

# NEGATIVE IMPACTS OF CAPITAL INJECTION POLICIES ON THE CAPITAL CRUNCH: EVIDENCE FROM JAPAN

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## 〈SUMMARY〉

This paper empirically investigates the effects of capital injections into Japanese banks, which were based on the Financial Function Stabilization Law and the Early Strengthening Law, on the capital crunch. Using the financial panel data for all of the Japanese commercial banks, we estimate dynamic panel models which investigate the effects of capital injections on banks' lending behaviour. We find a negative impact of capital injections on capital crunch. Though the capital injections were expected to free banks from capital regulatory constraint, Japanese banks that had received capital injections became more sensitive about their capital adequacy ratios, and reduced their loans; the exception was the domestic banks that got capital injection based on the Early Strengthening Law. The difference between success and failure has a lot to do with the frameworks of capital injection policies, suggesting that the manner of conducting capital injection policies and banking supervision is a very crucial matter.

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