

Accepted Manuscript

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PII: S0261-5606(17)30183-3

DOI: <https://doi.org/10.1016/j.jimonfin.2017.09.006>

Reference: JIMF 1839

To appear in: *Journal of International Money and Finance*



Please cite this article as: F. Bremus, K. Neugebauer, Reduced Cross-Border Lending and Financing Costs of SMEs, *Journal of International Money and Finance* (2017), doi: <https://doi.org/10.1016/j.jimonfin.2017.09.006>

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Reduced Cross-Border Lending and Financing Costs of SMEs

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Abstract

This paper investigates how the withdrawal of banks from their cross-border business impacted the borrowing costs of European firms since the crisis. We combine aggregate information on total and cross-border credit with firm-level survey data for the period 2010 - 2014. We find that the decline in cross-border lending led to a deterioration in the borrowing conditions of small firms. In countries with more pronounced reductions in cross-border credit inflows, the likelihood of a rise in firms' external financing costs increased. This result is mainly driven by the interbank channel, which plays a crucial role in transmitting shocks to the real sector across borders.

Keywords: International banking, firm finance, credit constraints

JEL-Classifications: F34, F36, G15, G21

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