In the decades following World War II, Japan implemented stringent tariffs and policies to encourage people to save their income. With more money in banks, loans and credit became easier to obtain, and with Japan running large trade surpluses, the yen appreciated against foreign currencies. This allowed local companies to invest in capital resources much more easily than their competitors overseas, which reduced the price of Japanese-made goods and widened the trade surplus further. And, with the yen appreciating, financial assets became very lucrative.

With so much money readily available for investment, speculation was inevitable, particularly in the Tokyo Stock Exchange and the real estate market. The Nikkei stock index hit its all-time high on December 29, 1989 when it reached an intra-day high of 38,957.44 before closing at 38,915.87. Additionally, banks granted increasingly risky loans.

Prices were highest in Tokyo's Ginza district in 1989, with choice properties fetching over 100 million yen (approximately $1 million US dollars) per square meter ($93,000 per square foot). Prices were only marginally less in other large business districts of Tokyo. By 2004, prime "A" property in Tokyo's financial districts had slumped to less than 1 percent of its peak, and Tokyo's residential homes were less than a tenth of their peak, but still managed to be listed as the most expensive in the world until being surpassed in the late 2000s by Moscow and other cities. Tens of trillions of dollars worth were wiped out with the combined collapse of the Tokyo stock and real estate markets. Only in 2007 had property prices begun to rise; however, they began to fall in late 2008 due to the financial crisis.

With the economy driven by its high rates of reinvestment, this crash hit particularly hard. Investments were increasingly directed out of the country, and manufacturing firms lost some degree of their technological edge. As Japanese products became less competitive overseas, the low consumption rate began to bear on the economy, causing a deflationary spiral. The Japanese Central Bank set interest rates at approximately zero. When that failed to stop deflation some economists, such as Paul Krugman, and some Japanese politicians, advocated inflation targeting.

The easily obtainable credit that had helped create and engorge the real estate bubble continued to be a problem for several years to come, and as late as 1997, banks were still making loans that had a low probability of being repaid. Loan Officers and Investment staff had a hard time finding anything to invest in that would return a profit. They would sometimes resort to depositing their block of investment cash, as ordinary deposits, in a competing bank, which would bring howls of complaint from that bank's Loan Officers and Investment staff. Correcting the credit problem became even more difficult as the government began to subsidize failing banks and businesses, creating many so-called "zombie businesses". Eventually a carry trade developed in which money was borrowed from Japan, invested for returns elsewhere and then the Japanese were paid back, with a nice profit for the trader.

The time after the bubble's collapse (??, h?kai?), which occurred gradually rather than catastrophically, is known as the "lost decade or end of the century" (????10?, ushinawareta j?nen?) in Japan. In October 2008 the Nikkei 225 stock index reached a 26-year low of 6994.90.