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Bank of Japan

Recent Economic and Financial Developments and the Conduct of Monetary Policy

Speech at a Meeting with Business Leaders in Hakodate

Hirohide Yamaguchi

Deputy Governor of the Bank of Japan

Introduction

I am honored to have this opportunity to speak today before business leaders in Hakodate and the Donan area.

I would like to express my gratitude for your cooperation in interviews with staff from the Hakodate Branch and in the Bank of Japan's surveys. Information obtained from these interviews and surveys is very valuable and utilized fully in appropriately assessing economic and financial developments and conducting monetary policy.

Hakodate is a city that opened the door to modernization and internationalization by becoming one of the first ports in Japan to engage in international trade. It has played an extremely important role in Hokkaido's economy as well as that of Japan as a whole. The Bank established a local office in Hakodate in 1893, which is now the Hakodate Branch, the second oldest of the existing branches after the Osaka Branch. This was two years before the establishment of the Hakodate Chamber of Commerce and Industry. I believe that the fact that the Hakodate Branch has been able to continue its central banking operations here for more than a century owes much to the understanding of and support from the business community as well as the people of the area in general.

About ten years after the opening of the Bank's local office in Hakodate, a man named Ryokichi Kawada came to Hakodate to serve as the executive of a local shipbuilding company. He worked at the company while establishing a farm in the town that is now called Nanae. He began growing Irish potatoes, which are suitable for cultivation in Hokkaido's climate, and devoted his life to increasing their popularity. Since he held the title of baron (*danshaku*), which he had received from his father, the potatoes were named *danshaku* potatoes, and they have since become one of Hokkaido's well-known products. You may well be familiar with this story, but I think it is less well known today that his father was Koichiro Kawada, the third Governor of the Bank, who established the local office in Hakodate. I was very interested to learn of this connection between the Bank and Hakodate.

Before exchanging views with you, I would like to talk about the current state of and outlook for Japan's economy, and explain how the Bank has been conducting monetary policy to deal with the severe economic conditions since last autumn.

I. Economic and Financial Developments in Japan

A. The Current State of Japan's Economy

I would like to talk first about the current state of Japan's economy.

The deterioration of economic conditions in Japan that began last autumn was so sharp and substantial that it was described as "falling off a cliff." Fortunately, economic conditions have recently begun to stop worsening. The Bank holds Monetary Policy Meetings (MPMs) every month, where the Policy Board members, at present eight including the Governor, discuss economic and financial developments, and decide on the guideline for monetary policy conduct for the immediate future. At the July meeting held last week, the Bank judged that Japan's economic conditions have stopped worsening.

Let me elaborate somewhat on the background to this assessment.

The main factor that has caused economic conditions to stop worsening is the recovery in exports and production, especially of automobiles and electrical machinery. Exports and production of automobiles are showing a clearer recovery trend due mainly to progress in adjustments of inventories, especially those held abroad. More firms have recently started to increase their production, especially of hybrid cars, reflecting a measure to promote the purchase of new automobiles introduced in April 2009. Orders for electronic parts from overseas have increased sharply since the beginning of this spring against the background of progress in inventory adjustments both at home and abroad and measures to stimulate domestic demand being taken in China, and thus their production has picked up. There has been a particularly large improvement in orders for parts used in flat-panel televisions, cellular phones, and personal computers. Production of not only electronic parts but also finished goods, particularly flat-panel televisions, has recently increased. Some expect production to be on a relatively steady growth path due mainly to a boost to sales from the "eco-point system" -- whereby consumers who buy eco-friendly electrical appliances are given points that can be exchanged for other goods. I am informed by the Hakodate

Branch that capacity utilization has begun to rise among manufacturers of electronic parts in Hakodate, who had to reduce their production substantially some time ago.

Public investment is also increasing, reflecting the implementation of the economic policy package since the previous fiscal year. The value of public works contracted started to rise year on year in the January-March quarter of 2009, and recorded an increase of more than 10 percent in April-May. The value of public works contracted in the Donan area has recently picked up as well.

On the other hand, domestic private demand, namely, business fixed investment and private consumption, has continued to weaken amid persisting sluggishness in corporate profits and the worsening employment and income situation. Looking at the June *Tankan* (Short-Term Economic Survey of Enterprises in Japan) released earlier this month, firms' fixed investment plans for fiscal 2009 decreased by almost 20 percent year on year. Regarding private consumption, sales of electrical appliances have increased and the number of new passenger-car registrations has recently picked up. However, sales at department stores and supermarkets have continued to be on a declining trend. Outlays for travel have also continued to decline. As these developments show, a sharp drop in exports since last autumn and the subsequent decrease in production have started to adversely affect domestic private demand with a lag. At present, a recovery in exports and production and the weakness in business fixed investment and private consumption seem to be in a tug of war.

B. The Outlook for Japan's Economy

I would now like to move on to the outlook for Japan's economy.

As I mentioned earlier, there are currently both upward and downward pressures in Japan's economy. Regarding which will prevail, the Bank's baseline scenario projects that the upward pressure will outweigh the downward, leading the economy to start recovering from the latter half of fiscal 2009. Global financial markets are expected to regain stability and overseas economies to start to recover, and in Japan the aggressive fiscal and monetary policy measures are likely to have positive effects. In addition to an increase in exports, business fixed investment and private consumption are therefore expected to be on a gradual recovery path.

Stock prices have continued to fluctuate, but appear to have picked up from the sluggishness observed some time ago. The Nikkei 225 Stock Average has recently been around 9,500 yen, up by more than 30 percent compared with early March when it recorded the lowest level since the bursting of the bubble. According to the *Economic Watchers Survey* and *Consumer Confidence Survey*, the pessimism of firms and households regarding economic conditions has subsided since this spring. The June *Tankan* also showed that business sentiment, especially of manufacturing firms, has stopped deteriorating. These survey results seem to basically reflect recent signs of a leveling out of the economy and expectations of positive effects from various policy measures.

Nevertheless, the question whether the degree of improvement in the sentiment of the market and the public is consistent with the capability of Japan's economy to recover -- in other words, the strength and sustainability of Japan's economic recovery -- warrants further examination.

I have outlined developments in exports and production to show that economic conditions have recently stopped deteriorating, and now I would like to talk about factors underlying these developments. There are three main factors. First, inventory adjustments are proceeding at a relatively rapid pace both at home and abroad. Second, a variety of aggressive fiscal and monetary policy measures and measures to stabilize financial systems are being implemented around the globe. And third, extreme concerns about the economic outlook are beginning to subside. However, obviously, none of these factors will guarantee continuous and autonomous economic recovery, in other words, a recovery in private final demand. For instance, large-scale fiscal policy measures can temporarily mitigate the economic downturn, but cannot be relied on forever. The recovery path of Japan's economy depends greatly on whether private final demand -- exports, consumption, and business fixed investment -- recovers strongly in a sustainable manner without any help from fiscal and other policy measures after the completion of current inventory adjustments.

On this point, I believe that at present there is still significant uncertainty for the following reasons.

The first is that future developments in Japan's final demand will be greatly influenced by overseas economic conditions. Since the emergence of the subprime mortgage problem in the summer of 2007, the financial positions of U.S. and European financial institutions have deteriorated significantly due mainly to a fall in the prices of securitized products, and these institutions are still in the process of disposing of impaired assets. Under the circumstances, if the sluggishness in corporate profits is protracted or if asset prices continue to decline, the capital strength of financial institutions may be reduced further and their lending attitudes may become more cautious, thereby leading to a further deterioration in overseas economic conditions. This phenomenon is described as an "adverse feedback loop operating between financial and economic activity," in which financial and economic activity adversely influence each other to bring about a spiraling economic downturn. Since last year, the adverse feedback loop has become a major problem especially in the United States and Europe. If this phenomenon intensifies again in overseas economies, exports may decline and thereby adversely affect Japan's economic activity. I will explain the adverse feedback loop in detail later in my remarks.

The second reason is that it is uncertain to what extent a change in firms' medium- to long-term growth expectations will affect the economy -- in other words, how firms' outlook for the economy will change and how this will influence business fixed investment and ultimately private consumption. If the recovery in overseas economies is delayed or overseas economic conditions deteriorate unexpectedly, firms may become more cautious about the future economic outlook. In that case, given that firms draw up business and personnel recruitment/reduction plans based on their economic outlook, business fixed investment may decrease further and private consumption may remain sluggish due to a worsening employment situation.

There are several other factors that increase the uncertainty about the economic outlook, and there is in fact a possibility that economic conditions may improve more than expected. The Bank's assessment, however, is that the downside risks to the economy, especially those that I mentioned earlier, warrant particular attention. The Bank will continue to carefully examine overall economic activity, including these risks, at each MPM.

C. Price Developments

I have talked so far mainly about economic activity, and would like to turn now to developments in prices.

All of you may recall the surge in the prices of crude oil and crops through the summer of 2008. At that time, the year-on-year rate of change in the consumer price index (CPI) for all items excluding fresh food recorded an increase of around 2.5 percent. This was the highest rate in the 16 years since June 1992, if we exclude the effect of a change in the rate of consumption tax. However, it began to moderate in the autumn reflecting the declines in the prices of petroleum products and the stabilization of food prices, and has recently turned negative. The year-on-year rate of decline in the CPI will likely accelerate for the time being, partly due to the price rise observed last year, but is expected to moderate from the latter half of fiscal 2009 through fiscal 2010 against the backdrop of a moderate recovery of economic activity.

Price stability is conceptually a state where various economic agents including firms and households can make decisions regarding economic activity such as investment and consumption without being concerned about fluctuations in the level of prices. The level of price changes that firms and households usually presuppose when making their decisions is therefore important. This level is influenced greatly by past experiences -- that is, the level of price increases which firms and households have actually experienced in the past. In Japan, inflation has been markedly low over the past several decades relative to other major countries. For example, the average year-on-year rate of increase in the CPI since 1985 is 0.7 percent, while it is around 3 percent in the United States and the United Kingdom. Taking into account factors such as the record of low inflation, the level of inflation that each member of the Policy Board currently understands as being consistent with price stability over the medium to long term is "a year-on-year rate of increase in the CPI falling in a range approximately between 0 to 2 percent, with most members' median figures at around 1 percent."

Some of you might question how the projection that the CPI will remain negative for the time being should be understood against the Bank's understanding of price stability I just mentioned. On this point, I would first like to emphasize that price stability is a medium- to long-term concept. When the economy is hit by a significant shock as at present, large short-term swings in the actual rate of price change cannot be avoided. What I would like to stress here is that the Bank believes that preventing price declines from leading the economy into a deflationary spiral is most important. A deflationary spiral is a vicious circle in which price declines lead to deterioration in economic conditions, and this in turn causes further price declines. As I mentioned earlier, the Bank's baseline scenario projects that the rate of decline in prices will accelerate temporarily, but will moderate from the latter half of fiscal 2009 against the backdrop of a recovery of economic activity. The Bank therefore thinks it unlikely at present that prices will continue to decline and thereby lead Japan's economy into a deflationary spiral.

D. Developments in Corporate Financing

Next, I would like to talk about recent developments in corporate financing.

The Bank's current assessment of financial conditions is that, while remaining generally tight, they have continued to show signs of improvement. Immediately after the failure of Lehman Brothers, raising funds from the CP and corporate bond markets became extremely difficult and interest rates rose sharply. However, issuing conditions for CP and corporate bonds have improved steadily: the issuing rates on CP and corporate bonds have declined significantly; and the number of firms issuing corporate bonds has been increasing. Funding conditions have been on a recovery trend, especially among large firms, because the increase in demand for working capital has receded against the backdrop of the recent reduction of inventories and also because firms' demand for additional liquidity observed since last autumn has stopped increasing. In the case of small firms, the emergency guarantee scheme implemented by the government has been underpinning their funding conditions. In fact, various surveys including the June *Tankan* show that both large and small firms see their financial positions and lending attitudes of financial institutions as having improved slightly.

On the other hand, issuance of corporate bonds by firms with low credit ratings has remained subdued. Moreover, a large number of firms have continued to see their financial positions as weak and lending attitudes of financial institutions as severe, although firms' financial situation in these regards has begun to improve slightly.

With regard to future developments in corporate financing, there is uncertainty about whether these signs of improvement will become widespread. The financial positions of Japanese financial institutions remained relatively stable even after the emergence of the subprime mortgage problem. Unlike in the United States and Europe, failures of financial institutions have not occurred in Japan. Nevertheless, the financial statements of financial institutions for fiscal 2008 showed net losses for the first time in five years for major and regional banks and in six years for *shinkin* banks, mainly due to a decline in net operating profits and an increase in losses on securities. Although the outcome depends on future developments in economic activity as well as in corporate profits, we cannot rule out the possibility that the assessment of firms' credibility by financial institutions and market participants may become more severe. In that case, lending attitudes of financial institutions might become more cautious, and conditions for corporate financing might not recover fully. The Bank will therefore continue to examine developments in corporate financing, with the assistance of our branch network.

II. Adverse Feedback Loop Operating between Financial and Economic Activity

If you will bear with me, let me take a moment to explain in more detail the phrase "adverse feedback loop operating between financial and economic activity," which I mentioned earlier. Although it may sound unfamiliar, it is a key phrase for understanding the current global economic downturn and in making economic forecasts. In the explanation that follows, for the sake of clarity, I will substitute "financial institutions" for "financial activity" and "economic conditions" for "economic activity."

Financial institutions must comply with many regulations, including the Banking Act, to ensure their soundness. This is because they have a financial intermediation function to provide firms and households with funds that have been entrusted to them by depositors. One of these regulations requires financial institutions to hold capital above a certain level that corresponds to the total amount of risk they take, for example, the probability of failures among the firms they lend to. To put it another way, financial institutions cannot take risks exceeding a certain level that is calculated based on the amount of capital they hold. Given that no firm is guaranteed never to fail, some degree of risk is always attached to loans that financial institutions extend to firms. They are required to control the amount they lend so that the total amount of risk they take does not exceed the level permitted.

If a bank's capital decreases as a result of it incurring a large amount of losses due to a decline in stock prices or a failure of a firm it has lent to, the total amount of risk the bank can take will decrease accordingly. In this case, the bank will become more cautious than before in extending loans that are accompanied by risk. From the standpoint of firms, loans will become less available. Should this lead to a reduction in business operations at a large number of firms, overall economic conditions will deteriorate in consequence. Some of these firms may go bankrupt due to a deterioration in their business conditions. If this occurs, banks' capital will decrease further due to resolution of the losses incurred through the failures of the firms the banks lent to. This will lead to a further tightening in banks' lending attitudes and bring about further failures and deterioration in economic conditions. Thus, tighter lending attitudes resulting from decreases in capital lead to a deterioration in economic conditions, and this in turn brings about a further deterioration in economic conditions through further decreases in capital and tightening in lending attitudes. This vicious circle is the phenomenon described by the phrase "adverse feedback loop operating between financial and economic activity."

In addition to bank loans, which I have just used as an example, firms, especially large ones, sometimes acquire funds in the CP and corporate bond markets. In addition, in the case of small to medium-sized firms, they sometimes acquire funds from business partners and parent companies -- so-called trade credits. Investors that provide funds in the CP and corporate bond markets and firms that provide trade credits to other firms also cannot take excessive risks in order to maintain their financial soundness. In other words, an adverse feedback loop may be initiated not only through bank loans, but also through practically every channel of financial activity, including financial markets and trade credits.

The current world economic downturn is to a considerable extent due to the adverse feedback loop operating between financial and economic activity. Financial institutions in the United States and Western Europe, already faced with a substantial deterioration in their financial positions after the emergence of the subprime mortgage problem, became even more risk averse as a result of the financial market turmoil caused by the failure of Lehman Brothers. In some countries, especially in the United States, an adverse feedback loop intensified, with the effects of a decline in real estate prices and increases in delinquencies of consumer loans reflecting the deterioration in economic conditions becoming additional factors. Furthermore, the adverse feedback loop has spread across borders and oceans to become a global phenomenon because, for the last several years, large financial institutions and investors in the United States and Western Europe have been assuming a role in intermediating funds to emerging economies, in Central and Eastern Europe and Latin America for example.

As these consequences show, the impact of the adverse feedback loop on the economy is extremely large. In addition, the adverse feedback loop is compounded by the following complex issues that make it very difficult for policymakers to deal with.

The first issue is that an adverse feedback loop can intensify suddenly without clear forewarning. It is therefore difficult to anticipate, and required policy responses are likely to be delayed. Even if losses incurred by financial institutions expand due to the declines in stock prices and failure of firms they lend to, the financial intermediation function of financial institutions will not immediately be impaired as long as they hold sufficient capital to absorb these losses. The risk-taking capability of financial institutions will gradually decline, but at this stage, the situation will remain, so to speak, a "touch of fever" as in a cold, since ample physical strength, measured by the amount of capital, remains. However, when the amount of losses relative to capital reaches a certain critical point, financial institutions will become very sensitive to their lack of capital and may become acutely cautious in taking risks. It is like the persistence of fever bringing about a decline in physical strength that suddenly causes the sickness to take a turn for the worse. If an economic downturn should cause such symptoms to prevail among financial institutions, an adverse feedback loop will intensify rapidly. Policymakers including central banks need to keep a close eye, from an early stage, on how economic developments are affecting the physical strength and financial positions of financial institutions, namely, their capital and lending attitudes, through frequent exchange of information with the financial institutions and market participants.

The second issue is that once an "adverse feedback loop" starts to intensify, it becomes extremely difficult to stop. When financial and economic activity falls into a vicious circle, attending to only one side of the problem will not provide a real solution. A comprehensive policy response is required. For example, reductions in interest rates and increases in public spending, both to stimulate the economy, will become necessary in addition to measures to restore stability in the financial system, such as the bolstering of financial institutions' capital bases and the disposal of impaired assets.

In Japan, the "adverse feedback loop" was not grasped as a dire issue for some time after the bubble burst in the early 1990s. However, the financial strength of financial institutions was gradually undermined during this period, and there was a sudden intensification of an adverse feedback loop in the latter half of the 1990s. Belatedly at that point, public funds were injected into financial institutions for the first time. The first injection, however, was not sufficient to dampen the "adverse feedback loop," and a number of additional measures and years were required thereafter for the financial intermediation function and economic conditions to recover fully. Never forgetting this bitter experience, we should take every opportunity to share this lesson with policymakers abroad.

In the current downturn, voices warning about an intensification of the adverse feedback loop were also frequently heard when Japan experienced a sharp decline in stock prices this spring. Fortunately, however, the situation so far has not advanced to that stage despite the significant deterioration in economic conditions. One reason for this may be the fact that the financial condition of Japan's financial institutions remains relatively stable. In addition, the government's emergency guarantee scheme that takes on a portion of credit risks in place of private financial institutions and a framework established by the revision of law in December 2008 to enable injection of public funds into financial institutions seem to be contributing to forestall an intensification of the adverse feedback loop. Furthermore, the Bank has introduced measures such as purchases of stocks held by banks and provision of subordinated loans to banks. The measures we have taken are aimed at providing financial institutions with means to secure necessary capital even if they become concerned about increases in credit risks and a fall in stock prices, thereby ensuring smooth functioning of financial intermediation.

In the United States and Europe, various policy actions have also been taken in quick succession since last autumn by central banks and governments faced with a rapidly developing large-scale adverse feedback loop. In the United States, measures to restore stability in the financial system, such as an injection of public funds and purchases of impaired assets, and large-scale fiscal measures, totaling around 75 trillion yen, are being implemented. The Federal Reserve has also introduced various aggressive monetary easing measures, including reductions in its policy interest rate. Although the situation remains fragile given the continued declines in the prices of residential and commercial properties, it is hoped that the adverse feedback loop will gradually be mitigated with the help of these policy actions.

Let me point out another issue regarding the relationship between financial and economic activity. What I have discussed so far is declining financial and economic activity in the phase of an economic downturn. In the phase of an economic expansion, the opposite phenomenon may occur. For example, if capital increases due to an accumulation of profits reflecting an economic expansion, the risk-taking capability of financial institutions will increase. And if this induces financial institutions to adopt aggressive lending attitudes, economic conditions will be boosted further. Thus, changes in the capital of financial institutions are a factor amplifying business cycles both upward and downward through changes in their lending attitudes. Given the experience of both the current sharp economic downturn and the overheating of the world economy that preceded it, a wide range of issues, including the degree to which financial institutions should be regulated, are being hotly debated internationally to moderate the amplification of business cycles.

III. The Bank's Conduct of Monetary Policy

I have so far explained the situation of Japan's economy and its prospects with some reference to economic developments overseas. I will turn now to the subject of recent policy conduct by the Bank, some aspects of which I have already mentioned. Since last autumn, the Bank has taken a number of measures in view of the substantial deterioration in economic conditions and tight financial conditions. I will refer here only to the most important ones.

First, there have been policy interest rate reductions. The Bank has reduced its target for the policy interest rate -- the uncollateralized overnight call rate -- from 0.5 percent to 0.1 percent. Reduction of the policy interest rate is the most conventional policy action taken by central banks to increase demand in the economy. Usually, when central banks alter their policy interest rates, it is assumed that this will influence longer-term interest rates in financial markets and firms' funding rates. If, however, financial markets are unstable or financial institutions and investors become excessively cautious in taking risks, financial intermediation will not function properly, and the effects of the reduction in the policy interest rate will not spread to the whole economy as intended.

The turmoil in the U.S. and European financial markets that stemmed from the failure of Lehman Brothers has had various negative effects on Japanese financial markets since last autumn. In the money market, where financial institutions exchange funds with each other, interest rates remained elevated due to an increase in funding pressures. In the CP and corporate bond markets, providers of funds practically disappeared, and this has led to a tightening in overall corporate financing. Faced with this situation, the Bank introduced a number of additional measures in order to ensure that the effects of reduction in the policy interest rate were fully felt in the economy.

One of the additional measures is the aggressive provision of funds to ensure stability in the money market. Specifically, the range of collateral that financial institutions can submit to the Bank to borrow funds has been expanded and the amount of Japanese government bonds that the Bank purchases from financial institutions has been increased. The Bank thinks that, if financial markets stabilize as a result of the Bank providing sufficient liquidity to financial institutions, the positive effects of the decline in interest rates will spread more smoothly and corporate funding will be made more secure.

Another is measures to facilitate corporate financing. In view of the sharp decline in transactions and a substantial rise in interest rates in the CP and corporate bond markets, the Bank introduced a scheme to purchase CP and corporate bonds from financial institutions. In addition, the Bank introduced a scheme to provide financial institutions with unlimited funds against the value of collateral, such as CP, corporate bonds, and loans on deeds, at a low interest rate. Owing partly to these measures, corporate funding conditions have improved as can be seen in reactivation of transactions and the decline in interest rates in the CP and corporate bond markets. These measures, however, are not exclusively favoring large firms issuing CP and corporate bonds. If funding conditions of large firms improve, the positive effects of the policy actions will spread to small to medium-sized firms through improvements such as an easing of conditions of trade credits in terms of interest rate and maturity.

These measures to facilitate corporate financing, while they have been introduced as necessary measures in view of financial and economic conditions in Japan, are highly exceptional for a central bank. Outright purchases CP and corporate bonds inevitably involve the Bank taking on credit risks of individual firms. They may, therefore, exert negative effects on the Bank's balance sheet, which forms the basis for confidence in the money the Bank provides. In addition, if the Bank should intervene excessively in a particular market, there is a concern that it might distort market functioning, whereby funds are efficiently allocated, due to excessive concentration of transactions in particular issues purchased by the Bank. Furthermore, if these supporting measures are maintained for too long, there is a possibility that the economy will overheat, resulting in large fluctuations in economic conditions and prices.

Therefore, to decide when and how these exceptional policies should be withdrawn is also an important policy issue. When making decisions, not only should developments in corporate financing and financial markets and effects of these policy measures be assessed carefully, but also it is important to plan an exit in a way that market participants can anticipate and not bring about unnecessary market disturbances.

For this reason, an expiry date was set for these measures from the beginning. Originally, when the Bank began these measures, such as the outright purchases of CP, the expiry date set was at the end of March this year. However, given that conditions in financial markets and corporate financing were extremely tight in the run-up to the fiscal year-end and that this situation was expected to continue for the time being, in February the expiry date was extended to the end of September this year. At the MPM held last week, the expiry date of measures to facilitate corporate financing was extended further to the end of December. This was because the Bank judged that facilitating corporate financing was still necessary given that, while there were continued signs of improvement, financial conditions remained generally tight.

The Bank will decide whether to terminate, alter, or further extend these measures by the end of December, which is the new expiry date. The Bank will, without any predetermined view, carefully assess developments in corporate financing and financial markets, and will decide, at an appropriate timing, whether the support offered by the current measures is still necessary.

Closing Remarks

So far I have explained Japan's economic situation and the Bank's policy responses. In closing, I would like to say a few words about my impression of the economy of this region.

Local economies in Japan are in a difficult situation, faced with many structural issues such as a declining and aging population. I fully understand that, in this situation, restructuring the business model for the future is easier said than done. With regard to Hakodate, however, it is blessed with a famous night view as well as many other excellent tourist attractions such as Goryokaku, Yunokawa hot springs, and Onuma National Park. In addition, there is not only the key industry of processing marine products but also industrial bases such as shipbuilding, electronic parts manufacturing, and dairy products. Furthermore, the port of Hakodate links these tourist attractions, products, and technologies with other parts of Japan as well as overseas, and the area enjoys high potential as a center of transportation and logistics. Developing new businesses utilizing these advantages, despite the big challenges, offers great opportunities. With a sense of expectation, I look forward to your active involvement and to further economic development of this region.

The Bank will continue to firmly support the economic activity of the nation's regions from the financial side and to exert its utmost efforts as the central bank to facilitate the return of Japan's economy to a sustainable growth path with price stability.

Thank you very much for your attention.