

## **Ryuzo Miyao: Economic activity and prices in Japan and monetary policy**

Speech by Mr Ryuzo Miyao, Member of the Policy Board of the Bank of Japan, at a meeting with business leaders, Okayama, 10 April 2014.

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*Accompanying charts can be found at the end of the speech.*

### **Introduction**

Thank you for giving me this opportunity to exchange views with people representing Okayama Prefecture, who have taken time to be here despite their busy schedules. Please allow me to express my gratitude for your cooperation with the activities of the Bank of Japan's Okayama Branch.

Today, I will review economic activity and prices in Japan, whose economy has been recovering moderately, and then discuss the Bank's monetary policy. My concluding remarks will touch briefly on the economy of Okayama Prefecture. Following my speech, I would like to listen to your views on the actual situation of the local economy and to your candid opinions.

### **I. Recent developments in economic activity and prices**

#### **A. Continued moderate recovery in Japan's economy**

Japan's economy returned to a moderate recovery path in mid-2013 and has continued to recover moderately as domestic demand has been firm (Charts 1 and 2).

I will elaborate on the recent developments related to Japan's economy. Overseas economies – mainly advanced economies – are starting to recover, although the performance remains lackluster in some parts of emerging economies. With regard to developments in overseas economies by region, the U.S. economy remains on a moderate recovery, although effects of a winter snowstorm are still observed. With the fiscal drag having subsided, the recovery trend in the economy is gradually becoming widespread. The pick-up in the European economy is clear, as evidenced by the continued pick-up in domestic demand and given that signs of recovery are being observed in exports. The Chinese economy continues to see stable growth on the back of firm domestic demand. In addition, the authorities' stance that they will continue to pay consideration to economic activity while progressing with structural reforms is affirmed particularly by the fact that the Chinese government set the GDP growth target for 2014 at around 7.5 percent, the same level as the previous year. Regarding the NIEs and the ASEAN countries, while economic activities in the NIEs are picking up, growth momentum in some ASEAN countries remains weak.

Against this backdrop, Japan's economy has continued to recover moderately, as a virtuous cycle driven primarily by domestic demand continues to operate. As for external demand, Japan's exports have leveled off more or less, due in part to the effects of a winter snowstorm in the United States and to somewhat weak economic developments in some emerging countries. In terms of domestic demand, on the other hand, public investment has continued to increase and the pick-up in business fixed investment has become increasingly evident as corporate profits have improved. As for the employment and income situation, supply and demand conditions in the labor market have continued to improve steadily, as evidenced by the continued rise in the job openings-to-applicants ratios and decline in the unemployment rate to around 3.5 percent, and employees' compensation has also picked up moderately. Private consumption and housing investment have remained resilient, with improvement in the employment and income situation, albeit with some fluctuations due to

the consumption tax hike. Industrial production has been on a moderate increasing trend, reflecting these developments in demand both at home and abroad. Meanwhile, business sentiment has continued to improve, as evidenced by the March 2014 *Tankan* (Short-Term Economic Survey of Enterprises in Japan).

As for the outlook, Japan's economy is expected to continue its moderate recovery as a trend, while it will be affected by the front-loaded increase and subsequent decline in demand prior to and after the consumption tax hike (Chart 3). Regarding overseas economies, as growth in advanced economies is expected to gain momentum over time, the NIEs and the ASEAN countries are likely to head toward stability, and their pace of growth as a whole will gradually accelerate. In this situation, Japan's exports are likely to pick up moderately. As for domestic demand, public investment is likely to stay at a high level and business fixed investment is projected to follow a moderate increasing trend as corporate profits continue on their improving trend. Private consumption and housing investment are expected to remain resilient as a trend, albeit with some fluctuations. In this situation, industrial production is expected to follow a moderate increasing trend. The key to sustainable economic recovery is developments in private consumption and nonmanufacturing. I will elaborate on this point later in my speech.

Meanwhile, risks to the outlook include developments in the emerging and commodity-exporting economies, the prospects for the European debt problem, and the pace of recovery in the U.S. economy. Compared to the previous year, taking the U.S. economy as an example, uncertainty about the fiscal problems has receded significantly; in terms of monetary policy, the Federal Reserve has begun reducing the pace of its asset purchases. Accordingly, I view risks to the outlook as generally balanced.

## **B. Sustainability of economic recovery**

The main feature of the current economic recovery is that it is driven not by exports but by consumption and nonmanufacturing activities. The recovery in consumption is not due merely to increased consumption of high-end goods and services supported by a rise in stock prices. An underlying factor is progress with efforts to boost potential demand in areas related to ordinary consumption and nonmanufacturing. Firms' profitability has been increasing, and this seems to have brought about a recovery trend in the employment and income situation.

### *1. Current economic recovery driven by consumption and nonmanufacturing*

Let me first examine the current economic recovery that has been driven by consumption and nonmanufacturing. Figures for private consumption expenditure, exports, business fixed investment, and public investment indicate that the pattern of the former recovery, driven by exports, can be clearly observed in the expansionary phase of 2002 to 2008 (Chart 4). Although exports have subsequently recovered from the sharp drops following the Lehman shock and the Great East Japan Earthquake, they have been more or less flat in the longer run. In contrast, consumption expenditure has shown steady growth, albeit with various effects, and has posted even higher growth since the start of 2012.

The improving trend in consumption is evident even when compared with developments in business fixed investment and public investment. Business fixed investment – which, like exports, previously led the economic recovery – has recently been showing a small pick-up. Public investment has finally exhibited a marked increase since the April-June quarter of 2013. The fact that consumption has been posting increasingly higher growth in the initial phase of economic recovery – without being accompanied by increases in exports and 4 business fixed investment at home – deserves special mention.

Breaking down the improvement in private consumption into goods and services, both have been showing increasingly higher growth over the past few years (Chart 5). A further breakdown of goods consumption into “the sum of semi-durable goods and non-durable

goods,” such as clothing and food, and “durable goods,” such as automobiles and furniture, indicates that the former has remained more or less flat while the latter has continued to increase significantly following the Lehman shock (Chart 6). This suggests that, within private consumption, services consumption and durable goods consumption in particular have been the driving force of economic recovery these past few years.

It is evident that the current economic recovery has also been driven by nonmanufacturing activities (Chart 7). Before the Lehman shock and the earthquake disaster, nonmanufacturing activities moved in almost the same direction as those in manufacturing, with manufacturing leading the way. Since 2012, when the effects of the earthquake disaster mostly dissipated, the level of nonmanufacturing activities has marked an apparent increase, while manufacturing activities have been lackluster.

A further intensification of global competition can be pointed to as part of the background behind the fact that it has been difficult for exports and domestic manufacturing activities to realize an upward bounce. Manufacturing firms in particular are further increasing their production, procurement, and fixed investment in overseas countries where there is demand. This may be acting as a burden for exports and business fixed investment at home (Chart 8). In this situation, however, firms have been steadily enhancing their ability to make profits on a global basis. An increase in the consolidated profits of firms will contribute to the rise in stock prices, and an improvement in Japan’s net income from the rest of the world, or income balance, will be an important source of increasing national savings and net external assets (Chart 9). These developments will support Japan’s economic growth.

## 2. *Progress with efforts to boost potential demand*

Exactly what kinds of activities have supported the recovery driven by consumption and nonmanufacturing? Efforts to stimulate potential demand have been spreading to a wider range of nonmanufacturing sectors, such as retailing, eating and drinking services, tourism, transport activities, and construction. More specifically, they range from active openings of new convenience stores and shopping malls, construction of apartments for the elderly, home-delivery service, and online shopping, to the building of new advanced distribution centers. These efforts can be categorized into (a) developing and providing services for the rapidly increasing number of senior citizens to increase their life expectancy and promote a better quality of life, (b) working to boost the demand of foreign tourists, and (c) providing new services for firms and individuals to meet more sophisticated or diverse needs.

These efforts are made to produce higher value-added goods and services backed by primary demand. Each of these efforts may appear tiny in magnitude but can be long-lasting and sustainable, and they are spreading to many segments of the overall economy. Some of them are also inducing business fixed investment that embodies new technology.

In fact, the profitability (the ratio of current profits to sales) of nonmanufacturing firms has been on an increasing trend over the past few years (Chart 10). Coupled with the latest increase in profitability of manufacturing firms, the profitability of firms as a whole has been contributing to efforts to improve productivity and strengthen the growth potential of Japan’s economy as well as to improve people’s outlook for their permanent income.

Concurrently, further accommodative financial conditions – such as lower long-term interest rates, higher stock prices, and the yen’s depreciation – have strongly supported these efforts. The annual growth rate of bank lending turned positive at the end of 2011, and has been rising steadily since then.

## 3. *Changing employment and income situation*

Heightened activity in the nonmanufacturing sector has altered the employment and income situation. The labor demand of nonmanufacturing firms has been increasing as a trend, and a labor shortage is particularly evident at small firms (Chart 11). Firms have started to raise wages for part-time workers and to allow for a shift in employment from non-regular employment to regular employment. In addition, the outcome of the spring wage negotiations

suggests, in not just a few cases, possible increases in monthly wages and bonus payments as well as other lump-sum payments.

Firms also face challenges in promoting new participation in the labor force, which has led to a rise in the employment rate of female spouses and the labor force participation rate of women (Charts 12 and 13). An increase in part-time and low-paid workers could result in a decline in wages per worker. It should be noted, however, that this trend partly reflects workers' own preferences about management of their household chores and child rearing. If people who previously had concentrated on household chores and child rearing join the labor force, they will increase the economy's supply capacity, bringing additional income to households. Sustained improvement in the employment situation for non-regular employees is expected to spill over to regular employment and contribute to its stabilization.

#### **4. *Sustainability of economic recovery driven by consumption***

Let me summarize what I have discussed thus far. First, from the supply side of the economy, firms – mainly in nonmanufacturing – have progressed with new measures to find potential consumer demand, creating higher value-added and increasing business fixed investment. This has supported the foundation of profitability and productivity improvement, thereby strengthening the growth potential of Japan's economy.

Regarding labor market aspects such as the employment and income situation, firms' labor demand has grown broadly, while the household labor supply has been increasing, prompted by voluntary labor force participation by women. An increase in labor demand accompanied by improvement in supply should bring about a significant rise in the number of employees, a moderate pick-up in wages, and a recovery trend in total employees' compensation.

From the demand side, the creation of higher value-added and a better outlook of households for employment and income will lead to a rise in the trend in consumption expenditure. Enhancing firms' ability to make profits overseas will also increase national savings and net assets, thereby supporting consumption activities over a longer period of time.

Taking these three aspects together, a self-sustaining economic recovery driven by consumption and nonmanufacturing will likely persist. In this situation, even if there are temporary fluctuations in the economic growth rate and adverse effects on households' disposable income due to the consumption tax hikes, Japan's economy is likely to continue growing, as a trend, at a pace higher than its potential growth rate.

#### **C. *Increasing upward pressure on prices***

On the price front, the continued economic recovery driven by consumption has heightened inflationary pressure (Chart 14). The year-on-year rate of increase in the consumer price index (CPI, all items less fresh food) has risen to 1.3 percent, and price rises have been observed not only in energy-related goods but also across a wide range of items. On a basis excluding food and energy, the rate of increase has risen to 0.8 percent. With regard to the outlook, the rate of increase in the CPI (all items less fresh food), excluding the direct effects of the consumption tax hike, is likely to be around 1-1/4 percent for some time.

As the background to this situation, we note that firms have started to raise prices by setting higher markups and more directly passing through their costs to prices in a situation where demand for goods and services keeps increasing. This means that the same increase in demand will generate higher inflation, which makes the Phillips curve steeper (Chart 15). In particular, consumer demand for services and durable goods has kept increasing, and this seems to be exerting upward pressure on overall prices (Charts 5 and 6).

In fact, these developments have begun to be seen in a wide range of consumption goods and services. A detailed examination of items that comprise the CPI reveals that the number of items for which prices have risen year on year has increased steadily while those for which

prices have declined has decreased steadily (Chart 16). A self-sustaining, long-lasting economic recovery driven by consumption is likely to exert upward pressure on prices for a wider range of goods and services. Medium- to long-term inflation expectations are likely to rise accordingly.

## **II. Monetary policy**

### **A. Framework for the conduct of monetary policy**

In January 2013, the Bank set the “price stability target” at 2 percent in terms of the year-on-year inflation rate of the CPI, and made a clear commitment to achieving this target at the earliest possible time. In April of that year, the Bank introduced quantitative and qualitative monetary easing (QQE) to achieve the target at the earliest possible time, with a time horizon of about two years (Charts 17 and 18).

Let me now explain the policy framework of QQE. First, the Bank conducts money market operations so that the monetary base will increase at an annual pace of about 60–70 trillion yen. Second, it purchases Japanese government bonds (JGBs) so that their amount outstanding will increase at an annual pace of about 50 trillion yen, and the average remaining maturity of the Bank’s JGB purchases will be about seven years. Third, it purchases exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) so that their amounts outstanding will increase at an annual pace of about 1 trillion yen and about 30 billion yen, respectively. And fourth, for CP and corporate bonds, the Bank continued with these asset purchases until their amounts outstanding reached 2.2 trillion yen and 3.2 trillion yen, respectively, by end-2013, and it has maintained these amounts outstanding. Clearly, these measures are drastic both in terms of the overall quantity and the quality of assets purchased.

The Bank will continue with QQE, which consists of the measures I have just cited, aiming to achieve the price stability target of 2 percent, as long as it is necessary for maintaining that target in a stable manner. It will examine both upside and downside risks to economic activity and prices, and make adjustments as appropriate.

As a result, calculated on a stock basis, the monetary base and the amounts outstanding of JGBs as well as ETFs are projected to almost double in two years. The ratio of the monetary base to nominal GDP is expected to increase to about 56 percent by end-2014. This not only stands out in comparison with the other advanced economies, but also is more than three times larger than the ratio before the Lehman shock.

The amounts outstanding of the monetary base and JGBs at end-March 2014 stood at about 220 trillion yen and about 154 trillion yen, respectively. At each Monetary Policy Meeting, the Bank decides on whether to continue these drastic measures both in terms of quantity and quality, and has been steadily pursuing aggressive monetary easing.

### **B. Key characteristics of QQE**

Let me highlight three key characteristics of QQE. First, rather than adopting an incremental approach, the Bank took all-out measures necessary to overcome deflation. Second, the Bank showed its determination by committing to achieve the price stability target at the earliest possible time, with a time horizon of about two years. And third, the Bank decided to continue with QQE as long as it is necessary for maintaining the 2 percent price stability target in a stable manner.

As guidance for the future path of monetary policy, while demonstrating its determination by indicating a timeframe of “about two years,” the Bank decided to link the continuation of monetary easing with the policy target under QQE by committing to continuing with QQE “as long as it is necessary for maintaining the 2 percent price stability target in a stable manner,” and thus incorporated elements of an open-ended framework. The guidance possesses a

state dependent aspect since QQE will respond accordingly to the status of economic activity and prices. By incorporating elements of an open-ended framework, a “stabilizing mechanism” is expected to operate. Specifically, if market participants anticipate that the economic and price outlook will weaken compared to the baseline scenario, they will expect an extension, and thereby a strengthening, of monetary easing. This will be factored into the new outlook and in turn help to achieve the target.

It is difficult to make a real-time analysis of the policy effects of QQE. However, QQE seems to provide strong support for Japan’s economic recovery from the financial side, as I have just described. Thus far, Japan’s economic activity and prices are developing in line with the Bank’s Policy Board members’ median forecasts – in other words, with real GDP growth at 1.4 percent and 1.5 percent in fiscal 2014 and 2015, respectively, and CPI inflation excluding the effects of the consumption tax hikes at 1.3 percent and 1.9 percent in those years (Chart 3).

Meanwhile, market participants and economists seem to have a conservative outlook. Regarding the price outlook in particular, the ESP Forecast Survey indicates that prices are expected to rise at around 1 percent in both fiscal 2014 and 2015, which presents a gap in comparison with the Bank’s forecasts. This seems to mainly reflect the difference in views on the degree of a rise in the medium- to long-term inflation expectations and of the price pass-through behavior by firms. In this regard, the Bank will continue to provide a thorough explanation of the thinking and mechanism behind its outlook.

Regarding the effects of unconventional monetary easing, empirical studies have been conducted on Japan’s quantitative easing (QE) policy, which took place from 2001 to 2006. Empirical results based on a time-series approach imply that the QE policy boosted production through such transmission channels as a rise in stock prices and the depreciation of the yen. The current QQE is expected to have more powerful policy effects than the previous QE, given the significant expansion of the Bank’s balance sheet, the extension of duration on the asset side, the introduction of a clear price stability target, and the forward guidance broadly linked to the target.

**C. *Measures to strengthen the transmission effects of QQE: enhancement of the loan support program***

To support full use of the accommodative financial conditions by firms and households, the Bank has been employing the Loan Support Program. At the Monetary Policy Meeting held on February 17 and 18, 2014, the Bank decided to double the scale of the Loan Support Program and to extend its application period by one year (Chart 19). The Loan Support Program consists of two measures: the fund-provisioning measure to stimulate bank lending (hereafter the Stimulating Bank Lending Facility) and the fund-provisioning measure to support strengthening the foundations for economic growth (hereafter the Growth-Supporting Funding Facility).

Specifically, under the Stimulating Bank Lending Facility, the Bank decided to enable financial institutions to borrow funds from it up to an amount that is twice as much as the net increase in their lending. As for the Growth-Supporting Funding Facility, the Bank decided to double the maximum amount of its fund-provisioning under the main rules from 3.5 trillion yen to 7 trillion yen. It also decided to increase the maximum amount of its fund-provisioning to each financial institution from 150 billion yen to 1 trillion yen. Under these facilities, financial institutions will be able to borrow funds at a fixed rate of 0.1 percent per annum for four years.

Thus far, the Loan Support Program has supported financial institutions’ efforts to increase the total amount of their lending and has produced positive effects as a catalyst in regard to firms’ and financial institutions’ efforts to strengthen the foundations for Japan’s economic growth. The Bank expects that the enhancements made at the February Monetary Policy

Meeting will further promote financial institutions' actions as well as stimulate firms' and households' demand for credit, with a view to encouraging banks' lending and strengthening the foundations for economic growth. These enhancements will reinforce the transmission effects of QQE.

In order to strengthen the growth potential of Japan's economy, in addition to efforts made by the private sector, it is critical that the government take action. The joint statement of the government and the Bank, released in January 2013, asserts that the government will strongly promote measures for strengthening the competitiveness and growth potential of Japan's economy by carrying out bold regulatory and institutional reforms. It also expressly states that the government will steadily promote measures to establish a sustainable fiscal structure and ensure the credibility of fiscal management. I strongly expect that the government will steadily proceed with these measures.

### **Concluding remarks: the economy of Okayama prefecture**

My concluding remarks will touch on the economy of Okayama Prefecture.

The industrial structure of Okayama Prefecture has an advantage in *monozukuri*, or manufacturing, which accounts for about 30 percent of gross prefectural production. Petroleum, chemical, and iron and steel products, as well as automobiles, are supplied to other regions and overseas mainly from the Mizushima industrial complex located in the southern part of Okayama Prefecture, which is one of the major industrial complexes in Japan. With the cooperation of industry, government, and academia, as well as of financial institutions, the prefecture has recently been working aggressively to foster new industrial clusters, such as electric cars and aircraft, which are linked to a wide range of industries and have growth potential.

Besides manufacturing, thanks to a favorable geographical condition of lying between the Chugoku and Shikoku regions, there has recently been an increase in the building of distribution centers and shopping malls with the aim of transferring goods and attracting people from throughout those regions. To take advantage of the power of the shopping malls to draw customers and thus boost the local economy, the prefecture has been working to redevelop surrounding communities by making road improvements and enhancing cooperation among retailers there.

Moreover, the prefecture has many outstanding characteristics. First of all, the fine, warm weather makes the prefecture not only a favorable place to harvest crops, thereby making it known nationwide as a peach- and grape-producing region, as well as to nurture rich forests, but also a suitable place to generate electricity from solar power. Second, the solid ground and low risk of tsunami have promoted the construction of large-scale data centers. Third, the accumulation of high-level general hospitals in the prefecture has been contributing to the development of the medical and nursing care industry. And fourth, abundant tourism resources offer, for example, world-class scenic spots for sightseeing, such as Okayama Korakuen Garden and Kurashiki Bikan Area, as well as "B-grade gourmet dishes," or local casual food items, which have become widely known and have helped revitalize the local economy. To further fulfill the potential of tourism resources, aggressive efforts have been made to strengthen cooperation with relevant organizations and boost PR promotion, such as increasing opportunities for the Prefectural Governor to promote these resources.

Through efforts to make use of these characteristics and advantages, as well as foster new areas with growth potential, I expect that the economy of Okayama Prefecture will achieve further growth.

The Bank will continue to provide support as much as possible as the central bank, so that efforts in each economic sector of the prefecture will pay off.

## Charts

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Chart 17: Quantitative and Qualitative Monetary Easing (QQE)

Chart 18: Transmission Channels of QQE

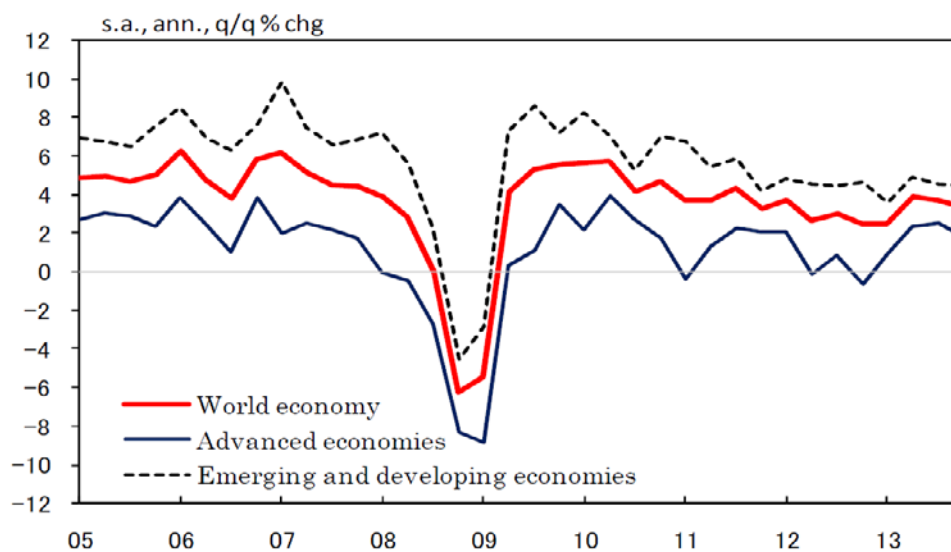
Chart 19: Enhancement of the Loan Support Program

Note: Charts are based on data released prior to April 4, 2014.



(Chart 1)

### World Economic Growth Rate

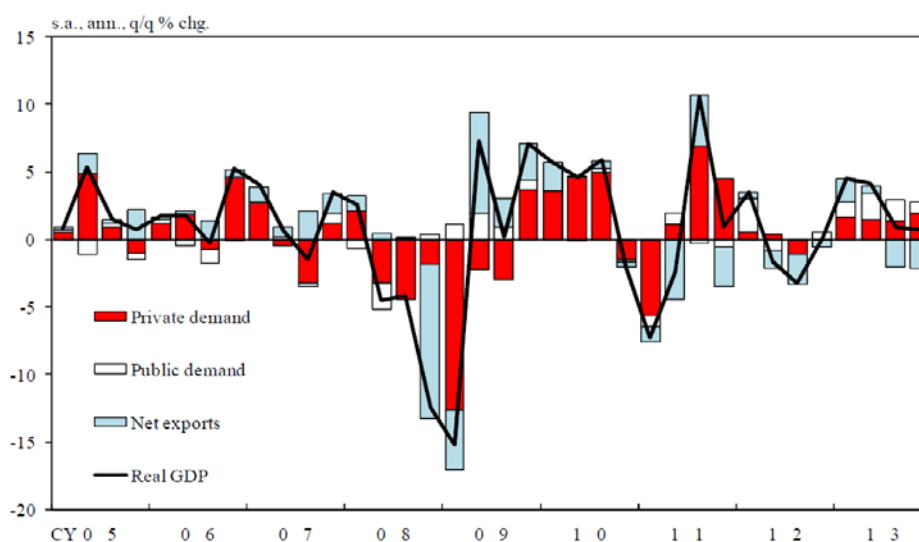


Notes: 1. The world economy covers 189 countries. The advanced economies are the United States, the euro area (17 countries), the United Kingdom, and Japan.  
2. The figure for emerging and developing economies includes estimated quarterly growth rates based on historical annual data on real GDP growth rates.

Source: IMF, "World Economic Outlook."

(Chart 2)

### Japan's Economic Growth Rate



Source: Cabinet Office, "National Accounts."

(Chart 3)

### Outlook for Economic Activity and Prices (as of January 2014)

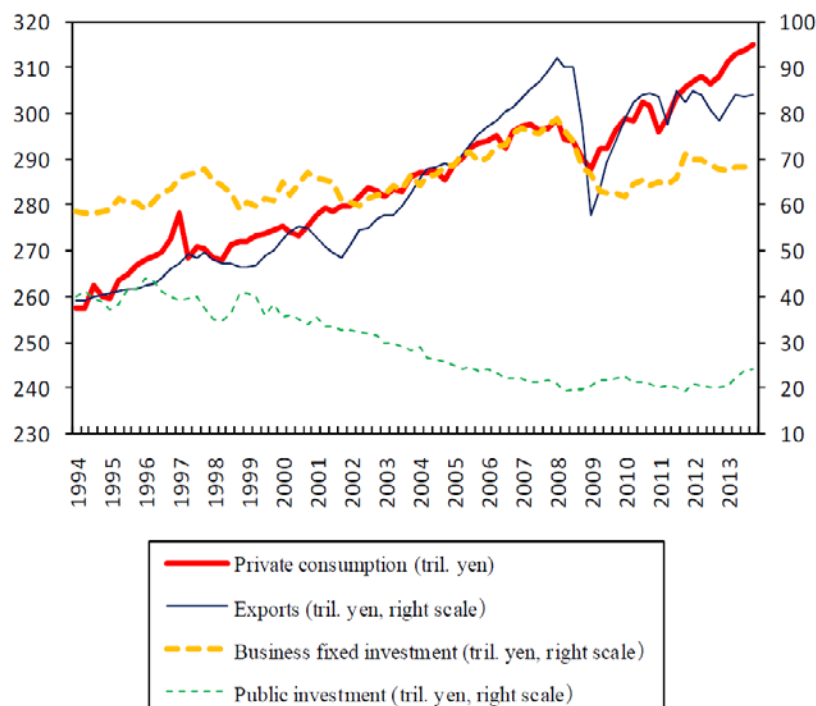
		y/y % chg.		
		Real GDP	CPI (all items less fresh food)	Excluding the effects of the consumption tax hikes
Fiscal 2013		+2.5 to +2.9 [+2.7]	+0.7 to +0.9 [+0.7]	
Forecasts made in October 2013		+2.6 to +3.0 [+2.7]	+0.6 to +1.0 [+0.7]	
Fiscal 2014		+0.9 to +1.5 [+1.4]	+2.9 to +3.6 [+3.3]	+0.9 to +1.6 [+1.3]
Forecasts made in October 2013		+0.9 to +1.5 [+1.5]	+2.8 to +3.6 [+3.3]	+0.8 to +1.6 [+1.3]
Fiscal 2015		+1.2 to +1.8 [+1.5]	+1.7 to +2.9 [+2.6]	+1.0 to +2.2 [+1.9]
Forecasts made in October 2013		+1.3 to +1.8 [+1.5]	+1.6 to +2.9 [+2.6]	+0.9 to +2.2 [+1.9]

Note: Figures in brackets indicate the median of the Policy Board members' forecasts (point estimates).

Source: Bank of Japan.

(Chart 4)

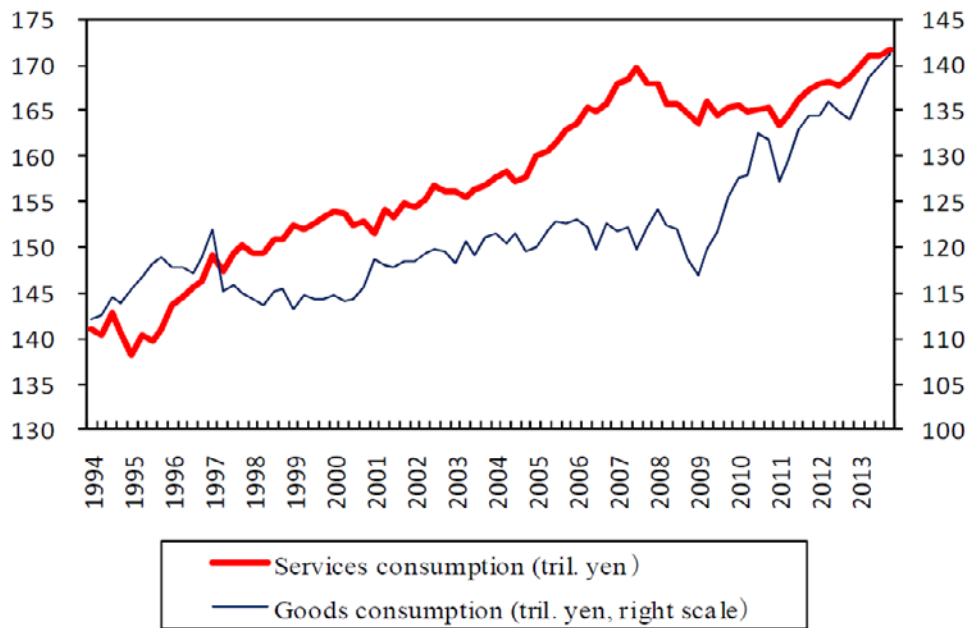
### Private Consumption, Exports, and Business Fixed and Public Investment



Source: Cabinet Office, "National Accounts."

(Chart 5)

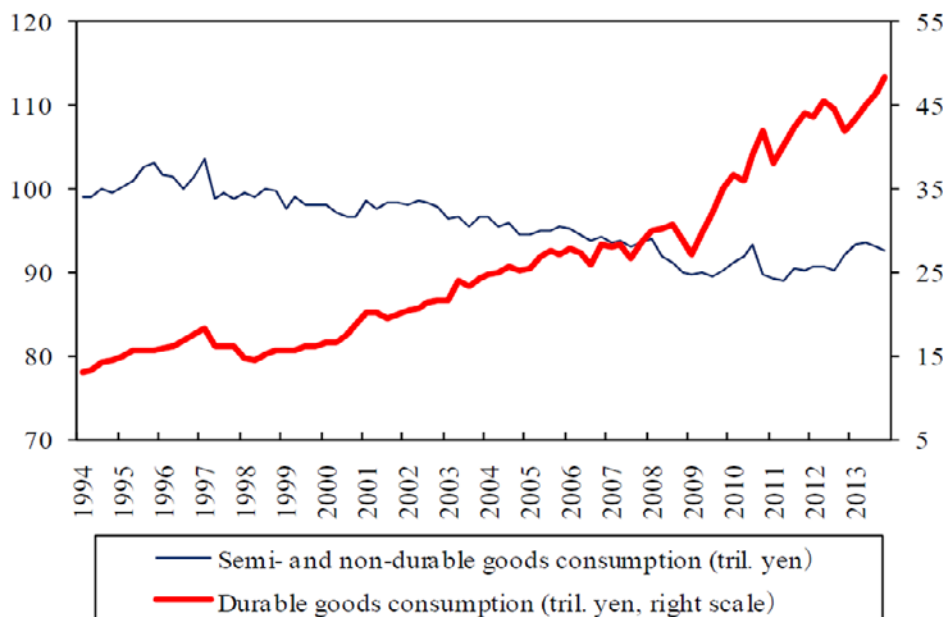
### Services and Goods Consumption



Source: Cabinet Office, "National Accounts."

(Chart 6)

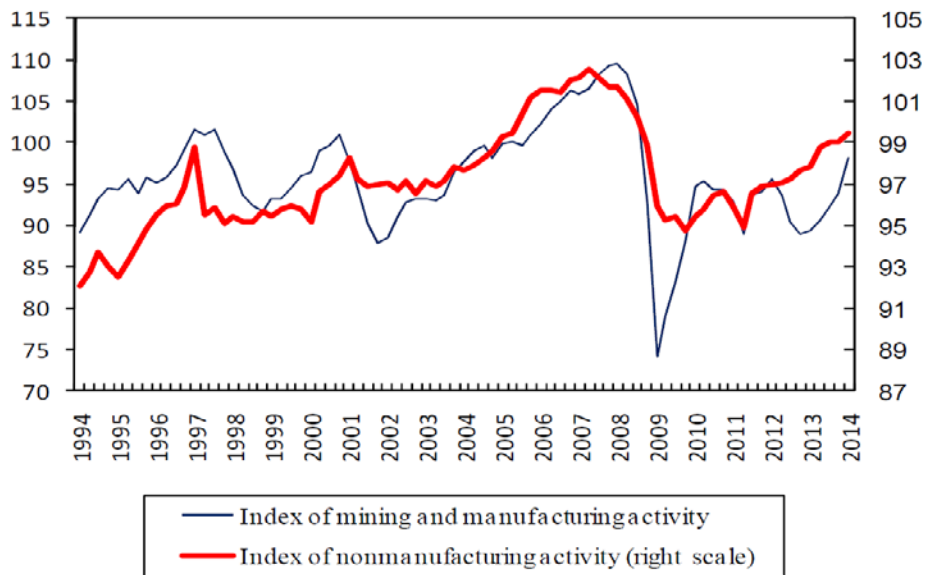
### Goods Consumption, and Semi- and Non-Durable Goods Consumption



Source: Cabinet Office, "National Accounts."

(Chart 7)

### Economic Activity of Manufacturing and Nonmanufacturing Firms

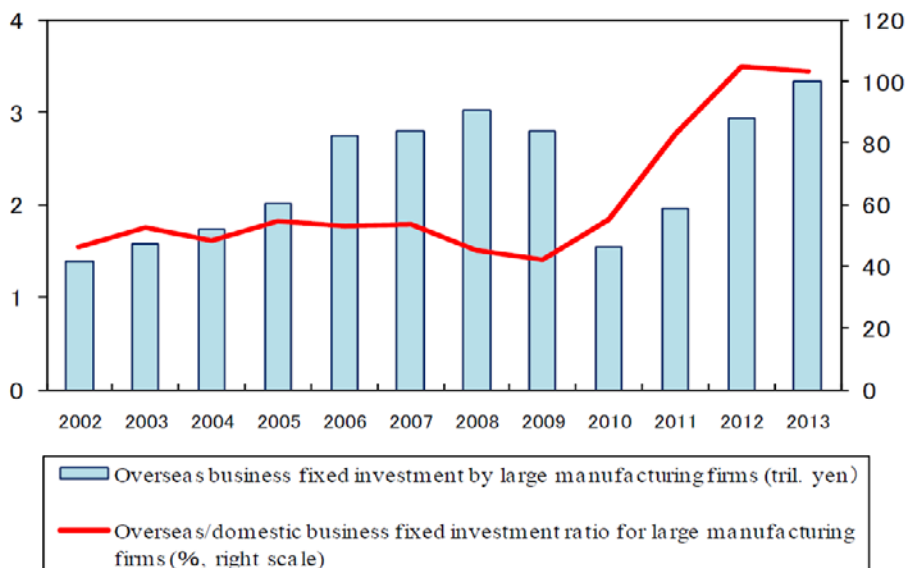


Note: The index of nonmanufacturing activity is calculated as the weighted average of the index of tertiary industry activity and the index of construction industry activity.

Source: Ministry of Economy, Trade and Industry, "Indices of All Industry Activity."

(Chart 8)

### Overseas Business Fixed Investment by Large Manufacturing Firms



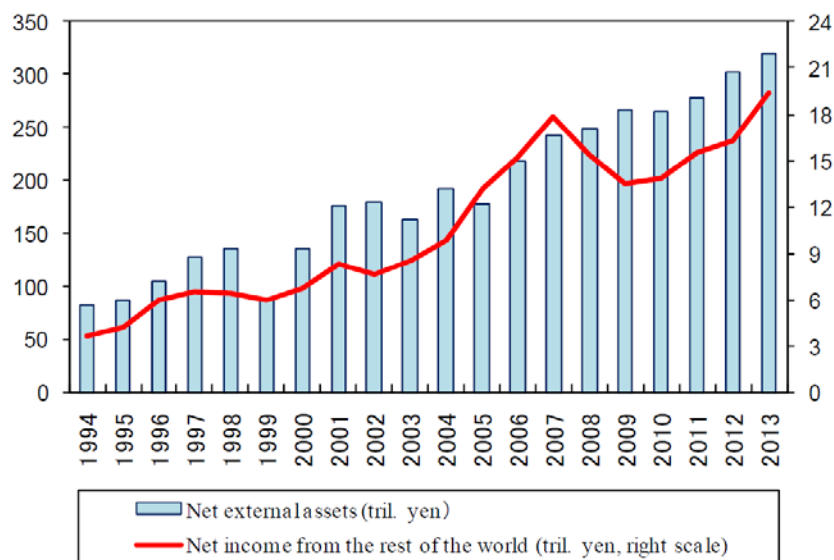
Notes: 1. Survey is conducted on large manufacturing firms with capital of 1 billion yen or more. Figures for fiscal 2013 are planned amounts.

2. Overseas/domestic business fixed investment ratio for large manufacturing firms = Amount of overseas business fixed investment (consolidated basis)/amount of domestic business fixed investment (non-consolidated basis)  $\times 100$ .

Source: Development Bank of Japan, "Survey on Planned Capital Spending."

(Chart 9)

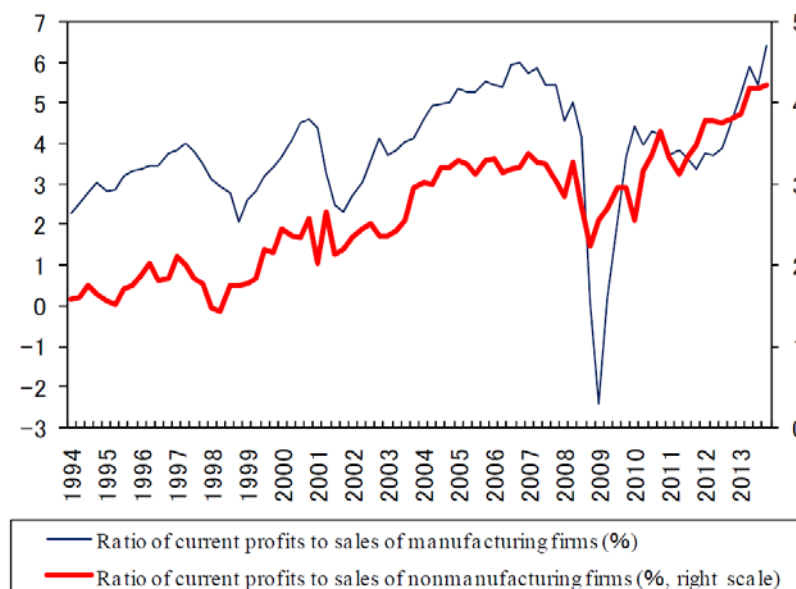
### Net External Assets and Net Income from the Rest of the World



Note: Figures for fiscal 2013 are those up to end-December 2013.  
Sources: Cabinet Office, "National Accounts"; Bank of Japan, "Flow of Funds."

(Chart 10)

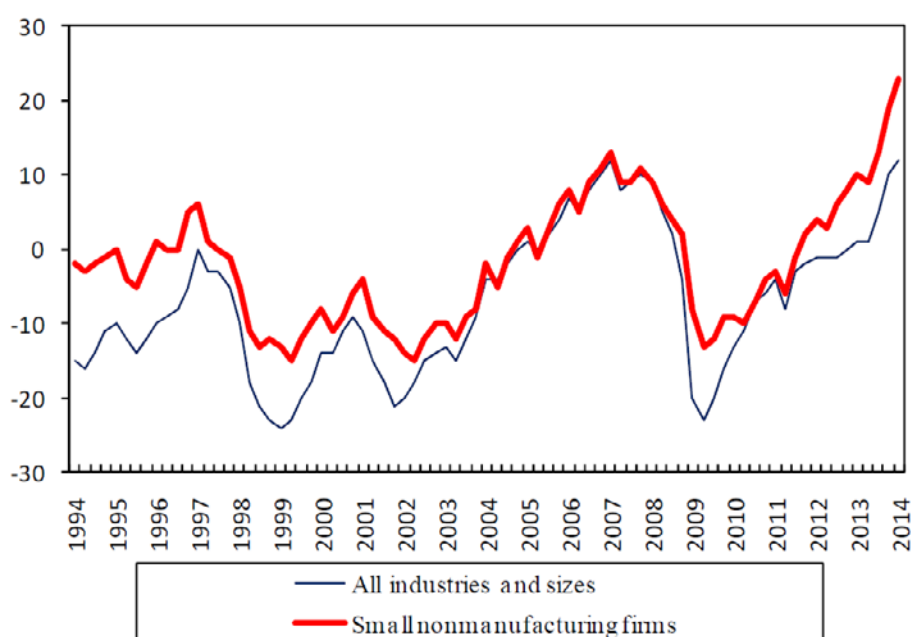
### Ratios of Current Profits to Sales of Manufacturing and Nonmanufacturing Firms



Source: Ministry of Finance, "Financial Statements Statistics of Corporations by Industry."

(Chart 11)

### Employment Conditions D.I.

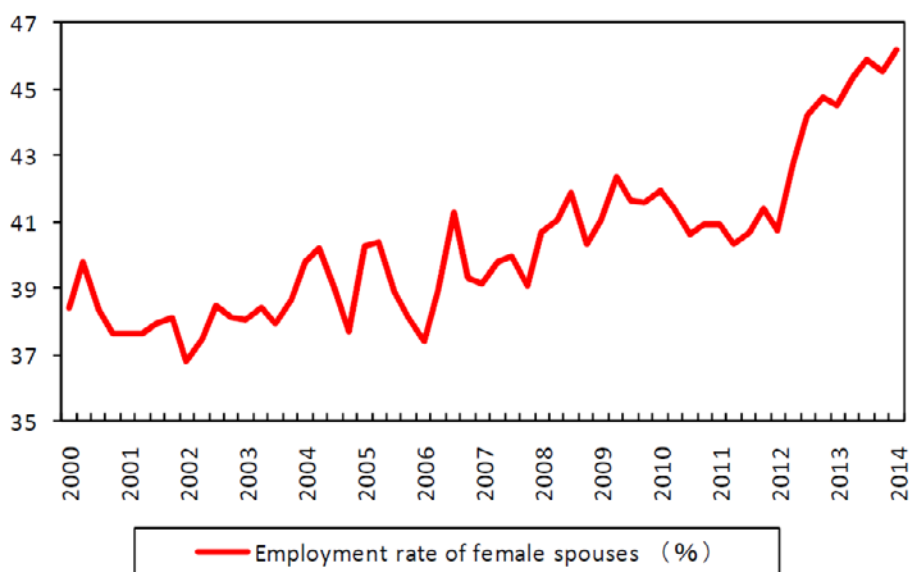


Note: Positive territory indicates shortage of employees.

Source: Bank of Japan, "Tankan, Short-Term Economic Survey of Enterprises in Japan."

(Chart 12)

### Employment Rate of Female Spouses

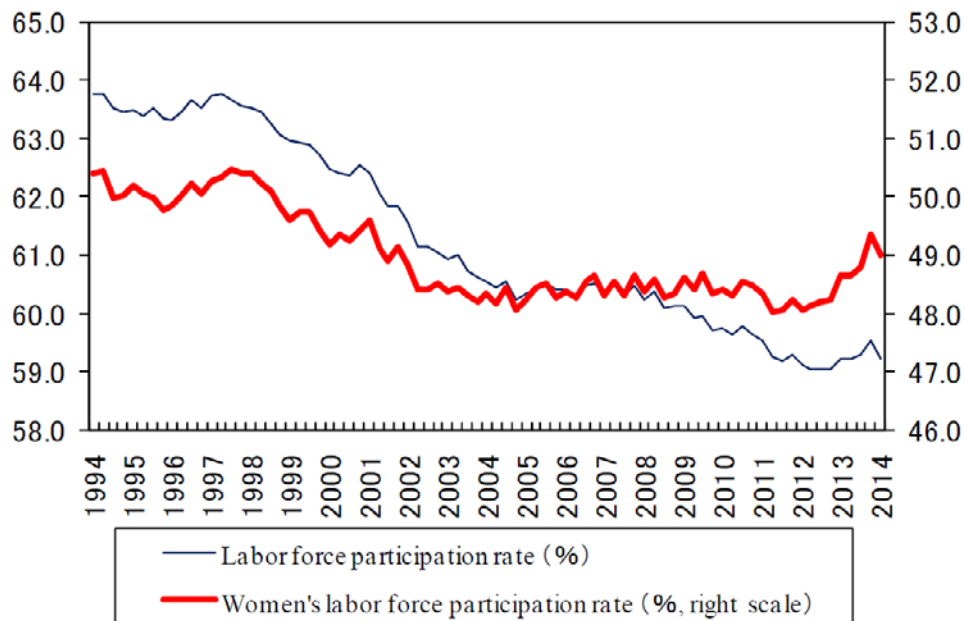


Note: The figure for 2014/Q1 is that of January.

Source: Ministry of Internal Affairs and Communications, "Family Income and Expenditure Survey."

(Chart 13)

### Labor Force Participation Rates

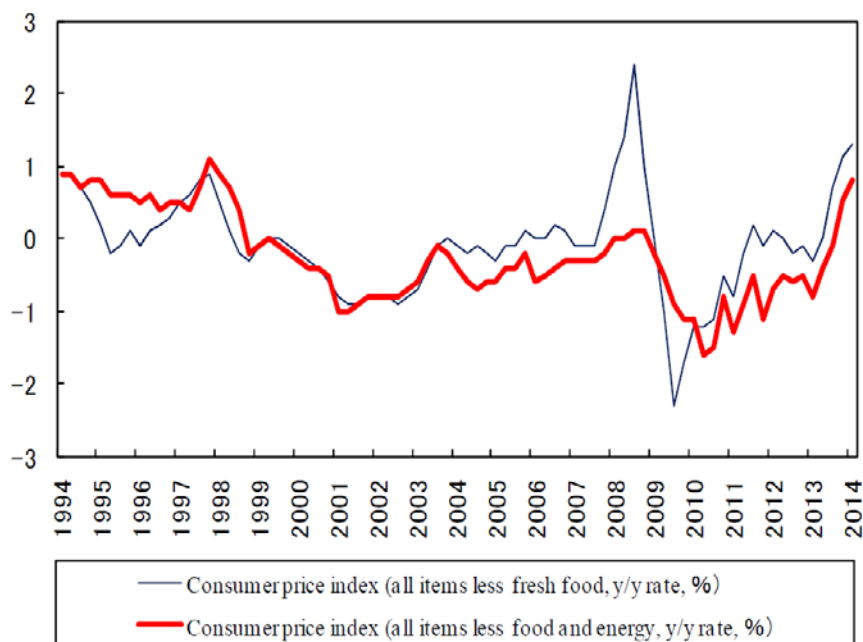


Note: Figures for 2014/Q1 are those of January.

Source: Ministry of Internal Affairs and Communications, "Labour Force Survey."

(Chart 14)

### Consumer Price Index

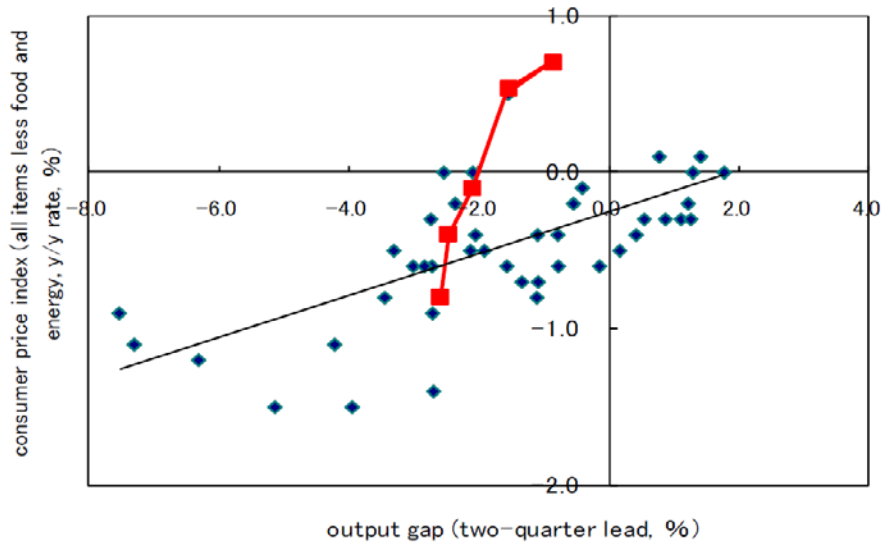


Note: Excluding the effects of the consumption tax hike. Figures for 2014/Q1 are the averages of January and February.

Source: Ministry of Internal Affairs and Communications, "Consumer Price Index."

(Chart 15)

### Output Gap and Consumer Price Index (Phillips Curve)

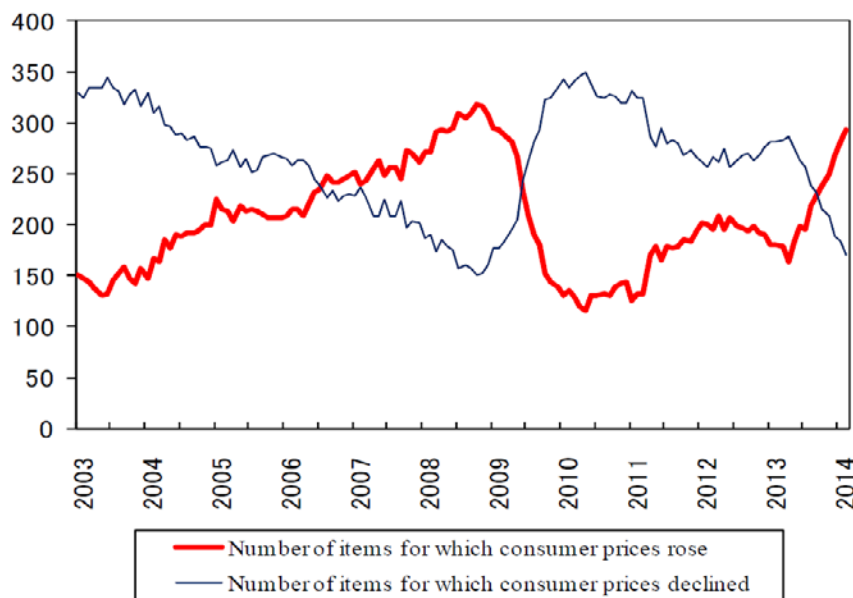


- Notes: 1. The output gap is estimated by the Bank of Japan (two-quarter lead).  
2. Sample period is from 2003/Q1 through 2014/Q1. ■ is the period from 2013/Q1 through 2014/Q1.  
3. The regression line is estimated based on the data from 2003/Q1 through 2012/Q4.

Sources: Ministry of Internal Affairs and Communications, "Consumer Price Index"; Bank of Japan.

(Chart 16)

### Number of Items for Which Consumer Prices Rose or Declined



Note: Figures are calculated based on the year-on-year rate of change in consumer prices of 534 items (all items less fresh food).

Source: Ministry of Internal Affairs and Communications, "Consumer Price Index."



## Quantitative and Qualitative Monetary Easing (QQE)

### 1. Adoption of the monetary base control

- The monetary base will increase at an annual pace of about 60-70 tril. yen.

### 2. Increase in JGB purchases and their maturity extension

- With a view to encouraging a further decline in interest rates across the yield curve, the Bank will purchase JGBs so that their amount outstanding will increase at an annual pace of about 50 tril. yen.
- JGBs with all maturities will be made eligible for purchase, and the average remaining maturity of the Bank's JGB purchases will be extended from slightly less than 3 years to about 7 years -- equivalent to the average maturity of the amount outstanding of JGBs issued.

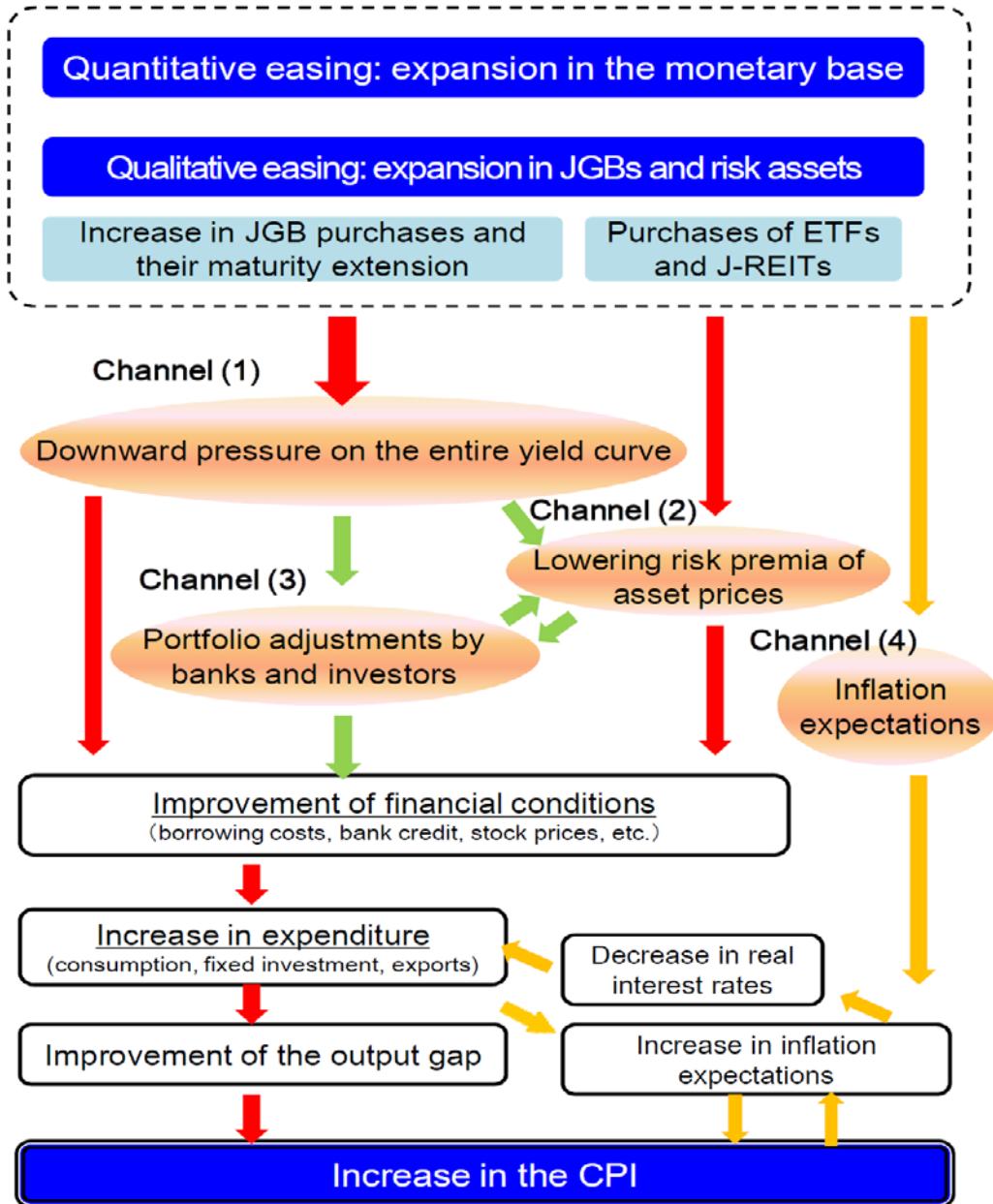
### 3. Increase in ETF and J-REIT purchases

- With a view to lowering risk premia of asset prices, the Bank will purchase ETFs and J-REITs so that their amounts outstanding will increase at an annual pace of 1 tril. yen and 30 bil. yen, respectively.

### 4. Continuation of the QQE

- The Bank will continue with the QQE, aiming to achieve the price stability target of 2%, as long as it is necessary for maintaining that target in a stable manner.
- The Bank will examine both upside and downside risks to economic activity and prices, and make adjustments as appropriate.

## Transmission Channels of QQE



## Enhancement of the Loan Support Program

### (1) Stimulating Bank Lending Facility

The BOJ decided to enable financial institutions to borrow long-term funds at a low interest rate from it up to an amount that is twice as much as the net increase in their lending.

- Conditions of the new program (starting from June)

(Limit of amount) No limit

(Ceiling of the total amount) Twice as much as the net increase in lending

(Rates of lending) Fixed rate of 0.1 % per annum for four years<sup>1</sup>

	Amount outstanding	Number of institutions
Total	8.5496 trillion yen	102
Large banks	5.7936 trillion yen	7
Regional banks	2.7560 trillion yen	95

### (2) Growth-Supporting Funding Facility

The BOJ decided to provide long-term funds at a low interest rate to financial institutions for their lending and investment to areas that are expected to contribute to strengthening Japan's growth potential.

- Conditions of the new program (starting from June)

(Limit of amount) Double the maximum amount of fund-provisioning under the main rules from 3.5 trillion yen to 7 trillion yen

(Ceiling of the total amount) Increase the maximum amount of fund-provisioning to each financial institution from 150 billion yen to 1 trillion yen

(Rates of lending) Fixed rate of 0.1 % per annum for four years<sup>1</sup>

	Main rules	Special rules for equity investments and ABL	Special rules for small-lot investments and loans	Special rules for the U.S. dollar lending arrangement
Total amount of loans	7.0 trillion yen	0.5 trillion yen	0.5 trillion yen	12 billion U.S. dollars
Amount outstanding	3.1419 trillion yen	80.7 billion yen	8.0 billion yen	8.77 billion U.S. dollars
Number of institutions	117	28	30	40
Eligible investments and loans	Those with a size of 10 million yen or more	Equity investments and ABL with a size of 1 million yen or more	Those with a size of 1 million yen or more but less than 10 million yen	Those denominated in foreign currencies with a size equivalent to 100 thousand U.S. dollars or more

Note: 1. Financial institutions have an option to make prepayment every year. For the Growth-Supporting Funding Facility, U.S. dollar lending is excluded.

Source: Bank of Japan.