

Mugur Isrescu: Investments in challenging times - how can Romanian firms thrive in the new context?

Opening speech by Mr Mugur Isrescu, Governor of the National Bank of Romania, at the conference "Investments in challenging times: How can Romanian firms thrive in the new context?", Bucharest, 16 March 2023.

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Vice-President Pavlova,
Chief Economist Revoltella,

Distinguished audience,
Ladies and gentlemen,

Welcome to this year's conference organized by the European Investment Bank in partnership with the National Bank of Romania, titled *"Investments in challenging times: How can Romanian firms thrive in the new context?"*.

I am glad that we are able to meet again at the National Bank of Romania, after 2 years in which we had to host this event exclusively on-line.

Please allow me to extend a warm welcome to the EIB representatives that are joining us: Vice-President Pavlova, Chief Economist Revoltella and Ms. Tasan Zanin, Head of the EIB office in Bucharest, and to all our colleagues and guests that are with us today, in person or online.

I commend EIB's continuous involvement and support in engaging with stakeholders in Romania through these valuable series of events. There is already a tradition, today's conference being the sixth we have co-organized and hosted.

Romania and the European Investment Bank share a long and fruitful partnership that has resulted in projects in important sectors of our economy. I am certain we will be able to continue to build on this important partnership, tackling variable challenges and opportunities.

This year's conference will feature a very important topic, given the current economic context marked by a sharp increase in energy prices and the uncertainty regarding the war in Ukraine and the related sanctions.

As a sad digression, I recall that last year's NBR-EIB conference was on the Eve of the war, on February 23rd.

Coming back to the effects that can already be seen in the households' and investors' confidence, there is a deterioration of the economic climate expectations, there are pressures in the economies of our major trading partners and the risk perception towards economies in the region, with impact on the financing costs.

As we know, this event centers on the EIB's Investment Survey, an excellent country analysis conducted by the Bank. The conclusions of this survey are relevant for both companies and authorities, including the National Bank of Romania, as they capture appropriately the opinions of the real sector on some key issues, such as: (i) the most pressing problems that firms are facing in their activity; (ii) the investment needs and priorities; (iii) challenges raised by climate change and energy efficiency.

The survey shows that firms in Romania have become less optimistic regarding investment conditions for the year ahead. While this is a worrying trend, we are rather positive that Romania will be able to overcome the main problem identified, the energy costs, in the near future. I would add here that the Government has implemented several measures in this respect, such as electricity and natural gas price capping schemes, the compensation of the price of motor fuel/liter and caps on the firewood price.

Also, we are aware that the war in Ukraine and the related sanctions will continue to generate considerable uncertainties and risks to the outlook for economic activity, through possibly stronger effects on consumer purchasing power and confidence, as well as on firms' activity, profits and investment plans, with an unfavorable impact on financing costs.

In this current juncture, the balanced macroeconomic policy mix and the implementation of structural reforms, including the use of EU funds to foster the growth potential over the long term, are essential in preserving a stable macroeconomic framework and strengthening the capacity of the Romanian economy to withstand adverse developments.

With respect to the National Bank of Romania's responsibilities, we aim to anchor inflation expectations over the medium term, to bring the annual inflation rate back towards the target, in a manner conducive to achieving sustainable economic growth. The annual CPI inflation rate is projected to follow a gradual downward path, but to remain slightly above the variation band of the target also next year.

The prudential and financial position of the Romanian banking sector - the main source of finance to the economy - is adequate. However, the risks are rising both locally and internationally. The total capital ratio remained adequate, above the EU average, but the capital reserve shrank once with the marking to market, because of the fast-paced interest rate rise. Asset quality continued to improve, with the non-performing loan ratio falling to European levels and the NPL coverage by provisions staying at significantly higher levels than the European average; profitability increased.

Yet, Romania's banking sector faces a number of vulnerabilities: (i) expectations on a higher risk of default on private sector loans amid worsening macroeconomic conditions, the uncertainty about future developments, and growing debt service due to higher interest rates, (ii) the close link between the banking sector and the government sector, and (iii) the polarization of credit institutions by size.

The slowdown in lending, which started in the second semester of 2022, was also due to the rise in financing costs amid the tightening of both monetary policy stance and

credit standards. In the second quarter of 2022, banks tightened credit standards for loans to non-financial corporations and to households, and were expected to continue to do so in the third quarter of 2022. The prolonged energy crisis, the heightened geopolitical tensions and the mounting uncertainty about the economic outlook prompted banks to reassess the level of risk.

In respect with challenges raised by climate change and energy efficiency, as of May 2022, the NBR started collecting information on green loans from banks. The data shows that, between May and September 2022, companies took out green loans totalling 976 million lei (0.56 percent of the corporate loan portfolio). The composition of these green loans was dominated by credit for green buildings (42 percent), followed by loans for electricity and heating and cooling systems (24 percent) and those for energy efficiency (13 percent).

Last but not least, a word on economic growth. For 2022, the annual real GDP growth is estimated to reach about 5 percent, which is lower than the one recorded in 2021. For the past year, growth was driven by the substantial advance during the first part of last year. In 2023 domestic economic activity is projected to lose significant momentum, due to certain substantial adverse influences, as previously mentioned. A favourable contribution to economic growth is expected to come, particularly over the medium term, from European funds, including the Next Generation EU programme.

With these in mind, I now invite Vice-President Pavlova to take the floor. Afterwards, I wish you all fruitful discussions, stemming from the EIB Investment Survey findings.

Thank you.