

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

September 16, 2015

Bank of Japan

Monthly Report of Recent Economic and Financial Developments¹

September 2015

Summary

Japan's economy has continued to recover moderately, although exports and production are affected by the slowdown in emerging economies.

Overseas economies -- mainly advanced economies -- have continued to grow at a moderate pace, despite the slowdown in emerging economies. Exports and industrial production have recently been more or less flat, due mainly to the effects of the slowdown in emerging economies. On the domestic demand side, business fixed investment has been on a moderate increasing trend as corporate profits have continued to improve markedly. Against the background of steady improvement in the employment and income situation, private consumption has been resilient and housing investment has been picking up. Meanwhile, public investment has entered a moderate declining trend, although it remains at a high level.

With regard to the outlook, Japan's economy is expected to continue recovering moderately.

Exports are expected to remain more or less flat for the time being, but after that, they are likely to increase moderately, as emerging economies move out of their deceleration phase. As for domestic demand, public investment is expected to continue its moderate declining trend, albeit maintaining a somewhat high level. Business fixed investment is projected to continue increasing moderately as corporate profits follow their marked improving trend. Private consumption is expected to remain resilient with the employment and income situation continuing to improve steadily. Housing investment is projected to continue picking up. Reflecting these

¹ This report is based on data and information available at the time of the Bank of Japan Monetary Policy Meeting held on September 14 and 15, 2015.

developments in demand both at home and abroad, industrial production is expected to remain more or less flat for the time being, but after that, it is likely to increase moderately.

Meanwhile, risks to the outlook include developments in the emerging and commodity-exporting economies, the prospects regarding the debt problem and the momentum of economic activity and prices in Europe, and the pace of recovery in the U.S. economy.

On the price front, producer prices are declining relative to three months earlier, mainly due to the fall in international commodity prices, and the year-on-year rate of increase in consumer prices (all items less fresh food) is about 0 percent. Inflation expectations appear to be rising on the whole from a somewhat longer-term perspective.

With regard to the outlook, producer prices are expected to continue declining for the time being, reflecting movements in international commodity prices, and the year-on-year rate of increase in consumer prices is likely to be about 0 percent for the time being, due to the effects of the decline in energy prices.

Financial conditions are accommodative.

The monetary base has increased significantly as asset purchases by the Bank of Japan have progressed, and the year-on-year rate of growth has been in the range of 30-35 percent.

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 continued to be favorable. Firms' credit demand has been increasing moderately, 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 been in the range of 2.5-3.0 percent. The amount outstanding of CP and corporate bonds has been more or less around the year-ago level. Firms' financial

positions have been favorable. Meanwhile, the year-on-year rate of growth in the money stock has been in the range of 4.0-4.5 percent.

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. Compared with last month, stock prices have fallen, while the value of the yen against the U.S. dollar has risen. Meanwhile, long-term interest rates have remained at more or less the same level as last month.