

Kiyohiko G Nishimura: The current state of Japan's economy and monetary policy stance

Speech by Mr Kiyohiko G Nishimura, Deputy Governor of the Bank of Japan, at a meeting with business leaders in Kanagawa, Kanagawa, 21 April 2011.

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Introduction

More than a month has now passed since the Great East Japan Earthquake. The disaster claimed many lives and many people are still missing. I would like to express my sincere condolences to the victims of the disaster. Moreover, many continue to face severe hardship, and I would like to offer my heartfelt sympathy to all of those who are suffering.

Even in Kanagawa Prefecture, many people have been affected by the disaster, due, for example, to rolling blackouts. I appreciate being given this opportunity to speak and to exchange views with government and business leaders in the prefecture, despite these difficult times. And I would like to express my gratitude for your cooperation with the various business operations of the Bank of Japan's Yokohama Branch.

Before we start to exchange views, let me talk about developments in economic activity and prices in Japan, taking into account the effects of the disaster, and about the Bank of Japan's response following the earthquake.

I. Developments in the global economy

Before outlining developments in Japan's economy, let me first discuss developments in the global economy.

In the first half of 2010, the global economy continued to recover from the sharp downturn caused by the financial crisis triggered by the failure of Lehman Brothers in the autumn of 2008. However, the pace of recovery slowed temporarily during the summer and autumn of 2010 and the recovery seemed to be pausing at one point. In the early phase of economic recovery following major downturns, we can often observe a sharp rebound as inventories, for example, are restored to previous levels. Thus the slowdown in 2010 was attributable to a tailing-off of this strong rebound, combined with the fact that the effects of various demand-boosting measures, such as subsidies for car purchases, implemented in many countries as a means of addressing the financial crisis, had almost run their course.

Nevertheless, from around the end of the autumn of 2010, the global economy exited this temporary deceleration phase and its growth rate has since been increasing again.

Looking at developments by region, growth in emerging and commodity-exporting economies started accelerating in the autumn of 2010. At present, in addition to high growth in household consumption, there has been continued demand for investment in social infrastructures as well as factory construction and machinery facilities. It has been suggested that, on the back of large-scale monetary easing in advanced economies, funds that were not able to find promising investment opportunities in advanced economies have been flowing into some emerging and commodity-exporting economies, thereby stimulating economic activity there through asset transactions and investment, which has also been contributing to economic expansion in these economies.

In advanced economies, the U.S. economy, which had been showing signs of deceleration from the summer to autumn of 2010 due to the waning effects of fiscal stimulus measures, appears to have returned to a moderate recovery path thereafter, partly due to effects of further monetary easing and fiscal stimulus measures including the extension of tax cuts. In

Europe, economic conditions have differed by region. Germany and Scandinavian countries have been recovering strongly, supported in particular by buoyant exports to emerging economies. In contrast, peripheral European economies such as Greece, Ireland, and Portugal have been faced with severe fiscal problems, and have been experiencing difficulties conducting economic policy as a result. In the middle are France and other countries that continue to recover moderately. It could be said that the eurozone has become a “three-speed economy,” but our assessment is that economic activity in the region as a whole has been recovering moderately.

As for the outlook, the global economy is expected to continue recovering, driven by strong growth in emerging and commodity-exporting economies. As in 2010, the growth rate of the overall global economy in 2011 and 2012 is likely to exceed the average rate recorded during the decade before the outbreak of the financial crisis triggered by the failure of Lehman Brothers. However, uncertainty remains high concerning the global economic and price environments. In advanced economies, for example, the United States faces a balance-sheet adjustment problem, and there are fiscal problems in Europe, as I have just mentioned. In addition, international commodity prices have been at high levels as emerging and commodity-exporting economies, which are less efficient in energy usage and distribution processes than advanced economies, continue to grow at a high rate.

II. Developments in economic activity and prices in Japan

Developments in Japan’s economy before the earthquake

Amid these developments in the global economy, from the beginning of autumn to the end of 2010, the improvement in Japan’s economy weakened and there was a temporary pause in economic recovery. This was largely due to the fact that exports – particularly of automobiles and related items, capital goods and parts, and electronic components – were somewhat weak. This weakness in exports is attributed to a temporary slowdown in the pace of economic recovery overseas as well as the effects of the yen’s appreciation in the summer of 2010 and inventory adjustments in IT-related goods such as personal computers.

From the beginning of 2011, however, exports and production were gradually returning to an upward trend, supported by a resumption of growth in overseas economies. Private consumption had been improving, with car sales resuming an uptrend after the fall following the expiration of subsidies for energy efficient cars, and business fixed investment and housing investment was also starting to pick up from the significant decline after the financial crisis. In other words, before the earthquake it appeared that economic activity in Japan was gradually emerging from its temporary pause.

Developments in Japan’s economy after the earthquake

The effects of the Great East Japan Earthquake on March 11 changed the situation considerably.

According to Cabinet Office estimates, the amount of damage to capital stock will be about 16 to 25 trillion yen, or about 3 to 5 percent of Japan’s annual nominal GDP. The extent of the damage from this disaster will be significantly greater than that from the Kobe Earthquake, which caused about 10 trillion yen in damage to capital stock. Of all natural disasters in Japan since the start of the Meiji era in 1868, only the Great Kanto Earthquake of 1923 has caused more damage. More than 100,000 people lost their lives in that earthquake or remained unaccounted for thereafter, and the direct economic damage amounted to about 30 percent of nominal GNP at the time.

Moving on to the economic situation after the March 11 earthquake, Japan’s economy is under strong downward pressure, mainly on the production side. The disaster has caused

two types of supply constraints, which I will explain shortly. As a result of these constraints, production in some industries has declined substantially, which has had a severe impact on exports and domestic shipments. Business sentiment has also deteriorated and consumer appetite has waned.

One of these supply constraints is the widespread damage to production facilities and associated malfunctioning of the supply chain networks that deliver parts. The Kobe Earthquake had a devastating impact on city functions in the part of southern Hyogo Prefecture that was directly hit, but the affected areas were not so widespread. In contrast, the March 11 earthquake caused devastating damage over a much wider area, destroying the production facilities of many industries, including the electrical and general machinery industries. I have heard that some firms in the Kanagawa Prefecture have production bases in the Tohoku region that have been affected. Production of electronic components and devices had been thriving in the affected areas, and there were more than a few parts manufacturers producing unique products with dominant global market share. Damage to the production facilities of these firms has meant that many other firms face difficulties procuring parts – typified by the automobile industry, which relies on computerized and customized parts produced under strict quality control. This is causing constraints on production throughout Japan.

Another supply constraint is the constraints on power supply. More than 20 percent of generating capacity has been lost in the Tokyo Electric Power Company's service area, due to damage not only to the Fukushima Daiichi nuclear power plant but also to several thermal power plants. The Tohoku Electric Power Company has also lost about 30 percent of its supply capacity. This has resulted in disruption to stable power supply, as rolling blackouts were at one point implemented in the Kanto and Tohoku regions to avoid unexpected large-scale blackouts due to power supply constraints. There are some industries, such as the food and chemical industries, which need time to start up or shut down production facilities or need continuous power distribution to ensure the quality of their products. It has been pointed out that production levels have declined in these industries because of the absence of stable power supply, even though their production facilities were not significantly damaged by the earthquake.

Meanwhile, on the demand side, while demand for necessities increased temporarily, a deterioration in firms' appetite for investment and households' appetite for consumption, due to rising uncertainty about the future, seems to be exerting overall downward pressure on business fixed investment and private consumption. For example, sales at electrical appliance stores and department stores declined significantly after the earthquake, as a result of a deterioration in households' appetite for consumption coupled with shortened business hours due to power supply restrictions.

Aspects to consider in the outlook for Japan's economy

Next, I will talk about the outlook for Japan's economy.

The Bank presents its outlook for economic activity and prices on a quarterly basis. At the Monetary Policy Meeting to be held on April 28, next week, the Bank will present its outlook until fiscal 2012. Today, I would like to discuss three key aspects to consider in projecting the outlook for economic activity and prices in Japan.

The first aspect is when, how, and to what extent the current supply-side constraints that Japan's economy is facing will be removed.

The sharp downturn in Japan's economy after the earthquake has been, simply put, triggered by supply-side shock from damage to production facilities, including damage to power supply capacity caused by the earthquake and tsunami. Therefore, the key for the outlook is when and how the supply-side constraints caused by the disaster will be removed.

On this point, I must say that there is a great deal of uncertainty about when they will be removed. This is due to a high degree of uncertainty about the following three problems.

The first problem is that it is very difficult to say with any certainty when the production capacity lost as a result of the disaster will be restored. Firms are making strenuous efforts to, for example, resume operations at affected production facilities and ensure substitute production by factories in non-affected areas. However, progress in these efforts has been slow due to various supply-side constraints including unstable power supply. Another factor that makes it difficult to remove such constraints is that some of the electronic components and high-end materials produced in the affected factories are hard to replace because of quality requirements and high levels of customization.

The second problem, which is also related to the issue of restoring production capacity, is the question of when the disruptions to supply chains will be removed. At present, firms are working to repair or rebuild supply chains by, for example, seeking to secure alternative suppliers, including from overseas, and reviewing product specifications. However, as supply chains are complex and interconnected, if a bottleneck occurs in any one part of the chain, accurately gauging its impact and addressing the problem present various difficulties. Therefore, a considerable amount of time is considered necessary to reconstruct supply chains.

The third problem is uncertainty as to when constraints on electric power supply will be removed. Electric power companies and other related parties are doing all that they can to, for example, resume operations of facilities to restore supply capacity. Firms are also taking various measures to address the situation. One such measure is changing working hours. For example, one firm in Kanagawa Prefecture has changed the working hours of some divisions. These divisions now start work two hours earlier in the morning to reduce the amount of electric power used. Another measure is operating at non-peak times, such as at nights or on holidays. And a third measure is using in-house power generators. Households have also been asked to conserve electricity and voluntary conservation has been ongoing. These efforts have recently eased constraints on economic activity due to power shortages. However, demand for electricity will surge in the summer due to the use of air conditioners, and therefore, the balance between electricity supply and demand will tighten again and a certain degree of supply constraint is likely to emerge.

Taking these points into account, it is unlikely that the supply-side constraints will be removed anytime soon. I must say that Japan's economy is likely to remain under strong downward pressure, mainly on the production side, for some time to come. However, looking ahead to the autumn and beyond, the supply-side constraints are likely to ease as the tightness in electricity supply and demand balance improves and progress is expected to be made in the reconfiguration of supply chains. If that is the case, as long as the global economy continues to record high growth led by emerging and commodity-exporting economies, which is likely, a recovery in production in Japan and ensuing increase in exports will probably serve as one driving force behind a recovery in Japan's economy.

The second aspect that I consider important for projecting the outlook for Japan's economy after the earthquake is how to assess uncertainty regarding overseas economies. This aspect is important because one of the driving forces of future economic recovery in Japan will be growth in overseas economies.

As pointed out prior to the earthquake, a factor that could lead overseas economies to deviate upward from projections is the possibility of a further acceleration of growth in emerging and commodity-exporting economies that have been enjoying robust domestic demand and receiving capital inflows from other countries. While many of these economies are in the process of adjusting their accommodative monetary policies, concerns about overheating and inflation have yet to be dispelled. For example, in China, rises in real estate prices and wages have become pronounced. On the other hand, factors that could lead overseas economies to deviate downward from projections include developments in global

financial markets triggered by sovereign risk problems in peripheral European economies, and, uncertainties about the outlook for the U.S. and European economies, although these uncertainties have now diminished to some extent.

The third aspect to consider when projecting the outlook for Japan's economy after the earthquake is how efforts to restore capital stock damaged by the disaster will progress, as well as how indirect effects of the accident in the Fukushima Daiichi nuclear power plant will change with time.

As I have explained, the significant short-term economic impact of the disaster is the impact of supply-side constraints. With time, however, these constraints will be eased, and at the same time, the efforts of the private and public sectors to restore capital stock damaged by the disaster – roads, ports and harbors, factories, commercial facilities, and houses – will become more pronounced. If such “rebuilding demand” emerges, it will contribute to Japan's economic growth. However, I must say that there is considerable uncertainty with respect to the timing and scale of any such demand.

From a longer-term perspective, the important point is how the disaster will affect the structure of Japan's economy and the economy's growth potential. I am not an expert in the accident at the nuclear power plant itself, but I think that, in terms of its effects on the economy, due attention should be paid to the risk that delays in resolving the problems at the Fukushima Daiichi nuclear power plant lead to continued power supply shortages, and that the spread of harmful rumors at home and abroad could have a significant impact on Japan's exports and tourism industry. Moreover, as they seek to reconstruct their supply chains, some firms could consequently speed up the process of shifting their production bases to overseas locations. There is also a risk that the disaster and power plant accident might put a chill on corporate investment and households' consumption, thereby reducing growth expectations for Japan's economy.

Developments in prices

I will now move on to developments in prices.

Recently, the year-on-year rate of decline in consumer prices (excluding fresh food) has continued to slow. In particular, if the effects of subsidies for high school tuition are excluded, the year-on-year rate of change has recently become slightly positive, mainly due to the effects of the rise in international commodity prices.

As for the future price environment, short-term bottlenecks might emerge in individual markets for goods and services due to supply-side constraints caused by the earthquake. However, the short-term outlook for the aggregate supply and demand balance is unpredictable, because of the simultaneous occurrence of severe supply-side constraints due to the disaster, and a plunge in demand arising from the decline in firms' appetite for investment and households' appetite for consumption. However, over the longer term, the aggregate supply and demand balance is expected to improve gradually as economic activity returns to a moderate recovery path.

There are also various uncertainties regarding the outlook for prices. First, if corporate and household medium- to long-term inflation expectations decline, actual prices could be lower than projected. On this point, I would like to draw attention to the possibility of the year-on-year rate of change in the consumer price index being revised downward with the base-year change scheduled for August 2011. We need to examine whether the revision affects corporate and household inflation expectations. On the other hand, if international commodity prices increase further, Japan's prices could be higher than projected. Furthermore, foreign exchange rates, if they become volatile, will also affect consumer prices, not only by causing swings in economic activity but also through changes in import prices.

III. Bank of Japan's response after the earthquake

As I have explained, the disaster has brought about significant changes to Japan's economy. In addressing the disaster, the Bank, since immediately after the earthquake struck, has been taking a range of active measures, from the following three main perspectives: maintaining the functioning of financial and settlement systems; ensuring the stability of financial markets; and supporting economic activity. I would now like to explain the Bank's response to the disaster.

Maintaining the functioning of financial and settlement systems

What the Bank did first after the earthquake was to do everything possible to ensure the safety and security of the financial infrastructures. When there is high uncertainty over the future of the economy, one of the most paramount challenges is to steadfastly maintain financial infrastructures to prevent rising concern among the people. With this in mind, the Bank has been doing its utmost to maintain the functioning of the financial and settlement systems, which are the critical infrastructures that support people's lives, as well as striving to ensure financial market stability.

In terms of maintaining the functioning of the financial and settlement systems, the Bank has been taking all possible measures to provide cash to the disaster areas the entire time, including holidays, since immediately after the earthquake, aiming to meet the cash needs of people in those areas. In such areas, many financial institutions, despite themselves being affected by the earthquake and tsunami, have been striving with a strong sense of mission to restore their operations, and open as many branches and offices¹ as possible to smoothly enable individuals in need of cash to withdraw deposits and to meet firms' growing needs for operating funds or on-hand cash. The Bank's branches and offices in the Tohoku region, including those in the severely damaged areas of Sendai and Fukushima, started providing cash from the weekend immediately after the earthquake and provided a total of more than 310 billion yen in cash in that week. This is three times the amount usually provided in the same period in normal times.

On March 11, the day the earthquake occurred, the Bank, jointly with the Financial Services Agency, asked financial institutions to take appropriate measures to accommodate the needs of those affected by the disaster, such as permitting the withdrawal of deposits even in cases where depositors had lost passbooks and seals.

In addition, the Bank's Head Office and other branches also continue to provide central bank services such as exchanging banknotes and coins that were damaged by the earthquake.²

As for wholesale payments and settlements for funds and securities, Japan's major payment and settlement systems, including the Bank of Japan Financial Network System, or BOJ-NET – the core settlement system for funds and Japanese government bonds – have, thanks to

¹ According to the Financial Services Agency, 95 percent of financial institutions' branches and offices in the disaster areas were open for business as of April 15.

² The Bank replaces banknotes and coins which are contaminated, damaged, or worn out and unfit for reuse, based on criteria specified by law. The Bank provides this service at its Head Office and branches. Those who live far away from the Bank's Head Office and branches are asked to visit a neighboring financial institution, as the Bank has requested financial institutions to handle such exchange. The criteria are as follows: Provided that the banknote still has two sides, damaged, or burnt banknotes can be exchanged for new ones.

(1) If two-thirds or more of a banknote's original size remains, it can be exchanged for its full face value.

(2) If less than two-thirds but two-fifths or more of a banknote's original size remains, it can be exchanged for half of its face value.

(3) If less than two-fifths of a banknote's original size remains, it cannot be exchanged.

the efforts of the related parties, been operating as usual for the entire time since the earthquake occurred, despite various difficulties in the aftermath.

Ensuring the stability of financial markets

To ensure financial market stability, the Bank has been providing ample liquidity after the earthquake. When the economy is faced with a major crisis and there is heightened uncertainty about the future, participants in the financial markets attempt to retain a large amount of funds at hand. If they fail to obtain sufficient funds, financial markets could destabilize due to heightened uncertainty, which could eventually adversely affect economic activity.³ To prevent such a situation, the Bank has been providing ample liquidity since immediately after the earthquake, striving to ensure financial market stability by maintaining a sense of security on the funding front, and trying to avoid adverse effects on corporate activity and people's daily lives from the financial side.

More specifically, on Monday, March 14, the first business day after the disaster, financial institutions' precautionary demand for funds surged and tensions intensified in the money markets. To address the situation, the Bank provided a total of 21.8 trillion yen in funds, almost three times as much as the largest daily funds provision during the financial crisis after the failure of Lehman Brothers. Thereafter, the Bank continued to provide ample funds to sufficiently meet market demand. As a result, the outstanding current account balance of the Bank significantly exceeded the high of 36 trillion yen recorded during the period of Japan's "quantitative easing" policy.

The Bank went beyond simply providing a large quantity of funds. It also carefully devised types and timings of market operations according to market conditions. For instance, based on the fact that a slight weakness was seen in financial intermediation functions in the CP market due to uncertainties about the future following the earthquake, the Bank purchased CP under repurchase agreements on March 22 for the first time in a year. The Bank also conducted outright purchases of CP on March 25. As a result, issuance spreads on CP declined to just slightly above their levels prior to the earthquake⁴ and funding through CP continued without major problems.

In coordination with the U.S. Federal Reserve System, on March 29, the Bank started to offer market participants in Japan one-week U.S. dollar funds, in addition to the existing three-month funds, in its U.S. dollar-funds supplying operation. This measure was taken not because domestic financial institutions were having difficulties securing U.S. dollar funding at the time. Rather, it is taken because the establishment of convenient measures for providing U.S. dollar funding in advance is expected to contribute to preventing economic activity from being adversely affected by a widespread deterioration in business sentiment or an increase in investors' risk aversion. Therefore, although there were no bids for the operation, its very existence is said to have given a great sense of security to the market.

³ For instance, it is well known that the United States as a whole experienced considerable economic disruption in the aftermath of the San Francisco Earthquake of 1906 due to a shortage of liquidity (see, for example, Bruner, Robert F. and Sean D. Carr, "The Panic of 1907: Lessons Learned from the Market's Perfect Storm," August 2007, Wiley).

⁴ Issuance spreads on an a-1 rated CP with a maturity of three months rose immediately after the earthquake to a range of 0.06 to 0.12 percent from 0.00 to 0.03 percent beforehand, but declined to the level of 0.03 percent in the period from March 28 through April 1, and they have recently been at more or less the same level as prior to the earthquake in terms of the average value of the issuance rates of CP issued by business companies (except electricity, gas, and other financial companies), as released by the Japan Securities Depository Center (JASDEC).

Enhancing monetary easing to support economic activity

The Bank also moved swiftly to support economic activity. Its Monetary Policy Meeting was scheduled to be held over two days starting from the next business day after the earthquake, which was also the beginning of the next week. As the Bank deemed it desirable to examine the possible effects of the disaster and promptly announce a monetary policy stance, thereby ensuring stability in the financial markets, it shortened the duration of the meeting to one day and decided on March 14, the first business day after the earthquake, to enhance monetary easing.

What we feared most immediately after the disaster was a situation in which a deterioration in business sentiment or an increase in investors' risk aversion in financial markets would lead to an increase in various risk premiums, thereby adversely affecting economic activity. Accordingly, the Bank decided to increase the amount of the Asset Purchase Program, by doubling its purchases of assets to about 10 trillion yen in total, mainly risk assets such as exchange traded funds (ETFs) and Japan real estate investment trusts (J-REITs).

Financial system and financial conditions after the earthquake

Thanks mainly to these measures, functioning of financial and settlement systems has been maintained in Japan and stability has been ensured in the financial markets.

As for the effects of the disaster on the financial system, as I mentioned earlier, a significant number of financial institutions' branches have been physically damaged. However, given that financial institutions have been striving to bolster their capital by raising additional capital and increasing internal reserves, and that financial institutions have not had any liquidity concerns thanks to the Bank's ample liquidity provision, we believe that stability of Japan's financial system is not threatened by the disaster.

As for the financial environment surrounding Japanese firms and households, financial conditions have generally continued to ease, although weakness has been observed in the financial positions of firms, mainly small ones, since the earthquake. I have heard that, even here in Kanagawa Prefecture, some non-manufacturing firms whose ability to procure financing tends to be heavily dependent on their revenues have been concerned about their own financing conditions after the earthquake.

Funds-supplying operation to support financial institutions in the disaster areas and broadening of the range of eligible collateral

The Bank's measures I have explained so far are those responses taken in the time of emergency immediately after the earthquake occurred. In addition, as a next step, the Bank decided at its latest Monetary Policy Meeting held on April 6 and 7 that it would be necessary to support the smooth financial functioning of financial institutions in disaster areas so that restoration and rebuilding in these areas could steadily progress.

Specifically, the Bank decided to introduce a funds-supplying operation that provides financial institutions with offices in the disaster areas with a one-year loan of 1 trillion yen in total at a rate of 0.1 percent per annum in order to provide financial support for their initial response efforts to meet expected demand for funds for restoration and rebuilding. In line with this, the Bank also decided to broaden the range of collateral eligible for money market operations with a view to ensuring that financial institutions in the disaster areas have sufficient funding capacity.

Let me explain briefly the background to this decision. The household sector and the corporate sector have ample funds, as they have maintained excess savings over a protracted period, and therefore, from a macroeconomic viewpoint, financial institutions would have no difficulty in financing. However, financial institutions in the disaster areas have to meet high demand for funds, ranging from the immediate demand from firms for cash for operating funds and cash on-hand, and from individuals for living expenses, as well as future

demand for funds for restoration and rebuilding. Considering the damage caused to the affected areas, however, new deposits are unlikely to increase for the time being and an effect is likely to materialize from loans going into arrears. Given such circumstances, in addition to the current provision of ample funds, providing financial institutions in the affected areas with funds with even longer maturities will reassure them that they will be able to meet financing needs. Moreover, if financial institutions in the affected areas are able to fulfill their financial functions without problem, the people are likely to feel a greater sense of security as a result.

So far, I have explained the Bank's responses after the earthquake. The Bank will continue to carefully examine the outlook for economic activity and prices, including the effects of the disaster, and take appropriate policy actions as necessary.

Concluding remarks

In visiting Yokohama for today's meeting, I am reminded of the story I heard from my grandmother about the remarkable way that this city was rebuilt after being utterly destroyed by the Great Kanto Earthquake.

The Great Kanto Earthquake, which occurred on September 1, 1923, caused devastating damage to Yokohama. More than 20,000 residents of Yokohama, or about 5 percent of Yokohama's population at the time, either died in the earthquake or remained unaccounted for thereafter. As a proportion of its total population, Yokohama's loss was greater than that of Tokyo's.⁵ Moreover, because a huge fire started immediately after the earthquake, about 80 percent of the city was burned down. It was so devastating a situation that, according to the then Mayor of Yokohama, rumors spread that Yokohama would never recover. Nevertheless, about 30,000 new houses were built in the year after the disaster, which corresponded to about 40 percent of the houses that had been lost, and bank deposits exceeded their levels prior to the disaster by the end of that year. Four years on, the population of Yokohama City had reached 530,000, significantly higher than the 450,000 before the earthquake.

One characteristic of Yokohama's rebuilding after the Great Kanto Earthquake was that it aimed not only to rebuild but also to reinvent itself as an industrial city rather than its pre-earthquake existence as a city dependent only on commercial trades. This had been a challenge facing Yokohama since before the earthquake. The rebuilding plan boldly included rezoning of land and improvements in the road network and parks. Moreover, in tandem with the rebuilding, a railroad network was developed that connected city areas with the suburbs, and progress was made in developing industrial and residential areas.

As just described, Yokohama's success in rebuilding seems to be down to the forward-looking attitude and determination to rebuild of the people of the day, and the vision and enterprising spirit that they had to use the rebuilding as an opportunity to draw a blueprint for new growth. Mr. Sankei (Tomitaro) Hara, who led the rebuilding of Yokohama, said that while Yokohama had been burned to the ground, the fire was not able to touch the spirit of the people. If I may refer to his words again, he also said that Yokohama City had become a blank slate, and from a blank slate anything was possible. You can draw the latest picture by incorporating new culture.

I would like to conclude by sincerely wishing that rebuilding in the affected area will make the same kind of steady progress that was made in Yokohama following the Great Kanto Earthquake, and that the economy in the affected areas ends up even better placed with greater growth potential.

Thank you for your attention.

⁵ The proportion of the population of Tokyo that died in the earthquake or remained unaccounted for thereafter was in the range of 2.0–3.0 percent.