Comments: Finance for An Equitable Recovery

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World Bank & JICA

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Four key policy areas

- Managing and reducing loan distress
- Improving the legal insolvency framework
- Ensuring continued access to finance
- Managing increased levels of sovereign debt
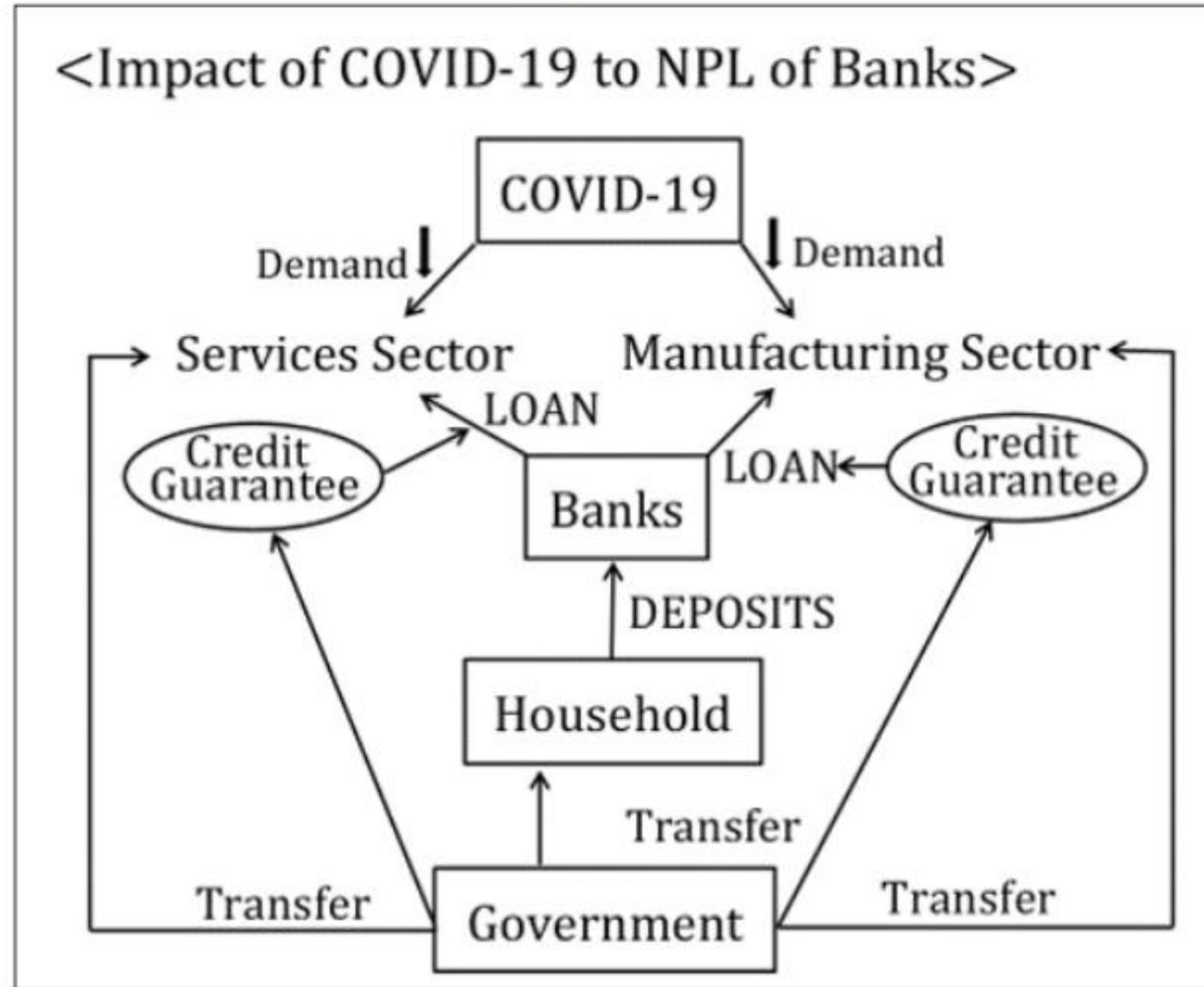
Various Policy Supports in Japan

Figure 10

<Impact of COVID-19 to NPL of Banks>

Source: Authors' own

Expansion of Credit Guarantee and Reduction of NPL

Figure 12: Accumulated amount of credit guarantees (monthly, million yen)
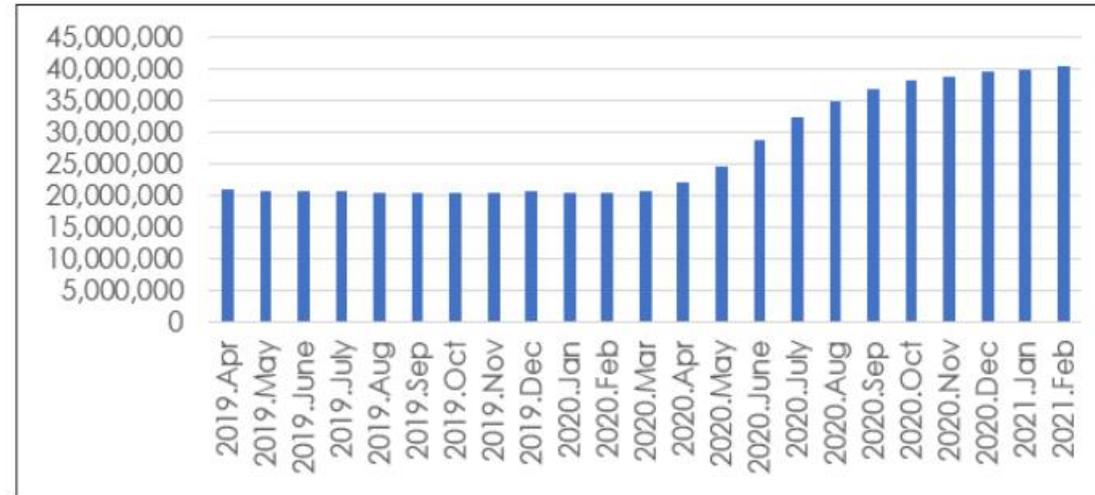
Source: Japan Federation of Credit Guarantee Corporations

Figure 13: Actual amount of default (monthly, million yen)
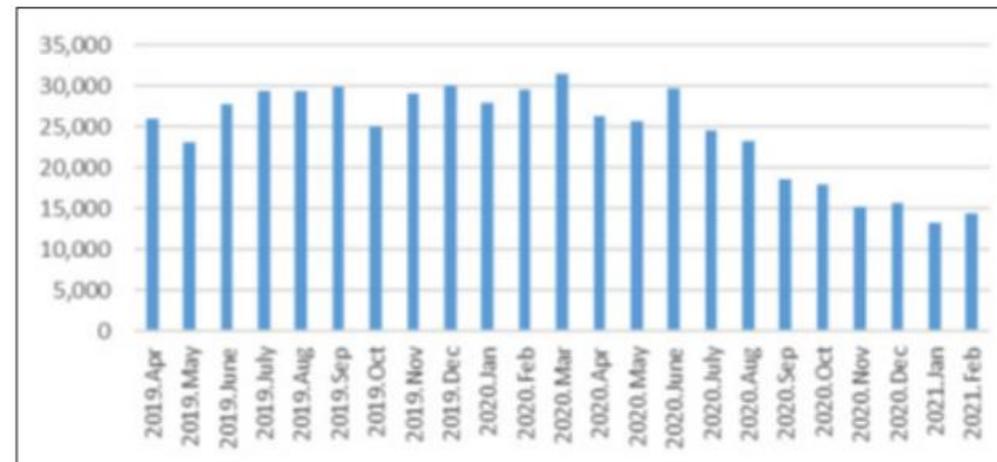
Source: Japan Federation of Credit Guarantee Corporations

Two kinds of firms were assisted

Figure 11
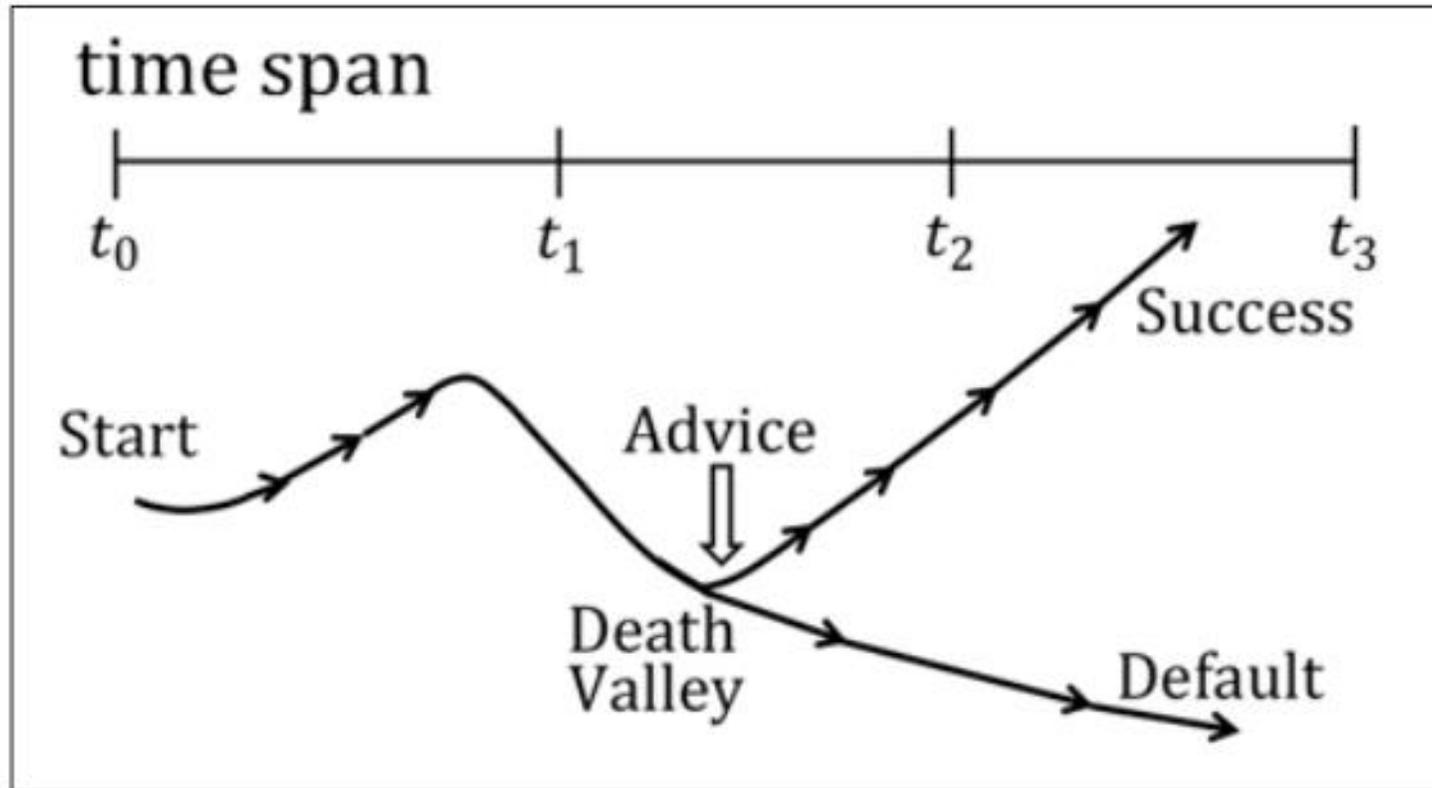
Source: Authors' own

Bank Failures of Japan

Table 2

Factors of bank failures by size and sector 1992-2002

	cases	Average Asset Size (yen)	Deterioration of Loan Assets	Real Estate Lending	Concentration Lending other	Recession of Local Economy	Failure in Investment on Securities	Criminal Conducts
Credit Unions	134	100 billion	91.80%	44	28.4	28.4	29.9	5.2
Credit Associations	27	230 billion	85.20%	37.0	18.5	37.0	37.0	7.4
Banks	19	3.5 trillion	100.0%	73.7	21.1	5.3	0.0	0.0

Source: Deposit Insurance Corporation of Japan

Analysis of Financial Contagion: Spillover effects

(a) (10 trillion won, book value)
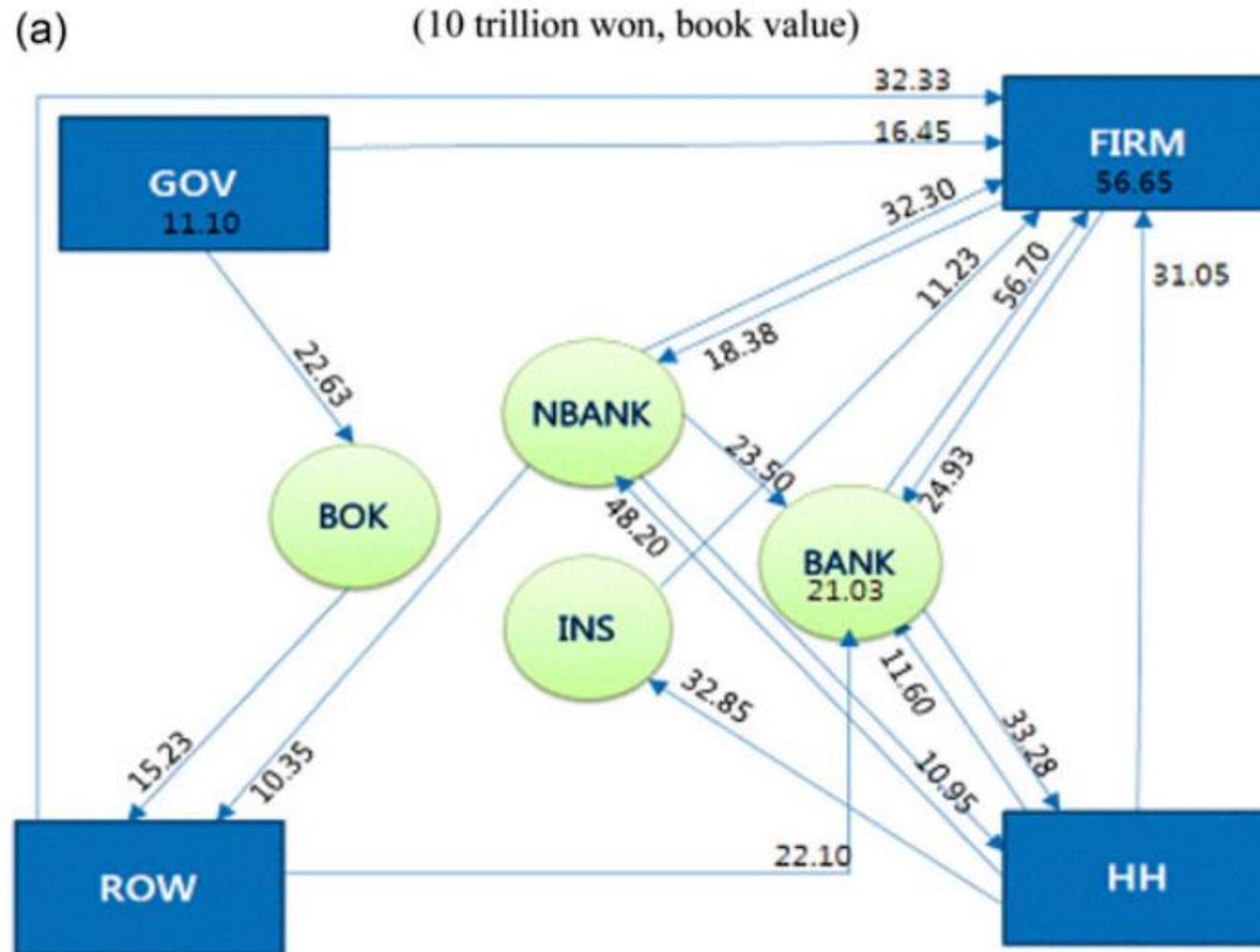
Banks' Resolution Schemes

1, Early Warning System (FSA's monitoring)

2, Separation of good loans and NPL

3, Bring NPL to RCC (Resolution corporation)

      NPL will be resolved

4, Look for a bank that can absorb good loans

        or Bridge bank will absorb good loans

5, Criminal investigation

6, Capital injection by DIC is disclosed which can be returned in the future by rescued banks

Lenders' role in revitalization of business

1, Banks used to lend money and watch

2, Banks have to help distressed businesses

3, work together to recover their sales

4, Improvement of business activities

5, loan re-scheduling

6, Replace top management

Banks are dominated in Asian economies.

Who will supply startup finance?

Real estate Bubble

House Price-Income ratio

Figure 6: Housing Prices/Income (Japan)

Source: Yoshino-Nakamura-Sakai (2013)

Figure 7: Housing Prices/Income (USA)
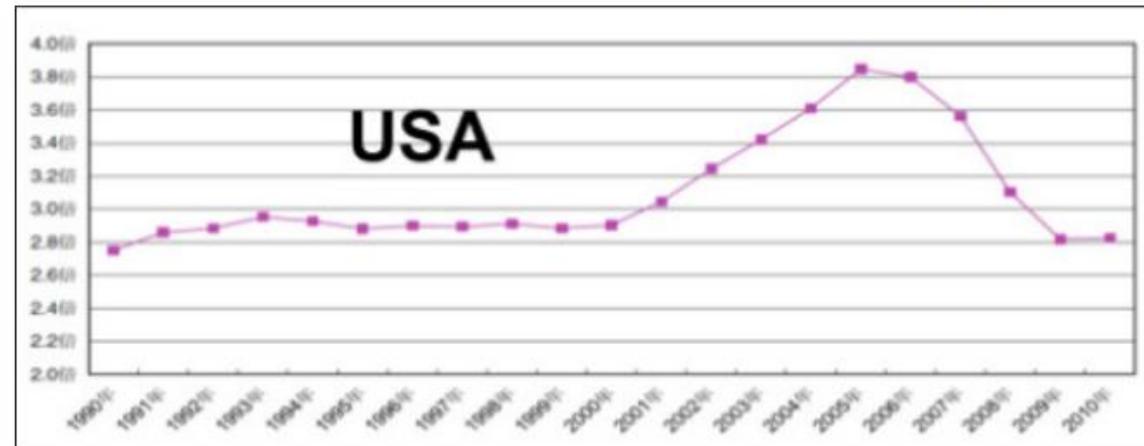
Source: Yoshino-Nakamura-Sakai (2013)

Figure 8: Residential Property Price Index (Condominiums, Tokyo) (Arithmetic mean of 2010 = 100)
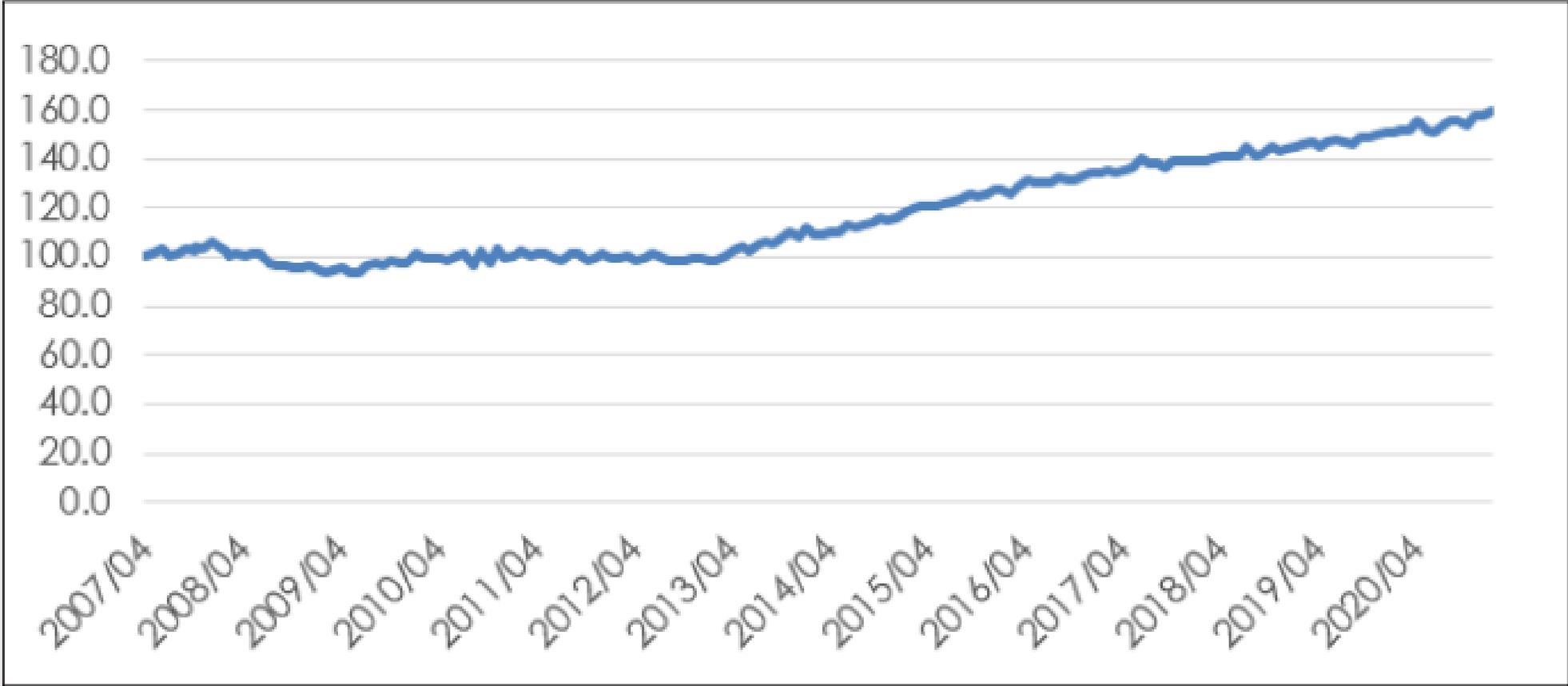
Source: Ministry of Land, Infrastructure and Transport (Japan)

Figure 1.
Housing Price Index in Hong Kong
(April 1997–September 2018)

The figure shows the housing price index in Hong Kong, over the period of April 1997 to September 2018. The data is retrieved from the Government of Hong Kong, (2019).

HK$ million

Housing Price Index in Hong-Kong, China

Figure 4.
Falling Housing Prices Due to New Supply and Decreased Demand

Source: Authors' compilation

Domar Condition to check fiscal sustainability

$$r < \frac{\triangle Y}{Y} = \eta$$

Stable

Debt explosion

time

$$r > \frac{\triangle Y}{Y} = \eta$$

time
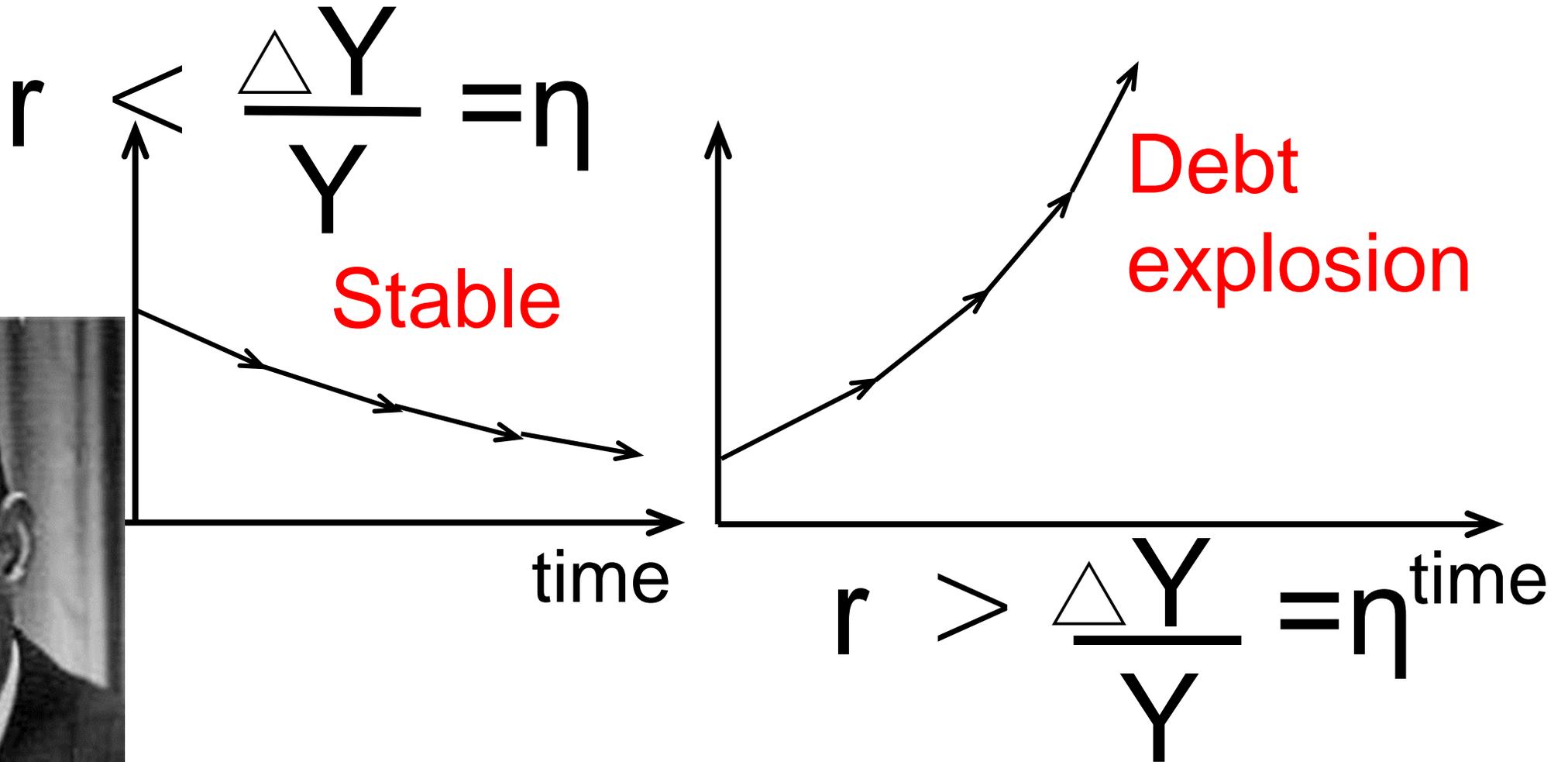
r-g=Interest rate −Growth Rate(ΔY/Y)

Domar Condition of Fiscal Stability

The Domar condition is often used to judge whether the budget deficit is sustainable. The Domar condition is obtained from the government budget constraint:

$$G_t + r_t^B B_{t-1} = \Delta B_t + T_t,$$

where G_{t} is government spending, B_{t} is the stock of public debt, T_{t} is total tax revenues, and r_{t} is the interest rate for public debt. By dividing (1) by GDP Y_{t}, we can obtain

$$b_t - b_{t-1} = g_t - t_t + \frac{r_t - \eta_t}{1 + \eta_t} b_{t-1},$$

Interest Rate (r_t) > growth rate of the economy(η) → Unstable
Interest Rate (r_t) < growth rate of the economy(η) → Stable

Table 1   Holders of Japanese and Greek Government bonds **(2012)**

Holders of Japanese Government bonds	% of total	Holders of Greek Government bonds	% of total
Bank and postal savings	45	Overseas investors	33
Life and non-life insurance	20	Domestic investors	21
Public pension funds	10	European Central Bank	18
Private pension funds	4	Bilateral loans	14
Bank of Japan	8	Social pension funds	6
Overseas investors	5	International Monetary Fund	5
Households	5	Greek domestic funds	3
Others	3		

an.

Optimal fiscal policy rule for achieving fiscal sustainability: *the Japanese case*

Yoshino-Mizoguchi-Hesary (2019)

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Figure 1 Government bond markets of Japan and Greece (see online version for colours)
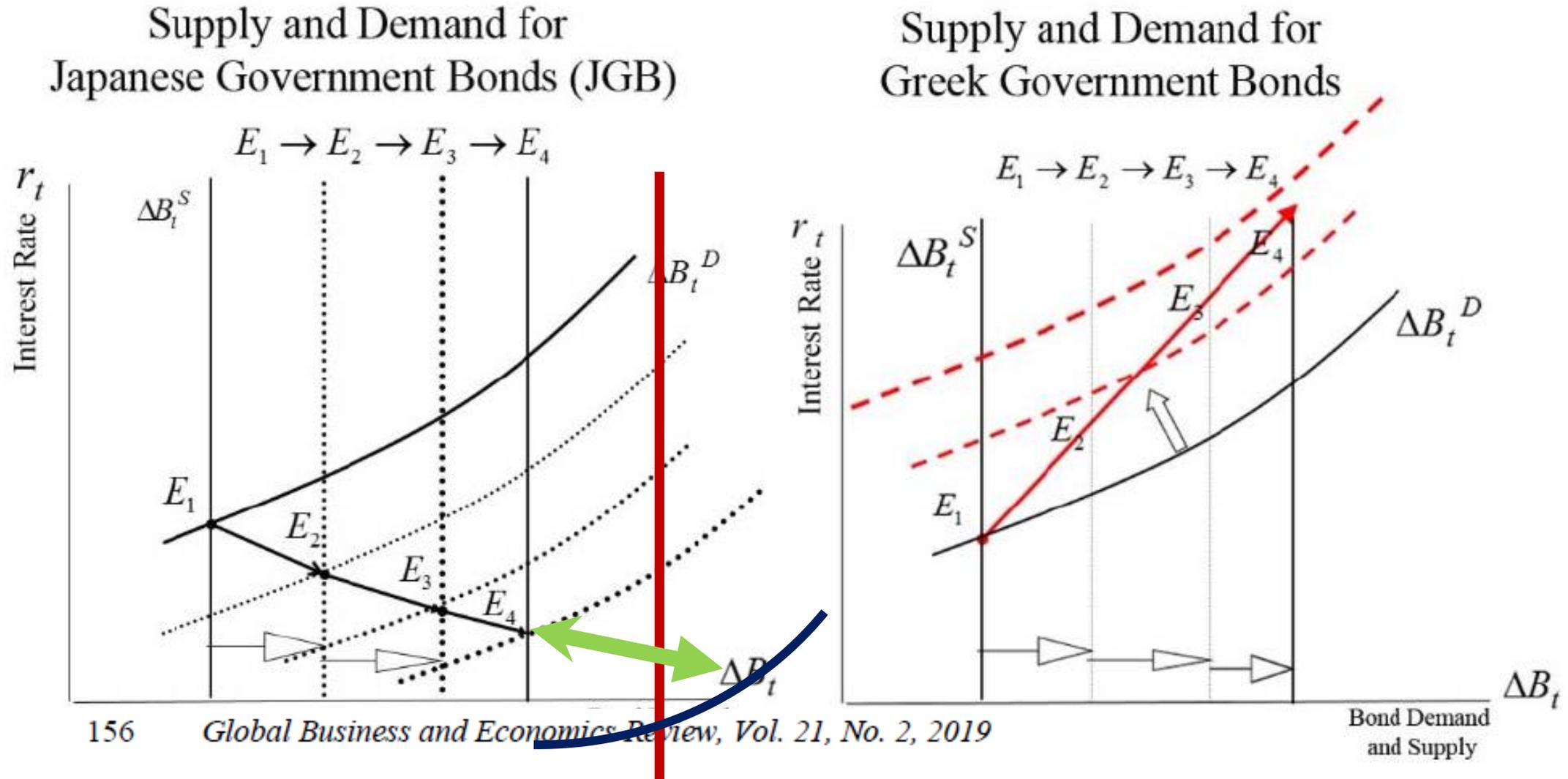
Supply and Demand for Japanese Government Bonds (JGB)

Supply and Demand for Greek Government Bonds

Optimal fiscal policy rule for achieving fiscal sustainability: *the Japanese case* Yoshino-Mizoguchi-Hesary

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10-Year Government Bonds Yields

(Source) Bloomberg
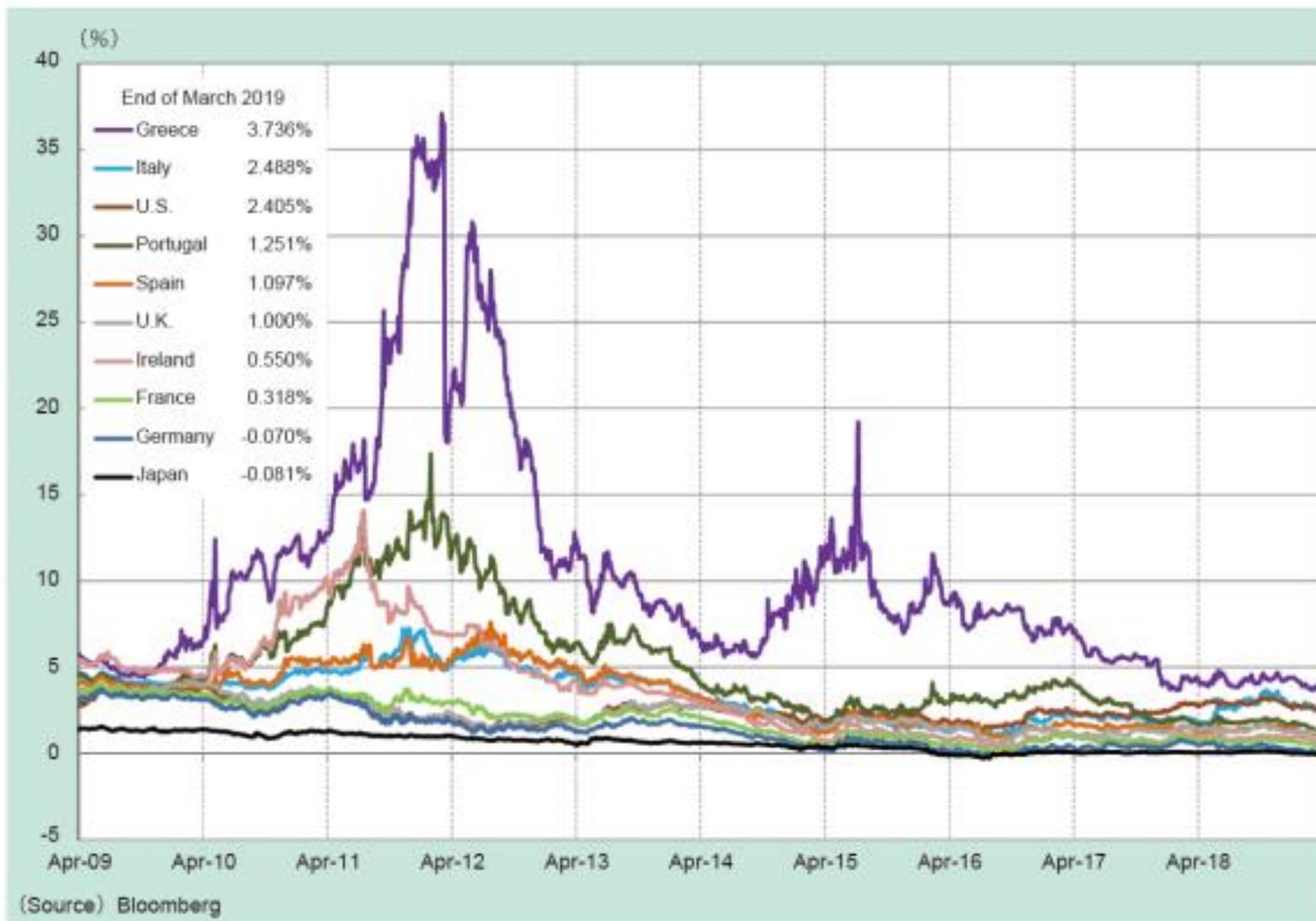
Fiscal stabilization conditions that replace the Domar conditions derived from the simultaneous equations of government bond demand and government bond supply

$$\Delta B_t = (G_t - T_t) + r_t^{B^*} \times B_{t-1} - \Delta M_t. \qquad (14)$$

$$\frac{\partial \Delta B_t}{\partial B_{t-1}} = \frac{\partial r_t^{B^*}}{\partial B_{t-1}} B_{t-1} + r_t^{B^*}, \quad (15)$$

where

$$\frac{\partial r_t^{B^*}}{\partial B_{t-1}} = \frac{(G_t - T_t) - \Delta M_t - (b_0 + f_0) + f_1 \left(r_t^f + \frac{e_t^e - e_t}{e_t} \right) + b_1 r_t^I}{[(b_1 + f_1) - B_{t-1}]^2} = \frac{r_t^{B^*}}{[((b_1 + f_1) - B_{t-1})]}.$$

Equation (15) can be rewritten as follows.

$$\frac{\partial \Delta B_t}{\partial B_{t-1}} = \left(\frac{1}{1 - \frac{B_{t-1}}{b_1 + f_1}} \right) r_t^{B^*} \qquad (16)$$

This implies

$$\frac{\partial \Delta B_t}{\partial B_{t-1}} \gtrless 0 \Leftrightarrow 1 \gtrless \frac{B_{t-1}}{b_1 + f_1}. \qquad (17)$$

Supply of Government Bond
Demand for Government Bond

$$\frac{\delta \Delta B_t}{\delta B_{t-1}} = \left(\frac{1}{1 - \frac{B_{t-1}}{b_1 + f_1}} \right) r_t^{B^*} < 0 \quad (16) \quad \textit{Stability Condition}$$

Accumulated Government bond (B_{t-1})
< Interest elasticity of Demand $(b_1 + f_1)$
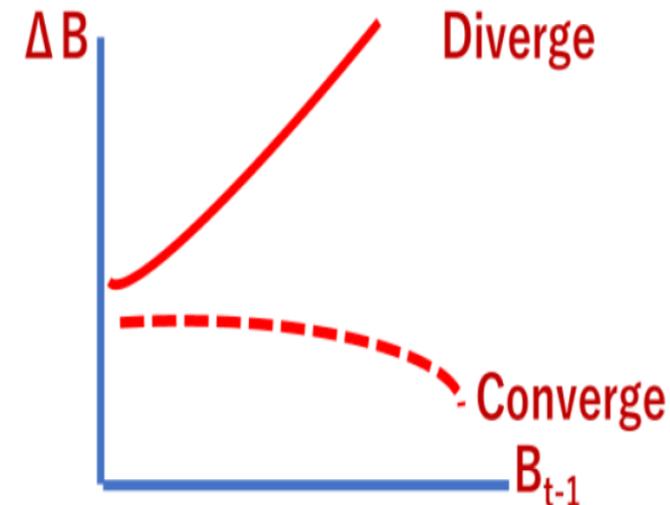
Comparison between Greece and Japan
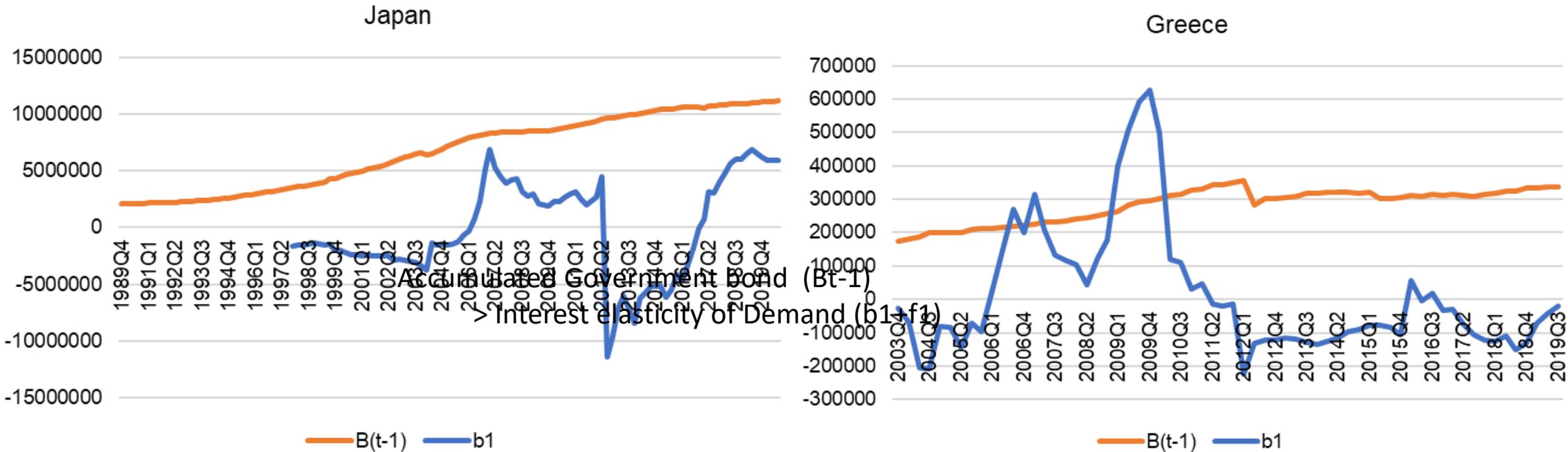
Global Solutions Journal (2020)

Accumulated Government bond (B_{t-1})
< Interest elasticity of Demand (b_1+f_1)

Identification of Systemically Important Financial Institutions and Implications for Financial Architecture in Korea

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International comparison of bubbles and bubble indicators

Naoyuki Yoshino · Tomoya Nakamura ·
Yoshitaka Sakai

Reconsideration of the "Domar condition" to check sustainability of budget deficit[*]

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MIYAMOTO Hiroaki

INTERNAL AND EXTERNAL DETERMINANTS OF HOUSING PRICE BOOM IN HONG KONG

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Alvin Chiu****, & Niki Naderi*****

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