The Case

The rationale behind the boom in CHF lending during 2007-2008 is in close connection with the social factors. The CHF borrowing costs were lower at the credit agreement date, which ensured easier access to lending for lower-income borrowers, as well as larger loans for larger-income borrowers. On the other hand, the unfavourable developments in the CHF may have an adverse impact on debtors' capacity to repay the loans.

The NBR advocates the implementation of customised solutions, negotiated between the parties directly involved in the credit agreement (i.e. the credit institution and the borrower). The solutions take into account the specifics of CHF-denominated loans, in particular, and FX loans in general on the Romanian market and combine: (i) free market principles, (ii) state support for vulnerable social groups, and (iii) the carrying out by the NBR of its legal tasks on **safeguarding** financial stability.

The realistic solutions are complementary and each bank may apply an adequate mix tailored to each individual case. They are equally valid for loans in other currencies as well and may be optimised on a case-by-case basis. The solutions which may be deemed as both realistic and balanced include those whose outcome is keeping the domestic currency equivalent of monthly **instalments** of CHF-denominated loans close to the December 2014 level, with several options available to the parties to credit agreements:

(A) Converting CHF-denominated loans into lei at the market **exchange rate** and/or granting a discount on the debt service amount – which may be tantamount to a conversion at an exchange rate below the market rate

(B) Temporary cut in the **interest rate** on CHF-denominated loans in order to **offset** the impact of the stronger CHF: This may be a valid option, given that both the **benchmark rate** of the Swiss National Bank and the CHF market rate have reached negative values. The NBR has conducted an impact assessment to estimate the interest rates on CHF-denominated loans that would fully offset the effect of CHF appreciation. Making up for the full impact of the higher CHF/RON exchange rate (by keeping the monthly instalment in line with the level of the CHF/RON prior to the January 2015 shock) would be possible assuming a cut in interest rates: (i) by 2.2 percentage points to 1.85% for housing loans (from an average lending rate of 4.05% currently) and (ii) by 2.32 percentage points to 2.97% for consumer loans (from an average lending rate of 5.29% currently).

(C) Implementing a **debt-rescheduling** scheme, with the award of a **compensation** by the government: Such a solution would be efficient in the light of at least four arguments. First and foremost, it would contribute to a higher **disposable income** of the beneficiaries of this

scheme (well-performing borrowers), with favourable effects on consumption and economic growth. Secondly, it represents a burden-sharing approach among creditors, borrowers and the government. Thirdly, enforcing the relevant law implies favourable effects also in terms of managing the **structural liquidity** surplus in the banking sector. Fourthly, the measure targets the segment of vulnerable borrowers, with **gross monthly incomes** of up to lei 3,000, given households' a high degree of indebtedness and its uneven distribution across various income groups. The measure proposed by the government consists in amending Government Emergency Ordinance No. 46/2014 by extending its scope of applicability and introducing simpler and more flexible loan-rescheduling procedures, and may be applied to CHF-denominated loans as well.

Source: National Bank of Romania: *An Analysis of CHF-denominated loans*

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