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Reforming the Systems of Rural Finance Provision in Romania: Some Options for Privatisation and Change*

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Abstract

It is argued, that the National Bank of Romania should not be in the business of providing direct finance to agriculture. The entire system of support for agriculture, in particular the means of providing rural finance and credit needs to be reviewed, so that non-inflationary solutions may be found. This paper will discuss the necessary reforms (directions and modalities) of Romania's financial sector policies with regard to privatisation: (i) with special emphasis on accelerating the pace of the economic reform mechanism in the rural areas; and (ii) consider the possibilities of further decentralising Romania's financial market and of improving the integrity between financial agent and client.

JEL classification: Q14, R51, G20

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1. Introduction

The reform of the financial system in the former centrally planned economies of Central and Eastern Europe (CEE) and the former Soviet Union (FSU) is a fundamental aspect of their overall economic transformation. The financial sector has to perform at least four main functions: (i) manage the payment system, (ii) collect savings and allocate them to projects expected to yield the highest rate of return (a screening role); (iii) exercise financial discipline over enterprises; and (iv) through monitoring, ensure that funds are used in the way promised. The financial institutions inherited from the central planning era were not suited to these tasks and therefore most transition economies have encountered problems in completing them. In Romania, financial sector reform problems have arisen due to: difficulties in establishing state owned enterprise hard budget constraints; a historical institutional legacy where banks did not perform any of the functions prevalent in industrialised market economies; large bad loan portfolios; and a lack of effective corporate governance and competition policy. Credit could only be generated and spent by the government; whilst debt could only be incurred with government approval, thus carrying an implicit state guarantee. Despite some general progress in the Romanian financial sector, it still has a long way to go [EBRD, 1996].

This paper aims to provide a review of the rural finance situation in Romania, which it is argued has served to constrain the opportunities for the development of a viable and efficient rural finance market, which would provide a better service to rural customers and reduce the fiscal burden on the state budget. It is argued, that the National Bank of Romania (NBR) should not be in the business of providing finance to agriculture. The entire system of support for agriculture, in particular the means of providing rural finance and credit needs to be reviewed, so that non-inflationary solutions may be found. Central to this will be an improvement in the general macroeconomic environment by moving from the prevailing negative to positive real interest rates, the independence of the NBR, the privatisation of Banca Agricola and the liberalisation of the financial services market in Romania. This paper will discuss the necessary reforms (directions and modalities) of Romania’s financial sector policies with regard to privatisation: (i) with special emphasis on accelerating the pace of the economic reform mechanism in the rural areas; and (ii) consider the possibilities of further decentralising Romania's financial market and of improving the integrity between financial agent and client.

2. Historical overview of the institutional framework of Romanian rural finance

As in most formerly centrally planned economies (CPEs) prior to 1989 the Romanian financial system simply accommodated the central planner's output and investment decisions. Romanian banks had little capital and neither selected investments or monitored them. The government absorbed all risk and did not monitor any of the financial institutions. Moreover the banks had limited authority to allocate credit and thus provided rudimentary and generally limited services to their customers. Most savings were mobilised through the Savings Bank (CEC) which lent a small proportion of its resources (mainly in the form of housing loans), paid low interest rates on deposits and passed the remainder to the National Bank of Romania (NBR). During the CPE era, the following state owned banks were responsible for lending to the following sectors: the Romanian Bank for Foreign Trade (RBFT), to the trade sector; the Investment Bank (now called the Romanian Development Bank (RDB)) to the state owned enterprise (SOE) sector; and the Agriculture and Food Industry Bank (now called Banca Agricola (BA)), the agriculture sector, with funds borrowed from the NBR supplemented by deposits from the clientele of their respective sectors.

During the CPE era the NBR both acted as a bank of issue and performed a number of quasi-commercial banking functions such as: collecting the deposits of both SOEs and co-operatives, whilst making short-term direct loans mainly to SOEs for working capital. Real interest rates were maintained at a very low level. SOEs had no incentive to repay loans because future credit was independent of past repayment and no mechanisms were in place to enforce credit contracts. Under all the post 1948 administrations, the NBR has been obliged by the government to provide finance to the agricultural sector. A two tiered banking system was created in December 1990 by transferring the commercial functions of the National Bank of Romania (NBR) to the newly created Romanian Commercial Bank (RCB), allowing the NBR to function as a central bank. In April 1991, two banking laws were passed which provided for the transformation of banks into joint stock companies (JSCs) and granted significant autonomy to the banks' management to undertake lending and deposit-taking activities and to the NBR in the conduct of monetary policy and banking supervision.

Romania's banking sector currently consists of five state owned banks and four relatively well established private banks. The state-owned banks include the Romanian Bank for Foreign Trade (RBFT), Banca Agricola (BA), the Romanian Development Bank (RDB), the Romanian Commercial Bank (RCB) and the Savings House (CEC), which are burdened with significant amounts of bad debt, lack of skills and generally poor management. The first of the new private banks began operating on a commercial basis in 1990: the *Ion Tiriac Bank*, Mindbank, and Bankcoop are the most established banks. Other recent market entrants include *Banca Renasterea Creditului Romanesc*, the Post Office Bank and Banca Commercial Albina (est. 1996). By the middle of 1996, the banking system consisted of 30 licensed banks, of which 20 have private and mixed - state and private - capital, and 9 are branches or subsidiaries of foreign banks. Private banks represent an increasing percentage of the capitalisation of the banking sector, estimates suggest that this has risen to well above 40% from 30% in January 1994 [EBRD, 1996].

2.1. The role and importance of Banca Agricola in Romanian agriculture

Banca Agricola (BA) was established in 1948, and as previously noted on December 1st 1990 it was transformed into a JSC although it remained fully owned by the state. The State of Romania and the five Private Ownership Funds (POFs)[1] hold 57% and 26% of the share capital of the bank respectively. There are no other shareholders with shareholdings in excess of 2% of the capital. At that time, the Government agreed to increase its subscribed capital to Lei 6 billion, whilst the paid-up capital was increased from Lei 2.3 billion to Lei 3.3 billion. By December 1991 its paid-up capital amounted to Lei 6 billion which, together with reserves of around Lei 2.1 billion, gave the bank a net worth, before provisions, of about Lei 8.1 billion. The NBR pumped around Lei 4,000 billion into the agricultural sector during 1996, and as this money did not actually exist, printing money has exacerbated inflationary pressures within the economy. Approximately 80% of these credits were channelled through BA to agricultural enterprises.

Banca Agricola has a substantial nation-wide branch network, the largest of all commercial banks in the country and the most important in rural areas. BA has around 229 branches and 59 rural offices; its head office is located in Bucharest; 41 main branches (one in each district or *judet*) which are responsible for 188 sub-branches (*filial*) and 78 agencies [see Shrieder and Heidhues, 1997]. Further developments of the bank's branch structure has increased the total number of banking units to 304. The head office is organised into three departments: business, branch network, and administrative support. By the end of 1994, BA had in excess of 1 million customers. The most notable expansion in the customer base has been amongst private individuals who doubled in number during 1995 to over 900,000 and account for over 85% of the

[1] Romania's privatisation program involved two main components: the "free distribution" of 30% of the shares in all the enterprises scheduled to be privatised, and the "subsequent sale of shares" of the remaining 70% held by the state. The 30% in each company is distributed to one of five POFs, state-created intermediaries technically owned by all adult Romanian citizens through the "Certificates of Ownership" (vouchers) issued to them by the state. The 70% retained by the state is held in the POF, which the Privatisation Law (1991) was charged with selling within 7 years.

bank's customers. This was done to increase non-farm private activities and thus improve the bank's deposits and savings situation. However, the costs of collecting deposits and generating savings may be greater than the profits earned on loans to the public.

Although BA is now a universal bank authorised to carry out all banking activities, until recently it specialised in lending to agricultural producers and the food processing industry. However, BA still has a dominant institutional position and plays a crucial role in providing rural financial services in Romania. Traditionally, its major customers were state farms, state-organised agricultural co-operatives and state owned processing plants. Until April 1990, BA's activities were restricted to banking operations in local currency. Since then BA has carried out foreign exchange transactions and as previously noted, expanded its services to private individuals, private enterprises and the newly emerging farmers' associations which have taken over the farming operations of the former state-organised co-operatives. Given the bank's extensive rural branch network, it *should* be well placed to expand deposit mobilisation from the farming community and the rural population.

2.2. The role and importance of other Romanian rural finance institutions

Credit Co-operatives (CC) play a small part in providing rural credit, around 8% of the total rural finance market, whereas BA's exposure is around 90%. CC funds are based on membership contributions and may refinance themselves at Bankcoop. Bankcoop has a network of 235 sub-branches throughout Romania, with a strong sub-branch presence in rural areas. However, in July 1996 Bankcoop changed ownership, and the current system of providing rural finance through preferential interest rates to members is likely to change. However, over the years the CCs have successfully mobilised local savings. New co-operative laws are also due to be introduced later this year, which will distinguish between different types of co-operative (consumer co-operatives or CCs) in determining their legal status and placing them under the direct supervision of the NBR. Thus, CC should continue to be a useful means of rural finance to rural dwellers.

The spread of BA offices is wide but not universal. In many small rural towns in Romania, e.g., the Timis region, there are so-called co-operative banks or societies. Seven years ago there were only five banks in existence. Bankcoop is also working in rural areas, but mainly concentrating on larger villages and communes. Mindbank is a small private bank; but mainly involved in the industrial export business. Bank Post (akin to the UK's Trustee Savings Bank), is also expected to become a major player in providing rural finance, as it operates through many post offices. Bank Post is a universal bank, and with greater financial market liberalisation in Romania, could become a significant and competitive player.

Banca Albina is a specialist agricultural sector bank, seeking to expand into other areas of business. It was initially established in 1872 as a traditional commercial bank, closed during the communist era and re-opened in 1995. It received a banking license from the NBR in February 1996. The bank's directors were all previously employed by Banca Agricola. Banca Albina currently operate 8 branches: two in Bucharest, and one each in Timisoara, Cluj, Villcon, Suceva, Costanza and Alexandra. The bank intends to concentrate most of its activity on widening its client base in rural areas to exploit farmer, rural retail and wholesale market opportunities. Costanza and Alexandra (both south of Bucharest) are rural branches of the bank, but Albina expects to extend this network to every *judet*. One of the main constraints on this process has been the lack of suitably qualified and experienced bank staff.

Albina deals mainly with state farms and small private farmers, often in the more mountainous *judets* of Romania where it was difficult to create state farms. Loans are based on either a property mortgage or plant and machinery (thresher, harvester, plough etc.) as collateral. As many of their rural customers do not have legal land titles, plant and machinery usually form the basis of collateral. Banca Albina maintain that there is a very high level of demand in rural areas for access to credit resources. Speeding up the process of land titling which will guarantee ownership rights, is central to the improvement of the rural finance predicament for farmers. This would support commercial farming by establishing a legal framework for land ownership (property rights) and developing a land and lease market. Land use could then reflect commercial decisions, supported by land as collateral/ security for loans.

Banca Albina is reducing the risk associated with its agricultural loan portfolio, by providing smaller amounts of capital (on average Lei 10 million) to a wider range of farmers. Therefore, they have calculated that the transaction costs outweigh the risk of the loan. Given that often the only collateral on offer by farmers on the plains is machinery (and even less of this is available in the hilly areas), the bank argue that risk assessment based on the latter alone is insufficient, therefore it prefers small rather than large defaulters.[2]

[2] Banca Albina currently charge the market rate of interest 65%, but this is going up to an even higher rate of around 70% in March due to a rise in the rate of inflation.

3. Rural finance problems during the transition period

In many transition economies, the emerging banking system has not successfully addressed the needs of the agricultural sector. The agricultural sector’s seasonal requirements for finance to facilitate farming, production, storage, distribution, and the need to restructure and recapitalise much of the sector has led to a number of rural finance problems. For greater clarity it is useful to discuss these problems under two separate headings: (i) the “enabling environment”, and (ii) financial sector reforms.

3.1. Improving the “enabling environment”

In transition economies, international lending agencies have encouraged governments to address the so-called “enabling environment” for agriculture. Thus, the chief role of government is to ensure that potential investors meet as few barriers as possible, and that problems in marketing, distribution and production are overcome through private enterprise and investment, rather than direct government intervention. In agriculture, this direct intervention usually takes the form of producer price supports, consumer price and credit subsidies, and subsidised inputs. However, recently, there has been emphasis placed on non-interventionist policies, such as direct income support, which do not significantly affect the incentive structure. Governments should not only aim to create an enabling environment, but also to be policy neutral in its treatment of economic sectors.

The initial effect of abandoning central planning and liberalising prices, trade and production during the period 1990-1992 was that economic activity declined sharply. The pattern of resource allocation matched neither the real costs of production nor the preferences of consumers. To reallocate resources meant a temporary dislocation of production. For Romania, the worst decline in GDP was in 1991, of 12.9%. However, by 1995 Romanian GDP had grown by 6.9% on the previous year. During 1996 average unemployment was still high at around 7%, but is falling (see Appendix 1). Inflation remains a significant problem in Romania with levels of around 6% per month (10.3% during December 1996 and January 1997) and negative real interest rates (averaging -16%, December 1996). The year-on-year rate of consumer price inflation (the rate compared to the same period of the previous year) increased to 56.9% by December 1996 (see Appendix 1).

Economic growth in Romania is based on relatively shaky foundations. Many large SOEs and state farms do not face a “hard budget constraint” (i.e. they do not face a real risk of bankruptcy, although they consistently make losses). As previously noted, they have been able to obtain cheap credit from the state-owed commercial banks, which in turn refinanced themselves at the NBR. Refinancing from the NBR increased by 18% in October 1996 compared to the previous month, and was more than twice as high as in the same month of 1995. Moreover, in the run-up to the November 1996 elections credit to the government doubled between August and November. As a result the State budget deficit has soared as recent NBR estimates suggest an increase to 6% of GDP [National Bank of Romania, 1996]. If the SOE losses, deficits and other hidden subsidies are included, the 1996 deficit is estimated at 13% of GDP [European Economy, 1997]. Although monetary policies have been tightened since January 1997, the discount rate was raised to 50% from 1st January 1997 in order to maintain positive real levels, however there is still a chance that Romania will record three-digit inflation figures (on an annual basis) this year. The government is now committed to the gradual liberalisation of controlled prices (transport food staples and energy) and the exchange rate, which has depreciated by almost 75% in nominal terms since the elections.

For most CEE countries (with the exception of the Baltic States) for the first few years of transition, agricultural output declined less than the rest of the economy. However, this situation had reversed by 1992/1993 as the decline in GDP abated. Therefore, in 1994 for all countries, except Romania, Slovenia and Lithuania the index of agricultural output (1989 = 100) was lower than the comparable index of GDP. In short, with the exception of Romania and Slovenia, economic recovery is not being led by agriculture; rather agriculture is the trailing sector (see Table 1).

Table 1. Trends in real gross agricultural output in the CEE economies (1989=100)

	1990	1991	1992	1993	1994
Poland	95.1	90.7	68.2	88.7	74.1
Hungary	90.7	94.3	69.7	63.3	69.6
Czech Republic	99.3	96.4	79.9	83.7	78.7
Slovakia	88.4	93.5	79.8	75.3	89.7
Slovenia	98.6	94.2	73.1	92.8	133.3
Romania	92.8	96.7	82.4	98.3	107.4
Bulgaria	92.6	109.8	95.8	75.7	93.1
Lithuania	82.2	86.6	59.5	67.3	47.6

Source: European Commission (1995) Agricultural prospects in Central and Eastern European Countries: Summary Report. Brussels DG VI. Working Document.

The main reasons for the general decline in agricultural output and growth are: the collapse in both domestic and international demand (with the collapse in CMEA markets) for most food products, changes in relative prices, droughts and structural changes. These are obviously important issues with regard to the effect of economic reforms on the levels of food consumption and thus social welfare. This underlying perception has resulted in Romanian policy makers trying to design support programmes aimed at increasing output, or at least at maintaining current levels. However, current IMF austerity programmes and the concomitant hard budget constraints, have reduced the efficiency of agricultural support programmes, particularly through subsidised credit provision. Such programmes would be more efficient if they were selective and not targeted at all agricultural producers.

The main problem for small farmers who account for around 30% of the Romanian workforce is a severe shortage of working capital, machinery and equipment. At the time of writing, only 53% of the areas to be sown in the spring had been tilled; meanwhile, the prices of fuel, mechanised works, fertilisers and pesticides have doubled since January 1997. As a result of the increase in fuel prices, transport costs increased by 40-60%, which in turn increased the price of the production and distribution of food and consumer goods. According to the Ministry of Agriculture, retail prices for food are expected to rise a further 16% during February 1997 [3]. As a result, the government has taken steps to ensure stricter price controls through its price control commission comprising itself, employer associations and trades unions. So why have Romania's rural financial markets proved inadequate to support the agricultural

In general terms Romanian problems are similar to those experienced by most transition economies:

- banks regard collateral in farming as compared to the rest of the economy, as inadequate. This is partly due to slower progress made in reforming property rights and land titling than other parts of the economy. The lack of an effective rural land market in Romania, is a significant constraint in this regard. Romanian banks assign more importance to the lending risks and losses, than the potential loss of customers;
- anecdotal evidence suggests that the policy framework for the sector generally (but cereals in particular), is perceived by the financial sector as being particularly risky as changes in tariffs, quotas, price controls, restrictions on internal trade or the behaviour of government intervention agencies may affect output and profitability. In Romania, this attitude is changing and there is a growing interest in providing rural finance to rural dwellers. However, government intervention in the sector is far higher (and possibly more damaging) than most other CEE transition economies;
- as a result of the two aforementioned problems, there is a general consensus (although a declining one), that providing finance for the sector is a government responsibility, through dedicated and discounted lending facilities;
- commercial banks are generally wary of involvement with discounted lending schemes as they have to assume some of the risk. Thus, farmers and agri-processors are mainly confined to dealing with State banks, in the case of Romania BA. While BA provides the farmers with the benefits of discounted loans, it is only

[3] During January 1997 food retail prices rose sharply: meat prices by 50%, milk by 20-30%, edible oil by 20%, and bread by 50%.

able to sustain the support of agriculture so long as the government uses it as a conduit for subsidies. The NBR has recently indicated that it would like to cease these activities. BA’s structural credit has an interest rate fixed by the NBR. As under central planning there is a repayment schedule, detailing when these should be made. The Romanian Ministry of Agriculture and Food estimates the level of demand for credit at the rural level, and draws-up the lending criteria necessary to satisfy this demand;

- in common with most transition economies, the Romanian banking system was used to dealing with large enterprises and farms. It has been slow to adapt its institutional base or develop systems for small scale lending, which has inhibited the development of small-scale processors, traders and private farmers; and
- given the relative lack of skills and experience of newly emerging market agents, it is probably unreasonable to expect new farmers to possess the financial skills to deal with bankers.

An important aspect of the process of creating a viable rural financial market in Romania, will require the development of a legal framework for land ownership (property rights), land and lease markets. This will enable land use to reflect commercial decisions supported by land as collateral for loans. Whatever the mechanism of initial privatisation adopted, the creation of viable, freely functioning land markets is essential in providing a flexible mechanism for reorganisation, and improved resource allocation. As part of this process, informal (and unusual) land leasing arrangements have developed, in part reflecting the immaturity of the existing land markets.

According to the Ministry of Agriculture’s data, approximately 55% of the arable land farmed by Producer Associations is owned by absent landowners, often pensioners resident in towns. Regarding the situation of former landowners, no longer either resident in a rural area, or a member of a Producer Association farming their land, informal agreements exist concerning the lease and payment for use of their property. As an informal, ill-formed land market is developing in Romania, former landowners have entered into informal lease and land-use agreements with Producer Associations, or Co-operative farm intermediaries (usually leaders of the respective co-operative or Producer Association). Often, there is no financial (monetary) compensation paid to the landowner under the contracts arranged between the parties. In many cases, payment in kind, e.g., a supply of fruit and vegetable products is the norm. Although given the current macroeconomic instability (negative real interest rates, high inflation) this may be understandable, as the lack of an effective land market will allow for a wide disparity in the type of land lease agreements entered into, and thus often the exploitation of landowners. The landowners resident in the countryside are usually in a far stronger bargaining position than their urban counterparts, because they tend to have greater local knowledge concerning the value and productivity of their land, and often personal knowledge of the local Producer Association.

Usually, a non-resident landowner who wishes to lease their land to the local Producer Association, has to sign a contract for a period of time, often this extends over a period of 5 years. Often no financial obligations or commitment to generate a certain amount of rental income from the land asset for the landowner is specified in the contract. Indeed these contracts often take the form of a legal agreement to rent land for a given period, and landowners are compensated according to the discretion of the Producer Association. The most common form of compensation is paid in-kind according to the value of a particular crop (particularly wheat) per ha, but even this varies widely. As previously noted some of this value is monetary and part is paid in-kind as food products.

Any discussion of rural financial markets must include the government policy of SOE debt cancellation. If SOEs are allowed to continue operating on the basis of soft budget constraints, there is no constraint for them to compete on loss making terms with private enterprises, as their losses will be cancelled. Often this debt has occurred during central planning or as a result of rapid shifts in relative prices, to which the management has been slow to respond. This debt may inhibit new investment and privatisation within the sector, perhaps encouraging debt for equity swaps between enterprises which may lead to undesirably large vertically integrated firms, with excessive market power [Davis, 1996].

These factors, together with the poor enabling environment, negative real interest rates, high levels of inflation and the highly distortive influence of the State in providing rural finance have served to constrain the development of viable rural financial markets in Romania. The next section of this paper, will review the main mechanisms through which agriculture is supported, with particular emphasis on the impact of these interventions on Romania's rural financial markets.

3.2. Financial sector problems

Although the agricultural sector has traditionally been the "darling" of the Romanian economy, it remains largely unprofitable, in decline, and heavily subsidised by the state. The sector is expected to undergo a much needed comprehensive reorganisation during 1997/1998. The centrepiece of Romania's farming policy for 1997 will be the liberalisation of prices on agricultural products, a review of import taxes, and improvements in credit policies. Short term finance from the state budget for 1997 totalling Lei 315 billion (US$50 million) is to be managed by the commercial banking system, of which Lei 200 billion is to buy fertiliser (at a target rate of 45kg per hectare) to be used on 1.5 million ha of wheat and barley; and Lei 115 billion to subsidise the purchase price of maize, flax and hemp seed stock by 50% (which basically means corn, as flax and hemp are insignificant crops)[4] [Agra Europe, 1997].

Nonetheless, Table 2 shows that total agricultural support both directly from the government and indirectly in both current prices, as a proportion of the general government budget and gross value added in agriculture has risen significantly since 1993. The large volume of spending accounts for 2 to 4% of GDP over the period 1993 to 1996; and is equivalent to public expenditure on health (2.7 to 3.1% of GDP), education (3 to 4% of GDP) and 30% of social security expenditure (9 to 10% of GDP) over the period. Most of this support was directed to the State sector, despite the fact that the private sector provides the majority of food output, thus guaranteeing

[4] This money will only become available after the state budget for 1997 has been approved by Parliament. At the time of writing, the budget had not been forwarded by the administration.

food security (only 17.5% of all quasi-fiscal activity (QFA)[5] transfers in 1996 were directed to the private sector (Lei 306.7 billion)[6]. The remaining 82.5% was directed to the State sector (Lei. 1753.7 billion) [Tesliuc, 1996]. This section of the paper, will briefly review the main mechanisms through which agriculture is supported, with particular emphasis on the impact of these interventions on Romania's rural financial markets. Since 1993 the state budget, the NBR and various public financial institutions (state-owned commercial banks like BA, the Private Ownership Fund (POF) and SOEs) have been important sources and conduits of agricultural finance.

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[5] A QFA is as an implicit, non-transparent state subsidy to a particular sector falling outside the state budgetary accounts. QFAs often take the form of a preferential or subsidised lending scheme.

[6] Most of Romania's agricultural output comes from the private sector. The corresponding figures for 1996 were: 83% for grains, 69% for sunflower, 81% for sugar beet, 95% for potatoes, 94% for vegetables, 72% for grapes, 77% for fruits.

Table 2. Total support for Romanian agriculture 1993 - 1996.

Billion Lei, current prices	1993	1994	1995	1996
Total Agricultural Subsidies	426.0	835.0	1,388.3	2,357.3
Quasi-Fiscal Transfers	107.5	221.1	499.2	1,753.7
Total Budgetary Expenditure on Agriculture	554.826,	1,013.9	1,654.8	2,729.5
General Government Budget - Expenditures	859.0	16,892.0	25,061.0	38,255.0
Gross Value Added in Agriculture	4,124.3	9,790.7	14,196.5	19,617.0
GDP	20,051.0	49,794.8	72,249.0	111,650.0
Total Agricultural Support				
Total Agricultural Subsidies	426.0	835.0	1,388.3	2,357.3
Quasi-Fiscal Transfers	107.5	221.1	499.2	1,753.7
Total Support	553.4	1,056.1	1,887.5	4,111.0
Total Agricultural Support as a % of:				
General Government Budget	7.8	6.3	7.5	10.7
Gross Value Added in Agriculture	12.9	10.8	13.3	21.0
GDP	2.7	2.1	2.6	3.7
Quasi-Fiscal Transfers as a % of:				
Total Agricultural Subsidies	25.2	26.5	36.0	74.4
Total Budgetary Expenditure on Agriculture	19.4	21.8	30.2	64.2
General Government Budget	1.6	1.3	2.0	4.6
Gross Value Added in Agriculture	2.6	2.3	3.5	8.9
GDP	0.5	0.4	0.7	1.6

Source: Ministry of Agriculture and Food, Ministry of Finance and National Commission for Statistics (1996). Tesliuc, E. (1996) “Agricultural Finance: An assessment of the costs and implicit transfers associated with the current system of agricultural finance,” ASAL Background Paper, unpublished mimeo.

The main mechanisms through which agriculture is financed in Romania include the following:

1. preferential interest rates (PIR);
2. credit with a subsidised interest rate;
3. interest subsidies covered by the NBRs profits;
4. financing agriculture through state budget funds;
5. financing agriculture through preferential lending, variable, and *ad valorem* interest rate subsidies; and
6. special preferential lending, interest rate subsidies, and bad debt rescheduling.

For a recent summary of the Romanian monetary base, NBR refinancing and interest rates see Appendix 1. Table 2 shows that an increasingly significant proportion of Romanian agricultural support derives from non-budgetary (i.e. non-Treasury) sources, so-called Quasi-Fiscal Activities or Transfers (QFAs). A QFA may be defined as an implicit, non-transparent state subsidy to a particular sector, which falls outside the state budgetary accounts. In Romania through preferential or subsidised lending schemes significant transfers (unrecorded in the state budget) were made to agricultural producers. Although QFAs may be found in a number of countries, they are preferred to conventional budgetary expenditure procedures for the following reasons:

- the non-transparency of QFAs, usually being recorded on the public financial institutions' accounts (and relative ease of implementation), make the States budget look far healthier than it is and thus QFAs more politically acceptable; and
- QFAs give the impression of a smaller public sector and a less important non-interventionist State [Mackenzie and Stella, 1996].

Each of the above mechanisms for rural finance, to varying degrees fall within the category of a QFA and has served to constrain the opportunities for the development of a viable and efficient rural finance market, which would provide a better service to rural customers and reduce the fiscal burden on the state budget.

3.2.1. Preferential interest rates (PIR)

This mechanism was based on credit lines with preferential interest rates (PIR) from the NBR channelling funds mainly through BA (but also a few other commercial banks) to the agricultural sector. The mechanism was introduced in 1992 in response to a genuine government food security fear which resulted from the introduction of the Land Law (1991) which left a significant share of arable land un-tilled by the new landowners. The government issued decree 54/92 which required state integrators[7] to provide credit at zero interest rates for private farmers, covering 50% of the value of the crops to be contracted with the integrators. These credits were used to finance inputs (fertiliser, fuel etc.) and the costs of the credit were covered by the integrator's fee. The NBR provided a credit line of Lei 105 billion (of which Lei 100 billion was channelled through BA) to support these measures.

The amount of money on-lent by the NBR to commercial banks under this mechanism has grown quickly. For example, by 1994, the NBR on-lending facility for financing agricultural production that Spring was Lei 400 billion at a 70% interest rate (of which Lei 370 billion was channelled through BA). The commercial banks were allowed a margin of 6% and the final borrower cost was 76% later that year. Through decree 354/94 the NBR on-lent a further Lei 551 billion to finance the purchase of food security stocks of wheat and barley from the 1994 harvest. These funds were on-lent to BA under the same conditions, and given to Romcereal[8] (the state grain monopsony),

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[7] In Romania, until 1996 producers were required to contract their production to economic agents qualified by the state i.e. State "integrators" or intermediaries. In 1995 the proportion of the total harvest which had to be contracted at controlled prices depended on the product grown and was 40% for bread quality wheat, seed wheat and 90% for seed maize. Romcereal and the commercial companies involved in milling and baking were the designated integrators for wheat. In addition to procurement activities these integrators also: collected demand information for farm inputs and passed this information onto supply firms; acted as credit intermediaries and distribution agents for farm inputs; imported grain, managed the State reserves, drying and storage facilities; redistributed cereals within the country and supplied grain to processors.

[8] This has recently changed as Romcereal has been broken-up into three main entities: (i) Romcereal is now a self financing authority, organising State intervention stocks and purchasing large amounts of cereal called Comcereal. It has 46 regional branches, which have become commercial companies, which are currently being listed for privatisation; (ii) SemRom

the Concentrate Feed Factories and State-owned Service Farms. No private rural finance institution could compete with BA in such an environment. The main features of the preferential interest rate (PIR) mechanism were:

- the NBR provided the funds through refinancing facilities;
- the NBR on-lent these funds at a PIR, or at the lowest interest rate at which it provided funds to the BA through its refinancing mechanism (see Appendix 1). This was usually a negative real interest rate.
- the commercial bank margin was fixed by government decree 440/92 at a considerably lower level than the interest spread on commercial lending. This was partially compensated by the issuance of State guarantees, which reduced the risk of a part of the commercial banks portfolio; and
- for agricultural producers (the final borrower), the interest rate was the sum of the preferential rate and commercial bank margin [Tesliuc, 1996].

Although this lending mechanism provided funds for agricultural producers at zero fiscal costs, significant quasi-fiscal costs were incurred. As these funds were not on-lent at market or auction related interest rates, the cost of the NBRs resources was set at an administratively low level (13% or 28% in 1993 and 70% in 1994) and NBR profits and the State budget were diminished due to the lower tax base (NBR profits). In 1995 the quasi-fiscal costs of these measures to the NBR totalled Lei 20.2 billion (current prices); with income forgone by the commercial banks totalling Lei 29.2 billion. The total transfer to the agricultural producer was Lei 14.9 billion in 1995 [Tesliuc, 1996].

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is a SOE in charge of procuring and distributing maize, wheat and barley seeds; and (iii) Unisem is involved in a similar operation but for vegetables, grapes and horticultural products.

3.2.2. Credit at subsidised interest rates

The raison d’être of this mechanism, introduced in decree 83/1993 was twofold: first to create greater transparency in agricultural finance; and second to reduce the distortions introduced by preferential refinancing on the monetary policy and behaviour of the credit institutions. The mechanism had the following features:

- the funds were based on the deposit mobilisation of the commercial banks themselves;
- the banks were free to lend at market interest rates and an interest subsidy of 60% (for feed procurement) or 70% (for agricultural machinery) was provided from the State budget to the final borrower.

This reduced the cost of credit, as previously the procurement of agricultural machinery was provided through the PIR mechanism. Moreover, it introduced some competition in the rural finance market as most of these funds were provided by Bankcoop and RDB, rather than BA. Traditionally, BA has not provided those private farmers outside the state integrator system with much financial assistance. Therefore, once the provision of subsidies was de-linked from specific state channels (BA or the integrators), the market structure became more competitive. However, the mechanism proved costly in administrative terms for the commercial banks due to the complex supervision, control, checking and vetting procedures (regarding the eligibility of their clients) required. The fiscal cost of interest subsidies totalled Lei 60 billion in 1996 [Tesliuc, 1996].

3.2.3. Interest subsidies covered out of NBR profits

This mechanism according to decree 83/93 provided for the delivery of transparent subsidies to cover 60% of the interest cost of lending for planting and harvesting; and 60% of the costs of holding stocks of strategic commodities (mainly wheat, barley and maize as part of Emergency Ordinance 1/94). The NBR on-lent Lei 1,100 billion at market related interest rates (usually the average rate for auction credit) to BA, and state mandated storage agents: Romcereal, Unisem, SemRom and Concentrate Feed Factories. The BA margin was set at 5% and the final borrower costs were set at 15%. The difference was covered by a variable interest rate subsidy paid out of NBR profits, totalling Lei 158 billion. The expenditure NBR profits represents a loss of the equivalent amount to the State budget. However, the state-mandated integrators with access to this cheap credit benefited from these non-transparent subsidies.

3.2.4. Agricultural finance through State funds

This mechanism was introduced in 1995 to finance the autumn 1994 and spring 1995 agricultural campaign out of state budgetary and commercial bank resources. For the state funds, the interest rate was charged at the prevailing refinancing rate (see Appendix 1). The fiscal cost of this less distortive scheme was Lei 62.5 billion, paid in 1996.

3.2.5. Agricultural finance through preferential lending, variable, and *ad valorem* interest rate subsidies[9]

This mechanism was introduced and used during 1995 and 1996 to finance harvesting and planting in the fall 1994 to 1996. The mechanism has the following main features:

- the source of funds was NBR refinancing (namely structural lending[10]), which was the preferential component of the scheme
- BA which intermediates these funds was allowed to charge a 5% margin, the final cost to the borrower was 15%;
- the cost of the credit for the final borrower was set at a variable level of 40% of the contracted interest cost;

[9] NB. each of these items (i) finance through preferential lending and *ad valorem* interest rate subsidies; and (ii) finance through preferential lending variable and *ad valorem* interest rate subsidies are treated separately in Tesliuc (1996). For convenience they are presented together here.

[10] Structural lending is one form of NBR refinancing that provides short-term funds earmarked for a specific sector. These funds are charged the rediscount rate, or the lowest rate in the refinancing rates. It is a preferential lending component of the scheme.

- an interest subsidy paid by the government budget covers 60% of the interest rate charged to the borrower. This is the explicit subsidy associated with the scheme.

The interest rate due to the NBR was the discount rate, the commercial bank margins was 5%, and 60% of the interest cost were paid in subsidies from the government budget. The collection of the interest subsidy was registered on a cash basis in accordance with repayment schedules agreed between the NBR, commercial banks and the Ministry of Food and Agriculture. The quasi-fiscal costs of this measure increased from Lei 65 billion in 1995 to Lei 148 billion in 1996. The income foregone by the commercial banks in financing agriculture through preferential and variable interest rate subsidies in 1996 was Lei 47.9 billion [Tesliuc, 1996].

3.2.6. Special preferential lending and interest rate subsidies, and bad debt rescheduling

Other mechanisms for providing agricultural finance included: special preferential lending and interest rate subsidies, and bad debt rescheduling for defaulting borrowers, and using POF funds to finance the restructuring of the State-owned commercial companies in agriculture. The former is more important for the purposes of this paper as the rescheduling of bad debts had some important negative consequences.

This mechanism according to Law 20/96 enabled the NBR to provide Lei 1,100 billion (of which Lei 827 billion was channelled through BA) as a *special* credit line to finance spring harvesting and the storage of wheat and barley in 1996, where the collateral requirement depended on the value of the expected output of the borrowers. The commercial bank margin was set at 3% and the final borrower cost was 15%. The remainder will be paid from the state budget in 1997. Law 20/96 also allowed defaulting borrowers access to fresh lending and facilities for rescheduling bad loans. Bad debts and interest bearing penalising interest rates were rescheduled and refinanced directly by the NBR through credit lines bearing preferential interest rates (discounted). These may be regarded as mechanisms which lower the interest costs of the borrower or debtor, or represent interest-related subsidies. This had some profoundly worrying consequences:

- the rescheduling of the commercial banks' overdue loans, reduced their ability to recover bad debts or impose hard budget constraints on farms and agricultural firms; and
- clients with outstanding loans were allowed access to further finance; thus no screening or monitoring function was required for such borrowers, as long as they were operating in the sector.

Tesliuc (1996) has estimated the quasi-fiscal costs of fresh lending (Lei 146.9 billion) and bad debts (Lei 74.4 billion) for 1996 at Lei 221.3 billion. Table 3 summarises the overall quasi-fiscal transfer and government mandated lending position regarding Romanian agriculture during the period 1993-1996.

Table 3. Quasi-Fiscal Transfers to Romanian agriculture 1993-1996 Bln. Lei, current prices.

	1993	1994	1995	1996
Preferential interest rates on NBR refinancing facilities, total	100.0	145.6	85.2	369.7
NBR Profits used to cover interest subsidies	0	0	158.0	0
NBR Interest payment deferred	0	20.5	86.1	178.9
POF Lending	7.5	55.0	68.4	78.1
Conciliation: Debt forgiveness by State budget and SOEs	0	0	101.4	0
Interest Component, total	107.5	221.1	499.2	626.7
Principal Component, total	0	0	0	1,127.0
Total Quasi-Fiscal Transfers	107.5	221.1	499.2	1,753.7

Source: Ministry of Agriculture and Food, Ministry of Finance and National Commission for Statistics. Tesliuc, E. (1996) "Agricultural Finance: An assessment of the costs and implicit transfers associated with the current system of agricultural finance," ASAL Background Paper, unpublished mimeo.

As discussed above, the source of these transfers is diverse, non-transparent and have increased over time. Some transfers originate directly from the State budget, others from transfers related to mechanisms that lower the interest cost of borrowers (e.g. administered interest rates below commercial rates), NBR profits were used to cover interest rate subsidies, interest rate deferrals to the next year and POF lending at zero interest rates or interest-like debt to SOEs being written-off.

NBR lending at PIR intermediated primarily by BA and other commercial banks subject to margin control, includes a fiscal subsidy. Thus the NBR provides implicit non-transparent subsidies to the agricultural sector, rather than through the more transparent State budget. As Table 2 shows, in 1996 74% of agricultural support was provided through QFAs, almost double the 1995 figures. These transfers have mainly been directed to a small group of state-owned or related beneficiaries such as state farms, “integrators” and SOEs. The requirements of the vast majority of Romania’s farmers have been overlooked. This has also led to the entrenchment of a large bureaucracy, charged with the task of administering the system of subsidies and largely resistant to change. There has been too little time spent checking the quality of loans, whilst large losses have been incurred by the commercial banks (especially BA), that have acted as intermediaries for the government.[11] These losses will eventually be covered by the government, but at the cost of further fuelling the rate of inflation as the directed credit must be financed by an increase in the monetary base. Vitally, existing practice has both destabilised the financial system and constrained the development of a stable and viable rural financial market in Romania.

The increased prevalence of QFAs have initiated NBR and public financial institutional losses, which have contributed to macroeconomic instability. Furthermore, the prevalence of taxes and subsidies which comprise the QFA have a distortive impact on resource allocation, and macroeconomic consequences which impact on the cash flows of the financial institutions which extend them. The whole QFA and general system of agricultural support has constrained the development of a viable rural finance market in Romania. In the next section we consider a variety of options for change.

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[11] Perotti and Carare (1996) conclude their investigation on the quality of credit allocation in Romanian banks by arguing that these banks have continued to play a passive role, funding large and unprofitable SOEs. Although there are some improvements in the allocation of credit among profitable SOEs, there is still a strong tendency for credit to be directed at larger firms and most recently to those with the most trade arrears. They found that for the worst performing SOEs, the evidence suggests that the quality of credit allocation is deteriorating.

4. Rural finance options: Summary and conclusions

In Romania, there is probably sufficient infrastructural and savings mobilisation capacity to provide more and higher quality financial services to the agricultural sector. On liberalising rural financial markets, the most dominant players will probably be the existing agricultural banks. BA will have a dominant position initially, but a reform of the bank along competitive lines should increase market entry. Given the current IMF imposed constraints on the economy squeezing foreign exchange availability, nominal savings are expected to decrease, inflation to rise further and GDP growth to decline; therefore, money will be more scarce. Macroeconomic stabilisation and the achievement of lower levels of inflation and the cessation of negative real interest rates would be a major boost to the development of all financial markets in Romania. The high levels of inflation under the current credit conditions, make long term credit unavailable to most rural customers. A long term credit market does not really exist in Romania.

As previously noted, the NBR will soon stop channelling funds through BA to the agricultural sector. At the time of writing, BA's structural credit had an interest rate fixed by the NBR. As under central planning there is a repayment schedule, detailing when these should be made. The Ministry of Agriculture estimates the level of demand for credit at the rural level, and draws-up the lending criteria necessary to satisfy this demand. Short term credits received at negative real interest rates are received annually to finance inputs and sowing; the maturity is usually based on the harvest.

As in most transition economies, agricultural credit is not very easy for private Romanian farmers to acquire: a) because they lack a formal education and therefore cannot produce a good business plan; and b) due to a lack of collateral. One of the main instruments used to supply support to the agricultural sector is through QFAs

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Their evidence is not consistent with the hypothesis, that as a result of a market oriented reform of the banking system, the allocation of bank credit is improving.

providing short term subsidised credits for larger farms and the processing industry at preferential interest rates. The Romanian government has continued funnelling these funds through BA to improve rural access to agricultural credit, but is currently considering a radical overhaul of the rural finance system. The experience of other transition economies would suggest that from an institutional perspective there are some possible pitfalls in the Romanian approach to rural finance:

- special rural credit programmes may represent an important drain on the government budget, especially in countries like Romania, without an overall established or nascent tax base.

- once credit is fungible, that intended for agriculture may flow to the more profitable sectors, and encourage rent-seeking behaviour among those who borrow at subsidised interest rates and re-lend at market rates.

- There are also long-term impacts to the development of these special credit programmes, namely, that once a programme is initiated it is politically difficult to (a) avoid demand for its extension to other sectors and (b) to dismantle it as it generates its own demand for continuation.

Although proposals for rural finance based on subsidised credit are often based on the argument that without some form of government intervention, the supply of credit will not be stimulated in the sector, in most transition economies it is very difficult to estimate the real demand for credit. Indeed, given that credit during the Soviet-era was cheap and poorly utilised, in theory it may be possible to obtain similar levels of output with less credit. A strongly expressed demand for credit, may not necessarily indicate that a lack of credit is the main constraint on agricultural development.

More specifically, the Romanian government could consider abolishing directed credit altogether. Tesliuc (1996) notes that all directed credit should be placed on the budget; both the interest and principal components. It will curtail the inefficiencies of the financial system and make visible and transparent the allocation of funds to the agricultural sector. The agricultural sector should have to compete on a level playing field for scarce public funds. Tesliuc (1996) maintains that a stop-gap solution might be to allow the banking system to intermediate the credit through a special department, and entirely off the balance sheet.

As previously noted, in developing an "enabling environment" for Romanian agriculture and rural finance, emphasis should be placed on developing a viable land market and non-interventionist policies, such as direct income support, which do not significantly affect the incentive structure. Subsidised credit for machine purchases, planting and harvesting which exist to artificially lower the price of these services to farmers, affect the incentive structure negatively. Perhaps a discount voucher scheme as a direct producer subsidy should be introduced rather than directed credit for these purposes. As the largest element of stock holding is interest, it is difficult to cease credit for these purposes entirely. Perhaps as a transitional measure, a partial stock holding that is phased out over time, but available to all competitors could be introduced. Alternatively, as a short-term measure, where interest rate subsidies in Romania have driven a wedge between the interest rate a farmer pays and BA receives, a collateral subsidy (essentially a government guarantee provided in an addition to a borrower's collateral), might have a less damaging effect on the equilibrium interest rate and encourage commercial banks to make more appropriate loans to farmers, as it is easier to design incentives for banks to do this where collateral rather than interest rate subsidies are used [Karp and Stefanou, 1994][12].

The NBR with the assistance of the World Bank, intends to encourage the supply-side of credit provision. Both existing and new banking operations could be encouraged to provide rural finance under commercial conditions and terms, through preferential (transitional) support schemes. This might be achieved by for example, providing

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[12] With a collateral subsidy a government guarantee provides an addition to the borrower's collateral, so that if default occurs the bank receives the borrower's collateral and the amount guaranteed by the State. This scheme is not proposed as a complete replacement of private collateral, as the borrower's would have no incentive to make payments, and banks no incentive to attempt to collect them. A collateral subsidy as a short-term policy does not mean that farmers provide no collateral, just as an interest rate subsidy does not mean that they pay zero interest rate.

resources to cover the overhead, operational and set-up costs of new banks entering the market, or those currently restructuring their operations to account for the commercialisation and greater competition within the sector, for a fixed period of time, perhaps one to two years. Or alternatively, a gradually phased-out subsidy programme might be introduced to encourage banks to provide loans in the rural areas. On the demand side, credit would no longer be allocated according to need, but rather on some estimate of family income, collateral and its capacity to conduct financially viable farming. The rate of default on credit already provided, should come to determine the criteria on which future credit is based. Thus, it may be anticipated that many state farms will disappear. The financial viability of farming is crucial to the future development of the sector as whole, as the universal subsidisation of most farming activities, irrespective of location, productivity or product mix, particularly in mountainous areas and marginal land, is not sustainable in the long term. There is still much scope for radical reform of the Romanian agricultural sector including: the full liberalisation of raw material and consumer prices; the deepening of rural credit markets; and the privatisation of state feed and procurement companies.

Romania’s existing rural finance system is not sustainable in the long-run due to the monetary and non-monetary costs of the interventions mentioned above. In the short term, the only way that Romania can create a viable and stable rural financial market is by:

- removing the NBR from its current function of providing direct financial assistance (mainly by increasing the money supply), for which it is poorly equipped;
- by moving to some transitional form of collateral guarantee scheme, rather than direct credit or preferential interest rate subsidies for farmers. This will encourage competition and new market entrants in the provision of rural finance services;
- fully privatise BA and other state-owned banks, or those with sizeable state holdings which again will yield competitive and corporate governance gains both industry and economy-wide;
- there is a desperate need for better information on the actual and likely financial performance of farming under rapidly changing circumstances; and

- a significant effort needs to be made to educate both borrowers and lenders on how to present and appraise business plans.

These activities should help create the desired "enabling environment" in which private farmers, family association and co-operative farms may flourish.

More generally, the government is preserving some of the remaining elements of a "centrally planned system" (i.e. the State integrator system), while the private sector, which provides the bulk of production does not receive enough attention. The Romanian government could improve the existing incentive structures by introducing certain key reforms: (i) the removal of export restrictions and licensing, and (ii) abstention from price controls and subsidies. The completion of land reform would further support commercial farming, by establishing a legal framework for property rights, and a stable land and lease market where land use could reflect commercial decisions, supported by land as collateral for loans. Demonopolisation, which should increase competition at the farmgate and privatisation (which introduces private incentives to investment and production decisions) of agri-processing firms would also enhance agricultural efficiency, performance and competitiveness.

Appendix 1

Table A1. Romania: Main Economic Indicators

	1993	1994	1995	1996
GDP at constant prices	1.5	3.9	6.9	-
Agricultural production	14.0	0.2	4.9	
Industrial production	1.3	3.3	8.9	4.9
Consumer price index	256.1	137.0	33.3	56.9
Unemployment rate	10.2	10.9	9.3	6.1
Budget balance % GDP	-0.1	-4.3	-3.3	
Trade balance $ bn.	-1.1	-0.6	-1.3	-1.0
Current account $ bn.	-1.5	-0.4	-1.3	-1.1
Gross foreign debt $ bn.	4.5	4.0	5.3	6.9
Debt-export ratio %	80	54	59	115

European Economy (1997) Economic Reform Monitor, Supplement C, No.1 February 1997.

Table A2. Monetary Indicators

Indicators	Oct. 1996	Nov. 1996
1. Monetary Base		
Currency outside banks	4,424.5	4,730.7
Banks' reserves with NBR	1,309.2	1,403.6
2. Refinancing from NBR *(daily averages; billions of lei)*	5,988.6	6,830.6
Structural credit	1,016.2	1,978.4
Auction credit	1,090.2	1,354.8
Special credit	15.7	55.7
Preferential credit[1]	5.8	5.4
Credit granted to debtors in dispute at law[2]	1,866.0	1,871.3
Credit granted with derogation from regulations[3]	1,994.7	1,564.9
3. Interbank Operations		
Volume (daily averages; billions of lei)	1,741.3	1,946.1
Average interest rate (% per annum)	55.4	53.9
4. Interest Rates *(% per annum): NBR*		
Lending rate (average)	38.5	39.4
structural credit (discount rate)	35.0	35.0
auction credit	49.0	50.3
special credit	35.0	35.0
preferential credit[1]	13.0	13.0
lombard credit	90.0	90.0
credit with derogation from regulations[3]	34.5	36.5
Deposit rate (average)	12.0	12.0
commercial banks[4]	12.0	12.0
Commercial Banks		
Lending rate (average)	52.2	51.5
non-bank customers	55.2	54.7
interbank operations (including relations with NBR)	41.8	41.4
Deposit rate (average)	40.9	41.0
non-bank customers	38.8	38.9
interbank operations (including relations with NBR)	47.3	47.1
5. Inflation Rate[5] (%)		
Monthly	3.4	5.8
Cumulated from the beginning of the year	34.5	42.2
6. Unemployment Rate (%)	6.3	6.1

Source: National Bank of Romania (1996), Monthly Bulletin, Year IV Vol. 38.

Notes:

1 "Frozen" credits from 1993 to be reimbursed.

2 "Frozen" credits on which the interest rate is not applied.

3 Credits granted according to Law 20/1996, decrees 527/1996, 773/1996, 887/1996.

4 Payable for reserve requirements only.

5 Based on CPI

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