

## HOW WERE BANKS INVOLVED IN SUPPORTING ROMANIAN SMEs DURING THE COVID-19 PANDEMIC?

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### **Abstract**

*Although banks have always been one of the engines of economic development, in such moments - a pandemic that affects the physical health of the population and the financial health of the economies - this role appears even more clearly outlined. The aim of this paper is to present the main financial government programs made available by banks from an emerging country to support its small and medium enterprises (SMEs) during the Covid-19 pandemic. The research is based on a quantitative method. The paper demonstrates that the Romanian banking and financial system is using dedicated government programs in order to financially support SMEs to survive during the difficult period generated by the pandemic.*

**Keywords:** Covid-19 pandemic, Romania, government financial programs, banks, SMEs

**Clasificare JEL :** G21, M00

### **1. Introduction and context of the study**

The COVID-19 pandemic, also known as the Wuhan coronavirus, outbreak of Chinese pneumonia or Wuhan pneumonia began on December 12, 2019 in downtown Wuhan, China, when a group of people with pneumonia of unknown cause appeared, was mainly related to the stall owners who worked at the Huanan fish market, who also sold live animals (Tomescu-Dumitrescu and Mihai, 2020). This health crisis immediately turned into an economic and social problem.

Access to finance is very important for every company and even more so for entrepreneurial ventures (Fraser and others, 2015; Block and others, 2018; Moro and others, 2020). In the continental European context, banks are by far the most important source of funds for entrepreneurship (Heyman and others, 2008; Ortiz-Molina and Penas, 2008; Revest and Sapio, 2012).

The aim of this paper is to present and analyze the main financial government programs made available by banks from an emerging country to support small and medium enterprises (SMEs) during the Covid-19 pandemic.

The structure of the paper is as follows: the next section presents the literature review. The research methodology is displayed in the third section of the paper. The fourth section illustrates the results. The paper ends with conclusions.

## 2. Literature review

Acknowledging the social and cultural embeddedness of entrepreneurial activities, researches have increasingly shifted their focus from studies of entrepreneurs and ventures to the creation of entrepreneurial ecosystems: the sets of actors, institutions, social networks, and cultural values that produce and sustain entrepreneurial activity (Auerswald, 2015; Stam, 2015; Ács and others, 2017; Brown and Mason, 2017; Roundy and others, 2018, Catană and others, 2020).

A bank's job is to provide customers with financial products and services that help people better manage their lives (Local First Bank, 2020). The last decade has seen strong growth in digital innovation, especially in financial technology (Phan and others, 2019, Toma and Gradinaru, 2018, Burcea and others, 2011).

The financial industry is conscious of the need to apply technology to improve its activity: this is reflected in the coinage of the term “Fintech” or “Financial technology”, used to denominate the use of computer programs and other technology that supports or enables banking and financial products and services (Hernández-Nieves and others, 2020). The consumer theory (Aaker and Keller, 1990) suggests that the new products and services (such as those provided by Fintech companies) by meeting the same consumer demand can replace the old products and services (such as those provided by traditional banks).

## 3. Research methodology

In order to attain the aim of the paper the authors used a quantitative research method. The information were obtained through desk research. Firstly, they identified the sources of information and they searched for data in scientific articles and books from the areas of public health, business and banking. The documents were found in prestigious economic databases (Web of Science, Emerald Insight, JSTOR and ProQuest). Then, the authors analyzed the top 10 banks which operates on the Romanian market and their implications for governmental programs. Thirdly, they performed a literature review. Finally, the authors concluded the paper and emphasized the conclusions following the analysis performed.

## 4. Results

The annual report of the National Bank of Romania (2020), shows, among other things, the balance sheet data of the ten strongest banks in Romania, in 2019, as follows (Forbes, 2020):

Table no. 1. Top ten strongest banks in Romania, in 2019

Rank	Name of the bank	Assets (billions LEI)	Market share (percentages)	Enrolled in the governmental programs
1	Banca Transilvania	87.7	17.7	YES
2	Banca Comercială Română	71.4	14.4	YES
3	BRD	55.8	11.2	YES
4	ING	44.6	9	YES
5	UniCredit Bank	44.5	8.9	YES
6	Raiffeisen Bank	42.8	8.6	YES
7	CEC Bank	32.8	6.6	YES
8	Alpha Bank	17.8	3.6	YES

9	OTP Bank	13.2	2.6	YES
10	Garanti Bank	10.8	2.1	YES

Source: National Bank of Romania, 2020

During the crisis generated by the Covid-19 pandemic, the banks used the tools offered by the government to support the Romanian economic and entrepreneurial environment. The main financial instruments are: IMM INVEST ROMANIA program and IMM Leasing program.

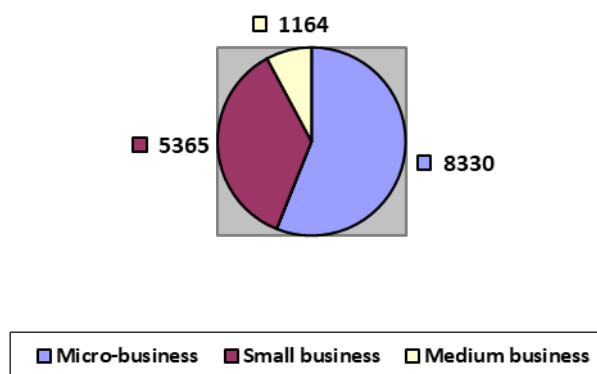
The IMM INVEST ROMANIA program allows SMEs significantly affected by the COVID-19 crisis to ensure their liquidity for the current activity or for investments, by accessing one or more loans for investments and / or one or more loans / lines of investment. credit for working capital, guaranteed by FNGCIMM in the name and account of the Romanian state, through the Ministry of Public Finance (National Credit Guarantee Fund for Small and Medium Enterprises, 2020). The maximum guaranteed ceiling allocated is 15 billion lei.

In addition to government guarantees that can be 80% or 90% of the value of the loan, the selected companies will also benefit from the subsidy of interest on credit until the end of 2020, with the possibility of extension, depending on the conditions of the country's economy. Thus, the later you get a loan, a company benefits the less from interest subsidies.

According to the data presented by FNGCIMM, from the beginning of the program (April 28, 2020) until August 21, 2020, were analyzed applications from 67,322 SMEs, being approved by banks 15,129 loans in cumulative value of 12,047,312,989 RON.

The following figure (Figure no. 1) shows the structure of loans granted under the program, depending on the category of SME.

Figure no. 1. The structure of the credits granted within the IMM INVEST ROMANIA program, depending on the SME category



Source: Authors' contribution

Micro-enterprises obtained a higher number of loans (8,330) than the total number of loans of small (5,635) and medium-sized enterprises (1,164). This demonstrates that small companies were most affected by the COVID-19 pandemic. In addition, the smaller a company, the more funding it needs.

The following table (Table no. 2) presents the structure of these loans, depending on the total value granted, the type of financed enterprises, as well as the type of loans granted.

Table no. 2. The structure of the typology of the granted credits, depending on the SME category

SME category	Number of granted credits	Total value of granted credits (RON)	Working capital loans	Investments loans
Microintreprindere	8,330	3,872,445,133	1,518,278,053	2,354,167,080
Intreprindere mica	5,635	5,344,672,533	2,440,357,813	2,904,314,721
Intreprindere mijlocie	1,164	2,830,195,323	1,944,547,499	885,647,824
TOTAL	15,129	12,047,312,989	5,903,183,365	6,144,129,625

Source: National Credit Guarantee Fund for Small and Medium Enterprises, 2020

From the presented data, it is observed that the medium enterprises generally preferred to access loans for working capital, while the micro-enterprises and the medium enterprises opted, mainly, for the investment loans.

The government program IMM Leasing allows small and medium-sized companies to be able to buy equipment and machinery on lease, with state-guaranteed financing. The value of the financing from the program is of maximum 5 million lei (Ziarul Financiar, 2020).

The 21 banks participating in the IMM INVEST ROMANIA program approved a number of 11,589 loans to the applicant SMEs, and the volume of guaranteed financing is over 10.2 billion lei, FNGC IMM mentioned in a press release (National Credit Guarantee Fund for Small and Medium Enterprises, 2020).

In essence, these government programs led to the following facts:

- supporting companies to have funds to pay current expenses;
- financing of severely affected industries;
- maintaining jobs;
- making investments;
- ease of access to cash.

## 5. Conclusions

Romanian banking and financial system is using dedicated government programs in order to financially support SMEs to get through the difficult period generated by the pandemic.

During the financial crisis, there were SMEs that had to send their employees into technical unemployment and could no longer make investments. Thus, the IMM INVEST and IMM LEASING financial programs have given a necessary capital infusion to the business environment.

The paper provides the framework to better understand the Romanian banking system and its peculiarities. Also, the paper underlines the key programs used by banks to support the business environment in a complicated period in terms of public health.

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