

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

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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 response to the reduction of their JGB holdings. We conduct the empirical analysis by using the balance sheet data of Japanese domestic banks from 1998 to 2019. We found a negative, statistically significant correlation in bank's lending and JGB holdings, suggesting banks do respond to an increase in lending with a reduction in JGB holdings. We further identified that this effect is from the implementation of QE, but its effectiveness is for Regional Banks only. Our estimation results suggest that although the overall effect of QE on bank lending is partially dependent, the bank lending channel of QE exists. Finally, we argue that the effect of QE was limited if banks are suffering from profitability problems in banking business.

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

JEL classification: E44; E51; E58; G21