THE EFFECTS OF GOVERNMENT OWNERSHIP ON BANK LENDING

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Outline

Overall

The paper was conducted to study the effect of government ownership on bank lending

Description (3 issues)

Different int. rate:	Location & Firm size:	Party Affiliation:
"Whether State and privately owned banks behave differently by looking at interest rate difference"	*"Whether State and privately owned banks behave differently by looking at location and firm sizes"*	*"Whether State and privately owned banks behave differently by looking at party affiliation"*
Explain by Model I & II	*Explain by Model III & IV*	*Explain by Model V*

GOVERNMENT OWNERSHIP AND BANK LENDING

Three main views of State-Owned Enterprise

Social View	*"SOEs are created to address market failures"*	Gov-owned banks contribute to economic development and improve general welfare
Political View	*"Politicians are self-interested, hence, SOEs are tools to pursue individual goals of politicians"*	Gov-owned banks are inefficient because politicians will transfer resources to their supporters
Agency View	*"Mix between Social view and Political view"*	SOEs are created to maximize social welfare but can generate corruption and misallocation

Data & Methodology

Sample: 85 banks in Italy
(a mix of privately owned and state-owned banks)

Conditions:

- *Ranging between 1991-1995*
- *40 of them are privately owned banks*
- *43 of them are state-owned banks*
- *2 were privatized during the period of observation*

Regression Equation

$$r_{i,k,t} = \beta_0 + \beta_1 STATE_{k,t} + \beta_k \sum Z_{i,k,t} + \varepsilon_{i,k,t}$$

Where *i, k, t* *stand respectively company, bank, and time*

r *stands for relative interest rate changed at time t by bank k to company i*

STATE *stands State-Owned Bank dummy variable*

(=1 ; at time t, bank k is SOE, =0 ; otherwise)

Z *stands for other control variables*

ε *stands for error terms*

MODEL I: DIFFERENCE IN INTEREST RATE (Average method)

Companies get a lower borrowing rate in State-owned banks

Risk category	State-owned banks	Privately owned banks	Difference	Obs.
Panel A: Whole sample				
Highly secure	2.53	2.75	−0.22***	1,420
Secure	2.75	2.97	−0.22***	15,262
Vulnerable	2.84	3.25	−0.41***	409
Highly vulnerable	3.05	3.28	−0.24***	11,743
Uncertainty between vulnerability and risk	3.18	3.43	−0.25***	13,471
Risk of bankruptcy	3.36	3.58	−0.22***	10,472
High risk of bankruptcy	3.69	3.80	−0.11**	2,616
All borrowers	3.07	3.31	−0.23***	55,393
Panel B: Firms borrowing from both state-owned and privately owned banks				
Highly secure	2.52	2.74	−0.22***	1,360
Secure	2.72	2.94	−0.22***	13,373
Vulnerable	2.85	3.26	−0.41***	394
Highly vulnerable	3.02	3.27	−0.24***	10,248
Uncertainty between vulnerability and risk	3.15	3.40	−0.25***	11,899
Risk of bankruptcy	3.33	3.54	−0.21***	9,184
High risk of bankruptcy	3.66	3.79	−0.13**	2,438
All borrowers	3.05	3.27	−0.23***	48,896

MODEL II: DIFFERENCE IN INTEREST RATE (Regression method)

State-owned banks charge lower lending rate than privately owned banks

	(1)	(2)	(3)	(4)	(5)
Panel A					
$State_{k,t}$	−0.2378***	−0.4589***	−0.5019***	−0.4417***	−0.4424***
	(0.0274)	(0.0166)	(0.0180)	(0.0218)	(0.0218)
Size of the bank		0.1936***	0.1730***	0.1723***	0.1728***
		(0.0078)	(0.0037)	(0.0041)	(0.0040)
Percentage of nonperforming loans			0.0337***	0.0338***	0.0336***
			(0.0014)	(0.0014)	(0.0015)
Concentration of loans (HHI)			2.6681***	3.0753***	2.8267***
			(0.4417)	(0.3514)	(0.4197)
Concentration of loans if $State_{k,t} = 1$				−0.8677***	−0.8561***
				(0.3223)	(0.3183)
Size of the firm					−0.2453***
					(0.0051)
Score of the firm					0.0365***
					(0.0081)
Firm fixed effect	Yes	Yes	Yes	Yes	Yes
Time fixed effect	Yes	Yes	Yes	Yes	Yes
Observations	110,786	110,786	110,752	110,752	110,752
Adjusted *R*-squared	0.407	0.420	0.425	0.425	0.428
p-Value of *F*-test for total effect equal to zero	0.0000	0.0000	0.0000	0.0000	0.0000

A study on interest rate difference can explain three views well

Social View	More efficient of state-owned banks	They are able to charge lower rate	Related to objective which wants to cure market failure
Political View	SOEs charge lower rate to certain firms	These firms might be political supporters	This relates with political objective which want to max own benefit
Agency View	With objective to max social welfare	Sometimes, managers of SOEs might make mistakes	They might favor firms that bribe them and offer low rates

MODEL III: GEOGRAPHIC LOCATION

Companies get a lower borrowing rate in State-owned banks

	(1)	(2)	(3)	(4)	(5)
$State_{k,t}$	−0.1806***	−0.4102***	−0.4490***	−0.4562***	−0.4566**
	(0.0231)	(0.0195)	(0.0143)	(0.0203)	(0.0202)
State if firm is located in the South	−0.2709***	−0.2370***	−0.3097***	−0.3132***	−0.3143**
	(0.0401)	(0.0683)	(0.0365)	(0.0370)	(0.0365)
State if firm is located in the North	−0.2137***	−0.1501***	−0.1814***	−0.1818***	−0.1815***
	(0.0112)	(0.0123)	(0.0145)	(0.0154)	(0.0154)
Size of the bank		0.1870***	0.1655***	0.1655***	0.1657***
		(0.0097)	(0.0058)	(0.0057)	(0.0056)
Percentage of nonperforming loans			0.0356***	0.0356***	0.0353***
			(0.0016)	(0.0016)	(0.0016)
Concentration of loans (HHI)			2.7801***	2.7296***	2.4032***
			(0.4705)	(0.4473)	(0.5120)
Concentration of loans if $State_{k,t} = 1$				0.1093	0.1200
				(0.3012)	(0.2977)
Size of the firm					−0.2652***
					(0.0064)
Score of the firm					0.0334***
					(0.0076)
Firm fixed effect	Yes	Yes	Yes	Yes	Yes
Time fixed effect	Yes	Yes	Yes	Yes	Yes
Observations	97,792	97,792	97,760	97,760	97,760
Adjusted R-squared	0.408	0.420	0.426	0.426	0.428
p-Value of F-test for total effect equal to zero	0.0000	0.0000	0.0000	0.0000	0.0000

Borrow from State-Owned Banks in South is cheaper than in North

	(1)	(2)	(3)	(4)	(5)
$State_{k,t}$	−0.1806***	−0.4102***	−0.4490***	−0.4562***	−0.4566**
	(0.0231)	(0.0195)	(0.0143)	(0.0203)	(0.0202)
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	(0.0401)	(0.0683)	(0.0365)	(0.0370)	(0.0365)
State if firm is located in the North	−0.2137***	−0.1501***	−0.1814***	−0.1818***	−0.1815***
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A study on geographic location can explain both social and political views

Social View

SOEs provide lower rate for firms located in South → **Fact**: South of Italy is the poorest part (Unemployment = 4 times in North) → Lower rate is consistent with policy of subsidization, stimulating economy

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Political View

SOEs provide lower rate for firms located in South → May be firms in South are political supporters for some politicians → This relates with political objective which want to max own benefit

MODEL IV: FIRM SIZE

Companies get a lower borrowing rate in State-owned banks

	(1)	(2)	(3)	(4)	(5)
$State_{k,t}$	−0.2965***	−0.5151***	−0.5703***	−0.4937***	−0.4792***
	(0.0301)	(0.0427)	(0.0324)	(0.0321)	(0.0323)
$State_{k,t}$ if firm in smallest size quintile	0.1906***	0.1868***	0.2006***	0.2113***	0.1582***
	(0.0366)	(0.0338)	(0.0380)	(0.0377)	(0.0391)
$State_{k,t}$ if firm in second size quintile	0.0933**	0.0899**	0.1038**	0.1104**	0.0859**
	(0.0419)	(0.0411)	(0.0443)	(0.0446)	(0.0417)
$State_{k,t}$ if firm in third size quintile	0.0466	0.0396	0.0483	0.0536	0.0359
	(0.0431)	(0.0398)	(0.0412)	(0.0413)	(0.0401)
$State_{k,t}$ if firm in fourth size quintile	0.0287	0.0272	0.0320	0.0356	0.0258
	(0.0253)	(0.0231)	(0.0241)	(0.0242)	(0.0237)
Size of the bank		0.1894***	0.1692***	0.1684***	0.1688***
		(0.0085)	(0.0040)	(0.0044)	(0.0043)
Percentage of nonperforming loans			0.0344***	0.0346***	0.0342***
			(0.0013)	(0.0013)	(0.0013)
Concentration of loans (HHI)			2.8206***	3.3630***	3.0251***
			(0.4919)	(0.4608)	(0.5301)
Concentration of loans if $State_{k,t} = 1$				−1.1806***	−1.0980***
				(0.3375)	(0.3233)
Size of the firm					−0.2476***
					(0.0078)
Score of the firm					0.0334***
					(0.0076)
Firm fixed effect	Yes	Yes	Yes	Yes	Yes
Time fixed effect	Yes	Yes	Yes	Yes	Yes
Observations	97,792	97,792	97,760	97,760	97,760
Adjusted *R*-squared	0.407	0.420	0.425	0.425	0.427

State-Owned Banks favor larger enterprises

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$State_{k,t}$	−0.2965***	−0.5151***	−0.5703***	−0.4937***	−0.4792***
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A study on firm size can explain both political and agency views

Political View

Larger firms enjoy with lower lending rate from SOEs → SOEs might favor large enterprises in order to max a larger political consensus → This relates with political objective which want to max own benefit

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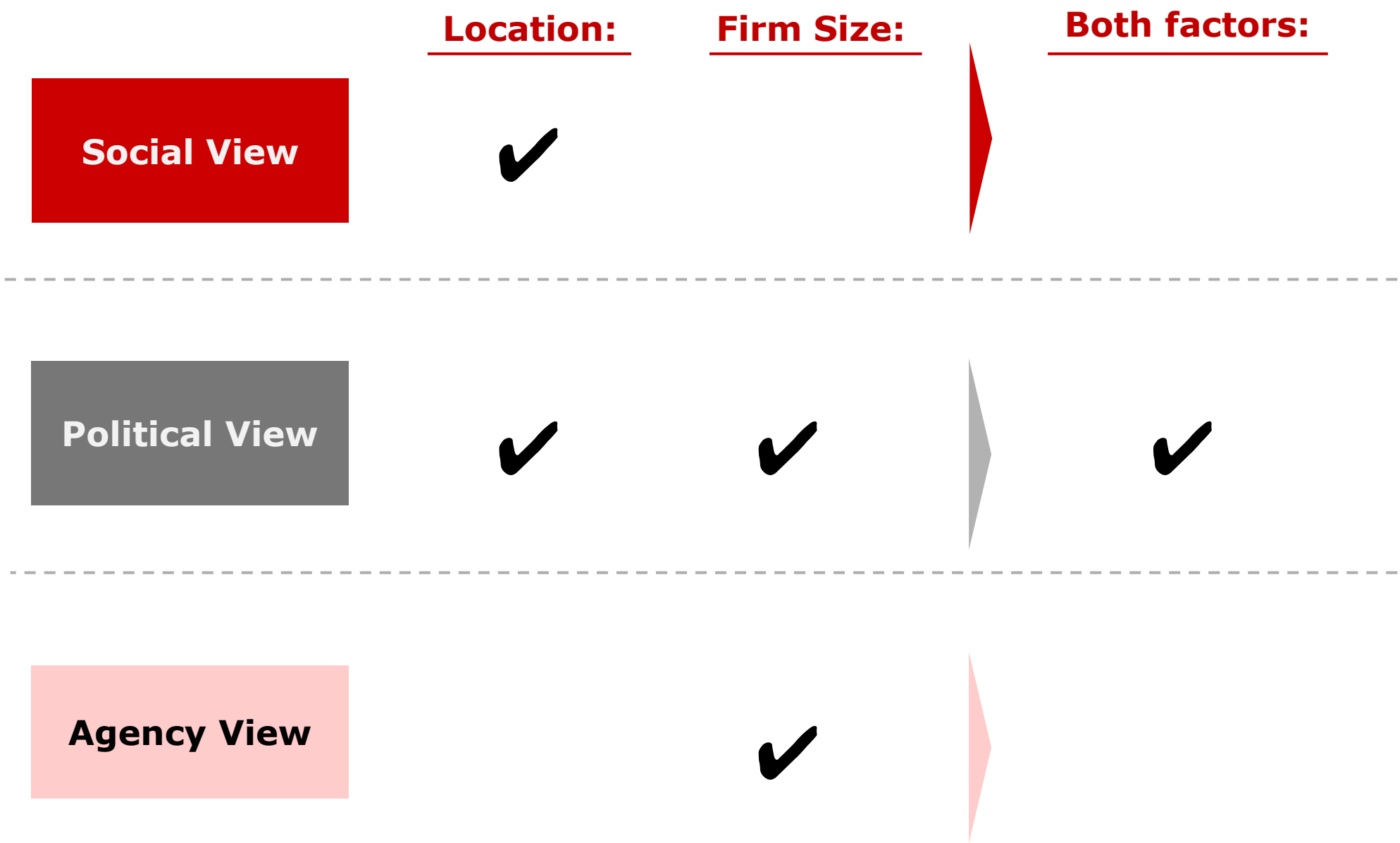
Agency View

Larger firms enjoy with lower lending rate from SOEs → Managers who lack incentive may be favor larger enterprises → Because personal rewards from large enterprises are likely to be higher

A study on both geographic location and firm size leads to a support of POLITICAL VIEW



MODEL V: ELECTORAL RESULTS, PARTY AFFILIATION, AND LENDING BEHEAVIOR

Higher political power, the interest rate (lending rate) is lower

	(1)	(2)	(3)	(4)
Local political strength of the party	−0.2001**	−0.2295***	−0.3240***	−0.2837***
	(0.0806)	(0.0844)	(0.1239)	(0.1005)
Size of the bank	0.1702***	0.1641***	0.1282***	
	(0.0065)	(0.0033)	(0.0237)	
Percentage of nonperforming loans	0.0303***	0.0230***	0.0206***	
	(0.0045)	(0.0030)	(0.0061)	
Concentration of loans (HHI)	7.3368***	8.0807***	7.9113***	7.7236***
	(1.2113)	(0.7930)	(0.7298)	(0.7004)
Size of the firm	−0.3744***	−0.3277***	−0.3432***	−0.3435***
	(0.0742)	(0.0690)	(0.0853)	(0.0849)
Score of the firm	0.0321***	0.0328**	0.0258	0.0258
	(0.0087)	(0.0144)	(0.0167)	(0.0167)
Time fixed effect	Yes	Yes	Yes	Yes
Firm fixed effect	Yes	Yes	Yes	Yes
Bank fixed effect	No	No	No	Yes
Observations	26,698	25,049	17,671	17,671
Adjusted *R*-squared	0.4881	0.4953	0.5088	0.5087

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Observations	26,698	25,049	17,671	17,671
Adjusted *R*-squared	0.4881	0.4953	0.5088	0.5087

A study on party affiliation strongly supports only political view

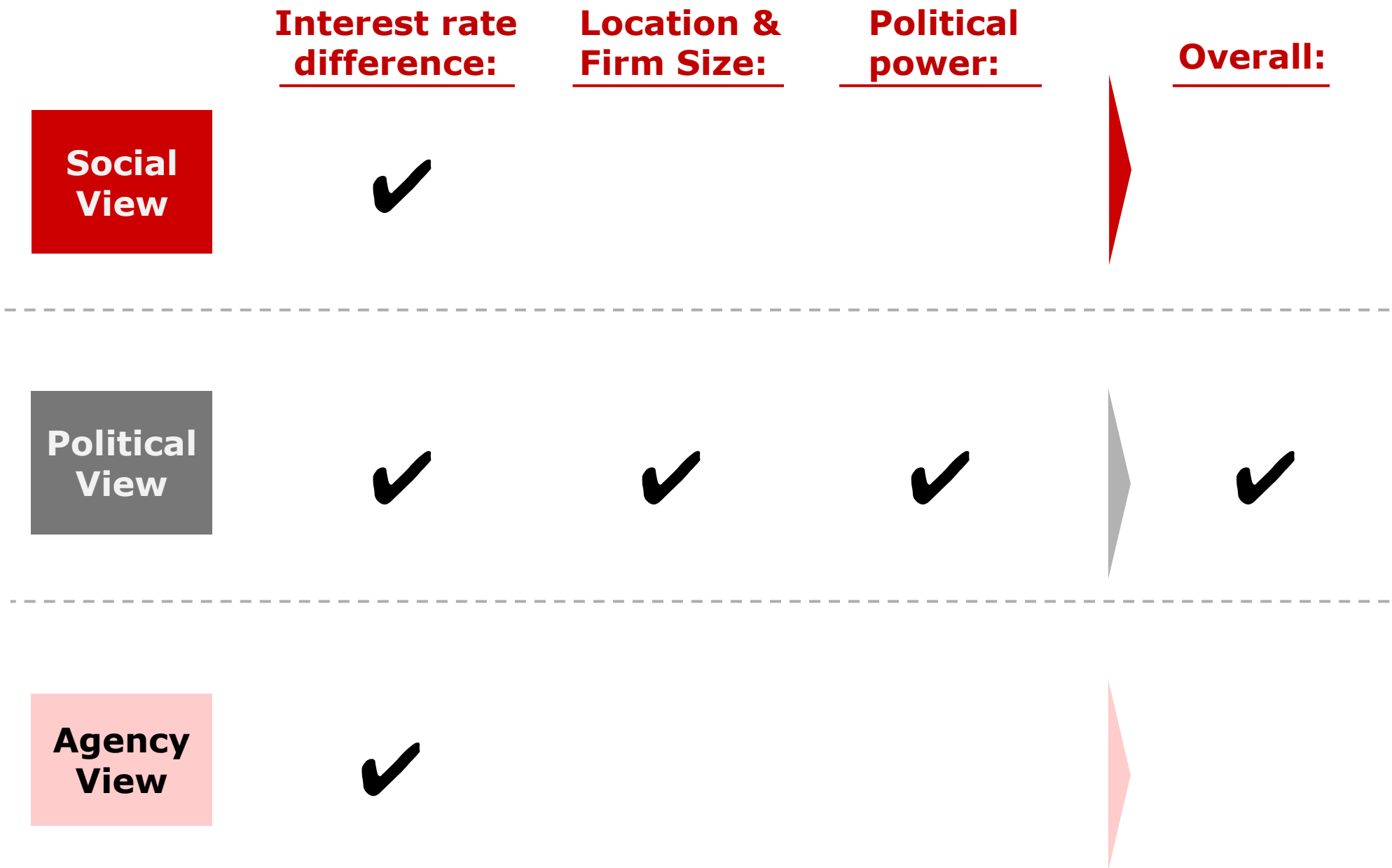
Political View

In area which the political party that runs the state owned banks is stronger, borrowers get a higher discount

Higher political power in such area, **lower lending rate** offers

State-owned banks are a mechanism for supplying political patronage

Conclusion: Behavior of State-Owned Banks



THANK YOU

APPENDIX

Companies borrow from privately owned and state-owned banks equally

Variable	Mean	Median	Std dev.	Obs.
Panel A: Companies borrowing from privately owned banks				
Total assets (bill.)	101	18	546	55,393
Sales (bill.)	108	21	654	55,393
Employees	231	58	928	54,782
Return on sales	8.48	7.98	7.25	54,799
Age	25	18	36	55,168
Leverage	68.11	70.69	17.59	54,638
Coverage	1.85	1.47	2.56	55,351
Panel B: Companies borrowing from state-owned banks				
Total assets (bill.)	101	18	547	55,393
Sales (bill.)	108	21	654	55,393
Employees	231	58	928	54,789
Return on sales	8.51	7.95	7.37	54,817
Age	25	18	36	55,173
Leverage	68.12	70.71	17.60	54,646
Coverage	1.86	1.47	2.63	55,349

Banks' sizes have positive effect on loan rates

	(1)	(2)	(3)	(4)	(5)
Panel A					
$State_{k,t}$	−0.2378***	−0.4589***	−0.5019***	−0.4417***	−0.4424***
	(0.0274)	(0.0166)	(0.0180)	(0.0218)	(0.0218)
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Banks with higher Non-performing loans will charge higher rate

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Companies get a lower borrowing rate in State-owned banks

Interest rate-prime:	State-owned banks	Privately owned banks	Difference	Obs.
Borrowers classified by geographical location				
North	3.03	3.22	−0.18***	38,786
Center	3.02	3.41	−0.39***	6,292
South	3.20	3.65	−0.45***	3,818
Borrowers classified by size				
First quintile in sales	3.70	3.86	−0.16***	9,780
Second quintile in sales	3.34	3.55	−0.21***	9,778
Third quintile in sales	3.12	3.36	−0.24***	9,780
Fourth quintile in sales	2.84	3.10	−0.25***	9,780
Fifth quintile in sales	2.23	2.51	−0.28***	9,778
All borrowers	3.05	3.27	−0.23***	48,896

State-owned banks charge lower lending rate than privately owned banks

	(1)	(2)	(3)	(4)	(5)
Panel A					
$State_{k,t}$	−0.2378***	−0.4589***	−0.5019***	−0.4417***	−0.4424***
	(0.0274)	(0.0166)	(0.0180)	(0.0218)	(0.0218)
Size of the bank		0.1936***	0.1730***	0.1723***	0.1728***
		(0.0078)	(0.0037)	(0.0041)	(0.0040)
Percentage of nonperforming loans			0.0337***	0.0338***	0.0336***
			(0.0014)	(0.0014)	(0.0015)
Concentration of loans (HHI)			2.6681***	3.0753***	2.8267***
			(0.4417)	(0.3514)	(0.4197)
Concentration of loans if $State_{k,t} = 1$				−0.8677***	−0.8561***
				(0.3223)	(0.3183)
Size of the firm					−0.2453***
					(0.0051)
Score of the firm					0.0365***
					(0.0081)
Firm fixed effect	Yes	Yes	Yes	Yes	Yes
Time fixed effect	Yes	Yes	Yes	Yes	Yes
Observations	110,786	110,786	110,752	110,752	110,752
Adjusted *R*-squared	0.407	0.420	0.425	0.425	0.428
p-Value of *F*-test for total effect equal to zero	0.0000	0.0000	0.0000	0.0000	0.0000

State-owned banks charge lower lending rate than privately owned banks

	(1)	(2)	(3)	(4)	(5)
Panel A					
$State_{k,t}$	−0.2378***	−0.4589***	−0.5019***	−0.4417***	−0.4424***
	(0.0274)	(0.0166)	(0.0180)	(0.0218)	(0.0218)
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p-Value of *F*-test for total effect equal to zero	0.0000	0.0000	0.0000	0.0000	0.0000