



Statecraft strategies and housing financialization at the periphery: Post-socialist trajectories in Russia and Poland

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Abstract

A new literature on housing and financialization has emerged in recent years, but scholars have yet to examine how political actors shape national trajectories of housing financialization. In this article, we address this shortcoming by examining the cases of Russia and Poland in the 1990-2018 period. We argue that in both contexts political elites implemented a radical market-oriented reshaping of housing finance. However, by pursuing distinct statecraft strategies and modes of integrating the domestic economy into global markets, Russian and Polish political elites created two divergent trajectories of housing financialization. Russian political elites pursued patrimonial statecraft strategies and a mode of global economic integration based on raw material exports. The Putin administration channeled revenues from raw material exports into the securitization-based housing finance system and used this infrastructure as an instrument of hegemonic power. In doing so, the Russian government shielded homeowners from exposure to financial risk. In contrast, Polish political elites pursued liberal statecraft strategies and a mode of global economic integration based on foreign capital inflows. Polish political parties therefore enabled foreign banks to dominate the housing finance system and sell foreign currency mortgages, which exposed homeowners to considerable financial risk. In light of these findings we call for further research into the political factors that shape the process of housing financialization, both in the post-socialist space and beyond.

Keywords

Housing, financialization, financial innovation, statecraft, post-socialist capitalism

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Introduction

A new literature on housing financialization has emerged in recent years, exploring how housing has been transformed into an arena for global risk-oriented investors and market-based financial innovations (Aalbers, 2016, 2017; Aalbers, Van Loon, and Fernandez, 2017; Bernt, Colini and Förste, 2017; Bohle, 2018; Fernandez and Aalbers, 2016, 2017; Fields, 2017, 2018; Pereira, 2017; Romainville, 2017; Wijburg, Aalbers and Heeg, 2018). According to Fernandez and Aalbers (2016), housing and housing finance systems in different countries are now exposed to a global pool of surplus capital – a ‘wall of money’ seeking investment opportunities worldwide – and this pressurizes policymakers into liberalizing national systems of housing and housing finance, hence integrating them into global financial markets. The primary objective of this market-oriented transformation of housing and housing finance is to convert residential property and its associated mortgage debt into assets that can absorb the global surplus of capital. In essence, we are told that housing has entered a neoliberal and financialized phase, where “both mortgaged homeownership and subsidized rental housing are there to keep financial markets going, rather than being facilitated by those markets” (Aalbers, 2017: 543). This means that homeowners and tenants around the world are confronted with growing financial risks (Aalbers, 2008). But different countries do not necessarily experience this market-oriented transformation in the same way as one another; instead, the trajectories of housing financialization are variegated and uneven (Aalbers, 2017; Fernandez and Aalbers, 2016).

Scholars contributing to the housing financialization debate have often emphasized how states create the conditions necessary for the financialization of housing to emerge (Aalbers, 2017: 550). However, researchers have not yet examined in sufficient detail how political actors shape housing financialization, whether through domestic political regimes or their response to external economic constraints and opportunities. In this article, we address this shortcoming by examining the cases of Russia and Poland in the period from 1990 to 2018. We argue that in both countries, political elites implemented radical market-oriented transformations of domestic housing finance systems, thus creating the institutional preconditions for housing financialization. However, as political elites in Russia and Poland pushed towards different statecraft strategies and modes of global economic integration, they formed two distinct trajectories of housing financialization.

Russian political elites pursued patrimonial statecraft strategies and a mode of global economic integration based on raw material exports. During the 1990s, political power in Russia was divided among different regional elites and business groups. Unable to control these dynamics, the Yeltsin administration focused on implementing pro-market reforms and buying political support from competing business oligarchs. In this context, the Yeltsin government developed a securitization-based system of housing finance in consultation with United States (US) governmental actors. However, Russian banks were not interested in providing mortgage lending and investors avoided buying Russian mortgage-backed securities. As a result, the securitization-based housing finance system failed to meet its goal of generating assets for global investors. In 2000, Putin came to power and centralized the state apparatus under his aegis, at the same time promoting economic growth based on raw material exports. At this point, the Putin government transformed the housing finance system into an instrument of patrimonial-hegemonic power. Putin transferred export revenues to the housing finance system and enabled mortgage lending to grow (although mortgage securitization still failed to take off). Russian banks complemented this export-driven mortgage boom by borrowing on international capital markets to finance their mortgage

lending activities. Due to its patrimonial nature, the Russian housing finance system shielded homeowners from exposure to financial risk.

In contrast, Polish political elites pursued liberal statecraft strategies and a mode of global economic integration based on attracting foreign investment. During the 1990s, the political parties alternating in power allowed advocates of different housing finance models to compete. Moreover, these parties continued to subsidize housing loans until 1996. In this context, mortgage lending failed to grow. As of the late 1990s, Polish political elites set the country firmly on a path towards European and global market integration. In so doing, they enabled foreign banks to enter Poland and dominate banking and financial services, including those related to housing finance. These banks increased mortgage lending and sold a large number of foreign currency mortgages, and political parties encouraged these risky practices as a way of increasing mass consensus. By selling foreign currency mortgages, banks exposed Polish homeowners to significant financial risk.

We have selected Russia and Poland because both countries joined the capitalist world in a subordinate position at the turn of the 1990s (Bohle and Greskovits, 2012; Myant and Drahekoupil, 2011). Hence, as peripheral economies, Russia and Poland provide an ideal vantage point from which to view how global political and economic hierarchies influence the variegated and uneven nature of housing financialization. Methodologically, we have chosen Russia and Poland based on a 'diverse case method' research design (Seawright and Gerring, 2008: 300). Our objective is to achieve maximum variance along the relevant dimensions of housing financialization in the post-socialist space, where Russia and Poland represent two different groups of post-socialist economies. Russia is a raw material exporting economy that is grouped together with other members of the Commonwealth of Independent States. Despite this status, Russia aspires to become a political, military and ideological counterpoint to existing centers of global power (Lane, 2010). In contrast, Poland is part of the Visegrád group of countries that joined the European Union (EU) from a position of political and economic dependence (Bohle and Greskovits, 2012). As we anticipated, differences in statecraft strategies and modes of global economic integration played a critical role in shaping how Russia and Poland experienced housing financialization.

We develop the above points as follows. In section 2, we situate our research within the housing financialization debate. In particular, we underline the importance of studying how statecraft strategies and modes of global economic integration shape the way housing financialization unfolds. In section 3, we draw on King and Szelényi's (2005) categories of 'patrimonial capitalism' and 'liberal capitalism' in the post-socialist space, using these to frame how Russian and Polish political elites pursued different statecraft strategies and modes of global economic integration from the 1990s onwards. In sections 4 and 5, we analyze the different trajectories of housing financialization in Russia and Poland based on their respective statecraft strategies and modes of global economic integration. Finally, in section 6 we use our results to identify a range of avenues for future research.

Accounting for variegated and uneven housing financialization

Scholars in international political economy, economic geography and other cognate fields have done a great deal to explore the interface between housing and financial markets. Notably, in their pioneering work on varieties of residential capitalism, Schwartz and Seabrooke (2008: 243-45) explain the formation of different housing systems across the world as institutional ensembles that include tenure, housing finance and welfare state provisions. Schwartz and

Seabrooke categorize housing systems in twenty-seven countries by using two main metrics: the owner-occupation (homeownership) rate and the mortgage debt-to-gross domestic product (GDP) ratio. The homeownership rate measures the share of homeowners vis-à-vis renters. The mortgage debt-to-GDP ratio indicates the level of mortgage debt and is a proxy for housing finance liberalization. Based on these two metrics, Schwartz and Seabrooke identify four ideal types of housing systems, namely: (1) the *corporatist market model* (as in Germany and Netherlands), characterized by high levels of mortgage debt and low levels of homeownership; (2) the *liberal market model* (as in the US and UK), where mortgage debt and homeownership levels are both high; (3) the *statist-developmental model* (as in France and Japan), characterized by low levels of owner occupation and mortgage debt; and (4) the *familial model* (as in Spain and Italy), characterized by high homeownership levels but low mortgage debt. According to this four-by-four matrix, Russia and Poland would belong to the familial ideal type. In fact, current homeownership rates in Russia and Poland are 85 and 84 per cent respectively (DOM.RF, 2017: 14; EMF, 2018: 119). Current levels of mortgage debt-to-GDP are 5 per cent in Russia and 20 per cent in Poland (CBR, 2019; EMF, 2018: 116). In comparison, a highly financialized country like the US currently has a homeownership rate of 64 per cent and a mortgage debt-to-GDP rate of about 70 per cent (FRED, 2019a, 2019b).

Schwartz and Seabrooke clearly demonstrate how housing institutions are crucial to the development of capitalist economies. However, their study does not properly account for how national housing systems are exposed to the risk-oriented universe of global finance. To remedy this, Fernandez and Aalbers (2016) highlight how domestic housing and housing finance systems are being integrated into global financial markets while still retaining their context-specific features – a process they define as housing-induced financialization or, more simply, *housing financialization*. Fernandez and Aalbers therefore shift the analytical focus more squarely onto housing finance and its transformations vis-à-vis modern-day market-based finance.¹ According to these authors, the combined actions of asset-rich institutional investors, trade-surplus economies, cash-rich corporations and, last but not least, dovish central banks implementing loose monetary policies, have created a large pool of capital scouting global markets for investment opportunities. This wall of money represents a structural and system-wide stimulus to the financialization of housing. It fosters the market-oriented reshaping of national housing and housing finance systems so that they can absorb globally mobile capital. In particular, residential property and mortgage debt need to be converted into assets that investors can use both as investment targets and quality collateral when conducting financial transactions (Fernandez and Aalbers, 2016: 73-75).

Although housing financialization is a commonly shared process in advanced and emerging markets, Fernandez and Aalbers (2016: 78) argue that several “institutional filters” determine the degree to which national housing systems are insulated from global financial markets and their risk-oriented practices. These institutional filters operate in three interlinked domains: (1) *housing finance* (including aspects such as loan-to-value ratio, tax deductibility of interest payments and mortgage equity withdrawal); (2) the *welfare state* (including factors such as types of tenure and the level of social rental); and (3) the broader *financial sector* (including elements like cross-border capital flows, securitization and other market-based financial innovations).

Furthermore, Fernandez and Aalbers (2016: 80-83) identify four trajectories of housing financialization, characterized by: (1) very high rates of homeownership, low mortgage debt, low cross-border capital flows, and low levels of financial market sophistication (as in Italy and Brazil); (2) high levels of homeownership, high mortgage debt, large cross-border capital flows, and a deep and sophisticated financial sector (as in the US, UK and Canada); (3) moderate

homeownership levels, high mortgage debt, high cross-border capital flows and a sophisticated financial system (as in Netherlands and Denmark); and (4) low homeownership, low mortgage debt, deep and sophisticated capital markets and large international capital flows (as in Germany, Switzerland and France). Trajectories 2 and 3 are those where housing financialization reaches the highest levels, while trajectories 1 and 4 are those where such developments have yet to reach a critical stage. Both Russia and Poland would belong to trajectory 1.

Fernandez and Aalbers (2016) have paved the way for other researchers to explore housing financialization in its various sectoral and geographical manifestations, resulting in a vibrant literature on the variegated financialization of housing (see Aalbers, 2016, 2017; Aalbers et al., 2017; Bernt et al., 2017; Bohle, 2018; Byrne and Norris, 2019; Fernandez and Aalbers, 2017; Fields, 2017; Pereira, 2017; Romainville, 2017; Wijburg et al., 2018). As part of this debate, researchers have frequently pointed out how state actors play a key part in the financialization of housing.² As Aalbers (2017: 550) has explained, “different arms of the state are often the drivers of financialization processes, for example by pushing families into housing debt, enabling financial institutions to buy up subsidized housing, or simply withdrawing from providing or regulating the housing sector and opening it up to rent-seeking financial institutions”. However, despite foregrounding the role of the state in the financialization of housing, scholars have not yet given enough attention to how key political actors shape the variegated and uneven contours of housing financialization. We contend that in order to account for how and why housing financialization unfolds in the manner that it does, scholars should focus more squarely on power relations in the global economy and associated national strategies of statecraft, by which we mean the art of managing both domestic and foreign affairs (Baldwin, 1985: 8).

In the following sections, we focus on the market-oriented transformations of housing finance in Russia and Poland, showing how political elites in these countries introduced market-based financial innovations in the housing domain while pursuing distinct statecraft strategies and modes of global economic integration. To account for Russia and Poland’s historical specificities, we draw on King and Szelényi’s (2005) categories of patrimonial and liberal capitalism in the post-socialist space. The next section therefore briefly introduces these two categories.

Framing housing finance in Russia and Poland

King and Szelényi (2005) show how key political actors and coalitions in socialist countries initiated different transitions to a market economy during the 1980s (see also King, 2002). While constructing market institutions, these political coalitions pursued specific statecraft strategies and modes of global economic integration that shaped distinct paths to post-socialist capitalism.

Russia, for example, experienced a ‘capitalism from above’, wherein members of the political elite (*nomenklatura*) led the transition to capitalism in alliance with the technocracy, comprised of various middle-class managers, professionals and technical experts (King and Szelényi, 2005: 215-18). The Soviet economy was on a downward spiral since the 1970s and a significant part of the Soviet *nomenklatura* (both hardliners and reformists) had already begun to transfer public assets into private pockets, hence becoming increasingly invested in a new profit-oriented economic system (Aslund, 2013: 91). When Boris Yeltsin came to power in 1991 through an inter-elite struggle within the *nomenklatura*, his administration pursued

statecraft strategies that involved privatizations and radical pro-market reforms. Yet these strategies aimed at benefiting a limited group of political and business insiders, a goal which became more clear during the opaque privatizations of the 1990s (Kotz and Weir, 2007). Gradually, Russia's insider-type of transition to a market economy evolved into a widespread system of patrimonial capitalism, which was consolidated and stabilized under the aegis of the Putin administration.

Patrimonial capitalism in Russia is characterized by numerous key attributes, including patronage relations between political and business elites in the context of multiparty authoritarianism; a limited role of foreign capital and foreign ownership in domestic economic activities; oligarchic control over important industries; and last but not least, raw material export as the main mode of integrating the domestic economy into global markets (King and Szelényi, 2005: 213, 215-18). As we will show below, Russian political elites transformed the domestic housing finance system in a market-oriented direction, thereby setting the stage for housing financialization to emerge. However, their patrimonial statecraft strategies and modes of global economic integration pushed the Russian housing finance system on a trajectory that is embedded into Putin's hegemonic network, closed to outsiders, and dependent on raw material export revenues. In this context, Russian homeowners were shielded from an exposure to financial risk.

In contrast to Russia, Poland experienced 'capitalism from without', which saw actors coming from outside of the communist bureaucracy initiating the transition to a market economy (King and Szelényi, 2005: 218-20). During the 1980s, an alliance between workers and intellectuals gained the support of technocrats. All these political forces converged in the form of the Solidarity Union, which came to power in 1989 with the Catholic intellectual Tadeusz Mazowiecki as prime minister (Ost, 2006). In the following years, the intellectual elite turned against technocrats and split itself into liberal-conservative and nationalist-conservative factions. However, from the 1990s onwards, all parties that alternated in power – including the social democrats – pursued statecraft strategies that enabled a strong presence of foreign capital in the domestic economy. Their objective was to integrate Poland into European and global markets (King and Szelényi, 2005: 219). Furthermore, the unfolding of party competition in Poland's democratic political arena and the presence of foreign economic actors prevented excessive insider-oriented privatizations (King, 2002: 12-13). In fact, foreign investment and the creation of new firms in export manufacturing, business process outsourcing and financial services played a key role in shaping Poland's new market economy (Orlowski, 2011). As we will show in section 5, Polish political elites opened the domestic housing finance system to global financial markets and actors. Their mode of global economic integration enabled foreign financial actors to play a dominant role in domestic banking and housing finance. In this way, Polish political elites pushed housing finance onto a liberal and outsider-dominated trajectory, exposing Polish homeowners to significant financial risk.

The evolution of housing finance in Russia

In the following subsections, we explore the development of Russia's mortgage markets by focusing on three phases: (1) the establishment of a securitization-based model during the Yeltsin era; (2) the evolution of housing finance during the rise of Putin's patrimonial-capitalist system; and (3) housing finance under Putin's patrimonial capitalism following the 2008 global financial crisis.

The Yeltsin era and the creation of mortgage securitization system

Between 1945 and the late 1980s, housing in Russia was embedded in the dynamics of state socialism. The state planned, financed and owned a major share of residential real estate. When the Soviet Union collapsed, Russia's new president Boris Yeltsin, who came from the top of the Soviet political apparatus, implemented radical pro-market reforms. Housing was at the forefront of this liberalization process. The Yeltsin presidency dismantled the housing institutions of the Soviet era. It embraced homeownership – an ideology advocated by the World Bank and the US government (Ronald, 2008; World Bank, 2008; Zavisca, 2012) – and implemented mass-privatization programs that transformed housing into private property (Vihavainen, 2005: 8). Furthermore, it withdrew from the provision of social housing and made only limited efforts to support the development of a rental sector. Finally, the Yeltsin administration worked in cooperation with US-based agencies to establish a housing finance system that could provide mortgages to households and individuals.

From the early days of this transformation, Russian state actors chose securitization as a central pillar of the country's housing finance system. The Yeltsin administration signed an agreement with the US Agency for International Development (USAID) to develop the Housing Sector Reform Project (HSRP). The US Freedom for Russian and Emerging Eurasian Democracies and Open Markets (FREEDOM) Support Act funded the HSRP, and the Urban Institute – an American non-governmental organization – was put in charge of managing it (Zavisca, 2012: 49). USAID and HSRP actors strongly supported securitization and the issuance of mortgage-backed securities (Struyk, 2000). At the same time, representatives of both the German model of on-balance-sheet securitization (*Pfandbrief*) – which is based on mortgage banks using covered bonds – and the German system of *Bausparkassen* lobbied in favor of their respective systems. The *Bausparkassen* system is independent from access to capital markets. Hence, it would have presented several advantages in Russia, given the country's undeveloped banking system, the absence of institutional investors and the lack of personal credit histories. However, as the Russian government embraced extreme pro-market reforms, US-based actors and their securitization model gained the upper hand over Germans and the *Bausparkassen* system (Interview 1). The latter was dismissed as an outdated model unable to benefit from cutting-edge financial innovations in mortgage markets (Diamond, 2002; USAID, 1999).

By framing the issue of housing finance in these terms, the Yeltsin administration was able to establish the Agency for Housing Mortgage Lending (AHML) in 1997. This government-sponsored enterprise was modelled after the US Federal National Mortgage Association, commonly known as Fannie Mae (Zavisca, 2012: 53). In other words, the AHML was supposed to make a secondary mortgage market by buying mortgages from lenders (e.g. banks) and converting these assets into globally tradable mortgage-backed securities.

The creation of the AHML and the legal provision for securitization proceeded without any significant resistance domestically, as it appealed to Russian actors situated at several state levels (Interview 2). While securitization reflected the free-market spirit of some politicians at the federal level, civil servants welcomed the AHML – an organization that used federal budget funds for commercial operations – as an opportunity to move between the public and the private sector (Huskey, 2010; Khmelnitskaya, 2014a: 155; Shevtsova, 2009: 61). Furthermore, regional authorities were interested in setting up local branches of the AHML to use budget transfers in support of regional banks' mortgage operations (McGivern, 1997).

Yet, despite such important developments, two main aspects prevented Russia's new housing finance system from functioning properly. First, major Russian banks – which ended

up being controlled by an oligarchic business elite as a result of the mass privatizations of the 1990s (Johnson, 2000; Kryshstanovskaya and White, 2005) – avoided mortgage lending and engaged instead in short-term speculation in government debt (Lane, 2002: 15). Even those few banks that were active in mortgage lending were confronted with obstacles such as the absence of personal credit histories and imprecise eviction rules. These problems constrained banks' ability to offer mortgages at affordable interest rates (World Bank, 2003). Furthermore, these banks could not raise capital at a profitable level due to a lack of long-term credit on Russian financial markets (Khmelnitskaya, 2014a: 157). Second, foreign investors were not very interested in buying mortgage-backed securities in Russia, due to the country's political and economic uncertainties, inter-oligarchic struggles and Yeltsin's growing unpopularity. As an experienced banker put it during our interview, "who could have bought mortgage-backed securities in Russia? There were few domestic investors who could purchase these securities and foreign investors did not want ruble-based assets" (Interview 3).

As a result, bank loans to the non-financial sector decreased from 25.1 per cent of total bank assets in 1993 to 18.7 per cent in 1995, or from 0.26 per cent to 0.10 per cent of GDP (Lane, 2002: 15). By 2000, only a few thousand mortgages had been issued and no emission of mortgage-backed securities had taken place (Johnson, 2000; Nesvetailova, 2004: 998). In the end, securitization failed to take off and Russia achieved "one of the least financialized housing systems" of all transition countries, despite having pursued "the most 'financialized' mortgage strategy" (Stephens, Lux and Sunega, 2015: 11).

Housing finance and the rise of Putin's patrimonial system

Putin won the presidency in 2000 and, over the next eight years, his administration embedded the architecture of mortgage securitization within hegemonic strategies directed at stabilizing Russia's patrimonial capitalism (Robinson, 2011).³ Putin played a key role in changing the country's tax system, controlling state-business relations and centralizing the state apparatus into a so-called 'power vertical' (Monaghan, 2011: 8). This concept describes Russia's political hierarchy in which the vertical ensures the fulfilment of the President's instructions by replacing democratic processes – such as gubernatorial elections – with top-down mechanisms of decision-making. Domestic reforms under Putin were crucial in reducing the country's risk profile and making Russia attractive for investment.

In this context, the windfall of revenues from raw material exports became the most important factor influencing developments in housing finance (Nesvetailova, 2015: 3). The raw material industry has traditionally been one of Russia's leading economic sectors (Gustafson, 1999: 219-20). After increasing investment in the energy sector (Robinson, 2011: 443), Putin channeled oil export revenues from the federal budget to the AHML, which transformed itself from a symbol of US free-market ideology into a policy tool of Putin's power vertical (Ericson, 2009; Hanson, 2010; Interview 4). AHML bought mortgage loans from private banks in order to free up their accounts and allow them to lend more against their capital assets. Against these loans, AHML then issued mortgage-backed securities and covered bonds. The agency also provided advice and purchased mortgage-backed securities and covered bonds that were issued by other Russian banks (Khmelnitskaya, 2014b: 98). Furthermore, AHML was a key vehicle through which the government pursued its social housing policy of providing preferential mortgages to vulnerable population groups. In so doing, the government replaced the provision of rented housing with subsidized mortgages (Khmelnitskaya, 2014a; Zavisca, 2012). Finally, in addition to the AHML, the government also used state-owned banks to channel funding into mortgage lending (Khmelnitskaya, 2014b: 98). For instance, the major

state-controlled banks like Sberbank, VTB Group, Gazprombank, Rosselkhozbank and Bank Moskvyy accounted for 47 per cent of market share in mortgage lending by 2009 (Vernikov, 2009: 4). Importantly, besides export revenues, Russian banks also played a key role in housing finance. In fact, by borrowing on international capital markets, banks reduced interest rates and lent mortgages more actively (Nesvetailova, 2015: 10-11).

Overall, the 2000-2008 period resulted in a greater allocation of credit to the private non-financial sector, which doubled from 23.5 per cent to 54.7 per cent of GDP (BIS, 2015). In particular, loans to households increased 46 times, which is an average of 53 per cent per year (Kudrin and Gurvich, 2015: 34; Nesvetailova, 2015: 11). The volume of mortgages issued grew from about zero in 2000 to 656 billion rubles in 2008, or nearly 18 billion euros (AHML, 2014b). This injection of liquidity into the housing market also inflated house prices by an average 91 per cent in real terms between 2004 and 2008, outpacing wage growth by almost two to one (Rosstat, 2015).

However, even though securitization grew rapidly during the mid-2000s, the share of securitized mortgages on the total mortgage issuance remained very low, respectively 4.92 per cent in 2006 and 5.57 per cent in 2007 (AHML, 2014a; IFR Russia, 2008). Crucially, global investors did not buy these securitized assets (Zavisca, 2012: 64) because they considered the volume of mortgage-backed securities in Russia relatively small and were still averse to ruble-denominated assets (Interview 5).

Housing finance and Putin's patrimonial system after 2008

The global financial crisis of 2008 undermined Russia's previous reliance on high commodity prices and capital inflows, leading to a temporary collapse of its housing market. However, mortgage lending recovered to pre-crisis levels within a relatively short period of time. This recovery was primarily due to state intervention. At this point, housing finance in Russia became fully dependent on the Russian state and the dynamics of the so-called 'financial vertical' (Pis'mennaya, 2008), an infrastructure of state-owned financial institutions through which the Putin administration promoted its patrimonial-capitalist objectives. Instead of attracting global investors, the institutions of securitization became fully embedded in this financial vertical. Let us examine these dynamics in detail.

The 2008 financial crisis hit Russia through two channels: its dependence on income from natural resources and its high private external debt holdings. The fall in oil prices put an end to windfall revenues for the Russian state, while a flight to safety among global investors led to a fall in net capital flows from 81 billion dollars in 2007 to -148 billion dollars in 2008 (Sutela, 2008: 3). This meant that Russian banks that had relied on foreign capital were cut off from their access to financing (World Bank, 2008: 12). This liquidity shock led to a temporary collapse of mortgage lending. Average interest rates on mortgage loans grew from 12.6 per cent in 2007 to 14.3 per cent in 2009 and loan terms were reduced from 18 to 16.5 years respectively. Between 2008 and 2009, the origination of new mortgages fell by three quarters, the number of transactions in the housing market declined by 13.3 per cent and house prices started to drop. Housing construction also shrank by 9 per cent between 2008 and 2010 (AHML, 2014a). However, despite these difficulties, Russia's mortgage market recovered completely within two years, reaching and subsequently exceeding pre-crisis numbers.

The increasing centralization and expansion of state power under Putin was the key driving force behind this swift comeback (Interview 10; Interview 6). The recovery process entailed a replacement of private capital (both foreign and domestic) with public capital

(Ericson, 2009: 218). When external private finance dried up in the wake of the crisis, Russian banks had no choice but to rely on the state for liquidity. The state had accumulated substantial reserves during the boom years of export revenues and readily bailed out troubled private companies via state-owned banks (Viktorov and Abramov, 2015). However, rather than a temporary anti-crisis stimulus, the expansion of state activities was part of a structural “shift away from strengthening market institutions towards heavier government intervention” (Aven, 2015: 37).

As we have seen above, this structural shift had its roots in the early 2000s, when Putin began to strengthen the central state and establish a power vertical (Ericson, 2009: 218; Monaghan, 2011: 1). Between 2008 and 2009, the Russian economy shrank by 8 per cent and Putin’s power vertical became increasingly challenged in a context where economic stability and growth wavered. Popular discontent grew and a protest movement, made up mainly of middle-class Muscovites, mobilized on an unseen scale (Interview 10). Thus, facing these problems, the Putin administration reshaped the power vertical by taking on the new function of preventing a protracted recession. It did so by using capital reserves to fill the funding gap that the withdrawal of foreign capital had created. While the reforms of the early 2000s had been crucial in ensuring macroeconomic stability, they now formed the basis for Putin’s project of intensifying political control, directing the country’s economic development and sustaining his own hegemony within a patrimonial-capitalist network. As a senior business consultant explained during our interviews: “Putin used the state budget to maintain a sense of stability and economic improvement, which people perceived as his greatest achievements” (Interview 7).

A central mechanism underpinning this trend was the expansion of the power vertical to include also a financial vertical of state-owned banks, through which the government controlled and directed financial flows (Pis’mennaya, 2008). One key task of this financial vertical was to funnel funds to public corporations, the exclusive focus of which was to solve issues Putin had given a priority status to in a personalistic manner, such as the diversification of Russia’s production structure and infrastructure development (Ericson, 2009: 220). AHML, with its centralized system of mortgage refinancing, fit well with this program of state-centered developmentalism (Interview 7). In so doing, it became one of the principal state corporations the government drew on in order to promote its policy aims (Khmelnitskaya, 2014a: 151).

Together with three other actors – namely, the Fund for the Promotion of the Housing and Utility Sector Reform, the Russian Housing Development Foundation, and the government-owned development bank, Vnesheconombank (VEB) – the AHML initiated several measures that supported the development of the primary housing and construction market. Hence, the tasks of AHML evolved from kick-starting the securitization-based mortgage market in the 1990s to wide-ranging services, including the provision of mortgages for socially vulnerable categories and the development of municipal infrastructure, housing construction and commercial rentals. Crucially, while AHML and the other above-mentioned actors conducted their activities, state-owned banks such as Sberbank and VTB Group received capital injections from the central state and tapped into their deposit pools. In so doing, they expanded their mortgage portfolio and squeezed out small private banks that were hit by global deleveraging (Khmelnitskaya, 2014a: 159).

Overall, the share of state-owned banks in total mortgage lending increased from 50 per cent in 2007 to 84.5 per cent in 2015, while the AHML refinanced 51.1 per cent of all mortgages issued in 2014, a dramatic jump from 7.8 per cent in 2005 (Rusipoteka, 2015). As a result of this expansion in the lending activities, the mortgage market recovered and beat the pre-crisis record of loan origination by 2011 (AHML, 2014a).

AHML and VEB also drove the mild recovery of Russia's market for mortgage-backed securities. However, due to the absence of investors, this market remained insignificant. Russian private pension funds – the most anticipated institutional investors in mortgage-backed securities – could not purchase these products due to reforms of the pension system and a moratorium on pension savings (Tanas, Kravchenko and Kuznetsov, 2014). Furthermore, Russia's financial isolation intensified after 2013. Russia's annexation of Crimea and the subsequent war in Ukraine led the US and the EU to levy sanctions on Russian banks and companies. As a result, foreign capital and investors left the Russian economy en masse. In this scenario, "nobody was thinking of buying Russian mortgage assets, let alone ruble-denominated mortgage-backed securities" (Interview 3).

Thus, housing finance in Russia is currently embedded within Putin's system of patrimonial capitalism and is cut off from global financial markets. The Putin administration used public capital to sustain the domestic housing finance system. This public money was accumulated during the boom years of energy exports and is channeled to the housing finance system through an insider network of banks and non-bank organizations. Russia's securitization architecture is part and parcel of this regime.

The evolution of housing finance in Poland

Like in Russia, Polish housing was largely insulated from the logic of market exchange up until 1989. State-owned cooperatives relied on government subsidies and were in charge of managing dwellings (OECD, 2002: 132; World Bank, 1992: 1). However, as Poland transitioned to a market economy over the course of the 1990s, its housing finance system followed a different development trajectory, open to global financial markets and in line with a liberal path to post-socialist capitalism (King and Szelényi, 2005). We identify three phases in the evolution of Polish mortgage markets from 1989 onwards: (1) the competition among housing finance models during the 1990s; (2) foreign banks and the growth of foreign currency mortgages during the 2000s; and (3) the crisis of foreign currency mortgages as of 2008.

Competing housing finance models during the 1990s

An alliance between technocrats and intellectuals unseated the communist bureaucracy in Poland, drawing also on the support of the working class. This technocratic-intellectual elite introduced market-oriented policies that allowed foreign investors to play a dominant role in the domestic economy (King and Szelényi, 2005). During this early phase of transition to a market economy, the Polish government – and the different political forces alternating in power – showed no coherent strategy with regard to the development of a housing finance system. In this context, representatives of three different models lobbied to inform legislation (Interview 8).

To begin with, the liberal-conservative government signed a series of agreements with the World Bank and USAID that led to the establishment of the Mortgage Fund in 1992. This fund was a liquidity facility that received money from the World Bank, USAID and the Polish government to refinance dual-indexed mortgages originated by banks. In other words, the Mortgage Fund represented an intermediate step towards the creation of a secondary market for mortgages and the use of securitization (Lea, 2000: 26-27). Besides the Mortgage Fund, in 1997 the social-democratic government passed two Acts that introduced both the German model of mortgage bank with on-balance-sheet securitization (the already mentioned

Pfandbrief, or covered bonds) and the *Bausparkassen* contractual system (OECD, 2002: 132-34). However, due to the climate of economic uncertainty, an unfavorable legal and tax regime (Interview 8), and the fact that the Polish government continued to subsidize housing loans until 1996 (Łaszek, 2006: 62), none of the housing finance models above became functional. Ultimately, mortgage demand failed to pick up (OECD, 2005: 89).

This downtrend started to change in the late 1990s, once the country's macroeconomic condition improved and state-subsidized housing loans ended (Łaszek, 2006: 73). Between 1996 and 2000, credit to households and non-profit institutions serving households rose from 7.6 billion to 42 billion zlotys, that is from less than 2 billion to almost 10 billion euros (BIS, 2015). Mortgage issuance grew six-fold between 1996 and 2000 and the share of mortgage to GDP increased from 0.1 to 5.0 per cent between 1994 and 2005 (NBP, 2015). However, none of three above-mentioned housing finance models underpinned the growth of mortgage lending in Poland at the turn of the 2000s. Instead, the expansion of mortgage lending developed out of Poland's foreign-owned banking system, which outdid alternative housing finance arrangements due to its ability to attract cheap cross-border funding (Interview 8). Since the 1990s, Polish political elites set the domestic economy on a liberal and open trajectory within European integration (Trzeciak, 2011). In this context, the privatization of the banking system allowed Western banks to enter the country and dominate the provision of financial activities, including mortgage lending. By 2003, foreign banks owned about 70 per cent of total bank assets in Poland (Kozak, 2013: 31).

Thus, in Poland different housing finance systems competed with each other. When mortgage lending started to gain momentum in the late 1990s, this growth was based on a universal banking model and funded through cross-border loans in the context of a liberal path to post-socialist capitalism. In so doing, the Polish housing finance system became more integrated into global financial markets compared to its Russian counterpart. In what follows, we examine how this process occurred during the 2000s. Particularly, we show how Poland's entrance into the EU and competition between the country's two leading conservative parties (the national-conservative Law and Justice party and the liberal-conservative Civic Platform party) led to the popularization of foreign currency mortgages, a market-based financial innovation that became the main channel of financialization for Polish housing finance.

Mortgage lending growth and foreign currency mortgages during the 2000s

Poland joined the EU in May 2004. This enabled a substantial inflow of global capital to the Polish housing finance system (Trzeciak, 2011: 37). Between 2004 and 2008, the share of bank loans that were extended to the private non-financial sector increased from 26 to 47 per cent of GDP. At the same time, the real value of loans to households – and non-profit institutions that serve households – grew from 13 to 30 per cent of GDP (BIS, 2015). Specifically, mortgages as a share of GDP increased from around 4 per cent in 2004 to 15 per cent in 2008 (NBP, 2015: 11). The rapid development of lending combined with insufficient growth of the deposit base created for the first time in Poland's post-socialist history a funding gap in the banking sector (NBP, 2016: 27). Polish subsidiaries therefore relied more and more on their foreign parent banks to fill this gap. As a result, the consolidated claims by foreign banks on their Polish affiliates increased from 5 per cent of Poland's GDP in 1995 to over 44 per cent in 2004 and 67 per cent in 2009 (FRED, 2014).

Particularly, banks used credit lines with their parent banks to fund the issuing of foreign currency mortgages. They also used currency swaps to hedge the associated exchange-rate risk (Łaszek, Augustyniak and Olszewski, 2015: 6). Foreign currency mortgages became

widespread in Poland, as well as other central and eastern European countries (Bohle, 2014), during the 2004-2008 period (Interview 8; Interview 9). Aspiring homeowners found foreign currency mortgages attractive because these instruments offered lower interest rates, more lenient assessment criteria and longer loan terms compared to standard mortgages. However, the nature of foreign currency mortgages is such that they allow banks to transfer the exchange-rate risk to the mortgagors. In order to repay these mortgages, Polish homeowners depended on income denominated in zlotys, and unlike the banks with which they were dealing, they had no access to derivatives markets for hedging currency risk (Raviv, 2008). As a result, they were exposed to exchange-rate risk and indirectly became “amateur currency traders in a fast-moving game” (Hakim, 2015).

Importantly, domestic politics played a key role in the expansion of foreign currency mortgages. The growth of foreign currency mortgages began during the 2001-2005 period (see Figure 1), when social democrats were in power. However, when the national-conservative Law and Justice party came to power in late 2005, the use of foreign currency mortgages became heavily politicized. Jarosław Kaczyński, Law and Justice’s Chairman and Prime Minister of Poland from July 2006 until November 2007, claimed to represent the “interests of ordinary Poles” (cited in Stanley, 2012: 15) and strongly supported the idea of a liberal Poland built on homeownership. As a bank executive explained to us, Law and Justice politicians thought “Let’s help people have their own houses. Poland is a liberal economy. Let’s allow them to take the loan in a currency that they want” (Interview 8). Meanwhile, the liberal-conservative Civic Platform party, which was in power from November 2007 until November 2015, did not fundamentally oppose this view.

In this way, as part of their attempt to gain popular consensus, both conservative parties supported homeowners’ easy access to foreign currency mortgages and a high loan-to-value ratio. Law and Justice politicians even argued that Recommendation S, a measure that the Polish banking regulator introduced in order to prevent low-income households from buying foreign currency mortgages, was against the spirit of the free market and would undermine homeownership (Bankier 24, 2015). Eventually, Recommendation S did ensure that only households with a certain level of income could access foreign currency loans. However, as neither party was willing to curtail foreign currency lending for fear of losing popular consensus, they effectively enabled a mortgage boom fueled by foreign capital (Mendel, 2013: 78).

In summary, the combination of EU membership and domestic party politics led to the expansion of mortgage lending in Poland during the 2004-2008 period. Foreign banks came to dominate Polish housing finance and provided a large amount of foreign currency mortgages to homeowners. The Polish government fundamentally supported such an integration of domestic housing finance into the risk-oriented dynamics of global financial markets.

The crisis of foreign currency mortgages

In the wake of the 2008 financial crisis, Poles for the first time experienced the negative effects of foreign currency mortgages and their exposure to the volatility of global financial markets. As foreign capital fled to safe-haven currencies such as the Swiss franc, the value of the franc vis-à-vis the zloty appreciated dramatically, plunging about 300,000 foreign currency mortgagors into negative equity by 2012 (Dübel, 2014: 6; Halawa, 2015: 3). At the same time, foreign banks faced the consequences of the global crisis and reduced lending to their Polish subsidiaries (EMF, 2010: 50). As a result, new mortgage lending in Poland declined by around

35 per cent and house prices dropped on average by 15 per cent in 2009 (Impavido, Rudolph and Ruggerone, 2013: 19). However, several factors alleviated the severity with which the global financial crisis affected Poland's housing and mortgage markets.

To begin with, Poland was the only EU member country to avoid recession (Orlowski, 2011). As unemployment rates remained stable and real incomes grew by 25 per cent between 2006 and 2015, households did not experience the kind of economic hardship that might have caused them to default on their loans (Łaszek et al., 2015: 11). Furthermore, in contrast to other countries, banks in Poland did not engage in complex financialized practices during the years leading up to the global financial crisis – to be sure, foreign currency mortgages represented the only pocket of vulnerability. Finally, the fact that Poland had a structural housing deficit prevented a more dramatic decline in house prices. In fact, actual demand absorbed most of the housing stock that had been developed during the construction boom of the 2000s. Unable to leave the market as purely speculative investors could have done, Polish households settled for prices that did not necessarily reflect market fundamentals, therefore preventing a steeper decline in house prices (Interview 9).

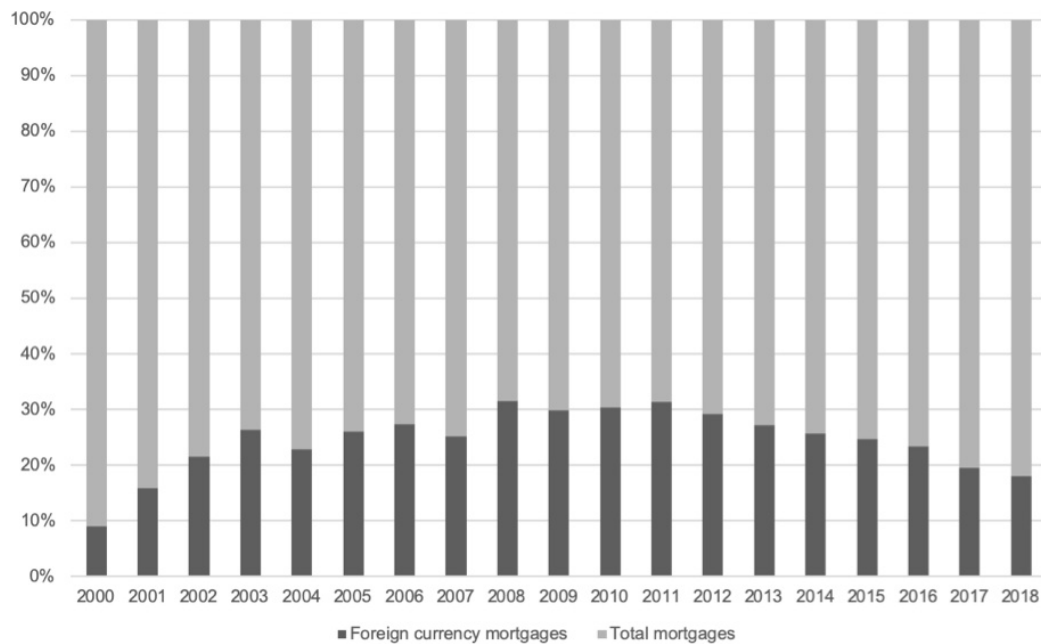


Figure 1. Percentage of foreign currency mortgages, 2000-2018. *Source:* Data from NBP (2015).

Currently, two dynamics are shaping the open-path evolution of housing finance in Poland. First, holders of foreign currency mortgages have emerged as an important collective actor in Poland's political arena (Halawa, 2015). The issue of foreign currency mortgages has become even more pressing after the Swiss National Bank stopped holding the Swiss franc at a fixed exchange rate with the euro in January 2015. As a result of this decision, the franc appreciated again and plunged Polish mortgagors further into debt (Hakim, 2015). Initially, the political discussion about ways to support holders of foreign currency mortgages – who made up about 30 per cent of all Polish mortgagors at the end of 2009 and about 20 per cent in 2018 (see Figure 1) – centered around converting up to 10 billion dollars' worth of foreign currency mortgages to the domestic currency at current market rates, effectively shifting the cost of exchange-rate fluctuations to the lenders (Buckley, 2015). However, since Law and

Justice regained a parliamentary majority in November 2015, the party has sought a compromise that accommodates both holders of foreign currency mortgages and the banks who sold these instruments (Groendahl, Strzelecki and Arons, 2019).

Second, besides the immediate issue of foreign currency mortgages, the financing of future mortgages constitutes the more pressing problem. Considering a structural decline of private saving rates in Poland since 2000 (Kolasa and Liberda, 2015), the introduction of rules for lower loan-to-value ratios on banks' balance sheets, and restrictions on cross-border funding, it seems inevitable that the current housing finance model will soon reach its limits (Lewicki, 2013). While there is little doubt that Polish banks will need alternative mechanisms to fund mortgages, the precise typology of such mechanisms is being debated by advocates of different housing finance practices. But at least one thing is clear: the path of housing financialization going forward will be shaped by the strategies of the Polish state.

Conclusion

In this article, we have argued that statecraft strategies and global economic hierarchies decisively shape the way housing financialization plays out across the world. To illustrate this, we focused on the cases of Russia and Poland from 1990 to 2018. We showed that while political elites in both countries did transform their housing finance systems in a market-oriented direction, they did so depending on different statecraft strategies and distinct modes of global economic integration, yielding two divergent trajectories of housing financialization. Our study therefore offers insights that go beyond the specificities of the Russian and Polish cases, highlighting the need for further research on housing financialization as a function of statecraft strategies and global economic hierarchies. In this regard, three aspects in particular seem to warrant further investigation.

First, more research is needed in order to account for how countries' statecraft tactics and their positions in the global economy influence housing financialization in its variegated and uneven contours. For example, how and why do political forces pursue specific statecraft strategies and modes of positioning the national economy vis-à-vis global markets? What are the direct and indirect channels through which these two dimensions shape domestic housing finance systems?

Second, we emphasized the importance of paying more attention to peripheral economies (Bohle, 2018; Pereira, 2017). Peripheral economies provide an invaluable window onto how statecraft and asymmetrical power relations in the global economy influence housing financialization. Both Russia and Poland experienced the practices of financialized housing from a position of subordination. Here, the transformation from a centrally-planned to a capitalist economy opened domestic housing finance systems to the financial practices of advanced economies such as the US and Germany. This attests to the fact that besides being altogether exposed to a global wall of money (Fernandez and Aalbers, 2016), housing finance systems situated in different countries interact with each other through hierarchical relations of power and core-periphery dynamics (Bohle, 2018).

Third, given our Russian and Polish cases, we encourage researchers to explore the trajectories of housing financialization in the post-socialist space. At the risk of oversimplifying, we can identify two trajectories that are specific to the Commonwealth of Independent States and the Visegrád Group respectively. Members of the Commonwealth of Independent States share a position in the global economy as commodity exporters and a tendency toward patrimonial-authoritarian statecraft strategies. Hence, we contend that these countries are likely to exhibit similar forms of housing financialization.⁴ Meanwhile, housing financialization

in the Visegrád Group countries is also likely to exhibit some similarities. In fact, despite their differences in terms of welfare regimes and foreign capital dependence (Bohle and Greskovits, 2012; Myant and Drahokoupil, 2011), the Czech Republic, Hungary, Poland, and Slovakia are all characterized by a subordinate integration into European markets, a dependence on foreign capital in the domestic economy, and a tendency toward neoliberal statecraft strategies in the context of democratic institutions. In both groups of countries, then, there are patterns worth studying in greater depth and detail.

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Appendix

Mirjam Büdenbender conducted interviews in Moscow and Warsaw between April 2014 and April 2016. The selected interviewees are elite professionals with expertise in housing finance, banking and housing policy. Interviews have helped us uncover the political, economic and social complexities of Russia and Poland (Schoenberger, 1991). We have integrated these interviews with a historical analysis (Thies, 2002) based on primary and secondary sources, including governmental, media, professional and academic publications.

Interview	Interviewee	Place, date
Interview 1	Agency for Housing Mortgage Lending analyst	April 4, 2014, Moscow
Interview 2	Global real estate consultant	May 26, 2014, Moscow
Interview 3	Executive at international real estate bank	June 9, 2014, Moscow
Interview 4	Global consultant	April 22, 2016, Moscow
Interview 5	Executive at state-owned real estate bank	April 18, 2014, Moscow
Interview 6	Foreign real estate journalist	April 3, 2014, Moscow
Interview 7	Foreign real estate consultant	June 3, 2014, Moscow
Interview 8	Banker at leading foreign-owned bank	May 4, 2015, Warsaw
Interview 9	Executive at leading banking association	May 7, 2015, Warsaw
Interview 10	Planner, curator and urban politics publicist	Dec 9, 2014, Moscow

Notes

1. Blackwell and Kohl (2019) also point out how Schwartz and Seabrooke (2008) pay insufficient attention to housing finance.
2. In this regard, housing financialization researchers are directly or indirectly building on early work about state actors and the globalization of real estate. See, for example, Gotham (2006) on the United States case.
3. This can be seen as a case of 'institutional conversion' (Thelen, 2004), in which the institutions of mortgage securitization were redirected to new objectives. We are grateful to referee 2 for this suggestion.
4. To be sure, Russia is an exceptional case within the Commonwealth of Independent States, due to its history as an empire and center of the Soviet Union. This past gives Russia a distinct political status and ambition in global affairs.

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