

Japan's Economy and Monetary Policy

Speech at the ACCJ, EBC, and SCCIJ Joint Luncheon

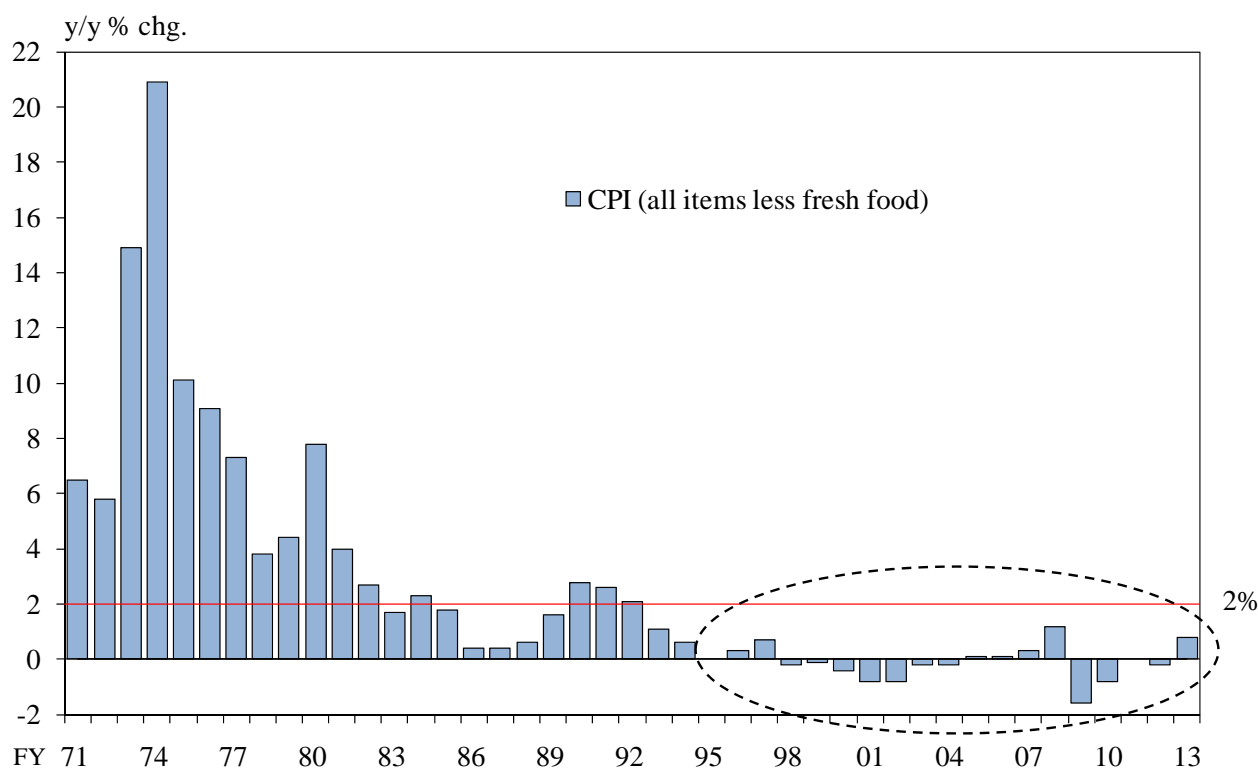
July 8, 2014

Hiroshi Nakaso

Deputy Governor of the Bank of Japan

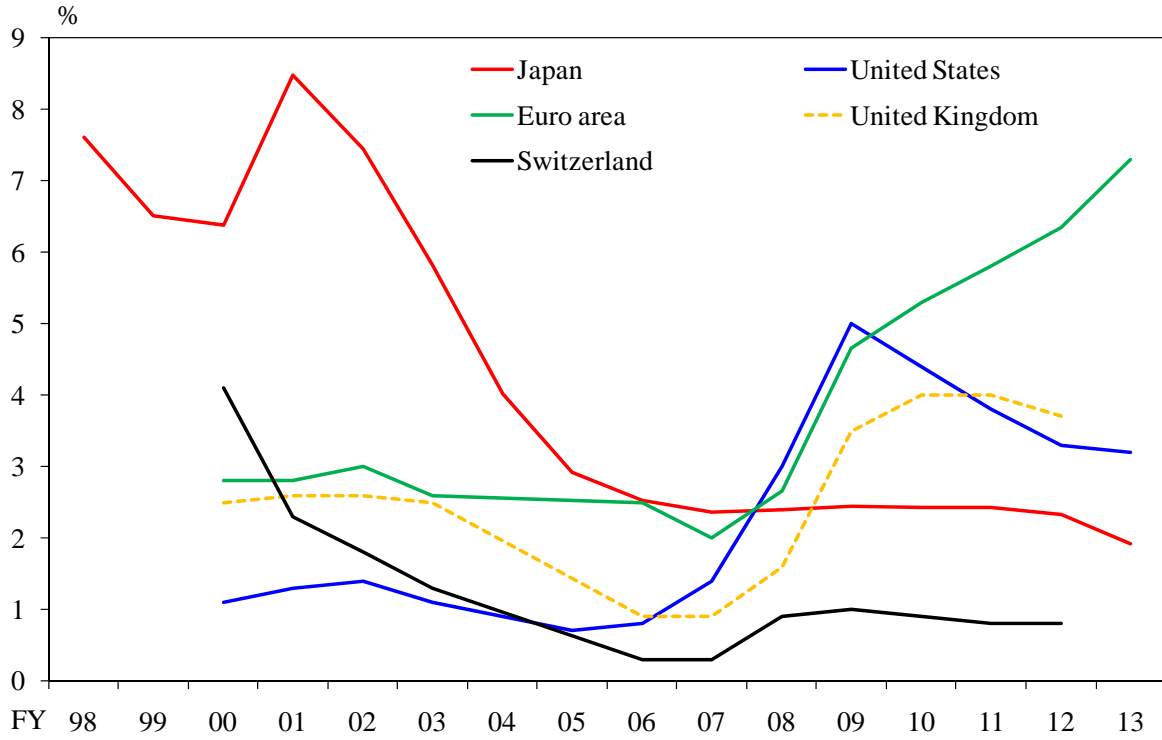
Chart 1

Long-Term Developments in the Consumer Price Index



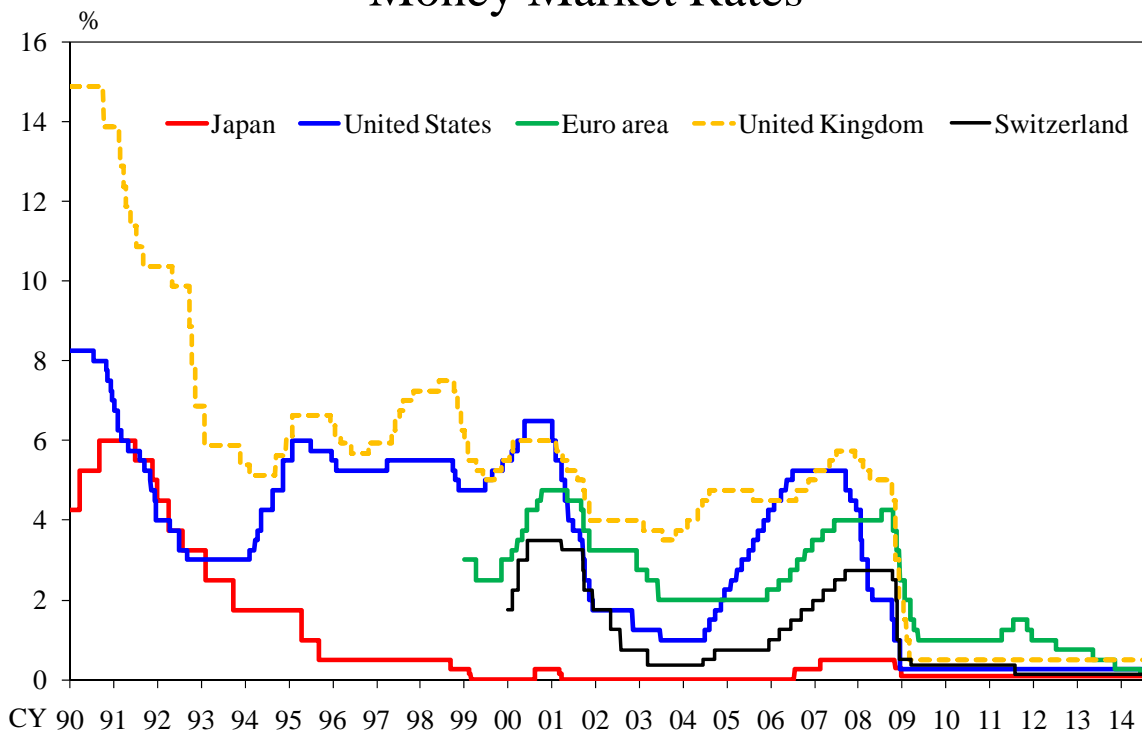
Note: Figures for the CPI are adjusted to exclude the effect of changes in the consumption tax rate.
Source: Ministry of Internal Affairs and Communications.

Nonperforming Loan Ratio



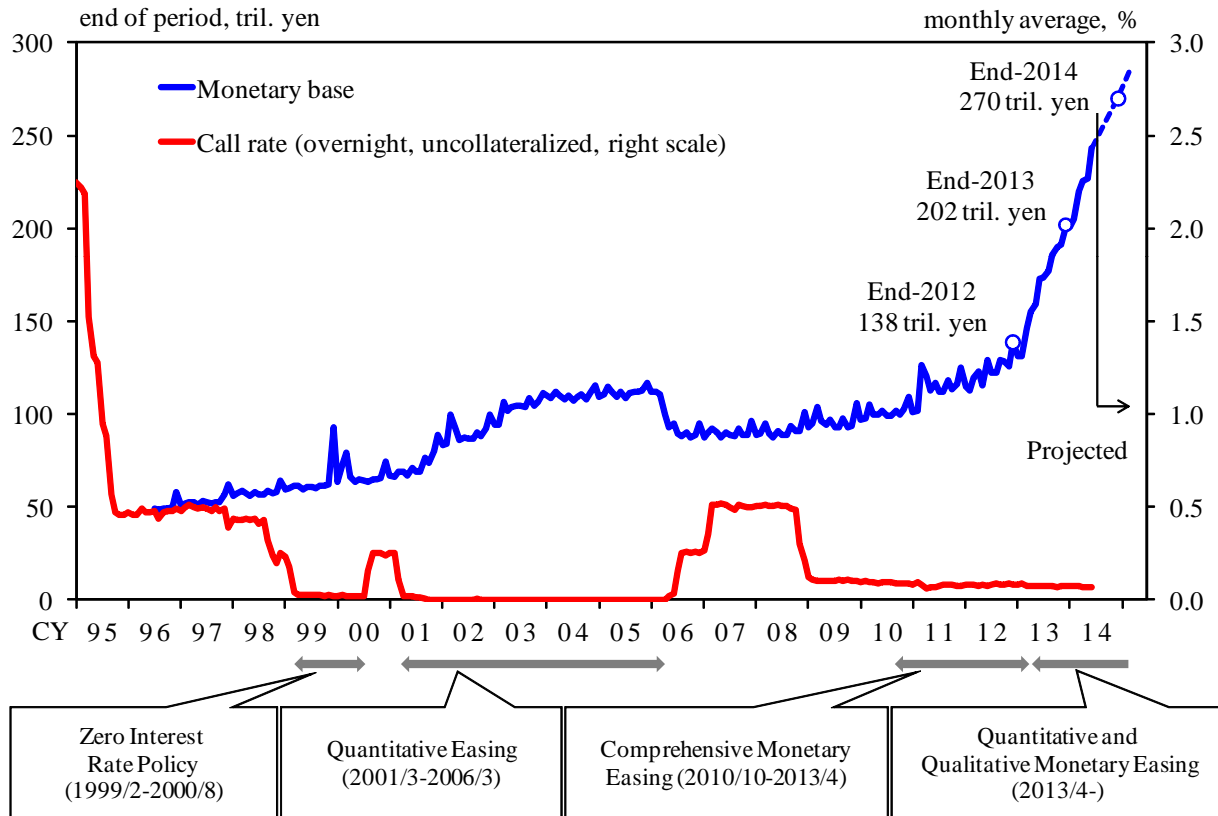
Note: Missing values are linearly interpolated.
Sources: Bank of Japan; The World Bank.

Money Market Rates



Notes: 1. In the United States, the target range for the federal funds rate has been 0 to 0.25 percent since December 16, 2008.
2. In Japan, the money market rate was zero percent during the period of "Quantitative Easing" (March 19, 2001-March 8, 2006), and 0.1% (the interest rate applied to the complementary deposit facility) during the period of "Comprehensive Monetary Easing" (October 5, 2010-April 3, 2013) and "Quantitative and Qualitative Monetary Easing" (since April 4, 2013).
3. The money market rate in Switzerland is the midpoint of the target range of the Libor for three-month interbank loans in Swiss francs.
Sources: Bank of Japan; Federal Reserve; European Central Bank; Bank of England; Swiss National Bank.

Monetary Policy in Japan



Source: Bank of Japan.

Quantitative and Qualitative Monetary Easing (QQE)

Strong and Clear Commitment

- Achieve the price stability target of 2% at the earliest possible time, with a time horizon of about 2 years.

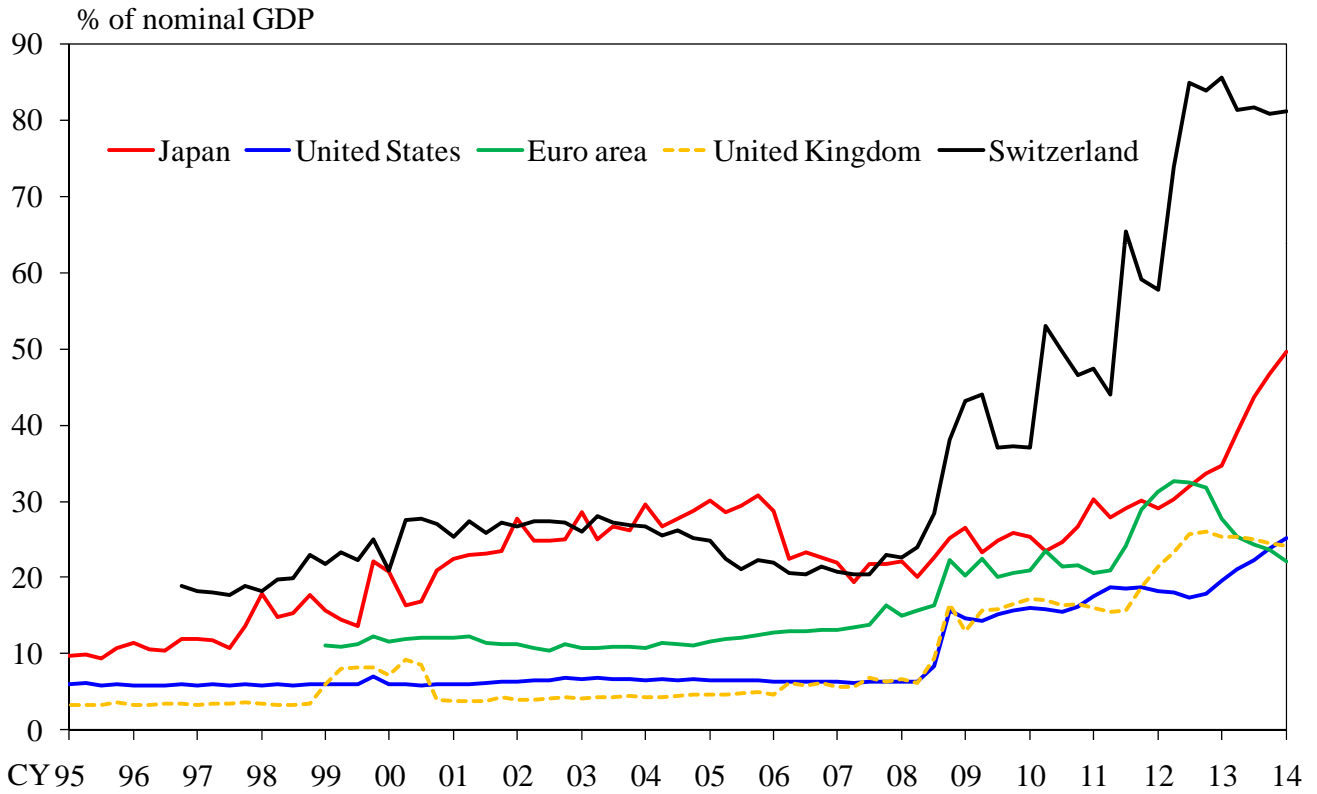
Clear Commitment into the Future

- Continue with the QQE as long as it is necessary for maintaining that target in a stable manner.

New Phase of Monetary Easing to Underpin the Commitment

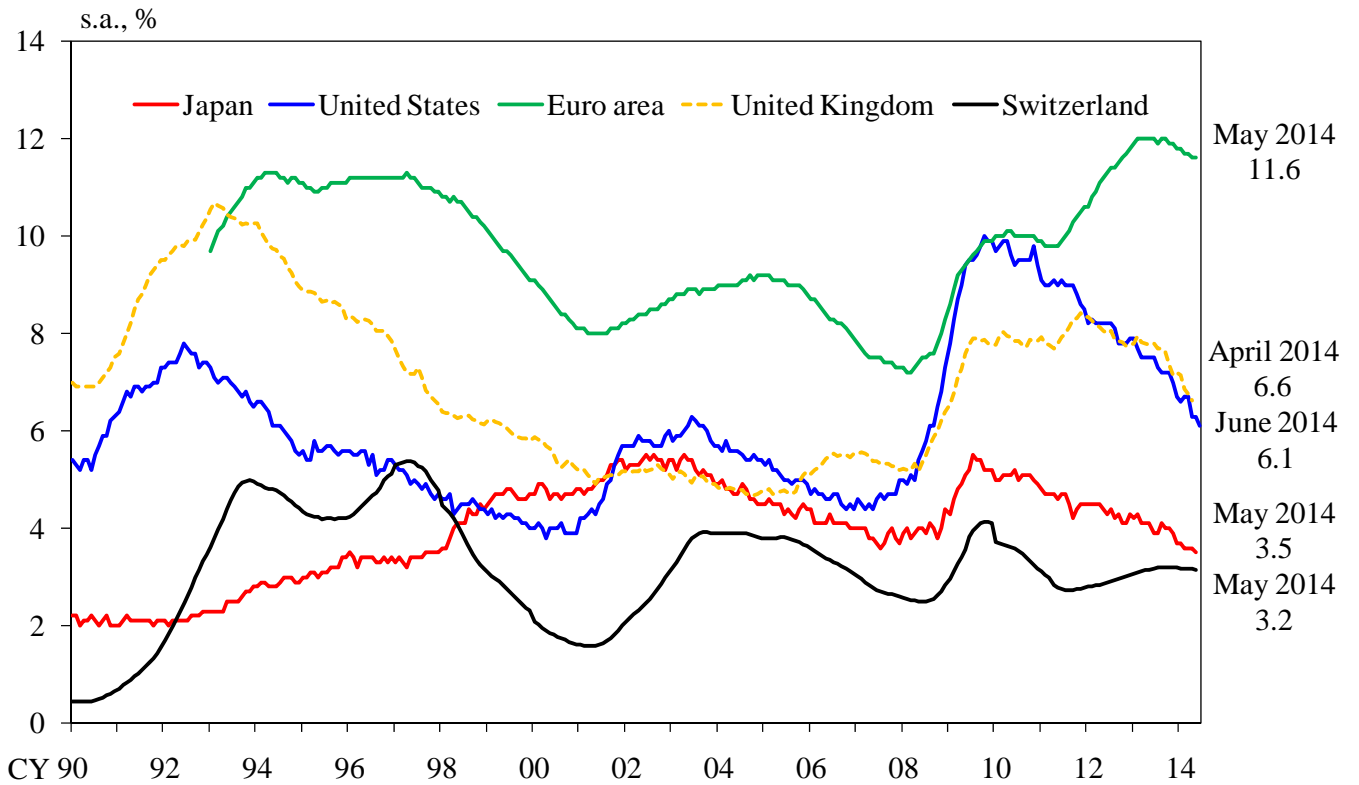
- Double the monetary base in 2 years.

Central Bank Assets



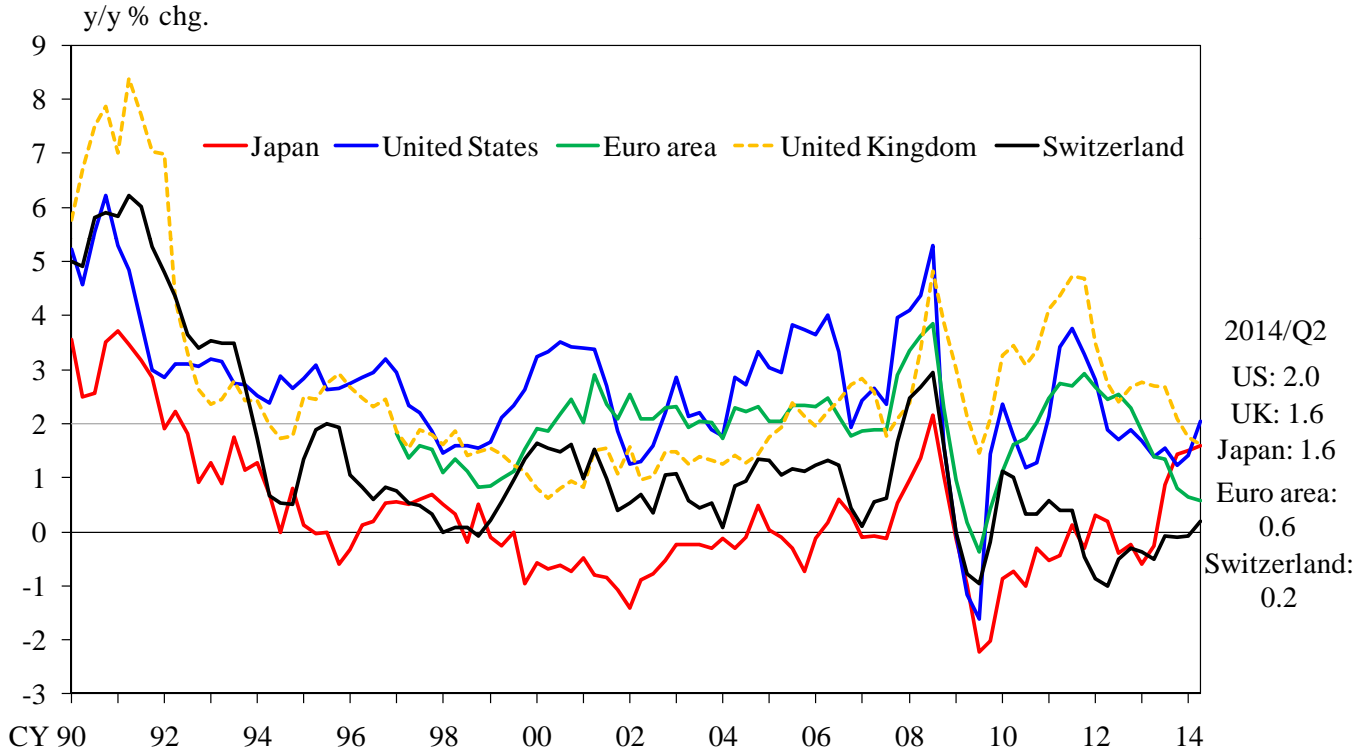
Sources: Bank of Japan; Federal Reserve; European Central Bank; Bank of England; Swiss National Bank, etc.

Unemployment Rates



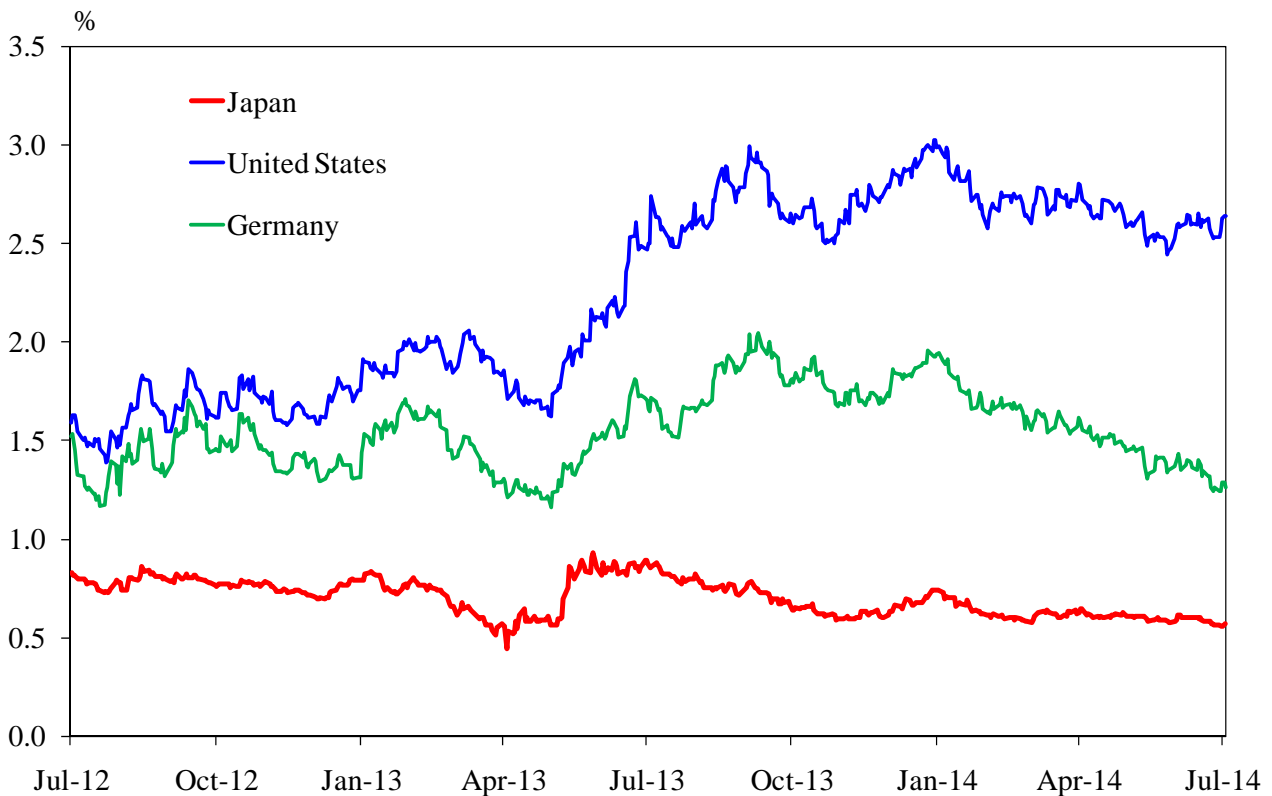
Sources: Ministry of Internal Affairs and Communications; BLS; Eurostat; ONS; Swiss National Bank.

Consumer Price Index (All items)



Notes: 1. The figures for 2014/Q2 in Japan, United States, United Kingdom, and Switzerland are those of April-May averages.
 2. Figures for the CPI in Japan are adjusted to exclude the effect of changes in the consumption tax rate.
 Sources: Ministry of Internal Affairs and Communications; BLS; Eurostat; ONS; SFSO.

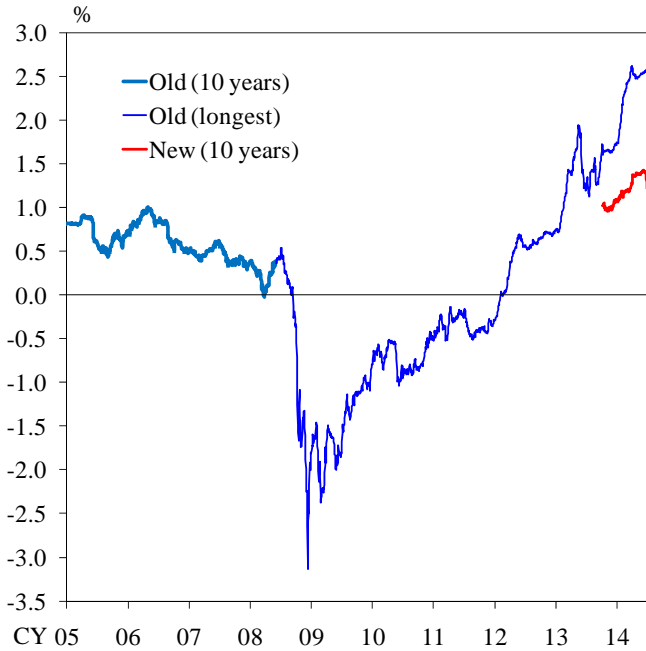
Long-Term Interest Rates



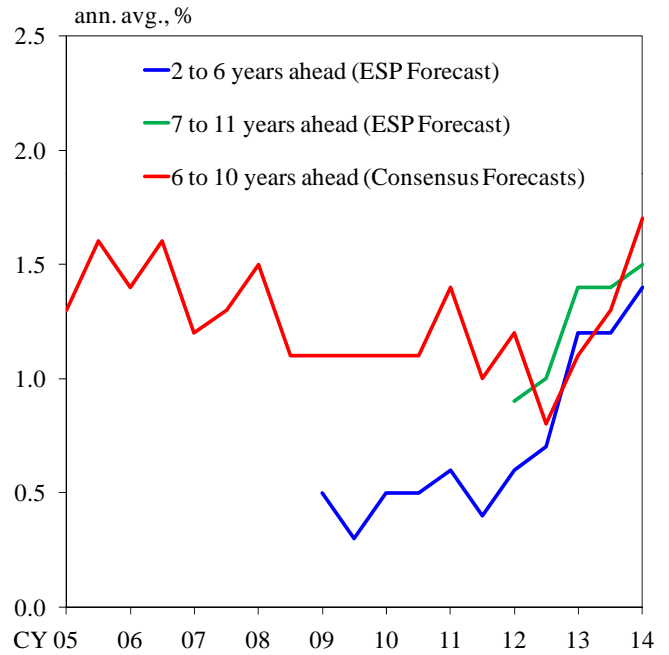
Source: Bloomberg.

Inflation Expectations

Market Participants
(BEI for Inflation-Indexed JGBs)



Economists



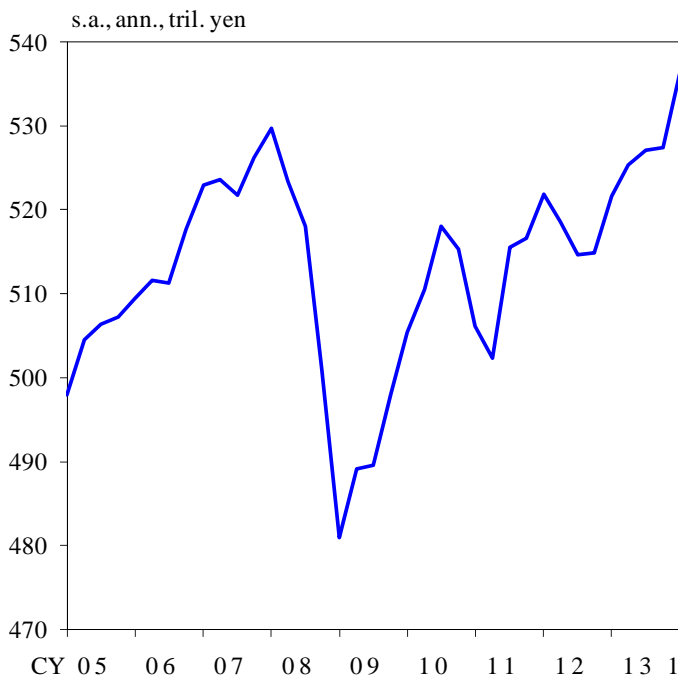
Notes: 1. BEI (break-even inflation) rates are yield spreads between fixed-rate coupon-bearing JGBs and inflation-indexed JGBs. Inflation-indexed JGBs issued since October 2013 are designated as "new," while the rest are designated as "old." Figures for "old (longest)" are calculated using yield data for issue No.16 of the inflation-indexed JGBs, which matures in June 2018.

2. Figures for the ESP Forecast exclude the effects of the consumption tax hikes.

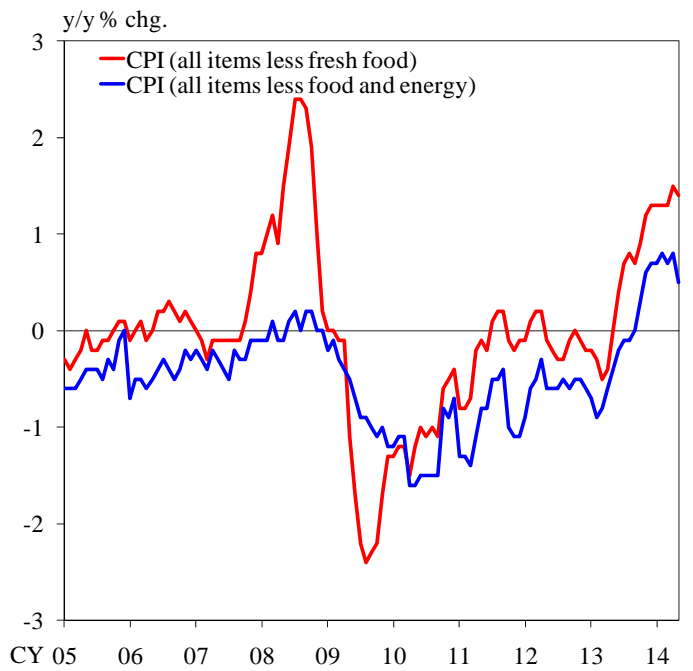
Sources: Bloomberg; Consensus Economics Inc.; JCER.

Real GDP and Consumer Price Index

Real GDP



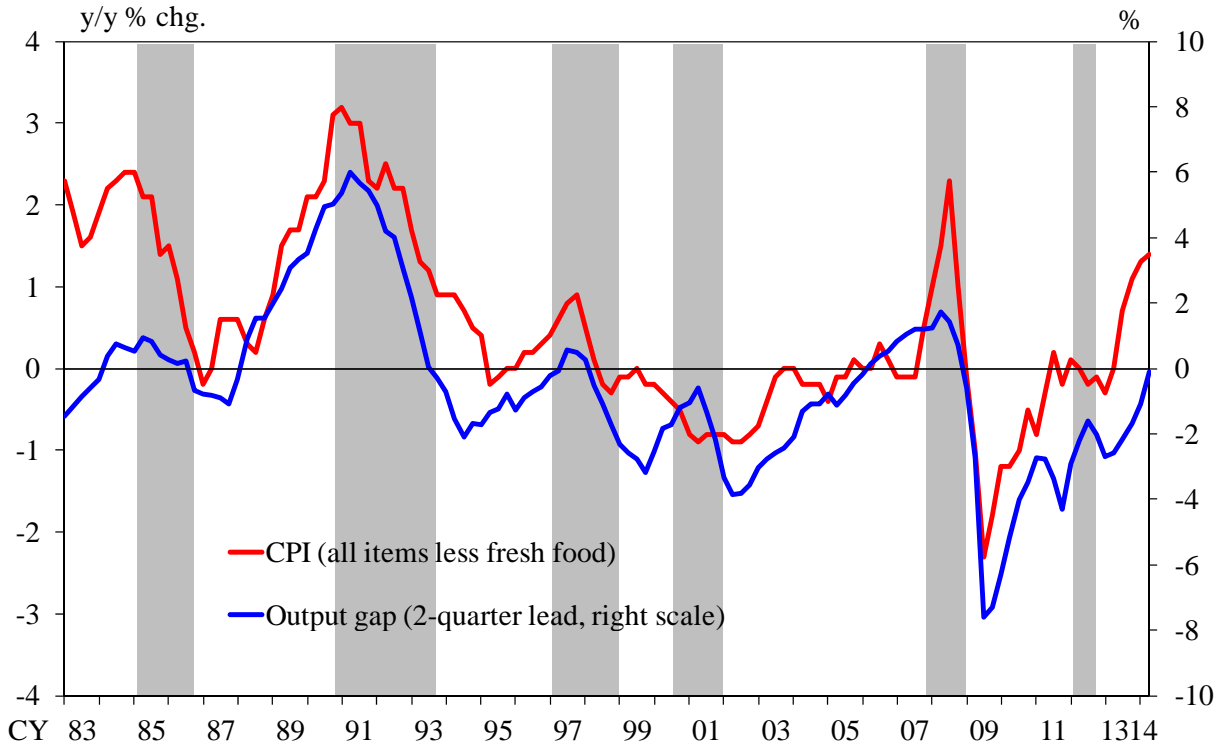
Consumer Price Index



Note: Figures for the CPI from April 2014 onward are calculated to adjust the direct effects of the consumption tax hike.

Sources: Cabinet Office; Ministry of Internal Affairs and Communications.

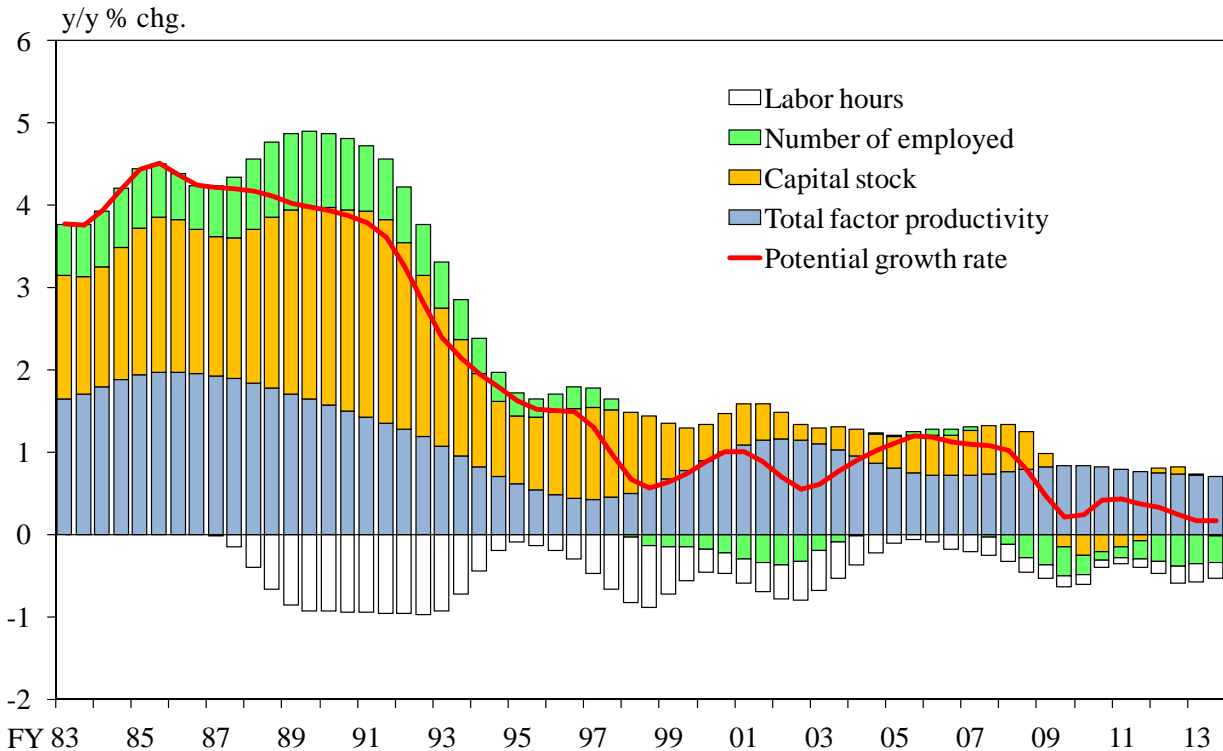
Output Gap and Inflation Rate



Notes: 1. Shaded areas indicate recession periods.
 2. The output gap is estimated by the Research and Statistics Department, Bank of Japan. For the estimation procedures, see "The New Estimates of Output Gap and Potential Growth Rate," Bank of Japan Review Series, 2006-E-3.
 3. Figures for the CPI are adjusted to exclude the effect of changes in the consumption tax rate. The figure for 2014/Q2 is the April-May average.

Sources: Ministry of Internal Affairs and Communications; Cabinet Office; Bank of Japan, etc. 12

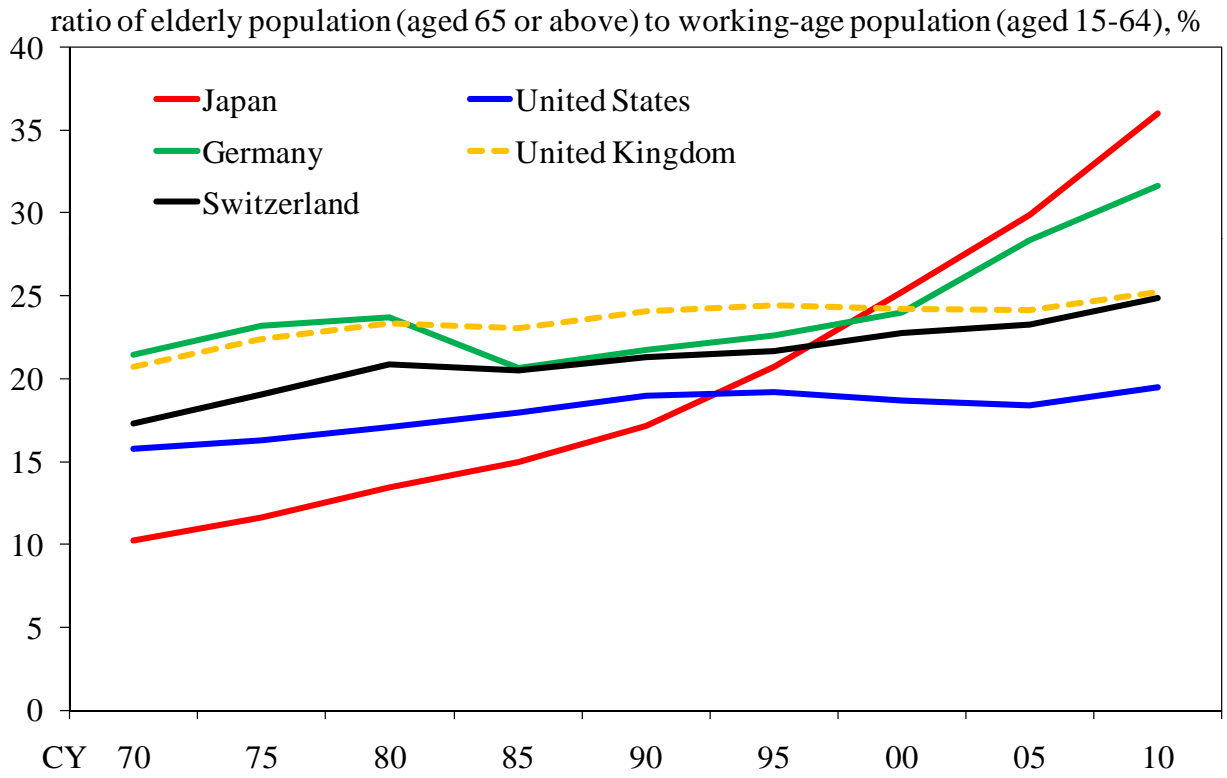
Potential Growth Rate



Note: The potential growth rate is estimated by the Research and Statistics Department, Bank of Japan. For the estimation procedures, see "The New Estimates of Output Gap and Potential Growth Rate," Bank of Japan Review Series, 2006-E-3. Figures for the second half of fiscal 2013 are those of 2013/Q4.

Sources: Cabinet Office; Bank of Japan; Ministry of Internal Affairs and Communications; Ministry of Health, Labour and Welfare; Ministry of Economy, Trade and Industry, etc.

Old-Age Dependency Ratio



Source: United Nations.