

Interregional flow of funds in Japan via loans and deposits of financial institutions, and its determinants

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Abstract

Using data on loan and deposit balances at the bank branch level, we for the first time develop indicators of the interregional flow of funds in Japan for the period 2005-2019 and analyze their determinants. Making use of the fact that the regions in which a bank receives deposits and those in which it extends loans differ from each other, we calculate the extent to which deposits in a region are transformed into loans in various regions within a bank. We then sum the extent for all banks to create indicators of the interregional flow of funds in a country. Regarding the characteristics of these indicators, there are several salient features: (1) While the majority of deposits goes to lending within the same prefecture, there is also a substantial amount of deposits used for loans in other prefectures. (2) The extent of interregional flow of funds between remote prefectures has declined over time, but the extent between neighboring prefectures has somewhat increased. Regarding the determinants of the interregional flow of funds, we also find several features: (1) Deposits received in prefectures with lower land prices are used for loans in prefectures with higher land values, indicating that loans related to real estate businesses remain to be an integral part of bank lending. (2) Interregional flow of funds is sometimes inefficient in that deposits collected in productive/profitable prefectures are used for loans in less productive/profitable prefectures in some econometric specifications. (3) Deposits in concentrated loan markets are transformed into loans in markets that are less concentrated.

Keywords: loan and deposit market; financial intermediation; efficiency of credit allocation; interregional flow of funds

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