

Japan's Economy and Monetary Policy

Speech at a Meeting with Local Leaders in Shizuoka

March 5, 2025

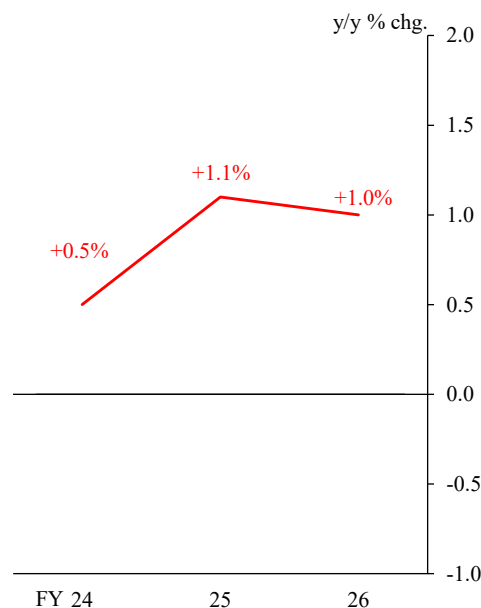
UCHIDA Shinichi

Deputy Governor of the Bank of Japan

Introduction

- I. Developments in Economic Activity and Prices
- II. The Bank's Conduct of Monetary Policy
- III. The Review of Monetary Policy from a Broad Perspective
- IV. My Hope for the Economy of Shizuoka Prefecture

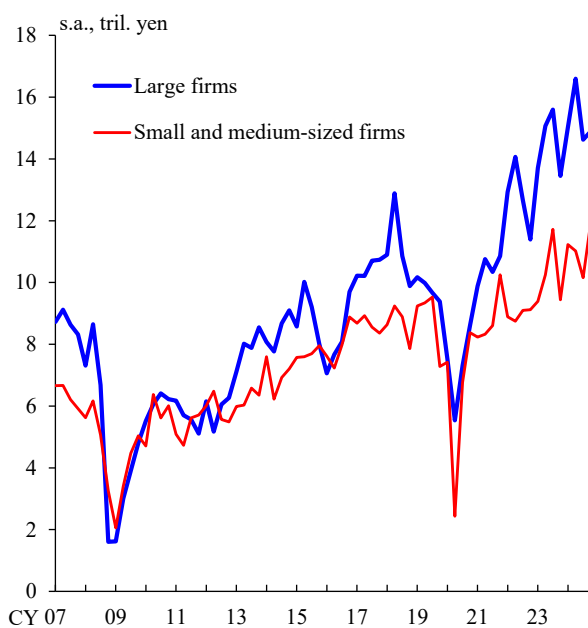
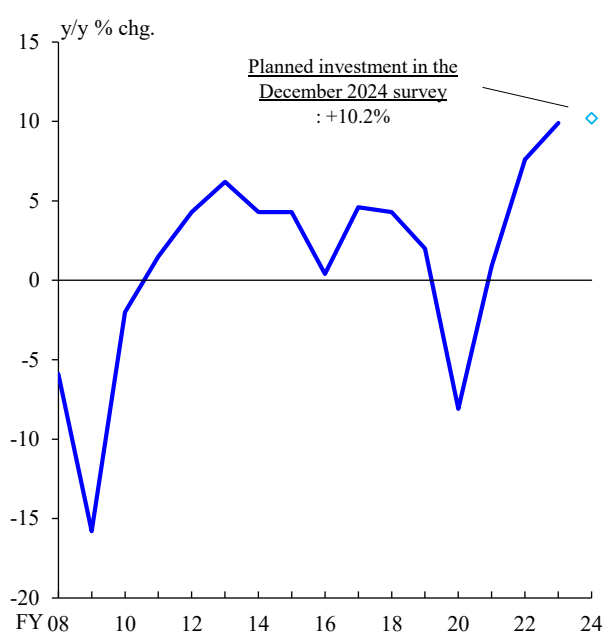
Real GDP

Developments over Time*The BOJ's Forecasts
(January 2025 Outlook Report)*

Note: In the right-hand chart, the forecasts presented are the medians of the Policy Board members' forecasts.
Sources: Cabinet Office; Bank of Japan.

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Corporate Sector

Corporate Profits*Business Fixed Investment*

Notes: 1. In the left-hand chart, figures are current profits 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.

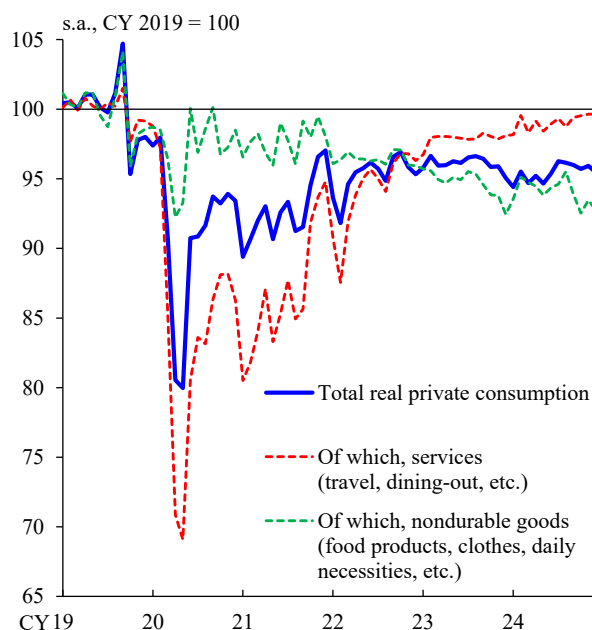
2. In the right-hand chart, figures are based on the *Tankan*, including software and R&D investments and excluding land purchasing expenses. R&D investment is not included before the March 2017 survey. Figures are for all industries including financial institutions.

Sources: Bank of Japan; Ministry of Finance.

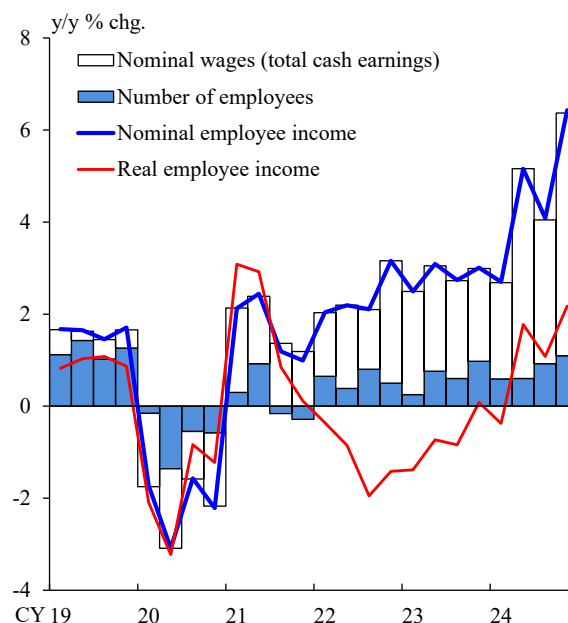
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Household Sector

Private Consumption



Employee Income



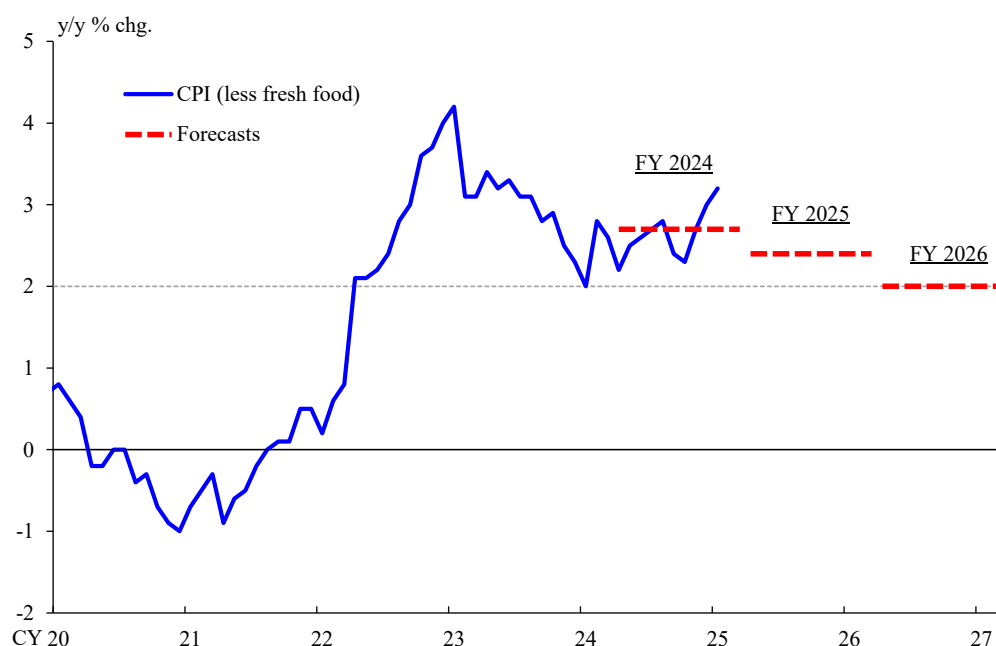
Notes: 1. In the left-hand chart, figures for total real private consumption are the real Consumption Activity Index (travel balance adjusted) based on staff calculations, which exclude inbound tourism consumption and include outbound tourism consumption.

2. In the right-hand chart, Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February. Nominal employee income = Total cash earnings (*Monthly Labour Survey*) × Number of employees (*Labour Force Survey*). Figures for real employee income are based on staff calculations using the CPI (less imputed rent). Figures from the *Monthly Labour Survey* are based on continuing observations following the sample revisions. Figures for 2024/Q4 are those for December.

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

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Consumer Prices



Note: The forecasts presented are the medians of the Policy Board members' forecasts in the January 2025 Outlook Report.
 Sources: Ministry of Internal Affairs and Communications; Bank of Japan.

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Wages and Consumer Prices

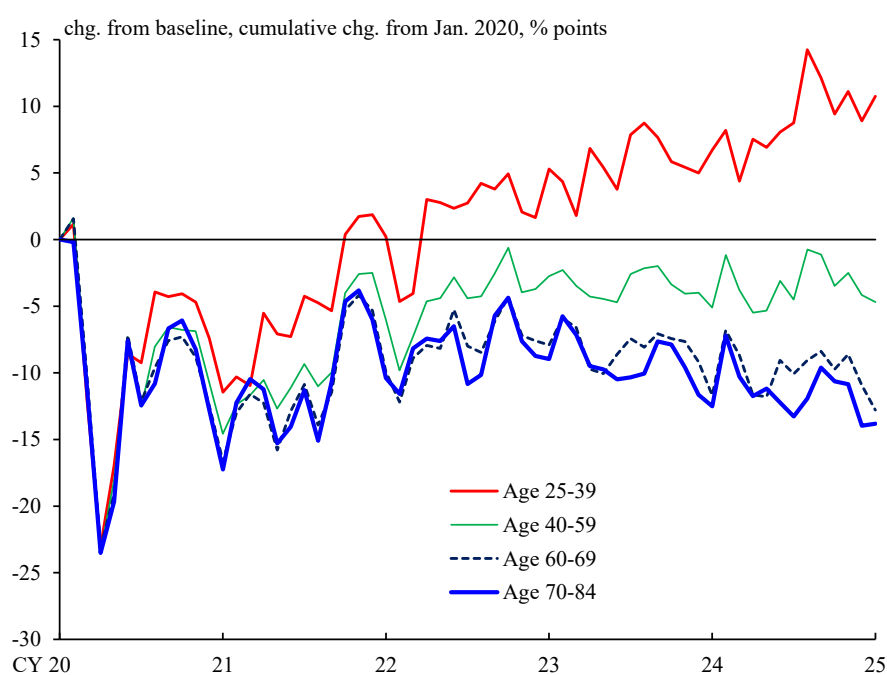
y/y chg.	FY 2022	FY 2023	FY 2024	Total
CPI (less fresh food)	3.0%	2.8%	2.6%	8.4%
Nominal wages (full-time employees)	2.2%	2.2%	3.9%	8.3%
Hourly nominal wages (part-time employees)	1.2%	3.1%	4.4%	8.8%
Minimum wage	3.3%	4.5%	5.1%	12.9%

Note: The figure for the CPI for fiscal 2024 is the April 2024-January 2025 average. Figures for nominal wages and hourly nominal wages for fiscal 2024 are the April-December averages (based on continuing observations following the sample revisions).

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

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Real Private Consumption by Age



Notes: 1. The baseline is the average for the corresponding months for fiscal 2016 through fiscal 2018.

2. Figures take changes in the number of consumers into account. Real values are obtained using the corresponding CPI for each item. (The CPIs are the same for all age groups).

Sources: Nowcast Inc./ JCB, Co., Ltd., "JCB Consumption NOW"; Ministry of Internal Affairs and Communications, etc.

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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

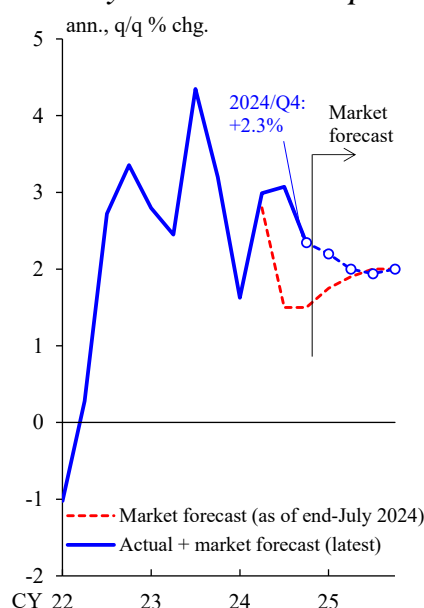
Short-term interest rate : raised to "around 0.5%"
(uncollateralized overnight call rate) (previously "around 0.25%")

- 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.

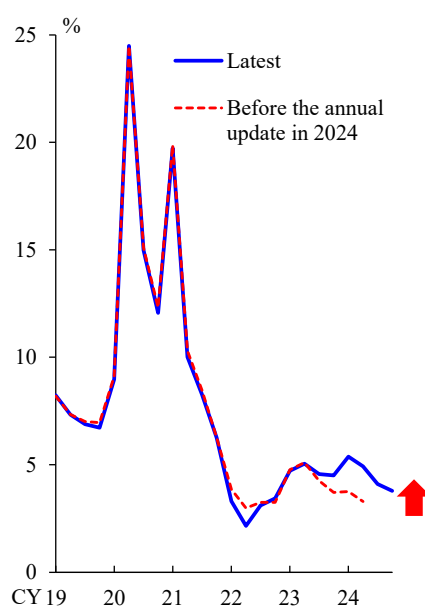
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U.S. Economy

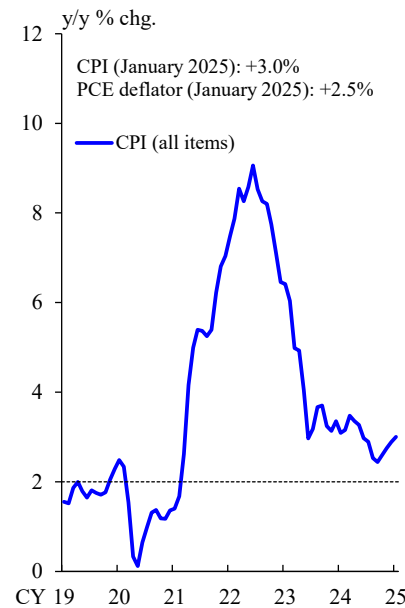
GDP Forecast
by Market Participants



Saving Rate



CPI



Notes: 1. In the left-hand chart, the market forecast is based on a survey by Bloomberg.

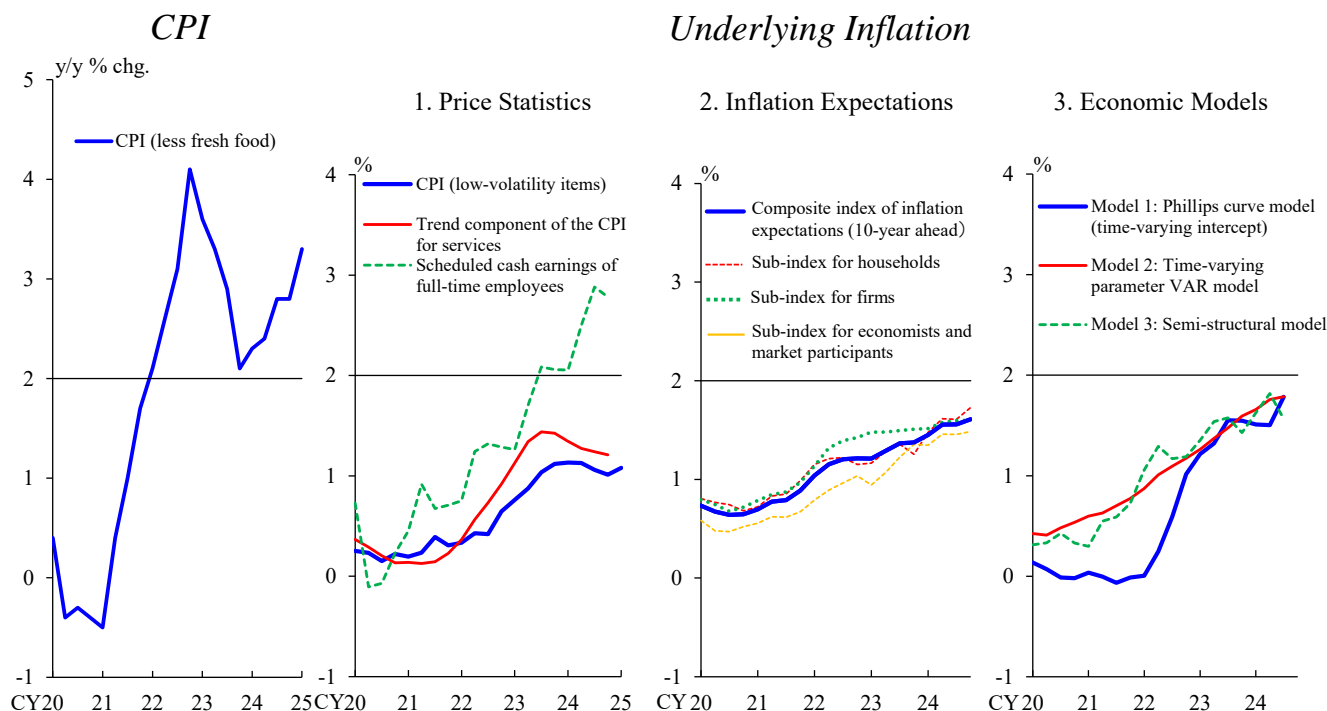
2. In the middle chart, figures for the saving rate are calculated as follows:

Saving rate = (Nominal disposable personal income - Nominal personal outlays) / Nominal disposable personal income × 100.

Sources: Bloomberg; Haver.

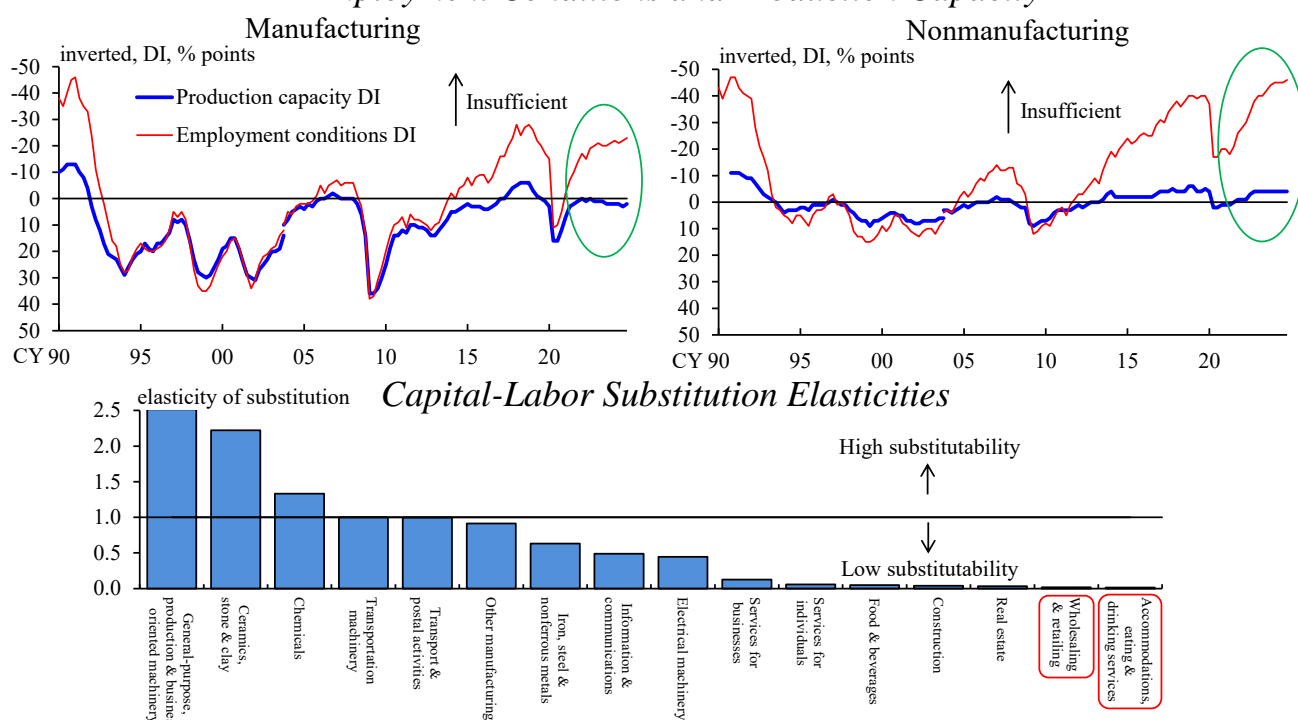
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CPI and Underlying Inflation

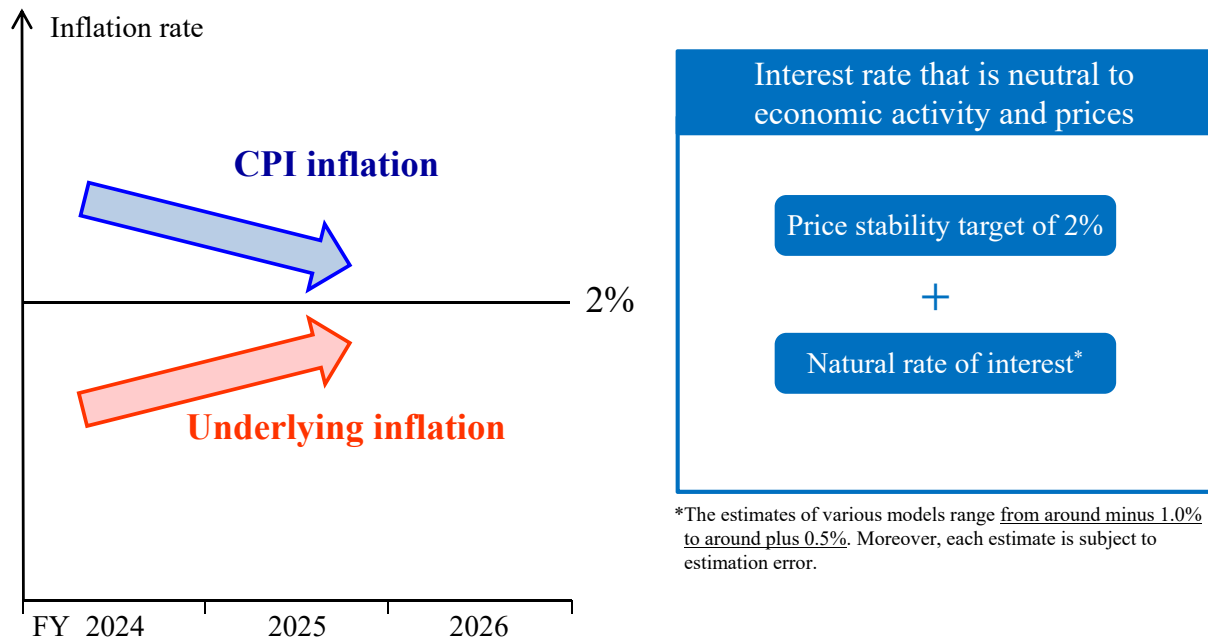


Substitutability between Capital and Labor

Employment Conditions and Production Capacity

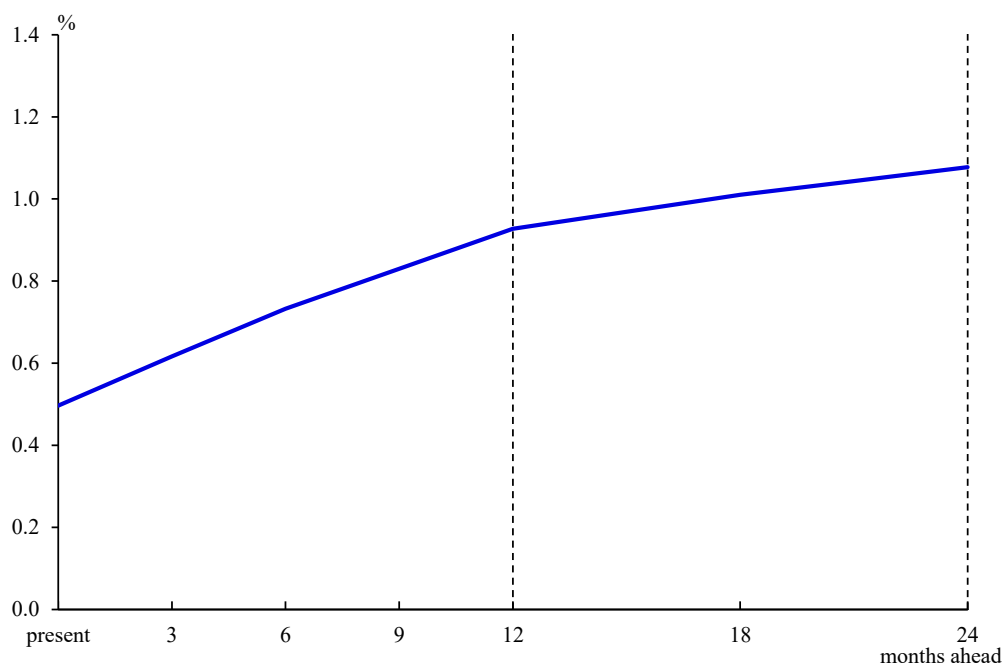


Schematic Illustration of Future CPI Inflation and Underlying Inflation



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Market Expectations for the BOJ's Policy Interest Rate



Note: The figure for the present is the 3-month yen overnight index swap (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 the figure for 24 months ahead is the 12-month forward rate, all calculated from the yen OIS rates. Figures are as of March 3, 2025.

Source: Bloomberg.

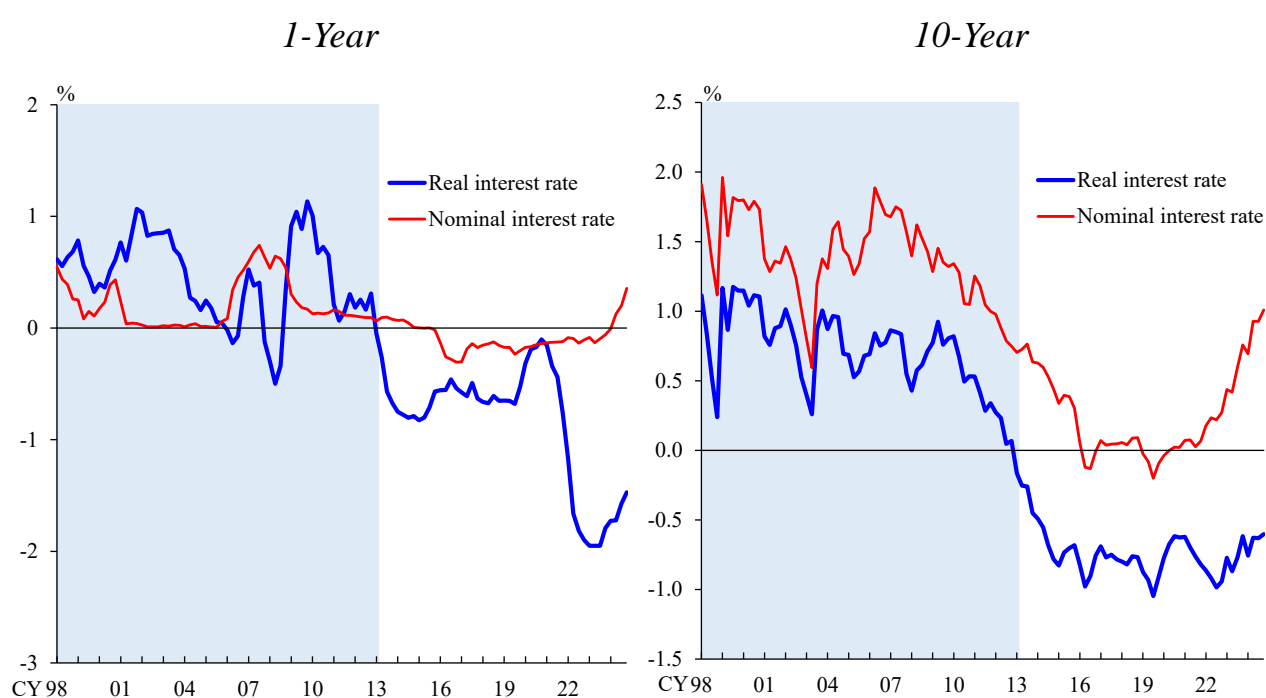
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Review of Monetary Policy from a Broad Perspective



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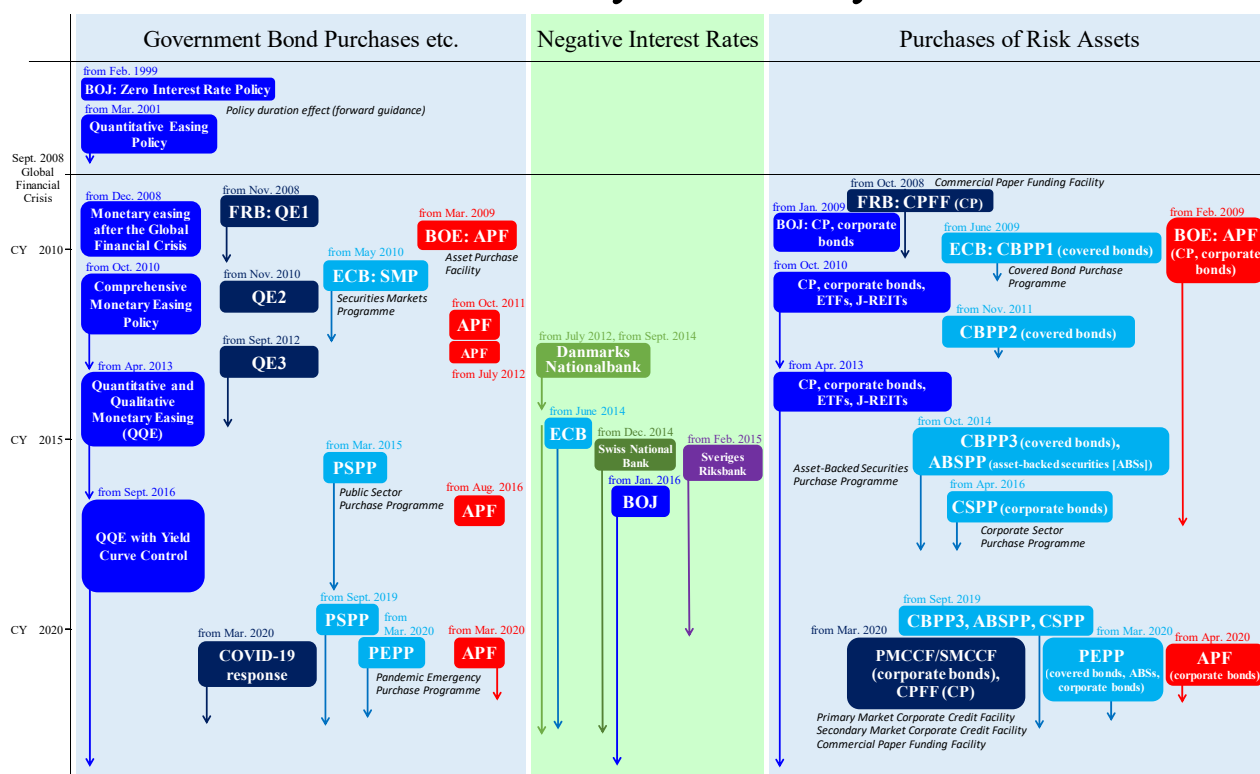
Real Interest Rates



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

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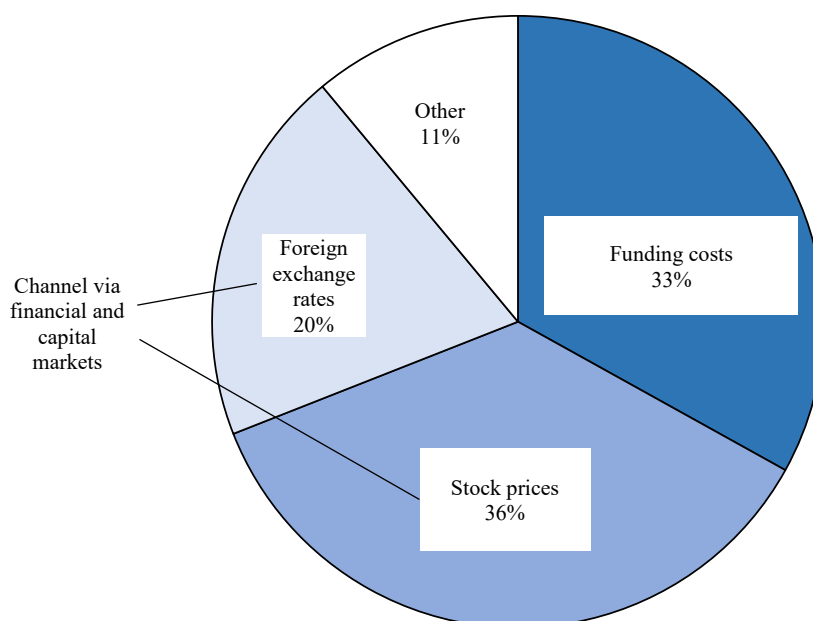
Unconventional Monetary Policies by Central Banks



Note: For government bond and risk asset purchases, major measures implemented by the Bank of Japan (BOJ), the U.S. Federal Reserve (FRB), the Bank of England (BOE), and the European Central Bank (ECB) are shown. For negative interest rates, measures implemented by other central banks are also included. For details, refer to the websites of the respective central banks.
Sources: Respective central banks.

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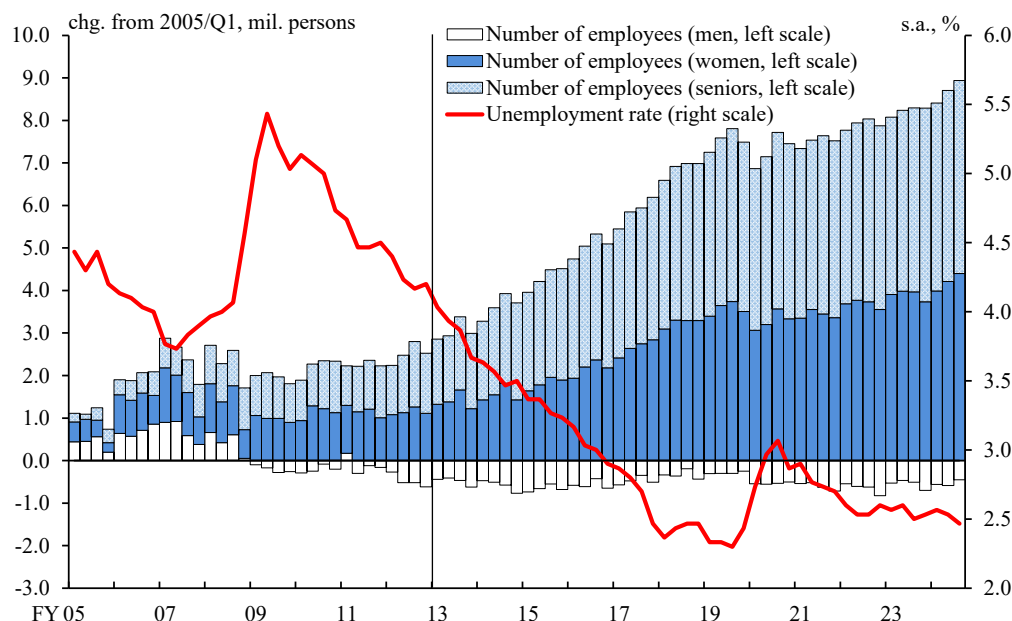
Transmission Channels of the Decline in Interest Rates Resulting from Large-Scale Monetary Easing



Note: The chart shows the contribution of each channel to the 5-year cumulative effect of the decline in interest rates on the output gap. The estimates are obtained using a VAR model with coefficient restrictions. For details of the estimation, see Chart 1-3-16 in the "Review of Monetary Policy from a Broad Perspective."
Sources: Bank of Japan; Bloomberg, etc.

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Labor Market



Note: Figures for men and women are for employees aged between 15 and 64, while those for seniors are for employees aged 65 and over.
Source: Ministry of Internal Affairs and Communications.

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Impact of the Large-Scale Monetary Easing since 2013

Assessment of the Effects and Side Effects of Large-Scale Monetary Easing

- Although there have been certain side effects on financial markets and financial institutions' profits, the overall effect on the Japanese economy so far appears to have been positive.
- However, attention should be paid to the possibility that the negative effects may become larger in the future, such as the possibility that the functioning of the JGB market does not fully recover or possible side effects of large-scale monetary easing materialize at a later date.

Issues with Regard to Large-Scale Monetary Easing

Functioning of
financial markets

Functioning of financial
intermediation

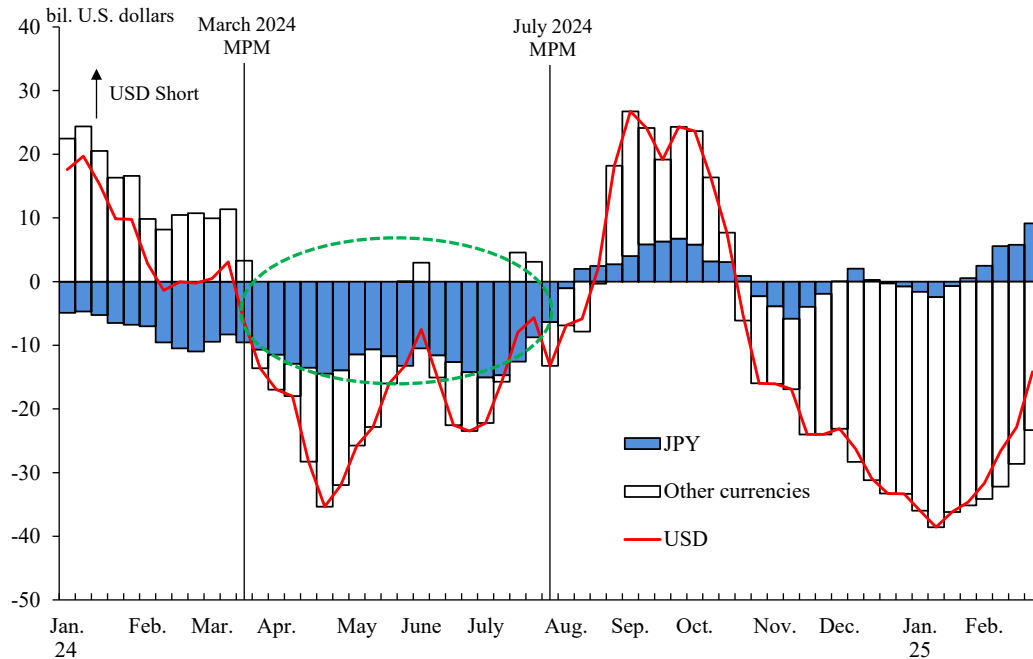
Supply side of the economy
(growth, productivity, etc.)

Relationship between
Monetary and Fiscal Policy

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Financial Markets

Yen Carry Positions (IMM Net Positions)



Note: IMM (International Money Market) net positions are the total of non-commercial and non-reportable positions against the U.S. dollar in currency futures transactions. Other currencies include pound sterling and the euro, Australian dollar, Canadian dollar, Swiss franc, Mexican peso, and New Zealand dollar.
Source: Bloomberg.

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Initiatives in Shizuoka Prefecture

Business Matching Events with Startups



Source: TECH BEAT Shizuoka.

Trial Runs of Self-Driving Buses



Source: Fuji City.

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