

Debt Concentration and Bargaining Power:
Large Banks, Small Banks, and Secondary Market Prices

Abstract

Commercial bank debts of developing countries are held by a heterogenous group of banks. Here we focus on the distinction between large international money center banks and smaller domestic banks. In particular we investigate the role of debt concentration--the amount of a country's debt held by large banks relative to small banks--on the secondary market price for these loans. Our empirical investigation indicates that concentration is an important determinant of secondary market discounts: higher concentration decreases the discount. An explanation for this finding is provided in the context of a bargaining model that endogenizes the level of the maximum penalty that banks can credibly threaten to impose on a recalcitrant debtor. We show that the banks' bargaining power increases with the degree of debt concentration, thus increasing repayment and secondary market prices (and hence lowering discounts).

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Key words: Sovereign debt, secondary market prices, discounts, bargaining power.