

# Japan's Economy and Monetary Policy

*Speech at a Meeting with Business Leaders in Saga  
(via webcast)*

September 2, 2020

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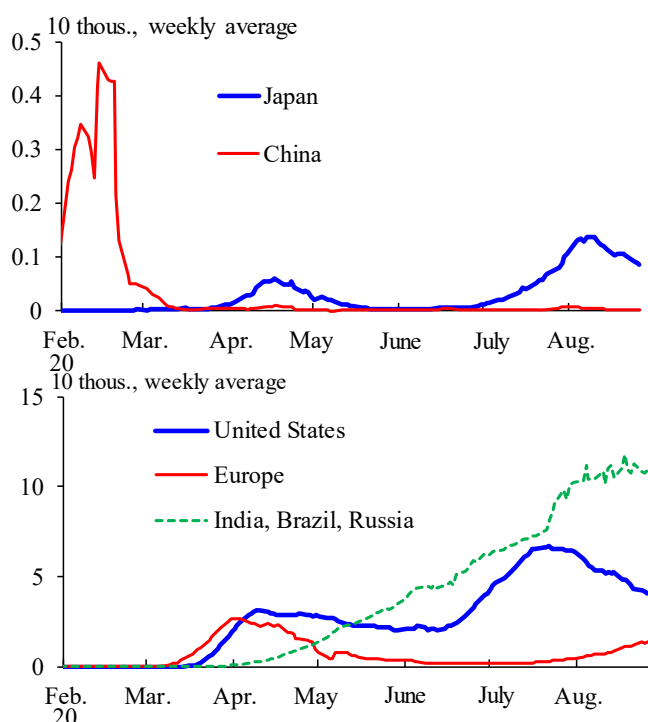
*Deputy Governor of the Bank of Japan*

## I. Current Economic Crisis and Monetary Policy Responses

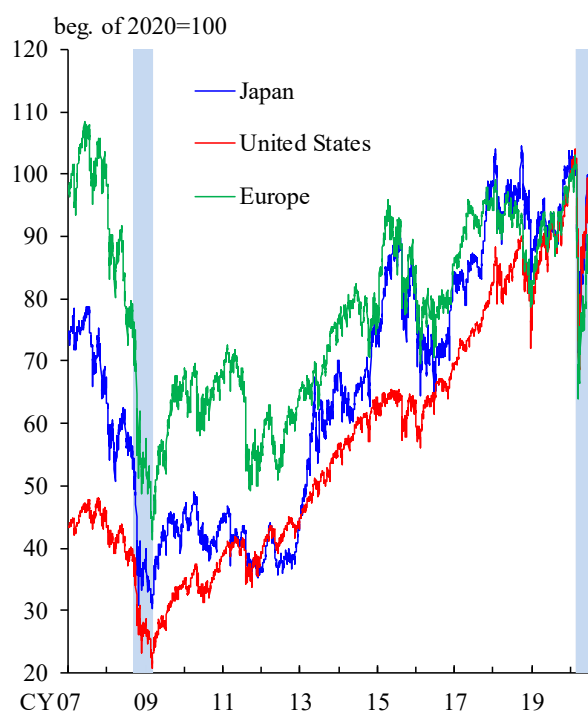
Chart 1

### COVID-19

*Daily Confirmed New Cases*



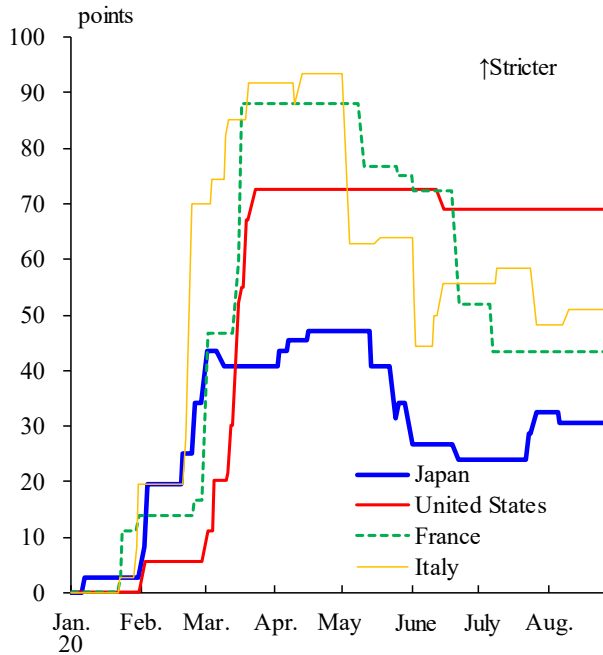
*Stock Prices*



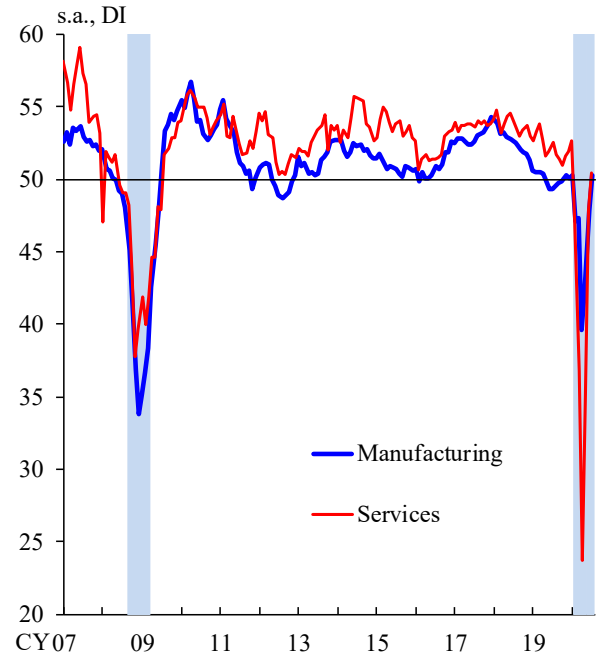
Note: In the right-hand chart, figures for Japan are the Nikkei225 Stock Average, those for U.S. are the S&P500 and those for Europe are the EURO STOXX. Shaded areas for September 15, 2008 to March 31, 2009 correspond to the Global Financial Crisis and for March 1, 2020 onward to COVID-19.  
Sources: Haver; Bloomberg.

# COVID-19

*Stringency Index of Preventive Measures against the Spread*

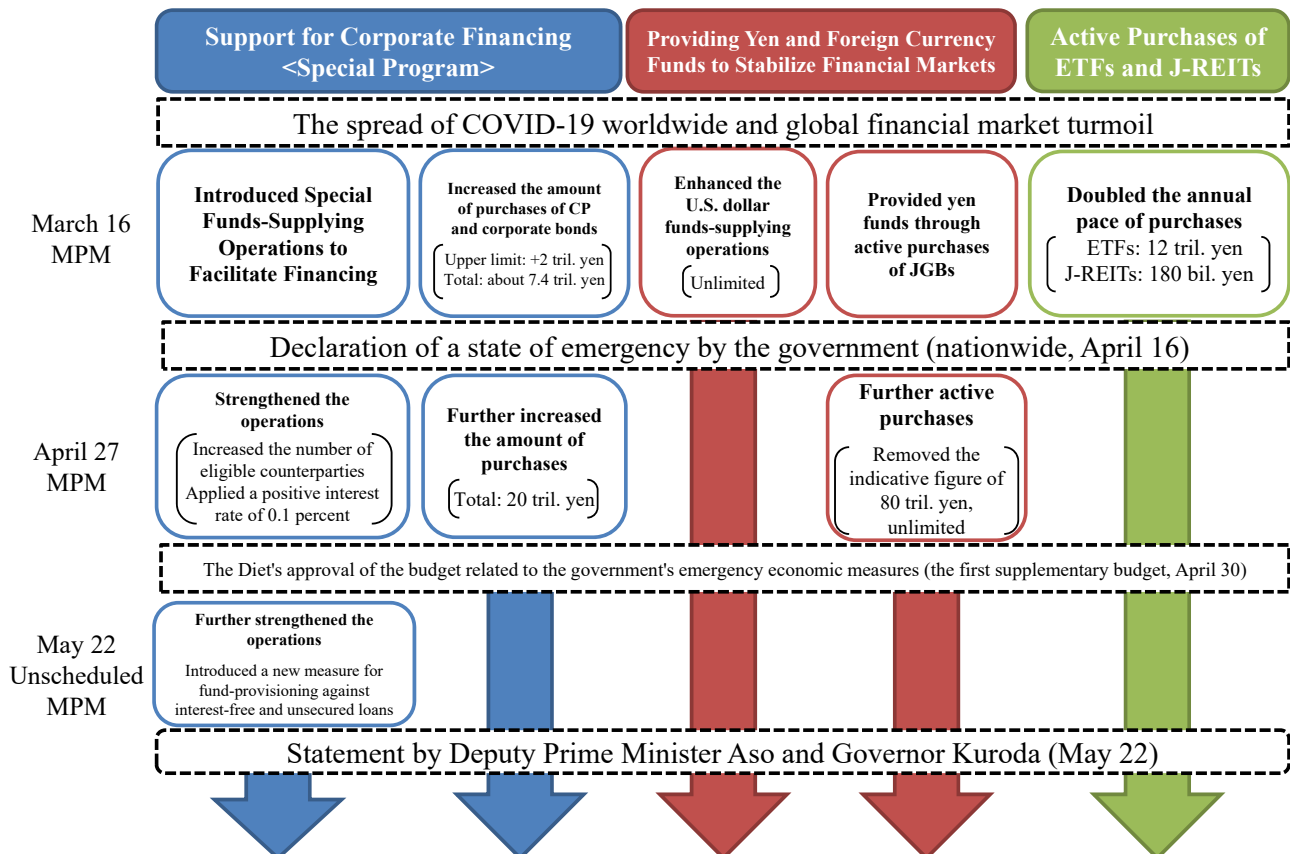


*Business Sentiment*



Notes: 1. Figures in the left-hand chart are based on governments' preventive measures, such as school closures and travel restrictions. Calculated by the University of Oxford.  
 2. In the right-hand chart, figures for manufacturing are the "J.P.Morgan Global Manufacturing PMI" and those for services are the "J.P.Morgan Global Services Business Activity Index."  
 Sources: Haver; IHS Markit (© and database right IHS Markit Ltd 2020. All rights reserved.).

## The Bank's Measures in Response to COVID-19 (Time Series)



# The Bank's Measures in Response to COVID-19

## Support for Corporate Financing

**Special Program to Support Financing in Response to COVID-19:**  
total size of about 120 tril. yen +  $\alpha$

**Purchases of CP and corporate bonds:** amount outstanding of about 20 tril. yen at maximum (previously amount outstanding of about 5 tril. yen)

**Special Funds-Supplying Operations to Facilitate Financing in Response to COVID-19:** about 100 tril. yen

- Provide funds to private financial institutions on favorable terms for the loans that they make in response to COVID-19.
- Eligible loans include effectively interest-free and unsecured loans to small and medium-sized firms through private financial institutions for which the government takes the credit risk.

## Providing Yen and Foreign Currency Funds to Stabilize Financial Markets

**Further active purchases of JGBs and T-Bills: unlimited**

**Strengthening of the U.S. dollar funds-supplying operations: unlimited**

- In line with a coordinated action by six central banks, the Bank's operation was enhanced by lowering the loan rate, offering U.S. dollars with longer maturities, and increasing the frequency of the provision.

## Active Purchases of ETFs and J-REITs

**ETFs: annual pace of about 6 tril. yen**

→ annual pace with the upper limit of about 12 tril. yen (for the time being)

**J-REITs: annual pace of about 90 bil. yen**

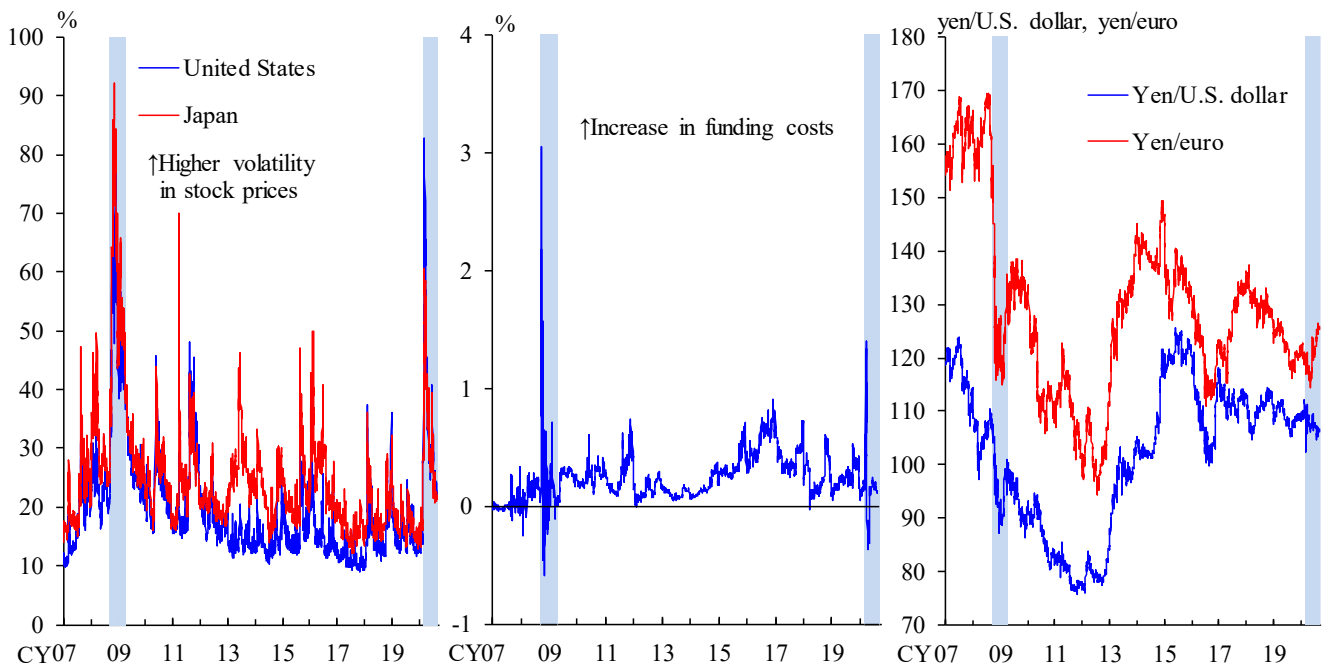
→ annual pace with the upper limit of about 180 bil. yen (for the time being)

# Global Financial Markets

Stock Price Volatility

Dollar Funding Premiums through Foreign Exchange Swaps

Foreign Exchange



Notes: 1. Shaded areas for September 15, 2008 to March 31, 2009 correspond to the Global Financial Crisis and for March 1, 2020 onward to COVID-19.

2. In the left-hand chart, figures for the United States are the VIX Index and those for Japan are the Nikkei 225 Volatility Index.

3. As for the middle chart, figures are calculated as U.S. dollar funding rate from yen minus 3-months dollar LIBOR.

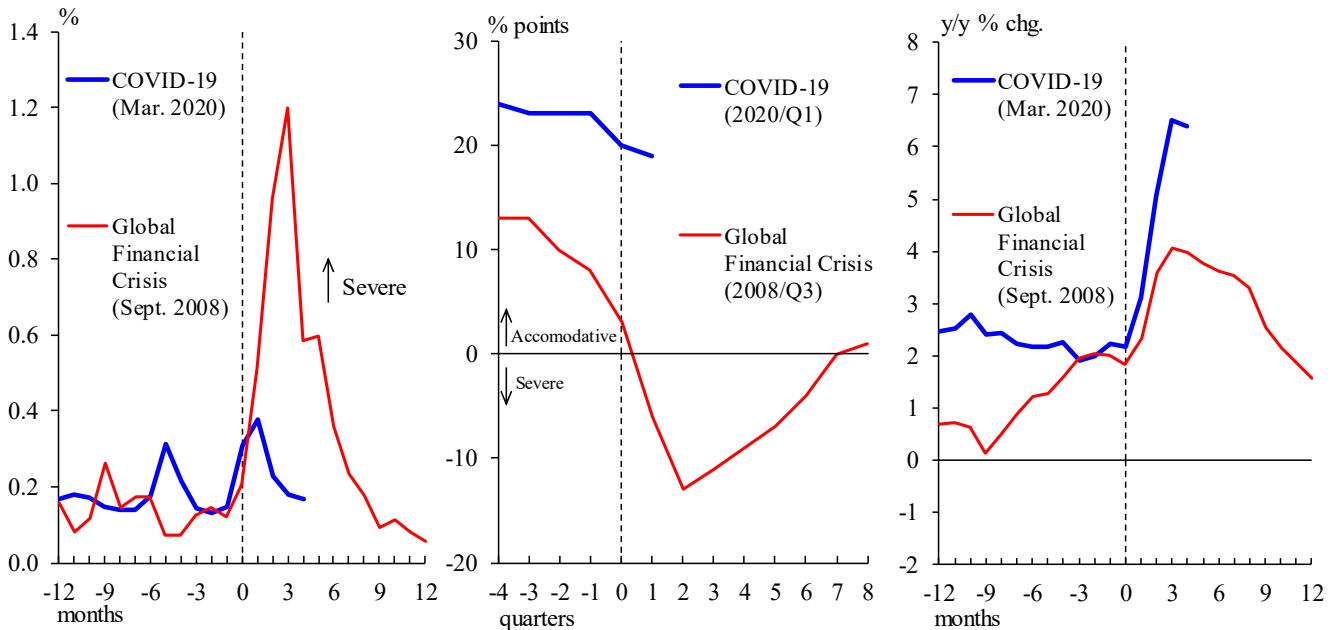
Source: Bloomberg.

# Corporate Financing

Issuance Spread for CP (Rated a-1)

Lending Attitudes of Financial Institutions

Lending by Domestic Commercial Banks

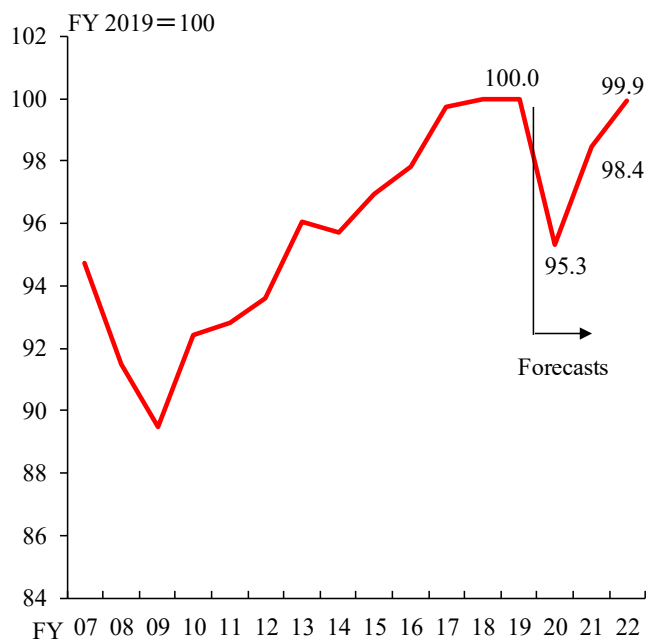
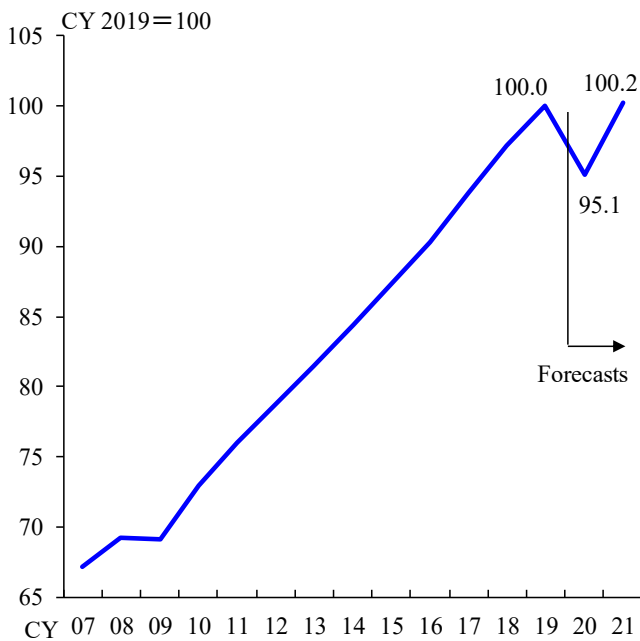


Notes: 1. For each chart, month 0 and quarter 0 are indicated in the legend for each event.  
 2. In the left-hand chart, the issuance spread is calculated as the issuance yield for CP minus the yield on 3-month T-Bills.  
 Sources: Bloomberg; Japan Securities Depository Center; Bank of Japan.

# Outlook for Domestic and Overseas Economies

Global Economy (IMF, June 2020)

Japan's Economy (The Bank's Outlook Report, July 2020)



Sources: IMF; Bank of Japan.

## Forecasts for Economic Activity and Prices

*Forecasts of the Majority of the Policy Board Members  
(July 2020 Outlook Report)*

*Risk Factors*

	y/y % chg.	
	Real GDP	CPI (all items less fresh food)
Fiscal 2020	<b>-5.7 to -4.5</b> [-4.7]	<b>-0.6 to -0.4</b> [-0.5]
Forecasts made in April 2020	-5.0 to -3.0	-0.7 to -0.3
Fiscal 2021	<b>+3.0 to +4.0</b> [+3.3]	<b>+0.2 to +0.5</b> [+0.3]
Forecasts made in April 2020	+2.8 to +3.9	0.0 to +0.7
Fiscal 2022	<b>+1.3 to +1.6</b> [+1.5]	<b>+0.5 to +0.8</b> [+0.7]
Forecasts made in April 2020	+0.8 to +1.6	+0.4 to +1.0

Risks are skewed to the downside, mainly due to the impact of COVID-19

- Impact of COVID-19 on domestic and overseas economies
- Developments in the financial system
  - From liquidity to solvency
- Firms' and households' medium- to long-term growth expectations
- Other various risks (intensifying tension between U.S. and China, geopolitical risks, protectionist moves, natural disasters, etc.)

Notes: 1. These figures show the forecasts of the majority of the Policy Board members and those in brackets indicate the medians. The forecasts are constructed as follows: each Policy Board member's forecast takes the form of a point estimate -- namely, the figure to which she or he attaches the highest probability of realization. These forecasts are then shown as a range, with the highest figure and the lowest figure excluded. In the April Outlook Report, each Policy Board member made their forecasts as a range and submitted two figures within the range of 1.0 percentage point at most. Thus, it should be noted that the definition of the forecasts is different between the figures presented in the April and July Outlook Report.

2. The direct effects of the October 2019 consumption tax hike on the CPI for fiscal 2020 are estimated to be 0.5 percentage point. Those of policies concerning the provision of free education on the CPI for fiscal 2020 are estimated to be around minus 0.4 percentage point.

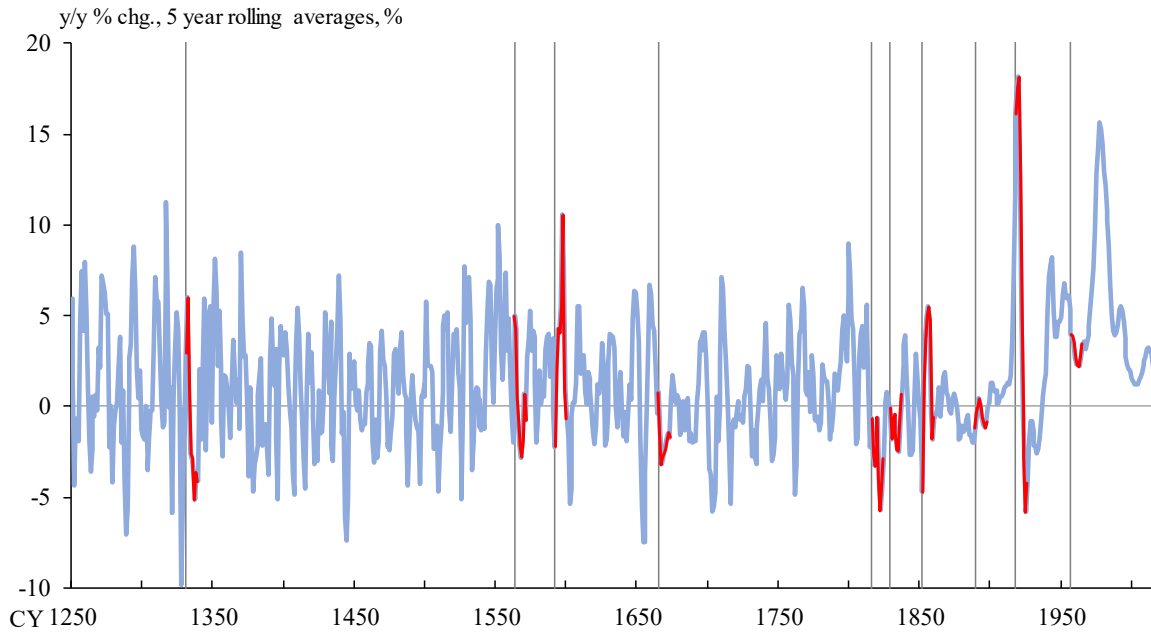
Source: Bank of Japan.

## Comparison with Past Economic Crises

	Period	Causes	Prices	Policy Responses
Great Depression	1929-1930s *Differ by country and region	<ul style="list-style-type: none"> <li>• Macroeconomic policy mistakes</li> <li>• Financial crisis</li> <li>• Aggregate supply &gt; Aggregate demand</li> </ul>	Extreme deflation	<ul style="list-style-type: none"> <li>• Moving away from gold standard</li> <li>• Expansionary fiscal and monetary policy</li> </ul>
Postwar High Inflation in Japan	1945- Beginning of 1949	<ul style="list-style-type: none"> <li>• Destruction of production facilities by war</li> <li>• Demobilization</li> <li>• Aggregate supply &lt; Aggregate demand</li> </ul>	High inflation	<ul style="list-style-type: none"> <li>• Tightening of fiscal and monetary policy</li> </ul>
Great Inflation	1970s *Differ by country and region	<ul style="list-style-type: none"> <li>• Continuation of extremely accommodative macro policy</li> <li>• Oil shocks</li> <li>• Aggregate supply &lt; Aggregate demand</li> </ul>	High inflation	<ul style="list-style-type: none"> <li>• Tightening of fiscal and monetary policy</li> </ul>
Great Recession after the Global Financial Crisis	2007-2009 *Differ by country and region	<ul style="list-style-type: none"> <li>• Fall in commodity prices, financial crisis</li> <li>• Aggregate supply &gt; Aggregate demand</li> </ul>	Deflation or low inflation	<ul style="list-style-type: none"> <li>• Liquidity provision</li> <li>• Expansionary fiscal and monetary policy</li> </ul>
COVID-19 Crisis	2020-?	<ul style="list-style-type: none"> <li>• Self-restraint, lockdowns, social distancing to prevent the spread of COVID-19</li> <li>• No damages to production facilities, however, their economic value has changed.</li> <li>• From decline in aggregate supply to decline in aggregate demand → Aggregate supply &gt; Aggregate demand?</li> </ul>	Deflation or low inflation?	<ul style="list-style-type: none"> <li>• Liquidity provision</li> <li>• Income compensation</li> <li>• Capital injection</li> <li>• Expansionary fiscal and monetary policy</li> </ul>

# COVID-19 and Prices

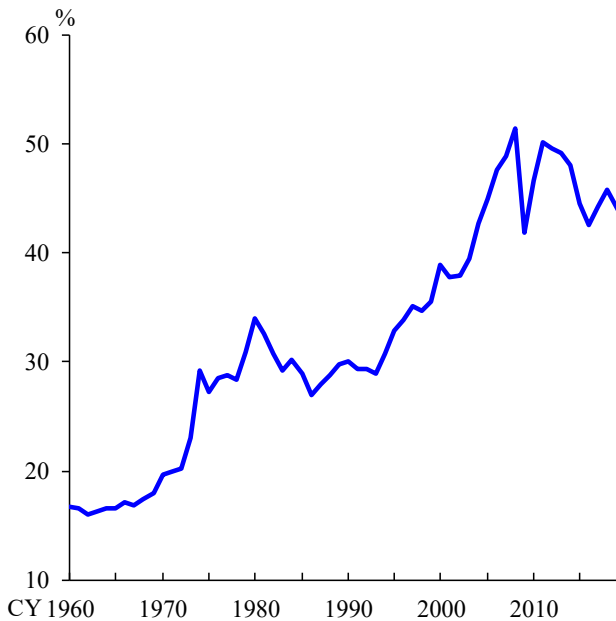
## Outbreaks of Infectious Diseases in the United Kingdom and Consumer Price Index



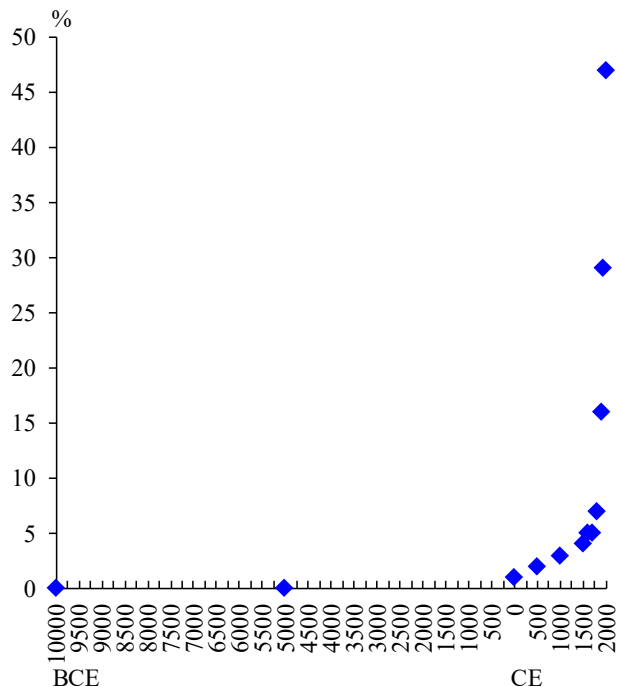
Note: The event lines indicate the start of infectious disease epidemics such as the Black Death, the plague, and influenza in the United Kingdom. The red lines highlight developments in the consumer price index following the start of each epidemic.  
 Source: Tenreyro, S., "Covid-19 and the Economy: What Are the Lessons So Far?" speech given at London School of Economics webinar, July 15, 2020, <https://www.bankofengland.co.uk/-/media/boe/files/speech/2020/covid-19-and-the-economy-speech-silvana-tenreyro.pdf>.

# History of Globalization and Urbanization

World Trade Volume to GDP Ratio

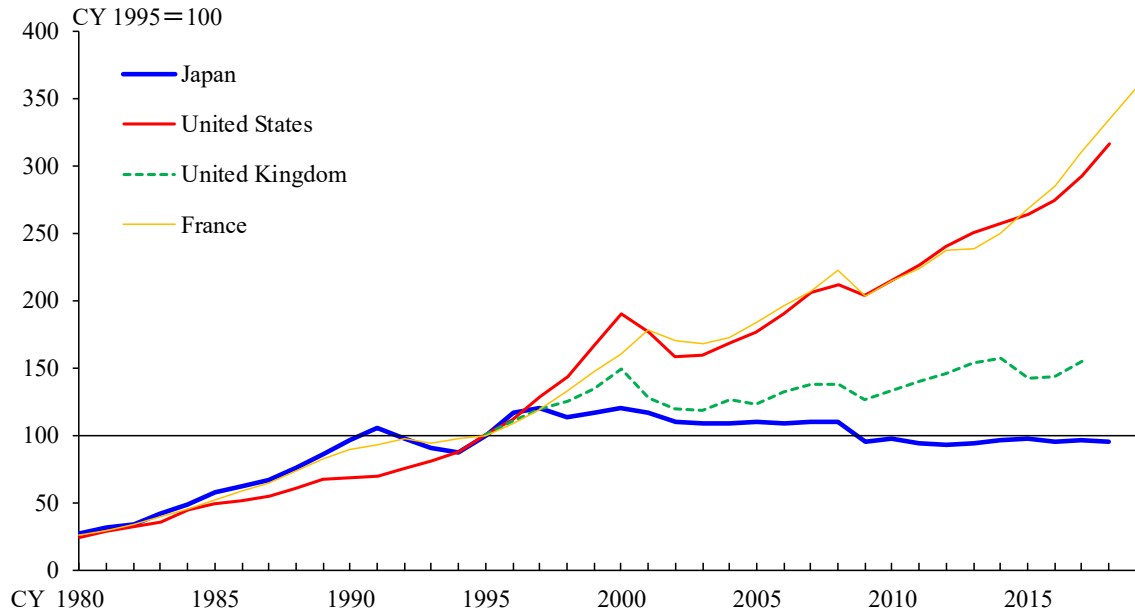


Urbanization Rate



Notes: 1. In the left-hand chart, figures for world trade volume are the sum of exports and imports.  
 2. In the right-hand chart, figures are the percentages of the population living in urban areas.  
 Sources: World Bank; Goldewijk, K. K., Beusen, A., and Janssen, P., "Long-Term Dynamic Modeling of Global Population and Built-Up Area in a Spatially Explicit Way: HYDE 3.1," *The Holocene*, vol. 20, issue 4 (2010): pp. 565-73.

## ICT Investment



Source: OECD.

## Conclusion

## Smallpox Vaccination in the Saga Clan (1849)



"Naomasa kō shishi Jun'ichirō gimi shutō no zu" (Painting of the smallpox vaccination of Jun'ichirō, the heir of Nabeshima Kansō)  
 Drawn by Jinnouchi Shōrei, owned by Saga-Ken Medical Centre Koseikan