

Impact of Chinese Monetary Policy Instruments on Bank Lending

Sally Chen, IMF
Daniel Law, IMF

Discussant: Jian Wang
Chinese University of Hong Kong (Shenzhen)

January 2017

Outline

- ▶ Review of literature and this paper
- ▶ Comments
 - ▶ Methodology
 - ▶ Results
- ▶ Conclusion

Review

- ▶ Empirical studies on the MP transmission
 - ▶ Credit channel of the MP shocks

Review

- ▶ Empirical studies on the MP transmission
 - ▶ Credit channel of the MP shocks
 - ▶ Studies using aggregate-level data
 - ▶ Bernanke and Blinder (1992)
 - ▶ Ramey (1993)

Review

- ▶ Empirical studies on the MP transmission
 - ▶ Credit channel of the MP shocks
 - ▶ Studies using aggregate-level data
 - ▶ Bernanke and Blinder (1992)
 - ▶ Ramey (1993)
 - ▶ Studies using disaggregate-level banking data
 - ▶ Kashyap and Stein (2000)
 - ▶ Jimborean et al. (2010)
 - ▶ Jimenez et al. (2012)

Review

- ▶ Empirical studies on the MP transmission
 - ▶ Credit channel of the MP shocks
 - ▶ Studies using aggregate-level data
 - ▶ Bernanke and Blinder (1992)
 - ▶ Ramey (1993)
 - ▶ Studies using disaggregate-level banking data
 - ▶ Kashyap and Stein (2000)
 - ▶ Jimborean et al. (2010)
 - ▶ Jimenez et al. (2012)
 - ▶ This paper examines the issue in China

Challenges and Contributions

- ▶ Results in other countries may not hold in China
 - ▶ Different institutional setup and financial market structure

Challenges and Contributions

- ▶ Results in other countries may not hold in China
 - ▶ Different institutional setup and financial market structure
- ▶ Transitory period of various reforms in China
 - ▶ Financial market reform (interest rate liberation, etc.)
 - ▶ Monetary policy reform
 - ▶ Multiple goals and multiple MP tools (e.g., quantity control vs. price control)
 - ▶ Evolving MP goals and tools

Challenges and Contributions

- ▶ Results in other countries may not hold in China
 - ▶ Different institutional setup and financial market structure
- ▶ Transitory period of various reforms in China
 - ▶ Financial market reform (interest rate liberation, etc.)
 - ▶ Monetary policy reform
 - ▶ Multiple goals and multiple MP tools (e.g., quantity control vs. price control)
 - ▶ Evolving MP goals and tools
 - ▶ Insights into the interactions among policy and market reforms

Review of This Paper

- ▶ MP transmission in China through bank lending
 - ▶ 179 banks in China from 2003Q4 to 2015Q4
 - ▶ Various measures of MP: RRR, Repo, Lending rate and net OMO/M2

Review of This Paper

- ▶ MP transmission in China through bank lending
 - ▶ 179 banks in China from 2003Q4 to 2015Q4
 - ▶ Various measures of MP: RRR, Repo, Lending rate and net OMO/M2
- ▶ Main findings:
 - ▶ RRR affects bank lending significantly
 - ▶ MP transmission varies with the structure of bank ownership
 - ▶ Lending of smaller city and rural commercial banks are more sensitive to policy changes.

Comment 1: Identification and macro implication

- ▶ Only supply side (e.g., Jimenez et al., 2012)

Comment 1: Identification and macro implication

- ▶ Only supply side (e.g., Jimenez et al., 2012)
- ▶ Control for demand factors
 - ▶ GDP growth

Comment 1: Identification and macro implication

- ▶ Only supply side (e.g., Jimenez et al., 2012)
- ▶ Control for demand factors
 - ▶ GDP growth
 - ▶ Real estate investment
 - ▶ 4-trillion stimulus package

Comment 1: Identification and macro implication

- ▶ Only supply side (e.g., Jimenez et al., 2012)
- ▶ Control for demand factors
 - ▶ GDP growth
 - ▶ Real estate investment
 - ▶ 4-trillion stimulus package
- ▶ Macro implication remains unclear.
 - ▶ How importance at the aggregate level?
 - ▶ What are implications for macro prudential policy?

Comment 1: Identification and macro implication

- ▶ Only supply side (e.g., Jimenez et al., 2012)
- ▶ Control for demand factors
 - ▶ GDP growth
 - ▶ Real estate investment
 - ▶ 4-trillion stimulus package
- ▶ Macro implication remains unclear.
 - ▶ How importance at the aggregate level?
 - ▶ What are implications for macro prudential policy?
- ▶ FAVAR model (Bernanke, et al, 2005)
 - ▶ Dave et al. (2009) for US banks
 - ▶ Jimborean et al. (2010) for French banks

Comment 2: interactions among MP and bank lending

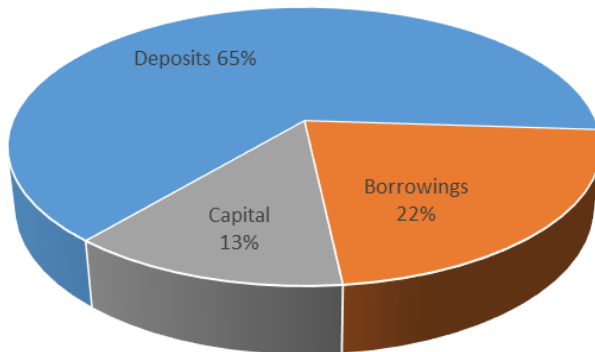
- ▶ MP transmission varies with the structure of bank ownership
- ▶ Similar to previous studies, but underlying reasons could be different

Comment 2: interactions among MP and bank lending

- ▶ MP transmission varies with the structure of bank ownership
- ▶ Similar to previous studies, but underlying reasons could be different
 - ▶ Different business models for small and large banks
 - ▶ Shadow banking in China

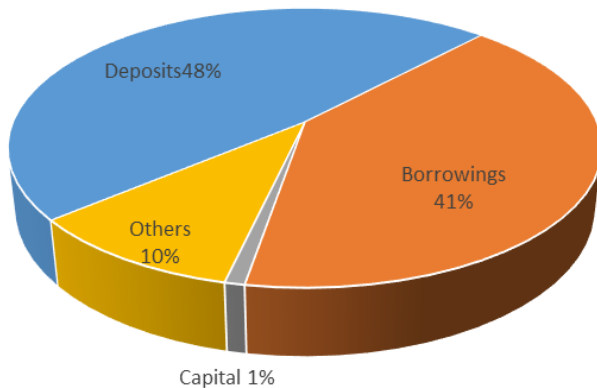
China's Large Banks

Share of total liabilities for large banks



China's Mid-size Banks

Share of total liabilities



Comment 2: interactions among MP and bank lending

- ▶ MP transmission varies with the structure of bank ownership
- ▶ Similar to previous studies, but underlying reasons could be different
 - ▶ Different business models for small and large banks
 - ▶ Shadow banking in China
- ▶ **How to measure MP?**
 - ▶ **Principle component (PC) and idiosyncratic component (IC)?**
 - ▶ **Interactions among PC, IC and bank structures**

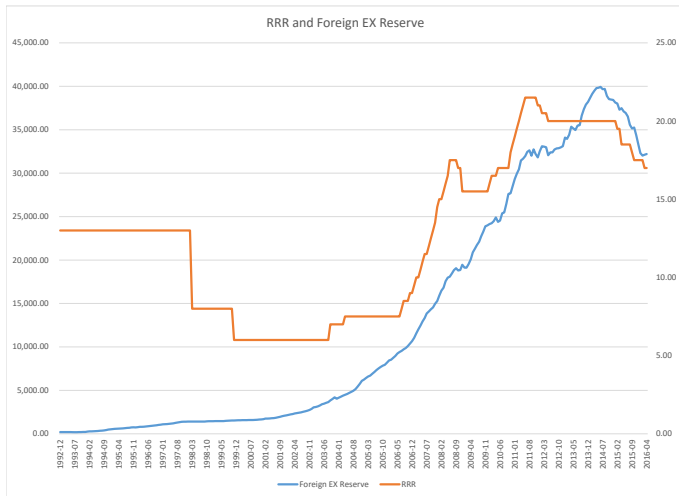
Comment 3: IS RRR an effective policy?

- ▶ Problems of RRR
 - ▶ Less precise than price control
 - ▶ Costly for the daily operation of banks
 - ▶ Encouraging shadow banking

Comment 3: IS RRR an effective policy?

- ▶ Problems of RRR
 - ▶ Less precise than price control
 - ▶ Costly for the daily operation of banks
 - ▶ Encouraging shadow banking
- ▶ Gaining popularity again among EMEs
 - ▶ Conflict between capital flows and MP independence

Raising RRR to Absorb Foreign EX Reserves



Last comment: a related study

- ▶ Chang et al. (2016)
 - ▶ Model of RRR being one of the policy tools in China
 - ▶ Joint policy (interest rate + RRR) performs much better than the interest rule
 - ▶ Small and large banks are subject to different constraints

Last comment: a related study

- ▶ Chang et al. (2016)
 - ▶ Model of RRR being one of the policy tools in China
 - ▶ Joint policy (interest rate + RRR) performs much better than the interest rule
 - ▶ Small and large banks are subject to different constraints
- ▶ Things to do
 - ▶ Making connections between two papers
 - ▶ Testing the mechanisms in Chang et al. (2016)

Conclusion

- ▶ An interesting paper on a crucial policy question
- ▶ Potential contributions to the literature
 - ▶ Better understanding of the issue after including more China features
 - ▶ Connections with existing studies on China's MP transmission