

Industry-specific Exchange Rate Fluctuations, Japanese Exports and Financial Constraints: Evidence from Panel VAR Analysis

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By employing the industry-breakdown data of financial constraints on Japanese firms obtained from Bank of Japan, *Tankan (Short-Term Economic Survey of Enterprises in Japan)*, and this paper empirically investigates whether and how financial constraints (internal and external) influence the response of Japanese sectoral exports to the exchange rate shock using a Panel-VAR approach. In addition, we use the industry-specific real effective exchange rate data developed by Sato *et al.* (2013) to take consideration of the different movements of real effective exchange rates across industries. It is found that financial constraints have significant influences on Japanese exports in response to exchange rate shocks. Japanese exporters with either lower internal financial constraints (higher liquidity ratio) or external financial constraints (accommodative lending attitudes of financial institutions) are less affected by Japanese Yen appreciations. Further, cutting down the external financial constraints can help firms with high internal financial constraints buffer the impact of yen appreciation on their exports. Thus, accommodative financial environment plays an important role in alleviating the impact of yen appreciation on Japanese exports.

JEL Classification: F31, F33, F15

Keywords: industry-specific real effective exchange rate, financial constraints, Japanese exports, panel-VAR