

***Comment on:
A Financial System Perspective on
Japan's Experience in the late 1980's
by Hattori, Shin and Takahashi***

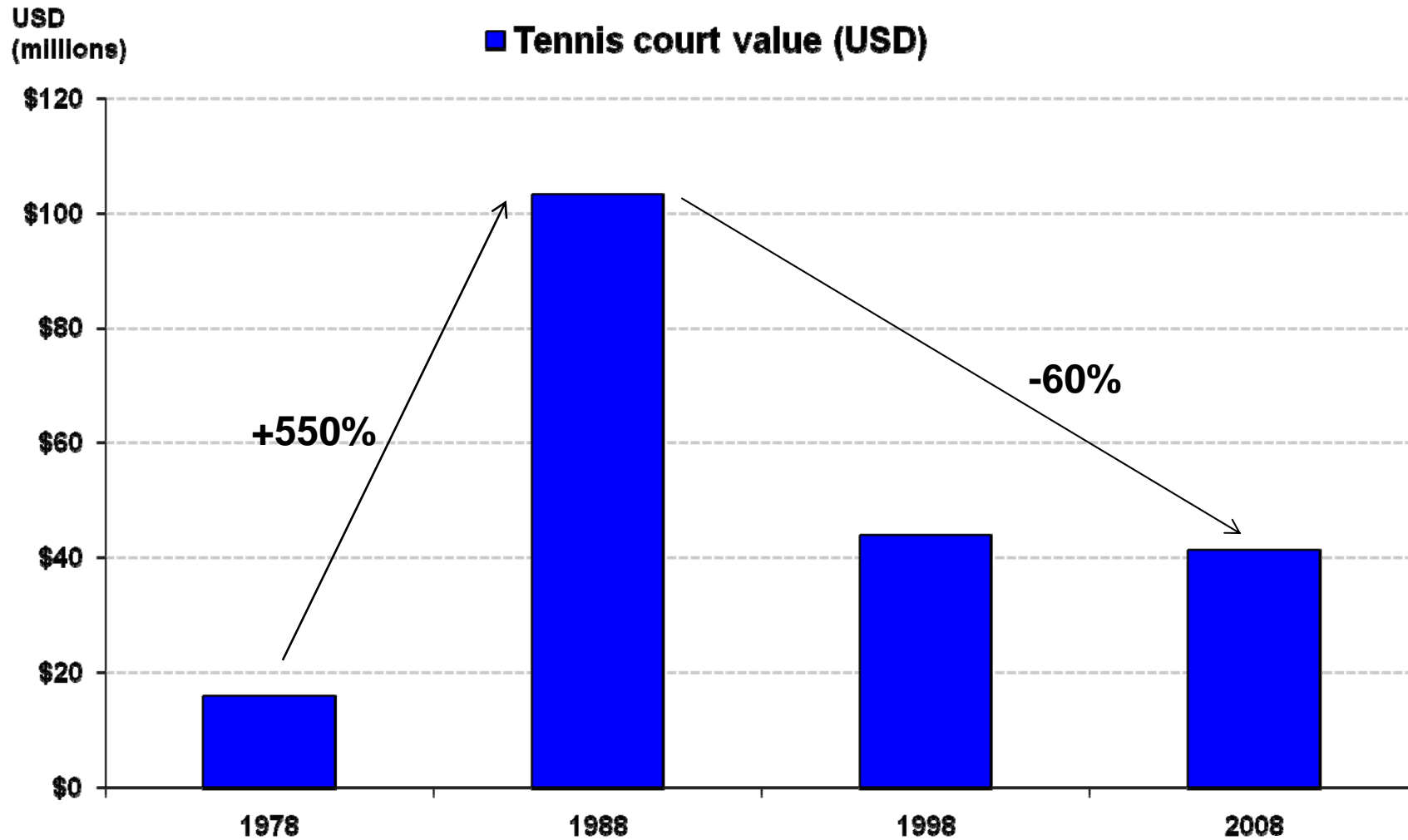
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Grant Spencer
Reserve Bank of New Zealand

New Zealand embassy tennis court in Tokyo – sold in Feb 1989 for 13billion Yen



Impact of 1980's boom on tennis court value

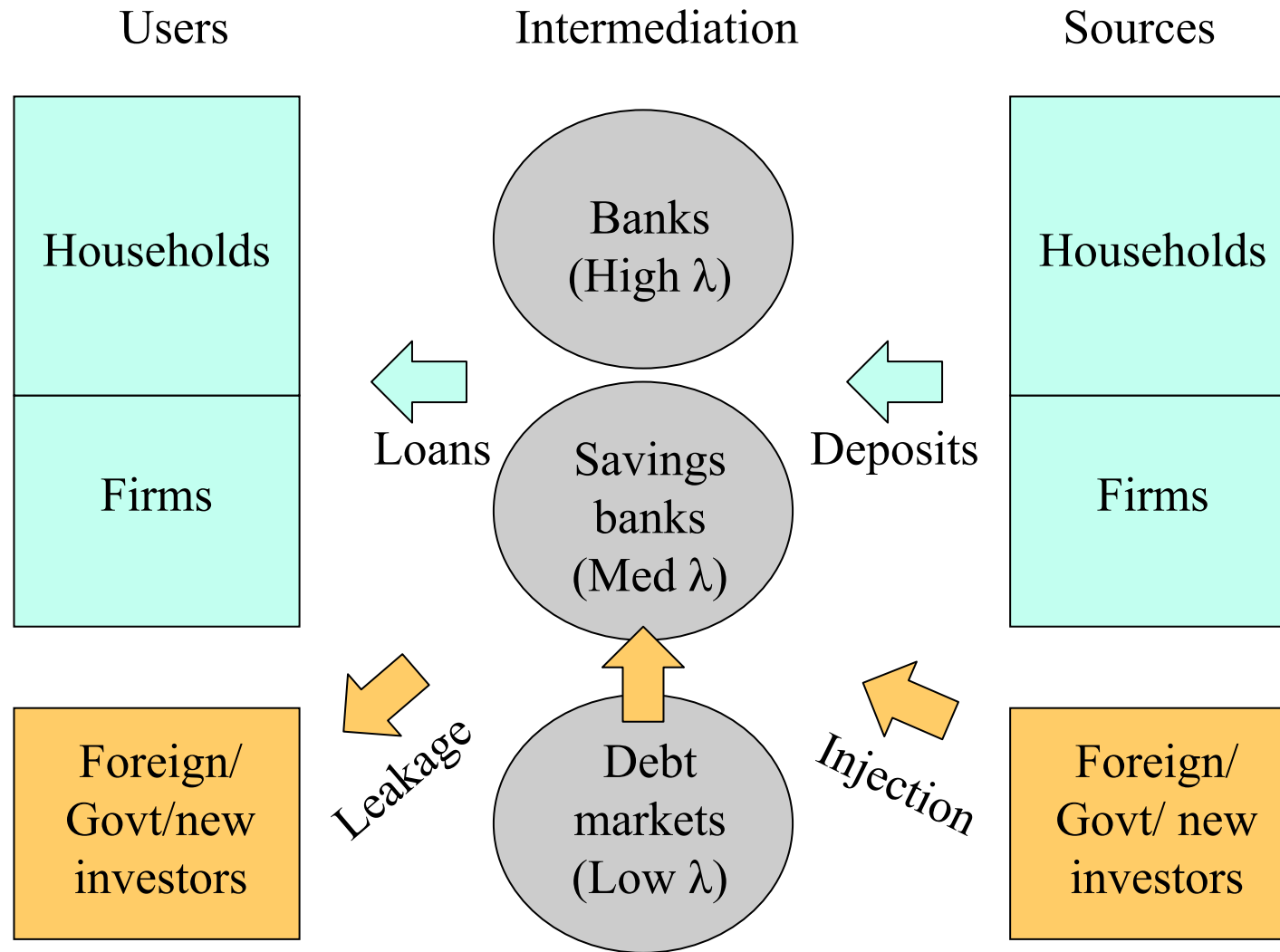




Structure of comments

1. Key drivers of credit supply
2. Lessons for policy

Credit supply framework





Key drivers of growth in credit supply

1. Net new injections from outside sectors
 - Creation of new debt securities to fund banks
 - Foreign financed housing booms
2. Shift to more highly geared credit channels
 - Banking deregulation of 1980's
3. Pro-cyclical shifts in bank strategy:
 - Market share objective in upswing; margins in downturn



Lessons for policy

1. Banks to retain skin in the securitization game
2. There are few automatic stabilizers in a market based credit system
3. Macro-financial risk $> \Sigma$ micro-financial risks
4. Prima facie, there is a role for macro-regulation of the credit cycle
5. Implementation is the challenge



End of presentation

Impact of 1980's boom on Tennis court value

