Bank-Borrower Relationship and the Bank Risk Appetite in Emerging Economies

Mamoru Nagano†

Abstract

This study analyzes total 17,485 bank-firm relationship samples in eleven emerging countries where a number of government owned and family business group owned banks and borrowers exist in the underdeveloped lending market. As many literature support, we first confirm that a commercial bank increases its individual risk appetite in operations as any type of shareholder ownership concentration progresses. Our second finding is, however, that a high government ownership ratio bank diminishes the bank individual risk appetite as the government ownership ratio of the relationship partner borrower increases. The third is that a high government ownership ratio bank conversely promotes the bank individual risk taking behavior as the family business group ownership ratio of the partner borrower increases. The forth is that a high foreign ownership ratio bank is more likely to get the bank financial risk amplified by the external market turbulence when the bank has large market shares and the degree of local lending market development is high no matter who the partner borrowers are.

JEL classification: G21, G31, G32.
Keywords: Lending Relationship, Emerging Markets, Soft Budget Constraint, Ownership Structure, Financial Risk

† Faculty of Economics, Seikei University, 3-3-1 Kichijoji-Kitamachi, Musashino City, 180-8633, Tokyo, Japan Tel/fax: +81 422 37 3924 Email: mnagano@econ.seikei.ac.jp