

Discussion of
“What We Learn from China’s
Rising Shadow Banking”
by Chen, Ren, and Zha

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Summary

- Monetary tightening between 2010 and 2013
- Saw ↓ bank loan growth but ↑ entrusted loans
 - Entrusted loans = firm-to-firm loans facilitated by trustee
 - Small banks facilitated more entrusted loans to “risky” industries than did large banks or non-bank trustees
- Rise of entrusted loans coincides with higher ARI on asset side of bank balance sheets
 - Based on this, authors conclude risks from entrusted lending were brought on balance sheet

Questions About Model

- Banks choose between:
 - Cash
 - Safe Loans
 - ARI on Risky Loans
- To disentangle LDR from safe-loan regulation, should allow another possibility:
 - ARI on Safe Loans
- Use model to see whether this prevails in equilibrium. If yes, need to reconcile with data.

Questions About Model

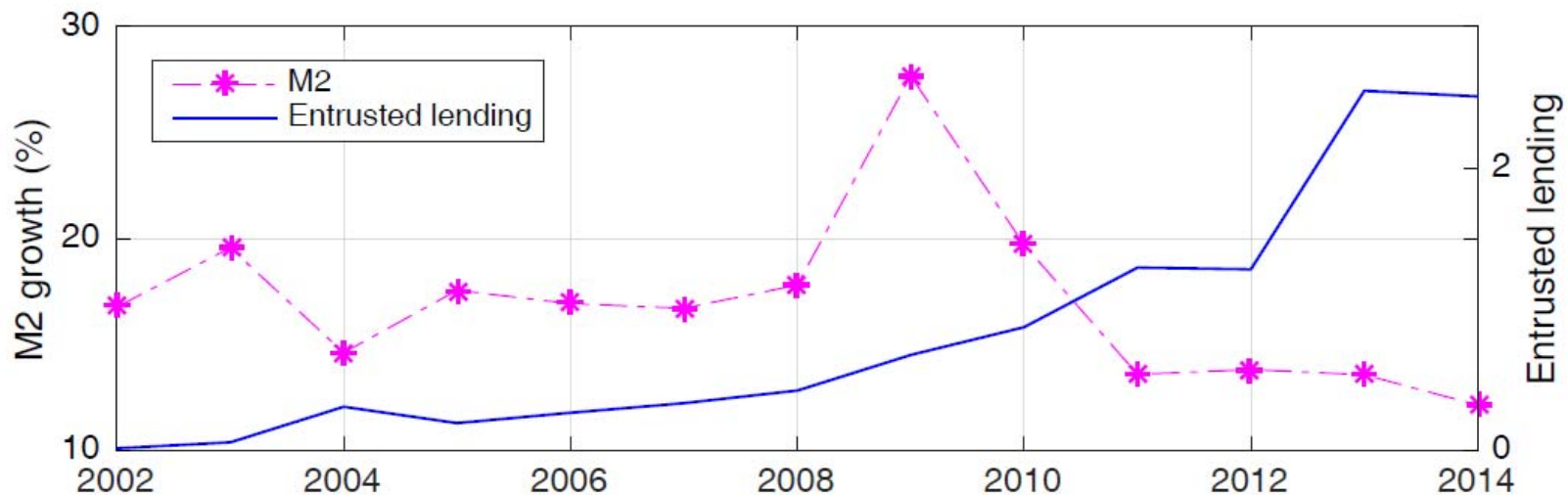
- Also need to defend assumption that ARI on risky loans has same maturity as deposits
- Regression (1) from paper:

$$s_s = \alpha + \alpha_t + \alpha_m m_s + \alpha_r \mathcal{I}(\text{Risky}_i) + \varepsilon_s,$$

- Find $\alpha_m < 0$ and $\alpha_r > 0$. How to get from this that loans to risky industries are short-term?
- Maybe $\alpha_m < 0$ because longer-term loans made when partial liquidation is possible

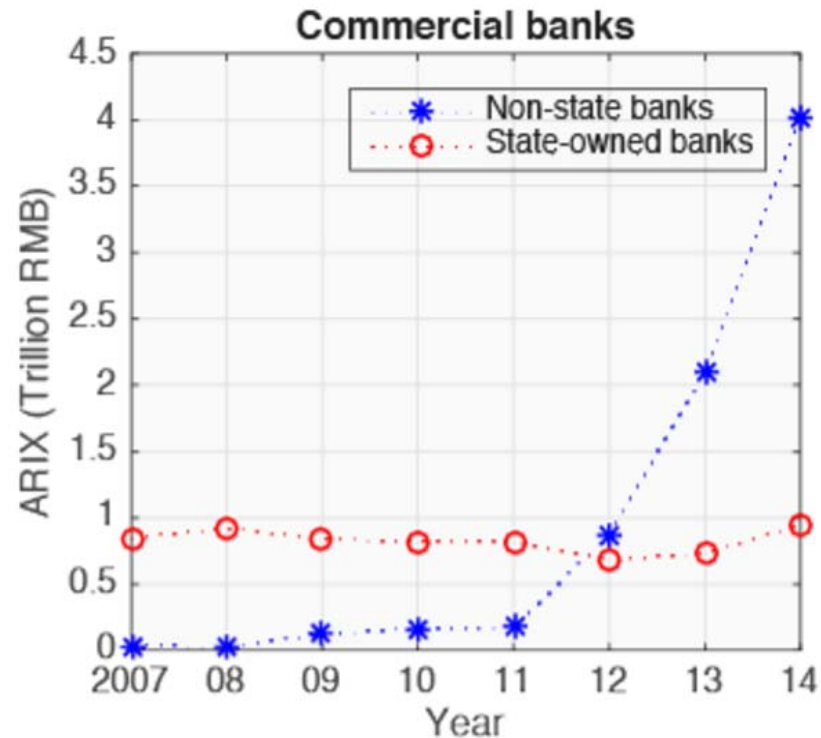
Questions About Timing

- Biggest jump in entrusted lending is in 2013, well into the “contractionary” phase
- From Figure 2 of the paper:



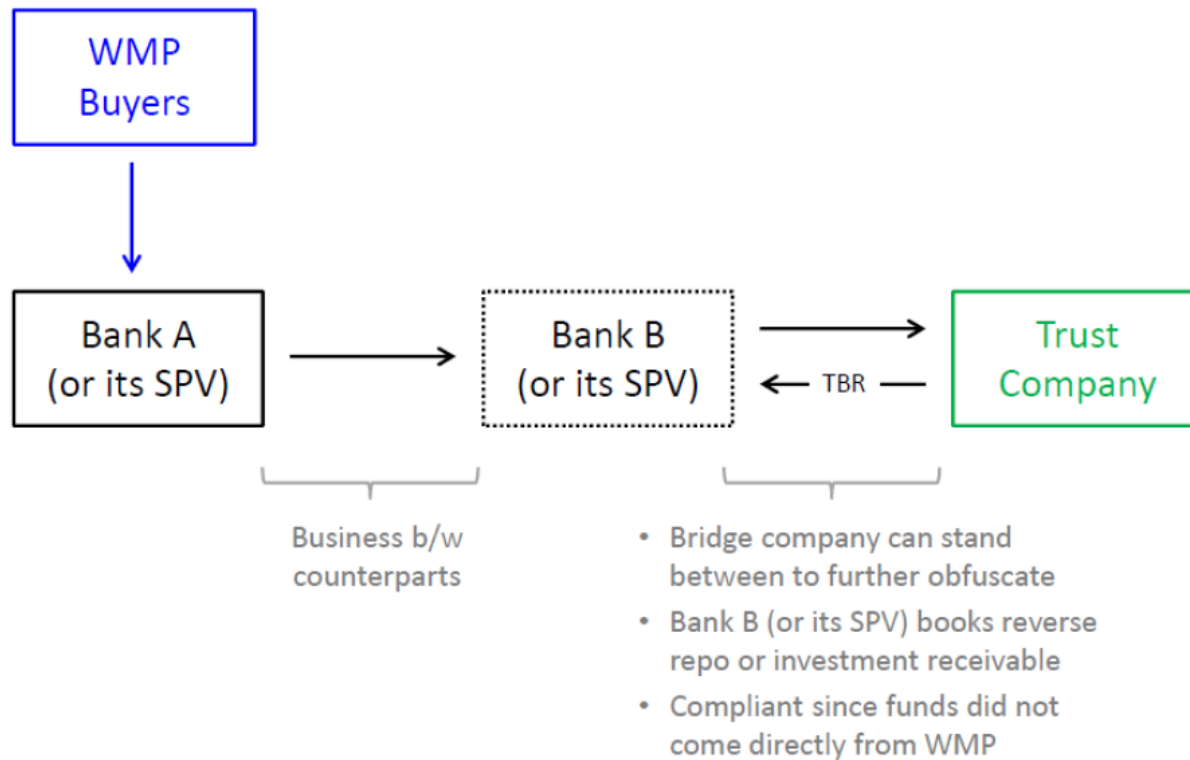
Questions About Timing

- Same for ARI. No ARI time series in paper but from Figure 4 of authors' VoxEU column (March 2016):



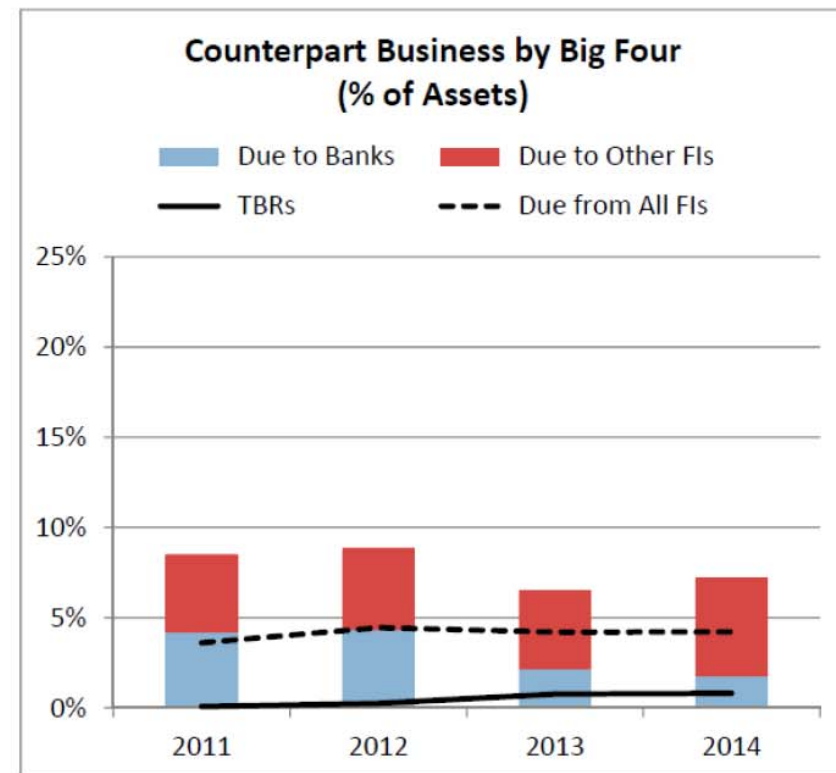
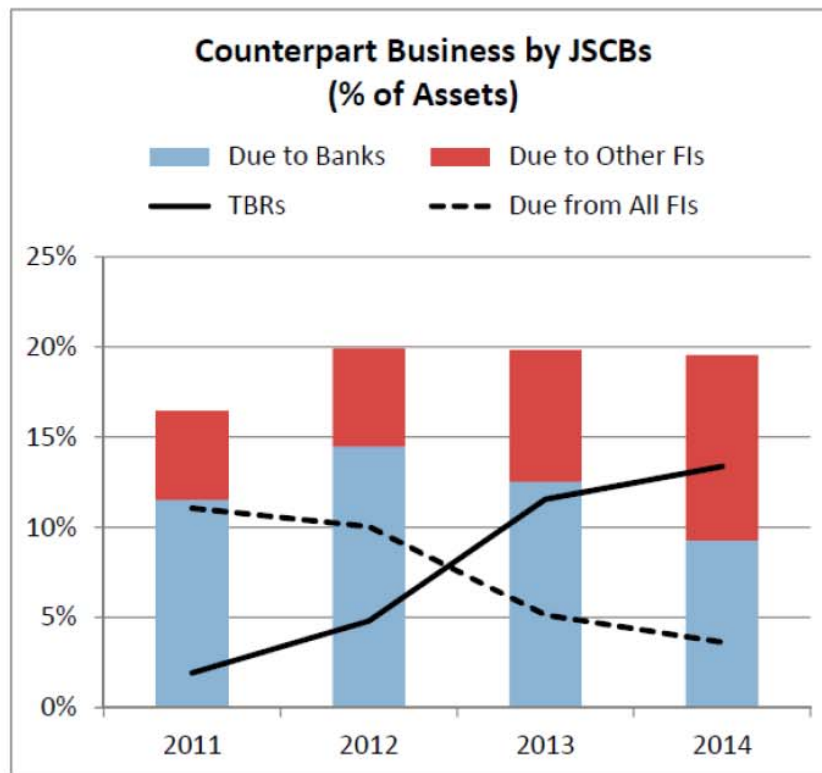
What Happens In 2013?

- CBRC crackdown on bank-trust cooperation in WMP issuance. Led to rise of TBRs which are a type of ARI. From Hachem and Song (January 2016 V):



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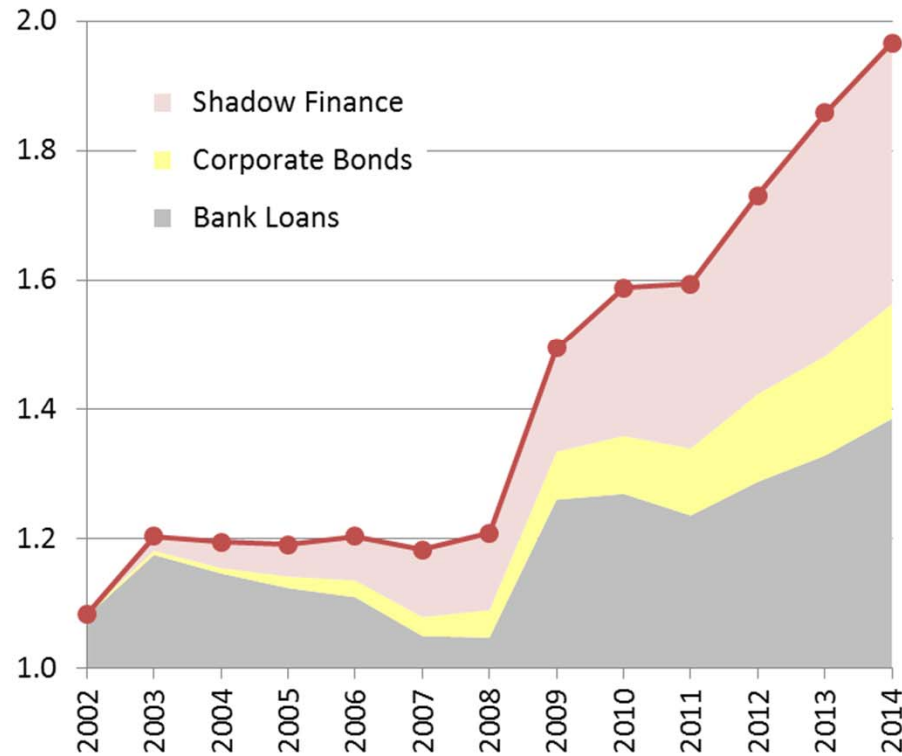


Shadow Banking More Generally

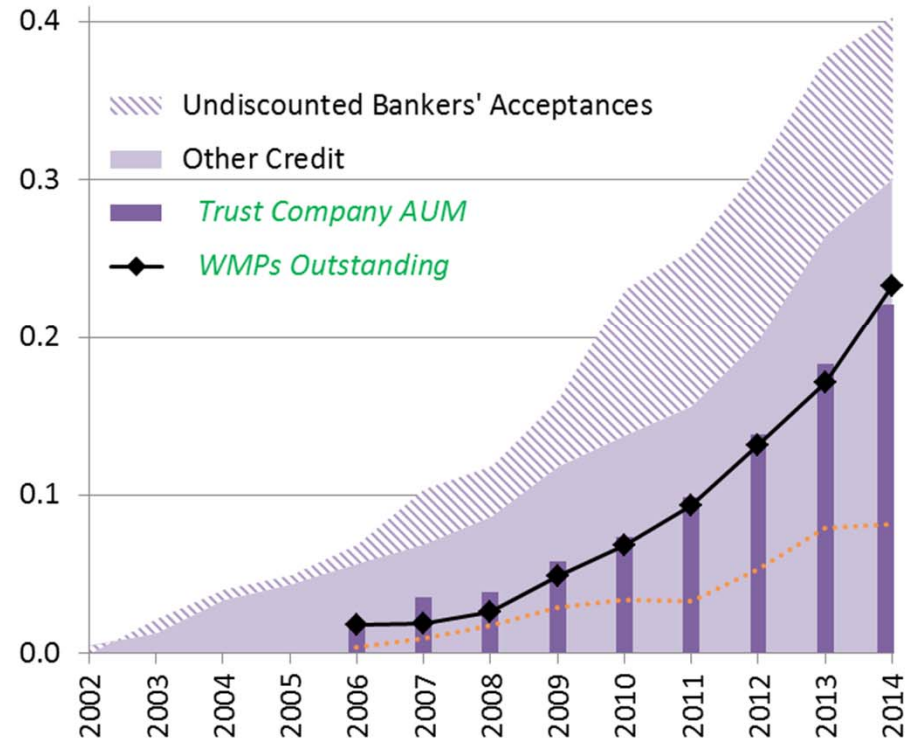
- Authors' main data source is entrusted loan announcements by listed firms
- According to Allen et al (2015), announcements by listed firms accounted for 10% of all entrusted lending reported by PBOC in 2013
- Big remainder could be trust lending in disguise

Shadow Banking More Generally

Breakdown of China's Debt-to-GDP



Breakdown of Shadow-to-GDP



Notes: The right panel divides "Shadow Finance" from the left panel into undiscounted bankers' acceptances and other credit. The AUM and WMP series are then superimposed on other credit.

Sources: NBSC, PBOC, CBRC, IMF, China Trustee Association, KPMG Trust Surveys