

Romania

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IN A NUTSHELL

- House prices rose, but at a lower rate than inflation.
- House completion exceeded pre-pandemic level only in some regions.
- Price differences between old and new dwellings increased.
- Signs of an upcoming boom in house building.

MACROECONOMIC OVERVIEW

The economy grew by 5.9%, representing a complete recovery from the contraction in 2020. Consumption and investments were the main sources of growth. Private consumption increased by 7.1% y-o-y, while investment was up by 9.8% mostly from higher inventories rather than gross fixed capital formation. The growth in fixed assets stemmed mainly from an increase in assets in construction, 20% incorporated in dwellings and 80% in other buildings and structures.

LOOKING AHEAD

The unemployment rate increased from 5.6% from 5.0% in 2020. Inflation accelerated to 4.1% from 2.3% in 2021 fuelled by fast rising energy prices. Additionally, the liberalisation of the electricity market for household consumers, implemented at the beginning of the year, augmented the impact of surging energy prices.

As 2022 to date has been characterised by adverse shocks, growth is expected to slow. The energy crisis and supply-chain bottlenecks are likely to persist amid the ongoing conflict in Ukraine. A potential prolongation of this conflict might further depress economic sentiment and discourage private investments. Additionally, as higher energy prices are passed on from producer to consumer, inflationary pressure could persist depressing demand, including the one for housing.

HOUSING MARKETS

Housing completions increased by 5.3% but with sizeable regional disparities. The most dynamic regions, contributing 27% of the total, were North-East (+15% y-o-y), West (+14.5%) and South-West (+10% y-o-y). The number of finished dwellings in the North-East recovered from the large decline in 2020, while completions in the other two areas accelerated. These regions, alongside Bucharest-Ilfov region, were the leading areas where house completion exceeded pre-pandemic levels. Licenses issued for residential construction increased by 24.1%, signalling a forthcoming boom in residential construction. All regions posted advances, with the largest in Bucharest-Ilfov (+43% y-o-y), West (+35% y-o-y) and Centre (+33% y-o-y).

Residential property prices increased by 4.4% compared to 4.7% in 2020. Prices of existing dwellings rose by 5%, prices of new dwellings decelerated to 1.6% (from 4%). Contrary to the situation in 2020, apartment prices grew slower outside the capital (+5.6%) versus Bucharest (+6.2%). Prices of houses declined in urban areas (-2.6%) but increased in rural areas (4.3%). It is possible that 'work

from home' changed individuals' preferences towards larger dwellings and those outside urban areas. Such preference shift, alongside declining interest rates on housing loans, might explain the large increase in the average mortgage size (+27.1%). Additionally, expectations of higher property prices due to an increase in the threshold for reduced VAT (from ~EUR 91,000 to ~EUR 140,000 in 2022) supported households' decisions to purchase a home and contributed to a 20.7% annual increase of the number of transactions.

MORTGAGE MARKET

Outstanding housing loans reached 8.5% of GDP, after a 12.9% increase in 2021, compared with 9.9% growth in the previous year. The advance was entirely driven by local-currency denominated loans as foreign currency stock declined by 10.8%. Local currency loans currently account for 81% of the total vs. 76% in 2020. Although domestic currency borrowing became cheaper, as the average interest rate charged for new housing loans declined from 5.1% pa in 2020 to 4.1% pa in 2021, it continues to be more expensive than foreign currency borrowing (the average rate for new euro loans was 3% pa in 2021 vs. 3.7% in 2020). However, access to housing loans denominated in foreign currency is restricted following the enforcement, since January 2019, of a new regulatory provision setting the maximum ratio of monthly debt-to-income ratio to 20% for foreign currency loans against 40% for domestic loans.

The regional distribution remained unbalanced as around 41% of housing loans were granted in Bucharest-Ilfov region, outpacing other top-ranking regions: North-West (12%), Center (10%), West (9%), North-East (9%) and South-East (9%).

According to the central bank's Financial Stability Report issued in Dec 2021, the NPL ratio for housing loans fell to 1.5% (Sep 2021), marking a 0.49% annual decline. The NPL ratio for borrowers who resorted to the facility established by Gov. Emergency Ordinance No. 37/2020 suspending loan payment obligations (Covid-19 led moratorium) was 4.6% in Sep 2021.

Given the increase in individuals borrowing for investment purposes (up by 7 pps from December 2019 to June 2021, accounting for 13% of total), the credit risk associated with such loans and high sensitivity to real estate prices, the central bank decided introduced beginning with April 1st, 2022 a new regulation reducing the LTV cap by 10 pps for loans to households for property other than the one they occupy with the aim to mitigate the risks from an increase in new loans for this purpose and to improve the resilience of debtors and lenders in the event of a downturn.

According to Bank Lending Surveys, the loan-to-value ratio for new standard housing loans stayed at 72% in 2021 (73% was in 2020). The average level of indebtedness (debt to income) slightly declined for new loans to 33% in 2021 from 34% in 2020 and total housing loan portfolio to 42% in 2021 from 43% in 2020.

Due to their high value and payment structure (constant annuities), housing loans are more sensitive to the forthcoming high interest rate environment. Moreover, a significant share of the flow of housing loans (73% of new loans in 2021) are on variable interest rates. A much lower share of new housing loans is

exposed to possible interest rate hikes over the medium term (12% of housing loans originated in 2021 have a fixed interest rate over a period of 1 to 10 years).

NON-MARKET LED INITIATIVES

The public moratorium for private individuals and companies impacted by the pandemic, originally implemented in 2020, was prolonged in 2021. According to the moratorium, clients had been able to request the suspension of monthly instalments under the following conditions:

- Up to 9 months payment holiday – cumulative period, including payment holiday granted in 2020, if applicable;
- Eligible loans – credit facilities contracted before March 30, 2020;
- The request to suspend the monthly payments must have been registered by March 15, 2021.

At the end of September 2021, loans subject to EBA compliant moratoria granted to households amounted to ~EUR 3 bn, 9.2% of the total outstanding households' loans.

MORTGAGE FUNDING

Deposits are the primary funding source for mortgages. During 2021, customer deposit growth was outpaced by growth of non-government loans, leading to an increase of loan-to-deposits ratio to 0.68% vs. 0.67% in 2020, signalling a trend reversal. Residents' deposits (in RON equivalent) increased at a 13.9% annual pace in 2021, slowing from a 14.4% y-o-y advance in 2019, reflecting increased saving appetite at both households (generating 47% of 2021 deposits' advance) and legal entities level. Banks' external financing continued to decline as banks' share of foreign liabilities relative to total liabilities reached 5.6% in Dec 2021, down from 5.9% in Dec 2020.

GREEN FUNDING

Romanian banks, as active promoters of sustainability, started diversifying funding sources while further committing to support energy transition by tapping the green bond market for the first time. Three green bonds were successfully issued in 2021 raising ~EUR 420 mn. Two of the inaugural green bonds, totalling ~EUR 320 mn, were issued by one of the major banks in Romania, aiming to attract resources for funding eligible assets and providing distinct environmental benefits in line with the issuer's own green bond framework covering areas such as energy efficiency, green residential and commercial buildings. The other inaugural green bond was issued by another major bank as part of the bank's transition towards sustainability with the specific purpose of financing eligible green assets focusing on green buildings (residential and commercial) and renewable energy.

	ROMANIA 2020	ROMANIA 2021	EU 27 2021
MACROECONOMIC VARIABLES			
Real GDP growth (%) (1)	-3.7	5.9	5.4
Unemployment Rate (LSF), annual average (%) (1)	5.0	5.6	7.0
HICP inflation (%) (1)	2.3	4.1	3.0
HOUSING MARKET			
Owner occupation rate (%) (1)	96.1	95.3	70.0
Gross Fixed Investment in Housing (annual change)(1)	6.6	5.6	6.6
Building Permits (2015=100) (2)	105.6	131.1	134.0
House Price Index – country (2015=100) (2)	128.0	137.5	145.2*
House Price Index – capital (2015=100) (2)	126.6	138.0	146.1*
Nominal house price growth (%) (2)	4.3	7.5	10.3*
MORTGAGE MARKET			
Outstanding Residential Loans (mn EUR) (2)	18,354	20,347	6,508,621
Outstanding Residential Loans per capita over 18 (EUR) (2)	1,170	1,308	17,782
Outstanding Residential Loans to disposable income ratio (%) (2)	14.3	71.9	62.8*
Gross residential lending, annual growth (%) (2)	-7.1	57.8	12.2
Typical mortgage rate, annual average (%) (2)	5.1	4.1	2.0

* Please note that this value is the simple average of the available values in 2021.

Sources:

(1) Eurostat

(2) European Mortgage Federation - Hypostat 2022, Statistical Tables.

³ EBA Thematic note on moratoria and public guarantees, November 2020

⁴ Growth expressed in domestic currency terms



ROMANIA FACT TABLE

Which entities can issue mortgage loans in your country?

In Romania, generally credit institutions can issue mortgage loans, with marginal input from non-bank financial institutions.

Currently, there are 34 credit institutions of which are 9 foreign banks' branches. Additionally, other 65 non-bank financial institutions carry out multiple lending activities.

What is the market share of new mortgage issuances between these entities?

Banks are the main mortgage lenders, with marginal input from non-bank financial institutions.

Which entities hold what proportion of outstanding mortgage loans in your country?

Although official data is not available, top 10 banks originate most mortgage loans.

What is the typical LTV ratio on residential mortgage loans in your country?

The average LTV ratio for new loans was 78% at the end of March 2021

How is the distinction made between loans for residential and non-residential purposes in your country?

Credit institutions grant:

- mortgage loans (including loans within the "First House" Programme, renamed in 2020 in "New House" Programme), which are dedicated to residential purposes, more specifically to the acquisition or construction of houses.
- consumer loans meant to address consumers' financing needs, with some of the most common product being the loan for personal needs.

Starting in 2009, loans granted under "First House" Programme have represented the main driver for mortgage lending in Romania. However, beginning with 2018, the penetration of "First House" loans in the new mortgage sales volumes dropped below 50%.

What is/are the most common mortgage product(s) in your country?

In 2020, the "First House" Programme became the "New House" Programme. One of the main adjustments regards the increase of the maximum loan size for mortgages used to purchase new dwellings (not older than 5 years comparing reception date vs credit request date) to EUR 140,000. Moreover, maximum LTV ratio is set at 85% and the state guarantee increased to 60% as compared with maximum LTV of 95% and state guarantee of 50% for old residential buildings or new residential buildings with prices below EUR 70,000.

What is the typical/average maturity for a mortgage in your country?

The maximum lending period for loans granted under the "New House" Programme is 30 years. As for standard mortgage loans, other than the ones mentioned above, the maximum lending period stands at 35 years.

What is/are the most common ways to fund mortgage lending in your country?

The loan-to-deposit ratio stands at approximately 70 % (Source: NBR, Dec. 2021). Thus, credit institutions mainly use funds attracted from clients to grant loans. Credit institutions have gradually reduced their dependence on 'parent' banks by increasing customer deposits.

A series of costs are applicable to mortgage loans. The most important ones include:

- analysis fee,
- valuation fees of the property to be mortgaged, either by internal evaluators of credit institutions or external evaluators. The average cost range for evaluating a residential property is about EUR 80-150 plus VAT.
- costs related to obtaining the land book extract necessary for signing the mortgage real estate: RON 40 (approximately EUR 9).
- notary/legal costs related to signing the mortgage contract, varying based on several factors: transaction value, property age, etc. E. g: The land book registration fee amounts to 0.15% of the sale price, the state tax owed by the seller amounts to 2% if the property is owned for less than 3 years and the value exceeds RON 200,000, etc.
- also, for secured mortgage loans, credit institutions require home insurance, which depends on the value of the home, the maturity, the types of insured risks, etc.

What is the level of costs associated with house purchase in your country (taxes and other transaction costs)?

There are no government subsidies for house purchasing, but there are specific programmes designed to assist customers who wish either to purchase a house or to build one.

What is the level (if any) of government subsidies for house purchases in your country?

The "New House" Programme supports young people who want to purchase their first home via Romanian Government guarantees, the main benefits for the clients being a lower interest rate and down payment.

Also, certain credit institutions have concluded agreements with the National Housing Agency to offer loans for the acquisition or construction of homes.

The rental housing units for young people may be bought by the leaseholders (tenants) at the end of at least one-year continuous lease.