

Japan's Economy and Monetary Policy

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

September 1, 2021

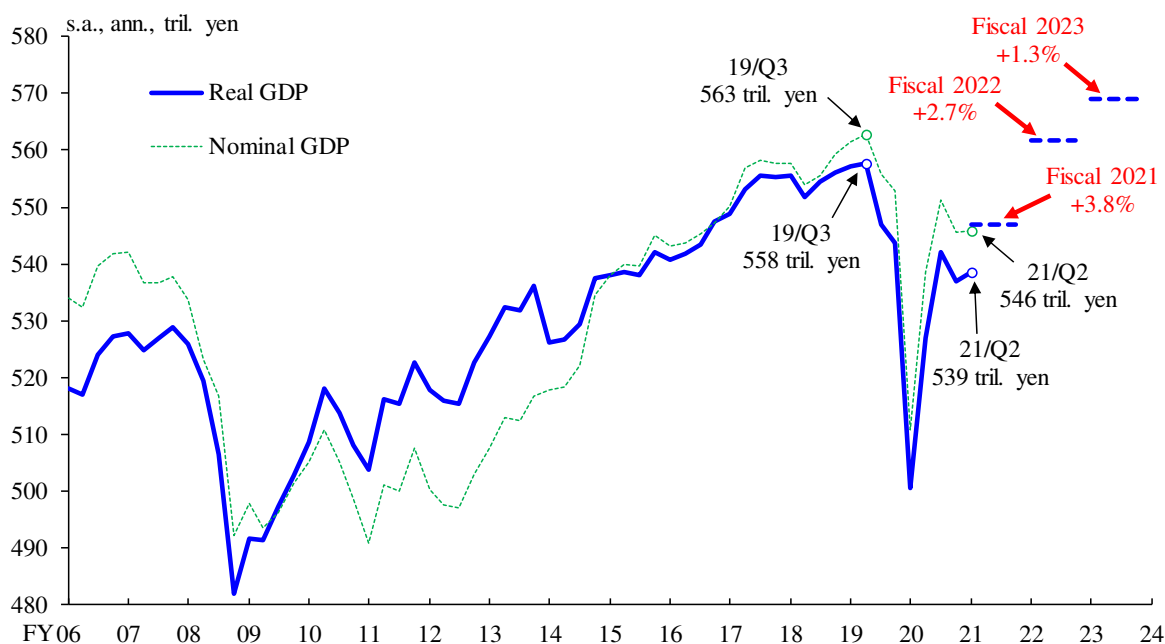
WAKATABE Masazumi

Deputy Governor of the Bank of Japan

I. Current Situation of and Outlook for Japan's Economy

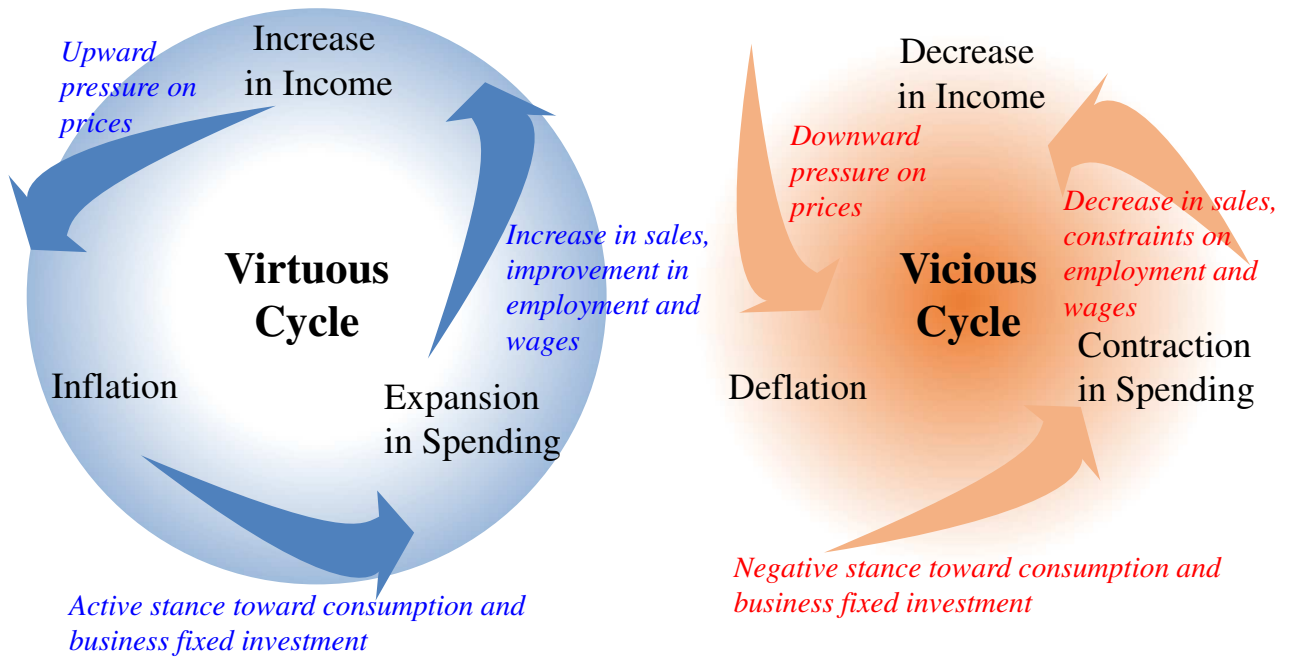
Chart 1

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



Note: Percentage figures indicate the medians of the Policy Board members' forecasts (point estimates).
Sources: Cabinet Office; Bank of Japan.

Cycle from Income to Spending

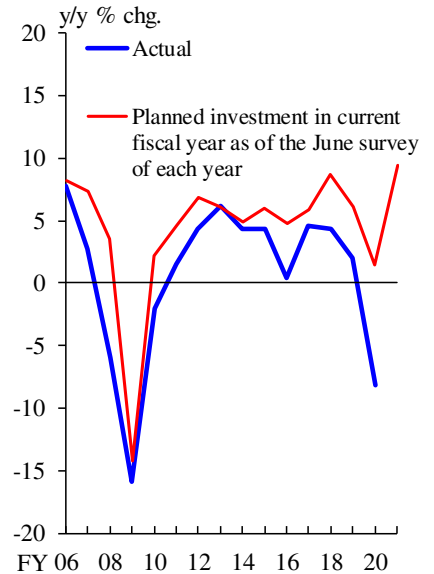
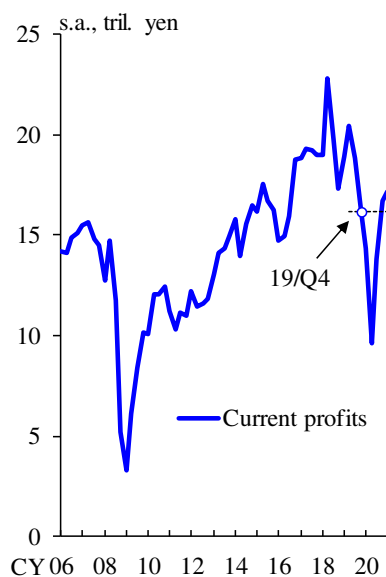


Corporate Sector

Exports and Production

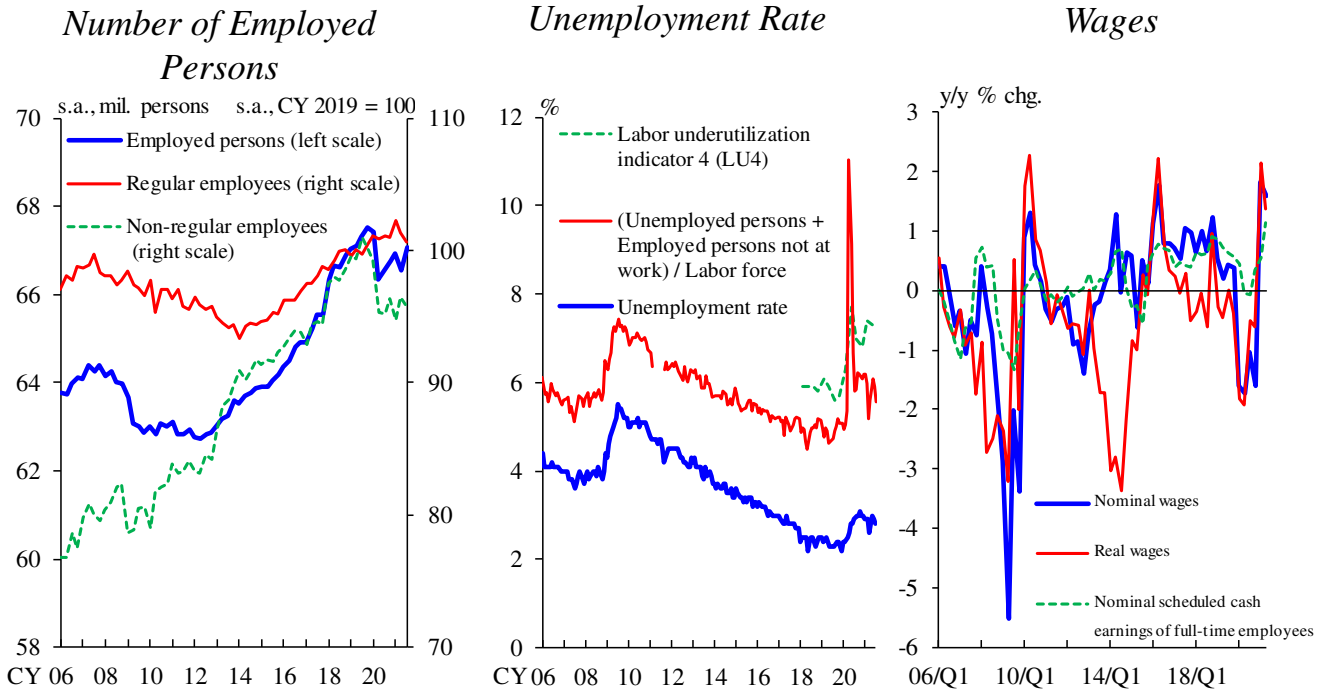
Corporate Profits

Business Fixed Investment (Tankan)



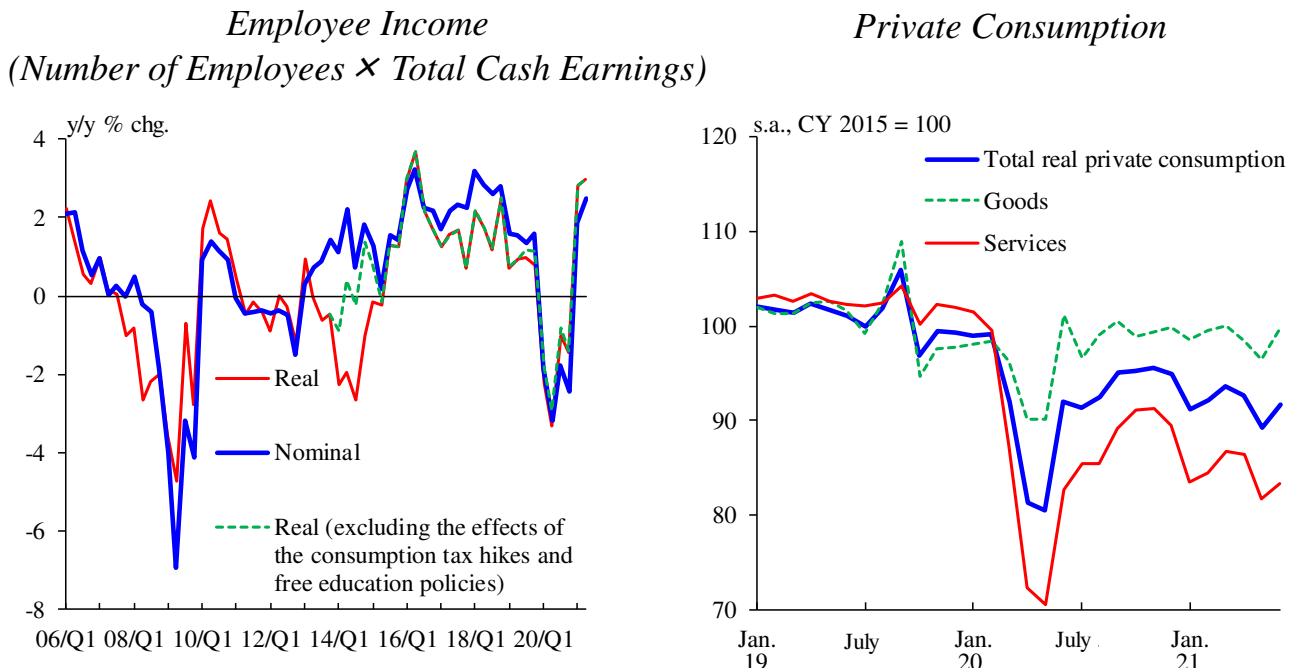
Notes: 1. In the middle chart, figures are based on the *Financial Statements Statistics of Corporations by Industry, Quarterly*, excluding "finance and insurance." Figures from 2009/Q2 onward exclude pure holding companies.
 2. In the right-hand chart, figures include software and R&D investments and 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 (1)



Notes: 1. In the left-hand chart, figures for regular employees and non-regular employees prior to 2013 are based on the "detailed tabulation" in the *Labour Force Survey*.
 2. In the middle chart, LU4 shows the ratio of the sum of unemployed persons, persons in time-related underemployment, and potential labor force to the sum of labor force and potential labor force (quarterly). Figures for "(Unemployed persons + Employed persons not at work) / Labor force" and the unemployment rate are seasonally adjusted.
 3. In the right-hand chart, Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February. Figures from 2016/Q1 onward are based on continuing observations following the sample revisions.
 Sources: Ministry of Internal Affairs and Communications; Ministry of Health, Labour and Welfare.

Household Sector (2)

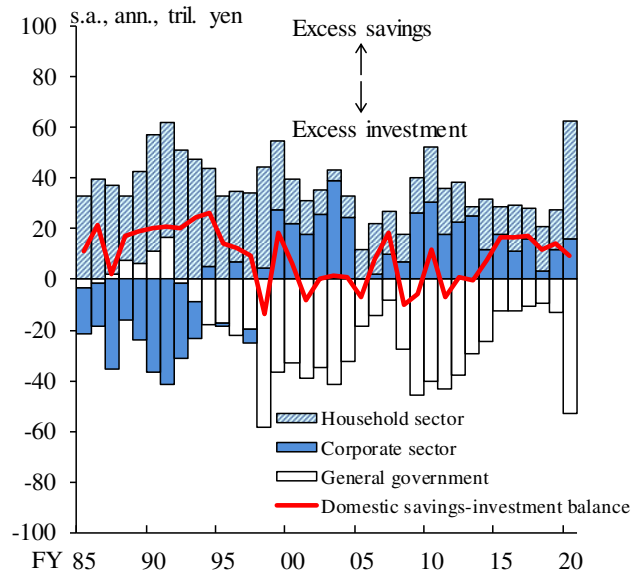
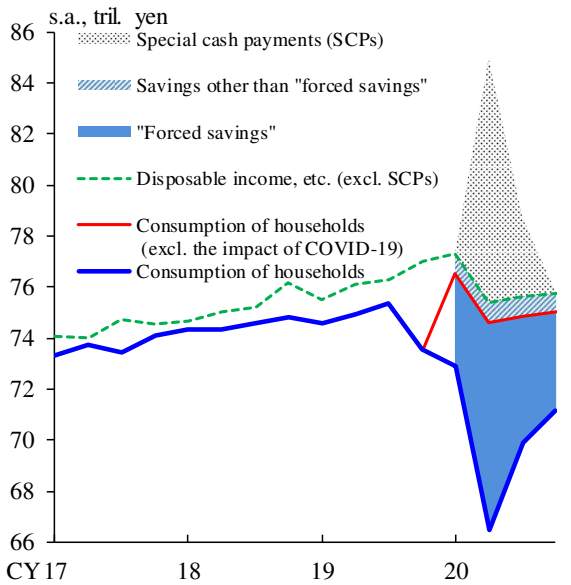


Notes: 1. In the left-hand chart, Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February. Employee income = Total cash earnings (*Monthly Labour Survey*) × Number of employees (*Labour Force Survey*). Figures from 2016/Q1 onward are based on continuing observations following the sample revisions of the *Monthly Labour Survey*. Figures for "real" and "real (excluding the effects of the consumption tax hikes and free education policies)" are based on staff calculations using the CPI (less imputed rent) and CPI (less imputed rent and excluding the effects of consumption tax hikes and free early childhood education), respectively.
 2. In the right-hand chart, figures are based on the Consumption Activity Index (CAI) compiled by the Bank. Figures for total real private consumption are those for real CAI (travel balance adjusted).
 Sources: Bank of Japan; Ministry of Internal Affairs and Communications; Ministry of Health, Labour and Welfare, etc.

"Standby" Funds in Household and Corporate Sectors

*Private Consumption and
Loss of Consumption Opportunities*

*Excess Savings
in Corporate Sector*

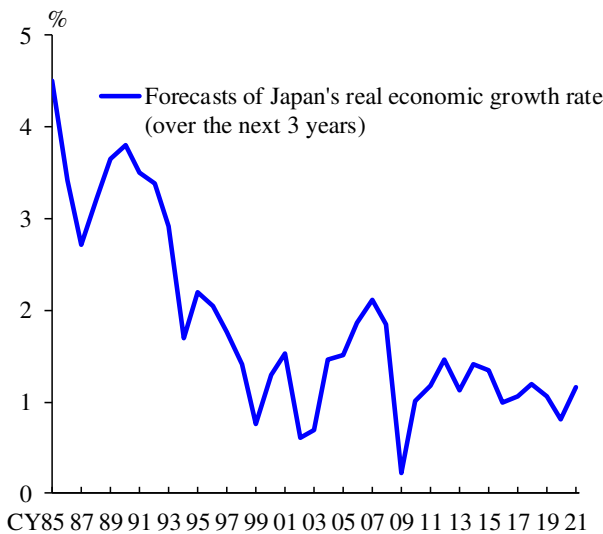


Note: Regarding details for the left-hand chart, see Box 3 "Effects of Widespread Vaccinations and Outlook for Private Consumption" in the April 2021 Outlook Report.
Sources: Bank of Japan; Cabinet Office, etc.

Two "Expectations"

*Growth Expectations
Remaining Steady*

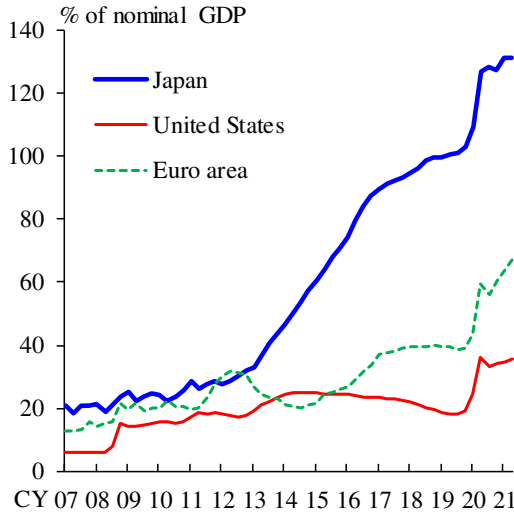
*Inflation Expectations
Being More or Less Unchanged*



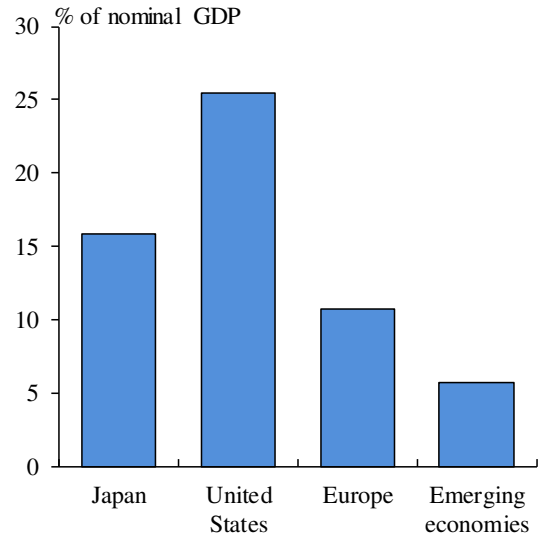
Notes: 1. In the left-hand chart, figures are based on the *Annual Survey of Corporate Behavior* (listed firms).
2. In the right-hand chart, figures for households are from the *Opinion Survey on the General Public's Views and Behavior*, estimated using the modified Carlson-Parkin method. Figures for firms show the inflation outlook of enterprises for general prices (all industries and enterprises, average) in the *Tankan*.
Sources: Cabinet Office; QUICK, *QUICK Monthly Market Survey <Bonds>*; Bank of Japan.

Actions of Governments and Central Banks

Expanding Central Bank Balance Sheets

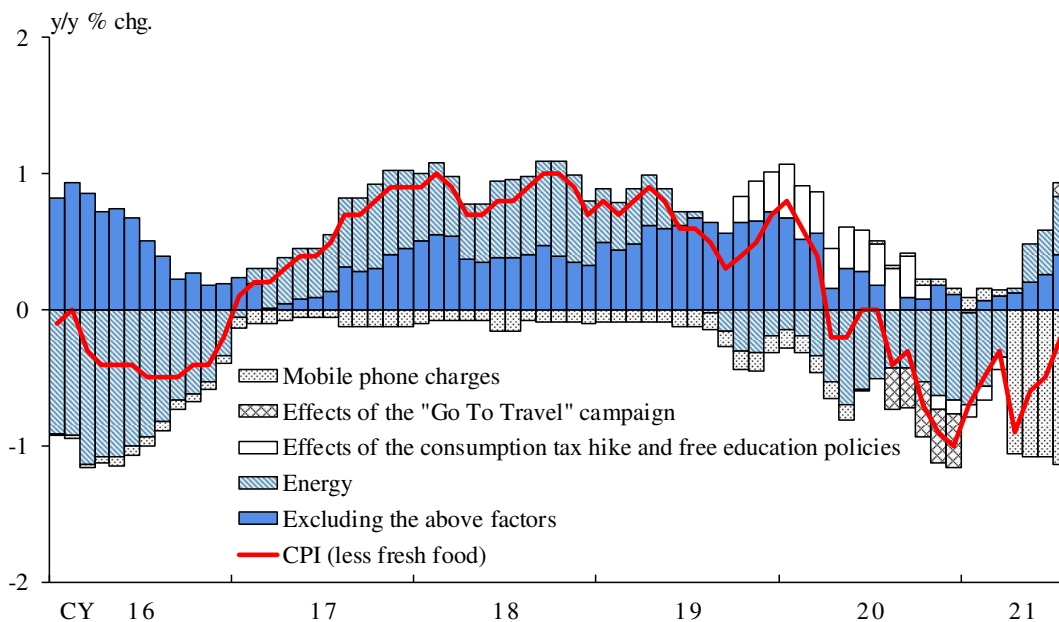


Large-Scale Fiscal Support in Response to COVID-19



Note: In the right-hand chart, figures are based on estimates in U.S. dollars released by the IMF in its April 2021 *Fiscal Monitor*. They include only fiscal support that affects the fiscal balance immediately. Tax deferrals, government guarantees for banks, firms, and households, etc. are excluded. The figure for Europe is the sum of figures for Germany, France, Italy, Spain, and the United Kingdom. The figure for emerging economies is the sum of figures for 29 economies.
Sources: Haver; IMF; Bank of Japan, etc.

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 hike 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 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.

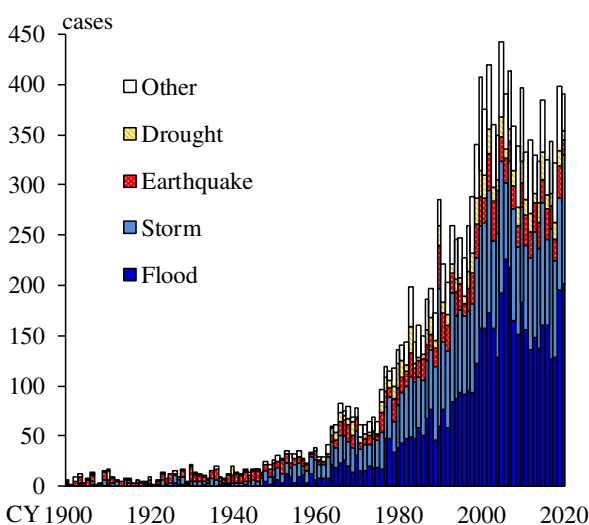


The impacts of climate change on economic activity, prices, and the financial system are highly uncertain and could greatly vary over time.

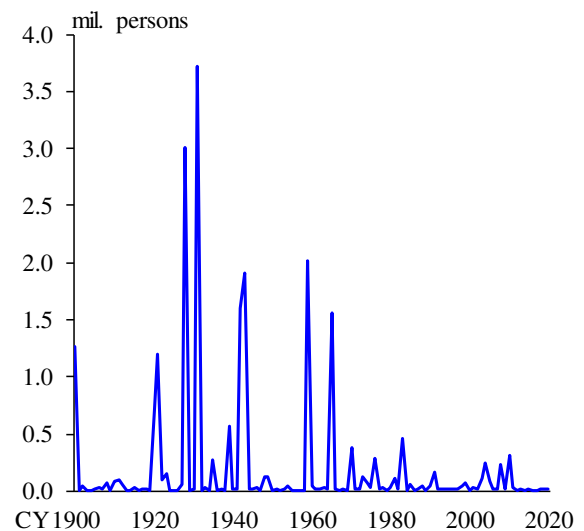
➔ The Bank will constantly review its measures and make adjustments where needed.

Natural Disasters

Increase in Number of Global Reported Natural Disaster Events

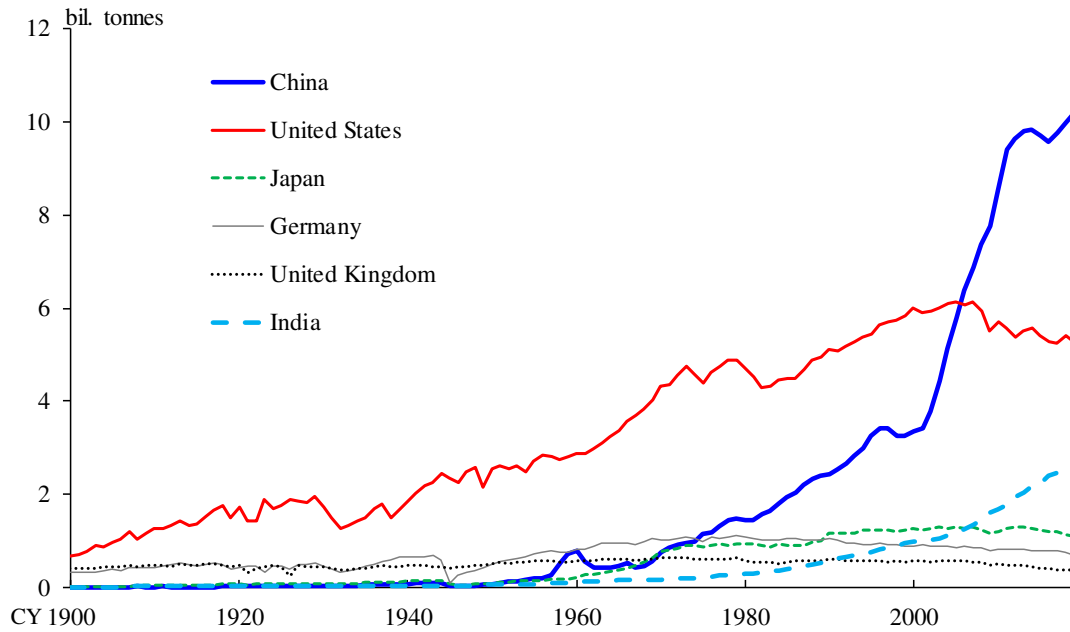


Decrease in Number of Global Deaths from Natural Disasters



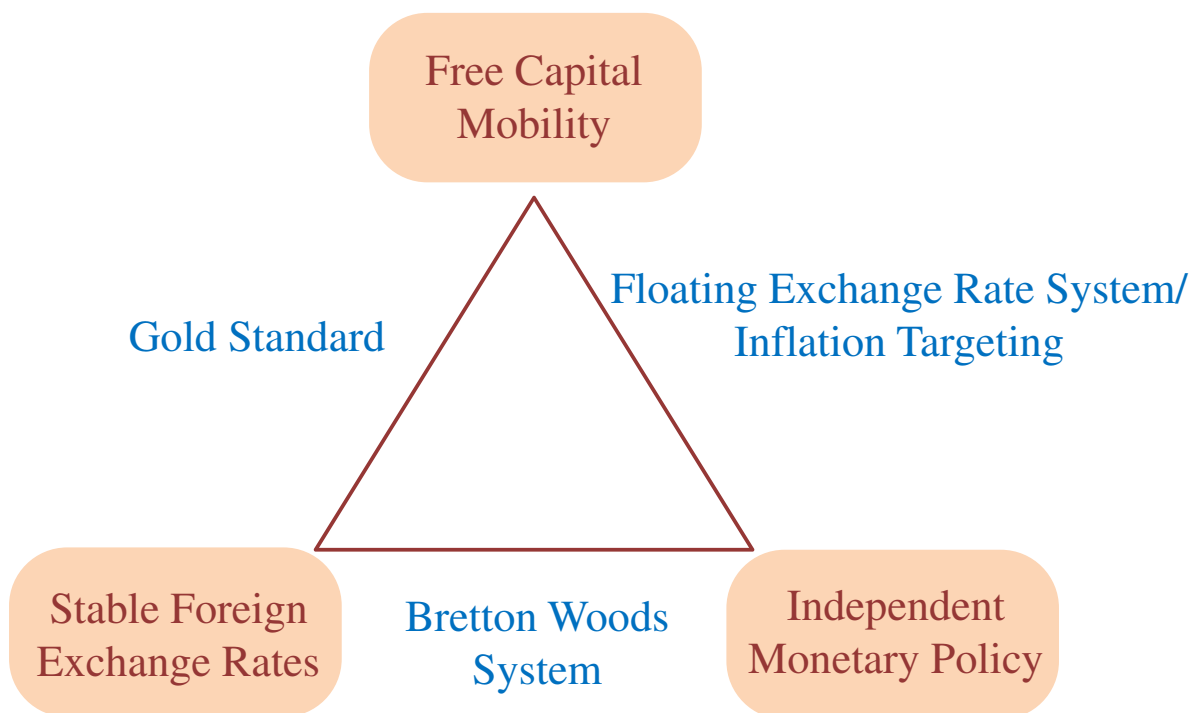
Source: EM-DAT: The Emergency Events Database - Université catholique de Louvain (UCL) - CRED, D. Guha-Sapir - www.emdat.be, Brussels, Belgium.

Carbon Dioxide Emissions



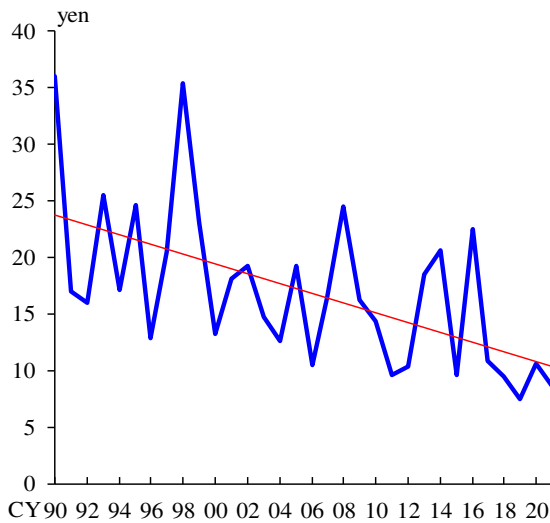
Source: Ritchie, H. and Roser, M., "CO₂ and Greenhouse Gas Emissions," OurWorldInData.org., 2020, <https://ourworldindata.org/co2-and-other-greenhouse-gas-emissions>.

Trilemma of International Finance

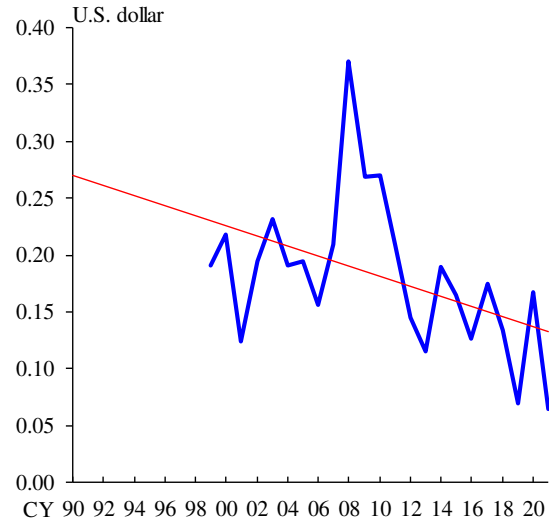


Decrease in Volatility of Nominal Foreign Exchange Rates

U.S. Dollar/Yen



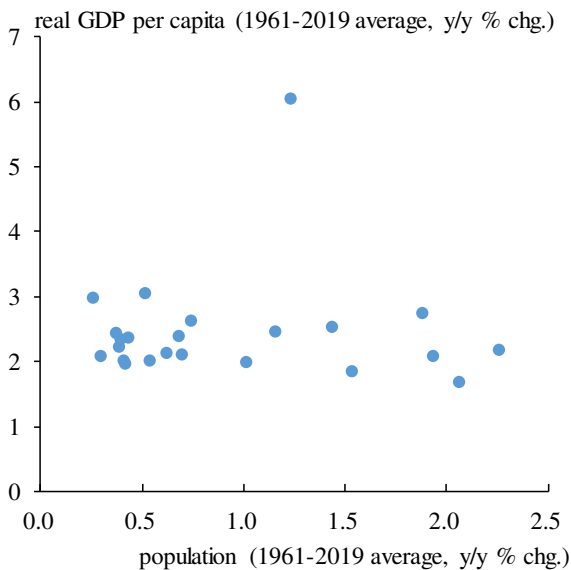
Euro/U.S. Dollar



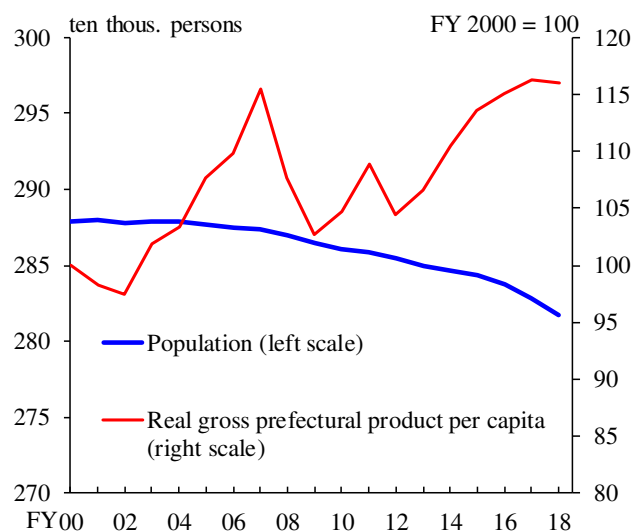
Note: Figures are the difference between the highest and lowest intra-day prices in a year. Figures for 2021 are those up through July.
Source: Bloomberg.

Population Growth Rate and GDP

Population Growth and GDP Growth per Capita in the World



Population and Gross Prefectural Product per Capita in Hiroshima Prefecture



Note: In the left-hand chart, figures are those for 23 OECD member countries for which data from 1961 onward are available.
Sources: World Bank; Cabinet Office.