

# Japan's Economy and Monetary Policy

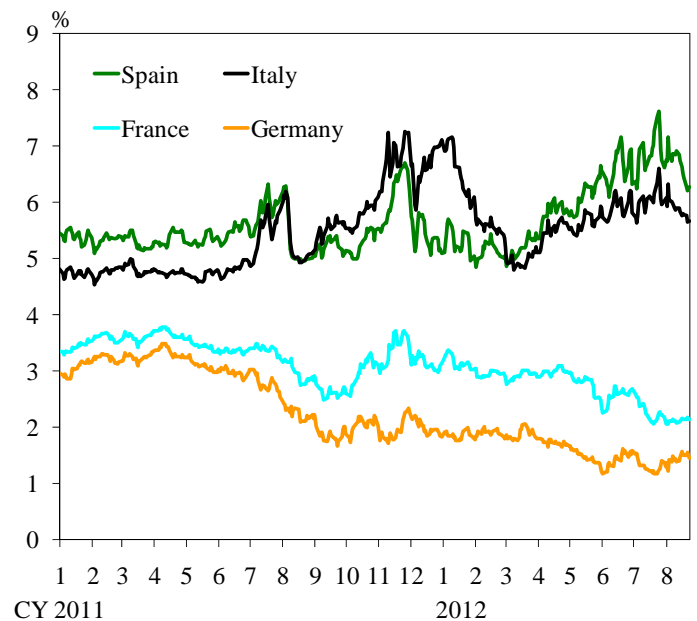
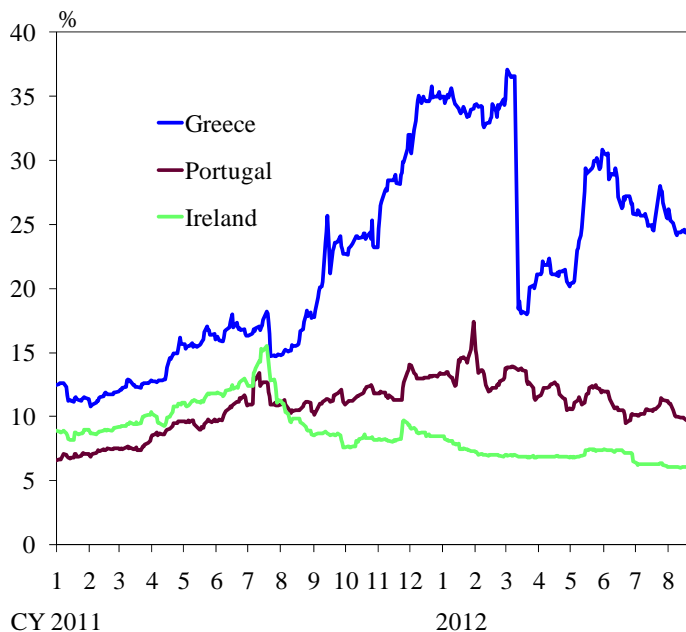
*Speech at a Meeting with Business Leaders in Osaka*

August 24, 2012

Masaaki Shirakawa  
Governor of the Bank of Japan

Chart 1

## Long-Term Government Bond Yields in Europe

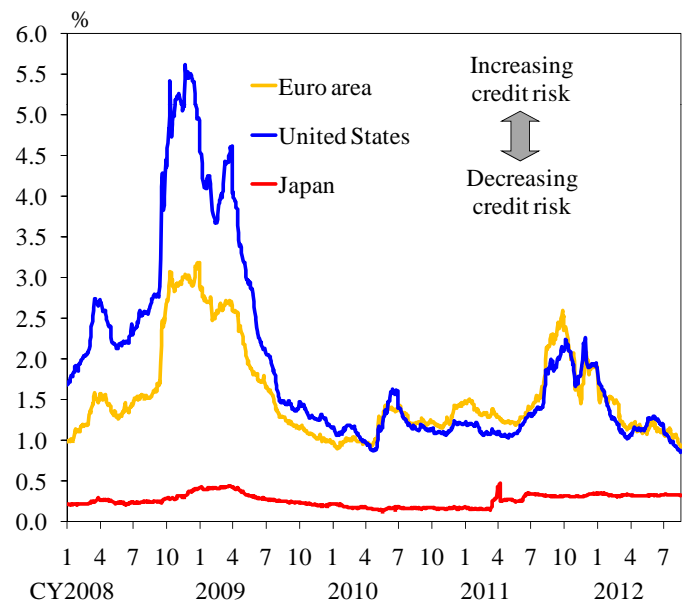
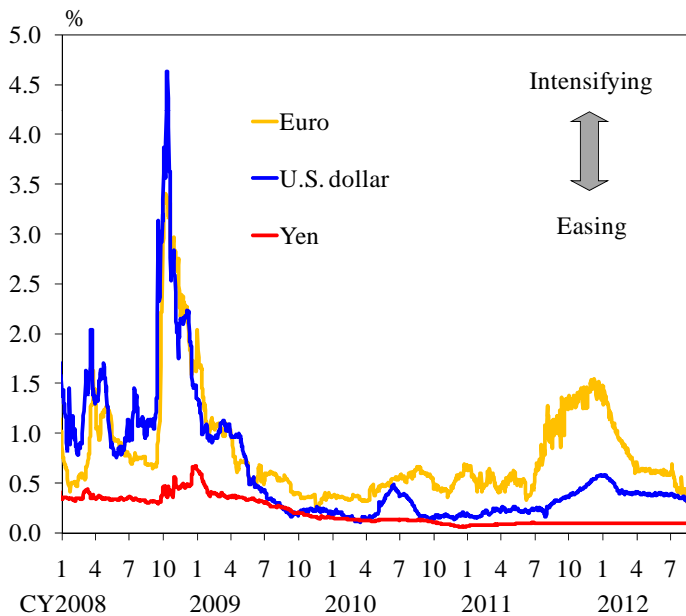


Note: Yields shown are on 10-year government bonds, except for Ireland, for which 9-year government bond yields are used.  
Source: Bloomberg.

## Financial Conditions in Major Countries

Degree of Strain in Funding Markets<sup>1</sup>

Credit Spreads for Corporate Bonds<sup>2</sup>

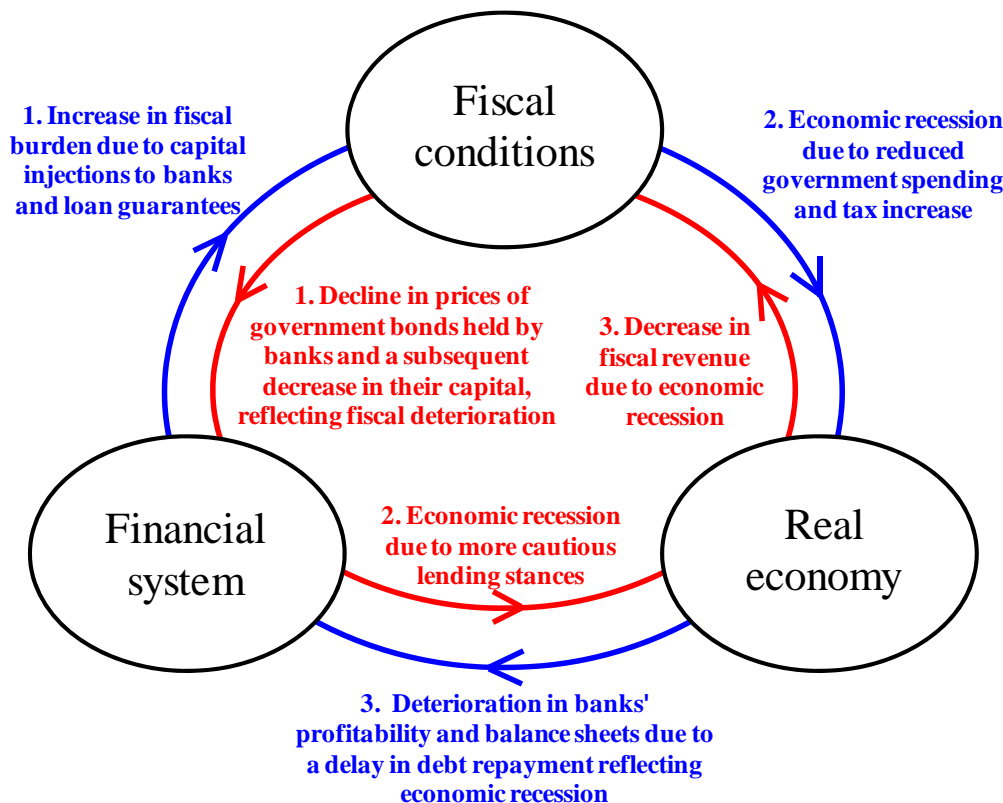


Notes: 1. The degree of strain in funding markets is 3-month Libor minus 3-month overnight index swap (OIS) rates. Government bonds for the euro area are those issued by Germany.

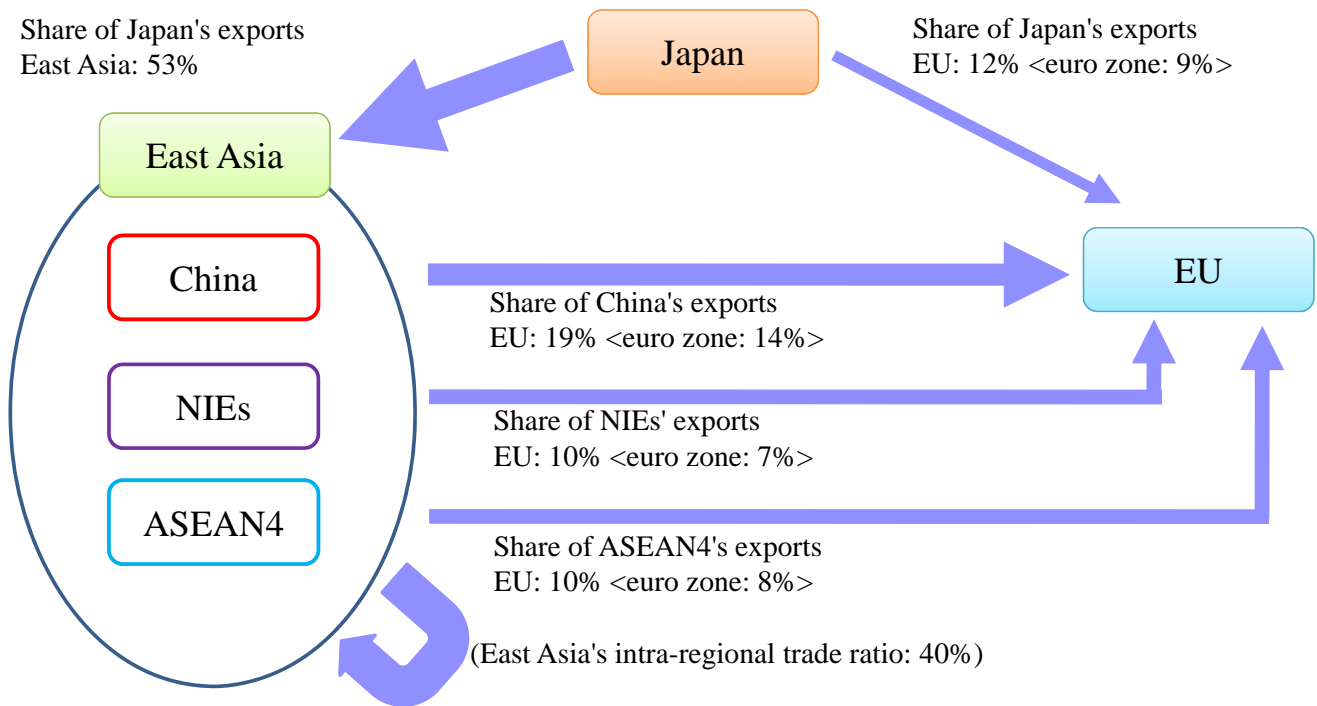
2. The spreads for corporate bonds (rated AA) are the yields for corporate bonds minus those for government bonds.

Source: Bloomberg.

## Adverse Feedback Loop among Fiscal Conditions, the Financial System, and the Real Economy

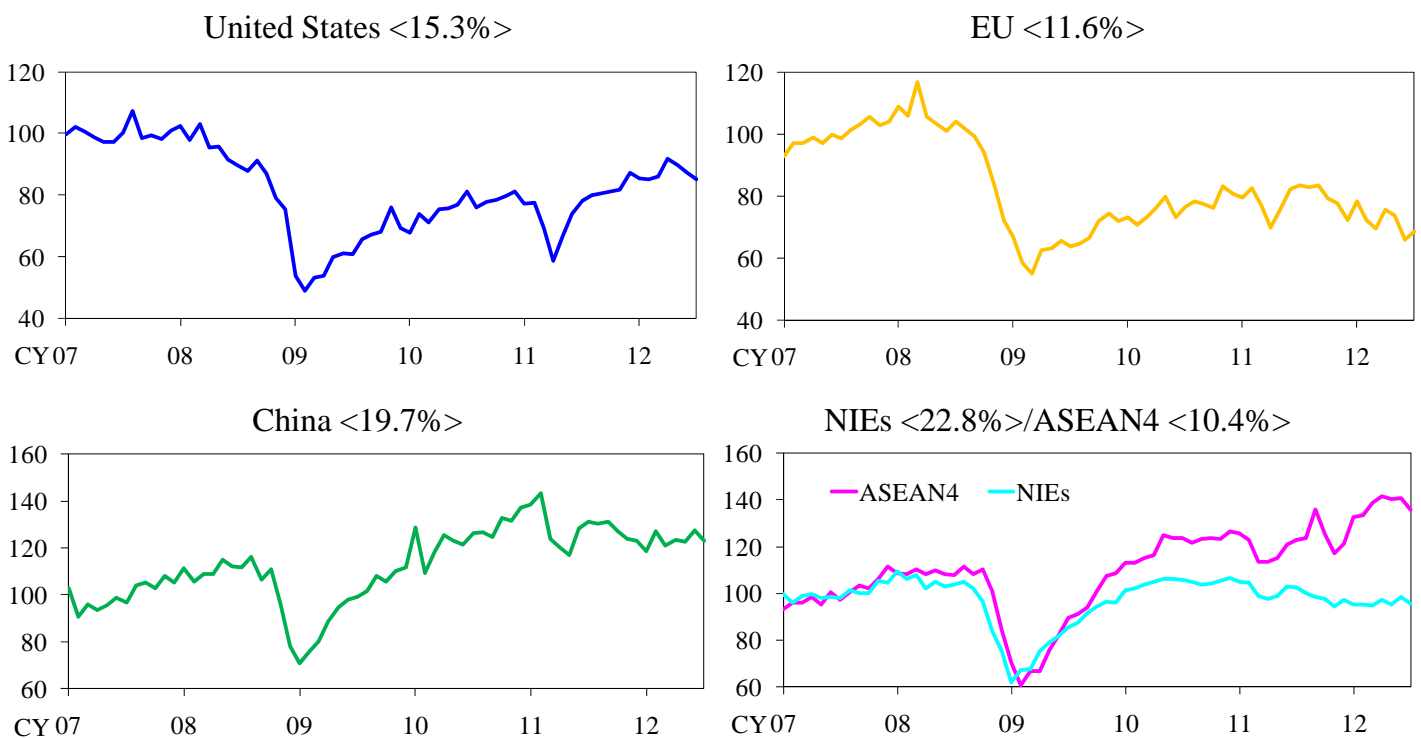


## Trade Relations among Japan, Europe, and East Asia



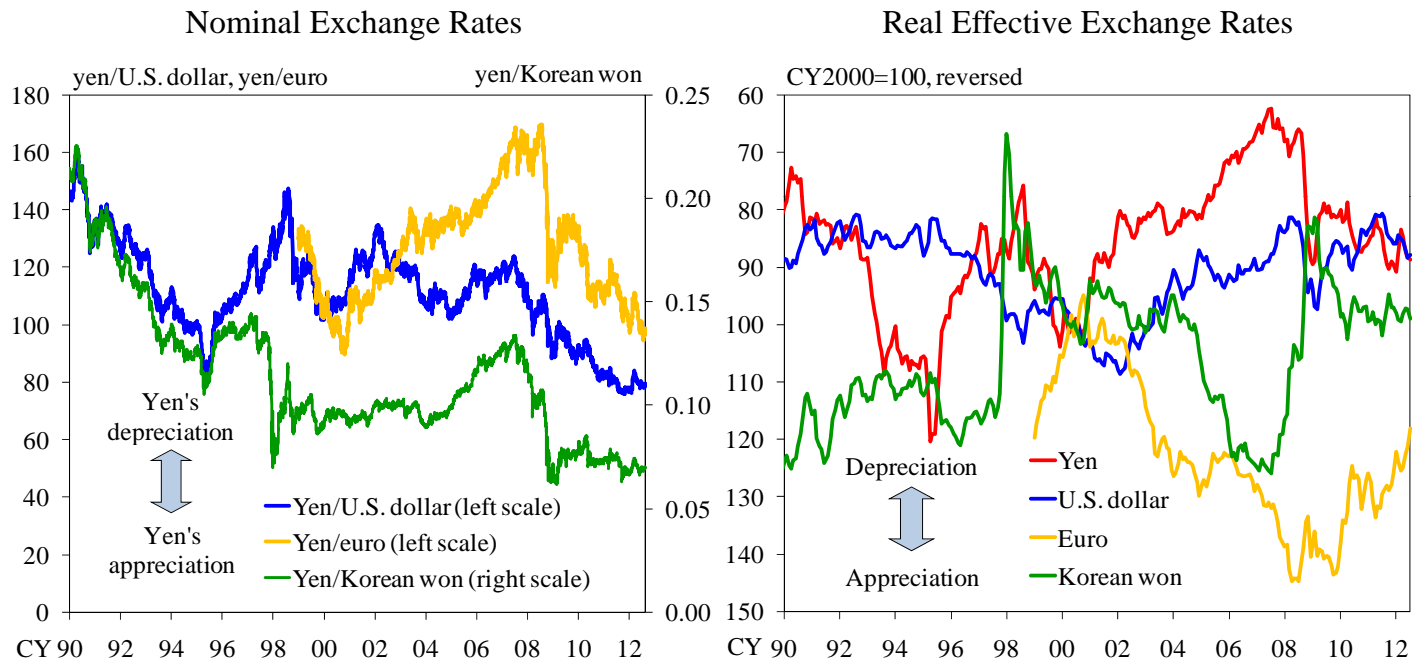
Note: Figures are for 2011. The NIEs consist of Korea, Taiwan, Hong Kong, and Singapore. ASEAN4 refers to Thailand, Indonesia, Malaysia, and the Philippines.  
Sources: Ministry of Finance; IMF; HAVER.

## Japan's Real Exports by Region



Note: Figures are seasonally adjusted and CY2007=100. Figures in angular brackets indicate the share of exports from Japan to each destination in 2011.  
Source: Ministry of Finance; Bank of Japan.

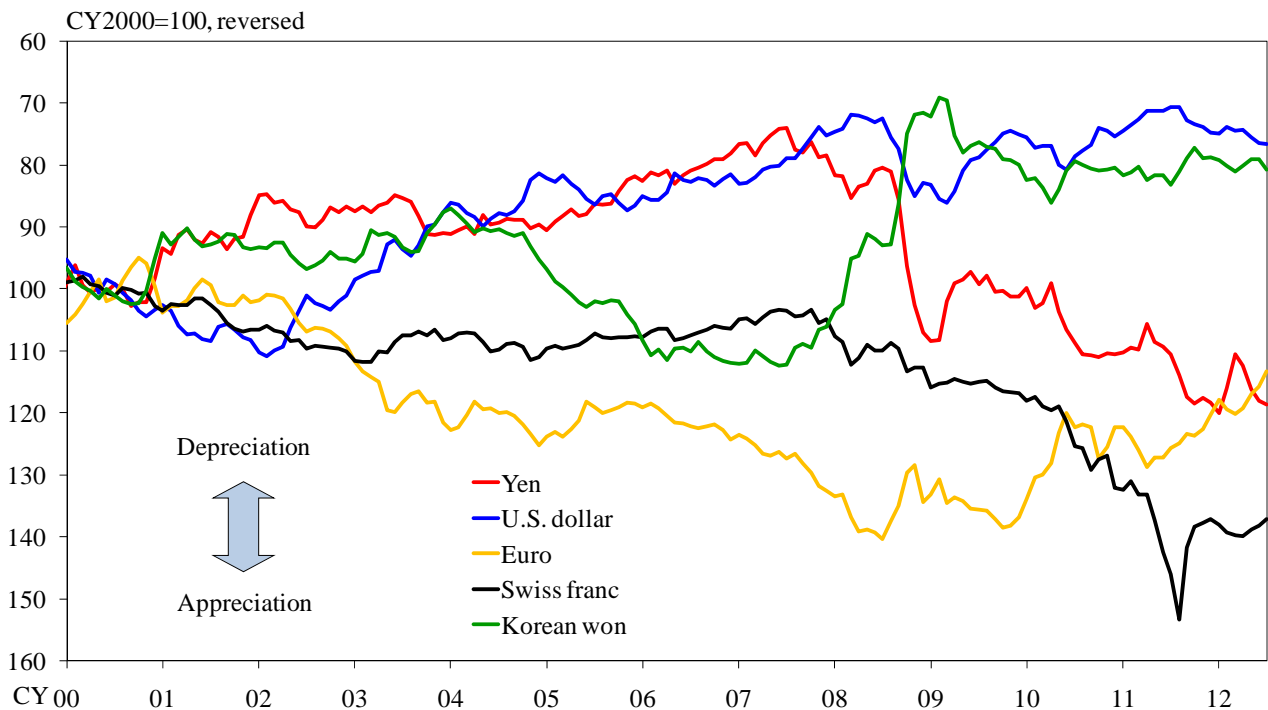
## Exchange Rates



Note: The real effective exchange rate is an indicator of a country's overall international competitiveness, calculated as follows. First, each of the exchange rates of the country's currency against other currencies (i.e., nominal exchange rates) is deflated by the price indices of those countries to calculate the real exchange rate. Then, the weighted average of the real exchange rates is calculated using the annual value of the country's trade with its counterparties as its weights.

Sources: Bloomberg; BIS.

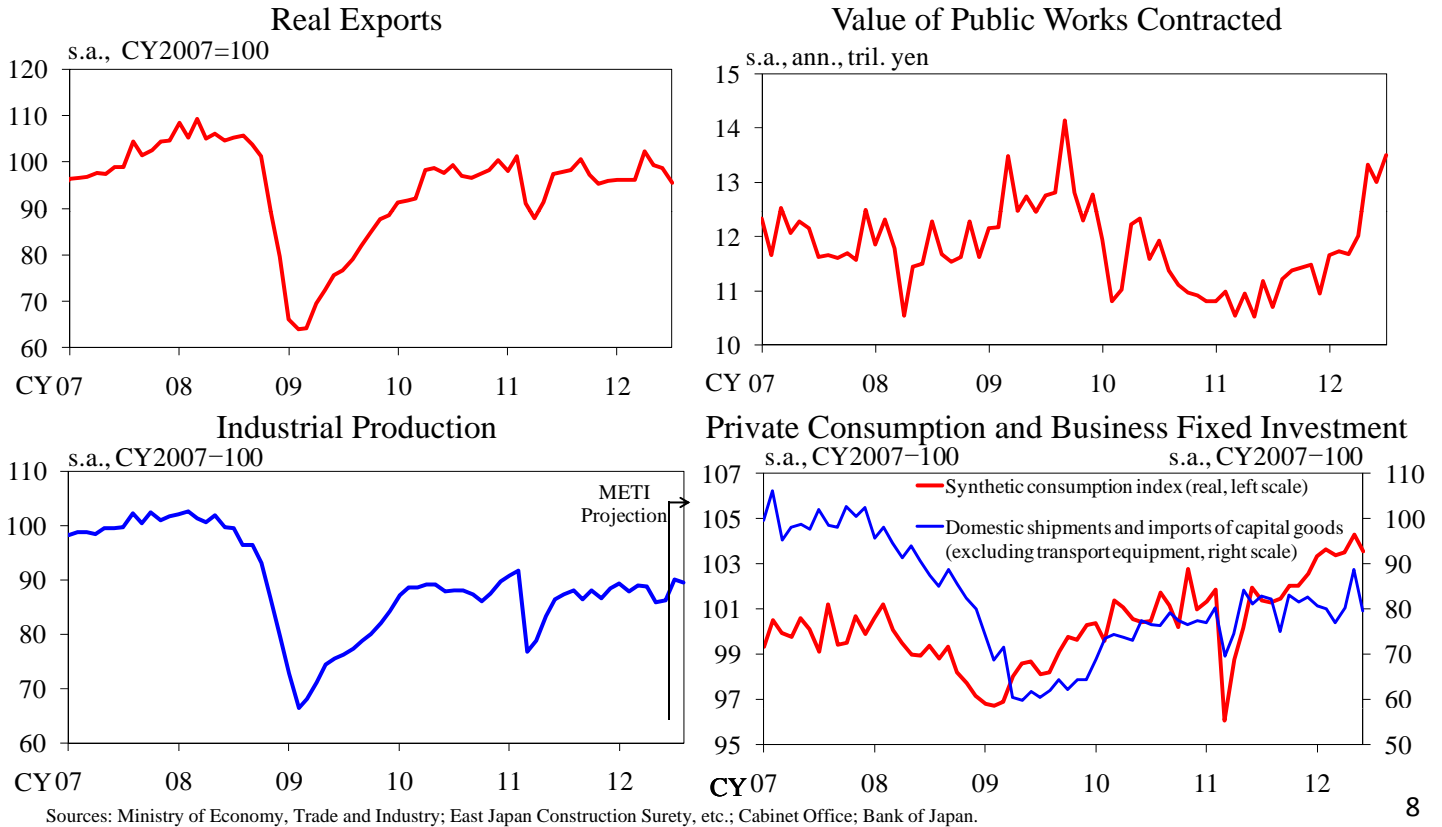
## Nominal Effective Exchange Rates



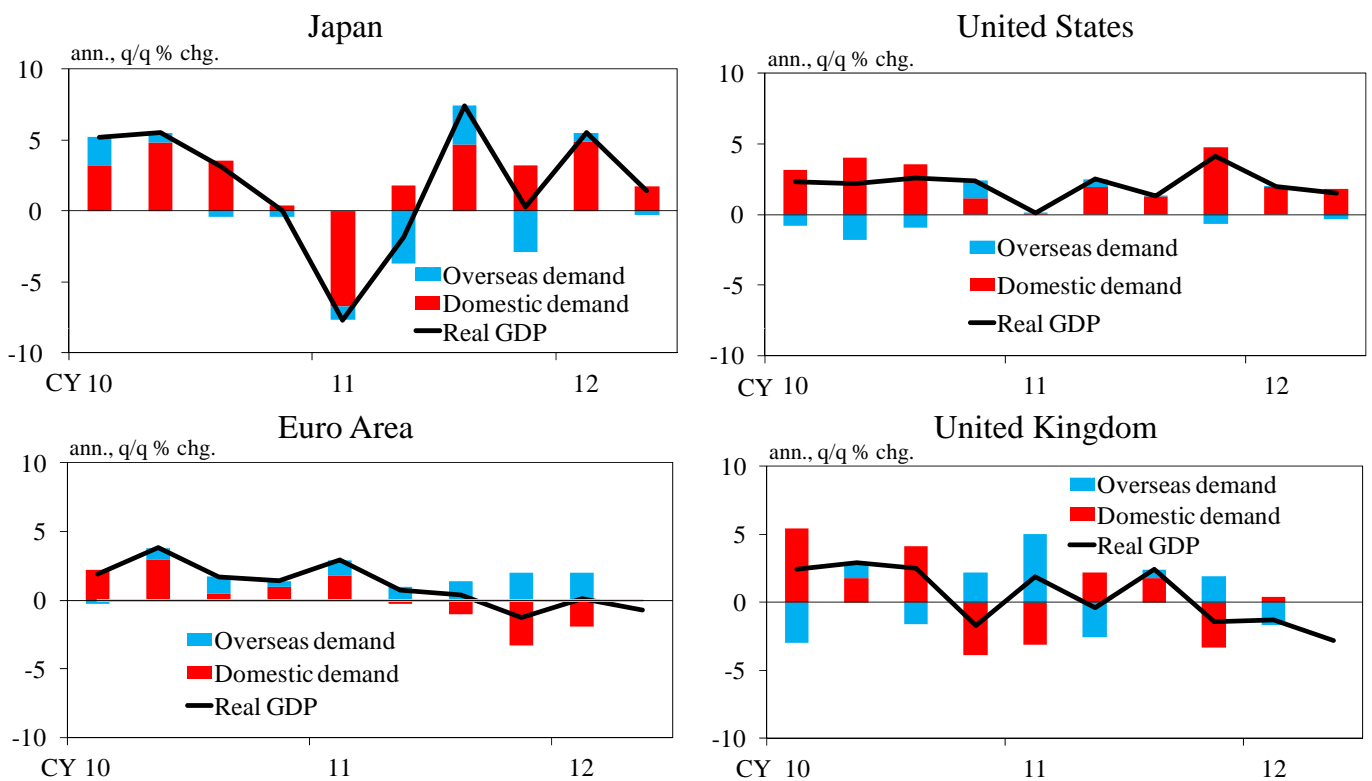
Note: The nominal effective exchange rate is an indicator that measures the overall value of individual currencies. It is derived by calculating the weighted average of each currency's exchange rate against other currencies using the annual value of each country's trade with its counterparties as its weights.

Source: BIS.

## Recent Developments in Japan's Economy



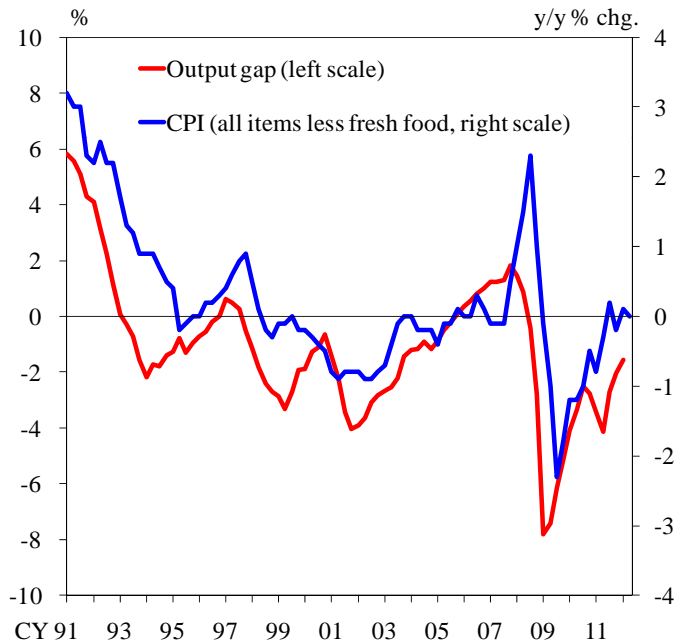
## Contribution of Overseas and Domestic Demand to Growth Rate



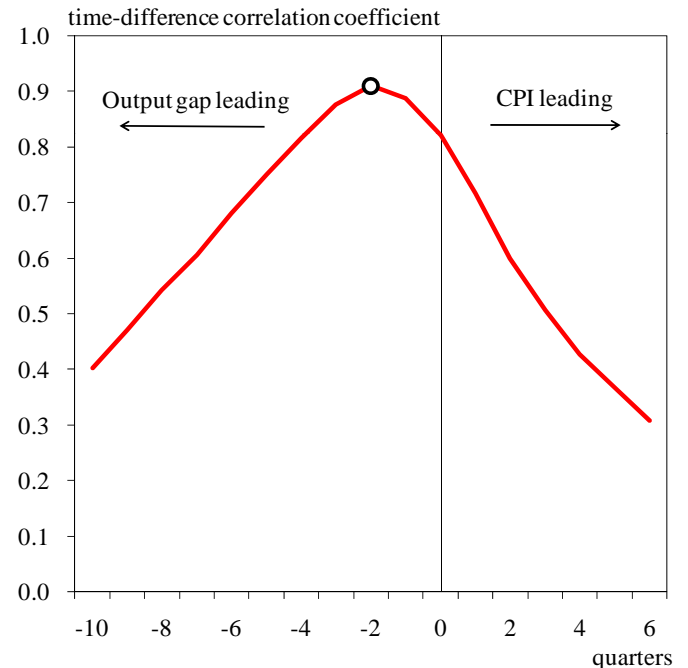
## Output Gap and Consumer Price Index

The year-on-year rate of change in the CPI is correlated to the output gap which leads several quarters.

Output Gap and Consumer Price Index



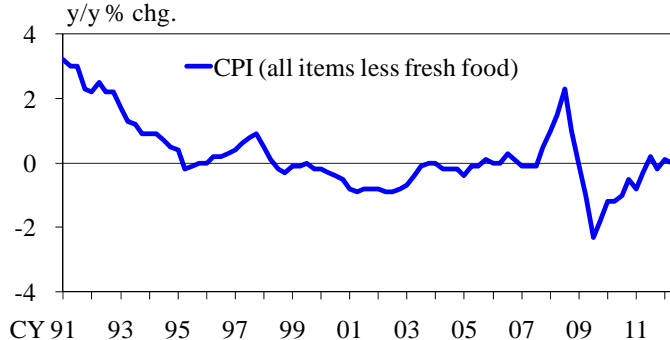
Output Gap and Time-Difference Correlation of Consumer Price Index



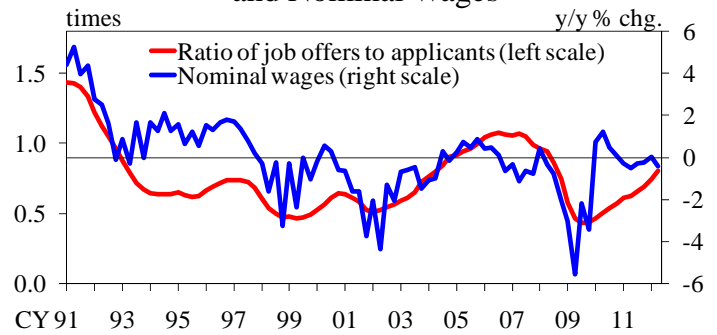
Note: Time difference is calculated using data since 1990/Q1. The white circle indicates the peak of the correlation coefficients. The output gap is estimated by the Research and Statistics Department, Bank of Japan.  
Sources: Ministry of Internal Affairs and Communications; Cabinet Office, etc.

## Environment Surrounding Prices

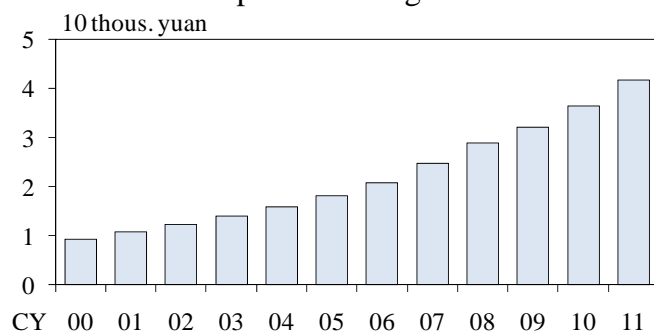
Consumer Price Index



Ratio of Job Offers to Applicants and Nominal Wages



Development in Wages in China



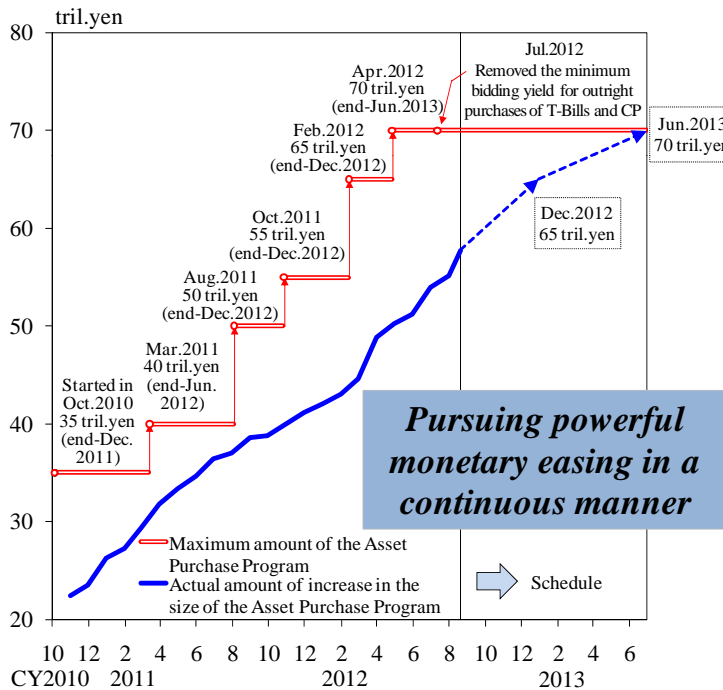
Import Price Index for Consumer Goods (Contractual Currency Basis)



Sources: Ministry of Internal Affairs and Communications; Ministry of Health, Labor and Welfare; Ministry of Economy, Trade and Industry; National Bureau of Statistics of China; Bank of Japan.

# Monetary Policy

## Maximum Amount and Actual Amount of Increase in the Size of the Asset Purchase Program



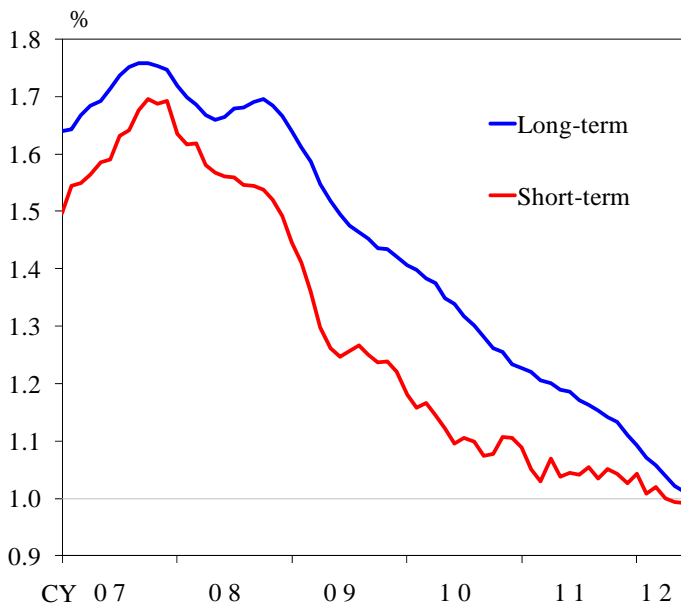
## Breakdown of the Asset Purchase Program

	Started in Oct. 2010	Mar. 2011	Aug. 2011	Oct. 2012	Feb. 2012	Apr. 2012	Jul. 2012	Latest amount
Total size	About 35	About 40	About 50	About 55	About 65	About 70	About 70	About 57.8
JGBs	1.5	2.0	4.0	9.0	19.0	29.0	29.0	15.0
T-Bills	2.0	3.0	4.5	4.5	4.5	4.5	9.5	5.3
CP	0.5	2.0	2.1	2.1	2.1	2.1	2.1	1.7
Corporate bonds	0.5	2.0	2.9	2.9	2.9	2.9	2.9	2.6
ETFs	0.45	0.9	1.4	1.4	1.4	1.6	1.6	1.3
J-REITs	0.05	0.1	0.11	0.11	0.11	0.12	0.12	0.09
Fixed-rate operation	30.0	30.0	35.0	35.0	35.0	30.0	25.0	31.7
Intended time of completion	End-Dec. 2011	End-Jun. 2012	End-Dec. 2012	End-Dec. 2012	End-Dec. 2012	End-Jun. 2013	End-Jun. 2013	

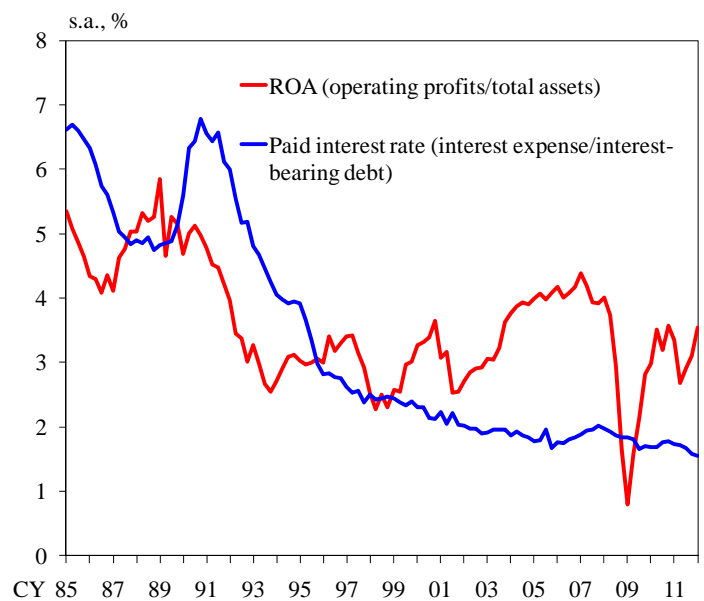
Notes: 1. Dates in parentheses indicate the intended timescale for completing the increase.  
 2. Latest figures of the amount outstanding are as of August 20, 2012.

# Corporate Financial Conditions

## Domestic Banks' Average Contracted Interest Rates



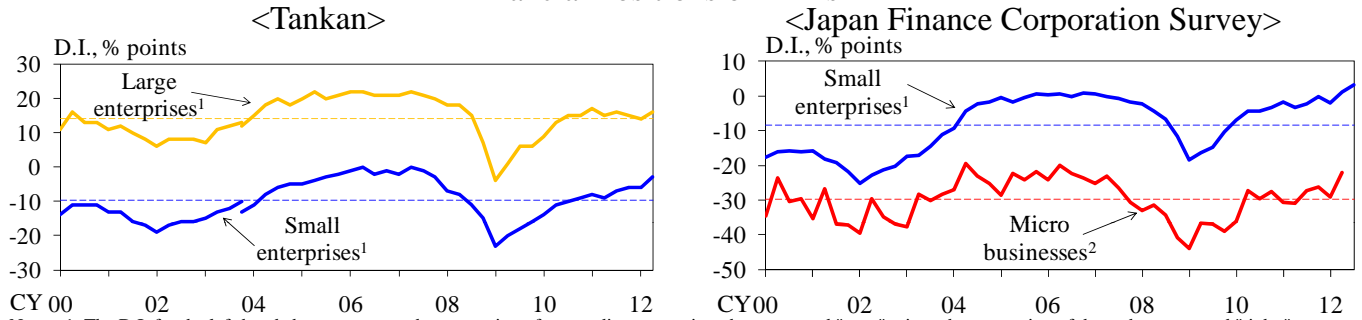
## ROA and Paid Interest Rate of Japanese Firms



Note: Average contracted interest rates are the six-month backward moving averages on new loans.  
 Sources: Ministry of Finance; Bank of Japan.

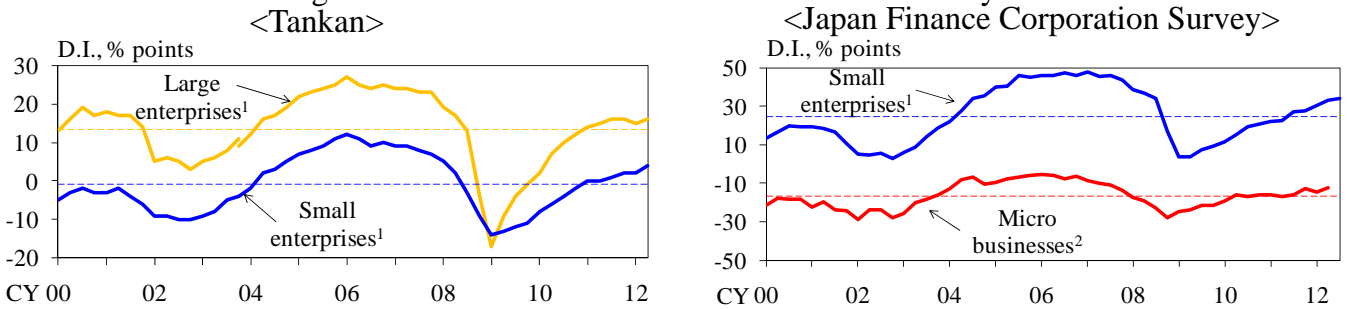
# Financial Positions of Firms and Lending Attitudes of Financial Institutions

## Financial Positions of Firms



Notes: 1. The D.I. for the left-hand chart represents the proportion of responding enterprises that answered "easy" minus the proportion of those that answered "tight." The D.I. for the right-hand chart indicates the proportion of responding small enterprises that answered "easy" minus the proportion of those that answered "tight," and the proportion of micro businesses that answered "easier" minus the proportion of those that answered "tighter."  
2. Dotted lines indicate averages for 2000 onward.

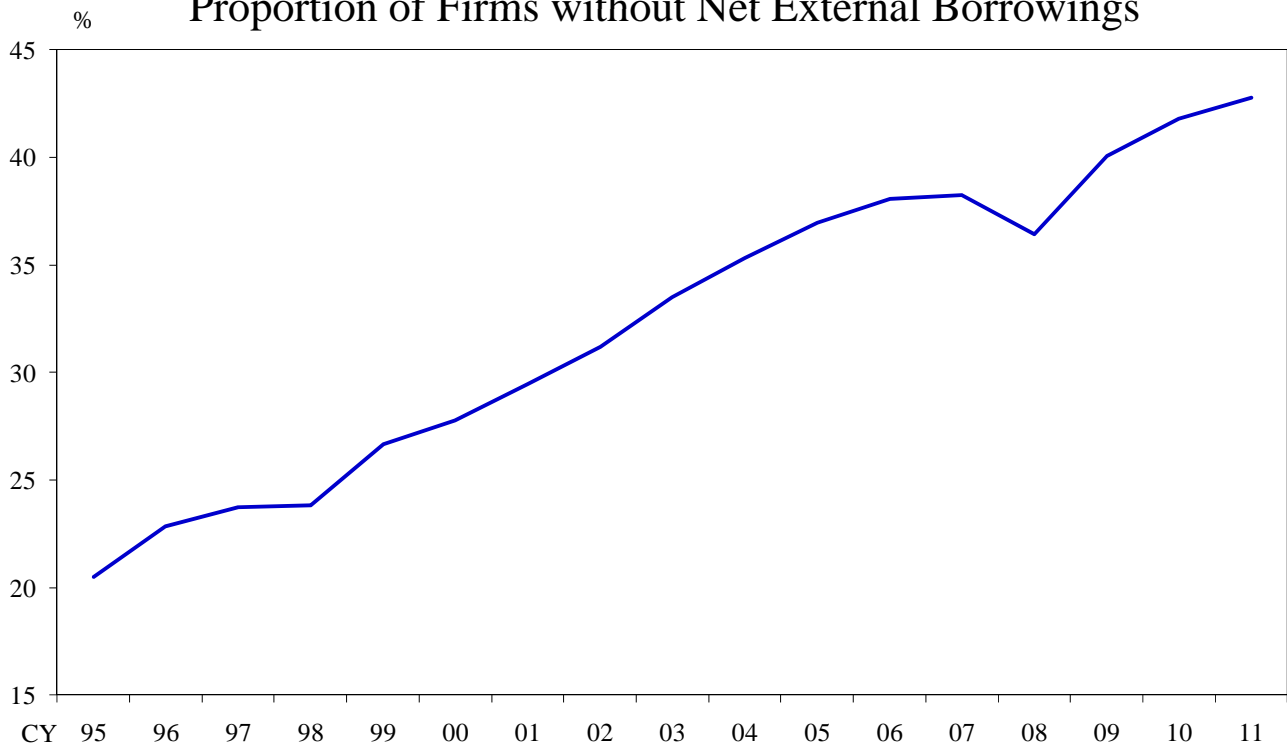
## Lending Attitudes of Financial Institutions as Perceived by Firms



Notes: 1. The D.I. for the left-hand chart represents the proportion of responding enterprises that answered "accommodative" minus the proportion of those that answered "severe." The D.I. for the right-hand chart indicates the proportion of responding small enterprises that answered "accommodative" minus the proportion of those that answered "severe," and the proportion of micro businesses that answered "more accommodative" minus the proportion of those that answered "more severe."  
2. Dotted lines indicate averages for 2000 onward.

Sources: Japan Finance Corporation; Bank of Japan.

## Proportion of Firms without Net External Borrowings



Notes: 1. Firms without net external borrowings are ones whose cash, deposits, and cash equivalents exceed their interest-bearing debt. Cash equivalents are short-term assets such as CP, CD, and bond investment trusts.

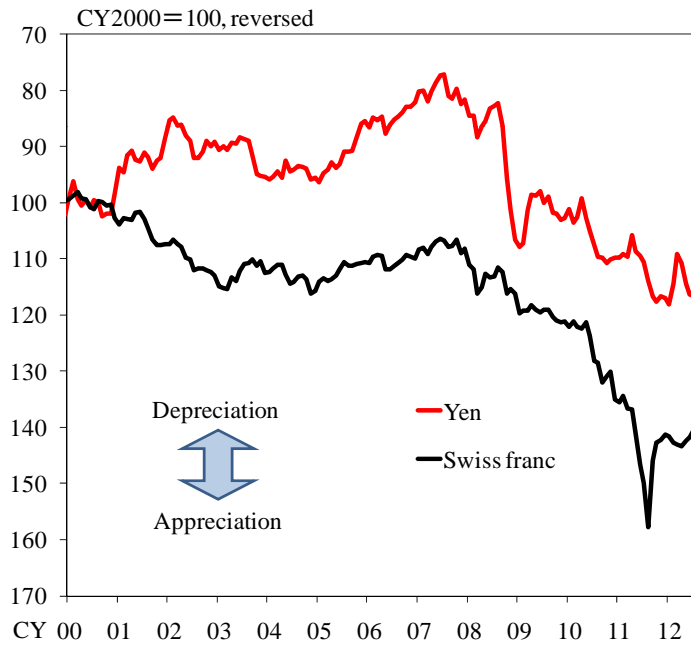
2. The 1,260 sample firms (excluding financial institutions) are those listed on the First or Second Section of the Tokyo Stock Exchange, with March year-ends, and whose data can be obtained consecutively from fiscal 1995 onward.

Source: Nikkei Financial QUEST.

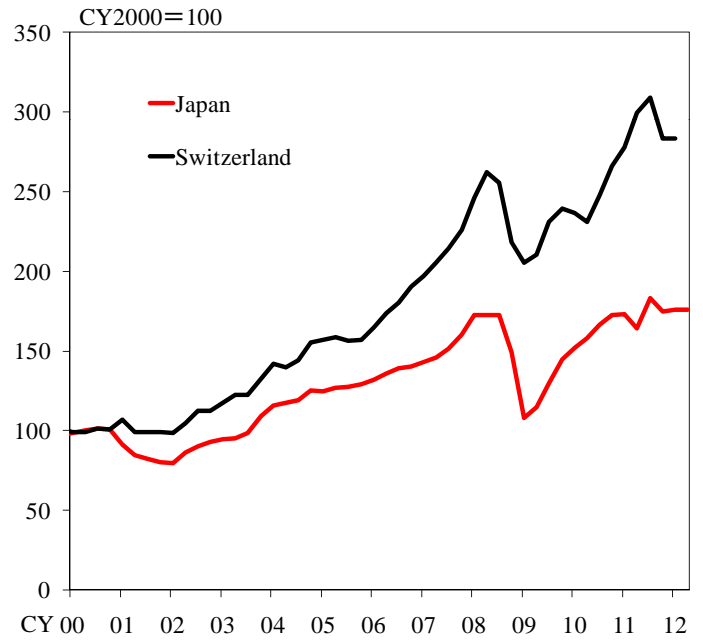


## Exchange Rates and Exports of Switzerland and Japan

Nominal Effective Exchange Rate



Value of Exports



Note: Value of Exports is calculated on a U.S. dollar basis.  
Sources: Cabinet Office; Eurostat; Bloomberg; BIS.