

Discouraged Borrowers: Evidence for Eurozone SMEs

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Abstract : This study examines the decision by firm owners not to apply for intermediated debt due to a perception that their application will be rejected. Based on a sample of SMEs in 9 European countries over the period 2009-2011, we examine potential explanatory factors for borrower discouragement, including firm, macroeconomic, regulatory and banking industry variables. Compared with firms that applied for bank loans, discouraged borrowers are smaller, younger, have declining turnover and an increasing debt/assets ratio. Perceived willingness of banks to lend rather than the company's own credit history is more important to encourage applications. Perceptions of refusal are procyclical and may be self-perpetuating. Increased concentration in the banking sector reduces discouragement, indicating the importance of relationship banking. Transmission of macro effects through the banking system and economic environment may also lead to higher levels of discouragement. A good regulatory scheme is also advisable, either for the lenders or the borrowers (overall the good ones).

Keywords : entrepreneurial finance, discouraged borrowers, banking, financial crisis, eurozone

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