Relationship lending, accounting disclosure and credit availability during crisis

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Discussion by Reint Gropp

The views expressed in this discussion are those of the author and not necessarily those of the ECB or the Eurosystem
The paper

• Uses Asian crisis as case study in the effect of bank/firm relationships on credit constraints
• Theory: relationships are valuable during crisis (and costly in good times as banks extract rents)
• Excellent data: World bank survey of SMEs in four Asian countries
• “How has the availability of credit to your plant changed since the onset of the crisis?”
  – Possible answers: “much more restrictive”, “somewhat more restrictive”, “same”, “somewhat less restrictive”, and “much less restrictive”
The paper

- Excellent measure the **change** in credit constraints
  - much better measure than “have you been turned down or discouraged from applying” question in standard surveys (SCF, SSB in US).
- Measure of relationship: Number of banks the firm does business with
- Careful about endogeneity
- Mixed results: in some countries relationships seem useful in others not (or even detrimental)
The paper

• Extension: use whether or not the firm had an external audit as a further explanatory variable
  – Are relationships and external audits substitutes or complements?
• Result: Audits don’t seem to matter or are “bad news”
General comments

- Very nice paper with excellent data
- Implications much beyond emerging markets, as this is -potentially- a very clean case study
- Results are somewhat disappointing
  - Why?
Main comments

• The dependent variable and some ideas
• Measurement of bank/firm relationships
• What to do with the audit variable?
The dependent variable and some ideas

- The dependent variable is great!
  - It reflects the change in credit availability
  - Suggestion 1: use pre- to post-crisis change in balance sheet information rather than levels
The dependent variable and some ideas (cont.)

• The authors throw away a lot of information!
  – The question is answered separately for domestic banks and foreign banks, as well as other sources (friends, “local money lenders”, suppliers (trade credit!), bond market, equity market etc.
  – The authors use only the domestic banks part
  – Suggestion 2: Some descriptive statistics
    • tabulate change in credit constraints by different sources
    • Question: does the number of banks include or exclude foreign banks?
  – Suggestion 3: Did foreign banks pick up the slack for good firms? This could explain the strange results for audited firms.
The dependent variable and some ideas

• The strength of the bank should matter for its **ability** to provide insurance in bad times
  - Suggestion 4: Do we know from which banks the authors borrowed and can we use bank specific information? If not, we can use information on the banking sector as a whole (Indonesia).
Measurement of bank/firm relationships

• Literature:
  – length of relationship
  – (log) number of counterparts (this paper)
  – intensity of relationship (number of products)
  – soft versus hard information (Fischer, 2001)
Measurement of bank/firm relationships

• First stage regression dependent variable is a count variable
  – OLS inappropriate
  – Use Poisson or negative binomial model to account for non-normality and discrete nature of dependent variable

• Authors use log of the number of relationships as the independent variable
  – some non-linearity but probably not enough
  – Suggestion 6: try dummy variable equal to one if the bank only has one bank and/or try flexible functional form
What to do with the audit variable?

- Public audit: hard information
  - should this matter for the effect of a relationship in a crisis
  - more discussion
  - Question: can we use information on the opaqueness of firms’ assets?

- Suggestion 5: interact audit dummy with length of relationship
  - Idea: in crisis times audited firms should have less of an advantage from the relationship
  - Alternative: if only soft information matters, audit should have no effect
  - Some evidence on substitutability and complementarity between audits and relationships
Final comment

• The Philippines did not have a crisis!
  – This may explain the counterintuitive results for the Philippines!
  – Final suggestion: Drop the Philippines!