

Comments on Koibuchi paper

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Japanese Banking Issues

☆ Forbearance ☆

Pretend there is no problem



you do not start
falling until you
look down

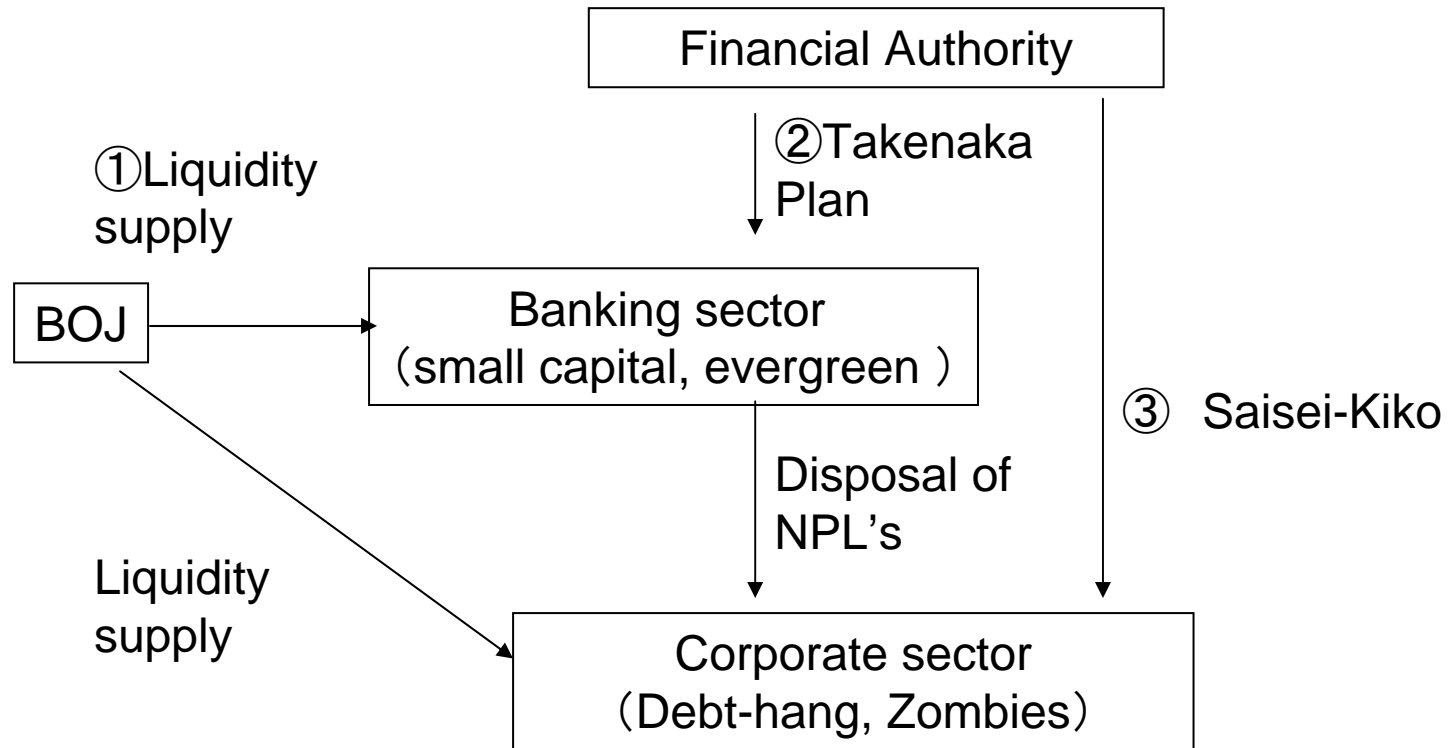
How to deal with Japanese banking problem?

Financial Reform, so-called, “Takenaka Plan” starts (2002, October)

Establishment of Industrial Revitalization Corporation (hereafter, “Saisei-kiko”, 2003, May)

⇒ Non-performing loans decline to a half

Japanese Non-performing-loan problem (sketch)



Role of Saisei-Kiko

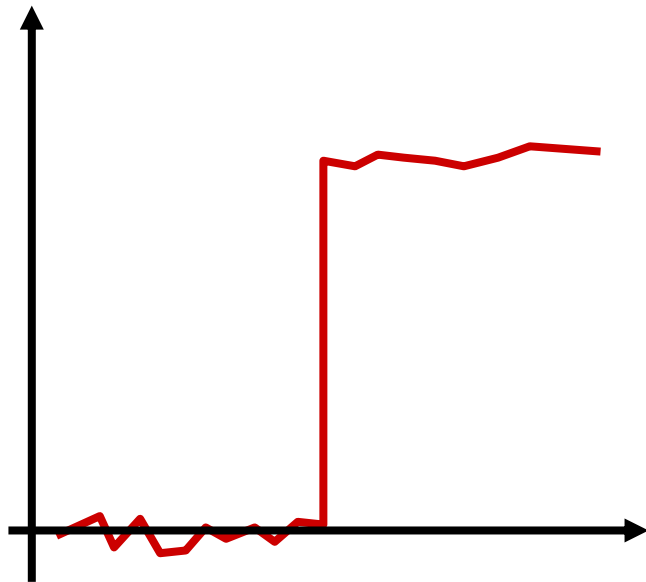
- Why does the gov. intervene?
 - Eliminating negotiation costs
 - Resolving debt-overhang problem quickly
- ① 不良債権の売買市場が発展するための「呼び水」
 - 債権買取価格の適正化
 - 再生可能性に関する基準の浸透
 - ✓ 「生産性向上基準」
 - ✓ 「財務健全化基準」

Event study Approach

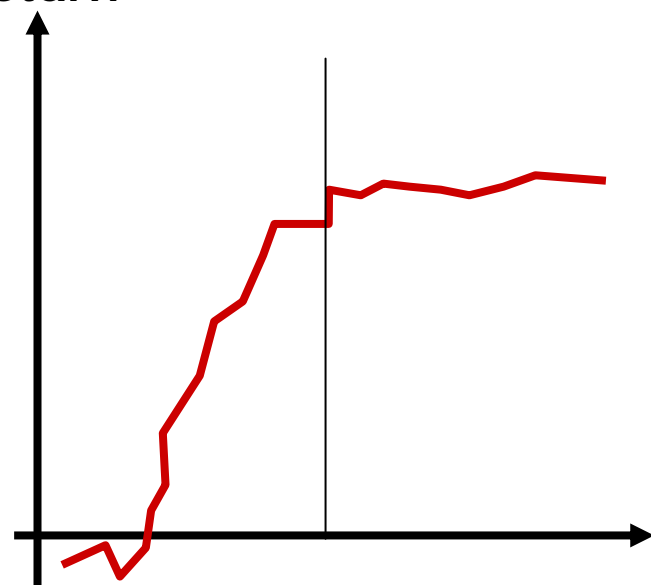
- Evaluate the role of Sakisei-Kiko by focusing on individual events on debt forgiveness
- Compare the market response of individual events between private and public settlements

Event Study Issues

target bank
cumulative
abnormal
return



target bank
cumulative
abnormal
return



Event Study Issues

- Window length can be interesting
 - Information leakage
 - Expectations formation and revision
 - Ex-post information possessing
- Maybe nothing happened in longer windows ...
- CAR diagram forestalls any dispute
- Robustness to window size

Arguments

- Establishment of Saisei-Kiko and public settlement promoted debt forgiveness.
- In private settlement main bank incurred the costs more than the loan share.
- In public settlement main bank incurred the cost in proportion to the loan share
- Public settlement had a redistribution effect to favor main bank.

Hypotheses

1. Announcement of debt forgiveness should lead to a ***negative*** impact on the stock price of the main bank in private settlement
2. Announcement of debt forgiveness should lead to a ***positive*** impact on the stock price of the main bank in public settlement

Findings

- In public settlement, announcement of debt forgiveness lead to a ***positive*** and ***significant*** impact on the stock price of the main bank
- In private settlement, announcement lead to *insignificant* impact
-may support the positive role of Saisei-Kiko

Contributions

- First paper to evaluate Saisei-kiko
- Other papers to evaluate financial reform
- Yamori and Kobayashi (2007, JER),
Evaluate nationalization of Resona bank
- Sakuragawa and Watanabe (2007, Keizai Kenkyu), Evaluate Takenaka Plan

What the theory?

- Debt forgiveness should be arranged to maximize the total surplus accruing to the firm and banks
- Even in private settlement the stock price of main bank may rise.
- Hypotheses consider the costs of debt forgiveness, but not the benefits.

Why is the sign positive?

1. Distributional effect to favor main bank
2. Change in project quality by the Saisei-kiko's screening sample selection bias
3. Change in macroeconomics

Distributional Effect Important ?

- Announcement of debt forgiveness should lead to a ***negative*** impact on the stock price of ***other banks***, not main bank, in public settlement
- **Try !**

Technical Comments

- Error terms may be correlated among events that happened at the same days.
- Estimation of a system of separate equations using GLS may lead to more efficient coefficients. See Brewer et al.
- More variables for project performance in cross-section analysis ?

Question?

- Was corporate revitalization important for economic recovery?
- In total 3 trillions yen, small relative to the total NPLs, 110 trillions yen