BMECONF
business, management and economics

7th International Conference on Applied Research in
BUSINESS, MANAGEMENT AND ECONOMICS

24-26 May 2024
Munich, Germany

The Effect of Lenders Attitude on Borrower Discouragement: Evidence for a Sample of European SMEs

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Abstract
This study analyzes how the firm perception about the willingness of banks to provide financing determines the likelihood of borrower discouragement. If firms adapt their loan applications to changes in perceived lenders attitude, then we could say that there is a flow of information from the bank towards the firm that affects the later financing decisions. Managers build this perception using the information gathered from the bank officials through continuous interaction. For example, banking relationship enables managers to know if the risk assessment carried out by the bank fits within its policies and incentives. Our analyses use 29 rounds (from 2009 until 2023) of Surveys on Access to Finance of Enterprises carried out by the European Central Bank and the European Commission for SMEs operating in 11 Euro countries. We apply a two-level model, that takes into account that firms are surveyed in several occasions. Our results show that the willingness of banks to provide financing, as perceived by the firm, highly impact the borrower decision of applying for debt financing. If bank's willingness to provide financing improves (deteriorates), the likelihood of borrower discouragement decreases (increases). However, borrower discouragement is not homogeneous across countries, neither it is the effect of banks predisposition to lend.

Keywords: banking relationships; discouraged borrowers; credit rationing; financial constraints; SMEs