

Japan's Economy and Monetary Policy

Speech at a Meeting with Local Leaders in Shizuoka

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Introduction

Chart 1

Highlights of the January 2023 Outlook Report

(1) Japan's economy is likely to recover.



(2) Inflation is likely to be relatively high in the short run and then decelerate.



(3) There are high uncertainties, including developments in overseas economic activity and prices, and market developments warrant attention.

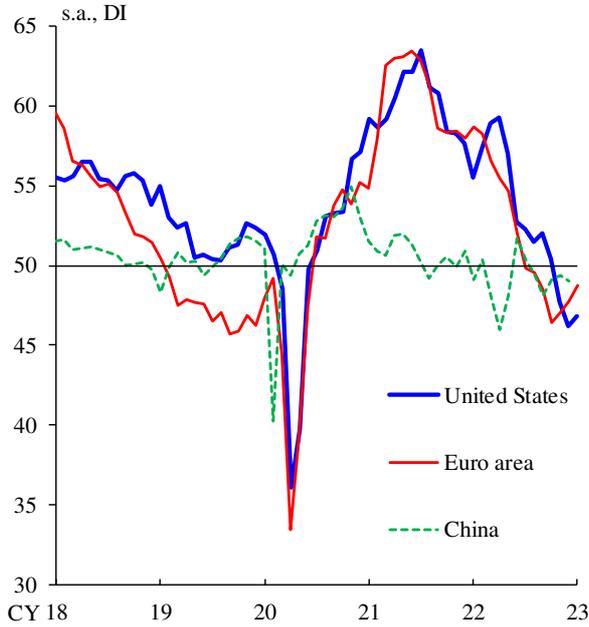


(4) The Bank will continue with powerful monetary easing.

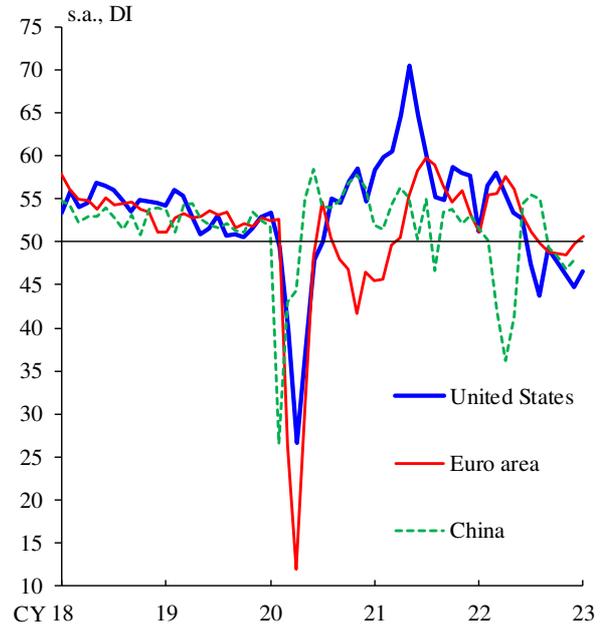


Developments in the Global Economy

Manufacturing PMI

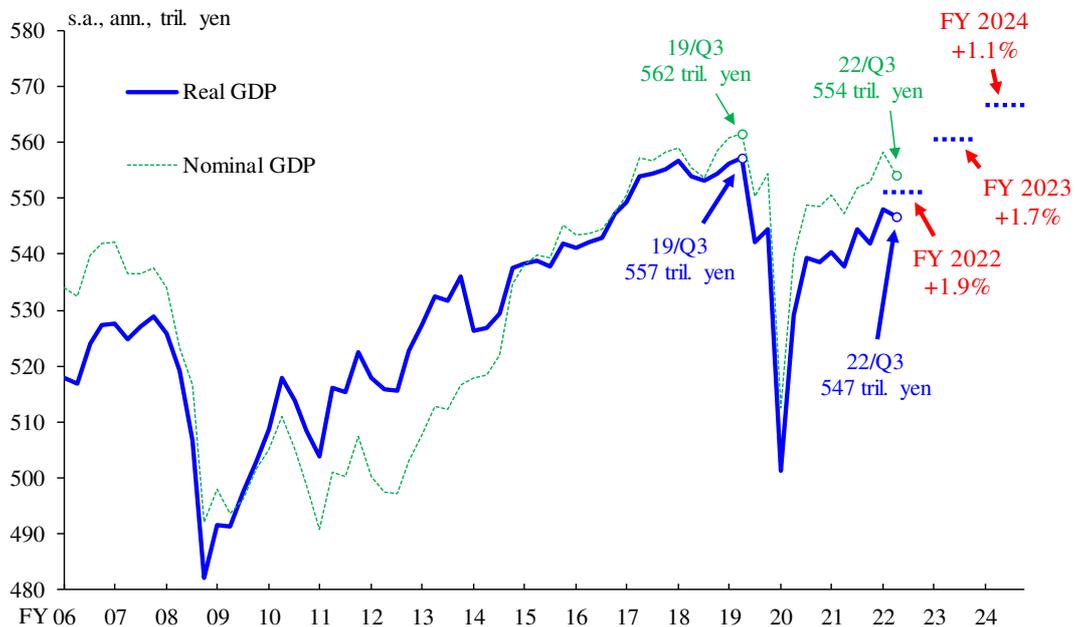


Services PMI



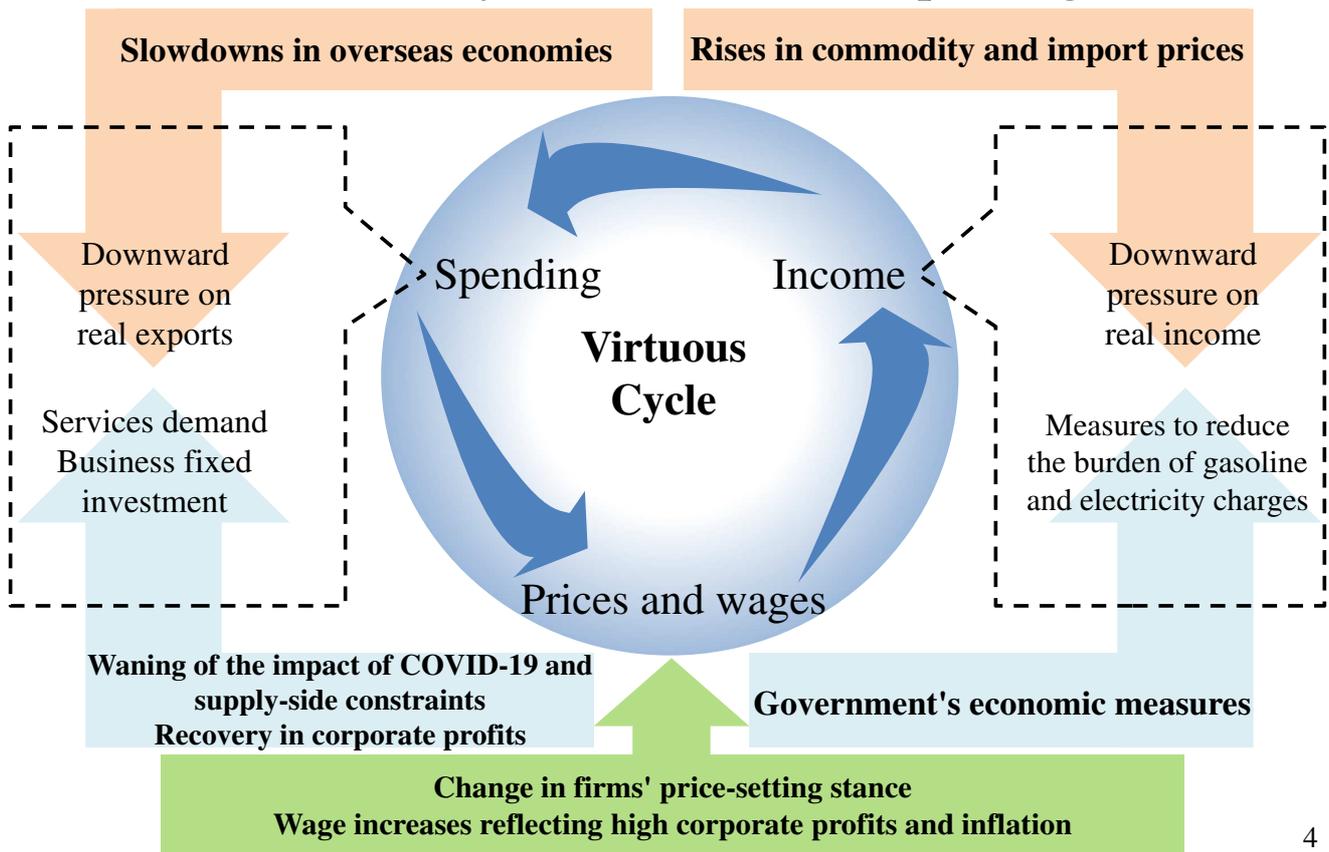
Notes: 1. Figures for China are the Caixin China PMI.
 2. In the right-hand chart, figures are the Services Business Activity Index.
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The BOJ's Forecasts for Real GDP (January 2023 Outlook Report)

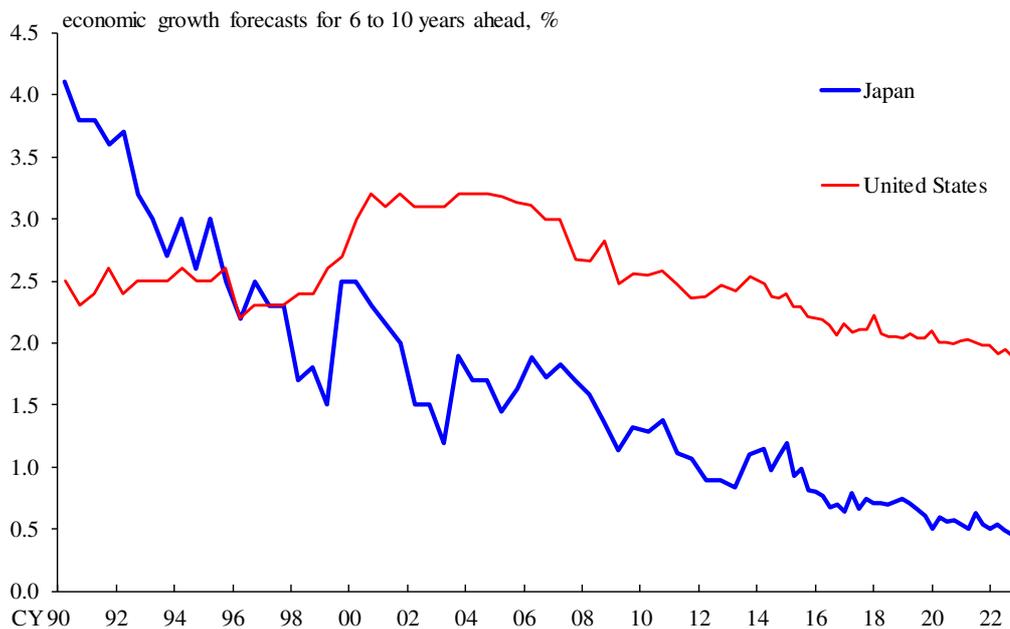


Note: The forecasts presented are the medians of the Policy Board members' forecasts. The values of real GDP for fiscal 2022 onward are calculated by multiplying the actual figure for fiscal 2021 by all successive projected growth rates for each year.
 Sources: Cabinet Office; Bank of Japan.

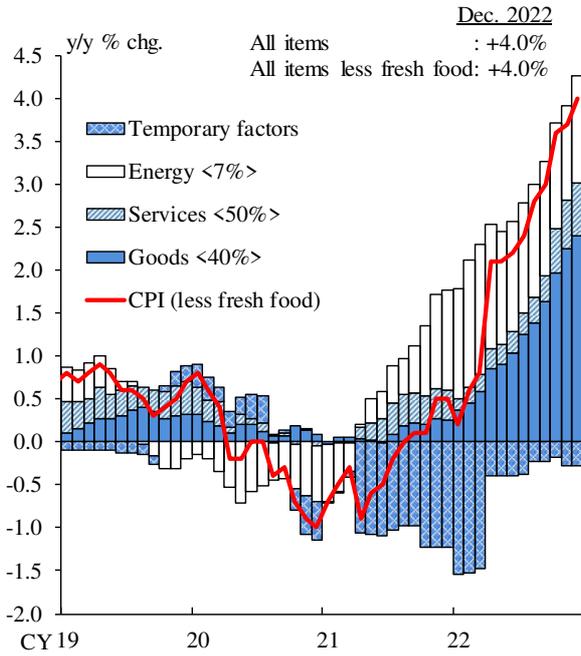
Virtuous Cycle of Income and Spending



Medium- to Long-Term Expected Growth Rates



The BOJ's Forecasts for the CPI (January 2023 Outlook Report)

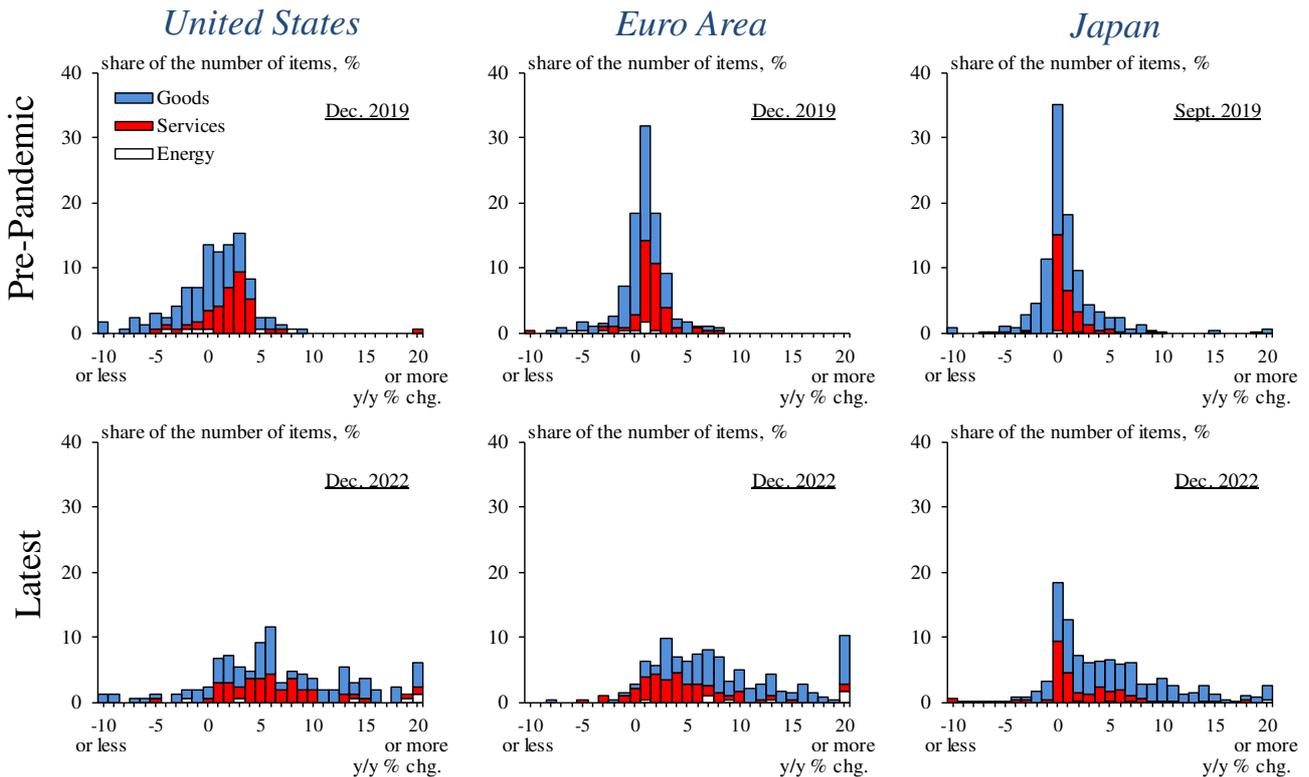


	y/y % chg.	
	All items less fresh food	All items less fresh food and energy
FY 2022	+3.0	+2.1
FY 2023	+1.6	+1.8
FY 2024	+1.8	+1.6

Notes: 1. In the left-hand chart, figures for temporary factors are staff estimates and consist of mobile phone charges and the effects of the consumption tax hike, policies concerning the provision of free education, and travel subsidy programs. Figures in angular brackets show the share of each component.
2. In the right-hand chart, figures are the medians of the Policy Board members' forecasts.

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

Price Change Distributions

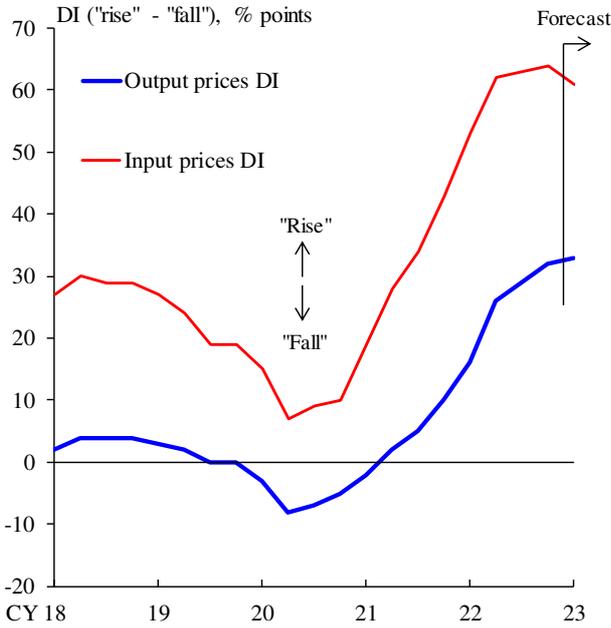


Note: Figures for the United States and the euro area are for the CPI for all items, while those for Japan are for the CPI for all items less fresh food. The pre-pandemic distribution for Japan is based on data for September 2019, which was before the CPI developments were affected by the consumption tax hike.

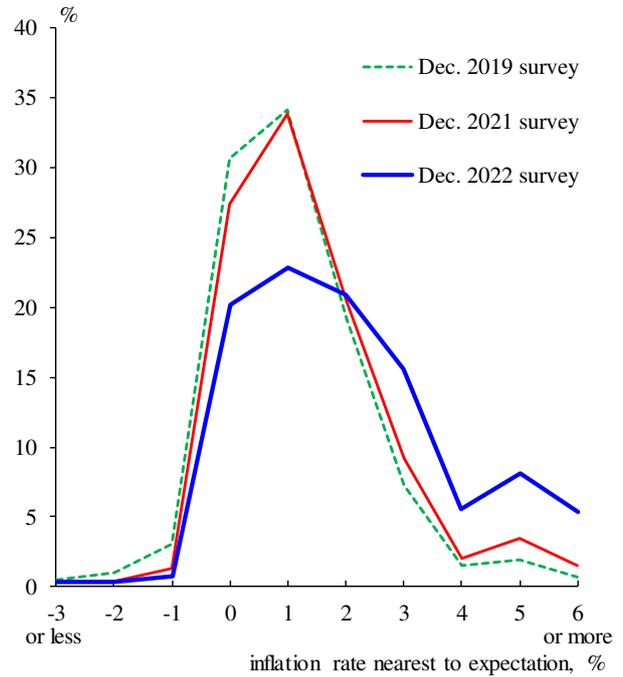
Sources: BLS; Eurostat; Ministry of Internal Affairs and Communications.

Firms' Price-Setting Stance

DIs for Firms' Output and Input Prices



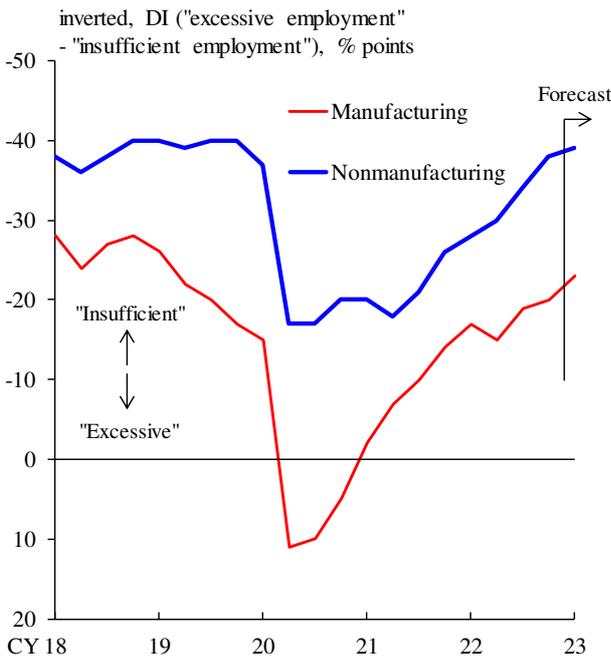
Distributions of Firms' Medium- to Long-Term Inflation Expectations



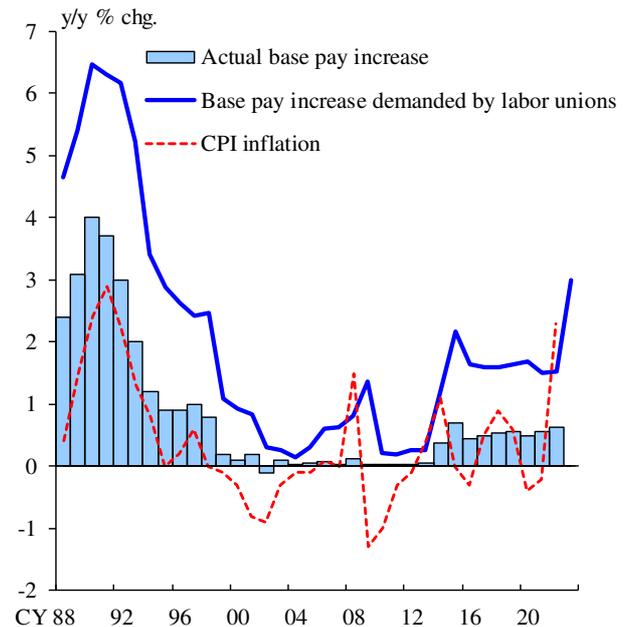
Notes: 1. Figures are for all industries and enterprises in the *Tankan*.
 2. The right-hand chart shows the distributions of firms' forecasts for general prices (5 years ahead) based on the share of respondents.
 Source: Bank of Japan.

Developments in Wages

DIs for Firms' Employment Conditions

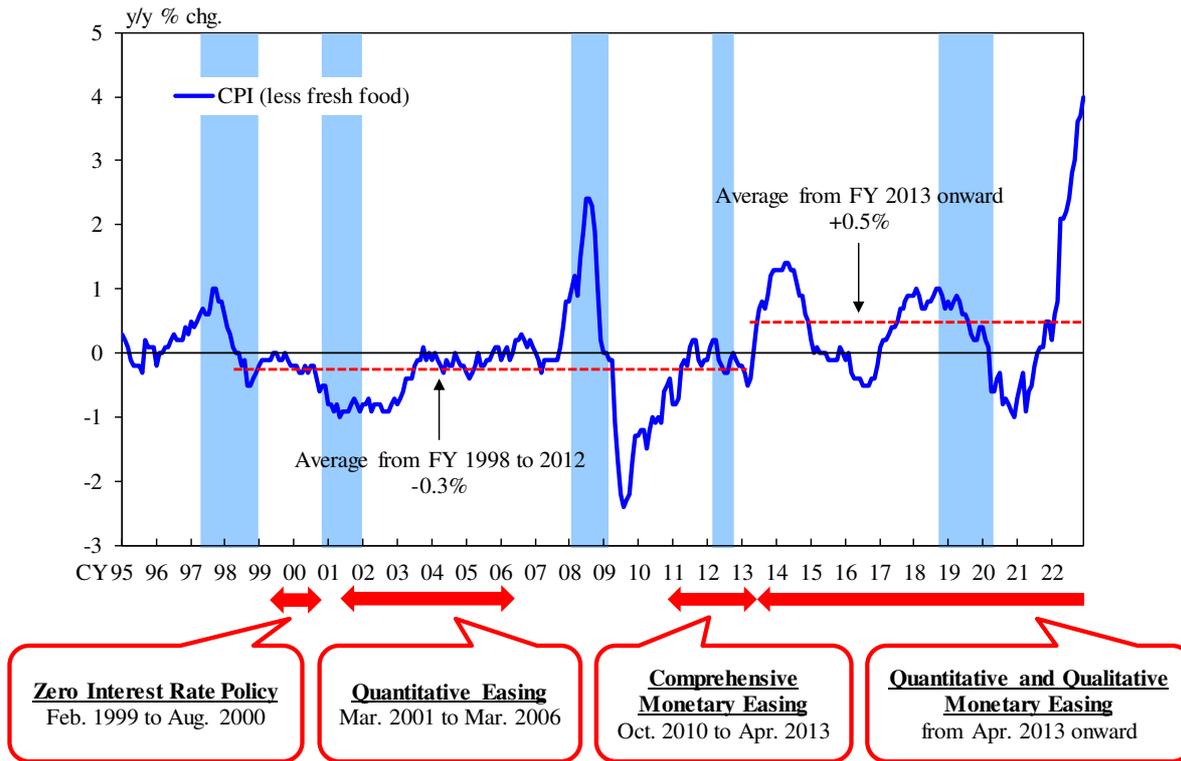


Labor-Management Wage Negotiations



Notes: 1. In the left-hand chart, figures are for all enterprises in the *Tankan*.
 2. In the right-hand chart, the figures for CPI inflation are for all items less fresh food, excluding the effects of the consumption tax hikes, etc.
 The figures for the base pay increase demanded by labor unions before 2023 are calculated by subtracting seniority- and performance-related wage increases, which are assumed to be equal to the actual figures, from the total increase in wages (the sum of seniority- and performance-related wage increases and the increase in base pay) demanded by unions.
 The figure for 2023 is from Rengo's policy for the spring 2023 labor-management wage negotiations.
 Sources: Bank of Japan; Japanese Trade Union Confederation (Rengo); Central Labour Relations Commission; Institute of Labour Administration; Ministry of Internal Affairs and Communications.

Evolution of BOJ's Monetary Policy



Note: Figures exclude the effects of the consumption tax hikes, etc. Shaded areas denote recession periods.
Source: Ministry of Internal Affairs and Communications.

Monetary Easing from 2013 Onward

Date		MPM Decision
2013	Jan.	<ul style="list-style-type: none"> ✓ Introduction of the price stability target of 2 percent ✓ Release of the joint statement with the government
	Apr.	<ul style="list-style-type: none"> ✓ Introduction of quantitative and qualitative monetary easing (QQE)
2014	Oct.	<ul style="list-style-type: none"> ✓ Expansion of QQE
2015	Dec.	<ul style="list-style-type: none"> ✓ Introduction of supplementary measures for QQE (expanding eligible collateral, etc.)
2016	Jan.	<ul style="list-style-type: none"> ✓ Introduction of QQE with a Negative Interest Rate
	July	<ul style="list-style-type: none"> ✓ Enhancement of monetary easing (increasing purchases of ETFs, etc.)
	Sept.	<ul style="list-style-type: none"> ✓ Introduction of QQE with Yield Curve Control ([1] yield curve control, [2] inflation-overshooting commitment)
2018	July	<ul style="list-style-type: none"> ✓ Strengthening the framework for continuous powerful monetary easing (introducing forward guidance for the policy rates, etc.)
2020	Mar.	<ul style="list-style-type: none"> ✓ Enhancement of monetary easing in light of the impact of the outbreak of the novel coronavirus (COVID-19) ([1] further ample supply of funds, [2] measures to facilitate corporate financing, [3] active purchases of ETFs and J-REITs)
	Apr.	<ul style="list-style-type: none"> ✓ Enhancement of monetary easing ([1] increase in purchases of CP and corporate bonds, [2] strengthening of the Special Operations in Response to COVID-19, [3] further active purchases of JGBs and T-Bills)
	May	<ul style="list-style-type: none"> ✓ Introduction of a new fund-provisioning measure to support financing mainly of small and medium-sized firms
2021	Mar.	<ul style="list-style-type: none"> ✓ Conduct of the Assessment for Further Effective and Sustainable Monetary Easing (establishing the Interest Scheme to Promote Lending, etc.)
	June	<ul style="list-style-type: none"> ✓ Introduction of the Climate Response Financing Operations
2022	Sept.	<ul style="list-style-type: none"> ✓ Phasing out of the Special Operations in Response to COVID-19, etc.
	Dec.	<ul style="list-style-type: none"> ✓ Modification of the conduct of yield curve control

Economic and Price Developments under the QQE (1)

Comparison with the Deflationary Period

	FY 1998 to 2012	FY 2013 to 2019	average		
			Change	FY 2013 to present	Change
Real GDP (tril. yen)	500.8	543.3	+42.5	541.9	+41.1
Nominal GDP (tril. yen)	522.5	541.5	+19.1	543.5	+21.0
Number of employees (mil. persons)	54.30	57.92	+3.62	58.56	+4.26
CPI inflation (less fresh food, %)	-0.3	+0.5	+0.7	+0.5	+0.8
Nominal wages (y/y, %)	-0.8	+0.5	+1.3	+0.5	+1.3
Money stock (M2, y/y, %)	+2.4	+3.3	+0.9	+4.0	+1.6
Bank lending (y/y, %)	-1.8	+2.4	+4.2	+2.6	+4.4
Tax revenue (tril. yen)	45.9	55.8	+9.9	58.6	+12.8

Note: Figures for CPI inflation exclude the effects of the consumption tax hikes, etc. Those for nominal wages from fiscal 2016 onward are based on continuing observations following the sample revisions. Those for money stock prior to fiscal 2004 are from former series (M2+CDs). The figure for tax revenue for fiscal 2022 is on a budgeted basis. Changes indicate the difference from the period from fiscal 1998 to 2012. All of the latest figures are those available as of January 31, 2023.
Sources: Cabinet Office; Ministry of Internal Affairs and Communications; Ministry of Health, Labour and Welfare; Bank of Japan; Ministry of Finance.

Economic and Price Developments under the QQE (2)

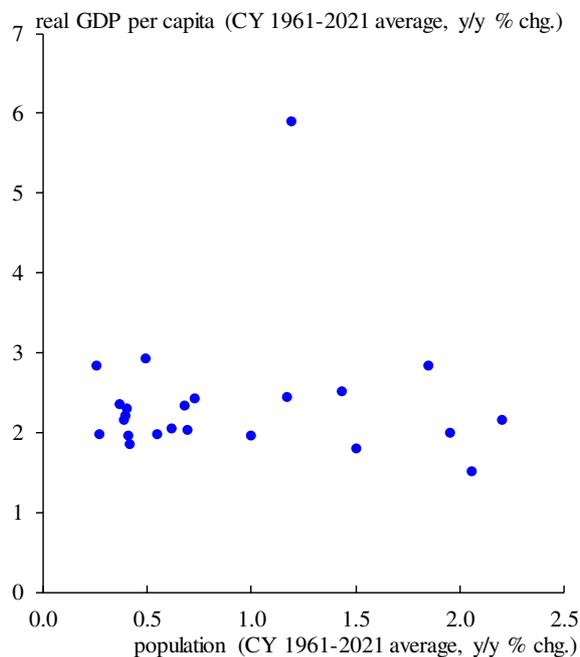
Decomposition of Economic Growth

$$\text{GDP} = \underbrace{\text{Total population}}_{(a)} \times \underbrace{\frac{\text{Employed persons}}{\text{Total population}}}_{(b)} \times \underbrace{\frac{\text{Total hours worked}}{\text{Employed persons}}}_{(c)} \times \underbrace{\frac{\text{GDP}}{\text{Total hours worked}}}_{(d)}$$

GDP per capita

	real, average, %					
	GDP	Total population	GDP per capita	Employed persons/ Total population	Hours worked per person	GDP per hour worked
	(a)	(b)	(c)	(d)	(e)	(f)
1990s	1.6	0.3	1.3	0.1	-1.2	2.4
2000s	0.5	0.1	0.4	-0.2	-0.5	1.0
2010s	1.2	-0.1	1.3	0.6	-0.4	1.2

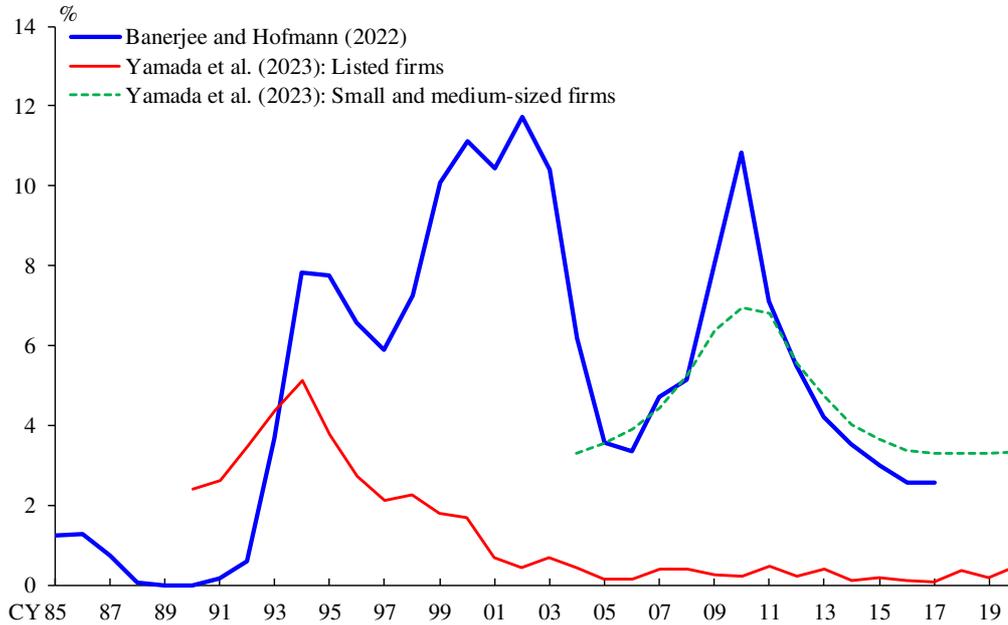
Population Growth and per Capita GDP Growth



Note: In the right-hand chart, figures are those for 23 OECD member countries for which data from 1961 onward are available.
Sources: Cabinet Office; Ministry of Internal Affairs and Communications; World Bank.

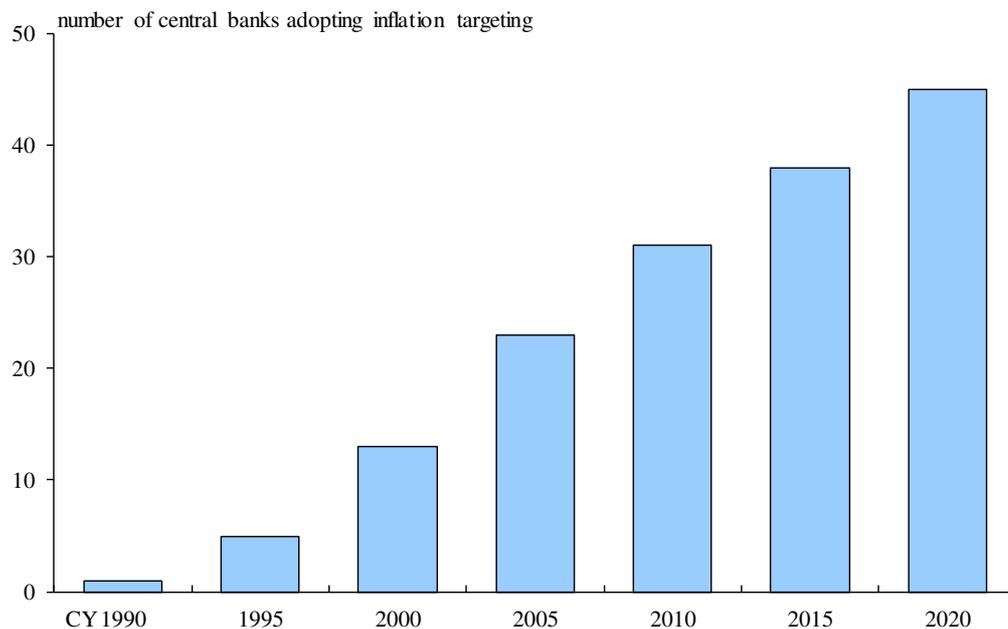
Discussions over Monetary Policy

Share of "Zombie Firms"



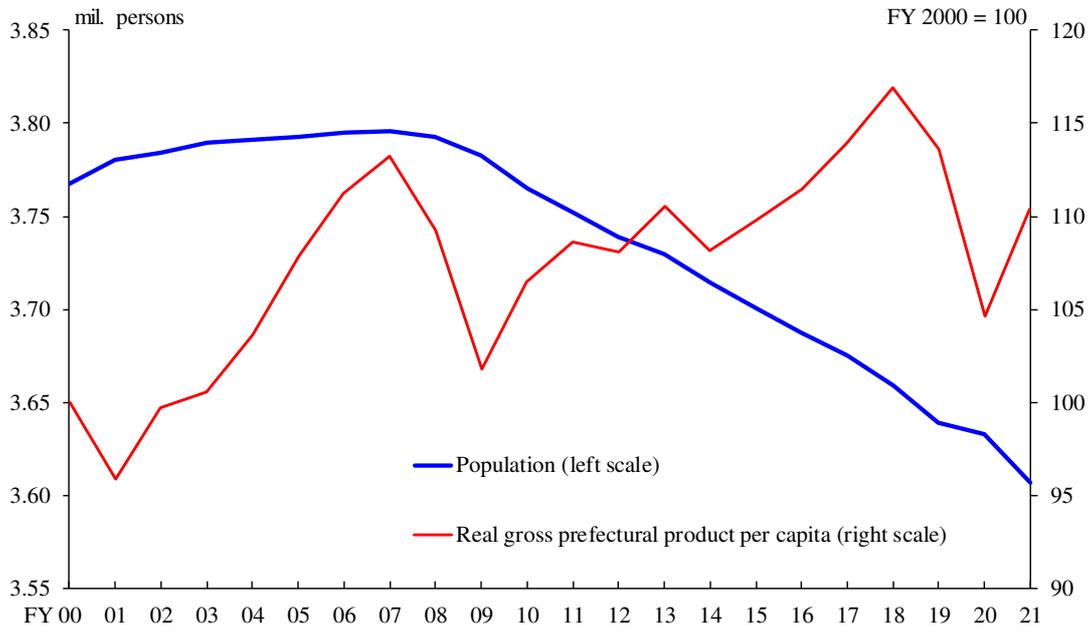
Note: Figures for Yamada et al. (2023) are calculated using data from NIKKEI NEEDS-Financial QUEST and the Credit Risk Database.
 Sources: Banerjee, R. N., and Hofmann, B., "Corporate Zombies: Anatomy and Life Cycle," *BIS Working Papers*, no. 882 (2022), <https://www.bis.org/publ/work882.htm>;
 Yamada, K. et al., "Corporate Finance Facility and Resource Allocation: Research Trends and Developments during the Spread of COVID-19," *Bank of Japan Working Paper Series*, no. 23-E-1 (January 2023), https://www.boj.or.jp/en/research/wps_rev/wps_2023/data/wp23e01.pdf.

Central Banks Adopting Inflation Targeting



Note: Figures are based on the classification of monetary policy framework in the IMF's *Annual Report on Exchange Arrangements and Exchange Restrictions*.
 Source: IMF.

Population and Gross Prefectural Product per Capita in Shizuoka Prefecture



Sources: Cabinet Office; Shizuoka Prefecture.