

**Fund-Provisioning Measure to Support Strengthening  
the Foundations for Economic Growth**

Monetary Affairs Department

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The Bank of Japan introduced its Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth in June 2010, in order to provide support, from the financial side, for private financial institutions' initiatives to strengthen the foundations for economic growth. The Bank announced on August 31, 2010 that it would provide a total of 462.5 billion yen in the first loan disbursement. The Bank introduced the measure because it deemed it important to reverse the trend of decline in Japan's growth rate and put it on a higher medium- to long-term growth path so as to overcome deflation in a sustainable manner. Growth potential will basically be enhanced as a result of active efforts by private firms and financial institutions. In this situation, the Bank anticipates that the measure will act as a catalyst to further stimulate private financial institutions' efforts to strengthen the foundations for economic growth. The Bank will continue to engage itself in broad-ranging discussions on the topic of what measures, including those of the Bank, are necessary for raising Japan's growth potential.

**I. Introduction**

The Bank decided at the Monetary Policy Meeting of the Policy Board held in June 2010 to introduce the Fund-provisioning Measure to Support Strengthening the Foundations for Economic Growth in order to provide support, from the financial side, for private financial institutions' initiatives to strengthen the foundations for economic growth.<sup>1</sup> Through this new fund-provisioning measure, the Bank will provide long-term funds at a low interest rate against eligible collateral to private financial institutions that are making efforts in terms of lending and investment to strengthen the foundations for economic growth.<sup>2</sup>

On August 31, 2010, the Bank announced that it would provide 47 financial institutions with a total of 462.5 billion yen in the first loan disbursement through this measure. The breakdown of the borrower financial institutions shows that the measure covered a wide range of businesses, including major banks, regional banks, and *shinkin* banks, and its geographical reach is expanding. The measure has started well, with a positive response from many

financial institutions.

The Bank has been implementing aggressive monetary easing measures based on the recognition that Japan's economy faces the critical challenge of overcoming deflation and returning to a sustainable growth path with price stability. The Bank has supplemented these measures with the new fund-provisioning measure because the Bank deemed it important to reverse the trend of decline in Japan's growth rate and put it on a higher medium- to long-term growth path so as to overcome deflation in a sustainable manner.

This paper first briefly reviews the Bank's policy responses since the Lehman Shock (Section II). It then discusses the background to the introduction of the current fund-provisioning measure, namely the trend of decline in Japan's economic growth rate (Section III). Finally, it explains the new fund-provisioning measure again in detail, and outlines financial institutions' recent efforts to strengthen the foundations for economic growth

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(Section IV).

## II. The Bank's Conduct of Monetary Policy

### 1. Financial Crisis Responses

In the past few years, the global economy experienced considerable fluctuations that were unprecedented in recent times. On the financial front, the U.S. subprime mortgage problem emerged in the summer of 2007, and in the autumn of 2008 the global financial crisis erupted, triggered by the failure of Lehman Brothers. Consequently, economies around the world deteriorated rapidly and simultaneously. Fortunately, global financial markets gradually regained stability from around the spring of 2009, and the global economy is now showing signs of picking up. However, compared with emerging economies, which were faster to recover, the pace of economic recovery in advanced economies remains sluggish. In these circumstances, central banks in major advanced economies have been implementing various policy measures. In what follows, we explain two major responses on the monetary policy front after the failure of Lehman Brothers, focusing primarily on the efforts of the Bank of Japan.<sup>3</sup>

#### (1) Ensuring financial market stability

Triggered by the failure of Lehman Brothers, confidence, a key prerequisite for the normal functioning of financial markets, was lost and a liquidity crisis occurred on a global scale. In response, central banks around the world provided ample liquidity to financial markets and implemented various other measures, such as outright purchases of specific financial assets exclusively from markets that had become dysfunctional.<sup>4</sup> These were emergency measures to suppress the "acute symptom" of extreme financial market contraction, thereby preventing economic activity from deteriorating further.

Since the failure of Lehman Brothers, the Bank of Japan has also been aggressively providing funds to the money market by employing various money market operations. Moreover, taking account of the fact that transactions in the CP and corporate bond

markets fell sharply and interest rates rose substantially, the Bank decided in December 2008 and January 2009 to introduce outright purchases of CP and corporate bonds issued by firms. The Bank also introduced a scheme of "Special Funds-Supplying Operations to Facilitate Corporate Financing," through which the Bank provided financial institutions with unlimited funds within the value of collateral, such as CP, corporate bonds, and loans on deeds, at a low interest rate. Owing partly to these measures, financial conditions in Japan started to show signs of improvement from mid-2009, and the issuing conditions for CP and corporate bonds improved significantly. Therefore, the Bank judged that the measures had sufficiently achieved their intended purpose of restoring market functioning and wound up outright purchases of CP and corporate bonds at the end of December 2009 and special funds-supplying operations to facilitate corporate financing at the end of March 2010.

#### (2) Aggressive monetary easing

If the above measures to ensure financial market stability can be regarded as emergency measures to suppress the "acute symptom," the measure to bring the flagging economy back to a sustainable growth path is monetary easing on a macro basis. Since the failure of Lehman Brothers, many central banks have lowered their policy interest rates substantially, striving to underpin private demand.

The Bank of Japan also lowered the target level for its policy rate, the uncollateralized overnight call rate, to 0.1 percent, which is effectively 0 percent, in December 2008 and has been maintaining it at that level. Moreover, to encourage a decline in slightly longer-term interest rates, in December 2009 the Bank newly introduced "a fixed-rate funds-supplying operation against pooled collateral," through which funds with a maturity of three months are provided to financial institutions at a low interest rate equal to the policy rate of 0.1 percent. In August 2010, the Bank announced that it would newly introduce six-month term operations so as to further enhance easy monetary conditions. As for the outlook, the Bank

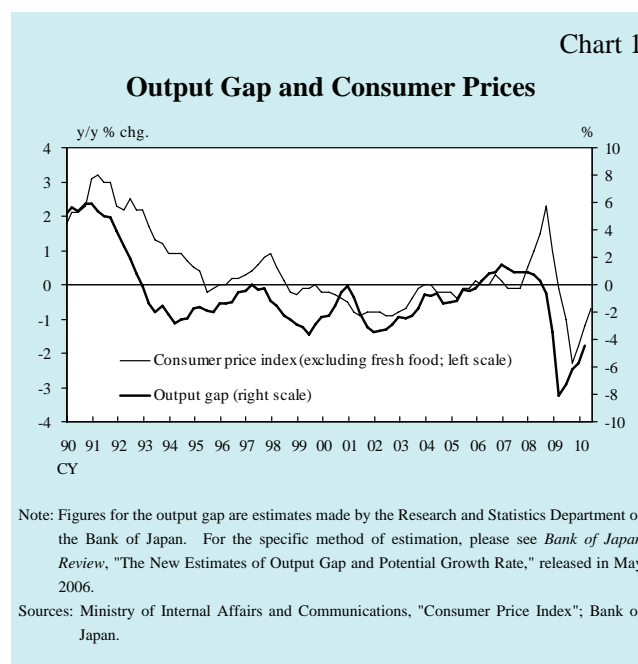
has made clear its stance that it will continue to maintain an extremely accommodative financial environment. This series of monetary easing measures has been underpinning economic activity in Japan, with inter-bank rates stable at low levels and funding costs of firms and households declining. And more recently, the stimulative effects of low interest rates are amplifying. When assessing the degree of monetary easing as perceived by firms, assuming that there is no quantitative restraint on the amount of funds available, what becomes crucial is the relationship between the cost of fundraising and the expected profits from corporate activity using the funds raised. When the economy is showing further signs of a recovery and firms' expected profits are rising as at present, monetary easing effects will be intensified by interest rates being maintained at low levels.

## 2. Need for New Policy Measures

The Bank has presented its outlook for economic activity and prices until the end of fiscal 2011. As the baseline scenario, the Bank projects that Japan's economy is likely to continue on a recovery trend, and the year-on-year pace of decline in consumer prices is likely to slow as the aggregate supply and demand balance gradually improves.<sup>5</sup>

However, looking back, Japan's inflation rate has been low compared with other advanced economies and, since the end of the 1990s, except for several years in the mid-2000s, a situation has been continuing in which prices have been unlikely to rise on a year-on-year basis. As for the outlook, while the pace of decline in prices is expected to slow, it is likely to slow only modestly. While there are a number of possible reasons for the strong deflationary trend in Japan, the root cause is that the output gap has not been filled for a long period (Chart 1). This seems to be attributable to the trend of decline in Japan's economic growth rate since the 1990s, and the continued loss of confidence about future economic growth. As we explain later, such a decline in growth expectations causes stagnation in demand as firms and households become more cautious about

spending. Thus, the reasons for deflation in Japan are not only the short-term fall in demand associated with, for example, the failure of Lehman Brothers, but also the root problem of the decline in the economic growth rate and weak growth expectations.



Usually, in an economic downturn, a central bank aims to stimulate demand through monetary easing and encourage price increases through improvement in the aggregate supply and demand balance. In fact, since the failure of Lehman Brothers, many central banks, including the Bank of Japan, have engaged in aggressive monetary easing measures. These were measures to address short-term economic fluctuations. However, as in the case of Japan, when a trend of decline in the growth rate is exerting downward pressure on prices, it is difficult to reverse the trend of prices only by measures to address short-term economic fluctuations. Instead, it is necessary to take measures that will reverse the trend of decline in the growth rate and build an economy in which people can really feel future growth. In this regard, while it is indispensable to increase the labor force and to raise the productivity of the overall economy in order to raise the economy's growth rate, it is difficult to address this issue directly through ordinary monetary policy measures.

With such recognition, and based on the perspective of achieving sustainable growth with price stability,

the Bank has been examining ways to contribute to raising Japan's growth potential. As a result, the Bank decided to introduce the fund-provisioning measure to support strengthening the foundations for economic growth. In the next section, we discuss in greater detail the background to the introduction of this measure, namely the decline in Japan's economic growth rate and sluggish growth expectations.

### III. Issues Faced by Japan's Economy

#### 1. Fundamental Problem

Looking back, after Japan's high economic growth from the mid-1950s to early-1970s, the growth rate of the economy gradually declined, but Japan still managed to achieve an average annual growth rate of around 4.5 percent during the 1980s, which was higher than other advanced economies. However, the economic growth rate has fallen substantially to around 1.5 percent since the 1990s following the collapse of the bubble economy. For the past 20 years, Japan's economic growth rate has been at the lower end among advanced economies and the trend of decline in the growth rate has been most prominent in Japan (Chart 2).

Chart 2

#### Growth Rates of Real GDP

	y/y % chg.		
	1980s	1990s	Since 2000
Japan	4.4	1.5	1.4
United States	3.1	3.2	2.4
Canada	3.0	2.4	2.6
Germany	1.8	1.5	1.5
France	2.3	1.8	1.9
United Kingdom	2.5	2.2	2.4
Italy	2.6	1.4	1.2

Note: The figures for the period since 2000 are from 2000 through 2008.

Sources: Statistics offices of the selected countries, etc.

A country's GDP for one year is the number of workers multiplied by the value added per worker for the year, or in other words, labor productivity on a value-added basis. Therefore, the economic growth rate, or the GDP growth rate, is determined by the following two factors: the growth rate of workers and the growth rate of labor productivity.

Starting with the growth rate of workers, as Japan has

had a low birth rate for a long period, its labor force has already started to decline from the second half of the 1990s and its growth rate has fallen to an annual average of minus 0.6 percent since 2000. The number of workers has, on average, been declining slightly since the 2000s.

The GDP growth rate per worker in Japan in the 1980s was 3.2 percent, the highest among the G7 economies, but declined substantially to 0.9 percent in the 1990s. Many reasons have been pointed out as being responsible for the decline in productivity. Specifically, from the start of the 1990s the world experienced a sea change, characterized by huge advances in information and telecommunication technology and increasingly intense global competition. However, in the case of Japan, the economy had excessive production capacity and debt that had built up during the bubble period, and Japan thus had difficulties in engaging in proactive economic activity so as to respond to the structural changes in the global economy. This, as a result, may have caused a decline in the productivity of the overall economy. In the process of adjustment of these excesses, inefficient parts of the economy may have been kept intact, and economic metabolism may not have functioned sufficiently. For example, since the 1990s, the rate of establishment of new firms in Japan has been below 5 percent on average, less than half of that in the United States.<sup>6</sup> As this statistic suggests, market entry efforts by promising new firms did not sufficiently pay off for a continued period, which may be another reason for the decline in productivity (Chart 3).

Chart 3

#### GDP Growth Rates per Worker

	y/y % chg.		
	1980s	1990s	Since 2000
Japan	3.2	0.9	1.6
United States	1.2	1.5	1.8
Canada	1.0	1.4	0.7
Germany	1.0	1.6	0.9
France	2.1	1.4	0.9
United Kingdom	1.8	2.1	1.6
Italy	2.0	1.3	-0.1

Note: The figures for the period since 2000 are from 2000 through 2008.

Sources: Statistics offices of the selected countries, etc.

In Japan, growth expectations remain sluggish as business managers and the public at large seem to feel that "the economy is not likely to grow much in the future" due to the fact that the economic growth rate has been declining over a long period and to anxiety associated with the difficulty in finding an effective solution to emerge from this situation (Chart 4). This, as explained earlier, has been a major cause of deflation. If business managers expect that sales and profits will not grow much in the future, they will be hesitant to increase business fixed investment and raise wages. If individuals in the country expect that future income will not grow much or that fiscal burden will increase, they will reduce present consumption as much as possible and opt to save for the future. This causes stagnation in present demand, which in turn exerts downward pressure on prices through a widening of the output gap. Deflation in Japan could be regarded as a phenomenon in which the medium- to long-term challenges facing the economy, namely the trend of decline in the economic growth rate and associated sluggish growth expectations, have manifested in a concentrated manner.

Chart 4-2  
Households' Expectations about Income Growth



Notes: 1. The prospects for income growth over the following six months are evaluated as follows. The five response categories, namely "improve," "improve slightly," "no change," "worsen slightly," and "worsen," are given the following evaluation points, +1, +0.75, +0.5, +0.25, +0, respectively. The evaluation points are then multiplied by the component ratio (%) and totaled.

2. The survey was quarterly up until the March 2004 survey. From fiscal 2004, when the survey became monthly, the figures are from the March, June, September, and December surveys.

Source: Cabinet Office, "Monthly Consumer Confidence Survey."

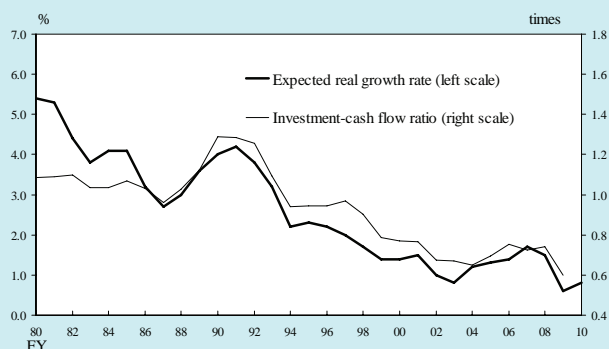
## 2. Efforts to Raise the Growth Rate

Now that Japan's economy is overcoming its sharp fall following the failure of Lehman Brothers, Japan needs to address the challenge of putting itself on a higher medium- long-term growth path so as to overcome deflation in a sustainable manner. That is, it must take on the challenge of working to achieve "an economic growth rate that is sustainable over the medium to long term," excluding the effects of the economic cycle, or in other words, raise the potential growth rate.

In order to raise Japan's potential growth rate, it is necessary to work on the two factors noted earlier, the growth rate of workers and the growth rate of labor productivity. As for the number of workers, it is at least necessary to make steady efforts to raise the labor-force participation rate of women and the elderly. However, amid the dominant trend of a low birth rate, it is unlikely that there will be a substantial increase in the labor force for the time being given that a national debate continues to be necessary on the subject of actively accepting labor force from overseas. In this situation, the second factor, the issue of how to raise labor productivity, becomes a significant challenge (Chart 5). On this point, while the pace of increase in the labor force and the number of workers has

Chart 4-1

## Firms' Growth Expectations and Business Fixed Investment

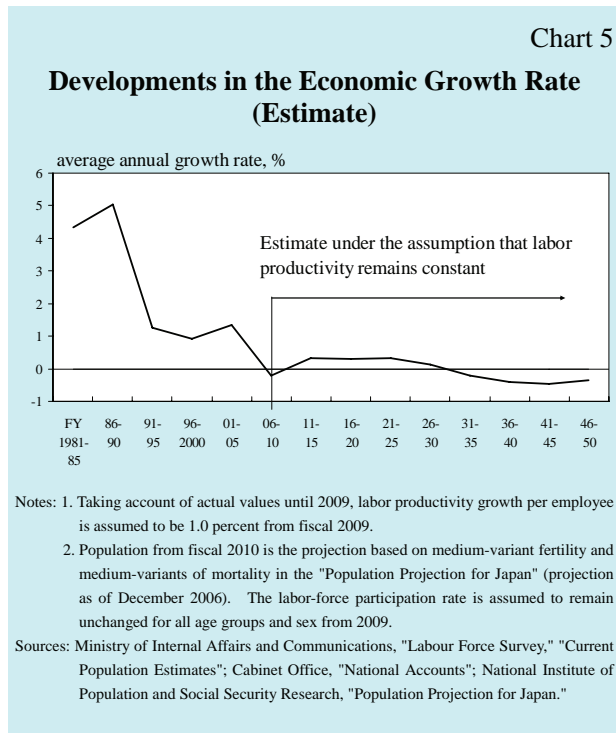


Note: Expected growth rate is the average rate of economic growth expected over a period of five years starting from the fiscal year concerned.

Sources: Cabinet Office, "Annual Survey of Corporate Behavior"; Ministry of Finance, "Financial Statements Statistics of Corporations by Industry, Quarterly."



continuously been slowing for the past 20 years, it is important to note that the growth rate of productivity has been recovering slightly since 2000.<sup>7</sup> Such unrelenting efforts to raise productivity are one of the strengths of Japan's economy, and will become a driving force of Japan's economic growth in the future.



In order to raise the value added per worker and lift the growth potential of the economy as a whole, it is necessary for individual firms to tap potential demand both at home and abroad and to establish a supply system that matches such demand.<sup>8</sup> In this respect, raising productivity in the economy as a whole is an issue that relates to both demand and supply in the economy. With economic globalization the range of potential customers for Japanese firms has been expanding dramatically. Moreover, the explosive spread of personal computers and the internet has been rapidly reducing the distance between firms, including small ones, and customers. New customer needs are waiting to be discovered amid the dynamic changes in the social structure, such as the low birth rate and aging population as well as the shift to a low-carbon society. In any society, the role expected of firms is to tap potential demand and convert it into actual demand through innovation. Innovation

encompasses various efforts to discover potential customer needs by using advanced technological capabilities and new ideas.<sup>9</sup>

Another point that needs to be emphasized is that the role played by private financial institutions, as entities that provide risk money to the corporate sector and thereby support innovation, is very important. The economy is made up of a wide variety of firms and industries with differing rates of productivity growth. Financial institutions play the extremely important role of making loan decisions and setting loan conditions while gauging borrower firms' future profitability and growth potential. Therefore, there are strong expectations that financial institutions should fully utilize their ability to identify such opportunities to stimulate Japan's economic metabolism, thereby contributing to the growth of the economy.

By focusing on this role of financial institutions, the Bank's fund-provisioning measure to support strengthening the foundations for economic growth has been designed to contribute to strengthening the foundations for Japan's economic growth by providing support to financial institutions for fulfilling this role.

#### IV. Framework of the Fund-Provisioning Measure and Efforts at Financial Institutions

##### 1. Basic Idea

The Bank decided to introduce the new fund-provisioning measure because the trend of decline in Japan's growth potential is a major cause of the current deflation, as explained earlier. Of course, the fund-provisioning measure alone will not be enough to raise Japan's growth potential. The challenge of strengthening growth potential will basically be achieved as a result of the active efforts of private firms and financial institutions.

With full recognition of these points, the Bank judged that, to meet the challenges Japan faces and bring Japan's economy back to a sustainable growth path with price stability, it was necessary to support, from the financial side, the strengthening of the foundations for economic growth by using its central banking

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functions. The Bank of Japan Act stipulates the principle of monetary policy to be "achieving price stability, thereby contributing to the sound development of the national economy." In the current conditions in Japan, the Bank believes that the current fund-provisioning measure accords with this principle.

#### *Aim of fund provisioning*

The fund-provisioning measure aims to act as a catalyst, enhancing financial institutions' efforts to strengthen the foundations for economic growth. While the Bank cannot fulfill the role of private financial institutions for them, it can influence their behavior by utilizing its fund-provisioning function as a central bank. The Bank expects that the fund-provisioning measure will serve as an opportunity to further stimulate private financial institutions' efforts to help strengthen the foundations for economic growth.

Moreover, in deciding the scheme for the fund-provisioning measure, the Bank gave due consideration to ensuring that the scheme was flexible and easy to use, so as to provide as broad as possible support for financial institutions' own initiatives. For example, as a precondition for receiving funds through this measure, the Bank requires financial institutions to invest in or lend to projects that would help strengthen the foundations for economic growth, and the Bank has listed a wide range of examples that are considered as Japan's new growth areas (18 areas), taking into account the government's "New Growth Strategy" and proposals by various economic organizations.

#### *Points noted*

As the fund-provisioning measure will be carried out as part of central bank measures, the following two points were noted in formulating the scheme.

The first point was the need to ensure that the Bank would not become directly involved in the allocation of funds to individual firms and industries. Allocating resources to a particular area with a special

policy aim belongs to the field of fiscal policy. In the first place, there are limitations to the Bank's own judgment in determining the growth areas in Japan or what kind of investment and lending would contribute to strengthening the foundations for economic growth. As explained earlier, the list of a wide range of areas for financial institutions' investment and lending is part of the Bank's attempt to fully utilize financial institutions' ability to identify quality investment or lending targets while avoiding being directly involved in the individual allocation of funds.

The second point was to ensure that the measure would not hamper the smooth implementation of interest rate policy and money market operations. For example, depending on the scale and duration, the measure could constrain the flexible pursuit of the Bank's daily money market operations or affect the formation of longer-term market interest rates. Moreover, due attention should be paid to its influence on the soundness of the central bank's balance sheet. In order to be attentive to these points and ensure that the measure works as a catalyst, and as a result of seeking a good balance between the two, it was decided, for example, that the duration of each loan shall be one year in principle (maximum of four years) and that the total amount of loans shall not exceed 3 trillion yen.

## 2. Outline of the Scheme

Based on the basic thinking outlined above, the Bank stipulated and released the detailed scheme for fund provisioning (see "Outline of Scheme").<sup>10</sup>

## 3. Efforts at Private Financial Institutions

When a financial institution wishes to obtain loans from the Bank through the fund-provisioning measure, after becoming an eligible counterparty the financial institution must submit a plan of its initiatives to help strengthen the foundations for economic growth (hereafter "the plan") and its actual record of individual investment or lending, and receive the Bank's confirmation. The following sections introduce financial institutions' efforts to strengthen

the foundations for economic growth, by summarizing the information submitted to and confirmed by the Bank.

(1) Number of counterparty financial institutions

The number of financial institutions selected as eligible counterparties for the first loan disbursement was 66, and these institutions span a wide range of business areas and regions (Chart 6). The Bank continues to receive new applications, and the number of eligible counterparties reached a total of 91 institutions as of August 31, 2010. The number of counterparty financial institutions is likely to increase further in the approach to the second loan disbursement.

Chart 6

**Eligible Counterparties of the Fund-Provisioning Measure**

	First selection <sup>1</sup>	Selection at request <sup>2</sup>
Major banks (12 banks)	12	--
Regional banks	33	11
Regional banks II	8	10
<i>Shinkin</i> banks	6	3
Others	7	1
Total	66	25

Notes: 1. Financial institutions that have been selected as eligible counterparties in the first loan disbursement (deadline for application was June 22, 2010).

2. Financial institutions that have additionally become eligible counterparties by the end of August 2010 through the selection procedure in accordance with the requests by financial institutions, which was carried out from June 23, 2010.

(2) Investment and lending programs under the plan

Of the 66 counterparty financial institutions mentioned above, 56 institutions submitted their plans before the first loan disbursement and received the Bank's confirmation. In their respective plans, each counterparty financial institution normally included at least one investment or lending program, and by area of investment or lending, programs in the fields of "medical, nursing care, and other health-related business," "environment and energy business," and "business serving the needs of senior citizens" were top of the list (Chart 7).

Chart 7

**Areas of Investment or Lending under the Plan**

Areas of Investment and Lending	Number of financial institutions
Medical & nursing care business	53
Environment & energy business	50
Business serving the needs of senior citizens	45
Agriculture, forestry, and fisheries business	44
Regional and urban revitalization business	38
Business reorganization	37
Research & development	36
Setting up a new business	36
Tourism business	35
Development of social infrastructure	34
Childcare services business	34
Investment and business deployment in Asian countries	32
Employment support	30
Business for securing and developing natural resources	28
Business which supports the creation of housing stock	27
Disaster prevention business	27
Science & technology research	25
Business in the content creation industry	25
Others	12

Note: The number of financial institutions that have chosen the above areas for investment or lending under their plans.

With the introduction of the fund-provisioning measure, a considerable number of financial institutions established new dedicated funds as well as investment and lending schemes as part of their plans. While some financial institutions established funds that are designed for investing and lending in all 18 areas listed by the Bank as contributing to strengthening the foundations for economic growth, others established funds targeted at specific areas. Some regional financial institutions, meanwhile, established funds aimed at local industries, which are not included in the 18 growth areas listed by the Bank.

(3) Actual record of individual investment or lending

To receive funds in the Bank's first loan disbursement through this measure, financial institutions were required to have an actual record of new investment or lending under the plan in the period between April and June 2010. Of those financial institutions that submitted their plans, 47 institutions wished to receive funds from the Bank's first loan disbursement and submitted actual records of individual investment or lending.

There were 1,342 investment and lending projects in total, and the total amount of investment and lending



was 478.8 billion yen.<sup>11</sup> The average amount of investment or lending was 360 million yen, and the average investment or lending term was 8.2 years. The distribution of amounts and terms is shown below. By area, investment or lending in "environment and energy business" (112.4 billion yen) and "others" (investment or lending that financial institutions judged not to fall under any of the 18 areas listed by the Bank; 97.5 billion yen) was particularly prominent, followed by investment or lending in "development and upgrading of social infrastructure" and "medical, nursing care, and other health-related business" (Chart 8).

Chart 8-3

**Amount of Investment or Lending by Area**

bil. yen	
Areas of Investment and Lending	Amount
Environment & energy business	112.4
Others	97.5
Development of social infrastructure	55.4
Medical & nursing care business	54.8
Regional and urban revitalization business	38.6
Business which supports the creation of housing stock	24.1
Business reorganization	23.2
Business for securing and developing natural resources	16.3
Agriculture, forestry, and fisheries business	15.4
Investment and business deployment in Asian countries	12.2
Research & development	7.3
Business serving the needs of senior citizens	5.6
Tourism business	5.6
Employment support	5.4
Business in the content creation industry	1.4
Childcare services business	1.3
Setting up a new business	1.2
Science & technology research	0.6
Disaster prevention business	0.5

Chart 8-1

**Distribution of Amount per Investment or Lending Project**

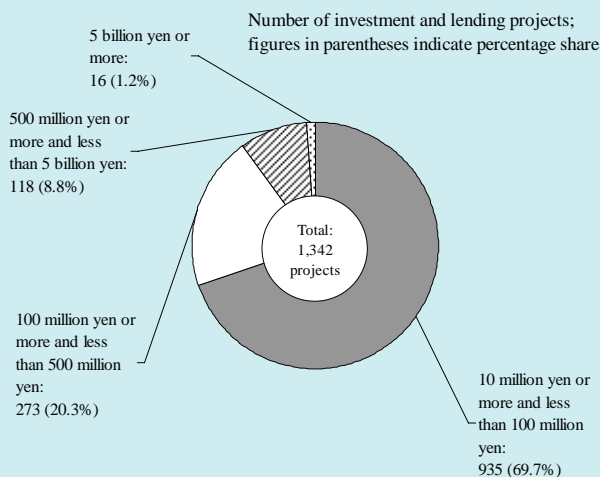
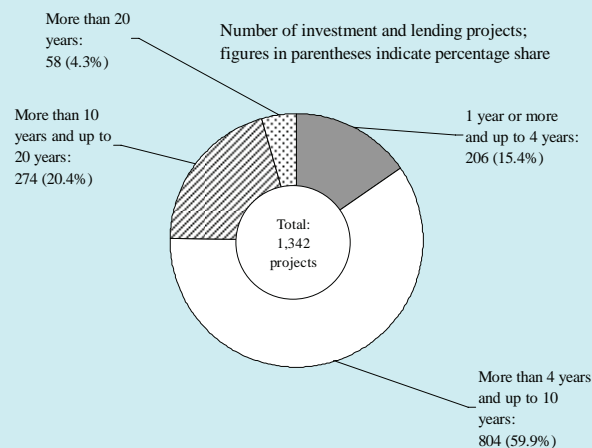


Chart 8-2

**Distribution of Duration per Investment or Lending Project**



**V. Conclusion**

Given that the decline in Japan's economic growth rate is a phenomenon that has progressed over time, the process of raising the growth rate will also take time. The only way to emerge from the current low growth rate is for private economic agents and policymakers to make steady efforts based on their respective roles.

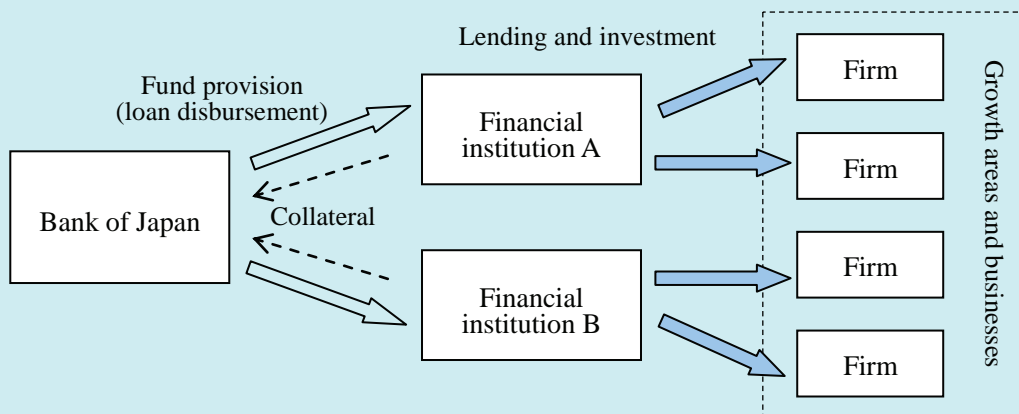
In June 2010, the government decided its "New Growth Strategy." The recognition behind this has much in common with that behind the introduction of the Bank's fund-provisioning measure. In order to raise the productivity of Japan's economy, it is important for the policy authorities to prepare an environment in which firms' efforts to innovate and financial institutions' activities to support firms will pay off in the form of specific results. The government is expected to make active policy responses in various areas, such as reviewing regulations and the tax system as well as developing safety nets.

The Bank will continue to actively exchange views with financial institutions so that the new measure will produce the maximum effect as a catalyst, and it will continue to provide thorough explanations of the aim and content of the measure. Besides the fund-provisioning measure, the Bank will continue to make contributions as a central bank to support

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strengthening the foundations for economic growth. For example, if a scheme for securitizing lending and investments that relate to strengthening the foundations for economic growth is considered, the Bank will actively cooperate in the development of such a market. As part of that, in the case that such securitized products are to be nurtured, there is room for the Bank to consider ways to accept them as eligible collateral. The Bank hopes to continue to engage itself in broad-ranging discussions as to what measures, including those of the Bank, are necessary to raise Japan's growth potential.

### Box: Outline of Scheme



#### Fund Provisioning by the Bank of Japan

1. Eligible Counterparties
  - Financial institutions that are counterparties in the Bank's Funds-Supplying Operations against Pooled Collateral at All Offices and wish to be counterparties in this measure.
2. Form of Loans
  - Loans shall be provided in the form of electronic lending against pooled collateral.
3. Number of Times of Fund Provisioning
  - New loans are scheduled to be disbursed quarterly, for a total of eight times.
4. Duration of Loans, Maximum Number of Times for Rollover of Loans
  - The duration of each loan shall be one year in principle, and the loan shall be able to be rolled over up to three times (the maximum duration of the loan shall be four years).
5. Loan Rates
  - The loan rate will be the Bank's target for the uncollateralized overnight call rate on the day of disbursement of the loan.
6. Maximum Amount of Loans
  - The total amount of loans shall not exceed 3 trillion yen (the total amount of loans at each loan disbursement shall not exceed 1 trillion yen).
  - The total amount of loans to each counterparty shall not exceed 150 billion yen.
7. Deadline for New Applications for Loans
  - The deadline for new applications for loans shall be March 31, 2012 (the last disbursement of new loans shall take place by June 30, 2012).

#### Lending and Investment by Eligible Counterparties

1. Each counterparty shall submit to the Bank a plan for lending and investment to support strengthening the foundations for economic growth, and obtain the Bank's confirmation that the plan satisfies the following conditions.
  - The use of funds by borrowing firms, etc., shall contribute to strengthening the foundations for economic growth.
  - The borrower or investee shall be a domestic resident or a foreign corporation with a business establishment in Japan; and shall be carrying out business in the areas identified as contributing to strengthening the foundations for economic growth.
  - Maturity of the lending or investment shall be one year or more.
  - The Bank shall be under no obligation to provide funds where, for whatever reasons, it considers this to be inappropriate.

-- For further details about the scheme, please refer to the "Statement on Monetary Policy" released on June 15, 2010, which is available at the Bank's web site.
2. Financial institutions wishing to receive loans from the Bank shall submit their actual records of new lending or investment before each loan disbursement (for the case of the first loan disbursement, the record between April and June 2010 was submitted). The maximum amount to be lent to each counterparty at each loan disbursement shall be within the actual amount of lending or investment confirmed by the Bank as satisfying the conditions for obtaining loans.

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<sup>1</sup> Bank of Japan, "Statement on Monetary Policy," April 30, 2010; and "Statement on Monetary Policy," Attachment, June 15, 2010.

<sup>2</sup> For the basic details of the fund-provisioning measure, please refer to "Establishment of 'Principal Terms and Conditions for the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth,'" released on June 15, 2010.

<sup>3</sup> For the Bank's various monetary policy and financial system measures since the autumn of 2008, please refer to "The Bank of Japan's Policy Measures in the Current Financial Crisis."

<sup>4</sup> For example, following the failure of Lehman Brothers the Federal Reserve introduced schemes to purchase CP, agency MBS, and Treasury securities, but wound them down by the end of March 2010 as the performance of financial markets improved. In October 2008, the European Central Bank introduced longer-term refinancing operations through a fixed rate tender with full allotment, and given that conditions in financial markets became stable, these operations were phased out by March 2010. However, with increased tensions in financial markets triggered by the problem in Greece, it was decided in May 2010 to restart the operations and to introduce the Securities Markets Program to intervene in the malfunctioning securities markets.

<sup>5</sup> Bank of Japan, "Outlook for Economic Activity and Prices (April 2010)," May 1, 2010.

<sup>6</sup> Between 1990 and 2008, the rate of establishment of new firms and the rate of closure of existing firms (the share of the number of newly established firms and the share of the number of closed firms in the total number of firms in the year concerned) were, on average, 4.6 percent and 3.8 percent, respectively, in Japan, and 10.8 percent and 9.8 percent, respectively, in the United States.

<sup>7</sup> As for labor productivity in Japan since 2000, while the average annual growth rate was 1.6 percent for the period until the end of 2008 (see Chart 3), it was 1.0 percent for the period until the end of 2009, when labor productivity was substantially affected by the economic deterioration following the failure of Lehman Brothers.

<sup>8</sup> Labor productivity rises when existing goods are produced by fewer workers. However, this alone is not necessarily sufficient to raise the growth capability of the overall economy.

<sup>9</sup> On the significance of firms' innovation, please refer to a speech by the Governor of the Bank of Japan, Masaaki Shirakawa, "Japan's Economy and Innovation" at the Japan National Press Club in Tokyo in May 2010.

<sup>10</sup> Because of space limitations, only the outline of the scheme is shown here. For further details of the scheme or information on how to become an eligible counterparty under the fund-provisioning measure, please refer to the Bank's web site.

<sup>11</sup> Because the funds under the scheme will be provided based on the amount requested by eligible counterparties not exceeding the actual record of investment or lending, the Bank's total amount of loans (462.5 billion yen) does not necessarily equal the actual record of total investment and lending (478.8 billion yen).

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