Yoshihisa Morimoto: Economic activity and prices in Japan and monetary policy

Speech by Mr Yoshihisa Morimoto, Member of the Policy Board of the Bank of Japan, at a meeting with business leaders, Hyogo, 22 March 2012.

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I. Recent financial and economic developments

A. Japan's economy

I will first provide a brief overview of Japan's economy. Through summer 2011, the economy picked up rapidly after the sharp decline following the Great East Japan Earthquake. While domestic demand such as private consumption since then has been firm, economic activity as a whole has been more or less flat, reflecting the decline in overseas demand mainly due to the slowdown in overseas economies and the appreciation of the yen, both triggered by the European debt problem and other factors. Although there remains considerable uncertainty regarding the outlook, Japan's economy is expected to return to a moderate recovery path in the first half of fiscal 2012 as the pace of recovery in overseas economies picks up, led by emerging and commodity-exporting economies, and as reconstruction-related demand after the earthquake gradually strengthens.

In what follows, I will review the situation after the Lehman shock – the financial crisis following the September 2008 failure of Lehman Brothers – which is the starting point of the current recovery phase of Japan's economy and also an underlying cause of the European debt crisis, and talk about developments thereafter. I will also talk about the uncertainty surrounding the current state of Japan's economy.

B. From the Lehman shock to the March 2011 earthquake

The global economy contracted rapidly and severely in the wake of the Lehman shock. Economic conditions deteriorated sharply not only in the United States and Europe, which were the epicenter of the financial crisis, but also in Japan as well as emerging economies especially in Asia due to the fall in U.S. and European demand. Real GDP in Japan recorded a decline of more than 10 percent on an annualized basis – a larger drop than that in the United States – for two consecutive quarters from the October-December quarter of 2008. Subsequently, Japan's economy picked up rapidly after leveling out around spring 2009, owing to the progress in global inventory restocking, the expansion of fiscal spending, and substantial monetary easing. In 2010, the pace of recovery slowed temporarily from summer through autumn, but the recovery trend remained intact until early 2011.

C. Current conditions and outlook

The Great East Japan Earthquake struck in March 2011, and Japan's economy once again came under strong downward pressure. Many facilities were damaged by the disaster, and the production and distribution of manufactured goods came to a standstill. In contrast with the so-called "evaporation of demand" seen after the Lehman shock, this time it was constraints in supply that severely affected the economy: industrial production for March 2011 fell by 15.5 percent on a month-on-month basis, the largest one-month drop on record. In this situation, business and household sentiment deteriorated, and spending declined. As a result of strenuous efforts by the parties concerned, supply chain disruptions were subsequently speedily resolved and economic activity picked up at a pace faster than widely expected immediately after the earthquake. Production and exports almost recovered to their pre-quake levels in summer 2011.

Just when some positive signs were on the horizon, Japan's economy encountered new challenges, namely, the slowdown in overseas economies and the appreciation of the yen, both stemming from the European debt problem. Together with the effects of the flooding in Thailand, the developments led to a gradual slowdown in the pace of increase in exports and production, and both exports and production have been more or less flat recently. Domestic demand, on the other hand, has been firm mainly due to reconstruction-related demand after the earthquake. Private consumption has firmed up in part because of a recovery in demand, which had been temporarily subdued mainly reflecting the disaster, and because of a surge in new car sales due to the boost provided by government subsidies. Business fixed investment for now continues to be on a moderate increasing trend, aided by the fact that full-fledged rebuilding efforts such as efforts to restore and reconstruct disaster-stricken facilities as well as efforts to strengthen the earthquake resistance of existing structures are now getting underway, although some exporting firms that have greatly revised their profit forecasts downward might restrain their investment in the future. Public investment is also expected to gradually expand with the implementation of large-scale rebuilding projects now getting underway, given that local governments in disaster areas have been making progress in the development of reconstruction plans. Although there remains considerable uncertainty regarding the outlook, Japan's economy is expected to return to a moderate recovery path in the first half of fiscal 2012 as the pace of recovery in overseas economies picks up, led by emerging and commodity-exporting economies, and as reconstruction-related demand after the earthquake gradually strengthens. According to the Bank of Japan's forecasts released in January 2012, the real GDP growth rate is projected to be 2.0 percent for fiscal 2012 and 1.6 percent for fiscal 2013.

D. Overseas economies

Since summer 2011, the European debt problem has been weighing on the global economy. Concerns over fiscal sustainability spread from countries like Greece to Italy and Spain, which are the third and fourth largest economies in terms of GDP, respectively, in the euro area. As a result, the European debt problem worsened. Yields on 10-year Italian government bonds at one time spiked to more than 7 percent. This led to intensified concerns over the financial health of European financial institutions holding large amounts of these bonds. These institutions, for their part, tightened their lending stance because of liquidity concerns, which in turn affected economic activity.

Since the end of 2011, however, concerns over European financial institutions' liquidity have been receding thanks to the implementation of 36-month longer-term refinancing operations with full allotment by the European Central Bank (ECB) and to the lowering of interest rates on the U.S. dollar funds-supplying operations decided on in coordinated action by the six major central banks, including the Bank of Japan. More recently, the second bailout package for Greece, totaling 130 billion euros, was approved by the European Union (EU) member states and the International Monetary Fund (IMF), allowing Greece to stave off a disorderly default. However, the situation still entails numerous uncertainties, and the fundamental issues underlying the European debt problem have not been resolved.

Under these circumstances, overseas economies still have not emerged from the deceleration phase. Looking at the average growth rate of overseas economies weighted by the value of Japan's exports, overseas economies grew quite rapidly at a rate of 6.8 percent on a year-on-year basis in 2010 during the recovery following the Lehman shock, and at a rate of 6.5 percent on an annualized quarter-on-quarter basis in the January-March quarter of 2011. However, growth declined to less than 4.0 percent in the July-September quarter of 2011 and recorded only 0.9 percent in the October-December quarter.

Regarding European economies, since the second half of 2011, fiscal austerity measures and financial institutions' tightening of their lending stance have dampened business and household sentiment. Economic activity in some European countries is increasingly sluggish because the countries have fallen into a vicious cycle, in which the deterioration in economic activity leads to a further worsening of the financial conditions of governments and financial institutions. There have been some signs of recovery recently, such as an improvement in economic sentiment in Germany. However, as the impact of fiscal austerity persists, some more time is needed before a positive cycle takes hold in European economies as a whole.

In the United States, from summer to autumn 2011, economic sentiment deteriorated due to strains in global financial markets and fiscal problems. Reflecting the accommodative financial environment, stock prices recently reached their highest levels since the Lehman shock. Private consumption has also been firm due to an improvement in the employment situation. However, with pressure from household balance-sheet adjustments persisting, the recovery of the economy as a whole has generally been moderate. As for the outlook, the pace of recovery is likely to remain moderate because, in addition to these balance-sheet adjustments, fiscal problems will also likely persist.

Meanwhile, the pace of growth in emerging and commodity-exporting economies has moderated somewhat mainly due to the slowdown in European economies. Nevertheless, these economies maintain relatively high growth overall spurred by robust domestic demand. The Chinese economy has been enjoying high growth, although – at a rate of 9.2 percent for 2011 – growth was slower than the previous year due to the slowdown in exports and real estate investment, among other things. Private-sector forecasts expect growth to decelerate further in 2012 to around 8.5 percent. Although growth may decelerate as China makes the transition to more stable growth, there remains considerable room for further expansion in domestic demand because of structural factors such as the rise in income levels and urbanization, so that China can be expected to continue to achieve relatively high growth. The pace of economic growth in the NIEs and the ASEAN countries slowed in the second half of 2011 due to the rise in inflation, the decline in exports to advanced countries, and the effects of the flooding in Thailand. As for the outlook, however, the reconstruction efforts from the flood damage as well as the accommodative financial environment are expected to underpin economic activity. Moreover, looking at emerging and commodity-exporting economies as a whole, inflation has been declining gradually and the accompanying recovery in real purchasing power is expected to underpin consumption. Hence, growth in emerging and commodity-exporting economies is likely to continue to spearhead global economic growth.

E. Uncertainty surrounding the outlook

As I mentioned earlier, the Bank's main scenario is that Japan's economy will return to a moderate recovery path in the first half of fiscal 2012. However, there is a considerable degree of uncertainty exerting downward pressure on the economy. Here, I would like to discuss three risks that will significantly affect economic activity: developments in the European debt situation; the possibility of a surge in crude oil prices resulting from heightened geopolitical risks involving Iran; and uncertainty over the supply and demand balance of electricity in the coming summer.

The most serious risk concerns future developments in the European debt problem. The bailout package for Greece has somewhat eased the tension surrounding the problem, but this does not eliminate the possibility of another worsening of the situation in the future, which could in turn cause turmoil in global financial markets and a sharp drop in trade. Thus, it is necessary to keep in mind the so-called "tail risk" – that is, a risk which has a low probability but could have a large impact if it materializes. One of the fundamental causes of the European debt problem is that under the single currency system, growing disparities in fiscal conditions and competitiveness among the euro area member states cannot be corrected through the foreign exchange mechanism, resulting in the accumulation of current account imbalances. As a result of adopting the single currency system, Greece and other peripheral countries were able to borrow funds at interest rates below what their real economic strength warranted, leading to increased spending both in the private and the public sector. On the other hand, highly competitive core countries, such as Germany, expanded their exports to these peripheral countries, resulting in swelling current account deficits in these countries. Greece depended on overseas investors to purchase 70 percent of its government securities and was unable to rein in the increase in fiscal deficits after the Lehman shock. Against this background, overseas investors adopted a cautious investment stance, giving immediate rise to concerns over peripheral countries' ability to raise funds. Although the second bailout package for Greece has recently been approved, it is unclear whether the country can succeed in implementing the fiscal austerity measures it promised the international community, given the domestic situation. At the same time, there has been some progress in the moves to strengthen fiscal discipline within the euro area, as evidenced by the fact that most of the EU member states have signed the new "fiscal compact." Yet, it is still uncertain whether individual countries will be able to steadily correct the imbalances through fiscal reforms and increases in their competitiveness. Moreover, initiatives to address the crisis, such as the establishment of the European Stability Mechanism and the enhancement of other "firewalls" for containing market turmoil, are still in progress. Thus, uncertainty regarding the outlook has not been resolved.

Moreover, there are heightened geopolitical risks relating to Iran. Crude oil prices have been rising recently, reflecting the situation in the Middle East. If the situation intensifies and crude oil prices surge, this could further decelerate the global economy and also exert downward pressure on Japan's economy through a deterioration of the trade balance and corporate profits.

A domestic risk concerns the uncertainty over the supply and demand balance of electricity in the coming summer of 2012. If operations at all nuclear power plants in Japan were to be suspended at that time, the supply capacity for electricity could fall short of the demand at summer peak times, which would have a negative impact on economic activity. There is a possibility that the increase in imports of crude oil and liquefied natural gas (LNG), amid relatively high crude oil prices, will exert downward pressure on Japan's net exports. Attention should also be paid to the possible effects of a rise in electricity costs on corporate profits. For example, in addition to the regular adjustments in electricity charges reflecting fluctuations in fuel costs, a rise in electricity costs due to the increase in the weight of thermal power generation could be passed through to firms.

II. Recent price developments

Next, I will talk about price developments. International commodity prices began to rise from around spring 2009 mainly due to growth in emerging economies, but softened somewhat from summer 2011, reflecting the slowdown in the global economy. Most recently, however, commodity prices have begun to increase again against the backdrop of heightened geopolitical risk surrounding Iran. In this situation, the year-on-year rate of increase in the domestic corporate goods price index (CGPI) gradually decelerated for several months, but this trend came to a halt in February 2012 reflecting the recent rise in international commodity prices. Going forward, the CGPI is expected to move slightly upward.

Next, turning to the consumer price index (CPI) for all items less fresh food, the year-on-year rate of decline slowed from around 2009 thanks to the improvement in the aggregate supply and demand balance, and since summer 2011 the year-on-year rate of change has been around 0 percent. It is expected to stay at this level for the time being. Thereafter, assuming that medium- to long-term inflation expectations remain stable, the rate of change is likely to gradually turn positive as the negative output gap narrows. In its forecast released in January 2012, the Bank projected the year-on-year rate of increase in the CPI (all items less fresh food) to be 0.1 percent for fiscal 2012 and 0.5 percent for fiscal 2013.

III. Medium- to long-term challenges for Japan's economy

A. Background to the protracted decline in prices

Let me talk about the background to the current deflationary situation in Japan. Japan's economic growth rate has been on a long-term downward trend: the average annual rate declined from 4.4 percent in the 1980s to 1.5 percent in the 1990s, and then to 0.6 percent in the 2000s reflecting in part the impact of the Lehman shock. In this situation, consumer prices also continued to decline. Such price developments are attributable to a protracted negative output gap. Specifically, in addition to cyclical factors such as the decline in overseas demand, structural weakness in domestic demand brought about by demographic developments in Japan has resulted in a protracted shortage of demand relative to supply in the economy as a whole. Japan's population is aging faster than that of any other of the advanced countries, and its working-age population (defined as those aged between 15 and 64) has begun to decrease. The pace of population decline is likely to accelerate in the future. The National Institute of Population and Social Security Research forecasts that Japan's working-age population will decline to 44.18 million in 2060, which is roughly half of the peak of 87.27 million in 1995.

B. Toward achieving sustainable growth

For Japan's economy to achieve sustainable growth despite the structural downward pressure I just mentioned, it is essential to increase the economy's growth potential and raise growth expectations. To this end, it is necessary to (1) create new demand and boost the domestic labor force as much as possible even at a time when the working-age population is shrinking, and (2) raise productivity in industries with significant potential for job creation.

On the first point, in order to create new demand and boost the labor force, it is necessary to not only tap potential consumer needs that arise as the population ages but also develop highly creative markets linked to social innovations in the areas of medicine, healthcare, and new energy sources. To capture growing global demand, particularly in emerging economies, it is important to both make efforts to increase exports and shift to business models that focus on local production for local consumption and the international division of labor and thereby increase revenues from overseas. However, a key point in this context is that if the shift to overseas production occurs gradually, this will allow domestic workers to transfer to other growing sectors of the economy, and therefore maintain employment levels in Japan; on the other hand, if the shift to overseas production takes place rapidly as a result of the appreciation of the yen or other factors, it will lead to a decline in domestic employment and thus be detrimental to the economy. Moreover, with the working-age population decreasing, in order to boost the labor force – which in turn can sustain the newly created domestic demand – it is important to increase labor market flexibility to allow workers to change industries more easily and to boost labor market participation of the elderly and of women who wish to work but are not currently working.

The second requirement for increasing the growth potential of the economy, as mentioned earlier, is to improve productivity in industries with significant potential for job creation. Economic growth comes from increases in three factors: the number of workers, the number of hours worked, and labor productivity. Therefore, in order to strengthen Japan's growth potential, labor productivity must be improved along with efforts to boost the labor force. During the two decades from 1990, the average annual rate of increase in labor productivity stagnated at around 1 percent. This is attributable to the shift of workers to service industries, where labor productivity growth is slow. According to a report by the Japan Productivity Center, while labor productivity in manufacturing industries grew at a relatively high average pace of 2.5 percent a year during the two decades, that in service industries – which have significant potential for job creation – grew by only around 1.0 percent a year. At the same time, Japan's labor market structure changed, with the number of workers in manufacturing industries falling since the mid-1990s, while that in service industries has been rising, so that service industries now account for 30 percent of workers in all industries. In particular, along with the aging of the population, there has been a notable increase in demand for services for the elderly, such as in the areas of healthcare and nursing care. This trend is expected to continue. Therefore, the key to enhancing the growth potential of Japan's economy lies in improving labor productivity in service industries by, for example, offering unique and high-value-added services. This should be combined with efforts to increase employment by further tapping potential demand and improving labor productivity to create a virtuous cycle.

Based on considerations such as these, the Japanese government has formulated a growth strategy and has actively been taking related measures. Recognizing the importance of strengthening Japan's growth potential, the Bank introduced the fund-provisioning measure to support strengthening the foundations for economic growth in June 2010 and has since enhanced the measure. I will elaborate on this later when I explain the Bank's conduct of monetary policy. Together with the strenuous efforts undertaken by firms, the support provided by the Bank from the financial side, including the provision of funds to areas with growth potential, can help us to overcome deflation. In order to achieve this, it is also necessary for the government to create the right environment. With this in mind, the Bank will continue exerting itself in its role together with firms, financial institutions, and the government.

C. Efforts to ensure fiscal sustainability

Alongside strengthening Japan's growth potential, a key issue that needs to be addressed is ensuring the sustainability of the public finances. Japan's government debt outstanding exceeds 200 percent of nominal GDP, which is the highest level among advanced economies. Nevertheless, yields on government bonds remain stable at low levels. This is often explained by the fact that Japan has a current account surplus and a large portion of government bonds are held by domestic investors. It should be noted, however, that, as the European debt crisis shows, once market participants start doubting the government's determination to work toward fiscal sustainability, the situation could change in a nonlinear fashion. Given that social security spending will continue to exert upward pressure on fiscal expenditure, it is necessary to push ahead with structural reform of the public finances in terms of both expenditure and revenue while the public still has confidence in fiscal discipline.

IV. Monetary policy

A. The conduct of monetary policy

I would now like to turn to the Bank's conduct of monetary policy. The Bank recognizes that Japan's economy is faced with the extremely important challenge of emerging from deflation and returning to a sustainable growth path with price stability. Based on this recognition, the Bank has been consistently making contributions as the central bank, using a three-pronged approach consisting of (1) pursuing powerful monetary easing under the comprehensive monetary easing policy, (2) ensuring stability in financial markets, and (3) providing support to strengthen the foundations for economic growth.

1. Pursuit of powerful monetary easing

With a view to pursuing powerful monetary easing, the Bank decided to take the following three actions at the Monetary Policy Meeting held in February.

a. Introduction of "the price stability goal in the medium to long term"

First, the Bank has decided to introduce "the price stability goal in the medium to long term" as the inflation rate it judges to be consistent with price stability sustainable over the medium to long term. The previously released “understanding of medium- to long-term price stability” showed the range of inflation rates that each of the nine Policy Board members understood as price stability from a medium- to long-term viewpoint, while “the price stability goal in the medium to long term” represents a clear judgment by the Bank. Specifically, the Bank judges “the price stability goal in the medium to long term” to be within a positive range of 2 percent or lower in terms of the year-on-year rate of change in the CPI and, more specifically, sets a goal of 1 percent for the time being.

b. Clarification of the determination to pursue monetary easing through policy duration effects

Second, the Bank has clarified its determination to pursue monetary easing through policy duration effects that are generated by “the price stability goal in the medium to long term” it introduced. Specifically, the Bank states that for the time being, it will aim to achieve the goal of 1 percent inflation in terms of the year-on-year rate of increase in the CPI through the pursuit of powerful monetary easing, conducting its virtually zero interest rate policy and implementing the Asset Purchase Program (hereafter the Program) mainly through the purchase of financial assets. The Bank will continue with this powerful easing until it judges the 1 percent goal to be in sight.

Some might think that 1 percent inflation, which the Bank has set as the goal for the time being, is too low. In this regard, when formulating “the price stability goal in the medium to long term,” the Bank took three aspects into consideration: (1) the measurement bias in the CPI; (2) the need for a safety margin that acts as a buffer against the risk of a vicious cycle of deflation and stagnation; and (3) households’ and firms’ perception of price developments. Regarding the perception of price developments, it needs to be noted that even before the fall into deflation, inflation in Japan was consistently lower than in other major economies. Therefore, if the inflation rate the Bank aims to achieve were to diverge from this historical experience, this might in fact considerably increase uncertainty among households and firms. The Bank thus considers the current goal of 1 percent inflation to be appropriate.

As a separate issue from developments in consumer prices, if a rise in asset prices creates a bubble, this could in turn substantially undermine stability in economic activity and prices in the long run. Therefore, the Bank has set the condition for the pursuit of powerful monetary easing that it identifies no significant risk to the sustainability of economic growth, such as from the accumulation of financial imbalances.

c. Expansion of the Asset Purchase Program

Third, the Bank has decided to purchase another 10 trillion yen worth of Japanese government bonds (JGBs) under the Program, increasing the total size of the Program from about 55 trillion yen to about 65 trillion yen.

The Program was instituted in October 2010 to further enhance monetary easing by encouraging a decline in longer-term interest rates and various risk premiums in a situation where there was little room for a further decline in short-term interest rates. The Bank has established the Program on its balance sheet, through which it conducts the fixed-rate funds-supplying operation and the purchasing of various financial assets – namely, government securities, commercial paper (CP), corporate bonds, exchange-traded funds (ETFs), and Japan real estate investment trusts (J-REITs).

The aim of expanding the Program at this particular time, with uncertainty surrounding economic developments both at home and abroad continuing to be high, was to provide further support for recent positive developments from the financial side and to better ensure that the economy returns to a moderate recovery path. As a result of the increased JGB purchases under the Program, the Bank will be purchasing, together with regular purchases to meet a trend increase in banknote demand, a large amount of JGBs until the end of 2012 at the pace of 3.3 trillion yen per month, or about 40 trillion yen for the year. The purpose of this significant scale of JGB purchases is to achieve sustainable growth with price stability and, needless to say, not to finance government debt.

2. Measures to ensure financial market stability

The Bank has also been doing its utmost to ensure financial market stability by making use of various funds-supplying operations. When strains in financial markets heighten as seen in the case of the Lehman shock and the worsening of the European debt problem, financial institutions' funding conditions deteriorate, leading to a tightening of their lending attitudes.

To prevent this from happening, immediately after the earthquake in March 2011 the Bank provided ample funds on an unprecedented scale, exceeding the amount provided immediately following the Lehman shock. Moreover, in response to the emergence of strains in U.S. dollar short-term funding markets, the Bank re-established U.S. dollar funds-supplying operations in May 2010. It lowered interest rates on the operations as part of coordinated measures among six major central banks at the end of November 2011, when the European debt problem worsened. At the same time, the central banks also agreed to establish bilateral liquidity swap arrangements enabling the provision of liquidity in any of their currencies in addition to the already available U.S. dollar.

3. Measures to support strengthening the foundations for economic growth

As I briefly mentioned earlier, in June 2010 the Bank introduced the fund-provisioning measure to support strengthening the foundations for economic growth for the purpose of providing support, from the financial side, for the critical challenge of enhancing the growth potential of Japan's economy. Through the measure, the Bank supplies funds at a low interest rate of 0.1 percent for, if rolled over, up to four years to private financial institutions in accordance with their efforts in terms of lending and investment to strengthen the foundations for economic growth. The Bank has provided 18 examples, including "environment and energy business," "medical, nursing care, and other health-related business," and "tourism business," of areas for which financial institutions' lending or investment would be funded by the measure. It should be noted that a large amount of funds has been invested in the area categorized as "others," such as lending or investment to support local industries. The outstanding balance of loans disbursed by the Bank under the main rules for the measure has reached the initial ceiling of 3 trillion yen. Moreover, a wide range of financial institutions have been actively making a number of efforts targeting their specific customer base or the region they serve, such as establishing new dedicated funds that will support economic growth, so that the amount of financial institutions' lending and investment greatly exceeds the amount of loans disbursed by the Bank. Therefore, it could be said that the measure has played its intended role as a catalyst in prompting financial institutions to develop their own initiatives to strengthen the foundations for economic growth.

In June 2011, the Bank introduced a new lending arrangement of 500 billion yen for the measure, through which it extends loans to financial institutions for their equity investments and asset-based lending (ABL). The loans for ABL allow financial institutions to use their expertise to identify and lend to potential growth firms without conventional collateral or guarantees. The outstanding balance of loans disbursed by the Bank under this arrangement is 89.1 billion yen as of March 2012. Although this is not a particularly large amount, the new arrangement has been producing some positive effects in terms of providing support for financial institutions' new initiatives.

At the Monetary Policy Meeting held on March 12 and 13, 2012, the Bank decided to enhance the fund-provisioning measure to support strengthening the foundations for economic growth by introducing new lending arrangements and increasing the total amount of loans available through the measure from 3.5 trillion yen to 5.5 trillion yen. The decision was made with a view to underpinning efforts to strengthen the foundations for economic growth and encouraging a wider range of investments and loans that serve this purpose. Here are the specifics. First, the Bank decided to extend the deadline for applications for new loans by two years to March 31, 2014. Second, the Bank decided to introduce a new lending arrangement of 500 billion yen for small-lot investments and loans of 1 million yen or more but less than 10 million yen, in response to requests by relatively small financial institutions. Third, the Bank decided to increase the 3 trillion yen ceiling for the outstanding balance of loans under the main rules by 500 billion yen for the purpose of providing support to initiatives by financial institutions that started to participate in the measure at a later time. And fourth, the Bank decided to introduce a new lending arrangement of 1 trillion yen that will use its U.S. dollar reserves in order to support, through the provision of foreign currency liquidity, financial institutions' own initiatives to help firms capture increasing global demand and thereby enhance their growth potential. The details of the arrangement will be examined at the next Monetary Policy Meeting, to be held in April 2012.

B. The Bank's measures following the Great East Japan Earthquake

It has been about one year since the Great East Japan Earthquake, which hit Japan on March 11, 2011. I would like to take this opportunity to extend my sincere condolences to all those who have suffered from the disaster. Let me explain the Bank's measures following the earthquake. Since immediately after the earthquake, the Bank has swiftly taken a range of measures, such as the provision of ample liquidity and the further enhancement of monetary easing, focusing on three major aspects: maintaining the functioning of financial and settlement systems, ensuring the stability of financial markets, and supporting the economy. On March 14, 2011, the first business day after the disaster, the Bank increased the amount of the Program, mainly of the purchases of risk assets, by about 5 trillion yen, and thereby prevented any deterioration in business sentiment from adversely affecting economic activity. In April, the Bank decided to introduce a funds-supplying operation that supplies financial institutions in disaster areas with longer-term funds in order to provide support to their initial response efforts to meet demand for funds for restoration and rebuilding. It also decided to broaden the range of eligible collateral for money market operations.

So far, loans of about 500 billion yen of the total amount of 1 trillion yen for this funds-supplying operation have been disbursed. The reason that financial institutions in disaster areas have made relatively little use of loans under this operation is that their funding conditions have generally been favorable. Nevertheless, it can be said that the operation has been effective in that it has provided a safety net to help these institutions with their efforts to meet demand for funds for restoration and rebuilding. Given that full-fledged rebuilding efforts are now getting under way, and taking into account requests from financial institutions in disaster areas, the Bank decided to extend the deadline for new applications for loans by one year to April 30, 2013 at last week's Monetary Policy Meeting on March 12 and 13, 2012.