Hirohide Yamaguchi: Recent economic and financial developments and the conduct of monetary policy

Speech by Mr Hirohide Yamaguchi, Deputy Governor of the Bank of Japan, at a Meeting with Business Leaders, Otaru, 25 March 2009.

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Introduction

I would like to thank the financial and business communities in Otaru for giving me the opportunity to speak here today. I would also like to thank you for your close cooperation with our Sapporo Branch in providing information on the economic and financial situation of the region. The information is very valuable in enabling us to accurately grasp current economic and financial conditions in Japan and formulate the conduct of monetary policy.

I visited Otaru previously a number of times in connection with the closing of the Bank of Japan's Otaru Branch in 2002 and its remodeling as the Bank of Japan Otaru Museum. Closure of the branch was not easy for the local community to accept, but I am very glad to hear that the museum has become well known and welcomed its 500 thousandth visitor in May 2008, five years after its opening. This successful transition owes a great deal to the understanding and cooperation of the local community.

Before we exchange views, I will speak about recent economic and financial developments in Japan and abroad and also about policy responses in major countries. In particular, I will describe my view of the current substantial economic downturn and the economic outlook, and how the authorities worldwide, including the Bank, have acted, as well as the thinking behind their actions.

I. Global financial markets and economic developments

A. The background of the turmoil in global financial markets and economic downturn

I will start with developments in global financial markets and the world economy.

The turmoil in global financial markets began in the summer of 2007, but the situation worsened suddenly when the markets were hit by the failure of Lehman Brothers Holdings Inc. in September of last year. Market participants' and investors' concerns about the creditworthiness of their trading partners, or counterparty risk, intensified, and as a result the volume of market transactions dropped sharply and market liquidity dried up. These developments subsequently caused a widening of credit spreads on corporate bonds and a chain reaction of financial institutions' failures and deteriorating performance in many countries, with prices of financial products – especially securitized ones – dropping and these products eventually becoming nonperforming assets of the financial institutions holding them.

As you know, the turmoil in global financial markets and the subsequent global economic downturn was triggered by the U.S. subprime mortgage problem, which surfaced in the summer of 2007. This problem, however, was merely a prominent example of corrections to various financial and economic imbalances that had accumulated.

Looking back, the world economy enjoyed favorable conditions until a couple of years ago, and unprecedentedly high growth rates of around 5 percent continued from 2004 through 2007. Notwithstanding the high growth, prices were generally stable due mainly to an expansion of global supply capacity resulting from the entry of emerging economies into the market economy. Amid the high economic growth and low inflation, interest rates worldwide remained low for a prolonged period.

In this continued benign environment of high growth, low inflation, and low interest rates with growing optimism about prospects, financial and economic activity overheated and imbalances accumulated. This overheating caused a number of things to happen. For example, the rapid growth of emerging economies significantly increased the demand for resources such as crude oil, and led to a surge in commodity prices. Investors and financial institutions eased their credit standards, and a global credit bubble emerged, as seen in the U.S. subprime mortgage problem. Looking at developments in final demand on a global basis, not only industrialized economies in North America and Europe but also emerging and commodity-exporting economies experienced robust private consumption, particularly of durable consumer goods, and also very strong business fixed investment. These were all indications of the overheating of financial and economic activity. The current global financial crisis and the large economic downturn can therefore be viewed as part of the process of correcting imbalances that had accumulated.

These developments suggest that the current financial crisis and economic downturn were essentially caused by the cycle of the generation and bursting of a global credit bubble, or the cycle of the overheating and corrections of financial and economic activity, similar to cycles that occurred repeatedly in the past. Looking back over the previous two decades, we can see many boom-and-bust cycles: Japan's asset price bubble in the late 1980s, the Asian currency crisis in the late 1990s, and the global IT bubble in the early 2000s. But the most recent cycle has brought a worldwide economic downturn that is much larger than any in recent history, with distinctive features of "simultaneity" and "rapidity."

I will now describe the background of this simultaneous and rapid downturn of the world economy in terms of three features: the progress of globalization in financial activity; the progress of globalization in economic activity; and IT innovations.

Taking the progress of globalization in financial activity first, financial institutions and investors around the world now carry out a large volume of cross-border financial transactions and invest in a variety of financial assets. The U.S. subprime mortgage problem had immediate repercussions also on Western European financial institutions because they made large investments in securitized products backed by U.S. subprime mortgages. Financial institutions and investors in the United States and Western Europe had an important role channeling funds to emerging economies in regions such as Central and Eastern Europe and in Latin America. Since these financial institutions suddenly scaled back their exposures to emerging economies, the financial crises of the United States and Western Europe have spread to the rest of the world.

The second feature of the background is the progress of globalization in economic activity. Since the 1990s, emerging economies – the NIEs, the BRICs, the ASEAN countries, and the former centrally planned economies – have become full-fledged members of the market economy. Although these economies continued to enjoy a level of growth higher than the industrialized economies until recently, they have now decelerated significantly due to the outbreak of turmoil in global financial markets and the drop in their exports caused by the downturn in the U.S. and European economies. Emerging economies increased their presence in the global marketplace not only as production bases of durable consumer goods and parts for industrialized economies but also as a huge market for the latter's products. Consequently, the decrease in the industrialized economies' exports to emerging economies has aggravated the economic deterioration in the industrialized economies. It is clear that an interregional adverse feedback loop between trading partners – a process in which both imports and exports of individual countries decline, resulting in a further economic stagnation of all countries involved – is now operating around the globe, irrespective of the level of economic development.

The third feature of the background is IT innovations, which have supported the progress of globalization in financial and economic activity. The widespread use and popularization of IT systems has supported globalization through the increased speed of transactions, reductions in the interregional information gap, and a global network of transactions. The breakthrough in information processing capacity has enabled the formation of massive financial trading systems as well as payment and settlement systems, both of which process an enormous amount of trading information in a second. Ironically, these sophisticated systems perform equally well in times of contraction in financial transactions and economic activity. In the current environment, they accelerated the speed of contraction and may have caused a sudden unwinding of imbalances, leading to the rapid economic downturn.

B. The current state of and outlook for the world economy

With the abrupt contraction of credit and the drop in commercial trade around the globe, many economies are inevitably facing either recession or a slowdown. U.S. economic conditions have deteriorated significantly. The housing market has been undergoing adjustments, and business and consumer spending behavior has become cautious reflecting tight funding conditions and greater uncertainty about economic prospects. In European economies, in addition to a decrease in exports, domestic demand has also been declining partly due to financial institutions' tightening of lending standards. Emerging economies and commodity-exporting economies, as I described earlier, have been slowing because their exports have decreased reflecting the U.S. and European economic deterioration and also because financial conditions have worsened reflecting increased capital outflow. Thus, in many economies an adverse feedback loop is operating – a process in which production, income, and expenditure spiral downward with a decrease in, for example, exports as a starting point. Simultaneously operating worldwide is yet another adverse feedback loop, between financial and economic activity – a process in which worsening economic conditions due to financial institutions' tightening of lending standards squeeze the institutions' profits, and this in turn further tightens their lending standards.

We are often asked whether the current global economic downturn might evolve to become as serious as the Great Depression of the 1930s. The difference between the Great Depression and the current economic downturn is relatively clear if one looks at the policy responses by the relevant authorities worldwide. Unlike the time of the Great Depression, when the authorities could not take effective measures in response to failures of financial institutions, the authorities in many countries today have already formed a framework to protect depositors and are expeditiously injecting public funds into financial institutions in distress. Other differences are that currently governments and central banks in major countries are promptly taking fiscal and monetary policy actions and the system of free trade between nations is being basically maintained. However, the following questions should continue to be kept in mind: (1) whether the actions that have been taken to date to secure financial system stability are sufficient when the adverse feedback loop between financial and economic activity is still operating; (2) what specific means should be employed to compensate for the weakness in effective demand; (3) whether current financial conditions are sufficiently accommodative relative to the severity of the deterioration in economic conditions; and (4) whether protectionism will reemerge, with too much support being given to domestic industry. I think it is important to continue analyzing the current difficult situation coolly from a contemporary perspective, neither overstating nor understating developments, and referring to the lessons learned from the past rather than trying to make imperfect comparisons with the past.

Looking ahead, since the current financial crisis and economic downturn are a process of correction of various imbalances that had accumulated over the past several years, the present severe situation will likely continue for some time. For the world economy to return to a recovery path, the following conditions need to be fulfilled: (1) the U.S. and European financial systems will have to regain stability, reducing downward pressures on the world economy from the financial side; and (2) at the same time, adjustments in asset prices, production, and excessive capital stock will have to make progress, paving the way for a recovery in aggregate demand. However, there are lingering concerns about the U.S. and

European financial systems, and the drastic disposal of nonperforming assets has only just begun. There is no clear sign of improvement in indicators for major economies at this point, and it will be some time before fiscal and monetary policy actions in these economies fully take effect. The Bank expects that, from the latter half of fiscal 2009, global financial markets will regain stability and overseas economies will move out of their deceleration phase. However, given the current state of the global economy, it is inevitable that uncertainties about the outlook are great.

II. Economic and financial developments in Japan

A. The current state of and outlook for Japan's economy

Now I will discuss economic and financial developments in Japan.

Japan's economy started to decelerate from the spring of last year, and since the autumn exports and production have been experiencing one of the sharpest drops ever. In January this year, exports and industrial production fell by 15.8 percent and 10.2 percent respectively, on a month-on-month basis, both showing a decline comparable to the sharpest falls in history. In addition, domestic demand has become weaker against the background of declining corporate profits and the worsening employment and income situation in the household sector. Against this background, the Bank's assessment is that Japan's economic conditions have deteriorated significantly and are likely to continue deteriorating for the time being. Real GDP contracted in the October-December quarter last year by 12.1 percent on an annualized quarter-on-quarter basis, the sharpest decline since the period immediately after the first oil crisis, and this figure supports the Bank's assessment. The rates of real GDP growth for the United States and the euro area in the same quarter were minus 6.2 percent and minus 5.7 percent, respectively, and the fact that Japan's economy contracted more sharply underscores the severity of the country's current economic conditions.

The fact that the downturn is more severe in Japan than in the U.S. and Western European economies, from which the global economic turbulence stemmed, seems to be due mainly to the growth mechanism of Japan's economy that has operated for some years.

Japan's economy continued to grow from early 2002 until recently, moderately perhaps, but uninterruptedly. The background to this long period of growth was provided by – in addition to Japanese firms' efforts to reduce excessive debt and capital stock – the favorable environment of a rapidly growing world economy. In this situation, Japan established an economic growth mechanism that is primarily based on production for export of durable consumer goods and capital goods, especially automobiles, electrical machinery, and general machinery. I believe that this may be due partly to the following facts: (1) due to the declining birthrate and the aging population, rapid growth of domestic demand could not be expected; and (2) the yen was on a depreciating trend until the middle of 2007. In fact, the industries manufacturing the three types of products I just mentioned account for about half of industrial production in Japan, while the share of their counterparts in the United States is only about 20 percent. About 65 percent of all domestically produced automobiles were exported in 2008, a great increase from about 55 percent in 2002. With regard to general machinery, external orders, led by strong demand from member countries of the European Union (EU) and commodity-exporting and emerging economies, grew steadily from 2002 until 2007, increasing by slightly over 50 percent during the period.

The ongoing global economic downturn has delivered a blow to this growth mechanism of Japan's economy. A large drop in real GDP in the October-December quarter was also observed in South Korea, Taiwan, and Germany – all of which have economies with a high share of manufacturing industries sensitive to changes in exports, such as those producing durable consumer goods, capital goods, and parts for both. In addition, in the case of Japan, it seems that the rapid appreciation of the yen from the summer of last year has amplified downward pressure on exports that already existed due to a drop in final demand overseas. Furthermore, in Japan the share of domestically produced parts and materials is higher than in other countries such as the United States, and therefore a decrease in exports tends to adversely affect even industries that are not export-oriented.

These industries are cutting production sharply to reduce excessive inventories, and therefore production is likely to continue decreasing for the time being. Business fixed investment, particularly for expanding production capacity, is also likely to decrease for the time being, as firms have increasingly regarded their capital stock as excessive. Labor market conditions are slackening, and developments warrant careful monitoring as adjustments in the labor market, in terms of both wages and the number of employees, might spread from manufacturers to nonmanufacturing firms.

Japanese households, whose savings ratio is high, own large amounts of financial assets, but they are not under pressure to make large-scale balance sheet adjustments, unlike their U.S. counterparts, which are suffering from falling land and home prices. However, the worsening employment and income situation has been gradually taking its toll, and this may exert additional downward pressure on private consumption. Furthermore, attention should be paid to the possibility that recent unstable stock prices and the deteriorating employment situation may weaken consumer confidence further.

Prices are on a downward trend. In the summer of last year, CPI inflation, in terms of the year-on-year rate of change, rose to 2.4 percent, its highest level since the first half of the 1990s. Thereafter, however, it moderated reflecting declines in the prices of petroleum products, falling to 0 percent in January this year. It is projected to become negative soon with the increasing slackness evident in supply and demand conditions due to the severe economic situation.

As for the outlook for the economy, the Bank's baseline scenario projects that it will start recovering from the latter half of fiscal 2009, with price declines abating as global financial markets regain stability and overseas economies move out of their deceleration phase. However, a high level of uncertainty surrounds this scenario, involving some risks.

Japan's production is likely to continue decreasing for the time being, but it is also likely that the pace of the decrease will slow gradually as inventory adjustment pressures diminish. In this situation, whether final demand will start to recover rapidly when the adjustment is completed is the key to the recovery of Japan's production and the economy as a whole. As I just mentioned, it is highly uncertain when and how the world economy will begin recovering, and therefore it is also unclear to what extent recovery in exports will bring economic recovery in Japan. If recovery in final demand – including exports – is long delayed, or if the degree of the recovery is small, this may cause a decline in firms' medium to long-term growth expectations and a consequent increase in adjustment pressures on capital stock and employment, eventually depressing domestic private demand further. With regard to prices, if downside risks to the economy materialize and the rate of change in prices continues to be negative for a long period of time, firms' and households' medium- to long-term inflation expectations may decline. The Bank will continue to carefully examine developments as well as various downside risks.

B. The financial environment in Japan

Next, I would like to talk about the current financial environment.

Financial conditions in Japan have remained tight since the failure of Lehman Brothers. I would like to focus on recent developments in corporate financing, which is most relevant to today's audience.

The first issue is the levels of interest rates applied to borrowing by firms. They are declining due mainly to the effects of the reductions in the policy interest rate since the autumn of last year and improvements in the CP market. CP issuance rates, which surged through the end of last year, have declined since the turn of the year, and banks' lending rates have also declined slightly, partly reflecting reductions in short-term prime lending rates. On the other hand, credit spreads are increasing or remain elevated, counteracting the effects of the policy interest rate reductions.

The second issue is the amount of borrowing by firms. Firms are inclined to compensate for a decline in cash flows by borrowing and also to increase cash in hand in view of the uncertainty of the future. In this situation, there have been some improvements in the issuing environment for CP and bonds, but issuance of these instruments as a whole has been below the previous year's level. By contrast, bank lending, especially to large firms, has continued to increase rapidly.

On the lender banks' side, however, they are becoming increasingly conscious of their capital constraints against the background of expanded securities-related losses and higher credit cost caused by a deterioration in the business performance of borrower firms. In this situation, an increasing number of firms have reported that their financial positions are weak and lending attitudes of financial institutions are severe. Various research results show that small firms, lending to which has remained below the previous year's level, see their financial positions as having deteriorated and financial institutions' lending attitudes as having tightened as much as in 1998 and 2002, and the Bank needs to pay due attention to developments.

The financial condition of Japanese financial institutions has been relatively stable even after the emergence of the U.S. subprime mortgage problem, because they have generally made progress in the disposal of nonperforming assets since the bursting of the economic bubble and also because their investments in overseas securitized products have been limited. In fact, unlike in the United States and Europe, failures of financial institutions and their rescues by injection of public funds have not occurred in Japan. Notwithstanding this, given that the economic downturn is likely to continue for the time being, attention needs to be paid to the possibility that the financial health of Japanese financial institutions may worsen and their risk-taking ability may decline gradually, in turn reducing their lending capacity. The Bank will continue to carefully examine whether the financial intermediation function of Japanese financial institutions and the financial system in Japan will be maintained so that the adverse feedback loop between financial and economic activity will not intensify.

III. Policy responses

Having explained economic and financial developments at home and abroad, I would now like to move on to recent policy responses in major countries to those developments.

Major countries have been taking policy measures to cope with problems in their financial systems. Increased strains in global financial markets and heightened concerns about their financial systems have prompted them to take various measures since the autumn of last year. The U.S. and European authorities, the governments in particular, have taken a wide range of measures: injection of public funds into financial institutions in distress; expansion of deposit insurance coverage; and purchases of nonperforming assets from financial institutions. The increased capital constraints that I mentioned earlier have made strengthening financial institutions' capital bases all the more important also in Japan, even though its financial system remains stable compared with those of the United States and Europe. Against this background, the revised Act on Special Measures for Strengthening Financial Functions was passed by the Diet in December to improve the framework for utilizing public funds.

Many of the measures being taken in the United States and Europe at present are very similar to those adopted in Japan to fight the financial crisis in and after the second half of the 1990s. In that sense, I believe that Japan's experience has been reflected in the measures being taken in foreign countries today. Lessons learned from Japan's experience include the fact that, when an adverse feedback loop is at work between financial and economic activity, policy responses to ensure the stability of the financial system might not by themselves resolve the problem completely. The key is to launch a comprehensive policy package to prevent intensification of the loop. In such a policy package, measures in different areas will need to be implemented simultaneously: not only measures to strengthen financial institutions' capital bases, but also measures to resolve excesses in the corporate sector as well as support its revitalization, and others to underpin overall economic activity. In this regard, the Bank will continue to find opportunities to explain to other countries the lessons Japan has learned.

Major countries have been taking decisive measures as well in fiscal policy. In the United States, the new Obama Administration has launched large-scale fiscal stimulus packages equivalent to about 75 trillion yen. The Chinese government has announced measures equivalent to about 60 trillion yen to boost the economy. The Japanese government also intends to implement 12 trillion yen in fiscal measures and 63 trillion yen in financial measures. In the conduct of fiscal policy, generally speaking, it is important to examine ways not only to create demand in the short run but also, for example, to improve the infrastructure, which will enhance productivity, eventually increasing the growth potential of the economy in the long run. Moreover, as indicated in the statements of the latest G-7 and G-20 meetings of finance ministers and central bank governors, it is also important that the measures be consistent with medium- to long-term fiscal sustainability.

As for monetary policy, major central banks have been taking appropriate measures in a timely manner, varying in accordance with the economic and financial situation in each country. The Bank has been conducting monetary policy in three main areas: reductions in interest rates; provision of ample liquidity to stabilize financial markets; and facilitation of corporate financing by influencing individual financial markets. Taking each area in turn, I would now like to explain the measures the Bank has implemented since the autumn of last year.

With regard to reductions in interest rates, the first area, the Bank reduced the target for the uncollateralized overnight call rate – its policy interest rate – to 0.1 percent, from 0.5 percent. It also worked on the interest rates on term instruments by devising methods for liquidity provision, and as a result they have been slightly lower than at the beginning of this year, even though demand for funds tends to increase as the fiscal year-end approaches.

The second area is ensuring stability in financial markets by providing ample liquidity. The Bank has been conducting U.S. dollar funds-supplying operations in a coordinated action with other central banks, and has also been providing ample funds in yen by, for example, purchasing Japanese government bonds (JGBs) outright. Following December's decision to increase outright purchases of JGBs from 14.4 trillion yen per year to 16.8 trillion yen, the Bank decided, at the Monetary Policy Meeting held last week, to increase the amount further by 4.8 trillion yen to 21.6 trillion yen per year. Last week's decision was made because, given the likelihood that the markets will remain under stress in the new fiscal year, the Bank judged that continued provision of substantial liquidity is required to ensure stability in financial markets. With this decision, the Bank would make greater use of its long-term funds-supplying operations, thereby facilitating smooth money market operations.

Regarding the third area, measures for facilitating corporate financing, the Bank has been conducting since January 2009 new operations called "special funds-supplying operations to facilitate corporate financing." These enable financial institutions to obtain funds with a maturity of up to three months with no explicit ceiling on the total quantity of funds available, although the maximum amount borrowed by an individual financial institution may not exceed the value of the corporate debt it has pledged as collateral. The interest rate on these funds was set at 0.1 percent, lower than the market rates for funds with corresponding maturities. In addition, the Bank expanded the operations in February by, for example, increasing the frequency of the operations to once a week from twice a month and standardizing the duration of each loan to three months instead of one to three months; these changes were aimed at encouraging a decline in longer-term interest rates, which are the rates actually applied to firms' borrowing, and relieving firms' funding concerns.

Furthermore, in January the Bank decided to conduct outright purchases of CP totaling 3 trillion yen from financial institutions. Last month, it also decided to purchase outright 1 trillion yen of corporate bonds with a residual maturity of up to one year. The Bank took these measures based on its recognition that a decline in the functioning of CP and corporate bond markets was causing a tightening of overall corporate financing conditions. These measures are expected to encourage financial institutions to sell CP and corporate bonds they hold and thus expand their lending capacity.

The Bank's outright purchases of corporate debt, however, involve a relatively higher probability of imposing costs on taxpayers by incurring losses, and deepen the involvement of the Bank in microeconomic resource allocation among individual firms. In addition, they involve higher risks, compared to other policy measures, of damaging the financial health of the Bank by causing it to incur losses and ultimately undermining confidence in the currency and monetary policy. Since they are an exceptional measure for a central bank, the Bank has been purchasing CP and corporate bonds outright based on certain necessary conditions for the implementation of such purchases.

The U.S. Federal Reserve and the Bank of England (BOE) have also been purchasing corporate financing instruments, as is being done by the Bank of Japan, although the size and range of corporate financing instruments purchased vary according to the differences in the degree of the decline of market functioning and in the structure of financial intermediation. Furthermore, the Fed and the BOE both announced the introduction of large-scale outright purchases of government bonds from this month, although there are differences in the policy objective and the thinking behind the introduction. I would not be exaggerating greatly if I said that, to address the present economic downturn, major central banks have been going beyond the boundaries of conventional monetary policy and stepping into a new sphere of policy conduct.

In addition to these measures in the three main areas, the Bank has been taking decisive measures to ensure the stability of the Japanese financial system, in view of its recognition that persisting strains in global financial markets and the deterioration in economic conditions at home and abroad have been adversely affecting financial institutions' business performance and financial intermediation function. Specifically, last month the Bank resumed its purchases of stocks held by banks. Based on the recognition that reducing market risk associated with stockholdings remains an extremely important issue for financial institutions' management, the Bank aims to support their future endeavors to reduce such risk. Moreover, last week it decided to explore a new framework to provide banks with subordinated loans, which constitute part of their capital bases. The aim of this measure is to provide banks with a way to maintain adequate capital bases – along with capital-raising by banks themselves in the markets and based on the Act on Special Measures for Strengthening Financial Functions – and ultimately to ensure the stability of the financial system. In view of this aim, the Bank will draw up a scheme for implementation as early as possible.

As I have just explained, the Bank has been implementing various measures in rapid succession since the autumn of last year. The end of the fiscal year is only a few days away, but financial markets in Japan have so far remained relatively stable, as firms and financial institutions have strived to secure liquidity in a planned manner at an early stage and the Bank has provided large amounts of liquidity at a faster pace than in ordinary years. However, as I explained previously, Japan's economic and financial conditions will likely continue to be severe. In this situation, the Bank's policy priority will be placed, for the time being, on securing market stability and facilitating corporate financing – the second and third main areas of the Bank's conduct of monetary policy. In any event, the Bank will continue to examine carefully developments in financial markets and corporate financing and to take necessary measures in a decisive manner without any predetermined view.

Closing remarks

Today I explained economic and financial developments at home and abroad and the policy responses of the authorities around the world, including the Bank of Japan. As I said at the beginning of this speech, the current economic downturn is a process of correcting various imbalances that had accumulated over the past several years, and the severe situation will therefore likely continue for some time. I believe that Otaru has also been significantly affected by the global economic downturn, with a sharp drop in exports to Russia and a decrease in the number of domestic and foreign tourists.

It is also true, however, that both domestic and overseas financial markets, especially money markets, have started to gradually regain stability. Furthermore, the effects of major countries' fiscal and monetary policies, as well as measures implemented to secure the stability of financial systems, are expected to be felt gradually. However, we must bear in mind the important fact that these policies and measures can only temporarily mitigate financial and economic shocks and reduce the degree of the economic downturn – in other words, they are merely measures to buy time. Resolution of various excesses in the private sector and the subsequent establishment of new business models are indispensable for realizing sustainable economic growth in the medium to long term. Fiscal and monetary policies are no more than a support to facilitate adjustments in and the positive efforts of the private sector.

Japan's economy has been exposed to many severe downturns over the decades, but every time it enhanced its capability to create new products and services with added value based on the experience, strengthening the foundation for future growth. Good examples are the efforts made during the recession of the 1980s caused by the strong yen and in the 1990s after the bursting of the bubble economy. I hear reassuring remarks of corporate managers, for example, in the reports made at the meetings of general managers of the Bank's branches, such as that they are determined to continue with their investment in research and development, human resource training, and mergers and acquisitions, to prepare for the future despite, and also because of, the economic downturn. In addition, Japanese firms have continued to work assiduously in research and development of energy-saving and eco-friendly technologies, fields in which they are competitive, believing these fields to have growth potential.

Otaru has a history of being a pioneering city, supporting the development of financial and economic activity in Hokkaido Prefecture. It has great potential, in that it is a city with a large number of tourist attractions and functions as a distribution center for the trade between Northeast Asia and the whole of Hokkaido Prefecture. I very much hope that you, as corporate managers, are determined to continue to develop creativity with which you can meet the current economic downturn as well as the severe competition, and that, when you have overcome the difficulties, Japan's economy, including Otaru, will transform itself into a more flexible, strong economy that can fully cope with global economic swings that may occur repeatedly in the future.

The Bank will support firms' proactive activity from the financial side, and at the same time do its utmost as a central bank to realize the early return of Japan's economy to a sustainable growth path with price stability.

Thank you very much for your kind attention.