

Nonperforming Loans and Branch Deregulation¹

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Abstract

In an oligopoly market with strict restriction, a bank is likely to increase the number of branch as well as employee when the regulation is temporally relaxed even the bank cannot make profit in the short run, since the loss of profit by nonperforming loans would be regarded as entry cost. The branch restriction had been relaxed for local banks in China during 2009-2014, while big banks had not been restricted. Therefore, this deregulation could be considered as of a natural experiment to identify the potential impacts on bank behavior. By macro and micro panel bank data with more than 900 observations during 2007-2017, the deregulation significantly decreased the degree of concentration and profits, while significantly increased the number of branch and employees as well as the nonperforming loans.

JEL classification: G21, G28

Keywords: Bank, Branch Regulation, Nonperforming Loans

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