

# Japan's Economy and Monetary Policy

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

September 27, 2021

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*Governor of the Bank of Japan*

## Introduction

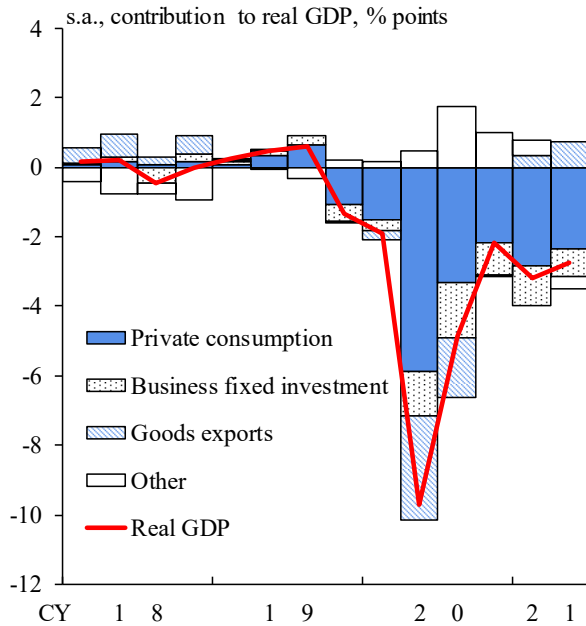
I. Developments in Economic Activity and Prices

II. The Bank's Conduct of Monetary Policy

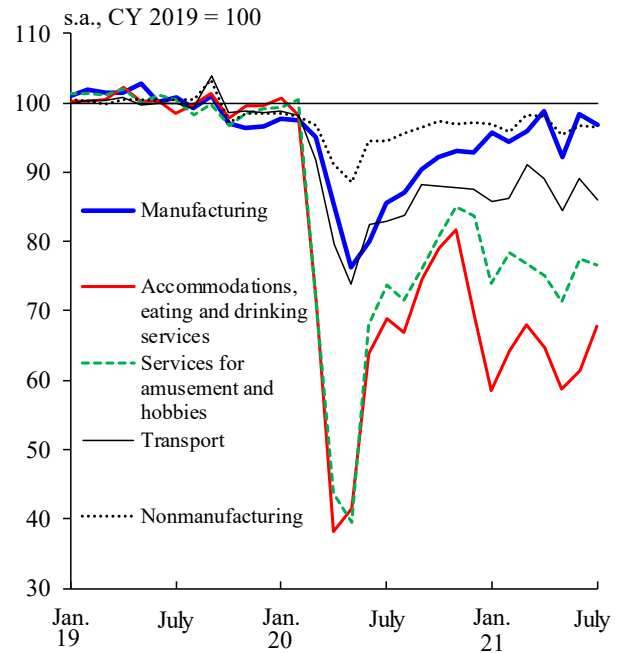
## Conclusion

# Real GDP

Comparison to the Pre-Pandemic Level



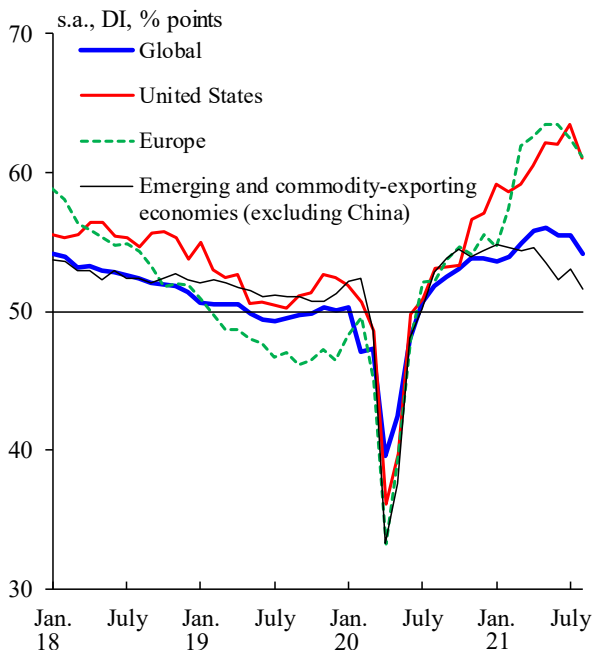
Economic Activity by Sector



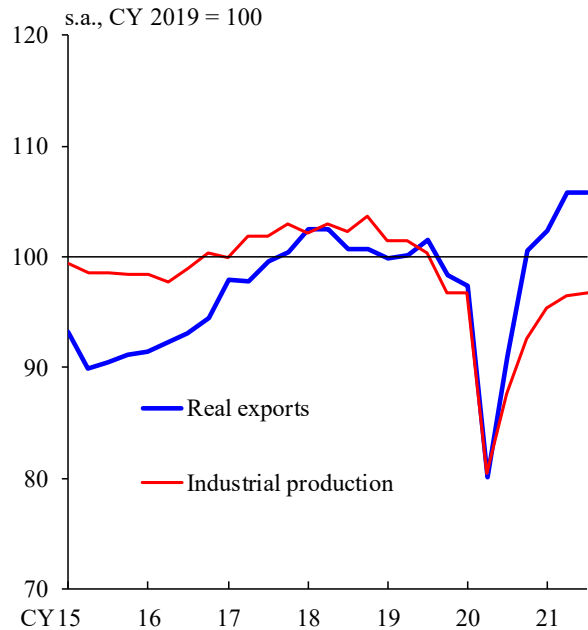
Notes: 1. The left-hand chart shows deviations from the 2019 average.  
 2. In the right-hand chart, figures for manufacturing are from the Indices of Industrial Production and those for the other sectors are from the Indices of Tertiary Industry Activity. Figures for nonmanufacturing exclude accommodations, eating and drinking services, services for amusement and hobbies, and transport.  
 Sources: Cabinet Office; Ministry of Economy, Trade and Industry.

# Global Economy and Exports & Production

Manufacturing PMI



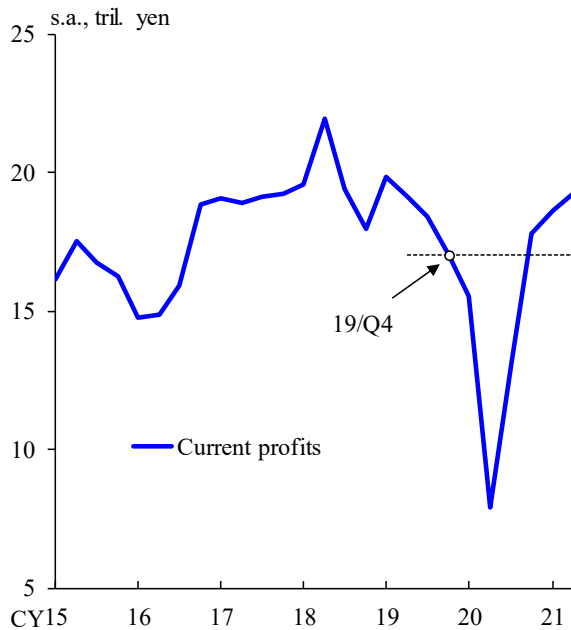
Exports and Production



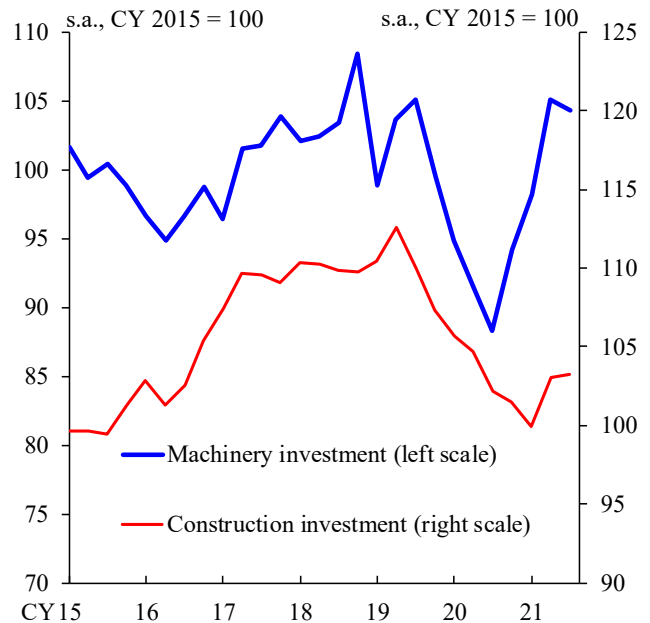
Notes: In the left-hand chart, figures for global are the J.P. Morgan Global Manufacturing PMI. Figures for Europe are the weighted averages of the PMIs for the euro area and the United Kingdom, and those for "emerging and commodity-exporting economies (excluding China)" are the weighted averages of the PMIs for 20 countries and regions. For both indicators, countries' global GDP shares from the IMF are used as weights.  
 Sources: IHS Markit (© and database right IHS Markit Ltd 2021. All rights reserved.); IMF; Haver; Ministry of Finance; Ministry of Economy, Trade and Industry; Bank of Japan.

# Corporate Profits and Business Fixed Investment

*Corporate Profits*



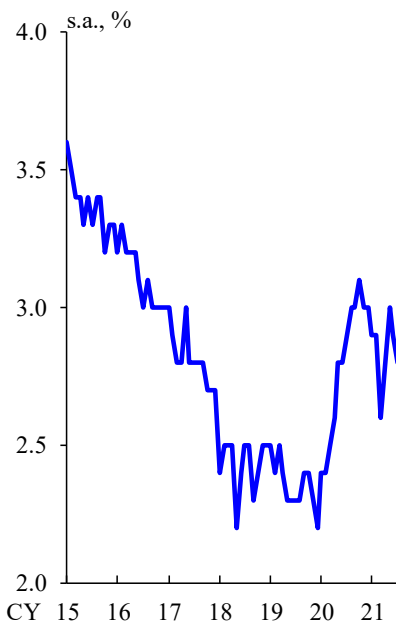
*Business Fixed Investment*



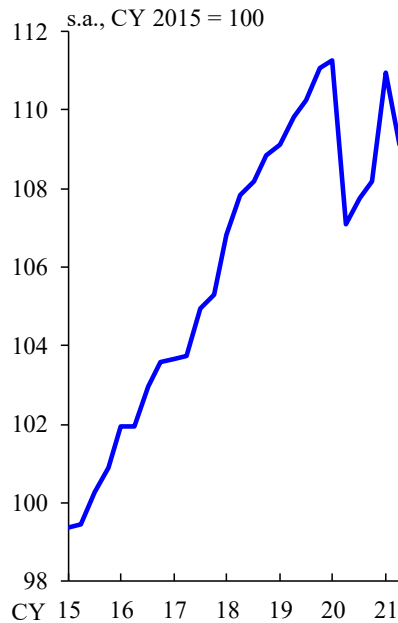
Notes: 1. In the left-hand chart, figures are based on the *Financial Statements Statistics of Corporations by Industry, Quarterly* and exclude "finance and insurance" and pure holding companies.  
 2. In the right-hand chart, figures for machinery investment show domestic shipments and imports of capital goods. Figures for construction investment show private construction completed (nonresidential, real).  
 Sources: Ministry of Finance; Ministry of Economy, Trade and Industry; Ministry of Land, Infrastructure, Transport and Tourism.

# Employment & Income Situation and Vaccinations

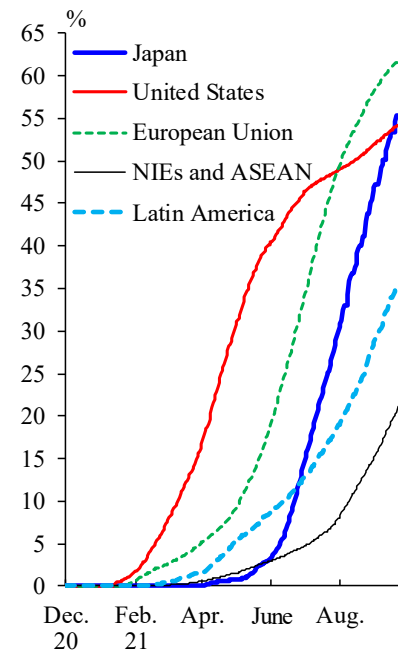
*Unemployment Rate*



*Nominal Employee Income*



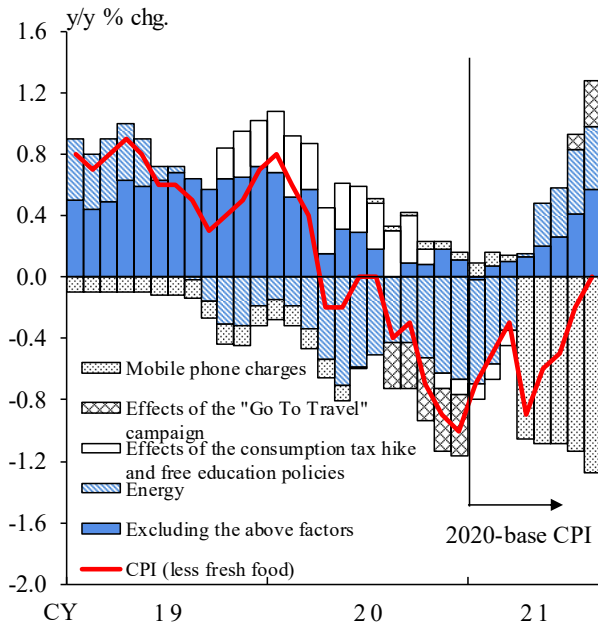
*Vaccinated Population Share*



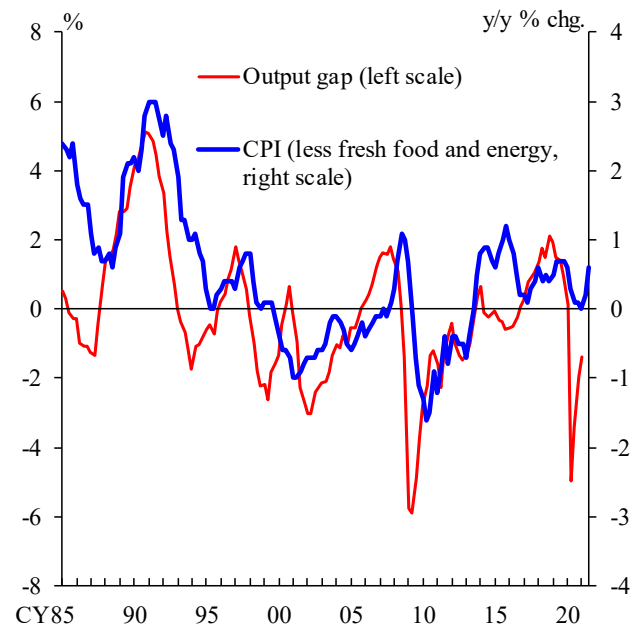
Note: The right-hand chart shows the share of the total population that is fully vaccinated against COVID-19.  
 Sources: Ministry of Internal Affairs and Communication; Cabinet Office; Our World in Data.

# Consumer Prices

Contribution to CPI



Inflation Rate and Output Gap

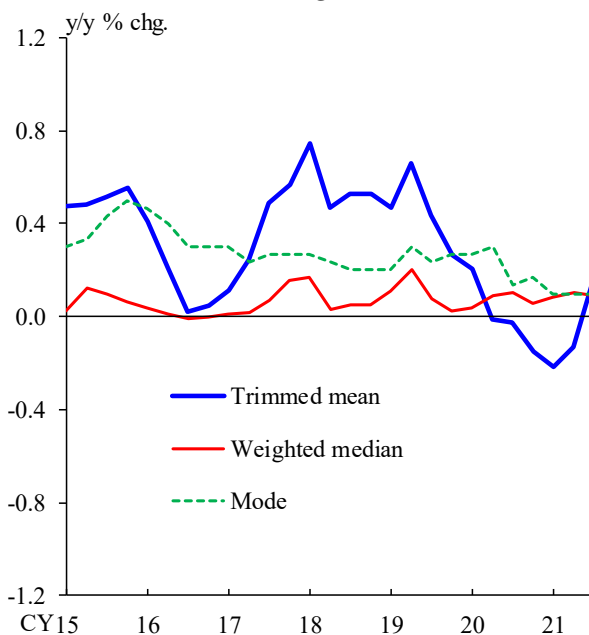


Notes: 1. In the left-hand chart, figures for energy consist of those for petroleum products, electricity, and gas, manufactured & piped. Figures for the "effects of the consumption tax hike and free education policies" from April 2020 onward are staff estimates and include the effects of measures such as free higher education introduced in April 2020.  
 2. In the right-hand chart, the CPI figures are staff estimates and exclude mobile phone charges and the effects of the consumption tax hikes, policies concerning the provision of free education, and the "Go To Travel" campaign, which covers a portion of domestic travel expenses. Figures for the output gap are staff estimates.

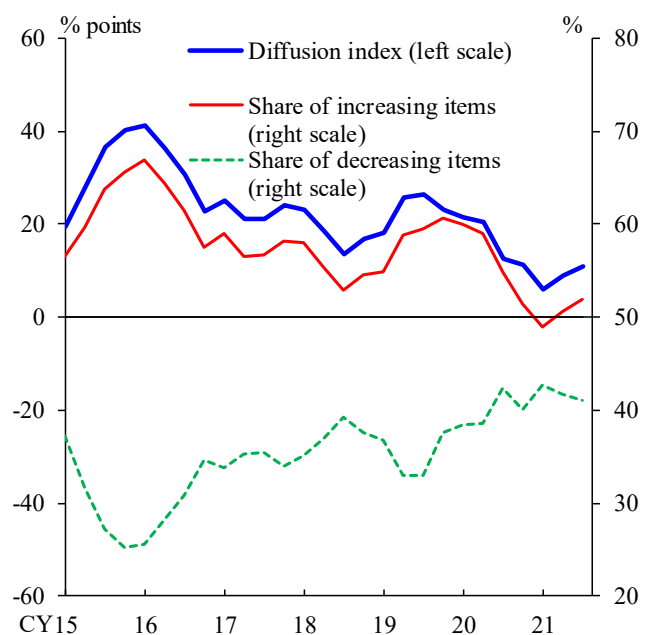
Sources: Ministry of Internal Affairs and Communications; Bank of Japan.

# Core Indicators of Prices

Measures Based on Price Change Distribution



Diffusion Index of Price Changes

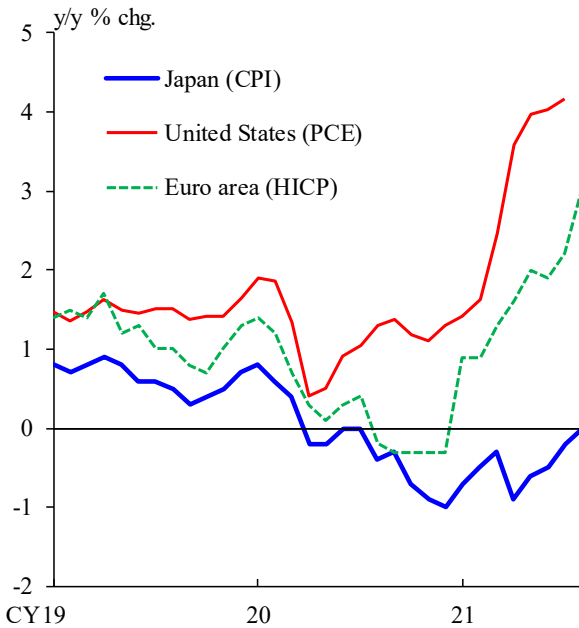


Notes: 1. In the left-hand chart, figures are based on staff calculations using the CPI excluding the effects of the consumption tax hikes, policies concerning the provision of free education, and the "Go To Travel" campaign. CPI figures from April 2020 onward are staff estimates and exclude the effects of measures such as free higher education introduced in April 2020.  
 2. In the right-hand chart, the diffusion index is defined as the share of increasing items minus the share of decreasing items. The share of increasing/decreasing items is the share of items for which price indices increased/decreased from a year earlier. Figures are based on staff calculations using the CPI (less fresh food) excluding the effects of the consumption tax hikes, policies concerning the provision of free education, and the "Go To Travel" campaign. CPI figures from April 2020 onward are staff estimates and exclude the effects of measures such as free higher education introduced in April 2020.

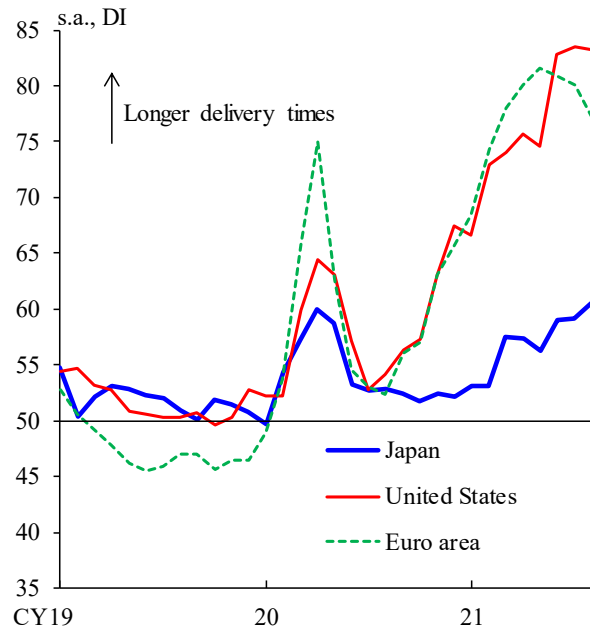
Sources: Bank of Japan; Ministry of Internal Affairs and Communications.

## Inflation and Supply Bottlenecks in Japan, United States, and Europe

*Headline Inflation*



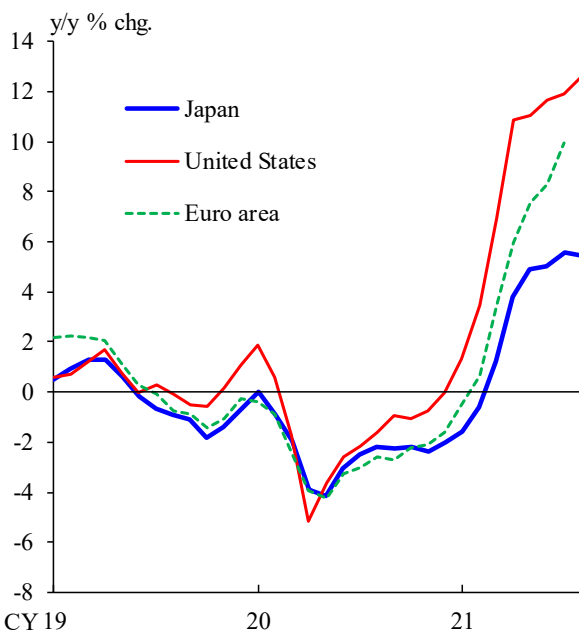
*Delivery Delays (PMI)*



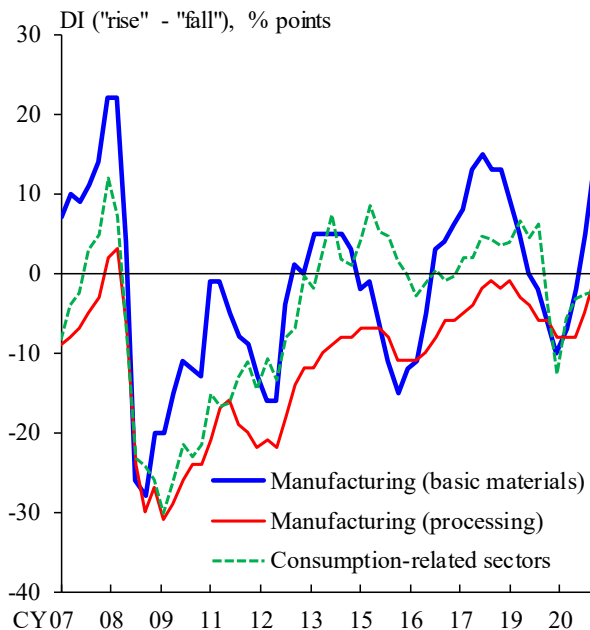
Notes: 1. In the left-hand chart, figures for Japan are the CPI (less fresh food).  
 2. In the right-hand chart, Delivery delay index = 100 - Suppliers' delivery times index. Figures for the United States and the euro area are for the respective manufacturing PMIs. Those for Japan are for the au Jibun Bank Japan Manufacturing PMI.  
 Sources: Haver; Ministry of Internal Affairs and Communications; IHS Markit (© and database right IHS Markit Ltd 2021. All rights reserved).

## Firms' Price-Setting Stance

*Developments in Producer Prices*



*Firms' Output Prices (Tankan)*



Notes: 1. In the left-hand chart, figures for Japan are the producer price index (PPI) for all commodities (adjusted to exclude the effects of the consumption tax hike). Those for the United States are the PPI for final demand goods. Figures for the euro area are the PPI for total industry except construction, sewerage, waste management, and remediation activities.  
 2. In the right-hand chart, figures are for all enterprises. Figures for consumption-related sectors are calculated as the weighted average of the DI for changes in output prices in "retailing," "services for individuals," and "accommodations, eating and drinking services." The number of reporting enterprises is used as weights.  
 Sources: Bank of Japan; BLS; Eurostat.

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

## 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**

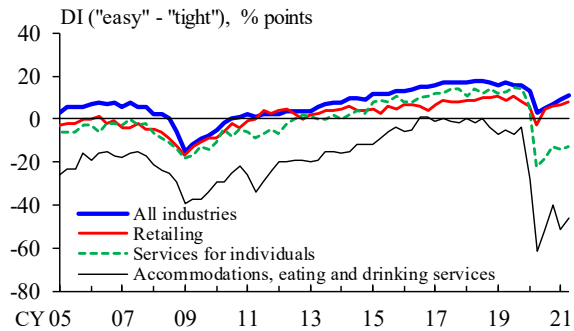
**⇒ The Bank extended the duration until the end of March 2022 (decided in June 2021)**

### Stabilizing Financial Markets

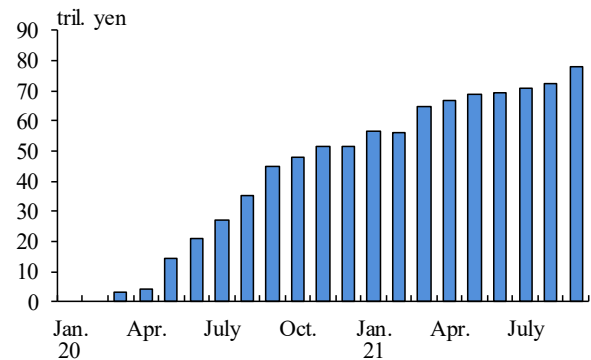
**Ample and Flexible Provision of Yen and Foreign Currency Funds**

### Purchases of ETFs and J-REITs

Corporate Finance (Tankan)



Special Operations to Facilitate Financing in Response to COVID-19 (Amount Outstanding)



Note: In the upper right-hand chart, figures are for all enterprises.  
Source: Bank of Japan.

## Conclusion

### Funds-Supplying Operations to Support Financing for Climate Change Responses

**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**