

Toward Sustaining a Virtuous Cycle

*Speech at the Meeting of Councillors of
Nippon Keidanren (Japan Business Federation) in Tokyo*

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Introduction

I. This Year's Economic Developments at Home
and Abroad

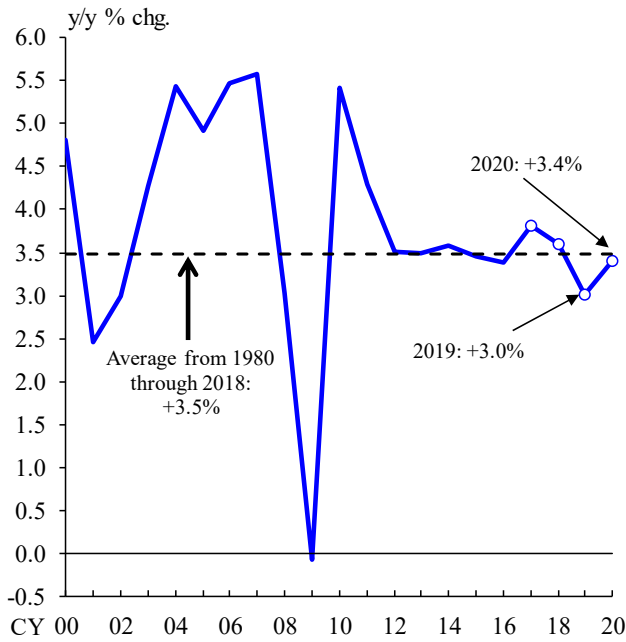
II. The Bank's Conduct of Monetary Policy

III. Toward Sustaining a Virtuous Cycle

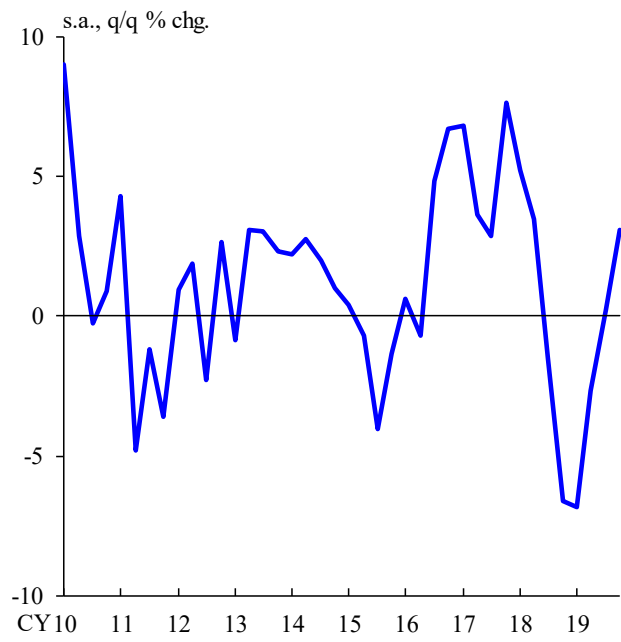
Conclusion

Global Economy

Global Growth Rate



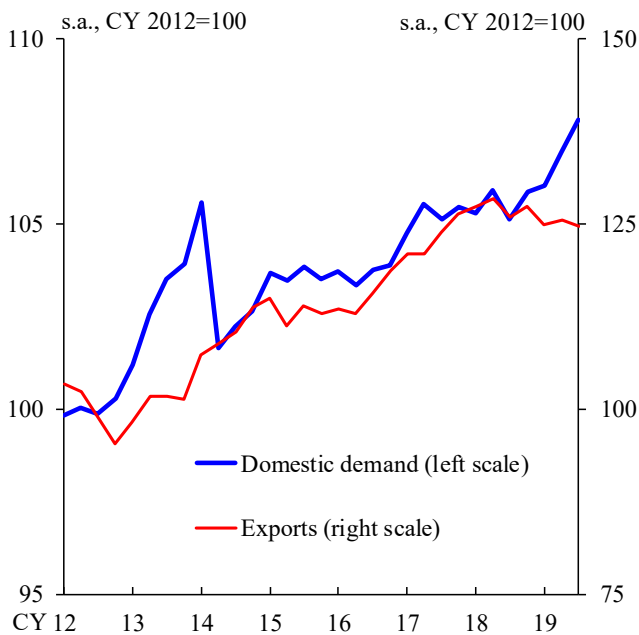
World Semiconductor Shipments



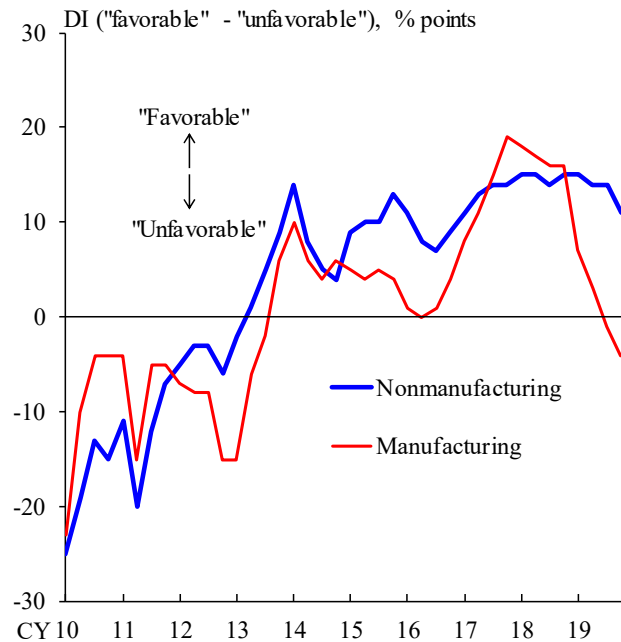
Notes: 1. In the left chart, figures for 2019 and 2020 are the IMF's projections as of October 2019.
2. In the right chart, figures are based on BOJ staff estimates using WSTS data.
Source: IMF.

Japan's Economy

Domestic Demand and Exports



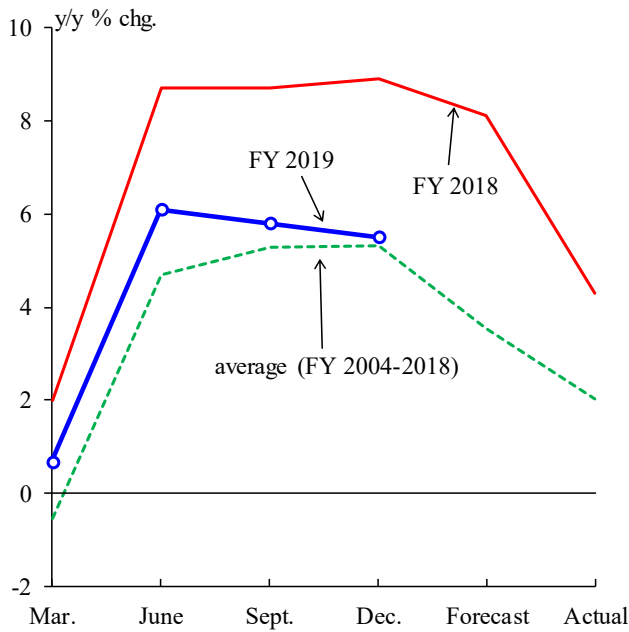
Business Conditions DI



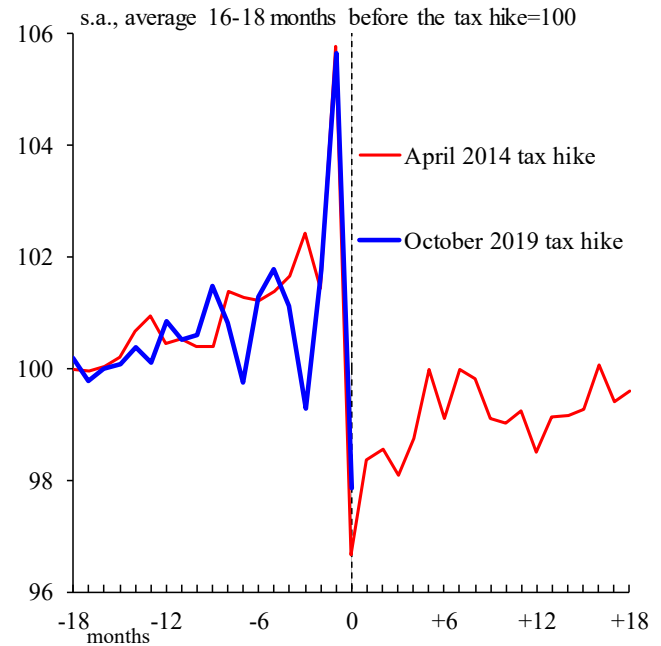
Note: In the left chart, figures for domestic demand are the sum of private consumption, private residential investment, private non-residential investment, and public demand (government consumption and public investment).
Sources: Cabinet Office; Bank of Japan.

Business Fixed Investment and Private Consumption

Business Fixed Investment Plans

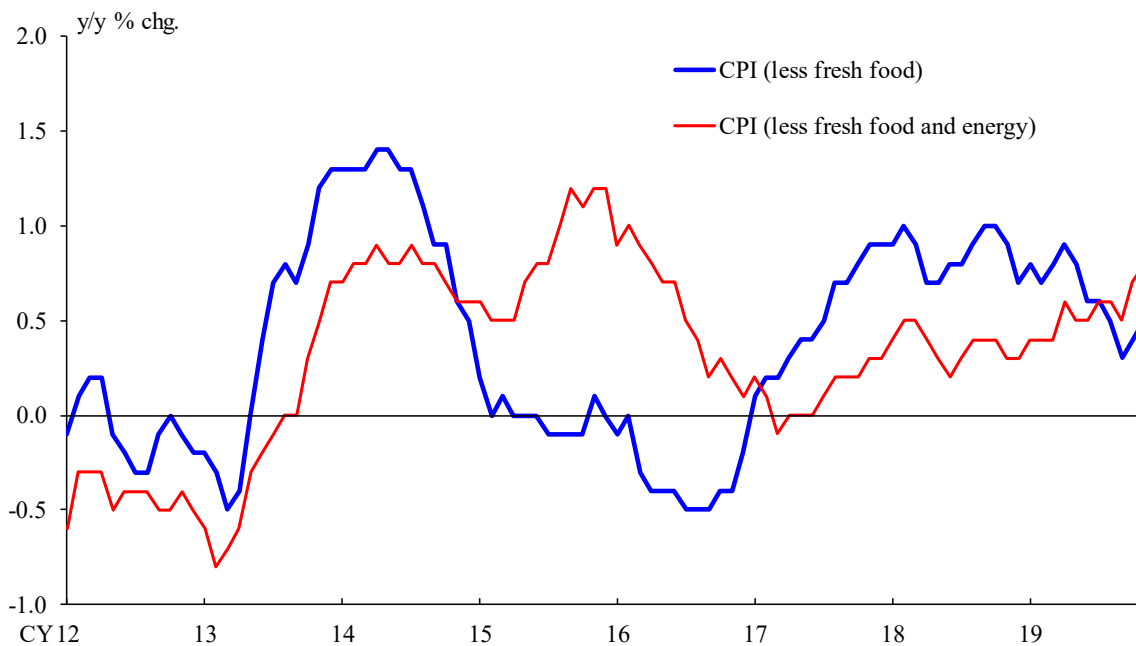


Developments in Consumption prior to and after the Tax Hikes



Notes: 1. In the left chart, figures are for all industries including financial institutions. Figures include software and R&D investment and exclude land purchasing expenses.
 2. In the right chart, month 0 is the month in which the consumption tax rate was raised -- namely, April 2014 or October 2019. Figures are for the Consumption Activity Index (real, travel balance adjusted).
 Sources: Bank of Japan, etc.

Consumer Prices

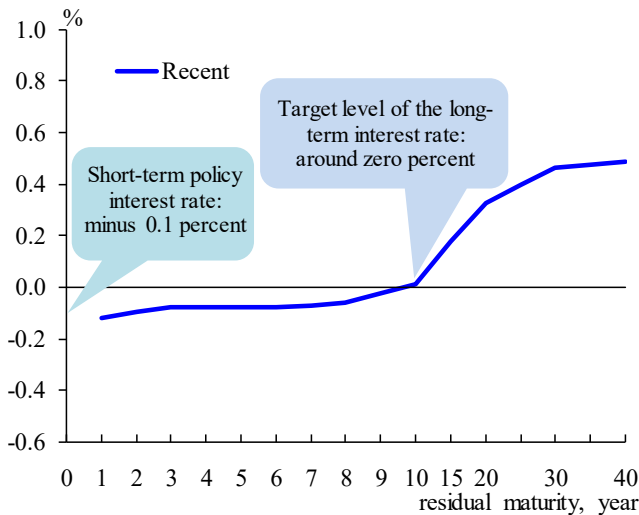


Note: Figures are adjusted for the effects of the consumption tax hike in April 2014. Figures incorporate the effects of the October 2019 tax hike and policies concerning the provision of free education.
 Source: Ministry of Internal Affairs and Communications.

BOJ's Conduct of Monetary Policy

Yield Curve Control

Taking account of developments in economic activity and prices as well as financial conditions, the Bank facilitates the formation of the yield curve that is considered most appropriate for maintaining the momentum toward achieving the price stability target of 2 percent.



Source: Bloomberg.

Stance of Monetary Policy Conduct and Forward Guidance

(Stance of Monetary Policy Conduct)

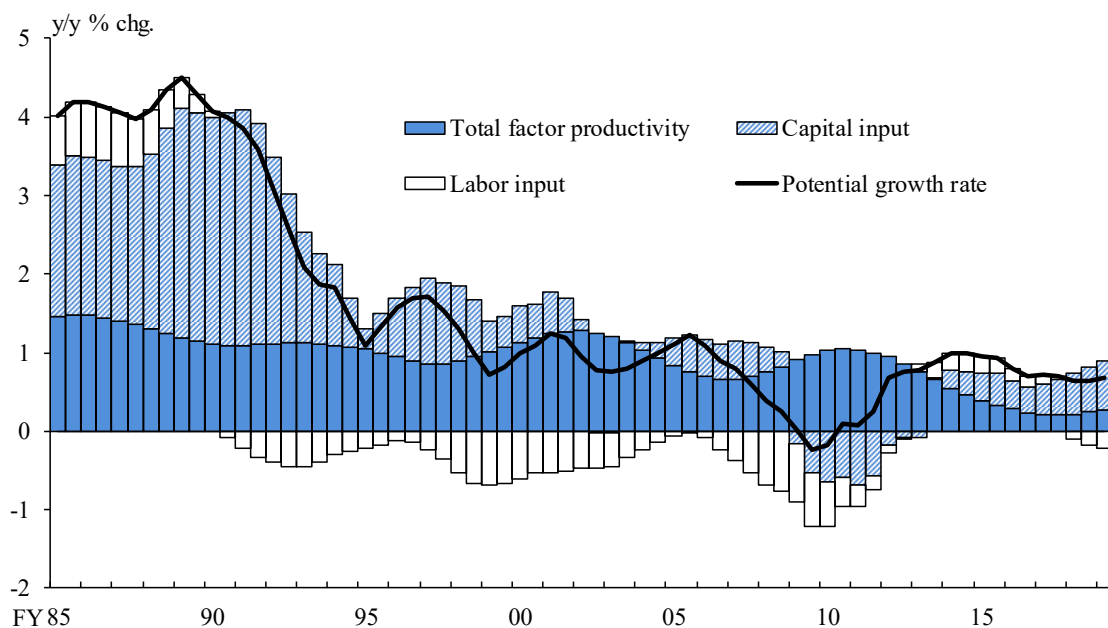
■ In a situation where downside risks to economic activity and prices, mainly regarding developments in overseas economies, are significant, the Bank will not hesitate to take additional easing measures if there is a greater possibility that the momentum toward achieving the price stability target will be lost.

(Forward Guidance for the Policy Rates)

■ As for the policy rates, the Bank expects short- and long-term interest rates to remain at their present or lower levels as long as it is necessary to pay close attention to the possibility that the momentum toward achieving the price stability target will be lost.

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Potential Growth Rate

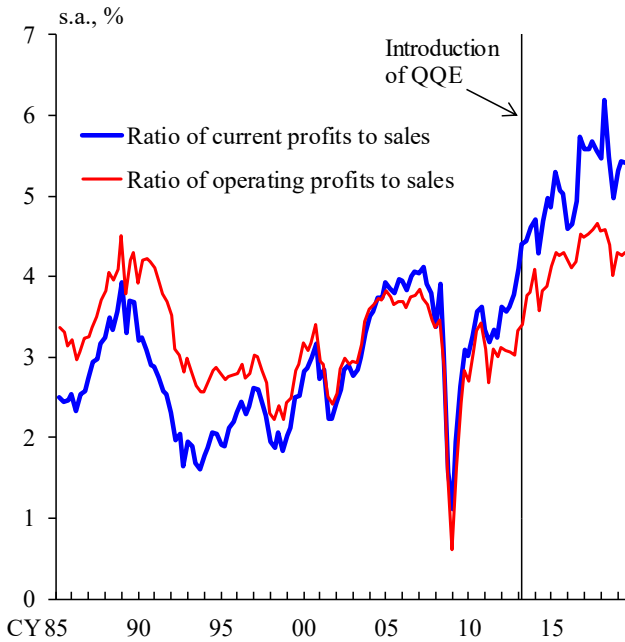


Note: Figures are based on BOJ staff estimates.
Source: Bank of Japan.

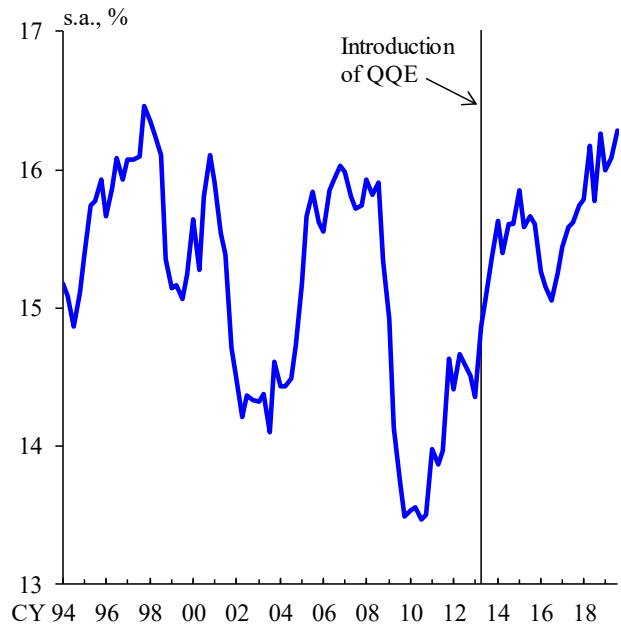
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Corporate Profits and Business Fixed Investment

Ratio of Current and Operating Profits to Sales



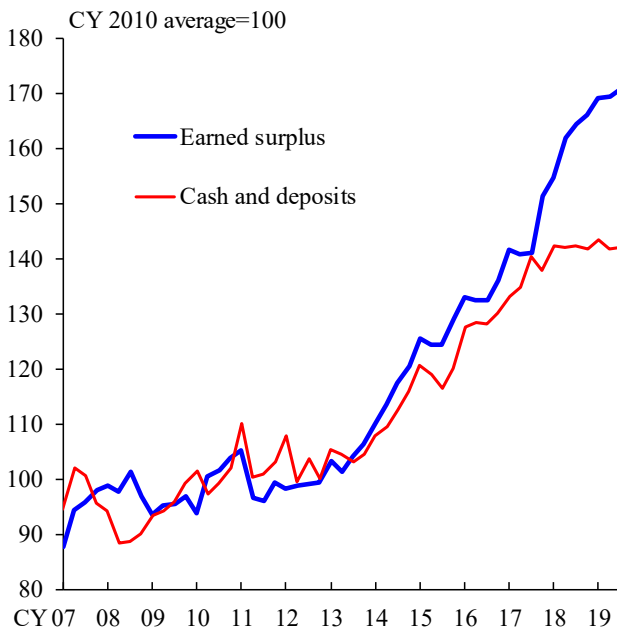
Investment-GDP Ratio (Nominal)



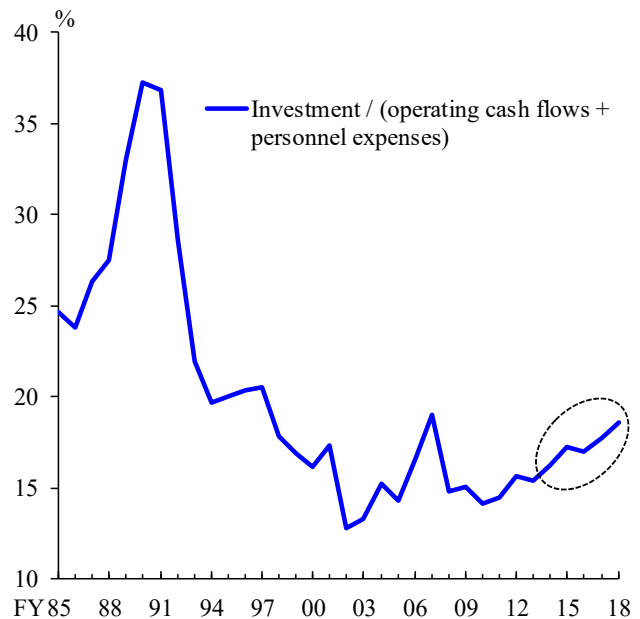
Note: In the left chart, figures exclude "finance and insurance." Figures from 2009/Q2 onward exclude "pure holding companies."
Sources: Ministry of Finance; Cabinet Office.

Active Business Fixed Investment Stance

Earned Surplus, and Cash and Deposits



Investment Ratio

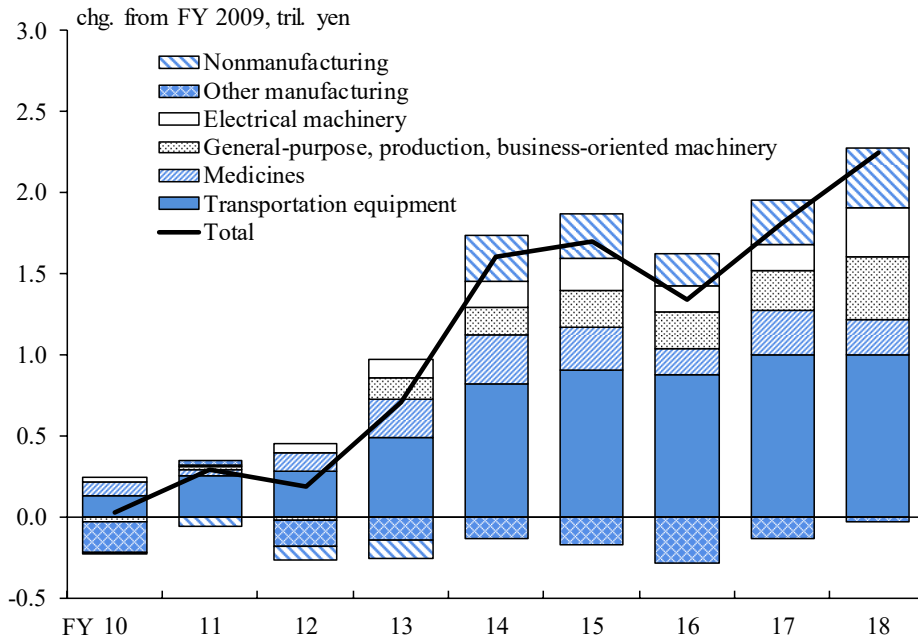


Notes: 1. Figures exclude "finance and insurance."

2. In the right chart, operating cash flows = net income - dividends + depreciation expenses + Δprovisions - Δinventories - Δtrade credits - Δnet amount of other current assets. Investment includes land purchasing expenses and excludes software and R&D investment.

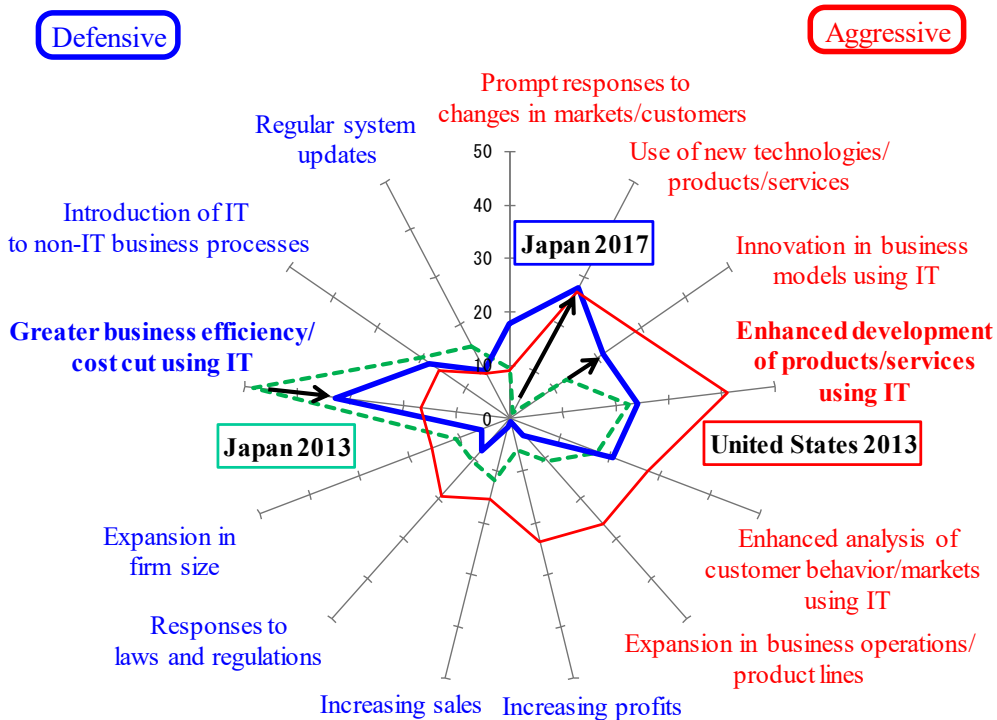
Source: Ministry of Finance.

Developments in R&D Investment



Source: Ministry of Internal Affairs and Communications.

Reasons for IT Investment



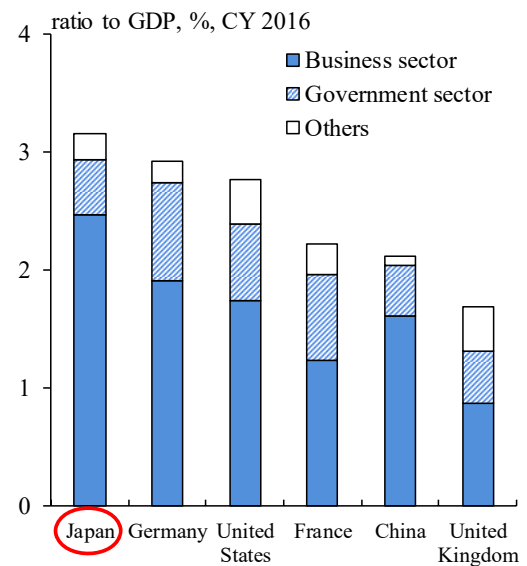
Note: Figures are based on the 2017 JEITA/IDC Japan survey.
Source: JEITA.

Basic Research

Highly Cited Papers and R&D Funds from Firms to Universities

	The number of highly cited papers	The proportion of firms' R&D funds provided to universities (%)
United States	38,347	1.1
China	28,386	2.7
United Kingdom	8,718	2.0
Germany	7,591	3.8
France	4,716	1.1
Japan	3,927	0.7

International Comparison of R&D Investment

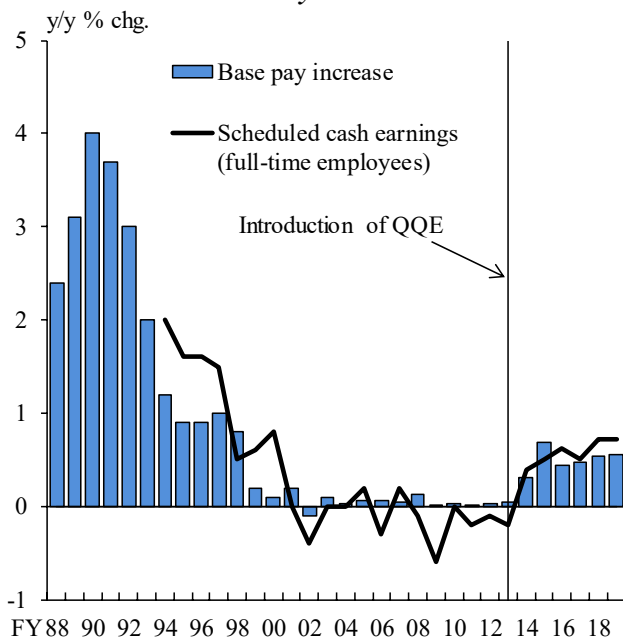


Notes: 1. In the left chart, figures for the left column are from "Japanese Science and Technology Indicators 2019," NISTEP RESEARCH MATERIAL No. 283, National Institute of Science and Technology Policy, Tokyo. Figures for the right column are calculated by BOJ staff based on this material.
 2. As for the left column in the left chart, the number of highly cited papers is the adjusted number of papers ranked in the top 10 percent in terms of citation counts in each field and each year. Based on the fractional counting method. 2015-2017 average.
 3. As for the right column in the left chart, figures for the United States, China, and Japan are for 2017; those for the United Kingdom and Germany are for 2016; that for France is for 2015.

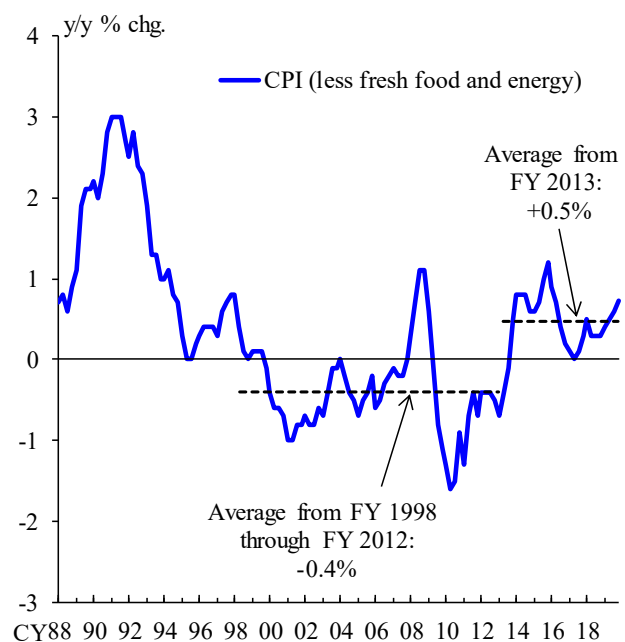
Sources: OECD; National Institute of Science and Technology Policy.

Nominal Wages and Consumer Prices

Scheduled Cash Earnings and Base Pay Increase



Consumer Prices

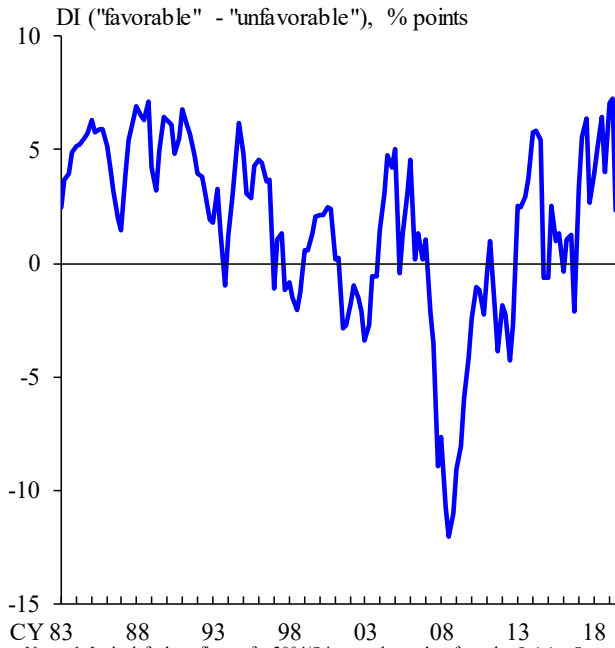


Note: In the right chart, figures are adjusted for the effects of the consumption tax hikes. Figures incorporate the effects of the October 2019 tax hike and policies concerning the provision of free education.

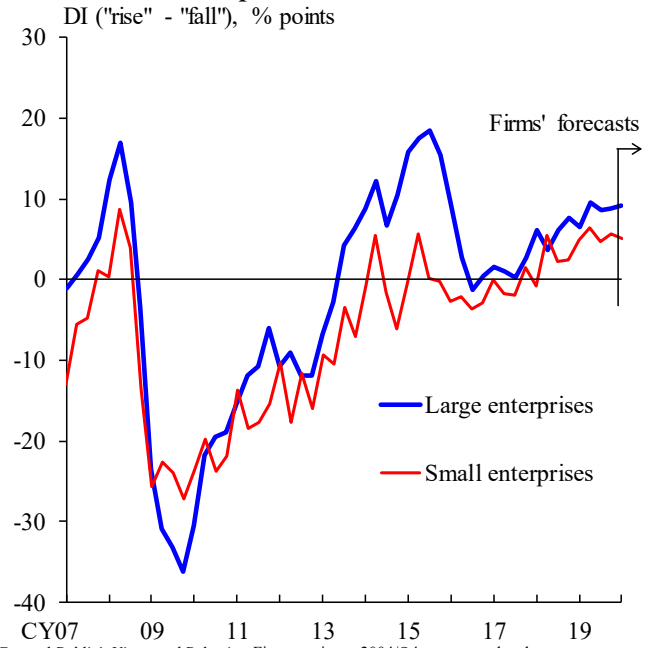
Sources: Ministry of Health, Labour and Welfare; Central Labour Relations Commission; Japanese Trade Union Confederation (Rengo); Ministry of Internal Affairs and Communications.

Households' Tolerance of Price Rises and Firms' Price-Setting Stance

Households' Tolerance of Price Rises



Output Prices DI for Consumption-Related Industries



Notes: 1. In the left chart, figures for 2004/Q4 onward are taken from the *Opinion Survey on the General Public's Views and Behavior*. Figures prior to 2004/Q4 are extrapolated backward using the overall livelihood DI in the "Consumer Confidence Survey." The average of figures for 2004/Q4 onward is normalized to zero.

2. In the right chart, figures are calculated as the weighted average of the DI for changes in output prices in "retailing," "services for individuals," and "accommodations, eating & drinking services." The number of reporting enterprises is used as weights.

Sources: Bank of Japan; Cabinet Office.