Access to bank loans for EU firms in times of crisis

CompNet

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Research question / approach

- *Which factors explain firms' access to finance difficulties?*

- *We investigate a broad range of potential factors: firm characteristics, sector, cyclical conditions, structure & financial health of the banking sector*

- *We link SAFE with ECB data on the financial sector (consolidated country data) and Eurostat's unemployment data*

SAFE survey on access to finance

- *Large-scale survey among firms in the EU/euro area*

- *Jointly financed by ECB/European Commission*

- *Detailed info on access to finance and firm characteristics*

- *Can shed light on the "demand versus supply" discussion*

- *We use 2011H1 for EU and 2012H2 for euro area*

Some examples of access to finance indicators (SAFE): (1) Change (over past 6 months) in the needs for a bank loan
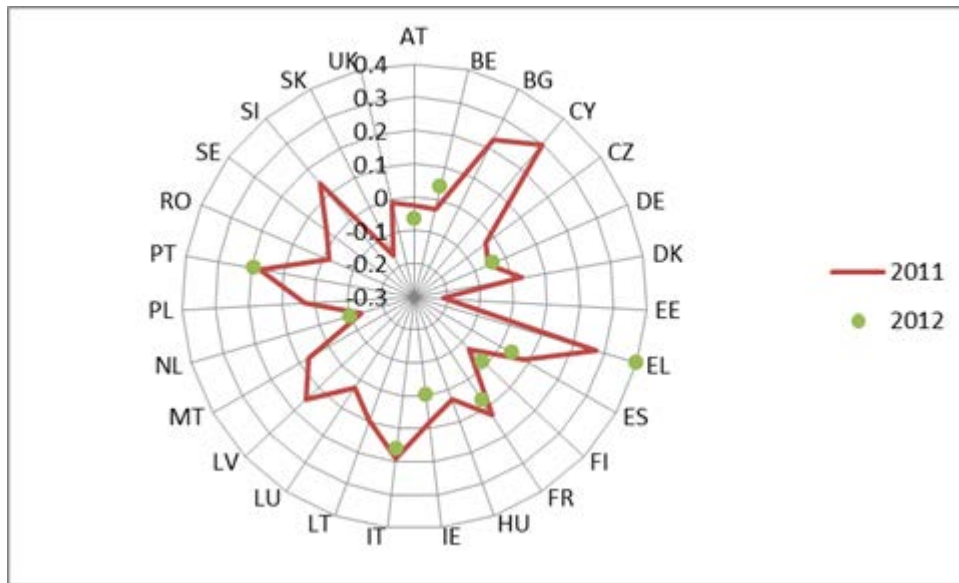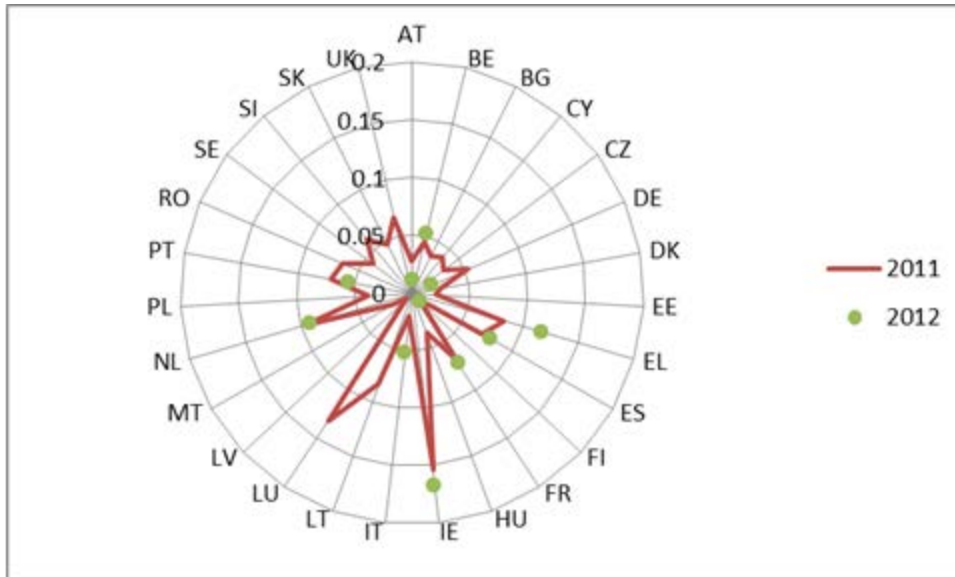

>0 indicates demand increase

Increase in CY, EL, FR, IT
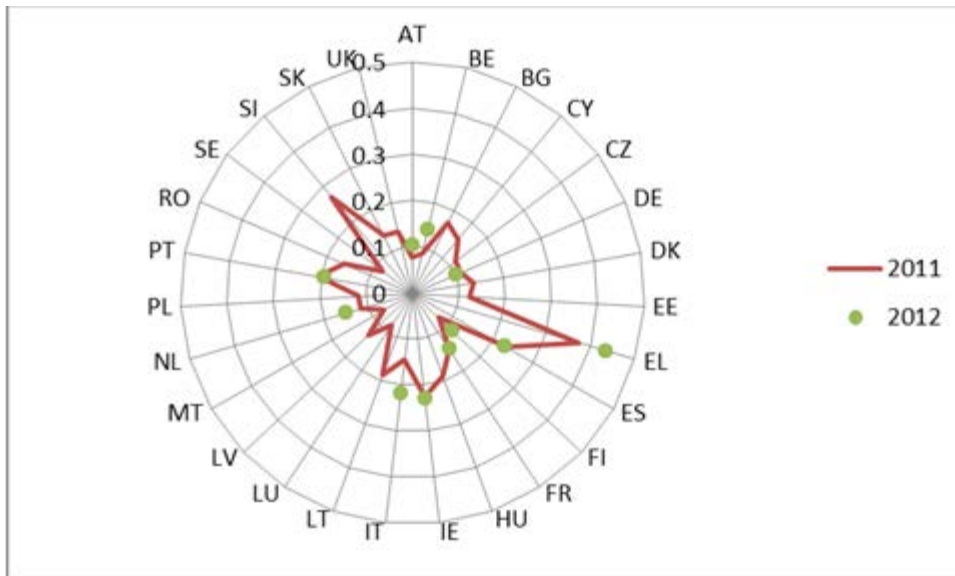
Decrease in EE, NL, SK

(2) Discouraged borrowers

Fraction of firms not applying for a loan because of possible rejection

High in EL, IE, LU, NL

(3) Firms indicating access to finance as the most pressing problem

"Most pressing" relative to other problems (e.g. finding customers)

High in EL, ES, IE, PT, SI

Demand- and/or supply-factors?

| Demand	Supply
Decreased needs of firms for bank loans Top 4: EE, FI, NL, SK	Firms indicating access to finance as the most pressing problem Top 4: ES, EL, IE, SI
Discouraged borrowers Top 4: EL, IE, LU, NL	Decreased availability of bank loans Top 4: EL, IE, PT, SI
	Decreased willingness of banks to provide a loan Top 4: ES, EL, PT, SI
	Received not all the financing requested Top 4: ES, EL, IE, NL

Characteristics of the banking sector (I) Market structure: Percentage of foreign banks
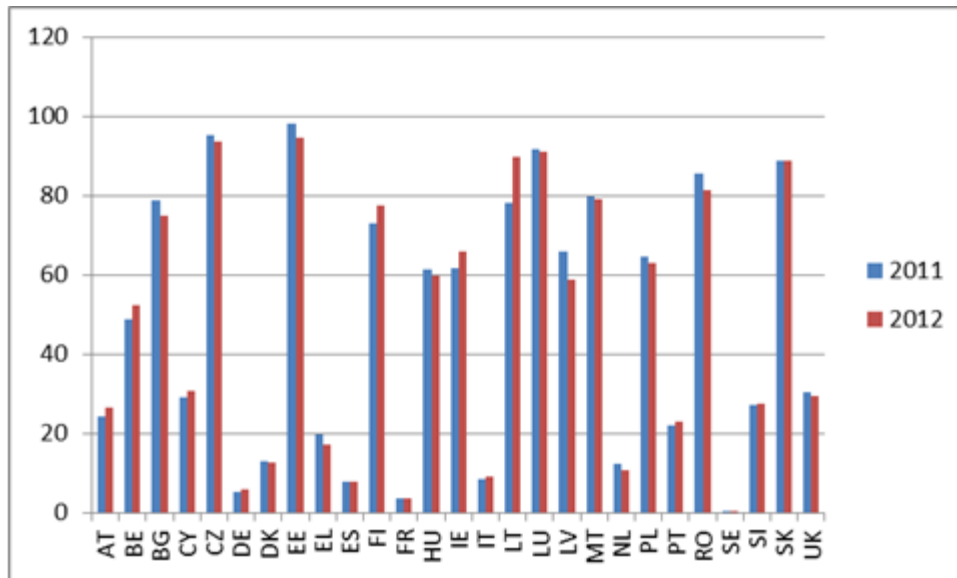
Almost full foreign ownership in CZ, EE, LT, LU, SK

Low percentage in DE, ES, FR, SE
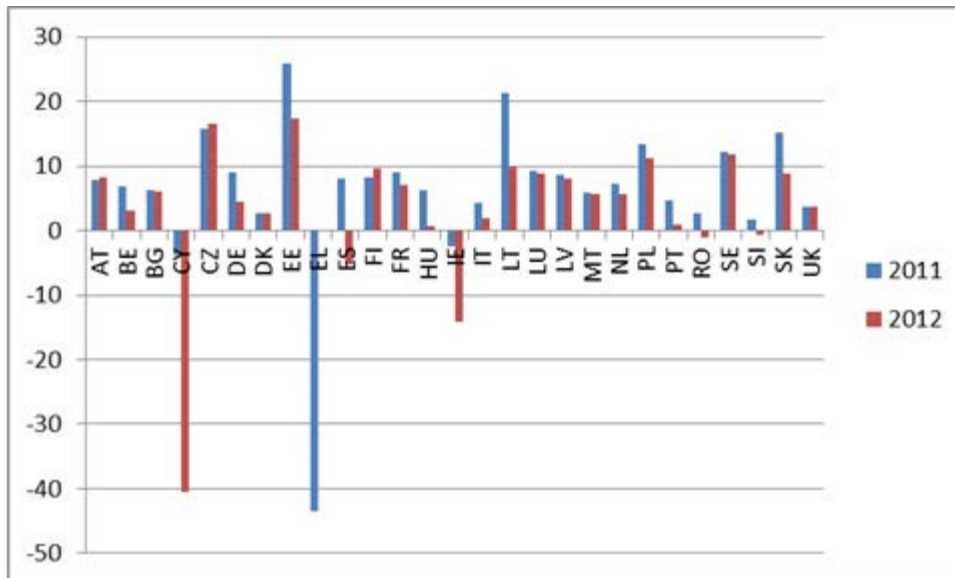
(I) Market structure: Herfindahl-index
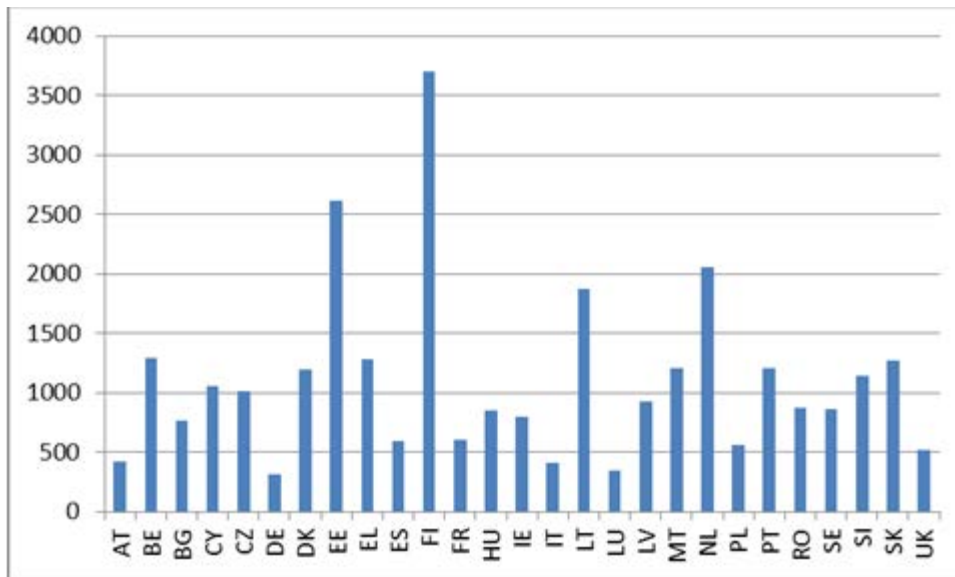
Concentrated banking sector in EE, FI, LT, NL

Low market concentration in AT, DE, LU

(II) Financial indicators: Return on equity of banks

High in CZ, EE

Negative in CY, EL, IE

Econometric analysis

- *LOGIT regressions with firm characteristics, business cycle conditions, and indicators for the financial sector as main regressors*

- *Ran for various indicators of access to finance*

- *Discouraged borrowers omitted from the sample*

Key regression results (I)

Dependent variable: "access to finance as the most pressing problem" (1 "yes"; 0 "no")		
	marginal effect	z
Age≥10 years	-0.037	-3.86
Firm's growth expectations	0.012	2.14
Listed on stock market	-0.031	-2.62
Applied previously for loan	0.081	10.05
Unemployment	0.007	6.98
Return on equity of banking sector	-0.003	-16.65
Observations	9,859	

Key regression results (II)

Dependent variable: "discouraged borrower" (1 "yes"; 0 "no")		
	marginal effect	z
Age≥10 years	-0.025	-5.04
Size 10-49 workers	-0.024	-3.40
Size 50-249 workers	-0.044	-6.63
Firm's growth over last 3 years	-0.018	-5.34
Applied previously for loan	0.014	1.89
Return on equity of banking sector	-0.0005	-2.52
Observations	10,767	

Some other results

- *Willingness of banks to provide loans increases with firm's age, size, if firm has grown over past 3 years, if firm expects positive growth, if firm innovates, if unemployment is lower, and if ROE in banking sector is higher*

- *Part of loan that firms receive increases with firm's age, size, if firm has grown over past 3 years, if firm expects positive growth, if unemployment is lower, and if ROE in banking sector is higher*

Further ongoing work at the Commission on financing:

"Firm Productivity, Exporting and the role of Financial Conditions" by

Hylke Vandenbussche DG ECFIN B2 in collaboration with

Carlo Altomonte (Bruegel) & Tommaso Sonno (Bocconi)

This study uses EFIGE survey data (Bruegel) merged with AMADEUS data on firm characteristics.

The purpose of the study is to see how country-, sector- and firm-level financial conditions affect firm productivity and firm's export market participation.