

Mr Matsushita comments on recent monetary and economic conditions in Japan Speech given by the Governor of the Bank of Japan, Mr Yasuo Matsushita, at the Keizai Club in Tokio on 4/2/97.

I. Introduction

I truly appreciate this opportunity to address this distinguished audience at the invitation of the Keizai Club.

Over the past several years, the Japanese economy has had to overcome the aftereffects of the bursting of the economic “bubble” while facing the weighty challenge of establishing an economic structure suitable for the new era. Although there were concerns about a deflationary spiral at one time, the economy has been recovering moderately since the beginning of 1996 partly due to strong monetary and fiscal support. Recently, this economic recovery has gradually firmed, offering signs that progress has been made toward establishing this suitable economic structure.

However, since the beginning of the year, stock prices have fallen significantly, suggesting that market participants remain cautious about the economic outlook. With this in mind, I would like to discuss the Bank of Japan’s thinking on the recent economic developments and monetary policy management, together with the Bank’s views on the uncertain factors regarding the economic outlook.

II. Domestic Economic Condition

With regard to the domestic economic condition, the Bank of Japan’s judgment is that a moderate economic recovery continues, and that the economic recovery is gradually becoming firmer.

When considering the strength of an economic recovery, the Bank pays attention to the positive interactions between production and private demand. Specifically, attention is given to whether the increase in production is leading to an expansion of business fixed investment through improved corporate profits, and whether this increased production is followed by a recovery in personal consumption through increased income.

Looking back on the economic developments in Japan over the past year from a viewpoint of determining the strength of the recovery, the growth of aggregate demand, including public and housing investments, accelerated in the first half of 1996, and accordingly, market expectations of an economic recovery strengthened and long- term interest rates showed a temporary rise. However, no significant improvement was seen in production, as the increase in final demand was partly offset by inventory adjustment and by an increase in imports. As a result, a virtuous circle of demand, production, and income was not confirmed.

This situation, however, appears to have changed somewhat in the latter half of 1996. Firstly, the decline in external demand, which had been a constraining factor of the economic recovery, halted in autumn 1996, mainly due to the increase in exports that followed a depreciation of the yen. Recently, there has been an upward trend in external demand. In addition, inventory adjustment in some raw materials and semiconductor industries was almost completed. As a result, production, which had remained sluggish in the first half of 1996, started to grow at an accelerating pace, reflecting fully the increase in final demand.

Notably, the firm recovery in production is now generating a recovery in private demand, including business fixed investment and personal consumption. Reflecting improvements in corporate sales and profits, the recovery in business fixed investment is spreading to a wider range of industries and to smaller firms than previously observed. Indeed, according to the results of the November 1996 "TANKAN -- Short-Term Economic Survey of Enterprises in Japan," business fixed investment for the smaller firms, which had been slow to improve, is expected to show a year-to-year increase in fiscal 1996 for the first time in five years.

Growth of personal consumption, the other mainstay of private demand, leveled off at one time in summer 1996, but resumed later in autumn, especially in consumer durables such as automobiles. The contributing factor to the moderate but steady recovery in personal consumption has been the improved income reflecting the favorable changes in employment conditions and wages that followed the increase in production.

It must be borne in mind that the increase in demand ahead of the rise in the consumption tax rate scheduled for fiscal 1997 is contributing to the improvement in economic indicators, as in housing investment, and therefore these improvements need to be seen in this light. There has, however, recently been a notable change in economic developments compared to the first half of 1996. Despite a gradual decrease in public-sector investment from the latter half of 1996, the virtuous circle -- in which increased production leads to increased private demand through improved corporate profits and employment income -- has clearly begun to operate.

III. Uncertain Factors Regarding the Economic Outlook

A. Views of Financial Market Participants

Turning from the Bank of Japan's views on the current domestic economy, the issue of concern now is the future development of the economy. Revitalization of economic activity usually brings about increases in corporate profits and employment income, which lead to improvements in business fixed investment and personal consumption. These improvements in turn lead to a further expansion in economic activity.

However, developments in financial markets, such as stock prices and long-term interest rates, suggest that despite the increasing strength of the economic recovery, market participants remain cautious about the economic outlook. Various causes are cited for the significant fall in stock prices since the beginning of the year: renewed concern about the nonperforming-loan problem; uncertainty over the social and economic systems in Japan as a whole; and pressures to decrease the differential between domestic and international stock prices in terms of various measures of evaluation, such as the price/earnings ratio. It is extremely difficult to assess each factor and to specify the cause of the uncertainty. Still, the overall trend in the financial markets over the past several months clearly indicates that market participants have a cautious outlook on the economy, as shown by the slowdown in growth or even a decline in stock prices since autumn 1996, and by the concurrent decline in long-term interest rates.

Cautiousness on the part of the market participants reflects the fact that they are strongly aware of the following three issues: (1) effects of the anticipated fiscal tightening in the next fiscal year; (2) structural adjustment pressures facing Japanese industry; and (3) balance-sheet adjustment of firms and the nonperforming-loan problem of financial institutions, both of which are burdens created by the economic "bubble" and its burst.

Before explaining the Bank of Japan's views on these issues, I would like to emphasize that my talk today is not intended to draw specific conclusions or to assess the levels of stock prices and interest rates. This requires careful analysis and is an issue on which a central bank governor should refrain from comment. Rather, I would like to give you an idea of how the Bank examines these issues.

B. Effects of Fiscal Tightening

The first issue that I would like to discuss is the influence of fiscal tightening -- such as reduction in public-sector investment, rise in the consumption tax rate, and termination of special tax reduction -- on the economy for the next fiscal year.

Public-sector investment began to decline in autumn 1996, after having continued to expand until mid-1996 as a result of the economic measures introduced in autumn 1995. Although there may be a slight temporary increase in public-sector investment reflecting the implementation of the supplementary budget for the current fiscal year, the declining trend is expected to continue for some time. In addition, an increase in the consumption tax rate and the termination of the special tax reduction is scheduled for fiscal 1997.

It is important to mention here that the influence of fiscal tightening on the economy may vary significantly depending on the prevailing economic conditions, such as corporate profits and employment income development, as well as on the confidence that the corporate and household sectors have in the economy. Furthermore, this influence can differ substantially depending on how the public's expectations of the future economy change in response to reduced fiscal expenditures and tax increases, and how market interest rates respond to any reduction in the budget deficit.

The effects on the economy of a reduction of public-sector investment or a budget deficit have been debated by academics. The simplest Keynesian view is that reduced public-sector investment cumulatively acts to restrain private demand through multiplier effects. Some argue that a decrease in the budget deficit will lower interest rates and the yen's foreign exchange value, thus offsetting the negative effects on the economy. Some even hold that because the public behave rationally with anticipation of future tax increases or reductions, neither a decrease nor an increase in the budget deficit will have any effect on the economy.

The influence of a reduced budget deficit on the economy may thus be complex and diverse, once the movement of market interest rates, foreign exchange rates, and the public's expectations are taken into account. It is natural to assume that in reality, the impact of reduced fiscal expenditures on the economy cannot be denied, although the influence is unlikely to reach the extent estimated by simply multiplying the nominal value of the reduction by a multiplier.

To underline the argument I just made, the economic mechanism does not work on the basis of simple addition and subtraction, but rather involves dynamic interactions of many factors which incorporates the public's expectations. After all, the effects of fiscal tightening are an empirical issue for which conclusions cannot be reached in advance, and therefore, it is very difficult to accurately predict future developments at this stage. Bearing this in mind, it is necessary to view carefully the effects of fiscal tightening on the economy as a whole.

C. Progress in the Structural Adjustment of Industries

Let me now turn to the next issue of the structural adjustment of industries, which is a medium- to long-term issue for the Japanese economy.

One of the changes in the environment surrounding the Japanese economy in the past several years has been that a wider range of industries have come to face severe international competition due to the increasing supply capacity of other East Asian countries. The weakening of international competitiveness made it difficult for some industries and firms to continue domestic production of some of their conventional products. This forced them to relocate their production bases overseas while shifting their domestic production to new products for which they have a comparative advantage.

This is not the first time that the Japanese economy has faced structural adjustment pressures. In fact, it successfully confronted the challenge several times in the past. However, the adjustment this time has inevitably involved greater pains than in the past, due to the after-effects of the bursting of the economic "bubble."

Furthermore, as relocation overseas took place prior to a shift to new products, structural adjustment significantly constrained domestic production and, as a result, investment and employment were also limited. The negative impact was particularly substantial for the smaller firms, as many of them manufactured labor-intensive products and were subcontractors to the large firms which relocated their production bases overseas.

The key factors we should keep in mind in projecting future developments in the Japanese economy are therefore the progress in the structural adjustment of industries, that is, the emergence of new products or industries that will promote future economic growth.

A careful look at individual industries reveals some positive signs. In production, for example, an increasing number of firms and industries are shifting to goods with international competitiveness. More specifically, the production of producer goods and capital goods that are capital-intensive and technology-intensive has been increasing while the production of labor-intensive consumer goods has been declining. These changes are also reflected in imports and exports of goods. Recently, exports of consumer goods, mainly household electric appliances such as television sets and radios, have been decreasing while their imports have been increasing, and exports of capital goods and parts such as electronic machinery and automobile parts have been increasing significantly.

Notable as these changes may be, one cannot simply add up these microeconomic developments to obtain a comprehensive evaluation of how successfully the Japanese economy as a whole is undergoing the structural adjustment of industries. Rather, the progress in structural adjustment should be reflected most evidently in the revitalization of forward-looking business activity. If this were the case, the stance taken by firms toward fixed investment and employment should provide a measure of the progress in macroeconomic structural adjustment.

In this respect, business fixed investment by large firms began to recover in fiscal 1995 well ahead of small and medium-sized firms. Investment by smaller firms, which had been more susceptible to structural adjustment pressures, has also finally begun to show a recovery. Although the recovery is extremely moderate, this resumption of investment by smaller firms, an activity that lays the foundation for the future, may be considered as evidence of progress in

structural adjustment as it indicates that these firms are starting to have a clear idea about the new direction of their business.

Progress is also reflected in the business fixed investment of various industries. Namely, investment has been increasing in capital- and production-goods related sectors, where high growth in production has been recorded. There has also been a rapid expansion of investment in a new industry of mobile telecommunications. Business fixed investment for development of new products and new businesses also seems to be increasing gradually.

With regard to employment, structural adjustment pressures are persistent in some indicators such as the high unemployment rate. However, based on the most recent changes in employment indicators and the microeconomic information on firms, labor market conditions are seen to be improving gradually, indicating steady progress in industrial restructuring.

For example, recent numbers of new job offers are significantly higher than those in the previous year. Business surveys indicate that an increasing number of firms plan, for the first time in many years, to increase the number of new graduates hired in the next fiscal year. Results of the November TANKAN also indicate that more than half of the smaller firms surveyed feel that they are shorthanded. Furthermore, labor market conditions in each sector indicate that employment has decreased significantly in sectors where imports have been making inroads -- such as the electrical machinery and textiles industries -- while employment has increased in new sectors such as telecommunications. These changes indicate a gradual shift of labor between sectors.

In sum, although pressures for the structural adjustment of industries remain, it can be said that structural adjustment has progressed significantly as reflected in the recent recovery in business fixed investment and employment.

D. Balance-Sheet Adjustment

The third issue to be discussed is that of balance-sheet adjustment. There are two aspects to this issue: the improvement of the financial condition of firms and the disposal of nonperforming loans of financial institutions.

With regard to the balance-sheet adjustment of Japanese firms, there have been serious efforts by firms to reduce their liabilities since the bursting of the economic "bubble." Despite these efforts, the mismatch between assets and liabilities expanded in many sectors until 1994 or 1995 due to the continued decline in real estate prices. While the decline in asset prices has slowed since 1995, liabilities have decreased owing to the recovery in corporate profits which followed firms' restructuring efforts and lower interest rates.

Several indicators, such as the ratio of long-term debts to assets at market value, reveal that balance-sheet adjustment pressures are persistent. In particular, small and medium-sized firms still need to make substantial efforts to complete their adjustment. As I have just mentioned, however, the improvement of firms' balance sheets has doubtlessly been making moderate but steady progress in general, and thus, constraints imposed by the adjustment pressures on economic recovery should continue to be gradually alleviated.

Regarding the nonperforming-loan problem of financial institutions, the total amount of nonperforming loans of the financial institutions was approximately 29 trillion yen as of the end of September 1996, according to the data published by the Ministry of Finance. Of

this total, the estimated amount of problem loans to be disposed of, not including those already covered by collateral and provisions, is estimated at approximately 7 trillion yen. Both of these figures have decreased by approximately 10 trillion yen from the previous year, and thus, in general, it can be said that steady progress has been made in solving this particular problem.

The amount of nonperforming loans that need to be disposed of, however, remains large. The Bank of Japan will continue to strongly encourage financial institutions to dispose of the remaining nonperforming loans expeditiously and to exert themselves to the utmost to (1) restore their capital bases which have been impaired in the process of disposing of nonperforming loans; (2) strengthen their profitability through restructuring; and (3) enhance their internal risk management.

In relation to the economy, an issue of concern is whether the decline in the intermediary functions of those financial institutions burdened with nonperforming loans is constraining economic recovery. While it may certainly be true that financial institutions have imposed stricter screening criteria for lending following the experiences of the economic "bubble" period, most financial institutions now maintain a policy of actively increasing loans of reliable quality while, or rather for the purpose of, disposing of nonperforming loans. In fact, the lending attitude of financial institutions, as seen from the point of view of the firms, has become less severe and lending rates have stayed at a historically low level. It is, therefore, difficult to assume that the severer lending attitude of the financial institutions is hampering the recovery in business fixed investment.

IV. Economic Outlook and Monetary Policy Management

A. Economic Outlook

I have so far discussed such issues as the effects of fiscal tightening and the current situation of structural adjustment, both considered to be the major factors contributing to the cautious economic outlook in financial markets. Among these, developments of structural adjustment may be summarized as follows: (1) both the structural adjustment of industries and balance-sheet adjustment are still in progress and therefore the pace of economic recovery is likely to remain moderate for some time; (2) however, as industrial restructuring and balance-sheet adjustment are making steady progress, albeit moderate, its constraining effects on economic recovery are likely to gradually ease.

Therefore, the most important issue in considering the economic outlook is whether the increase in private demand can overcome the downward pressures from fiscal tightening and whether it is possible, as a result, to lead the economy on to a path of self-sustained recovery.

As I mentioned earlier, economic recovery has been recently gaining strength. If this recovery is analyzed in terms of the level of economic activity, namely the output gap, it can be noted that capacity utilization has been rising steadily reflecting the recent recovery in production, and has recovered to the same level as that of four years ago. Furthermore, the results of the November TANKAN indicated that the excessive production capacity and employment perceived by surveyed firms have gradually fallen to the same level as in 1987, at which time the economy was recovering from the recession caused by the appreciation of the yen. While the profit-to-sales ratio of smaller firms has not yet recovered to the average level of the past, the ratio of large firms has already reached a relatively high level. Judging overall, it

can be said that the current level of economic activity in Japan is approaching the same point where the strength of the recovery began to firm in past business cycles.

This level of economic activity will provide a basis for the virtuous circle of the economy, one that is led by expanded private demand, to gain further strength. In other words, if the recent economic recovery continues for some time, increased production will further improve corporate profits and employment income, which in turn are likely to lead to increases in business fixed investment and personal consumption. If this virtuous circle gains stronger momentum, there will be a higher possibility of the strengthened virtuous circle absorbing the downward pressures from prospective fiscal tightening.

A temporary slowdown in economic recovery seems inevitable as downward pressures from fiscal tightening will be strong during the first half of fiscal 1997 and as a reaction to the increase in demand ahead of the rise in the consumption tax rate scheduled for April 1997 is expected. However, the recovery trend of the economy is likely to be sustained on account of the strengthening recovery in private demand.

I indicated earlier, however, that it is necessary to consider the effects of fiscal tightening carefully. Business sentiment and consumer confidence are also becoming important factors for a further increase in private demand. The corporate and household sectors will plan their activities and put them into action in the form of production, investment, and consumption, taking into account the fiscal 1997 budget and the actual placement of public work orders. Therefore, in predicting future economic developments, it is important to closely examine various macro- and micro-economic data and not only the economic indicators that will be released in the future, but also firms' business plans and signals sent by financial markets.

Meanwhile, it is expected that prices will cease to decline due firstly to the rise in import prices reflecting the yen's depreciation and higher crude oil prices, and secondly to the improvement in domestic supply and demand conditions. However, when considering the fact that the improvement in supply and demand conditions is expected to be moderate for now and that the pressures of global competition will persist, there is only a limited possibility that domestic prices will follow a clear upward trend. Yet, as foreign exchange rates have recently shown rather rapid movements, it is necessary to cautiously monitor the effects of such a development on the domestic economy.

While refraining from making any comments on the recent foreign exchange rate levels and movements, the Bank's fundamental thinking is that it is desirable for exchange rates to be stable and determined in accordance with the real economic conditions of each country. Based on this thinking, the Bank of Japan will continue to carefully monitor foreign exchange rate developments and their effects on the Japanese economy.

B. Monetary Policy Management

In the management of current monetary policy, the Bank of Japan will continue to monitor economic developments closely, placing emphasis on further strengthening the foundation of an economic recovery.

In April 1997, the consumption tax rate will be raised from 3 percent to 5 percent. Therefore, I would also like to discuss how the Bank of Japan views the possible effects of this tax rate rise on prices, in the context of managing monetary policy. Specifically, the issue here is

what monetary policy measures should be taken in light of the price hikes due to the rise in the tax rate.

I would first like to point out that the price hikes caused by the rise in the consumption tax rate is different in nature from the ordinary rise in prices, that is inflation. Generally, inflation is generated in the mechanism of economic cycles as a result of, for example, tightening of supply and demand conditions for labor or products, or excessive supply of money. In turn, inflation affects economic activity in various ways.

In contrast, price hikes due to a rise in the consumption tax rate are equivalent to a once only rewriting of all the old price tags on April 1. There are no relevant changes in economic activity, such as a tightening of supply and demand conditions, an increase in wages, or excessive money supply. Therefore, it would not be appropriate to formulate monetary policy against such superficial changes in prices.

Although this represents the fundamental thinking of the Bank, it does not mean that the central bank is indifferent to the rise in the consumption tax rate. If the rise triggers price hikes taking advantage of the tax rate rise, or if overall inflationary expectations are heightened, then the risk of a genuine inflation will arise. In particular, this risk cannot be disregarded when the supply and demand conditions for products are fairly tight. Therefore, it is necessary to pay attention to the inflationary expectations and possible over-reactions caused by the rise in the consumption tax rate rather than paying attention to the previously-mentioned superficial hikes in prices.

In summary, in order to promote a smooth structural adjustment, to bring about a strengthening of the economic recovery, and to encourage the renewed development of the Japanese economy, the implementation of a drastic structural reform, including effective deregulation, is indispensable. In this respect, I hope that the government will continue to exercise strong leadership and earnest efforts will continue to be made by various parties.

V. Financial System Reform and Revision of the Bank of Japan Law

A. Financial System Reform

I would like to use the remaining time to discuss financial system reform and the revision of the Bank of Japan Law.

The important challenge for Japan today is to vigorously promote structural reform as discussed above, and this also applies to the reform of the financial markets and of the financial system.

Financial markets worldwide have experienced significant changes in recent years amid rapid financial and economic globalization and technological innovation. New financial instruments such as derivatives and securitized products have been developed in succession to provide firms and households with diverse means of risk-hedging, investment, and financing. At the same time, profit opportunities for financial institutions have expanded in various fields.

It seems that it is now time for the market participants to select the market, rather than the markets selecting the participants. Countries are vying with each other to reform their financial markets, based on a growing worldwide perception that the financial services sector

will show rapid growth and create numerous employment opportunities into the twenty-first century. Each country is thus striving to make their own markets attractive to participants.

Japan, too, has engaged in the review of regulations and systems to promote financial deregulation. However, reform has been gradual and financial institutions have tended to deal with it cautiously due to the severe challenge they have had to face after the bursting of the economic "bubble." As a result, the Tokyo market has fallen far behind the New York and London markets in terms of its ability to develop financial instruments that incorporate new techniques.

In recognition of this, Prime Minister Hashimoto proposed the "Big Bang" deregulation package for Japan. I understand that the purpose of this financial reform package is to revitalize the Tokyo market as a free and active global market. The Bank believes that the aims of this reform package are most appropriate and as a central bank, intends to contribute to the achievement of its goals.

In carrying out the reform, it is especially important that the three basic principles of freedom, fairness, and globalization are strictly followed, and that the pace of the reform is not relaxed. The "Big Bang" package aims to realize and complete all reforms by the year 2001, immediately implementing any measures on which study has been concluded. However, this should not mean that the process of market reform become unduly gradual or slow, as this may jeopardize the consistency of the reform, or result in only an easier part of the reform being implemented.

For example, one deregulation measure included in the "Big Bang" package and highly valued by the Bank is the fundamental revision of the Foreign Exchange Control Law. If deregulation in other areas proceeds too slowly, the effects of the new Foreign Exchange Control Law might encourage financial transactions to shift to overseas markets and might then lead to the hollowing-out of the Tokyo market. In order to avoid such a turn of events, it is most important to bring about concrete measures within the shortest possible time to maintain the coherence of the deregulation as a whole.

B. Revision of the Bank of Japan Law

Lastly, I would like to discuss the revision of the Bank of Japan Law.

The revision of the Bank of Japan Law is now in the final stage of deliberation by the Financial System Research Council, an advisory committee to the Minister of Finance, following discussions last year by the Central Bank Study Group, an advisory panel to the Prime Minister.

The Bank has made public its views on the Bank of Japan Law revision at a press conference held at the end of 1996 and on other occasions. To summarize, (1) the Bank holds that the basic views stated by the Central Bank Study Group -- that is, ensuring central bank independence and enhancing transparency -- should be clearly stated in the law; and (2) the Bank believes that further deliberations should be conducted on several issues regarding the relationship between the government and the central bank, on which the Central Bank Study Group was unable to reach conclusions, so as to duly reflect the two concepts of independence and transparency.

Fortunately, the Bank's views appear to be adequately shared by the members of the Financial System Research Council. I would therefore like to discuss today the significance of the revision of the Bank of Japan Law to the Japanese economy as a whole.

First, this revision of the central bank system is a response to the global trend of changes, including financial and economic globalization and marketization, which have been driven by progress in financial innovation.

On various occasions in the past, I have discussed how in the new financial environment, markets around the world respond instantaneously to various information and they also respond to changes in the expectations of market participants as the participants process such information. The "Big Bang" package is likely to promote this tendency through increased efficiency and globalization of the markets. Under such circumstances, if the role and responsibility of the central bank in charge of monetary policy management are not made clear, or if both domestic and overseas understanding of the central bank's monetary policy management is insufficient, a country's monetary policy intentions may not permeate sufficiently throughout the market. In addition, irrelevant information may disrupt the markets.

The idea of entrusting the responsibility of ensuring price stability with the central bank, an establishment detached from short-term interests, is a wisdom acquired from the history of battles against inflation. The recent strengthening of central bank independence and the growing demand for transparency of monetary policy management around the world reflect the stronger emphasis on the status and responsibility of central banks to meet the new challenges presented by the global changes in the financial markets.

Second, in order for the financial markets or the financial system of a country to function efficiently and stably, appropriate policy and operational management by the central bank, which rests at the core of the financial system, is indispensable.

The Japanese financial system is a mechanism for intermediating savings and investments by the efficient allocation of funds by means of a currency called the "yen." In order for this mechanism to function properly, (1) the value of money -- in other words, domestic prices -- must be stable; (2) the mechanism for settling transactions by means of money must be efficient and convenient; and (3) private financial institutions, as the members of the financial system, as well as the central bank must be sound and reliable.

The maintenance of these three conditions -- that is, price stability, stable operations of the payment and settlement systems, and the resulting soundness of the financial system -- is the important responsibility of the central bank, an institution which has a primary role in the issuance and circulation of the "yen." The central bank system is thus an important component of the financial system infrastructure of Japan.

Therefore, in order to win domestic and overseas confidence in the Japanese financial markets and to maintain and improve the international competitiveness of these markets, it is essential that the central bank system is able to win domestic and overseas confidence, and that the market environment is improved through such efforts as the "Big Bang" reform package.

Third, many of the issues raised regarding the revision of the Bank of Japan Law can also be applied to economic structural reform and to administrative reform in Japan.

The Bank of Japan has urged that (1) its organizational objectives and roles be clarified; and (2) the management of policy and operations be founded on a mechanism which allows the market participants and other third parties to monitor ex post facto whether the Bank is discharging its responsibility appropriately, rather than be part of a mechanism that attaches importance to advance coordination with the government.

This argument applies not only to the central bank. In fact, it may be applied generally to the question of what the economic and financial systems should be or what the role of government administration should take to meet the challenges of a new era.

The Japanese economy today is required to function within a mechanism under which any institution is responsible for its own course of action and then the market and the public examine and evaluate the actions taken, instead of within a system governed by advance examination based on administrative supervision and regulations.

Such reforms will fundamentally change the economic and social structures of Japan, making them more consistent with global standards. The old methodology of carrying out reforms within the conventional framework and ways of thinking must be changed. It is necessary to consider how the distinctive systems and ways of thinking in Japan could be changed from a perspective of global standards.

The issue of the revision of the Bank of Japan Law has drawn attention overseas along with the "Big Bang" package of financial reforms. This is because the revision of the Law is regarded as a test case of whether or not Japan can change itself.

To repeat my earlier point, the Bank of Japan strongly hopes that the two concepts put forward by the Central Bank Study Group -- that is, ensuring central bank independence and enhancing transparency -- will be clearly reflected in the revised Bank of Japan Law. I wish to make clear that the revision of the Law is not an issue that solely concerns the Bank of Japan, the monetary authorities, and the financial community, but is an issue closely related to the future course of the Japanese economy as a whole.

It is very important for the Bank of Japan to prove its ability to reform itself and to win domestic and overseas confidence through constant efforts toward appropriate policy and operational management. As part of such efforts, the Bank last year announced plans for the revision of policy and operational management, including the holding of regular meetings of the Policy Board for monetary policy decisions and the disclosure of the summary of those meetings. We at the Bank are determined to further promote vigorously institutional and operational reform.

I would like to conclude by asking for your continued understanding and support. I am most grateful for the kind attention you have given me today.