

Macroprudential Conference

June 21, 2019

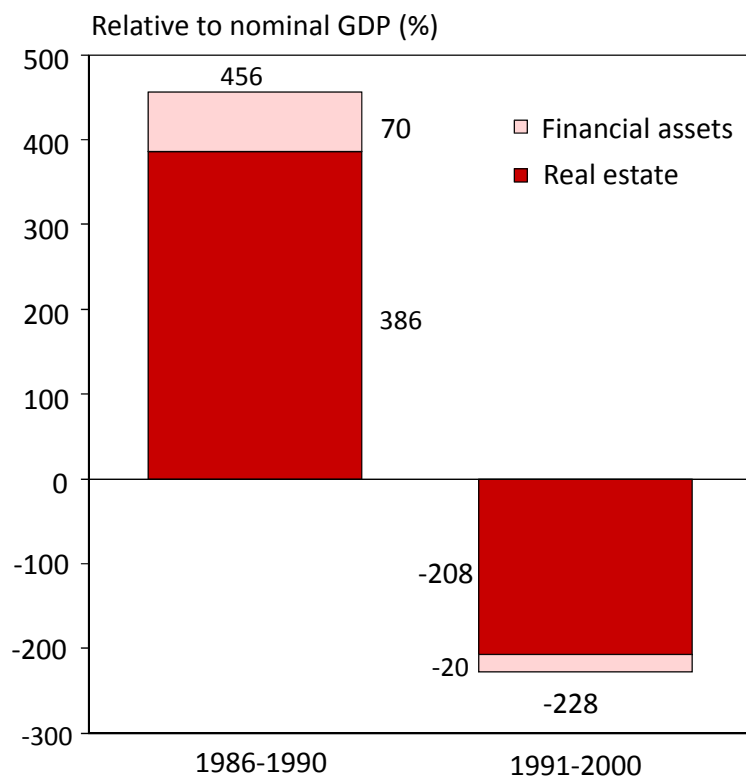
Hiroshi Nakaso

Chairman of the Institute

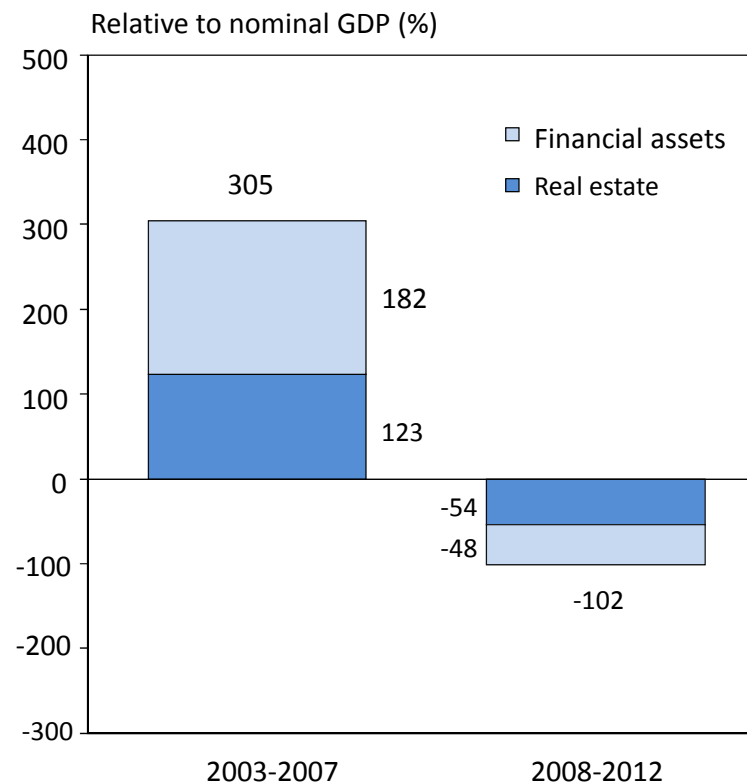
Daiwa Institute of Research Ltd.

Scale of Asset Price Bubbles

Japan



United States



Note: Cumulative annual capital gains and losses over the respective periods.
 Sources: Cabinet Office; Federal Reserve; Bureau of Economic Analysis.

Excerpt of a Speech by then-Bank of Japan Governor Mieno

“It is not the business of the central bank to save all financial institutions from failure. On the contrary, from the perspective of nurturing a healthy financial system underpinned by competition, it is even necessary for individual financial institutions that should fail to actually fail.”

(Speech Delivered at Kinyu Kenkyu-kai, October 31, 1994)

Source: Bank of Japan.

Chronology of Japan's Financial Crisis

1994 / Dec.	Collapse of Tokyo Kyowa Credit Cooperative and Anzen Credit Cooperative
1995 / Jul.	Collapse of Cosmo Credit Union
1995 / Aug.	Collapse of Hyogo Bank
1995 / Aug.	Collapse of Kizu Credit Union
1995 / Dec.	Cabinet decides on measures to address <i>jusen</i> problem
1997 / Oct.	Collapse of Kyoto Kyoei Bank
1997 / Nov.	Collapse of Sanyo Securities
1997 / Nov.	Collapse of Hokkaido Takushoku Bank
1997 / Nov.	Collapse of Yamaichi Securities
1997 / Nov.	Collapse of Tokuyo City Bank

1998 / Feb.	Law Regarding Emergency Measures for Financial Stabilization passed
1998 / Mar.	Injection of ¥1.8 trillion of public funds
1998 / Oct.	Financial Reconstruction Law and Financial Function Early Strengthening Law passed
1998 / Oct.	Collapse (and temporary nationalization) of Long-Term Credit Bank of Japan
1998 / Dec.	Collapse (and temporary nationalization) of Nippon Credit Bank
1999 / Mar.	Injection of ¥7.5 trillion of public funds
2000 / May	Amended Deposit Insurance Law passed
2003 / May	Capital injection into Resona Bank

Source: Bank of Japan.

Chronology of the Global Financial Crisis

2007/Jul.	<u>Germany</u> : Bailout of IKB Deutsche Industriebank	2008/Sep.	<u>U.S.</u> : Collapse of Washington Mutual
Aug.	<u>France</u> : Freezing of redemptions from a fund operated by BNP Paribas ("Paribas shock")	Sep.	<u>U.S.</u> : House of Representatives rejects Emergency Economic Stabilization Act
Sep.	<u>Britain</u> : BOE emergency lending to Northern Rock	Sep.	Announcement of additional coordinated central bank action by ten central banks to enhance their capacity to provide U.S. dollar liquidity
2008/Mar.	<u>U.S.</u> : Bailout of Bear Stearns	Oct.	<u>U.S.</u> : Emergency Economic Stabilization Act enacted
Sep.	<u>U.S.</u> : Collapse of Lehman Brothers	Oct.	The six central banks announce further action to increase liquidity in the U.S. dollar money market
Sep.	<u>U.S.</u> : Bailout of American International Group (AIG)		
Sep.	Announcement of coordinated central bank action by the six central banks to deal with the increased dollar funding pressure		
Sep.	<u>U.S.</u> : Goldman Sachs and Morgan Stanley change status to become bank holding companies		

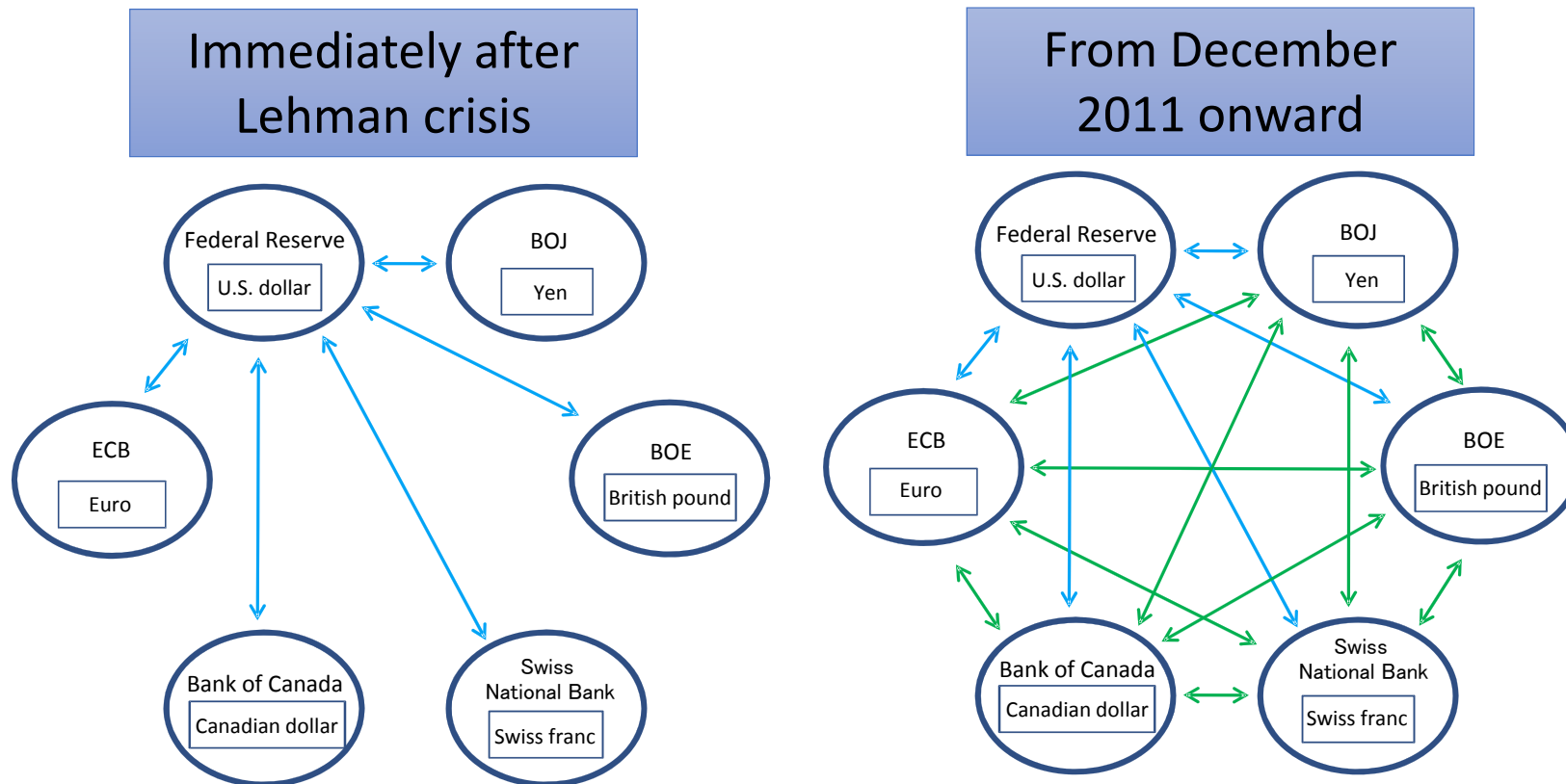
Source: Bank of Japan.

Loss experience from exercise of the LoLR function by the Bank of Japan

Slide 5

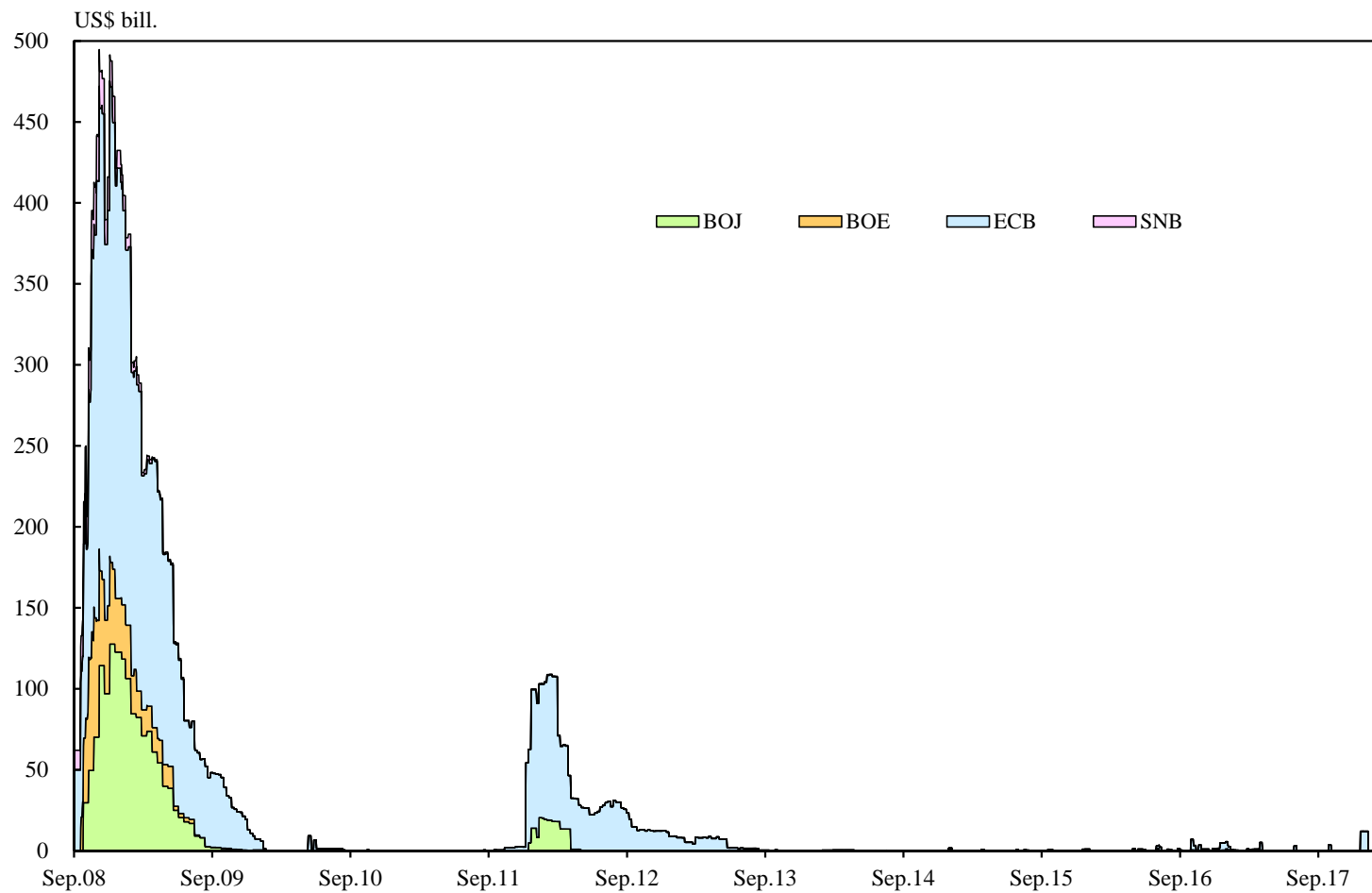
	Legal basis (A)	Period of experience (B)	Peak outstanding (C)	Loss (D)	Ratio (D)/(C)	Remarks
Type 1	Article 38 Bank of Japan Law	Aug 1995	2,858 billion (Feb 1998)		(0%)	
Type 2	Article 33 Bank of Japan Law	Nov 1997 - Dec 1997	22 trillion (Dec 1997)		(0%)	These were tools for monetary adjustments, used to address the financial instability during the crisis period. A similar exercise was conducted in Jun-Oct 1998 during the LTCB crisis.
Type 3	Article 38 Bank of Japan Law	Nov 1997 Liquidity support to Yamaichi Securities	1,200 billion (Nov 1997)	111.1 billion	(9.3%)	Discussions continue as to possible means to cover the potential losses.
Type 4	Article 38 Bank of Japan Law	Establishment of Tokyo Kyodo Bank Jan 1995 - Mar 1999	20 billion	16.4 billion	(82%)	Source: Bank of Japan.
		Subordinated loans to Midori Bank Jan 1996 - Jan 2006	110 billion		(0%)	
		Capital injection to NCB July 1997 - Dec 1998	80 billion	80 billion	(100%)	
		Total	210 billion	96.4 billion	(45.9%)	

Development of Swap Network



Source: Bank of Japan.

Outstanding Amount of Dollar Funding Supplied



Source: Bank of Japan.