RELATIONSHIP LENDING DURING A FINANCIAL CRISIS

Enrico Sette
Bank of Italy – Research Department

Giorgio Gobbi
Bank of Italy – Research Department

Abstract
This paper studies whether relationship lending mitigates the transmission of the Lehman default shock to the supply of credit in Italy. Exploiting the presence of multiple banking relationships, we control for banks’ and firms’ unobserved characteristics. Results show that the growth of credit itself is higher and its cost lower the shorter the distance between the bank and the firm, the longer the relationship and the higher the share of credit held by the bank. Credit growth by relationship lenders is 4.6 percent higher than that by transactional lenders; the increase in the cost of credit is 50 basis points lower. The positive effect of relationship lending on credit supply increased during the crisis, compared to a pre-crisis period. The beneficial effect of relationship lending is weaker if the relationship lender is more exposed to the financial crisis, especially when lending to weaker borrowers. (JEL: G21, G01)

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E-mail: enrico.sette@bancaditalia.it (Sette); giorgio.gobbi@bancaditalia.it (Gobbi)