BANK LOANS AND SMALL FIRM FINANCING IN ROMANIA

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Abstract: According to a recent survey conducted by the European Commission, European small and medium size enterprises (SMEs) are highly dependent on bank loans when it comes to financing their activity and accomplishing their growth ambitions. Romanian small enterprises make no exception. In 2011, on average 87% of Romanian SMEs borrowings originate from bank loans. However due to the economic and financial crisis the Romanian SMEs access to credit has deteriorated considerably in comparison with the EU average. Since 2009 only 41% of SMEs managed to access bank loans. In this context, the present paper seeks to analyze the gap between the demand and supply of bank credit to SMEs in Romania between 2007 and 2011.

Keywords: SMEs, bank credit supply, bank credit demand, financing gap

JEL Codes: G30, G21, E51

Introduction

Access to finance represents the second most pressing problem for all Romanian SMEs. Ever since Romania entered the European Union, the financial support system focused more and more on providing funding resources for SMEs by lowering the cost of borrowing from banks and other credit institutions. Yet, SMEs loans continue to create specific difficulties such as (European Commission, 2011a): (i) management costs which can be significant for the providers of funds as loans are small in size; (ii) problems on accessing enterprises' information, as SMEs can operate on niche and local markets, and, unlike their larger peers, are not subject to external ratings and extensive disclosure requirements; and (iii) risks generated by the questioning quality of SMEs management system which makes the automation of the credit process more difficult.

Despite all inconveniences, most Romanian SMEs turn to debt financing at an early stage and generally choose banks as their main lenders. In 2011, on average 87% of Romanian SMEs borrowings originate from bank loans. Borrowings from non-bank financial institutions recorded only 7.5 %, at the end of 2011. In the same time, the results of the National Bank of Romania (NBR) Bank Lending Survey 2011 showed a significant overall tightening of credit standards on loans to SMEs. As a consequence almost a third of SMEs which applied for a bank loan did not get any credit or got less than they applied for.

A fundamental problem in dealing with SME financing is the lack of basic information about the difference between the demand and supply of financial instruments at their disposal. Often the only evidence is in the form of complaints from SMEs themselves and this is difficult to use in analysis or for comparison. In this context, the objective of this paper is to gather secondary reliable data from different official sources (results of enterprise surveys, banking surveys, and data directly provided by the National Bank of Romania) and assess the gap between the volume of bank loans granted to SMEs and the loan demand by SMEs between 2007 and 2011. Given the importance of adequate access to finance for SME development, having a clear understanding of the difference between the demand for funds by SMEs and the supply of funds to SMEs will help stakeholders find answers to some of the following questions: Are Romanian SMEs affected by a

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bank financing gap? If so, who is responsible for this gap? What needs to be done to address the SMEs bank financing gap?

To answer the aforementioned questions, the reminder of the paper is organized as follows: Section 1 reviews the literature regarding the typical barriers and constraints on SME bank financing on both the demand and supply sides; Section 2 presents an overview of the Romanian SMEs sector development in the 2007-2011 period; Section 3 describes the evolution of the bank credit offer to SMEs, Section 4 investigates SMEs' demand for bank credit and Section 5 concludes.

Literature review

For some time now the academic world has focused on researching the nature and existence of potential market failure with SMEs' access to bank and debt finance. In this respect some authors have studied SMEs difficulties in accessing finance (demand side characteristics) while others have presented the main issues in bank lending practices (supply side characteristics). Understanding why SMEs face a financing gap, commonly defined as the difference between the volume of funds at their disposal and the volume of funds they require, implies distinguishing the various limitations which describe both sides. The supply side constraints predominate if appropriate sources of finance are not available on terms and conditions suitable for SMEs (European Commission, 2001). The demand side constraints exist if entrepreneurs do not make use of existing financing opportunities, because of a shortage of good projects or lack of persuasive business plans.

Analyzing the supply side, some studies (Bell, 2000, Lean and Tucker (2000)) show that financial providers tend to know little about their clients' businesses due to managers' reluctance in providing strong financial information about their activity. Since banks are not able to control all actions of borrowers due to imperfect and costly information, they formulate the terms of the loan contracts in such a way as to reduce the risks associated with borrowing. The result is an equilibrium rate of interests at which the demand for credit exceeds the supply (Atieno, 2001:5). More frequently, the bank lending supply problem lies with supervisory and capital adequacy requirements which prevent banks from lending to enterprises that lack traditional collateral. One way of reacting to this market imperfection is reducing the maturity of their outstanding loans. Shorter loans allow banks to monitor more frequently the firms' performance and, if necessary, vary the terms of the contracts before losses have accumulated (Hernández-Cánovas and Koëter-Kant 2008:2). Heyman, et al. (2007) pointed out that the length of a SME's debt depends on the maturity matching between the debt and the life of the assets.

Cetorelli and Gambera (1999) examined the role played by banking sector concentration on firm access to capital, showing that bank concentration promotes the growth of industries that are naturally heavy users of external finance by facilitating credit access to younger firms. Similarly, Black; Strahan (2002) and Berger et.al (2004) have shown that a high bank concentration on the market causes a reduction in volume of credit granted to SMEs.

The fundamental reasons behind SMEs' credit demand can be found in their peculiar characteristics. As Berger and Udell (1995) observed, SMEs face higher cost of financing due to the fact that most of them have fewer assets to offer as collateral. Johnsen and McMahon (2005) stated that because of collateral firms with more intangible assets tend to borrow less, compared with firms with more tangible assets. Beck, Demirgüc-Kunt and Maksimovic (2008) found that small firms use less external finance than large firms (especially in terms of banks and equity finance) because their lack of collateral.

Ownership structure affects SMEs ability to access finance. The entrepreneurs' behavior has profound consequences on how the business is run. Schmitz (1982) highlighted that the small scale producers in developing countries fail to expand primarily because they lack managerial ability. For this reason, entrepreneur related factors take a priority position in all credit assessments by the borrowers. Kumar and Fransico (2005), found a strong education effect in explaining access to financial services in Brazil. In a more recent study conducted on UK SMEs, Irwin and Scott (2009) observed that graduates entrepreneurs had the least difficulties in raising finance from banks.

Industry affiliation is another characteristic which influences SMEs demand for credit. For example, some studies have shown (Levine, 2004) that SMEs in industries such as textiles, machinery or manufacturing require a higher amount of external finance to meet their growth requirements. Because on this SMEs tend to grow faster in countries with higher levels of financial development. Silva and Carreira (2010) argue that service sector firms due to lack of physical capital avoid long term lending.

Petersen and Rajan (1994), Berger and Udell (1995), Miller (1995) discuss the importance of borrowers' lending history in obtaining bank loans. Being in the business for many years suggest that firms are competitive and have accumulated sufficient assets to meet the collateral requirements of the banks. In addition the financial track record facilitates the evaluation of the lending proposals making it easier for SMEs to obtain loans from banks.

Inspired by the literature approaches so far illustrated, the present paper seeks to investigate if Romanian SMEs suffer form a gap financing in terms of bank loans and if so how has this gap evolved between 2007 and 2011. Before proceeding to investigating SMEs' bank financing gap it is important to know how the Romanian micro, small and medium sized sector has developed in the last years. This investigation will offer a broad perspective on SMEs role in Romanian economy in terms of units' growth (in total and by sector of activity), employment and value added emphasizing the importance of bank loan financing to the SMEs sector.

SMEs sector development in Romania: an analysis of the 2007 to 2011 period

Romania's economic situation has significantly improved over the last 5 years. In view of the country's accession to the EU in 2007 the financial sector has rapidly picking up providing a favorable environment for the creation and growth of the small to medium sized enterprises sector. In Romania the legislation on SMEs (Law 346/2004 on stimulating the creation and development of small and medium amended and supplemented by Government Ordinance no. 27 of 26.01.2006) is entirely harmonized with the European Commission's Recommendation nr.2003/361/EC regarding SME definition (Roman and Ignatescu, 2011: 135). According to article 2 from the cited Recommendation, "the category of micro, small and medium-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million. Table no. 1 presents the headcount ceiling, the turnover ceiling and the balance sheet ceiling for each size class enterprise:

Table no. 1

SMEs dimension by size class

Enterprise category	Headcount	Turnover or Balance sheet total	
Micro	< 10	≤ € 2 million	≤ € 2 million
Small	< 50	≤ € 10 million	≤ € 10 million
Medium-sized	< 250	≤ € 50 million	≤ € 43 million

(Source: European Commission, 2003)

Taking into account the SME definition, table no. 2 summarizes the evolution of Romanian SMEs' units by size class in 2007-2011:

Table no. 2

Romanian SMEs by size class

Romanian SMEs (units)	**2007**	**2008**	**2009**	**2010**	**2011**
Micro enterprises	417.971	460.254	453.009	464.659	475.852
% total enterprises	88,12%	88,53%	88,28%	88,47%	88,62%
Small enterprises	45.108	48.007	48.487	49.173	49.798
% total enterprises	9,51%	9,23%	9,45%	9,36%	9,27%
Medium-Sized enterprises	9.481	9.785	9.838	9.669	9.637
% total enterprises	2,00%	1,88%	1,92%	1,84%	1,79%
Total SMEs	**472.560**	**518.046**	**511.334**	**523.501**	**535.287**
% total enterprises	99,62%	99,65%	99,64%	99,67%	99,69%

(Source: European Commission, 2011d)

Between 2007 and 2011, the number of active SMEs in the Romanian economy has registered an annual growth of over 9%. The year 2009 was an exception. In 2009, due to the financial and economic crisis the trend of the Romanian GDP showed an incredible downturn. As a consequence, most SMEs tried to survive, with the reserves accumulated during prior years while others started to move into insolvency. In addition, for the first time after four years of continuous demographic growth, a significant decrease in the number of SMEs units registered in Romania was reported (Szabo, 2011:96).

By size class, the Romanian private sector is dominated by micro enterprises. In 2011 micro firms represented 89% of all enterprises, a 1% increase from 2007. The large number of micro enterprises can be explained by the existence, during the analyzed period, of tax incentives and government grants for start-ups. On the other hand the increasing share of micro-enterprises might just reflect the downsizing of larger enterprises. Thus, amid the growing number of micro firms, in 2010, there was a decrease of small (from 9.51% in 2007 to 9.36% in 2010) and medium-sized enterprises (2% in 2007 versus 1.84% in 2007), a trend contrary to developments registered in the first three years of the period.

The financial and economic crisis has taken a toll on Romanian enterprises, putting a temporary stop to the positive long-term developments in the number of SMEs and their contribution to employment and economic value added. In employment terms, SMEs were much more reluctant to shed employees during the crisis than the large firms. In fact, during 2008–2010, Romanian SMEs maintained their workforce at pre-crisis level, while the large enterprises shed about 6 % of their workers. Regarding the outlook for 2012, estimates indicate a recovery, more or less in line with the EU average. The number of enterprises and their contribution to GDP (as measured by the gross value added) and employment in SMEs are all expected to exceed the pre-crisis levels by the end of 2012 (European Commission, 2011c)

By sectors of activity, the evolution of SMEs is highlighted in the figure below.

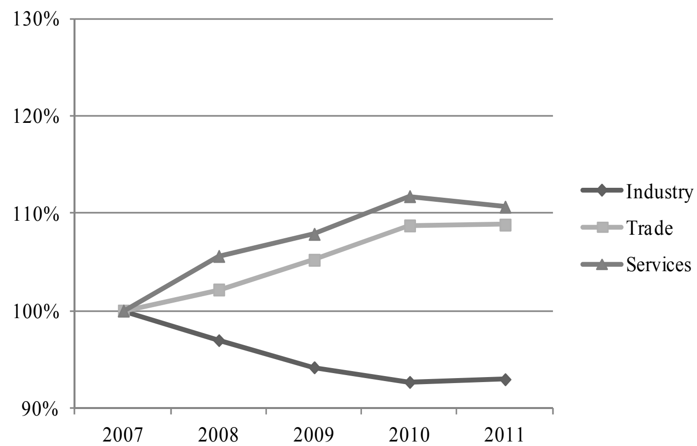

Figure no. 1. - Romanian SMEs sector growth index (2007=100)
(Source: data processed from European Commission 2011d)

The most dynamic SMEs in terms of unit growth have been those active in the service sector which registered an important increase from 2007 to 2011 (10.64%). This is due to the fact that most service related activities required neither high investment in fixed assets nor expensive labor cost.

Regarding the evolution of trade related SMEs, as can be seen; these have registered a constant growth over the analyzed period. Although their number increased in absolute terms they were heavily influenced by the structural changes that took place on the market: the decline in the share of firms active in the industry sector, in favor of companies that provide different types of services to citizens and businesses.

SMEs in the industry sector were the most affected by the economic and financial crisis. During 2008-2010, they registered a year on year unit reduction of 3%.

Given SMEs evolution by size class and industry affiliation it is interesting to see if between 2007 and 2011 access to bank loans has followed SMEs units' dynamics.

Analyzing SMEs bank financing gap in Romania – proposed methodology

In analyzing Romanian SMEs supply and demand for bank loans the present paper deploys a research method based on

a) Data gathering from public bodies at national level. The volume of banks loans granted to Romanian SMEs between 2007 and 2011 and SMEs demand for credit differ in terms of information rendering due to each sides' specificity and the way previous authors conducted their research. In this context SMEs supply of funds is presented as the amount of money allocated by banks registered in Romania to the private sector. Romanian SMEs demand for credit is reflected as an index based on banks officials apprehension on SMEs loan demand evolution.

b) Analysis of supply and demand issues that affect Romanian SME access to bank finance. The supply side analysis includes a short presentation of SMEs loan volume dynamics and an investigation of the impact of banks concentration on SMEs access to finance using Gini-Struck coefficient. The demand side analysis explains SMEs loan propensity by maturity based on banks officials' responses.

Unlike previous studies the present paper combines SMEs supply and demand analysis to offer a gap financing research meant to capture some of the features that affected SMEs banks financing in Romania between 2007 and 2011.

Bank loans supply for SMEs in Romania

Commercial banks are by far the strongest players in the Romanian financial system. Still, the money supply and non-government credit in Romania as percentage of the GDP are below EU average and the percentage of SMEs financed through bank loans still remains low (FAO, 2005:6). This can be explained by the collateral requirements that most small and medium enterprises cannot provide, and by their inability to present all necessary support documents required by the credit institutions.

Between 2007 and 2011, the volume of credits granted to non-financial corporations has exhibited a steady growth, with a slight decline during 2010. By borrowers' size class, bank loans were more concentrated in case of corporations relative to small and medium-sized enterprises. The dynamics of bank loans granted to economic agents in Romania during 2007-2011 registered the following evolution:

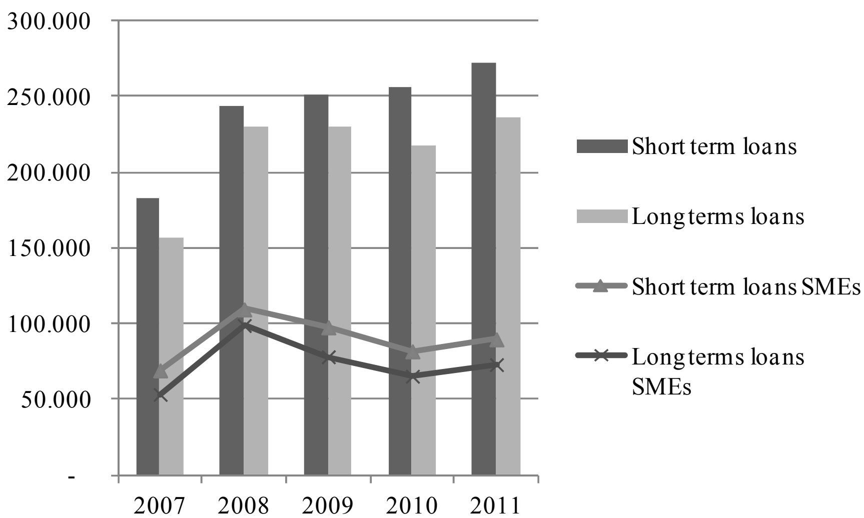

Figure no.2. - Bank loans granted to SMEs in Romania between 2007 and 2011 – mil. Lei
(Source: BNR, 2011)

As figure no. 2 shows, in Romania, SME loans volume remained low. The main reason for this situation is the fact that banks perceive small enterprises as high-risk customers that generate low profitability. On average the non-performing loan (NPL) ratio to SMEs exceeds that of large corporations. During the period of analysis, the NPL ratio on loans to SMEs increased from 2.3% in 2008 to 16.7% in June 2011. The quality of the loan portfolio to micro-enterprises witnessed the sharpest worsening (to 24.1 % from 14 % December 2009 through June 2011). Developments were of a lower magnitude in case of corporations, with the NPL ratio rising to 3.7 percent from 1.3 percent over the same period (BNR, 2011: 94, BNR, 2009:86). Banks tightened lending terms and standards in a pro-cyclical manner, whereas demand stayed low amid a gradual economic recovery and international developments carrying considerable uncertainties and risks. Long term loans granted to SMEs remained in 2010 on the downtrend they followed since 2009 registering a slight rise in 2011. At the end of 2011 SMEs long term loans amount 73 mil. lei, 26% less than the highest volume registered in 2008.

The volume of credits granted to non-financial corporations in general and SMEs in particular, depends not only on the applicants' financial capacity but also on banks' concentration. A number of studies (Black and Strahan 2002; Berger et.al 2004) have shown that a high bank concentration on the market causes a reduction in volume of credit granted to SMEs. Therefore, the financial institution structure and lending infrastructure may significantly affect the availability of funds to SMEs by affecting the feasibility with which financial institutions provide funds to different types of SMEs (Berger, et.al 2004).

The main characteristics of the financial institutions authorized by the National Bank of Romania to engage in lending activity in Romania are summarized in table no. 3.

Table no. 3

Structural indicators of the Romanian banking system (2007-2011)

Indicators	*Unit*	2007	2008	2009	2010	2011
Number of credit institutions	*(no)*	42	43	42	42	42
Number of banks with majority foreign capital, of which	*(no)*	40	42	40	40	40
Foreign bank branches	*(no)*	10	10	10	9	9
Assets of banks with majority private capital/Total assets (%)	*(% in total assets)*	94,7	94,6	92,5	92,4	93,1
Assets of banks with foreign capital/Total assets (%)	*(% in total assets)*	88,0	88,2	85,3	85,0	85,4
Loans/ Deposits	*(%)*	108,72	120,62	118,57	115,10	117,28
Herfindahl-Hirschmann index	*(points)*	1.046	926	857	871	895

(Source: BNR, 2011)

In 2008, in Romanian, there were 43 credit institutions compared to 42 at the end of 2007. Out of these 32 were authorized by the central bank to act as Romanian legal entities, 10 were branches of EU banking groups and one was a credit cooperative network (BNR, 2009:17). As a result of the economic crisis, credit institutions have followed a policy of reducing costs by closing down unprofitable units and reducing the number of employees (BNR, 2010:20). From 2009 only 42 commercial banks remained active on the Romanian market. This situation persisted up to 2011. Banks with Austrian capital held the largest market share in aggregate assets (on average 38 %), ahead of banks with Greek capital (15.5 %). In terms of capital share in total foreign capital, banks with Greek capital lead the market (owning on average 30%), although their number decreased constantly over the analyzed period. Banks with Austrian and French capital followed the same downward path in their capital share (from 23% to 21 % and from 5.1% to 4.3 % respectively). The share of Dutch capital in total foreign capital saw a noticeable rise in 2010 (to 15 %), due to capital increases occasioned by the establishment of GE Garanti Bank S.A (NBR, 2011:21). Regarding the loan to deposit ratio indicator, as noticed, the indicator has improved from 120 % at the outbreak of the crisis in October 2008 to 117% at the end of 2011. Still, banks have remained relatively highly dependent on external financing. This vulnerability has been alleviated by the largely medium- and long-term resources provided by parent banks to their subsidiaries in Romania (NBR, 2011:11).

The analysis between the geographical distribution of the top 10 largest banks in Romania, in 2010, in terms of assets held and SMEs regional presence shows a significant gap between the two:

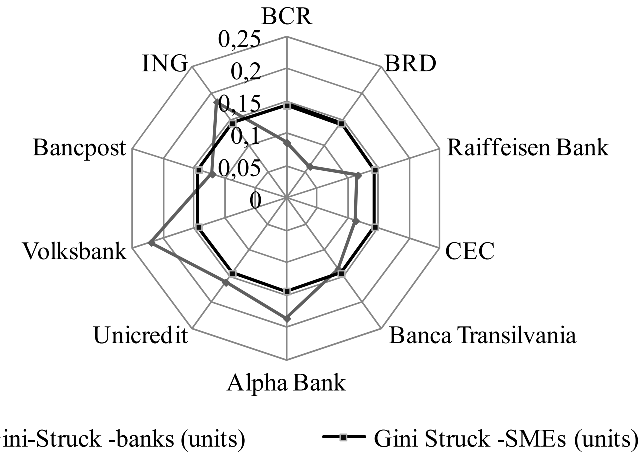

Figure no. 3. - Comparison between the regional distribution of banks' units and SMEs units in 2010

(Source: processed by the author based on Nicolescu *et. al* 2011, BNR 2010 and banks sites)

The local units of the first 10 banks in Romania in terms of assets held (Hostiuc and Voican, 2011), in 2010, are heterogeneously distributed with a tendency toward spatial concentration in certain regions (for 8 out of 10 banks the Gini Struck[2] coefficient registered values above 0.11 with 6 banks being concentrated in the Bucharest Ilfov region). In SMEs' case, in 2010, the Gini-Struck coefficient, calculated as weight number of units per development regions, recorded a value of 0.14, indicating a slight polarization of SMEs in the Bucharest-Ilfov region. The relationship between the regional distribution of banks' units and SMEs units can be considered two-sided. On the one hand it can be said that in Romania the territorial concentration of the credit institutions followed that of SMEs. On the other hand banks concentration led to SMEs creation and development in certain regions.

The comparison of Gini Struck coefficients calculated for bank units and SMEs reveals that in Romania SMEs access to credit depends on the degree of banks' territorial concentration. In this respect the first two banks in the Romanian banking system, BCR and BRD present a balanced distribution of banking units by region (for BCR the Gini Struck coefficient recorded a value of 0.08 and for BRD 0.06). Transilvania Bank has the closest territorial distribution of bank units to that of SMEs (Transilvania Bank's GS reports a value of 0.13 while SMEs GS is 0.14). This is confirmed by the National Council of Small and Medium Sized Private Enterprises in Romania **(**CNIPMMR) data for 2011 where it is shown that BRD, BCR and BT were the most popular providers of bank loans to SMEs.

Romanian SMEs bank loan demand

From the methodological point of view SME credit demand is difficult to assess. Some countries, Romania included use the Bank Lending Survey (BLS) method to capture changes in demand as perceived by bank officials. These responses are weighted according to the relevant bank's market share and presented as a balance of opinions: the weighted percentage that sees an

[2] To measure the degree of uniformity, Corrado Gini proposed the following relation (Săvoiu, *et al.*, 2010:3):

$$GS = \sqrt{\frac{n\sum_{i=1}^{n} g_i^2 - 1}{n-1}}$$

$0 \leq GS \leq 1$; If the value of the Gini- Struck coefficient tends towards 1, it indicates a high degree of concentration of the structure, and if the value of the coefficient tends towards 0, it indicates a poor degree of concentration of the market analyzed.

increase in demand minus the weighted percentage that see a decline in demand (OECD, 2009:20). The National Bank of Romania Bank Lending Survey results for the period 2007-2011 reveal the following trend in SMEs credit demand:

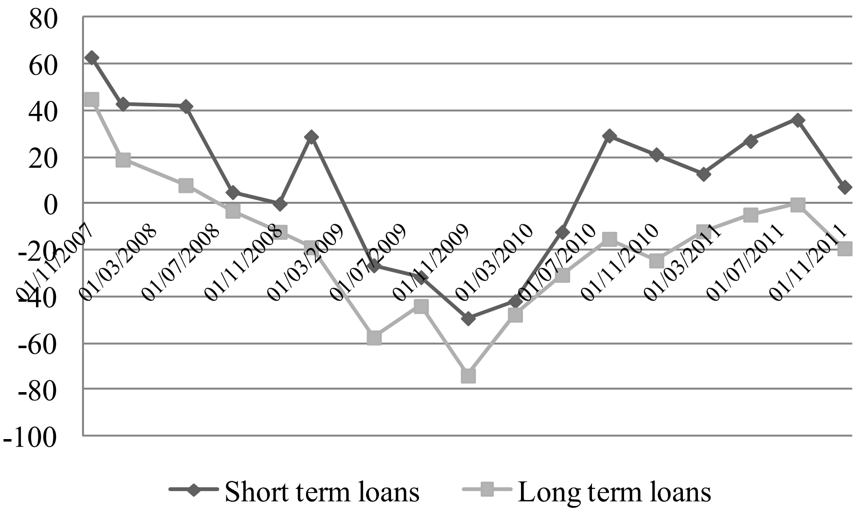

Figure no. 4. - SMEs credit demand in Romania
(Source: processed by the author based on BNR October 2007- October 2011)

In the analyzed period the demand for short and long term loans from SMEs reflected the trend followed by the Romanian economy. Thus, since 2009, the financial crisis had negatively affected the demand for credit from the private sector. The magnitude of the credit deterioration registered in Romania was quite high compared to the EU average. About 40 % of SME owners noticed a declining willingness of banks to provide loans; a third saw a deterioration of access to public guarantee schemes; and almost half of those applying for loans were actually refused by banks. (European Commission 2011c: 8). Amid these changes, all SMEs experienced a tightening of credit terms, evidenced by the introduction of more stringent contract clauses (additional risk premiums and an increase of the interest rate).

Overall SMEs' demand for new loans decreased constantly throughout the analyzed period with a slight rise in the second semester of 2010. Regarding the loans' maturity, as noticed short term loans were the most sought. The explanation for this situation is two folded:

a) First due to some of the Romanian government's austerity measures taken between 2009 and 2010 (e.g. the instatement of the minimum income tax that each firm had to pay no matter the profit or loss it had obtained during the financial exercise) a number of 133.000 SMEs ceased to exist. Those remaining rethought their business strategy, giving up certain activities less profitable and reducing costs to the limit of endurance. Long term investments were reconsidered and subdued. During the same period a number of 116.000 new firms started to operate, most of them lacking the needed collateral to access long term loans.
b) Second the surge of the financial crisis exacerbated SMEs' capacity to finance their working capital requirements. The drastic drop in demand, started by the 2008-end and continued for the largest part of 2009 and 2010, caused a decrease of sales and capacity utilization for most SMEs. This forced SMEs to increase their short term indebtment level.

Starting with the last quarter of 2010 SMEs have slowly rebegun to access investment credits showing a genuine concern for increasing their turnover. However, in 2011 only 14% of SMEs have sought bank loans (new or renewal) for investment while 86% have not submitted applications due to insufficient funds, fear of rejection or other causes (European Commission, 2011b). Banks' risk aversion remained high. Credit terms registered a tightening, through tighter contractual clauses, additional risk premium requirements and increase of the spread to ROBOR 1M. As a consequence loan demand recorded a marginal decrease in the 4th quarter of 2011 for the first time since quarter 3/2010, on the grounds of diminishing SMEs loan demand (BNR, October 2007 – October 2011).

SMEs reaction during the analyzed period suggests that Romanian entrepreneurs were not willing to increase their indebtedness despite the fact that their sales fell and the payment delays increased. Facing an uncertain future, this reaction is fully rational especially when these enterprises are confronted with tightened credit conditions imposed by banks and other creditors.

Conclusions

Theoretically speaking Romanian SMEs can draw financing from a variety of sources to optimize their growth opportunities. Practically, however, between 2007 and 2011 more than 80% of Romanian SMEs financed their activities by resorting to self-financing and bank loans. However, as the present analysis shows, Romanian SMEs access to bank loans remains problematic. This situation is mainly due to the fact that SMEs loans are considered by most banks as risky assets and costs associated with such loans are viewed as very high. In the absence of a solid credit history, a common situation for SMEs, banks lending decisions are based solely on the financial information provided by SMEs in their business plans. This makes it difficult for creditors to assess the creditworthiness of the SMEs proposals leading to a high percentage of rejected loan applications (16% in 2009 and 15.3% in 2011 according to National Bank of Romania). As a result, commercial banks prefer to have a portfolio dominated by large corporate borrowers. When banks do lend to SMEs, they tend to charge them a commission for assuming risk and apply tougher screening measures, which drives up costs on all sides. Moreover SMEs credit access is highly influenced by banks geographical concentration. SMEs located in Bucuresti Ilfov region gain easier access to bank loans due to the fact that 6 out of 10 most banks competitive banks in Romania are concentrated in that region. In the same time it can be said that banks expanded their territorial presence in response to SMEs behavior and as a consequence they are more present where they are more needed.

From SMEs perspective bank loans have been difficult to access during 2009-2011 due to high collateral requirements, high interest rates and bank commissions. This situation will continue to represent a problem as long as banks in Romania remain immune to the difficulties raised by entrepreneurs when submitting loans applications.

After carefully analyzing the present’s study results it can be said that Romanian SMEs suffer from a financing gap when it comes to bank loans. This situation has no singular guilty part being the result of both banks and SMEs behavior. In this context, reducing the financing gap requires finding a middle way in which banks should distribute their available resources based on custom credit ratings (not on group ratings) and SMEs should be willing to openly exchange information with banks representatives about their business situation and development prospects. Nevertheless, addressing the gap financing problem should not require actions from banks and/or SMEs alone. Romanian policymakers need to promote financing solutions to reduce this gap. Some of the government measures could include state guarantees for bank loans or interest rate subsidies for long term debts.

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