

Lending Upturn May Signal Economic Recovery

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Last September, the outstanding balance of bank loans stopped shrinking and began turning upward on a year-on-year basis, a trend that usually reflects an upswing in the economy. If the stock market joins this upswelling, Japan might be well-positioned to finally break free of the deflation that has long burdened it.

The total amount of outstanding bank loans at the end of December last year was 421.51 trillion yen, up 1.2% on the year and marking the fourth straight rise, according to statistics compiled by the Japanese Bankers Association.

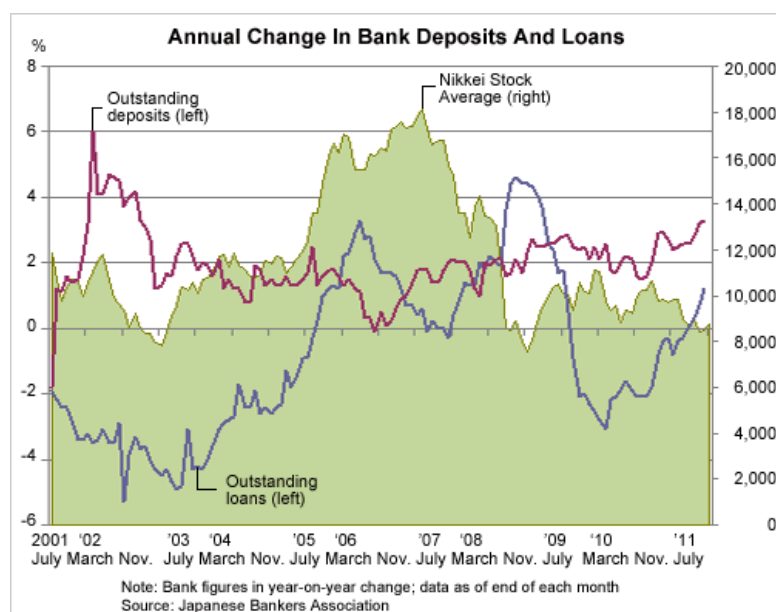
The last time Japan saw loan growth break into positive territory was in autumn of 2005. In that year, the economy expanded more than 2% in real terms, led by export-oriented manufacturers.

End of an era

The stock market also moved into higher gear at that time, with the Nikkei Stock Average surging after hovering at slightly under 12,000 for the first half of 2005. For many economists, that time marked the end of the post-bubble era, which was characterized by three overhangs: debt, employee and production capacity. What they were saying, in other words, was that the decade-long balance sheet adjustment was over.

The stock market rally continued until the summer of 2007, when the housing bubble in the U.S. finally peaked out.

Returning to more recent times, if we look at outstanding lending, the figure grew 0.1% on the year



last September. That may not be a big amount, but it was the first time since October 2009 that Japanese banks lent more than they did a year earlier.

Importantly, the lending growth was not a one-time phenomenon. In October, lending expanded by 0.3%, then by 0.7% in November and by 1.2% in December.

Willing to lend

Roughly speaking, there are two types of banks in Japan -- large city banks and relatively small regional banks. In the past two years, large banks have slashed their loans to regional businesses to meet capital-adequacy requirements, while regional banks have extended their loans to such firms.

But recently, large banks have gradually been increasing their willingness to lend, and in December, lending by city banks finally moved into positive territory, pushing up the overall figure.

Several factors have contributed to the increase, some good for the economy and some not. The most positive contributing factor is the increase in overseas investment by companies, including cross-border M&As.

According to a report by Thomson Reuters, in 2011 Japanese firms carried out a record 634 cross-border M&As, up 19.4%, worth an all-time high of 69 billion dollars, up 80.1%.

Growth factors

Reconstruction work related to the Great East Japan Earthquake also requires more funding. The government plans to spend 23 trillion yen on such activities over the next decade. In addition to public works, money will be needed to help businesses and households recover from the disaster.

At the same time, however, some lending demand is coming from poorly performing small and midsize firms. Because banks are receiving support from the government-sponsored loan-guarantee facility, they are extending loans to these customers even though there is a high likelihood that the loans will turn sour.

Borrowing by Tokyo Electric Power Co. (9501) is also pushing up the loan growth ratio. Tepco used to be the largest issuer of corporate bonds in Japan. But after the nuclear accident, its bond price plummeted due to concerns about the massive damage payments the utility would have to shoulder. Unable to raise money via bonds, the company has turned to banks for loans.

Considering the background of the recent upturn in bank loans, it is understandable that stock market participants are still being cautious. If more positive factors arise, however, we may see a return of the kind of market strength observed six years ago.

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Born in 1957. In 1979, he graduated from the College of Arts and Sciences, the University of Tokyo, and joined Nikkei Inc.. From 1991 to 1994, he was assigned as a correspondent at the Washington D.C. Bureau in the United States. From 1997 to March 2010, he was a Senior Staff Writer in the area of capital market and corporate news. Since April 2010, he has worked at JCER.