

# Japan's Economy and Monetary Policy

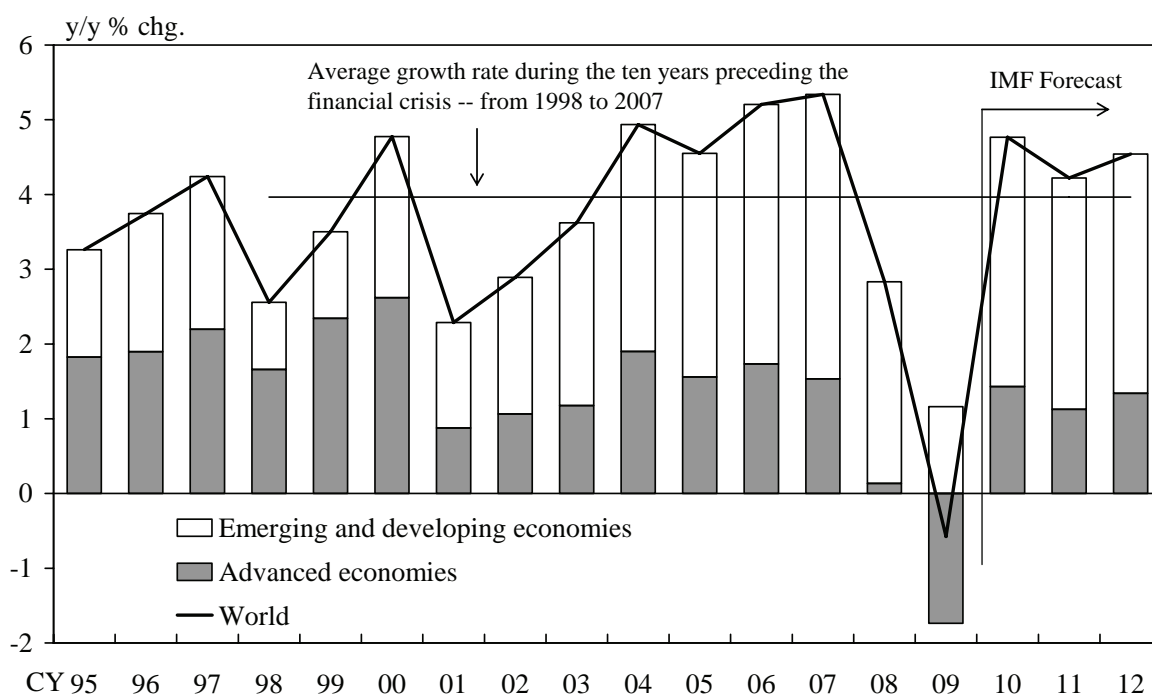
November 29, 2010

Masaaki Shirakawa

Governor of the Bank of Japan

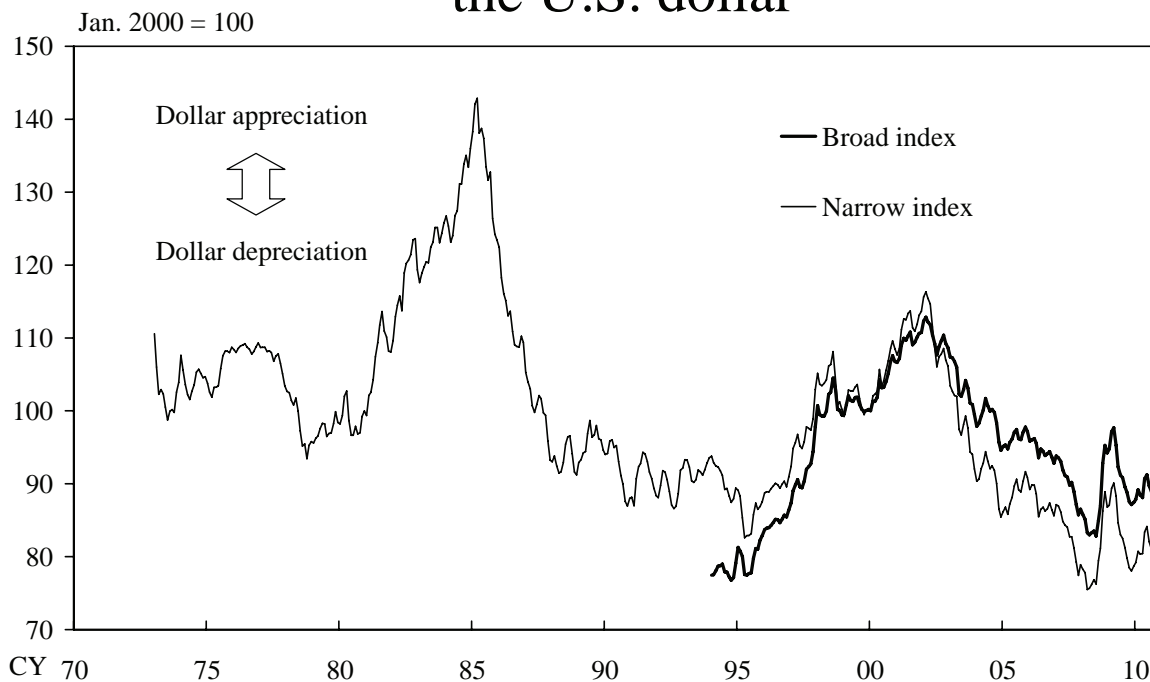
Chart 1

## Global Economic Growth Rates



Source: IMF, "World Economic Outlook, October 2010."

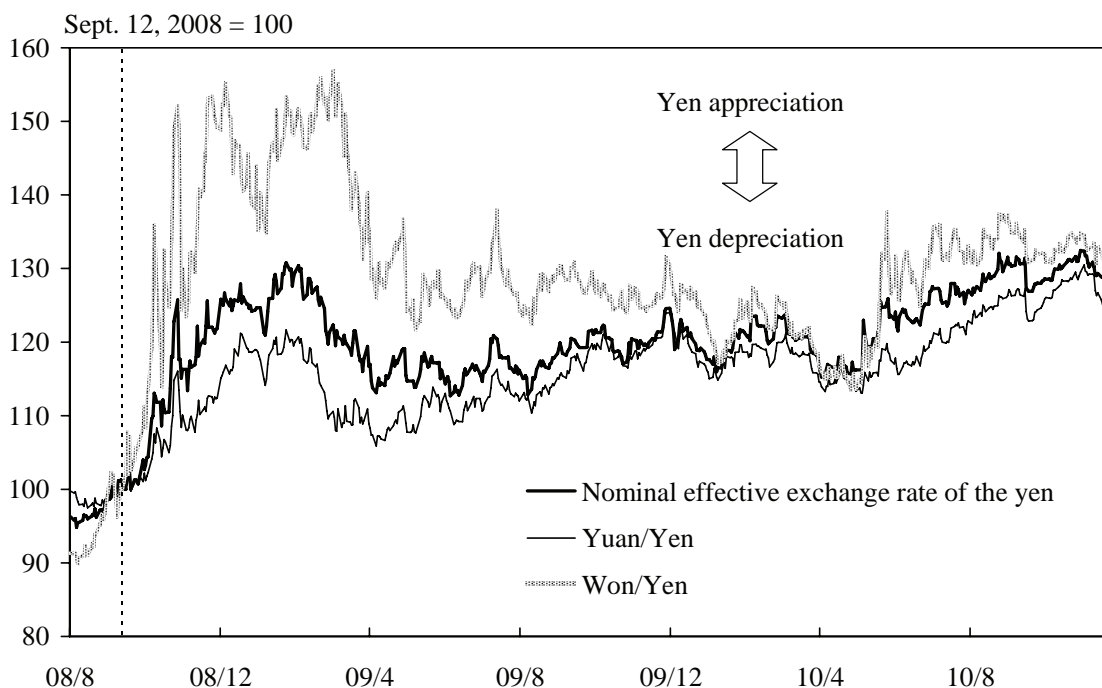
# Nominal Effective Exchange Rate of the U.S. dollar



Note: The effective exchange rate of the dollar is calculated as the average of the dollar's exchange rate versus major currencies, weighted by the volume of trade. The narrow index is calculated for a basket of 25, mainly advanced, economies. The broad index is calculated for a basket of 56 economies, including both advanced and emerging economies.

Source: BIS.

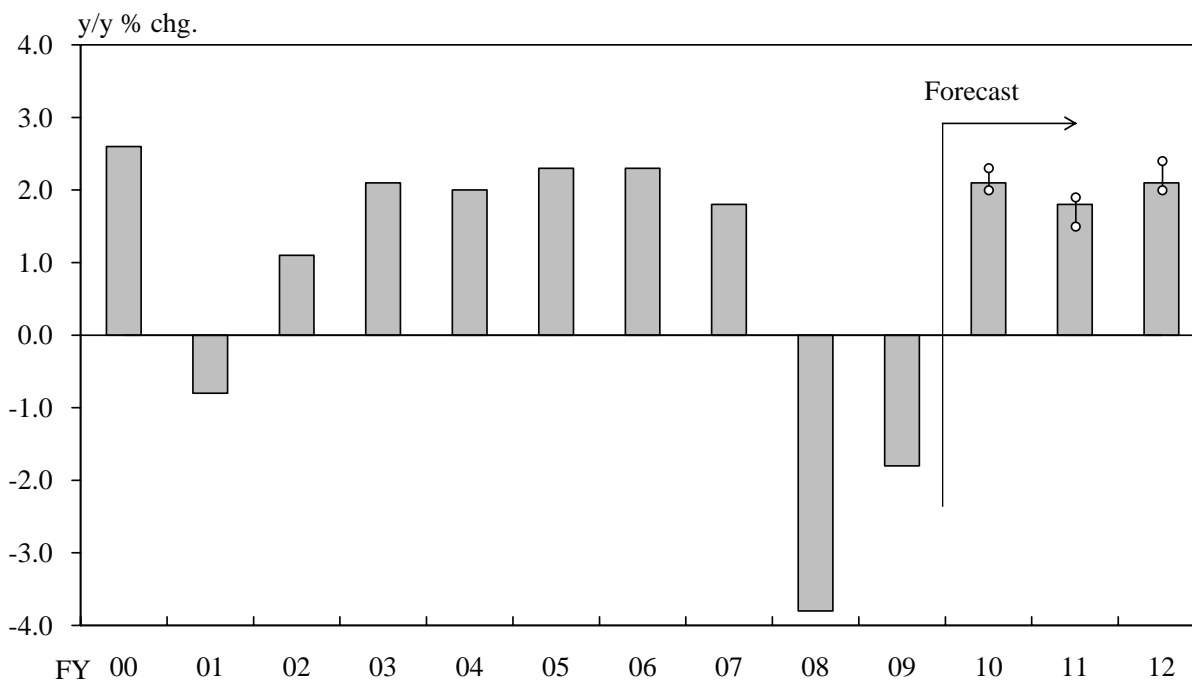
# Yen Exchange Rate



Note: The nominal effective exchange rate of the yen is calculated by the Bank of Japan based on the BIS's method for calculating broad indices of the effective exchange rate.

Sources: Bloomberg; Bank of Japan.

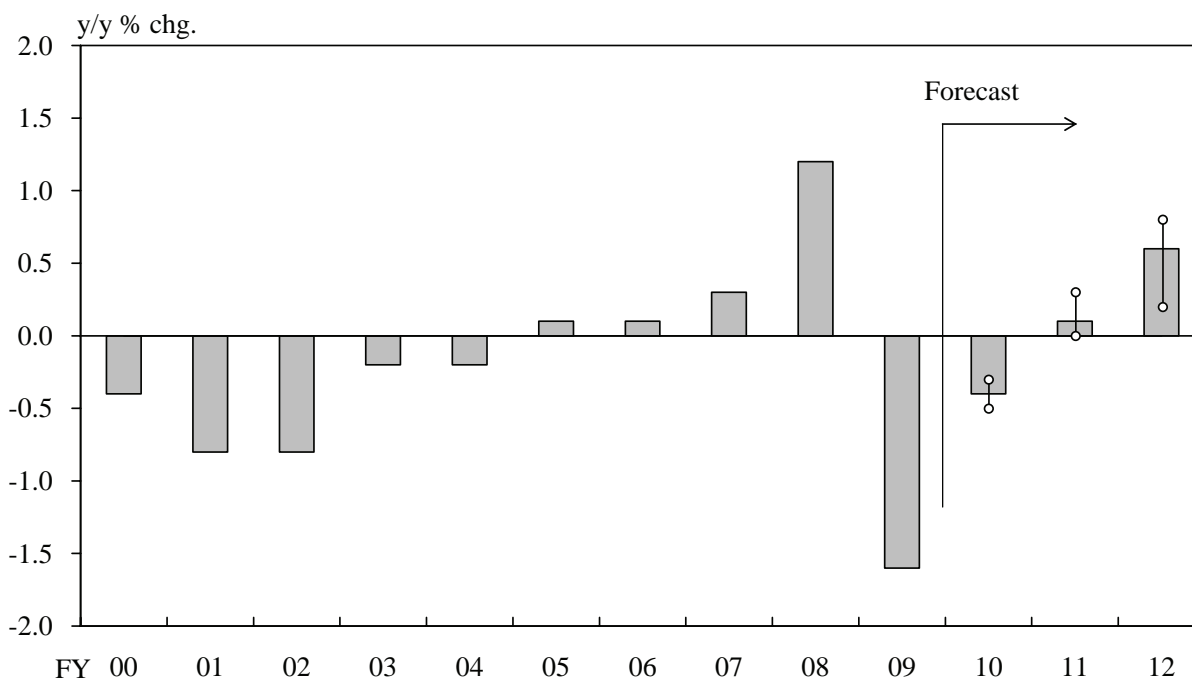
## Forecast for Japan's Real GDP



Note: The forecast bars show the median of Policy Board members' forecasts and the white dots the range of forecasts of the majority members presented in the October 2010 *Outlook for Economic Activity and Prices*.

Sources: Cabinet Office, "National Accounts"; Bank of Japan.

## Forecast for Japan's CPI



Notes: 1. The forecast bars show the median of Policy Board members' forecasts and the white dots the range of forecasts of the majority members presented in the October 2010 *Outlook for Economic Activity and Prices*.

2. The forecast for the CPI for fiscal 2010 excludes the effects of subsidies for high school tuition.

Sources: Ministry of Internal Affairs and Communications, "Consumer Price Index"; Bank of Japan.

# Comprehensive Monetary Easing

## 1. Change in the guideline for money market operations

- The target for the uncollateralized overnight call rate:  
"around 0.1 %" → "around 0 to 0.1% "

## 2. Clarification of the policy time horizon based on the *understanding of medium- to long-term price stability*

- Maintaining the virtually zero interest rate policy until the Bank judges, on the basis of the *understanding of medium- to long-term price stability*, that price stability is in sight
- On condition that no problem is identified in examining risk factors, including the accumulation of financial imbalances

## 3. Establishment of the Asset Purchase Program

- Establishing, as a temporary measure, the Asset Purchase Program to purchase various financial assets and to conduct the fixed-rate operation

Note: The current *understanding* states that "on the basis of the year-on-year rate of change in the CPI, it falls in a positive range of 2 percent or lower, and the midpoints of most Policy Board members' *understanding* are around 1 percent."

# Asset Purchase Program

Fixed-rate operation	<ul style="list-style-type: none"> <li>▪ Supplying funds at a fixed interest rate of 0.1 percent : about ¥30 trillion (amount outstanding: ¥23.2 trillion)</li> </ul> <p style="margin-left: 40px;">3-month funds: about ¥20 trillion</p> <p style="margin-left: 40px;">6-month funds: about ¥10 trillion</p>																							
Asset Purchase	<ul style="list-style-type: none"> <li>▪ Purchasing various financial assets: about ¥5 trillion</li> </ul> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="width: 20%;"></th> <th style="width: 20%; text-align: right;">(Start Date)</th> </tr> </thead> <tbody> <tr> <td>JGBs</td> <td>About ¥1.5 trillion</td> <td style="text-align: right;">(Nov. 8)</td> </tr> <tr> <td>Treasury discount bills</td> <td>About ¥2.0 trillion</td> <td style="text-align: right;">(Nov. 9)</td> </tr> <tr> <td>Corporate Bonds</td> <td>About ¥0.5 trillion</td> <td style="text-align: right;">(Dec. 3)</td> </tr> <tr> <td>CP</td> <td>About ¥0.5 trillion</td> <td style="text-align: right;">(Dec. 10)</td> </tr> <tr> <td>ETFs</td> <td>About ¥0.45 trillion</td> <td style="text-align: right;">(Around mid-Dec.)</td> </tr> <tr> <td>J-REITs</td> <td>About ¥0.05 trillion</td> <td style="text-align: right;">(Around mid-Dec.)</td> </tr> </tbody> </table>					(Start Date)	JGBs	About ¥1.5 trillion	(Nov. 8)	Treasury discount bills	About ¥2.0 trillion	(Nov. 9)	Corporate Bonds	About ¥0.5 trillion	(Dec. 3)	CP	About ¥0.5 trillion	(Dec. 10)	ETFs	About ¥0.45 trillion	(Around mid-Dec.)	J-REITs	About ¥0.05 trillion	(Around mid-Dec.)
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## Japan's Real GDP Growth

avg. y/y % chg.

	1960s	1970s	1980s	1990s	2000s	2010s
Real GDP growth rate (A) + (B)	10.4	5.0	4.3	1.5	0.8	—
Rate of change in the number of employed persons (A)	1.5	0.8	1.2	0.5	-0.3	-0.6
Rate of increase in labor productivity (B)	8.7	4.1	3.1	1.0	1.1	—

Notes: 1. Figures are on a fiscal year basis.

2. The rate of change in the number of employed persons for the 2010s is calculated using the projected future population (medium variant) and the projected labor force participation rate (on the assumption that the labor force participation rate in each age/sex group remains the same as that in 2009).

Sources: Cabinet Office, "National Accounts"; Ministry of Internal Affairs and Communications, "Labour Force Survey"; National Institute of Population and Social Security Research, "Population Projections for Japan: 2001-2050."

## Labor Productivity Growth in the G-7 Countries

avg. y/y % chg.

	Japan	US	Canada	Germany	France	UK	Italy
Real GDP growth rate (A) + (B)	1.4	2.4	2.6	1.5	1.9	2.4	1.2
Rate of change in the number of employed persons (A)	-0.1	0.6	1.9	0.5	1.0	0.9	1.3
Rate of increase in labor productivity (B)	1.5	1.8	0.7	0.9	0.9	1.6	-0.1

Note: Figures are calendar 2000-2008 averages to exclude the effects of the financial crisis after the failure of Lehman Brothers.

Sources: National statistical offices.