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Different Debtors, Different Struggles: Foreign-Currency Housing Loans and Class Tensions in Romania

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Abstract: *Management of foreign-currency household debt in Romania in the aftermath of the Global Financial Crisis in 2008 had the effect of deepening pre-2008 class disparities and treated debtor categories differently according to their income. In this article we contribute to the debate on subaltern financialisation by showing how post-crisis credit and housing policies contributed to the fact that today different debtor groups (i.e. by type of credit but also by time of lending) find themselves at opposing ends of the political spectrum based on different class alliances, with those who benefited from the crisis-management polices positioning themselves against those who were the 'losers' under these same policies.*

Keywords: class; FX debt; household debt; politics; Romania.

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Introduction

This paper contributes to the debates on subaltern financialisation in non-Western contexts by connecting housing lending, income polarisation, and post-2008 political mobilisations in Romania. By looking at different types of household debt, acquired in relation to the debtor's income, we reveal the specific class divisions that subaltern financialisation is built on and amplifies (Migozzi 2019; Rodrigo and Aalbers 2019). We show how the management of foreign-currency (FX) household debt after the 2008 financial crisis had the effect of deepening pre-2008 class disparities, treated debtors differently according to their income, and created the conditions for the current household lending wave. Following income groups' divergent trajectories across debt growth, debt restructuring, and the new lending boom, we also explain the political polarisation of different debtor groups: those benefiting from the credit and housing policies of the crisis management positioned themselves against those who were the 'losers' under these same policies.

Since 2001, under the requirements of EU accession and IMF loan agreements, the Romanian state has introduced policies that have expanded the household credit market. First, these requirements involved privatising state banks: foreign ownership of bank assets already exceeded 50% by 2003 and it had reached around 90% by 2006 (Dal Maso and Sokol 2019). Second, they involved creating policy conditions for household consumption on credit. These conditions coincided with Romania's post-socialist integration into the global market as a source of cheap labour for Western companies and a favourable ground for foreign investments (Guga 2019). This meant low wages, adverse conditions for labour organising, regressive taxation, and the almost complete withdrawal of the state from the role of providing public services. The near-total dismantling of public housing since 1990, the lack of rent regulation, and a housing system based on individual property had the effect of steering middle-to-higher income groups into homeownership. At the same time, a large proportion of the population was left to struggle with housing-related costs, which represent the largest cost category in the average Romanian household's spending (Guga et al 2018). The tension between low wages and high living costs laid the ground for household lending and for different opportunities available to different debtors: depending on their income, debtors could access safer and cheaper or riskier and more expensive loans.

In the following sections, we look at how this hierarchy of debt situations has played out since the 2000s until today, with a focus on developments after the 2008 crisis. We look at FX loans as part of a wider domain that encompasses different forms of household debt and at their specific dynamics in the Romanian case – having led to the current mortgage boom (in both FX and the national currency) targeting middle-to-higher income groups, while other debtor groups (such as debtors with pre-2008 FX consumer loans or debtors in arrears on utility bills) are struggling.

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The premises underpinning the expansion and differentiation of household lending in the 2000s

Private credit institutions issued the first mortgage loans in 2001. For several years, credit limitations were imposed by the National Bank (BNR) and households could not take out loans above a certain debt-to-income ratio.[1] But several lending instruments allowed banks to override these limitations: namely, foreign currency lending, which was insufficiently regulated, and variable interest rates. In this context, before the 2008 crisis hit Romania, loans in foreign currencies amounted to more than 65% of the total sum of loans lent by banks to households, with euro lending soaring to account for 45% of the total. With EU accession in 2007, the BNR further expanded the household credit market by creating the conditions for a new unregulated type of loan: a consumer loan with real estate collateral, which became almost as widespread as mortgages for housing purposes.

In parallel, household consumption on credit grew. In 2005–2008, the number of bank debtors rose from fewer than 100,000 to 900,000.[2] These were debtors with different types of loans: mortgages, which were the most regulated; consumer loans with housing collateral; and various types of consumer loans designed by different banks. Instant hire purchase plans from various companies also became widely available. These were the least regulated loans and even went unrecorded by the BNR. Most of them were for the hire purchase of household goods.

Households' access to cheaper and more protected loans as opposed to more expensive and riskier ones depended on their income. Less protected debtors with FX or variable interest rate loans were by 2007 already beginning to see their monthly repayments growing by more than they had expected (Florea et al. 2015). In this initial phase, debtors followed individual strategies for negotiating with the banks.

Different types of debtors affected by the management of the 2008 crisis

When the Global Financial Crisis (GFC) hit Romania, the government responded with austerity measures and, since 2009, also with measures to boost the banking sector and revive real-estate transactions. The same liberal parties that had presided over the pre-2008 accumulation of debt joined forces after the 2008 election and formed an austerity government (Poenaru and Rogozanu 2014). The government developed housing support programmes in partnership with the main private banks (such as BRD, ING, BCR of the Erste Group, Raiffeisen, Transilvania etc.), channelling public funds into: the Bauspar housing savings programme; the First Home programme, with a reduced down payment and a credit guarantee for mortgages; a thermal rehabilitation programme for apartment buildings funded partly with EU grants and partly with loans taken by local authorities and owners' associations; and the National Agency for Housing (ANL) programme, in which state-built housing is sold to applicants on credit from partner banks (and later through the First Home programme). These programmes together represented more than 97% of the total public spending on housing support in the decade after the GFC (Vincze et al. 2017). For a few years, these national programmes continued to facilitate FX

[1] 30% of total net income for consumer credits, 35% for mortgages.
[2] In a population of about 20 million.

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lending with swelling principals especially in the more regulated segment of the mortgage market. Thus, FX lending amounted to more than 65% and euro lending to more than 50% of the total household debt owed to banks by 2014, when both indicators started to decrease.

Most of these measures supported people in above-average income categories who were able to meet the income and down-payment requirements for eligibility under these programmes. The First Home programme encouraged middle-income groups to become debtors and first-time homeowners by offering the lowest interest rates on the market. Its down-payment, repayment, and interest-rate conditions were much safer and more advantageous than the conditions attached to pre-2008 credit lines. The main business newspapers and the national authorities considered the programme a real success in this sense, as it helped the young middle class to access homeownership, curbed the decline in residential real estate prices, and restarted household crediting by sharing some of the banks' risk (Barbuta 2019).

On the contrary, regulators put off introducing measures to alleviate the burden of debtors who had fallen into debt during the pre-2008 credit bubble or had been hard hit by the government's austerity measures and the drop in wages. After mid-2009, the share of bank debtors in arrears rose above 20% and until 2014 fluctuated between 20% and 24% (BNR 2020). In 2010, an emergency government ordinance was passed with the support of parliament (OUG 50/2010) that sought to limit interest rate hikes and several types of bank fees, while also implementing European Directive 2008/48/EC on bank customer protection. Online debtors' groups formed and, based on this ordinance, prepared to sue the banks and reclaim already incurred costs. But the IMF, the BNR, and the Romanian Association of Banks intervened to ensure that the OUG 50 provisions would only apply to new contracts (Chiru 2010). These constraints left pre-crisis debtors in arrears with very limited support. This led to several debtors' protests, especially by middle-income debtors affected by austerity wage cuts and precarisation, and to the initiation of individual and a few collective lawsuits against banks (ibid.). Those who engaged in lawsuits, despite being in the middle-income category and thus a more privileged group of debtors, continued to have a limited power to advance their claims: they did not succeed in converting several individual court victories against banks into new legislation.

While the share of persons in arrears on their mortgages equalled less than 1% of the Romanian population during the austerity years, the percentage of people in arrears on utility bills, according to Eurostat, was about 30%. The fact that utility arrears – and not bank loans – represent the widest-spread form of household indebtedness in Romania makes the formation of debtor alliances and the wider politicisation of debt harder. Looking at mortgages and FX loans in the wider context of household debt, we can better explain the different politicisation of different debtor groups. Precarious groups in arrears on utility bills instead tend to politicise and organise over the issues of wages or poor housing conditions. Moreover, pre- and post-2008 debtors who were able to stabilise their middle to higher incomes came to support the neoliberal austerity reforms in order to maintain the value of their collateral (Ban 2014), thus aligning themselves with the interests of banks and neoliberal parties against the interests of those hit hard by the austerity measures. This politicisation of different debtor groups at opposing ends of the political spectrum, in terms of their class alliances, overlaps with the high level of income inequality that exists in Romania (which, according to Eurostat, has one of the highest Gini coefficients in the EU).

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Nevertheless, the widest form of contention that emerged in this period and out of this constellation of disparate types of debtors was the 2011–2012 anti-austerity wave of protests. Members of middle-income strata impacted by wage cuts and high costs took to the streets alongside groups of people in more precarious circumstances. Leftist groups, organising for labour and the housing rights of low-income and precarious strata, also mobilised around the issue of household debt (Florea et al. 2015). This fragile coming together of different income groups that formed to mobilise against austerity measures led to a change in the government after the 2012 general elections.

The new government included the Social Democratic Party (PSD), which leans towards financial nationalism, but has very limited room to manoeuvre on policy in the face of both national and international constraints (Ban and Bohle 2021). In 2013, the government limited the First Home programme to national-currency loans. It imposed stricter limits on debt-to-income and loan-to-value ratios for FX lending. It also imposed clearer formulas for all variable interest rates. The effects of such ‘timid moves’ (ibid.), combined with wage increases, began to be felt in 2014 when the shares of FX lending and debtors in arrears started falling.

Different debtors and different struggles in a new growth cycle after 2015

Despite stable economic growth since 2015 (Guga 2017), the percentage of wages at or below the level of minimum income grew to about 50% and income disparities along urban-rural, regional, and qualified-unqualified labour divides deepened (Guga 2019). Housing precarity (overcrowding, housing cost overburden rates, utility arrears) remained high in the overall population.

In this context, the First Home programme continued to raise the level of loans for the middle-income categories. Since 2013, all types of new loans to households have become subject to more regulation and supervision by the BNR. At the same time, the stricter limits on debt-to-income ratios redirected this safer lending wave towards middle-to-high income groups, which are concentrated in bigger cities[3] (ibid.). In 2016, after the National Consumer Protection Agency sued some of the banks that offered FX (mostly CHF) loans, the Giving In Payment Law was passed, which allowed mortgage holders to extinguish their debt and terminate their contracts by transferring the property rights to the lender. The law was used by eligible debtors as a tool with which to negotiate with banks to get their FX loans refinanced or converted instead of having their contracts terminated (Grupul Clienților cu Credite în CHF 2018). This fact is also evident in the very low number of mortgage repossessions during this period (BNR 2020). Moreover, in 2017, the Housing Law was modified such that those who had defaulted on their mortgage could get priority access to a special type of public housing. These legislative changes offered mortgage holders more protection against foreclosures and afforded them priority access to the limited stock of public housing over other categories of debtors (with utility debts or riskier consumer loans) and other applicants for public housing.

Fuelled by the rise in wages among middle- and higher-income categories, as well as by the

[3] In Romania, more than in other EU countries, the risk of poverty and social exclusion correlates strongly with the type of residential area.

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rise in home prices, both consumer lending and mortgage lending have increased since 2016. Since 2017, banks have repeatedly announced record profits, sustained by growing household credit. In 2016 FX lending dropped to below 30% of the total sum lent by banks to households and continued to fall; euro lending only remained high in the safer mortgage market, where default rates are very low.

At the same time, precarised pre-crisis debtors who had Swiss franc loans founded in 2015 the Group of Debtors with Credits in Swiss Francs, which organises protests and engages in advocacy. Despite the fact that bank debtors in general were a more privileged category of debtors than those with hire purchase or utility arrears, the Swiss franc debtors had remained stuck with unresolved lawsuits and petitions (Grupul Clienților cu Credite în CHF 2018). Moreover, a large majority of wage labourers with earnings close to the minimum wage, which is around €280 net/month, could not even access the safer and more advantageous mortgage loans (as the monthly repayment tends to be €300 or more).

Thus, the combined effect of the wage, credit, and housing policies that were introduced as part of the post-2008 management of the crisis has been to deepen class disparities among different debtor groups. The dominant mobilisations of the period were the anti-corruption protests of 2015–2018, which rendered invisible simultaneous displays of contention of precarised debtors, labour unions, and housing rights activists (Voicu 2017). The anti-corruption protests united the strengthened urban middle classes against the PSD and their lower-income supporters (Petrovici and Poenaru 2017) and welcomed the CEOs of foreign banks such as Raiffeisen.[4] The USR, a new neoliberal party claiming to have emerged out of the protests and having many personal links to the banking sector, grew to become the third strongest party in the 2016, 2019, and 2020 elections.[5] This signalled a class alignment between middle-income protestors, the USR, and transnational capital against lower income-groups and the PSD with its inclination towards financial nationalism. This anti-corruption movement grounded in a constituency that benefited from the crisis-management polices positioned itself against those who were the ‘losers’ under the same policies.

Debt and class inequalities before and during the pandemic

Despite several changes in the member parties of the government coalitions between 2014 and 2019, Romania’s global market position continued to be defined as a source of cheap labour. The difference between living costs and the value of the minimum wage became the main issue politicised by the labour movement. In parallel, wage disparities grew in favour of workers in qualified and educated jobs concentrated in urban centres (Guga 2019). Homes purchased through the First Home programme represented just a small proportion of residential transactions in 2019, while the bulk of the boom consisted of home purchases made with standard bank mortgages, which require a larger down payment that only people with higher incomes and savings have access to (Profit.ro 2019). Most of the remaining FX lending still took the form of mortgage loans, which nevertheless fell to its lowest level in more than a decade.

[4] Which, according to a court ruling under the PSD government, had to pay reparations to the state due to the mishandling of Bauspar programme funds.
[5] Voted mostly by men below 35, with high education and income, concentrated in urban localities (IRES 2019).

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In early 2019, under a PSD-led government, the Ministry of Finance planned to transform the First Home programme into a credit line for lower-to-middle income households with a limit on applicants' wages and a lower maximum loan amount. This proposal was criticised from the right for offering low-income debtors with state guarantees, and from the left for risking to deepen these debtors' level of debt. But before the proposal was legislated, the National Liberal Party (PNL) came to power in late 2019. It announced its priority was to 'make peace with the banks' and it immediately passed a bill to exonerate the two foreign banks that had committed misconduct while involved in the Bauspar programme. The same party presided over the first year of the pandemic. In 2020 it transformed the First Home programme into the New Home programme – a programme of loans for up to €140,000 that are guaranteed by the state (double the loan amount offered under First Home). This gave a boost to the high-end real estate development sector and higher-income debtors.

On the other hand, the liberal government froze the level of the minimum wage, social benefits, and pensions. Debtors in arrears – including those with non-performing pre-crisis FX loans – were still left without support. Debtors in arrears were not eligible to apply for the moratorium on nine monthly instalments during the first year of the pandemic, which the government passed as an emergency ordinance in March 2020. Politicising these issues around incomes and living costs, the most consistent and widespread mobilisations during the pandemic were the labour union protests of people with low but stable incomes (Cartel Alfa 2021). Conversely, the anti-corruption mobilisations stopped after the PSD lost the government in 2019 and the USR-PNL alliance formed the government in 2020, which strengthened the capacity of middle-to-high income strata to advance their interests.

Conclusion

This overview of the waxing and waning of FX household loans shows that the pre-crisis and crisis-management state policies on credit and housing exacerbated income-based divisions between different types of debtors. These class fragmentations, which are rooted in Romania's integration path into the global economy as a source of cheap labour, determined whether different income categories qualified for different types of riskier or safer forms of household debt: on the one hand, there were the middle-to-higher income groups, who had better and protected access to banking products, and, on the other hand, there were the precarious and also the low-to-middle income groups, who had fewer safety nets and were ignored in public policies.

Our contribution to the ongoing debates on subaltern financialisation and class divisions stems from our examination of FX loans in the wider and interconnected context of household debt, encompassing different forms of credit and debt (utility, hire purchase, or different bank loans). We saw that the pre-2008 segmentation of the household credit market was followed by the differential treatment of debtor categories in post-2008 reforms. Subsequently, different debtor categories developed different political alliances with post-2008 social movements. These alliances can be traced in the main forms of contention that emerged in the aftermath of the 2008 crisis and that found themselves at opposing ends of the political spectrum: on the one hand, the anti-corruption mobilisations grounded in a constituency that benefited in the long term from the crisis management policies and supported neoliberal/austerity policies; on the other, the labour and housing justice mobilisations that were supported by those who were the

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‘losers’ under these policies and opposed them.

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