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Were regulatory interventions effective in lowering systemic risk during the financial crisis in Japan? [☆]

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Abstract

This study empirically examines the effectiveness of various regulatory interventions on systemic risk during the financial crisis in Japan. Our findings generally show that the regulatory interventions worked effectively through the liquidity provision. That is, the public fund injection programs, the prompt corrective actions, and the blanket guarantee reduced systemic risk. The simple government intervention package to bail out distressed “too-big-to-fail” banks stabilized the banking system via the external channel whereas the massive bailout scheme suffered the “too-many-to-fail” problem in the sense that it increased systemic risk through both direct spillover and external channels. This study suggests that the effective government intervention should be restricted to a limited number of bailouts to reduce systemic risk.

Keywords: financial crisis, systemic risk, deposit insurance, public fund injection, bank failure

JEL classification: G21; G28; G18; G14; G32

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