

Japan's Economy and Monetary Policy

*Speech at a Meeting Held by the Naigai Josei Chousa Kai
 (Research Institute of Japan) in Tokyo*

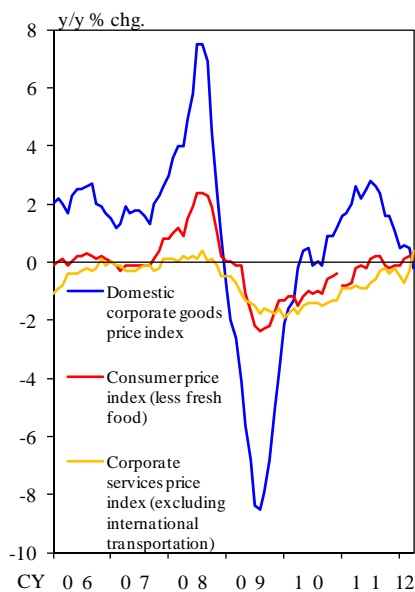
June 4, 2012

Masaaki Shirakawa
 Governor of the Bank of Japan

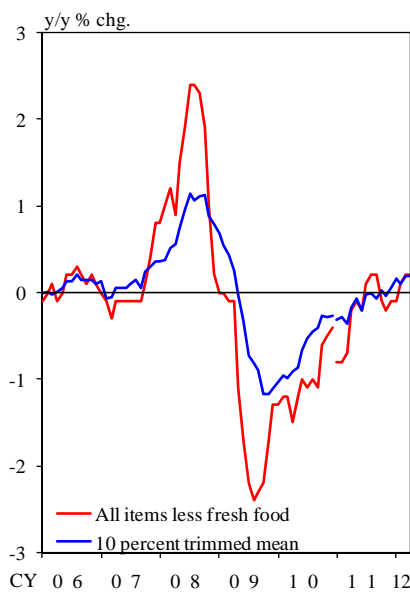
Chart 1

Price Developments in Japan

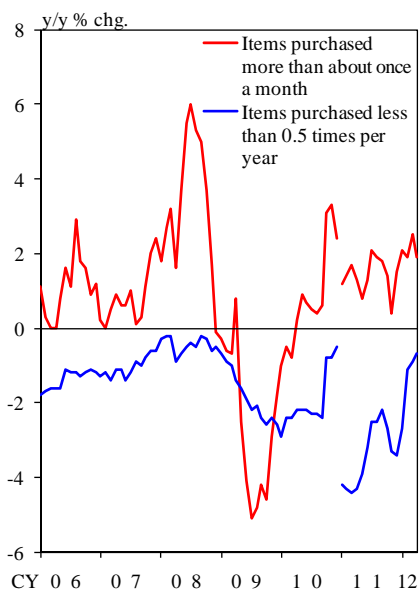
Price Indices¹



Trend Changes in the Consumer Price Index^{1,2}



Consumer Price Index by Purchase Frequency Classes^{1,3}



Notes: 1. Figures for the CPI up to 2010 are on the 2005 base, and those from 2011 onward are on the 2010 base.

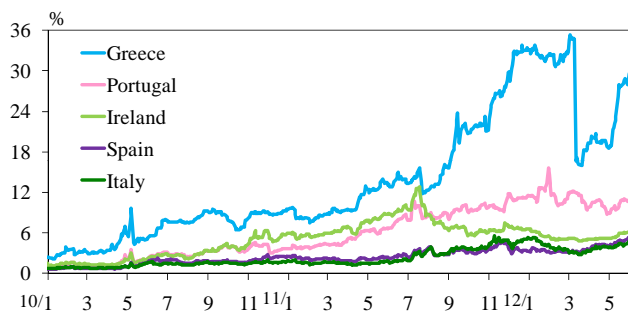
2. Figures for the 10 percent trimmed mean are weighted averages of items; these items are obtained by rearranging year-on-year rates of price change in ascending order and then excluding items in both the upper and lower 10 percent tails by weight.

3. Figures for "Items purchased more than about once a month" are Electricity, Cooked food, and Tobacco, etc. Figures for "Items purchased less than 0.5 times per year" are TV sets and Package tours to overseas, etc.

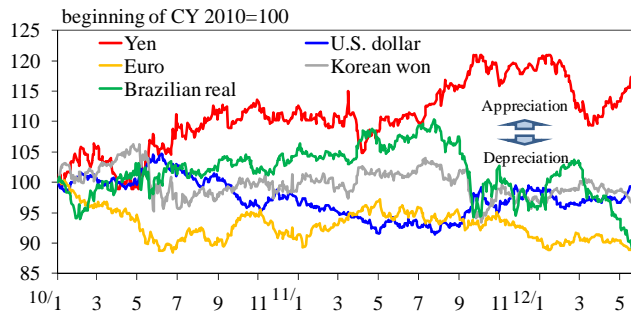
Sources: Ministry of Internal Affairs and Communications; Bank of Japan.

Financial Market Developments

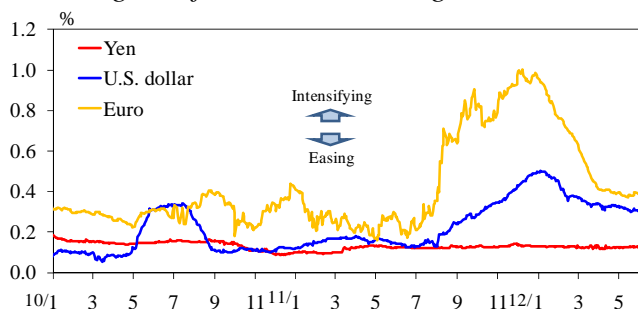
Spreads for European Government Bonds¹



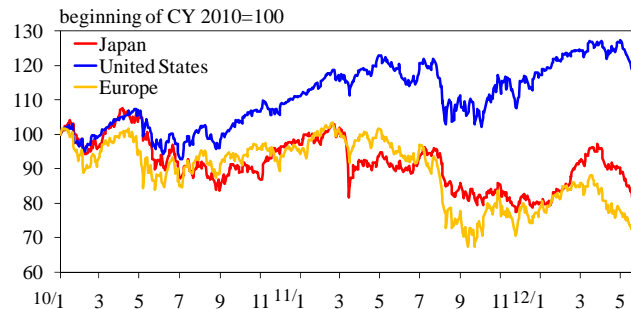
Nominal Effective Exchange Rates



Degree of Strain in Funding Markets²



Stock Prices

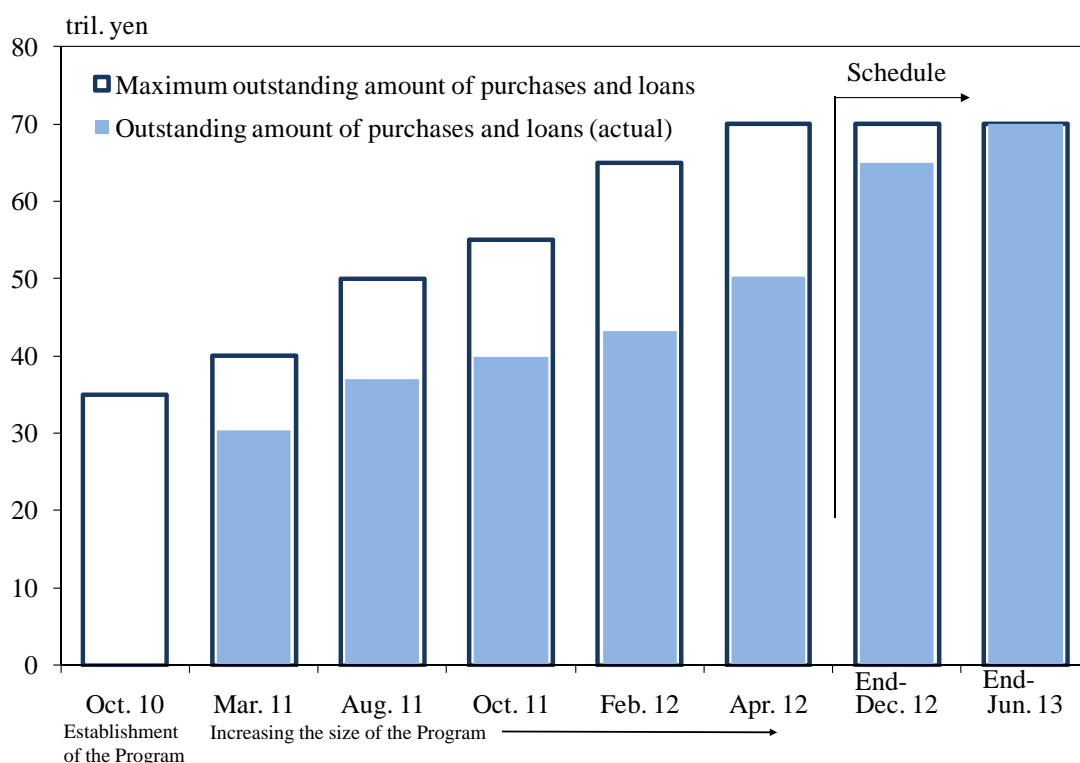


Notes: 1. The spreads for government bonds are the yield spreads for 10-year government bonds issued by European countries minus those issued by Germany. The spreads for Irish bonds are calculated using 9-year government bonds.

2. The degree of strain in funding markets is 3-month Libor minus 3-month overnight index swap (OIS) rates.

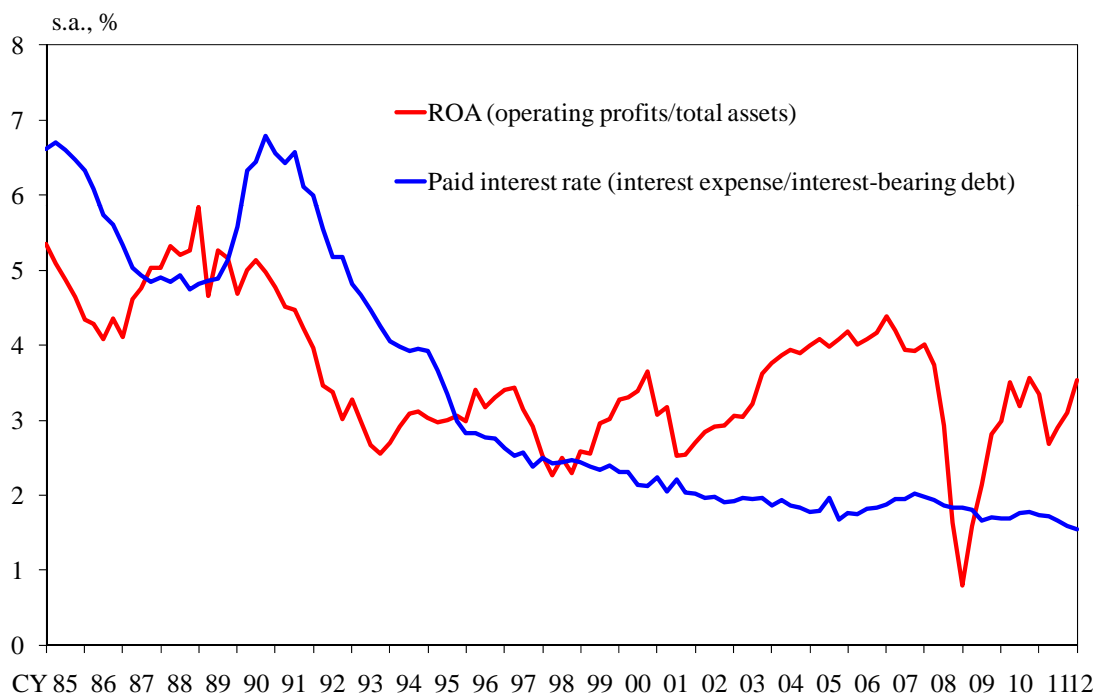
Source: Bloomberg.

Size of the BOJ's "Asset Purchase Program"



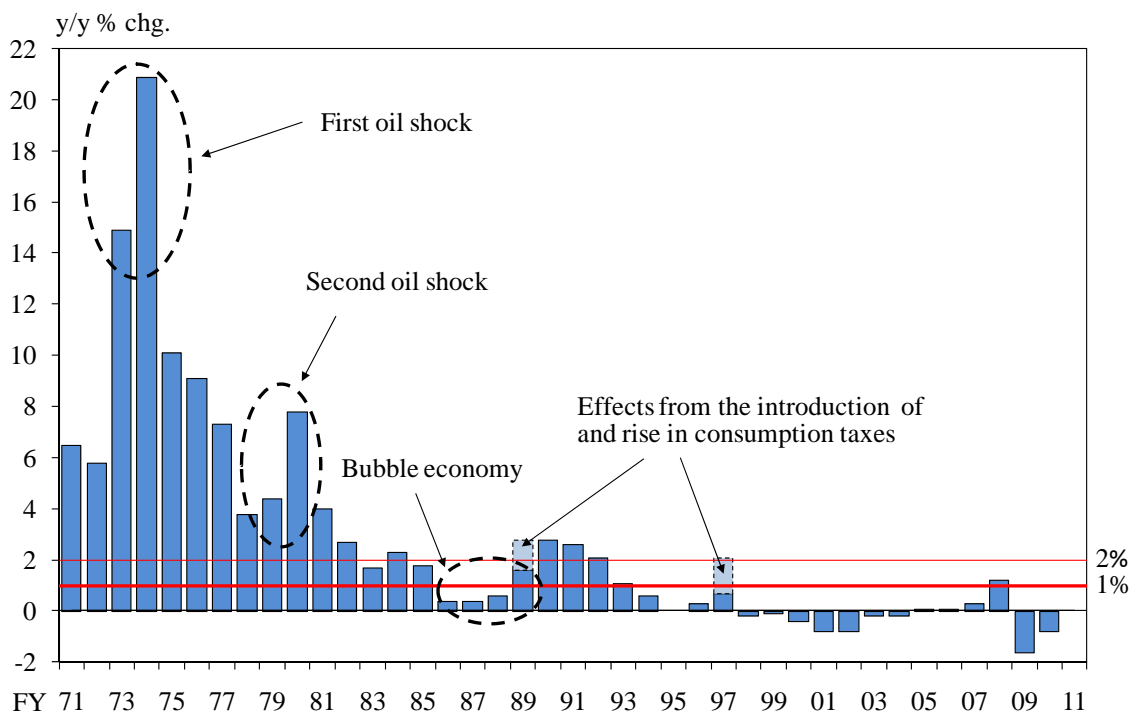
Source: Bank of Japan.

ROA and Paid Interest Rate of Japanese Firms



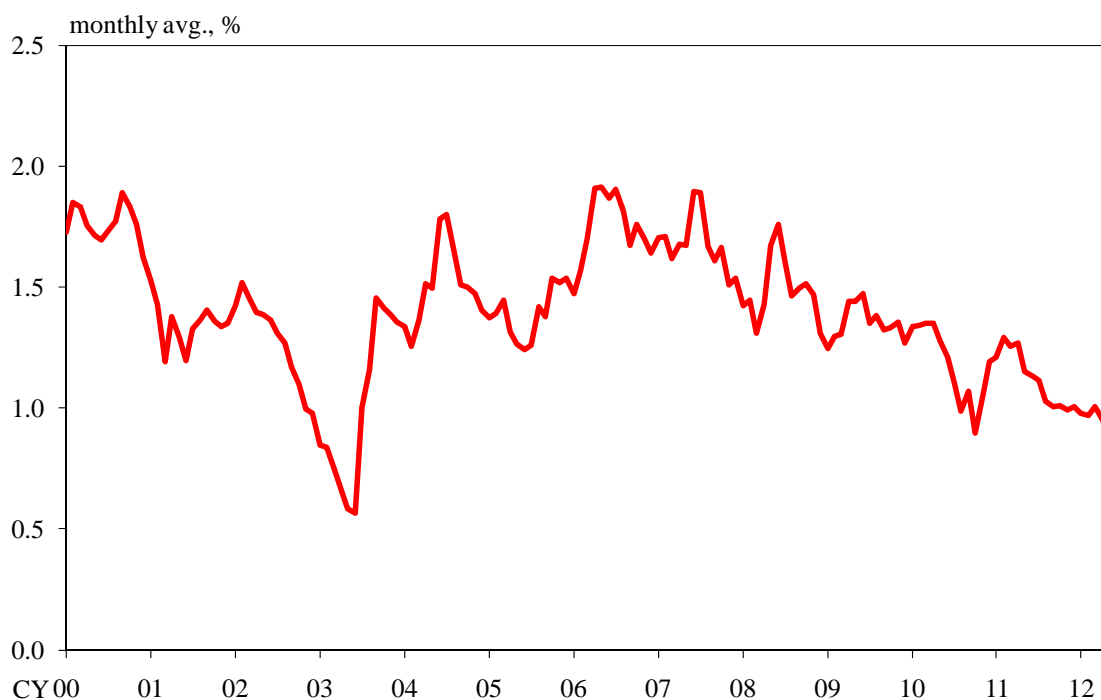
Notes: 1. Figures are taken from the "Financial Statements Statistics of Corporations by Industry, Quarterly," and are based on all-size enterprises and all industries. Finance and insurance are excluded.
 2. Interest-bearing debt is the sum of long- and short-term borrowings, corporate bonds, and bills receivable discounted outstanding.
 Source: Ministry of Finance.

Changes in Japan's CPI



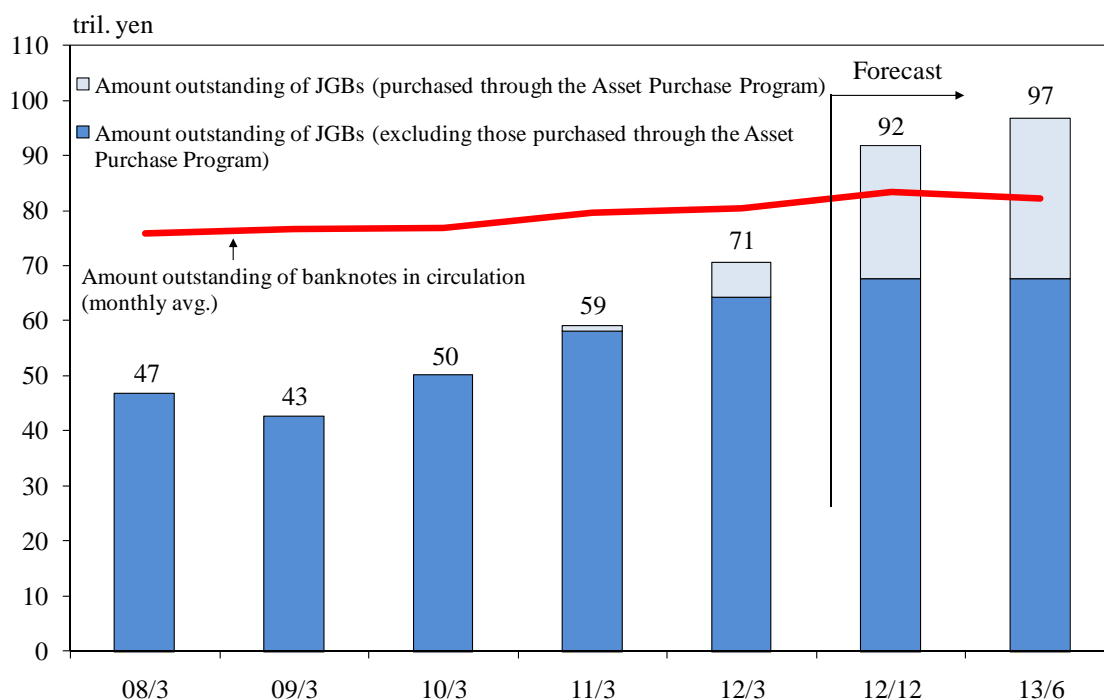
Note: All items less fresh food.
 Source: Ministry of Internal Affairs and Communications.

Long-Term Interest Rates in Japan



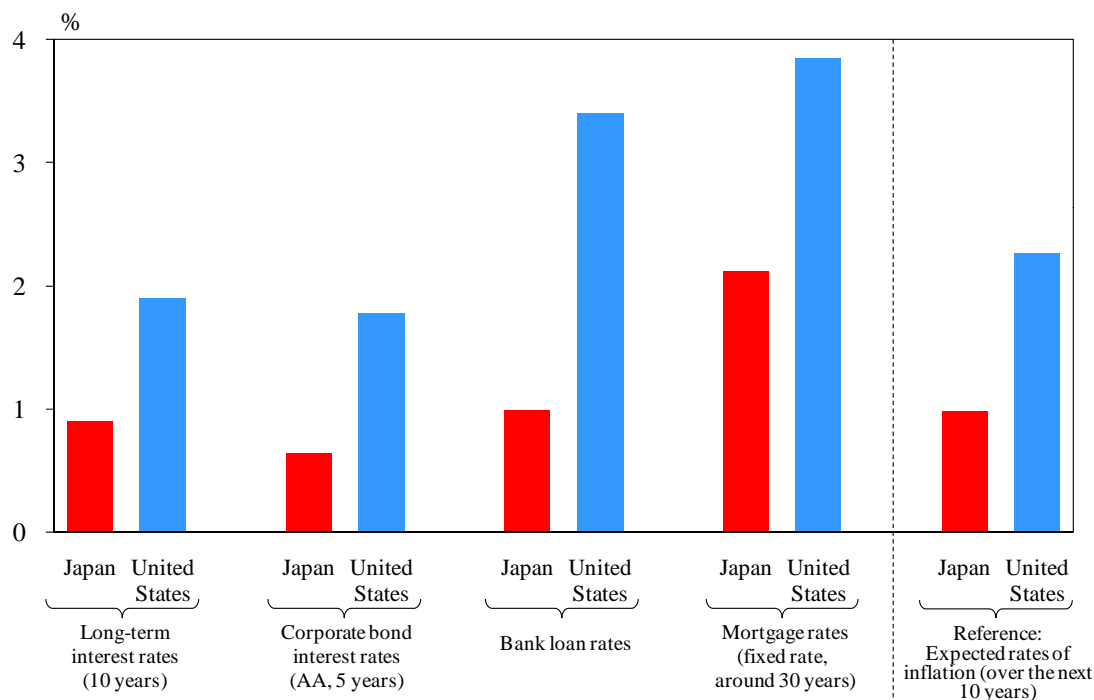
Note: 10-year government bond yield.
Source: Bloomberg.

Amounts Outstanding of the BOJ's JGB Holdings



Notes: 1. Figures for the amount outstanding of JGBs are as of the end of each month.
2. The average annual growth rate for the latest three months used to forecast banknotes in circulation in December 2012 and June 2013 is that for December 2011 to February 2012, excluding the figure for March 2012, which was significantly affected by the Great East Japan Earthquake.
Source: Bank of Japan.

Financial Conditions in Japan and the United States

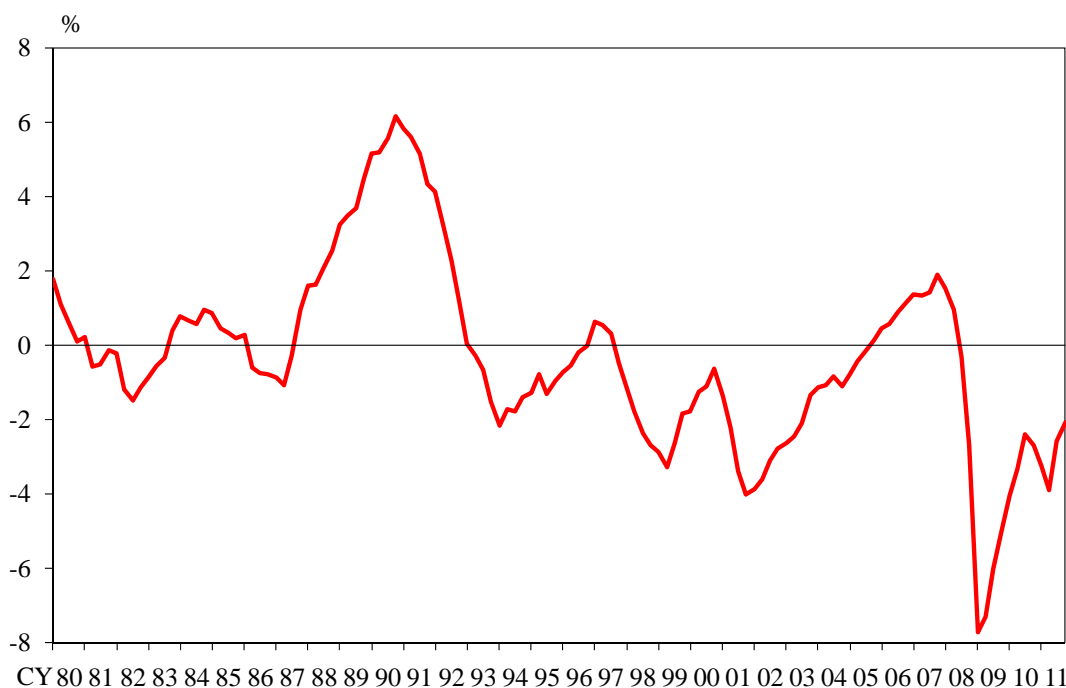


Notes: 1. Long-term interest rates, corporate bond interest rates, and mortgage rates are the averages for April-May 2012.

2. Loan rates are those for 2012/Q1 and expected rates of inflation are those for 2012/Q2.

Sources: Japan Housing Finance Agency; Freddie Mac; Bank of Japan; FRB; Consensus Forecasts; Bloomberg.

Japan's Output Gap



Note: The output gap is estimated by the Research and Statistics Department, Bank of Japan. Since the estimation of the output gap includes various errors, considerable latitude should be allowed for this estimation.

Sources: Bank of Japan; Ministry of Internal Affairs and Communications; Ministry of Health, Labour and Welfare; Ministry of Economy, Trade and Industry; Cabinet Office, etc.

Decline in the Labor Force and Economic Growth in Japan

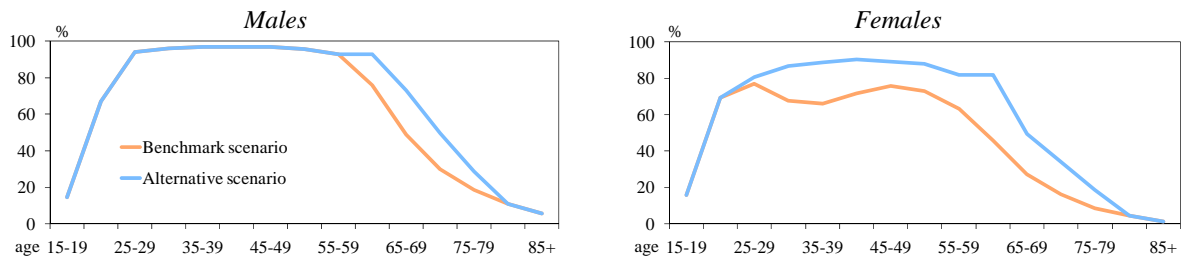
Benchmark scenario: labor force participation rates remain unchanged

Labor force participation rates for every age and sex remain unchanged from the level of 2010.

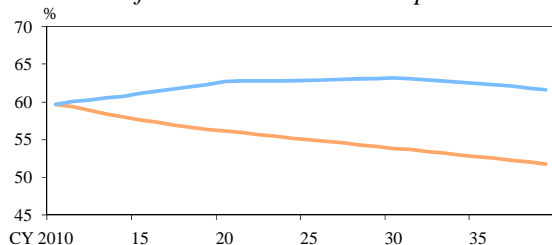
Alternative scenario: labor force participation rates for females and elderly people rise

Female labor force participation rates for ages 25-59 rise by 2030 to the level of labor force participation rates in Sweden in 2010. In addition, labor force participation rates for ages 60-64 rise to the level of ages 55-59, and those for ages 65 and over rise consistently. From 2031 onward, the participation rates remain unchanged.

Estimates of Labor Force Participation by Age in 2030



Estimates of the Labor Force Participation Rate



The impact of the decline in the labor force on real GDP growth

	avg., y/y % chg.	
	Benchmark scenario	Alternative scenario
2010s	-0.6	+0.2
2020s	-0.8	-0.3
2030s	-1.2	-1.0

Note: The projected population (medium variant) is calculated by the National Institute of Population and Social Security Research.

Sources: Ministry of Internal Affairs and Communications; Cabinet Office; National Institute of Population and Social Security Research.

Population Aging and Health Care Expenditure

	Japan	Germany	United States	France	United Kingdom
Population over 65 years (Change from 2000 to 2010, percent)	33	25	16	11	11
Expenditure for health care (Change from 2000 to 2008, percent)	11	25	74	49	85

Sources: United Nations; OECD.