CAN FIRMS GROW WITHOUT CREDIT? EVIDENCE FROM THE EURO AREA , 2005-2011: A QUANTILE PANEL ANALYSIS

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The primary purpose of this paper has been to explore the impact of the credit crunch on firm growth using a sample of 2075 firms operating in the euro area before (2005-2008) and after the recent financial crisis (2009-2011), applying panel quantile regressions. In doing so, the relationship between firm growth and changes in the provision of banking loans is examined for four groups of euro area countries based on the level of foreign bank presence and financial development. Firm specific information such as size, leverage and liquidity, as well as country specific variables such as concentration of the banking sector, financial stability and macroeconomic risk were also used as regressors.

Our basic findings show that pre-crisis firm growth is positively and heavily dependent on changes in bank credit. Nevertheless, in the post-crisis period this strong relationship holds only for slow-growth firms, while it disappears for high-growth, dynamic firms. This interesting result may reveal that dynamic firms are able to have access to alternative external funding sources (stock and bond markets, financial engineering tools, venture capital funds, etc.) or to benefit more from internal finance generation. Consequently, high-growth firms or "gazelles" may already play and, definitely, are

expected to play a key role as carriers and facilitators of the credit-less recovery the euro area exhibits following the recent financial crisis.

Furthermore, our findings indicate that banking concentration has a significant negative effect on firm growth in most cases. Hence, the lower the market power in banking industries, the easier the firms' access to credit and the higher their growth potential. A country's financial stability affects firm growth in a positive way, whereas its macroeconomic risk has a negative impact, as expected. However, it is noticeable that firm growth is independent of the risk that characterizes a country and structural characteristics of the banking sector for the group of the superfast-growth firms. This finding possibly implies that other structural characteristics of these high-quality firms, such as innovative activity, may drive their exceptional growth performance. Firm size affects firm growth differently across quantiles, while leverage affects negatively the growth of non-dynamic firms.

As regards the role of foreign bank presence we provide empirical evidence that the credit crunch appears to be harmful, especially for slow-growth firms operating in countries with weak foreign bank presence, while the credit crunch is not affecting growth significantly in any quantile in countries with a strong foreign bank presence. This noteworthy result could be explained on the grounds of the argument that foreign banks may provide a stabilizing mechanism in a banking system once a crisis occurs because they are able to have access to a more diversified international pool of liquidity as compared to domestic banks. Finally, separate estimates for more and less financially developed countries show that the credit crunch matters mainly in countries with a lower degree of financial development and, again, not for the "gazelles".

The full working paper can be found here.