

Japan Finance Corporation (Account for SME Loan Programs and Securitization Support
Programs (Guarantee-type Operations))

https://www.jfc.go.jp/

1. Summary of operations implemented using FILP funds

The Japan Finance Corporation for Small and Medium Enterprise is supporting the small and medium sized enterprises that are expected to contribute to the invigoration of the nation's economy with their ample vitality and that are the chief players of the regional economies by operations including the constant provision of such long-term funds to facilitate the small and medium sized enterprise operators that are difficult to be sufficiently supplied by the private financial institutions.

2. Amount of lending under FY2021 FILP

(Unit: billion yen)

FY2021 FILP	Estimated outstanding amount of FILP lending at the end of FY2020
4,935.4	15,273.4

3. Estimated policy cost analysis of the project

(1) Policy cost (Unit: billion yen)

Category	FY2020	FY2021	Fluctuation
1. Government expenditure (subsidies, etc.)	74.5	107.9	+33.4
2. Government revenue (payments to the government, etc.)*1	-	-	-
3. Opportunity cost of capital investments, etc.	-65.4	477.6	+543.0
Total (1+2+3=policy cost(A))	9.1	585.5	+576.4
Analysis period (years)	21 years	21 years	-

(2) Breakdown of policy cost by the time of the provision of funds (Unit: billion yen)

Category	FY2020	FY2021	Fluctuation
(A) Policy cost (previously cited)	9.1	585.5	+576.4
1) Opportunity cost of capital investments, etc. provided before the beginning of the analysis period	107.2	313.4	+206.2
2) Policy cost expected to be newly accrued during the analysis period	-98.2	272.1	+370.3
Government expenditure (subsidies, etc.)	74.5	107.9	+33.4
Government revenue (payments to the government, etc.)*1	-	-	-
Opportunity cost of surplus, etc.	-173.8	164.0	+337.8
Opportunity cost of capital investments, etc.	1.2	0.2	-1.0

(5) Sensitivity analysis (cases where assumptions change)

(Unit: billion yen)

(A) Policy cost (previously cited)	Case before the negative interest rate policy*2	Fluctuation			
			1. Government expenditure (subsidies, etc.)	2. Government revenue (payments to the government, etc.)*1	3. Opportunity cost of capital investments, etc.
585.5	708.7	+123.2	-0.7	-	+123.9

(A) Policy cost (previously cited)	Case of a 1% increase in loan charge-offs	Fluctuation			
			1. Government expenditure (subsidies, etc.)	2. Government revenue (payments to the government, etc.)*1	3. Opportunity cost of capital investments, etc.
585.5	592.3	+6.8	-0.0	-	+6.8

(Note) Components in each column may not add up to the total because of rounding.

*1 Government revenue (payments to the government, etc.) is booked as a negative amount. Example: -10 b. yen for 10 b. yen in payments to government, etc.

*2 Assumed interest rates (discount factor and future interest rate) are based on the market yield on Japanese government bonds on January 28, 2016, before the introduction of the negative interest rate policy.

(3) Year-to-Year comparison analysis

(Computing any fluctuation from previous year)

(Unit: billion yen)

Policy cost		FY2020	FY2021	Simple fluctuation
		Simple comparison (before adjustment)	9.1	585.5
Past year comparison (after adjustment)	1) Adjusting initial years (Analysis results after adjusting initial year to that for FY2021 analysis)		2) Adjusting assumed interest rates (Analysis results of re-estimation using assumed interest rate for FY2020)	Real fluctuation (2-1)
		-0.7	173.6	+174.3

【Real fluctuation factor analysis】

○Factors behind policy cost increase

- Increase in cost due to increase in loan losses (+764.9 billion yen)
- Other factors (increase in clerical cost due to new loans, etc.) (+43.8 billion yen)

○Factors behind policy cost decrease

- Decrease in cost settled results in FY2019 and expected revision in FY2020 (-516.9 billion yen)
- Decrease in cost due to interest rate change for FY2021 loans (-114.1 billion yen)
- Decrease in cost due to decrease in prepayments (-3.4 billion yen)

(4) Breakdown of policy cost by causative factor (Unit: billion yen)

(A) Policy cost in FY2021 (previously cited)	585.5
1) Prepayments	167.4
2) Loan losses	881.6
3) Others (including profit spread)	-463.5

4. Outline of estimation and project prospect employed in the analysis

- 1) The estimation is made in respect to all projects subject to financing and securitization support.
- 2) The estimation is made on the assumption that financing is implemented based on the FY2021 business plan (6,240.0 billion yen) in addition to existing loan balance of 18,543.1 billion yen (estimated as of the end of FY2020).
- 3) The analysis period is supposed to be 21 years until the complete repayment of all loans made based on the FY2021 operation program as well as existing loans.
- 4) Prepayments are expected to account for 2.49% of outstanding loans at the beginning of the analysis period in and after FY2022. This ratio is the weighted average of the preceding 5 years (FY2015 - FY2019).
- 5) Loan loss provisions are projected at a level equivalent to 0.57% of the fiscal year-end loan balance in and after FY2022. This percentage represents the weighted average for the FY2015-2019 period.

(Unit:%)

FY	Result					Estimated 2020	Planned 2021	Assumptions for calculation 2022-2041
	2015	2016	2017	2018	2019			
Prepayment ratio	2.62	2.80	2.63	2.41	2.25	1.57	0.43	After FY2022 2.49
Loan loss provision ratio	0.48	0.33	0.44	0.71	0.96	1.31	0.96	After FY2022 0.57

5. Reasons for granting of subsidies, mechanism and underlying laws

[Reasons]

For the purpose of providing long-term business funds with low and fixed interest rates for small enterprises that find it difficult to receive loans from private financial institutions, financial assistance is received from the general account of the national treasury as compensation for income reduced by reducing the loan interest rate lower than the standard rates.

Moreover, for the purpose of promoting smooth special lending, financial assistance or subsidy is received from the Special Account for Energy Policy and the general account.

[Underlying laws and regulations]

- Subsidies, etc., have no legal base (they are budgetary measures)
- The Japan Finance Corporation Act (Act No. 57, May 25 2007) provides for capital investment (Article 4).

Article 4:

The Government may, when it finds it to be necessary, make contributions to JFC within the amount appropriated in the budget

- The Japan Finance Corporation Act provides for payment to national treasury (Article 47).

Article 47:

In the event that the amount of the surplus recorded in the settlement of accounts for each business year exceeds zero in each account related to the operations listed in each Item of Article 41 hereof, JFC shall accumulate, as a reserve, the amount calculated in accordance with the standards prescribed by a Cabinet Order, among such surplus, until it reaches the amount prescribed by the Cabinet Order, and if there is still a surplus, JFC shall pay the amount of such surplus into the National Treasury within three months after the end of such business year.

6. Special remarks

None

(Reference) Outcome and social and economic benefits of operations

1) Financing results

Total lending (FY2019)

Business funds 20 thousand cases 1,147.4 billion yen

Total lending (aggregate amount from FY 1953 to FY2019)

Business funds 2.88 mil. cases 88,325.3 billion yen

2) Economic contribution of the corporation's client companies

Total of the corporation's loan customers' corporate tax and the like account for 3% of the entire economy and 8% of small and medium enterprises.

	Entire loan customers (Note 1)	All domestic enterprises	% of Japan's economy
		All domestic small and medium enterprises (Note 3)	% of small and medium enterprises
Corporate tax, etc. (Note 2)	540.1 billion yen	18.3 trillion yen	3%
		6.4 trillion yen	8%

(Note 1) The amount are given by multiplying the average per client approved to be provided with loans in FY2019 by the number of the direct loan clients, 44,102 companies.

(Note 2) Other than corporate tax, this includes prefectural tax, municipal tax and business tax.

(Note 3) Small and medium enterprises are those capitalized at less than 100 million yen.

3) Economic effect from capital investment loans

(1) The finance corporation's capital investment loans for FY2019 were 547.3 billion yen. The total of capital investment utilizing these loans amounts to 987.2 billion yen (excluding land).

(2) The measurement of the ripple effect to Japan's economy based on this outcome indicates that it induced 2.0 trillion-yen worth of production and jobs for 103 thousand people within the country

4) Prevention of loss of employment by safety net loans

Safety net loans were provided to SMEs that suffer temporary setbacks in business conditions due to deterioration in the social or economic environment or other reasons or confront cash flow difficulties due to credit squeeze or the collapse of affiliated companies, contributing to the prevention of the loss of 170 thousand jobs (equivalent to 10% of the number of unemployed persons).

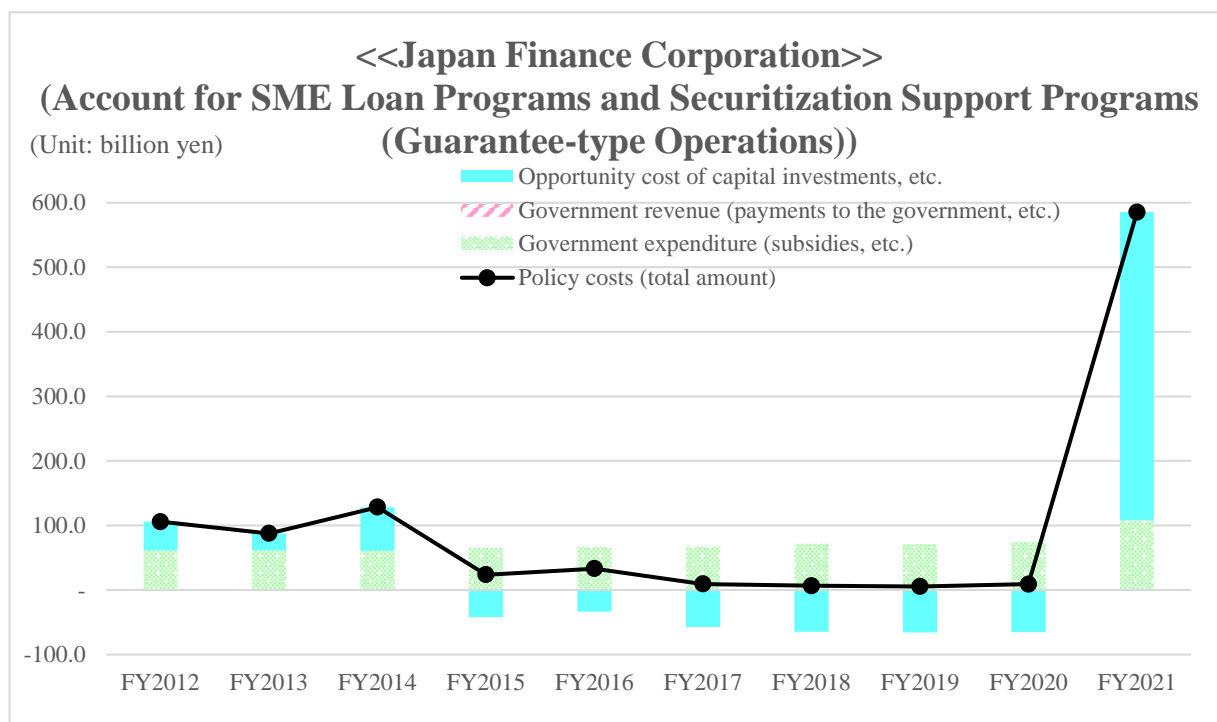
5) Number of public companies turned out

	Cumulative total	Cumulative total since 1989
Number of public companies	3,629 companies (100%)	2,403 companies (100%)
Number of these having past or present dealing with the finance corporation	676 companies (18.6%)	503 companies (20.9%)

Note: As of 31 March 2020, excluding agriculture/fisheries, finance/insurance and foreign companies.

Overview of policy cost analysis results

【Changes in policy costs】



Note: Policy costs for each fiscal year differ in assumptions including interest rates applied to estimates.

(Unit: billion yen)

	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Policy costs (total amount)	105.7	87.6	128.4	23.6	33.2	9.4	6.6	5.4	9.1	585.5
Government expenditure (subsidies, etc.)	61.3	61.1	60.9	65.4	66.7	66.6	71.6	71.1	74.5	107.9
Government revenue (payments to the government, etc.)	-	-	-	-	-	-	-	-	-	-
Opportunity cost of capital investments, etc.	44.4	26.5	67.5	-41.8	-33.5	-57.2	-65.0	-65.7	-65.4	477.6

【Explanation of policy cost trends】

- From FY2016 to FY2019, policy costs have followed a downtrend due to such factors as a decrease in the opportunity cost of capital investments from the Government through assumed interest rate changes.
- In FY2021, the policy cost increased due to the impact of the receipt of capital investments from the government for COVID-19 control measures.

【FILP agency's self-assessment of policy cost analysis results (FY2021)】

- In the basic case, the policy cost increased due to a significant rise in opportunity cost of capital investments, etc. received in order to provide various policy loans, including safety net and disaster relief policy loans, such as loans for COVID-19 control measures, but these expenses are essential for implementing operations.
- The results of the sensitivity analysis (case before the negative interest rate policy) showed an increase of 123.2 billion yen in the policy cost compared with the basic case. This is attributable to an increase in opportunity cost of capital investments, etc. due to a rise in the assumed interest rate.
- The results of the sensitivity analysis (case of a 1% increase in loan charge-offs) showed an increase of 6.8 billion yen in the policy cost compared with the basic case. This is attributable to an increase in cumulative deficits due to a rise in loan losses.

