

Bank Diversification and Monetary Policy

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Existing empirical studies on the transmission mechanism of monetary policy are inclusive and these studies tend to focus on the role of financial indicators such as size, liquidity and so on. However, these existing studies neglect the relationship of monetary policy and business diversification. It is considered that the diversified banks can mitigate the impact of tightening monetary policy by their business portfolio. In this paper, using bank-level data we examine the effect of monetary policy on diversified banks and focused banks, which operate in Asia. We find that focused banks reduced loan supply much more sharply than diversified banks, and our results are robust after controlling for bank size, liquidity, capital structure.