

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

March 8, 2013

Bank of Japan

Monthly Report of Recent Economic and Financial Developments¹

March 2013

Summary

Japan's economy has stopped weakening.

While overseas economies remain in a deceleration phase, they have shown some signs of picking up. In this situation, exports appear to stop decreasing. Business fixed investment has shown some weakness on the whole, although resilience has been observed in nonmanufacturing. In contrast, public investment has continued to increase, and housing investment has generally been picking up. Private consumption has remained resilient. Reflecting these developments in demand both at home and abroad, industrial production has stopped decreasing.

With regard to the outlook, Japan's economy is expected to level off more or less for the time being, and thereafter, it will return to a moderate recovery path mainly against the background that domestic demand remains resilient partly due to the effects of various economic measures and overseas economies gradually emerge from the deceleration phase.

Exports are expected to start picking up mainly against the background that overseas economies gradually emerge from the deceleration phase. As for domestic demand, public investment is expected to continue trending upward supported by the effects of various economic measures, and housing investment to continue to generally pick up. Business fixed investment is projected to remain somewhat weak for the time being, mainly in manufacturing, but to follow a moderate increasing trend thereafter, partly due to investment related to disaster prevention and energy. Private consumption is expected to remain resilient, assisted mainly by an improvement in

¹ This report is based on data and information available at the time of the Bank of Japan Monetary Policy Meeting held on March 6 and 7, 2013.

consumer sentiment. Under these circumstances, industrial production is projected to pick up.

Meanwhile, there remains a high degree of uncertainty about the global economy.

On the price front, the three-month rate of change in domestic corporate goods prices is rising moderately, reflecting movements in foreign exchange rates. 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 continue rising for the meantime. For the time being, the year-on-year rate of change in consumer prices is expected to turn negative due to the reversal of the previous year's movements in energy-related and durable consumer goods, and thereafter, it is likely to be around 0 percent again.

The weighted average of the overnight call rate has been below the 0.1 percent level. Interest rates on term instruments have declined somewhat. In the meantime, compared with last month, stock prices have risen, while long-term interest rates have declined. The value of the yen against the U.S. dollar has remained at more or less the same level as last month.

Financial conditions are accommodative.

The overnight call rate has remained at an extremely low level, and firms' funding costs have been hovering at low levels. With regard to credit supply, firms have continued to see financial institutions' lending attitudes as being on an improving trend. Issuing conditions for CP and corporate bonds have 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 somewhat. The amount outstanding of CP and corporate bonds has been more or less around the year-ago level. 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 within the range of 2.5-3.0 percent.