CREDIT SUPPLY DURING A SOVEREIGN DEBT CRISIS

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Abstract
We study the patterns of credit supply in Italy following the burst of the European sovereign debt crisis in 2011. Comparing lending to the same firm we find that domestic banks reduced credit supply, increased interest rates on credit granted and lowered the probability of accepting loan applications more than foreign banks, which were less affected by the sovereign crisis. The credit contraction is the consequence of a largely country-specific effect, not explained by heterogeneity in bank characteristics, but associated to a generalized increase in the cost of funding of Italian banks. Looking across firms, we find that credit restrictions by domestic banks were not fully compensated by foreign banks' lending, implying that Italian firms experienced an aggregate credit shortage. (JEL: G21, F34, E44, E51)

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