

SME Finance in the High Economic Growth Period



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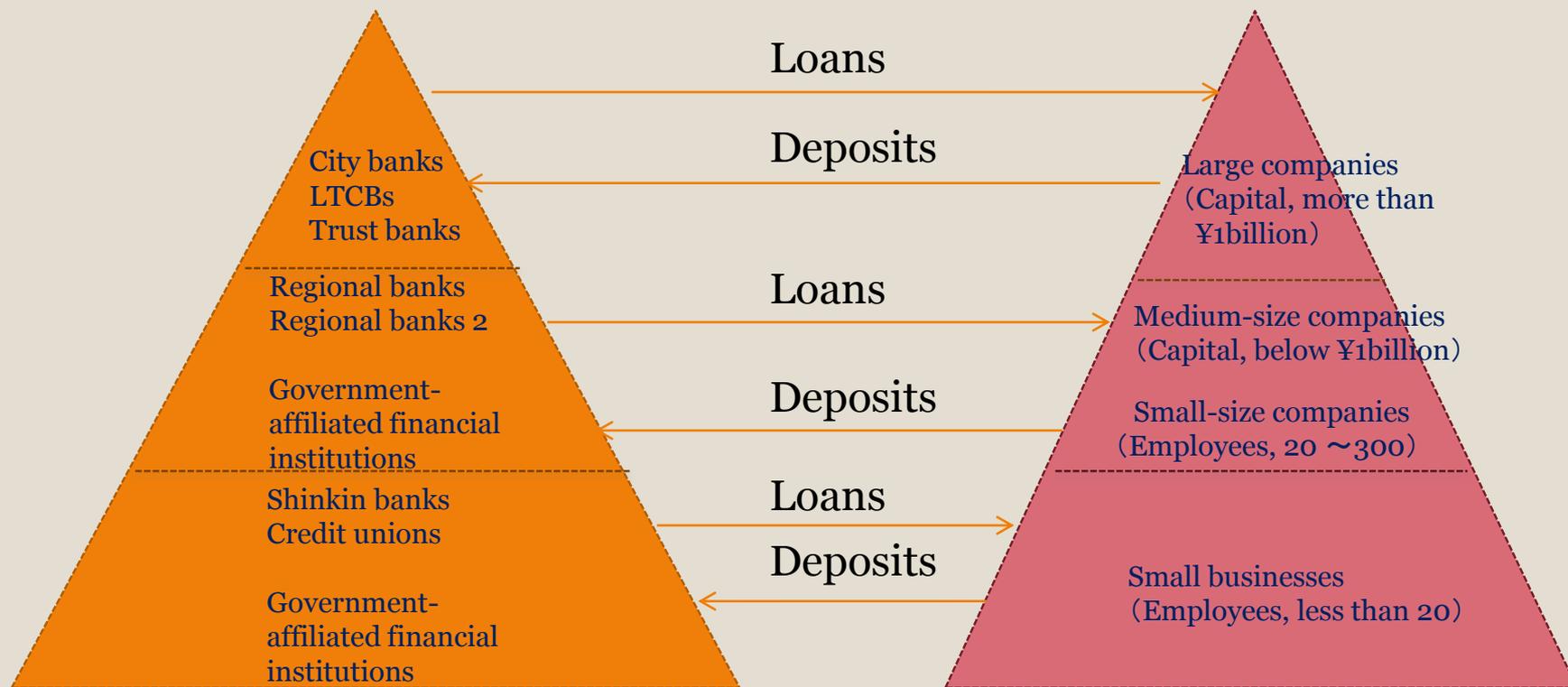
The Japanese Financial System: An Overview

- It was reformed after WWII to support the two aims
 - reconstruction of the economy
 - expansion of employment
- Two categories of financial intermediaries were thus established
 - Long-term finance institutions
 - ✦ Long-term credit banks (LTCBs), Trust banks
 - SME finance institutions
 - ✦ Shinkin banks, Credit unions
- Financial Institutions
 - City banks
 - ✦ Operate nationwide
 - Regional banks & Regional banks 2
 - ✦ Operate locally within their prefectural seats
 - Shinkin banks & Credit unions
 - Trust banks
 - ✦ Specialized in trust business
 - LTCBs have gone
 - ✦ Long-term finance has shifted to capital market

Multilayered Structure of Banks and Business Relationships in Japan



- Almost one-to-one correspondence according to size

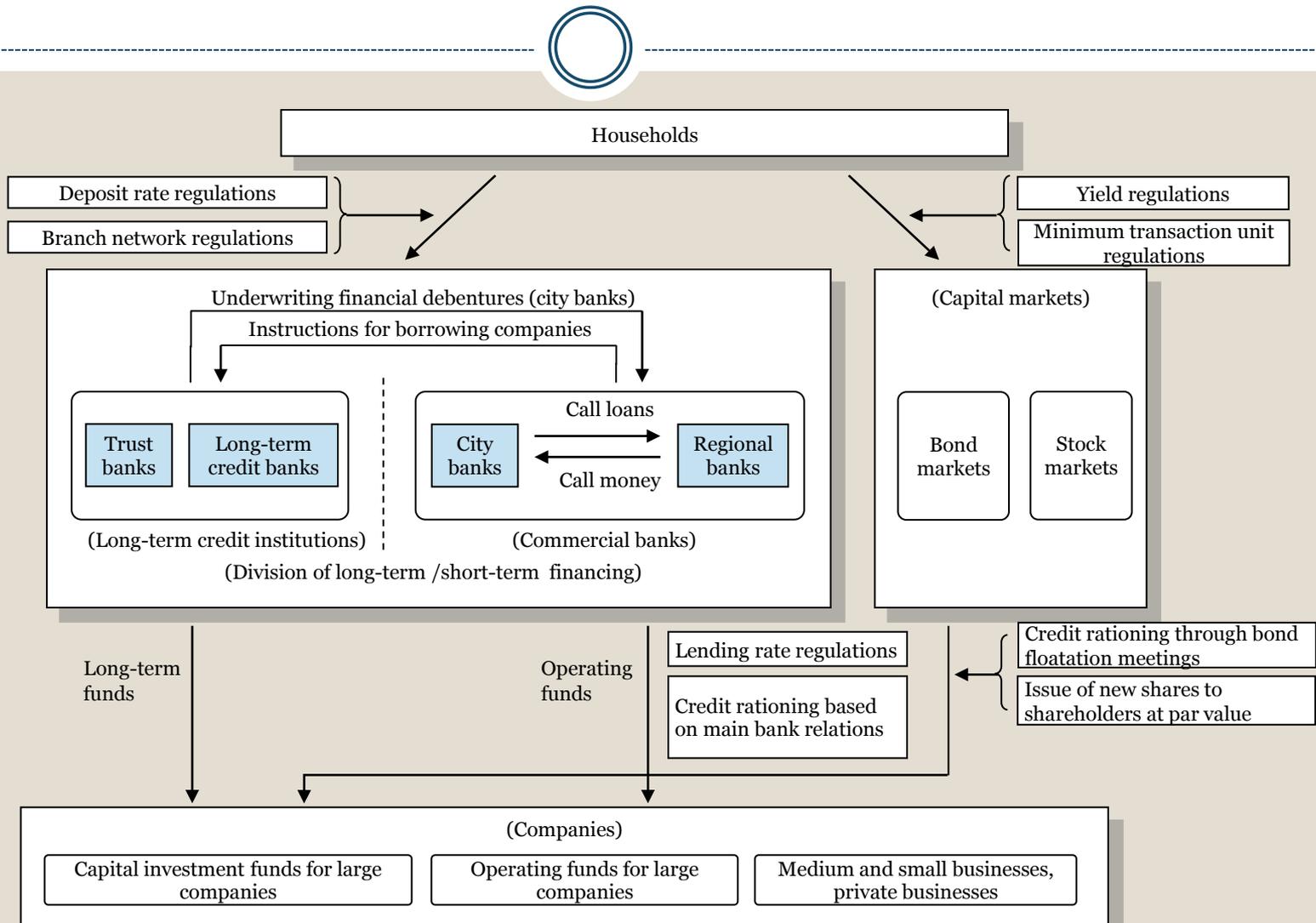


Financial Structure in Japan



- Financial transactions were tightly regulated
 - Deposit and lending rates, scope of business, branch network, etc. were under the government's control
 - Capital markets were more tightly regulated
- Household savings were channeled to corporate sector via the banking sector
 - But credit rationing was not widely observed except the personal sector

Funds Channeling Mechanism in Japan

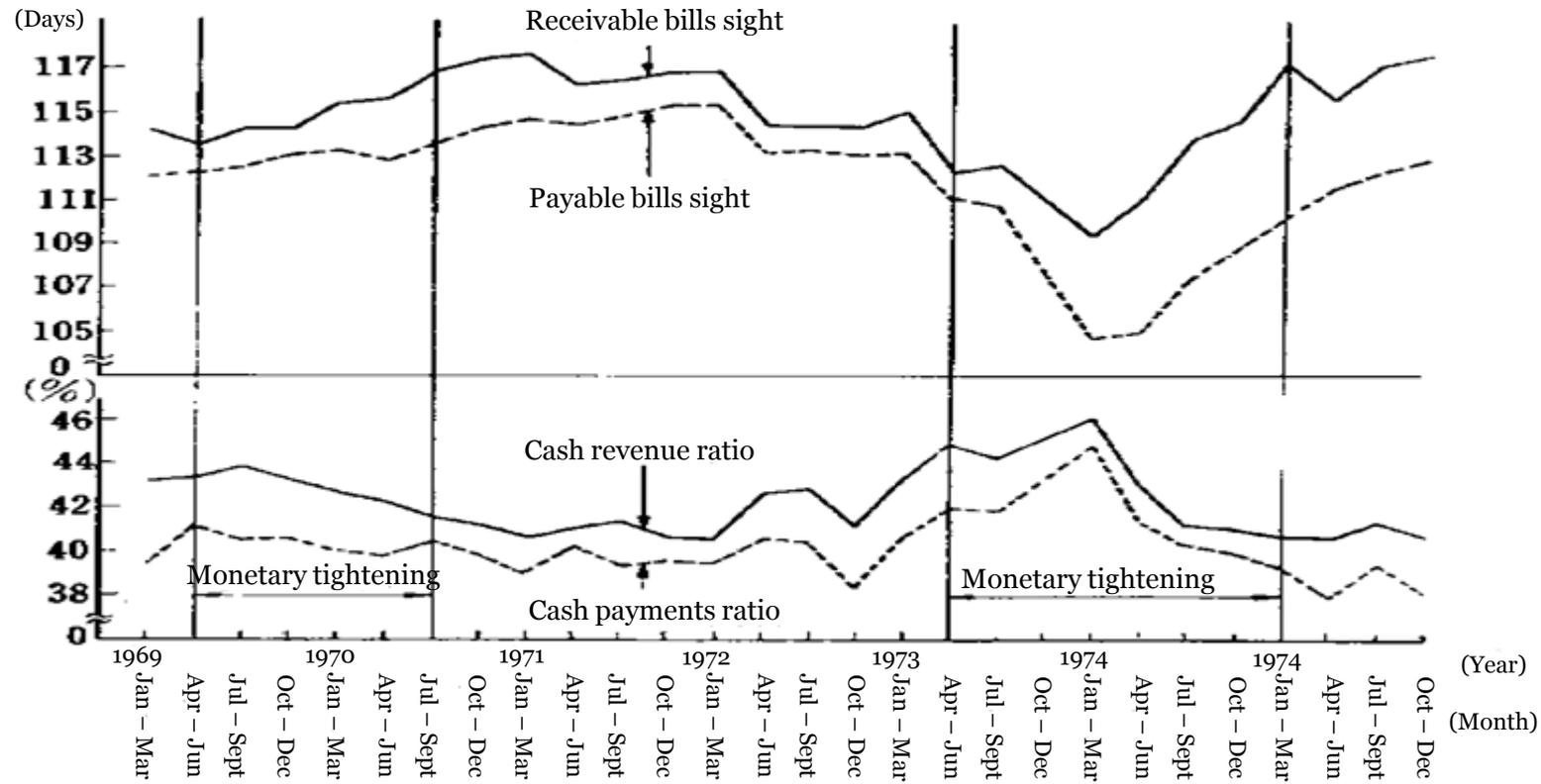


Supply Chain Finance and SME Finance



- Supply chain finance (inter-company credit) also played an important role in SME finance
 - Promissory notes were drawn to settle transactions
 - ✦ Their sight was 3–4 months
- During tight money periods, supply chain finance was used to ease their funding shortages
 - Extension of the sight was commonly used to cope with tightening

Supply Chain Finance Development



Source: Japan Finance Corporation for Small and Medium Enterprise, "Survey on SME Business Conditions"