

Japan's Economy and Monetary Policy

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

February 3, 2021

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Introduction

I. Developments in Economic Activity and Prices

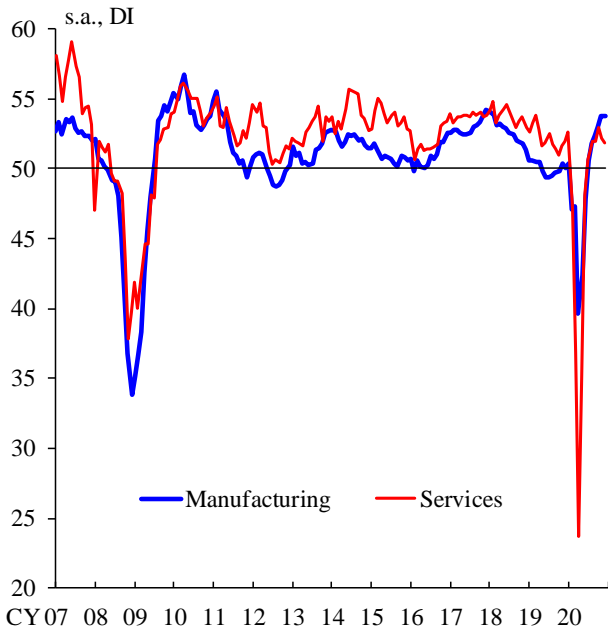
II. The Bank's Conduct of Monetary Policy

III. Current Situation of and Outlook for Kanagawa
Prefecture's Economy

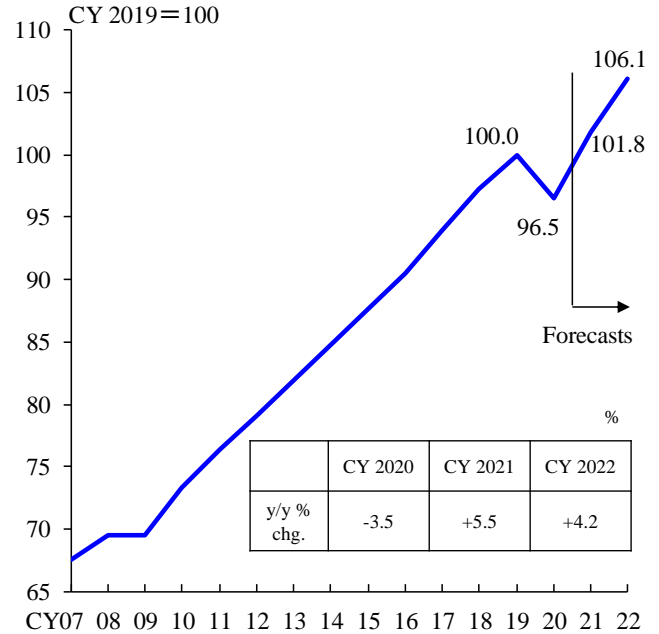
Conclusion

Global Economy

Global PMI



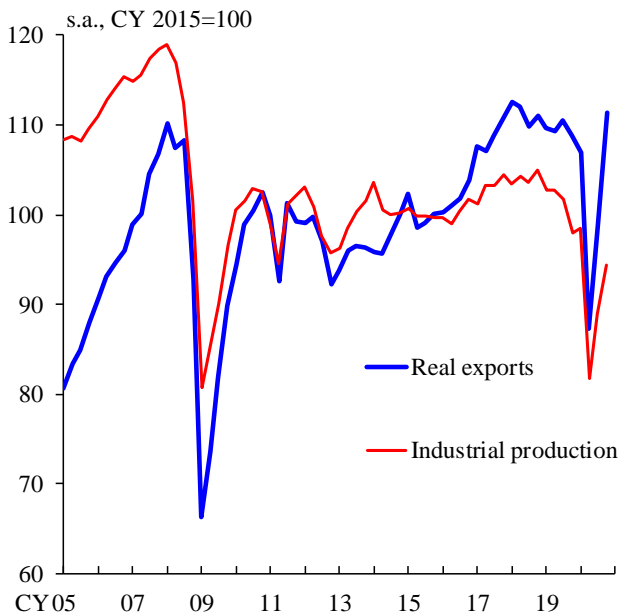
Global Economy
(IMF, January 2021)



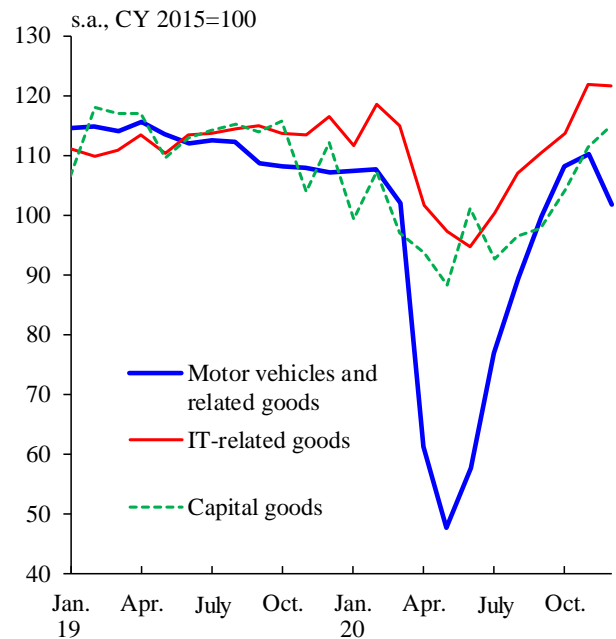
Note: In the left-hand chart, figures for manufacturing are the "J.P.Morgan Global Manufacturing PMI" and those for services are the "J.P.Morgan Global Services Business Activity Index."
Sources: IHS Markit (© and database right IHS Markit Ltd 2021. All rights reserved.); IMF.

Exports and Production

Real Exports and Industrial Production



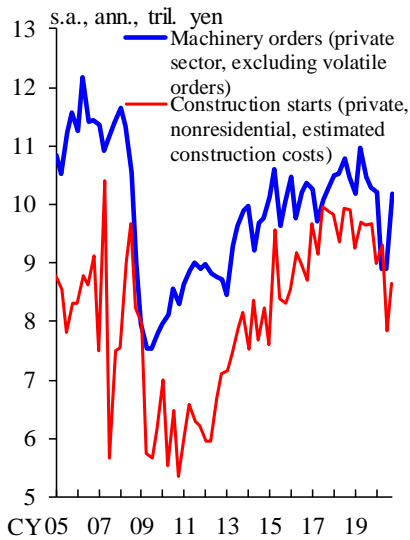
Real Exports by Type of Goods



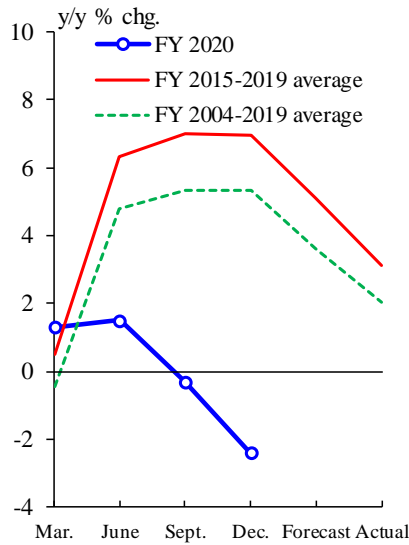
Sources: Bank of Japan; Ministry of Finance; Ministry of Economy, Trade and Industry.

Business Fixed Investment

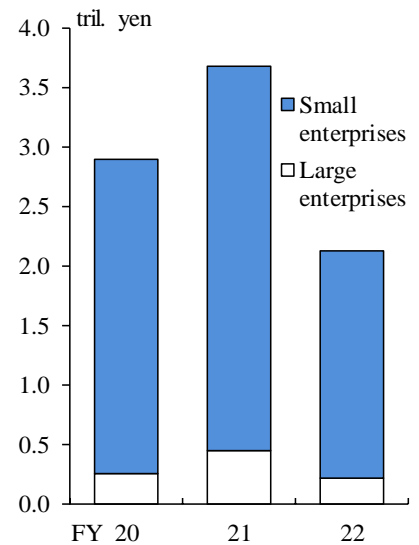
Machinery Orders and Construction Starts



Business Fixed Investment Plans (Tankan)



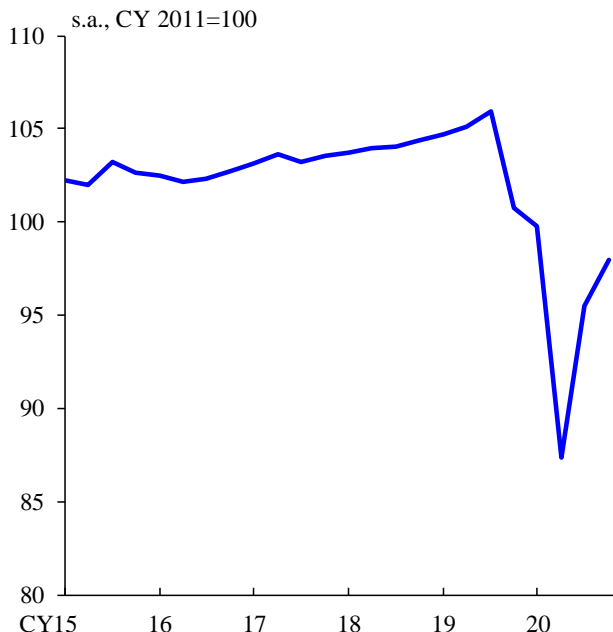
Estimated Amount of Increase in Business Fixed Investment



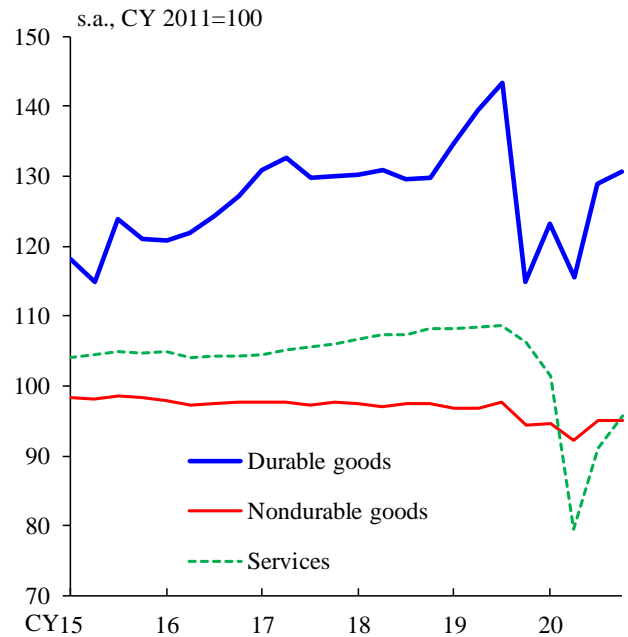
Notes: 1. In the left-hand chart, volatile orders are orders for ships and orders from electric power companies. Figures for machinery orders for 2020/Q4 are October-November averages.
 2. In the middle chart, figures are for all industries and enterprises, including financial institutions. Figures include software and R&D investments and exclude land purchasing expenses (R&D investment is not included before the March 2017 survey).
 3. For details relevant to the right-hand chart, see Box 3 in the January 2021 Outlook Report.
 Sources: Cabinet Office; Ministry of Land, Infrastructure, Transport and Tourism; Bank of Japan; Bloomberg; Ministry of Finance, etc.

Private Consumption

Consumption Activity Index

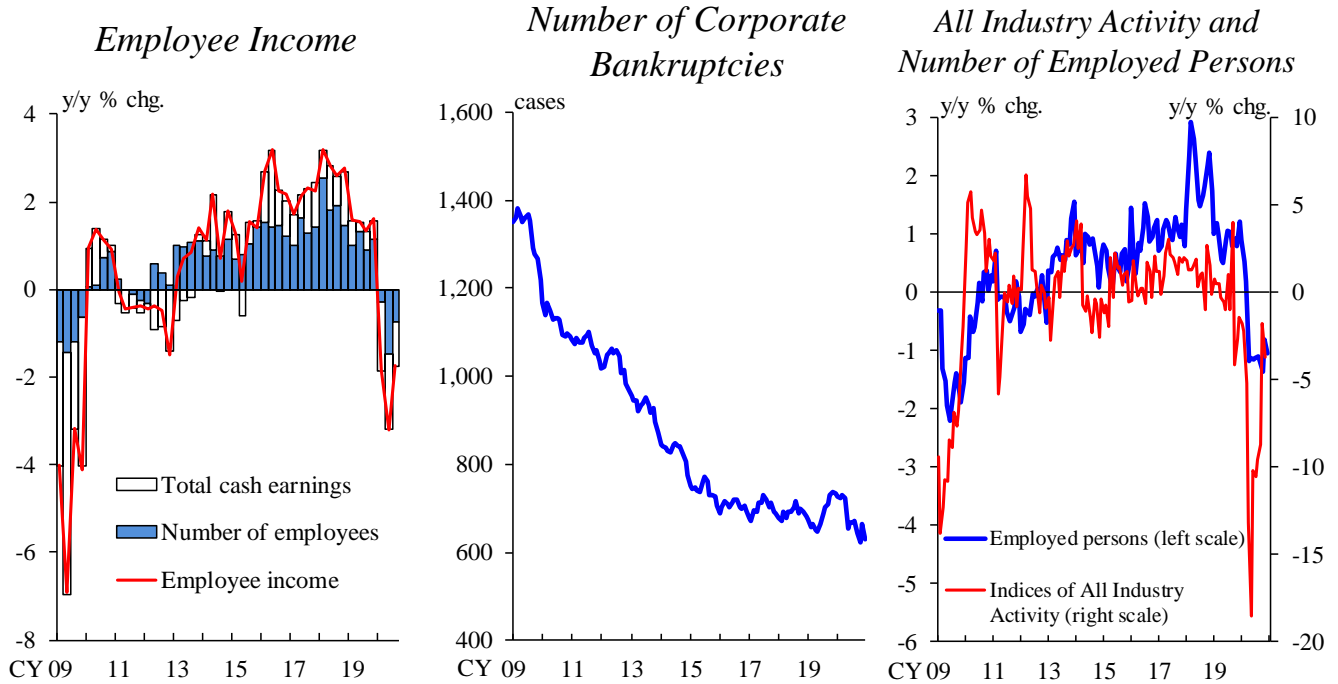


Consumption Activity Index (Durable Goods, Nondurable Goods, Services)



Note: In the left-hand chart, figures are based on staff calculations that exclude inbound tourism consumption and include outbound tourism consumption.
 Sources: Bank of Japan, etc.

Employment and Income



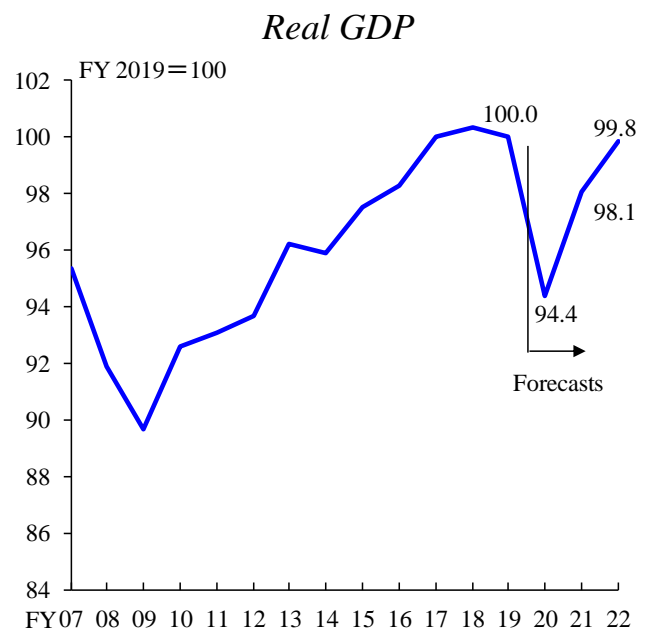
Notes: 1. In the left-hand chart, Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February. Employee income = total cash earnings ("Monthly Labour Survey") × number of employees ("Labour Force Survey"). Figures from 2016/Q1 are based on continuing observations following the sample revisions of the "Monthly Labour Survey."
 2. In the middle-hand chart, figures show 6-month backward moving averages.
 3. In the right-hand chart, figures for the "Indices of All Industry Activity" from August 2020 onward are calculated using the growth rate of the weighted average of the "Indices of Industrial Production" and the "Indices of Tertiary Industry Activity."

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

The Bank's Forecasts for Economic Activity and Prices (January 2021 Outlook Report)

Forecasts of the Majority of the Policy Board Members

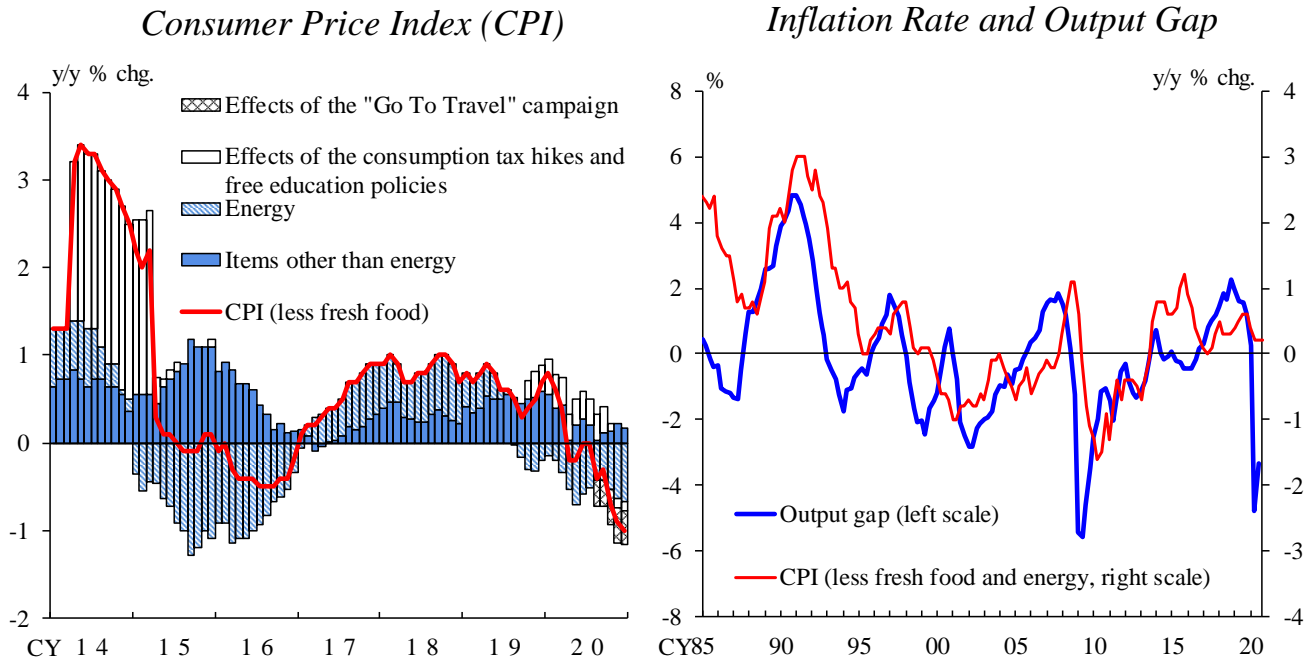
	y/y % chg.	
	Real GDP	CPI (all items less fresh food)
Fiscal 2020	-5.7 to -5.4 [-5.6]	-0.7 to -0.5 [-0.5]
Forecasts made in Oct. 2020	-5.6 to -5.3 [-5.5]	-0.7 to -0.5 [-0.6]
Fiscal 2021	+3.3 to +4.0 [+3.9]	+0.3 to +0.5 [+0.5]
Forecasts made in Oct. 2020	+3.0 to +3.8 [+3.6]	+0.2 to +0.6 [+0.4]
Fiscal 2022	+1.5 to +2.0 [+1.8]	+0.7 to +0.8 [+0.7]
Forecasts made in Oct. 2020	+1.5 to +1.8 [+1.6]	+0.4 to +0.7 [+0.7]



Notes: 1. In the left-hand chart, 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 0.1 percentage point for both fiscal 2021 and 2022.

Source: Bank of Japan.

Consumer Prices



Notes: 1. In the left-hand chart, energy consists of petroleum products, electricity, and gas, manufactured & piped. 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.
 2. In the right-hand chart, the CPI figures exclude the effects of the consumption tax hikes, policies concerning the provision of free education, and the "Go To Travel" campaign, which covers a portion of domestic travel expenses. The figures from 2020/Q2 onward are based on staff estimations and exclude the effects of measures such as free higher education introduced in April 2020. The output gap is based on staff estimations.

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

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

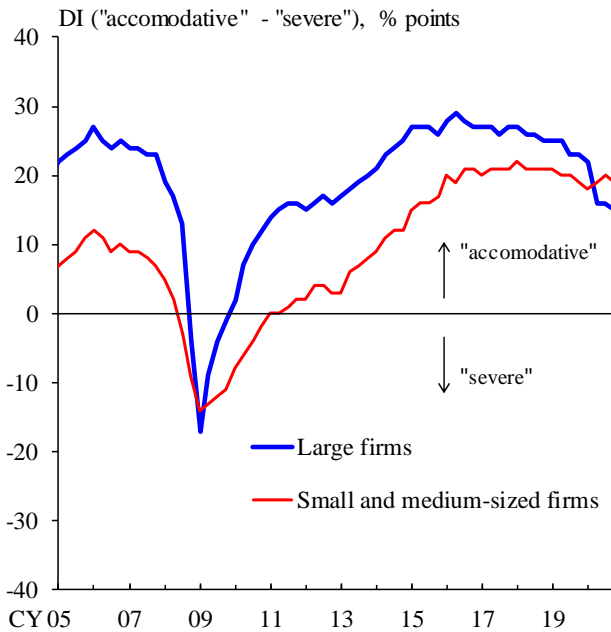
→ annual pace with the upper limit of about 12 tril. yen (for the time being)

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

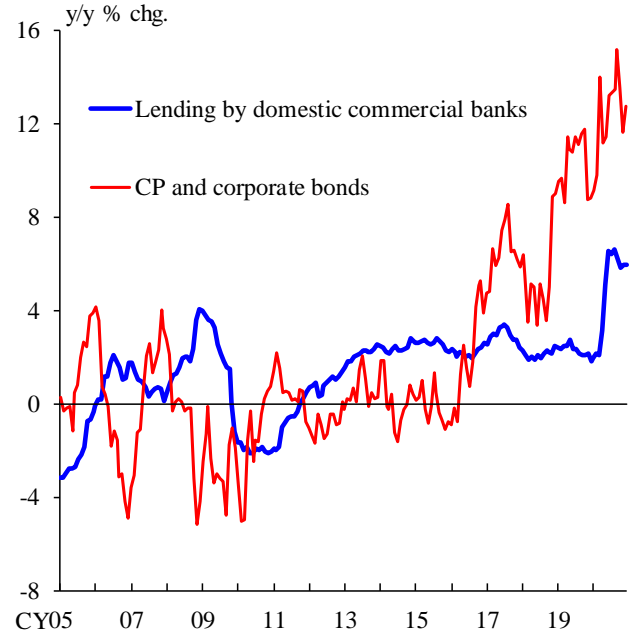
→ annual pace with the upper limit of about 180 bil. yen (for the time being)

Financial Conditions

Lending Attitudes of Financial Institutions as Perceived by Firms



Amount Outstanding of Bank Lending, CP, and Corporate Bonds

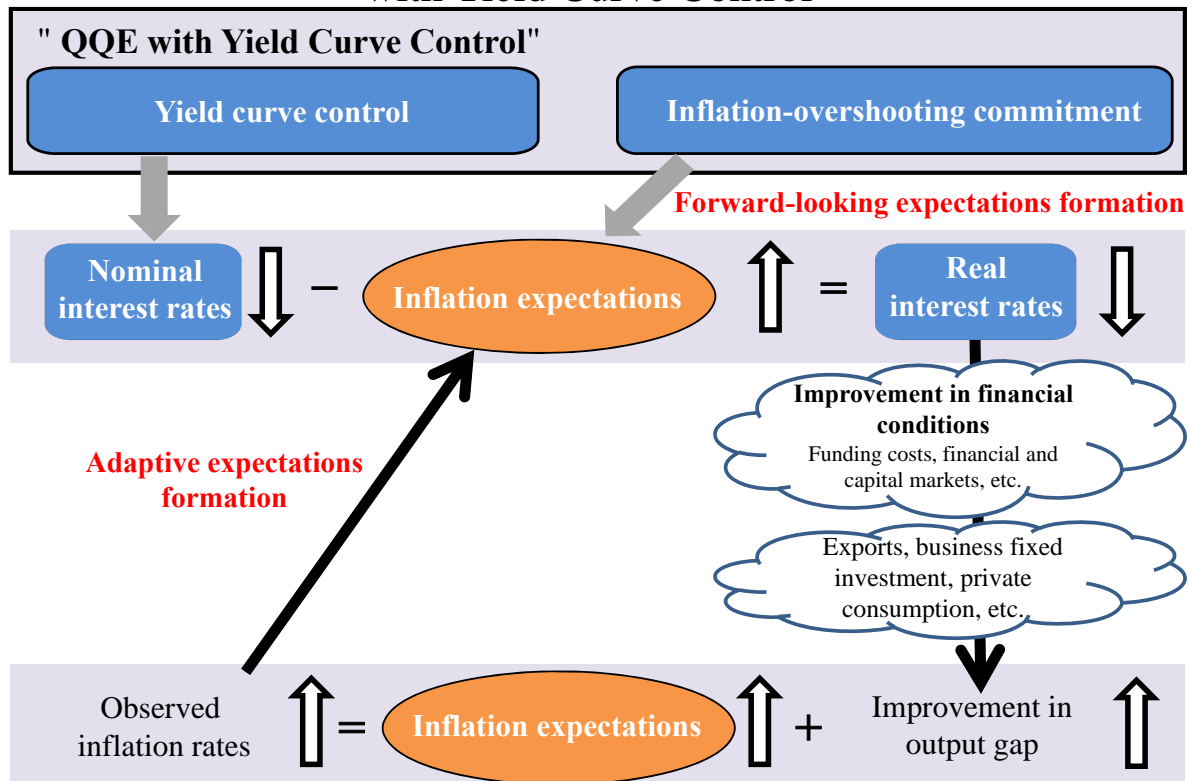


Notes: 1. In the left-hand chart, figures are for all industries.

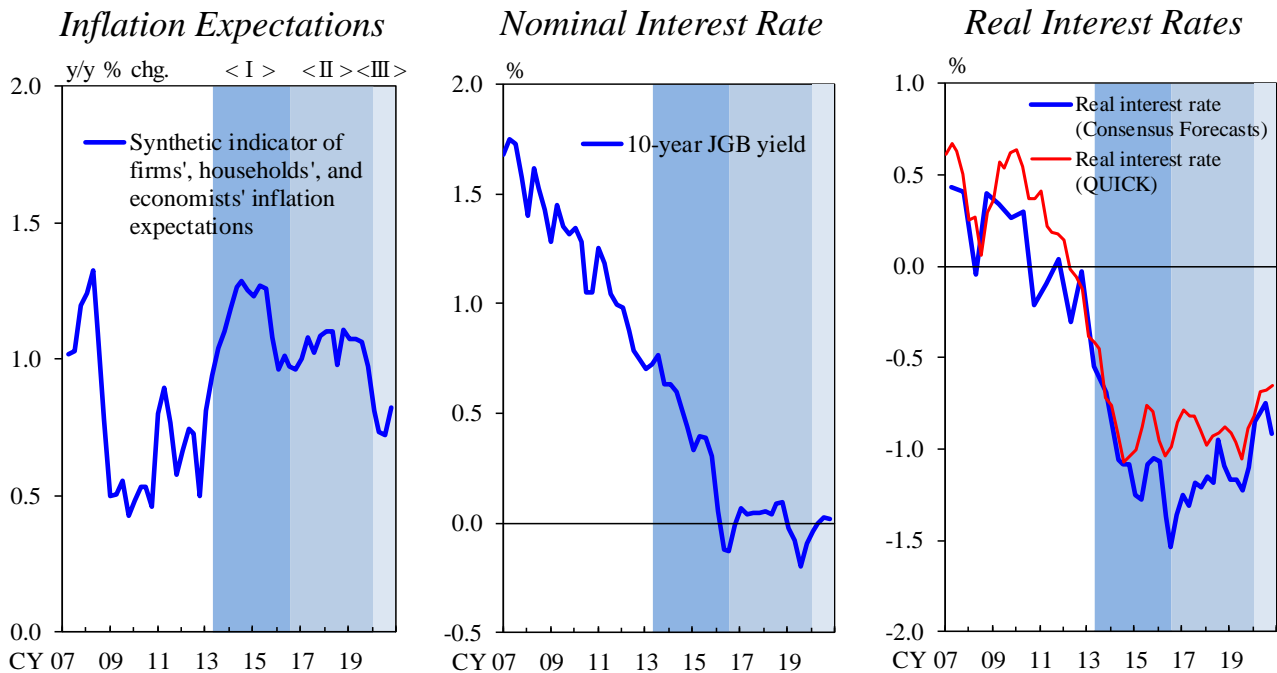
2. In the right-hand chart, figures for lending by domestic commercial banks are monthly averages. Figures for CP and corporate bonds are those at the end of the period. Lending by domestic commercial banks includes loans to firms, individuals, and local governments.

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

Mechanism of "Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control"

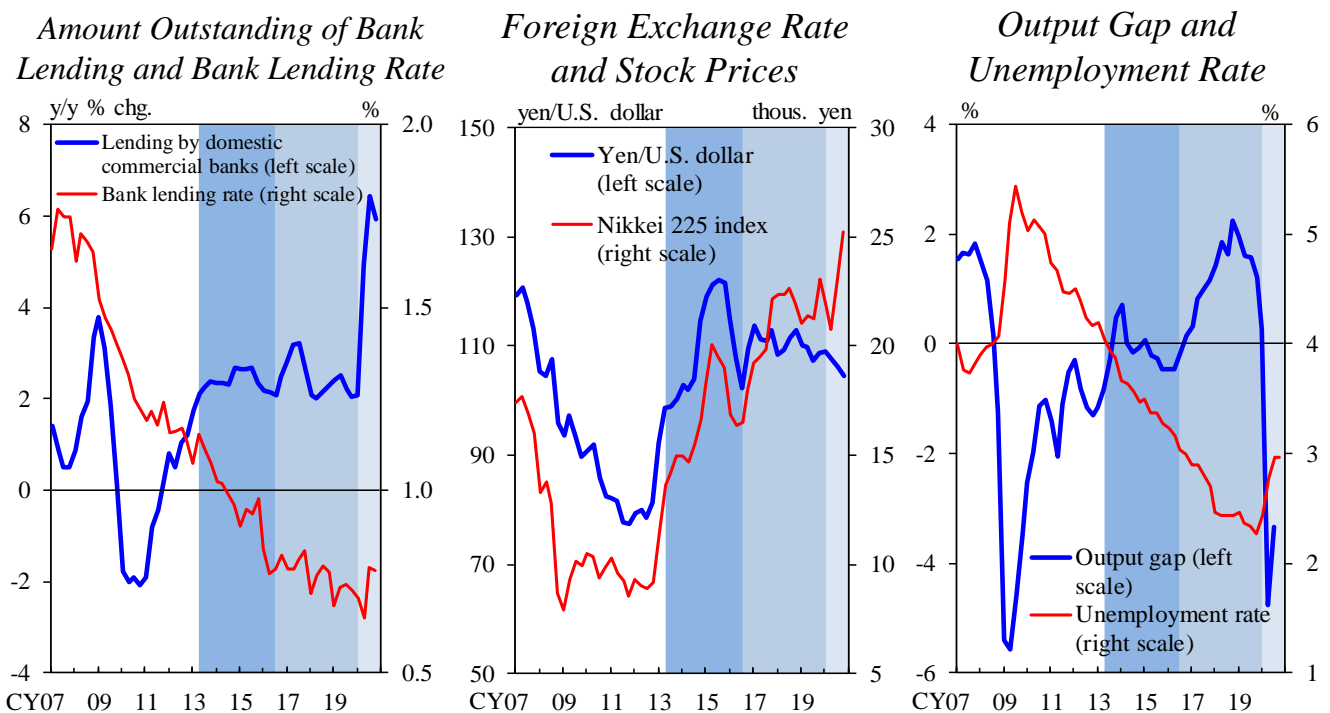


Financial and Economic Developments after the Introduction of QQE (1)



Notes: 1. Shaded area <I> indicates the period after the introduction of QQE (2013/Q2-), <II> indicates the period after the introduction of yield curve control (2016/Q3-), and <III> indicates the period after the outbreak of COVID-19 (2020/Q1-).
2. In the left-hand chart, inflation expectations of firms, households, and economists are represented by the *Tankan*, the "Opinion Survey," and the "Consensus Forecasts," respectively.
3. In the right-hand chart, figures for the real interest rate are calculated as the 10-year JGB yield minus the respective long-term inflation forecast.
Sources: Bank of Japan; Bloomberg; Consensus Economics Inc., "Consensus Forecasts"; QUICK, "QUICK Monthly Market Survey (Bonds)."

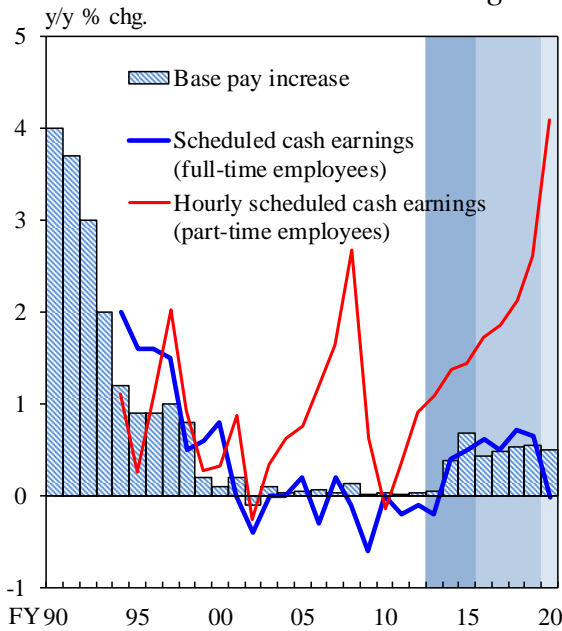
Financial and Economic Developments after the Introduction of QQE (2)



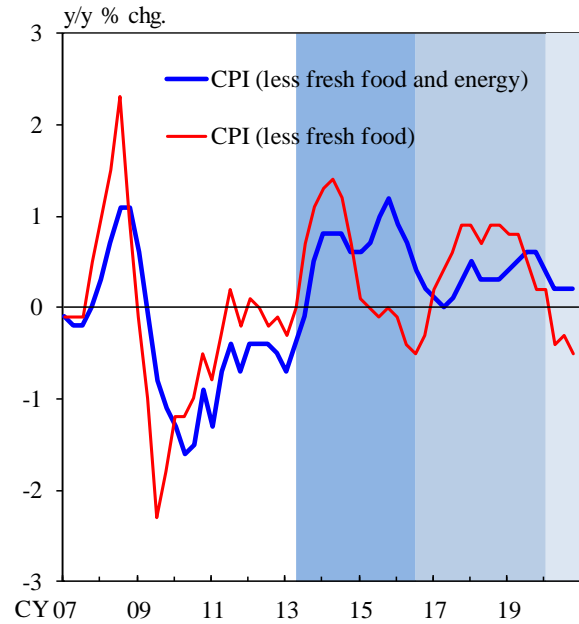
Note: In the left-hand chart, figures for lending by domestic commercial banks are monthly averages. Lending by domestic commercial banks includes loans to firms, individuals, and local governments. Figures for the bank lending rate are the long-term average contract interest rate on new loans and discounts by domestically licensed banks.
Sources: Bank of Japan; Bloomberg; Ministry of Internal Affairs and Communications.

Financial and Economic Developments after the Introduction of QQE (3)

Base Pay Increase and Scheduled Cash Earnings



Consumer Prices Index (CPI)



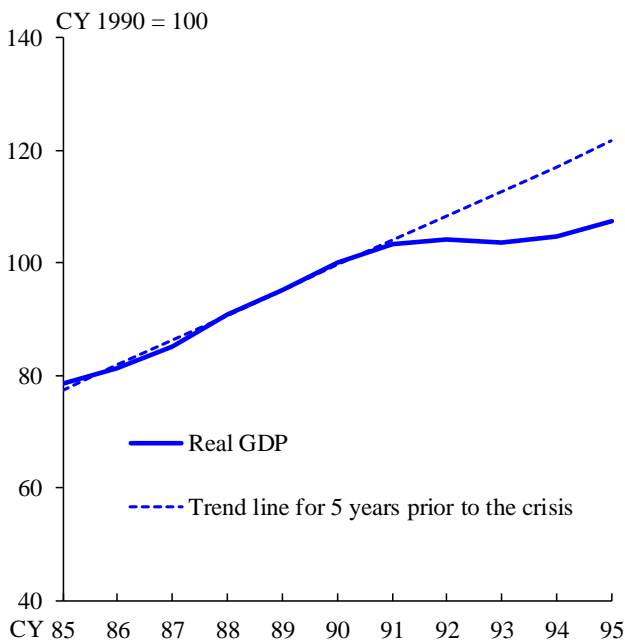
Notes: 1. In the left-hand chart, figures for scheduled cash earnings from 2016/Q1 onward are based on continuing observations following the sample revisions of the "Monthly Labour Survey."
 2. In the right-hand chart, the CPI figures exclude the effects of the consumption tax hikes, policies concerning the provision of free education, and the "Go To Travel" campaign, which covers a portion of domestic travel expenses. The figures from April 2020 onward are based on staff estimations and exclude the effects of measures such as free higher education introduced in April 2020.

Sources: Ministry of Health, Labour and Welfare; Japanese Trade Union Confederation (*Rengo*); Ministry of Internal Affairs and Communications.

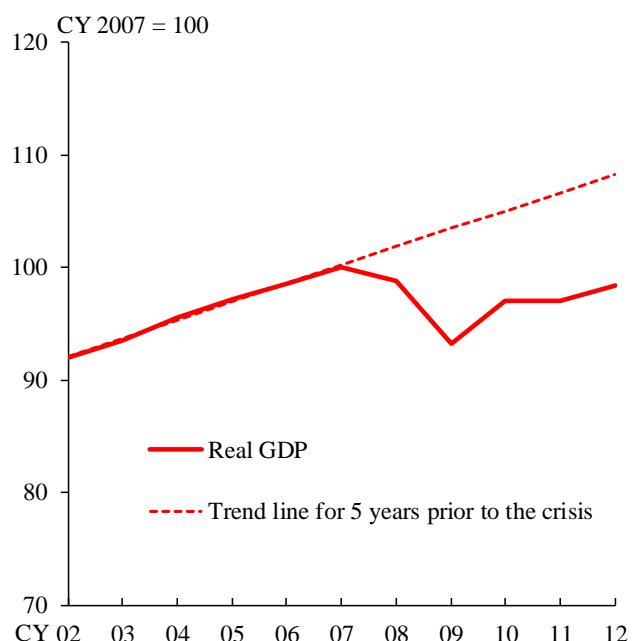
Conclusion

Scarring Effects of External Shocks

After the Bubble Economy



After the GFC



Source: Cabinet Office.