Romania

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IN A NUTSHELL

→ House completion exceeded pre-pandemic level in some regions.
→ Price disparities between old and new dwellings increased.
→ House price inflation was lower than consumer price inflation.
→ The number of transactions declined.

MACROECONOMIC OVERVIEW

GDP increased by 4.7% y-o-y. Consumption and investments acted as the main engines of growth: private consumption increased by 5.5%, while gross capital formation was up by 4.9%, the decline of inventories moderated the advance of gross fixed capital formation. Growth of gross fixed assets was driven by an expansion in the construction sector, reflecting a 16% contribution of assets incorporated in dwellings, while the rest representing assets incorporated in other buildings and structures.

The unemployment rate remained flat at 5.6%. Annual average inflation accelerated to 12% from 4.1% in 2021, fuelled by fast rising energy and food prices.

LOOKING AHEAD

As 2023 is characterised by tightened monetary policy at home and abroad, economic growth is expected to slow. Expensive lending and inflation outside the central bank's target (2.5%; ±1%), although declining, will hamper demand, including for housing.

HOUSING MARKETS

Housing completions increased by 2.7% y-o-y with sizeable disparities across regions. The regions with the largest increases, which comprised 30% of total finished dwellings, were South-East (+20% y-o-y), South-West (+14.2%) and North-West (+13.3% y-o-y). The number of finished dwellings across the first two regions accelerated, while housing completions in the third area increased after stagnating in 2021 but remained below their pre-pandemic level. The number of residential construction licenses issued declined by 14.9% y-o-y, signaling a forthcoming house completion leveling off. All regions posted lower completions, with above average falls in Bucharest-Ilfov (-22% y-o-y) and West (-19% y-o-y).

Residential property prices increased by 7.2% y-o-y compared to 4.4% in 2021. Prices of existing dwellings rose by 5.2% and of new dwellings by 11.3% from 1.6% in 2021. Contrary to 2021, prices of apartments grew at a slower pace in Bucharest (+3.2%) than outside (+6.2%). Prices of houses increased more slowly in urban areas (6.1%) than rural areas (8.7%). It is possible that the rising trend towards working from home changed individuals' preferences for living conditions, focusing now on larger dwellings outside urban areas. Such preference shifts and increasing interest rates on housing loans might explain the continuous appreciation of the average mortgage size (+6.2%) in 2022. Higher interest rates and the increased threshold for reduced VAT (5%) on purchases of dwellings (from ~ EUR 91,000 to ~ EUR 140,000) led to a decline in the number of transactions in 2022 (-1.3% y-o-y).

MORTGAGE MARKET

Outstanding housing loans (in domestic currency equivalent) increased by 5.4% in 2022, reaching 7.5% of GDP. However, this was a slowdown compared to 2021, when the total market portfolio advanced by 12.9%. When the total market portfolio advanced by 12.9%. Growth was fuelled entirely by fast rising local-currency denominated housing loans since foreign currency denominated stock declined by 9.3%. Hence, the currency structure of outstanding volumes moved further in favour of local currency, which are now 84% of total outstanding vs. 81% in 2021, although domestic currency-borrowing became more expensive. The average interest rate charged for new local currency denominated housing loans increased from 4% in December 2021 to 7.4% in December 2022. In comparison in euro the average interest rate for new housing loans was 5.3% at year-end compared to 3% one year previously. However, access to housing loans in foreign currency has been limited since January 2019, by a regulation setting the maximum monthly debt service-to-income ratio to 20% for foreign currency loans, against 40% for domestic currency loans.

According to the central bank's Financial Stability Report issued in December 2022, the NPL ratio for housing loans fell to 1.39% (Sep 2022), a 0.13pps annual decline. The NPL ratio for borrowers using a facility established by the government that suspends loan payment obligations (motivated by the current context of price hikes, especially for food and utilities) stood at 7.5% in September 2022. This new loan moratorium was not as popular as the pandemic one with applications for only 0.1% of the volume of housing loans compared to 9% in 2020. Loans granted under the "Noua Casa" governmental program still account for a large share of the housing loan stock although decreasing, they were 9.7% of new loans over the past 12 months and 33% of the total. Their NPL ratio for these loans was 0.8%.

Beginning with 1 April 2022 a new regulation was enforced reducing the LTV cap by 10 pps (in case of local currency loans from 85% to 75%, and for EUR loans from 75% to 65%) for loans to households for non-owner occupied properties in order to mitigate vulnerabilities caused by the growth of this sector and improve the resilience of debtors and lenders in case of adverse developments.

According to the Bank Lending Surveys, the LTV for new standard housing loans to households averaged 68% vs. 72% in 2021. The average level of indebtedness slightly increased for new loans to 35% in Q4 2022 from 33% in 2021 but remained flat for the total housing loan portfolio at 42%.

Due to their size and interest rate types, housing loans are more sensitive to the current high interest rate environment. Moreover, a significant share of the flow of housing loans (60% of new loans granted in 2022) are exposed to interest rate increases, being granted at variable interest rate.

NON-MARKET LED INITIATIVES

A new public moratorium for private individuals and companies impacted by the energy crisis and war in Ukraine was introduced allowing clients to request the suspension of repayments under the following conditions:

- Up to 9 months payment holiday – cumulative period, including payment holiday granted in 2021, if the case;
- Eligible loans – credit facilities contracted before April 30, 2022;
- No past due amounts registered in the last 6 months before suspension request and no past due amounts on date of the client's request for suspension;
- The request must be registered by August 29, 2022.

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. The growth in customer deposits was less than the growth of private sector for the second consecutive year, leading to an increase of loan-to-deposits ratio to 0.71x vs. 0.68x in 2021. Residents' deposits (in RON equivalent) increased at a 7.1% annual pace, slowing from 13.9% in 2021, reflecting a reduced saving rate for households, which generated 55% of 2022 total deposit growth. Banks' external financing trend reversed in 2022 and started increasing as banks' share of foreign liabilities relative to total liabilities rose to 6.9% in December 2022 from 5.6%.

GREEN FUNDING

Sensitive to the impact of climate change and rising energy costs, households interest in green housing loans grew. About 31% of the housing loans granted in Sep 2022 were green loans targeting green buildings or increasing energy efficiency. The green lending market is evolving with credit institutions assuming their role as major contributors to raising public awareness, offering banking products and services compliant with the new environmental, social and governance (ESG) policies.

Banks have continued issuing green bonds aimed to finance green and sustainable residential and commercial projects.

	ROMANIA 2021	ROMANIA 2022	EU 27 2022
MACROECONOMIC VARIABLES			
Real GDP growth (%) (1)	5.8	4.7	3.5
Unemployment Rate (LSF), annual average (%) (1)	5.6	5.6	6.2
HICP inflation (%) (1)	4.1	12.0	9.2
HOUSING MARKET			
Owner occupation rate (%) (1)	95.3	94.8	69.1
Gross Fixed Investment in Housing (annual change)(1)	5.6	10.5	1.5
Building Permits (2015=100) (2)	131.1	111.6	125.8
House Price Index - country (2015=100) (2)	134.1	143.7	164.6*
House Price Index - capital (2015=100) (2)	138.0	142.4	163.8*
Nominal house price growth (%) (2)	7.5	7.2	10.6*
MORTGAGE MARKET			
Outstanding Residential Loans (mn EUR) (2)	20,347	21,432	6,743,197
Outstanding Residential Loans per capita over 18 (EUR) (2)	1,308	1,400	18,433
Outstanding Residential Loans to disposable income ratio (%) (2)	14.9	15.5	71.5
Gross residential lending, annual growth (%) (2)	57.8	-2.9	-6.5
Typical mortgage rate, annual average (%) (2)	4.1	5.2	3.1

* Please note that this value is the simple average of the available values in 2022.

Sources:
(1) Eurostat
(2) European Mortgage Federation - Hypostat 2023, 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.
What is/are the most common mortgage product(s) in your country?	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%. 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.
What is the level (if any) of government subsidies for house purchases in your country?	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.