EXPLORATION OF INTEREST RATES ON LOANS OFFERED BY CREDIT INSTITUTIONS

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RESEARCH ARTICLE

Abstract

This article analyzes for the period 2015-2024, the level of interest rates of credit institutions in their relations with the population and non-financial companies.

The interest rates on existing loans in the balance granted in lei. dollars and euro's and the interest rate on new loans in lei. dollars and euros used for lending to households and non-financial companies were analyzed.

It is known that the level of interest rates used by the banking system for lending to non-banking clients and not only positively influences the national economy and contributes to the relaunch of the growth of the Romanian economy.

Keywords: loans. credit institutions. interest rate on outstanding loans. interest rate on new loans

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INTRODUCTION

The interest rate is the central element specific to the global economy, with a particular impact on the behavior of individuals, companies and governments. A definition of the interest rate is the price of credit, respectively the cost of using a capital in a given period, which plays the role of an instrument to align the demand, supply of money in an economy. The interest rate is considered a crucial instrument of the monetary policy of central banks, an important factor of financial stability and an indicator of the health of the economy.

We certainly agree with the statement "money makes the world go round", in conclusion modern economies cannot function without the existence of money (Anghel, 2015; Feher et al., 2020).

However, banking institutions must face many banking risks that involve evaluation and management (Al-Slehat., 2022).

Interest rates are an essential tool used by central banks to influence monetary policy, especially when inflation control is required (https://www.capital.ro).

The central bank exercises control over interest rates both in the short term, but in reality the economy will feel this influence on interest rates in the medium and long term through commercial banks for the credit granted or the deposits created by customers (Sîrbulescu et al. 2019). The level of lending depends mainly on the monetary policy interest rate, but also on a multitude of other factors (inflation, economic growth, etc.), and has an impact on saving, consumption or investment decisions.

Lower interest rates will act as an incentive for investment and consumption, and high interest rates impact saving, with investment decreasing along with short-term consumption (Lukasa & Noth, 2019; Sîrbulescu et al., 2014; https://www.bnro.ro).

The remunerative interest is considered the interest owed by the debtor of the obligation, namely the amount of money owed at a certain term and which will be calculated for the periods prior to the maturity of the obligation. The penal interest represents the interest that must be paid by the debtors of the monetary obligation in case the due obligations are not fulfilled (Akinci et al., 2021; Akinci & Queralto, 2022; https://www.bnro.ro)

Banks are the ones that set the interest rates on loans based on demand. (Gambacorta, 2008)

By studying the specialized literature, we present some definitions of the interest rate as follows:

- it is the amount of money that is paid for loans, respectively a certain percentage of the loan (https://dexonline.ro/definitie);
- according to Dardac and Barbu, it is the way in which the debtor repays the borrowed amount, after the borrowed capital has been used (Dardac & Barbu, 2009);

• Jesús Huerta de Soto, considers that it is the price that will be paid at a term that was established by a contract signed with the bank, to receive a certain number of monetary units (Huerta de Soto, 2006);

• Rothbard considers that it is the price of goods at the present moment expressed in goods from future periods (Rothbard, 2009).

The objective of the study is to present the importance of the interest rate as a mechanism practiced by banks, part of monetary policy and an important credit mechanism, along with other specific mechanisms.

MATERIAL AND METODS

The purpose of this article is to explore the interest rates used by credit institutions for non-bank customers in the period 2015-2024. The interest rates reported to households and non-financial corporations were analyzed.

To complete the article, the authors applied various research methods such as collecting information found on the NBR website and other web resources, respectively studying the specialized literature, exploring and creating graphs, as well as some conclusions.

RESULTS AND DISCUSSION

During the analyzed period, 2015-2024, the interest rates used by banks in relation to non-banking clients followed a trend marked by increases and decreases.

The average value of the interest rate for the category of loans in lei, in balance (figure 1) received by households and non-financial corporations decreased in 2016 and reached a maximum in 2022 (8.76% for households and 10.2% for non-financial corporations)

The level of the interest rate for existing loans in lei, in balance obtained by the population, for the purchase of housing (figure 2) followed an oscillating trend between 2015 and 2021, and in 2023 we witnessed an increase, especially for loans granted for a period less than or equal to 1 year, registering 7.04%.

At the level of loans for consumption, business development and other purposes, the trend was of growth, especially for those with a term of less than or equal to 1 year. The interest rate on loans with a term of over 5 years, the trend was of decline, but in 2023 the interest rate reached a maximum of 10.01%.

Interest rates on loans for non-financial companies (figure 3) are lower and in the short term, but they also recorded fluctuations during the analyzed period.

The interest rate on loans granted to non-financial corporations after maturity reached a maximum in 2022 (9.72%, 10.59% and 10.10%) and then decreased in 2023 and 2024.

In the category of new loans in lei, interest rates (figure 4) recorded an oscillating evolution with a maximum increase in 2022, of 9.64 total loans, 9.40% in loans granted to the population and 9.93% in those obtained by non-financial corporations. In the years 2023 and 2024, a decrease in interest rates followed, but higher compared to those in the years 2015-2020.

For new loans in lei, the category of non-financial corporations, the rates were lower than in the case of households.

From the analysis of the interest rate on new loans in lei, granted to households, both for consumption and for housing, we found significant changes (figure 5).

Interest rates for new loans in lei and for consumption with variable interest rates or with a fixed initial period of less than and equal to 1 year, in 2015 had a level of 8.31%, reaching 9.78% in 2018, but the following years were marked by a maximum of 13.18% in 2022 and 12.21 in 2023, due to the increase in inflation and the monetary policy adopted by the NBR.

Interest rates on new housing loans in lei with a fixed initial term of more than 10 years also fluctuated between 2015-2021, with a significant increase since 2022. This was mainly due to economic and political changes and the COVID-19 pandemic and post-pandemic inflationary problems.

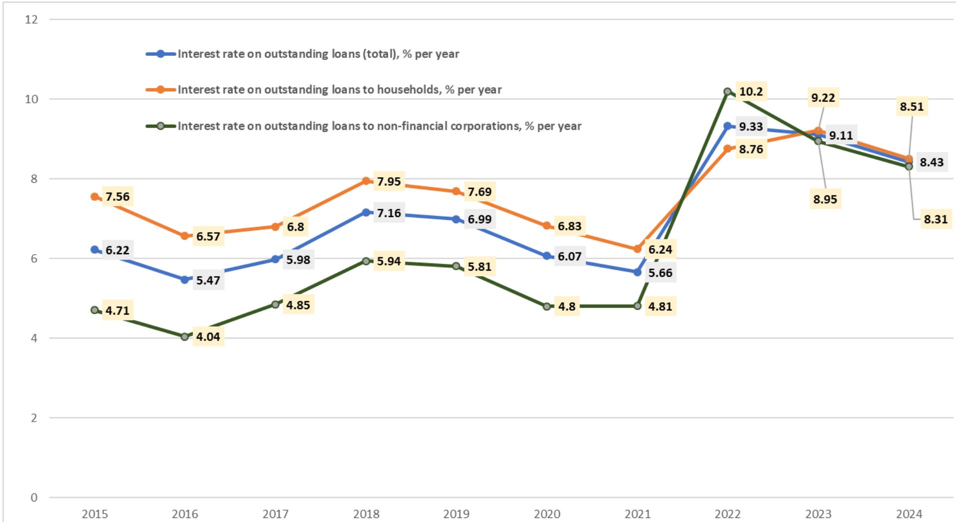

Figure 1. **Evolution of the interest rate on outstanding lei loans**
Source: http://www.bnro.ro

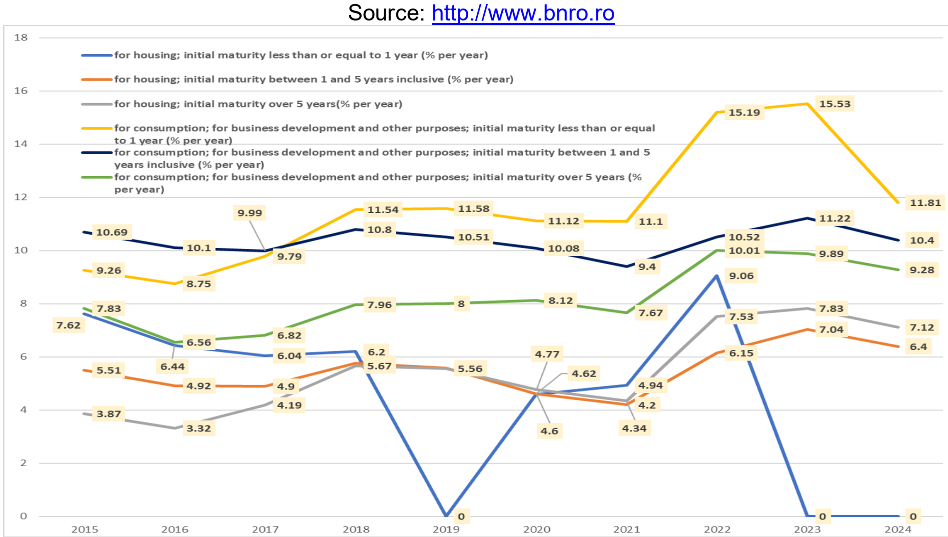

Figure 2. **Evolution of the interest rate on outstanding loans in lei of households by destination and maturity**
Source: oohttp://www.bnro.ro

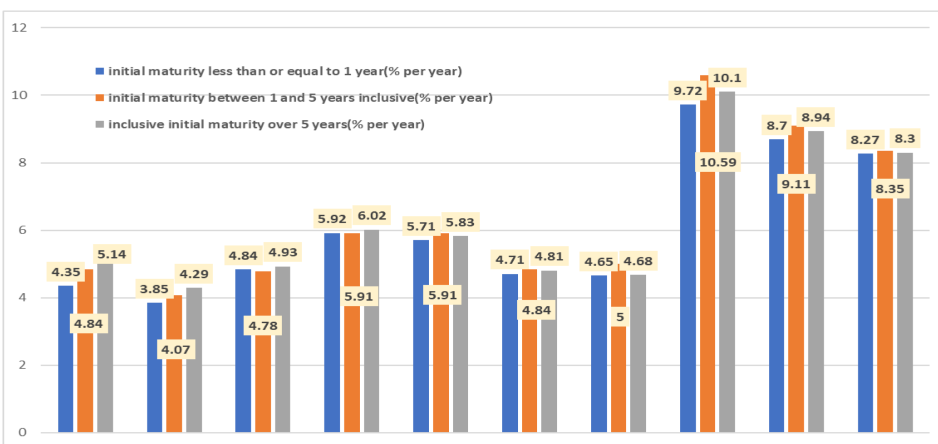

Figure 3. **Evolution of the interest rate on outstanding loans in lei of non-financial corporations by maturity**
Source: http://www.bnro.ro

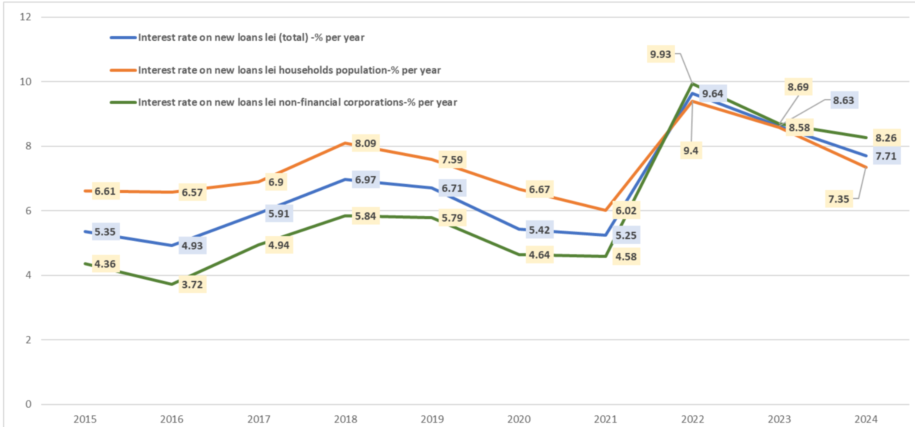

Figure 4. **Evolution of the interest rate on new loans in lei**
Source: http://www.bnro.ro

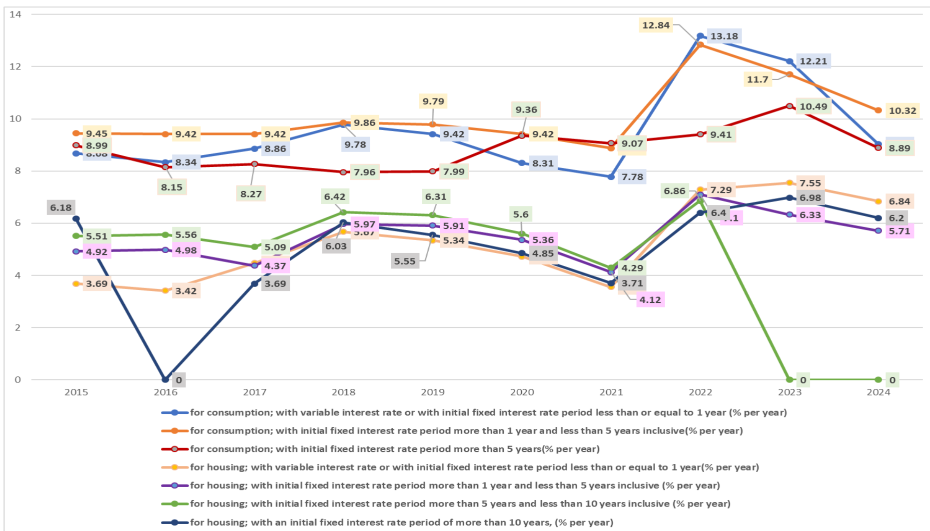

Figure 5. **Evolution of the interest rate on new loans in lei to households by maturity for consumption and housing**
Source: http://www.bnro.ro

When analyzing the interest rates on outstanding euro loans granted to the population (figure 6), we found a slight decrease until 2021, in 2023 it reaches 8.11%, and in 2024, it decreased to 7.21 percentage points.

And in the case of interest rates on outstanding euro loans for non-financial corporations, we found a reduction between 2017-2021, and in 2023 it reaches the maximum of the period of 6.34%.

Exploration of interest rates on outstanding euro loans of households by destination and maturity (figure 7) highlights a decrease in all types of loans presented until 2021, after which in 2023 their level approaches or exceeds the values of the rates in 2015.

In the case of the rate of housing loans with an initial maturity between 1 and 5 years inclusive, it reached values between 5.40% and 5.94% until 2019, after which it increased to 6.81% in 2023.

Rates of housing loans with a maturity of over 5 years recorded a value of 7.90% in 2023, which created problems for customers' payments and the pressure created by the increase in prices of basic products and utilities.

The rate of loans for consumption, business development, as well as for other purposes with an initial maturity of over 5 years, decreased from 5.69% in 2015 to 4.74% in 2017 and increased in the following years, reaching 7.81% in 2023.

Analyzing the trend of interest rates on existing loans in euro, outstanding in the category of non-financial corporations (figure 8), we observe the same upward trend towards the end of the period between 2022-2024.

In the category of loans with a maturity of less than 1 year, we observed a decrease in interest rates between 2015-2021, with 2023 having the highest value for this type of loan.

And for loans with a maturity of 1-5 years and those with a maturity of more than 5 years, the trend was upward between 2022-2024, which indicated pressure in the global and domestic economy with effects on long-term financing costs.

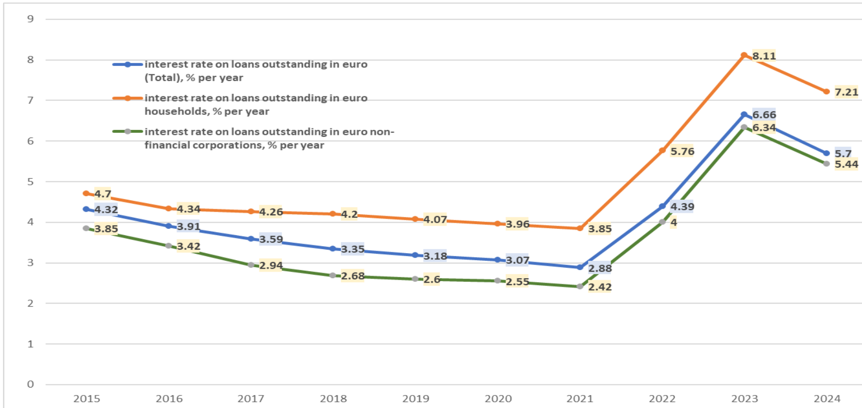

Figure 6. **Evolution of outstanding euro loans**

Source: http://www.bnr.ro

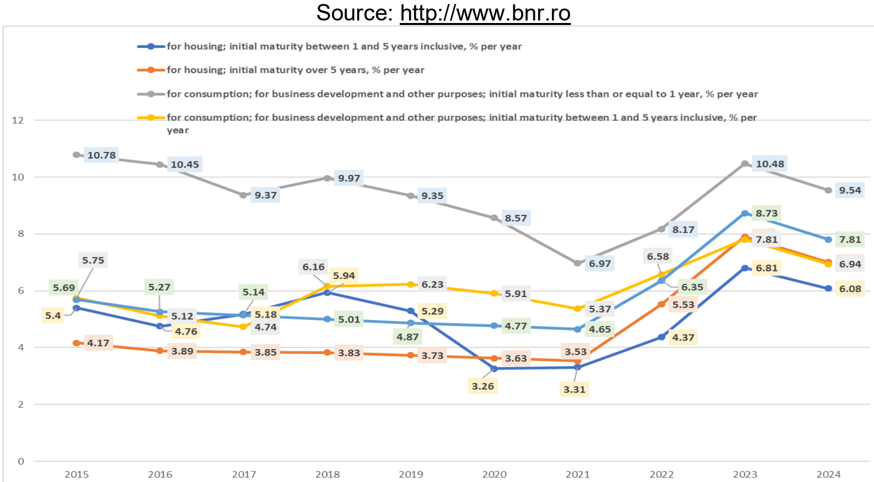

Figure 7. **Evolution of the interest rate on outstanding loans in euro of households by destination and maturity**

Source: http://www.bnr.ro

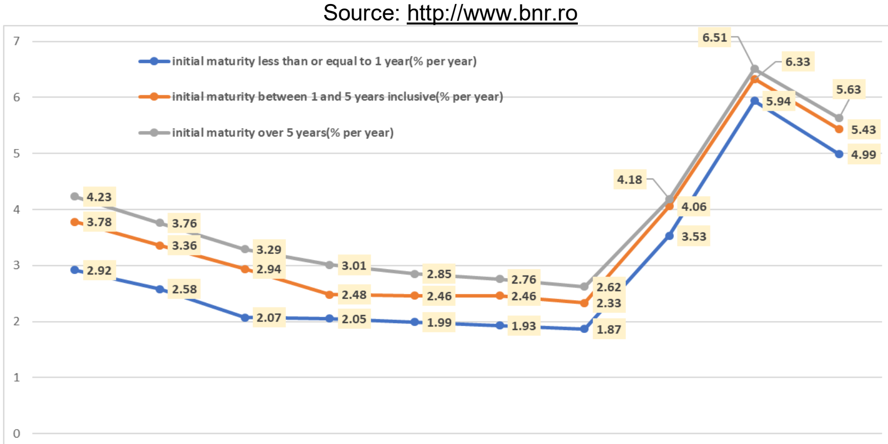

Figure 8. **Evolution of the interest rate on outstanding loans in euro of non-financial corporations by destination and maturity**

Source: http://www.bnr.ro

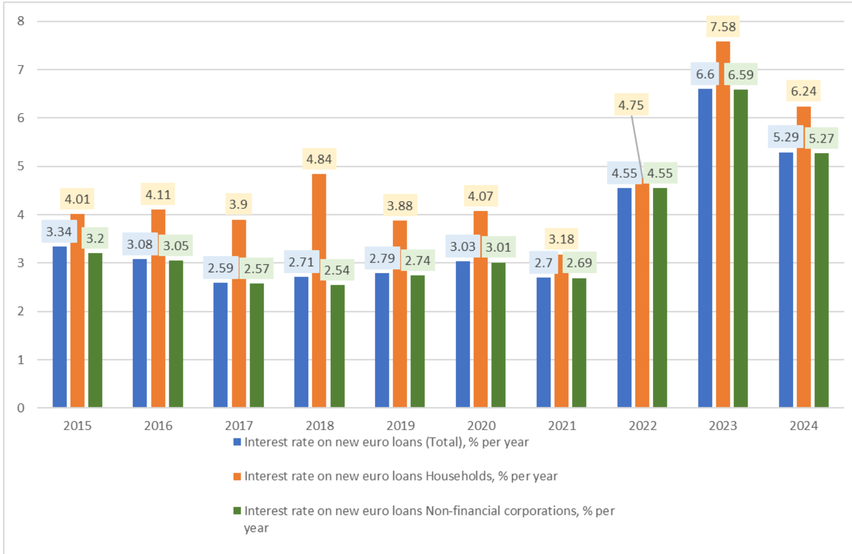

Figure 9. **Evolution of the interest rate on new loans in euros**
Source: ohttp://www.bnro.ro

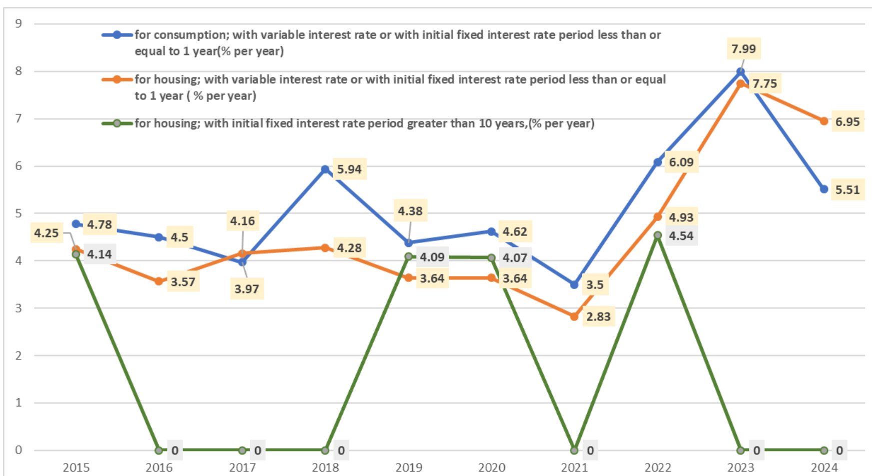

Figure 10. **Interest rate evolution on new loans in euro to households by maturity for consumption and housing**
Source: http://www.bnro.ro

In the same period 2015-2022, the rates of new loans granted in euro to households (figure 9) fluctuated from year to year, with 2023 also being the maximum of the period with the value of 7.58%.

Regarding the rates of new loans in euro for non-financial corporations between 2015-2021, they fluctuated between 2.5% and 3.3% and increased to 6.6% in 2023, after which they decrease, reaching 5.27% in 2024.

In figure 10 we presented the interest rates on new loans in euro to households for consumption and housing.

In 2022 the interest rate on consumer loans increased to 6.09% for loans with a fixed period of up to 1 year and in 2024, it decreased to 5.51%.

The interest rate for housing loans with a variable interest rate or a fixed period of up to 1 year in 2021 was 2.83% and increased to 7.75% in 2023.

Interest rate levels on the dollar-denominated household loan segment (Figure 11) decreased during the Covid-19 pandemic years of 2020 and 2021. Rates on outstanding loans to non-financial corporations also recorded low values in 2020 and 2021, to help the economy recover.

The analysis of the evolution of interest rates on dollar loans on total outstanding loans shows a maximum of 8.27% in 2023. In 2024, the interest rate decreased to 7.14%, marking the stabilization of economic conditions, reduction of inflation and adjustment of monetary policies in accordance with the new economic realities.

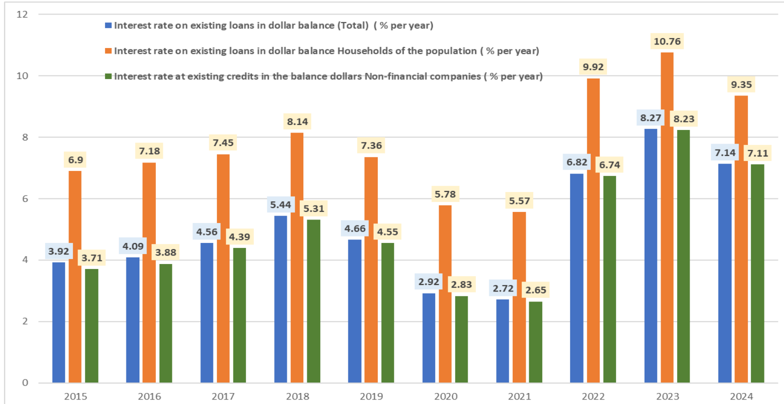

Figure 11. **Evolution of the interest rate on outstanding dollar loans**
Source: http://www.bnro.ro

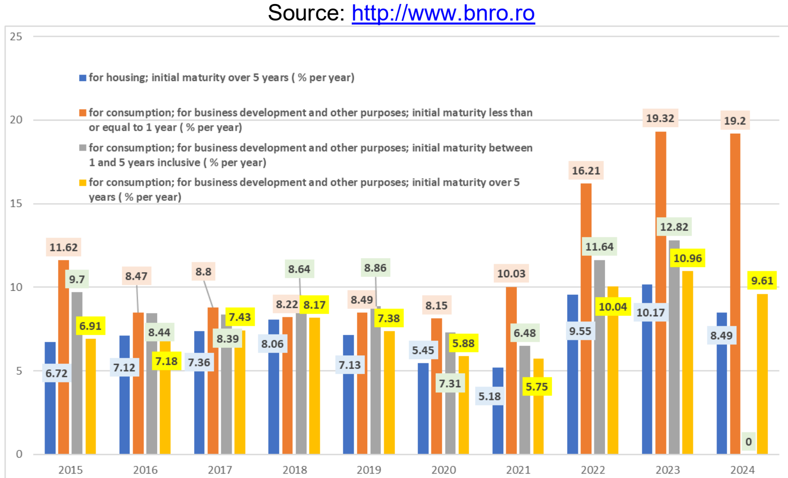

Figure 12. **Evolution of the interest rate on outstanding loans in dollars of households by destination and maturity**
Source: http://www.bnro.ro

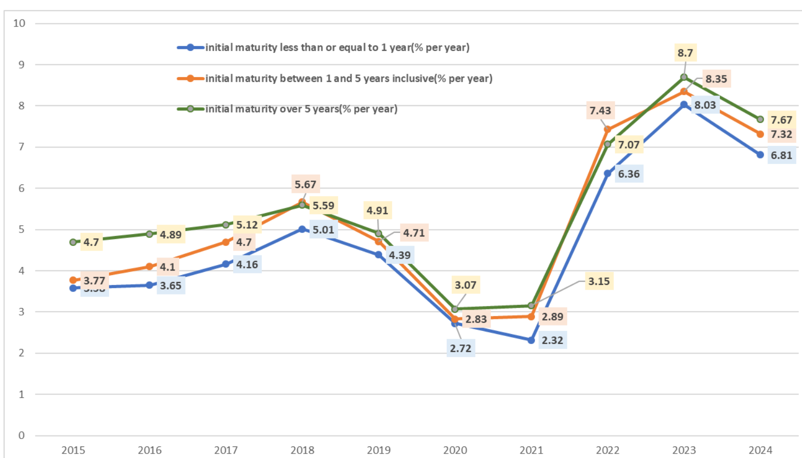

Figure 13. **Evolution of the interest rate on outstanding dollar loans of non-financial corporations by destination and maturity**
Source: http://www.bnro.ro

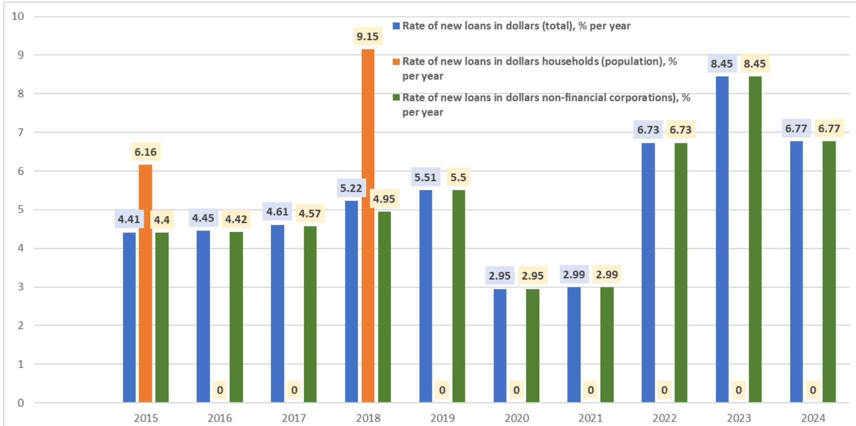

Figure 14. **Evolution of the interest rate on new loans in dollars**
Source: http://www.bnro.ro

Figure 12 shows the evolution of interest rates on loans granted to households for housing by destination and maturity.

For loans granted for housing with an initial maturity of over 5 years, the interest rate recorded a maximum in 2023 of 10.17% and 8.49% in 2024.

Interest rates on loans to the population for consumption, business development and other purposes with an initial maturity of less than or equal to 1 year fluctuated from year to year, increasing to a maximum of 19.32% in 2023.

For the same type of loans, but with an initial maturity of over 5 years, interest rates increased from 6.91% in 2015 to 10.96% in 2023 and 9.61% the following year.

In the case of non-financial companies (figure 13), we found that interest rates on loans with an initial maturity of less than or equal to 1 year, during the period 2015-2019, registered a slight increase from 3.58% to 4.39%.

During the years of the COVID-19 pandemic, the interest rate reached 2.72% in 2020 and a minimum of 2.32% in 2021, which created a favorable situation for non-financial companies to access loans at low costs.

As inflation increased and central banks also raised interest rates on short-term loans, interest rates reached 8.03% in 2023 and fell by 1.2 percentage points to 6.81% in 2024.

Interest rates on long-term loans over 5 years fell to 3.07% in 2020 and 3.15% in 2021. From 2022, interest rates increased to 8.70% in 2023 and in 2024, falling by one percentage point to 7.67%.

Figure 14 shows the interest rates on new dollar loans that were accessed mainly by non-financial corporations and less by the population.

Interest rates for new loans in the analysis period fluctuated around 4-5% until 2019 at 5.51%. The year 2020 is the year of the lowest interest rate of 2.95%.

In 2023, the interest rate reaches the maximum of the analyzed period of 8.45% and decreases to 6.77% in 2024. It is the signal that central banks have started to reduce interest rates after a period of growth.

CONCLUSIONS

We can conclude that interest rates have an impact on the cost of loans and the decision to consume and invest. It also has a consequence on the cost of loans and implicitly, on the demand for loans. We know that low interest rates influence the accessibility of loans, stimulating a demand for loans from the population and from companies. On the other hand, higher interest rates reduce the demand for loans, causing restrictions on consumption and investment.

The year 2024 is the year in which we witnessed a decrease in interest rates, especially for mortgage loans, a trend that continues in 2025, with room for further decreases in interest rates, including for other types of loans.

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