The Real Effects of Low-for-long Interest Rates on Mainland Firms Listed in Hong Kong

Shuang Jin

Hong Kong Monetary Authority*

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Summary

Using financial disclosure of listed firms in Hong Kong from 2003 to 2016, this paper investigates the investment response of Mainland firms to the low-for-long interest rate environment after the Global Financial Crisis and examines whether the changes in their investment decisions reflect the mitigation of financial constraints or the manifestation of agency problems. Our difference-in-difference tests show that Mainland firms listed in Hong Kong increased investments significantly more than local firms during this period when external financing costs were reduced. Empirical evidence also shows that Mainland firms' total investments on average became more responsive to productive investment opportunities and their operating efficiency improved in the low-for-long interest rate environment when benchmarked to local firms. In addition, further tests show that Mainland firms with higher independent institutional ownership, which may be relatively less subject to agency problems, tend to exhibit higher level of investments. These empirical results support the view that the mitigation of financial constraints accounted relatively more for the surge in leverage and investment in Mainland firms listed in Hong Kong after the GFC. Nevertheless, the findings should be interpreted with caution, as they would explain the economic behaviour of Mainland firms listed in Hong Kong as a group rather than individual Mainland firms.

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* The author is no longer with the Hong Kong Monetary Authority. This paper was written during the author's appointment as Graduate Economist in the Market Research Division of Hong Kong Monetary Authority.