“The real effects of relationship lending” by Banerjee, Gambacorta and Sette

Discussion
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Main Question

I. Paper analyzes how relationship lending affects

- [credit]
- investment
- employment

II. Methodology:

- diff-in-diff, comparing growth in credit/investment/labor for a given firm with multiple banking relationships
- differential impact during three different time windows: 2003 – 2007, 2008 – 2010, 2011 – 2013

Big Picture

Do banking relationships have macroeconomic effects?

Positive aspects of relationships:

- better information → more efficient credit allocation

Negative aspects of relationships:

- risk of “zombie” loans to hide losses

Existing evidence: banking relationships insulate firms from financial shocks (smaller declines in credit, mixed evidence on r)

Summary of Results

Effect of stronger relationships on:	Δcredit/year	Δinvestment/year	ΔLabor costs/year
2003 – 2007	(-.25%)	–	–
2008 – 2010	(+.86%)	+	+
2011 – 2013	(+.65%)	-	+

which factor is more flexible in Italy?

Setup and Interpretation of Regression

I) Level or growth of credit, investment, employment?

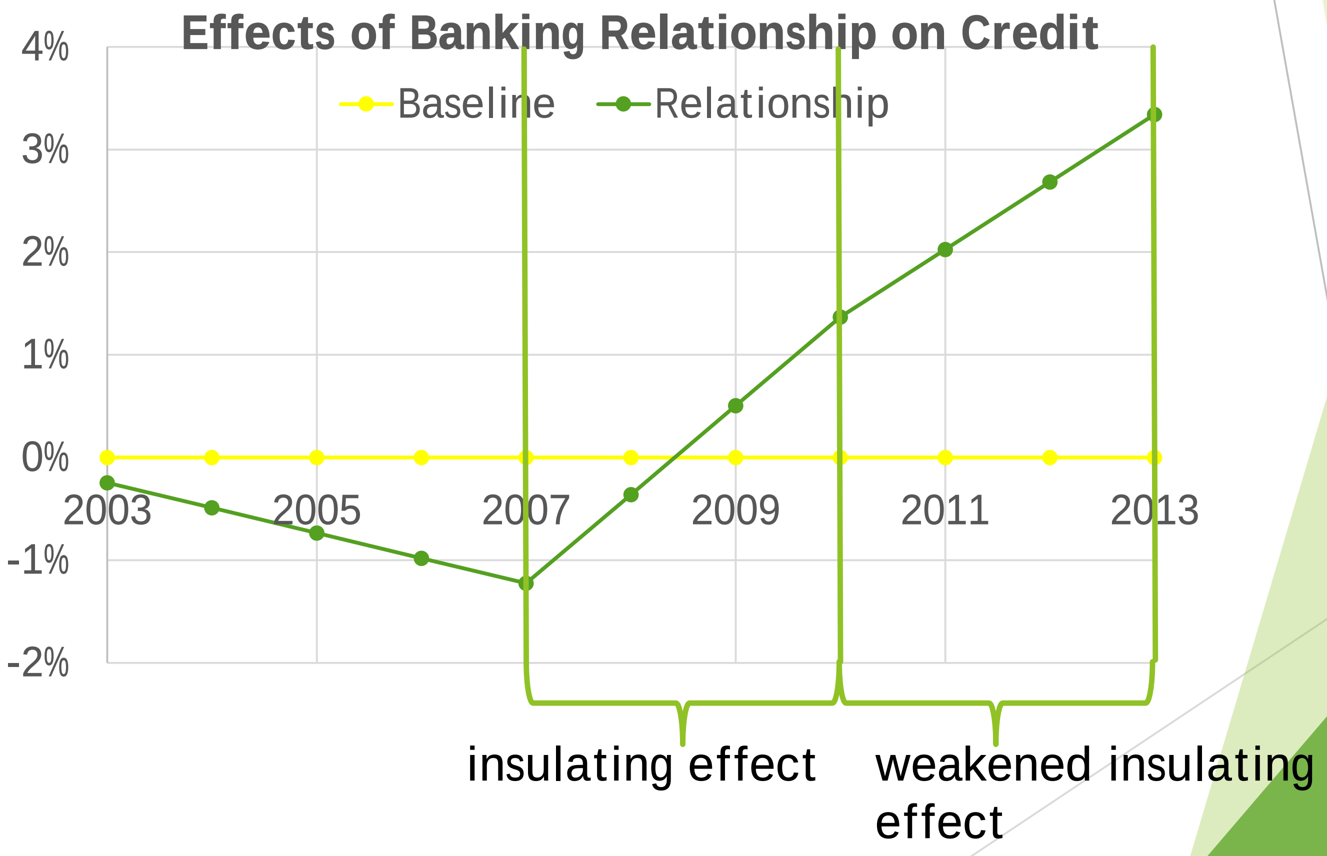
- paper focuses exclusively on growth rates
- economic models of relationships: level effects?

II) Interpretation of time dummies with growth rates:

- post-2008 dummy (or, actually, 2008-and-after)
- post-2011 dummy

Level and Cumulative Effects of Banking Relationships

Coeff.	Value	Cumu-lative
β	-0.25%	-0.25%
$\beta * D_{\geq 2008}$	1.11%	0.86%
$\beta * D_{\geq 2011}$	-0.21%	0.65%



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Suggestion: trace out the yearly effect of banking relationships without the coarse categorization pre-2008, 2008 – 2010, post-2010

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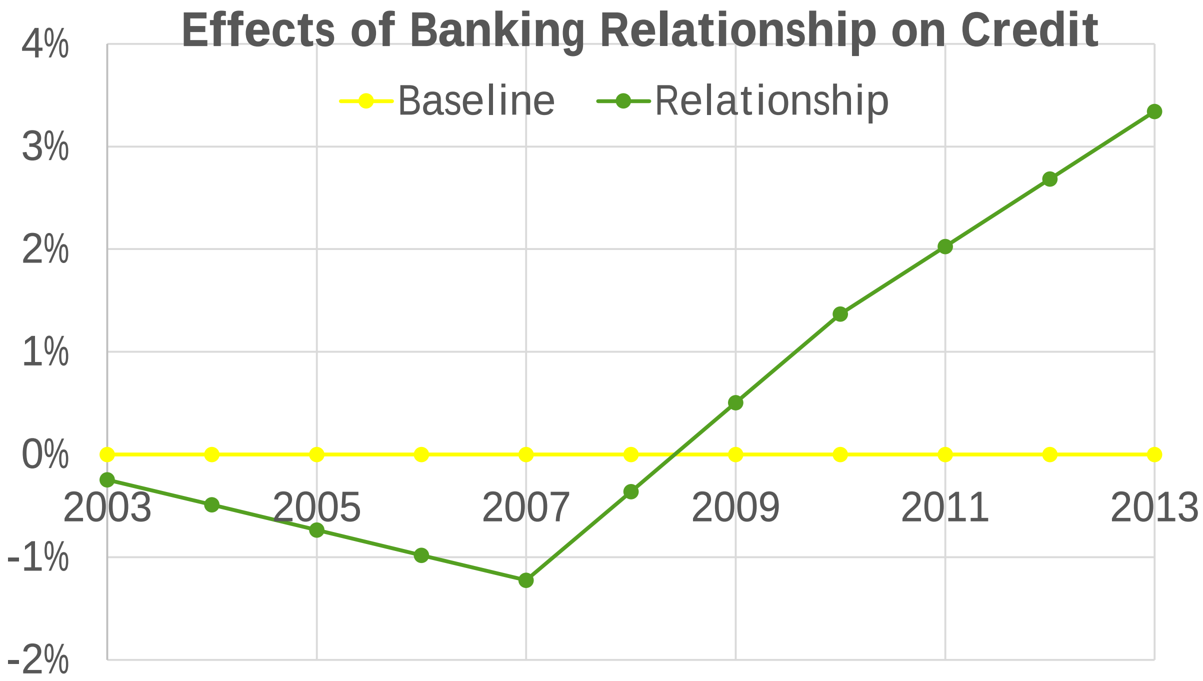

Diff-in-diff versus Macroeconomic Effects

Paper is very careful about controlling for confounding factors:

- bank*time dummies
- firm*time dummies

"post-2008, credit from relationship banks grew 1.11% faster than its yearly increase pre-2008"

→ this does not allow for statements about levels**

Ultimately, desirable to translate back to macro level variables:

*"if banks had no relationship credit, then **ceteris paribus**, credit would have declined by $XXX bn"*

Estimation of Real Effects

Current setup: separate regressions:

- relationship banking → change in credit
- relationship banking → change in investment, labor

but: presumably real effects through credit

Suggested regressions:

- relationship → credit → investment, labor
- investigate level vs. change