



April 7, 2022
Bank of Japan

**Economic Activity, Prices,
and Monetary Policy in Japan**

Speech at a Meeting with Local Leaders in Kumamoto

NOGUCHI Asahi

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(English translation based on the Japanese original)

I. Economic Activity and Prices

A. Economic Developments at Home and Abroad

Almost two years have passed since the global economy was hit hard by the novel coronavirus (COVID-19) pandemic. In 2020, countries around the world experienced economic contraction. Since spring 2021, as vaccinations progressed, mainly in advanced economies, overseas economies have continued to recover to a certain extent, albeit with variation across countries and regions, although a repeated resurgence of COVID-19 following the emergence of new variants has weighed on such recovery. As a result, real economic growth rates for 2021 recovered to almost the 2020 levels (Chart 1). Despite high uncertainties of the effects of geopolitical risks regarding the situation surrounding Ukraine, this recovery trend is expected to be maintained in 2022 with the impact of COVID-19 waning gradually, although growth rates are likely to decelerate somewhat. Thereafter, however, economic growth rates across countries are likely to decline gradually, approaching their potential growth rates, mainly reflecting the peaking-out of economic stimulus measures taken in advanced economies.

The recent economic recovery has created, as a by-product, inflation on a global basis that is being experienced for the first time since the 1970s. Lately, many central banks are facing the need to respond to inflation in some way. As for Japan's economy, it has just started to be affected by overseas inflation, and I think it will be necessary to closely examine future developments. I will go into details later.

I will now turn to developments in Japan's economy. The rapid spread of the Omicron variant from the start of 2022 continues to exert downward pressure on face-to-face services, such as eating and drinking as well as accommodations, although the number of COVID-19 cases has been declining somewhat recently. On the other hand, as overseas economies continue to recover, exports and production remain on an uptrend, particularly those for IT-related goods and capital goods, despite supply-side constraints, mainly on automobile-related goods (Chart 2). Such developments in exports and production have brought about improvement in corporate profits and an expansion in business fixed investment (Chart 3). Thus, a virtuous cycle from corporate profits to business fixed investment, triggered by an increase in external

demand, has operated without interruption. Japan's economy is likely to continue its recovery as the impacts of COVID-19 and supply-side constraints wane.

I am paying particular attention to the following two risks. The first is the impact of the resurgence of COVID-19 on private consumption, exports, and production. From autumn to winter 2021, the number of new COVID-19 cases decreased to a remarkable degree as the spread of the Delta variant subsided; thus, the economy recovered clearly, albeit for a short period. However, if COVID-19 cases resurge, as was the case at the turn of 2022, the economy will be exposed to adversities again, particularly for face-to-face services. In addition, there is a risk that the COVID-19 situation in overseas economies will affect the global supply chain, and that such effects will spread to Japan's exports and production. The second is geopolitical risk regarding the situation surrounding Ukraine. If energy prices in particular rise further due to this situation, overall prices will likely be pushed up while downward pressure will be exerted on the real economy. This forecast entails high uncertainties, and careful attention should be paid to the ongoing situation, including other effects on the global economy.

B. Price Developments

Turning to Japan's price developments, the year-on-year rate of change in the consumer price index (CPI) for all items less fresh food has been slightly positive since the second half of 2021, as a positive contribution to the CPI of a rapid rise in energy prices seen from early 2021 has almost been catching up with the negative contribution for April 2021 onward of a reduction in mobile phone charges (Chart 4). Since much of the negative contribution will dissipate from April 2022 onward, the year-on-year rate of change in the CPI for all items less fresh food is highly likely to be around 2 percent, and might increase further depending on developments in international commodity prices.

As I just explained, domestic prices have been on a clear uptrend since the second half of 2021. However, this is obviously due to overseas factors rather than a recovery in domestic demand. The resumption of economic activity has progressed rapidly around the world since spring 2021, as vaccinations advanced, mainly in Europe and the United States. As a result, demand for energy and raw materials surged globally, and their prices -- subdued in 2020 due

to the outbreak of the pandemic -- started to soar. This is reflected in Japan as a surge in the import price index (IPI) and the producer price index (PPI) since the second half of 2021 (Chart 5). Let me note that, although deterioration in the terms of trade caused by the rise in energy and raw material prices is often regarded as being associated with the yen's depreciation, the impact of such depreciation actually is extremely limited (Chart 6).

At the moment, price rises in imported raw materials excluding energy have not been passed on to downstream retail prices as much. Price rises due to raw material cost increases have indeed spread to food in particular, but the effects have not yet been numerically large. This seems to suggest that economic conditions in which firms cannot easily pass on cost increases to product prices are continuing because of the insufficient recovery in domestic demand.

In short, elevated inflation, which many countries are currently experiencing, has not been observed thus far in Japan. It is true that there are upswings in prices in general due to the rise in energy prices, but the underlying trend in inflation itself, excluding such factors as energy prices, remains at an extremely low level. This means that Japan's challenge in terms of macroeconomic policy still is overcoming deflation or excessively low inflation, rather than containing inflation. Later, I would like to elaborate on the requirements needed to address the challenge.

II. Monetary Policy

A. Policy Responses to Achieve the Price Stability Target

Let me now turn to the Bank of Japan's policy conduct.

In order to overcome prolonged deflation and achieve the price stability target of 2 percent, the Bank introduced quantitative and qualitative monetary easing (QQE) in April 2013. Thereafter, in response to developments in economic activity and prices, it continued to enhance monetary easing. In January 2016, the Bank decided to adopt a negative interest rate policy by introducing QQE with a Negative Interest Rate. Then, in September, it introduced QQE with Yield Curve Control as a new policy framework consisting of (1) yield curve control, in which it controls short- and long-term interest rates and (2) an inflation-overshooting commitment, in which it commits to continuing to expand the monetary base

until the year-on-year rate of increase in the observed CPI (all items less fresh food) exceeds 2 percent and stays above the level in a stable manner.

B. Policy Responses to COVID-19

In March 2020, when the impact of COVID-19 on Japan's economy became severe, the Bank decided to take the following three measures, with a view to supporting financing, mainly of firms, and maintaining stability in financial markets (Chart 7): (1) the Special Program to Support Financing in Response to the Novel Coronavirus (COVID-19) (the Special Program); (2) an ample and flexible provision of funds, mainly by purchasing Japanese government bonds (JGBs) and conducting the U.S. dollar funds-supplying operations; and (3) purchases of exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs). These measures have been significantly effective in improving firms' financial positions and stabilizing financial markets; to be specific, financial markets, which became highly volatile in spring 2020, have regained stability and the environment for external funding, such as bank borrowing and the issuance of CP and corporate bonds, has remained sufficiently accommodative (Chart 8).

Although the impact of COVID-19 weighed heavily on the economy at first, it has waned gradually on the back of, for example, targeted public health measures and progress with vaccinations. That said, given a repeated resurgence of COVID-19, mainly due to the emergence of new variants, it is necessary to be cautious when the Bank scales back its responses to the pandemic. Having said that, with a view to continuing to support financing, mainly of firms, the Bank decided to extend the duration of the Special Program by six months, until the end of September 2021, at the December 2020 Monetary Policy Meeting (MPM) and by another six months, until the end of March 2022, at the June 2021 MPM. It then decided at the December 2021 MPM to extend the part of the program that supports financing of small and medium-sized firms, or SMEs, until the end of September 2022 while completing the support mainly for large firms and housing loans as scheduled (Chart 9). The background to this is that weakness in financial positions has remained for some SMEs, such as those in the face-to-face services industry.

Since the aim of the Bank's responses to the pandemic is to address its impact, they should be scaled back as the impact wanes sufficiently, and this is why the Bank made the aforementioned changes. It should be noted, however, that a scaling back or termination of the responses does not mean a reduction in monetary accommodation. As I mentioned earlier, Japan's economy still needs to overcome excessively low inflation.

C. Further Effective and Sustainable Monetary Easing

In the meantime, COVID-19 exerted strong downward pressure on Japan's economy. This implies that it was expected to take even more time to achieve the price stability target of 2 percent. In March 2021, the Bank, in its Assessment for Further Effective and Sustainable Monetary Easing, examined policy effects. Based on the findings, it decided to make the following adjustments to its monetary policy (Chart 10).

First, with a view to enabling it to cut short- and long-term interest rates nimbly while considering the impact on the functioning of financial intermediation, the Bank established the Interest Scheme to Promote Lending. Second, with a view to striking an appropriate balance between maintaining market functioning and controlling interest rates, the Bank, in order to conduct yield curve control more flexibly, made clear that the range of 10-year JGB yield fluctuations -- which was previously between "about double the range of around plus and minus 0.1 percent" from the target level -- would be between around plus and minus 0.25 percent. At the same time, it introduced "fixed-rate purchase operations for consecutive days" as a powerful tool to stop a rise in interest rates when necessary. Third, regarding ETF and J-REIT purchases, the Bank decided to maintain the upper limits on annual paces of increase in the amounts outstanding of these assets even after COVID-19 subsidies, although these limits were originally set as a temporary measure in response to COVID-19. With these upper limits in place, the Bank decided to conduct such purchases flexibly in a prioritized manner, depending on market conditions at the time.

As I will explain in more detail later, central banks abroad are currently advancing toward scaling back the monetary easing measures that they had adopted in response to the pandemic. However, in Japan, where the effects of the entrenched deflationary mindset among economic entities remain significant due to the experience of prolonged deflation, even if the pandemic

subsidies, it is expected to take considerable time for the 2 percent price stability target to be achieved in a stable manner and for a reduction in monetary accommodation to come into view. In such a situation, I believe that it is of utmost importance that the Bank persistently continue with the current monetary easing.

III. Current Status and Outlook for Monetary Policy Responses in an Economy Overcoming the COVID-19 Pandemic

A. Advance of "Inflation Revival" in Overseas Economies

Many countries around the world are finding a way through the pandemic in the form of economic growth that assumes the presence of the infectious disease, as it has become normal in these countries to pursue economic activity while living with COVID-19. In Europe, the United States, and some emerging economies, such economic growth has been accompanied by signs of longer-lasting elevated inflation. As a result, many central banks abroad have ended the emergency measures put in place in response to the pandemic and are beginning to shift the direction of their monetary policy from easing toward tightening. This is likely due to the fact that the expansionary fiscal and monetary policies that had been implemented across countries to underpin their pandemic-ravaged economies are now beginning to bring about underlying expansion in demand that goes beyond mere pent-up demand.

The upswing in prices first started to become evident in Europe and the United States in spring 2021, when people began to go outside more often as vaccinations progressed and economic activity started to make rapid progress toward normalization. The early stages of this economic normalization were marked notably by the materialization of pent-up demand. This occurred when, after having been held in check by public health measures and vigilance against the risk of being infected with COVID-19, private consumption surged once these constraints were lifted. Underpinning this development was excess savings in the private sector that had been accumulated due to individuals curbing consumption and to government fiscal support.

As economic normalization got underway, it inevitably created supply bottlenecks in many places around the world. Although economic activity resumed, disparities in progress with vaccinations and in infection levels across countries and regions were largely unresolved.

This led to disruptions in supply chains and logistics networks worldwide. Two developments in particular typified such global supply-side constraints. One was the delays in the supply of parts, mainly for automobiles, triggered by the spread of COVID-19 in Southeast Asia in summer 2021. The other was the congestion at container ports on the west coast of the United States brought about by a surge in imports coupled with the shortage of dock workers due to COVID-19 infections.

As I said, since spring 2021, as demand for goods and services has expanded in line with the resumption of economic activity worldwide, various bottlenecks have continued to restrict supply. The outcome was global inflation that continues even now. Particularly in Europe and the United States, the rises in prices have accelerated since the second half of 2021, with elevated inflation -- the first to be seen in decades -- ongoing (Chart 11). What this means is that, for the first time in a long time, major central banks in Europe and the United States are faced with the old, familiar challenge of containing inflation.

B. Ongoing Reduction in Monetary Accommodation Seen Abroad

When economic activity resumed and an upswing in prices began to materialize, many major central banks assumed that the supply bottlenecks would be resolved sooner or later and that inflation would be merely transitory, because the current pandemic did not bring about an impairment of capital equipment, unlike during times of war or natural disasters. These central banks therefore took a stance to avoid overreacting to what was considered to be transitory inflation, and instead gradually reduced monetary accommodation while waiting for supply-side constraints to dissipate. This is because tightening of monetary policy does not necessarily lead to improvement in economic conditions when the cause of inflation is not excess demand, but rather supply shortage. For example, even if monetary tightening can curb demand for oil and semiconductors, people's daily lives will not improve unless the supply increases. In fact, central banks did not react directly to a continued rise in energy prices.

However, subsequent developments turned out to be quite different from the outlook of policymakers around the world, who expected that inflation would gradually subside once supply-side constraints dissipated. As I mentioned earlier, since the second half of 2021,

inflation in many countries has accelerated rather than subsided.¹ To be sure, this is partly attributable to delays in resolving supply-side constraints brought about by the spread of new variants. However, considering that supply-side constraints have not worsened, it stands to reason that ongoing inflation is more fundamentally a reflection of the fact that demand momentum has not weakened, even after the peaking-out of pent-up demand following the resumption of economic activity. The likely reason behind this is the expansionary fiscal and monetary policies taken by countries in response to the pandemic.

In order to deal with elevated inflation, central banks abroad have begun to change course to reduce monetary accommodation (Chart 12). Specifically, those in some emerging economies had already stopped monetary easing and started to raise policy interest rates in spring and summer 2021. Around the same time, a succession of central banks in advanced economies, which had been purchasing assets as a response to the pandemic, also started tapering such purchases. In addition, the Bank of England (BOE) began raising policy interest rates in December 2021, and then the Federal Reserve did so in March 2022. These moves suggest that monetary policy by most central banks is now steadily shifting from pandemic-driven easing to tightening.

The question of whether the current global inflation will smoothly subside through monetary tightening by these central banks is one that will require attention to developments going forward. Some experts argue that, while inflation will eventually subside through monetary tightening, it is highly likely to be accompanied by severe economic contraction.² Conversely,

¹ During the U.S. Senate Banking, Housing, and Urban Affairs Committee hearing held on November 30, 2021, Federal Reserve Chair Powell remarked that, given that the threat of persistently higher inflation had grown, it was time to retire the word "transitory."

² For example, see Anstey, C., "Summers Says U.S. Risks Recession by Blaming Inflation on Greed," *Bloomberg*, January 14, 2022, <https://www.bloomberg.com/news/articles/2022-01-14/summers-says-u-s-risks-recession-by-blaming-inflation-on-greed>.

other analyses show that current inflation may actually be a benefit for central banks.³ The reason is that many of the major central banks prior to the pandemic were shackled by restraints arising from excessively low policy interest rates due to low inflation. The sustained low inflation and low interest rate environment that characterized the global economy since the Global Financial Crisis (GFC) occurred in 2008 was conceptualized by former U.S. Treasury Secretary Summers as "secular stagnation."⁴ Since policy rate hikes are necessary to curb inflation, this can be regarded as a golden opportunity to get out from under excessively low policy interest rates.

Let me add that, reflecting geopolitical risks surrounding the current situation in Ukraine, energy prices in particular are likely to remain at a high level for the time being. This may further increase the possibility that the current global inflation will continue. It should be noted, however, that this is a typical case of supply-side shock causing inflation, which will adversely affect economic activity. On the other hand, there is also a risk of second-round effects of inflation, such as a further boost in wage increases. Central banks therefore are likely to carefully examine the effects of the rise in energy prices in particular on the underlying trend in inflation.

C. Strong Relationship between Prices and Wages

As I have explained, global monetary policy on the whole is now transitioning from reducing monetary accommodation to tightening. However, progress is not by any means uniform. This is because there are significant variations in the macroeconomic conditions of each country. This is true not only between advanced and emerging economies, but also among advanced economies. Based on current macroeconomic conditions, advanced economies can

³ See, among others, Schnabel, I., "Escaping Low Inflation?" speech at the Petersberger Sommerdialog held in Frankfurt am Main, July 3, 2021, <https://www.ecb.europa.eu/press/key/date/2021/html/ecb.sp210703~f221554ff2.en.html>; Koranyi, B., "Analysis: Inflation Revival Is a Victory, Not a Defeat, for Central Banks," *Reuters*, October 13, 2021, <https://www.reuters.com/business/inflation-revival-is-victory-not-defeat-central-banks-2021-10-13/>.

⁴ For details, view Summers' recorded remarks at a panel discussion at the Fourteenth Jacques Polak Annual Research Conference held by the International Monetary Fund (IMF) in Washington D.C., November 8, 2013, 1:32:54, <https://www.imf.org/en/Videos/view?vid=2821294542001>.

roughly be divided into three groups: (1) the United States and the United Kingdom, which are picking up the pace of monetary tightening to contain elevated inflation; (2) the euro area, where inflation has climbed but there is still caution regarding shifting to monetary tightening; and (3) Japan, which is worried about a rise in prices but remains in a low-inflation state. Factors that are likely to be causing the differences between these groups include the fiscal scale of the pandemic response, inflationary trends prior to the pandemic, and wage developments in the labor market. Next, I will focus mainly on the relationship between prices and wages.

Arguably, a major factor driving the accelerated pace of monetary tightening in the United States and the United Kingdom -- among other advanced economies -- is the rapid rise in wages there. The number of job openings, mainly for face-to-face services, expanded rapidly immediately after economic activity resumed in both countries. This gave rise to a scramble for labor, fueling higher wages (Charts 13 and 14). What happened next in the United States was that a large number of employees voluntarily resigned from their jobs -- a phenomenon called the Great Resignation -- causing a further tightening of the labor market. This was set off as higher wages brought about by labor shortages lured workers away from their jobs in search of better pay.

Central banks pay attention to such wage developments because there is an inherently close relationship between prices and wages. In a typical growing economy, where both labor productivity and prices increase, nominal wages tend to rise at a level higher than prices. This is because wages otherwise would decline in real terms, and people would be unable to enjoy the fruits of growth. However, real wages are circumscribed, in theory, by the limit of marginal labor productivity at full employment. Thus, as evidenced by the wage-price spiral that occurred in many advanced economies in the 1970s, nominal wage increases that exceed labor productivity growth ultimately tend to be passed on to prices. This implies that the rate of nominal wage increases -- being the sum of the rate of increase in labor productivity and the target inflation rate -- will be consistent with the inflation target. If nominal wages rise above this appropriate level, central banks are required to curb overall nominal income, including in terms of prices and wages, by tightening monetary policy to maintain an appropriate inflation rate.

As I have explained, wage increases are often accompanied by price rises. This occurs as firms pass on wage increases -- regarded as labor cost increases -- to selling prices. How this emerges therefore depends on the weight and adjustability of labor costs in different industries. More specifically, in the services industry, where the weight of labor costs is generally high and technological progress is less likely to come into play, there is a strong tendency for wage increases to materialize as higher prices. Conversely, in the manufacturing industry, the weight of labor costs is relatively low and higher labor costs can easily be absorbed through technological progress, so that wage increases are not passed on in the form of higher prices to the same extent. In fact, a comparison of Japan, the United States, and the euro area shows that, prior to the pandemic, rises in goods prices made very limited contributions to inflation in all three economies and that the underlying inflation rates therefore rested primarily on the rates of increase in services prices (Chart 15). This reflects the differences in the rates of nominal wage increases among the three economies.

D. Probability of Wage Increases in Japan

In other words, it is critical to stabilize the rate of nominal wage increases to ensure price stability. The central banks in both the United States and the United Kingdom are moving toward monetary tightening, presumably because they have determined that tight labor markets entail the risk of pushing up wages above a level that is commensurate with inflation targets. Meanwhile, in the euro area, although prices in general are rising, the labor market is only slightly tight compared with those in the United States and the United Kingdom. The European Central Bank (ECB) is thus more cautious about tightening monetary policy. Lastly, in Japan, although producer prices are rising, the inflation rate of prices in general is still low, and labor market tightness does not seem to have heightened. This suggests that Japan's monetary policy should be more accommodative compared to that of the United States and the United Kingdom, or in the euro area.

To reiterate, nominal wages rise at a higher level than prices in a growing economy. This implies that, in order to emerge from a state of deflation or low inflation and achieve an appropriate inflation rate, it is above all crucial for wage increases to surpass the target inflation rate. The reason Japan's economy has yet to achieve the 2 percent price stability target despite long-term monetary easing could be that economic conditions have not reached

a point where wages can rise sufficiently.

Despite the close relationship between prices and wages, however, monetary policy has only an indirect effect on wages. It is true that monetary policy affects labor demand through demand for the goods and services markets as a whole. Specifically, this materializes as changes in labor market conditions, such as in terms of the unemployment rate and the active job openings-to-applicants ratio. In fact, such indicators continued to improve from when QQE was introduced in 2013 to immediately before the outbreak of the pandemic. However, given that various legal and regulatory factors are involved in actual wage determinations, changes in labor market conditions do not always immediately translate into changes in wages. This is because there is always rigidity or stickiness in wages.

In Japan's economy from the late 1980s to the 1990s, the business cycle and accompanying changes in the active job openings-to-applicants ratio were somewhat clearly linked with wage increases (Chart 16). However, during the 2010s, although the active job openings-to-applicants ratio rose due to the economic recovery after the GFC, and the labor market clearly shifted from a buyer's to a seller's market, wage increases were slow to catch up (Chart 16). This is likely due to the following factors. First, there is a strong stickiness in regular employee wages in Japan, in the sense that they are highly influenced by previous trends. Namely, there was lingering inertia from the deflationary period that began at the end of the 1990s, which saw an ongoing downturn in wages. Second, wages inherently exhibit not only downward rigidity -- which is commonly known -- but also upward rigidity, whereby firms tend to avoid raising wages in the belief that it will be difficult to lower them later.

However, this is not to suggest that labor market conditions are entirely unrelated to wages. Even during the 2010s, the more competitive wages of non-regular employees, such as those of part-time workers, clearly increased in line with the rise in the active job openings-to-applicants ratio (Chart 16). From the mid-2010s, the number of regular employees, which had been decreasing, turned to an increase. Moreover, immediately before the outbreak of the pandemic, there was a shift in the workforce from non-regular to regular employees due to labor shortages (Chart 17). This can also be taken as an increase in wages in real terms.

These considerations point to the importance of continuing with persistent monetary easing to achieve the price stability target accompanied by a sufficient increase in wages. Such easing is needed to further improve labor market conditions and create an economic environment that is likely to trigger an appropriate level of wage increases. Even if there is stickiness to wages, if they continue to increase, the downward inertia should gradually weaken. Fortunately, the Japanese government has set a target of raising wages by more than 3 percent. In light of this, many private-sector firms have begun announcing that they will raise wages in the annual spring labor-management wage negotiations in 2022. Moreover, Japan's low rate of wage increases on the basis of an international comparison is starting to be perceived by society as problematic. My hope is that these developments will lead to wage increases being considered a social norm, which Japan lost sight of in the deflationary period beginning in the second half of the 1990s, and that a virtuous cycle between income and spending will operate more strongly.

Thank you.



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Member of the Policy Board

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Chart 1

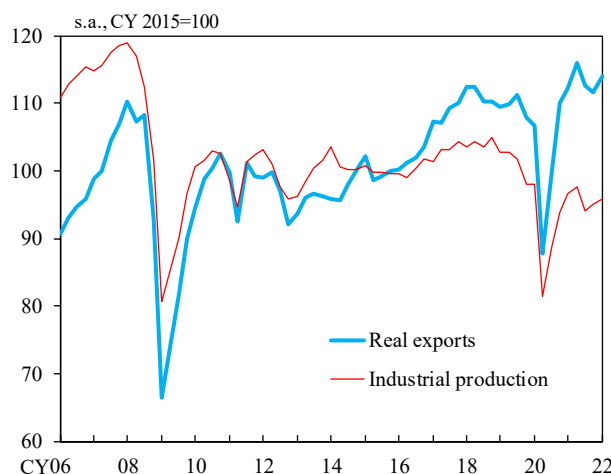
IMF Forecasts for Global Growth

	real GDP growth rate, y/y % chg.			
	2020	2021 estimate	2022 projection	2023 projection
World	-3.1	5.9	4.4	3.8
Advanced economies	-4.5	5.0	3.9	2.6
United States	-3.4	5.6	4.0	2.6
Euro area	-6.4	5.2	3.9	2.5
United Kingdom	-9.4	7.2	4.7	2.3
Japan	-4.5	1.6	3.3	1.8
Emerging market and developing economies	-2.0	6.5	4.8	4.7
China	2.3	8.1	4.8	5.2
ASEAN-5	-3.4	3.1	5.6	6.0

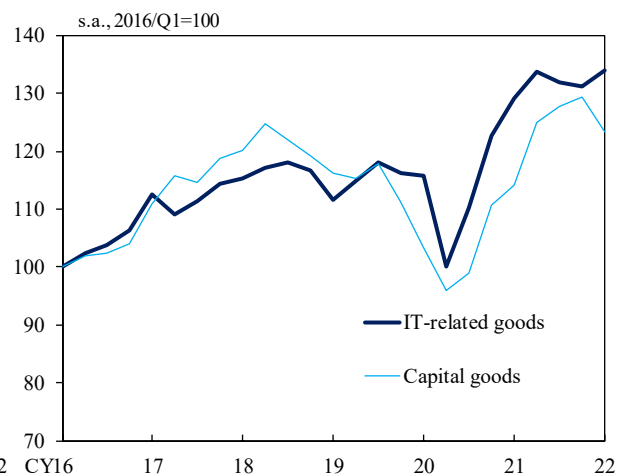
Note: Figures are as of January 2022.
Source: IMF.

Exports and Production

Real Exports and Industrial Production



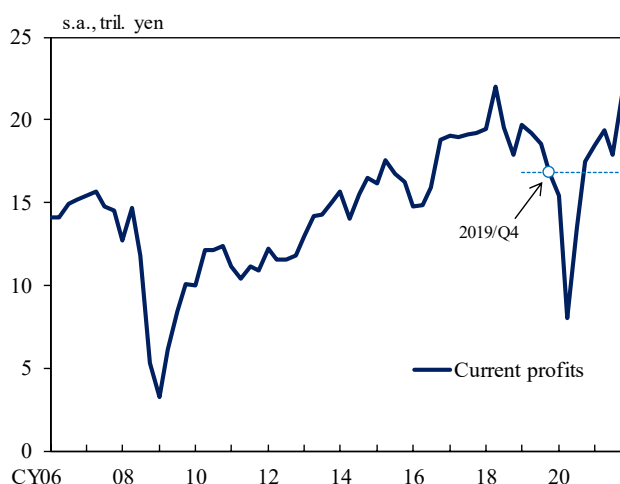
Real Exports by Type of Goods



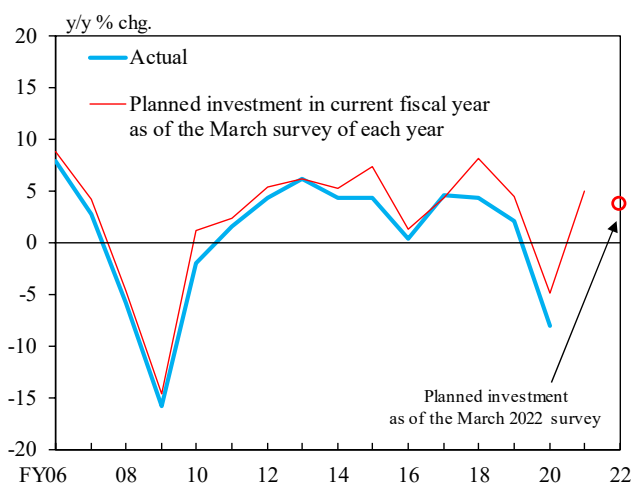
Sources: Ministry of Economy, Trade and Industry; Bank of Japan.

Corporate Profits and Business Fixed Investment

Corporate Profits



Business Fixed Investment (Tankan)



Notes: 1. Figures in the left panel are based on the *Financial Statements Statistics of Corporations by Industry, Quarterly*, and exclude "finance and insurance." Figures from 2009/Q2 onward exclude pure holding companies.
 2. Figures in the right panel are based on the *Tankan* (Short-Term Economic Survey of Enterprises in Japan), including software and R&D investments, but excluding land purchasing expenses. R&D investment is not covered as a survey item before the March 2017 survey. The figures are for all industries and enterprises including financial institutions.
 Sources: Ministry of Finance; Bank of Japan.

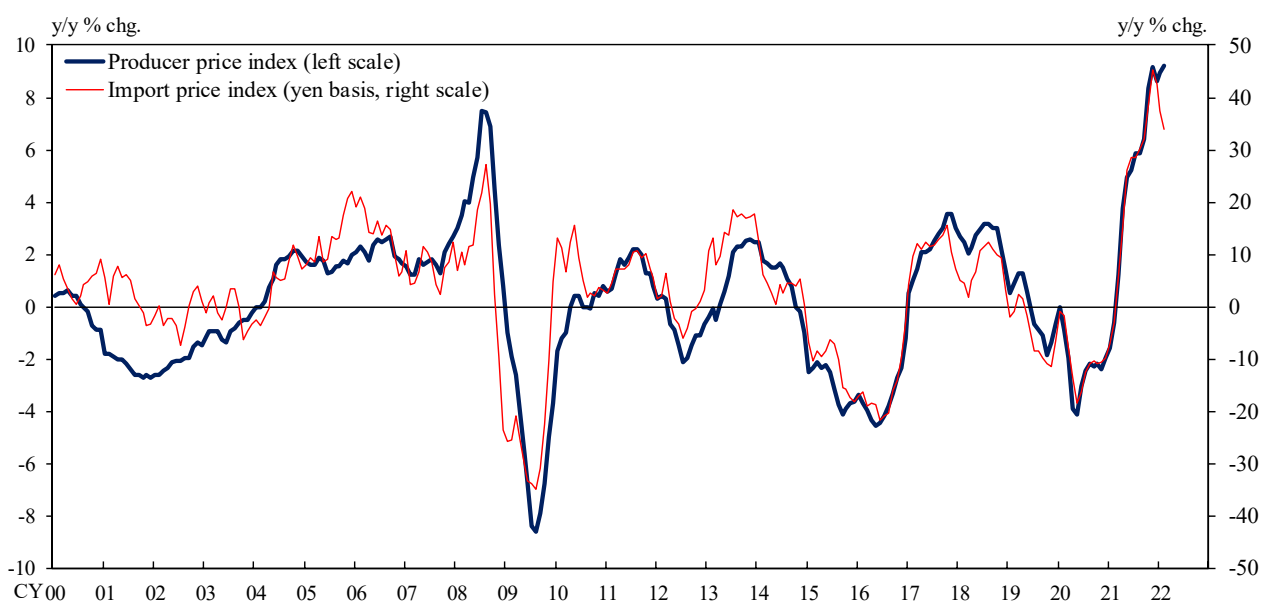
Consumer Prices

	y/y % chg.					
	21/Q1	Q2	Q3	Q4	22/January	February
CPI for all items	-0.5	-0.8	-0.2	0.5	0.5	0.9
Less fresh food	-0.5	-0.6	0.0	0.4	0.2	0.6
Adjusted figure	0.0	0.2	0.6	0.6	0.6	0.7
(Reference: contribution to the CPI for all items less fresh food)						
Energy	-0.5	0.2	0.5	1.0	1.3	1.5
Mobile phone charges	0.1	-1.1	-1.2	-1.5	-1.5	-1.5

Note: Adjusted figures are Bank staff estimates and exclude mobile phone charges and the effects of the consumption tax hike, free education policies, and the "Go to Travel" campaign.

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

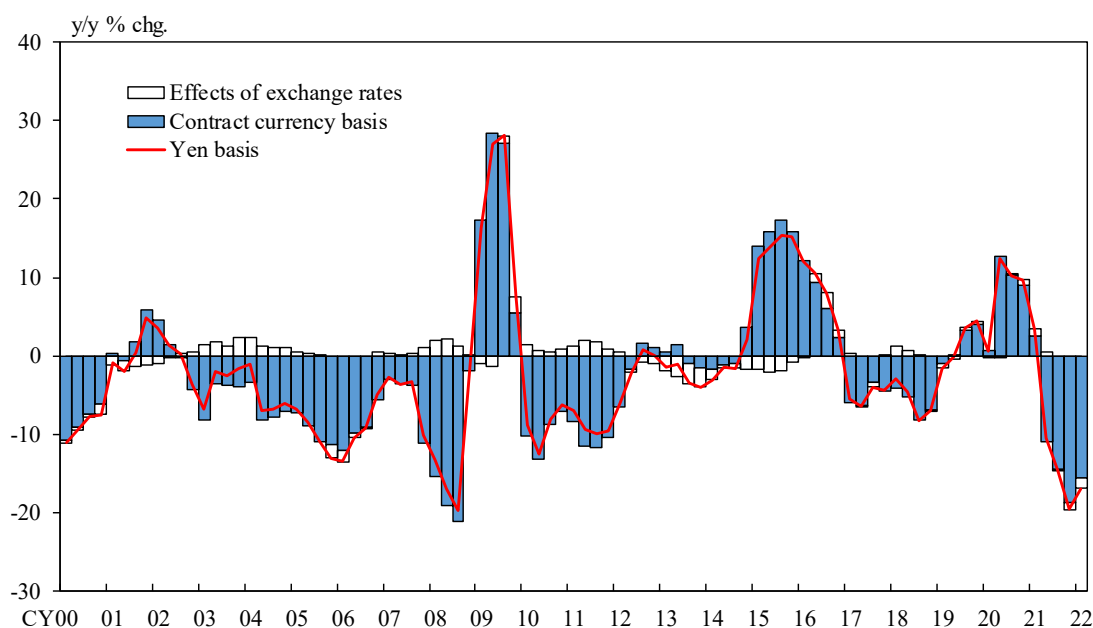
Producer Prices



Note: Figures for the producer price index are adjusted to exclude the effects of the consumption tax hikes.

Source: Bank of Japan.

Contribution to Changes in Terms of Trade



Source: Bank of Japan.

The Bank's Measures in Response to COVID-19 (from March 2020 onward)

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

Lowering Risk Premia in Asset Markets

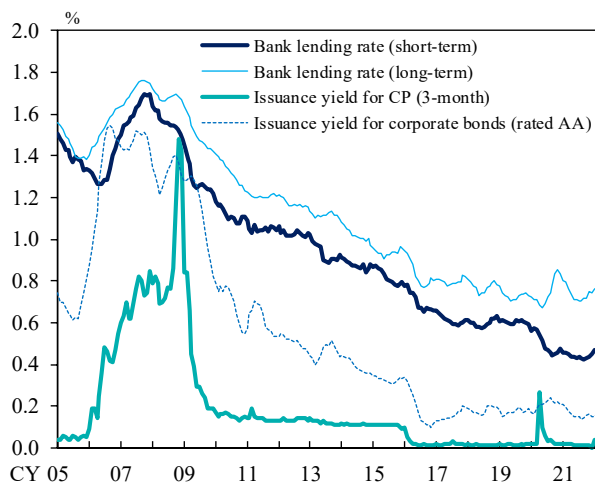
Purchases of ETFs and J-REITs

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

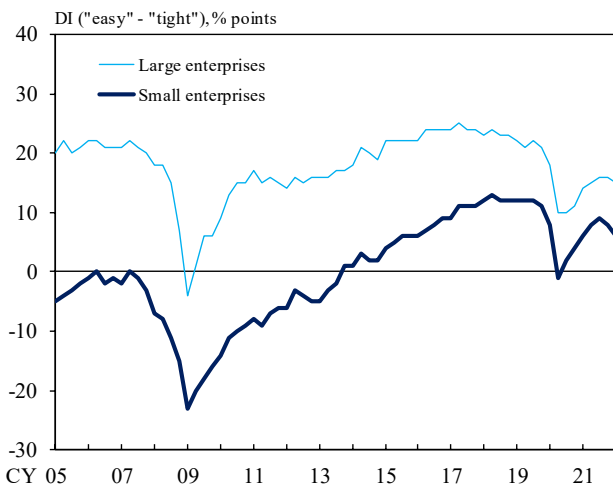
J-REITs: annual pace with an upper limit of about 180 bil. yen

Financial Conditions

Funding Costs



Firms' Financial Positions



Notes: 1. In the left panel, figures for issuance yields for CP through September 2009 are the averages for 3-month CP rated a-1 or higher. Those from October 2009 onward are the averages for 3-month CP rated a-1. Figures for issuance yields for corporate bonds are the averages for domestically issued bonds computed on an issue-date basis. Bonds issued by banks and securities companies, etc., are excluded. Figures for bank lending rates and issuance yields for corporate bonds show 6-month backward moving averages.

2. In the right panel, figures represent the diffusion index (DI) for financial positions of enterprises for all industries in the *Tankan*.

Sources: Bloomberg; Capital Eye; I-N Information Systems; Japan Securities Depository Center; Bank of Japan.

The Bank's Measures to Support Corporate Financing

Japan's Financial Conditions: Improved on the Whole

Large firms: Issuance conditions for CP and corporate bonds have been favorable. Precautionary demand for liquidity has subsided in the loan market.

SMEs: Financial positions have been on an improving trend on the whole, but weakness has remained in some segments, such as the face-to-face services industry.

Partial Extension of the Special Program to Support Financing in Response to COVID-19 (until end-March 2022 → until end-September 2022)

Purchases of CP and corporate bonds	Special Funds-Supplying Operations to Facilitate Financing in Response to COVID-19		
	Against private debt pledged as collateral	Against government-supported loans	Against non-government-supported loans
<p>Additional purchases to be completed</p> <p>Continue purchasing the same amount as prior to the COVID-19 pandemic</p>	<p>To be completed</p>	<p>Extend by six months the fund-provisioning to financial institutions against their loans</p> <ul style="list-style-type: none"> Under the revised terms and conditions <ul style="list-style-type: none"> Applied interest rate: 0% Amount added to the Macro Add-on Balances: the amount outstanding of funds provided 	<p>Extend by six months</p> <ul style="list-style-type: none"> Under the current terms and conditions <ul style="list-style-type: none"> Applied interest rate: 0.2% Amount added to the Macro Add-on Balances: twice as much as the amount outstanding of funds provided

Mainly for large firms and housing loans

Mainly for SMEs

For the time being, the Bank will closely monitor the impact of COVID-19 and will not hesitate to take additional easing measures if necessary.

Policy Actions to Conduct Further Effective and Sustainable Monetary Easing

**Aim: Further effective and sustainable monetary easing
by "enhancing sustainability of monetary easing"
& "nimble responses to changes in the situation"**

1. Establishment of the Interest Scheme to Promote Lending

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

2. Clarification of the range of fluctuations in long-term interest rates ($\pm 0.25\%$ from the target level)

- Strike a balance between securing effects of monetary easing and maintaining market functioning
- Introduction of "fixed-rate purchase operations for consecutive days"

3. New guideline for ETF and J-REIT purchases

- Purchase ETFs and J-REITs as necessary with upper limits of about 12 tril. yen and about 180 bil. yen, respectively, on annual paces of increase in their amounts outstanding (abolish the guideline for purchasing these assets, in principle, at annual paces of increase in their amounts outstanding of about 6 tril. yen and about 90 bil. yen, respectively)
- Purchase only ETFs tracking the TOPIX

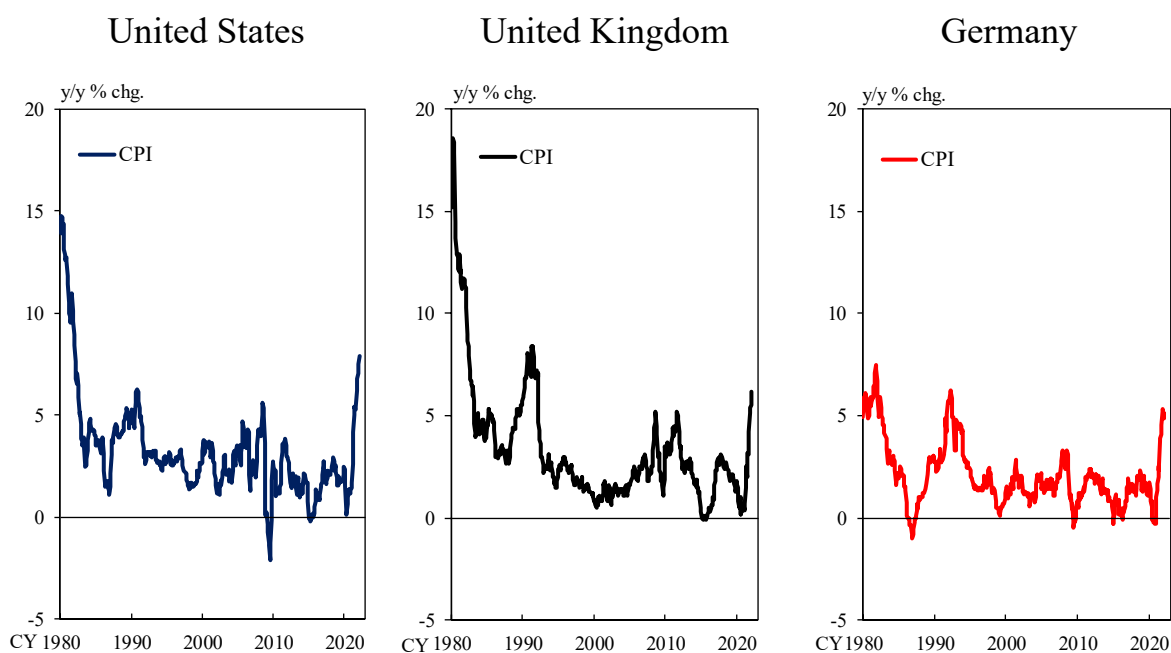
<Interest Scheme to Promote Lending>

- Apply incentives (linked to the short-term policy interest rate) to financial institutions' (FIs) current account balances, corresponding to the amount outstanding of funds provided through fund-provisioning measures to promote lending
 - Mitigate the impact on FIs' 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 rates	Eligible fund-provisioning measures
Category I	0.2% Higher than the rate for Category II	<ul style="list-style-type: none"> • Special Operations in Response to COVID-19, when funds are provided against loans made by FIs on their own
Category II	0.1% Absolute value of the short-term policy interest rate	<ul style="list-style-type: none"> • 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
Category III	0% Lower than the rate for Category II	<ul style="list-style-type: none"> • Loan Support Program • Operation to Support FIs in Disaster Areas

Elevated Inflation in the United States and Europe



Note: Figures for Germany prior to the reunification of the country are those for the former West Germany. Figures for the United Kingdom prior to 1989 are from the Bank of England's (BOE's) "A millennium of macroeconomic data" and those from 1989 onward are from the Office for National Statistics' (ONS) data.

Sources: BOE; OECD; ONS.

Countries with Reduction in Monetary Accommodation

		Countries starting to scale back asset purchases	Countries starting policy rate hikes
2021	Q1		March: Brazil, Russia
	Q2	April: Canada	May: Iceland June: Mexico, Hungary, Czech Republic
	Q3	July: Australia, New Zealand (halt of asset purchases)	July: Chile August: Korea, Peru September: Norway
	Q4	November: United States	October: New Zealand, Poland, Romania, Columbia November: South Africa December: United Kingdom
2022	Q1		March: Canada, United States

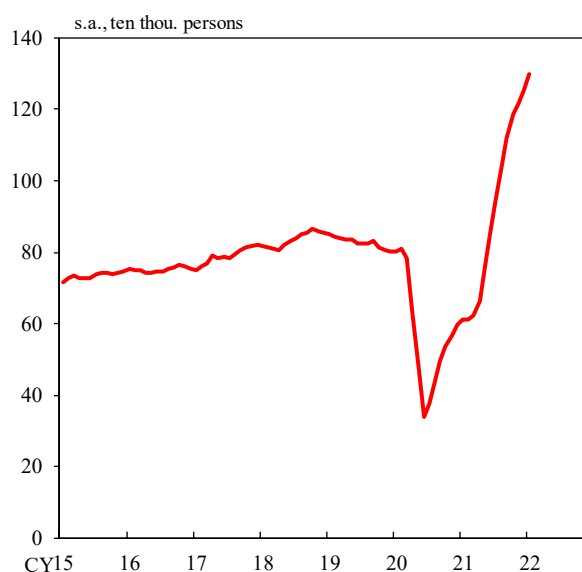
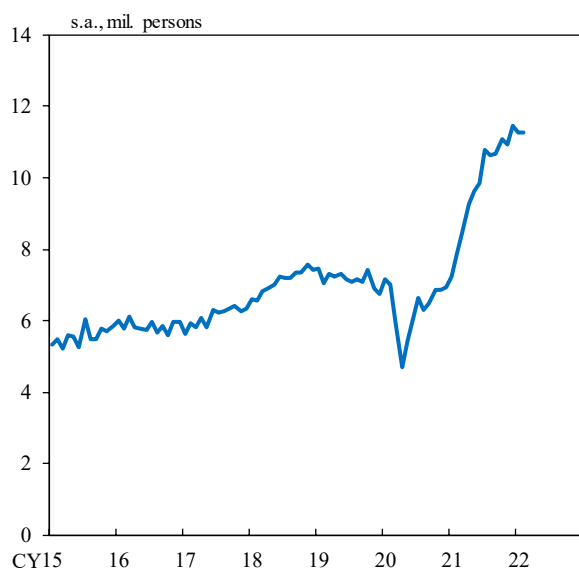
Note: Regarding the scaling back of asset purchases, in the United Kingdom, the BOE discontinued new asset purchases under the Asset Purchase Facility (APF) in December 2021, while deciding to maintain the total target stock at £895 billion. In the Euro area, the European Central Bank (ECB) decided in December 2021 to discontinue net asset purchases under the pandemic emergency purchase programme (PEPP) at the end of March 2022 and, in March 2022, to reduce monthly net purchases under the asset purchase programme (APP) in the April-June quarter of 2022.

Sources: Releases by central banks.

Expansion in Job Openings Following Resumption of Economic Activity

United States

United Kingdom



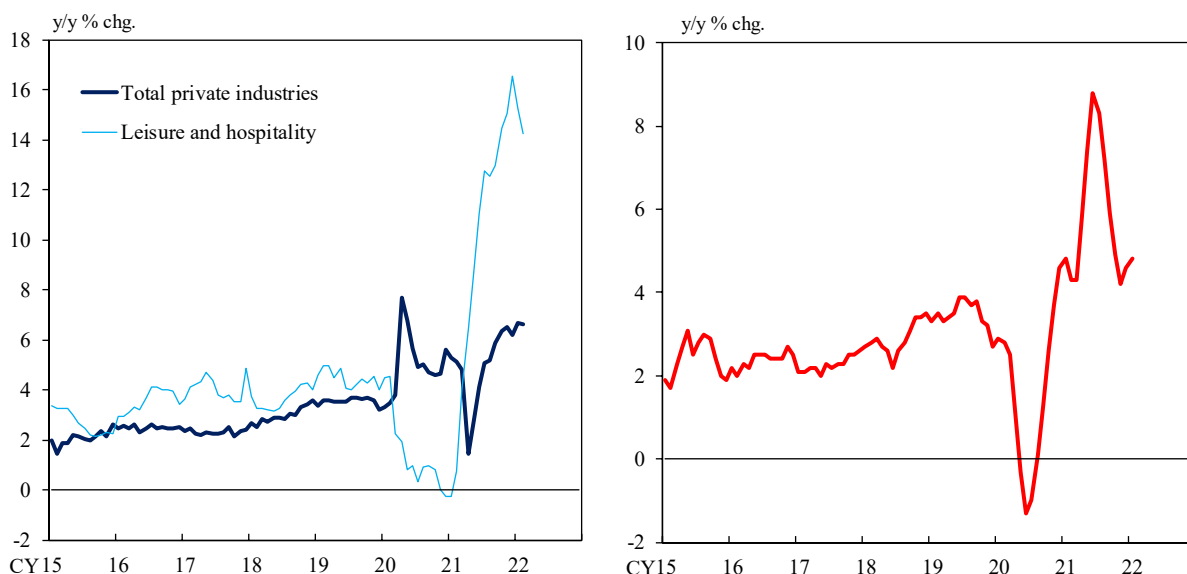
Note: Figures in the right panel are 3-month backward moving averages.

Sources: Bureau of Labor Statistics (BLS); ONS.

Rises in Nominal Wages Following Resumption of Economic Activity

United States
(Hourly Wages)

United Kingdom
(Weekly Wages)



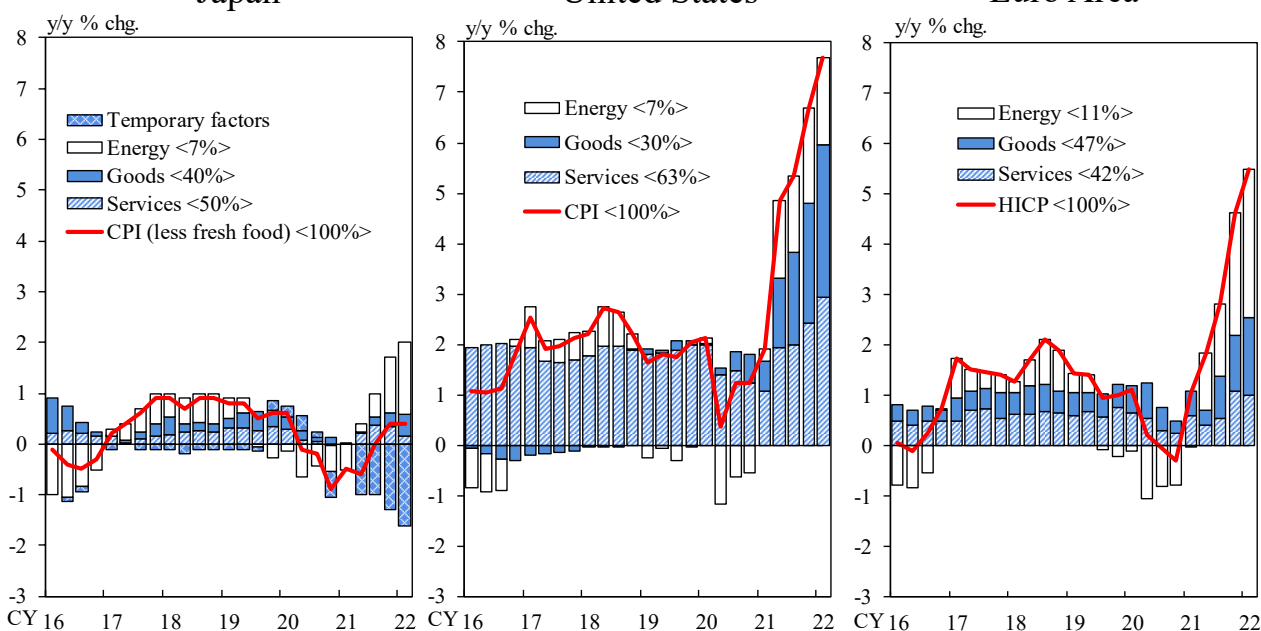
Notes: 1. Figures are those of the private sector.
2. Figures in the right panel are 3-month backward moving averages.
Sources: BLS; ONS.

Decomposition of Changes in Consumer Prices: International Comparison

Japan

United States

Euro Area



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

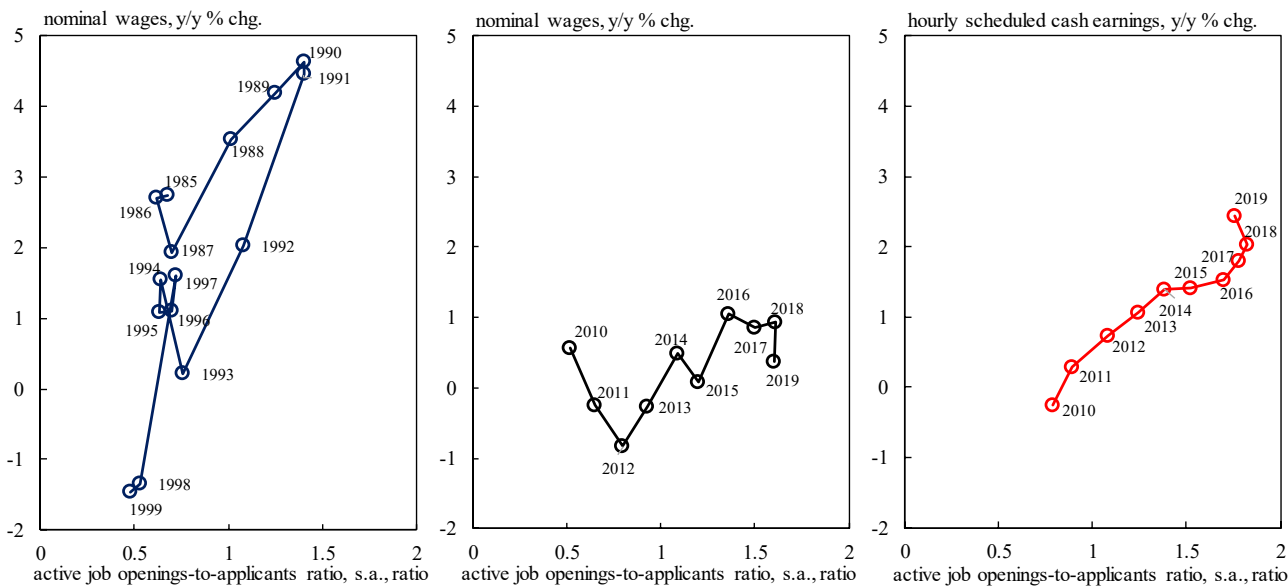
Sources: Haver Analytics; Ministry of Internal Affairs and Communications.

Job Openings-to-Applicants Ratio and Wages

CY 1985-1999
(All Employees)

CY 2010-2019
(All Employees)

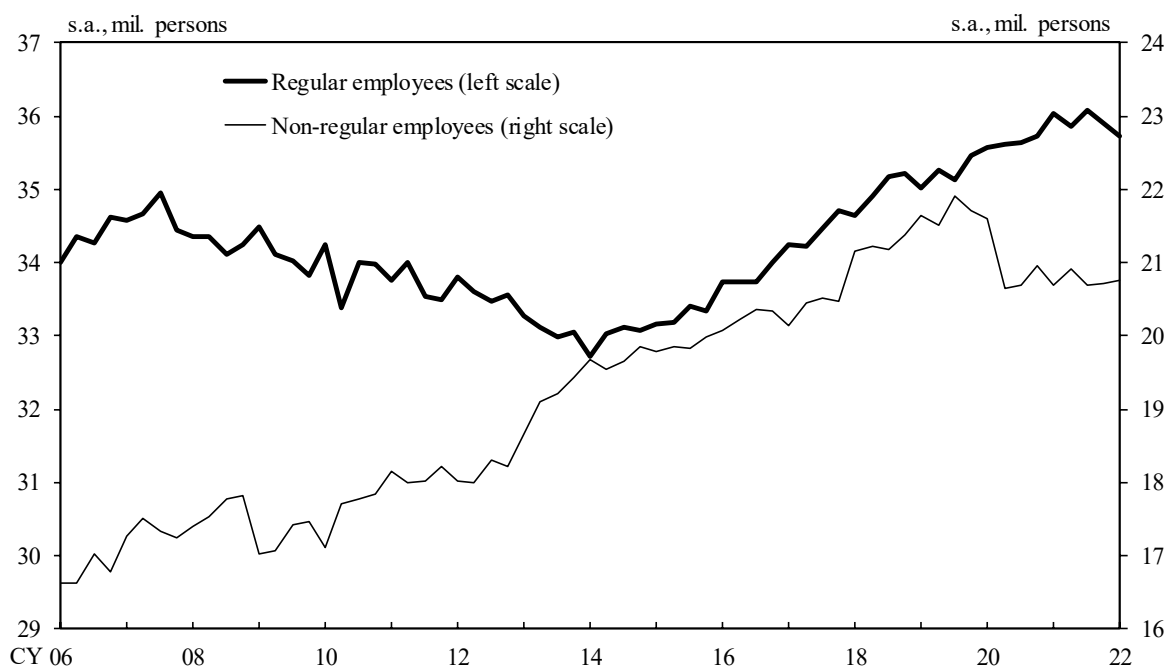
CY 2010-2019
(Part-Time Employees)



Notes: 1. Figures for nominal wages from 1991 onward and hourly scheduled cash earnings are for establishments with at least 5 employees. Figures for nominal wages prior to 1991 are for establishments with at least 30 employees.
2. Figures for nominal wages and hourly scheduled cash earnings from 2016 onward are based on continuing observations following the sample revisions.

Source: Ministry of Health, Labour and Welfare.

Number of Employees



Note: Figures prior to 2013 are based on the "detailed tabulation" in the *Labour Force Survey*.
Source: Ministry of Internal Affairs and Communications.