Serving Multiple ‘Masters’: Evidence from the Loan Decisions of a State-owned Publicly Listed Bank around a Massive Economic Stimulus Programme

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Abstract

Using China’s 2008 four-trillion-yuan economic stimulus as a laboratory and a proprietary loan data set, we study how a large state-owned publicly listed bank maneuvers between the government and public investors and tries to balance social and business objectives, while satisfying the bank regulator. We find little change in the bank’s process of assigning internal credit ratings, and that internal ratings remain a valid, albeit weaker, predictor of loan interest rates in the stimulus period. Weakened rating-interest rate relation is concentrated in borrowers that are state-owned enterprises or in stimulus-favored industries. Interest rates also remain a valid predictor of loan outcomes in the stimulus period. Overall, there is no systematic evidence that loan decisions of the state-owned bank are severely compromised in the stimulus period as speculated by media. We add to the limited understanding of how partially privatized state-owned banks operate and the longstanding debate over the roles of state-owned banks.

Keywords: Internal rating; loan; interest rate; state-owned banks; economic stimulus

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