National Bank of Romania

Survey on the access to finance of non-financial corporations in Romania

December 2018

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Overview

The *Survey on the access to finance of non-financial corporations in Romania* (hereinafter "the Survey") captures the real sector's opinions on: (i) the most pressing problems that firms faced in their activity; (ii) the perception on the financing cost; (iii) the maximum bearable level of the interest rate and the effects of possibly adverse interest rate developments; (iv) the perception on the implications of a possible appreciation/depreciation of the domestic currency.

The analysis is based on the companies' answers[1] to the Survey, the main conclusions being:

- Overall, during the past 6 months, companies perceived the problems in a less intense manner, the results being underpinned by the domestic economic growth and by the further relatively low financing costs. Nevertheless, some concerns remain with regard to developments in the business environment. The high level of taxation and fiscal unpredictability further rank topmost among the most pressing problems that companies faced in their activity. Another challenge stems from the problems related to the growth of labour costs and of production costs, which still rank high among the most pressing problems for companies, owing to pressures generated by pay rises.
- Companies' intentions to take a loan remained unchanged compared with the previous Survey. Specifically, 62 percent of respondents would not take a loan in domestic currency, while 66 percent would not take one in euro, irrespective of their costs, because they intend to lower their level of indebtedness.
- Companies' capacity to withstand adverse interest rate developments is low. An increase of up to 3 percentage points in the interest rate on leu-denominated loans would significantly impact the activity and/or loan repayment capacity of more than half of respondents that have outstanding loans in lei. Similarly, most companies that had accessed loans in euro indicated that an interest rate hike of up to 3 percentage points would significantly affect their activity.

[1] The sample for the *Survey* is made up of approximately 11,000 non-financial corporations, it is representative at national and regional levels and is extracted using specific statistical procedures, in compliance with the following criteria: (i) firm size class (microenterprises, small enterprises, medium-sized enterprises and large companies); (ii) economic activity (based on NACE Rev. 2) and (iii) development regions.

A. Access to finance of non-financial corporations

The most pressing problems faced by companies

Overall, during the past 6 months, companies perceived the problems less acutely, the results being underpinned by the domestic economic growth and by the further low financing costs. Nevertheless, some concerns remain with regard to developments in the business environment.

The high level of taxation and fiscal unpredictability further prevailed among the most pressing problems cited by companies. Thus, the two problems were reported by 60 percent and 59 percent of companies respectively as having a significant bearing on their activity (Chart 1). They were flagged as most pressing regardless of company size or sector (Chart 2). Against this background, there is an increasing need to improve the predictability of fiscal factors that influence the business environment in Romania.

Another challenge is posed by the problems related to the growth of labour costs and of production costs, which still rank high among the most pressing problems for companies, owing to pressures generated by pay rises. In the current round, 43 percent of companies reported this problem as having a very large and large impact respectively (relatively flat compared with the period from October 2017 to March 2018). The higher production costs and labour costs take affect companies in agriculture and industry to the largest extent (50 percent and 49 percent respectively).

Companies' constraints related to the availability of skilled staff for business continuity became tighter versus the previous round. This finding is closely linked to the aforementioned challenge posed by higher wage costs. The availability of well-trained staff is cited as a pressing problem by 42 percent of respondents (up from 38 percent according to the results of the Survey conducted in the period from October 2017 to March 2018). The level of education is a potential obstacle to labour force development in Romania, to which adds the mismatch between trainers and labour market requirements[2]. At the same time, the decline in labour supply is also due to sizeable migration of the working age population. In order to reduce migration, it is necessary to create a stable business environment by implementing a legal and regulatory framework that encourages the entrepreneurial culture, as well as by improving the quality of infrastructure and human capital[3]. Additionally, policies may be implemented for (i) bringing onto the labour market a higher share of the inactive population, (ii) more efficiently integrating young people into the labour market or (iii) encouraging the return home of the Romanian nationals working abroad by creating sustainable alternatives in Romania. The breakdown by firm size shows that

[2] NBR, *Financial Stability Review*, June 2018.

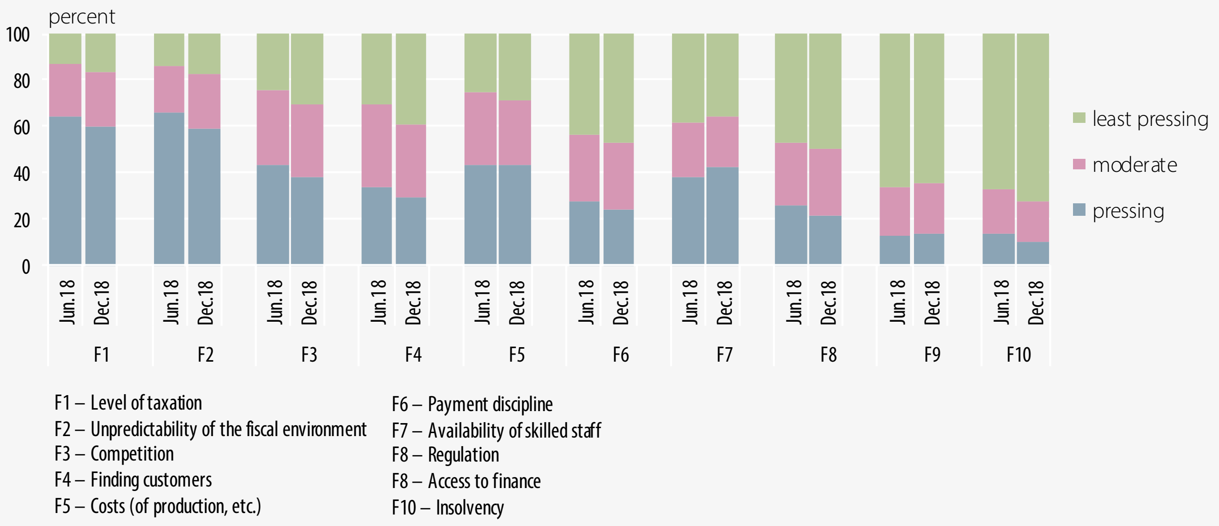
[3] NBR, *Inflation Report*, November 2018.

the shortage of skilled staff is a more pressing problem for large companies, given that 60 percent of them cited this obstacle as a major one in carrying out their business, compared with 42 percent of SMEs. By economic activity, companies in industry are most seriously affected by the shortage of skilled staff (51 percent), whereas firms in agriculture and trade are affected to a smaller extent (40 percent). In the case of exporters, the problems in recruiting skilled staff constitute the main obstacle in conducting their activity.

The lack of demand is less of a problem, demand being supported by the growth recorded in household consumption. Compared with the period from October 2017 to March 2018, 29 percent of respondents flagged the lack of demand as a hindrance to their activity (34 percent in the previous survey round). The larger the company size, the weaker the impact of this problem (16 percent in the case of large companies and 29 percent of SMEs). By economic sector, the lack of demand affects mostly firms in industry and trade (32 percent and 34 percent respectively).

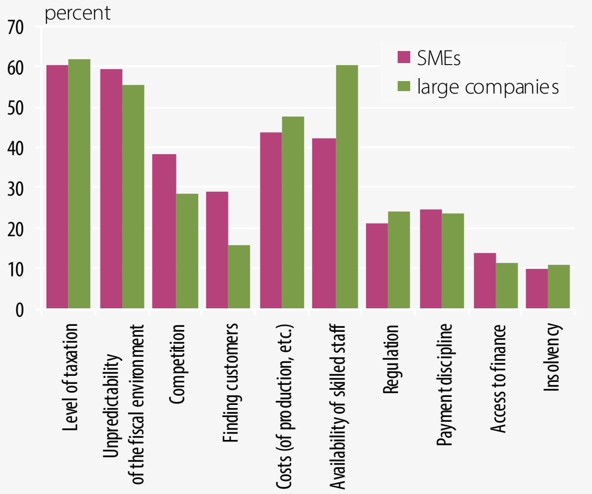
Payment discipline ranks lower among the obstacles faced by companies. The share of respondents citing payment discipline as a pressing problem faced over the past 6 months dropped versus the previous survey round (24 percent against 28 percent). Loose financial discipline is further a major structural vulnerability as regards the corporate sector.

Chart 1. The most pressing problems faced by non-financial corporations April through September 2018



Note: Question with grading scale (from 1 – the most pressing problem to 5 – the least pressing problem), where the attribute pressing refers to grades 1 and 2, the attribute moderate refers to grade 3 and the attribute least pressing refers to grades 4 and 5.

Chart 2. The most pressing problems faced by SMEs and large companies April through September 2018



Note: Question with grading scale (from 1 – the most pressing problem to 5 – the least pressing problem), taking into consideration only the attribute pressing (grades 1 and 2).

Access to finance is one of the least pressing problems for companies, after insolvency (either their own or of their business partners). This is explained, on one hand, by the low financing costs and, on the other hand, by the subdued resumption of investment after the financial crisis. In particular, only 14 percent of respondents consider the access to finance as a hindrance, relatively unchanged from the Survey spanning the period from October 2017 to March 2018. There are no significant changes by firm size or sector either. By contrast, companies with non-performing loans are much more affected by this obstacle, the same as in the previous Survey. The findings of the Survey are in line with the World Bank's latest Doing Business Report[4], which shows that, at a regional level, Romania is best placed as regards the access to finance, in terms of how easy it is to take a loan. Looking at insolvency, although the number of insolvent firms at end-September 2018 remained relatively unchanged from the same year-earlier period, there is however room for improving the legislative framework in place. Revising the market entry and exit mechanisms for firms may also contribute to supporting the entrepreneurial spirit and to a better use of resources in the economy.

[4] http://www.doingbusiness.org/content/dam/doingBusiness/country/r/romania/ROM.pdf.

B. Companies' capacity to withstand adverse financial developments

B1. Companies' perception on some adverse developments in the cost of financing (interest rate)

Perception on a maximum bearable level of interest rate on loans

Companies' borrowing intentions remained unchanged compared to the previous Survey. Specifically, 62 percent of companies would not take a loan in lei and 66 percent would not take a loan in euro, irrespective of the costs of loans, as they intend to lower their level of indebtedness. Only 1 percent of firms would take a loan, irrespective of the costs of loans, be they in lei or in euro. As the corporate loan demand has further been on the rise[5], the shift of credit institutions to this sector, by also adjusting their current products or developing strategies targeting firms' specifics, may pave the way for a sustainable increase in the level of financial intermediation. Additionally, financial institutions could choose to a larger extent to finance firms' investment projects rather than their current needs.

The answers showed that 21 percent of the companies would accept a maximum interest rate on leu-denominated loans of 2.5 percent, while 11 percent of firms would agree on a 4.5 percent interest rate. These values of potential demand are considerably different from the costs in the market. According to September 2018 data, the average interest rate on outstanding leu-denominated loans taken by companies in Romania stood at 7.6 percent[6]. Loans in euro painted a relatively similar picture. Even though the average lending rate on EUR-denominated business was 3.3 percent in September 2018, 4 percent of companies would accept a loan with an interest rate higher than 3 percent. 21 percent of the respondents would prefer to take a EUR-denominated loan with a maximum interest rate of 1.5 percent, whereas 9 percent of companies would accept a loan in euro with an interest rate ranging between 1.5 percent and 3 percent.

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5 According to the *Bank Lending Survey* (http://www.bnr.ro/PublicationDocuments.aspx?icid=11324).

6 Based on the information submitted by banks to the Central Credit Register.

Perception on some possibly adverse interest rate developments

According to the answers of companies having outstanding loans in lei, 64 percent of these companies indicated that the interest rate on their loans was between 3 percent and 7 percent, while 17 percent of firms took leu-denominated loans with an interest rate below 3 percent. An increase of up to 3 percentage points in the interest rate on leu-denominated loans would significantly impact the activity and/or the loan repayment capacity of more than half of the polled companies that have outstanding loans in lei.

Similarly to the results of the previous exercise, most of the companies with EUR-denominated loans (45 percent) reported an attached interest rate in a range from 2 percent to 4 percent. An increase of up to 3 percentage points in the lending rate on EUR-denominated business would significantly affect 58 percent of companies with such loans, according to their assessments.

The analysis by firm size shows that large companies benefited from lower interest rates on both leu- and EUR-denominated loans compared to SMEs (Chart 3 and Chart 5). As regards domestic currency credit, 55 percent of SMEs and 51 percent of large companies would be affected by an increase of up to 3 percentage points in the lending rate on leu-denominated business (Chart 4).

Chart 3. Average interest rate on leu-denominated loans held by non-financial corporations in September 2018

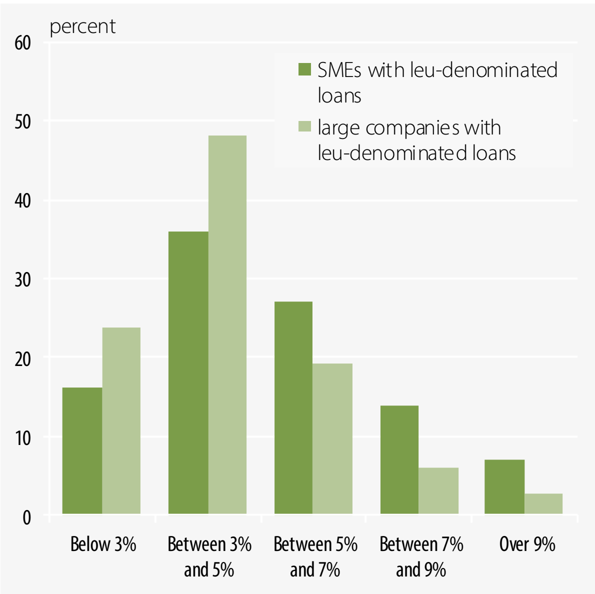
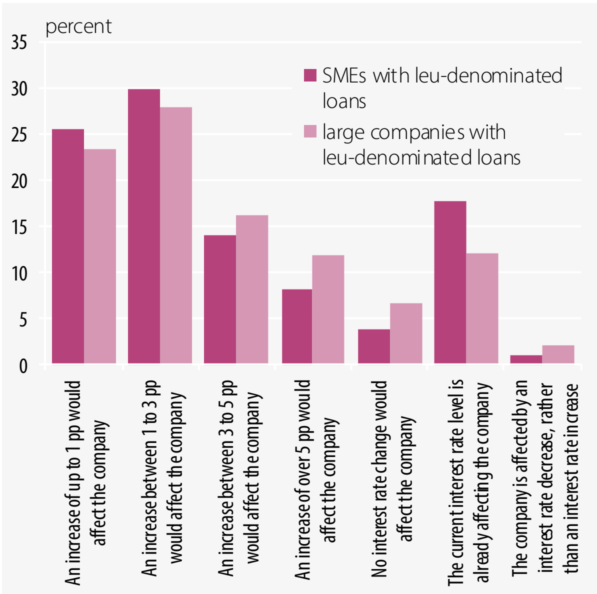


Chart 4. Non-financial corporations' perception in September 2018 on the potential future changes in the interest rate on leu-denominated loans



In addition, an increase of up to 3 percentage points in the lending rate on EUR-denominated business (Chart 6) would significantly impact the activity and/or the loan repayment capacity of 59 percent of SMEs and 58 percent of large companies.

Chart 5. Average interest rate on EUR-denominated loans held by non-financial corporations in September 2018

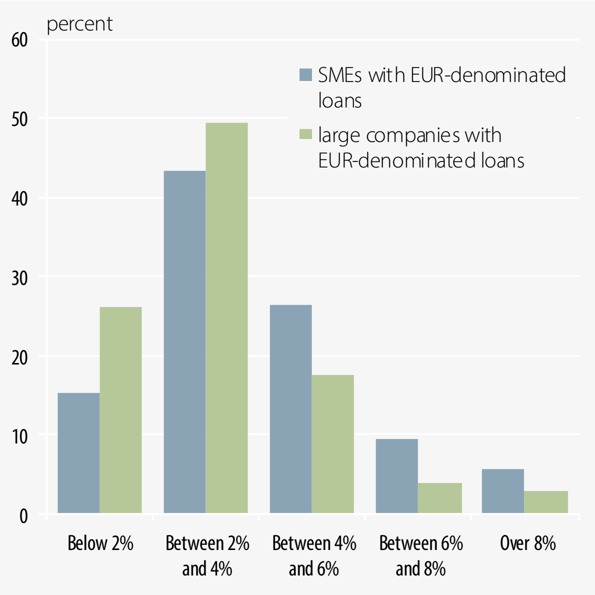
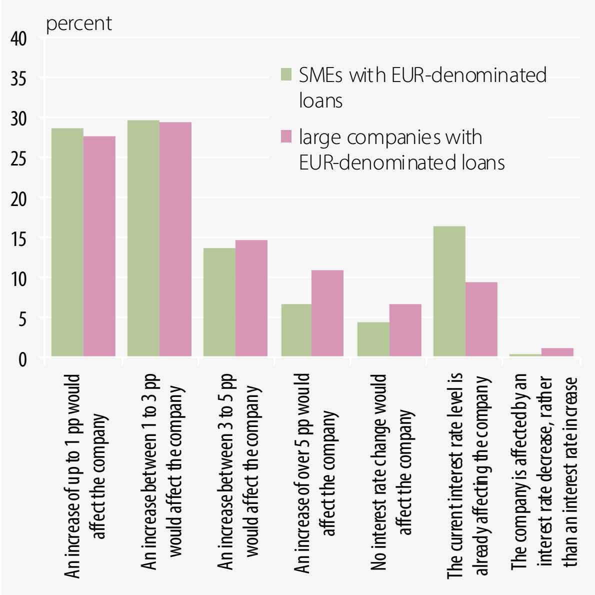


Chart 6. Non-financial corporations' perception in September 2018 on the potential future changes in the interest rate on EUR-denominated loans



B2. Companies' perception on some adverse EUR/RON exchange rate developments

Perception on a possible domestic currency depreciation

A potential weakening of the leu against the euro would produce mixed effects on companies. Specifically, 42 percent of respondents (on the rise as compared with the previous exercise) stated that exchange rate level effective at the time of filling in the survey affected their activity. Conversely, 31 percent of firms considered they would not be affected by any level of depreciation. Considering the high share of companies affected by exchange rate changes, a solution for minimising this risk could be to opt largely for leu-denominated loans, also in the case of refinancing current loans.

Importing companies deemed they would be significantly affected (Chart 7) by an exchange rate higher than RON 4.8 for 1 EUR to a greater extent than exporting companies. Larger shares of companies with leu-denominated loans and with EUR-denominated loans than in the previous exercise, i.e. 43 percent and 42 percent respectively, stated they were considerably affected by the exchange rate level which was in place in September 2018.

Perception on a possible domestic currency appreciation

The share of companies that stated they would not be affected by an appreciation of the domestic currency versus the euro remained relatively unchanged as compared with the previous Survey, i.e. 41 percent in September 2018 and 42 percent in September 2017. Exporting companies deemed they would be more affected by a possible appreciation of the leu than importing companies, i.e. 53 percent of exporting companies and 45 percent of importing companies (Chart 8).

Chart 7. The perception of exporting and importing companies in September 2018 on the impact of potential domestic currency depreciation

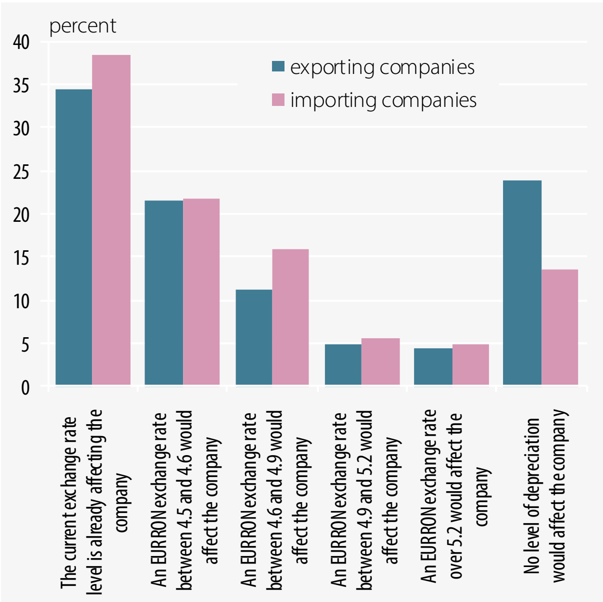
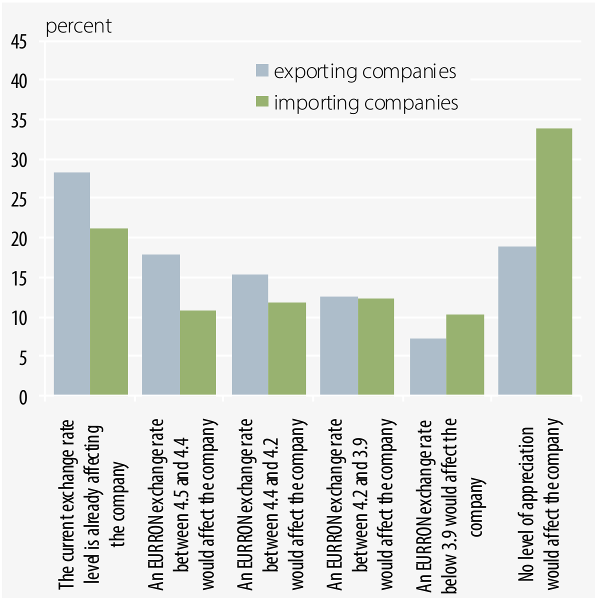


Chart 8. The perception of exporting and importing companies in September 2018 on the impact of potential domestic currency appreciation



Annex: Methodological information on the survey

The Survey is carried out by the NBR twice a year, in March and September. The Survey is based on a questionnaire sent to a sample of approximately 11,000 non-financial corporations, of which nearly 86 percent are SMEs, the large companies being exhaustively included.

The sample is representative at both national and regional levels, being extracted using statistical procedures, in compliance with the following criteria:

- firm size class (microenterprises, small enterprises, medium-sized enterprises and large companies)[7];
- economic activity, based on NACE Rev. 2;
- development regions.

The structure of the sample according to the main statistical extraction criteria is:

- by firm size class: 34 percent micro-enterprises, 24 percent small enterprises, 26 percent medium-sized enterprises, 14 percent large companies and 2 percent atypical SMEs (Chart A1);
- by economic activity: 3 percent in agriculture, 24 percent in industry, 27 percent in services and utilities, 10 percent in construction and real estate and 36 percent in trade (Chart A2);
- by development region: 10 percent North-East, 9 percent South-East, 11 percent South-Muntenia, 5 percent South-West, 9 percent West, 14 percent North-West, 13 percent Centre, 4 percent Ilfov, 24 percent Bucharest (Chart A3).

The questionnaire is divided into two sections, focusing on: (A) access to finance of non-financial corporations in Romania and (B) the non-financial corporations' capacity to withstand adverse financial developments (interest rate and exchange rate movements).

The questions aim to collect the companies' opinions regarding:

- the companies' access to finance;
- the companies' perception on some adverse developments in the cost of financing (interest rate);
- the companies' perception on some adverse developments in the exchange rate of the leu against the euro.

7 Firms are classified as SMEs if they have (i) less than 250 employees and (ii) turnover below EUR 50 million or assets below EUR 43 million. Moreover, they are classified as: A) microenterprises if they have (i) less than 10 employees and (ii) turnover or assets below EUR 2 million; B) small enterprises if they have (i) between 10 and 50 employees and (ii) turnover or assets below EUR 10 million; C) medium-sized enterprises if they have (i) between 50 and 250 employees and (ii) turnover below EUR 50 million or assets below EUR 43 million. According to this definition, there is also a category of atypical SMEs which cannot be classified under any of the three categories above (i.e. SMEs with less than 10 employees, but with turnover and assets of over EUR 2 million).

Chart A1. Structure of the sample by firm size class

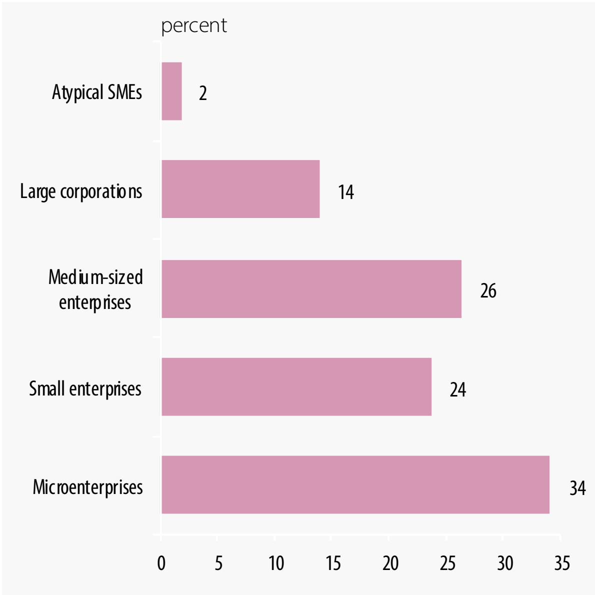


Chart A2. Structure of the sample by economic activity

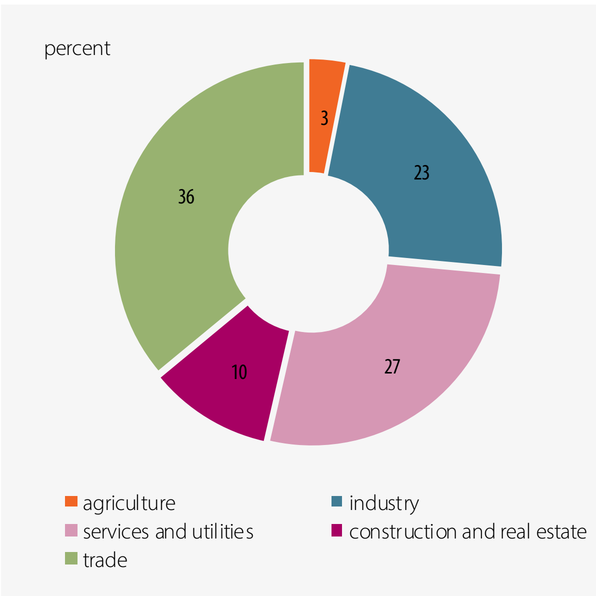
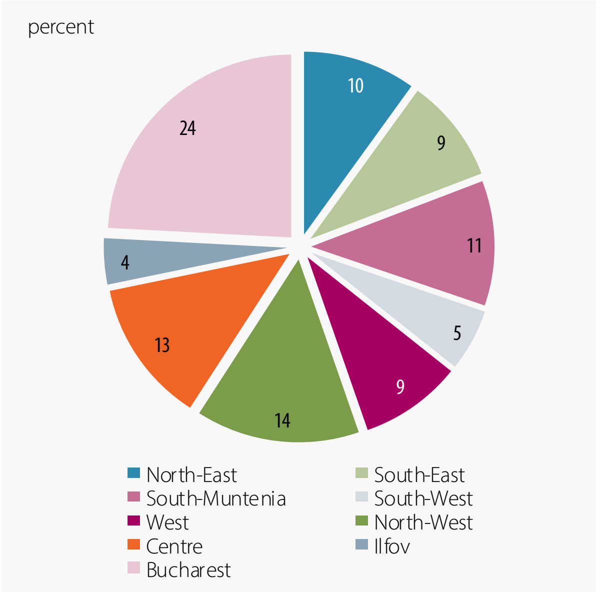


Chart A3. Structure of the sample by development region where the firms are registered



The analysis of answers

The answers are analysed depending on their form, as follows:

a) For questions with a scale, two types of analysis may be used:

- the separate analysis of answers for grades indicating positive dynamics, for grades indicating a lack of dynamics and for grades indicating negative dynamics;
- the analysis of answers only for grades indicating certain dynamics.

b) For multiple choice questions or single choice questions: the share of companies which chose a certain answering option in the total number of respondents.

Definition of companies with outstanding loans and of companies with no outstanding loans

1. The separation of companies into companies with leu-denominated loans and companies without leu-denominated loans was made using the answering option "f. The company does not have leu-denominated loans (including leasing)" of the single choice question "B5. Between what values would you assess to stand the average interest rate on your current leu-denominated loans?". The companies which chose the answering option f) were classified as firms without leu-denominated loans, and the rest of the companies, which chose other answering options to the question, were considered companies with leu-denominated loans.

2. The separation of companies into companies with EUR-denominated loans and companies without EUR-denominated loans was made using the answering option "f. The company does not have EUR-denominated loans (including leasing)" of the

single choice question "B7. Between what values would you assess to stand the average interest rate on your current EUR-denominated loans?". The companies which chose the answering option f) were classified as firms without EUR-denominated loans, and the rest of the companies, which chose other answering options to the question, were considered companies with EUR-denominated loans.