

Bank regulatory capital and lending terms to SMEs

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Abstract

Using a matched bank-firm dataset, I examine how bank capital position influences the lending terms that an SME receives. I find that banks experiencing falls in regulatory capital levels write tighter contracts in their loans to SMEs. When I separately analyze price and non-price terms, this effect of bank capital is found only in non-price terms of the loan contract.

Keywords: Bank lending, Bank capital, Loan contract terms, SME financing.

JEL Classification: G20, G30

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