Japan's Economy and Monetary Policy

Speech at a Meeting with Business Leaders in Yamaguchi

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Introduction

I. Financial and Economic Developments

II. Price Developments

III. The Bank's Conduct of Monetary Policy

Conclusion
I. Financial and Economic Developments

Developments in Financial Markets

Stock Markets

Foreign Exchange Markets

Fluctuations in FX rate on January 3

Sources: Bloomberg; Thomson Reuters.

I. Financial and Economic Developments

Japan's Economy

Real GDP

Output Gap

Note: The output gap is based on BOJ staff estimations.
Sources: Cabinet Office; Bank of Japan.
I. Financial and Economic Developments

Exports and Production

Real Exports

Industrial Production

Note: The figure for industrial production for 2018/Q4 is the October-November average.
Sources: Ministry of Finance; Ministry of Economy, Trade and Industry; Bank of Japan.

I. Financial and Economic Developments

Corporate Profits and Business Fixed Investment

Corporate Profits

Business Fixed Investment Plans
(December Tankan)

Notes: 1. Figures for ratio of current profits to sales are based on the Financial Statements Statistics of Corporations by Industry, Quarterly (from 2009/Q2 exclude “pure holding companies”). Excluding “finance and insurance.”
2. Figures for business fixed investment (including land purchasing expenses) and R&D investment are based on the plans as of December Tankan in each fiscal year (all enterprises).
Sources: Ministry of Finance; Cabinet Office; Bank of Japan.
**I. Financial and Economic Developments**

### Employment Situation

*Active Job Openings-to-Applicants Ratio*

- Chart 5

*Unemployment Rate*

- Chart 6

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

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**I. Financial and Economic Developments**

### Outlook for Economic Activity and Prices

*January 2019 Outlook Report*

the medians of the Policy Board members' forecasts, y/y % chg.

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Real GDP</th>
<th>CPI (all items less fresh food)</th>
<th>(Reference) Excluding the effects of the consumption tax hike and policies concerning the provision of free education</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiscal 2018</td>
<td>+0.9</td>
<td>+0.8</td>
<td>+0.9</td>
</tr>
<tr>
<td>Forecasts made in October 2018</td>
<td>+1.4</td>
<td>+0.9</td>
<td>+0.9</td>
</tr>
<tr>
<td>Fiscal 2019</td>
<td>+0.9</td>
<td>+1.1</td>
<td>+0.9</td>
</tr>
<tr>
<td>Forecasts made in October 2018</td>
<td>+0.8</td>
<td>+1.6</td>
<td>+1.4</td>
</tr>
<tr>
<td>Fiscal 2020</td>
<td>+1.0</td>
<td>+1.5</td>
<td>+1.4</td>
</tr>
<tr>
<td>Forecasts made in October 2018</td>
<td>+0.8</td>
<td>+1.6</td>
<td>+1.5</td>
</tr>
</tbody>
</table>

Note: The direct effect of the consumption tax hike on the CPI for fiscal 2019 and fiscal 2020 is estimated to be 0.5 percentage point for each year. The direct effects of policies concerning the provision of free education on the CPI for fiscal 2019 and fiscal 2020 are estimated to be minus 0.3 percentage point and minus 0.4 percentage point, respectively.

Source: Bank of Japan.
I. Financial and Economic Developments

Overseas Economies

*Projections for Major Economies (IMF)*

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
<th>2019 Projection</th>
<th>2020 Projection</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>3.8</td>
<td>3.7</td>
<td>3.5 (-0.2)</td>
<td>3.6 (-0.1)</td>
</tr>
<tr>
<td>Advanced economies</td>
<td>2.4</td>
<td>2.3</td>
<td>2.0 (-0.1)</td>
<td>1.7 (0.0)</td>
</tr>
<tr>
<td>United States</td>
<td>2.2</td>
<td>2.9</td>
<td>2.5 (0.0)</td>
<td>1.8 (0.0)</td>
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<tr>
<td>Euro area</td>
<td>2.4</td>
<td>1.8</td>
<td>1.6 (-0.3)</td>
<td>1.7 (0.0)</td>
</tr>
<tr>
<td>Japan</td>
<td>1.9</td>
<td>0.9</td>
<td>1.1 (0.2)</td>
<td>0.5 (0.2)</td>
</tr>
<tr>
<td>Emerging market and developing economies</td>
<td>4.7</td>
<td>4.6</td>
<td>4.5 (-0.2)</td>
<td>4.9 (0.0)</td>
</tr>
<tr>
<td>China</td>
<td>6.9</td>
<td>6.6</td>
<td>6.2 (0.0)</td>
<td>6.2 (0.0)</td>
</tr>
<tr>
<td>ASEAN-5</td>
<td>5.3</td>
<td>5.2</td>
<td>5.1 (-0.1)</td>
<td>5.2 (0.0)</td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>1.3</td>
<td>1.1</td>
<td>2.0 (-0.2)</td>
<td>2.5 (-0.2)</td>
</tr>
</tbody>
</table>

Note: The post-2019 figures are based on January 2019 WEO projections. Figures in parentheses show the differences from the October 2018 projections.
Source: IMF.

II. Price Developments

Consumer Prices

Note: Figures are adjusted for changes in the consumption tax rate.
Source: Ministry of Internal Affairs and Communications.
II. Price Developments

Environment Surrounding Prices

Output Prices DI (Tankan)

Chart 9

Note: There is a discontinuity in the data in December 2003 due to a change in the survey framework.
Source: Bank of Japan.

II. Price Developments

Reasons for a Rise in Inflation Taking Time

Chart 10

Supply Side

- Large room for firms to raise productivity
- Technological progress in recent years
- High wage elasticity of labor supply

Mindset

- Experience of prolonged low growth and deflation

The pace of improvement in prices and inflation expectations has remained slow compared to the improvement in the output gap.

1. Firms' cautious wage- and price-setting stance
2. Sluggish increase in households' tolerance of price rises
3. Intensifying competition
Strengthening the Framework for Continuous Powerful Monetary Easing
(Decided on 31 July, 2018)

Taking more time than expected to achieve the price stability target of 2 percent. Maintaining the output gap as long as possible within positive territory is appropriate.

Persistently Continuing with Powerful Monetary Easing

Forward guidance for policy rates

"The Bank intends to maintain the current extremely low levels of short- and long-term interest rates for an extended period of time, taking into account uncertainties regarding economic activity and prices including the effects of the consumption tax hike scheduled to take place in October 2019."

⇒ Strengthening the commitment to achieving the price stability target

Enhancing the sustainability of "Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control"

Long-term interest rate: The Bank maintains the target level of around zero percent. While doing so, the yields may move upward and downward to some extent mainly depending on developments in economic activity and prices.

Purchases of ETFs: The Bank maintains the annual pace of increase in the amount outstanding of about 6 trillion yen. While doing so, the Bank may increase or decrease the amount of purchases depending on market conditions.