Liquidity Shocks and "Borrow to Lend" Shadow Banking Activities

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Summary

Using quarterly financial statements data of listed firms during 2008-2016, this paper identifies the "borrow to lend" shadow banking activities of nonfinancial firms in China by examining the connection of key financial variables and investigates how liquidity shocks affect such activities. Key to this analysis is the linkage between financial liability and financial assets or the financial assets and fixed assets investment, which is different for a "borrow to lend" firm and a "borrow to invest" firm. Empirical results demonstrate that "borrow to lend" activities have become more prevalent in recent years, especially for state-owned firms. Small private firms engage in the usual "borrow to invest" activities while the large state-owned firms and less profitable firms are more involved with the "borrow to lend" activities. "Borrow to lend" activities are more apparent in industries that can borrow easily (or have ample internal finance) but with limited growth opportunities, and in western and middle regions. Liquidity shocks induce large private firms to take part in more "borrow to lend" activities, but they exert no additional impact on state-owned firms. The findings suggest that a broader focus is necessary to understand the multi-faceted aspects of shadow banking activities in China.