The Anatomy of Cultural Proximity in Credit Markets

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Abstract
In this paper, we study the role of cultural proximity in credit market outcomes. We first construct a comprehensive dataset that traces all bank-firm relationships for the population of firms and banks that operate in South Tyrol – a region located in the North of Italy where two main linguistic groups (Italian and German) coexist. For each firm and bank, we use a textual algorithm to classify the predominant cultural group of the administrators. We find that firms are more likely to demand credit from culturally-close banks; the first link that firms establish with the banking system is generally within the same cultural group. We also find that cultural proximity has an impact on the market equilibria. Access to credit is relatively easier when firms and banks share the same cultural origin; cultural proximity also translates into larger loan quantities. Finally, we find that culture enhances market efficiency. Loans granted to the same group tend to be less collateralized and generally have a better performance in terms of credit quality.

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