Quantitative easing and bank lending: Evidence from bank’s portfolios in Japan

Siyu Zhang
Ph.D. Student, Meiji Gakuin University
Yuri Sasaki
Meiji Gakuin University

Abstract

Regarding the widespread Large-Scale Assets Purchase operation under Quantitative Easing (QE) policy can induce banks to increase their credit supply, we provide the new evidence from the perspective of bank portfolio compositions in Japan. Specifically, by noticing the primary purchase target of QE in Japan is Japanese government bonds (JGB), we attempt to investigate whether the banks are reallocating their portfolio in respond to the reduction of their JGB holdings. We conduct the empirical analysis by used the balance sheet data of Japanese domestic banks form 1998 to 2019. We found a negative, statistically significant correlation in bank’s lending and JGB holdings, suggesting banks do respond an increase in lending to a reduction in JGB holdings. We further identified this effect is from the implementation of QE, but its effectiveness is for Regional Banks only. Our estimation results suggest although the overall effect of QE on bank lending is partially depended, the bank lending channel of QE exist. Finally, we argue the effect of QE was limited if banks are suffering profitability problems in banking business.

Keywords: Bank lending, Quantitative easing, Panel data, Bank’s heterogeneity

JEL classification: E44; E51; E58; G21