

# Japan's Economy and Monetary Policy

*Speech at a Meeting with Local Leaders in Okayama*

June 1, 2022

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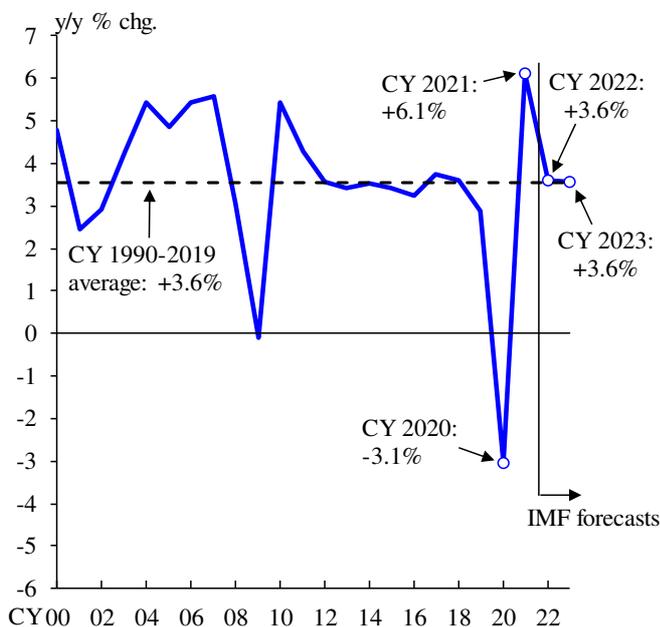
*Deputy Governor of the Bank of Japan*

## I. Current Situation and Outlook for Economic Activity

Chart 1

### Developments in the Global Economy (IMF's April 2022 WEO)

*Global Growth Rate*

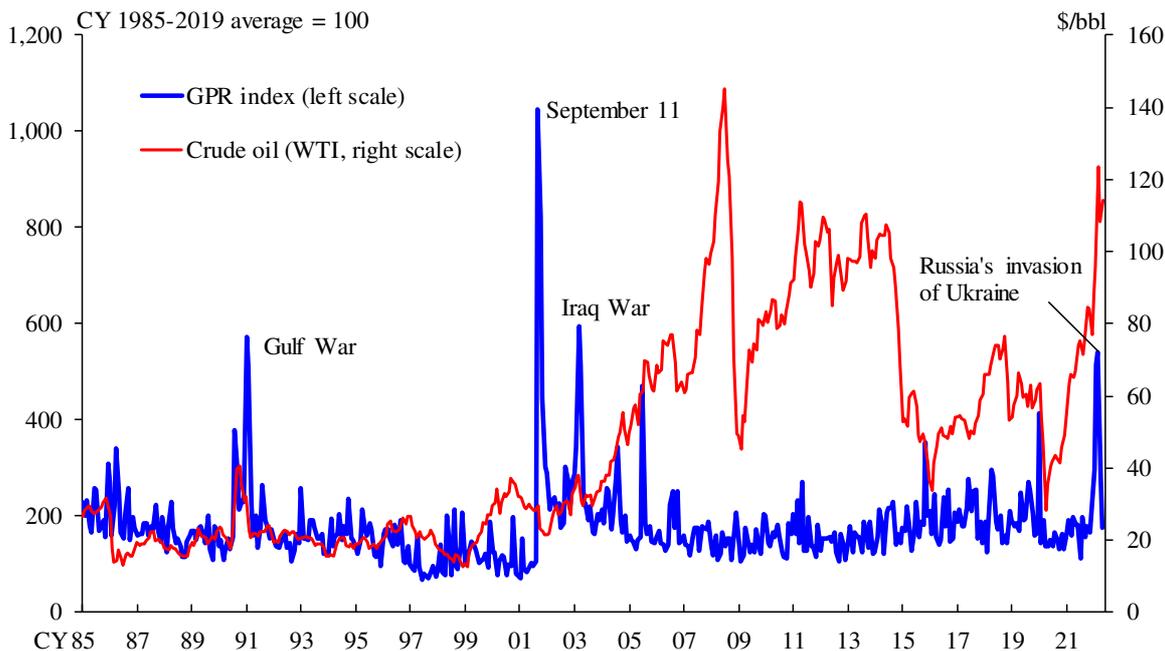


*Major Economies' Growth Rates*

	y/y % chg., % points			
	CY 2020	CY 2021	CY 2022 [Forecast]	CY 2023 [Forecast]
World	-3.1	6.1 (0.2)	3.6 (-0.8)	3.6 (-0.2)
Advanced economies	-4.5	5.2 (0.2)	3.3 (-0.6)	2.4 (-0.2)
United States	-3.4	5.7 (0.1)	3.7 (-0.3)	2.3 (-0.3)
Euro area	-6.4	5.3 (0.1)	2.8 (-1.1)	2.3 (-0.2)
United Kingdom	-9.4	7.4 (0.2)	3.7 (-1.0)	1.2 (-1.1)
Japan	-4.5	1.6 (0.0)	2.4 (-0.9)	2.3 (0.5)
Emerging market and developing economies	-2.0	6.8 (0.3)	3.8 (-1.0)	4.4 (-0.3)
China	2.3	8.1 (0.0)	4.4 (-0.4)	5.1 (-0.1)
India	-7.3	8.9 (-0.1)	8.2 (-0.8)	6.9 (-0.2)
ASEAN-5	-3.4	3.4 (0.3)	5.3 (-0.3)	5.9 (-0.1)

Note: In the table, figures in brackets are the differences from the forecasts in the January 2022 *World Economic Outlook* (WEO). ASEAN-5 consists of Indonesia, Malaysia, the Philippines, Thailand, and Vietnam.  
Source: IMF.

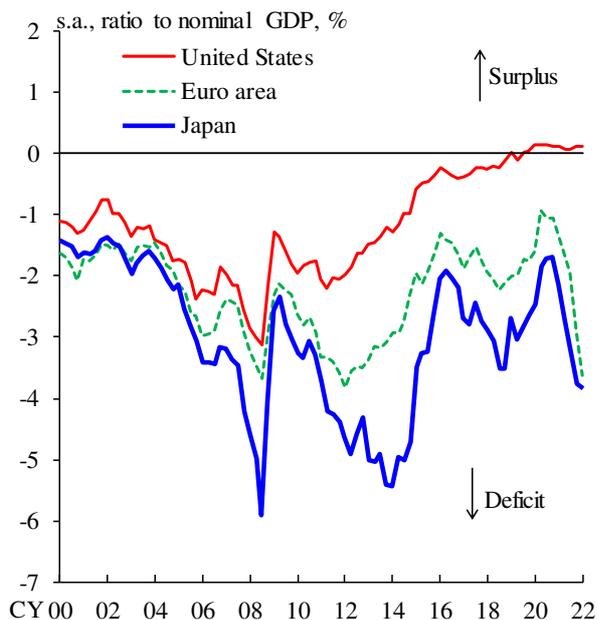
## Geopolitical Risk (GPR) Index and Crude Oil Prices



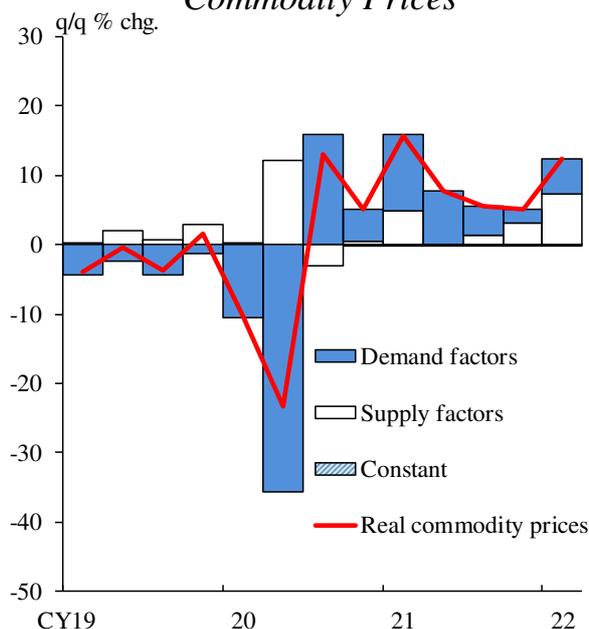
Notes: 1. Figures are the highest values of each month.  
 2. The GPR index, which was developed by Federal Reserve economists, is constructed by calculating the share of articles on geopolitical risks in 10 leading English-language newspapers.  
 Sources: Caldara, D. and Iacoviello, M., "Measuring Geopolitical Risk," *American Economic Review*, vol. 112, no. 4 (April 2022): pp. 1194-1225; Bloomberg.

## Impact of a Rise in Commodity Prices

Trade Balance in Energy Resources

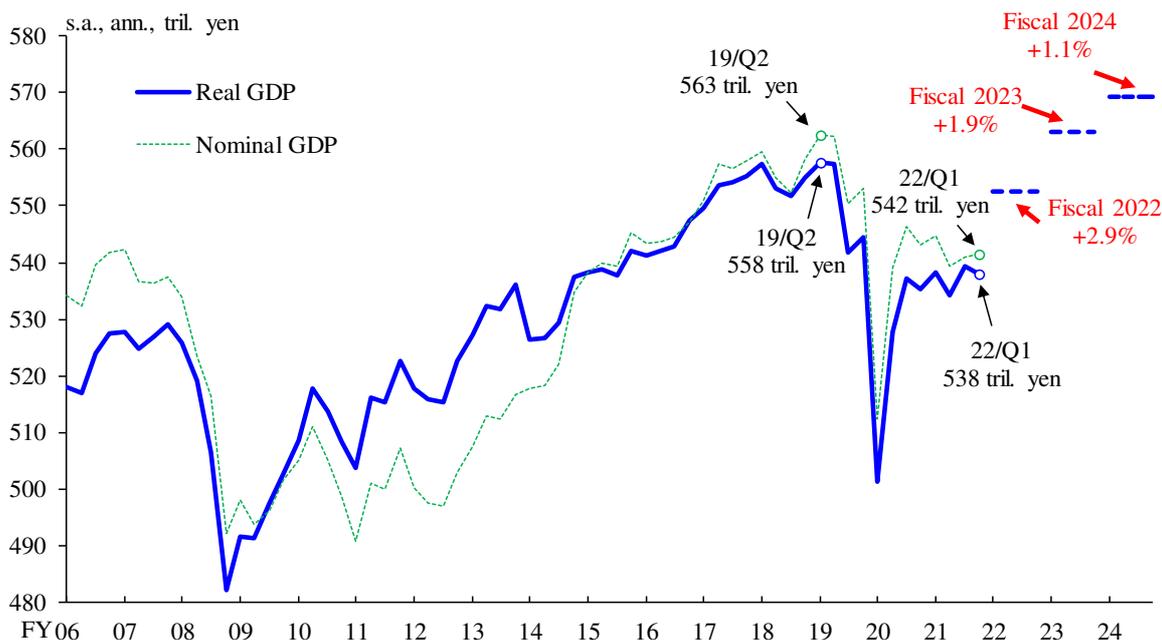


Decomposition of Changes in Commodity Prices



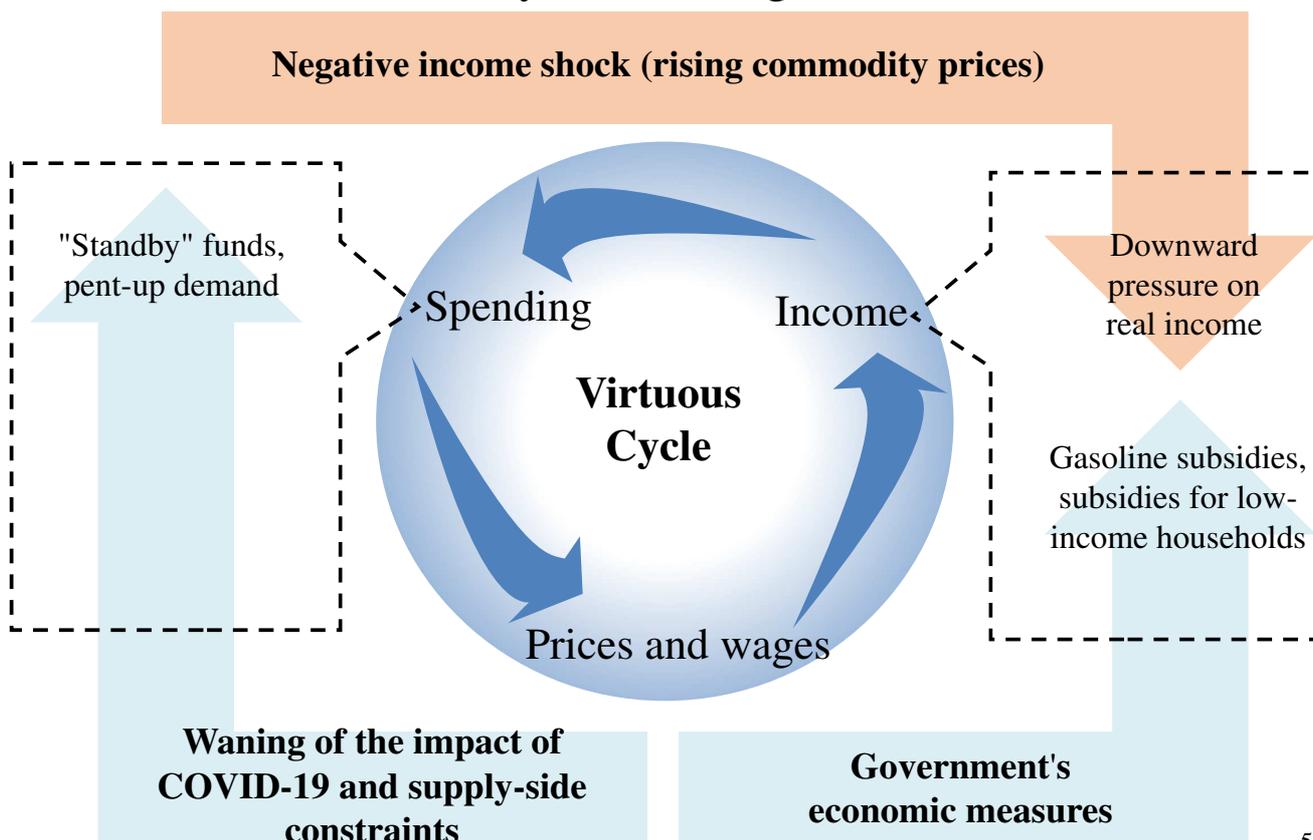
Notes: 1. In the left-hand chart, figures show the trade balance in mineral fuels. The latest figures are for 2022/Q1. The figure for 2022/Q1 for the euro area is calculated using its nominal GDP for 2021/Q4.  
 2. In the right-hand chart, a two-period lag VAR model using the following two variables is estimated: the OECD's Composite Leading Indicator (CLI, OECD total) and real commodity prices (the CRB Index deflated by the U.S. CPI). Demand and supply shocks are identified by imposing the following sign restrictions on the impulse response function of each variable. Demand increase shocks: the responses of the CLI and real commodity prices are both restricted to be positive. Supply increase shocks: the response of the CLI is restricted to be positive, while that of real commodity prices is restricted to be negative. The estimation period is 1994/Q4-2021/Q1.  
 Sources: Haver; OECD; Bloomberg; BLS.

## The Bank's Forecasts for Real GDP (April 2022 Outlook Report)

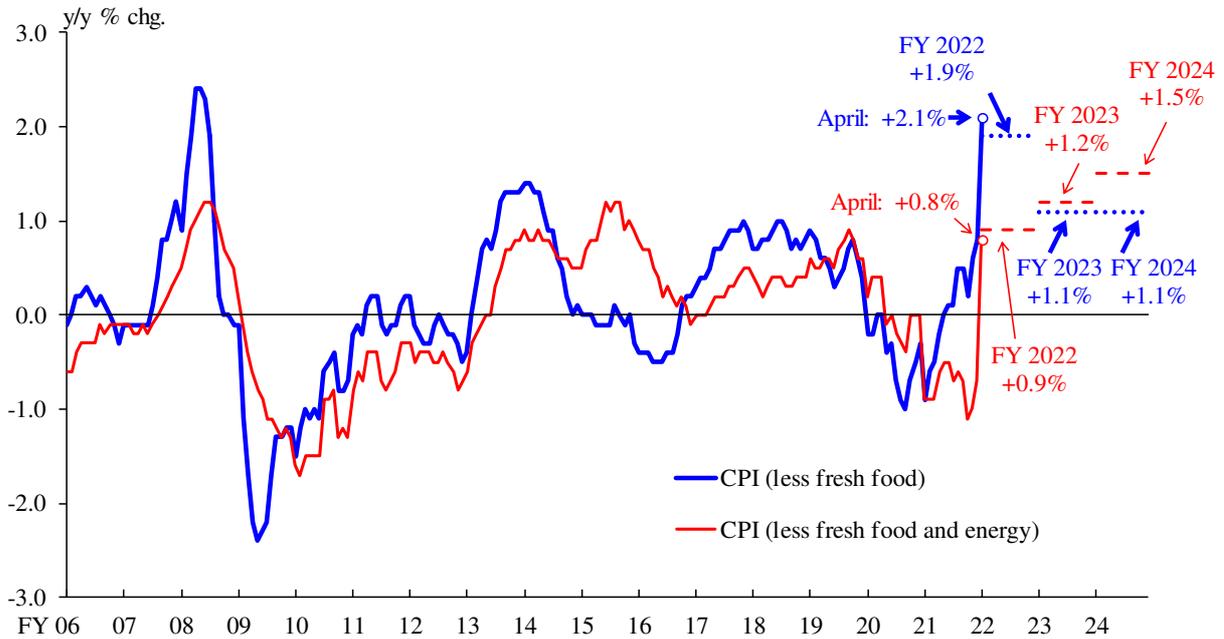


Note: The percentage figures are the medians of the Policy Board members' forecasts (point estimates). The forecasts for real GDP for fiscal 2022 onward are calculated by multiplying the actual figure for fiscal 2021 by all successive projected growth rates for each year.  
Sources: Cabinet Office; Bank of Japan.

## Virtuous Cycle and Negative Shock

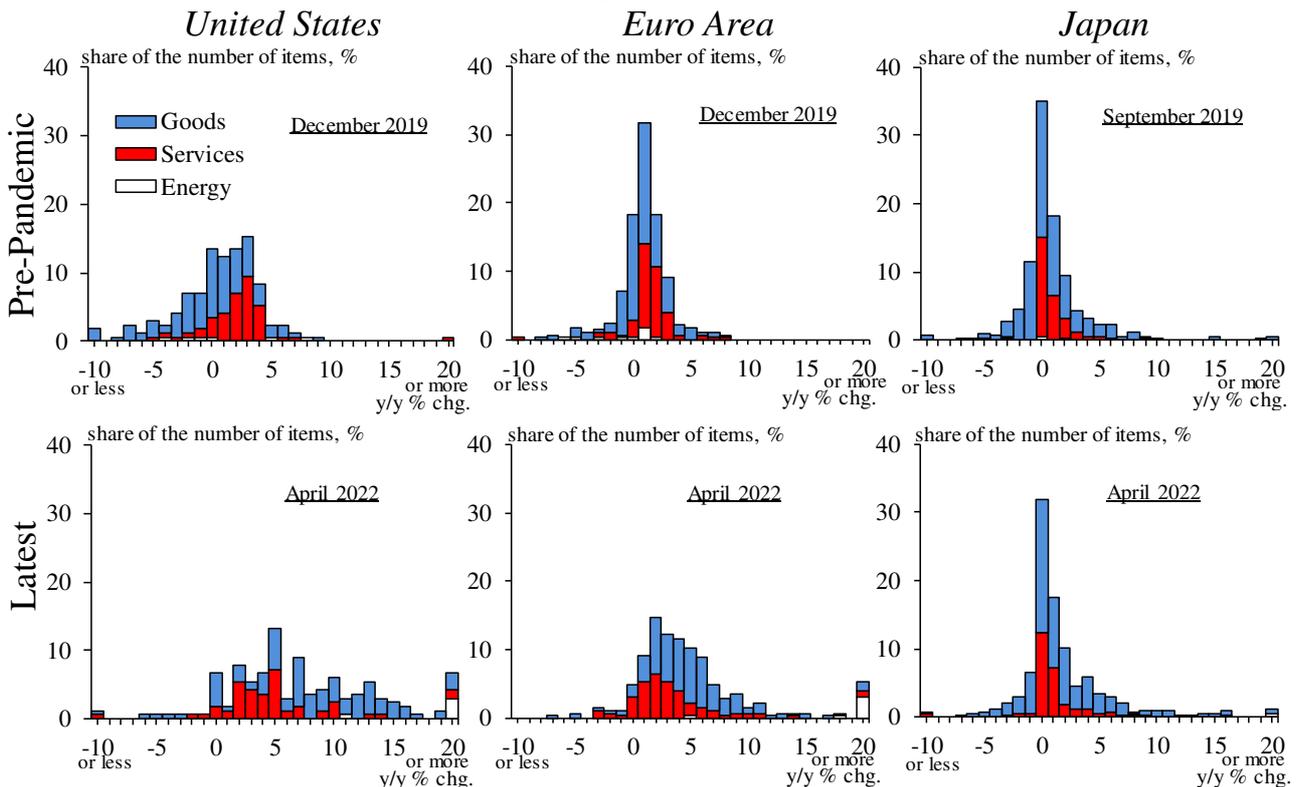


## The Bank's Forecasts for the CPI (April 2022 Outlook Report)



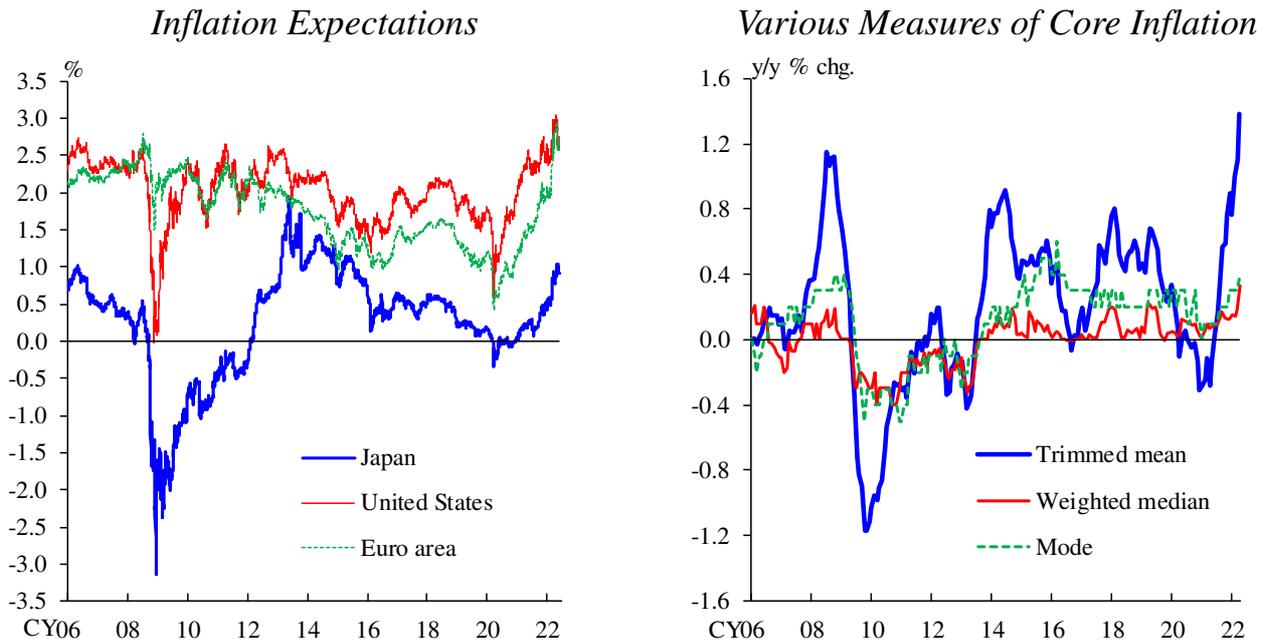
Note: Figures exclude the direct effects of the consumption tax hike in April 2014. The forecasts show the medians of the Policy Board members' forecasts (point estimates).  
Sources: Ministry of Internal Affairs and Communications; Bank of Japan.

## Price Change Distributions



Note: Figures for the United States and the euro area are for the CPI for all items. Those for Japan are for the CPI for all items excluding fresh food. The pre-pandemic distribution for Japan is based on data for September 2019, which was before the CPI developments in Japan were affected by such factors as the consumption tax hike.  
Sources: BLS; Eurostat; Ministry of Internal Affairs and Communications.

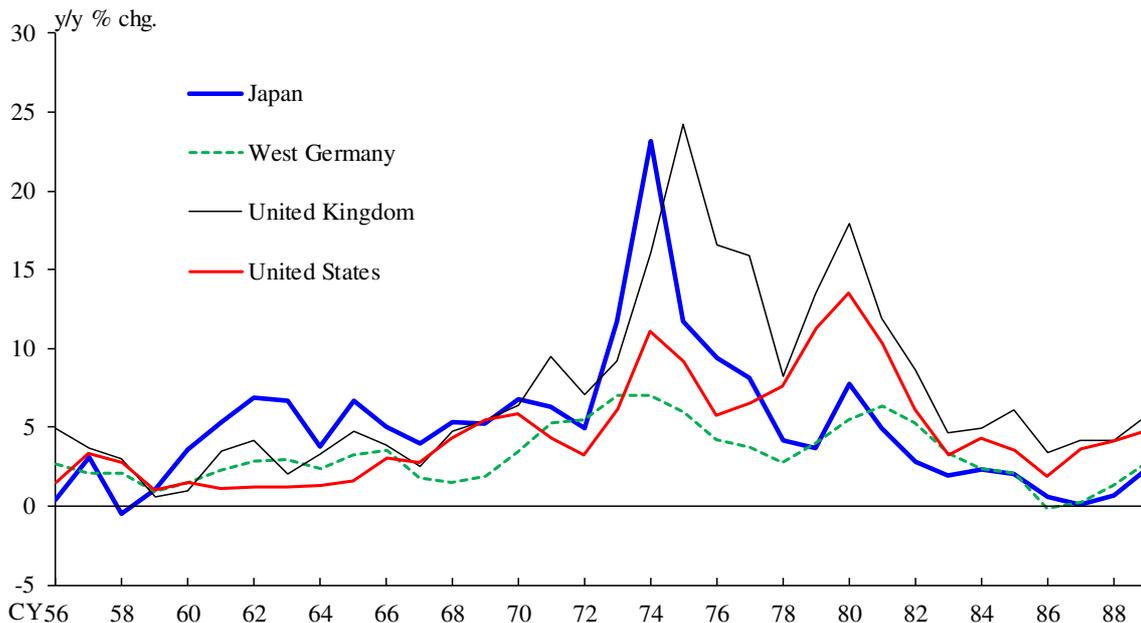
## Inflation Expectations



Notes: 1. In the left-hand chart, figures for Japan and the United States are 10-year break-even inflation rates. Those for the euro area are 10-year inflation swap rates. Figures for Japan from June 2008 through October 2013 are calculated using yield data for the inflation-indexed Japanese government bonds with the longest maturity for the respective periods.  
 2. In the right-hand chart, figures are based on staff calculations using the CPI excluding the effects of the consumption tax hikes, policies concerning the provision of free education, and the "Go To Travel" campaign, which covers a portion of domestic travel expenses.  
 Sources: Bloomberg; Ministry of Internal Affairs and Communications; Bank of Japan.

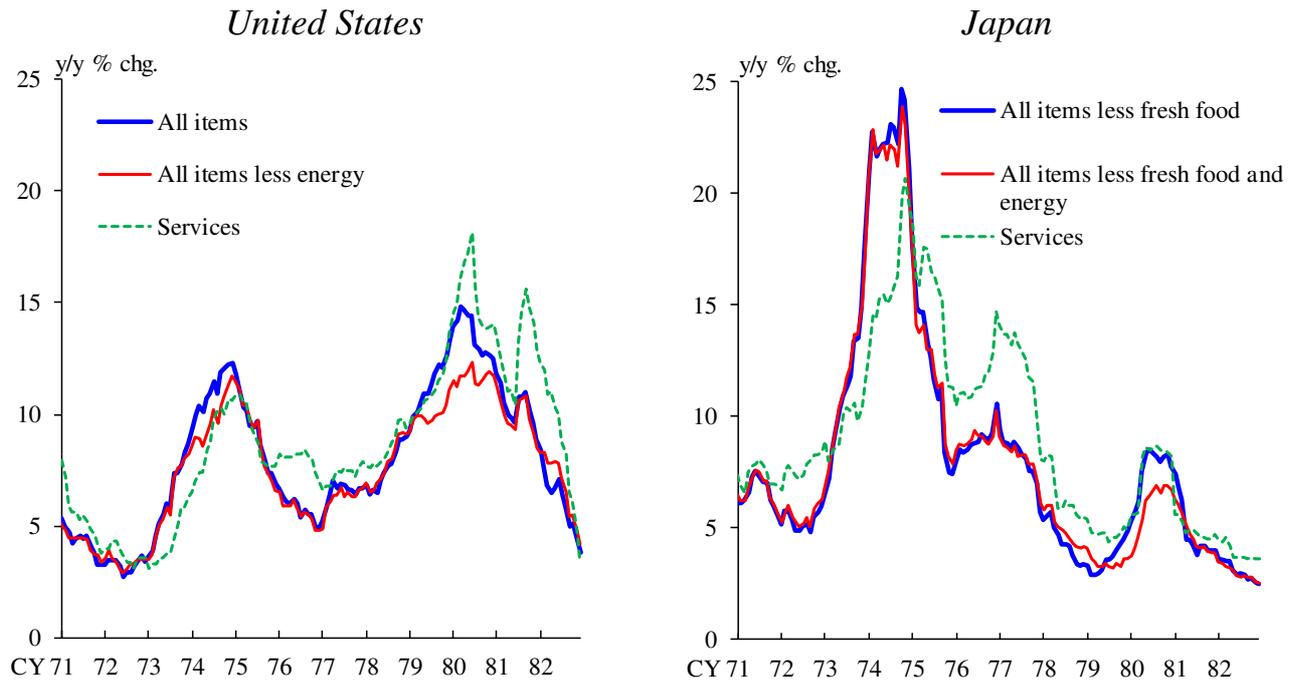
## II. Will the Era of Inflation Return?

### Price Developments in Selected Economies from the Mid-1950s through the 1980s



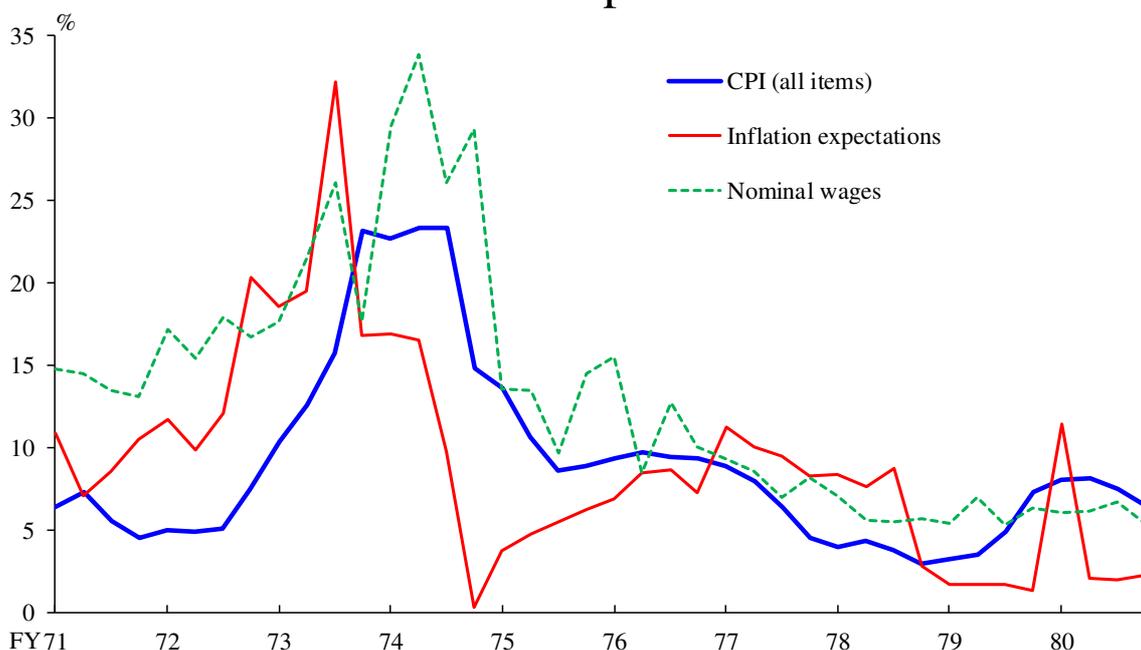
Note: Figures are the CPI for all items.  
 Source: OECD.

## CPI Inflation Rates during the Great Inflation



Note: Figures for services for the United States are adjusted to exclude energy. The source data for the figures for Japan do not include energy.  
Sources: Haver; Ministry of Internal Affairs and Communications.

## Changes in Various Indicators during the Great Inflation in Japan



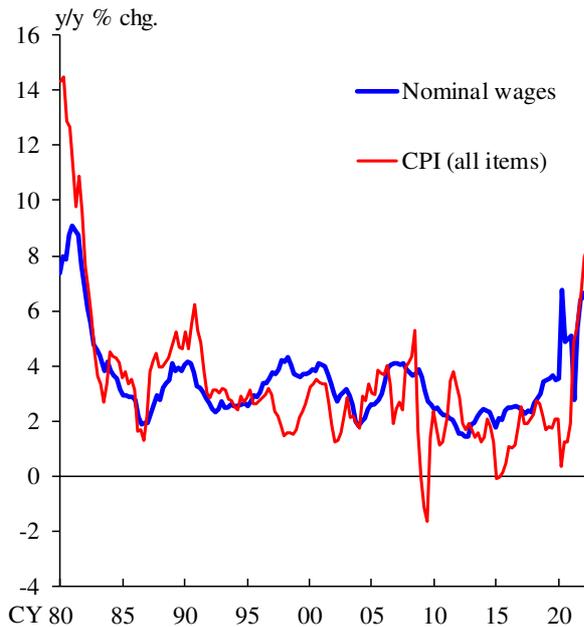
Notes: 1. Figures for inflation expectations are based on the *Consumer Confidence Survey* (all households), estimated using the Carlson-Parkin method. The figures are from the following paper: Shimada, H., Hosokawa, T., and Seike, A., "Chingin oyobi koyō chōsei katei no bunseki" [Analysis of the Wage and Employment Adjustment Process] in *Keizai bunseki* [Economic Analysis], ed. Economic Research Institute, Economic Planning Agency, no. 84, March 1982.

2. Figures for nominal wages show total cash earnings, including those for part-time employees, and are for establishments with at least 30 employees.

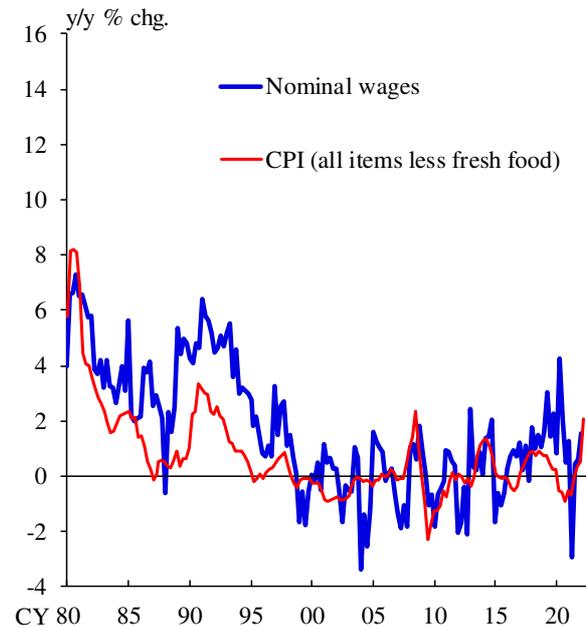
Sources: Ministry of Internal Affairs and Communications; Ministry of Health, Labour and Welfare; Cabinet Office.

## Historical Trends in Wages and Prices

### United States



### Japan



Notes: 1. In the left-hand chart, figures for nominal wages show average hourly earnings for private nonfarm employees, published by the BLS.

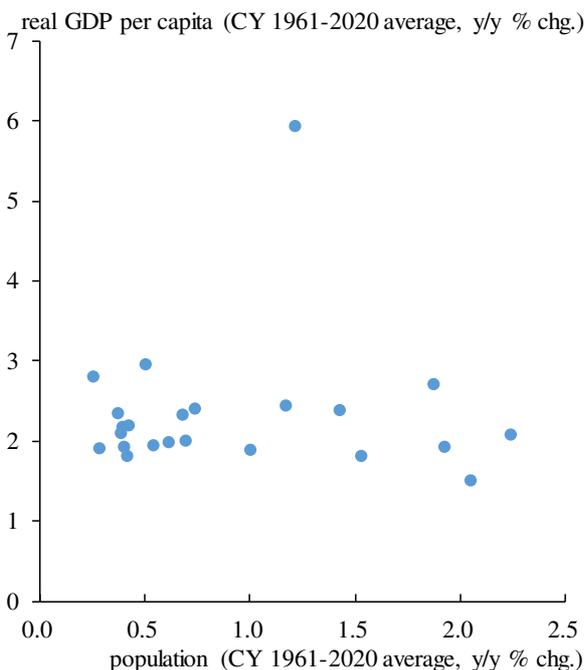
2. In the right-hand chart, figures for nominal wages are based on the *Monthly Labour Survey* published by the Ministry of Health, Labour and Welfare and calculated as follows:  
 Nominal wages = (Scheduled cash earnings + Non-scheduled cash earnings) / Total hours worked. The figures include nominal wages for part-time employees and are for establishments with at least 30 employees.

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

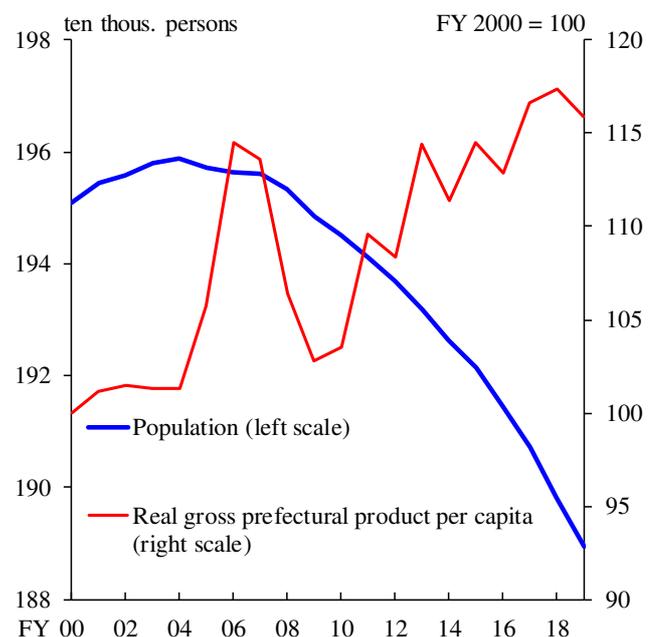
## III. Recent and Future Economic Activity in Okayama Prefecture

### Population Growth Rate and GDP

#### Global Population Growth and GDP Growth per Capita



#### Population and Gross Prefectural Product per Capita in Okayama Prefecture



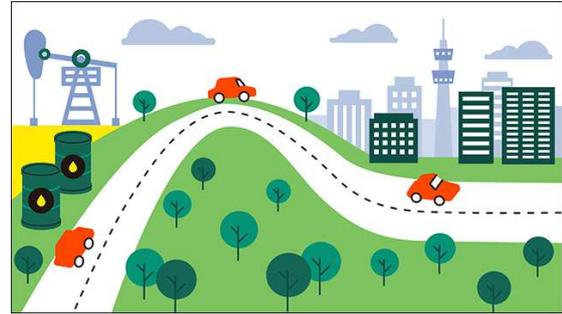
Note: In the left-hand chart, figures are those for 23 OECD member countries for which data from 1961 onward are available.  
 Sources: World Bank; Cabinet Office; Okayama Prefecture.

## Outline of the Outlook Report (April 2022)

(1) Japan's economy is likely to recover.



(2) The rate of increase in the CPI is expected to accelerate and then decelerate.



(3) COVID-19, the situation surrounding Ukraine, and market developments warrant attention.



(4) The Bank will continue with aggressive monetary easing.

