"Al. I. CUZA" UNIVERSITY of IAŞI
DOCTORAL SCHOOL OF ECONOMICS AND BUSINESS ADMINISTRATION

CREDIT RISK MANAGEMENT IN THE CONTEXT OF COMPANIES` RESTRUCTURING PROCESS

Thesis Summary

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"Al. I. CUZA" UNIVERSITY of IAŞI
RECTOR

Ms. / Mr ....

We announce that on 29th of May, 2015, 09:00, in Room R 402, fourth floor, building UAIC, Lăpuşneanu str., Ms. CRISTINA D. Stanel (Săveanu) will hold the public hearing for the doctoral thesis entitled " CREDIT RISK MANAGEMENT IN THE CONTEXT OF COMPANIES` RESTRUCTURING PROCESS in order to obtain a PhD title in finance.

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We send the thesis summary and invite you to attend the meeting for the public.

The thesis can be found at the Library of the Faculty of Economics and Business Administration.

Summary of theDoctoral Thesis

Introduction

In the current economic upturn a successful process of companies`restructuring in terms of a manageable level of credit risk can be achieved only by maintaining orderly credit conditions. To develop this idea should be encouraged orderly financing and long-term funding relationships and creditors must deal with more trust companies with financial difficulties, imposing bank creditors a better understanding of their role in financing.

This paper was intended to be a starting point for further research of credit risk in the context of restructuring firms. In these circumstances, the risk was considered from a broader perspective, as a complex of risks generated by a variety of events and transactions, generating other risks. We wanted a good understanding of the factors that cause risk, among them focussing on the principal-agent problem and information asymmetry.

In an environment of financial crisis both the efficiency problem and the stability of the financial market are important. Stability in the narrow sense, implies the absence of financial crises and broadly, it refers to the state of the financial system that adequately fulfills its functions even amid severe shocks, ensuring smooth completion payments in the economy, rigorous management of financial risks. In the absence of the conditions of stability, risk has a negative impact, but also positive effects through the development and implementation of solutions and tools to counteract the negative effects.

Given the impact of the financial sustainability of firms in restructuring procedures on the economic growth, we started from the idea that the financial sustainability of firms in restructuring procedures actually means supporting an economic recovery in the current context. The economic recovery is achieved through specific financial and banking market by lending products adapted to this context. Funding for the restructuring situations actually means forging links between financial markets and the real economy.

Our goal in this research was to reflect influences of lending for firms in restructuring procedures on the wider economy.

To summarize, the research objectives were to:

- Highlighting key issues related to addressing the credit risk of the banking market in a systemic manner;
- Analysis of the partnership between the bank and the client;
- Analysis of the impact of restructuring procedures on bank-client relationship;
- Financial sustainability of firms in restructuring procedures;
- Financial sustainability impact on banking system performance, with reference to macroeconomic vulnerability, efficiency and restructuring procedures`effect on GDP growth.

We could find a financial dependence of our economy on bank credit, the credit channel constituting a transmission mechanism of financial instability from the outside. The whole effort of analysis, in a credit-based economy, aimed at highlighting the financial accelerator mechanism in the context of the mutual influences between financial markets and the real economy, the imbalances created on one market are offset and reduced through the other market, based on the need for lending from companies that want to take advantage of investment opportunities.

In correspondence with the research objectives outlined in the paragraphs above, our approach included several stages, the work being divided into five chapters, followed by conclusions. For the content of each chapter we combined practical and theoretical aspects, wanting to endow the work unit, consistency and validity by comparing the theory with reality.

To achieve these goals, we used a specific research methodology, selecting relevant methods and techniques both in terms of scope and the topics addressed, the most used being descriptive analysis, comparative analysis, quantitative research techniques. Throughout the paper the qualitative research work was combined with quantitative research. The qualitative side of the study aimed to describe aspects and issue assumptions for which the quantitative research aimed to verify the validity and results and conclusions given in the economic context.

Quantitative analyzes were performed based on the collection of statistics drawn from official national sources (National Bank of Romania, Ministry of Finance) and international sources (European Commission, World Bank, IMF, etc.). The reference period of the present study was 2007-2013, and for some cases the analysis was extended to 2014.

In *the first chapter* we have captured the essential elements relating to treatment of credit risk in the banking sector in a systemic manner, while surprising elements of the Romanian banking market. We detailed credit risk characteristics and general risk factors, and implications, taking into account other types of risk which are directly related to credit risk. Concerning the management of credit risk on bank level, the analysis focused on practical aspects, highlighting the usefulness of the information provided by electronic credit risk management and the impact of Basel III on credit risk management.

The second chapter meant tackling the financial side, in the sense of partnership between banks and businesses. As a novelty we analyzed the double role of credit risk, seen from the perspective of firms and banking perspective, but also as a link between bank and customer. I highlighted in this context the role that credit risk has in life through the influence lending firms exert on business cycles. The financing of the Romanian companies were reflected in terms of availability and options, and in this context it was emphasized the importance of stability of long-term funding source. At the same time we put emphasis on the need to ensure continuity and recovery of business viability in the context of maintaining a level of debt and to provide financial support, but also insisting on liquidity conditions. We focused both on theoretical aspects related to capital structure theories and on practical issues. Practical side of the research involved a review of banks' lending standards, products for firms in difficulty, highlighting particular aspects related to credit analysis required in advance and during the relationship with the bank.

The third chapter aimed to analyze the influence of different ways of restructuring upon the bank-client relationship. Deepening the subject meant considerable research of the restructuring concept and factors affecting it, based on the principles of the restructuring processes. The analysis highlighted the key elements of this process, and among these the anticipatory action time and the "multilevel" feature of the process. Details concerning the stages of the restructuring procedures and its implications in the life of the companies are specific data of the research. At the same time, the consequences and effects of these procedures are designed to emphasize the need for restructuring procedures. As distinctive element we can individualize their contribution and comparative analysis of judicial and extrajudicial restructuring procedures, presenting benefits in terms of costs and reputational risk. In this approach we have highlighted the changes in debtor-creditor relationship, focusing on the development of some friendly ways of resolving difficult situations. In this respect, restructuring must be understood as a continuum of procedures, which must always start with extrajudicial procedures and only if there are no alternatives, various forms of insolvency must be chosen. Restructuring arrangements were explained in terms of their advantages and disadvantages in terms of judicial or extra-judicial character.

The fourth chapter brought as original elements the restructuring approach in financing economic relations with bank creditors. Financial sustainability of firms in restructuring procedures is presented on the base of the standards applied by banks in these situations. The analysis insisted on the idea of accurate restructuring, having beneficial purpose, contesting fraudulent practices and improper purpose of avoiding prolonged state of insolvency. We have included in our study specific elements of risk analysis undertaken by creditors and the description of products developed in relation to companies facing restructuring processes. The personal contributions of the approach have resulted in the implementation of Altman score as a way to assess the potential return of companies undergoing restructuring procedures. The results reflected the practical analysis of corporate recovery after restructuring. The conclusion was that a good score qualifies a firm for credit. Consequently, credit means investment potential and added value reflected in GDP growth.

The fifth chapter continued practical analysis and brought the original elements of macroeconomic vulnerability analysis, seen in a particular way, as a result of lending companies that are in restructuring procedures. The estimator for states of vulnerability is macroeconomic vulnerability index (IMV) which was adapted including a specific component - the credit accelerator to firms in restructuring procedures. Lending firms in restructuring procedure has an effect on the efficiency of the banking system and in this case we used a nonparametric version of assessing the effectiveness, the DEA method. Personal contribution meant customizing the method for the Romanian banking system in 2007-2013 and analyzes the application of a two-staged trial involving states of efficiency / inefficiency scores obtained on the basis of equality in two phases and their comparison with the benchmark. Integrating efficiency scores in the regression analysis leads to the conclusion that bank efficiency in terms of lending firms in restructuring procedures depends significantly on how management of the credit risk. Personal contribution was materialized in the assessment of the influences of financial sustainability for firms in restructuring procedures on GDP growth using financial accelerator model, in which the predictor variable was the flow of credit for firms in restructuring procedures. In the context of a regression analysis, have yielded inconsistent dependencies between lending for firms in restructuring proceedures and GDP, concluding mutual influence between the real economy and the banking market.

We believe that, even with low efficiency in terms of lending for companies in restructuring procedures, the banking system can evolve and develop new products for restructuring situations, so that financial options for difficult situations to grow.

In any case they are and from any position, debtors and creditors should be cautious, and flexibile. Risk management programs should be the main concerns and priorities in Romania. These risk management approaches should be related to problems or rather solutions to issues of liquidity. The risk must be firstly managed and then transferred to consumers. In the context of restructuring, the rapid response and capability to adapt to the economic and environmental conditions is essential for survival and even for growth.

Dissemination of all the research results developed during the Doctoral School was performed by publishing 13 articles, 10 of which in journals indexed in international databases and one presented at an international conference.

Chapter 1
Addressing risk in the banking market

Like any financial market, banking market is imperfect and has an ambivalent character. In this respect, the pooling function (risk division) is not completely done, leading to risk manifestation effects on the efficiency of this market. The risk exposure arises from the multiplicity of operations and procedures that occur in banking. For these reasons, credit risk should be viewed as a complex of interrelated risks that can have common causes and can cause other risks. Banking risks must be viewed as a complex of risks, as their origin are often common and there are sometimes domino effects. Thus, credit risk and liquidity risk may generate even legal and reputational risk, operational risk may in turn induce reputational risk, credit risk may create country risk, for multinational banks, imposing, in this sense, a systemic approach to risk and banking.

The risk events has negative implications both as direct effects, but also positive effects through the development and implementation of solutions and tools to counteract the negative effects. The event risk in the financial market is not the exact location and perfect framing risk in a certain typology but involves assessing its impact, the effect of contagion that leads practically to systemic risk.

Financial stability has caused serious problems to economists as measurement possibilities are low and the ways are difficult. Amid a generalized state of financial instability, financial crises occurred. Crisis phenomena as effects of increased risk events has raised the importance of macroprudentiality concept. In the same category we can include the beneficial effects they have inducing the awareness of quality, quantity and rapidity of information, involving determined efforts to improve data collection, improving resistance test and harmonization of accounting rules to better reflect the economic value of assets in the portfolio.

A higher degree of safety should not be achieved at the expense of lower efficiency and lower capacity of the financial system to support robust economic growth in terms of financial globalization. Transnational cooperation is essential to intensify mechanisms, new techniques for achieving information exchange and harmonization of approaches to resolution of distressed banks.

From the banking perspective, the role of the National Bank of Romania in maintaining financial stability should be considered in the context of tools and methods they use in order to preserve market balance bank. To monitor the banking market, the National Bank made permanent specific analyzes of profitability, liquidity, solvency, provisioning losses, assets and liabilities structure. In addition to sectoral analyzes, National Bank of Romania develops specific analysis, monitoring foreign currency lending, insolvency process, determinants of banks`profitability. In the current economic context, maintaining financial stability actually means systemic risk management. The methods and tools developed by the National Bank of Romania to quantify systemic risk mainly include stress testing exercise for the banking sector solvency and liquidity of banks in macro and micro perspective, evaluating indicators and indexes for financial stability.

The national banking system is part of the international banking system, complex interactions being established between these systems, especially in the new context of systemic risk that requires a comprehensive and coherent approach to the phenomenon of banking risk. In Romania, in structural terms, the banking system is a universal classic system organized on two levels, including the central bank and credit institutions. This organization was introduced in December 1990 as the first step of the banking reform. Analysis of the connectivity of national and european banking system allows a high level of connectivity assessment, capital structure analysis reveals the existence of a number of 33 credit institutions with majority foreign capital, accounting over 81% of bank assets, according to NBR statistics published for June 2014. For the romanian banking system is important that banks have reduced the loss of market share to a level of 28.9%. In terms of capital provenance, increased market share of banks with majority Romanian capital at the end of the first half of 2014 was 19.8%, doubling over the same period of the last year. Following this repositioning, Greek banks and french capital banks were exceeded in terms of market share, the first in hierarhy being the Austrian capital banks, with a share of 36.1%.

The uncertainty generated by the international financial crisis continued to influence the developments in the banking system, lending being dominated by a strategy of caution, with attention paid to operational costs, changing plans for products and territorial expansion plans. The general trend has been to reduce expenses by branch network and number of employees on the background of digital banking, the banking system in Romania continues to be below the European average in terms of number of territorial units, respectively, the number of credit institutions per 100 000 inhabitants.

The banking system must be analyzed in terms of performance. Generally, market performance is reflected by prudential banking indicators, indicators which are calculated for the requirements of the supervisory authority: the leverage ratio (ratio of equity to total assets), the solvency ratio (ratio of own funds and assets and off balance sheet weighted risk), the ratio of loans and deposits), credit risk ratio (the ratio of total loans classified doubtful and loss and total loans), overall risk ratio (ratio between the sum and off balance sheet assets weighted by coefficients risk related to the total assets and off balance sheet at book value). Although it may seem a paradox, performance can be judged and analyzed by non-performance. Reduction of non-performance of an indicator reflects a plus of performance. Non-performance is generally related to the quality of loan portfolios that can be considered one of the banking system vulnerabilities. According to the National Bank of Romania there are prerequisites to alleviate the state of vulnerability caused by non-performance as a tendency toward improvement of values of macroeconomic variables and decreasing the cost of credit by using monetary policy instruments and enhancing a trimming banks' bad debt balances.

As part of the banking system, any bank in an individual sense and the banking system in the collective sense, take risks. Although there has been a diversification of risks assumed in the work of banks, credit risk remains the main risk of the banking system. Even the concept of systemic risk is based on it and includes most of the credit risk. Credit risk, also known as counterparty risk or insolvency risk is the main risk category which appears in financial relations. The significance of credit risk is different for different parties involved in the relationship. For the lender, it means loss arising from the failure to recover part or all of the amounts invested, whilefor the debtor means a deterioration of the financial situation, which in some cases can be disastrous. Credit risk depends directly to the number of customers, the volume of credit granted and the interest rate and credit arises in the context of the relationships that develop on creditor-debtor line. For the purposes of this paper, credit relations that we study are those between companies and credit institutions.

Credit risk involves as well as other types of risk two sides: the quantitative side - the amount of money that can be lost due to bank credit risk and the qualitative side – the probability of default and the default loss for the bank. Regardless of the location of the risk factors, a good risk management should be development. The credit risk management begins when initiating the relationship with a client. From the point of view of the frequency credit risk management must be done permanently.

Credit risk can not be considered on a singular basis, imposing its classification in the category of banking risk and systemic risk. Is is necessary to assess its effect to generate other risk categories. Given the price of credit, expressed by interest and currency, subject to high volatility, risks to be considered are interest rate risk and currency risk. Risk actually means deterioration bank results due to changes in interest rates. The importance of this category of risk derives from the fact that banks' interest income and expenses have the largest share. As a protection against interest rate risk, credit institutions use varying rates and they can modify the original contractual terms for the purposes of the amendments made in the market. Variables change rates correspond to the evolution of a reference element (index or interest rate specific for certain operations). Credit institutions use even combined variants of interest rates, such as revisable rates. They are actually fixed rates, which may change from time to time, in a regular manner. Essentially, the interest rate risk management aims to decrease exposure, assuming several types of actions including reorienting the type of customer or balance sheet/off-balance operations.

Currency risk is related to the operations of the bank in foreign currencies and where losses can be recorded as due to indexation of certain values depending on a particular course or due to changes in the value of assets and liabilities as a result of exchange rate developments. Foreign exchange risk cover both the bank's internal operations and customer relations operations. Currency risk depends directly on the share of assets and liabilities in the balance sheet. Determinants of foreign exchange risk structure may generate the following components: risk tranfer, transaction risk and economic risk. The management of currency risk actually means to reduce losses and expenses resulting from exchange rate movements using different tools such policies or regulations. Regulations to limit currency risk include central bank intervention that sets rules on currency convertibility, determines the exchange rate, currency repatriation from foreign trade activities and develops prudential rules aimed at reducing currency risk. In this regard, banks are required to use a filing system that will enable immediate recording of transactions in foreign currency, individual and global exchange positions calculating. The foreign currency positions will reflect the bank's exposure to currency risk and must be within the maximum limits that have been set by the monetary authorities.

The key in managing credit risk is defyning the level of capital to be associated with the risk profile of the bank. This consideration is based on three reasons, namely: any potential risk generates losses, that protection for potential losses is the capital and the need to adjust the level of capital in order to absorb losses generated by risk categories.

In the current economic context the competitiveness of banks and businesses is expressed by the quality of strategies that they adopt and apply for risk management. They adjusted their behavior as players on the financial market, depending on the evolution of the banking system, marked by globalization, increased competition, liberalization of financial markets, the emergence of financial innovations. If we consider the elements involved in risk management, the essence of this process is actually a concept of mix of management, meaning an equilibrium between activities, people and systems. Risk management also requires a state of balance between efficiency (doing things right) and effectiveness (doing things right). Credit risk management can be analyzed at the level of banking units and national / international level of the banking system. A look at the national lending situation showed lending flows for higher added value sectors and the sectors able to support changing the growth model of Romania. Analysis of financial creditors hierarchy in 2012 show that corporate and household debt in Romania was owned by 68% of domestic banks, amounting to 25.2% of foreign creditors and the proportion of 6.8% of NFIs. Year 2014 can be considered a year that creates the premises for credit growth amid Bank policy to reduce the monetary policy interest rate and reserve ratio and based on signals transmitted from the supply commercial banks, and the end of credit standards restrictiveness.

Considering the credit risk management process, a reform has occured, aimed mainly to change the European Banking regulatory framework. The new European supervisory system appeared with the main aim of ensuring common standards of operation and supervision at European level. Even before the financial crisis, it became obvious that a fragmented surveillance system, with different national approaches were ineffective for prudential supervision in an integrated financial system. Failures of existing institutional structures have made imperative the existence of structures able to internalize negative externalities transatlantic.

Based on the idea that a perfect process of internalization requires good centralization of European regulations and supervision, the European Union answered the financial crisis primarily through the establishment of a new institutional framework, through the reform of international capital standards and strengthening corporate governance in banks. The new European supervisory framework for the organization wanted to remove the limits of Basel II, limits that were highlighted during the transatlantic crisis and questioned its viability. First of all, the importance of systemic risk was underestimated and in this context the appearance of risk through securitization facilitated the development of important channels of contagion. At the same time, credit institutions overestimated the ability to accurately measure the major risks, identifying risk model, caused both by structural factors (lack of macro component) and insufficient calibration internal risk measurement mechanisms that favored taking unsustainable oversized volume of exposures in relation to the capital base. Also, the evaluations provided by rating agencies in the absence of minimum professional standards and supervisión, was underestimated. With respect to liquidity risk on both the financing component and on the valuation of assets, this was reflected in inadequate prudential requirements. Reform of international capital standards as a solution, brought the new Basel III capital agreement, drafted by the Basel Committee of the Bank for International Settlements. Basel III reform program relies heavily on Basel II, but it adds a macro component. Enhancements to the Basel III capital agreement can be grouped by field. With respect to regulatory capital in the context of the erosion of the capital base and capacity to cover losses , there were included several measures: more rigorous definition of capital, focus on Tier 1, introduction of capital absorbers, a new system of limits for capital items, improved disclosure requirements.

Summarizing, Basel III sets new capital requirements for credit institutions, unifies European supervisory practices and introduce liquidity management at group level. Bank are imposed to hold a higher level of capital and of a better quality to withstand future shocks on their own. It represents more than another set of regulations, testing the banking industry for the ability to produce profit.

Credit risk cannot be analyzed and managed properly without the use of electronic information provided by electronic credit risk management systems. Credit risk information is a prerequisite of contractual relations between the bank and the customer. Nationally and internationally there are independent institutions operating in the Central Banks or outside the Central bank, which collect the information of credit risk resulting from credit institutions based on their individual situations and global exposure. In Romania this category of institutions is the Central Credit Risk, which operates within the National Bank and Credit Bureau, which is an independent institution. The current international context increased the role of institutions managing credit risk information, risk monitoring can be achieved in a more efficient manner even at the whole banking system level.

Chapter 2
The harmonization of interests of debtors and creditors in the management of credit risk in Romania

The economic crisis of recent years has seriously affected the participants in the economic cycle. In the same way that positive economic aspects have acted before the crisis, so the negative aspects influenced the business environment. In the new economic context in which no business can not be considered more than temporary stable, the relations between debtors and creditors have changed and imposed solutions beneficial to both sides of the contractual relationship.

The risk must be addressed both in terms of offering capital (lender) and from the position of the entrepreneur or firm facing financing needs. From the banking perspective, the concept of credit risk is the most appropriate and was treated in the previous chapter. In this chapter using this concept we try to establish links between lenders and borrowers. At company level, the risk must be addressed in an aggregate perspective, both economically and from a financial standpoint**.**

Market activity is risky, being impossible to forecast the outcome of the various components of certain financial and operating cycle. Economic risk of the company are in fact, the volatility in the economic outturn operating conditions. Efficient management of risk at the enterprise level is of great importance, given that, risk involves variability of the result and affects the return on assets and the capital .

Among the financial risks, credit risk remains the category with the greatest impact on the development of the company. Credit risk is related to the use of borrowed capital and is in a direct relationship to the degree of indebtedness. Reference to the credit risk of firms actually means an analysis of how the operating cycle occurs and a capital structure analysis.

At company level, credit and credit risk determines the financing function. Credit risk reflects uncertainty about the ability to cover future liabilities. A properly management of credit risk actually means to not let the credit and debt to become dangers, but to act effectively in terms of asset utilization and managerial perspective. For banks, credit risk is the risk of failing to achieve profits due to failure of contractual obligations for customers.

Credit risk is the connecting link between banks and customers, as is assumed by each of the participants in the lending relationship and the banking market functions determine the its practical fulfillment. At the basis of bank-client relationships there are principles of performance, in the sense that lending involves initial risk assessment and customer segmentation by degree of risk. Based on these prudential criteria, the Bank assesses customers` borrowing capacity. In this respect, lending relationship starts with a ’’Know your customers program” which involves the calculation of indicators.

The ways in which firms decide to manage risk and the default strategies they adopt depend largely on firms' risk appetite. This is basically the level of risk that an organization is prepared to accept for achieving its objectives. The concept of risk appetite and in fact, its essence, implies a compromise between the goals of profitability and adverse attitude in the face of negative events and risky.

The funding relationships between companies and banks are a practical expression of the links between the financial sector and the real sector. A study developed by the European Banking Federation, highlighted the existence of three transmission channels between these two risk sectors. Econometric research of the European Banking Federation demonstrated a causal relationship between the state of the economy reflected by GDP and the credit level by the fact that GDP growth causes an increase in lending. The backward relationship between credit growth and GDP growth was found to be uneven. At the same time it has been demonstrated an alignment between lending and the needs of the real economy. Credit cycles generally have higher volatility compared to the volatility of economic activity, but lately there has been a decrease in the credit cycle amplitude amid the correlation between credit and economic activity. This correlation is raising the possibility of systemic risk and, therefore, requires the adoption of integrated measures politicămacroprudenţială at least in Europe where financial market integration remains a fundamental objective.

In this context the relationship between credit and economic status we can consider credit and credit risk as having a role of warning indicator of economic imbalances at the macro and micro level. According to the studies developed by European Central Bank, currency and credit indicators can act as extremely useful indicators in anticipating growth cycles and sharp declines (boom and bust) of asset prices. This fact justifies why banks should closely monitor variables. The analysis concluded that the boom and bust cycles in asset markets have been from a historical perspective closely related to large fluctuations recorded in monetary aggregates and credit, especially in periods of sharp decline of quotations or assets in times of boom their agreements with financial crises, excessive credit creation measures as indicators suitable for anticipatory acumulation of financial imbalances in the economy.

The influence of credit on business cycles is an issue that should be studied in the general context of economic life. This general context led to Romania being ranked 73 in the ranking World Bank - International Finance Corporation on the ease of doing business. At the basis of this hierarchy are analyzed and evaluated a number of ten criteria including: starting a business, dealing with construction permits, getting / access to sources of electricity, registering property, getting credit, protecting investors, paying taxes, trading off borders, execute and enforce contracts and how to handle insolvency cases. In the context of ease of doing business in Romania, lending contribute through two mechanisms: credit information systems and securities law and bankruptcy proceedings. Credit information systems allow access for creditors to debtors' financial history, history is taken into account when assessing risk. Securities laws allow businesses to use their assets as security for repayment of loans elements.

In the IFC study, mentioned above, to assess the ease of doing business in terms of access to credit for the Romanian companies were considered several indicators: the index of the quality of debtors and creditors' rights legislation, scope and accessibility of credit information distributed by public credit registries and private credit bureaus, coverage for private credit bureaus, coverage for public registers, and the results can be summarized as follows:

Tabel nr.2.1 Relevant indicators for assessing the ease of doing business - a lending perspective

Criterion/Indicator	Scor
Law quality	9
Scope and accessibility of credit information distributed by public credit registries and private credit bureaus	5
Coverage for private public registers	11,8
Coverage for private credit bureaus	46,9

Source : own description using International Finance Corporation, Doing Business 2014 - Romania, p. 60

The cost of funding is an essential element in the relationship with donors, affecting the ability to repay the loan and only a few companies are in a position to access funding regardless of the cost.

Regardless of the method of analysis, the loan is linked to real business life of companies, through its two types, namely real credit (as seen in the hands of the one who transfers money and saves the one who needs money) and credit movement (for bank funds especially created for this purpose). The essence of economic balance and the role of credit in maintaining this balance and mitigate cyclicality would be a proper traffic management and the use of credit to cover only the strict needs of companies to develop their business.

In the current economic context, business cycle should be analyzed and assessed in terms of their opportunities. The idea of the risk in the economy can also be seen as an opportunity to be exploited, as it was mentioned in a previous chapter, also in this respect, the business cycle with its states must be seen as an instance of normality. Explosions and boom states require caution and depression are needed prior to return to balance.

In terms of bank-client relationship, the quality and health of this relationship can be defined in several ways. One possibility is based on a tool used by the Danish supervisory authority, called "Supervisory Diamond", which is actually a series of benchmarks to be pursued and aimed in particular credit growth, large exposures, excess liquidity. The role of "Supervisory Diamond" is to increase transparency in the banking market and attract attention to risky weak banks.

Given the importance of a healthy relationship between the bank and the customer, the European Banking Federation has developed a set of principles whose application could determine and maintain a sustainable level of credit risk. The first principle relates to conduct banking business within a framework of an open market economy with free capital movements and maintaining compliance with the European Single Market. The second reffers to proper supervision, banking supervision model must ensure market stability and functionality. Third, banks must retain their character of commercial banks, and in this context state intervention should be reduced so as not to turn down the market mechanisms. Fourth, banking should be conducted on principles of prudence and quality and disregard the size of banks, with increased focus on systemic issues. A fifth principle refers to the use of different banking models to ensure innovation and success in business. The sixth principle relates to banking customer orientation and brings forward the idea of a beneficial effect of the financial crisis, the fact that now more than ever the customer is the center of attention, being necessary to increase transparency and trust and increase financial education. Banking must have both a robust character. Robustness is the essence of the seventh principle and aims to correct calibration of bank capital to ensure stability and to avoid the reduction that would affect loan growth reduction economice. According to the eighth principle, the banking system must be sustainable and banks must review their role and must continuously improve risk management process to align payment and reward schemes with the long-term value creation and functional structures must adapt to customer needs on term long basis.

The current economic context imposed changing the treatment of bank-client relationship. Banks must demonstrate flexibility and openness and understand the role of growth factor that you have credit. The bank must also meet the financing needs of their firms in difficulty. Company financial difficulty may be reflected in periods of setback or failure and may lead to reorganization, restructuring, or final liquidation. For the relationship between banks and customers, the financial difficulties of companies are reflected in the quality of bank portfolios. Adequate management of credit risk involves assessing the quality of loans, evaluation being performed for prudential purposes, the entire banking system, based on processes developed within each credit institution.

The financial performance of customers is calculated using scoring models and is based and non-financial indicators. Credit-scoring model is a mathematical or statistical model, with which the bank is trying to determine the likelihood of future honoring of obligations by a potential borrower. The scoring models allow quick analysis for a potential borrower. The advantage of scoring models is that each bank can adapt the model based on risk tolerance, specificity and social-economic change. In the current economic context, scoring with psychometric assessments are also used. These are new forms of assessment of clients in the early stages of implementation and are based on customer attitude, character and his abilities as determinants of lending behavior. These types of tests measure credit risk without relying on financial, business plans or guarantees.

Whether in difficulty or not, funding is practically a life element that gives continuity to an economic entity. An analysis of funding and access to funding can not be completely achieved without a study of the economic theories of capital structure of the firm. Theories on the company's capital structure allows analysis of financing practices, taking into account potential conflicts between managers, shareholders and creditors. Theories of capital structure are grouped into three different approaches: the traditional approach, Modigliani and Miller theory and the modern concept. The present economy has allowed the development of other theories considered modern for optimal company's capital structure: agency theory, signal theory and the theory of hierarchical funding. Although theories of capital structure provide basic guidelines for capital structure, a certain theory is not sufficient to cover all aspects of the funding arrangements of the company.

Closely related to these theories of financial structure have been formulated several hypotheses for debtor-creditor relationship. A first hypothesis mentioned in literature is the assumption monitoring hypothesis. According to the monitoring hypothesis, creditors who maintain a close relationship with firms in difficulty can alleviate the information asymmetry, with resultsin reducing capital constraints for the companies. These valuable monitoring services help businesses in difficulty to overcome the problems and improve their long-term performance. The monitoring role of private creditors suggests the existence of a positive relationship between the degree of achievement of the activities and performance of firms in difficulty. Studies have shown that firms have better access to finance when they have close ties with their creditors and in this context, the monitoring hypothesis assumes a situation in which loans do not decrease after restructuring or for firms in difficulty. Another hypothesis of funding relationships is the conflict of interest hypothesis. Based on this hypothesis, debtor-creditor relationship functions are severely affected in times of financial difficulty of the debtor, generating a creditor`s behavior aimed mainly to recover his debt, not for increasing firm`s value. In this context, the creditors may refuse to renew existing loans, which may adversely affect companies` capitalization, this phenomenon involving high costs for restructuring firms.

The companies` sources of financing could be traditional sources or innovative sources. Traditional sources include equity (cash flow, capital gains) and borrowed capital (bond loans, loans from specialized institutions, bank loans, leasing, commercial loans). Innovative or alternative sources are the type of private equity capital provided by investment funds and hedge funds, micro-credit, international assistance funds. An analysis of the National Bank of Romania, summarized in the Survey on access to finance for non-financial companies in Romania and their ability to cope with adverse financial conditions (FCNEF) / December 2013) reflected that for the Romanian companies the most important sources of financing are internal sources as reinvestment of profits or sale of assets or loans from shareholders or capital increases. Generally, Romania is dominated in terms of external financing sources by banks and consequently, capital market financing recorded very low levels.

Access to bank loans, although it remains the main way of indebtedness of companies and the main way of external financing, is appealled to at a reduced scale. This is due to macroeconomic conditions, financial crisis requiring a more cautious economic behavior and a less open attitude to the market lending opportunities. In this macroeconomic context, due to altered financial statements and deterioration of financial business ratios results in a reduction in accessibility of bank lending.

Capitolul 3
The Influence of restructuring process on bank-customer relations

Companies may have both financial and organizational difficulties which can be resolved and overcome by the adoption of restructuring procedures. These restructuring solutions must prove flexible and must meet the commercial needs and personel needs of a company.

In the current economic conditions firms` restructuring has become a necessity as determined by the need for survival, the internal solvency requirement and relations with creditors. The opinion of insolvency practitioners on restructuring is that business restructuring is a real necessity, since it does not create additional debt and preserves the position of creditors, creating added value. Restructuring concept is widely used both in developed and in developing countries as thus companies and economies can achieve such a high level of performance or survive when financial or organizational structure is no longer functional.

Restructuring takes place at different levels. For the total economy, it is a long-term response to market trends, technological change and macroeconomic and sector level involves changing the structure of production and new arrangements throughout the company. At the enterprise level, companies can restructure through new business strategies and internal reorganization in order to adapt to new market requirements.

Accordingly, restructuring should be seen as an adaptation in the context of a re-allocation of resources. During this process existing production structures are challenged and replaced, possibly with new structures, more efficient and competitive. Such adjustment may take the form of changes in the business, as changing its position on the value chain through a new use of assets, compensation in balances, improving skills and/or organizational changes in management. In this respect, new business models are emerging.

Participants in restructuring processes are generally all participants in trade and financing of a company, like investors, financing entities, usually banks, as well as public authorities, suppliers and customers.

According to a classification made by the European Restructuring Monitor (European Foundation for the Improvement of Living and Working Conditions, 2013) the typology of restructuring within companies include seven categories: bankruptcy / closure, expansion / business expansion, internal restructuring, merger / acquisition, offshoring / offshoring, outsourcing, relocation. In the Romanian economy we find these forms of restructuring in higher or lower degrees of application.

Considering all these forms of restructuring, it was necessary to develop tools to allow the proper functioning of the new structures. These tools fall into two categories, mentioned by the European Restructuring Monitor Report developed in 2011 (Public instruments to support Restructuring in Europe- ERM Report 2011):

- tools aimed at anticipating change and related to activities that contribute to the training of workers and preparing the company for the new situation, focussing on the awareness of potential future changes in the macro and microeconomic field(trends and potential effects) and implement ways to adapt before the final change;

- management tools related to restructuring which include activities required to meet current operational restructuring event, such as solutions to minimize social costs.

A classification of corporate restructuring processes accepted in most studies is the one conducted by Bowman, Singh was in 1999 and includes the following group: portfolio restructuring, financial restructuring and organizational restructuring.

In this paper the focus will be on financial restructuring, a restructuring way increasingly used by companies in financial difficulties during the economic crisis. Under current conditions, restructuring strategy has become a survival strategy for companies. Restructuring strategy involves reorienting and resizing for survival and profitability and requires the involvement of all stakeholders.

Referring to the purpose of restructuring, we can say that its main determinant is the life cycle of business in the market context in which the company develops. The questions which must get an answer in restructurings are referring to the time of restructuring and optimal functioning of the restructuring process. In addition to these two categories of answers that management should provide the answer to the third question: "When does restructuring improve economic performance" (Bowman, Singh, to, 1999).

Referring to the objectives of the restructuring processes, they are closely related to the restructuring purpose and can be summarized as follows:

-idefication and elimination of all the activities that generate steady losses for the company;

- optimization for the activities that can generate sales, profit and liquidity;

- rethinking some business processes that would improve the overall business performance.

Restructuring processes involve actions of strategic and operational anticipation and social mitigation requirements thereof. These are prerequisites for economic success and competitiveness of the company. All these actions must be framed in terms of achievement and accompanied by evaluative and corrective steps. An analysis of restructuring processes distinguishes the key elements of these processes.

One aspect is the importance of space and time. In this respect it should be allocated more time for discussions and consultations in order to anticipate solutions to problems that may occur , time being an important element to monitor the situation, to identify specific risks and act proactively. A significant concept in this respect is the time for anticipative action in the sense that there are degrees of predictability in managing change. A high degree of predictability is possible when the anticipation is used as a permanent monitoring process for workers' employability and sustainable activities of the company. An ex-ante approach aims at conceiving and implementing in advance, strategies, practices and measures that contribute to adaptation to internal or external shocks and changes.

Anticipation can be used to manage the restructuring process in the best possible way to find alternatives and to limit negative social impact by an ex-post curative type approach. In this context, tools and procedures are designed and used at an early stage in order to prepare the organization and work processes. The current economic crisis has drastically reduced time and space and capacity-looking interventions involved the implementation of forward-looking solutions. Another factor to be taken into account in the restructuring is that this process is a process of multi-level and multi-actor. Anticipation can be used by stakeholders at different levels (European, national, regional, sectoral and company).

Everyone involved in the restructuring process plays an active role in anticipating and managing change. In this context of multi-actor anticipation, the actors involved are not only inside but also outside the company, and an approach of this kind requires interconnections between actions at different levels (mobilizing corporate strategies, local management, trade unions, public authorities, etc.).

Restructuring procedures should be based on prudence, and their conduct must comply with certain principles. Internationally INSOL principles were adopted in the second half of the 1990s, they are considered statements of best practice which apply internationally to companies in financial difficulties which have several creditors. INSOL Principles were developed, as general rules, so as to operate in accordance with the applicable laws of any State, to be completed, as far as necessary, with the principles/legal provisions applicable in the jurisdiction of each country.

Consequences of restructuring processes can be conceptualized in terms of their consequences, represented by positive or negative effects. Based on the analysis of Bowman and Singh these consequences are different depending on the category of restructuring operated. For the organizational restructuring the effects are the increase in satisfaction, reduced staff turnover, increased efficiency. For financial restructuring effects are change in benefits for management and focus on cahflow. In the case of portfolio restructuring, these effects are the increased emphasis on coordinated control strategy and business units.

The study developed by Bowman and Singh in 1999 highlighted the impact of restructuring on the company's financial performance and provides a quantitative perspective of influences comparing the types of restructuring. It was thus reflected the impact of each of the forms of restructuring on the company's performance and highlighted the growing importance of financial restructuring plan that has the most significant effect. The restructuring of the market is positive, but less important, while organizational restructuring may in some cases have negative effects.

Table no. 3.2. The impact of restructuring on companies` performance

Type of restructuring	Mean Percentage Performance Improvement	Number of Studies	Average Sample Size
Portofolio Restructuring	5,6	21	154
Financial Restructuring	37,5	27	35
Organizational Restructuring	-0,21	4	207

Source:According to Edward H. Bowman, Harbir Singh, Michael Useem, Raja Bhadury,*When Does Restructuring Improve Economic Performance?,*California Management Review, vol. 41, no. 2/ 1999

Economic and financial crisis and the acceleration of change, the need for restructuring in some sectors have become targets of the first line at EU level to address weaknesses in the adaptability of businesses and employability of the workforce. European Commission envisages encouraging businesses to permanentely adapt to rapidly changing economic conditions, while maintaining a high level of employment protection and social support measures at appropriate level. At the same time, better anticipating and managing restructuring would help employees and companies to adapt to transitions imposed by excess capacities and by modernization and structural adjustment.

A suitable term for the definition of restructuring operations is the concept of "business reengineering". Generally, for a process of reengineering, companies must be willing to make substantial changes to improve performance, the process of radical change is the first major step in business reengineering (BPR). A successful strategy can be achieved through restructuring and reengineering techniques combined with benchmarking.

The differences between the restructuring arrangements come from their judicial or extra-judicial character. There are several versions of restructuring: consensual restructuring (a process that does not require the involvement of legal, arrangements are made between company representatives and creditors) semijudicial restructuring through the arrangement or ad-hoc mandate (the situation of the company is analyzed, under the supervision of an insolvency practitioner and the plan must be accepted by creditors) and judicial restructuring through insolvency (this procedure means developing a plan to restructure the company, and is protected by law from creditors).

Generally, the term "restructuring out of court" or extrajudicial restructuring relates to the development of contractual agreements between the debtor and its creditors through debt restructuring. A World Bank study mentions improved extrajudicial restructurings and hybrid procedures, as types of restructuring, involving the existence of rules or other types of contractual or legal agreements. These types of procedures involve public authorities or courts, but the involvement of the judiciary or other authorities is less intense than in formal insolvency proceedings.

In connection with the extrajudicial restructuring, the economic literature mentions London approach, through which are established guidelines for multicreditor type of out of court debt restructuring. Under the Bank of England, The UK` banks have developed London approach as a set of informal guidelines for action in a collective process of restructuring for businesses in difficulty. According to the International Monetary Fund, the initiative was appreciated as a result of the recognition of the fact that creditors could achieve good results through collective efforts to support an orderly rescue of companies in distress, comparing to the results obtained by forcing a company to enter into a formal insolvency process.

In most cases, restructuring carried out of the judicial insolvency proceedings brought many benefits to those involved, being more flexible and often even more effective than judicial procedures. In this regard, it requires that before a court settlement address, debtors and creditors to reach a solution or an agreement for changing some of the original contractual terms, in order to enable the debtor to continue working. At national level the Ministry of Finance, National Bank of Romania and the Ministry of Justice developed a guide for extrajudicial restructuring of companies` obligations, in order to assist them in settling friendly conditions for solving financial difficulties with creditors.

Court restructuring proceedings have as main course of action the insolvency. Insolvency represents in the current conditions the only institutional way for restructuring a company. At EU level, legislation on insolvency and the harmonization of legislation in this regard with national laws are considered ways of completing the internal market of Europe. Insolvency law is considered a vital nucleus and a supplier of power and strength for any economic system. Given that there is an increase in financial difficulties, insolvency laws should be available to prevent these problems or to respond by formulating solutions taking into account all the rules of company law, contract law, law on securities, labor law and procedural law of insolvency are considered.

According to the Law no.85/2014, insolvency is that state of the debtor characterized by scarcity of funds available for the payment of certain, liquid and exigibile duties. It can take two forms, insolvency presumed to be obvious when the debtor, after 60 days maturity, has not paid his debt to the creditor or imminent insolvency when it proves that the debtor can not pay at maturity outstanding liabilities with the funds available on the due date. Law no.85 / 2014 distinguishes between insolvency and bankruptcy proceedings in the sense that if insolvency enable business recovery, the bankruptcy is a collective, egalitarian procedure, followed up by liquidation of assets to cover its liabilities and the debtor`s deletion from the Register of commerce. Bankruptcy may be general, case in which the debtor enters successively, after the period of observation, the process of reorganization and bankruptcy proceedings or separately one of those statuses. Bankruptcy can also be simplified and in this case the debtor enters directly the bankruptcy proceedings or with the opening of insolvency proceedings or after an observation period of 20 days. An important element in insolvency is of the claim threshold value representing the minimum value of the claim for which application may be made to the opening of insolvency proceedings. According to Law 85/2014, the threshold is 40,000 lei for claims that are not wages, and for salarries, 6 gross average wages.

Insolvency should not be seen as the end point of a business. There are situations where insolvency is not the preceding closing a business. In most cases, insolvency is the sign of a bad business, but in others it is only a transitory situation that can be overcome.

The reorganization is closely related to insolvency because it is a procedure that applies to the insolvent debtor, in order to pay his debt according to a payment schedule . The reorganization plan is the result of a state of insolvency under which a judicial procedure was opened. The judicial reorganization under Law 85/2014 means, the preparation, approval, confirmation, implementation and enforcement of a reorganization plan that may provide operational or financial restructuring, corporate restructuring, by modifying or restructuring capital structure by restricting some of the activities after total or partial liquidation of the company.

For the economic environment in Romania, a survey developed by Coface in 2013, reflected a slightly improved situation for the number of insolvency proceedings opened in the first quarter of 2013, down about 10% from the same period an earlier year. Observing the behavior of investors and companies in recent years has generated the conclusion that the second semester is always more favorable to business, the number insolvencies recording contractions. In terms of sector, the commercial sector has attracted the most insolvencies. From a financial perspective, the insolvencies which involved reorganization, led to improved financial situations of companies, thus creating the conditions for a future revival and growth. A serious problem with effects of growth for macroeconomic vulnerability is represented by the large number of companies with great levels of turnover (more than one million euros) that became insolvent. The problem with these insolvencies is even greater, as it could generate systemic risk, this category of creditors representing major trading companies for participants in the economic cycle.

In terms of a study conducted by AMCHAM (American Chamber of Commerce in Romania) the insolvency of an increasing number of large and very large companies would have a negative effect of amplifying systemic risk, whereas decreased ability to produce longer support in lending small commercial companies. It is a fact that these large and very large companies had the role of "commercial banks for SME clients through lending to commercial customers, sometimes using credit lines contracted from banks.

Besides insolvency, there are other ways for saving the companies in difficulty. One of these methods is asset deal. The method is a form of sale or purchase of a business and in this case the buyer assumes the assets of companies (especially those associated with brands, trademarks and designs) without assumption of liabilities (or with partial ownership, eg. Credit). The partial or total transfer of assets is advantageous restoring viable economic activity, ensuring the predictability of a business, representing a saving opportunity. At the same time it presents an important advantage in terms of cash flow, provided that the work does not stop, restoring to the economic environment a viable company. This procedure must be regarded as a new beginning, not an end, ensuring retention of a company with real basis.

Another way of restructuring is *the debt to equity swap*. This option of restructuring is regulated by the NBR Regulation no. 26/18 November 2011. In addition to the effect itself of fighting against bank debt, this transaction involves a long-term partnership through joint ownership with the bank. According to the law on insolvency procedure, this operation can only be achieved through a reorganization plan that provides for the conversion of debt into shares. Such an operation is prohibited on budgetary debts. Generally, it is considered successful when the firm has enough resources for the economic recovery, and the period of financial difficulty is transitory. Free of toxic liabilities through mechanisms that the law on insolvency proceedings provides to the borrower and by converting debts into shares, a company can be successfully saved. In connection with the conversion of debt into equity, the economic literature mentions the concept of "super-fail" (or "Super Bankrupcy"), a temporary instrument that allows management to use debt conversion into shares, which can preserve the continuity of the company's value and maintenan managers, thus ensuring the most effective management of the company.

In addition to the aforementioned procedures, a semijudicial procedure, is *the arrangement*. The procedure is an alternative way to bankruptcy for safeguarding the company in difficulty, helping it to continue its activity, by mutual agreements and renegotiation of their debts or conditions. The arrangement is considered an instrument designed to protect both debtors in financial difficulty and interests of its creditors, saving debtors business being preffered to liquidation. Compared to judicial reorganization this tool is effective and flexible, with shorter terms and simplified procedures. The procedure is initiated solely by the borrower and mainly controlled by the debtor, the interest calculation is suspended for adherent creditors and may be suspended by the court for other creditors.

Along with the arrangement we find the *ad-hoc mandate,* which is a confidential procedure, requiring court involvement, and finally presumes an agreement between debtors and creditors within a maximum of 90 days. It requires negotiation between a ad-hoc mandate representative, appointed by the competent court at the request of the debtor and creditors. By law, the ad-hoc mandate is a confidential procedure, initiated at the request of the debtor, where a ad-hoc mandate representative appointed by the court, negotiates with creditors for the purpose of reaching an agreement between one or more of them and the borrower, to overcome the state of difficulty.

If we consider restructuring made exclusively out of court (extrajudicial), practical experience does not lead us to many results. The mediation is an out of court restructuring procedure. According to article 6 of Law no. 192/2006 on mediation and the mediator profession, mediation is a way to resolve amicably a conflict by using a third party as a specialized mediator, in conditions of neutrality, impartiality, confidentiality and having the free consent of the parties. Unlike ad-hoc mandate, the arrangement and the court procedures, mediation is a way to resolve conflict without court intervention. In addition, mediation is an assisted negotiation, all of the participant involved being the ones who must find the solution. The mediator can not impose a solution to the parties of the conflict subjected to mediation.

Chapter 4
Financial sustainability of firms in restructuring procedures and credit risk management

If we consider the credit standards applied in the banking industry for companies in restructuring procedures, we should mention that loans restructuring are made according to each bank's internal rules, approved by the National Bank of Romania. There are different criteria for selecting the beneficiaries of these operations. Not every client qualifies for loan restructuring operations.

The relationship between banks and companies has changed as a result of the current economic context. In this respect, the the loan portfolio decreased as banks headed by lending products for certain sectors (agriculture, export financing) and business needs: working capital, investments, financing costs and stocks, factoring, etc.

Both companies and financiers are interested in working capital optimization, key issue for business sustainability and balance of cash flows between the company, suppliers and customers. A study of the National Council of Private SMEs in Romania, mentioned by an Eurofound document reflects two factors affecting firms in relation to financing entities: access to finance, dependent on the fulfillment of some criteria and high interest rates charged.

Table no.4.1 Difficulties for firms in relationship with financing entities

Difficulty	2005	2007	2009
Acces to finance	38,51%	23,08%	30,51%
High interest rates	41,27%	33,36%	25,86%

Sursa : CNIPMMR, Evaluation of the overall status of the Romanian SMEs in the first semester 2011

Banks have restructured some loans to those in need, but the ability to return after the restructuring process depends entirely on the debtor, the economic climate being difficult for business, the most affected being SMEs. Loans restructuring for companies experiencing payment difficulties is actually the way for support debtors to meet payment obligations. According to the Romanian Banking Association (2009), restructuring of loans is a way to overcome the crisis and can be used as an alternative to prevent foreclosure of collateral. The main reasons for accepting loan restructuring is the resilience of the debt, as in the context of the current real estate market the potential recovery of collateral is reduced. Restructuring allows borrowers to face cash flow problems, changing certain characteristics of the agreement with the bank (interest, duration, maturity, grace periods).

Restructuring of credit contracts can be initiated both at customer's request, which must recognize the impossibility to repay the loan as determined by the existing credit agreement and at the request of the bank. In any case, in order to benefit from a credit restructuring agreement, customers must prove that they are facing financial difficulties. Moreover, they must undertake that they will comply with the new requirements set out in credit agreements, as they have been recently restructured.

Restructuring of credit agreements mustn`t become a means for companies to continuously avoid insolvency. After the conclusion of new credit agreements as a result of the implementation of a specific scheme of restructuring, the borrower must have the ability to repay the amounts due under normal parameters acording to the new parameters.

Approval of requests for loan restructuring needs a prior analysis carried out by the bank. Choosing the optimal solution for the restructuring of loans is facilitated by the type and duration of the difficulty presented by the client, its future ability to pay, and the liquidation of current debts (partial or full), the available guarantees, etc.

Credit analysis for firms in restructuring procedures broadly follows the usual steps of a risk analysis, being improved in terms of banking prudence. In some cases it is necessary a specific approach, which takes into account non-financial aspects. In this context, attention should be paid to aspects of the company's business strategy. The credit analyst will assess the existence and viability of the business plan, business development and its long term characteristics (permanent, seasonal), the development perspective evidenced by documents (contracts signed, contracts in progress, prospects). The reorganization plan which shall be deposited in the bank is actually an image of the development strategy for the next 3-5 years, providing alternatives and implications in case of failure of the proposed strategy.

Another issue to be considered is the problem of SMEs and the difficulties encountered by them in acces to finance. According to the studies developed by National Council of Small and Medium Enterprises in Romania (CNIMMR), 91.27% of SMEs are self funded.

In the current economic climate, banks are forced to adopt a different banking model, by considering the behavior and customer requirements, development and diversification of banking products and services, and the social dimensionof the bank - client relationship, with greater emphasis on reputation. The current economic context is one of transition from transaction banking to relationship banking. In this new framework, the client is placed in the center, on the principle ”customer first”, the attention being focused on customer satisfaction through solutions tailored to their needs.

Generally, financing companies in restructuring procedure involves a process of negotiation between the debtor and creditor. According to Rossi (2010), bank debts are negotiated and renegotiated easier than public debt as banks more easily manage the problem of information asymmetry and facilitate agreements between lenders. Negotiation and renegotiation are essential elements in a credit relationship, as any creditor who initiates this relationship assumes a default risk.

Restructuring strategy in lenders-borrowers relations manifests itself in different forms, either in the sense of loans rescheduling or as extension / increase in the amounts borrowed. Any decision for restructuring has an economic motivation, closely related to firm characteristics (size, risk) and specific bank credit policy. The probability of restructuring in the sense of an agreement between the debtor and the creditor is even greater if the client`s credit history is long, imposing distinction here between relationship lending and transactional lending. Lending relationship is based on information collected by the credit officer and by repeated interaction with the credited company.

In this respect, Romanian banks have developed specific products for firms in restructuring procedures, in order to maintain good customer relationships and increase debt recovery, as follows:

- rescheduling one or more of the outstanding loan rates without exceeding the length initial granting of credit;

- rescheduling the loan;

- refinancing - restructuring of current outstanding loans and according a new credit;

- making a short-term credit facilities due to non-collection of company`s receivables from third parties, including the municipalities, county councils, schools, etc., recorded outstanding amounts (principal, interest) and liabilities from state budgets or debts to suppliers;

- establishment of monthly/quarterly payable amounts for loans classified as non-performant and whose legal recovery proceedings were initiated by enforcement.

According to practitioners, even the non-performing loans (those for which recovery proceedings have been initiated and market sales due to lack of collateral can not be used in optimal parameters) can be restructured, either by refinancing (if the borrower satisfies the conditions of the credit policy of the bank) or by rescheduling the loan, under the control of a bailiff.

Romanian Civil Code contains other restructuring options, which do not release the borrower from the obligation to repay the loan, but allows the transfer of the claim to a third party under conditions that are more favorable to the borrower. One such potential solution is the *assignment of receivables*, which is an agreement under which the bank transmits its claim to an individual or legal person, with all the guarantees that accompany the claim. Another possible solution is represented by *subrogation*, where the bank is replaced by a third person for paying the customer`s debt, who actually acquires the rights of the creditor. Subrogation is a conventional means of transmission of a legally binding obligation and consists in replacing the lender (bank) by a third party (creditor solvens). While paying the creditor the creditor solvens acquires all the rights, including all warranties and accessories. In addition, the Civil Code provides *novation*, which goes under the existing obligation, being replaced by a new obligation, being replaced the object, the loan itself or the creditor or debtor.

In addition to these two solutions adopted by banks at relatively large scale, for credit risk management there are two other solutions mentioned by the Financial Stability Report of the National Bank of Romania, namely: *assignment of receivables* and *receivables canceling operations*. These measures, although effective in cleaning the balance sheets have mixed effects on banking business as a whole. A first positive effect is image enhancement of the Romanian banking sector by enhancing the rate of bad loans rate, NBR calculations reflecting the fact that out of balance sheet exposures generated by the non-performing companies (by assignment or cancellation of claims operations) would reduce the rate of non-performance of the banking sector from 23.4% (value in August 2013) to 7.5%. A second positive effect is that the cleaning of bank balance sheets operations mentioned would not have negative implications for growth. In addition to the positive effects mentioned above, there are possible adverse effects. First of all, any future income that a bank can obtain from taking advantage of non-performing loans decreased significantly (in the case of voluntary assignment, the bank receiving the price the buyer is willing to pay for the bad debts by negotiating).

Along with the analyzed,credit products for major companies under restructuring proceedings, including insolvency, creditors have developed syndicated loans. Syndicated loans are a form of bank loans, granted by a group of lenders (especially banks) called union or pool banking consortium, in order to finance medium-term operation. Syndicated loan may be granted as a form of refinancing loan, or as investment loan or loan to finance exports. In terms of benefits, this type of loan ensure the bank a risk-spreading action between banks forming the syndicate lenders. This means avoiding a too large a commitment to a single borrower, which could jeopardize the financial stability of a single banking unit.

Another approach in relationship with debtors is the pre-pack solution. With this solution the company`s representatives and the banks meet before the onset of insolvency to find a solution for reimbursement of a part of the debt. In this context, the creditors of companies that can not pay their debts want to settle the pre-pack solution, which permit a much faster debt recovery and a successful restructuringn procedure. Given prepack solution a company can overcome insolvency much easier and much faster.

Although specific products have been developed, financing for restructuring companies requires a much higher risk than normal financing. In connection with this financing has been analyzed in the literature the concept of "zombie lending". This refers to situations where banks, although on the brink of insolvency because of poor quality of the loan portfolio continues to fund insolvency firms in a desperate desire to improve the situation. In practical terms, zombie type loans are hiding the real amount of bad loans.

A particular aspect of bank restructuring cases is the phenomenon of *evergreening*. According to the National Bank of Romania, this phenomenon means the customer's financial support, given even if it can not repay loans, thereby avoiding the risk provisioning.

The analysis of financing relations with firms in restructuring proceedings requires an analysis of the risk of bankruptcy . The threat of bankruptcy is one of the main risks that arise in lending relationships where the debtor is represented by an insolvent company. The starting premise in starting relationships with customers is related to the viability of the business. Business continuity is the key to establishing a relationship based on trust and long-term contract between the company and the bank.

An essential element in the bank-client relationship is the prediction of bankruptcy risk. For the purposes of this study, the risk of bankruptcy will be assessed using a scoring methods, namely the Altman score. The selected score type was a modified version applicable in all branches:

$$Z = 6{,}56*x1 + 3{,}26*x2 + 6{,}72*x3 + 1{,}05*x4$$

The variables have the following meaning:

X1 = Net current assets / Total assets

X2 = Reinvested profit / Total assets

X3 = Current result before tax / Total assets

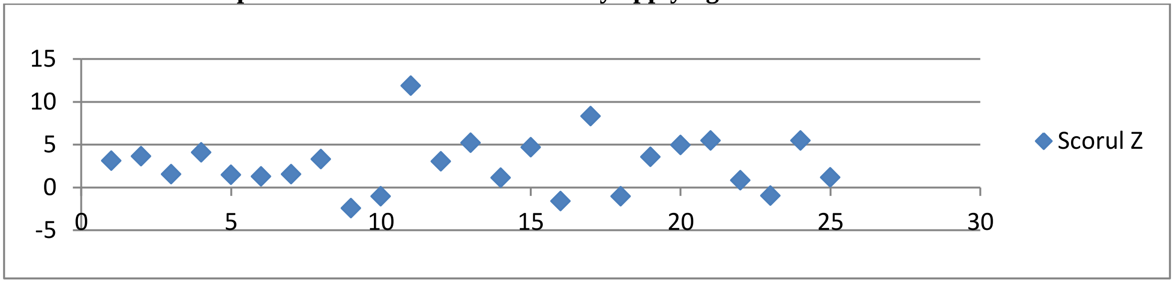
X4 = Market capitalization / Current liabilities

For this option of scoring the area of uncertainty is between 1.1 and 2.6, for values below 1.1 firms are bankrupt, while for values above 2.6 companies are in a situation of non-bankruptcy.

For bankruptcy risk analysis and calculation of Altman scores we have applied the model on a sample of 25 companies under reorganization procedures, for which were available both financial statements and reorganization plans. The purpose of this analysis was to obtain a clear picture of the internal situation of this category of companies which implement a plan of reorganization / restructuring. The aim of the analysis was not to forecast, but to make a diagnosis of the financial health of companies, based on the "treatments"of restructuring.

The analysis performed was a multivariate type analysis, combining by the indicators used both aspects of profitability, liquidity and borrowing. The role of the study was to highlight the resilience and business continuity in the context of reorganization, while illustrating the effect of a change process. The methodology involved as a first step the calculation of indicators included in the Altman score equation. Another stage involved the classification of firms using the results obtained by applying the function score.

Graph. no.4.12. Results obtainded by applying the Altman Score



Sursa: own calculations using information registered in financial statements available on, www.mfinanțe.ro

Score values obtained for functions associated with the companies included in the study sample showed that reorganization was a correct option for a number of 19 of the 25 companies analyzed.

Table no.4.6. Commpanies`s situation In Z score intervals

Nr. Crt.	Value of Z score	Number of companies
1	< 1,1	6
2	1.1-2,6	6
3	>2,6	13

Source: own calculations using information from financial statements reported to the Ministry of Finance

The analysis performed reflects firms potential to exit insolvency, those recording a higher score than the limit of 2.6 representing more than half of the companies analyzed (52%). Even the uncertainty, with scores ranging from 1.1 to 2.6 shows a potential return for 24% of the companies in the sample and confirm the potential for growth. Continuing the judgment, we can say that a good Altman score reflects an investment potential. Since the Romanian economy is based on credit, this potential can be realized through lending. Investments are driving the economic growth, and can be set a link between investment and growth. Locating these links at firms in restructuring procedures revealed the following:

- a good Altman score may qualify a company for loan;
- credit means investment potential;
- investments mean added value, reflected in GDP growth.

Applying a transitive relation, it follows that a good score reflects the ability of a company (for our purpose, a company in restructuring procedures) to contribute to economic growth, the Altman score succeeding in this sense, to be a useful tool for reflecting the capacity of recovery for firms in restructuring procedures.

Chapter 5
The impact of firms` restructuring procedures on bank performance. Econometric Analysis

Financial stability is currently considered a new approach, as preventing vulnerabilities is no longer done exclusively by delaying the accumulation of risks through capital requirements, and acts including financial risk cycle amplitude. At the same time maintaining a healthy banking system implies the existence of complementary mechanisms such as market discipline exercised by shareholders and creditors of banks and internal governance.

Banking pactice revealed that the effectiveness of restructuring is questionable, given that this process was in some cases a way of masking the real degree of deterioration in asset quality.

A problem faced by banks is the problem of fraudulent insolvencies. In Romania, according to studies of AmCham in many cases the start of insolvency proceedings was hijacked. Insolvency was wrongly understood only as a way of protecting the debtor, although it represents a procedure to ensure both the claims of creditor and the debtor`s reintegration into the economic flow.

Starting from the idea of a credit-based economy, influenced in its proper functioning by lending relationships, this chapter brings to the fore the vulnerability of macroeconomic risks considered in the light of lending companies in restructuring procedures.

The analysis was based initially on Economic Vulnerability Index (IMV), trying to capture the influences of lending to firms in restructuring procedures upon the economy as a whole. Funding for this special category of companies creates prerequisites for economic growth and helps them to overcome the financial crisis.

Credit risk is one of the determinants of macroeconomic vulnerability and from the banking market are transmitted signals to the entire economy, considering the perspective of vulnerability. The literature refers to different ways of measuring these conditions of vulnerability. One of the relevant indicators is the macroeconomic vulnerability index or IMV.

The approach that we used can be framed in the context of the financial accelerator theory proposed by Bernanke in 1996, theory which shows that increasing flow of credit (Credit accelerator) increases the consumption and investment, with an increase in the value added measured by GDP.

The main idea of the study was to quantify the impact of lending to firms in restructuring procedures to the vulnerability of the overall economy. The analysis conducted was based on the idea of a credit-based economy, from this perspective, the banking market being a barometer, offering different signals.

The motivation of using the Macroeconomic Vulnerability Index (IMV) is based on several considerations. First of all, we consider aspects related to currency and the fact that macroeconomic vulnerability is caused by the large share of foreign currency credit to companies. Foreign currency lending is generally considered more risky than lending in domestic currency. According to Financial Stability Report/2014 published by the National Bank of Romania, the phenomenon of non-performing loans manifests itself more for loans in foreign currency, the currency rate for non-performance being 23% compared to 20% for loans in lei. The explanation derives from coverage of currency risk, which in the case of SMEs is much lower compared to corporations, requiring a different approach to increase prudence for uncovered or poorly covered borrowers to currency risk.

The IMV (Macroeconomic Vulnerability Index) was developed by Herera and Garcia in 1999 and it is calculated as the sum of the ratio of M2 and foreign exchange reserves, the monthly inflation rate, monthly evolution of government credit and real effective exchange rate.

$$IMV = \frac{M2}{res} + I + \Delta\%CN + REER$$

unde:

IMV – indicele de vulnerabilitate macroeconomică;

$\frac{M2}{res}$ - raportul dintre $M2$ şi rezervele valutare;

I – rata lunară a inflaţiei;

$\Delta\%CN$ - variaţia lunară a creditului neguvernamental;

$REER$ - cursul valutar real efectiv.

Due to the availability of data and in order to achieve a more accurate reflection of the fenomenon, we have used annual data. The reference period is 2007-2013, trying to capture specific elements for this segment (firms in restructuring procedures) both during the financial crisis and thereafter. For the purposes of this paper we will analyze macroeconomic vulnerability arising from lending companies in restructuring procedures.

To calculate the index of economic vulnerability in this context the calculations of the economic vulnerability was done by modifying the equation model in order to include signals of crisis from restructuring cases lending. We replaced the variation of government credit with annual change of credit to companies that are in restructuring procedures. All data sets used were expressed in annual values. For foreign reserves, levels were determined as annual averages. The inflation rate is the one announced and published by Eurostat, in the same expression as an annual average.

For the evolution of government credit ewe used the expression or annual credit flow or loan accelerator for companies in restructuring procedur. Loans accelerator represents first-order difference of annual credit flow expressed as percentage of GDP. For this study the variation of credit flow is the first order difference of loans to companies in restructuring procedures.

The peculiarity of the model derives from the attempt of calculation of the vulnerability generated by the restructuring procedures segment of firms. We replaced the variation of government credit with the annual change of credit to companies that are in restructuring procedures.

Table no.5.2. The evolution of IMV during 2007-2013

Year	IMV
2007	7,554066
2008	10,60788
2009	8,197929
2010	8,811499
2011	8,40209
2012	7,491961
2013	6,672712

Source: own calculations

Using the macroeconomic vulnerability index as a warning signal requires more than the determination of its values in the reference period. It additionally requires calculating the average and standard deviation of the IMV series, since signals of crisis occur when the condition is fulfilled :

$$IMV_t > \mu + 1.5\sigma,$$

where μ is the mean , and σ standard deviation of the IMV series.

Table no.5.4. Fulfilment of crisis condition for IMV series during 2007-2013

Year	IMV value	$\mu + 1,5\sigma$	Fulfillment of crisis condition
2007	**7,554066**	**10,130542**	**No**
2008	10,60788		Yes
2009	8,197929		No
2010	8,811499		No
2011	8,40209		No
2012	7,491961		No
2013	6,672712		No

Source: own calculations

Based on the results obtained by testing the condition above, we find during the reference period signals of crisis in 2008, a year characterized by the highest inflation rate, according to the data provided by Eurostat, the annual value being 7,9%. The situation is justified by a low level of M2 compared to the years that followed, and a negative value of loans accelerator used in calculating the index IMV. Year 2008 is a year of maximum vulnerability and the year of onset of the global financial crisis, felt at a national level too. The intensification of credit risk management even in the case of companies under restructuring procedures is reflected by the IMV, because in the following years, the condition is no longer fulfilled.

Banking financial conditions and performance evaluation were issues of considerable importance in recent years, especially in countries in transition to a market economy or in the early stages of operation of this system. This is due to the role of financial intermediation that banks play in the economy. The banking sector is important from depositors perspective, from the perspective of potential investors and policy makers, banks facilitating implementation of monetary policy.

Economic efficiency measures the competence with which inputs are transformed into outputs in the lending process and also describes the ability to combine inputs and results in an optimal distribution in terms of their price. Analysis of bank efficiency is important both from a macroeconomic perspective and from a microeconomic perspective. The role of this study is to observe the effects of the phenomenon of restructuring of firms on bank efficiency.

Bank efficiency analysis was performed using the Data Envelopment Analysis (DEA). DEA method was selected as the most suitable method for the analysis of relationship we want to establish, mainly for reasons of data availability on a relatively small time horizon. In the present study we used a multistage open-DEA approach. Such a model has been used by Seiford and Zhu (1999) who measured the profitability of US commercial banks. Using DEA methodology, we tried to establish a link between bank efficiency and restructuring operations, calculating the impact of restructuring operations on bank efficiency.

Table no. 5.5. The structure of DEA models considering the output and input variables and their stage use

Stage 1		
Model	**Input**	**Output**
Model 1	-Leverage effect -Loans/Deposits	*Lending rate of firms in restructuring proceedings ("Liabilities of debtors in restructuring proceedings " / Total loans)*
Stage 2		
Model	**Input**	**Output**
Model 2	*Lending rate of firms in restructuring proceedings ("Liabilities of debtors in*	*- Return on assets (ROA)* *- Solvency ratio*

	restructuring proceedings " / Total loans)	

Considering the specific analysis for the impact of lending to firms in restructuring procedures on the credit risk of the banking system, we used a stage analysis, in which the indicator *Lending rate of firms in restructuring proceedings* represents the common element having both the role of output and input.

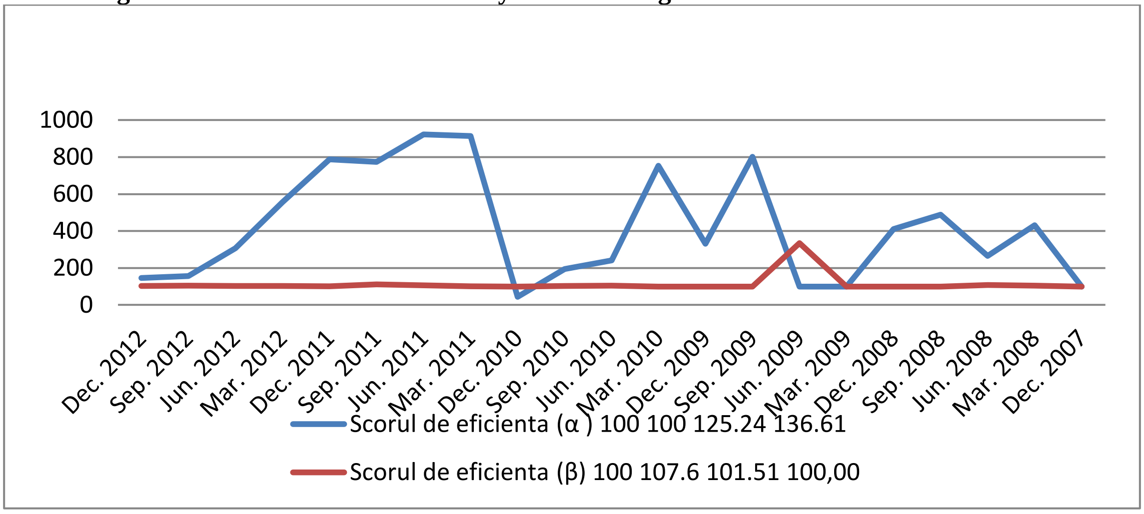
In estimating the models we chose the assumption of variable returns to scale justified under conditions of an imperfect competition of the Romanian banking system and of information assimetry in terms of legal or financial constraints.

For the effective study we used aggregate variables for the entire Romanian banking system, considering that a particular analysis is not relevant for certain banks, credit restructuring phenomenon being a general characteristic of all the banks in the system.

The period for which the data were selected is between December 2007 and December 2013. The motivation for choosing this period is the economic context marked by the economic crisis and the magnitude of the financial restructuring of firms at national level during this period.

The concept of banking system efficiency has been addressed in the sense of an optimal state of profitability and capital adequacy to risks. According to the orientation based on maximizing results, banking is considered effective if the input-output combination leads to financial performance in the context of compliance with prudential practices. The analysis was focused on deepening the nonstandard DEA method, as in this first stage of the research we tried a different approach to input and output variables by their double positioning. The nonstandard method included indicators (ratio) integration as input variables and output variables. As decision unit (DMU-Decision Making Units) we considered periods (quarters) for the interval 2007-2013, for which the efficiency score was calculated. This approach of DMU was possible because according to DEA method, DMU definition is generic and flexible.

Figure no. 5.4 Evolution of efficiency scores during december2007-december 2013



Source: own calculations using EMS (Efficiency Measurement Sysytem)

It can be observed that the relative efficiency estimated by efficiency scores is better in the estimation based on the second model, in the second phase of DEA analysis. In this case the values are much closer to the reference threshold of 100%.

From this perspective of lending to firms in restructuring procedures, the banking system is effective while the main objective is not only to achieve profits, but also to obtain a steady state of solvency. Although faced with periods of decline, the Romanian banking system has kept solvency indicators within normal limits due to supervisory measures.

The objective of the stage analysis conducted so far has been to reflect the importance of performing lending activities aimed at increasing the funding for debtors in restructuring procedures and subsequently maximizing economic return based on this type of financing. Maximizing the value of loans to debtors in restructuring procedures is an indication of banking market development and adaptation to the requirements of firms in restructuring procedures.

According to the study developed by Chen & Zhu (2004), whose model we have implemented in this paper, through the stage analysis, the efficiency of decision making unit is obtained if there is a relationship of equality between the values obtained for scores in the two phases. In this regard, will be effective those DMU (in our case - quarters of the reporting period) for which $\alpha = \beta = 100\%$ (effective threshold).

Based on this efficiency conditions, while seeking a balance between this objective and solvency, respectively profitability, results that periods of relative efficiency of the banking system in terms of lending firms in restructuring proceedings are recorded in the years following the crisis from 2008 to 2010 (September to December), 2012 (September to December) and 2013 (June, September and December). These are good periods in terms of minimum difference recorded between efficiency scores.

The results of the efficiency scores do not represent the final analysis. The practical analysis will continue with data integration (efficiency scores) in a regression model, considering each score as the dependent variable of several explanatory variables. Considering that the efficiency scores obtained are the estimated level of efficiency, we have performed a further analysis of the influence factors using multivariate regression analysis. To conduct this research we have used data resulting from the application of model 2 of the second stage, because the values are much closer to the threshold of efficiency (100%), the standard deviation being much lower than the values recorded for the first model. In this regard, the dependent variable will be the efficiency scores obtained from the analysis of DEA. As independent variables we use: the development of capital requirement for credit risk (expressed as a percentage of total capital requirement) and the rate of overdue loans for companies in restructuring procedures.

The results for Pearson coefficient indicate a dependence of variables, but the values values lower to 1 reflect a relatively low degree of dependence. However, we can identify the meaning of addiction. Thus, efficiency is directly proportional to the evolution of overdue loans to firms in restructuring procedures and to the development of capital requirement. Between dependent variable represented by the efficiency of the banking market in terms of lending for firms in restructuring procedures and the rate of overdue loans related to this category of firms there is a direct, stronger than the one recorded in relation to other independent variable considered, with a lower level of Sig significance. (0.072) close to the threshold of 0.05.

Interpretation of values from Sig. test took place in the context of testing the null hypothesis, namely the existence/absence of significant links between the dependent variable (the efficiency score obtained for the banking system) and independent variables (evolution of capital requirement and the rate of overdue loans granted to firms in restructuring procedures). Although the value of Sig. is greater than the threshold value, proximity to this level indicates that the variation efficiency of the banking system in terms of lending to firms in restructuring procedures can be explained by the independent variable - rate of overdue loans granted to firms in restructuring procedures. Positive values obtained for R and R square confirms the correlation between variables, resulting at the same time that among the selected independent variables, the best predictor of the efficiency of the banking system in the context of lending for firms in restructuring procedures is the arrears rate recorded for this category of companies. Generally, the debt level is a determinant of the risk level taken by banks.

The conclusion we reached after this regression analysis is that banking efficiency in terms of lending for firms in restructuring procedure depends significantly on the management of credit risk associated with these types of loans reflected in the the credit quality (evolution of overdue loans for debtors in restructuring procedures). At the same time, the efficiency depends on bank capital and lending to firms in restructuring procedures can be achieved only in the frame of capital requirements. This capital is the one that basically allows customers protection, absorbing unexpected losses, maintaining trust and allowing further work. Capital requirement in the context of loans restructuring, is also a limit for protection if unjustified expansion of assets takes place, ensuring virtually maintenance of stability.

The aim of the regression analysis was to create a way of evaluation of bank performance in the context of financing for companies in restructuring procedures. The premise of the theoretical and practical research topic chosen was the fact that, in the current economic context, lending for firms in restructuring procedures is challenging in terms of risk and performance. The current banking performance is closely linked to the development of specific products, dedicated to these types of companies. Financial sustainability of firms in restructuring procedures actually means supporting an economic recovery in the current context. Funding restructuring situations actually means forging links between financial markets and the real economy.

Our approach in this research continued with the analysis of the influences that lending to firms in restructuring proceedures may have on the economy as a whole in order to obtain an increase in gross domestic product. The analysis results led to the conclusion of inefficiency of the Romanian banking system concerning the finanacing for firms in restructuring procedures.

In this process of analysis we started from credit accelerator theory proposed by Bernanke et al. (1996), referred to in the previous paragraphs. According to this theory, the increase of the flow of credit (Credit accelerator) causes an increase in consumption and investment, and subsequently an increase in the value added in the economy measured by GDP. Links between GDP and credit accelerator can be illustrated by the following mathematical relationship (Moinescu, 2013):

$$PIB_t^i = \alpha_2 \times Accelerator\ Credit\,_t^i + \beta_2 \times PIB_t^{EZ} + \gamma_2 \times RTL_t^i + C_{2i}$$

This study considered the relationship between GDP growth and lending for firms in restructuring procedures. In this study, GDP will act as the criterion variable and the accelerator loan (term loan flow restructure companies) will act as the predictor variable.

Based on this relationship we performed a regression analysis, the dependent variable being the value of GDP, while the independent variables, in a direct proportionality relationship, credit accelerator, GDP growth dynamics in the euro area and the long-term interest rate (RTL) as independent variable in an inverse proportionality relationship. The shape of the growth equation includes explanatory structural differences between the economies of CEE, captured by the fixed effects of panel estimation.

Table no.5.17. The evolution of variables included in loan accelerator model during 2007-2013

Year	(GDP Growth Rate)(%)-for Romania	Credit accelerator for firms in restructuring procedures (%)	GDP dynamics for the euro zone(%)	Long term interest rate (EUR)(%)
2007	6.3	-0.005726462	3.2	7.13
2008	7.3	-0.029643206	0.4	7.70

2009	-6.6	0.022077796	-4.5	9.69
2010	-1.1	0.166394743	2	7.34
2011	2.3	0.11756492	1.6	7.29
2012	0.6	1.581025052	-0.4	6.68
2013	3.5	0.843910595	0.1	5.41

Source: Eurostat, National Bank of Romania, own calculations

The regression equation resulting from the regression analysis has the form:

PIB = 18,112- 2,674***Acceleratorul creditelor** +0,650* PIB_t^{EZ} **- 2,124*RTL**

Dependencies obtained from regression analysis must not be strictly interpreted, since lending rate of firms in restructuring procedures is very low. Econometric research of European Banking Federation demonstrated a causal relationship between the state of the economy reflected by GDP and the credit level, due to the fact that GDP growth lead to an increase in lending. The backwards relationship between credit growth and GDP growth was found to be uneven. Precisely in this situation we find ourselves in this context, for lending to firms in restructuring procedures. As focus of future research we propose a threshold level to determine funding for firms in restructuring procedures that could generate GDP growth.

The whole effort of analysis, conducted in a credit-based economy, aimed at highlighting the fact that the financial accelerator mechanism, financial markets and the real economy influence each other, and imbalances created on one of the markets are offset and reduced through other markets based on the need for lending from companies that want to take advantage of investment opportunities.

The motivation that led to the use of the financial accelerator model lies in the links by extension, on insolvency line, between the state of firms and the state of the economy as a whole. Resilience of a company, as in the wider economy, depends on the confidence it inspires creditors. This sense of trust is targeting the resilience of companies and their ability to generate revenues based on the funding received. A loss of confidence in the resilience of the companies that are in a position to restructure their business, attract increasing of borrowing costs and reduced access to credit, followed by an impact on the real economy by triggering chain bankruptcies of firms and social effects.

Conclusions

This study aimed to outline the image of credit risk in the ambivalent banking market with positive and negative pulses. Credit risk must be integrated into the complex system of banking risks and requires a systemic approach.

In the current economic context, the competitiveness of banks and businesses can be judged by the quality of strategies that they adopt and apply for risk management. Credit institutions have adjusted their behavior as players on the financial market, depending on the evolution of the banking system marked by globalization, increased competition, liberalization of financial markets, the emergence of financial innovations.

The analysis of credit risk of the company means actually the study of the links between borrowers and lenders. The analysis of credit risk at bank level requires attention to systemic risk. At firm-level the analysis also requires such a judgment. Credit risk is not a single category of business risk, but enters the confluence with other risks, requiring a comprehensive and integrated management. The principle of systemicity in company`s life emerged from the need to address full investigation. In this framework, the concept of the system and the concept of organization is trying to replace the whole concept. System, rather than the whole concept appears as a set of interacting elements and includes a set of components and the relationships between them and is not reducible to components containing mechanisms involving stability.

Efficient management in the company involves restoring stability mechanisms that are affected in conditions of risk. The process of rebalancing is done both in the company short-term treasury activity and the long-term one.

Credit risk is the main characteristic of firm financing relationships. Difficulties in relationships is a real constraint in the current context marked by extinction and deterioration in the availability of finance. Difficulties in relationships with funding bodies led to numerous studies, on which it appeared that certain characteristics of firms as size, age, economic, autonomy and ownership fare valid predictors for financing obstacles in relationships.

In the current context, the importance of market market conditions has increased in terms of the influence they exert on real life, the financial accelerator linking credit market imperfections and recession, playing the role of a propagation mechanism.

Financial accelerator establishes strong links between credit and business cycles. Regardless of the method of analysis, the credit is tied to real activity, companies`s life, through its two types as Ludvig Von Mises explained (1978) , namely real credit (as seen in the hands of the transfer to the saving needs money) and circulation credit (bank funds specially created for this purpose). The essence of economic balance and the role of credit in maintaining this balance and mitigate cyclicality would be a proper use of circulation credit and the use of credit to cover only the strict needs of companies to develop their business. According to Mises, credit expansion can only lead to a crisis, that is why it should not be overestimated.

Nowadays, the economic and business cycle should be analyzed and assessed in terms of their opportunities. The idea of the risk in the economy may be perceived as an opportunity to be harnessed, also in this respect, the business cycle with its states must be seen as an instance of normality. Explosions and boom states require caution and depression are needed prior to return to balance.

In the context of strengthening the partnership bank-client there were developed different strategies to adapt to the new economic framework. A new strategy to address risk in bank client relationship is represented by a better segmentation of customers at the bank level, segmentation based on advanced analysis allowing adaptation of products and prices to the category of customers.

As long-term response to market trends, technological change and macroeconomic policies, restructuring operations for companies were developed. At the enterprise level, companies can restructure through new business strategies and internal reorganization in order to adapt to new market requirements. Restructuring operations are part of everyday life of companies and at european level efforts are made to develop tools and approaches to facilitate companies` adaptation to change. We establish in this context a connection between restructuring and flexicurity. The flexicurity concept, mentioned in the European Commission studies, is at the center of an integrated strategy which requires that Europe must fiind new and better ways to make labor markets more flexible while providing new and better forms of security. It is a global response to the challenges faced by the European labor market and companies in the context of globalization, technological and demographic change and an integral part of the Europe 2020 strategy. The aim is to encourage proactive and dynamic companies restructuring in terms of facilitating the coordination between stakeholders both from the inside and outside of the firm.

In the Romanian economy, restructuring is a very much debated and planned objective, although in recent decades has produced both positive and negative effects. Initially, restructuring in Romania began with state companies and consisted mainly of internal reorganization. A term that encompasses the concept of restructuring and corporate recovery, mainly used in the banking industry is the *workout*. An extension of this term is another economic notion, *turnaround*. The current economic context, however, proves to be rather difficult, even for bad companies and for viable companies. The ability to predict the evolution of this agitated climate is relatively low, there are clear opportunities for both the entrepreneur and the bank to fiind temselves in a position to decide whether to continue the business started. Other factors such as management system inefficiency, lack of adaptation to market development objectives and strategies or the overall context of business, lead us to the necessity of monitoring the entry of firms in the area of risk in order to prevent critical situations. From a legal standpoint, in 2014, the Insolvency Code was redesigned in order to harmonize the interests of both creditors and those of borrowers. In the European context is intended to encourage honest borrowers restructuring to become an effective tool to overcome the economic crisis.

Restructuring processes involve actions of strategic and operational anticipation and social mitigation requirements. These are prerequisites for economic success and competitiveness of the company. All these actions must be framed in terms of realization and accompanied by evaluative and corrective steps.

Consequences of restructuring processes can be conceptualized in terms of positive or negative effects they generate. These consequences are different depending on the category of restructuring. For the type of organizational restructuring the effects are increase satisfaction, reduce staff turnover, increased efficiency. If financial restructuring effects are benefits for change management and focus on cahflow. In the case of portfolio restructuring, these effects are the increased emphasis on coordinated control strategy and business units.

Restructuring is closely related to credit relationships. In this context, it is essential to understand the possibility for creditors to debtors not to honor its obligations. In this context, the creditors can invoke the insolvency law, forcing the borrowers to enter into formal insolvency procedures. The costs of such procedures force the companies to recover debts using ways outside the court. The formal and informal procedures should be viewed as a continuum of procedures. In many insolvency systems, there is no clear dividing line between formal and informal insolvency proceedings relating to restructuring processes. Reality has shown that informal and formal procedures are intersecting, and the treatment of debt problems can be represented by a continuum of procedures having at one of the extreme the informal procedures and formal procedures at the other extreme.

Companies` loans restructuring, experiencing repayment difficulties is actually how the funders, particularly of banking type help borrowers to meet payment obligations. Of great importance and real impact would be, in the opinion of insolvency practitioners, bank lenders behavior who should be open to the restructuring situations. The reluctant attitude of banks is influenced by the fact that the sale of assets in case of bankruptcy is very difficult, and the price obtained is very small compared to the value of the asset, sometimes below the liquidation value determined by the evaluators. Decision of bank lenders to approve a reorganization plan is influenced by the measures implemented toghether with the approval/ confirmation of the plan, namely: the value of the claim that these creditors will recover when the payments will be made, changes in company`s management, etc. Generally, if a plan is economically viable, it is approved by the bank creditors. One can not ignore the provisions concerning the amount of distributions to be made to creditors and the deadlines when they will be achieved. Negotiation and renegotiation are essential elements in a credit relationship, as any creditor initiating this relationship assumes a default risk. The failure can occur either due to objective reasons or for reasons of bad will.

The concept of banking system efficiency has been addressed in the sense of optimal state of profitability and capital adequacy to risks. Considering the orientation based on maximizing the results, banking business is characterized by efficiency if input-output combination leads to financial performance while respecting prudential practices. The objective of the stage analysis performed was to reflect the importance of credit activity that increase funding for debtors in restructuring procedures and maximize profitability based on this type of financing. Maximizing loans to borrowers in restructuring procedures is an indicator of banking market development and adaptation to the requirements of firms in restructuring procedures.

Banking efficiency in terms of lending to firms in restructuring procedures depends significantly on how credit risk management associated with these types of loans, reflected by credit quality. Current bank performance is closely related to the development of specific products dedicated to these types of companies, products that must be developed within the capital requirements of banks.

If we consider the actual economic times, the mainstream of thinking that we find in this economy is the 'mainstream economics'. In this dominant context, credit acts as a financial accelerator. Financial accelerator is closely related to credit, especially for productive credit. There are thus two different notions as temporal localization, *productive credit* - classical economic notion and *financial accelerator concept* of modern design. In the current context, to fulfill a role of stimulation for the economic growth, the loan must be productive, having a supportive role for borrowers in developing income generating activities, and honor their obligations to creditors.

Our approach in this research was intended to reflect the influences that lending to firms in restructuring procedures may have on the economy as a whole in order to obtain an increase in gross domestic product. The analysis results led to the conclusion of the inefficiency of the Romanian banking system in terms of lending to firms in restructuring procedures. Our intention in this paper was to determine the effects that credit growth could have on GDP growth. In this process of analysis we started from the accelerator theory proposed by Bernanke et al. (1996), referred to in the previous paragraphs. According to this theory, the increase in the flow of credit (Credit accelerator) causes an increase in consumption and investment, and subsequently an increase in the value added in the economy measured by GDP.

The motivation behind the use of the financial accelerator model consisted of existing connections by extension, on insolvency line, between the state of firms and the state of the economy as a whole. Resilience of a company, as of the wider economy, depends on the confidence it inspires to creditors. This sense of resilience of businesses reflects its capacity to generate revenue using the funding received. A decrease in confidence in the resilience of the companies that are in a position to restructure its business, attracts increasing cost of credit and reduced access to credit, having impact on the real economy by triggering a chain of bankruptcies of the companies.

The analysis involved an assessment method of a state of vulnerability, using macroeconomic vulnerability index as a warning signal. The analysis performed showed that the crisis signals were recorded during 2008. Enhancing management of credit risk even in the case of companies that are in restructuring procedures was reflected by the fact that in previous years, the condition of vulnerability was not fulfilled any more.

The viability role of lending to firms in restructuring procedure is an indicator of financial development, especially when it is correlated with economic growth. Lending to firms in restructuring procedures involve risks that require a careful and appropriate management process. Credit risk management in the context of restructuring should be done in a systemic and permanent manner.

This work opens new perspectives for the study to determine an optimal level of credit for companies in restructuring procedures, to determine the level of economic growth, in terms of efficiency of the banking system and in a context of macroeconomic vulnerability without signs of crisis. In a modern economy, restructuring should be encouraged and understood as part of a company's life. The success of this process depends on the state of the economy at both micro and macro level.

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