



# Economic Activity, Prices, and Monetary Policy in Japan

*Speech at a Meeting with Local Leaders in Kanagawa*

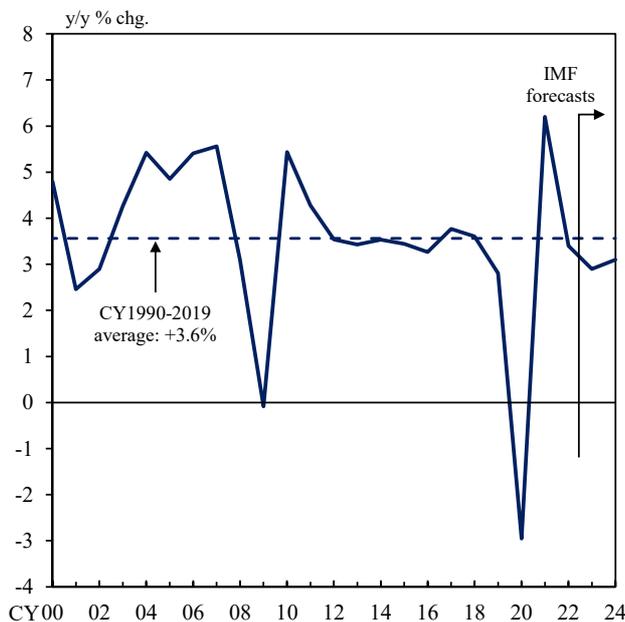
March 2, 2023

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Member of the Policy Board  
Bank of Japan

Chart 1

## Developments in Overseas Economies (IMF's January 2023 WEO Update)

*Global Growth Rate*

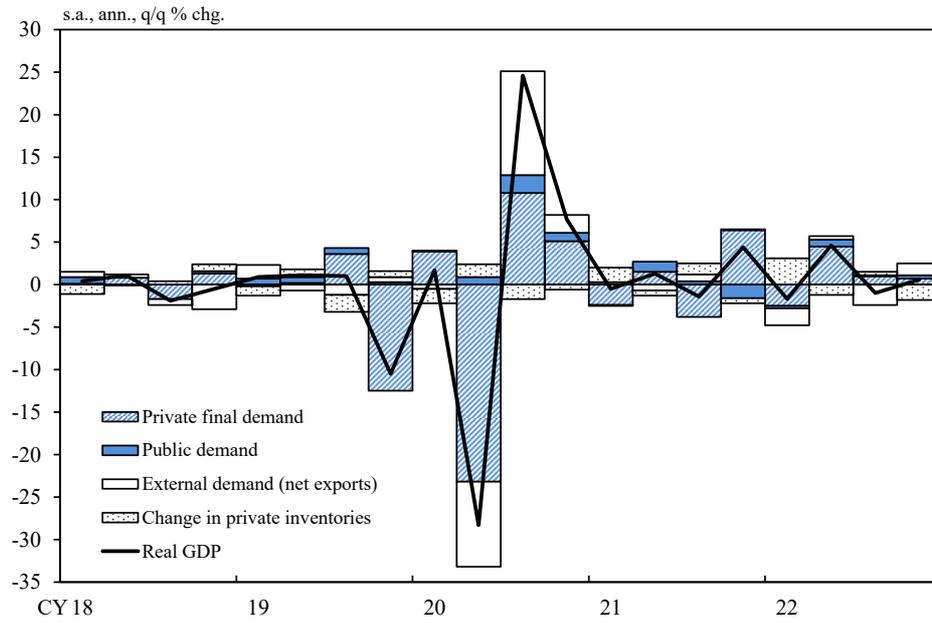


*Major Economies' Growth Rates*

	y/y % chg., % points			
	CY 2021	CY 2022	CY 2023 [Forecast]	CY 2024 [Forecast]
World	6.2	3.4	2.9 (0.2)	3.1 (-0.1)
Advanced economies	5.4	2.7	1.2 (0.1)	1.4 (-0.2)
United States	5.9	2.0	1.4 (0.4)	1.0 (-0.2)
Euro area	5.3	3.5	0.7 (0.2)	1.6 (-0.2)
United Kingdom	7.6	4.1	-0.6 (-0.9)	0.9 (0.3)
Japan	2.1	1.4	1.8 (0.2)	0.9 (-0.4)
Emerging market and developing economies	6.7	3.9	4.0 (0.3)	4.2 (-0.1)
China	8.4	3.0	5.2 (0.8)	4.5 (0.0)
India	8.7	6.8	6.1 (0.0)	6.8 (0.0)
ASEAN-5	3.8	5.2	4.3 (-0.2)	4.7 (-0.2)

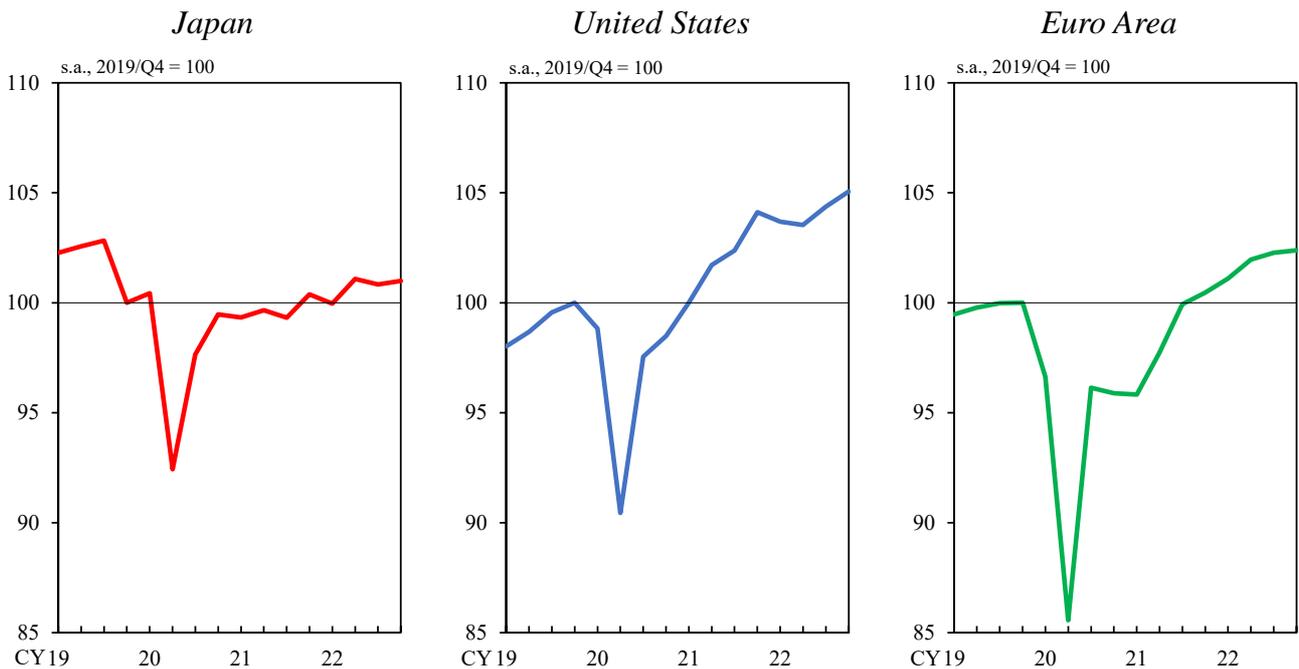
Note: In the table, figures in brackets are the differences from the forecasts in the October 2022 *World Economic Outlook* (WEO). ASEAN-5 comprises Indonesia, Malaysia, the Philippines, Singapore, and Thailand.  
Source: IMF.

# Real GDP Growth Rate



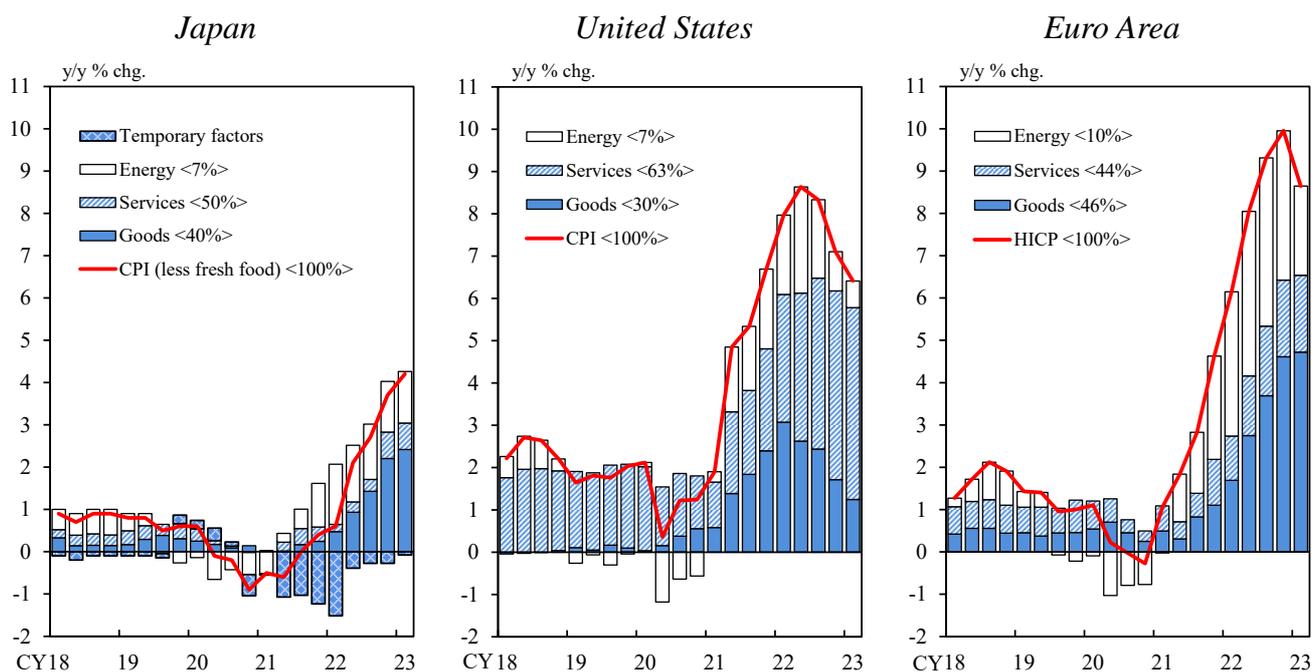
Note: Private final demand = Private demand - Change in private inventories  
 Source: Cabinet Office.

# Real GDP



Sources: Cabinet Office; Eurostat; U.S. Bureau of Economic Analysis.

## Consumer Prices



Notes: 1. Figures for temporary factors for Japan are Bank staff estimates and consist of the effects of the reduction in mobile phone charges, the consumption tax hike, free education policies, and travel subsidy programs.  
 2. Figures in angular brackets show the share of each component. Figures for 2023/Q1 are those for January.  
 Sources: Eurostat; Ministry of Internal Affairs and Communications; U.S. Bureau of Labor Statistics.

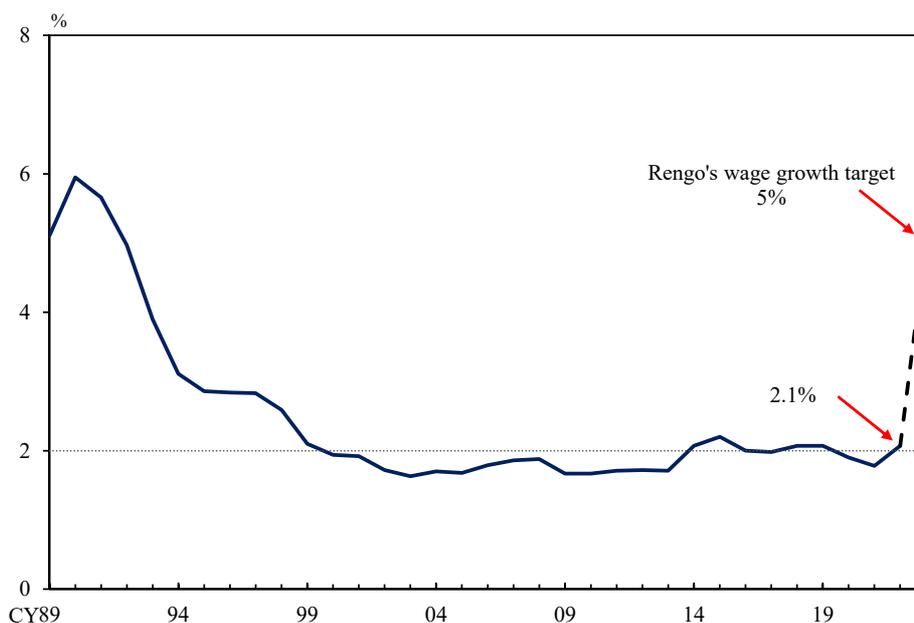
## Forecasts of the Majority of the Policy Board Members (January 2023 Outlook Report)

	Real GDP	CPI (all items less fresh food)	(Reference) CPI (all items less fresh food and energy)
Fiscal 2022	+1.9 to +2.0 [+1.9]	+3.0 to +3.0 [+3.0]	+2.1 to +2.1 [+2.1]
Forecasts made in October 2022	+1.8 to +2.1 [+2.0]	+2.8 to +2.9 [+2.9]	+1.8 to +1.9 [+1.8]
Fiscal 2023	+1.5 to +1.9 [+1.7]	+1.6 to +1.8 [+1.6]	+1.7 to +1.9 [+1.8]
Forecasts made in October 2022	+1.5 to +2.0 [+1.9]	+1.5 to +1.8 [+1.6]	+1.5 to +1.8 [+1.6]
Fiscal 2024	+0.9 to +1.3 [+1.1]	+1.8 to +1.9 [+1.8]	+1.5 to +1.8 [+1.6]
Forecasts made in October 2022	+1.3 to +1.6 [+1.5]	+1.5 to +1.9 [+1.6]	+1.5 to +1.8 [+1.6]

Notes: 1. Figures in brackets indicate the medians of the Policy Board members' forecasts (point estimates).  
 2. The forecasts of the majority of the Policy Board members are constructed as follows: each Policy Board member's forecast takes the form of a point estimate -- namely, the figure to which they attach the highest probability of realization. These forecasts are then shown as a range, with the highest figure and the lowest figure excluded. The range does not indicate the forecast errors.  
 3. Each Policy Board member makes their forecasts taking into account the effects of past policy decisions and with reference to views incorporated in financial markets regarding the future conduct of policy.

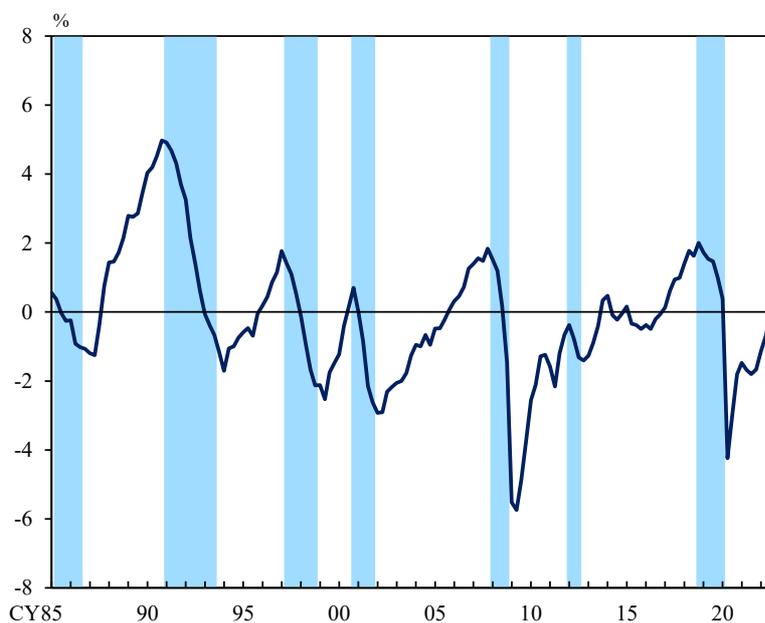
Source: Bank of Japan.

## Wage Growth Rate

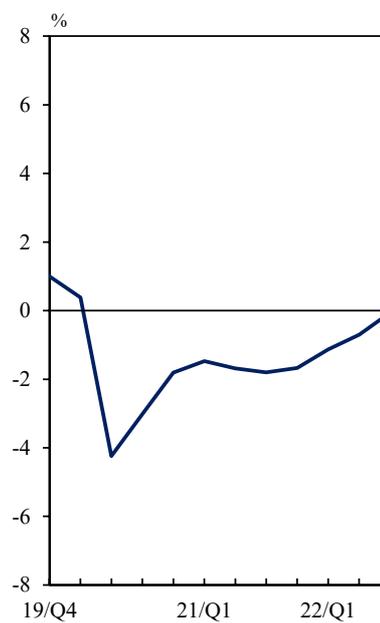


Note: The figure for 2023 is from Rengo's policy for the spring 2023 labor-management wage negotiations. All figures include seniority- and performance-related wage increases.  
 Source: Japanese Trade Union Confederation (Rengo).

## Output Gap

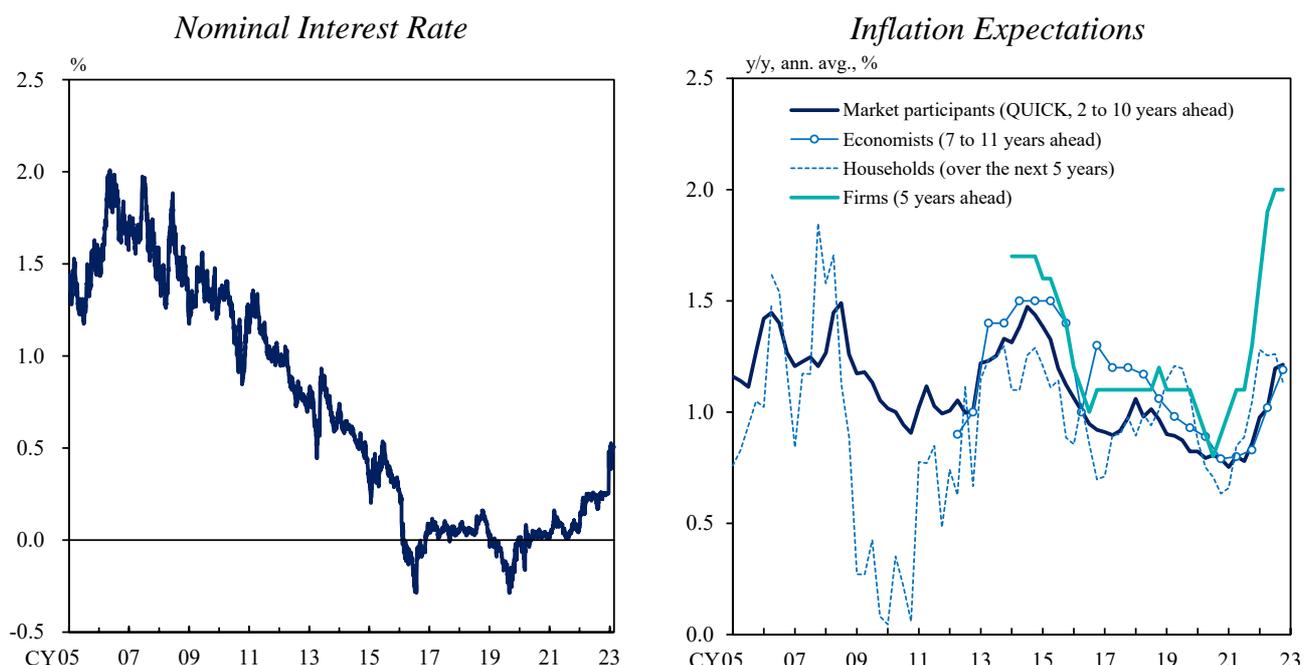


### *Developments since the Outbreak of COVID-19*



Notes: 1. Figures are Bank staff estimates.  
 2. Shaded areas denote recession periods.  
 Source: Bank of Japan.

# Real Interest Rate



Note: In the right panel, figures for economists are the forecasts of forecasters surveyed for the *ESP Forecast*. Figures for households are from the *Opinion Survey on the General Public's Views and Behavior*, estimated using the modified Carlson-Parkin method for a 5-choice question. Figures for firms show the inflation outlook of enterprises for general prices (all industries and enterprises, average) in the *Tankan*.

Sources: Bloomberg; JCER, "ESP Forecast"; QUICK, "QUICK Monthly Market Survey <Bonds>"; Bank of Japan.

## Modification of the Conduct of Yield Curve Control (YCC)

**Impact of Increased Volatility in Overseas Markets**

- Deterioration in Japan's bond market functioning**  
Relative relationships among interest rates of bonds with different maturities
- Arbitrage relationships between spot and futures markets
- Possibility of a negative impact on financial conditions**  
Yields on Japanese government bonds (JGBs) are reference rates for corporate bond yields, bank lending rates, and other funding rates.

*JGB Yield Curve (Before the December 2022 MPM)*

Source: Bloomberg.

**Measures Decided by the Bank of Japan**

**Conduct of YCC**

**Encourage a smoother formation of the entire yield curve**

- Significant increase in the amount of JGB purchases:** from 7.3 trillion yen per month to about 9 trillion yen per month
- Expansion of the range of 10-year JGB yield fluctuations from the target level:** from between around  $\pm 0.25\%$  pts to between around  $\pm 0.5\%$  pts
- Nimble responses for each maturity:**
  - Offer to purchase 10-year JGBs at 0.5% every business day through fixed-rate purchase operations
  - Make nimble responses for each maturity by increasing the amount of JGB purchases even more and conducting fixed-rate purchase operations

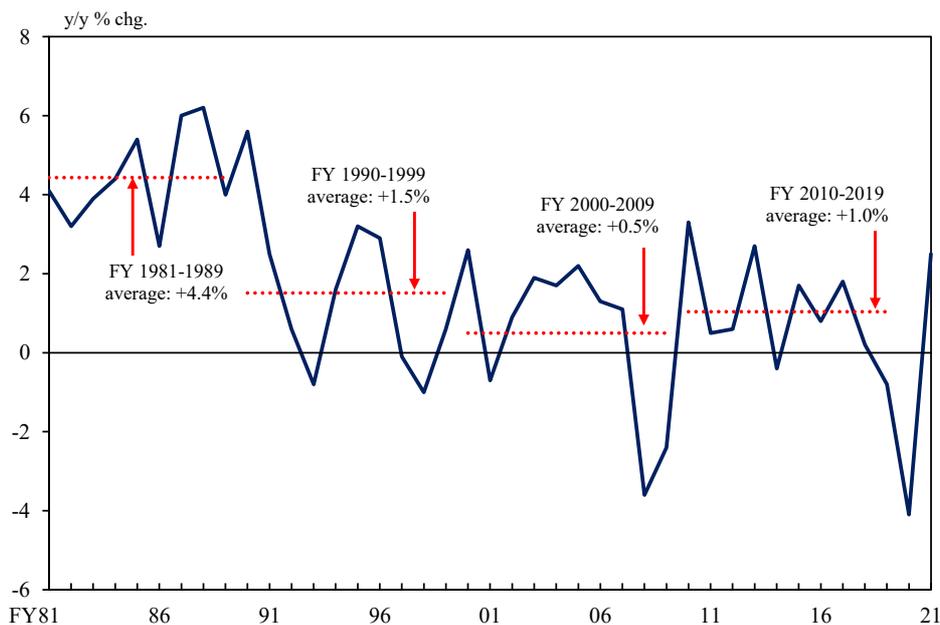
**In adjusting the amount outstanding of corporate bonds, the Bank will give due consideration to their issuance conditions.**

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**Facilitate the transmission of monetary easing effects** generated under the framework of YCC, such as through corporate financing

The Bank will aim to achieve the price stability target by **enhancing the sustainability of monetary easing.**

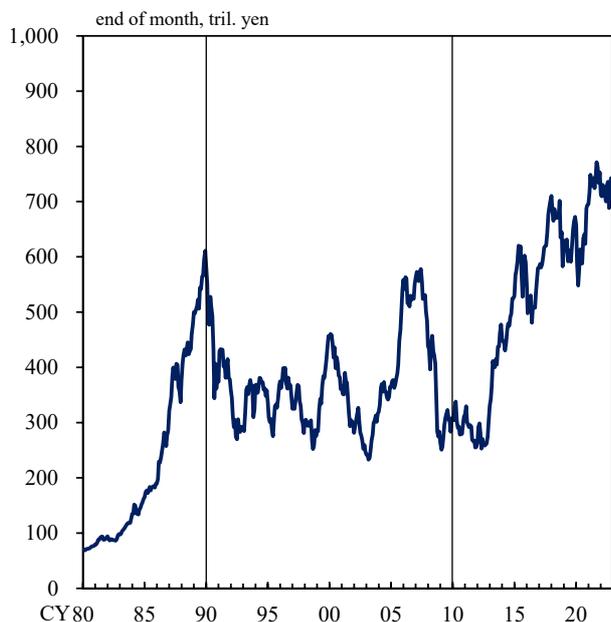
## Long-Term Developments in Real GDP Growth Rate



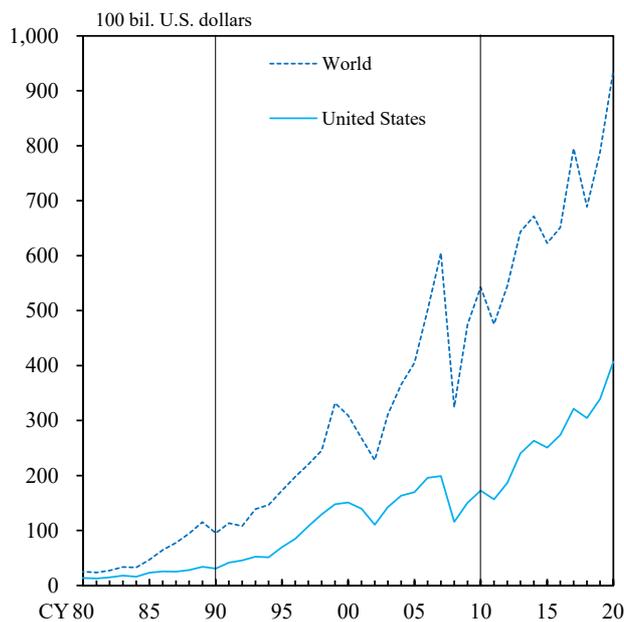
Note: Figures from fiscal 1981 to 1994 are based on simplified retroactive adjustments.  
Source: Cabinet Office.

## Stock Market Capitalization

*Japan (Tokyo Stock Exchange)*

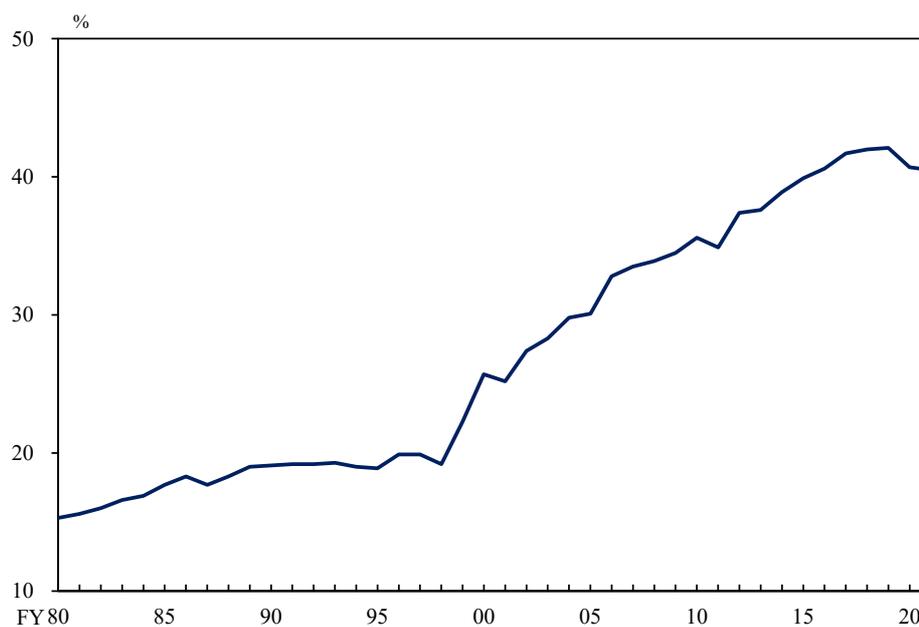


*Global*



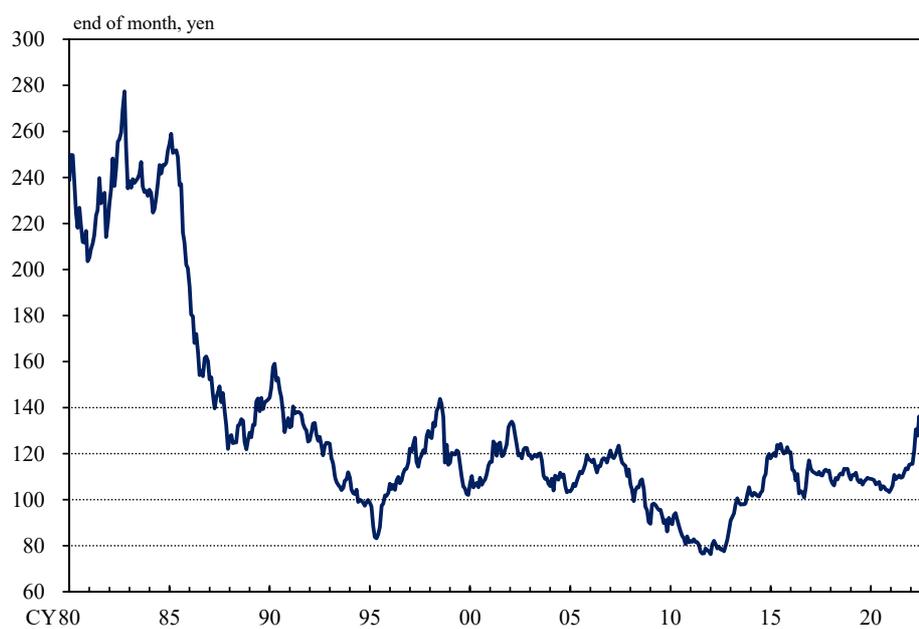
Note: In the right panel, figures are the market capitalization of listed domestic companies (current US\$) from the World Development Indicators.  
Sources: Japan Exchange Group; World Bank.

## Capital Adequacy Ratio of Firms



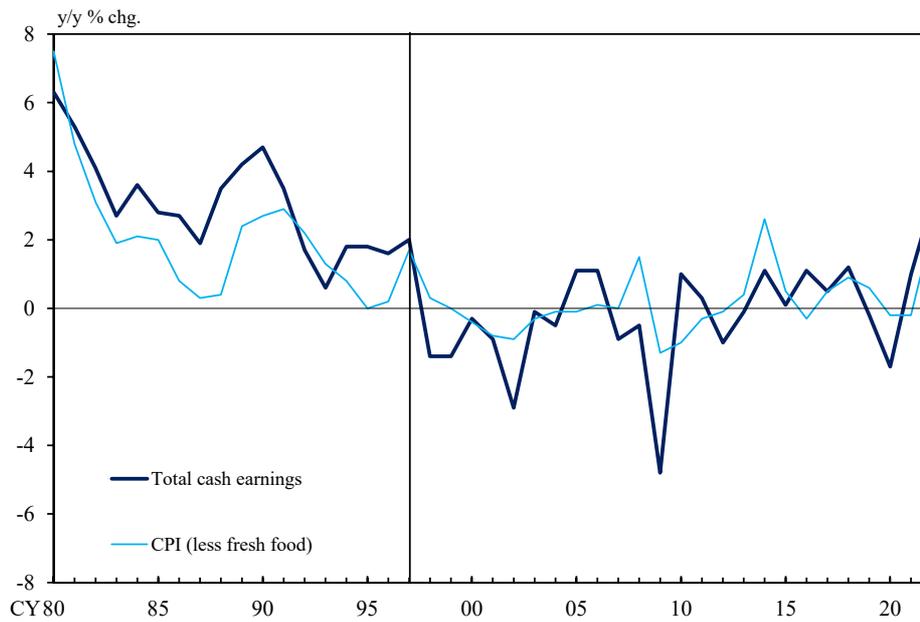
Note: Based on the *Financial Statements Statistics of Corporations by Industry, Annually*. Excluding "finance and insurance."  
 Source: Ministry of Finance.

## U.S. Dollar/Yen



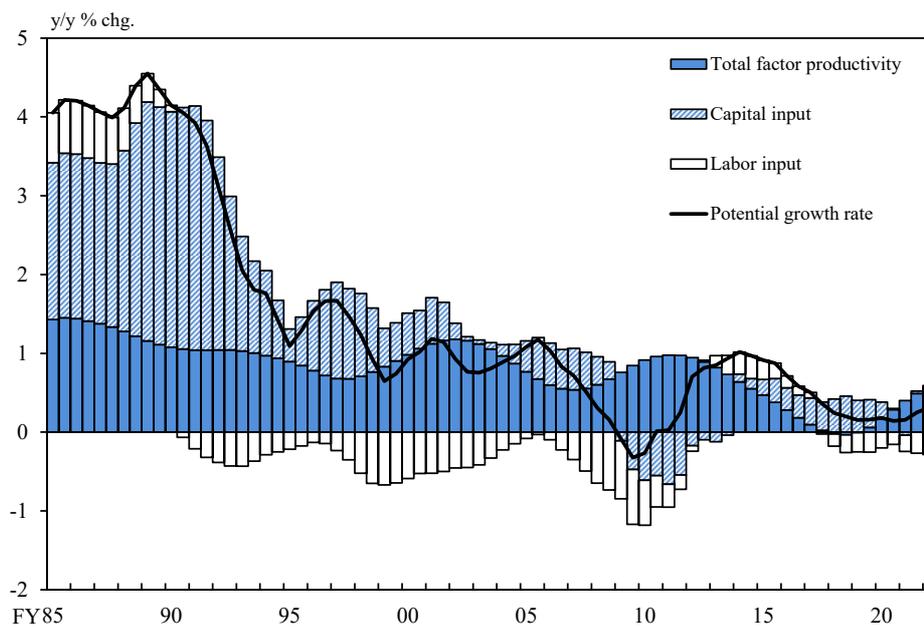
Source: Bank of Japan.

## Prices and Wages



Note: Figures for the CPI (less fresh food) include the effects of the consumption tax hikes.  
Sources: Ministry of Health, Labour and Welfare; Ministry of Internal Affairs and Communications.

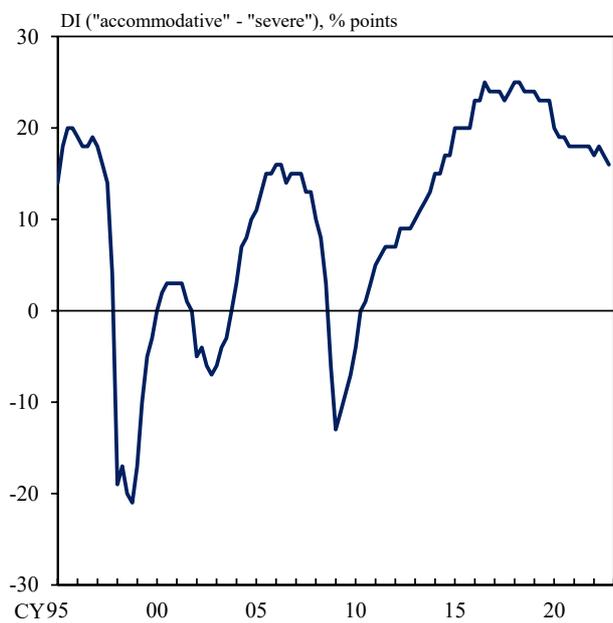
## Potential Growth Rate



Note: Figures are Bank staff estimates.  
Source: Bank of Japan.

# Financial Conditions

*Lending Attitude of Financial Institutions  
as Perceived by Firms*



*Firms' Financial Positions*



Note: Based on the *Tankan*. All industries and enterprises.  
Source: Bank of Japan.