

Market Update – Romania

**Joint Congress of UNECE and EFBS
“Housing Finance beyond Subprime”**

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1. Macroeconomic Trends

2. Mortgage & Real Estate Lending

3. Building Savings / Bauspar Market

4. Final Considerations

Romania – Macroeconomic Perspective 2009

- During 2009, Romania witnessed a severe economic contraction of 7,2%;
- The fast decline in household consumption and investments made by private companies and government caused the steep correction of the excessive current account deficit from more than 11.8% of GDP in 2008, to 4.4% in 2009;
- The poorer economic performance in 2009 was also influenced by external and fiscal imbalances (budget structure, pro-cyclical fiscal and wage policies);
- Labour market conditions deteriorated up to a five-year high unemployment rate of 7.8% in Dec '09;
- Inflation rate reached 4.7% in 2009, overshooting the NBR* target (3.5% ± 1 pp). However, the normalisation of the political environment once a new government was formed in December 2009, the continuation of the agreement with the IMF, EC and other international financial institutions might help the disinflation process in 2010.

*NBR = National Bank of Romania / Central Bank

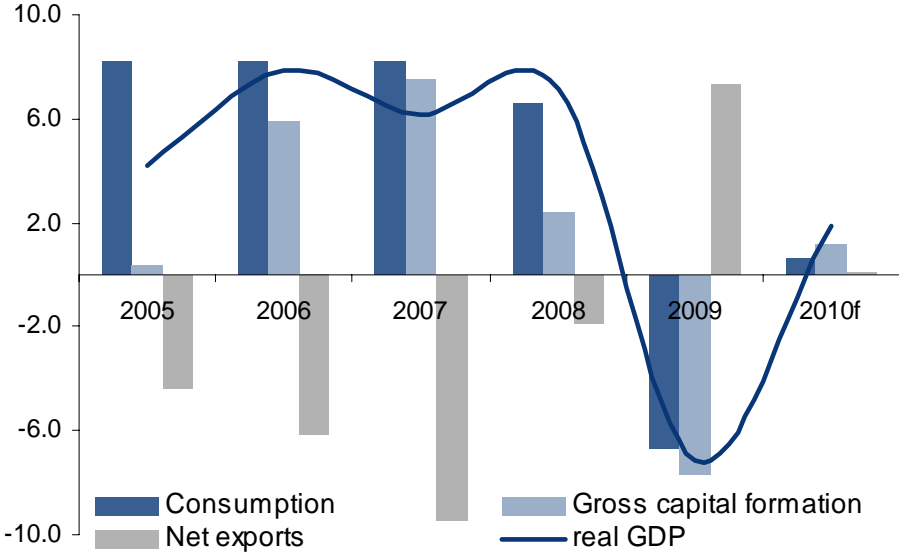
Romania – Macroeconomic Perspective 2010

Macro and Market Trends

- **Financial/economic crisis continues to affect the country: expected low EU funds absorption and sluggish economic growth for the future 2 years**
- **Gradual relaxation of monetary policy in 2010 and 2011 if IMF agreement and public reforms on track**
- **Central bank continued the monetary policy easing cycle and already cut the key rate to 6.5% by end of Q1 2010, thus the decreasing cost of borrowing is expected to stimulate the loans demand**
- **Any measures supportive of borrowing, such as supplementing the capacity of guaranteeing the loans will be beneficial (e.g. “Prima Casa” Government initiative)**

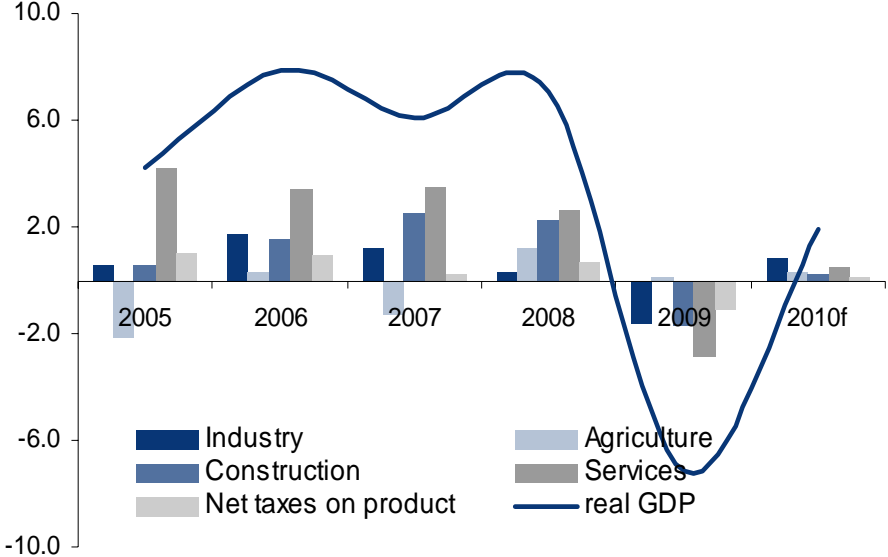
2010 – Economic Growth, Below Potential

GDP by category of uses (contributions to the economic growth, pp)



Source: NIS, BCR Research

GDP by category of resources (contributions to the economic growth, pp)

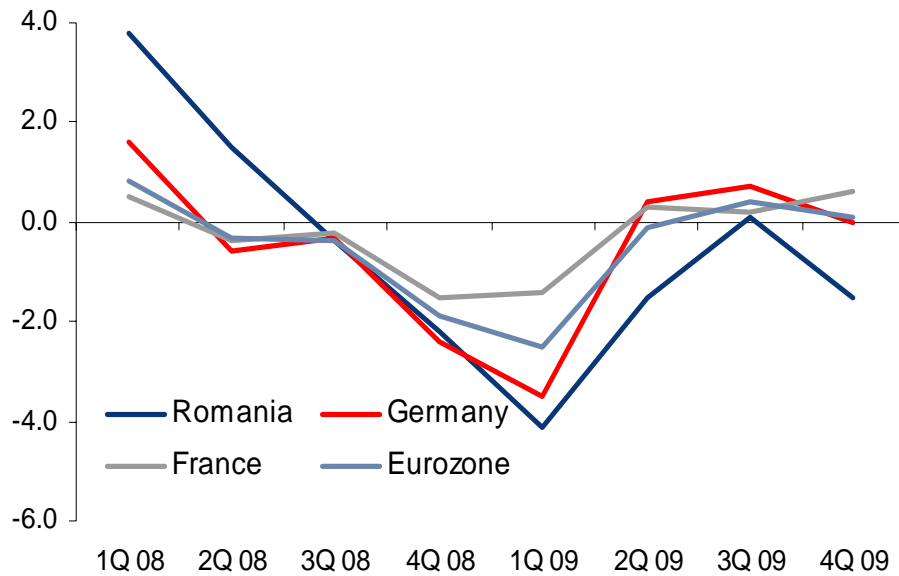


Source: NIS, BCR Research

- Gross capital formation made a negative contribution to GDP in 2009 and this will lower potential GDP by 1-2 pp in the years ahead

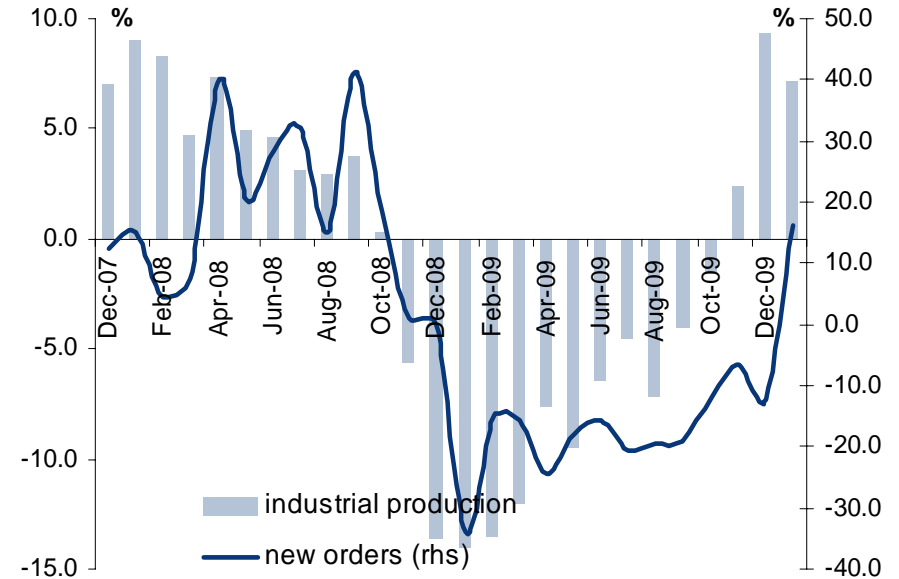
Eurozone, Key Driver for the Recovery of the Romanian Economy

q/q economic growth (% , s.a. data)



Source: Eurostat, BCR Research

Industrial production (s.a. data, y/y growth, %) and new orders in manufacturing

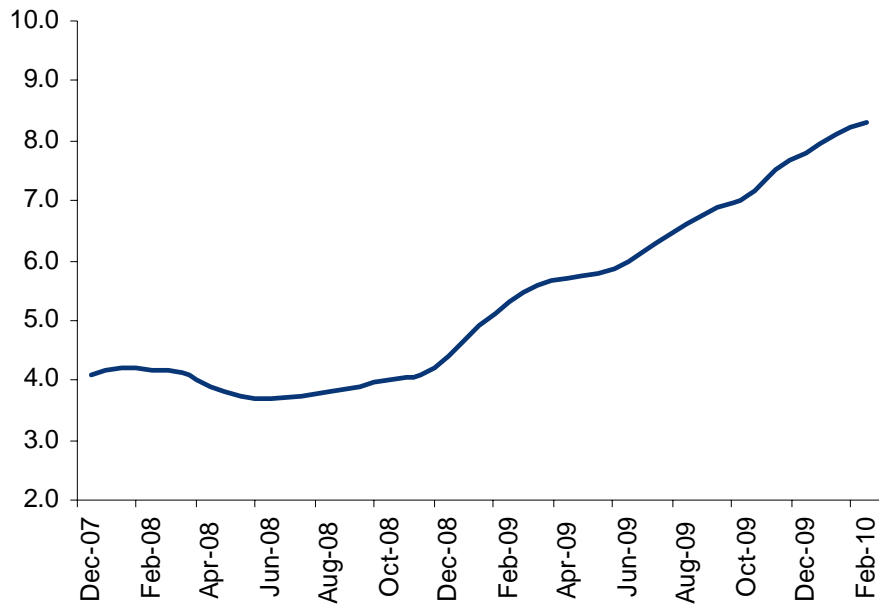


Source: NIS, BCR Research

- As Romanian economy entered recession after Eurozone, it might return to positive real GDP growth rates with a time lag of two or three quarters

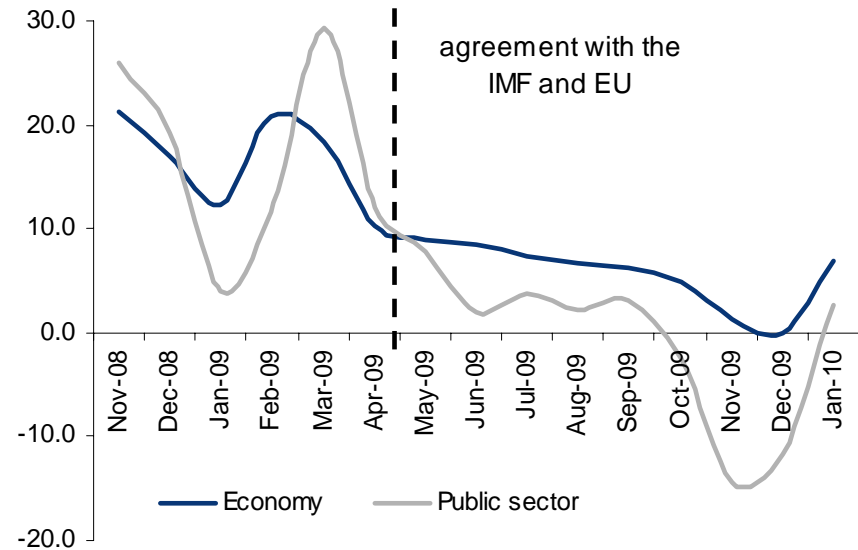
Weak Labour Market Conditions

Registered unemployment rate (%)



Source: NIS, BCR Research

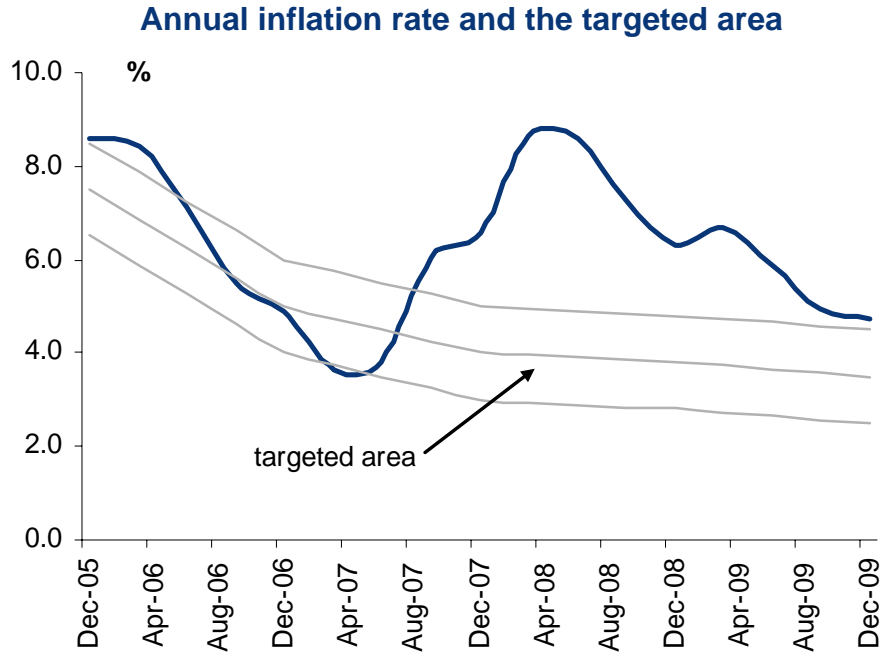
Wages in the public sector and in the national economy (y/y growth, %)



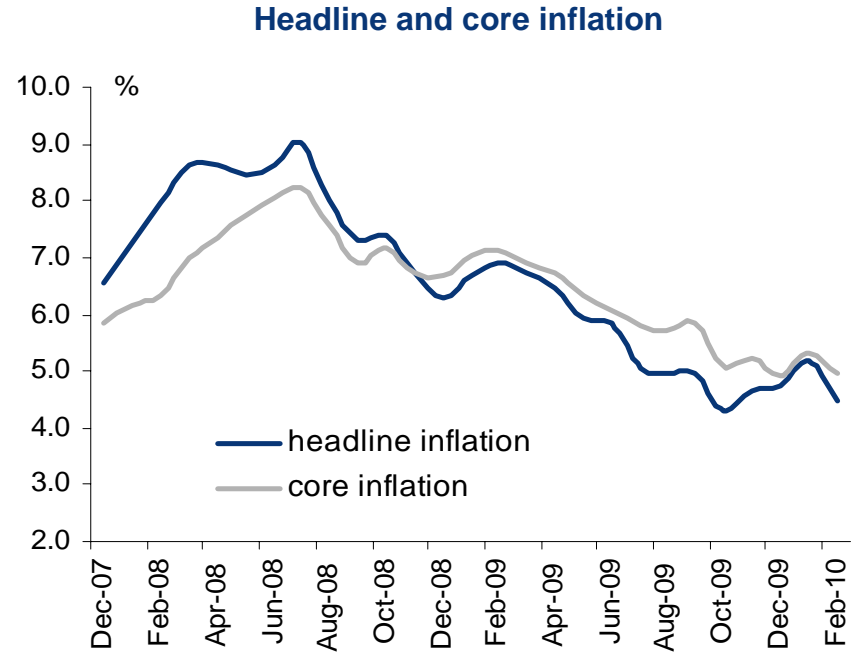
Source: NIS, BCR Research

- Unemployment rate to remain on an upward trend in 2010 as the public sector will bear the constraints of the agreement with the IMF and EU

Disinflation Process – Continued in 2010



Source: NBR, NIS, BCR Research



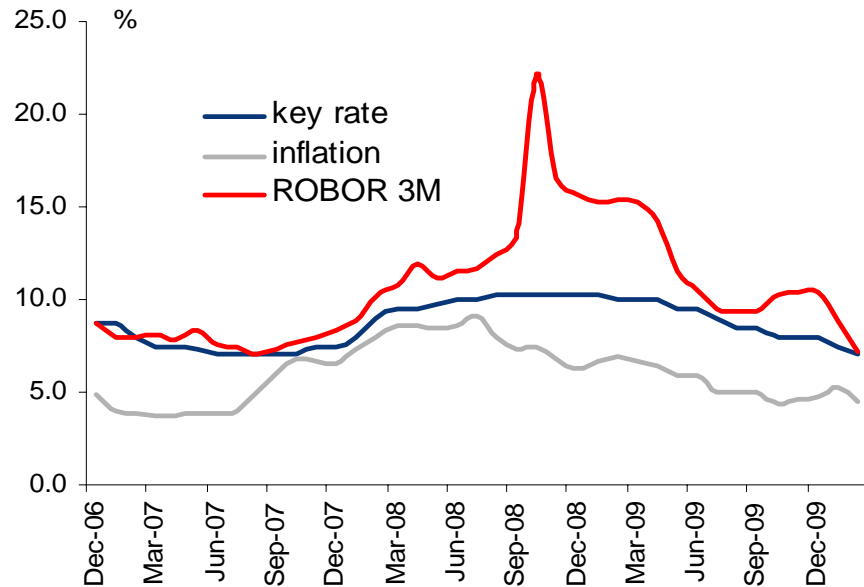
Source: NIS, BCR Research

- A stable RON, a subdued domestic demand as well as limited second-round effects of the recent increases in excise duties might help the disinflation process in the coming months

Monetary Policy Easing Cycle to Continue Throughout 2010

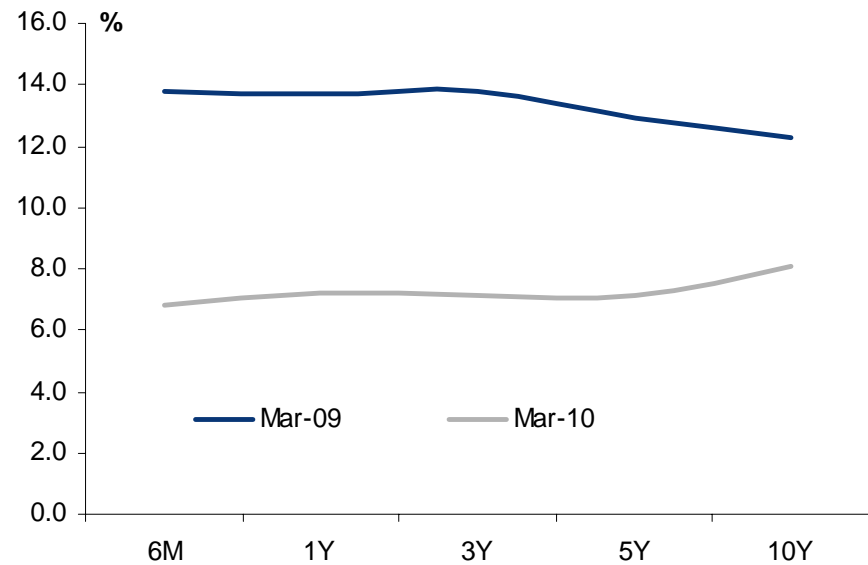
Monetary policy easing cycle to continue throughout 2010

Key rate, ROBOR 3M and inflation



Source: NBR, NIS, BCR Research

Government yield curve



Source: Reuters, BCR Research

- The continuation of the agreement with the IMF and EU as well as central bank's confidence in the disinflation process could pave the way for new cuts in the key rate

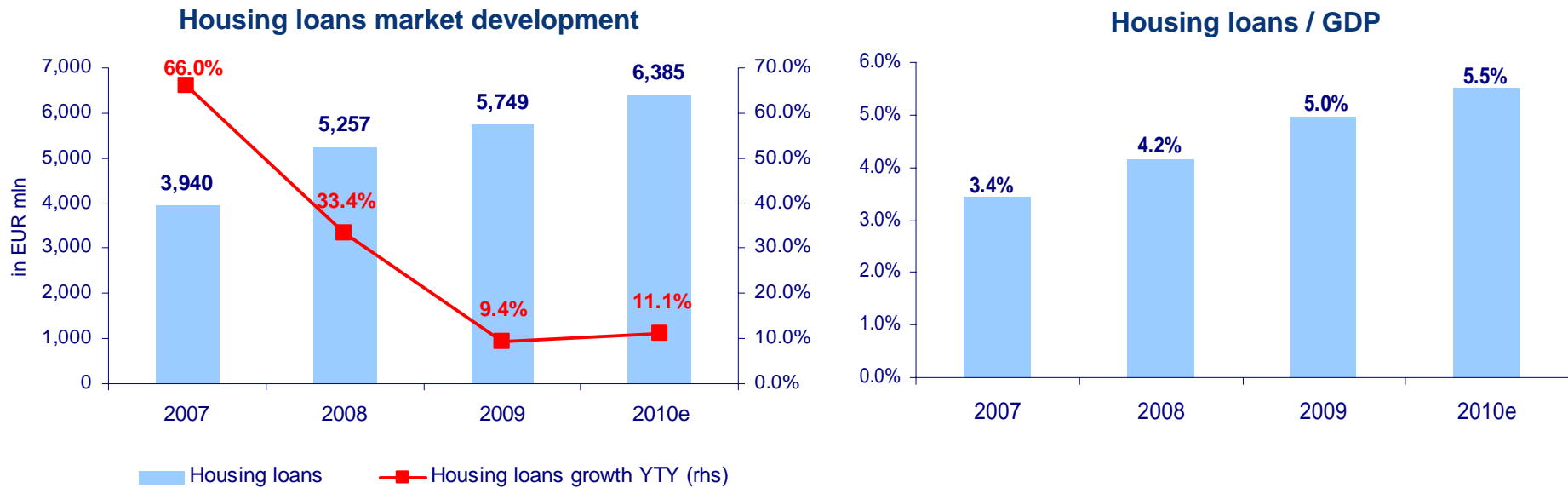
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Mortgage / Real Estate Lending – short overview



Source: NBR, NIS, BCR Research

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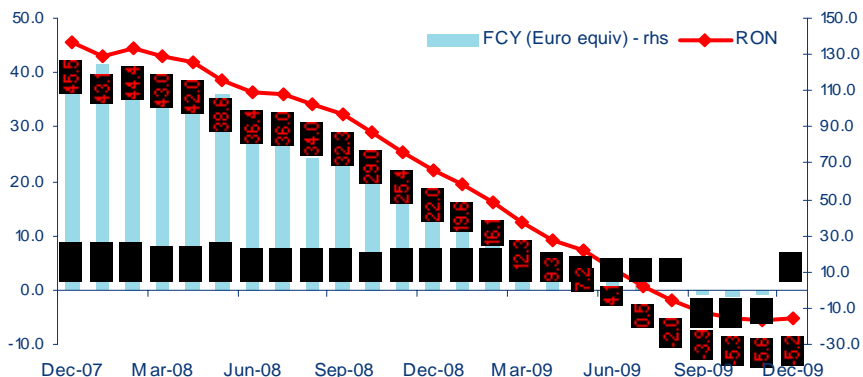
Main features:

- Structure by currency: 93% in FCY as of end-2009 (84% EUR + 16% OFCY)
- Average ticket size still modest: about EUR 30,000
- Very low percentage of GDP when compared to most European countries, compensated by the American Mortgage type loans (included in secured consumer)
- Average housing loan per inhabitant was at the end of last year, only 270 EUR well below the region
- Housing loans account for only 2.3% out of almost 8.1 million households loans number

Housing loans – total mortgage and real estate loans on the market

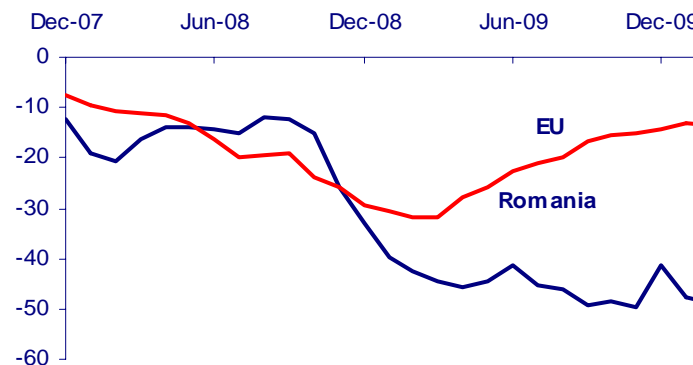
Households' demand for loans remains under pressure; positive expectations for housing due to "Prima Casa" initiative*

Retail loans (yoy - %)

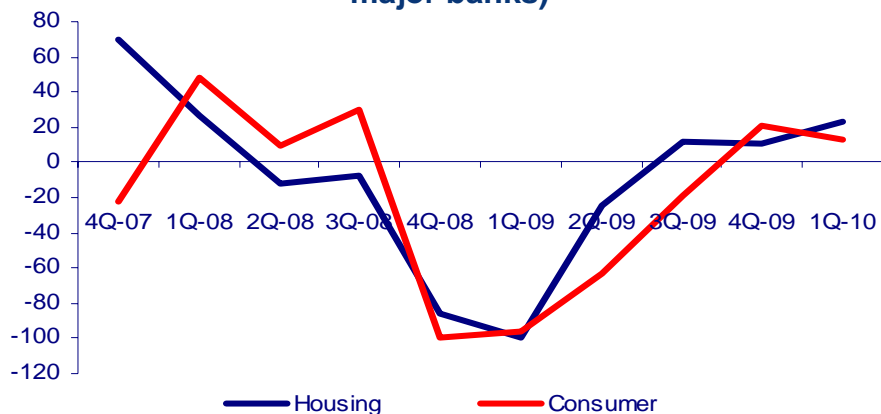


Source: NBR, BCR Research

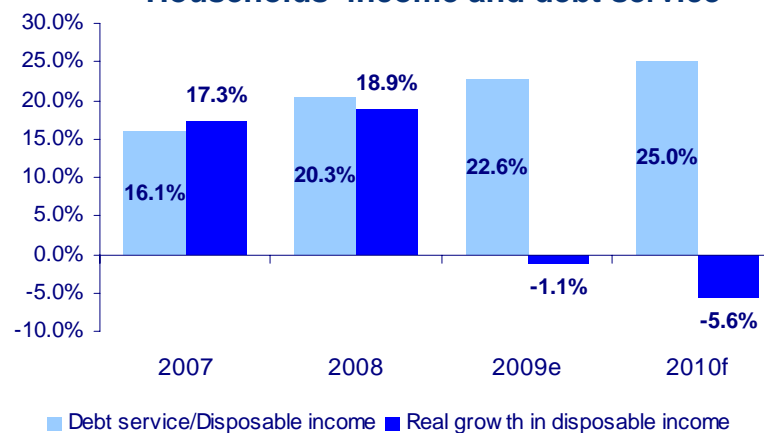
Consumer confidence index (%)



Demand for loans (based on NBR survey with 10 major banks)



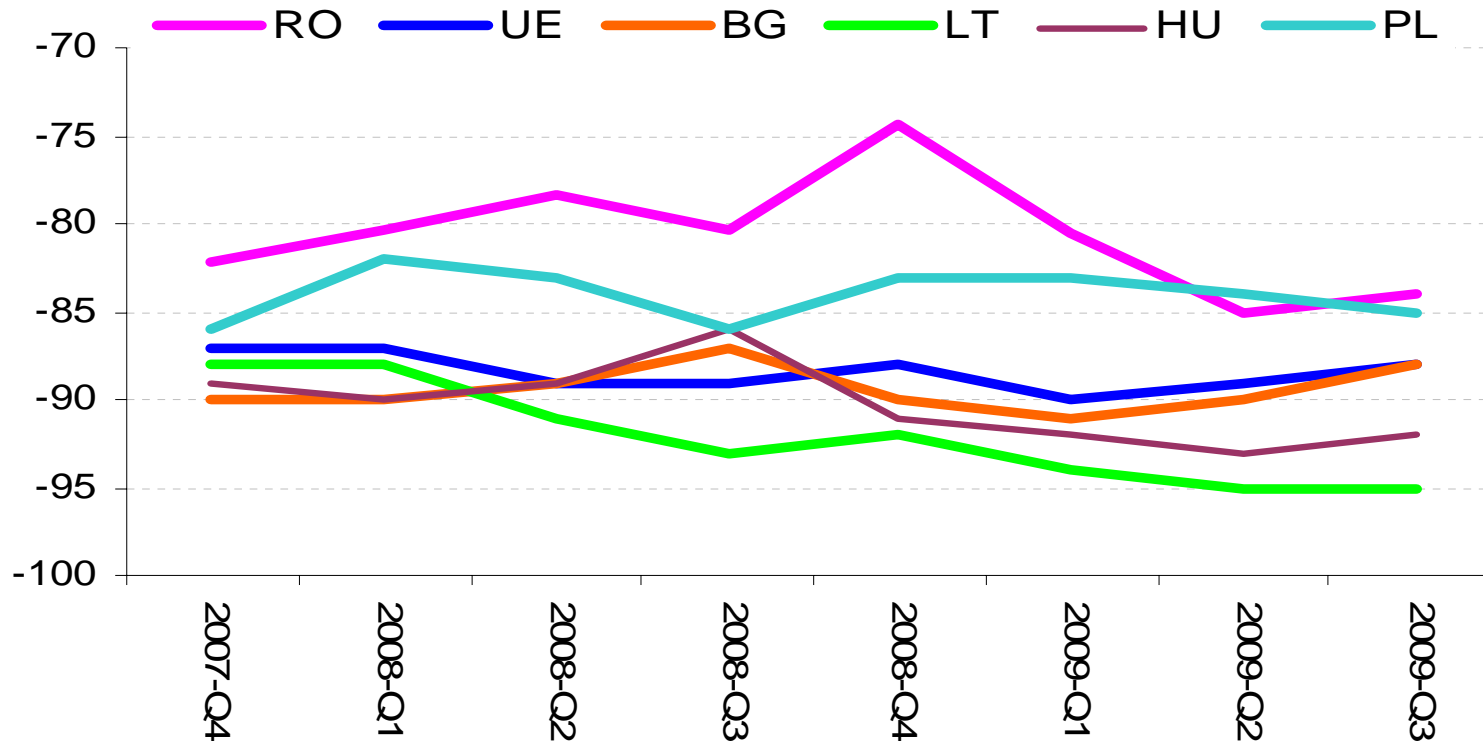
Households' income and debt service



Source: BCR Research

- * "Prima Casa" – "First Home" Government initiative for invigorating the real estate lending, with state guaranteed mortgages and imposed low interest rates margins

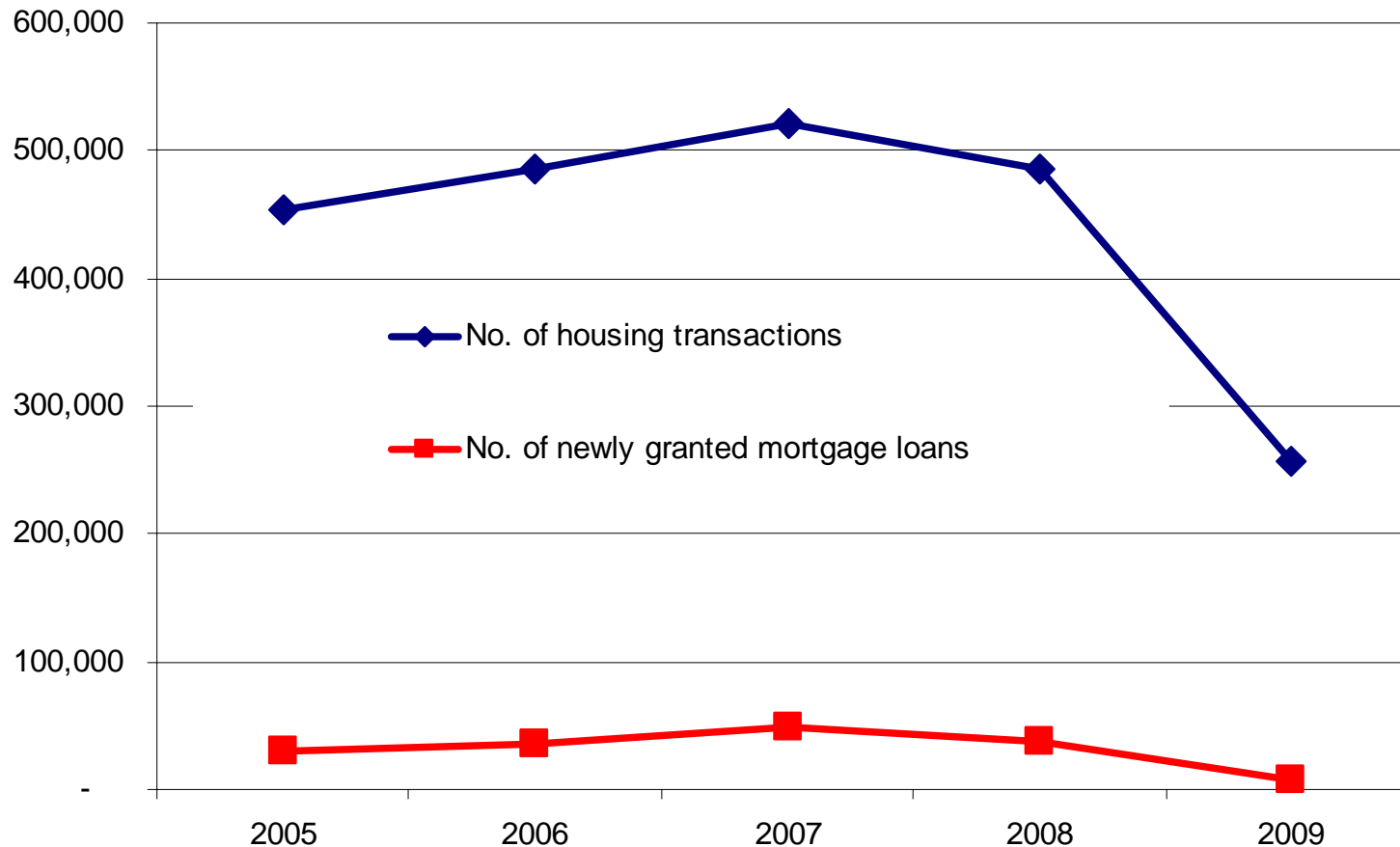
Population interest in purchasing or building houses in the future 12 months



Source: European Commission, NBR Research

- Although the house building permits number decreased significantly compared to 2007 and 2008, the intentions of purchasing or building houses are still high.

Banking system financial intermediation re: housing transactions



Source: NBR

- Economic crisis determines prudent lending in banking sector, however, expectations for the current year indicate slight relaxation in loan granting conditions that may invigorate mortgage loan market.

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Bauspar Market in Romania – two building saving banks

- **At the end of 2009: Merger by absorption of two building saving banks:**
 - Raiffeisen Banca pentru Locuinte – established in 2004 and
 - HVB Banca pentru Locuinte – established in 2005

- **Present market: two banks**

- ▶ **BCR Banca pentru Locuinte – established in 2008**

Ownership:

- BCR S.A. Romania – 80%
- SBausparkasse AG Austria – 20%



- ▶ **Raiffeisen Banca pentru Locuinte**

Ownership:

- Raiffeisen Bank S.A. Romania – 33.324%
- Raiffeisen Bausparkasse Austria – 33.35%
- Bausparkasse Schwäbisch Hall Germany – 33.324%



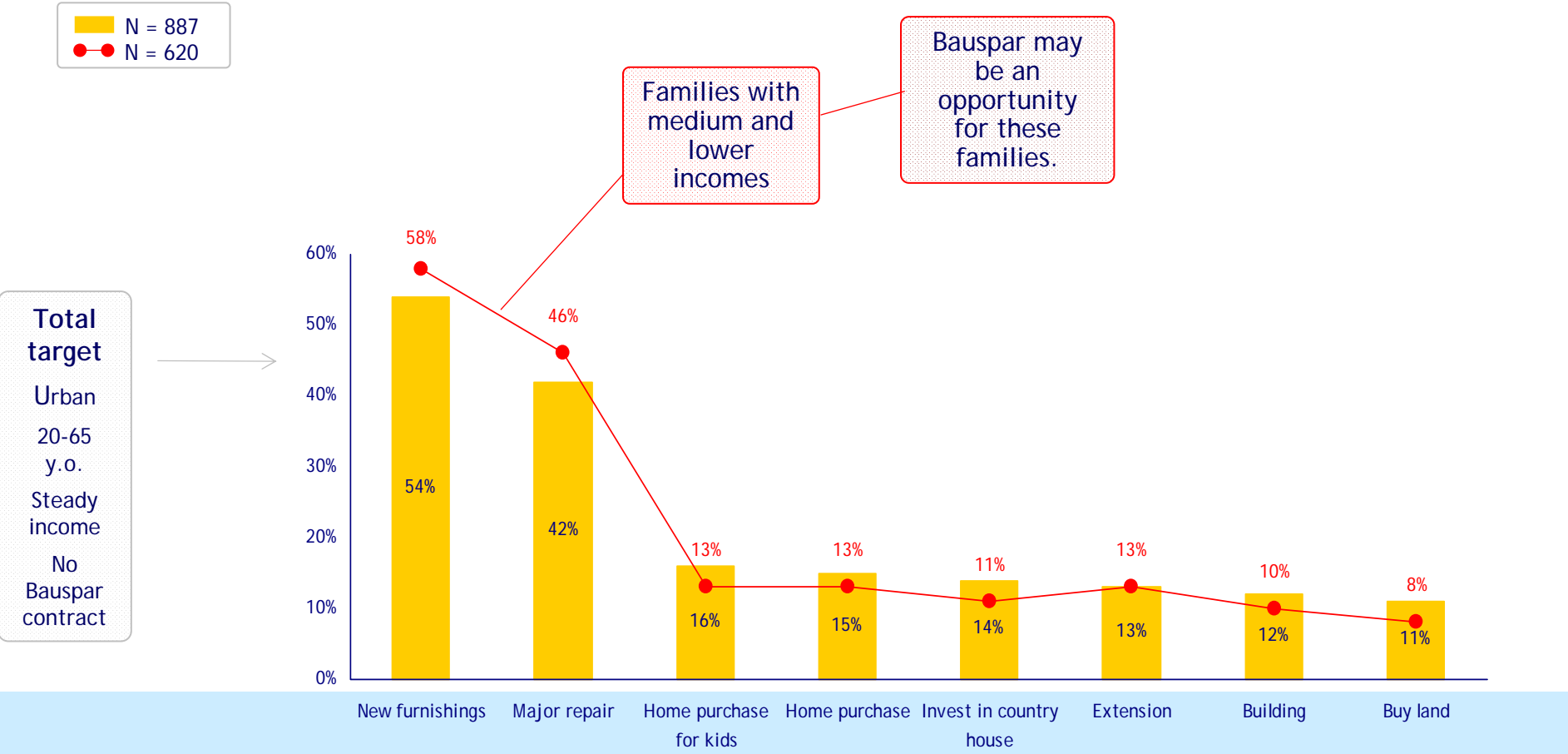
- **Total Market - over 250.000 customers – at year end 2009**
- **Forecast 2010 – over 400.000 customers**

Product Trends and Customer Behavior

- **Constant interest of customers for the housing area**
- **Customers will follow a pressing need-based or an incentive-based (governmental incentives, lower asset prices, etc) borrowing approach**
- **Saving for safety reasons rather than for interest income will prevail**
- **Needs related to family and home become stronger + important ratio of family resources oriented to children**
- **More sophisticated and informed customers**

Latest research re: Bauspar market

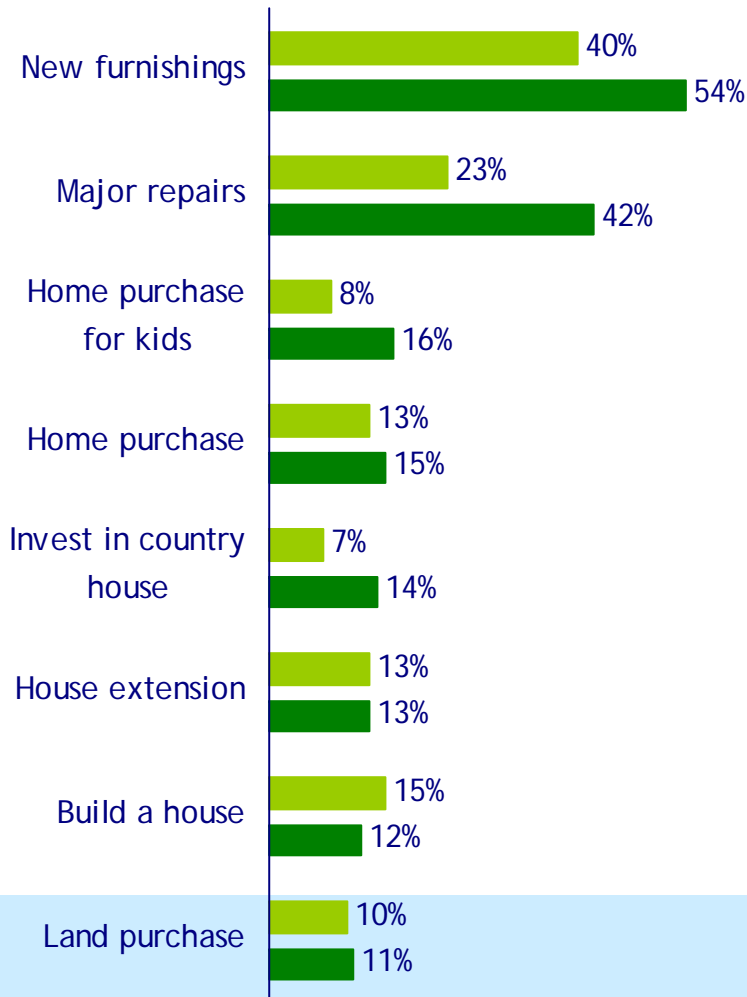
Medium and lower income people intent to invest above average in home renovation and repair



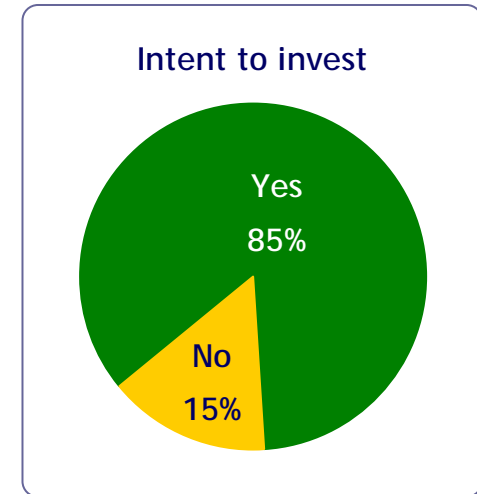
Significant increase of intentions to invest in housing improvement

Based on the question "Do you intend to do any of the following as a priority over the next 5 years?"

■ 2007 (N = 651)
■ 2009 (N = 887)



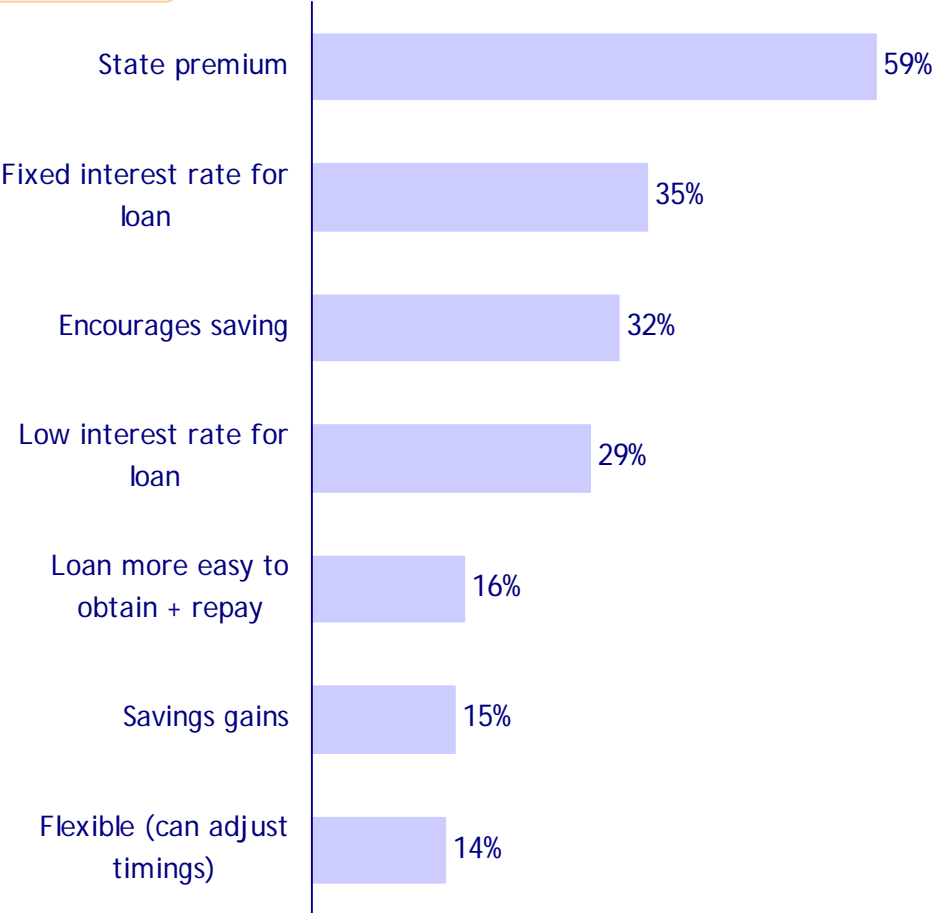
Estimated amounts needed Median (Rounded)
4,800 €
5,000 €
15,000 €
24,500 €
7,000 €
23,000 €
23,000 €



1€ = 4.2 RON

Top of mind Bauspar product advantages

Based on the open questions "In your opinion, what is the most important advantage of this product?" and "And can you think of any other advantages?"



State Premium Evolution

- **Up to 2008, the state premium had the following conditions:**
 - ▶ **Maximum amount granted – 15% (but not exceeding 150 EURO)**
 - ▶ **Amount varying between 120 – 150 EURO, depending on the customer's age and number of minor children**
- **Starting with 2009, the state premium was increased to 25% (but not exceeding 250 EURO/client), regardless of age and children.**
- **The new regulations offer a higher yield of the Bauspar product and the consequences were noticeable, in terms of number of new customers throughout 2009 and the end of year deposits volume.**
- **Still, the Bauspar product has a low awareness (around 1,2% market penetration) and the measure of increasing the state premium can only support the Bauspar market further development => possibly more than 1 million customers in 3 years.**

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Final Considerations

- **Economic recovery more gradual than anticipated => 2010 economic growth forecast around 0.9% (2011- 2.5% according to S&P).**
- **The crisis determined a switch in the population's orientation, from immediate consumption to saving for the uncertain future, postponing consumption.**
- **Demand for housing loans may be unfrozen in the coming months based on increased confidence in Romania and expected sound macroeconomic and financial sector policies.**
- **Recent studies show that Romanians are becoming more concerned about the housing status of the family and have a significantly increased interest in housing modernization and rehabilitation.**
- **Although presently the building saving product has low awareness in Romania, recent market studies highlighted a growing appeal of Bauspar – attractive as both saving instrument and housing loan (approximately 2.3 million people to sign Bauspar contracts in the following 5 years).**