

Mugur Isărescu: Romania and the EIB after 25 years

Opening speech by Mr Mugur Isărescu, Governor of the National Bank of Romania, at the EIB conference "Investment and Investment Finance in Romania", Bucharest, 4 December 2018.

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Vice President McDowell,

Distinguished guests,

Ladies and gentlemen,

I would like to welcome you all at the National Bank of Romania. Allow me to extend a warm greeting to Mr. Andrew McDowell, Vice President of the European Investment Bank and to Ms. Debora Revoltella, Chief Economist of the European Investment Bank. It is a privilege for the National Bank of Romania to co-host with the European Investment Bank this conference on Investments and Investment Finance.

The European Investment Bank celebrates this year its 60th anniversary since its creation in 1958, under the Treaty of Rome. Allow me to congratulate this important institution and the teams of the EIB Office in Romania and the EIB Office in Luxembourg, for their outstanding work and diligence in promoting strategic investment projects for Europe and Romania.

The topic proposed for today's conference outlines the fact that 2018 has been rich in lessons for the future, showing the impact of policy decisions upon the economic development. The economic growth is strongly linked with the economic cycle, but its durability is dependent on long-term strategic investments by far more than short-term consumption boost.

I invite you all to debate the subject of Investments and Investment Finance in Romania during the two panels of today's conference. The first panel will be moderated by Mr. Liviu Voinea, Deputy Governor and will approach the theme of investments and investment finance in 2018. The second panel will be moderated by Ms. Lara Tassan Zanin, Head of The European Investment Bank Office in Romania and will focus on the support of sustainable growth in Romania, shifting from consumption to investments.

Ladies and gentlemen,

Romania and the European Investment Bank share a long and fruitful cooperation that started in 1990. It got closer in 2007 when Romania became a member of European Union and implicitly of European Investment Bank. This joint partnership has boosted investments in Romania in areas of significant importance for the national economy, such as the infrastructure, small and medium enterprises, environment and innovation. These coordinates are totaling more than 13 billion EUR allocated to around 130 projects financed by the European Investment Bank, besides other 70 projects financed by the European Fund for Strategic Investments. These figures alone speak about the priorities, however I would like to point out that the financial impact transcends beyond the sum of total loans.

There is significant potential for development and improvement. Romania is a net beneficiary of EU funds, the latest data showing a positive aggregate balance with more than 32 billion EUR as net received funds. In the first seven months of 2018, Romania benefited of 2.7 million EUR in European funds and past experiences show there is a learning cycle in managing European funds and their disbursement increases towards the end of the Multiannual Financial Framework. We expect the investment financing to increase in 2019 and 2020. The European Investment Bank and its investment-financing arm, European Investment Fund, have a pronounced contribution to closing the financing gap of investments in the context of economic downturn,

providing the sources for investment finance, the expertise and the support for entrepreneurs.

The recurrent themes for Romania's development needs are as present as ever in the public space, and they should trigger a higher implication on all levels of decision, from the private sector to the public management authorities, to support and extend the investments for sustainable economic growth. The shift from consumption to investments, the reliable and qualitative infrastructure, the deficit of skilled labor and the gap in the transition from education to employment, the good governance and accountability framework in institutional investments, as well as the need to enhance the EU funds absorption rate, all these are, at the moment, the challenges that Romania, faces on its pathway to sustainable growth. In this context, I would like to point out the fact that the results of the European Investment Bank survey are in line with the NBR's evaluations of the financial sector, the key aspect being the access to finance and sustainable investments. I really hope that the conference provides an excellent frame for communication and exchange of ideas.

It is important that the collaboration in investment finance leads to the implementation of effective investment policies to ensure the engagement of both the public and the private sectors for economic growth.

As a part of the European Union, Romania needs to align and redefine the economy, to deepen the integration and to enhance the convergence with the Euro Area countries in the light of the Euro adoption objective. This statutory obligation as an EU member is assumed in the accession treaty; however the process requires significant efforts to prepare, on economical, political, social and cultural levels. This process requires making good use of all instruments and the financial investments make no exception.

We still need to develop the analysis capacity, the European investments absorption and the acceleration of funds distribution in the Romanian economy.

The cooperation and the technical assistance for co-financing of investment projects under the Multiannual Financial Frameworks 2014–2020 and the next one, as well as the active role played by the European Investment Bank in the approval of structural funds under the Juncker plan in Romania are key priorities to ensure the enablement of economic growth potential in action towards sustainable economic development.

The partnership between the European Investment Bank and the commercial banks in Romania ensure the effective transmission mechanism to allocate and distribute the European structural funds to the infrastructure projects, to the development of production capacities of the small and medium enterprises and to the creation of new jobs in the economy. The banks are well capitalized, have an excellent solvency and a superior liquidity, prerequisites for co-financing the companies and the economy.

The loan-to-deposits ratio is below 100%, indicating available resources for financing. Non-performing loans have decreased more than three times, from 22% to about 6%, showing a positive trend in a healthier internal ratings model and a sound balance sheet position, while the lending dynamics for companies is below the European average. We have the potential to accelerate the access to finance to support investments as a base for economic growth, instead of a consumption driven growth. This potential is demonstrated by the low financial intermediation in Romania, around 29%, although this percentage can be misleading, as large corporations usually access financing directly abroad, from the headquarters or from the financial institutions in the countries where they are headquartered.

The more prudent lending policies and the risk aversion of commercial banks are factors that could be perceived as a break in financing investments at full capacity; however there is a positive side, too. It is a safe approach to credit as a driver of economic growth, as credit (lat. "credere") supports regaining the trust in the financial system and in the banks as institutions that

ensure the allocation of funds to the private and the public sector.

Companies in Romania, as beneficiaries of European funds, need to respond to some pressing issues such as inadequate management and financial discipline. Only around 15% of small and medium companies are eligible for financing, with a management team capable to conduct a lucrative activity that reflects in a sound set of accounting documents, like the balance sheet and the P&L account. These companies too, can be affected by the contagion effect, for instance when their projections and cash flows are subject to repayment from other companies, with delays.

To support these companies and to ease the access to finance, one needs to improve the policies and continue the financial reforms to create a more adequate and flexible frame for investments and the multiplier effect of co-financing.

The European Investment Bank has been a strong pillar for this strategic economic development, channeling investments towards the crucial sectors of transport, digital infrastructure and the new technologies, education for skilled labour force, healthcare, or agriculture. The European Investment Bank contributes to creating the right mindset and responsible attitude of assuming calculated risks. It supports the communication of sound public policies and priorities for Romania's economic and social development, to continue and expand the European integration and economic convergence.

Ladies and gentlemen,

Concluding, I believe the challenge and the opportunity lie in the continuous efforts, the relentless endeavors and the implementation of strategic investment projects, fostering access to finance for ensuring the sustainable economic development in Romania, as well as in Europe.

Strong European cooperation, like the partnership between the European Investment Bank and Romania, is the only way to bridge the gaps in investments, to reduce regional disparities and close on the imbalances that delay the long-term sustainable economic growth.

I would like to wish you all a fruitful dialogue and I invite Vice-President McDowell to take the floor.

Thank you.