



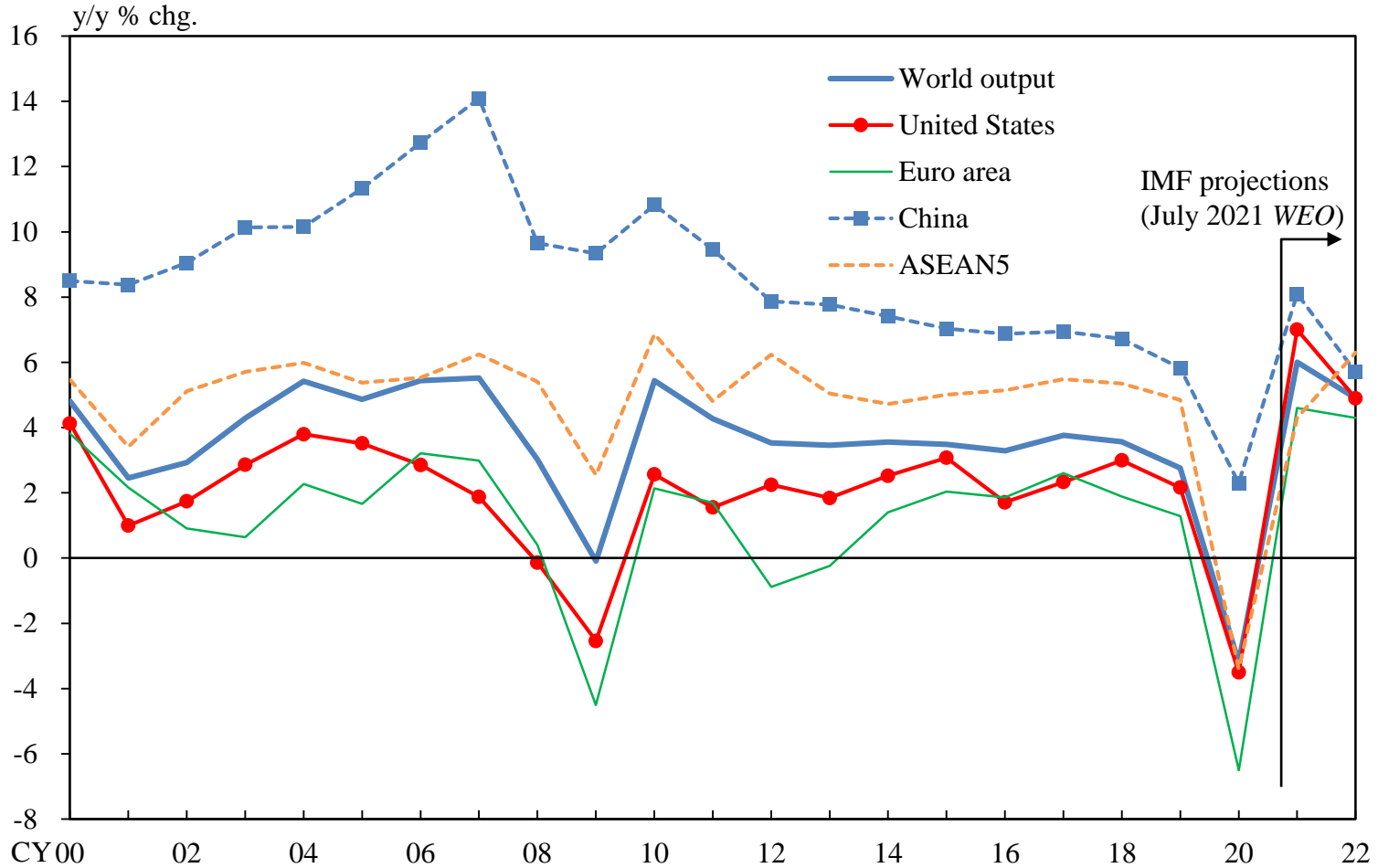
Economic Activity, Prices, and Monetary Policy in Japan

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

August 25, 2021

NAKAMURA Toyoaki
Bank of Japan

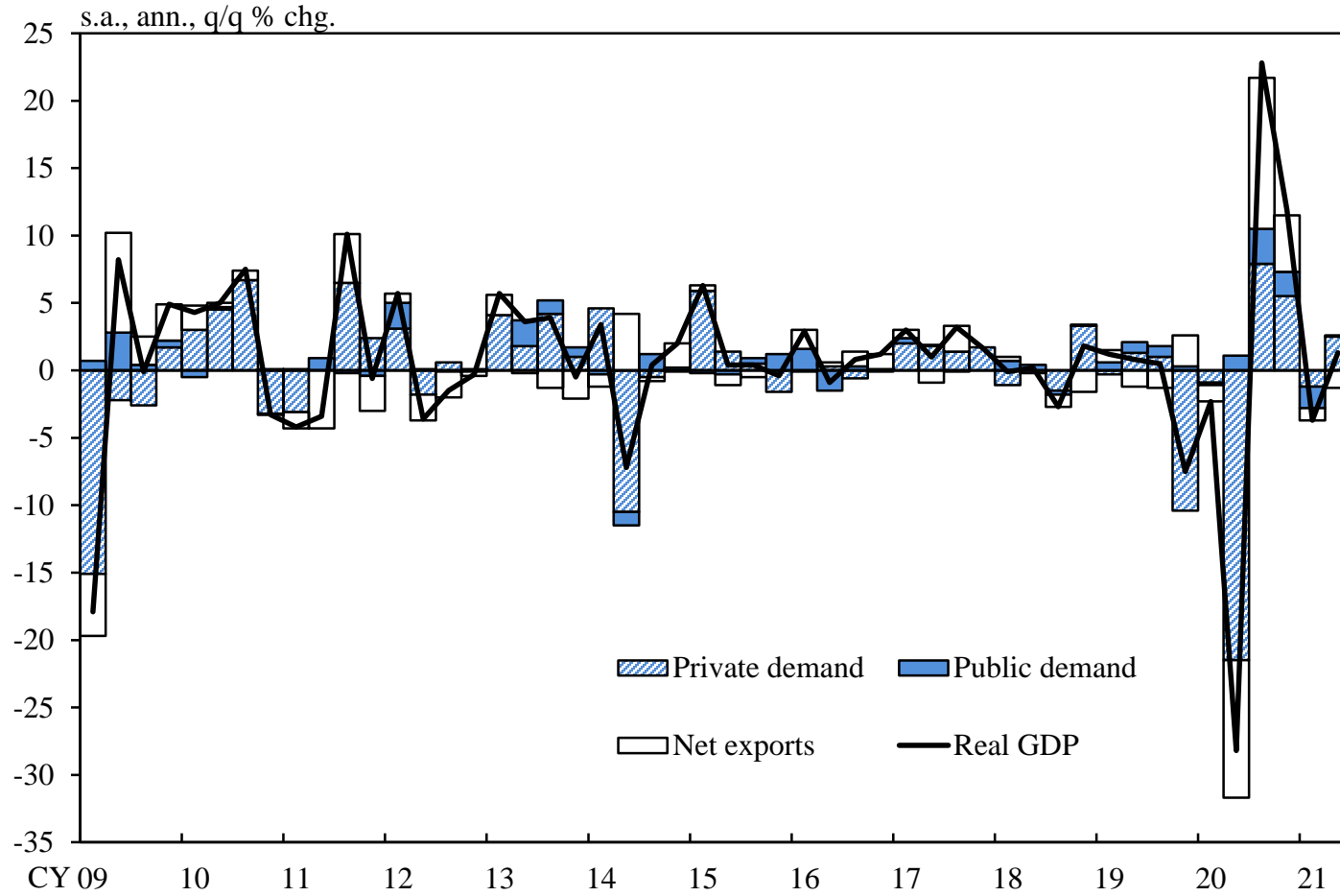
IMF Projections in the *World Economic Outlook*



Note: ASEAN5 consists of Indonesia, Malaysia, the Philippines, Thailand, and Vietnam.

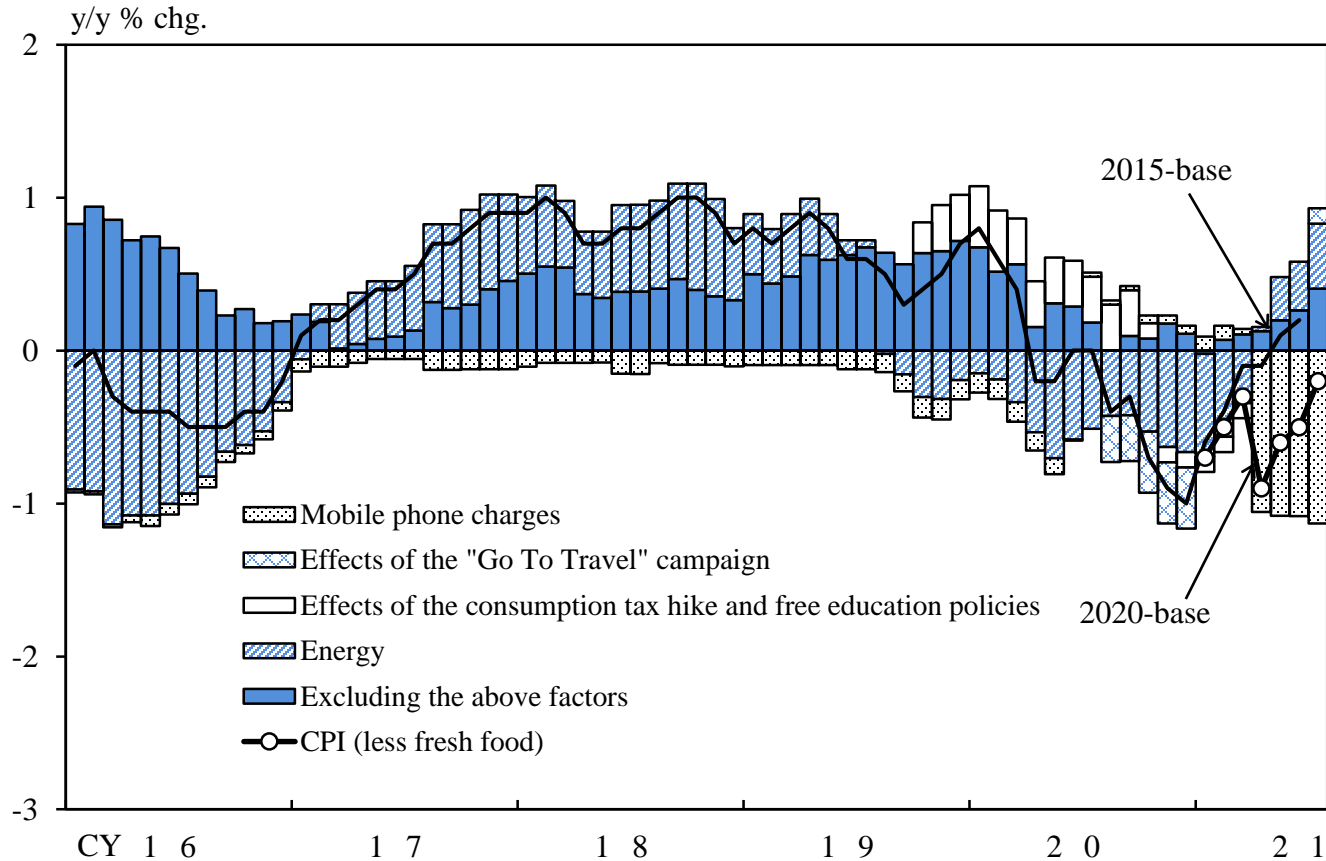
Source: IMF.

Japan's Real GDP



Source: Cabinet Office.

Japan's CPI (Less Fresh Food)



- Notes:
1. Energy consists of petroleum products (gasoline, kerosene, and liquefied propane), electricity, and manufactured and piped gas charges.
 2. 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.

Outlook for Economic Activity and Prices as of July 2021: Forecasts of the Majority of Policy Board Members

y/y % chg.

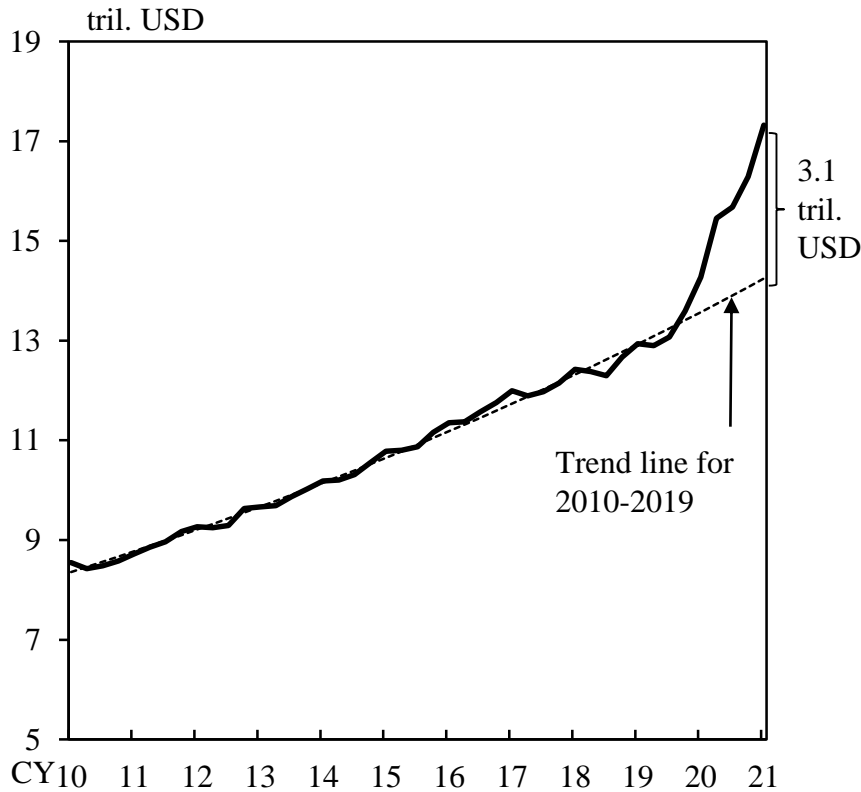
	Real GDP	CPI (all items less fresh food)
Fiscal 2021	+3.5 to +4.0 [+3.8]	+0.3 to +0.6 [+0.6]
Forecasts made in April 2021	+3.6 to +4.4 [+4.0]	0.0 to +0.2 [+0.1]
Fiscal 2022	+2.6 to +2.9 [+2.7]	+0.8 to +1.0 [+0.9]
Forecasts made in April 2021	+2.1 to +2.5 [+2.4]	+0.5 to +0.9 [+0.8]
Fiscal 2023	+1.2 to +1.4 [+1.3]	+0.9 to +1.1 [+1.0]
Forecasts made in April 2021	+1.2 to +1.5 [+1.3]	+0.7 to +1.0 [+1.0]

- 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 he/she attaches 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.
 3. The CPI forecasts in this table are based on the previous 2015-base index.

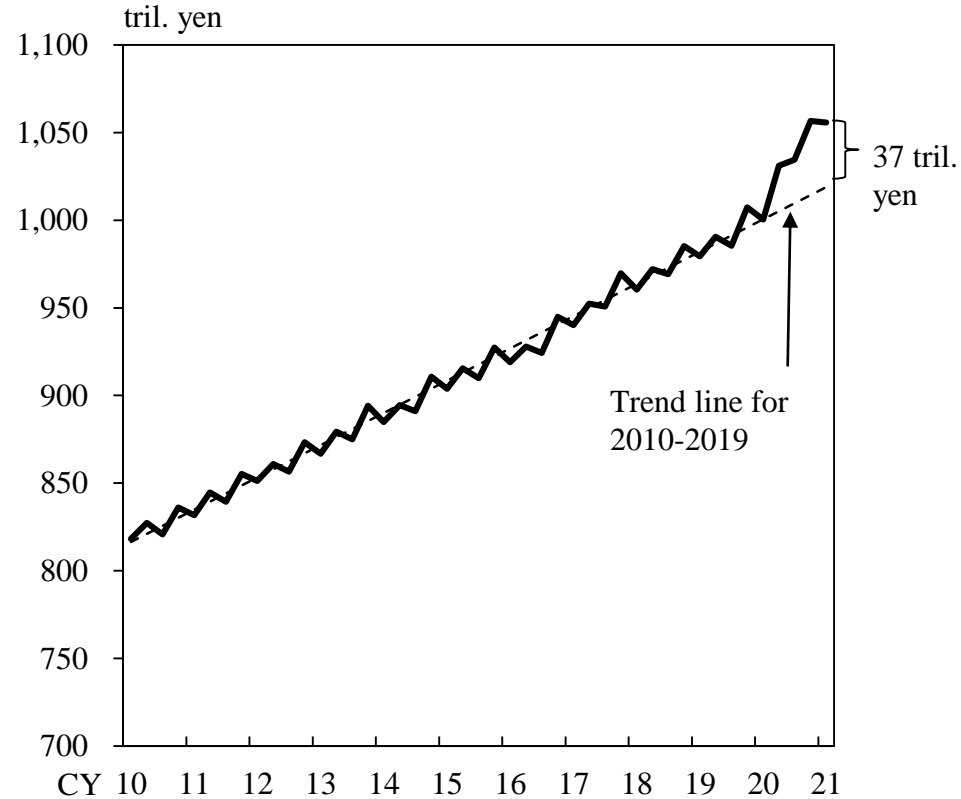
Source: Bank of Japan.

Cash and Deposits Held by Households

United States



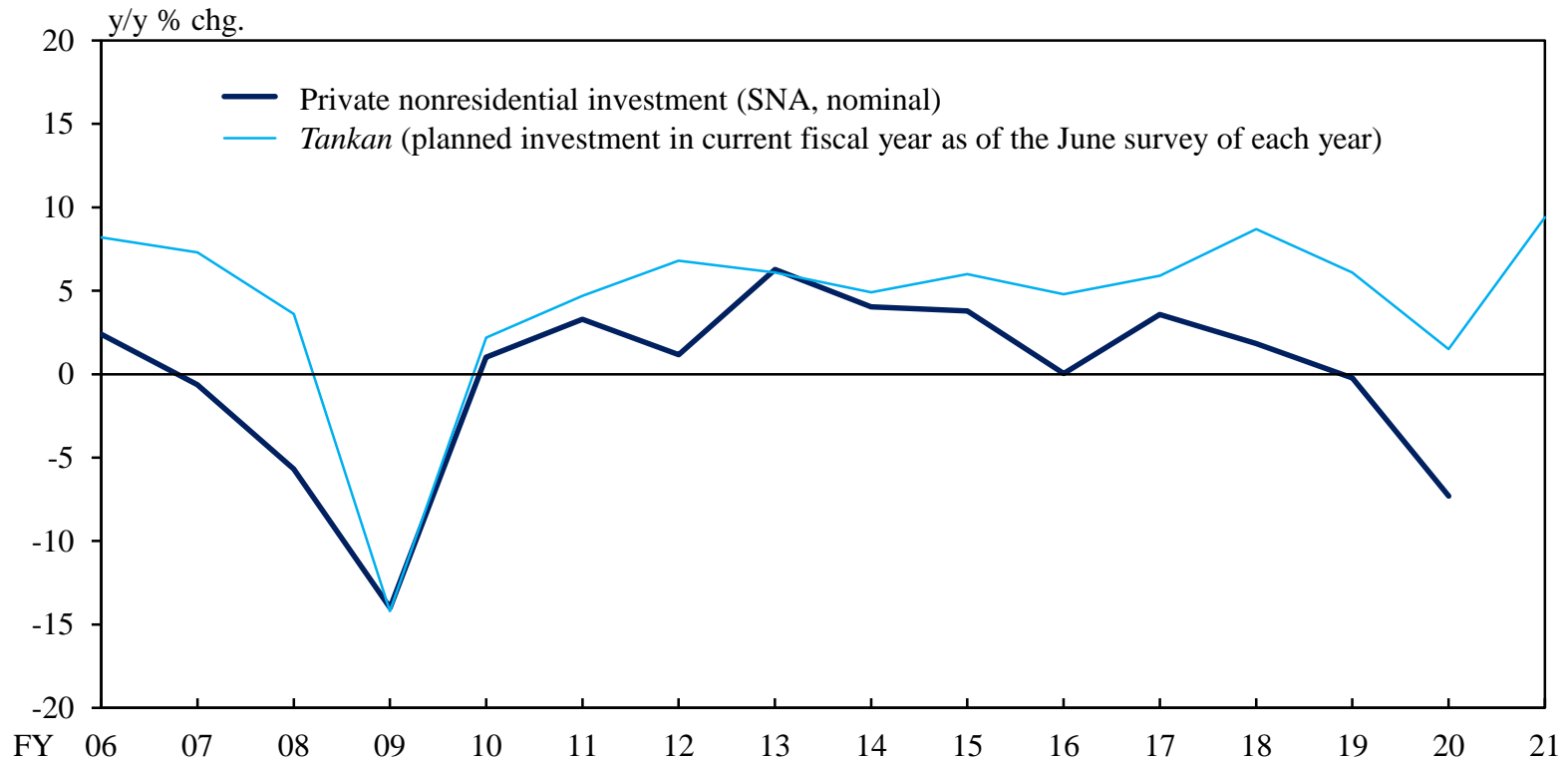
Japan



Note: The figures for the United States include MMF.

Sources: Federal Reserve; Haver; Bank of Japan.

Business Fixed Investment



Note: The *Tankan* figures include software and R&D investments and exclude land purchasing expenses. R&D investment is not included before the March 2017 survey. The figures are for enterprises of all sizes and in all industries including financial institutions.

Sources: Cabinet Office; 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

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

Fund-Provisioning Measure to Support Efforts on Climate Change

From a central bank standpoint, the Bank provides funds to financial institutions for investment or loans they make to address climate change based on their own decisions.

➔ Amid the uncertain external environment, it can respond flexibly to changes in circumstances while avoiding direct involvement in micro-level resource allocation as much as possible.

Eligible Counterparties
Eligible Investment/Loans



Counterparties make investment/loans based on their own decisions. Discipline will be exercised through a certain level of disclosure.

- **Financial institutions that disclose a certain level of information** on their efforts to address climate change
- Of the **investment/loans** made by counterparties as part of their efforts, those **that contribute to Japan's actions to address climate change**

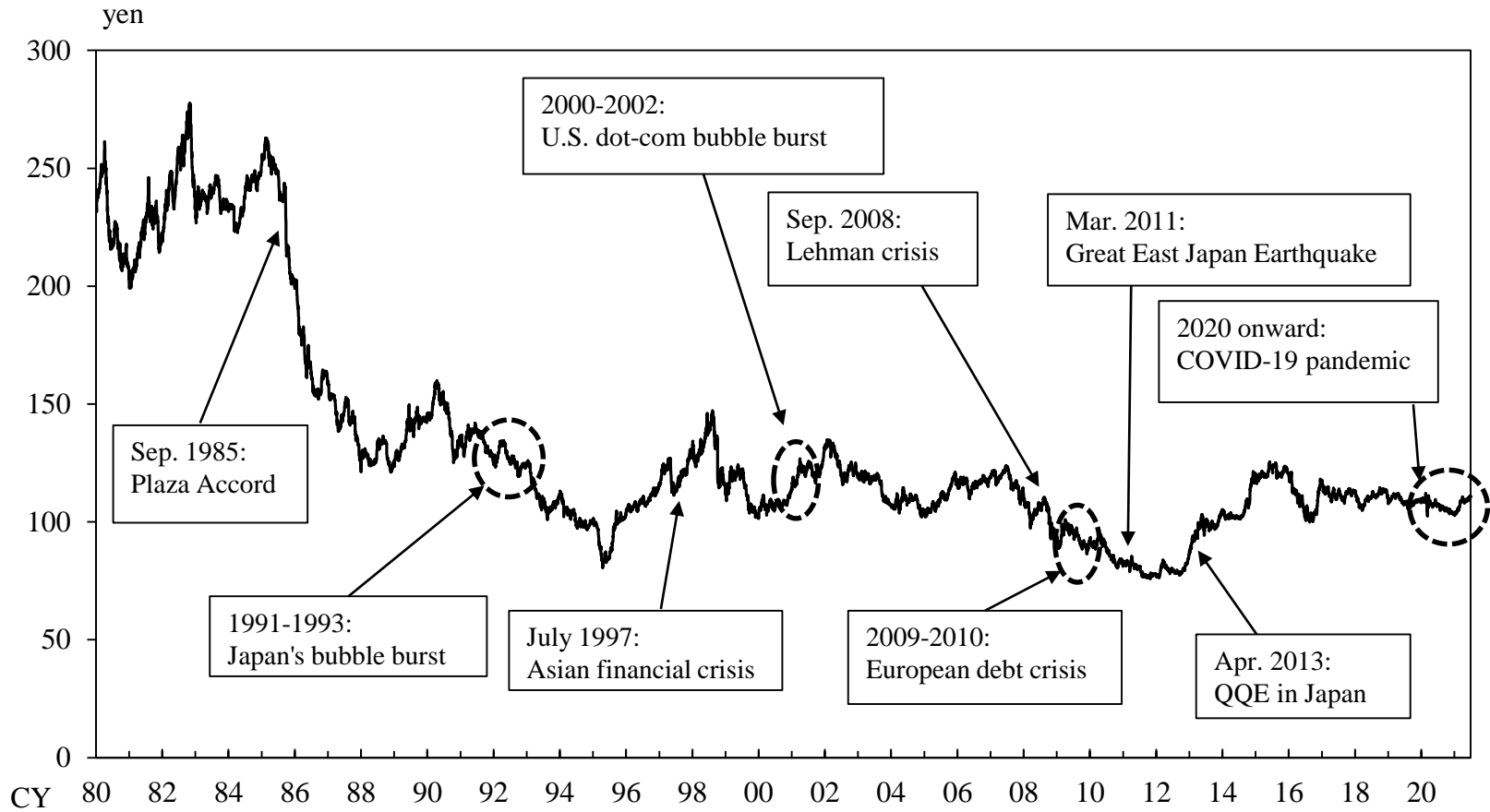
Terms and Conditions



Long-term support for financial institutions' efforts

- Interest rate: **0%** -- The measure will fall under Category III (applied interest rate: 0%) in the Interest Scheme to Promote Lending
- **Twice as much as the amount outstanding of funds that counterparties receive will be added to the Macro Add-on Balances in their current accounts at the Bank**
- Duration of fund-provisioning: 1 year, rollovers can be made until the end of the implementation period
→ **Effectively, counterparties can receive long-term financing from the Bank**
- Implementation period: in principle, **until the end of fiscal 2030**

U.S. Dollar/Yen



Note: QQE denotes quantitative and qualitative monetary easing.

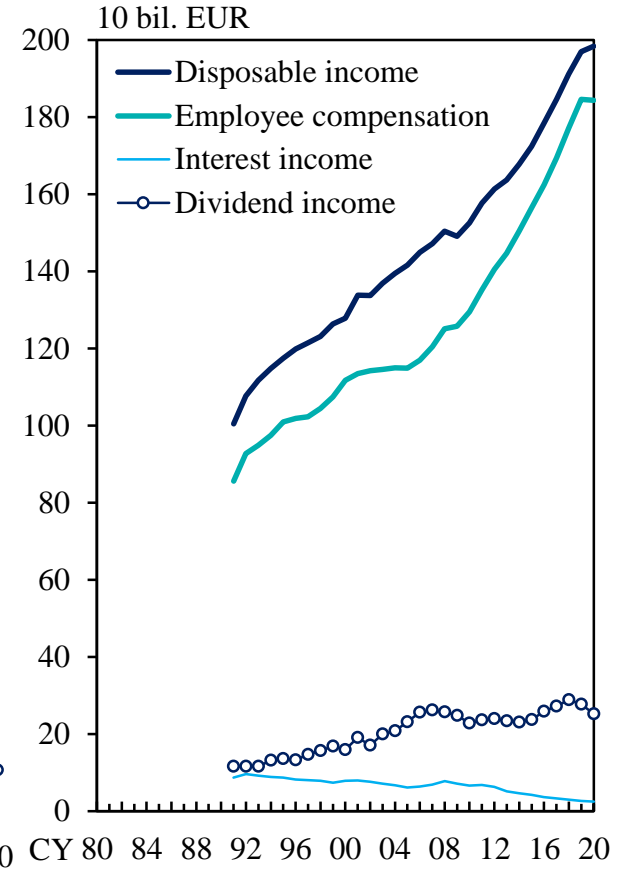
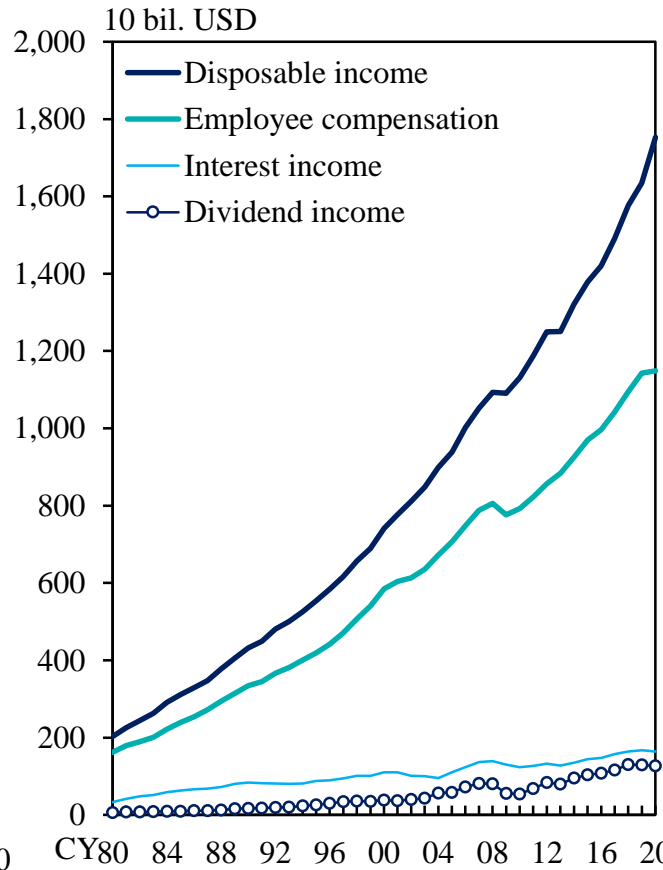
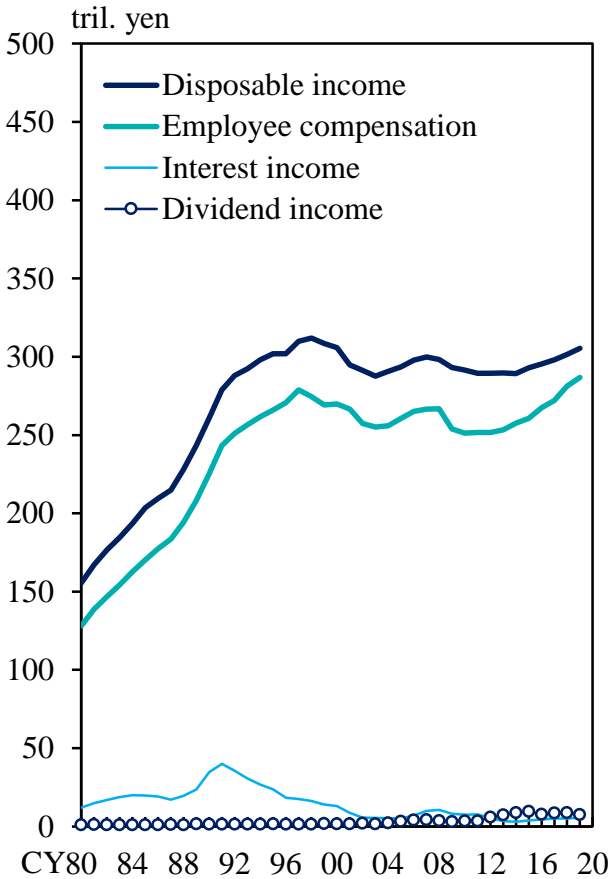
Source: Bloomberg.

Household Disposable Income

Japan

United States

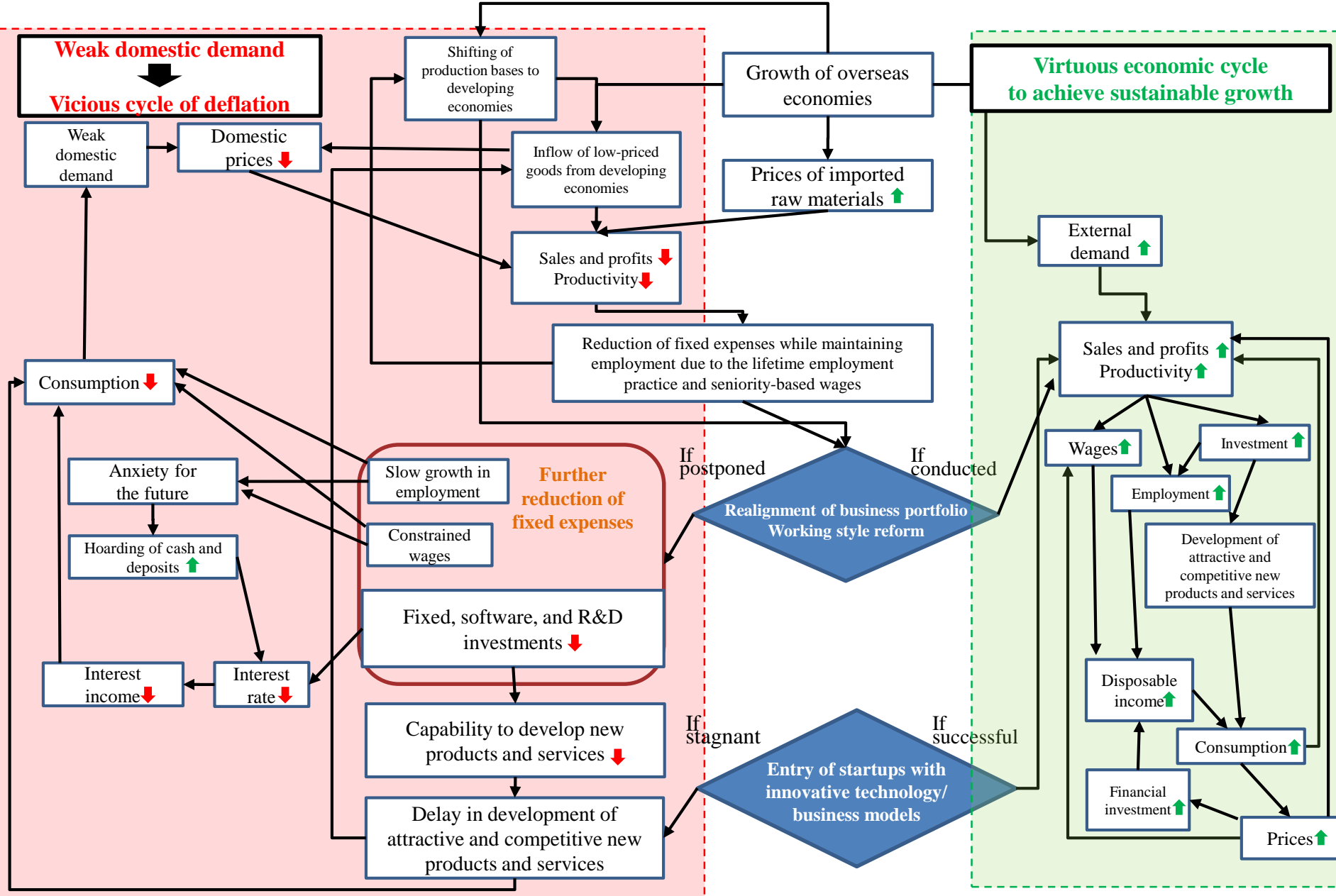
Germany



Notes: 1. Figures for Japan before 1993 are calculated using year-on-year changes in each item in the 2000 System of National Accounts.
 2. Figures for interest income and dividend income in Germany are "other interests, rents" and "distributed income of corporations," respectively.

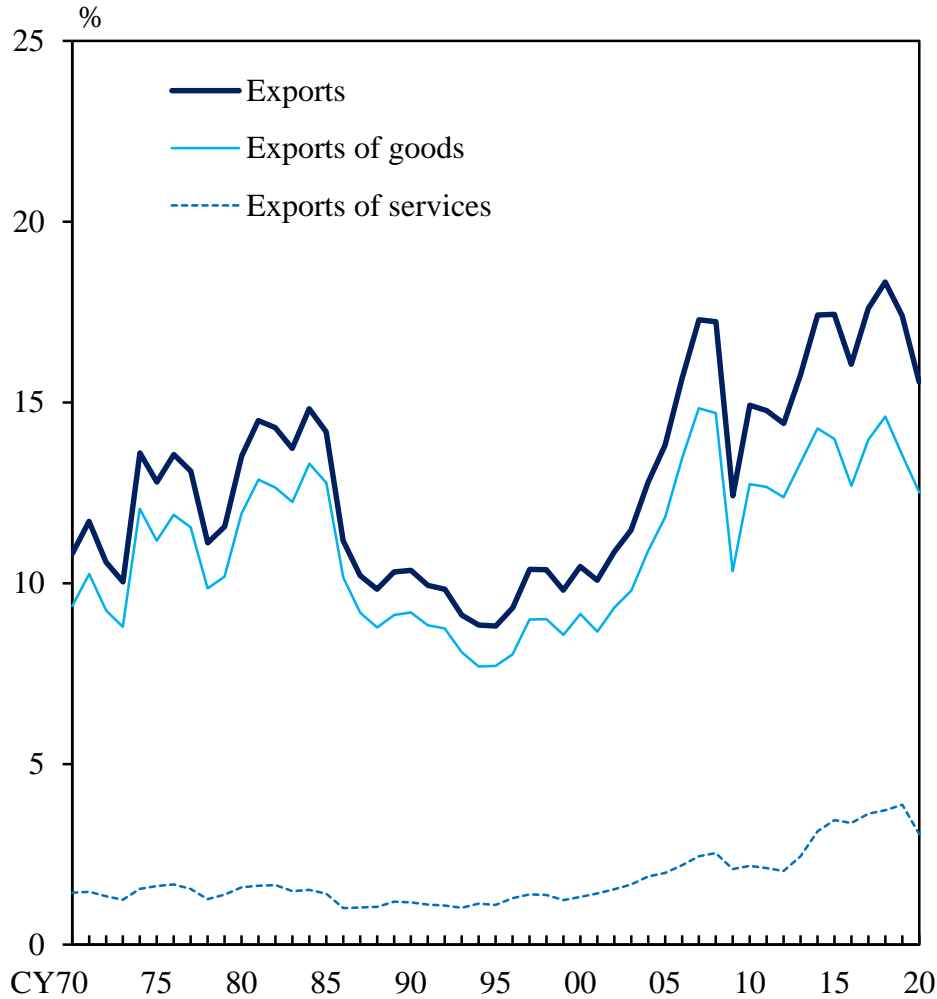
Sources: Cabinet Office; Bureau of Economic Analysis; Statistisches Bundesamt.

Vicious Cycle of Deflation and Virtuous Economic Cycle from Firms' Viewpoint

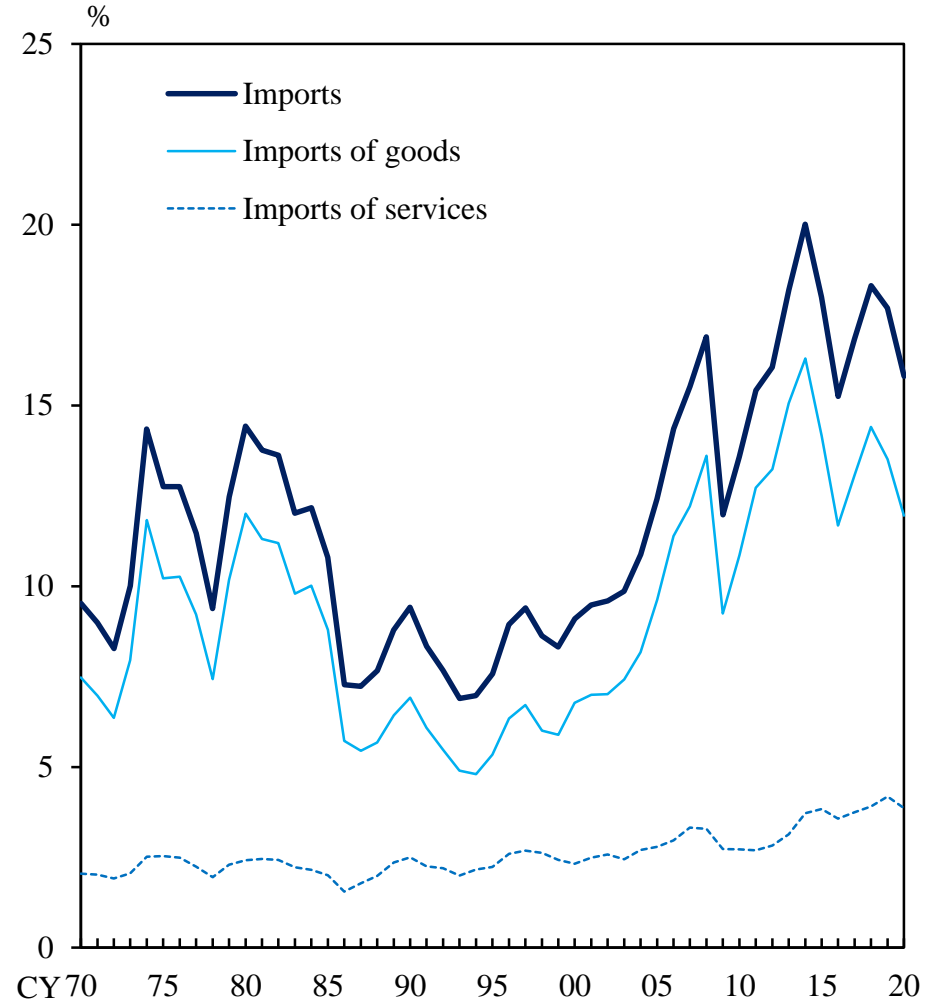


Share of Exports and Imports in Nominal GDP

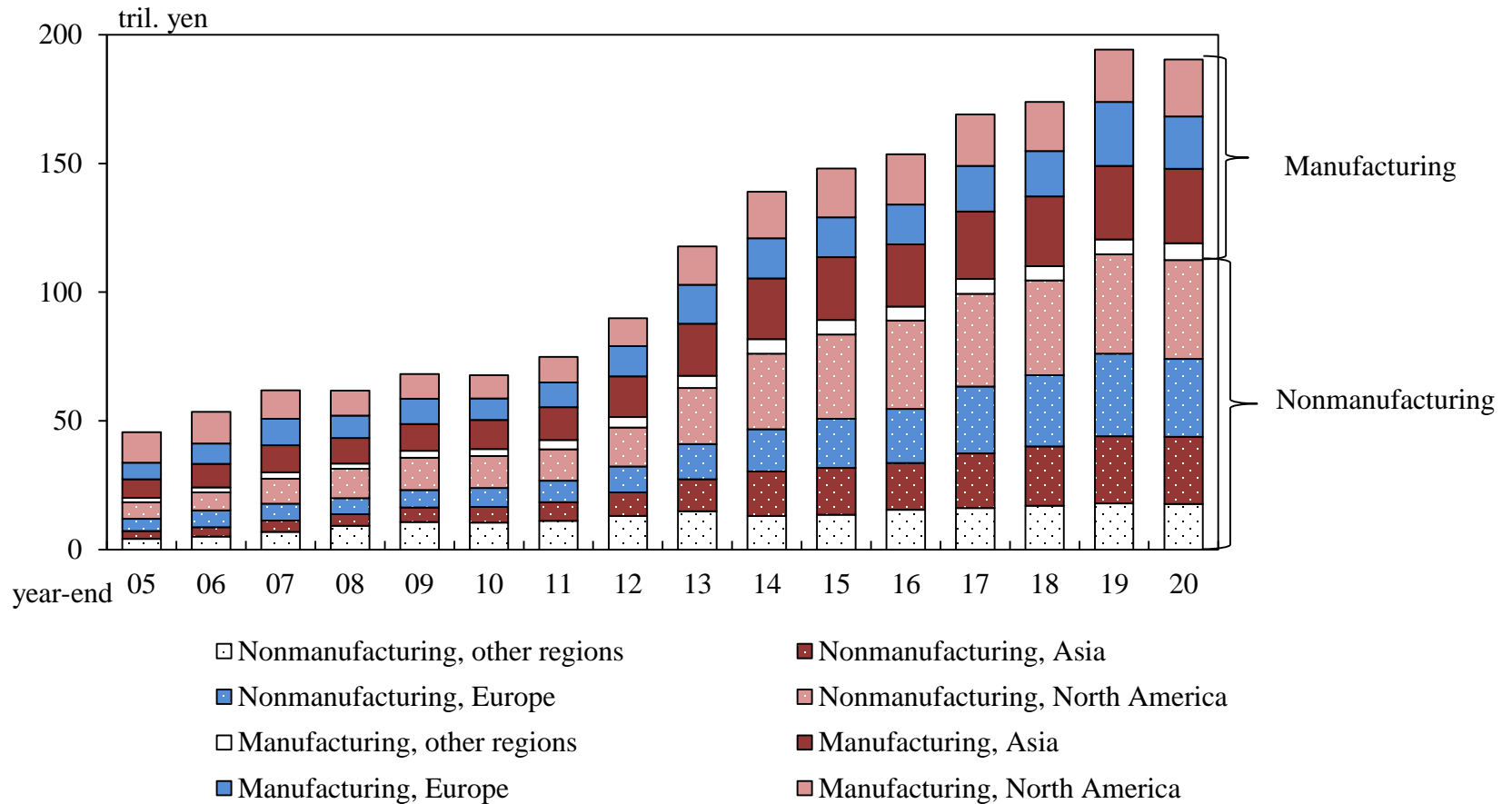
Exports



Imports



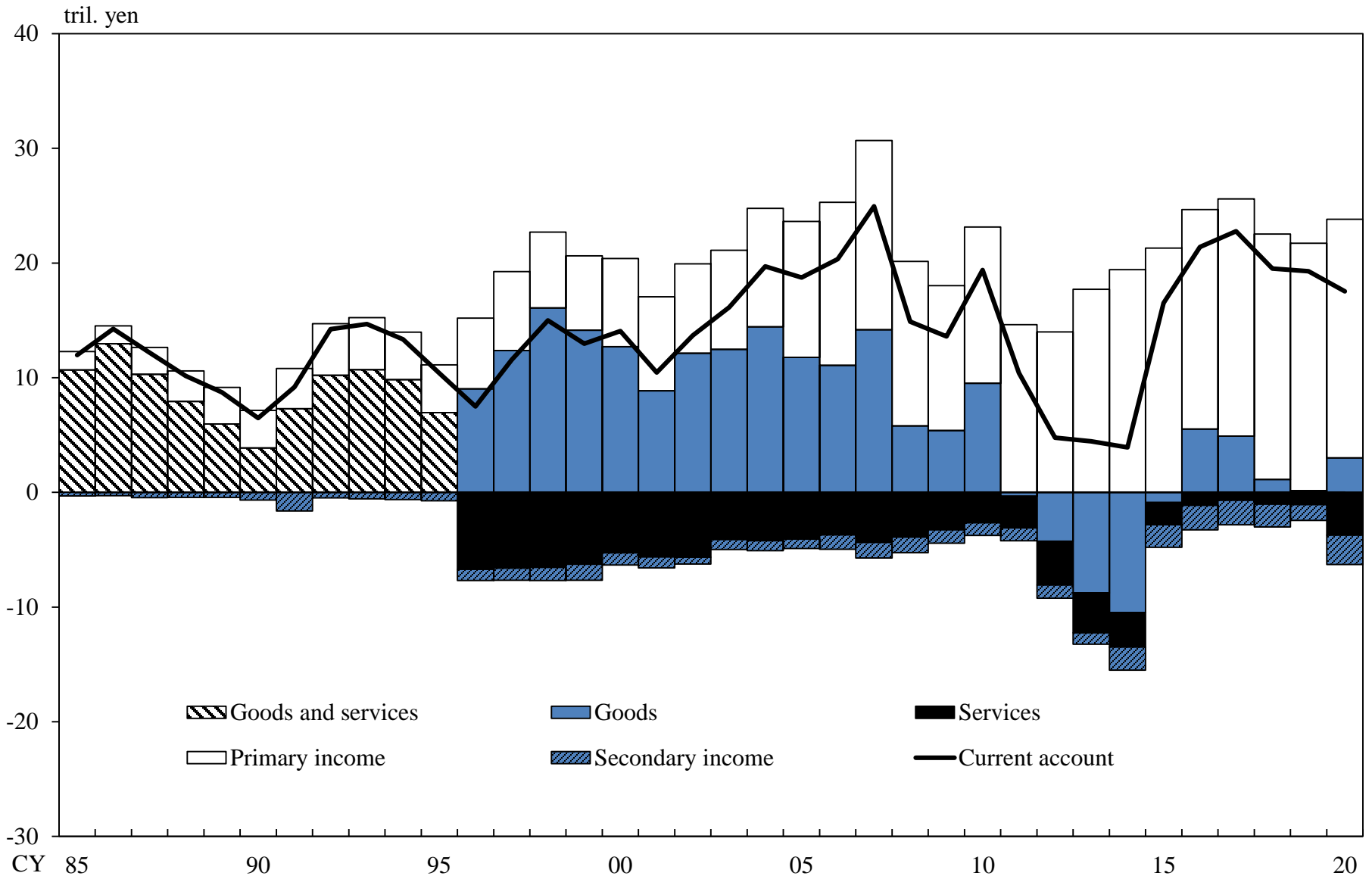
Outward Direct Investment Position



Note: Figures are based on the directional principle. These include investments from a parent company located in Japan to its overseas affiliates.

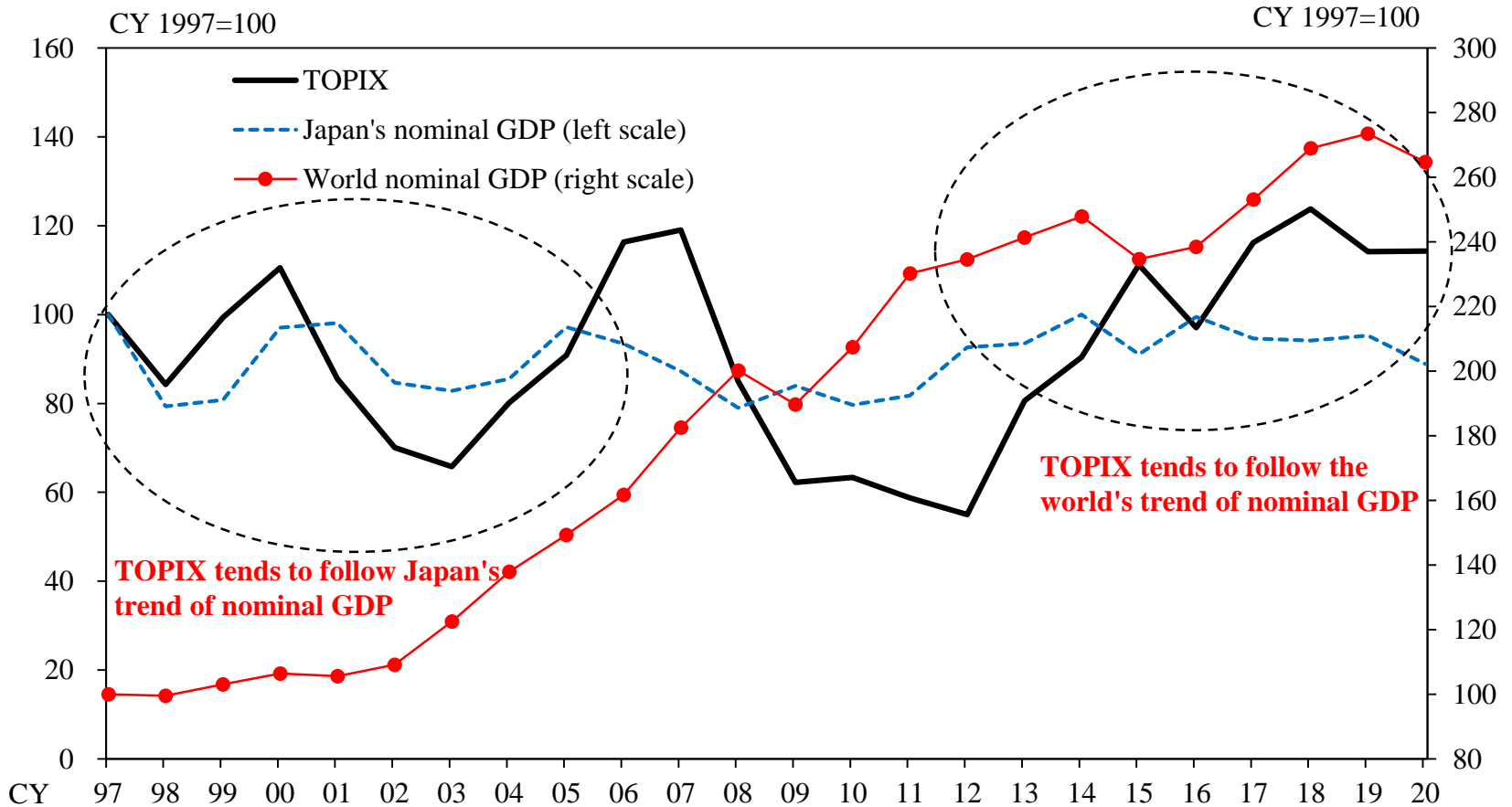
Sources: Ministry of Finance; Bank of Japan.

Current Account



Sources: Ministry of Finance; Bank of Japan.

TOPIX

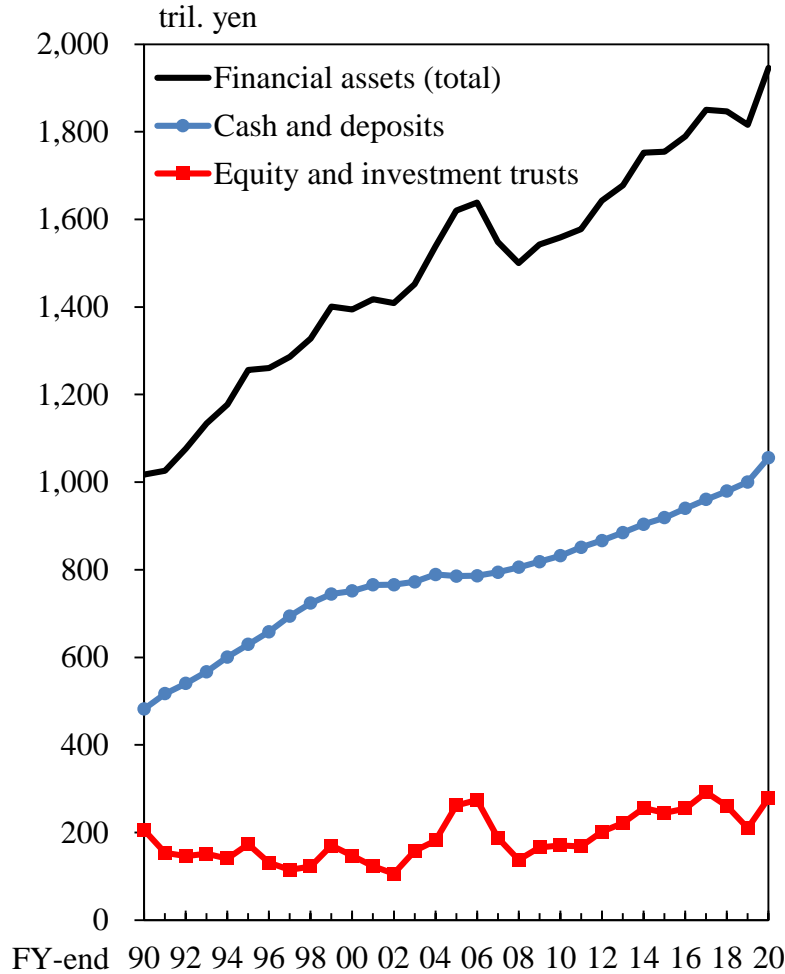


- Notes: 1. Figures for the world's nominal GDP are based on values denominated in U.S. dollars.
 2. Figures for Japan's nominal GDP are based on values denominated in Japanese yen.
 3. Figures for TOPIX are calculated from yearly averages.

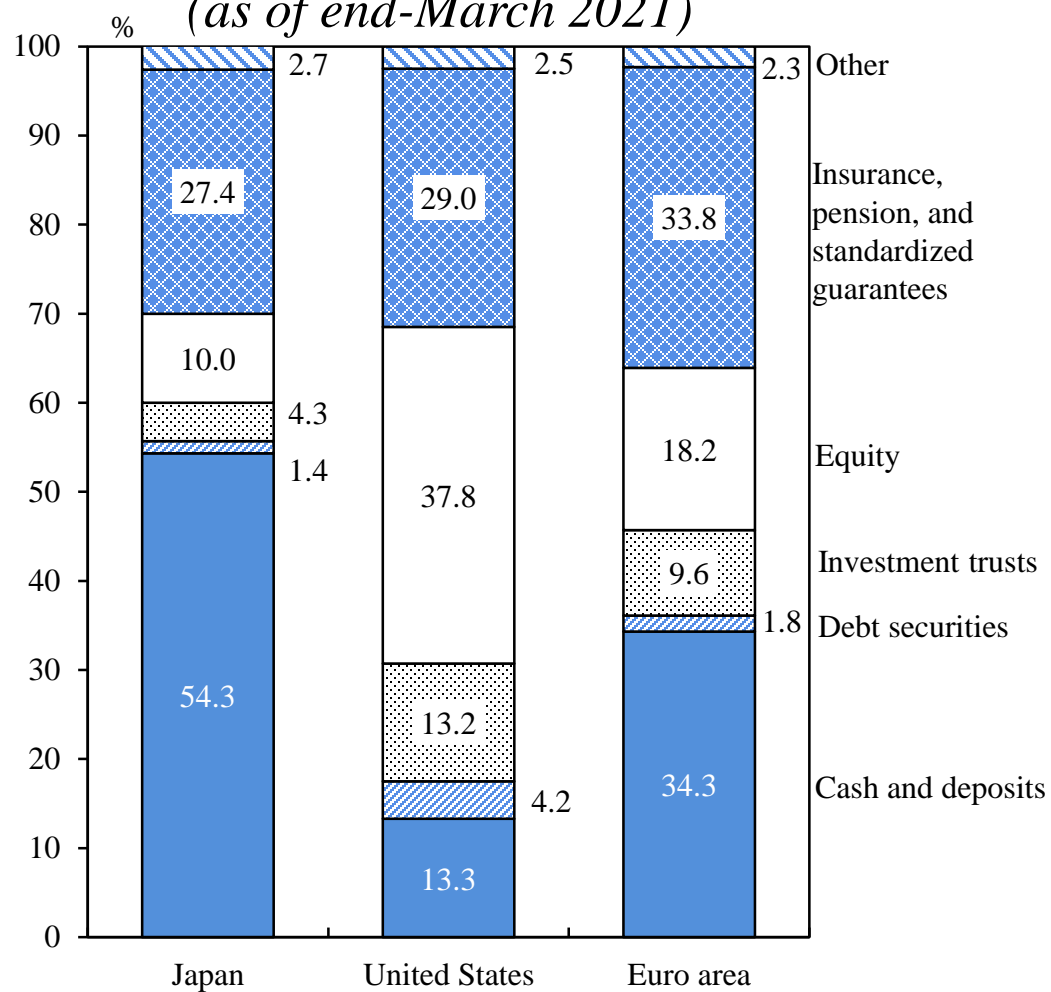
Sources: IMF; Bloomberg.

Household Financial Assets

Japan



International Comparison (as of end-March 2021)

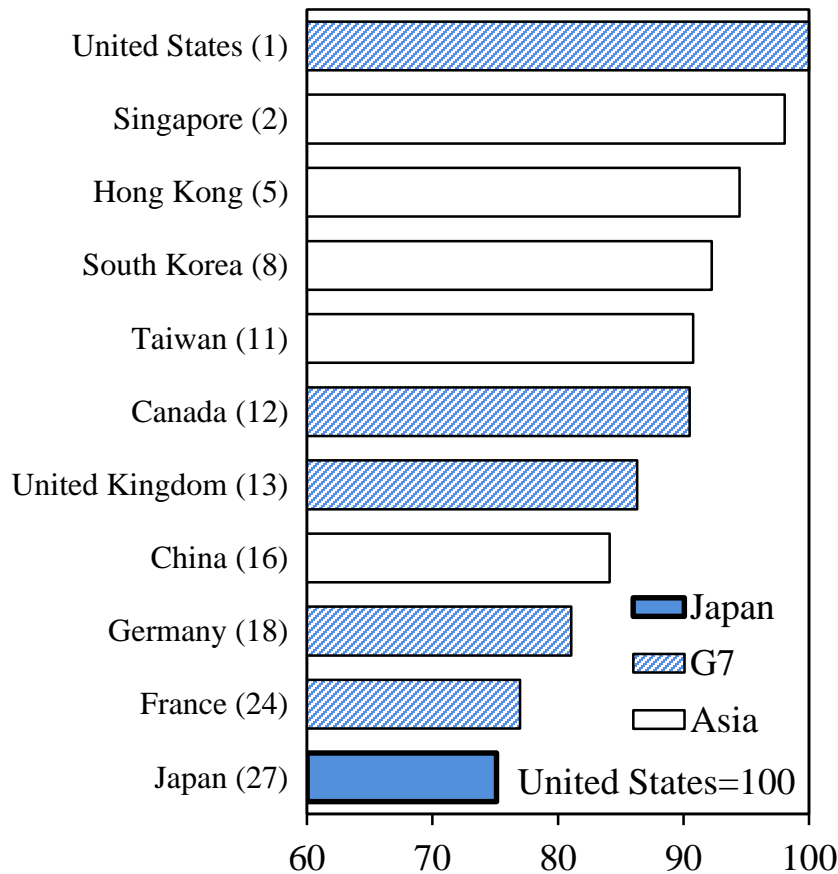


Note: In the right panel, "Other" is the residual after deducting "Cash and deposits," "Debt securities," "Investment trusts," "Equity," and "Insurance, pension, and standardized guarantees" from total financial assets.

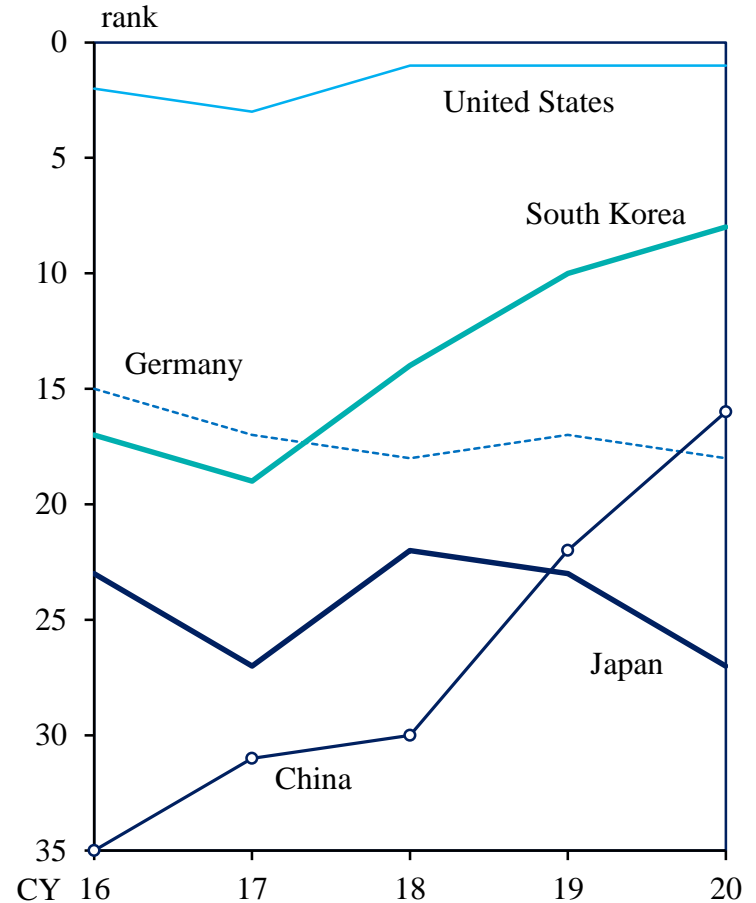
Sources: Bank of Japan; Federal Reserve; European Central Bank.

IMD World Digital Competitiveness Ranking 2020

Overall Score for 2020



Ranking

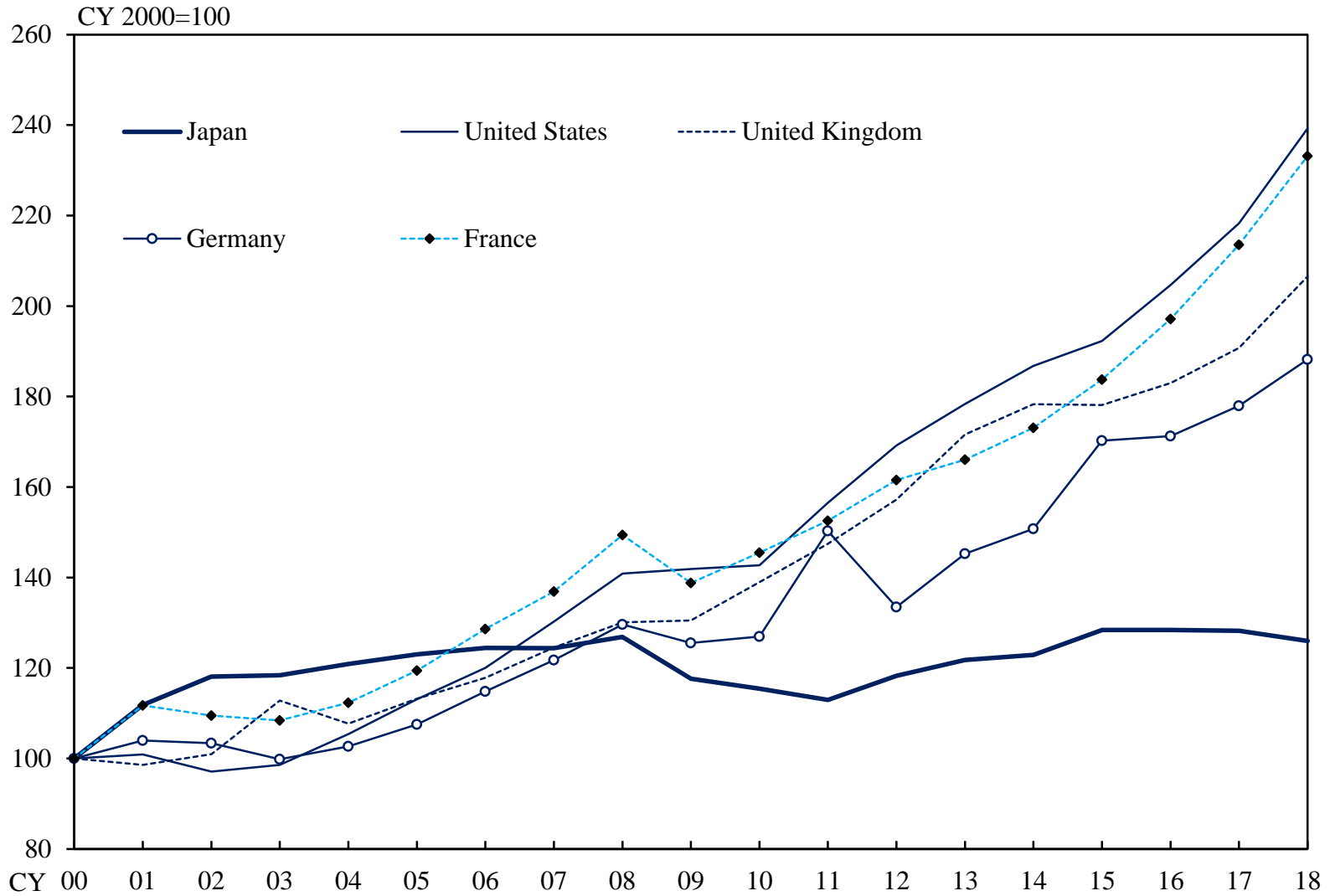


Notes: 1. The overall scores are calculated based on three factors: knowledge, technology, and future readiness, which represents the level of preparedness for digital transformation. Each factor contains three sub-factors, and the nine sub-factors comprise 52 criteria.

2. In the left panel, figures in parentheses indicate the ranking of the economy out of all 63 economies analyzed.

Source: IMD.

Software Investment



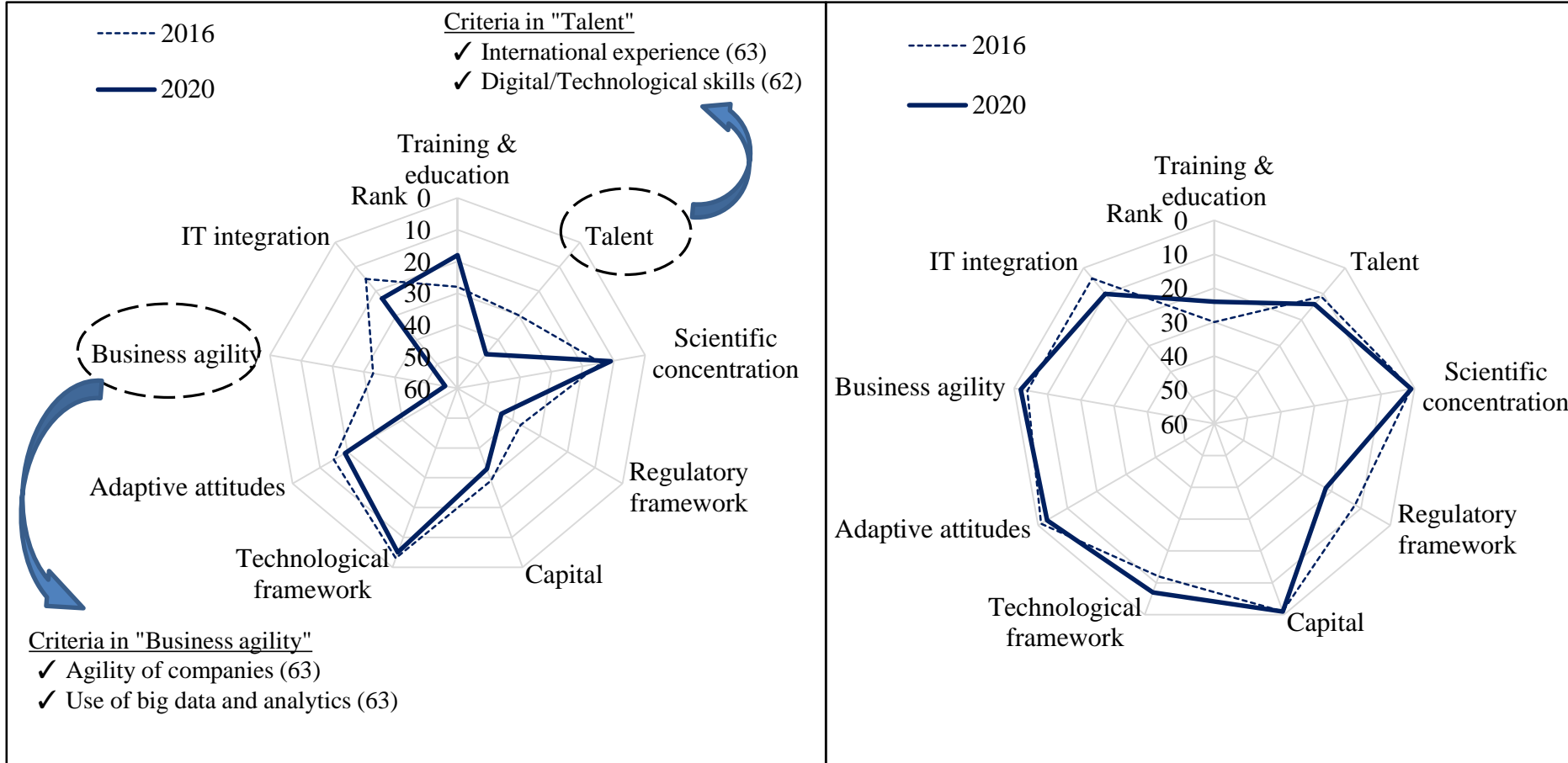
Note: Figures are based on nominal values denominated in local currencies.

Source: OECD.

Comparison of Digital Competitiveness between Japan and the United States

Japan

United States



Notes: 1. "Training & education," "Talent," and "Scientific concentration" are sub-factors of knowledge. "Regulatory framework," "Capital," and "Technological framework" are sub-factors of technology. "Adaptive attitudes," "Business agility," and "IT integration" are sub-factors of future readiness.

2. In the left panel, figures in parentheses indicate the ranking of Japan out of all 63 economies analyzed.

Source: IMD, "World Digital Competitiveness Ranking 2020."

The Bank's Strategy on Climate Change

- Climate change is a global challenge and could have a broad impact into the future.
- Various entities in society and the economy need to actively play their roles.



The Bank, with an intention of furthering its efforts on climate change consistent with its mandate of achieving price stability and ensuring the stability of the financial system, decided the comprehensive strategy.

Monetary
policy

Financial
system

Research

International
finance

Operations
&
communication

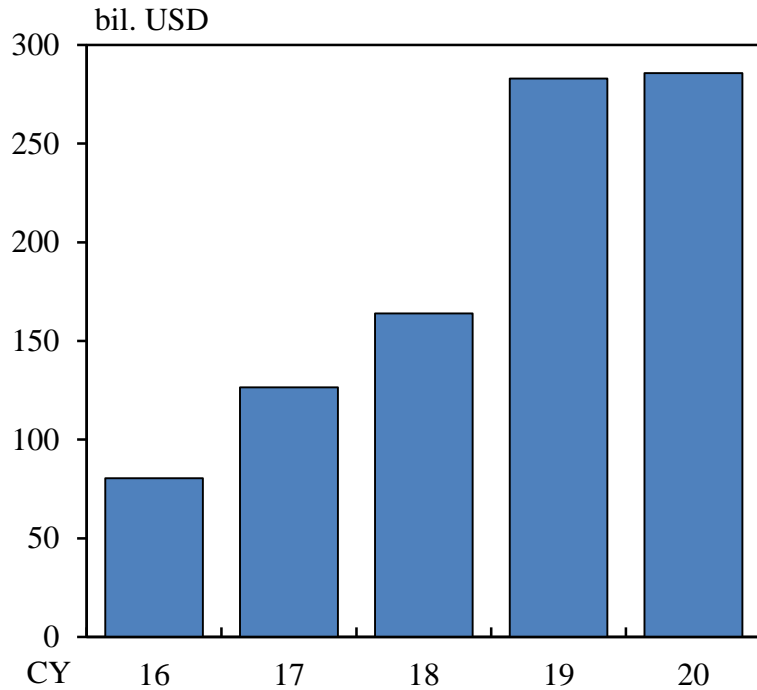


The impacts of climate change on economic activity, prices, and the financial system are highly uncertain and could greatly vary over time.

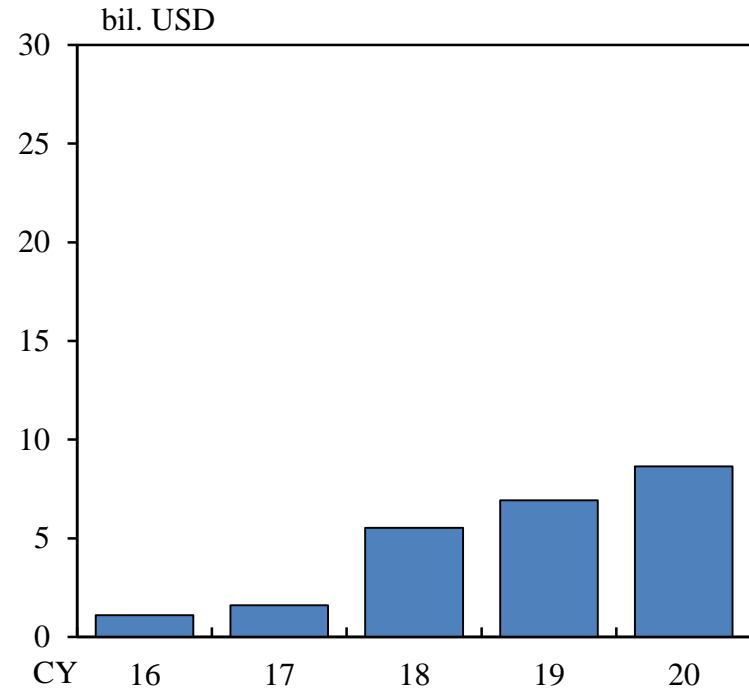
➔ The Bank will constantly review its measures and make adjustments where needed.

Green Bond Issuance

World



Japan



Notes: 1. Figures include any type of self-labeled fixed income instruments where the proceeds will be directed exclusively to financing or refinancing, in part or in full, of new and/or existing green projects.
 2. Green bonds encompass commercial papers, certificates of deposit, and sukuk.

Source: IMF.