SMEs’ financing: divergence across Euro area countries
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SME in the Euro area: cross-country heterogeneity

- SMEs created more valued added in 2013 in IT, ES and PT:
  - about 50% in DE,
  - ~ 60% in the Euro Area
  - more than 65% in IT, ES and PT

- SME funding from 2009 to 2013:
  - Cross-country differences not necessarily in bank loans and overdrafts: their shares in the liabilities are fairly stables
  - More trade credit in IT and ES
  - More leasing in DE and FR

Source: ECB monthly bulletin, Jul. 2014
Bank loans to SME: perceived as more risky during the debt crisis

Widening of bank interest rate spreads on loans < 1M vs > 1M

Value adjustements and provisions for banks’ domestic exposures

Rebalancing in SME funding?

Source: ECB monthly bulletin, Jul. 2014

Chart 2: Spread between lending rates on small and large loans to enterprises for the euro area and large countries (basis points; three-month moving averages)

Source: ECB

Notes: Small loans are loans of up to €1 million, while large loans are those above €1 million. Aggregation is based on new business volumes.
The paper on 1 slide

- Descriptive paper on the convergence/divergence in SMEs external funding (specifically bank loans, overdrafts and trade credit) across EA over 2010-2014

- Firm-level data from SAFE survey
  (qualitative survey on the access to finance, at the extensive margin)

- Model:
  - 1st stage: Probit with country x time fixed effects
  - 2nd stage: ANOVA style decomposition of the fixed effects
  - 3rd stage: relate ANOVA decomposition to macro and banking indicators

- Results:
  - Countries follow heterogeneous paths over 2010-2014
  - Supply side effect: divergence correlated with controls for banks concentration and capitalization
The good

- « **Statistical department** » type of paper: very detailed knowledge of the data

- Use of fairly original data (not so many papers on SAFE data)

- Empirical approach is clear and the authors have high **credentials** in the field of firm external funding: at least one of the authors is an expert on these models

- Results of the SAFE survey are usually shown as changes from one wave of the survey to the next. First paper, as far as I know, on the **differences in the levels** of the access to finance.
The bad and the ways forward

The bad:
• Broad economic question is not clear:
  Why should the funding structure change in the same way across countries?

• Not a causal paper because:
  1. Supply and demand are mixed altogether
  2. Sovereign debt crisis nearly omitted from the paper (mentionned twice)
     ➢ What conclusion should we draw from the estimates?

Avenues for extensions:
Results support unambiguous answers to complicated questions:
  1. Does bank market power restrict access to bank loans?
     According to Table 7: Yes
  2. How to protect SMEs against cyclicality in bank lending?
     According to Table 7: support relationship lending (Table 7)
Comment 1: Is the broad economic question formulated in the right way?

• Under efficient funding markets, agents with the same risk profile should be able to borrow the same amounts at the same price (otherwise, deviate from the law of one price and arbitrage is possible)

• From one country to the other, there are differences in:
  – loan demand
    • Default rate (due to growth prospects, taxes, labor regulation...)
    • Maturity of loan applications (due to growth prospects, sectoral specialization)
  – loan supply
    • Banks’ business model, competition among banks, competition between banks and other funding sources (financial markets, other firms...), access to deposits

• To what extent divergences in the funding structure indicate a disruption/lack of integration in the funding markets?
Comment 2: loan supply and loan demand are mixed altogether

- Hard to merge SAFE survey with other data, whether:
  - credit register: Kwhaja and Mian trick here is not straightforward
  - Bank balance sheets: no obvious « bank-lending channel » approach

- Consequence:
  - firm-level data but no control for firm-level loan demand other than the qualitative self-declared variables from the survey
  - No supply side characteristics at a finer level than the country level

- Can we confidently relate statement such as:
  « the net probability to use bank loans for an (average SME) sharply decreased in Greece »
  to a loan supply shock? If this is the case, does this shock affect all banks in GR in the same way?
Comment 3: Isn’t the sovereign debt crisis missing?

• Recall result: country x time fixed effects follow heterogeneous paths, characterized by:
  – capitalization
  – banks concentration

• The sovereign debt crisis led, over 2010-2014, to:
  – Capital injections from government: Dexia, Landesbanken Baden-Wurtemberg, at least 6 Greek banks with a EU-IMF program...
  – Forced recapitalization: EBA capital exercises (Monks and Mesonnier 2015)
  – Change in bank concentration:
    • some banks were closed (West LB, Landesbanken Berlin...),
    • Other nationalized (Catalunya Banc, Banco de Valencia...),
    • part of the assets moved to either sound banks or bad banks (RBA)

• Should we really consider change in bank concentration and capitalization as exogeneous? Rather, isn’t it the crises that causes divergence? What implications can be derived from the estimates?
Extension: Does bank market power restrict access to bank loans?

Paper could tackle more directly the issue of concentration, rather than the issue of convergence/divergence, to fit in a large and widely controversial literature:

Pros:
• deregulation of branching and activity restrictions in the 70s and 80s led to more intense competition, with cheaper loans for SMEs (Rice and Strahan, 2010), more destructive creation (Manaressi and Lotti, 2017, presented at BdF, today, 9:15-10:00) and more growth (Cetorelli and Gambera, 2001)

Cons:
• competition between banks => close-or-equal-to zero profits => increase the likelihood of bank failures and financial instability (Keeley, 1990, Jayarathen and Strahan, 1998, Beck, De Jonghe and Scheppens, 2013)
• In order to extract maximum rent, banks with market power are incentivized to lend to firms that are currently relatively poorly-performing but that seem to have good future investment opportunities (Petersen and Rajan (1995) and Boot and Thakor (2000))

Mostly reallocates resources in the economy, which can be good or bad:
• consolidation change lending practices, for instance if large banks shy away from SME lending (Peek and Rosengren, 1998)
• where merger leads to a large increase in bank concentration, the merged bank decreases the supply of credit. This reduction is offset by non-merging banks which expand lending (Fraisse, Hombert and Lé, 2015).
Extension: How to protect SMEs against cyclicality in bank lending?

Another large and widely controversial literature to which the paper could be targeted:

- Relationship lending enables banks to learn about borrowers’ creditworthiness and to adapt lending terms accordingly (Rajan, 1992, von Thadden, 1995).

- Relationship lenders can play a role in the continuation of lending during downturns (Berger and Udell, 1992; Berlin and Mester, 1999; Bolton, Freixas, Gambacorta and Mistrulli, 2016; Beck, Degryse, De Haas and van Horen, 2016), although this support may have been weakened during the sovereign debt crisis (Banerjee, Gambacorta and Sette, 2017, at BdF, today, 11:00-11:45).


- Another protection against cyclicality: multi-bank relationship (Duquerroy, Cahn and Mullins, 2017 at BdF, today, 114:45-12:30).
THANK YOU!