



# Economic Activity, Prices, and Monetary Policy in Japan

*Speech at a Meeting with Local Leaders in Oita*

December 1, 2021

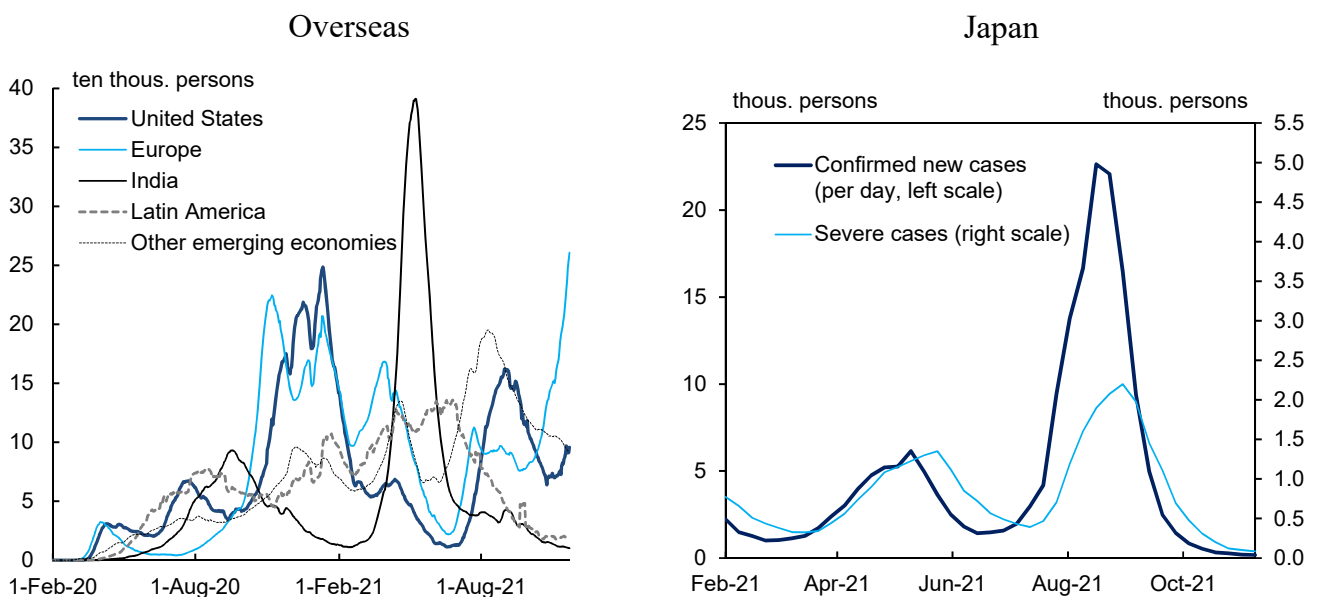
ADACHI Seiji

Member of the Policy Board

Bank of Japan

Chart 1

## Confirmed New Cases of COVID-19



Notes: 1. In the left panel, figures for the United States, Taiwan, and Hong Kong are from the Centers for Disease Control and Prevention (CDC), the Taiwan Ministry of Health and Welfare, and the Hong Kong Centre for Health Protection, Department of Health, respectively. All other figures are from the World Health Organization (WHO). Figures for Europe are the sum of figures for the European Union and the United Kingdom. Figures for Latin America are the sum of figures for the major economies in the region. Figures for other emerging economies are the sum of figures for South Africa, Russia, Turkey, and the major economies in the NIEs, ASEAN, and the Middle East. Figures show 7-day backward moving averages.

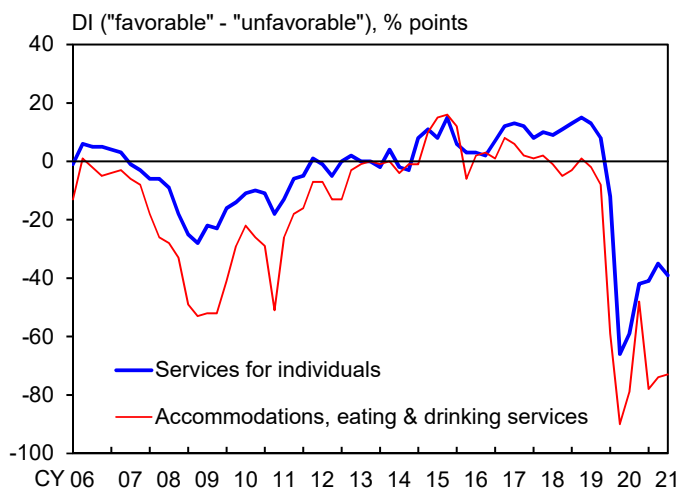
2. In the right panel, figures for confirmed new cases are weekly averages. Figures for severe cases are those at the end of the week.

Sources: CEIC; Ministry of Health, Labour and Welfare.

# Business Conditions of the Services Industry at Home and Abroad

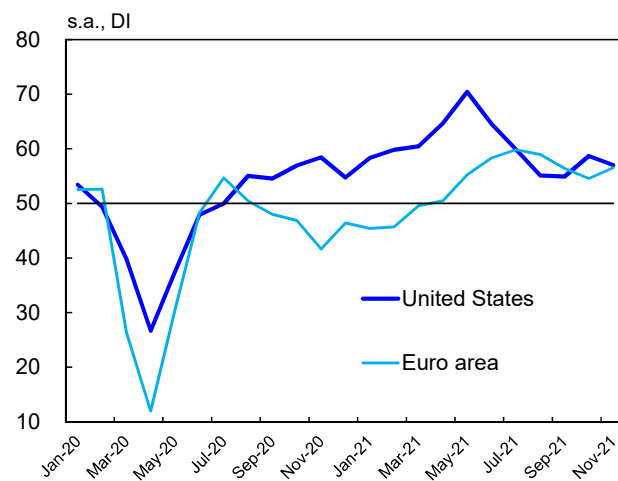
Chart 2

### Business Conditions in Japan



Note: Figures are for enterprises of all sizes from the *Tankan* (Short-Term Economic Survey of Enterprises in Japan).  
Source: Bank of Japan.

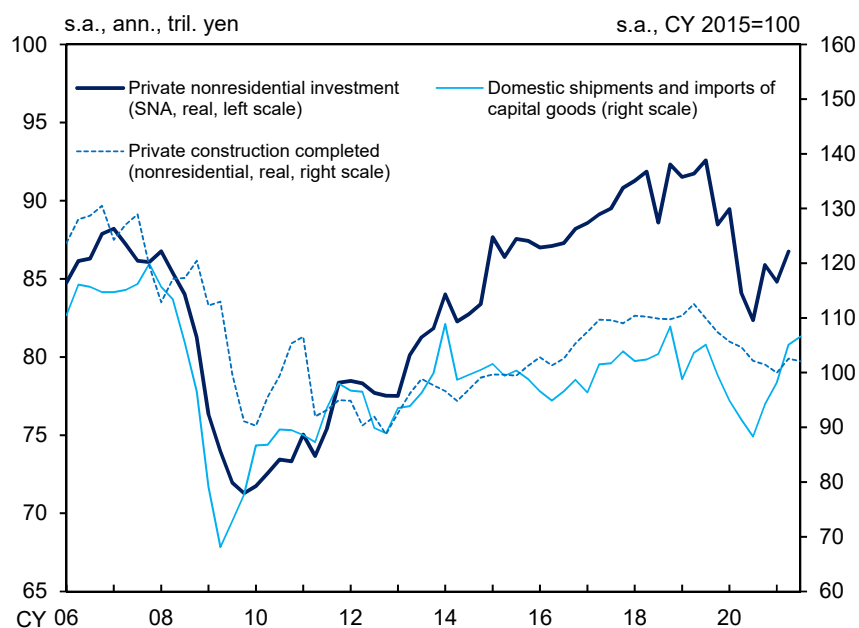
### PMIs for the United States and the Euro Area



Note: Figures are based on the Services Business Activity Index.  
Source: IHS Markit (© and database right IHS Markit Ltd 2021. All rights reserved.).

Chart 3

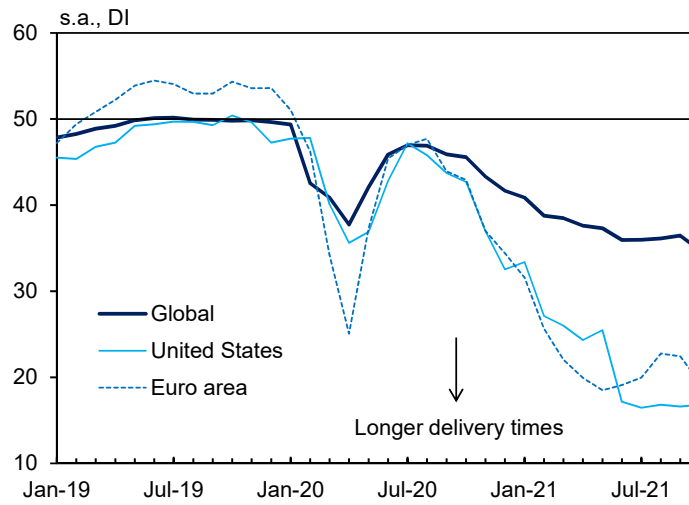
# Business Fixed Investment



Notes: 1. Figures for 2021/Q3 are July-August averages.  
2. Figures for real private construction completed are based on Bank staff calculations using the construction cost deflators.  
Sources: Cabinet Office; Ministry of Economy, Trade and Industry (METI); Ministry of Land, Infrastructure, Transport and Tourism.

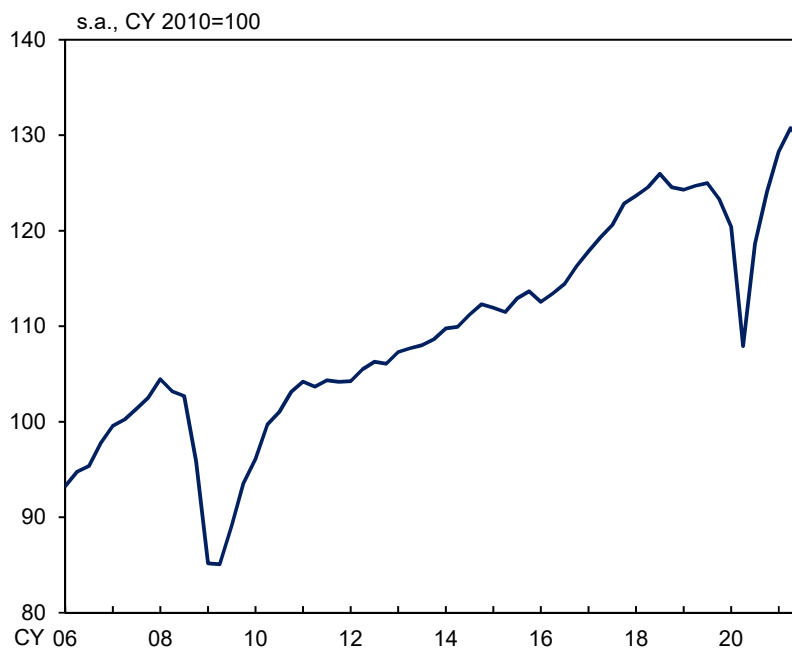
# Supply-Side Constraints

## Suppliers' Delivery Times PMI



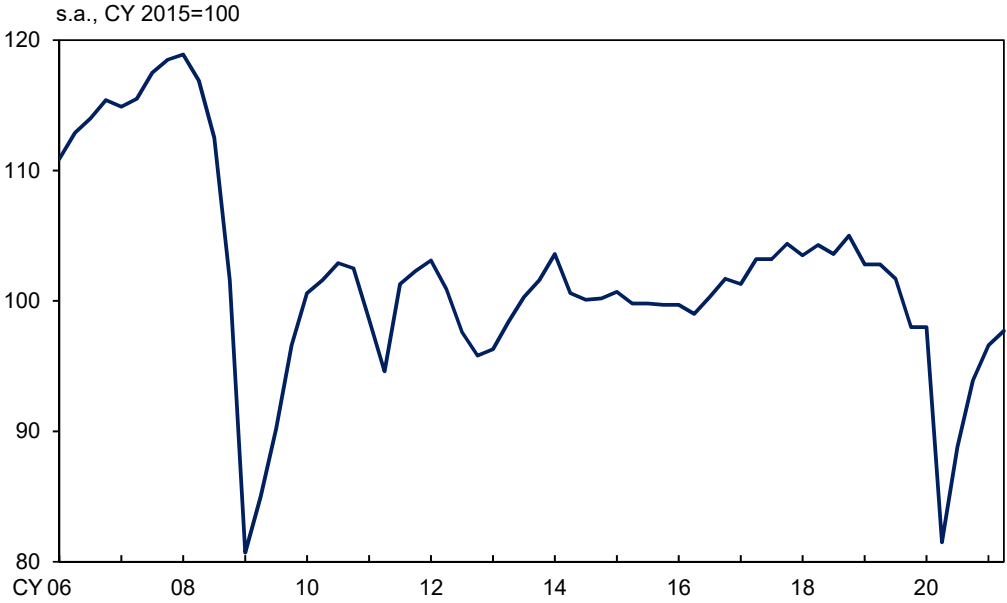
Note: The suppliers' delivery times PMI is the suppliers' delivery times index in the Manufacturing PMI.  
 Figures for the global economy are the J.P.Morgan Global Manufacturing PMI.  
 Source: IHS Markit (© and database right IHS Markit Ltd 2021. All rights reserved.).

# World Trade Volume



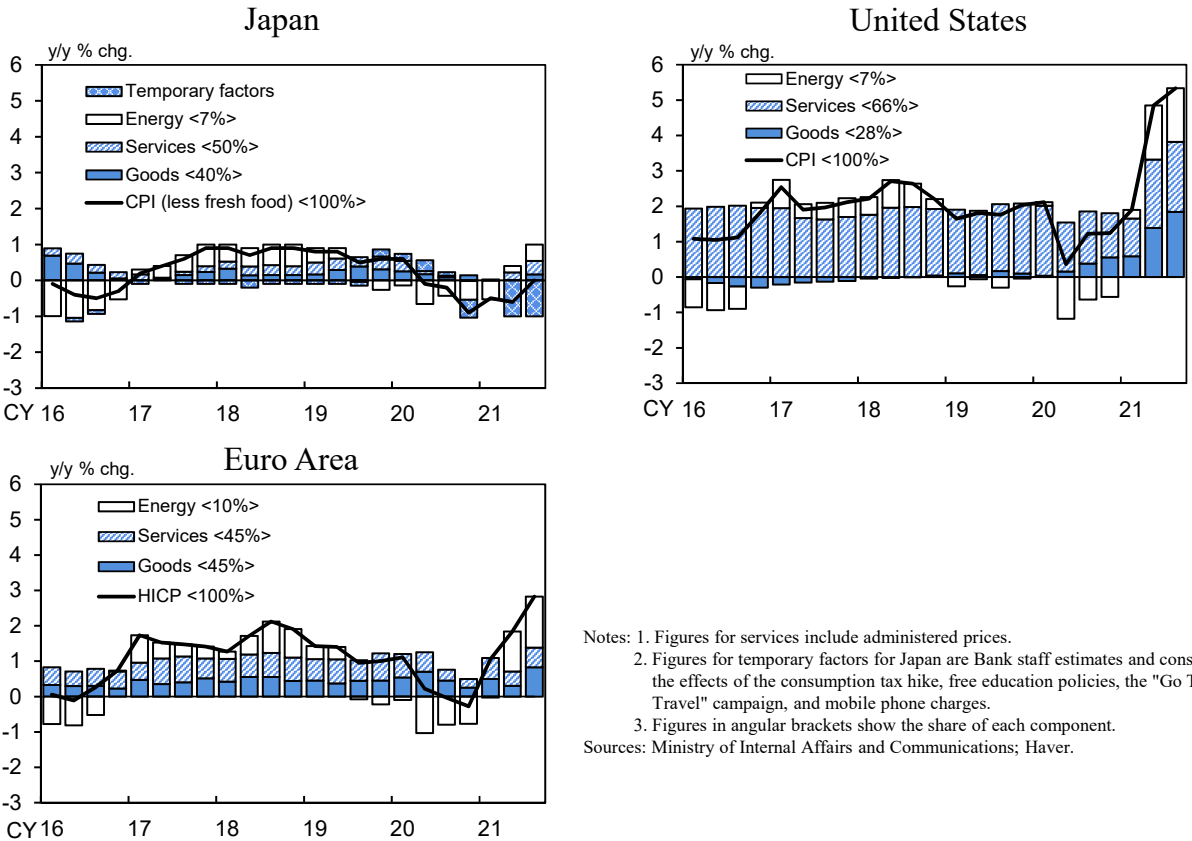
Note: Figures are for world real imports. The figure for 2021/Q3 is the July-August average.  
 Source: CPB Netherlands Bureau for Economic Policy Analysis.

# Industrial Production



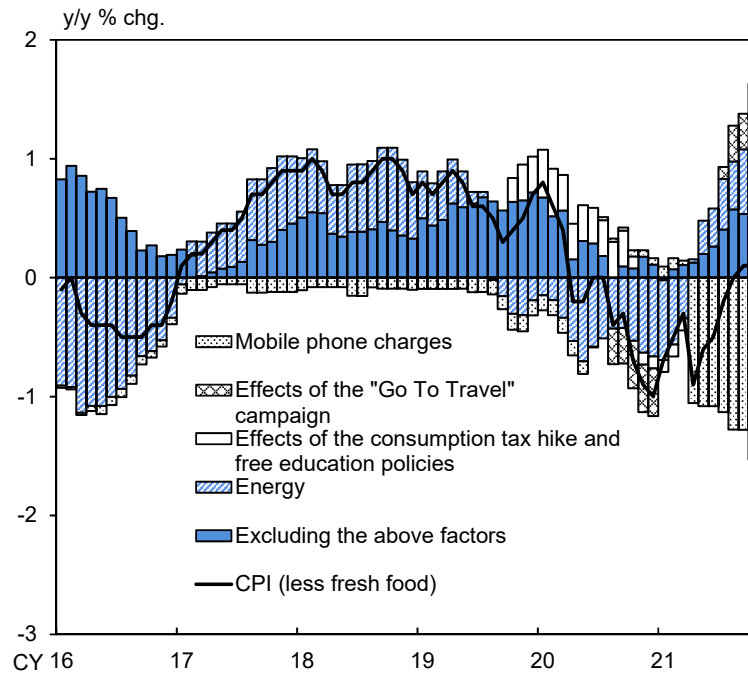
Source: METI.

# Price Developments at Home and Abroad



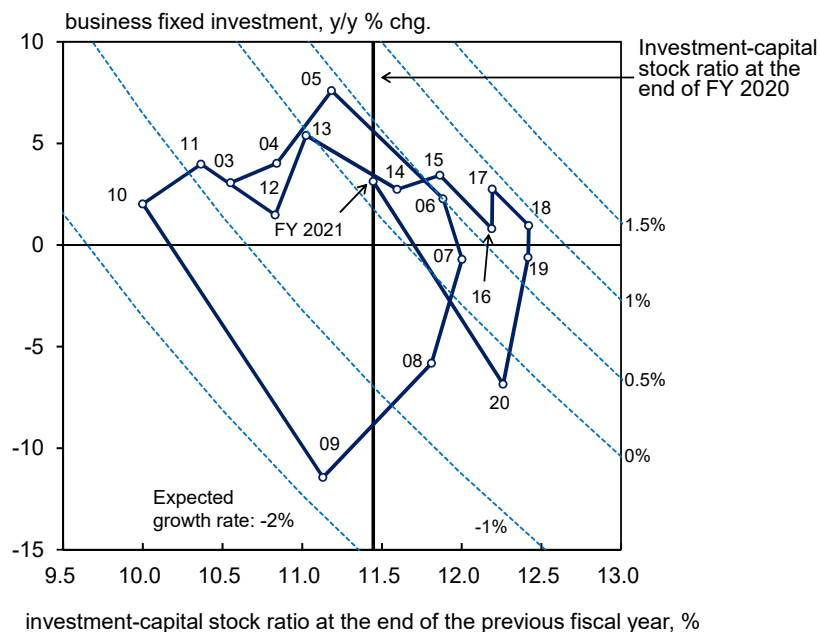
Notes: 1. Figures for services include administered prices.  
 2. Figures for temporary factors for Japan are Bank staff estimates and consist of the effects of the consumption tax hike, free education policies, the "Go To Travel" campaign, and mobile phone charges.  
 3. Figures in angular brackets show the share of each component.  
 Sources: Ministry of Internal Affairs and Communications; Haver.

## CPI for All Items Less Fresh Food



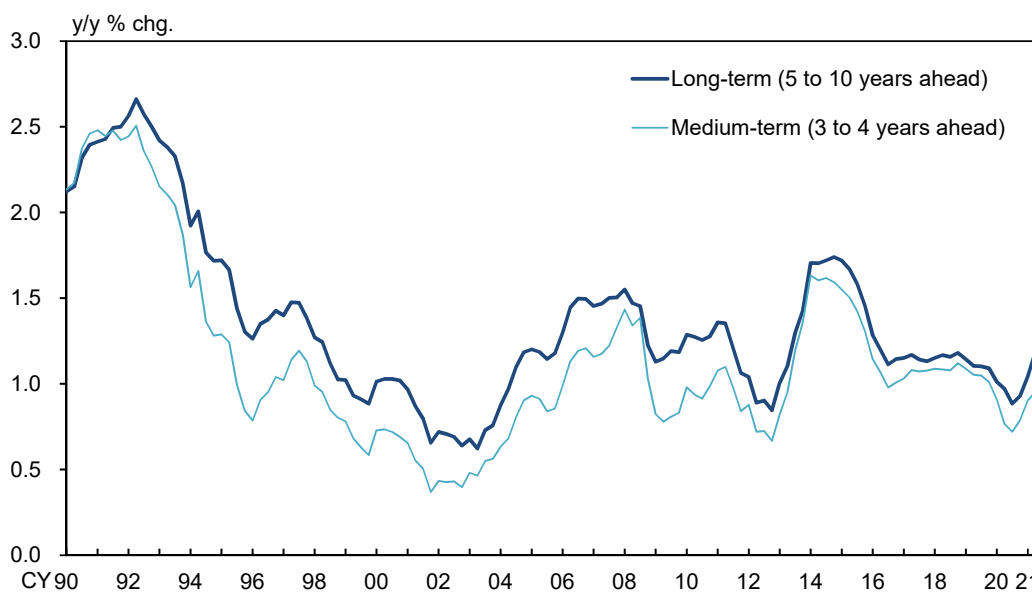
Notes: 1. Figures for energy consist of those for petroleum products, electricity, as well as manufactured and piped gas charges.  
 2. Figures for the "effects of the consumption tax hike and free education policies" from April 2020 onward are Bank staff estimates and include the effects of measures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

## Capital Stock Cycles and Expected Growth Rates



Note: Each broken line represents the combination of the rate of change in business fixed investment and the investment-capital stock ratio at a certain expected growth rate. The figure for fiscal 2021 is that for 2021/Q2.  
 Source: Cabinet Office.

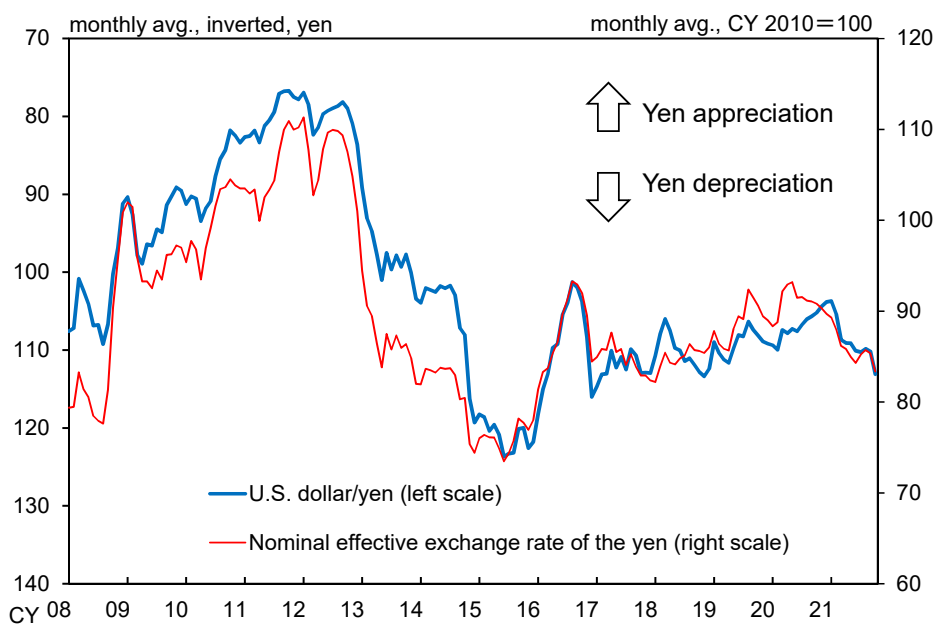
# Inflation Expectations



Note: Figures are simple averages of the estimated inflation expectations for their respective horizons.

Sources: *Bank of Japan Working Paper Series*, no.19-E-6; *Bank of Japan Research Laboratory Series*, no.21-E-1; Bloomberg; Consensus Economics, "Consensus Forecasts"; QUICK, "QUICK Monthly Market Survey <Bonds>," "QUICK Tankan"; Japan Center for Economic Research; Wolters Kluwer, "Blue Chip Economic Indicators"; Cabinet Office; Ministry of Finance; Ministry of Internal Affairs and Communications; Bank of Japan.

# Exchange Rates



Sources: BIS; Bank of Japan.

# Further Effective and Sustainable Monetary Easing: Policy Actions

To achieve the price stability target of 2 percent, the Bank will (1) continue with monetary easing in a sustainable manner and (2) make nimble and effective responses without hesitation to counter changes in the situation.

## Conduct of Yield Curve Control

**Establishment of the Interest Scheme to Promote Lending** (see the box on the right)

**Clarification of the range of fluctuations in long-term interest rates**

Expect long-term interest rates to move within the range of around  $\pm 0.25\%$  from the target level

**Introduction of "fixed-rate purchase operations for consecutive days"**

Strengthen the fixed-rate purchase operations, which stop a significant rise in interest rates

**Conduct for the time being**

Prioritize stabilizing the entire yield curve at a low level under the continuing impact of COVID-19 in particular

## ETF and J-REIT Purchases

**Purchase as necessary with upper limits\* on the annual paces of increase, and maintain these limits even after COVID-19 subsides**

\* ETFs: about 12 tril. yen J-REITs: about 180 bil. yen

**Purchase only ETFs tracking the Tokyo Stock Price Index (TOPIX)**

**Financial System and Bank Examination Dept. staff will make a briefing at the MPMs when the Outlook Report is decided (four times a year).**

## <Interest Scheme to Promote Lending>

- Apply incentives (linked to the short-term policy interest rate) to financial institutions' current account balances, corresponding to the amount outstanding of funds provided through fund-provisioning measures to promote lending
  - Mitigate the impact on financial institutions' profits at the time of rate cuts depending on the amount of lending
  - The applied interest rates and the eligible fund-provisioning measures for each category will be changed as necessary at MPMs depending on the situation.

<Decision at the March 2021 MPM>

	Applied interest rate	Eligible fund-provisioning measure
Category I	<b>0.2%</b> Higher than the rate for Category II	<ul style="list-style-type: none"> <li>• Special Operations in Response to COVID-19, when funds are provided against loans made by financial institutions on their own</li> </ul>
Category II	<b>0.1%</b> Absolute value of the short-term policy interest rate	<ul style="list-style-type: none"> <li>• Special Operations in Response to COVID-19, when funds are provided against loans other than those for Category I and against private debt pledged as collateral</li> </ul>
Category III	<b>0%</b> Lower than the rate for Category II	<ul style="list-style-type: none"> <li>• Loan Support Program</li> <li>• Operation to Support Financial Institutions in Disaster Areas</li> </ul>

⇒ Enable the Bank to cut short- and long-term interest rates more nimbly while considering the impact on the functioning of financial intermediation

In addition, adjustments to the Complementary Deposit Facility will be made to narrow the gap between the actual Policy-Rate Balances and the "hypothetical" Policy-Rate Balances.