2017-12-20

PRESS RELEASE

Are bank loans being granted to the best-performing firms?
(Article published in the December Economic Review)

Channelling savings into productive investment projects is one of the key roles of the banking system. In the last few years, however, concerns have been raised about inefficient allocation of loans granted by banks. Against that background, the article endeavours to point up the link between loans extended to firms and the level of their economic performance, as well as some of their other characteristics. To this end, data relating to Belgian firms for the period 2005-2015 are used. The strategy followed consists in a multivariate analysis that takes a maximum of observable variables into account, in order to pinpoint the role of each one of them considered individually.

The findings set out in the article suggest that bank loans are not being granted to the most productive firms in proportion to their weight in the economy. This is partly because the best-performing companies benefit more extensively from alternative sources of funding, and not least intra-group financing, and therefore do not resort systematically to bank loans to finance their projects. Nevertheless, the analysis highlights certain factors that can hinder the channelling of funds managed by the banks into the best-performing companies. In particular, a high risk profile makes it harder to get access to bank loans, even if the firm’s production model or its positioning on the market is enabling it to perform well, or at least give it the potential to become a successful business.

In this respect, the various determinants of lending highlighted in this study make it possible to profile the firm that is successful but still likely to encounter difficulties in getting a loan. This is typically a newly established firm and which does not belong to a group. It is still not in a position to put forward any convincing guarantees of its project’s viability on the basis of its first accounting results, even though the firm may do well in the next few years. Nor does it have any credit history proving its ability to repay its debts. Furthermore, when its project is largely based on the use of intangible assets, such as a patent for example, it can offer the banks very little in the way of tangible guarantees when applying for a loan.

This attitude towards risk being taken by banks is justified from the financial stability viewpoint. It is even encouraged by prudential regulations subjecting banks to capital requirements proportional to the risky nature of the components on the assets side of their balance sheets, including corporate loans. That being said, the mere fact that some young firms with great potential can see their access to bank lending restricted owing to the uncertainty surrounding their viability stresses the importance of alternative sources of funding, and in particular venture capital finance.

Communication
National Bank of Belgium Ltd.
boulevard de Berlaimont 14
1000 Brussels
phone + 32 2 221 46 28
www.nbb.be
Company’s number:
0203.201.340 – RLP Brussels