

growth was 4.0 per cent, compared to 3.1 per cent for Canada and 2.6 per cent for the U.S.. The 1980s also saw a large asset price appreciation in Japan, particularly in the real estate market. Starting in the mid 1980s, real estate prices began to skyrocket, peaking at the beginning of the 1990s.¹ However, by 1992 Japan's real GDP growth had fallen to 1.1 per cent and 1993 recorded negative growth. Estimates of GDP growth for 1995 are only slightly positive and 1996 projections call for around 2 per cent growth.²

Japanese financial institutions suffered when asset prices started falling. The expectation, however, was of a readjustment which would bottom out with anticipated economic recovery. The banks' strategy was to wait out the depreciation and have the subsequent pick-up in prices resolve the non-performing loans problem. Unfortunately, the economy did not recover rapidly and real estate prices continued to decline. To date, official land prices have declined more than 30 per cent from their 1991 peak levels.³ Although values seemed to have been stabilizing early in 1995, the year brought continued declines in land prices, residential real estate and the rental market. In addition, the real estate market is now stagnant at even the lowest of prices.

The true valuation of real estate is complicated by the way in which "official" land prices are calculated. Embodied within the official price is a "theoretical price of land" which includes some factors that must be predicted for the future, such as interest rates. Such estimates are subject to "error" and some analysts believe that official land prices do not fully reflect the extent of the fall of market prices because the National Land Agency, although supposedly independent, has a vested interest in softening the decline.⁴

The bursting of the bubble need not have resulted in a crisis were it not for the collective irresponsibility of many financial institutions and inherent weakness in the system. Management and accounting practices at institutions which have failed have

¹For details of trends in official land prices, see OECD, *OECD Economic Surveys: Japan*, November 1995, p. 53.

²OECD, *OECD Economic Outlook*, December 1995, p. A4.

³I. Weberpals, *Recent Evolution of Consumer and Corporate Balance Sheets in Japan: Issues for Discussion*, Bank of Canada, September 1995, p.1.

⁴*Real* land prices have been estimated to be as low as 17 per cent of their 1991 levels. (Y. Kudo, "No Bottom in Sight", in *Tokyo Business Today*, November 1995, p. 14.)