

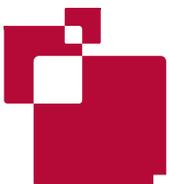
# THE EFFORT TO STABILISE THE FINANCIAL SYSTEM IN JAPAN: AN OUTLINE AND THE CHARACTERISTICS OF THE PROGRAMME FOR FINANCIAL REVIVAL

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## Highlights

- This paper provides an overview of the Programme for Financial Revival announced in October 2002 in Japan. The programme aimed to dramatically reduce the large amount of non-performing loans that remained until the end of the 1990s. In addition to solving the problem of bad loans, the Programme for Financial Revival aimed to build a strong financial system. For this purpose, the programme comprised three pillars: 1) creation of a new framework for the financial system, 2) creation of a new framework for corporate revitalisation, and 3) creation of a new framework for financial administration. The Japanese experience suggests that despite its delayed introduction, this programme may be considered successful in going some way to drastically reduce non-performing loans and stabilise the financial system. Japan's financial problems and their resolution since the 1990s provide a number of lessons for other economies, particularly for Europe in relation to the difficulties over the euro.

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## 1 Introduction

The Japanese economy, which began to deteriorate after the collapse of the economic bubble in the early 1990s, has been stagnant throughout the decade. Though various reasons exist for the prolonged stagnation, the most fundamental problem involved a delay in the disposal of bad loans. The build-up of bad loans began to have a negative effect on banks, which was particularly striking in leading financial institutions.

Formed in September 2002, the Koizumi Cabinet prioritised the disposal of these bad loans. Hakuo Yanagisawa, the Financial Affairs Minister, was dismissed because the Financial Services Agency made no progress in solving the bad-loans problem under his supervision. As part of the first cabinet reshuffle, he was replaced by Heizo Takenaka, who also held the position of Minister for Economic and Fiscal Policy. On 30 October 2002, the government announced the Programme for Financial Revival, one pillar of the emergency economic measures in response to deflation. This programme served as an important feature of the financial administration until the end of 2004. The following sections provides an overview of this programme and a broad picture of the decisive measures used to stabilise Japan's financial system.

Table 1 on the next page summarises the chronology of the programme to stabilise Japan's financial system from 1994 to 2006.

**Table 1: Programme to stabilise Japan's financial system, 1994–2006**

Year	Month	Event
1994	12	Bankruptcy of Tokyo Kyowa Credit Union and Anzen Credit Union Establishment of Tokyo Kyodo Bank as an aid agency
1995	8	Bankruptcy of Cosmo Credit Union and Kizu Credit Union
	8	Bankruptcy of Hyogo Bank Establishment of Midori Bank as a receiver
	12	Public funds (685 billion yen) infused into seven housing companies
1996	6	Payoffs frozen (all deposits guaranteed)
	9	Tokyo Kyodo Bank reorganises as the Resolution and Collection Bank.
	11	Bankruptcy of Hanwa Bank
1997	10	Merger of Fukutoku Bank and Naniwa Bank into Namihaya Bank
	11	Bankruptcy of Hokkaido Takushoku Bank Voluntary closure of Yamaichi Securities
1998	3	Recapitalisation based on the former Stabilisation Act (21 banks for a total of 1.8156 trillion yen)
	6	Creation of the Financial Supervisory Agency
	10	Enactment of Financial Revitalisation Act (to process bankruptcies) Enactment of Early Financial Correction Law (for recapitalisation using public funds) Temporary nationalisation of Long-Term Credit Bank
	12	Temporary nationalisation of Nippon Credit Bank
1999	3	Leading 15 banks recapitalised using public funds (7.4593 trillion yen)
	4	Creation of the Resolution and Collection Corporation (RCC)
	5	Bankruptcy of Kokumin Bank and Kokufuku Bank
	6	Bankruptcy of Tokyo Kyowa Bank
	8	Bankruptcy of Namihaya Bank
	10	Bankruptcy of Niigata Chuo Bank
2000	7	Creation of the Financial Services Agency
2001	4	Enactment of the Deposit Insurance Acts
	6	Basic plan for rapid disposal of bad loans proposed by Koizumi cabinet
	12	Bankruptcy of Ishikawa Bank and Chubu Bank
2002	1	Establishment of Bank Equity Purchasing Corporation
	3	National percentage of bad loans reaches its highest point at 8.9%
	4	Partial lifting of ban on payoffs
	10	Commencement of Programme for Financial Revival
2003	3	Action Programme concerning enhancement of Relationship Banking

		Functions
	6	Infusion of public funds (1.96 trillion yen) into Resona Bank
	9	Infusion of public funds (6 billion yen) into Kanto Tsukuba Bank
	11	Temporary nationalisation of Ashikaga Bank
2004	8	Enactment of Act on Special Measures for Strengthening Financial Functions
2005	4	Lifting of the ban on payoffs (upper limit of deposit insurance raised to 10 million yen)
2006	11	Infusion of public funds (31.5 billion yen) into Kiyo Holdings
	12	Infusion of public funds (9 billion yen) into Towa Bank

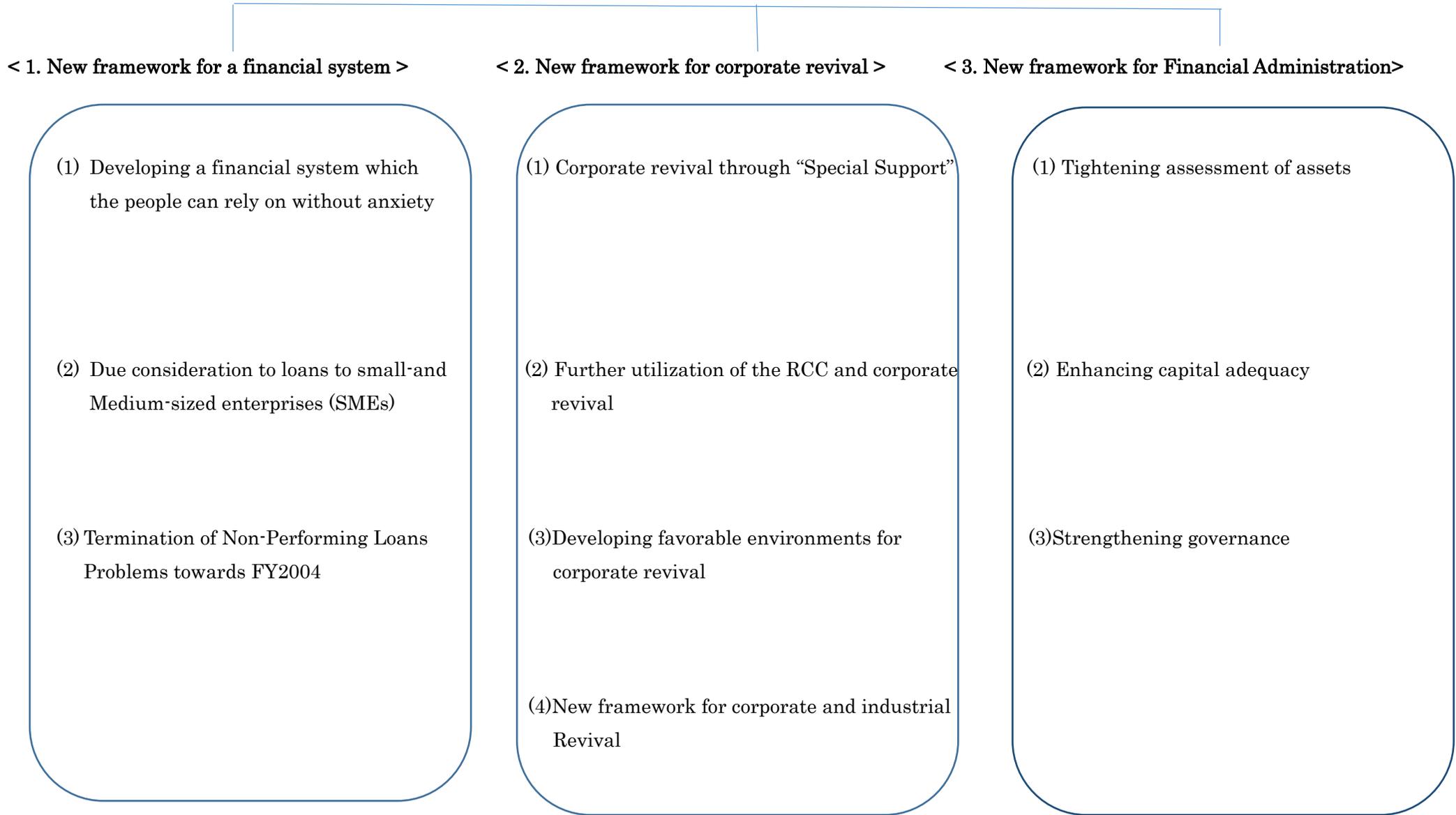
The remainder of this paper is structured as follows. Section 2 introduces the framework of the Programme for Financial Revival. Section 3 provides an overview of the implementation of stricter asset assessments. Section 4 summarises a reconsideration of tax effect accounting. Section 5 considers strengthening governance in financial institutions. Section 6 reviews a new framework for corporate revitalisation. Section 7 summarises the lessons from the revitalisation of Japan's financial system. Section 8 concludes.

## **2 Framework of the Programme for Financial Revival**

In addition to solving the problem of bad loans, the Programme for Financial Revival aimed to build a strong financial system. For this purpose, the programme incorporated the following three pillars (the framework is summarised in Figure 1).

The first pillar involved the creation of a new framework for the financial system. In particular, measures had to be adopted to help small- and medium-sized companies that would face difficulties obtaining loans given the disposal of bad loans. Moreover, a new public fund system had to be established. The second pillar concerned the creation of a new framework for corporate revitalisation—specifically the creation of a marketplace for loan claims), the establishment of the Resolution and

Figure 1 Program for Financial Revival



FSA (2003)

Collection Corporation (RCC) and the strengthening of the RCC's corporate revitalisation function. The third pillar entailed the creation of a new framework for financial administration—specifically the implementation of stricter asset assessments, efforts towards capital adequacy and improved governance. On the basis of these three pillars, the government prepared a policy menu of approximately 40 items and, in November 2002, developed a work schedule to implement this programme. This schedule detailed the planned implementation timeline of each item (a total of 40 items) derived from the three pillars.

### **3 Implementation of stricter asset assessment**

#### **3.1 Continuation and publication of special assessments**

The implementation of special assessments began in 2001, even before the start of the Programme for Financial Revival. However, in September 2001, the large supermarket chain Mycal declared bankruptcy, and people began to notice the lax self-assessments conducted by banks. At the time, Mycal was classified as a company with 'some concerns for the future' but with little chance of becoming insolvent. The Financial Services Agency reintroduced self-assessments in the accounting period ending March 2003 (the close of the fiscal year) as a means towards stricter self-assessments. These assessments were conducted four times until the end of the six-month period through September 2004.

#### **3.2 A new method of asset assessment: implementation of the DCF Method**

Banks regularly conducted self-assessments of the value of their loans and other assets and classified these assets as a means of correctly evaluating which receivables had a low probability of repayment. In the self-assessments conducted by banks, borrowers were divided into the following

five categories on the basis of their financial circumstances. In order of financial stability, the categories were 'normal', 'some concerns for the future', 'non-performing and probably irrecoverable', 'nearly uncollectible' and 'uncollectible'. Moreover, the receivables held by the banks were further divided into 'unclassifiable', 'Class II', 'Class III' and 'Class IV' for each of the above borrower categories.

Before these classifications, banks processed loans in the 'normal', 'some concerns for the future' and 'non-performing and probably irrecoverable' categories according to the Financial Inspection Manual. They forecast the amount of losses by multiplying the debt amount by a prospective loss rate based on past loan loss ratios and default probabilities. These loans were then recorded in the books as allowances for doubtful accounts at the amount of the forecast loss. In other words, the traditional method of assessing reserve funds was based on a backward-looking calculation that relied on past performance.

In contrast, under the Programme for Financial Revival, a new method known as the discounted cash flow (DCF) method was adopted, along with the existing method, to assess the allowance for doubtful accounts. This method accounted for the difference between the book value of loans and the discounted present value of future cash flows for the original loan receivables and interest as allowances for doubtful accounts. Next, we examine, in the following order, 1) the loans to which the DCF method was applied, 2) some points to consider when using the DCF method and 3) the relationship between applying the DCF method and processing bad loans.

#### 1) Loans to which the DCF Method was applied

The Financial Inspection Manual has been revised as follows with regard to the DCF method. First, using the DCF method is ideal in cases of large borrowers (those with credit more than 10 billion yen) classified as 'requiring supervision'. However, if calculating future cash flows is difficult, using a method to calculate, on an individual basis, the amount of time remaining until the loan is repaid is preferable. Second, using the DCF method is ideal in cases of loans 'feared to be uncollectible'.

## 2) Points to consider when applying the DCF Method

The following four points must be considered when applying the DCF method. First, when estimating future cash flows, available internal data (loan loss ratio rating categories consistent with obligator categories, bankruptcy probability, rating transition analysis, etc.) must be used to the fullest extent to provide an objective and rational forecast. Second, the contracted interest rate or effective interest rate at the time of loan creation must be used as a discount rate when calculating the discounted present value. Third, based on the DCF method, the amount of the allowances for doubtful accounts in the books must sufficiently reflect the amount of credit risk of the borrower. When one considers the adoption of the DCF method in the context of the effort to make self-assessments stricter in conjunction with bad-loans processing, the amount of allowances for doubtful accounts calculated using the DCF method might be larger than that calculated using the traditional method.

## 3) Disposal of bad loans using the DCF Method

The Financial Services Agency requested the Japanese Institute of Certified Public Accountants to consider using the DCF method. The Institute announced the 'Proposed Revisions to the Financial Inspection Manual for Implementation of the DCF Method' on 25 February 2003 and began enforcing these changes starting with the financial year through March 2003.

The DCF method was first proposed in the U.S., and it was feared that the Japanese lending market might find it unsuitable. For example, in Japan, lenders do not focus on the cash flow of individual operations to which a loan is applied. Rather, lending is provided to the company as a whole. In addition, Japanese banks have been providing real estate mortgages for many years and are unfamiliar with lending based on a business project's future cash flows. However, the collapse of the bubble and subsequent delays in the disposal of bad loans prompted bold changes within Japanese financial institutions. In this context, using the asset assessment method known as DCF was

considered a critical foundation for reforming Japan's financial system. Using the DCF method, major Japanese banks increased their rate of provision against loans by 20 to 30 percentage points from the previous 20 percent.

### **3.3 Correcting inconsistencies in borrower classifications**

Inconsistencies in borrower classifications among banks were corrected as part of an effort to strengthen asset assessments under the Programme for Financial Revival. Specifically, variations that occurred in borrower classifications among banks were made uniform. The similar programme in the U.S. is called the Shared National Credit Programme and is a standard by which main banks determine borrower classifications. However, in Japan, leading banks' assessments were generally considered too soft, and fundamental reforms were implemented under the revitalisation programme. A decision was made that beginning in the fiscal year through March 2003, independent real estate companies rather than those affiliated with banks would be used for appraisals to conduct stricter collateral valuations. A reform proposal entitled 'Strict Verification of Collateral Valuations' was announced in March 2003.

Japan followed the practice of one-year and three-year standards regarding the period used to calculate allowances for doubtful accounts. 'Normal' loans or other loans with 'some concerns for the future' were viewed as losses after a year; loans requiring supervision were counted as losses after three years and recorded in the books as reserve funds. The Programme for Financial Revival reviewed these practices again. For loans requiring supervision, both the previously discussed DCF method and the three-year standard were used together in revisions to reserve fund accounting.

## **4 Reconsideration of tax effect accounting**

### **4.1 Deferred tax assets and equity capital**

Though certain items may be processed as expenses in corporate accounting, these items may not be immediately allowed as deductible expenses under tax law, which may lead to a larger tax burden as taxable income increases. Tax effect accounting is a framework for coordinating differences between how items are treated in accounting and under tax law. In tax effect accounting, overpayment of taxes is assumed to be refunded in the future. The amount of overpayment is booked under the assets section of the balance sheet in corporate accounting. These assets are known as 'deferred tax assets'. Allowances for doubtful accounts are viewed as expenses in accounting though they are not counted as deductible expenses under tax law. Increasing allowances for doubtful accounts signifies greater deferred tax assets.

Deferred tax assets have the following two unique characteristics. First, in deferred tax asset accounting, future taxes are reduced by the amount of deferred tax assets, indicating that the assets are not available unless the company increases future earnings and starts paying taxes. Put differently, the company must project strong future earnings to set aside a large amount of deferred tax assets. Second, deferred tax assets are recorded as assets, indicating that an increase in deferred tax assets leads to an increase in the company's capital. These two points create a situation in which companies that overestimate their future earnings set aside a large amount of deferred tax assets, which in turn leads to overvalued equity capital.

For example, UFJ HD posted a loss exceeding 1 trillion yen in 2001. However, the company forecasted a profit of 120 billion yen in fiscal 2002 and 330 billion yen in fiscal 2003. Deferred tax assets ballooned given this optimistic projection, resulting in an expansion of equity capital. Table 2 provides a summary of the equity capital/deferred tax asset ratio of the four largest banks and shows that three banks—other than Mitsubishi Tokyo Group—had a degree of dependence stronger than 60

percent as of March 2003.

**Table 2: Share of deferred tax assets for the owned capital (%)**

	2002.3	2003.3	2004.9	2003.9	2004.3
Mizuho	48.6	62.7	27.6	41.9	31.8
Mitsui Sumitomo	54.5	88.0	59.2	65.5	55.4
UFJ	56.8	89.9	66.4	62.5	73.5
Mitsubishi Tokyo	32.1	47.4	19.4	30.0	17.4

Shigemi (2005).

#### **4.2 Reconsideration of deferred tax assets**

As previously summarised, accounting for deferred tax assets results in a natural increase in equity capital, though determining the quality of this type of capital is difficult. Therefore, a panel was formed to discuss the quality of equity capital in the Programme for Financial Revival, and wide-ranging discussions ensued. These arguments were summarised in July 2003, and a report was submitted in June 2004. In October 2005, the Financial Services Agency began requesting the disclosure of deferred tax asset information from leading banks, and inspections became stricter thereafter.

Along with this reconsideration of deferred tax assets, Resona Bank was nationalised in 2003 and is a subject of a case study in this paper. Resona Bank, the result of a merger between Daiwa Bank and Asahi Bank, became a leading bank with total assets exceeding 30 trillion yen. At the time, Resona Bank recorded enormous deferred tax assets, which supplemented its equity capital. The company's balance sheet for March 2003, shown in Table 3, indicates that deferred tax assets for that period were approximately 400 billion yen—larger than the shareholder equity of 366 billion yen.

**Table 3: Consolidated Balance sheet in Resona Bank (2003 March) (100 million yen)**

<b>Assets</b>		<b>Liabilities</b>	
Cash and due from banks	17,030	Deposit	223,540
Trading assets	5,110	NCD	4,140
Securities	51,140	Financial market liabilities	53,150
Loans and bills discounted	214,440	Other liabilities	20,410
Tangible and intangible fixed assets	6,460		
Deferred tax assets	4010	Share capital	3,660
Allowance for loan losses	-6660		
Other assets	13,370		
Total assets	304,900	Total liabilities and capital	304,900

Fukao (2009).

Under these circumstances, Resona Bank's audit firm, which limited deferred tax assets to three years, discovered that the bank's capital adequacy ratio was 2%—below the 4% minimum set by the Bank for International Settlements. Therefore, Resona Bank fell under the Deposit Insurance Act of May 2003 and received an infusion of public funds of 1.96 trillion yen, which effectively nationalised the bank.

## **5 Strengthening governance in financial institutions**

The following three policies were incorporated to strengthen banks' corporate governance as part of the Programme for Financial Revival.

### **5.1 Reinforcement of accounting audits**

First, policies to reinforce accounting audits were confirmed. In particular, on 17 December 2002, shortly after the revitalisation programme was announced, the Financial Services Agency

announced the 'Financial Services Agency Position on the Certified Public Accountant Audit System'. Specific topics addressed in the paper included 1) clarification of the mission and role of CPAs, 2) reinforcement of the independence of CPAs and others and 3) reinforcement of monitoring and oversight by auditing firms. On 24 February 2003, the Japanese Institute of Certified Public Accountants announced policies regarding strict responses by auditors to audits of leading banks. These policies specifically addressed tighter accounting for deferred tax assets as well as stricter self-asset assessments, allowances and amortisations. Asset assessments often required complex and advanced knowledge of accounting, and banks frequently relied on CPAs in practice.

Accordingly, that both financial agencies and CPAs alike took a step back to review the state of the situation to date and present new policies is significant.

## **5.2 Stricter use of prompt corrective action**

As of April 1998, the Financial Services Agency decided to impose a business improvement order for 'prompt corrective action' on financial institutions with equity capital ratios that were below set standards. These prompt corrective actions were intended to pre-empt bankruptcies of financial institutions and maintain the viability of management. Directly after the announcement of the Programme for Financial Revival, on 10 December 2002, the Financial Services Agency announced stricter use of these prompt corrective actions and revised business guidelines on the basis of the Banking Act. These revisions shortened the period from three years to one year, during which time financial institutions that received a prompt corrective action order were required to improve their capital adequacy ratio.

### **5.3 Strengthened governance for recapitalisation**

On 4 April 2003, the Financial Services Agency announced policies for the reinforcement of governance in recapitalisations using public funds. These policies were guidelines for banks that were forced to recapitalise using an infusion of public funds. They addressed measures for banks that failed to improve their finances in the following fiscal year.

Specifically, the policies were business improvement orders calling for bold restructuring efforts such as the resignation of the top management, a review of compensation structures and a reduction in employee headcount when after-tax profits declined to below 30% (known as the '30% rule'). If banks were unable to improve profitability after receiving another business improvement order, then conversion rights were exercised to convert preferred shares into common shares. Several examples exist, such as the case of Kumamoto Family Bank, which received a business improvement order in July 2004 to change its president. In addition, the Financial Services Agency issued a business improvement order to UFJ Holdings and UFJ Bank on 18 June 2004 because the banks concealed documents concerning their borrowers.

### **6 A new framework for corporate revitalisation**

We have comprehensively reviewed the first pillar—a new framework for the financial system—and the third pillar—the creation of a new financial administration framework—within the Programme for Financial Revival. The second pillar presented a menu of bank reforms for processing bad loans. This comprehensive processing of bad loans necessarily resulted from the restructuring and culling of companies that carried excessive debt and that were inextricably tied to bad loans. We now consider in detail this second pillar—the creation of a new framework for corporate revitalisation—that proposed solutions to these issues.

Measures for corporate revitalisation included the use and reinforcement of the Resolution and

Collection Corporation (RCC). The RCC was established in 1996, and its function was strengthened by the programme for Financial Revival as follows: 1) managing and collecting loans purchased from bankrupt housing loan companies and 2) purchasing, managing and collecting loans from bankrupt financial institutions entrusted by the Deposit Insurance Corporation of Japan and assigning responsibility of the civil and criminal code for executives and banks involved in bankruptcies. Further, the Financial Services Agency promoted the use of RCC for corporate revitalisation of small- and medium-sized businesses as part of the 2003 Action Programme concerning enhancement of Relationship Banking Functions.

### **6.1 Resolution and Collection Corporation**

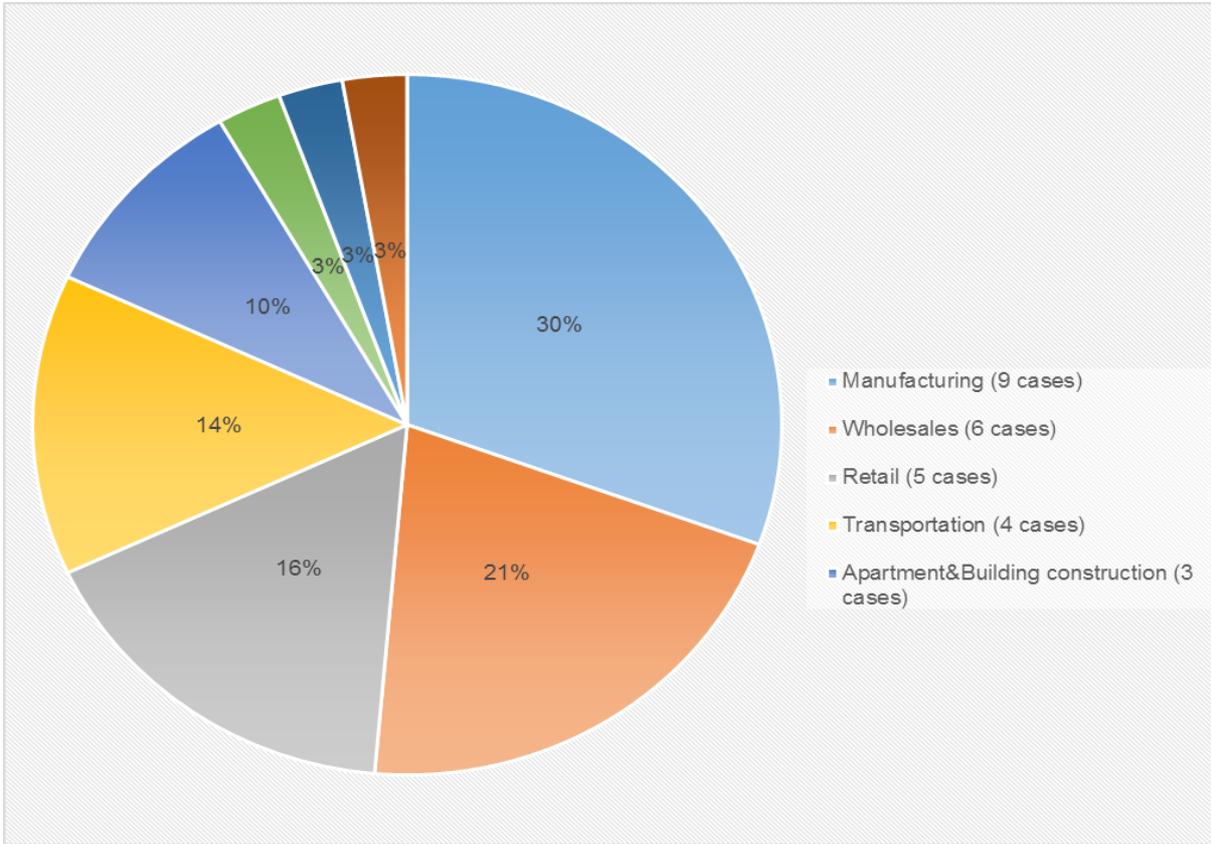
RCC measures included policies involving the purchase of loans of bankrupt financial institutions and indirectly dealing with heavily indebted companies. In contrast, the Industrial Revitalisation Corporation of Japan (IRCJ) was established in April 2003 to directly support business revitalisation for such companies. This corporation was created on the basis of the Securum model established in 1992. IRCJ remained in existence for only four years until June 2007 but logged 41 instances of providing support. Next, we summarise 1) the characteristics of support from the ICRJ and 2) the support procedures (the summary provides current details as of 2009).

#### **1) Characteristics of ICRJ Support**

Though 41 instances of ICRJ support existed, the amount of debt at the time of this support was enormous and totalled approximately 4.02 trillion yen. Total bad loans held by all financial institutions as of the end of March 2003 equalled 35 trillion yen, and as of 2009, the RCC was noted as supporting approximately 10% of the total bad loans in Japan.

Figure 2 indicates the share of bad loans by industry. The manufacturing industry accounts for approximately 22% of such loans. The remainder concern non-manufacturing industries; of these, the highest shares are held by hotels and inns at 28% and wholesale and retail at 27%. These industries received excess funding given soaring land prices during the bubble period, which led to over-investment.

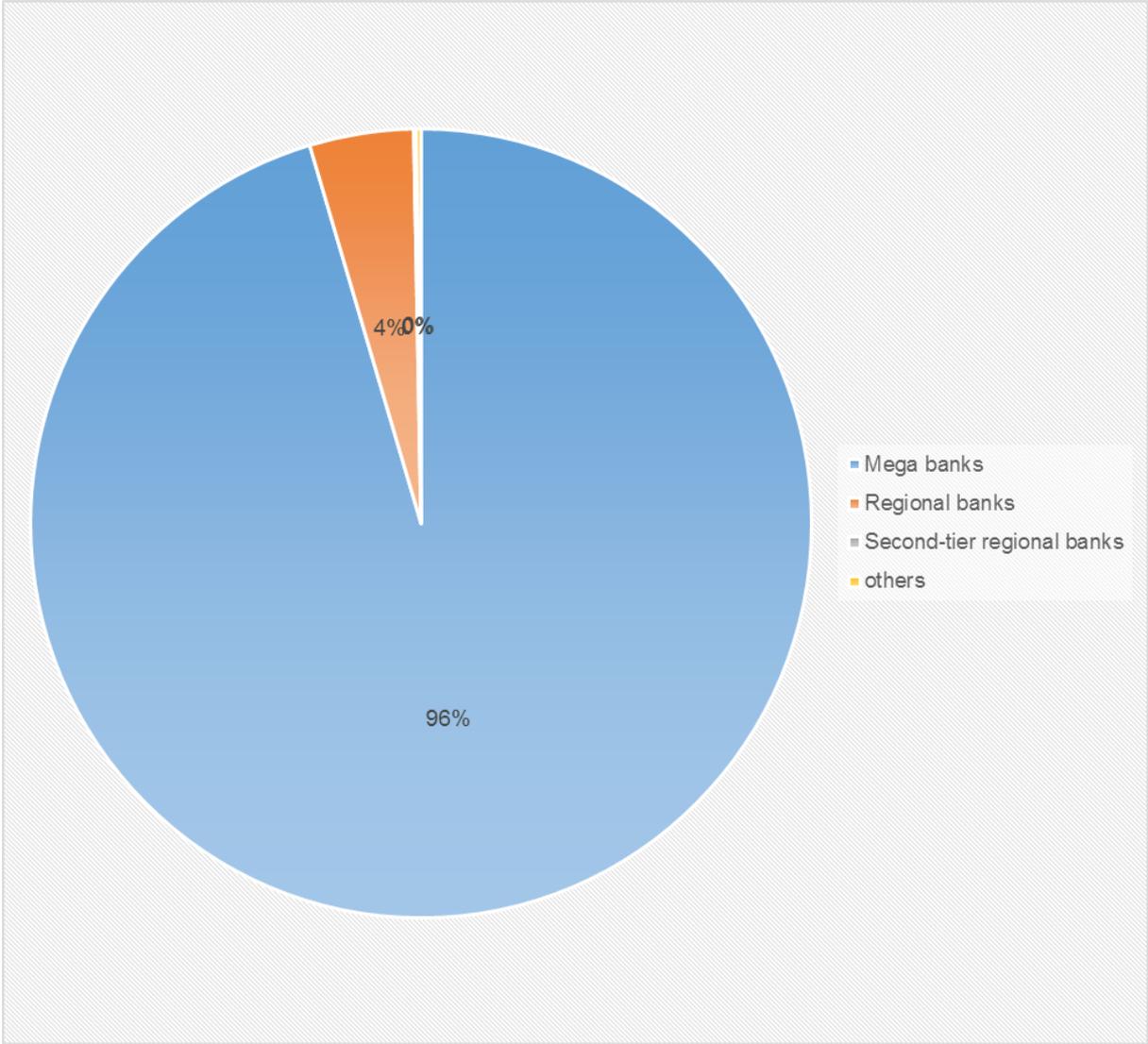
**Figure 2: Companies the IRCJ decided to assist, share by sector**



Okina (2009).

Next, we review the breakdown of banks that received revitalisation support. Figure 3 shows the share of each bank’s total loans at the time they received support and indicates that more than 95% were mega banks. Therefore, borrowers of these mega-banks likely caused bad loans to balloon until business revitalisation support became necessary.

**Figure 3: The share by submitting bank on behalf of the companies the IRCJ decided to assist**



Okina(2009).

2) ICRJ Support Procedures

Procedures taken by the ICRJ in providing corporate revitalisation support followed four steps. First, the primary borrower and companies requiring revitalisation created a draft revitalisation plan and requested support from the ICRJ. Second, the ICRJ determined the propriety of support, consulted with institutions other than the lender banks in question and reached an agreement. Third, considering that

agreement, the ICRJ created a detailed plan for purchasing the debt. After completion of the revitalisation plan, the ICRJ checked whether financial support or business restructuring had occurred according to plan. Fourth, the ICRJ had to decide whether to dispose of the debt within three years of purchase.

## **7 Lessons from the revitalisation of Japan's financial system**

This overview presented the measures undertaken to revitalise Japan's financial system from the 1990s onward. The following lessons emerge from Japan's experience in dealing with economic crises (this explanation is based on Iwata and Yoshikawa (2008) and Sakuragawa (2006)).

### **1) Bad loan assessment and disclosure**

#### **Lesson 1**

**Regarding bad loans, procedures are critical for rapid assessments based on strict guidelines and the disclosure of accurate information.**

After the collapse of Japan's economic bubble in 1992, banks did not realise the true state of bad loans, and more than 10 years passed before these loans were written off. This problem concerns not only self-assessment on the part of individual financial institutions but also how financial regulators should best approach bad loans (regarding, e.g., definition and scope). According to Hoggarth et al. (2002), the average duration of global financial crises from the 1980s onward (47 total crises) was 3.7 years. In Japan, this duration stretched to 14 years, from the time the bubble collapsed in 1992 to when the Financial Services Agency's target of halving the amount of bad debt was finally achieved in 2005. The disposal of bad loans took far too long and delayed the rebuilding of Japan's financial system, thus creating what is now known as the 'lost decade'.

## Lesson 2

**The purchase of bad loans through a purchasing organisation must be done in a highly transparent fashion to gain taxpayers' understanding.**

The disclosed bad loans needed to be quickly sold in the market or through a purchasing organisation. In the case of Japan, strict assessments by the Financial Services Agency facilitated the assessment of bad loans and calculation of the required capital infusion using the same standards for all financial institutions that had to write off bad loans.

## 2) Capital Infusion

### Lesson 3

**When infusing capital using public funds, fully investigating and publicly disclosing the financial situation of the financial institution into which capital will be infused is critical to gaining taxpayers' understanding.**

In 1996, approximately 650 billion yen of public funds were infused into Japanese housing loan companies to dispose of housing loans. Many lawmakers opposed this move, and enacting the bill to infuse public funds faced numerous complications. These complications is considered to have delayed the subsequent use of public funds, which did not happen in earnest until the Program for Financial Revival began to provide direction in 2003. Thus, infusion of public funds must be handled with great care and strong agreement along with a concrete programme for the disposal of bad loans.

#### **Lesson 4**

**When infusing capital into financial institutions that may go bankrupt, the possibility of a credit crunch must be carefully considered.**

The Act on Special Measures for Strengthening Financial Functions was passed in June 2004 as part of the Program for Financial Revival. On this basis of this law, public funds were infused into financial institutions facing dire financial situations in an effort to bring them back to health. However, these efforts were unsuccessful in improving operations, and many financial institutions struggled with the strong possibility of having to reduce credit to small- and medium-sized businesses. Only two financial institutions actually used the system, which was later modified to enable banks' continued lending to small- and medium-sized businesses after receiving public funds.

#### **Lesson 5**

**A financial system must be rebuilt with a view to facilitating mergers among local financial institutions and not just among leading financial institutions.**

Bad loans were drastically reduced through the Program for Financial Revival. The financial institutions known throughout the 1970s and 1980s as the '20 leading banks' subsequently merged or disappeared. Consequently, in 2004, the number of major banks was reduced to four. Such drastic restructuring among the largest banks did not occur among local financial institutions. Therefore, these smaller banks continue to struggle with excessive competition and are protected from the perspective of deposit insurance or a safety net mechanism. However, overprotection could encourage them to increase inefficient lending.

## **8 Conclusion**

This paper overviews the outline and characteristics of the Programme for Financial Revival announced in October 2002 in Japan. An outstanding characteristic of the programme is that inadequate assessment of assets and disclosure of information were tightened, and transparency of bank management was improved. The disposal of non-performing loans was accelerated, and functional enhancement of financial institutions' supervisory and regulatory regime was significantly advanced. The Japanese economy, which began to deteriorate after the collapse of the bubble in the early 1990s, stagnated throughout the decade. Policy makers shelved the issue for ten years; therefore, the introduction of the programme was nothing short of being too late. The market mechanism is not necessarily perfect: It is historically difficult to control and frequently causes a financial crisis. Depending solely on the market mechanism is nearly impossible, and drastic and quick public intervention is occasionally inevitable. Japan's financial problems and their resolution in the 1990s provide numerous lessons for many countries, particularly for Europe in relation to the confusion over the euro.

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