

Minister's Summary by Minister Yosano

22nd Meeting (September 17, 2008)

(1) Current financial market situation



Kaoru Yosano here. Today, the Council on Economic and Fiscal Policy (CEFP) held its 22nd meeting of the year, and the Council had discussions on the current financial market situation. This was the last CEFP meeting for Prime Minister Fukuda.

At the CEFP meeting today, Member Motegi (Minister of Financial Services) and Member Shirakawa (Governor of the Bank of Japan) gave presentations on international financial and capital markets. In response, members made the following remarks:

Member Shirakawa: Short and long-term financial markets in Japan have remained relatively stable in general, and remained really stable when compared to Europe and the U.S. In addition, a mechanism of monetary control is more developed now than it used to be.

CEFP member: I believe that the United States reached the decision this time after giving serious thought to two problems, moral hazard and systemic risks. The government of Japan should also make an appropriate response to the situation in cooperation with the United States and Europe.

CEFP member: This is a global problem concerning the U.S. dollars, and we can consider the current problem as credit fluctuations in the U.S. dollars. Accordingly, the government of Japan should work together with other nations in order to restore the credit of the U.S. dollar.

CEFP member: Negative impact that the demise of Lehman Brothers Holdings Inc. has sparked on Japan's economy has been so far relatively small. In the aftermath of Black Monday, the Stock Exchange dived 20% a day. On the contrary, Japanese stock exchanges experienced a plunge of only 4% yesterday. I am also relieved to learn the news of the loan extended to AIG. However, the lack of the bottoming-out of the U.S. housing market may prolong the current financial instability, and we cannot get rid of our anxiety over financial situations for at least one year. Japan also has to cooperate closely with financial authorities in the United States and Europe, and should make efforts not to cause global instability. The government of Japan should also immediately implement an

integrated reform of taxation and public finance administration and of social security systems in order to reform the existing taxation which hurts Japan's competitiveness and is vulnerable to business fluctuations.

CEFP member: Negative impact on Japan has been so far small. The Financial Services Agency should promptly assess and publish a macro impact of the turmoil surrounding Lehman Brothers.

I summed up the discussions as follows:

First of all, in the face of what is going on now, the government of Japan should spare no effort in providing international cooperation.

Second, at present, a situation that could have significant impact on management of Japanese financial institutions is yet to be identified, and in addition, authorities concerned have already implemented necessary measures.

Third, basically the financial system in Japan has been healthy. However, with weakness in the economy, as a result of the international financial and capital market turmoil, further downside risks could persist. Accordingly, the government has to pay unified careful attention to the possible risks.

Fourthly, in the face of the turmoil in international financial and capital markets, in order to prevent potential credit crunch resulting from the reluctance to lend money of financial institutions overreacting in defense, the government should quickly learn about new development, regulatory authorities have to closely monitor such development, and public-sector financial institutions should positively respond to potential financing difficulties.

Prime Minister made the following statements:

First, regarding recent financial situations, we need to carefully watch what is going on in worldwide financial and capital markets, and at the same time, need to speedily and accurately keep track of their impact on markets and financial institutions in Japan, and on the country's real economy through private financial institutions' lending trends.

Second, authorities concerned should expend all possible means to stabilize the financial system, protect financial service users and secure smooth financing from financial institutions, working together closely with monetary authorities around the world.

At the end of the meeting, Prime Minister expressed his sincere gratitude to each member for his/her long-term efforts he/she has made as a CEFP member under the leadership of Prime Minister Fukuda.

(End)