

## A Financial System Perspective on Japan's Experience in the Late 1980s

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### Abstract

This paper revisits the events of the 1980s bubble in Japan in light of the lessons learned from the subprime crisis in the United States. Our focus is on the role played by sectoral developments in the financial system in Japan. We highlight the transformation of a subset of non-financial firms (the large manufacturing firms) from being net debtors to the banks to becoming net creditors to the banks, thereby becoming part of the financial intermediary sector. In this way, large manufacturing firms in Japan played the role of surrogate wholesale banks that increased the overall supply of credit to the economy. When good borrowers already had credit and yet loose monetary conditions encouraged greater credit supply, credit availability to marginal borrowers and to real estate-related sectors increased. We discuss the role of market conditions and monetary policy in this development.

**Keywords:** Balance sheet; Commitment; Credit supply; Financial liberalization; Financial system perspective; Japan; Subprime crisis

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