Romania

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IN A NUTSHELL

→ The stock of housing loans increased by 10.3% y-o-y.
→ The price of residential properties increased by 6% y-o-y.
→ Due to sustained wage increases and low interest rates, housing loans became more affordable than ever.

MACROECONOMIC OVERVIEW

In 2017 growth has continued for the seventh consecutive year pushed up by consumption and gross capital formation. The share of gross residential fixed capital formation in total gross fixed capital formation registered the highest post 2008 level (13.6%), up by 5.4 pps compared to 2008. The GDP annual growth rate at 6.9% was the highest of the period despite of the fact that import growth outpaced that of exports and net exports almost tripled compared to the last year denting 0.8 pps from the overall GDP growth. The GDP per capita reached EUR 9,500 and represented 32% of EU average.

The expansionary budgetary stance, the strong consumer confidence in most part of the year, the solid growth in the EU, which is the main export destination of Romania, the outstanding agricultural year, all contributed to the accelerated growth rate.

The strengthened job creation pushed the employment rate to the highest level in the last 20 years, but the accelerated growth of wages, driven by a minimum wage hike, public wage increase and historically low unemployment ignited inflation, which was close to the upward limit of the targeted interval (2.5%±1%) by end of the year.

2017 was the second year when the deficit of the general consolidated budget approached the maximum level of 3% of GDP stipulated in the Stability and Growth Pact (2.9% in 2017 and 3% in 2016). Nevertheless, the gross public debt to GDP ratio declined for the third consecutive year in 2017 up to 35% of GDP, one of the lowest ratio in the EU, but the current account deficit was pushed up to 3.4% of GDP from 2.4% of GDP in 2016 and the domestic currency weakened in relation with euro.

HOUSING AND MORTGAGE MARKETS

In 2017 the rise of finished dwellings has continued, but at a slower pace than in the previous year. The number of licenses issued for residential constructions, on the contrary, accelerated and rose by 7.6% y-o-y, especially due to licenses issued in rural areas. The price of residential properties increased by 6% y-o-y, led by the new dwellings since the price of the old dwellings stayed still. The price increase was broad based with a slight difference between the prices of apartments located in the capital (up by 8.3% y-o-y) and the ones outside (up by 7.9% y-o-y). The double-digit growth of wages coupled with the double-digit growth of housing loans at historical low interest rates contributed to the rise in prices. In 2017 the number of years paid with average net wage necessary to buy an old 3 rooms apartment in capital was 13-14 years compared to 33-34 years in 2008. This context determined the central bank to carefully monitor the evolution of residential property prices, considered since May 2017 a low systemic risk. Moreover, since the median value of housing loan rose by 13% between April 2017 and Mar 2018 compared to April 2016 and Mar 2017, according to Financial Stability Report (June 2018) the changing trend in the interest rate on domestic currency loans may put pressure on the vulnerable borrowers' capacity to service their debt. This situation prompted the central bank to consider as high systemic risk the default risk for loans to the private sector and to households in particular.

The housing loans stock reached EUR 14.2bn by end 2017, up by 10.3% y-o-y. The whole increase was due to expansion of housing loans denominated in domestic currency up by 32.6% y-o-y representing 59% of total housing loans by end 2017. The housing loans denominated in foreign currency declined for the fourth consecutive year in 2017 by 11.2% y-o-y. Despite the fact that the compound annual growth rate post 2008 was 11.7%, housing loans in GDP reached just 7.6%, the lowest share in EU. The Romanian housing loans market is young (the first housing loans were granted in 2001) and has a significant growth potential. The first reason is that the percentage of population living in overcrowded houses[1] is high (47% in 2017 compared to 17% the EU average in 2016) and the second reason is that the dwelling stock is old (50% of dwellings are at least 50 years old compared to 35% in EU).

The government guaranteed loans for first home buyers (Prima Casa) launched in mid-2009 supported significantly the expansion of housing loans. The low advance payment required and the ceiling on the price of the house which could be acquired maintained the affordability of house acquisitions[2]. The stock of house loans guaranteed by the state in total housing loans reached around 60% by end 2017. The systemic size of loans granted through Prima Casa and the higher indebtedness of first home buyers during March 2017 - March 2018 compared to standard mortgage loans buyers might require the revision of the eligibility criteria in order to assure the sustainability of the degree of indebtedness.

The average effective annual rate charged for new housing loans denominated in domestic currency was 4.83% in December 2017 up from 3.83% in December 2016. The rising interest rates in the last quarter of 2017 increased the offer of housing loans with fixed interest rates for up to 10Y, such that by end year the weight of these loans in total new housing loans granted reached 25% compared to 5% in December 2016. According to Financial Stability Report (June 2018) the non-performing rate for housing loans declined from 4.7% in Mar 2017 to 3.2% in Mar 2018.

[1] The overcrowding rate is defined as the percentage of the population living in an overcrowded household. A person is considered as living in an overcrowded household if the household does not have at its disposal a minimum number of rooms equal to: one room for the household; one room per couple in the household; one room for each single person aged 18 or more; one room per pair of single people of the same gender between 12 and 17 years of age; one room for each single person between 12 and 17 years of age and not included in the previous category; one room per pair of children under 12 years of age.

[2] Main features: reduced margins, 5% advance payment, 50% guarantee offered by the National Guarantee Fund for Small and Medium Enterprises.

During 2017 according to the bank lending surveys of the NBR while the housing loans credit standards were broadly maintained, the terms and conditions for loans to households for house purchase had mixed evolutions. While the debt service to income and maturity were tightened, the LTV and the non-interest rate charges were relaxed. LTV was 76% for the new housing loans in the last quarter of 2017 compared to 80% in the first quarter of 2017.

NON-MARKET LED INITIATIVES

Several legislative proposals aiming at consumers' protection were initiated during 2017 with significant potential impact on the banks' lending activity. The intention to cap the average effective annual rate charged for housing and consumer loans, the attempt to limit the recoverable amount of the non-performing households' loans sold by credit institutions, the endeavour to remove the enforceability title of a loan contract and oblige banks and non-bank financial institutions to obtain a court sentence in order to initiate enforcement procedures and the volatility of fiscal treatment of sold non-performing loans determined banks to qualify the uncertain and unpredictable legislative framework in the financial area as the main systemic risk in the last quarter of 2017.

MORTGAGE FUNDING

Deposits are the primary source for mortgage funding. During the last years residents' deposits increased faster than non-government loans such that the loan-to-deposits ratio declined from the maximum 1.3 reached in December 2008 to 0.77 in Dec 2017. External financing followed a declining trend, the banks' share of foreign liabilities (out of which funding from parent bank represents around 60%) in total liabilities reached 9.8% in December 2017 down from 11.8% in December 2016.

	ROMANIA 2016	ROMANIA 2017	EU 28 2017
Real GDP growth (%) (1)	4.8	6.9	2.4
Unemployment Rate (LSF), annual average (%) (1)	5.9	4.9	7.6
HICP inflation (%) (1)	-1.1	1.1	1.7
Outstanding Residential Loans (mn EUR) (2)	12,893	14,262	7,013,738
Outstanding Residential Loans per capita over 18 (EUR) (2)	804	895	16,872
Outstanding Residential Loans to disposable income ratio (%) (2)	10.6	10.8	73.8*
Gross residential lending, annual growth (%) (2)	-1.8	7.5	3.5
Typical mortgage rate, annual average (%) (2)	3.5	3.7	2.4**
Owner occupation rate (%) (1)	96.0	96.9	66.4*
Nominal house price growth (%) (2)	6.0	6.0	6.0

* The aggregate EU figure is from 2016.
** Please note that this value is the simple average of the typical interest rate of the EU 28 countries.

Sources:
(1) Eurostat
(2) European Mortgage Federation - Hypostat 2018, Statistical Tables.

ROMANIA FACT TABLE

Entities which can issue mortgage loans:	In Romania, generally credit institutions can issue mortgage loans, with marginal input from non-bank financial institutions. Currently, in Romania, there are 35 credit institutions of which are 7 foreign banks' branches. In addition, according to the National Bank of Romania's General Registry, a total of 152 non-bank financial institutions carry out multiple lending activities, including mortgage loans.
The market share of the mortgage issuances:	Banks are the main mortgage lenders in Romania, with marginal input from non-bank financial institutions.
Proportion of outstanding mortgage loans of the mortgage issuances:	Although official data is not available, the top 10 banks grant the majority of mortgage loans in Romania.
Typical LTV ratio on residential mortgage loans:	In 2017/Q4, the average LTV ratio for new loans given in the past three months was around 76%, and the average LTV ratio for the total amount of loans for real estate investments was approximately 83. (Source: www.bnr.ro Bank Lending Survey December 2017)
Any distinction made between residential and non-residential loans:	Romanian credit institutions grant: • mortgage loans (including loans within the "First House" Programme), which are dedicated to residential purposes, more specifically to the acquisition or construction of houses for rental purposes. • consumer loans meant to address consumers' financing needs, with some of the most common being the loans for personal needs.
Most common mortgage product(s):	Currently, in Romania, mortgage lending is driven by loans granted within the "First Home" Programme, launched in 2009 (reduced margins, 5% advance payment, 50% guarantee offered by the National Guarantee Fund for Small and Medium Enterprises (in Ro: FNGCIMM).
Typical maturity of a mortgage:	The maximum lending period for the loans granted within the "First Home" Programme is 30 years. As for standard mortgage loans, other than the ones mentioned above (associated to the First House Programme), the maximum lending period can reach 35 years.
Most common way to fund mortgage lending:	In Romania, the loan / deposit ratio stands at approximately 75%. Thus, credit institutions mainly use funds attracted from clients in order to grant loans. Credit institutions have gradually reduced their dependence on parent banks by increasing their deposits volumes.
Level of costs associated with a house purchase:	A series of costs are applicable to mortgage loans. The most important ones include: • an 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 a number of 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 mortgage loans secured, credit institutions require home insurance, which depends on the value of the home, the maturity, the types of insured risks, etc.
The level (if any) of government subsidies for house purchases:	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 "First Home" programme supports young people who want to purchase their first home via Romanian Government guarantees. The programme was extended to cover home acquisition or building by Romanians living abroad, thus helping them to purchase or build a house in Romania. In 2015, the legislation regarding the "First Home" programme have been further improved to include the opportunity to acquire a second (larger) home, under certain conditions (selling their initial house, a higher new house value or surface compared to the initial house etc.). Also, certain credit institutions have concluded agreements with the National Housing Agency to offer loans for the acquisition or construction of homes. NHA was the first institution to grant mortgage loans, and The Rental Housing Units for Young People Constructions Programme addresses the needs of young people aged 18 to 35, who cannot afford to buy or rent a housing unit on the free market. The Rental Housing Units for Young People are built through the National Housing Agency. On their completion, these housing units are handed over to the local councils which assign them to eligible young applicants. The lands where the housing units are built as well as the necessary utilities are provided by the local councils. The rental housing units for young people may be bought by the leaseholders (tenants) at the end of at least one-year continuous lease.