

REGIONAL FINANCIAL MARKETS UNDER THE COVID-19 PANDEMIC:  
MARKET CONCENTRATION, INTERREGIONAL FUND FLOWS THROUGH  
LOANS AND DEPOSITS, AND CREDIT GUARANTEE-BACKED LENDING

By IICHIRO UESUGI, KAZUKI HIRAGA,  
MASASHI MANABE and NAOYUKI YOSHINO

《SUMMARY》

This paper examines how Japan's regional financial markets evolved during the COVID-19 pandemic. Using indicators of market concentration and interregional capital flows through lending and deposits, we document several key developments. First, concentration in both markets continued its gradual rise, with sharper increases in prefectures where regional financial institutions merged. Second, the share of deposits used for local lending grew, while lending to other regions, including Tokyo, declined. Despite a surge in deposits from government support programs, only about ¥ 40 trillion was lent within prefectures, while ¥ 90 trillion was allocated elsewhere. Third, analysis of credit-guaranteed loans to small and medium-sized enterprises (SMEs) shows that reliance on such loans was higher in head office regions, and their default probabilities were greater for cross-regional lending. During the pandemic, however, the difference in default rates between local and cross-regional lending diminished.

(Hitotsubashi University, Nagoya City University, Keio University, Keio University)