

Rise of Bank Competition: Evidence from Banking Deregulation in China*

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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

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