

Romania

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IN A NUTSHELL

- GDP growth slowed to 2.1% but unemployment remained constant.
- House prices continued to increase, but at a lower rate than general inflation.
- The mortgage market shrank for the first time since 2008, with the largest fall in foreign currency denominated loans.

MACROECONOMIC OVERVIEW

The economy grew in 2023 despite the slowdown in its main trading partners, in particular in the EU. In real terms it grew by 2.1%, half the growth of 2022 to EUR 323.2 bn or, 45.1% of the EU27 average GDP per capita (42.1% in 2022), indicating continued real convergence. The drivers of growth were services and construction on the supply-side, and consumption on the demand-side. Although investments (gross fixed capital formation) grew compared to 2022 (by 12.6% from 5.7%), the effect on economic growth was offset by the reduction of inventories. The effect of foreign trade on economic growth was 0.1 pps, as imports dropped faster than exports compared to 2022.

The slowdown did not affect the unemployment rate which remained 5.6%. Nevertheless, the labour market eased. The number of unemployed per vacant job increased from 10 in the first quarter to 13 in the last quarter of the year.

HICP declined from 11.98% in 2022 to 9.8% in 2023. Despite this it is still high, impeding the start of monetary policy easing.

HOUSING MARKETS

Housing completions declined by 2.6% y-o-y in 2023, with sizeable regional disparities. In two regions it increased (South East +10.3% y-o-y and North East +3.2% y-o-y), in one region it was similar (South-West +0.4%) and in five it contracted of which two stood out by the abruptness (West -13.1% and North-West -12.1% y-o-y). For the West, 2023 is the second year of contraction, while for the Northwest the contraction from 2023 almost cancelled the growth from 2022. In 2023, the number of permits issued for residential constructions declined for the second consecutive year (-20.6% y-o-y), indicating a forthcoming decline in housing completion. All regions posted declines, with above average contractions in Bucharest-Ifov (-31.2% y-o-y) and West (-25.2% y-o-y), both regions having the largest fall for the second year in a row.

Residential property prices increased by 3.3% y-o-y (7.2% in 2022). Prices of existing dwellings quasi stagnated (0.6% y-o-y), while those of new dwellings slowed to 8.7% y-o-y (11.4% in 2022). The only category where prices fell were apartments in Bucharest (-1.6% y-o-y). As in 2022, the prices of residential

properties increased slower in urban areas (0.6% y-o-y) than rural areas (2.8% y-o-y) and the prices of apartments increased slower than the prices of houses (0.3% y-o-y vs. 1.9% y-o-y). It is possible that the extended work from home changed individuals' preferences for living conditions focusing now on larger dwellings outside urban clusters. Higher interest rates and the threshold change for application of reduced VAT (5%) on purchases of dwellings (an increase of the acquisition price ceiling for the application of a 5% VAT rate from ~EUR 91,000 to ~EUR 140,000 from 2022) led to a decline in the number of transactions for the second consecutive year in 2023 (-9.2% y-o-y, after -1.3% y-o-y in 2022).

MORTGAGE MARKET

Outstanding housing loans (in domestic currency equivalent) reached 6.6% of GDP after an annual decline of 0.4% in 2023, the first annual decline since 2008. The contraction was entirely in the abrupt fall of foreign currency denominated loans (-12.5% y-o-y). Domestic currency stock increased by 2% y-o-y. Hence, the currency of outstanding volumes was increasingly local currency (86% vs. 84% in 2022). This was because foreign currency loans became more expensive than domestic loans. The average rate on new local currency loans increased from 7.4% in Dec 2022 to 7.9% in Dec 2023, while the average rate charged for new euro-denominated loans was 8% p.a. in Dec 2023 vs. 5.5% in Dec 2022. However, access to foreign currency housing loans has been restricted since January 2019, when a new regulatory provision sets the maximum ratio of-to-income ratio at 20% for foreign currency loans against 40% for domestic currency loans.

According to the Central Bank's Financial Stability Report in Dec 2023 (FSR, Dec 2023), the portion of loans under the "First Home"/"New Home" programme continued to decline to 30% of total housing loans in September 2023 from approximately 47% five years ago. The flow of new "First Home"/"New Home" loans has recently declined substantially (-52% in September 2023 y-o-y to just 7% of the total. Loans granted under the "First Home"/"New Home" programme were higher quality than standard loans (their NPL ratio was 1.3% versus 1.8%, September 2023).

Since April 1, 2022, a new regulation applied reducing the LTV cap by 10 pps (10 pps increase in the down payment) for loans households buying non-primary properties. Following this, the share of new loans with an LTV between 65% and 75% widened from 28% in March 2022 to 37% in September 2023 and those between 75% and 85%, close to the regulatory limit, shrank from 48% in March 2022 to 25% in September 2023. Under the circumstances, the median loan-to-value ratio for new loans ("First Home"/"New Home" loans excluded) was 72%, whereas the LTV ratio for the entire housing loan stock stood at 69% (September 2023).

According to the Bank Lending Survey in Q4 2023, the average indebtedness of households (debt service to income) dropped slightly in 2023 Q4, shedding 1 pps for both new loans and outstanding loans, to 35% and 41% respectively.

MORTGAGE FUNDING

Deposits are the primary funding source for mortgages. During 2023, customer deposit growth outpaced the growth of non-government loans, reversing the two previous years. Thus, the loan-to-deposit ratio declined to 0.67x from 0.71x in 2022. Residents' deposits (in RON equivalent) increased at 11.8% annually, from 7.1% in 2022, reflecting higher for both households (58% of 2023 deposit growth) and legal entities, following the increased deposit's interest rates. Banks' external financing continued to widen as banks' share of foreign liabilities relative to total liabilities rose from 6.9% in Dec 2022 from 7.4% in Dec 2023.

GREEN FUNDING

Households have started to become interested in green housing loans. According to National Bank of Romania's Financial Stability Report, green loans were approximately 29% of total new housing loans in the first nine months of 2023. Most of these were for purchasing green homes (66% of the flow in September), ahead of loans for increasing energy efficiency. The small share of green loans in the total stock (6.3% in September 2023) indicates significant growth potential.

Green lending is a market in the making, where credit institutions in Romania assume their role of major contributors to raising the public's awareness of the importance of sustainability, offering banking products and services compliant with the new environmental, social and governance (ESG) policies. For the first time, in February 2024, sovereign green bonds worth EUR 2 bn were issued.

	ROMANIA 2022	ROMANIA 2023	EU 27 2023
MACROECONOMIC VARIABLES			
Real GDP growth (%) (1)	4.1	2.1	0.4
Unemployment Rate (LSF), annual average (%) (1)	5.6	5.6	6.1
HICP inflation (%) (1)	12.0	9.7	6.4
HOUSING MARKET			
Owner occupation rate (%) (1)	94.8	95.6	69.2
Gross Fixed Investment in Housing (annual change) (1)	3.1	3.1	-3.1
Building Permits (2015=100) (2)	111.6	88.6	94.0
House Price Index - country (2015=100) (2)	146.8	152.3	170.2*
House Price Index - capital (2015=100) (2)	142.4	137.1	165.1*
Nominal house price growth (%) (2)	7.2	3.7	3*
MORTGAGE MARKET			
Outstanding Residential Loans (mn EUR) (2)	21,432	21,218	6,782,375
Outstanding Residential Loans per capita over Total Population (EUR) (2)	1,125	1,114	15,114
Outstanding Residential Loans to disposable income ratio (%) (1) (2)	15.4	12.9	71.3
Gross residential lending, annual growth (%) (2)	-2.9	-20.1	-26.6
Typical mortgage rate, annual average (%) (2)	5.2	7.3	4.7

* Please note that this value is a simple average of the available values in 2023.

Sources:

(1) Eurostat.

(2) European Mortgage Federation - Hypostat 2024, 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 68% in 2022.

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.

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

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..

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.

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.