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Did the bank capital relief induced by the Supporting Factor enhance SME lending?*

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Abstract

The introduction of the SME Supporting Factor (SF) allows banks to reduce capital requirements for credit risk on exposures to SME. This means that banks can free up capital resources that can be redeployed in the form of new loans. Our study documents that the SF alleviates credit rationing for medium-sized firms that are eligible for the application of the SF but not for micro/small firms. These results suggest that European banks were aware of this policy measure and optimized both their regulatory capital and their credit exposures by granting loans to the medium-sized firms, which are safer than micro/small firms.

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