



Japan's Economy and Monetary Policy

**-- Growing Uncertainties Surrounding Overseas Economies
and Enhancement of Monetary Easing --**

Speech at a Meeting with Business Leaders in Kanagawa

August 4, 2016

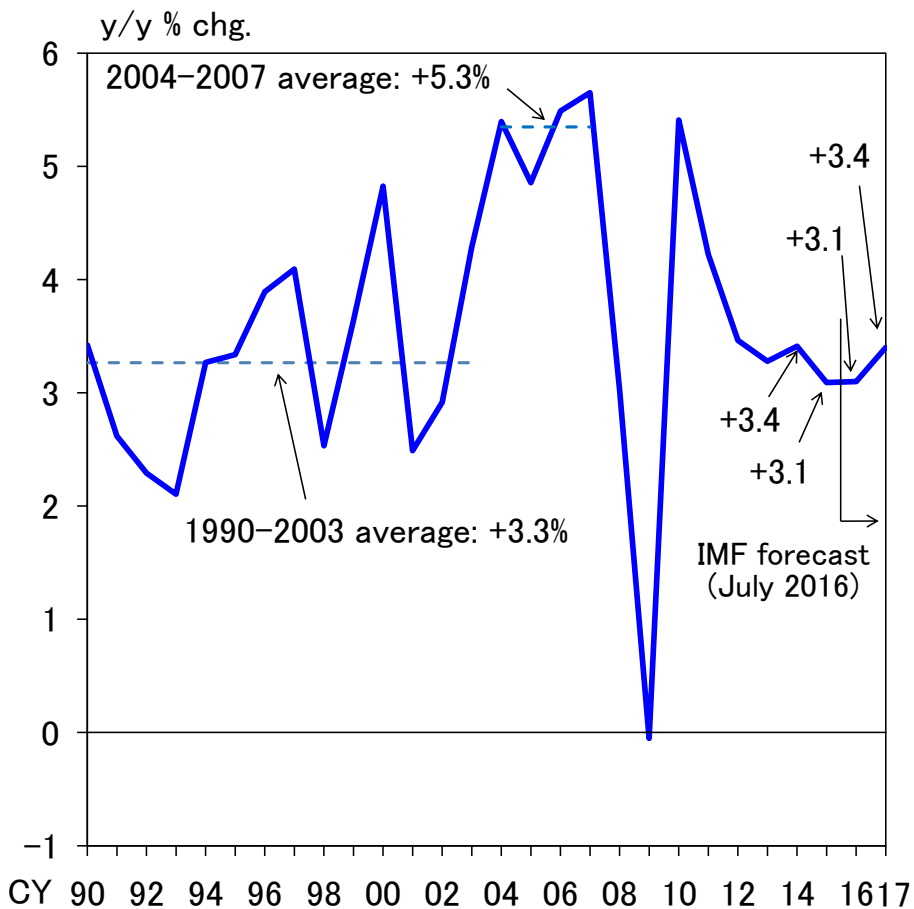
Kikuo Iwata

Deputy Governor of the Bank of Japan

Chart 1

World Economic Outlook

Real GDP Growth Rate



*Projections for Major Economies
(as of July 2016)*

	2014	2015	Projections	
			2016	2017
World	3.4	3.1	3.1 (3.2)	3.4 (3.5)
Advanced Economies	1.9	1.9	1.8	1.8
United States	2.4	2.4	2.2	2.5
Euro Area	0.9	1.7	1.6	1.4
United Kingdom	3.1	2.2	1.7	1.3
Japan	0.0	0.5	0.3	0.1
Emerging Market and Developing Economies	4.6	4.0	4.1	4.6
China	7.3	6.9	6.6	6.2
ASEAN5	4.6	4.8	4.8	5.1

y/y % chg.

Notes: 1. ASEAN5 are Indonesia, Malaysia, the Philippines, Thailand, and Viet Nam.

2. Figures in parentheses are as of April 2016.

Source: IMF.

Outlook for Economic Activity and Prices (as of July 2016)

y/y % chg.

	Real GDP	CPI (all items less fresh food)	Excluding the effects of the consumption tax hikes
Fiscal 2016	+1.0	+0.1	
Forecasts made in April 2016	+1.2	+0.5	
Fiscal 2017	+1.3	+1.7	
Forecasts made in April 2016	+0.1	+2.7	+1.7
Fiscal 2018	+0.9	+1.9	
Forecasts made in April 2016	+1.0	+1.9	

Notes: 1. Figures indicate the median of the Policy Board members' forecasts (point estimates).

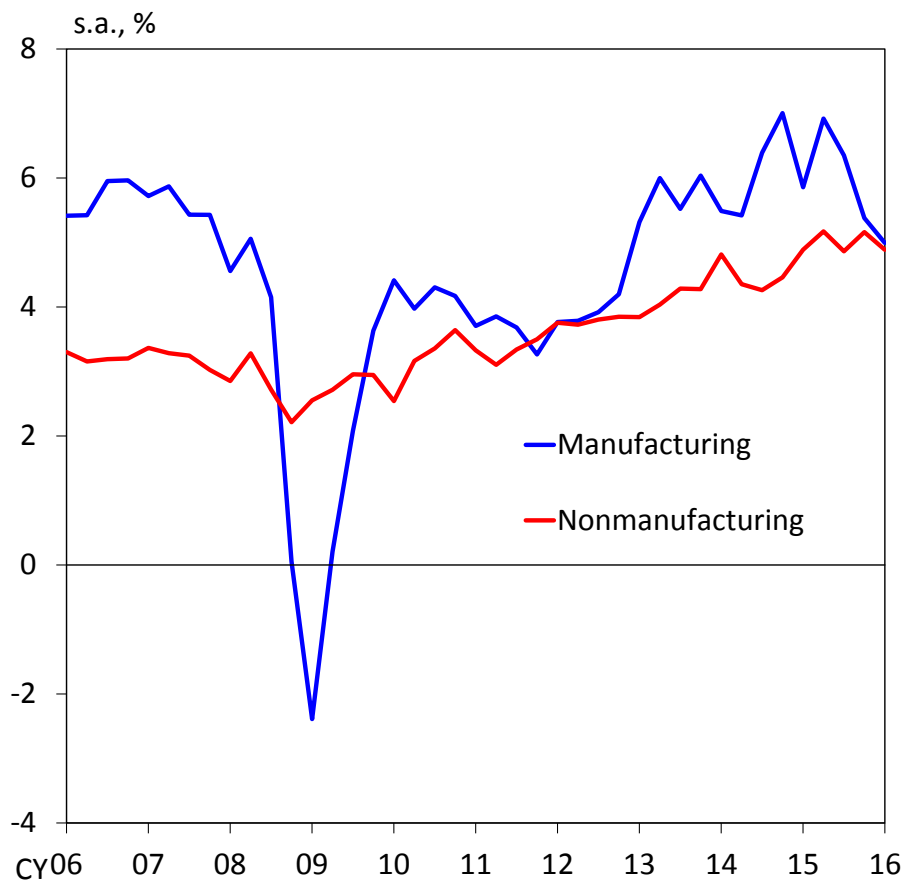
2. Real GDP forecasts made in April 2016 factor in the expected front-loaded increase and subsequent decline in demand prior to and after the consumption tax hike that had been planned to take place in April 2017.

Source: Bank of Japan.

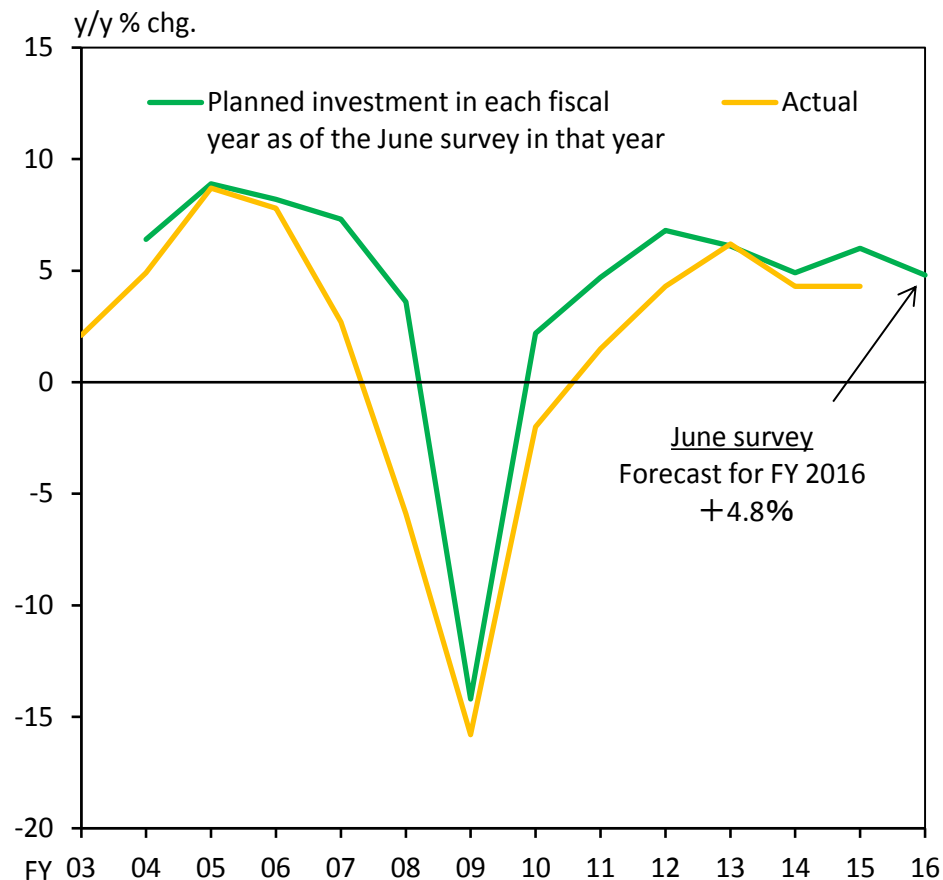
Chart 3

Corporate Profits and Business Fixed Investment

Ratio of current profits to sales



*Tankan: Planned and Actual Business Fixed Investment
(All Industries including financial institutions)*



Notes: 1. Figures for ratio of current profits to sales exclude “Finance and Insurance”.

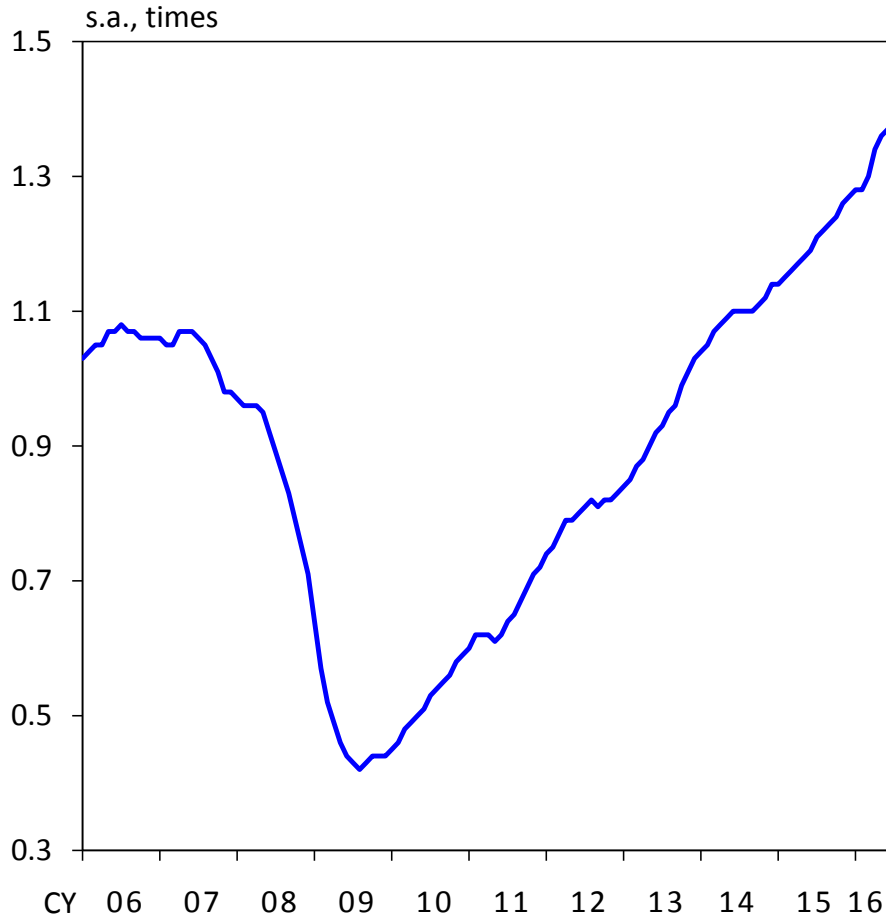
2. Figures for business fixed investment include software investment and exclude land purchasing expenses.

Sources: Ministry of Finance; Bank of Japan.

Chart 4

Labor Market Conditions

Active Job Openings-to-Applicants Ratio



Unemployment Rate

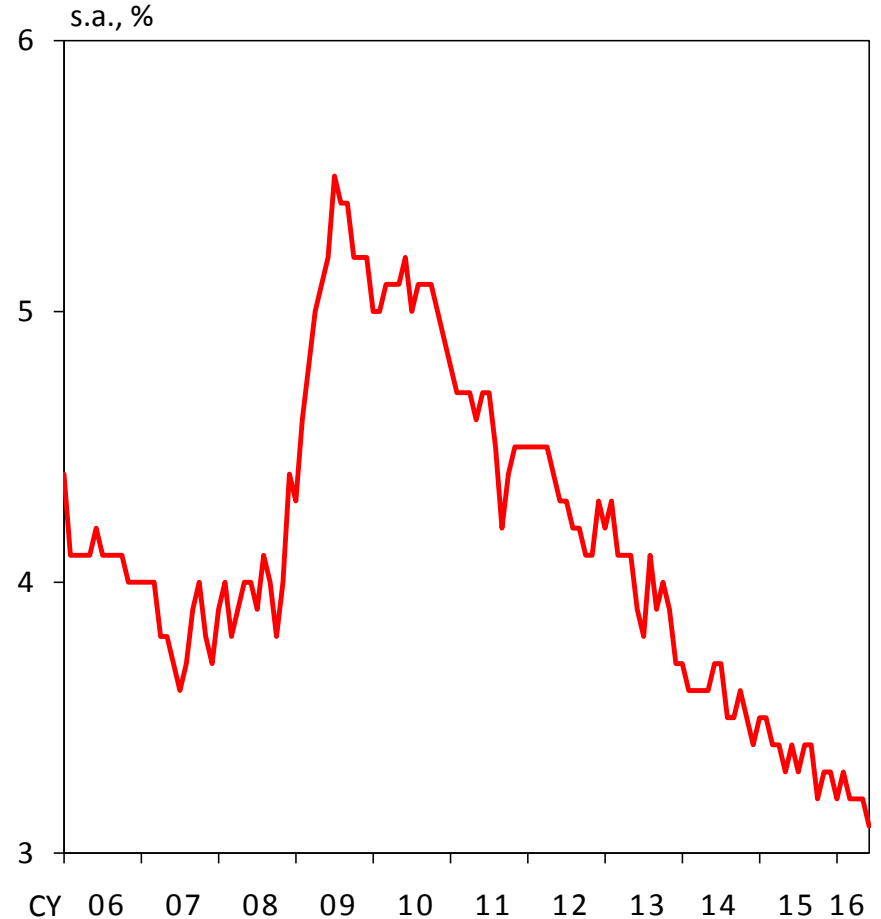
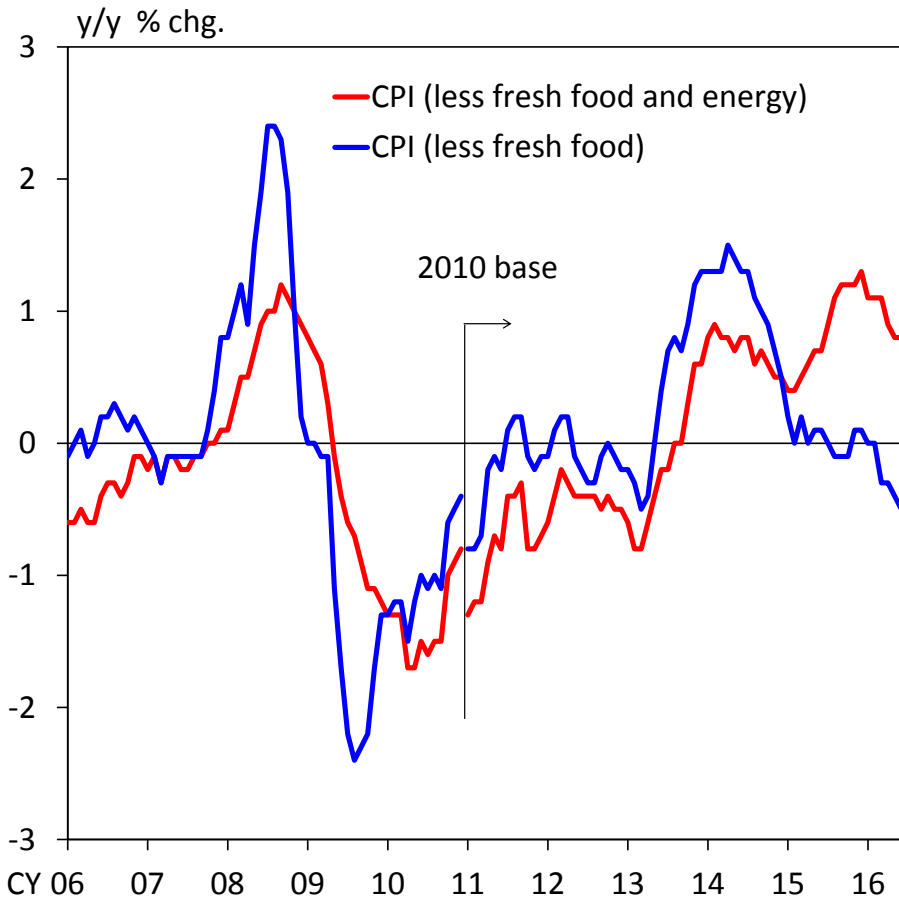


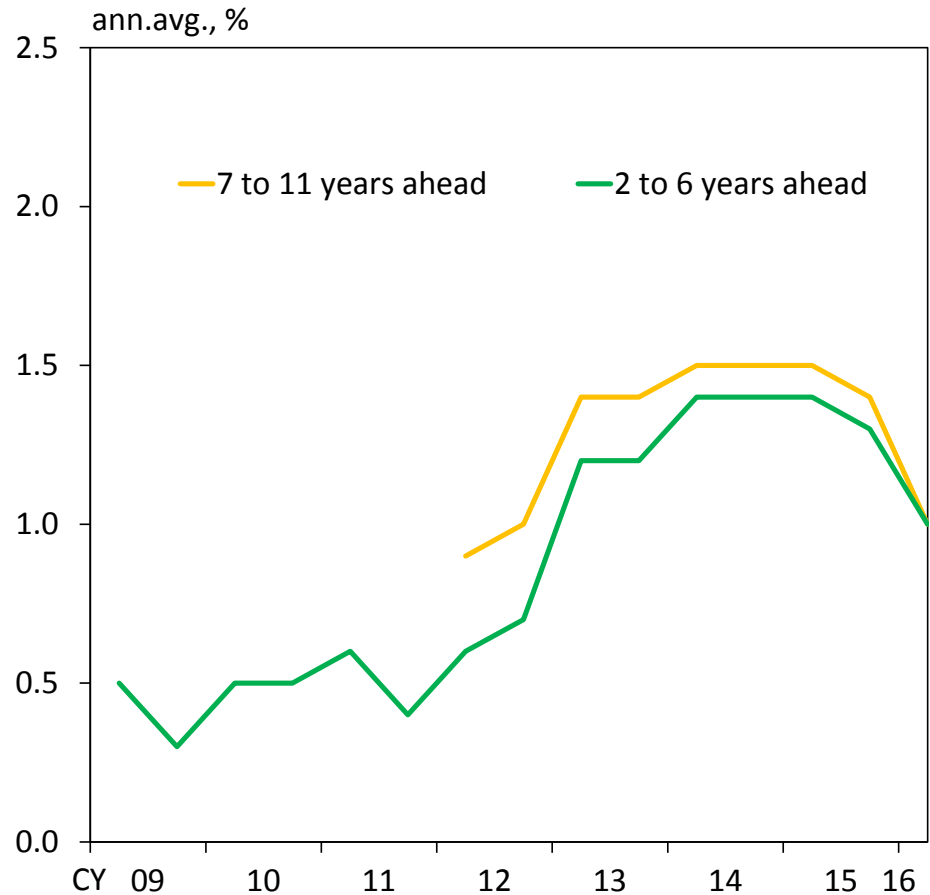
Chart 5

Consumer Prices and Inflation Expectations

Consumer Prices



Inflation Expectations (ESP Forecast, Economists)



- Notes: 1. Figures for the CPI (less fresh food and energy) are calculated by the Research and Statistics Department, Bank of Japan.
2. Figures for the CPI are adjusted to exclude the estimated effects of changes in the consumption tax rate.
3. Figures for the “ESP Forecast” are compiled every June and December, and exclude the effects of the consumption tax hikes.

Sources: Ministry of Internal Affairs and Communications; JCER.

Enhancement of Monetary Easing (July 2016)

Against the backdrop of the United Kingdom's vote to leave the European Union and the slowdown in emerging economies, volatile developments have continued in the global financial markets.



The Bank will support proactive economic activities by **preventing a deterioration in business confidence and consumer sentiment** as well as **ensuring smooth funding in foreign currencies by Japanese firms and financial institutions.**

(1) Policy measures decided at the July 29 Monetary Policy Meeting

1. The Bank will purchase **ETFs** so that their amount outstanding will increase at an annual pace of about **6 trillion yen** (almost **double** the previous pace of about 3.3 trillion yen)
2. In order to **ensure smooth funding in foreign currencies**
 - (A) For firms: **Double** the size of the Bank's lending program to support growth in U.S. dollars to **24 billion USD**
 - (B) For financial institutions (FIs): Establish a new facility in which the Bank lends JGSs to FIs against their current account balances with the Bank. The JGSs can be pledged as collateral for using the U.S. Dollar Funds-Supplying Operations (i.e., virtually, financial institutions are allowed to pledge **cash collateral** for using the operation)

(2) The Bank's view on the relationship between the government's initiatives and monetary policy measures

The Government is undertaking fiscal and structural policy initiatives. The Bank believes that its monetary policy measures and the government's initiatives will produce **synergy effects on the economy.**

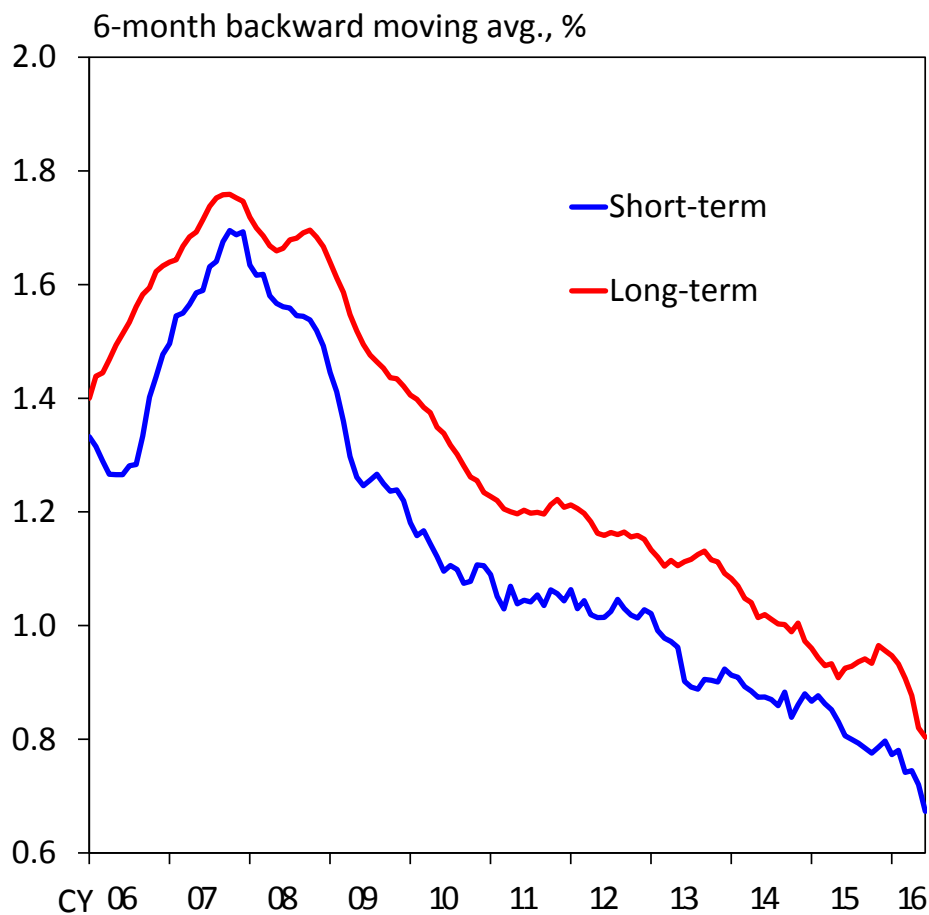
(3) Comprehensive Assessment of the "QQE" and "QQE with a Negative Interest Rate" to be made at the Next MPM

With a view to achieving the price stability target of 2 percent at the earliest possible time, the Bank will conduct **a comprehensive assessment of the developments in economic activity and prices under "QQE" and "QQE with Negative Interest Rate" as well as these policy effects at the next MPM.**

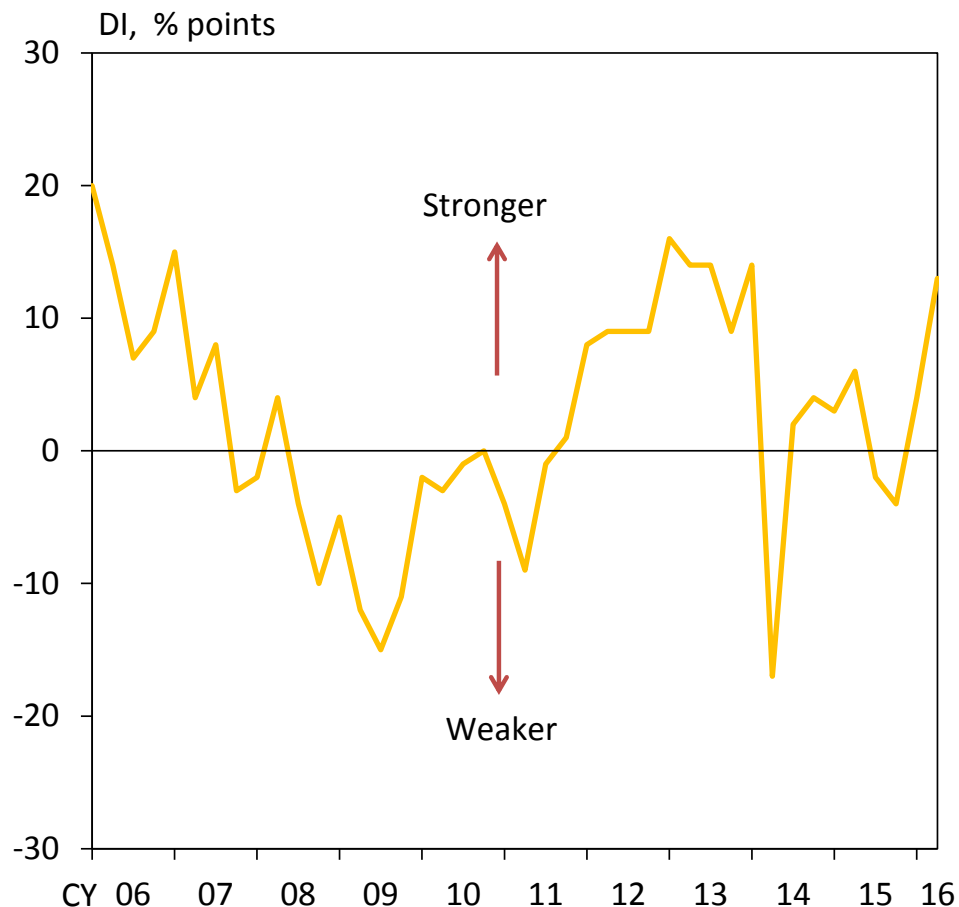
Chart 7

Financial Conditions

Average Contract Interest Rates on New Loans and Discounts



Demand for Housing Loans from Households (Senior Loan Officer Opinion Survey on Bank Lending Practices at Large Japanese Banks)



Note: DI for demand for housing loans is calculated as follows. $DI \text{ for demand for housing loans} = (\text{percentage of respondents selecting "substantially stronger"} + \text{percentage of respondents selecting "moderately stronger"} \times 0.5) - (\text{percentage of respondents selecting "substantially weaker"} + \text{percentage of respondents selecting "moderately weaker"} \times 0.5)$

Source: Bank of Japan.