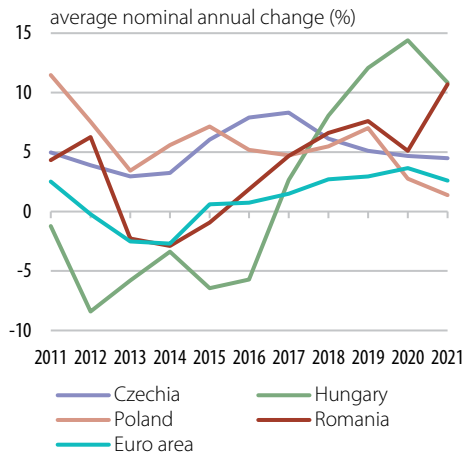
Box 5. Credit to the private sector and liquidity in the economy[1]

In 2021, the dynamics and composition of private sector credit – relevant from the perspective of monetary policy design and transmission, as well as of convergence with monetary developments in the euro area and in the region – saw a steepening of the major trends they had embarked on in the second half of the previous year. Specifically:

1. The annual growth rate of credit to the private sector followed a considerably sharper upward path, especially in H1, climbing in mid-year into the two-digit range and peaking in December at a 12½-year high.



Source: national central banks

Chart A
Credit to the private sector

The average dynamics of credit to the private sector thus stepped up to 10.7 percent – a 12-year peak and the second highest reading in the region[2] (Chart A) –, more than twice higher than the slightly moderating growth rate in 2020, i.e. 5.1 percent[3]. Behind these developments stood the strong acceleration in domestic currency lending to both households and non-financial corporations, which materialised in record annual values of the flows of major types of loans. This reflected the stimulative effects exerted on credit demand and supply by: (i) the particularly solid economic growth, albeit amid uneven developments, and the improvement of firms' confidence in all major sectors; (ii) the extension of 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 further decreasing / still relatively low interest rates on new leu-denominated loans (Chart C); (iv) the generally favourable labour market developments, implying also a slight reacceleration of average wage earnings growth[5], *inter alia* amid the government's job retention schemes; (v) the consolidation of bank asset quality[6]; (vi) the further moderate rise of residential real estate market prices[7]; (vii) the relative easing of banks' credit standards on loans to households – both housing and consumer

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 For the fourth consecutive year. In the euro area and countries in the region, the annual dynamics of private sector credit decelerated during the reported year overall versus 2020.

3 In real terms as well, the average annual dynamics of private sector credit doubled, but remained significantly lower amid the pick-up in the annual inflation rate (to a 12-year peak of 5.4 percent against 2.4 percent in 2020).

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. The ceiling of state guarantees was lei 15 billion in 2021 and lei 20 billion in the previous year.

5 The average annual growth rate of average net wage earnings economy-wide stepped up to 7.2 percent in 2021, from 6.7 percent a year earlier, but remained visibly below its pre-pandemic level (15.0 percent in 2019, a post-2008 high).

6 The NPL ratio fell further during 2021, reaching 3.35 percent at year-end from 3.83 percent in December 2020.

7 The average annual growth of house prices stood at 4.4 percent in 2021 versus 4.7 percent in the prior year.

loans –, alongside a relative status-quo of standards on corporate loans (Chart E). Positive, albeit small influences on the credit stock dynamics also stemmed from the slower pace of credit institutions' loan sales.

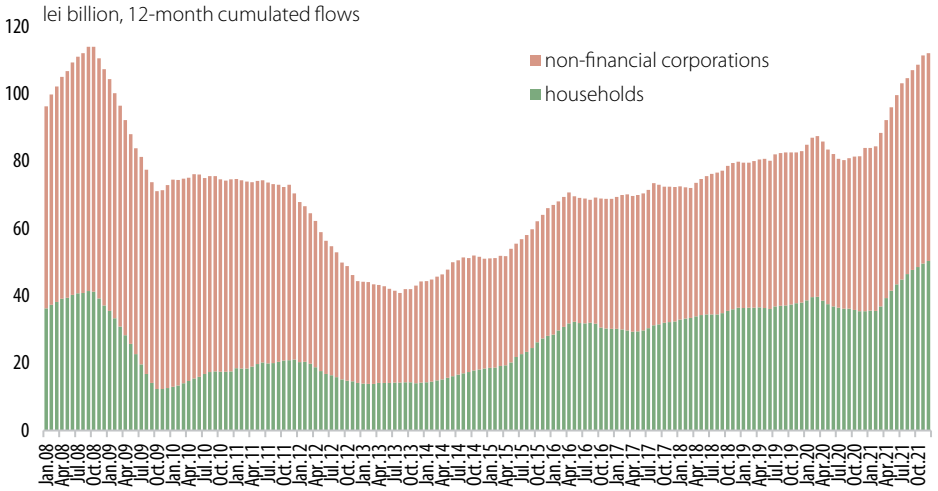


Chart B
New loans to households and non-financial corporations

The share of private sector credit in GDP continued to widen slightly in 2021, to 27.4 percent from 26.7 percent in the previous year[8]. This share increased in Czechia as well, whereas in the euro area and the other economies in the region it narrowed, but from significantly higher levels, i.e. 105.5 percent in the euro area, 52.5 percent in Poland and 39.6 percent in Hungary.

2. The share of the leu-denominated component in credit to the private sector rose at a faster pace, reaching 72.4 percent in December 2021[9] from 69.5 percent at end-2020.

This share widened at a quicker tempo amid the larger positive spread between the fast-rising dynamics of domestic currency credit (to a post-April 2016 high of 19.6 percent in December 2021 from 8.5 percent at end-2020) and the rate of change of the foreign currency component. The latter became slightly positive during the reported year, i.e. 2.2 percent in December 2021 against -2.5 percent at end-2020, based on stocks expressed in euro. Both major sectors witnessed faster increases in the relative weight of leu-denominated credit, which reached a 20-year high for households (83.3 percent in December 2021 versus 79.2 percent in the same year-ago period)[10] and a 25-year peak in the case of non-financial corporations (62.8 percent at end-2021 from 59.7 percent in December 2020).

In terms of flow, the strongly majority share of the domestic currency component in total new loans to the private sector (Chart C) narrowed, however, marginally (to 81.9 percent in the year as a whole against 82.8 percent in 2020), as the advance

8 In 2020, the share of private sector credit in GDP had increased for the first time after having narrowed for eight consecutive years.

9 A post-1995 high.

10 As new business to households further consisted almost entirely of domestic currency loans.

in new forex loans exceeded slightly that of leu-denominated credit[11], entirely due to developments in the non-financial corporations sector.

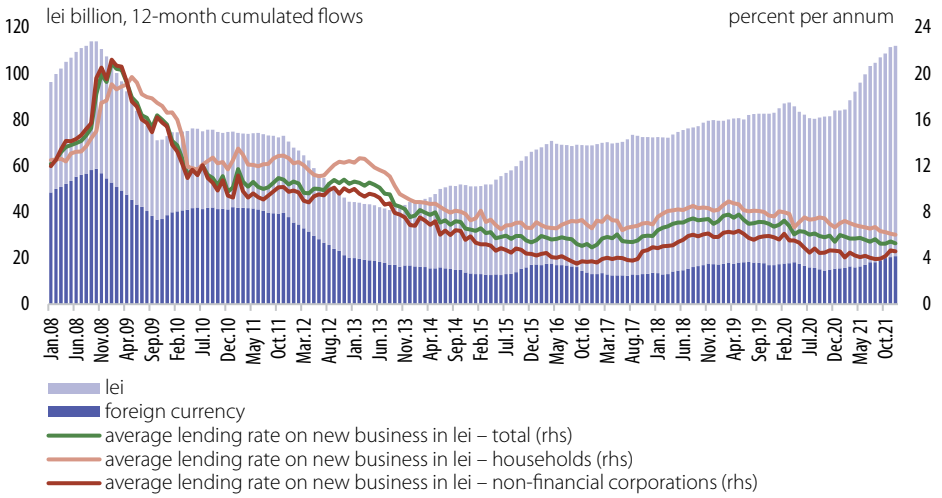


Chart C
New loans to the private sector and the average lending rate on new business in lei

3. The share of household loans in total credit saw its uptrend[12] come to a halt and even posted a marked decline (to 50.7 percent at year-end[13]); thus, it recorded a larger negative spread vis-à-vis the values in Poland and Czechia, which were on the rise in 2021, and reverted to a relatively similar level to that in the euro area.

The average annual dynamics of household credit regained slight momentum in 2021, nearing the pre-pandemic level (7.5 percent in the year under review, from 6.1 percent in 2020), on account of both major types of loans. However, the step-up was exceeded by far, for the first time in nine years, by the faster growth rate of loans to non-financial corporations, which peaked at a post-2008 high of 14.1 percent during 2021 overall (3.6 percent a year earlier). This was due to the much swifter dynamics of the leu-denominated component (20.0 percent versus 3.1 percent in 2020)[14], *inter alia* with increased support from the "IMM Invest Romania" programme. The slight step-up in the dynamics of forex loans to these non-bank customers (to 4.2 percent from 2.3 percent in 2020, based on stocks expressed in euro) also had a positive, albeit much more modest contribution.

The added momentum of new loans was broad-based across sectors, although it was more visible in the case of industry, after the year-earlier contraction in volume, and of agriculture. At the same time, the breakdown by destination remained broadly the same as in the prior years, with industry and services further accounting for around 80 percent of total credit flow.

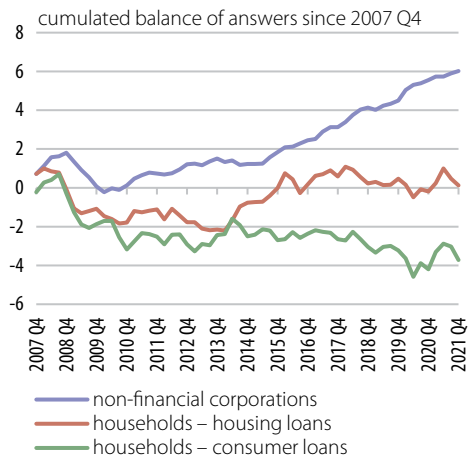
[11] The 12-month cumulated flow of leu-denominated credit, unadjusted by the volume of renegotiated loans, peaked at a new historical high in 2021, while that of forex loans recorded the highest reading in nine years.

[12] It had resumed in 2013, after a four-year pause.

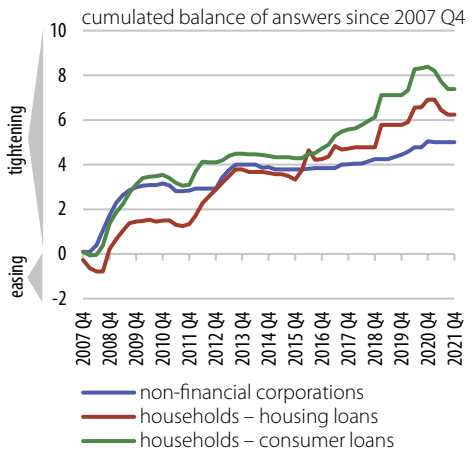
[13] From 53.1 percent in December 2020.

[14] New corporate loans in domestic currency, unadjusted by the volume of renegotiated loans, saw their average annual pace of increase pick up further (to 28.7 percent against 20.2 percent in 2020), while their 12-month cumulated flow hit a new historical high.

Chart D
Demand for loans



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



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

Chart E
Credit standards

Looking at the maturity breakdown, the sizeable pick-up in the dynamics of the stock of loans to non-financial corporations was mainly ascribable to the quasi-doubling of the average pace of increase of medium- and long-term loans[15]. A noteworthy contribution also had the growth rate of short-term credit, which returned to positive territory in the second part of 2021, for the first time in about two years, *inter alia* amid the faster dynamics of revolving loans and overdraft loans, reflecting the rise in firms' working capital requirements, given the expansion of economic activity.

Developments were broadly correlated with the findings of the successive issues of the NBR's *Bank Lending Survey*, which pointed to a further uptrend of non-financial corporations' demand for loans during the year under review (Chart D). This occurred amid relatively constant credit standards (Chart E), associated with an easing of credit terms, primarily via a lower premium demanded on riskier loans and diminished collateral requirements. As for households, survey results indicated only a fluctuating and mild rekindling of demand for housing and consumer loans, the considerable decline in credit standards notwithstanding. The latter reflected mainly the reduction in the maximum loan-to-value ratio, as well as the narrower spread of the average lending rate vis-à-vis the IRCC in the case of housing loans, while in that of consumer credit it reflected the rise in the maximum loan amount.

4. The majority share of housing loans in total credit to households continued to widen, albeit at a slower pace, reaching 61.3 percent at end-2021[16].

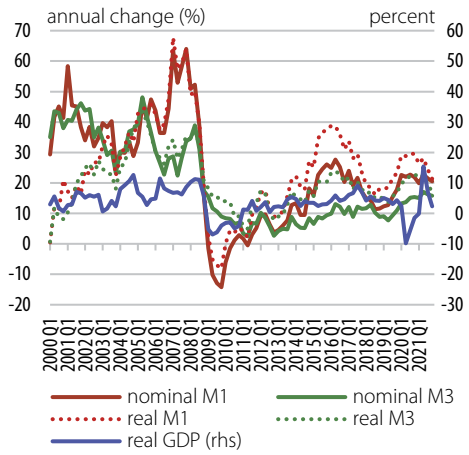
Both major types of household credit saw a renewed slight step-up in their annual dynamics during 2021, although the evolution was somewhat more visible for housing loans, which also exhibited a much higher stock. Specifically, the annual growth rate of housing loans gained traction during the year overall to 11.5 percent, from 10.3 percent in 2020, following the reacceleration of the particularly high dynamics of the leu-denominated component (to 18.9 percent against 18.2 percent in 2020), amid the swifter rate of change of new business without state guarantees[17,18]. Leu-denominated housing loans thus saw their share in total credit for this purpose

15 To 18.1 percent in 2021 from 9.4 percent in the previous year.

16 Versus 59.5 percent in December 2020.

17 The 12-month cumulated flow of leu-denominated housing loans without state guarantees, unadjusted by the volume of renegotiated loans, reached a new historical high in 2021.

18 The state guarantee ceiling earmarked for the "New Home" programme was lowered to lei 1.5 billion in 2021 from lei 2 billion in the previous year. The assessments are based on CCR data referring to government-guaranteed loans granted associated with "First Home"/"New Home" programmes.



Source: NIS, NBR

Chart F
Broad money and GDP

continue to widen markedly (to 81.1 percent from 76.1 percent in December 2020), coming at the same time to account for 49.7 percent of total household credit[19].

At the same time, the average annual growth rate of consumer credit and other loans advanced to 2.0 percent, from 0.9 percent in 2020, amid the considerable renewed step-up in the dynamics of new loans for this purpose[20], in correlation with the overall revival of consumer demand, as well as with the decline in related interest rates.

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

In terms of the dynamics and composition of liquidity in the economy, the most important developments in 2021 were:

1. The further increase in the degree of monetisation of the economy, yet visibly slower than in the previous year, to a new historical high of 47.8 percent from 46.0 percent at end-2020; the level was, however, markedly lower than those in the region and in the euro area, even amid their primarily downward adjustments during 2021.

The particularly swift dynamics of broad money (M3) gained further momentum in 2021, albeit more moderately, reaching 16.0 percent during the reported year overall[21] (a 13-year high – Chart F), from 13.7 percent in 2020. This occurred in the context of the faster growth of private sector credit and the higher disbursements to recipients of EU funds, as well as amid a statistical effect[22]. Their influences were only partly counterbalanced by those stemming from the reduction in the budget deficit and from the larger stock of alternative financial instruments (households' holdings of government securities[23], investment fund shares) held by non-bank clients.

From the perspective of M3 counterparts (Chart G), credit to the private sector[24] became the main driver of monetary expansion. Significant positive contributions, albeit on the wane versus 2020, came from net foreign assets of the banking

19 Against 45.3 percent at end-2020.

20 The 12-month cumulated volume of new consumer credit and other loans, unadjusted by the volume of renegotiated loans, peaked at a 12-year high.

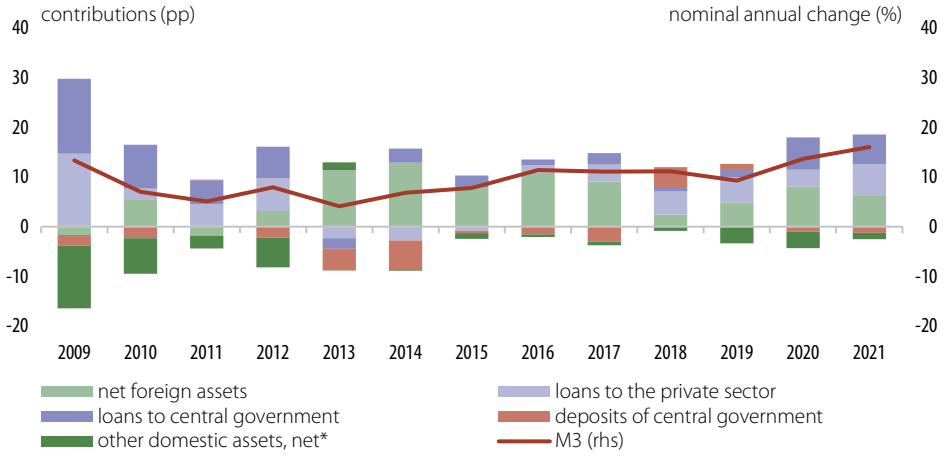
21 In real terms, the average annual M3 dynamics contracted slightly, against the background of the pick-up in the annual inflation rate (10.5 percent in 2021 versus 10.8 percent in the prior year, as annual averages).

22 Associated with the reclassification of some household deposits by a credit institution in June 2021. They had previously been included in the long-term financial liabilities of the net consolidated balance sheet of monetary financial institutions, thus being a counterpart of M3, not a component.

23 During 2021, the MF conducted net issues of government securities for households totalling lei 7.0 billion, compared to lei 5.0 billion a year earlier.

24 Its contribution to annual M3 dynamics peaked at a nine-year high as annual average.

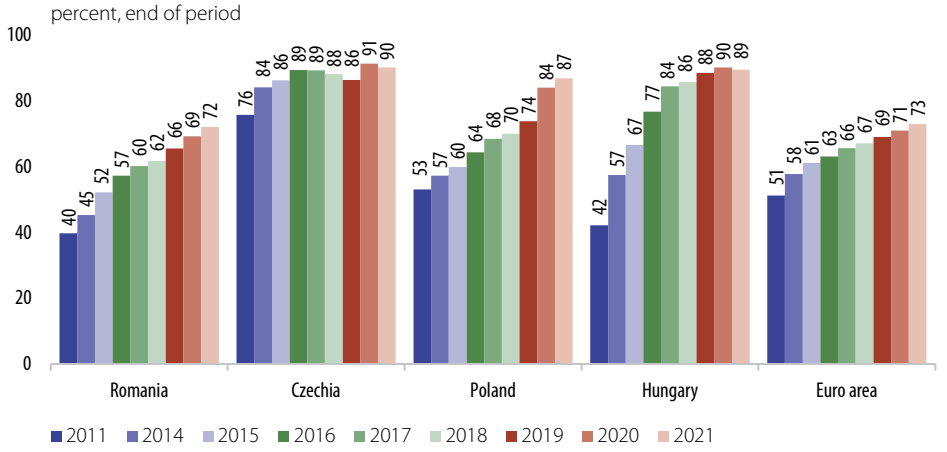
system – whose dynamics moderated visibly[25] after the year-earlier leap – and from net credit to central government. The latter reflected the slacker increase in monetary financial institutions' holdings of government securities, along with the step-up, in 2021 as well, of the dynamics of central government deposits. At the same time, the contractionary impact exerted by long-term financial liabilities diminished markedly, primarily on the back of the aforementioned statistical effect.



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

Chart G
M3 and its counterparts

2. The only slight moderation in the growth of the majority share held by narrow money (M1) in M3, which widened to 72.1 percent[26] in December 2021 from 69.3 percent at end-2020 (Chart H).



Source: national central banks

Chart H
Share of M1 in M3, international comparison

[25] To 11.3 percent, as annual average, from 15.7 percent in 2020 (based on readings expressed in euro), *inter alia* amid the decline in the volume of Eurobond issues by the MF on external markets (to around EUR 7 billion during the period overall versus the year-earlier record high value of approximately EUR 12 billion).

[26] A more than 27-year peak.

The rise was marginally lower, in terms of magnitude, than in Poland, but exceeded for the third consecutive year that seen in the euro area, while Czechia and Hungary recorded declines. Hence, the M3 structural gap was practically bridged vis-à-vis the euro area and continued to narrow slightly versus two economies in the region.

The higher share in M3 of the most liquid component was due to the particularly swift M1 dynamics remaining at the four-year high reached in 2020 (21.7 percent)[27] and significantly above the rate of change of time deposits with a maturity of up to two years, although the spread between them narrowed. The steady pace of the M1 monetary aggregate was the result of the small divergent influences stemming, on one hand, from the mild deceleration in the high dynamics of currency in circulation and non-financial corporations' ON deposits and, on the other hand, from the protracted step-up in the growth rate of similar household deposits. Aside from the already mentioned statistical effect, the evolutions reflected the keener demand for money for current transactions – in correlation with the solid growth of the economy and of private consumption, as well as with the renewed faster increase in households' disposable income – and the ongoing decrease in/further low opportunity cost of holding liquid monetary assets. The signification reduction in the budget deficit compared to 2020 exerted opposite influences.

The annual rate of increase of time deposits with a maturity of up to two years regained traction in 2021, peaking at a three-year high of 4.5 percent, amid the sharp pick-up in the dynamics of non-financial corporations' deposits, underpinned by the domestic currency component. Conversely, the pace of increase of similar household deposits continued to decelerate visibly, this time on account of developments in both domestic and foreign currency components.

Consequently, the share of ON deposits in M3 climbed to the highest reading in over 28 years (55.0 percent at end-2021), whereas the relative weight of currency in circulation witnessed a mild downward correction (17.0 percent, as at December).

3. Downward adjustment of the share of household deposits in total non-banking sector deposits, after three years of consecutive rises (59.2 percent in December 2021 versus 61.0 percent at end-2020).

The evolution was attributable to the divergent behaviours in terms of annual dynamics exhibited during the reported year by deposits from the main sectors. Specifically, the growth rate of household deposits moderated slightly compared to the high value reached a year earlier, i.e. 12.7 percent against 14.3 percent in 2020[28]. This was due to the reacceleration in the dynamics of disposable income, whose impact was however outweighed by the solid growth of consumption and by the larger stock of alternative financial instruments held by this sector (government securities, placements in investment funds). By contrast, the pace of

[27] Assessment based on annual averages.

[28] An 11-year peak as annual average.

increase of non-financial corporations' deposits gained further momentum and hit a new post-2008 peak of 18.9 percent (14.6 percent in 2020). This occurred amid the rapid recovery of economic activity, *inter alia* with a contribution from government measures aimed at supporting firms' liquidity[29], as well as in the context of larger disbursements from EU funds and of the swift pick-up in the dynamics of loans to this sector.

[29] Some of these measures were extended from 2020 (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 settlement of furlough benefits from the government budget), while others were introduced in 2021 (state aids for tourism and food service companies whose activity was affected by the COVID-19 pandemic, capping energy prices for non-household consumers November through December).