

1. Webquest

Introduction

Information about Romania's economic environment

The decision of the Swiss National Bank to scrap the 1.2 EUR/CHF floor, against the background of the European Central Bank's monetary policy decisions, triggered the appreciation of CHF versus the RON and led to an increase in the debt service for CHF borrowers. Borrowers' repayment capacity differs based on their characteristics.

The analysis of the current economic environment reveals two significant characteristics. First, Romania has maintained sustainable macroeconomic balances over the last years, also as a result of the counter-cyclical monetary and prudential policies. The annual inflation rate has remained on a downward path and the general government balance and the current account balance stand in the comfort zone. These arguments show that the movements in the CHF/RON exchange rate should not be seen as a depreciation of the domestic currency (which is supported by strong economic fundamentals), but as CHF appreciation.

Second, the downtrend in interest rates on leu-denominated loans, also as a result of the NBR's decisions to gradually cut the monetary policy rate and to pursue adequate liquidity management, is supportive of solutions for the conversion of foreign currency-denominated loans into the domestic currency in the case of currently unhedged borrowers.

The analysis of the latest statistical data points to a further decline in the annual inflation rate, in December 2014, the average annual inflation rate stuck to 1.1%.

The unemployment rate fell to 6.4% in December 2014, standing on average at a five-year low of 6.8% in 2014.

Out of the total stock of loans to households amounting to lei 101.7 billion, foreign currency denominated loans account for 61%, the value of which, when expressed in lei, is as follows: EUR-denominated loans worth lei 51.8 billion, USD-denominated loans worth lei 0.3 billion and CHF-denominated loans worth lei 9.7 billion. Mention should be made that out of foreign currency-denominated

loans tantamount to lei 61.9 billion when expressed in domestic currency, EUR-denominated loans held 83.8%, USD-denominated loans took 0.5% and CHF-denominated loans accounted for 15.7% in November 2014.

Individuals' substantial foreign currency indebtedness and the adverse movements in the exchange rates of several currencies of late (the strong appreciation of the CHF and the US dollar respectively and the uncertainties surrounding the euro exchange rate) make it even more difficult for a number of borrowers to repay their debt.

Source:

National Bank of Romania. 2015. Analysis on CHF-denominated loans. <http://www.bnro.ro/Presentation-on-the-Issue-of-CHF-denominated-Loans-delivered-by-the-NBR-Governor-in-front-of-the-Budget-and-Finance-Parliamentary-Commission--12053-Mobile.aspx>. [30.03.2017]

Information about possible solutions concerning CHF-denominated loans

The households having taken CHF-denominated loans are not a homogeneous group. The breakdown of these loans shows a wide variety by: (i) loan destination, (ii) loan volume, (iii) borrowers' income level, (iv) borrowers' indebtedness level, and (v) loan maturity. These characteristics prove that there are several individual specific situations calling for differentiated solutions. A one-size-fits-all solution is not effective in addressing the borrowers' issue.

Unrealistic solutions for Romania could turn an issue that at present poses no systemic risk (lending in CHF) into one posing potential risks to financial stability. The NBR's intervention to bring the CHF/RON exchange rate back to the level prior to the Swiss National Bank removing the 1.2 EUR/CHF floor would have serious negative consequences. The measure could only be kept in place for a short time. The conversion of CHF (and/or EUR)-denominated loans into lei at exchange rates other than the market exchange rate on the conversion date could generate significant problems for some banks.

Realistic solutions refer to customised measures, negotiated by the parties involved. The solutions keeping the domestic currency equivalent of monthly instalments of CHF-denominated loans close to the December 2014 level could be an option. Converting CHF-denominated loans into lei at the market exchange rate and/or granting a discount on the debt service amount could be another option. A temporary cut in the interest rate on CHF-denominated loans in order to offset the effect of the stronger CHF could be a third solution.

The NBR took steps in order to ensure that prudential regulations are tailored to the new financial market conditions.

Source:

National Bank of Romania. 2015. Analysis on CHF-denominated loans. <http://www.bnro.ro/Presentation-on-the-Issue-of-CHF-denominated-Loans-delivered-by-the-NBR-Governor-in-front-of-the-Budget-and-Finance-Parliamentary-Commission--12053-Mobile.aspx>. [30.03.2017]

Information about the client

You are the financial manager and advisor of several small rural pensions. One of your clients, the owner of a pension, addressed you asking for advice related to his CHF-denominated loan that he had taken in 2006 to set up his business. The client is the owner of a small rural pension with 6 double rooms. In 2006 he took out a CHF-denominated loan on a period of 20 years to start his own business, the amount of the loan being 160,000 RON at the rate of 2.17 RON/CHF, with the equivalent of 73,733 CHF. The initial monthly instalment was 550 RON but with the gradual and progressive appreciation of the Swiss currency since 2006 has led to an increased value of the installment, which in 2016 reached 930 RON. The client says the he cannot handle such great expenses and asked you to meet and discuss about possible solutions.

Task

Read the information above regarding the needs of the client and the country's current economic situation.

Make groups of 3 and discuss about your experiences and knowledge regarding bank loans, your trust and loyalty to banks.

Discuss the ways you as the financial manager and advisor can prepare for such a meeting: where do you start, what information do you need from the client, what information do you need from banks, etc.

Create a list of the steps you have to follow in order to prepare for the meeting with your client.

Present your ideas with arguments to the other groups.

Process

First conduct a group discussion regarding the background information provided and also other information that is necessary to fulfil the task.

Then search the internet for relevant information on CHF-denominated loans and possible solutions that banks can offer. After doing some research on possible bank offers and solutions discuss which options you will recommend your client.

Plan and design a presentation which describes the steps you have taken to prepare for your meeting with the client and present the possible solutions emphasizing the one which you have chosen to recommend your client.

Resources

Find your own resources; however, the following websites and links might be useful:

- <http://www.bnro.ro>
- https://www.snb.ch/n/mmr/reference/working_paper_2011_02/source/working_paper_2011_02.n.pdf
- <http://www.business-review.eu/news/major-ruling-romanian-court-says-law-on-chf-loan-conversion-is-unconstitutional-130033>
- <http://www.reuters.com/article/romania-swissfrancs-bill-idUSL5N1CD1YW>
- <https://www.worldbank.org/en/country/romania/overview>
- <http://www.focus-economics.com/countries/romania>

Conclusion

You have done extensive research on the Internet and learnt about some current economic issues related to CHF-denominated loans affecting most parts of Eastern Europe. You were asked to do intensive research and come up with a number of possible answers (solutions) to the problem and finally you had to

make important and difficult decisions as a group. Working as a group has shown you the advantages of cooperation (sharing responsibilities) but also the difficulties of making decisions, bringing arguments to support your ideas and convincing others. Based on the internet search you have performed you are now capable of sharing relevant information on the topic, you are aware of the possible solutions and of the advantages and risks each option might involve. Therefore, you have developed not only problem-solving skills but you have also improved your persuasive techniques and explanation skills.

Web Support

Activity	Websites and their use
General information about the CHF-denominated loans	<p><u>To learn about the current issue of CHF-denominated loans:</u></p> <p>https://www.snb.ch/n/mmr/reference/working_paper_2011_02/source/working_paper_2011_02.n.pdf</p> <p>http://www.bnro.ro/Presentation-on-the-Issue-of-CHF-denominated-Loans-delivered-by-the-NBR-Governor-in-front-of-the-Budget-and-Finance-Parliamentary-Commission--12053-Mobile.aspx</p>
Information about Romania's current economic situation	<p><u>To find information about the economic context of the situation:</u></p> <p>http://www.bnro.ro/PublicationDocuments.aspx?icid=6877</p> <p>https://www.worldbank.org/en/country/romania/overview</p> <p>http://www.focus-economics.com/countries/romania</p>
Information about possible solutions	<p><u>To research and select realistic solutions for the problem:</u></p> <p>http://www.bnro.ro/Presentation-on-the-Issue-of-CHF-denominated-Loans-delivered-by-the-NBR-Governor-in-front-of-the-Budget-and-Finance-Parliamentary-Commission--12053.aspx</p>