

Japan's Economy and Monetary Policy

Speech at a Meeting with Business Leaders in Osaka

September 25, 2023

UEDA Kazuo

Governor of the Bank of Japan

Introduction

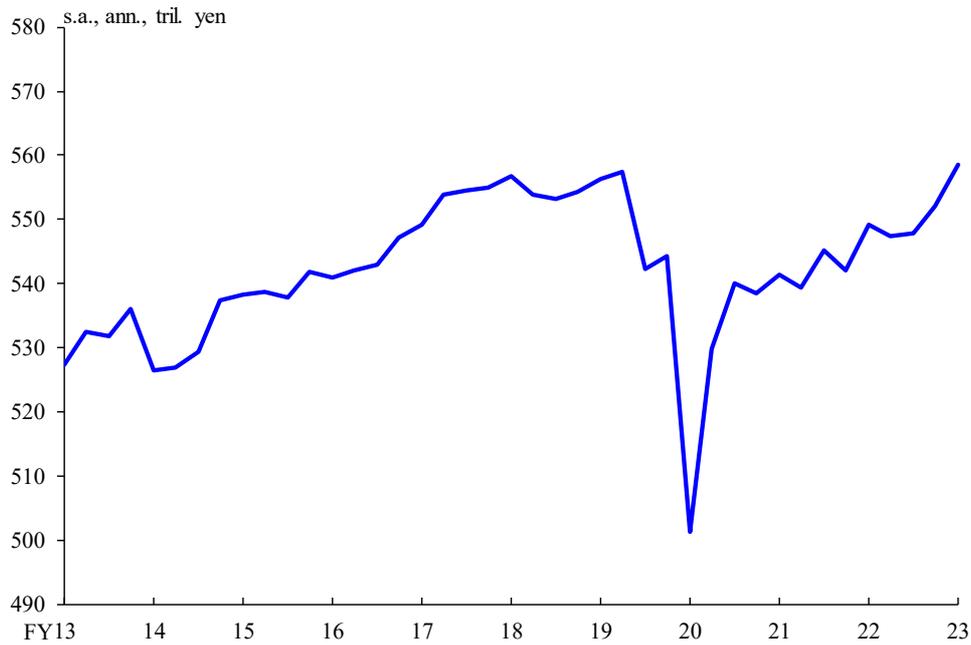
I. Japan's Economic Activity

II. Price Developments in Japan

III. The Bank's Conduct of Monetary Policy

Conclusion

Real GDP

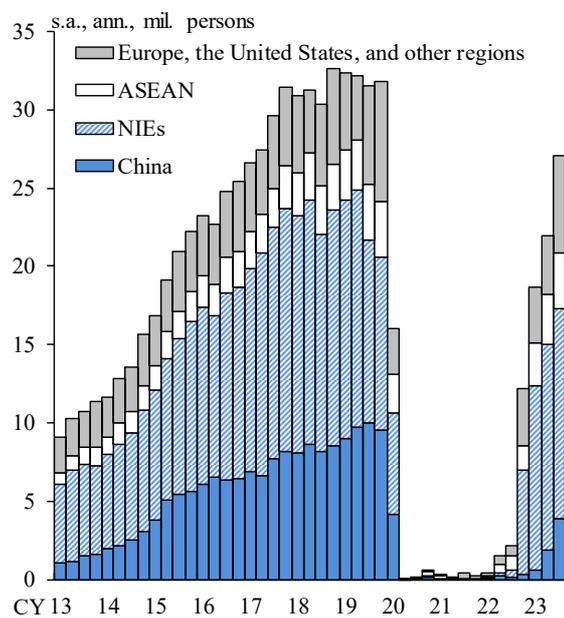
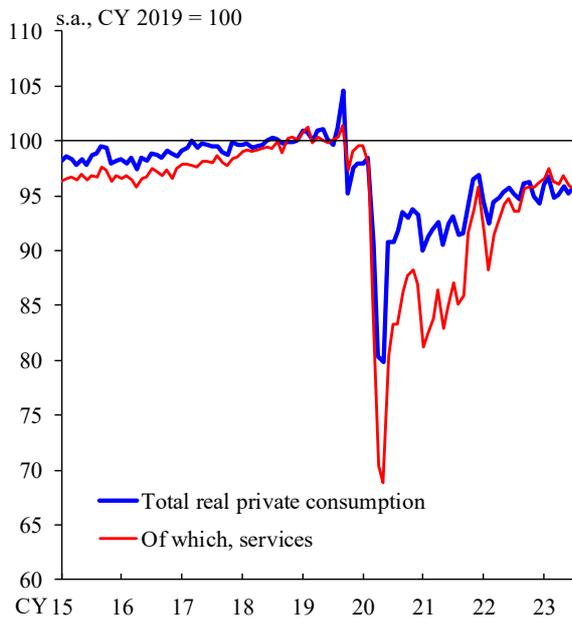


Source: Cabinet Office.

Private Consumption

Consumption Activity Index

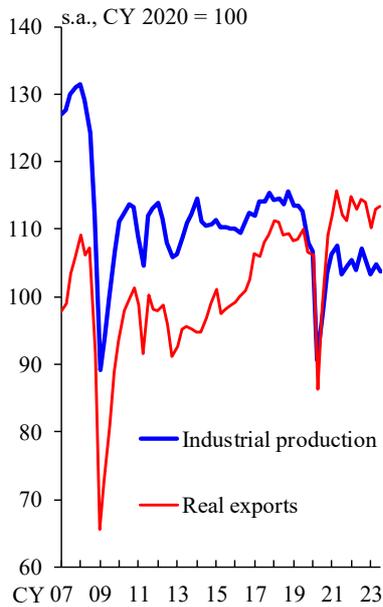
Number of Inbound Visitors



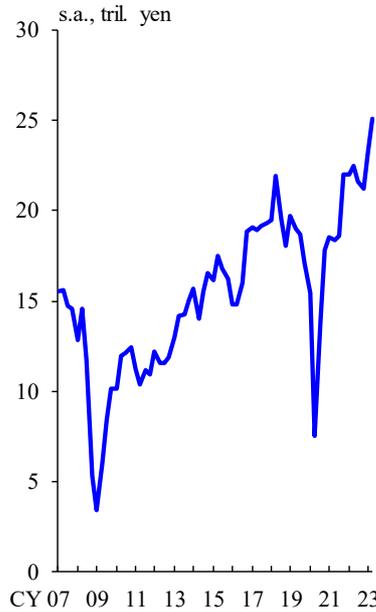
Notes: 1. In the left-hand chart, figures for total real private consumption are the real Consumption Activity Index (travel balance adjusted) based on staff calculations, which exclude inbound tourism consumption and include outbound tourism consumption.
 2. In the right-hand chart, figures for Europe, the United States, and other regions include seasonal adjustment errors.
 Sources: Bank of Japan; Japan National Tourism Organization (JNTO).

Corporate Sector

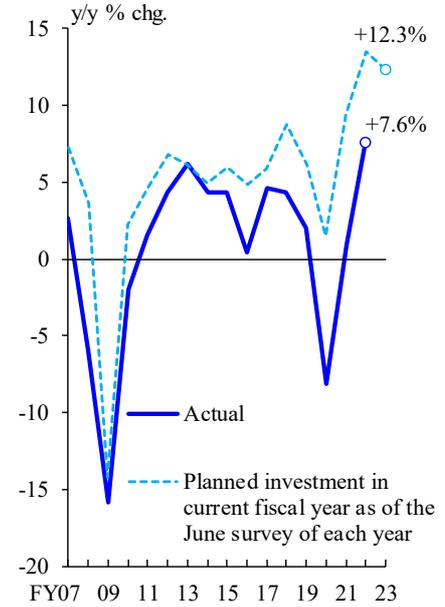
Exports and Production



Current Profits



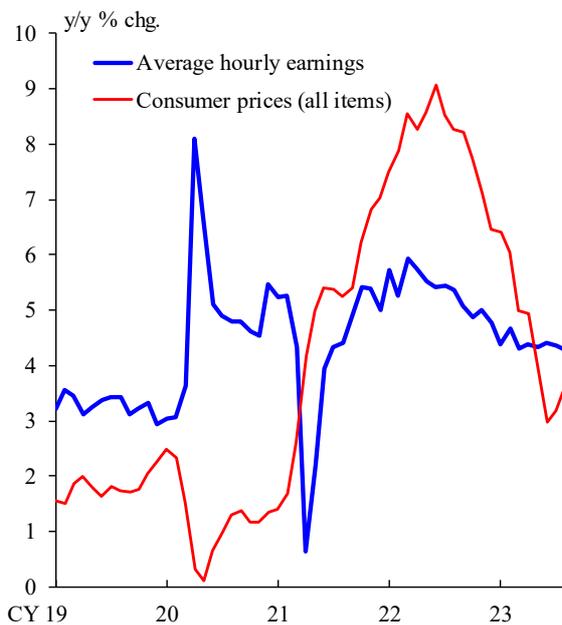
Business Fixed Investment



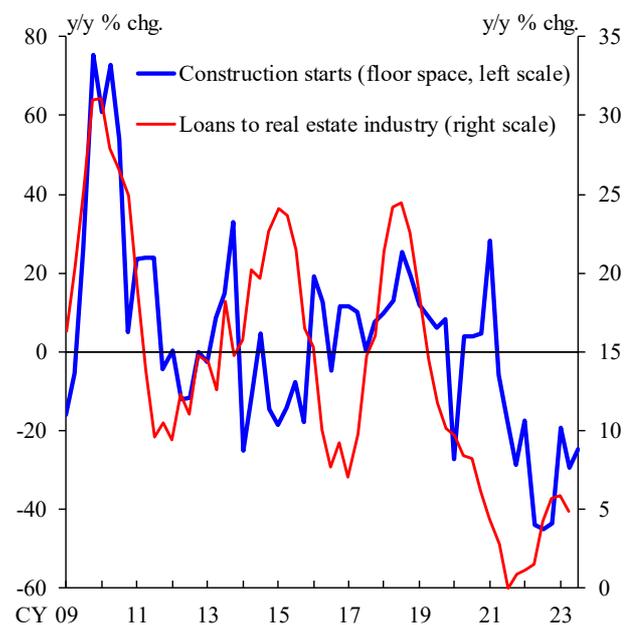
Notes: 1. In the middle chart, figures are based on the *Financial Statements Statistics of Corporations by Industry, Quarterly* and exclude "finance and insurance." Figures from 2009/Q2 onward exclude pure holding companies.
2. In the right-hand chart, figures are based on the *Tankan*, including software and R&D investments and excluding land purchasing expenses. R&D investment is not included before the March 2017 survey. Figures are for all industries including financial institutions.
Sources: Ministry of Economy, Trade and Industry; Ministry of Finance; Bank of Japan.

Key Points for the Future: (1) Overseas Economies

Wages and Prices in the United States



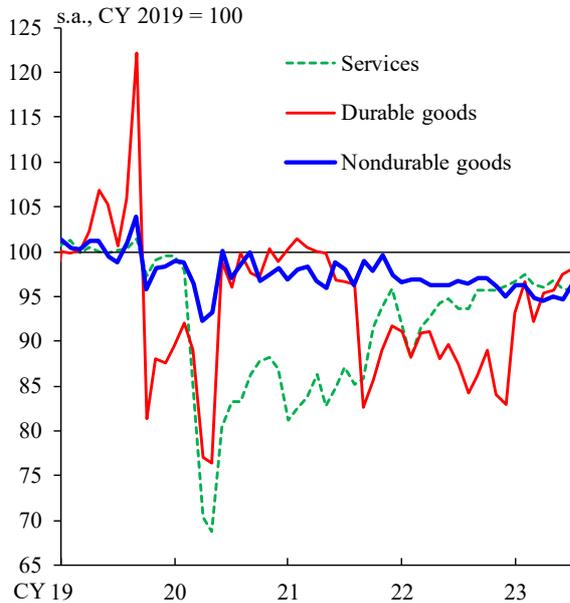
Chinese Real Estate Market



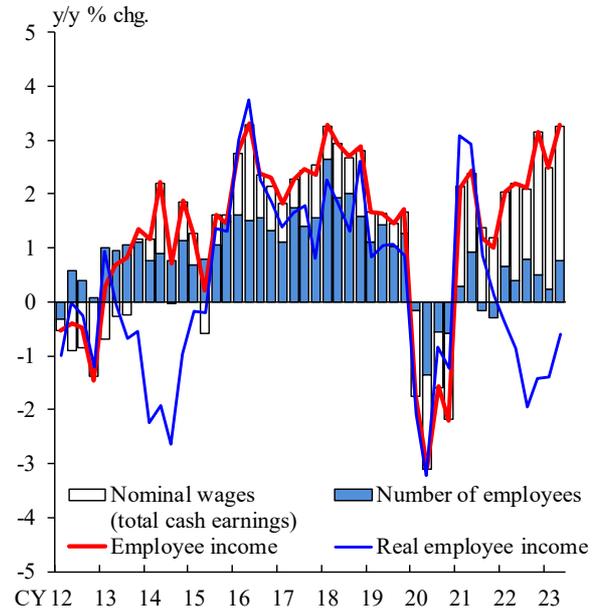
Sources: Haver; CEIC.

Key Points for the Future: (2) Household Sector

Private Consumption by Type



Employee Income



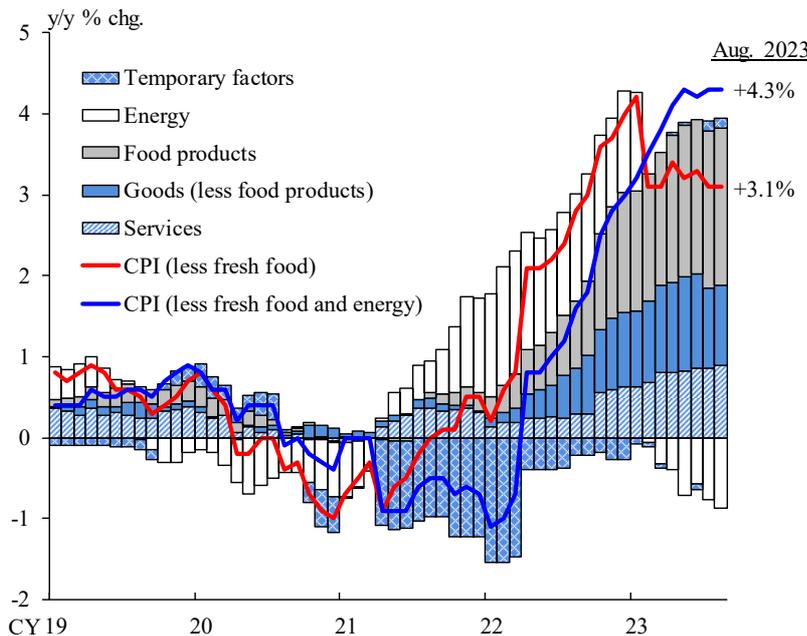
Notes: 1. In the left-hand chart, figures are based on the real Consumption Activity Index.

2. In the right-hand chart, Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February. Employee income = Total cash earnings (*Monthly Labour Survey*) × Number of employees (*Labour Force Survey*). Figures from 2016/Q1 onward are based on continuing observations following the sample revisions of the *Monthly Labour Survey*. Figures for real employee income are based on staff calculations using the CPI (less imputed rent).

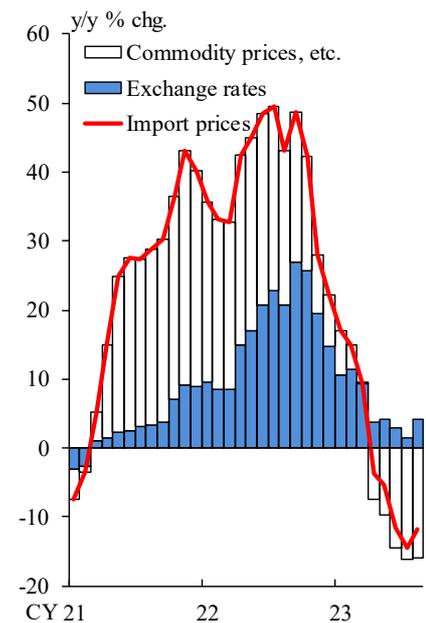
Sources: Bank of Japan; Ministry of Health, Labour and Welfare; Ministry of Internal Affairs and Communications.

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.

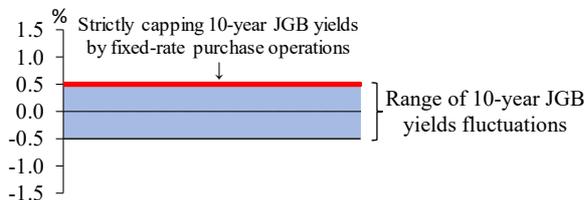
2. In the right-hand chart, the contribution of changes in commodity prices, etc. is calculated using changes in the import price index on a contract currency basis. The contribution of changes in exchange rates is calculated using the difference between the index on a yen basis and that on a contract currency basis.

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

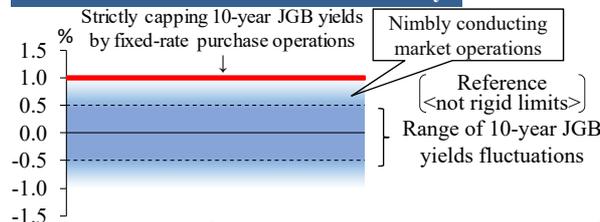
Conducting Yield Curve Control (YCC) with Greater Flexibility

- 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.

Previous Conduct of YCC



Conduct of YCC with Greater Flexibility

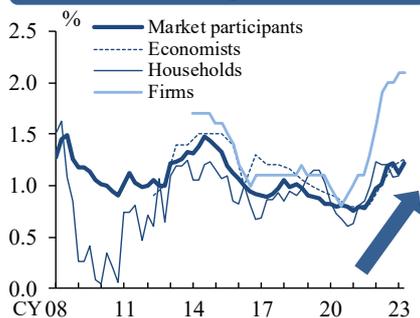


Outlook for Prices

| | 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

Conclusion

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