"The response of firms' investment and financing to adverse cash flow shocks: the role of bank relationship" Catherine Fuss (National Bank of Belgium) and Philip Vermeulen (European Central Bank)

Abstract

We test whether firms with multiple bank relationships are better shielded from loss of credit and investment cuts in periods of adverse cash flow shocks than firms with a single bank relationship. Our estimates of the cash flow sensitivity of investment show that both types of firms are equally subject to financing constraints that bind only in the event of adverse cash flow shocks. In these periods, firms incur lower cuts in investment expenditures when they can obtain extra credit. Conditional on obtaining additional lending, the amount of credit increase relative to the cash flow decrease is equal across firms with single bank and multiple bank relationships. When bad cash flow shocks hit, the probability of obtaining extra bank debt is lower for firms with a single bank relationship, but they can more often compensate cuts in bank credit through extra trade debt.

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