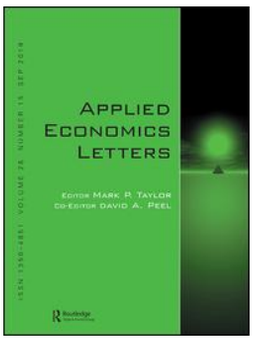

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ARTICLE

Political cycle and the financial lending scale

Meng-Ying Wang[a] and Li-Chen Chou[b]

[a]Business School, Wenzhou University, Wenzhou, China; [b]Business School, Shantou University, Shantou, China

ABSTRACT
We study the impact of the political cycle on financial lending. The change of party secretaries every several years in the Chinese cities provides a good setting for our analysis. Empirical results indicate the scale of lending by financial institutions increased one year before and after the congress of the Chinese Communist Party and decreased during the convening year, showing political cyclicality. In addition, the size of financial lending by the cities whose party secretary's age is over 55 is smaller than others. The results reflect the incentive to achieve promotion by stimulating economic performance is smaller for the ageing secretary.

KEYWORDS
China; political cycle; financial lending; CCP

I. Introduction

The impact of the political system and official mobility on the economy, environment, and finance has been confirmed by many studies (Rodrik 1999; Fankhauser, Gennaiolim, and Collins 2015; Boräng, Jagers, and Povitkina 2016; Li, Luo, and Chan 2018), companies with political connections can obtain various resources or concessions to further enhance profits (Bunkanwanicha and Wiwattanakantang 2008; Piotroski and Zhang 2014). In contrast, once official replacement occurs, established political connections will be weakened or interrupted. Therefore, the uncertainty caused by the replacement of officials may have a significant impact on the economic environment, which is particularly evident in China (An et al., 2016).The literature found that after the Chinese Communist Party (CCP) congress, the Chinese local governments showed a lot of land sales behaviours, and local officials tried to stimulate the economy through land sales to increase fiscal revenue(Yu, Xiao, and Gong 2015). However, there is currently little literature focused on whether the political cycle affects the financing cost, demand of enterprises or the scale of financial institutions' lending. Financial lending is an important part of the capital chain in the course of business operations, which in turn affects the current and future revenue scale of financial institutions. Therefore, this article studies the influences of political cycles on loans in China's financial industry. To a certain extent, the article fills the blanks that can be found in the existing literature.

In China, the government divides cities into four types: municipalities directly under the central government, sub-provincial cities, prefecture-level cities, and county-level cities, and sets the secretary of the municipal party committee as the governing representative in each city. The secretary of the municipal party committee is responsible for the overall work of the political parties in the city, organizes the activities of the municipal party committee's standing committee, and is mainly responsible for the work of the party committee. The difference with European and American cities is that European and American cities lies in the way of governance. In China, the secretary of the municipal party committee is actually the city's governor, and the mayor is the person in charge of urban administrative affairs. The literature points out that the Chinese government's fiscal revenue fluctuations are cyclical, and the government can raise financial resources through investment, sale of public assets, etc., and this periodicity is also related to the CCP congress every five years (Li and Zhou 2005).Whether the political cycle will also affect China's financial industry is rarely discussed, the purpose of our paper is to examine how the change

CONTACT Li-Chen Chou edcv2581013@gmail.com Business School, Shantou University, Shantou, China

of the CCP congress or the change of a local city party secretary affects the financial lending of industry using the data of Chinese cities. The Chinese government requires that most government officials be rotated every few years to enhance the power of professional politicians, and most importantly, to avoid excessive establishment of political power. Therefore, the Chinese environment provides a suitable research subject.

II. Data and method

Considering the integrity of statistical data, we collect 247 Chinese cities' statistical data during the year 2000–2015. The data are obtained from China city statistical yearbook,we initially collected data on all Chinese city listed in the yearbook then excluded the outliers for the explanatory variables. Other data such as the individual characters of party secretary come from Baidu, Wikipedia encyclopaedia and Chinese Party and Government Leaders Database (see http://cpc.people.com.cn/index.html).

Regional economic performance, fiscal status, and government stability will affect the development of local industries (Li, Luo, and Chan 2018). Therefore, consider the influence of economic outputs and political factors, we apply a multiple regression model to examine the impact of political cycle on the lending scale as follows:

$$\begin{aligned}\log(Lending_{it}) = {} & \alpha + \beta_1 \log(Capita_{it}) \\ & + \beta_2 FinancePressure_{it} \\ & + \sum^{\beta_j} Conference + \beta_3 Change \\ & + \beta_4 Education + \beta_5 Age \\ & + \beta_6 Tenure + e_{it}\end{aligned}$$

Where $Lending_{it}$is the financial institution lending on city i in year t,$FinancePressure_{it}$ is the i-th city's financial burden in year t. *Conference* represents the Communist Party Congress in China, considering that China usually conducts a change of government office every few years, we have selected the party congress in the year and two years before and after to discuss the impact of the change on the dependent variable. For *Change*, it is a (1,0) dummy variable with a value of 1 when the party secretary of the city changed in the currentyear. Variable *Education* (if the variable with a value of 0, 1, 2, 3 and 4, indicates the secretary with educational background on others, primary, secondary, undergraduate and graduate degree), *Age* and *Tenure*are the individual characters of the party secretary of the city. Table A1 lists the descriptive statistics, we found that the party secretary of the city had a large change in the year when the party congress was held and the next year. In addition, the average value of the variable *Tenure* is 2.766, indicating that city officials change frequently.

III. Discussion

Empirical results

Table A2 summarizes the main empirical results, under the control of other independent variables, column (1) and column (4) indicate that in the year when the party congress is held, the financial lending scale of cities are significantly smaller than other periods. Considering the individual character of party secretary, the results in column (2) and column (5) indicate the CCP congress brings a significant influence on financial lending. In the year before and after the CCP congress, the scale of lending increased. The amount of financial loan business in the city is closely related to the convening of the party congress, showing a political periodicity, and this periodicity will not disappear even we consider the variable*Change*that reflect the replacement of the party secretary.

The scale of lending by financial institutions increased one year before and after the congress of CCP and decreased during the convening year, showing political cyclicality. The empirical results can be explained from the following aspect: the year when the party congress was held, the political uncertainty was high, the tax revenue and economic growth effects brought by the transfer of land or public resources were often lagging, and officials lowered the valuation of future earnings, thereby reducing the transfer of public resources, then reducing buyer's cash demand for financial institutions when they plan to purchase the public resources. After the party congress was held, as political uncertainties weakened, local officials joined the 'Promotion Tournament' and sold a large number of public resources to attract investment and promote economic growth (Zhou 2007);

the transfer of public resources drove the demand for cash in the market and increased the scale of lending.

Table A3 classifies the empirical data base on the age of the party secretary and the urban area. The literature pointed out that the age of the officials had a negative impact on their promotion; as the age increased, the opportunity of promotion decreased (Yu, Xiao, and Gong 2015). In other words, for older officials, the incentive to achieve promotion by stimulating economic performance is smaller. Comparing column (1) (2) and column (5) (6), we find that the scale of lending in the year before and after the CCP congress still increases, but the size of lending by the cities whose party secretary's age is over 55 is smaller than others. In addition, from the perspective of Chinese economic development in the past 40 years, China's economic development in coastal regions is higher than non-coastal areas, and the government's land and public resource utilization costs are relatively high. Empirical results show that the influence of congress on financial lending in non-coastal areas is greater than others, which may be a long-term reflection to the differences in regional economic performance.

IV. Robust check

For robustness, we test whether the results under the risk of collinear or homoskedasticity. According to Chou, Zhang, and Hu (2020), if the Variance Inflation Factor (VIF) is greater than 10, the influence of the estimated variable collinearity is higher.The results show that all the mean VIF values are less than 10, and it could be found that collinearity does not affect the significance of the variable. However, the White test reject the null hypothesis with homoskedasticity. Therefore, we apply the weighted least square (WLS) in column (3) and column (6) in Table 2 and the results still indicate that in the first year before and after the congress, the scale of lending by financial institutions increased significantly. The outcome of WLS indicates that in China, the change of government and the cycle of party congresses obviously affect the scale of lending by financial institutions across the country.

V. Conclusion

We study the impact of political cycle on the financial lending. Using a sample of 247 Chinese cities, we found that the size of financial lending is higher when they face the year before and after the congress of CCP and decreased during the convening year. Our finding of political cycle on financial lending is robust to different measures for potential heteroskedasticity. We believe that this type of behaviour indirectly leads to market buyer demand, which in turn increases cash demand, and ultimately promotes the growth of financial loans. Base on the previous studies, Chinese officials have incentives to stimulate economic performance through the transfer of land or public resources in the vicinity of the CCP Congress, thereby consolidating their positions. In other words, the convening of the party congress promotes the prosperity of financial enterprises in Chinese cities by putting pressure on Chinese officials. And properly narrowing the political cycle is conducive to economic development because political cycle reversely the size of lending.

Disclosure statement

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ORCID

Li-Chen Chou http://orcid.org/0000-0002-5228-9518

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Appendices

Table A1. Descriptive statistics.

Variable	Mean	Observations	Definition
Lending1	19397	4256	City's financial institution loans. (Unit: ten million RMB)
Lending2	13661	4233	City's financial institution loans in urban area. (Unit: ten million RMB)
Capita	189851	4756	Output per capita. (Unit: RMB)
Finance Pressure	2.638	4501	Fiscal expenditure divided by fiscal revenue. (Unit: ten thousand RMB)
Wage	31378	4772	Average annual wage of employed persons.(Unit:RMB)
Change	0.244	5615	Dummy variable, if the year that the party secretary changed = 1,others = 0
Tenure	2.707	5524	Party secretary's official working year
Conference	0.176	5661	Dummy variable,if the year had CCP congress = 1,others = 0
The frequency of the Communist Party Congress		Number of changes of city's party secretary	Ratio (%)
2 year before the congress(Conference t-2)		212	16.49
1 year before the congress(Conference t-1)		254	19.75
Current year the party congress was held(Conference t)		280	21.77
1 year after the congress(Conference t + 1)		384	29.86
2 year after the congress(Conference t + 2)		156	12.13
Total		1286	100
Individual Characters	Mean	Min	Max
Age	52.008	30	69
Education	2.766	0	4
Tenure	2.707	0	12

Table A2. Results 1.

Dependent Variable	log(Lending1)			log(Lending2)		
	(1) OLS	(2) OLS	(3) WLS	(4) OLS	(5) OLS	(6) WLS
log(Capita)	−0.005	−0.067***	−0.182***	0.004	−0.027***	−0.162***
	(0.005)	(0.008)	(0.010)	(0.006)	(0.009)	(0.012)
Finance Pressure	−0.207***	−0.221***	−0.180***	−0.280***	−0.283***	−0.197***
	(0.007)	(0.007)	(0.005)	(0.008)	(0.008)	(0.005)
Conference t-2		0.060	−0.306***		0.110**	−0.341***
		(0.049)	(0.056)		(0.055)	(0.071)
Conference t-1		0.672***	1.314***		0.432***	1.221***
		(0.070)	(0.099)		(0.079)	(0.122)
Conference t	−0.418***			−0.338***		
	(0.054)			(0.060)		
Conference t + 1		0.640***	1.489***		0.321***	1.378***
		(0.074)	(0.109)		(0.083)	(0.136)
Conference t + 2		0.081	−0.565***		0.227***	−0.659***
		(0.067)	(0.058)		(0.075)	(0.074)
Change	0.041	0.053	0.979***	0.022	0.060	1.535***
	(0.029)	(0.037)	(0.007)	(0.032)	(0.042)	(0.039)
log(Wage)	1.474***	1.193***	0.096***	1.592***	1.482***	0.115***
	(0.032)	(0.045)	(0.007)	(0.035)	(0.050)	(0.009)
Education		0.091***	−0.197***		0.079***	−0.426***
		(0.018)	(0.019)		(0.020)	(0.024)
Tenure		−0.004	0.004		0.003	−0.007
		(0.010)	(0.012)		(0.011)	(0.015)
Age		0.026***	0.041***		0.028***	0.053***
		(0.004)	(0.004)		(0.004)	(0.005)
Year Dummies	Yes	Yes	Yes	Yes	Yes	Yes
Constant	Yes	Yes	Yes	Yes	Yes	Yes
N	4208	4150	4150	4188	4130	4130
R square	0.617	0.624	0.763	0.602	0.605	0.947
VIF	1.668	2.796		1.668	2.800	
White test (P-value)	0.000	0.000		0.000	0.000	

Standard errors in parentheses, * p < .1, ** p < 0.05, *** p < 0.01

Table A3. Results 2.

Dependent Variable	log(Lending1)				log(Lending1)			
	(1) Age<55	(2) Age≧55	(3) Coastal	(4) Non-Coastal	(5) Age<55	(6) Age≧55	(7) Coastal	(8) Non-Coastal
Conference t-2	0.356***	0.286***	−0.204*	−0.299***	−0.379***	0.264***	−0.198	−0.351***
	(0.068)	(0.079)	(0.109)	(0.053)	(0.086)	(0.082)	(0.121)	(0.058)
Conference t-1	1.273***	0.730***	1.214***	1.420***	1.173***	0.523***	0.969***	1.381***
	(0.123)	(0.129)	(0.173)	(0.094)	(0.152)	(0.136)	(0.181)	(0.103)
Conference t + 1	1.415***	0.782***	1.484***	1.601***	1.259***	0.551***	1.207***	1.509***
	(0.135)	(0.141)	(0.189)	(0.102)	(0.170)	(0.147)	(0.197)	(0.112)
Conference t + 2	−0.608***	0.448***	−0.462***	−0.488***	−0.695***	0.575***	−0.453***	−0.523***
	(0.068)	(0.097)	(0.114)	(0.053)	(0.088)	(0.102)	(0.129)	(0.060)
Characters of Party Secretary	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Control Variables	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year Dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Constant	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	2916	1234	1288	2862	2905	1225	1280	2850
R square	0.600	0.644	0.466	0.603	0.816	0.659	0.553	0.685

Standard errors in parentheses, * p < .1, ** p < 0.05, *** p < 0.01