Tiered Intermediation in Business Groups and Targeted SME Support*

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March 6, 2021

Abstract

Using business registry data from China, we show that internal capital markets in business groups can play the role of financial intermediary and propagate corporate shareholders' credit supply shocks to their subsidiaries. An average of 10% local bank credit growth where corporate shareholders are located would increase subsidiaries investment by 0.6% of their tangible fixed asset value, which accounts for 42.5% (4.3%) of the median (average) investment rate among these firms. We argue that equity exchanges is one channel through which corporate shareholders transmit bank credit supply shocks to the subsidiaries and provide evidence to support the channel.

*We thank Zhiguo He, Giorgo Sertsios, Vladimir Mukharlyamov for their insightful comments on our paper and participants at the ASSA, Econometric Society Summer Meetings, University of Pennsylvania Seminar, MFA, and the IMF-RESMF Conference. All errors are our own.

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