

Japan's Economy and Monetary Policy

*Speech at a Meeting with Local Leaders in Niigata
(via webcast)*

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Introduction

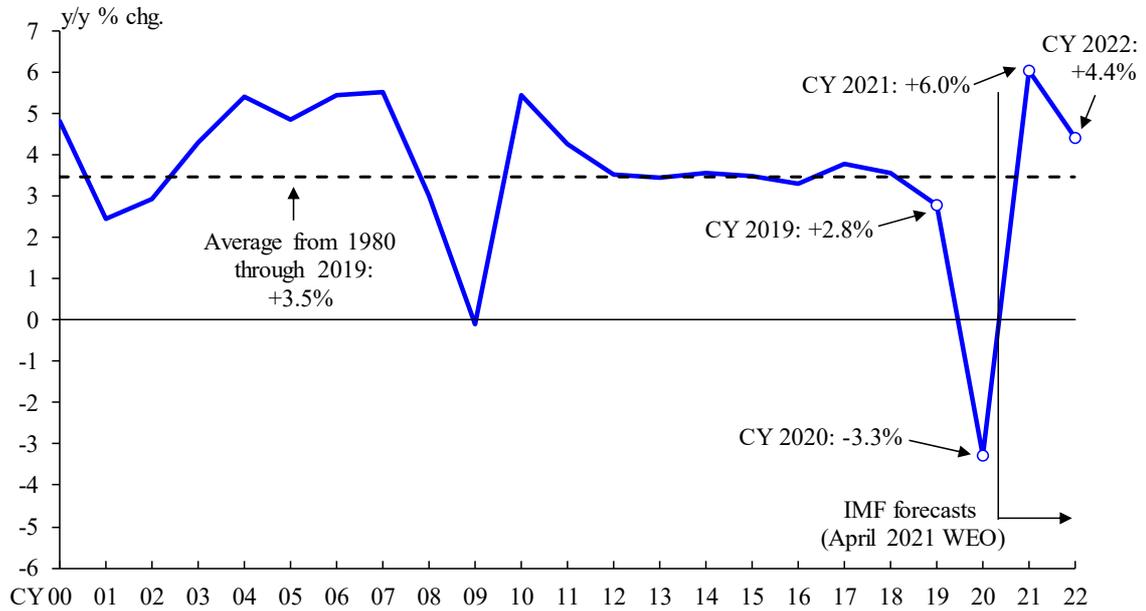
I. Developments in Economic Activity and Prices

II. The Bank's Conduct of Monetary Policy

III. The Bank's Efforts on Climate Change

Conclusion

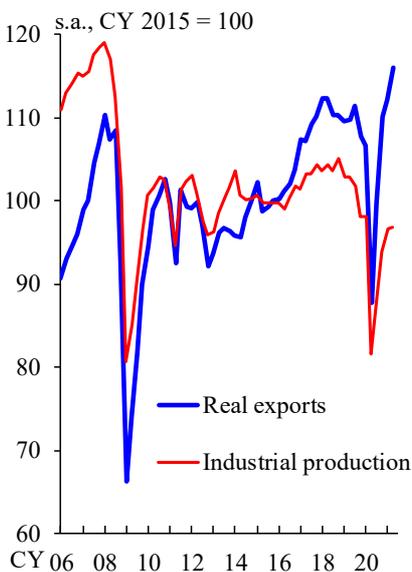
Global Growth Rate (IMF Forecasts in the *World Economic Outlook*)



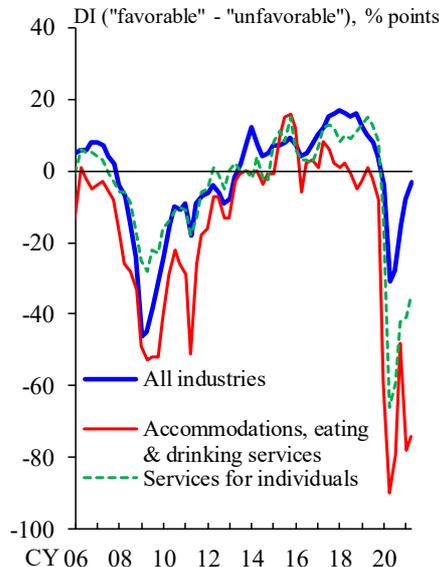
Source: IMF.

Corporate Sector

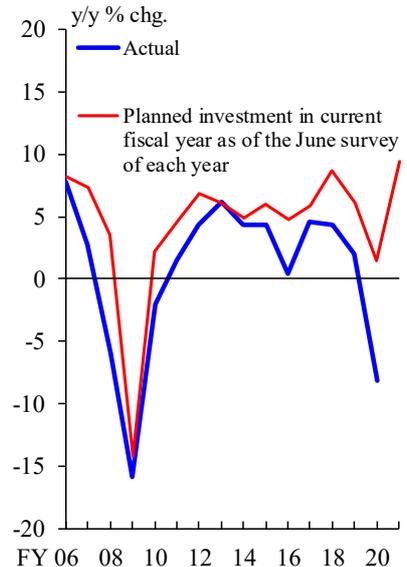
Exports and Production



Business Conditions DI (Tankan)



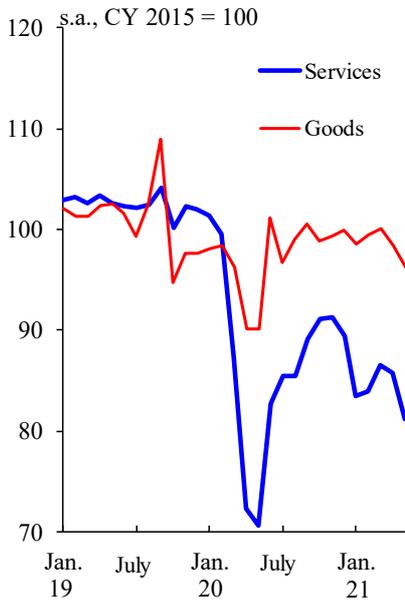
Business Fixed Investment (Tankan)



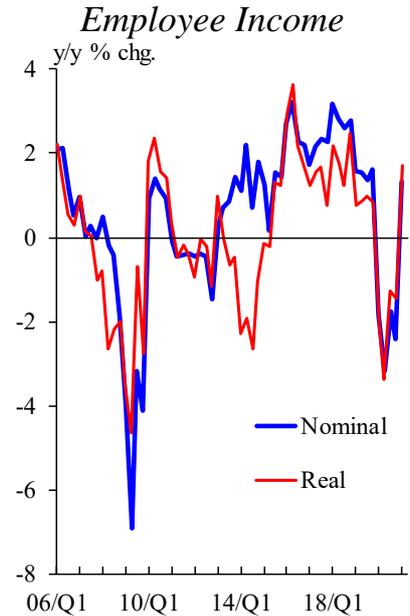
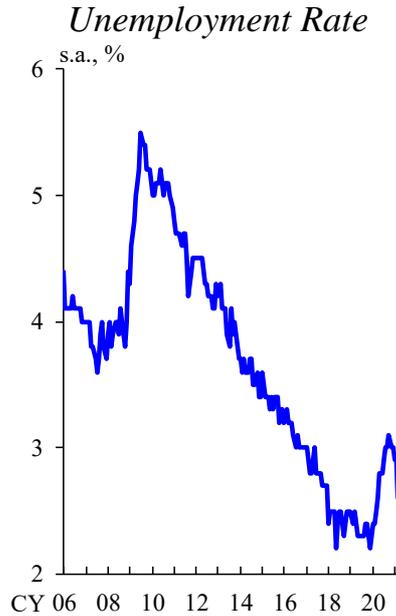
Note: In the right-hand chart, figures include software and R&D investments and exclude land purchasing expenses. R&D investment is not included before the March 2017 survey. The figures are for all industries and enterprises including financial institutions.
Sources: Ministry of Finance; Ministry of Economy, Trade and Industry; Bank of Japan.

Household Sector

Private Consumption



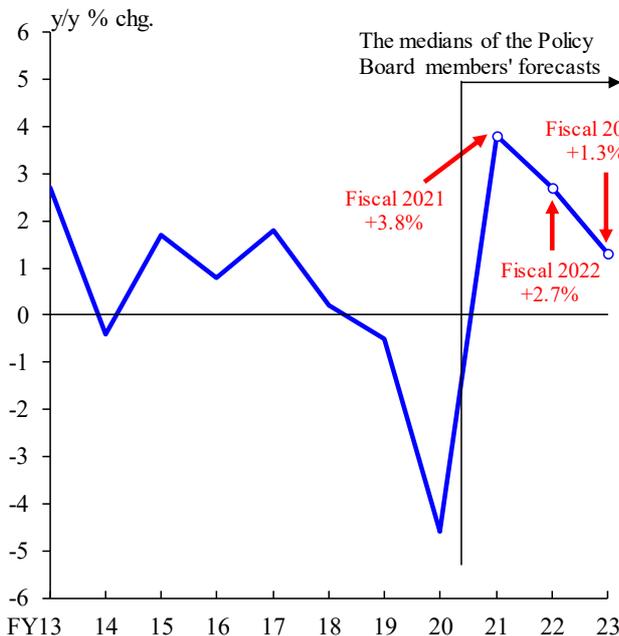
Employment and Income Situation



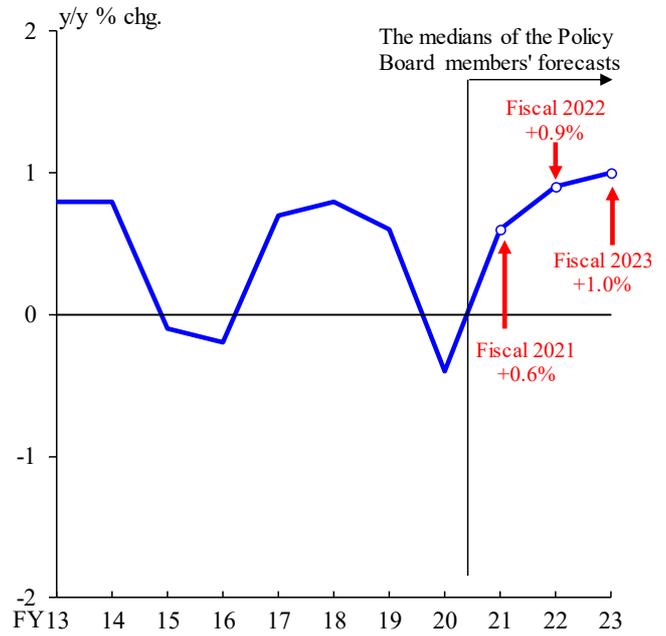
Note: In the right-hand chart, Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February. Employee income = Total cash earnings ("Monthly Labour Survey") × Number of employees ("Labour Force Survey"). Figures from 2016/Q1 onward are based on continuing observations following the sample revisions of the "Monthly Labour Survey." Figures for real employee income are based on staff calculations using the CPI (less imputed rent).
Sources: Bank of Japan; Ministry of Internal Affairs and Communications; Ministry of Health, Labour and Welfare, etc.

The Bank's Forecasts for Economic Activity and Prices (July 2021 Outlook Report)

Real GDP Growth Rate

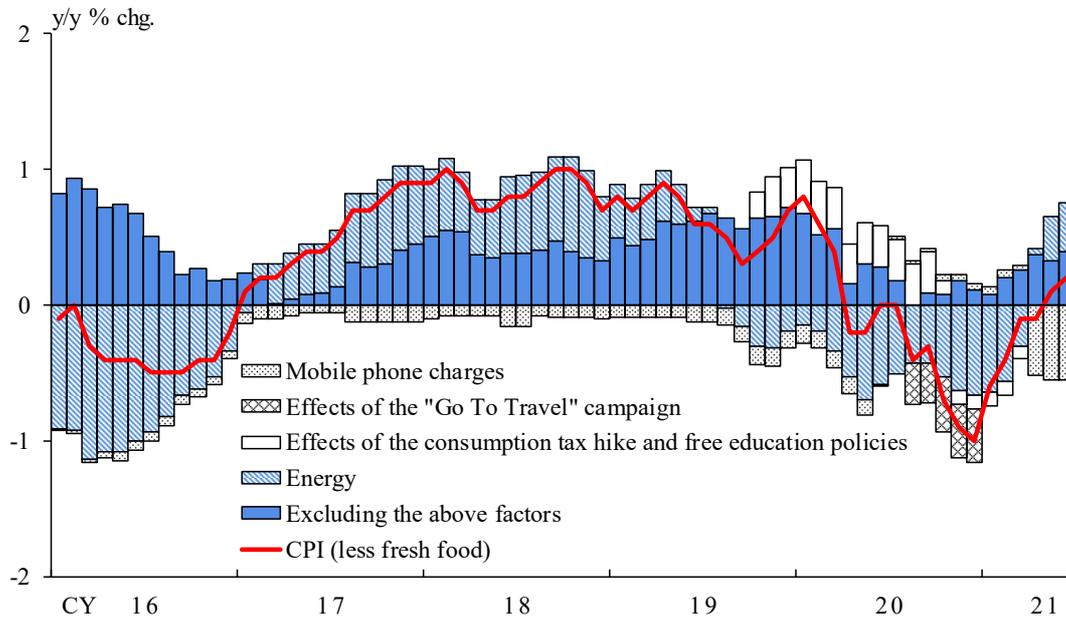


CPI (All Items Less Fresh Food)



Note: In the right-hand chart, figures exclude the direct effects of the consumption tax hike in April 2014.
Sources: Cabinet Office; Bank of Japan; Ministry of Internal Affairs and Communications.

Consumer Price Index (CPI)



Notes: 1. Figures for energy consist of those for petroleum products, electricity, and gas, manufactured & piped.
 2. Figures for the "effects of the consumption tax hikes and free education policies" from April 2020 onward are staff estimates and include the effects of measures such as free higher education introduced in April 2020.
 Source: Ministry of Internal Affairs and Communications.

The Bank's Measures in Response to COVID-19

Supporting Corporate Financing

Special Program to Support Financing in Response to COVID-19

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

Special Funds-Supplying Operations to Facilitate Financing in Response to COVID-19

Stabilizing Financial Markets

Ample and Flexible Provision of Yen and Foreign Currency Funds

Active purchases of JGBs and T-Bills

U.S. Dollar Funds-Supplying Operations

Purchases of ETFs and J-REITs

ETFs: annual pace with an upper limit of about 12 tril. yen

J-REITs: annual pace with an upper limit of about 180 bil. yen

The Bank's Strategy on Climate Change

- Climate change is a global challenge and could have a broad impact into the future.
- Various entities in society and the economy need to actively play their roles.



The Bank, with an intention of furthering its efforts on climate change consistent with its mandate of achieving price stability and ensuring the stability of the financial system, decided the comprehensive strategy.



The impacts of climate change on economic activity, prices, and the financial system are highly uncertain and could greatly vary over time.

➔ The Bank will constantly review its measures and make adjustments where needed.

Fund-Provisioning Measure to Support Efforts on Climate Change

From a central bank standpoint, the Bank provides funds to financial institutions for investment or loans they make to address climate change based on their own decisions.

➔ Amid the fluid external environment, it can respond flexibly to changes in circumstances while avoiding direct involvement in micro-level resource allocation as much as possible.

Eligible Counterparties
Eligible Investment/Loans



Counterparties make investment/loans based on their own decisions. Discipline will be exercised through a certain level of disclosure.

- **Financial institutions that disclose a certain level of information** on their efforts to address climate change
- Of the **investment/loans** made by counterparties as part of their efforts, those **that contribute to Japan's actions to address climate change**

Terms and Conditions



Long-term support for financial institutions' efforts

- Interest rate: **0%** -- The measure will fall under Category III (applied interest rate: 0%) in the Interest Scheme to Promote Lending
- **Twice as much as the amount outstanding of funds that counterparties receive will be added to the Macro Add-on Balances in their current accounts at the Bank**
- Duration of fund-provisioning: 1 year; rollovers can be made until the end of the implementation period
→ **Effectively, long-term financing from the Bank**
- Implementation period: in principle, **until the end of fiscal 2030**