

Japan's Economy and Monetary Policy

Speech at a Meeting with Local Leaders in Kanagawa

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Introduction

Kanagawa and the Modernization of Japan

I. Economic Activity and Prices

Review of Monetary Policy from a Broad Perspective

Corporate Sector under Population Decline and Globalization

Household Sector under Population Decline and Globalization

II. Monetary Policy

Developments in Prices and Monetary Policy Outlook

Communication on Monetary Policy

Conclusion

Hokusai's Great Wave

Kanagawa and the Modernization of Japan

Commodore Perry's Fleet



Source: Edo-Tokyo Museum, "Samurais Getting Ready to Fight on the Arrival of American Ships."

Air Raid on Yokohama



Source: U.S. National Archives and Records Administration.

"Civilization and Enlightenment"



Source: Yokohama Museum of Art, "Steam Train on the Yokohama Coastal Railway" (painted by Utagawa Hiroshige III, and donated by Ms. Saito Ryu).

Industrial Zone in Kanagawa

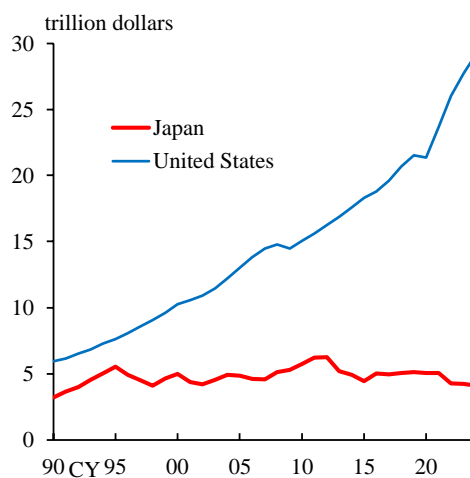


Source: Kawasaki City.

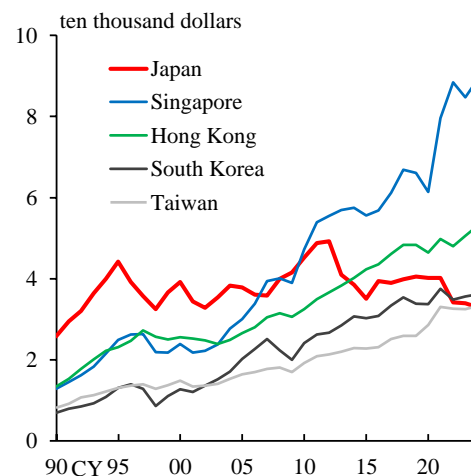
1

Economic Growth of Japan and Peers

GDP of Japan and the U.S.



GDP per capita in Asia



Note: Figures are for nominal GDP in U.S. dollar terms.
Figures for 2024 are IMF projections in the October 2024 *World Economic Outlook*.
Source: IMF.

2

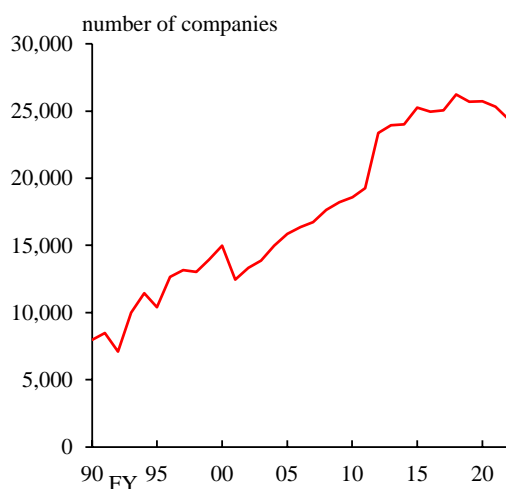
Factors behind Prolonged Deflation

- Burst of the bubble economy
- Excessive debt, capacity, and employment
- Banking crises
- Credit crunch and credit withdrawal
- Global Financial Crisis
- The Great East Japan Earthquake
- COVID-19 pandemic
- Yen appreciation resulting from monetary easing in Europe and the United States
- Zero lower bound, rise in real interest rates, and decline in the natural rate of interest
- Behavior based on the belief that wages and prices do not move
- Declining birthrate, and aging and shrinking population
- Globalization of economic activities

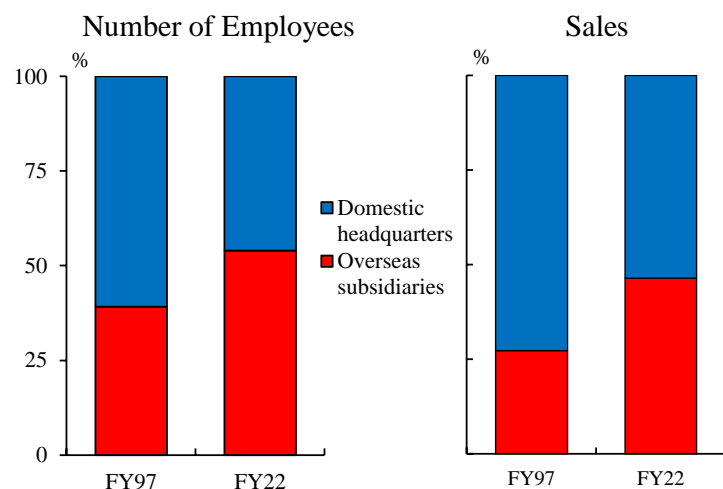
3

Overseas Expansion of Japanese Firms

Number of Overseas Subsidiaries



Size of Overseas Subsidiaries
Relative to Domestic Headquarters

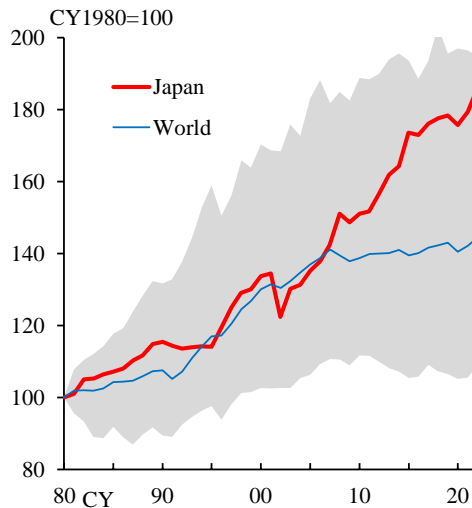


Note: The right-hand chart shows the ratio of domestic headquarters and overseas subsidiaries for firms that have overseas subsidiaries.
Source: Ministry of Economy, Trade and Industry.

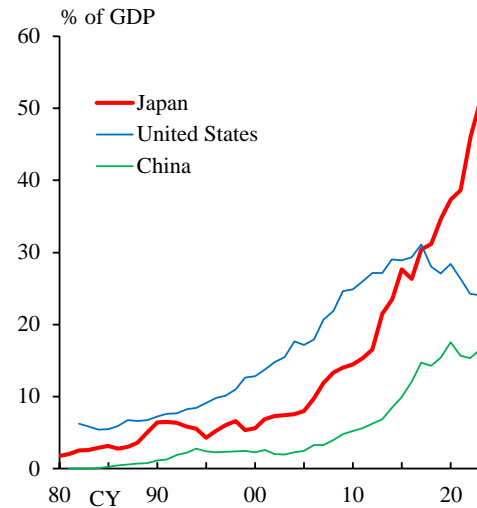
4

Japan's Pace of Globalization Compared to Peers

KOF Globalization Index



Stock of Outbound Direct Investment



Note: In the left-hand chart, the index is calculated based on several statistical indices, such as trade volume. The shaded area indicates the 10th-90th percentile range of 158 countries. The right-hand chart shows the stock of outbound direct investments from Japan, the United States, and China.

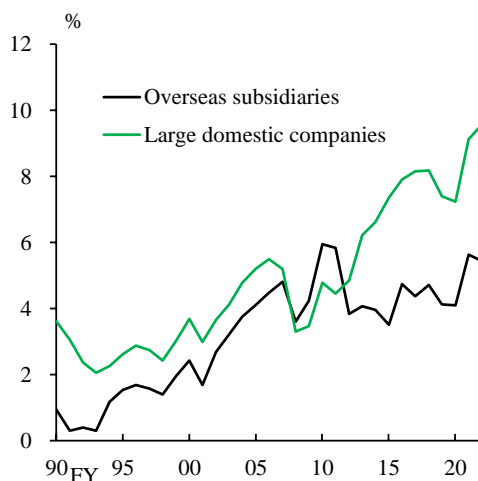
Figures are calculated based on Hogen et al. (2024) using the latest data.

Sources: UNCTAD; KOF Swiss Economic Institute; BEA.

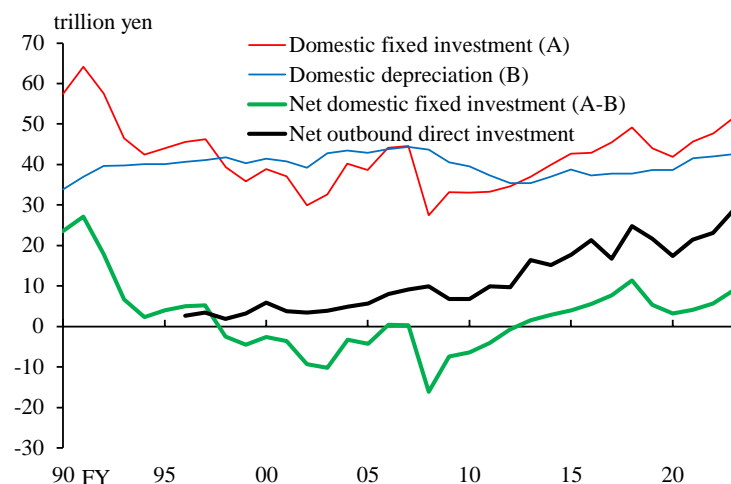
5

Profits and Investment at Home and Abroad

Profit Margin Ratio



Domestic Fixed Investment and Outbound Direct Investment

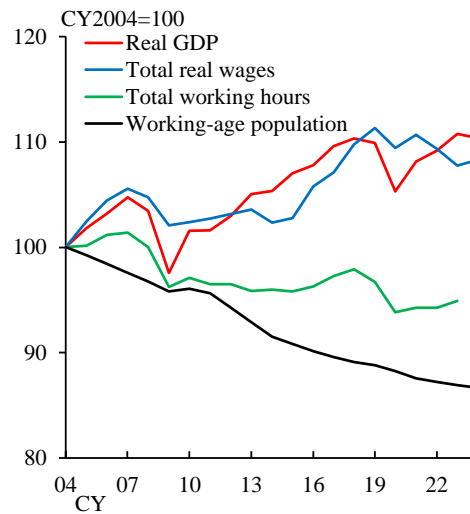


Note: In the left-hand chart, large domestic companies are non-financial firms with a capitalization of 1 billion yen or more, including those that do not have foreign subsidiaries. In the right-hand chart, domestic fixed investment and domestic depreciation show the aggregate figures for domestic non-financial firms.

Sources: Ministry of Economy, Trade and Industry; Ministry of Finance.

6

Shrinking Population, Work Hours, GDP, and Wages

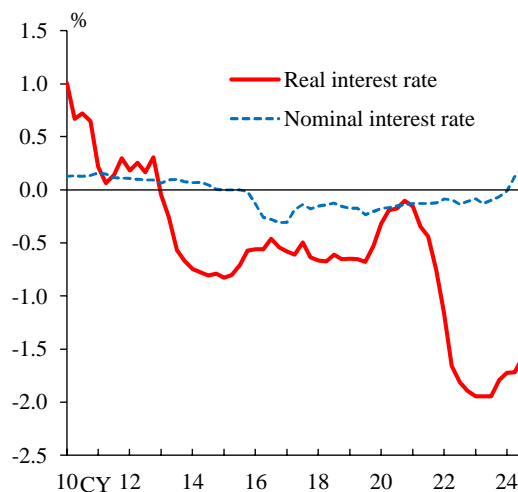


Note: Total real wages are real compensation of employees in SNA. Figures for real GDP and total real wages for 2024 are up to Q3. Total working hours is the working hours of the total workforce.
Sources: Ministry of Internal Affairs and Communications; Cabinet Office.

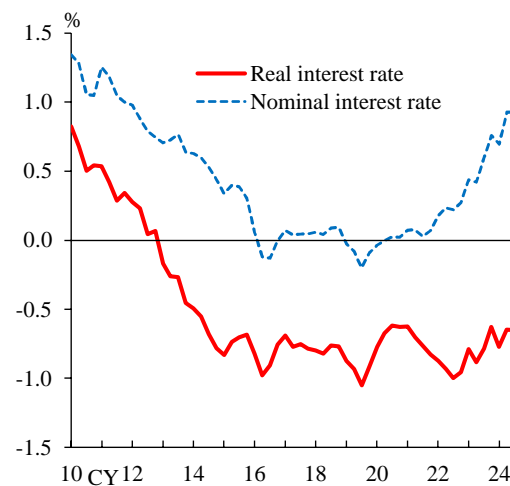
7

Developments in Real Interest Rate

Real Interest Rate (1-Year)



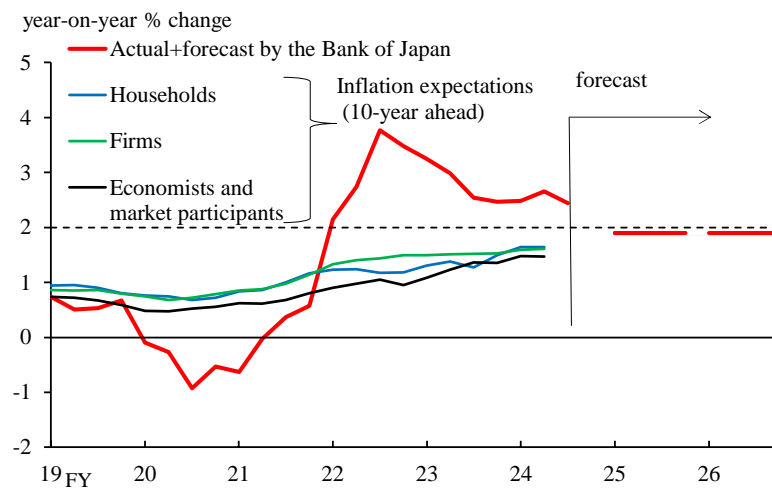
Real Interest Rate (10-Year)



Note: Figures for real interest rates are calculated as government bond yields minus the composite index of inflation expectations (Bank of Japan staff estimates).
Sources: Bank of Japan; QUICK, "QUICK Monthly Market Survey <Bonds>"; Consensus Economics Inc., "Consensus Forecasts"; Bloomberg.

8

Developments in Consumer Prices and Inflation Expectations



Note: The figure for actual for 2024/Q4 is the October-November average.

Sources: Ministry of Internal Affairs and Communications; Bank of Japan; QUICK, "QUICK Monthly Market Survey <Bonds>"; Consensus Economics Inc., "Consensus Forecasts"; Bloomberg.

9

Conclusion

Chart 10

Hokusai's Great Wave Depicted on New 1,000 Yen Note



Source: National Printing Bureau.

10