August 1, 2019
Bank of Japan

Japan's Economy and Monetary Policy

Speech at a Meeting with Business Leaders in Kagoshima

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Deputy Governor of the Bank of Japan

(English translation based on the Japanese original)

Introduction

It is my pleasure to have the opportunity today to exchange views with administrative, financial, and business leaders in Kagoshima Prefecture. I would like to take this opportunity to express my sincere gratitude for your cooperation with the activities of the Bank of Japan's Kagoshima Branch.

At the outset, I would like to offer my heartfelt sympathies to those who are suffering from the heavy rain since end-June. I understand that the disastrous damage is still evident in the region and sincerely hope for a swift and full recovery.

At the Monetary Policy Meeting (MPM) held two days ago, the Bank updated its projections for Japan's economic activity and prices through fiscal 2021 and released them in its quarterly report, the July 2019 *Outlook for Economic Activity and Prices* (Outlook Report). Today, I would like to explain the Bank's view on developments in economic activity and prices as well as the recent conduct of monetary policy, while outlining the July Outlook Report.

I. Financial and Economic Developments

Since this May, when the Reiwa era started, protectionist moves including the U.S.-China trade friction have intensified, and uncertainties over the outlook for the global economy have heightened. In this situation, financial markets in each economy have continued to show large fluctuations. Let me first talk about the current situation for overseas economies.

Although overseas economies have been growing moderately on the whole, slowdowns have continued to be observed (Chart 1). The pace of increase in the world trade volume has been decelerating, mainly due to the U.S.-China trade friction and a slowdown in IT-related goods, and the diffusion indexes (DIs) for the business sentiment of manufacturing firms on a global basis fell below 50 in May, which is the borderline between improvement and deterioration of business conditions perceived by firms. Looking at developments in major regions, the U.S. economy has continued to expand moderately, supported primarily by an increase in private consumption. On the other hand, China's GDP growth rate for the April-June quarter of 2019 registered the record low figure of 6.2 percent since 1992, from when the data are available, mainly against the background of weakness in the manufacturing sector. The growth pace of the European economy, in particular Germany, also has been decelerating. Meanwhile, in global financial markets, stock prices in many economies declined through early June due to uncertainties over the global economy.

Under these circumstances, major central banks have been shifting their policy stance from monetary tightening through end-2018, such as raising policy rates, to monetary easing. Last week, the European Central Bank (ECB) revised its forward guidance, which is its thinking about the future course of its policy rates, to a more accommodative one. The ECB also announced that it would start to consider additional easing measures. In addition, the Federal Reserve reduced its policy rate by 0.25 percent yesterday for the first time in about 10 and a half years. However, as I mentioned, the U.S. economy has continued to expand moderately. Federal Reserve Chair Powell explained that the policy rate cut this time was intended to insure against downside risks from weak global growth and trade policy uncertainty.

Although Japan's economy, mainly the export sector, has been affected by the slowdown in the global economy, domestic demand such as business fixed investment has remained firm. Thus, the Bank judges that the economy has been on a moderate expanding trend, with a virtuous cycle from income to spending operating. This also can be confirmed by an indicator called the output gap, which represents the balance between demand and supply in the economy as a whole (Chart 2). A positive output gap shows excess demand, whereas a negative output gap indicates excess supply. The gap became positive around 2017 and thereafter widened within positive territory on the back of the economic expansion. It has remained substantially positive recently.

Let me elaborate more on this by demand component (Chart 3). Exports have shown some weakness, reflecting a decline mainly in those of capital goods and IT-related goods for China, as well as the NIEs and the ASEAN economies, due to the slowdown in overseas economies. Looking at the business conditions DI in the June 2019 *Tankan* (Short-Term Economic Survey of Enterprises in Japan), the manufacturing sector -- which is susceptible to developments in overseas economies -- has declined somewhat significantly for two consecutive quarters.

On the other hand, domestic demand has remained firm, as evidenced by the business conditions DI for the nonmanufacturing sector staying at a favorable level. With corporate profits staying at high levels on the whole, business fixed investment has continued on an increasing trend (Chart 4). For each *Tankan* survey, the business fixed investment plans tend to show certain revision patterns. Looking at the June *Tankan*, the plans for fiscal 2019 indicate that business fixed investment is expected to continue increasing firmly, exceeding the past averages in the June surveys. Business fixed investment seems to have been supported by investment in a wide range of areas, such as that (1) intended for domestic capacity expansion, (2) aiming at saving labor in order to deal with labor shortage, and (3) in research and development for growth areas. Investment has been robust in the nonmanufacturing sector as well; for example, there has been a rise in construction of distribution facilities, reflecting an expansion in e-commerce, and of accommodation facilities targeted for inbound demand. Private consumption has increased moderately, with the employment and income situation continuing to improve steadily. It is said that an increase in demand prior to the scheduled consumption tax hike has been seen in part, including sales of automobiles and household electrical appliances, but it seems only marginal compared with that of the previous hike. Looking at consumption-related indicators, inbound demand from foreign visitors has increased significantly for the past six years, by about four times. Foreign visitors to Kagoshima Prefecture also have surged since some additional international flights started operations at Kagoshima Airport. As there are a plenty of attractive areas in Japan, including this prefecture, there likely has been a steady rise in foreign visitors to a wider range of areas.

With regard to the outlook, as described in the Bank's July 2019 Outlook Report, Japan's economy is likely to continue on an expanding trend throughout the projection period -- that is, through fiscal 2021 -- despite being affected by the slowdown in overseas economies for the time being (Chart 5). Specifically, the real GDP growth rates are projected to be 0.7 percent for fiscal 2019, 0.9 percent for fiscal 2020, and 1.1 percent for fiscal 2021. The Bank estimates that the economic growth rate that can be achieved in the long term, or the so-called potential growth rate, is nearly 1 percent. Thus, Japan's economy is expected to continue growing at a pace consistent with its potential.

There are two important points in making an assessment of this outlook. The first is how overseas economies will pick up. The second point is the sustainability of domestic demand in the meantime. In what follows, I would like to explain these points, starting with the sustainability of domestic demand.

With regard to private consumption, it is likely to continue on a moderate increasing trend as the employment and income situation continues to improve. Although the effects of the scheduled consumption tax hike warrant attention, they are projected to be smaller this time compared to those of the previous hike in 2014, partly due to a smaller burden for households from the tax hike and various measures introduced by the government to smooth out demand prior to and after the hike. In addition, public investment is likely to increase, mainly led by that in infrastructure due to policy measures for national resilience, and this will contribute to underpinning economic activity. Moreover, business fixed investment is the key to sustainability of domestic demand. As I explained, it is expected to continue increasing firmly in fiscal 2019. This is mainly supported by high levels of corporate profits, accommodative financial conditions, and steady demand for medium- to long-term strategic investment and for investment by the nonmanufacturing sector, both of which are relatively unsusceptible to changes in overseas demand and the business cycle. Going forward, business fixed investment is expected to increase moderately. Thus, the Bank recognizes that Japan's economy has become more resilient. However, there is a possibility that business and household sentiment will be affected depending on future developments in overseas economies and the markets. It is necessary to pay attention to the possibility that firms' investment stance will become cautious mainly in the manufacturing sector, if uncertainties concerning overseas economies in particular heighten further going forward. This leads to the next point of developments in overseas economies.

Overseas economies are expected to grow moderately on the whole; although slowdowns are likely to continue for the time being, these economies are projected to pick up thereafter on the back of the effects of stimulus measures in China and the progress in global adjustments in IT-related goods, underpinned by accommodative financial conditions. The baseline scenario that overseas economies will pick up is basically unchanged. A similar outlook is presented in the *World Economic Outlook* (WEO) *Update* released by the International Monetary Fund (IMF) in July (Chart 6). According to its outlook, global growth is projected to decelerate to 3.2 percent in 2019 but pick up to 3.5 percent -- about the same level as the past average -- in 2020. By region, it is projected that the U.S. economy will continue to expand moderately and that the Chinese economy will broadly follow a stable growth path with authorities conducting fiscal and monetary policies in a timely manner, despite being affected to some extent by the trade friction with the United States and deleveraging policy measures. In addition, the European economy is projected to gradually move out of its deceleration phase, reflecting progress in adjustments in the manufacturing sector, where relatively weak developments have been observed. That said, the downside risks concerning overseas economies have remained significant, and uncertainties regarding the effects of protectionist moves in particular have been heightening. Although the United States and China are still in negotiations to solve the trade issues, future developments in U.S. trade policy against China, as well as other economies, continue to warrant attention. Besides this trade friction, uncertainties concerning overseas economies include (1) the timing of when the effects of stimulus measures in China will materialize, (2) how far the adjustments in IT-related goods will progress, and (3) the consequences of negotiations on the United Kingdom's exit from the European Union (EU). It is necessary to pay attention to the risk that, if uncertainties concerning overseas economies heighten further going forward, domestic and foreign economies will be affected widely, not only through downward pressure on the trade activity of related economies but also deterioration in business sentiment and instability in financial markets. Thus, the Bank will carefully monitor whether overseas economies will pick up during the time when domestic demand, as I referred to earlier, is maintained firmly.

II. Price Developments

Next, I will explain price developments in Japan (Chart 7). For many years starting from the late 1990s, Japan's economy was in deflation in terms of a sustained decline in the consumer price index (CPI). In order to make a breakthrough in this situation, the Bank introduced quantitative and qualitative monetary easing (QQE) in April 2013, embarking on unprecedentedly powerful monetary easing. Since then, Japan's economy has improved significantly and the positive annual CPI inflation has taken hold. Thus, the economy is no longer in deflation, in the sense of a sustained decline in prices.

Turning to recent price developments, the year-on-year rate of change in the CPI is at around 0.5 percent and has continued to show relatively weak developments compared to the economic expansion and tight labor market conditions. However, with the economy continuing on an expanding trend, the basic mechanism for moderate increases in wages and prices driven by a positive output gap has continued to operate. At this year's annual spring labor-management wage negotiations, base pay increases were achieved for a sixth consecutive year. The rate of increase as a whole was at about the same level as last year; in particular, that for small and medium-sized firms, which are susceptible to labor shortage, turned out to be relatively high.

In addition to wages, other costs, such as distribution costs, have continued to increase. In this situation, firms have passed on cost increases to sales prices and such moves gradually have been spreading of late. Thus, prices seem to have become more stable recently. Let me introduce two examples (Chart 8). The first is price rises such as in food products, daily necessities, and services. Looking at prices of food products and daily necessities sold at supermarkets, the rates of increase have been accelerating clearly since April. In addition, the positive annual inflation in prices of dining-out and housework-related services among general services has taken hold. The second example is that firms' stance has shifted toward further raising prices, regardless of the firm size. Looking at the output prices DI of industries related to consumption, which has close relations with the CPI, since around 2017, the proportion of enterprises answering that the output prices have risen has exceeded the proportion of those answering that such prices have fallen, and the gap has expanded gradually.

Of course, a rise in overall prices is not favorable for households if focusing only on the rise. What is important is that it should accompany improvement in the employment and income situation so that households can accept price rises (Chart 9). On this point, employee income, which is calculated as wages per employee multiplied by the number of employees, has continued to increase. This is because nominal wages have increased for the past few years and the positive rate of change in the number of employees has taken hold. Thus, the likely reason why prices have become more stable recently is that households' tolerance of price rises has risen, albeit moderately, with the employment and income situation improving.

Now, I would like to move on to the outlook for prices (Chart 5). In the July 2019 Outlook Report, the medians of the Policy Board members' forecasts of the year-on-year rate of change in the CPI excluding fresh food are 1.0 percent for fiscal 2019, 1.3 percent for fiscal 2020, and 1.6 percent for fiscal 2021. Annual CPI inflation is likely to increase gradually, but it is expected to still take time to achieve the price stability target of 2 percent. While there are various reasons for this, it seems to be affected largely by the fact that the mindset and behavior based on the assumption that wages and prices will not increase easily have been deeply entrenched, due mainly to the experience of prolonged low growth and deflation from the late 1990s. As I mentioned earlier, firms' cautious wage- and price-setting stance, as well as households' cautiousness toward price rises, have shifted gradually but have not yet clearly changed. Firms have continued to make efforts to absorb upward pressure of costs on prices by increasing labor-saving investment and streamlining their business process. In addition, the progress in the labor force participation by women and seniors, which is desirable in terms of strengthening the growth potential of the economy as a whole, is another reason why it is taking time for prices to rise.

Although it is taking time, the inflation rate is expected to increase gradually going forward. For the past few years, the situation has taken hold in which the year-on-year rate of change in the CPI has been positive, with the economy continuing on an expanding trend and the output gap having been substantially positive. The output gap is basically expected to remain substantially positive. Under these circumstances, firms' moves to raise prices are likely to be more widespread as households' tolerance of price rises increases, reflecting a rise in wage growth rates, and firms' stance shifts toward further raising prices. As people gain the collective experience of increases in wages and prices, the mindset and behavior based on the assumption that wages and prices will not increase easily are expected to weaken gradually. In this situation, inflation expectations -- that is, people's expectations for future price developments -- are projected to rise gradually. As these developments show, the Bank recognizes that the momentum toward achieving the price stability target has been maintained, whereby a positive output gap results in an increase in actual prices, leading to a rise in inflation expectations. However, attention should be paid to the possibility that the inflation momentum would be lost through, for example, shrinkage of the output gap or fluctuations in financial markets if risks to economic activity were to materialize, particularly regarding overseas economies, as I explained earlier.

III. The Bank's Conduct of Monetary Policy

Next, I would like to explain the Bank's conduct of monetary policy.

The Bank has been conducting "QQE with Yield Curve Control" (Chart 10). Specifically, it sets the short-term policy interest rate at minus 0.1 percent and the target level of 10-year Japanese government bond (JGB) yields at around zero percent, and has conducted large-scale JGB purchases in the market. Meanwhile, 10-year yields in Japan temporarily dropped to minus 0.195 percent amid the global decline in interest rates, and currently are at around minus 0.15 percent. In addition, the Bank has purchased assets such as exchange-traded funds (ETFs), with a view to lowering risk premia of asset prices.

Under such powerful monetary easing measures, Japan's financial conditions have remained highly accommodative. Firms' funding costs have been hovering at extremely low levels (Chart 11). Lending rates have been at around historical low levels of around 0.5 percent, and issuance rates for corporate bonds have been at extremely low levels of close to 0 percent. In addition, financial institutions' lending attitudes have been active. Under these circumstances, the year-on-year rate of increase in bank lending has continued to register high growth in the range of 2-3 percent for more than six years, even in a situation where there have been excess savings in the household and corporate sectors on the whole.

Therefore, highly accommodative financial conditions under the powerful monetary easing have stimulated firms' and households' spending activities, and thereby have significantly contributed to the positive output gap. In order to achieve the price stability target, the Bank considers it important to maintain the momentum toward achieving the price stability target by persistently continuing with the powerful monetary easing and thereby maintaining a positive output gap for as long as possible.

So far, I have talked about the Bank's basic stance of monetary policy conduct. As I mentioned at the beginning, major central banks have been shifting their policy stance from monetary tightening to monetary easing amid high uncertainties over the global economy. In this situation, many have posed questions about the future policy conduct of the Bank of Japan. Therefore, I would like to talk about the basic thinking behind the relationship between the policy conduct of central banks abroad and that of the Bank of Japan. There are three points.

First, the basic principle of the policy conduct for any central bank is to pursue appropriate conduct in response to domestic economic and price developments, and their policies should not be directly influenced by the policy stance of other central banks. Second, however, if factors that lie behind the policy conduct of other central banks affect economic and price developments of its own economy, it is of course necessary to take those into full account. The recent moves by the Federal Reserve and the ECB to change their policy stance are due to considerable uncertainties over the global economy. It is also important for the Bank of Japan to examine the risks concerning overseas economies and how these will affect Japan's economic activity and prices. And third, policy measures of major central banks warrant close monitoring in terms of their impact on domestic economic and price developments, as those measures will have certain effects on the global economy and global financial markets. On this point, the policy rate cut by the Federal Reserve this time was intended to prevent an actual slowdown in economic activity and inflation amid considerable uncertainties over the global economy. This policy rate cut will affect Japan's economy through various channels such as financial and foreign exchange markets as well as real economic activity. Basically, if the U.S. economy becomes more resilient, positive effects are likely to be exerted on the global economy and in turn Japan's economy.

The Bank of Japan will continue to pursue policy conduct in an appropriate manner without preconception, taking account of developments in economic activity and prices as well as financial conditions in Japan, while carefully examining various risks. The Bank is no different from other major central banks, in that it is prepared to take, if necessary, policy responses in order to prevent the risks from materializing, while closely monitoring them. Based on this thinking, the Bank specified in the statement released after the MPM two days ago that "the Bank will not hesitate to take additional easing measures if there is a greater possibility that the momentum toward achieving the price stability target will be lost." As has been made clear already, there are various possible measures for additional easing such as cutting the short-term policy interest rate, lowering the target level of 10-year JGB yields, expanding asset purchases, and accelerating the expansion of the monetary base. Combinations or applications of various measures also are possible. The Bank will take the most appropriate policy responses depending on the situation at the time, while weighing their benefits and costs and also taking full account of the viewpoint of preventing the materialization of a risk that the momentum toward achieving the price stability target will be lost.

Conclusion

Lastly, I would like to talk about the economy of Kagoshima Prefecture.

In line with developments in Japan's economy as a whole, the prefecture's economic activity has been affected by the slowdown in overseas economies, mainly in terms of production, but it likely has continued to recover moderately led mainly by domestic demand. Private consumption has been firm, reflecting the improvement in the employment and income situation; in addition, tourism has remained solid, supported by an increase in both domestic and foreign visitors. Under these circumstances, business sentiment has remained favorable, and business fixed investment has grown steadily, supported mainly by strategic investment and labor-saving investment carried out from a medium- to long-term perspective.

On the other hand, some have been worried about the outlook for the prefecture's economy from a somewhat medium- to long-term perspective. The likely reason behind this is concern about a shrinking of its market and shortage of human resources to support its economy in the face of issues such as the declining birthrate and aging population and the declining population overall.

However, I believe that the people of this prefecture can overcome these issues. This is because Kagoshima Prefecture has a history of overcoming various hardships and successfully transforming itself. During the Edo era, the Satsuma clan faced a fiscal crisis, but it overcame this by expanding trade not only within the country but also with foreign countries through the Ryukyu Islands. At that time, in addition to developing trading routes using, for example, *kitamaebune*, or northern-bound ships, it focused on expanding trade in regional products such as *kokuto* brown sugar. These efforts became the driving force behind Japan's modernization by incorporating cutting-edge technologies such as those for steelmaking and spinning from overseas and developing them further, as seen in the subsequent *Shuseikan* industrial complex. In addition, by exhibiting Satsuma ware and earning high praise for it at the Paris Expo in 1867, the clan succeeded in establishing the "Satsuma" brand. Moreover, what supported this series of transformations was the development of human resources, such as through the traditional *Goju* education system that the clan established and the dispatch of exchange students to the United Kingdom.

In studying this history, I feel that it has many parallels with the transformations that are required right now, which the prefecture already has been pursuing in fact. Examples include efforts to make inroads into markets outside the region, including abroad, while refining the brand value of agricultural and livestock products such as Kagoshima Black Beef, which has become the top beef brand in Japan. In addition, the prefecture has strengthened its efforts to attract tourists by taking advantage of its rich natural resources, such as Yakushima, which is registered as a World Natural Heritage site, its safe and high-quality food, and its abundant hot springs. The prefecture also has made efforts to use cutting-edge digital technologies, such as the implementation of smart farming and expansion of cashless payment services. Furthermore, with the involvement of Kagoshima University, collaboration between the industries, academics and research institutions, and the administration has been strengthened in order to enhance the effectiveness of these efforts. It is reassuring that these initiatives demonstrate the enterprising spirit etched into the DNA of the people of the prefecture.

I sincerely hope that Kagoshima Prefecture, which in the past has turned various hardships into positive transformations, finds a new way forward and further develops its economy based on the initiatives that are currently under way.

Thank you very much for your attention.

Japan's Economy and Monetary Policy

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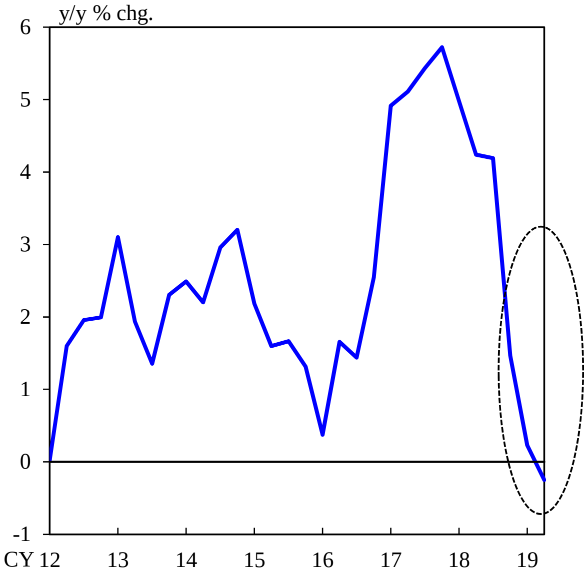
August 1, 2019

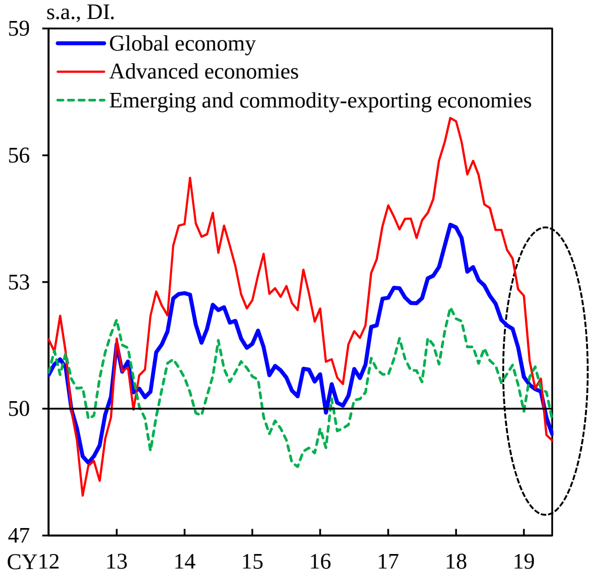
Masayoshi Amamiya
Deputy Governor of the Bank of Japan

Developments in the Global Economy

World Trade Volume



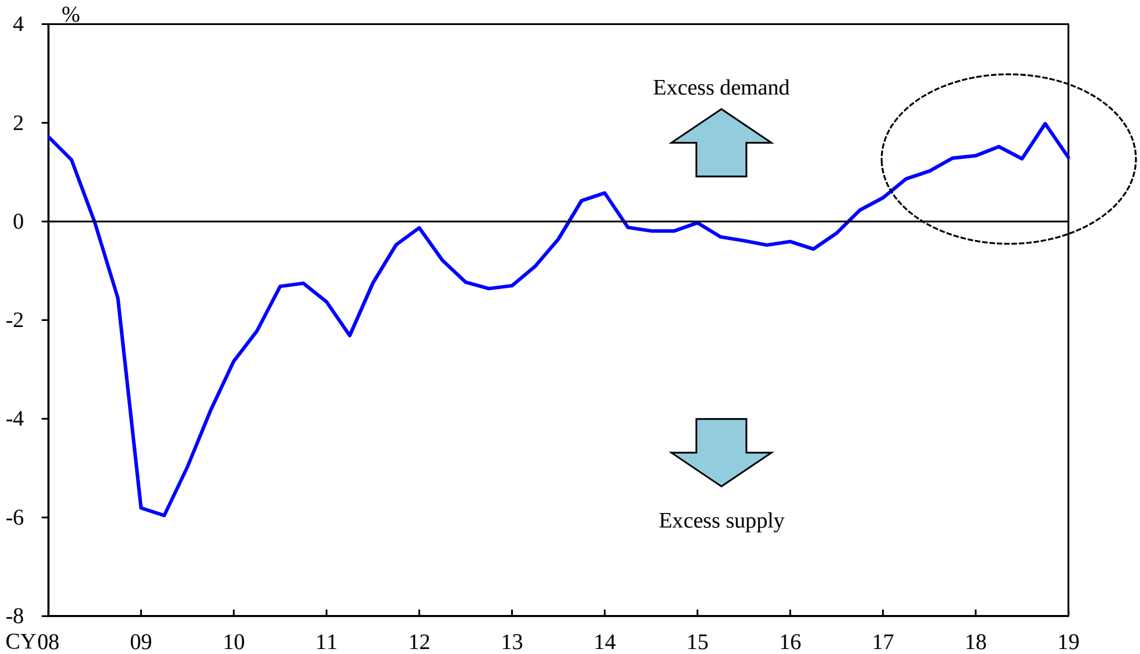
Global Manufacturing PMI



Notes: 1. In the left chart, figures for the trade volume are those for real imports.
2. In the right chart, figures for the global economy are the "J.P. Morgan Global Manufacturing PMI." Figures for advanced economies as well as emerging and commodity-exporting economies are calculated as the weighted averages of the Manufacturing PMI using GDP shares of world total GDP from the IMF as weights. Advanced economies consist of the United States, the euro area, the United Kingdom, and Japan. Emerging and commodity-exporting economies consist of 17 countries and regions, such as China, South Korea, Taiwan, Russia, and Brazil.

Sources: CPB Netherlands Bureau for Economic Policy Analysis; IHS Markit (© and database right IHS Markit Ltd 2019. All rights reserved.), etc.

Output Gap



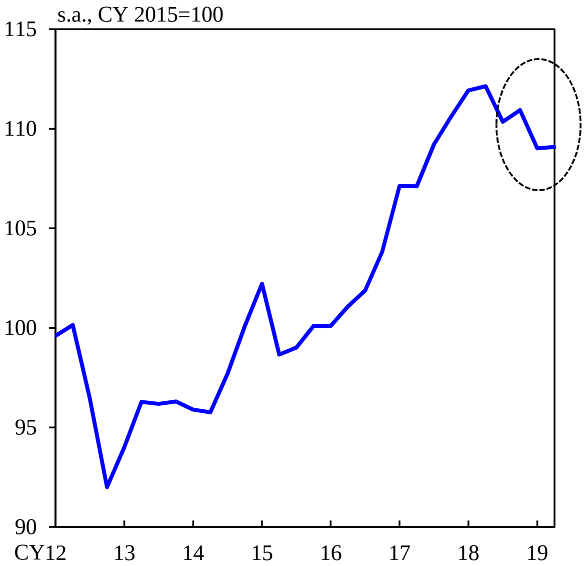
Note: The output gap is based on BOJ staff estimations.

Source: Bank of Japan.

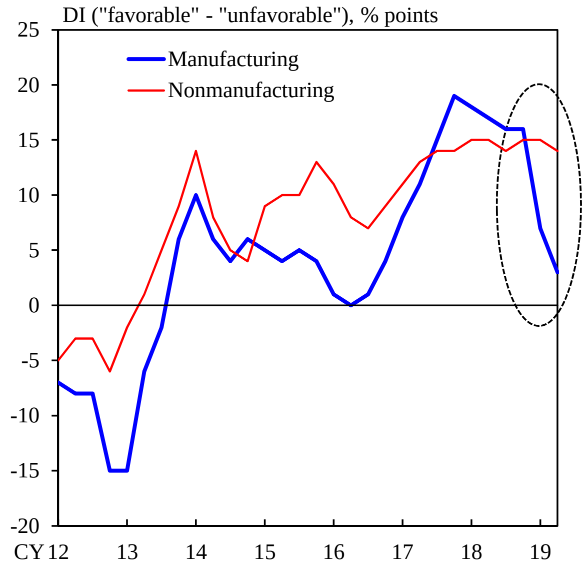
Chart 3

Exports and Business Conditions

Real Exports



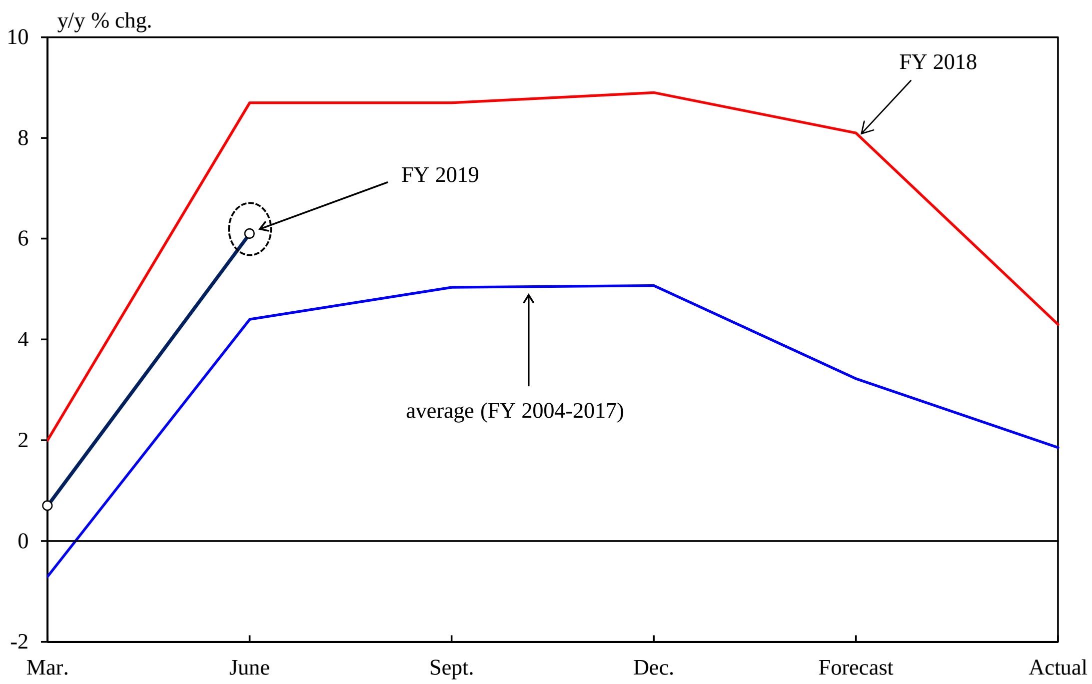
Business Conditions DI (Tankan)



Sources: Bank of Japan; Ministry of Finance.

Chart 4

Business Fixed Investment Plans (Tankan)



Note: Figures are all industries including financial institutions. Including software and R&D investment and excluding land purchasing expenses (R&D investment is not included until the December 2016 survey).
Source: Bank of Japan.

Outlook for Economic Activity and Prices
(July 2019 Outlook Report)

the medians of the Policy Board members' forecasts, y/y % chg.

	Real GDP	CPI (all items less fresh food)	(Reference) Excluding the effects of the consumption tax hike and policies concerning the provision of free education
Fiscal 2019	+0.7	+1.0	+0.8
Forecasts made in April 2019	+0.8	+1.1	+0.9
Fiscal 2020	+0.9	+1.3	+1.2
Forecasts made in April 2019	+0.9	+1.4	+1.3
Fiscal 2021	+1.1	+1.6	
Forecasts made in April 2019	+1.2	+1.6	

Note: The direct effects of the consumption tax hike on the CPI for fiscal 2019 and fiscal 2020 are estimated to be 0.5 percentage point for each fiscal year. Those of policies concerning the provision of free education on the CPI for fiscal 2019 and fiscal 2020 are estimated to be minus 0.3 percentage point and minus 0.4 percentage point, respectively.
Source: Bank of Japan.

Overseas Economies

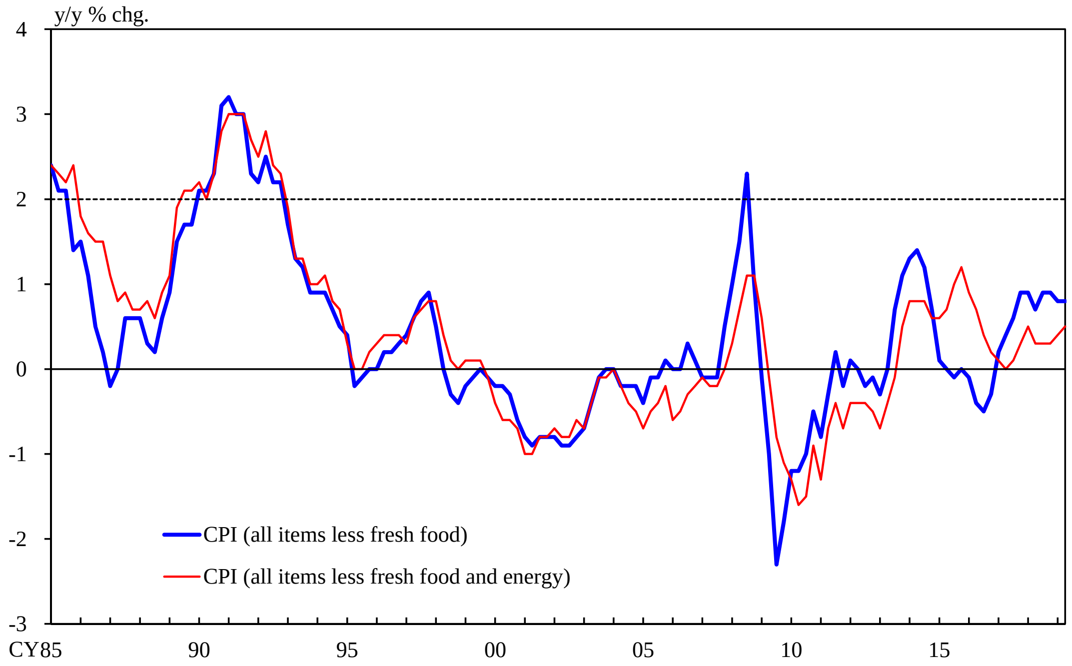
IMF Projections for Major Economies (as of July 2019)

y/y % chg.

	2017	2018	2019 Projection	2020 Projection
World	3.8	3.6	**3.2**	**3.5**
Advanced economies	2.4	2.2	1.9	1.7
United States	2.2	2.9	2.6	1.9
Euro area	2.4	1.9	1.3	1.6
Japan	1.9	0.8	0.9	0.4
Emerging market and developing economies	4.8	4.5	4.1	4.7
China	6.8	6.6	6.2	6.0
ASEAN-5	5.3	5.2	5.0	5.1
Latin America and the Caribbean	1.2	1.0	0.6	2.3

Source: IMF.

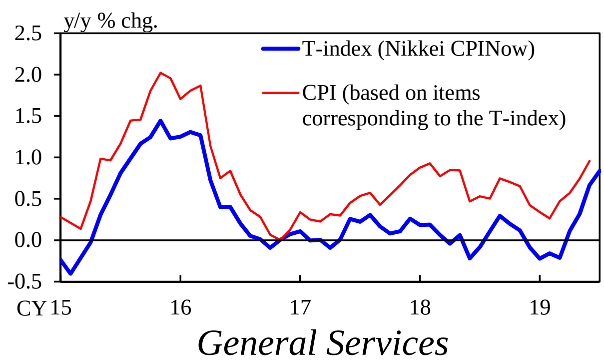
Consumer Prices



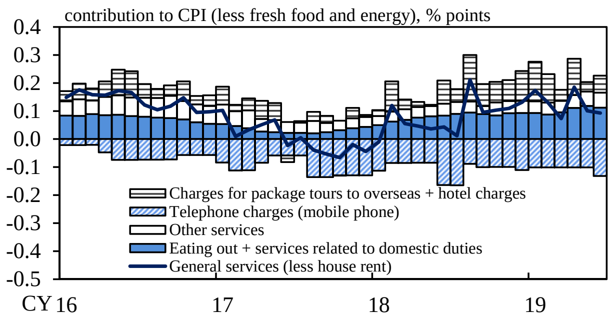
Note: Figures are adjusted for changes in the consumption tax rate.
Source: Ministry of Internal Affairs and Communications.

Price Situation

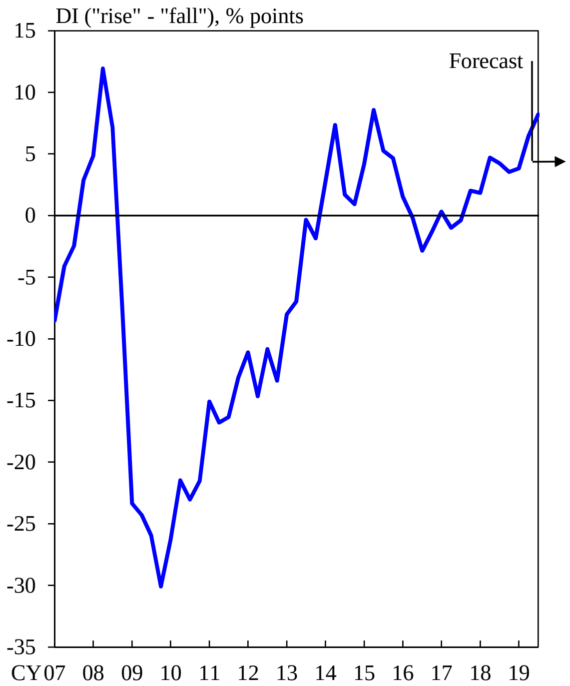
Sales Prices at Supermarkets



General Services

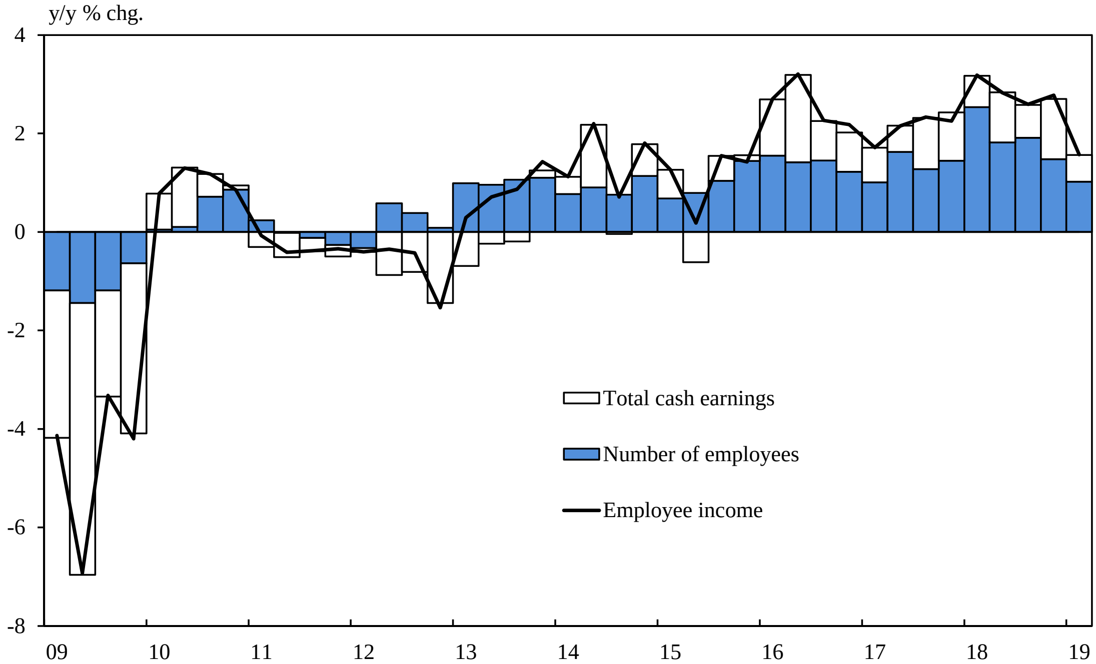


Output Prices DI of Industries Related to Consumption (Tankan)



Notes: 1. In the top left chart, figures are adjusted for changes in the consumption tax rate.
2. In the right chart, figures are the weighted averages of the output prices DI of "retailing," "services for individuals," and "accommodations, eating and drinking services," using the number of enterprises that responded to the question as weights.
Sources: NOWCAST, Inc.; Ministry of Internal Affairs and Communications; Bank of Japan.

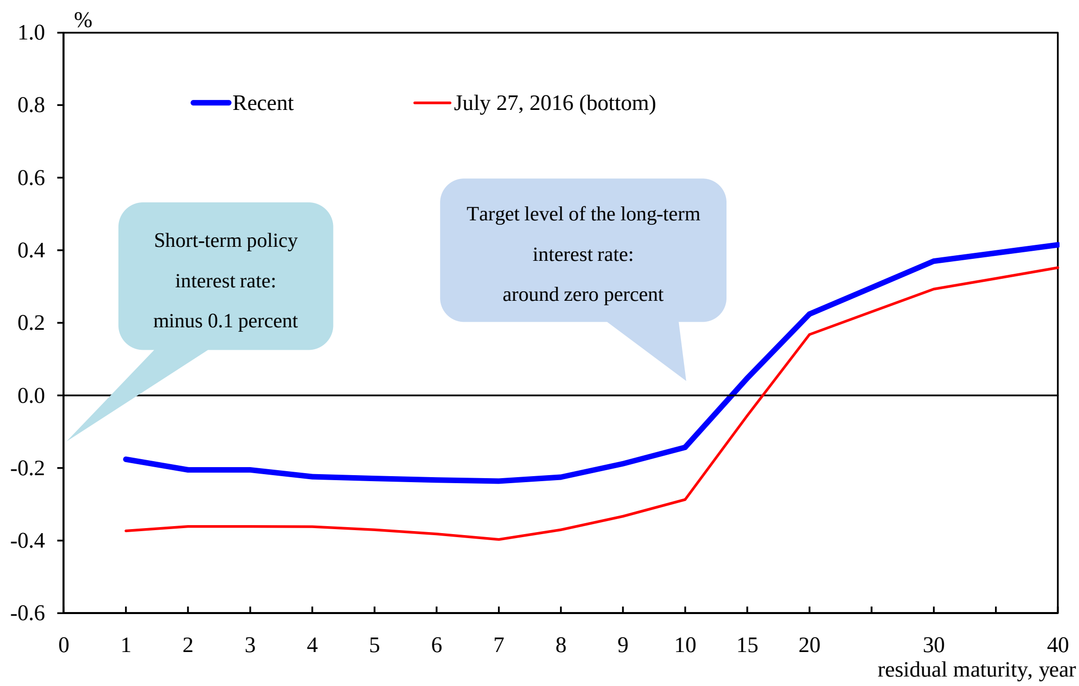
Employee Income



Notes: 1. Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February.
2. Employee income = total cash earnings ("Monthly Labour Survey") × number of employees ("Labour Force Survey")
3. Figures of the "Monthly Labour Survey" from 2013/Q1 are based on corrected figures adjusted for establishments in Tokyo with 500 or more employees.
4. Figures from 2016/Q1 are based on continuing observations following the sample revisions of the "Monthly Labour Survey."

Sources: Ministry of Health, Labour and Welfare; Ministry of Internal Affairs and Communications.

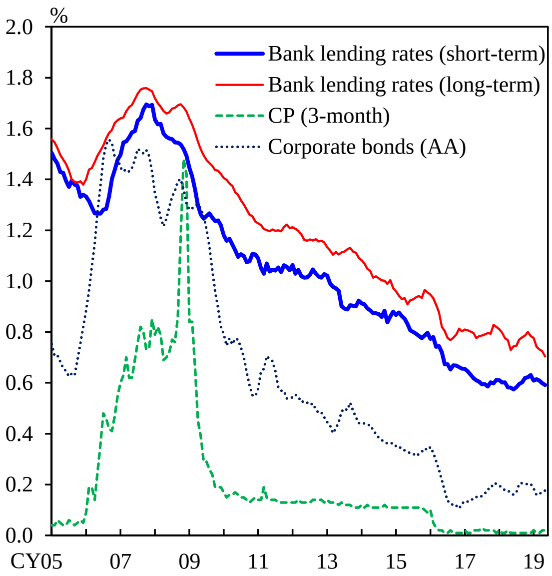
Yield Curve Control



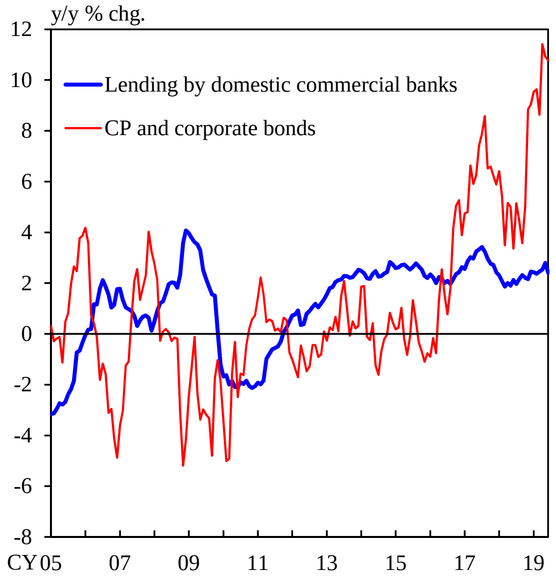
Source: Bloomberg.

Financial Conditions

Bank Lending Rates and Issuance Yields for CP and Corporate Bonds



Amount Outstanding of Bank Lending, CP, and Corporate Bonds



Notes: 1. In the left chart, figures for issuance yields for CP up to September 2009 are the averages for CP (3-month, rated a-1 or higher). Those from October 2009 are the averages for CP (3-month, rated a-1). Figures for issuance yields for corporate bonds are the averages for domestically issued bonds launched on a particular date. Bonds issued by banks and securities companies, etc., are excluded. Figures for bank lending rates and issuance yields for corporate bonds show 6-month backward moving averages.
2. In the right chart, figures for lending by domestic commercial banks are monthly averages. Figures for CP and corporate bonds are those at the end of period.

Sources: Bank of Japan; Japan Securities Depository Center; Capital Eye; I-N Information Systems; Japan Securities Dealers Association; Bloomberg.