Hidetoshi Kamezaki: Recent economic and financial developments in Japan

Summary of a speech by Mr Hidetoshi Kamezaki, Member of the Policy Board of the Bank of Japan, at a meeting with business leaders, Fukuoka, 29 February 2012.

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I. Economic activity and prices

A. Overseas economies

Tensions have heightened considerably in global financial markets since summer 2011 due to concerns about the European debt problem. Uncertainty about the fiscal discipline of peripheral European countries gave rise to doubts about the financial soundness of European financial institutions with large holdings of government bonds issued by these countries, making it difficult for these financial institutions to procure funds. In turn, the lending attitude of financial institutions to firms and households deteriorated, and this negative sentiment among economic entities had a detrimental effect on economic activity, giving rise to an adverse feedback loop among the fiscal situation, the financial system, and economic activity. Furthermore, the effects of increased risk aversion among investors as well as deleveraging by European banks are evident in neighboring Central and Eastern European countries and even in parts of Asia and other regions that have trade and financial ties with Europe.

A key characteristic of the European debt problem is that the sovereign debt problems, which had been confined to some peripheral countries such as Greece and Portugal, have spread to major European countries such as Italy and Spain. Consequently, the stock prices of banks with large holdings of European government bonds fell. Recently, however, tensions in financial markets have abated somewhat due to the provision of ample funds through the 36-month longer-term refinancing operations conducted by the European Central Bank (ECB), the coordinated action being taken by six central banks – including the Bank of Japan – to provide U.S. dollar liquidity, and the recent agreement by euro area finance ministers on a second rescue package for Greece, worth 130 billion euros.

These are, however, merely stop-gap measures to prevent further financial turmoil. Of more importance is prompt action in the following areas discussed by the European authorities: (1) fiscal reform in, and strengthening the competitiveness of, member states; (2) enhancing fiscal governance within the euro area; and (3) boosting the funds for a so-called firewall to contain disruptions in the financial system and financial markets.

The objective of adopting the euro had been to create an economic zone free of currency rate fluctuations through the introduction of a unified single currency, with member states obliged to maintain fiscal discipline. In reality, however, taking advantage of a strong currency and low interest rate, peripheral countries such as Greece increased private consumption, resulting in greater external imbalances. Furthermore, wages rose faster than productivity due to rigid labor markets, resulting in a decline in competitiveness. At the same time, other countries such as Germany were able to raise productivity, mainly in the manufacturing sector, and succeeded in strengthening their export competitiveness. As a result, disparities in competitiveness and economic prosperity among member states increased. In theory, efforts should have been made to tighten fiscal discipline and raise competitiveness before the disparities could give rise to a financial crisis, but when the economy remained strong, the impetus for such efforts was lacking. Thus, the financial crisis arose, exposing the structural flaws of the euro area. As a result, in order to achieve its initial objective, Europe is now faced with the critical issue of restoring fiscal prudence and economic competitiveness, which need to complement the currency union. Given that political deliberations are shaped by public opinion in the member states, reaching decisions requires considerable time. However, because the crisis could potentially have a large negative impact on financial markets and economies around the world, it is essential that a sufficiently large firewall is erected quickly and countries implement fundamental fiscal and structural reforms.

Against the background of the European debt problem, the pace of recovery of the world economy has been slowing. The annualized growth rate of overseas economies was 6.5 percent during the January-March quarter of 2011, but fell to 3.0 percent in the April-June quarter before rising to 3.8 percent in the July-September quarter and then slowing again to 0.9 percent in the October-December quarter. As for the outlook, it is likely to take a while for the European debt problem to be resolved, while in the United States the household balance-sheet problem is weighing down on private consumption, reducing the likelihood of any buoyant recovery. For the balance-sheet problem to be overcome, it is necessary either for housing prices to bottom out and start rising, which would resolve the negative equity situation – where mortgage balances exceed the market value of a home – or for households to regain their ability to repay debt through improvements in the employment and income situation. The correction of excess debt is a time-consuming process, however, as Japan's post-bubble experience shows. While industrialized countries as a whole struggle to grow, emerging and commodity-exporting economies are likely to become the engines of global economic growth. Although expectations are high for emerging and commodity-exporting economies, it remains to be seen how strong an engine they can actually be given the various uncertainties.

B. The Japanese economy

The Japanese economy slowed temporarily following the Great East Japan Earthquake in March 2011. Subsequently, strenuous efforts were made by firms to rebuild supply chains, helping the economy to recover by around the summer of 2011 despite constraints to the supply of electricity. Since autumn 2011, exports and production have been under pressure from a further negative shock in the form of the flooding in Thailand, adding to the European debt problem and the effects of the appreciation of the yen. Private consumption remained firm, due in part to a recovery in demand that had been restrained after the earthquake, while business fixed investment has been on a moderate increasing trend, aided partly by the restoration of disaster-stricken facilities. As a result, the Japanese economy has been more or less flat, caught between both negative and positive factors. Real GDP growth in fiscal 2011 is likely to be slightly negative mainly due to the effects of the supply-side constraints caused by the disaster as well as the slowdown in overseas economies and the appreciation of the yen.

Restoring the national finances is also one of the major issues Japan currently faces. The situation in Europe, where fiscal risks have materialized, cannot be considered merely a "fire on the other side of the river." A look at Japan's fiscal situation shows that its primary budget deficit is similar to those of Spain and Portugal, while its outstanding debt is extremely large, be it on a gross or a net basis, that is, offsetting financial assets held by the government. Some argue that there is little reason to worry as the share of Japanese government bonds (JGBs) held by foreign investors is low compared to the share of European and U.S. government bonds held by foreign investors. And in fact, government bond prices are not weak – long-term interest rates are not rising – at present. However, a lesson to be learned from the European debt problem is that once trust in a country's fiscal management wanes, this can soon lead to a loss of confidence in government bonds as a safe asset. Although to date there has been little difficulty in finding buyers for JGBs, this may not hold true in the future. Confidence in JGBs could change in a non-linear fashion and government calculations suggest that the fiscal situation in Japan is likely to remain severe. To ensure that confidence in Japan's public finances is maintained, it is necessary to embark on a path to fiscal sustainability that gives the public reasons to believe that the government can restore fiscal balance in the medium to long term. Steps in this direction include a growth strategy to lift the country's growth rate as well as revisions to the social security and taxation systems.

Turning to the balance of payments, Japan's trade balance fell into a deficit of 1.6 trillion yen in 2011, marking the first deficit since 1963, that is, in 48 years. There are three main reasons for this. First, exports declined sharply due to the supply-side constraints caused by the disaster, while imports of intermediate goods increased to make up for shortages in domestic supplies. Second, shutdowns of nuclear power plants led to an increase in imports of crude oil, liquefied natural gas, and other fossil fuels used for thermal power generation. And third, the slowdown in overseas economies and the appreciation of the yen since autumn 2011, as well as the flooding in Thailand, weighed down exports. Thus, a combination of various factors was behind the trade deficit for 2011. The supply-side constraints and the flooding in Thailand are, however, temporary factors and are unlikely to affect exports and imports hereafter. The trade balance in January 2012 also marked a record deficit. According to preliminary data, the deficit was 1.5 trillion yen, the largest monthly deficit ever since the compilation of comparable data started in 1979. The deficit in large part also reflects a special factor – namely, the decline in exports due to the fact that in 2011 the Chinese New Year holidays took place in February.

The current account balance, which consists of the balance of trade in goods and services, the balance of income, and current transfers, remained in surplus in 2011, although the surplus decreased substantially mainly due to the trade deficit. The services balance records the receipts and payments for international transactions in services, while the income balance records the international receipts and payments of interest and dividends, and current transfers record contributions to international organizations as well as the flow of government food and financial assistance. The current account was in surplus owing to a large surplus in the income balance, which in turn was brought about by increases in interest and dividend payments from direct and portfolio investments. It is very likely that the income balance will remain in surplus for the time being given external assets amounting to 250 trillion yen. Therefore, unless the trade deficit continues to expand rapidly, the current account is likely to remain in surplus.

C. Recent price developments

Next, I will move on to price developments. International commodity prices had been increasing from around spring 2009 on the back of high growth in emerging economies, but weakened slightly around summer 2011 due to the instability in global financial markets and subsequently remained more or less flat. However, most recently commodity prices have been rising again, mainly due to geopolitical risks. Import prices in Japan and the domestic corporate goods price index (CGPI) – which measures fluctuations in prices of goods traded between firms in Japan – have been more or less flat, reflecting movements in international commodity prices. Meanwhile, the year-on-year rate of decline in the consumer price index (CPI) for all items excluding fresh food, or the core CPI – which measures fluctuations in prices of goods and services purchased by households – has slowed consistently since around 2009 as the aggregate supply and demand balance gradually improved, and the year-on-year rate of change is currently around 0 percent, reflecting developments in import prices and the CGPI.

As for the outlook, in light of recent developments in the output gap, the year-on-year rate of change in the core CPI is expected to remain at around 0 percent – potentially falling into slightly negative territory – for the time being, albeit with some fluctuations reflecting movements in international commodity prices.

D. Outlook for economic activity and prices

The outlook I just presented is my own personal assessment. Let me now turn to the *Outlook for Economic Activity and Prices*, known as the Outlook Report, which the Bank releases semiannually in April and October. The Outlook Report presents the Policy Board members' assessments of economic activity and prices based on their forecasts. In addition to the semiannual Outlook Report, the Bank releases interim assessments in January and July that present the Bank's revised forecasts.

In the most recent forecasts, released on January 24, 2012, Policy Board members considered it most likely that Japan's economic activity would remain more or less flat for the time being, but thereafter the economy was likely to return to a moderate recovery path as the pace of recovery in overseas economies picked up, led by emerging and commodity-exporting economies, and as reconstruction-related demand after the earthquake gradually materialized. On the price front, the year-on-year rate of change in the core CPI is expected to remain at around 0 percent for the time being, but thereafter is expected to record a clear year-on-year increase in fiscal 2013.

This outlook, however, is subject to various uncertainties, among which future developments with regard to the European debt problem continue to represent the most significant risk to the economy. Its effects are already spreading to Japan's exports and production, both directly and indirectly through international trade. Attention should therefore continue to be paid to the possibility that the European debt problem could lead to weaker growth in overseas economies – and consequently in Japan's economy – mainly through its effects on global financial markets. In the United States, strains from balance-sheet repair, as mentioned earlier, continue to weigh on the economy despite some firmness observed in household sentiment on the back of improvements in the employment and income situation. With regard to emerging and commodity-exporting economies, which are expected to drive global economic growth, there remains a high degree of uncertainty about whether these economies – including China, where the inflation rate has been declining recently – can achieve price stability and economic growth at the same time.

Regarding the outlook for prices, there is a possibility that the inflation rate will rise more than expected if international commodity prices increase due to geopolitical risks such as those associated with the situation surrounding Iran, while there is also a risk that the rate of inflation will deviate downward from the Bank's baseline scenario due, for example, to a decline in medium- to long-term inflation expectations resulting from a slowdown in economic activity.

II. Measures taken by the bank

A. Recent conduct of monetary policy toward a sustainable growth path with price stability

With a view to overcoming deflation and returning Japan's economy to a sustainable growth path with price stability, the Bank continues to consistently make contributions as the central bank, through the three-pronged approach of pursuing powerful monetary easing consisting of comprehensive monetary easing, ensuring financial market stability, and providing support to strengthen the foundations for economic growth.

1. Pursuing powerful monetary easing

The Bank decided the following three new measures at the Monetary Policy Meeting held on February 13 and 14, 2012.

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

First, the Bank introduced "the price stability goal in the medium to long term," which is the inflation rate that the Bank judges to be consistent with price stability sustainable over the medium to long term. Prior to the introduction of the goal, the Bank's "understanding of medium- to long-term price stability" (hereafter "understanding") showed the range of inflation rates that each Policy Board member understood as price stability from a medium- to long-term viewpoint. However, at the latest Monetary Policy Meeting, the Policy Board decided to replace the "understanding" with the inflation rate that the Bank, based on a consensus among all Policy Board members, judges to be consistent with price stability sustainable over the medium to long term and to refer to this as "the price stability goal in the medium to long term." The Bank judges "the price stability goal in the medium to long term" to be in 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 determination to pursue monetary easing

Second, the Bank showed its commitment to pursuing monetary easing through the so-called "policy duration effects." For the time being, the Bank 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 – that is, maintaining the target for the uncollateralized overnight call rate at "around 0 to 0.1 percent" – 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, on condition that it identifies no significant risk to the sustainability of economic growth, such as from the accumulation of financial imbalances.

c. Expansion of the Program

Third, the Bank increased the total size of the Program by about 10 trillion yen, from about 55 trillion yen to about 65 trillion yen. The increase in the Program is earmarked for the purchase of JGBs, as the Bank – in consideration of the generally smooth corporate financing conditions observed recently – judged it appropriate to further enhance the spread of monetary easing effects throughout financial markets through the purchase of JGBs. By fully implementing the Program, including the additional expansion decided at the latest Monetary Policy Meeting held on February 13 and 14 by the end of 2012, the amount outstanding of the Program will be increased by about 22 trillion yen from the current level of around 43 trillion yen.

The Program has been established with the aim to create additional monetary easing effects by encouraging a decline in longer-term interest rates and a reduction in various risk premiums in a situation where there was little room for further declines in short-term interest rates. Through the Program, the Bank – in addition to the increased purchase of JGBs just mentioned – purchases various financial assets, such as CP, corporate bonds, exchange-traded funds (ETFs), and Japan real estate investment trusts (J-REITs), and conducts fixed-rate funds-supplying operations against pooled collateral whereby funds with a maturity of three or six months are provided at an interest rate of 0.1 percent.

As a result of the most recent increase in the Program, the Bank's pace of purchasing JGBs will accelerate significantly from about 0.5 trillion yen per month to about 1.5 trillion yen. Adding up JGB purchases through the Program and the Bank's regular JGB purchases to meet the trend increase in banknote demand, conducted at a pace of 1.8 trillion yen per month, the Bank will be purchasing 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. It should be emphasized, however, that the purpose of this significant scale of JGB purchases is to achieve sustainable growth with price stability, and that the Bank rigidly maintains its policy of not conducting purchases of JGBs for the purpose of financing government debt.

2. *Ensuring financial market stability*

The Bank has been showing its commitment to fully ensure financial market stability through implementing a variety of measures including the utilization of various funds-supplying operations. When uncertainty began to spread in the financial markets just after the earthquake, the Bank provided ample funds to the markets, the total amount of which represented a historical high. The Bank has also taken measures to provide financial institutions with the confidence that they can obtain sufficient funds whenever necessary.

In May 2010, in response to the reemergence of strains in U.S. dollar short-term funding markets, the Bank – in coordination with the Bank of Canada, the Bank of England, the ECB, the Federal Reserve, and the Swiss National Bank – reestablished the temporary U.S. dollar liquidity swap facility, which had expired, and reintroduced a scheme that would make it possible to conduct the U.S. dollar funds-supplying operation. Furthermore, in November 2011, the aforementioned six central banks decided to enhance this facility by lowering the interest rates on the U.S. dollar funds-supplying operations and extending the effective period of such operations through to February 1, 2013, as well as expanding the currency swap agreements to include Canadian dollars, pounds sterling, euros, Swiss francs, and yen in addition to U.S. dollars.

3. *Providing support to strengthen the foundations for economic growth*

The Bank has also been encouraging initiatives by financial institutions and firms through the fund-provisioning measure to support strengthening the foundations for economic growth. Specifically, through this measure, the Bank provides long-term funds, with a maximum duration of four years at a low interest rate of 0.1 percent, to financial institutions up to the actual amount of lending and investment carried out by each financial institution, against pooled collateral such as JGBs. Many financial institutions nationwide have shown an interest in the measure since it was implemented in June 2010, and by mid-2011 the total amount of loans disbursed by the Bank had reached the ceiling of 3 trillion yen. Areas eligible for investments and loans range, for example, from environment and energy business, medical and nursing care business, and development of social infrastructure, to investment and business deployment in Asian countries. In addition, although the maximum duration of loans provided under the measure is four years, the average duration of actual individual investments and loans provided by financial institutions is more than six and a half years. Moreover, following the introduction of the measure, financial institutions have established new dedicated funds and lending schemes, and some of them in certain cases have set a higher ceiling on the total amount of investments and loans than the 150 billion yen ceiling for the total amount of loans that they could obtain from the Bank. As this shows, the measure has been fully serving its purpose to act as a catalyst.

In June 2011, the Bank enhanced the measure with a view to supporting financial institutions' efforts to strengthen the foundations for economic growth through the use of a wider range of financial techniques. More specifically, in order to support emerging and small firms in their efforts to solve the problems they face – risk money and a lack of real estate collateral – the Bank provides funds to financial institutions that undertake equity investments and offer the so-called asset-based lending, or ABL, to firms with growth opportunities up to the actual amount of investment and lending carried out by each financial institution. The Bank hopes that this enhancement will stimulate further use of such financial techniques that have yet to achieve a sufficient level of familiarity, and thereby lead to the nurturing of firms with growth potential. The Bank believes that this, in turn, should help to raise Japan's growth potential as well as financial institutions' ability to find and support promising firms. Through this new line of credit, the Bank provided 38.1 billion yen in the first new loan disbursement conducted in September 2011, and 17.5 billion yen in the second new loan disbursement conducted in December 2011. These loans were provided to financial institutions against collateral pledged to them, consisting mostly of equipment, accounts receivable, and products. With regard to equipment, there were cases in which ships, machine tools, and construction machinery were used as collateral.

B. The bank's measures following the great east Japan earthquake

In less than two weeks, one year will have passed since the Great East Japan Earthquake that struck in March 2011. Following the earthquake, the Bank swiftly implemented various measures from three perspectives: (1) maintaining the functioning of financial and settlement systems; (2) ensuring the stability of financial markets; and (3) supporting economic activity. First, immediately after the earthquake, the Bank conducted measures including the provision of cash to financial institutions in disaster areas, the provision of ample funds in financial markets, and the further enhancement of monetary easing by, for example, increasing the total size of the Program. In addition to these measures, since April 2011, the Bank has been conducting funds-supplying operations with a view to supporting financial institutions in disaster areas in their initial efforts to meet demand for funds for restoration and rebuilding. In the same month, the Bank also decided to broaden the range of eligible collateral for money market operations with a view to securing sufficient financing capacity at the financial institutions in disaster areas, and this measure has been in place since then.

III. Returning to a sustainable growth path with price stability

I will now take a look at the Japanese economy from a longer-term perspective. While the Japanese economy has gone through a number of business cycles since the bursting of the bubble in the early 1990s, average growth has been poor and the economy has failed to extricate itself from deflation, resulting in the "two lost decades." In order for the economy to escape from this long trend of low growth and deflation and regain its strength, it is necessary to introduce fundamental measures designed for the revitalization of the Japanese economy.

A. Causes for low economic growth

During the 1960s, the average annual growth rate of the Japanese economy was more than 10 percent, and even during the period of stable growth in the 1970s and 1980s, the economy grew at average annual rates of 4 to 5 percent. In the 1990s average annual growth fell sharply to around 1.5 percent, and in the 2000s the economy grew at only 0.6 percent per year on average, although the average rises to 1.5 percent when the two years of negative growth due to the Lehman shock are excluded. Thus, in the 20 years since the early 1990s, the Japanese economy on average has grown at a low rate of around 1.5 percent.

How can this long-term downtrend in Japan's growth be explained? In order to answer this question, if we examine the two factors that affect the growth trend – changes in the number of workers and changes in labor productivity per worker – we see that the decline in Japan's economic growth rate was due to both of these factors. However, compared with other countries, labor productivity in Japan is not particularly low and is more or less in line with that in the United States and the United Kingdom. Therefore, in order to raise Japan's growth rate, efforts to increase the number of workers are particularly important, together with efforts to raise productivity growth.

B. Revitalizing the Japanese economy

Given the decline in the number of workers and in productivity growth, what steps should be taken to revitalize the Japanese economy?

According to the National Institute of Population and Social Security Research, Japan's population peaked in 2010 and is forecast to decline to 91.93 million in 2055. The working-age population, that is, those aged between 15 and 64, has already started to decrease, peaking at 87.17 million in 1995, and is forecast to fall to 47.06 million by 2055. The share of the working-age population in the total population, which was 69 percent in 1995, is forecast to drop to 51 percent in 2055. By then, about 40 percent of the population is expected to be 65 and over. I believe that, to avoid further decreases in the number of workers, it is necessary to slow the aging of society by implementing measures to increase the birth rate, but unfortunately such measures do not produce immediate results. Therefore, it is essential to make efforts to raise the number of workers by increasing labor market flexibility so as to (1) reduce labor market mismatch, that is, situations where those wanting to work cannot find a job; (2) promote employment of those aged 65 and over that have left the workforce; and (3) promote employment of women who left the labor market when getting married or giving birth but want to work again. Although some deregulation and investment in infrastructure with the aim of improving labor market conditions has already been undertaken, I believe that more effective measures than those implemented to date are required.

Next, what steps should be taken to improve labor productivity? Before the onset of the two lost decades, Japan enjoyed high growth in a favorable environment that, in addition to the increase in the labor force, included the following. First, Japan benefited from the latecomer advantage and was able to learn from the growth process of the advanced economies of the United States and Europe. And second, Japanese manufactured goods enjoyed a superior competitive edge in the absence of rivals other than the United States and Europe. However, since then, having caught up with the United States and Europe and finding itself pursued by emerging economies that have become rival producers of manufactured goods, Japan has been forced to transform its catch-up growth model. Going forward, Japan needs to adapt to changes in the environment and open up new growth markets in such a way as to enhance its own growth potential. On this basis, the question arises as to what kind of measures should be taken. The government's "Strategy for Rebirth of Japan" states that, as part of its efforts to further strengthen economic growth, emphasis should be placed on the following areas: (1) promoting economic partnerships and harnessing global growth; (2) creating new industries and new markets in response to changes in the environment; (3) revitalizing financial markets through new capital flows; (4) revitalizing the food, agriculture, forestry, and fisheries industries; and (5) promoting tourism. As there is insufficient time today to cover all of these areas, I will focus on the following issues: (1) exploiting business opportunities arising from the aging of society; (2) adjusting the business environment to better adapt to globalization; and (3) increasing the number of foreign visitors to Japan.

The first issue concerns business opportunities relating to the aging of society. Given the declining birthrate and rapid aging of the population, the market for products and services for the elderly is certain to expand, providing one of the most promising growth areas with great potential demand. For instance, it takes little to foresee a vast expansion in demand for medical and nursing care. In order to cater for such demand, it is necessary to increase the supply of medical and nursing care services. To this end, along with further deregulation, the following should be encouraged: (1) addressing the shortage and uneven geographical distribution of doctors and nurses; (2) providing a wider range of choices for patients with regard to their treatment, including highly advanced medical treatments not covered by health insurance; and (3) innovation with regard to new drugs and medical equipment.

The second issue relates to providing the proper business environment in a globalized economy. While it is necessary to expand domestic demand, it is even more important to try to capture demand from rapidly growing overseas economies. Therefore, to fully benefit from globalization, it is essential to put in place the appropriate business environment. Yet, so far, Japan has entered only twelve Economic Partnership Agreements (EPAs) and Free Trade Agreements (FTAs) and none have been concluded with any of Japan's major trading partners. It is extremely important to build a framework that will help integrate domestic and overseas markets through agreements such as EPAs and FTAs.

The third issue concerns increasing the number of foreign visitors to Japan. Looking at the number of foreign tourists for 2010, Japan was well behind popular international tourist destinations. France was the most popular in the world, attracting 76.8 million foreign visitors, followed by the United States with 59.75 million. The number of tourists that visited Japan was 8.61 million, just above one-tenth that of France. Looking at other Asian destinations, Japan lagged far behind China, which received 55.67 million visitors, and was behind Hong Kong (20.09 million), Thailand (15.84 million), Singapore (9.16 million), and South Korea (8.8 million), which is just next door. Thus, the number of foreign visitors to Japan is not only extremely low compared to other advanced economies but is also lower compared to other Asian economies. Efforts should therefore be made to increase the number of foreign visitors, as this would raise derived demand for tourism-related industries. In addition, such efforts should not be confined to tourists; if Japan attracted more foreign visitors in the fields of health care, education, and culture and the arts, this not only would help to create new jobs but also could promote innovation through the fusion of skills that foreign workers would bring with them.

C. Measures taken by the bank

The Bank continues to consistently make contributions as the central bank in order to overcome deflation and return the Japanese economy to a sustainable growth path with price stability. The Bank should always be ready to proactively implement the necessary policies to achieve its objectives.

Nevertheless, it should be kept in mind that the challenges the economy faces today cannot be overcome by the Bank's efforts alone. The Bank will continue to do its utmost to provide support from the financial side. At the same time, however, it is extremely important for business firms, financial institutions, and the government each to continue exerting themselves in their respective roles.