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"10 years after the Global Financial Crisis-How has the world economy changed and where will it go?"

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Good afternoon, ladies and gentlemen,

Thank you very much for coming to our international financial symposium, titled "10 years after the Global Financial Crisis—How has the world economy changed and where will it go." Today we are pleased to have a privilege to share a moment with you to reflect on the changes of the world economy and their backgrounds that took place in the past 10 years and explore some clues for possible transformations of the world economy in the coming years.

In the first place, to provide some common perceptions for the discussion, let me start by reviewing briefly the global financial crisis and the developments of the world economy in the 10 years that followed.

1. Backgrounds of the Global Financial Crisis

Looking back at the global financial crisis that took place 10 years ago, a direct trigger of the crisis was obviously the burst of subprime bubbles in the United States. However, it can be pointed out as a more fundamental cause that there was inappropriate risk management of financial institutions as well as insufficient regulation and supervision of the financial regulators, in spite of a rapid expansion of international capital flows and the development of financial technology, such as securitization and credit derivatives. Specifically, the handling was poor in addressing the risks inherent in new financial products such as collateralized debt obligations (CDO) and credit default swaps (CDS). Against these backdrops, the structure of financial markets had been very vulnerable to against the falls of asset prices triggered by the subprime shock.

2. Policy Responses to the Global Financial Crisis

Responding to the start of the global financial crisis, especially to the collapse of Lehman Brothers in September 2008, policy-makers in advanced economies successively implemented emergency stabilization measures for the financial markets trying to prevent a spread of the crisis. Firstly, to save the financial institutions with damaged balance sheets, governments injected public funds into such banks and purchased bad assets from these banks. Secondly, in order to restore the market liquidity, central banks provided ample liquidity and governments gave guarantees to the debts of market participants. Thirdly, protection of depositors was enhanced. Subsequently, to avoid another financial crisis, reforms of global financial regulations were implemented with the leadership of G20 and Financial Stability Board (FSB)

Separately, in many economies and regions, large expansion of fiscal expenditures and monetary easing were implemented to shore up their real economies. The biggest measure of the kind was the "Economic stimulus measure of 4 trillion yuan" taken by the Chinese government. 4 trillion yuan, that is about 600 billion US dollar, is an enormous amount, and the measure was a grand investment project which covered improvement of infrastructure including railways, roads , power plants, etc. and provision of reconstruction support to the earthquake-damaged regions in Sichuan. Through these measures, the Chinese economy was shored up, which helped to support the recovery of the world economy as a whole.

Policy Measures to the Global Financial Crisis

- Measures to stabilize financial markets
  - ✓ Capital injection into private financial institutions
  - ✓ Purchase of bad assets, and provision of liquidity to financial markets
  - ✓ Protection of depositors
- Global financial regulatory reform
- Expansionary fiscal policy
  - ✓【China】Economic stimulus measure of RMB 4 trillion (= about USD 600 billion)

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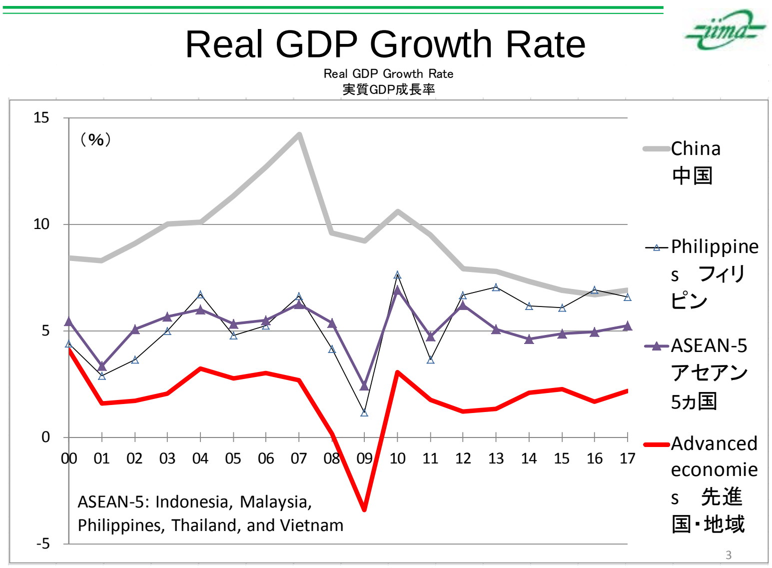
3. Dragging Recovery of the World Economy until Early 2016

Supported by the measures on both fiscal and monetary sides, the world economy took a turn for a recovery out of the global financial crisis. Its path up to now was not always even, however. In the Euro area there occurred sovereign debt crises in 2011 and 2012, while “secular stagnation” was a favorite theme for discussion from the end of 2013 to 2015 as the full-scaled recovery was hard to be seen in advanced economies. Further, as a side effect of big stimulus measures of 4 trillion yuan, problem of excess production capacity had worsened markedly in China, especially in steel, cement and coal industries, bringing a slowdown of annual growth rate of GDP for six consecutive years from 2010 to 2016, although the growth rate maintained still on a high level.

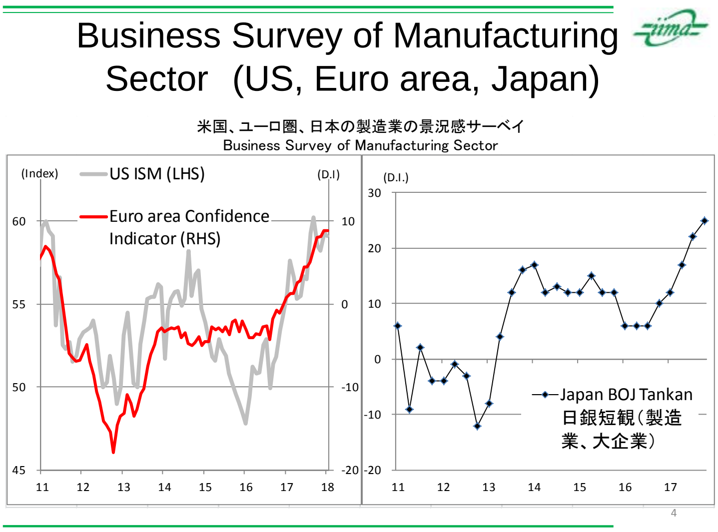
On the other hand, it was Southeast Asia that continued to enjoy a healthy expansion of the economy. The combined growth rate of the ASEAN 5 countries, namely, Indonesia, Malaysia, Philippines, Thailand and Vietnam, remained at around 5% since the early 2010s, with the Philippines showing a higher growth rate of 6~7% among them.



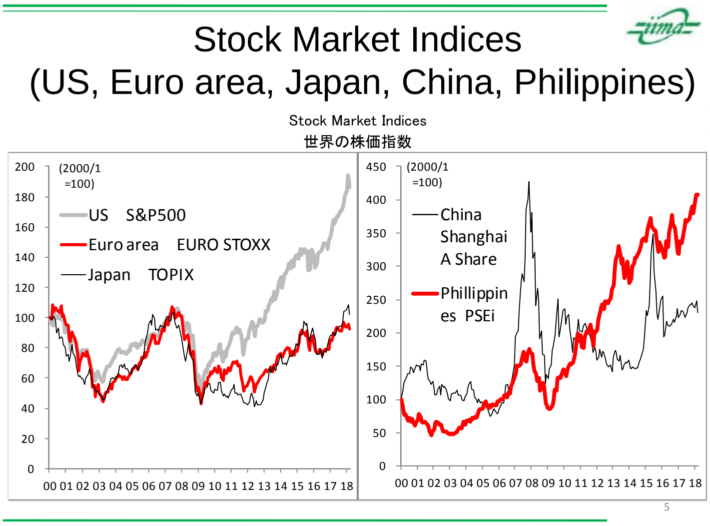
４． World Economy on a More Expansionary Trend

Recently, the expansionary trend of the economy has become clearer also in advanced economies. After touching the bottom in the first half of 2016, the growth rate of the world economy has gradually accelerated, which has strengthened the people’s confidence in the future business activities. The Business Surveys of manufacturing sector in the U.S., the Euro area and Japan show a rapid improvement of the confidence in the past year or so. Thus the period of business expansion has entered into the 9th year in the U.S., and the 6th year in the Euro area and Japan.

Also it should be specially mentioned that in China, the growth rate for 2017 registered 6.9%, exceeding the rate of the previous year for the first time in 7 years.

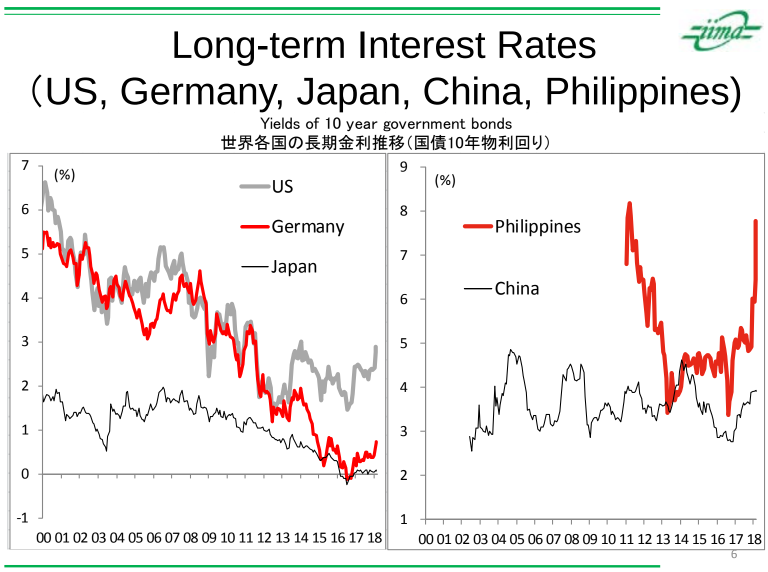


It may be the stock markets in spite of the drop in early February, that have most eminently reflected the recent economic expansion. Plotting the price movements with the beginning of year 2000 set at 100, stock market indices for the U.S., Euro area and Japan indicate a clear upward trend since the first half of 2016 after experiencing an adjustment process during 2015 to the first half of 2016. Also in China and the Philippines, stock prices generally tend to rise in the past year or two.



5. Long-term Interest Rates Stabilized at a Low Level

One of the characteristics of the current expansionary phase is the stabilization of inflation rate and interest rates at lower levels as compared to the previous expansionary phases, especially in advanced economies. The 10 year government bond yields excluding in the Philippines, are at a historic low after they hit the bottom in the middle of 2016, although there is a sign of an increase starting this year. The direct background of this low rate will be found in the low rate of wage increase and low inflation rate thereof. In addition, a fall of natural rate of interest may be pointed out as a more fundamental reason.



6. Reforms of Global Financial Regulations in the Past Decade

Global regulatory reforms to prevent recurrence of financial crises have made a substantial progress in the past 10 years. It was in 2010 that the Basel III was published as an international standard on bank regulation, and most of the large banks in major countries have almost completed an increase of their own capital and secured the needed liquidity. So-called “Basel III finalization” was endorsed in December 2017 to revise the method of calculating the denominator to get capital adequacy ratio, but the reforms have not been fully implemented. Yet, taking into account the progress made on other fronts, including the regulations for global systemically important financial institutions (G-SIFIs) and over-the-counter derivatives transactions, we can be fairly assured that there will be no possibility for a recurrence of a financial crisis in the shape and scale as was seen a decade ago.

Now, a new focal point on the financial regulations would be the need to evaluate the effects of a series of regulatory reforms and to promptly address any adverse effect if they may come up. In some countries, there is a concern over an expansion of shadow banking due to strengthened banking regulations. The possible decline of liquidity in the bond markets due to enhanced regulations is also pointed out persistently. Further, in the U.S., review of the Dodd-Frank Act enacted 2010 is now under consideration from a standpoint that it has been impeding economic growth.

Global Financial Regulatory Reforms

- Implementation of the global financial regulatory reforms
  - ✓ Basel III
  - ✓ Regulation for Global Systemically Important Financial Institutions (G-SIFIs)
  - ✓ OTC derivatives regulatory reforms
- New challenges
  - ✓ Expansion of shadow banking
  - ✓ Lower liquidity in the bond markets

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Having seen these, what will be the risks for the world economy and financial market over the next 10 years? Even if there will be no recurrence of traditional type of financial crisis, new risks may be hidden in, say, the FinTech development. For instance, Japan has seen active transactions in crypt currencies, but last month there was an accident that a crypt currency amounting to more than 50 billion yen, about a half billion US dollar, was stolen from an exchange. So, in the coming days, how to control the risks relating to crypt currencies may become an important theme in the financial world.

There seems to be no end to the themes for discussion concerning the world economy and financial activities, but I will stop my remarks here and would like to listen to the presentations by the panelists. Ladies and gentlemen, please enjoy the symposium to the end of it. Thank you for your kind attention.