Development Bank of Japan

Full-scale privatization further postponed by coronavirus

- Full privatization of DBJ on hold indefinitely in order to provide crisis response financing; further postponement likely as DBJ now supporting businesses in dire straits due to coronavirus
- Full privatization also shelved while DBJ conducts special investment ops
- See continued issuance of 40yr government-guaranteed bonds as proof government unwilling to pursue full privatization any time soon

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Full-scale privatization of the Development Bank of Japan (DBJ) remains on hold indefinitely so that it can continue providing crisis response financing. DBJ is providing such financing to businesses that have fallen into dire straits due to the coronavirus outbreak. As such, we think the likelihood of full-scale privatization has been further pushed back. In addition, full-scale privatization has also been shelved while DBJ conducts its Special Investment Operations. Furthermore, we see DBJ’s continued issuance of 40-year government-guaranteed bonds as evidence that the government is unwilling to pursue full-scale privatization any time soon.

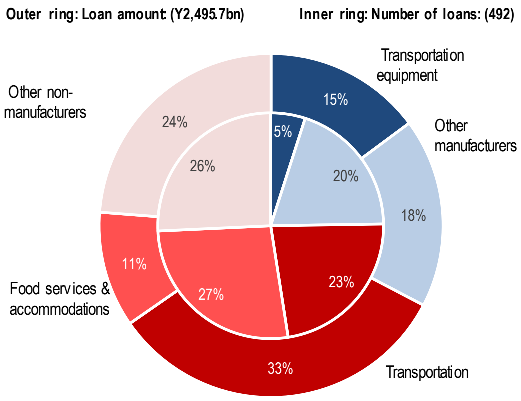
Full-scale privatization on hold indefinitely to provide crisis response financing

The administration of former Prime Minister Junichiro Koizumi made a top-down Cabinet decision in 2005 to fully privatize DBJ. However, since that time Japan has confronted various upheavals such as the Lehman shock and the Great East Japan Earthquake, which reaffirmed the need for DBJ crisis response financing to support businesses that have fallen into dire straits. The government is currently obligated to hold more than one-third of DBJ's shares "for the time being" so that the bank can properly carry out its crisis response financing. The legal term “for the time being” does not mean “for a short time,” but rather means “without a fixed term.” As such, full-scale privatization has been put on hold indefinitely.

Crisis response financing supports sectors hit by adverse effects of coronavirus

The government also approved the use of crisis response financing to address the novel coronavirus outbreak. Cumulative loans provided by DBJ as of end-FY21 came to roughly Y2.5tn. Sectors negatively impacted by the pandemic, such as transportation equipment, transportation, and food services & accommodations accounted for large percentages of the lending amount and number of loans (Chart 1). This time, as well, DBJ has provided support to businesses that fell into dire straits.

Chart 1: Breakdown of DBJ’s Coronavirus Crisis Response Financing by Sector (total as of end-FY21)



Source: DBJ materials; compiled by Daiwa Securities.

Full privatization also shelved while DBJ conducts special investment ops

Furthermore, as long as DBJ conducts its Special Investment Operations, the government is obligated to hold at least half of all DBJ shares, which means that full-scale privatization has been put on hold for now. Special Investment Operations are a scheme in which DBJ provides the private sector with capital funds, such as preferred shares and subordinated loans, as growth capital. Half of the funds for these operations come from the government with the other half coming from DBJ's own resources.

Implementation period extended five years due to strong demand for funds

Certain time limits have been set for these Special Investment Operations. Specifically, deadlines for both the DBJ's investment decision term and the government's financing term were set at end-FY20, while the deadline for operations overall was set at end-FY25. However, new loans and investments provided by DBJ's Special Investment Operations amounted to about Y931.5bn as of end-FY20, nearly double the target of Y500bn. There have also been requests from the private sector to continue these operations. As such, these deadlines were all extended by five years. Our focus is now on future funding needs.

Does continued 40yr government-guaranteed bond issuance suggests unwillingness to pursue full privatization?

Moreover, since FY19 (before coronavirus outbreak), DBJ has continued to issue 40-year government-guaranteed bonds. If DBJ is fully privatized and, as such, no longer directly supervised by the government, it could choose to default on its obligations at its own discretion if its business deteriorated. The government would be obligated to fulfill those guarantees, which would create a financial burden. Since government-guaranteed bonds are held by investors, they cannot be redeemed ahead of schedule when DBJ is fully privatized. As long as the government does not fully privatize DBJ, it can continue supervising the bank to ensure that its finances remain sound. We can probably infer that the DBJ's continued issuance of 40-year government-guaranteed bonds is evidence of the government's unwillingness to pursue full-scale privatization any time soon.

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