



**Analyzing the risks stemming
from the Romanian household sector**

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BANCA NAȚIONALĂ ROMÂNIEI



Outline

- Balance sheet related risks
 - Net wealth – real estate impact
 - Financial assets
 - Financial liabilities
 - Net position

- Indebtedness developments and main drivers
 - Dynamic & structure of indebtedness
 - Credit risk
 - Collateralization policy

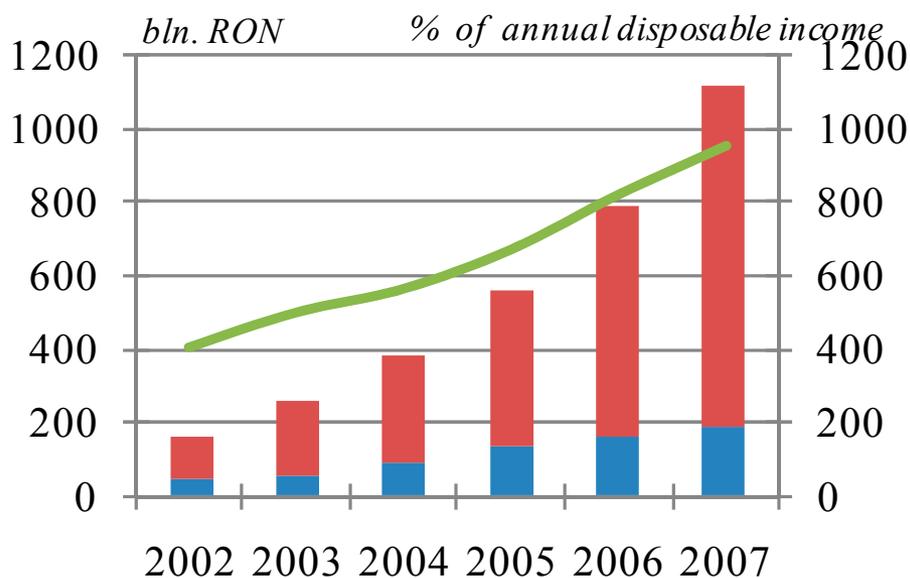
- Qualitative analysis: bank lending survey

- Conclusions

Balance sheet related risks

Household wealth increased and the main driver is the non-financial component

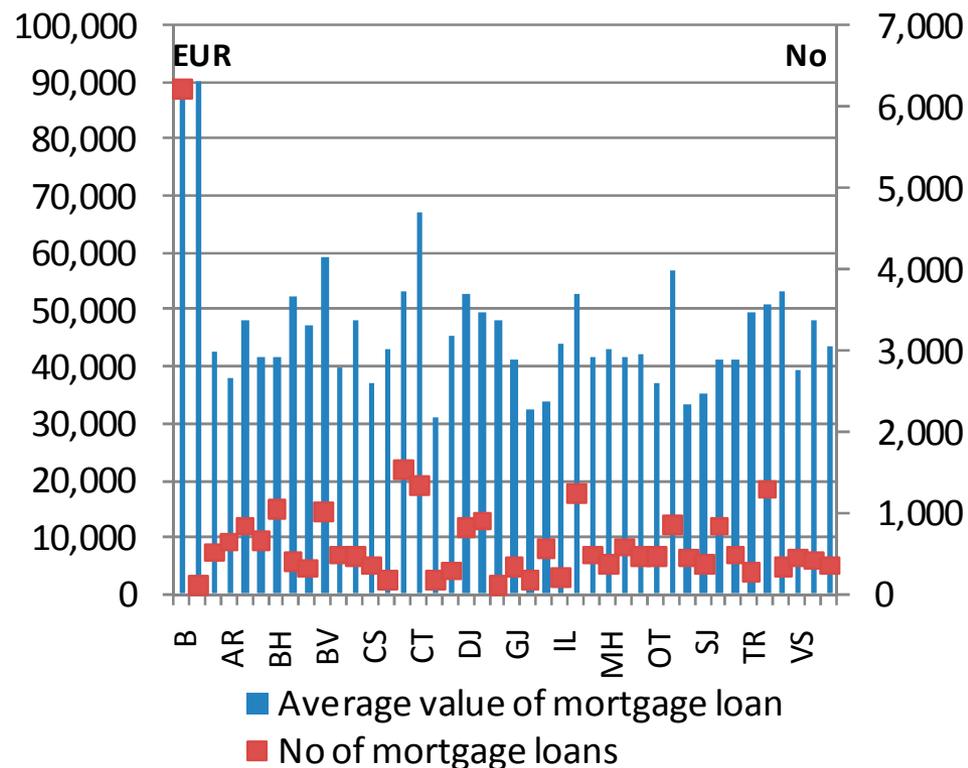
Household net wealth



■ Net financial assets ■ Non-financial assets
— Net wealth (right scale)

Source: BNR calculations, INS, CNVM, CSA

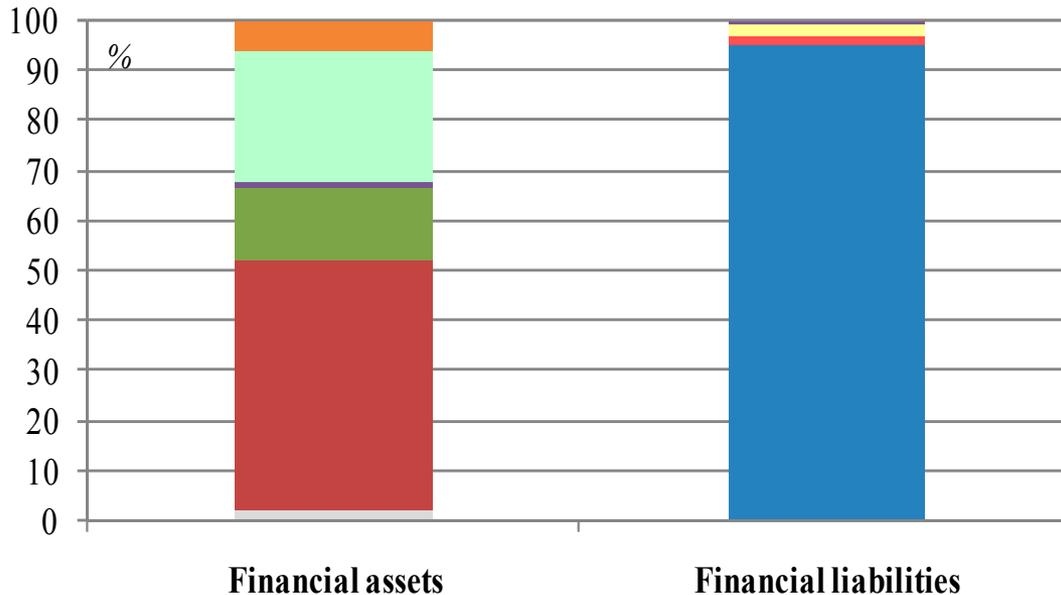
County distribution of average value & no. of mortgage loans granted in 2008



Source: BNR calculations (Public Credit Register)



Financial balance sheet



- *Leasing*
- *Open-end & closed-end funds*
- *Cash*
- *Life insurance*
- *Unquoted securities and other equities*

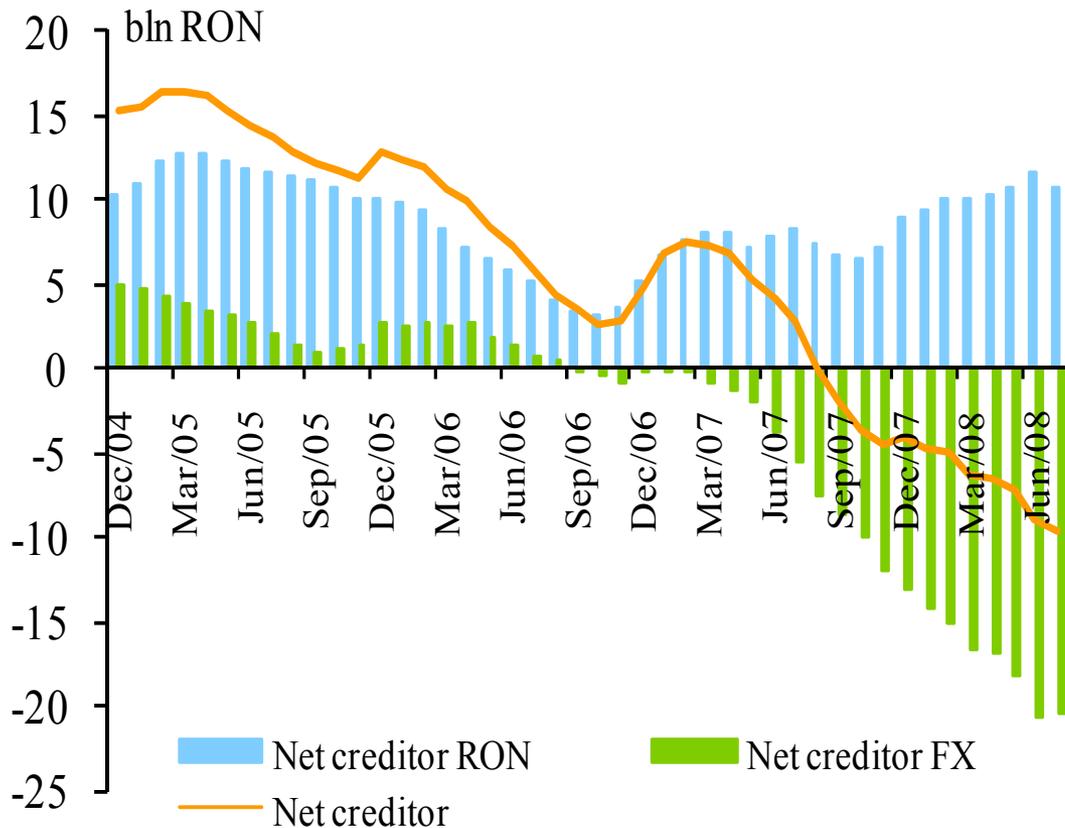
- *Loans from consumer credit companies*
- *Bank loans*
- *Bank deposits and T-bills*
- *Quoted securities*

- Financial assets
 - Slower growth rate compared to financial liabilities
 - Unquoted securities – main component
 - Increasing interest in liquid assets, but market risk contained

- Financial liabilities
 - 95% bank loans

Source: BNR, CNMVM, CSA; 2007

Net debtor position

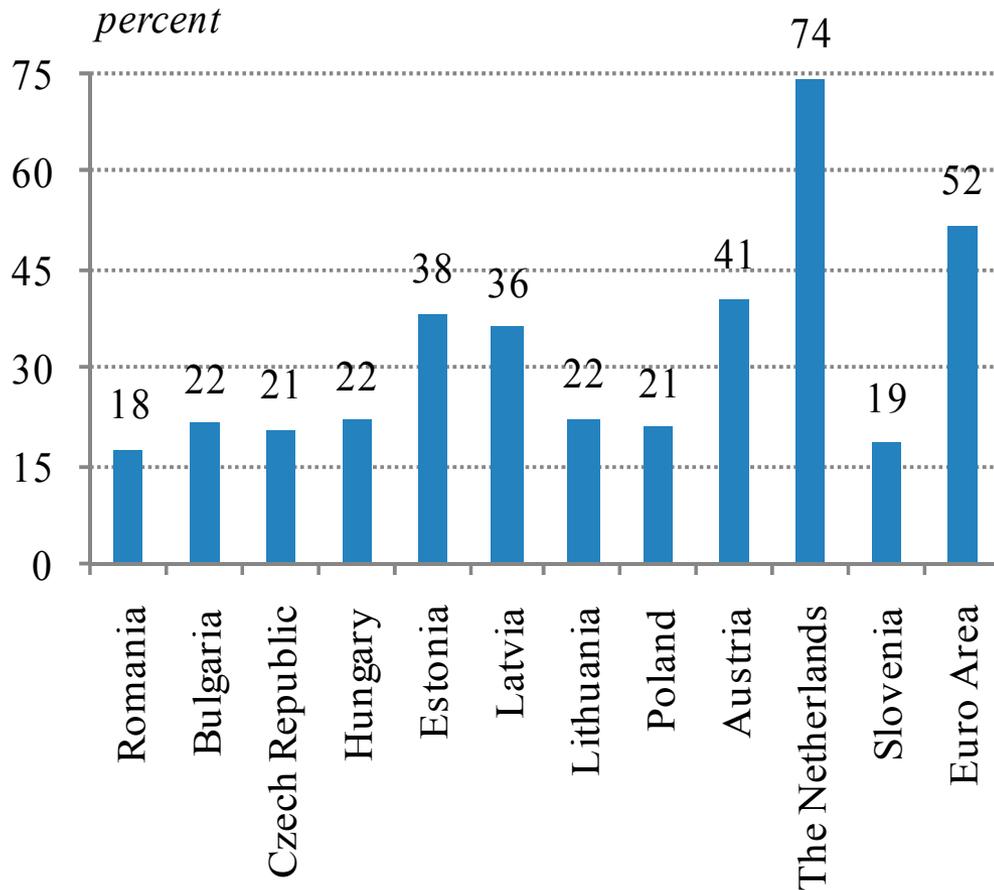


- 2,8 bln EUR - net debtor position to the banking sector
- Strong impairment in the FX position

Source: BNR

Indebtedness developments and main drivers

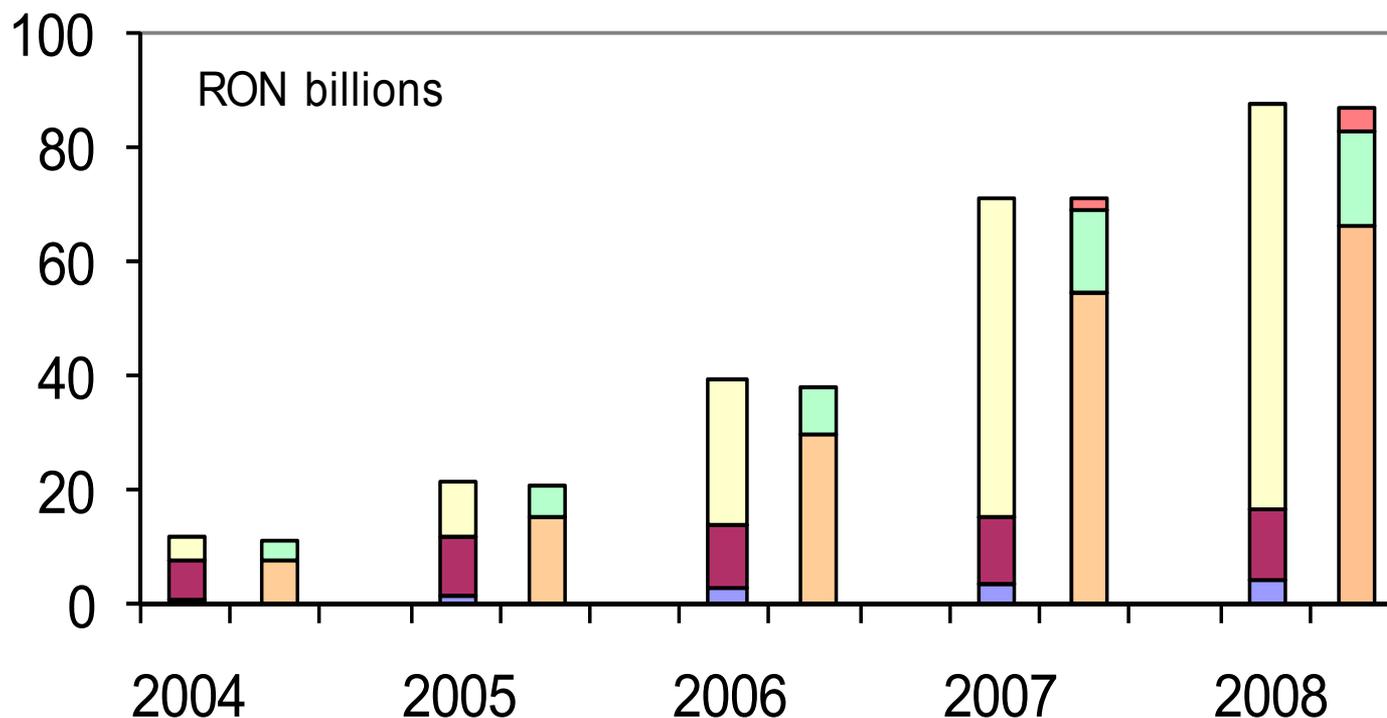
Household loan to GDP (2007)



- Still low household financial intermediation \Rightarrow continuing growth potential
- Mortgage loans: only 4% of GDP \Rightarrow development in the real estate financing

Source: ECB, NBR calculations

Household loan breakdown



MATURITY

Short term

Medium term

Long term

DESTINATION

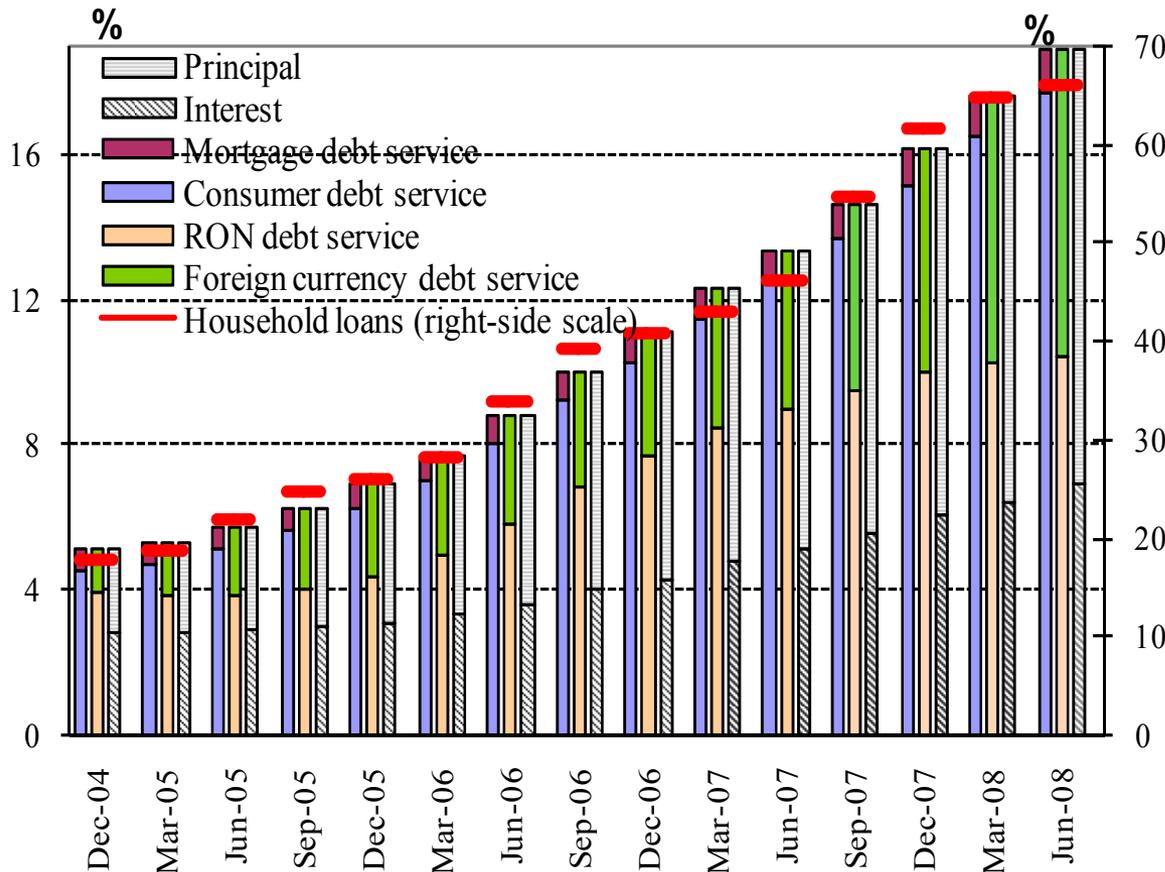
Mortgage loans

Consumer loans

Other loans

Source: BNR

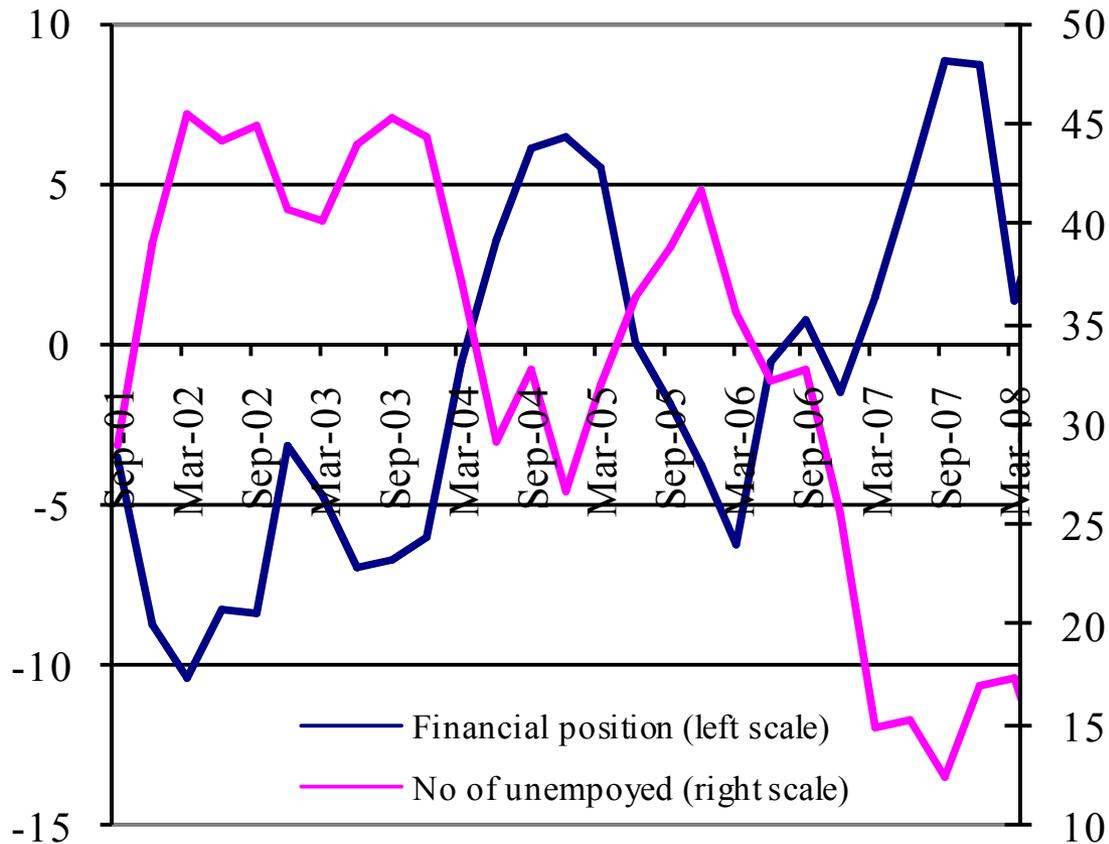
Risks stemming from the household indebtedness are hiking



- Increasing FX risk
- Debt service for consumer loans is the main component
 \Rightarrow Risk: value of assets financed by consumer loans depreciates faster than debt amortization

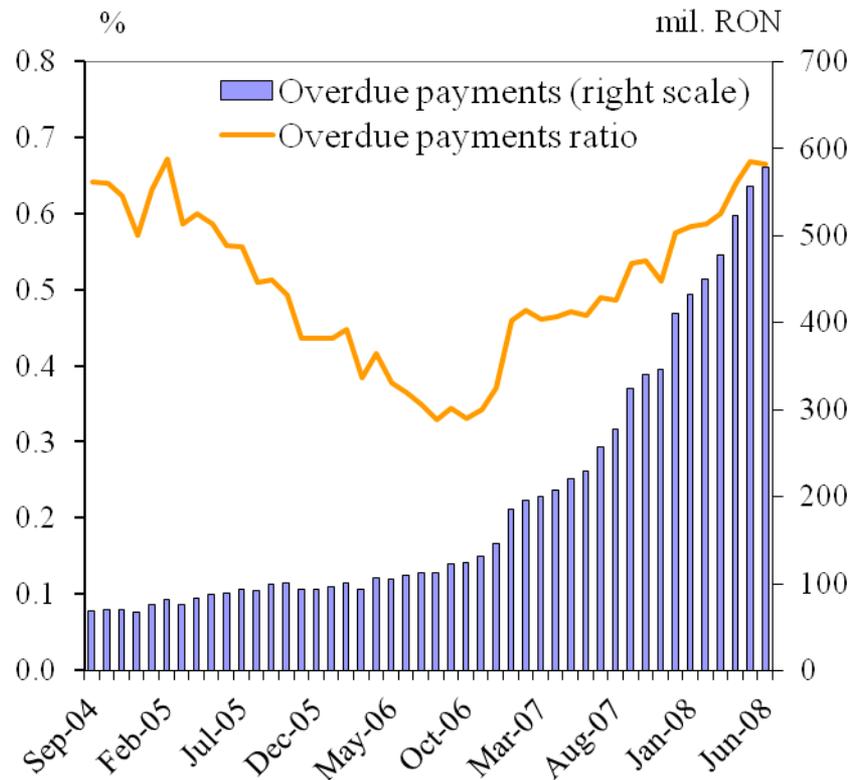
Source: BNR, INS

Driver: optimism about the future



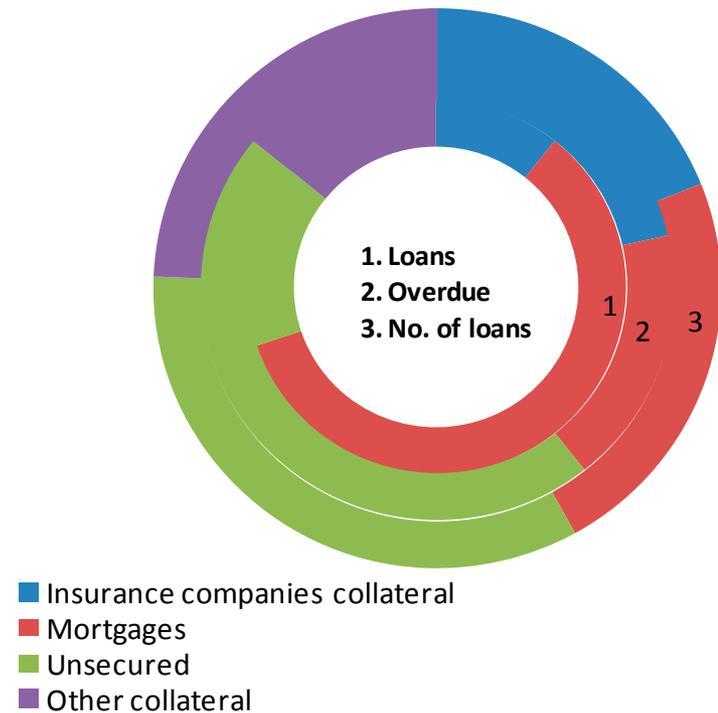
Source: European Commission (3-month moving average of balance of answers)

Overdue payments ratio deteriorated ... correlated with a mixed development of collateralizing policy



Source: BNR

Household loans collateral, July 2008

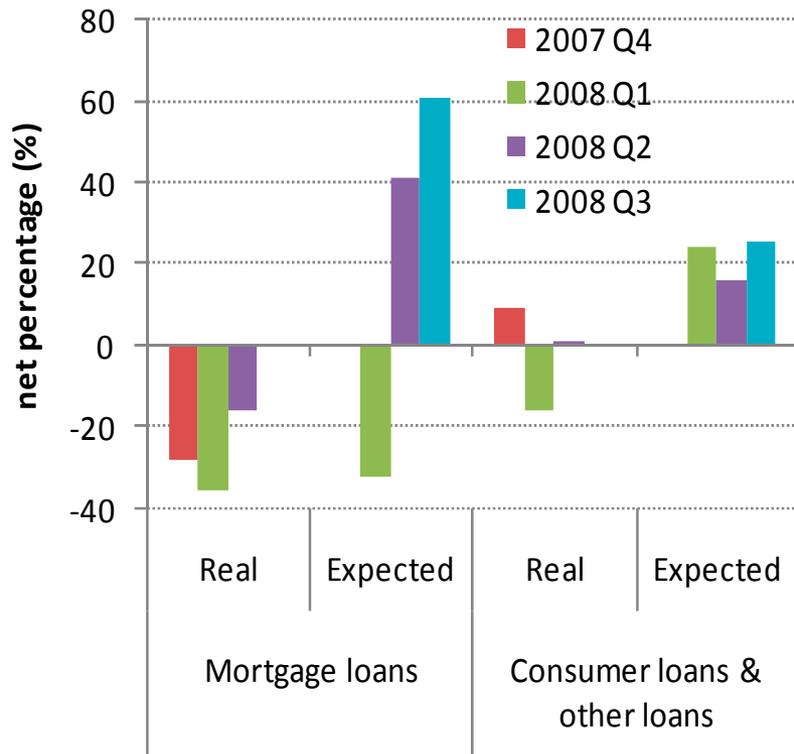


Source: BNR (Public Credit Register; loans of more than 5700 EUR)

Qualitative analysis: bank lending survey

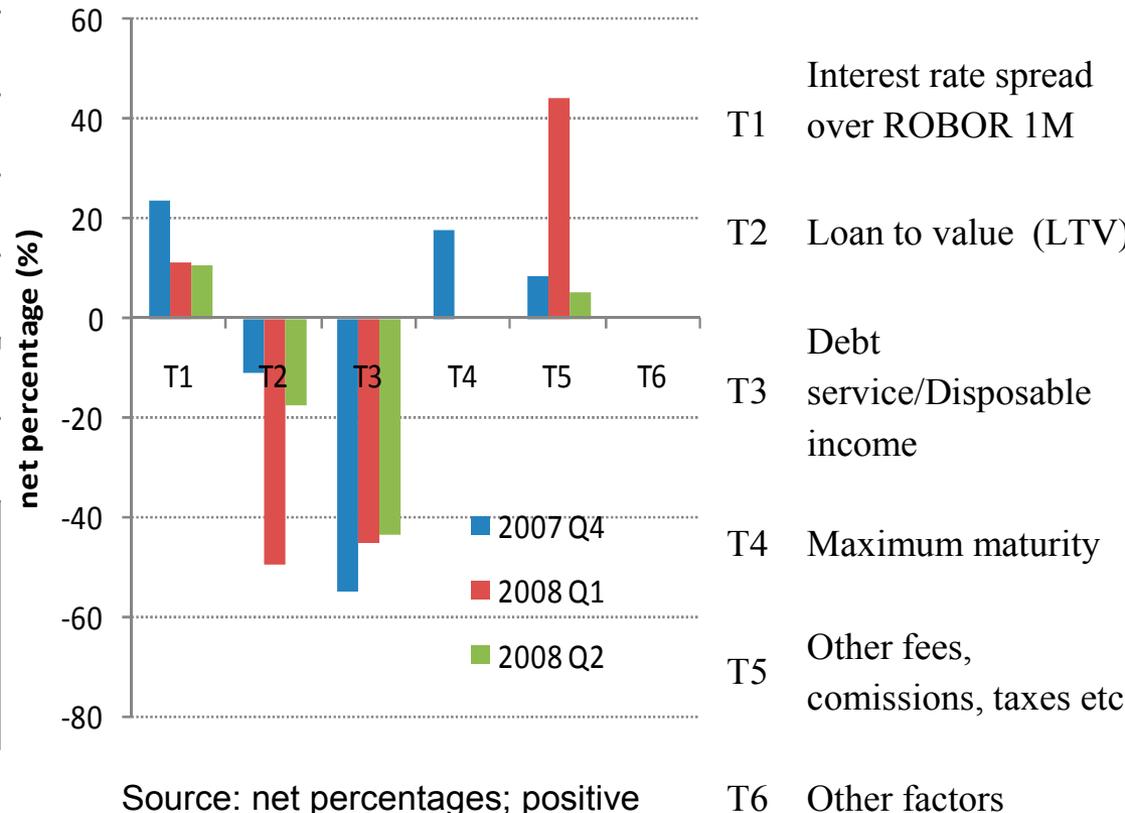
Easing credit standards ... but tightening expectations

Credit standards



Source: net percentages; positive values indicate a tightening of credit standards

Credit terms for mortgage loans



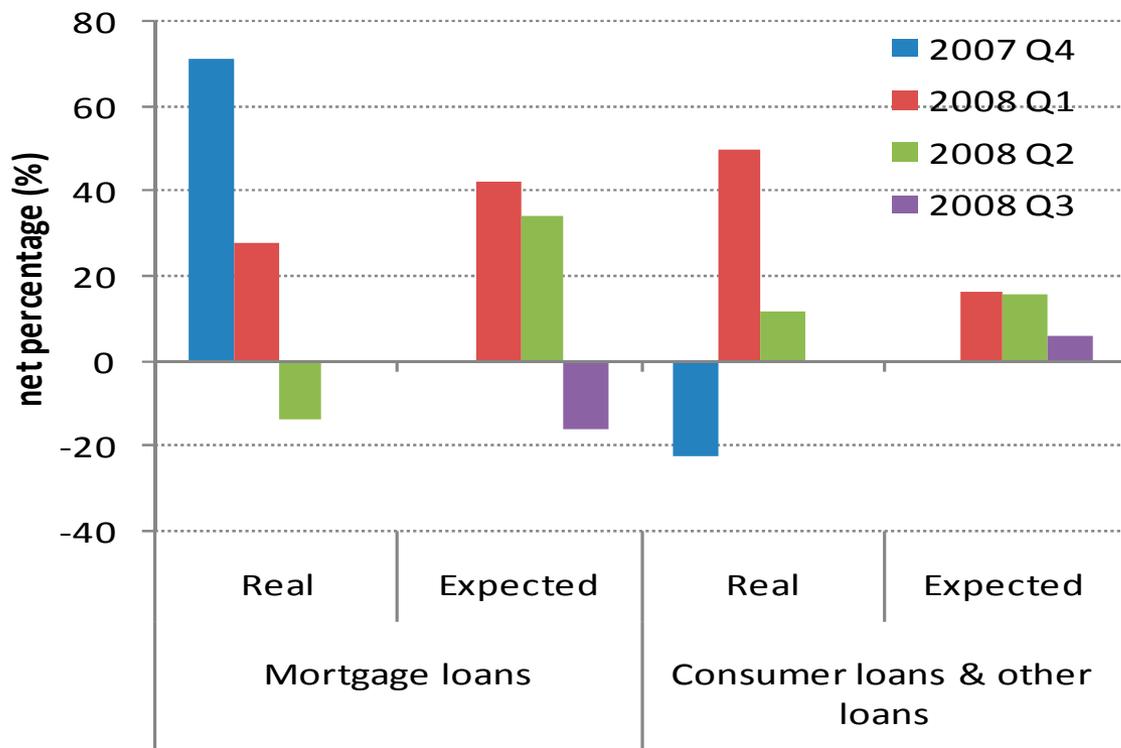
Source: net percentages; positive values indicate a tightening of credit terms

Main contributors to the easing of mortgage credit standards

	Maximum LTV	Maximum LTV (average)	Maximum Debt service/Income	Maximum Debt service/Income (average)
Bank internal rules	75% - 100%	88,5%	35% - 70%	57,3%
Average values for mortgage loans granted in Q2 2008	62% - 92%	75,2%	28% - 65%	50,1%
Average values for outstanding mortgage loans	60% - 85%	72,6%	30% - 55%	44,3%

Source: Bank Lending Survey Romania, Q2 2008

Stable demand for household loans



Expectations of:

- net decrease of demand in Q3 2008 – mortgage loans
- slightly net increase of demand in Q3 2008 – consumer loans & other loans

Source: net percentages; positive values indicate an increase in demand



Conclusions

- Household sector risks increased – still at sustainable levels
- FX risk, sharp uptrend of debt service burden, unsecured loans expansion, overdue payments ratio \Rightarrow call for closer monitoring
- Positive dynamics of income, higher financial asset liquidity and lower loan concentration rate \Rightarrow offsetting the risks
- Expectations of tightening the credit standards as well as a stable credit demand could be a sign of a slightly slowing down in the household loan growth rate