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# Japan's Financial Crisis and Economic Stagnation

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## Abstract

We survey the macroeconomic stagnation and financial problems in Japan. The financial sector assessment includes separate analyses of the commercial banks, the life insurance companies and the government's fiscal investment and loan program (FILP). We estimate that the Japanese taxpayer will have to pay at least another 100 trillion yen (20% of GDP) to cover financial system losses. We explain how the current dysfunctional Japanese banking system misallocates funds by keeping many insolvent firms in business. These inefficient firms crowd out potentially profitable ones and worsen macroeconomic stagnation. A sustained macroeconomic recovery requires serious restructuring aimed at stopping this cycle.

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