

## **Credit Rating of SMEs: Elements Considered by Spanish Banks**

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The aim of this study is to identify the elements that banks use to carry out the credit risk assessment of SMEs. Improving the channelling of information to financial institutions could have a positive effect on the subsequent assessment of SME credit risk, improving the allocation of financial resources in the credit market which, in turn, would contribute to economic growth.

A different approach is used to achieve this objective, taking the banks as a reference point. The main determinants of the credit risk rating of SMEs used by the Spanish banking system are analysed, in an attempt to increase the level of transparency in banking relations. This would improve the flow of information, reducing the problem of information opacity and improving access to bank financing.

A double methodology is used to analyse the determining factors affecting the credit risk rating of SMEs, both of which are qualitative and complementary: firstly, in-depth interviews with specialists, and then the Delphi method. Based on a panel of experts representative of the Spanish banking system, they are firstly given in-depth interviews to obtain information on the main variables that these banks consider when assessing the granting of the financing requested. A structured interactive consultation process is then applied to them, with the aim of obtaining a reliable group opinion on the previously obtained variables. Finally, the conclusions obtained are set out.

According to the study, SMEs must transmit reliable information on their credit quality to banks in order to suffer less financial constraints. The more transparent it is, with the information transmitted being more in line with its actual situation, the more reliable the information presented is for the bank and, therefore, the work of credit risk analysis is improved. It is also concluded that banks take into account, in addition to financial variables (balance sheets, ratios and other accounting information), other non-financial and behavioural variables (management capacity, historical behaviour, potential and future of the business, etc.), the latter being of great importance, and sometimes even greater than the former.

The structure of the study starts from the theoretical foundations with an exhaustive review of the existing literature both at national and international level. Then, different qualitative techniques are used (in-depth interviews and Delphi method) to obtain the knowledge of professionals linked to the credit risk rating of SMEs. Finally, the information is analysed and conclusions are drawn.

The contribution of this study to the existing literature is based, on the one hand, on the application of a different approach and, on the other hand, on the identification of the type of information that banks consider fundamental when analysing requests for financing by SMEs.

*Keywords:* banking relationship, credit risk rating, access to bank financing, SMEs.

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