



Balance sheet deterioration and credit allocations: Japanese evidence from the short-term economic survey of enterprises ☆

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Abstract

This study is an empirical attempt to investigate the effects of balance sheet deterioration of Japanese firms and banks in the 1990s on credit allocation using the short-term economic survey of enterprises. This survey contains a unique item: proportion of firms perceiving the lending attitude as severe. After developing a theoretical model to link this item with the balance sheet conditions of borrowers and lenders, we estimate the relationship derived from the model. We find that credit was reduced when the balance sheet of firms and banks deteriorated. The effects are notably large for non-manufacturing industries.

Research highlights

► We examine the effects of balance sheet deterioration of banks and firms on credit. ► We use Japanese survey data from the Short-term Economic Survey of Enterprises. ► We relate information in the survey to factors underlying loan demand and supply. ► Bad loans raise the proportion of firms perceiving the lending attitude to be severe. ► Firm debt raises the proportion of firms perceiving the lending attitude to be severe.

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JEL classification

E44; E51; G21

Keywords

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