National Bank of Romania

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

December 2021

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Contents

Overview

The *Survey on the access to finance of non-financial corporations in Romania* (hereinafter "the Survey") captures the opinions of the real sector[1] on: (i) the most pressing problems that firms faced in their activity; (ii) the perception on the financing cost; (iii) the perception on the implications of a possible appreciation/depreciation of the domestic currency; (iv) the perception on the impact of climate change. The main conclusions of the analysis are:

- The economic recovery witnessed since the latest survey is reflected by the assessments of non-financial corporations, a smaller share of which are of the opinion that the overall or sectoral economic picture has deteriorated.
- Production costs, labour costs, the availability of skilled staff, competition, and finding customers are the most pressing problems flagged by companies in this survey round. Firms are least impacted by the access to finance and insolvency-related matters.
- Non-financial corporations' confidence in the domestic banking system is largely moderate. SMEs have the lowest degree of confidence in the banking sector, whereas large companies are at the opposite end, with 36 percent of them reporting high or very high confidence.
- Most enterprises have either opted or would opt for a fixed interest rate when accessing finance from banks or non-bank financial institutions.
- The majority of respondents (70 percent) stated they would not be affected by a change in interest rates on leu-denominated loans, while around 5 percent of companies are already impacted by the interest rate level.
- Around 24 percent of firms reported exposures to currency risk, but do not use any hedging method. Less than 1 percent of firms resort to derivatives (e.g. forwards, futures, options or swaps) and 10 percent in the case of importers and exporters.
- As regards expectations on developments in the exchange rate of the domestic currency versus the euro over the next six months, most non-financial corporations envisage an increase in the exchange rate to a certain extent.
- The majority of domestic firms (62 percent) have not taken any measure with respect to climate risk, the share narrowing down to 34 percent in the case of large companies, probably on account of a more developed organisational culture and a higher degree of awareness.

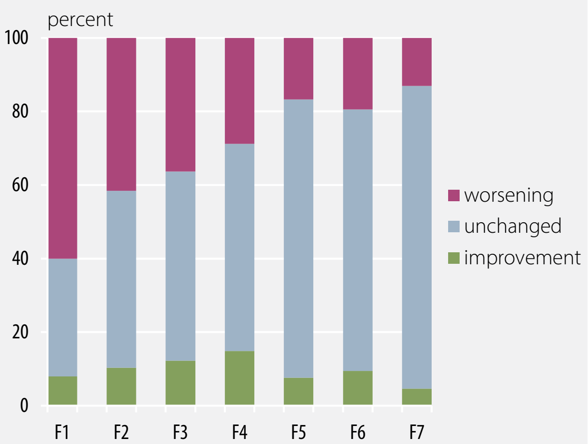
[1] The sample for the Survey is made up of approximately 11,000 non-financial corporations, it is representative at national and regional levels and is extracted using specific statistical procedures, in compliance with the following criteria: (i) firm size class (micro-enterprises, small enterprises, medium-sized enterprises and large companies), (ii) economic activity (based on NACE Rev. 2), and (iii) development regions. The Survey is carried out by the NBR twice a year, as a rule in March and September. The usual calendar has been impacted by the epidemiological context amid the COVID-19 pandemic.

A. Access to finance of non-financial corporations

Developments in key factors influencing firms' activity

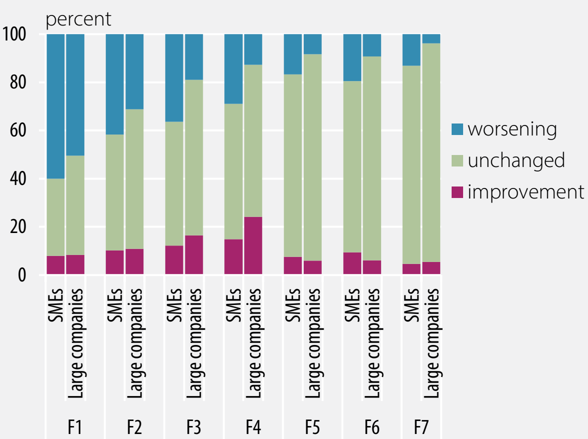
The economic rebound seen since the latest survey is reflected by the assessments of non-financial corporations, a smaller share of which are of the opinion that the overall or sectoral economic picture has deteriorated. Specifically, about 60 percent of respondents believe that the economic picture nationwide has worsened, compared to 70 percent in the survey conducted in March 2021 (Chart 1). It is worth mentioning that approximately 12 percent of companies (up 4 percentage points) have reported an improvement in their financial standing April through September 2021. At the same time, cooperation with financial institutions continues to improve, amid a declining share of non-financial corporations flagging a deterioration of business relations with such entities (13 percent from 16 percent in March 2021).

Chart 1. Non-financial corporations' perception on the macroeconomic picture, the evolution of the business sector or of the enterprise, April through September 2021



F1 – Economic situation at national level
F2 – Economic situation of your sector
F3 – Economic and financial standing of the company
F4 – Company's development prospects
F5 – Relationship with suppliers
F6 – Relationship with customers
F7 – Relations with the financial institutions your company works with

Chart 2. Non-financial corporations' perception on the macroeconomic picture, the evolution of the business sector or of the enterprise, by company size, April through September 2021

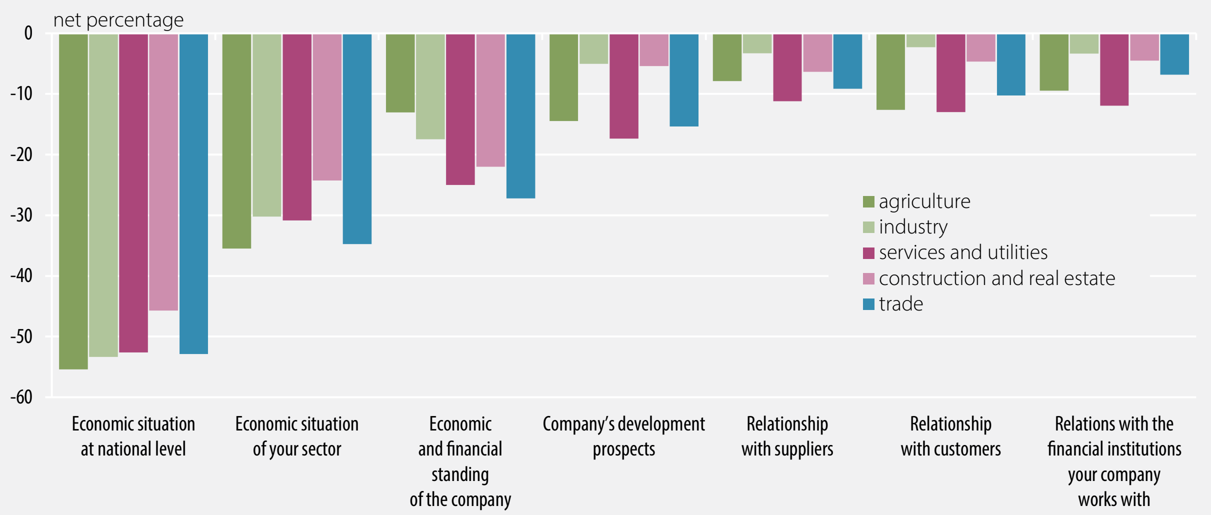


F1 – Economic situation at national level
F2 – Economic situation of your sector
F3 – Economic and financial standing of the company
F4 – Company's development prospects
F5 – Relationship with suppliers
F6 – Relationship with customers
F7 – Relations with the financial institutions your company works with

By size, SMEs display a more cautious stance, the enthusiasm vis-à-vis the economic situation being restored at a slower pace than in the case of large companies. However, this might also point to an uneven economic recovery, but also to a lower capacity of firms in the former category to withstand adverse developments, amid weaker financial soundness. Specifically, 60 percent of SMEs and 50 percent of large companies believe that the economic situation has worsened in the past six months (Chart 2). The improvement in firms' sentiment as against the latest survey round has been manifest irrespective of company size, with regard to both the overall economic situation and at sectoral or entity level.

The outlook for the economic and financial standing by business sector is more visibly negative in the case of firms in services and utilities, as well as trade, with more than 25 percent of respondents flagging a net worsening of the company's financial and economic situation. Industry and construction firms are most optimistic about the company's development prospects, whereas enterprises in services and utilities are at the opposite end (Chart 3).

Chart 3. Non-financial corporations' perception on the macroeconomic picture, the evolution of the business sector or of the enterprise, by main economic sector, April through September 2021



Note: The net percentage of answers represents the difference between the share of companies indicating an improvement and the share of companies indicating a worsening of the respective factor.

The most pressing problems faced by companies

Production costs (47 percent), labour costs (44 percent), availability of skilled staff (38 percent), competition and finding customers (34 percent) are the most pressing problems cited by companies (Chart 4). Production costs rank topmost as a result of the surge in energy prices, to which added the costlier commodities and materials, following the disruptions in global supply and production chains, as well as the uncertainties about the evolution of the pandemic.

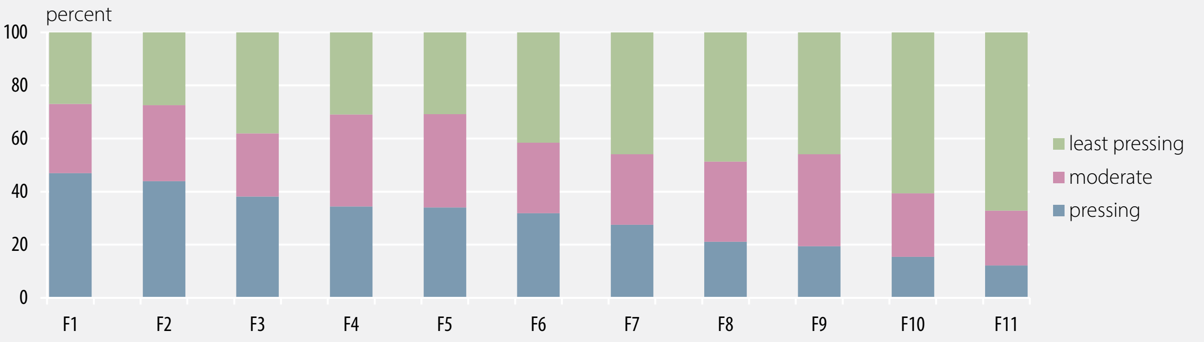
Labour costs continue to pose challenges to domestic companies, especially since the outbreak of the pandemic, although the rate of change of unit labour costs slowed down in 2021 Q2. Against the background of favourable economic developments, the annual dynamics of unit labour costs dropped to 1.8 percent from 3.1 percent in the first quarter of the year[2]. Labour costs are by far the most pressing problem for companies in agriculture, followed by industry. In the latter case, the only sub-sectors where productivity rose faster than wages were the

[2] NBR, *Inflation Report*, November 2021.

pharmaceutical industry, metallurgy, the manufacture of computer and electronic products and the manufacture of other transport equipment[3].

The third most pressing problem for domestic companies, i.e. availability of skilled staff, is more acutely perceived by agriculture firms, as flagged by 56 percent of respondents. Even though recent developments have painted a brighter picture, the resurgence of the pandemic and the worsening of the skilled workforce shortage further act as labour market-related risks.

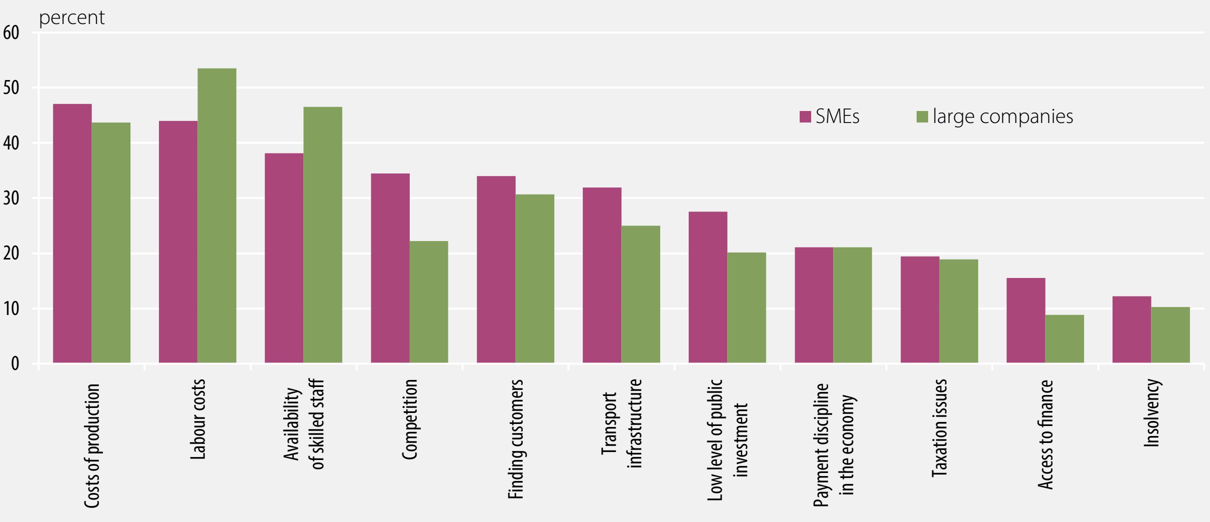
Chart 4. The most pressing problems faced by non-financial corporations April through September 2021



F1 – Costs of production
F2 – Labour costs
F3 – Availability of skilled staff
F4 – Competition
F5 – Finding customers
F6 – Transport infrastructure
F7 – Low level of public investment
F8 – Payment discipline in the economy
F9 – Taxation issues or regulations applicable to the firm
F10 – Access to finance
F11 – Insolvency

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 5. The most pressing problems faced by SMEs and large companies April through September 2021



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).

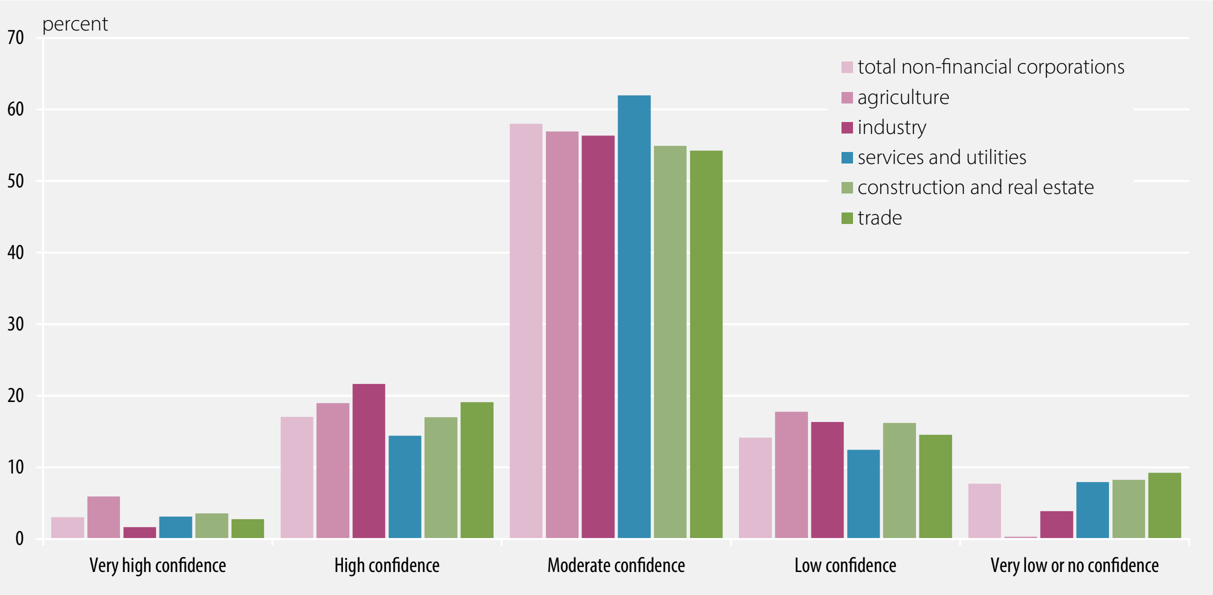
3 NBR, *Inflation Report*, November 2021.

Firms are least affected by the access to finance (15 percent of respondents) and insolvency-related matters (12 percent). Domestic credit institutions kept unchanged the credit standards for loans and credit lines to non-financial corporations. This was manifest both at aggregate level and by size (SMEs and large companies), irrespective of maturity[4].

The same as in the euro area, enterprises of all sizes – large firms in particular – reported in this survey round the lack of skilled workforce as a prevailing concern for their activity, whereas access to finance was among the least mentioned hindrances (Chart 5). There are, however, slight differences in identifying pressing problems by company size. Thus, SMEs cited production costs as having the strongest impact (47 percent), while large companies faced significant problems because of labour costs (54 percent) and workforce availability (47 percent). Access to finance was the least pressing problem for large companies (9 percent versus 16 percent of SMEs).

Confidence in the banking sector in Romania

Chart 6. Level of confidence in the banking sector in Romania from the perspective of initiating or conducting business relations by economic activity

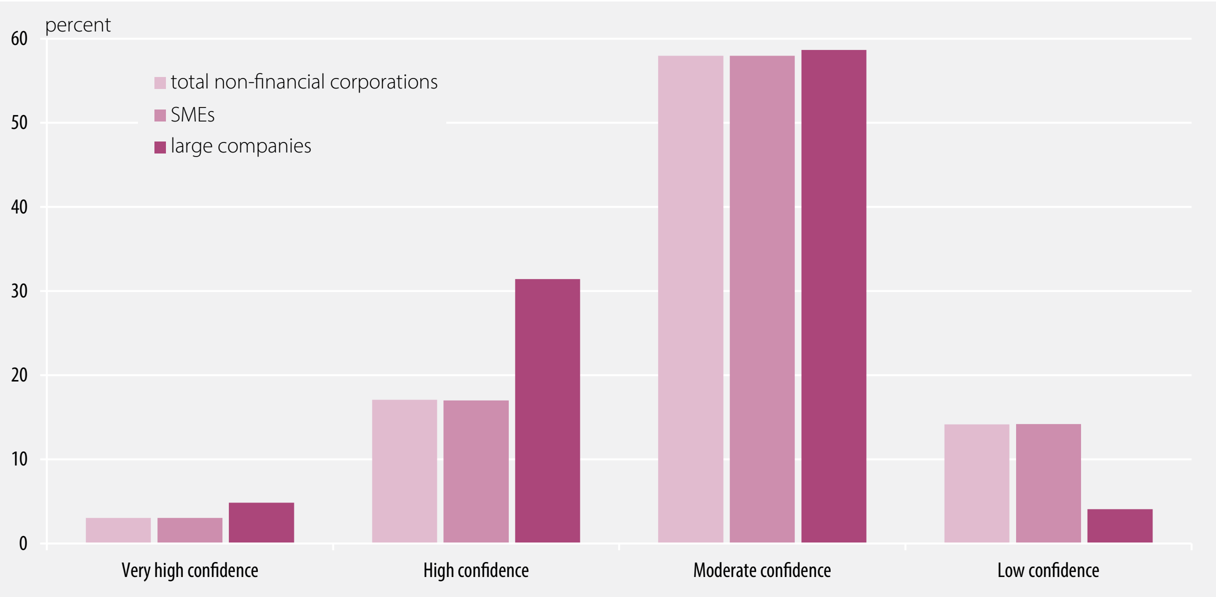


Non-financial corporations' confidence in the domestic banking system is largely moderate (58 percent). SMEs have the lowest degree of confidence (21 percent), whereas large companies are at the opposite end, with 36 percent of respondents reporting high or very high confidence (Chart 7). By economic activity, agriculture companies make up the largest share of respondents with high or very high confidence (25 percent), while trade and construction firms are most reluctant vis-à-vis the banking system (24 percent), Chart 6. From the perspective of credit

4 NBR, *Bank Lending Survey*, November 2021.

institutions, the riskiest domain in 2021 Q3 was energy (with a net percentage of 54 percent), followed by industry and real estate (29 percent net percentage), with credit risk remaining relatively constant for agriculture and trade[5].

Chart 7. Level of confidence in the banking sector in Romania from the perspective of initiating or conducting business relations by company size



B. Companies' capacity to withstand adverse financial developments

B1. COMPANIES' PERCEPTION ON ADVERSE DEVELOPMENTS IN THE COST OF FINANCING (INTEREST RATE)

A wider share of non-financial corporations (12 percent from 9 percent a year earlier) reported in September 2021 that the level of financing cost would not affect the company's capacity to reimburse the loan or its activity, whereas 28 percent of firms (against 36 percent in the February 2021 issue) estimated that the impact of the financing cost could jeopardise the company's activity or debt servicing capacity. At the same time, 56 percent of firms stated they did not need financing from banks. By contrast, the situation is slightly different for large companies, in the sense that a larger share (27 percent) would not be affected by external financing costs, while the number of companies that do not need financing is much smaller (39 percent).

5 NBR, *Bank Lending Survey*, November 2021.

As regards the type of interest rate companies either opted or would opt for when it comes to external financing from banks or non-bank financial institutions, most enterprises prefer fixed rates (33 percent), around 7 percent of firms go for floating or mixed interest rates, and 3 percent of companies would be willing to take a loan irrespective of the type of interest. By economic activity, companies in agriculture mostly prefer fixed interest rates (41 percent) and also post the lowest share of respondents not willing to take a loan irrespective of the type of interest (48 percent versus 57 percent for the entire segment of non-financial corporations).

Chart 8. Average interest rate on leu-denominated loans held by non-financial corporations, September 2021

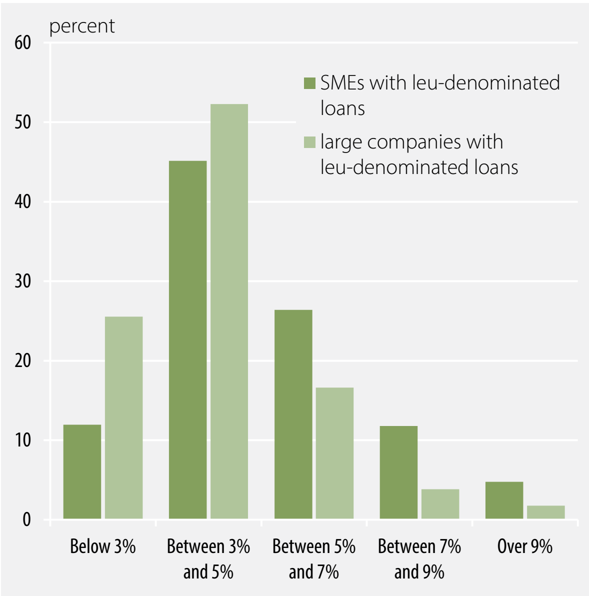
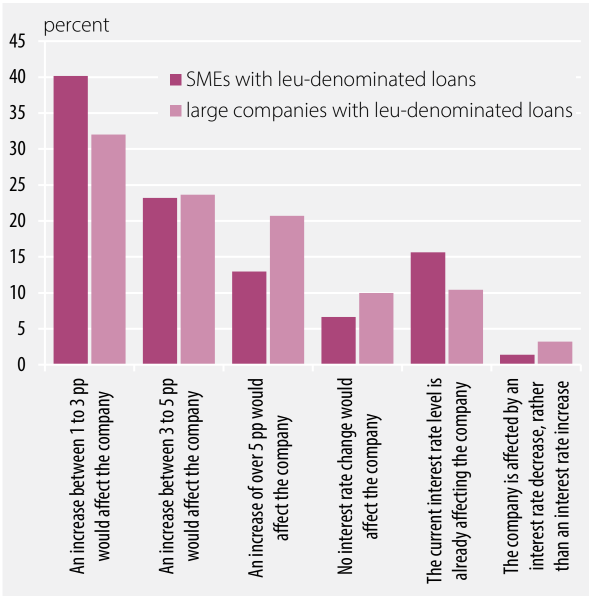


Chart 9. Non-financial corporations' perception on potential future changes in the interest rate on leu-denominated loans, September 2021



Worth noting is that 76 percent of companies do not have loans in domestic currency and 86 percent do not have EUR-denominated loans. Out of the total companies having loans, the largest share is held by firms with an interest rate of up to 5 percent on domestic currency credit (61 percent for total companies, 57 percent for SMEs and 78 percent for large companies) and below 4 percent on EUR-denominated loans (66 percent for total companies, 61 percent for SMEs and 79 percent for large companies), Charts 8 and 10. Local credit institutions kept unchanged the credit standards for loans and credit lines to non-financial corporations. The only term among credit terms and conditions that contributed (in the form of easing) to the developments in credit standards was the spread between average lending rate and IRCC/ROBOR[6].

In case of rises in interest rates, the majority of companies (70 percent) stated they would not be affected by the change in interest rates on domestic currency-denominated loans, while around 5 percent of companies are already

6 NBR, *Bank Lending Survey*, November 2021.

impacted by the interest rate level. For 11 percent of firms, an interest rate increase ranging between 1 and 3 percentage points might lead to the deterioration of the repayment capacity or of the activity. Large companies, a wider share of which have loans compared with SMEs, are more affected by an upward adjustment of the lending rate on leu-denominated business, i.e. 23 percent of them might encounter difficulties in case of an interest rate hike of up to 5 percentage points (Charts 9 and 11). In the event of changes in the interest rate on EUR-denominated business, the situation is similar, namely more than 80 percent of companies would not be affected by a lending rate hike.

Chart 10. Average interest rate on euro-denominated loans held by non-financial corporations, September 2021

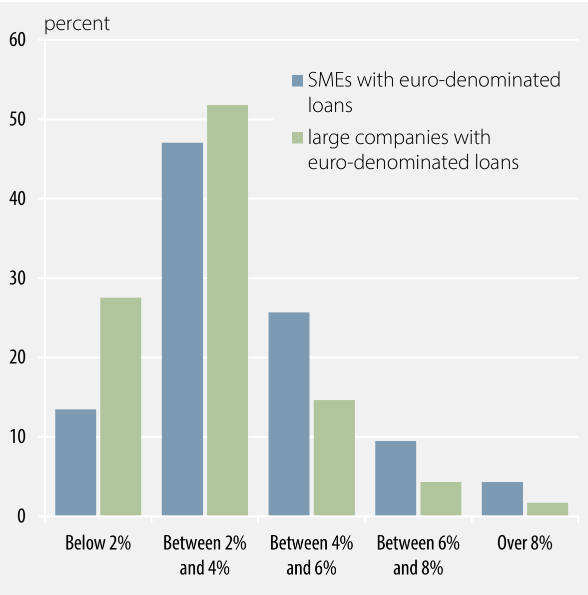
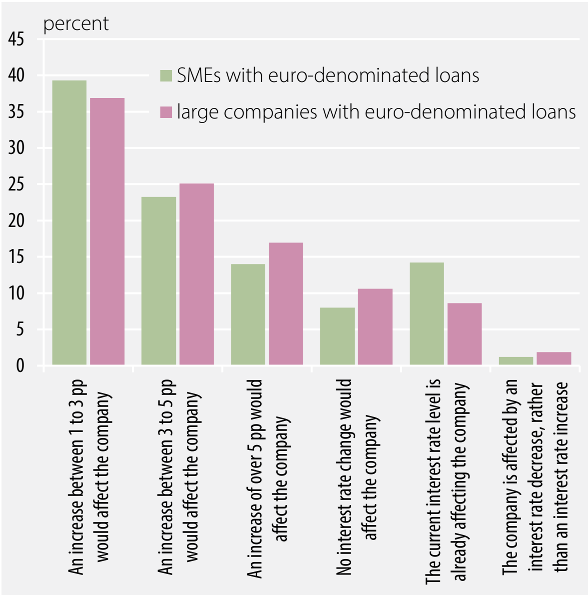


Chart 11. Non-financial corporations' perception on potential future changes in the interest rate on euro-denominated loans, September 2021



B2. COMPANIES' PERCEPTION ON ADVERSE EUR/RON EXCHANGE RATE DEVELOPMENTS

Pressures on the exchange rate of the leu versus the euro have strengthened in the recent period, amid domestic political tensions, as well as following episodes of volatility on international financial markets triggered by investor concerns about the evolution of the pandemic and its impact on the economy, by the energy crisis, and by the bottlenecks in production and supply chains.

Importers are most affected by the depreciation of the domestic currency, with 64 percent of respondents citing a negative impact on the financial standing either to a certain extent or to a large extent in the event of upward shifts in the exchange rate. At the same time, about 35 percent of non-financial corporations stated their activity was not impacted by exchange rate changes.

In this context, hedging methods are of particular importance. Around 24 percent of polled companies are exposed to the currency risk, yet do not use any hedging method, the share exceeding 53 percent in the case of importers. This points to the need for enhancing financial education among non-financial corporations and encouraging recourse to hedging. Less than 1 percent of firms resort to derivatives (e.g. forwards, futures, options or swaps) and 10 percent in the case of importers and exporters. Moreover, risk management is more developed in the case of large companies, a wider share of which use derivatives (22 percent) for currency risk hedging. In addition, approximately 5 percent of all non-financial corporations, 10 percent of large companies and 17 percent of exporters and importers periodically adjust their foreign currency positions to balance long and short positions (Chart 12).

Chart 12. Methods whereby companies manage currency risk, September 2021

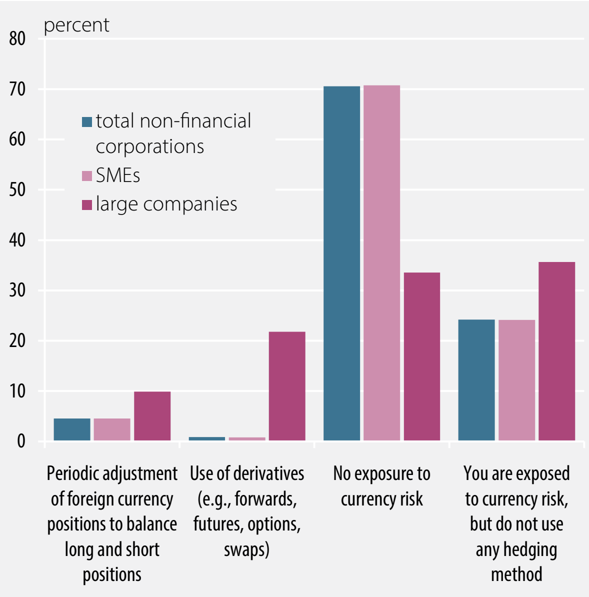
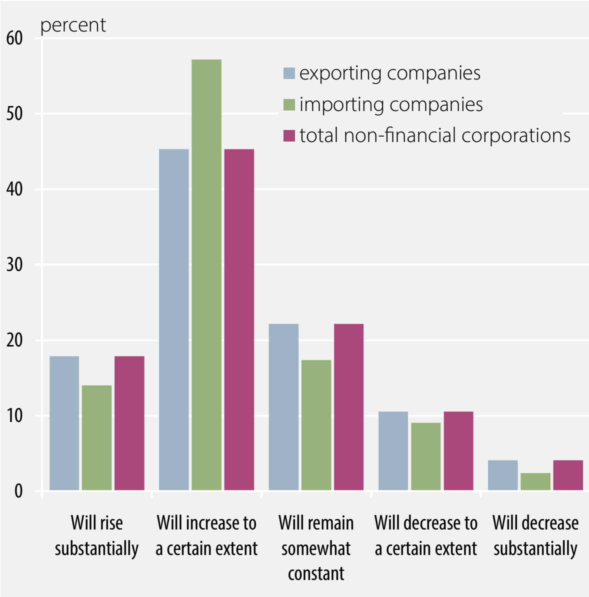


Chart 13. Companies' expectations on developments in the exchange rate of the domestic currency versus the euro over the next six months



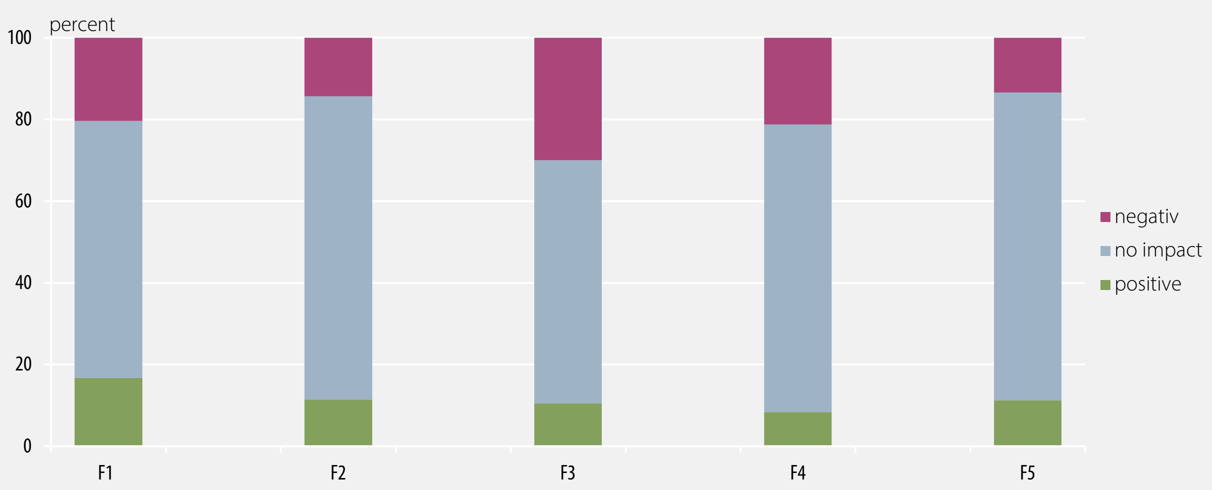
As regards expectations on developments in the exchange rate of the domestic currency versus the euro over the next six months, most non-financial corporations (45 percent) envisage an increase in the exchange rate to a certain extent, 18 percent believe that it will rise substantially, while around 22 percent of firms are of the opinion that the currency pair will remain relatively unchanged. Importers and large companies are slightly more pessimistic about the evolution of the exchange rate, with wider shares of respondents estimating a depreciation to a certain extent (57 percent and 59 percent respectively) or to a substantial extent (14 percent and 12 percent respectively) of the domestic currency (Chart 13).

c. Companies' capacity to withstand adverse effects of climate change

A current concern globally and domestically, including for central banks, consists in climate-related risks, because the impact of climate change on the financial sector may be relevant for financial stability. Considering that firms in carbon-intensive sectors play a major role in the Romanian economy (they generate over 40 percent of gross value added and jointly account for more than half of all companies' assets), the NBR has introduced climate risk-related questions in the survey, so as to assess the degree of corporate awareness on climate change issues.

Specifically, according to the findings of the survey, the majority of local companies deem that the impact of climate change – reflected in extreme weather events or the transition to an economy with lower carbon emissions – on market demand, access to finance, supply chains, business reputation or location is generally low. Nevertheless, the most notable negative impact flagged by firms relates to supply chains (30 percent), such as the lack of commodities due to extreme physical events or the replacement of imported commodities with locally-produced goods; the importance of this factor gains prominence in the case of large companies (40 percent), Chart 14.

Chart 14. Companies' perception on the impact of climate change, reflected in extreme weather events or the transition to an economy with lower carbon emissions, on their business

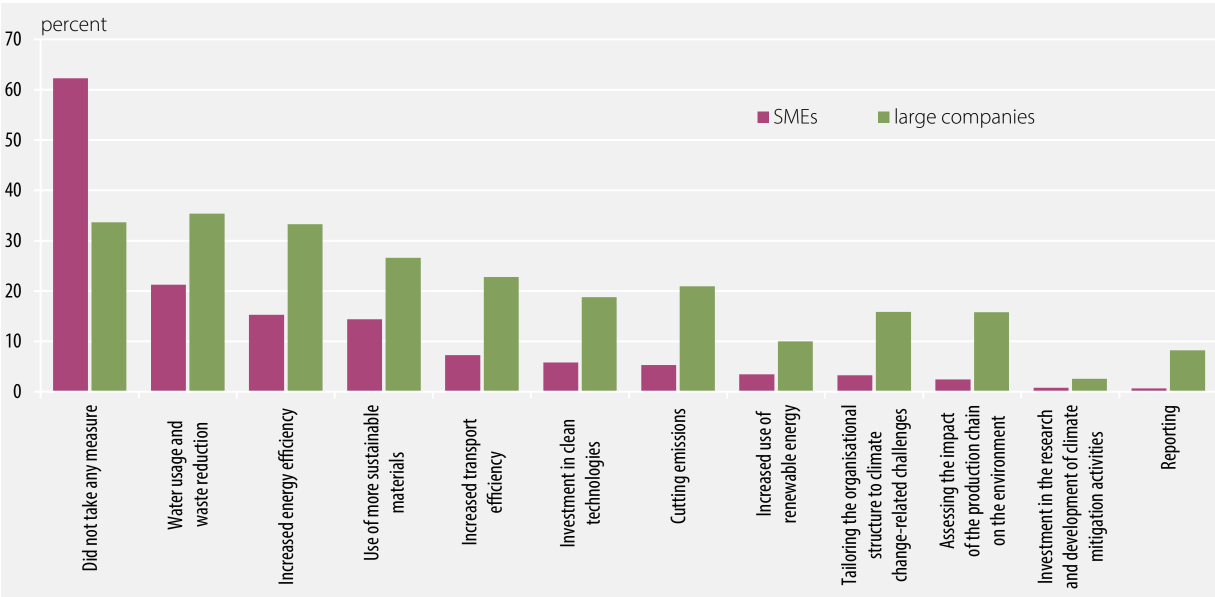


F1 – Market demand
F2 – Access to finance
F3 – Supply chains
F4 – Location of the business following the increased occurrence/intensity of extreme weather events or natural disasters
F5 – Reputation

Concerns about the location of the business, i.e. of places of activity or the head office, following the increased occurrence/intensity of extreme weather events or natural disasters rank second by importance of unfavourable consequences in the firms' opinion, followed by potential changes in consumer demand and preferences. This breakdown by importance of negative effects on the business is similar across all economic activities, except for agriculture, where the main concern is obviously related to location, in the assumption of a worsening of extreme weather events or natural disasters.

The majority of local companies (62 percent) have not taken any action step to address climate risks, the share narrowing down to 34 percent in the case of large companies (Chart 15), probably on account of a more developed organisational culture and a higher degree of awareness.

Chart 15. Types of initiatives to address climate change, either ongoing or completed in the last two years



Over the past two years, the more widely-used methods to tackle climate change included water usage and waste reduction (21 percent), increased energy efficiency (15 percent) and using more sustainable materials or developing environmentally-friendly products or services (14 percent). It is worth noting that firms are not interested in reporting and investing in the research and development of climate mitigation activities (below 1 percent). Large companies are more aware of the urgent need to take action in this respect, investing in clean technologies (18 percent), showing interest in cutting emissions via investment in carbon reduction projects, emission reduction targets or methods to measure the carbon footprint (20 percent), and even increased transport efficiency by cutting down on air travel or purchasing electric vehicles (23 percent).

The overwhelming majority of firms (90 percent) earmark between zero and 5 percent of total investment for climate mitigation activities. Around 11 percent of large companies channel up to 10 percent of overall investment for climate-related purposes and only 3 percent of these companies set aside more than 20 percent in this respect. By economic activity, a slightly higher share of agriculture and industry firms (about 10 percent versus 5 percent) assign investment of up to 10 percent in total for climate purposes compared to the other sectors under review (Chart 16).

Chart 16. Investment in climate mitigation activities as a share in total investment

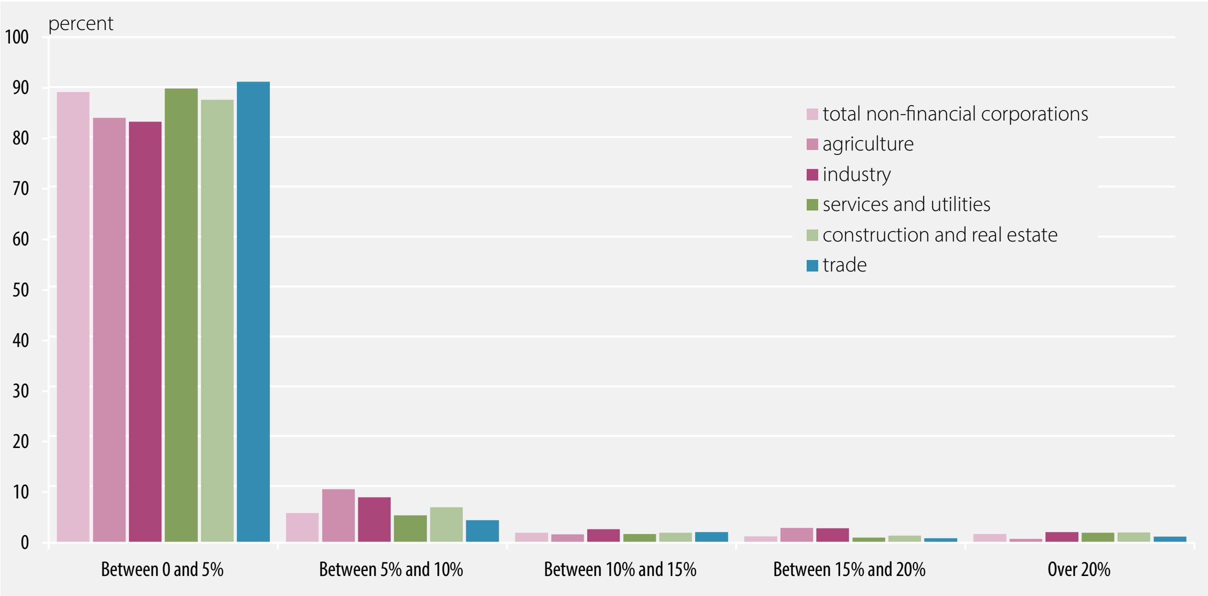
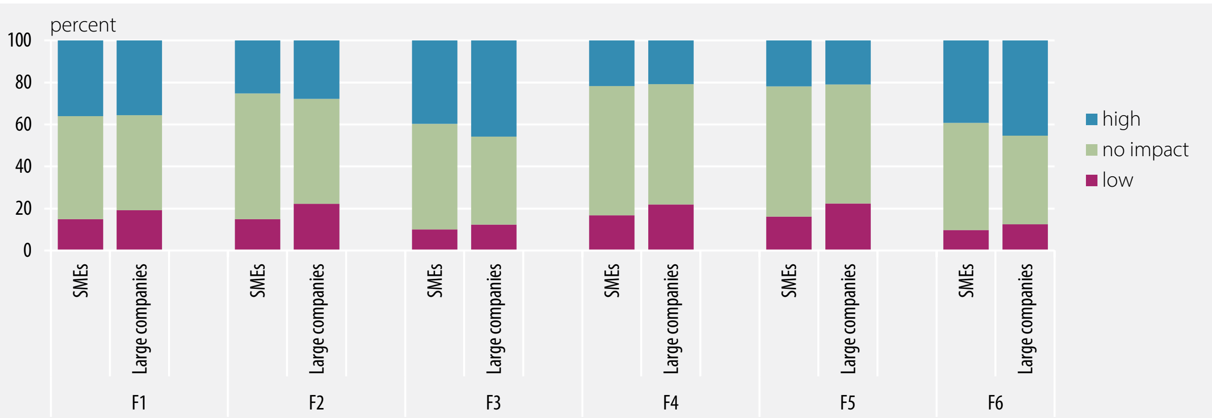


Chart 17. Factors influencing investment in climate change adaptation and/or mitigation activities



F1 – Availability of finance
F2 – Availability of adequately-skilled staff
F3 – High cost associated with this type of investment or difficulties in justifying the return on investment
F4 – Difficulty in measuring the impact of the business on the environment
F5 – Uncertainty about the impact of climate change on your business
F6 – Costs of novel technologies to address the impact of climate change
F7 – Costs for meeting reporting requirements

The key factors cited by firms as influencing their investment in climate change adaptation and/or mitigation activities include the high cost associated with this type of investment or difficulties in justifying the return on investment (40 percent), the costs of the novel technologies to address the impact of climate change (39 percent) and the availability of finance (36 percent), Chart 17.

Annex: Methodological information on the Survey

The Survey is carried out by the NBR twice a year, usually in March and September. The Survey is based on a questionnaire sent to a sample of approximately 11,000 non-financial corporations, of which around 85 percent are SMEs, the large companies being exhaustively included. In the current issue, the Survey was conducted in September and October 2021.

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

- firm size class (micro-enterprises, 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 statistical extraction criteria is:

- by firm size class: 34 percent micro-enterprises, 24 percent small enterprises, 24 percent medium-sized enterprises, 16 percent large companies and 2 percent atypical SMEs (Chart A1);
- by economic activity: 2 percent in agriculture, 16 percent in industry, 34 percent in services and utilities, 9 percent in construction and real estate, and 38 percent in trade (Chart A2);
- by development region: 6 percent North-East, 7 percent South-East, 8 percent South-Muntenia, 4 percent South-West, 8 percent West, 12 percent North-West, 9 percent Centre, 8 percent Ilfov, 39 percent Bucharest (Chart A3).

[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) micro-enterprises 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 these definitions, there is also a category of atypical SMEs which cannot be classified in any of the three categories above (e.g. SMEs with less than 10 employees, but with turnover or assets of over EUR 2 million).

Chart A1. Structure of the sample by firm size class

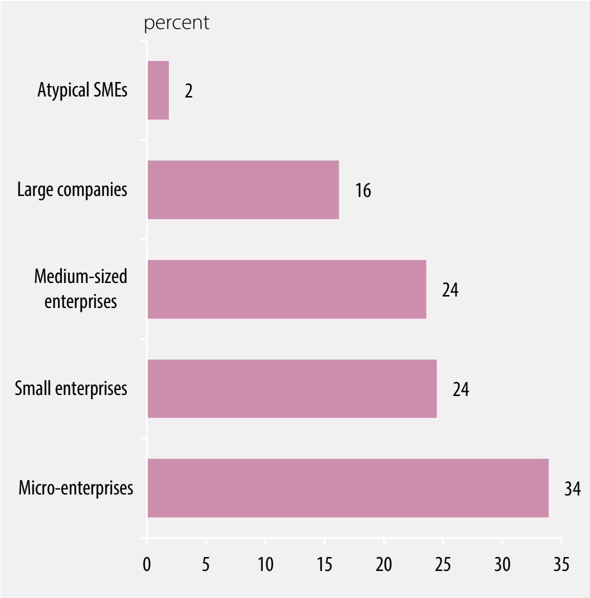


Chart A2. Structure of the sample by economic activity

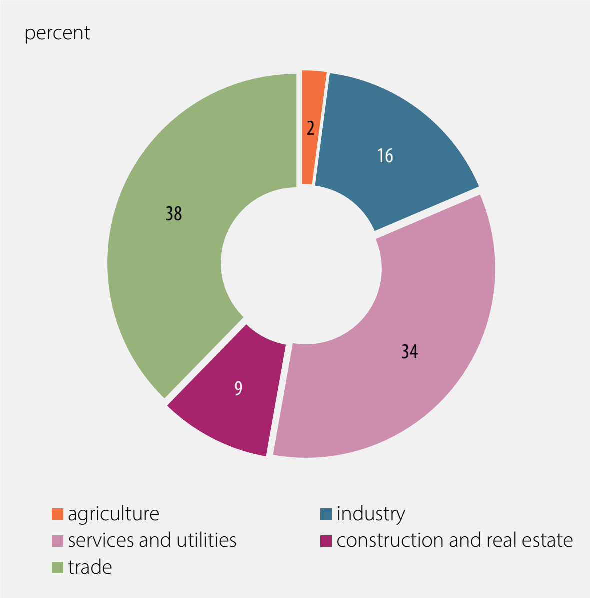
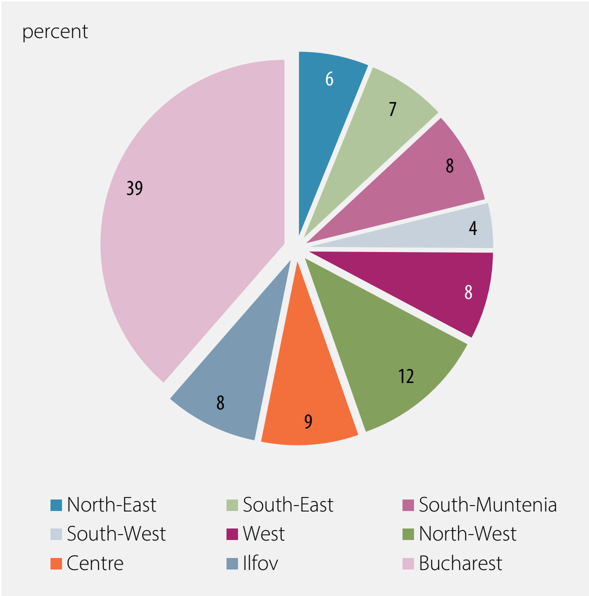


Chart A3. Structure of the sample by development region where the firms are registered



The analysis of answers

Answers are analysed depending on their form, as follows:

a) For questions with a scale, three 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;
- the analysis of the net percentage (the difference between the share of companies reporting an evolution/problem as being upward/significant and the share reporting an evolution/problem as being downward/insignificant).

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.

Regarding question "A1: How would you assess the evolution of the following factors over the past six months?", the net percentage represents the difference between the share of companies indicating an improvement and the share of companies indicating a worsening of developments in that factor. A positive net percentage may indicate an improvement in the economic situation at national level, of the business sector or the company itself, as well as in development prospects or the relationship with business partners.

Regarding question “A2: What are the most pressing problems your company faced in the past six months?”, the net percentage represents the difference between the share of companies indicating a problem as being significant and the share of companies indicating the problem as being unimportant. A positive net percentage means that a certain problem is significant.

The opinions cover the evolutions over the past six months for questions A1, A2, A3, A4.

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

The separation of companies into companies with outstanding loans and companies without outstanding loans was made depending on whether they chose answering option “f. The company does not have leu-denominated loans (including leasing)” and “The company does not have euro-denominated loans (including leasing)” of questions “B4: Between what values would you assess to stand the average interest rate on your current leu-denominated loans?” and “B6: Between what values would you assess to stand the average interest rate on your current euro-denominated loans?” respectively.