

Deloitte Banking Alert

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Romanian Government adopted an emergency ordinance to address the severe disruption caused by various factors affecting the country's economy, including the agricultural sector

The document addresses the current challenges faced by the agricultural sector in Romania, primarily due to the Russian aggression against Ukraine starting in February 2022 and the severe soil drought experienced nationwide in 2023. The analysis includes a synthesis of meteorological data for January, April, July, and October 2023, highlighting higher-than-usual air temperatures, erratic precipitation patterns, and soil water reserves. The urgency of this ordinance is emphasized due to the potential negative impact on agricultural producers, affecting their ability to meet contractual obligations and risking over-indebtedness or cessation of agricultural activities.

Key points outlined in the ordinance

The impact of the above-mentioned conditions on agricultural production is significant, particularly in regions such as Brăila, Buzău, Călărași, Constanța, Galați, Giurgiu, Ialomița, Teleorman, Tulcea, and Vaslui. The adverse effects on key crops include:

- a 30% reduction in corn production
- a 14% decrease in sunflower production, and
- a 9% decline in soybean production compared to the respective average yields in previous years (2018-2021).

As a result of the widespread drought, farmers are facing a liquidity crisis, affecting both human and livestock food supply, as well as their incomes. **The inability to harvest crops in 2023 has led to a 35% to 70% decrease in average yields in various regions.** Consequently, farmers are struggling to meet financial obligations, including rent payments, loan instalments, and costs

associated with agricultural equipment and land. Compounding the challenges, the geopolitical crisis triggered by Russia's aggression against Ukraine has further disrupted the agricultural sector. The document underscores the economic uncertainties caused by increased production costs, particularly the surge in natural gas prices, and the indirect impacts on trade flows and supply chains. The cumulative effects of these factors have created a state of difficulty for many agricultural enterprises, increasing financial vulnerability and hindering their ability to cope with current economic challenges.

Given the circumstances, **the document proposes crucial measures to support farmers, such as extending financing maturity and suspending payment obligations in credit and leasing contracts until December 31, 2024.** This is deemed necessary to mitigate the economic fallout, including potential job losses, economic stagnation, and adverse effects on the Romanian food industry.

Debtors eligible for the payment suspension are those whose incomes have been directly or indirectly affected by both the soil drought in 2023 and the developments in the prices of agricultural products due to the Russian aggression against Ukraine. Important aspects to consider:

- Eligible debtors must send a **request to creditors within 60 working days of the ordinance's entry into force.**
- To benefit, debtors affected by reduced agricultural yields or negative market conditions due to the war in Ukraine must provide a **declaration and supporting documents.**
- Suspension applies to **agricultural and food industry activities covered by credit or leasing contracts concluded before the ordinance's entry into force, without prior declaration of early maturity.**
- The creditor communicates its decision **within 30 days.**

During the suspension period, debtors are relieved from paying overdue debts and installments, including capital, interest, and commissions. The maturity of the contracts can be extended by a period equal to the duration of the payment suspension. However, interest that accrues during the suspension period is capitalised, and the increased capital is repaid gradually over the remaining duration until the new maturity of the loans. The changes in contractual clauses, including the new repayment schedule and interest repayment schedule, are formalised through additional agreements.

The suspension can last for a period ranging from one month to December 31, 2024.

Conclusions

In summary, the document outlines the critical economic situation, justifies the urgency of the ordinance, and introduces temporary measures to support agricultural producers facing challenges from soil drought and geopolitical events. The focus is on providing financial relief through the suspension of payment obligations, with detailed procedures and eligibility criteria outlined in the ordinance.

For further questions regarding the aspects mentioned in this alert, please don't hesitate to contact us:



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