

**CAN THE "BIG-BANG" CURE THE ILLNESS IN JAPAN'S FINANCIAL SYSTEM?**

**Abstract**

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After the Japanese government announced in that it would inject public money into the banking system in order to restore the confidence in the country's financial markets, activities seem to be back to normal. But underlying problems caused by the huge amount of non-performing loans on the books of Japanese banks remain unsolved. Unless decisive measures are taken, we are likely to see a loss of confidence (i.e., systemic risk) in the Japanese financial system again.

The developmental bias in Japan's financial system (policy-dictated allocation of financial resources) and the gradual approach to its reform should be replaced with a more market-oriented framework. The Big Bang initiative proposed by Prime Minister Hashimoto should be the right medicine, even if it is hard to swallow.

The current struggle in Japan has some implications for the Asian financial crisis. As a short-term measure, controlling capital flow may be necessary, but every country should pay attention to the transition in the management of its financial system.