

**DOES THE STABILITY OF THE BANKING SYSTEM MODERATE THE EFFECT OF  
BANK CONCENTRATION ON SMES BORROWER DISCOURAGEMENT?**

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## **Does the stability of the banking system moderate the effect of bank concentration on SMEs borrower discouragement?**

### **Abstract**

This research studies whether the effect of bank concentration on financial restrictions for SMEs is moderated by the stability of the banking system. To do so this study analyzes a sample of European SMEs whose information about their financing decisions is gathered through seven SAFE surveys carried out by the European Central Bank and the European Commission between 2011 and 2018. Applying multilevel methodology, the results show that the stability of the banking system does moderate the negative effect of bank concentration on firm's financial restrictions. Particularly, higher levels of bank concentration produce smaller increases in the likelihood of borrower discouragement for SMEs operating in countries with more stable banking systems. Our results are robust to three different measures of bank concentration, and five different ways of controlling for the quality of the firm.

