Don’t Stop Me Now:  
The Impact of Credit Market Segmentation on Firms’  
Financing Constraints*

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Abstract

In this paper, we investigate how the withdrawal of banks from their cross-border business has impacted on firms’ borrowing costs since the recent crisis. We combine aggregate information on total and cross-border credit with firm-level data from the Survey on the Access to Finance of SMEs in the euro area. We find that the decline in cross-border lending has led to a deterioration in the borrowing conditions of SMEs. First, in countries with more pronounced reductions in cross-border credit inflows to firms and banks, the likelihood of a rise in firm’s external financing costs has significantly increased. Second, both actual and perceived financing constraints of SMEs have become more likely. This result is mainly driven by the interbank channel, which has played a crucial role in transmitting shocks to the real sector across borders.


Keywords: International banking, firm finance, credit constraints

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