Impacts of Bank Mergers on Zombie Firms: Evidence from Japan[*]

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Abstract

This study examines the effects of bank mergers on financing activities and bank relationships for small and medium enterprises (SMEs) in Japan, with a specific focus on zombie SMEs. Using a comprehensive dataset that covers all the bank mergers during the period 2005-2018 and SMEs that used to transact with these merged banks and those that did not, we find the following. First, bank mergers during the period generally result in lower interest rates and higher loan ratios for SMEs that used to transact with either one or both of the merged banks. However, SMEs' loan terms and conditions become more stringent when the newly merged banks they transacted with were large or financially healthy, suggesting the importance of banks' local market power and financial health in determining loan terms. Second, mergers between healthy banks are likely to result in the termination of relationships with zombie SMEs, while mergers involving at least one unhealthy bank tend to result in continued relationships and increased lending to zombie SMEs. The effects of bank mergers on SMEs are in contrast with those on publicly listed firms in several respects. First, the impact of bank mergers on borrowers' loan terms and conditions is significantly stronger for SMEs than for listed firms. Second, the adverse impact of bank mergers on listed zombie firms, if any, appears in stricter borrowing terms but not in the termination of bank-firm relationships.

JEL classification: G21; G32; G34.

Keywords: Bank mergers; Banking competition; Firm financing; Bank-firm relationship; Zombie lending

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