

Money, Government Securities and A Central Bank: Interdependency of Confidence

*Speech at the 2011 Spring Meeting of
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Today's Topics

I. Introduction

II. Interdependency of Confidence

Money and Government Securities

Determination by the Government to Underpin Confidence in Private Financial Institutions

Support by the Public to Underpin Confidence in A Government

Determination by the Government and Support by the Public to Underpin Confidence in A Central Bank

III. Issues Related to Fiscal Balance

IV. Role of A Central Bank and Government Securities

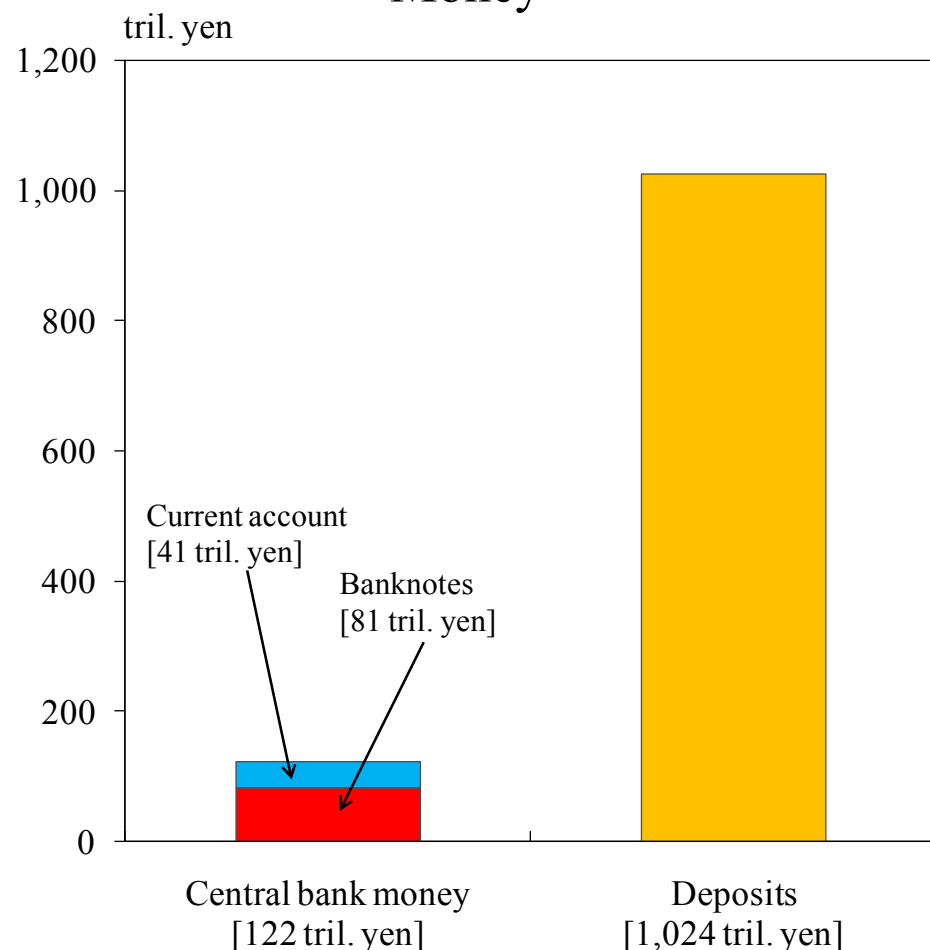
Use of Government Securities in the Money Market Operations

Underwriting of Government Securities by the Bank of Japan

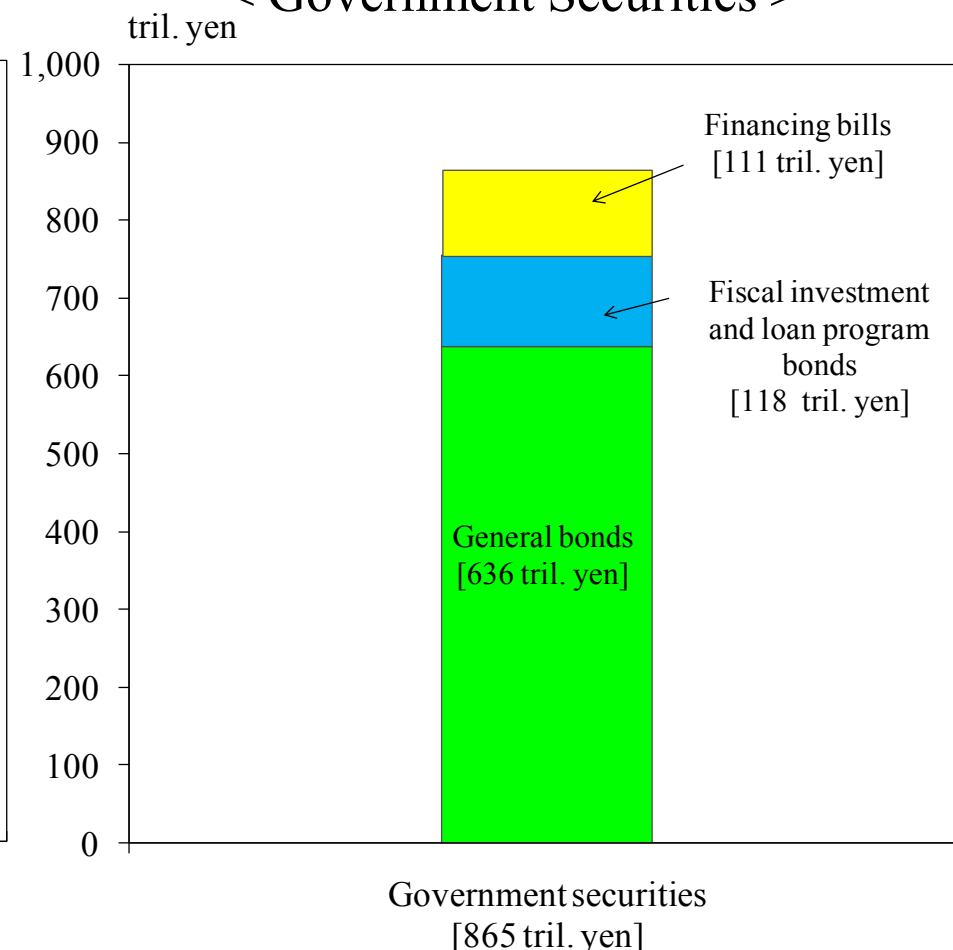
V. Concluding Remarks

Money and Government Securities

< Money >



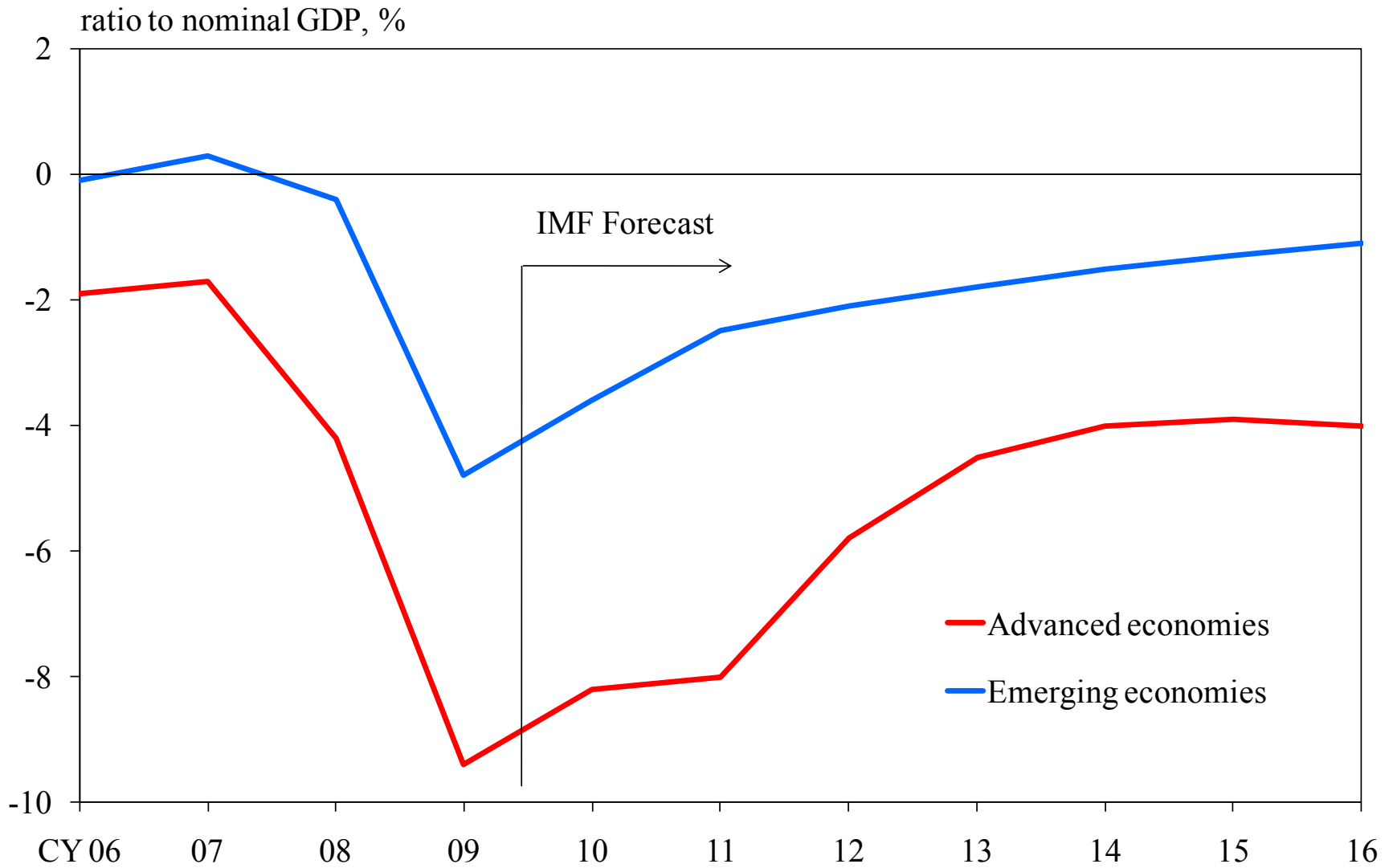
< Government Securities >



Note: The figures are as of end-March 2011. Deposits include deposits of depository institutions. Government securities include general bonds, fiscal investment and loan program bonds and financing bills.

Sources: Ministry of Finance, *Central Government Debt*; Bank of Japan.

Fiscal Balance of General Government

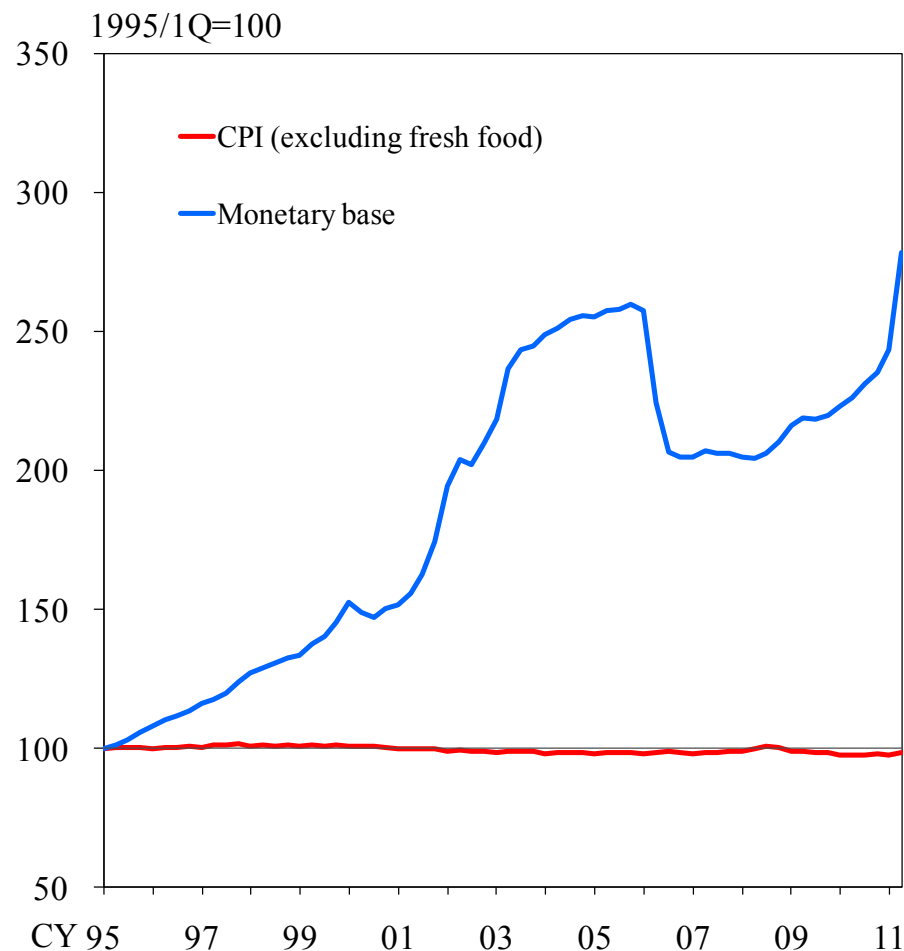


Notes: 1. The general government includes central governments, local governments and social security funds.
2. Advanced economies include Japan, the United States, France, Germany, Italy, United Kingdom, Canada, Australia and Korea, and emerging economies include the remaining G20 countries.

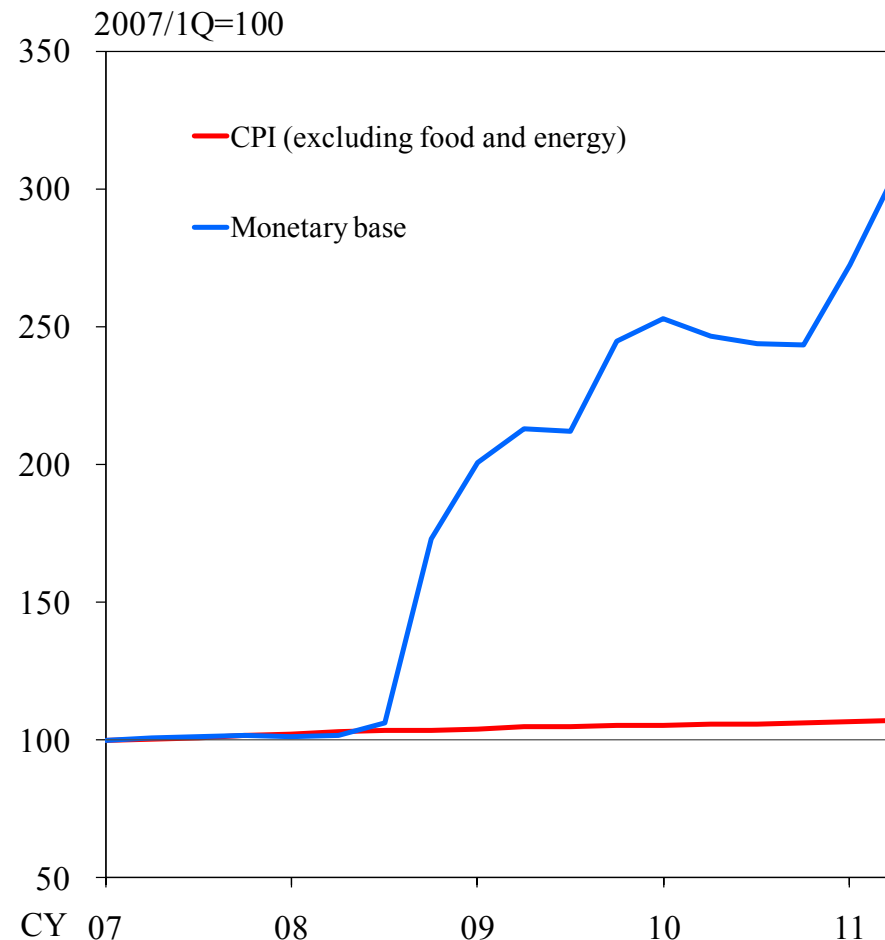
Source: IMF.

Monetary Base and Consumer Price

< Japan >



< United States >

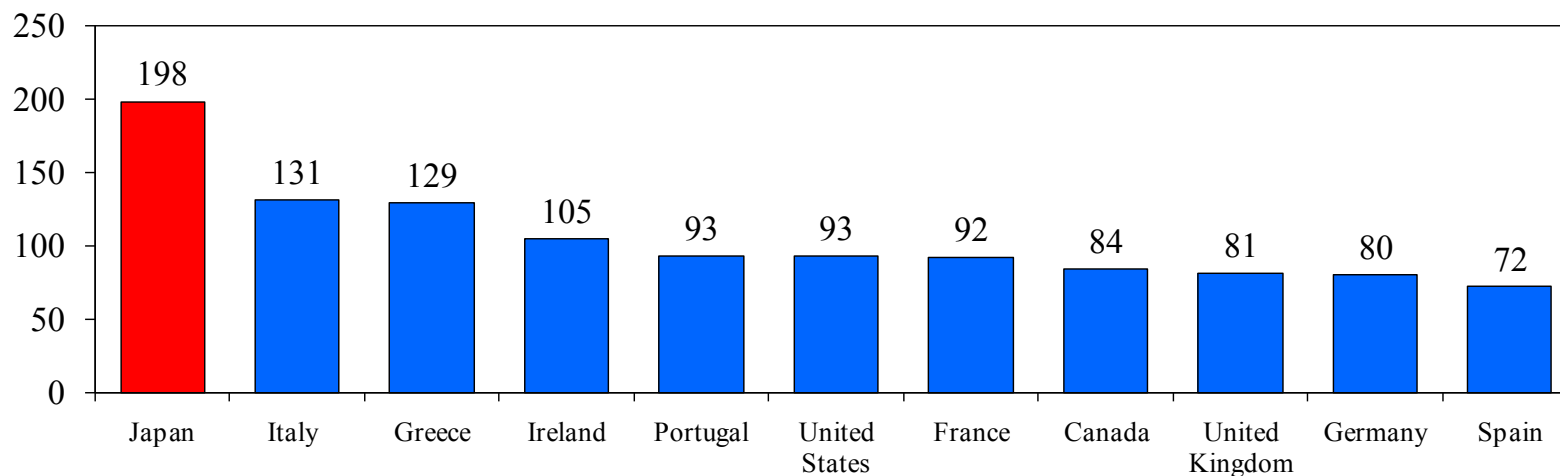


Note: Figures for Japan's CPI are adjusted to exclude the effects of changes in the consumption tax rate.

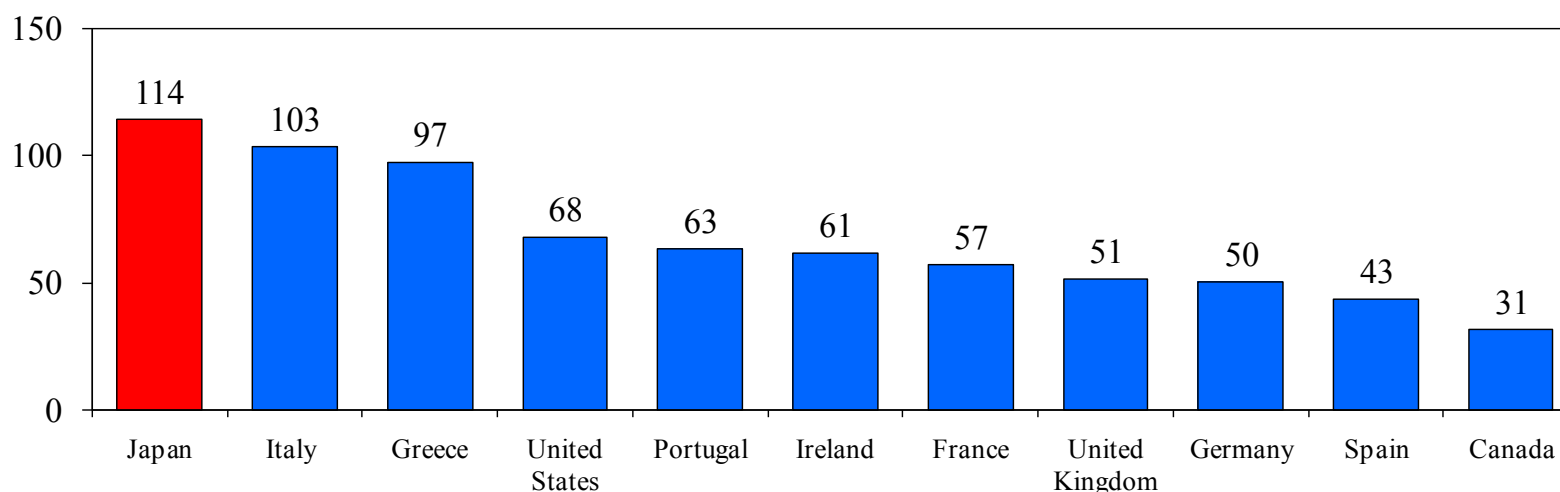
Sources: Ministry of Internal Affairs and Communications, *Consumer Price Index*; Bank of Japan; BLS; FRB.

Outstanding Amount of Liabilities of General Governments (Year 2010)

Gross Financial Liabilities : ratio to nominal GDP, %



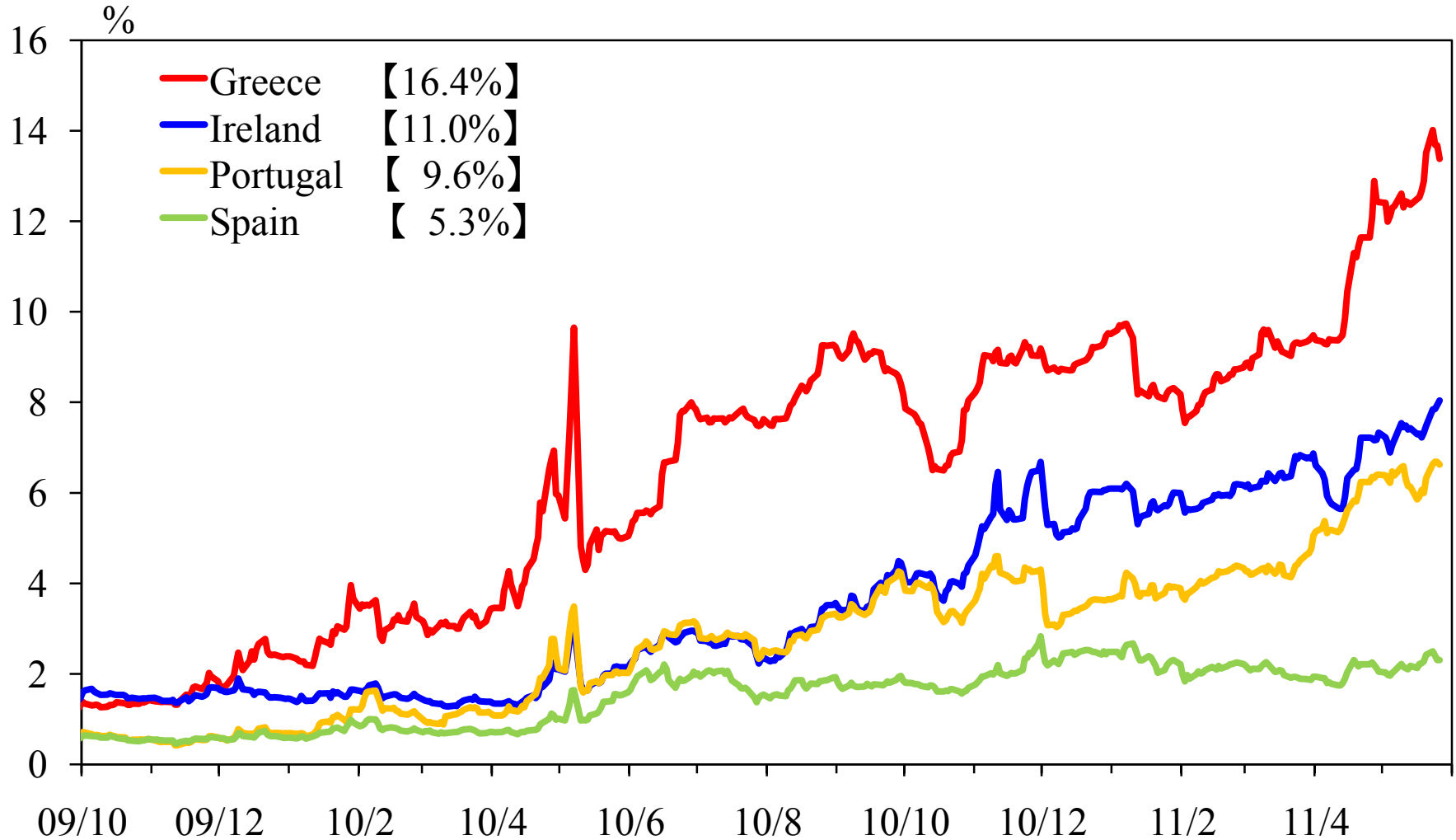
Net Financial Liabilities: ratio to nominal GDP, %



Note: Liabilities of general governments are those of central governments, local governments and social security funds.

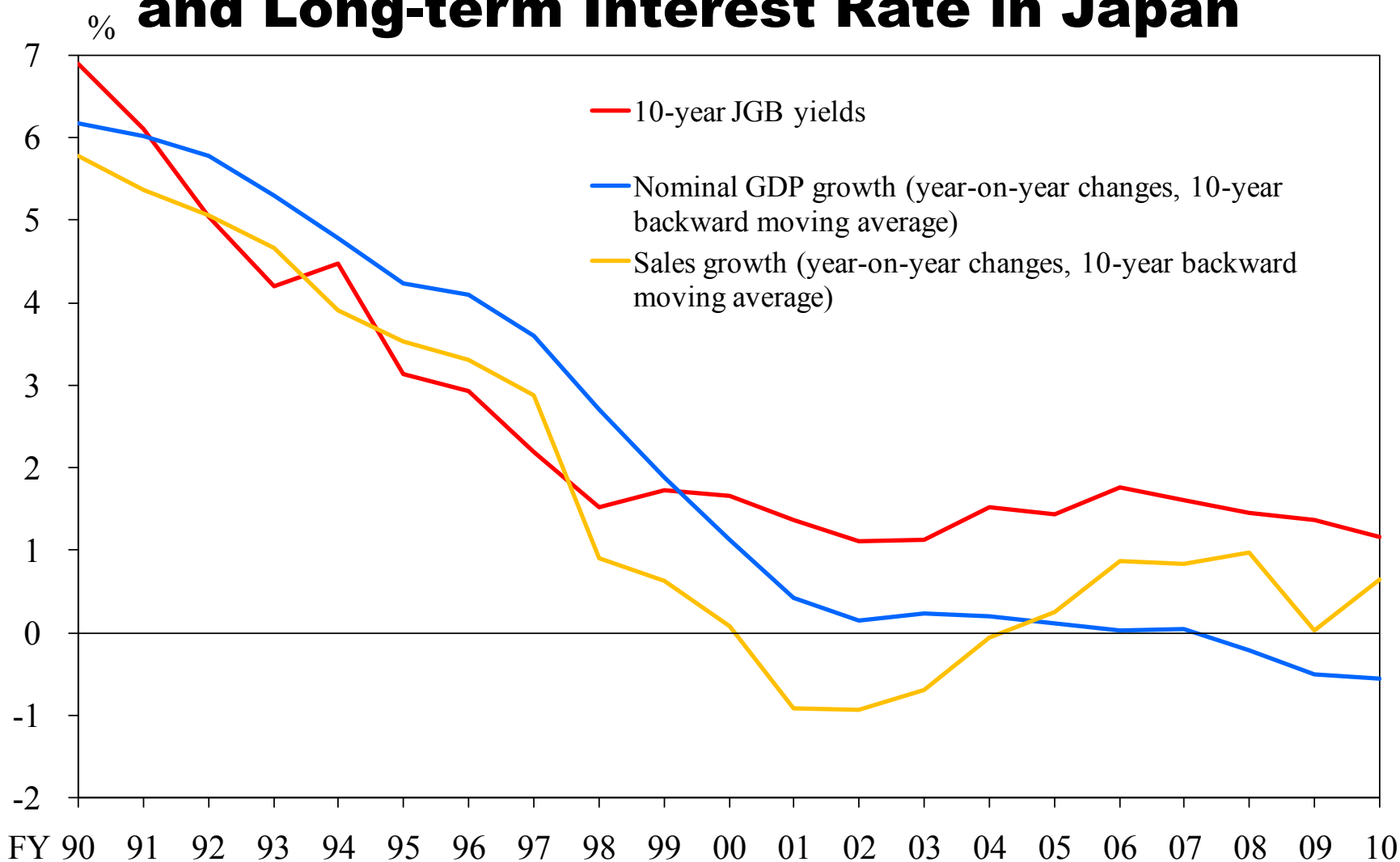
Source: OECD.

Yield Spreads for European Government Bonds



Notes: 1. The yield spreads for 10-year government securities issued by European countries minus those issued by Germany.
2. Figures in square brackets are 10-year government securities yields.

Nominal GDP Growth, Sales Growth and Long-term Interest Rate in Japan



Note: Sales are the total of all industries and all sizes of *Financial Statements Statistics of Corporations by Industry*. The figure for 2010 covers months from April to December only.

Sources: Cabinet Office, *National Accounts*; Ministry of Finance, *Financial Statements Statistics of Corporations by Industry, Annually*, *Financial Statements Statistics of Corporations by Industry, Quarterly*; Bank of Japan.

Bank of Japan's Money Market Operations and Japanese Government Securities

(Bank of Japan's Money Market Operations and Assets)

(tril. yen)

	End-April 2011		
		(share)	[y-y chg.]
Outright Purchases of Japanese Government Bonds	60.0	(44.6%)	[+ 8.2]
Outright Purchases of Treasury Discount Bills	5.3	(4.0%)	[▲ 3.7]
Funds-Supplying Operations against Pooled Collateral	44.5	(33.1%)	[+ 20.1]
Other Funds-Supplying Operations	1.3	(1.0%)	[▲ 5.8]
Funds-Provisioning Measure to Support Strengthening the Foundations for Economic Growth	2.2	(1.6%)	[+ 2.2]
Japanese Government Securities Purchased through the Bank's Asset Purchase Program	2.4	(1.8%)	[+ 2.4]
Japanese Government Bonds	0.9	(0.7%)	[+ 0.9]
Treasury Discount Bills	1.5	(1.1%)	[+ 1.5]
Others	16.5	(12.2%)	[▲ 5.3]
Total Assets	134.6	(100.0%)	[+ 20.4]

Loans made against pooled eligible collateral accepted by the Bank of Japan by way of open market operations

(Collateral Accepted by the Bank of Japan)

(collateral value, tril. yen)

	End-April 2011	
		(share)
Japanese Government Securities	104.4	(76.3%)
Japanese Government Bonds	81.6	(59.6%)
Treasury Discount Bills	22.8	(16.7%)
Loans on Deeds to the Government	17.3	(12.6%)
Corporate Debt (Corporate Bonds, Bills, and Loans on Deeds to Companies)	7.9	(5.8%)
Others	7.3	(5.3%)
Total	136.8	(100.0%)

(Currency Supplied by the Bank of Japan and the Bank's Liabilities)

(tril. yen)

	End-April 2011		
		(share)	[y-y chg.]
Central Bank Money (Current Account Balances + Banknotes in Circulation)	115.9	(86.1%)	[+ 20.7]
Total Liabilities and Capital	134.6	(100.0%)	[+ 20.4]

Note: The figures for Funds-Supplying Operations against Pooled Collateral include the amount outstanding of that conducted through the Bank's Asset Purchase Program.

Bank of Japan's Purchases of Japanese Government Bonds (JGBs)

(Amounts to Be Purchased from Specific Brackets Classified by Bond Type and Residual Maturity)

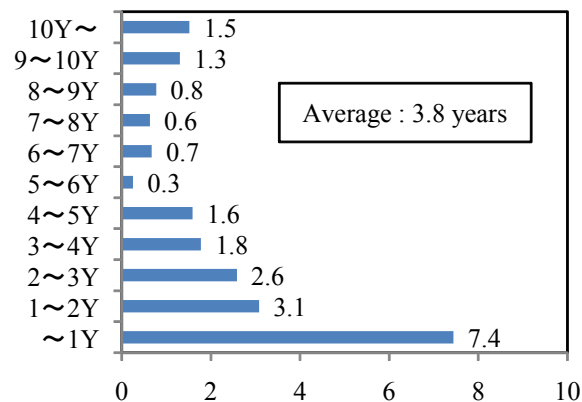
Bonds with Coupons (excluding Floating-Rate Bonds and Inflation-Indexed Bonds)			Floating-Rate Bonds	Inflation-Indexed Bonds	Total
Residual Maturity of					
up to 1 year	more than 1 year and up to 10 years	more than 10 years and up to 30 years			
7.44 tril. yen per year	12.0 tril. yen per year	1.2 tril. yen per year	0.72 tril. yen per year	0.24 tril. yen per year	21.6 tril. yen per year

<Frequency in Purchases>

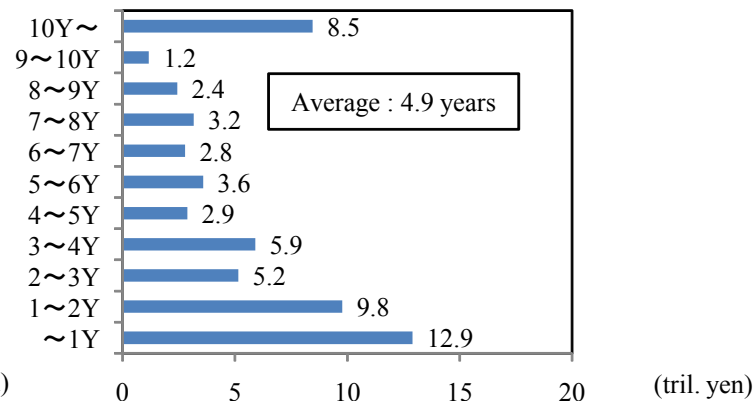
twice a month	four times a month	once a month	once in an even month	once in an odd month
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(Maturity Composition of Amounts of JGBs Purchased by the Bank of Japan)

1) Maturity Composition of Amounts of JGBs Purchased by the Bank of Japan in Fiscal 2010



2) Maturity Composition of Amounts Outstanding Purchased by the Bank of Japan (End-March 2011)



Note: Figures do not include those purchased under the Bank's Asset Purchase Program in this slide.

Comparison of Economic Condition between the Early 1930s and Present

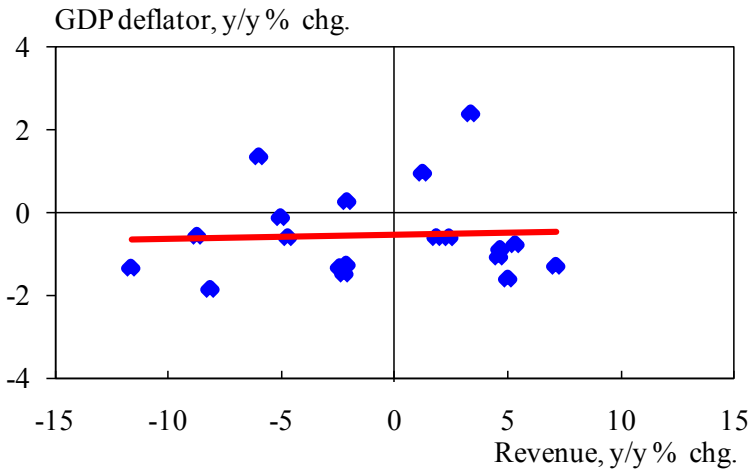
		The early 1930s	Present
Interest rates			
	Call rate ¹⁾	6.57%	0.07%
	Long-term rate ²⁾	5.85%	1.14%
Fiscal indicators (as of percentage of GDP)			
	Government securities outstanding ³⁾	47.6%	181.9%
	Annual issuance of government securities ⁴⁾	0.9%	9.2%
Financial assets held by the domestic private nonfinancial sector (as of percentage of GDP) ⁵⁾		274.8%	491.9%
Exchange rate arrangement		The yen depreciated by around 60 percent against the US dollar in a year since the departure from the gold standard in December 1931.	Flexible exchange rate

Notes:

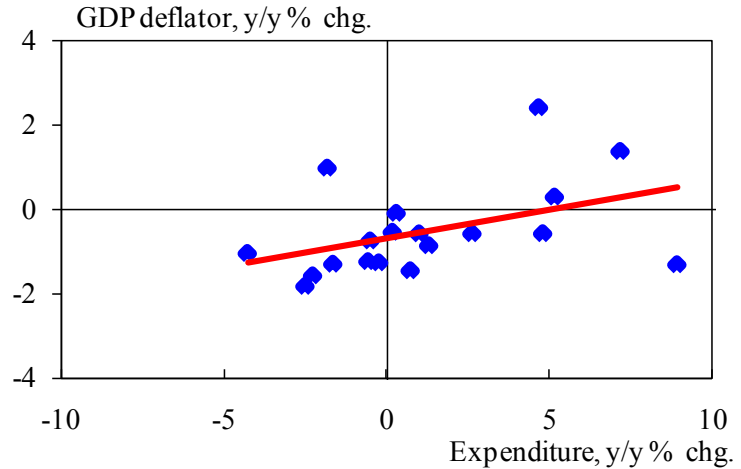
- 1) For the early 1930s, Tokyo overnight call rate in December 1931; For present, uncollateralized overnight call rate on May 26.
- 2) For the early 1930s, government bond yield to subscribers in March 1932; For present, 10 year newly issued government bond yield on May 26, 2011.
- 3) For the early 1930s, sum of government bonds, treasury bills and rice bills in the end of December 1931; For present, sum of general bonds, fiscal investment and loan program bonds, and financing bills in the end of March 2011.
- 4) For the early 1930s, government bond issues settled in FY 1931 as of percentage of GNP in CY 1931; For present, government bond issues in the budget of FY 2011 as of percentage of GDP forecast by the government.
- 5) For early 1930s, in the end of the year as of percentage of GNP in 1931; For present, in the end of the year as of percentage of GDP in 2010.

GDP Deflator, Real GDP Growth and Fiscal Revenue/Expenditure

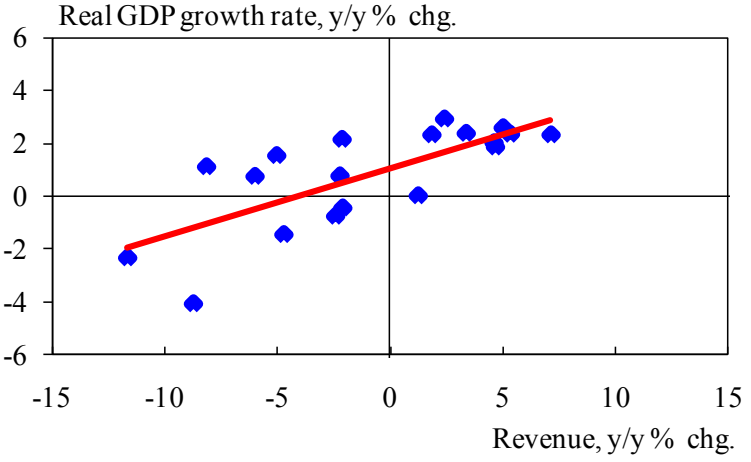
< GDP Deflator and Revenue >



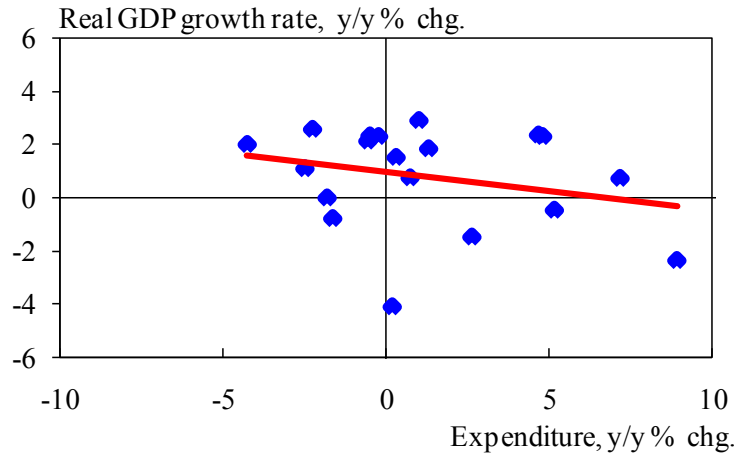
< GDP Deflator and Expenditure >



< Real GDP Growth Rate and Revenue >



< Real GDP Growth Rate and Expenditure >



Note: The sample period is FY1991-FY2009. Figures for revenues and expenditures are those of central and local governments, which include the payment/receivable of interest.

Source: Cabinet Office, *National Accounts*.