



Japanese Market Overview & the Crisis of the 1990s

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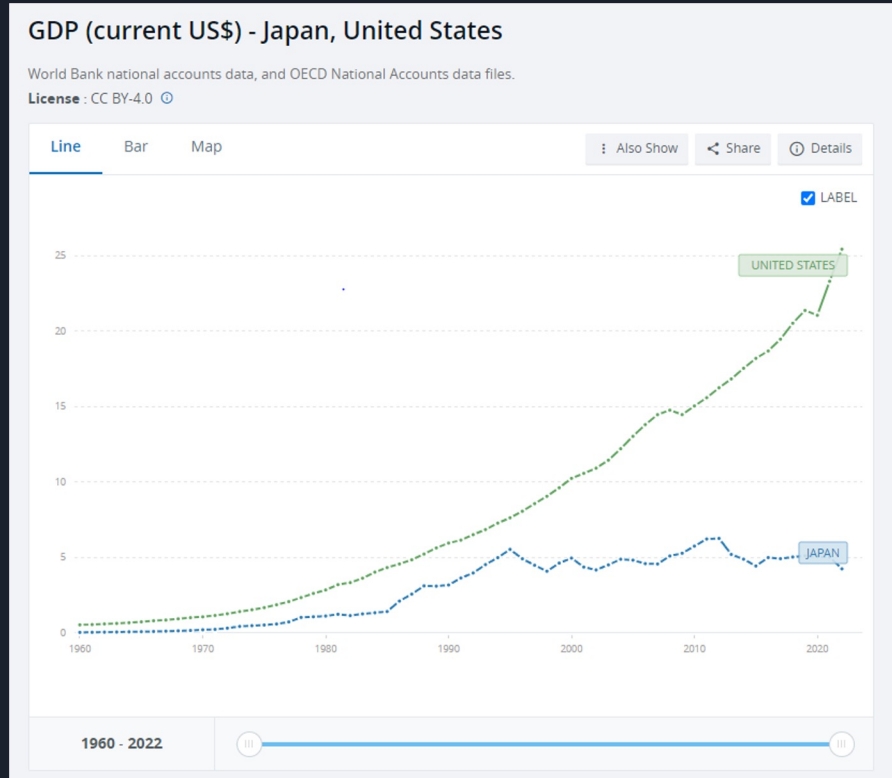


Introduction

- One of the worlds largest and fastest growing economies
- Economy is characterized as highly diversified: focus on manufacturing/service
- Large producer of cars, steel, high-technology goods (e.g. consumer electronics)
- A major trading partner (TPP, U.S.-Japan Trade Agreement, EU-Japan Economic Partnership)
- Political factors
- Significant growth but not without its challenges (aging pop., declining pop.)

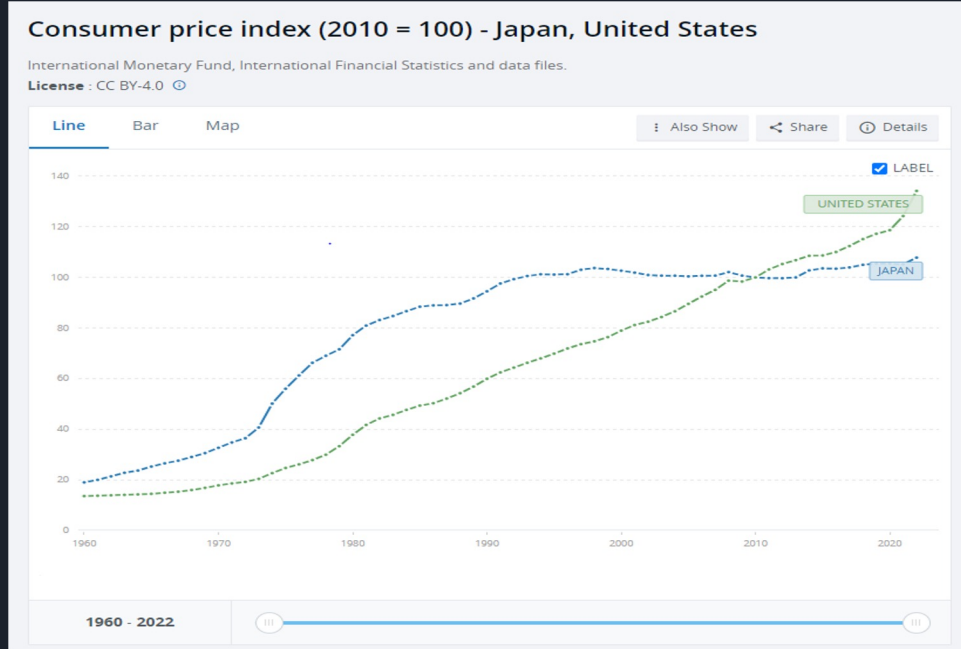
Economic Data Overview

- GDP ranks one of the highest globally
- Economy size compared to U.S.
- Contribute significantly to global trade
- CPI, Account Balance, & Exchange Rate
- Notably the economy has had negative growth recently due to internal factors



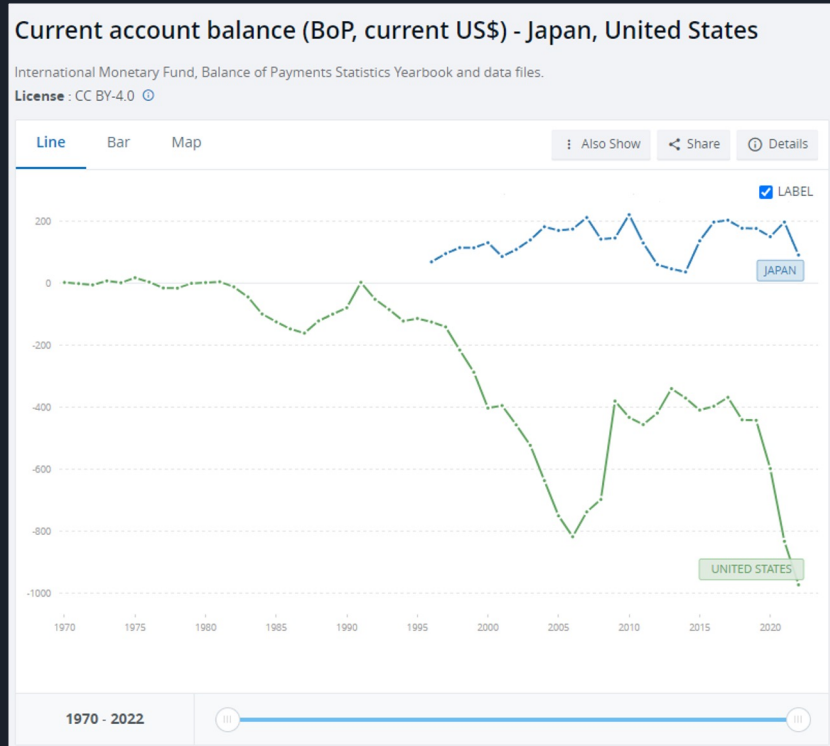
CPI

- Has been a problem in the past
- Monetary policy and initiatives driving inflation down
- 2.5% in 2022 compared to 8% in U.S.
- Was equal in 2010 but U.S. is worse off



Account Balance

- Surplus of \$90 billion vs U.S. deficit of -\$970 billion
- Diversified economy could lead to this: exporting cars/consumer electronics
- Manufacturing in Japan vs Service sector in U.S.



Exchange Rate

- Depreciating for years, gone up slightly
- The “Lost Decade” caused significant depreciation
- To prevent this from happening again the Japanese government implemented monetary stimulus and structural reform In hope to revive the yen

Official exchange rate (LCU per US\$, period average) - Japan, United States

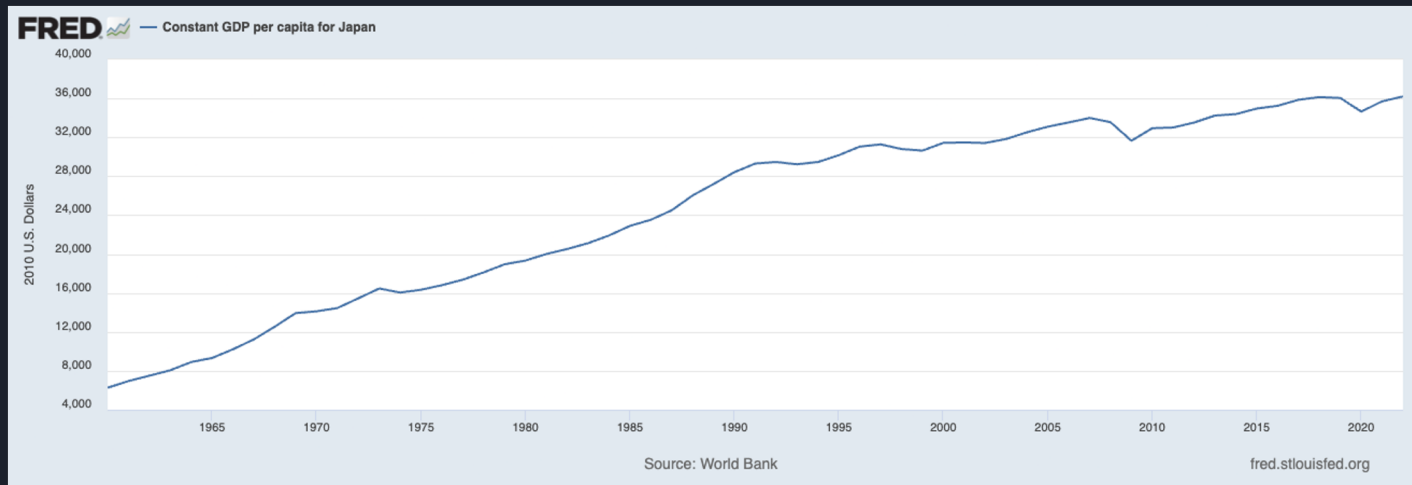
International Monetary Fund, International Financial Statistics.

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A Time of Prosperity

- After being defeated and controlled by the United States following World War II, Japan experienced unprecedented growth during the second half of the 20th century
 - Dubbed the “Japanese Economic Miracle”
- This era of growth swiftly ended at the beginning of the 1990’s, when an asset price bubble popped, crippling the economy.

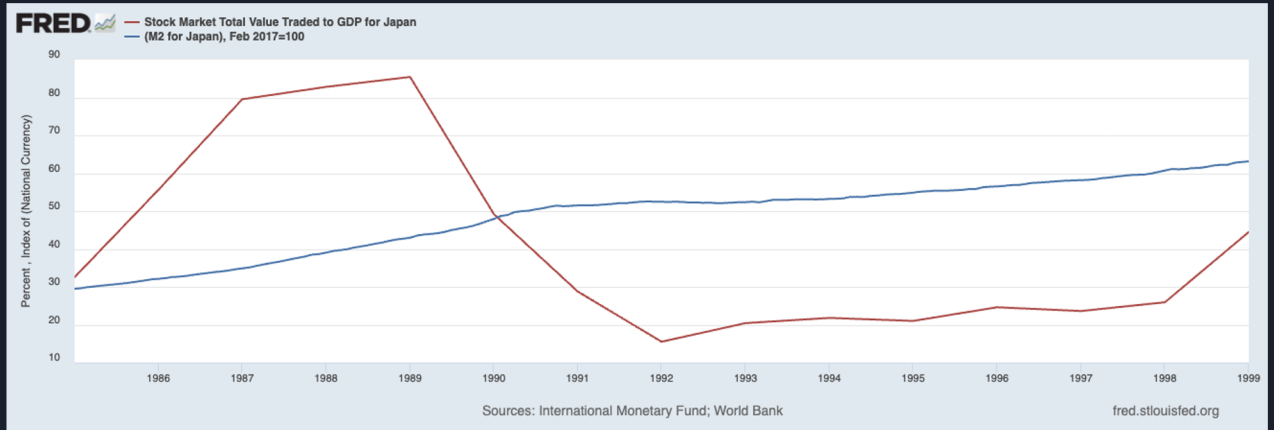
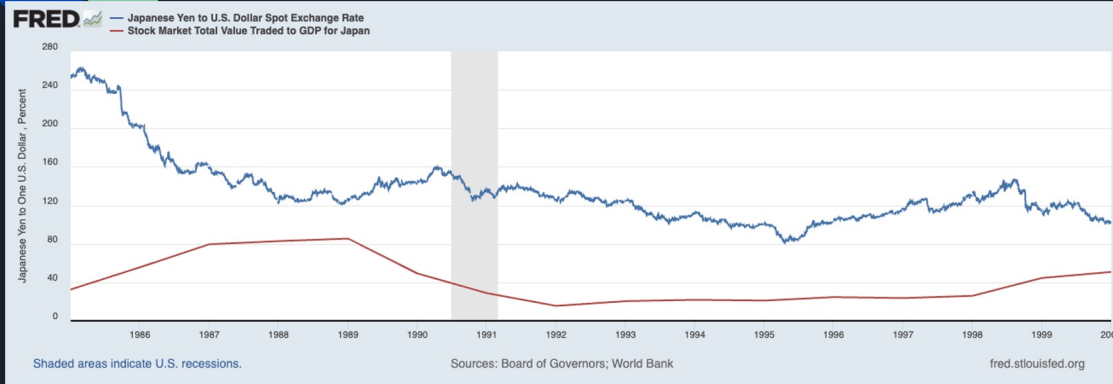




Forming the Bubble

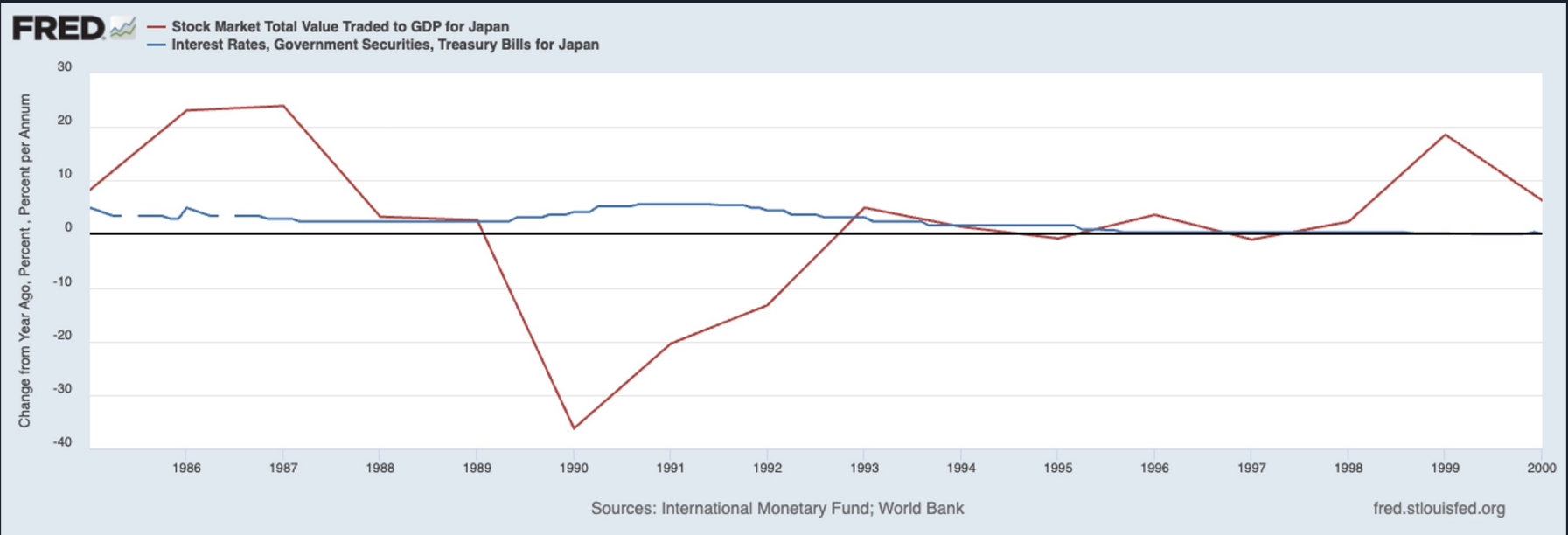
- During the 1980's, the Bank of Japan (Japan's central bank) was lending irresponsibly and with little regard for the quality of the borrower.
 - The 1980s saw significant capital market deregulation and a relaxed control of interest rates, meaning more loans to consumers, the real estate industry, and small/medium-sized companies
- To make it worse, the Yen was rising in value during the late 1980's, and Japanese authorities responded by "flood[ing] the market with liquidity (money)" (Nanto 3). Excess liquidity seeped into the stock market and real estate industry, contributing to the inflation of the asset bubble.

Uh Oh, Something Bad is Going to Happen



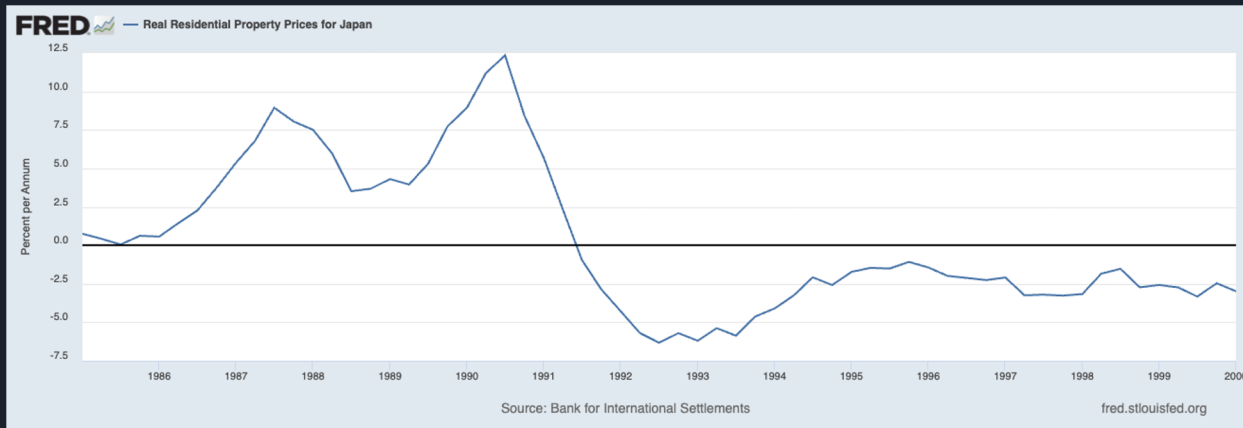
Pop!

- Attempting to keep inflation in check and lower speculation, the Bank of Japan steeply raised interest rates in 1989. This burst the bubble, and the over-valued stock market crashed in 1990.



Land Prices

- “To contain the continued rise in land prices, the Ministry of Finance (MOF) introduced, in April 1990, guidelines limiting total bank lending to the real estate sector... This move contributed to the leveling off of Japanese banks’ asset growth, with total bank assets declining from 508 trillion yen in 1989 to about 491 trillion yen in 1990. In 1992, officially monitored land prices started to decline” (Woo and Kanaya 8).



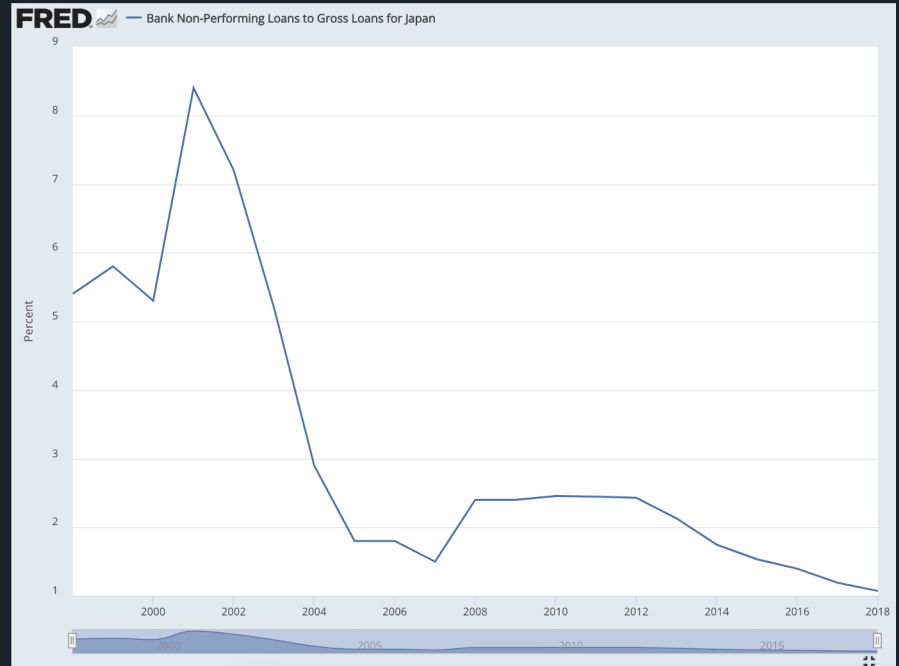


Immediate Effects on National Economy

- Most property prices had fallen by half, and real estate holders' loans dramatically fell in quality.
- Therefore, the collateral that banks had been prioritizing for loan requirements fell.
- The final nail in the coffin was that the subsequent slowdown of economic growth disabled creditors from being able to pay back their loans.
- What began as a banking crisis quickly spread to all sectors of the Japanese economy- commercial real estate companies shut down because of drastically declining rents, growth rates fell, and companies were faced with declining profits. Fortunately for Japan, most mortgage defaults were commercial properties and not private residences.

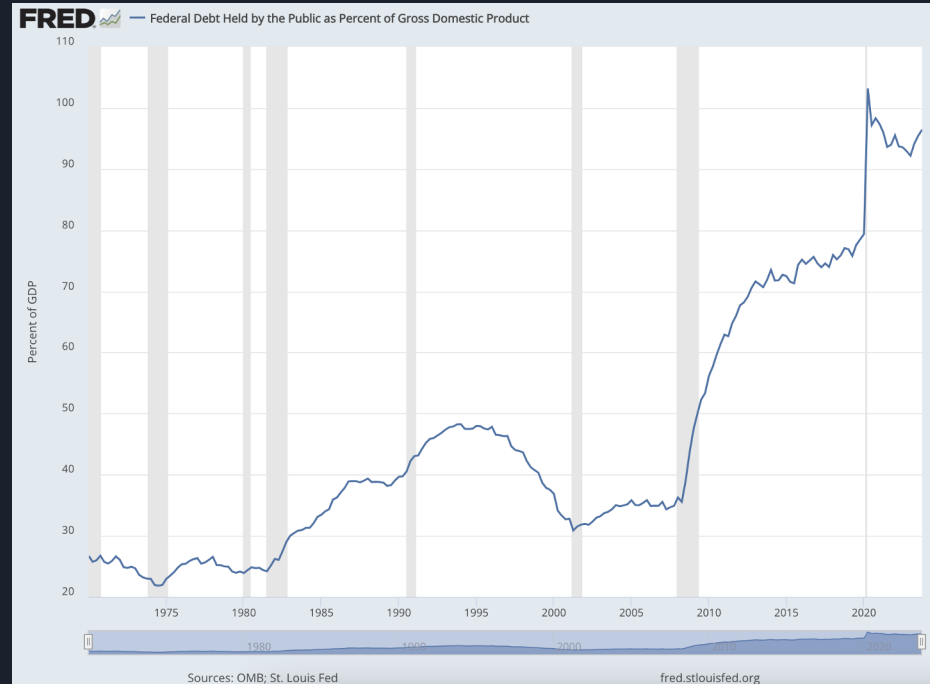
Rescue & Recovery Efforts

- Monetary Policy:
 - Zero Interest Rate Policy (ZIRP) adopted to stimulate investment
 - Bank of Japan faced limitations due to a liquidity trap
- Direct Intervention:
 - Cooperative Credit Purchasing Company was established to address non-performing loans
 - Banks sold 1.3 trillion yen of non-performing loans to the CCPC in 1993
- Capital Injections:
 - Japanese government injected \$108 billion into banks in 1997
 - Purchased the Long-Term Credit Bank and Nippon Credit Bank in 1998
 - Additional injections of \$14 billion in 1998 and \$62.6 billion in 1999



Insight into Japan's Economic Strategies

- Fiscal Stimulus Packages:
 - Multiple packages released between 1992-1995 to boost the economy
 - Aimed to compensate for reduced bank lending and spending
- Economic Impact:
 - Temporarily alleviated but ultimately increased public debt
 - Debt-to-GDP ratio rose sharply from 47% in 1990 to 106% in 2000



Conclusion

- Effectiveness of Policies:
 - ZIRP had a limited impact due to the liquidity trap
 - Fiscal and direct intervention offered short term relief but ultimately escalated debt
- Long-term Implications:
 - Japan's lost decade highlights the delicate balance with crisis management
 - Offers lessons on the relationship between economic stimulus and fiscal health





Main Sources

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