

# Japan's Economy and Monetary Policy

*Speech at a Meeting with Local Leaders in Chiba*

August 2, 2023

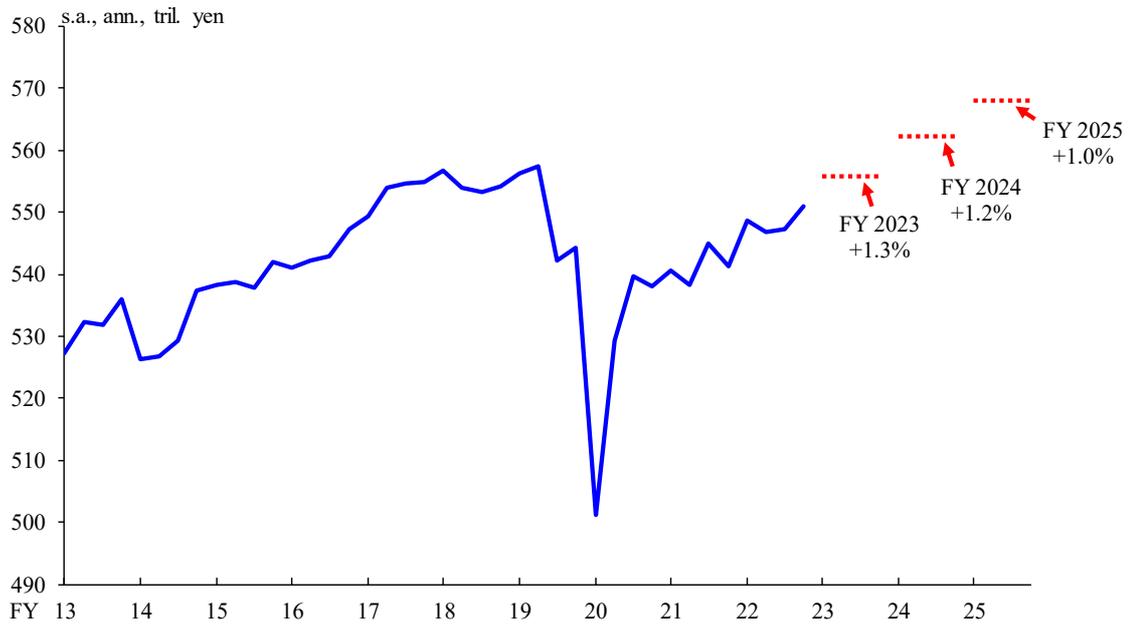
UCHIDA Shinichi

*Deputy Governor of the Bank of Japan*

## Introduction

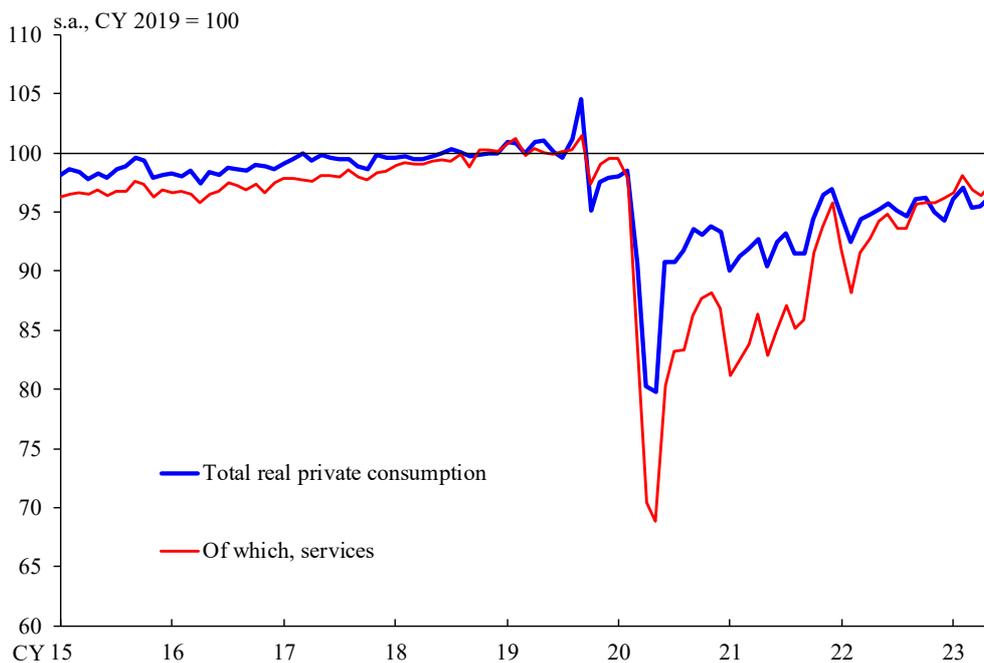
- I. Current Situation of and Outlook for Economic Activity
- II. Current Situation of and Outlook for Prices
- III. The Bank's Conduct of Monetary Policy
- IV. Recent and Future Economic Activity in Chiba Prefecture

## The BOJ's Forecasts for Real GDP (July 2023 Outlook Report)



Note: The forecasts presented are the medians of the Policy Board members' forecasts. The values of real GDP for fiscal 2023 onward are calculated by multiplying the actual figure for fiscal 2022 by all successive projected growth rates for each year.  
Sources: Cabinet Office; Bank of Japan.

## Private Consumption

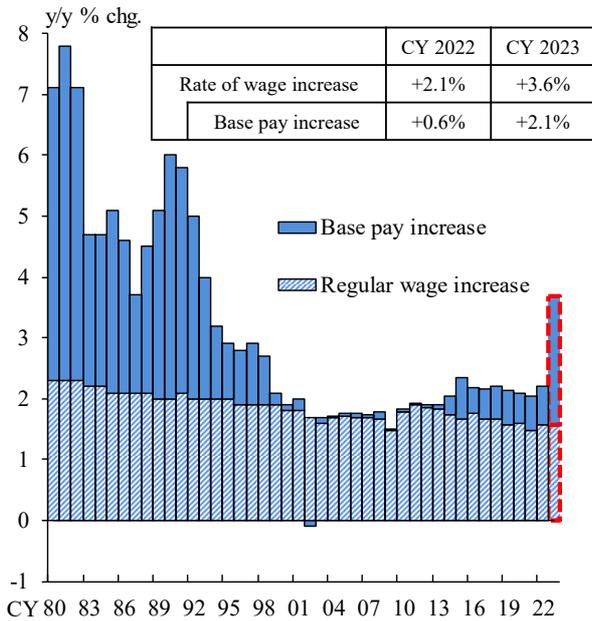


Note: Figures for total real private consumption are the real Consumption Activity Index (travel balance adjusted) based on staff calculations, which exclude inbound tourism consumption and include outbound tourism consumption.  
Source: Bank of Japan.

# Results of Spring Wage Negotiations

Developments over Time

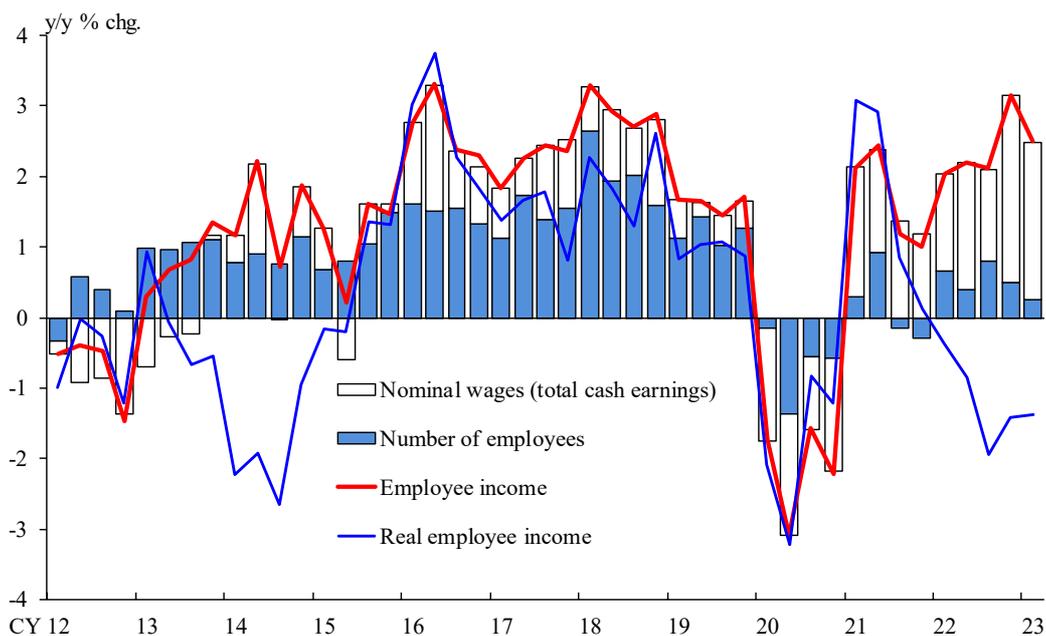
Results by Type of Employment and Firm Size



	total wage increase	
	CY 2022	CY 2023
Regular employees	2.1%	3.6%
1,000 or more	2.1%	3.7%
300 to 999	2.0%	3.4%
100 to 299	2.0%	3.3%
99 or less	1.9%	2.9%
Part-time employees	2.3%	5.0%

Notes: 1. In the left-hand chart, figures from 1980 to 2014 are those published by the Central Labour Relations Commission, while those from 2015 to 2023 are figures released by Rengo.  
 2. In the right-hand chart, figures for the breakdown by the number of regular employees are aggregated values based on the number of union members. Part-time employees include fixed-term employees.  
 Sources: Japanese Trade Union Confederation (Rengo); Central Labour Relations Commission.

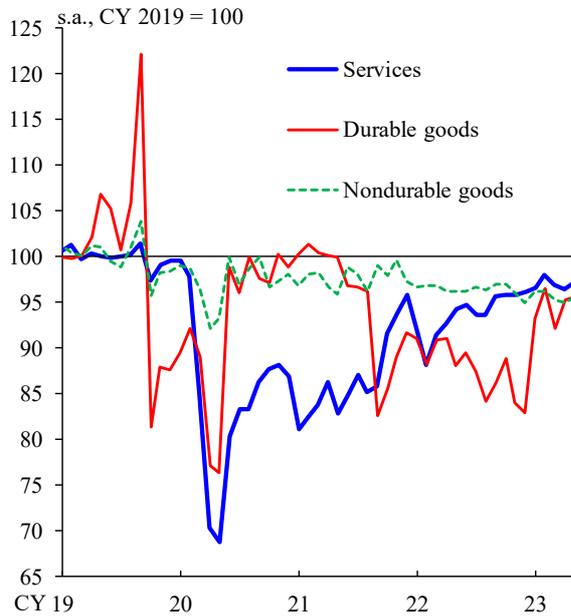
# Employee Income



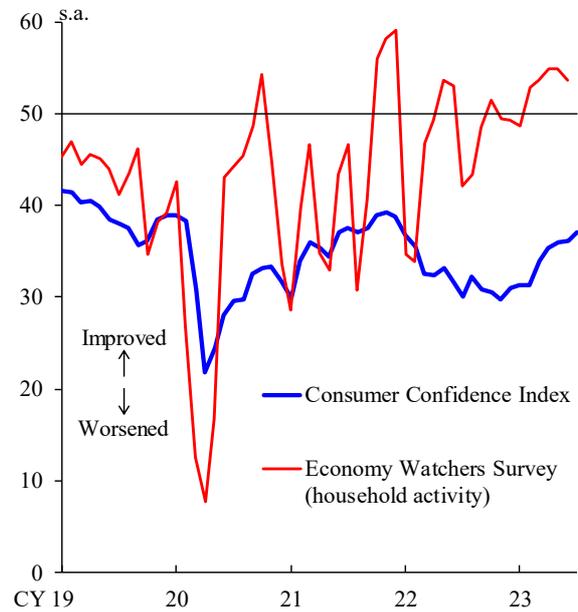
Notes: 1. Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February.  
 2. Employee income = Total cash earnings (Monthly Labour Survey) × Number of employees (Labour Force Survey)  
 3. Figures from 2016/Q1 onward are based on continuing observations following the sample revisions of the Monthly Labour Survey.  
 4. Figures for real employee income are based on staff calculations using the CPI (less imputed rent).  
 Sources: Ministry of Health, Labour and Welfare; Ministry of Internal Affairs and Communications.

# Private Consumption and Consumer Confidence

*Private Consumption by Type*



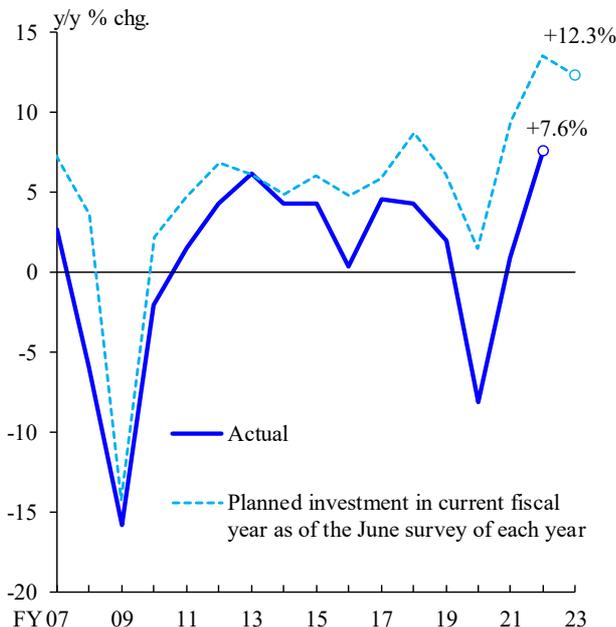
*Confidence Indicators Related to Private Consumption*



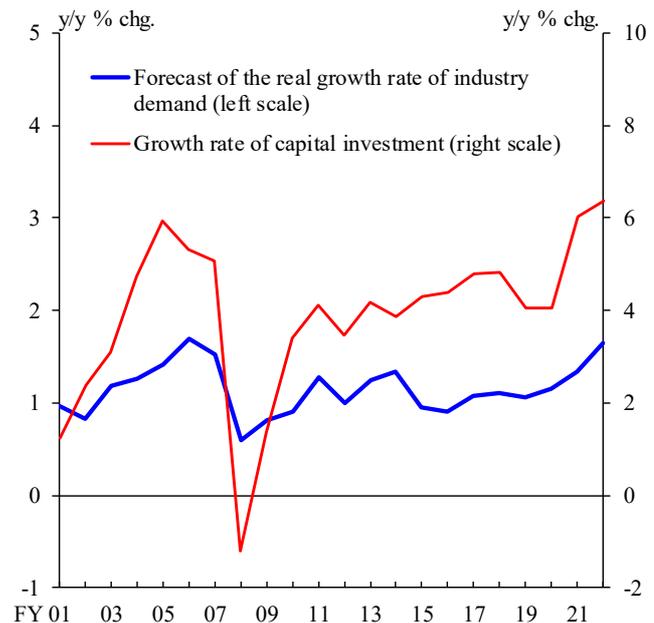
Notes: 1. In the left-hand chart, figures are based on the real Consumption Activity Index.  
 2. In the right-hand chart, figures for the *Economy Watchers Survey* are those for the current economic conditions DI.  
 Sources: Bank of Japan; Cabinet Office.

# Business Fixed Investment Plans

*Tankan*



*Annual Survey of Corporate Behavior*

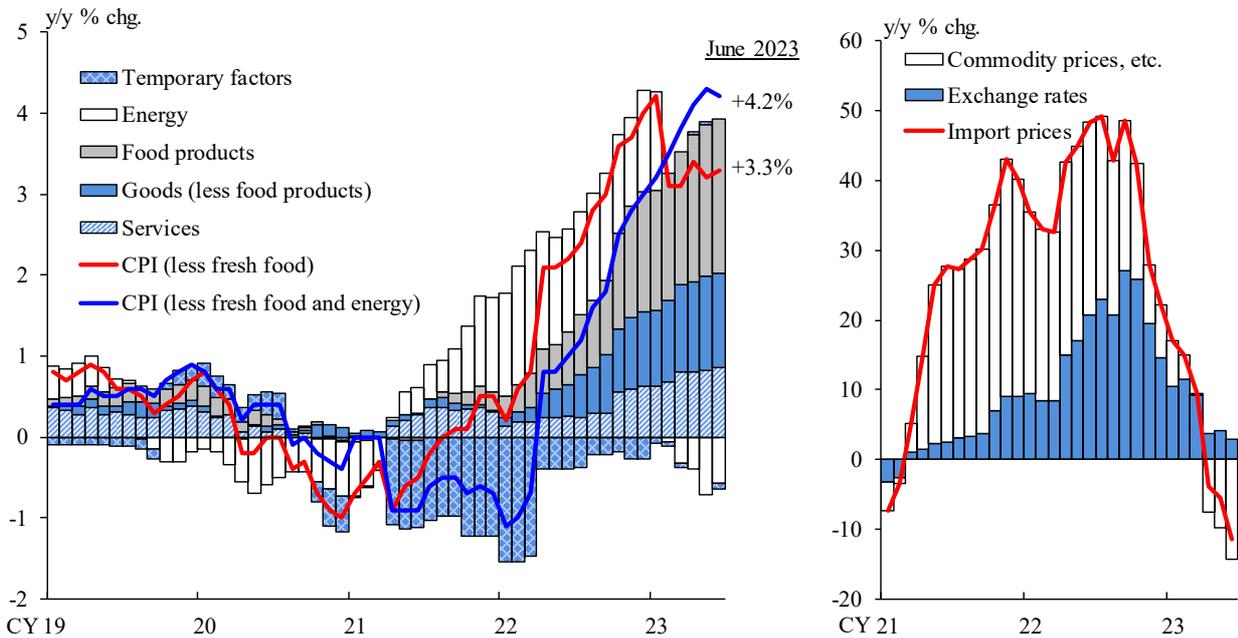


Notes: 1. In the left-hand chart, figures include software and R&D investments and exclude land purchasing expenses. R&D investment is not included before the March 2017 survey. Figures are for all industries including financial institutions.  
 2. In the right-hand chart, figures show the average of firms' forecasts of the real growth rate of industry demand over the next five years and of the growth rate of firms' planned fixed investment over the next three years.  
 Sources: Bank of Japan; Cabinet Office.

## Consumer Prices and Import Prices

Consumer Prices

Import Prices



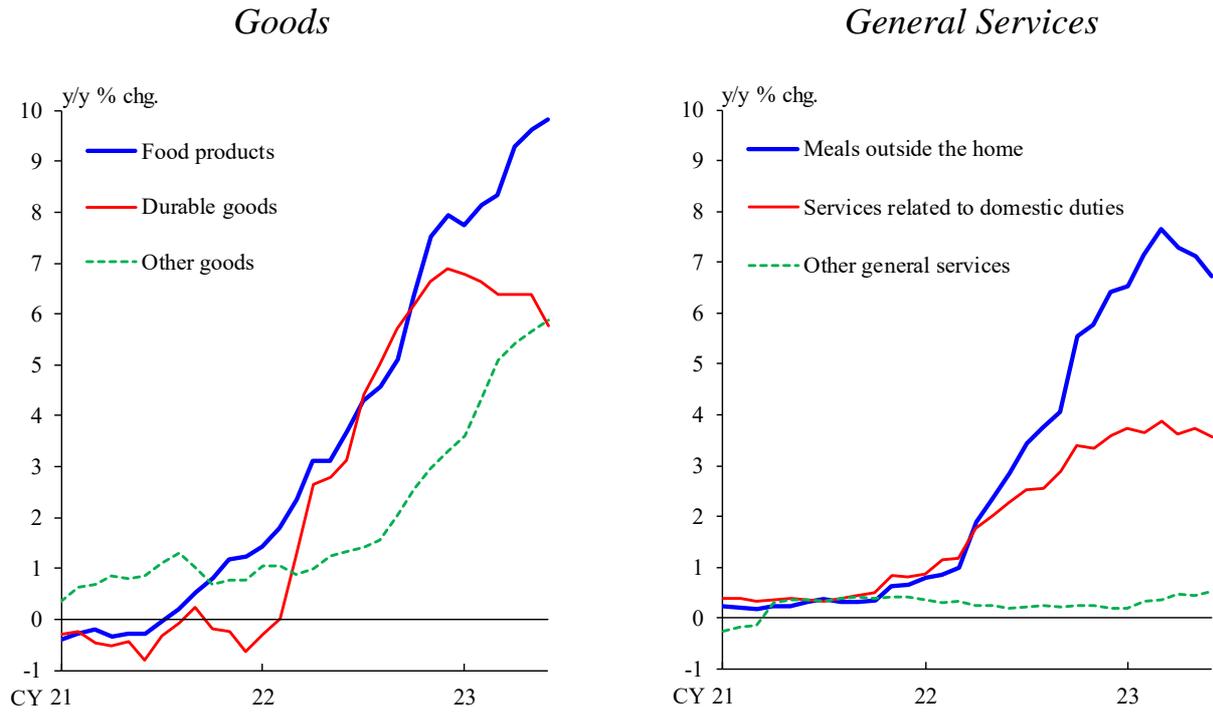
Notes: 1. In the left-hand chart, figures for temporary factors are staff estimates and consist of mobile phone charges and the effects of the consumption tax hike, policies concerning the provision of free education, and travel subsidy programs.  
 2. In the right-hand chart, the contribution of changes in commodity prices, etc. is calculated using changes in the import price index on a contract currency basis. The contribution of changes in exchange rates is calculated using the difference between the index on a yen basis and that on a contract currency basis.  
 Sources: Ministry of Internal Affairs and Communications; Bank of Japan.

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

		y/y chg.	
		All items less fresh food	(Reference) All items less fresh food and energy
Fiscal 2023		+2.5%	+3.2%
	Forecasts made in Apr. 2023	+1.8%	+2.5%
Fiscal 2024		+1.9%	+1.7%
	Forecasts made in Apr. 2023	+2.0%	+1.7%
Fiscal 2025		+1.6%	+1.8%
	Forecasts made in Apr. 2023	+1.6%	+1.8%

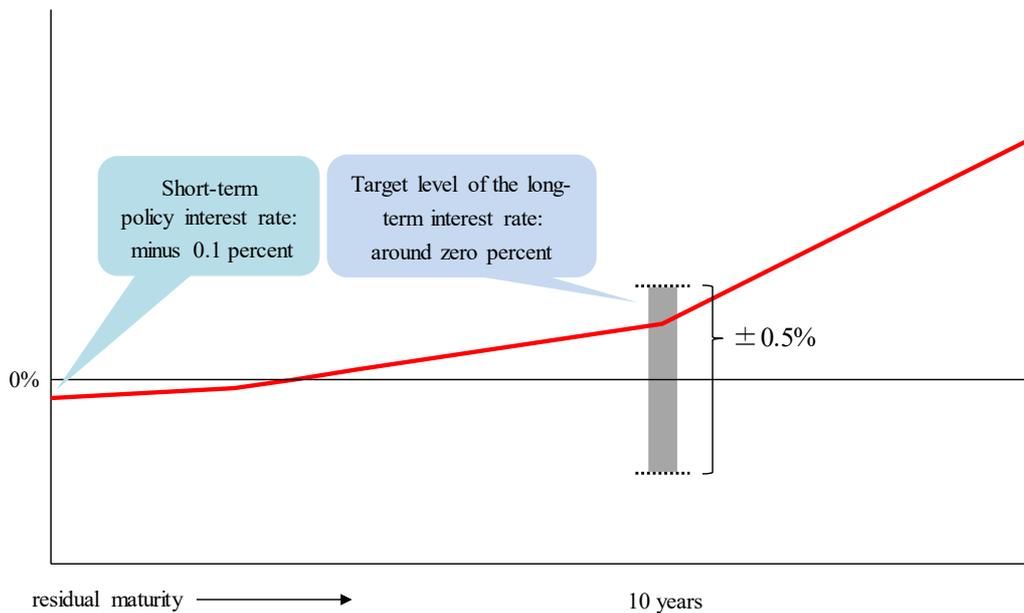
Note: Figures indicate the medians of the Policy Board members' forecasts (point estimates).  
 Source: Bank of Japan.

## Prices of Goods and Services



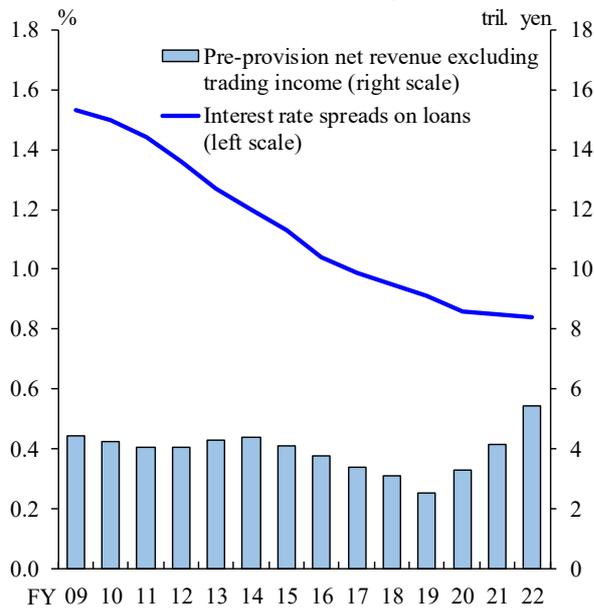
Note: In the left-hand chart, figures exclude fresh food and energy. In the right-hand chart, figures exclude hotel charges and mobile phone charges. Figures for services related to domestic duties include services related to housing repairs and maintenance.  
Source: Ministry of Internal Affairs and Communications.

## Framework of Yield Curve Control

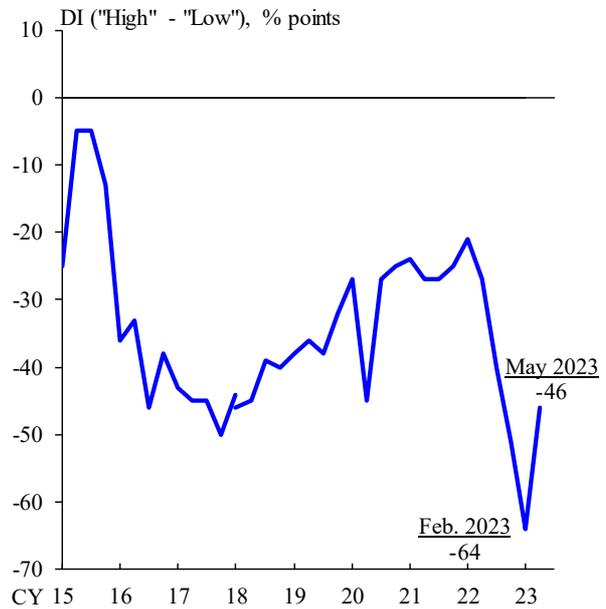


## Interest Rate Spreads on Loans and the Degree of Bond Market Functioning

*Interest Rate Spreads on Loans and Banks' Profits*



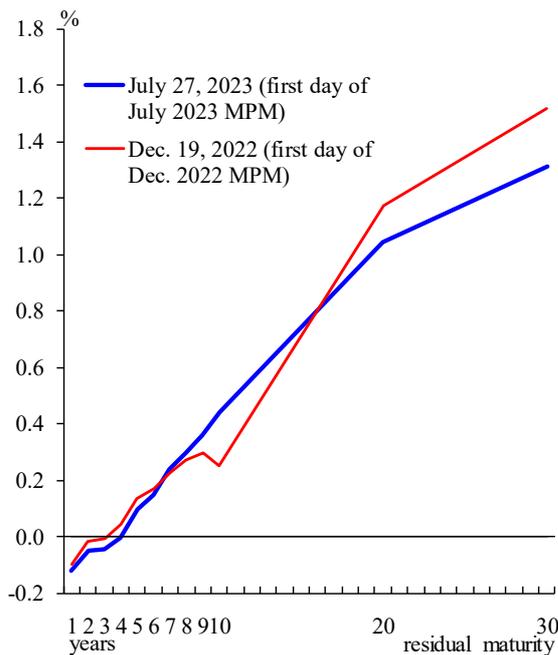
*Degree of Bond Market Functioning (Current Situation)*



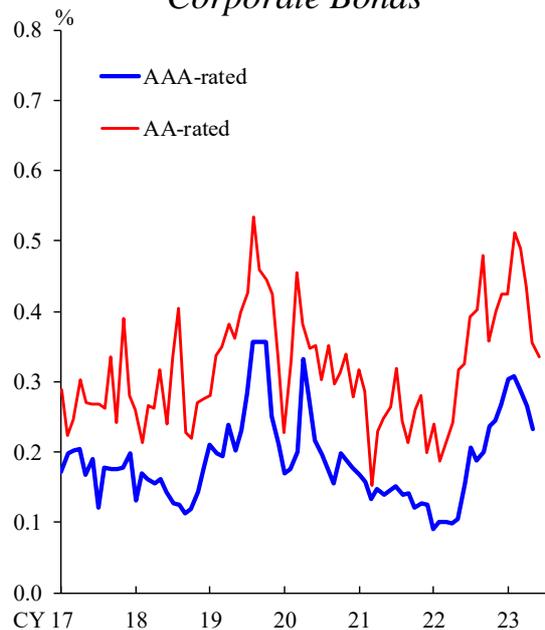
Notes: 1. In the left-hand chart, figures cover major and regional banks. Figures for interest rate spreads on loans are those for loans in the domestic business sector. In calculating the interest rate spreads, interest expenses on interest rate swaps are deducted from funding costs.  
 2. In the right-hand chart, the survey from February 2018 onward includes responses from major insurance companies, asset management companies, etc., in addition to those from eligible institutions for the Bank's outright purchases and sales of JGBs. Regarding the figures for February 2018, the reference data, which are based on responses only from eligible institutions for the Bank's outright purchases and sales of JGBs, are also indicated.  
 Source: Bank of Japan.

## Yield Curves and Issuance Spreads of Corporate Bonds

*Yield Curves*



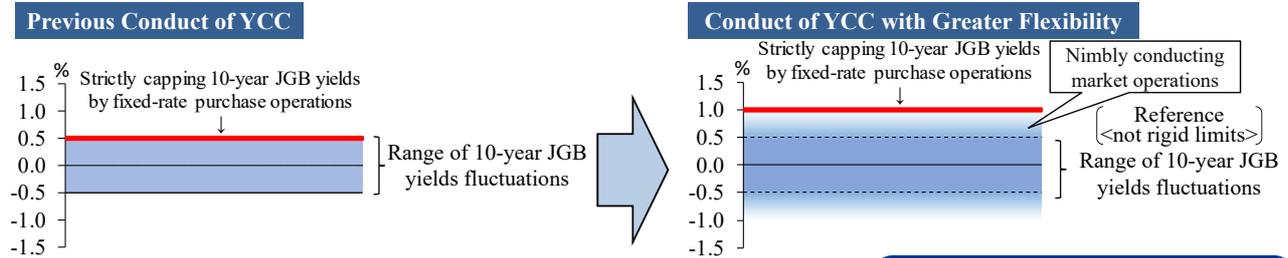
*Issuance Spreads of Corporate Bonds*



Note: In the right-hand chart, figures are the averages for domestically issued bonds launched on a particular date. Bonds issued by banks and securities companies, etc., are excluded.  
 Issuance spreads for corporate bonds = Issuance yields for corporate bonds - Yields on JGBs with the same residual maturity as corporate bonds  
 Sources: Bloomberg; Capital Eye; I-N Information Systems.

## Conducting Yield Curve Control (YCC) with Greater Flexibility

- The Bank judges that sustainable and stable achievement of the price stability target of 2 percent has not yet come in sight, and thus patiently continues with monetary easing.
- With extremely high uncertainties for economic activity and prices, the Bank enhances the sustainability of monetary easing by conducting YCC with greater flexibility.

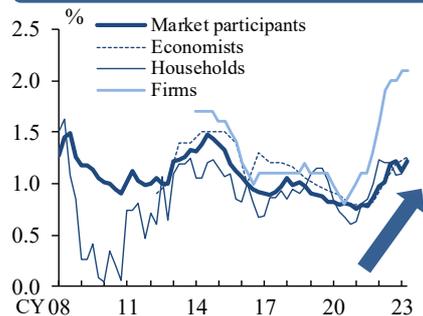


### Outlook for Prices

	y/y % chg.	
	CPI (all items less fresh food)	(Reference) CPI (all items less fresh food and energy)
Fiscal 2023	+2.5	+3.2
Forecasts made in Apr. 2023	+1.8	+2.5
Fiscal 2024	+1.9	+1.7
Forecasts made in Apr. 2023	+2.0	+1.7
Fiscal 2025	+1.6	+1.8
Forecasts made in Apr. 2023	+1.6	+1.8

Note: Figures indicate the medians of the Policy Board members' forecasts (point estimates).

### Inflation Expectations



Note: Figures for market participants, economists, households, and firms are from "QUICK Monthly Market Survey," "ESP Forecast," "Opinion Survey on the General Public's Views and Behavior," and "Tankan," respectively.

### Enhancing the sustainability of monetary easing by conducting YCC with greater flexibility

- If upside risks to Japan's economic activity and prices materialize
  - Decline in real interest rates
  - Mitigating the effects on the functioning of bond markets, etc.
- If downside risks to Japan's economic activity and prices materialize
  - Decline in long-term interest rates

## Approach to Conducting the Monetary Policy Review from a Broad Perspective

### 1. Approach to Analyses

- The Bank will assess the effects of various unconventional monetary policy measures that have been implemented over the past 25 years in the context of interactions with developments in economic activity and prices at each point in time. In addition, it will analyze the impact of these measures on financial markets and the financial system, including their side effects.
  - Deepen understanding on (1) how various changes in the economic environment -- e.g., globalization and the declining and aging population -- have affected factors such as corporate and household behavior and the formation mechanisms of wages and prices and (2) the implications that the effects of these changes have had for monetary policy
  - Flexibly consider specific themes of the analyses during the course of the review

### 2. Approach to Exchanging Views and Other Initiatives

- The Bank will incorporate diverse expertise and take various initiatives with a view to enhancing the review's objectivity and transparency. Such initiatives include not only internal analyses but also those listed below.
  - Make use of existing series of materials, such as reports and surveys, and invite public comment
  - Exchange views on occasions such as meetings with local and business leaders
  - Hold discussions, such as at workshops (scheduled around December 2023 and May 2024)
  - Exchange views with foreign experts

### 3. Launch of a Webpage