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**The Effect of Bank Competition on Firm Entry, Growth, and Exit:
Evidence from Japanese Industry Data**

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Abstract

This paper empirically investigates the effects of bank competition in the financial sector on the creation, growth, and destruction of establishments in the local Japanese market. It is found that concentration in the banking sector negatively (positively) affects the creation (destruction) and average size of establishments in industries that have greater dependence on external financing and a greater value of intangible fixed assets. These results suggest that in concentrated banking markets, potential entrants are more likely to face difficulty in obtaining credits, less likely to grow, and more likely to exit as compared with competitive banking markets.

Keywords: Bank Market Power, Small Business Financing, Asymmetric Information, Firm Dynamics

JEL Classification: D4, G21, L11