

Quantitative and Qualitative Monetary Easing: Importance of Fiscal Consolidation

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Quantitative and Qualitative Monetary Easing (QQE)

Introduced in April 2013

Strong and Clear Commitment

- The Bank of Japan ("the Bank") will achieve the price stability target of 2%, at the earliest possible time, with a time horizon of about 2 years.

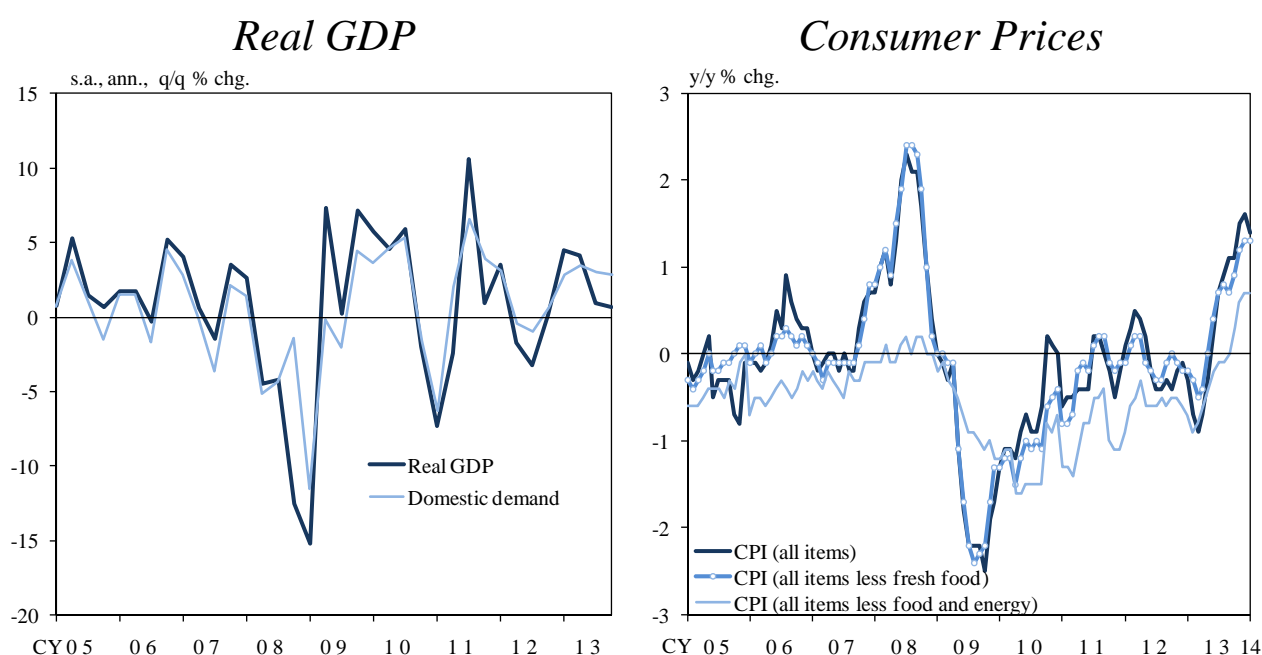
The Continuation of QQE

- The Bank will continue with the QQE, aiming to achieve the price stability target of 2 percent, as long as it is necessary for maintaining that target in a stable manner.
(The Bank will examine both upside and downside risks to economic activity and prices, and make adjustments as appropriate.)

New Phase of Monetary Easing Both in Terms of Quantity and Quality to Underpin the Commitment

- Monetary base: Annual increase of about 60-70 tril. yen (x2 in 2 years).
- Amount outstanding of the Bank's JGB holdings: Annual increase of about 50 tril. yen (more than x2 in 2 years).
- Average remaining maturity of the Bank's JGB purchases: Extended to about 7 years (more than x2).
- Amount outstanding of ETF holdings: Annual increase of about 1 tril. yen (more than x2 in 2 years).

GDP and Prices



Sources: Cabinet Office; Ministry of Internal Affairs and Communications.

Joint Statement of the Government and the Bank of Japan

Released in January 2013

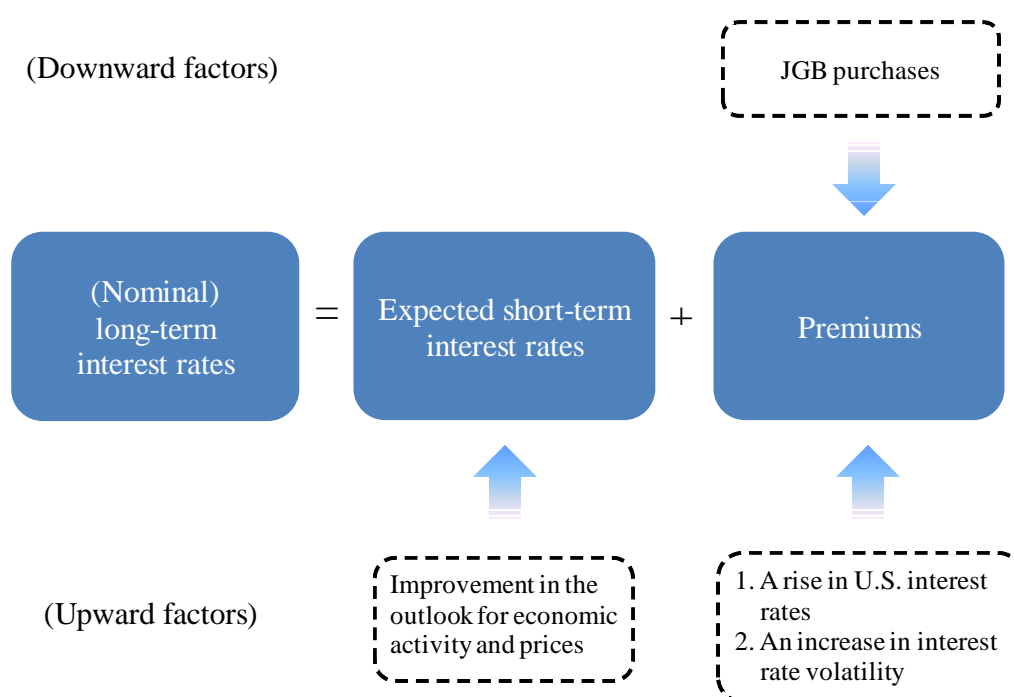
Joint Statement of the Government and the Bank of Japan on Overcoming Deflation and Achieving Sustainable Economic Growth (excerpts, underline added)

The Bank of Japan conducts monetary policy based on the principle that the policy shall be aimed at achieving price stability, thereby contributing to the sound development of the national economy, and is responsible for maintaining financial system stability. The Bank aims to achieve price stability on a sustainable basis, given that there are various factors that affect prices in the short run.

The Bank recognizes that the inflation rate consistent with price stability on a sustainable basis will rise as efforts by a wide range of entities toward strengthening competitiveness and growth potential of Japan's economy make progress. Based on this recognition, the Bank sets the price stability target at 2 percent in terms of the year-on-year rate of change in the consumer price index.

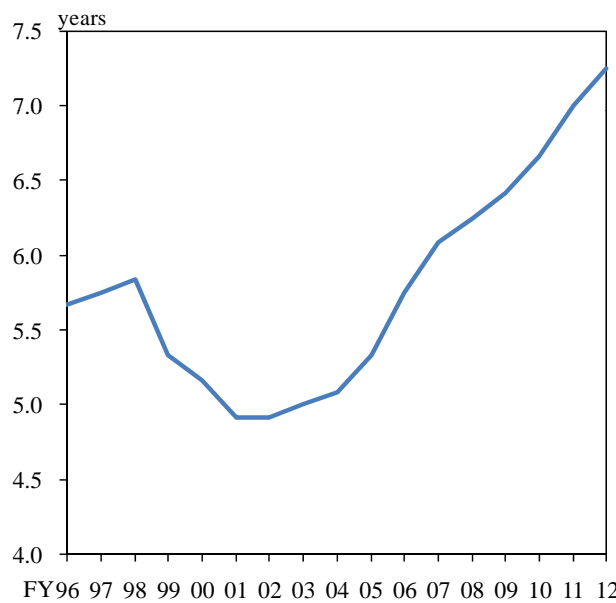
Under the price stability target specified above, the Bank will pursue monetary easing and aim to achieve this target at the earliest possible time. Taking into consideration that it will take considerable time before the effects of monetary policy permeate the economy, the Bank will ascertain whether there is any significant risk to the sustainability of economic growth, including from the accumulation of financial imbalances.

Factors Affecting Long-Term Interest Rates

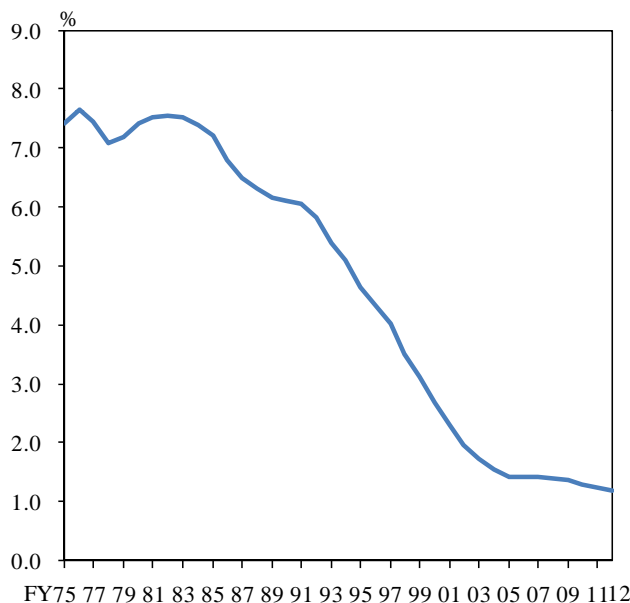


Government Debt Management

Average Maturity of Debt

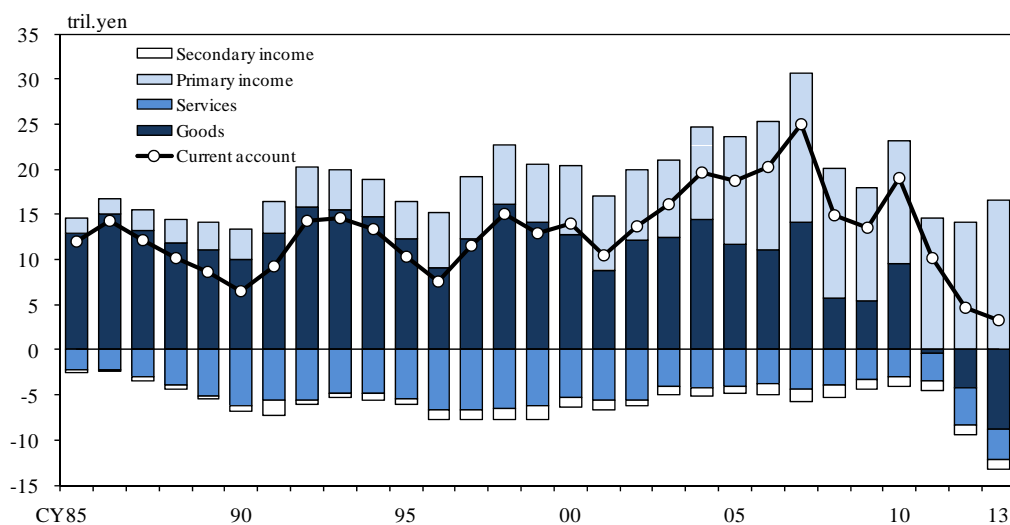


Average Cost of Debt



Source: Ministry of Finance.

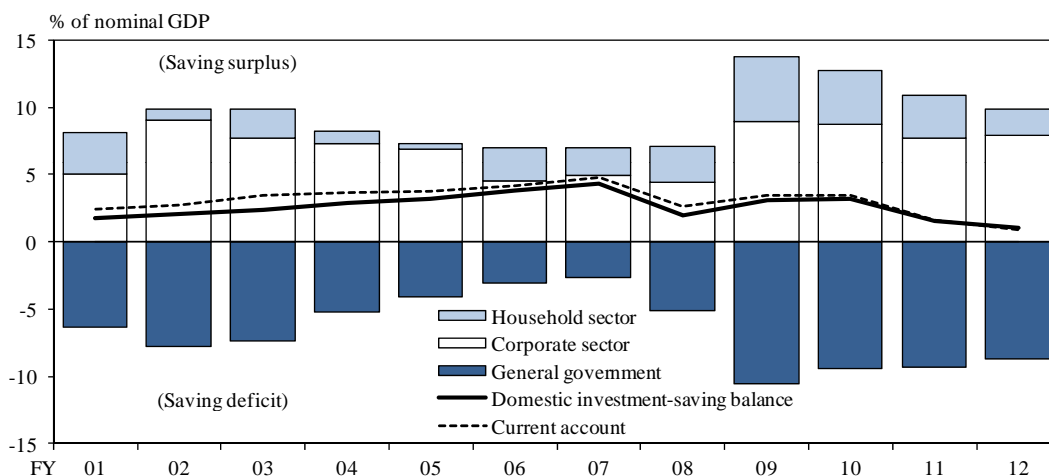
Current Account Balance



Notes: 1. "Primary income" and "secondary income" correspond to "income" and "current transfers" in the BOP before the revision in 2013 respectively.
 2. Figures for "primary income" and "secondary income" from 1985 to 1995 are based on the BOP before the revision in 2013.

Source: Ministry of Finance and Bank of Japan.

Investment-Saving Balance

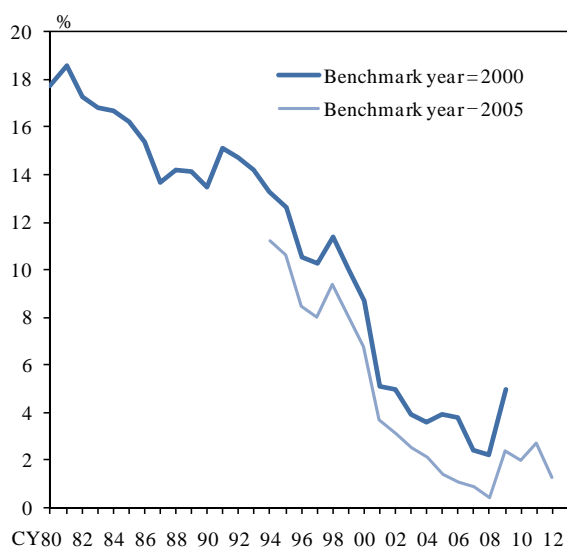


Note: The following factors are excluded from the investment-saving balance of the general government: (1) redemption of JGBs held by the Deposit Insurance Corporation of Japan (fiscal 2001 and 2002); (2) transfer of assets and liabilities of the Japan Expressway Holding and Debt Repayment Agency to the general account (fiscal 2008); (3) transfer of reserves in the special account for the Fiscal Investment and Loan Program (public financial institutions) to the special account for the government debt consolidation fund of the general government (fiscal 2006 and 2008); (4) transfer of reserves in the special account for the Fiscal Investment and Loan Program to the general account of the general government (fiscal 2008-11); and (5) transfer of assets of the Japan Railway Construction, Transport and Technology Agency to the general account of the general government (fiscal 2011).

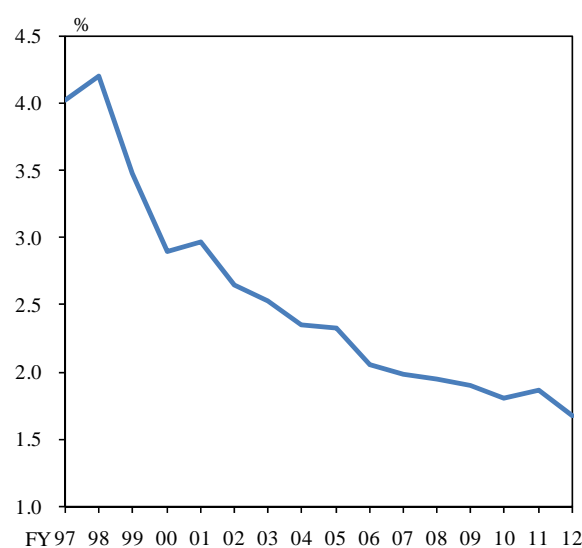
Sources: Cabinet Office; Ministry of Finance and Bank of Japan.

Household Savings Rate and Corporate Debt Ratio

*Household Savings Rate*¹



*Debt-Equity Ratio*²

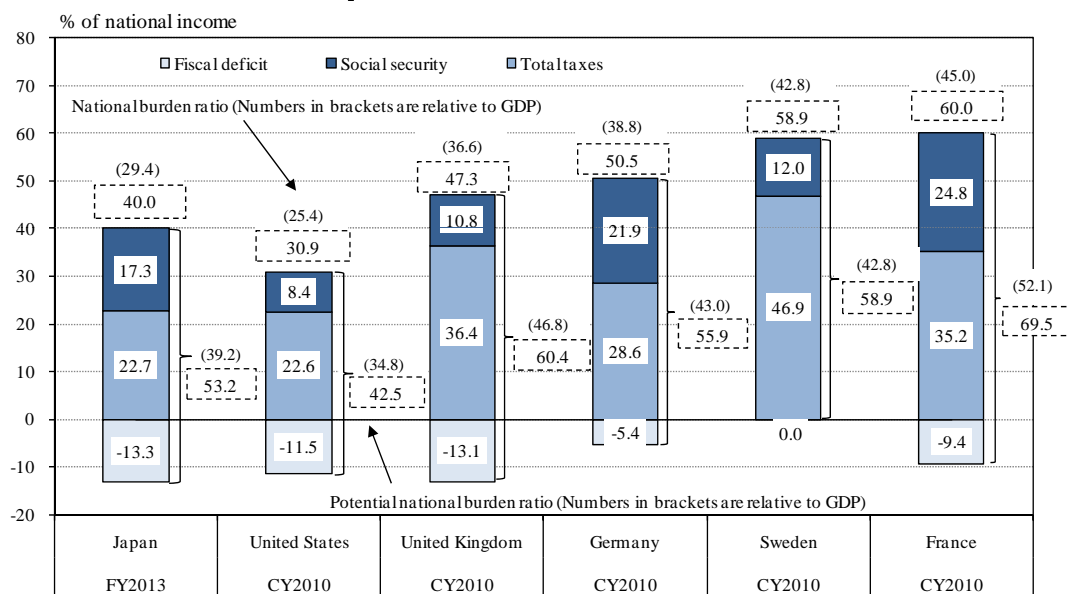


Notes: 1. Figures are based on SNA.

2. Debt-equity ratio is the ratio of total debt to own capital.

Sources: Ministry of Finance; Cabinet Office.

International Comparison of National Burden Ratio



Notes: 1. National burden ratio is calculated by adding social security relative to national income (or GDP) and total taxes relative to national income (or GDP). Potential national burden ratio is calculated by adding national burden ratio to fiscal deficit relative to national income (or GDP).

2. Japan in FY2013 is a preliminary figure. Other countries are actual figures in 2010.

3. Fiscal deficit as a percentage of national income of Japan and the United States are based on general governments with social security funds excluded, and that of other countries are based on general governments.

Source: Ministry of Finance.