



Economic Activity, Prices, and Monetary Policy in Japan

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

June 2, 2021

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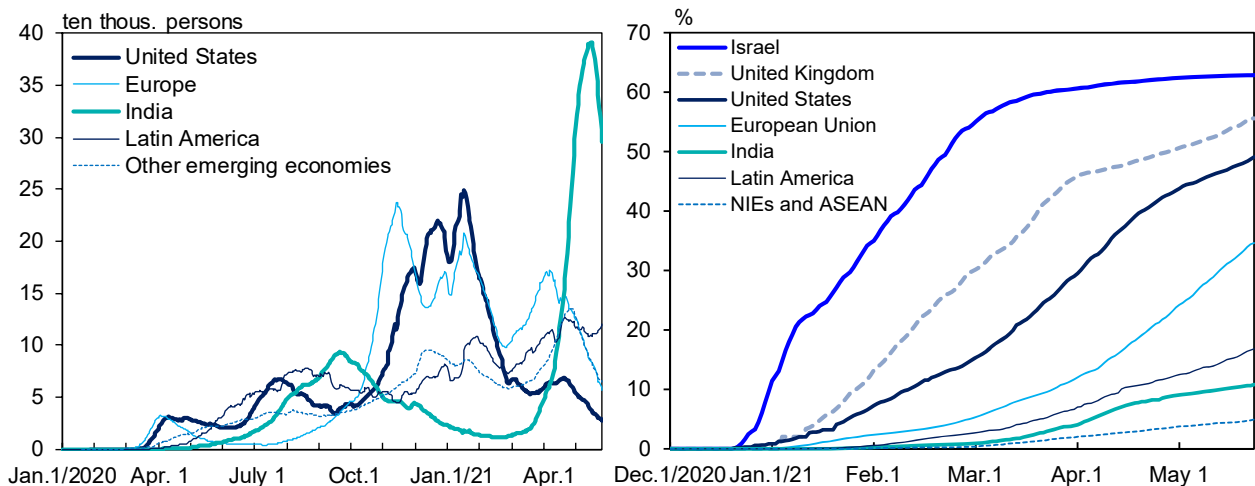
Bank of Japan

Chart 1

COVID-19

Confirmed New Cases of COVID-19

Share of Vaccinated People

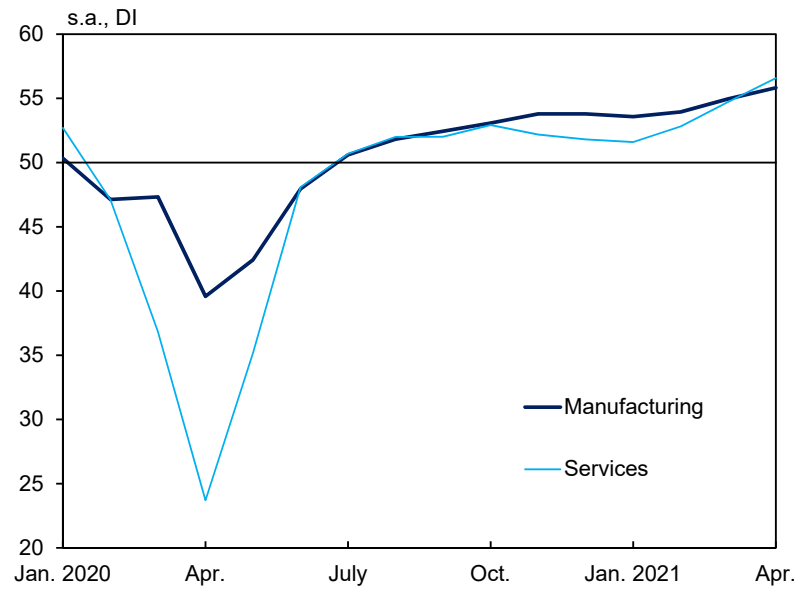


Notes: 1. In the left-hand chart, figures for the United States, Taiwan, and Hong Kong are from the Centers for Disease Control and Prevention (CDC), the Taiwan Ministry of Health and Welfare, and the Hong Kong Centre for Health Protection, Department of Health, respectively. All other figures are from the World Health Organization (WHO). Figures for Europe are the sum of figures for the European Union and the United Kingdom. Figures for Latin America are the sum of figures for the major economies in the region. Figures for other emerging economies are the sum of figures for South Africa, Russia, Turkey, and the major economies in the NIEs and ASEAN and the Middle East. Figures show 7-day backward moving averages.

2. The right-hand chart shows the share of the total population who received at least one dose of the COVID-19 vaccine. Figures for Latin America and the NIEs and ASEAN are for the major economies in the respective regions. In the case of missing figures, the latest figure available prior to the relevant date is used.

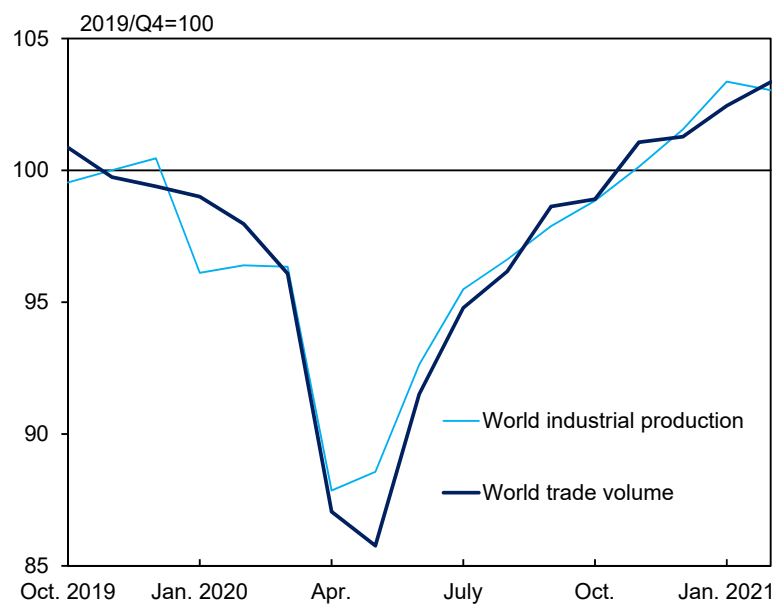
Sources: CEIC; United Nations.

Global Purchasing Managers' Index (PMI)



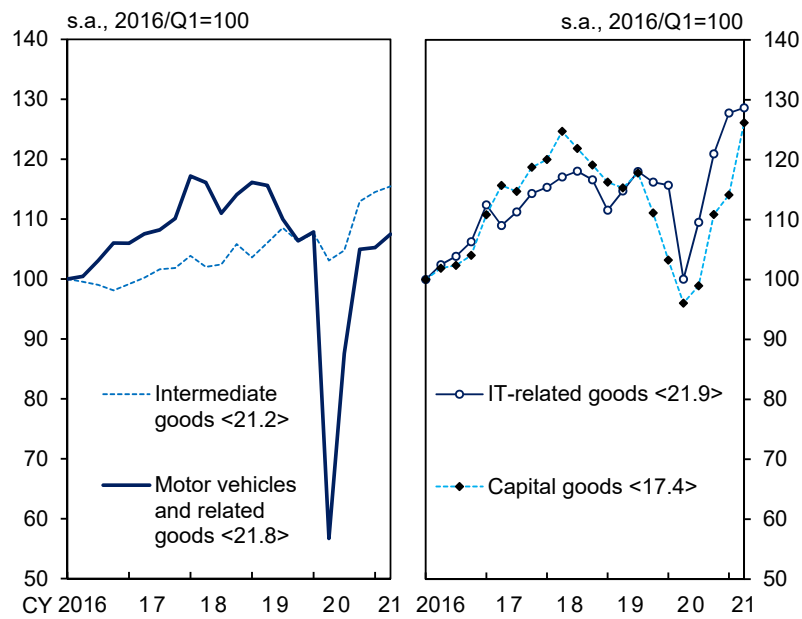
Note: Figures for manufacturing are the "J.P. Morgan Global Manufacturing PMI." Figures for services are the "J.P. Morgan Global Services Business Activity Index."
 Source: IHS Markit (© and database right IHS Markit Ltd 2021. All rights reserved.).

World Industrial Production and World Trade Volume



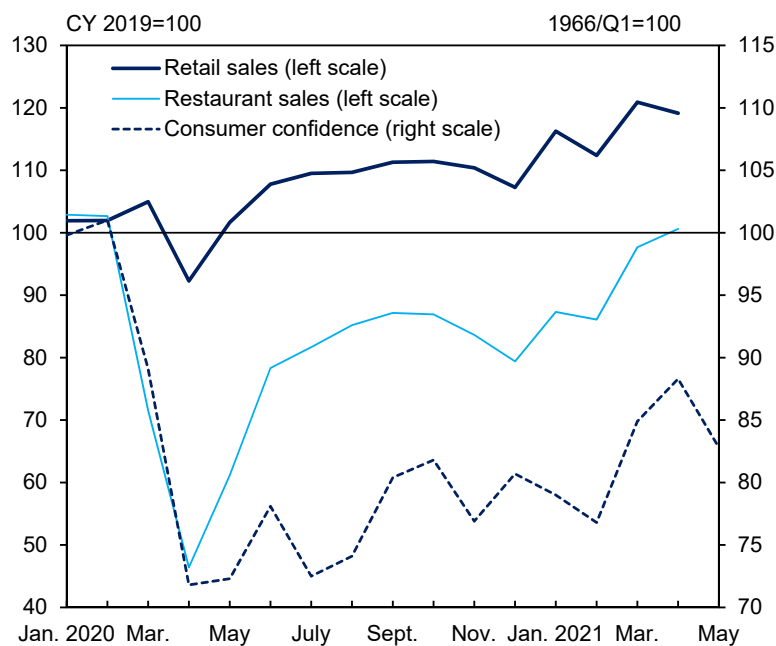
Note: Figures for the world trade volume are those for real imports.
 Source: CPB Netherlands Bureau for Economic Policy Analysis.

Real Exports by Type of Goods



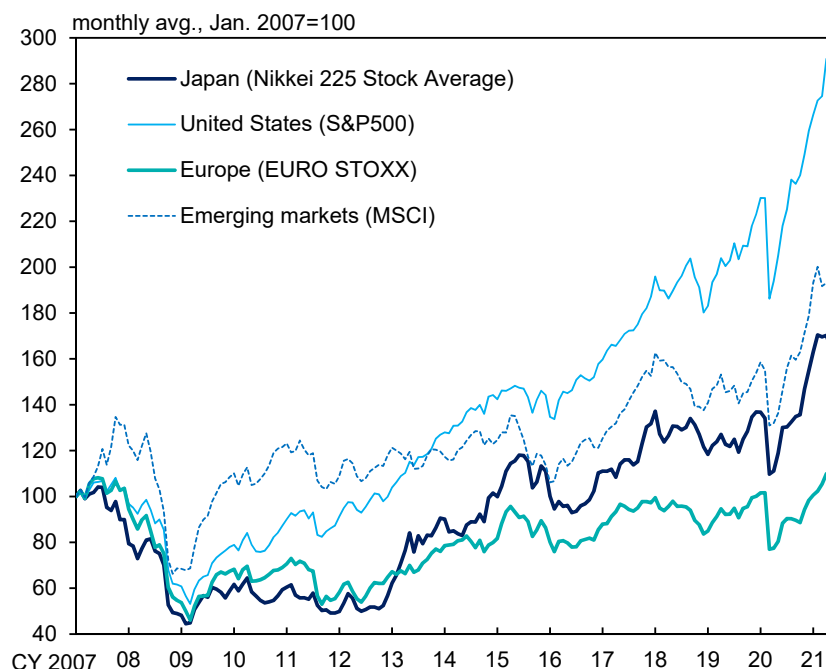
Notes: 1. Based on staff calculations. Figures in angular brackets show the share of each type of goods in Japan's total exports in 2020.
 2. Figures for 2021/Q2 are those for April.
 Sources: Bank of Japan; Ministry of Finance.

U.S. Private Consumption



Notes: 1. Figures for retail sales exclude those of motor vehicle and parts dealers, gasoline service stations, building material stores, and restaurants. Figures for restaurant sales are those for retail sales of restaurants. Figures for consumer confidence refer to the University of Michigan's consumer sentiment index.
 2. The latest figures for sales and consumer confidence are as of April and May 2021, respectively.
 Source: Haver.

Selected Stock Prices



Note: Figures for emerging markets are based on the MSCI Emerging Markets Index calculated in the local currencies.
Source: Bloomberg.

Assessment for Further Effective and Sustainable Monetary Easing

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

- Economic activity, employment, and profits have improved, and the economy is no longer in deflation. Positive moves toward addressing the medium- to long-term challenges facing Japan's economy have been observed.
- That said, changing people's mindset and behavior based on the assumption that prices will not increase easily, which have become deeply entrenched because of the experience of prolonged deflation, will take time.

⇒ **The Bank judges it appropriate to continue with QQE with Yield Curve Control with a view to achieving the price stability target of 2 percent.**

Yield Curve Control

- Yield curve control has been effective in pushing up economic activity and prices through a decline in funding costs and favorable conditions in financial and capital markets.
- Yield fluctuations within a certain range have positive effects on the functioning of the JGB market without impairing the effects of monetary easing.
- An excessive decline in super-long-term yields could have a negative impact on economic activity by, for example, undermining people's sentiment.

ETF and J-REIT Purchases

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

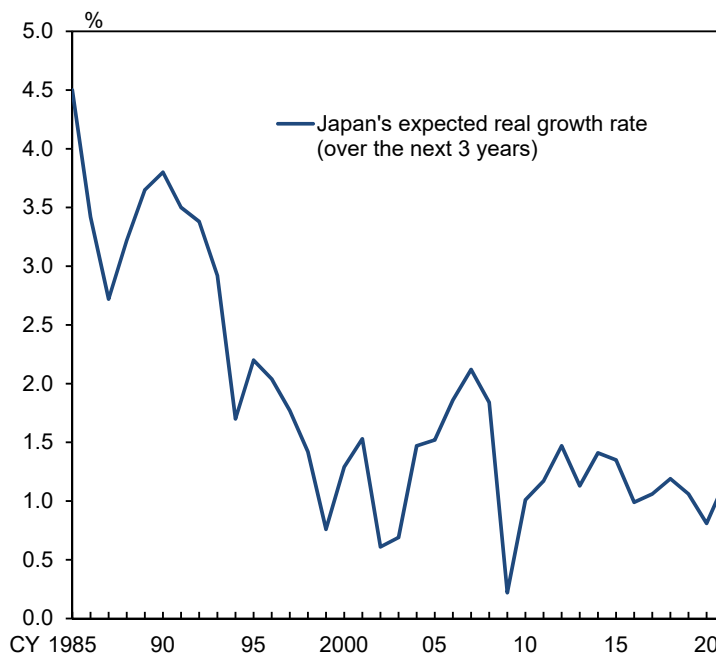
Inflation-Overshooting Commitment

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

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.

Expected Growth Rate



Note: Based on the Annual Survey of Corporate Behavior. Figures show the result for listed firms in a particular survey year for the next three years ahead. Source: Cabinet Office.

Further Effective and Sustainable Monetary Easing: Policy Actions

To achieve the price stability target of 2 percent, the Bank will (1) continue with monetary easing in a sustainable manner and (2) make nimble and effective responses without hesitation to counter changes in the situation.

Conduct of Yield Curve Control

Establishment of the Interest Scheme to Promote Lending (see the box on the right)

Clarification of the range of fluctuations in long-term interest rates

Expect long-term interest rates to move within the range of around $\pm 0.25\%$ from the target level

Introduction of "fixed-rate purchase operations for consecutive days"

Strengthen the fixed-rate purchase operations, which stop a significant rise in interest rates

Conduct for the time being

Prioritize stabilizing the entire yield curve at a low level under the continuing impact of COVID-19 in particular

ETF and J-REIT Purchases

Purchase as necessary with upper limits* on the annual paces of increase, and maintain these limits even after COVID-19 subsidies

* ETFs: about 12 tril. yen J-REITs: about 180 bil. yen

Purchase only ETFs tracking the Tokyo Stock Price Index (TOPIX)

Financial System and Bank Examination Dept. staff will make a briefing at the MPMs when the Outlook Report is decided (four times a year).

<Interest Scheme to Promote Lending>

- 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
 - Mitigate the impact on financial institutions' 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	0.2% Higher than the rate for Category II	• Special Operations in Response to COVID-19 , when funds are provided against loans made by financial institutions on their own
Category II	0.1% Absolute value of the short-term policy interest rate	• Special Operations in Response to COVID-19 , when funds are provided against loans other than those for Category I and against private debt pledged as collateral
Category III	0% Lower than the rate for Category II	• Loan Support Program • Operation to Support Financial Institutions in Disaster Areas

⇒ Enable the Bank to cut short- and long-term interest rates more nimble while considering the impact on the functioning of financial intermediation

In addition, adjustments to the Complementary Deposit Facility will be made to narrow the gap between the actual Policy-Rate Balances and the "hypothetical" Policy-Rate Balances.