

Mugur Isărescu: Corporate liquidity and solvency in the Covid-19 pandemic - the role of policies

Introductory remarks by Mr Mugur Isărescu, Governor of the National Bank of Romania, at the Virtual Conference of the National Bank of Romania and the International Monetary Fund, 12 February 2021.

* * *

As prepared for delivery

Good morning Director Kammer and to everyone in Washington and good afternoon to our guests and speakers in Europe. Whether you are joining us from Bulgaria, Poland, Croatia or Romania, we are very happy to welcome you to this virtual discussion. The fact that you can be with us from different parts of the world is one of the very few benefits compensating the many challenges this pandemic has forced us to face.

Throughout the years, back in the normal days, we had the honor to host, here, at the National Bank of Romania, various presentations of the IMF's flagship reports that fostered lively discussions among participants. The IMF high-quality research has always provided a strong conceptual and empirical basis for policy-making in our region.

This time, we will have the opportunity to discuss the role of policies in corporate liquidity and solvency during the Covid-19 pandemic – one of the most important topics of the Regional Economic Outlook (REO) for Europe published last autumn. The analysis in this edition is aimed at quantifying the potential impact of the COVID-19 crisis on corporate liquidity and solvency risks and assessing the extent to which policy support could help mitigate these risks.

We commend the extensive IMF exercise, using data from millions of European companies and agree with its main conclusions. Job retention schemes, moratoriums on payment obligations, grants and credit guarantees can be effective in improving companies' liquidity needs, even more so in advanced than in emerging economies. However, moving forward, the increase in indebtedness does raise concerns for solvency risks and investment prospects.

It is true that, from the central banks' perspective, all chapters of the report are extremely relevant. Personally, I always look towards the IMF's research findings for confirmations of our own scenarios, different perspectives on certain topics, or even red flags. More broadly, the 2020 Regional Economic Outlook (REO) for Europe provides a much-needed analysis, from the IMF's point of view of the opportunities and challenges that our region can expect following a very difficult year of restrictions, as well as social and economic difficulties. For 2020, the IMF forecasted a contraction of real GDP in Europe of 7 percent, the biggest contraction after World War II. Thanks to the extraordinary policy response, even more dramatic consequences have been avoided.

I understand that the full extent of the pandemic's impact on companies in 2020 is yet to be revealed as time passes and more data becomes available. I agree that long-lasting changes in the structure of the economy will occur, even though they are hard to predict at this moment.

Moving forward, a better policy calibration is needed in order to weather these structural changes and banks should put in place arrangements for restructuring the debt of those firms that can be saved, while facilitating the orderly exit of those firms that are unlikely to succeed in the post-pandemic economy. The uncertainties remain extremely high and further delays in the economic recovery will put more pressure on the public resources and complicate the trade-offs in their reallocation.

However, I would like to end on a more optimistic note and say that we do hope for a swift

recovery as we continue to do our part in curbing the effects of the pandemic.

With these in mind, I wish Ms Laura Valderrama success with her presentation on the results of the analysis of corporate vulnerabilities and a very fruitful discussion to all the panelists and guests.

Mr Kammer you have the floor.