

Has the Credit Crunch Occurred in Japan in 1990s?

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In this paper, we analyze whether the supply side played a crucial role in causing stagnant and declining outstanding loans in 1990s. In other word, the purpose of this paper is to make clear whether credit crunch really happened in Japanese loan market. This paper also aims to investigate how the situation of bank loan market differs among prefectures by analyzing panel data for prefectures.

To this end, we calculate the magnitude of the shift of the supply and demand functions assuming market equilibrium. If the supply function shifted towards left more than the demand function, borrowers would have faced strict attitude of banks, which means existence of credit crunch. Under the assumption that the Japanese loan markets are segmented by prefecture, we estimated supply and demand functions using prefectural panel data from 1990 to 2001.

The estimation results reveal that until 1996 while right shift of the demand function was as the same magnitude of the actual loans, the supply function more largely shifted toward right, indicating that the stagnation in the loan markets in this period cannot be explained by the supply side. However, after 1996 when the amount of loans decreased, the loan supply shifted leftwards as much as the loan demand, implying that the contraction of supply contributed to the decrease of the actual loans.

Examining the rate of shift of loans by prefecture, we also find that demand shift exceeded supply shift more in prefectures having large cities. This implies that the degree of credit crunch has been severer in populous prefectures.