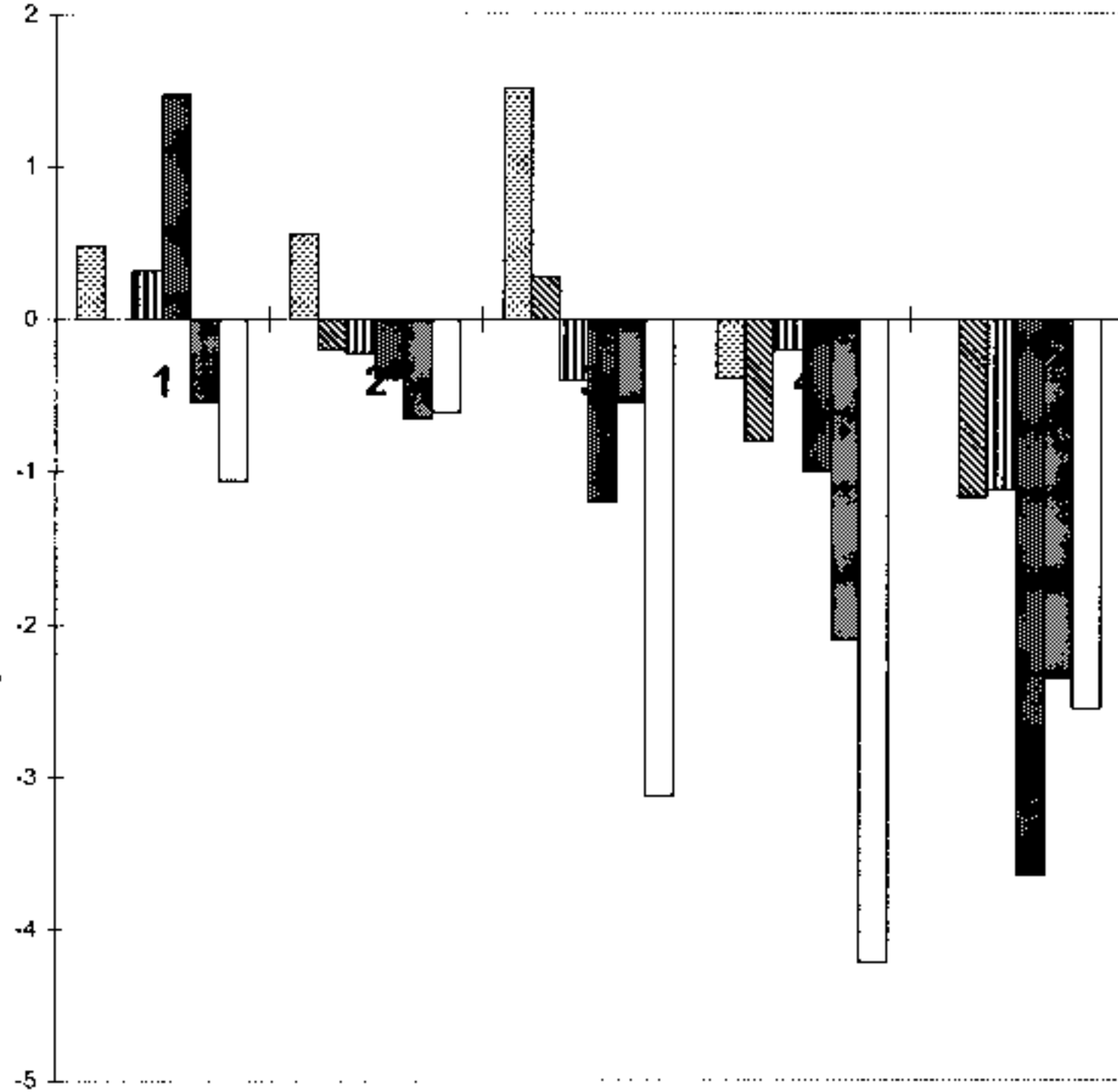


Average Share Price Returns

POL (Suharto Dependency Index)



- Jan. 30 - Feb. 1, 1995
- 27-Apr-95
- 29-Apr-96
- July 4-9, 1996
- 26-Jul-96
- April 1-3, 1997

TABLE 2—EFFECT OF POLITICAL CONNECTIONS ON CHANGES IN SHARE PRICE, SEPARATE ESTIMATION FOR EACH EVENT

	Jan. 30–Feb. 1, 1995	April 27, 1995	April 29, 1996	July 4–9, 1996	July 26, 1996	April 1–3, 1997
<i>POL</i>	−0.58* (0.34)	−0.31 (0.18)	−0.24* (0.15)	−0.95*** (0.27)	−0.57*** (0.22)	−0.90** (0.35)
Constant	1.29 (0.79)	0.21 (0.32)	0.12 (0.46)	0.83 (0.64)	−0.07 (0.41)	0.77 (0.97)
R^2	0.037	0.043	0.025	0.147	0.078	0.075
Observations	70	70	78	79	79	79

Note: Robust standard errors are in parentheses.

* Significantly different from 0 at the 10-percent level.

** Significantly different from 0 at the 5-percent level.

*** Significantly different from 0 at the 1-percent level.

TABLE 3—EFFECT OF POLITICAL CONNECTIONS ON
CHANGES IN SHARE PRICE

	(1)	(2)
<i>POL</i>	-0.60** (0.11)	-0.19 (0.15)
<i>NR(JCI)</i>	0.25 (0.14)	-0.32 (0.28)
<i>NR(JCI) · POL</i>		0.28* (0.11)
Constant	0.88 (0.27)	0.06 (0.35)
<i>R</i> ²	0.066	0.078
Number of observations	455	455

Note: Robust standard errors are in parentheses.

* Significantly different from 0 at the 5-percent level.

** Significantly different from 0 at the 1-percent level.

TABLE III
ARE POLITICALLY CONNECTED FIRMS GIVEN PREFERENTIAL TREATMENT?

Dependent variable	Log loan size (1)	Rate of return (2)	Default rate (3)	Recovery rate (4)	Interest rate (5)
Politically connected	0.37 (0.08)	-6.08 (2.46)	6.22 (1.98)	-1.09 (1.14)	0.09 (0.05)
Controls	YES	YES	YES	YES	YES
R^2	0.26	0.28	0.29	0.24	0.43
No. of Obs.	112,685	89,223	112,685	24,562	89,223

Results are based on cross-sectionalized data. A unit of observation is a loan (bank-firm pair). There are 89,223 observations instead of 112,685 in columns (2) and (5) as interest rate data are not available for all banks. There are 24,562 observations in column (4) because the data are conditional on a firm having defaulted. Rate of Return = $(1 - \text{Default Rate}) * (1 + \text{Interest Rate}) + \text{Default Rate} * \text{Recovery Rate}$. Standard errors reported in parentheses are clustered at bank level. Regressions in columns (2)–(5) are weighted by loan size. Controls in column (1) include dummy for whether borrower is a foreign firm, 91 bank dummies, 134 dummies for each of the city/town of firm. Columns (2)–(5) include column (1) controls plus 8 dummies for the number of creditors the firm has, 5 loan-type dummies and 3 group size dummies, 5 firm size dummies. Firm-level control variables are described in the Appendix.

TABLE IV
ARE POLITICALLY CONNECTED FIRMS FAVORED BY GOVERNMENT BANKS ONLY?
DEFAULT RATE

	Default rate (%)					
	(1)	(2)	(3)	(4)	(5)	(6)
	Government banks only		Private banks only		All banks	Firms borrowing from both government and private banks
Politically connected	10.92 (4.12)	9.13 (1.92)	-0.02 (0.27)	-0.78 (0.26)	-0.78 (0.26)	—
Politically connected * government bank					9.91 (1.90)	1.4 (1.04)
Constant	19.87 (2.60)	—	6.05 (2.03)	—	—	—
Controls	NO	YES	NO	YES	YES ^a	Firm fixed effects ^b
R^2	0.02	0.3	0.004	0.15	0.33	0.78
No. of Obs.	61,897	61,897	50,788	50,788	112,685	18,819

Results are based on cross-sectionalized data. Standard errors reported in parentheses are clustered at the bank level. Politically connected = dummy for whether firm has a politician on its board; Government bank = dummy for government banks. Controls include 5 loan-type dummies, 5 firm size dummies, dummy for whether the borrower is a foreign firm, 8 dummies for the number of creditors the firm has, 3 group size dummies, 134 dummies for each of the city/town of borrower, 21 dummies for the industry of the firm, and 91 bank dummies. Firm-level control variables are described in the Appendix.

a. Controls also include government bank dummy and all interactions with the government bank dummy.

b. Regression includes a government bank dummy as well. Data are restricted to firms that borrow from both government and private banks.

TABLE VI

TESTING FOR POLITICAL STRENGTH AND PARTICIPATION

Dependent variable	Log loan size				
	(1)	(2)	(3)	(4)	(5)
	Data restricted to firms that borrow from both government and private banks				
Government bank	0.07 (0.03)	0.07 (0.03)	0.07 (0.03)	0.07 (0.03)	0.07 (0.03)
Politically connected * government bank	0.25 (0.06)	0.26 (0.05)	0.25 (0.05)	0.23 (0.05)	0.67 (0.20)
Politically connected * government bank * percentage votes	0.69 (0.47)				
Politically connected * government bank * win		0.63 (0.32)			
Politically connected * government bank * victory margin			0.53 (0.29)		
Politically connected * government bank * winparty				0.29 (0.13)	
Politically connected * government bank * electoral participation					-1.04 (0.53)
Firm fixed effect	YES	YES	YES	YES	YES
R^2	0.81	0.81	0.81	0.81	0.81
No. of Obs.	10,880	10,880	10,880	10,880	10,880

Data are restricted to firms that borrow from both government and private banks. Robust standard errors are reported in parentheses. A unit of observation is a firm-bank-type pair, as all loans of a firm given by the same bank type are summed. There are thus 5,440 firm fixed effects and 10,880 total observations in the regression. Politically Connected = dummy for whether firm has a politician on its board; Government bank = dummy for government banks; Win/WinParty = politician/political party's winning frequency (%); Percentage Votes = percentage votes obtained by politician; Victory Margin = Difference in percentage votes between the winner and runner up if politician won, 0 otherwise; Electoral Participation = Registered votes cast (%).

TABLE VII
TIME SERIES TEST OF POLITICAL STRENGTH

Dependent variable	Log loan size			
	Data restricted to politically connected firms that experience change in political status			
	(1)	(2)	(3)	(4)
In power?	-0.120 (0.027)		-0.106 (0.028)	-0.105 (0.027)
In power * government bank	0.186 (0.032)		0.170 (0.032)	0.168 (0.033)
Party in power?		-0.132 (0.028)	-0.120 (0.028)	-0.120 (0.028)
Party in power * government bank		0.170 (0.033)	0.153 (0.033)	0.150 (0.036)
In power * party in power * government bank				0.008 (0.040)
Fixed effects	Firm * bank- type, quarter	Firm * bank- type, quarter	Firm * bank- type, quarter	Firm * bank- type, quarter
R^2	0.79	0.79	0.79	0.79
No. of Obs.	29,405	29,405	29,405	29,405

Data are restricted to those politically connected firms that actually experience a change in their “power” status due to elections or their party experiences such a change. There are 2,330 such firms. The data are also restricted to only those quarters when an elected government was actually in power; i.e., we exclude quarters where the old government was disbanded but no new government elected as yet and quarters under military rule. The included quarters are 1996 Quarter 2 and Quarter 3; 1997 Quarter 2 to 1999 Quarter 3. In any given quarter the loans for a given firm from a given bank type (government or private) are summed up. Robust standard errors reported in parentheses. In power = dummy for whether politician is in power (won relevant election) during the given quarter; Party in power = dummy for whether politician’s political party forms the government for the given quarter (winning parties were different in the two elections in our data period); Government bank = dummy for government banks.

TABLE VIII

TESTING FOR A SOCIAL LENDING EXPLANATION

Dependent variable	Default rate	Log loan size	Default rate	Log loan size
	(1)	(2)	(3)	(4)
Politically connected * government bank	10.47 (1.84)	0.36 (0.05)	11.68 (2.88)	0.32 (0.08)
Politically connected * government bank * social government bank	-9.4 (2.73)	-0.21 (0.17)		
Politically connected * government bank * local firm			-2.54 (2.09)	-0.042 (0.08)
Controls	YES		YES	
Firm fixed effects		YES		YES
R^2	0.33	0.56	0.33	0.81
No. of Obs.	112,685	11,549	112,685	10,880

Data are restricted to firms that borrow from both government and private banks in columns (2) and (4). Robust standard errors are reported in parentheses. Errors are clustered at the bank level in columns (2) and (4). In column (2) a unit of observation is a firm-bank-type pair where bank-type is private, social government, or nonsocial government. In column (4) a unit of observation is a firm-bank-type pair where bank-type is private or government. All loans of a firm given by the same bank type are summed. Controls include 5 loan-type dummies, 5 firm size dummies, dummy for whether borrower is a foreign firm, 8 dummies for the number of creditors the firm has, 3 group size dummies, 134 dummies for each of the city/town of firm, 21 dummies for the industry of the firm, and 91 bank dummies. Firm-level control variables are described in the Appendix. Controls also include government dummy and all interactions with the government bank dummy. Politically connected = dummy for whether firm has a politician on its board; Government bank = dummy for lender type; Social government bank = dummy for whether government bank (lender) has explicit social objectives; Local firm = dummy for whether firm is located in same province (state) as politician's electoral constituency.