Proceedings: EIB/BNR Conference:

Investment and Investment Finance – The Case of Romania

Held at the National Bank of Romania in Bucharest on June 21, 2017

On 21st of June, 2017, the National Bank of Romania (NBR) and the European Investment Bank (EIB) co-organized a conference on investment in Romania at the premises of the NBR in Bucharest. The Governor of NBR, Mugur Isărescu, and EIB Vice President McDowell opened the conference, giving an overview about Romania's macroeconomic situation, financial sector developments, and the EIB's engagement in the country. Debora Revoltella, Director of the EIB's Economics Department presented the results of the EIB Investment Survey focusing on Romania. The second part of the conference provided a discussion about ways to support investment in Romania from an operational perspective including views from EIB Group and corporate sector representatives.

Investment trends and needs in Romania were the key topics of a joint conference organized by the EIB and the NBR, which took place in Bucharest on June 21. The half day event featured in-depth discussions about recent investment developments from a macroeconomic perspective as well as bringing in practitioners' views on what is needed to (better) support investment in Romania. The conference was an opportunity to strengthen the EIB's contribution as a knowledge-based institution to the debate about investment in Romania and Europe by presenting findings of the EIB investment survey (EIBIS). The Investment survey covers a pan-European sample of firms to allow comparison across countries and includes 476 Romanian firms.

(All photos: National Bank of Romania)

Mugur Isărescu (Governor, NBR) and **Andrew McDowell** (Vice President, EIB) kicked off the conference with opening remarks. M. Isărescu stressed the role of the public sector in supporting longer-term private investment through public investment and by implementing the needed structural reforms and a proper and stable business environment. He pointed out the crucial role of investment in raising the potential output of the domestic economy. The current sluggish bank lending to non-financial corporations reflects both demand and supply causes. On the supply side, improvements can be made on the efficiency of personnel and risk management procedures in dealing with small and medium-sized enterprises, a sector where a prudent advance in credit seems sustainable. On the demand side, improvements on firms' creditworthiness should also lead to better financial discipline in the economy. M. Isărescu emphasized that the EIB has supported the sustainable development of the domestic economy in its on-going convergence process.

Andrew McDowell (EIB) recalled the EIB's longstanding engagement in the country as this year marks 25 years of activity and the 10th anniversary of the office in Bucharest. While the Romanian economy is currently growing at record pace, growth continues to be very much consumption-led. McDowell remarked that this prompts the question how sustainable the present rate of growth is and what could be growth drivers in the mid-term. Investment plays a key role in this respect. Public investment, McDowell emphasized, could significantly benefit from better absorption of EU funds. Strong project planning and consistency, however, remain prerequisites here. In addition, further improvements in the business environment would provide a positive impetus for investment. He emphasized that the EIB stands ready to support Romania on its path towards economic convergence, notably by supporting the development of transport, health care infrastructure and support for SME's.

The first panel, moderated by **Liviu Voinea** (Deputy Governor, NBR), started with a presentation by **Debora Revoltella** (Director Economics Department, EIB) on investment dynamics and the EIB Group Investment Survey (EIBIS) results for Romania. Against the background of recent investment trends and the subdued public investment in particular, Debora Revoltella emphasized the role of public investment, and its complementarities with private investment activity in Romania. A greater emphasis on planning and a clear and consistent set of investment priorities could substantially benefit public investment dynamics in Romania and facilitate tapping EU funds. Turning to corporate investment, EIBIS results suggest that the investment gap in Romania is higher than the EU average with about 19% of firms stating that they have invested too little. The quality of the capital stock is ranked lower though, with firms who have invested too little often stating greater concerns. Access to finance is an issue for some firms, and Romanian companies invest comparatively little in training for their workforce, although the poor availability of qualified staff is considered one of the top five impediments to investment. The quality of transport infrastructure is also a strong concern for Romanian firms, relative to the EU average, with 60% seeing it as an impediment. Overall, the investment outlook of Romanian firms remains moderate.

Valentin Lazea (Chief Economist, NBR) presented findings from NBR's research which suggest strong regional divergences of (foreign direct) investment in Romania. The discrepancies within the country in turn point to a need to strengthen regional development strategies. V. Lazea added that the NBR's regular survey on access to finance for Romanian companies, and EIBIS with its pan-European set of firms, are aligned on many points. He noted somewhat stronger regional and sectoral discrepancies and more pronounced difficulties with access to finance due to high interest rates and commissions, collateral requirements and bureaucracy though for the group of firms surveyed by NBR. According to NBR's analysis, the high level of taxation, fiscal unpredictability, competition and – increasingly – availability of skilled staff pose key problems for Romanian firms.

Alejandro Hajdenberg (IMF) added that while overall investment levels in Romania are relatively high, there remain considerable investment needs as indicated for instance by the still relatively low quality of infrastructure. While business and household investment have been generally more stable, government investment has dropped recently moving into the new EU fund cycle. Hajdenberg noted that fiscal policy has been pro-cyclical lately and emphasized the need for structural reforms, in particular to strengthen the efficiency of public investment, accelerate absorption of EU funds, improve the performance of state-owned companies and continue the fight against corruption.

The debate on the macroeconomic context and the survey findings highlighted a number of relevant aspects – notably issues with transport infrastructure as a key obstacle for investment, the role of skills to develop Romania's economy going forward and the need to increase absorption capacity to use EU funds – which continued to be key themes in the second part of the conference.

Moderated by **Daniel Dăianu** (Board Member, NBR), the panel on supporting investment from an operational point of view featured participation by EIB group representatives and the corporate sector.
Flavia Palanza (Director of Operations, EIB) and **Roger Havenith** (Deputy Director General, EIF) gave a joint presentation on EIB group activities in Romania and the outlook going forward. Flavia Palanza noted that EIB group lending activity had picked up in 2016 and expressed her hopes that the positive momentum can be maintained for this year and beyond, for example through projects to improve transport infrastructure and the SME initiative providing intermediated finance through partner financing institutions. She also noted that for the public sector a lack of long term planning, a legal framework on PPP and uncertainty about budget allocations continue to pose operational challenges. Also, the Investment Plan for Europe has so far not been used to full potential in Romania, which is partly due to strong reliance on grants in the public sector. Roger Havenith stressed the importance of capital market instruments to complement financing options in Romania, particularly given that the availability of grants is likely to be lower in the next financial planning period. Despites challenges, he concluded with an optimistic outlook, stressing that the EIF's ambition for Romania reflects the market's potential and a strong project pipeline.

Steven van Gronningen (President & CEO, Raiffeisen Bank SA Romania, Founder & Member of the Board of the Council of Banking Employers in Romania) commented on investment financing in Romania from a commercial bank's perspective. He noted differences between large and small firms and stressed that rather than a question of banks' willingness, lending to the latter is often constrained by companies' low capitalization or insufficient cash flows. In addition, he emphasized uncertainty as one of the main reasons why corporate lending remains subdued in Romania.

Sorin Mîndruţescu (Country Manager, Oracle Romania) noted that creating a strong investment environment is not an easy task as it requires many parts of the puzzle to be right. Yet Romania has a number of strengths, in particular a strong communication infrastructure, which has provided the basis for the BPO industry to flourish in the past decade. Challenges remain with increasing efficiency and administrative capacity in the public sector though. In addition, he stressed the need for investment in energy going forward.

The discussions highlighted a number of persistent challenges for Romania such as weaknesses related to public sector infrastructure planning and prioritisation, leading to repeated changes in focus, inefficient use of resources, including EU structural funds.

First, participants agreed on a strong need for more consistent project planning and stable prioritization. This would facilitate the absorption of EU funds in general and is particularly crucial for areas like (large scale) infrastructure or education and skills, which require longer term strategies. While the EIB has been traditionally very active in project capacity building in Romania – through JASPERS and most recently also through the work of the European Advisory Hub – one of the possibilities discussed at the conference was the potential for greater coordination among international financial institutions and the European Commission to foster sectoral transformation.

Second, the relatively low financial intermediation in Romania remains an issue. Against this background instruments like guarantees could play an important role to facilitate transformation of liquidity into sustainable risk-taking. A new cooperation between EIB and five Romanian banks, which aims to facilitate access to finance for small and medium enterprises by providing a partial guarantee on loans, reflects this idea.

Third, improvements in the business environment remain crucial. Impediments to investment are related to uncertainty, the business and regulatory environment, transport infrastructure gaps as well as constraints in terms of skills.

Last but not least though, the business sector in Romania is still seen as an opportunity.