

**FINANCIAL LINKAGES AND BUSINESS CYCLES OF JAPAN:  
AN ANALYSIS USING FINANCIAL CONDITIONS INDEX**

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〈SUMMARY〉

This paper constructs a financial conditions index (FCI) for Japan, using vector autoregressions (VAR) and impulse response functions, and then investigates the effect of financial shocks on business cycles of Japan. Based upon our estimation results, we found that the financial linkage played a significant role in Japanese business downturn caused by the global financial crisis in 2008-09, and that its effect has come mainly from fallen stock prices and exchange rate appreciation, but not from credit crunch or the financial accelerator mechanism as had been the case in the recession in the early 1990s.