

# Overcoming Deflation and After

*Speech at the Meeting of Councillors of Nippon Keidanren  
(Japan Business Federation) in Tokyo*

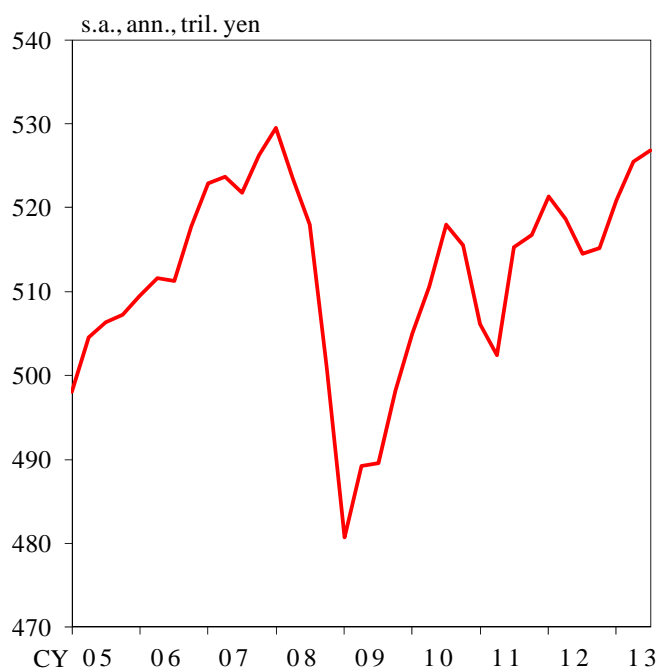
December 25, 2013

Haruhiko Kuroda  
*Governor of the Bank of Japan*

Chart 1

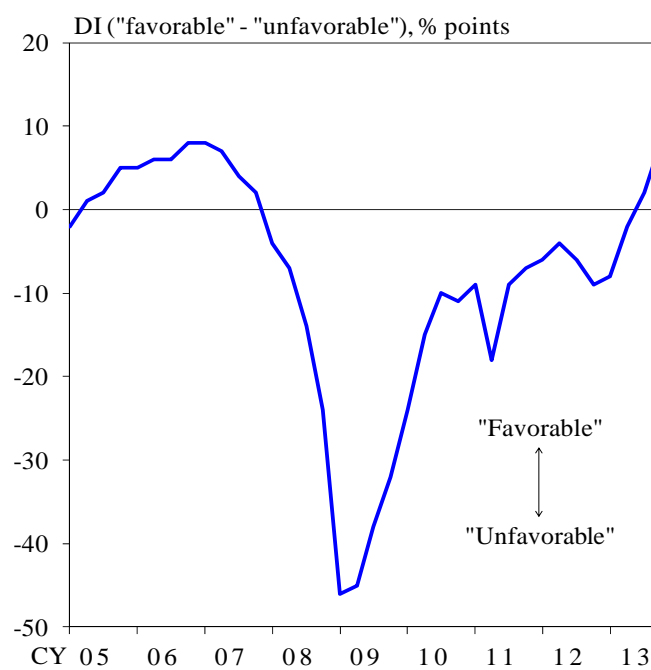
## Real Economy

*Real GDP*



*Business Conditions*

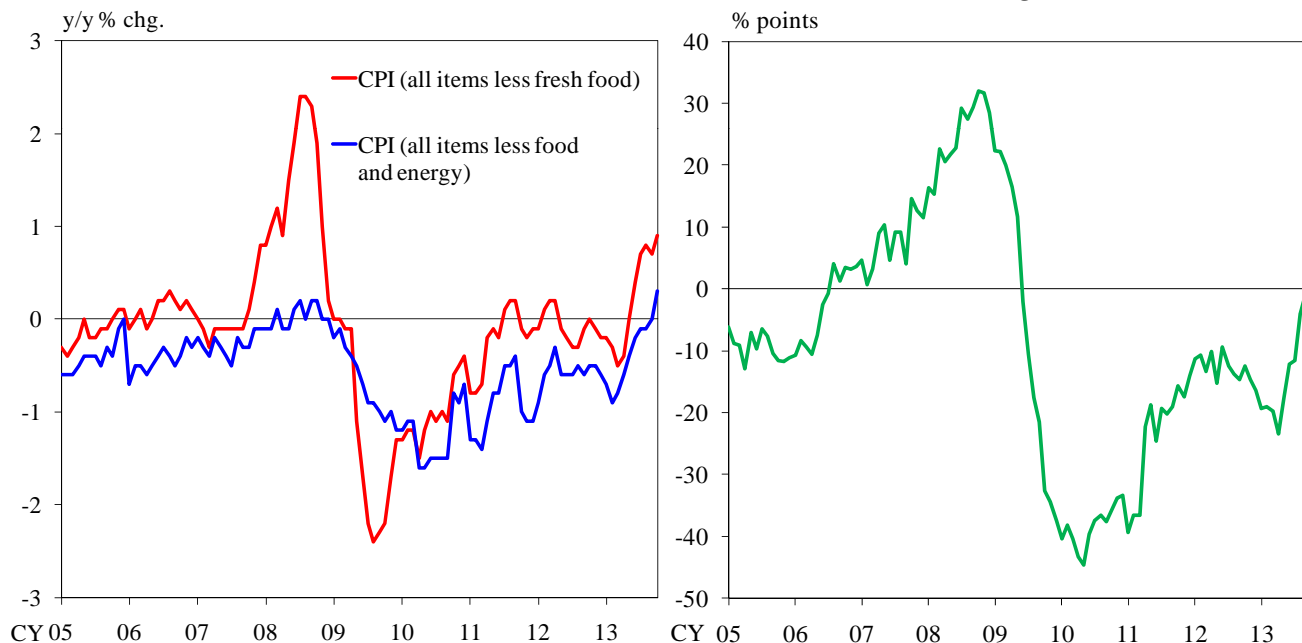
*(Tankan: All Industries and All-Sized Enterprises)*



# Consumer Price

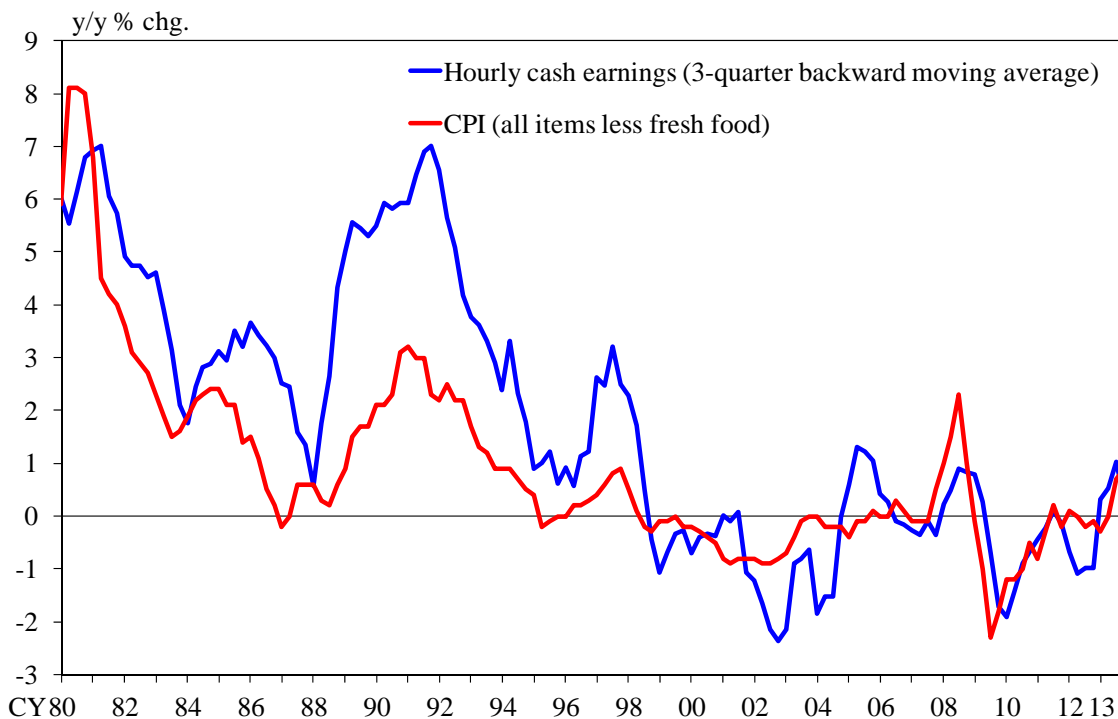
*Year-on-Year Rate of Change*

*Ratio of Increasing and Decreasing Items*



Note: The chart on the right indicates the difference between the ratio of items whose year-on-year rates of price change increased and that of items whose year-on-year rates of price change decreased. All items less fresh food.  
 Source: Ministry of Internal Affairs and Communications.

# Consumer Price and Wages

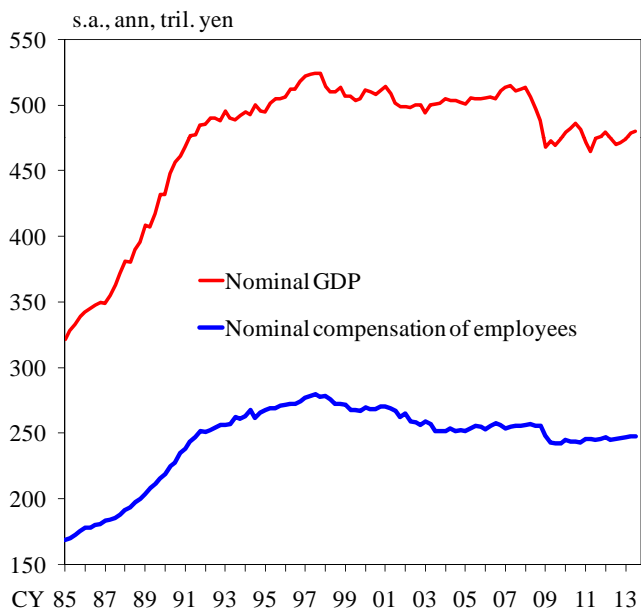


Notes 1. Figures for the CPI are adjusted to exclude the effect of changes in the consumption tax rate.  
 2. Figures for hourly cash earnings up through 1990/Q4 are those for establishments with 30 or more employees.  
 3. Figures for 2013/Q4 are those of October.

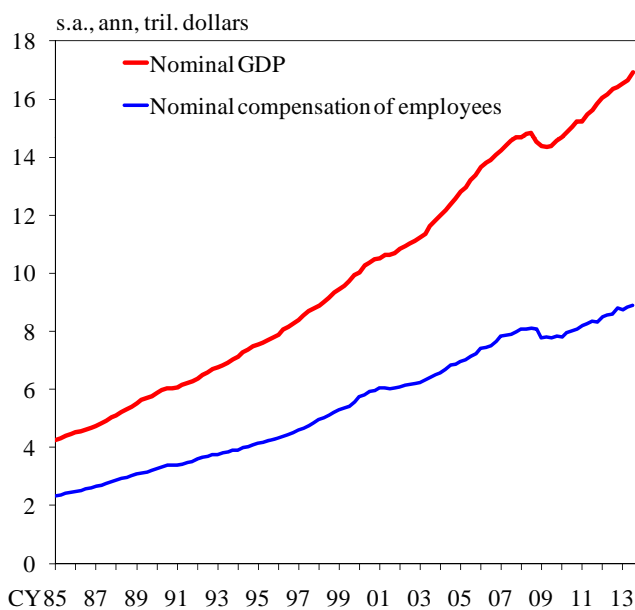
Sources: Ministry of Internal Affairs and Communications; Ministry of Health, Labour and Welfare.

# GDP and Employee Income (Nominal)

## Japan



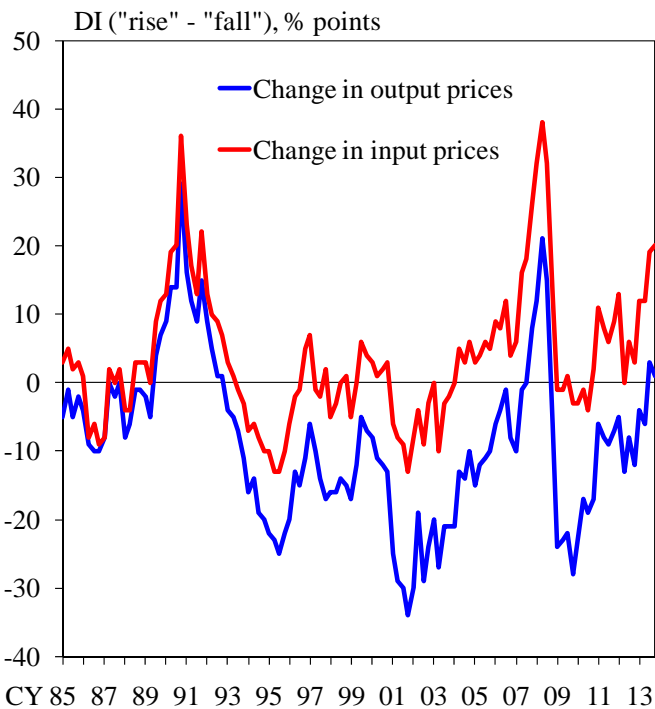
## United States



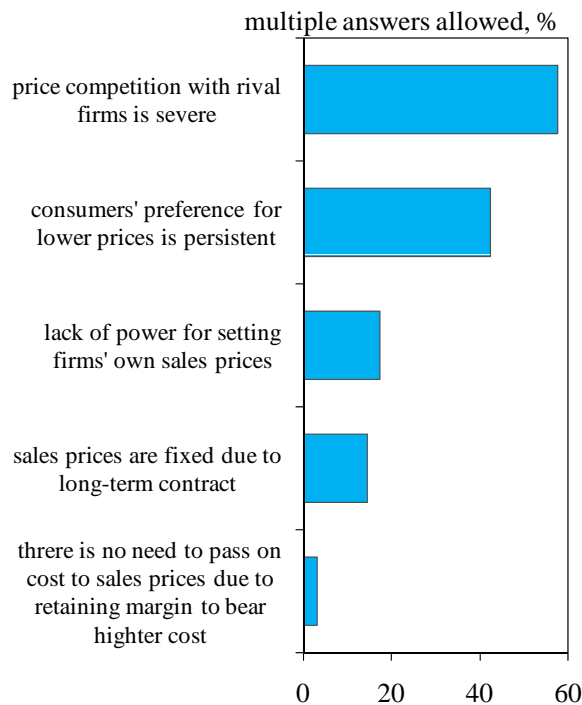
Sources: Cabinet Office; BEA.

# Pricing Power of Firms

## Tankan (Retailing, All-Sized Enterprises)



## Reasons for Difficulty in Price Pass-Through

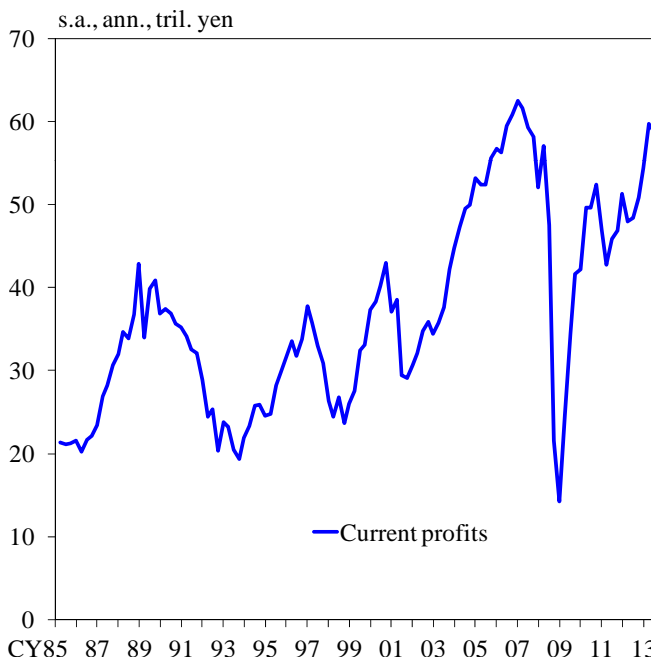
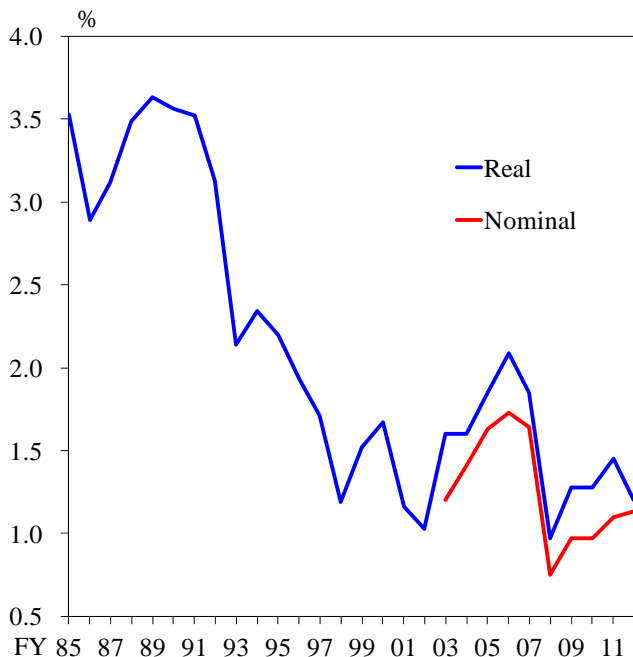


Sources: Bank of Japan; The Japan Chamber of Commerce and Industry.

# Growth Expectations and Corporate Profits

*Expected Growth Rates for the Next 5 Years*

*Corporate Profits*

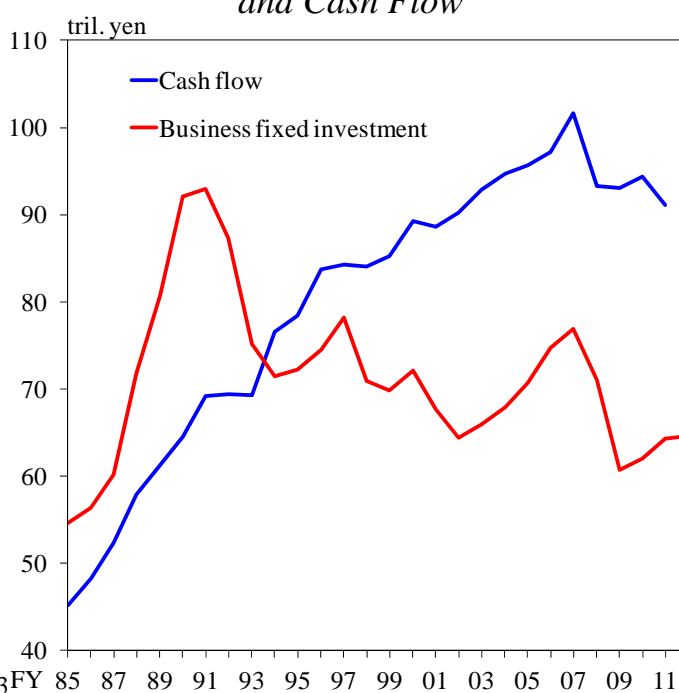
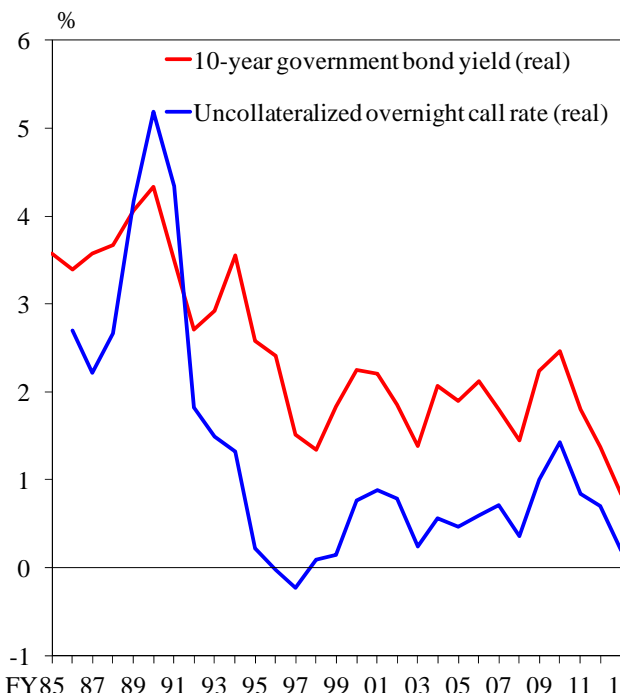


Notes 1. Expected growth rates are taken from "Annual Survey of Corporate Behavior."  
 2. Corporate profits are taken from the "Financial Statements Statistics of Corporations by Industry, Quarterly."  
 Figures are based on all enterprises except finance and insurance.  
 Sources: Cabinet Office; Ministry of Finance.

# Real Interest Rates and Business Fixed Investment

*Real Interest Rates*

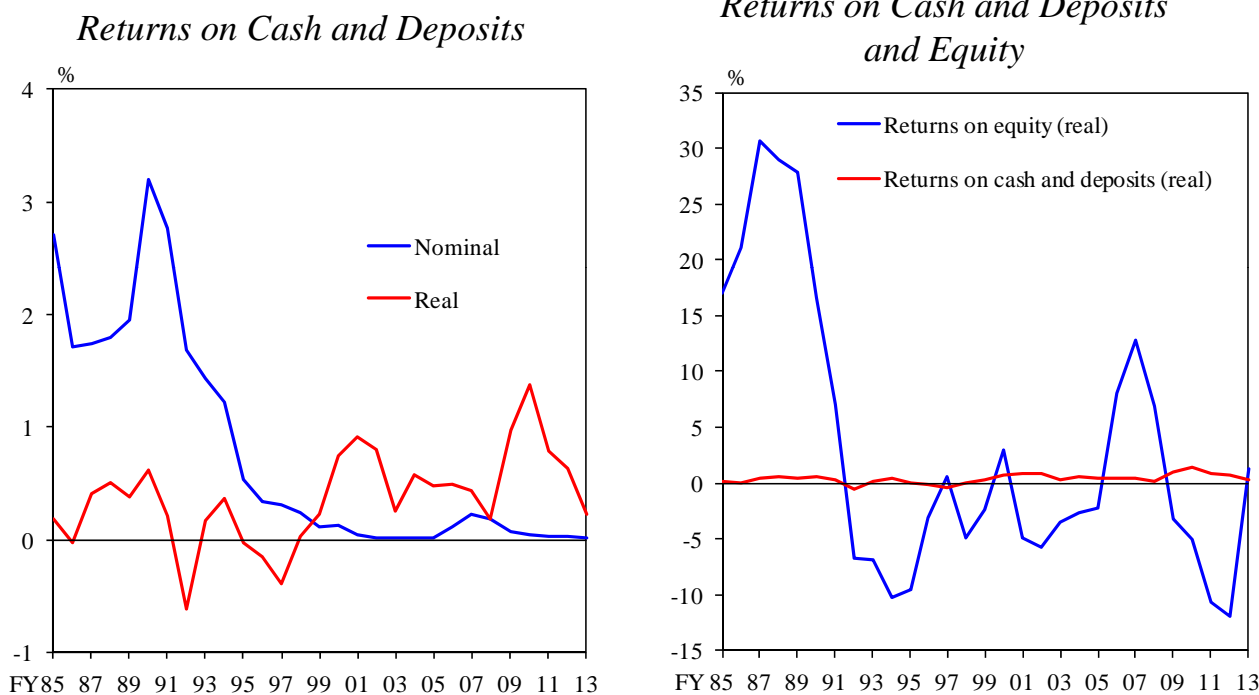
*Business Fixed Investment and Cash Flow*



Notes: 1. Figures for real interest rates are calculated by subtracting the year-on-year rate of change in the CPI (less food and energy, adjusted to exclude the effect of changes in the consumption tax rate) from each nominal yield.  
 2. Business fixed investment and cash flow are taken from the "National Accounts."  
 Cash flow = consumption of fixed capital + (operating surplus + net property income) / 2  
 Figures up through fiscal 1993 are on the 2000 base.

Sources: Bloomberg; Ministry of Internal Affairs and Communications; Cabinet Office.

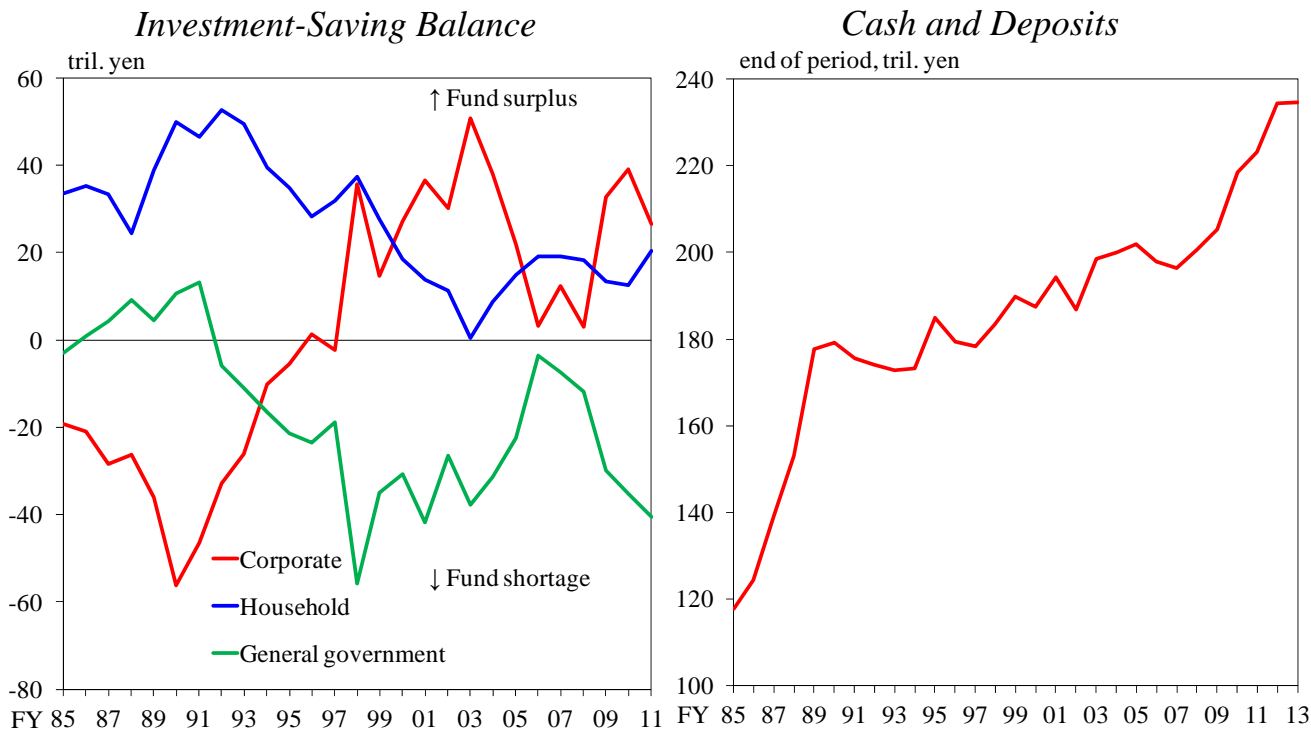
# Real Returns on Cash and Deposits



Notes: 1. Returns on cash and deposits are weighted average rates of interest rates on deposits (that on currency is regarded as zero) and amounts outstanding of cash and deposits of nonfinancial corporations in the "Flow of Funds."  
 2. Figures for real returns are calculated by subtracting the year-on-year rate of change in the CPI (less food and energy, adjusted to exclude the effect of changes in the consumption tax rate) from each nominal return.  
 3. Figures for returns on equity are annual returns on equity listed on the first section of the Tokyo Stock Exchange, over a 5-year investment period. They are calculated by using TOPIX (Total Return Index) after 1994 and JSRI estimates up through 1993.

Sources: Bank of Japan; Japan Securities Research Institute (JSRI); Tokyo Stock Exchange; etc.

# Corporate Saving

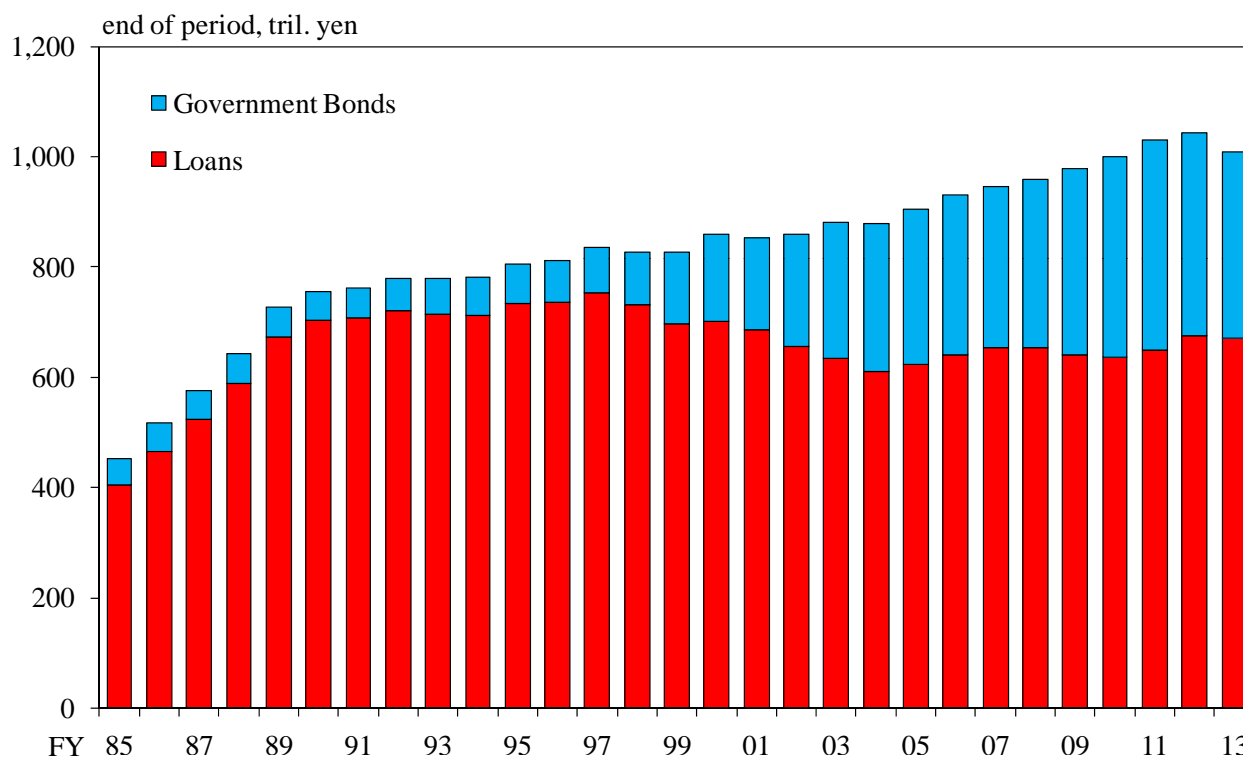


Notes: 1. The chart on the right indicates amounts outstanding of cash and deposits held by nonfinancial corporations in the "Flow of Funds."

2. Figures for fiscal 2013 are those of September.

Sources: Cabinet Office; Bank of Japan.

## Asset Portfolio of Banks



Notes: 1. Banks include Japan Post Bank.

2. Government bonds are sum of "central government securities and FILP bonds" and "treasury discount bills."

3. Figures for fiscal 2013 are those of September.

Source: Bank of Japan.

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## Quantitative and Qualitative Monetary Easing (QQE)

*Introduced on April 4, 2013*

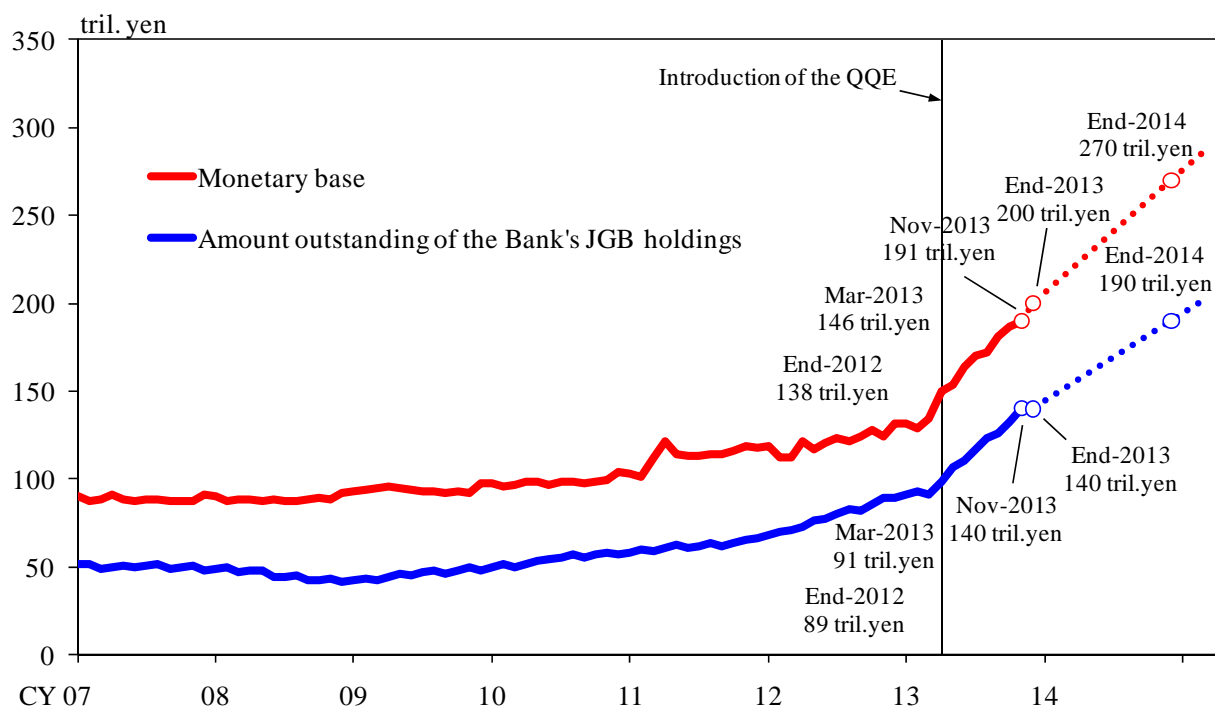
### Strong and Clear Commitment

- Achieve the price stability target of 2%, at the earliest possible time, with a time horizon of about 2 years.

### New Phase of Monetary Easing Both in Terms of Quantity and Quality to Underpin the Commitment

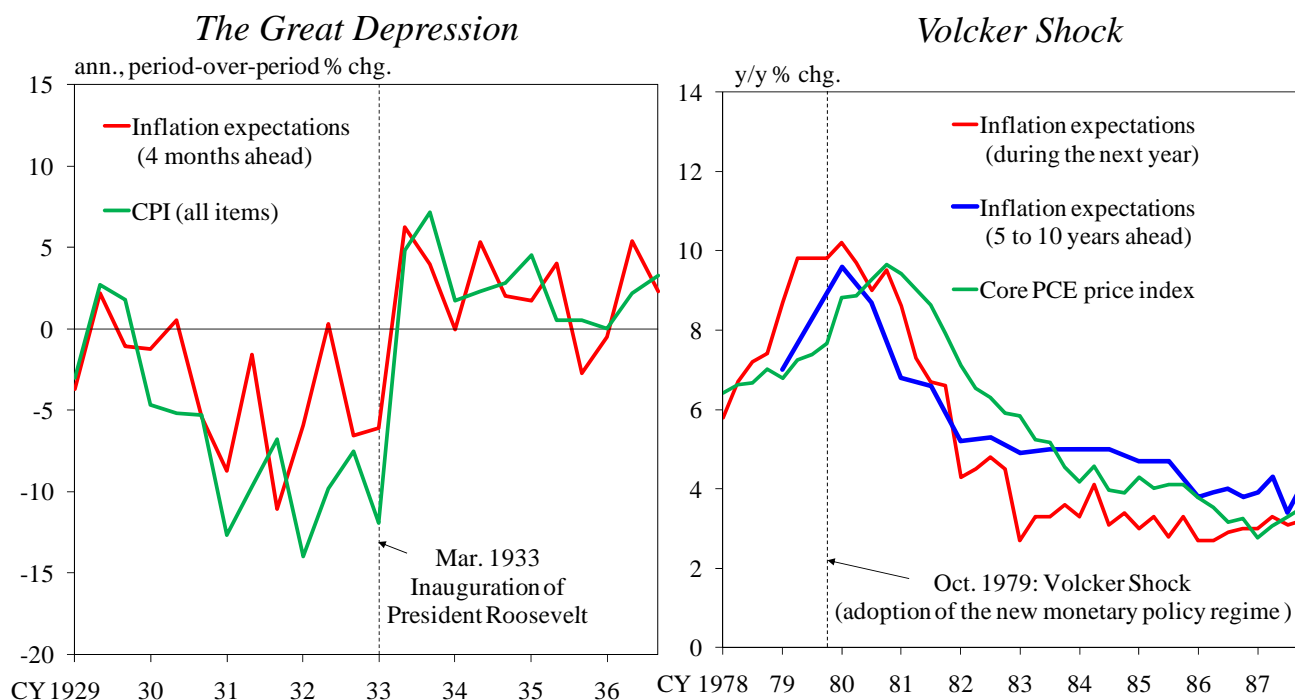
- Monetary base: Annual increase of about 60-70 tril. yen (x2 in 2 years).
- Amount outstanding of the Bank's JGB holdings: Annual increase of about 50 tril. yen (more than x2 in 2 years).
- Average remaining maturity of the Bank's JGB purchases: Extended to about 7 years (more than x2).
- Amount outstanding of ETF holdings: Annual increase of about 1 tril. yen (more than x2 in 2 years).

## Expansion in the Monetary Base and JGB Holdings



Source: Bank of Japan.

## Inflation Expectations in United States

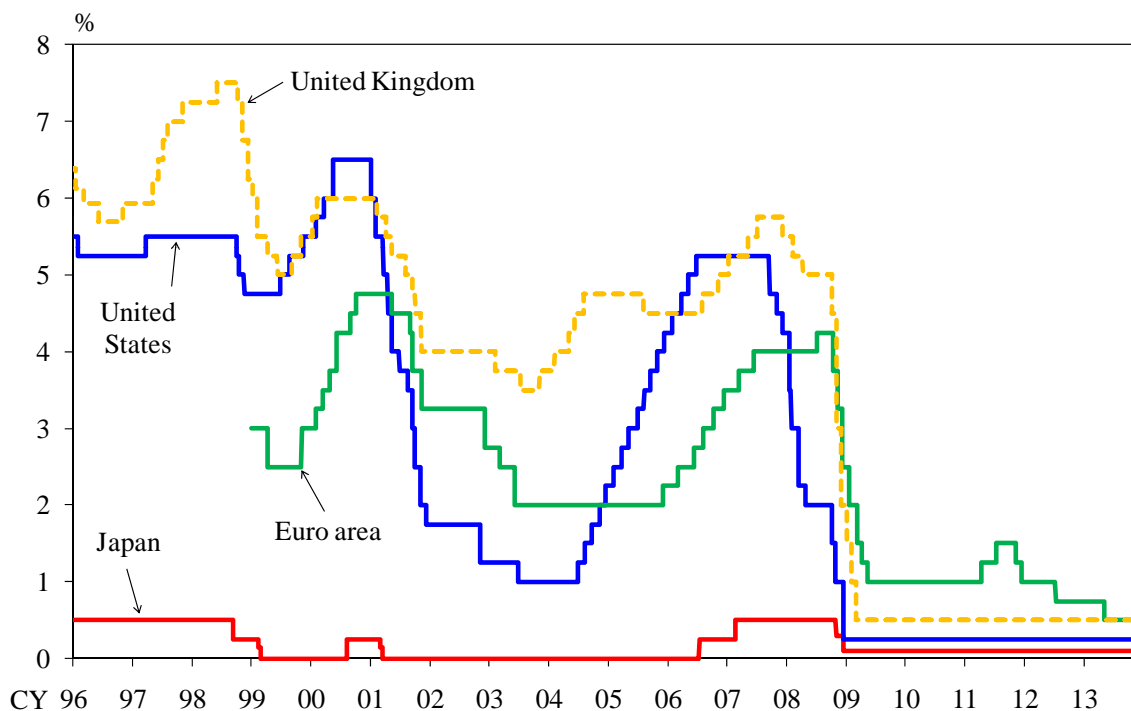


Notes: 1. Figures for inflation expectations are based on Hamilton (1992) in the left chart, and on "Survey of Consumers" conducted by the Michigan University in the right chart.

2. Missing values are linearly interpolated.

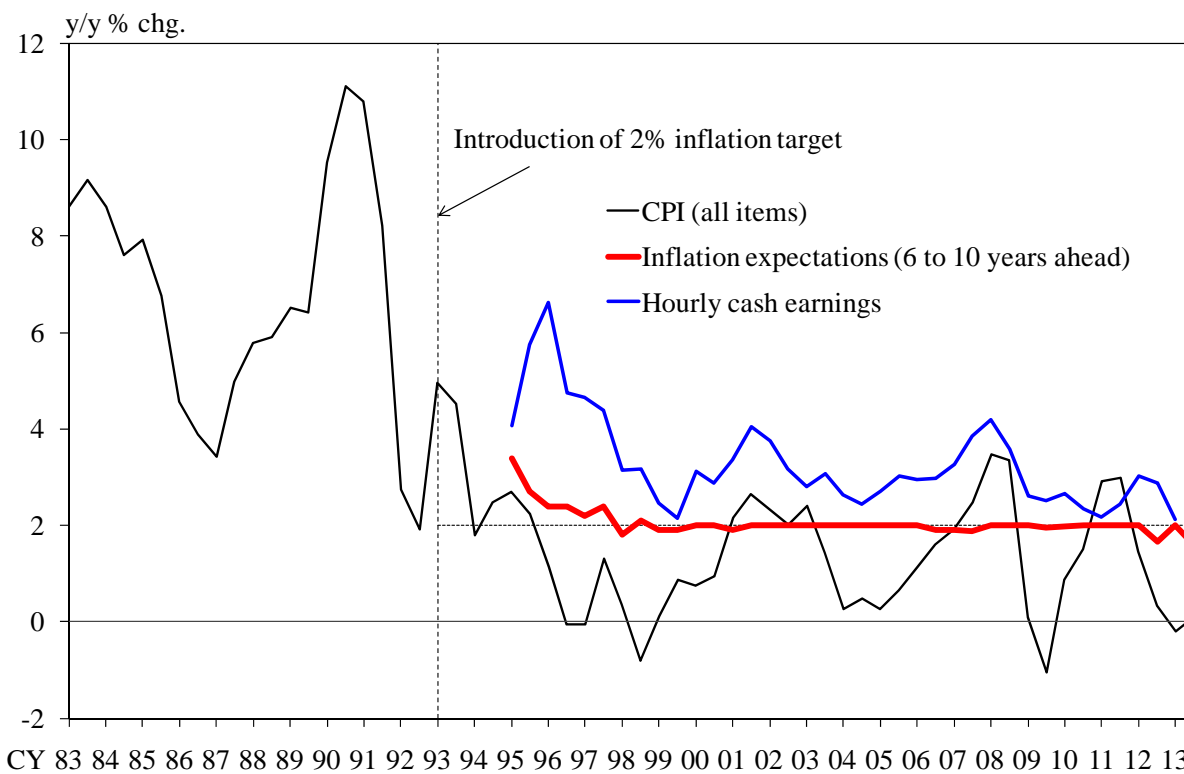
Sources: Hamilton, J., "Was the Deflation during the Great Depression Anticipated? Evidence from the Commodity Futures Market." *American Economic Review* 82 (1), 1992; BLS; Thomson Reuters and Michigan University.

## Money Market Rates



Notes: 1. In the United States, the target range for the federal funds rate has been 0 to 0.25 percent since December 16, 2008.  
 2. In Japan, the money market rate was zero percent during the period of quantitative easing (March 19, 2001-March 8, 2006), and 0.1% (the interest rate applied to the complementary deposit facility) during the period of comprehensive monetary easing (October 5, 2010-April 3, 2013) and QQE (since April 4, 2013).  
 Sources: Bank of Japan; Federal Reserve; European Central Bank; Bank of England.

## Inflation Expectations and Wages in Sweden



Sources: OECD; Consensus Economics Inc.