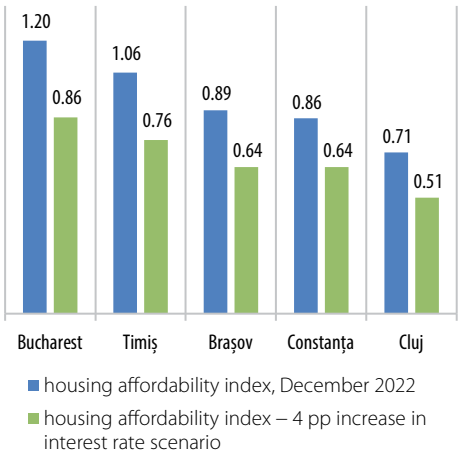
Box 8. Regional analysis of the residential real estate market in Romania

The residential real estate market in Romania is characterised by: (i) significant regional disparities in the demand for and supply of real estate and (ii) the regional concentration of housing loans, amid the low financial inclusion and intermediation in the less developed regions of the country.

Regional differences in terms of the price-to-income ratio[1] stem from prices of real estate and the level of income. The highest level of the indicator is recorded in the Cluj county (10 years, data as at December 2022), the region also reporting the strongest increase in residential property prices. On the other hand, the counties of Giurgiu, Teleorman and Caraș-Severin post the lowest price-to-income ratios, i.e. less than seven years).

Chart A.
Housing affordability index in the main counties in Romania[179]



Source: NBR, NIS, ANEVAR, NBR calculations

The regional concentration of housing loans shows that, in the Bucharest-Ilfov region, they hold 35 percent of total loans, while in the next four counties (Cluj, Constanța, Brașov and Timiș), they account for more than 20 percent of total loans (data as at December 2022). Conversely, Harghita and Covasna are the counties with the smallest weight of housing loans (stock and flow), i.e. 0.3 percent of total loans.

At regional level, there is high homogeneity with respect to the debt-service-to-income (DSTI) ratio. DSTI county-wide ranges between 38.3 percent and 40.9 percent (data as at December 2022), remaining at an adequate level from a prudential perspective. By contrast, the loan-to-value (LTV) ratio shows high heterogeneity as compared to the DSTI, its values ranging from 71.8 percent to 83.3 percent (data as at December 2022). Bacău county posts the lowest LTV ratio, while in other nine counties, the LTV ratio goes above 80 percent.

Discrepancies are also visible in what concerns the housing affordability index (Chart A). Out of the five development hubs under review, only Timișoara and Bucharest post index values above one. Brașov and Constanța have a similar housing affordability index, whereas the index in Cluj-Napoca is the lowest. Higher interest rates put additional pressure on borrowers' payment capacity, a 4 percentage point hike in interest rate pushing the housing affordability index down to 0.86 percent (from 1.2 percent) in Bucharest.

Price developments in the residential real estate market in the coming period hinge on a number of factors, such as the macroeconomic conditions characterised by high funding costs and the heightened geopolitical tensions generated by the Russia-Ukraine armed conflict. These are likely to weaken households' potential demand and implicitly moderate real estate price increases.

1 The indicator shows the length of time it takes to purchase a 2-room dwelling (55 sqm), excluding subsistence expenses and savings and without bank loans.

2 The housing affordability index is calculated as the ratio of the average net wage economy-wide to the optimal income in DSTI and LTV terms (45 percent and 75 percent respectively). The scenario assuming an interest rate hike by 4 percentage points relies on a 10.9 percent interest rate.