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Bank of Japan

Economic Activity and Prices in Japan and Monetary Policy

Summary of a Speech at a Meeting with Business Leaders in Chiba

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(English translation based on the Japanese original)

I. Recent Economic and Price Developments

A. Overseas Developments

I would like to start by looking at developments in global financial markets and overseas economies, which have a significant impact on Japan's economy.

Until summer 2014, global financial markets had seen "search for yield" activities among investors under low volatility conditions, but since the autumn investors have become increasingly risk averse reflecting concern over a global financial slowdown and the effects of soft crude oil prices. Since the beginning of 2015, some nervousness has continued to be observed in these markets, due mainly to heightened uncertainty over the situation in Greece and the Swiss National Bank's decision to discontinue the minimum exchange rate for the Swiss franc against the euro.

International commodity prices have been weak, and crude oil prices have shown a sharp decline, affected by both supply and demand factors. Through changes in the terms of trade, the decline in crude oil prices will have positive effects on the economic activity of oil-consuming countries, including Japan, by enabling them to benefit from a rise in purchasing power, and will have negative effects on the economic activity of oil-producing countries by inducing a fall in their revenue from crude oil. The decline in crude oil prices is likely to push the growth rate of the overall global economy upward, but there is concern about its effects on economic activity in Russia -- an oil-producing country -- partly because of the economic sanctions imposed by the United States and the European Union (EU) as the Russian ruble has followed a depreciating trend since summer 2014. It seems unlikely that Russia will plunge immediately into a debt crisis, given that the Russian authorities have announced a comprehensive set of financial measures and the nation's foreign exchange reserves remain high, but the effects of developments in Russia on the European economy and global financial markets warrant attention. With regard to the situation in Greece, negotiations on debt restructuring -- particularly those with the EU -- have begun under the new government, which came to power in January 2015, but full attention should be paid to the effects of the situation in Greece on peripheral European countries.

Amid this background, overseas economies -- mainly advanced economies -- have been recovering moderately on the whole, although there are differences in the pace of recovery among emerging economies. As for the outlook, overseas economies are expected to moderately increase their growth rates as advanced economies continue to see a firm recovery and the positive effects gradually spread to emerging economies. In January 2015, the International Monetary Fund (IMF) revised downward its projections for global economic growth in 2015-16 relative to its October 2014 *World Economic Outlook*, but global growth is projected to strengthen from the actual growth rate of 3.3 percent marked in 2014 to 3.5 percent in 2015, and to 3.7 percent in 2016, maintaining the projection that global growth will rise at a moderate pace.

Looking at respective major countries and regions, in the U.S. economy, private consumption has been firm, partly due to a significant decline in gasoline prices, in addition to a favorable employment situation. The economy is expected to continue to see a solid recovery, as the positive effects of the household sector spread to the corporate sector; the momentum in corporate activity has also been firm; and a virtuous cycle of economic activity is likely to remain in place.

The European economy is expected to continue recovering, albeit at a very moderate pace, supported mainly by the resilience in private consumption. The adjustment pressure associated with the debt problem remains, and close attention should be paid to both the risk of low inflation becoming protracted and to the effects of the situation in Ukraine and Russia on the real economy and people's sentiment. To address the risk of a prolonged period of low inflation, the European Central Bank (ECB) announced in late January 2015 that it would provide the market with massive liquidity through its expanded asset purchase program[1] by purchasing sovereign bonds and other assets from March, and I intend to keep a close eye on the program's transmission effects on the economy and prices.

In the Chinese economy, investment and production have been exhibiting signs of a slowdown, and attention should be paid to the possibility that adjustments in the real estate market will be protracted, as well as to the risk that growth in domestic demand will

[1] Combined monthly purchases under the program will amount to 60 billion euros, and are intended to be carried out until at least September 2016.

decelerate, as the government has placed priority on structural reforms. However, the Chinese government, with a view to shifting its economy to the "new normal," has been implementing stimulus measures in a timely manner -- including from the financial side -- and thus the economy is likely to continue to see stable growth of around 7 percent, albeit at a somewhat slower pace.

Other emerging and commodity-exporting economies are expected to moderately increase their growth rates as the positive effects of recovery in advanced economies spread and domestic demand picks up, reflecting accommodative financial conditions, although there are differences across countries and regions. It should be noted, however, that these economies might continue to lack growth momentum, depending on developments in the global financial markets surrounding emerging markets.

Risk factors to the overseas economic outlook are wide-ranging, as exemplified by the pace of recovery in the U.S. and European economies, policy actions to be taken by the Board of Governors of the Federal Reserve System and the ECB as well as their transmission effects, and geopolitical risks, particularly those associated with the situation in Ukraine and the Middle East. These risk factors require full attention from a broad perspective.

B. Japan's Economy and Prices

1. Economic activity

I will now discuss the economic situation in Japan given the overseas developments I have just outlined. The real GDP growth rate for the April-June quarter of 2014 was minus 6.7 percent on an annualized basis, due mainly to the significant decline in demand following the front-loaded increase prior to the consumption tax hike, particularly in durable consumer goods such as automobiles, and some weakness in exports. Thereafter, the July-September rate declined by 1.9 percent on an annualized basis -- registering negative growth for the second consecutive quarter due in part to the irregular weather during summer 2014 that exerted downward pressure on private consumption -- in a situation where the effects of the decline in demand following the front-loaded increase remained.

Nevertheless, Japan's economy has continued to recover moderately as a trend, and negative effects of the consumption tax hike have been waning on the whole.

A look at developments in each demand component shows that private consumption has remained resilient as a trend, as household spending has started to pick up with the continued improvement in the employment and income situation. Business fixed investment has been on a moderate increasing trend in a situation where corporate profits are at high levels and firms maintain a positive attitude toward such investment. Exports have been picking up on the whole, particularly in goods -- such as capital goods -- for the United States and the NIEs. Against the backdrop of these developments in demand both at home and abroad, inventory adjustments have been progressing and industrial production has bottomed out. Therefore, I believe that a virtuous cycle of economic activity has been operating firmly, accompanied by steady improvements in corporate profits and labor market conditions.

As for the outlook, with the effects of the consumption tax hike waning on the whole, domestic demand is likely to maintain its resilience amid the continued improvement in the employment and income situation. Exports are expected to increase moderately, mainly against the background of the recovery in overseas economies and support from the yen's depreciation. Positive effects on the economy of the decline in crude oil prices are also anticipated. A virtuous cycle from income to spending is expected to be sustained in both the household and corporate sectors, and the economy is likely to continue growing at a pace above its potential as a trend. Specifically, in the Bank of Japan's interim assessment in January 2015 of the October 2014 *Outlook for Economic Activity and Prices* (hereafter the Outlook Report), the median of the Policy Board members' forecasts for the economic growth rate was revised downward to minus 0.5 percent for fiscal 2014, and upward to 2.1 percent and 1.6 percent for fiscal 2015 and 2016, respectively, from the forecasts presented in October.

2. Prices

Next, I will talk about price developments. The year-on-year rate of change in the consumer price index (CPI) for all items less fresh food and excluding the direct effects of the consumption tax hike is gradually rising at a reduced pace, after increasing to 1.5

percent in April 2014 from minus 0.5 percent in March 2013 -- that is, before the introduction of quantitative and qualitative monetary easing (QQE). Prices of a wide range of items have risen in a situation where changes in consumer behavior and moves to pass on the earlier rise in costs stemming from the yen's depreciation to sales prices continue to be observed. The rate of increase has been declining, however, with the upward pressure from prices of energy-related goods subsiding, and reflecting, for example, the significant decline in crude oil prices since autumn 2014. The year-on-year rate of increase in the CPI is likely to slow further for the time being, due to considerable downward pressure on prices reflecting the significant decline in crude oil prices, despite upward pressure on prices stemming from the yen's depreciation. From a somewhat longer-term perspective, however, the decline in crude oil prices is expected to have positive effects on economic activity through improvement in the terms of trade, and will likely push up prices.

Regarding the outlook for prices, the year-on-year rate of increase in the CPI is likely to slow for the time being, but is expected to accelerate gradually thereafter. This is because in a situation where inflation expectations are maintained with the virtuous cycle of economic activity remaining in place, the aggregate supply and demand balance -- the output gap -- is expected to improve reflecting the positive effects on economic activity of the soft crude oil prices, and the effects of the decline in crude oil prices will eventually dissipate on a year-on-year basis. As a result, the rate of increase in the CPI is likely to reach around 2 percent -- the price stability target -- around the middle of the projection period; that is, in or around fiscal 2015. Specifically, in the Bank's interim assessment in January 2015 of the October 2014 Outlook Report, the median of the Policy Board members' forecasts for the year-on-year rate of increase in the CPI (all items less fresh food, excluding the direct effects of the consumption tax hikes) was 0.9 percent for fiscal 2014, 1.0 percent for fiscal 2015, and 2.2 percent for fiscal 2016. Forecasts for the year-on-year rate of increase in prices will likely be lower toward fiscal 2015 compared with those presented in the October Outlook Report, due to the significant decline in crude oil prices,[2] but the outlook for the underlying trend in prices remains unchanged.

3. Major issues surrounding the outlook for economic activity and prices

Let me elaborate on several points that I think deserve particular attention in terms of realizing the outlook for economic activity and prices that I mentioned earlier.

a. The employment and income situation and household spending

I will first touch on the employment and income situation and developments in household spending in this situation. A look at the employment situation shows that firms maintained their willingness to hire new recruits, and the active job-openings-to-applicants ratio has marked its highest level in nearly 23 years -- that is, since March 1992 -- and the unemployment rate has fallen to around 3.5 percent, which is roughly the same level as the structural unemployment rate. Furthermore, in the December 2014 *Tankan* (Short-Term Economic Survey of Enterprises in Japan), the diffusion index for employment conditions (the proportion of firms responding that employment conditions are "excessive" minus the proportion of those responding that they are "insufficient") registered larger negative figures -- mainly for nonmanufacturing -- and the smaller the size of the firm, the greater the extent of the tightening in labor market conditions tended to be. In this situation, an increasing number of firms -- mainly in the construction and retail industries, which are increasingly experiencing a shortage of labor -- are reviewing working conditions to secure sufficient human resources, prompting more women and the elderly to join the workforce.

This tightening in labor market conditions has been influencing wages. Nominal wages have been improving on the back of an increase in scheduled cash earnings due to a rise in base pay in spring 2014, and of an increase in special cash earnings including bonuses and lump-sum payments. Reflecting these developments in employment and wages, employee income has increased moderately.

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2 Dubai crude oil prices are expected to rise moderately from the recent 55 U.S. dollars per barrel to about 70 dollars per barrel toward the end of the projection period. In this case, the contribution of energy items to the CPI (all items less fresh food) is estimated to be mostly in the range of minus 0.7 to minus 0.8 percentage point for fiscal 2015, and mostly in the range of plus 0.1 to plus 0.2 percentage point for fiscal 2016.

As for the outlook, in a situation where the economy is likely to grow at a pace above its potential as a trend, it is likely that the labor market conditions will further tighten, and that wages -- mainly scheduled cash earnings -- will come under upward pressure. Movements to increase wages this spring are spreading, as evidenced, for example, by the fact that the government, labor, and management have formulated a statement of agreement in December 2014 regarding this matter.

Next, I will talk about developments in household spending under the employment and income situation just described. Private consumption has remained resilient as a trend with the employment and income situation improving steadily, and the effects of the decline in demand following the front-loaded increase have been waning on the whole. This has occurred even though private consumption had shown some sluggishness due to the large decline in demand following the front-loaded increase, mainly in durable consumer goods, and the effects of irregular weather during summer 2014.

As for the outlook, amid the dissipation of temporary downside pressure, private consumption is likely to stay on an increasing trend, albeit at a very moderate pace, on the back of continued improvement in the employment and income situation and the strong willingness to spend by the elderly -- the baby-boomer generation in particular. Although a marginal improvement has recently been observed, I am concerned about the continued cautiousness in consumer sentiment. There have been noticeable price rises for items closely related to consumers' daily lives, such as food, partly due to the rapid depreciation of the yen, and households appear to have become more aware of their burden, due in part to the decline in real income stemming from the consumption tax hike; I will closely monitor future developments in this regard. Housing investment has finally started to bottom out, although it had been somewhat weak, mainly due to the effects of the decline in demand following the front-loaded increase and of the surge in construction costs. It is expected to remain resilient, supported by accommodative financial conditions.

b. Exports

I would now like to talk about developments in exports. Exports have continued to show some weakness since the start of fiscal 2014, due partly to the sluggishness in emerging economies, particularly the ASEAN economies, which are closely linked to Japan's economy. However, they have recently shown signs of picking up on the whole, as seen in the fact that exports of capital goods to the United States have increased. As for the outlook, exports are likely to rise moderately, as overseas economies -- mainly advanced economies -- are expected to recover moderately on the whole, and as the yen's depreciation supports them. The weakness in exports to date is likely to have been affected to some degree by structural factors such as an increasing shift by Japanese manufacturers to move production overseas. These factors will not disappear in the short term, and are expected to continue to exert downward pressure on exports to some degree. However, the extent to which these factors exert downward pressure on exports is likely to diminish, as the pace of the relocation of production overseas will decelerate on the back of the correction in the yen's appreciation. Recently, some Japanese firms have begun to consider shifting their production sites back to Japan, and this trend is expected to result in a positive contribution to Japan's economy, including its exports. On the other hand, while exports of large vehicles to North America have been strong due to the decline in gasoline prices, this might adversely affect exports of fuel-efficient vehicles, in which Japan has a comparative advantage. Thus, future developments in exports warrant careful monitoring. In any event, it should be noted that exports might deviate either upward or downward, depending on developments in overseas economies. Therefore, it is necessary to continue to closely monitor developments, such as in emerging economies, the European economy, and the U.S. economy.

c. Business fixed investment

I will now move on to business fixed investment. To achieve sustainable growth of the economy, it is important that improvements in corporate profits and increases in demand lead to firms' active investment. As a trend, the aggregate supply of capital goods -- a coincident indicator of machinery investment -- has been picking up, as firms' positive stance on making fixed investment has been maintained. Business fixed investment is likely to follow a moderate increasing trend, given that machinery orders are on a recovery trend, albeit a moderate one, and construction starts (floor area) have started to increase.

Several factors are supporting the strength in business fixed investment. The first is that there seems to be large potential demand. As a result of restrained investment for some years to date, capital stock has become outdated, encouraging latent demand to materialize, such as that for the maintenance and replacement of equipment. The second factor is the decelerating pace of the relocation of production overseas amid the correction in the appreciation of the yen. Firms' fixed investment plans indicate that firms plan to increase the share of domestic investment from fiscal 2015 onward. The third factor is firms' moves to embark on investment intended for capacity expansion in strategic areas while reestablishing their head offices in Japan as bases for research and development or mother factories, since firms' medium- to long-term growth expectations have been rising moderately due partly to the positive initiatives of the government to strengthen the competitiveness and growth potential of Japan's economy. Moreover, firms' moves to proceed with investment in labor-saving machinery and equipment are likely to support future strength in business fixed investment, given the heightened sense of a labor shortage mainly among nonmanufacturing firms.

d. Prices

I will now move on to developments in prices. Here, I will discuss the output gap and inflation expectations, which are the main factors that determine the rate of inflation. First, the output gap is on a moderate improving trend, mainly reflecting a tightening in labor market conditions, and it recently returned to the past long-term average of about zero. Although the effects of sluggishness in economic activity following the consumption tax hike are likely to be observed for the time being, the improving trend in the output gap is likely to continue, due partly to the positive effects on economic activity of soft crude oil prices. The second factor is inflation expectations. Because it is difficult to quantify these expectations, it is important that they be assessed comprehensively by capturing firms' and households' views on prices as well as the changes in behavior based on such views, in addition to examining various types of financial market data and surveys. In this regard, although break-even inflation rates obtained from the financial market data have been declining somewhat amid their global downtrend, the results of surveys of households and firms indicate that medium- to long-term inflation expectations have generally been maintained. With respect to firms' price-setting behavior, they have continued to amend their low-price strategies and raise selling prices while increasing value added. In this situation, firms' and households' views on prices have started to change, as seen, for example, in the fact that (1) the Japanese Trade Union Confederation (JTUC-RENGO) released its guidelines for wage negotiations this spring that called for a base pay increase of more than 2 percent; and (2) a mutually acceptable agreement has been reached among the government, labor, and management on wage increases. Taking these points into consideration, inflation expectations appear to be rising on the whole from a somewhat longer-term perspective. Considering the improvement in the output gap and the rise in inflation expectations, the year-on-year rate of increase in the CPI is likely to slow for the time being, but is expected to accelerate gradually thereafter as downward pressure from the decline in crude oil prices dissipates.

II. Conduct of Monetary Policy

A. Introduction and Expansion of Quantitative and Qualitative Monetary Easing (QQE)

Next, I would like to turn to the Bank's monetary policy.

In order for Japan's economy to overcome deflation as early as possible and achieve sustainable growth with price stability, the Bank introduced in January 2013 the price stability target of 2 percent in terms of the year-on-year rate of change in the CPI. Then, in April of the same year, the Bank introduced QQE to achieve the price stability target at the earliest possible time, with a time horizon of about two years. Thereafter, with its steady implementation, QQE has been exerting its intended effects, and the virtuous cycle of economic activity remains intact.

At the Monetary Policy Meeting (MPM) held on October 31, 2014, the Bank decided to expand QQE. This decision was intended to counter the risk of a delay in emerging from the deflationary mindset, which has been progressing steadily, given that somewhat weak developments in demand following the consumption tax hike and a substantial decline in crude oil prices have been exerting downward pressure on prices. To preempt the manifestation of this risk and to maintain the improving momentum of expectation formation, the Bank judged it appropriate to expand QQE. This expansion was not intended to directly respond to the decline in crude oil prices; rather, it took account of the effects on the factors determining the underlying trend in prices -- particularly on inflation expectations in a broad sense.

The specific measures of the expansion of QQE are as follows.

First, the Bank decided to accelerate the pace of increase in the monetary base -- which is the total amount of currency it directly supplies to the economy, comprising the sum of banknotes in circulation, coins in circulation, and current account deposits held by financial institutions at the Bank -- from an annual pace of about 60-70 trillion yen to an annual pace of about 80 trillion yen.

Second, to achieve this, it decided to raise the annual pace of increase in the amount outstanding of the Bank's holdings of Japanese government bonds (JGBs) by about 30 trillion yen, from an annual pace of about 50 trillion yen to an annual pace of about 80 trillion yen. The Bank also decided to extend the average remaining maturity of its JGB purchases from about seven years to a flexible range of about seven to ten years.

And third, it decided to purchase exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) so that their amounts outstanding would be tripled to annual paces of about 3 trillion yen and about 90 billion yen, respectively. The Bank also made ETFs that track the JPX-Nikkei Index 400 eligible for purchase.

In conducting QQE, the Bank keeps in mind two key transmission channels: (1) lowering real interest rates, which are obtained by subtracting expected rates of inflation from nominal long-term interest rates; and (2) the portfolio rebalancing effect, which encourages financial institutions and institutional investors to shift their asset portfolio toward lending and investment in risk assets such as stocks.

In lowering real interest rates, the Bank first applies strong downward pressure on nominal rates through its massive purchases of JGBs. Then, through a clear explanation of its determination to achieve the price stability target at the earliest possible time and the continuation of massive purchases of assets underpinning this determination, it aims to raise inflation expectations. Consequently, real interest rates could be lowered if the extent of a pick-up in nominal rates is contained within the extent of a rise in inflation expectations, thereby helping to increase firms' investment and households' consumption.

In order to achieve the price stability target, it is important -- with this mechanism functioning effectively -- to maintain the virtuous cycle in which prices rise moderately along with a balanced and sustainable improvement in economic activity that is accompanied by increases in corporate profits, employment, and wages.

B. Points That Require Attention in the Future Conduct of Monetary Policy

At the MPM held on October 31, 2014, views regarding the expansion of QQE were divided among the Policy Board members, as some held a cautious view. It was decided by a majority vote to implement additional monetary easing. The ideas held by those who had expressed a cautious view regarding the expansion were primarily the following. First, while they shared the view that risks to the outlook for prices had increased, the virtuous cycle of economic activity and prices was basically being maintained, and the decline in crude oil prices would have positive effects on economic activity and prices from a somewhat longer-term perspective. And second, as seen in the fact that interest rates were already at historical low levels, the expected effects that could be brought about by additional monetary easing would be limited compared with when QQE was introduced, and there was concern that costs and side effects accompanying the expansion might exceed the expected effects. In terms of the costs and side effects of additional monetary easing, the risk of deterioration in market functioning and the risk that the Bank's increased holdings of JGBs would be perceived as practically financing fiscal deficits had been pointed out.

I cast a dissenting vote regarding additional monetary easing, but now that the decision of the Policy Board has been made for the Bank as an institution, it seems to me that a prompt change to the Bank's commitment could impair the credibility of the Bank as the central bank. Therefore, it is vital that the Bank implement the monetary easing measures in an appropriate manner, to achieve the price stability target at the earliest possible time.

In aiming to expand QQE, however, I believe that efforts should be made to avoid the materialization of risks associated with the expansion -- or at least to minimize them -- and thus due attention should be paid to the following points. The first concerns addressing the risk of deterioration in market functioning. On this point, while continuing to enhance dialogue with market participants, the Bank will closely examine developments in financial markets and the effects of the Bank's asset purchases on financial markets by continuing to perform comprehensive analysis and monitoring. In addition, I believe it is essential that the Bank conduct its asset purchases in a flexible manner in accordance with financial market conditions, and the Bank will respond appropriately in this regard. Moreover, attention should be paid to the effects of the additional monetary easing imposed on the financial intermediary function. In an environment where interest rates have been hovering at low levels, it is vital that the Bank firmly examine whether or not signs of a buildup of financial imbalances are being observed.

The second point to which due attention should be paid concerns maintaining the credibility of fiscal consolidation. In implementing monetary easing measures in a smooth manner, efforts to achieve fiscal consolidation are crucial. Following the government's decision in autumn 2014 to postpone raising the consumption tax rate to 10 percent, JGB ratings were downgraded, which in turn led to lower credit ratings of financial institutions in Japan. Although the impact of the JGB downgrade appears to be limited at this point, the effects of monetary easing might diminish if the government's commitment to achieving fiscal consolidation were judged to be weakening. Moreover, for the Bank to make a smooth exit from QQE, it is essential that the credibility of fiscal consolidation be firmly maintained. The government has indicated that it will draw up concrete plans for achieving fiscal consolidation by the summer of 2015, and I expect that their efforts to attain fiscal consolidation will continue to proceed.

Furthermore, in assessing price developments in terms of the Bank's future conduct of monetary policy, I believe that it is important to grasp the underlying trend in prices by examining developments such as those in the output gap, inflation expectations, and wages, although monthly movements in the CPI tend to draw attention in a situation where the decline in crude oil prices continues. With respect to price indicators, it is important to not only look at the CPI for all items but also comprehensively examine a range of indicators, including the CPI for all items less fresh food (the core CPI), the CPI for all items less food and energy (the core-core CPI), and the trimmed mean CPI.[3] At any rate, when assessing price developments, it is appropriate to examine various price indexes and make a comprehensive assessment that includes the underlying developments in economic activity.

C. Loan Support Program

Finally, I will discuss the Bank's Loan Support Program. To support full use of the accommodative financial conditions by firms and households, the Bank -- in addition to implementing aggressive monetary easing measures -- established the Loan Support Program, through which it provides long-term funds at a low interest rate to financial institutions. Specifically, the Bank has been providing funds through two measures that constitute the program: the fund-provisioning measure to stimulate bank lending (hereafter the Stimulating Bank Lending Facility); and the fund-provisioning measure to support strengthening the foundations for economic growth (hereafter the Growth-Supporting Funding Facility). The Bank decided to further enhance the two facilities at the January 2015 MPM, following the decision made in February 2014.

Let me elaborate on the framework of these facilities. First, the Stimulating Bank Lending Facility aims to prompt financial institutions to take a more active lending stance and stimulate firms' and households' demand for credit. With this facility, the Bank provides funds to financial institutions up to an amount that is twice as much as the net increase in their lending at a fixed rate of 0.1 percent per annum for four years. There is no upper limit to the total amount of funds provided by the Bank under this facility. The amount outstanding of fund provisioning under this facility reached about 19 trillion yen as of end-December 2014.

I will now move on to the Growth-Supporting Funding Facility, which aims to support the flow of funds to growth sectors. With this facility, the Bank provides funds -- at a fixed

[3] The trimmed mean is obtained by systematically discarding a certain percentage of the highest and lowest marks of the price fluctuation distribution by item to eliminate large relative price fluctuations.

rate of 0.1 percent per annum for four years for yen-denominated funds -- to financial institutions for their lending and investment to areas that are expected to contribute to strengthening Japan's growth potential, such as medical and nursing care; environment and energy; agriculture, forestry, and fisheries; and tourism. Under the main rules, the Bank provides funds to financial institutions whose lending and investment amount to 10 million yen or more. In addition, it provides funds to financial institutions under the special rules, and the maximum amount of its fund-provisioning is set as follows: 500 billion yen under the special rules for financial institutions' equity investments and asset-based lending (ABL), the latter of which uses assets such as accounts receivable and inventories as eligible collateral; 500 billion yen under the special rules for financial institutions' small-lot investments and loans; and 12 billion U.S. dollars under the special rules for a U.S. dollar lending arrangement using the U.S. dollar reserves already held by the Bank. The amount outstanding of fund provisioning under this facility reached nearly 6 trillion yen as of end-December 2014.

At the MPM held in January 2015, the Bank decided to extend the effective period of the Stimulating Bank Lending Facility and the Growth-Supporting Funding Facility by one year, as they were due to expire shortly. To encourage financial institutions' more active support for growth sectors, the Bank also decided with regard to the main rules for the Growth-Supporting Funding Facility to increase the maximum amount of funds that it can provide to each financial institution from 1 trillion yen to 2 trillion yen, and also to increase the maximum amount outstanding of its fund-provisioning as a whole from 7 trillion yen to 10 trillion yen. Furthermore, for the Stimulating Bank Lending Facility and the Growth-Supporting Funding Facility, the Bank decided to introduce a new framework to enable financial institutions that do not have a current account at the Bank to use these facilities through their central organizations. At the same time, it decided to extend the effective period of the funds-supplying operation to support financial institutions in disaster areas by one year.

To ensure that the virtuous cycle of economic activity continues to operate, it is crucial that firms make use of the accommodative financial conditions to raise funds particularly for increasing their investments, leading to the strengthening of Japan's growth potential. In addition to advancing the government's Japan Revitalization Strategy -- a policy aimed at raising the nation's growth potential -- I strongly hope that the continued effective use of these measures by the Bank will facilitate further progress of the private sector's initiatives to raise Japan's growth potential and efforts to rebuilding disaster areas.