

Economic Activity, Prices, and Monetary Policy in Japan

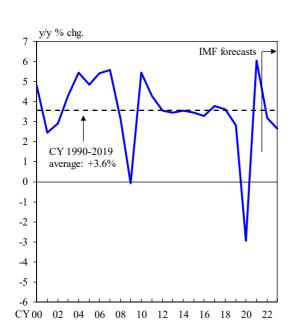
Speech at a Meeting with Local Leaders in Akita

December 1, 2022

NOGUCHI Asahi Member of the Policy Board Bank of Japan

Chart 1

IMF Forecasts for Global Growth (October 2022 WEO)



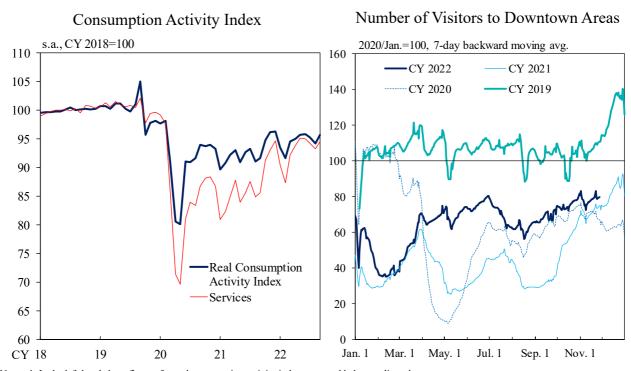
Global Growth Rate

Major Economies' Growth Rates

				y/y % ch	g., % points
		CY 2020	CY 2020 CY 2021	CY 2022	CY 2023
		01 2020	01 2021	[Forecast]	[Forecast]
World		-3.0	6.0	3.2	2.7
				(0.0)	(-0.2)
	lvanced	-4.4	5.2	2.4	1.1
eco	onomies			(-0.1)	(-0.3)
	United States	-3.4	5.7	1.6	1.0
	Officed States			(-0.7)	(0.0)
	Euro area	-6.1	5.2	3.1	0.5
	Euro area			(0.5)	(-0.7)
	Links d Kingdom	-9.3	7.4	3.6	0.3
	United Kingdom			(0.4)	(-0.2)
	T	-4.6	1.7	1.7	1.6
	Japan			(0.0)	(-0.1)
Em	erging market and	-1.9	6.6	3.7	3.7
dev	eloping economies			(0.1)	(-0.2)
	C1 ·	2.2	8.1	3.2	4.4
	China			(-0.1)	(-0.2)
	L	-6.6	8.7	6.8	6.1
	India			(-0.6)	(0.0)
	ACEAN 5	-3.4	3.4	5.3	4.9
	ASEAN-5			(0.0)	(-0.2)

Note: In the table, figures in brackets are the differences from the forecasts in the July 2022 World Economic Outlook (WEO) Update. Source: IMF.

Private Consumption

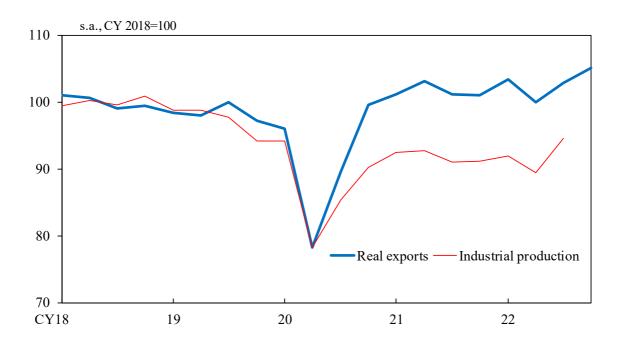


Notes: 1. In the left-hand chart, figures for real consumption activity index are travel balance adjusted.2. In the right-hand chart, figures are the sum of the differences in the number of visitors between 9 p.m. and 4 a.m. on the following day in 63 downtown areas.

Sources: NTT DOCOMO, INC; DOCOMO InsightMarketing, INC; Bank of Japan.

Chart 3

Exports and Production

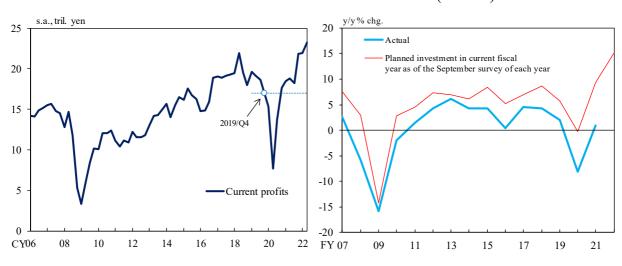


Note: Figures for real exports for 2022/Q4 are those for October. Sources: Ministry of Economy, Trade and Industry; Bank of Japan.

Corporate Profits and Business Fixed Investment

Corporate Profits

Business Fixed Investment (Tankan)



Notes: 1. In the left panel, figures are based on the *Financial Statements Statistics of Corporations by Industry, Quarterly*, and exclude "finance and insurance." Figures from 2009/Q2 onward exclude pure holding companies.

2. In the right panel, figures are based on the *Tankan*, including software and R&D investments, but excluding land purchasing expenses. R&D investment is not covered as a survey item before the March 2017 survey. The figures are for all industries and enterprises including financial institutions.

Sources: Ministry of Finance; Bank of Japan.

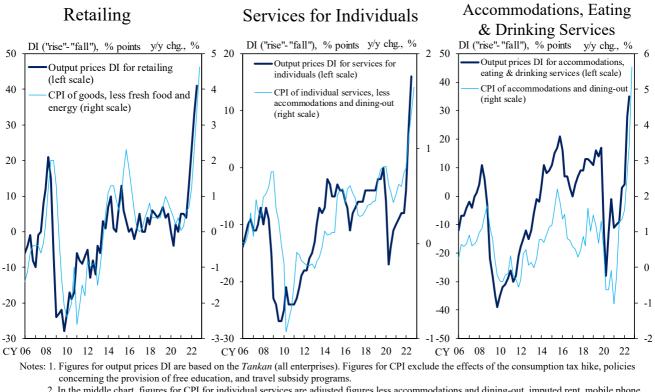
Chart 5

Consumer Prices

							y/y % chg.
	22/Q1	Q2	Q3	22/July	August	September	October
CPI for all items	0.9	2.4	2.9	2.6	3.0	3.0	3.7
Less fresh food	0.6	2.1	2.7	2.4	2.8	3.0	3.6
Less fresh food and energy	-0.9	0.9	1.5	1.2	1.6	1.8	2.5
(Reference: contribution to the CPI for all items less fresh food)							
Energy	1.4	1.3	1.3	1.3	1.3	1.3	1.2
Food products	0.3	0.5	0.7	0.7	0.7	0.8	1.0
General services (less mobile phone charges)	0.2	0.3	0.4	0.3	0.4	0.4	0.4
Mobile phone charges	-1.5	-0.4	-0.3	-0.4	-0.2	-0.2	0.0

Source: Ministry of Internal Affairs and Communications.

Changes in Consumption-Related Firms' Price-Setting Stance



2. In the middle chart, figures for CPI for individual services are adjusted figures less accommodations and dining-out, imputed rent, mobile phone charges, and package tours to overseas.

3. Figures for CPI for 2022/Q4 are those for October.

Sources: Ministry of Internal Affairs and Communications; Bank of Japan.

Chart 7

The Bank's Measures in Response to COVID-19

Supporting Corporate Financing

Special Program to Support Financing in Response to COVID-19

Purchases of CP and corporate bonds: amount outstanding of about 20 tril. yen at maximum (previous amount outstanding of about 5 tril. yen) Special Funds-Supplying Operations to Facilitate Financing in Response to COVID-19

Stabilizing Financial Markets

Ample and Flexible Provision of Yen and Foreign Currency Funds

Active purchases of JGBs and T-Bills

U.S. Dollar Funds-Supplying Operations

Lowering Risk Premia in Asset Markets

Purchases of ETFs and J-REITs

ETFs: annual pace with an upper limit of about 12 tril. yen J-REITs: annual pace with an upper limit of about 180 bil. yen

Chart 8

Revisions to the Bank's Measures to Support Corporate Financing (December 2021 MPM)

Large firms: <u>Issuan</u> liquidit SMEs: Financial po	ce conditions for CP a y has subsided in the ositions have been on	proved on the Whole and corporate bonds have been fave loan market. an improving trend on the whole, b to-face services industry.			
Partial Extens		Program to Support Financing ch 2022 → until end-Septemb			
Purchases of CP and	Special Funds-Supplying Operations to Facilitate Financing in Response to COVID-19				
corporate bonds	Against private debt pledged as collateral	Against government- supported loans	Against non-government- supported loans		
Additional purchases to be completed Continue purchasing the same amount as prior to the COVID-19 pandemic	To be completed	Extend by six months the fund-provisioning to financial institutions against their loans Under the revised terms and conditions Applied interest rate: 0% (Category III) Amount added to the Macro Add-on Balances: the amount outstanding of funds provided	Extend by six months Under the current terms and conditions Applied interest rate: 0.2% (Category I) Amount added to the Macro Add-on Balances: twice as much as the amount outstanding of funds provided		
Mainly for large firr	ns and housing loans	Mainly f	for SMEs		
		k will closely monitor the ake additional easing mea			

Revisions to the Bank's Measures to Support Corporate Financing^{Chart 9} (September 2022 MPM)

Phasing Out of the Special Funds-Supplying Operations to Facilitate Financing in Response to COVID-19			
Against non-government- supported loans	Extend by <u>six months</u> and complete the fund-provisioning at <u>the end of March 2023</u> . ➤ During the extended implementation period, provide three-month funds once a month.		
Against government-supported loans	 Extend by <u>three months</u> and complete the fund-provisioning at <u>the end of December 2022</u>. ➤ During the extended implementation period, provide three-month funds once a month. 		

Shift to Fund-Provisioning that Would Meet a Wide Range of Financing Needs

Funds under the Funds-Supplying Operations against Pooled Collateral Set <u>no upper limit</u> on the amount (previously 2 tril. yen).

> Various types of collateral are accepted for Pooled Collateral.

Support financing, mainly of small and medium-sized firms, even after the expiration of the above special
operations.

• Meet a wider range of financing needs.

The Bank continues to firmly maintain accommodative financial conditions for firms.

Policy Actions to Conduct Further Effective and Sustainable Monetary Easing

Aim: Further effective and sustainable monetary easing by "<u>enhancing sustainability</u> of monetary easing" & "<u>nimble responses</u> to changes in the situation"

- 1. Establishment of the Interest Scheme to Promote Lending
 - <u>Enable the Bank to cut short- and long-term interest rates</u> <u>more nimbly</u> while considering the impact on the functioning of financial intermediation

2. Clarification of the range of fluctuations in long-term interest rates (±0.25% from the target level)

- Strike a balance between securing effects of monetary easing and maintaining market functioning
- Introduction of "fixed-rate purchase operations for consecutive days"

3. New guideline for ETF and J-REIT purchases

- Purchase ETFs and J-REITs as necessary with upper limits of about 12 tril. yen and about 180 bil. yen, respectively, on annual paces of increase in their amounts outstanding (abolish the guideline for purchasing these assets, in principle, at annual paces of increase in their amounts outstanding of about 6 tril. yen and about 90 bil. yen, respectively)
- Purchase only ETFs tracking the TOPIX

<Interest Scheme to Promote Lending>

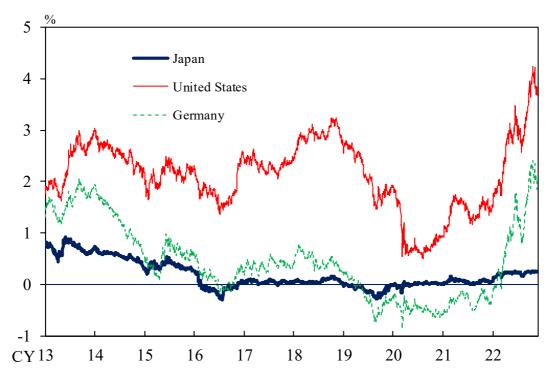
- Apply incentives (linked to the short-term policy interest rate) to financial institutions' (FIs') current account balances, corresponding to the amount outstanding of funds provided through fund-provisioning measures to promote lending
 - Mitigate the impact on FIs' profits at the time of rate cuts depending on the amount of lending
 - The applied interest rates and the eligible fund-provisioning measures for each category will be changed as necessary at MPMs depending on the situation.

<decision< th=""><th>at the</th><th>March</th><th>2021</th><th>MPM></th></decision<>	at the	March	2021	MPM>

	Applied interest rates	Eligible fund-provisioning measures
Category I	0.2% Higher than the rate for Category II	Special Operations in Response to COVID-19, when funds are provided against loans made by FIs on their own
Category II	0.1% Absolute value of the short-term policy interest rate	Special Operations in Response to COVID-19, when funds are provided against loans other than those for Category I and against private debt pledged as collateral
Category III	0% Lower than the rate for Category II	 Loan Support Program Operation to Support FIs in Disaster Areas

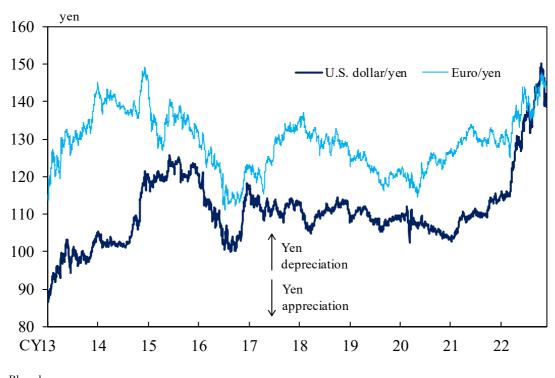
Chart 11

10-Year Government Bond Yields



Source: Bloomberg.

Chart 12

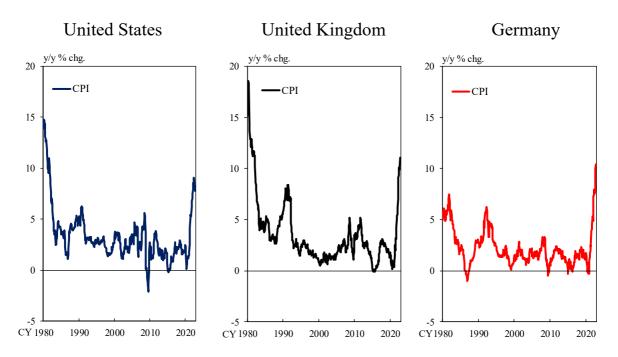


U.S. Dollar/Yen and Euro/Yen

Source: Bloomberg.

Chart 13

High Inflation in the United States and Europe

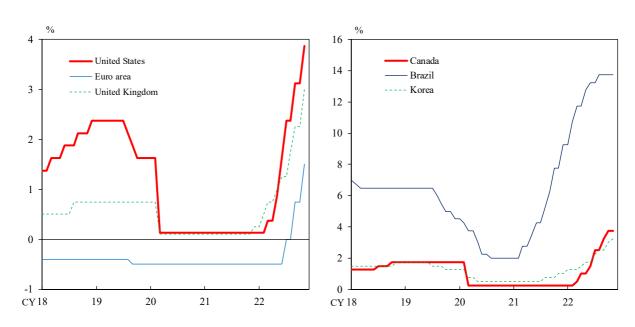


Note: Figures for Germany prior to the reunification of the country are those for the former West Germany. Figures for the United Kingdom prior to 1989 are from the Bank of England's (BOE's) "A millennium of macroeconomic data" and those from 1989 onward are from the Office for National Statistics' (ONS') data. Sources: BOE; OECD; ONS.

Policy Interest Rates

United States and Europe

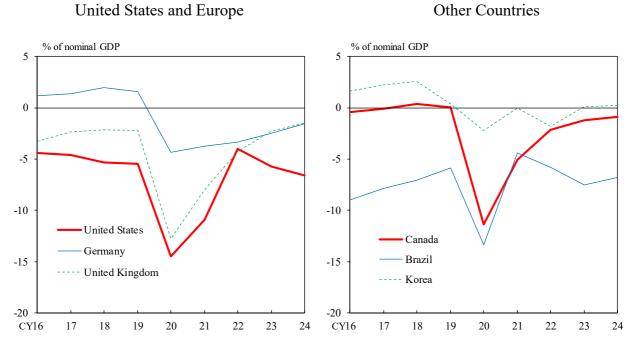
Other Countries



Note: In the left-hand chart, figures for the United States are the medians of the target ranges for the federal funds rate. Those for the euro area are the rates on the deposit facility. Sources: BIS; ECB.

Chart 15

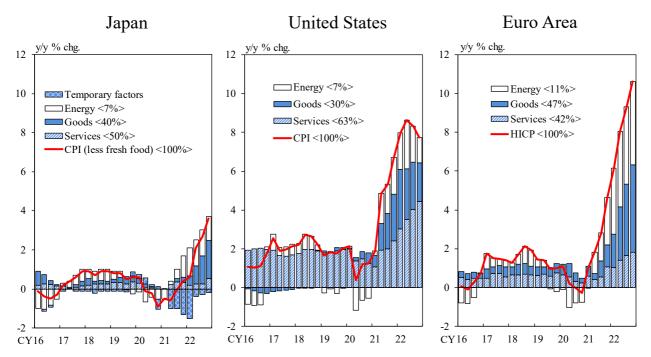
Fiscal Balances



Other Countries

Note: Figures after 2021 are IMF projections. Source: IMF.

Decomposition of Changes in Consumer Prices



Notes: 1. Figures for temporary factors for Japan are Bank staff estimates and consist of the effects of the consumption tax hike and policies concerning the provision of free education, travel subsidy programs, and mobile phone charges.

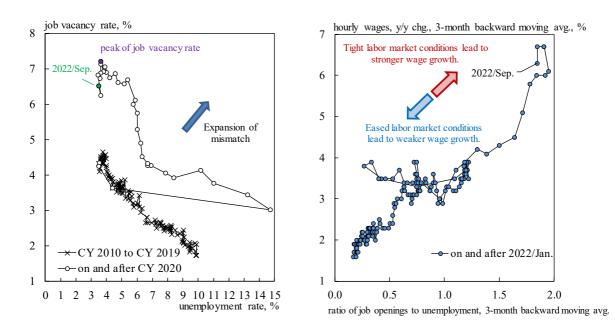
2. Figures in angular brackets show the share of each component. Figures for 2022/Q4 are for October. Sources: Haver Analytics; Ministry of Internal Affairs and Communications.

Chart 17

Labor Market Conditions in the United States

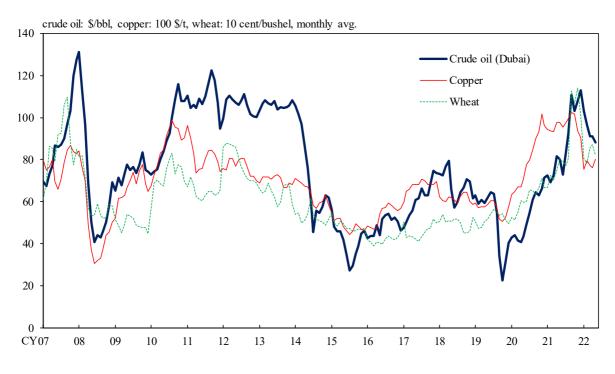
Beveridge Curve

Labor Market Conditions and Wage Growth



Note: In the left chart, hourly wages are those of the Atlanta Fed's Wage Growth Tracker. Source: Haver Analytics.

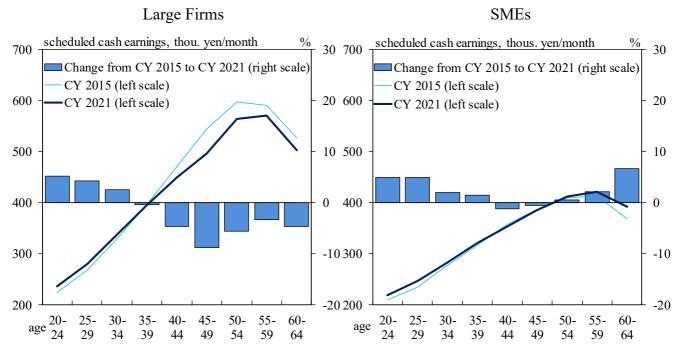
International Commodity Prices



Sources: Bloomberg; Nikkei Inc.

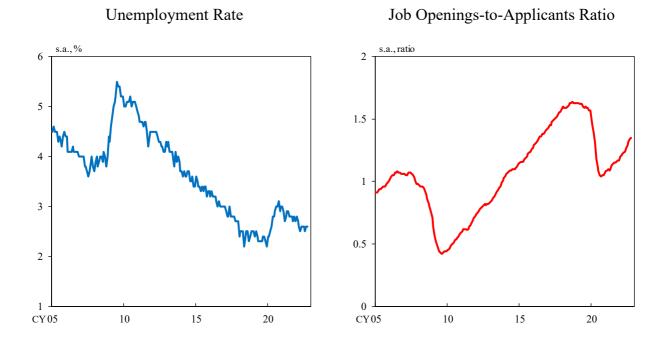
Chart 19

Wage Curve of Regular Employees



Note: Private firms hire more than 10 regular employees (large firms: more than 1,000; SMEs:10-99). Source: Ministry of Health, Labour and Welfare.

Unemployment Rate and Job Openings-to-Applicants Ratio



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