteria and mechanism for reducing the cost of mortgage loans due to financial state support of borrowers. In particular, this Procedure clearly states who can become a "borrower" and defines the relevant criteria; which means: members of the borrower's family; under persons in need of improved living conditions; under a mortgage loan; under the loan agreement; under the subject of the mortgage; under the regulatory area of the subject of the mortgage; under a mortgage lender. Defining all these definitions will allow the Borrower to prevent possible additional requirements from authorized banks when receiving financial state support provided by the Fund, which approves a program to reduce the cost of mortgage loans. The provision of state support provided for by this Procedure may be carried out together with state support, which may be provided in accordance with the legislation by local state administrations and local self-government bodies at the expense of local resources.

State support is provided within the funds received by the Fund, provided in the state budget, in the form of:

1) partial compensation by the Fund of the interest rate on mortgage loans provided to borrowers for the purpose specified in paragraph 4 of this Procedure, and meet the criteria specified therein;

2) provision by the Fund of guarantees to authorized banks to ensure the fulfilment of obligations under mortgage loans provided to borrowers.

The declared parameters of mortgage lending, in particular: the maximum loan amount – UAH 2 mln., loan term – 240 months, down payment – not less than 15%, service rate not more than 7%, will expand the range of participants while maintaining positive dynamics of income growth and maintaining an adequate price for housing. World practice shows that the development of construction is focused on solving environmental and energy problems. Therefore, state support for housing construction in Ukraine should take into account and support modern construction innovations that will mitigate the negative impact of the sector on the environment.

Conclusions. Mortgage lending is an important tool for addressing the national issue of providing citizens with quality and affordable housing. However, today most mortgage lending programs are aimed at a narrow market segment, the recovery of which has little real growth potential.

Public housing policy requires comprehensiveness and the introduction of long-term financing mechanisms for the purchase/construction of housing. Deferred demand for housing requires a multiple increase in investment in construction and raising funds for this purpose, credit and budgetary resources. The growing trend of commercialization of housing acquisition actualizes the use of mortgage lending in the housing market.

The priority is to ensure the growth of income and solvency of the general population as a basic condition for the effective functioning of the housing market and the mortgage market. An important task remains the harmonization of a wide range of state housing programs, ensuring the effectiveness of their implementation. Government initiatives to reduce mortgage rates to 7% per annum and up to 5% per annum and create legal conditions and a transparent mechanism for real estate market participants have significant potential to "reset" the mortgage market, increase and accelerate the commissioning of quality housing, stimulate construction and economy in general. Such programs are directly important both in the context of achieving the direct goals of increasing mortgage lending, and identifying the conditions for the functioning of the housing market and competitive tools for its development.

Considerable attention should be paid to the issue of supporting innovations in construction, which have a high potential to reduce energy consumption in the construction and operation of housing, optimizing the use of resources. There are requires additional research on the taxation of mortgage market participants.

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Юрків Надія Ярославівна, заслужений економіст України, доктор економічних наук, професор. Національний інститут стратегічних досліджень. **Дубровін Олександр Віталійович**, кандидат економічних наук, перший заступник Голови Правління АБ «УКРГАЗБАНК». **Давиденко Сергій Васильович**, кандидат економічних наук, доцент, експерт. **Державна підтримка іпотечного кредитування як умова забезпечення стійкого розвитку національної економіки**. Розглянуто питання державної підтримки іпотечного кредитування в Україні як інструменту стимулювання ринку житла, розширення можливостей широкого кола громадян для вирішення житлових потреб і забезпечення стабільного розвитку національної економіки. Зазначено збереження фрагментарності державної житлової політики та різних інструментів державної підтримки учасників ринку житла. Акцентовано увагу на значному нереалізованому потенціалі сектора будівництва, внесок якого у вітчизняну економіку втричі менший за середньоєвропейський. Проаналізовано стан і динаміку житлового фонду України, розбудова котрого залишається високочутливою до змін в економіці. Підкреслено збереження проблеми недоступності іпотечного кредитування для широких верств населення, яка пом'якшується як ринковими рішеннями банків про зниження реальних ставок за іпотекою, так й ініціативами держави щодо запровадження та вдосконалення програм по доступних кредитах та житлу. Проаналізовано практику державних програм на ринку житла й зазначено збереження проблем їх ефективної реалізації, серед котрих обмеженість і нестабільність фінансування, неоднозначність умов участі, вузька цільова спрямованість, неузгодженість відповідальності учасників програми. Визначено особливості поточного іпотечного кредитування, серед яких нарощення нових іпотечних кредитів, домінування угод на вторинному ринку, обмежена кількість банків кредиторів іпотеки, надання іпотечних кредитів на короткий період. Розглянуто нові ініціативи влади щодо стимулювання іпотечного кредитування, серед позитивних аспектів котрих зазначено пріоритетність зниження відсотка обслуговування позик, гармонізацію відповідних нормативно-правових актів, уточнення порядку участі. Запропоновано застосування системного підходу до розроблення програм державної підтримки, які ґрунтуватимуться на пріоритетах стимулюванням зростання доходів та платоспроможності широких верств громадян і залучення до програм інноваційних забудовників.

Ключові слова: державна підтримка, іпотечне кредитування, житловий фонд, ринок житла, відкладений попит, стабільний розвиток, державна програма.

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Yurkiv Nadiia, Doctor of Sciences (Economics), Honoured Economist of Ukraine, Professor. National Institute for Strategic Studies. **Dubrovin Oleksandr**, PhD (Economics), First Deputy Chairman of the Board of JSB «UKRGASBANK». **Davydenko Serhii**, PhD (Economics), Associate Professor, Expert. **State Support of Mortgage Lending as a Condition for Ensuring Stable Development of the National Economy.** The issues of state support of mortgage lending in Ukraine as a tool to stimulate the housing market, expand the opportunities of a wide range of citizens to meet housing needs and ensure the stable development of the national economy are considered. The fragmentation of the state housing policy and various instruments of state support for housing market participants are noted. Emphasis is placed on the significant unrealized potential of the construction sector, whose contribution to the domestic economy is three times smaller than the European average. The state and dynamics of the housing stock of Ukraine, the development of which remains highly sensitive to changes in the economy, are analysed. The problem of inaccessibility of mortgage lending for the general population is emphasized, which is mitigated both by market decisions of banks to reduce real mortgage rates and government initiatives to introduce and improve programs for affordable loans and housing. The practice of state programs in the housing market is analysed and the preservation of problems of their effective implementation is noted, including limited and instability of financing, the ambiguity of participation conditions, narrow target orientation, the inconsistency of responsibility of program participants. The peculiarities of the current mortgage lending are determined, among which the increase of new mortgage loans, the dominance of agreements on the secondary market, the limited number of mortgage lending banks, the provision of mortgage loans for a short period. New government initiatives to stimulate mortgage lending are considered, among the positive aspects of which is the priority of reducing the % of loan servicing, harmonization of relevant regulations, clarification of the procedure for participation. It is proposed to apply a systematic approach to the development of state support programs, which will be based on priorities by stimulating the growth of incomes and solvency of broad sections of citizens and the involvement of innovative developers in programs.

Keywords: state support, mortgage lending, housing stock, the housing market, deferred demand, stable development, the state program.