



# Economic Activity, Prices, and Monetary Policy in Japan

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

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Chart 1

## IMF Forecasts for Global Growth

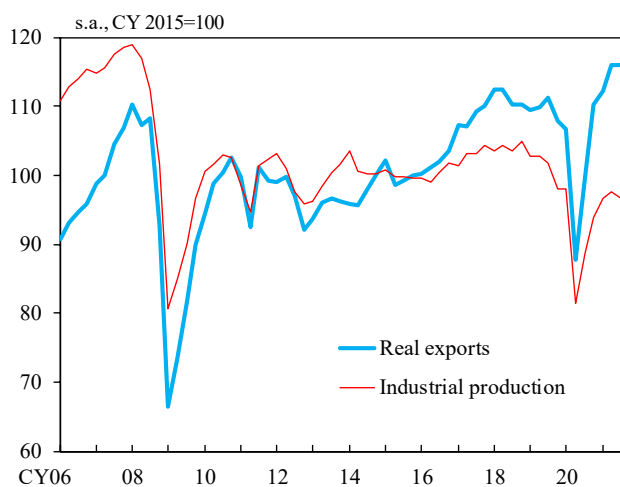
real GDP growth rate, y/y % chg.

	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

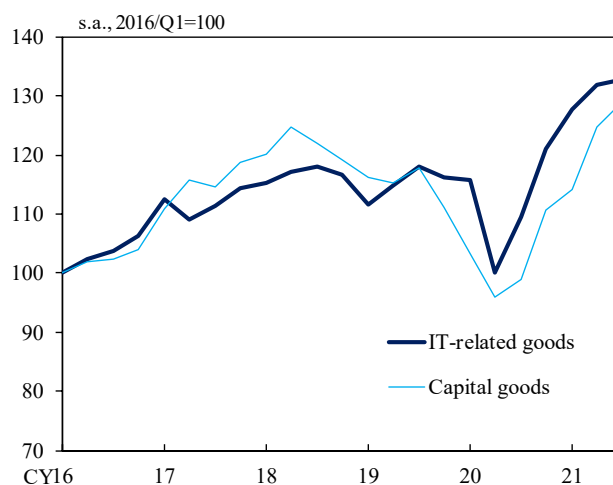
Note: Figures are as of October 2021.  
Source: IMF.

# Exports and Production

Real Exports and Industrial Production



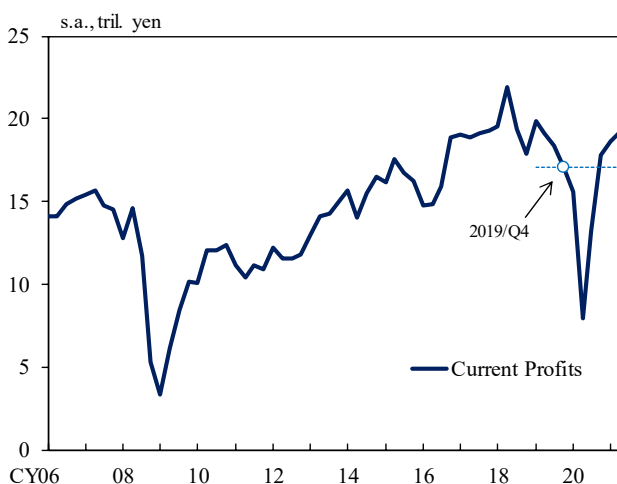
Real Exports by Type of Goods



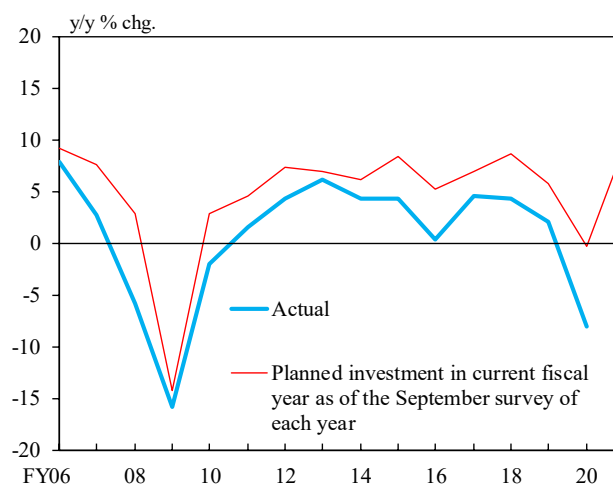
Sources: Ministry of Economy, Trade and Industry; Bank of Japan.

# 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.

## 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.

## 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

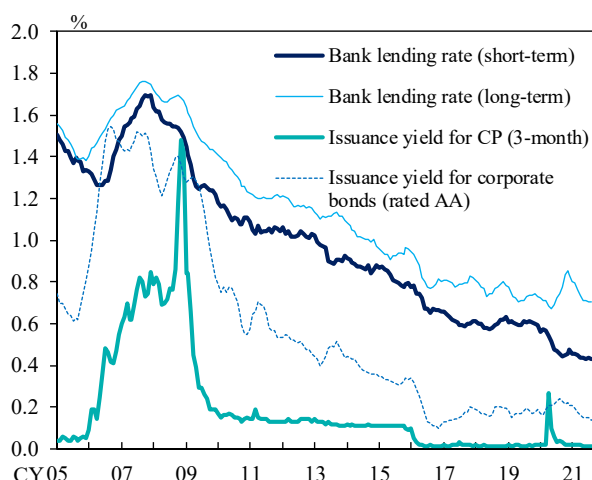
#### Purchases of ETFs and J-REITs

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

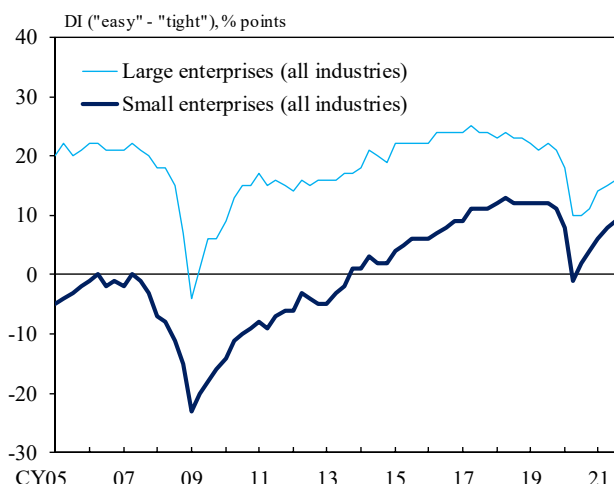
J-REITs: annual pace with an upper limit of about 180 bil. yen

# 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.

# 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 ( $\pm 0.25\%$ )

- 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 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

## 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

## 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.

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

y/y % chg.

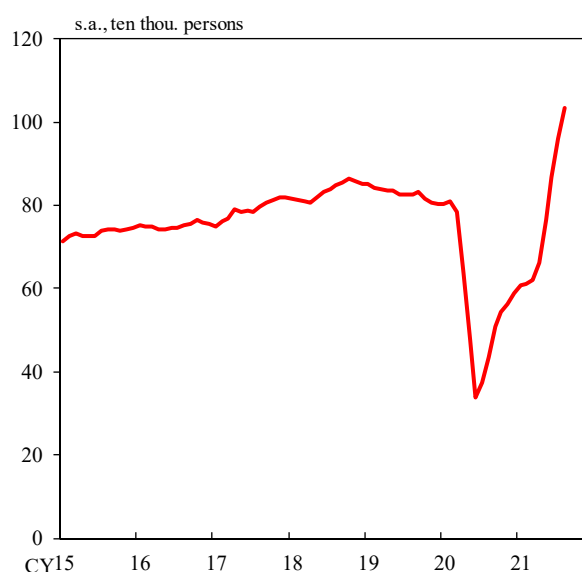
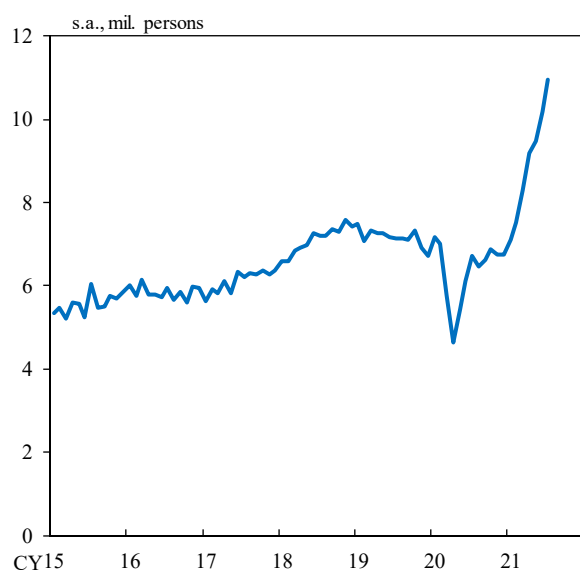
	Headline consumer price inflation			Core consumer price inflation		
	2020	2021 projection	2022 projection	2020	2021 projection	2022 projection
United States	1.2	3.6 (+0.7)	3.1 (+0.5)	1.4	3.1 (+0.6)	2.8 (+0.2)
United Kingdom	0.9	2.3 (+1.0)	3.1 (+1.4)	1.4	2.1 (+1.1)	2.7 (+1.1)
Euro area	0.3	2.1 (+0.3)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

## Expansion in Job Openings Caused by the Reopening of the Economy

United States

United Kingdom

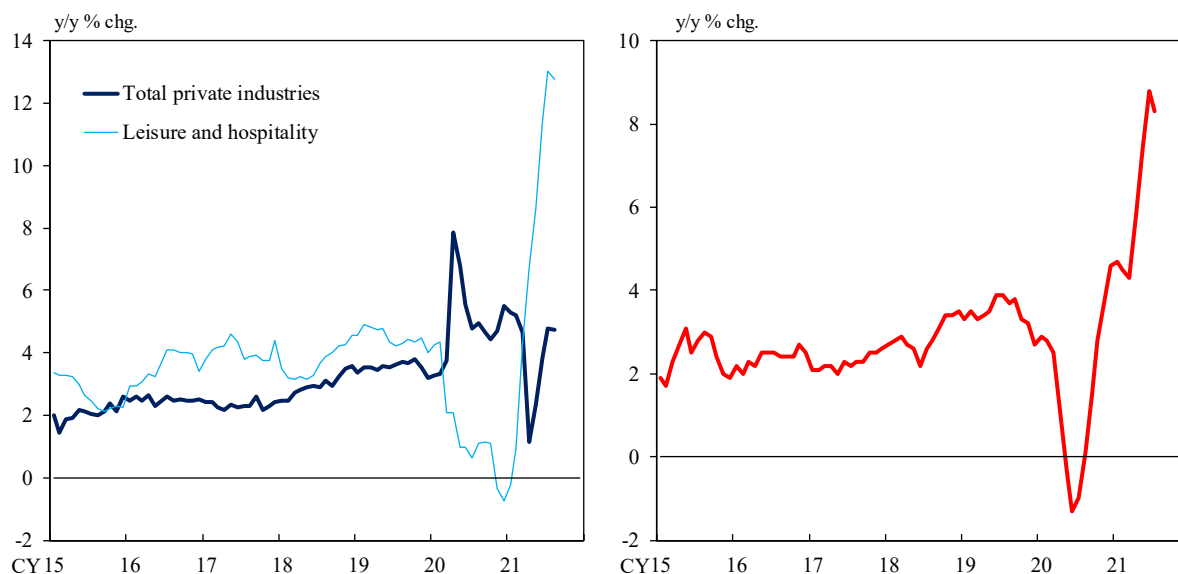


Note: In the right panel, figures are 3-month backward moving averages.  
Sources: Bureau of Labor Statistics; Office for National Statistics (ONS).

## 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.

## Growing Inflation Concerns in Other Countries: OECD Inflation Projections

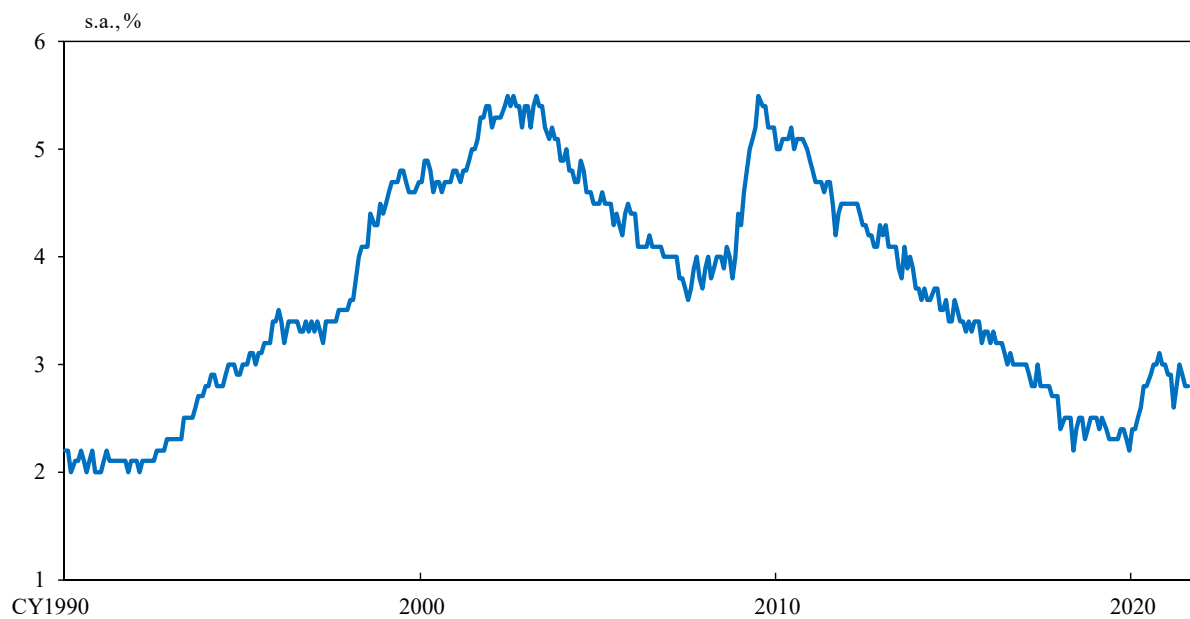
y/y % chg.

	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.

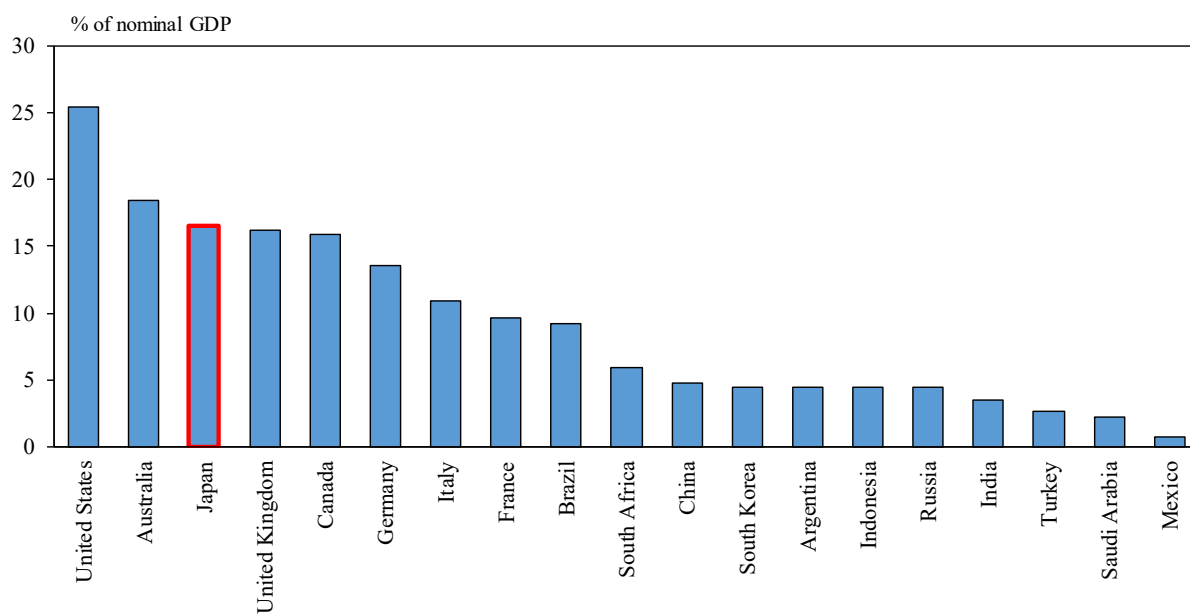
Source: OECD.

## Unemployment Rate in Japan



Source: Ministry of Internal Affairs and Communications.

## 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.