

# **Credit Supply and Housing Prices: Evidence from Banking Deregulation in China**

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## **Abstract**

This paper investigates the effect of a credit supply shock on house prices using province-level panel data covering all regions in China for the period 2000–2020. The credit shock used as the instrument is an event of bank branching deregulation in 2009, whose impact differs across provinces. The results indicate that the bank branching deregulation causes an increase in bank credit. We find that an increase in bank credit, instrumented by the measure of deregulation, leads to an increase in the house price growth by 1 percentage point after the shock. The cumulative effect increases over time. Four years after the shock, house price growth is 2 percentage points higher. The pre-event trend and the placebo test suggest that the identified shock is exogenous and not related to a demand shock, such as the fiscal stimulus program in 2008.

**Keywords:** Housing price, Bank credit, Banking deregulation, Local projection

**JEL Classification:** E5