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**The Impact of Credit Constraints on Exporting
Firms: Empirical Evidence from India***

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Abstract

This paper studies the causal impact of credit constraints on exporting firms. We exploit a natural experiment provided by two policy changes in India, first in 1998 which made small-scale firms eligible for subsidized direct credit, and a subsequent reversal in policy in 2000 wherein some of these firms lost their eligibility. Using firms that were not affected by these policy changes (in each case) as our control group, we find that expansion of subsidized credit increased the rate of growth of bank borrowing by about 20 percent and export earnings by around 22 percent. Interestingly, the subsequent policy reversal in 2000 had no impact on the rate of growth of bank borrowing and on export earnings.

Keywords: finance, credit constraints, trade, export probability.

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The Impact of Credit Constraints on the Foreign Exchange Earnings of a Firm

This paper studies the causal impact of credit constraints on exporting firms. We exploit a natural experiment provided by two policy changes in India, first in 1998 which made small-scale firms eligible for subsidized direct credit, and a subsequent reversal in policy in 2000 wherein some of these firms lost their eligibility. Using firms that were not affected by these policy changes (in each case) as our control group, we find that expansion of subsidized credit increased the rate of growth of bank borrowing by about 20 percent and export earnings by around 22 percent. Interestingly, the subsequent policy reversal in 2000 had no

impact on the rate of growth of bank borrowing and on export earnings.

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