

## LEASING FINANCING IN THE CURRENT GLOBAL CONTEXT

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*In the current economic context, the success of an economic agent is largely determined by its financial assurance, the lack of liquidity being one of the major problems that they may face at one point, thus having negative effects on the entire investment activity. The role of financing in general is of particular importance, manifested by the results obtained from the development of financing relationships or by the contribution of financing methods to the fulfillment of certain economic policy objectives, financing having an important role in the modern economic system, contributing to its development. Thus, the leasing represents, from all points of view, a product of the market economy that has been imposed as a financing alternative for the economic agents who want to buy their equipment, but who do not have the necessary resources and want to develop the activity and improve the performance, the objective of this type of financing being the complete coverage of investments, by resorting to foreign funds. Based on these considerations, the main objective of this paper is to study the evolution of the leasing market at European and national level, the economic importance of leasing being that it is a major source of supplies for the investments of European companies.*

**Key words:** *leasing; leasing market; Association of Leasing Companies of Romania; financial leasing, operational leasing*

**JEL Classification:** *G19; G32; M41*

**I. INTRODUCTION**

Current leasing operations are becoming more and more widespread. With the emphasis on the investment process, determined by the deepening of the interdependencies between the world economies as an effect of the processes of internationalization and globalization, the lease was noted as an economic operation of great complexity and diversity, attracting more and more supporters through the advantages it presents. This method of financing is used by companies of all sizes and in all industries, being extremely useful to support the public sector (for example, leasing in schools, hospitals, etc.).

Leasing is a contract or part of it that gives the right to use an asset for a period of time in exchange for a fee (Grosu & Hlaciuc, 2018).

The origins of the concept of leasing come primarily from the English language, from the noun "leasing" and the verb "to lease" which aims, in a first acceptance, resorting to translation, "to rent", and later this name has departed from the understanding initial, being today best expressed by the verbs "to rent" or "to hire" (Asociația Societăților Financiare - ALB România).

The lease term is likely to have different explanations and especially to extend to other operations that do not fall within its scope, such as the sale affected by the term or the lease.

Leasing is a contract (or part of a contract) whereby an owner (lessor) of a particular asset grants a third party (tenant) the right to use only for a certain period of time, in exchange for a lease payment (Mihalciuc, 2019). This type of contract establishes a three-way relationship (lessor, lender and end user) and the presence of a financial intermediary, the leasing being the largest foreign source of financing in America, higher than bank loans or commercial mortgages (Taylor, 2011).

The leasing contract according to IFRS 16 is a contract, or part of a contract, which grants the right to use an asset (the underlying asset) for a certain period of time in exchange for a consideration, and the classification of leases into financial leasing and operational leasing only to the lessor, who will continue to account for the different types of leasing contracts differently (IASB, 2016).

IFRS 16 introduces in the definition of leasing contract the two types of concepts, the term "asset-support", the asset that is the basis of the lease being thus defined, in relation to the right of use, as an asset for which a lessor has granted the right to use that asset to a lessee (Săcărin, 2017).

In general, economic agents resort to leasing operations to properly manage their costs and capital savings, these considerations being shared by several authors Fabi (2016); Samuelson (1996); Sicchiero (2010). Also, creditors, rating agencies and other participants in the capital market understand, sufficiently well, the leasing

contracts from the information presented in the balance sheet, thus being able to make relevant decisions based on this relevant information from the balance sheet (Albanese & Zeroli, 2011); (Cerbioni, Cinquini & Sostero, 2011).

II. LEASING IN EUROPE

In Europe, there are several legislative approaches that can help us to define this concept more clearly. Thus, through the "leasing" operation found in France, the first legal definition of leasing in Europe is conceptualized, this type of operation being described by the fact that "a company leases real estate for professional use, purchased by it or built through its financial effort, if these operations, regardless of their qualification, allow the tenant to become the owner of the goods, either by a unilateral promise of sale, or by directly or indirectly acquiring the ownership of the land on which they were built. the rented buildings, either by the full transfer of the right of ownership over the constructions built for that lessor" (Clocotici & Gheorghiu, 2000: 9,15,28-29). Also in France, the leasing is presented, as a form of financing, in principle, of a productive investment guaranteed by the beneficiary with the ownership right of the financed investment, thus highlighting the economic functions granted to the leasing (Leasing Yearbook 2004, 2005:110 - 113).

In Germany, the lease was defined very briefly by the fiscal circuits for 1971 and 1972, where, as the sole criterion for the characterization of the lease, the fixed duration of the lease and the period in which the return of the capital invested by the lender is rescheduled. Thus, the mentioned circuits once provide that, the contract is concluded for a fixed period (irrevocable), term in which the parties are not entitled to proceed to termination, and the size of the payments made by the beneficiary, includes the purchase cost. or production, all additional costs incurred by the financing company.

In Italy, by Law no. 183 of April 2, 1986, art. 17 paragraph 2 the leasing is defined by "renting movable or immovable property, which the lender acquires or makes, in relation to the indications given by the user, the latter assuming all the risks during the validity of the contract, also having the right to become the owner. of the goods received at the lease, provided that they pay the price established on the closing date" (Leasing Yearbook 2004, 2005:134 - 138). This paragraph of the article does not specify aspects related to the nature of payments and price.

In Europe, different types of contractual agreements fall under the concept of "leasing". Leases can be placed on a spectrum from pure financing to full service solutions or are often a combination of the two. The common feature of all these contracts is that while a leasing company (also known as a lessee) allows another party (known as a lessee) to use the leased asset, it is the one who retains ownership of the contracted asset.

In order to monitor the leasing activities, the European Federation of Leasing Associations, Leaseurope, was founded in 1972. Since April 2006, Leaseurope represents, as an umbrella body, both the leasing industry and the car rental industry in Europe and is made up of over 44 member associations from 32 countries. The purpose of this institution is essentially to represent and support the interests of its members, as the expert and natural voice of the European car rental and leasing industries.

In figure 1 it can see the growth rate of the total volume of new leasing operations registered in the group of countries represented in Leaseurope over a period of ten years.

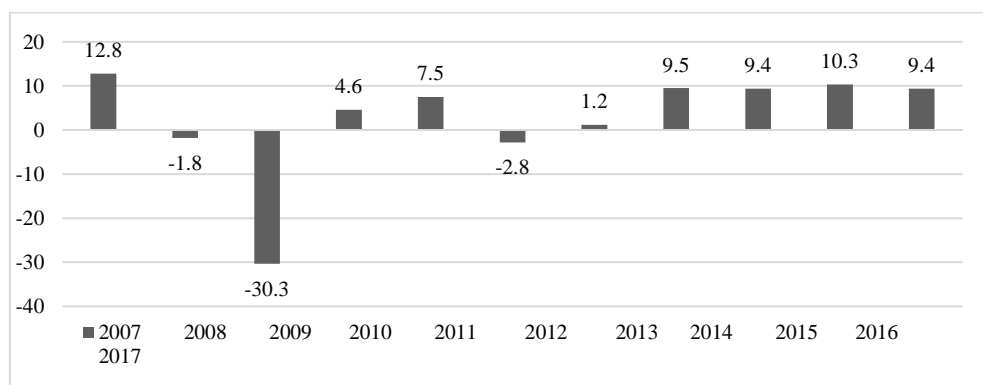


Figure 1 – Evolution of the total volume of new leasing operations during 2007-2017

Source: Processing after [www.leaseurope.org](http://www.leaseurope.org)

It should be mentioned that the volume of financing in 2009 registered a drastic decrease of 30.3%, due to the negative impact of the global economic-financial crisis which led to the reduction of the appeal to leasing operations by individuals and by legal entities. After this decrease, the leasing market is recovering, growing in 2010 by 4.6% reaching from 209.4 billion euros to 224 billion euros. This growth is also maintained in 2011, when the leasing market registered a positive trend of +7.4%, reaching 256.6 billion euros. The leasing market in Europe is down in 2009-2008 as is Romania, but the positive trend of the European market is not found in the leasing market in Romania.

Table 1 presents the volume of goods financed on the European market at the level of 2017.

**Table 1. The leasing volume in 2017 (in bil. €) (Volume of funding)**

No.	Countries	Bil. €
1.	UK	101.3
2.	Germany	58.7
3.	France	51.7
4.	Austria, Benelux & Switzerland	37.4
5.	CEE	36.5
6.	Nordic & Baltic Countries	36.0
7.	Italy	26.6
8.	Greece, Portugal, Spain	19.1
9.	Russia	16.7

Source: Processing after [www.leaseeurope.org](http://www.leaseeurope.org)

In 2017, the total funding reached a value of 384.1 billion euros. This value represents an increase of 9.4% compared to 2016. The portfolio of assets leased in Europe increased by 5.3%, reaching 802.2 billion euros at the end of 2017. Europe maintains its position as the second region in the world, representing 33.4% of the total volume of the world. The five most important European countries are the United Kingdom, Germany, France, Italy and Sweden, these are in the top ten countries in the world for new business, contributing 65% of the total European volume.

The UK was the market with the largest financing amounting to 101.3 billion euros, followed by Germany with 58.7 billion euros and France with 51.7 billion euros. The performance of the various regions shows that the European leasing market is constantly growing, with about half of Europe recording a double-digit growth.

The leasing activity entered the fifth year of solid recovery, all the countries participating in this survey benefiting from positive results, except for Belgium.

With regard to the structure of leasing operations in the countries of Europe, the category of passenger cars and commercial vehicles represents the largest sector, with a share of 70% of the total of new financing granted in 2017, having new contracts worth 268.1 billion euros. The high share of passenger cars and commercial vehicles supports the idea that the business environment is increasingly using leasing operations, which represent an important financing means for businesses in European countries.

The passenger car sector registered a great performance, increasing by 9.9% and, according to Leaseurope estimates, the European leasing and rental companies purchased in 2017 over 9 million cars. Also, leasing financing for commercial vehicles increased, albeit at a slightly slower rate than for cars, increasing by 7.9% in 2017, reaching new leasing volumes of 69.0 billion euros.

In the equipment leasing section for the countries of Europe, this category represents 26% of the total financing, followed by the category of leasing for real estate with a percentage of 4% of the volume of leasing finance.

### III. LEASING FINANCE IN ROMANIA

In Romania, leasing is practiced even before 1989, except that it was not known under this name, this being regulated for the first time in our country by O.G. no.51 / 1997 regarding leasing operations and leasing companies.

Leasing can be defined both economically and legally.

From an economic point of view, leasing is a financing operation in which the lender provides the necessary funds for the entire investment.

From a legal point of view, the lease is a complex contract that allows a person to obtain and use a thing without paying the price immediately, with the possibility to buy it at a residual price.

This technique is based on the complementarity of interests of the three persons involved in the operation: the financier, interested in the payment of the money funds, by buying the necessary good for the user; the supplier, interested in capitalizing on the good that he produces or disposes of; the user, interested in the use of the good, in exchange for a lease and having the opportunity to choose to buy the good at an accessible residual price (Cârpenaru, Stănciulescu & Nemeş, 2009: 419).

Leasing integrates with modern financing techniques, dictated by the rapid pace of trade, technical progress, which involves investments that sometimes exceed the possibility of self-financing and the lending capabilities available to the entrepreneur, ensuring the full financing of the investment through borrowed funds, without as a beneficiary to constitute insurance measures that may affect its commercial dynamism (Magdo Belu, 2004: 248).

According to the Romanian legislation (OG no. 51/1999, republished and updated, regarding the leasing operations and the leasing companies), the leasing operations are those through which a part called lessor / lender,

transmits for a certain period the right of use over a property whose owner is, to the other party, the named user, at its request, against a periodic payment, called the leasing rate, and at the end of the lease period, the lessor / lender agrees to respect the user's option right to buy the good, extend the lease or terminate the contractual relations.

The lessee / user may choose to purchase the asset before the end of the lease period, but not earlier than 12 months, if the parties so agree and if they fulfill all the obligations assumed by the contract.

The diversity and complexity of the leasing operations are highlighted by their classification, according to the duration and nature of the rent, the weight of the rates in the net sale price, the participants in the leasing operations and other criteria. In addition to the classic financial and operational leases, there are other more complex forms such as master leasing or lease-back.

The main forms of leasing are financial leasing and operational leasing. In Romania the most used being the financial leasing, due to the options available to the user and the content of the leasing rate.

Table 2 presents the characteristics of the main forms of leasing (financial and operational).

**Table 2. Characteristics of the main forms of leasing**

<b>Financial leasing</b>	<b>Operational leasing</b>
<p>A financial lease is any lease that meets at least one of the following conditions:</p> <ul style="list-style-type: none"> <li>- the risks and the benefits of the ownership right over the object that is the object of the lease are transferred to the user at the moment when the lease contract takes effect</li> <li>- the lease agreement expressly provides for the transfer of the ownership right over the good that is the object of the lease to the user at the time of expiry of the contract</li> <li>- the user has the option to buy the good at the time of expiry of the contract, and the residual value expressed in percent is less than or equal to the difference between the normal maximum operating duration and the lease term, relative to the normal maximum operating duration, expressed in percent</li> <li>- the lease period exceeds 80% of the normal maximum operating life of the asset that is subject to the lease within the meaning of this definition, the lease period includes any period for which the lease can be extended</li> <li>- the total value of the lease rates, less the ancillary expenses, is greater than or equal to the value of the entry of the good.</li> </ul>	<p>Operational leasing is the operation by which the user does not have the option to purchase at the end of the lease the lease object. In this case, the lease term is shorter than the depreciation period. At the expiration of the contract, the leasing company may lend the object of another client for another use or may use it for its own reasons.</p> <p>Operational leasing hires the natural / legal person who surrenders the asset (the lessor) to make the asset available to the tenant and to maintain it. This type of contract has been successfully used in the computer industry and other office equipment, as well as for the sale of cars.</p> <p>These types of contracts contain clauses regarding the possibility of canceling the contract before maturity, usually under the conditions of payment of a penalty. The transferor of the asset under the lease regime faces a risk of not recovering the residual value of the asset at the end of the lease period.</p> <p>Therefore, especially in the case of cars, it is stipulated in the contract the transfer of the risk regarding the residual value of the asset over the one who rented it, asking him to guarantee a specified market value, at the date of termination of the lease.</p>

Source: Processing after Dragotă, Obreja, Ciobanu & Dragotă (2003:186)

In Romania, leasing was practiced even before 1989, except that it was not known under this name. This type of operation was used by large manufacturing corporations to sell their products for export.

The legalization of the lease in our country was achieved through O.G. no.51 / 1997 regarding leasing operations and leasing companies. Prior to the appearance of this law, after 1990, there were references to this type of operations and in the contents of H.G. 72/1993 regarding the customs regime of the imported goods that are the subject of leasing transactions.

Leasing was also imposed in Romania, as it did everywhere in the world, first of all through simplicity. As the competitive environment in Romania becomes more and more severe, the speed of the companies' reaction to changes in the external environment is essential. The leasing, through its operation, satisfies in very short intervals the need for investment funds of the economic agents.

As a result of the regulation of leasing in Romania, it has grown ever larger so that since September 2002, it has become a LEASEUROPE member, under the umbrella of ANSLR. This was an important step for the leasing market in Romania, thus entering the European organizational circuit.

In the last period, the leasing has developed more and more, being the second place, after the bank lending, in the top of the preferences of the Romanian companies, especially of the small and medium ones, considering its advantages and disadvantages, the leasing represents a modern method of financing companies that want to purchase their equipment and equipment, but who do not have the necessary resources and want to develop their activity and improve their performance.

The leasing market consists of companies that must meet at least two requirements: it must prove in documents that its object of activity is "leasing" and must have a minimum amount of 50,000 lei as shares. These companies can be registered with the National Bank of Romania (BNR) and can also be registered with the

Association of Leasing Companies of Romania (ASLR), the Association of Operational Leasing Companies of Romania (ASLO) or the Financial Companies of Romania (ALB).

These companies generate annual statistics on leasing credits in Romania and provide valuable information on the evolution of the leasing market.

To better understand how the leasing evolved in Romania, we presented the leasing market for the two important types of leasing: financial and operational. Thus in figure 2 is presented the evolution of the financing granted by the financial leasing companies in billion euros for the period 2017-2018.

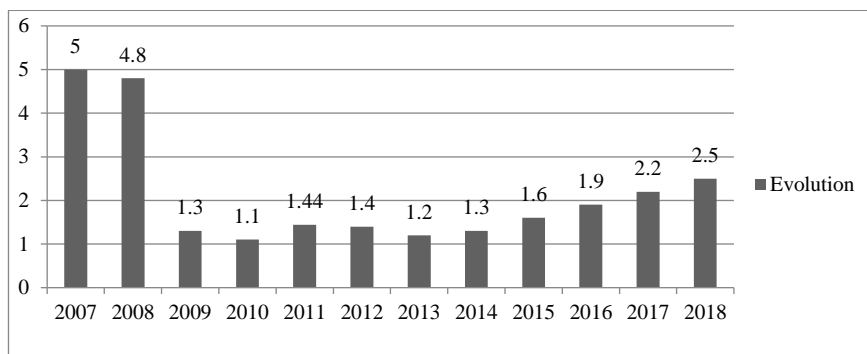


Figure 2 – Evolution of the financial leasing market in Romania (billion euros)

Source: Processing after [www.alb-leasing.ro](http://www.alb-leasing.ro)

The Romanian leasing market is constantly changing and depends on the multitude of factors, being influenced by the interdependence between the markets. Thus, the decrease of the leasing markets is due to the decrease of the number of vehicles bought and of the investments made in a national economy, and an economic growth leads to a better development of the leasing market.

The evolution of the total number of financing on the financial leasing market for 2007-2018 is an oscillating one. In 2009, this market experienced an extremely large decrease due to the effect of the economic crisis, which led to a general decrease of all economic sectors.

This decrease of approximately 81% represented a minimum point of the leasing market in the period 2007-2018, from this point of view, the market registering a slight recovery.

Thus, the financial leasing market in Romania recorded a volume of assets financed worth 2.5 billion Euro in 2018, which means an increase of 14% compared to 2017. The year 2018 is considered to be the one best year after the crisis, according to the president of the Leasing Industry of the Association of Financial Companies - ALB Romania, Mircea Cotigă.

The vehicles increased their market share in total financing to 38% in 2017, gaining ground over other vehicles (34%), while equipment financing continues to represent a quarter of all new financing as can be seen from Figure 3.

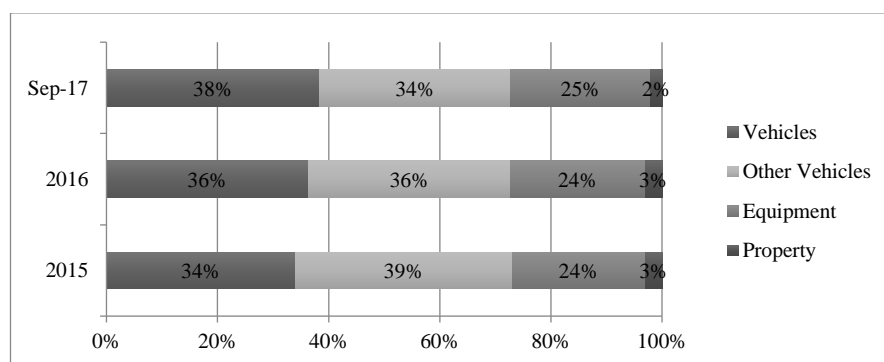


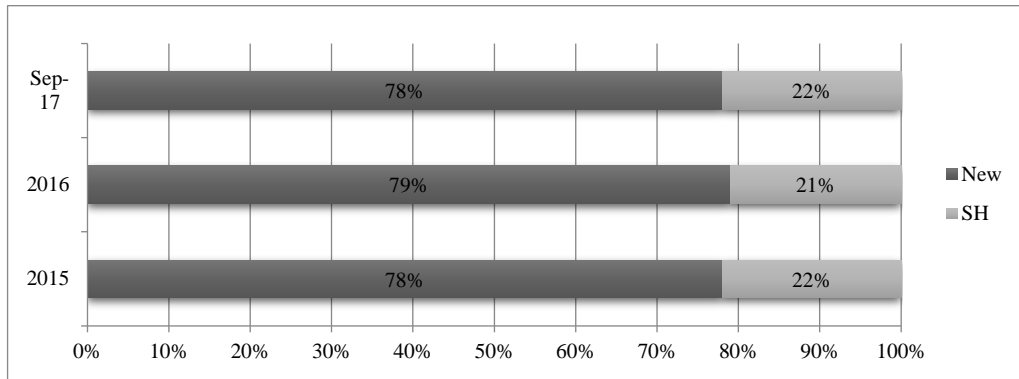
Figure 3 – Evolution of the financial leasing market

Source: Processing after [www.alb-leasing.ro](http://www.alb-leasing.ro)

It can be deduced from figure 4 that the financial leasing market in Romania belongs exclusively to the vehicle segment, and it is understandable, because we are a community of consumption and commerce, the production or agriculture activity being poorly developed, which leads to the “equipment” segment. ”To have a very low weight.

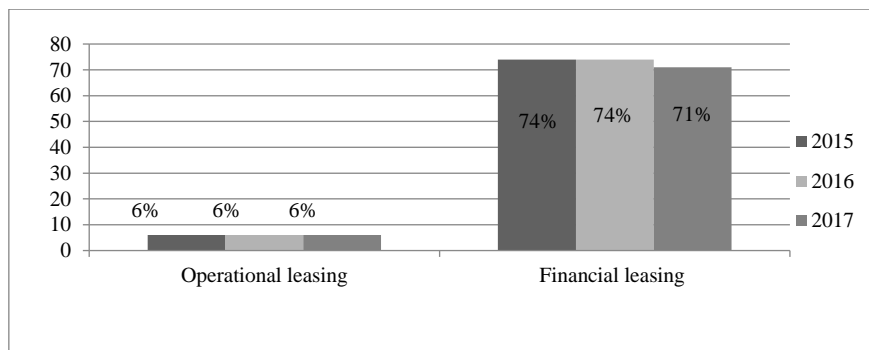
Given that the leasing offers full financing over a long period of time, in Romania the leasing contractors prefer to purchase new goods at the expense of the used ones.

The new assets have a share of 78% in 2015, 79% in 2016, and in September 2017 there is an increase up to 78%. The used goods registered a share of 22% of the total goods purchased in September 2017, as can be seen from figure 4.



**Figure 4 – Financial leasing market in Romania by type of acquisition**  
Source: Processing after [www.alb-leasing.ro](http://www.alb-leasing.ro)

As I have mentioned, in Romania the most used is the financial leasing, due to the options that the user has and the content of the leasing rate. We have graphically represented, in figure 5, the two categories of leasing and the percentages related to it, that it can be observed how big the difference between the two categories of leasing is.



**Figure 5 – The structure of the Romanian leasing according to the type of financing**  
Source: Processing after [www.alb-leasing.ro](http://www.alb-leasing.ro)

In contrast to the financial leasing, the operational one had a constant approximate growth, given the nature of this category of leases, this increase can also be seen from figure 6, which shows the evolution of the operational leasing from 2007 to 2017. Apart from a lower growth in 2013 compared to the other years and a sharp increase in 2008 from 2007, the operational leasing market has no surprises to offer in the field of sales evolution.



**Figure 6 – Evolution of the operational leasing market from Romania (billion Euro)**  
Source: Processing after [www.alb-leasing.ro](http://www.alb-leasing.ro)

## IV. CONCLUSIONS

Estimates for trends that will mark the evolution of the operational leasing market in 2019 and 2020 are dictated by changes in customer behavior and preferences. Thus, concerns about environmental protection will force more and more users of vehicles to opt for hybrid and electric variants, which will mark an increase in the volume of operational leasing customers in this segment, to the detriment of the demand for vehicles with diesel engine.

In the international literature, over time, there have been special concerns about demonstrating the advantageous nature of leasing compared to other forms of financing, but the results are questionable and differ depending on the object financed.

Although the leasing market in Romania follows the same trend as the European one, Romania proves to be more susceptible to negative changes in the economy. Moreover, economically developed countries hold the highest share of financing through leasing operations, which shows that leasing cannot evolve without being closely linked to the economic development of a country in which it operates as a product.

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