



December 1, 2022
Bank of Japan

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

Speech at a Meeting with Local Leaders in Akita

NOGUCHI Asahi

Member of the Policy Board

(English translation based on the Japanese original)

I. Economic Activity and Prices

A. Economic Developments at Home and Abroad

I will begin my speech by talking about recent economic developments abroad and at home.

Currently, the global economy seems to have begun searching for a new normal in the post-COVID-19 era. In 2020, when the pandemic started, countries around the world experienced economic contraction. From spring 2021, as vaccinations progressed, mainly in advanced economies, the global economy was on its way to recovery. Therefore, economic activities were almost restored to the 2020 levels or recovered to higher ones in 2021. This recovery trend has generally been maintained until now, although the pace has been slowing (Chart 1).

As a by-product, the recent economic recovery has created high inflation on a global basis. Many central banks have taken monetary tightening measures, such as raising policy rates and scaling back quantitative easing, at an exceptional speed in order to contain high inflation. This is because at least a temporary dampening of domestic demand is judged to be necessary to contain high inflation. It is uncertain whether the process of inflation subsiding will bring about a soft landing, but overseas economies, mainly advanced economies, will likely see a slowdown due to this tightening.

I will now turn to developments in Japan's economy. Despite being affected by factors such as high commodity prices, the economy has picked up as the resumption of economic activity has progressed while public health has been protected from COVID-19. The face-to-face services industry, which had undergone a severe business environment, has shown signs of a clear recovery, due in part to the government's domestic travel subsidy programs and the easing of COVID-19 border controls, both of which started in October 2022 (Chart 2). Exports and industrial production have continued to increase as a trend as the effects of supply-side constraints have dissipated, although the effects of the slowdown in overseas economies have started to be observed in some exports and industrial production (Chart 3). Corporate profits have been at high levels on the whole; this is mainly because a resumption of economic activity and the yen's depreciation pushed up corporate profits of large firms, particularly those of manufacturing firms, although the past rise in raw material costs and the delay in production due to supply-side constraints, for example, pushed down corporate

profits (Chart 4). In such a situation, business fixed investment has picked up. Looking at the business fixed investment plan in the September *Tankan* (Short-Term Economic Survey of Enterprises in Japan), business fixed investment for fiscal 2022 is expected to see high growth, marking a double-digit increase. Japan's economy is likely to recover moderately, with the impact of COVID-19 and supply-side constraints waning, although it is expected to be under downward pressure stemming from high commodity prices and slowdowns in overseas economies.

Looking ahead, I want to point out three risks in particular. First is the resurgence of COVID-19, mainly due to new variants. Second is geopolitical risks regarding the situation surrounding Ukraine, particularly the risk of a consequent rise in energy prices. Third is a risk of a slowdown in the global economy due to the current monetary tightening conducted by central banks. A close examination of the third risk is especially important in envisioning the economic situation in the post-COVID-19 era.

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 above 2 percent since April 2022, with energy prices surging from the beginning of 2021 (Chart 5). Moreover, due to the further rise in international commodity prices that mainly reflects the situation in Ukraine and the yen's rapid depreciation, the effects of the rise in imported goods prices have started to spread to selling prices, particularly of food, since this spring. The year-on-year rate of change in the CPI for all items less fresh food for October -- the latest figure available -- has risen to 3.6 percent.

As you can see, Japan's CPI has been rising significantly, although the extent is much smaller than the increase seen in other countries. The rise in Japan, however, is basically due to the increase in imported goods prices. In deciding the course of monetary policy, developments in the inflation trend based on domestic macroeconomic factors for Japan are most crucial, and the trend in prices is still at a low level in Japan. Understanding this price trend is extremely important, so I will talk about this later.

Nevertheless, from a somewhat longer-term perspective, the fact that upstream cost increases are being passed downstream could affect the trend in prices. In Japan, which has experienced prolonged deflation, firms had been cautious about passing through cost increases to selling prices, other than a pass-through of a rise in energy prices. The recent shift toward raising prices could indicate that firms' behavioral standard based on the assumption that prices do not increase has started to change (Chart 6). Such a change in firms' thinking on prices -- that is, the norm for prices -- is crucial to achieving the 2 percent target in a sustainable and stable manner.

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 adopted 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, with a view to supporting financing, mainly of firms, and maintaining stability in financial markets, decided to take three measures, including the Special Program to Support Financing in Response to the Novel Coronavirus (COVID-19) (the Special Program) (Chart 7). These measures have been significantly effective in improving firms' financial positions and stabilizing financial markets. Thereafter, although the negative impact of COVID-19 on the economy waned gradually on the back of public health measures and progress with

vaccinations, waves of COVID-19 continued, mainly due to the emergence of new variants. In this situation, 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. In addition, at the December 2021 MPM, it extended 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 8). Given that the COVID-19 situation has calmed down, the Bank, at the September 2022 MPM, decided to complete the fund-provisioning against loans that financial institutions make on their own ("non-government-supported loans"), mainly to SMEs, at the end of March 2023 and the fund-provisioning against loans that financial institutions make on the back of government support ("government-supported loans"), mainly to SMEs, at the end of December 2022 (Chart 9).

C. Further Effective and Sustainable Monetary Easing

At first, COVID-19 exerted strong downward pressure on Japan's economy. This implied that it was expected to take even more time to achieve the price stability target. Given this situation, the Bank, in March 2021, examined policy effects and made adjustments to its monetary policy through its Assessment for Further Effective and Sustainable Monetary Easing (Chart 10). As part of those adjustments, the Bank, in order to conduct yield curve control more flexibly, made clear that the range of 10-year Japanese government bond (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.

D. Responding to the New Market Conditions Brought about by Global Inflation

These policy measures have been highly effective in keeping the pandemic from causing an economic downturn in Japan. Moving into 2022, however, as the economies of various countries and regions further recovered and inflation began to heat up worldwide, the financial markets started to undergo rapid changes. This was particularly apparent in the global rise in interest rates, factoring in monetary tightening by central banks to contain high

inflation. The yield on 10-year U.S. Treasury bonds rose from below 1 percent in 2020 to over 4 percent, while the yield on 10-year German government bonds, which had been in negative territory until 2021, rose to around 2.5 percent (Chart 11). The effects of such rises in interest rates spilled over into the JGB market as well, and at the end of March 2022, the 10-year JGB yield approached the 0.25 percent upper limit under yield curve control. Thereafter, the Bank conducted fixed-rate purchase operations for consecutive days as necessary, as was introduced in March 2021. Furthermore, to address these new market conditions, the Bank decided at the April MPM to conduct the fixed-rate purchase operations every business day in principle.

The reason the Bank continues to adhere strictly to the upper limit on the 10-year JGB yield based on yield curve control is because it judges that Japan's economy has not yet reached the stage of achieving the 2 percent target in a sustainable and stable manner. Germany and other countries in Europe saw a sharp upswing in long-term interest rates from being in negative territory to exceeding 2 percent over the course of the past year. If a similar development had taken place in Japan, this clearly would have had a negative impact on the economy. Such a large upswing in long-term interest rates would exert significant downward pressure on the economy, making it more difficult to achieve the 2 percent price stability target. Therefore, my own view is that, in the current situation where achieving the 2 percent target in a stable manner is not certain, it is important to continue with monetary easing and keep interest rates at a low level.

Another change in the market conditions that began to materialize from around spring 2022 was the yen's rapid depreciation (Chart 12). Unlike in the former era of the fixed exchange rate system, where one role of monetary policy was to maintain exchange rates, central banks under the current floating exchange rate system conduct monetary policy with the basic aim of achieving stability in their own macroeconomic conditions, including prices. This means that foreign exchange rates will shift according to the macroeconomic conditions of each country. On this basis, what is desirable for each country is that foreign exchange rates move stably while reflecting economic and financial fundamentals. Meanwhile, the impact of foreign exchange rate fluctuations in general is highly uneven across economic entities. Moreover, when exchange rates fluctuate too rapidly, this creates the disadvantage of

increasing the costs of adjustment for various economic entities. It is therefore necessary to continue paying due attention to developments in financial and foreign exchange markets and their impact on Japan's economic activity and prices.

III. Global Inflation and Japan's Economy

A. Global Inflation Triggered by the COVID-19 Pandemic

The global economy is currently experiencing what can be viewed as its highest levels of inflation since the 1970s-80s (Chart 13). Needless to say, the trigger for this was the outbreak of COVID-19 in 2020. Prior to the pandemic, many economies, especially advanced economies, were facing sustained low growth, low inflation, and low interest rates, often referred to as "secular stagnation." However, the situation started to turn around completely in the spring of 2021 as widespread vaccination programs enabled economies to begin to overcome the pandemic. Various countries and regions are now facing inflation at levels they have not experienced in many decades, and many central banks around the world have continued to rapidly raise policy interest rates to contain it (Chart 14).

Many experts initially thought that the rise in inflation -- as countries began to emerge from COVID-19 and economic activity resumed -- was due to the sudden materialization of demand that had been suppressed during the pandemic, or pent-up demand, as savings had accumulated, and that this was further exacerbated by supply-side constraints brought about by pandemic-related disruptions in supply chains and logistics networks. Thus, the accepted view among experts was that inflation would subside on its own after pent-up demand ran its course and supply-side constraints eased. The reality differed from such forecasts, however. Even after pent-up demand had nearly run its course in most countries and regions and supply-side constraints had lessened considerably, elevated inflation remains unchecked.

My view is that the current high global inflation has been induced by the extremely expansionary and accommodative fiscal and monetary policies that countries and regions implemented in response to COVID-19. From the outbreak of the pandemic, governments worldwide provided fiscal support to households and firms in their own countries, albeit with differences in the scale and duration of such measures (Chart 15). Likewise, central banks implemented large-scale monetary easing to keep the pandemic from causing an economic

slowdown (Chart 14). Starting in 2021, many overseas countries and regions began to see a rapid turnaround in their economies as they made progress in overcoming COVID-19 and were able to regain pre-pandemic income levels quickly. This likely is attributable to the effects of the expansionary and accommodative fiscal and monetary policies. In this sense, we can acknowledge that the fiscal and monetary policies that were put in place fully achieved their initial objectives of staving off economic decline due to the pandemic and facilitating a swift turnaround. On the other hand, the prolonged period of stagnant low inflation and low interest rates prior to the pandemic might have made it difficult to fully estimate the impact of a fiscal and monetary policy mix that was powerful enough to turn consistently low inflation into the highest inflation seen in decades.¹

B. Inflation Developments and Monetary Policy Responses by Country and Region

As I noted above, the expansionary and accommodative fiscal and monetary policies that countries and regions put in place in response to COVID-19 resulted in generating excess demand that outstripped the potential supply capacity of their respective economies. The current global inflation could basically be attributable to such developments in demand. However, this is simply the basic composition of global inflation overall and each country and region face significantly different circumstances. This is because, as countries and regions began to emerge from the pandemic, the first thing that materialized was a steep rise in the prices of commodities and energy. Thus, for commodity and energy importers like Japan and countries in Europe, inflation has been driven by the cost-push factors following rises in imported goods prices, rather than led by demand.

By contrast, a typical phenomenon that occurs when aggregate demand exceeds potential aggregate supply is synergy between wage increases and price rises, in which nominal wages

¹ This is an issue that had long been widely understood, however. For example, former Federal Reserve Chair Ben S. Bernanke, who was awarded the Nobel Prize in Economic Sciences in 2022, made the following point in the lecture cited below while still on the Federal Reserve Board. Drawing on the concept of "helicopter money" proposed by Milton Friedman, Bernanke explained that, even if there was no leeway for lowering policy interest rates, it was still possible to turn deflation to inflation through an integrated fiscal and monetary policy response. See "Deflation: Making Sure 'It' Doesn't Happen Here," remarks by Governor Ben S. Bernanke before the National Economists Club, November 21, 2002.

and prices in general rise simultaneously. In such circumstances, as a result of labor market conditions tightening, due to the growth in aggregate demand, and the unemployment rate falling to an excessively low level, nominal wages and prices increase more than supply expands.² If the tightening of labor market conditions and a resulting simultaneous rise in wages and prices were to be observed, inflation most often is led by demand rather than by supply.

Such qualitative differences in inflation are markedly on display in developments in inflation in the United States, the euro area, and Japan since these countries began to emerge from the pandemic (Chart 16). In the United States and the euro area, rapid inflation began around spring 2021; by 2022, the growth rate in the CPI had reached around 8 to 10 percent. However, the two situations are quite different in nature. That is, energy is a sizable contributor to inflation in the euro area, while goods and services are higher contributors to inflation in the United States than energy, with services recently making a particularly strong contribution. Japan's CPI also began to increase around spring 2022, albeit at a far lower level than for both the United States and Europe. Energy has made a significant contribution here as well. This suggests that inflation in the United States is mostly led by demand, while inflation in the euro area and Japan is driven by cost-push factors.

Despite these differences, major overseas central banks are stepping up the pace of monetary tightening virtually across the board. Their goal is to avert a wage-price spiral. Even if the cause of inflation is on the supply side rather than the demand side, if actual inflation should lead to a rise in inflation expectations and the so-called second-round effects occur, which are then factored into nominal wages and prices, there is the risk that the wage-price spiral will push up underlying inflation itself. Indeed, the European Central Bank (ECB) has accelerated its policy rate hikes since mid-2022, and as authorities of the ECB have mentioned, this could essentially be considered a measure to prevent such second-round effects.³

² Non-Accelerating Inflation Rate of Unemployment (NAIRU) is a concept in which, if the level of the unemployment rate falls below NAIRU, inflation is expected to rise.

³ For example, see Lagarde, C., "Monetary Policy in a High Inflation Environment: Commitment and Clarity," lecture organized by the Bank of Estonia and dedicated to Professor Ragnar Nurkse, Tallinn, November 4, 2022.

Conversely, when, as in the United States, excess demand has tightened labor market conditions and concern over a wage-price spiral has heightened, the central bank needs to suppress aggregate demand through decisive monetary tightening to ease labor market conditions. This implies bringing about a lower job vacancy rate -- or the share of unfilled vacancies -- and a higher unemployment rate in the labor market. Since the U.S. economy began to emerge from the pandemic, the job vacancy rate recorded a historic high while the unemployment rate plummeted further (Chart 17). Consequently, to rein in the risk of a wage-price spiral and bring the inflation rate back down to around the 2 percent target, more than anything else the Federal Reserve must return the excessively high job vacancy rate and excessively low unemployment rate to appropriate levels.⁴

C. Required Conditions for Japan's Economy to Return to a Sustainable Growth Path

As I said earlier, against the background of the global economy making headway in overcoming the pandemic, rises in prices, such as of energy and consumer goods using imported raw materials, have been pushing up consumer prices in Japan as well. The year-on-year rate of increase in the CPI for all items less fresh food has remained above 2 percent since April 2022. At present, however, we cannot assess the price stability target of 2 percent as having been achieved in a sustainable and stable manner, because the current rising inflation stems from higher prices of imported commodities and raw materials being passed on to selling prices. If such overseas cost-push factors dissipate, the rate of increase in the CPI is projected to decelerate to below 2 percent again. In this regard, international market

⁴ The ongoing debate about what level of unemployment must be accepted to bring current elevated inflation down to the target level is divided between the so-called hard landing and soft landing schools. Former Treasury Secretary Lawrence H. Summers, who represents the hard landing school, believes an extremely high unemployment rate is necessary to bring the job vacancy down sufficiently. On the other side, Federal Reserve Governor Christopher J. Waller and others argue that lowering the job vacancy rate is possible without a significant increase in the unemployment rate. This suggests that the two groups start with different assumptions about the slope of the Beveridge Curve (UV curve) that describes movements in job vacancy and unemployment rates. See Blanchard, O., Domash, A., and Summers, L. H., "Bad News for the Fed from the Beveridge Space," Peterson Institute for International Economics Policy Briefs 22-7, July 2022; Waller, C. J., "Responding to High Inflation, with Some Thoughts on a Soft Landing," speech at the Goethe University Frankfurt in Germany, May 30, 2022; and Figura, A. and Waller, C. J., "What Does the Beveridge Curve Tell Us about the Likelihood of a Soft Landing?," FEDS Notes, July 29, 2022.

prices for commodities and energy have been trending downward, reflecting economic slowdowns accompanying global monetary tightening (Chart 18).

In other words, in order to achieve the price stability target of 2 percent in a sustainable and stable manner, prices need to rise as a trend based on domestic macroeconomic factors rather than highly volatile overseas factors. For this to happen, it is crucial that nominal wages continue to rise by a considerable margin year after year.

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, nominal wage increases that exceed labor productivity growth ultimately tend to be passed on to prices. This is one road leading to synergy between wage increases and price rises.

Simply put, with a view to achieving an appropriate level of inflation in a stable manner, it is crucial for wage increases to surpass the target inflation rate. The reason Japan's economy was unable to achieve the 2 percent price stability target despite long-term monetary easing could be that monetary easing did not lead to a sufficient rise in nominal wages and, as a result, services prices, which are susceptible to changes in wages, have hardly risen at all (Chart 16). For Japan's economy to return to a sustainable growth path, what is essential is sustained, stable synergy between wage increases and price rises, in which nominal wages increase at a level higher than prices while both continue to increase moderately.

Nevertheless, despite the close relationship between prices and wages, the impact of monetary policy on wages is highly constrained by certain circumstances, thereby creating some difficulty. Monetary policy generally affects labor demand by way of 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 job vacancy rate, the unemployment rate, and the active job openings-to-applicants ratio. Such changes in labor market conditions normally translate into changes in wages if the market is sufficiently competitive. In fact, the current surge in

wages in the United States is driven by tight labor market conditions (Chart 17). However, Japan's market for regular employees affords only limited opportunities to change jobs in pursuit of better working conditions, and wages are therefore less susceptible to labor market conditions.

Meanwhile, even in Japan's labor market, wages for part-time workers and other non-regular employees, who are in a more competitive environment with higher mobility, have shown a marked increase in line with improved labor market conditions. Furthermore, for regular employees, the starting salaries of new graduates have been steadily rising, and wages for young workers, who change jobs relatively more frequently, have risen accordingly (Chart 19). To encourage wage increases, therefore, it is necessary for the Bank to persistently continue with its current monetary easing and for labor market conditions, which have yet to return to pre-pandemic levels, to improve further -- specifically, in terms of the unemployment rate and the active job openings-to-applicants ratio (Chart 20).

There is another reason why continuing with monetary easing is essential. Between wage inflation and price inflation, there are channels where the former feeds into the latter, as well as the opposite. If inflation expectations that prices will continue to rise intensify, the labor supply and demand curves will also factor this in and shift upward, which could cause nominal wages to rise as well. From this perspective, for wages to rise further, people's perception of inflation that prices do not rise -- which has become entrenched during the course of years-long deflation in Japan -- has to change. In other words, the norm for prices has to shift. This, in fact, is a second-round effect of inflation, in that price inflation induces wage inflation. The crucial point to remember is that, unlike in the United States and Europe, where it is necessary to contain the second-round effect of high inflation, Japan's underlying inflation is still low. The second-round effect of raising inflation expectations to bring about higher wages is exactly what is needed in Japan at the moment. My view is that continuing with the current monetary easing is the most basic condition for achieving this outcome.

Thank you.



Economic Activity, Prices, and Monetary Policy in Japan

Speech at a Meeting with Local Leaders in Akita

December 1, 2022

NOGUCHI Asahi

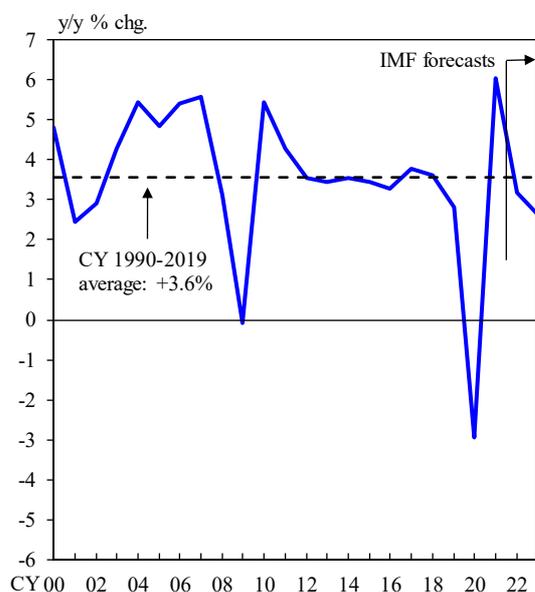
Member of the Policy Board

Bank of Japan

Chart 1

IMF Forecasts for Global Growth (October 2022 WEO)

Global Growth Rate

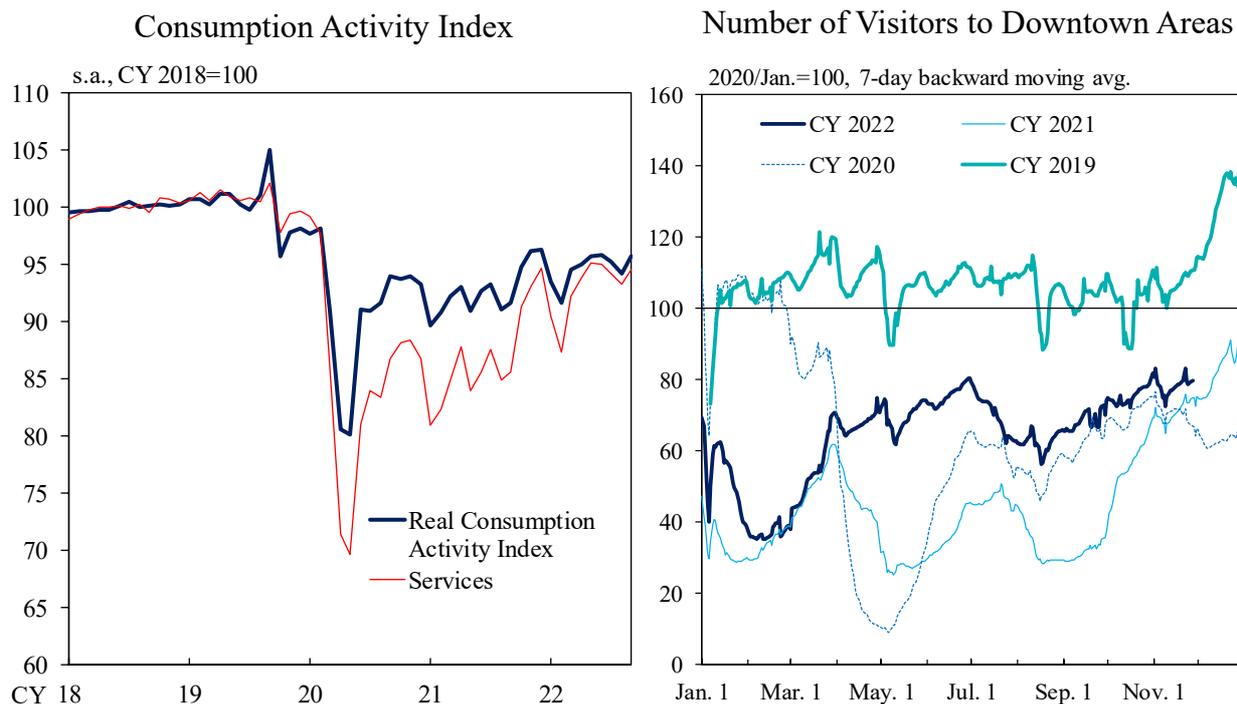


Major Economies' Growth Rates

	y/y % chg., % points			
	CY 2020	CY 2021	CY 2022 [Forecast]	CY 2023 [Forecast]
World	-3.0	6.0	3.2 (0.0)	2.7 (-0.2)
Advanced economies	-4.4	5.2	2.4 (-0.1)	1.1 (-0.3)
United States	-3.4	5.7	1.6 (-0.7)	1.0 (0.0)
Euro area	-6.1	5.2	3.1 (0.5)	0.5 (-0.7)
United Kingdom	-9.3	7.4	3.6 (0.4)	0.3 (-0.2)
Japan	-4.6	1.7	1.7 (0.0)	1.6 (-0.1)
Emerging market and developing economies	-1.9	6.6	3.7 (0.1)	3.7 (-0.2)
China	2.2	8.1	3.2 (-0.1)	4.4 (-0.2)
India	-6.6	8.7	6.8 (-0.6)	6.1 (0.0)
ASEAN-5	-3.4	3.4	5.3 (0.0)	4.9 (-0.2)

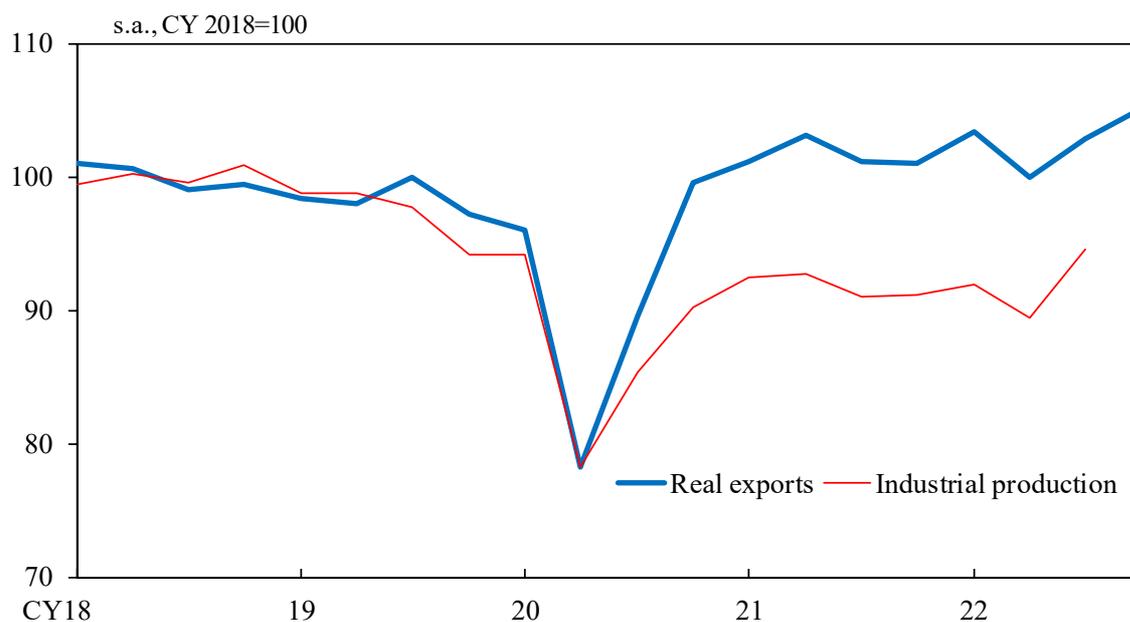
Note: In the table, figures in brackets are the differences from the forecasts in the July 2022 *World Economic Outlook* (WEO) Update.
Source: IMF.

Private Consumption



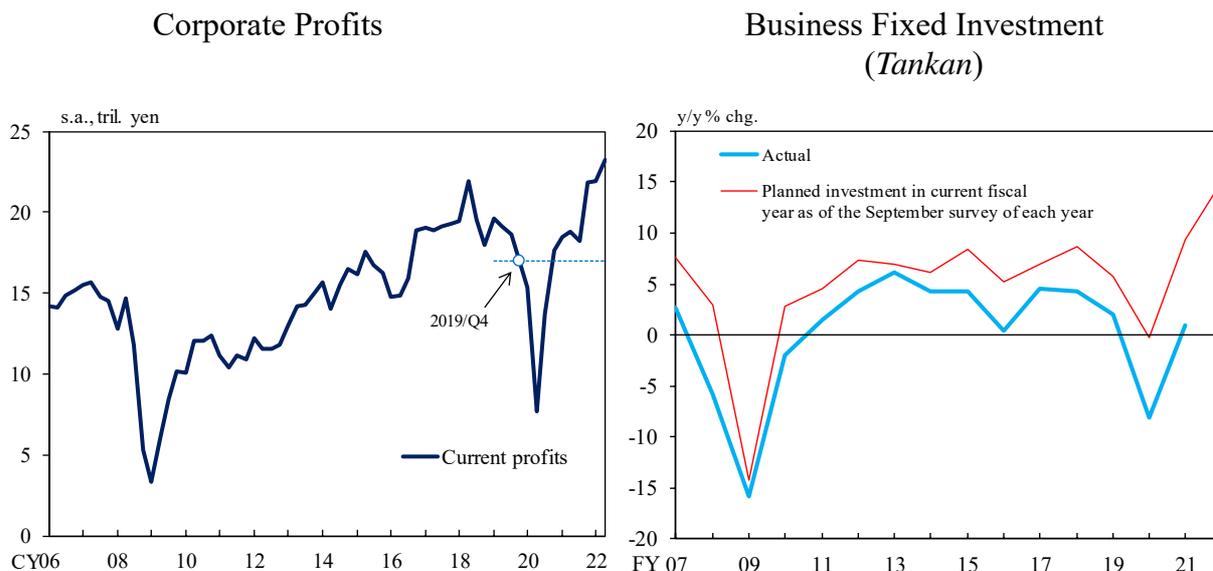
Notes: 1. In the left-hand chart, figures for real consumption activity index are travel balance adjusted.
 2. In the right-hand chart, figures are the sum of the differences in the number of visitors between 9 p.m. and 4 a.m. on the following day in 63 downtown areas.
 Sources: NTT DOCOMO, INC; DOCOMO InsightMarketing, INC; Bank of Japan.

Exports and Production



Note: Figures for real exports for 2022/Q4 are those for October.
 Sources: Ministry of Economy, Trade and Industry; Bank of Japan.

Corporate Profits and Business Fixed Investment



Notes: 1. In the left panel, figures 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. In the right panel, figures are based on the *Tanken*, 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.

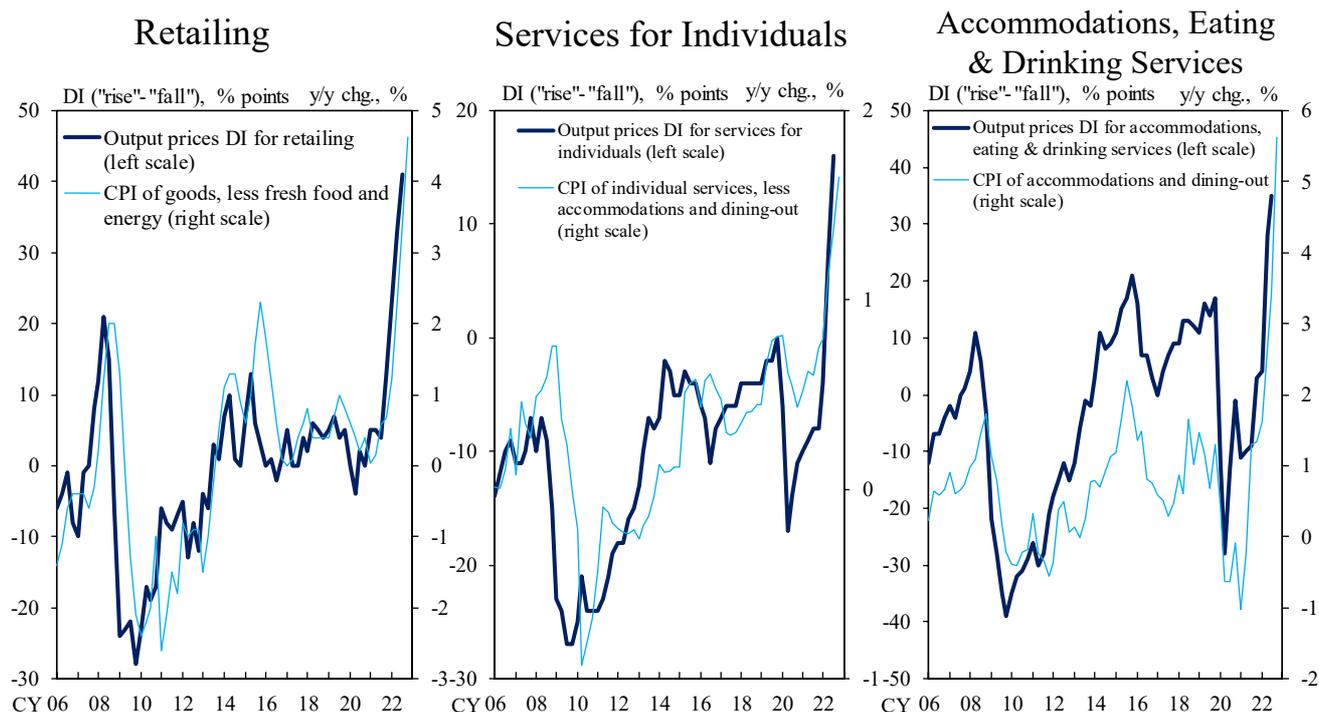
Sources: Ministry of Finance; Bank of Japan.

Consumer Prices

	y/y % chg.						
	22/Q1	Q2	Q3	22/July	August	September	October
CPI for all items	0.9	2.4	2.9	2.6	3.0	3.0	3.7
Less fresh food	0.6	2.1	2.7	2.4	2.8	3.0	3.6
Less fresh food and energy	-0.9	0.9	1.5	1.2	1.6	1.8	2.5
(Reference: contribution to the CPI for all items less fresh food)							
Energy	1.4	1.3	1.3	1.3	1.3	1.3	1.2
Food products	0.3	0.5	0.7	0.7	0.7	0.8	1.0
General services (less mobile phone charges)	0.2	0.3	0.4	0.3	0.4	0.4	0.4
Mobile phone charges	-1.5	-0.4	-0.3	-0.4	-0.2	-0.2	0.0

Source: Ministry of Internal Affairs and Communications.

Changes in Consumption-Related Firms' Price-Setting Stance



Notes: 1. Figures for output prices DI are based on the *Tankan* (all enterprises). Figures for CPI exclude the effects of the consumption tax hike, policies concerning the provision of free education, and travel subsidy programs.

2. In the middle chart, figures for CPI for individual services are adjusted figures less accommodations and dining-out, imputed rent, mobile phone charges, and package tours to overseas.

3. Figures for CPI for 2022/Q4 are those for October.

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

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

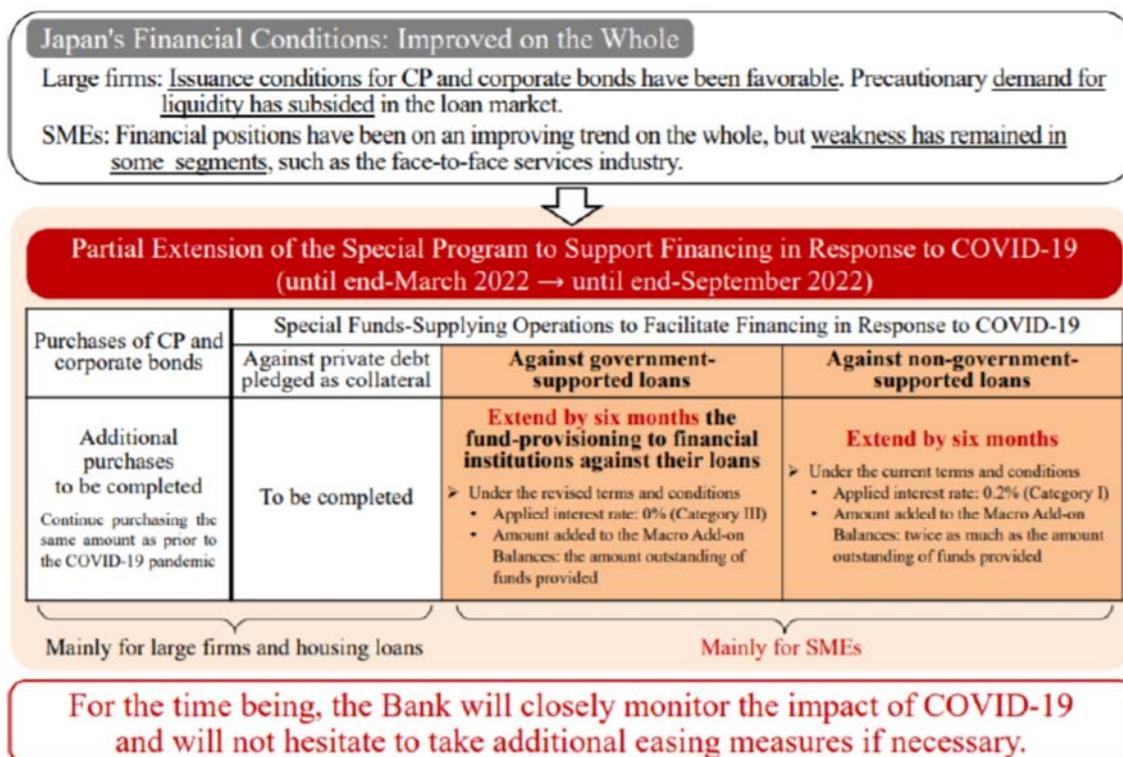
Lowering Risk Premia in Asset Markets

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

Revisions to the Bank's Measures to Support Corporate Financing (December 2021 MPM)



Revisions to the Bank's Measures to Support Corporate Financing (September 2022 MPM)



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

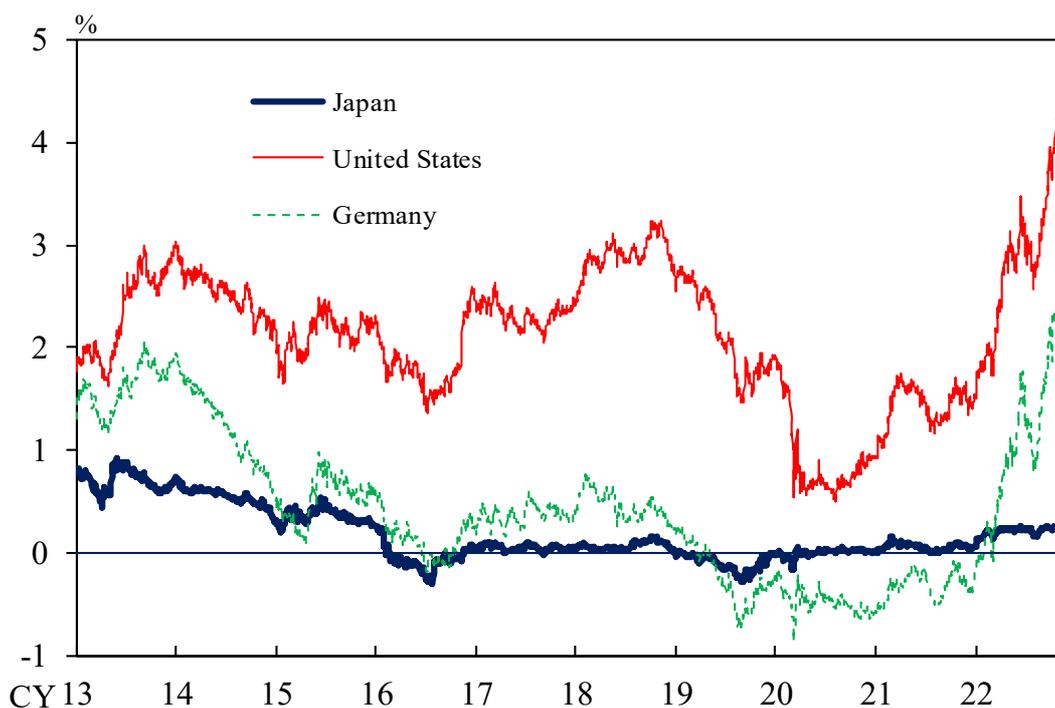
<Interest Scheme to Promote Lending>

- 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>

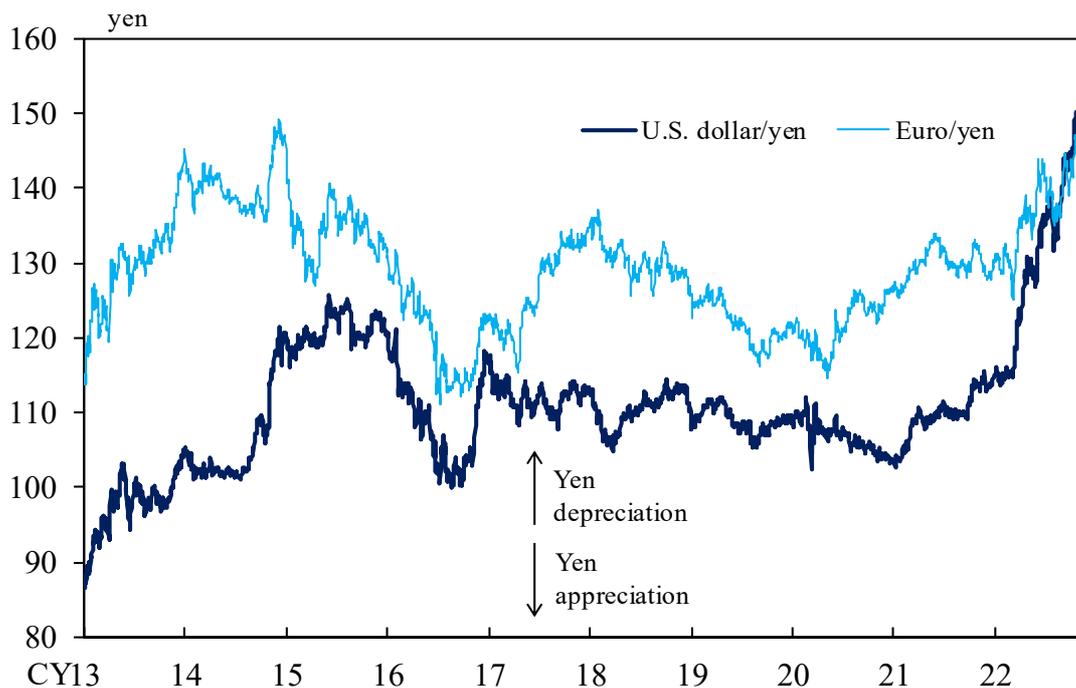
	Applied interest rates	Eligible fund-provisioning measures
Category I	0.2% Higher than the rate for Category II	<ul style="list-style-type: none"> • Special Operations in Response to COVID-19, when funds are provided against loans made by FIs on their own
Category II	0.1% Absolute value of the short-term 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

10-Year Government Bond Yields



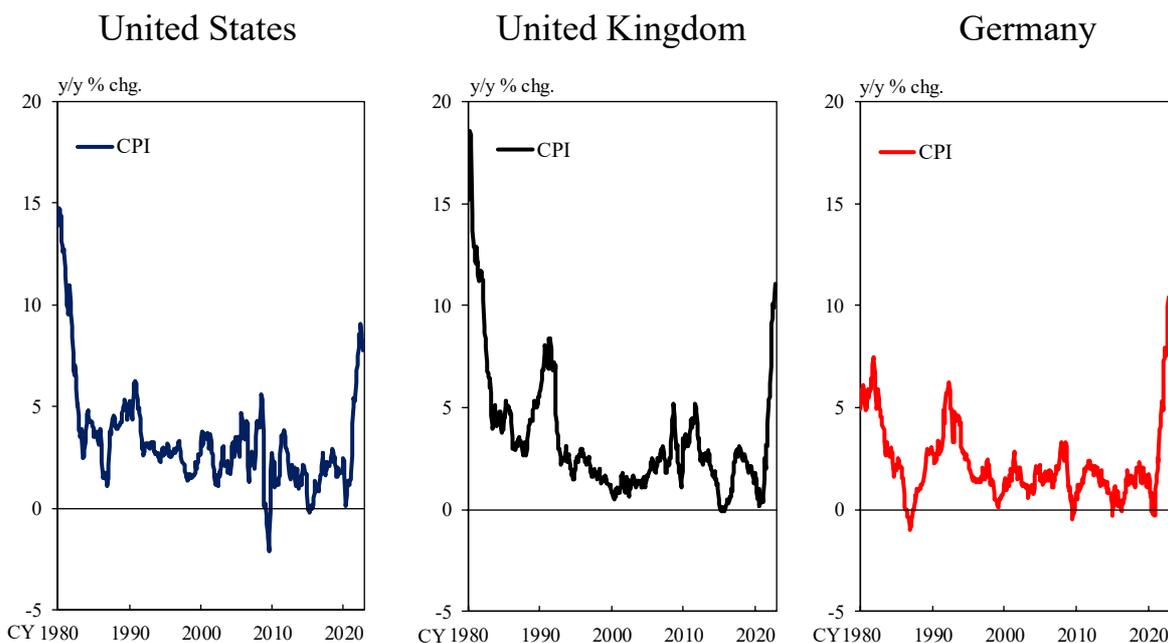
Source: Bloomberg.

U.S. Dollar/Yen and Euro/Yen



Source: Bloomberg.

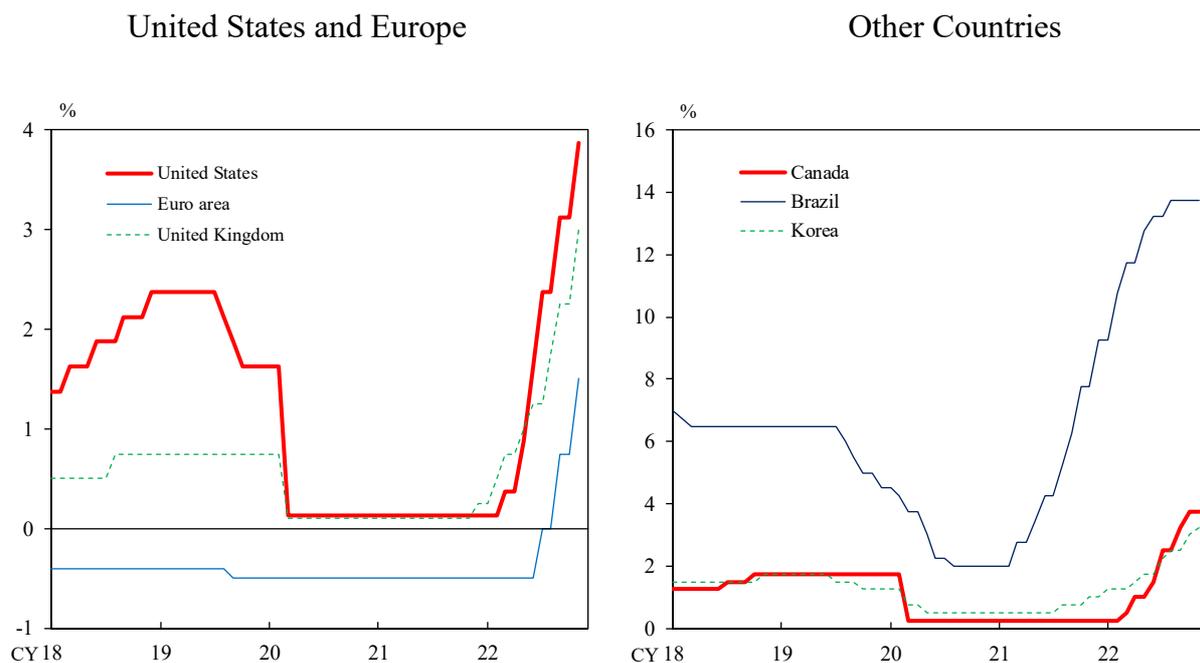
High Inflation in the United States and Europe



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.

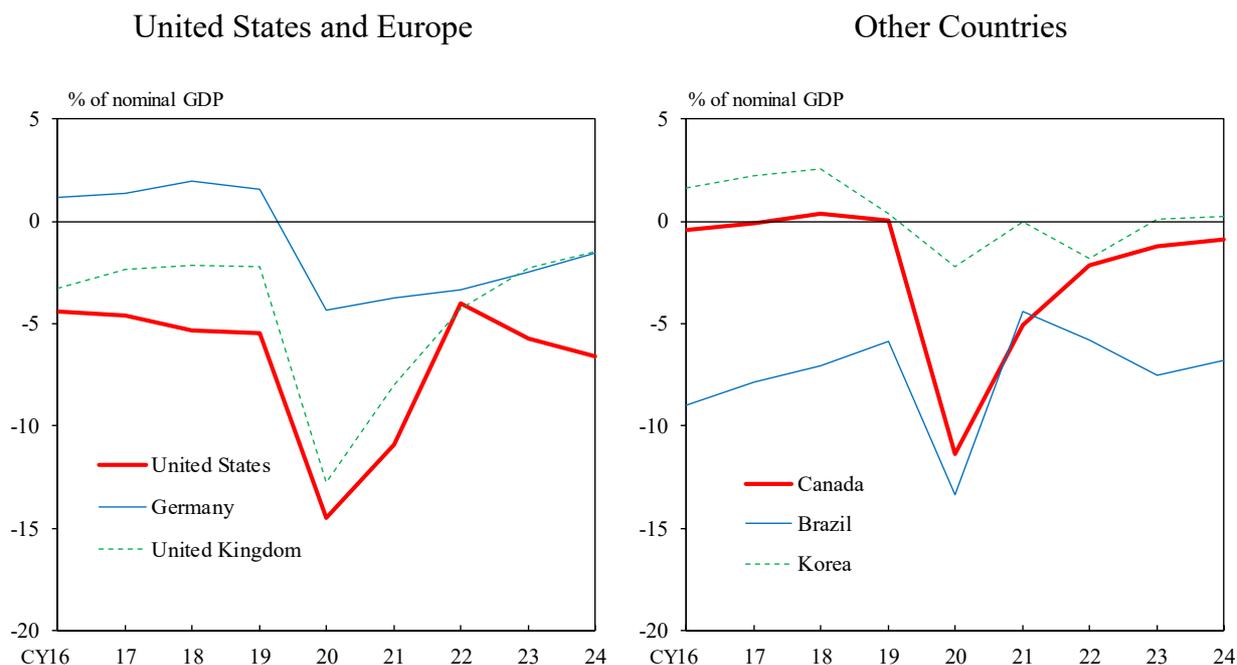
Sources: BOE; OECD; ONS.

Policy Interest Rates



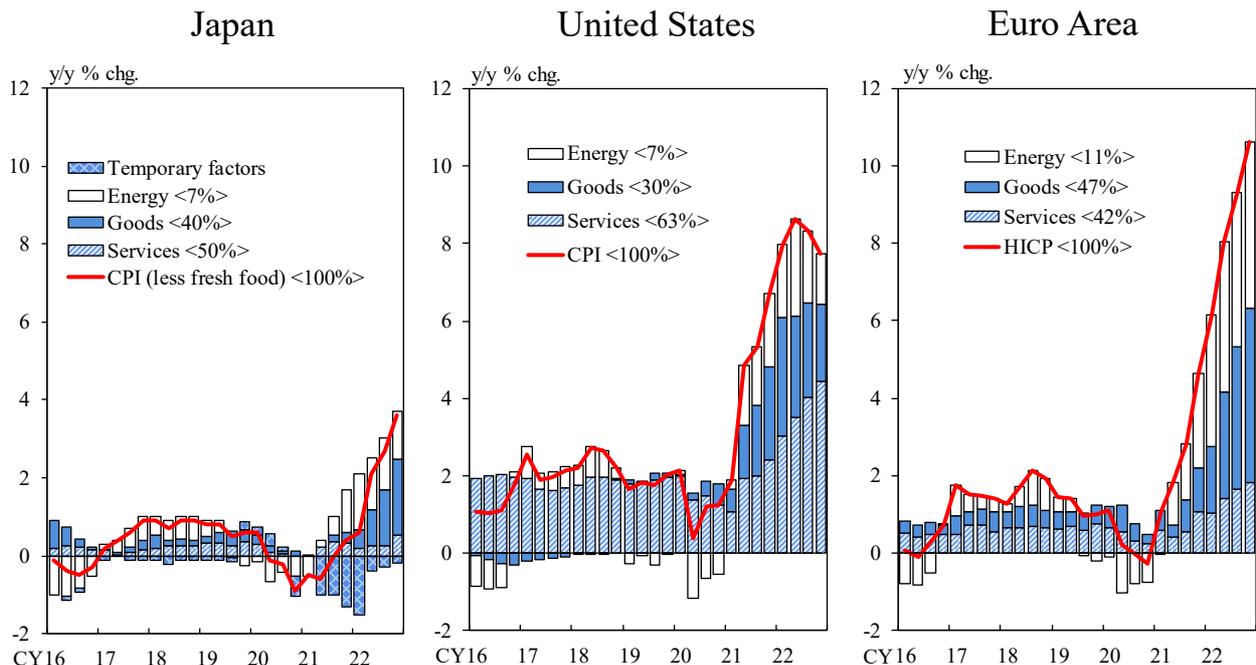
Note: In the left-hand chart, figures for the United States are the medians of the target ranges for the federal funds rate. Those for the euro area are the rates on the deposit facility.
Sources: BIS; ECB.

Fiscal Balances



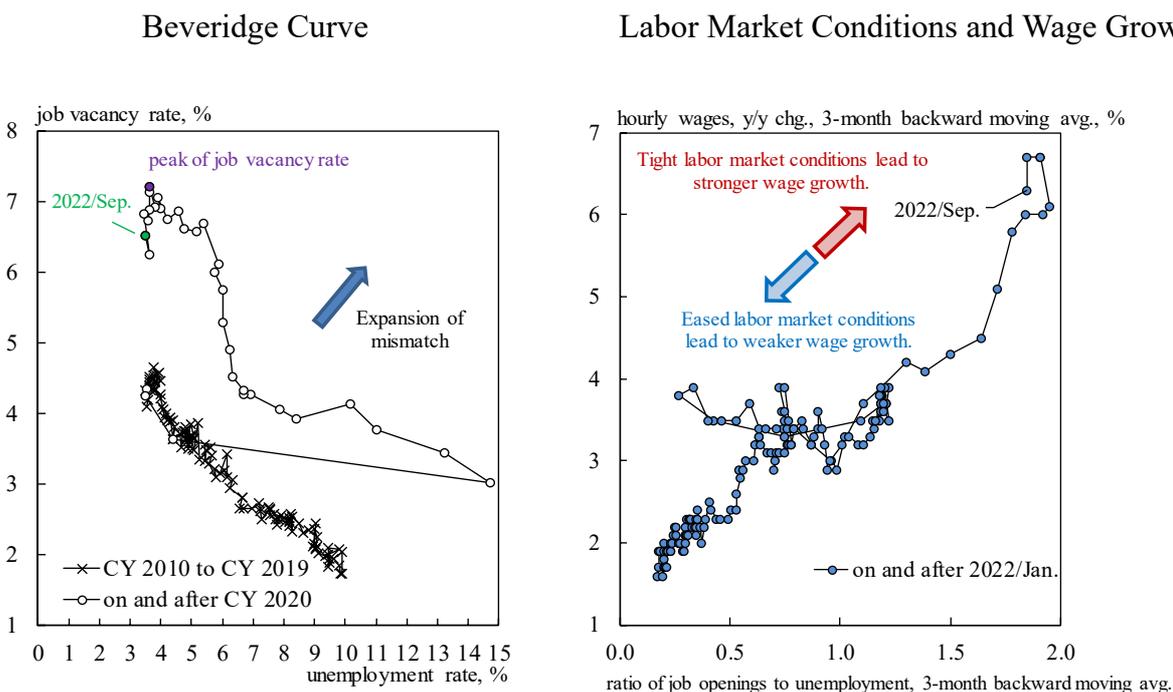
Note: Figures after 2021 are IMF projections.
Source: IMF.

Decomposition of Changes in Consumer Prices



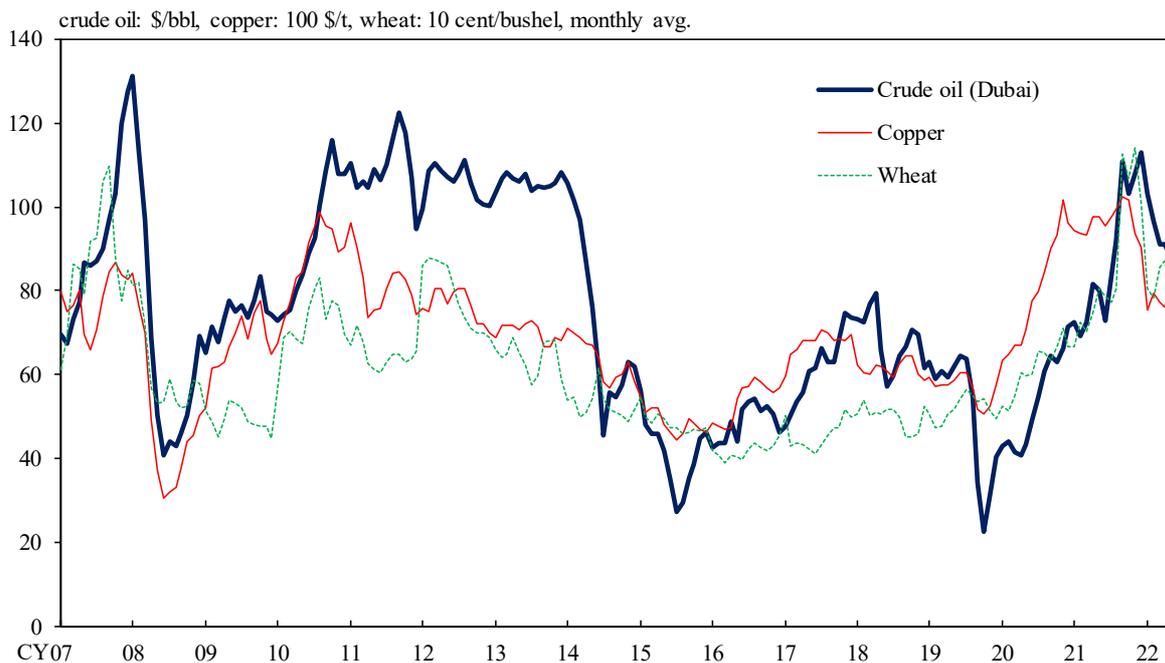
Notes: 1. Figures for temporary factors for Japan are Bank staff estimates and consist of the effects of the consumption tax hike and policies concerning the provision of free education, travel subsidy programs, and mobile phone charges.
 2. Figures in angular brackets show the share of each component. Figures for 2022/Q4 are for October.
 Sources: Haver Analytics; Ministry of Internal Affairs and Communications.

Labor Market Conditions in the United States



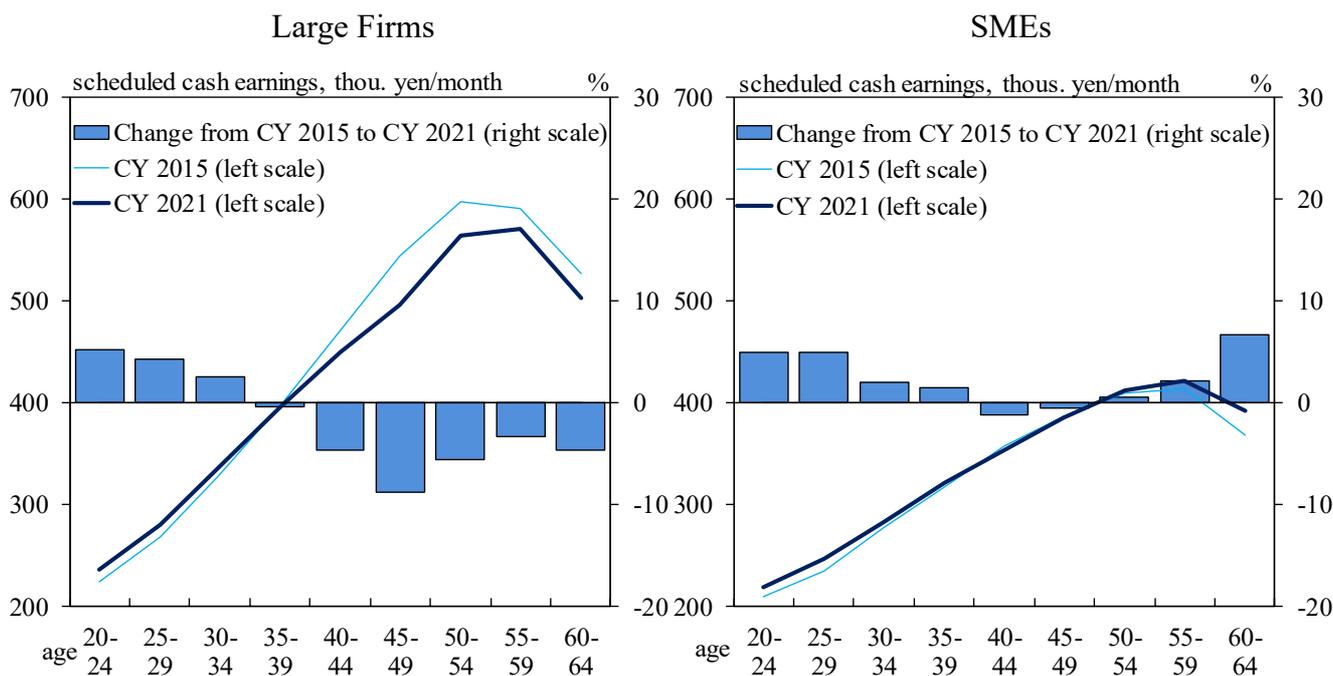
Note: In the left chart, hourly wages are those of the Atlanta Fed's Wage Growth Tracker.
 Source: Haver Analytics.

International Commodity Prices



Sources: Bloomberg; Nikkei Inc.

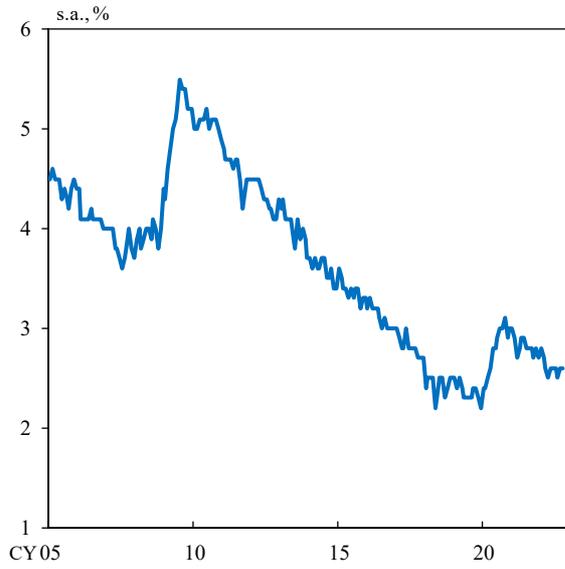
Wage Curve of Regular Employees



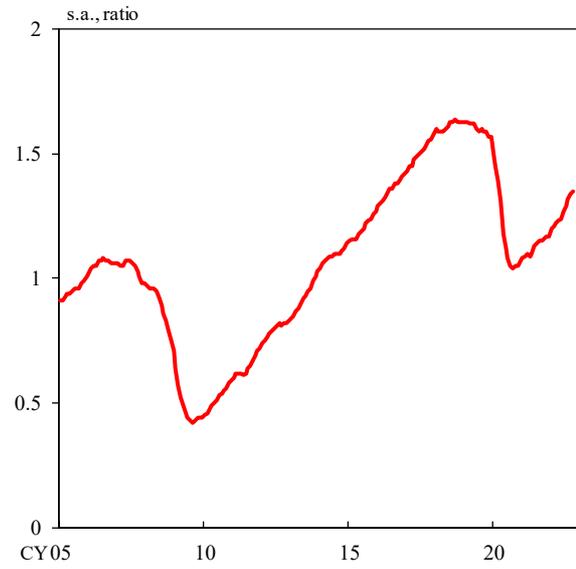
Note: Private firms hire more than 10 regular employees (large firms: more than 1,000; SMEs:10-99).
 Source: Ministry of Health, Labour and Welfare.

Unemployment Rate and Job Openings-to-Applicants Ratio

Unemployment Rate



Job Openings-to-Applicants Ratio



Sources: Ministry of Health, Labour and Welfare; Ministry of Internal Affairs and Communications.