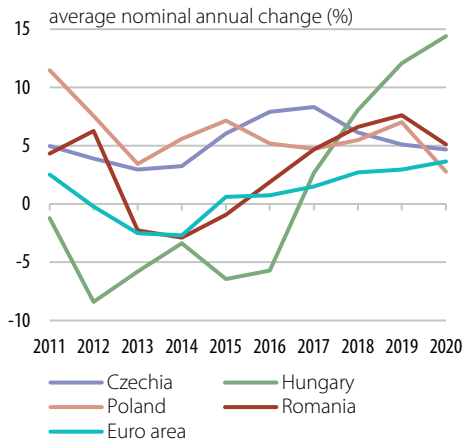
Box 8. Credit to the private sector and liquidity in the economy[1]

In 2020, the dynamics and composition of private sector credit and of liquidity in the economy – relevant from the perspective of monetary transmission, as well as of convergence with monetary developments in the euro area and in the region – reflected the impact of the pandemic crisis and of physical mobility restrictions, but also the sizeable effects of government support programmes and measures and of the NBR's monetary policy measures. Specifically:

Chart A
Credit to the private sector

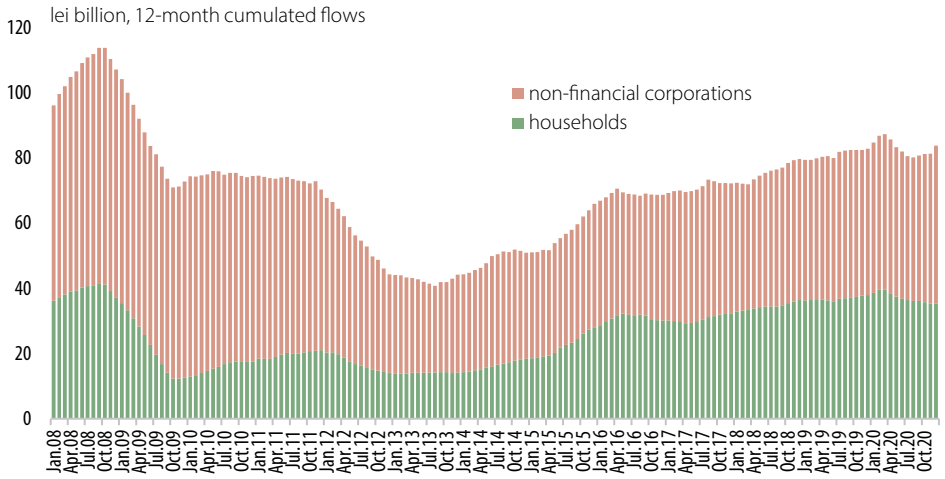


Source: NCBs

1. The annual growth rate of credit to the private sector slowed considerably April through July 2020 and then stepped up progressively as of August.

The annual dynamics of credit to the private sector thus moderated visibly during the reported year overall – to 5.1 percent[2] from the 10-year peak of 7.6 percent in 2019 –, but remained significant from the perspective of the past decade, being the second highest level in the region for the third consecutive year[3] (Chart A).

Chart B
New loans to households and non-financial corporations



The shift in direction and the step-up of credit dynamics in the latter part of the year were driven by the faster growth of leu-denominated loans to non-financial corporations, whose flow increased substantially (Chart B), hitting successive historical highs in the closing months of 2020. New housing loans in domestic currency also gained renewed momentum towards year-end, their volume reaching

1 For a clearer picture, changes in dynamics were analysed, as a rule, in the form of indicators calculated as an average of annual growth rates expressed in nominal terms. The analysis in this section was prepared based on data available before the submission of audited financial statements.

2 In real terms, the deceleration of the average annual dynamics of private sector credit was less pronounced (to 2.4 percent versus 3.6 percent in 2019), amid the decline in the annual inflation rate.

3 As losses of momentum were also recorded in the year under review in Poland (even somewhat more visible) and in Czechia (significantly less pronounced), whereas in Hungary and in the euro area the average growth of private sector credit picked up further.

a peak in December. These developments reflected the stimulative effects exerted on credit demand and supply by: (i) the generally downward trend of lending rates on new business to non-bank clients (Chart C); (ii) government programmes to support the activity/liquidity of firms and households (mainly IMM Invest Romania[4], but also the Lending Programme with state guarantees for large corporations and the "New Home" programme); (iii) the strong rebound in economic activity in the second part of the year, as well as the improvement in firms' confidence, albeit uneven at a sectoral level and trailing behind pre-pandemic levels; (iv) the relative labour market resilience, underpinned *inter alia* by government measures and implying the return of wage earnings growth in H2 close to the levels in the months preceding the pandemic shock; (v) the macroprudential measures implemented by the central bank at the onset of the pandemic crisis[5]; (vi) the consolidation of bank asset quality[6]; (vii) the steeper decline in the loan-to-deposit ratio in the banking system (to 67.1 percent in December 2020[7]); (viii) the protracted rise of residential real estate market prices in annual terms, although at a slower pace than that seen in the first half of the year[8].

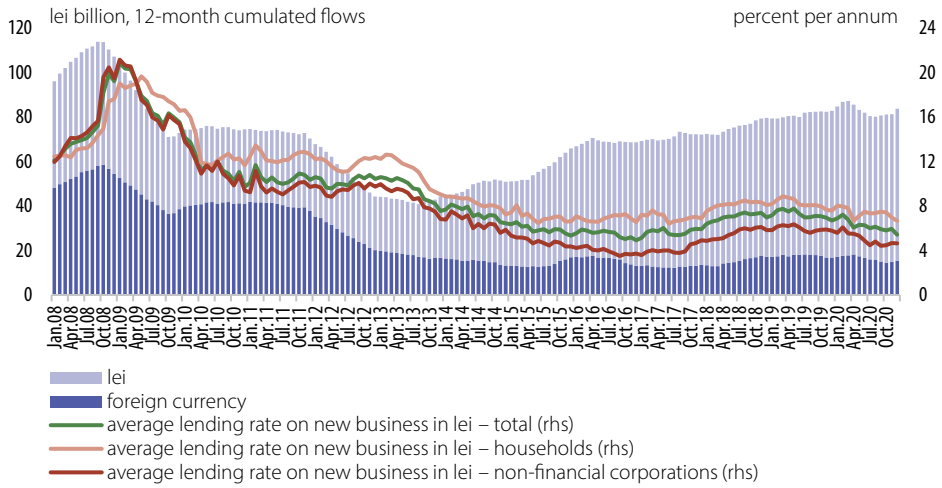


Chart C
New loans to the private sector and the average lending rate on new business in lei

Looking at the credit stock, positive influences also stemmed from loan moratoria[9]. Banks' credit standards witnessed, however, a relative tightening (Chart E), in the case of both loans to non-financial corporations and major types of credit to

4 Government support scheme approved in the context of the pandemic crisis through GEO No. 42/2020 and supplemented by GEO No. 89/2020, whereby the state guarantees up to 90 percent of the amount of some leu-denominated loans to SMEs and micro-enterprises and subsidises the interest for a period of up to eight months after the loan origination date and other financing costs (management and risk fees) over the entire period of the guaranteed loan under the programme. According to data released by the National Credit Guarantee Fund for SMEs, in 2020 the volume of actual loans extended by banks under the IMM Invest Romania programme (with a ceiling of lei 20 billion) was around lei 12 billion.

5 Including those regarding the treatment applied to loan moratoria.

6 The NPL ratio fell further during 2020, reaching 3.83 percent at year-end from 4.09 percent in December 2019.

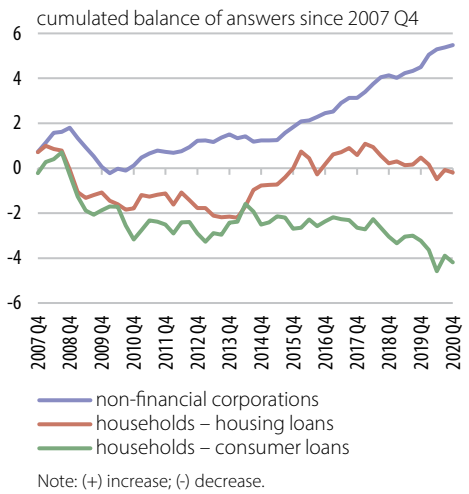
7 Against 72.8 percent in December 2019.

8 As an average for the period overall, the annual growth of house prices regained momentum in 2020, for the first time in four years, to 4.7 percent from 3.4 percent in the previous year.

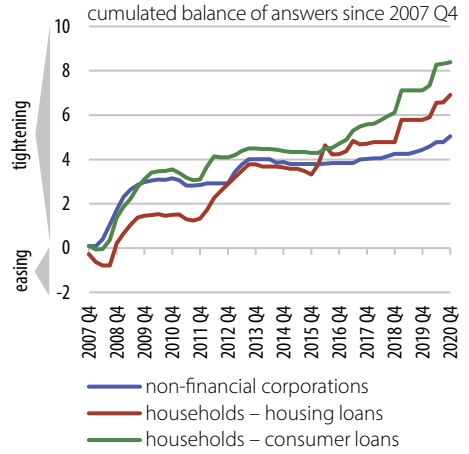
9 GEO No. 37/2020 instituted a loan moratorium for some borrowers – individuals and companies – allowing monthly payments of loan instalments to be deferred for up to nine months and not beyond 31 December 2020, starting April 2020. In parallel, a large part of credit institutions adopted individual-level solutions to postpone loan repayments starting March for borrowers whose income was temporarily affected by the fallout from the COVID-19 pandemic.

households, i.e. housing and consumer loans (see Section 3 below). At the same time, the volume of credit institutions' NPL sales went up.

Chart D
Demand for loans



Note: (+) increase; (-) decrease.



Note: (+) increase; (-) decrease.

Chart E
Credit standards

As a result of the resilience of lending, in the context of the economic decline recorded during the year overall, the share of private sector credit in GDP widened to 26.8 percent in 2020 from 25.3 percent in the previous year, after having narrowed for eight consecutive years. This share increased in the euro area and in the economies in the region as well, except for Poland.

2. The share of the leu-denominated component in credit to the private sector continued to rise, reaching a new post-1996 high of 69.5 percent in December 2020 from 67.6 percent at end-2019.

The advance occurred in a context in which, after the relatively abrupt decline in Q2, the annual dynamics of domestic currency credit regained traction in the second part of the year, returning to the vicinity of pre-pandemic levels (8.5 percent at end-2020 versus 9.3 percent in December 2019), whereas the rate of change of the foreign currency component slipped further into negative territory (-2.5 percent, based on stocks expressed in euro, from -1.1 percent at end-2019)[10]. In terms of flow as well, leu-denominated credit saw its strongly majority share widen (to 82.8 percent during the year as a whole against 79.6 percent in 2019)[11] – Chart C –, amid the divergence between its further rise in annual terms[12], albeit more moderate than a year earlier[13], and the decline recorded by the foreign currency component, for the first time in four years.

At a sectoral level, the weight of leu-denominated credit continued to rise for households, to a more than 18-year peak of 79.2 percent at end-2020 against 76.0 percent in December 2019[14], while resuming growth in the case of non-financial corporations (a two-year peak of 59.7 percent in December 2020 versus 58.3 percent at end-2019).

3. The share of household credit in total credit remained relatively unchanged across the year overall (53.1 percent in December 2020[15]) – slightly above the euro

10 The statistical effect of the EUR/RON exchange rate acted, however, in the opposite direction.

11 Calculated based on the flow adjusted by the volume of renegotiated loans.

12 The 12-month cumulated flow of leu-denominated credit, unadjusted by the volume of renegotiated loans, thus peaked at a new historical high in 2020.

13 The annual average dynamics of the leu-denominated credit flow, adjusted by the volume of renegotiated loans, shrank to 5.9 percent in 2020 from 8.1 percent in the prior year.

14 As new business to households was further almost entirely accounted for by domestic currency loans.

15 After having seen its increase come to a halt in 2019.

area level, but below the readings in Czechia and especially Poland –, masking however heterogeneous developments during the period.

The intra-annual pattern reflected the relatively marked deceleration in the growth rate of credit to non-financial corporations during H1, under the impact of the pandemic crisis, but also its step-up in the second part of the year, overlapping a slowly downward path of household credit dynamics.

Looking at the annual averages, the growth rate of household loans remained robust nevertheless, decelerating only slightly (to 6.1 percent from 7.8 percent in 2019), whereas that of loans to non-financial corporations contracted visibly (to 3.6 percent against 7.0 percent in 2019), owing primarily to the decline in the dynamics of the foreign currency component (to 2.3 percent from 8.3 percent in 2019, based on stocks expressed in euro).

New business in domestic currency to non-financial corporations witnessed, however, a substantial advance, their pace of increase doubling to 19.5 percent from 9.3 percent in 2019. At the same time, in certain sectors, such as agriculture and services, the total volume of new loans stuck to the relatively high readings reached in the previous year, while in construction it even saw a modest rise, declining however slightly in industry. Nevertheless, the breakdown by destination remained broadly the same as in the prior years, with services and industry further accounting for around 80 percent of total credit flow.

Looking at the maturity breakdown, the sizeable reduction in the dynamics of the stock of loans to non-financial corporations was ascribable to short-term credit, used for working capital financing. Conversely, medium- and long-term loans continued to grow at a fast pace, only slightly lower than in the previous year, as a result of their dynamics regaining considerable traction in the latter part of the year, most likely in association with the step-up in investment, and also with a contribution from the IMM Invest Romania programme. Looking at household credit, the slight moderation of the dynamics was fully ascribable to consumer credit and other loans, while the rate of change of housing loans remained almost unchanged (see Section 4 below).

Developments overall were only partly correlated with the findings of the successive issues of the NBR's *Bank Lending Survey*, which pointed to non-financial corporations' further keener demand for loans (Chart D), but also to a relative tightening of credit standards, *inter alia* on account of the risk associated by credit institutions with this category of borrowers; in turn, credit terms became more restrictive, mainly via a higher premium demanded on riskier loans and tighter collateral requirements. As for households, survey results indicated a mild contraction in demand for housing loans, but a more visible one in the case of consumer loans, alongside a more obvious tightening of credit standards for both types of loans, carried out mostly in Q2 and attributable primarily to the worsening of banks' risk perception; at the same time, looking at housing loans, credit institutions increased the restrictiveness of some credit terms, such as the maximum loan amount to collateral value or the monthly debt service to income.

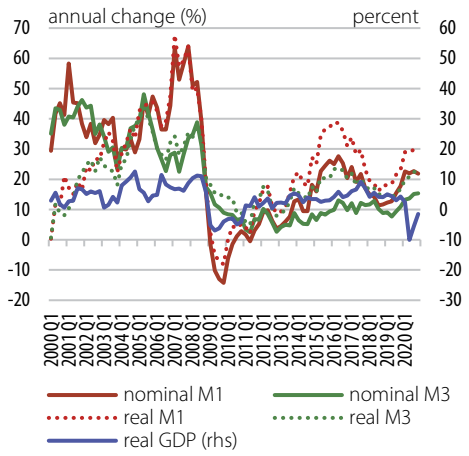
4. The majority share of housing loans in total credit to households posted a steeper uptrend, reaching 59.5 percent in December 2020 from 56.7 percent at end-2019.

After the more visible reduction in 2019, the average annual growth rate of housing loans remained fairly steady at two-digit readings (10.3 percent), as the particularly high dynamics of the leu-denominated component followed a considerably slower downward path (18.2 percent versus 20.5 percent in the previous year), amid the sizeable increase in the volume of new business without state guarantees, whose impact was only partly offset by the renewed contraction in lending under the "First Home"/"New Home" programmes[16]. Leu-denominated housing loans thus saw their share in total credit for this purpose continue to widen markedly (to 76.1 percent from 71.6 percent in December 2019), coming at the same time to account for 45.3 percent of total household credit (40.6 percent at the end of the previous year).

Running at much lower levels, the annual rate of change of consumer credit and other loans witnessed, however, a hefty decline (to 0.9 percent against 4.6 percent in 2019), amid the significant contraction in new consumer loans, to which added the slower dynamics of overdrafts and credit card loans (to negative readings in the latter part of the year), in correlation with the overall shrinking of consumer demand.

Looking at other countries in the region and at the euro area, in 2020 the share of housing loans in total credit to households in Romania remained close to that in Poland and further exceeded more visibly that in Hungary, while remaining well below those in Czechia and the euro area.

Chart F
Broad money and GDP



Source: NIS, NBR

In terms of the dynamics and composition of liquidity in the economy, the most important developments were:

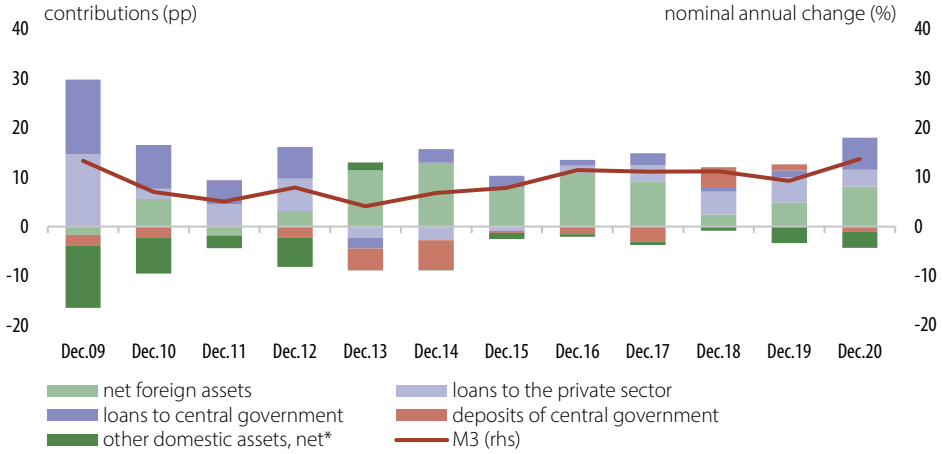
1. The substantial increase in the degree of monetisation of the economy (to 46.2 percent at end-2020 from 39.9 percent at end-2019), which thus peaked at a historical high; the level remained, however, markedly lower than those in the region and especially in the euro area, which rose even more visibly during this period.

The high annual dynamics of broad money (M3) gained considerable traction in 2020 – picking up from 9.3 percent in 2019 to a 12-year peak of 13.7 percent[17] (Chart F) –, amid the significant easing of the budget execution under the impact

[16] The "First Home" programme, launched in 2009, was terminated in April 2020; it was replaced by the "New Home" programme, whose results were visible no sooner than in the closing quarter of the year. The state guarantee ceiling earmarked for the "First Home" programme was kept at lei 2 billion in 2020, while the remaining funds upon termination thereof were channelled towards the "New Home" programme. The assessments are based on CCR data referring to loans granted with state guarantee associated with "First Home"/"New Home" programme.

[17] In real terms, the average annual M3 dynamics regained momentum (10.8 percent from 5.2 percent in 2019) for the first time in four years, also as a result of the decline in the annual inflation rate.

of the pandemic crisis and the support measures taken, as well as due to the rise in EU fund inflows[18]; their influences were counterbalanced only to a small extent by those stemming from the sizeable increase in the volume of households' holdings of government securities[19].



*) long-term financial liabilities, capital accounts, other assets and other liabilities

Chart G
M3 and its counterparts

From the perspective of M3 counterparts (Chart G), monetary expansion was mainly prompted by net credit to central government, whose contribution rose substantially to a 10-year high[20], given the robust step-up in the dynamics of monetary financial institutions' investments in government securities (to an eight-year high as annual average)[21], only partly offset, in terms of impact, by the increase in central government deposits. Net foreign assets of the banking system, whose annual dynamics picked up further at a brisk pace[22], saw their contribution widen in 2020 as well, yet more moderately than in the year before. Conversely, opposite influences came from the slight reduction in the expansionary effect of credit to the private sector – the main source of money creation in the previous two years –, as well as from the further hefty contractionary impact exerted by long-term financial liabilities, again mainly on the back of capital accounts[23].

2. The further swift growth of the majority share held by narrow money (M1) in M3, which widened to a more than 26-year peak of 69.2 percent in December 2020 from 65.5 percent at end-2019 – Chart H.

18 According to general government budget execution data.

19 During 2020, the MF conducted government security issues for households totalling lei 5.3 billion, compared to lei 3.2 billion a year earlier.

20 Assessment based on annual averages.

21 The NBR included, as the central bank launched in April the purchase of leu-denominated government securities on the secondary market, conducting purchases worth lei 5.3 billion during the period under review; at the same time, credit institutions' government security holdings saw their annual average dynamics pick up significantly.

22 To 15.7 percent, as annual average, from 8.8 percent in the prior year (based on readings expressed in euro), *inter alia* amid the rise to a record value in the volume of Eurobond issues by the MF on external markets (to the equivalent of EUR 11.7 billion during the period overall versus EUR 5 billion in 2019), as well as the higher inflows of EU funds (EUR 7.1 billion against EUR 5.7 billion, according to balance-of-payments data).

23 Their marked increase was most likely associated with the application, starting 1 January 2020, of the capital buffer for other systemically important institutions in the case of nine banks identified as systemically important.

The share of M1 in broad money rose less than in Czechia and especially Poland, but faster than in Hungary and the euro area, thus almost fully bridging the M3 structural gap vis-à-vis the latter in 2020. The advance was due to the increased divergence between the particularly brisk and sharply rising dynamics of the M1 monetary aggregate and the declining rate of change of time deposits with a maturity of up to two years.

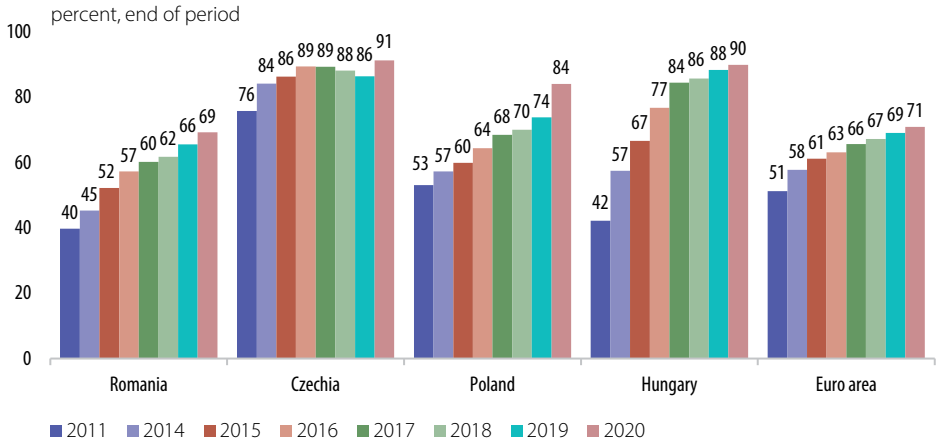


Chart H
Share of M1 in M3, international comparison

Source: NCBs

The added momentum of the most liquid M3 component, to a four-year high in terms of annual average, was spurred by the considerable renewed step-up in the rate of change of currency in circulation, but especially by the hike in the dynamics of ON deposits from both major institutional sectors[24]. The evolutions reflected the stronger preference for liquidity due to precautionary reasons and the decrease in the opportunity cost of holding liquid monetary assets, but also the influences from the easing of budget execution and from government measures aimed at supporting corporate and household liquidity[25], as well as from the still robust increase in households' disposable income, coupled with the hefty revival in purchases of goods during the latter part of the year.

At the same time, the annual rate of increase of time deposits with a maturity of up to two years decelerated further during the year overall – albeit less than in 2019 –, amid the slower dynamics of household deposits on account of the foreign currency component and the quasi-standstill in the average annual rate of change of non-financial corporations' deposits at a marginally positive value, after the sizeable loss of momentum in the previous year.

24 Households' ON deposits as a share in M3 thus reached a new historical peak, while those of non-financial corporations posted a new record high since 1993.

25 The measures taken included the possibility to delay the payment of some fiscal obligations without penalties, discounts for payment in due time of the corporate income tax and the income tax for micro-enterprises, the granting of financial aid to companies in order to support the labour market (*inter alia* via temporary and partial subsidies for wages in firms affected by the pandemic), the settlement of health insurance benefits for sick leave in order to diminish the related overdue payments stock, higher VAT returns (according to the general government budget execution), as well as the possibility given to households and firms to suspend temporarily the payment of their bank loan instalments.

Consequently, the share of ON deposits in M3 hit a 27-year peak of 51.2 percent in December 2020, while that of currency in circulation reached a new high for the post-1995 period in June (18.6 percent), but narrowed slightly afterwards (18.1 percent in December 2020).

3. Protraction of the generally upward trend of the share of household deposits in total non-banking sector deposits (61.0 percent in December 2020 versus 60.5 percent at end-2019).

This was attributable to the further pick-up in the dynamics of households' bank deposits, to an annual average of 14.3 percent (an 11-year peak) from 11.6 percent in 2019, due primarily to the resilience of the growth rate of disposable income, but also to the reduction in private consumption during the period overall. The increase in the volume of these deposits exceeded slightly that resulting from the substantial advance in the dynamics of non-financial corporations' deposits during 2020 (to a post-2008 high of 14.6 percent versus 7.3 percent in 2019), under the influence of government measures aimed at managing the epidemiologic situation and at tackling the adverse economic impact of the pandemic crisis, *inter alia* by supporting firms' liquidity, as well as in the context of the strong rebound in economic activity and the faster dynamics of loans to this sector in 2020 H2.