

Outlook for Economic Activity and Prices and Monetary Policy

*Speech at a Meeting Held by the Naigai Josei Chosa Kai
(Research Institute of Japan)
(via webcast)*

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Introduction

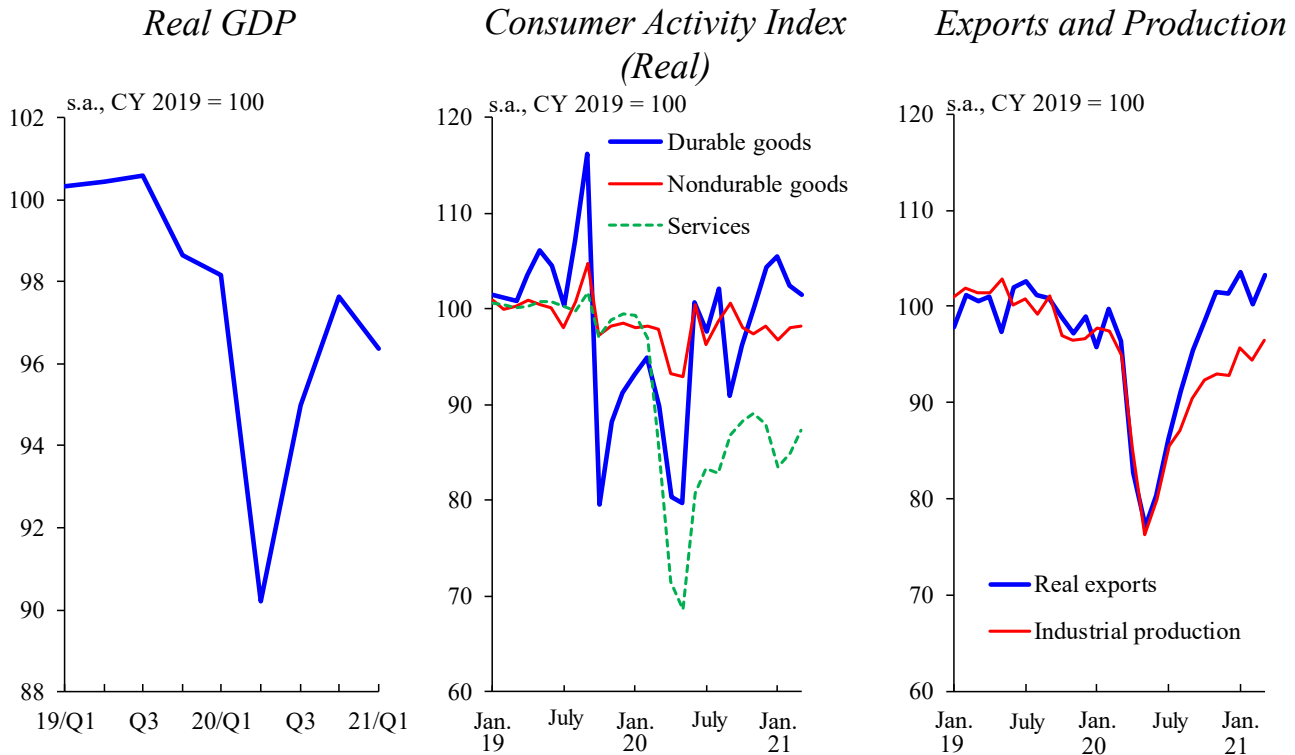
I. Economic Developments

II. Price Developments

III. The Bank's Conduct of Monetary Policy

Conclusion

Recent Developments in Economic Activity



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

1

The Bank's Forecasts for Economic Activity and Prices (April 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 (actual figures)	-4.6	-0.4
Fiscal 2021	+3.6 to +4.4 [+4.0]	0.0 to +0.2 [+0.1]
Forecasts made in January 2021	+3.3 to +4.0 [+3.9]	+0.3 to +0.5 [+0.5]
Fiscal 2022	+2.1 to +2.5 [+2.4]	+0.5 to +0.9 [+0.8]
Forecasts made in January 2021	+1.5 to +2.0 [+1.8]	+0.7 to +0.8 [+0.7]
Fiscal 2023	+1.2 to +1.5 [+1.3]	+0.7 to +1.0 [+1.0]

Note: Figures in brackets indicate the medians of the Policy Board members' forecasts (point estimates). 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 they attach the highest probability of realization. These forecasts are then shown as a range, with the highest figure and the lowest figure excluded.

Source: Bank of Japan.

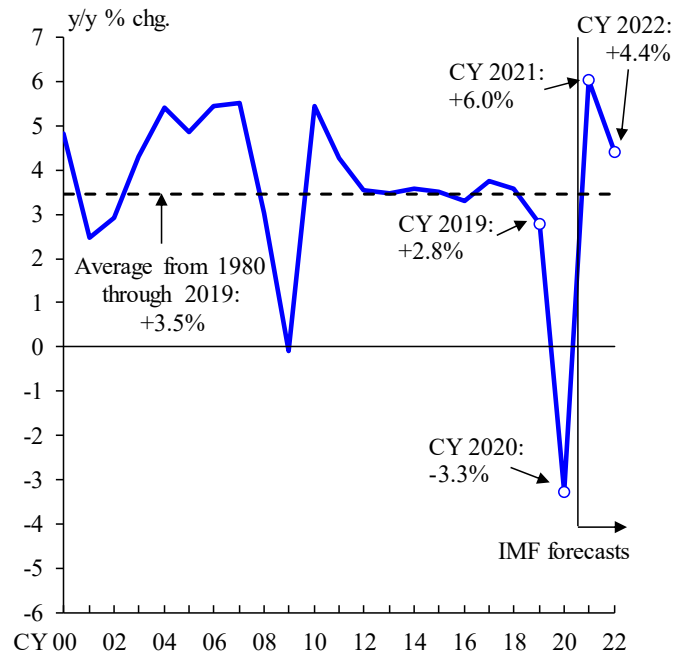
2

Developments in the Global Economy

Major Economies' Growth Rates
(IMF's April 2021 WEO)

	2019	2020	2021	2022
			[Forecast]	[Forecast]
World	2.8	-3.3 (0.2)	6.0 (0.5)	4.4 (0.2)
Advanced economies	1.6	-4.7 (0.2)	5.1 (0.8)	3.6 (0.5)
United States	2.2	-3.5 (-0.1)	6.4 (1.3)	3.5 (1.0)
Euro area	1.3	-6.6 (0.6)	4.4 (0.2)	3.8 (0.2)
United Kingdom	1.4	-9.9 (0.1)	5.3 (0.8)	5.1 (0.1)
Japan	0.3	-4.8 (0.3)	3.3 (0.2)	2.5 (0.1)
Emerging market and developing economies	3.6	-2.2 (0.2)	6.7 (0.4)	5.0 (0.0)
China	5.8	2.3 (0.0)	8.4 (0.3)	5.6 (0.0)
India	4.0	-8.0 (0.0)	12.5 (1.0)	6.9 (0.1)
Latin America	0.2	-7.0 (0.4)	4.6 (0.5)	3.1 (0.2)

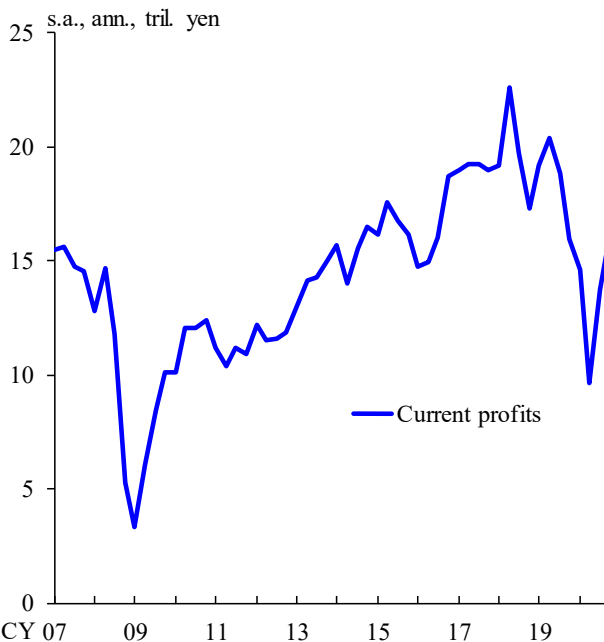
Global Growth Rate
(IMF's April 2021 WEO)



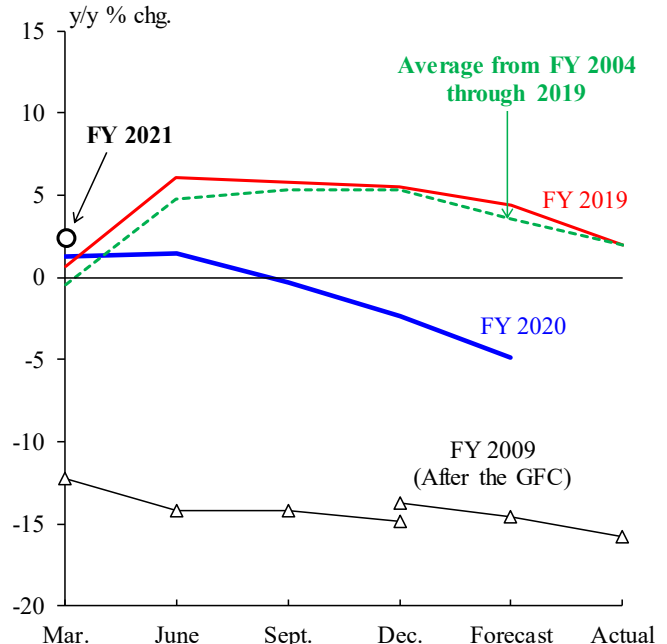
Note: In the left-hand chart, figures in parentheses are the difference from the forecasts in the January 2021 World Economic Outlook (WEO).
Source: IMF.

Corporate Profits and Business Fixed Investment

Corporate Profits



Business Fixed Investment Plans (Tankan)



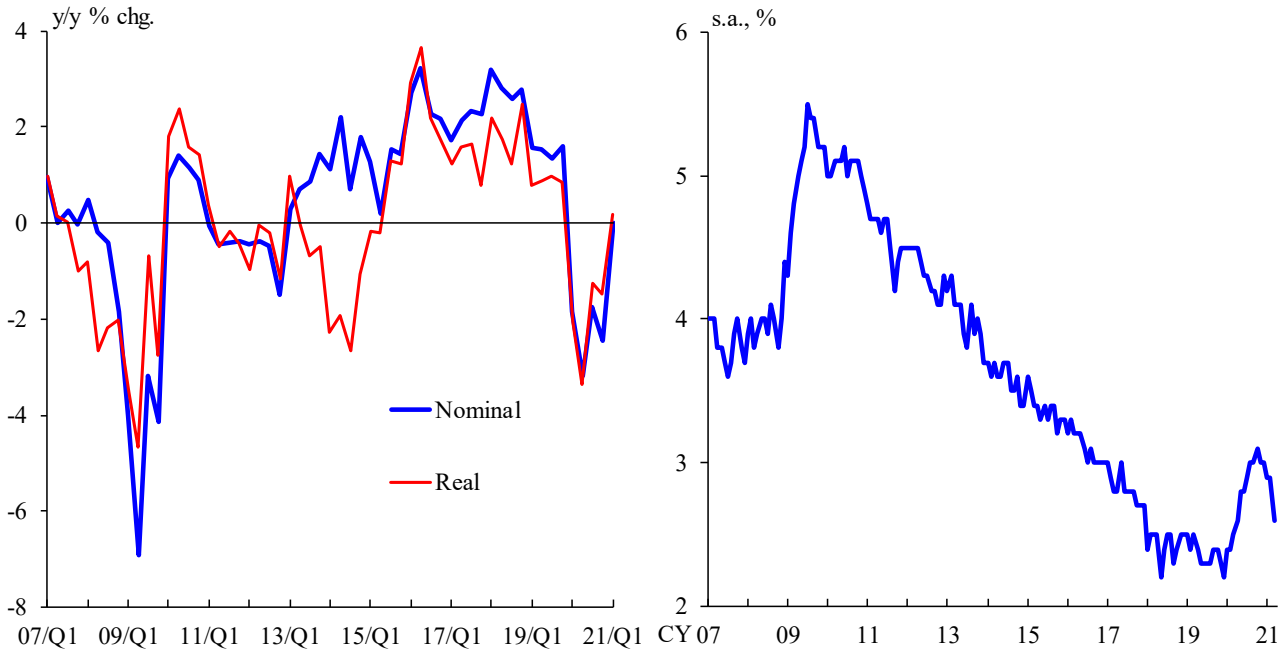
Notes: 1. In the left-hand chart, figures are based on the "Financial Statements Statistics of Corporations by Industry, Quarterly." Excluding "finance and insurance." Figures from 2009/Q2 onward exclude "pure holding companies."
2. In the right-hand chart, figures are for all industries and enterprises. Including software and R&D investments and excluding land purchasing expenses (R&D investment is not included before the March 2017 survey). There is a discontinuity in the data in December 2009 due to a change in the survey sample.

Sources: Ministry of Finance; Bank of Japan.

Employment and Income Situation

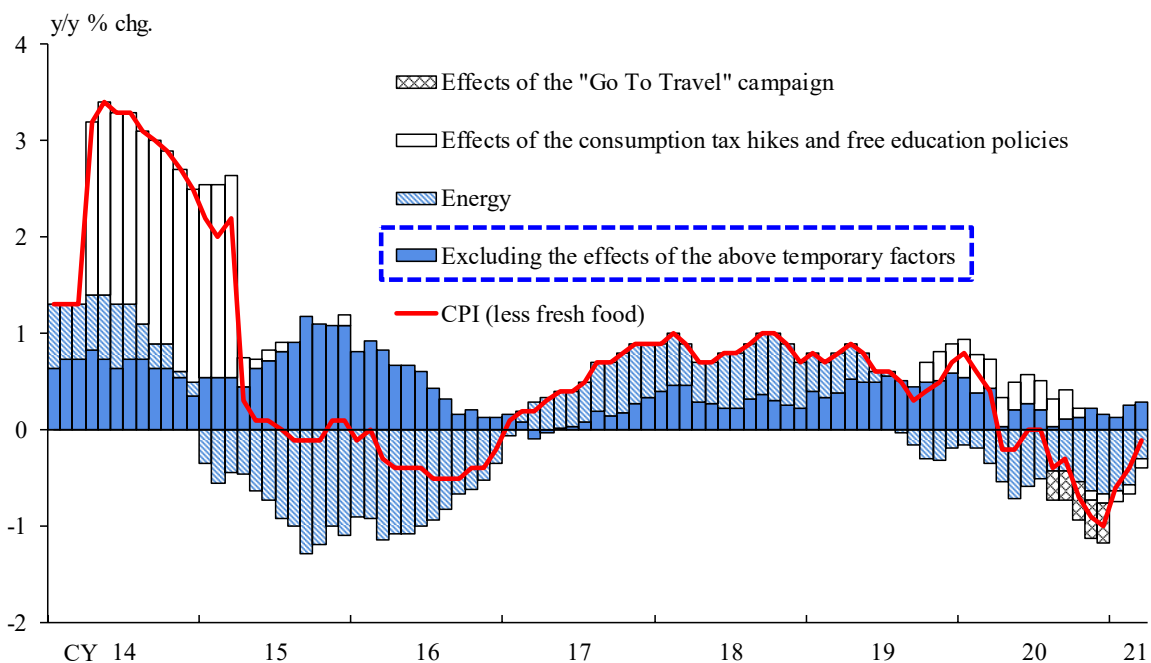
Employee Income

Unemployment Rate



Note: In the left-hand chart, Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February. The figure for 2021/Q1 is that for March. Employee income = total cash earnings ("Monthly Labour Survey") × number of employees ("Labour Force Survey"). Real employee income is based on staff calculations using the CPI (less imputed rent).
Sources: Ministry of Health, Labour and Welfare; Bank of Japan; Ministry of Internal Affairs and Communications.

Consumer Prices



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

2. Figures for "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

Active purchases of JGBs and T-Bills

U.S. Dollar Funds-Supplying Operations

Purchases of ETFs and J-REITs

ETFs: annual pace with an upper limit of about 12 tril. yen

J-REITs: annual pace with an upper limit of about 180 bil. yen

7

Key Points of Decisions Made at the March MPM

Aim: Further Effective and Sustainable Monetary Easing
"enhancing sustainability of monetary easing"
& "nimble responses to counter changes in the situation"

Outline of the Bank's Policy Actions

1. Establishment of the Interest Scheme to Promote Lending

- Mitigate the impact on financial institutions' profits at the time of rate cuts
 - Apply incentives (linked to the short-term policy interest rate) to financial institutions' current account balances, corresponding to the amount outstanding of funds provided through fund-provisioning measures to promote lending
- Enable the Bank to cut short- and long-term interest rates nimbly while considering the impact on the functioning of financial intermediation

2. Clarification of the range of fluctuations in long-term interest rates ($\pm 0.25\%$)

- Strike a balance between securing effects of monetary easing and maintaining market functioning
- Introduction of "fixed-rate purchase operations for consecutive days"

3. New guideline for ETF purchases

- Purchase ETFs as necessary with an upper limit of about 12 tril. yen on the annual pace of increase in the amount outstanding (abolish the guideline to purchase them at the annual pace of increase in the amount outstanding of about 6 tril. yen, in principle)
- Purchase only ETFs tracking the TOPIX

8