

Response to COVID-19 and
Medium- to Long-Term Challenges for Japan's Economy:
With an Eye on the Post-COVID-19 Era

*Speech at the Meeting of Councillors of Nippon Keidanren
(Japan Business Federation) in Tokyo*

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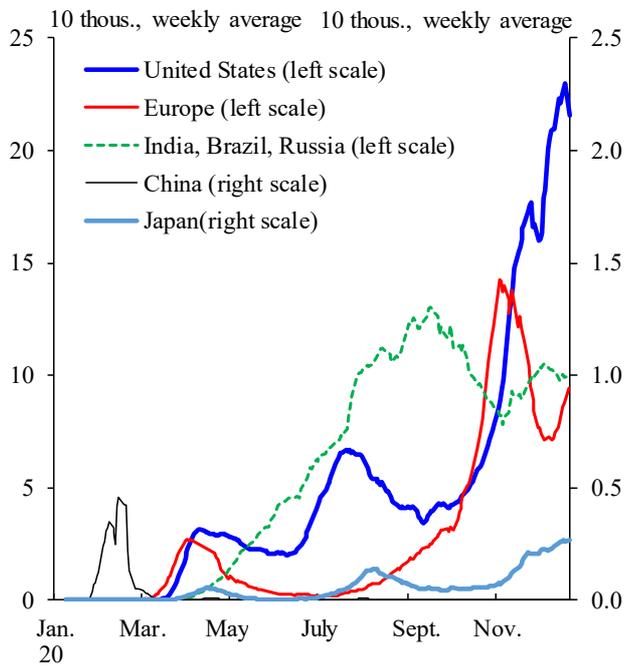
Introduction

- I. Economic and Price Developments during the
COVID-19 Era and Their Outlook
- II. The Bank's Conduct of Monetary Policy
- III. Strengthening Japan's Economic Growth Potential
with an Eye on the Post-COVID-19 Era

Conclusion

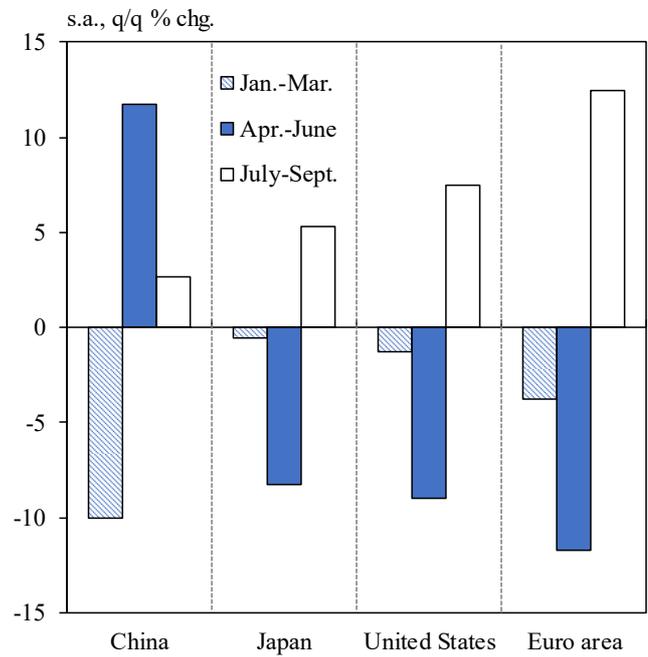
COVID-19

Daily Confirmed New Cases



Sources: Haver; OECD.

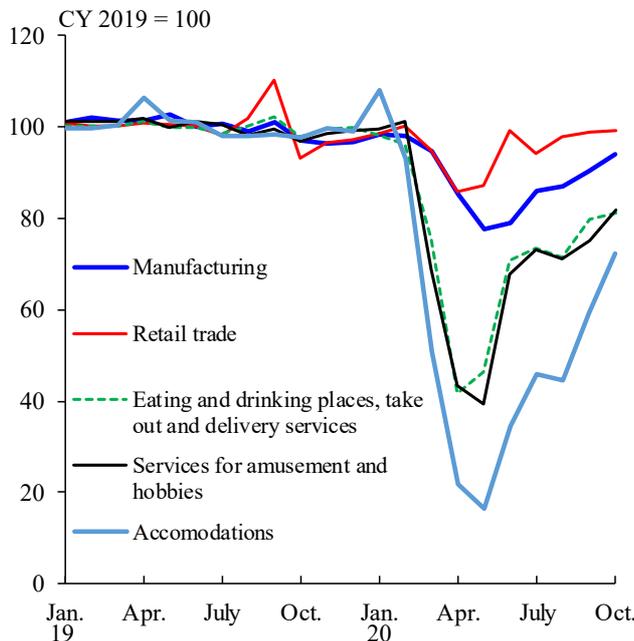
Major Economies' Real GDP (2020)



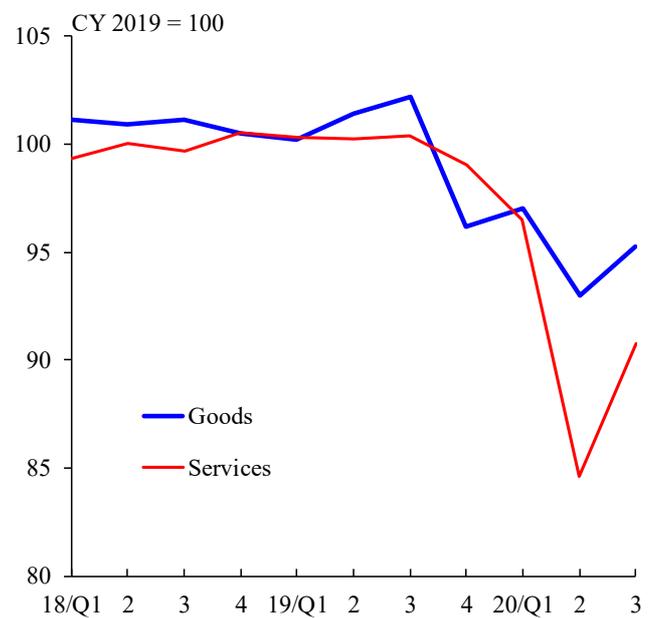
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Impact on Economic Activity

Economic Activity by Sector



Household Consumption

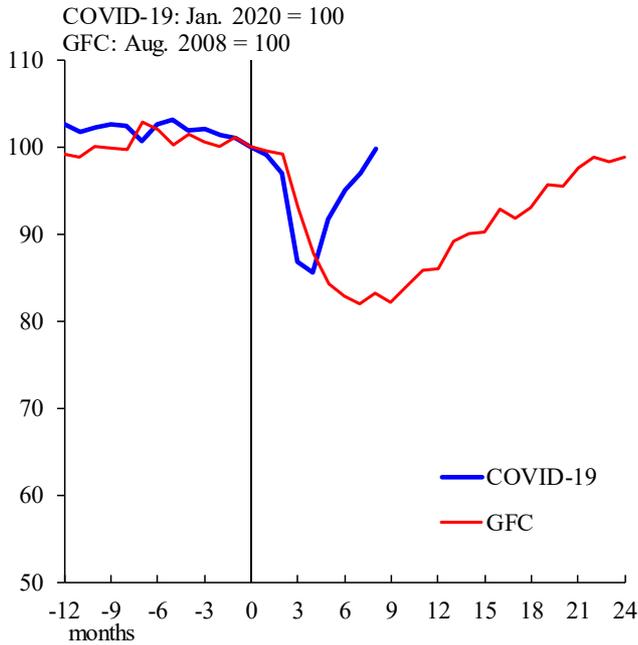


Note: In the left-hand chart, figures for manufacturing are the "Indices of Industrial Production" and those for other sectors are the "Indices of Tertiary Industry Activity."
Sources: Ministry of Economy, Trade and Industry; Cabinet Office.

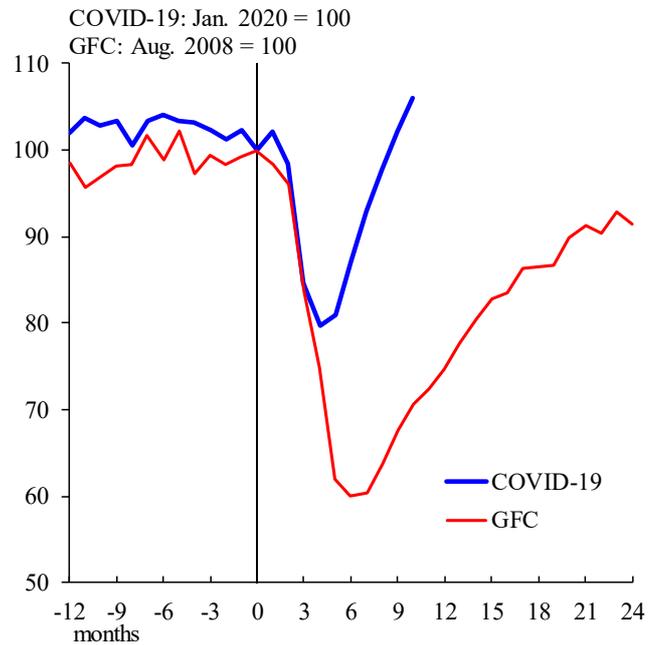
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Trade Activity of Goods

World Trade Volume



Japan's Exports of Goods (Real Exports)



Sources: CPB Netherlands Bureau for Economic Policy Analysis; Bank of Japan; Ministry of Finance.

The Bank's Forecasts for Economic Activity and Prices (October 2020 Outlook Report)

	Real GDP	CPI (all items less fresh food)
Fiscal 2020	-5.6 to -5.3 [-5.5]	-0.7 to -0.5 [-0.6]
Forecasts made in July 2020	-5.7 to -4.5 [-4.7]	-0.6 to -0.4 [-0.5]
Fiscal 2021	+3.0 to +3.8 [+3.6]	+0.2 to +0.6 [+0.4]
Forecasts made in July 2020	+3.0 to +4.0 [+3.3]	+0.2 to +0.5 [+0.3]
Fiscal 2022	+1.5 to +1.8 [+1.6]	+0.4 to +0.7 [+0.7]
Forecasts made in July 2020	+1.3 to +1.6 [+1.5]	+0.5 to +0.8 [+0.7]

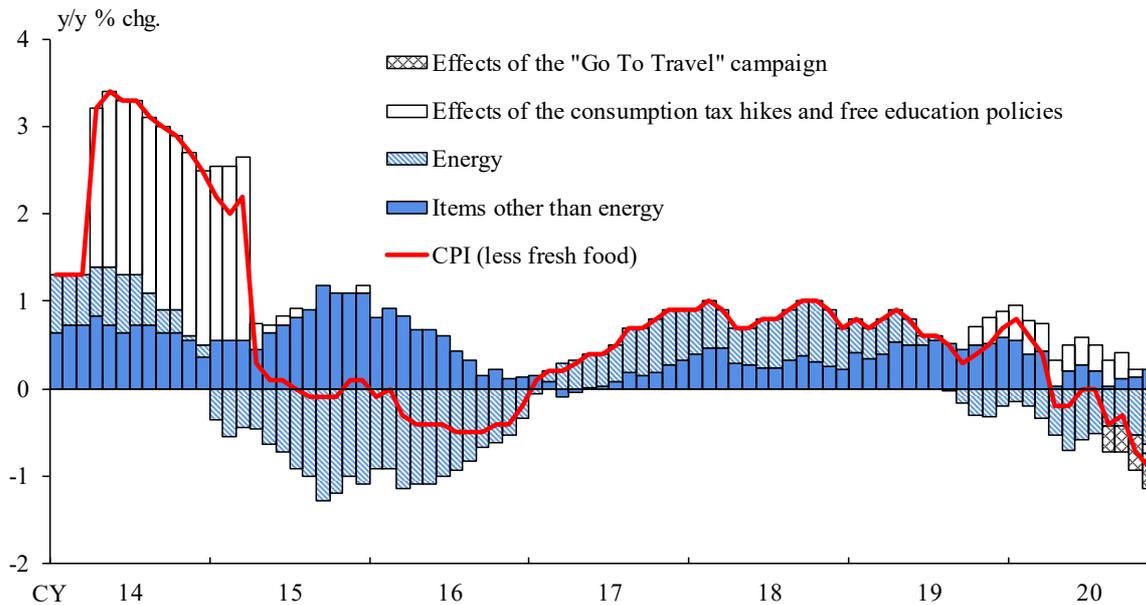
y/y % chg.

Notes: 1. These figures show the forecasts of the majority of the Policy Board members and those in brackets indicate the medians. The forecasts are constructed as follows: each Policy Board member's forecast takes the form of a point estimate -- namely, the figure to which she or he attaches the highest probability of realization. These forecasts are then shown as a range, with the highest figure and the lowest figure excluded.

2. The direct effects of the October 2019 consumption tax hike on the CPI for fiscal 2020 are estimated to be 0.5 percentage point. In addition, based on a specific assumption, the direct effects of policies concerning the provision of free education on the CPI for fiscal 2020 are estimated to be around minus 0.4 percentage point. The direct effects of the "Go To Travel" campaign on the CPI are estimated to be minus 0.2 percentage point for fiscal 2020 and 0.2 percentage point for fiscal 2021.

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

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

Stabilizing Financial Markets

Ample and Flexible Provision of Yen and Foreign Currency Funds

Further active purchases of JGBs and T-Bills

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

Active Purchases of ETFs and J-REITs

ETFs: annual pace of about 6 tril. yen

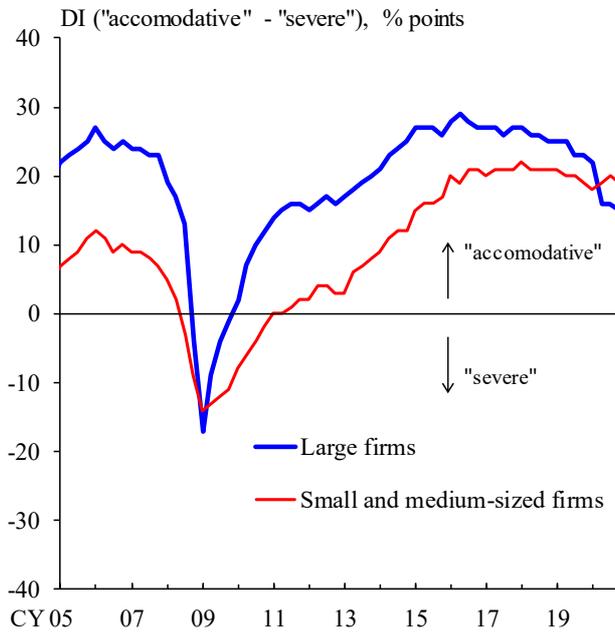
→ annual pace with the upper limit of about 12 tril. yen (for the time being)

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

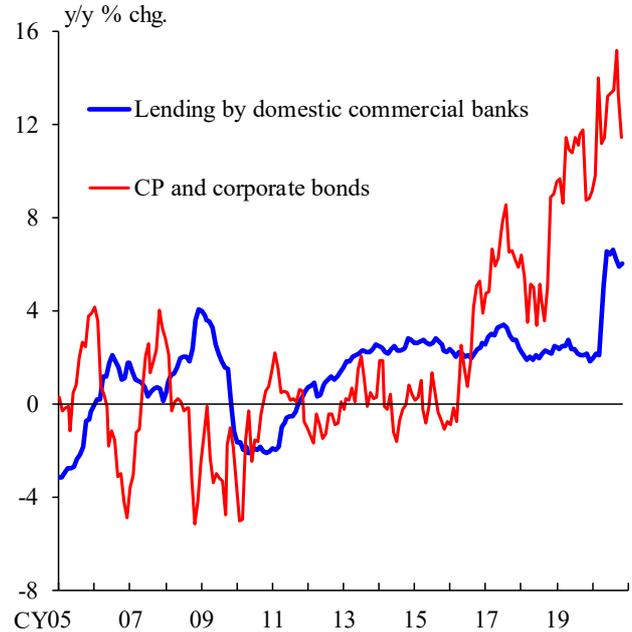
→ annual pace with the upper limit of about 180 bil. yen (for the time being)

Financial Conditions

Lending Attitudes of Financial Institutions as Perceived by Firms



Amount Outstanding of Bank Lending, CP, and Corporate Bonds



Notes: 1. In the left-hand chart, figures are for all industries.

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: Bank of Japan; Japan Securities Depository Center; Japan Securities Dealers Association; I-N Information Systems.

Key Points of Decisions Made at the December MPM

- Economic activity and prices have remained under prolonged downward pressure due to the impact of COVID-19.
- In this situation, there is a need to support the economy and thereby achieve the price stability target of 2%.

Extension of the Special Program to Support Financing in Response to the Novel Coronavirus (COVID-19)

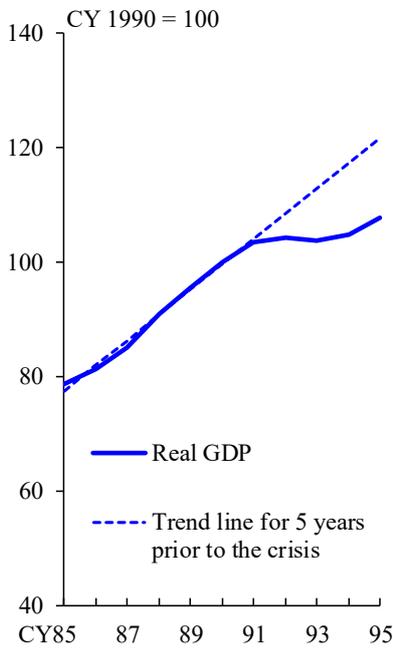
- Extension by 6 months: end-March 2021 → end-September 2021
* Further extension will be considered if necessary.
- Adjustments to the Special Program
 - Purchases of CP and corporate bonds: combine the maximum amount of additional purchases for each asset, making a total of 15 tril. yen
 - Special Operations to facilitate financing: remove the upper limit of 100 bil. yen on funds provided to each eligible counterparty against loans that financial institutions make on their own

Assessment for Further Effective and Sustainable Monetary Easing to Achieve the Price Stability Target of 2%

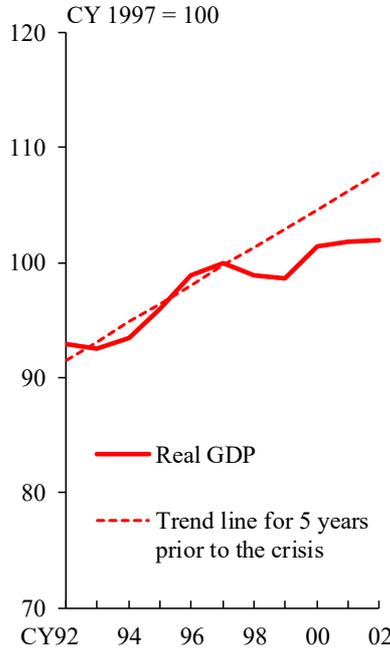
- The Bank judges that there is no need to change the framework of "QQE with Yield Curve Control."
- The Bank will assess various measures under this framework and make public its findings, likely at the March 2021 MPM.

Low Growth After the Crises

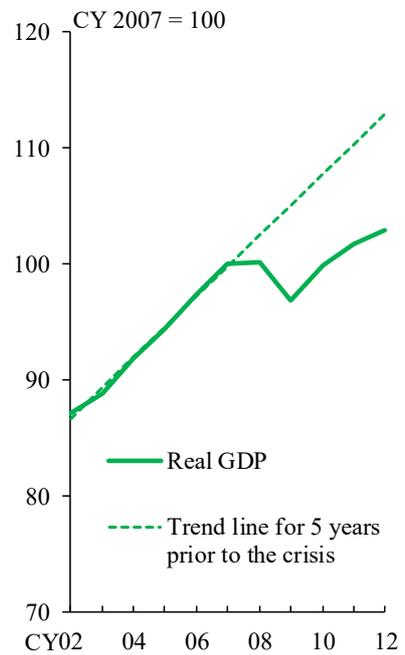
*Japan
(After the Bubble Economy)*



*Japan
(After the Financial Crisis in the 1990s)*



*Advanced Economies
(After the GFC)*



Source: IMF.

9

Labor Input: Avoiding Hysteresis Effects

Unemployment Rate



Number of Corporate Bankruptcies

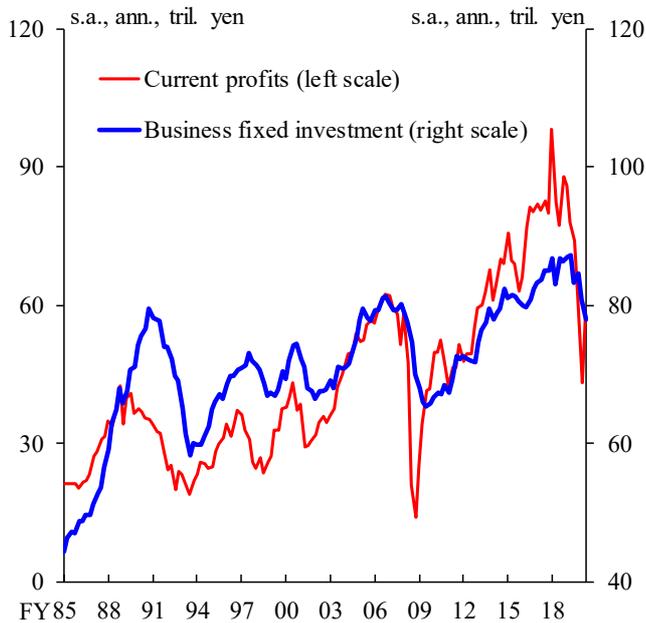


Note: In the right-hand chart, figures show 6-month backward moving averages.
Sources: Ministry of Internal Affairs and Communications; Tokyo Shoko Research Ltd.

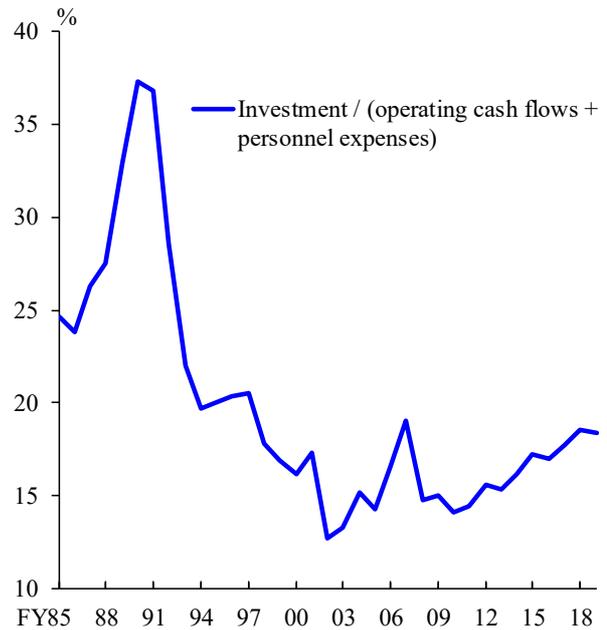
10

Capital Input: Avoiding Stagnation of Business Fixed Investment

Corporate Profits and Business Fixed Investment



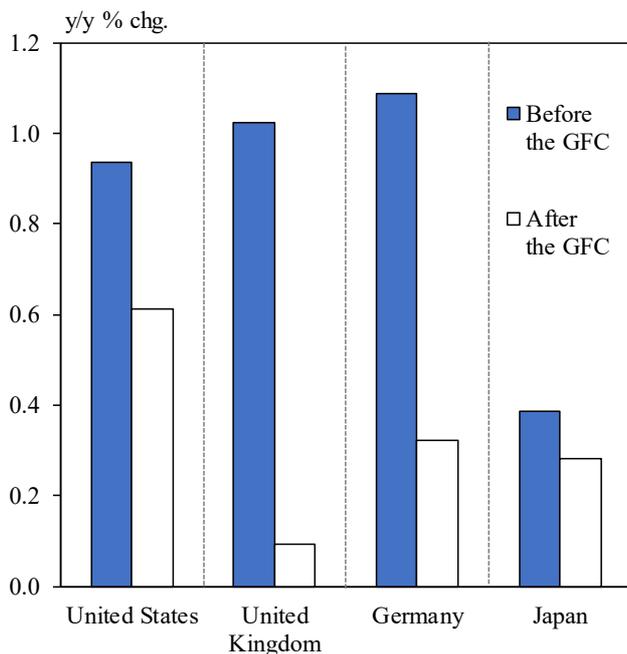
Investment-Cash Flow Ratio



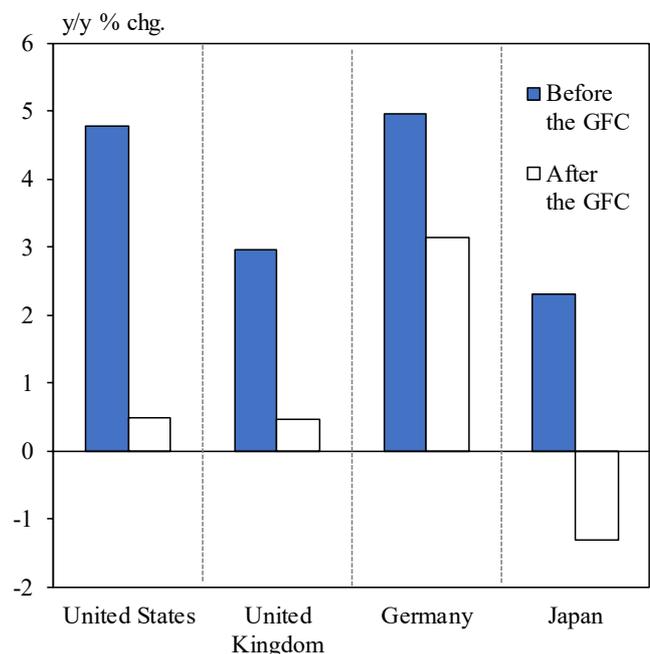
Notes: 1. In the left-hand chart, figures for current profits are based on the "Financial Statements Statistics of Corporations by Industry, Quarterly." Excluding "finance and insurance." Figures from 2009/Q2 onward exclude "pure holding companies."
 2. In the right-hand chart, operating cash flows = net income - dividends + depreciation expenses + Δprovisions - Δinventories - Δtrade credits - Δnet amount of other current assets. Investment includes land purchasing expenses and excludes software and R&D investment.
 Sources: Cabinet Office; Ministry of Finance.

Technological Progress: Encouraging Investment for Growth

Stagnation of Total Factor Productivity After the Crisis



Research and Development Investment



Notes: 1. In the left-hand chart, figures are averages of year-on-year changes for 7 years before and after the GFC.
 2. In the right-hand chart, figures are averages of year-on-year changes for 3 years before and after the GFC.
 Sources: EU KLEMS; OECD.