Japan's Banking Crisis: Who has the Most to Lose?

早稲田大学　宮 島 英 昭
Hebrew University of Jerusalem and University of Montreal Yishay Yafeh

Japan has experienced a deep and prolonged banking crisis in the 1990s. In this paper we attempt to identify the characteristics of companies, which have the most to lose from the banks' malaise. Using stock price data, we calculate abnormal returns of non-financial companies around significant dates in the history of the banking crisis, starting in 1995. The events we study include various government actions to address the crisis, downgrading of banks by international rating agencies, and bank mergers. We find that not all companies are equally sensitive to events in the banking sector. The most affected are small companies, with low profits, in low-tech sectors, with high leverage and limited access to bond markets. These findings are consistent with macroeconomic "credit crunch" theories according to which small companies with limited reputation are the most affected when banks reduce lending. Our results are also in line with theories suggesting that bank debt is not very important for financing innovation.