

# Japan's Economy and Monetary Policy

*Speech at a Meeting with Business Leaders in Yamaguchi*

January 31, 2019

Masayoshi Amamiya

*Deputy Governor of the Bank of Japan*

---

## Introduction

### I. Financial and Economic Developments

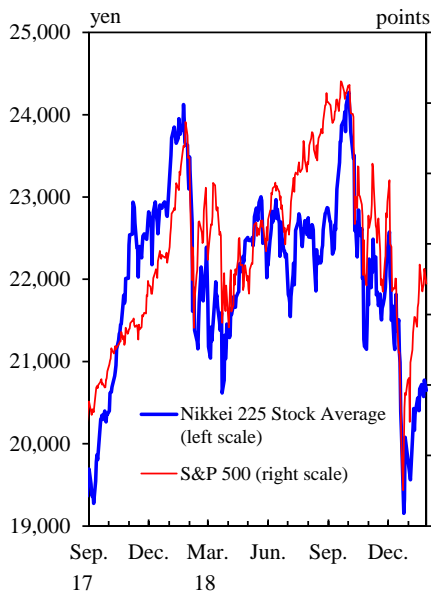
### II. Price Developments

### III. The Bank's Conduct of Monetary Policy

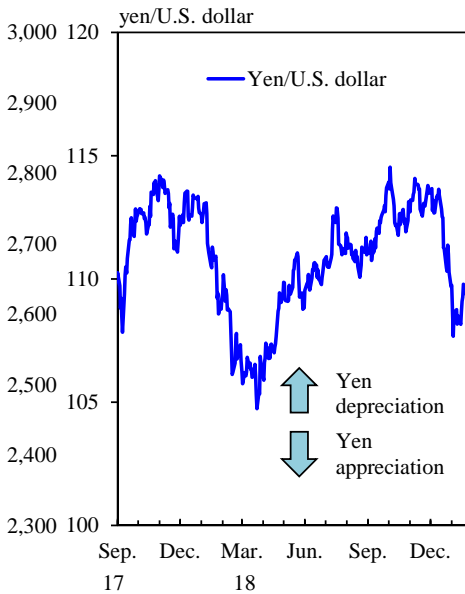
## Conclusion

## Developments in Financial Markets

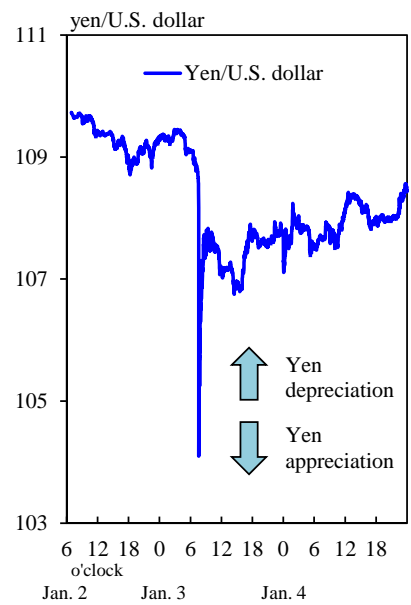
*Stock Markets*



*Foreign Exchange Markets*



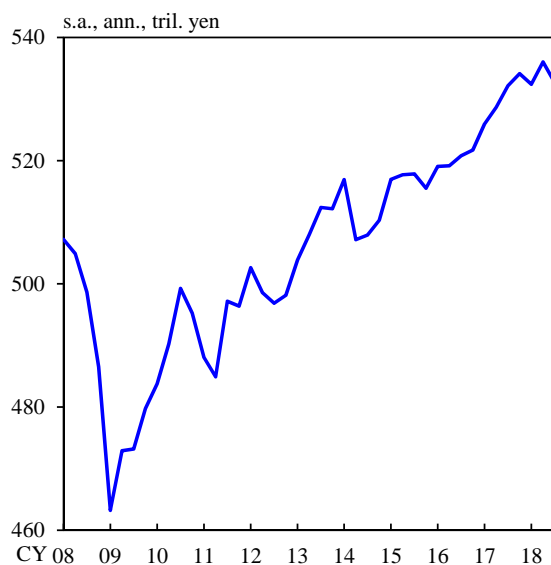
*Fluctuations in FX rate on January 3*



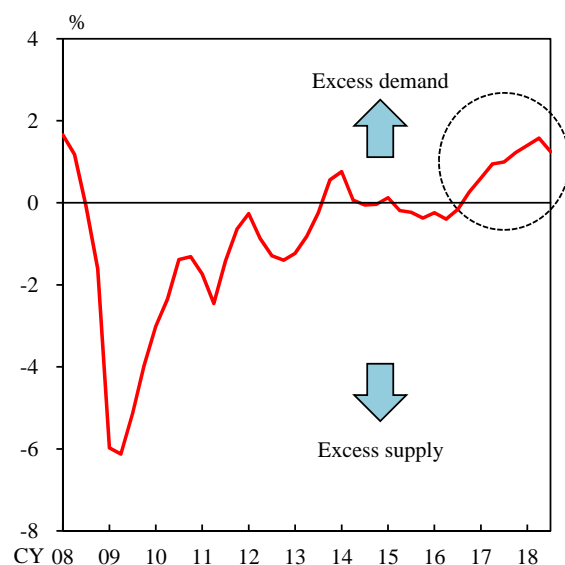
Sources: Bloomberg; Thomson Reuters.

## Japan's Economy

*Real GDP*



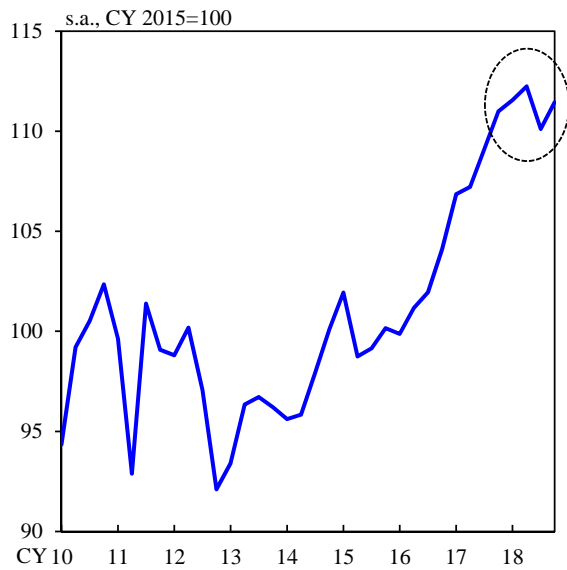
*Output Gap*



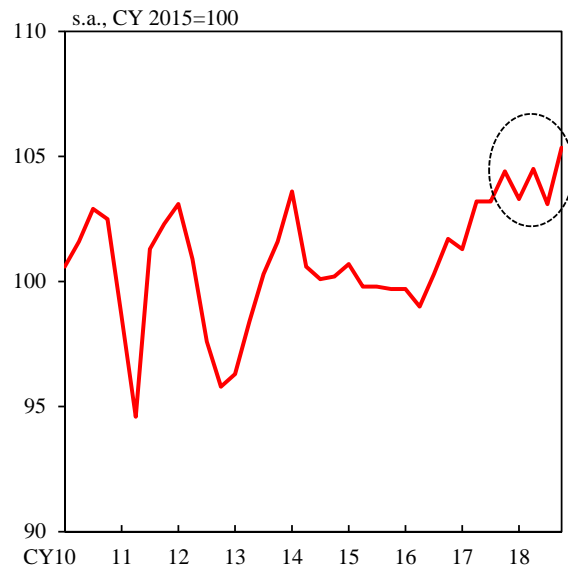
Note: The output gap is based on BOJ staff estimations.  
Sources: Cabinet Office; Bank of Japan.

## Exports and Production

*Real Exports*



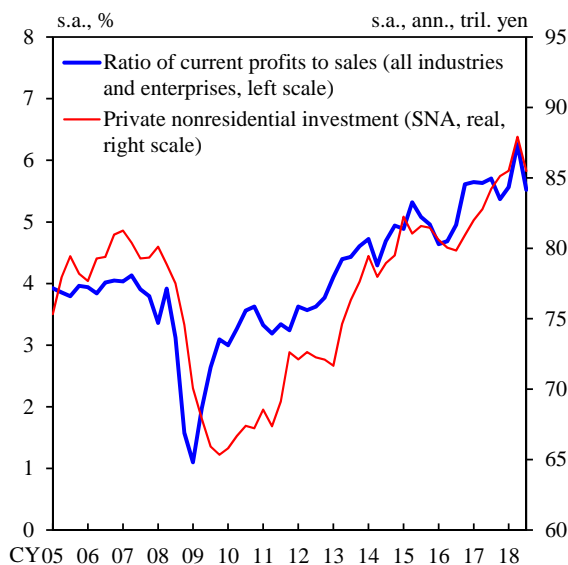
*Industrial Production*



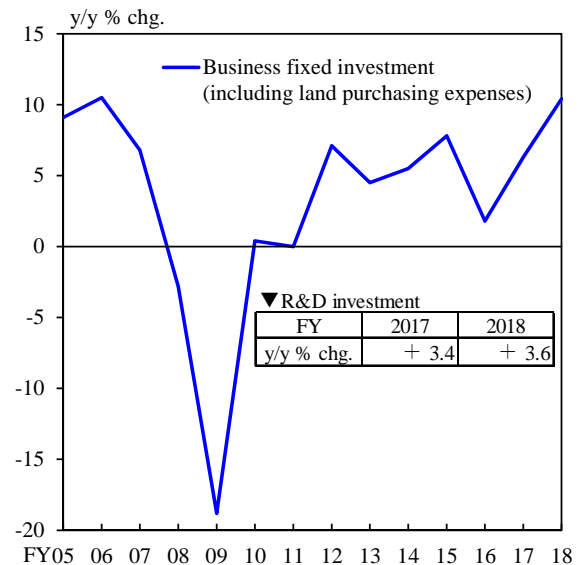
Note: The figure for industrial production for 2018/Q4 is the October-November average.  
Sources: Ministry of Finance; Ministry of Economy, Trade and Industry; Bank of Japan.

## Corporate Profits and Business Fixed Investment

*Corporate Profits*



*Business Fixed Investment Plans (December Tankan)*

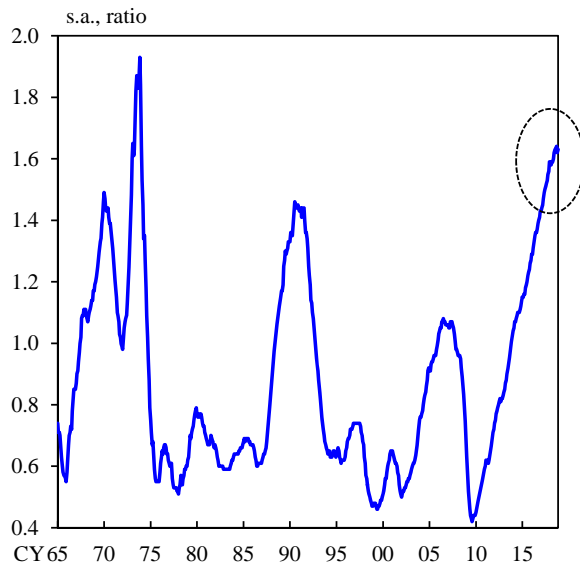


Notes: 1. Figures for ratio of current profits to sales are based on the *Financial Statements Statistics of Corporations by Industry, Quarterly* (from 2009/Q2 exclude "pure holding companies"). Excluding "finance and insurance."

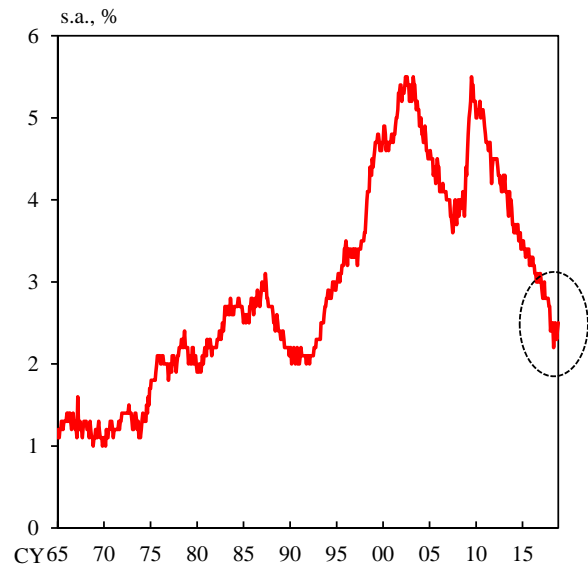
2. Figures for business fixed investment (including land purchasing expenses) and R&D investment are based on the plans as of December *Tankan* in each fiscal year (all enterprises).  
Sources: Ministry of Finance; Cabinet Office; Bank of Japan.

## Employment Situation

*Active Job Openings-to-Applicants Ratio*



*Unemployment Rate*



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

## Outlook for Economic Activity and Prices (January 2019 Outlook Report)

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

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

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.

## Overseas Economies

### Projections for Major Economies (IMF)

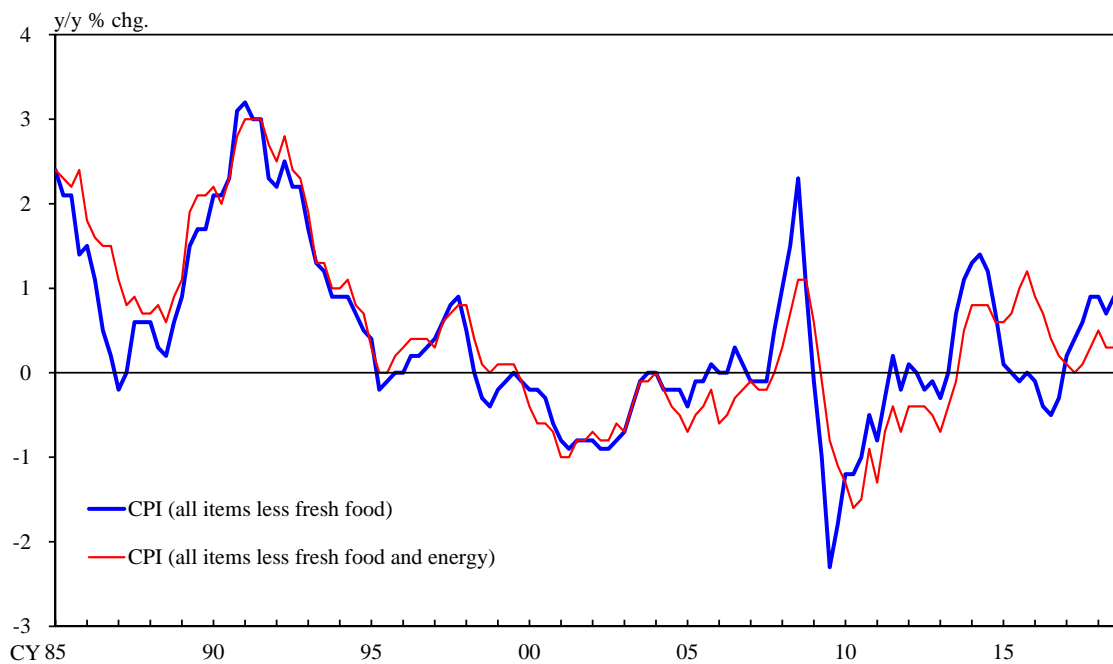
y/y % chg., % points

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

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.

7

## Consumer Prices

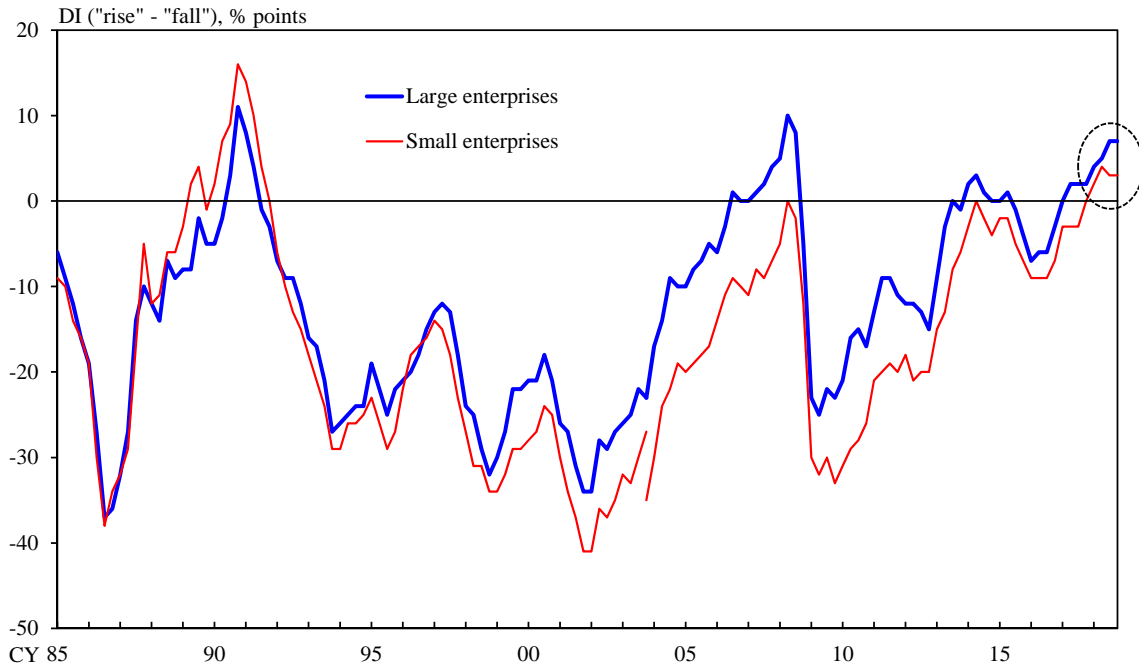


Note: Figures are adjusted for changes in the consumption tax rate.  
Source: Ministry of Internal Affairs and Communications.

8

## Environment Surrounding Prices

### Output Prices DI (Tankan)



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

## Reasons for a Rise in Inflation Taking Time

### 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.

etc.