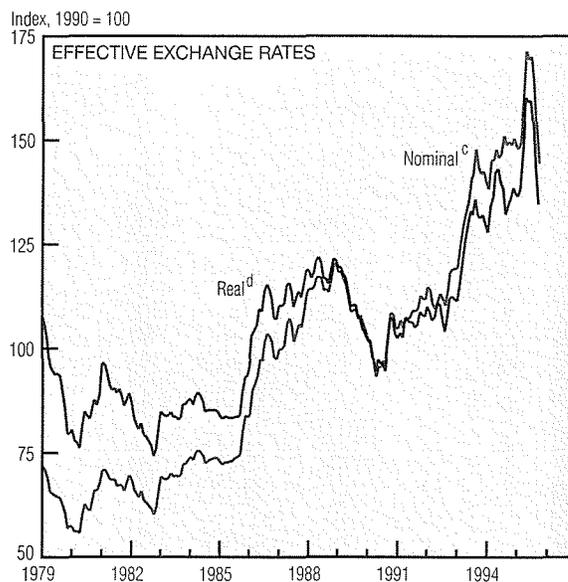
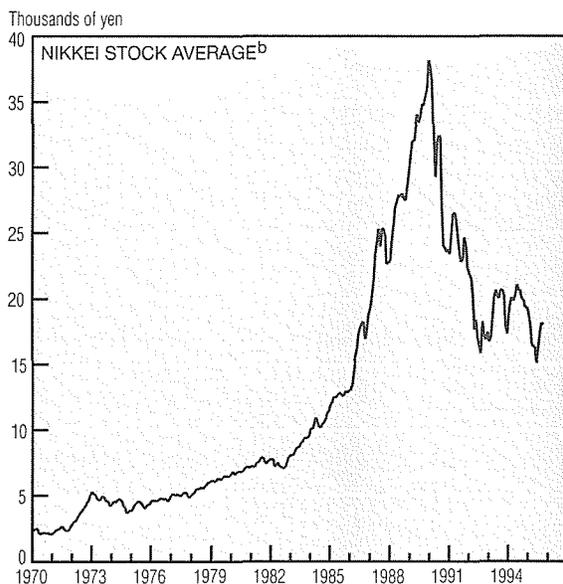
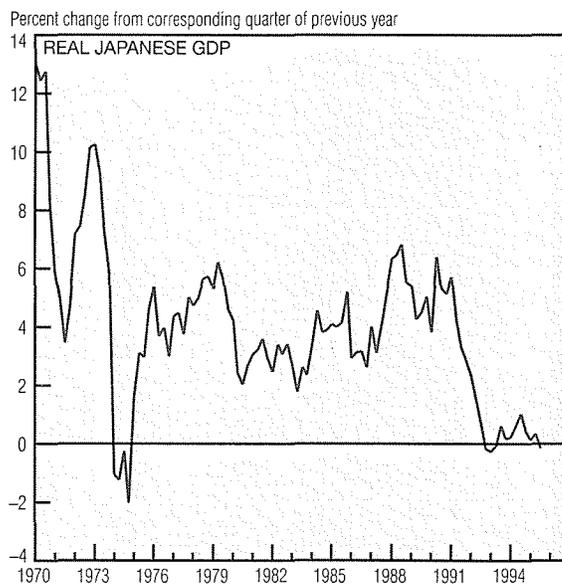


Japanese Bank Loans (Trillions of yen)				
	Total loans	Problem loans ^a	Loan-loss reserves	Unrealized gains on securities
City banks	274.6	13.1	4.2	8.1
Long-term credit banks	54.5	4.0	1.0	2.5
Trust banks	61.5	6.3	1.0	2.2
Regional banks	184.5	7.7	1.9	5.9
Credit unions/cooperatives	129.1	6.3	1.5	1.6
Total	704.2	37.4	9.6	20.3



a. Problem loans include nonperforming and restructured loans, but do not include loans to mortgage firms.
 b. Average of 225 stock prices.
 c. Nominal effective exchange rate is a weighted average of yen exchange rates against the currencies of the major industrialized countries.
 d. Real effective exchange rate adjusts the nominal effective exchange rate for unit-labor-cost differentials in manufacturing.
 SOURCES: Japanese Ministry of Finance; International Monetary Fund; and DRI/McGraw-Hill.

Because Japanese banks play a greater role in the allocation of domestic credit than do their American counterparts—or banks in most other industrialized countries—their financial well-being has strongly influenced the contours of Japan's economic recovery.

According to the Japanese Ministry of Finance, approximately 5.3% of Japanese bank loans outstanding at the end of September were either nonperforming (¥14 trillion) or had

been restructured (¥13.0 trillion) to forgive previously contracted interest payments. The Ministry believes that Japanese banks will write off approximately ¥18 trillion of nonperforming loans, including credit to mortgage firms. Considering loan-loss reserves and unrealized gains on securities, officials believe that the banking sector can sustain such a write-off.

The deterioration in asset values associated with the economic bust in

1990 and with the prolonged Japanese recession adversely affected household and business balance sheets and severely lowered the quality of bank loans—particularly those related to real estate. Because unrealized gains on equity formed a large share of Japanese bank capital, the stock-market collapse reduced the capital position of banks. This year, bank lending has begun to recover, but it remains weak.