



Economic Activity, Prices, and Monetary Policy in Japan

Speech at a Meeting with Business Leaders in Fukui (via webcast)

October 21, 2020

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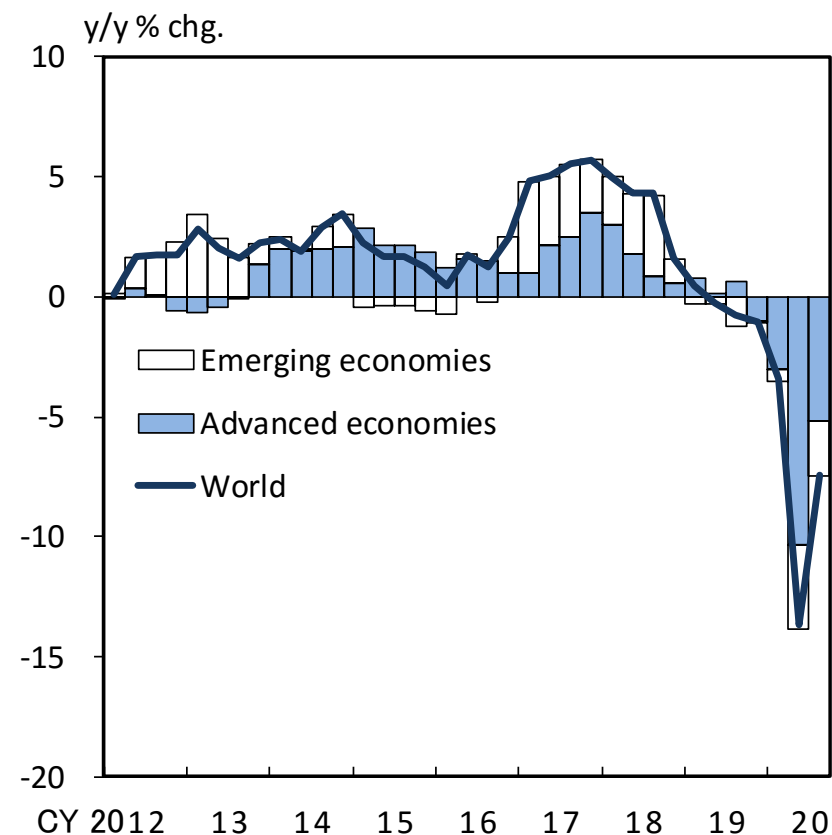
Global Economy

IMF growth projections (as of October 2020)

real GDP growth rate, y/y % chg., % points

	2018	2019	2020 projection	2021 projection
World	3.5	2.8	-4.4 (+0.8)	5.2 (-0.2)
Advanced economies	2.2	1.7	-5.8 (+2.3)	3.9 (-0.9)
United States	3.0	2.2	-4.3 (+3.7)	3.1 (-1.4)
Euro area	1.8	1.3	-8.3 (+1.9)	5.2 (-0.8)
Japan	0.3	0.7	-5.3 (+0.5)	2.3 (-0.1)
Emerging market and developing economies	4.5	3.7	-3.3 (-0.2)	6.0 (+0.2)
China	6.8	6.1	1.9 (+0.9)	8.2 (0.0)
ASEAN 5	5.3	4.9	-3.4 (-1.4)	6.2 (0.0)

World trade volume



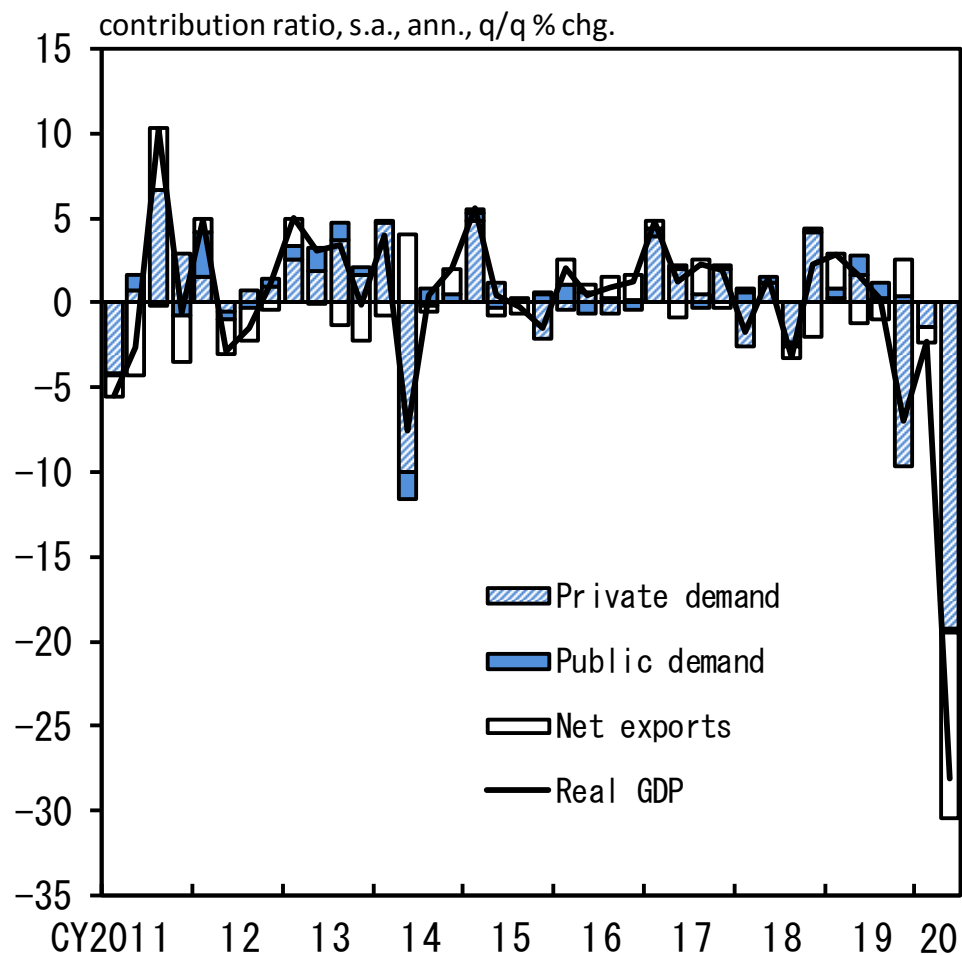
Notes: 1. In the left-hand chart, figures in parentheses are the difference from the June 2020 projections.

2. In the right-hand chart, figures are those for real imports. The figure for 2020/Q3 is that for July.

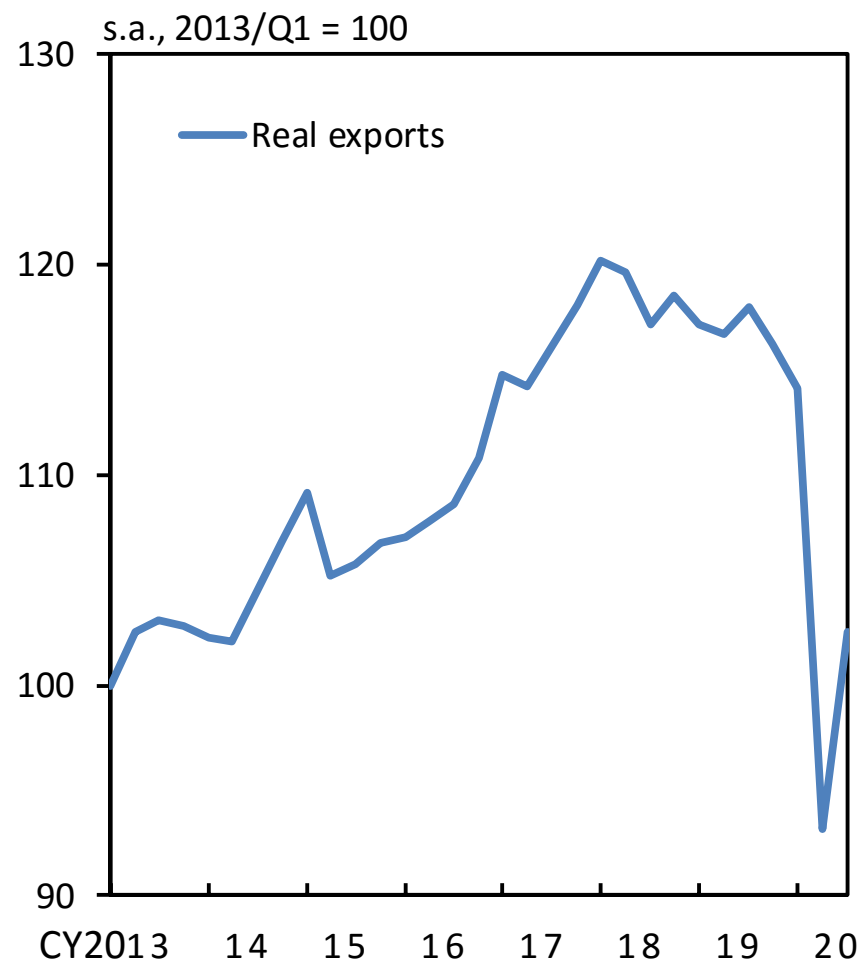
Sources: IMF; CPB Netherlands Bureau for Economic Policy Analysis, etc.

GDP and Real Exports

Real GDP

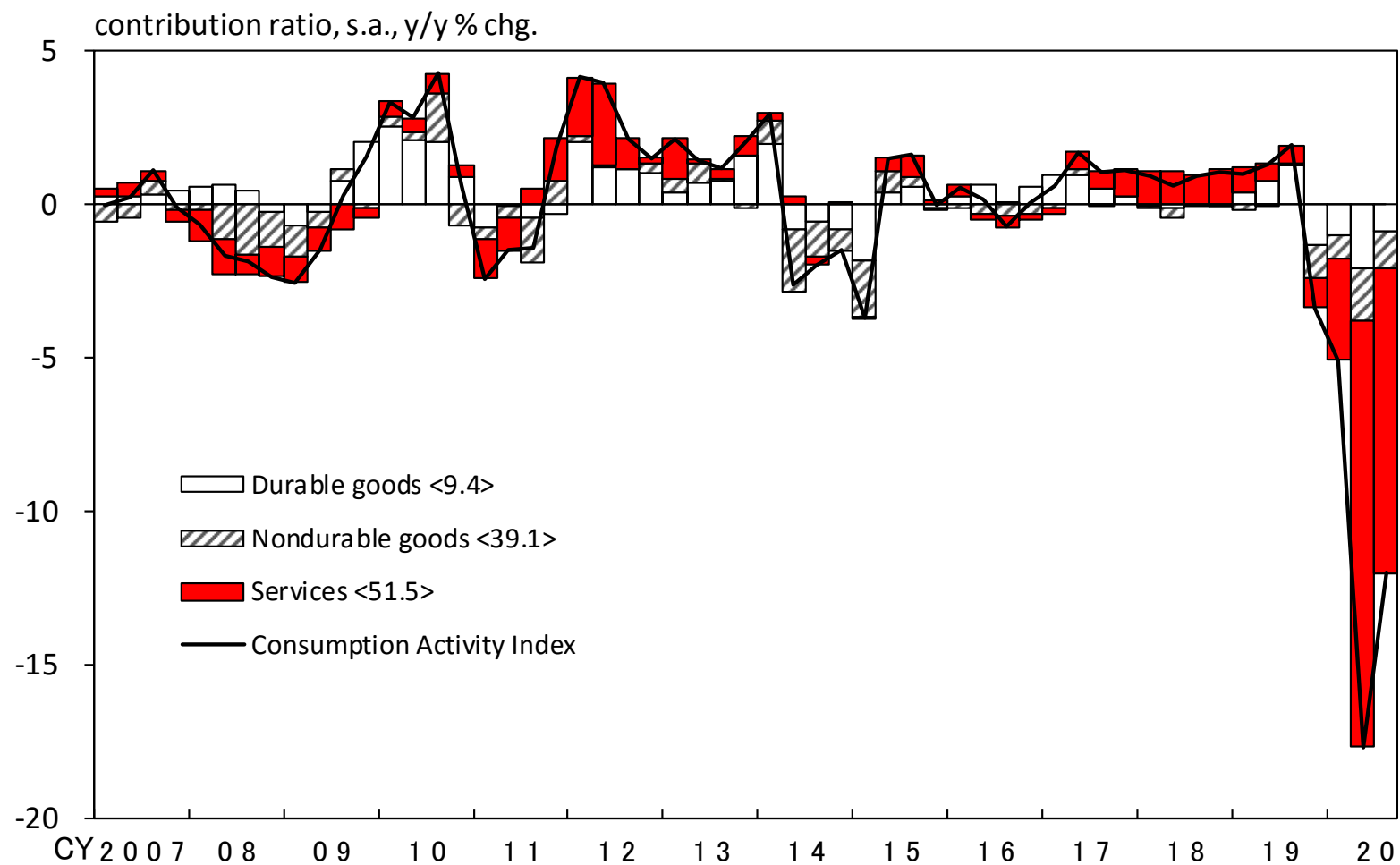


Real exports



Note: In the right-hand chart, figures are based on staff calculations.
 Sources: Ministry of Finance; Bank of Japan.

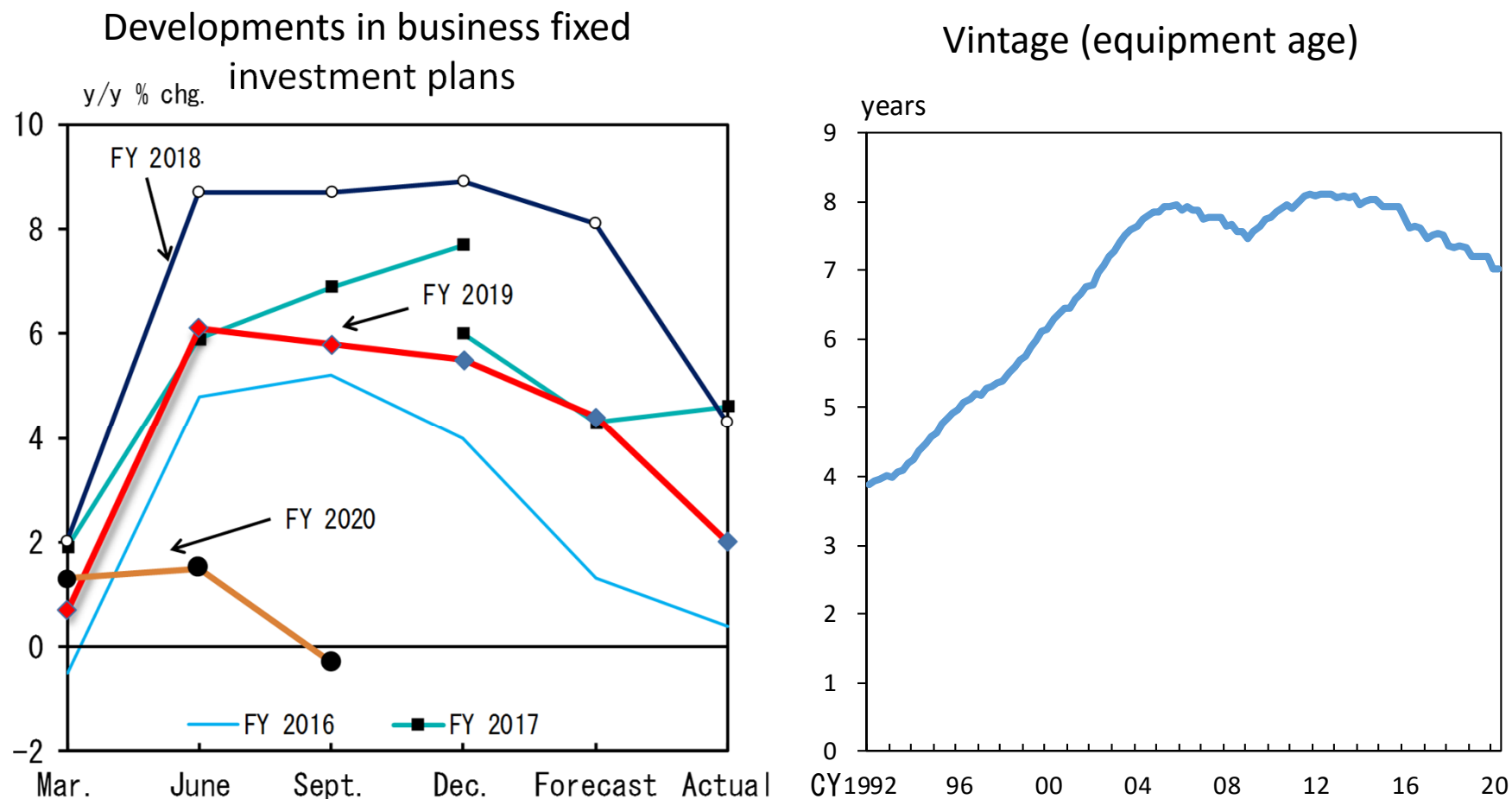
Private Consumption



Note: Figures in angle brackets show the share in the Consumption Activity Index. Nondurable goods include goods classified as "semi-durable goods" in the SNA.

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

Business Fixed Investment



Notes: 1. In the left-hand chart, figures are based on the *Tankan*. All industries, including financial institutions. Including software and research and development (R&D) investment and excluding land purchasing expenses (R&D investment is excluded through the December 2016 survey).

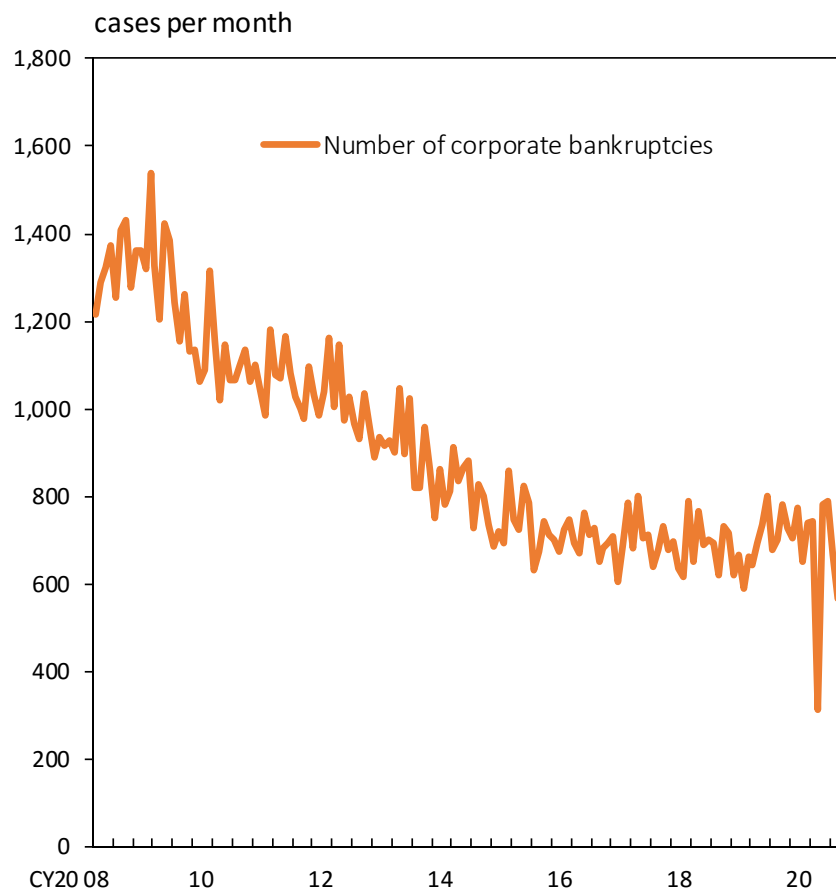
2. In the right-hand chart, figures are for all enterprises. Fixed assets excluding land (including construction in progress).
 Current year vintage = $\{(\text{prior year vintage} + 0.25 \text{ year}) \times (\text{prior year-end balance} - \text{current year retired}) + 0.25 \text{ year} \times \text{new construction} \} / \text{current year-end assets}$.

Based on the "National Wealth Survey," the vintage at the end of 1970 was set at 8.2 years.

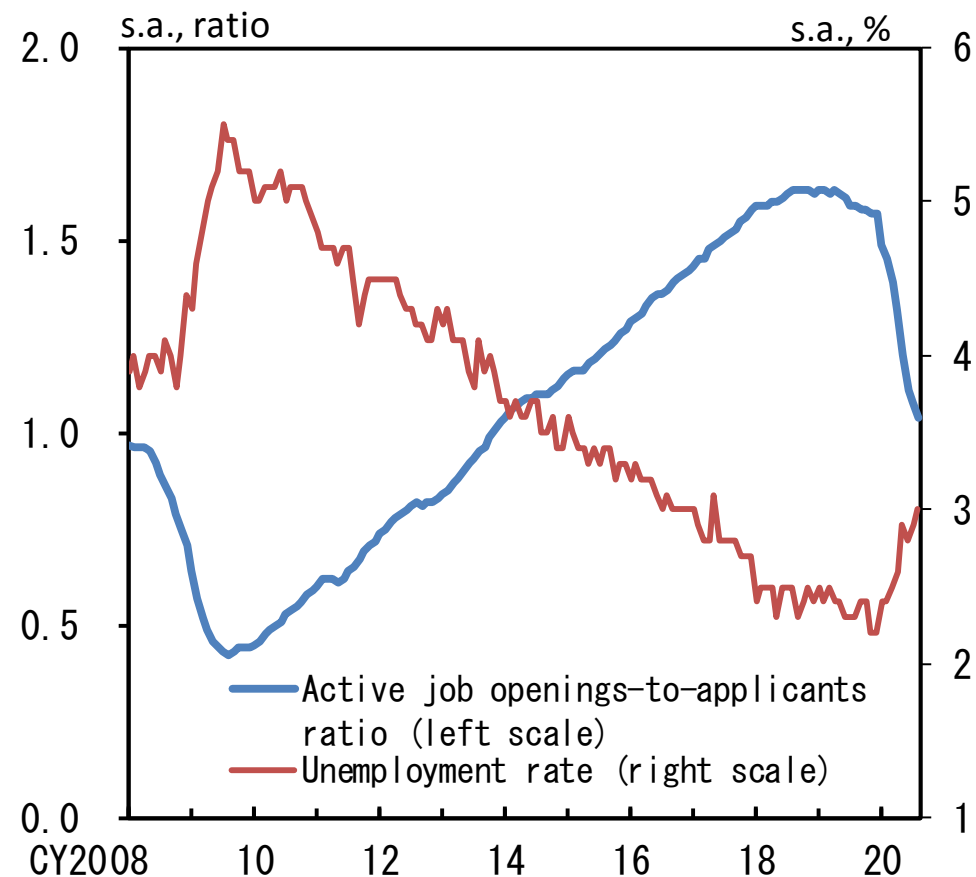
Sources: Ministry of Finance; Bank of Japan.

Corporate Financing and Labor Market Conditions

Number of corporate bankruptcies



Labor market conditions



Note: In the left-hand chart, the number of corporate bankruptcies is that with debt over 10 million yen.

Sources: Ministry of Health, Labour and Welfare; Ministry of Internal Affairs and Communications; Tokyo Shoko Research, Ltd.

Outlook for Economic Activity and Prices as of July 2020

Forecasts of the Policy Board Members

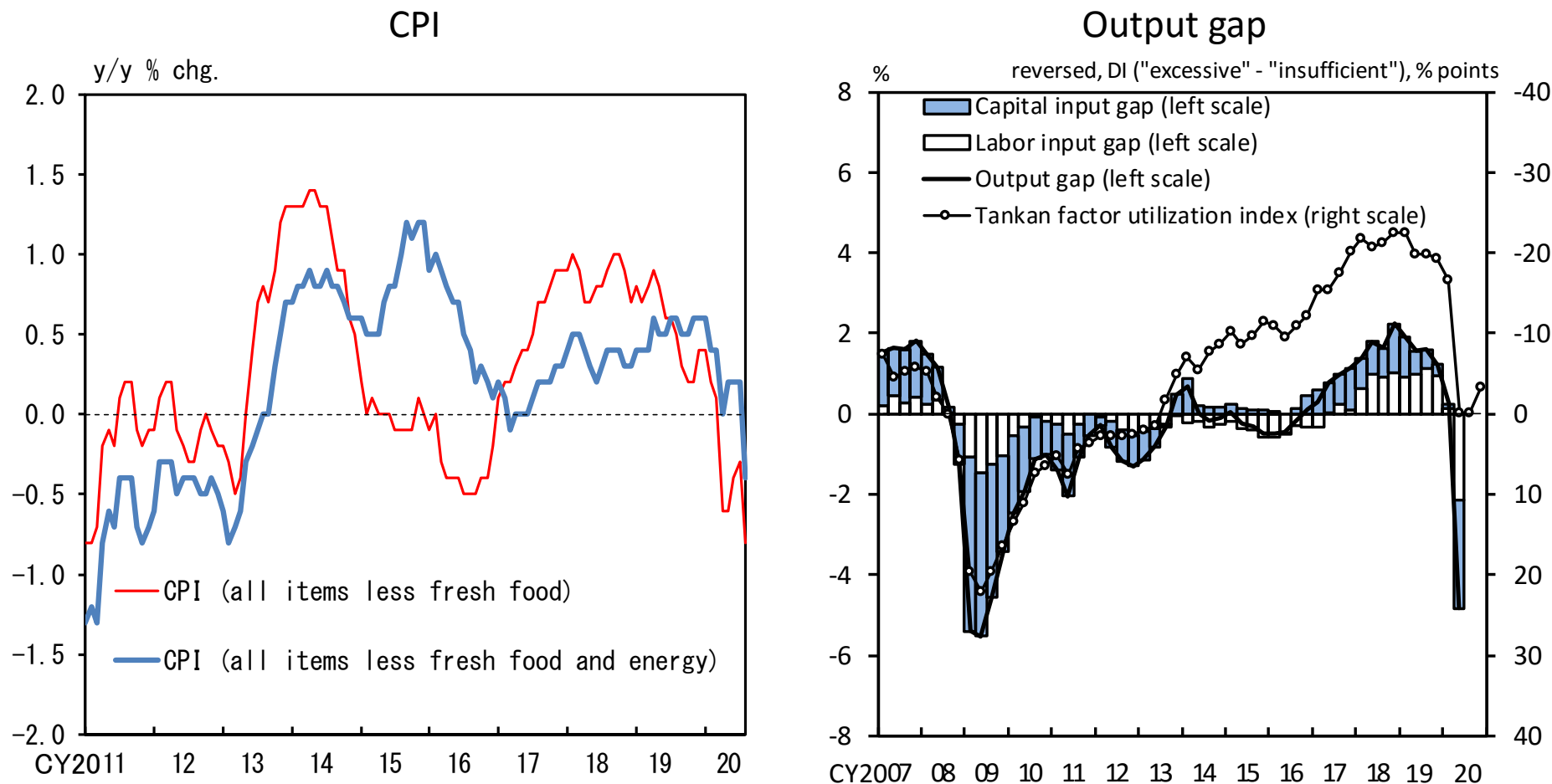
y/y % chg.

	Real GDP	CPI (all items less fresh food)
FY 2020	-5.7 to -4.5 [-4.7]	-0.6 to -0.4 [-0.5]
Forecasts made in April 2020	-5.0 to -3.0	-0.7 to -0.3
FY 2021	+3.0 to +4.0 [+3.3]	+0.2 to +0.5 [+0.3]
Forecasts made in April 2020	+2.8 to +3.9	0.0 to +0.7
FY 2022	+1.3 to +1.6 [+1.5]	+0.5 to +0.8 [+0.7]
Forecasts made in April 2020	+0.8 to +1.6	+0.4 to +1.0

- Notes: 1. Figures in brackets indicate the medians of the Policy Board members' forecasts (point estimates).
2. The forecasts of the majority of the Policy Board members are constructed as follows: each Policy Board member's forecast takes the form of a point estimate -- namely, the figure to which he or she attaches the highest probability of realization. These forecasts are then shown as a range, with the highest figure and the lowest figure excluded. The range does not indicate the forecast errors.
3. In the April Outlook Report, each Policy Board member made their forecasts as a range and submitted two figures (i.e., the highest and lowest figures) within the range of 1.0 percentage point at most. The forecasts of the majority of the Policy Board members were shown as a range excluding four figures -- namely, the two highest figures and two lowest figures among the forecasts of the nine members. Thus, it should be noted that the definition of the forecasts of the majority of the Policy Board members in the April Outlook Report is different from that in the July Outlook Report.
4. Figures for CPI include the effects of the October 2019 consumption tax hike and policies concerning the provision of free education.

Source: Bank of Japan.

CPI and Output Gap

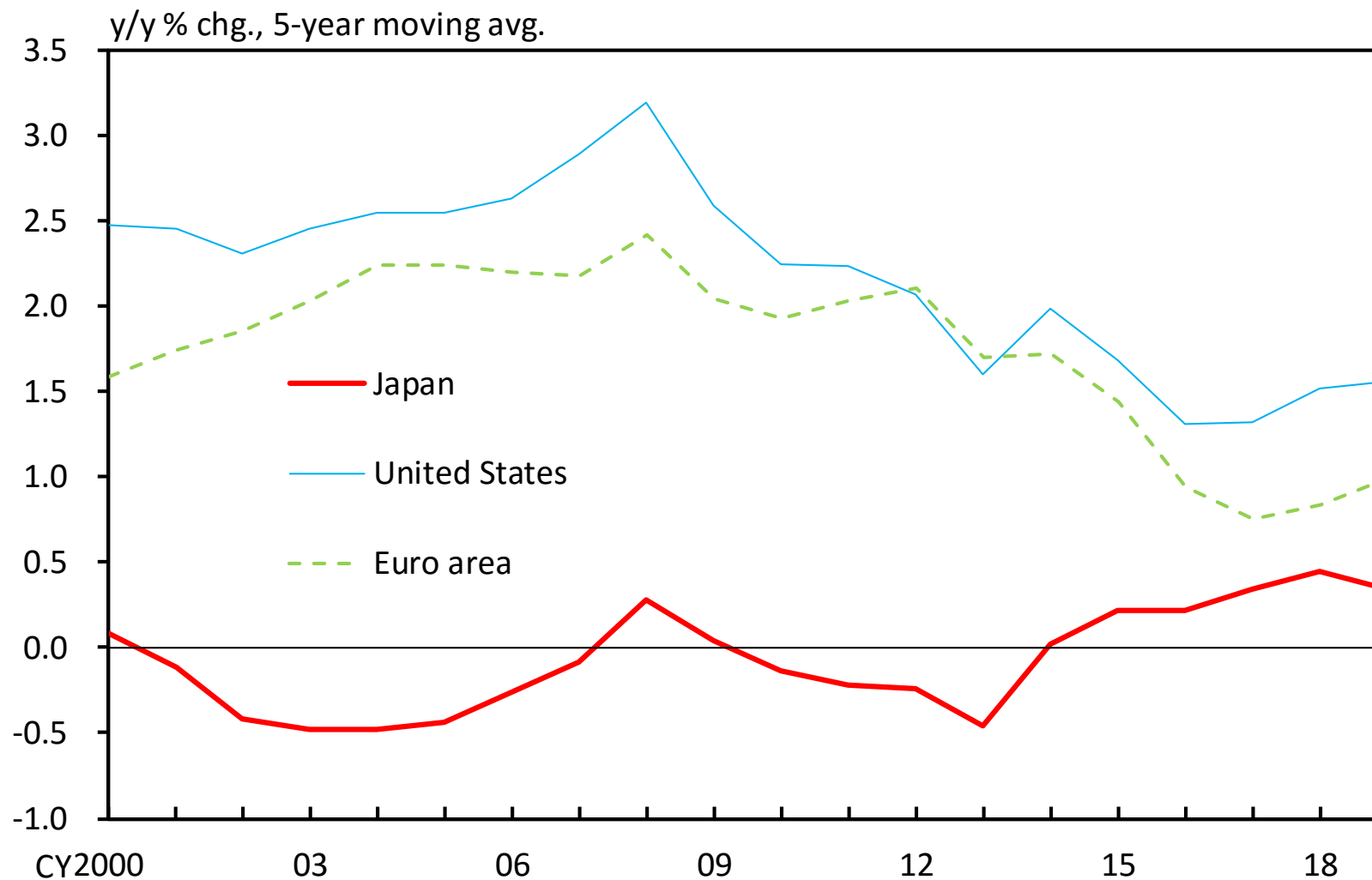


Notes: 1. In the left-hand chart, figures exclude the effects of the consumption tax hikes and policies concerning the provision of free education.

2. In the right-hand chart, the output gap is based on staff estimates. The *Tankan* factor utilization index is calculated as the weighted average of the production capacity DI and the employment conditions DI for all enterprises. The capital and labor shares are used as weights.

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

Developments in Inflation Rates



Note: Japan's figures incorporate the effects of the consumption tax hikes. Figures for the United States and euro area are based on the IMF's World Economic Outlook Database (annual average).

Sources: IMF; Ministry of Internal Affairs and Communications.

The Bank's Measures in Response to COVID-19

Supporting Corporate Financing

Special Program to Support Financing in Response to COVID-19: total size of about 130 tril. yen

Purchases of CP and corporate bonds:
amount outstanding of about 20 tril. yen at maximum (previously, about 5 tril. yen)
Special Funds-Supplying Operations to Facilitate Financing in Response to COVID-19:
about 110 tril. yen

Stabilizing Financial Markets

Ample and Flexible Provision of Yen and Foreign Currency Funds

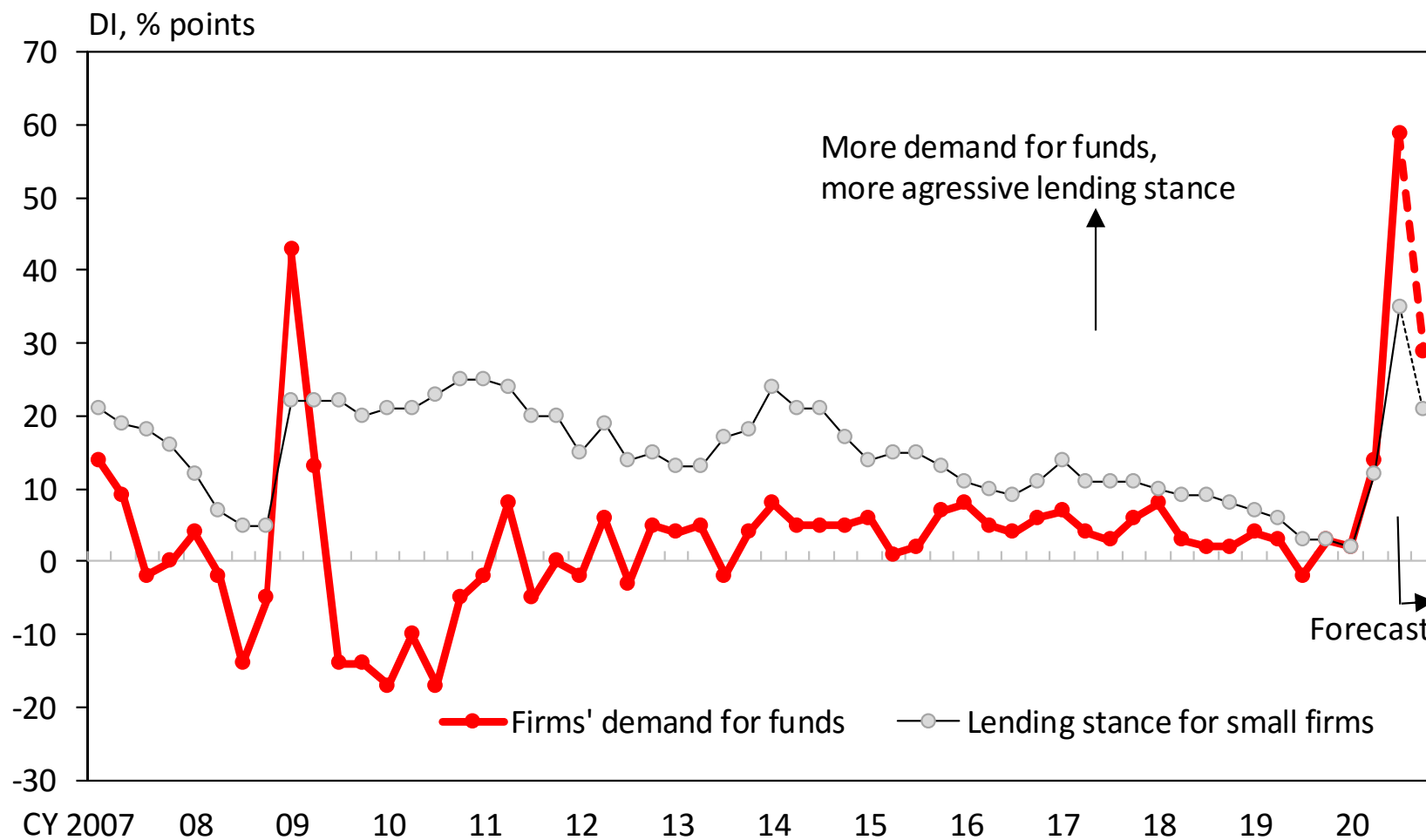
Further active purchases of JGBs: unlimited amount
Enhancement of the U.S. Dollar Funds-Supplying Operations: unlimited amount

Lowering Risk Premia in Asset Markets

Active Purchases of ETFs and J-REITs

ETFs: annual pace of increase of about 6 tril. yen
→ annual pace of increase with an upper limit of about 12 tril. yen (for the time being)
J-REITs: annual pace of increase of about 90 bil. yen
→ annual pace of increase with an upper limit of about 180 bil. yen (for the time being)

Corporate Funding

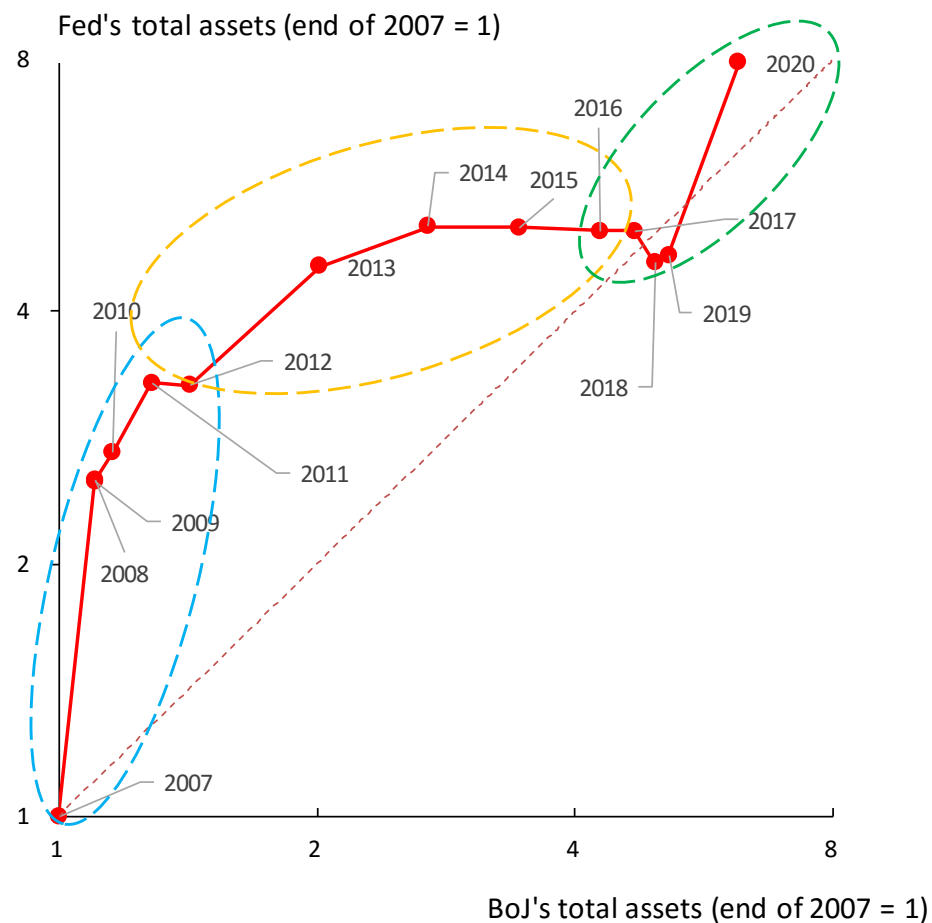


Note: The latest figure is the forecast for the next 3 months as of July 2020.

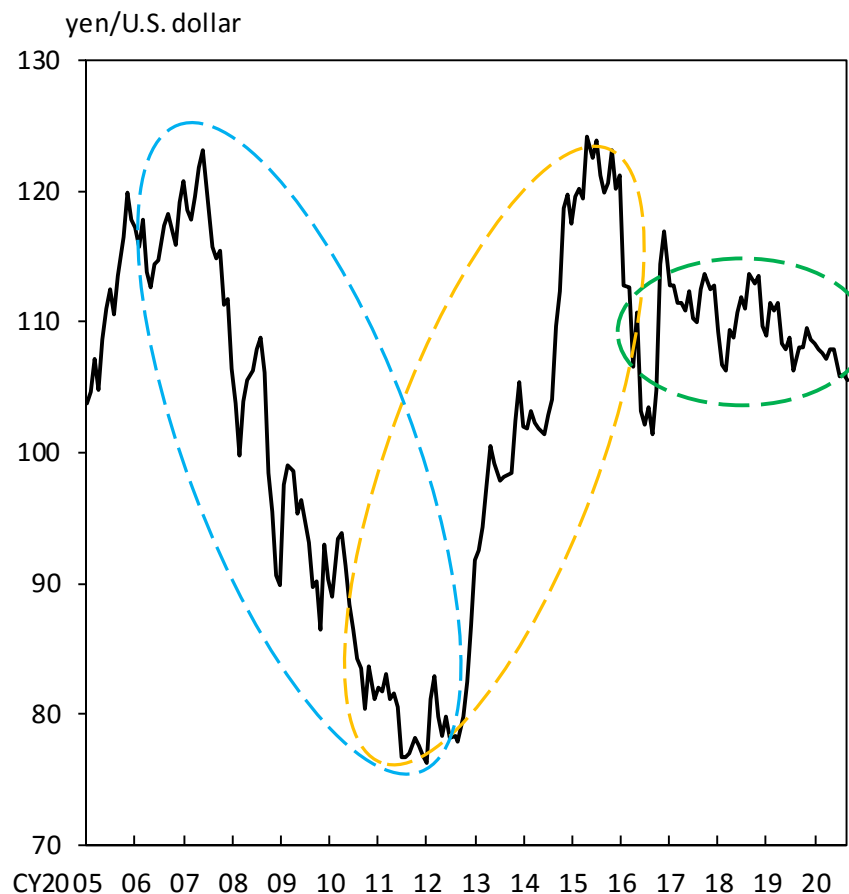
Source: Bank of Japan.

Monetary Policy Similarities

Central banks' balance sheets



Exchange rate

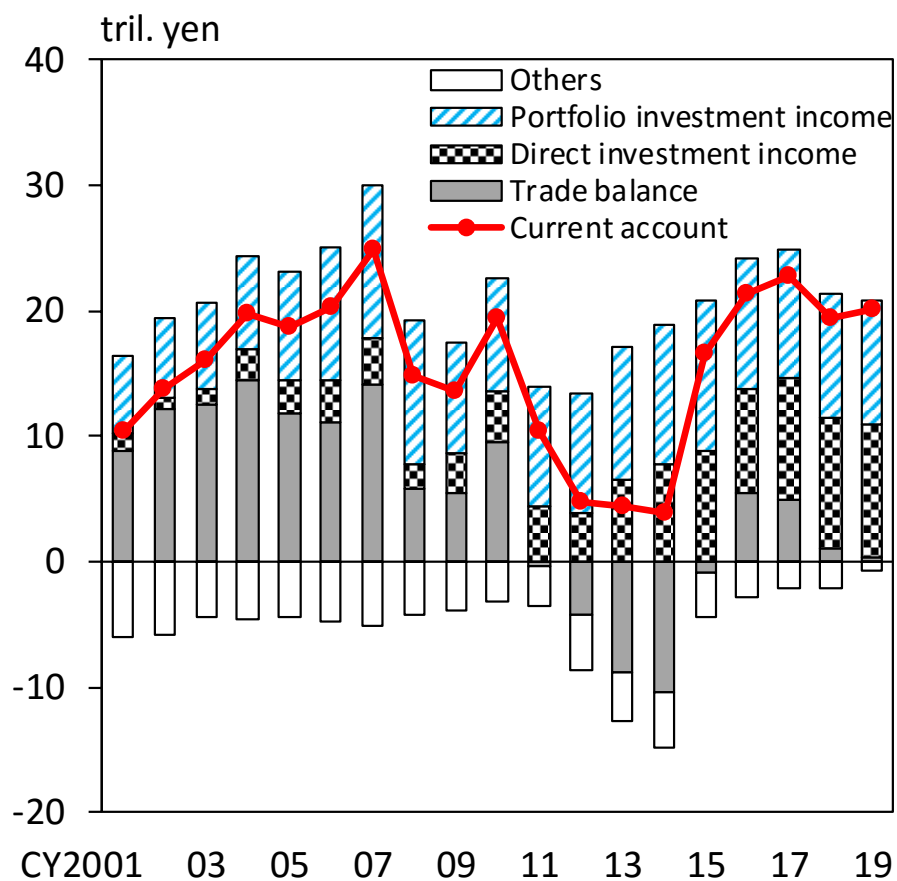


Note: The left-hand chart is depicted as a log scale. The figure for 2020 is as of September 30.

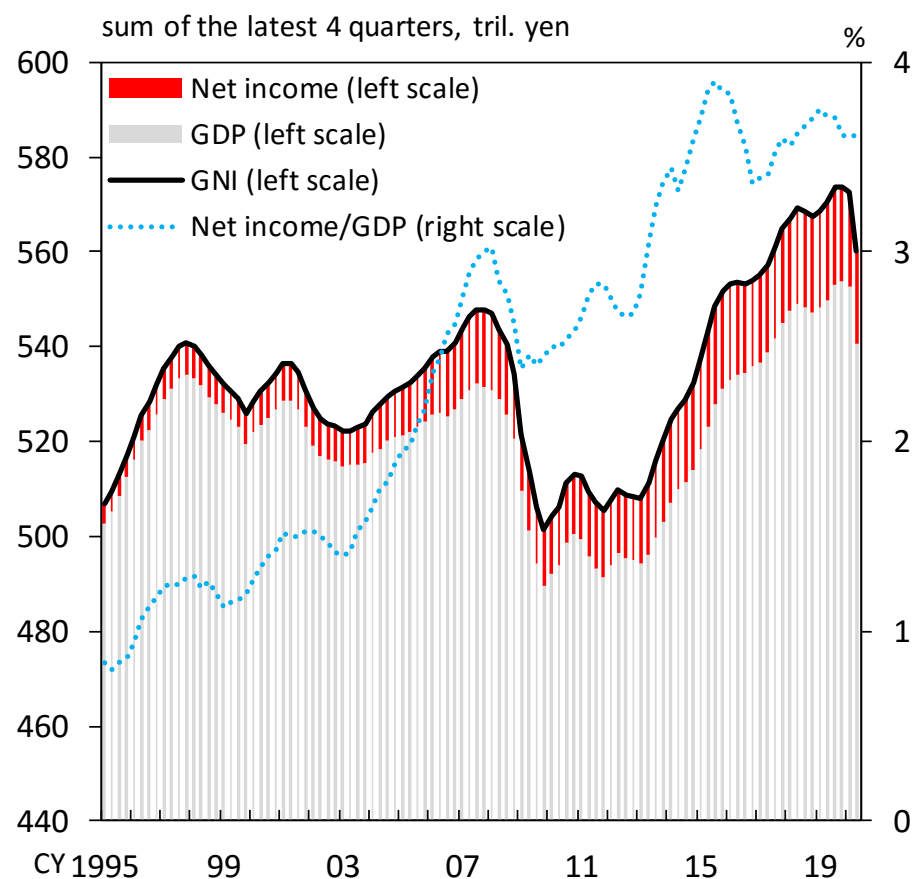
Sources: Bloomberg; FRB; Bank of Japan.

External Demand-Driven Growth and Outward Investment

Current account



GNI



Note: In the right-hand chart, GDP and GNI are nominal figures.

Sources: Cabinet Office; Ministry of Finance; Bank of Japan.