Day1 【Oct 8-6】15:30~16:00

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“Interconnectedness in the Corporate Loan Market” *(with Hiroyasu Inoue, Duc Thi Luu and Thomas Lux)*

Abstracts:

We investigate systemic risk between the financial and real economy by measuring interconnectedness on two major markets for corporate funding (bank loans to nonfinancial firms and public equity) in Japan from 1984 to 2012. The corporate loan network (as changes in loan volume from individual banks to firms) provides measures of *direct* funding contagion risk and the public equity network (as links of significant cross-predictive return relationships between all company pairs) provides measures of *indirect* funding contagion risk. Analyzing the Japanese housing bubble in the late 1980s and early 1990s, we find its build-up to be well described by excessive lending from banks to nonfinancial firms but without any sign of predictive return components between bank-firm pairs. In busting times however, this pattern reverses with negative firm returns predicting negative bank returns in the future. Focusing on predictive factors only among bank return pairs, we moreover find strongly predictable components already prior to the burst of the bubble. When we decompose these results into common and idiosyncratic factors, predictive returns between banks and firms are mainly driven by large aggregate shocks, whereas predictive returns among banks contain contagious elements even after controlling for common shocks.

Keywords: systemic risk, funding networks, stock returns