



Economic Activity, Prices, and Monetary Policy in Japan

Speech at a Meeting with Business Leaders in Okinawa

August 29, 2018

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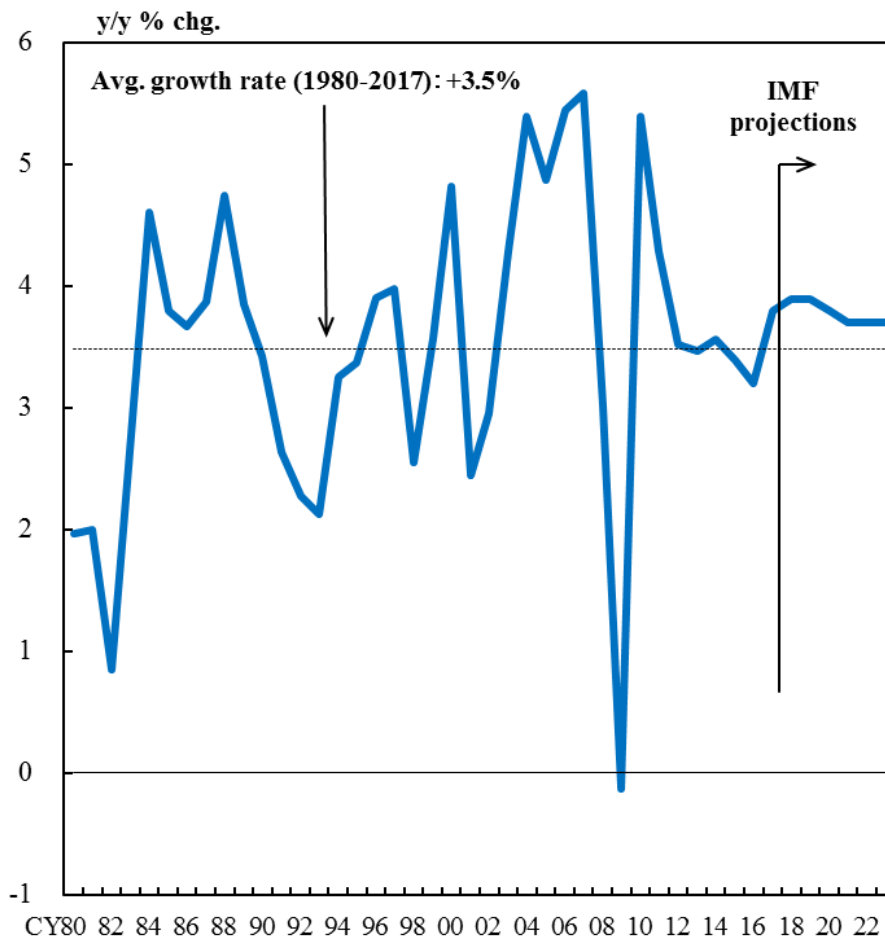
Global Economy

IMF Projections as of July 2018

real GDP growth rate, y/y % chg.

CY	2016	2017	2018 projection	2019 projection
World	3.2	3.7	3.9 (0.0)	3.9 (0.0)
Advanced economies	1.7	2.4	2.4 (-0.1)	2.2 (0.0)
United States	1.5	2.3	2.9 (0.0)	2.7 (0.0)
Euro area	1.8	2.4	2.2 (-0.2)	1.9 (-0.1)
United Kingdom	1.8	1.7	1.4 (-0.2)	1.5 (0.0)
Japan	1.0	1.7	1.0 (-0.2)	0.9 (0.0)
Emerging market and developing economies	4.4	4.7	4.9 (0.0)	5.1 (0.0)
Emerging and developing Asia	6.5	6.5	6.5 (0.0)	6.5 (-0.1)
China	6.7	6.9	6.6 (0.0)	6.4 (0.0)
ASEAN	4.9	5.3	5.3 (0.0)	5.3 (-0.1)
Russia	-0.2	1.5	1.7 (0.0)	1.5 (0.0)
Latin America and the Caribbean	-0.6	1.3	1.6 (-0.4)	2.6 (-0.2)

Real GDP Growth Rate of the World Economy

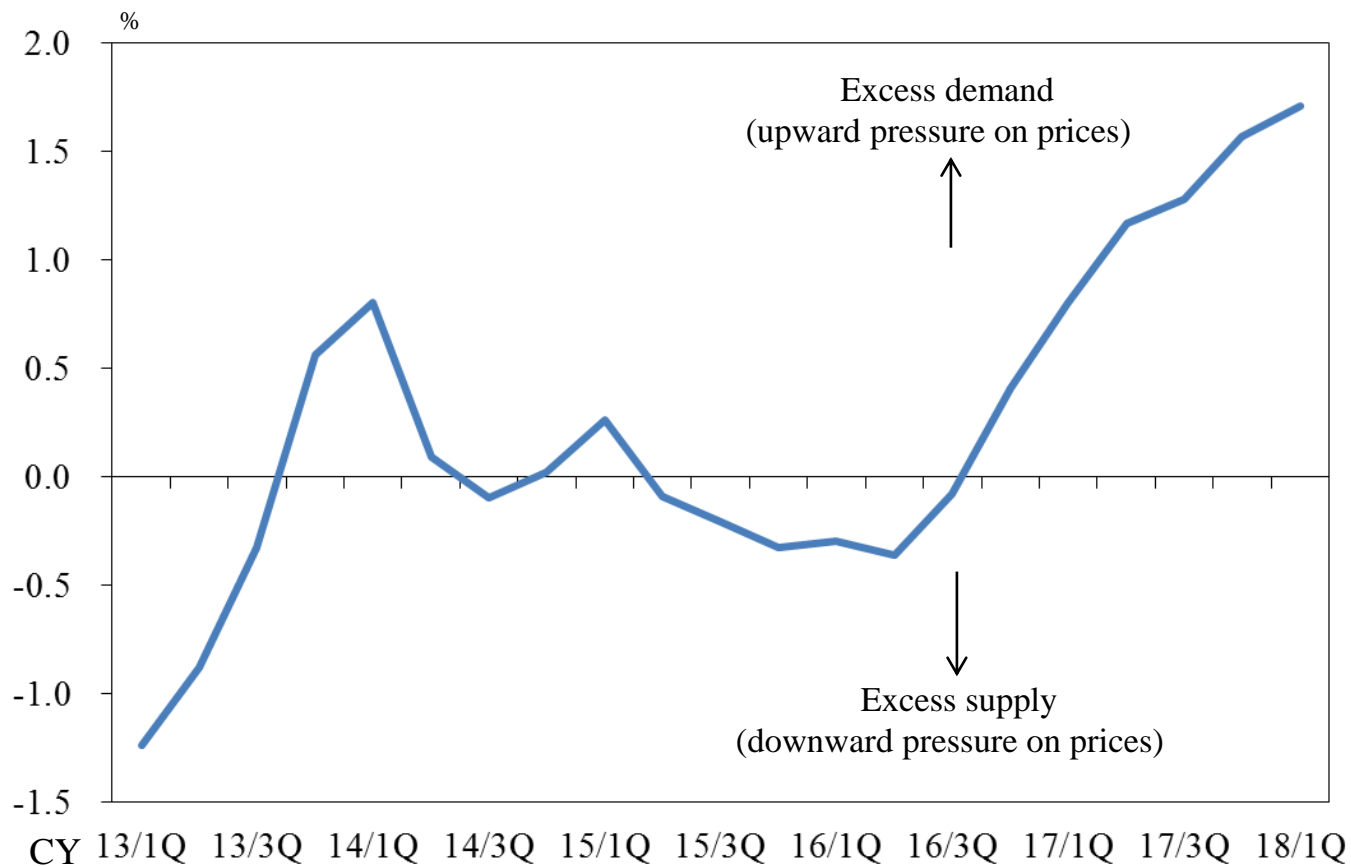


Source: IMF.

Source: *World Economic Outlook* (WEO), International Monetary Fund (IMF).

Note: Figures in parentheses are the difference from the April 2018 projections.

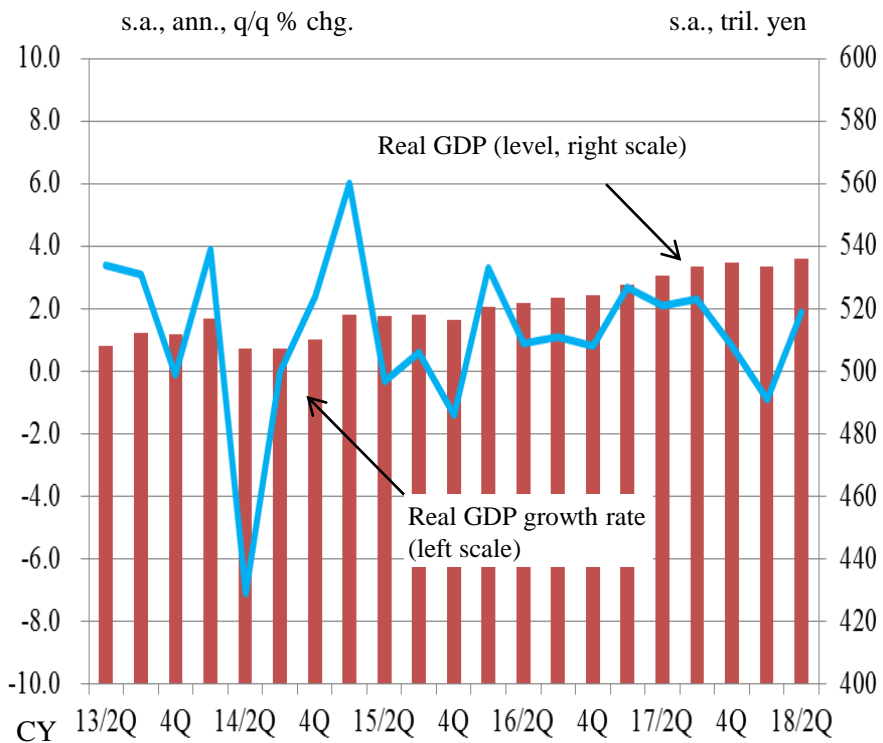
Output Gap



Source: Bank of Japan.

Note: Based on staff estimations.

Japan's Economy: Real GDP



Source: Cabinet Office.

s.a., q/q % chg.










	2017			2018	
	2Q	3Q	4Q	1Q	2Q
Real GDP	0.5	0.6	0.2	-0.2	0.5
[ann., q/q]	[2.1]	[2.3]	[0.8]	[-0.9]	[1.9]
Private Consumption	0.8	-0.7	0.3	-0.2	0.7
Private Non-Resi. Investment	0.5	1.2	0.8	0.5	1.3
Private Residential Investment	1.3	-1.3	-3.0	-2.3	-2.7
Public Demand	1.4	-0.5	-0.1	-0.1	0.2
Exports of Goods & Services	0.2	2.1	2.1	0.6	0.2

Source: Cabinet Office.

Regional Economic Assessments

Chart 4

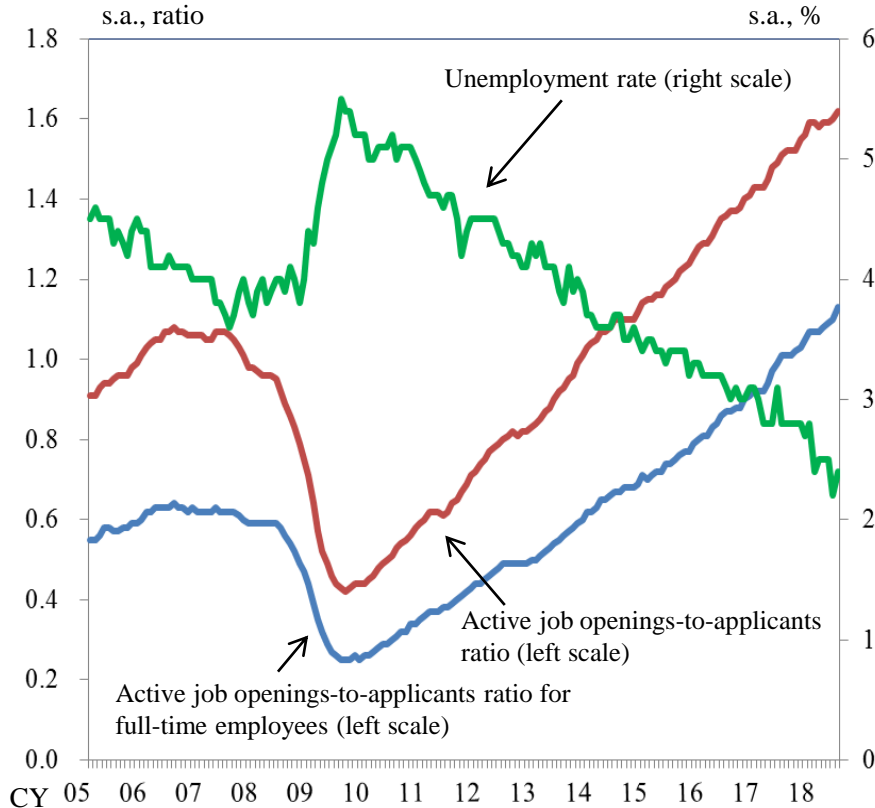
Comparison of Previous and Current Assessments by Region

Region	Assessment in April 2018	Changes from the previous assessment	Assessment in July 2018
Hokkaido	The economy has been recovering moderately.		The economy has been recovering moderately.
Tohoku	The economy has continued to recover moderately.		The economy has continued to recover moderately.
Hokuriku	The economy has been expanding.		The economy has been expanding.
Kanto-Koshinetsu	The economy has been expanding moderately.		The economy has been expanding moderately.
Tokai	The economy has been expanding.		The economy has been expanding.
Kinki	The economy has been expanding moderately at a steady pace.		The economy has been expanding moderately, although effects of the earthquake have been observed in some industries.
Chugoku	The economy has been expanding moderately.		The economy has been expanding moderately.
Shikoku	The economy has been recovering.		The economy has been recovering.
Kyushu-Okinawa	The economy has been expanding moderately, with its growth gaining a more solid footing.		The economy has been expanding moderately, with its growth gaining a more solid footing.

Source: *Regional Economic Report*, Bank of Japan.

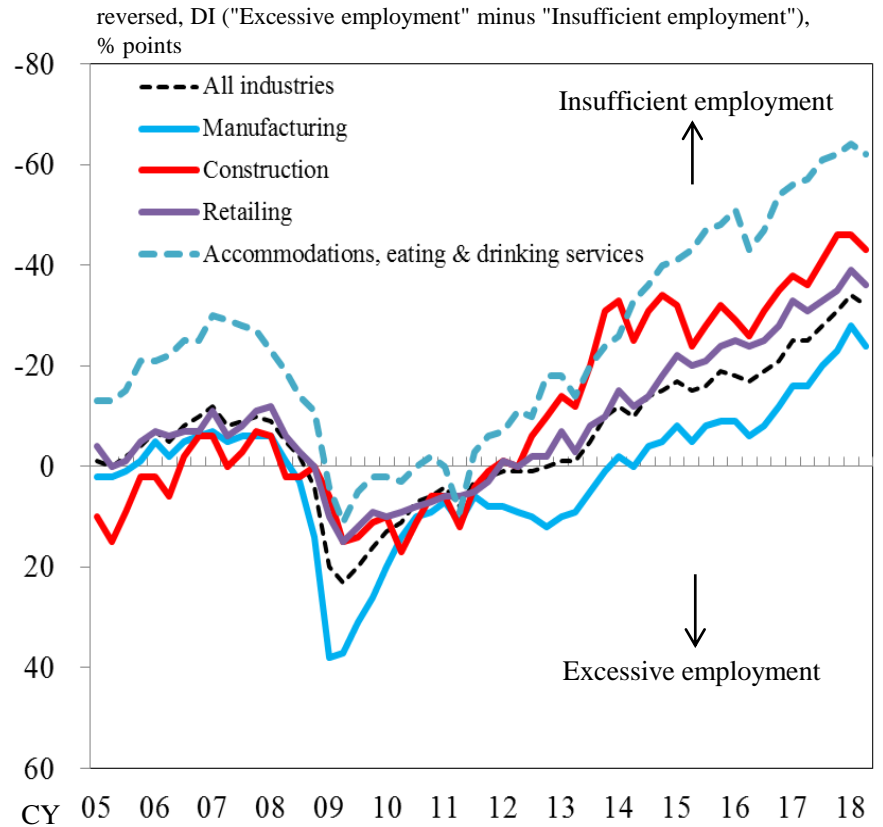
Labor Market Conditions

Unemployment Rate and Active Job Openings-to-Applicants Ratio



Sources: Ministry of Internal Affairs and Communications;
Ministry of Health, Labour and Welfare.

Diffusion Index of Employment Conditions



Source: *Tankan*, Bank of Japan.

Forecasts of the Majority of Policy Board Members

Outlook for Economic Activity and Prices (July 2018)

y/y % chg.

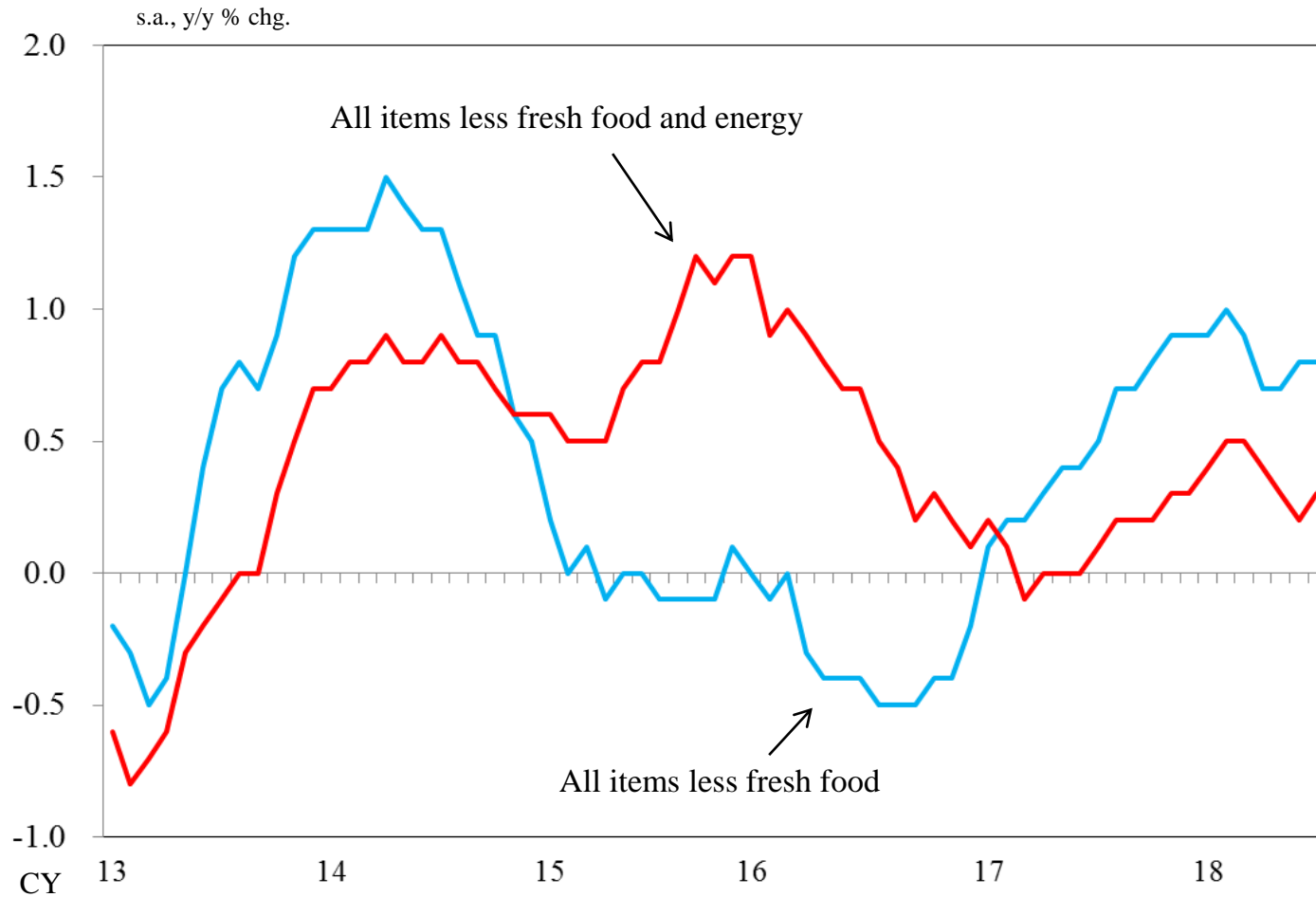
	Real GDP	CPI (all items less fresh food)
Fiscal 2018	+1.3 to +1.5 [+1.5]	+1.0 to +1.2 [+1.1]
Forecasts made in April 2018	+1.4 to +1.7 [+1.6]	+1.2 to +1.3 [+1.3]
Fiscal 2019	+0.7 to +0.9 [+0.8]	+1.3 to +1.6 [+1.5]
Forecasts made in April 2018	+0.7 to +0.9 [+0.8]	+1.5 to +1.8 [+1.8]
Fiscal 2020	+0.6 to +0.9 [+0.8]	+1.4 to +1.6 [+1.6]
Forecasts made in April 2018	+0.6 to +1.0 [+0.8]	+1.5 to +1.8 [+1.8]

Source: *Outlook for Economic Activity and Prices*, Bank of Japan.

Notes: Figures for the CPI (all items less fresh food) exclude the direct effects of the consumption tax hike.

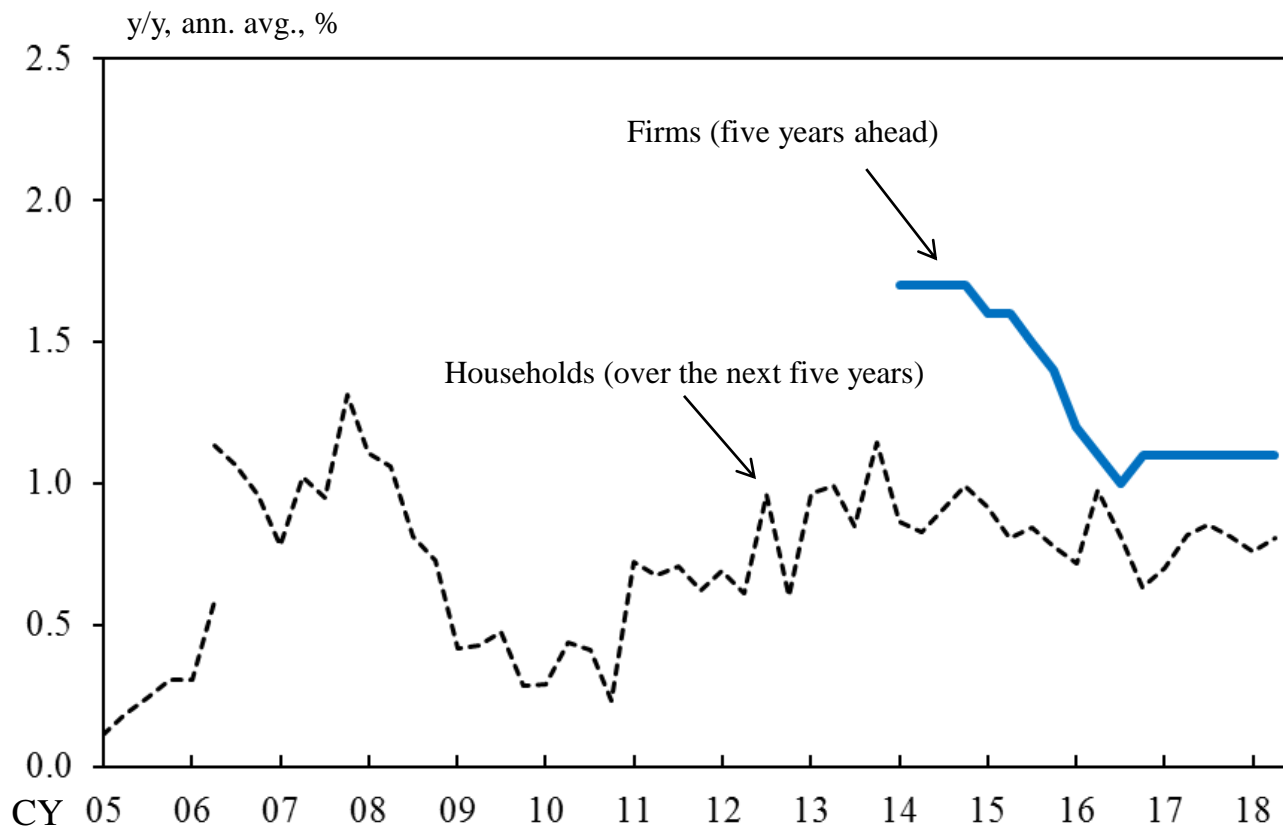
Figures in brackets indicate the medians of the Policy Board members' forecasts (point estimates).

CPI



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

Inflation Expectations

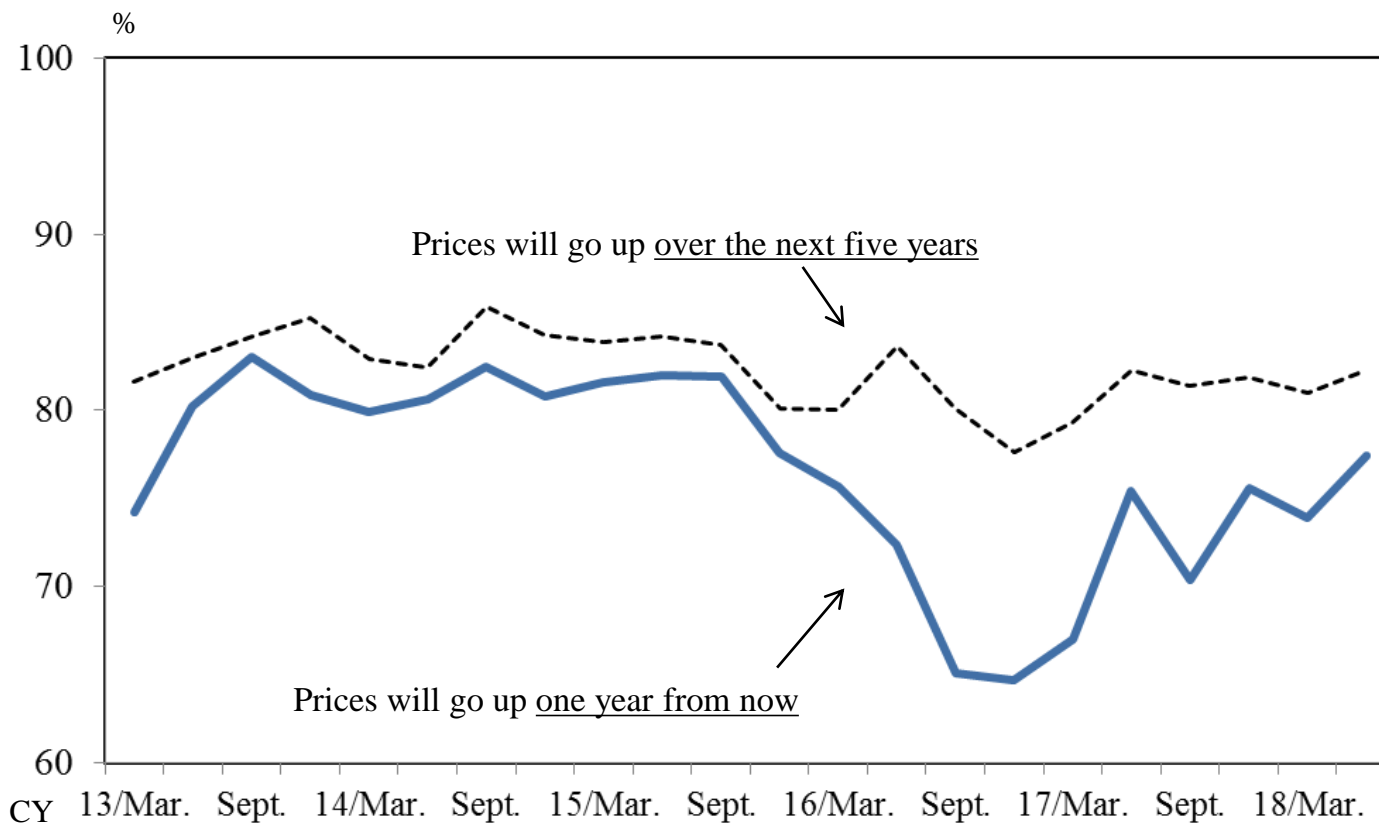


Source: Bank of Japan.

Notes: 1. Figures for households are from the *Opinion Survey on the General Public's Views and Behavior*, estimated using the modified Carlson-Parkin method.

2. Figures for firms are from the *Tankan* (General Prices, summary of "Inflation Outlook of Enterprises," all industries and all enterprises).

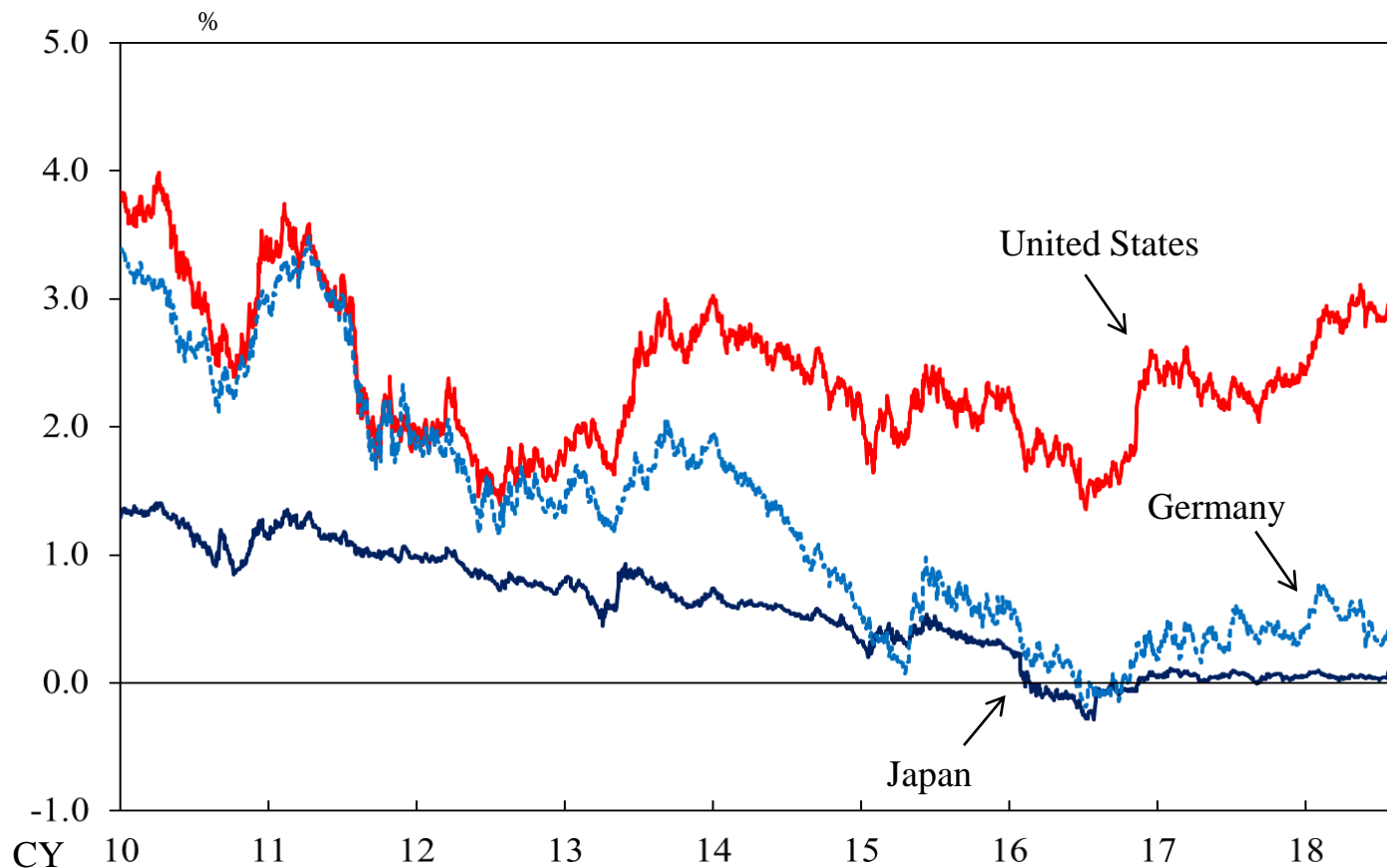
Outlook for Price Levels



Source: *Opinion Survey on the General Public's Views and Behavior*, Bank of Japan.

Note: Figures for both one year from now and over the next five years comprise the choices "will go up significantly" and "will go up slightly" that are found in the questionnaire.

Comparison of 10-Year Government Bond Yields



Source: Bloomberg.

Strengthening the Framework for Continuous Powerful Monetary Easing

Likely to take more time than expected to achieve the price stability target of 2%

Appropriate to maintain the output gap within positive territory for as long as possible

Persistently Continuing with Powerful Monetary Easing

Forward guidance for policy rates

"The Bank intends to maintain the current extremely low levels of short- and long-term interest rates for an extended period of time, taking into account uncertainties regarding economic activity and prices including the effects of the consumption tax hike scheduled to take place in October 2019."

Yield curve control and ETF purchases

The long-term interest rate: The Bank will purchase JGBs so that 10-year JGB yields will remain at around zero percent. While doing so, the yields may move upward and downward to some extent mainly depending on developments in economic activity and prices.

ETF purchases: The Bank will purchase ETFs so that their amount outstanding will increase at an annual pace of about 6 trillion yen. The Bank may increase or decrease the amount of purchases depending on market conditions.

Achieving the price stability target of 2% at the earliest possible time while securing stability in economic and financial conditions