

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

April 5, 2013

Bank of Japan

Monthly Report of Recent Economic and Financial Developments¹

April 2013

Summary

Japan's economy has stopped weakening and has shown some signs of picking up.

Overseas economies have been moving out of the deceleration phase that had continued since last year and are gradually heading toward a pick-up. In this situation, exports have stopped 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 been increasingly resilient, assisted by the improvement in consumer sentiment. Reflecting these developments in demand both at home and abroad, industrial production has stopped decreasing and has shown some signs of picking up. Business sentiment has shown signs of improvement again.

With regard to the outlook, Japan's economy is expected to 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 that growth rates of overseas economies gradually pick up.

Exports are expected to pick up mainly against the background that growth rates of overseas economies gradually pick up. 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 in some sectors for

¹ This report is based on data and information available at the time of the Bank of Japan Monetary Policy Meeting held on April 3 and 4, 2013.

the time being, but to follow a moderate increasing trend thereafter, partly due to investment related to disaster prevention and energy. Resilience in private consumption is expected to increase gradually. 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, reflecting movements in foreign exchange rates. The year-on-year rate of change in consumer prices (all items less fresh food) has been slightly negative, due to the reversal of the previous year's movements in durable consumer goods.

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 remain negative since the reversal of the previous year's movements is projected in durable consumer as well as energy-related 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, and interest rates on term instruments have been more or less unchanged. 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.