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Political career concerns and bank lending in China

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ABSTRACT

This study examines how politician's career concerns affect the bank loans using a sample of bank branches at the county-level in China. We use politician tenure to measure an important dimension of the politician incentives to intervene in the local economy, which is determined by their career concerns about perceived promotion probability. We find that there is a curvilinear relationship between politician tenure and bank loans (i.e., reversed U-shape). We also construct a promotion pressure index and document a positive relationship between this promotion index and bank loans. These results are more significant for banks located in counties with underdeveloped institutions or weak government capacity, and those with political ties. These results support the view that politicians have strong incentives to utilize local banks to promote local economic growth if it is also consistent with their private goals, especially in the environment with significant government ownership in banking systems.

1. Introduction

In this study, we examine bank lending decisions when politicians are motivated by their career concerns. Finance literature has documented that in countries where government ownership of banks is pervasive, politicians can use state-owned banks to either satisfy their political goals or promote the economy (La Porta et al., 2002). On the one hand, the social welfare view contends that in countries where economic institutions are not sufficiently developed for private banks to lend, state-owned banks can be utilized to overcome the failures in private capital markets to finance projects and promote the economy growth (Stiglitz and Weiss, 1981). On the other hand, the political view emphasizes the pressure placed by politicians on state-owned banks, and contends that state-owned banks could be forced to finance those politically desirable projects and thus inversely affect the local economy (Shleifer and Vishny, 1994).

Although the empirical evidence has been presented regarding the effect of government ownership on bank lending (Bebchuk and Goldstein, 2011; Dinç, 2005; Iannotta et al., 2013), little is known about how politicians' career concerns affect bank lending decisions.

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There exists an established literature emphasizing on the role of politicians in economic growth, and provides systematic evidence that corporate investment and financing activities change significantly around politician elections/turnovers (Çolak et al., 2017; Jens, 2017). Moreover, another closely related literature documents that firms having close connections with politicians are able to access more bank loans at a lower price, implying that politicians have sufficient power to influence bank lending decisions directly and effectively (Claessens et al., 2008; Cull and Xu, 2005; Houston et al., 2014). These studies reinforce the possibility that politician incentives would have a direct influence on bank lending decisions.

Politicians' career concern is probably the most important consideration in this issue, if it is closely related to the economic objective. Given that bank lending can be used to satisfy either economic or political objectives, it is of particular importance to understand how politician incentives to intervene in the economy through affecting bank lending practice. This issue is critical which can also help us to understand the channel through which politicians affect the economic growth in countries where the banking system is mainly controlled by the government. Herein, we examine whether and how bank lending is affected by politician incentives to intervene in the local economy, thus showing another important source of determinants of bank lending decisions.

To obtain any meaningful inference in this study, we choose a setting in which politicians have active incentives to intervene in the local economy, and such incentives show time-series and cross-sectional variation thus can contribute to the variation of bank lending. China is such a setting which facilitates our investigation. First, under the current Chinese political system, the economic growth of politicians' jurisdiction (i.e., regional GDP growth) is the most important indicator for cadre evaluation (Piotroski and Zhang, 2014; Cao et al., 2019). This provides sufficient incentives for politicians to intervene in the local economy. Thus, it is more important and useful to understand how politicians use local banks to support regional economic growth which is also a political objective. Second, previous studies document that the Chinese banking system contributes significantly to economic growth, whereas the importance and scale of other channels are not comparable to the banking sectors (Allen et al., 2005; Qian and Yeung, 2015). In addition, the Chinese banking system is under the control of the government and most banks are either government owned or government involved, so the banking system is an important source of external capital for economic growth (Jiang et al., 2020). Therefore, it is more convenient for politicians to boost economic growth via using the banking system. To be specific, we are interested in investigating how politicians' career incentives affect bank lending decisions.

To measure politicians' career concerns, we focus on the communist party secretaries (CPSs) at the county level and use their tenure in the office as the primary proxy. Within the Chinese political system, county has a non-negligible importance for China's economy, because it is assigned large economic power and bears intense locality competition within the same layer (Cheung, 2014). As economic growth targets exhibit a pattern of the top-down amplification in the context of the promotion tournament, politicians' behaviour can be observed more clearly at the county level (Li et al., 2019). The CPSs are the most powerful officials in the local government at the county level, which could have significant effects on local bank lending. In addition, CPSs' career concerns vary according to their tenure. Specifically, the probability of promotion could be higher during the first few years of their tenure, while lower in the last year in the office. Then, we argue that CPSs' tenure can capture their overall career concerns. Moreover, we also construct a promotion pressure index for CPSs as an alternative proxy to capture politician incentives on intervening in bank loans, and we obtain similar results.

To provide empirical evidence, we first manually collect tenure information of CPSs from 1597 counties between 2006 and 2011. Then, we obtain the amount of bank lending by all bank branches located in these counties during this period (9061 national bank observations and 9061 local bank observations respectively). Using this large sample of bank branch county-level data, we find that on average CPSs' tenure has a significant impact on bank lending which is only significant for local banks. In particular, the relationship between CPSs' tenure and bank loans is reversed U-shape. Economically, the amount of bank loans increases during the first few years of the CPS's tenure and peaks when the tenure is about 3.5 years, and then starts to decrease towards the last year of the tenure. In addition, we also find a positive influence of the promotion pressure index on bank loans, which confirms our main findings that enlarged politician career concerns increase the amount of bank loans.

Moreover, the significant influence of politician incentives on bank loans is more pronounced in counties with underdeveloped institutions or weak government capacity, and banks with local government connection or their borrowers are SOEs. Further analysis provides evidence that such an effect is more profound after 2008 economic stimulus packages as well as banks located in counties with poor environmental performance. Moreover, we find enlarged bank loans improve bank efficiency and boost economic growth. Overall, these results are consistent with our arguments that when politicians' career concerns are closely related to the economic objective, bank lending can help to achieve both political goals and economic growth.

Our study contributes to the existing literature in the following ways. First, our study provides important empirical evidence to the theoretical predictions of how politicians affect bank lending. Previous literature suggests the consequence of political intervention is driven by politician incentives to either extract private benefits or achieve economic goals. Our study proposes a theoretical prediction and shows that when the economic objective is consistent with politicians' career objectives, such as promotion, both objectives can be achieved simultaneously, which can also incentivize politicians.

Second, our study adds additional evidence to the literature on bank efficiency. Prior studies have extensively explored the efficiency of commercial banks, and almost exclusively relied on factors within the banks, such as board characteristics (Liang et al., 2013) and ownership structure (Berger et al., 2009; Jiang et al., 2013). However, little is known about how outside the institutional environment affects bank efficiency. For example, in China, the banking system is still under the control of the government, and their behaviour are unsuspiciously affected by government interference. Our study thus provides comprehensive evidence that politicians' career concerns can improve bank efficiency as long as they emphasize more on the economic objective.

Third, in a departure from previous static examinations of government intervention, we explore this issue from a dynamic perspective, namely the extent of government intervention. Prior studies mainly employ government ownership or political connection

as proxies for government intervention and explore the cross-sectional variation of their influence (Chen et al., 2011). We instead focus on politicians' tenure and explore how politicians' career concerns vary across the periods of their political careers. More importantly, our study is different from related studies by Cai et al. (2017) and Cheng et al. (2021). These studies focus on provincial level or bank-year observations by aggregating all branches together. We instead employ branch data at the county level to capture variation within banks as branches of the same banks have heterogeneous characteristics considering difference in counties where they located. We argue that the abilities and incentives of local politicians to intervene in the business are subject to the external institutional environment, so this study provides additional evidence of when and where politician intervention is more significant.

The remainder of the paper is organized as follows. Section 2 summarizes institutional background and hypothesis development. Section 3 describes the data and methodology. Section 4 presents the empirical results. Section 5 concludes.

2. Institutional background and hypothesis development

2.1. The Chinese political system and cadre evaluation

The Chinese political system is characterized as a 'multidivisional-form' structure, where the central government retains the absolute control over key resources allocation and personnel decisions with the ultimate authority on the selection, appointment, and dismissal of government officials at the provincial level (Li and Zhou, 2005; Piotroski and Zhang, 2014). Within the top-down personnel system, the provincial Communist Party Committee determines the appointment and dismissal of officials at both the municipal and county levels, which normally takes place at different points of time across different regions. In this circumstance, government officials at the lower layers are responsible for governments at the higher hierarchy, and they are more concerned about the assessments and evaluations by the governments at the higher level.

Since the economic reforms in the late 1970s, local government officials have become empowered with authority to build local infrastructure and allocate resources (Chang et al., 2017). To induce desirable economic outcomes, the Chinese communist party has applied economic performance as the most important indicator for cadre evaluation instead of political loyalty, that is whether he/she is able to achieve a high level of local GDP growth (Li and Zhou, 2005; Cao et al., 2019). As local officials are rewarded or punished on the basis of their regional economic performance, they are motivated to put more efforts to promote the regional economy.

2.2. Background of the China's banking system

Since the far-reaching economic reforms in 1978, China has begun to restructure its financial system and establish a modern financial system. In particular, the Chinese government launched a significant reform for the banking system by establishing four wholly state-owned banks (the Big Four[2]), which took over control of all the lending functions from the People's Bank of China (PBC). In 1994, three new wholly state-owned policy banks[3] were established and took over policy lending functions from Big Four banks. In 1996, joint-stock commercial banks (such as the Bank of Communications, China Citic Bank, China Everbright Bank) and city commercial banks began to emerge and were growing rapidly. Rural credit cooperatives and city commercial banks could also be found in many cities and rural areas. After China's entry into the World Trade Organization (WTO) in 2001, China further opened its banking sectors to foreign banks. In 2006, China's government launched reforms of state-owned banks in light of the international competition mandated by the WTO. The reforms were introduced on several fronts, including transferring non-performing loans to four newly established asset-management companies, introducing institutional investors and public listing. All of these reforms aimed to transform these state-owned banks into a business entity operating on a commercial basis, which has naturally affected the behaviour of bank executives and associated lending decisions.

Though the China's banking system has experienced some reforms, most of banks in China are still owned or involved by the government, who held a dominant position in controlling bank assets and making lending decisions. To establish sound corporate governance, the Chinese authorities introduced a partial privatization strategy and sell strategic stakes to foreign investors, but the ultimate control remains in government hands. Therefore, the government continues to exert significant influence on the decision-making of credit lending.

2.3. Hypothesis development

Currently, China's economic growth is largely driven by investment, which is usually supported by both fiscal and financial resources that could be influenced by local governments. Specifically, fiscal resources left to local governments have declined significantly as transfer payments to citizens have increased, while fiscal incomes allocated to local governments have decreased. Thus, financial resources mainly from people's savings, have gained the dominant position. The China's banking system has its uniqueness and importance compared with other channels. First, the China's banking system plays a key role in economic growth in terms of its size relative to stock markets and ratio of total bank credit to GDP (Allen et al., 2005; Qian and Yeung, 2015). The China's financial system is dominated by the banking system, so bank lending is a main source of external finance for corporate sectors (Allen et al., 2019; Qian and Yeung, 2015). Second, Chinese banks have a larger geographic scope and lower financing costs compared with other

[2] Big Four banks include Bank of China, Industrial and Commercial Bank of China, Agricultural Bank of China and China Construction Bank.
[3] These are the State Development Bank, the Agricultural Development Bank of China and the Export and Import Bank of China.

nonbank financing channels (Cheng and Degryse, 2010). More importantly, the banking system is under the control of the Chinese government so that politicians have sufficient power to influence bank lending decisions directly and effectively (Firth et al., 2008; Houston et al., 2014). Therefore, it is likely and possible that government officials use banks located within their jurisdiction to finance those politically favoured projects, which in turn will deliver good economic performance. In this way, government officials design the policies affecting the environment in which banks operate, and thus they have a direct influence on bank lending decisions and subsequent capital allocation (Cong et al., 2019). Previous studies document that firms are able to receive more bank loans if firm executives have connections with government officials, implying that officials are able to directly influence the bank loan allocation (Chen et al., 2011; Feng et al., 2015). In a similar vein, we expect that bank loans are increasing with the enlarged incentives of local government officials for promotion. In particular, though local officials have incentives to intervene in bank lending decisions, local officials are expected to influence lending activities of local banks. For national banks, only branches at the provincial level have the authority to make credit assessments (Chen et al., 2013). Therefore, the autonomy of national bank branches at the county level in the provision of bank credit is very limited. On the contrary, local banks are ultimately controlled by local governments and are supposed to provide preferential loans, which are more vulnerable to government intervention (Berger et al., 2009).

Furthermore, we argue that the incentives for political promotion vary with the tenure of local government officials in their offices. Previous studies documented that in the early years of CEOs' tenure, the board of directors are uncertain about their abilities, so CEOs have strong incentives to work harder and signal their superior abilities in the early years of their tenure than later stage of their careers (Holmstrom, 1982). Better performed CEOs are likely to be reappointed or receive higher compensation (Ali and Zhang, 2015). In a similar vein, we argue that politicians' tenure has significant implications for bank lending. Over the first few years after local politicians start their careers, the probability of being promoted to the upper layer of governments is higher, so that these politicians have stronger incentives to intervene in bank lending activities to promote regional economic growth. However, with the continuing increase of their years on the position, the probability of being promoted decreases, which would discourage politician incentives to improve regional economic growth. Based on our above discussion, it is expected that the amount of bank loans is increasing over the first few years of local politicians' tenure, and then decrease towards the end of politicians' tenure in their current positions. This indicates a reversed U-shaped relationship between politicians' tenure and bank loans, which is more pronounced in local banks. Therefore, we form our main hypothesis as follows:

Hypothesis 1a. *Bank loans increase at the first few years of local politicians' tenure while decrease towards the end of politicians' tenure.*

Hypothesis 1b. *The effects of politician incentives on bank loans are more significant for local banks compared with national banks.*

Under the Chinese political system, a CPS of a county can be either promoted locally (e.g., the CPS can be the previous governor or promoted from a lower political position of that county) or appointed externally (e.g., moving from other counties). The main criterion for promotion of local leaders within the Chinese political personnel system is the economic growth relative to the average performance across counties or to the economic performance of their predecessors (Li and Zhou, 2005; Cao et al., 2019). Compared with those CPSs coming from other counties, locally promoted CPSs have already spent considerable time within this county and enabled the development of social networks with the local political and economic elites as well as a general affinity to the county. Thus, we infer that locally promoted CPSs may have stronger abilities and incentives to intervene in the local economy via influencing bank lending,[4] which develops our second hypothesis:

Hypothesis 2. *The effects of politician incentives on bank loans are significant in counties with locally promoted politicians.*

Within the Chinese political personnel system, politician age is used as one of the criteria for promotion evaluation. Promoting younger cadres is a particularly important principle in the Chinese Communist Party's personnel system, and age requirements and restrictions can represent a clear index by which to monitor the progress of promoting younger cadres. Generally, the Chinese Communist Party has unofficially set the ceiling age at which politicians at various layers of governments are eligible for promotion. For the communist party secretaries at the county level, they are less likely to be promoted when they are older than 50. In addition, the length of politicians' years on the position also indicates their promotion probability. The longer period they are on the same position, the less possibility that they will be promoted. Thus, when the politician has full information of his own promotion probability, he will decide whether to intervene in the local business. Therefore, we expect the county CPSs who are less than or equal to 50 years old have stronger incentives to intervene in business, same as CPSs with 4 years on the position or even less. Accordingly, we develop the following hypothesis:

Hypothesis 3. *The effects of politician incentives on bank loans are significant in counties with CPSs less than or equal to 50 years old, as well as CPSs with 4 years in the position or even less.*

3. Sample and methodology

3.1. Sample construction

To test our predictions, we conduct the empirical analysis using a sample of bank branches at the county level. Our sample has the

[4] This argument also rules out learning concerns suggesting that at the beginning of tenure, CPSs have to learn the ropes and get familiar with nature of the county, because the effects are more profound for locally promoted CPSs.

following advantages which complement previous studies. First, previous studies conduct interbank comparisons by aggregating all branches together.[5] However, the characteristics of branches of the same banks differ significantly from each other due to that they are located in different regions with different levels of development. Thus, to consider the interbank variation, we employ bank branch data located in different counties and form our empirical sample. Such a sample can facilitate us to examine how local government politicians affect the behaviour of local bank branches.

Our sample is an unbalanced panel of county-level bank branches during the period of 2006 to 2011. The county-level bank branches data are obtained from the Bank Statistics Report database, compiled by the China Banking Regulatory Commission (CBRC). This database provides detailed information about bank branches at the county level, including bank name, registered county, amount of loans outstanding, deposits, borrowers' names, the number of branch network of banks, the number of bank staff and so on. From this database, we are able to identify whether a bank is a national bank or a local bank. In particular, national banks refer to banks operate at the national level, including Big Four banks, three state-owned policy banks as well as joint-stock commercial banks; local banks refer to banks operate at the local level, including city commercial banks, rural commercial banks and rural credit cooperatives. Following the common rules in previous literature, we remove observations with missing data of our key variables. Finally, we are able to identify 9061 bank-year observations of national banks and 9061 bank-year observations of local banks corresponding to 1597 counties from 21 provinces.

We also manually collect the information of local government leaders of these 1597 counties for the period from 2006 to 2011 in terms of their tenure, age, birth year and so on. In particular, we focus on the communist party secretaries (CPSs) at the county level because these politicians are most powerful in the county governments. The standing committee of the county party committee is the highest power meeting to discuss significant affairs in its jurisdiction, and the party secretary is the one who makes the final decision. For the head of a county, they mainly take in charge of enforcing decisions of the county party committee and arranging specific affairs. Data on CPSs' information mainly comes from the Yearbooks of each province and various website searches (such as www.people.com.cn; www.xinhuanet.com). We also collect the county-level GDP and county-level institutional environment indicators from the Statistics Yearbooks of each province. Appendix table A.1 presents a distribution of observations by province.

3.2. Methodology and estimation

To empirically examine how local politicians affect the bank loan allocation, we develop the following equation in the spirit of Berger et al. (2009), Lin and Zhang (2009) and Jiang et al. (2013):

$$Loan_{i,t} = \alpha_0 + \alpha_1 Tenure_{i,t} + \alpha_2 Tenure_{i,t}^2 + \alpha_3 Control_{i,t} + County_i + Year_t + \varepsilon_{i,t} \quad (1)$$

where *Loan* is the natural logarithm of the amount of bank loans at the county level in the current year. Our variable of interest is local government leader's *Tenure*, which refers to the number of years that the politician has been on the party secretary position until the current year. *Tenure* represents the extent of government intervention in the local economy and varies greatly within counties. Politicians' incentives vary across the periods of their political careers which become stronger along with a higher probability of being promoted in the first few years while lower at the end of tenure. To examine whether there could be any non-linear relationships between politician tenure and total bank loans, we also include the square term of *Tenure* in the equation.

We are interested in investigating that whether the influences of government intervention on loans are different across banks, as it is naturally to accept that local government officials can affect the lending behaviour of local banks relative to national banks. To do so, we group the samples into national banks and local banks and investigate the impact of government intervention on their bank lending respectively. Consistent with the existing literature (e.g., Berger et al., 2009), we also include several control variables in Eq. (1) including a county's GDP per capita which represents the economic development (*GDP* per capita), total population which represents the potential demand for credit (*Population*), *Fiscal autonomy*, measured as fiscal revenue divided by fiscal expenditure, representing the financial capacity of local discretion, *Branch network*, which refers to the number of branch networks with loan function, *Small branch network*, which refers to the number of branch networks with three or less than three staff, and *Deposit*, which is measured as the natural logarithm of the amount of deposit at the county level in the current year, as well as *Staff*, which refers to the number of people work in financial institutions. We also include county fixed effects and year fixed effects to control unobserved heterogeneity at the county level that remains constant over time, and any unobserved time-variant characteristics that affect *Loan*. Definitions of all variables used in our study are reported in the Appendix table A.2.

4. Empirical results

4.1. Summary statistics

Table 1 reports the summary statistics of the main variables in this study, whereas Panel A for the full sample, and Panels B and C for both national banks and local banks. In Panel A, the average tenure of party secretaries is 2.88 years for the full sample, and the average age of party secretaries is 47 years. Among all of these party secretaries in our sample, 58% of them are promoted locally and 42% of

[5] For example, Berger et al. (2009) collect data of 38 Chinese banks, Lin and Zhang (2009) obtain data of 60 banks and Jiang et al. (2013) obtain data of 49 banks.

them are appointed externally. In relation to loans, we observe that the average bank lending is higher for national banks than that of local banks. National banks and local banks also differ in other characteristics including the number of the branch network and employees, suggesting the need to control for these variables in analyzing bank loans.

Fig. 1 presents tenure distribution of all party secretaries in our sample. During our sample period, more than 50% of party secretaries hold the position for no more than three years. About 25% of party secretaries hold the position for between four and five years. Based on the statistics results on tenure distribution, we find that the turnover of party secretaries at the county level is frequent.

4.2. The impact of politicians' career incentives on bank loan allocation

Table 2 presents the empirical results of the impact of politician tenure on total bank loans, by estimating eq. (1). As we have argued that politicians are able to influence local banks more effectively, we report the results for national banks and local banks separately. In Panel A, columns 1 and 2 present the results of the baseline equation by only including politician's *Tenure* and *Tenure* square term, which are our primary variables of interest. Columns 3 and 4 present the results by including control variables. As the results of key variables are quite similar between these two specifications, we focus on the results in columns 3 and 4 for interpretations.

In column 4, we find that the estimated coefficients of *Tenure* and *Tenure* square term are positive and negative respectively, and statistically significant at 5% levels. This result indicates that the relationship between politician's tenure and total bank loans is non-linear and shows a reversed U-shape. Economically, the estimated coefficients of *Tenure* and *Tenure* square terms are 0.014 and −0.002, suggesting that total loans of local banks are increasing during the first few years after the politician takes the office and peaks when the politician's tenure is about 3.5 (=0.014/0.002*2) years, and then starts to decrease towards the last year of the incumbent local government leader. This result is consistent with our main hypothesis that due to the potential of being promoted, politicians have stronger incentives to utilize banks to support local economic growth during the first few years when they take the office. Later on, when they find that the probability of being promoted decreases, the incentives to support local economy become weaker. In column 3 where we use national banks as a comparison, we find that neither *Tenure* nor *Tenure* square term has significant coefficients, indicating that national banks are less likely to compromise the political pressure.[6]

The control variables also show some consistent evidence. For example, the coefficient of *GDP* per capita is positive in local banks, while insignificant in national banks. This result indicates that the overall economic growth has positive effects on bank lending for local banks only. Moreover, *Deposit* has positive and significant coefficients, indicating that bank lending is larger when the banking deposit is higher.

In Panel B, we also include various combinations of fixed effects to check robustness. First, we include province-year fixed effect to identify changes over time and province heterogeneity. Second, we include bank fixed effect to control for bank-level unobserved characteristics. Columns 1 to 2 reports results for controlling province-year fixed effect, and columns 3 to 4 reports results for including bank fixed effect. We observe that the results are quantitatively similar to our main results.[7]

4.3. Alternative promotion pressure index

In our main regressions, we use politicians' tenure as the primary proxy to capture the overall career concerns and time-varying variation of promotion incentives during their tenure. In this section, we construct an alternative index to capture cross-sectional variation in politician's promotion pressure in the spirit of Wang et al. (2019). This promotion pressure index measures the gap of a county's comprehensive performance compared with other counties within the same province.[8] The basic rationale is that politicians will face a stronger promotion pressure if the performance of their counties is far poorer than that of other counties within the same province due to the tournament competition. Then these politicians may impose stronger pressure on local banks for granting more bank loans (Wang et al., 2019).

Empirically, we choose five evaluation indicators which are essential for politicians' promotion, including GDP growth rate, fiscal surplus (fiscal revenues minus fiscal expenditures scaled by GDP), unemployment rate, sulfur dioxide (SO_2) emissions decrease rate and Chemical Oxygen Demand decrease rate. GDP growth rate, fiscal surplus and unemployment rate are applied to evaluate local economic performance and social stability (Xu, 2011), and sulfur dioxide (SO_2) emissions decrease rate and Chemical Oxygen Demand decrease rate are employed to capture local environmental performance (Liu and Wang, 2017).[9] Then, we construct the promotion

[6] To provide further evidence for an inverted U-shaped relationship, we also test the second criterion mentioned by Lind and Mehlum (2010). We find the slope for the lower bound is positive and significant, and the slope for supper bound is significantly negative, which satisfies the second criterion.

[7] To avoid results are driven by sample selection bias, we also rerun main regressions through excluding the high clustered province (e.g., Hebei) and obtain similar results. However, due to the limitation of paper length, we do not report the results in the paper, but they are available on request.

[8] The State Council required that the appointment and dismissal of CPSs at the county level are finally determined by the provincial Communist Party Committee, instead of prefectural-level officials (State Council, 2009). Therefore, a county leader's performance is benchmarked with the average performance of all counties in the same province. We also construct the index measuring the gap of a county's performance compared with other counties within the same city, and we get similar results.

[9] To restrain pollutant emissions and achieve sustainable development, China has introduced a mandatory emissions reduction target since 11th Five-Year Plan (FYP) (2006–2010), where sulfur dioxide (SO_2) emissions and Chemical Oxygen Demand are two key controlled pollutants incorporated in local officials' personnel evaluation.

Table 1
Summary statistics.

Variable	Obs	Mean	Std Dev	Min	Max
Panel A: Full sample					
Loan (million Yuan)	18,122	3558.53	5578.28	98.12	39,229.22
Deposit (million Yuan)	18,122	4302.87	4558.33	196.16	28,099.33
GDP per capita (Yuan)	9061	14,983.93	17,306.79	1004.89	310,000
Population (thousands)	9061	473.0	301.7	88	1190
Fiscal autonomy (%)	9061	29.84	19.02	6.25	74.48
Fiscal expenditure ratio (%)	9061	23	15	7	63
Fiscal revenue ratio (%)	9061	5	3	0	90
Employees in private firms (%)	9061	13	9	3	56
Financial development	9061	0.11	0.31	0	1
Start up a business (days)	9061	0.25	0.43	0	1
Tenure	9061	2.88	1.71	1	11
Age	9061	47	3.70	33	60
Local	9061	0.58	0.49	0	1
Panel B: National banks					
Loan (million Yuan)	9061	2145.08	4116.63	10.20	29,149.22
Deposit (million Yuan)	9061	2129.00	2736.19	76.97	17,298.77
Staff	9061	228.53	208.54	24	1310
Branch network	9061	11	11	0	130
Small branch network	9061	0.01	0.11	0	1
Panel C: Local banks					
Loan (million Yuan)	9061	1406.60	1680.98	41.83	11,161.98
Deposit (million Yuan)	9061	2161.82	1976.55	75.53	11,200.38
Staff	9061	357	216.43	32	1125
Branch network	9061	28	17	0	207
Small branch network	9061	0.93	4.36	0	34

This table reports the summary of descriptive statistics of all variables used in our model. Our sample includes county-level bank branches during the period of 2006 to 2011. After excluding data with missing information, we finally obtain 18,122 observations. All continuous variables are winsorized at the top and bottom 1% to mitigate the effect of outliers. The detailed definitions of these variables are presented in Appendix table A.2.

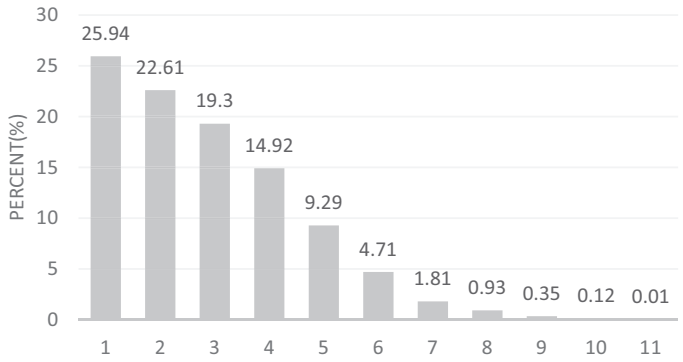

Fig. 1. Distribution of tenure of party secretaries at the county level in our sample.

pressure index as follows. Let $e^k_{i,\ t}$ (k = 1, 2,…, n) be the kth evaluation indicator of politicians' performance in county i and $S_{i,\ t}{}^k \epsilon\{0,1,2,3\}$ be the pressure score of county i based on the kth evaluation indicator, where a larger value of $e^k_{i,\ t}$ indicates better performance. In particular, if the value of $e^k_{i,\ t}$ falls into the interval $[V_{max}, V_{0.75}]$, where V_{max} is the maximum value of corresponding comparable sample and $V_{0.75}$ is the value at upper quartile, assign 0 to $S^k_{i,\ t}$. If the value of it falls into the interval $[V_{0.75}, \overline{V}]$, where $\overline{V}$ is the average value of the corresponding comparable sample, assign 1 to $S^k_{i,\ t}$. If the value of it falls into the interval $[\overline{V}, V_{0.25}]$, where $V_{0.25}$ is the value at lower quartile, assign 2 to $S^k_{i,\ t}$. If the value of it falls into the interval $[V_{0.25}, V_{min}]$, where V_{min} is the minimum value of corresponding comparable sample, assign 3 to $S^k_{i,\ t}$. namely,

Table 2
The impact of CPSs' incentives on bank loans.

Dependent variable:	Banks loans of national banks	Bank loans of Local banks	Bank loans of National banks	Bank loans of local banks
	(1)	(2)	(3)	(4)
Panel A: Main results				
Tenure	0.005	0.043***	0.002	0.014**
	(0.011)	(0.009)	(0.011)	(0.006)
Tenure square	−0.002	−0.003**	−0.002	−0.002**
	(0.001)	(0.001)	(0.001)	(0.001)
GDP per capita			−0.066	0.287***
			(0.045)	(0.036)
Population			−0.283	0.287***
			(0.254)	(0.036)
Fiscal autonomy			0.001	0.186
			(0.001)	(0.114)
Branch network			0.102***	0.013
			(0.036)	(0.018)
Small branch network			−0.023	0.002
			(0.052)	(0.001)
Staff			0.537***	0.373***
			(0.070)	(0.060)
Deposit			0.185***	0.779***
			(0.050)	(0.041)
County	Yes	Yes	Yes	Yes
Year	Yes	Yes	Yes	Yes
Adjusted R^2	0.302	0.546	0.334	0.816
Observations	9061	9061	9061	9061
Panel B: Different combinations of fixed effects				
Tenure	0.001	0.010*	0.003	0.014***
	(0.010)	(0.005)	(0.011)	(0.005)
Tenure square	−0.001	−0.002**	−0.002	−0.002**
	(0.001)	(0.001)	(0.001)	(0.001)
GDP per capita	0.197***	0.268***	−0.077	0.258***
	(0.053)	(0.032)	(0.048)	(0.034)
Population	−0.026	0.266**	−0.213	0.185*
	(0.178)	(0.124)	(0.235)	(0.109)
Fiscal autonomy	0.001	−0.001	0.001	−0.001**
	(0.001)	(0.001)	(0.001)	(0.001)
Branch network	0.075**	0.012	0.087**	−0.001
	(0.031)	(0.018)	(0.034)	(0.018)
Small branch network	−0.045	0.002	−0.035	0.002
	(0.048)	(0.001)	(0.053)	(0.001)
Staff	0.454***	0.349***	0.463***	0.319***
	(0.072)	(0.062)	(0.069)	(0.060)
Deposit	0.360***	0.661***	0.157***	0.756***
	(0.057)	(0.043)	(0.050)	(0.040)
County	No	No	Yes	Yes
Year	No	No	Yes	Yes
Province-year	Yes	Yes	No	No
Bank	No	No	Yes	Yes
Adjusted R^2	0.455	0.843	0.353	0.824
Observations	9061	9061	9061	9061

This table reports the results of the effect of CPSs incentives on bank loans for both national banks and local banks, using a sample of county-level bank branches during the period of 2006 to 2011. The dependent variables are the natural logarithm of the amount of bank loans in the current year. The key independent variables are CPSs' tenure and its square term. In Panel A, columns 1 and 2 report the results with key independent variables only, and columns 3 to 4 report the results including control variables. Panel B reports the results using various combinations of fixed effects. The robust standard errors are reported in parentheses. *, ** and *** indicate the significance levels of 10%, 5% and 1%, respectively.

$$S_{i,t}^{k}\begin{cases} 0, if\ e_{i,t}^{k} \epsilon\ [V_{max}, V_{0.75}] \\ 1, if\ e_{i,t}^{k} \epsilon\ [V_{0.75}, \overline{V}] \\ 2, if\ e_{i,t}^{k} \epsilon\ [\overline{V}, V_{0.25}] \\ 3, if\ e_{i,t}^{k} \epsilon\ [V_{0.25}, V_{min}] \end{cases}$$

The promotion pressure index $P_{i,\ t}$ for politicians in region i is built as $P_{i,t} = \sum_{k=1}^{n} S_{i,t}^{k}$, where $P_{i,\ t} \epsilon [0, 3n]$. A higher value of $P_{i,\ t}$ suggests higher promotion pressure for local politicians in county i. Table 3 provides the results of empirical regressions using *Promotion pressure index*. As it is shown in Table 3, the coefficients on local bank loans have signs identical to main tests and they are statistically significant.

4.4. The impact of politicians' career concerns on bank loan allocation: Conditional on CPSs' origin and age

Table 4 presents regression results estimated for CPSs with different origin and age. Columns 1 and 2 of panel A and B present the impact of politicians' incentives by locally prompted and external appointed CPSs while columns 3 and 4 present results by CPSs' age or years on the position. The coefficients of *Tenure* square term and *Promotion pressure index* are our main concerns. We find that *Tenure* square terms have negative and significant coefficients only in the subsamples where the CPSs are promoted locally or the CPSs are less than or equal to 50, as well as the CPSs have been in the position less than or equal to 4 years. Economically, in the subsample of locally promoted CPSs (column 1 of panel A), the coefficients of *Tenure* and *Tenure* square term are 0.017 and − 0.002, indicating that the bank lending is increasing and peaks when the CPS's tenure is about 4.25 (=0.017/0.002*2) years. In the column 3 of panel A, the coefficients of *Tenure* and *Tenure* square term are 0.021 and −0.003, indicating that bank lending is increasing and peaks when the CPS's tenure is about 3.5 (=0.021/0.003*2) years. In addition, columns 1 to 4 of panel B show the results using *Promotion pressure index*, where coefficients on bank loans is positively significant for locally promoted CPSs and CPSs are less than or equal to 50 as well as on the position less than or equal to 4 years. These results demonstrate that the influence of politicians' incentives on bank loans is subject to politicians' origin and age.

4.5. Cross-sectional analysis

In the previous section, we link the promotion incentives of local government leaders to local bank lending to reveal politician incentives to intervene in the banking sector to promote the local economy. If our main argument is valid, we expect the effect of politician incentives is more significant in counties with underdeveloped institutions, weaker government capacity as well as in banks or borrowers with political ties. To empirically test our expectations and support our hypothesis, we provide additional evidence in this section. As we have observed that politicians usually have significant effects on lending of local banks in the previous section, then we will focus on the subsample of local banks in this section.[10]

4.5.1. The impact of institutional development

In this section, we examine whether the effect of politician incentives on bank loans is more significant in counties with underdeveloped institutions. Existing studies document that the local government has stronger intervention over the local economy if the institutional environment is underdeveloped (Cull et al., 2015; Wang et al., 2008). Thus, we expect that the effect of politician incentives on bank loans is more significant in counties with underdeveloped institutions. Empirically, we measure the institutional development using three proxies: the number of days to start up a business in each county, the ratio of employees from private firms and the number of listed firms. First, previous literature suggests that better legal protection and institutions can reduce time required to start up a business (Allen et al., 2005; Djankov et al., 2002). Second, in a county with more developed institutions, private firms are more likely to be supported by the local government, so that these private firms are growing faster and have more employees (Liang and Gong, 2017). Third, a more developed equity market provides sufficient and comprehensive sources of capital to promote economic growth. In a county, if there are more listed firms, it is attractive to have the equity financing which thereby supports the county economic growth and weakens politicians' incentives to utilize local banks to provide financial support.

In the regression analysis, we divide the full sample into two subsamples based on the median values of days required to starts up a business, ratio of private firms' employees and number of listed firms in these counties in 2006 which is the initial year of our sample, and repeat the estimation of eq. (1). As shown in panel A of Table 5, the estimated coefficients on *Tenure* square term are negative and statistically significant in counties where the number of days to start a business is larger than the median value, the ratio of employees from private firms and the number of listed firms are less than the median value. Economically, in the subsample with more start up days (column 2), the coefficients of *Tenure* and *Tenure* square term are 0.015 and − 0.002, indicating that the bank lending is increasing and peaks when the CPS's tenure is about 3.75 (=0.015/0.002*2) years. In the subsample with fewer private firm employees (column 4), the coefficients of *Tenure* and *Tenure* square term are 0.032 and − 0.004, indicating that the bank lending is increasing and peaks

[10] In each scenario, we have also conducted the regression analysis for the subsample of national banks. The results show that the effect of politician tenure has no effect on national bank loans in all these scenarios. To save the space, we do not report these results, but they are available on request.

Table 3
Alternative proxy for CPSs' incentives.

Dependent variable:	Bank loans of national banks	Bank loans of local banks
	(1)	(2)
Promotion pressure index	0.037	0.002***
	(0.028)	(0.001)
GDP per capita	0.369***	0.125***
	(0.112)	(0.014)
Population	0.266**	0.018***
	(0.109)	(0.006)
Fiscal autonomy	0.006*	0.003***
	(0.003)	(0.000)
Branch network	0.189	0.119***
	(0.112)	(0.007)
Small branch network	0.023	0.001
	(0.091)	(0.001)
Staff	1.006***	0.107***
	(0.107)	(0.017)
Deposit	−0.059	0.743***
	(0.128)	(0.019)
County	Yes	Yes
Year	Yes	Yes
Adjusted R^2	0.683	0.870
Observations	9061	9061

This table presents results for the effect of CPSs incentives on bank loans using an alternative promotion pressure index. Our sample covers all listed firms from 2006 to 2011. The dependent variables are the natural logarithm of the amount of bank loans for national banks and local banks at the county level in the current year respectively. The key independent variable is *Promotion pressure index*, which is measured by the gap of the county's performance compared to other counties in the same province. The larger this gap, the stronger is promotion pressure. All other variables are defined in the Appendix table A.2. Robust standard errors are in parentheses. ***, ** and * indicate two-tailed significance levels at 1%, 5% and 10%, respectively.

when the CPS's tenure is about 4 (=0.032/0.004*2) years. In the subsample with fewer listed firms (column 6), the coefficients of *Tenure* and *Tenure* square term are 0.015 and − 0.002, indicating that the bank lending is increasing and peaks when the CPS's tenure is about 3.75 (=0.015/0.002*2) years.[11] As for *Promotion pressure index*, columns 1 to 6 of panel B in Table 5 show that estimated coefficients are positively significant for subsample with more days to start a business, fewer employees in private firms and fewer listed firms. These results provide supports to our main arguments that politicians' tenure reflects their intervention over the local economy, and such an effect on bank lending should be more significant in those counties with underdeveloped institutions.

4.5.2. The impact of government capacity

Government capacity is defined as the ability to enforce legislation, regulate economic activities and provide public goods (Bardhan and Mookherjee, 2006). Specifically, fiscal capacity indicates the capability of regional governments to raise fiscal revenues and control over the economy (Bellofatto and Besfamille, 2018), where stronger capacity could have a positive effect on economic development (Acemoglu et al., 2015). In this section, we exploit whether the impact of politician incentives varies in counties with different levels of government capacity. Empirically, we employ two proxies to measure government capacity from fiscal perspective, including fiscal expenditure, which captures the government size and the degree of local governmental intervention over the economy (Ram, 2009), as well as fiscal revenue, which measures local governments' tax incomes and the capability to obtain various resources to support local economic growth (Bellofatto and Besfamille, 2018). We expect that the incentives for officials to affect local banks' lending would be higher in counties with weaker government capacity, as capable local politicians can get sufficient resources and are less likely to choose bank lending to boost the local economy.

We partition all counties into two groups based on the median value of fiscal expenditure and fiscal revenue ratio (the ratio of fiscal expenditure or revenue to GDP) in year 2006, separately, and then estimate eq. (1) for the subsample of banks located in each county group. Table 6 presents the regression results, where columns 1, 2 in panel A and B report the results for counties with high or low level of fiscal expenditure ratio using *Tenure* and *Promotion pressure index* respectively, and columns 3, 4 in panel A and B report the results for counties with high or low level of fiscal revenue ratio using *Tenure* and *Promotion pressure index* respectively. As can be seen in Table 6, the estimated coefficients of *Tenure* square terms are negative and statistically for counties with lower level of fiscal expenditure ratio and lower level of fiscal revenue ratio, suggesting that local politicians have higher incentives to intervene in the banking sector when local state capacity is weaker. Economically, in the subsample with low fiscal expenditure ratio (column 2 of panel A), the coefficients of *Tenure* and *Tenure* square term are 0.011 and − 0.002, indicating that the bank lending is increasing and peaks when the CPS's tenure is about 2.75 (=0.011/0.002*2) years. In the subsample with low fiscal revenue ratio (column 4 of panel B), the coefficients of *Tenure* and *Tenure* square term are 0.013 and − 0.002, indicating that the bank lending is increasing and peaks

[11] We report turning points to only indicate their economic meanings and we don't compare the difference across the different turning points.

Table 4
The impact of the politician's origin and age.

Dependent variable:	Bank loans of local banks			
	(1)	(2)	(3)	(4)
	Local	External	<=50 / stay 4 years or less	>50 / stay more than 4 years
Panel A: CPS tenure results				
Tenure	0.017**	0.018**	0.021***	0.015
	(0.008)	(0.009)	(0.004)	(0.010)
Tenure square	−0.002*	−0.001	−0.003***	−0.002
	(0.001)	(0.001)	(0.001)	(0.001)
GDP per capita	0.248***	0.320***	0.250***	0.063
	(0.041)	(0.050)	(0.031)	(0.042)
Population	−0.025	0.646**	0.210**	−0.051
	(0.087)	(0.265)	(0.103)	(0.086)
Fiscal autonomy	0.000	−0.002*	−0.001***	0.001
	(0.001)	(0.001)	(0.000)	(0.001)
Branch network	0.019	−0.001	0.010	0.033
	(0.020)	(0.035)	(0.009)	(0.038)
Small branch network	0.001	0.003	0.001*	0.002
	(0.001)	(0.002)	(0.001)	(0.003)
Staff	0.312***	0.397***	0.279***	0.366***
	(0.055)	(0.111)	(0.016)	(0.118)
Deposit	0.838***	0.628***	0.838***	0.469***
	(0.040)	(0.067)	(0.034)	(0.067)
County	Yes	Yes	Yes	Yes
Year	Yes	Yes	Yes	Yes
Adjusted R^2	0.802	0.795	0.817	0.789
Observations	5257	3804	5168	3893
Panel B: Promotion pressure index results				
Promotion pressure index	0.002**	0.003	0.004***	−0.001
	(0.001)	(0.004)	(0.001)	(0.005)
GDP per capita	0.164***	0.150***	0.202***	0.091***
	(0.014)	(0.024)	(0.016)	(0.025)
Population	−0.007	0.035	0.034***	−0.007
	(0.017)	(0.032)	(0.008)	(0.032)
Fiscal autonomy	0.002***	0.003***	0.002***	0.004***
	(0.000)	(0.001)	(0.000)	(0.001)
Branch network	0.086***	0.154***	0.109***	0.135***
	(0.009)	(0.038)	(0.004)	(0.039)
Small branch network	0.001	0.000	0.000	0.001
	(0.001)	(0.002)	(0.001)	(0.002)
Staff	0.023	0.136**	−0.023	0.182***
	(0.020)	(0.054)	(0.018)	(0.052)
Deposit	0.861***	0.699***	0.846***	0.700***
	(0.018)	(0.036)	(0.021)	(0.037)
County	Yes	Yes	Yes	Yes
Year	Yes	Yes	Yes	Yes
Adjusted R^2	0.864	0.873	0.876	0.857
Observations	5257	3804	5168	3893

This table reports the results of the impact of the politician's origin and age. The dependent variables are the natural logarithm of the amount of bank loans for local banks at the county level in the current year. The key independent variables are *Tenure* square and *Promotion pressure index*. Bank-year observations are used as the sample for this analysis. Columns 1 and 2 of panel A and B report the results for whether the incumbent CPSs are promoted locally, and columns 3 and 4 of panel A and B report the results for whether the incumbent CPSs are older than 50 or stay on the position longer than 4 years. The robust standard errors are reported in parentheses. *, ** and *** indicate the significance levels of 10%, 5% and 1%, respectively.

when the CPS's tenure is about 3.25 (=0.013/0.002*2) years. As for *Promotion pressure index*, the estimated coefficient is significantly positive in counties with lower level of fiscal expenditure ratio and a lower level of fiscal revenue ratio. These results provide further supportive evidence to our key hypotheses.

4.5.3. The impact of political ties

Our main arguments suggest the effect of politician incentives on bank loans is more significant in local banks. Then, we are also interested in the mechanism through which governments' pressure affects bank lending decisions. If banks' directors or supervisors are or were members of local government institutions, we expect more influence can be transferred from politicians to bank lending decisions (Wang et al., 2019). From borrowers' perspective, non-state-owned enterprises (non-SOEs) are more likely to face discrimination of bank lending, while most of bank loans are flowing to state-owned enterprises (SOEs) (Cull et al., 2015). Empirically,

Table 5
The impact of institutional development.

Dependent variable:	Bank loans of local banks					
	(1)	(2)	(3)	(4)	(5)	(6)
	Fewer days in start-up	More days in start-up	More employees in private sector	Fewer employees in private sector	Good equity market development	Poor equity market development
Panel A: CPS tenure results						
Tenure	0.008	0.015**	0.002	0.032***	0.013	0.015***
	(0.012)	(0.006)	(0.008)	(0.009)	(0.018)	(0.006)
Tenure square	−0.001	−0.002**	−0.001	−0.004***	−0.002	−0.002**
	(0.002)	(0.001)	(0.001)	(0.001)	(0.002)	(0.001)
GDP per capita	0.297***	0.287***	0.163***	0.461***	0.503***	0.274***
	(0.062)	(0.041)	(0.036)	(0.065)	(0.146)	(0.036)
Population	0.255	0.176	−0.182	0.275	−0.144	0.213*
	(0.373)	(0.109)	(0.149)	(0.322)	(0.196)	(0.123)
Fiscal autonomy	−0.000	−0.001**	0.000	−0.003**	0.003*	−0.002**
	(0.001)	(0.001)	(0.001)	(0.001)	(0.002)	(0.001)
Branch network	0.009	0.014	0.019	0.001	0.027	0.012
	(0.032)	(0.022)	(0.024)	(0.032)	(0.036)	(0.020)
Small branch network	0.001	0.003	0.002	0.001	0.002	0.002
	(0.001)	(0.002)	(0.002)	(0.002)	(0.002)	(0.001)
Staff	0.445***	0.360***	0.409***	0.367***	0.598**	0.359***
	(0.099)	(0.068)	(0.067)	(0.100)	(0.238)	(0.062)
Deposit	0.760***	0.782***	0.798***	0.716***	0.624***	0.786***
	(0.058)	(0.047)	(0.041)	(0.064)	(0.119)	(0.042)
County	Yes	Yes	Yes	Yes	Yes	Yes
Year	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted R^2	0.842	0.808	0.887	0.684	0.808	0.817
Observations	2234	6827	4656	4405	977	8084
Panel B: Promotion pressure index results						
Promotion pressure index	−0.005	0.013***	−0.000	0.012***	−0.023	0.009**
	(0.005)	(0.004)	(0.003)	(0.004)	(0.023)	(0.003)
GDP per capita	0.254***	0.101***	0.113***	0.139***	0.327***	0.117***
	(0.038)	(0.019)	(0.019)	(0.022)	(0.113)	(0.018)
Population	−0.190***	0.083***	−0.023	0.061**	−0.136	0.034*
	(0.052)	(0.023)	(0.026)	(0.026)	(0.148)	(0.021)
Fiscal autonomy	0.004***	0.002***	0.005***	0.002**	0.003*	0.002***
	(0.001)	(0.001)	(0.001)	(0.001)	(0.002)	(0.001)
Branch network	0.249***	0.053**	0.147***	0.088***	0.169***	0.087***
	(0.043)	(0.023)	(0.030)	(0.025)	(0.059)	(0.020)
Small branch network	0.002	0.003*	0.003**	−0.001	0.002	0.000
	(0.001)	(0.002)	(0.001)	(0.001)	(0.002)	(0.001)
Staff	0.154**	0.120***	0.201***	0.028	0.474***	0.110***
	(0.060)	(0.037)	(0.033)	(0.047)	(0.158)	(0.032)
Deposit	0.774***	0.706***	0.700***	0.767***	0.580***	0.732***
	(0.039)	(0.024)	(0.025)	(0.032)	(0.097)	(0.022)
County	Yes	Yes	Yes	Yes	Yes	Yes
Year	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted R^2	0.928	0.844	0.896	0.833	0.879	0.860
Observations	2234	6827	4656	4405	977	8084

This table reports the results of the impact of institutional development. The dependent variables are the natural logarithm of the amount of bank loans for local banks at the county level in the current year. The key independent variables are *Tenure* square and *Promotion pressure index*. Bank-year observations are used as the sample for this analysis. Columns 1 and 2 of panel A and B report the results based on the days to start up a business, columns 3 and 4 of panel A and B report the results based on the ratio of employees from private sector, and columns 5 and 6 of panel A and B report the results based on equity market development. The robust standard errors are reported in parentheses. *, ** and *** indicate the significance levels of 10%, 5% and 1%, respectively.

we divide full sample according to whether directors or supervisors of banks are or were members of local government institutions, as well as borrowers into SOEs and non-SOEs. As shown in Table 7, the estimated coefficient of *Tenure* square is negative and statistically significant in local banks with political ties and SOEs, while insignificant for other banks or non-SOEs. Economically, the coefficients of *Tenure* and *Tenure* square term are 0.015 and − 0.002 (column 1), indicating that the bank lending is increasing and peaks when the CPS's tenure is about 3.75 (=0.015/0.002*2) years; bank loans to SOEs peak when the CPS's tenure is about 3.25 (=0.013/0.002*2) years (column 3). As for *Promotion pressure index*, the estimated coefficient is significantly positive in local banks with local

Table 6
The impact of government capacity.

Dependent variable:	Bank loans of local banks			
	(1)	(2)	(3)	(4)
	Higher fiscal expenditure ratio	Lower fiscal expenditure ratio	Higher fiscal revenue ratio	Lower fiscal revenue ratio
Panel A: CPS tenure results				
Tenure	0.007	0.011*	0.003	0.013**
	(0.009)	(0.006)	(0.008)	(0.007)
Tenure square	−0.001	−0.002**	−0.001	−0.002**
	(0.001)	(0.001)	(0.001)	(0.001)
GDP per capita	−0.094**	0.132***	0.037	−0.019
	(0.041)	(0.039)	(0.041)	(0.036)
Population	0.208	−0.159	−0.020	−0.266
	(0.251)	(0.110)	(0.090)	(0.185)
Fiscal autonomy	0.001	0.001	0.001	0.000
	(0.001)	(0.001)	(0.001)	(0.001)
Branch network	0.061**	0.033	−0.005	0.076***
	(0.026)	(0.023)	(0.029)	(0.025)
Small branch network	0.001	0.002*	0.004**	0.002
	(0.002)	(0.001)	(0.002)	(0.001)
Staff	0.185***	0.421***	0.305***	0.328***
	(0.047)	(0.086)	(0.065)	(0.092)
Deposit	0.538***	0.478***	0.550***	0.513***
	(0.065)	(0.051)	(0.046)	(0.068)
County	Yes	Yes	Yes	Yes
Year	Yes	Yes	Yes	Yes
Adjusted R^2	0.846	0.816	0.856	0.794
Observations	3252	5809	3787	5274
Panel B: Promotion pressure index results				
Promotion pressure index	−0.004	0.007***	0.004	0.004*
	(0.004)	(0.002)	(0.004)	(0.002)
GDP per capita	0.163***	0.261***	0.238***	0.241***
	(0.026)	(0.015)	(0.025)	(0.015)
Population	0.113***	0.027	0.154***	0.026*
	(0.029)	(0.019)	(0.029)	(0.015)
Fiscal autonomy	−0.001	0.003***	−0.001*	−0.003***
	(0.001)	(0.000)	(0.001)	(0.000)
Branch network	0.082***	0.117***	0.105***	0.123***
	(0.031)	(0.019)	(0.030)	(0.024)
Small branch network	−0.004***	0.000	0.005**	0.001
	(0.001)	(0.001)	(0.002)	(0.001)
Staff	−0.067*	0.221***	0.124***	0.085**
	(0.036)	(0.034)	(0.040)	(0.042)
Deposit	0.829***	0.761***	0.733***	0.769***
	(0.027)	(0.022)	(0.029)	(0.023)
County	Yes	Yes	Yes	Yes
Year	Yes	Yes	Yes	Yes
Adjusted R^2	0.865	0.853	0.894	0.851
Observations	3252	5809	3787	5274

This table reports the results of the impact of government capacity. The dependent variables are the natural logarithm of the amount of bank loans for local banks at the county level in the current year. The key independent variables are *Tenure* square and *Promotion pressure index*. Bank-year observations are used as the sample for this analysis. Columns 1 and 2 of panel A and B report the results based on the fiscal expenditure ratio, and columns 3 and 4 of panel A and B report the results based on the fiscal revenue ratio. The robust standard errors are reported in parentheses. *, ** and *** indicate the significance levels of 10%, 5% and 1%, respectively.

governments' connection or their borrowers are SOEs. These results provide supports to our main arguments.

4.6. Further evidence

4.6.1. 2008 Economic stimulus packages

The Chinese government launched economic stimulus packages in 2008 to restore economic growth following global financial crisis. Such a stimulus package was introduced through government direct lending via the state-owned banking system to support investment activities on infrastructure (Liu et al., 2018). To be specific, the central government has applied loosened monetary policy through reducing the benchmark deposit interest rate and the bank reserve requirements on deposits, which largely increase bank loan supply (Liu et al., 2018). Faced with such an economic stimulus package, local government leaders have stronger incentives to intervene in banks' lending activities and promote regional economic growth, which in turn increases their chances of being promoted.

Table 7
The impact of political ties.

Dependent variable:	Bank loans of local banks			
	(1)	(2)	(3)	(4)
	Banks with political ties	Banks without political ties	SOEs	Non-SOEs
Panel A: CPS tenure results				
Tenure	0.015***	0.008	0.013*	0.016
	(0.005)	(0.007)	(0.007)	(0.017)
Tenure square	−0.002***	−0.002	−0.002**	−0.003
	(0.001)	(0.001)	(0.001)	(0.002)
GDP per capita	0.402***	−0.032	0.277***	0.568***
	(0.063)	(0.035)	(0.038)	(0.067)
Population	0.411**	−0.077	−0.053	0.777**
	(0.202)	(0.102)	(0.127)	(0.380)
Fiscal autonomy	−0.001	0.001	−0.003***	0.001
	(0.001)	(0.001)	(0.001)	(0.002)
Branch network	−0.029	0.064***	0.012	−0.004
	(0.023)	(0.020)	(0.022)	(0.044)
Small branch network	0.001	0.004	0.001	0.004
	(0.001)	(0.003)	(0.001)	(0.003)
Staff	0.300***	0.370***	0.347***	0.293***
	(0.029)	(0.083)	(0.057)	(0.094)
Deposit	0.625***	0.581***	0.714***	0.891***
	(0.058)	(0.058)	(0.041)	(0.062)
County	Yes	Yes	Yes	Yes
Year	Yes	Yes	Yes	Yes
Adjusted R^2	0.820	0.837	0.706	0.406
Observations	3987	5074	8773	8773
Panel B: Promotion pressure index results				
Promotion pressure index	0.029**	0.051	0.006**	0.018
	(0.010)	(0.035)	(0.003)	(0.033)
GDP per capita	0.464***	0.343**	0.161***	0.664***
	(0.088)	(0.155)	(0.028)	(0.183)
Population	0.299***	0.277	0.044	0.576***
	(0.076)	(0.162)	(0.031)	(0.109)
Fiscal autonomy	0.008***	0.004	−0.001	0.011**
	(0.002)	(0.004)	(0.001)	(0.005)
Branch network	0.060	0.271	0.205***	−0.060
	(0.116)	(0.180)	(0.015)	(0.194)
Small branch network	−0.006	0.026	−0.001	−0.201
	(0.050)	(0.124)	(0.001)	(0.159)
Staff	1.008***	0.997***	0.123***	−0.543
	(0.074)	(0.146)	(0.034)	(0.331)
Deposit	−0.010	−0.069	0.650***	0.838***
	(0.099)	(0.211)	(0.023)	(0.167)
County	Yes	Yes	Yes	Yes
Year	Yes	Yes	Yes	Yes
Adjusted R^2	0.720	0.664	0.796	0.475
Observations	3987	5074	8773	8773

This table reports the results of the impact of political ties. The dependent variables are the natural logarithm of the amount of bank loans for local banks at the county level in the current year. The key independent variables are *Tenure* square and *Promotion pressure index*. Bank-year observations are used as the sample for this analysis. Columns 1 and 2 of panel A and B report the results based on whether banks' directors or supervisors are or were members of local government institutions, columns 3 and 4 of panel A and B report results based on whether their borrowers are SOEs or non-SOEs. The robust standard errors are reported in parentheses. *, ** and *** indicate the significance levels of 10%, 5% and 1%, respectively.

Thus, the influence of government intervention on bank lending decisions is expected to be more pronounced after the implementation of the economic stimulus package.

To provide empirical evidence, we estimate eq. (1) for subsamples before and after the stimulus package. All empirical results are reported in Table 8. The estimated coefficients of *Tenure* square term are significantly negative in the subsample after the implementation of the stimulus package. Economically, in the subsample after the implementation of the stimulus package (column 2), the coefficients of *Tenure* and *Tenure* square term are 0.006 and − 0.001, indicating that bank lending is increasing and peaks when the CPS's tenure is about 3 (=0.006/0.001*2) years.

4.6.2. The effect of environmental performance

Inspired by promotion pressure index which has taken regional environmental performance into account, we expect the effect of politician incentives on the subsample in counties with poor environmental performance is more profound. To restrain pollutant

Table 8
2008 economic stimulus packages.

Dependent variable:	Bank loans of local banks	
	(1)	(2)
	Before stimulus package	After stimulus package
Tenure	0.004	0.006*
	(0.007)	(0.004)
Tenure square	−0.001	−0.001**
	(0.001)	(0.000)
GDP per capita	0.169***	0.442***
	(0.040)	(0.033)
Population	0.151*	0.554***
	(0.089)	(0.035)
Fiscal autonomy	−0.001	0.001***
	(0.001)	(0.000)
Branch network	0.067**	0.022***
	(0.033)	(0.003)
Small branch network	0.001	0.001
	(0.001)	(0.001)
Staff	0.221***	0.364***
	(0.045)	(0.021)
Deposit	0.639***	0.562***
	(0.045)	(0.021)
County	Yes	Yes
Year	Yes	Yes
Adjusted R^2	0.613	0.643
Observations	4682	4379

This table reports the results of the effect of economic stimulus packages in 2008. The dependent variables are the natural logarithm of the amount of bank loans for local banks at the county level in the current year. The key independent variable is *Tenure* square. Bank-year observations are used as the sample for this analysis. The robust standard errors are reported in parentheses. *, ** and *** indicate the significance levels of 10%, 5% and 1%, respectively.

emissions and achieve sustainable development, China has introduced a mandatory emissions reduction target since 11th Five-Year Plan (FYP) (2006–2010), where sulfur dioxide (SO_2) emissions and Chemical Oxygen Demand are two key controlled pollutants assigned to local governments (Liu and Wang, 2017). Empirically, we employ SO_2 decrease rate and Chemical Oxygen Demand decrease rate in 2010,[12] and create an environmental performance score for each county accordingly. The process of constructing environmental performance scores is similar to that for promotion pressure index mentioned in subsection 4.3. In particular, let $S_1 = 0$ if SO_2 decrease rate falls into the interval $[V_{max}, V_{0.75}]$; $S_1 = 1$ if SO_2 decrease rate falls into the interval $[V_{0.75}, \overline{V}]$; $S_1 = 2$ if SO_2 decrease rate falls into the interval $[\overline{V}, V_{0.25}]$; $S_1 = 3$ if SO_2 decrease rate into the interval $[V_{0.25}, V_{min}]$. Similarly, we can assign a value of 0, 1, 2, 3 to S_2 according to the value of Chemical Oxygen Demand decrease rate. The environmental performance score is finalized as $S_e = S_1 + S_2$. A lower value of an environmental performance score indicates better environmental performance. Then, we divide the full sample into two subsamples based on the median value of the environmental performance score. All relevant results are reported in Table 9. The estimated coefficients of *Tenure* square are negative and statistically significant in local banks with worse environmental performance. Economically, in column 2, the coefficients of *Tenure* and *Tenure* square term are 0.013 and − 0.002, indicating that the bank lending is increasing and peaks when the CPS's tenure is about 3.25 (=0.013/0.002*2) years. These results provide supports to our main arguments that the impact of politician incentives is more significant in local banks located in counties with worse environmental performance.

4.6.3. The effect of politician incentives on non-performing loans and bank efficiency

As banks ultimately concern about bank efficiency, it is warranted to examine whether bank efficiency is influenced with the variation of politicians' career concerns. Following previous literature (Berger et al., 2009; Louzis et al., 2012), we apply the amount of non-performing loans (NPLs) to capture bank efficiency. As enlarged bank loans deliver good economic performance to the county and increase the CPS's possibility of being promoted, we expect the volume of NPLs is reduced following the increased bank lending. Empirically, we apply the natural logarithm of one period ahead of NPLs at the county level as dependent variable considering the delayed effects of politicians' tenure on NPLs. In addition, we also examine the volume of NPLs by fiscal revenue ratio. We partition all counties into two groups based on the median value of fiscal revenue ratio (the ratio of fiscal expenditure or revenue to GDP). All relevant results are reported in Table 10. The estimated coefficient on *Tenure* square is positive and statistically significant and profound in regions with higher revenue ratio, which indicates the politicians' career incentive is consistent with economic goals which can actually improve bank lending efficiency. These findings further support our main results.

[12] The central government has launched a large-scale personnel evaluation for politicians at other layers based on their regional environmental performance in 2010. See details at http://www.gov.cn/zwgk/2007-11/26/content_815498.htm

Table 9
The effect of environmental performance.

Dependent variable:	Bank loans of local banks	
	(1)	(2)
	High environmental performance	Low environmental performance
Tenure	0.014	0.013**
	(0.013)	(0.006)
Tenure Square	−0.001	−0.002***
	(0.002)	(0.001)
GDP per capita	0.190***	0.346***
	(0.071)	(0.034)
Population	0.124	0.233*
	(0.279)	(0.139)
Fiscal autonomy	0.001	−0.002***
	(0.001)	(0.001)
Branch network	0.049	−0.008
	(0.037)	(0.018)
Small branch network	0.003	0.001
	(0.003)	(0.001)
Staff	0.582***	0.303***
	(0.136)	(0.066)
Deposit	0.797***	0.744***
	(0.103)	(0.036)
County	Yes	Yes
Year	Yes	Yes
Adjusted R^2	0.779	0.834
Observations	2531	6530

This table presents results for the effect of environmental performance. The dependent variables are the natural logarithm of the amount of bank loans for local banks at the county level in the current year. Banks are classified as two categories according to environmental performance of the county where they located. All other variables are defined in the Appendix table A.2. Robust standard errors are in parentheses. *, ** and *** indicate the significance levels of 10%, 5% and 1%, respectively.

Table 10
The effect of politician incentives on non-performing loans.

Dependent variable:		Non-performing loans	
	(1)	(2)	(3)
	Full Sample	High fiscal revenue ratio	Low fiscal revenue ratio
Tenure	−0.013	−0.046***	0.003
	(0.010)	(0.007)	(0.006)
Tenure square	0.002***	0.006***	0.001
	(0.001)	(0.001)	(0.001)
GDP per capita	−0.464***	−0.416***	−0.530***
	(0.023)	(0.020)	(0.045)
Population	0.058	0.166	−0.017
	(0.062)	(0.147)	(0.112)
Fiscal autonomy	0.001	−0.001	0.006***
	(0.001)	(0.001)	(0.002)
Branch network	0.103***	0.157***	−0.002
	(0.036)	(0.046)	(0.027)
Small branch network	0.000	0.008***	−0.001
	(0.001)	(0.001)	(0.001)
Staff	−0.047**	0.107***	−0.049**
	(0.023)	(0.041)	(0.024)
Deposit	−0.111***	−0.196***	−0.010
	(0.017)	(0.036)	(0.028)
County	Yes	Yes	Yes
Year	Yes	Yes	Yes
Adjusted R^2	0.063	0.087	0.049
Observations	7169	2790	4379

This table reports the results of the effect of CPSs' incentives on non-performing loans (NPLs). Column 1 reports results for full sample. Columns 2 to 3 report NPLs by fiscal revenue ratio. The key independent variable is *Tenure* square. Bank-year observations are used as the sample for this analysis. The robust standard errors are reported in parentheses. *, ** and *** indicate the significance levels of 10%, 5% and 1%, respectively.

Related to our research, Wang et al. (2019) find that politicians' promotion pressure can increase the bank risks, measured by z-score. Our results are not necessarily inconsistent with their findings. In particular, their z-score actually captures the earnings ability, and our non-performing loans capture the loan quality, that is the ability of economic agents to service their loans (Louzis et al., 2012; Zhang et al., 2016). Our study is consistent with previous literature that investigates macroeconomic determinants of NPLs and finds GDP growth results in lower NPLs, as firms have a sufficient stream of incomes to service their debts in that phase (Salas and Saurina, 2002; Louzis et al., 2012).

4.6.4. *The effect of promoted politicians on bank loans*

Our primary argument is that politician incentives of being promoted boost bank loans. A natural question is that whether bank loans are increased when politicians get promoted. To address this question, we construct three dummy variables: *Promotion*, a dummy variable with a value of 1 if local politicians get promoted, and 0 otherwise; *Pre-promotion (−2)*, a dummy variable with a value of 1 if bank-year observations fall in two years before officials' promotion, and 0 otherwise; *Pre-promotion (−1)*, a dummy variable that equals 1 if firm-year observations fall in the year preceding officials' promotion, and 0 otherwise. We then include these dummies into regressions and take *Loan* as the dependent variable.

All results are reported in Table 11. We find that the estimated coefficient on *Promotion* is positively significant at 5% level and the estimated coefficient on *Pre-promotion (−1)* is positively significant at 10% level, whereas the estimated coefficient on *Pre-promotion (−2)* is insignificant. It indicates that when politicians are aware of a higher possibility to get promoted, the total amount of bank loans increases significantly. These findings provide complementary evidence to our main results.

4.6.5. *Economic growth*

Our main findings indicate that politicians have strong incentives to utilize local banks to promote local economic growth. To further support our argument, we examine economic growth in this section. Empirically, we introduce *Economic growth*, which refers to difference of the natural logarithm of regional GDP from year t to year t-1, and examine the relationship between economic growth and the amount of bank lending. As it is shown in Table 12, the coefficient on local banks is significantly positive at 5% level. It suggests that economic objectives are achieved with the amount of local bank loans increases.

5. Conclusion

Politicians can use government-owned banks to satisfy their own goals. Both social welfare theory and political theory contend that

Table 11
The effect of promoted politicians on bank loans.

Dependent variable: Bank loans of local banks			
	(1)	(2)	(3)
Promotion	0.016**		
	(0.008)		
Pre-promotion (−1)		0.017*	
		(0.009)	
Pre-promotion (−2)			0.003
			(0.008)
GDP per capita	0.297***	0.309***	0.309***
	(0.036)	(0.037)	(0.037)
Population	0.155	0.193*	0.193*
	(0.110)	(0.117)	(0.117)
Fiscal autonomy	−0.000	−0.001	−0.001
	(0.001)	(0.001)	(0.001)
Branch network	0.014	0.011	0.011
	(0.018)	(0.018)	(0.018)
Small branch network	0.002	0.002	0.002
	(0.001)	(0.001)	(0.001)
Staff	0.378***	0.376***	0.377***
	(0.061)	(0.061)	(0.061)
Deposit	0.777***	0.794***	0.794***
	(0.039)	(0.039)	(0.039)
County	Yes	Yes	Yes
Year	Yes	Yes	Yes
Adjusted R^2	0.818	0.815	0.815
Observations	9061	9061	9061

This table presents results for the effect of promoted politicians on bank loans. The dependent variables are the natural logarithm of the amount of bank loans for local banks at the county level in the current year. *Promotion* is a dummy variable with a value of 1 if local politicians get promoted. *Pre-promotion (−2)* is a dummy variable with a value of 1 if bank-year observations fall in two years before officials' promotion. *Pre-promotion (−1)* is a dummy variable that equals 1 if firm-year observations fall in the year preceding officials' promotion. All other variables are defined in the Appendix table A.2. Robust standard errors are in parentheses. *, ** and *** indicate the significance levels of 10%, 5% and 1%, respectively.

Table 12
Economic growth.

Dependent variable:	GDP growth
	(1)
Local bank loans	0.025**
	(0.011)
Population	0.034***
	(0.012)
Fiscal autonomy	0.001
	(0.001)
Branch network	−0.036**
	(0.015)
Small branch network	−0.023*
	(0.014)
Staff	0.025**
	(0.011)
Deposit	0.062***
	(0.009)
County	Yes
Year	Yes
Adjusted R^2	0.525
Observations	9061

This table reports the results of economic growth. The dependent variables are difference of the natural logarithm of regional GDP from year t to year t-1. The key independent variable is the amount of bank loans for local banks at the county level in the current year. The robust standard errors are reported in parentheses. *, ** and *** indicate the significance levels of 10%, 5% and 1%, respectively.

bank lending depends on politician incentives to achieve either economic or political objectives. We advance these arguments and examine bank lending through which politicians can extract private benefits when achieving the economic objective. In particular, this study examines the influence of local politician incentives in the office on bank loans within their jurisdiction. We argue that under the Chinese political personnel system and severe government intervention in the banking system, local politicians are assessed by the governments from the upper levels on the basis of regional economic performance. Thus, local politicians have stronger incentives to use local banks to achieve better economic performance which will enlarge their probabilities of being promoted during the first few years of in the offices, and the incentives of politicians become weaker in the last few years towards their tenure as the probability of being promoted decreases. Such influence is further confirmed by employing *Promotion pressure index*, which suggests a positive relationship between politicians' promotion pressure and the amount of bank loans.

Using a large sample of bank branches at the county level in China, we find strong and robust evidence that local politician tenure has a curvilinear (reversed U shape) relationship with bank loans within their jurisdiction. We further identify several scenarios and document strong evidence that the effect of politician incentives on bank loans is more pronounced in local banks or banks with political ties, in counties with poorer institutional development, weak government capacity as well as in counties with poor environmental performance.

Our results have several economic implications for policymakers. In particular, government ownership in the banking system in China facilitates politicians' intervention over the banking industry, and the politically driven bank lending improves bank efficiency and boosts economic growth when the economic objective is in accordance with politicians' career objectives. However, over emphasizing on the correlation between local economic growth and politicians' chances of being promoted may lead to severe problems of resource allocation as local politicians may sacrifice other aspects of the economy in the long run in order to achieve short-run regional economic growth. Thus, it is recommended that a more comprehensive evaluation system should be in place to assess local politicians.

CRediT authorship contribution statement

Yunlin Tian: Data curation, Formal analysis, Methodology, Writing – original draft, Writing – review & editing. **Xiaofei Pan:** Conceptualization, Writing – review & editing. **Baoqing Pang:** Visualization, Software, Data curation, Writing – original draft. **Yiping Wu:** Investigation, Visualization, Writing – review & editing.

Data availability

Data will be made available on request.

Appendix A. Appendix

Table A.1
Distribution of observations by province.

Province	No. of counties	Total observations
	(1)	(2)
Yunnan	113	650
Neimenggu	80	478
Jilin	40	236
Sichuan	119	679
Anhui	57	341
Shanxi	96	568
Guangdong	67	389
Guangxi	75	366
Jiangsu	48	240
Jiangxi	80	463
Hebei	133	779
Henan	108	488
Zhejiang	58	348
Hubei	60	342
Hunan	87	498
Gansu	69	378
Fujian	58	346
Guizhou	59	350
Liaoning	44	250
Shaanxi	83	498
Heilongjiang	63	374
Total	1597	9061

Table A.2
Variable definition.

Variable	Definition
Loan	The natural logarithm of the amount of bank loans at the county level in the current year
Deposit	The natural logarithm of the amount of deposit at the county level in the current year
Non-performing loan	The natural logarithm of the amount of non-performing loans at the county level in the current year
Tenure	The number of years that the politician has been on the party secretary position until the current year.
GDP per capita	GDP / Population for each county
Population	Total population
Fiscal autonomy	Fiscal revenue / fiscal expenditure
Fiscal expenditure ratio	The ratio of fiscal expenditure to GDP
Fiscal revenue ratio	The ratio of fiscal revenue to GDP
Local	The communist party secretary is promoted locally
External	The communist party secretary is promoted externally
Employees in private sector	The ratio of employees in private sectors to total employees in a county
Start up a business	The number of days to start up a business
Staff	The number of staff in financial institutions
Branch network	The number of branch networks with loan function
Small branch network	The number of branch networks with three or less than three staff
Financial development	Indicator variable that equals 1 if the county has more listed firms with larger firm size (measured by total assets of listed firms), and 0 otherwise.
Promotion	A dummy variable with a value of 1 if local politicians get promoted, and 0 otherwise
Pre-promotion (−2)	A dummy variable with a value of 1 if bank-year observations fall in two years before officials' promotion, and 0 otherwise
Pre-promotion (−1)	A dummy variable that equals 1 if firm-year observations fall in the year preceding officials' promotion, and 0 otherwise
Economic growth	Difference of the natural logarithm of regional GDP from year t to year t-1

Appendix B. Supplementary data

Supplementary data to this article can be found online at https://doi.org/10.1016/j.ememar.2023.101000.

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