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Given Japan's experiences of exit from measures that dealt with the last Japanese financial crisis—including quantitative easing, blanket deposit guarantees, and capital injections—I would like to stress that there should not be any predetermined timetable or specific conditions for unwinding of public interventions. The timing, sequence, and modality of unwinding should be up to pragmatic judgments, including whether the financial sector can stand on its own without the measures in question, how probable it is that the financial sector will get into double-dip problems that would require resurrection of the measures, and whether the adverse impacts of the measures would outweigh their benefits. An exit strategy should differ from country to country, but it is my sense that the current stage of working out the problems of the European and U.S. financial sectors is where Japan stood in 1999 and 2001 respectively. For Japan, it took two to four more years to have a turnaround in its working out process.

For unconventional measures directed at acute symptoms, unwinding should not be postponed once the symptom disappears. In this spirit, the Bank of Japan has already decided on dates to terminate outright purchases of corporate instruments and other unconventional measures.

For unwinding directed at more basic policies, such as raising interest rates and repayment by banks of injected capital, the decision should take more time. On both fronts, resurrection of confidence in the financial sector should be a prerequisite for unwinding. One of the most important lessons from Japan's financial crisis is that without a healthy financial sector, the normal transmission mechanism of monetary policy does not function. While the financial sector was in intensive care, monetary policy could do no more than support the financial sector's recovery. Repayment of injected capital should require careful thinking, too. Merely dropping a hint regarding the expected timing of unwinding would accelerate deleveraging by banks, possibly resulting in another round of adverse feedback between the financial sector and the real economy. Basically, before the financial sector can emerge from the vicious cycle of deleveraging and the incessant revelation of credit losses, the completion of balance sheet adjustments in the corporate and household sectors should be in sight.

Another condition for regaining confidence in the financial sector is the existence of safety nets for depositors and the basic functions of financial institutions. In the long list of safety-net measures, effective supervision is of utmost important. On the other hand, although

[1] The views expressed in this statement are Mr. Toyama's and should not be construed as the views of the Bank of Japan or of any other person at the Bank of Japan.

toughened regulations may be significant in calming the public's rage over the government and the financial sector, it may risk accelerating deleveraging.

The injection of taxpayer money into the financial sector is unpopular everywhere in the world. In Japan, severe criticism of the injection of public money to resolve the Housing Loan Companies in 1996 caused undue delay in policymakers' decision to move ahead with expenditures of public money to resolve the banking sector. As a result, another couple of years had to be wasted until 1998, when failures of large financial institutions left the government no choices.

A healthy condition of the financial sector affects a large number of sectors in the economy. In particular, premature unwinding will deal a blow to small and medium-size enterprises, which do not have access to the capital markets.

A rise in interest rates will adversely affect the sectors that have been helped by the ultralow interest rate policy. In Japan, a substantial portion of mortgage loan borrowers have selected floating interest rates rather than fixed rates in view of the prevailing low short-term interest rates. When rates rise, many of those borrowers may find it difficult to repay the mortgage, which will put further downward pressure on residential real estate prices.

A rise in interest rates will also cause a reversal of capital flows into emerging economies and the commodity markets. Investors will feel safe in continued risk taking until major central banks, in particular, the Federal Reserve, decide to make an exit. It is unfortunate that industrial countries and emerging counties blame each other for the shocks that would materialize when the direction of capital movements is reversed. The problems are twofold. First, a disparity in the correction of exchange rates emerges. The burdens of U.S. dollar depreciation are put on currencies that are not pegged to the dollar or managed through intervention. Those currencies essentially assume the role of an anchor, with adverse impacts on the export sector and price stability where deflationary conditions exist.

Second, risk taking in emerging market equities and commodities may have pushed up their prices beyond the level reasonably justified by their fundamental values. How these irregularities or imbalances will play out when major central banks change monetary policy is uncertain. The recent incident of Dubai World dramatically revealed that markets were already nervous over excessive risk taking. I am not optimistic that major industrial and emerging market countries will be able to jointly prevent further excessive risk taking or take coordinated action for orderly exits, as countries primarily calibrate their policies according to the conditions in their domestic economies. However, it is important for an institution such as the IMF to give warnings about movements in the markets that could give rise to another bubble and its subsequent bursting.

With respect to the external impacts of unwinding financial sector policies, I would stress only that recovery of confidence in financial institutions takes longer in foreign markets than at home.