

Bank Reform in Japan

Statement

by

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It is encouraging that the Japanese government is taking serious steps toward banking reform. The appointment by Prime Minister Koizumi of a new cabinet with a mandate to accelerate economic reform provides the opportunity for powerful actions to facilitate the disposal of bad loans and alleviate public concerns about the banking sector. I welcome the commitment and courage of the Japanese government.

I agree with Heizo Takenaka, the new head of the Financial Services Agency (FSA) that a comprehensive approach toward the banking sector must include:

- More accurate loan classification and sufficient provisioning.
- Better capitalization of banks so they can recognize loan losses and dispose of bad loans.
- More rapid restructuring of non-performing corporate assets on bank balance sheets so that the assets can be deployed more productively.
- Better corporate governance of banks, so they operate more efficiently.

It will be a difficult task to address the non-performing loan problem and improve corporate governance of banks. But we learned during the U.S. savings and loan crisis that once definitive action is taken, the benefits far outweigh the costs. A comprehensive economic policy package incorporating bank reform, structural and regulatory reform, and anti-deflationary measures will help to revive the Japanese economy.