Japan’s Experience and Its Implications for China — Monetary Policy and Financial System —

Speech at the PBC School of Finance, Tsinghua University

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Deputy Governor of the Bank of Japan
Calligraphy Written by Bank of Japan’s Former Governor Yasushi Mieno
Executive Director Mieno and Deputy Governor Liu Hongru (1981)

Note: Executive Director Mieno is on the left, Deputy Governor Liu Hongru is in the middle, and Mr. Liu’s interpreter Wang Yafan is on the right in this picture (titles are as of 1981).
Source: Photo courtesy of Ms. Wang Yafan.
Financing Activity by Large Manufacturing Firms in Japan

Source: Japan’s Ministry of Finance.
Non-bank Lending in Japan

Note: The figures for non-banks are the sum of finance companies and structured-financing special purpose companies and trusts.
Source: Bank of Japan.
Outstanding Amount of Impact Loans in Japan

Note: The figures are the sum of foreign currency impact loans to residents, foreign currency loans to residents provided by overseas branches, and Euroyen impact loans to residents.
Source: Gaikokujouhousha.
Economic and Financial Conditions in Japan

Sources: Ministry of Internal Affairs and Communications of Japan; Cabinet Office of Japan; Bank of Japan.
Bond Issuance by Chinese Firms

Source: Wind.
Aggregate Financing to the Real Economy in China

Source: CEIC.
Foreign Bond Issuance by Chinese Firms

Note: Figures are those for foreign bonds issued by offshore entities of mainland Chinese firms.
Source: Bloomberg.
Development of Financial Markets in Japan

1980s
- 1980: Introduction of JGB book-entry system
- 1984: Commencement of JGB dealing by banks
- 1985: Establishment of long-term JGB futures market
- 1985: Establishment of uncollateralized call market
- 1986: Establishment of Tokyo offshore market
- 1987: Establishment of CP market

1990s
- 1989: Establishment of financial futures market: commencement of trading of three-month Euroyen interest rate futures
- 1990: Commencement of trading of JGB futures options
- 1995: Start of announcement of uncollateralized overnight call rate
- 1996: Establishment of Japanese repo market: cash-secured bond lending
- 1996: Introduction of rolling payments for JGB transactions (initially T+7)

2000s
- 2000: Full implementation of market offering of FB
- 2001: Implementation of settlement via BOJ current account and RTGS for government bonds
- 2002: Introduction of new repurchase agreement transactions
- 2001: Start of announcement of uncollateralized overnight call rate

Government bond markets
- 1980: Introduction of JGB book-entry system
- 1984: Commencement of JGB dealing by banks
- 1985: Establishment of long-term JGB futures market
- 1985: Establishment of uncollateralized call market
- 1986: Establishment of Tokyo offshore market
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Short-term money markets
- 1980: Introduction of JGB book-entry system
- 1984: Commencement of JGB dealing by banks
- 1985: Establishment of long-term JGB futures market
- 1985: Establishment of uncollateralized call market
- 1986: Establishment of Tokyo offshore market
- 1987: Establishment of CP market

Futures markets, etc.
- 1989: Establishment of financial futures market: commencement of trading of three-month Euroyen interest rate futures
- 1990: Commencement of trading of JGB futures options
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- 1995: Start of announcement of uncollateralized overnight call rate
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- 2000: Full implementation of market offering of FB
- 2001: Implementation of settlement via BOJ current account and RTGS for government bonds
- 2002: Introduction of new repurchase agreement transactions
Asset Prices in Japan

Sources: Nikkei Inc; Japan Real Estate Institute.
Number of Failures of Financial Institutions in Japan

Note: The number of failures of financial institutions is the sum of banks, shinkin banks, and credit unions.
Source: Deposit Insurance Corporation of Japan.
NPL Ratio of Financial Institutions in Japan

Source: Japan’s Financial Services Agency.
Establishment of Financial Safety Net in Japan

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
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<tbody>
<tr>
<td>1993</td>
<td>Revision of disclosure standards: financial institutions were required to disclose nonperforming loans</td>
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<td>1996</td>
<td>Establishment of the Resolution and Collection Bank -- Reorganized into the Resolution and Collection Corporation in 1999</td>
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<td>1996</td>
<td>Freezing on the payoff system</td>
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<td>1998</td>
<td>Establishment of a temporary resolution framework, including the bridge bank system -- Made permanent in 2000</td>
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<td>1998</td>
<td>Introduction of early corrective measures based on the capital adequacy ratio of financial institutions</td>
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<td>1998</td>
<td>Start of self-assessment system by financial institutions</td>
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<td>2002</td>
<td>Start of the Financial Revival Program (halving the percentage of nonperforming loans held by major banks within two years)</td>
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<td>2002</td>
<td>Review of standards for asset self-assessment system (introduction of DCF method)</td>
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<td>2003</td>
<td>Establishment of the Industrial Revitalization Corporation to provide financial support for revitalizing firms -- Dissolved in 2007</td>
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<td>2005</td>
<td>Removal of the full deposit guarantee</td>
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<tr>
<td>2013</td>
<td>Establishment of an orderly resolution framework, including the revision to the Deposit Insurance Act, based on the experience of the global financial crisis</td>
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Bilateral Local Currency Swap Agreement between the BOJ and the PBC

China
- People’s Bank of China
- Japanese financial institutions
- Japanese companies

Japan
- Bank of Japan
- Chinese financial institutions
- Chinese companies

Source: Bank of Japan.
君子之学、非为通也。
为穷而不困、忧而意不衰也、
知祸福终始而心不惑也。

The aim of learning is not for climbing the career ladder quickly, but to never become troubled in adversity, to never become depressed when worried, and ultimately to be able to guide yourself, through understanding misfortune and fortune, and ending and beginning.

("The Right-Hand Vessel," Xunzi)