



# **Japan's Economy and Monetary Policy**

*Speech at a Meeting with Business Leaders in Okayama*

December 2, 2015

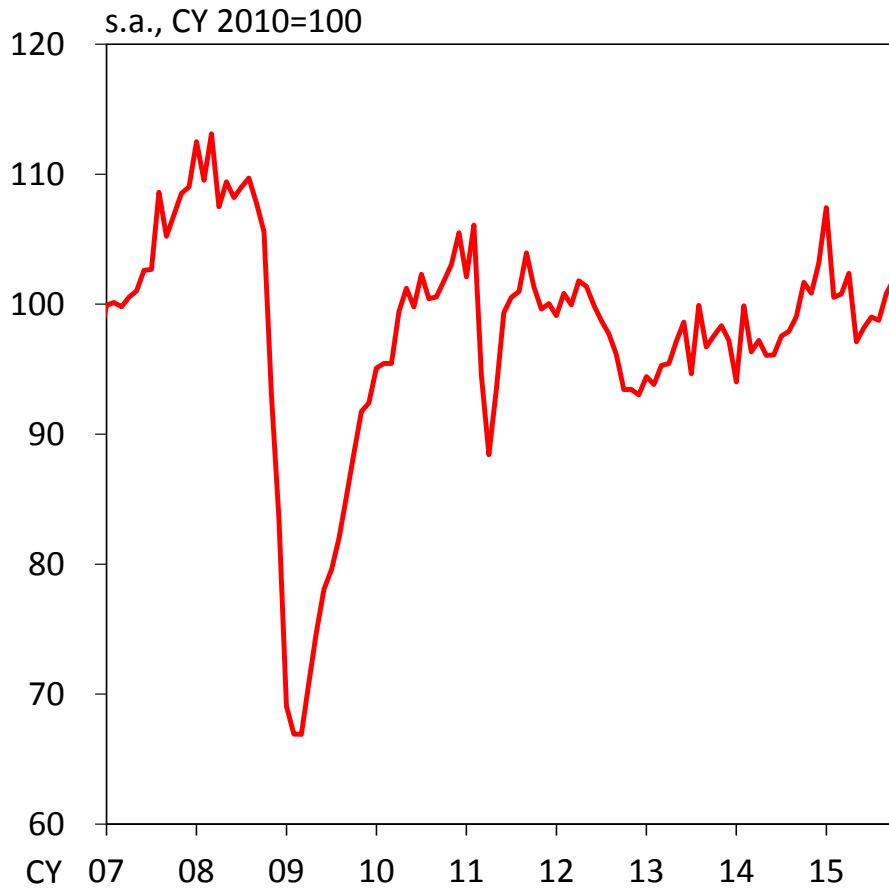
**Kikuo Iwata**

*Deputy Governor of the Bank of Japan*

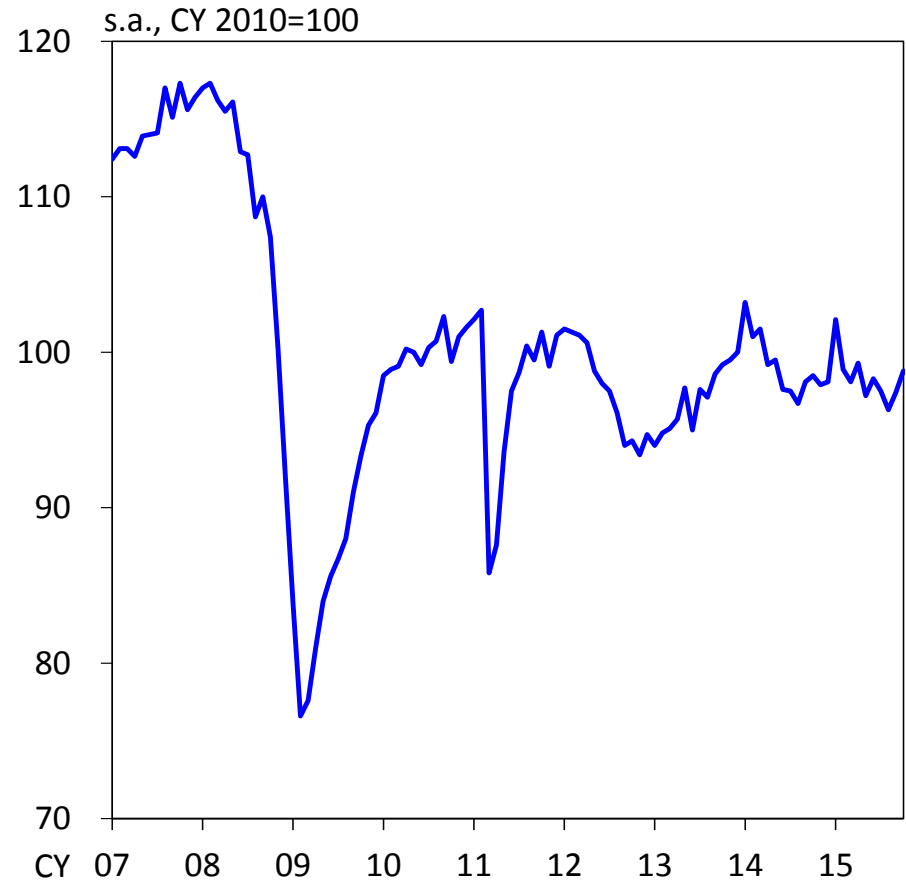
Chart 1

# Exports and Production

*Real Exports*



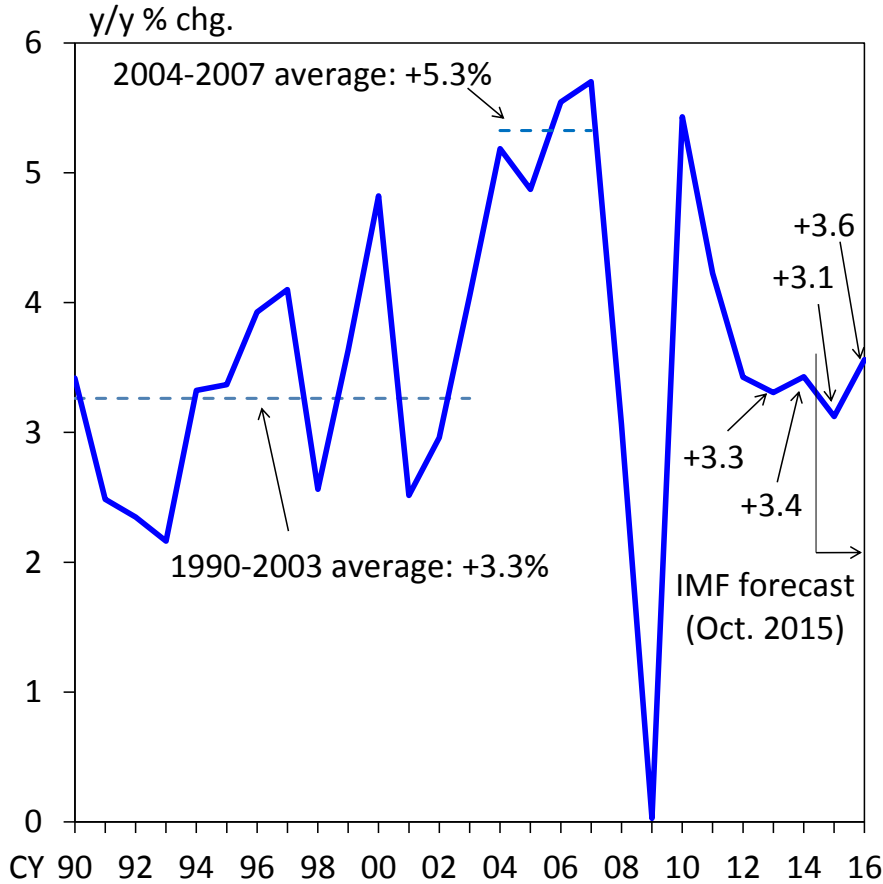
*Industrial Production*



Sources: Ministry of Finance, "Trade Statistics"; Bank of Japan, "Corporate Goods Price Index"; Ministry of Economy, Trade and Industry (METI), "Indices of Industrial Production."

# World Economic Outlook

*Real GDP Growth Rate*



*Projections for Major Economies*  
*(as of Oct. 2015)*

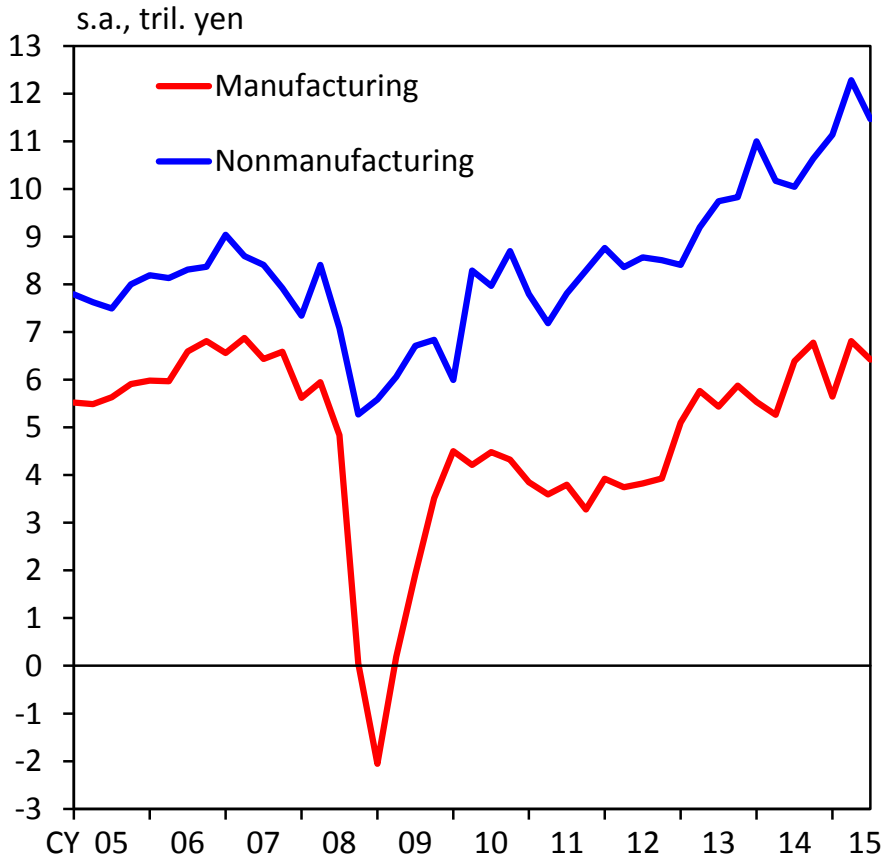
	2013	2014	Projections	
			2015	2016
World	3.3	3.4	3.1	3.6
Advanced Economies	1.1	1.8	2.0	2.2
United States	1.5	2.4	2.6	2.8
Euro Area	-0.3	0.9	1.5	1.6
Japan	1.6	-0.1	0.6	1.0
Emerging Market and Developing Economies	5.0	4.6	4.0	4.5
China	7.7	7.3	6.8	6.3
ASEAN5	5.1	4.6	4.6	4.9

y/y % chg.

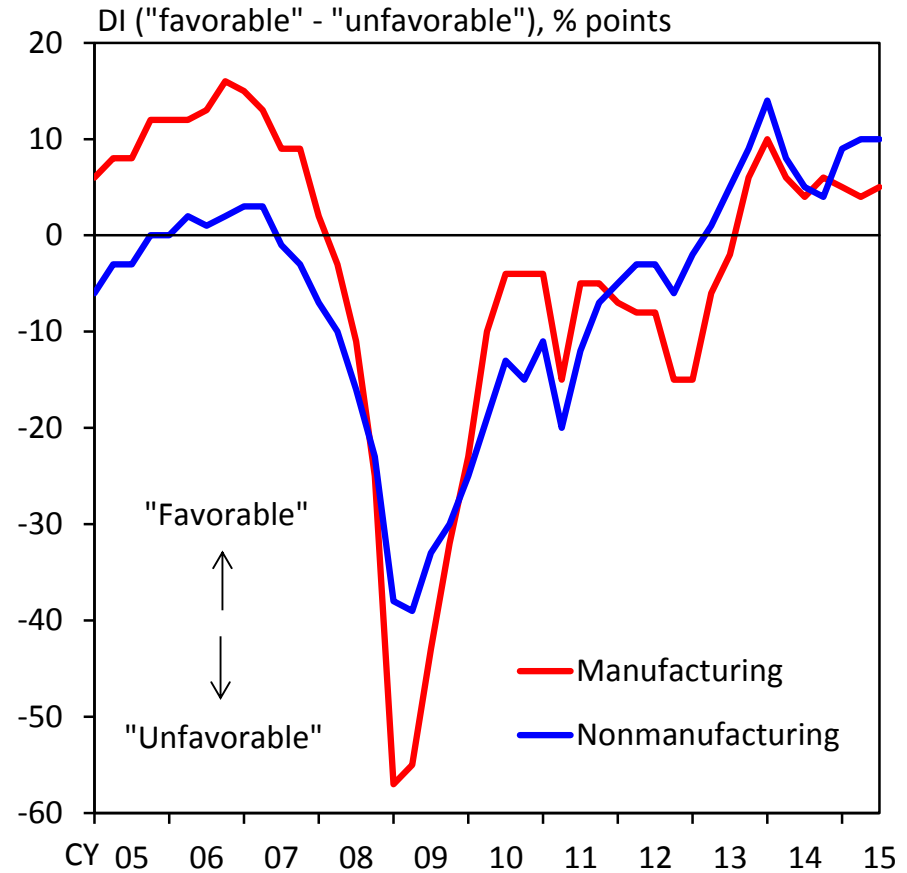
Note: ASEAN5 are Indonesia, Malaysia, the Philippines, Thailand, and Viet Nam.  
Source: IMF, "World Economic Outlook."

# Chart 3 Corporate Profits and Business Sentiment

## Current Profits



## Tankan: Business Conditions DI

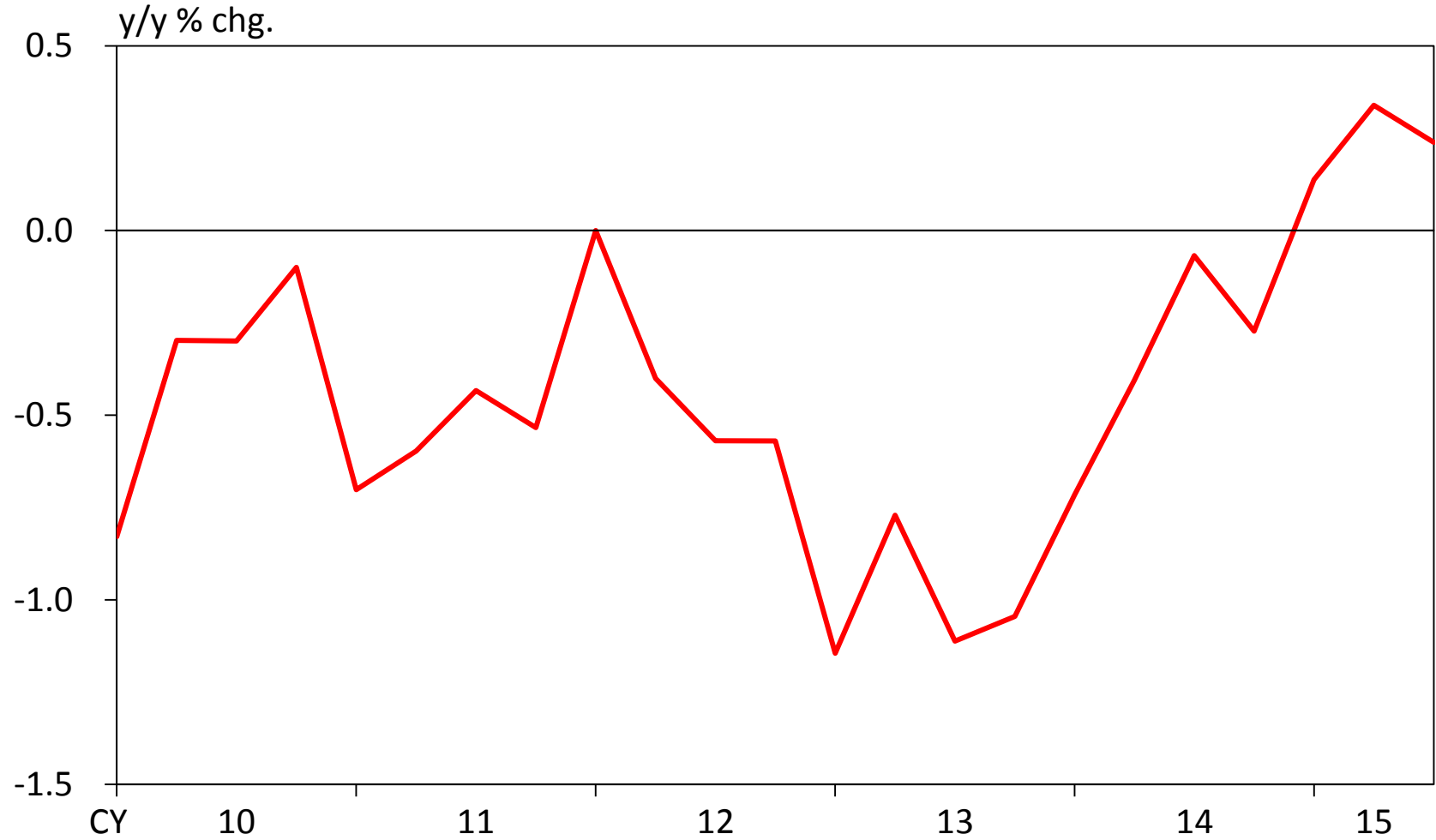


Note: Figures for current profits exclude those for the finance and insurance industries.

Sources: Ministry of Finance, "Financial Statements Statistics of Corporations by Industry, Quarterly"; Bank of Japan, "Tankan, Short-Term Economic Survey of Enterprises in Japan."

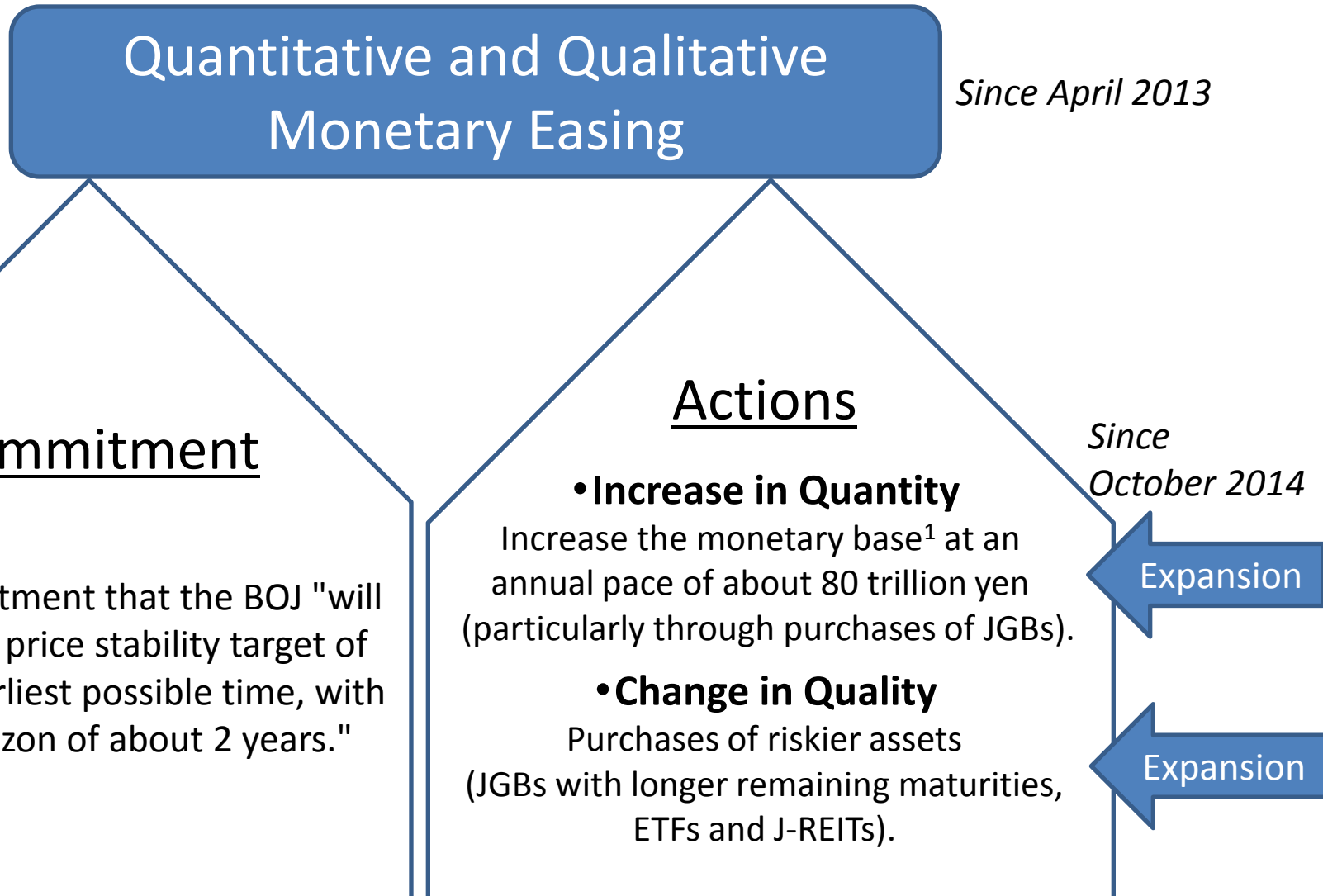
Chart 4

# Scheduled Cash Earnings



Source: Ministry of Health, Labour and Welfare, "Monthly Labour Survey."

# Tangibility of "Policy Regime Change"



Note: 1. Money supplied directly from the central bank to the financial system.

# Lowering Expected Real Interest Rates through Working on Inflation Expectations

Real costs of borrowing,  
taking into account price changes  
(Borrowers' subjective expectations)

Subjective forecast  
based on individuals'  
price projections

Observed in financial  
markets or over the  
counter

$$\text{Expected real interest rates} = \text{Nominal interest rates} - \text{Expected rates of inflation}$$

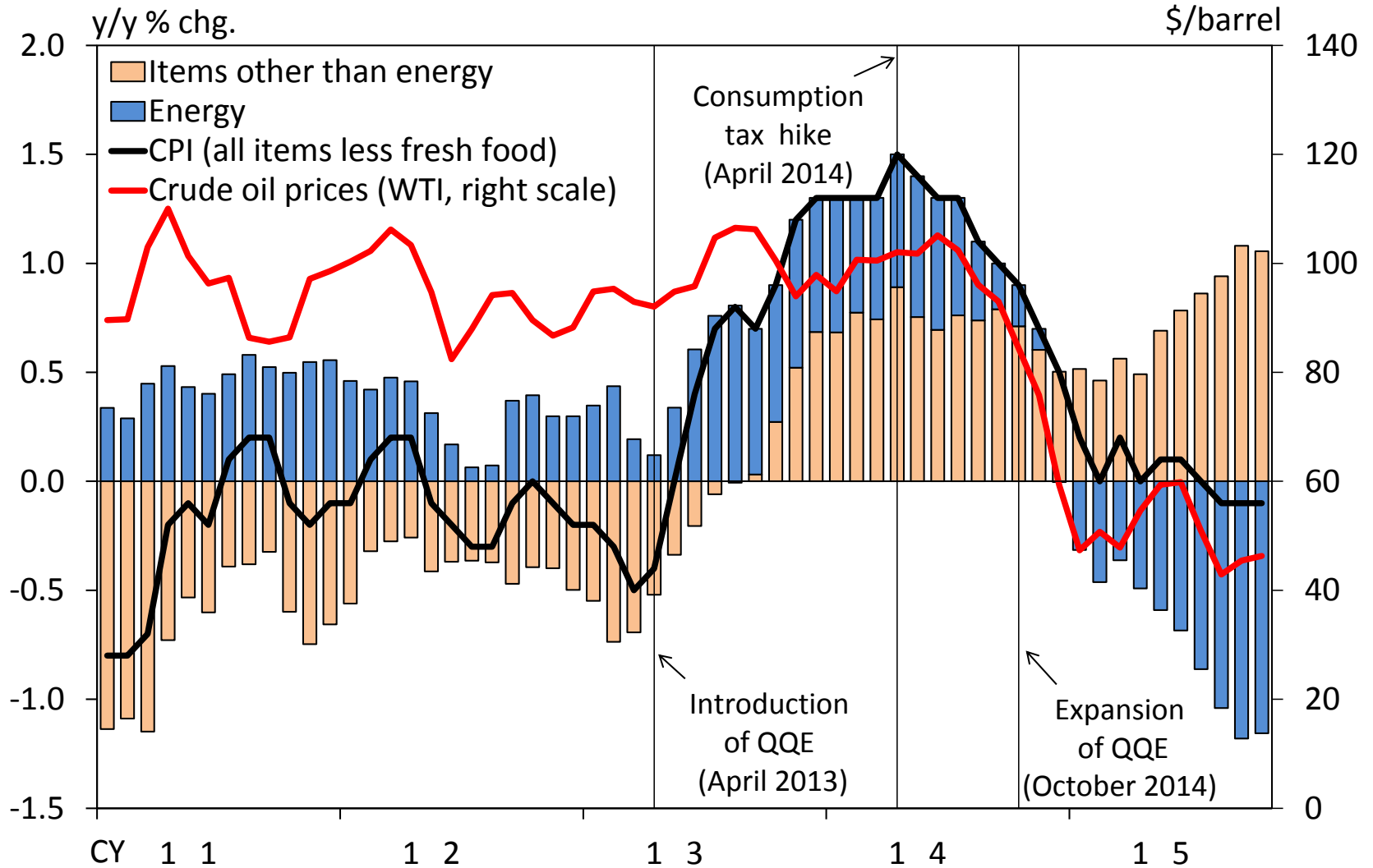
Downward  
pressure  
by QQE

Massive  
JGB  
purchases

Clear commitment to  
achieving the price  
stability target

Chart 7

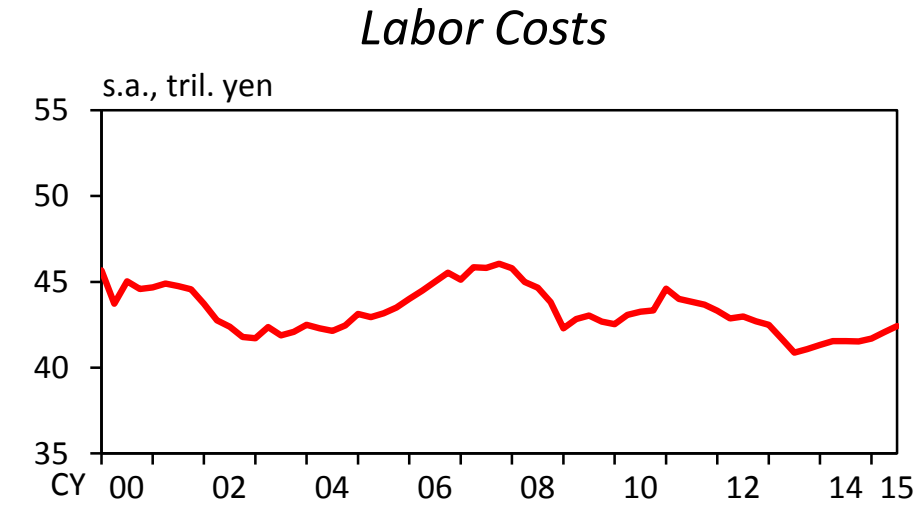
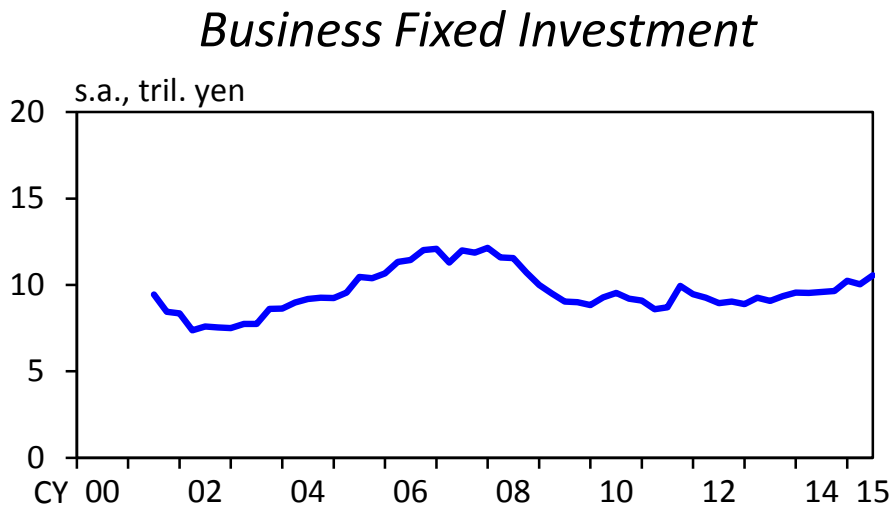
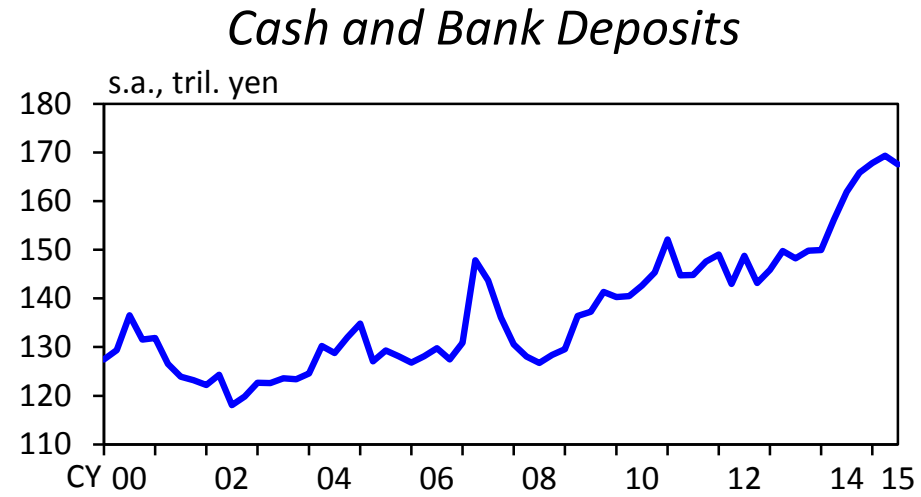
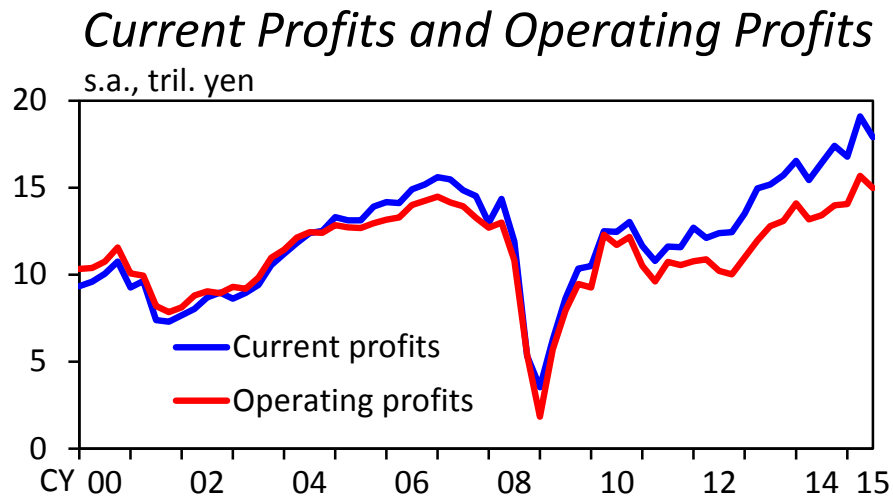
# Consumer Prices



Note: Figures for consumer prices are adjusted to exclude the estimated effect of changes in the consumption tax rate.  
Sources: Ministry of Internal Affairs and Communications, "Consumer Price Index"; Bloomberg.



# Chart 8 Corporate Profits, Business Fixed Investment, and Labor Costs



Notes: 1. Excluding the finance and insurance industries.

2. Figures for business fixed investment include software investment, and exclude those for the goods rental and leasing industry.

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

Chart 9

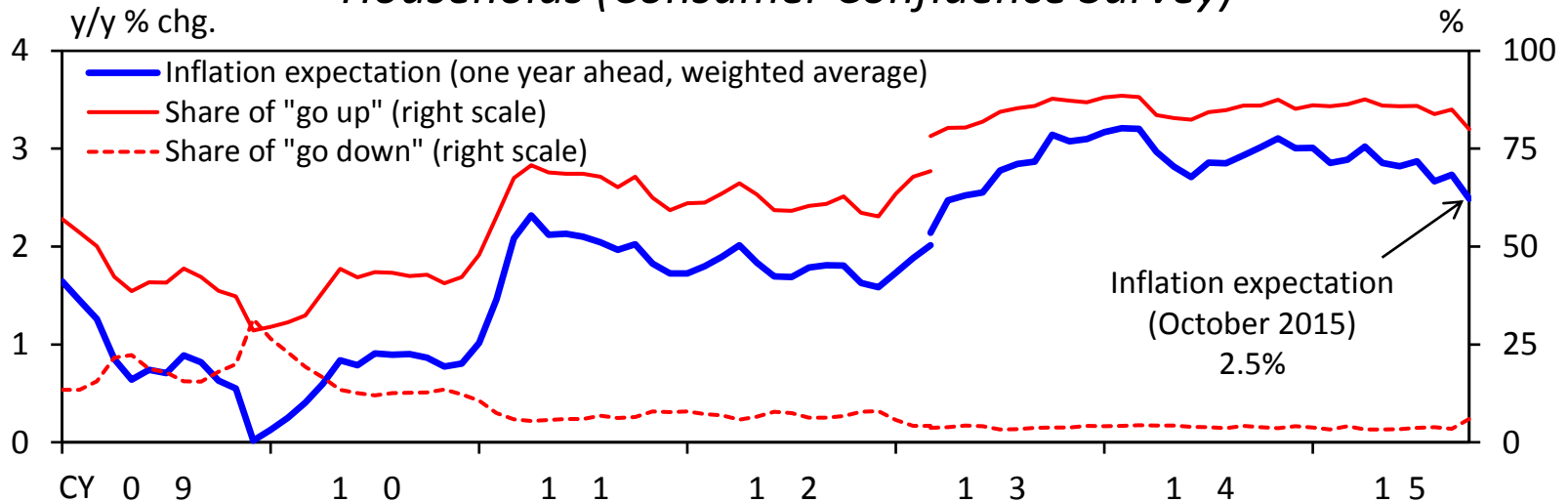
# Inflation Expectations

## Enterprises (Tankan: Outlook for General Prices)

y/y % chg.

	1 year ahead			3 years ahead			5 years ahead		
	All enterprises	Large enterprises	Small enterprises	All enterprises	Large enterprises	Small enterprises	All enterprises	Large enterprises	Small enterprises
Mar. 15	1.4	1.0	1.6	1.6	1.2	1.7	1.6	1.2	1.8
Jun. 15	1.4	1.0	1.5	1.5	1.2	1.7	1.6	1.1	1.8
Sep. 15	1.2	0.9	1.3	1.4	1.1	1.6	1.5	1.1	1.6

## Households (Consumer Confidence Survey)



Note: The Consumer Confidence Survey asks households to provide their price expectations one year from now. Figures are for all households. The inflation expectation (one year ahead, weighted average) is calculated based on the following assumption: survey responses chosen by households as their expected inflation rates -- "-5% or below," "from -5% to -2%," "from -2% to 0%," "from 0% to +2%," "from +2% to +5%," and "+5% or above" – indicate inflation rates of -5%, -3.5%, -1%, +1%, +3.5%, and +5%, respectively.

Sources: Bank of Japan, "Tankan, Short-Term Economic Survey of Enterprises in Japan"; Cabinet Office, "Consumer Confidence Survey."