

Template for notifying national macroprudential measures not covered by CRR/CRD

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1. Notifying national authority and scope of the notification		
1.1	Name of the notifying authority.	National Bank of Romania
1.2	Name of the macroprudential measure that is notified.	Implementation of a debt service to income limit for households total indebtedness
2. Description of the measure		
2.1	Description of the measure.	<p>The National Bank of Romania has decided to implement a limit of 40% on debt service to income (DSTI), as measured by the ratio between total monthly payment obligations arising from credits and borrower's net income. For FX exposures for which the borrower is not naturally hedged, the DSTI cannot exceed 20% of net income. Monthly debt service related to revolving exposures such as overdrafts and credit cards must be taken as a minimum of 3 percent of the exposure at origination.</p> <p>Loans granted for the solely for purpose of refinancing which do not imply additional amounts will be exempted from the regulation in order to allow debtors to have access to better financing conditions.</p> <p>For first time home buyers, the specified limits are increased by 5 percentage points. A maximum of 15% of new loans will be exempted from the regulation. This will give banks the necessary flexibility to grant loans with higher DSTI levels to debtors with a strong credit record and high incomes.</p>

	<p>Furthermore, a series of changes regarding the methodology for calculating DSTI have been implemented:</p> <ul style="list-style-type: none"> • Subsistence costs are no longer deducted from eligible income before applying the maximum level of indebtedness. • DSTI is calibrated according to loan payments at origination and does not include adverse shocks for currency depreciation, interest rate increase or a fall in income. <p>All these elements have now been already taken into account when the DSTI limit has been calibrated.</p> <p>Romania has a rich history of implementing macroprudential measures, having first introduced limits on DSTI and LTV in 2003 (with thresholds set at 35% for housing loans and 30% for consumer loans)¹. After the accession to the European Union, such measures were rolled back as they were considered capital controls, thus went against the free movement of capital within the EU. Over the past years, a number of papers have addressed the efficiency of macroprudential measures in Romania using the credit registry data available. Epure et al (2018)² show that macroprudential tools are effective in curbing growth of credit, especially for ex-ante riskier debtors (<i>i.e.</i> FX exposures, high level DSTI). Neagu et al (2015)³ find that bank self-regulation leads to higher NPL rates and increases the sensitivity of indebted households to macroeconomic developments, thus supporting the hypothesis that banks tend to ease credit standards during expansions.</p> <p>Furthermore, NBR has also put in place differentiated LTV limits by currency in 2011, thus ensuring that new credit will be granted in domestic currency. By implementing a FX-differentiated DSTI limit, NBR is further protecting debtors against future currency</p>
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¹ Further details can be found in NBR's 2014 [Financial Stability Report](#), Box 4, page 131

² Epure, M., Mihai, I., Minoiu, C. and Peydro, J.L. – "Household Credit, Global Financial Cycle, and macroprudential Policies: Credit Register Evidence from an Emerging Country", IMF Working Paper No. 18/13, 2018

³ Neagu, F., Tatarici, L., and Mihai, I. – "Implementing Loan-to-Value and Debt-service-to-income measures: a decade of Romanian experience" – NBR Occasional Papers no. 15, 2015

		depreciation shocks.
2.2	Legal basis and process of implementation of the measure.	<p>The legal basis is represented by:</p> <ul style="list-style-type: none"> • Government Emergency Ordinance No. 99 of 6 December 2006 on Credit Institutions and Capital Adequacy. • Law No. 93 of 8 April 2009 on non-bank financial institutions. • Law No. 312/28 June 2004 (The National Bank of Romania Act). • ESRB Recommendation no. 1 of 2011. <p>The measures were implemented as an amendment to the NBR <i>Regulation no 17/2012 regarding credit conditions</i>.</p>
2.3	Coverage	<p>The regulation applies to:</p> <ul style="list-style-type: none"> • Credit institutions, Romanian legal persons and branches in Romania of foreign institutions. • Non-bank financial lenders, Romanian legal persons and branches in Romania of foreign institutions, listed in the General Registry. • Payment institutions, Romanian legal persons. • Institutions issuing electronic money, Romanian legal persons.
2.4	Any other relevant information.	
3. Timing		
3.1	Timing of the decision	17 th of October 2018

3.2	Timing of the publication	The adoption of the Regulation was announced on NBR's website through a press release on October 17 th , 2018. The updated Regulation was published in the Romanian Official Gazette (Monitorul Oficial al României) on November 9 th , 2018.
3.3	Disclosure	The National Bank of Romania conducted several consultations with representatives from both credit institutions and non-bank financial institutions on the design and the implementation of the measure. Upon the approval of the measure by the Board of NBR, a press release was published on the national bank's website.
3.4	Timing of the application	1 st of January 2019
3.5	End date (if applicable)	-
4. Reason for the activation of the measure		
4.1	Description of the macroprudential risk to be addressed.	The National Bank of Romania has identified excessive household indebtedness as an important vulnerability to financial stability. New lending has increased significantly over the past years, with annual flow of mortgages reaching an all-time high in the period September 2017 – August 2018. A strong asymmetry is observed between income groups: the median DSTI for new mortgages granted to debtors with below medium wage income is 50% compared to 30% for those with above medium wage income. Furthermore, debtors with DSTI above 50 percent have an NPL rate which is double compared to those with DSTI below 50 percent. The aim of the measure is to protect low-income debtors from becoming over-indebted and to support the sustainable growth of credit.

4.2	Description of the indicators on the basis of which the measure is activated.	<p>In order to calibrate the DSTI limit, debtor-level data from the Credit Registry was used, combined with income data from the Ministry of Finance. A PD model was developed in collaboration with the IMF, during the 2017-2018 Financial Sector Assessment Program, which highlighted DSTI as an important predictor for the probability of default and supports the implementation of a DSTI threshold of 50-55 percent in adverse macroeconomic conditions. The model along with the policy implications of imposing a DSTI limit can be found in the <i>Technical Note on Calibration of a Debt-Service-to-Income Limit in Romania - Evidence from Microdata</i>⁴. The current regulation has implemented a 40 percent threshold in order to allow debtors to have a buffer in case of adverse macroeconomic shocks over the entire repayment period. Therefore debtors can absorb a 2 pp increase in interest rates or a 20 percent decrease in income before reaching the critical 50 percent threshold for entering impairment. The approved limit is equivalent with the threshold 50-55 percent in adverse conditions recommended by the IMF during the FSAP.</p>
4.3	Effects of the measure.	<p>The flow of new credit increased by 16% for the period April 2017 – March 2018 compared to the previous 12 months. If the regulation would have been in place at that time, new credit would have stayed at the same level registered during April 2016 – March 2017. This would translate in a growth rate for the stock of loans of 6%, compared to the realized rate of 10%. Therefore, the regulation has a limited impact on credit growth, while in the long run it will support a stronger capitalization of banks by lowering future non-performing loan ratio.</p> <p>Additionally, an important effect of the measure will be safeguarding average and below-average income earners by improving their repayment capacity.</p>
5. Cross-border and cross-sector impact of the measure		

⁴ <https://www.imf.org/en/Publications/CR/Issues/2018/06/08/Romania-Financial-Sector-Assessment-Program-Technical-Note-on-Calibration-of-a-Debt-Service-45964>

5.1	Assessment of cross-border effects and the likely impact on the internal market (Article 133(11)(d) of the CRD IV and Recommendation ESRB/2015/2)	Given the reduced cross border lending activity in Romania, we expect that the effects on other member states and the internal market to be very limited.
5.2	Assessment of leakages and regulatory arbitrage within the notifying Member State	Applying the measure to both credit institutions and non-bank financial intermediaries ensures a level playing field and greatly reduces the risk of regulatory arbitrage. Potential leakages resulting from the 15% flow exemption from the DSTI limit have been addressed by stipulating that this can be used only for borrowers who have demonstrated an adequate payment capacity and whose income are greater than the average wage in Romania. For consumer loans, an amortisation limit is also in place since 2012, the maximum maturity being set at 5 years.
5.3	Request for reciprocity	No
6. Miscellaneous		
6.1	Contact person(s) at notifying authority.	Mr. Eugen Rădulescu Director, Financial Stability Department, National Bank of Romania Phone: +40311 32 1100 Email: eugen.radulescu@bnro.ro .
6.2	Any other relevant information.	-