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

June 2019

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National Bank of Romania
25, Lipscani St., 030031 Bucharest – Romania
Phone: 40 21/312 43 75; fax: 40 21/314 97 52

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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 availability and evolution of financing sources, (iii) the rate of success in accessing finance from banks and non-bank financial institutions (NBFIs), as well as in accessing European funds and (iv) companies' relationships with banks and NBFIs.

The analysis is based on the companies' answers[1] to the Survey for the period from April 2018 to March 2019, the main conclusions being:

- Financial indicators that saw notable changes over the past 12 months were labour costs, loan expenses and other costs, with an increasing share of respondents indicating their going up. The increase in costs was accompanied by balanced turnover dynamics, so that the impact on profit remained relatively neutral.
- The most pressing problems that companies faced in their activity were further related to the unpredictability of the fiscal environment and the elevated level of taxation (flagged as significant by 66 percent and 64 percent of respondents respectively). The negative effects of labour market tightness on non-financial corporations' activity have gained prominence as of late, in terms of both increased labour costs and difficulty in finding skilled staff.
- The polled companies do not view access to finance as having been a pressing problem in the period under review, with 64 percent of respondents ranking it low or very low.
- For financing their daily activity, investment or other projects, companies resort primarily to internal sources, such as retained earnings, sale of assets or loans granted by shareholders or capital increases, the same as in the previous round. Firms' recourse to bank loans is relatively low, the main products being overdrafts and credit lines.
- The share of companies that have not resorted to finance from banks and NBFIs is further high. Only 19 percent of respondents applied for this type of finance and were approved the full amount requested, accepting the credit conditions and costs.

[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 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.

- Companies having applied for loans over the last 12 months were to a larger extent affected by the rise in the financing cost compared to the previous round. Thus, ranking topmost among the main difficulties faced by companies in accessing finance from banks and NBFIs were the overly high level of interest rates and commissions, the requirements regarding the value or type of collateral, and loan covenants.

# A. Access to finance of non-financial corporations

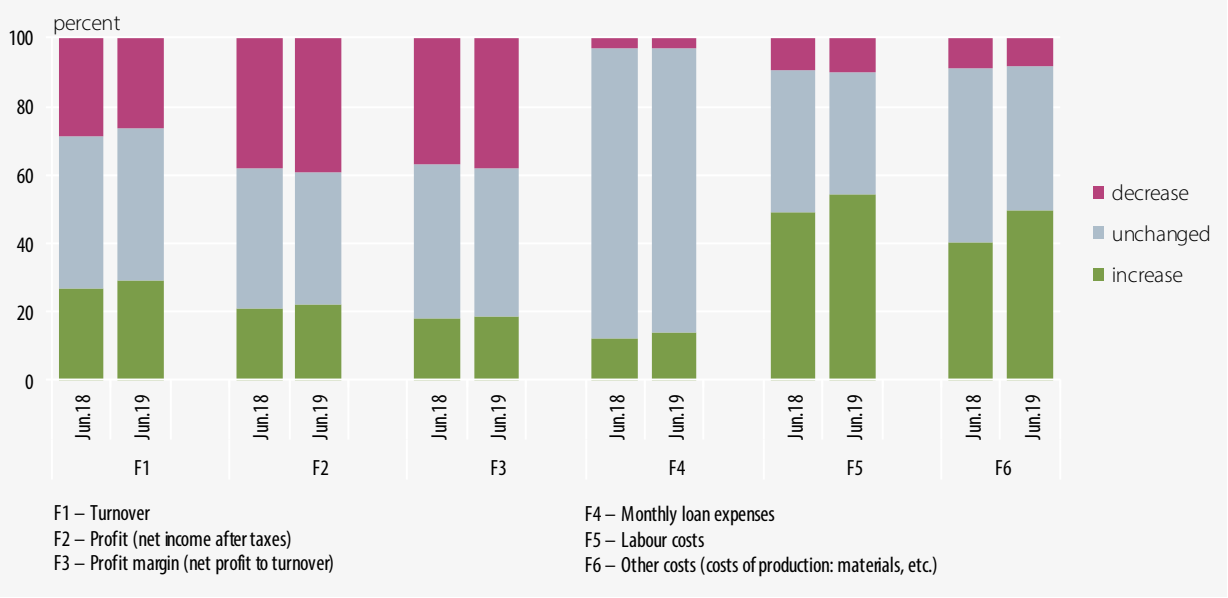
## A1. The overall economic situation of non-financial corporations

### Developments in non-financial corporations' main financial indicators

The polled companies indicated, at aggregate level, for the period from April 2018 to March 2019, an upward path followed by most financial indicators, especially as regards labour costs, loan expenses and other costs.

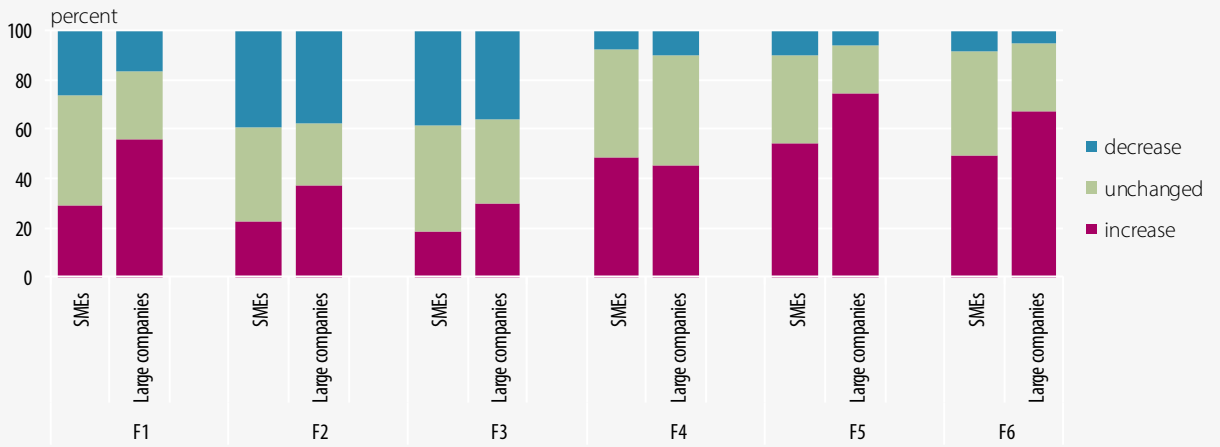
The increase in costs was accompanied by balanced turnover dynamics, so that the impact on profit remained relatively neutral.

**Chart 1.** Main financial indicators of non-financial corporations in the current round and the previous one



Companies pointed out that they were most affected by the rise in labour costs (54 percent versus 49 percent). The costs of production went up for a prevailing share of respondents (49 percent), compared with the previous round, when only 40 percent of firms reported them on the rise. As regards loan expenses, the share of companies that assessed this indicator as being on the rise picked up marginally. The profit and the profit margin dropped for 39 percent and 38 percent of firms respectively, these shares standing 1 percentage point higher compared to the previous round (Chart 1).

**Chart 2.** Main financial indicators of SMEs and large companies, April 2018 – March 2019*



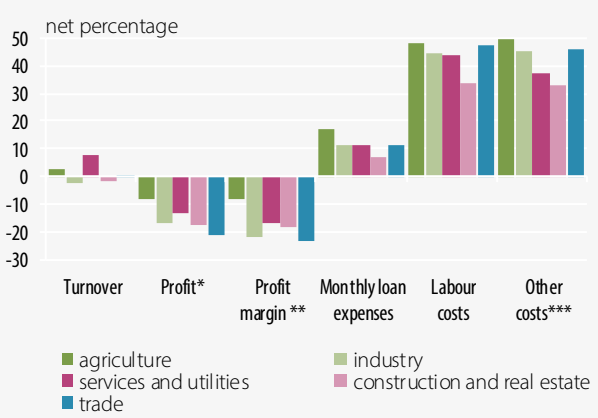

F1 – Turnover
F2 – Profit (net income after taxes)
F3 – Profit margin (net profit to turnover)
F4 – Monthly loan expenses
F5 – Labour costs
F6 – Other costs (costs of production: materials, etc.)

* for F4 (monthly loan expenses), only companies with outstanding loans were considered

The prevailing share of large companies (38 percent) reported an increase in profit in the period from April 2018 to March 2019, compared to the previous round, when most of them had indicated a decline in net profit. Moreover, the profit margin is seen on the rise by a higher number of large companies in this round compared with the previous year (30 percent versus 25 percent). However, the large companies reporting this indicator on a downward path further hold the prevailing share (36 percent). Unlike SMEs, most of which signalled a constant evolution of turnover, large companies report an advance in this indicator to a larger extent than in the previous round (Chart 2). The evolution of financial indicators for importers and exporters was slightly different relative to companies overall, in the sense of reporting a decline in the profit margin and a larger share of firms that consider labour costs, loan expenses and other costs on the rise. By economic activity, developments in financial indicators were not significantly different from those seen at aggregate level, except for agriculture firms, a higher share of which reported a rise in financing costs and other costs, but also an increase in profit and profit margin. Compared to the previous round, a slightly larger share of services and utilities firms (53 percent against 46 percent previously) flagged an advance in labour costs. As for construction and real estate firms, the costs of production indicator grew from 32 percent in the prior round to 45 percent currently (Chart 3).

The composition of the ratio of debt to assets for respondents remained unchanged, the difference from the previous round being a 1 percentage point increase in the share of firms that indicated a decline in this indicator (Chart 4).

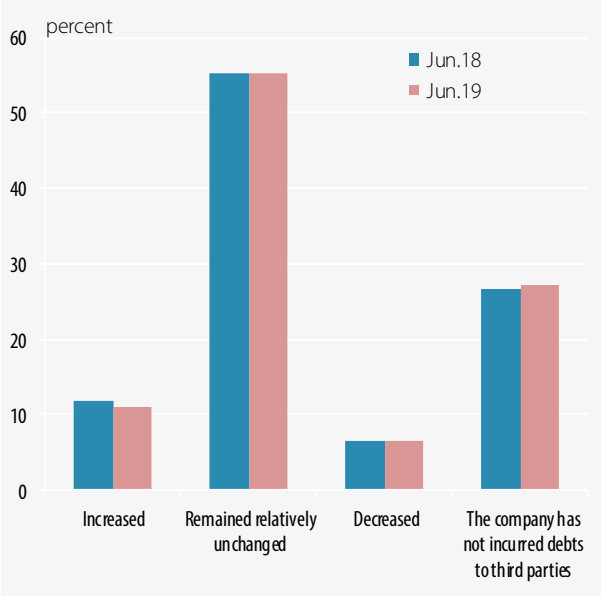
**Chart 3.** Main financial indicators by economic activity, April 2018 – March 2019




* net income after taxes; ** net profit to turnover;
*** costs of production: materials, etc.

Note: The net percentage is computed as the difference between the share of companies reporting an evolution as being upward and the share reporting an evolution as being downward.

**Chart 4.** The debt-to-asset ratio of non-financial corporations, April 2018 – March 2019



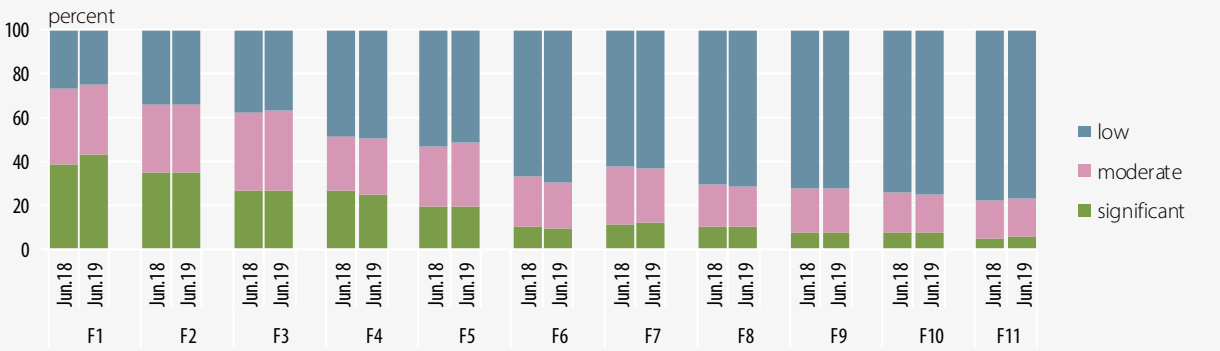

## The most pressing problems faced by companies

Over the last six months, companies have faced growing problems in performing their activity. The most pressing constraints further include the unpredictability of the fiscal environment, high level of taxation, and costs (of production, labour costs, etc.), followed by competition and availability of skilled staff (Chart 5). The aspects cited by companies reflect the risks associated with labour market developments, as pinpointed by the lingering structural drawbacks, with an impact on firms' costs, but also on domestic and external competitiveness[2].

The need for predictability of fiscal factors continues to be high and to negatively affect the business environment in Romania, both overall (66 percent of respondents flagged this factor as high or very high, up 7 percentage points from December 2018) and by size or economic activity. In addition, 64 percent of total companies deemed the high level of taxation as having a significant influence, which places the fiscal policy stance at the forefront of firms' concerns. Diminishing legislative uncertainties, in the context of a balanced macroeconomic policy mix, is conducive to positive effects on the development of firms' activity, also from the viewpoint of their investment plans.

2 NBR, May 2019 *Inflation Report*.

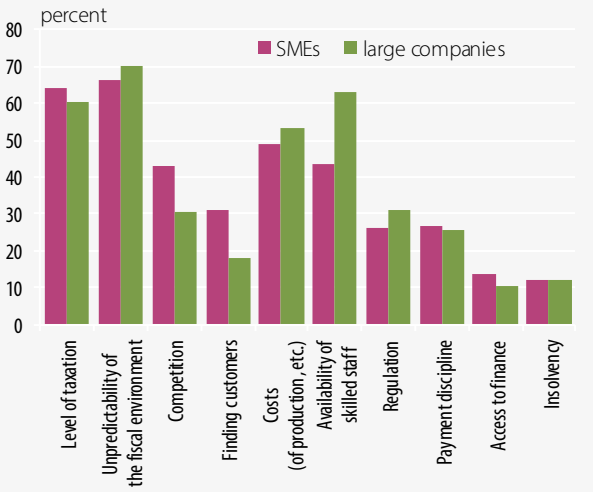
**Chart 5.** The most pressing problems faced by non-financial corporations, October 2018 – March 2019




F1 – Overly high level of interest rates and commissions
F2 – Requirements for the collateral value of type
F3 – Contractual clauses
F4 – Bureaucracy
F5 – Maximum indebtedness allowed by the financial institution
F6 – Lack of transparency on the part of the financial institution
F7 – The company's business plan and/or the purpose of financing
F8 – The company's credit history
F9 – Inadequate skills of the financial institution's staff
F10 – Age of the company
F11 – Lack of the lending product in the requested currency

Note: Question with grading scale (from 1 – highly significant to 5 – very low or no significance), where the attribute significant refers to grades 1 and 2, attribute moderate refers to grade 3 and attribute low refers to grades 4 and 5.

**Chart 6.** The most pressing problems faced by SMEs and large companies, October 2018 – March 2019




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).

Problems related to the labour market pose significant challenges to companies, in terms of both increased labour costs and difficulty in finding skilled staff. Although, overall, the problem of production costs and labour costs is more important than that of workforce availability, and also recorded a larger advance compared to the previous round (an increase of 6 percentage points for costs versus 1 percentage point for availability), the breakdown by firm size points to different developments (Chart 6). Labour market tightness affects large companies in particular. Some 63 percent of them cited staff availability as a significant problem in carrying out their activity ranking second, after the unpredictability of the fiscal environment, unlike SMEs, 43 percent of which reported this factor as pressing. Moreover, the high constraints triggered by wage costs seem to affect large companies more than SMEs, yet the importance of this factor posted similar growth dynamics for both types of firms compared to the previous survey. There is further need to address the shortage of workforce in the economy, in terms of both quantity (caused by the significant migration on the labour market, but also by population ageing) and quality (with regard to applicants' skills).

Depending on the economic activity, the magnitude of the problem posed by production costs and labour costs evolved relatively in tandem for most categories of firms, but the prevailing share of affected companies is in agriculture (59 percent),

ahead of industry (53 percent). Nevertheless, firms in industry recorded a slight decline as regards the intensity of the factor represented by skilled staff availability as an obstacle in their activity.

Competition is also one of the major problems in companies' activity, which has gained prominence since the previous survey (up 6 percentage points, to a share of 43 percent). It affects smaller-size companies to a larger extent, especially those in trade and industry.

Companies also reported the problem of finding customers as being on an upward path, 31 percent of respondents citing this factor as significantly affecting their activity. The same as in the previous survey, greater importance is further attached by SMEs (31 percent) than by large companies (18 percent). Moreover, in concordance with the problem regarding competition as well, firms in trade and industry are more affected by this factor.

The companies polled have not flagged access to finance as a pressing problem in the period under review, with 64 percent of respondents viewing this factor as low or very low, thus marking a constant evolution compared with the latest survey. The small share of companies that look upon access to finance as an obstacle may be explained by the low level of financial intermediation in Romania. Implementing structural reforms to mitigate vulnerabilities in firms' balance sheets and improve payment discipline in the economy may help expand the coverage of banking services across non-financial corporations in Romania.

The breakdown by economic activity shows that perception on access to finance is relatively similar among companies. Looking at companies with non-performing loans, there is a larger share of respondents that view access to finance as a pressing problem compared with the rest of firms.

## The main business partners of non-financial corporations in 2018

In the period from April 2018 to March 2019, at aggregate level, more than half of the firms polled reported that Romanian companies with majority domestic capital contribute to their turnover by more than 50 percent (compared with 42 percent of respondents in the previous survey). Unlike SMEs, whose turnover composition from the point of view of business partners resembles that at aggregate level, large companies generate the largest part of sales from relations with foreign firms (42 percent versus 31 percent in the previous survey). At a sectoral level, firms in industry reported a larger share of turnover in partnership with foreign companies (17 percent of them).

# A2. Availability of financing for companies

## Main sources of financing for companies

**Chart 7.** Main sources of financing for non-financial corporations, April 2018 – March 2019

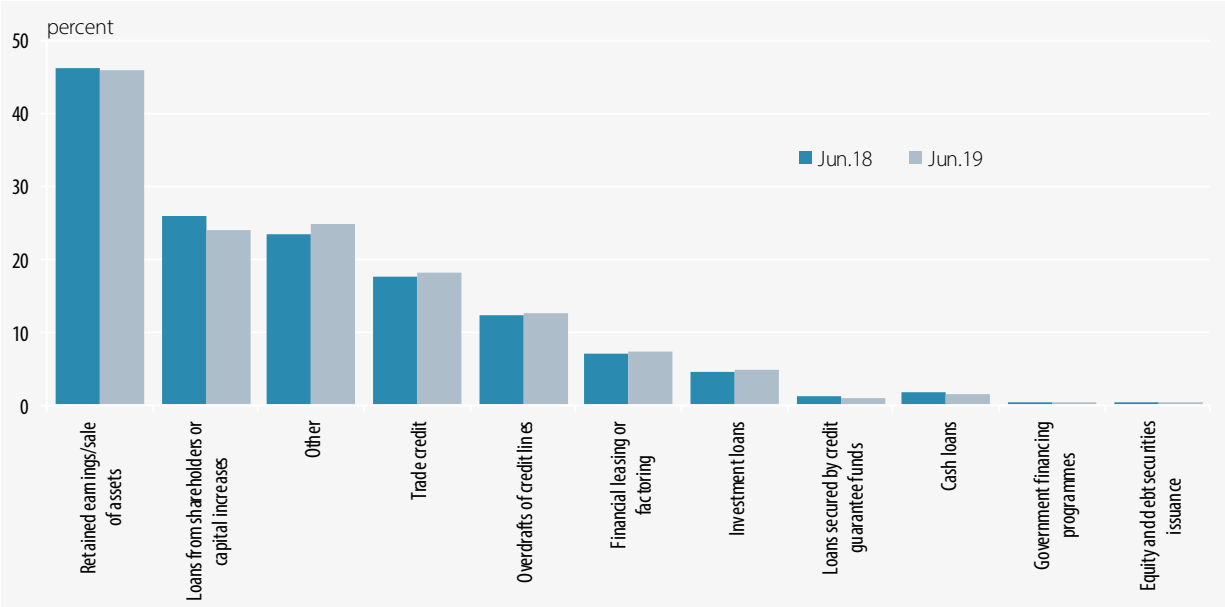
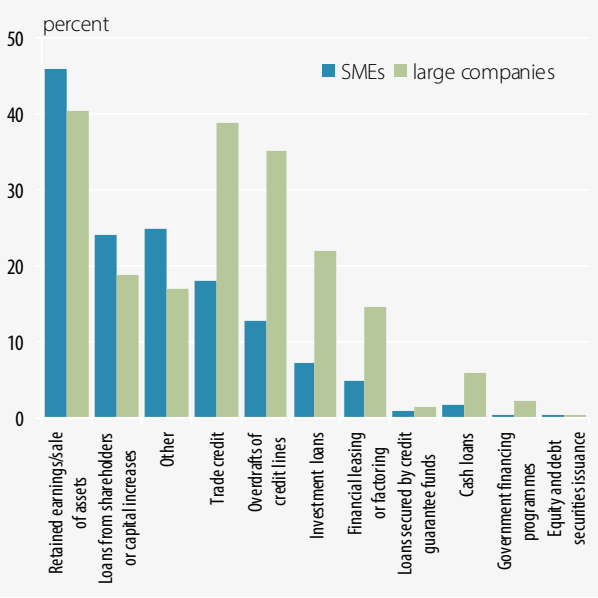



**Chart 8.** Main sources of financing for SMEs and large companies, April 2018 – March 2019




For financing their daily activity, investment or other projects, companies resort primarily to internal sources, such as retained earnings, sale of assets or loans granted by shareholders or capital increases, the same as in the previous round. Firms' recourse to bank loans is relatively low, the main products being overdrafts and credit lines (Chart 7). Moreover, the analysis of the structure of liabilities and owners' equity substantiates these findings, given that loans from domestic banks and from NBFIs[3] account for only 8.7 percent of total liabilities and equity, according to June 2018 data.

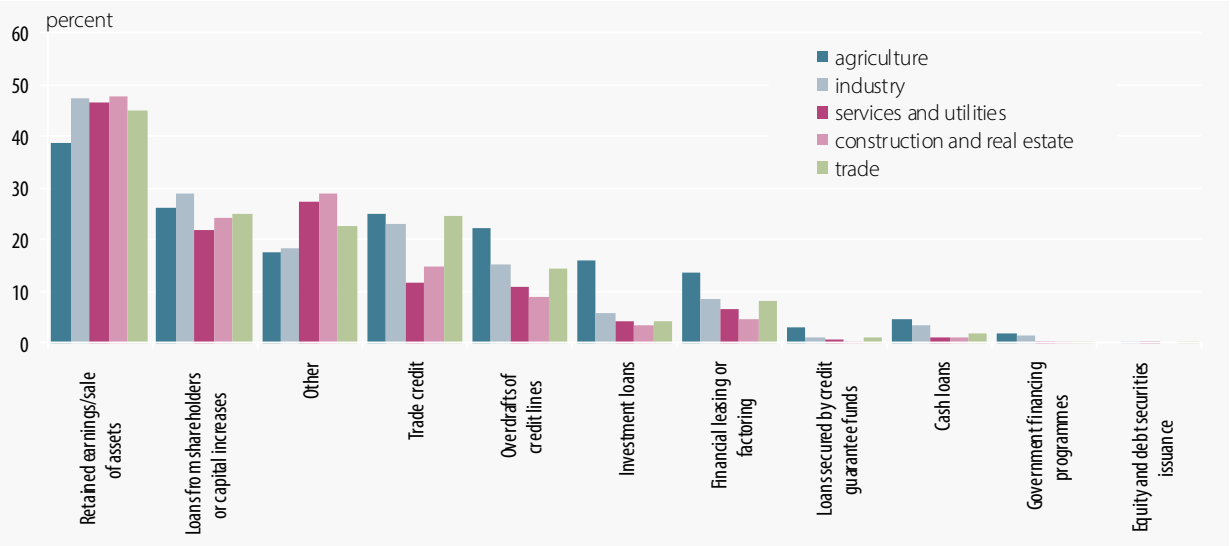
By size, there are significant differences between the financing structure of SMEs and that of large companies. Specifically, in the case of SMEs, the main sources of financing are internal ones, whereas the financing structure of large companies is largely made up of overdrafts, credit lines or cash loans. In addition, large companies resort to a greater extent to investment loans (22 percent against 7 percent in the case of SMEs), Chart 8. In Romania, firms' investment activity is

[3] NBR, *Financial Stability Report*, June 2019.

relatively low compared to the European average[4], according to a study of the European Investment Bank[5]. Thus, the growth rate of investment was negative in the post-crisis period, returning to positive territory in 2017, when firms resumed the investment activity. Nevertheless, the share of investment-making firms[6] in 2017 was only 25 percent of total compared to 43 percent in the pre-crisis period.

Companies operating in sectors such as agriculture, industry and trade resorted to bank financing to a larger extent than those in services, utilities, construction and real estate. Moreover, firms in agriculture opted more extensively for investment loans (Chart 9).

**Chart 9.** Main sources of financing for companies by economic activity, April 2018 – March 2019




## Developments in the main sources of financing of companies and the outlook for the following 12 months (April 2019 – March 2020)

The availability of financing sources remained largely constant. Compared to the previous round, the share of firms that needed financing went up, especially as regards sources such as trade credit or overdrafts. At the same time, a higher number of respondents than in the previous survey said they did not need investment loans (Chart 10). For the following 12 months, companies estimate that the availability of financing sources will remain unchanged for all types of financing (Chart 11).

4 NBR, *Financial Stability Report*, June 2019.

5 European Investment Bank, *European Investment Report 2018/2019*.

6 Investments were calculated as the annual change of total assets to which added depreciation expenses. A 3 percent threshold of total assets were taken into consideration.

**Chart 10.** Developments in the main sources of financing of non-financial corporations, April 2018 – March 2019

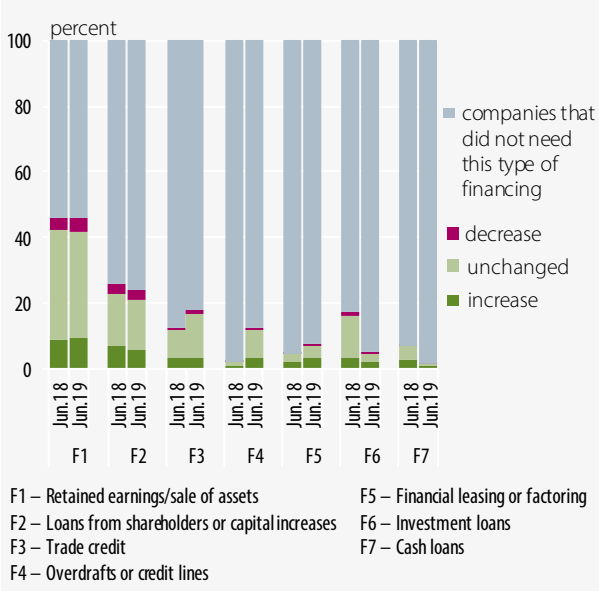
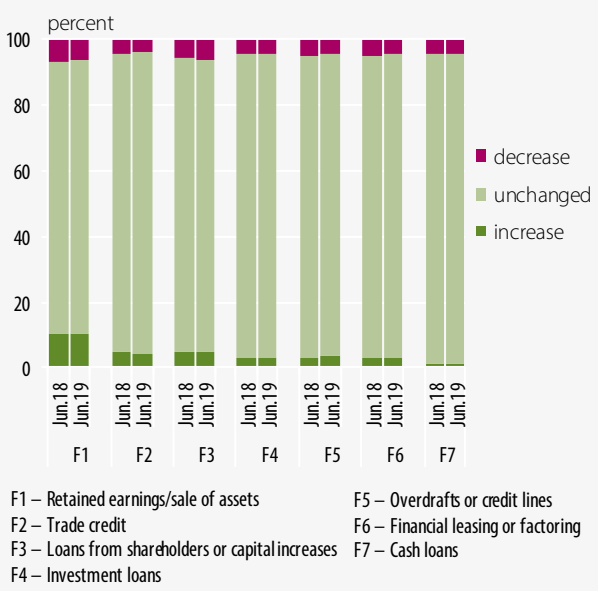
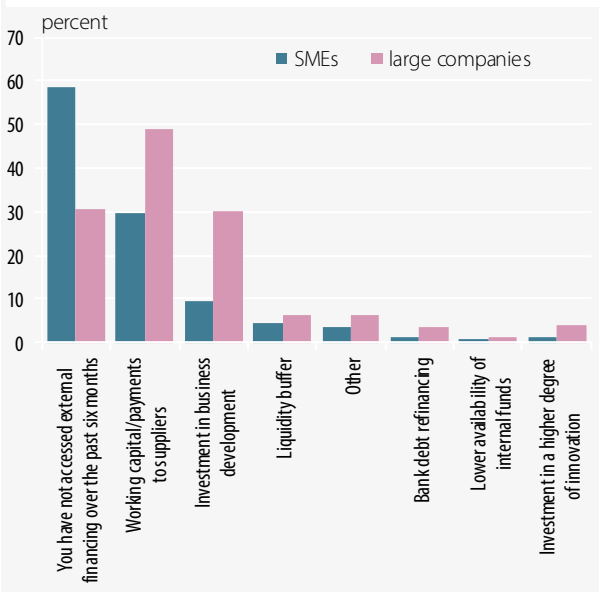



**Chart 11.** Outlook for the main sources of financing of non-financial corporations, April 2019 – March 2020




## Purpose of the financing of non-financial corporations

**Chart 12.** Purpose of the external financing of SMEs and large companies, April 2018 – March 2019




In the period from April 2018 to March 2019, less than half of the firms opted for external sources of financing, i.e. a slight advance versus the previous round. The main reason why firms applied for financing from banks or NBFIs was to build up working capital (inventories, equipment, etc.) or make payments to suppliers (30 percent). Investing in a higher degree of innovation is not a priority for companies in Romania, only 1 percent of them taking loans for this purpose. In addition, based on the EIB study, Romanian companies rank last in terms of R&D intensity compared to their peers in the other European countries[7]. This is validated by financial statement data, which show that only 6 percent of the total amounts invested by firms in 2017 went to intangible assets[8].

Unlike SMEs, only one third of the large companies reported not having opted for external sources of financing. Most of them took loans for current needs (49 percent), while 30 percent used these funds to invest in business development (purchases of equipment, land,

7 European Investment Bank, *European Investment Report 2018/2019*.

8 NBR, *Financial Stability Report*, June 2019.

buildings) compared to 9 percent of SMEs. Some 4 percent of large companies and 1 percent of SMEs channelled external financing into a higher degree of innovation (Chart 12). Investment in innovation is more visible for high-tech companies, namely 6 percent of firms in this category.

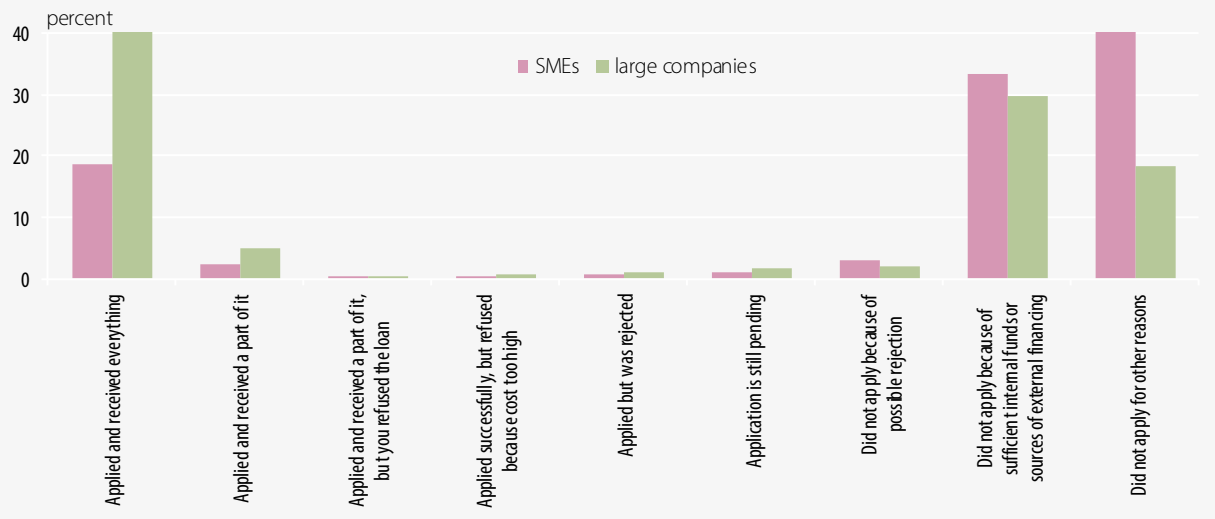
## Companies' access to finance from banks and NBFIs

From April 2018 through March 2019, the share of companies that did not apply for loans from banks and NBFIs remained high, at 78 percent, similarly to the previous round (Chart 13). Only 19 percent of the companies applied for such loans and got the full amount requested, accepting the credit conditions and costs. The same is true for small and medium-sized firms as well, whereas only half of large companies did not try to get a loan from banks or NBFIs. Moreover, the large companies' rate of success in accessing a loan is much higher, i.e. 44 percent of them got the loan they had applied for.

By economic activity, agriculture companies performed best in terms of access to finance (37 percent), unlike construction and real estate firms, only 13 percent of which got the full amount requested and accepted the loan. The firms' liability and equity structure supports these findings, considering that loans from domestic banks account for 15.4 percent of the liabilities and equity of companies in agriculture. Firms in the construction and real estate sectors have better access to finance from outside the country, thus reducing borrowing needs from domestic institutions.

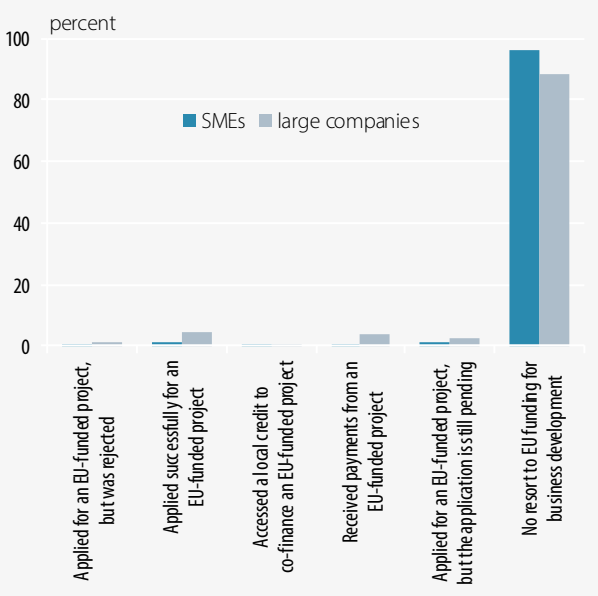
In the services sector, a larger share of less knowledge-intensive companies were approved a loan (35 percent) compared to knowledge-intensive companies, with merely 23 percent.

**Chart 13.** Access to finance from banks and NBFIs, April 2018 – March 2019



## Companies' access to European Union funding

**Chart 14.** Access to EU funding by SMEs and large companies, April 2018 – March 2019




The share of companies that did not resort to EU funds to expand their activity over the last 12 months remained unchanged from the previous round at 96 percent (Chart 14).

Large companies are more successful in accessing European funds, with 12 percent of them applying for EU-funded projects. Furthermore, 4 percent of large companies applied and received approval for such projects, whereas only 4 percent of SMEs applied for this type of financing and 1 percent received approval.

Agriculture firms have a higher propensity for resorting to such sources of finance, 10 percent of them applying for a EU-funded project and 3 percent receiving approval.

# **A3.** Conditions and factors influencing the access to finance of companies

## The relationship of companies with banks and NBFIs and companies' perception on the terms and conditions

Firms that took loans from banks or NBFIs (27 percent of total) reported that their relationship with financial institutions remained unchanged over the last 12 months, similarly to the opinion in the previous round (Chart 15). Looking at the breakdown by size, 73 percent of SMEs reported no outstanding loans, while the share of large companies without loans is lower, i.e. 43 percent.

In the respondents' opinion, the terms and conditions applied to outstanding loans or to loans taken over the past 12 months from banks and NBFIs witnessed slight changes. Responses pointed to a marginal worsening as regards the financing cost, the same as the evolution indicated in the previous survey, in terms of the commissions, fees and other charges on loans, but also the interest rate level (Chart 16). Banks, on the other hand, perceive an easing of credit terms and conditions in the past year, especially with regard to the spread between the average lending rate and 1M ROBOR[9].

[9] *Bank Lending Survey*, May 2018, August 2018, November 2018, February 2019.

**Chart 15.** The relationship of non-financial corporations with banks and NBFIs, April 2018 – March 2019

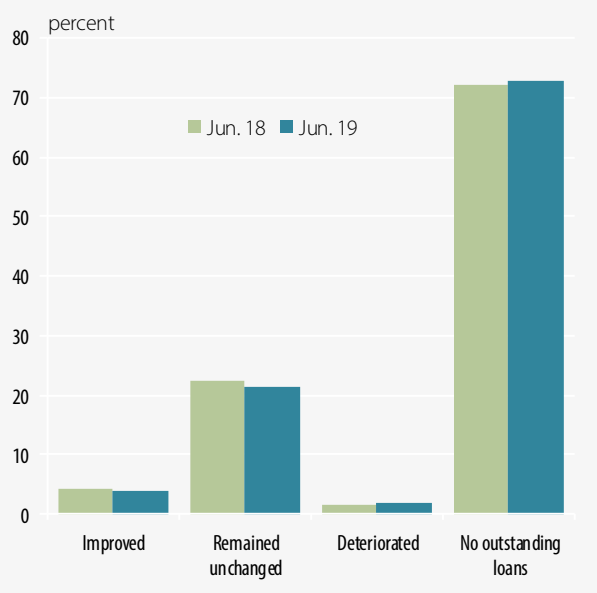
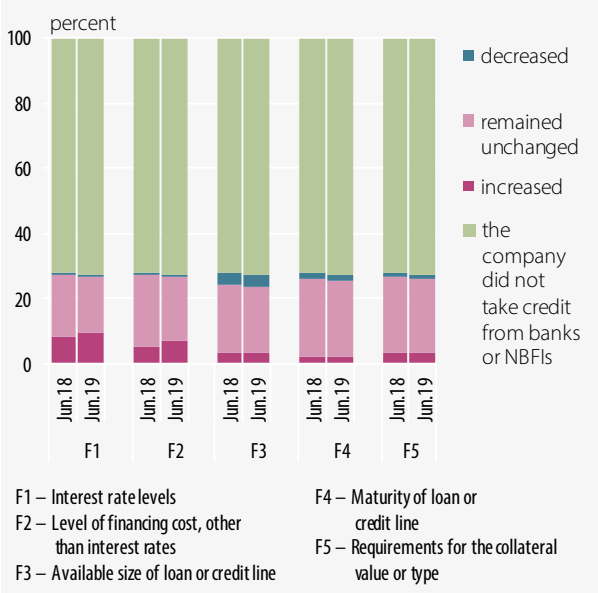
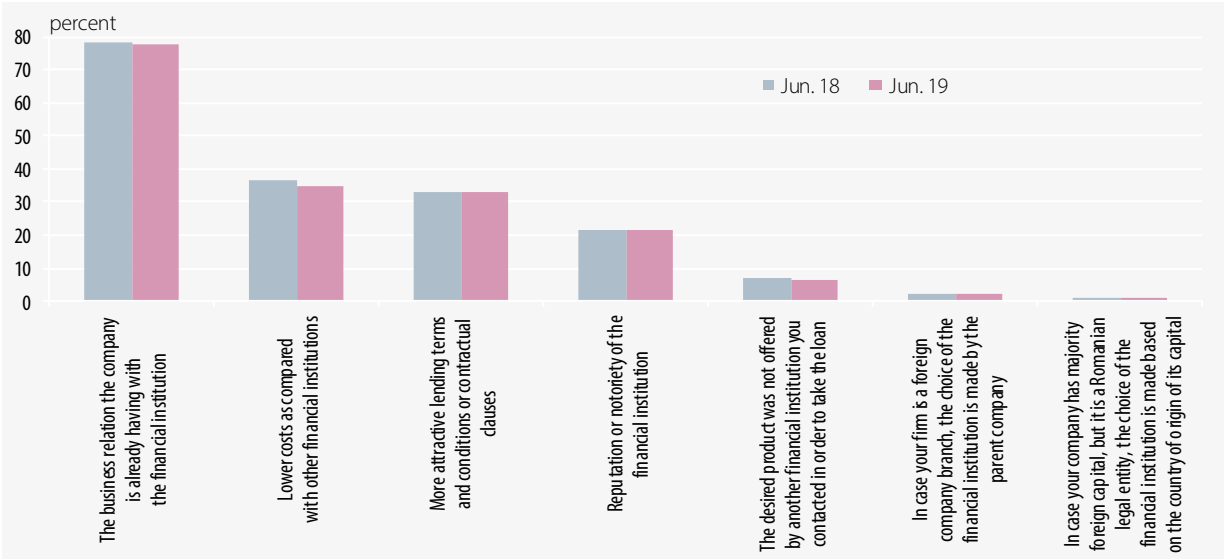



**Chart 16.** The perception of non-financial corporations on the terms and conditions applied by banks and NBFIs, April 2018 – March 2019




The main criterion taken into consideration by non-financial corporations when turning to financial institutions is further based on the business relationship that the firm already had with the financial institution (66 percent of companies indicated this reason). Other selection criteria considered, in order of importance, were the lower costs (down 1 percentage point from the previous round) and the more attractive lending terms and conditions or contractual clauses (up 1 percentage point) (Chart 17).

**Chart 17.** The reasons why non-financial corporations opted for the financial institutions they took loans from in April 2018 – March 2019

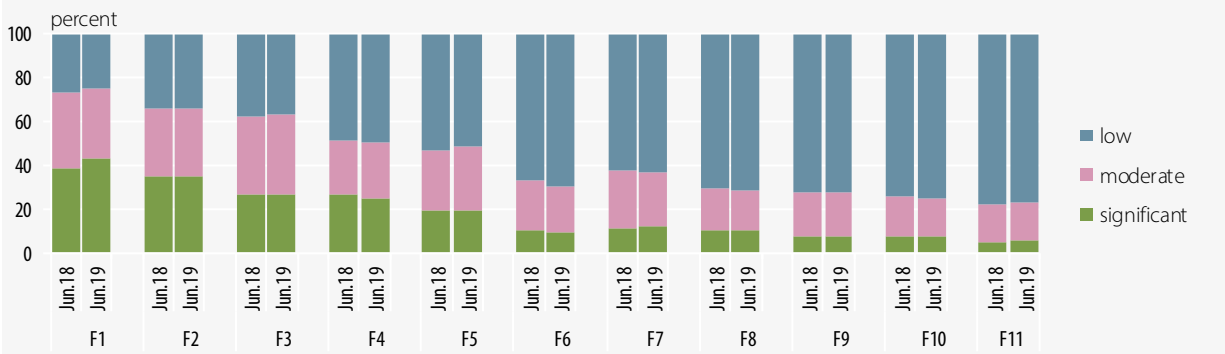


## The main difficulties faced by companies in accessing finance from banks and NBFIs

The firms having applied for a loan over the last 12 months were affected to a larger extent by the increase in financing costs compared with the previous round (43 percent versus 38 percent). Specifically, the overly high level of interest rates and commissions, the requirements regarding the value or type of collateral, and the contractual clauses ranked among the main difficulties in accessing finance from banks and NBFIs. The inadequate skills of the financial institution's staff, age of the company, or the lack of the lending product in the requested currency are not viewed by companies as obstacles in obtaining loans from financial institutions (Chart 18).

Relative to the performance of loans already taken, both firms with non-performing loans and especially those with performing loans look upon the tightening of financing conditions as being on the rise. Some 38 percent of companies with performing loans view the overly high level of interest rates and commissions as the main obstacle in trying to take a loan. For firms with non-performing loans, the requirements regarding the value or type of collateral are as important as loan expenses when trying to take a loan (Chart 19).

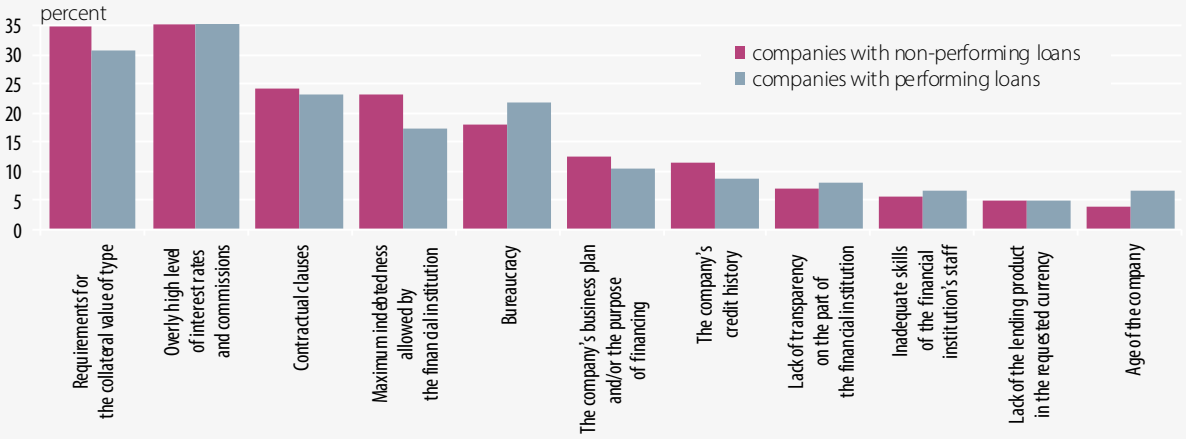
**Chart 18.** Difficulties faced by non-financial corporations that applied for loans in accessing finance from banks and NBFIs, April 2018 – March 2019




F1 – Overly high level of interest rates and commissions
F2 – Requirements for the collateral value of type
F3 – Contractual clauses
F4 – Bureaucracy
F5 – Maximum indebtedness allowed by the financial institution
F6 – Lack of transparency on the part of the financial institution
F7 – The company's business plan and/or the purpose of financing
F8 – The company's credit history
F9 – Inadequate skills of the financial institution's staff
F10 – Age of the company
F11 – Lack of the lending product in the requested currency

Note: Question with grading scale (from 1 – highly significant to 5 – very low or no significance), where the attribute significant refers to grades 1 and 2, attribute moderate refers to grade 3 and attribute low refers to grades 4 and 5.

**Chart 19.** Significant difficulties faced by non-financial corporations with non-performing and performing loans in accessing finance from banks and NBFIs, April 2018 – March 2019




Note: Question with grading scale (from 1 – highly significant to 5 – very low or no significance), where only the attribute significant was considered (grades 1 and 2).

# 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 around 85 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 (micro-enterprises, small enterprises, medium-sized enterprises and large companies)[10];
- 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, 26 percent medium-sized enterprises, 14 percent large companies and 2 percent atypical SMEs (Chart A1);
- by economic activity: 3 percent in agriculture, 23 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) non-financial corporations' access to finance in Romania for the period April 2018 – March 2019; and (B) the non-financial corporations' capacity to withstand adverse financial developments (interest rate and exchange rate movements) for the period October 2018 – September 2019.

Questions in Section A refer to companies' views of:

- the overall economic situation of firms;
- the availability of financing sources;
- the conditions and factors influencing the access to finance of companies.

[10] 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

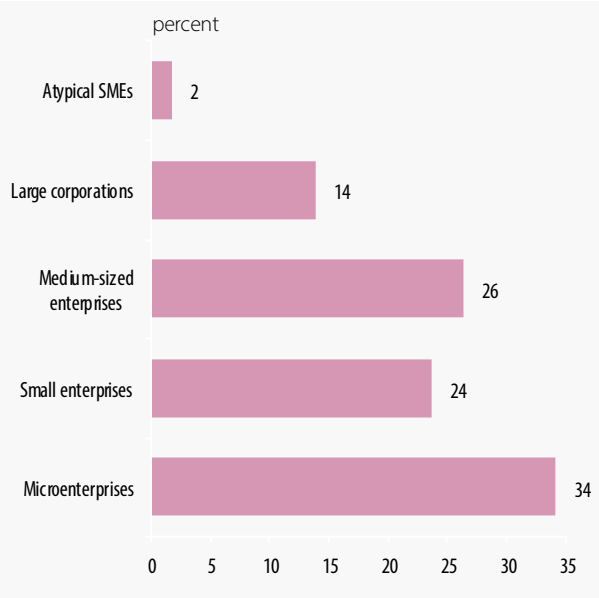



**Chart A2.** Structure of the sample by economic activity

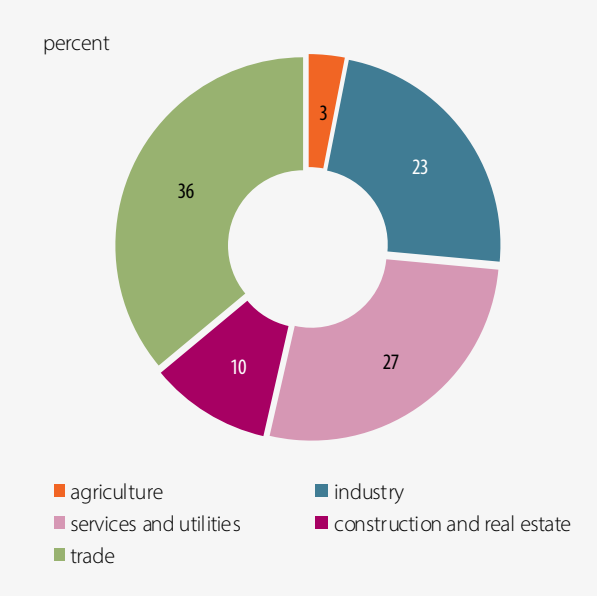
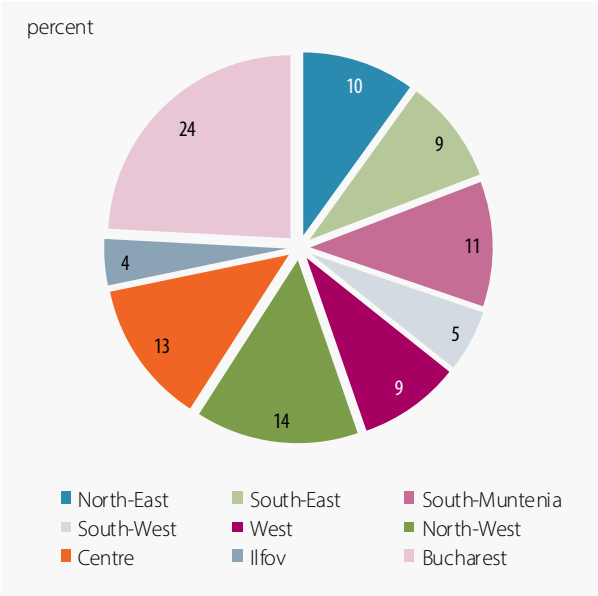


**Chart A3.** Structure of the sample by development region where the firms are registered




## The analysis of answers

The 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 company indicators over the past twelve months?", the net percentage represents the difference between the share of companies indicating an increase in an indicator and the share of companies indicating a decrease in that indicator. A positive net percentage may indicate an improvement in turnover, profit or profit margin or a worsening of labour costs, other costs or monthly loan expenses.

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.

Regarding question "A8: What is your opinion regarding the evolution, in the past twelve months, of the terms and conditions applied by banks and non-bank financial institutions to your outstanding loans (irrespective of their age)?", the net percentage represents the difference between the share of companies reporting tightening credit terms and conditions and that of banks reporting an easing thereof. A positive net percentage indicates that a certain condition became more stringent.

Regarding questions "A9: Please indicate how the availability of the following sources of financing evolved in the past twelve months?" and "A10: Please indicate how you believe the availability of the following sources of financing will evolve in the next twelve months?", the net percentage represents the difference between the share of companies indicating an increase of availability of a certain source of financing and the share of companies indicating a decrease of availability of that source of financing. A positive net percentage means that the availability of a certain source of financing increased (A9) or will increase (A10).

The opinions cover the evolution over the past twelve months, and over the last six months for question A2, respectively, and the expectations for the next twelve months.

## 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 using the answering option "d. You do not have outstanding loans", of the single choice question "A7. How do you perceive your relationship, in the past twelve months, with the banks and non-bank financial institutions from which you took loans (outstanding loans irrespective of their age)?". The companies that chose the answering option d) were classified as firms with no outstanding loans, and the rest of the companies, which chose other answering options to the question, were considered companies with outstanding loans.