

(English translation prepared by the Bank's staff based on the Japanese original)

**March 14, 2012**

**Bank of Japan**

**Monthly Report of Recent Economic and Financial Developments<sup>1</sup>**

**March 2012**

**Summary**

Japan's economic activity has remained more or less flat, although it has shown some signs of picking up.

Overseas economies still have not emerged from a deceleration phase on the whole. Exports and production have remained more or less flat, mainly due to the developments in overseas economies and to the effects of the yen's appreciation. As for domestic demand, business fixed investment has been on a moderate increasing trend aided by the restoration of disaster-stricken facilities. Private consumption has firmed up due in part to the effects of measures to stimulate demand for automobiles. Housing investment has generally been picking up and public investment has stopped declining. Meanwhile, production and public investment have begun to show signs of a possible pick-up in the coming period.

With regard to the outlook, Japan's economy is expected to gradually emerge from the current phase of flat growth and return to a moderate recovery path as the pace of recovery in overseas economies picks up, led by emerging and commodity-exporting economies, and reconstruction-related demand after the earthquake disaster gradually strengthens.

Exports are expected to gradually emerge from the current phase of flat growth and increase moderately, mainly reflecting a pick-up in the pace of recovery in overseas economies. Business fixed investment is projected to continue a moderate increasing trend, partly due to efforts by firms to restore and reconstruct disaster-stricken facilities, although the effects such as those of the slowdown in

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<sup>1</sup> This report is based on data and information available at the time of the Bank of Japan Monetary Policy Meeting held on March 12 and 13, 2012.

overseas economies will remain for the time being. Housing investment and public investment are expected to increase gradually, mainly due to the materialization of reconstruction-related demand. Private consumption is expected to remain firm as the employment situation gradually heads toward improvement. With these developments in demand both at home and abroad, production is expected to increase moderately.

On the price front, the three-month rate of change in domestic corporate goods prices has been more or less flat. The year-on-year rate of change in consumer prices (all items less fresh food) is currently around 0 percent.

Domestic corporate goods prices are expected to move slightly upward for the time being, mainly reflecting movements in international commodity prices. The year-on-year rate of change in consumer prices is expected to remain at around 0 percent for the time being.

The weighted average of the overnight call rate has been below the 0.1 percent level, and interest rates on term instruments have been more or less unchanged. Meanwhile, compared with last month, stock prices have risen, while the value of the yen against the U.S. dollar has fallen. Long-term interest rates have remained at more or less the same level as last month.

Financial conditions have continued to ease.

The overnight call rate has remained at an extremely low level, and firms' funding costs have declined moderately. Stimulative effects from low interest rates are still partly constrained given current developments in economic activity and prices. With regard to credit supply, firms have continued to see financial institutions' lending attitudes as being on an improving trend. Issuing conditions for CP have continued to be favorable. Those for corporate bonds have also remained favorable on the whole. As for credit demand, firms have shown signs of increasing their demand mainly for working capital and funds related to mergers and acquisitions. Against this backdrop, the year-on-year rate of increase in the amount outstanding of bank lending has risen. The year-on-year rate of change in the

amount outstanding of CP has been positive, while that of corporate bonds has recently been slightly negative partly because some issuers have shifted to the CP market. In these circumstances, firms have retained their recovered financial positions on the whole. Meanwhile, the year-on-year rate of change in the money stock has been positive at around 3 percent.