



# Economic Activity, Prices, and Monetary Policy in Japan

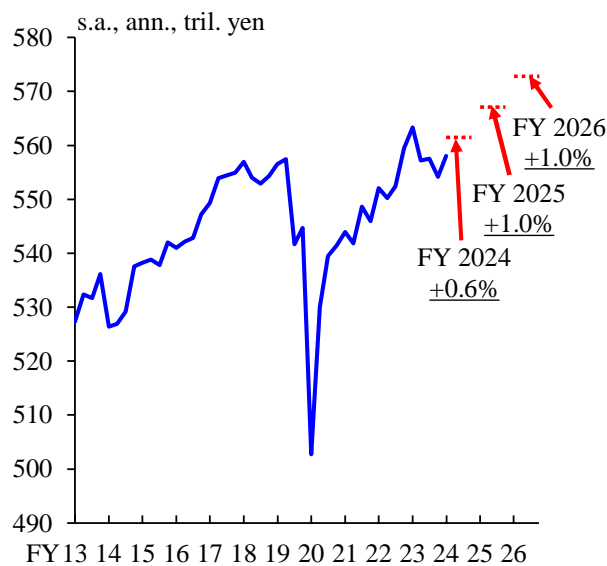
*Speech at a Meeting with Local Leaders in Okayama*

September 12, 2024

TAMURA Naoki  
Member of the Policy Board  
Bank of Japan

Chart 1

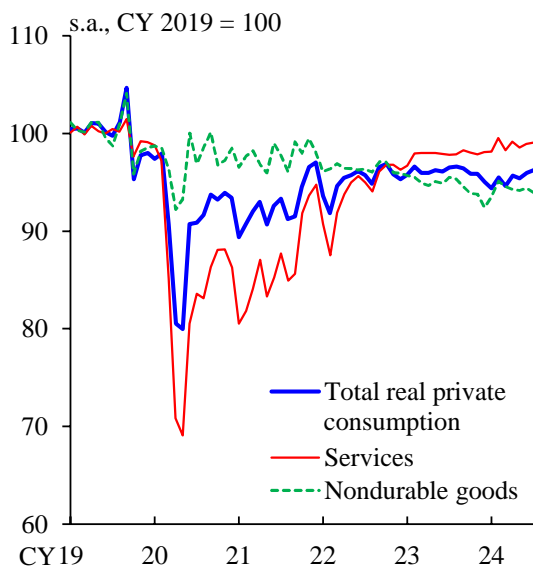
## The Bank's Forecasts for Real GDP



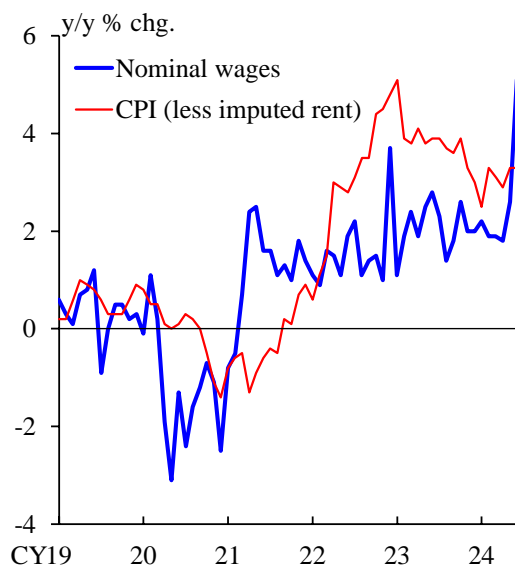
Note: Forecasts are medians of the Policy Board members' forecasts in the July 2024 Outlook Report. Real GDP values for fiscal 2024 onward are calculated by multiplying the actual figure for fiscal 2023 by all successive projected growth rates for each year.  
Sources: Cabinet Office; Bank of Japan.

## Private Consumption

*Consumption Activity Index*

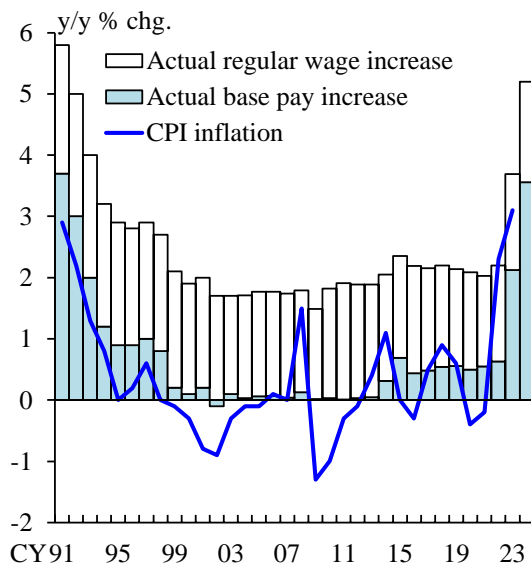


*Nominal Wages*



Notes: 1. In the left panel, figures for "total real private consumption" are for the real Consumption Activity Index and are based on Bank staff calculations. The figures exclude inbound tourism consumption and include outbound tourism consumption.  
 2. In the right panel, figures for "nominal wages" are based on continuing observations following the sample revisions.  
 Sources: Ministry of Health, Labour and Welfare; Ministry of Internal Affairs and Communications; Bank of Japan.

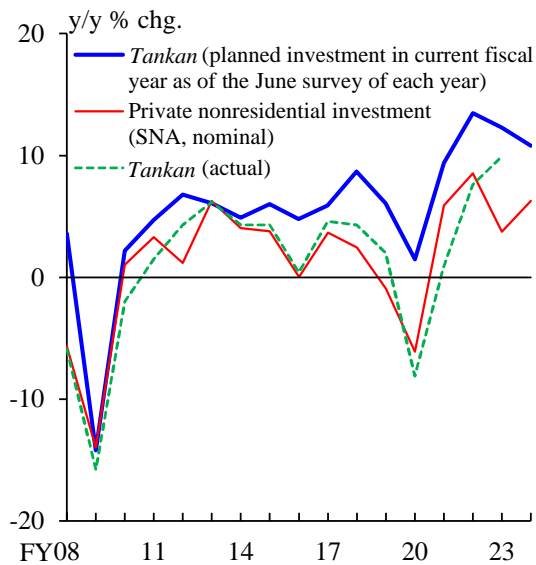
## Results of the Annual Spring Labor-Management Wage Negotiations



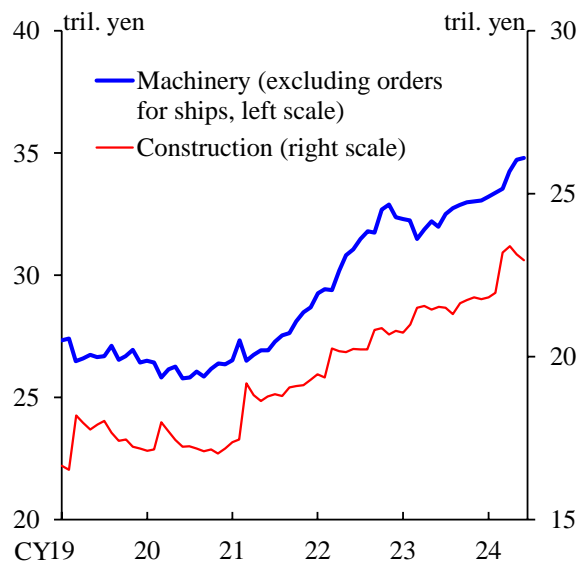
Notes: 1. Figures for "CPI inflation" are for all items less fresh food, excluding the effects of the consumption tax hikes.  
 2. Figures for "actual base pay increase" and "actual regular wage increase" from 1991 to 2014 are those published by the Central Labour Relations Commission, while those from 2015 to 2024 are figures released by the Japanese Trade Union Confederation (Rengo). Figures are based on the wage negotiation results of labor unions for which the base pay increase is clear.  
 Sources: Central Labour Relations Commission; Ministry of Internal Affairs and Communications; Rengo.

## Business Fixed Investment

*Planned and Actual Investment*

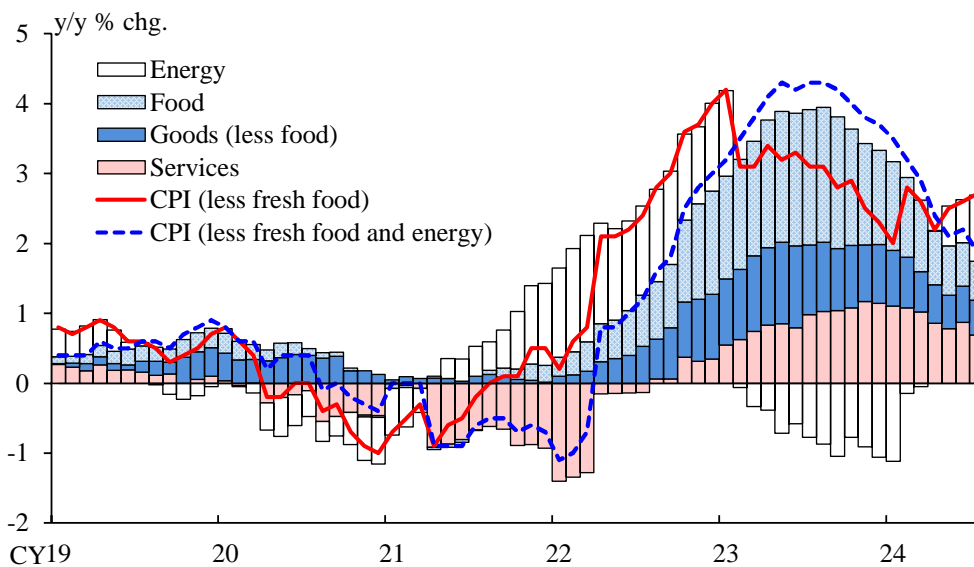


*Remaining Orders*



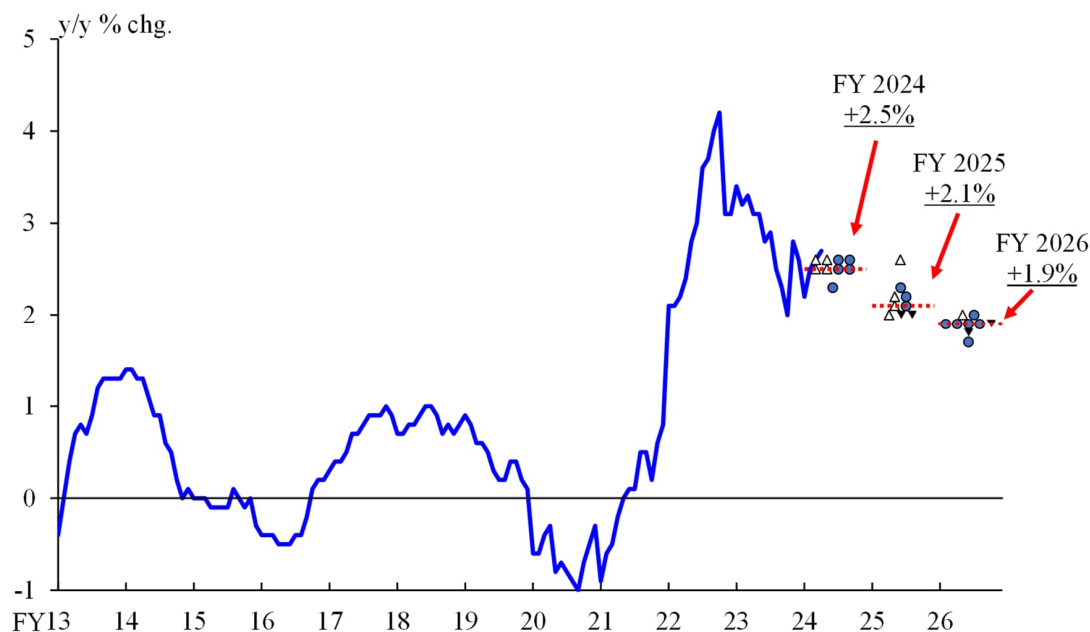
Notes: 1. In the left panel, *Tankan* figures include software and R&D investments and exclude land purchasing expenses. Figures are for all industries including financial institutions.  
 2. In the left panel, the figure for "private nonresidential investment" for fiscal 2024 is for 2024/Q2.  
 3. In the right panel, figures for "construction" are based on a survey of 50 major construction companies.  
 Sources: Cabinet Office; Ministry of Land, Infrastructure, Transport and Tourism; Bank of Japan.

## Consumer Prices



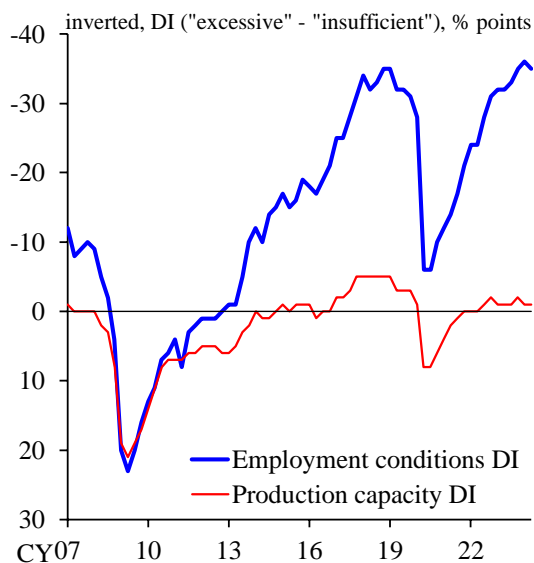
Source: Ministry of Internal Affairs and Communications.

### The Bank's Forecasts for the CPI



Notes: 1. Figures are the CPI for all items less fresh food, excluding the effects of the consumption tax hikes.  
 2. The locations of ●, △, and ▼ in the chart indicate figures for each Policy Board member's forecasts. The risk balance assessed by each Policy Board member is shown by the following shapes: ● indicates that a member assesses "upside and downside risks as being generally balanced," △ indicates that a member assesses "risks are skewed to the upside," and ▼ indicates that a member assesses "risks are skewed to the downside." The dotted lines show the medians of the Policy Board members' forecasts presented in the July 2024 Outlook Report.  
 Sources: Ministry of Internal Affairs and Communications; Bank of Japan.

### Firms' Perception of Labor and Production Capacity Shortages (*Tankan*)



Note: Figures are for all industries and enterprises.  
 Source: Bank of Japan.

## Change in the Guideline for Money Market Operations (July 2024)

- Japan's economic activity and prices have been **developing generally in line with the Bank's outlook**. Moves to raise wages have been spreading.
- The year-on-year rate of change in import prices has turned positive again, and **upside risks to prices require attention**.

### Medians of the Policy Board members' forecasts (y/y % chg.)

	Fiscal 2024	Fiscal 2025	Fiscal 2026
Real GDP	0.6 (-0.2)	1.0 (—)	1.0 (—)
CPI (all items less fresh food)	2.5 (-0.3)	2.1 (+0.2)	1.9 (—)
CPI (all items less fresh food and energy)	1.9 (—)	1.9 (—)	2.1 (—)

Note: Figures in parentheses indicate changes from the April Outlook Report.

### Risk balance assessments on prices

Fiscal 2024	Fiscal 2025	Fiscal 2026
↗	↗	→
Upside	Upside	Balanced

Adjusting the degree of monetary accommodation from the perspective of sustainable and stable achievement of the price stability target of 2 percent

**Short-term interest rate:** raised to "around 0.25%"  
(uncollateralized overnight call rate) (previously "around 0 to 0.1%")

- Real interest rates are expected to remain significantly negative, and accommodative financial conditions will continue to **firmly support economic activity**.
- If the outlook presented in the July Outlook Report will be realized, the Bank will accordingly continue to raise the policy interest rate and adjust the degree of monetary accommodation.

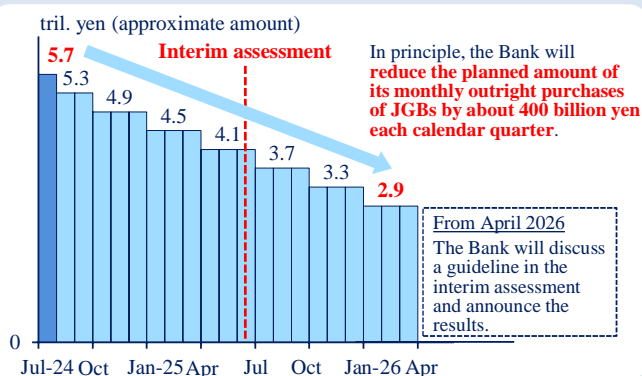
## Plan for the Reduction of the Purchase Amount of JGBs (July 2024)

### The concept of the plan for the reduction until March 2026

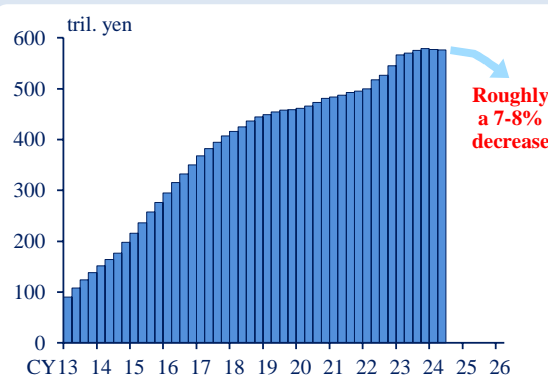
- Long-term interest rates: to be formed in financial markets in principle
- JGB purchases: appropriate for the Bank to **reduce its purchase amount of JGBs in a predictable manner**, while **allowing enough flexibility** to support stability in the JGB markets

### Reduction in a Predictable Manner

#### Amount of monthly JGB purchases



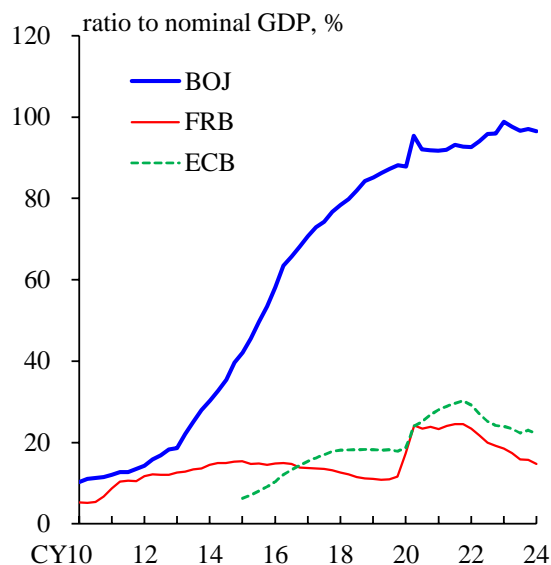
#### The Bank's JGB holdings



### Allowing Enough Flexibility

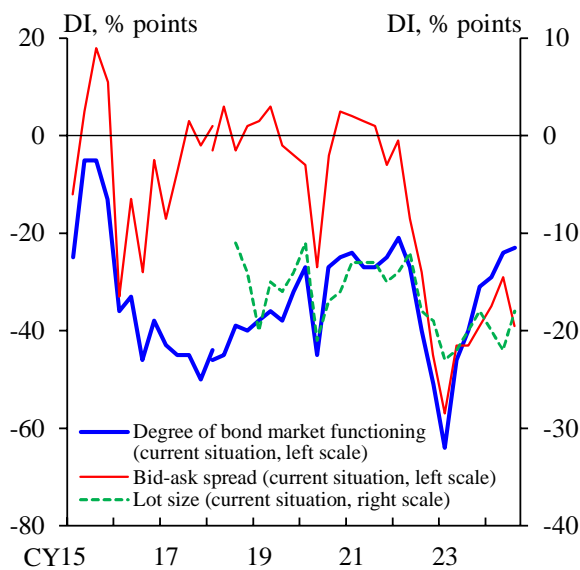
- The Bank will **conduct an interim assessment of the plan at the June 2025 MPM**.
- In the case of a rapid rise in long-term interest rates, the Bank will make nimble responses by, for example, increasing the amount of JGB purchases.
- The Bank is prepared to amend the plan at the MPMs, if deemed necessary.

## Government Bond Holdings of Major Central Banks



Sources: Cabinet Office; Eurostat; Federal Reserve Board; U.S. Bureau of Economic Analysis; Bank of Japan.

## Degree of Bond Market Functioning



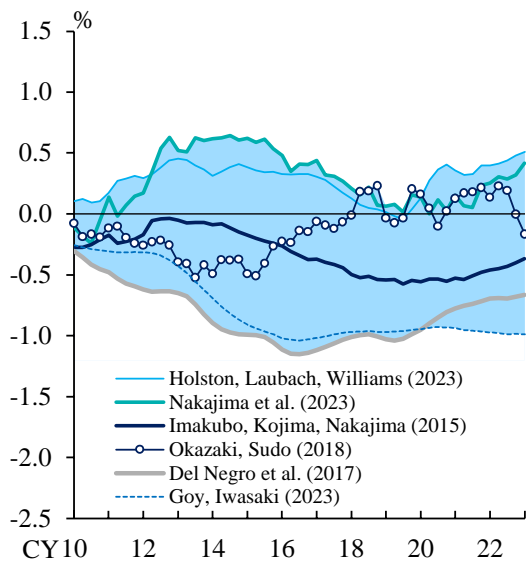
Notes: 1. The DIs for "degree of bond market functioning," "bid-ask spread," and "lot size" are calculated as "high" - "low," "tight" - "wide," and "large" - "small," respectively.

2. 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.

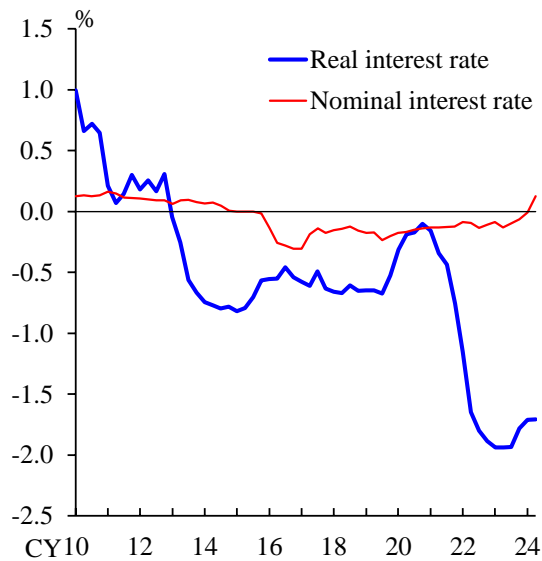
Source: Bank of Japan.

## Natural Rate of Interest and Real Interest Rate

Estimates of the Natural Rate of Interest

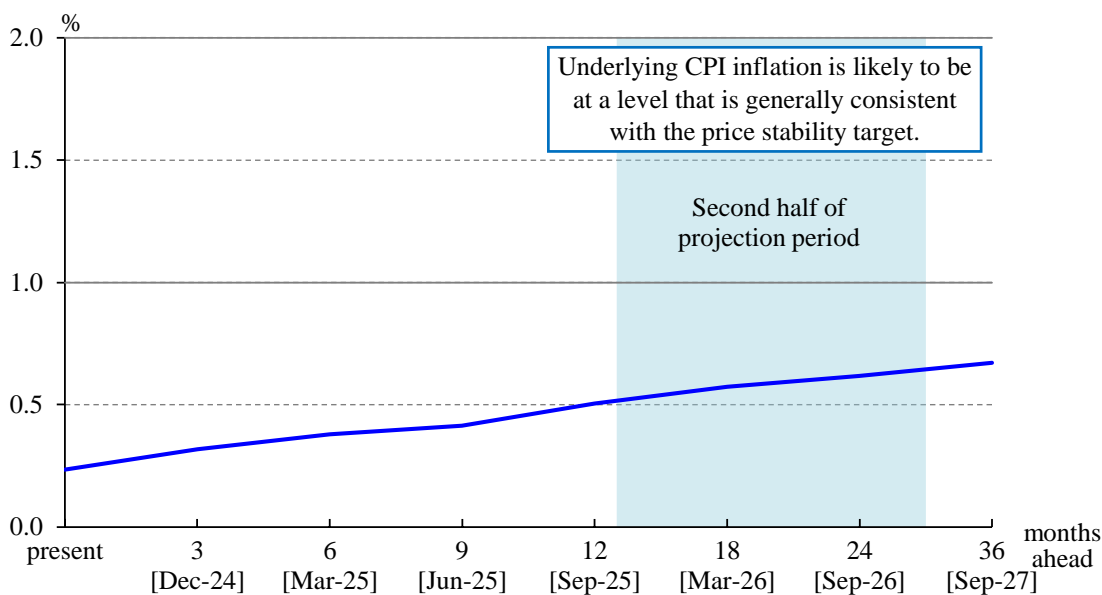


Real Interest Rate (1-Year)



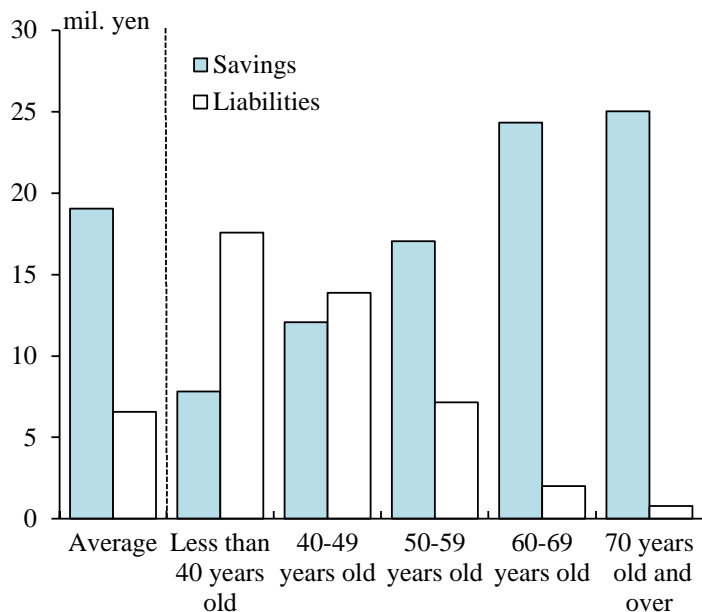
Notes: 1. In the left panel, natural interest rate estimates are based on Bank staff calculations using models proposed in the respective papers. The shaded area indicates the range of natural interest rate estimates from the minimum to the maximum.  
 2. In the right panel, the real interest rate is calculated as government bond yields minus the composite index of inflation expectations (Bank staff estimates).  
 Sources: Bloomberg; Cabinet Office; Consensus Economics Inc., *Consensus Forecasts*; Ministry of Finance; Ministry of Health, Labour and Welfare; Ministry of Internal Affairs and Communications; QUICK, *QUICK Monthly Market Survey <Bonds>*; Bank of Japan.

## Market Expectations for the Bank's Policy Interest Rate



Notes: 1. The figure for the present is the 3-month yen OIS rate. Figures for 3, 6, and 9 months ahead are 3-month forward rates, those for 12 and 18 months ahead are 6-month forward rates, and those for 24 and 36 months ahead are 12-month forward rates, all calculated from the yen OIS rates. Figures are as of September 5, 2024.  
 2. The projection period is from fiscal 2024 to fiscal 2026.  
 Source: Bloomberg.

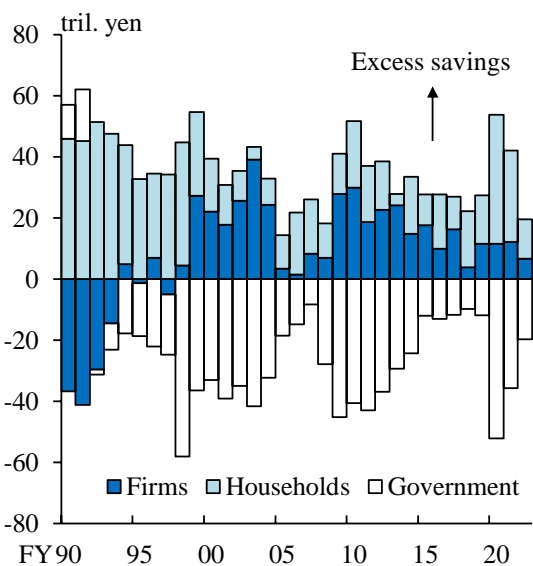
### Household Savings and Liabilities



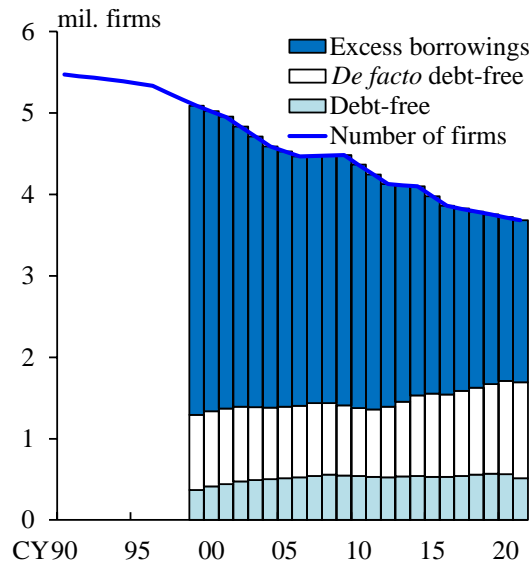
Note: Figures are 2023 averages for two-or-more-person households.  
Source: Ministry of Internal Affairs and Communications.

### Firms' Financial Condition

*Savings-Investment Balance*



*Number of Firms*



Notes: 1. In the left panel, figures are based on the *Flow of Funds Accounts*.

2. In the right panel, figures show the number of privately owned establishments from the *Economic Census for Business Frame* and the *Economic Census for Business Activity (Establishment and Enterprise Census* up to 2006, interpolated for years with no data), decomposed using the shares of each group based on data from Teikoku Databank. Figures cover privately owned establishments (single-unit establishments and head offices).

Sources: Ministry of Internal Affairs and Communications; Small and Medium Enterprise Agency; Teikoku Databank; Bank of Japan.