



Economic Activity, Prices, and Monetary Policy in Japan

Speech at a Meeting with Business Leaders in Kagawa

February 27, 2019

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Member of the Policy Board of the Bank of Japan

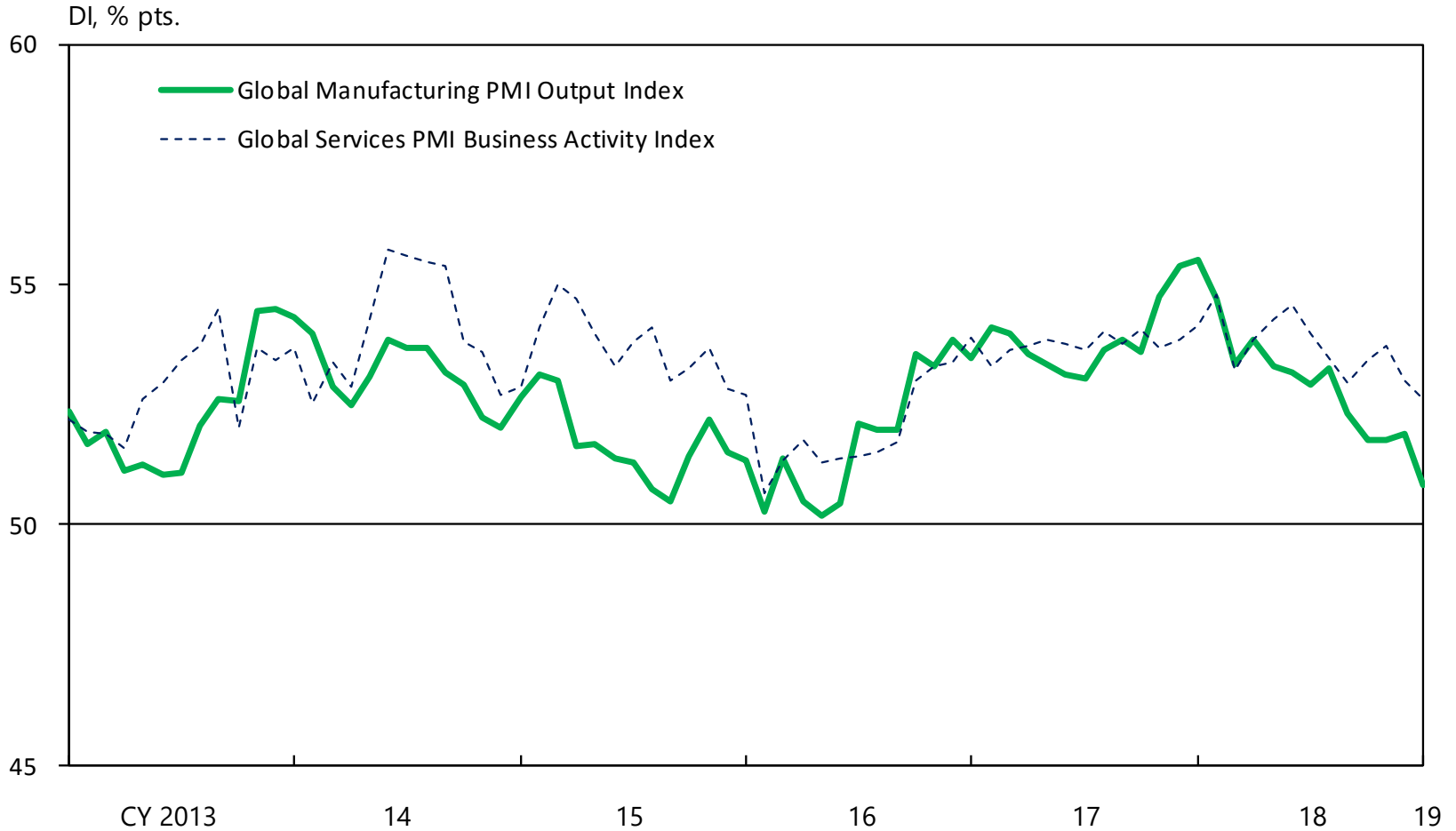
World Economic Outlook by the IMF

		January 2019 forecasts (y/y % chg.)			Difference from April 2018 forecasts (% pts.)		
		2018	2019	2020	2018	2019	2020
World		3.7	3.5	3.6	-0.2	-0.4	-0.2
Advanced Economies	Japan	0.9	1.1	0.5	-0.3	+0.2	+0.2
	United States	2.9	2.5	1.8	0.0	-0.2	-0.1
	Euro Area	1.8	1.6	1.7	-0.6	-0.4	0.0
	Germany	1.5	1.3	1.6	-1.0	-0.7	+0.1
	France	1.5	1.5	1.6	-0.6	-0.5	-0.2
	United Kingdom	1.4	1.5	1.6	-0.2	0.0	+0.1
Emerging Economies	China	6.6	6.2	6.2	0.0	-0.2	-0.1
	Brazil	1.3	2.5	2.2	-1.0	0.0	0.0
	India	7.3	7.5	7.7	-0.1	-0.3	-0.2
	Russia	1.7	1.6	1.7	0.0	+0.1	+0.2

Note: As for the January 2019 forecasts, figures for 2018 are estimates and those for 2019 onward are projections. All of the figures for the April 2018 forecasts are projections. For India, figures are presented on a fiscal year basis.

Source: IMF, "World Economic Outlook (January 2019, April 2018)."

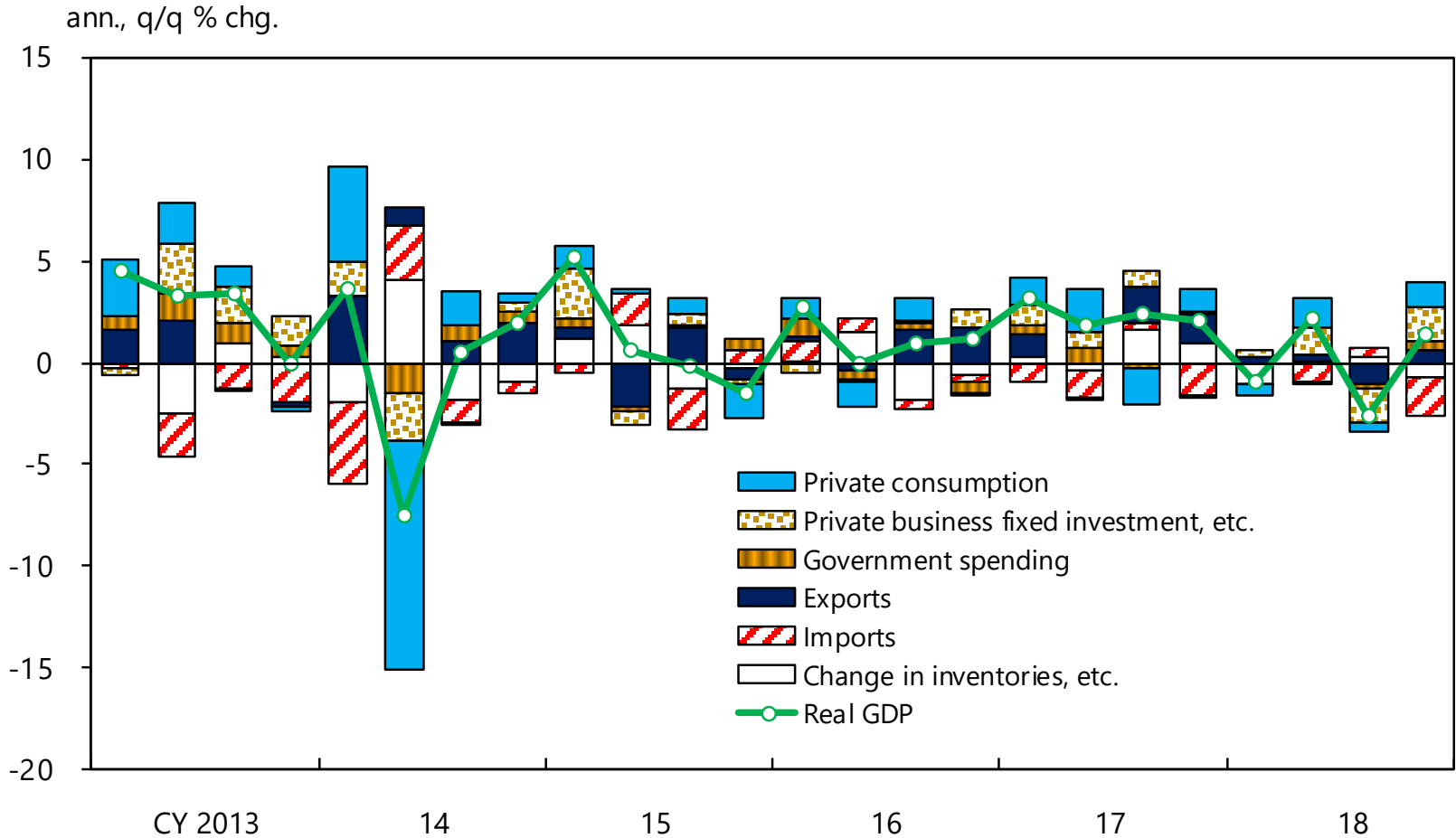
Global PMI



Note: Figures are from the J.P. Morgan Global PMI. Figures above 50 indicate improvement and below 50 show deterioration on a month-on-month basis.

Source: IHS Markit (© and database right IHS Markit Ltd 2019. All rights reserved.)

Real GDP Growth and Breakdown by Component



Source: Cabinet Office, "Quarterly Estimates of GDP for October-December 2018 (First Preliminary Estimates)."

Outlook for Economic Activity and Prices

(January 2019 Outlook Report)

medians of Policy Board members' forecasts, y/y % chg.

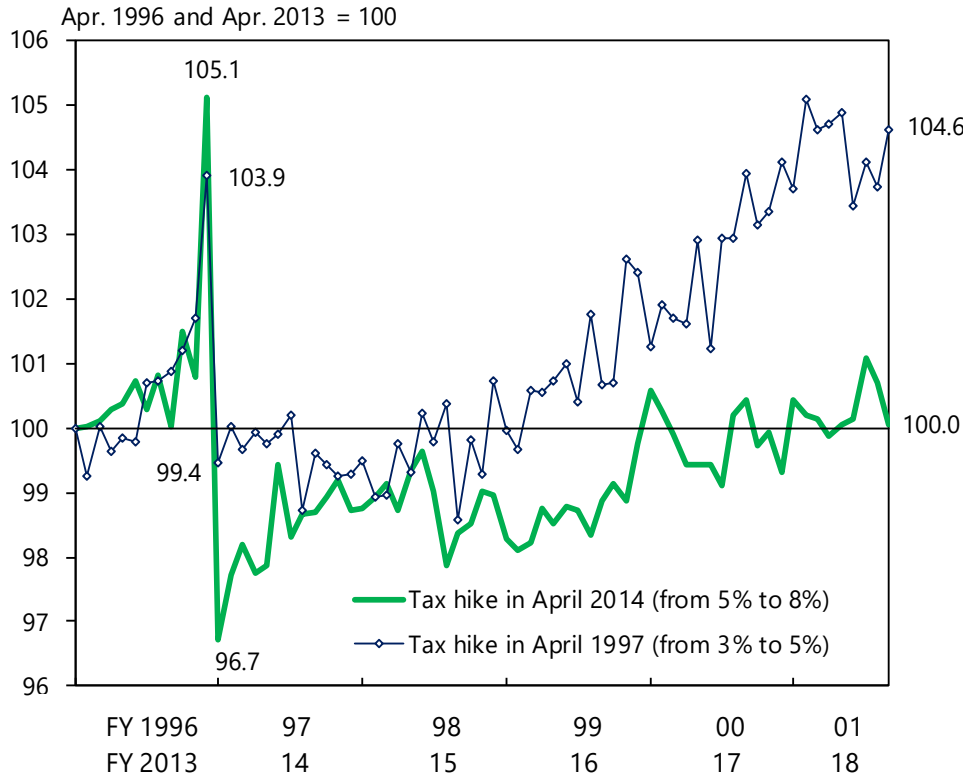
	Real GDP	CPI (all items less fresh food)	(Reference) Excluding the effects of the consumption tax hike and policies concerning the provision of free education
Fiscal 2018	+0.9	+0.8	
Forecasts made in October 2018	+1.4	+0.9	
Fiscal 2019	+0.9	+1.1	+0.9
Forecasts made in October 2018	+0.8	+1.6	+1.4
Fiscal 2020	+1.0	+1.5	+1.4
Forecasts made in October 2018	+0.8	+1.6	+1.5

Note: The direct effect of the consumption tax hike on the CPI for fiscal 2019 and fiscal 2020 is estimated to be 0.5 percentage points for each year. The direct effects of policies concerning the provision of free education on the CPI for fiscal 2019 and fiscal 2020 are estimated to be minus 0.3 percentage points and minus 0.4 percentage points, respectively.

Source: Bank of Japan, "Outlook for Economic Activity and Prices (January 2019)."

Household Consumption

Consumption Before and After Tax Hikes



Note: The latest figures are as of December 2001 and December 2018.

Source: Cabinet Office, "Synthetic Consumption Index."

Consumer Confidence Index

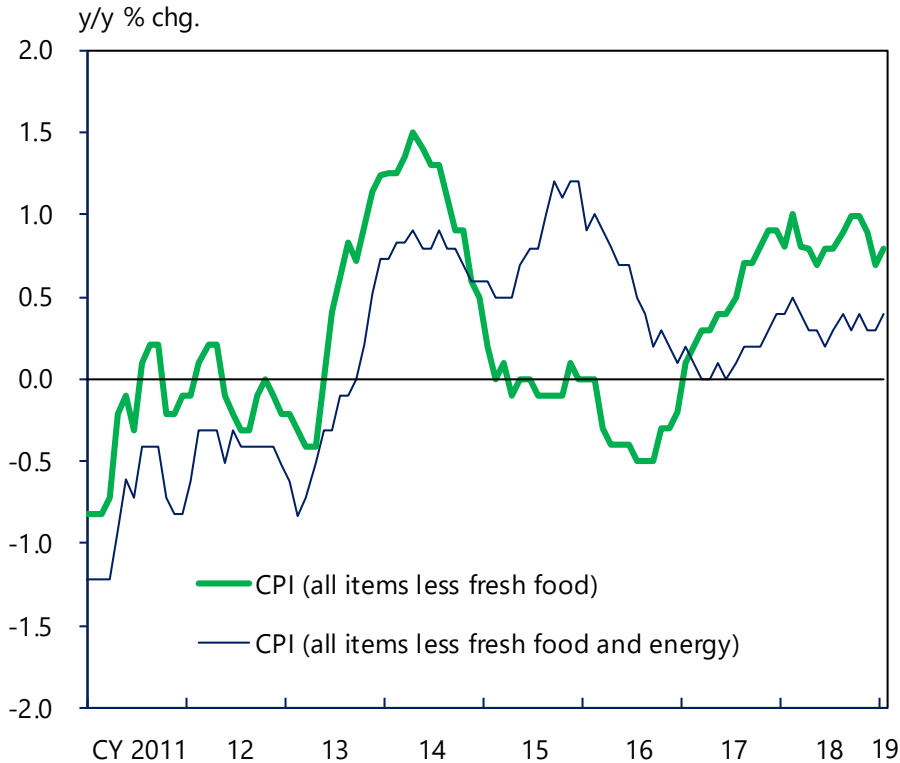


Note: Households of two or more persons. Consumer Confidence Index is composed of four categories: "overall livelihood," "income growth," "employment," and "willingness to buy durable goods." There are discontinuities between March and April 2013, and between September and October 2018, due to changes in the survey method.

Source: Cabinet Office, "Consumer Confidence Survey."

Consumer Prices

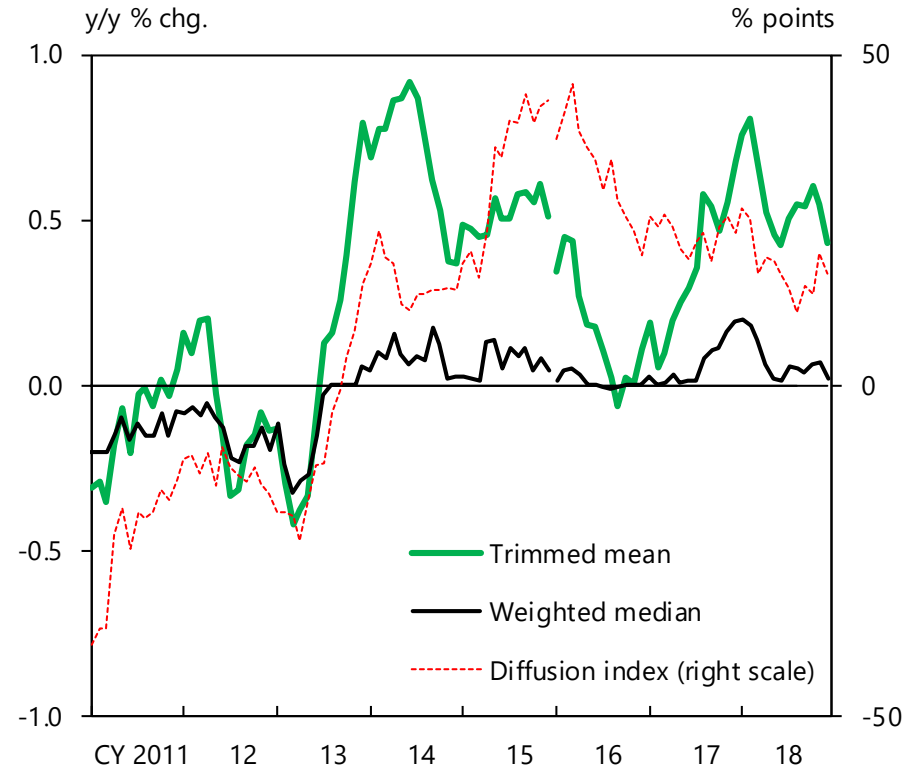
Consumer Price Index



Note: Figures are adjusted for changes in the consumption tax rate.

Source: Ministry of Internal Affairs and Communications, "Consumer Price Index."

Measures of Underlying Inflation

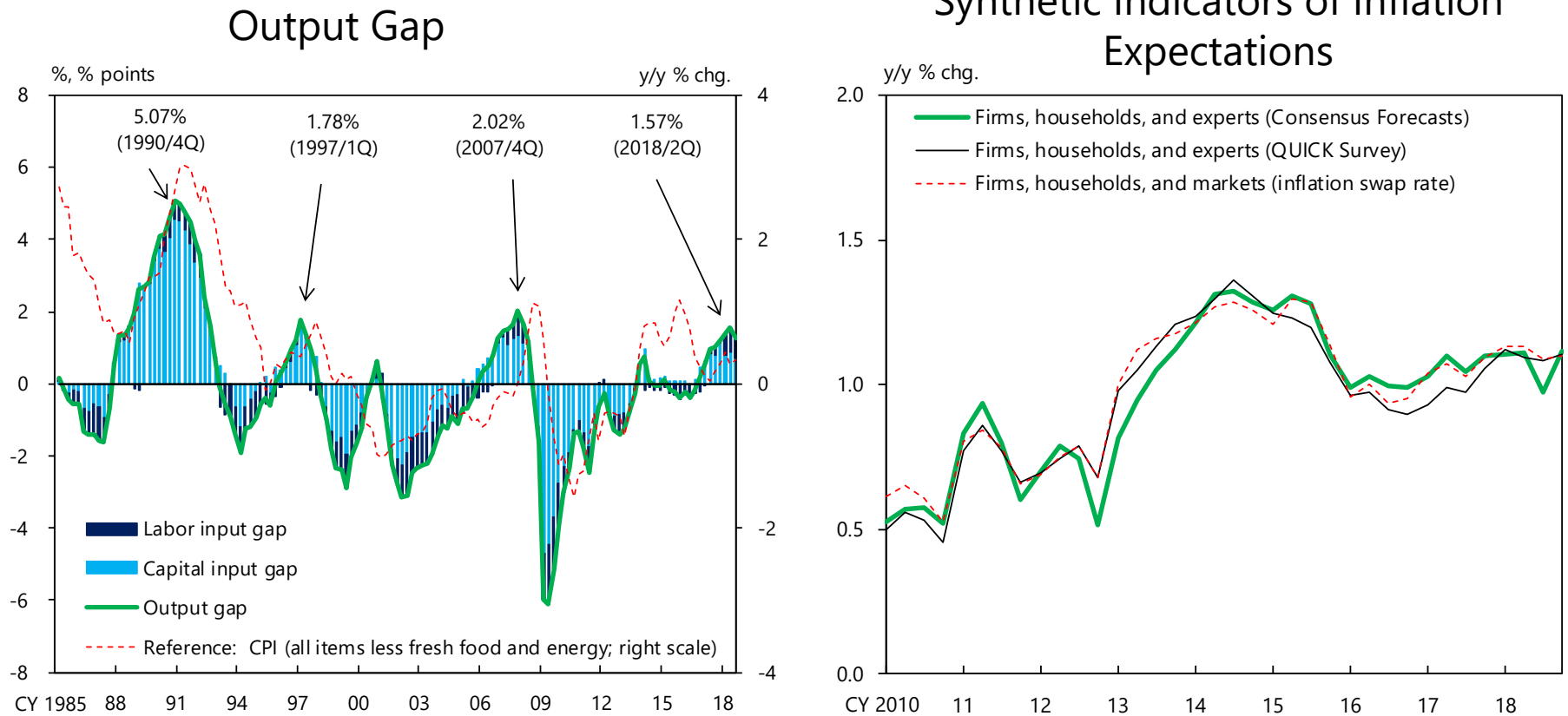


Notes: 1. The latest figures are as of December 2018.

2. The diffusion index is defined as the share of increasing items minus that of decreasing items. The share of increasing/decreasing items is the share of items in the CPI (less fresh food, consumption tax adjusted) whose price increased/decreased from a year earlier.

Sources: Bank of Japan, "Measures of Underlying Inflation"; Ministry of Internal Affairs and Communications.

Output Gap and Inflation Expectations



- Notes: 1. The data of the output gap in the left-hand graph are the estimates by the Bank's staff as of January 30, 2019. The CPI figures are adjusted for changes in the consumption tax rate.
2. In the right-hand graph, semiannual data from the Consensus Forecasts up through 2014/Q2 are linearly interpolated. Figures for the Bank's *Opinion Survey on General Public's Views and Behavior* exclude inflation expectations by respondents whose annual inflation expectations were $\pm 5\%$ or greater. The output prices DI in the *Tankan* (Short-Term Economic Survey of Enterprises in Japan) represents the difference between the share of firms that raised prices in the preceding three months and the share of firms that lowered prices.
3. In the right-hand graph, inflation expectations of firms are taken from the *Tankan* and those of households are taken from the Bank's *Opinion Survey*. For experts' and markets' inflation expectations, data from the Consensus Forecasts, the QUICK Survey, and the inflation swap rate are used as indicated by their respective lines.

Sources: Ministry of Internal Affairs and Communications, "Consumer Price Index (Japan; 2015-base)"; Consensus Economics Inc., "Consensus Forecasts"; QUICK, "QUICK Monthly Market Survey (Bonds)"; Bloomberg; Bank of Japan.

Outline of the Bank's Monetary Policy

(1) Yield Curve Control

Short-term rate: The Bank will apply minus 0.1 percent to the Policy-Rate Balances.

Long-term 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 or downward to some extent mainly depending on developments in economic activity and prices.

(2) Asset Purchases

The Bank will purchase ETFs and J-REITs so that their amounts outstanding will increase at annual paces of about 6 trillion yen and about 90 billion yen, respectively. With a view to lowering risk premia of asset prices in an appropriate manner, the Bank may increase or decrease the amount of purchases depending on market conditions.

(3) Commitment

Overshooting commitment: The Bank will continue expanding the monetary base until the year-on-year rate of increase in the observed CPI (all items less fresh food) exceeds 2 percent and stays above the target in a stable manner.

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.

Structure of "Industrie 4.0"

**Federal Minister for Economic Affairs and Energy
and Federal Minister of Education and Research**

Technical/practical expertise decision-making

Steering Body

- Strategy development, technical coordination, and decision-making
- Members: Federal Ministers, business representatives, and chairs of working groups

Working Groups

1. Reference architecture, standardization and standards
2. Technology and application scenarios
3. Legal framework
4. Work, education, and training
5. Digital business models
6. Security of networked systems

Policy guidance, society, multipliers

Strategy Group

- Agenda setting, political steering, and multipliers
- Members:
 - State Secretaries
 - Representatives of steering body
 - Representatives of Federal Chancellery, Interior Ministry
 - State representatives
 - Representatives of associations
 - Representative of trade union
 - Representative of science

Research Council

Activities on the market

Industrial Consortia and Initiatives

- Implementation on the market
- Test beds
- Examples of applications

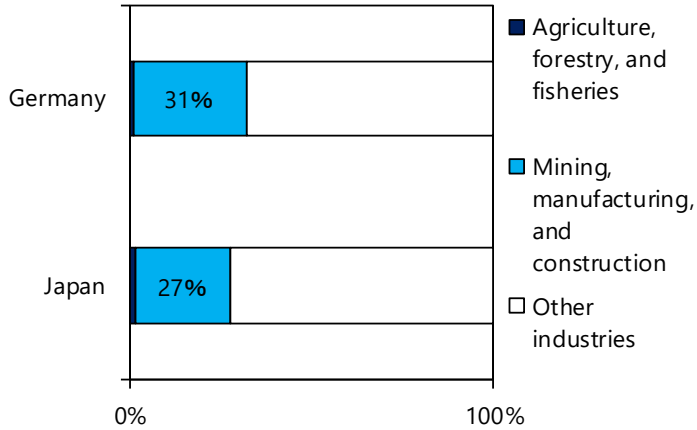
Standardization Council

Labs Network

Secretariat

Similarities and Differences between Germany and Japan

(1) Industrial distribution

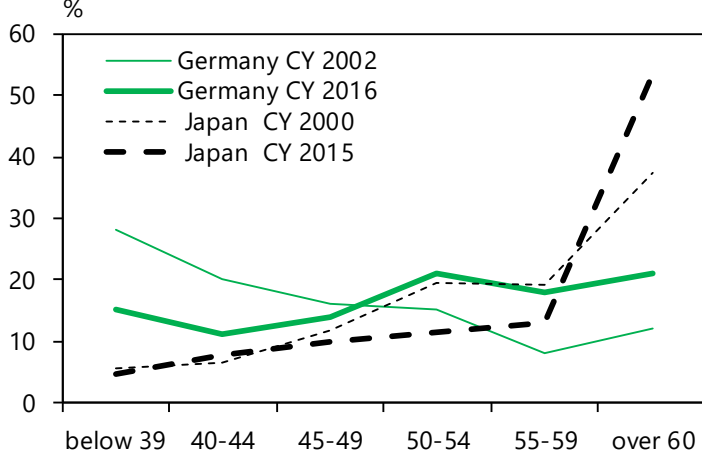


Note: Figures are as of CY 2018 for Germany and as of FY 2017 for Japan.

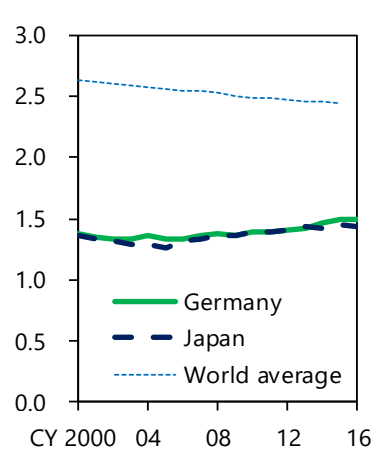
Sources: Statistisches Bundesamt, "National accounts"; Cabinet Office, "Annual Report on National Accounts for 2017."

(2) Declining birthrate and aging population

(a) Distribution of ages of SME managers

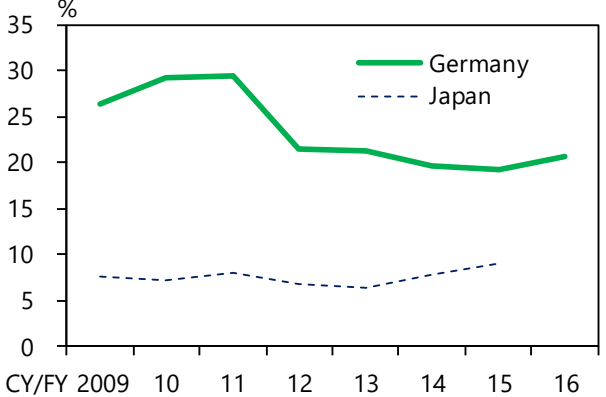


(b) Birth rates



Sources: KfW; The Small and Medium Enterprise Agency, "White Paper on Small and Medium Enterprises in Japan"; World Bank.

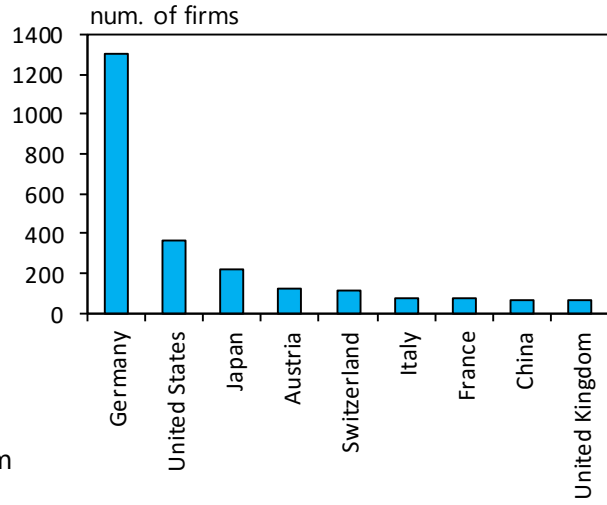
(3) Share of exports by SMEs



Note: Horizontal axes are CY for Germany and FY for Japan. The latest figure available for Japan is for fiscal 2015.

Sources: OECD, "Exports by Business Size"; The Small and Medium Enterprise Agency, "White Paper on Small and Medium Enterprises in Japan."

(4) International comparison of "hidden champion"



Note: The three criteria to be considered a "hidden champion" are the following: (a) the firm is among the top three in the global market or is number one for a particular niche business area on the continent where the firm is based, (b) the firm has less than 5 bil. euro in revenue, and (c) the firm is little known to the general public.

Source: Hermann Simon, *Hidden Champion of the 21st Century*.