



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

*Speech at a Meeting with Local Leaders in Hyogo*

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# IMF *World Economic Outlook*

(as of October 2021)

real GDP growth rate, y/y % chg.

CY	2020	2021 projection	2022 projection
World	-3.1	5.9	4.9
Advanced economies	-4.5	5.2	4.5
United States	-3.4	6.0	5.2
Euro area	-6.3	5.0	4.3
United Kingdom	-9.8	6.8	5.0
Japan	-4.6	2.4	3.2
Emerging market and developing economies	-2.1	6.4	5.1
Emerging and developing Asia	-0.8	7.2	6.3
China	2.3	8.0	5.6
ASEAN-5	-3.4	2.9	5.8
Russia	-3.0	4.7	2.9
Latin America and the Caribbean	-7.0	6.3	3.0

Source: IMF, "World Economic Outlook."

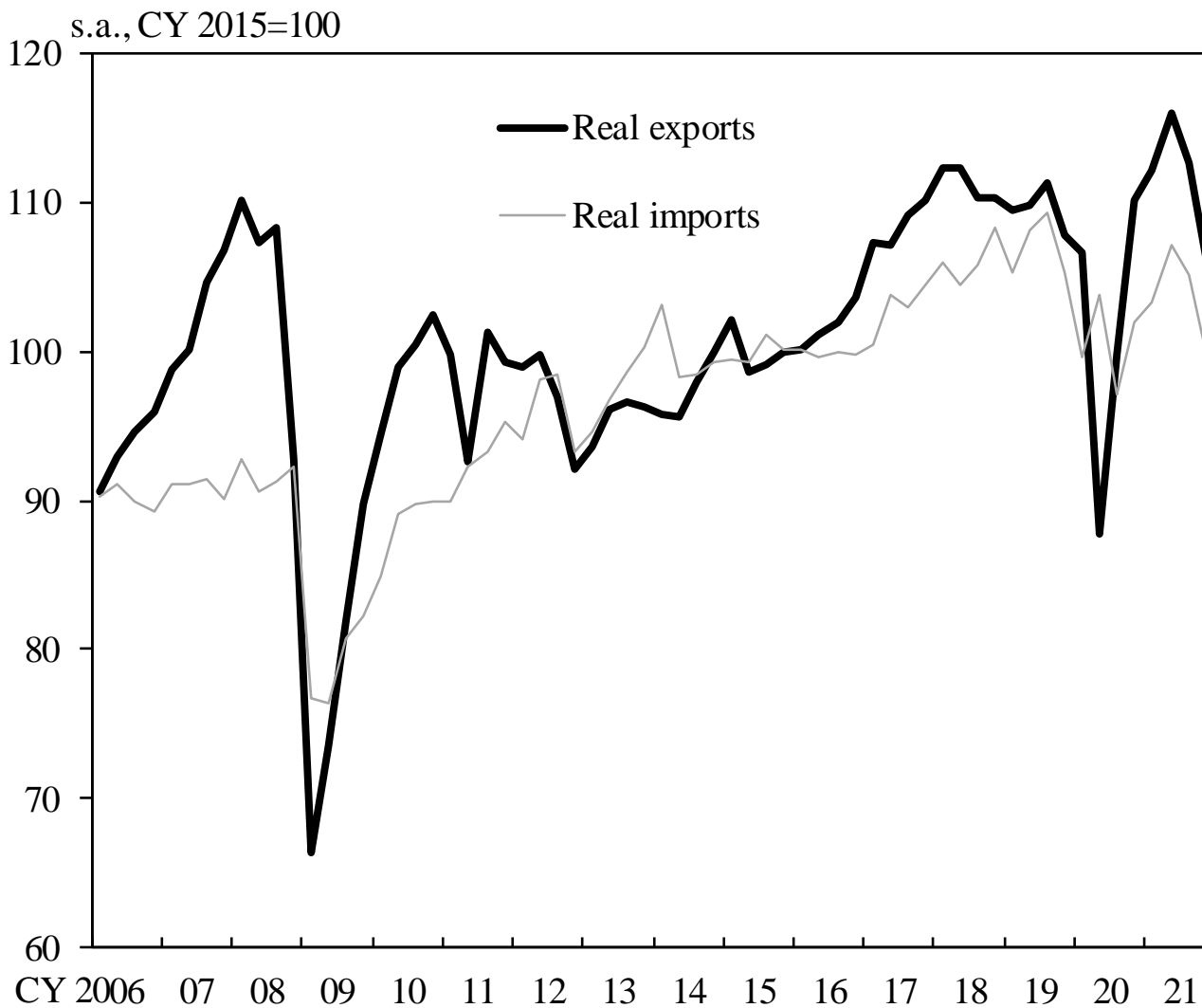
# Japan's Real GDP

s.a., q/q % chg.

	2020		2021		
	Q3	Q4	Q1	Q2	Q3
Real GDP	5.4	2.8	-1.1	0.4	-0.8
[ann., q/q]	[23.5]	[11.8]	[-4.1]	[1.5]	[-3.0]
Private consumption	5.3	2.2	-1.3	0.9	-1.1
Consumption of households (excluding imputed rent)	6.5	2.7	-1.6	1.1	-1.4
Private non-residential investment	-2.2	4.3	-1.0	2.2	-3.8
Private residential investment	-5.7	-0.0	1.1	2.0	-2.6
Public demand	2.5	1.6	-1.6	0.4	0.6
Exports of goods & services	7.4	11.7	2.4	3.2	-2.1

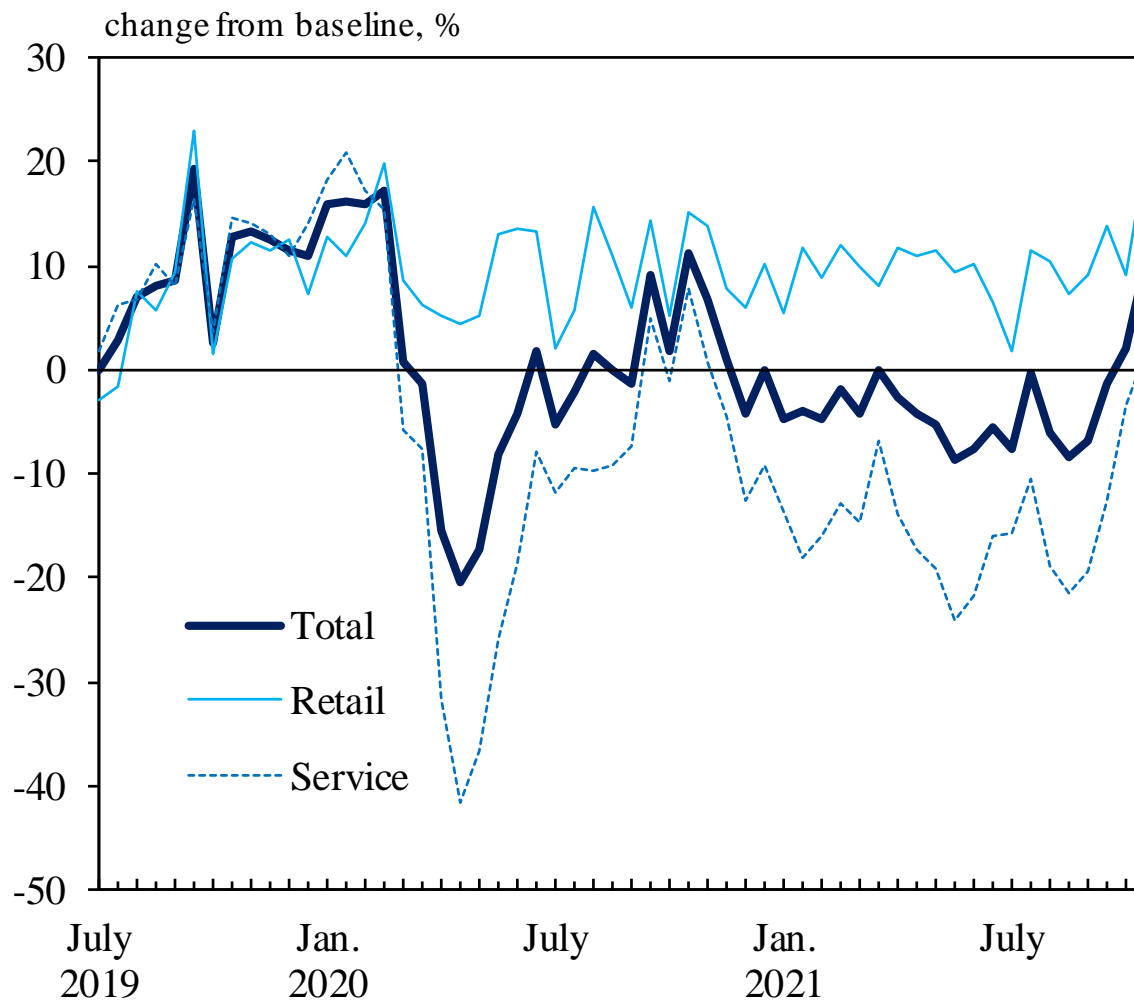
Source: Cabinet Office.

# Real Exports and Real Imports



Sources: Ministry of Finance; Bank of Japan.  
 Note: Figures for 2021/Q4 are those for October.

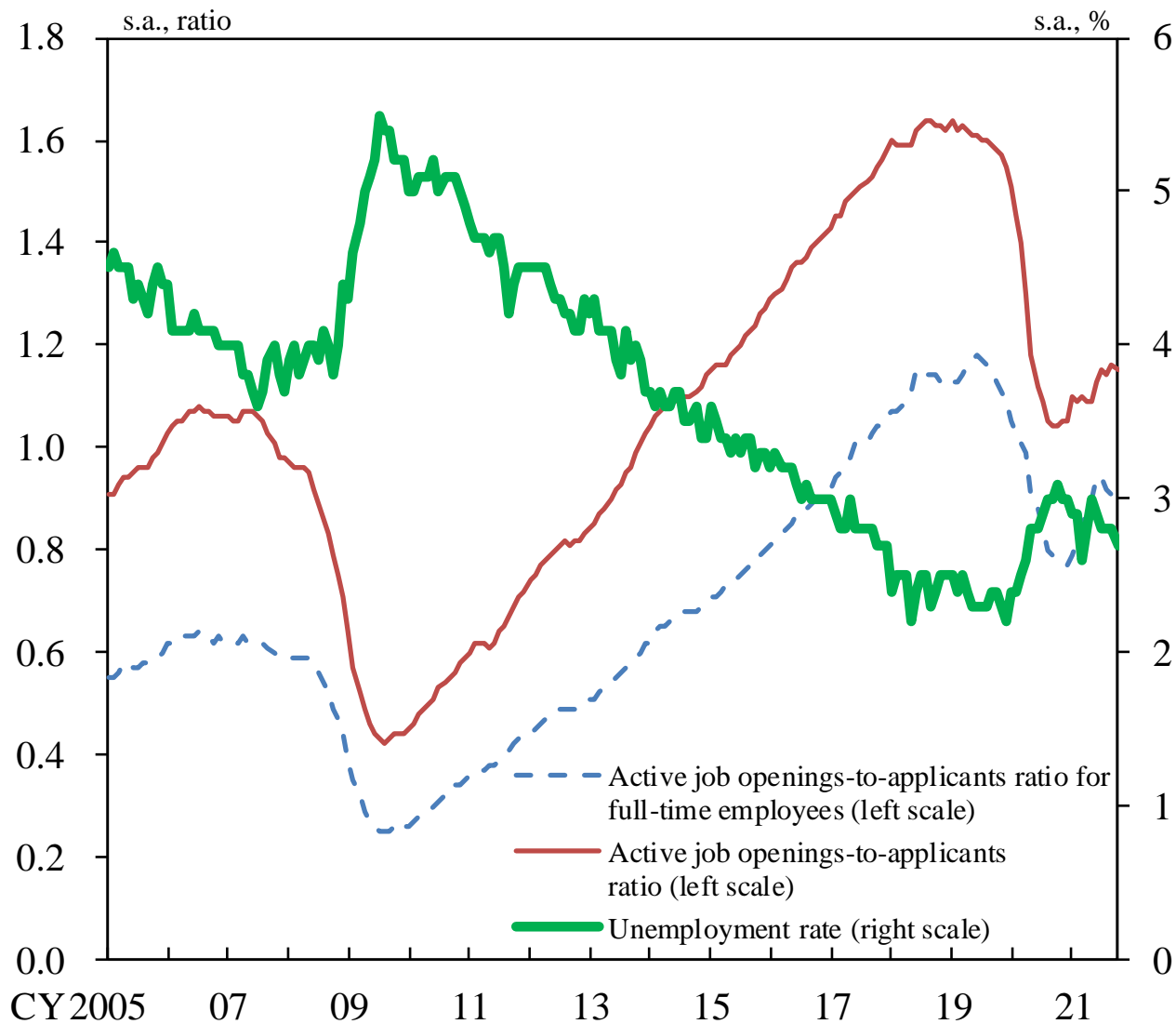
# Consumption Developments Based on Credit Card Spending



Source: Nowcast Inc./ JCB, Co., Ltd., "JCB Consumption NOW."

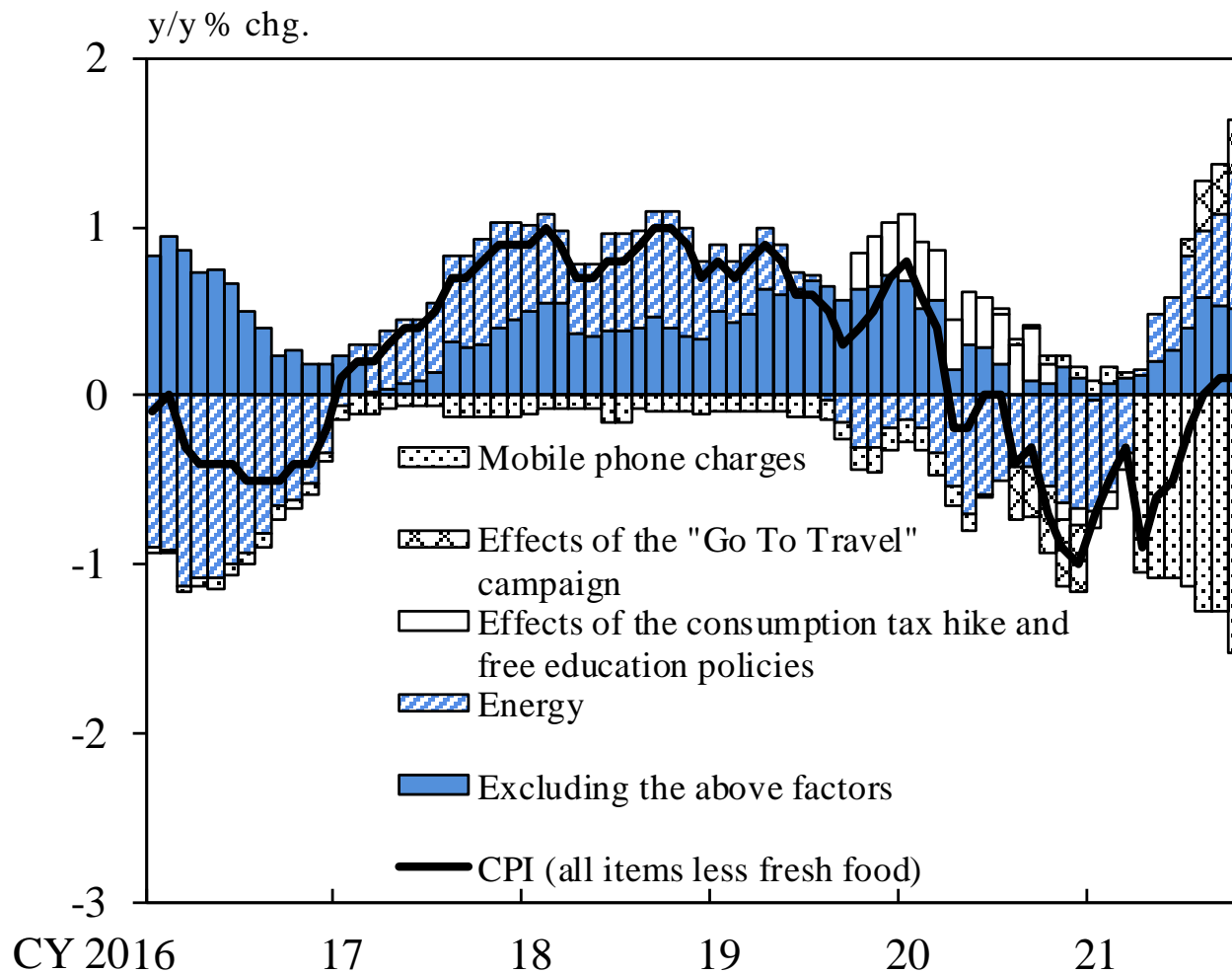
- Notes: 1. Figures are from the reference series in *JCB Consumption NOW*, which takes changes in the number of consumers into account.  
 2. The baseline is the average for the corresponding half of the month for 2016 through 2018.

# Labor Market Conditions



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

# CPI (All Items Less Fresh Food)

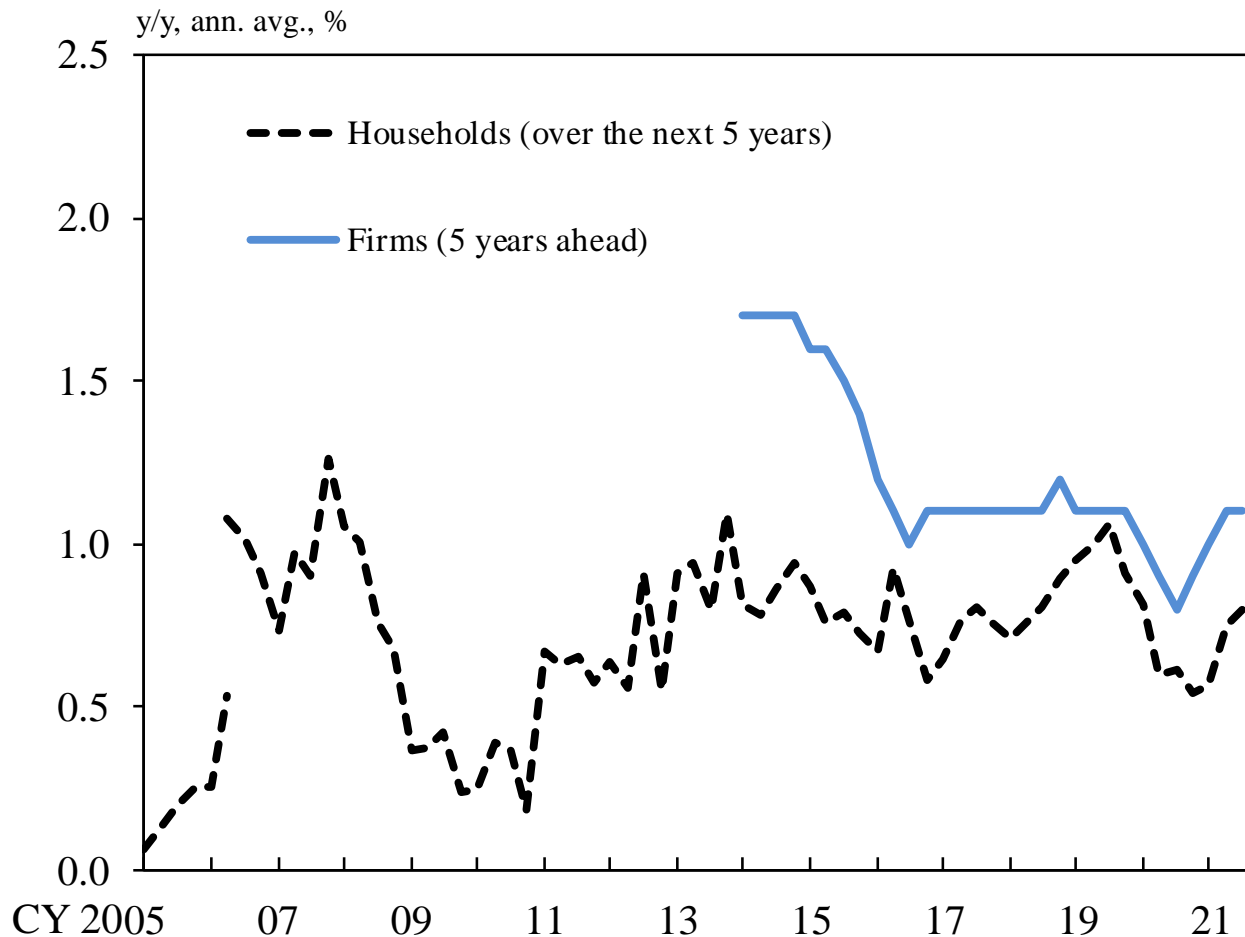


Source: Ministry of Internal Affairs and Communications.

Notes: 1. Figures for energy consist of those for petroleum products, electricity, and manufactured and piped gas charges.

2. Figures for the "effects of the consumption tax hike and free education policies" from April 2020 onward are Bank staff estimates and include the effects of measures such as free higher education introduced in April 2020.

# Inflation Expectations



Source: Bank of Japan.

Notes: 1. Figures for households are from the *Opinion Survey on the General Public's Views and Behavior*, estimated using the modified Carlson-Parkin method.

2. Figures for firms are those for general prices in the Average of Enterprises' Inflation Outlook for all industries and enterprises in the *Tankan*.



# Outlook for Economic Activity and Prices as of October 2021

## Forecasts of the Majority of Policy Board Members

y/y % chg.

	Real GDP	CPI (all items less fresh food)
Fiscal 2021	+3.0 to +3.6 [+3.4]	0.0 to +0.2 [0.0]
Forecasts made in July 2021	+3.5 to +4.0	+0.3 to +0.6
Fiscal 2022	+2.7 to +3.0 [+2.9]	+0.8 to +1.0 [+0.9]
Forecasts made in July 2021	+2.6 to +2.9	+0.8 to +1.0
Fiscal 2023	+1.2 to +1.4 [+1.3]	+0.9 to +1.2 [+1.0]
Forecasts made in July 2021	+1.2 to +1.4	+0.9 to +1.1

Source: Bank of Japan, "October 2021 Outlook for Economic Activity and Prices."

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.
3. The reduction in mobile phone charges by major carriers conducted in spring 2021 is estimated to directly push down the CPI for fiscal 2021 by around 1.1 percentage points.
4. In August 2021, the base year of the CPI was changed from 2015 to 2020, and figures for the year-on-year rate of change from January 2021 onward were retroactively revised. Accordingly, the year-on-year rate of change in the CPI for all items excluding fresh food for the April-June quarter of 2021 was revised downward by around 0.7 percentage points; namely, from around 0.1 percent (2015-base) to minus 0.6 percent (2020-base). This is mainly because the negative contribution of mobile phone charges to the CPI expanded from around 0.6 percentage points to around 1.1 percentage points. The changes to the CPI forecasts in the October 2021 Outlook Report from the previous ones are largely attributable to the rebasing of the CPI.

# 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**

# 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.

# 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**

# Policy Actions to Conduct

## Further Effective and Sustainable Monetary Easing

Chart 12

**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' (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 rates	Eligible fund-provisioning measures
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>