The impact of bank shocks on firm-level outcomes and bank risk-taking

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Abstract: We examine the impact of bank-loan supply shocks on firm outcomes and bank risk-taking employing bank-firm matched credit information from Belgium for the period 2002-2012. Towards this end, we develop and estimate cross-sectional measures of bank-loan supply shocks. We find that firms borrowing from banks with negative supply shocks exhibit slower growth and investment, and a delayed negative response of employment. Banks faced with positive supply shocks show risk-taking behaviour at the extensive margin. Our estimated bank-loan shocks correlate positively with interbank liabilities growth and an alternative indicator of bank-loan supply, i.e. bank lending standards.