Comprehensive Analysis of Bank Mergers and Impacts on Heterogeneous Borrowers: Evidence from Japan

Nguyen Thuy Linh
Graduate Student, Hitotsubashi University

Abstract

This study comprehensively analyzes the effects of Japanese bank mergers on borrowers' financing activities. Client firms of the merging banks are categorized into private SMEs and publicly listed firms, or continuing borrowers (i.e., those that borrowed from the merging banks before the merger) and new borrowers, as these firms may differ in terms of the closeness of relationship with merging banks, financial constraint level, and bargaining power. The result shows that, on average, the interest rates paid by continuing SME borrowers decrease, and their loan ratios increase following the mergers. However, if the merger size is sufficiently large, it may adversely affect their financing activities. This evidence suggests that the local market share and the market concentration level play important roles in determining the impacts on continuing SMEs' loan terms. On the other hand, new SME borrowers enjoy a lower interest rate compared to borrowers of non-merging banks, probably due to the merged banks' strategy to gain more market share. The impact on public firms' financing is small. Presumably, public firms may already have been offered low interest rates prior to the merger, and the merged banks may have been unable to lower the interest rate further.