

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

July 12, 2013

Bank of Japan

Monthly Report of Recent Economic and Financial Developments¹

July 2013

Summary

Japan's economy is starting to recover moderately.

As for overseas economies, while the manufacturing sector continues to show a lackluster performance, they are gradually heading toward a pick-up as a whole. In this situation, exports have been picking up. Business fixed investment has stopped weakening and shown some signs of picking up as corporate profits have improved. Public investment has continued to increase, and the pick-up in housing investment has become evident. Private consumption has remained resilient, assisted by the improvement in consumer sentiment. Reflecting these developments in demand both at home and abroad, industrial production is increasing moderately. Business sentiment has been improving.

With regard to the outlook, Japan's economy is expected to recover moderately on the back of the resilience in domestic demand and the pick-up in overseas economies.

Exports are expected to increase moderately mainly against the background of the pick-up in overseas economies. As for domestic demand, public investment is expected to continue trending upward supported by the effects of various economic measures, and housing investment to increase. Business fixed investment is projected to follow a moderate increasing trend, partly due to investment related to disaster prevention and energy, as corporate profits continue to improve. Private consumption is expected to remain resilient, supported in part by improvement in the employment situation. Under these circumstances, industrial production is expected

¹ This report is based on data and information available at the time of the Bank of Japan Monetary Policy Meeting held on July 10 and 11, 2013.

to continue increasing moderately.

Meanwhile, there remains a high degree of uncertainty about the global economy.

On the price front, the three-month rate of increase in domestic corporate goods prices is narrowing against the backdrop of movements in international commodity prices and foreign exchange rates. The year-on-year rate of change in consumer prices (all items less fresh food) is currently 0 percent. Some indicators suggest a rise in inflation expectations.

Domestic corporate goods prices are expected to rise moderately for the time being. The year-on-year rate of change in consumer prices is likely to turn positive.

Financial conditions are accommodative.

The monetary base has increased significantly as asset purchases by the Bank of Japan have progressed, and the year-on-year rate of growth has been at around 35 percent.

Firms' funding costs have been hovering at low levels. With regard to credit supply, firms have continued to see financial institutions' lending attitudes as being on an improving trend. Issuing conditions for CP and corporate bonds have remained favorable on the whole. Firms' credit demand has been increasing moderately, 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 been at around 2 percent. The year-on-year rate of change in the amount outstanding of CP and corporate bonds has been positive. Firms have retained their recovered financial positions on the whole. Meanwhile, the year-on-year rate of growth in the money stock has been in the range of 3.5-4.0 percent.

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. Compared with last month, stock prices have risen. Meanwhile, the value of the yen

against the U.S. dollar and long-term interest rates have remained at more or less the same levels as last month.