October 14, 2021

Bank of Japan

Economic Activity, Prices, and Monetary Policy in Japan

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

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(English translation based on the Japanese original)

I. Economic Activity and Prices

A. Economic Developments at Home and Abroad

I will begin my speech by talking about recent economic developments abroad.

While the impact of the novel coronavirus (COVID-19) remains significant due to the spread of its variants, overseas economies have recovered on the whole, led by advanced economies (Chart 1). That said, macroeconomic conditions have been uneven across countries and regions, depending on the extent of progress with vaccinations in particular. In advanced economies where vaccinations have been making relatively steady progress, the degree of improvement in economic activity, including that in face-to-face services, has been intensifying, as public health measures have been lifted in a phased manner. Having been positively affected by the recovery in advanced economies through the trade channel, emerging economies have generally started to pick up; however, domestic demand in some countries and regions has been pushed down due to the effects of such factors as delays in vaccinations, the resurgence of COVID-19 driven by the spread of variants, and the termination of fiscal support measures.

As for the outlook, variation across countries and regions will likely remain significant for the time being, depending on the extent of progress with vaccinations. Recently, due to the resurgence of COVID-19 triggered by the prevalence of variants, improvement in business sentiment -- including that of advanced economies -- has slowed somewhat; however, if the impact of COVID-19 wanes gradually on the back of, for example, further progress with vaccinations across the globe, overseas economies are likely to continue to see a recovery on the whole, supported also by aggressive macroeconomic policies taken by the respective countries and regions.

Next, I will turn to recent developments in Japan's economy.

Face-to-face services, such as eating and drinking as well as accommodations, remain under downward pressure due to the impact of the spread of COVID-19 induced by an increase in variant cases. Nevertheless, with the recovery in overseas economies becoming evident, exports and production have been on an uptrend, despite supply-side constraints mainly on automobile-related goods (Chart 2). In particular, amid an expansion in digital-related demand on a global basis, exports and production have been solid for IT-related goods -- including smartphones and personal computers, as well as parts for data centers -- and for capital goods, such as semiconductor production equipment. Corporate profits have in turn improved considerably. These developments have fed into business fixed investment, suggesting that a virtuous cycle from corporate profits to business fixed investment, triggered by an increase in external demand, has operated without interruption (Chart 3).

In short, while face-to-face services currently continue to be exposed to adversities, Japan's economy as a whole has picked up, driven by a recovery in overseas economies, mainly in advanced economies. Regarding the outlook, the face-to-face services sector will likely remain in a severe situation for the time being, but thereafter, as the impact of COVID-19 wanes on the back of further progress with vaccinations, I expect that economic recovery will become clearer from the end of 2021 onward.

B. Price Developments

Next, I will move on to Japan's price developments.

The year-on-year rate of change in the consumer price index (CPI) for all items less fresh food, despite being pushed down by the impact of COVID-19 and a reduction in mobile phone charges, has been at around 0 percent due to a rise in energy prices. As a result of the change in the base year from 2015 to 2020, the year-on-year rate of change in the CPI for April 2021 onward has been revised downward significantly, reflecting an increase in the negative contribution of mobile phone charges. However, this revision is merely a reflection of a temporary price change in one specific component, namely the reduction in mobile phone charges. When excluding temporary factors such as the reduction in mobile phone charges and the rise in energy prices -- these prices tend to be highly volatile by nature -- the year-on-year rate of change in the CPI has been slightly positive (Chart 4). Therefore, I find the underlying trend in prices to be unchanged, although how a temporary shortfall in prices affects people's inflation expectations should be carefully monitored.

Turning to the outlook for prices, the year-on-year rate of change in the CPI (all items less fresh food) is likely to turn slightly positive, mainly due to the rise in energy prices, and then increase gradually on the back of (1) an improvement in the output gap with further normalization of economic activity owing to progress with vaccinations and (2) a dissipation of the effects of the reduction in mobile phone charges. As for the effects of a rise in international commodity prices, despite a substantial increase in the year-on-year rate of change in the producer price index (PPI), the passing on of costs to consumer prices is limited at this point. However, if economic activity normalizes further, a rise in consumer prices may be observed more widely with an improvement in the output gap.

Nevertheless, the outlook for economic activity and prices entails high uncertainties associated with the resurgence of COVID-19 caused in particular by variants. Indeed, some regions in Japan have been given no choice but to retighten their public health measures due to the spread of the Delta variant within the country since summer 2021. I think that this caused the normalization of economic activity to be somewhat delayed. Close attention continues to be warranted on downside risks to economic activity stemming from the spread of variants, including the impact on supply chains, particularly for automobile-related goods.

II. Monetary Policy

A. Policy Responses to Achieve the Price Stability Target

Let me now turn to the Bank of Japan's policy conduct.

In order to achieve the price stability target of 2 percent, the Bank introduced quantitative and qualitative monetary easing (QQE) in April 2013. Thereafter, in response to developments in economic activity and prices, it has continued to enhance monetary easing through the following frameworks, based on its assessment of policy effects. In January 2016, the Bank introduced a negative interest rate under QQE with a Negative Interest Rate. Then in September 2016, it introduced QQE with Yield Curve Control; in this framework it (1) set short- and long-term interest rates as a target for market operations (i.e., yield curve control) and (2) adopted the inflation-overshooting commitment, in which it commits to continuing to expand the monetary base until the year-on-year rate of increase in the observed CPI (all items less fresh food) exceeds 2 percent and stays above the level in a stable manner.

B. Policy Responses to COVID-19

In March 2020, due to the impact of COVID-19, financial markets became unstable with investors' risk sentiment having deteriorated, and firms' financial positions weakened. In this situation, with a view to supporting financing, mainly of firms, and maintaining stability in financial markets, the Bank decided to take the following three measures (Chart 5): (1) the Special Program to Support Financing in Response to the Novel Coronavirus (COVID-19) to provide support mainly for corporate financing; (2) an ample and flexible provision of funds, mainly by purchasing Japanese government bonds (JGBs) and conducting the U.S. dollar funds-supplying operations, to ensure stability in financial markets; and (3) active purchases of exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) to lower risk premia in asset markets.

These measures have been significantly effective in improving firms' financial positions and stabilizing financial markets. In fact, although there is still weakness in firms' financial positions, the environment for external funding, such as bank borrowing and the issuance of CP and corporate bonds, has remained accommodative. Let me also note that financial markets, which temporarily became highly volatile in spring 2020, subsequently regained stability on the whole and remain stable today (Chart 6).

The Bank decided at the June 2021 Monetary Policy Meeting (MPM) to extend the duration of the Special Program, which had initially been set to expire at the end of September 2021, by six months until the end of March 2022, thereby continuing to support financing, mainly of firms. The Special Program is to be scaled back if the impact of COVID-19 on economic activity dissipates sufficiently, but the decision whether to do so should be made with caution. At the moment, it is still unclear how the pandemic will affect the future course of economic activity, given the impact of the spread of variants in particular. The Bank will make appropriate judgments on the treatment of the Special Program while taking account of the COVID-19 situation.

C. Further Effective and Sustainable Monetary Easing

In the meantime, COVID-19 affected Japan's economy as a whole by exerting strong downward pressure on economic activity and prices. This implies that it is now expected to take even more time to achieve the price stability target of 2 percent. Based on this recognition, the Bank examined policy effects and released its findings in the Assessment for Further Effective and Sustainable Monetary Easing in March 2021. In order to further enhance the sustainability of monetary easing and to respond more nimbly and effectively to changes in economic activity, prices, and financial conditions, the Bank decided to make the following adjustments to its monetary policy (Chart 7).

First, with a view to enabling it to cut short- and long-term interest rates nimbly while considering the impact on the functioning of financial intermediation, the Bank established the Interest Scheme to Promote Lending. In this scheme, the Bank applies certain interest rates, which are linked to the short-term policy interest rate, as an incentive to financial institutions' current account balances, corresponding to the amount outstanding of funds that have been provided through its various fund-provisioning measures to promote the institutions' lending.

Second, in order to conduct yield curve control more flexibly, the Bank made clear that the range of 10-year JGB yield fluctuations -- which was previously between "about double the range of around plus and minus 0.1 percent" from the target level -- will be between around plus and minus 0.25 percent. At the same time, it introduced "fixed-rate purchase operations for consecutive days" as a powerful tool to stop a rise in interest rates when necessary.

Third, regarding ETF and J-REIT purchases, the Bank decided to maintain the upper limits on annual paces of increase in the amounts outstanding of these assets at about 12 trillion yen and about 180 billion yen, respectively, even after COVID-19 subsides, although these limits were originally set in March 2020 as a temporary measure in response to COVID-19. With these upper limits in place, the Bank decided to conduct such purchases flexibly in a prioritized manner, depending on market conditions at the time. This decision reflects one of the findings in the Assessment released in March 2021 that the contribution of ETF and J-REIT purchases in stabilizing the market by lowering risk premia is greater when financial markets are more unstable.

As I will discuss in more detail later, with the dissipation of the impact of COVID-19 and progress in shifts toward economic normalization, central banks around the world are currently advancing toward ending or scaling back the monetary easing measures that they had adopted in response to the pandemic. However, in the case of Japan, even if the pandemic subsides, it is expected to take a considerable time for the achievement of the 2 percent price stability target to become feasible and monetary easing to be scaled back. This is because there remain significant effects of the entrenched deflationary mindset among economic entities due to the experience of prolonged deflation. In such a situation, I believe that it is of utmost importance that the Bank persistently continue with the current monetary easing measures.

D. Responses to Climate Change

Next, let me turn to various challenges related to responses to climate change.

It goes without saying that climate change is a global challenge that will have a broad impact on our society and economic activity into the future. If firms and households do not coordinate their economic activities to sufficiently reduce greenhouse gas emissions, this could result in rising temperatures and a further increase in large-scale natural disasters globally. These are the social costs of climate change. At the same time, society will also need to bear a certain amount of costs to mitigate climate change. Therefore, in principle, it is the role of the democratically elected government and legislative bodies to make policy decisions in this regard.

Why, then, are many major central banks showing strong interest in climate change issues today? This is because it is increasingly likely that climate change will significantly affect the macroeconomy in ways that will pose a threat to the most fundamental mandate of central banks -- namely, to achieve price stability and ensure the stability of the financial system. Against this background, in order to support private financial institutions' various efforts in fields related to climate change, the Bank decided at the MPM held in June 2021 to introduce a new fund-provisioning measure, through which it will provide funds to financial institutions for investment or loans that they make to address climate change issues based on their own decisions; the details of the measure were then decided at the September MPM (Chart 8).

However, the external environment surrounding climate change is currently extremely uncertain. Moreover, we have not necessarily gained a sufficient understanding of the specific effects that climate change will have on the macroeconomy. Thus, I personally consider it essential that the Bank carry out further research and study. I also believe that it will be important for the Bank to respond flexibly to changes in circumstances and the latest findings, while upholding its mandate as the central bank (Chart 9).

III. Economic Outlook on the Path toward Overcoming the COVID-19 Pandemic

A. The Global Economy amid Progress toward Overcoming the Pandemic

The global economy, including Japan, appears to have entered a transitional period, as countries make progress toward overcoming the COVID-19 pandemic and returning to a normalized economy and daily life. It should be noted, however, that the stage of progress toward normalization varies significantly across countries. Simply put, I think that this is because there is unevenness between countries in terms of how far vaccinations have progressed and to what extent governments have provided fiscal support to address the pandemic. In order to achieve economic normalization, it is above all necessary that COVID-19 subside; at present, this depends on progress with vaccinations. Moreover, I consider that sufficient fiscal support from the government is indispensable for minimizing the economic fallout of the pandemic for households and firms and for realizing the earliest possible return to their normal economic activities.

Of course, even if people are vaccinated, this cannot eliminate the possibility that the spread of COVID-19 will not be adequately contained. In fact, countries such as Israel, the United Kingdom, and the United States that took the lead in vaccinations, after seeing a plunge in the number of confirmed cases, have once more struggled with new spikes in cases caused by the global spread of COVID-19 variants. Significant uncertainty remains over what economic impact the spread of these highly contagious variants will have.

Still, although COVID-19 variants have brought about uncertainties, the global economy is heading toward realizing normalization triggered by progress with vaccinations; so far, this underlying trend remains generally intact. Thus, if we take a close look at what has happened to economic activity in countries that have taken the lead in their vaccination efforts, we can make reasonable predictions as to what the economic situation in Japan will be after vaccinations have made adequate headway.

Based on the experience of these countries, at least before the outbreak of the Delta variant, once a country has achieved a certain level of vaccination coverage, people begin to go outside more often and economic activity starts to make rapid progress toward normalization. The period immediately following this return to economic normalization is marked most notably by the emergence of so-called pent-up demand. This occurs when, after having been held in check by public health measures and vigilance against the risk of being infected with COVID-19, there is a surge in private consumption once these constraints are lifted. Underpinning this demand are excess savings in the private sector that have been accumulated due to individuals curbing consumption and to subsidies and other forms of government fiscal support.[1]

As a result, while being affected by supply-side constraints, there have been upswings in consumer prices in the United States and the United Kingdom since spring 2021, when vaccinations progressed in those countries (Chart 10). This has been especially apparent in the United States, where the rate of increase in consumer prices has been 5 percent or above since May. Moreover, both the United States and the United Kingdom have seen a scramble for labor as the number of job openings at firms, mainly for face-to-face services, has expanded rapidly due to the surge in demand. This, in turn, has led to rising wages for workers (Charts 11 and 12).

However, numerous experts around the world, including policymakers, believe that upswings in prices and in wages, particularly for the face-to-face services sector, seen in the United States and the United Kingdom are only temporary and will gradually come under restraint as their economies head toward normalization. It is true that some experts disagree, characterizing the situation as not necessarily transient or as one that could lead to 1970s-type

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[1] The Cabinet Office's *World Economic Trends I* (*The 2021 Spring/Summer Report*), released in August 2021 and currently available only in Japanese, indicates that accumulated excess savings from the January-March quarter of 2020 to date are estimated at 2.5 trillion U.S. dollars for the United States (12.0 percent of GDP), 0.68 trillion euros for the euro area (4.4 percent of GDP), and 35.9 trillion yen for Japan (6.7 percent of GDP).

elevated inflation, but these positions remain in the minority. In other words, the majority of experts consider that, as the voluntary unemployment and reduced labor force participation that occurred amid the pandemic recede and constraints on the supply of goods and services ease, upswings in prices and wages will naturally level out.

Still, even if upswings in prices and wages are to be suppressed over the medium to long term, the fact that such elevated inflation is already ongoing itself carries great economic significance. The reason for this is that global macroeconomic conditions since the 2000s have been characterized by sustained low inflation and low interest rates. This state was conceptualized by former Federal Reserve Chair Ben S. Bernanke as a "global savings glut" and by former U.S. Treasury Secretary Lawrence H. Summers as "secular stagnation." The elevated inflation rates currently occurring in the United States and elsewhere are clear anomalies in terms of these hypotheses. In my view, this has come as a big surprise, and not necessarily an unwelcome one, to the many policymakers who had continued to face historically low interest rates prior to the pandemic.

B. Monetary Policy on the Path toward Overcoming the Pandemic

As the economic situation unfolds on the path toward eventually overcoming the COVID-19 pandemic, the key issue is what implications the shift in economic conditions will have for future conduct of monetary policy. If we take a close look at the policy trends of each country, the direction is fairly clear. As respective economies make progress toward normalization, central banks are trying to phase out the monetary easing measures they developed to shore up the economy against the pandemic. While keeping an eye on the outlook for prices, they are beginning to look for the appropriate timing for scaling back monetary easing. This suggests that the central banks believe the upward pressure on prices stemming from progress in economic normalization is at least strong enough to obviate the need for current levels of monetary easing.

At the press conference after the Federal Open Market Committee (FOMC) meeting held in September 2021, Federal Reserve Chair Jerome H. Powell suggested that the FOMC's decision to start a tapering of asset purchases could be made as soon as the subsequent November meeting. Moreover, looking at FOMC participants' projections for the federal funds rate released following the September FOMC meeting, the medians for the projections suggested a rate hike during 2022. As for the Bank of England, the Monetary Policy Committee (MPC) added a statement in its Monetary Policy Summary released after the August MPC meeting as follows: "The Committee judges that, should the economy evolve broadly in line with the central projections in the August *Monetary Policy Report*, some modest tightening of monetary policy over the forecast period is likely to be necessary." At the following meeting in September, the MPC stated in its Monetary Policy Summary: "Some developments during the intervening period appear to have strengthened that case." Elsewhere as well, an increasing number of central banks have already begun scaling back their monetary easing measures, including policy rate hikes, mainly due to inflation concerns (Chart 13).[2]

Of course, there is no guarantee that monetary easing will be pulled back in a linear manner. As mentioned earlier, considerable uncertainty remains over the impact of a resurgence of COVID-19 brought about by variants in particular. Moreover, the durability of upswings in inflation during the early phase of economic normalization will only become clear with the passage of time.

Having said that, over a longer timeframe, the pull back from monetary easing driven by economic normalization is expected to make steady headway, even if there are detours along the way. What seems likely is that central banks will not set the direction and pace of adjustment of their policies in advance. Rather, they will adopt a more flexible approach: if COVID-19 causes inflationary pressure to weaken more than expected, they will put off the process of scaling back monetary easing; if not, they will accelerate the process. This is because, at the end of the day, the sole option for central banks to ensure macroeconomic stability, including price stability, is to adjust their policies according to the situation at the time.

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[2] In this regard, the backgrounds for scaling back monetary easing are not necessarily uniform. Consequently, in Canada, Australia, and elsewhere, they have been scaling back asset purchases, whereas policy rate hikes have taken place in, for example, New Zealand, Norway, Iceland, Hungary, Poland, South Korea, Brazil, Mexico, and Russia.

Even if inflation lasts longer than previously expected, this may not necessarily be problematic. That is to say, many major central banks had previously been shackled by restraints arising from excessively low policy interest rates. Keeping inflation under control is of course always fraught with difficulties. On the other hand, containing inflation ultimately requires raising policy interest rates, so the recent bout of inflation could also be viewed as a golden opportunity to retreat from excessively low policy rates.

C. Importance of the 2 Percent Price Stability Target

I have been speaking in general terms about monetary policy on the path toward overcoming the COVID-19 pandemic, and of course this does not strictly apply to Japan's economy in its current context. The reason is as follows. Owing to the large-scale monetary easing policy that has been implemented for more than eight years since April 2013, Japan's economy is no longer in deflation in the sense of a sustained decline in prices; yet, it was plunged into the pandemic without having achieved the price stability target of 2 percent, the level that was pursued by many major central banks. Therefore, after the pandemic subsides, I believe that it will be necessary for the Bank of Japan to make renewed efforts to address the challenge of achieving the 2 percent price stability target.

As I mentioned earlier, countries whose economies are shifting toward normalization are currently exhibiting upswings in inflation, mainly driven by pent-up demand. Thus, the challenge for monetary policy in these countries is how best to achieve a soft landing in bringing the elevated inflation rates back down to their target levels. Japan, on the other hand, is less likely to see this kind of macroeconomic situation.

Similarly, Japan can expect some expansion in economic activity during the early phase of normalization. This is because, as previously mentioned, it has also seen a considerable buildup of excess savings brought about by curbed consumption and the provision of government fiscal support over the course of the pandemic. If progress with vaccinations leads to a lifting of public health measures and a normalization of economic activity, including face-to-face services, at least some of these excess savings will materialize as pent-up demand.

Nevertheless, given the low underlying inflation in Japan prior to the COVID-19 outbreak, the extent to which pent-up demand will feed into higher prices and wages is expected to be less than in other countries. Moreover, even during the pandemic, Japan has not experienced the kind of rapid surge in unemployment that occurred in the United States, which itself is not at all a negative development. Thus, unlike in the United States, wage and price increases driven by supply-side constraints arising from delayed recovery in the labor force will likely be naturally limited in Japan.

For Japan, the pull back from monetary easing that other central banks are currently beginning to or likely to undertake in response to upswings in inflation will not be a feasible option for the time being. This is because the sole prerequisite for the Bank to scale back monetary easing is that the inflation rate exceeds 2 percent and stays above the target level in a stable manner. Thus, in Japan's case, I believe that the challenge will be to maintain the momentum of the rise in pent-up demand through the continuation of monetary easing, and to harness this momentum toward achieving the 2 percent price stability target.

D. Importance of the Policy Mix of Fiscal and Monetary Policies

Achieving the price stability target of 2 percent has been a tougher-than-expected task for the Bank, in that it has been taking more time than initially anticipated. Nevertheless, my view is that, although it certainly has been taking time, achieving the target is feasible for the following reasons. First, even before the pandemic, Japan's economy was steadily approaching the potential growth path owing to the continuation of monetary easing, as indicated, for example, by the decline in the unemployment rate to the level seen during the end of the bubble period in the early 1990s (Chart 14). Second, there has been growing social awareness that government fiscal support played a major role in underpinning economic activity, which is one of the positive factors induced by the pandemic.

Japan's economy has been struggling with the pandemic for almost two years. Many people must have gone through very difficult times during this period, particularly those in the face-to-face services sector. On the other hand, it is also true that the economy as a whole has managed to stay resilient enough to prevent a marked slowdown. This reflects certain contributions from monetary policy, but it may be fiscal policy that has played a larger role.[3] The size of Japan's COVID-19 fiscal spending as a percentage of GDP is large, similar to that of the United Kingdom, Canada, and Australia, although it is smaller relative to the United States (Chart 15). This is due to the adequate level of social consensus that, in the face of the pandemic, the government should first and foremost provide abundant fiscal support.

Facing the pandemic, countries around the globe, including Japan, have been underpinning economic activity to date by implementing the policy mix of fiscal expansion and monetary easing. I believe that this strategy has had a certain success, at least on the economic front. In my view, this kind of macroeconomic policy regime will continue to be of significance even on the path toward overcoming the pandemic when economic normalization will be a major challenge, or at least until such normalization is completed.[4] In that sense, it can be said that the importance of this policy mix is greater for Japan as it faces the long-standing challenge of fully overcoming deflation, which will be addressed through the achievement of the 2 percent price stability target.

Thank you.

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[3] For example, in a paper by Pierre-Olivier Gourinchas, Şebnem Kalemli-Özcan, Veronika Penciakova, and Nick Sander, "Fiscal Policy in the Age of COVID: Does it 'Get in all of the Cracks?'," prepared for the Federal Reserve Bank of Kansas City's Economic Policy Symposium on "Macroeconomic Policy in an Uneven Economy" in Jackson Hole held on August 27, 2021, using an economic model that incorporated 64 countries and 36 sectors, the authors concluded that the expansion of fiscal spending had contributed to recoveries in demand-constrained sectors.

[4] In this regard, it was agreed at the Group of Seven (G7) Finance Ministers and Central Bank Governors Meeting and the subsequent leaders' summit held in June 2021 that they would continue to support their economies for as long as was necessary to achieve economic recovery.

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Chart 1

IMF Forecasts for Global Growth

real GDP growth rate, y/y % chg.

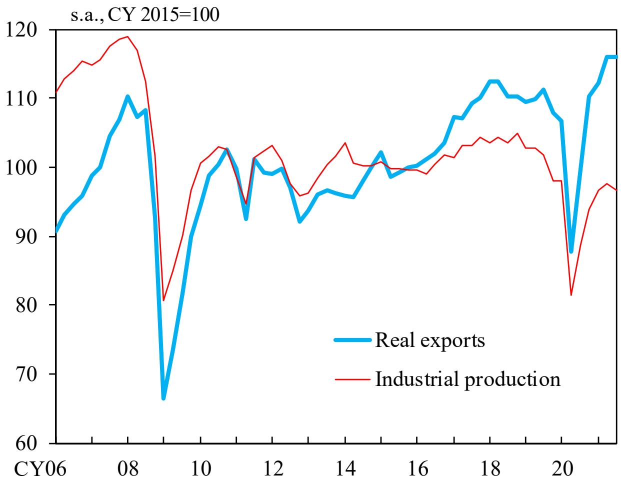
	2019	2020	2021 projection	2022 projection
World	2.8	-3.1	5.9	4.9
Advanced economies	1.7	-4.5	5.2	4.5
United States	2.3	-3.4	6.0	5.2
Euro area	1.5	-6.3	5.0	4.3
United Kingdom	1.4	-9.8	6.8	5.0
Japan	0.0	-4.6	2.4	3.2
Emerging market and developing economies	3.7	-2.1	6.4	5.1
China	6.0	2.3	8.0	5.6
ASEAN-5	4.9	-3.4	2.9	5.8

Note: Figures are as of October 2021.
Source: IMF.

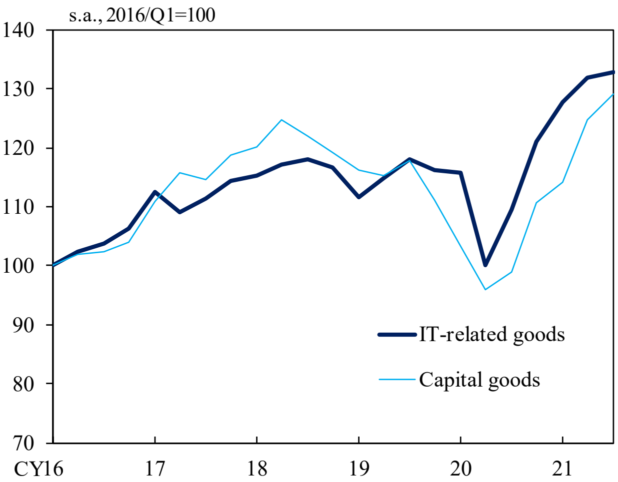
Chart 2

Exports and Production

Real Exports and Industrial Production



Real Exports by Type of Goods



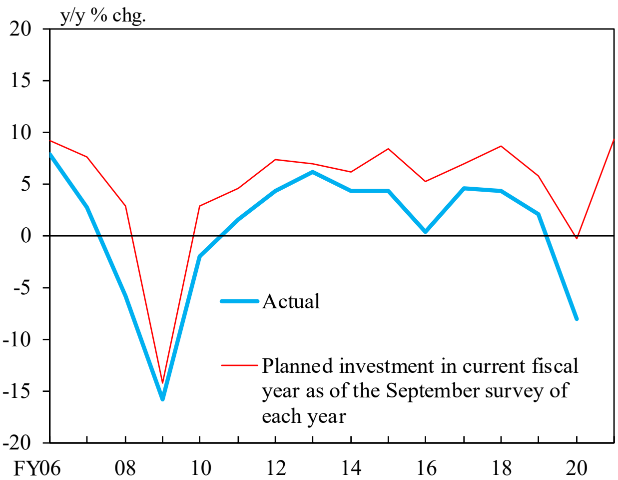
Sources: Ministry of Economy, Trade and Industry; Bank of Japan.

Chart 3

Corporate Profits and Business Fixed Investment

Corporate Profits

Business Fixed Investment (*Tankan*)



Notes: 1. Figures in the left panel are based on the *Financial Statements Statistics of Corporations by Industry, Quarterly*, and exclude "finance and insurance." Figures from 2009/Q2 onward exclude pure holding companies.
2. Figures in the right panel are based on the *Tankan* (Short-Term Economic Survey of Enterprises in Japan), including software and R&D investments, but excluding land purchasing expenses. R&D investment is not covered as a survey item before the March 2017 survey. The figures are for all industries and enterprises including financial institutions.

Sources: Ministry of Finance; Bank of Japan.

Chart 4

Consumer Prices

y/y % chg.

	21/Q1	21/April	May	June	July	August
CPI for all items	-0.5	-1.1	-0.8	-0.5	-0.3	-0.4
Less fresh food	-0.5	-0.9	-0.6	-0.5	-0.2	0.0
Adjusted figure	-0.5	0.2	0.5	0.6	0.9	1.0
Less fresh food and energy	0.0	-0.9	-0.9	-0.9	-0.6	-0.5
Adjusted figure	0.0	0.2	0.3	0.3	0.5	0.6

Note: Adjusted figures are Bank staff estimates and exclude the effects of mobile phone charges, the consumption tax hike, policies concerning the provision of free education, and the "Go to Travel" campaign, which covered a portion of domestic travel expenses.
Sources: Ministry of Internal Affairs and Communications; Bank of Japan.

Chart 5

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

Lowering Risk Premia in Asset Markets

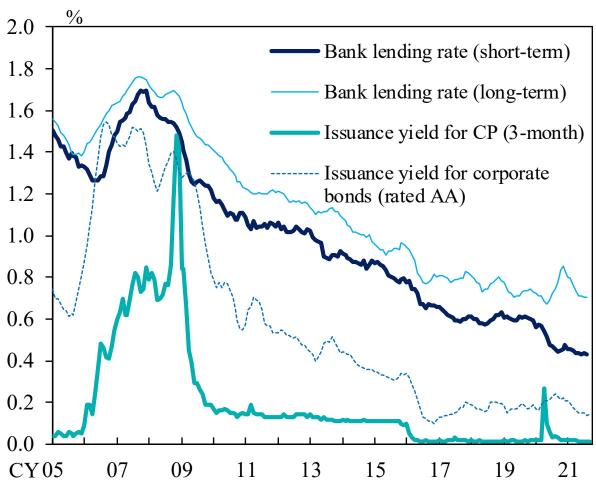
Purchases of ETFs and J-REITs

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

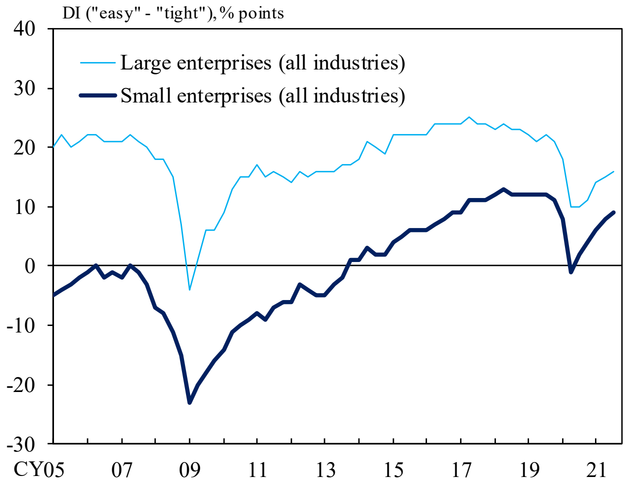
Chart 6

Financial Conditions

Funding Costs



Firms' Financial Positions



Notes: 1. In the left panel, figures for issuance yields for CP through September 2009 are the averages for 3-month CP rated a-1 or higher. Those from October 2009 onward are the averages for 3-month CP rated a-1. Figures for issuance yields for corporate bonds are the averages for domestically issued bonds computed on an issue-date basis. Bonds issued by banks and securities companies, etc., are excluded. Figures for bank lending rates and issuance yields for corporate bonds show 6-month backward moving averages.
2. In the right panel, figures represent the diffusion index (DI) for firms' financial positions in the *Tankan*.

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

Chart 7

Policy Actions to Conduct Further Effective and Sustainable Monetary Easing

Aim: Further effective and sustainable monetary easing
by "enhancing sustainability of monetary easing"
& "nimble responses to 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 (±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 amounts 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' 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 rates	Eligible fund-provisioning measures
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 FIs 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 FIs in Disaster Areas**

Chart 8

Funds-Supplying Operations to Support Financing for Climate Change Responses

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**

Chart 9

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.

Chart 10

Upswings in Consumer Prices Caused by the Reopening of the Economy: OECD Inflation Projections

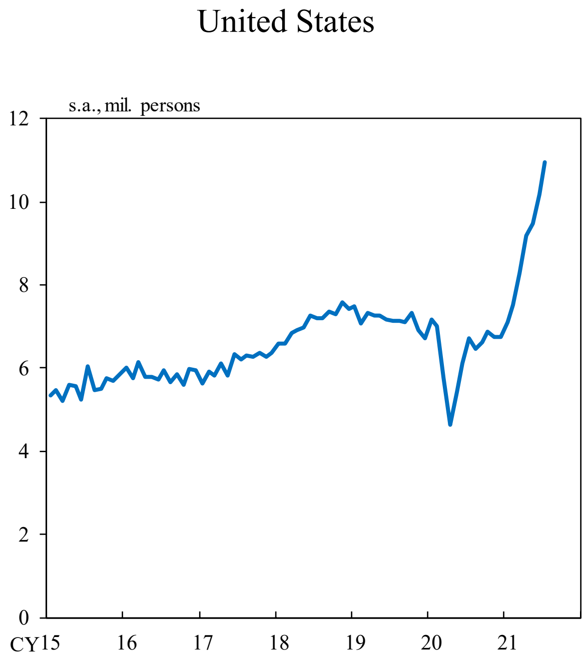
y/y % chg.

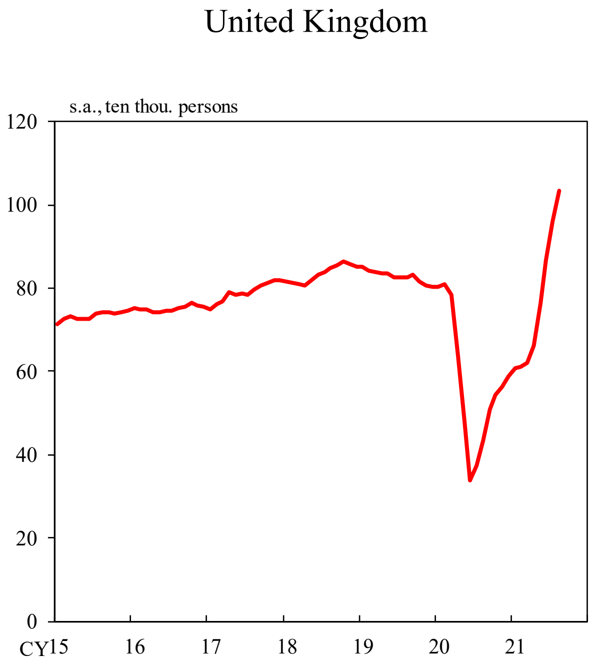
	Headline consumer price inflation			Core consumer price inflation		
	2020	2021 projection	2022 projection	2020	2021 projection	2022 projection
United States	1.2	3.6 (+0.7)	3.1 (+0.5)	1.4	3.1 (+0.6)	2.8 (+0.2)
United Kingdom	0.9	2.3 (+1.0)	3.1 (+1.4)	1.4	2.1 (+1.1)	2.7 (+1.1)
Euro area	0.3	2.1 (+0.3)	1.9 (+0.7)	0.7	1.4 (+0.1)	1.5 (+0.4)

Note: Figures are as of September 2021. Differences from the May 2021 projections are shown in parentheses.
Source: OECD.

Chart 11

Expansion in Job Openings Caused by the Reopening of the Economy



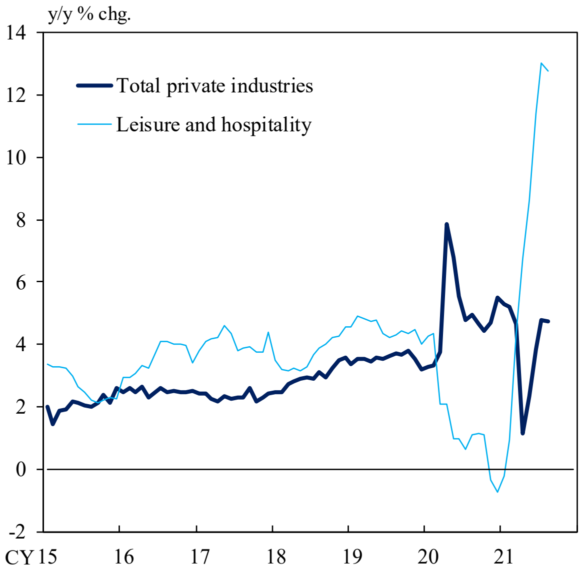


Note: In the right panel, figures are 3-month backward moving averages.
Sources: Bureau of Labor Statistics; Office for National Statistics (ONS).

Chart 12

Rise in Nominal Wages Caused by the Reopening of the Economy

United States (hourly wages)



United Kingdom (weekly wages)

Notes: 1. Figures are those of the private sector.
2. Figures in the right panel are 3-month backward moving averages.
Sources: Haver Analytics; ONS.

Chart 13

Growing Inflation Concerns in Other Countries: OECD Inflation Projections

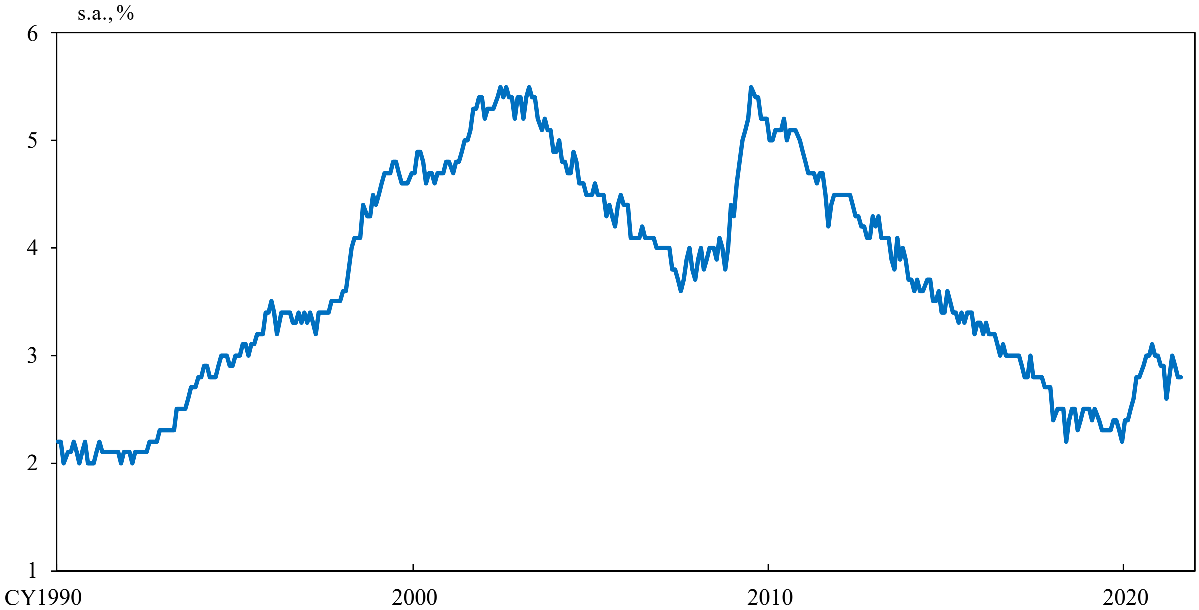
y/y % chg.

	Headline consumer price inflation		
	2020	2021 projection	2022 projection
Canada	0.7	3.1 (+1.1)	2.8 (+1.4)
Australia	0.9	2.3 (+0.3)	1.8 (+0.1)
South Korea	0.5	2.2 (+0.4)	1.8 (+0.4)
Turkey	12.3	17.8 (+1.8)	15.7 (+2.9)
Brazil	3.2	7.2 (+1.0)	4.9 (+0.9)
Mexico	3.4	5.4 (+1.3)	3.8 (+0.7)
Russia	3.4	6.1 (+0.2)	5.5 (+1.0)

Note: Figures are as of September 2021. Differences from the May 2021 projections are shown in parentheses.
Source: OECD.

Chart 14

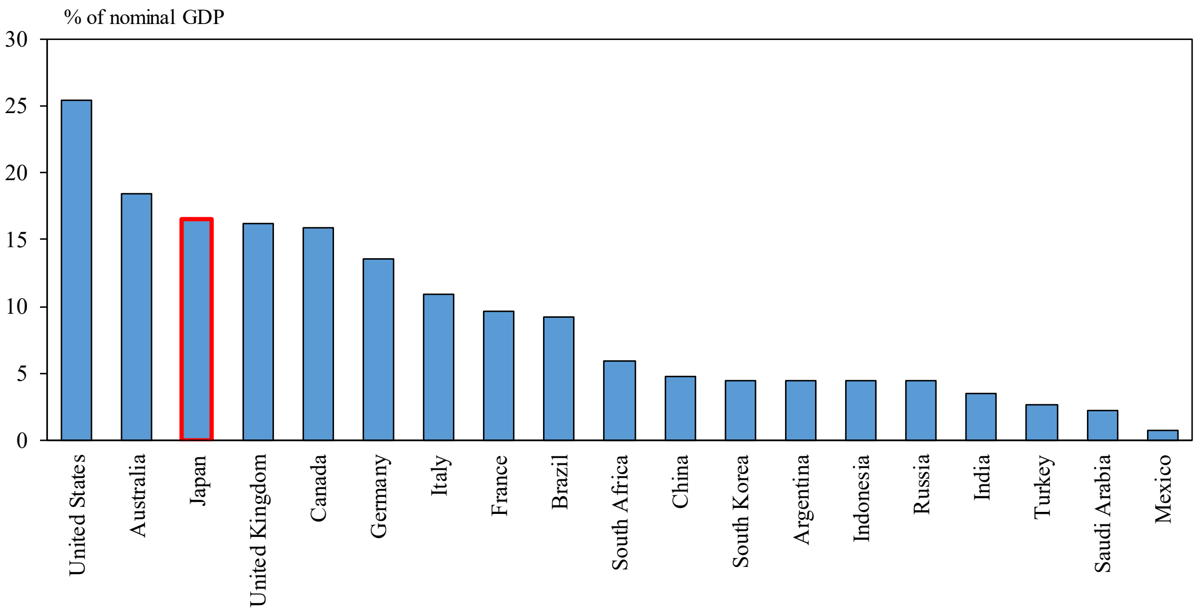
Unemployment Rate in Japan



Source: Ministry of Internal Affairs and Communications.

Chart 15

COVID-19 Fiscal Support in Major Countries



Note: Figures are based on estimates in U.S. dollars released by the IMF in its July 2021 *Fiscal Monitor Database of Country Fiscal Measures in Response to the COVID-19 Pandemic*. They only include fiscal support that affects the fiscal balance immediately. Tax deferrals, government guarantees for banks, firms, and households, etc. are excluded.
Source: IMF.