Further moves from the government

Government

In 1998 the financial crisis had worsened and this prompted further moves from the government. The government deemed it necessary to create a new agency, the Financial Supervisory Agency (FSA), to take over the supervision of the banks from the MoF. The Financial Revitalisation Law and the Financial Early Strengthening Law were also passed in 1998. These new laws meant the FSA could take corrective action earlier by putting in place special public management or even putting the bank under temporary nationalisation.

The same round of reforms saw the Resolution and Collection Bank merged with the Housing Loan Administration Corporation (the institution set up to handle the jusen crisis) to create the Resolution and Collection Corporation. This new branch of the FSA had it role broadened now allowing it to purchase the bad loans from not only banks in administration but also from solvent banks. March of the same year came the first of two capital injections to the banks system.

Under this scheme banks could subscribe for capital injection from the DIC. The DIC facilitated the injection by purchasing either preferred stock or subordinated debt. However under pressure to not show signs of weakness most banks, even the weaker ones, followed the lead of the Bank of Tokyo-Mitsubishi (the then head of the Tokyo Bankers' Association) and only applied for i?? 100 billion. The March 1999 subscription had a total of four times that applied for a year earlier (7. 5 trillion). This time banks applied for amounts better reflecting their true financial position. In order to qualify for the subscription banks were required to submit a restructuring plan to the FRC (Kanaya and Woo 2000). If the FSA deemed that banks were not meeting the targets set out in the restructuring strategy then they had the right to convert the preferred stock into ordinary stock in order to assume greater control over the governance of the bank.

The final reform to be considered is the approval, by the FRC, of the sale of Long Term Credit Bank of Japan to Ripplewood Holdings (a US firm). This was a very significant development as it was the first overseas acquisition of a major Japanese bank. By setting this precedent the FRC were not only opening up Japan's banking sector to significant overseas investment but also signalling Japan's move toward modern banking practices. It has not been within the scope of this essay to identify and discuss all the measures taken by the Japanese authorities.

However, having identified the problems faced by Japan's banks in the 1990s and the background to the crashes of the property and stock markets, it is the view of this essay that Japan's policy of forbearance and lack of adequate planning for the effects of deregulation contributed to the both the severity and length of the ensuing crisis. While many of the measures put in place demonstrated positive results the unwillingness of the authorities to step in earlier meant that these were reactive, the introduction of PCA being a prime example, rather than preventative measures. Read about a ll the wrong moves

Acultureof self preservation and inadequate reporting/inspection policies coupled with a financial sector divorced from the rest of the world only further compounded the failings of the Japanese authorities to act earlier. In closing, many lessons can leant from the Japanese crisis and it is theresponsibilityof financial authorities in all countries to realise the importance of prompt proactive action to not only to prevent financial downturn becoming a crisis but to prevent the over inflation of domestic assets to a point where a crash is the inevitable next step.