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FLOW OF INFORMATION FROM LENDER TO BORROWER: THE EFFECT OF CREDIT STANDARDS AND CREDIT TERMS ON BORROWER DISCOURAGEMENT FOR EUROPEAN SMES**Abstract:**

This study analyzes how credit standards and terms established by banks to provide financing to firms determines the likelihood of borrower discouragement. We hypothesize that, if firms adapt their loan applications to changes in banks credit standards and terms, then we could say that there is a flow of information from the bank towards the firm that affects the later financing decisions. Managers, through continuous interaction with bank officials, may obtain information about the credit standards and terms established by the bank and whether the risk profile of the firm fits within those policies. Our analyses expand from 2009 until 2023 and combine aggregate data from the Bank Lending Surveys and microdata of the 29 rounds of Surveys on Access to Finance of Enterprises for SMEs. We apply a two-level model, that takes into account that firms are surveyed in several occasions. Our results show that the tightening in credit standards and terms applied by banks increases the likelihood of borrower discouragement. However, borrower discouragement is not homogeneous across countries, neither it is the effect of banks supply policies.

Keywords:

Banking relationships; discouraged borrowers; credit rationing; financial constraints; SMEs

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