

Bank Supply Shocks and Firm Investment: Commentary

Prepared by TMB Analytics
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Main research questions:

- Does finance matter for real economic activity?

Findings :

- Firm level
 - **Bank supply shocks matter for firm investment** activities after controlling for firms' balance sheet positions especially firms that rely more on bank loan or have single bank relationship.
 - **Firms' ability to acquire new loan from other banks** helps mitigate effect of bank supply shocks on investment.
 - The size and dynamic of bank shocks appear to differ between **healthy vs unhealthy and small vs large firms.**
- Aggregate level
 - Bank shock has a significant impact on aggregate loan growth and investment growth.

1 Cross-holding Effect

Firm shock analysis should take into account firms' cross holding structure as well.

2 Good VS Bad Firms

Ability to switch bank does not always imply positivity: hidden-state ?

3 Untapped Firms

About 70% of firms are non-juristic, non-negligible

4 Inclusion of SMEs

Investment Inequality?

Top 5% of Firms Contains 95% of Total Fixed Assets

Total Revenue: Registered Firms



SE 3.3 tn. baht
13 tn. baht (incl. Owners/Operators)

BB 7 tn. baht

WBG 28 tn. baht

Number of Registered Firms



SE 341,000 firms

BB 24,000 firms

WBG 4,000 firms

Source: DSS, OSMEP and TMB Analytics

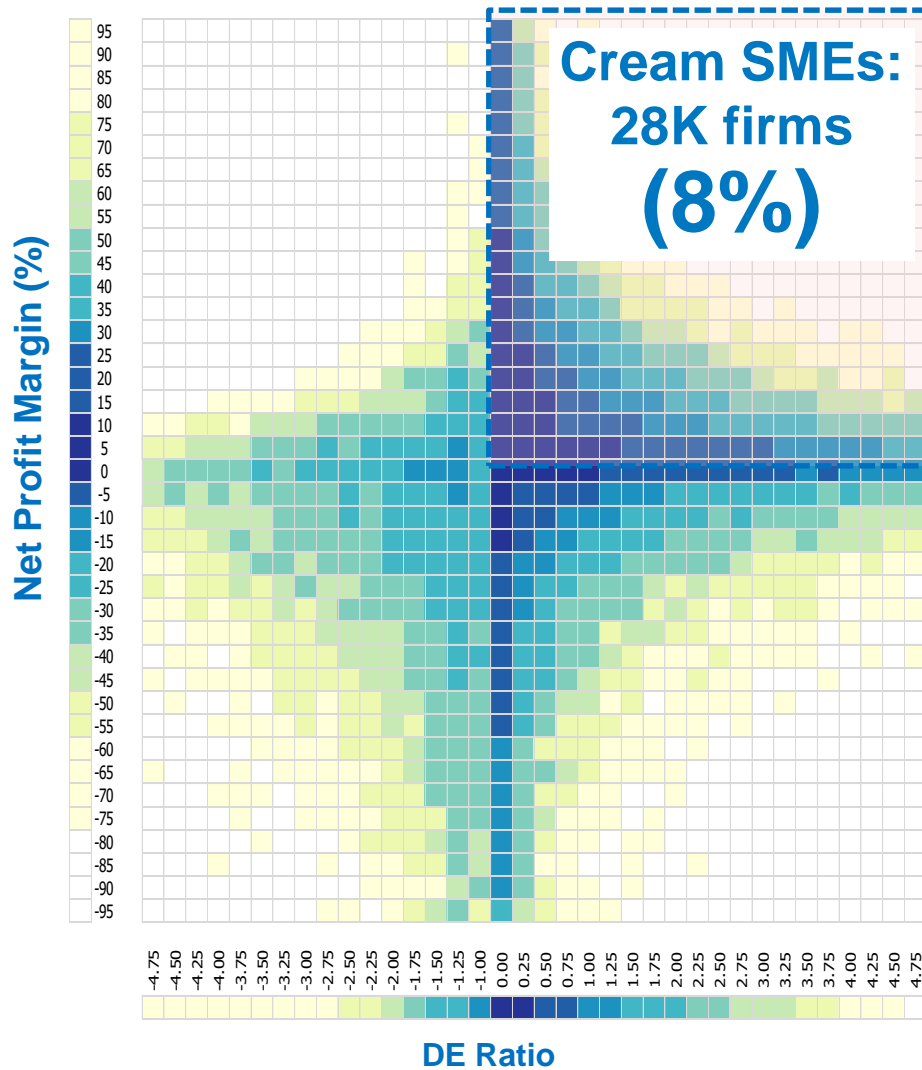
Employment



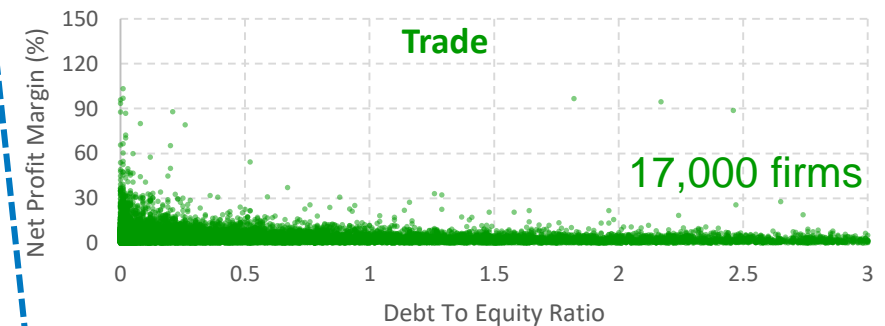
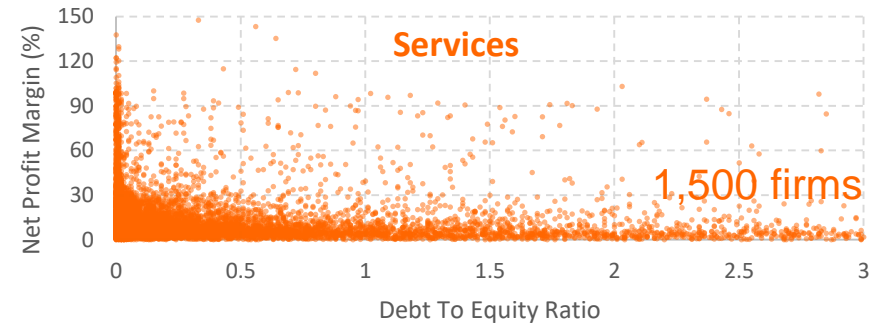
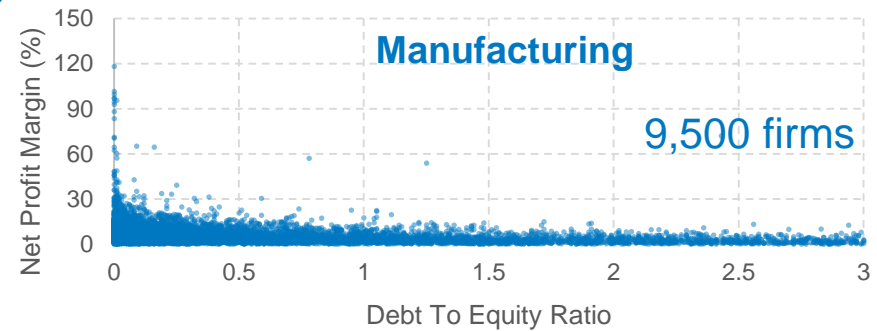
Only 8% of SMEs Are Cream

Juristic SMEs: 350K+ firms

Cream SMEs:
28K firms
(8%)



Services Have Higher Net Profit Margin



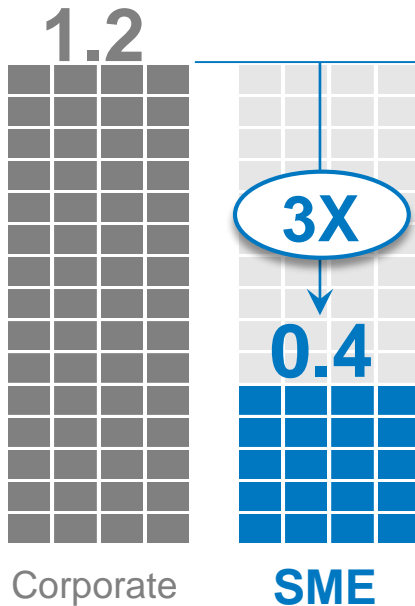
Triple L that 'Cripples' Thai SME

Lower Financial Access

Debt-to-Equity Ratio



DE Ratio (Times)



SMEs' leverage (DE Ratio) is 3 times less than Corporates due to the lack of financial access.

Longer Conversion Cycle

Days Cash Conversion Cycle



Cash Conversion Cycle (Days)



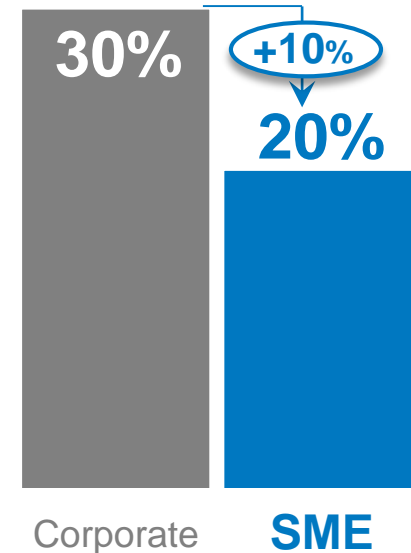
SMEs take 1.5 times longer than Corporates to convert their raw materials into cash because of small bargaining power, and less efficient inventory management.

Lower Fixed Assets

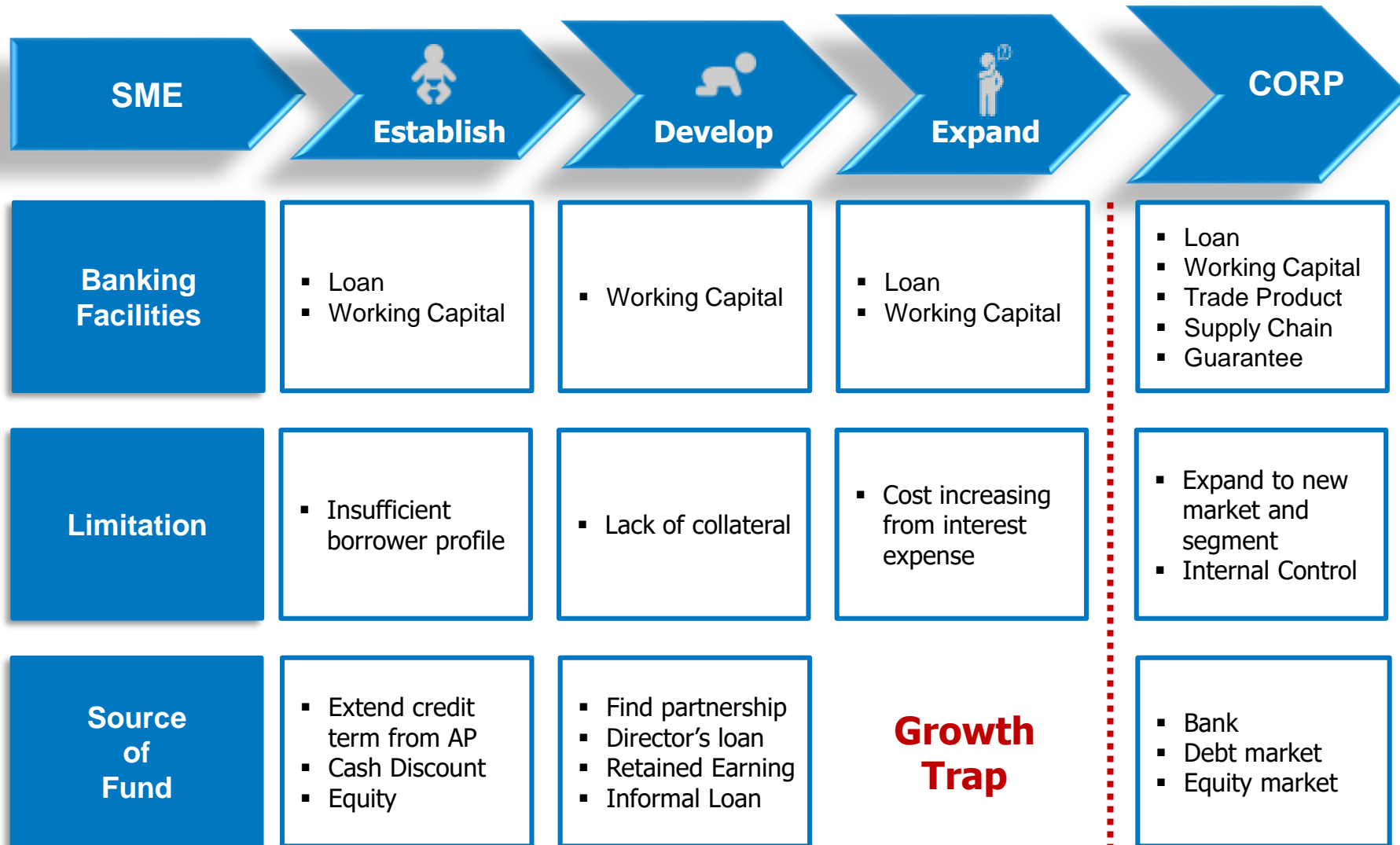
Fixed Assets



Fixed Assets/Total Assets (%)

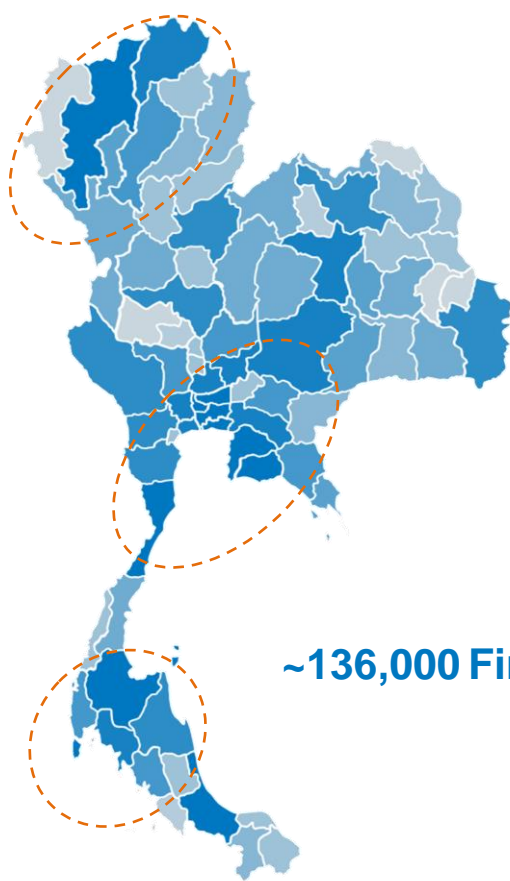


SMEs have a lower portion of fixed assets. Hence, lack of fixed assets is a major hurdle to have collaterals in getting loan.



Distribution of Business Activities by Location

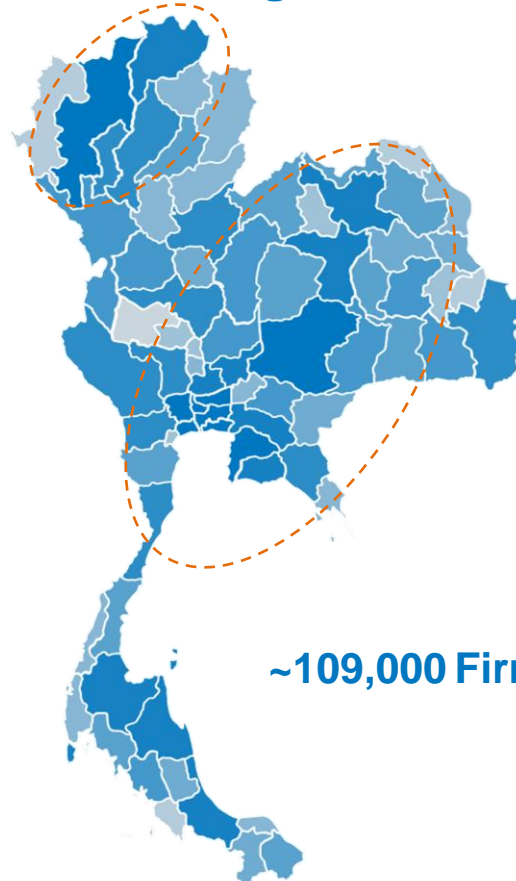
Services



~136,000 Firms

Majority of SMEs are service businesses with locations in major cities.

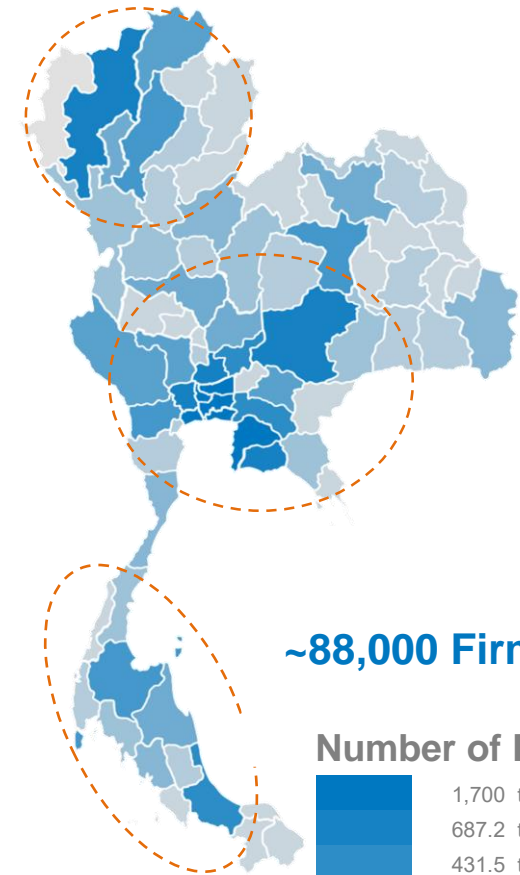
Trading



~109,000 Firms

Trading SMEs are more evenly distributed across country

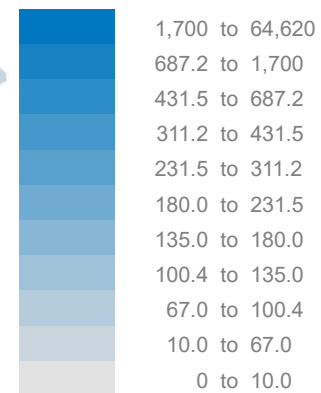
Manufacturing



~88,000 Firms

Manufacturing SMEs are concentrated around major urban provinces.

Number of Firms



Net Profit Margin

