

## **Masaru Hayami: Towards a sustainable growth path**

Speech by Mr Masaru Hayami, Governor of the Bank of Japan, at the Keizai Club, Tokyo, 25 February 2003.

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This is my last speech as Governor of the Bank of Japan. I still remember how I braced myself for the immediate and formidable tasks when I took office five years ago. For Japan's economy, there were two: "how to return to a sustainable growth path" and "how to rebuild the financial system." And for the Bank of Japan, there was also the important challenge of navigating our way on a new voyage in line with the principles of the new Bank of Japan Law which came into effect at almost the same time as I became Governor.

Today, of the various tasks I have tackled during my term, I will focus on policy measures, monetary policy in particular, to bring Japan's economy back onto a sustainable growth path, our efforts in promoting the development of financial markets, which is closely related to monetary policy management, and efforts in improving transparency under the new Bank of Japan Law.

### **I. The current status of Japan's economy**

#### ***The real economy***

Let me start with the current status of Japan's economy.

Economic activity remains stagnant amid substantial uncertainty about the economic outlook.

Exports and production, which were the engine of recovery, have slowed down since the second half of last year and do not show any sign of improvement.

Business fixed investment is expected to be supported by an export-led profit recovery which also reflects corporate restructuring efforts. But a pick-up is unlikely for the time being, mainly due to substantial uncertainty regarding overseas economies. Private consumption is likely to remain weak for some time, due to the severe employment and income situation.

A widely shared view of overseas economies in 2003 is that they will follow a gradual recovery path. In this situation, I believe it tenable not to change our current forecast that exports will further increase and the uptrend in production will resume sooner or later, which will in turn gather momentum for recovery.

Of course, we should be vigilant against increasing uncertainties for the future.

#### ***Geopolitical risk***

Geopolitical risks centering on Iraq is a major risk to Japan's economy. Such risk also threatens the world economy.

If an attack on Iraq takes place, there seem to be three channels through which its effects spread based on the experience of the Gulf War: a surge in oil prices, deterioration in sentiment on the part of economic agents, and destabilization of financial markets such as the stock and foreign exchange markets.

Given such channels, the impact of a war on the global economy is likely to be relatively small if the conflict ends quickly.

At the time of the Gulf War, there was a surge in crude oil prices and a plunge in stock prices when Iraq invaded Kuwait, but, with the outbreak of the war, expectations spread for an early ending and the markets turned around. This time, oil prices have already been rising since the end of last year, and it is said that the market has already factored in, to a large extent, an early ending scenario of any war.

Of course, we should not be too optimistic. To be sure, we are not certain to what extent stock prices have indeed factored in a war scenario. Another concern is that the sentiment of economic agents

might deteriorate depending on war developments. What worries us is that consumer sentiment indicators in the United States have been declining since the middle of last year.

More caution would be necessary for global economic prospects if a war with Iraq becomes prolonged or spreads. Oil prices might either stay high or rise further to affect the world economy.

In addition, the U.S. economy, which is expected to be the driving force behind the world economy, has been underpinned by a moderate recovery in the expenditure of highly indebted households while business spending has been slow to pick up. If consumer sentiment further deteriorated under such circumstances, it would be a big threat to the scenario which assumes a moderate recovery of overseas economies led by the U.S. economy.

### ***Disposal of nonperforming loans and corporate finance***

Turning to domestic risk factors, we are monitoring how financial institutions will make progress in disposing of nonperforming loans, and how it will influence stock prices, corporate finance, and the real economy. Such attention is all the more necessary as Japan's fiscal year-end approaches.

We have recently seen some moves to tackle the nonperforming loan problem. Major banks have announced measures to raise capital, and narrowing of the spread between bank debentures and government bonds suggests that the markets have to some extent welcomed such measures. At the same time, however, it would appear that many market participants want more time to assess whether such measures would support the increase of banks' earning powers.

As was stated in "Japan's nonperforming Loan Problem" released last October by the Bank of Japan, while the problem was previously characterized primarily as the disposal of the fallout of the bursting of asset price bubbles, recently it has increasingly become more a question of the disposal of nonperforming loans newly generated during the transformation of industry and individual businesses.

Given such circumstances, earning powers at both firms and banks need to be increased to overcome the nonperforming loan problem, and persistent efforts should continue to be made. And, we should always be alert to the risk that, during such a process, a certain shock might prompt banks to tighten their lending stance and impair the fixed investment of enterprises with relatively high credit risk.

## **II. The road to sustainable growth**

The past two economic recovery phases in Japan, between the end of 1993 and the midst of 1997 and between early 1999 and the end of 2000, were both triggered by an increase in exports. But, unfortunately, in neither case did recovery lead to sustainable growth led by private demand. In fact, a slowdown in overseas economies and public concern over the domestic financial system dragged the economy back into recession. And now, economic indicators show that Japan's economy is in a cyclical recovery for the third time in ten years.

What is important this time around is how to ensure that Japan's economy returns to a sustainable and stable recovery path.

In order to answer this question, the following three points are important: room for monetary and fiscal policy, soundness of the financial system, and flexibility in the economic system.

Last weekend, I attended the G7 Finance Ministers' and Central Bank Governors' Meeting held in Paris. The statement issued specifically mentioned necessary measures for Europe, Japan, and the United States in order to realize higher growth. For Japan, the statement referred to the commitment to structural reforms including in the financial and corporate sectors. Such a recognition has much in common with what I am about to address in my speech.

### ***Room for exercising monetary policy***

To begin with, let us consider further room for exercising macroeconomic policy. On the monetary policy front, the Bank of Japan faces the zero bound on interest rates. The uncollateralized overnight call rate was already below 0.5 percent when I took office in March 1998. Against such a backdrop, I endeavored to make utmost use of marginal room for further interest rate reduction, and the call rate now stands at virtually zero.

The Bank of Japan also made efforts in seeking transmission channels other than short-term interest rates for conducting monetary easing. In March 2001 the Bank entered uncharted waters by adopting a quantitative easing framework. Commercial banks' current account deposits held at the Bank were adopted as a main target of money market operations, and ample liquidity has been provided.

As a result of such ample liquidity provision, the balance sheet of the Bank of Japan has rapidly expanded to an unprecedented level (Charts 1 and 2). Recently, the total assets of the Bank reached 128 trillion yen, a 40 percent increase from 91 trillion yen at the end of March 1998, and the ratio of monetary base to nominal GDP is now at an all-time high except for during World War II. As represented by such figures, the Bank has indeed been pursuing quite unusual policy measures.

The balance sheet of the Bank of Japan exceeded that of the ECB, on a foreign exchange rate-adjusted basis, and became the largest of those of the central banks in the world. Recently, the size of the balance sheet to nominal GDP increased from 18 percent at the end of March 1998 to 26 percent. Compared with 11 percent for the ECB and 7 percent for the FRB as of the similar date, you can imagine the extraordinary size of the Bank of Japan's balance sheet.

Such drastic monetary easing has had a tremendous impact on the financial markets. The uncollateralized overnight call rate has declined to 0.001 percent and, even interest rates for longer terms have fallen, for example 5-year government bonds now yield below 0.3 percent.

The decline in longer term interest rates is due mainly to the powerful effect on the market expectations of the Bank's commitment to continue its drastic monetary easing until the Consumer Price Index registers stably zero percent or more.

Ample liquidity provision by the Bank under the quantitative easing framework has played an important role in securing financial market stability by promptly responding to any sudden hike in liquidity demand and nurturing a sense of security with respect to market liquidity.

With the strong commitment of the Bank of Japan to providing an extremely easy and stable environment, markets have been able to overcome various adverse shocks, not only incidents such as the September 11th terrorist attacks in the United States and increasing bankruptcies at home, but also such times as the year-end, fiscal year-end, and semiannual business year-end.

The measures taken by the Bank of Japan have greatly contributed not only to financial market stability but also to the macroeconomic stability in that they have warded off the risk of the economy tumbling into a downward spiral.

Yet, if you ask whether such ample liquidity provision has played a role beyond underpinning the economy through market stability, and lifting the economy by stimulating demand, the answer is, unfortunately, only to a limited extent so far.

This is because, there has been a lack of forward-looking activity in the private sector to take advantage of extremely easy monetary conditions when the economy is facing the nonperforming loan problem and a high level of corporate debt, in addition to the limited room for interest rate reduction due to the zero interest rate bound.

### ***Fiscal policy***

With respect to fiscal policy, or another pillar of macroeconomic policy, there have been times when significant stimulus measures have been taken since the early 1990s and they have had a certain effect in underpinning the economy.

Yet, it is also true that fiscal policy had not sufficiently realized the effects one would expect from the sizes of these stimulus measures. This is partly due to the fact that it has not been necessarily exercised effectively either in terms of quality or content. For example, while the share of investment expenditure within the total fiscal expenditure has been quite high among OECD countries, inefficient investment has continued. Because of this, the spillover effects on private demand through the multiplier effect declined, and overall productivity growth in the economy slowed down. In addition, when there was serious concern over the prospects of fiscal balance, tax reduction would not be effective.

As a result of repeated fiscal stimulus measures, gross government debt increased markedly to become the highest among G7 countries. While the debt situation should be somewhat discounted considering the level of net debt, there is a constraint on increasing the amount of fiscal expenditure and the effects would be limited. Given that, I believe it is now all the more necessary to conduct

appropriate fiscal policy management including tax reform and a review of government expenditure so as to activate private demand.

### ***Financial system problem and financial intermediary function***

Let me turn to the second aspect, the role of the financial system in getting Japan's economy back on track.

The nonperforming loan problem of the financial system and, on the other side of the coin, the massive debt problem of the corporate sector, constitute a heavy burden for Japan's economy. In such a situation, the prolonged stagnation of the economy has substantially reduced the expected profit growth rate of firms, which have thus been inclined to allot improved cash flows, if any, to debt repayment rather than to capital investment.

Such moves are reflected in the declining growth rate of money supply (M2+CDs). Money supply posted 3-4 percent growth last year, but it has now slowed down to around 2 percent. A reason for this slowdown is probably a reaction to the rapid fund shift that was seen two years ago, but it is a fact that the current situation does not warrant high growth for the time being.

Money supply is the sum of deposits and cash held by firms and individuals, and deposits, which occupy a large part of it, drive its movement. Since deposits are liabilities of a bank, they are determined as a result of financial intermediary activity on the part of banks and demand for funds on the part of firms.

A substantial increase in money supply growth means a large expansion of banks' balance sheets. But, banks' balance sheets do not expand when it is rather difficult to expect an immediate increase in bank lending in the current situation where firms are repaying excess debt, which in itself is a necessary adjustment in the immediate future.

In this context, the challenges facing the policymakers, including the bank regulators, are how to activate the financial intermediary function of banks and, simultaneously, how to enhance financial intermediation other than through banks.

### ***Significance of capital market development***

When there are constraints on the credit creation activity of the banking sector, which shoulders the nonperforming loan problem, the use of capital markets, which are alternative channels for financial intermediation, might give an important clue for seeing Japan's economy return to a sustainable growth path.

Banks and capital markets ought to complement each other to support a nation's financial system. I believe that the advantage of capital markets lies in their price discovery function in order to realize efficient fund allocation. As the economic environment is constantly changing, such a function is particularly important at the present juncture where the swift reallocation of productive resources is needed and there are increasing public expectations for nurturing and organizing capital markets in which various market participants become engaged in price formation.

Japan's capital markets are quite small compared with those of the United States (Chart 3). In terms of corporate sector funding, while the outstanding loan amount extended by commercial banks is some 300 trillion yen, the outstanding balance of corporate bonds and CP issued remains at some 80 trillion yen (Chart 4).

Furthermore, Japan's capital markets are not matured and not functioning as efficiently as they should. Generally speaking, risks and returns are evaluated accurately in capital markets, and both investment and fund procurement are carried out based on the calculations derived from such evaluation. However, in Japan, only a limited number of firms issue corporate bonds and, consequently, a sufficient variety of risk-and-return combinations are not available to investors. Investors, for their part, are not keen to pursue optimal risk-and-return combinations.

Additionally, the role of public financial institutions needs to be clarified to improve capital markets. The share of public financial institutions in Japan's financial markets is remarkably high, compared with other countries. If the size of public financial institution becomes too big, the risk-and-return combination in the economy may be distorted, and the market economy pricing mechanism may not function sufficiently.

I do not deny the role of public financial institutions. In my opinion, there is a definite role public financial institutions should continue to play in the future. Yet, over time, the main role of these institutions might come to be restricted to providing credit enhancement measures in the limited areas where there is a need for policy. For example, public financial institutions could play a supporting role in nurturing securitization markets, such as markets for CP backed by receivables of small to medium-sized firms, by providing credit enhancement measures.

### ***Flexibility in the economic system***

The third aspect is flexibility in the economic system.

Policymakers must take appropriate measures on the macroeconomic policy front. They also need to take measures which promote the efficient functioning of financial intermediation. Moreover, the economy itself must respond flexibly to environmental changes and various shocks to return to a sustainable growth path. In this regard, it becomes increasingly important for policymakers to take measures, which support the economy to enhance its flexibility.

The structural problems in Japan were induced not only by the asset price bubbles but also because the economic system could not respond flexibly to substantial environmental changes such as globalization and computerization that progressed rapidly from the latter half of the 1980s to the 1990s, in addition to a declining birth rate and an aging society.

Responses to environmental changes were repeatedly deferred due to effects of the generation and bursting of asset price bubbles, slow progress of deregulation, and a high degree of intervention of the public sector in the economy. Such deferral constitutes one of the major factors behind the current severe situation Japan's economy finds itself in.

In order to bring Japan's economy back onto a sustainable growth path, it is vital to promote structural reform including responses to the nonperforming loan problem. Structural reform is a measure working on the supply side to improve productivity, and to reallocate the factors of production - labor, land, and capital - most efficiently in response to the changing economic environment. At present, the efficient and appropriate reallocation of such resources is required on various levels, such as among firms, among industries, and among regions.

While the government does play an important role in promoting structural reform, the main driving force must come from firms and other private economic agents. Efficient resource allocation will be realized only when individual firms pursue their economic activities such as production and investment through market mechanisms.

From such a viewpoint, I have been carefully watching the moves of individual firms. I am encouraged to observe that such moves as business reorganization have recently occurred in order to cope with environmental changes like globalization and computerization. I hope such a development will gain momentum in the months ahead.

### **III. Inflation targeting**

There does not seem to exist any magic remedy for bringing Japan's economy back onto a sustainable growth path. After all, the only way is for economic agents to persistently promote structural reform in their respective fields as well as for policymakers to continue making the utmost efforts on the macroeconomic policy front.

We cannot deny that a feeling of no way out has been in the air, and inflation targeting arguments in the context of monetary policy could be seen as a reflection of such feeling. Having said that, the argument which advocates inflation targeting as a remedy for Japan's problems is not appropriate for the following reasons.

First, while Japan's economy is experiencing moderate deflation, it is erroneously argued that the biggest problem is the price decline and the situation will improve if price declines are stopped. Such an argument misses the relation between the cause and effect. Looking at empirical analysis, inflation rates have responded to higher growth rates with a 1-2 year time-lag and the reverse relationship has not been observed.

Second, inflation targeting is essentially a framework for enhancing the transparency of the conduct of monetary policy. But arguments in Japan are problematic since they regard inflation targeting as a measure to overcome deflation.

Many seem to consider that, under inflation targeting, a central bank puts too much priority on attaining the target inflation rate and thus pursues monetary policy in quite a mechanical fashion. However, in countries where inflation targeting is adopted, great value is attached to attaining the target inflation rate over the medium-to-long term, and policy management is pursued with plenty of room for discretion inclusive of allowing the inflation rate to diverge from the target rate in the short run. What matters is a thorough explanation with respect to such short-term divergence from the target, and, in this sense, inflation targeting plays a role as an important communications tool for the central bank to explain the conduct of monetary policy.

In contrast, as I previously said, current arguments in Japan regard inflation targeting as a measure to overcome deflation.

In my opinion, as interest rates have reached virtually zero percent amid Japan's economy shouldering various structural problems and monetary policy has been hampered to a great extent, it is not appropriate to adopt inflation targeting.

To be sure, changing expectations with respect to inflation is one way to lower real interest rates. However, it is unreasonable to expect that public expectations can be so easily changed just by what the authorities say in the absence of effective policy measures and mechanisms.

In addition, not only would inflation targeting be ineffective but if its adoption also provoked expectations among the public that the Bank of Japan might adopt extreme measures which impair the creditworthiness of Japan's economic policy as a whole, it would greatly destabilize the markets and the economy.

The third reason is that inflation targeting arguments are based on the argument that deflation is a monetary phenomenon. While many tend to justify this assertion by saying it is in every textbook of economics, I believe that, in mapping out policies in Japan, it is necessary to apply theories taking into account the fact that the economy faces the zero interest rate bound and the nonperforming loan problem. Several important chapters about deflation and policy responses could be added to current economic textbooks when the experience of Japan and other countries are thoroughly analyzed.

As previously mentioned, the problem is that the mechanism to increase money itself is greatly constrained. As a consequence, any argument that everything will be solved as long as money can be increased avoids the essential policy problem.

For these reasons, it is not appropriate to adopt inflation targeting at this point. But this by no means signifies that the Bank of Japan tolerates a decline in prices.

The Bank of Japan has been making utmost efforts to promptly bring Japan's economy back onto a sustainable growth path and to realize a situation which enables prices to escape from the declining trend. The Bank's current commitment to continue monetary easing until the Consumer Price Index registers stably zero percent or more indeed represents its strong resolve to overcome deflation.

#### **IV. Improving financial market functioning and infrastructure**

The central bank's contribution to the macroeconomy is not limited to monetary policy.

The improvement of financial markets and strengthening of their functions are also important tasks for a central bank. Indeed, financial markets are where a central bank conducts its monetary policy operations and whether they function properly is extremely important in terms of the smooth transmission of policy effects. In addition, as previously mentioned, financial markets themselves play an important role in effecting efficient resource allocation, which is necessary for sustainable economic growth. I will only briefly touch on the Bank's actions, which have a close relationship with monetary policy.

##### ***Introduction of RTGS***

One is the introduction of real-time gross settlement - or RTGS - to Bank of Japan current account deposits in January 2001. This now means that when commercial banks request a fund transfer via

their current accounts at the Bank of Japan, we will immediately settle it on a transaction-by-transaction basis.

Compared with the previous settlement method where unsettled transactions were accumulated and settled in a lump at a designated time, the introduction of RTGS has contributed substantially to reducing risk in that it reduces the amount of unsettled funds as well as limits any chain reaction should a specific bank become illiquid.

Through ample liquidity provision, the Bank of Japan has been making efforts to ensure market stability, thereby underpinning the economy. In the process, the reduction of settlement risks through the introduction of RTGS has without doubt also played an important role.

### ***Public auction system for FB issuance***

For the issuance of financing bills (FBs), a public auction system was introduced. Strange as it may sound now, in the financial market of the second largest economy in the world, FBs had long been underwritten by the Bank of Japan until just a few years ago.

From such viewpoints as creditworthiness, liquidity, and the homogeneity of products, there was strong demand both domestically and overseas for FBs. Thus they are worthy to be a core product in the short-term money market. If there were insufficient market depth, smooth interest rate and price formation in the short-term money market would become difficult, leading to a serious problem from the viewpoint of securing measures for the Bank's money market operations and the conduct of monetary policy.

Taking account of such a situation and after thorough discussion with the parties concerned, the Bank of Japan reached an agreement with the Ministry of Finance in December 1998 to change FB issuance to, in principle, a public auction system. It was implemented in April 1999.

Subsequent development of the FB market has been greatly contributing to daily money market operations and the conduct of monetary policy as expected. At present, FBs also play an important role in meeting investor needs for safe and liquid assets. If the underwriting of FBs by the Bank of Japan had continued and there was a shortage of such products in the market, securing financial market stability would have been much more difficult than now.

### ***Making ABS and ABCP eligible collateral***

In relation to financial market improvement, the Bank of Japan made asset-backed securities (ABS) and asset-backed commercial paper (ABCP) eligible collateral for its money market operations.

As collateral for bill operations and the Lombard-type lending facility, the Bank selects eligible collateral based mainly on creditworthiness and marketability. Bearing in mind not only the need to diversify measures through which the Bank provides liquidity but also that such selection of eligible collateral contributes indirectly to ensuring smooth corporate financing, the Bank has been making efforts to adopt new financial products including ABS and ABCP as eligible collateral.

While the amount of securitized products used as collateral has not been that large so far, we believe there has been some positive impact on the development of their markets through the provision of liquidity by our making such products eligible as collateral.

## **V. Improving transparency**

Before closing, let me discuss the Bank's efforts to improve monetary policy transparency.

As I mentioned, my term as Governor started at about the same time as the new Bank of Japan Law came into effect. The Law has "independence" and "transparency" as its keywords. While the new Bank of Japan Law stands comparison with other central bank laws, it is an important and continuous challenge for the Bank of Japan how to implement the rules and principles it incorporates.

As Governor of the Bank of Japan, I have made not a few difficult decisions in navigating monetary policy. At the same time, I have taken pains to improve the ways of how best to discuss, determine, and externally communicate various policies under the framework of the new Bank of Japan Law.

For example, since October 2000, the Bank has been publishing the so-called "Outlook Report" semi-annually which summarizes the standard scenario and risks pertaining to the economic outlook, as well as giving forecasts of prices and growth rate by Policy Board Members as a reference. The scenario and a list of possible risks given in the report have been useful in terms of both enriching discussion and improving external accountability by providing a common platform for subsequent discussions at Monetary Policy Meetings.

With respect to the conduct of monetary policy, the Bank has endeavored to communicate in clear and simple language by employing not only those channels stipulated by law such as the minutes of Monetary Policy Meetings, which are issued about one month after each meeting, and semi-annual reports submitted to the Diet, but also by answering questions in the Diet and at press conferences. For example, the number of times I appeared in the Diet to answer questions during my term of office up to January was 382.

In improving transparency, the Bank makes efforts with respect to measures not only directly related to monetary policy but also those related to money market operations. The announcement of criteria for selecting counterparties in money market operations and guidelines on eligible collateral is one example, and we have been publishing the Bank's holding of government bonds by issue since June 2001, and the content of collateral the Bank has received since June 2002.

I am convinced that we have established a framework of monetary policy transparency at a level which compares favorably with that of any other central bank in the world. Our self-assessment published last summer, which was based on the IMF's "Code and Good Practice on Transparency in Monetary and Financial Policies," reaffirmed such recognition.

Even though a transparency framework has been established, it does not automatically mean that our monetary policy has gained public understanding. In fact, we have also received criticism. This is not because there is a problem with the transparency framework, but, as I explained today, because there have been some factors such as monetary policy being constrained in various ways and not able to produce tangible results, and the Bank being obliged to conduct its policy in the uncharted territory of quantitative easing after facing the zero interest rate bound.

In any event, transparency, which is one of the keywords of the new Bank of Japan Law, is not only an important responsibility for a central bank which was given independence under the framework of democracy, but also has significance in increasing the effectiveness of monetary policy. I believe it important to strive to improve transparency as we go forward.

## **VI. Concluding remarks**

Today I have reviewed my efforts at the Bank of Japan during my term centering on monetary policy.

During the past five years, we have been exploring what a central bank can and cannot do in order to get Japan's economy back on track.

In exploring the boundary between what a central bank can and cannot do, we have tried to find the right boundary by not being shackled by precedents, thinking hard, and acting with courage. Even after short-term interest rates reached virtually zero percent, we adopted a new framework of quantitative easing and have been providing ample liquidity. This was unprecedented in the central bank history. In addition, we also came up with an extremely unusual measure for a central bank last fall, namely the direct purchase of the shareholdings of banks in the interests of financial system stability.

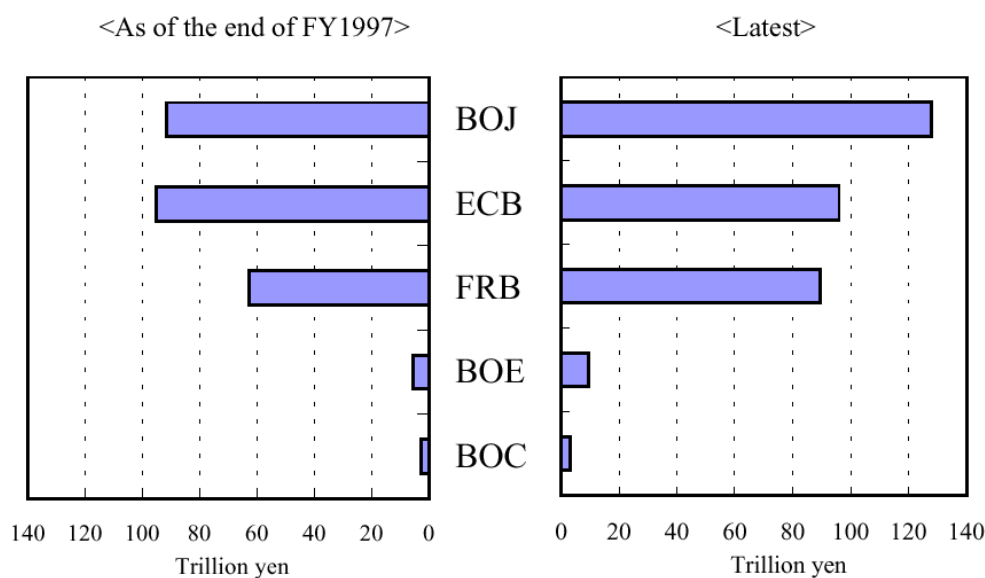
I am nevertheless aware that voices have been heard calling for further efforts on the part of the Bank of Japan for revitalizing Japan's economy. And, let me assure you here that we are committed to making the most of our wisdom and courage to further explore what we are able to do and to carry it out. Thank you for your attention.



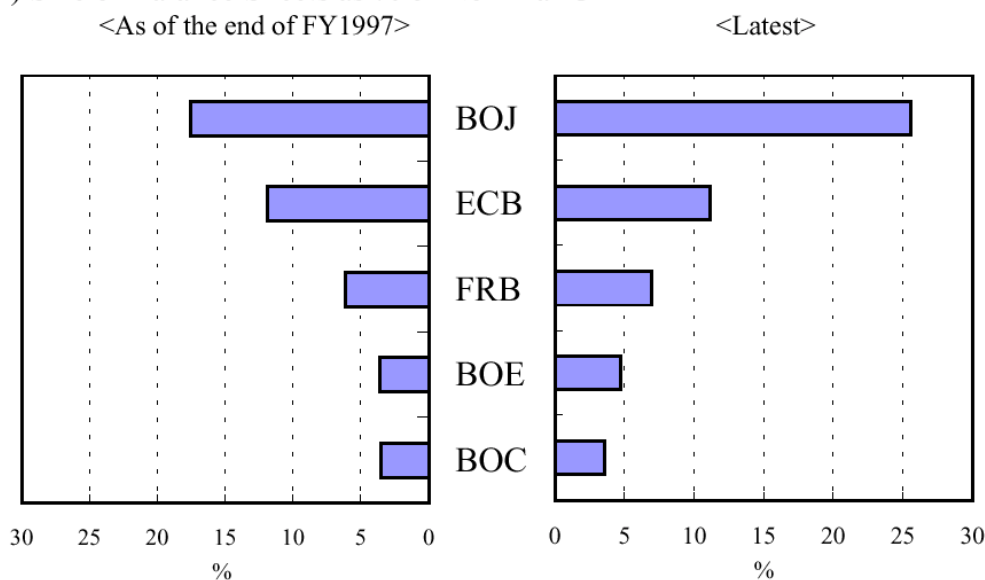
(Chart 1)

## International Comparison of Central Bank Balance Sheets

### (1) Size of Balance Sheets in yen



### (2) Size of Balance Sheets as % of Nominal GDP



Notes: 1. For ECB, balance sheet data for FY 1997 is not available and data for Jan.1,1999 is used instead.

2. The latest balance sheet figures used in charts are as follows:  
BOJ: Feb.20,2003 ; ECB: Jan.31,2003 ; FRB: Feb.19,2003 ;  
BOE: Dec.31,2002 ; BOC: Feb.19,2003.

3. The latest nominal GDP used in charts are as follows:  
Japan: 2002/Q4 ; Euro Area: 2002/Q3 ; U.S.: 2002/Q4 ;  
U.K.: 2002/Q3 ; Canada: 2002/Q3.

(Chart 2)

## Bank of Japan Accounts

(February 20, 2003)

(trillion yen)

Assets		Liabilities and Capital Accounts	
Gold	0.4	Banknotes	68.1
Receivables under resale agreements	8.4	Current deposits	20.1
Bills purchased	27.1	Deposits of the government	9.6
Government securities <sup>*</sup>	85.3	Payables under repurchase agreements	18.6
Foreign currency assets	4.3	Bills sold	3.9
Others	2.4	Others	2.5
		Capital and Reserves	5.1
Total	<u>127.9</u>	Total	<u>127.9</u>

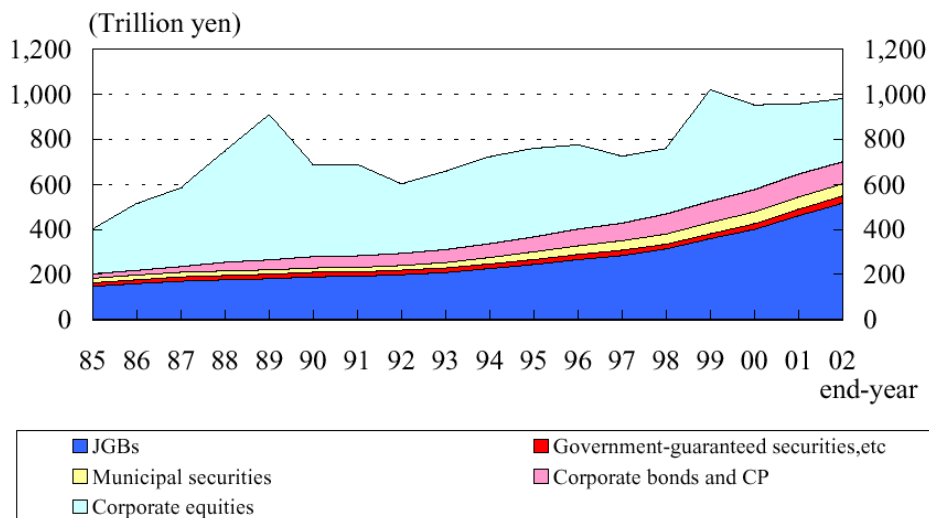
\* Breakdown of government securities

Long-term government bonds 58.1

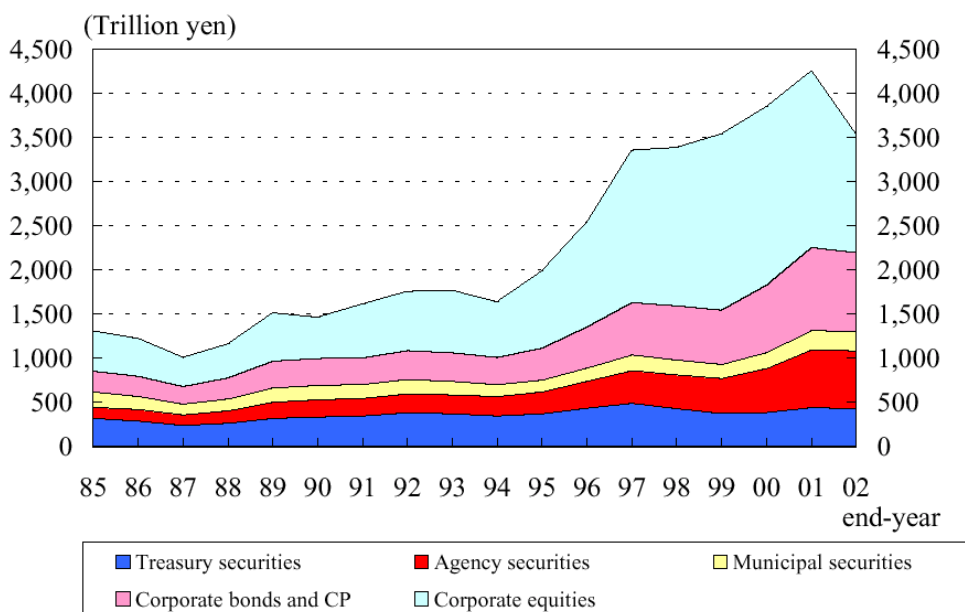
Treasury bills and financing bills 27.3

### Outstanding Amounts of Selected Capital Markets

#### (1) Japan



#### (2) U.S.



Sources: Bank of Japan, "Financial and Economic Statistics Monthly"; Tokyo Stock Exchange, "Annual Securities Statistics"; Japan Securities Dealers Association, "Bond Review"; Board of Governors of Federal Reserve System, "Flow of Funds Accounts"; etc.

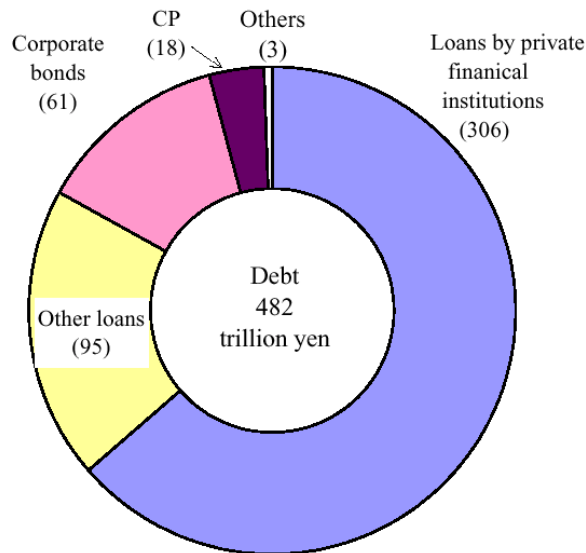
Notes: Figures: end-year/ end -September 2002  
Japan's "Corporate equities" is the sum of market capitalization of listed and registered corporations.  
"JGBs" includes FBs.  
US figures represent the total of all sectors in "Flow of Funds Accounts". Dollar amounts are converted into yen at spot rates in the Tokyo market at year-end/ end-September 2002.

(Chart 4)

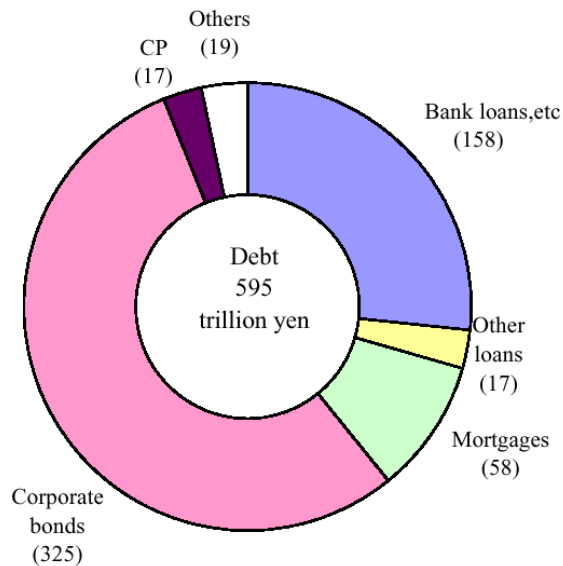
## Breakdown of Debt of Private Nonfinancial Corporations

(end-September 2002 <Preliminary>)

### (1) Japan



### (2) U.S.



Sources: Bank of Japan, "Flow of Funds Accounts"; Board of Governors of Federal Reserve System, "Flow of Funds Accounts".

Notes: Japan's figures are on a "Private nonfinancial corporations" basis. US figures are on a "Nonfarm nonfinancial corporate business" basis.

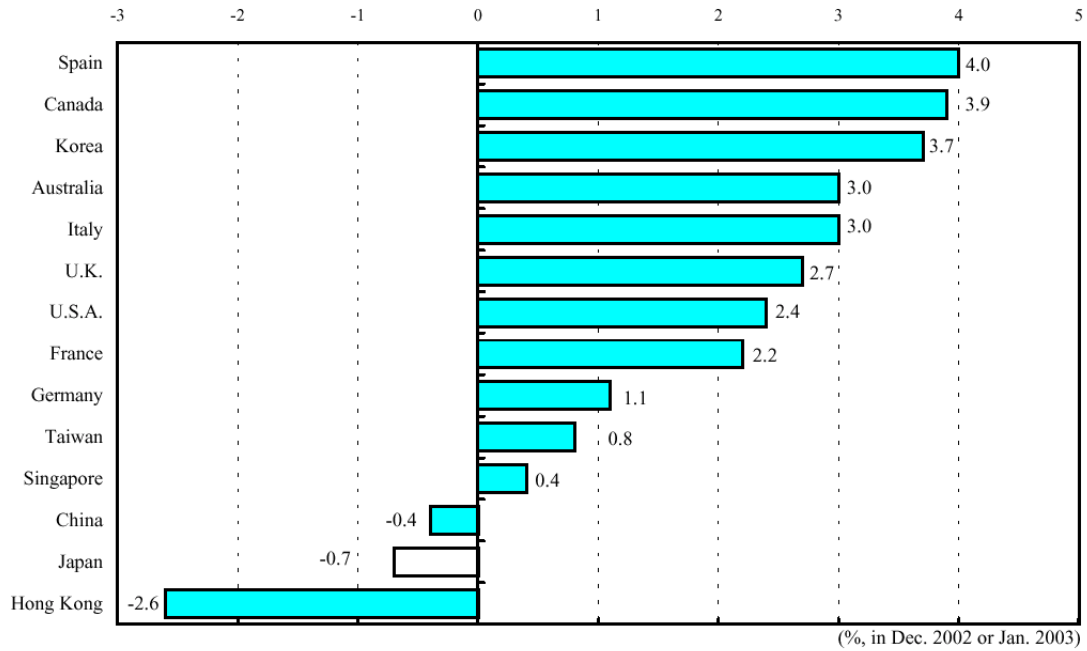
Debt amounts represent the sum of "Loans" and "Securities other than shares" in Japan, and "Credit markets instruments" in the US.

Figures in parentheses: trillion yen (USD 1 = JPY121.79 <end-September 2002>).

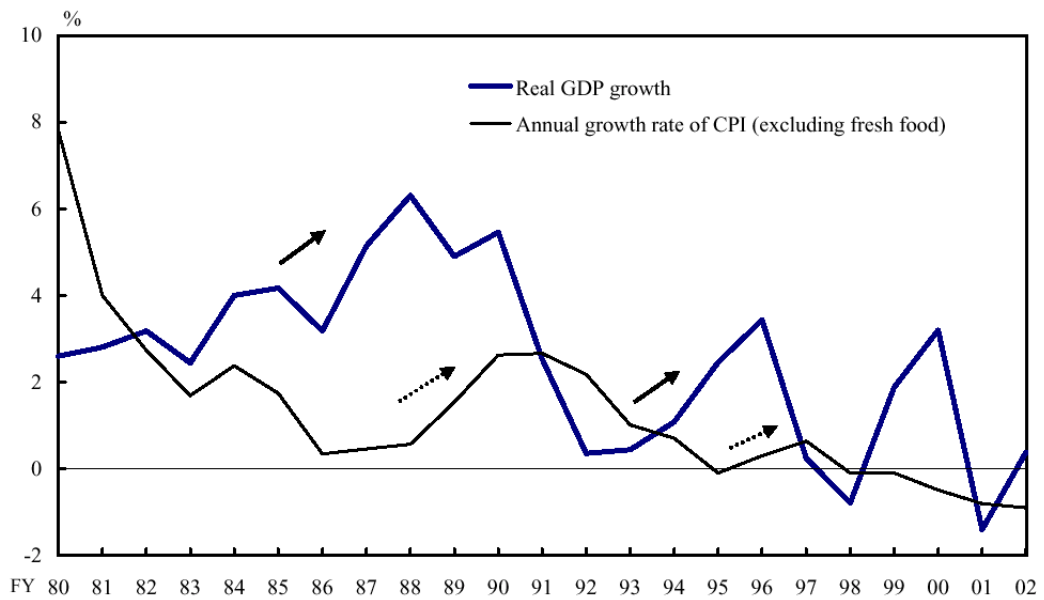
(Chart 5)

## Inflation Rates in Japan

(1) International Comparison of CPI Growth Rates



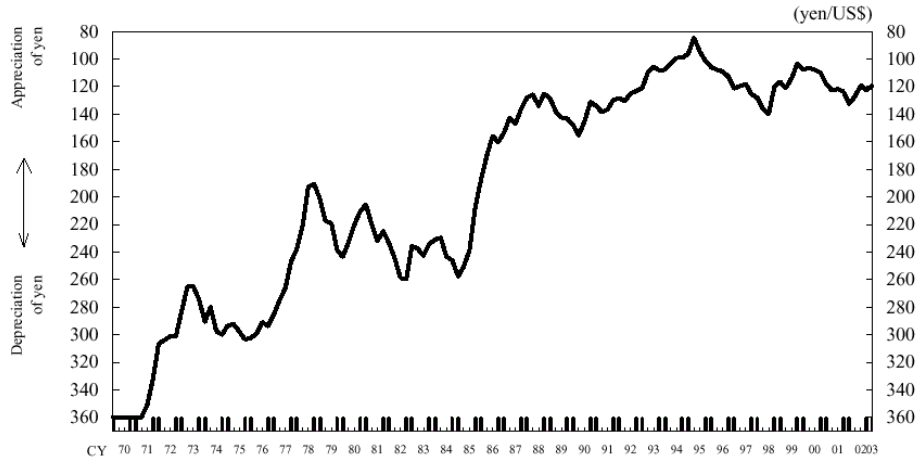
(2) Inflation Rate and Economic Growth



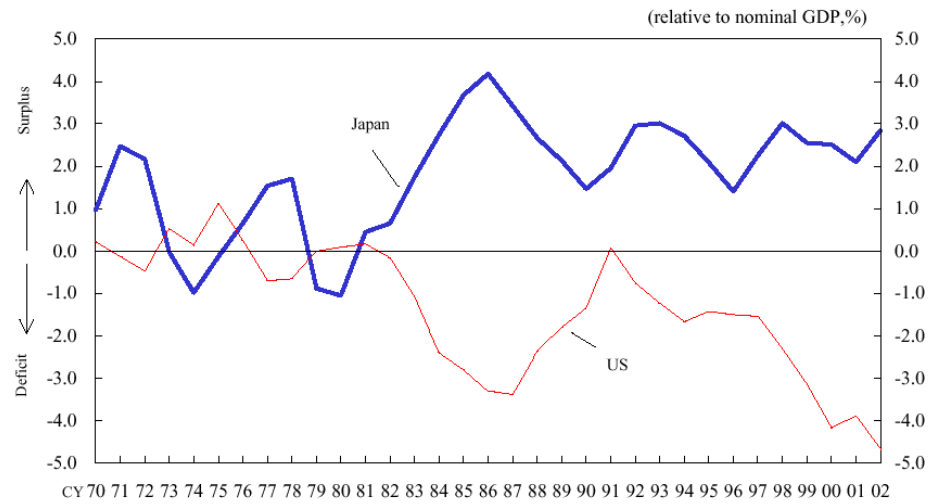
(Appendix)

## Exchange Rates and Current Accounts

(1) Yen/Dollar Rates



(2) Current Accounts



(3) Net Foreign Assets (Japan and U.S.)

