



# **Economic Activity, Prices, and Monetary Policy in Japan**

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

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# IMF World Economic Outlook

## (as of April 2021)

real GDP growth rate, y/y % chg.

CY	2020	2021 projection	2022 projection
World	-3.3	6.0	4.4
Advanced Economies	-4.7	5.1	3.6
United States	-3.5	6.4	3.5
Euro Area	-6.6	4.4	3.8
United Kingdom	-9.9	5.3	5.1
Japan	-4.8	3.3	2.5
Emerging Market and Developing Economies	-2.2	6.7	5.0
Emerging and Developing Asia	-1.0	8.6	6.0
China	2.3	8.4	5.6
ASEAN-5	-3.4	4.9	6.1
Russia	-3.1	3.8	3.8
Latin America and the Caribbean	-7.0	4.6	3.1

Source: *World Economic Outlook*, IMF.

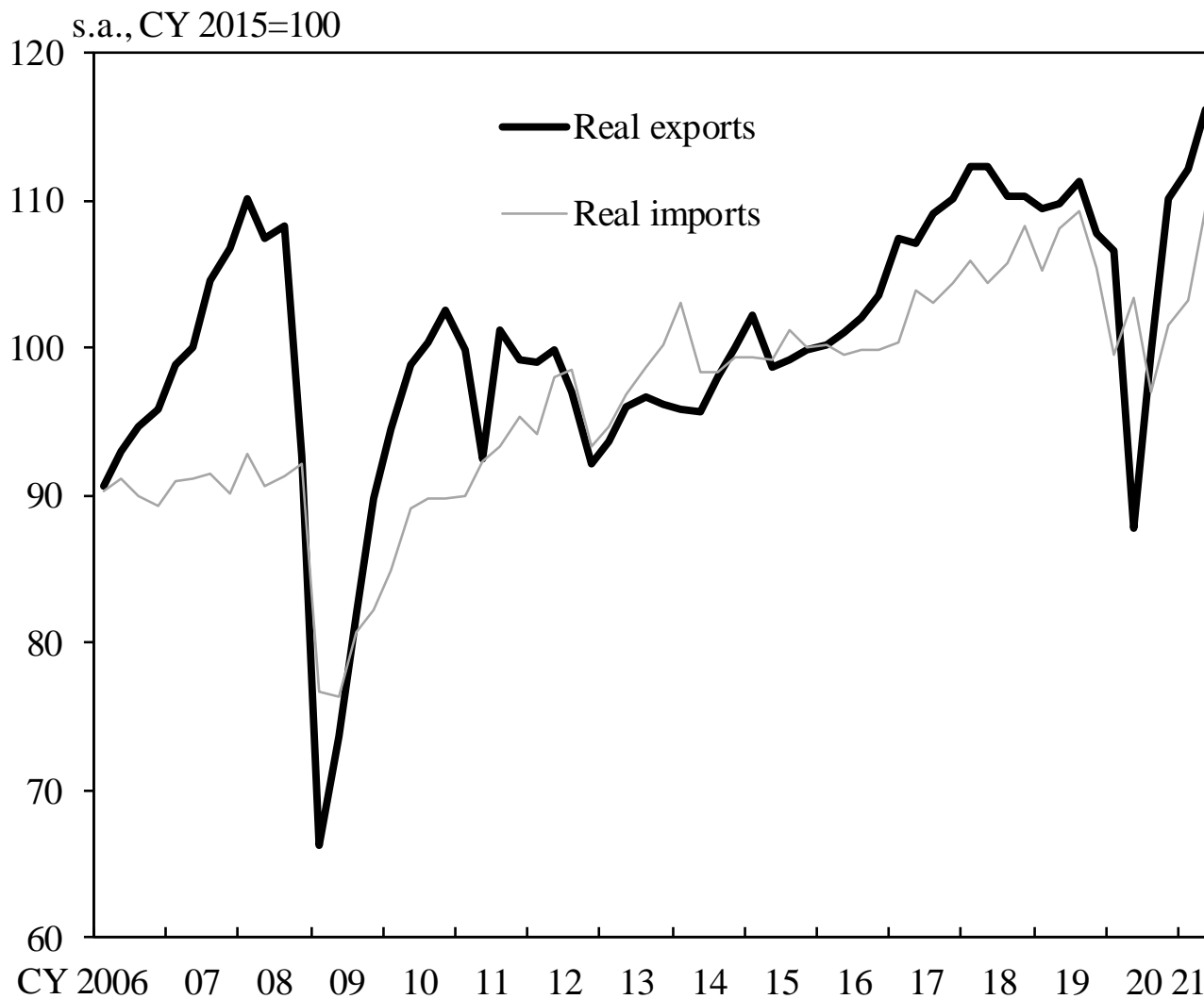
# Japan's Real GDP

s.a., q/q % chg.

	2020				2021
	Q1	Q2	Q3	Q4	Q1
Real GDP	-0.5	-8.1	5.3	2.8	-1.3
[ann., q/q]	[-1.9]	[-28.6]	[22.9]	[11.6]	[-5.1]
Private consumption	-0.8	-8.3	5.1	2.2	-1.4
Private non-resi. investment	1.3	-6.1	-2.1	4.3	-1.4
Private residential investment	-3.7	0.6	-5.7	0.1	1.1
Public demand	0.1	0.5	2.4	1.6	-1.6
Exports of goods & services	-4.7	-17.5	7.3	11.7	2.3

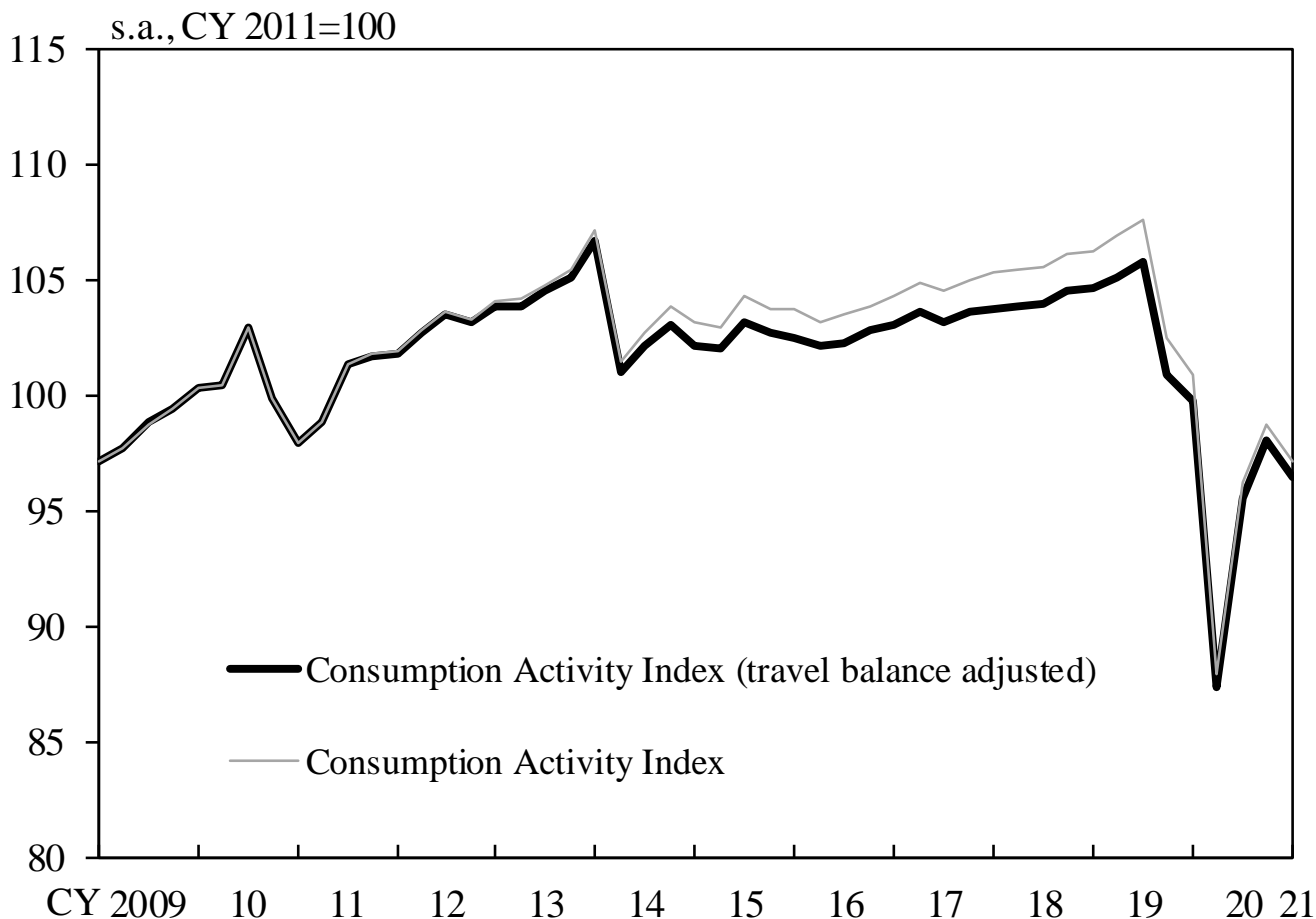
Source: Cabinet Office.

# Real Exports and Real Imports



Sources: Ministry of Finance; Bank of Japan.  
 Note: Figures for 2021/Q2 are those for April.

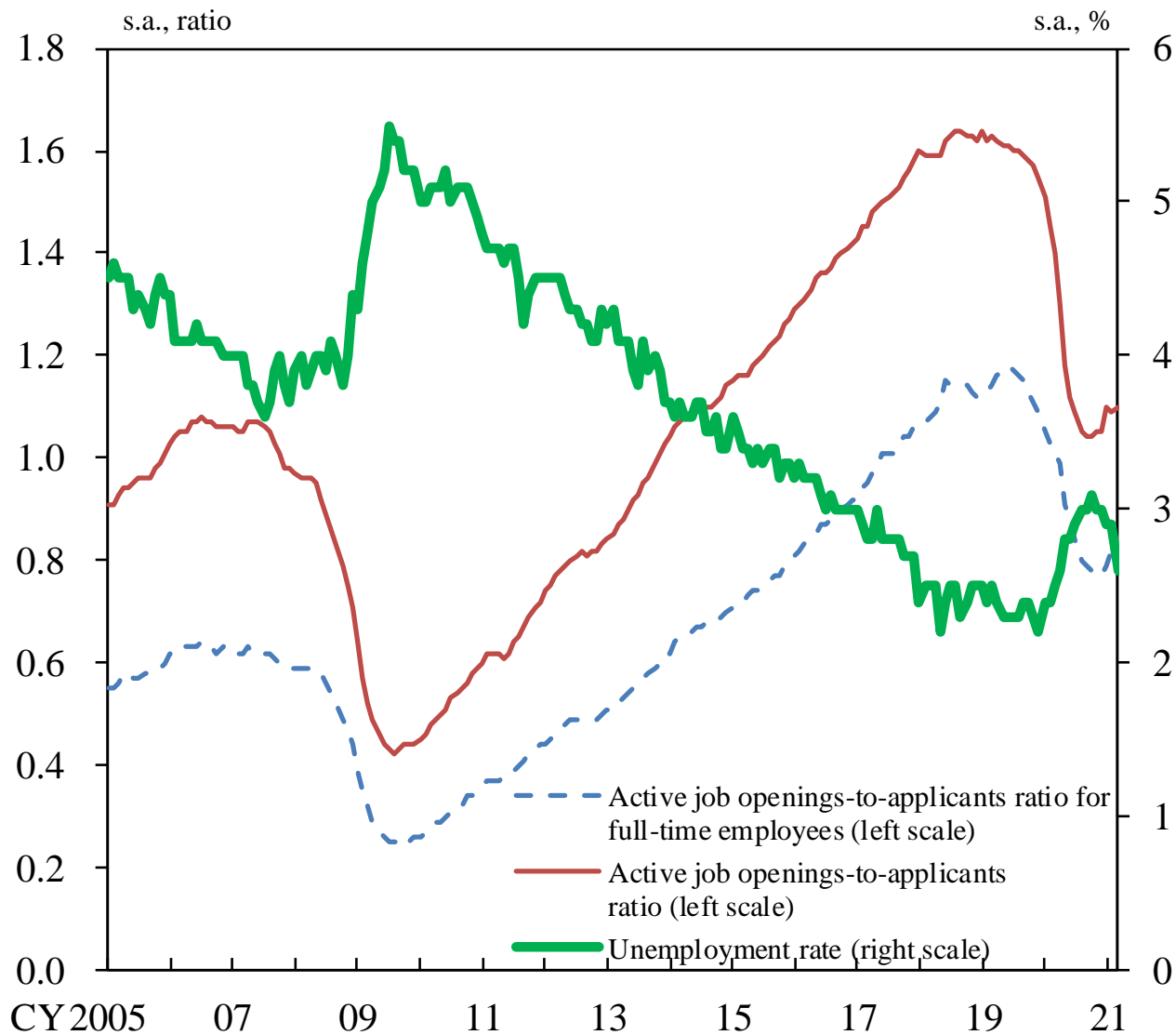
# Consumption Activity Index (Real)



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

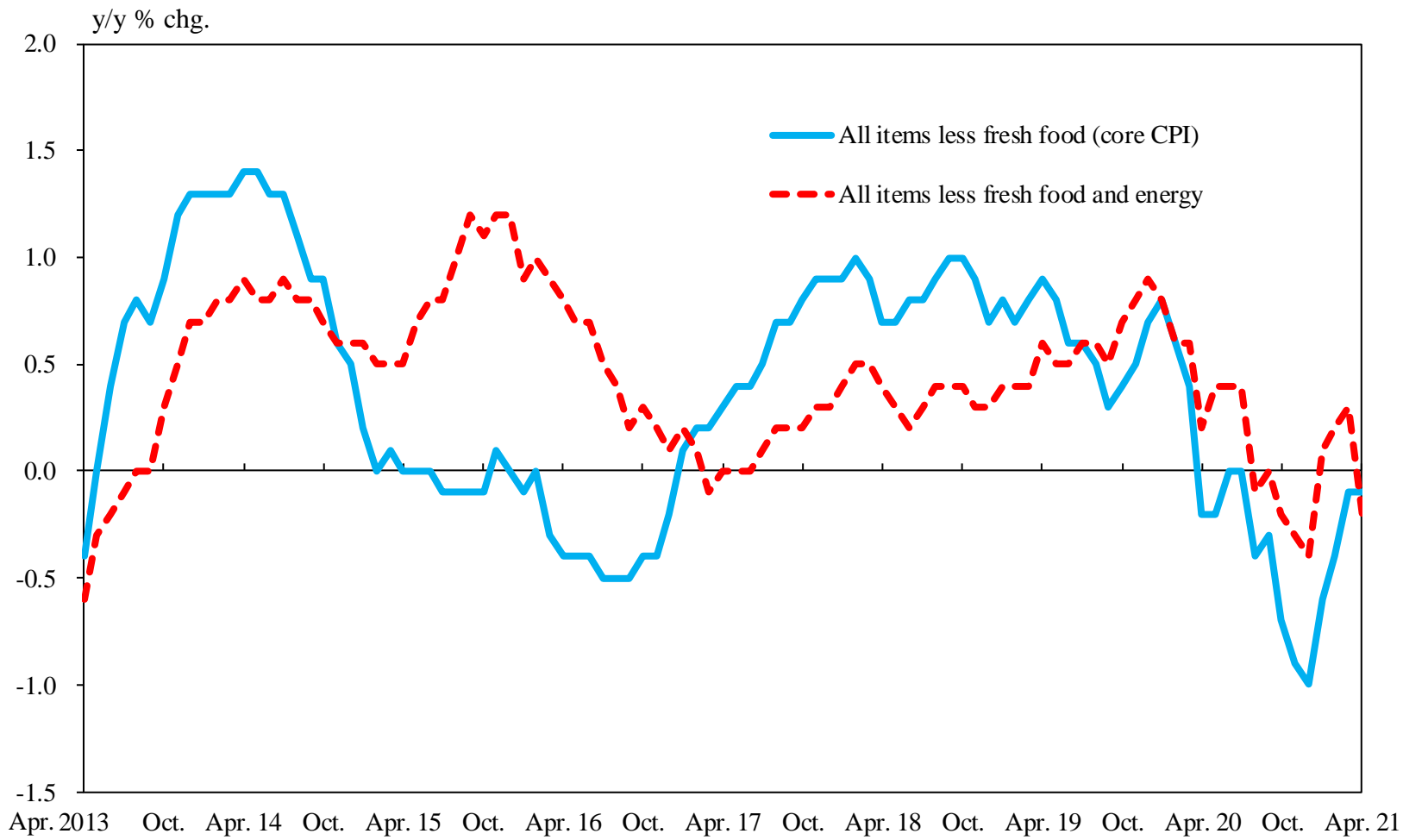
Notes: Figures for the Consumption Activity Index (travel balance adjusted) exclude inbound tourism consumption and include outbound tourism consumption. The component indexes whose source data for March 2021 are not yet available are extrapolated for the month by using the average month-on-month rates of change for March 2016-2018 in order to avoid the impact of COVID-19.

# Labor Market Conditions



Sources: Ministry of Health, Labour and Welfare; Ministry of Internal Affairs and Communications.

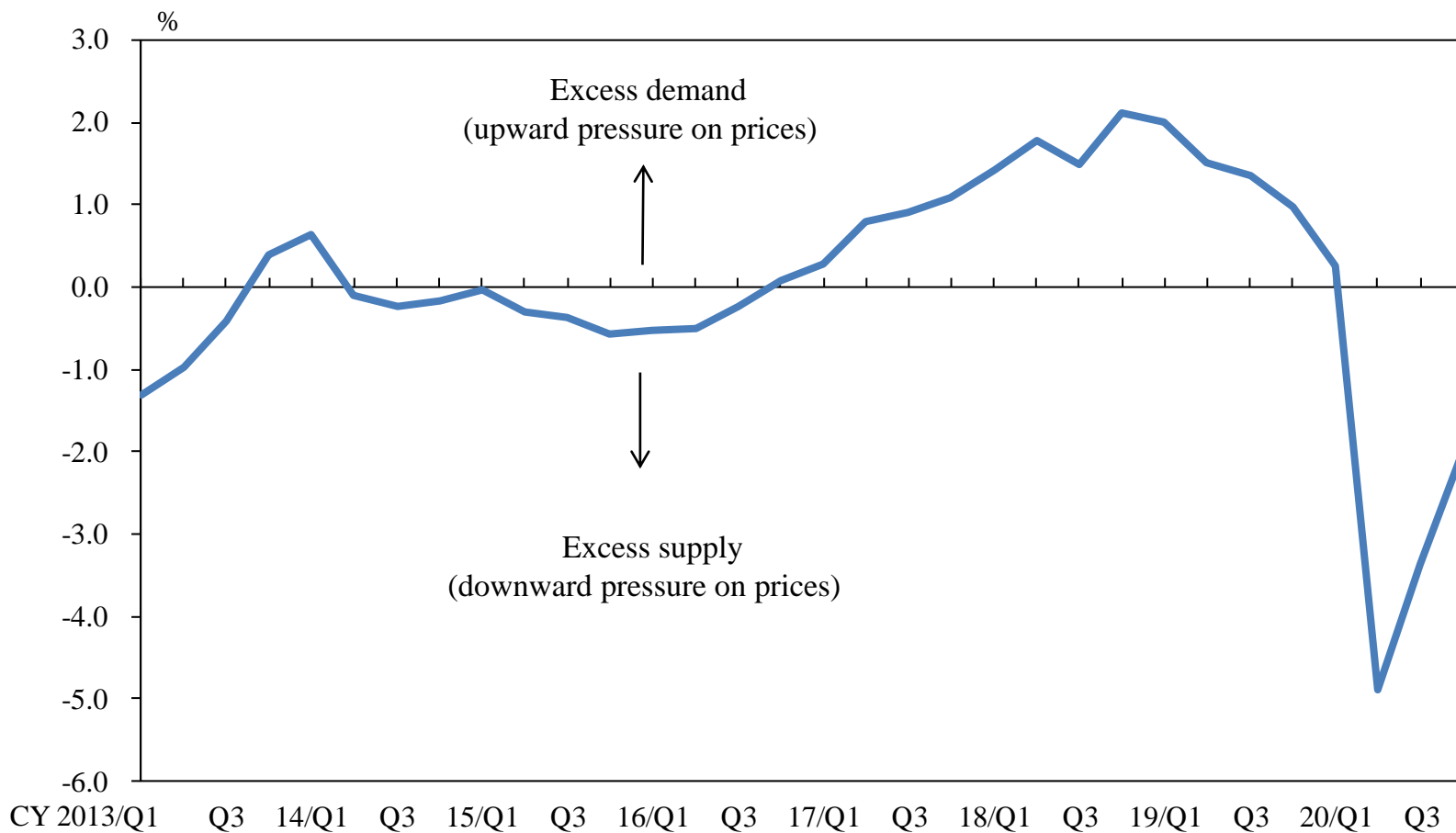
# CPI



Source: Ministry of Internal Affairs and Communications.

Note: Figures exclude the effects of the consumption tax hike in April 2014.

# Output Gap



Source: Bank of Japan.

Note: Based on staff estimates.



# Outlook for Economic Activity and Prices as of April 2021

## Forecasts of the Majority of Policy Board Members

y/y % chg.

	Real GDP	CPI (all items less fresh food)
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	+0.3 to +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	+0.7 to +0.8
Fiscal 2023	+1.2 to +1.5 [+1.3]	+0.7 to +1.0 [+1.0]

Source: April 2021 *Outlook for Economic Activity and Prices*, Bank of Japan.

- Notes: 1. Figures in brackets indicate the medians of the Policy Board members' forecasts (point estimates).  
 2. 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. The range does not indicate the forecast errors.

# 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 (previously, 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**

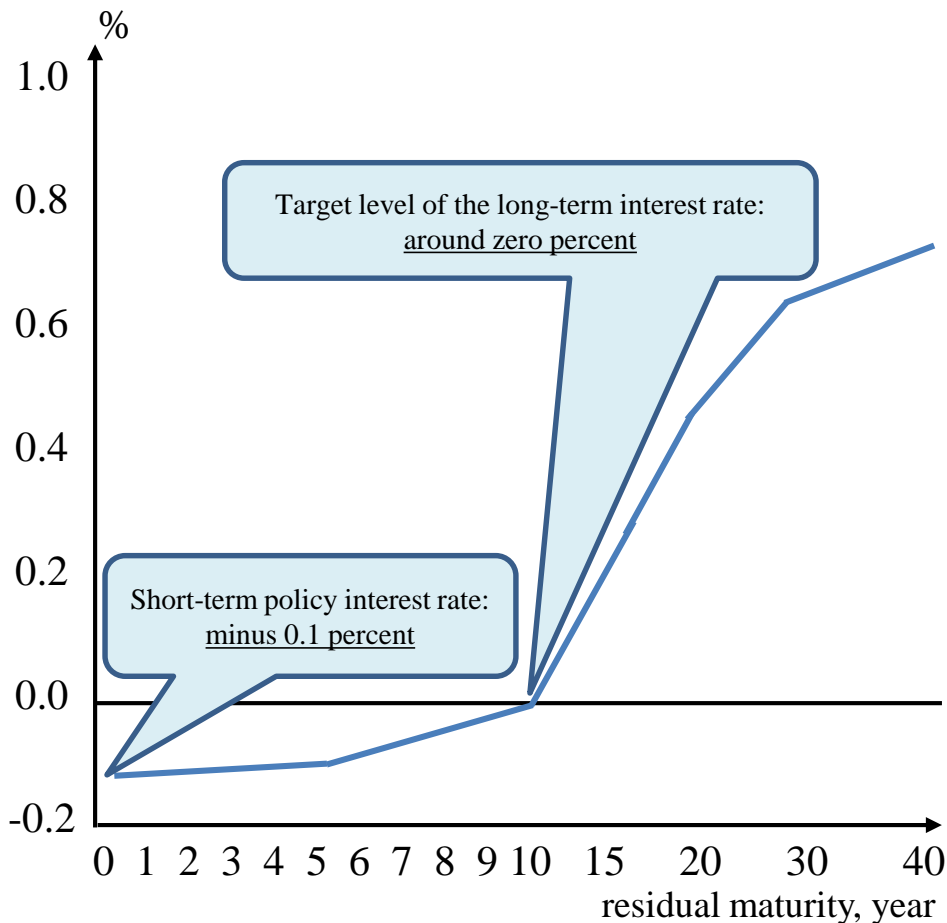
## Purchasing ETFs and J-REITs

**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**

# Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control

## (1) Yield Curve Control



## (2) Inflation-Overshooting Commitment

The Bank will continue expanding the monetary base until the year-on-year rate of increase in the observed CPI (all items less fresh food) exceeds the price stability target of 2 percent and stays above the target in a stable manner.

Achieving the price stability target means attaining a situation where the inflation rate is 2 percent on average over the business cycle.

(Statement released after the MPM in Sept. 2016)

# Assessment for Further Effective and Sustainable Monetary Easing

## QQE with Yield Curve Control has had positive effects in line with the intended mechanism

- Decline in funding costs: (nominal interest rates)↓ - (inflation expectations)↑ = (real interest rates)↓  
-- The Bank's JGB purchases have statistically significant effects on long-term interest rates in terms of lowering them.
- Favorable conditions in financial and capital markets  
(Foreign exchange rates have been stable on the whole and stock prices have followed an uptrend.)



- Economic activity has been pushed up, and corporate profits and the employment situation have improved.
- Underlying inflation has taken hold in positive territory.

## Effects of a Decline in Interest Rates with Different Maturities on Economic Activity and Prices

- The effects were relatively large for short- and medium-term interest rates and became smaller the longer the maturity.
- An excessive decline in super-long-term yields could have a negative impact on economic activity by, for example, undermining people's sentiment.

## Inflation-Overshooting Commitment

- The "makeup strategy," which this commitment is implementing, is appropriate.

# Assessment for Further Effective and Sustainable Monetary Easing (cont'd)

## Effects on the Functioning of the JGB Market

- With the range of fluctuations in interest rates having narrowed, the functioning of the JGB market has decreased.
- Yield fluctuations within a certain range have positive effects on the functioning of the JGB market without impairing the effects of monetary easing.

## Effects on the Functioning of Financial Intermediation

- Financial institutions' core profitability has declined due to prolonged low interest rates and structural factors.
- It is necessary to pay attention to both overheating and pullback risks to the financial system.

## ETF and J-REIT Purchases

- Large-scale purchases during times of heightened market instability are effective.

# Policy Actions to Conduct

## Further Effective and Sustainable Monetary Easing

Chart 13

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

### 1. Establishment of the Interest Scheme to Promote Lending

- Enable the Bank to cut short- and long-term interest rates more 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 and J-REIT purchases

- Purchase ETFs and J-REITs as necessary with upper limits of about 12 tril. yen and about 180 bil. yen, respectively, on annual paces of increase in their amounts outstanding (abolish the guideline for purchasing these assets, in principle, at annual paces of increase in their amount outstanding of about 6 tril. yen and about 90 bil. yen, respectively)
- Purchase only ETFs tracking the TOPIX

### <Interest Scheme to Promote Lending>

- Apply incentives (linked to the short-term policy interest rate) to financial institutions' (FIs') current account balances, corresponding to the amount outstanding of funds provided through fund-provisioning measures to promote lending
  - Mitigate the impact on FIs' profits at the time of rate cuts depending on the amount of lending
  - The applied interest rates and the eligible fund-provisioning measures for each category will be changed as necessary at MPMs depending on the situation.

### <Decision at the March 2021 MPM>

	Applied interest rate	Eligible fund-provisioning measure
Category I	<b>0.2%</b> Higher than the rate for Category II	• <b>Special Operations in Response to COVID-19</b> , when funds are provided against loans made by FIs on their own
Category II	<b>0.1%</b> Absolute value of the short-term policy interest rate	• <b>Special Operations in Response to COVID-19</b> , when funds are provided against loans other than those for Category I and against private debt pledged as collateral
Category III	<b>0%</b> Lower than the rate for Category II	• <b>Loan Support Program</b> • <b>Operation to Support FIs in Disaster Areas</b>