NATIONAL BANK OF ROMANIA

Press Conference

Financial Stability Report No. 18 (2/2019)

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First Deputy Governor

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1. Risks to financial stability in Romania

Current assessments do not signal severe risks to financial stability in Romania

Map of risks to financial stability in Romania

↑	Tensions surrounding domestic macroeconomic equilibria
↑	Weakening in investors' sentiment towards emerging economies
→	Risk of an uncertain and unpredictable legislative framework in the financial and banking sector
↑	Structure and cost of financing of the current account deficit and budget deficit
→	Default risk for loans to the private sector

severe systemic risk

high systemic risk

moderate systemic risk

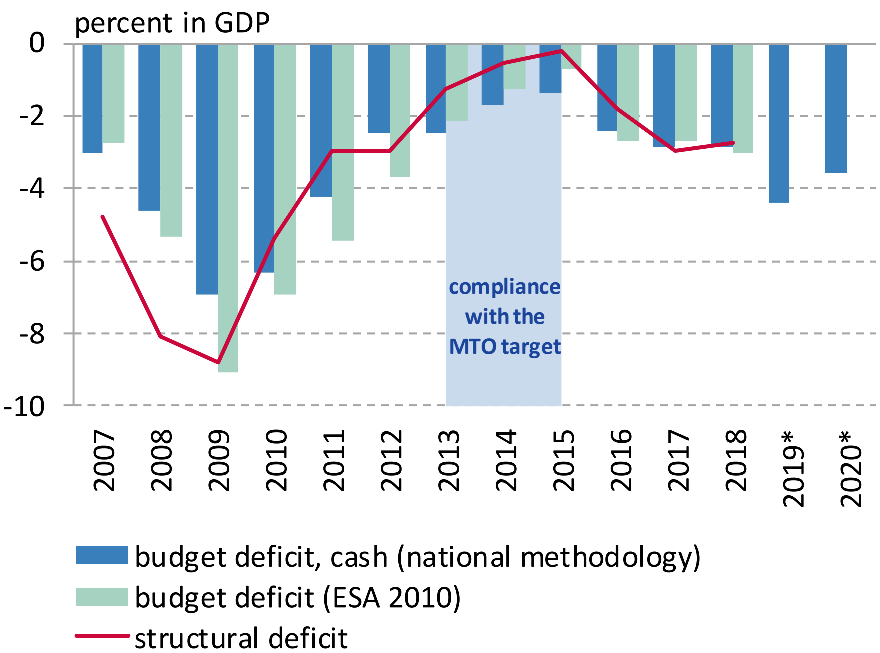
low systemic risk

Note: The colour shows risk intensity. Arrows indicate the outlook for risk in the period ahead.

=> the aggregate level of systemic risks to financial stability in Romania is on the rise, similarly to global developments, and the outlook for the years ahead shows the furthering of this trend

(Risk 1) The risk of tensions surrounding macroeconomic equilibria is the main systemic risk to financial stability (1)

General government deficit and structural deficit



*) forecast

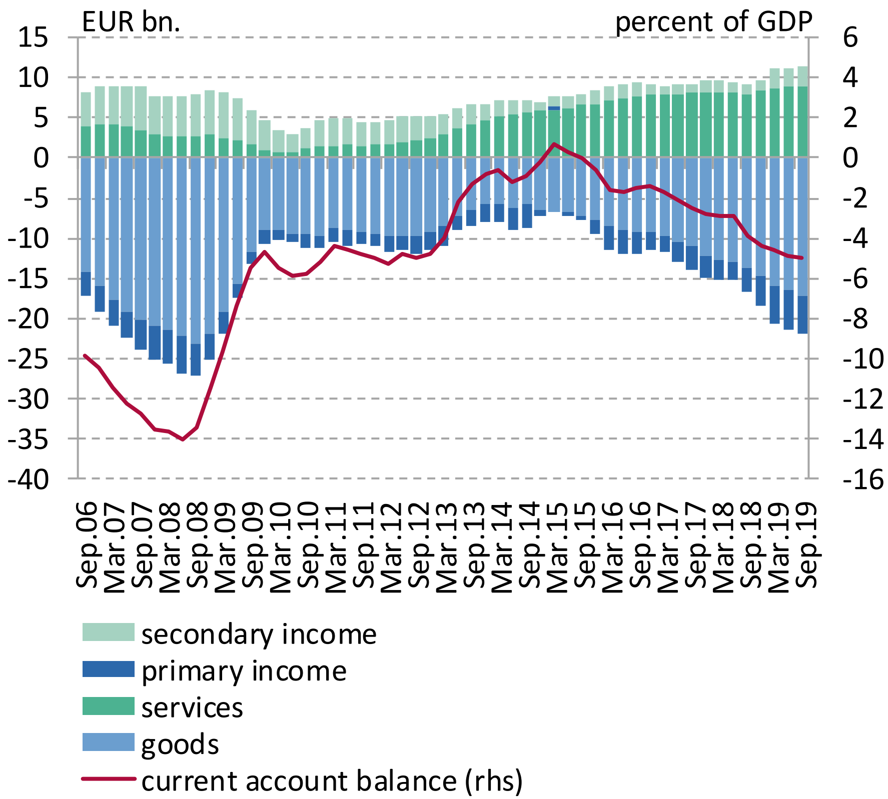
Note: The structural deficit is the general government deficit adjusted for the cyclical component, net of one-off and other temporary measures, calculated as a percentage of potential GDP.

Source: MPF, European Commission

- The budget deficit stood at 2.8 percent of GDP January through October 2019, up 0.6 percentage points from the same year-ago period
- The cash-based budget deficit is estimated at 4.43 percent of GDP for end-2019
- These developments show a significant deviation from the required adjustment path towards the medium-term objective (MTO) of 1 percent of GDP for the structural budget and from the 3 percent-of-GDP ceiling for the budget deficit set by the *Fiscal Responsibility Law* and the *Stability and Growth Pact of the European Union*
- Social transfers are projected to reach 14.3 percent of GDP at end-2022, compared with 10.7 percent of GDP this year, and thus to account for 65 percent of total budget expenditure

(Risk 1) The risk of tensions surrounding macroeconomic equilibria is the main systemic risk to financial stability (2)

Current account



Note: The current account balance as a share of GDP is calculated based on 4-quarter cumulative data.

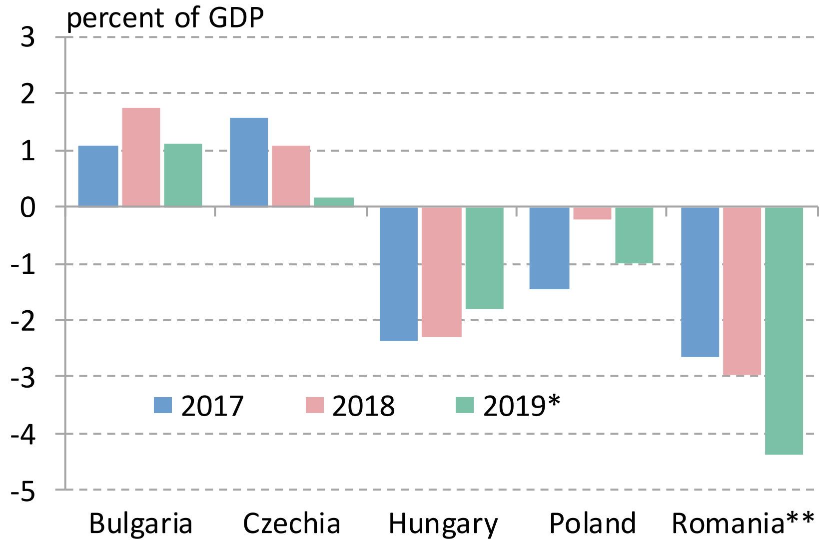
Source: Eurostat, NBR calculations

- The worsening of external imbalance remains a matter of serious concern: the current account deficit as a share of GDP widened by 1.1 percentage points compared to the same year-ago period (5 percent in 2019 Q3 from 3.9 percent, four-quarter cumulative data), mainly on the back of a larger trade deficit
- An important source of the imbalance is the trade in agri-food items, the negative balance of which increased at a fast pace in recent years
- According to European Commission forecasts, the current account deficit worsening will persist over the period ahead (5.3 percent in 2020) in the absence of firm adjustment measures

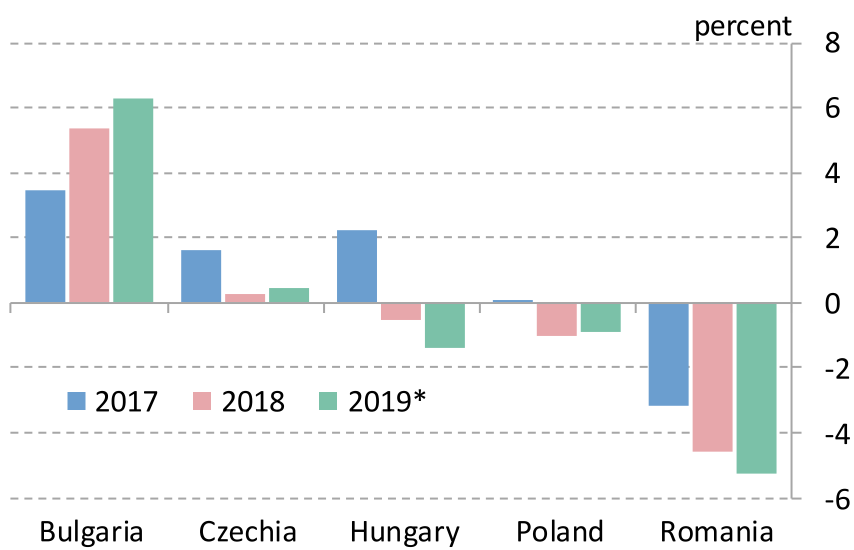
(Risk 1) Romania records the highest twin deficits in the European Union

- Forecasts show that Romania will post the highest current account deficit (5.1 percent of GDP according to the European Commission) and the widest budget deficit (4.43 percent of GDP**) in the region in 2019
- Contrary to the developments in Romania, the other countries in the region reported fiscal consolidation over the past three years, with Bulgaria and Czechia running budget surpluses

General government deficit (ESA 2010)



Current account balance as a share of GDP



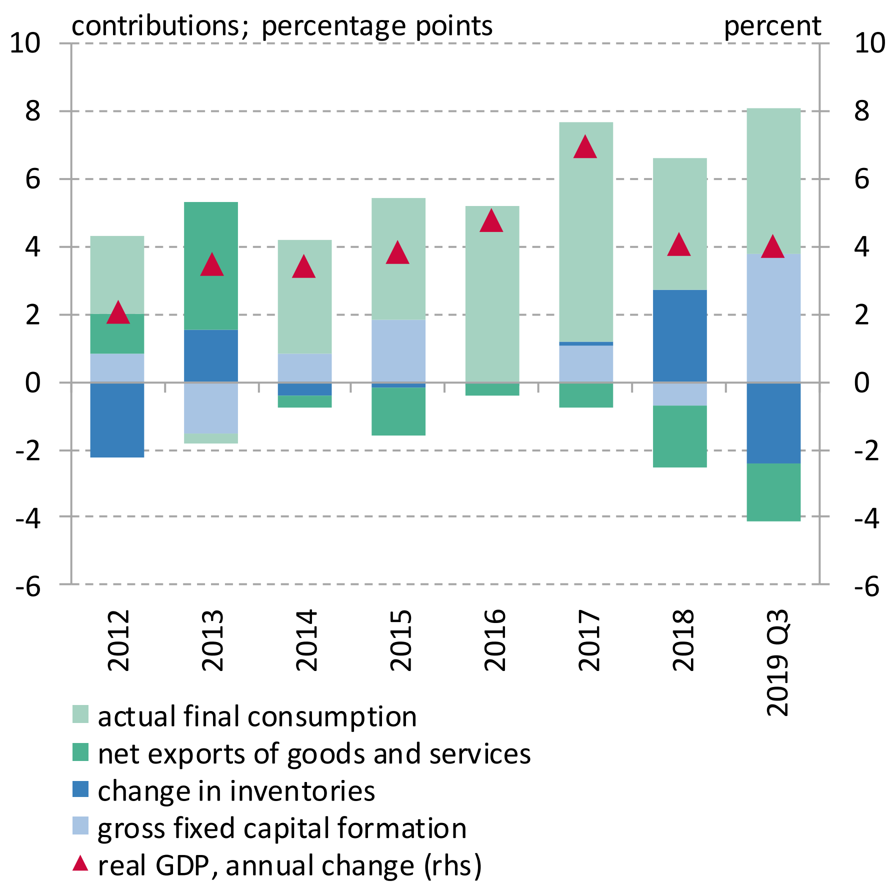
*) according to the European Commission's Autumn 2019 Economic Forecast

**) for Romania, the value of the budget deficit stipulated in Government Ordinance No. 71/2019 on the revision of the 2019 state budget was included

Source: European Commission (AMECO)

(Risk 1) Economic growth rate slowed down from the previous quarters, yet growth composition improved due to a larger contribution of investment

Determinants of GDP dynamics



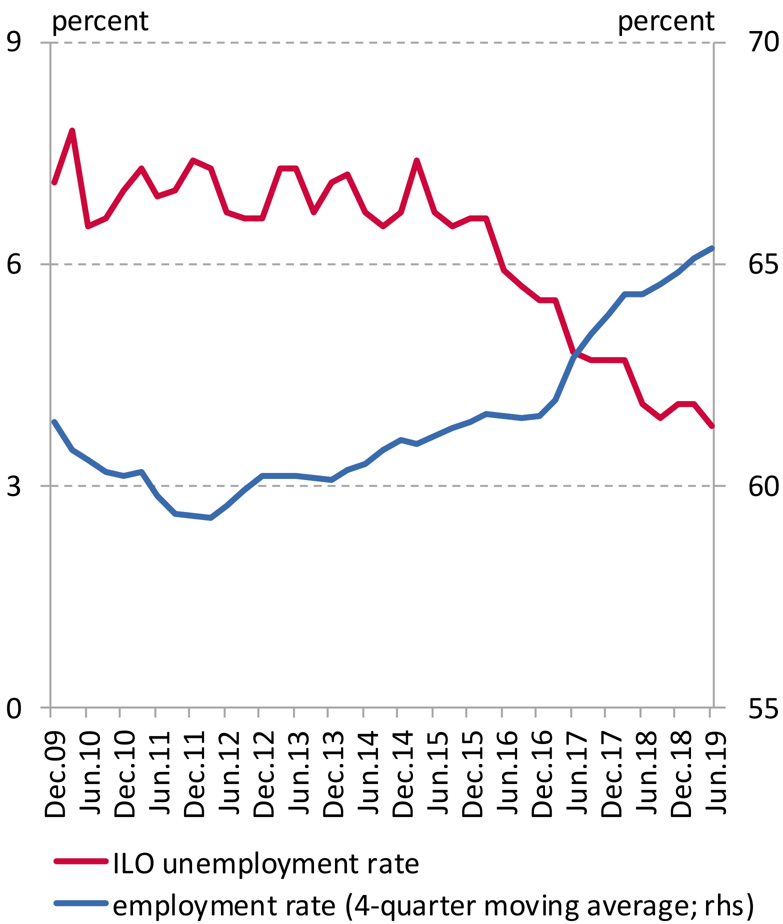
Source: NIS, NBR calculations

- In the first three quarters of 2019, Romania's economic growth rate stood at 4 percent against the same year-ago period. For 2020 as a whole, a slight slowdown (to 3.6 percent*) is envisaged, in line with international developments
- The main contribution to GDP growth came from total final consumption (+4.3 pp), ahead of gross fixed capital formation (+3.8 pp), while net exports (-1.7 pp) and the change in inventories (-2.4 pp) had negative contributions
- Even though the pace of increase remained above the euro area average, the domestic need for fiscal consolidation and the slowdown in economic activity at a European level will pose challenges to furthering sustainable nominal and real convergence of Romania

**) According to the European Commission's Autumn 2019 Economic Forecast*

(Risk 1) Labour market tightness is expected to persist over the period ahead

Unemployment and employment rates

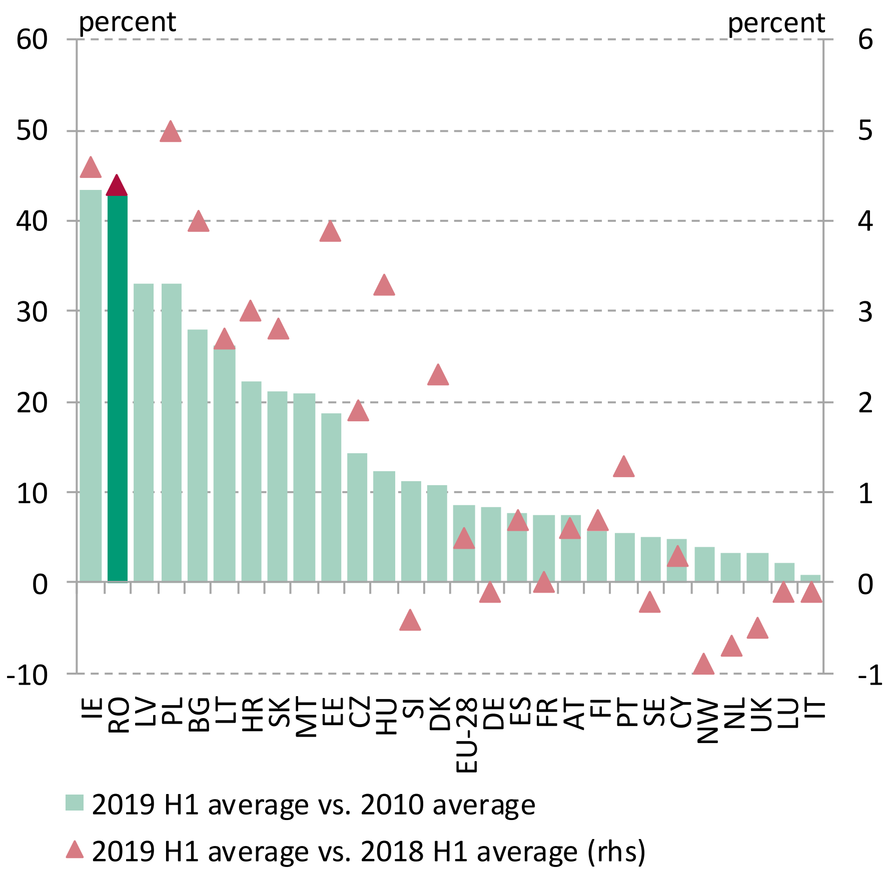


Source: NIS, Eurostat

- Unemployment rate stays at a low level, i.e. at 3.9 percent in 2019 Q3, relatively unchanged from a year earlier
- Employment rate in Romania posted a positive performance in 2019 Q2, coming in at 66.4 percent, compared with 65.5 percent in the similar year-ago period
- Labour market still faces a number of structural constraints stemming from factors such as:
  - ✓ shortage of workforce
  - ✓ skill mismatch between labour demand and supply
  - ✓ high inactivity rate among young people
  - ✓ regional disparities

(Risk 1) Romania saw significant increases in labour productivity, yet the rise in labour costs above that of productivity may negatively affect external competitiveness

Labour productivity per hour worked



Source: Eurostat, NBR calculations

- Labour productivity remained on an upward track (up 4.4 percent year on year in 2019 Q2), yet outpaced by wage dynamics
- Even though Romania reported one of the highest rises in productivity at a European level in 2019 H1 compared to 2010, the stronger increase in wage costs may dampen corporate competitiveness both domestically and externally
- The implementation of a balanced fiscal policy on both revenue and expenditure sides can mitigate macroeconomic vulnerabilities and underpin matching growth rates of earnings and productivity

(Risk 2) The second systemic risk is of external origin, i.e. weakening of investors' sentiment towards emerging economies

International Monetary Fund, October 2019

Global trade tensions
Geopolitical uncertainties
Adjustment of investors' risk appetite, with implications for emerging markets
High level of indebtedness
Financial technological innovation
Climate change

Source: International Monetary Fund, Global Financial Stability Report, October 2019

European Central Bank, November 2019

Disorderly increase in global risk premia
Debt sustainability concerns
Low bank profitability
Increased risk-taking in the non-bank financial sector

Source: European Central Bank, Financial Stability Review, November 2019

Regional perspective

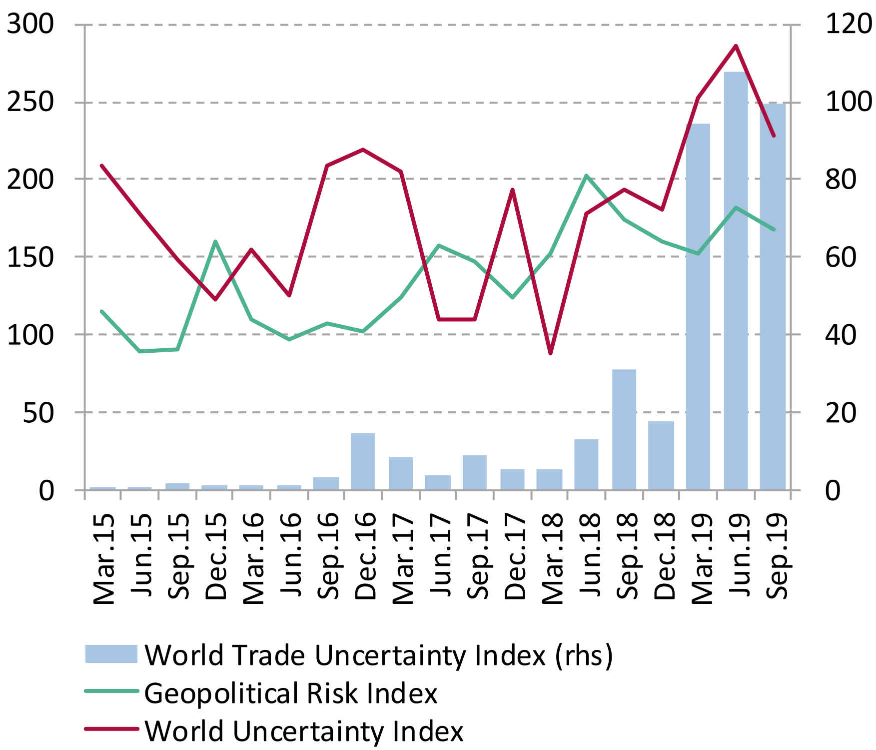
Repricing of risk premia in international markets, along with the uncertain economic environment at a global level
Deterioration of the debt repayment capacity in the case of major economies
Persistence of vulnerabilities across the European banking sector
Excessive credit growth
Real estate market developments

Source: Narodowy Bank Polski, Česká národní banka, Magyar Nemzeti Bank

- This risk is also mentioned, in various forms, in the financial stability reports released by the IMF, ECB and other central banks in the region
- Uncertainties about future economic developments prompted the major central banks to further pursue an accommodative monetary policy
- The extremely favourable international financial conditions paved the way for vulnerabilities to build up, especially as regards non-financial corporations

(Risk 2) World economic uncertainty is mounting and medium-term risks are further sizeable

World uncertainty and geopolitical risk



Source: Caldara, D. and Iacoviello, M. (2018) – "Measuring Geopolitical Risk", FRB, International Finance Discussion Papers 1222; Ahir, H., Bloom, N. and Furceri, D. (2018) – "World Uncertainty Index", Stanford mimeo

- Global economic growth stayed on a downtrend, amid the decline in industrial production and flagging investors' sentiment
- Behind this stood the uncertainty about international trade, weakening demand from China and geopolitical tensions
- In the euro area, the slowdown in economic activity was attributed to a decline in exports and investment, reflecting a faster-than-expected slowdown in growth in Germany and Italy
- Considering that the two countries are Romania's main trading partners => any unfavourable developments may negatively impact the local economic activity as well

(Risk 3) The risk of an uncertain and unpredictable legislative framework in the financial and banking sector was still manifest, yet it subsided somewhat

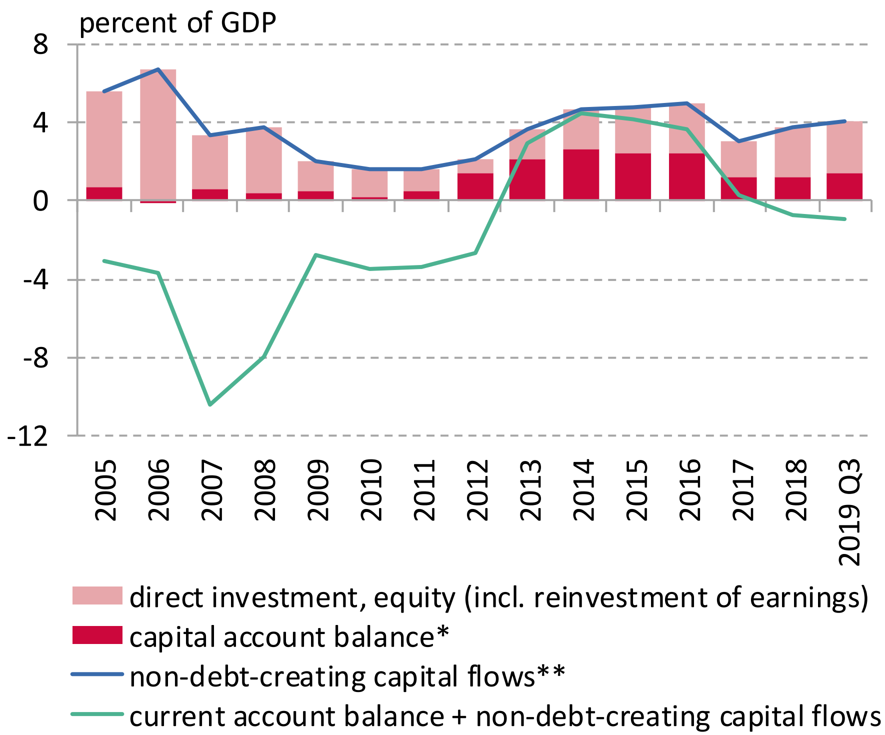
- GEO No. 114/2018: The NCMO-led consultations laid the groundwork for amending GEO No. 114/2018 via GEO No. 19/2019, thereby mitigating the initial strongly negative effects

- The Parliament amended the regulatory framework on debt discharge in the course of 2019. Certain provisions of the new law envisaged defining the term “unforeseeability”, but the Constitutional Court gave a ruling on their being unconstitutional in November 2019, maintaining the more restrictive nature of this procedure, which is likely to limit moral hazard stemming from this legislative amendment

- Several other legislative initiatives were discussed in Parliament in 2019, but they included certain provisions that had previously been declared unconstitutional in other similar draft legislation

(Risk 4) Current account deficit financing is only partly ensured by stable, non-external debt-creating flows

Current account balance and non-debt-creating capital flows



*) mostly EU structural and investment funds

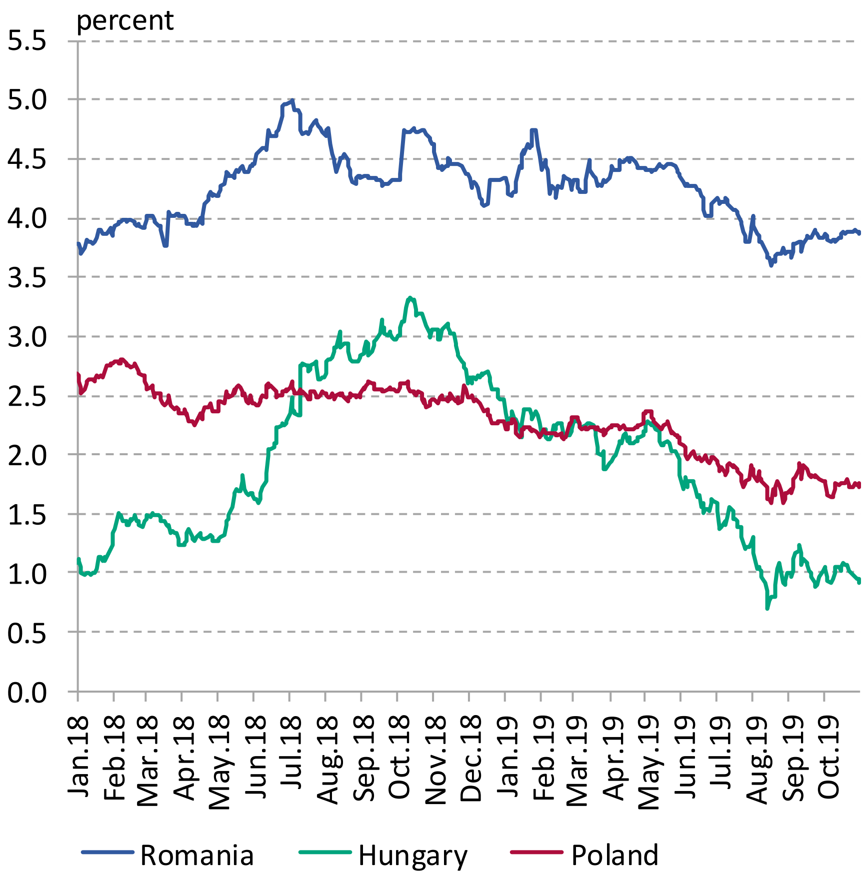
**) direct investment, equity (incl. reinvestment of earnings) + capital account balance

Source: NBR, NIS, Eurostat, NBR calculations

- The structure and cost of financing of the current account deficit and budget deficit further carry a moderate systemic risk, which is assessed as prospectively on the rise over the period ahead
- From 2013 to 2017, the current account deficit was entirely funded by stable, non-external debt-creating flows
- At end-September 2019, deficit coverage by these items contracted to 81 percent, amid slower absorption of EU structural and investment funds

(Risk 4) Romania borrows funds at the highest yields in the region and financing needs increased from a year ago

Yields on 5Y bonds issued by Romania

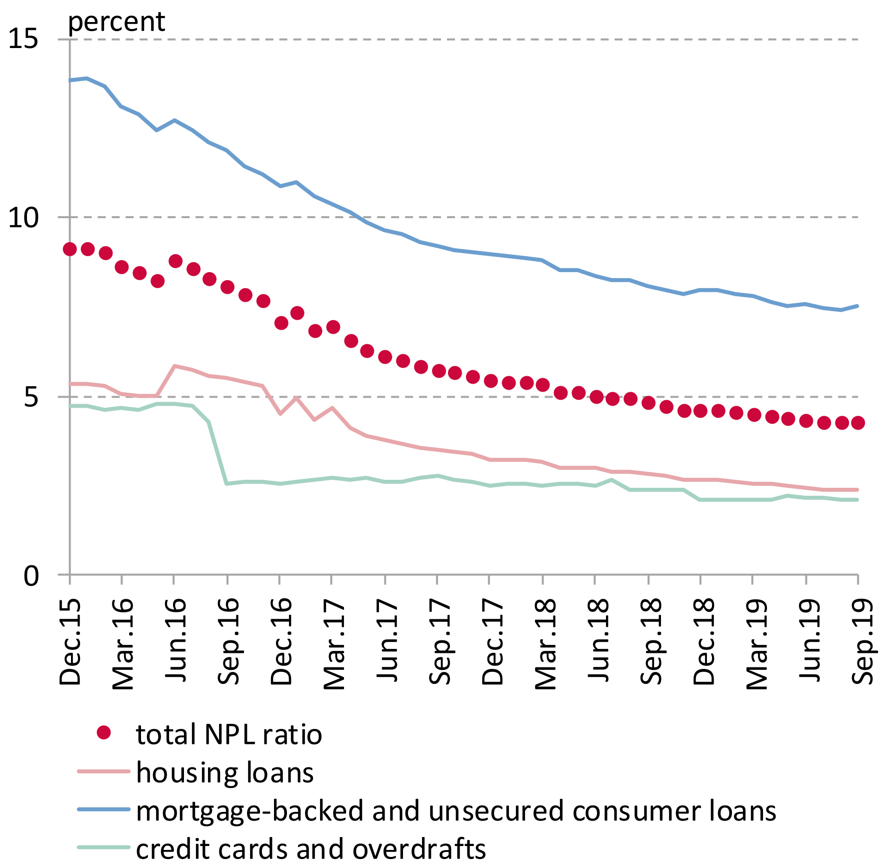


Source: Bloomberg

- Yields on 5Y bonds issued by Romania averaged at 4 percent in November 2019, versus 1 percent in Hungary and 1.7 percent in Poland
- The government's financing requirement is estimated to grow by 28 percent at end-2019 compared to the previous year (amid a rise in the public wage bill and social transfers and weaker-than-anticipated revenue collection) and it is seen hitting a 10-year high

(Risk 5) Default risk for loans to the private sector remained low

Banks' NPL ratio for households by type of loan

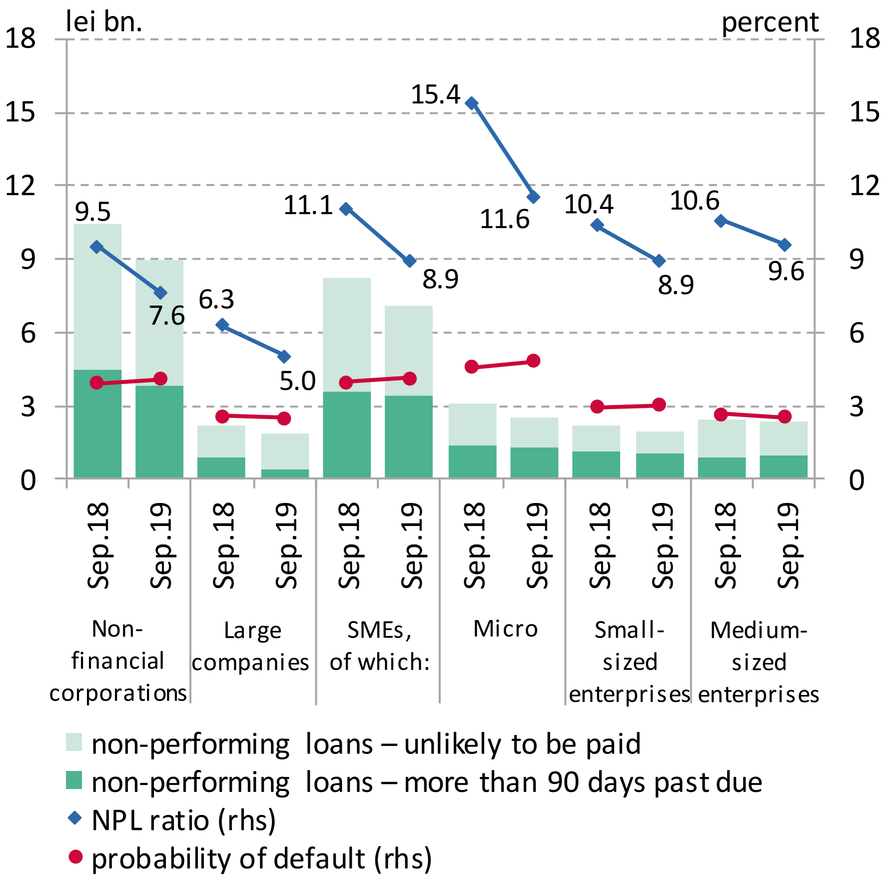


Source: NBR, NBR calculations

- Household loan portfolio quality improved: the NPL ratio for these loans dropped to 4.3 percent in September 2019, 0.6 percentage points below the level in the similar year-ago period
- The contraction owed both to housing loans (-0.5 percentage points) and consumer loans (-0.6 percentage points)
- On certain segments however, credit risk went up, with leu-denominated loans posting an increase in non-performing exposures at aggregate level (+7 percent)

(Risk 5) Banks' corporate loan quality stands, for the first time ever, below the EBA-defined alert threshold

Non-performing loan ratio and the probability of default by company size

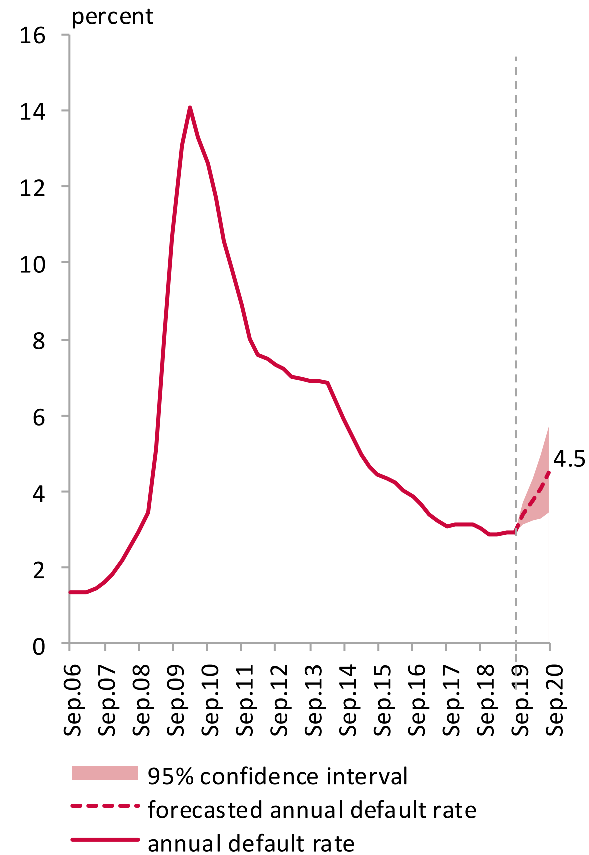


Source: NBR, MPF, NBR calculations

- On the whole, the financial soundness of companies that took loans has remained higher than that seen for all firms in the economy
- Non-performing loan ratio in this sector decreased by 1.9 percentage points, down to 7.6 percent in September 2019, entering the EBA's intermediate-risk bucket for the first time
- The analysis by business sector shows a broad-based decline in the non-performing loan ratio
- By company size, all segments witnessed improvements in the quality of loan portfolios in banks' balance sheets

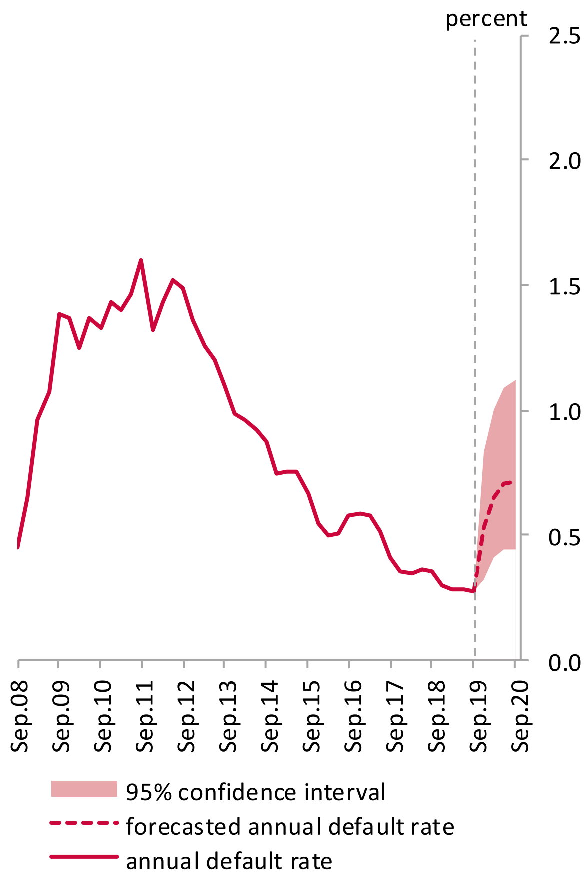
(Risk 5) For the period ahead the probability of default is expected to increase for both households and non-financial corporations

Forecasted annual default rate in the non-financial corporations sector



Source: MPF, NBR calculations

Forecasted annual default rate for housing loans



Source: NBR, CB, NBR calculations

- The rise in non-performing exposures from leu-denominated loans to households is an early warning signal that needs to be monitored closely
- As for housing loans, the annual default rate recorded a marginal decline, yet it is estimated to increase by 0.44 pp next year
- The forecasts for the non-financial corporations sector show a rise in the probability of default up to 4.5 percent in September 2020, from the current 2.9 percent

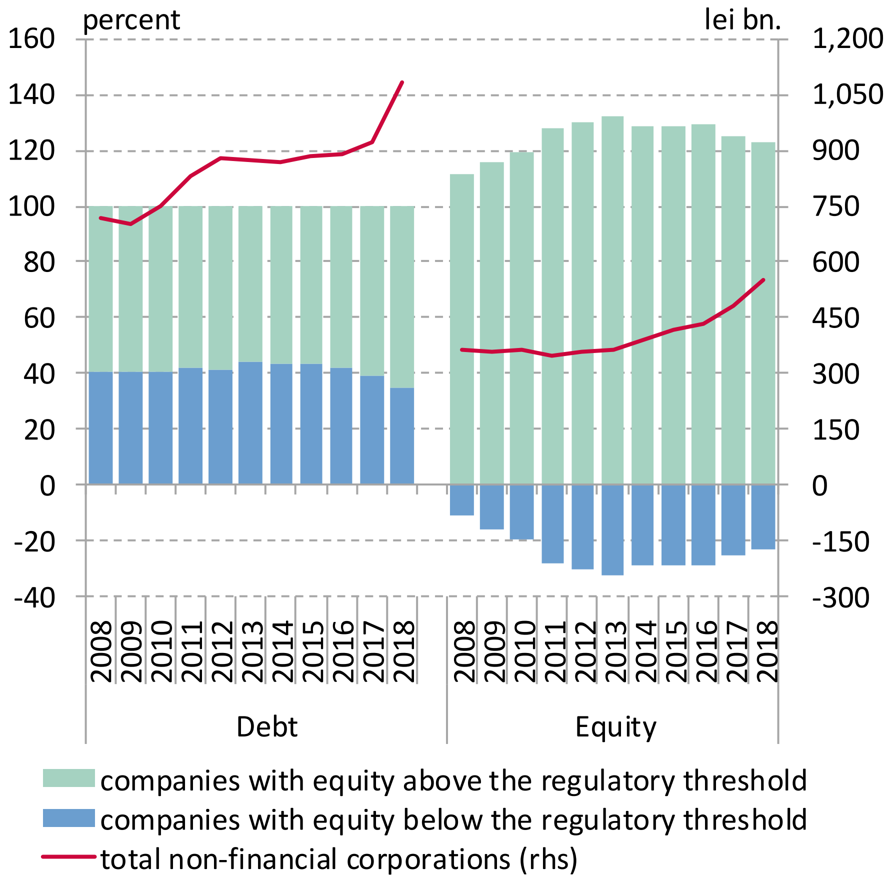
2. Structural vulnerabilities to financial stability

Map of structural vulnerabilities to financial stability in Romania did not improve notably

Map of structural vulnerabilities
A. Weak payment discipline in the economy and vulnerabilities in companies' balance sheets ▪ Overdue payments account for about 9 percent of GDP ▪ Total overdue payments other than those to banks declined by 5 percent to lei 85 billion, but their dynamics owed especially to the contraction in state-owned companies' arrears to the general government budget. Private firms' arrears to suppliers increased by 10 percent and their overdue payments to the budget went up by 4 percent ▪ Firms with equity below the regulatory threshold make up 38 percent of the total number of firms, accounting for more than one third of total non-performing corporate loans
B. Low financial intermediation ▪ Financial intermediation in Romania remains the lowest among EU Member States (bank credit to GDP ratio stood at 27 percent in September 2019) ▪ The sustainable potential for raising in time financial intermediation for non-financial corporations is high (lei 166 billion), and credit institutions have liquidity resources to increase their exposure to those entities and enjoy adequate solvency
C. The demographic problem ▪ Population contracted due chiefly to the negative natural population change and the stepped-up emigration ▪ The persistence of this state-of-affairs will likely have an adverse impact on future social and economic conditions in Romania

Capitalisation remains an important structural vulnerability of non-financial corporations in Romania ...

Corporate debt and equity by level of capitalisation

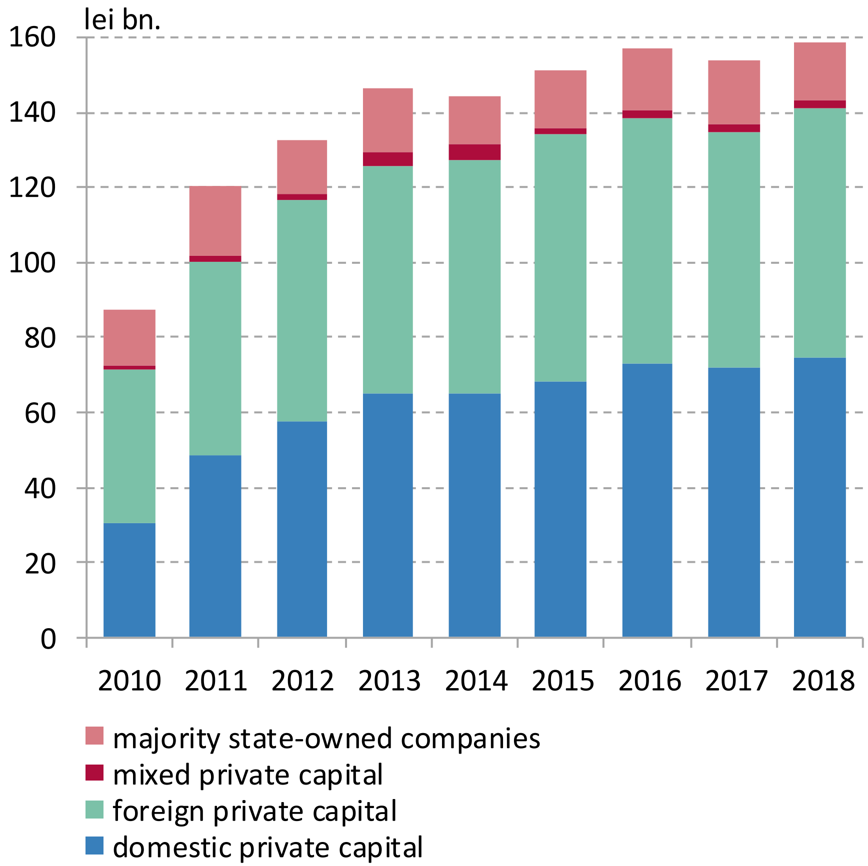


Source: MPF, NBR calculations

- At end-2018, approximately 260 thousand firms (38 percent of total) reported equity below 50 percent of share capital, with the overwhelming majority (252 thousand, or 37 percent of total) posting negative equity
- Companies failing to comply with the regulatory requirements in this field erode the capitalisation base of the sector as a whole, reducing total equity by 23 percent (or lei 126 billion)
- Due to the systemic nature of these firms and to the implications they may have for the financial system, in May 2018 the NCMO issued a recommendation to the government. As a result, the MPF prepared a draft law on taking steps addressing undercapitalised companies, which was approved in the Senate, being currently under debate in the Chambers of Deputies

... and their recapitalisation needs are significant

Firms' recapitalisation needs

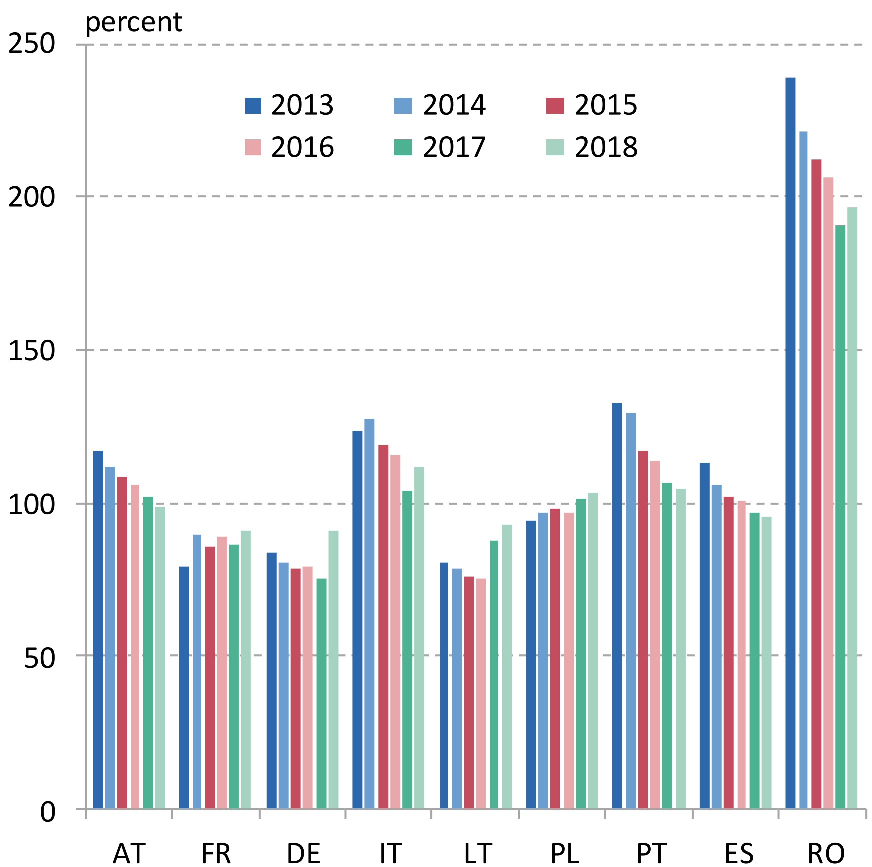


Source: NTRO, MPF, NBR calculations

- Despite the favourable economic developments seen over the past years, the recapitalisation needs of firms with equity below the regulatory threshold continued to grow, especially for domestic and foreign private companies
- At aggregate level, at end-2018, undercapitalised firms needed lei 158 billion (up 3 percent year on year) to fulfill the minimum regulatory requirement
- Firms with equity below the regulatory threshold play a significant role in the worsening of payment discipline in this sector: (i) their NPL ratio stood at 22 percent in September 2019, accounting for more than one third of total non-performing corporate loans; (ii) in the case of overdue payments other than those to banks, these entities make up two thirds of total and one third of the newly-insolvent firms

The level of indebtedness of firms in Romania is the highest in Europe

Debt-to-equity ratio, international comparison



Source: IMF, MPF, NBR calculations

- The increase in firms' equity over the past year (+14 percent) could not fully offset the advance in their debt (+17 percent)
- The level of indebtedness, measured by the debt-to-equity ratio, grew to 196.3 percent at end-2018, remaining one of the most elevated at a European level and nearing the 200 percent signalling threshold

3. Banking sector

Prudential and financial indicators are adequate relative to risks and the sector's soundness remains, overall, above the EU average

Risk indicators	EBA-defined prudential range	Romania*					EU
		2015	2016	2017	2018	Sep. 2019	Jun. 2019
Solvency							
Tier 1 capital ratio	>15%						
	[12%-15%]	16.72	17.55	17.95	18.64	17.88	16.2
	<12%						
CET1 capital ratio	>14%						
	[11%-14%]	16.72	17.55	17.95	18.64	17.88	14.6
	<11%						
Asset quality							
Non-performing loan ratio	<3%						
	[3%-8%]	13.51	9.62	6.41	4.96	4.58	3.0
	>8%						
Non-performing loan coverage by provisions	>55%						
	[40%-55%]	57.72	56.34	57.68	58.51	59.55	44.9
	<40%						
Ratio of restructured loans and advances	<1,5%						
	[1,5%-4%]	8.43	6.36	4.80	3.26	2.91	1.9
	>4%						
Profitability							
ROE	>10%						
	[6%-10%]	11.89	10.10	11.80	13.77	11.96	7.0
	<6%						
Cost-to-income ratio	<50%						
	[50%-60%]	58.46	53.19	55.30	53.81	53.12	64.1
	>60%						
Balance sheet structure							
Loan-to-deposit ratio for households and non-financial corporations	<100%						
	[100%-150%]	78.18	74.34	73.21	71.89	73.39	116.4
	>150%						

*) includes only banks, Romanian legal entities, according to EBA methodology

best bucket

intermediate bucket

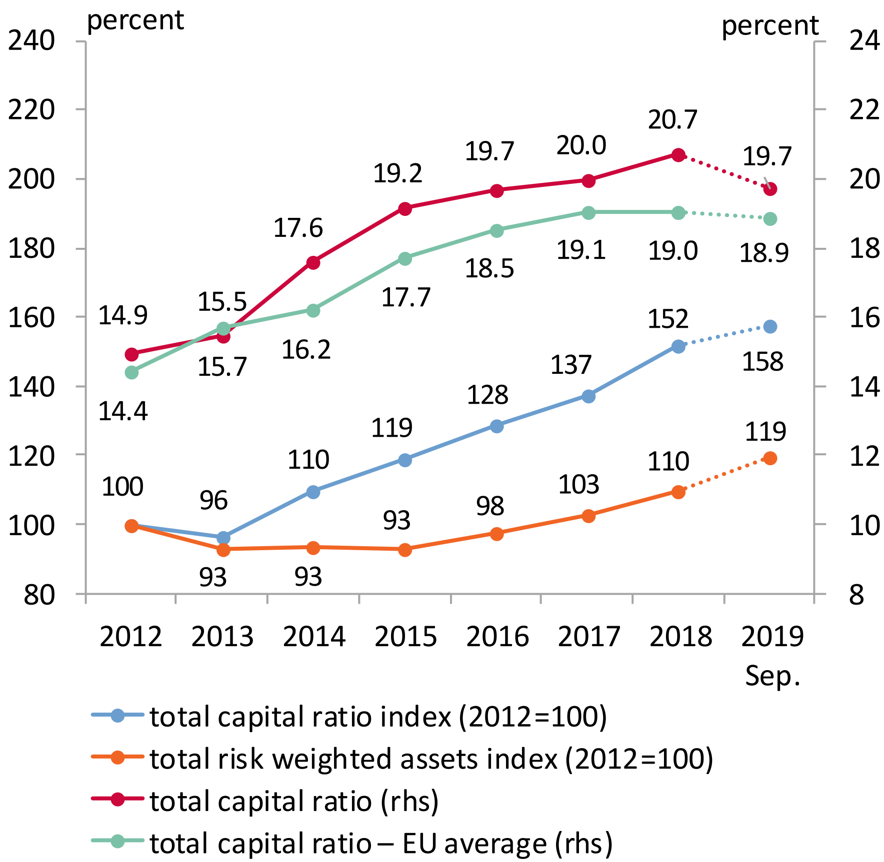
worst bucket

Source: NBR, EBA

- Total capital ratio (19.7 percent) and liquidity coverage ratio (224 percent) remain at adequate levels
- The results of the solvency and liquidity stress testing show a good capacity of the banking sector to withstand adverse developments
- The balance sheet composition helps improve banks' liquidity position. The loan-to-deposit ratio for the private sector is below one, and bank funding is dispersed and stems chiefly from retail deposits

Solvency remained at levels in line with micro- and macroprudential requirements

Total capital ratio and its components

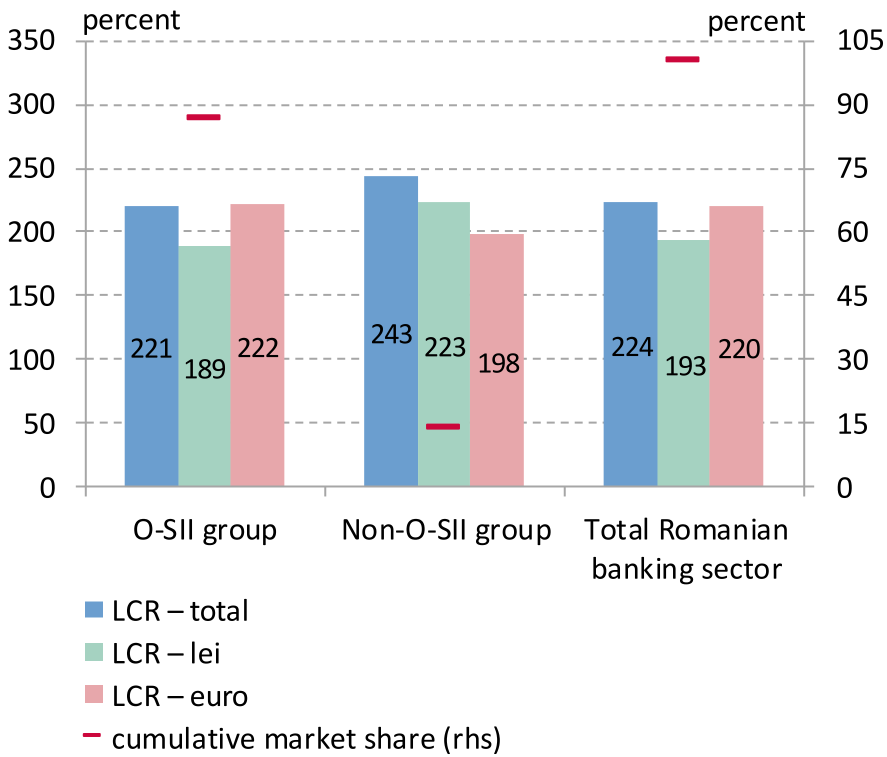


Source: EBA, NBR

- The total capital ratio (19.7 percent) remains adequate, slightly above the EU average, ensuring the banking sector's resilience to adverse developments of moderate intensity
- The slight decline in total capital ratio since the previous *Report* (-0.3 percentage points against March 2019) was mainly due to an increase in risk-weighted assets
- The composition of own funds entails a good loss absorption capacity of banks, considering that total own funds consist primarily of Tier 1 capital (91 percent, September 2019)

Liquidity remains above the minimum required level

Value of LCR depending on O-SII/non-O-SII classification



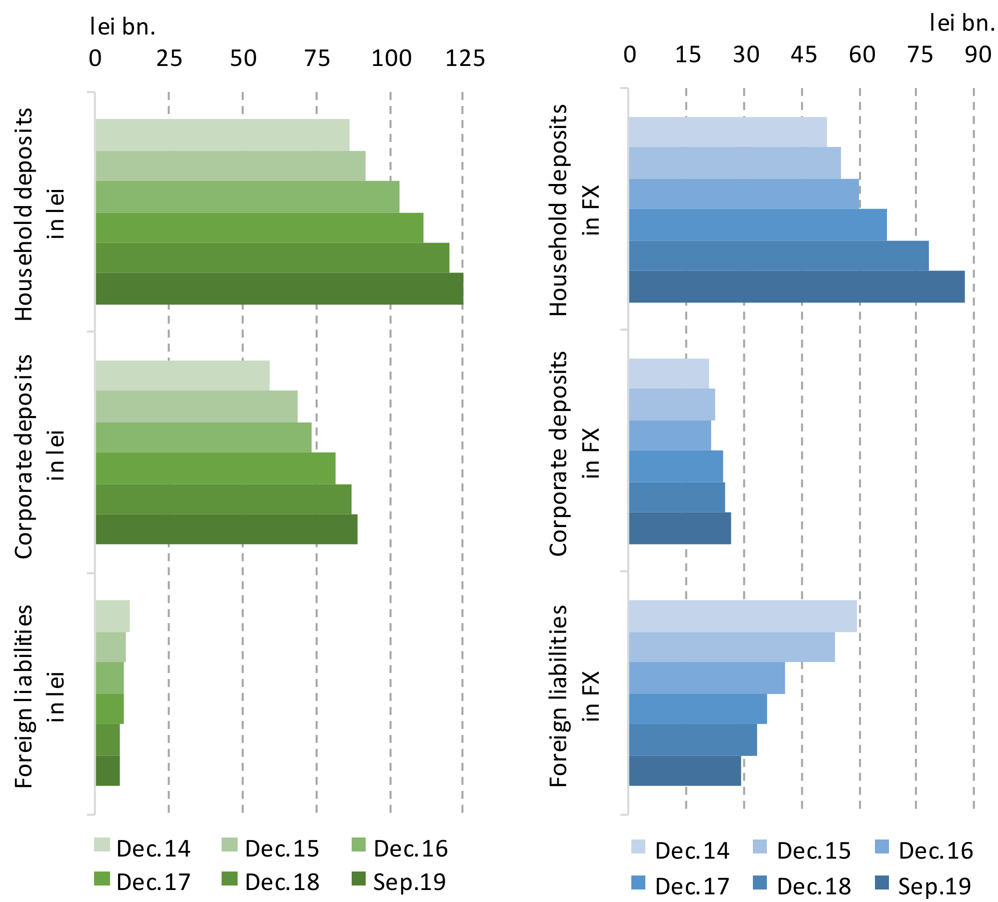
Note: LCR = the ratio of the liquidity buffer to net cash outflows;
O-SII = other systemically important institutions.

Source: NBR

- The average liquidity coverage ratio (LCR) stays above the 100 percent minimum required level, i.e. 224 percent, and above the European average (149 percent, June 2019)
- The O-SII banks generally report lower LCR values, a trend that is also visible EU-wide
- The high LCR values are mainly based on the large volume of government securities and low cash outflows, due to the fact that most retail deposits (constituting the main funding source of banks) are deemed stable

The importance of deposits as a funding source increased significantly over the past few years

Developments in the funding composition of the banking sector – main items –

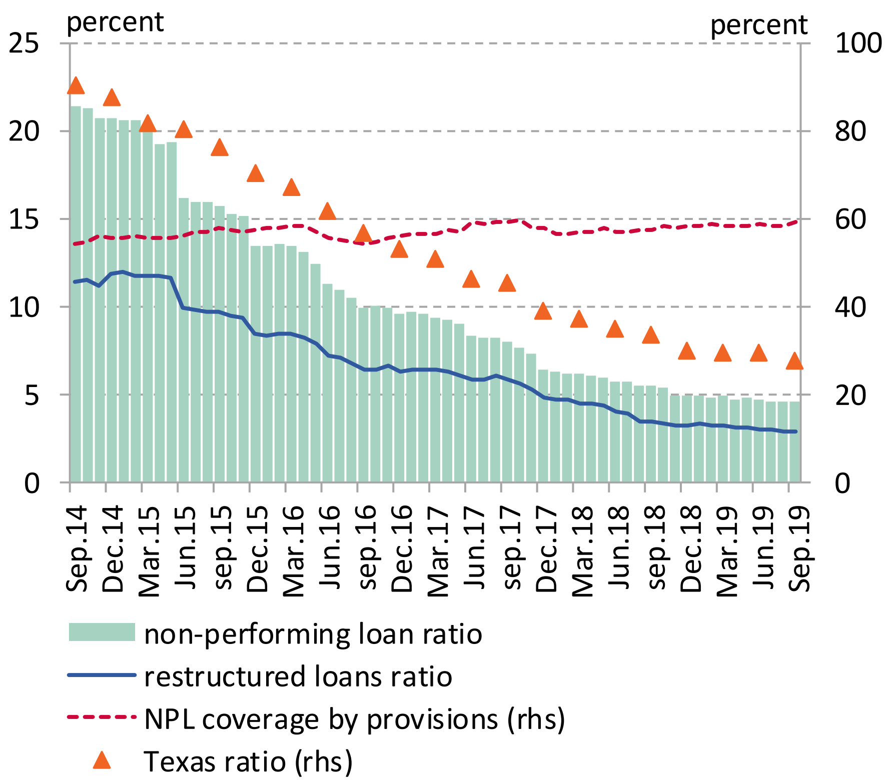


Source: NBR

- The traditional structure of banks' balance sheet liabilities consolidated over the past few years, which contributed to lower funding costs for banks, so that they can grant loans under competitive conditions compared to the banks in the region or the euro area
- Funding from parent undertakings fell to EUR 3.9 billion in September 2019 against a historical high of about EUR 26 billion at end-2008
- The fall did not trigger liquidity issues as a result of fully replacing these sources with deposits from the domestic private sector, households in particular

Asset quality continued to post positive developments, similarly to recent years ...

Credit risk indicators and asset quality



Note: Data on non-performing exposures of the banks that are Romanian legal entities.

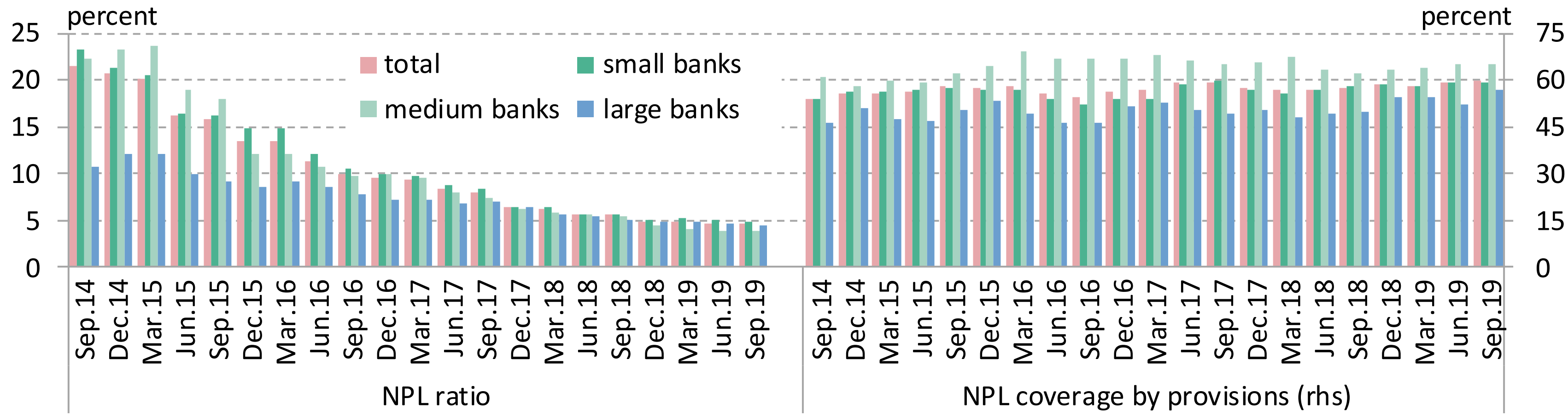
Source: NBR

- The NPL ratio decreased by 0.3 percentage points since the previous *Report*, down to 4.6 percent in September 2019
- However, its pace of adjustment slackened gradually over the past two years, amid a less intense balance sheet clean-up
- The coverage of non-performing loans by provisions is at an adequate level, and the Texas ratio (calculated as a ratio of non-performing loans to the sum of Tier 1 capital and loan loss provisions) shows the banking sector's capacity to withstand adverse developments generated by an increase in credit risk
- The restructured loans ratio falls into the EBA's intermediate risk bucket

... yet high dispersion by size persists

- By bank size, the asset quality indicators highlight the increased difficulty of small banks to clean up their balance sheets as well as their higher financial vulnerability as compared with medium-sized and large banks
- The aggregate NPL ratio of small banks is higher than that of medium-sized and large banks and is correlated with a lower NPL coverage by provisions
- Moreover, small banks exhibit a greater heterogeneity of the NPL ratio

Non-performing loans ratio and non-performing loan coverage by provisions by bank size

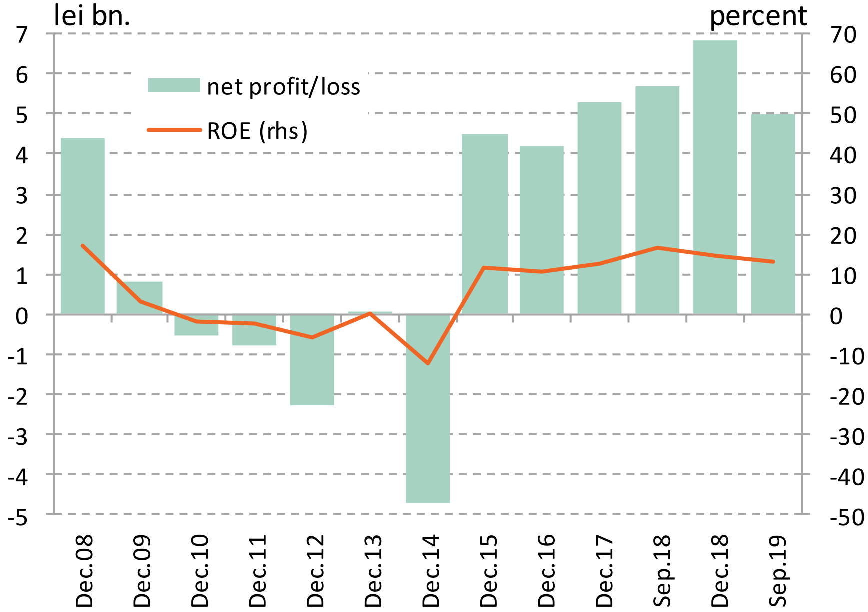


Note: Small banks have an asset market share lower than 1 percent; medium banks have an asset market share between 1 and 5 percent; large banks have an assset market share of more than 5 percent.

Source: NBR

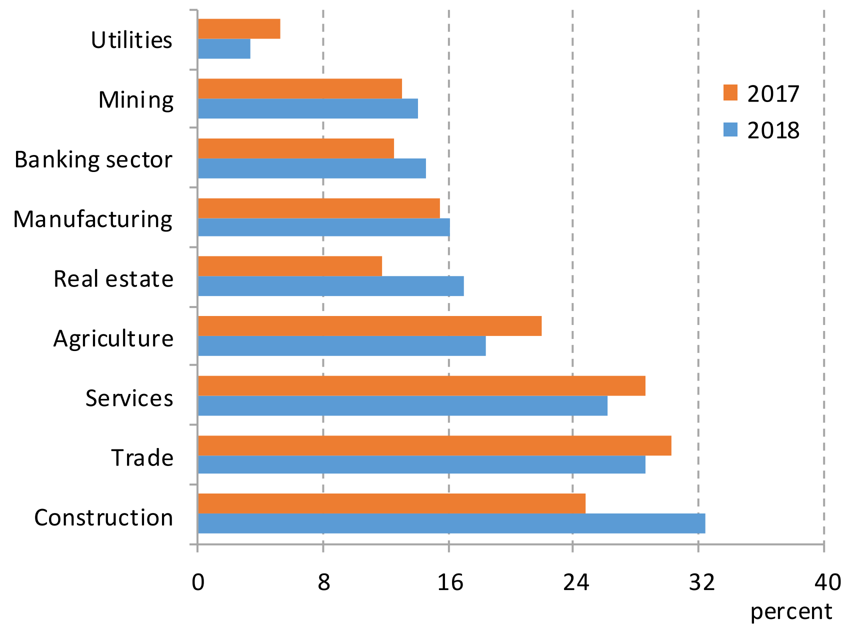
Profitability remains robust...

Net profit/loss and ROE



Source: NBR

ROE by sector

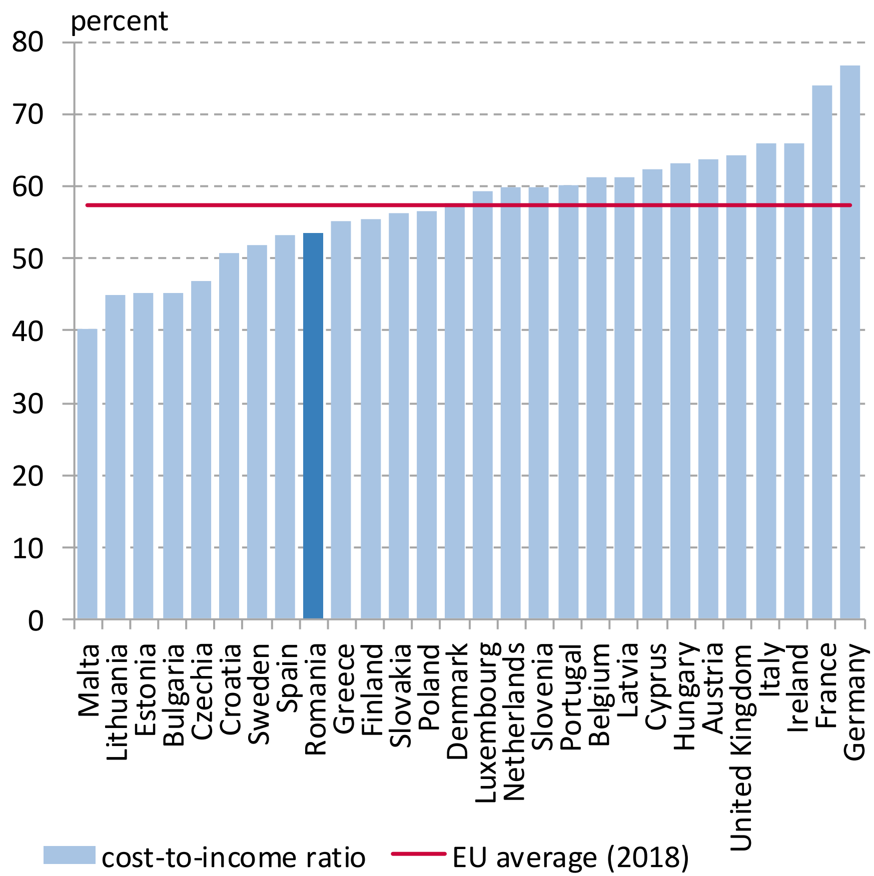


Source: NBR, MPF, NBR calculations

- The return on equity of the banking sector, although on a rise in annual terms, lies below the average for the real sector, i.e. 14.6 percent versus 19.5 percent
- The Romanian banking sector posted a net profit of lei 5 billion at end-September 2019, being concentrated (85.3 percent) among 7 large banks
- The prospects for the currently favourable trend in profitability to continue are mitigated by the negative impact of a potential increase in default rates

... but operational efficiency has room for improvement

Cost-to-income ratio, European comparisons



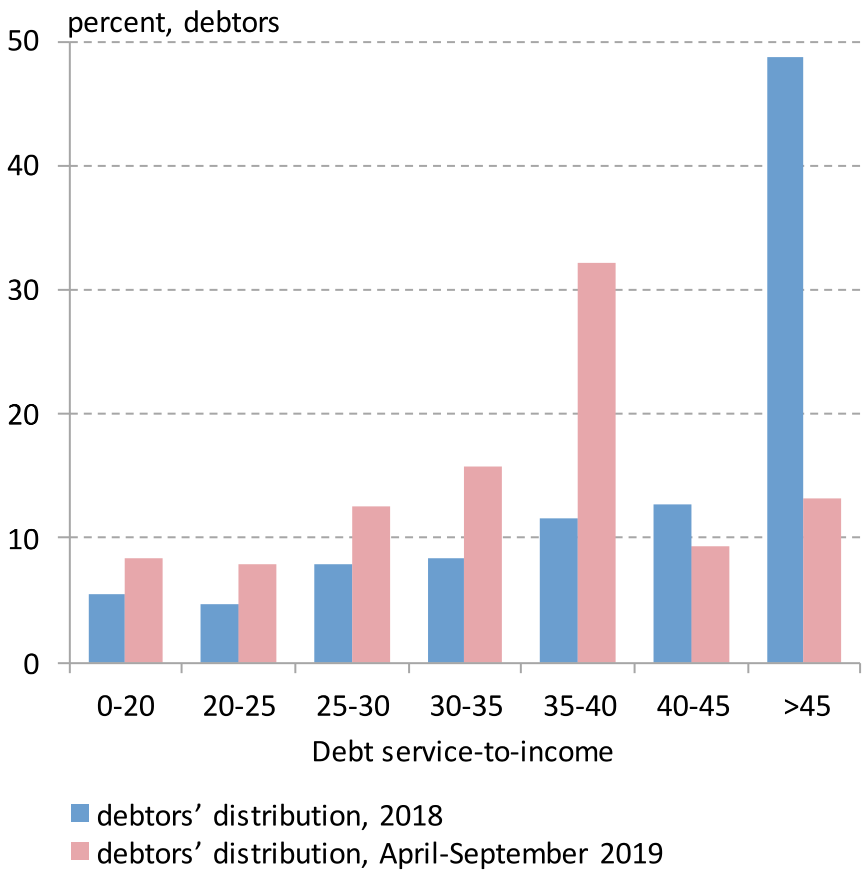
Source: ECB, consolidated banking data

- The analysis of operational efficiency in terms of the cost-to-income ratio (53.2 percent, December 2018) shows that the banking sector remains in the EBA-defined intermediate risk bucket of 50-60 percent and below the EU average (57.5 percent)
- The sector continues to include medium- and small-sized banks with low operational efficiency (cost-to-income ratio above 60 percent), as well as banks with operating losses (having a cumulative market share of 2.9 percent)
- The insufficient operational efficiency of some credit institutions and the persistent asymmetry of the profit-making capacity by bank size are supportive of further consolidation in the banking sector

4. Households

Indebtedness level declined significantly, showing the effectiveness of the calibration of the prudential instrument introduced as of 1 January 2019

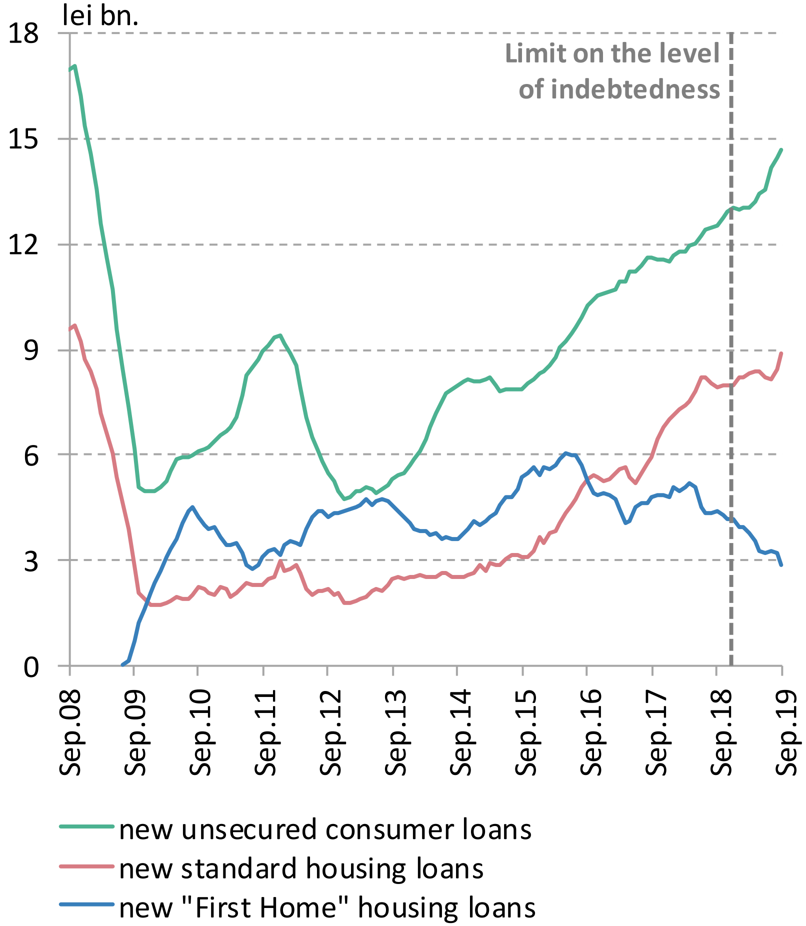
Distribution of debt service-to-income for new loans



Source: NBR

- The median level of indebtedness (*debt service to income* - DSTI) for new loans granted between March and September 2019 stood at 36 percent, down 9 percentage points from 2018
- Compared to the previous year, the share of new loans granted to borrowers with a DSTI of over 45 percent fell from 49 percent to 13 percent March through September 2019
- These changes in the composition of the portfolio are likely to lower the probability of default for new loans and to improve debtors' repayment capacity even in adverse economic conditions

The measure was also substantiated by the uptrend in household indebtedness, with new loans reaching a 10-year peak

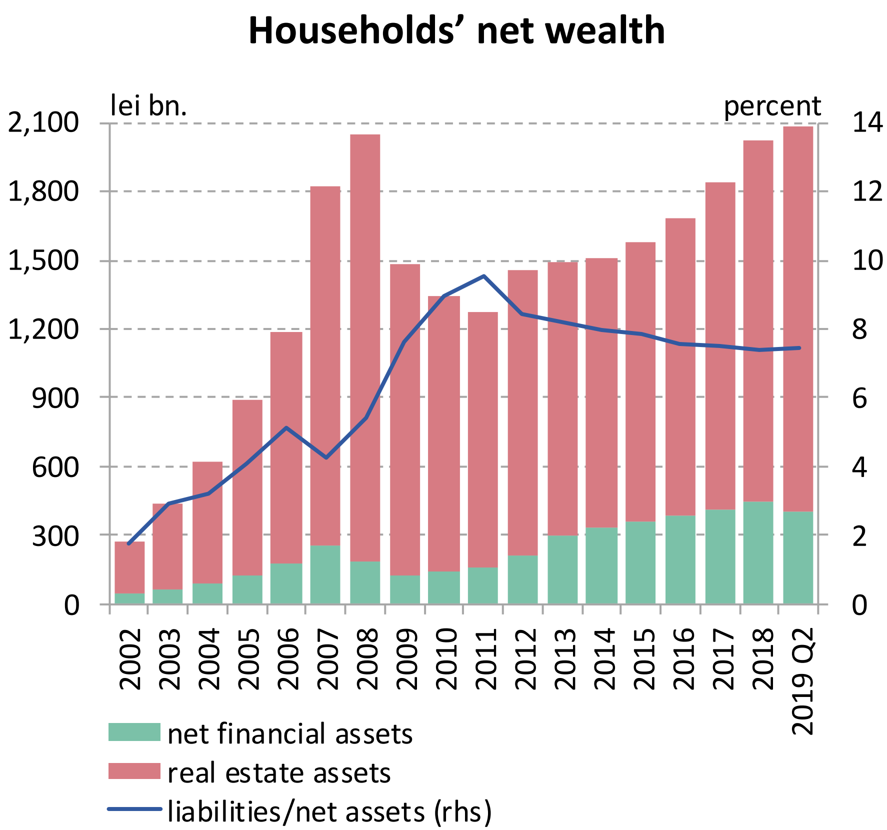


Note: No refinanced, restructed, converted or transferred loans (annualised flows).

Source: NBR, NBR calculations

- New loans to households increased by 7 percent in annual terms from October 2018 to September 2019, hitting a 10-year high of lei 27.2 billion
- The rise was chiefly underpinned by the advance in unsecured consumer loans (up 17 percent)
- Although new standard housing loans rose by 12 percent in the period under review, this evolution was offset by the dynamics in “First Home” segment, which contracted by 34 percent, in the context of the government strategy to gradually reduce the annual guarantee ceiling under this programme
- These developments prove that the introduction of the limit on the level of indebtedness as of 1 January 2019 did not hinder households’ access to finance; there is still potential for the level of financial intermediation to increase sustainably

Households' wealth fully recovered the loss incurred after the outbreak of the financial crisis



Note: Real estate assets include only residential buildings. Net financial assets are the difference between financial assets and financial liabilities.

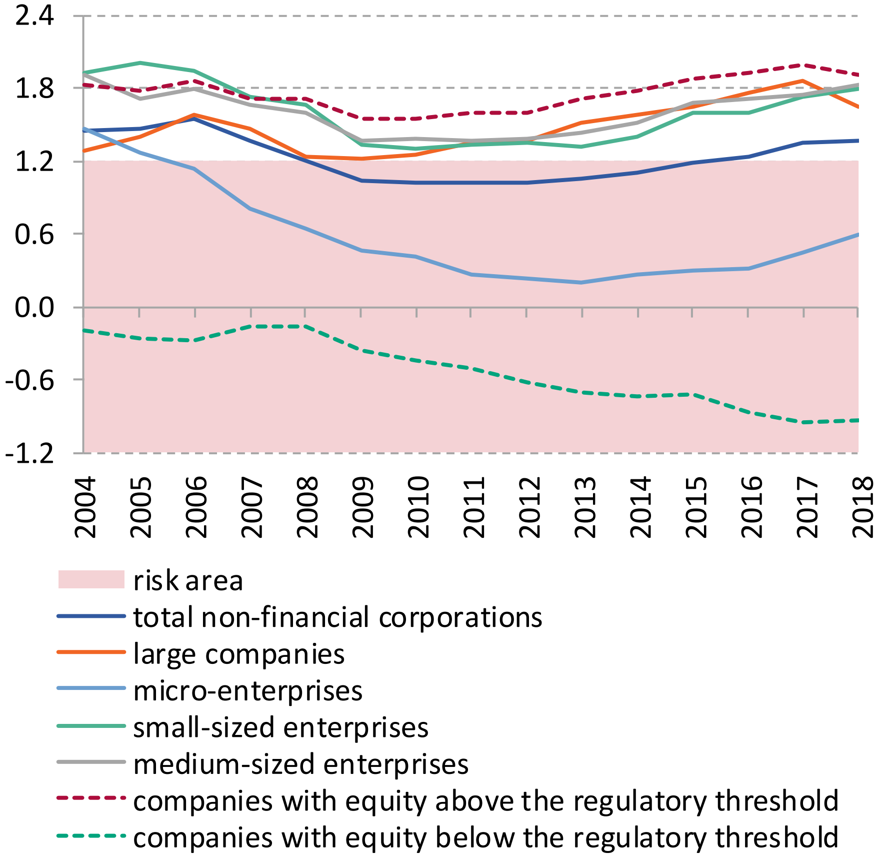
Source: NBR, NBR calculations

- Households' financial position further strengthened, amid positive developments in net wealth and disposable income
- Households' net wealth reached a historical high of lei 2,082 billion, after having risen by 8 percent in 2019 Q2 versus the same year-ago period
- The major driver of these dynamics was the performance of real estate assets (up 11 percent), while financial assets declined by 0.4 percent in the reviewed period
- Households continued to prefer safe investments (deposits and currency accounted for 43 percent of financial assets in 2019 Q2), followed by unlisted shares and other equity (24 percent)

5. Non-financial corporations

The overall financial health measure of the non-financial corporations sector remains out of the risk zone

Overall financial health measure* of the non-financial corporations sector (Z-score)



Source: MPF, NBR calculations

- The improvement trend, on aggregate, in the financial position of companies continued during 2018, yet at a slower pace and with mixed developments in its composition
- Looking at the turnover, the contribution to gross value added or net profit, year-on-year increases of about 15 percent were recorded, these developments being in tandem with the economic growth dynamics
- The overall financial health measure of the non-financial corporations sector remains out of the risk zone, similarly to the developments seen over the past two years, but a mild flattening is visible amid higher indebtedness, the marginal decrease in asset use efficiency and a relatively steady profitability
- Dealing with the issues facing firms with equity below the regulatory threshold would considerably improve the financial health of the corporate sector

**) The overall financial health measure of the non-financial corporations sector was determined based on the methodology developed by Edward Altman (2000) and takes into account indicators on profitability, indebtedness, asset use efficiency, liquidity.*

The profit-and-loss account shows rises in both revenues and expenses

Firms' financial result

	Total companies	Loss-making firms	Profit-making firms	Negative equity firms
Number of firms (thou.)	684	228	378	252
Profit/loss (lei bn.)	81	-35	116	-18
Share in number of firms	100%	33%	55%	37%
Share in net result	100%	-43%	143%	-22%

Source: MPF, NBR calculations

- At aggregate level, the net result came in at lei 81 billion, up 14.8 percent from the year before. The financial results of companies with negative equity erode the aggregate profitability of the economy
- The analysis of profitability conceals significant differences between: (i) the category of profit-making firms (378 thousand firms, or 55 percent of total, generating positive results in the amount of lei 116 billion) and (ii) the segment of loss-making firms (228 thousand firms, or 33 percent of total, causing negative results in the amount of lei 35 billion), while (iii) 77.8 thousand firms (12 percent of total) reported zero profit/loss

Special feature:
Climate risks. Implications for financial stability

Relevance of companies in carbon dioxide emitting sectors for the economy

Source: MPF, NBR calculations

- Climate risk carries the potential to create vulnerabilities in the financial system and the real economy over the medium and long term. The issue is on the agenda of the EC, the IMF, the BIS and many central banks
- Firms in Romania in industries producing the most carbon dioxide are highly relevant for the economy and the banking sector (accounting for about 45 percent of gross value added and 40 percent of the number of employees of non-financial corporations, and around 62 percent of banks' total exposure to firms)
- A coherent and timely strategy could cut potential losses for the banking sector and the real economy induced by the transition to a low-carbon economy

Thank you for your attention!