

An Economy with Positive Interest Rates

Speech at Hitotsubashi University Policy Forum

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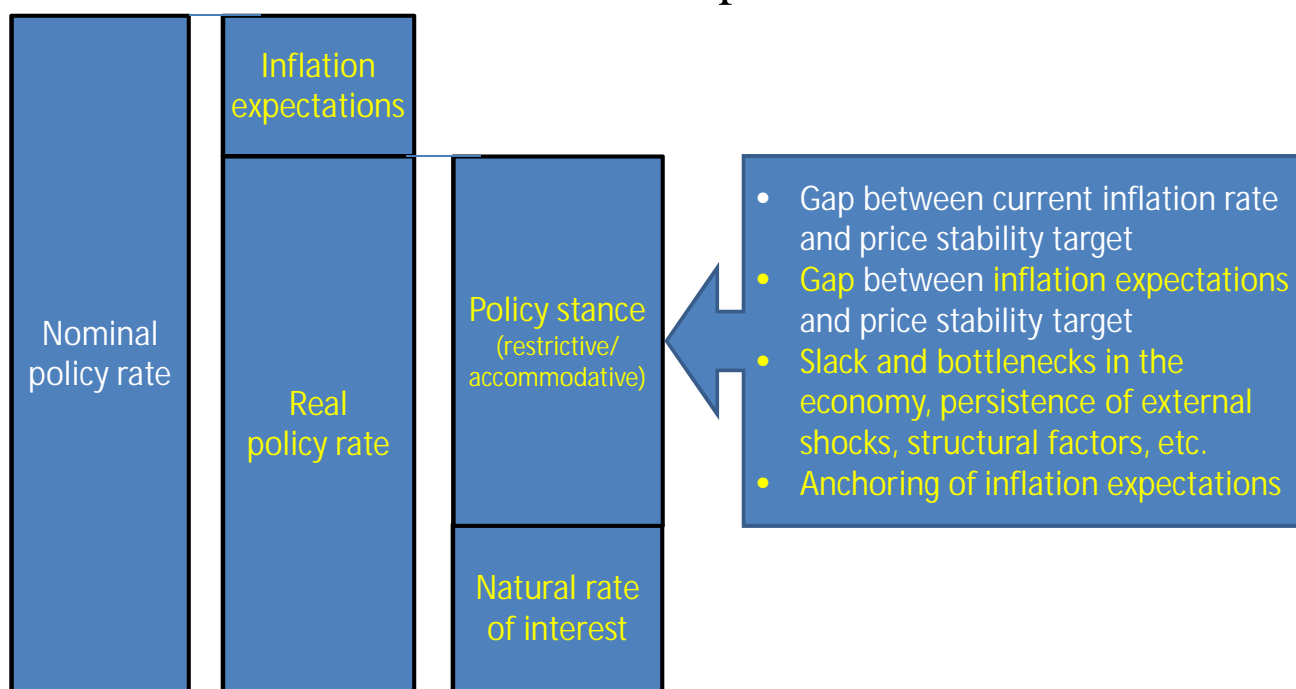
Introduction

- I. What Kind of Economy to Anticipate?
- II. Is an Economy with Positive *Real* Interest Rates Forthcoming?
- III. What Is the Impact of Changes in Balance Sheets?

Conclusion

I. What Kind of Economy to Anticipate?

Conceptual Framework for Policy Rate Setting: An Example



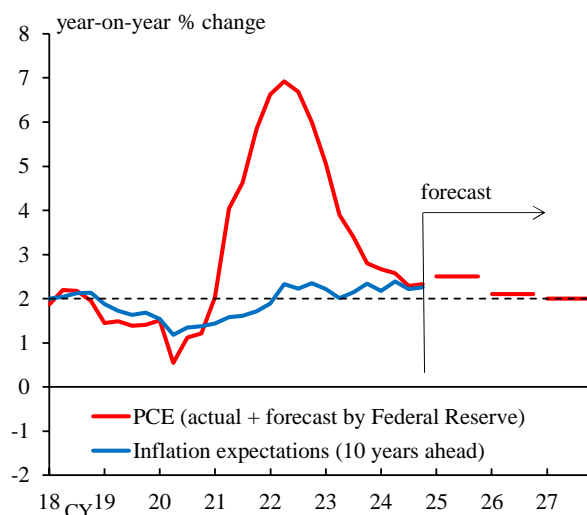
Note: Values of each box can be positive or negative. Elements shown in yellow are not directly observable.

1

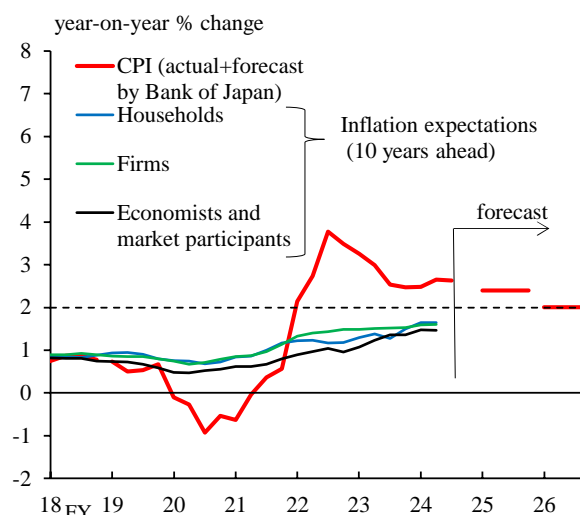
I. What Kind of Economy to Anticipate?

Developments in Consumer Prices and Inflation Expectations in the U.S. and Japan

United States



Japan



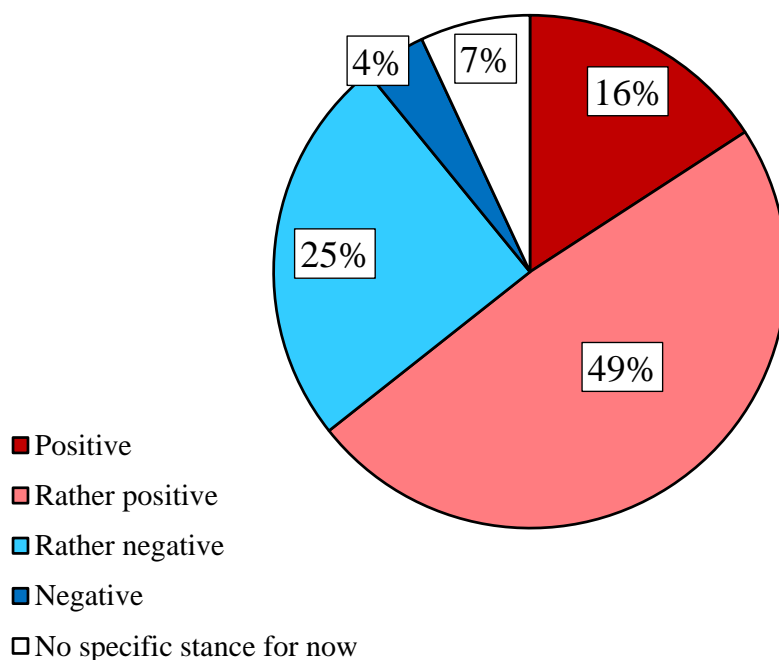
Note: The figure for the actual PCE for 2024/Q4 is the October-November average. Figures for Japan exclude fresh food.

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

2

I. What Kind of Economy to Anticipate?

Keidanren Firms' Perceptions of an Economy with Positive Interest Rates



Note: The chart shows the results of the survey of Keidanren member firms conducted between July 30 and September 17, 2024, to which 181 firms responded.
Source: Keidanren (Japan Business Federation).

I. What Kind of Economy to Anticipate?

Decision at the January 2025 MPM

Japan's economic activity and prices have been **developing generally in line with the Bank's outlook**, and **the likelihood of realizing the outlook has been rising**.

Medians of the Policy Board Members' Forecasts (y/y % chg.)

	Fiscal 2024	Fiscal 2025	Fiscal 2026
Real GDP	0.5 (-0.1)	1.1 (—)	1.0 (—)
CPI (all items less fresh food)	2.7 (+0.2)	2.4 (+0.5)	2.0 (+0.1)
CPI (all items less fresh food and energy)	2.2 (+0.2)	2.1 (+0.2)	2.1 (—)

Note: Figures in parentheses indicate changes from the October 2024 Outlook Report.

Wages

- Firms have expressed the view that they will **continue to raise wages steadily**, following the solid wage increases last year.

Prices

- With wages continuing to rise, **underlying CPI inflation has been increasing gradually toward 2 percent**.
- CPI inflation is likely to be at around 2.5 percent for fiscal 2025, due to the higher import prices stemming from the yen's depreciation etc.

Overseas economies

- Global financial and capital markets have been **stable on the whole**, while attention has been drawn to various uncertainties.

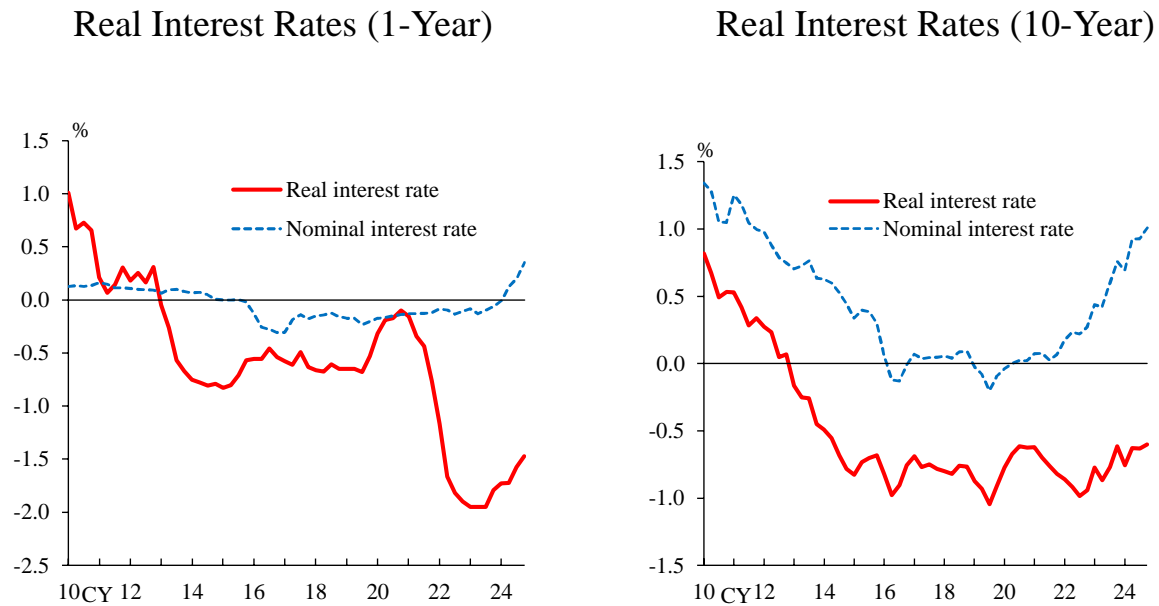
Adjusting the degree of monetary accommodation from the perspective of sustainable and stable achievement of the price stability target of 2 percent

Short-term interest rate :
(uncollateralized overnight call rate)

raised to "around 0.5%"
(previously "around 0.25%")

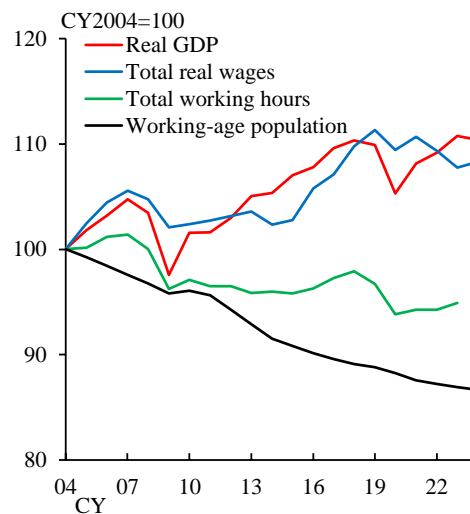
- Real interest rates are expected to remain significantly negative, and accommodative financial conditions will continue to **firmly support economic activity**.
- If the outlook presented in the January Outlook Report will be realized, the Bank will accordingly continue to raise the policy interest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

Developments in Real Interest Rates



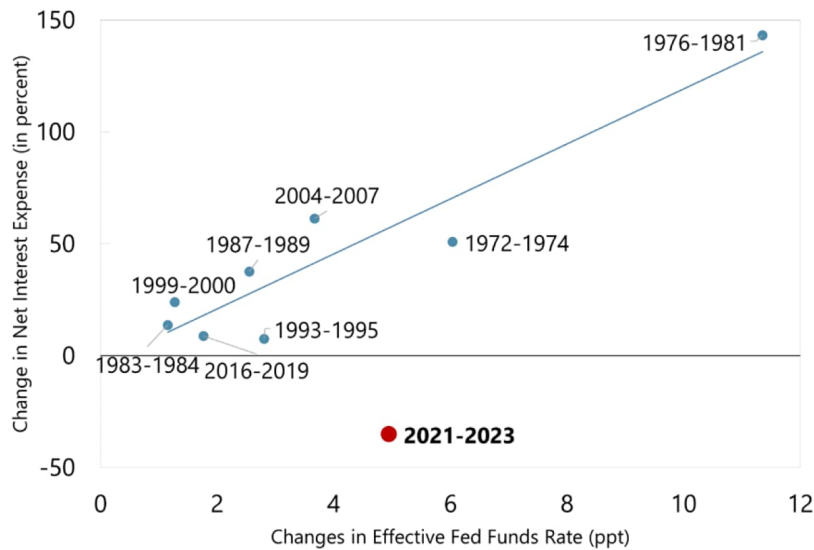
Note: Figures for real interest rates are calculated as government bond yields minus the composite index of inflation expectations (Bank of Japan staff estimates).
Sources: Bank of Japan; QUICK, "QUICK Monthly Market Survey <Bonds>"; Consensus Economics Inc., "Consensus Forecasts"; Bloomberg.

Shrinking Population, Working Hours, GDP, and Wages



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

Net Interest Payments by Nonfinancial Firms during Monetary Policy Tightening Cycle in the U.S.

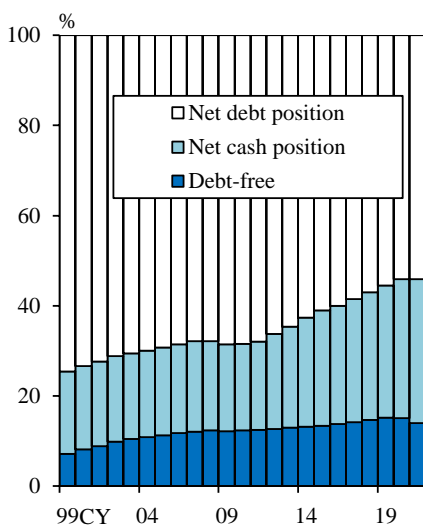


Source: IMF.

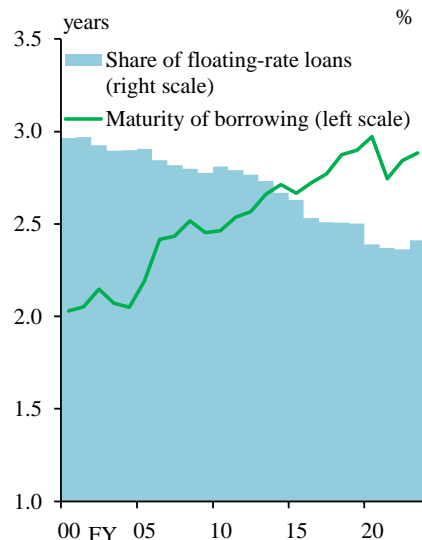
7

Developments in Firms' and Households' Balance Sheets in Japan

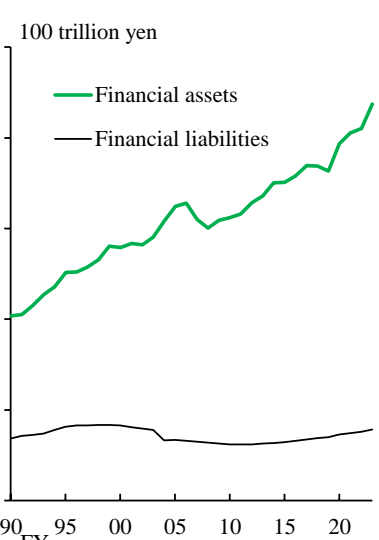
Ratio of Debt-Free Firms



Maturity of Borrowing by Firms



Financial Assets and Liabilities of Households



Note: In the middle chart, figures for the maturity of borrowing are estimated values based on borrowing data by maturity. Figures for the share of floating-rate loans are aggregate values of major and regional banks.

Sources: Teikoku Databank; Bank of Japan; Ministry of Finance.

8