

Monetary Policy during and after the COVID-19 Era

*Speech at the Yomiuri Economic Forum in Tokyo
(via webcast)*

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Introduction

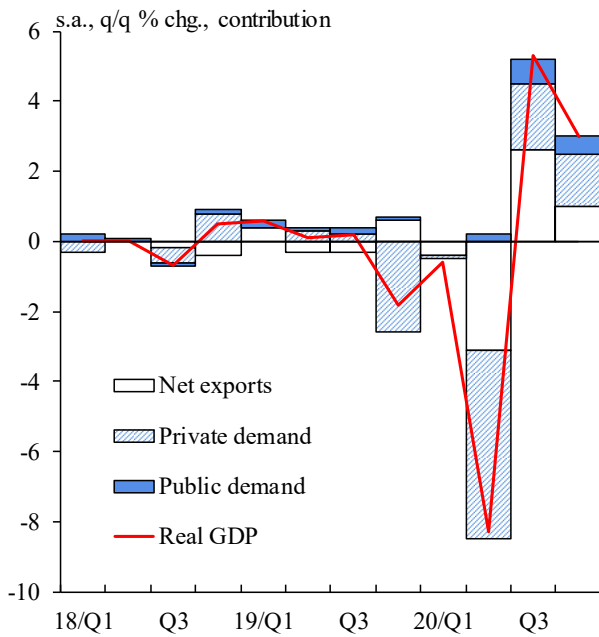
I. Developments in Economic Activity and Prices
and the Bank's Responses to COVID-19

II. Motivation and Thinking behind the Assessment

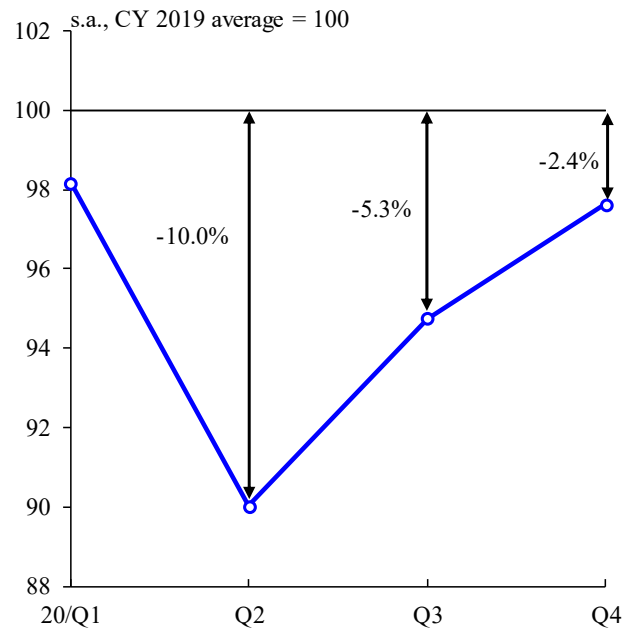
Conclusion

Real GDP

Decomposition



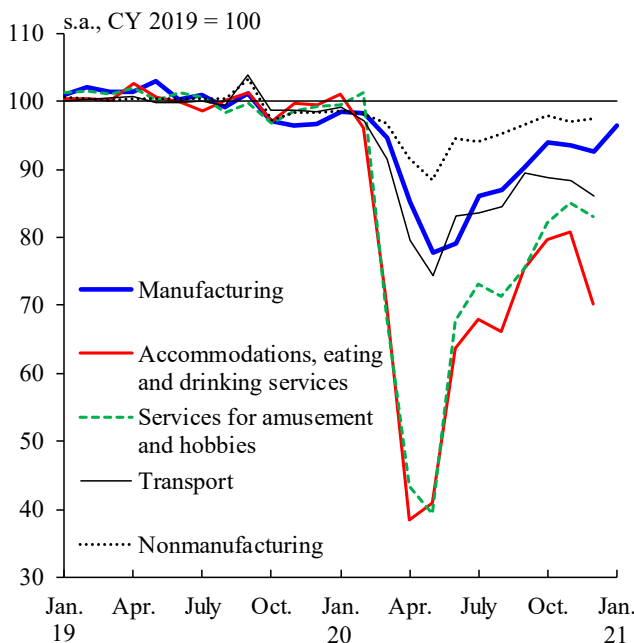
Pace of Economic Recovery



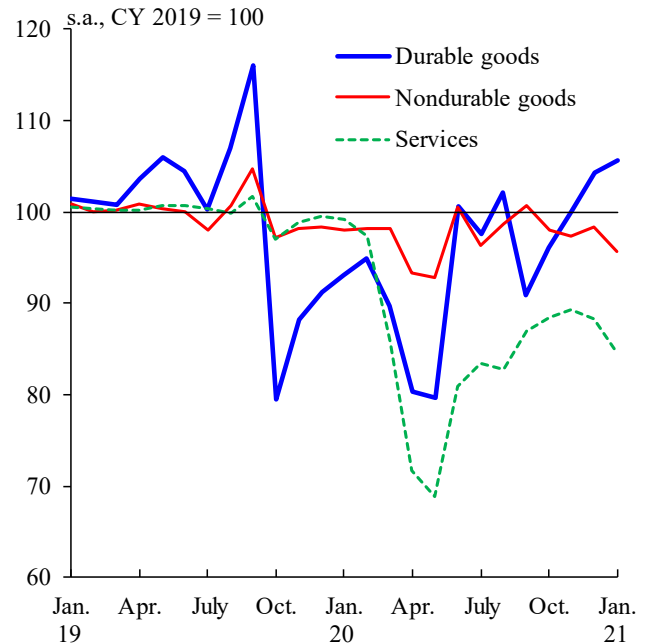
Source: Cabinet Office.

Impact of a Resurgence of COVID-19

Economic Activity by Sector



Consumption Activity Index (Real)

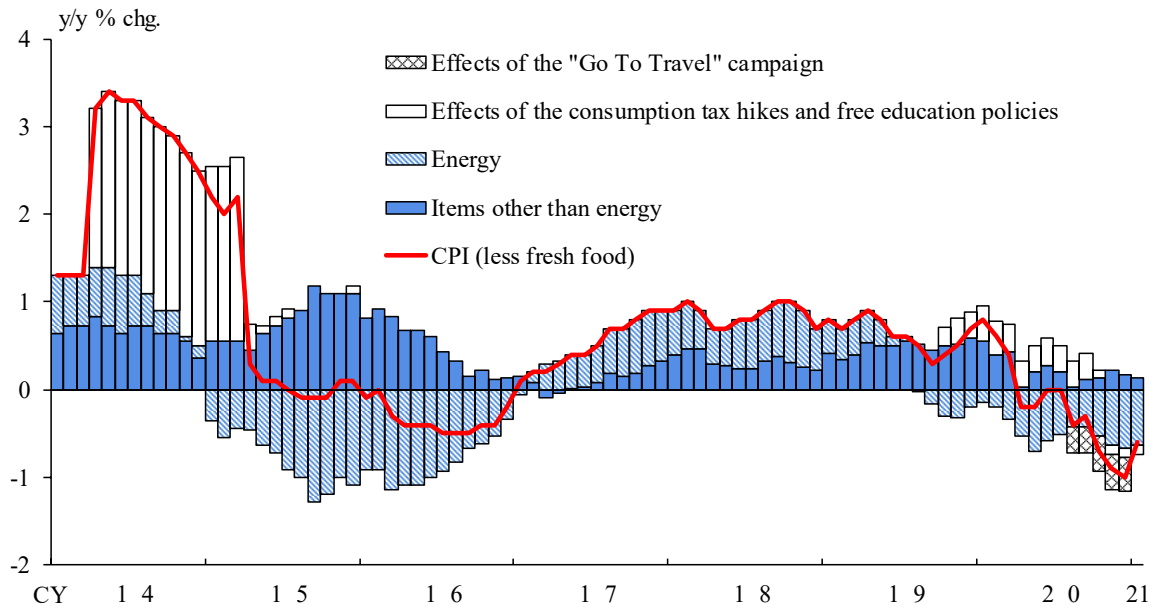


Note: In the left-hand chart, figures for manufacturing are the "Indices of Industrial Production" and those for other sectors are the "Indices of Tertiary Industry Activity."

Figure for nonmanufacturing exclude accommodations, eating and drinking services, services for amusement and hobbies, and transport.

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

Consumer Price Index (CPI)



Note: 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.
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

Lowering Risk Premia in Asset Markets

Active Purchases of ETFs and J-REITs

ETFs: annual pace of about 6 tril. yen

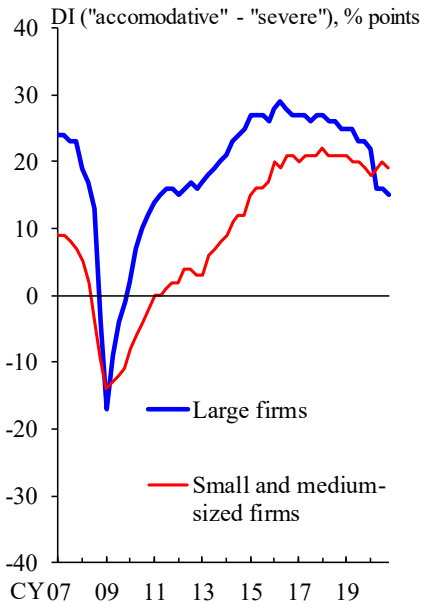
→ annual pace with the upper limit of about 12 tril. yen (for the time being)

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

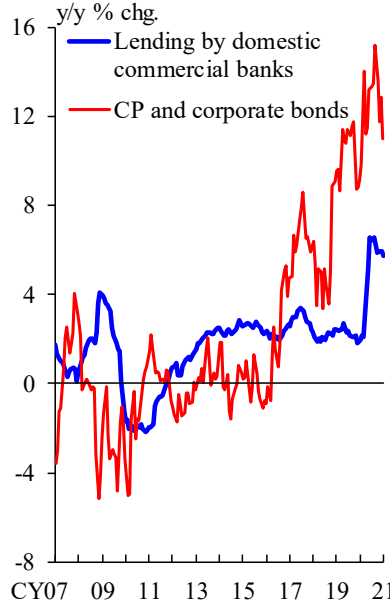
→ annual pace with the upper limit of about 180 bil. yen (for the time being)

Financial Conditions

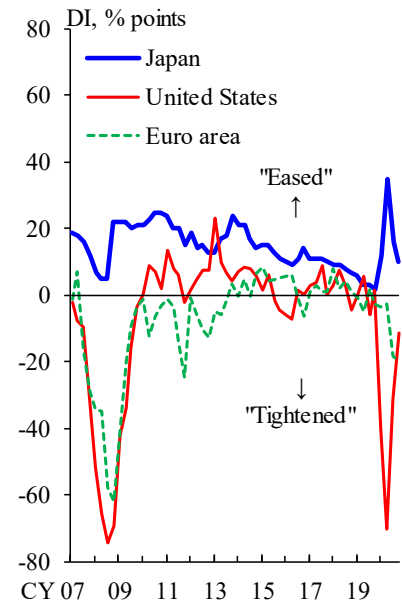
Lending Attitudes of Financial Institutions as Perceived by Firms



Amounts Outstanding of Bank Lending, CP, and Corporate Bonds



Financial Institutions' Credit Standards (Loan Survey)



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

2. In the middle 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.

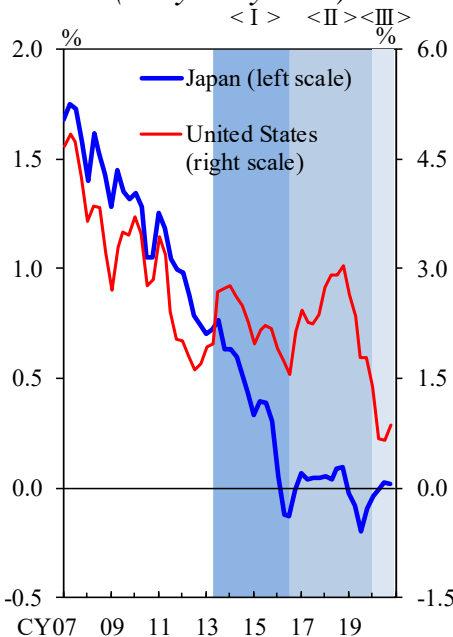
3. In the right-hand chart, figures for Japan and the United States are small firms. Figures for the Euro area are small and medium-sized enterprises. The DI for Japan is "eased" - "tightened" and that for the United States and the Euro area are "easing" - "tightening."

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

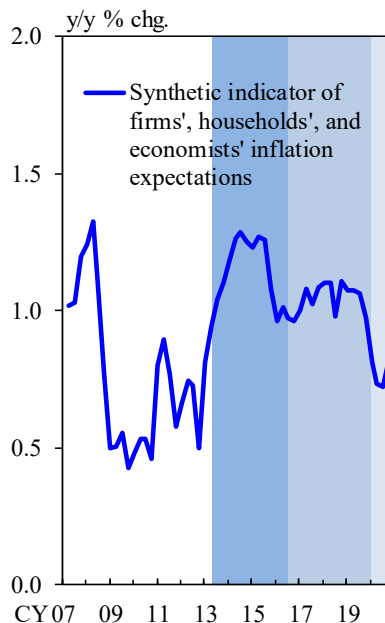
II. Motivation and Thinking behind the Assessment

Economic and Financial Developments after the Introduction of QQE with Yield Curve Control (1)

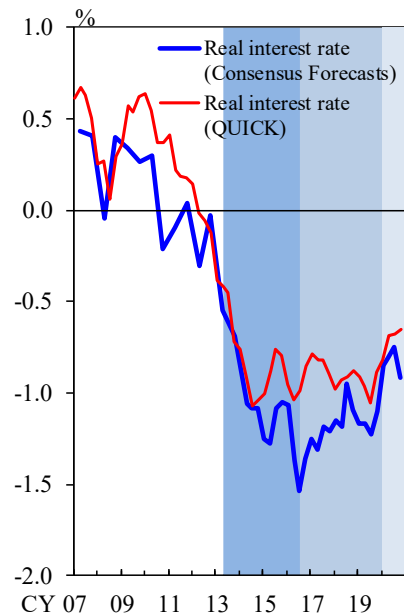
Nominal Interest Rates (10-year yields)



Inflation Expectations



Real Interest Rates



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-).

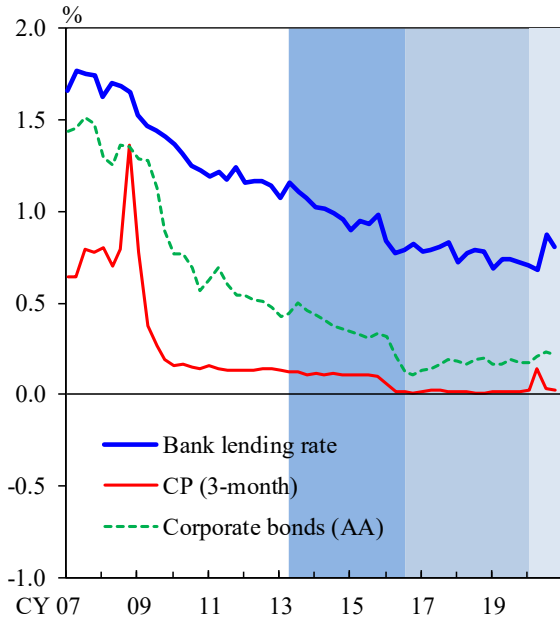
2. In the middle chart, inflation expectations of firms, households, and economists are represented by the *Tankan*, the "Opinion Survey," and the "Consensus Forecasts," respectively.

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.

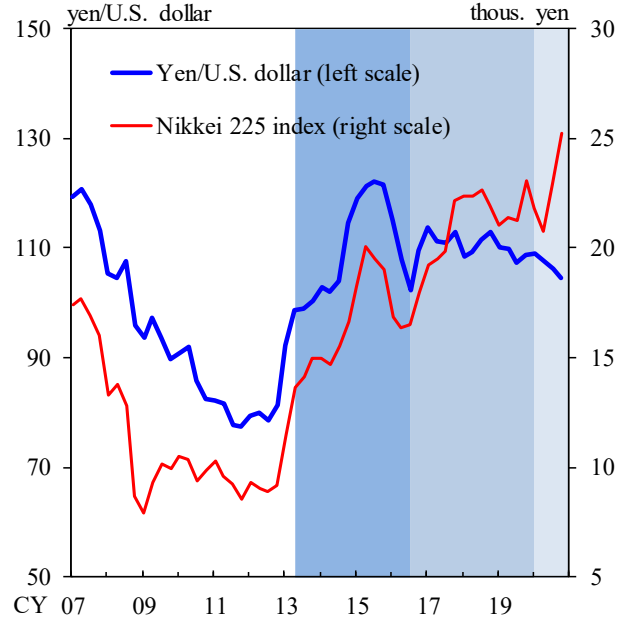
Sources: Bloomberg; Bank of Japan; Consensus Economics Inc., "Consensus Forecasts"; QUICK, "QUICK Monthly Market Survey (Bonds)."

Economic and Financial Developments after the Introduction of QQE with Yield Curve Control (2)

Funding Costs



Foreign Exchange Rate and Stock Prices

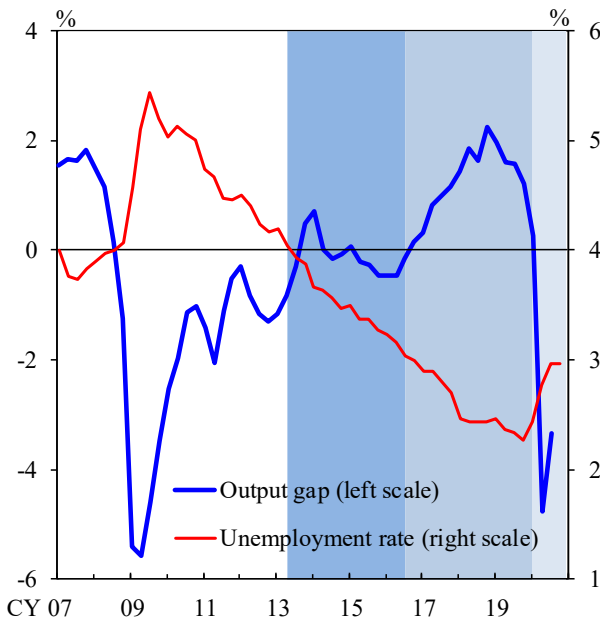


Note: In the left-hand chart, figures for the bank lending rate are the long-term average contract interest rate on new loans and discounts by domestically licensed banks. Figures for issuance yields for CP up to September 2009 are the averages for CP (3-month, rated a-1 or higher). Those from October 2009 onward 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 issuance yields for corporate bonds show 6-month backward moving averages.

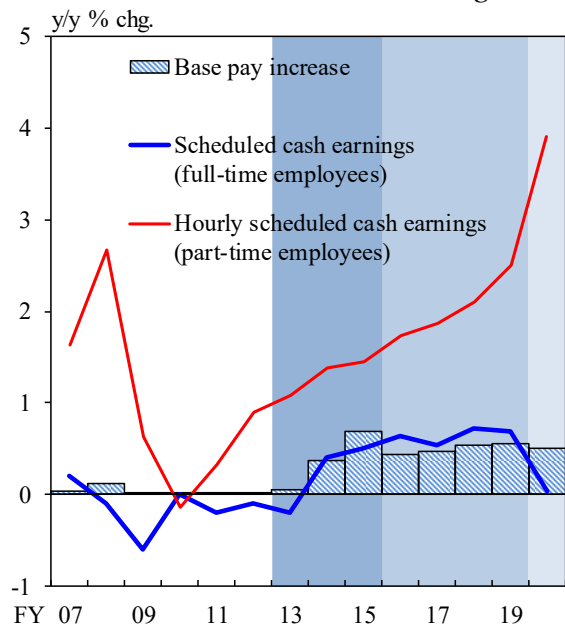
Sources: Bank of Japan; Japan Securities Depository Center; Capital Eye; I-N Information Systems; Bloomberg.

Economic and Financial Developments after the Introduction of QQE with Yield Curve Control (3)

Output Gap and Unemployment Rate



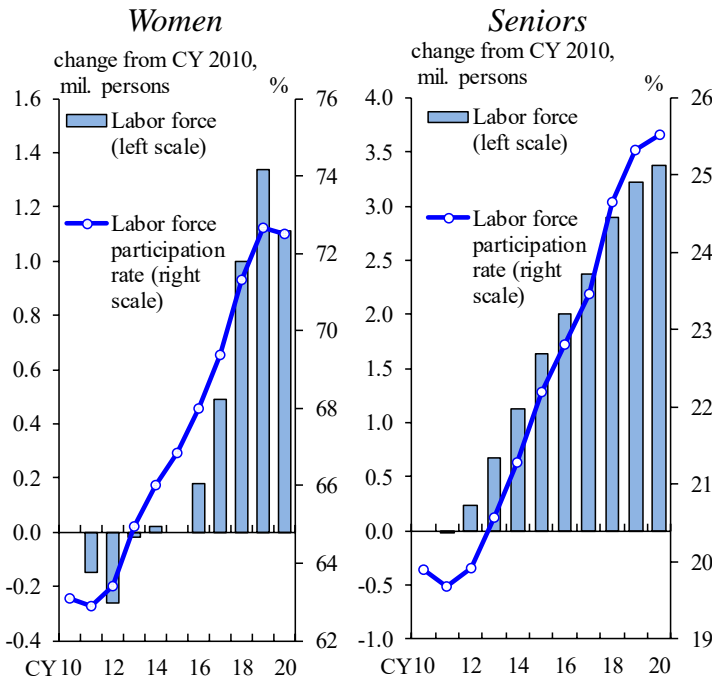
Base Pay Increase and Scheduled Cash Earnings



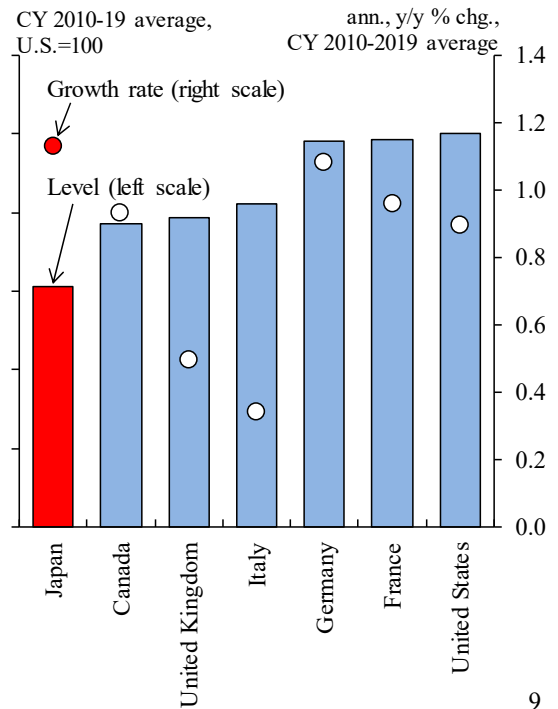
Note: In the right-hand chart, figures for scheduled cash earnings from 2016/Q1 onward are based on continuing observations following the sample revisions of the "Monthly Labour Survey."
Sources: Bank of Japan; Ministry of Internal Affairs and Communications; Ministry of Health, Labour and Welfare; Japanese Trade Union Confederation (Rengo).

Elastic Labor Supply and Enhancement of Labor Productivity

Labor Participation by Women and Seniors



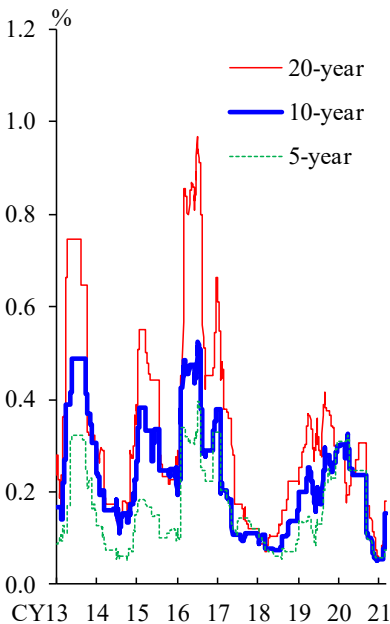
International Comparison of Labor Productivity



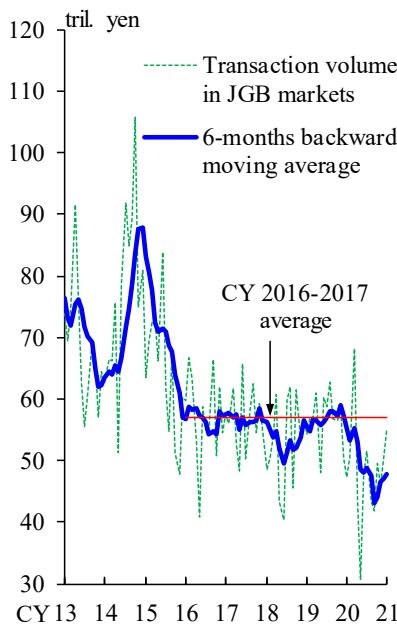
Note: In the right-hand chart, figures are real labor productivity per hour denominated by PPP exchange rates. Sources: Ministry of Internal Affairs and Communications; Conference Board.

Functioning of JGB Markets

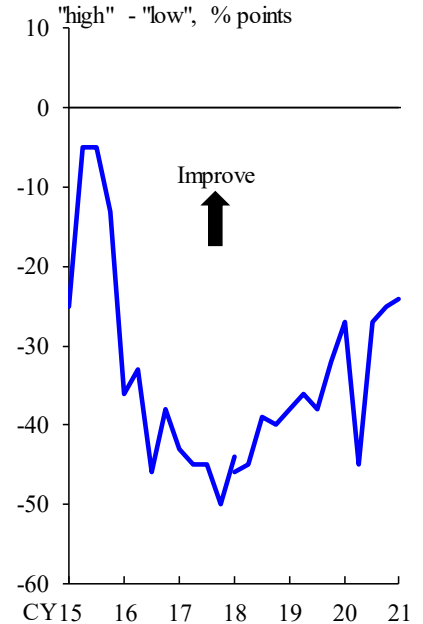
Range of Fluctuations in JGB Yields



Transaction Volume in JGB Markets

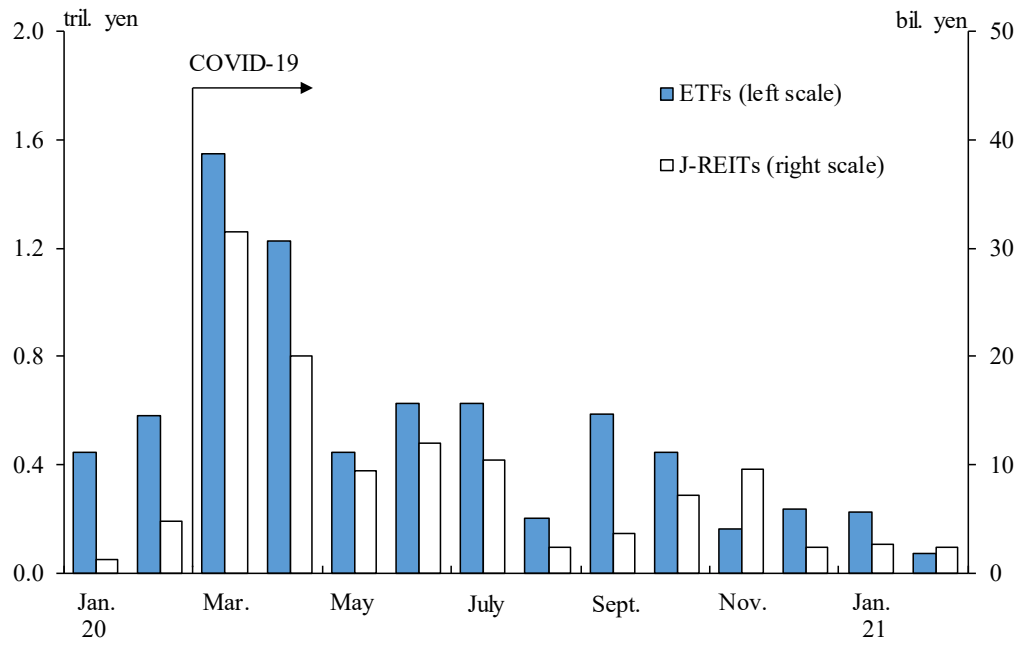


Market Functioning (Bond Market Survey)



Notes: 1. In the left-hand chart, figures are maximum minus minimum values in JGB yields within the past 6 months. 2. In the middle chart, figures are the gross amount of outright purchases by banks, investors, and bond dealers. Sources: Bloomberg; Japan Securities Dealers Association; Bank of Japan.

Flexible Purchases of ETFs and J-REITs



Source: Bank of Japan.