Beyond Credit Supply: Bankable Demand as the Missing Link between Economic Convergence and Financial Intermediation

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Abstract
Despite substantial economic convergence across Central and Eastern Europe over the past three decades, financial intermediation has remained persistently uneven, with Romania representing one of the most pronounced cases of this divergence. Existing research explains these differences primarily through banking-sector characteristics and other supply-side determinants. This paper argues that such explanations are incomplete because they overlook the conditions under which economies generate bankable demand. Building on comparative evidence from the European Union, the Euro Area and the countries of Central and Eastern Europe, with Romania serving as the principal analytical case, the paper develops an integrated conceptual framework that explains how bankable demand emerges from the interaction between two complementary groups of determinants. The first comprises productive and economic factors, including productivity, capitalisation, financial performance and transparency. The second encompasses institutional, behavioural and socio-political factors, arguing that institutional trust, regulatory predictability and the influence of populist rhetoric shape incentives for formal economic participation and, ultimately, the formation of bankable demand. The analysis suggests that financial intermediation depends not only on banks' capacity to supply credit but also on an economy's capacity to generate firms and households that are both able and willing to participate in sustainable formal finance. Within this framework, populist rhetoric is interpreted not primarily as a political phenomenon, but as an institutional and behavioural mechanism capable of weakening trust, increasing regulatory uncertainty and reducing incentives for formalisation, thereby constraining the formation of bankable demand. By positioning bankable demand as the missing analytical link between economic convergence and financial deepening, the paper offers a complementary explanation for the persistence of shallow financial intermediation in transition economies and broadens the analytical perspective on financial development beyond conventional supply-side approaches.

Keywords: bankable demand; financial intermediation; financial deepening; economic convergence; institutional economics; populist rhetoric; transition economies; Central and Eastern Europe and the Baltics (CEB); Romania.

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1. Introduction

1.1. A Fragmented European Financial Landscape

Over the past three decades, Europe has experienced one of the most remarkable processes of economic integration and convergence in modern economic history. Nevertheless, this convergence has not been accompanied by a comparable process of financial deepening. Significant differences continue to persist across the European Union, particularly between the Euro Area, the countries of Central and Eastern Europe and the Baltics (CEB), and Romania regarding financial intermediation, institutional capacity and the ability of financial systems to

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support long-term economic development (World Bank, 2024). To explain this divergence, the paper follows a three-stage analytical chain. Section 4.1 uses macroeconomic data for 1995–2024 to establish the gap between economic convergence and financial intermediation; Section 4.2 uses 2022 sectoral data for Romania to examine the productive and structural conditions that determine firms' capacity to become viable borrowers; and Section 4.3 uses published institutional and behavioural evidence to consider the conditions that may influence willingness to participate in formal finance. These distinct bodies of evidence are connected through the concept of bankable demand but are not treated as a homogeneous dataset or as a single causal estimate.

These differences have important implications for European economic policy. While the European banking sector increasingly operates under a common regulatory and supervisory framework, the economic and institutional environments in which these rules are applied remain far from homogeneous. Countries differ substantially in productive structures, institutional quality, corporate maturity, financial behaviour and participation in the formal economy. Consequently, regulatory approaches designed for financially mature economies may produce significantly different outcomes in countries where financial intermediation remains comparatively shallow (European Banking Authority, 2024; Sahay et al., 2015).

The countries of CEB provide a particularly relevant setting for examining this phenomenon. Having followed comparable transition paths while operating within an increasingly harmonised European institutional framework, these economies nevertheless exhibit considerable differences in financial deepening and in the capacity of their financial systems to support long-term economic growth. Romania illustrates this broader regional pattern particularly well. Despite recording one of the fastest processes of economic convergence within the European Union, it continues to display one of the lowest levels of financial intermediation, suggesting that economic growth alone does not necessarily translate into deeper financial systems (National Bank of Romania, 2024; World Bank, 2024).

1.2. Beyond Credit Supply

The persistent divergence between economic convergence and financial intermediation raises a fundamental question that remains only partially addressed in the literature. A substantial strand of finance-growth research examines financial development through the depth, stability and efficiency of financial institutions and markets, together with regulation and institutional quality (Demirgüç-Kunt & Levine, 2001; Levine, 2005; Sahay et al., 2015). While this literature has greatly advanced the understanding of financial systems, it offers only a partial explanation for why economies with well-capitalised banks, adequate liquidity and increasingly harmonised prudential rules may still experience persistently low levels of financial intermediation. The unresolved issue is therefore not only whether banks are able to supply credit, but also whether the real economy generates a sufficiently large pool of economically viable and institutionally prepared borrowers.

This observation suggests that analysing financial intermediation requires moving beyond the traditional distinction between credit supply and aggregate credit demand. Evidence that firms substitute internal funds and trade credit for bank finance indicates that the existence of financing needs does not automatically generate effective participation in formal finance (Demirgüç-Kunt & Maksimovic, 2001; Beck et al., 2008). The capacity of firms and households to access sustainable external financing instead depends on a broader combination of productive, institutional and behavioural conditions that determine whether economic agents become bankable participants in the financial system.

At the same time, the broader economic environment has become increasingly influenced by profound social and political transformations. Across Europe and other advanced economies, growing political polarisation, declining institutional trust and the increasing visibility of populist rhetoric have attracted growing attention within political economy and institutional research (Norris & Inglehart, 2019). Although these developments are rarely analysed as direct determinants of financial intermediation, recent evidence suggests that populist rhetoric may affect financial inclusion and trust in formal financial institutions (Dănescu et al., 2023). This broader context reinforces the need to examine financial intermediation through productive and economic factors together with institutional, behavioural and socio-political factors rather than through credit supply alone.

1.3. Research Gap, Research Question and Contributions

Existing research provides extensive evidence on the finance-growth nexus, firm-level financing constraints, institutional quality and financial inclusion. However, these strands are generally examined separately. Limited attention has been paid to the process through which economic development, firm-level productive capacity, institutional conditions and the willingness of economic agents to participate in formal finance jointly transform financing needs into bankable demand. This gap motivates the central research question of the paper: through what mechanisms can sustained economic convergence coexist with persistently shallow financial intermediation?

The paper addresses this question by positioning bankable demand as the transmission mechanism linking the structural characteristics of the real economy to the observed depth of financial intermediation. It makes three contributions. First, it distinguishes bankable demand from the broader expressed need for financing. Second, it integrates productive and economic determinants with institutional, behavioural and socio-political factors within a three-level analytical framework. Third, using Romania as the principal case within a comparison with the CEB economies, the European Union and the Euro Area, it illustrates how substantial banking-sector lending capacity may coexist with a limited pool of viable and willing borrowers. Within this framework, populist rhetoric is treated as an indirect mechanism operating through institutional trust and regulatory expectations, without implying a causal relationship in the present analysis.

The remainder of the paper is organised as follows. Section 2 reviews the relevant literature, Section 3 presents the data, indicators and analytical procedure, Section 4 discusses the results, and Section 5 concludes by outlining the main findings, policy implications, limitations and directions for future research.

2. Literature Review

Understanding why some economies generate strong bankable demand while others do not has become an increasingly important question within the broader literature on financial intermediation and economic development. Financial systems are widely recognised as fundamental institutions that facilitate capital allocation, improve risk diversification, support productivity growth and promote long-term economic development (Levine, 2005). A substantial body of empirical research further demonstrates a robust positive association between financial depth and economic growth across countries (Beck et al., 2000). Collectively, these contributions establish financial intermediation as a central mechanism through which financial systems foster economic development. At the same time, they raise a broader question that remains only partially addressed in the literature: why do economies with apparently similar macroeconomic characteristics generate markedly different levels of effective participation in formal financial intermediation?

Subsequent research has challenged the assumption that the relationship between finance and economic growth is universal and linear. Demirgüç-Kunt and Levine (2001) argue that differences in financial structure significantly influence development outcomes, while Arcand et al. (2012) show that, beyond certain levels, financial expansion may generate diminishing returns for economic growth. Sahay et al. (2015) further emphasise that the contribution of finance depends not only on its quantitative expansion but also on its efficiency, institutional quality and resilience. More recent evidence reinforces this conditional interpretation. Iwasaki and Kočenda (2024) identify a small positive but highly heterogeneous overall effect of financial development on economic growth. For Central and Eastern Europe, Tang (2024) finds that the contribution of banking development varies across periods, while Sotiropoulou (2025) reports Granger-causal links from banking development to economic growth using alternative financial development indicators. Taken together, these studies show that financial depth alone cannot explain national outcomes and that the productive and institutional conditions through which finance is translated into effective economic activity require closer attention.

Institutional economics provides an essential complementary perspective for explaining these differences. North (1990) demonstrates that formal and informal institutions, together with path dependency, exert persistent effects on economic performance, while Acemoglu and Robinson (2012) emphasise the importance of inclusive institutions for sustainable development. In transition economies, Kornai (1992) shows that inherited structural distortions continue to influence firms' behaviour and resource allocation long after formal market reforms have begun. Persistent informal practices and incomplete financial reporting may therefore continue to constrain firms' participation in formal financial markets despite substantial institutional reforms.

Institutional, behavioural and legal perspectives further enrich this analytical framework. Trust in institutions, perceptions of fairness and behavioural incentives influence the willingness of firms and households to participate in formal financial systems (Guiso et al., 2006), while legal quality, regulatory predictability and effective institutional enforcement shape firms' capacity to access external finance (La Porta et al., 1997). Rather than operating independently, these institutional, legal and behavioural dimensions interact continuously, influencing both the incentives and the ability of economic agents to participate in formal financial intermediation.

Within this broader institutional perspective, populism has been conceptualised either as a thin-centred ideology contrasting "the pure people" with "the corrupt elite" (Mudde, 2004) or as a broader political communication strategy characterised by anti-elite rhetoric and cultural backlash (Norris & Inglehart, 2019). Although primarily examined within political science, these approaches suggest that populist rhetoric may also influence economic behaviour indirectly by affecting institutional trust, perceptions of fairness and regulatory expectations. This provides a useful conceptual bridge between political narratives and financial intermediation.

Research on emerging and transition economies further demonstrates that economic development may follow multiple financing paths. Allen et al. (2005) document the important role of non-bank financing mechanisms in supporting economic activity, while Demirgüç-Kunt and Maksimovic (2001), together with Beck et al. (2008), show that trade credit frequently substitutes for bank credit in financially less developed economies. These findings indicate that economic growth may continue even where formal financial intermediation remains comparatively weak.

Recent firm-level research brings the demand side into sharper focus. Using data on Eurozone SMEs, Anastasiou et al. (2022) show that borrower discouragement is influenced by economic sentiment, while Ferrando and Mulier (2022) document real effects of credit constraints among firms that refrain from applying for credit. Kallandranis et al. (2023) further show that credit rationing remains heterogeneous across Eurozone firms. This evidence confirms that the existence of a financing need cannot be equated with effective demand for bank credit: firm characteristics, expectations and anticipated rejection influence whether financing needs reach the formal financial system. However, these studies do not integrate these firm-level mechanisms with the broader divergence between economic convergence and financial depth, leaving space for the concept of bankable demand developed in this paper.

More broadly, this evidence suggests that limited financial intermediation cannot automatically be interpreted as evidence of insufficient credit supply. Instead, it raises the possibility that deeper structural characteristics influence the capacity of firms and households to generate effective demand for formal financial services. This perspective provides the transition towards examining the determinants of bankable demand itself.

Recent work involving the author has explored the institutional and behavioural determinants of financial intermediation, with particular emphasis on the role of populist rhetoric, institutional resilience and public confidence in shaping financial inclusion and economic development. These studies have highlighted the importance of institutional and behavioural factors in explaining differences in financial intermediation beyond conventional macroeconomic and banking-sector indicators (Dănescu et al., 2023). Building on this line of research, the present paper introduces the concept of bankable demand as the analytical mechanism linking productive, institutional, behavioural and socio-political determinants to financial intermediation. Within this framework, populist rhetoric is interpreted not as a political phenomenon per se, but as one of several institutional and behavioural factors influencing the formation of bankable demand.

3. Methodology

3.1. Analytical Framework

This study develops an analytical framework explaining how productive and economic factors together with institutional, behavioural and socio-political factors shape the formation of bankable demand, which functions as the transmission mechanism between economic convergence and financial intermediation. Rather than analysing financial development exclusively through banking-sector characteristics, the framework integrates three complementary analytical dimensions: productive and economic conditions, structural characteristics of the corporate sector, and institutional, behavioural and socio-political factors influencing firms' participation in formal finance.

The framework is organised into three interconnected analytical levels. The first examines the relationship between economic convergence and financial intermediation across European economies using internationally comparable indicators. The second investigates the productive and structural characteristics affecting firms' capacity to access formal finance, including productivity, capitalisation, financing structure and financial transparency. The third interprets these empirical patterns through institutional, behavioural and socio-political factors that influence participation in the formal financial system. Together, these dimensions provide an integrated perspective on the conditions shaping the formation of bankable demand and, ultimately, the depth of financial intermediation.

3.2. Data, Indicators and Analytical Tools

The empirical analysis relies on secondary data and author's calculations covering the period 1995–2024. The macroeconomic comparison uses World Bank World Development Indicators for Romania and the CEB, European Union and Euro Area aggregates. Economic convergence is operationalised as GDP per capita at purchasing power parity relative to the European Union average, calculated for each benchmark group *g* and year *t* as:

$$CONV_{g,t} = \frac{GDPpcPPP_{g,t}}{GDPpcPPP_{EU,t}} \times 100$$

A value of 100 therefore represents the European Union average. Financial intermediation is measured by domestic credit to the private sector by banks as a percentage of GDP. The evolution of these indicators is examined through longitudinal graphical analysis and descriptive comparison of national and regional trajectories.

The structural analysis of the Romanian economy uses sector-level financial data for 2022 compiled from the Romanian Ministry of Finance and ANAF and reported by the Romanian Association of Banks (2022). Sectoral profitability is measured through return on equity, calculated as

$$ROE_i = \frac{Net\ Profit_i}{Total\ Equity_i} \times 100$$

and return on assets, calculated as

$$ROA_i = \frac{Net\ Profit_i}{Total\ Assets_i} \times 100$$

Total equity, total assets and net profit or loss, expressed in RON billion, are used as indicators of capitalisation, economic scale and absolute financial performance. The sectors are ranked according to each indicator, allowing the relative position of the banking sector to be compared with that of non-financial industries. Evidence regarding the proportion of bankable firms, firms with negative equity and the use of internal funds, trade credit and bank credit is drawn from the Romanian Association of Banks (2022) and PwC (2019).

Credit-supply conditions are assessed using prudential indicators reported by the National Bank of Romania (2024) and the European Banking Authority (2024), including capital adequacy, liquidity, asset quality and banking-sector profitability. Institutional, behavioural and socio-political mechanisms are examined through a structured interpretation of published evidence concerning financial transparency, regulatory predictability, institutional trust and participation in formal finance. The populism and financial inclusion indicators presented in Figures 5 and 6 are drawn from Dănescu et al. (2023) and used as complementary external evidence; unlike the sectoral analysis in Section 4.2, they are not re-estimated here and serve an illustrative rather than demonstrative purpose.

Bankable demand is treated as a latent conceptual construct rather than as a directly observable variable. Consequently, the study does not calculate a composite bankable-demand index or estimate a new causal econometric model. Its analytical tools consist of longitudinal benchmark comparison, financial-ratio analysis, ordinal sectoral ranking and the triangulation of macroeconomic, structural, prudential and institutional evidence. The results therefore identify consistent empirical patterns and plausible transmission mechanisms, without claiming to establish causal effects.

3.3. Comparative Research Design

The study adopts a comparative longitudinal case-study design. Romania constitutes the principal unit of analysis, while the CEB, European Union and Euro Area aggregate series reported in the World Development Indicators serve as external benchmarks. At the macroeconomic level, the comparison therefore examines Romania's trajectory relative to regional aggregates rather than employing a country-by-country panel. The purpose is to identify persistent differences in long-term trajectories and benchmark positions, not to estimate country-specific or cross-country causal coefficients.

The CEB aggregate provides a relevant regional benchmark because it comprises economies with broadly comparable transition legacies and subsequent integration into the European Union, while the European Union and Euro Area aggregates represent broader levels of economic and financial development. In the World Bank classification used here, CEB comprises Bulgaria, Croatia, Czechia, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, the Slovak Republic and Slovenia (World Bank, 2024). This aggregated comparison is suitable for identifying regional patterns, although it does not capture the heterogeneity that exists among individual CEB economies.

Romania represents a particularly relevant analytical case because it combines rapid economic convergence with persistently low financial intermediation. The sectoral and institutional evidence for Romania is used to investigate the mechanisms underlying the macroeconomic divergence identified in the first analytical stage. Accordingly, the Romanian case provides an explanatory illustration of the proposed bankable-demand framework rather than a statistically representative estimate for every economy in the region.

3.4. Analytical Strategy

The empirical procedure follows three consecutive stages, each corresponding to one analytical level. In the first stage, the economic-convergence index and the financial-intermediation indicator are assembled as annual series for 1995–2024. Their trajectories for Romania, the CEB aggregate and the European benchmarks are plotted and compared descriptively. The analysis examines the direction of change, the persistence of differences between the benchmarks and whether progress in GDP per capita has been accompanied by a comparable increase in private-sector credit. Figures 2 and 3 present the results of this stage.

In the second stage, the capacity of the Romanian economy to generate financially viable borrowers is assessed through financial-ratio analysis and sectoral ranking. ROE and ROA are calculated for the sectors included in the dataset, after which the banking sector's position is compared with that of the non-financial sectors in terms of profitability, total equity, total assets and net profit. The results are reported in Table 2 and Figure 4 and are interpreted together with published evidence concerning firm productivity, bankability, negative equity, financial transparency and financing structure.

In the third stage, the productive evidence is interpreted in conjunction with banking-sector resilience and the institutional, behavioural and socio-political conditions affecting participation in formal finance. Prudential indicators are used as a supply-side benchmark, while evidence concerning regulatory predictability, institutional trust, financial behaviour and populist rhetoric is used to assess the mechanisms influencing borrowers' capacity and willingness to enter formal credit relationships. Figures 5 and 6 provide complementary cross-country evidence for this interpretative stage.

The findings from the three stages are integrated through analytical triangulation. The bankable-demand explanation is considered consistent with the evidence where low financial intermediation persists despite economic convergence and adequate banking-sector capacity, while firm-level structural indicators and institutional conditions simultaneously indicate a restricted pool of viable and willing borrowers. This procedure makes the inferential logic of the study explicit while preserving its descriptive and exploratory character.

3.5. Conceptual Model of Bankable Demand

The conceptual model developed in this study is based on the premise that economic convergence alone does not necessarily generate higher levels of financial intermediation. Although many Central and Eastern European economies have experienced sustained economic growth and significant convergence towards European income levels, their financial intermediation remains persistently below the European average. This suggests that the missing explanatory element is not economic growth itself, but the process through which economic development is transformed into effective participation in formal financial markets.

Within this framework, bankable demand is defined as the effective capacity and willingness of economic agents to obtain and sustainably use formal financial services. It differs from the broader concept of financing demand because not every financing need satisfies the productive, institutional, behavioural and socio-political conditions required for access to formal financial intermediation.

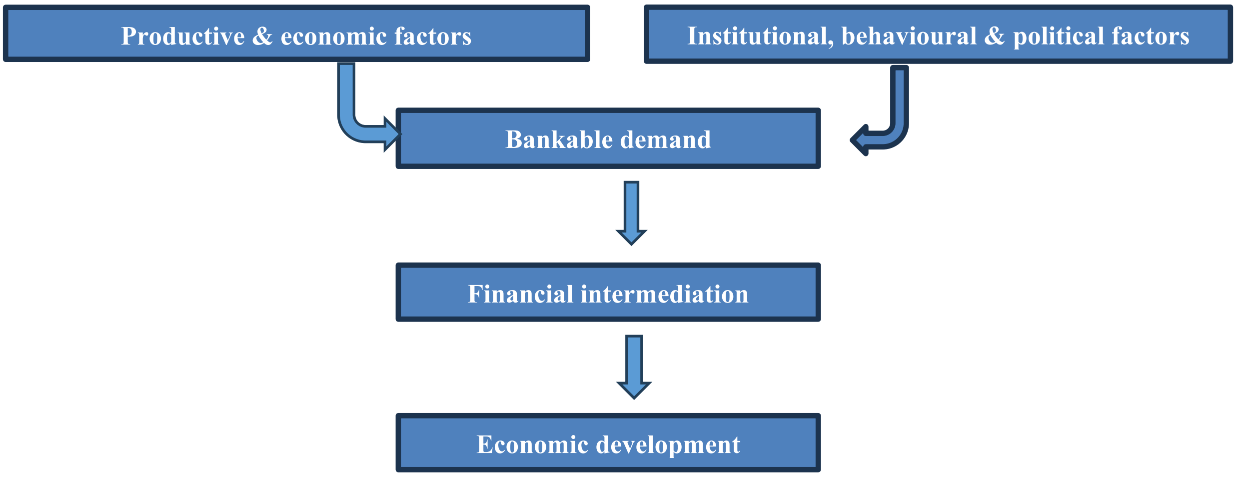
The model identifies two complementary categories of determinants. The first category comprises productive and economic factors, including productivity, capitalisation, financial performance, financing structure, firm size, financial transparency and the capacity to generate stable cash flows. These characteristics determine the economic viability of borrowers and their ability to satisfy the requirements associated with formal financing. The second category comprises institutional, behavioural and socio-political factors. Institutional quality, legal certainty, policy predictability, fiscal compliance, financial culture, trust in financial institutions and the influence of socio-political narratives shape both the incentives and the willingness of economic agents to participate in formal financial intermediation.

Bankable demand emerges from the interaction between these two categories of determinants. Strong productive performance cannot automatically generate formal financial participation where institutional trust, transparency or incentives remain weak. Likewise, favourable institutional conditions cannot compensate for insufficient productivity, weak capitalisation or structurally fragile business performance.

The resulting level of bankable demand directly influences the degree of financial intermediation. Where the stock of economically viable and institutionally prepared borrowers remains limited, even a stable, liquid and well-capitalised banking system may coexist with persistently low credit intermediation. Under these conditions, firms and households continue to rely on internal resources, informal financing, trade credit and other non-bank funding alternatives rather than participating in formal financial markets.

The conceptual model synthesises the relationships identified in the literature and provides the theoretical structure through which the determinants of bankable demand are examined in the empirical analysis. Table 1 summarises the distinct units, periods and sources used at each analytical level and shows how each level contributes to the bankable-demand explanation.

Figure 1. Analytical framework of financial intermediation based on bankable demand



Source: Authors' representation.

Table 1. Three levels of analysis and their connection to bankable demand

Level	Unit and period	Evidence and source	Role in the bankable-demand argument
Macro	Romania and CEB, EU and Euro Area aggregates, 1995–2024	GDP per capita at PPP relative to the EU average and private-sector bank credit as a share of GDP. World Bank WDI; authors' calculations.	Identifies the gap between income convergence and financial deepening.
Sectoral	Romanian economic sectors, 2022	ROE, ROA, equity, assets and net profit. Ministry of Finance and ANAF data reported by the Romanian Association of Banks (2022), with complementary evidence from PwC (2019).	Examines the productive capacity of the economy to generate viable borrowers.
Institutional	Romania-focused interpretation; prudential evidence for 2024 and comparative indicators for 2019 and 2021	Banking resilience, regulatory predictability, trust, financial behaviour and populism. National Bank of Romania (2024), European Banking Authority (2024) and Dănescu et al. (2023).	Examines conditions affecting willingness to use formal finance; the populism evidence is illustrative and is not re-estimated.

Source: Authors' synthesis.

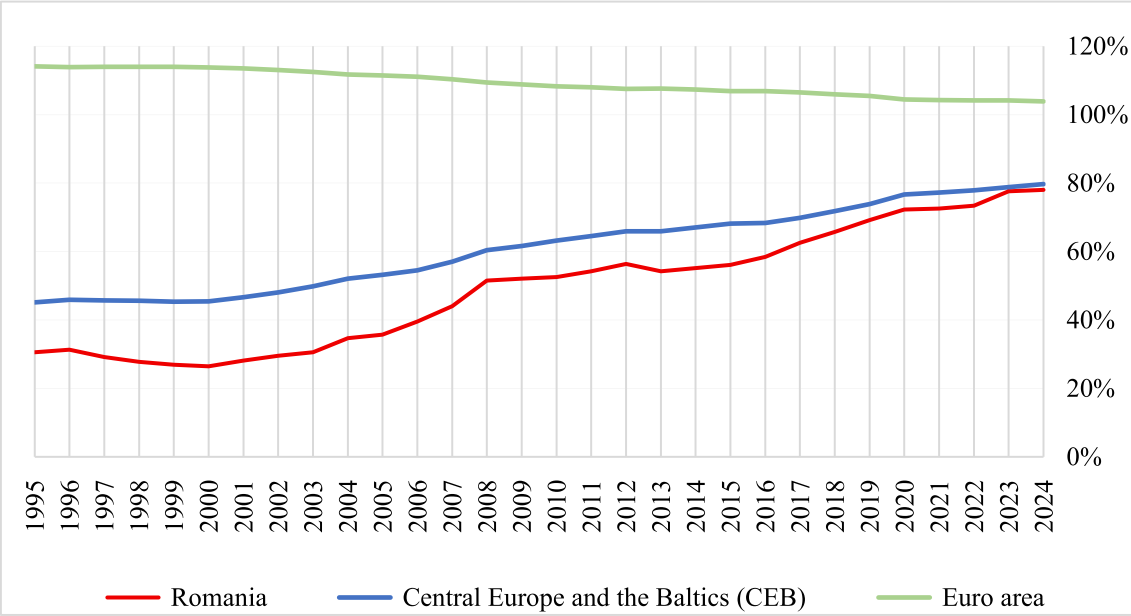
4. Results and Discussion

4.1. Macroeconomic evidence

This section starts with the results of an analysis regarding the relationship between economic convergence and the development of financial intermediation in Romania, within a comparative European context. The analysis first examines the evolution of these two dimensions over the 1995–2024 period - benchmarking Romania against relevant regional and European standards - to determine the extent to which the narrowing gap between Romania's economic development level and the European Union average was accompanied by a corresponding deepening of financial intermediation. Subsequently, the analysis focuses on the structural factors that may explain the observed trends, highlighting the characteristics of the corporate sector and the ability of firms to generate bankable and sustainable demand for financing.

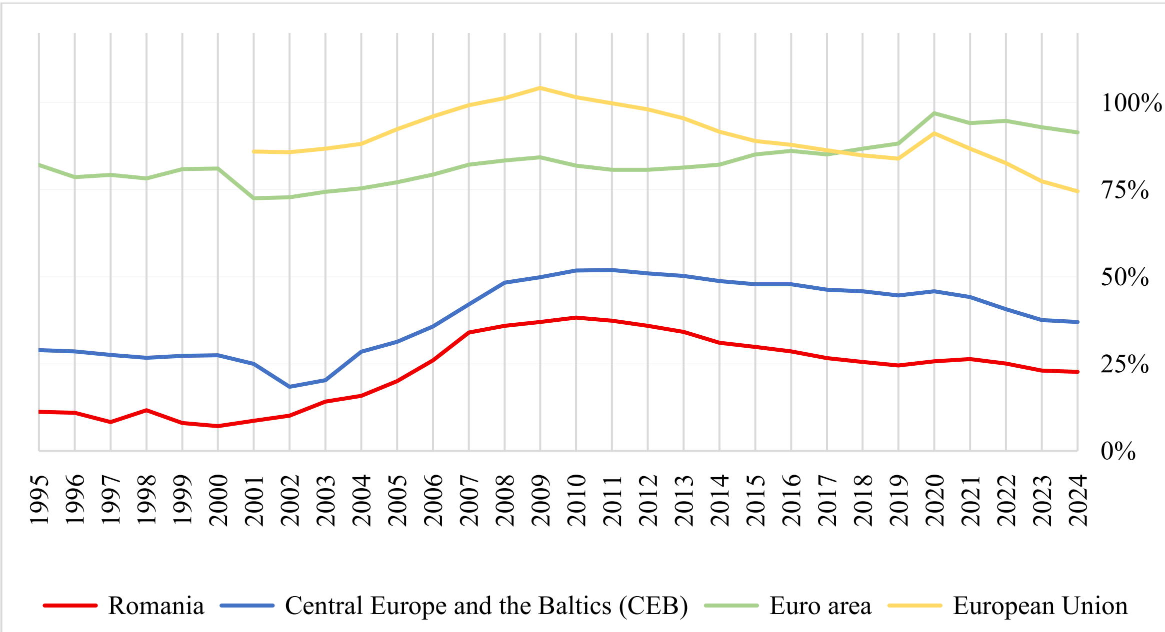
Figures 2 and 3 apply the indicators defined in Section 3 to compare Romania with the CEB, European Union and Euro Area benchmarks over the period 1995–2024. Figure 2 reports GDP per capita at purchasing power parity relative to the European Union average, while Figure 3 reports domestic credit to the private sector by banks as a percentage of GDP.

Figure 2. Economic convergence relative to the EU in Romania, CEB, and the Euro Area (GDP per capita, PPP, % of EU average, 1995–2024)



Source: Authors' calculations based on World Bank, World Development Indicators database (2024).

Figure 3. Financial intermediation in European benchmarks (Domestic credit to the private sector by banks, % of GDP, 1995–2024)



Source: Authors' calculations based on World Bank, World Development Indicators database (2024).

The two figures reveal a persistent divergence between economic convergence and financial intermediation. While Romania has steadily reduced the income gap relative to the European Union, financial intermediation has remained persistently low and has not followed a comparable upward trajectory. A similar, although less pronounced, pattern is observed for the CEB aggregate. The evidence therefore indicates that economic convergence and financial deepening do not necessarily evolve in parallel.

4.2. Sectoral evidence

The macro-level evidence establishes that income convergence has not been matched by comparable financial deepening, but it cannot identify why financing needs fail to become viable credit relationships. The analysis therefore moves to the sectoral level to examine whether firms' productivity, capitalisation, profitability, financing structure and financial transparency generate the capacity required for bank borrowing. This step tests the productive component of the bankable-demand explanation.

This divergence suggests that the explanation lies in the productive and economic characteristics of the corporate sector, which determine firms' capacity to become sustainable users of formal financial services. From this perspective, bankable demand depends not only on the need for financing, but also on the economic capacity of firms to satisfy the conditions required for access to bank credit.

According to the Financial Stability Report (National Bank of Romania, 2024), banking profitability remained below that of the non-financial corporate sector throughout 2013–2022.

To examine the structural factors underlying this pattern, Table 2 compares the Romanian banking sector with the main sectors of the economy using profitability (ROE and ROA), capitalisation, total assets and net profit. The absolute indicators reflect the resources committed to financial intermediation, whereas ROE and ROA measure their efficiency in generating financial returns.

Table 2. Sectoral profitability, equity, assets and net profit in Romania (2022)

No.	Sector	ROE (%)	ROA (%)	Total equity (RON bn)	Total assets (RON bn)	Net profit/loss (RON bn)
1	Other Personal Services	59.0%	20.6%	4.5	12.9	2.7
2	Arts, Entertainment and Recreation	51.4%	15.5%	5.7	18.9	2.9
3	Information Technology (IT)	41.6%	19.2%	23.4	50.7	9.7
4	Human Health and Social Work	38.9%	4.2%	11.6	107.9	4.5
5	Business Services	36.1%	15.6%	45.0	104.1	16.3
6	Accommodation and Food Services	33.6%	13.9%	18.8	45.3	6.3
7	Mining and Quarrying	31.1%	15.2%	41.9	85.7	13.0
8	Construction	29.6%	7.8%	64.3	243.5	19.0
9	Wholesale Trade	28.6%	10.1%	105.0	298.6	30.0
10	Retail Trade	27.4%	10.2%	58.3	156.5	16.0
11	Electricity, Gas, Water and Utilities	23.5%	11.2%	78.3	163.6	18.4
12	Wood and Wood Products	22.9%	9.5%	21.2	50.8	4.8
13	Agriculture	22.4%	8.3%	41.1	110.6	9.2
14	Transportation and Storage	21.5%	6.9%	41.8	130.9	9.0

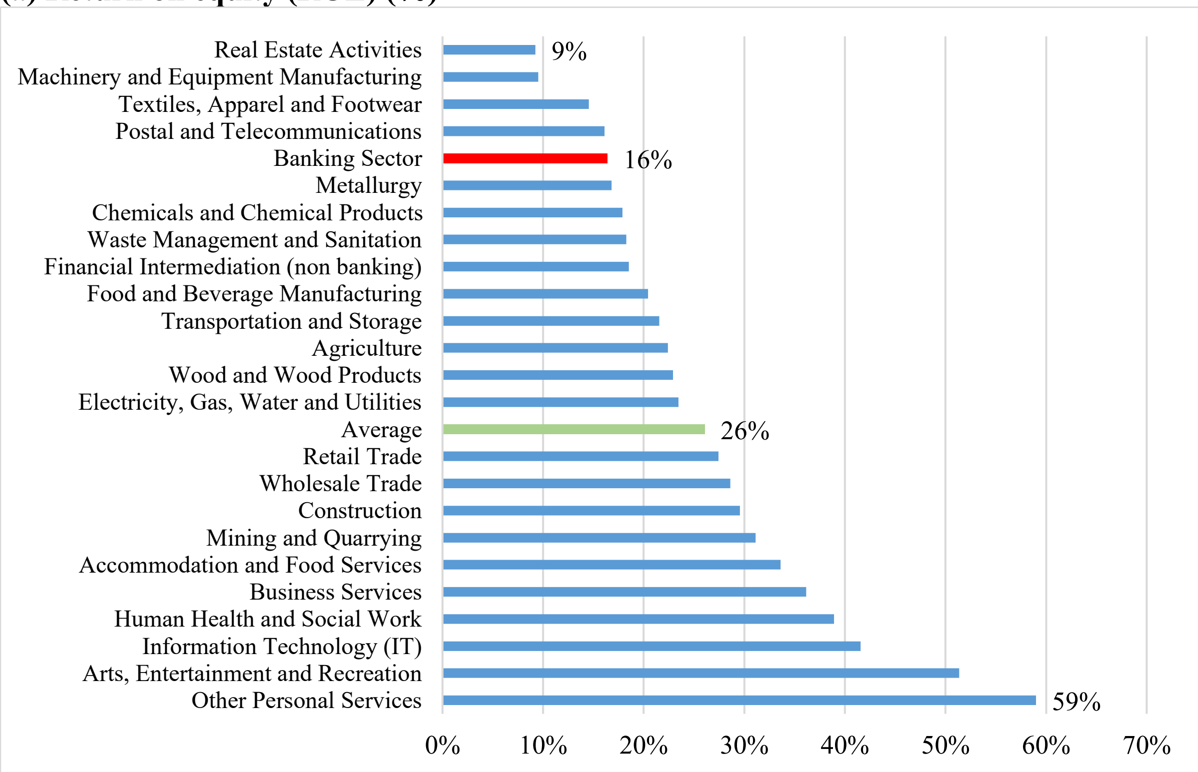
No.	Sector	ROE (%)	ROA (%)	Total equity (RON bn)	Total assets (RON bn)	Net profit/loss (RON bn)
15	Food and Beverage Manufacturing	20.4%	7.9%	27.2	70.5	5.5
16	Financial Intermediation (non-banking)	18.5%	10.8%	29.5	50.5	5.5
17	Waste Management and Sanitation	18.3%	4.4%	8.9	37.2	1.6
18	Chemicals and Chemical Products	17.9%	7.5%	30.3	72.6	5.4
19	Metallurgy	16.8%	7.3%	34.5	79.6	5.8
20	Postal and Telecommunications	16.1%	4.7%	11.5	39.5	1.9
21	Textiles, Apparel and Footwear	14.6%	5.7%	7.8	19.8	1.1
22	Machinery and Equipment Manufacturing	9.5%	3.6%	43.9	115.3	4.2
23	Real Estate Activities	9.2%	3.9%	68.4	162.6	6.3
24	Banking Sector	16.4%	1.5%	63.5	701.0	10.1
A	TOTAL			886	2,929	209
B	averages	26.1%	9.4%	37	122	9

Source: Romanian Association of Banks (2022), using data from the Romanian Ministry of Finance and ANAF.

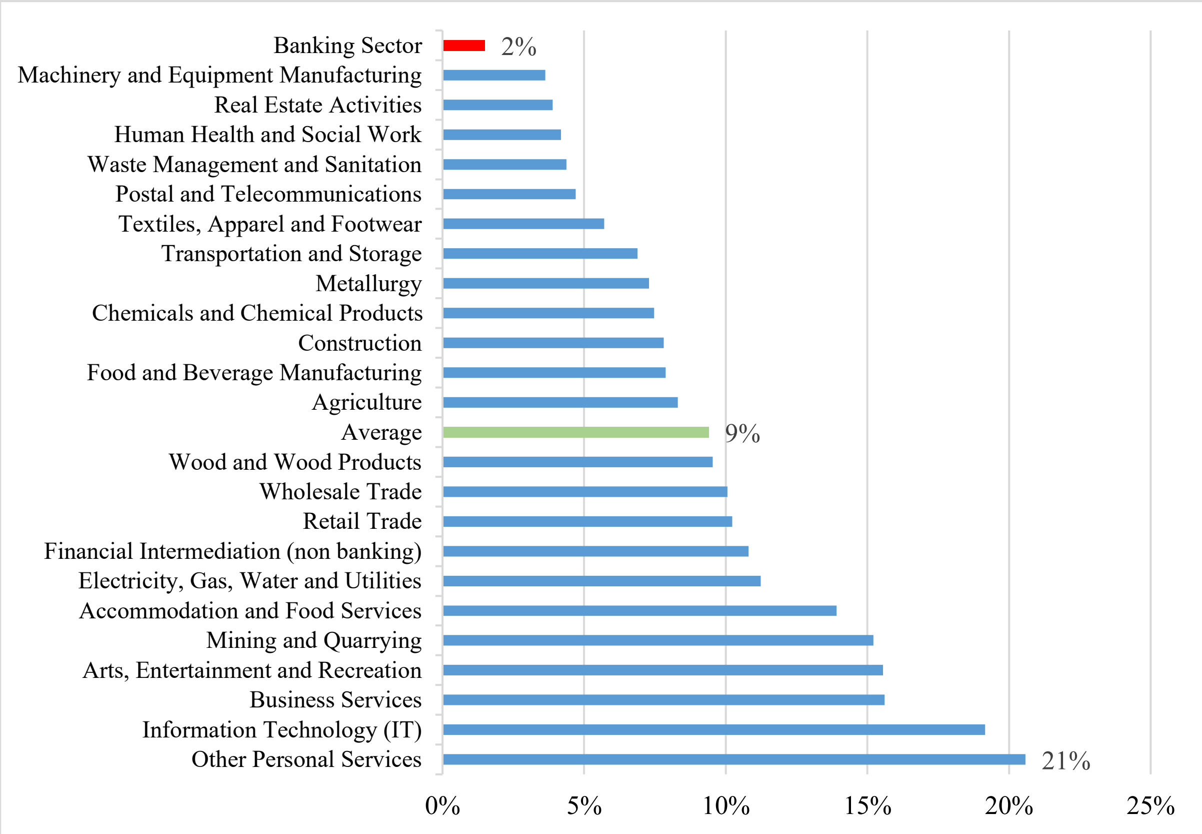
The sectoral comparison reveals a clear distinction between the scale of banking activity and the profitability it generates. While the banking sector mobilises substantially more financial resources than any other sector, this economic footprint is not matched by proportional profitability. Public perceptions of banking performance, often driven by the visibility of absolute profits, therefore fail to reflect returns relative to the capital and assets employed.

Figure 4. Comparative sectoral indicators of the Romanian economy (2022)

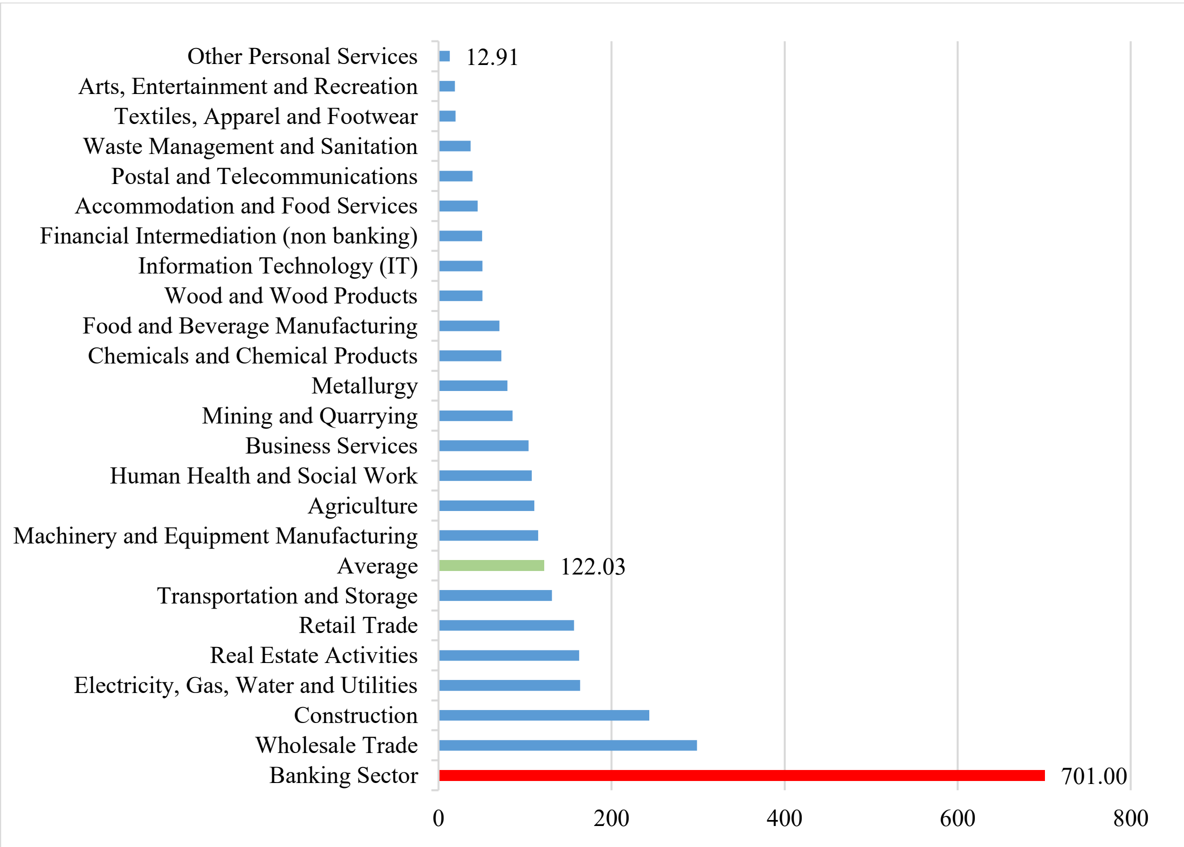
(a) Return on equity (ROE) (%)



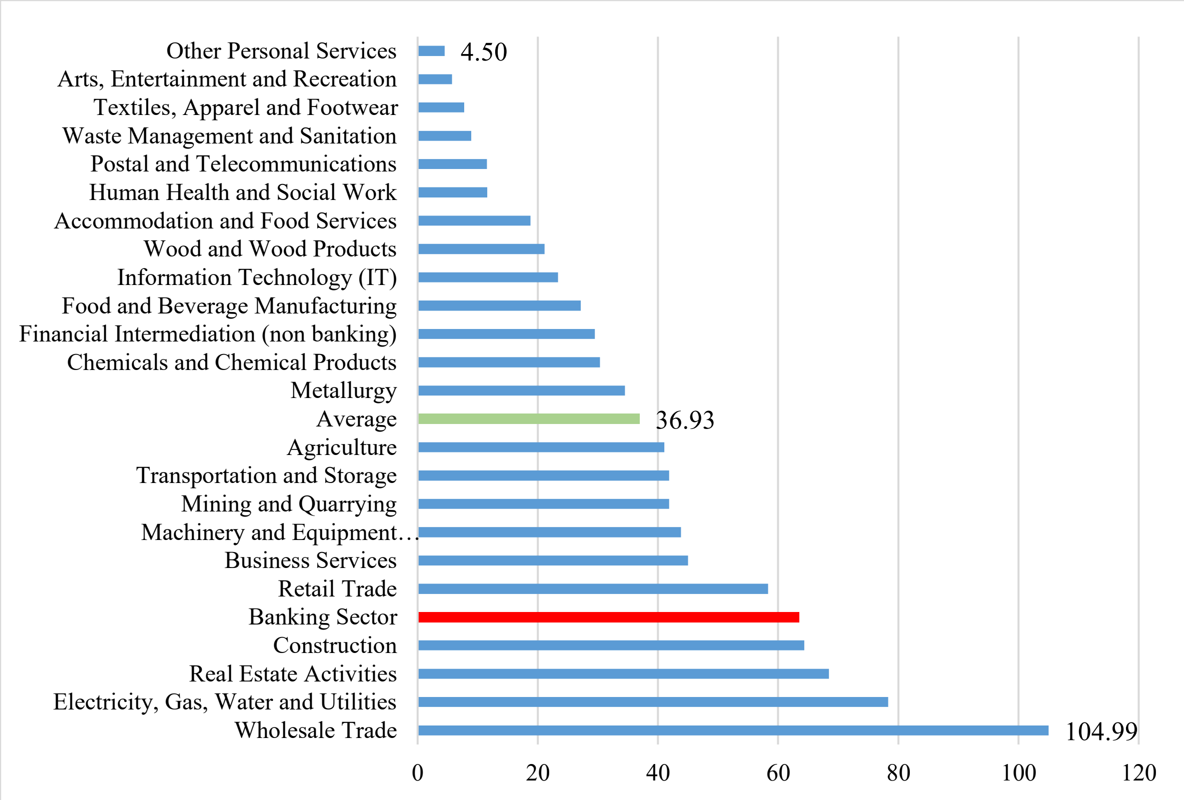
(b) Return on assets (ROA) (%)



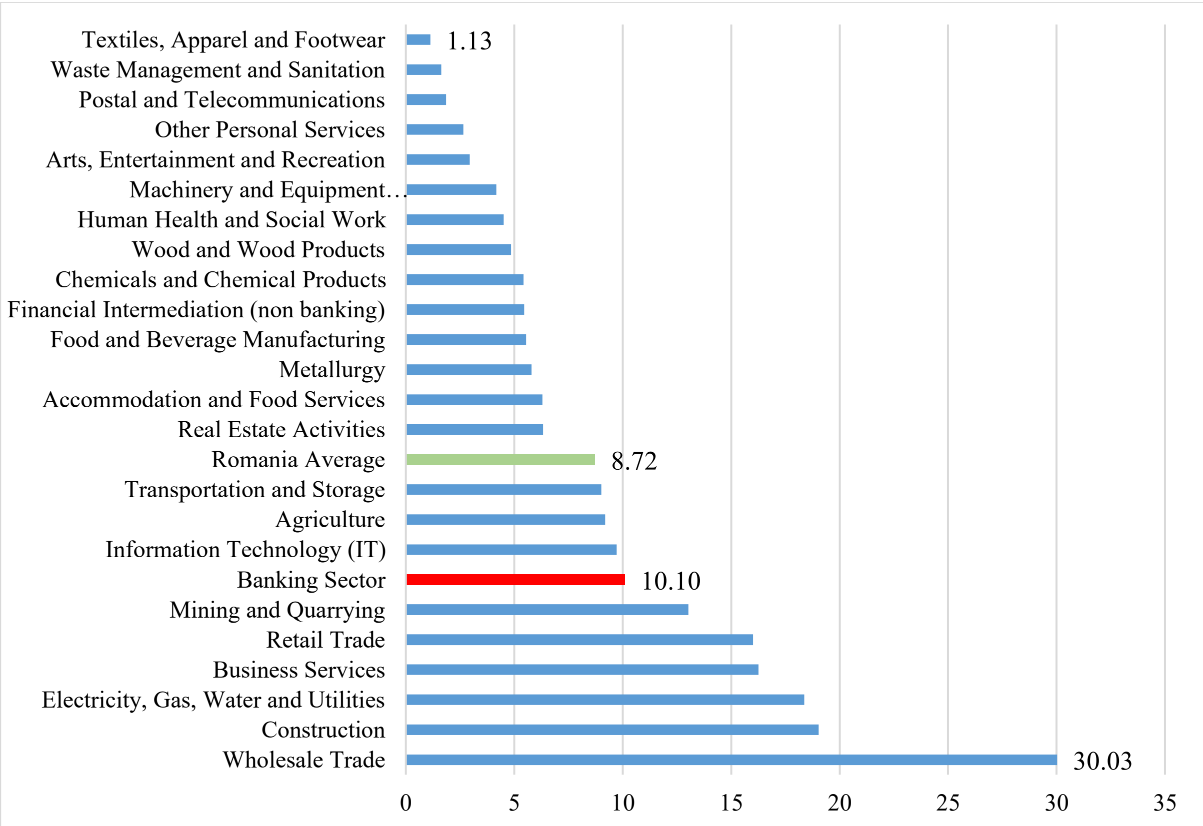
(c) Total assets (bn RON)



(d) Total equity (bn RON)



(e) Net profit (bn RON)



Source: Authors' representation based on the data presented in Table 2.

Figure 4 illustrates this contrast. The banking sector ranks first by total assets, fifth by total equity and seventh by net profit. However, when performance is measured by relative profitability, it falls to twentieth in return on equity and last in return on assets. This contrast highlights the difference between absolute economic scale and economic efficiency.

Although the Romanian banking sector possesses substantial intermediation capacity, these findings suggest that banking sector characteristics alone cannot explain Romania's persistently low level of financial intermediation. The analysis therefore shifts from the supply side to the characteristics of potential borrowers, making the formation of bankable demand the central explanatory mechanism.

According to a study by the Romanian Association of Banks (2022), only around 15% of Romanian companies are bankable under current conditions, while even under support mechanisms the share increases only to approximately one third. At the same time, firms with negative equity account for roughly one third of all companies, indicating persistent undercapitalisation and limited capacity to absorb external financing.

These findings are consistent with Financial Intermediation in Romania (PwC, 2019), which shows that Romanian firms continue to rely primarily on internal resources, shareholder financing and trade credit, while bank lending represents only a relatively small component of corporate financing.

Structural weaknesses extend beyond capitalisation. Low productivity, particularly among SMEs, together with fragmented firm structures and limited investment capacity, reduces firms' ability to generate stable cash flows and satisfy prudential lending standards, thereby restricting the pool of bankable firms. These characteristics reduce both firms' access to bank credit and the economy's capacity to generate sustainable bankable demand.

Prudential indicators, including capital adequacy, liquidity and asset quality, have remained consistently above the European Union average in recent years, indicating that the banking system possesses both the financial capacity and the resilience to support additional lending. Consequently, Romania's persistently low financial intermediation cannot be attributed solely to constraints on the supply of bank credit.

Taken together, these findings suggest that Romania's persistently low financial intermediation reflects not primarily a shortage of credit supply, but a limited systemic capacity to generate bankable demand. Prudential indicators demonstrate that the Romanian banking sector is not financially constrained, with capital adequacy, liquidity and profitability remaining broadly consistent with European prudential standards despite persistently low financial intermediation. The analytical focus therefore shifts from banks' capacity to supply credit to the structural determinants of effective credit demand (National Bank of Romania, 2024; European Banking Authority, 2024).

4.3. Institutional and behavioural evidence

The sectoral evidence shows how productive and structural weaknesses restrict firms' capacity to qualify for formal finance, but it does not explain the institutional setting in which that capacity is converted into actual participation. The analysis therefore moves to the institutional and behavioural level to examine how transparency, regulatory predictability, trust, financial behaviour and populist rhetoric may affect willingness to enter formal credit relationships. This step complements the sectoral analysis by addressing the conditions under which productive capacity becomes effective bankable demand.

Institutional quality directly affects firms' bankability through the degree of economic formalisation, transparency and legal predictability. Weak contract enforcement, higher information asymmetries and lower transparency increase the cost of credit assessment and reduce the number of firms capable of meeting formal lending requirements (La Porta et al., 1997). In Romania, this institutional dimension has been further influenced by the persistence of a sizeable informal economy that emerged during the transition period and has only been partially integrated into the formal sector. Although the banking sector has undergone profound modernisation, a significant share of economic activity continues to generate limited financial transparency, incomplete reporting practices and insufficient documentary evidence for formal credit assessment. Consequently, many otherwise viable firms cannot demonstrate the financial history, governance standards and transparency required to satisfy banks' lending criteria, restricting the formation of bankable demand. Comparative evidence further indicates that, despite substantial improvements in banking sector resilience and prudential supervision, Romania continues to exhibit institutional gaps relative to several Central and Eastern European economies in dimensions associated with financial development, market efficiency and access to finance (World Bank, 2024).

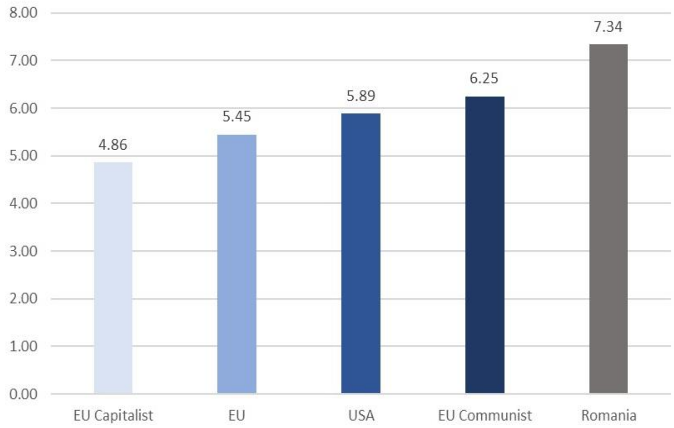
A second mechanism relates to regulatory predictability. Although the Romanian banking sector significantly strengthened its prudential framework following the implementation of Basel III and IFRS 9, the domestic legislative environment became considerably more volatile. According to PwC, approximately fifty new laws and regulations affecting the banking sector were adopted between 2014 and 2018, increasing regulatory uncertainty and weakening the predictability required for long-term financial contracting (PwC, 2019). This legislative activism reflected a broader deterioration of the institutional environment in which banks and borrowers make investment and financing decisions. Under such conditions, both lenders and firms tend to adopt more conservative strategies, delaying investment decisions, increasing risk premia and reducing the volume of economically viable financing projects.

Behavioural factors further reinforce these institutional constraints. Cultural characteristics associated with institutional trust, attitudes towards uncertainty and financial behaviour influence firms' willingness to engage in long-term borrowing, while lower levels of formalisation and confidence in financial institutions reduce participation in formal financial markets (Hofstede, 2001). These behavioural mechanisms interact with institutional quality and regulatory stability, amplifying their effects on firms' capacity to become bankable and on households' willingness to participate in the formal financial system.

An additional transmission mechanism is represented by populist rhetoric. Following Norris and Inglehart (2019), populism can be understood as a political communication strategy that opposes "the virtuous people" to "corrupt elites" while legitimising policy intervention in the name of popular sovereignty. Within financial systems, such narratives frequently portray banks, banking profitability and foreign ownership as privileged interests operating against the public good. When translated into legislative initiatives or public policy proposals, these narratives increase uncertainty regarding future regulation and weaken the institutional predictability required for long-term financial contracting. From an economic perspective, therefore, populist rhetoric becomes relevant not because of its political content per se, but because it modifies expectations, influences institutional credibility and affects the confidence necessary for sustainable financial intermediation.

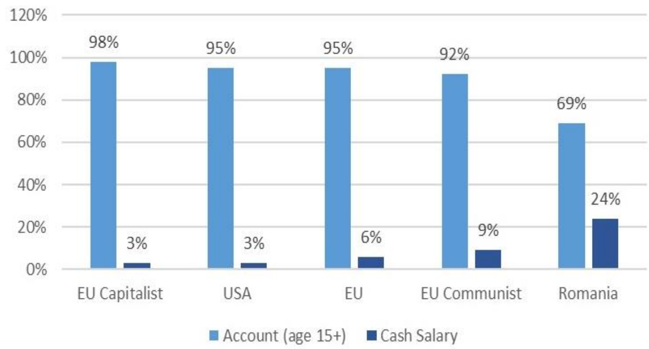
This relationship is also supported by recent comparative empirical evidence. Using a cross-country database covering 89 economies, Dănescu et al. (2023) show that higher levels of populist rhetoric are systematically associated with lower financial inclusion, reduced use of formal financial services and higher levels of institutional distrust, even after controlling for regional effects and cultural characteristics. As illustrated in Figures 5 and 6, Romania combines the highest populism score among the selected country groups (7.34) with the lowest level of financial inclusion (69%) and the highest proportion of employees receiving their salaries in cash (24%), highlighting a pattern consistent with weaker participation in the formal financial system. Their econometric estimates further indicate that a one-point increase in the populism index is associated, ceteris paribus, with lower account ownership and debit card usage, together with a higher proportion of individuals remaining outside the formal financial system because of insufficient trust in financial institutions. These findings support the argument that populist rhetoric influences economic behaviour by weakening institutional confidence, increasing regulatory uncertainty and ultimately constraining the formation of effective bankable demand.

Figure 5. Comparative Populism Index across Selected Country Groups (Global Party Survey 2019)



Source: Dănescu et al. (2023)

Figure 6. Selected Financial Inclusion Indicators across Selected Country Groups (Global Findex 2021)



Source: Dănescu et al. (2023)

5. Conclusions

The three analytical levels form a sequential explanation of Romania's intermediation gap. The macro-level evidence identifies the divergence between income convergence and financial deepening; the sectoral evidence shows how weak capitalisation, uneven productivity and limited transparency restrict the pool of economically viable borrowers; and the institutional evidence indicates how regulatory uncertainty, lower trust and related behavioural mechanisms may further reduce willingness to enter formal financial relationships. Bankable demand connects these levels: productive capacity determines whether financing needs can become viable, institutional conditions influence whether that capacity is translated into sustained formal participation, and their joint weakness explains why a resilient banking system can coexist with persistently shallow intermediation.

Populism and populist rhetoric constitute an additional transmission mechanism within this institutional environment. By framing banks, profitability and financial ownership through an antagonistic opposition between the people and economic elites, populist narratives may weaken confidence in financial institutions and create political incentives for discretionary or short-term regulatory intervention. The comparative evidence does not establish a unidirectional causal relationship between populism and financial exclusion; however, it identifies a consistent association between stronger populist rhetoric, lower participation in formal financial services and greater reliance on cash-based economic practices (Dănescu et al., 2023). Romania's simultaneous position as the selected case with the highest populism score, the lowest account ownership and the highest incidence of cash salary payments illustrates the relevance of this relationship for understanding the broader institutional context in which bankable demand is formed.

The findings therefore support a demand-formation interpretation of financial intermediation. Credit demand becomes bankable only when prospective borrowers combine a viable productive project with sufficient income-generation capacity, transparent financial records, adequate capitalisation, institutional credibility and a willingness to enter formal, long-term contractual relationships. Bankable demand is therefore not synonymous with the expressed need for financing; it represents the narrower segment of demand that can satisfy the economic, informational and institutional conditions required for sustainable lending. This distinction explains why the expansion of bank liquidity, capital adequacy or lending capacity cannot, in isolation, eliminate the intermediation gap.

Financial intermediation should consequently be understood as the outcome of an interconnected process in which productive capacity, economic formalisation, institutional quality, regulatory predictability and financial behaviour jointly determine whether financing needs are transformed into viable credit relationships. Within this framework, Romania's intermediation deficit reflects not merely a quantitative shortage of credit, but a structural limitation in the economy's capacity to generate borrowers and projects that are simultaneously productive, transparent, credible and financially sustainable. The formation of bankable demand therefore represents the central analytical link between economic convergence and financial intermediation and provides the conceptual foundation for understanding Romania's persistent intermediation gap.

The findings have several implications for economic and financial policy. Measures aimed solely at expanding bank liquidity or relaxing prudential requirements are unlikely to generate sustainable financial deepening where the pool of viable borrowers remains limited. Policy should therefore combine the preservation of banking-sector resilience with measures that strengthen firm productivity and capitalisation, improve the quality and continuity of financial reporting, encourage economic formalisation and increase financial capability among firms and households. Greater regulatory predictability and consistent public communication are also important for maintaining institutional trust and supporting long-term credit relationships. For Romania, this requires coordinated action across financial, fiscal, educational and enterprise policies rather than treating low financial intermediation as a problem attributable exclusively to the banking sector.

The study is subject to several limitations. First, bankable demand is treated as a latent conceptual construct and is approximated through a set of complementary indicators rather than measured through a dedicated composite index. Second, the analysis is descriptive and comparative and does not estimate new causal effects. Third, the Romania-centred case design and the heterogeneity of the secondary data sources limit the generalisability of the findings. Future research should develop and validate a measurable bankable-demand index, employ firm- and household-level microdata and survey evidence, and test the proposed framework through panel-data and other econometric methods across Central and Eastern European economies. Further investigation is also needed to identify the causal pathways through which institutional trust, regulatory uncertainty and socio-political narratives influence participation in formal finance.

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