

Bank Supply Shocks and Firm Investment: Commentary

Prepared by TMB Analytics

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Introduction



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.

Further Suggestions



Cross-holding Effect

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

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

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 (incld. 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



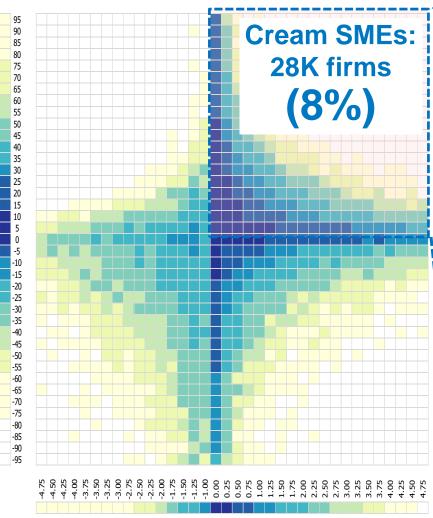
Landscape of Thai SME: Glimpse Into Firm Level Characters



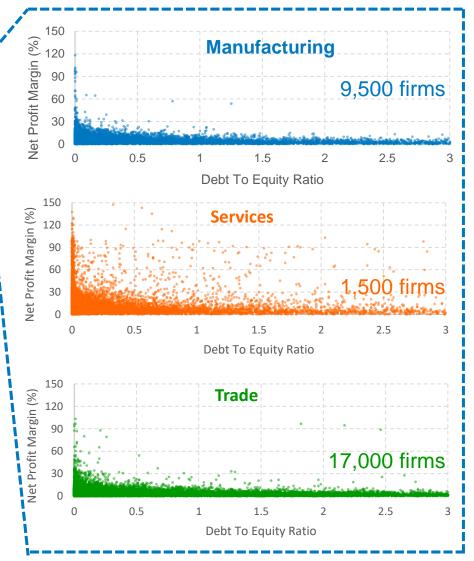


Only 8% of SMEs Are Cream

Juristic SMEs: 350K+ firms



Services Have Higher Net Profit Margin



Triple L that 'Cripples' Thai SME



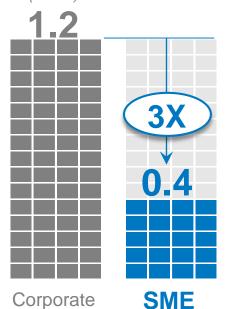
Lower Financial Access

Debt-to-Equity Ratio





DE Ratio (Times)



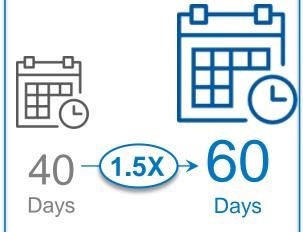
SMEs' leverage (DE Ratio) is 3 times less than Corporates due to the lack of financial access.

Longer Conversion Cycle

Days Cash Conversion Cycle



Cash Conversion Cycle (Days)



Corporate

SME

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





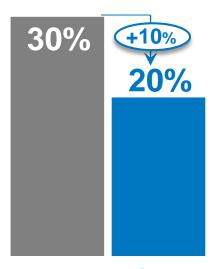


Lands

Buildings

Machines

Fixed Assets/Total Assets (%)



Corporate

SME

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

Source: DSS and TMB Analytics

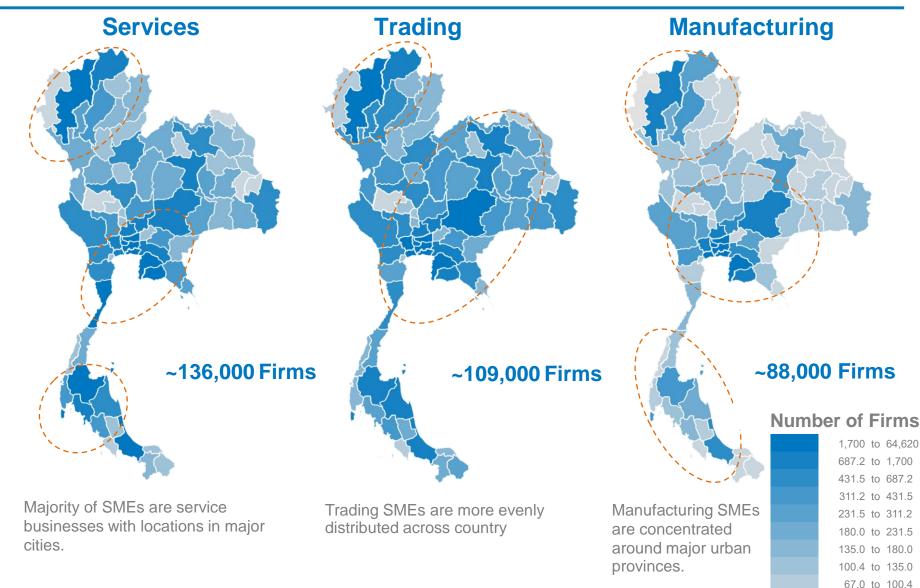


CORP SME **Establish** Develop **Expand** Loan Working Capital **Banking** Loan Loan Working Capital Trade Product **Facilities** Working Capital Working Capital Supply Chain Guarantee Expand to new Cost increasing Insufficient market and Limitation Lack of collateral from interest borrower profile segment expense Internal Control Extend credit Find partnership Source Bank **Growth** term from AP Director's loan of Debt market Cash Discount Retained Earning Trap Equity market **Fund** Equity Informal Loan

Distribution of Business Activities by Location



10.0 to 67.0 0 to 10.0

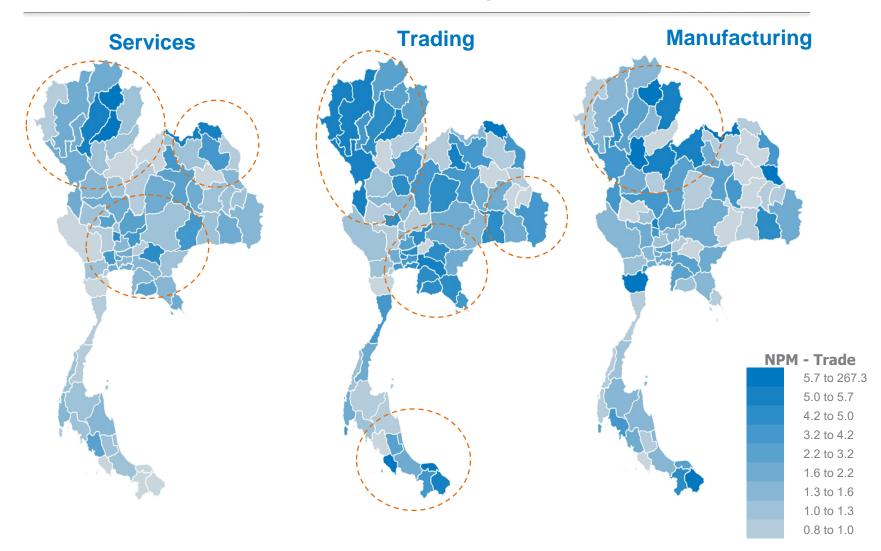


Source: DSS and TMB Analytics -8-



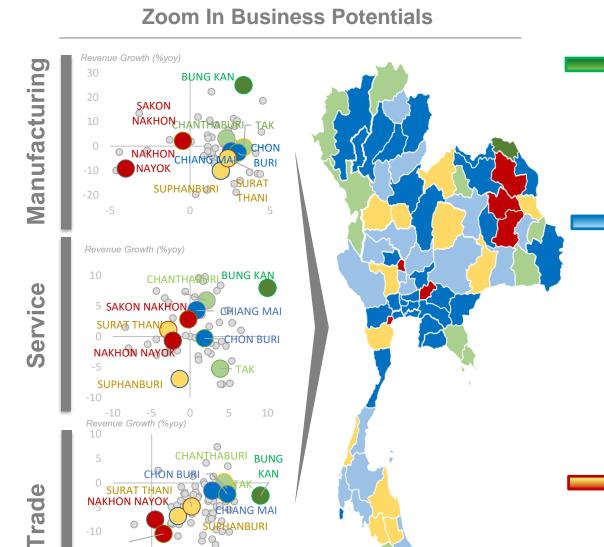


Net Profit Margin



Regional SME Businesses : Different Potentials, Different Needs TMB





CHIANG MAI

Net Profit Margin (%)

UPHANBURI

-1.0-0.5 0.0 0.5 1.0 1.5 2.0 2.5 3.0

Groups

Potential

Border Trade Tourism

Matured

Urbanization Infrastructure Manufacturing Hub Logistic Hub

High Population

Challenged

Agricultural-Based Passage Way Low Population

Needs





Industry 4.0



Productivity Enhancement



Government Support

Source: DSS and TMB Analytics

-SAKON NAKHON