

**(Box 3) Developments in Corporate Financing since the Outbreak of COVID-19**

Financial conditions surrounding Japanese firms became less accommodative immediately after the outbreak of COVID-19 in spring 2020, but they have continued to improve since then owing to various policy responses. This box summarizes developments in corporate financing since the outbreak.

In general, a major negative shock, like a pandemic, affects firms' financial conditions as follows. While such a shock increases firms' precautionary demand for liquidity in response to heightened uncertainties, it also leads to deterioration in their funding conditions, particularly through a decline in sales and a reduction in risk-taking by financial institutions. In fact, during the Global Financial Crisis, financial institutions' lending attitudes deteriorated significantly, and the CP market experienced a rise in issuance rates and a fall in the amount outstanding (Charts 52, 53, and 55). This stress on corporate financing also had a negative impact on firms' spending behavior, exacerbating the economic downturn. Immediately after the outbreak of COVID-19 in spring 2020, there were signs of heightened stress, as shown in a rise in CP issuance rates.

In order to address this situation, the Bank has supported financing, mainly of firms, since March 2020 (Chart B3-1). Namely, it introduced the Special Program to Support Financing in Response to the Novel Coronavirus (COVID-19)

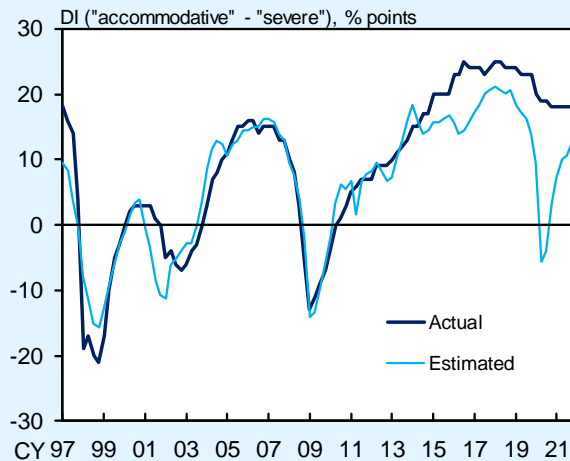
**Chart B3-1: Corporate Financing Support by the Bank**

Special Program to Support Financing in Response to COVID-19			
Purchases of CP and corporate bonds	Special Funds-Supplying Operations to Facilitate Financing in Response to COVID-19		
	Against private debt pledged as collateral	Loans in response to COVID-19	
		Against government-supported loans	Against non-government-supported loans
Up to an amount outstanding of about 20 tril. yen (previous amount outstanding of about 5 tril. yen)	Fund-provisioning on favorable terms to financial institutions against private debt pledged as collateral and eligible loans in response to COVID-19		
Additional purchases to be completed (Continue purchasing the same amount as prior to the COVID-19 pandemic)	To be completed	Fund-provisioning to financial institutions against their loans extended until end-September 2022	Extended until end-September 2022
Mainly for large firms and housing loans		Mainly for SMEs	

-- hereafter, the Special Program. This program consists of a substantial increase in purchases of CP and corporate bonds and the Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus (COVID-19), through which the Bank actively provides funds on favorable terms to financial institutions that make loans in response to COVID-19.

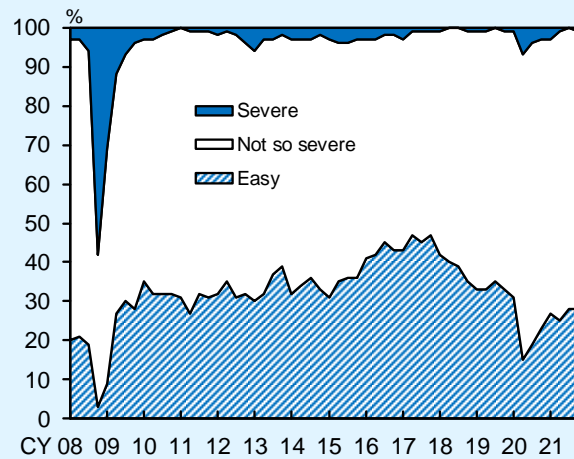
As a result of this response by the Bank, as well as measures by the government and the efforts of financial institutions, the environment for external funding surrounding firms has generally remained accommodative compared with past downturns. For example, financial institutions' lending attitudes as perceived by firms have remained accommodative despite the deterioration in business sentiment (Chart B3-2). In addition, CP issuance rates, which had risen immediately after the outbreak of COVID-19, turned to a downtrend relatively quickly after the Bank increased its CP purchases. Developments in the DI for issuance conditions for CP in the *Tankan* show that the proportion of respondents who answered that conditions were "severe" rose somewhat immediately after the COVID-19 outbreak but has remained at a low level since then (Chart B3-3). In the meantime, as private financial institutions responded actively to the rise in firms' precautionary demand for funds by increasing loans, the amount of corporate funding, particularly through bank lending, increased significantly, but this surge has recently begun to moderate (Chart B3-4).

**Chart B3-2: Lending Attitudes of Financial Institutions as Perceived by Firms**



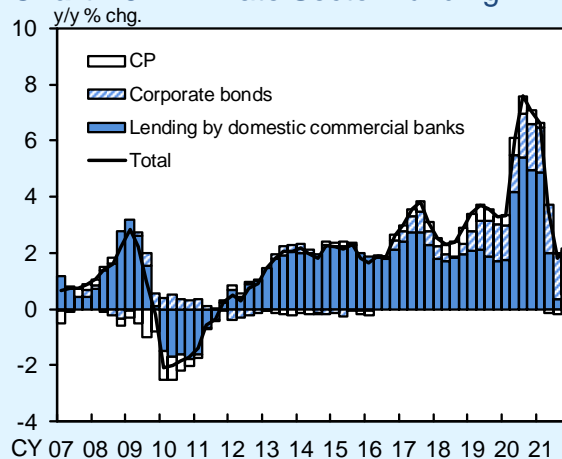
Source: Bank of Japan.  
Note: Based on the *Tankan*. All industries and enterprises. Estimated figures are obtained by regressing the lending attitudes DI on the business conditions DI. The estimation period is March 1997-March 2013.

**Chart B3-3: Issuance Conditions for CP**



Source: Bank of Japan.  
Note: Based on the *Tankan*. CP-issuing enterprises (all industries).

**Chart B3-4: Private Sector Funding**

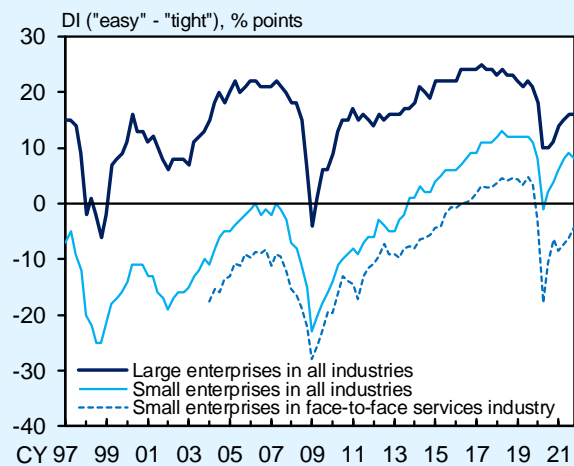


Sources: Bank of Japan; Japan Securities Depository Center; Japan Securities Dealers Association; I-N Information Systems.  
Note: Figures for lending by domestic commercial banks include those for lending to local governments.

Against this backdrop, firms' financial positions deteriorated immediately after the outbreak of COVID-19 but have continued to improve as economic activity has resumed (Chart B3-5). The number of corporate bankruptcies has remained at a historically low level despite the decline in economic activity (Chart B3-6).

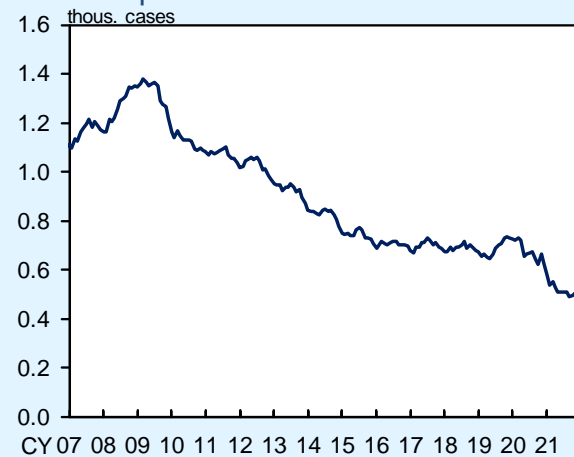
That said, when focusing on small and medium-sized firms in industries susceptible to the impact of COVID-19, their financial positions have started improving but remain weak. In particular, the DI for financial positions of small firms in the face-to-face services industry continued to register a relatively large negative figure in the latest December *Tankan*. Given this situation, while the Special Program was set to expire at the end of March this year, the Bank, with a view to continuing to do its utmost to support financing, mainly of small and medium-sized firms, decided in December last year to extend by six months the part of the program that supports financing of these firms (Chart B3-1).

**Chart B3-5: Financial Positions**



Source: Bank of Japan.  
 Note: Based on the *Tankan*. Figures for small enterprises in the face-to-face services industry are the weighted averages of the DIs for retailing, transport & postal activities, services for individuals, and accommodations, eating & drinking services. For figures up through December 2006, the weight of each industry for the March 2007 survey is used.

**Chart B3-6: Number of Corporate Bankruptcies**



Source: Tokyo Shoko Research Ltd.  
 Note: Figures show 6-month backward moving averages.