

COMMENT

SESSION 2 – FINANCE TO SMES THROUGH BANKS, CAPITAL MARKETS AND OTHER FINANCIAL METHODS

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Comment 1: Different causalities, different prescriptions.

Two Possible Causalities

1. Zombie lending

→ Crowding out new entrants

→ weak economic growth (Mr. Shin's view)

2. Weak growth prospect

→ Weak fund demand for entry & growth

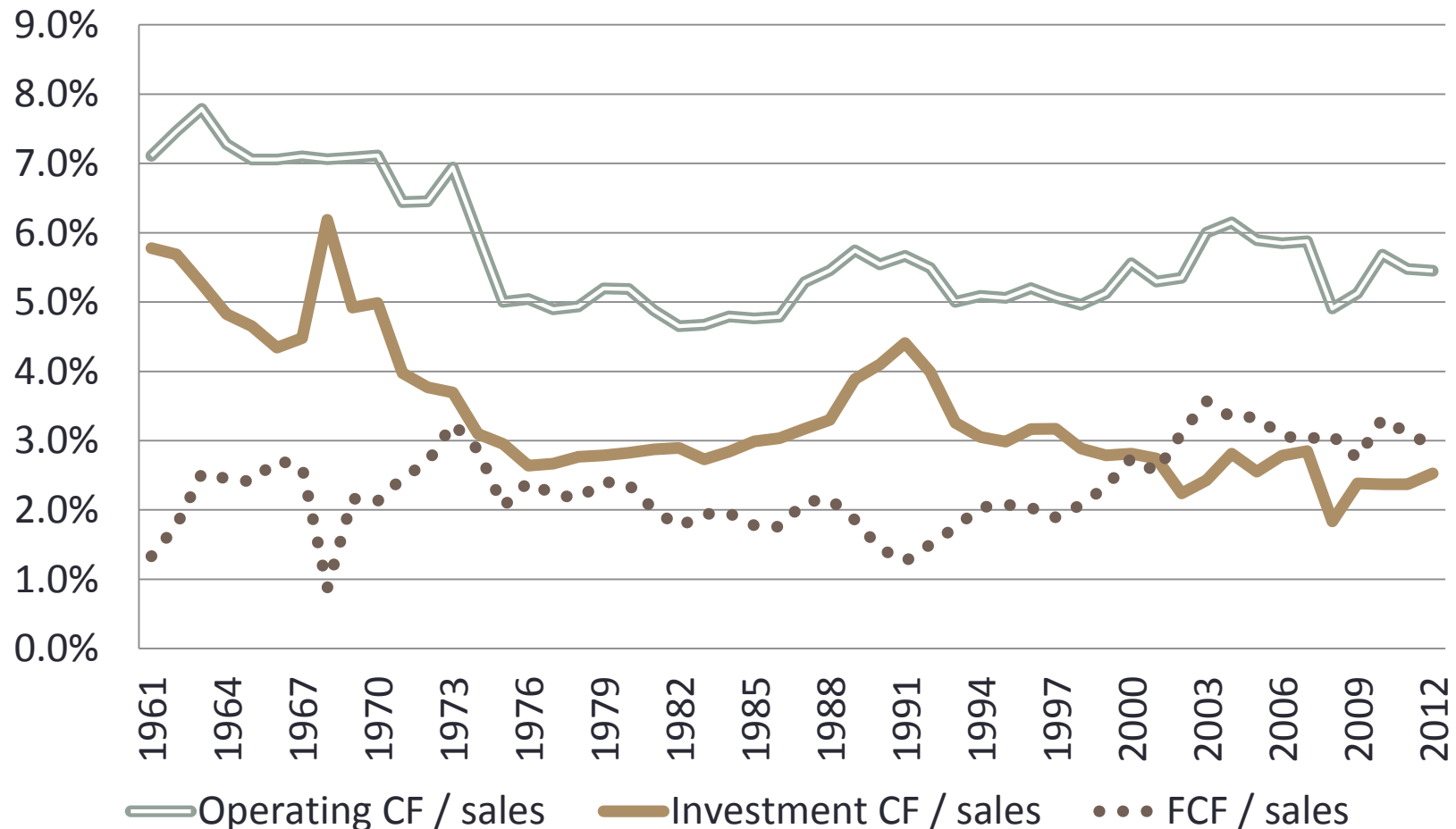
→ Zombie lending to underperforming SMEs remain

If 1 is true, stop government guarantee for zombie SMEs.

If 2 is true, offer more business opportunities, probably by deregulation or integration with the Asian economy.

Weak domestic demand for funds

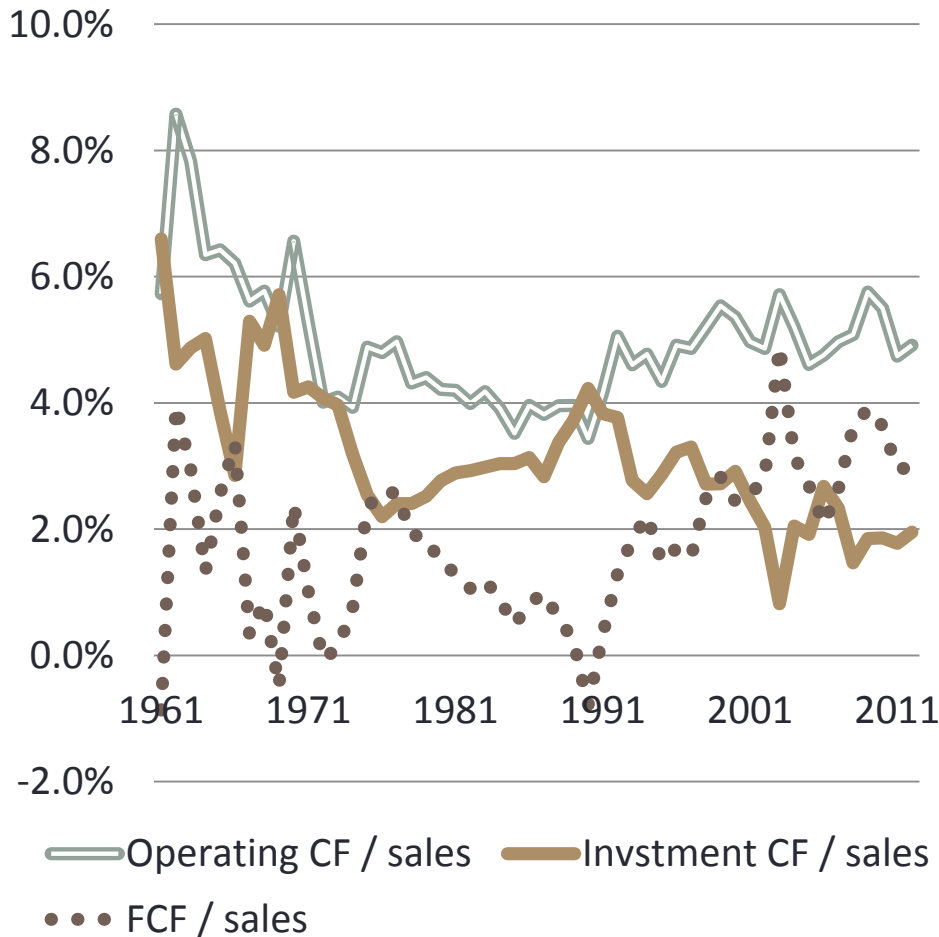
Cash flow of Japanese Corporations (all size)



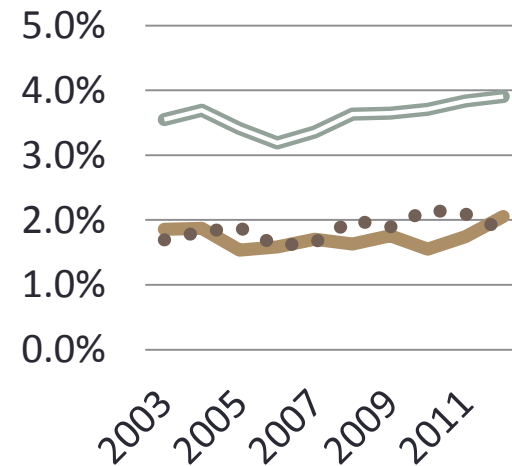
(source) Discussant's calculation from the Financial Statements Statistics of Corporations by Industry, Ministry of Finance, Japan. Operating CF is before tax. Investment CF

Weak domestic demand for funds

Medium (100m JPY ≤ capital < 1b JPY)



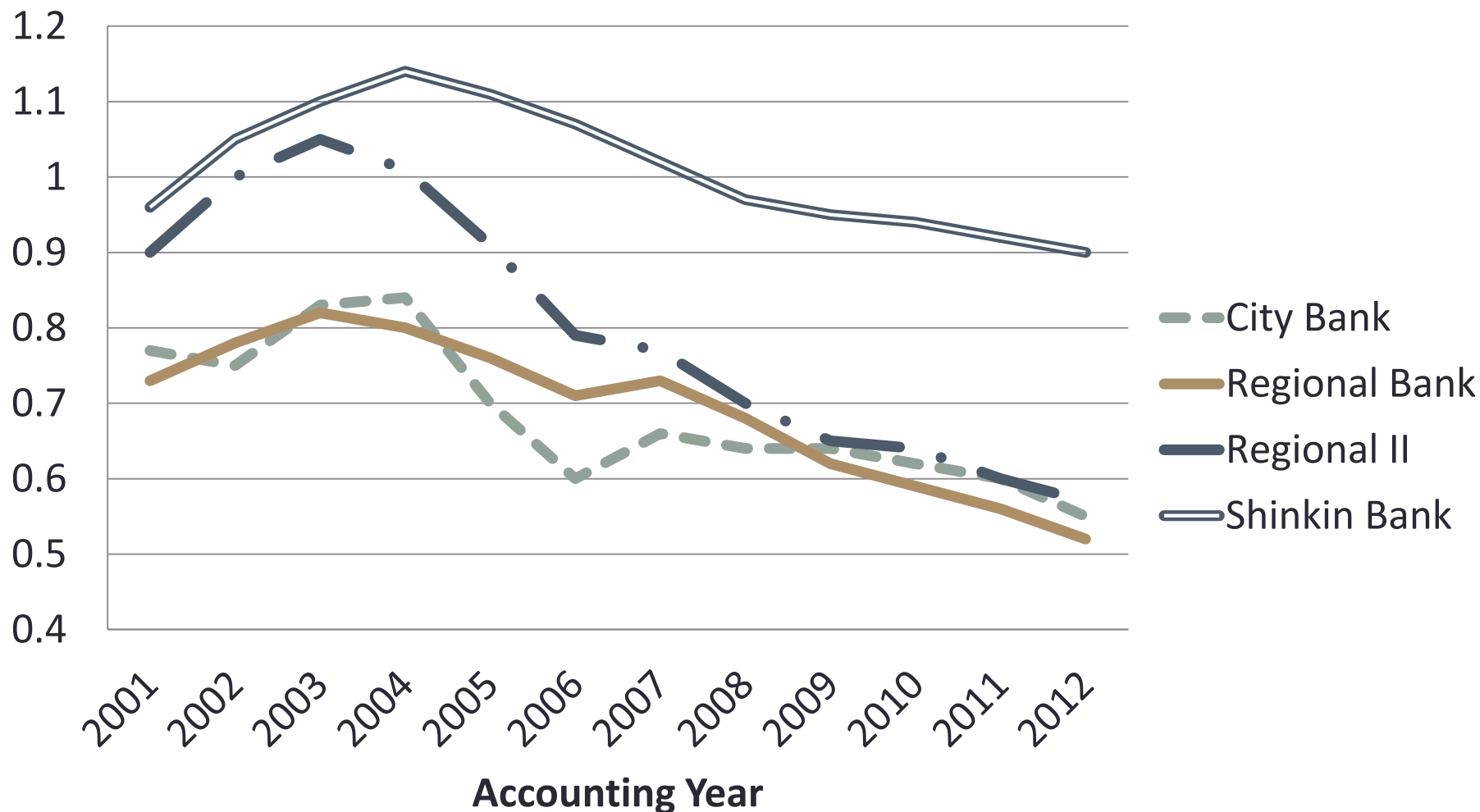
Small (capital < 100 m JPY)



(source) Discussant's calculation from the Financial Statements Statistics of Corporations by Industry, Ministry of Finance, Japan. Operating CF is before tax.

Lending competition appears to get harsher.

Loan margin (yield of loans - funding cost, annual %)

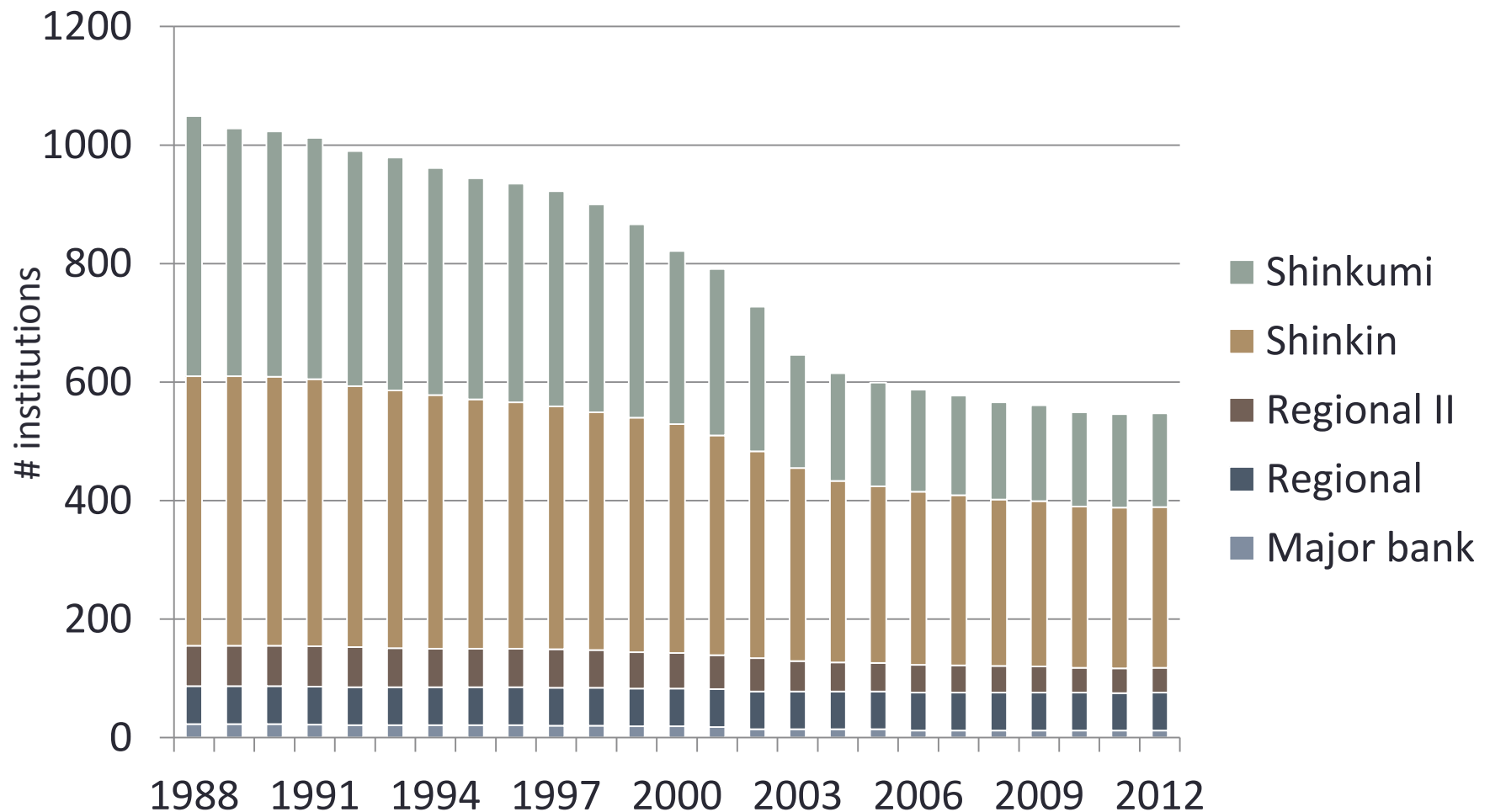


(source) Japanese Bankers Association Website, *Shinyou Kinko Gaikyo* (Shinkin Central Bank)

Comment 2: Bank consolidations

Major banks and cooperative banks: almost done

Regional banks: ongoing



Pros and Cons for Consolidations

Pros

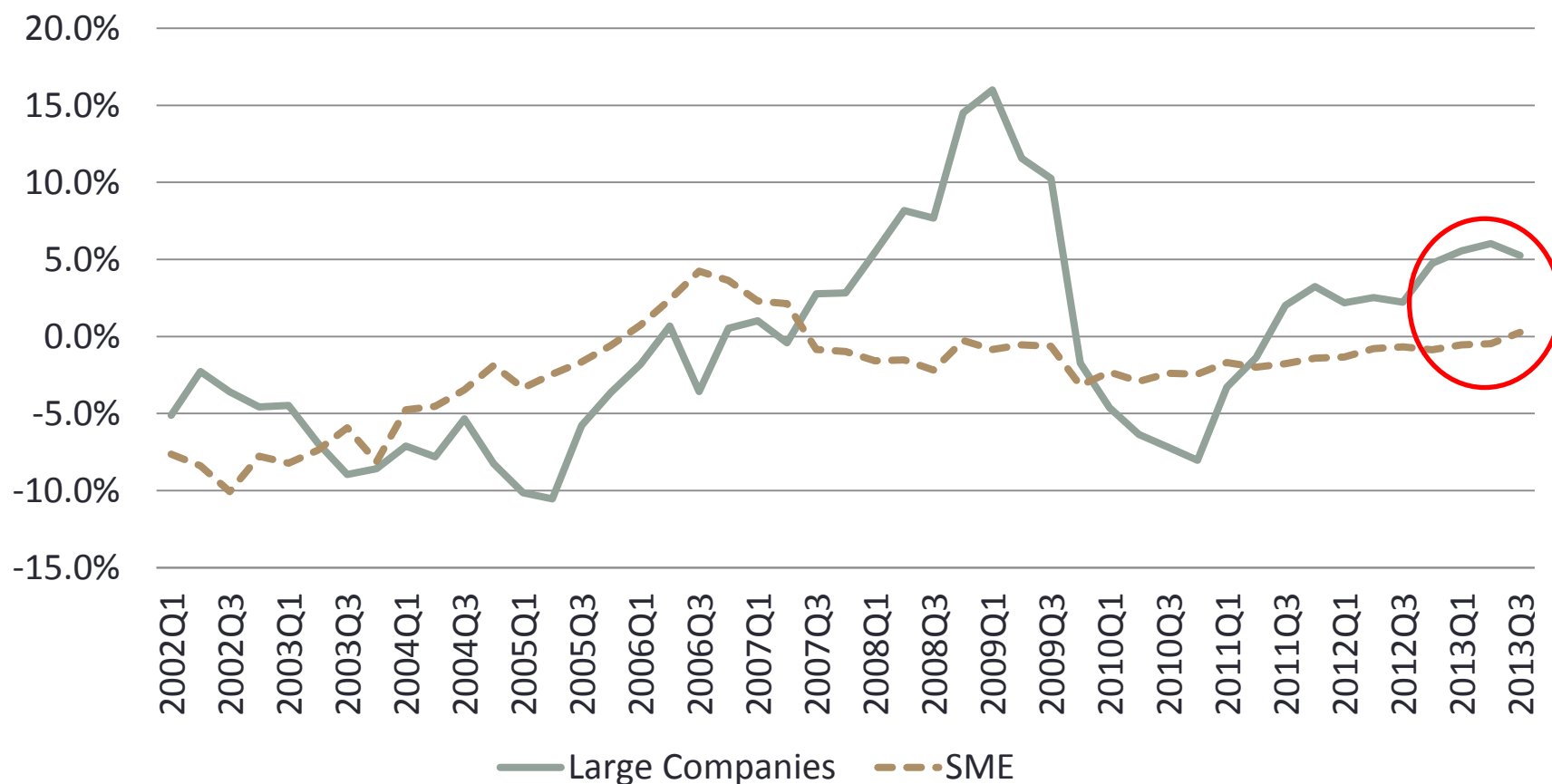
1. Less competition
→ “flight to captivity” ↓
→ credit availability for younger SMEs ↑
(Dell’Ariccia et al 2004, Zarutskie 2006, Ogura 2012).
2. Economy of scale and scope (risk sharing, one-stop).

Cons

1. Less competition → credit availability for SMEs ↓
(Cetorelli 2004, Strahan et al 2010)
2. Complicated decision process deters SME lending
(Stein 2002, Sapienza 2002).

The first sign of dawn

Growth rate of the bank loans to enterprises (balance at each quarter end) from the same quarter in the previous year



(Note) Loans of banks include those in trust, banking, and foreign branch accounts. Loans by Shinkin is added to SME loans after subtracting loans to local government and individuals.

(source) Loans and Bills Discounted by Sector, Bank of Japan

Reference

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