



Economic Activity, Prices, and Monetary Policy in Japan

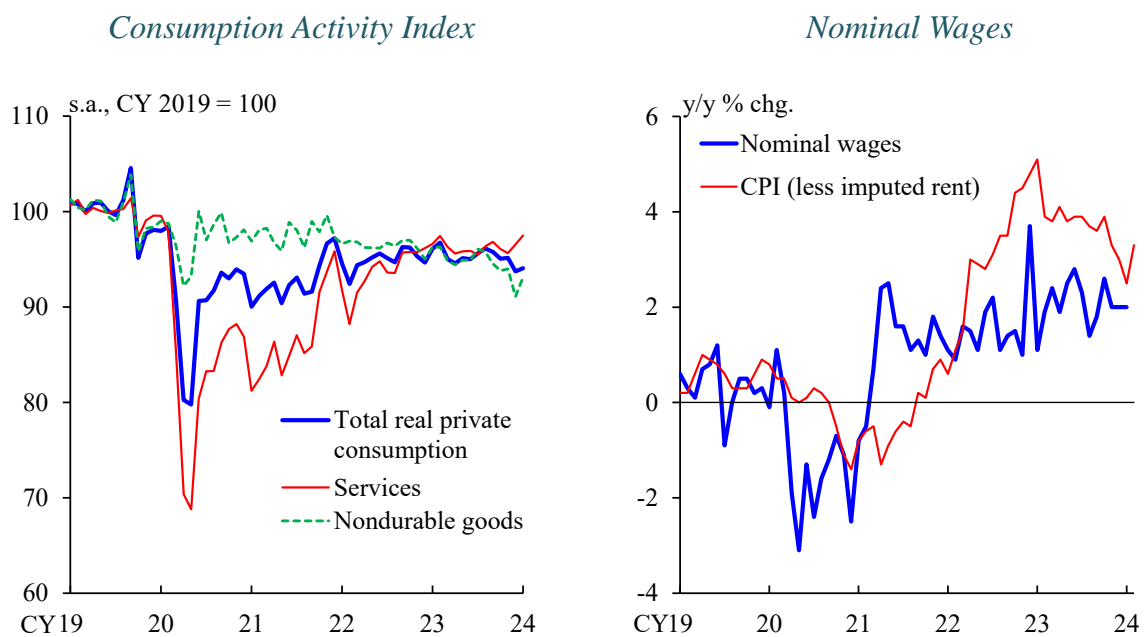
Speech at a Meeting with Local Leaders in Aomori

March 27, 2024

TAMURA Naoki
Member of the Policy Board
Bank of Japan

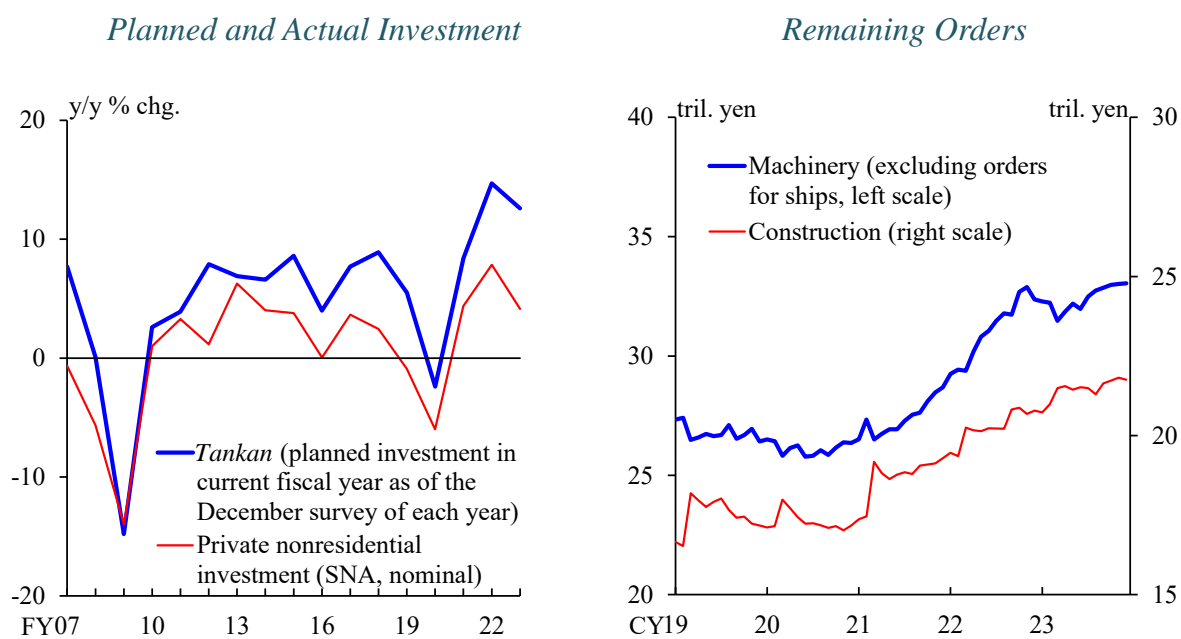
Chart 1

Private Consumption



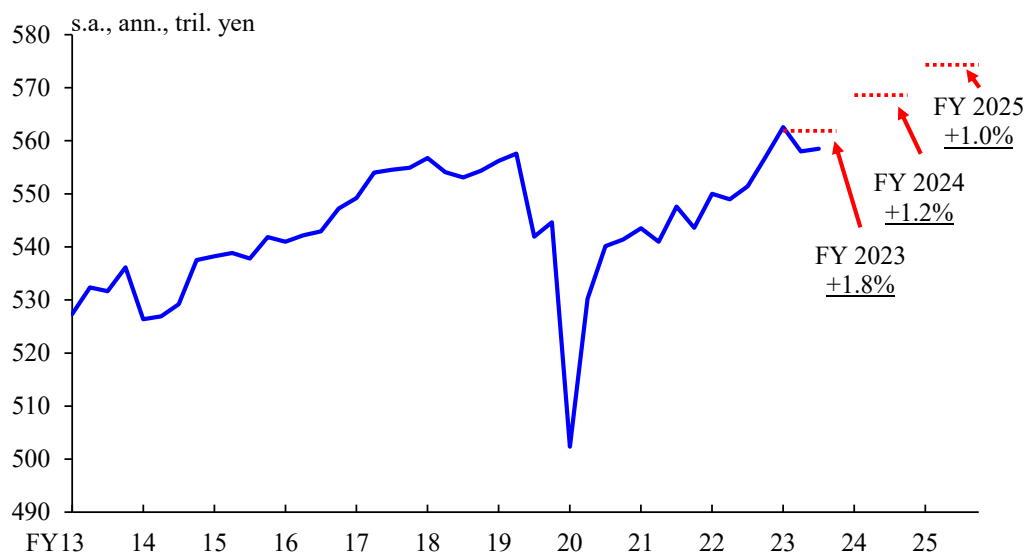
Notes: 1. In the left panel, figures for "total real private consumption" are for the real Consumption Activity Index and are based on Bank staff calculations. The figures exclude inbound tourism consumption and include outbound tourism consumption.
2. In the right panel, figures for "nominal wages" are based on continuing observations following the sample revisions.
Sources: Ministry of Health, Labour and Welfare; Ministry of Internal Affairs and Communications; Bank of Japan.

Business Fixed Investment



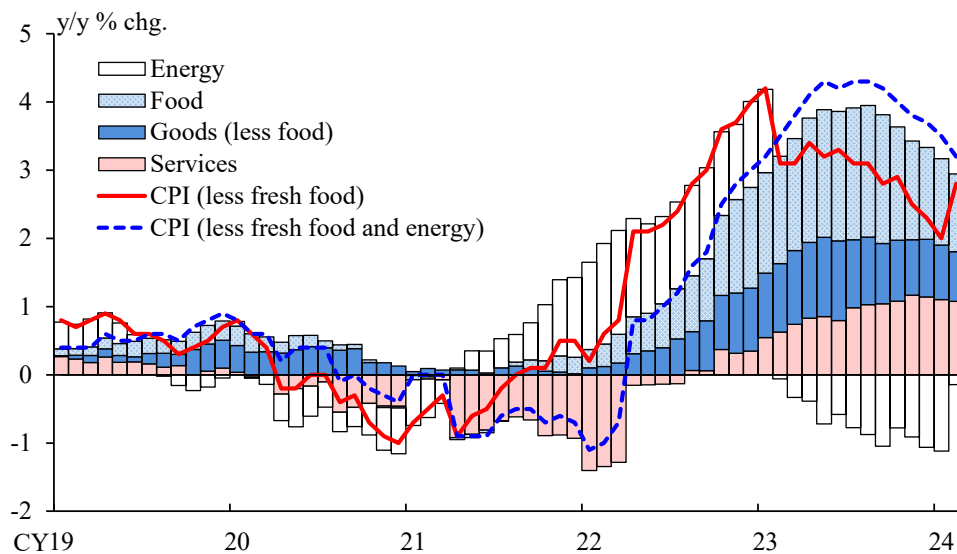
Notes: 1. In the left panel, the *Tankan* figures include software and R&D investments and exclude land purchasing expenses. Figures are for all industries including financial institutions.
 2. In the left panel, the figure for private nonresidential investment for fiscal 2023 is the 2023/Q2-Q4 average.
 3. In the right panel, figures for "construction" are based on the survey of 50 major construction companies.
 Sources: Cabinet Office; Ministry of Land, Infrastructure, Transport and Tourism; Bank of Japan.

The Bank's Forecasts for Real GDP



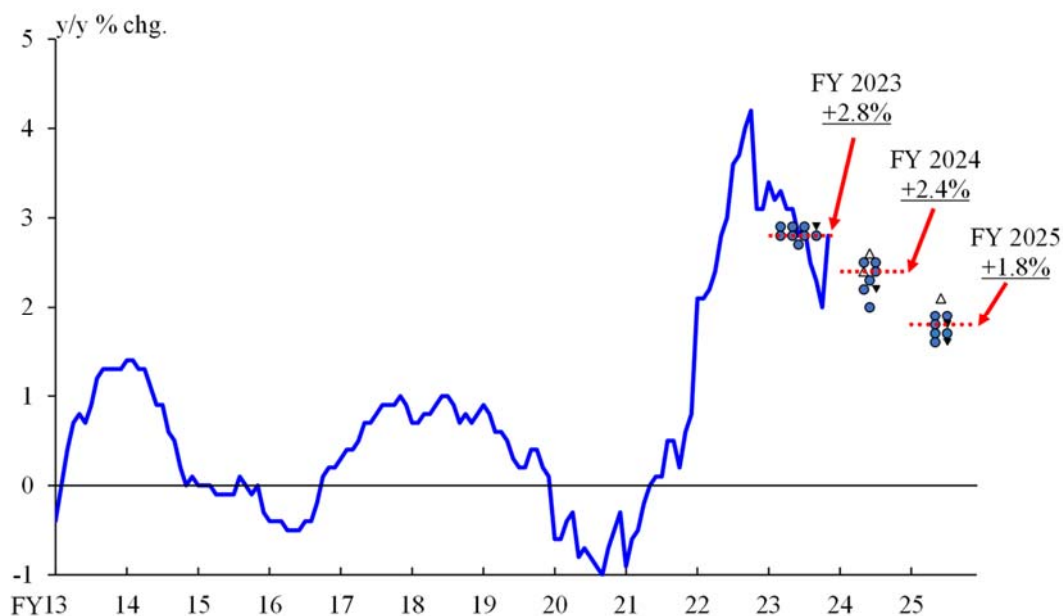
Note: The forecasts presented are the medians of the Policy Board members' forecasts in the January 2024 Outlook Report. The values of real GDP for fiscal 2023 onward are calculated by multiplying the actual figure for fiscal 2022 by all successive projected growth rates for each year.
 Sources: Cabinet Office; Bank of Japan.

Consumer Prices



Source: Ministry of Internal Affairs and Communications.

The Bank's Forecasts for the CPI

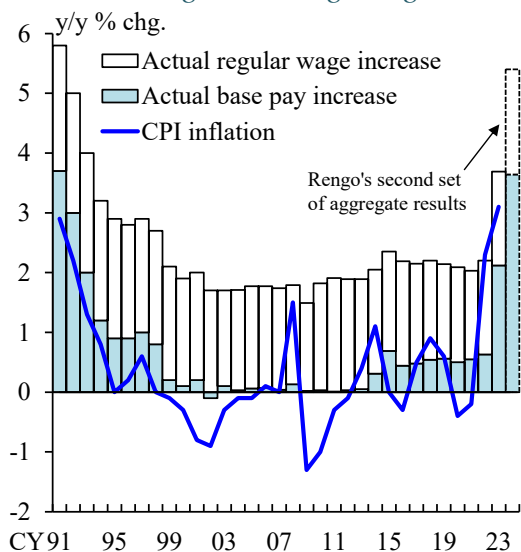


Notes: 1. Figures are the CPI for all items less fresh food, excluding the effects of the consumption tax hikes.
 2. The locations of ●, △, and ▼ in the chart indicate the figures for each Policy Board member's forecasts. The risk balance assessed by each Policy Board member is shown by the following shapes: ● indicates that a member assesses "upside and downside risks as being generally balanced," △ indicates that a member assesses "risks are skewed to the upside," and ▼ indicates that a member assesses "risks are skewed to the downside." The dotted lines show the medians of the Policy Board members' forecasts presented in the January 2024 Outlook Report.

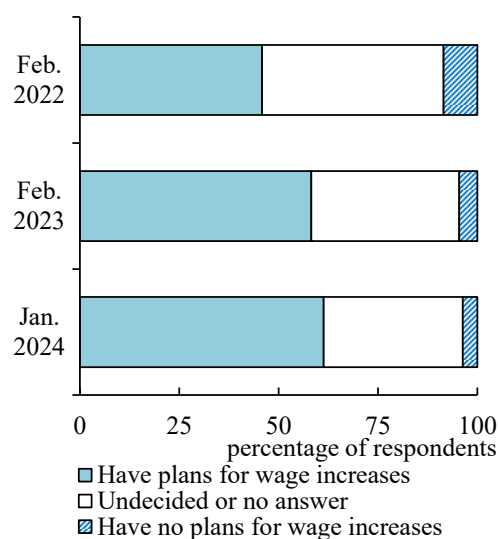
Sources: Ministry of Internal Affairs and Communications; Bank of Japan.

Developments in Wage Revisions

Results of the Annual Spring Labor-Management Wage Negotiations



Survey on Plans for Wage Increases for Next Fiscal Year (Small and Medium-Sized Firms)

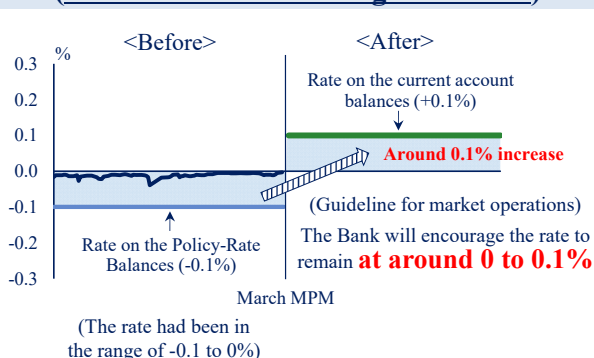


Notes: 1. In the left panel, figures for CPI inflation are for all items less fresh food, excluding the effects of the consumption tax hikes.
 2. In the left panel, figures for "actual base pay increase" and "actual regular wage increase" from 1991 to 2014 are those published by the Central Labour Relations Commission, while those from 2015 to 2024 are figures released by the Japanese Trade Union Confederation (Rengo). Figures are based on the wage negotiation results of labor unions for which the base pay increase is clear. The figure for 2024 is from Rengo's second set of aggregate results.
 3. In the right panel, figures are based on the survey by the Japan Chamber of Commerce and Industry and the Tokyo Chamber of Commerce and Industry. The time period indicated by the bars represents when the survey was conducted. In Japan, the fiscal year starts in April and ends in March of the following year.
 Sources: Central Labour Relations Commission; Japan Chamber of Commerce and Industry; Ministry of Internal Affairs and Communications; Rengo.

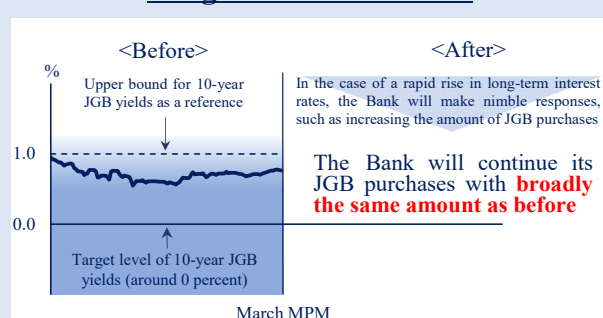
Changes in the Monetary Policy Framework (March 2024)

- As recent data and anecdotal information have gradually shown that the virtuous cycle between wages and prices has become more solid, the Bank judged **it came in sight that the price stability target of 2 percent would be achieved in a sustainable and stable manner** toward the end of the projection period of the January 2024 Outlook Report. It considers that **its large-scale monetary easing measures have fulfilled their roles**, including the negative interest rate policy and the yield curve control.
- With the price stability target, the Bank will conduct monetary policy as appropriate, **guiding the short-term interest rate as a primary policy tool**, in response to developments in economic activity and prices as well as financial conditions from the perspective of sustainable and stable achievement of the target. Given the current outlook for economic activity and prices, it anticipates that **accommodative financial conditions will be maintained for the time being.**

Short-term interest rate (uncollateralized overnight call rate)

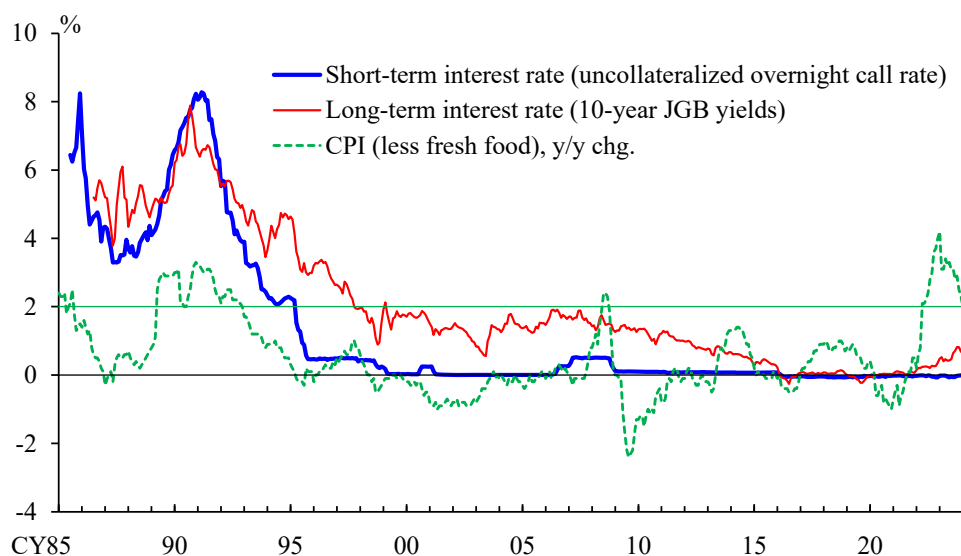


Long-term interest rates



ETFs and J-REITs The Bank will discontinue purchases

Market Interest Rates and Consumer Prices



Note: Figures for the CPI (less fresh food) exclude the effects of the consumption tax hikes.
Sources: Ministry of Finance; Ministry of Internal Affairs and Communications; Bank of Japan.

Side Effects Relating to Interest Rate Functions in a State without Meaningful Interest Rates

(1) Weakening of the hurdle rate function of interest rates

The hurdle rate function acts to urge firms to concentrate their business resources to businesses with high added value that generate profitability that is higher than borrowing interest rates, thereby stimulating business metabolism.

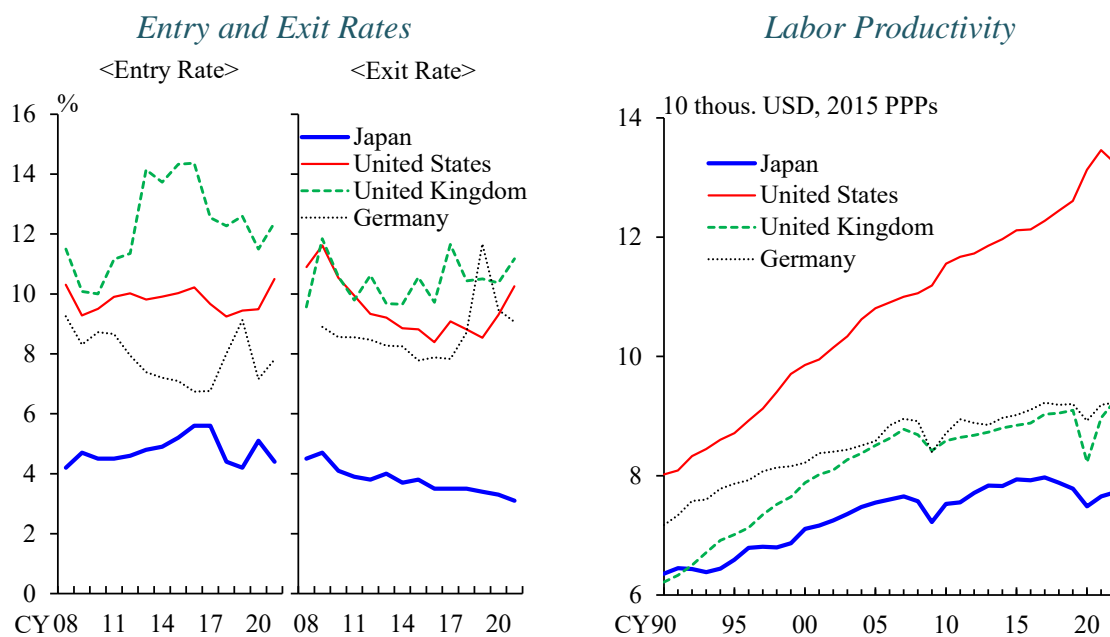
⇒ In a state without meaningful interest rates, it is likely that the channeling of funds into businesses with relatively low productivity has impeded advances in business metabolism.

(2) Weakening of the signaling effects of interest rates

The level of long-term yields on JGBs and how it changes provide a signal for how the market sees factors such as the future state of economic activity and prices and the government's fiscal condition.

⇒ The signaling effects have not been fully exerted.

Entry-Exit Rates and Productivity in Major Economies



Notes: 1. In the left panel, figures for Japan are on a fiscal-year basis. There is a discontinuity between the figures for Germany up to 2020 and those of 2021 due to changes to the definition.

2. In the right panel, figures represent GDP per person employed at constant prices.

Sources: Eurostat; OECD; Small and Medium Enterprise Agency; U.K. Office for National Statistics; U.S. Census Bureau.