

Monetary Policy and Firms' Behavior: Transmission Channels of Monetary Policy and Japanese Firms' Structural Changes

*Speech at the Meeting of Councillors of Nippon Keidanren
(Japan Business Federation) in Tokyo*

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Introduction

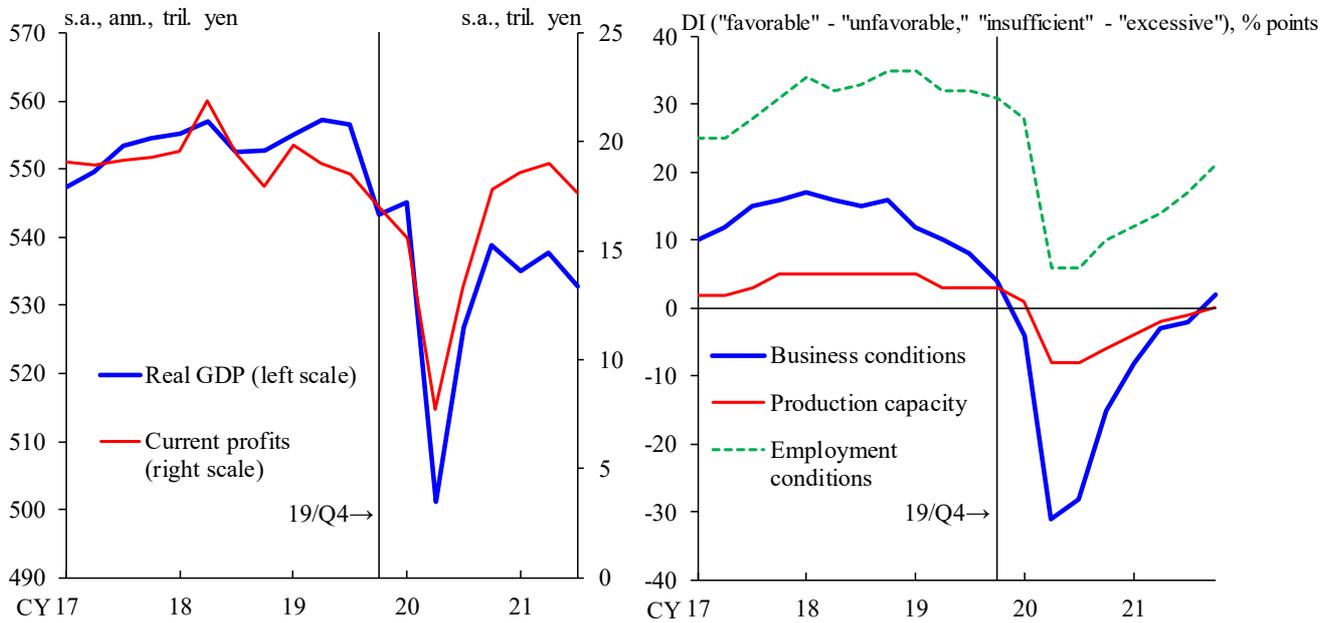
- I. Transmission Channels of Monetary Policy
- II. Toward Strengthening Japan's Economic
Growth Potential and Achieving the Price
Stability Target

Conclusion

Economic Developments since the Outbreak of COVID-19

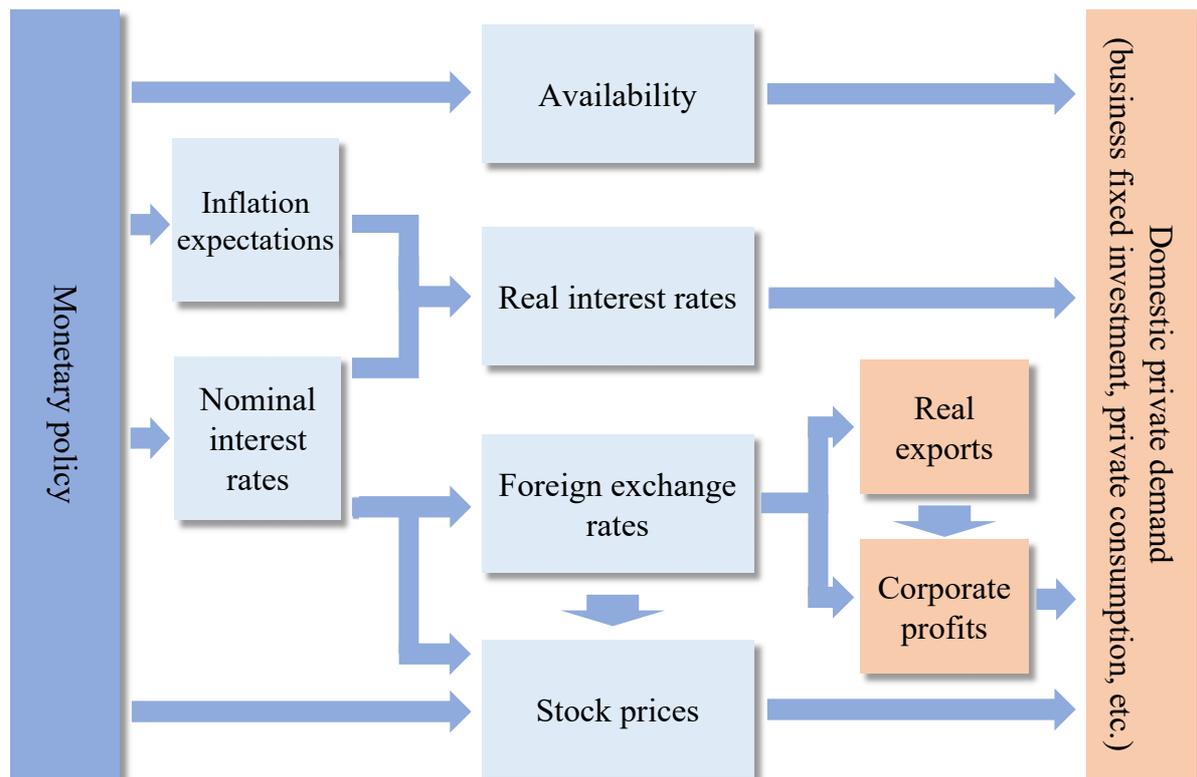
Real GDP and Corporate Profits

Business Conditions, Production Capacity, and Employment Conditions (Tankan)



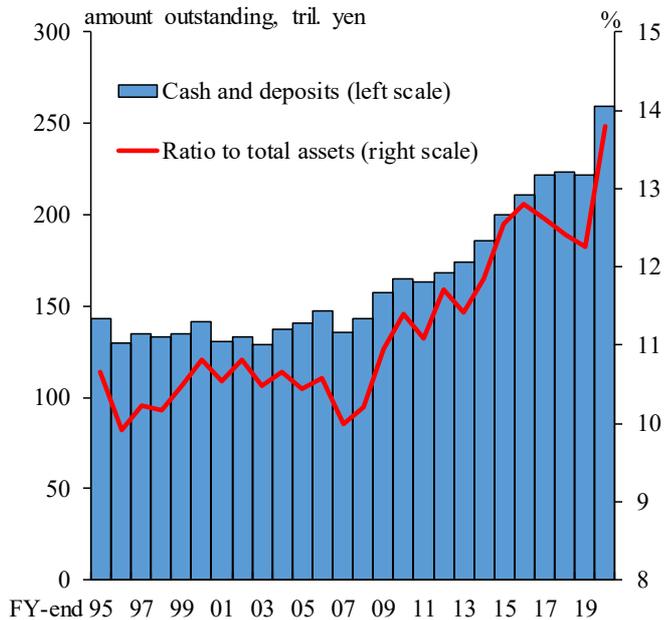
Note: In the left-hand chart, figures for current profits are based on the *Financial Statements Statistics of Corporations by Industry, Quarterly* and exclude "finance and insurance" and pure holding companies.
 Sources: Cabinet Office; Ministry of Finance; Bank of Japan.

Main Transmission Channels of Monetary Policy

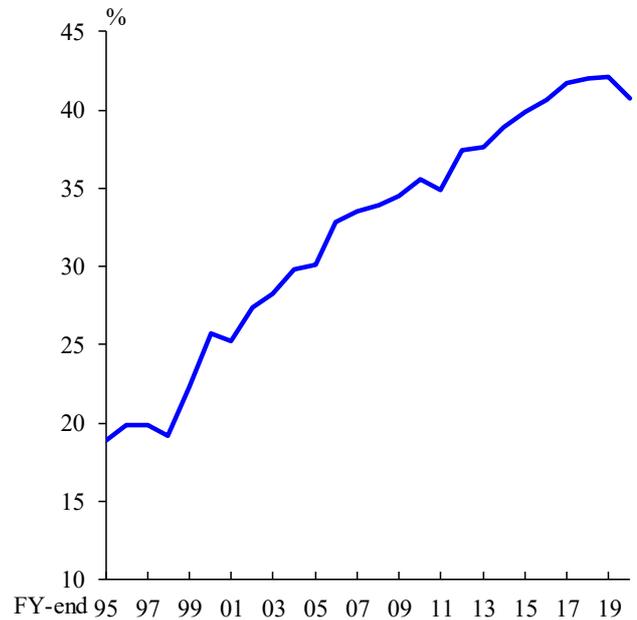


Financial Positions of Firms

Total Amount Outstanding of Cash and Deposits



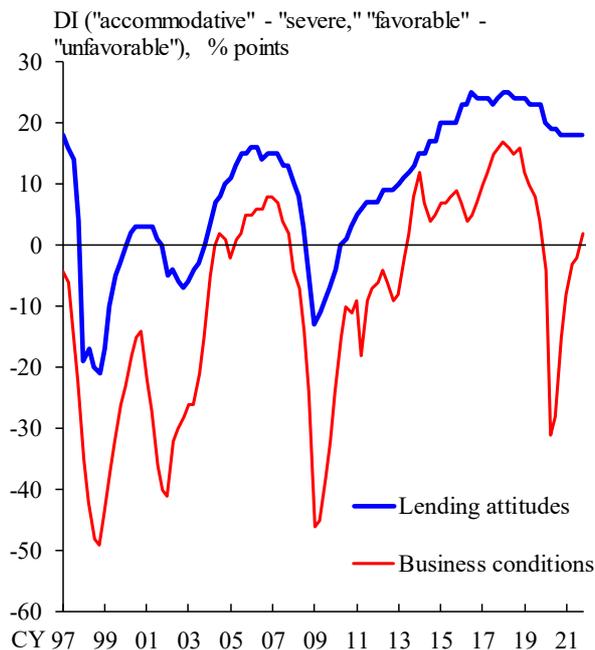
Capital Adequacy Ratio



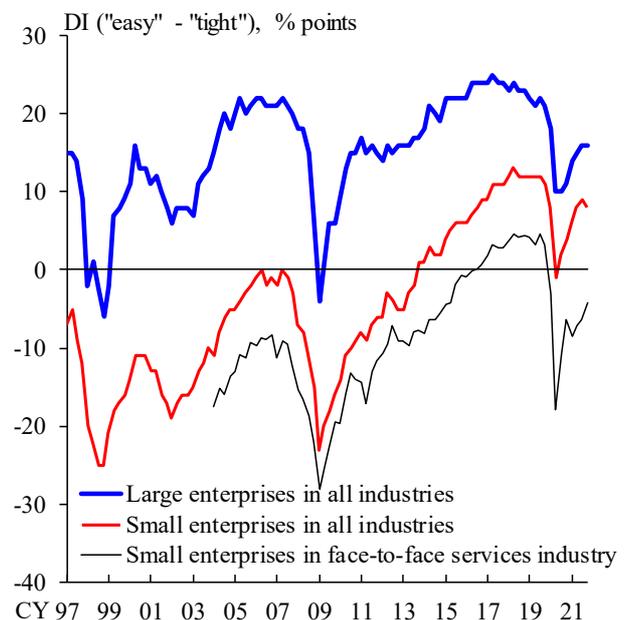
Note: Figures are based on the *Financial Statements Statistics of Corporations by Industry, Annually* and exclude "finance and insurance."
Source: Ministry of Finance.

Financial Conditions

Lending Attitudes of Financial Institutions and Business Conditions (Tankan)



Financial Positions (Tankan)



Note: In the left-hand chart, figures are for all industries and enterprises. In the right-hand chart, figures for small enterprises in the face-to-face services industry are the weighted averages of the DIs for retailing, transport & postal activities, services for individuals, and accommodations, eating & drinking services. The weight of each industry used for figures up through December 2006 is fixed at that for March 2007.
Source: Bank of Japan.

Extension of Financing Support for SMEs

Japan's Financial Conditions: Improved on the Whole

Large firms: Issuance conditions for CP and corporate bonds have been favorable. Precautionary demand for liquidity has subsided in the loan market.

SMEs: Financial positions have been on an improving trend on the whole, but weakness has remained in some segments, such as the face-to-face services industry.

Partial Extension of the Special Program to Support Financing in Response to COVID-19 (until end-March 2022 → until end-September 2022)

Purchases of CP and corporate bonds	Special Funds-Supplying Operations to Facilitate Financing in Response to COVID-19		
	Against private debt pledged as collateral	Against government-supported loans	Against non-government-supported loans
Additional purchases to be completed Continue purchasing the same amount as prior to the COVID-19 pandemic	To be completed	Extend by six months the fund-provisioning to financial institutions against their loans ▶ Under the revised terms and conditions <ul style="list-style-type: none"> Applied interest rate: 0% (Category III) Amount added to the Macro Add-on Balances: the amount outstanding of funds provided 	Extend by six months ▶ Under the current terms and conditions <ul style="list-style-type: none"> Applied interest rate: 0.2% (Category I) Amount added to the Macro Add-on Balances: twice as much as the amount outstanding of funds provided

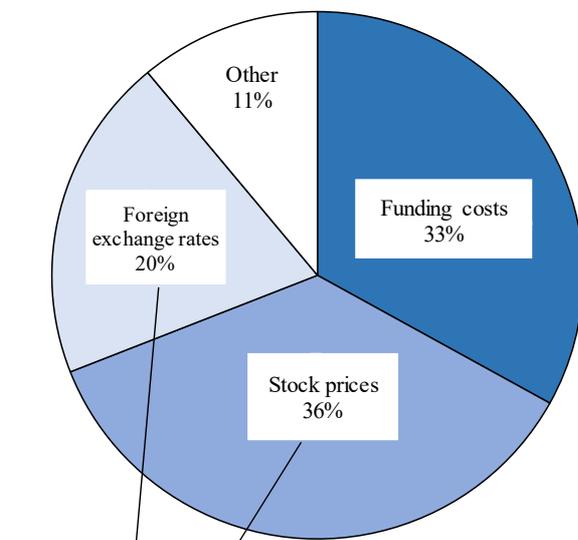
Mainly for large firms and housing loans

Mainly for SMEs

For the time being, the Bank will closely monitor the impact of COVID-19 and will not hesitate to take additional easing measures if necessary.

Transmission Channel of a Decline in Interest Rates

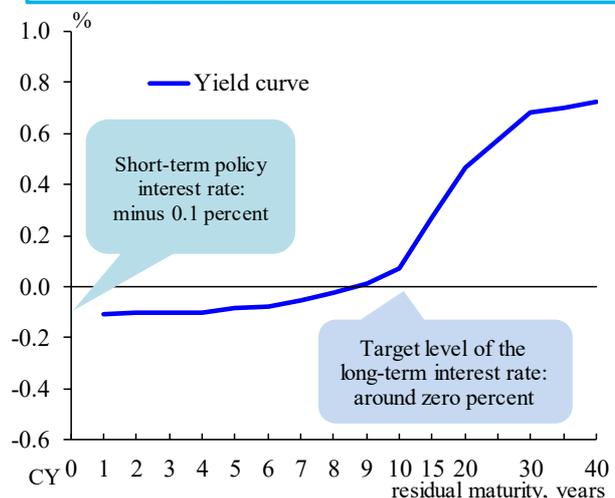
Economic Improvement through a Decline in Interest Rates by Channel



Channel via financial and capital markets

Yield Curve Control (YCC)

Taking into account developments in economic activity and prices as well as financial conditions, the Bank encourages the formation of the yield curve that is considered most appropriate for achieving the price stability target of 2 percent.

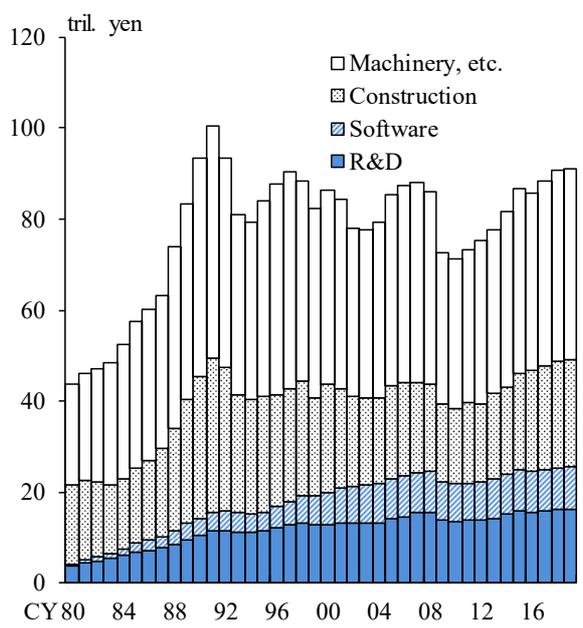


Note: The left-hand chart shows the results from estimating through which transmission channels a decline in interest rates improves the output gap, using a vector-autoregressive (VAR) model with coefficient restrictions and employing the following eight variables: (1) output gap; (2) interest rates (3-month); (3) interest rate spread (2-year minus 3-month); (4) interest rate spread (5-year minus 2-year); (5) interest rate spread (10-year minus 5-year); (6) aggregate funding costs; (7) the yen's nominal effective exchange rates; and (8) stock prices. For details, see Bank of Japan, "Assessment for Further Effective and Sustainable Monetary Easing" (March 2021).

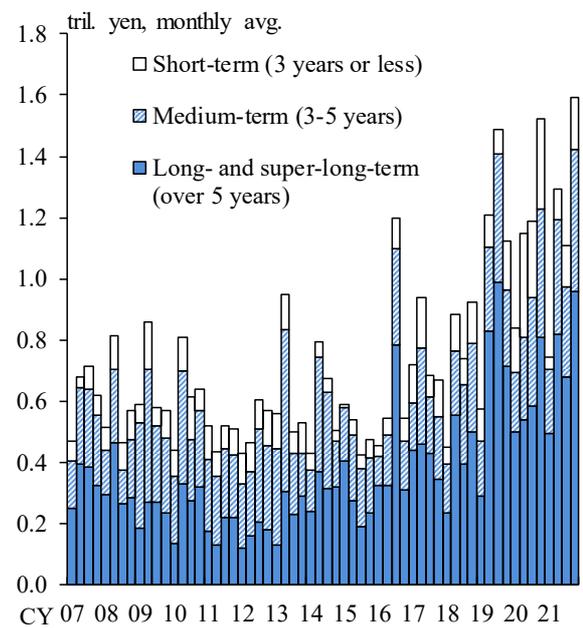
Sources: Bank of Japan; Bloomberg, etc.

Fixed Capital Formation and Increased Issuance of Corporate Bonds with Longer Maturity

Fixed Capital Formation (SNA)



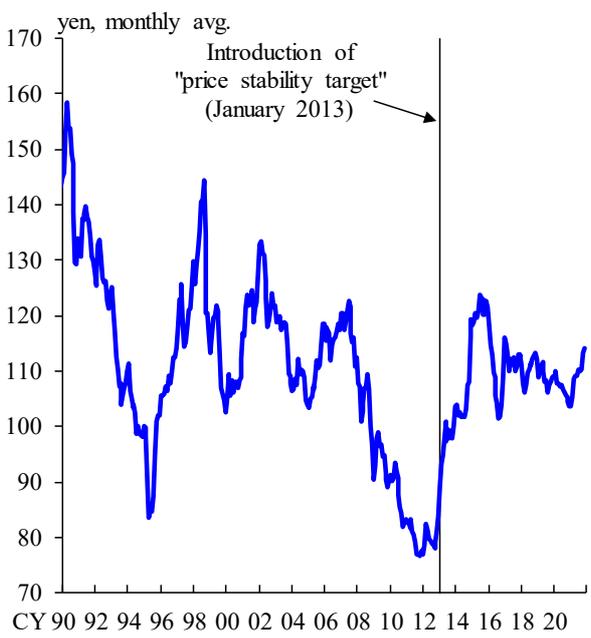
Issuance of Corporate Bonds by Maturity



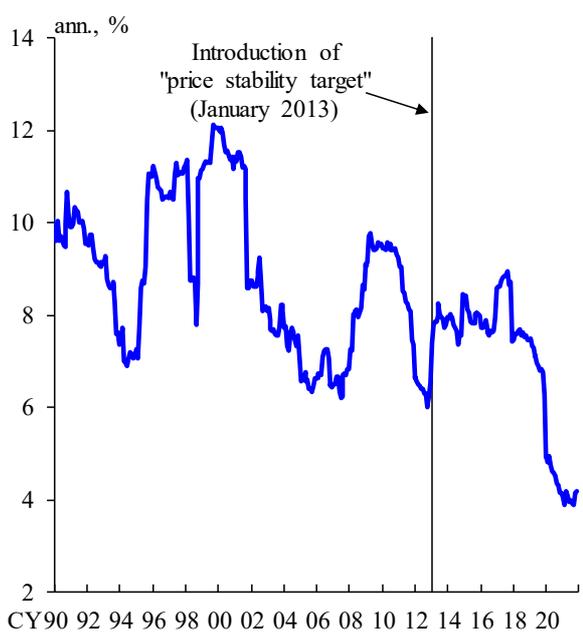
Notes: 1. In the left-hand chart, figures are for fixed capital formation other than that of dwellings in the private sector in the Cabinet Office's "Gross Fixed Capital Formation of Assets Classified by Institutional Sectors and Economic Activities" in current prices.
 2. In the right-hand chart, figures are for publicly offered bonds issued by Japanese firms in domestic markets. The figures are on an issuance date basis and exclude those for bonds issued by banks. Figures for 2021/Q4 are October-November averages.
 Sources: Cabinet Office; I-N Information Systems.

Decrease in Volatility of Nominal Exchange Rates

U.S. Dollar/Yen



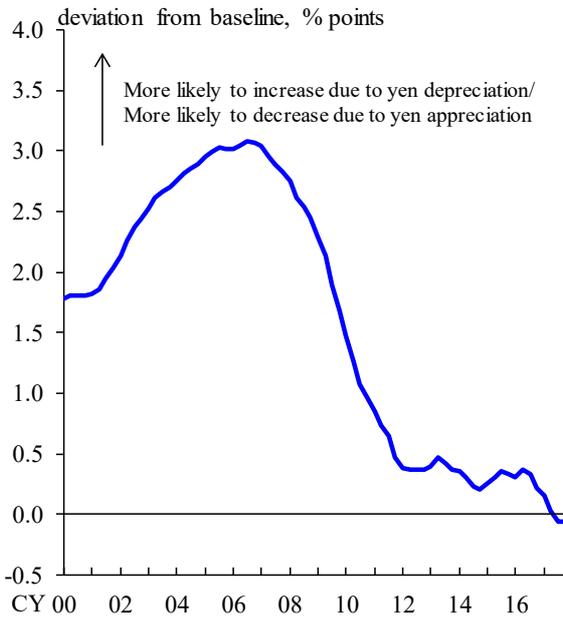
Historical Volatility of U.S. Dollar/Yen



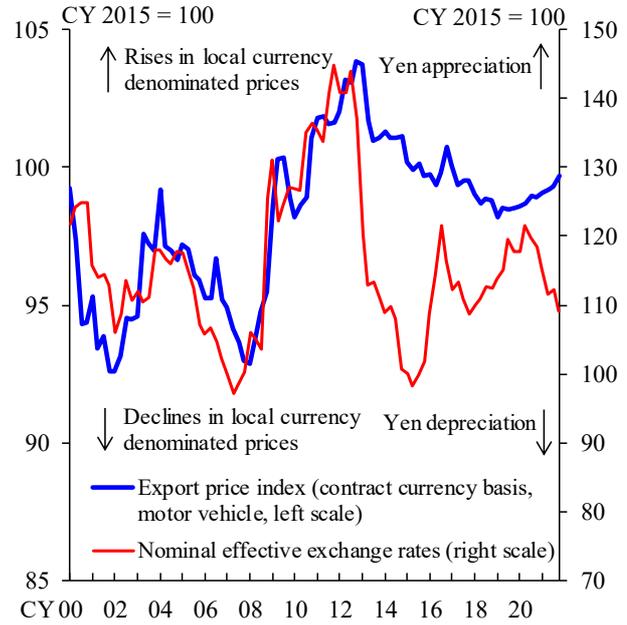
Note: In the right-hand chart, figures are the annualized three-year standard deviations of the monthly rate of change for U.S. dollar/yen.
 Source: Bloomberg.

Exports and Exchange Rates

Exchange Rate Sensitivity of Exports



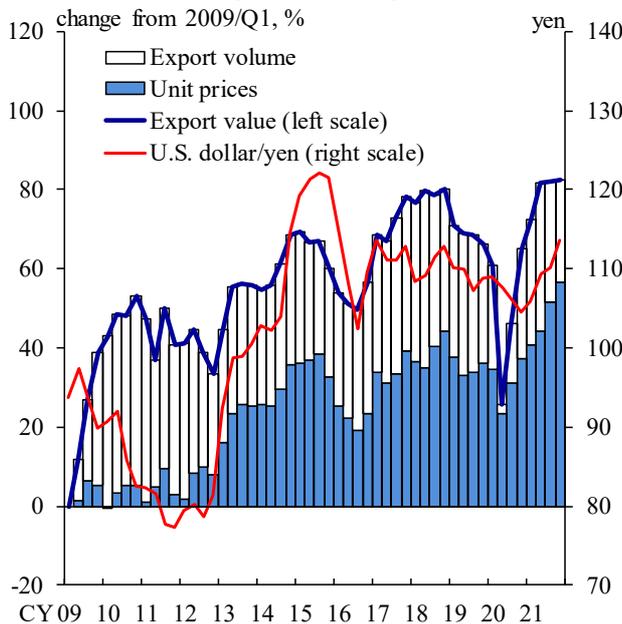
Export Prices and Exchange Rates



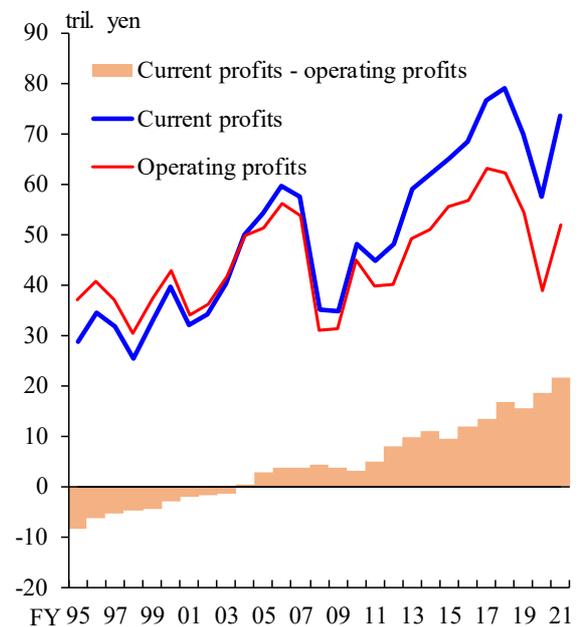
Notes: 1. In the left-hand chart, figures are estimates obtained using a time-varying parameter VAR model that employs the following three variables: (1) growth rate of overseas economies; (2) the yen's real effective exchange rates; and (3) real exports. The figures are 4-quarter cumulative changes in real exports in response to a 10% Japanese yen depreciation shock. For details, see Box 2 of the April 2018 Outlook Report.
 2. In the right-hand chart, figures for 2021/Q4 are October-November averages.
 Sources: IMF; BIS; Bank of Japan; Ministry of Finance, etc.

Improvement in Export Profitability and Expansion in Profits Earned Overseas

Export Profitability and Foreign Exchange Rate



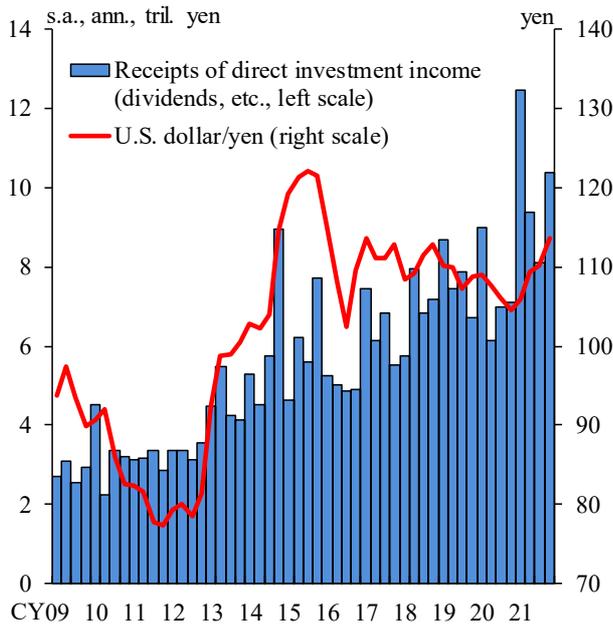
Current Profits and Operating Profits



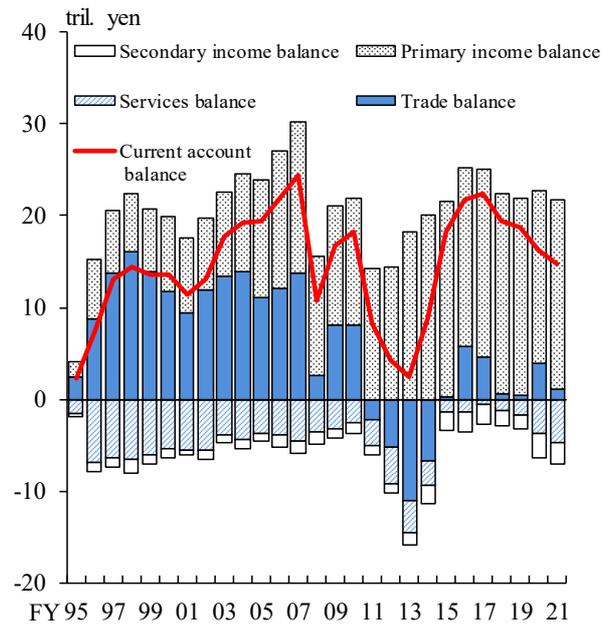
Notes: 1. In the left-hand chart, figures for export value are seasonally adjusted. Figures for 2021/Q4 are those for October.
 2. In the right-hand chart, figures are based on the *Financial Statements Statistics of Corporations by Industry, Quarterly* and exclude "finance and insurance." Figures from FY 2009 onward exclude pure holding companies. The figure for FY 2021 is the seasonally adjusted annualized amount for the first half of the fiscal year.
 Sources: Ministry of Finance; Bloomberg.

Current Account

Direct Investment Income and Foreign Exchange Rate



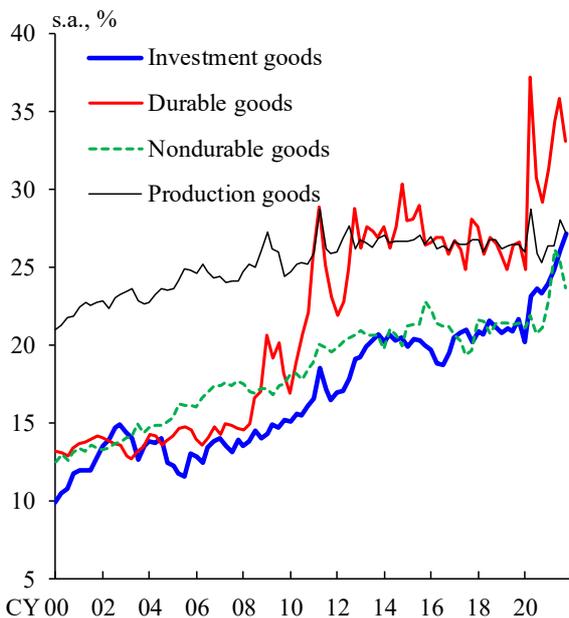
Current Account



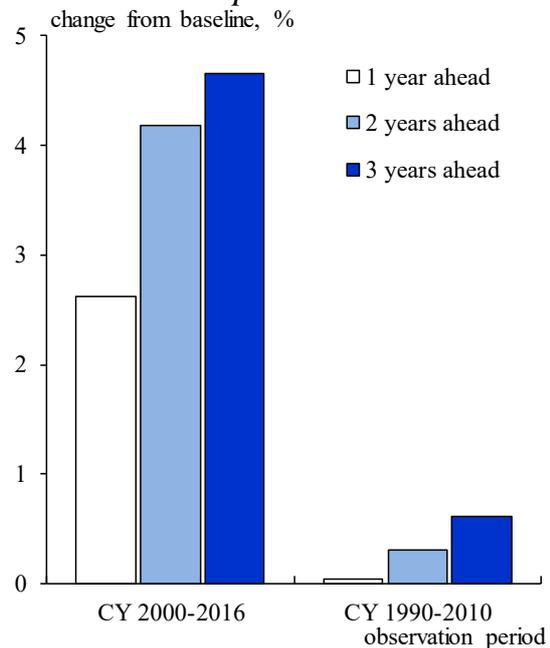
Notes: 1. In the left-hand chart, figures for 2021/Q4 are those for October.
 2. In the right-hand chart, figures for FY 2021 are the seasonally adjusted annualized amounts for April through October that year.
 Sources: Ministry of Finance; Bank of Japan; Bloomberg.

Change in Import Structure

Import Penetration



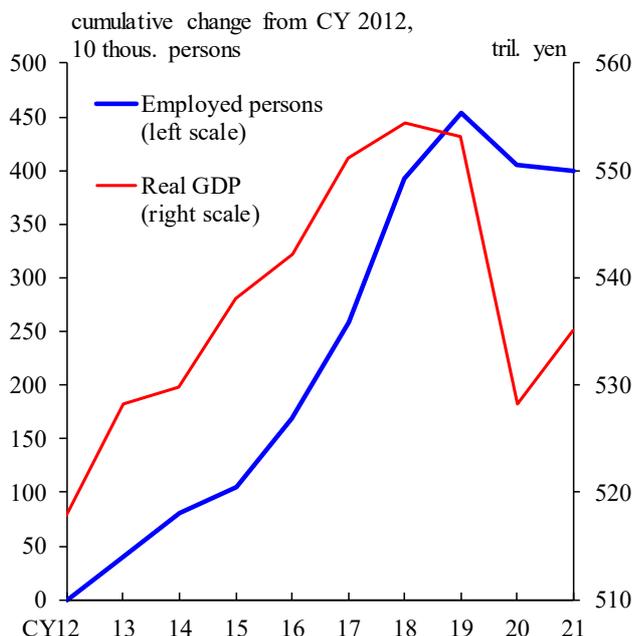
Rate of Increase in Durable Goods Prices in Response to a 10% Japanese Yen Depreciation



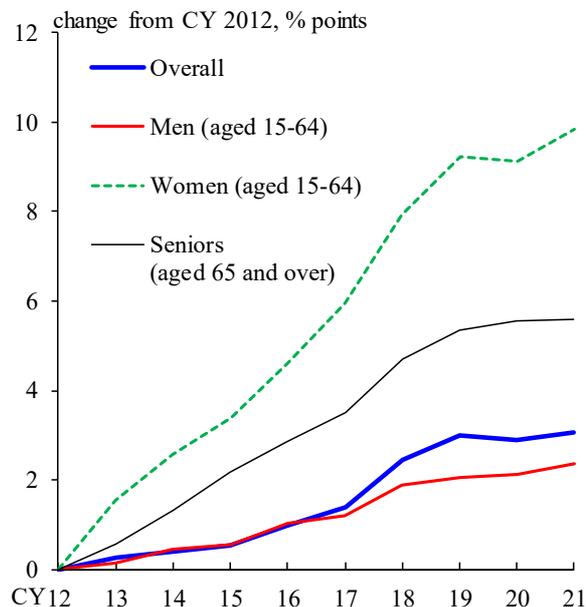
Notes: 1. In the left-hand chart, figures for 2021/Q4 are those for October.
 2. The right-hand chart shows impulse responses to a 10% yen depreciation shock obtained from an estimation using a VAR model that employs the following four variables: (1) real crude oil prices; (2) the yen's nominal effective exchange rates; (3) output gap; and (4) CPI. For details, see Box 4 of the October 2016 Outlook Report.
 Sources: Ministry of Economy, Trade and Industry; Ministry of Internal Affairs and Communications; Cabinet Office; BIS; Ministry of Finance, etc.

GDP and Labor Input

Number of Employed Persons and GDP



Labor Force Participation Rate



Notes: 1. In the left-hand chart, figures are seasonally adjusted. The figure for employed persons for CY 2021 is the January-October average. The figure for real GDP for CY 2021 is the annualized amount for 2021/Q1-Q3.
 2. In the right-hand chart, figures for CY 2021 are January-October averages.
 Sources: Ministry of Internal Affairs and Communications; Cabinet Office.

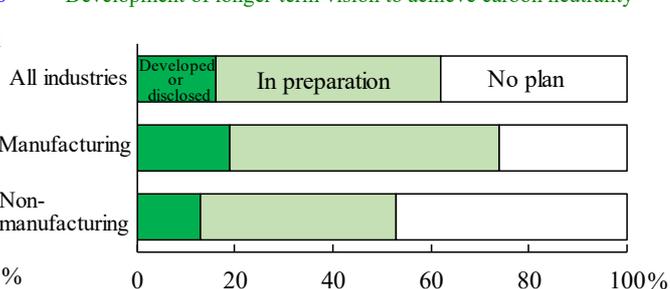
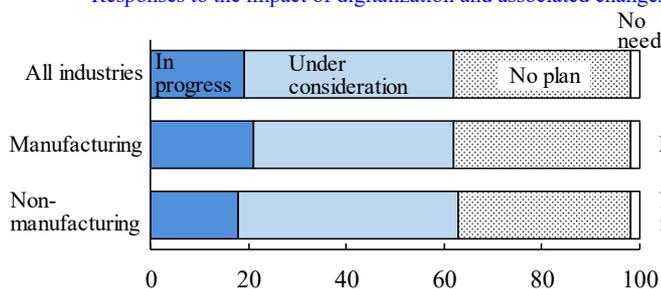
Japanese Firms' Efforts toward Digitalization and Decarbonization

Progress toward Digitalization

Progress in Achieving Carbon Neutrality

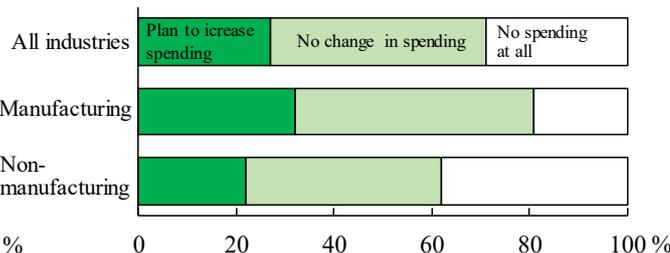
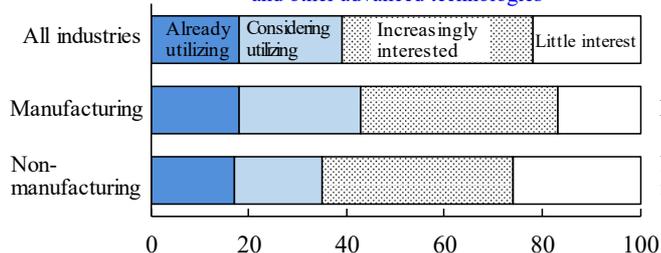
<Responses to the impact of digitalization and associated changes>

<Development of longer-term vision to achieve carbon neutrality>



<Utilization of AI, the internet of things (IoT), and other advanced technologies>

<Status of investment related to carbon neutrality (including R&D)>

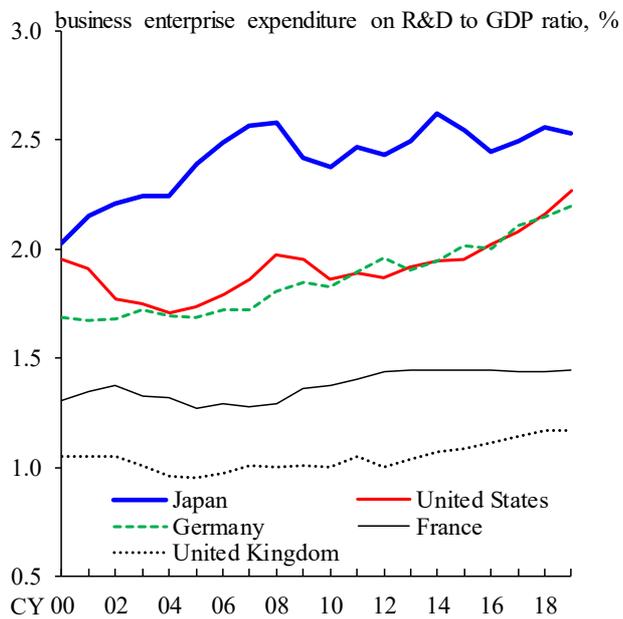


Note: The graphs show the results from a survey of large firms.
 Source: Development Bank of Japan.

R&D Investment

International Comparison of R&D Investment

R&D Investment in Japan by Industry (Tankan, FY 2020)



Sources: OECD; Bank of Japan.

