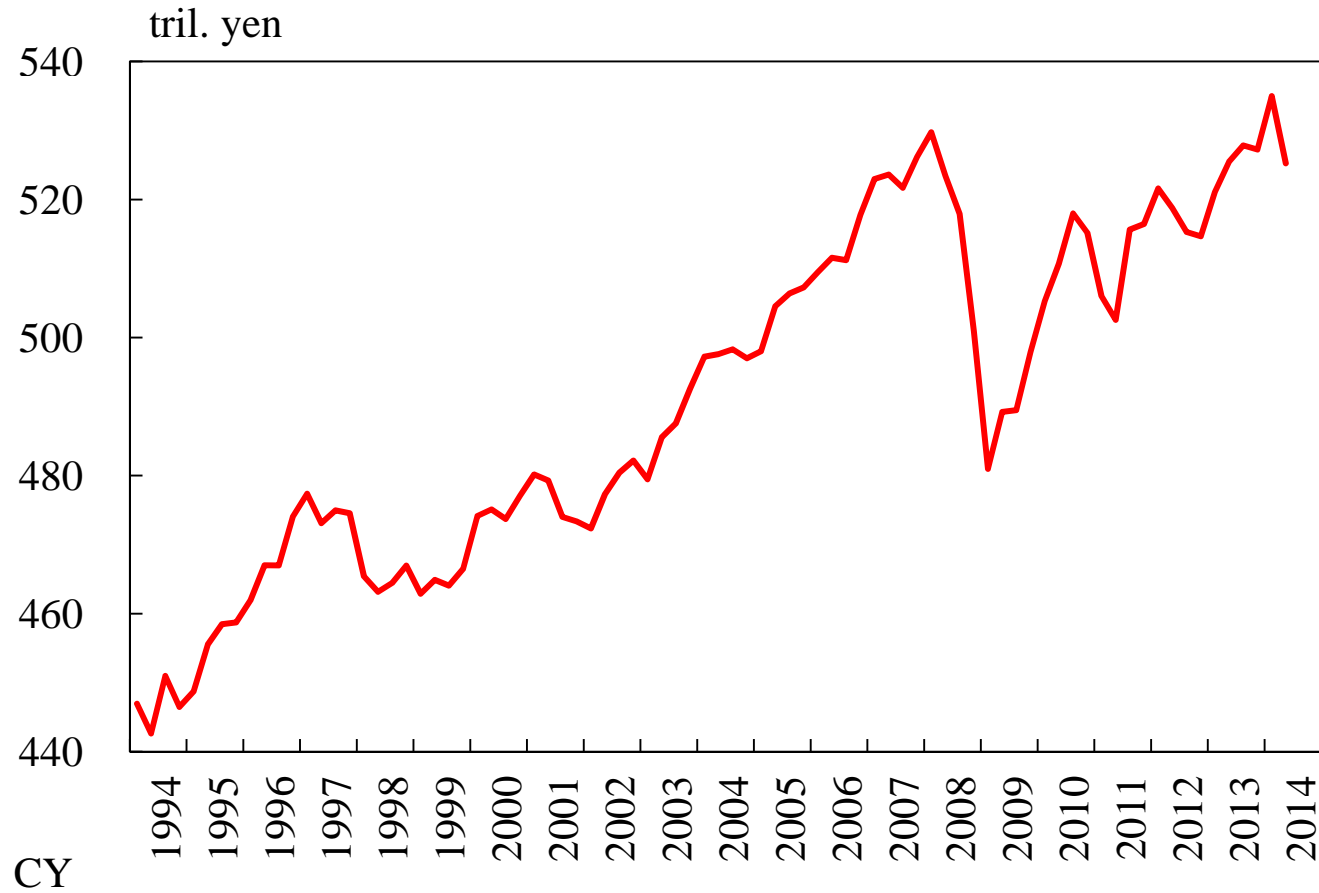


## Japan's Real GDP



Source: Cabinet Office, "National Accounts."

## World Economic Outlook

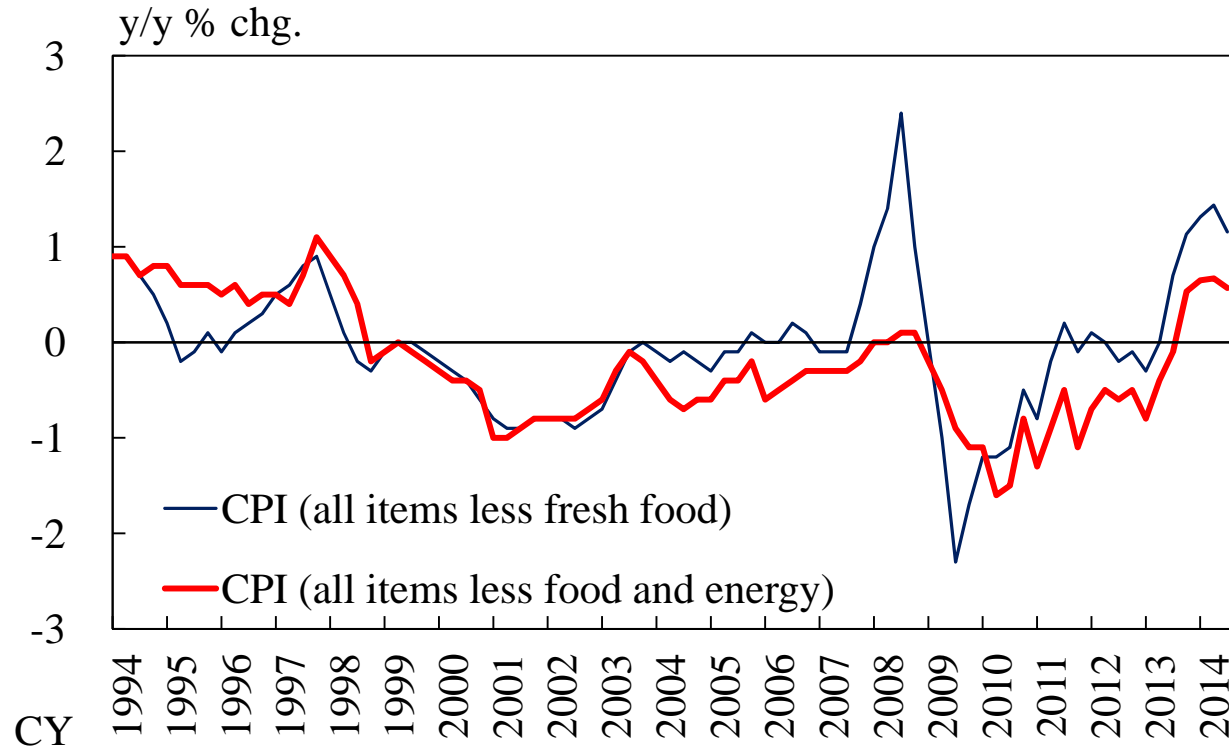
real GDP growth rate, y/y % chg.

CY	<b>2013</b>	<b>2014</b> (projection)	<b>2015</b> (projection)
Advanced economies	1.4	1.8 ( 0.0)	2.3 (-0.1)
United States	2.2	2.2 ( 0.5)	3.1 ( 0.0)
Euro area	-0.4	0.8 (-0.3)	1.3 (-0.2)
Germany	0.5	1.4 (-0.5)	1.5 (-0.2)
France	0.3	0.4 (-0.3)	1.0 (-0.4)
Italy	-1.9	-0.2 (-0.5)	0.8 (-0.3)
United Kingdom	1.7	3.2 ( 0.0)	2.7 ( 0.0)
Japan	1.5	0.9 (-0.7)	0.8 (-0.2)
Emerging market and developing economies	4.7	4.4 (-0.1)	5.0 (-0.2)
Emerging and developing Asia	6.6	6.5 ( 0.1)	6.6 ( 0.0)
China	7.7	7.4 ( 0.0)	7.1 ( 0.0)
Latin America and the Caribbean	2.7	1.3 (-0.7)	2.2 (-0.4)
World	3.3	3.3 (-0.1)	3.8 (-0.2)

Note: As of October 2014. Figures in parentheses indicate the difference from the previous projections as of July 2014.

Source: International Monetary Fund, "World Economic Outlook."

## Consumer Price Index



Note: Excluding the effects of the consumption tax hike.

Source: Ministry of Internal Affairs and Communications, "Consumer Price Index."

## Outlook for Economic Activity and Prices

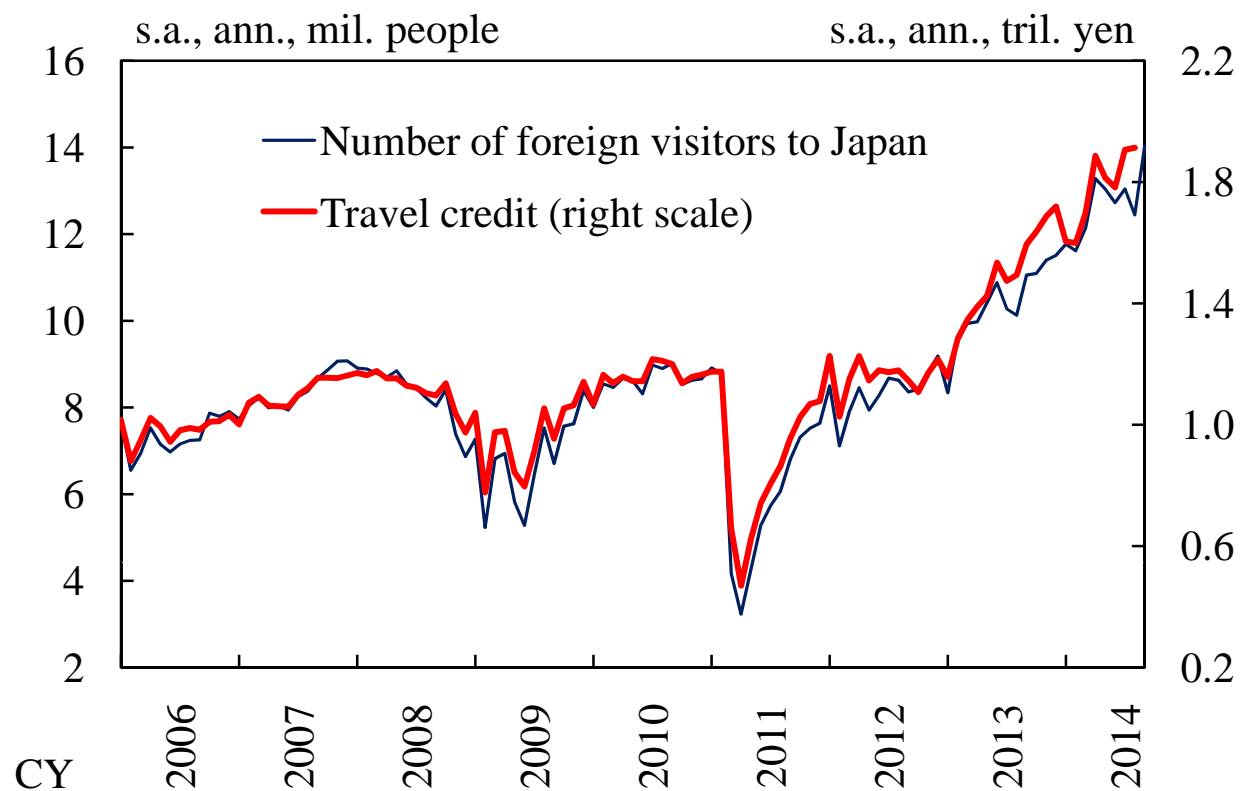
y/y % chg.

	Real GDP	CPI (all items less fresh food)	Excluding the effects of the consumption tax hikes
Fiscal 2014	<u>+0.5</u>	+3.2	<u>+1.2</u>
Forecasts made in July 2014	+1.0	+3.3	+1.3
Fiscal 2015	<u>+1.5</u>	+2.4	<u>+1.7</u>
Forecasts made in July 2014	+1.5	+2.6	+1.9
Fiscal 2016	<u>+1.2</u>	+2.8	<u>+2.1</u>
Forecasts made in July 2014	+1.3	+2.8	+2.1

Note: Figures indicate the median of the Policy Board members' forecasts (point estimates).

Source: Bank of Japan.

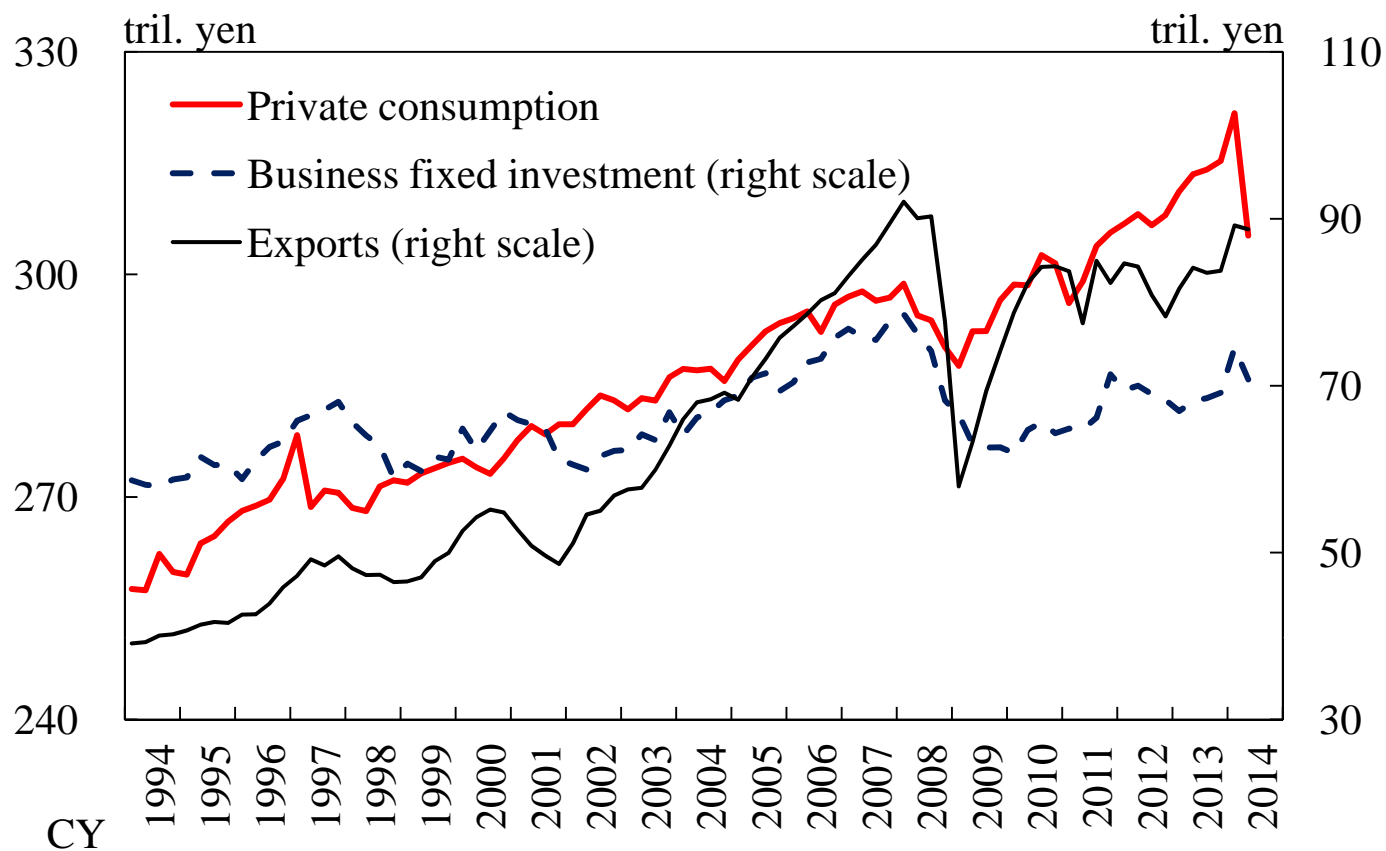
## Number of Foreign Visitors to Japan and Travel Credit



Note: Travel credit is a component of services in the current account.

Sources: Ministry of Finance and Bank of Japan, "Balance of Payments";  
Japan National Tourism Organization (JNTO).

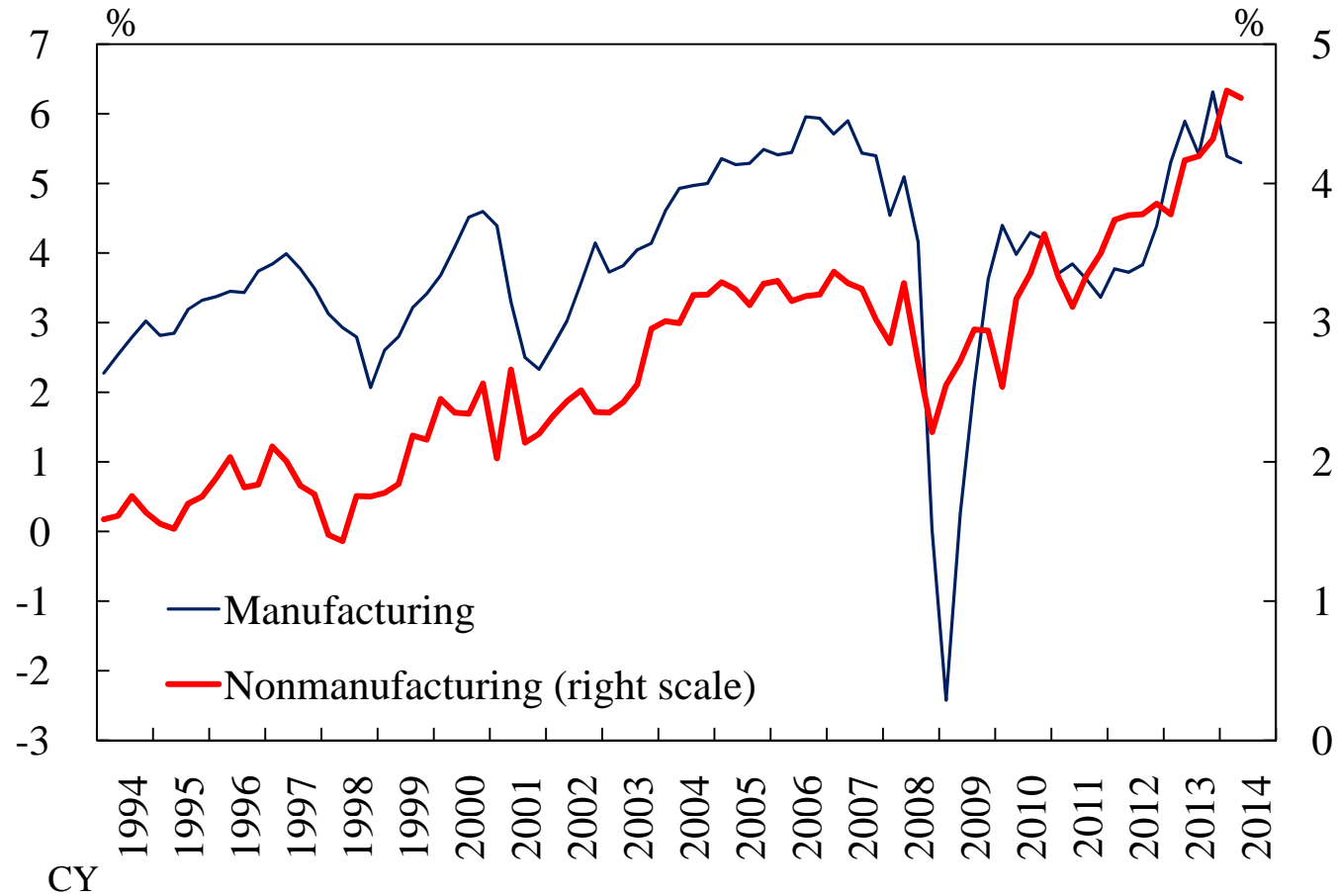
## Private Consumption, Exports, and Business Fixed Investment



Source: Cabinet Office, "National Accounts."

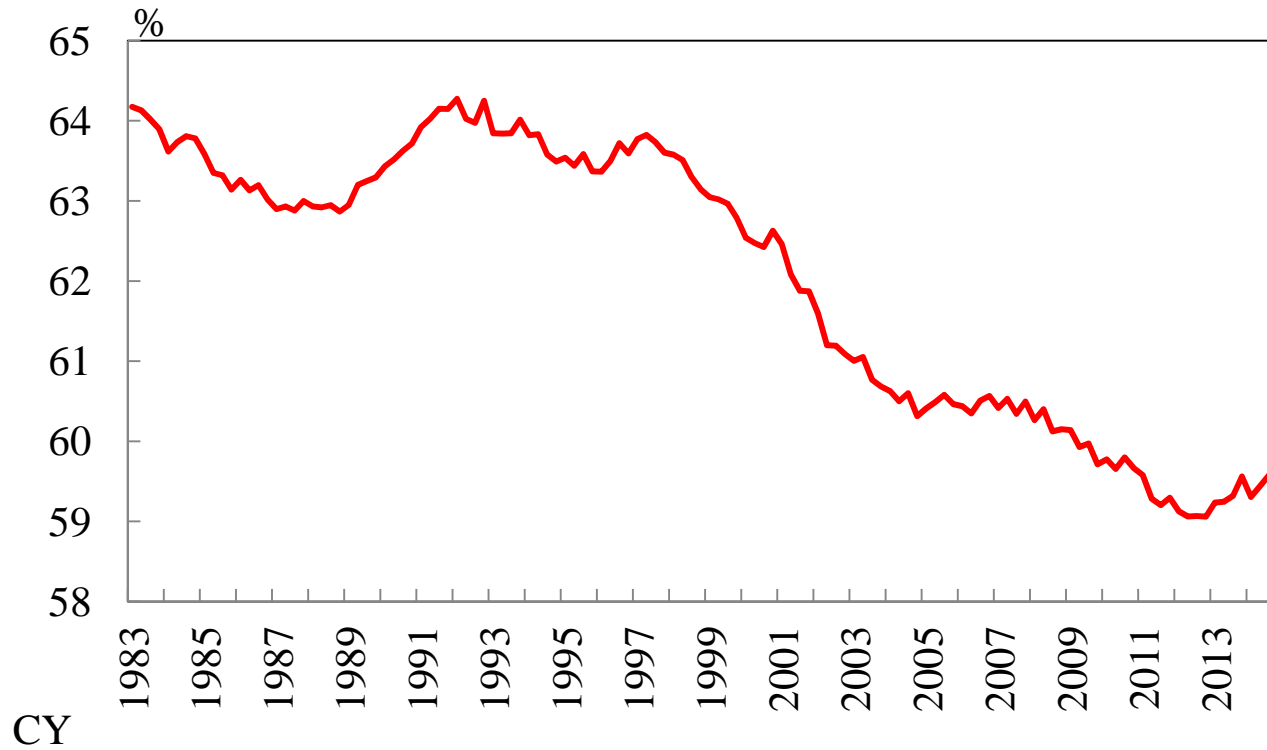
Chart 7

Ratios of Current Profits to Sales of Manufacturing and Nonmanufacturing Firms



Source: Ministry of Finance, "Financial Statements Statistics of Corporations by Industry."

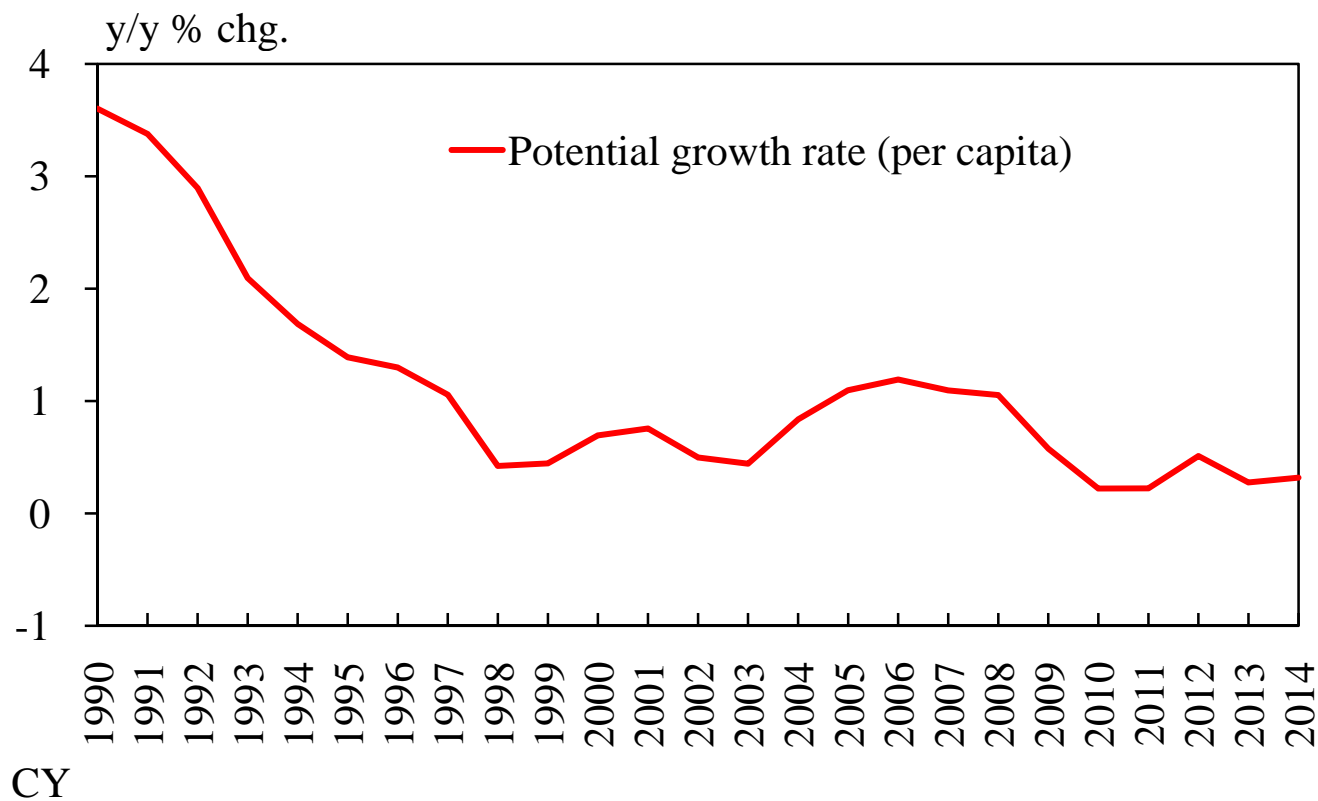
## Labor Force Participation Rate



Source: Ministry of Internal Affairs and Communications, "Labour Force Survey."



## Potential Growth

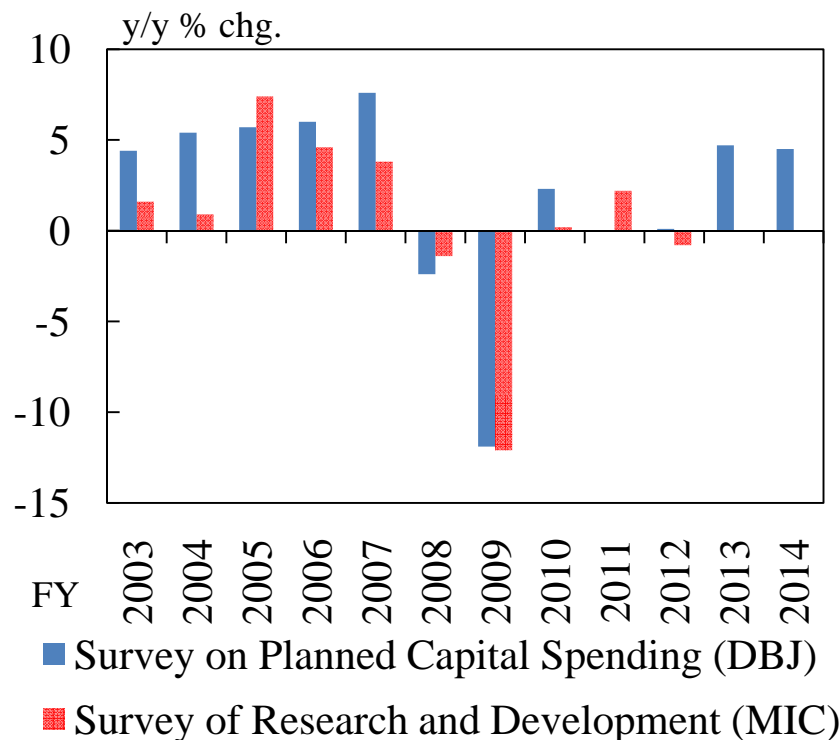


Note: The potential growth rate is estimated by the Research and Statistics Department of the Bank of Japan. Figures for 2014 are those for the first half of 2014.

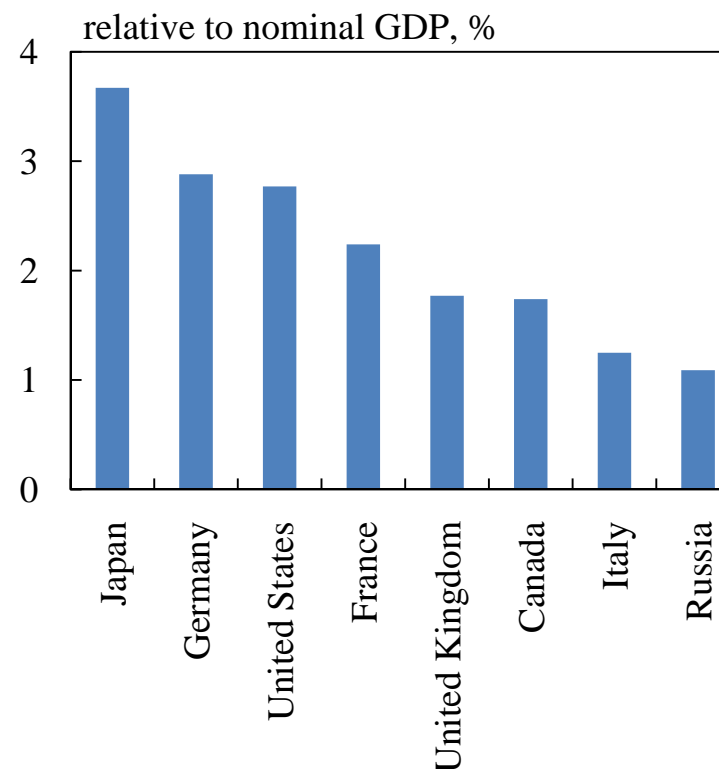
Source: Cabinet Office, "National Accounts," etc.

## Research and Development

Japan's Research and Development Expenditure



International Comparison

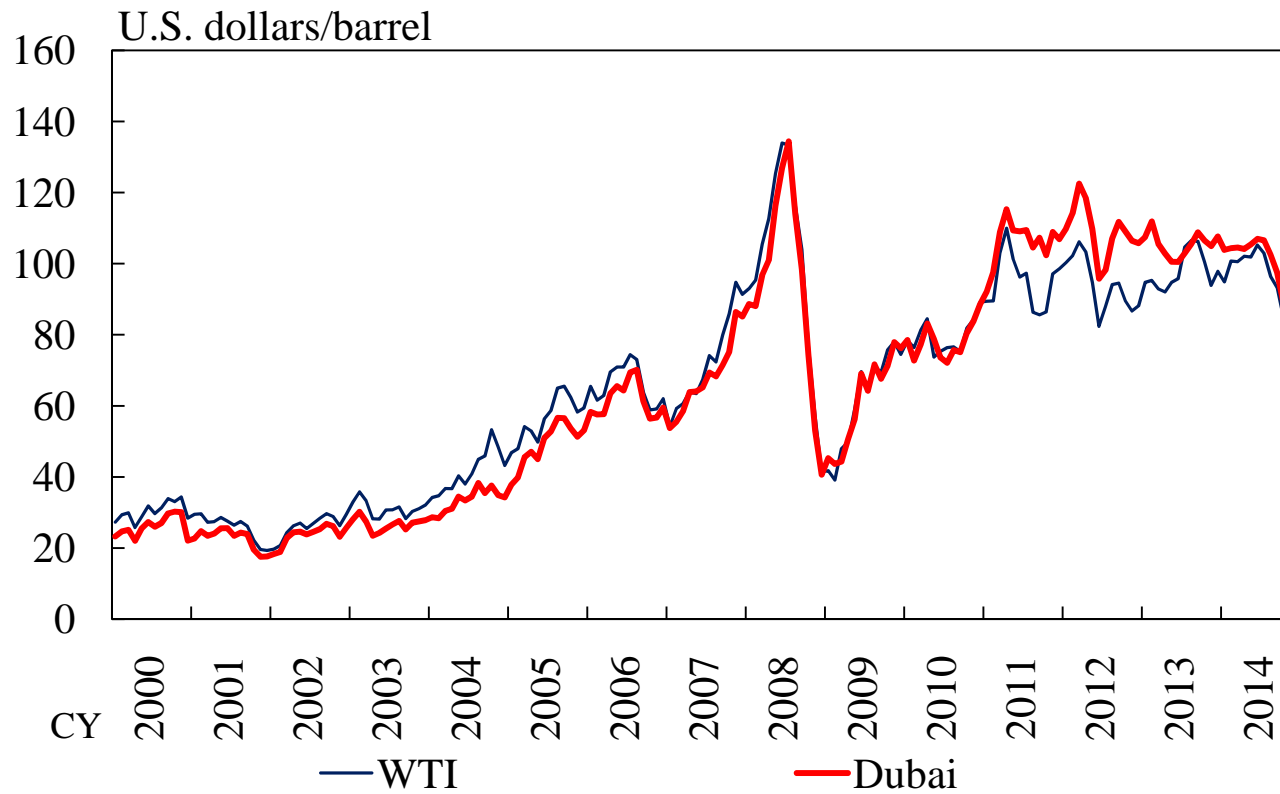


Notes: 1. In the DBJ survey, figures for fiscal 2014 are the forecast, and figures for fiscal 2011 lack data.

2. In the MIC survey, figures for fiscal 2012 are the most recent ones. International data excluding Japan are those for 2011.

Sources: Ministry of Internal Affairs and Communications, "Survey of Research and Development"; Development Bank of Japan, "Survey on Planned Capital Spending."

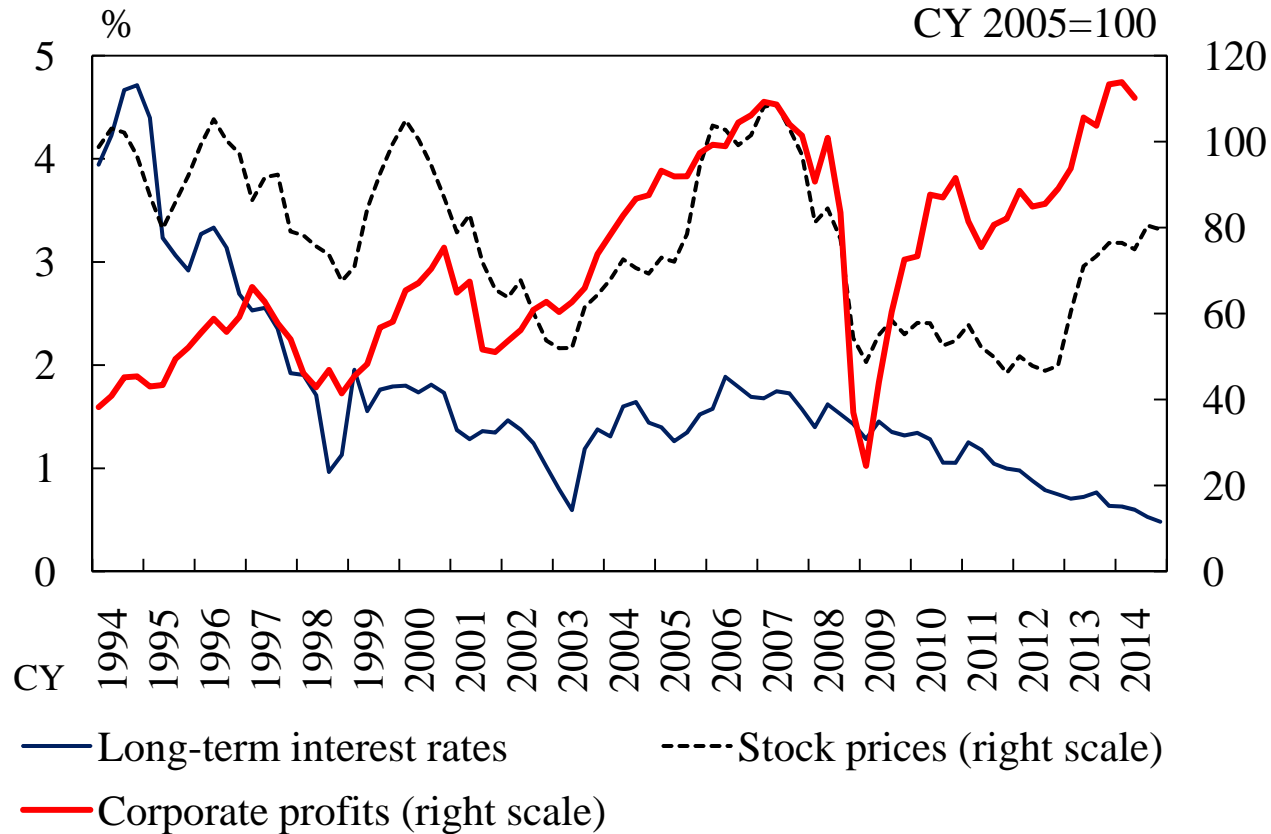
## Crude Oil Prices



Note: Figures include those up through November 7, 2014.

Source: Bloomberg.

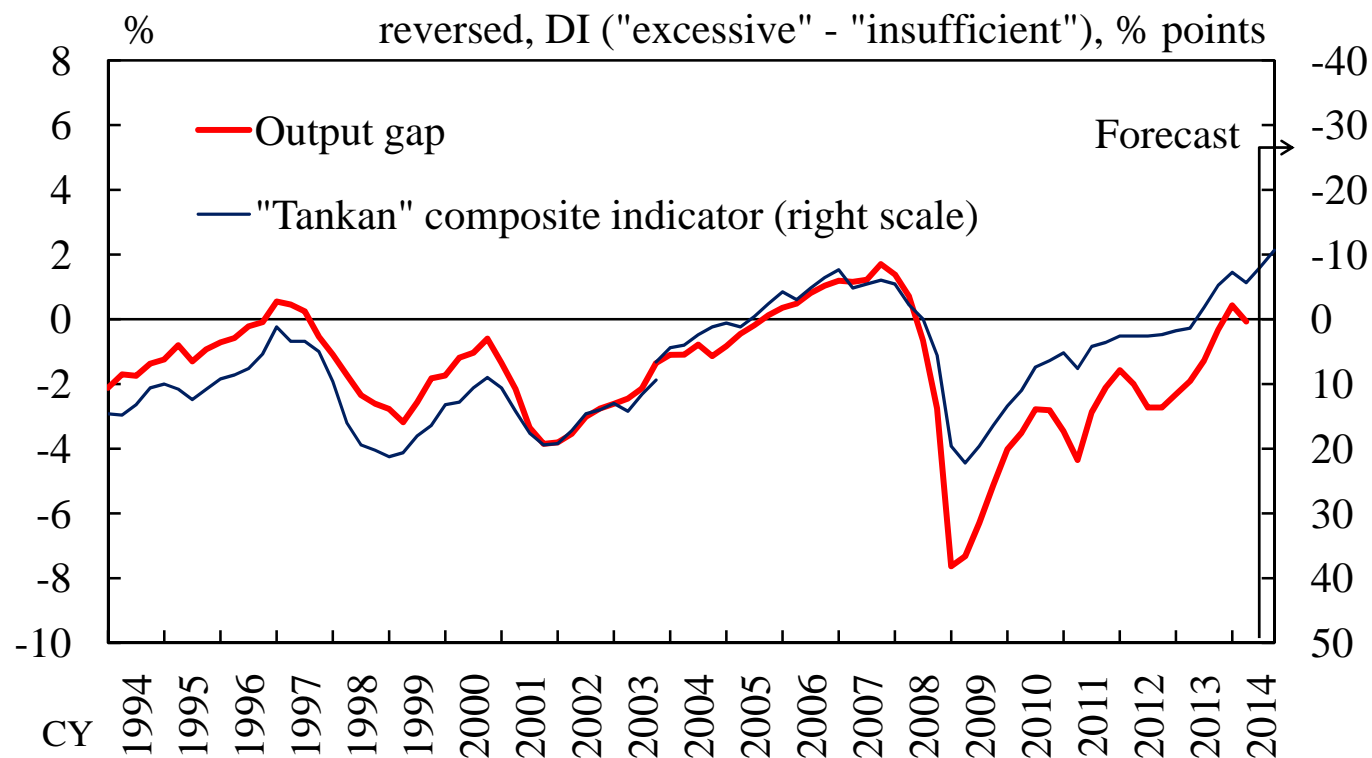
## Long-Term Interest Rates, Stock Prices, and Corporate Profits



Note: Long-term interest rates, stock prices, and corporate profits are 10-year government bond yields, the TOPIX, and those from "Financial Statements Statistics of Corporations by Industry, Quarterly," respectively. Market data include those up through November 7, 2014.

Sources: Ministry of Finance, "Financial Statements Statistics of Corporations by Industry, Quarterly"; Bloomberg.

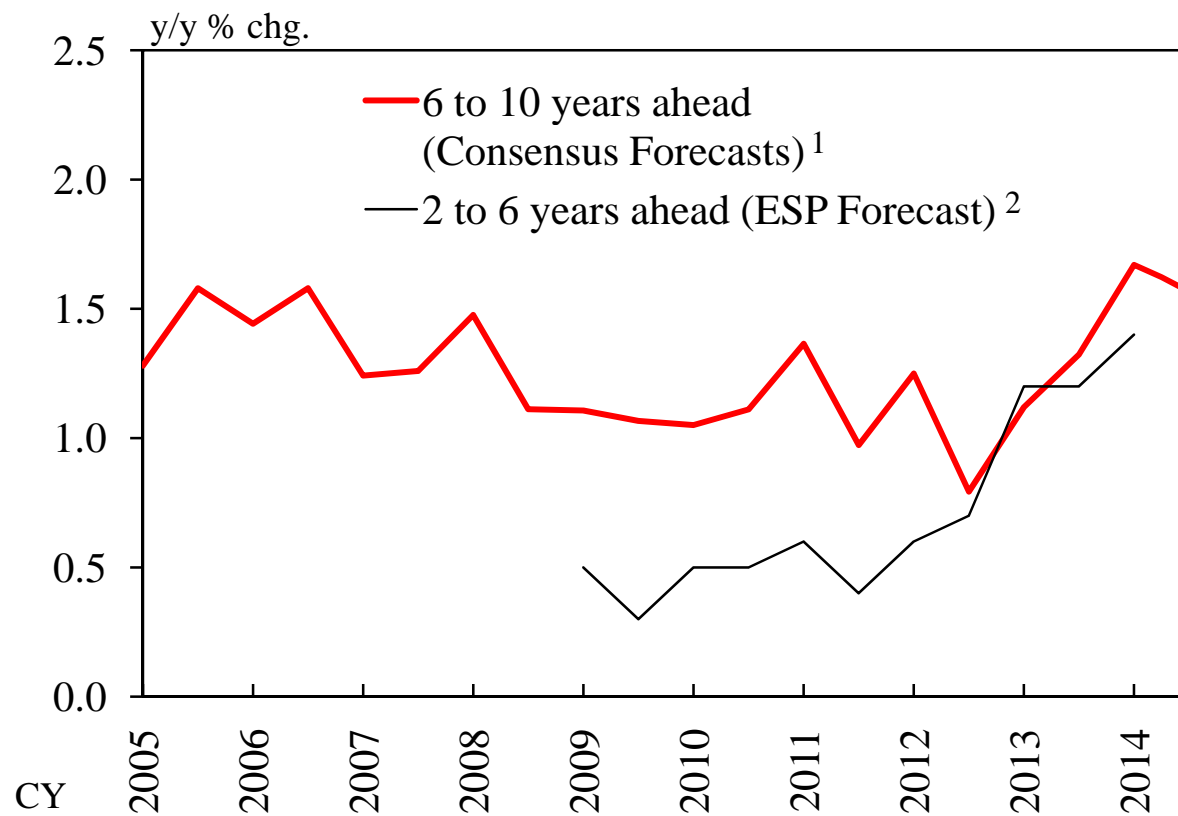
## The Output Gap and the *Tankan* Composite Indicator



Note: The output gap is estimated by the Research and Statistics Department of the Bank of Japan. Figures for the *Tankan* composite indicator are weighted averages of the production capacity DI and employment conditions DI. The fiscal 1990-2012 averages of capital and labor shares in "National Accounts" are used as the weight.

Sources: Cabinet Office, "National Accounts"; Bank of Japan, "*Tankan*, Short-Term Economic Survey of Enterprises in Japan," etc.

## Medium- to Long-Term Inflation Expectations

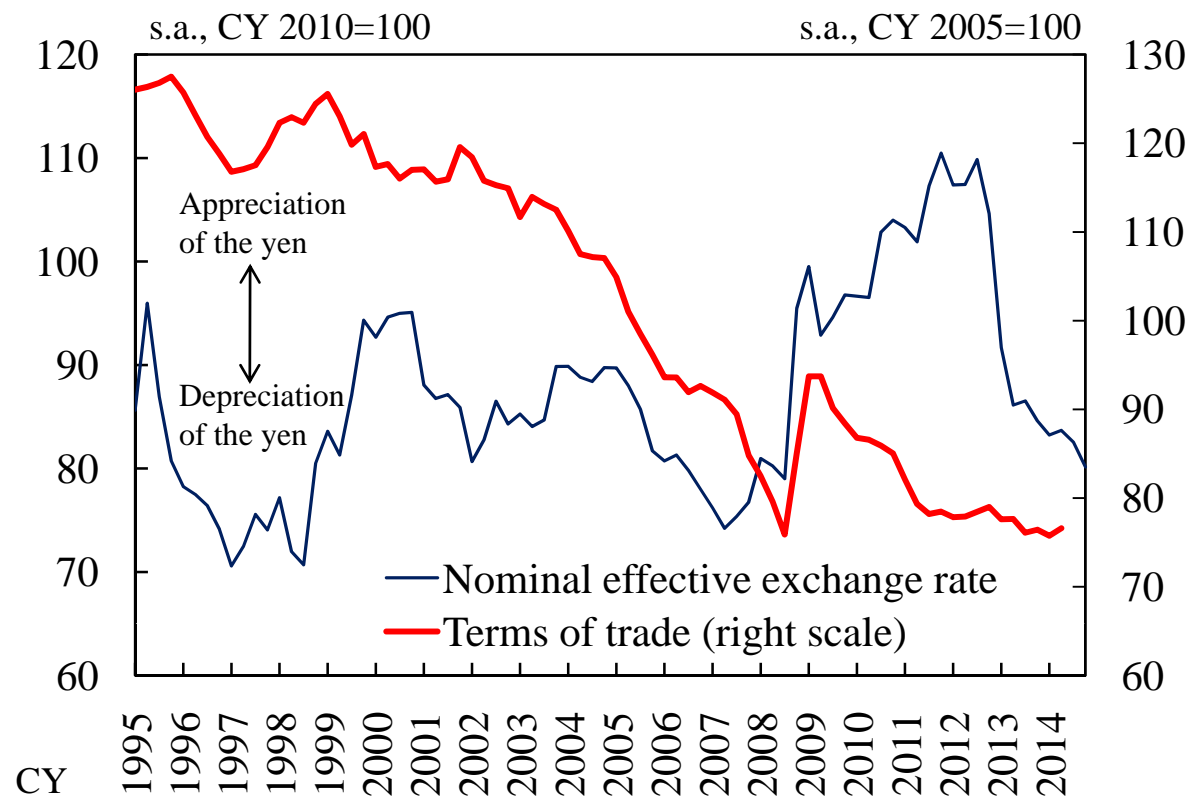


Notes: 1. Figures are forecasts made every January, April, July, and October. Those up through April 2014 are forecasts made every April and October.

2. Figures are forecasts made every June and December. The effects of the consumption tax hikes are excluded.

Sources: Consensus Economics Inc., "Consensus Forecasts"; Japan Center for Economic Research, "ESP Forecast."

## Effective Exchange Rate of the Yen and Terms of Trade



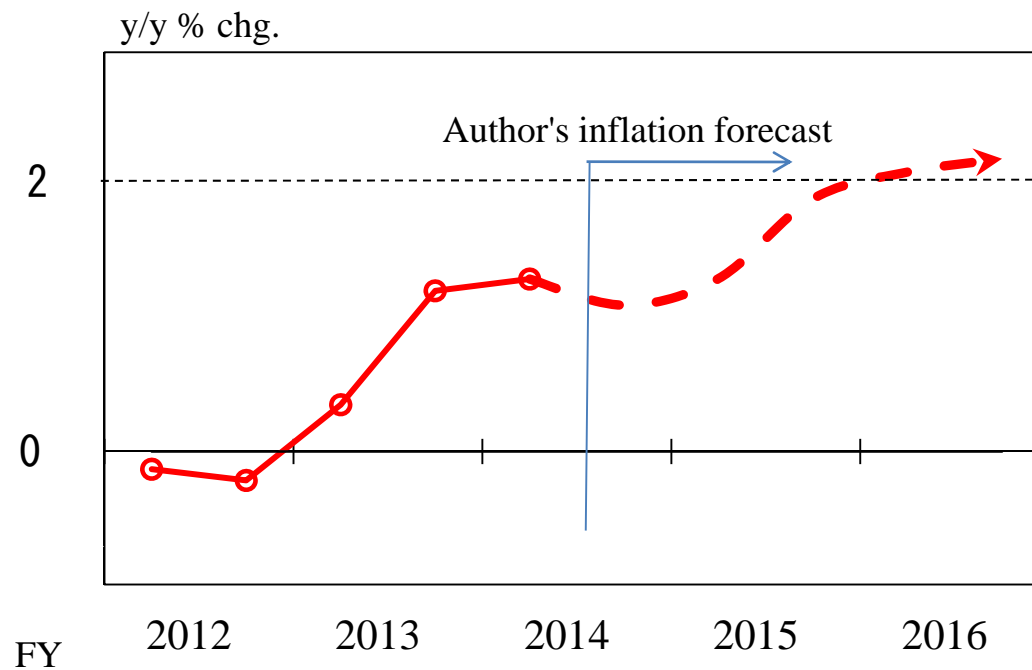
Notes: 1. The nominal effective exchange rate is based on the broad indices of the BIS effective exchange rates. Figures for 2014/Q3 are calculated using the Bank of Japan's nominal effective exchange rate for the yen through November 7, 2014.

2. Terms of trade = export deflator/import deflator ("National Accounts" basis)

Sources: Bank for International Settlements; Cabinet Office, "National Accounts," etc.

## Author's Inflation Forecast

CPI (all items less fresh food)



Note: The solid line and dotted line indicate the actual figures and approximate figures in the author's inflation forecast, respectively.

Source: Ministry of Internal Affairs and Communications, "Consumer Price Index."



## Expansion of QQE

### 1. Accelerating the pace of increase in the monetary base

- The Bank will conduct money market operations so that the monetary base will increase at an annual pace of about 80 trillion yen (an addition of about 10-20 trillion yen compared with the past).

### 2. Increasing JGB purchases and extending the average remaining maturity

- The Bank will purchase JGBs so that their amount outstanding will increase at an annual pace of about 80 trillion yen (an addition of about 30 trillion yen compared with the past). With a view to encouraging a decline in interest rates across the entire yield curve, the Bank will conduct purchases in a flexible manner in accordance with financial market conditions.
- The average remaining maturity of the Bank's JGB purchases will be extended to about 7-10 years (an extension of about 3 years at maximum compared with the past).

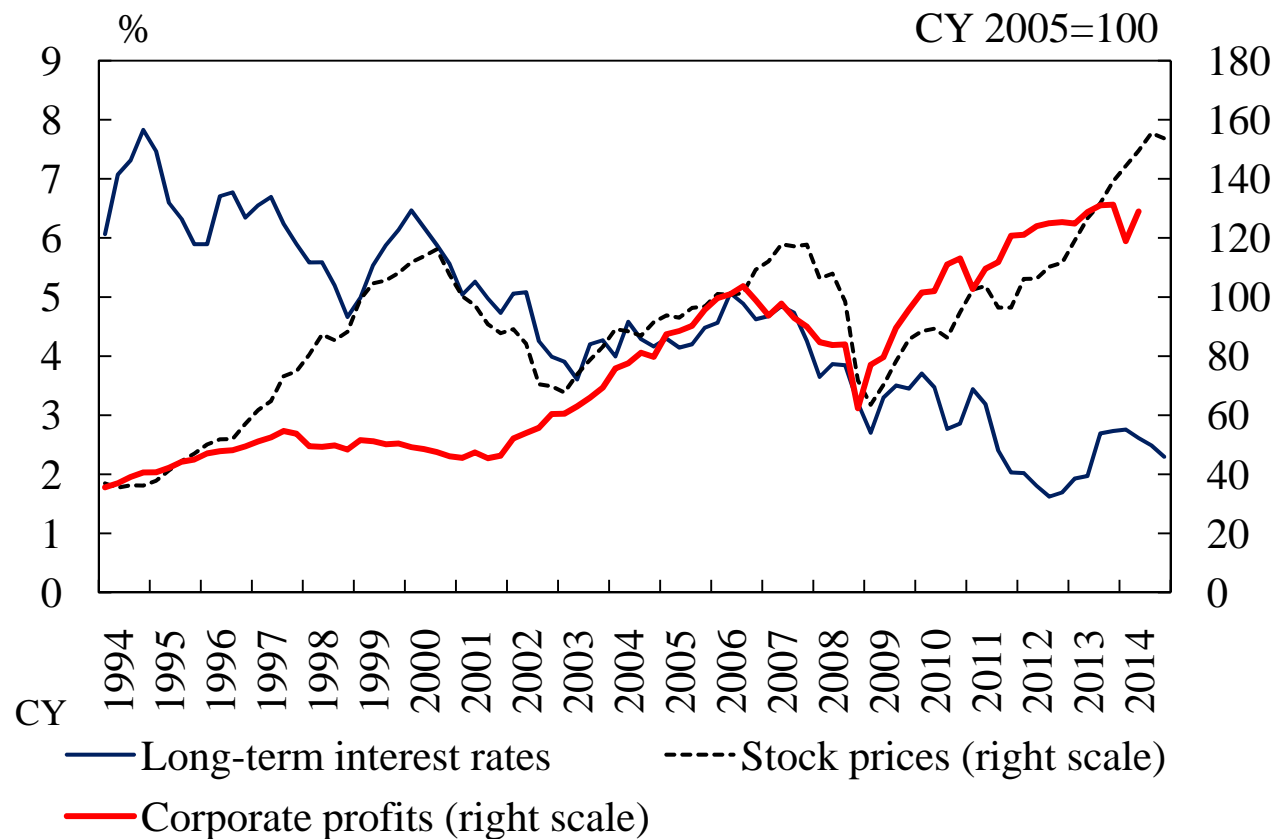
### 3. Increasing ETF and J-REIT purchases

- The Bank will purchase exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) so that their amounts outstanding will increase at an annual pace of about 3 trillion yen (tripled compared with the past) and about 90 billion yen (tripled compared with the past), respectively.
- The Bank will make ETFs that track the JPX-Nikkei Index 400 eligible for purchase.

### 4. Continuing QQE

- The Bank will continue with 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.
- It will examine both upside and downside risks to economic activity and prices, and make adjustments as appropriate.

## U.S. Long-Term Interest Rates, Stock Prices, and Corporate Profits



Note: Long-term interest rates, stock prices, and corporate profits are 10-year government bond yields, the S&P500, and those from the SNA statistics, respectively. Market data include those up through November 7, 2014.

Sources: U.S. Bureau of Economic Analysis, "National Income and Product Accounts"; Bloomberg.