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# **The Impact of Inflation on Banking Sector Performance in China**

## **Abstract**

Recently, past research has found a negative empirical relationship between the economic growth and inflation. However, most of those researches focus on the western world, while few articles show concern on China.

This paper tries to find the relationship between the banking sector performance and inflation in a new dataset of 31 Chinese provinces in the period of 1995-2015. Here, we choose three indicators--- total bank deposit, total bank credit, and private savings--- to measure the development of banking sector. We can conclude from Granger Causality Test, that the three indicators are independent variables in our equation. It finds that there is a economically important, and significantly negative relationship between total bank deposits and inflation as well as that between total bank credits and inflation. However, the relationship between inflation and private savings is positive. Furthermore, the relationship is highly nonlinear. As the inflation rate rises, the marginal impact of inflation on banking borrowing activity diminishes rapidly. Moreover, we find that partial correlation between inflation and financial activity will disappear, when the inflation rate exceeds the thresholds.

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Considering of complicated circumstance and diversity of China, this paper divides sample provinces into five groups to check their different performances. Although the inflation rate and three banking sector development indicators are similar with the whole group performance, the PI-CD relation in Southwest and Northwest are different from the whole group. Besides, we also use Chowtest and find that there is no significant time breakpoint in 2008.

Finally, we give some suggestions based on our paper and discuss the limitations of our study.

Key words: Inflation; Banking Sector; China.



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