

Japan's banking crisis 1991

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Banking crisis from 1991 - 2005

- One of the main cause was the bursting of the asset price bubble in the period of late 1980s to early 1990s.
- Bank loans were overextended particularly in risky areas with inadequate supervision and regulation over banks during bubble period. (loan portfolios were concentrated in property related business)

What did stimulate crisis?

Table 1
The bad loans problem as of March 1998

	Top 20	Regional	Shinkin banks	Credit cooperatives
Number of banks	20	128	401	351
Total assets	747	265	111	23
Problem loans ¹	50.2	21.6	10.1	2.5
As a percentage of loans	11.1	11.0	13.6	16.6
Required loss provisions ²	11.2	4.3	1.9	0.6
Hidden reserves	2.7	2.6	0.6	0
Capital	13.6	9.4	5.1	0.5
Operating profits ³	3.6	1.9	0.8	0.2

¹ Category II+III loans by self-assessment. ² 16.7% of Category II loans+75.3% of Category III loans. ³ In fiscal 1997.

Factors

- Banks were allowed to hold common stock on their balance sheet and had accumulated sizable unrealized capital gains, boosting their capital base. The decline of their capital base damaged banks ability to extend loans and take risks.

Figure 2
The rate of change in Japanese land prices



