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**Thoughts on Financial Administration**

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Recently we have suddenly started to see changes occurring in financial markets. One of the causes of this change, which goes without saying, is flagging stock prices, and in response to increasing anxiety about the trust of borrowers, the lending attitude of banks is tightening up. The stock holdings and unrealized capital gains of banks are also decreasing, and the sudden decline in the power of banks themselves is having an impact.

These problems concerning the economy as a whole are being taken up from different aspects by newspapers and magazines, and because I am not blessed with long-sightedness, here I would like to discuss the guidance from financial authorities as another factor.

As you know, some Japanese banks, which used public funds to carry out capital injections, were later subjected to serious criticism from the public, and were subjected to strict guidance as a result of inspections by the authorities. This is not surprising when one considers that taxes paid by the public were used in these ventures, but the problem is the future direction of guidance from financial administration.

Since a few years ago, Japan's financial administration has stated "reform of financial systems" as one of its goals, and has promoted the crosscutting nature and liberalization of financial transactions. This represents a policy shift from the "administration-led financial rules" of the past to "market-based financial rules." On the other hand, however, the wave of corporate bankruptcies and collapse of financial institutions is bringing about financial instability and the generation of new bad debts, and authorities are facing the dilemma that they must strengthen surveillance of financial institutions in order to maintain financial systems.

One can understand the thorough attitude of the authorities to protect Japan's financial systems, but the problem is the nature of the guidance. Administrative guidance which intervenes too far in details can eliminate the margin for decision on

the bank side, and conversely reduces the business motivation of bank employees. In addition, with regard to special risk judgments (requiring specialized knowledge), forcing upon them the standardized decision criteria of financial authorities will result in the loss of business opportunities and further promote a drop in the strength of banks. It is difficult to imagine that this could contribute to better management. Although one can understand that financial authorities are anxious about the management of banks, one feels that business decisions should be left to the private sector.

The "Financial Big Bang" that was originally being striven towards entailed doing away with the convoy system which had been in place for many years, and introducing market principles, which would result in the rough waves of the market forcing a weeding out of the weaker banks. All the reason more that bank management should be being called upon to maximize their corporate efforts. "FREE" was another byword in my opinion.

In practice, a variety of factors are intertwined with one another, and I think that financial authorities should not be the only ones to be criticized. My opinion as a third party, based on uncertain knowledge, may be incorrect to a large extent. If the situation remains unchanged, however, I think that the recent situation is such that it may drag the country's financial institutions into a downward spiral, with the possible result of the "Financial Big Bang" ending up being the "total nationalization of finance" – a result never conceived of.