



Economic Activity, Prices, and Monetary Policy in Japan

Speech at a Meeting with Local Leaders in Kumamoto

April 7, 2022

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Bank of Japan

Chart 1

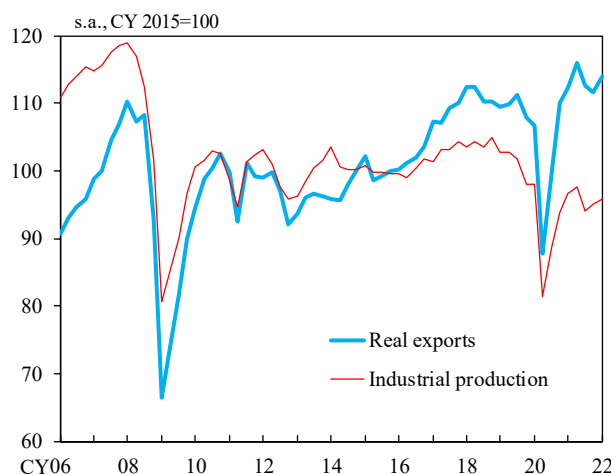
IMF Forecasts for Global Growth

| | real GDP growth rate, y/y % chg. | | | |
|---|----------------------------------|------------------|--------------------|--------------------|
| | 2020 | 2021 estimate | 2022 projection | 2023 projection |
| World | -3.1 | 5.9 | 4.4 | 3.8 |
| Advanced economies | -4.5 | 5.0 | 3.9 | 2.6 |
| United States | -3.4 | 5.6 | 4.0 | 2.6 |
| Euro area | -6.4 | 5.2 | 3.9 | 2.5 |
| United Kingdom | -9.4 | 7.2 | 4.7 | 2.3 |
| Japan | -4.5 | 1.6 | 3.3 | 1.8 |
| Emerging market and developing economies | -2.0 | 6.5 | 4.8 | 4.7 |
| China | 2.3 | 8.1 | 4.8 | 5.2 |
| ASEAN-5 | -3.4 | 3.1 | 5.6 | 6.0 |

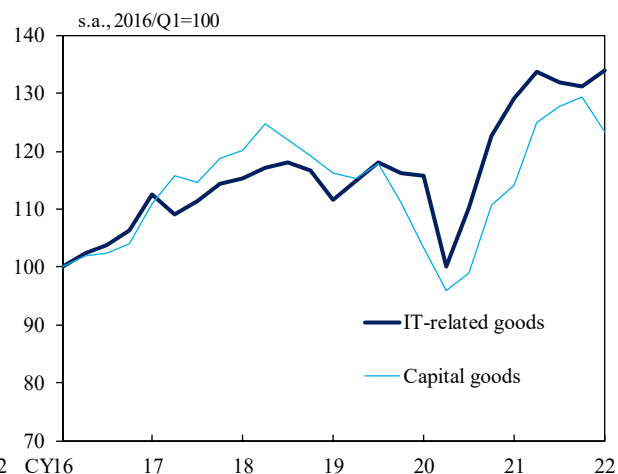
Note: Figures are as of January 2022.
Source: IMF.

Exports and Production

Real Exports and Industrial Production



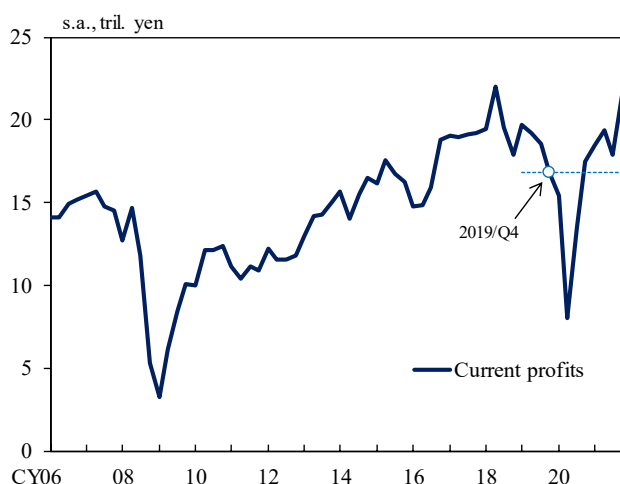
Real Exports by Type of Goods



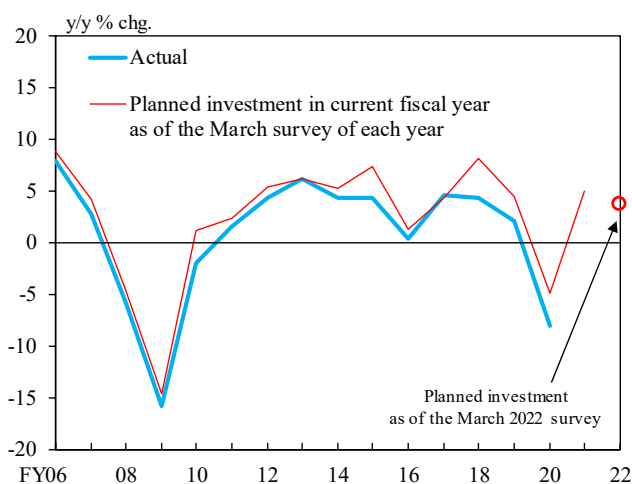
Sources: Ministry of Economy, Trade and Industry; Bank of Japan.

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.

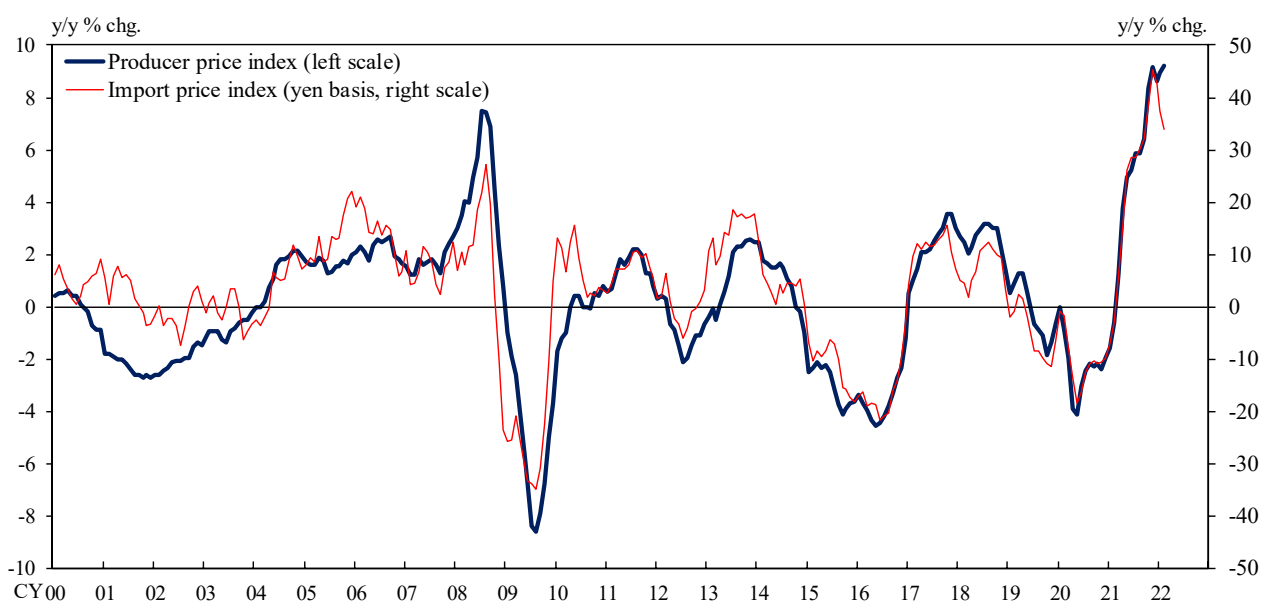
Consumer Prices

| | y/y % chg. | | | | | |
|---|------------|------|------|------|------------|----------|
| | 21/Q1 | Q2 | Q3 | Q4 | 22/January | February |
| CPI for all items | -0.5 | -0.8 | -0.2 | 0.5 | 0.5 | 0.9 |
| Less fresh food | -0.5 | -0.6 | 0.0 | 0.4 | 0.2 | 0.6 |
| Adjusted figure | 0.0 | 0.2 | 0.6 | 0.6 | 0.6 | 0.7 |
| (Reference: contribution to the CPI for all items less fresh food) | | | | | | |
| Energy | -0.5 | 0.2 | 0.5 | 1.0 | 1.3 | 1.5 |
| Mobile phone charges | 0.1 | -1.1 | -1.2 | -1.5 | -1.5 | -1.5 |

Note: Adjusted figures are Bank staff estimates and exclude mobile phone charges and the effects of the consumption tax hike, free education policies, and the "Go to Travel" campaign.

Sources: Ministry of Internal Affairs and Communications; Bank of Japan.

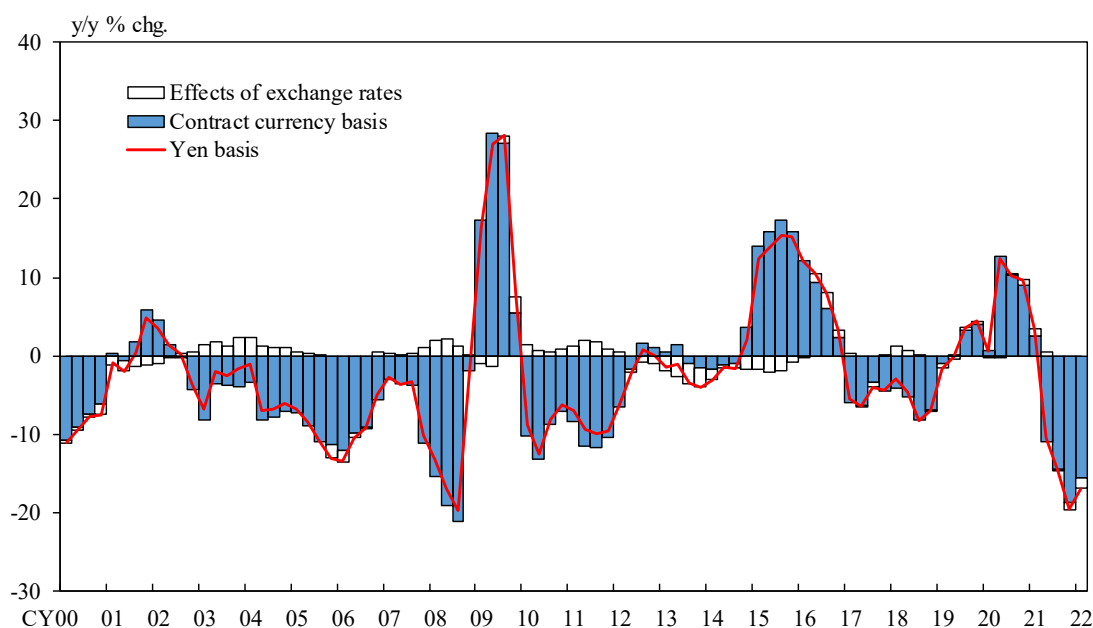
Producer Prices



Note: Figures for the producer price index are adjusted to exclude the effects of the consumption tax hikes.

Source: Bank of Japan.

Contribution to Changes in Terms of Trade



Source: Bank of Japan.

The Bank's Measures in Response to COVID-19 (from March 2020 onward)

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

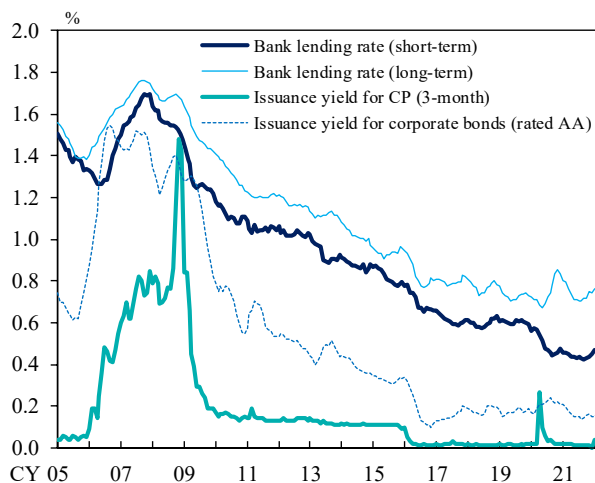
Purchases of ETFs and J-REITs

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

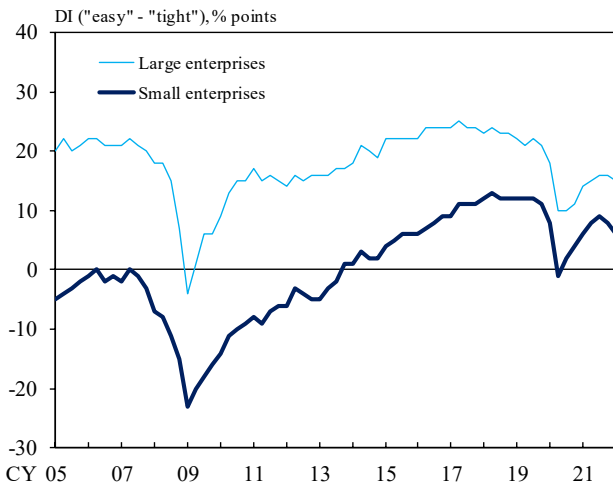
J-REITs: annual pace with an upper limit of about 180 bil. yen

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 financial positions of enterprises for all industries in the *Tankan*.

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

The Bank's Measures to Support Corporate Financing

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% 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% 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.

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 ($\pm 0.25\%$ from the target level)

- 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

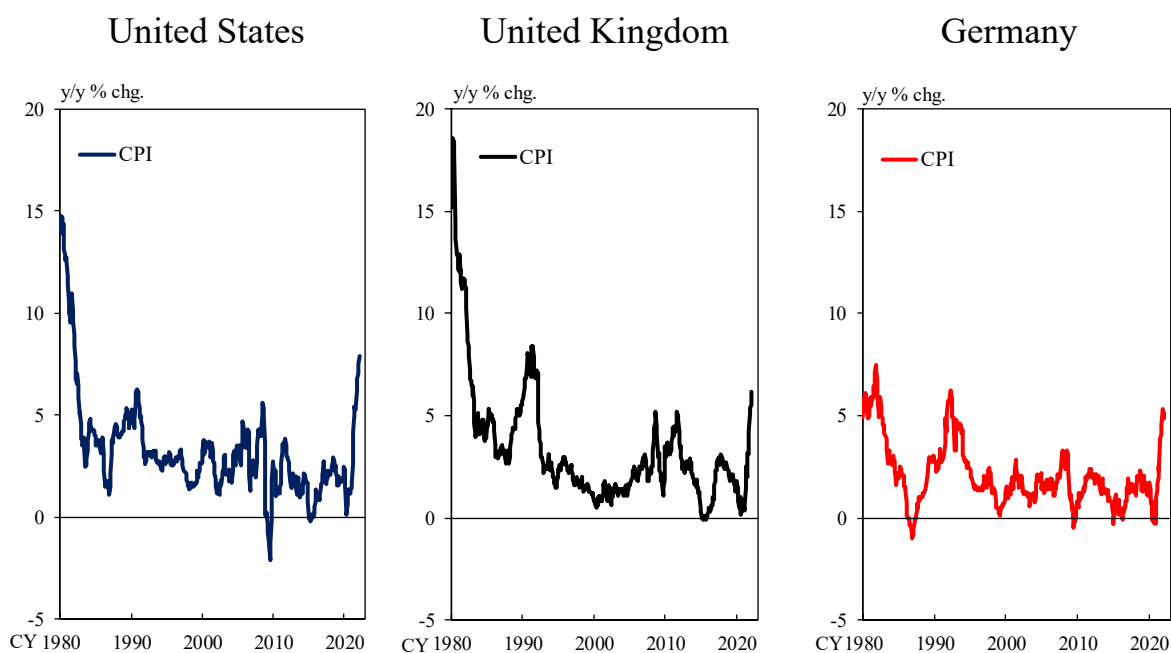
<Interest Scheme to Promote Lending>

- 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 | 0.2% Higher than the rate for Category II | <ul style="list-style-type: none"> • 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 | <ul style="list-style-type: none"> • 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 | <ul style="list-style-type: none"> • Loan Support Program • Operation to Support FIs in Disaster Areas |

Elevated Inflation in the United States and Europe



Note: Figures for Germany prior to the reunification of the country are those for the former West Germany. Figures for the United Kingdom prior to 1989 are from the Bank of England's (BOE's) "A millennium of macroeconomic data" and those from 1989 onward are from the Office for National Statistics' (ONS) data.

Sources: BOE; OECD; ONS.

Countries with Reduction in Monetary Accommodation

| | | Countries starting to scale back asset purchases | Countries starting policy rate hikes |
|------|----|--|---|
| 2021 | Q1 | | March: Brazil, Russia |
| | Q2 | April: Canada | May: Iceland June: Mexico, Hungary, Czech Republic |
| | Q3 | July: Australia, New Zealand (halt of asset purchases) | July: Chile August: Korea, Peru September: Norway |
| | Q4 | November: United States | October: New Zealand, Poland, Romania, Columbia November: South Africa December: United Kingdom |
| 2022 | Q1 | | March: Canada, United States |

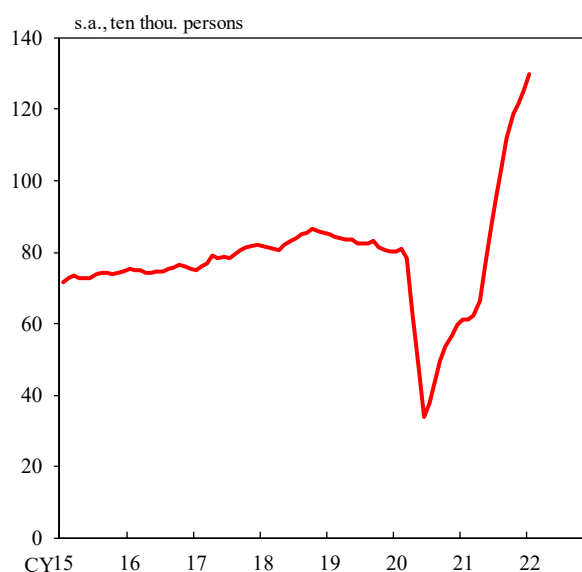
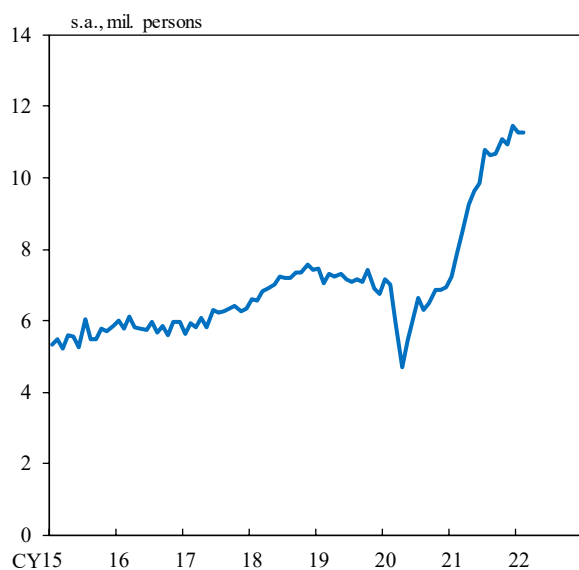
Note: Regarding the scaling back of asset purchases, in the United Kingdom, the BOE discontinued new asset purchases under the Asset Purchase Facility (APF) in December 2021, while deciding to maintain the total target stock at £895 billion. In the Euro area, the European Central Bank (ECB) decided in December 2021 to discontinue net asset purchases under the pandemic emergency purchase programme (PEPP) at the end of March 2022 and, in March 2022, to reduce monthly net purchases under the asset purchase programme (APP) in the April-June quarter of 2022.

Sources: Releases by central banks.

Expansion in Job Openings Following Resumption of Economic Activity

United States

United Kingdom



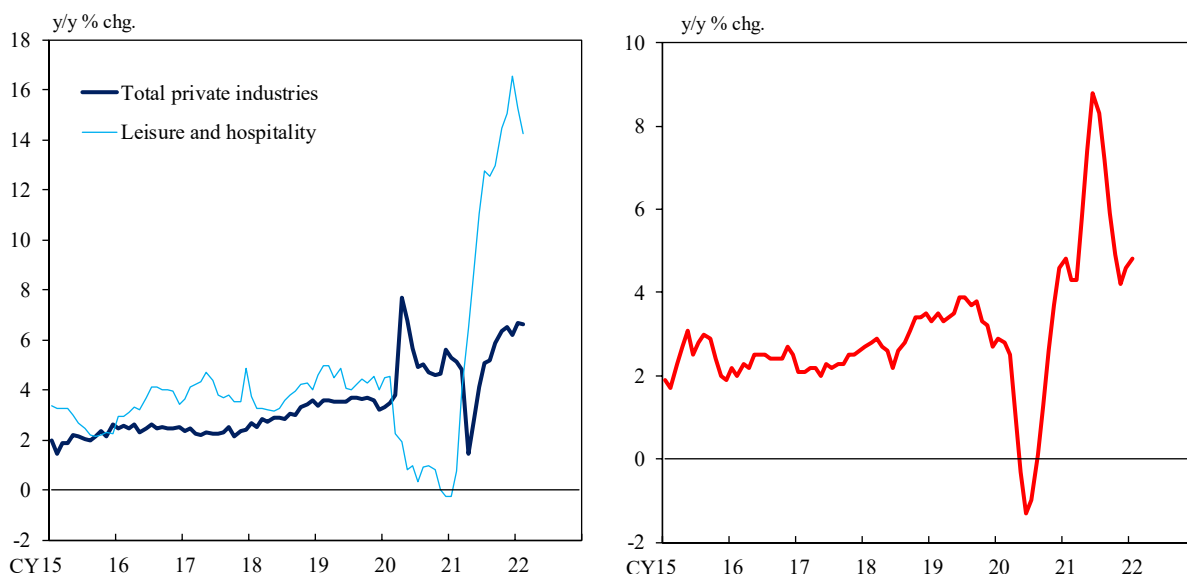
Note: Figures in the right panel are 3-month backward moving averages.

Sources: Bureau of Labor Statistics (BLS); ONS.

Rises in Nominal Wages Following Resumption of Economic Activity

United States
(Hourly Wages)

United Kingdom
(Weekly Wages)



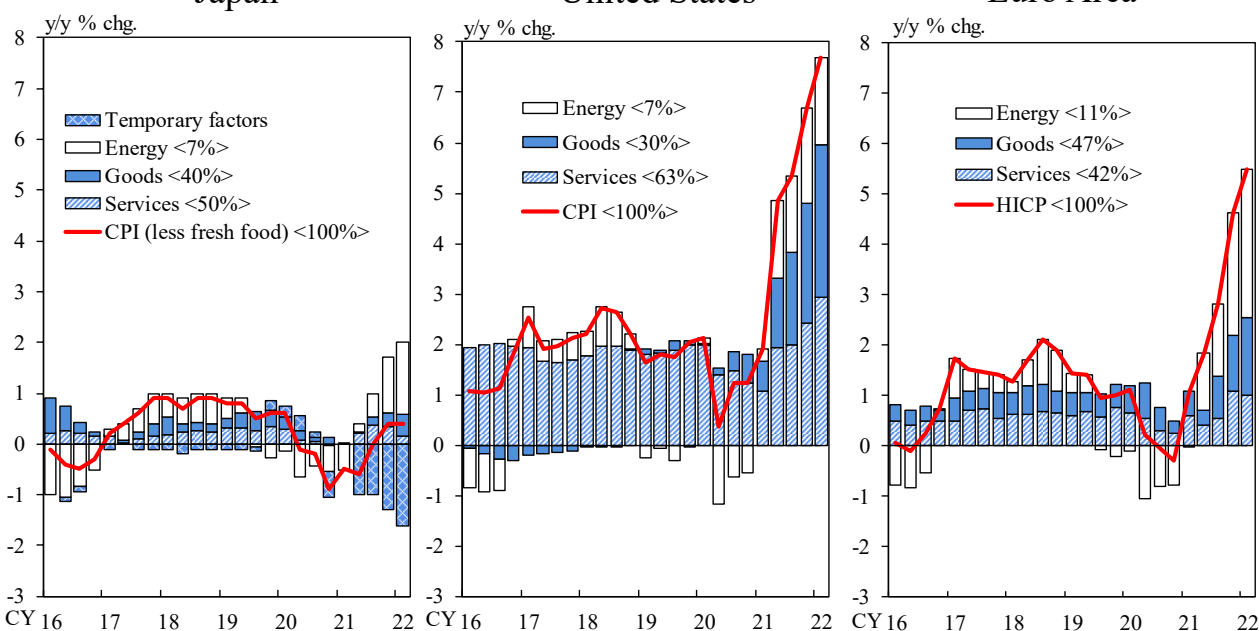
Notes: 1. Figures are those of the private sector.
2. Figures in the right panel are 3-month backward moving averages.
Sources: BLS; ONS.

Decomposition of Changes in Consumer Prices: International Comparison

Japan

United States

Euro Area



Notes: 1. Figures for services include administered prices.
2. Figures for temporary factors for Japan are Bank staff estimates and consist of mobile phone charges and the effects of the consumption tax hike, free education policies, and the "Go To Travel" campaign.
3. Figures in angular brackets show the share of each component. Figures for temporary factors for Japan include mobile phone charges (weight: 3 percent).

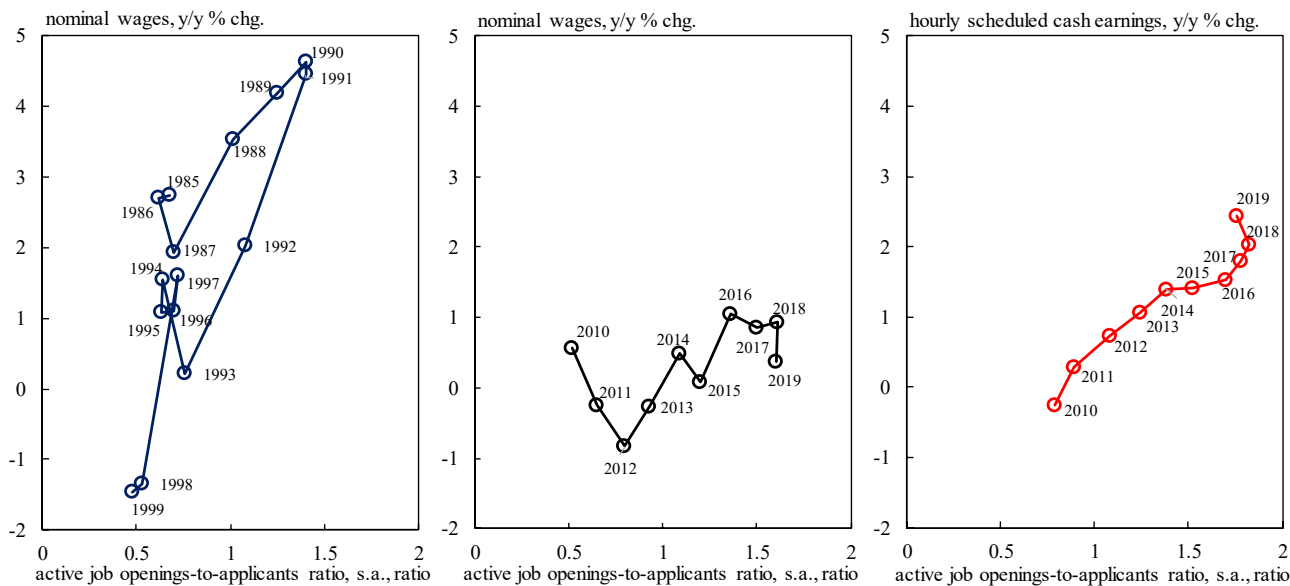
Sources: Haver Analytics; Ministry of Internal Affairs and Communications.

Job Openings-to-Applicants Ratio and Wages

CY 1985-1999
(All Employees)

CY 2010-2019
(All Employees)

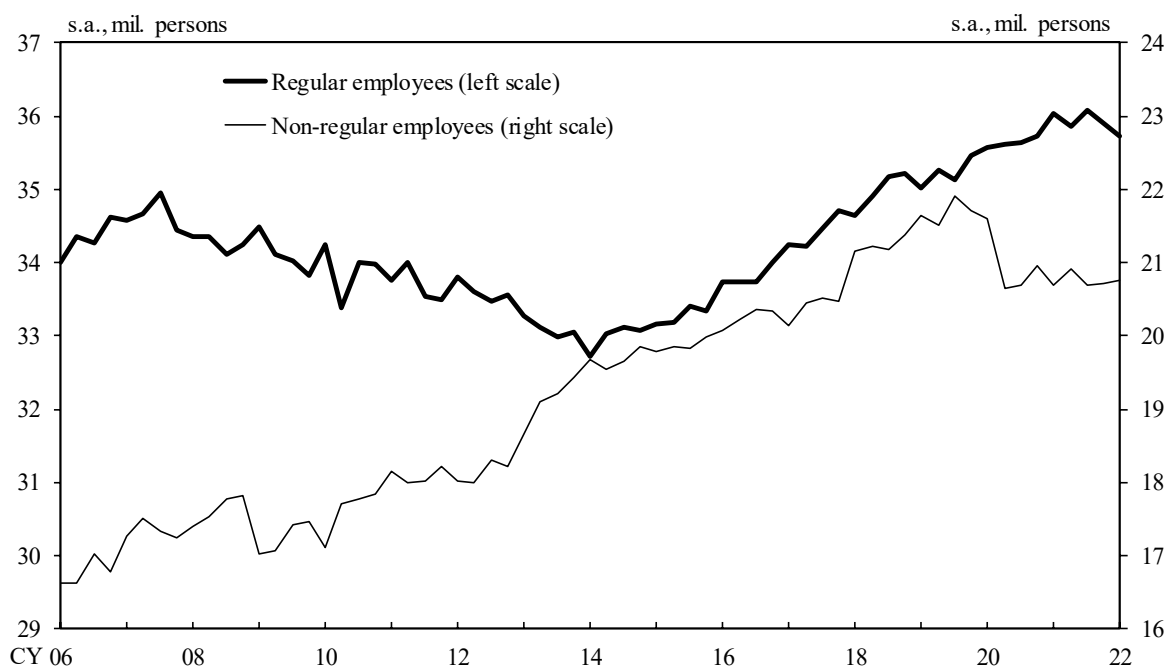
CY 2010-2019
(Part-Time Employees)



Notes: 1. Figures for nominal wages from 1991 onward and hourly scheduled cash earnings are for establishments with at least 5 employees. Figures for nominal wages prior to 1991 are for establishments with at least 30 employees.
2. Figures for nominal wages and hourly scheduled cash earnings from 2016 onward are based on continuing observations following the sample revisions.

Source: Ministry of Health, Labour and Welfare.

Number of Employees



Note: Figures prior to 2013 are based on the "detailed tabulation" in the *Labour Force Survey*.
Source: Ministry of Internal Affairs and Communications.