

# Japan's Economy and Monetary Policy

*Speech at a Meeting with Local Leaders in Akita  
(via webcast)*

December 2, 2020

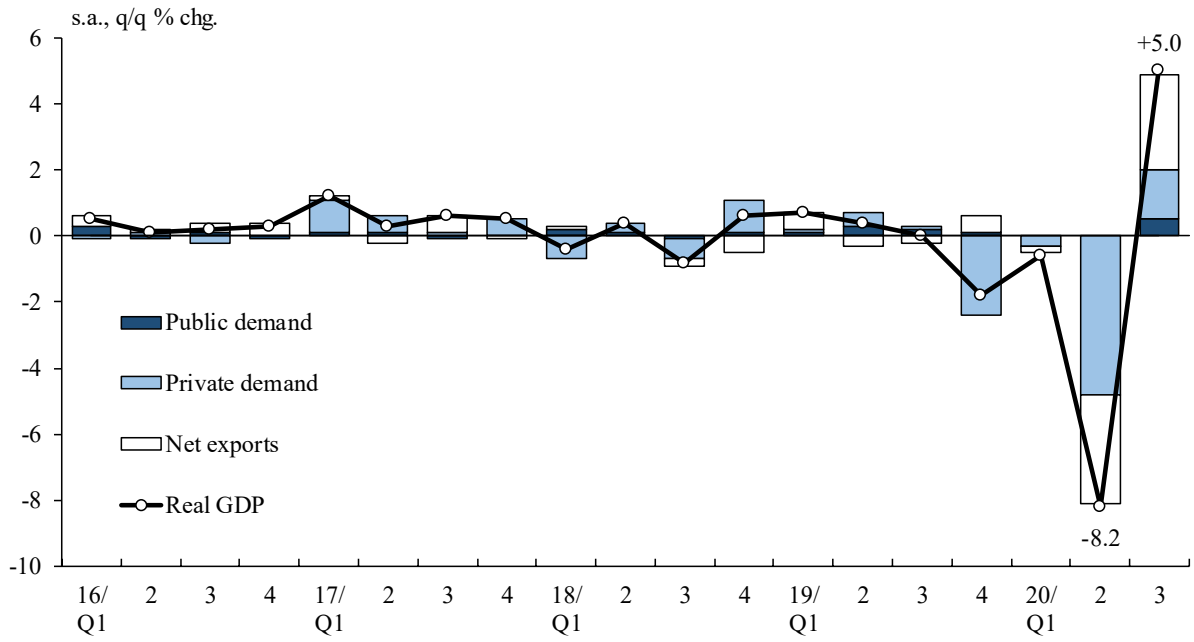
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*Deputy Governor of the Bank of Japan*

## Introduction

- I. Developments in Economic Activity and Prices
- II. The Bank's Conduct of Monetary Policy
- III. A New Facility to Enhance the Resilience of the  
Regional Financial System

## Conclusion

# Real GDP

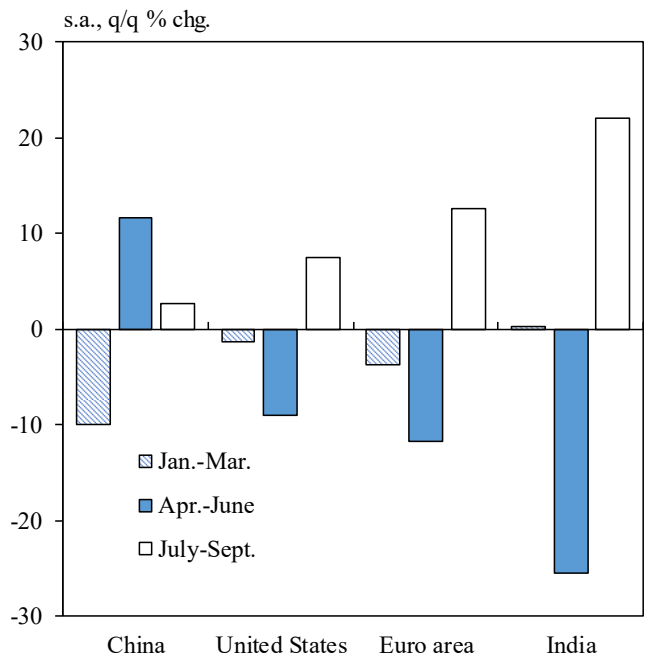
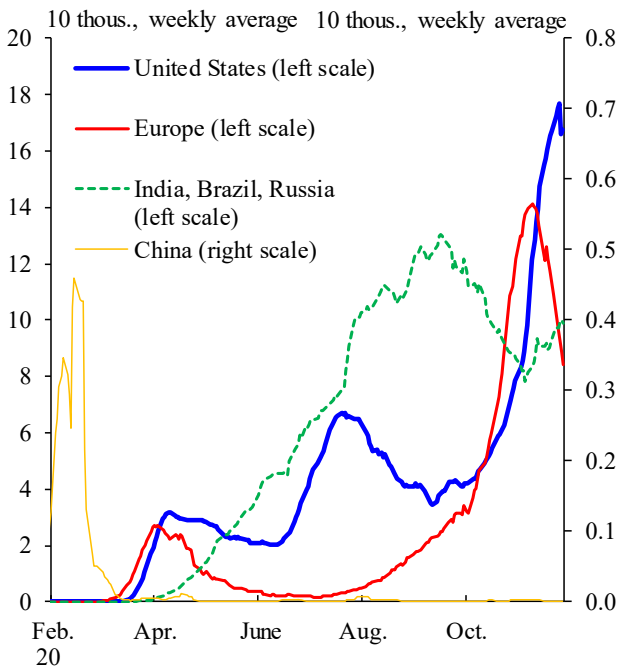


Note: Figures of components in real GDP indicate contributions to changes in real GDP.  
Source: Cabinet Office.

# Impact of COVID-19 (1)

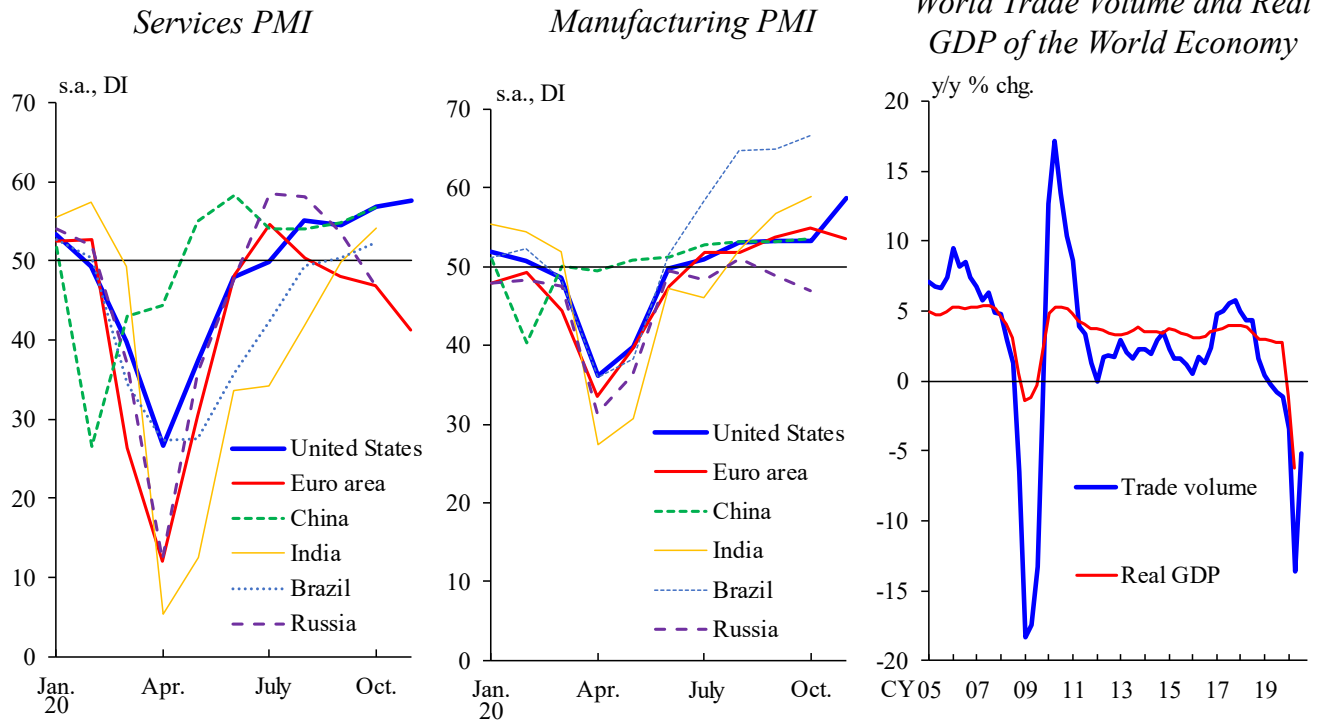
*Confirmed New Cases*

*Major Economies' Real GDP*



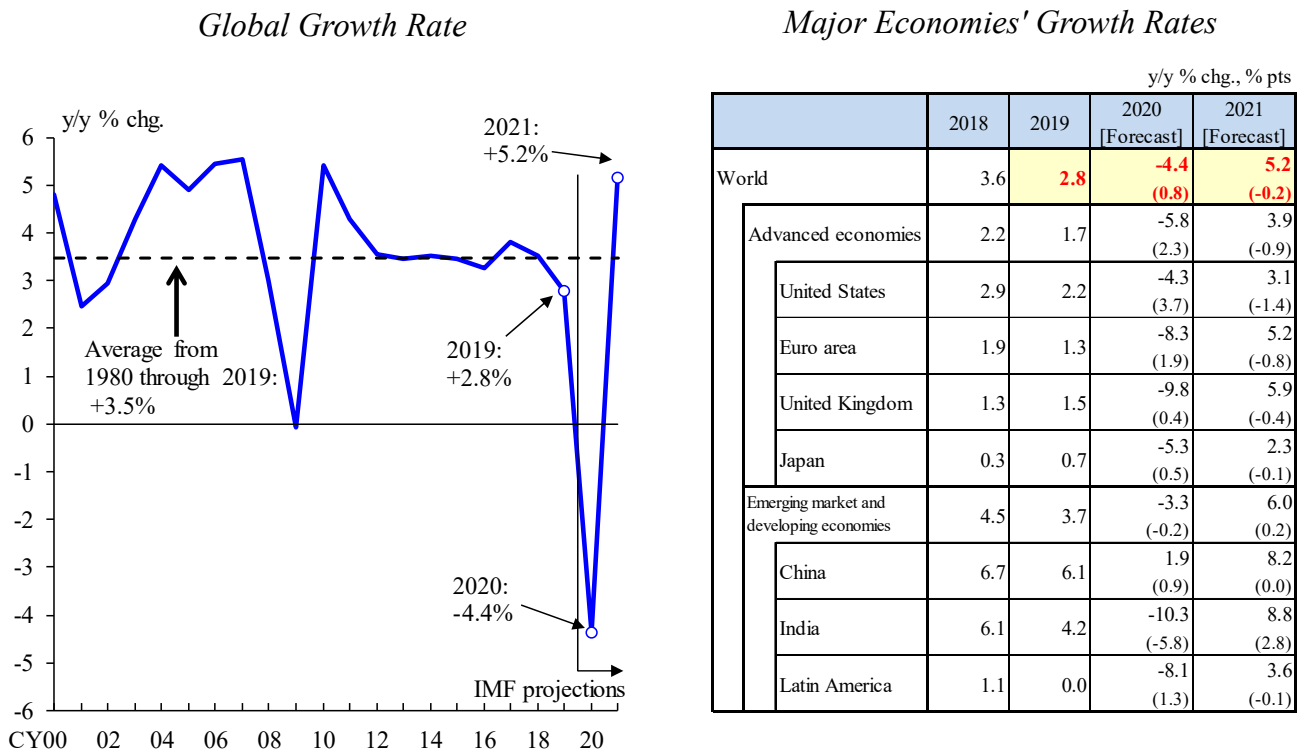
Sources: Haver; CEIC.

### Impact of COVID-19 (2)



Notes: 1. In the left-hand and middle charts, figures for China are the "Caixin China PMI."  
 2. In the left-hand chart, figures for the services PMI are the "Services Business Activity Index."  
 3. In the right-hand chart, figures for the trade volume are those for real imports. Real GDP of the world economy is based on staff calculations using GDP shares of world total GDP from the IMF as weights.  
 Sources: IHS Markit (© and database right IHS Markit Ltd 2020. All rights reserved.); CPB Netherlands Bureau for Economic Policy Analysis; IMF, etc.

### World Economic Outlook (IMF)

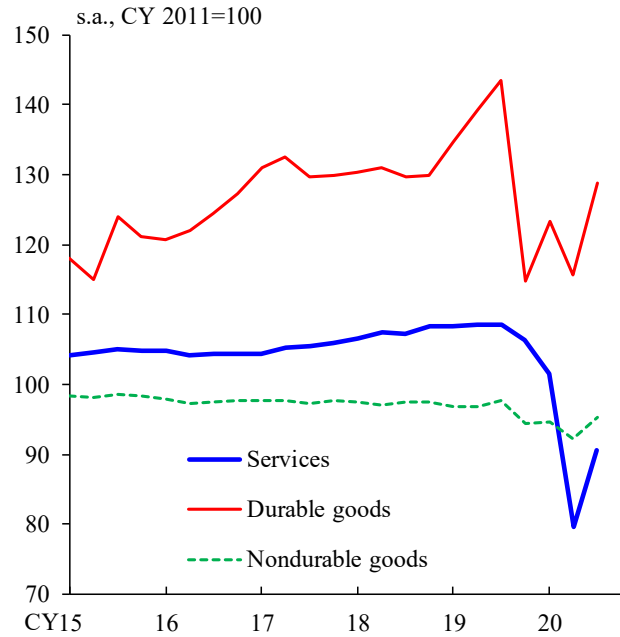
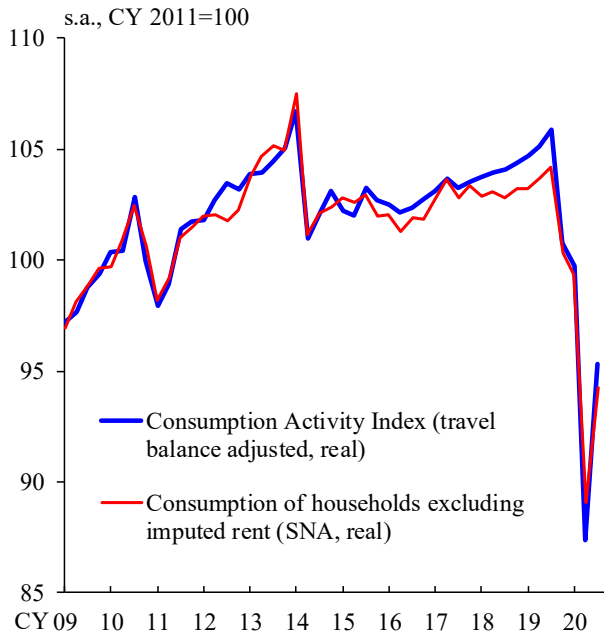


Note: In the right-hand chart, figures in parentheses are the difference from the June 2020 projections.  
 Source: IMF.

# Private Consumption

Private Consumption

Consumption Activity Index (Real)

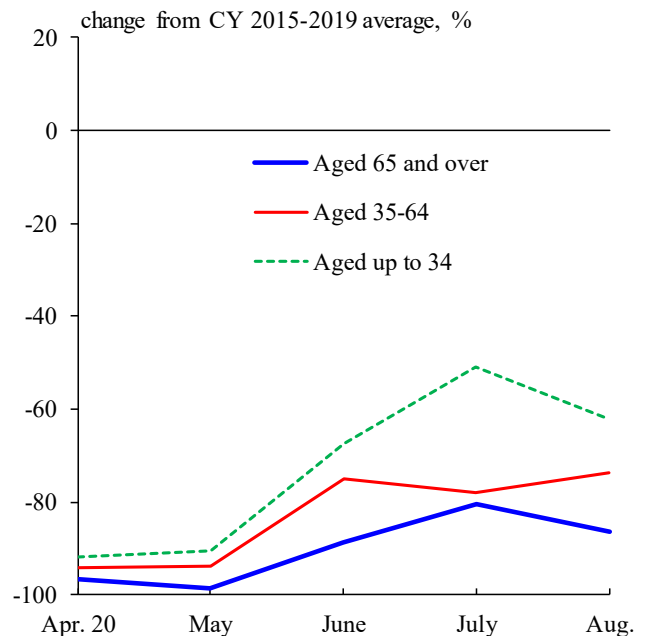
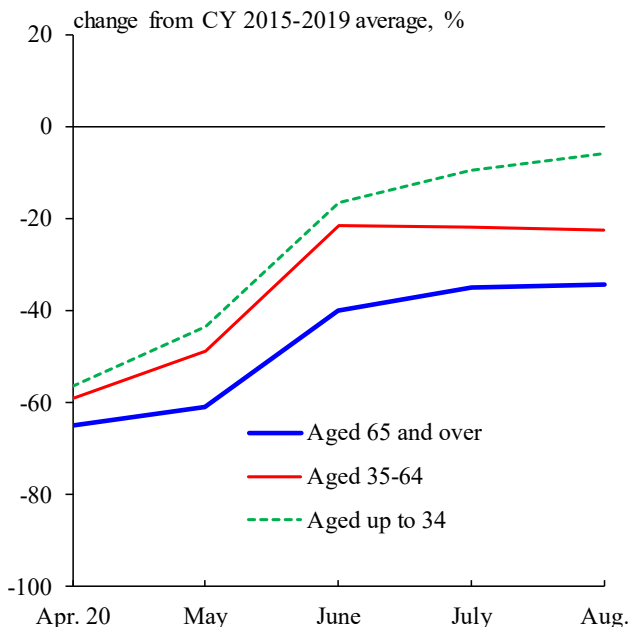


Note: In the left-hand chart, the Consumption Activity Index is based on staff calculations. Figures for the Consumption Activity Index (travel balance adjusted) exclude inbound tourism consumption and include outbound tourism consumption.  
Sources: Bank of Japan; Cabinet Office, etc.

# Developments in Consumption by Age (Services Spending)

Eating Out

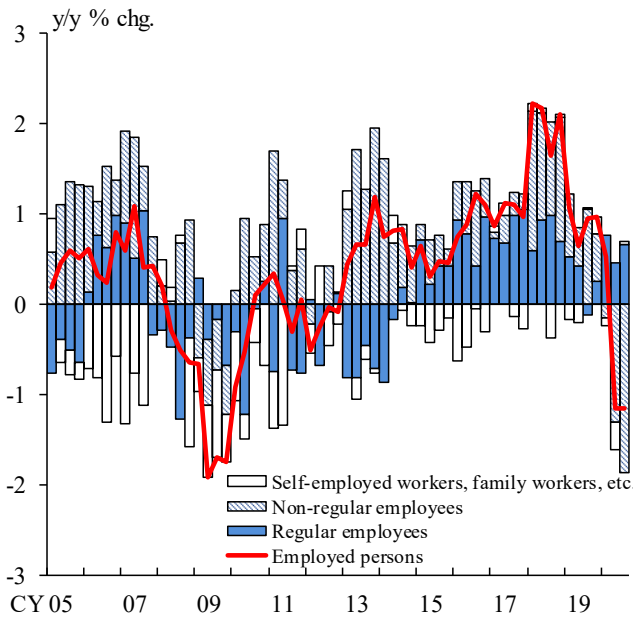
Travel



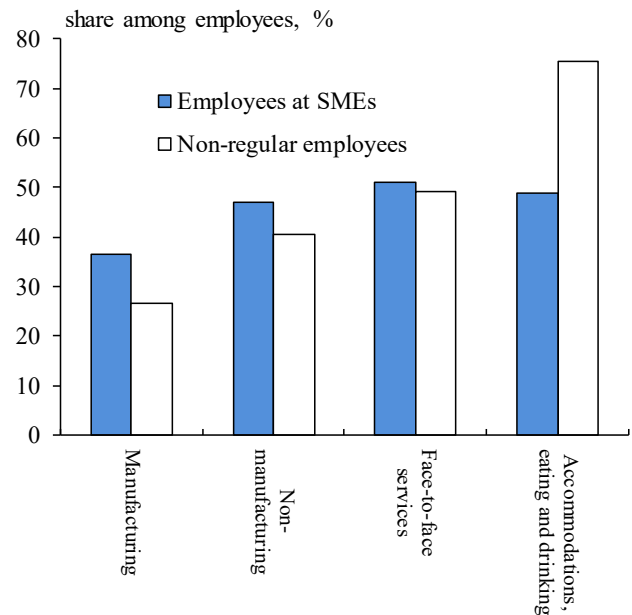
Notes: 1. Figures are for two-or-more-person households and compiled by the age of the household head.  
2. As for the right-hand chart, figures are the sum of expenditures on accommodation services and package tours.  
Source: Ministry of Internal Affairs and Communications.

# Employment

Number of Employed Persons



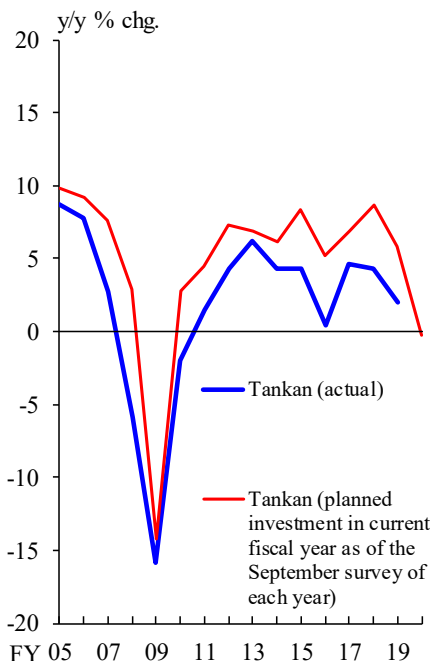
Employees at Small and Medium-Sized Enterprises (SMEs) and Non-Regular Employees



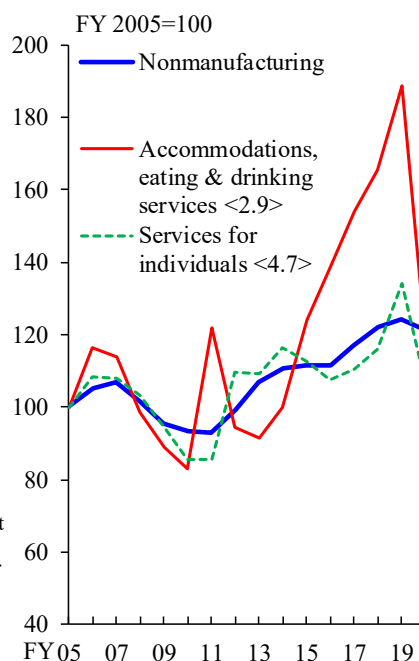
Notes: 1. In the left-hand chart, "self-employed workers, family workers, etc." includes executives of companies or corporations. Figures prior to 2014 are based on the "detailed tabulation" in the "Labour Force Survey."  
 2. In the right-hand chart, "face-to-face services" consists of "accommodations, eating and drinking," "living-related services and amusement," "education, learning support," and "medical, health care and welfare." Figures for employees at SMEs represent the share of those working at firms with fewer than 100 employees among all employees. Figures for non-regular employees represent the share of non-regular employees among all employees excluding executives of companies or corporations. Figures show the averages for 2019.  
 Source: Ministry of Internal Affairs and Communications.

# Business Fixed Investment Plans (Tankan)

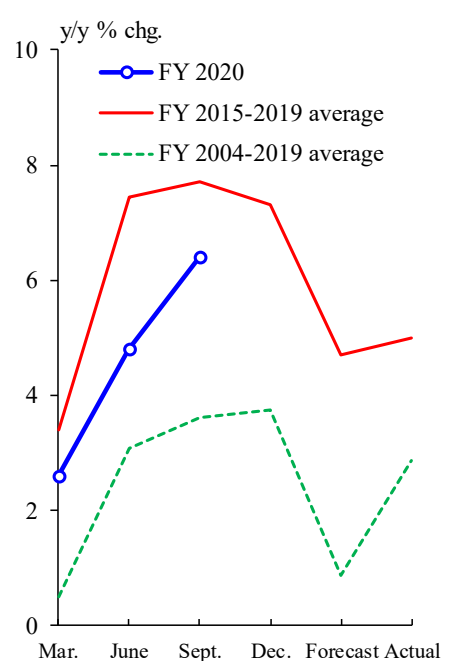
All Industries and Enterprises



Nonmanufacturing

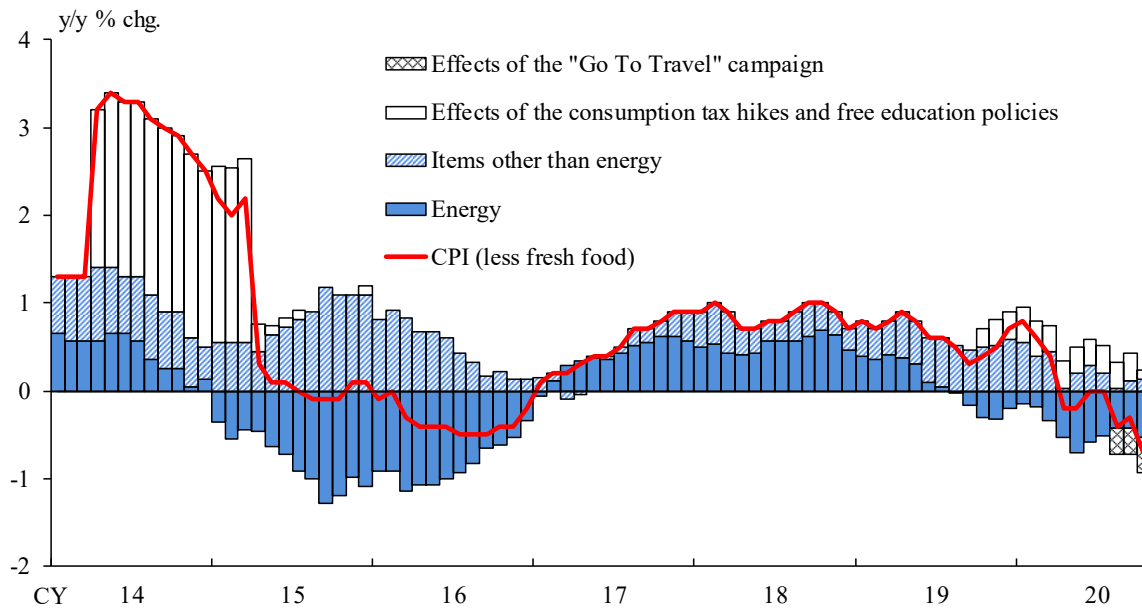


Software Investment



Notes: 1. In the left-hand and middle charts, figures include software and R&D investments and exclude land purchasing expenses (R&D investment is not included before the March 2017 survey).  
 2. In the left-hand chart, figures are for all industries including financial institutions.  
 3. In the middle chart, figures up through fiscal 2019 are actual results. Figures for fiscal 2020 are forecasts from the September 2020 survey. Figures in angular brackets show the share of each industry in total business fixed investment in the nonmanufacturing sector for fiscal 2019.  
 4. In the right-hand chart, figures show the amount of newly recorded software investment under intangible fixed assets. Figures are for all industries and enterprises.  
 Source: Bank of Japan.

## Consumer Prices



Notes: 1. Energy consists of petroleum products, electricity, and gas, manufactured & piped.

2. Figures for the "effects of the consumption tax hikes and free education policies" from April 2020 onward are based on staff estimations and include the effects of measures such as free higher education introduced in April 2020.

Source: 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 140 tril. yen + $\alpha$

Purchases of CP and corporate bonds: amount outstanding of about 20 tril. yen at maximum (previous amount outstanding of about 5 tril. yen)

Special Funds-Supplying Operations to Facilitate Financing in Response to COVID-19: about 120 tril. yen

### Stabilizing Financial Markets

#### Ample and Flexible Provision of Yen and Foreign Currency Funds

Further active purchases of JGBs and T-Bills: unlimited

Enhancement of the U.S. Dollar Funds-Supplying Operations: unlimited

### Active Purchases of ETFs and J-REITs

ETFs: annual pace of about 6 tril. yen

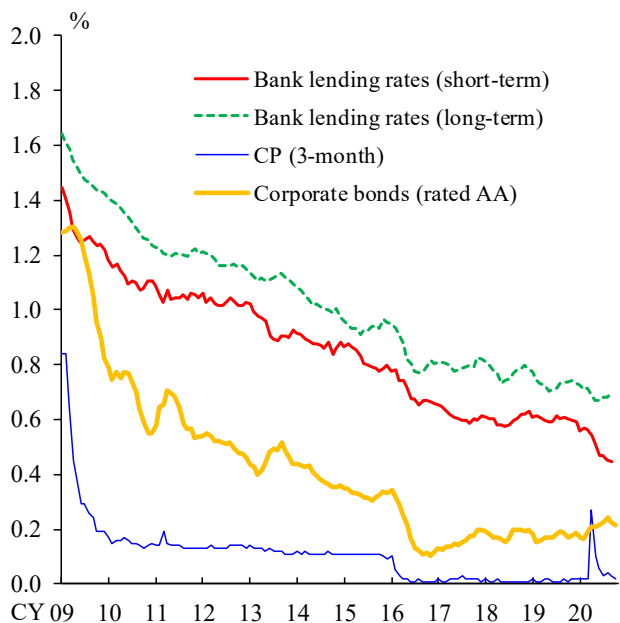
→ annual pace with the upper limit of about 12 tril. yen (for the time being)

J-REITs: annual pace of about 90 bil. yen

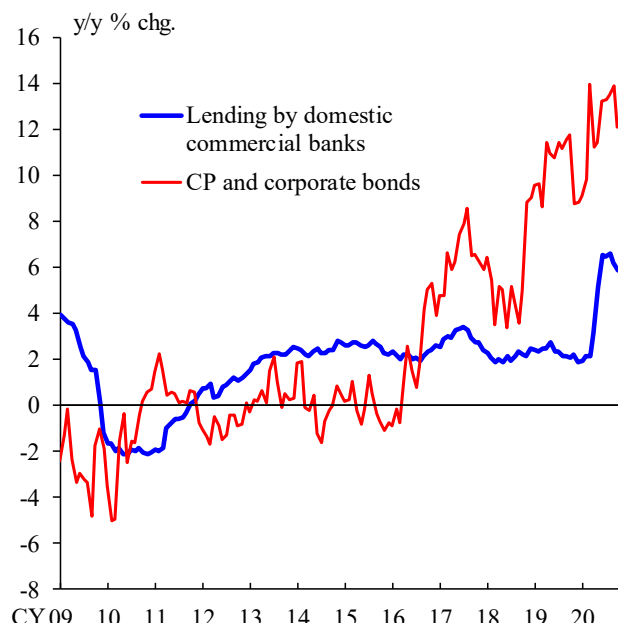
→ annual pace with the upper limit of about 180 bil. yen (for the time being)

## Financial Conditions

Funding Costs



Amount Outstanding of Bank Lending, CP, and Corporate Bonds



Notes: 1. In the left-hand chart, figures for issuance yields for CP up to September 2009 are the averages for CP (3-month, rated a-1 or higher). Those from October 2009 are the averages for CP (3-month, rated a-1). Figures for issuance yields for corporate bonds are the averages for domestically issued bonds launched on a particular date. Bonds issued by banks and securities companies, etc., are excluded. Figures for bank lending rates and issuance yields for corporate bonds show 6-month backward moving averages.

2. In the right-hand chart, figures for lending by domestic commercial banks are monthly averages. Figures for CP and corporate bonds are those at the end of the period. Lending by domestic commercial banks includes loans to firms, individuals, and local governments.

Sources: Bloomberg; Bank of Japan; Japan Securities Depository Center; Capital Eye; I-N Information Systems.

## Special Deposit Facility to Enhance the Resilience of the Regional Financial System

*Background: The business environment surrounding regional financial institutions is becoming increasingly severe due to structural factors such as the declining population, the continued low interest rate environment, and the impact of COVID-19.*

### Outline of the Facility

- The Bank decided on a plan to introduce a new deposit facility to encourage initiatives of regional financial institutions to strengthen their business foundations so that they may firmly support regional economies into the future.
- The Bank will pay an additional remuneration of 0.1 percent to the current account balances of regional financial institutions that meet the following requirements (a three-year temporary measure).
  - (1) Being committed to contributing to sustainable development of regional economies and (2) to meet either of the following:
    - (i) To strengthen business foundations to a designated degree (revenue increase and cost reduction)
    - (ii) To make an institutional decision on mergers, business integration, or certain forms of acquisitions toward strengthening business foundations