Rise of Bank Competition: Evidence from Banking Deregulation in China

Haoyu Gao
Central University of Finance and Economics
Hong Ru
Nanyang Technological University
Robert M. Townsend
Massachusetts Institute of Technology
Xiaoguang Yang
Chinese Academy of Sciences

March 21, 2019

Abstract

Using proprietary individual level loan data, this paper explores the economic consequences of the 2009 bank entry deregulation in China. Such deregulation leads to higher screening standards, lower interest rates, and lower delinquency rates for corporate loans from entrant banks. Consequently, in deregulated cities, private firms with bank credit access increase asset investments, employment, net income, and ROA. In contrast, the performance of state-owned enterprises (SOEs) does not improve following deregulation. Deregulation also amplifies bank credit from productive private firms to inefficient SOEs due mainly to SOEs’ soft budget constraints. This adverse effect accounts for 0.31% annual GDP losses.

Keywords: Banking Deregulation, Credit Allocation, Growth, China

JEL Classification: G21, G28, L50, O40

---

* Haoyu Gao, Central University of Finance and Economics, 39 South College Road, Haidian Dist., Beijing, 100081, China; gaohaoyu@cufe.edu.cn, Hong Ru, Nanyang Technological University, 50 Nanyang Avenue, Singapore, 639798; rubong@ntu.edu.sg, Robert M. Townsend, MIT, Department of Economics, 50 Memorial Drive, Cambridge, MA, 02142, USA; rtownsen@mit.edu, Xiaoguang Yang, Chinese Academy of Sciences, Beijing, China; xgyang@iss.ac.cn. We thank Emily Breza, Vedran Capkun, Hui Chen, Hans Degryse, Yongheng Deng, Daniel Ferreira, Rainer Haselmann, Zhiguo He, Christoph Herpfer, Haizhou Huang, Jennifer Huan, Sheng Huang, Yi Huang, Divya Kirti, Chen Lin, Shu Lin, Paul Malatesta, Alberto Manconi, Jun Qian, Wenlan Qian, Yingyi Qian, Zheng Song, Jian Wang, Pengfei Wang, Shang-Jin Wei, Wei Xiong, Hong Yan, Bernard Yeung, and Tianyu Zhang. We also thank conference discussants and participants of ABFER 2018; AFA 2018; CFRC 2017; CICF 2017; CIFFP 2018; EFA 2018; NBER 2017; SFS Cavalcade Asia-Pacific 2017; the NTU Finance Conference; the Geneva International Macroeconomics and Finance Workshop; the JLFA of the London Business School; the 12th Conference on Asia-Pacific Financial Markets (best paper award); the 30th AsianFA Annual Meeting; the 2nd New Institutional Accounting Conference (best paper award); an CKGSB, HKIMR, NUS, RMU, PBCSF, and UIBE seminars. We acknowledge in-kind support received for China Banking Regulatory Commission data access. All views expressed are our own, and we are solely responsible for any errors.