WHEN CREDIT DRIES UP: JOB LOSSES IN THE GREAT RECESSION

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Abstract
We study whether the solvency problems of Spain's weakest banks in the Great Recession have caused employment losses outside the financial sector. Our analysis focuses on the set of banks that were bailed out by the Spanish authorities. Data from the credit register of the Bank of Spain indicate that these banks curtailed lending well in advance of their bailout. We show the existence of a credit supply shock, controling for unobserved heterogeneity through firm fixed effects, and assess its impact on employment. To this aim, we compare the changes in employment between 2006 and 2010 at client firms of weak banks to those at comparable firms with no significant pre-crisis relationship to weak banks. Our estimates imply that around 24% of job losses at firms attached to weak banks in our sample are due to this exposure. This accounts for one-half of the employment losses at firms that survived and one-third of employment losses at those that closed down. (JEL: D92, G33, J23)

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