Banks as Bridges? Firm Funding during the COVID-19 Cash Crunch

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Abstract: We conduct face-to-face interviews with the Heads of Credit of over 400 banks in 35 countries in Emerging Europe, Asia and the Middle East to collect data on these banks’ COVID-19 policies. We cover whether banks temporarily deferred payments by existing clients; provided bridge loans to new and/or existing clients; closed branches; and had to change the intensity of client monitoring. We ask whether banks engaged in any of these actions because of government policies or of their own accord to gain a competitive advantage. We also ask banks to what extent the temporary suspension of local courts had a negative effect on debt enforcement.

We then combine these bank-level survey data with two other data sets. First, we collect new and comprehensive information on the geographical footprint of each of these banks’ branch networks. Second, we merge in Orbis data on the universe of firms in these 35 countries, which provides us with panel data on firms’ balance sheets, geographic location, and main bank(s).

Using these novel data, we investigate how variation in banks’ response to the COVID-19 pandemic affected existing borrowers as well as potential new clients near a bank’s branches. We assess the impact on firms’ financial performance (liquidity ratios and access to debt), job retention, and survival prospects due to variation banks’ response to COVID-19. This strategy allows us to document how pre-existing bank branch networks influenced how the pandemic affected local economies.

Data description: We use the third round of the Banking Environment and Performance (BEPS III) survey, which consists of face-to-face interviews with the CEO and Head of Credit of over 400 banks across 35 countries. A team of consultants also collected comprehensive information about the exact geographic locations of the branch networks of each of these banks.

We complement this unique and proprietary dataset with data on: (i) the timing and intensity of the Covid-19 pandemic at a sub-regional level; (ii) economic policy measures taken by governments to help businesses – especially SMEs; and (iii) firm-level data. We collect data on (i) from the European Centre for Disease Prevention and Control.¹ For (ii), we rely on policy measures compiled by the IMF and the EBRD, with a specific focus on those measures taken to support the banking sector and small businesses’ access to credit.² For (iii), we use Orbis online to identify all firms that have a relationship with banks included in our survey (“existing clients”) and all other firms near surveyed banks’ branches (using geo-codes).

Our identification strategy exploits variation along several dimensions. First, we examine how country-level policy responses to the COVID-19 pandemic affected banks’ lending behaviour. Second, we exploit variation in lending behaviour across banks and their customers within a country. Third, we study how sub-regional variation in the intensity of COVID-19 and banks’ pre-pandemic branch presence interact to determine various firm-level outcomes.

JEL codes: G21, G32, H12, H15

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