

# Private Credit Under Political Influence. Evidence from France

Anne-Laure DELATTE

*Abstract :*

Politicians influence the lending decisions of independent private banks to increase their chances of being re-elected. This finding is established using the variation in politicians' ability to influence private lending and in the degree of electoral competition across French constituencies between 2007 and 2017. Short-term credit increases by 39% the year before the election in treated constituencies and not in control constituencies, and politically-driven credit is primarily allocated to declining sectors. Politically-driven credit is channelled through private banks holding loans to public entities in their portfolio. We show that these private banks respond to politicians' needs in order to get a preferential access to this lucrative segment of the loan market, giving rise to a reciprocal favors system. Even in a democratic environment with low corruption, private banking systems are heavily influenced by political forces.

Keywords : Politics and banking ; Moral suasion ; Local government financing.  
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