

(English translation prepared by the Bank's staff based on the Japanese original)

February 15, 2012

Bank of Japan

Monthly Report of Recent Economic and Financial Developments¹

February 2012

Summary

Japan's economic activity has been more or less flat, mainly due to the effects of a slowdown in overseas economies and the appreciation of the yen.

The pace of recovery in overseas economies is slowing on the whole mainly due to the effects of the European debt problem and of past monetary tightening in emerging and commodity-exporting economies, although some improvement has recently been observed in the U.S. economy. Exports and production have remained more or less flat, mainly due to the developments in overseas economies and to the effects of the yen's appreciation. As for domestic demand, business fixed investment has been on a moderate increasing trend aided by the restoration of disaster-stricken facilities. Private consumption has remained firm due in part to a recovery in demand that had been temporarily restrained after the earthquake disaster. Housing investment has generally been picking up and public investment has stopped declining.

With regard to the outlook, Japan's economic activity will remain more or less flat for the time being. After that, the economy is expected to return to a moderate recovery path as the pace of recovery in overseas economies picks up, led by emerging and commodity-exporting economies, and reconstruction-related demand after the earthquake disaster gradually strengthens.

Exports and production are expected to remain more or less flat for the time being and increase moderately thereafter, mainly reflecting a pick-up in the pace of recovery in overseas economies. Business fixed investment is projected to continue

¹ This report is based on data and information available at the time of the Bank of Japan Monetary Policy Meeting held on February 13 and 14, 2012.

a moderate increasing trend, partly due to efforts by firms to restore and reconstruct disaster-stricken facilities, although it will be affected by the slowdown in overseas economies for the time being. Housing investment and public investment are expected to increase gradually, mainly due to the materialization of reconstruction-related demand. Private consumption is expected to remain firm as the employment situation gradually heads toward improvement.

On the price front, the three-month rate of change in domestic corporate goods prices has been more or less flat, reflecting movements in international commodity prices. The year-on-year rate of change in consumer prices (all items less fresh food) is currently around 0 percent.

Domestic corporate goods prices are expected to be more or less flat for the time being, reflecting movements in international commodity prices. The year-on-year rate of change in consumer prices is expected to remain at around 0 percent for the time being.

The weighted average of the overnight call rate has been below the 0.1 percent level, and interest rates on term instruments have been more or less unchanged. Meanwhile, the value of the yen against the U.S. dollar, long-term interest rates, and stock prices have remained at more or less the same levels as last month.

Financial conditions have continued to ease.

The overnight call rate has remained at an extremely low level, and firms' funding costs have declined moderately. Stimulative effects from low interest rates are still partly constrained given current developments in economic activity and prices. With regard to credit supply, firms have continued to see financial institutions' lending attitudes as being on an improving trend. Issuing conditions for CP have continued to be favorable. Those for corporate bonds have also remained favorable on the whole. As for credit demand, firms have shown signs of increasing their demand mainly for working capital and funds related to mergers and acquisitions. Against this backdrop, the year-on-year rate of increase in the amount outstanding of bank lending has risen. The year-on-year rate of increase in the

amount outstanding of CP has become somewhat higher, while the year-on-year rate of change in that of corporate bonds has recently been slightly negative partly because some issuers have shifted to the CP market. In these circumstances, firms have retained their recovered financial positions on the whole. Meanwhile, the year-on-year rate of change in the money stock has been positive at around 3 percent.