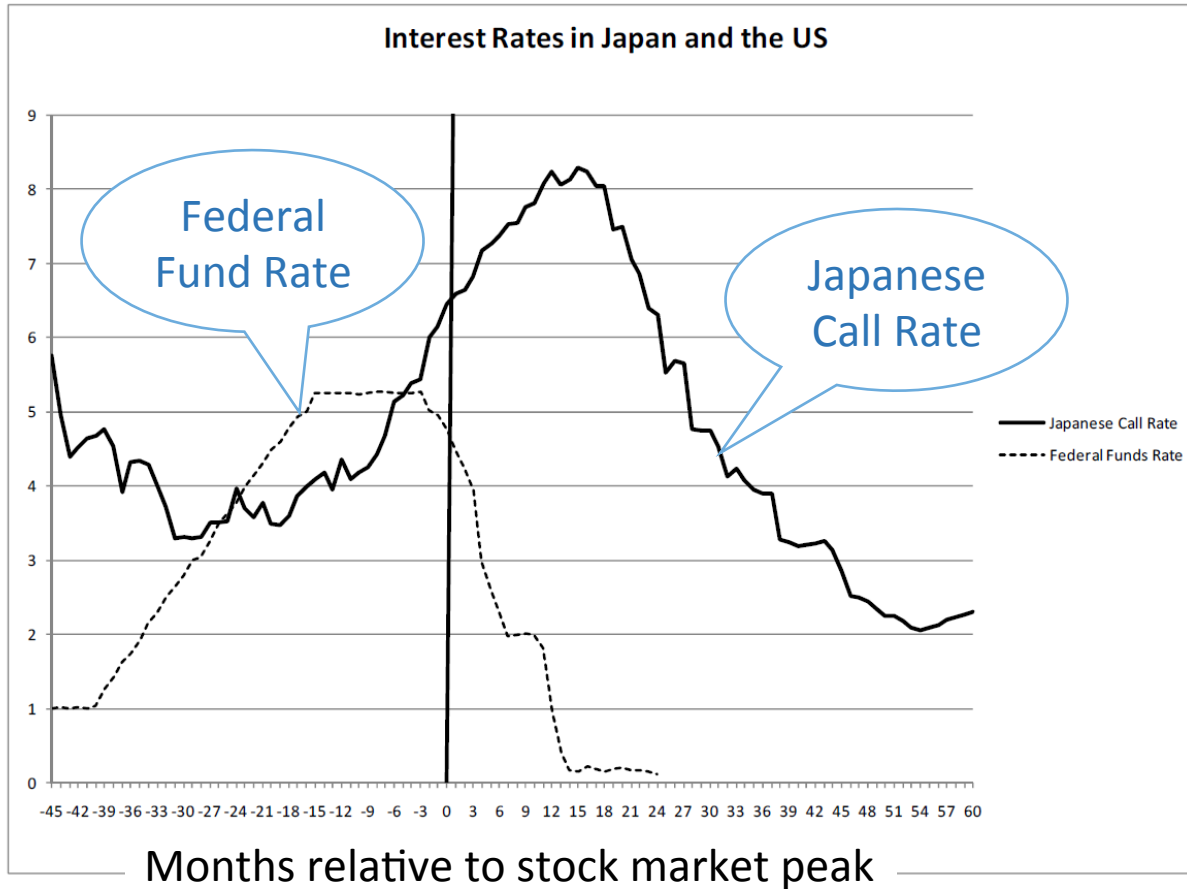


Japan's response to the asset price bubbles in the late 1980s:
Did it differ from the US one in the 2000s?

Ryozo Himino, Japan FSA
Columbia-IESE Conference on next steps in macro prudential policy, November 12, 2015, New York

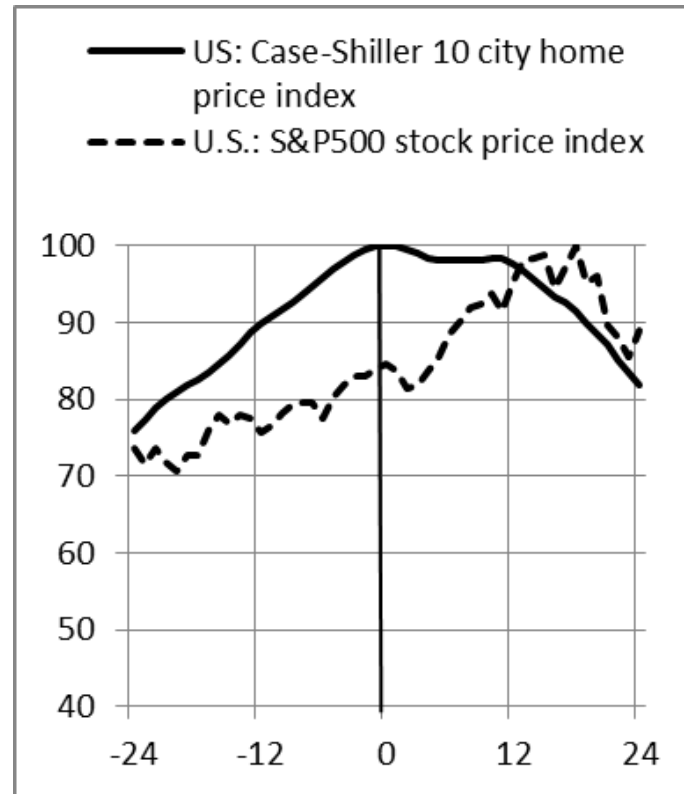
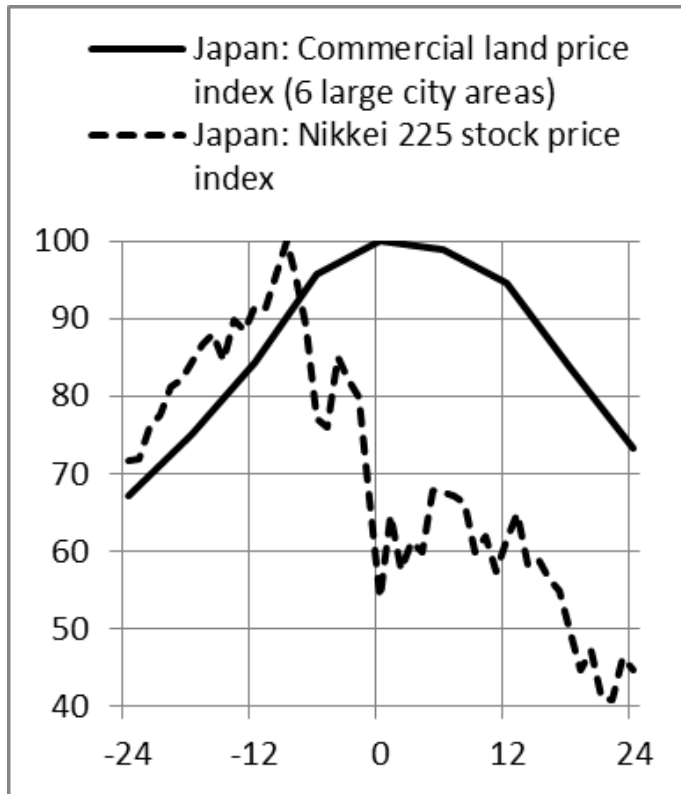
Views are the speaker's, not necessarily JFSA's.

It is widely believed that Japan was too-little-too-late and the US was decisive and timely.



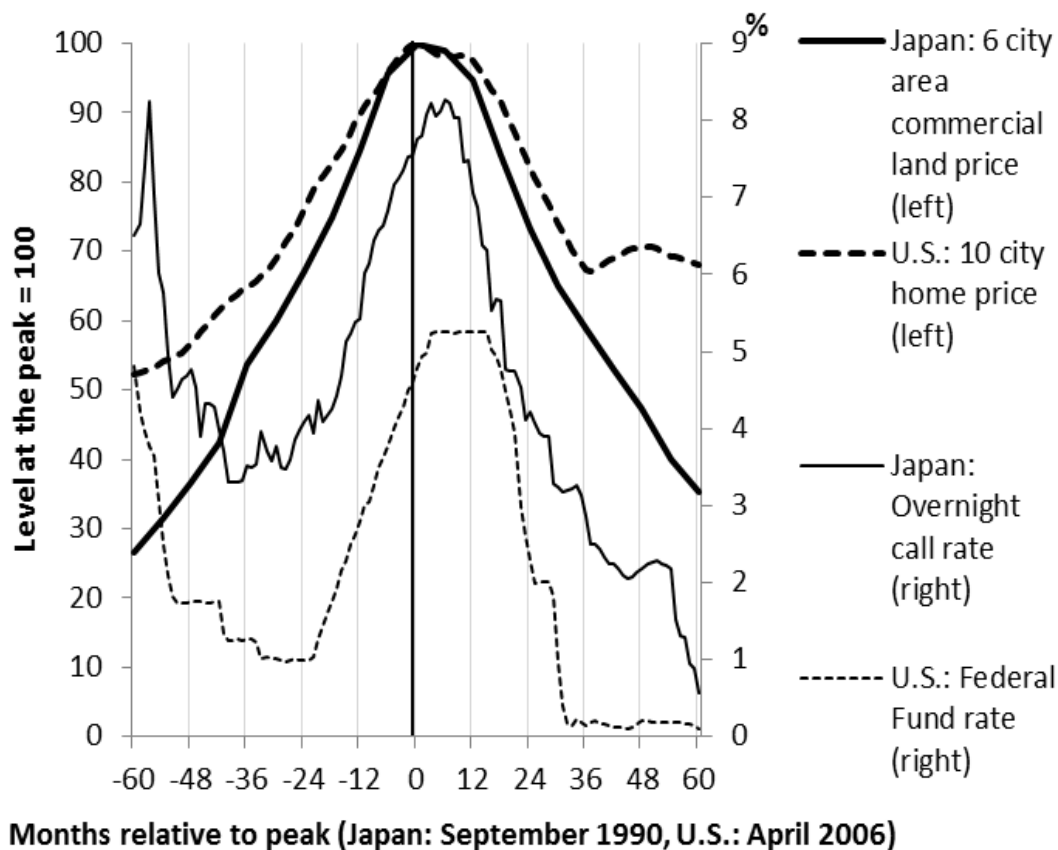
Source: Hamada, Kashyap and Weinstein (2011)

- But in Japan, the stock price peaked first, while the real estate price peaked first in the



- And what mattered most for the financial stability was the real estate bubble, not the stock price bubble.

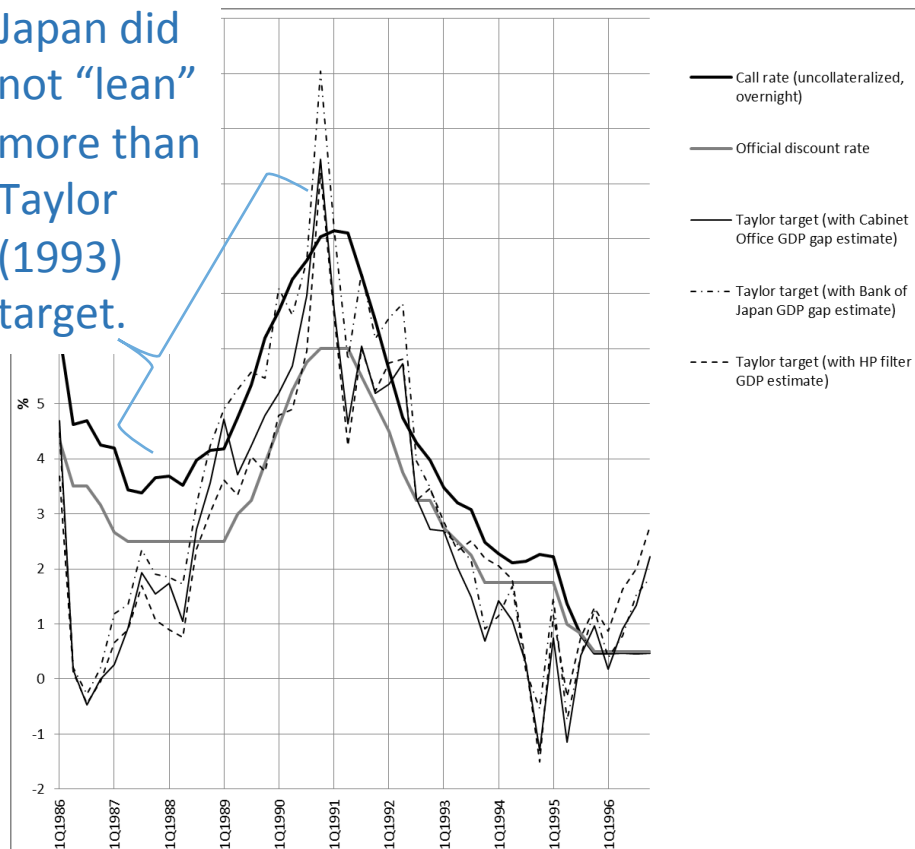
If we use the real estate price peaks as benchmarks...



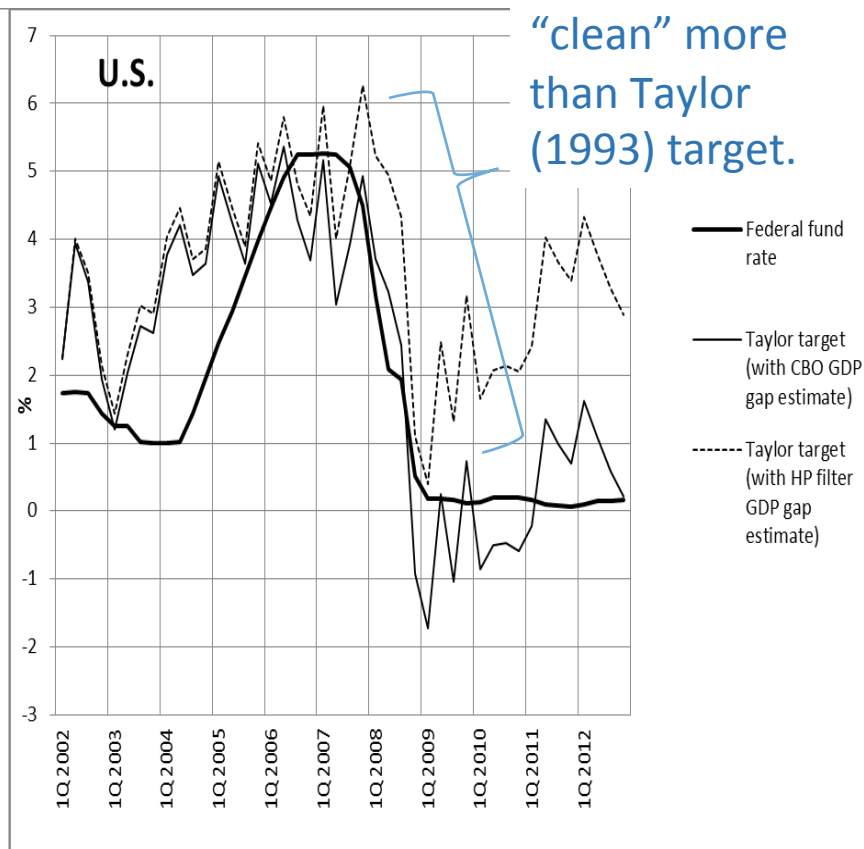
	Japan	U.S.
From the start of tightening to the real estate peak	2 7 months	2 1 months
Tightened by	480bp	425bp
From the real estate peak to the start of easing	1 0 months	1 7 months
Eased during the first year by	350bp	325bp
During the first two years by	505bp	510bp

The Japanese authorities are believed to have “leaned” to prick the bubble. The U.S. authorities advocated that leaning was harmful and that “cleaning” after the bust was enough. But...

Japan did not “lean” more than Taylor (1993) target.



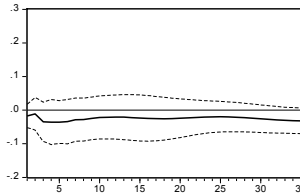
The US did not “clean” more than Taylor (1993) target.



Japan Figure 7-1 Policy rate responses US

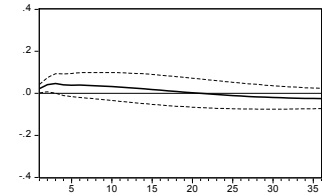
Response to CholeskyOne S.D. Innovations \pm 2 S.E.

Response of CALLRATE to CORECPI

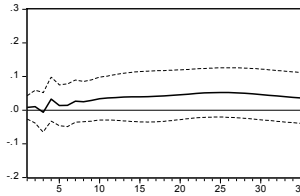


To price shock

Response of FFRATE to COREPCPE

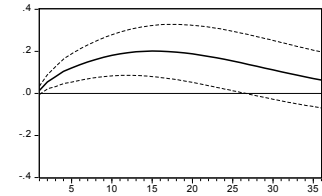


Response of CALLRATE to IIP

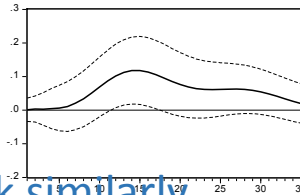


To output shock

Response of FFRATE to IIP

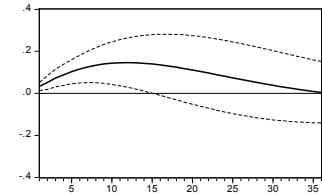


Response of CALLRATE to LANDPRICE



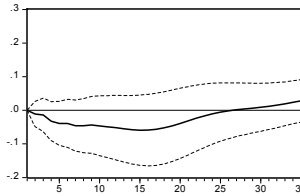
To real estate price shock

Response of FFRATE to HOMEPRICE



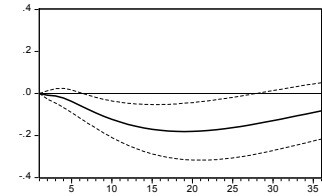
... and both reacted to real estate price shock similarly.

Response of CALLRATE to YENDOLLAR

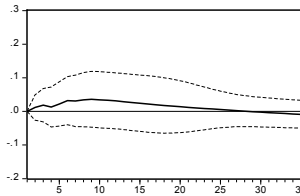


To foreign exchange rate shock
Appreciation of own currency: positive)

Response of FFRATE to DOLLAR

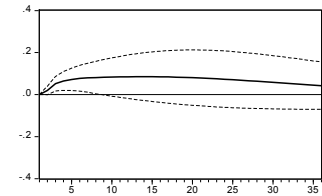


Response of CALLRATE to NIKKEI



To stock price shock

Response of FFRATE to SP500



Monetary policy responses to:

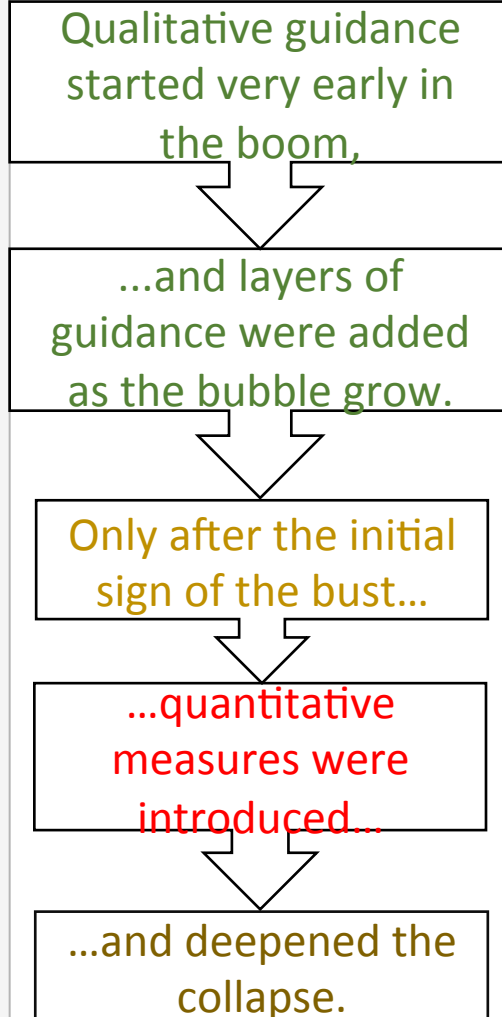
- price shock
- Output shock
- Real estate price shock
- foreign exchange shock
- Stock price shock

Prudential policy

Year 0: The year quantitative measures were introduced (1990 in Japan and 2006 in the US)

Japan

- Year -4
 - Start of qualitative guidance
- Year -1
 - Stock price peak
- Year 0
 - Quantitative measures on RE
 - CRE and RRE price peak



US

- Year -6
 - Start of qualitative guidance
- Year 0
 - RRE price peak
 - Quantitative measures on CRE
- Year +1
 - CRE price peak

Prudential policy measures taken in Japan and the US

Japan

April 1986	Circular issued by the director general of the MOF Banking Bureau	<ul style="list-style-type: none"> Request to behave so as not to attract criticism that banks are encouraging speculative land deals Reporting requirements on land-related lending to real estate and construction industries
December	Same as above	<ul style="list-style-type: none"> Request to strictly refrain from financing short-term resale of lands
July 1987	Extraordinary interviews by the MOF	<ul style="list-style-type: none"> Interviews on lending terms with banks making large amount of loans in regions showing conspicuous rise in land prices
	Bankers association's published common understanding	<ul style="list-style-type: none"> Confirmation that land related lending attitude shall be strictly rectified
October	Circular issued by the director general of the MOF Banking Bureau	<ul style="list-style-type: none"> Request to be without flaws in not making loans to finance speculative land transactions Request to make sure that affiliated non-bank lenders shall do the same
	Voluntary rules of bankers' associations	<ul style="list-style-type: none"> Elimination of lending to finance speculative land transactions
October 1989	Circular issued by the director general of the MOF Banking Bureau	<ul style="list-style-type: none"> Expansion of the scope of extraordinary interviews Reporting requirements on lending to non-bank lenders Mobilize on-site inspections to contain lending to finance real estate speculations
March 1990	Circular issued by the director general of the MOF Banking Bureau	<ul style="list-style-type: none"> “Quantitative Restriction Circular”

Source: Banking Bureau, Ministry of Finance (1989) pp.92-94 and Banking Bureau, Ministry of Finance (1991) p.93

US

Year	Month	Guidance, Advisory and Statements
1999	March	Interagency Guidance for Subprime Lending
	October	Interagency Guidance on High Loan-to-Value (LTV) Residential Real Estate Lending
	December	Interagency Guidance on Asset Securitization Activities
2001	January	Expanded Guidance for Subprime Lending Programs
2003	February	Interagency Advisory on Mortgage Banking
	October	Interagency Guidance on Independent Appraisal and Evaluation Functions
2004	April	Interagency Guidance on Unfair or Deceptive Acts or Practices by State-Chartered Banks
2005	February	Interagency Guidance on the Detection, Investigation, and Deterrence of Mortgage Loan Fraud Involving Third Parties
	March	Interagency FAQs on the Agencies' Appraisal Regulations and Interagency Statement on Independence of Appraisal and Evaluation Functions
	May	Interagency Credit Risk Management Guidance for Home Equity Lending
	May	Accounting and Reporting for Commitments to Originate and Sell Mortgage Loans
	September	Interagency FAQs on Residential Tract Development Lending
2006	October	Interagency Guidance on Nontraditional Mortgage Product Risks
	October	Addendum to the May 2005 Interagency Credit Risk Management Guidance for Home Equity Lending
	December	Interagency Guidance on Concentration in Commercial Real Estate Lending, Sound Risk Management Practices
2007	June	Statement on Subprime Mortgage Lending

(Source) Cole (2007)

- The “lean” Japan and the “clean” U.S. behaved similarly and both lagged behind the real estate price moves to deepen the bust.
- Timeliness of the policy responses may matter more than how they are explained or labelled: clean or lean, micro-prudential or macro-prudential.

To be more timely,

- **Sequence:** Prices of different asset classes peak out with different sequences. Don't presume a specific sequence.
- **Statistics:** More frequent publications with smaller delays.
- **Earlier phase matters:** The Japanese experience shows that policy needed to minimize the impacts of bubbles often contradicted with other high priority policy objectives at the time. Earlier phases matter if we are to secure necessary wriggle room in the critical phase: we need to limit the swing throughout a credit cycle.
- **Constructive engagement:** In some cases in Japan experts seem to have known better than politicians and public opinion but in other cases the relationship was reverse. Experts need to engage constructively with the political and public pressures, not taking the matter as a game of giving-in or not.

References

Hamada, K., A. Kashyap and D. Weinstein (2011), "Introduction", in Hamada, Kashyap and Weinstein eds., *Japan's Bubble, Deflation and Long-term Stagnation*, The MIT Press

Himino, R. (2015), "Policy responses to asset price bubbles in Japan: Comparison with U.S. responses", *Public Policy Review*, Policy Research Institute, Ministry of Finance, forthcoming