

## Documents

Noordin, N.H.<sup>a</sup>, Rasid, M.E.S.M.<sup>b</sup>

**TRADE UNCERTAINTY AND BANK CREDIT GROWTH: EVIDENCE FROM CHINA AND THE EUROPEAN UNION COUNTRIES**

(2024) *Buletin Ekonomi Moneter dan Perbankan*, 27 (2), pp. 299-326.

DOI: 10.59091/2460-9196.1961

<sup>a</sup> IIUM Institute of Islamic Banking and Finance, International Islamic University Malaysia, Malaysia

<sup>b</sup> College of Islamic Studies, Hamad Bin Khalifa University, Doha, Qatar

**Abstract**

This paper examines the relationship between trade uncertainty and bank lending using a sample of commercial banks in China and the European Union (EU) countries during the period of heightened trade uncertainty from 2017Q1 to 2021Q3 measured by the World Trade Uncertainty (WTU) index. We show that trade uncertainty slows bank credit growth. We find no significant difference in the lending response to trade uncertainty between Chinese and EU banks. Our additional analyses indicate that the credit-reducing effect of trade uncertainty is stronger for better-capitalised banks and more liquid banks. We also find that trade uncertainty is negatively associated with the growth of different bank funding sources, namely, customer deposits, liabilities, and equity. However, we do not find significant evidence that trade uncertainty affects bank credit risk. © 2024 Bank Indonesia Institute. All rights reserved.

**Author Keywords**

Banks; China; Credit growth; European union; Trade uncertainty

**References**

- Acharya, V. V., Crosignani, M., Eisert, T., Eufinger, C.  
(2020) *Zombie Credit and (dis-) Inflation: Evidence from Europe*,  
NBER Working Paper No. w27158. National Bureau of Economic Research
- Ahir, H., Bloom, N., Furceri, D.  
(2018) *World Uncertainty Index*,  
Stanford Mimeo
- Ahir, H., Bloom, N., Furceri, D.  
(2022) *The World Uncertainty Index (No. w29763)*,  
National Bureau of Economic Research
- Alessandri, P., Bottero, M.  
**Bank Lending in Uncertain Times**  
(2020) *European Economic Review*, 128, p. 103503.
- Anderson, T. W., Hsiao, C.  
**Formulation and Estimation of Dynamic Models Using Panel Data**  
(1982) *Journal of Econometrics*, 18, pp. 47-82.
- Ashraf, B. N., Shen, Y.  
**Economic Policy Uncertainty and Banks' Loan Pricing**  
(2019) *Journal of Financial Stability*, 44, p. 100695.
- Baker, S. R., Bloom, N., Davis, S. J.  
**Measuring Economic Policy Uncertainty**  
(2016) *The Quarterly Journal of Economics*, 131, pp. 1593-1636.
- Baltagi, B. H., Demetriades, P. O., Law, S. H.  
**Financial Development and Openness: Evidence from Panel Data**  
(2009) *Journal of Development Economics*, 89, pp. 285-296.

- Berger, A. N., Guedhami, O., Kim, H. H., Li, X.  
**Economic Policy Uncertainty and Bank Liquidity Hoarding**  
(2022) *Journal of Financial Intermediation*, 49, p. 100893.
- Bertay, A. C., Demirgüç-Kunt, A., Huizinga, H.  
**Bank Ownership and Credit Over the Business Cycle: Is Lending by State Banks Less Procyclical?**  
(2015) *Journal of Banking & Finance*, 50, pp. 326-339.
- Blattner, L., Farinha, L., Rebelo, F.  
(2019) *When Losses Turn into Loans: The Cost of Undercapitalized Banks*,  
ECB Working Paper No. 2228. European Central Bank
- Bloom, N.  
**Fluctuations in Uncertainty**  
(2014) *Journal of Economic Perspectives*, 28, pp. 153-176.
- Blundell, R., Bond, S.  
**Initial Conditions and Moment Restrictions in Dynamic Panel Data Models**  
(1998) *Journal of Econometrics*, 87, pp. 115-143.
- Bordo, M. D., Rousseau, P. L.  
**Historical Evidence on the Finance-trade-growth Nexus**  
(2012) *Journal of Banking & Finance*, 36, pp. 1236-1243.
- Bordo, M. D., Duca, J. V., Koch, C.  
**Economic Policy Uncertainty and the Credit Channel: Aggregate and Bank Level US Evidence Over Several Decades**  
(2016) *Journal of Financial Stability*, 26, pp. 90-106.
- Brown, C., Kolb, M.  
**Trump's Trade War Timeline: An Up-to-date Guide**  
(2022), pp. 1-17.  
Peterson Institute for International Economics
- Caglayan, M., Xu, B.  
**Economic Policy Uncertainty Effects on Credit and Stability of Financial Institutions**  
(2019) *Bulletin of Economic Research*, 71, pp. 342-347.
- Caldara, D., Iacoviello, M., Molligo, P., Prestipino, A., Raffo, A.  
**The Economic Effects of Trade Policy Uncertainty**  
(2020) *Journal of Monetary Economics*, 109, pp. 38-59.
- Chen, L., Li, H., Liu, F. H., Zhou, Y.  
**Bank Regulation and Systemic Risk: Cross Country Evidence**  
(2021) *Review of Quantitative Finance and Accounting*, 57, pp. 353-387.
- Chen, M., Wu, J., Jeon, B. N., Wang, R.  
**Do Foreign Banks Take More Risk? Evidence from Emerging Economies**  
(2017) *Journal of Banking & Finance*, 82, pp. 20-39.
- Chi, Q., Li, W.  
**Economic Policy Uncertainty, Credit Risks and Banks' Lending Decisions: Evidence from Chinese Commercial Banks**  
(2017) *China Journal of Accounting Research*, 10, pp. 33-50.
- Cucinelli, D.  
**Can Speed Kill? the Cyclical Effect of Rapid Credit Growth: Evidence from Bank Lending Behavior in Italy**  
(2016) *Journal of Risk Finance*, 15, pp. 562-584.

- Cull, R., Peria, M. S. M.  
**Bank Ownership and Lending Patterns During the 2008–2009 Financial Crisis: Evidence from Latin America and Eastern Europe**  
(2013) *Journal of Banking & Finance*, 37, pp. 4861-4878.
- Danisman, G. O., Ersan, O., Demir, E.  
**Economic Policy Uncertainty and Bank Credit Growth: Evidence from European Banks**  
(2020) *Journal of Multinational Financial Management*, 57-58, p. 100653.
- Demetriades, P. O., Rousseau, P. L.  
**Government, Openness and Finance: Past and Present**  
(2011) *The Manchester School*, 79, pp. 98-115.
- Demir, B., Michalski, T. K., Ors, E.  
**Risk-based Capital Requirements for Banks and International Trade**  
(2017) *The Review of Financial Studies*, 30, pp. 3970-4002.
- Demir, E., Danisman, G. O.  
**The Impact of Economic Uncertainty and Geopolitical Risks on Bank Credit**  
(2021) *The North American Journal of Economics and Finance*, 57, p. 101444.
- Dursun-de Neef, H. Ö., Schandlbauer, A.  
**COVID-19 and Lending Responses of European Banks**  
(2021) *Journal of Banking & Finance*, 133, pp. 106-236.
- Fabbri, D., Menichini, A. M. C.  
**Trade Credit, Collateral Liquidation, and Borrowing Constraints**  
(2010) *Journal of Financial Economics*, 96, pp. 413-432.
- Fajgelbaum, P., Khandelwal, A.  
(2021) *The Economic Impacts of the US-China Trade War*,  
NBER Working Paper No. 29315. National Bureau of Economic Research
- Garcia Herrero, A.  
**Europe in the Midst of China–US Strategic Economic Competition: What are the European Union’s Options?**  
(2019) *Journal of Chinese Economic and Business Studies*, 17, pp. 403-423.
- González, A., Véron, N.  
(2019) *EU Trade Policy Amid the China-US Clash: Caught in the Crossfire? A Working Paper 19-13*,  
Peterson Institute of International Economics
- Gopinath, G.  
(2019) *Sluggish Global Growth Calls for Supportive Policies*,
- Goulard, S.  
**The Impact of the US–China Trade War on the European Union**  
(2020) *Global Journal of Emerging Market Economies*, 12, pp. 56-68.
- Gozgor, G., Demir, E., Belas, J., Yesilyurt, S.  
**Does Economic Uncertainty Affect Domestic Credits? An Empirical Investigation**  
(2019) *Journal of International Financial Markets, Institutions and Money*, 63, p. 101147.
- Hamid, F. S.  
**Bank Lending and the Business Cycle: Does Ownership Matter in ASEAN Countries?**  
(2020) *Journal of Asian Economics*, 66, pp. 101-153.
- Hao, X., Sun, Q., Xie, F.  
**International Evidence for the Substitution Effect of FX Derivatives Usage on Bank**

## **Capital Buffer**

(2022) *Research in International Business and Finance*, p. 101687.

- Hsiao, C.  
(1986) *Analysis of Panel Data*,  
Cambridge University Press. New York
- Hu, S., Gong, D.  
**Economic Policy Uncertainty, Prudential Regulation and Bank Lending**  
(2019) *Finance Research Letters*, 29, pp. 373-378.
- Ibrahim, M. H.  
**Business Cycle and Bank Lending Procyclicality in a Dual Banking System**  
(2016) *Economic Modelling*, 55, pp. 127-134.
- Ibrahim, M. H., Rizvi, S. A. R.  
**Bank Lending, Deposits and Risk-taking in Times of Crisis: A Panel Analysis of Islamic and Conventional Banks**  
(2018) *Emerging Markets Review*, 35, pp. 31-47.
- Mao, H., Görg, H.  
**Friends Like This: The Impact of the US–China Trade War on Global Value Chains**  
(2020) *The World Economy*, 43, pp. 1776-1791.
- Mendoza, E. G.  
**Terms-of-trade Uncertainty and Economic Growth**  
(1997) *Journal of Development Economics*, 54, pp. 323-356.
- Nguyen, C. P., Le, T. H., Su, T. D.  
**Economic Policy Uncertainty and Credit Growth: Evidence from a Global Sample**  
(2020) *Research in International Business and Finance*, 51, p. 101118.
- Nilsen, J. H.  
**Trade Credit and the Bank Lending Channel**  
(2002) *Journal of Money, Credit and Banking*, pp. 226-253.
- Rajan, R. G., Zingales, L.  
**The Great Reversals: The Politics of Financial Development in the Twentieth Century**  
(2003) *Journal of Financial Economics*, 69, pp. 5-50.
- (2021) *The 2020 International Trade Statistics Yearbook*,
- Windmeijer, F.  
**A Finite Sample Correction for the Variance of Linear Efficient Two-step GMM Estimators**  
(2005) *Journal of Econometrics*, 126, pp. 25-51.
- Wu, J., Chen, M., Jeon, B. N., Wang, R.  
**Does Foreign Bank Penetration Affect the Risk of Domestic Banks? Evidence from Emerging Economies**  
(2017) *Journal of Financial Stability*, 31, pp. 45-61.
- Wu, J., Wood, J., Oh, K., Jang, H.  
**Evaluating the Cumulative Impact of the US–China Trade War along Global Value Chains**  
(2021) *The World Economy*, 44, pp. 3516-3533.
- Wu, W. S., Suardi, S.  
**Economic Uncertainty and Bank Lending**  
(2021) *Journal of Money, Credit and Banking*, 53, pp. 2037-2069.

**Correspondence Address**

Noordin N.H.; IIUM Institute of Islamic Banking and Finance, Malaysia; email: hazizi@iium.edu.my

**Publisher:** Bank Indonesia Institute

**ISSN:** 14108046

**Language of Original Document:** English

**Abbreviated Source Title:** Bul Ekon Monet Perbank

2-s2.0-85196880532

**Document Type:** Article

**Publication Stage:** Final

**Source:** Scopus

---

**ELSEVIER**

Copyright © 2024 Elsevier B.V. All rights reserved. Scopus® is a registered trademark of Elsevier B.V.

 **RELX Group™**