

DYNAMICS OF MORTGAGE MARKET DEVELOPMENT IN THE REPUBLIC OF ARMENIA

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Introduction. Currently, the need to solve the mortgage lending problem has become one of the primary problems of the states. In particular, governments are trying to solve the problems in the market related to high interest rates and prepayments through their intervention. In that sense, Armenia is also trying to regulate the role and importance of the mortgage market through many legislative changes in the last few years.

The importance and contemporaneity of the topic is due to the fact that the active use of new mortgage products in Armenia promises a large number of benefits that can improve the situation of the domestic economy and provide housing for socially vulnerable citizens. The development of new mortgage products is also of fundamental importance for the banking system. Real estate investments with government guarantees, especially during times of volatility in the stock market, are of interest even with low returns

Research methodology. Every field of science has a certain goal of study, and in the course of realizing that goal, the understanding of the researched subject deepens, as a result, the studied economic phenomenon is enriched and made more complete.

In order to investigate the mortgage market and its problems, the dialectic method was used in the article. The essence of this is that when studying mortgage loans, it is necessary to consider them in the process of movement, development and change. An important characteristic of this principle is that there are internal cause-and-effect relationships between one phenomena, and the other condition each other's existence. For example, in order to reveal the relationship between mortgage products and their market, it is necessary to first clarify what a loan is, then what a market is, and then show that the development of the mortgage market depends on their correct development. Other things being equal, the causality between these two economic phenomena is reversed. We used the method of analysis and synthesis (analysis and comparison) to discuss the issues of mortgage policy of banks. The essence of this method is that the researcher divides or splits the economic phenomenon into separate elements and then analyzes each one separately. For example, in order to investigate the patterns of mortgage loan formation and the factors affecting it, one should study the macroeconomic situation of the economy, the incomes of customers, their tendencies, etc. That study is followed by synthesis.

Method of analysis. The method allows to identify various objects: persons, organizations, events, etc. Analytical connection diagrams present this information in a more vi-

sual and comprehensive way, which greatly helps in drawing conclusions [Booster, 2020]. The method allows to more clearly present the mechanism of the events that took place. The analysis method also allows to more clearly present the development of complex situations over time, define the sequence of events, their chronology, the nature of the connection between events and the roles of the main participants. Thus, the methods used in our research provide an opportunity to deeply study the mortgage market in Armenia.

Literature review. There are different definitions of the concept of "mortgage" in the professional literature. Thus, according to Nikonov's study "Risk management", the concept of "mortgage" was first used in Ancient Greece in the 6th century BC and was associated with fixing the fact of the debtor's responsibility for certain land areas before the creditor [Nikonov, 2009, 152]. In his works, Dolmatovich tells about the creation of specialized governmental agencies in the USA in 1968 and 1970, which were called to develop and introduce completely new financial technologies guaranteed by the state. Among such technologies were the guarantee of mortgage loans, the issuance of securities by banks, the organization of the secondary market, etc. Thanks to the activities of such agencies, the creation of the modern American model of mortgage lending began, which is still in effect today [Dolmatovich et al., 2018, 441-444]. Dolmatovich I. and Keshenkova N., characterize the features of mortgage lending in Canada, according to which mortgage banks were a traditional type of credit institutions in Canada. Those banks were mainly engaged in providing real estate mortgage loans, which invested in long-term state and corporate securities. Initially, the object of banking activity was land mortgage lending, and later housing construction lending [Dolmatovich et al., 445]. According to Ryabchenko, nowadays, by "mortgage" we understand obtaining a long-term loan with real estate collateral. Nersisyan suggests that two main types of mortgages are distinguished in modern practice [Nersisyan, 2012, 2].

- mortgage lending for the purpose of purchasing or building apartments with a pledge of residential premises, when the borrower is given credit by pledging the property at his disposal,
- mortgage lending for the purchase or construction of apartments, when the borrower takes a loan for the purchase or construction of an apartment, which is transferred to the bank as collateral.

Thus, generalizing the opinions of the authors, it can be concluded that a mortgage loan is considered a loan secured by real estate collateral, which enables the borrower to acquire the given real estate with the right of possession, use and management after fulfilling all the obligations assumed to the lender within the specified period.

Analysis. The development of the mortgage market in Armenia began in 2005, and before that, the mortgage market as such did not exist. Taking into account the impact of

the financial and economic crisis on the RA mortgage market, its gradual evolution in Armenia can be conditionally divided into 3 stages.

- o development of the mortgage market (from 2005 to the end of 2008),
- o the mortgage market during the global crisis (end of 2008 - beginning of 2010),
- o the development of the mortgage market in the post-crisis period or the modern period (since 2010).

Figure 1 shows mortgage loans in drams provided by commercial banks, 2012-2022.

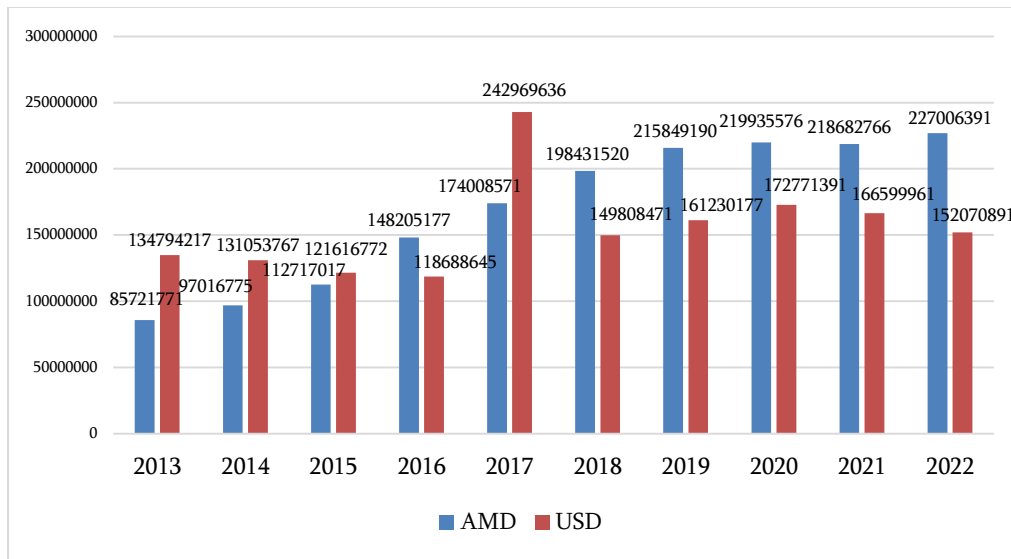


Figure 1. Mortgage loans provided by commercial banks in AMD and dollars, 2012-2022, (thousand AMD)¹

In the chart, we can see that dram mortgage loans have increased year by year, which is due to the increase in interest on real estate. In 2020-2022, mortgage loans increased by 3.2%. In 2020, compared to 2019, there was almost no change in mortgage loans, the fastest growth was recorded in 2015-2016, 31.5%. During 2018-2019, due to the increase in demand for apartments in RA and the improvement of lending conditions, mortgage loans also gained momentum. That period is considered the period of fastest loan growth. We also see in the chart that they have quite different indicators, the highest indicator was recorded in 2017, 242 billion 969 million 636 thousand drams, and in 2022, this indicator was 152 billion, 70 million, 891 thousand drams, which decreased by 8.7% compared to the previous year. In addition, we need to present the indicators of state registrations of rights to real estate in RA in chart 2. According to the data, the number of trans-

¹Volumes of loans provided by the RA Central Bank, commercial banks and credit organizations, <https://www.cba.am/am/SitePages/statmonetaryfinancial.aspx>

actions in RA is increasing, which, according to the law of supply and demand, leads to an increase in prices. The increase in real estate prices in Armenia is a fact, but the market is not stable and both increases and decreases are expected.

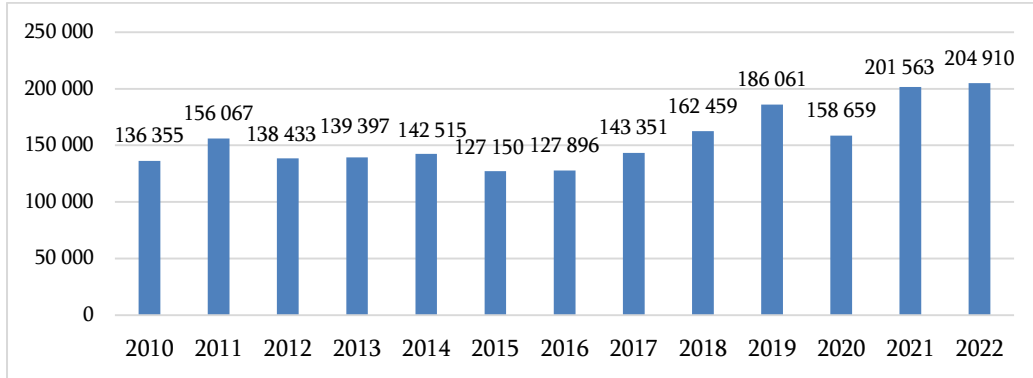


Figure 2. The number of state registrations of rights to real estate by year, 2010-2022.¹

A steady increase in demand is predicted in the near future, for which there are objective prerequisites. People's needs have changed, young families strive to separate themselves, moreover, to provide each of the children with a separate room. The requirements for quality indicators of the apartment have changed. Perhaps all this leads to sustained high demand. In RA, mortgage includes 3 types of loans: acquisition, repair and construction. After market studies, it appears that most mortgages account for more than 90% of acquisitions. Figure 3 shows the indicators of mortgage loans for real estate purchase.

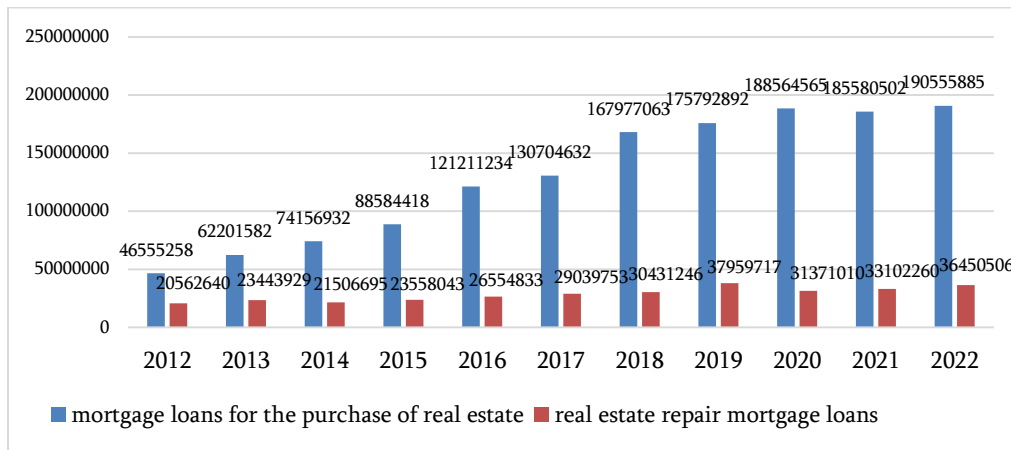


Figure 3. Real estate purchase and repair mortgage loans, 2012-2022, (AMD)²

Generally, mortgage loans are provided for the purpose of purchasing and repairing unimproved property. In the graph, one can see that there has been an increase during the

¹ State Cadastre Committee, Real Estate Market Analysis, p. 3, <https://cadastre.am>

² The loans of the CBA, commercial banks and credit organizations by sectors, www.cba.am

period 2012-2020. In 2020, compared to the previous year, the increase was 7.2%. The growth of mortgage loans granted in 2020-2022 was 1.1%. Along with the fluctuations of mortgage loans, there is also a change in the currency structure of mortgage loans provided by banks. It can also be seen from the graph that they have also increased year by year, the highest figure was in 2019, and the figure for 2020 is less than the same figure by 21%. In 2022, compared to the previous year, mortgage loans increased by about 3 billion drams. In Armenia, mortgage loans are usually provided in the primary market, and the need to create secondary markets arises when the banking system is unable to fully satisfy the demand for mortgage loans by financing the capital formed at the expense of short-term deposits. due to the impossibility of providing long-term loans or due to reasons of maintaining capital, liquidity and other similar norms. In countries with state-sponsored subprime mortgage lending programs, market-based lenders face additional challenges due to increased competition. Through active secondary markets, it becomes possible to alleviate the burden of the state budget on housing subsidies, increase the availability of mortgage loans and develop capital markets, ensuring general economic growth. In particular, thanks to the secondary market, the price of the mortgage loan can decrease, distributing the risks more efficiently [Lea, 1994, 147].

Thus, based on our analysis, we may conclude that the indicators of mortgage lending in RA have increased year by year. The market of mortgage loans has been taken over by commercial banks, and the rest of the companies, credit organizations, provide fewer loans. Of course, the year-by-year expansion of banks and the diversification of services are positive phenomena for the RA financial market, but, on the other hand, the phenomenon that there is a monopoly of banks, and other financial and financial organizations provide less such services, is negative. from this point of view, the RA financial market is developing disproportionately.

Conclusions. The studies and analyzes carried out in the article allow us to draw some conclusions.

We noticed that during the years 2019-2022, the activity of some sectors of the RA economy led to an increase in the demand for loans from customers, and therefore to an increase in lending by banks. The growth of mortgage loans in recent years is also due to social and housing problems in the economy. At the same time, the gradually intensifying competition in the banking system led to an increase in the demand for loans. The more the mortgage system is developed in the national economy, the greater the theoretical weight of transactions based on mortgage loans, the more the real estate market depends on the financial market.

As a result of the study, we can also record that the market in Armenia mainly offers apartments to wealthy or high-income families as a nationwide problem. Few apartments are built by state or humanitarian assistance programs for the most needy and vulnerable

groups of the population: refugees, families affected by disasters and others. However, there is a large mass of the population between those two groups that has low or medium incomes: young people, newly formed families, middle-income families, who also have serious housing problems and for whom buying an apartment at market prices is not affordable. Therefore, it is necessary for the state, together with commercial banks, to develop products for all sections of the population.

The mortgage loan market in our country has a tendency to develop, which is due to a number of factors: creation of prerequisites for the formation of a developing financial market, stable economic growth, etc., but the most important of them is the large-scale housing construction that has taken place in the last few years. One of the objective reasons for the development of the mortgage market is the lowering of interest rates on loans by banks, which leads to an increase in interest from customers.

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Acquiring an apartment is one of the priority requirements of a person's life, without which it is difficult to talk about this or that social demand of the society. Taking into account the civil right of a person to demand housing, it turns into the most important socio-political and economic problem of the state. The development of mortgage lending can not only contribute to the improvement of the living conditions of the population, but also stimulate demand in the real estate and construction markets, can also ensure the inflow of funds to the housing market, stimulate construction, and also increase the profitability of budgets at all levels.