Professor Kenichi Ueda: Abstract

The “zero-zero” loan policy in Japan provided loans with 100% loan guarantees and 100% reimbursement of interest payments to SMEs severely affected by COVID-19. This study analyzes lending behaviors of financial institutions to examine whether generous conditions of the loan policy led to the adverse selection and moral hazard problems. We conducted the questionnaire survey with Tokyo Shoko Research (TSR) and used the survey results for estimation. We found that financial institutions provided more loans to risky firms, and their lending behavior varied depending on the interest rates set by each prefecture. Our study points out potential problems due to the design of the policy and public loan guarantee system.