

Monetary policy, government actions and corporate finance in response to crises

Panel organizers:

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This session will explore quantitative easing as a crisis resolution tool and its impact on corporate finance and corporate survival. The session organisers are undertaking a research project examining quantitative easing as a crisis resolution tool and its impact on bond markets and on corporate financing options in Japan, Sweden and the Eurozone. This project takes both a financial history and a business studies approach in order to examine past experiences and the impact on the present. The session will explore direct links via policy rates and indirect links through various schemes introduced to support corporations in times of crisis or, in the case of Japan, persistent slump. In Japan, Sweden and the Eurozone the monetary policies of the last decade, and longer in Japan, has taken on new forms with quantitative easing. This in turn has had effects on bond markets but also indirect effects corporate financing which has been less explored in the literature. Two papers will focus on this and the organisers invite others to join the session with related papers on crisis resolution and corporate support.

The changing role of Corporate Guarantee Corporations in Japan under BoJ's quantitative easing scheme

Nakamura, H.R

Being one of the oldest credit support programs in the world, the Japanese credit guarantee scheme has been in place since the 1930s. Enduring the test of time, the credit guarantee system has not only survived wartimes and post-war chaos, but later also institutional reforms and post-speculation bubble realities. The generosity shown by the Japanese government towards SMEs after the WWII, recognizing their importance in the economy, have been a subject for foreign and domestic debate after the 1980s, resulting in tightening of the credit guarantee system in the 2000s. The result is a system that is still generous by international standards, but not as over-utilized under the Japanese central bank's QQE regime as some scholars have feared. Furthermore, the scope of the authority given to the Credit Guarantee Corporations by the government has increased to include, e.g., management consultancy services. The challenges presented in the Covid-19 pandemic have, however, caused the Japanese government to loosen the constraints by invoking special provisions of the Japanese Credit Guarantee Law. This paper will assess and discuss the effects of the Japanese credit guarantee system under the current QQE regime and the Covid-19 pandemic.

Unconventional monetary policy as a crisis resolution tool – quantitative easing in Japan and its effect on the bond market

Malmström Rognes, Å

The rather unconventional asset purchase programmes of the Bank of Japan is analysed to assess the impact on the bond markets. Under normal circumstances the bond market is

characterized by issuers who issue debt that is being bought in primary markets and the buyers are predominantly institutional investors. After an initial market sounding assessing the interest the price spread is being set based on the risk of the bond, yield and other factors. By inserting a large amount of central bank capital into the existing market place the price mechanism is expected to be distorted. This will have an impact on the operations and function of debt markets and possibly affect the equity market. Moreover, by lowering the yield the institutional investors are forced to move out on the curve taking higher risk than they would during normal market circumstances as they need to fulfil certain return on investments and the high quality bonds are already sold out at a too low price potentially affecting the whole yield curve. This paper analyses the effects on the bond markets in Japan. In a later stage of the research, a comparative analysis will be made with Sweden and the Eurozone.

Financial crisis and Creative Destruction. A Comparative Analysis of Reasons and Consequences of two Financial Crises, 1920-21 and 2020-21

Sjögren, H

Today's economic crisis is said to have similarities to the depression in the 1930s. But, in fact, the similarities are significantly greater with the crisis of deflation in the early 1920s, which was also preceded by a pandemic, the Spanish flu. The purpose of the project is to compare aspects of various financial systems 2020–21, during the Corona crisis, with the situation a hundred years ago, during the deflationary crisis. The study will explain how an exogenous shock (pandemic) affect a financial system and how a rapid drop in demand and supply affect the structure of business.

The Financial Regulatory Cycle

Cunha, J R

This paper presents the idea of the financial regulatory cycle in the United States. I show that there have been three long cycles of financial regulation since the independence of the country in 1776. Moreover, there are also smaller cycles within these long regulatory cycles. Contingent capital may be a way to curb the impact of the regulatory cycle.