



# **Economic Activity, Prices, and Monetary Policy in Japan**

*Speech at a Meeting with Local Leaders in Kyoto  
(via webcast)*

March 3, 2022

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Member of the Policy Board  
Bank of Japan

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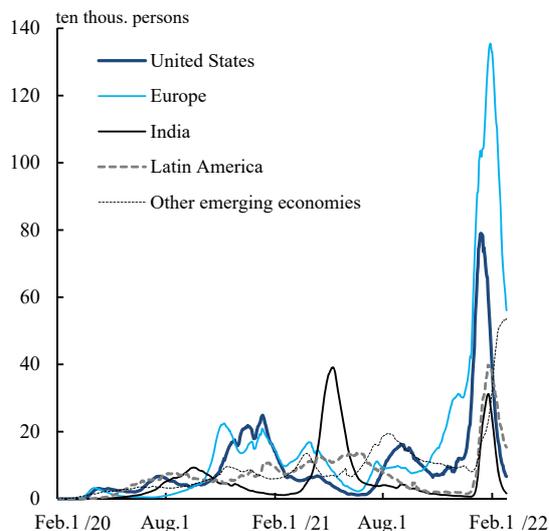
**I. Economic Developments**

**II. Price Developments**

**III. The Bank's Monetary Policy**

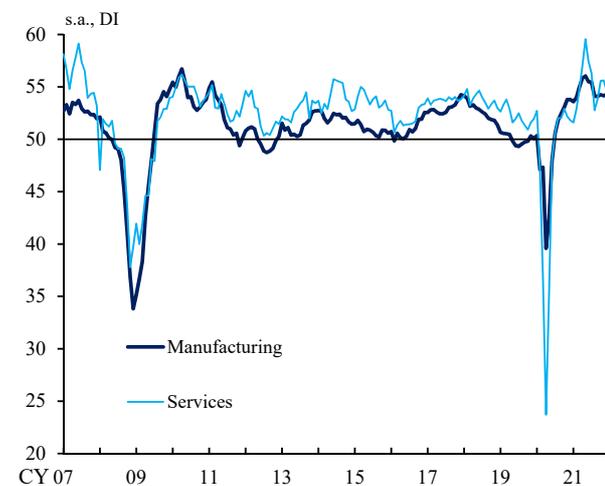
## Overseas Economies

(1) Confirmed New Cases of COVID-19



Note: The latest figures are for February 25, 2022. Figures for the United States, Taiwan, and Hong Kong are from the Centers for Disease Control and Prevention (CDC), the Taiwan Ministry of Health and Welfare, and the Hong Kong Centre for Health Protection, Department of Health, respectively. All other figures are from the World Health Organization (WHO). Figures for Europe are the sum of figures for the European Union (EU) and the United Kingdom. Figures for Latin America are the sum of figures for the major economies in the region. Figures for other emerging economies are the sum of figures for South Africa, Russia, Turkey, and the major economies in the NIEs, ASEAN, and the Middle East. Figures show 7-day backward moving averages.  
Source: CEIC.

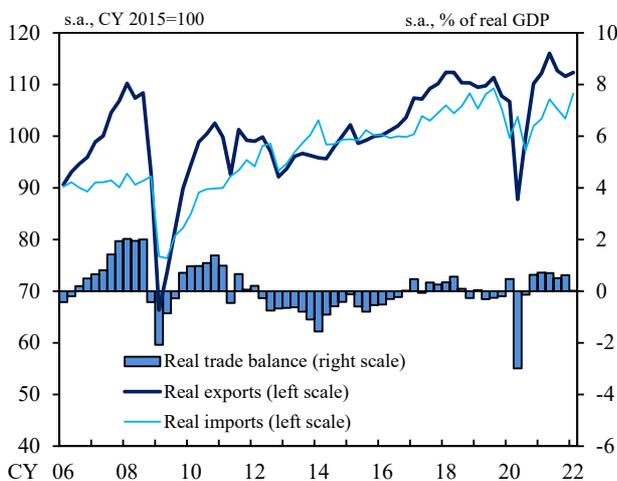
(2) Global PMI



Note: Figures for manufacturing are the J.P.Morgan Global Manufacturing PMI. Those for services are the J.P.Morgan Global Services Business Activity Index.  
Source: IHS Markit (© and database right IHS Markit Ltd 2022. All rights reserved.).

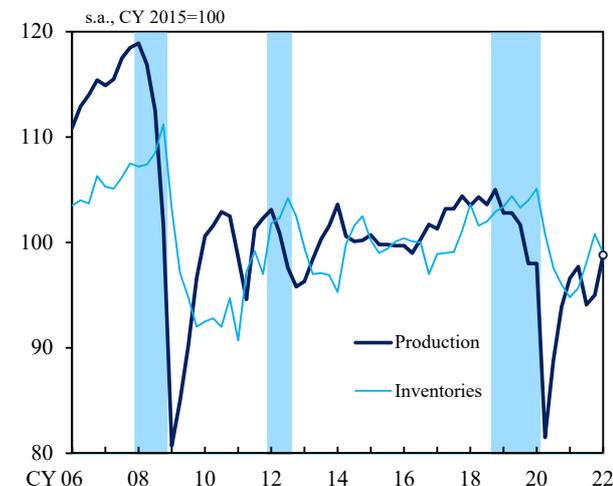
## Corporate Sector in Japan

(3) Real Exports and Imports



Note: Based on Bank staff calculations. Figures for 2022/Q1 are those for January.  
Sources: Cabinet Office; Ministry of Finance; Bank of Japan.

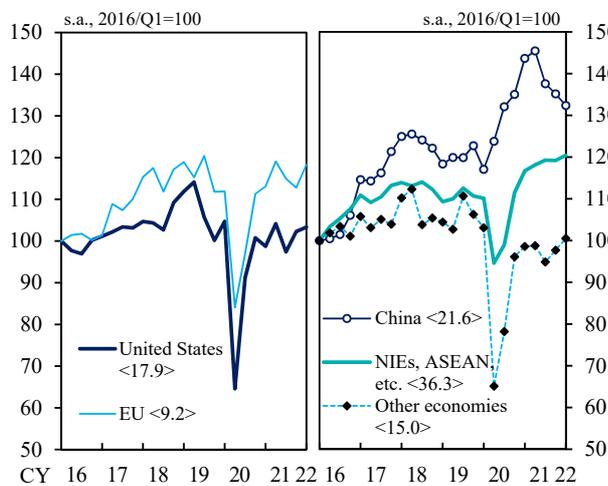
(4) Industrial Production



Notes: 1. Shaded areas denote recession periods.  
2. The figure denoted by the circle to the right is calculated using projections by the Ministry of Economy, Trade and Industry for February and March 2022. The inventories figure for 2022/Q1 is that for January.  
Source: Ministry of Economy, Trade and Industry.

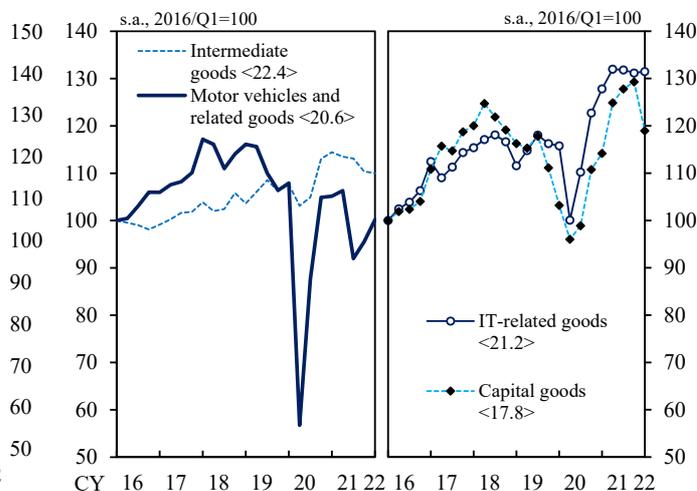
## Corporate Sector in Japan

(5) Real Exports by Region



Notes: 1. Based on Bank staff calculations. Figures in angle brackets show the share of each country or region in Japan's total exports in 2021. Figures for 2022/Q1 are those for January.  
2. Figures for the EU exclude those for the United Kingdom for the entire period.  
Sources: Ministry of Finance; Bank of Japan.

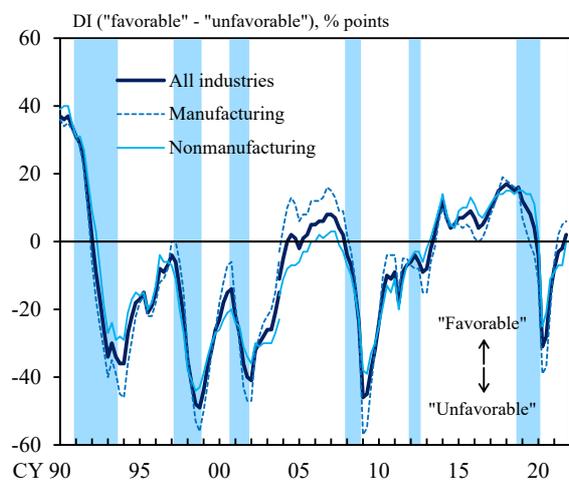
(6) Real Exports by Type of Goods



Note: Based on Bank staff calculations. Figures in angle brackets show the share of each type of goods in Japan's total exports in 2021. Figures for 2022/Q1 are those for January.  
Sources: Ministry of Finance; Bank of Japan.

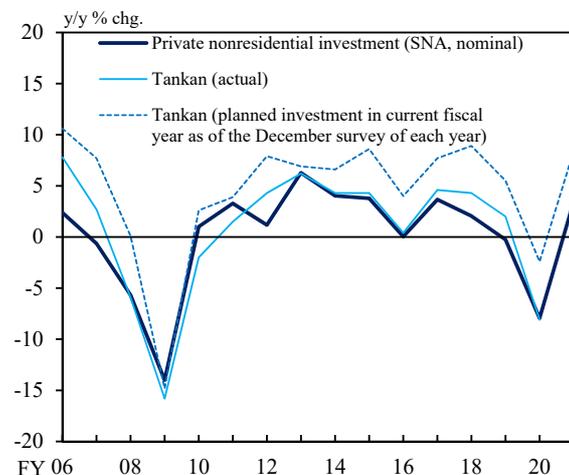
## Corporate Sector in Japan

(7) Business Conditions



Notes: 1. Figures are for enterprises of all sizes from the *Tankan*. There is a discontinuity in the data for December 2003 due to a change in the survey framework.  
2. Shaded areas denote recession periods.  
Source: Bank of Japan.

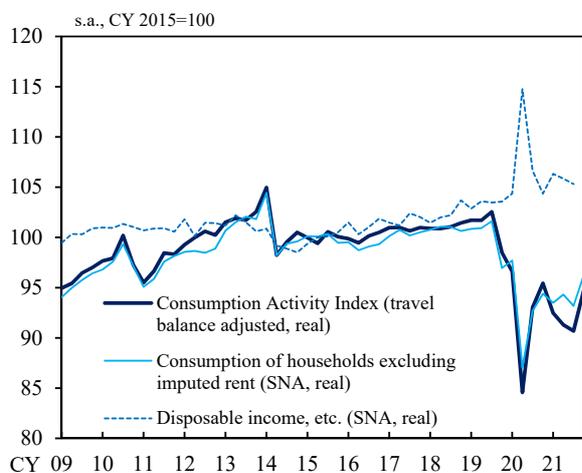
(8) Planned and Actual Business Fixed Investment



Notes: 1. The *Tankan* figures include software and R&D investments and exclude land purchasing expenses. R&D investment is not included before the March 2017 survey. The figures are for enterprises of all industries including financial institutions.  
2. The figure for private nonresidential investment for FY2021 is the 2021/Q2-Q4 average.  
Sources: Cabinet Office; Bank of Japan.

## Household Sector in Japan

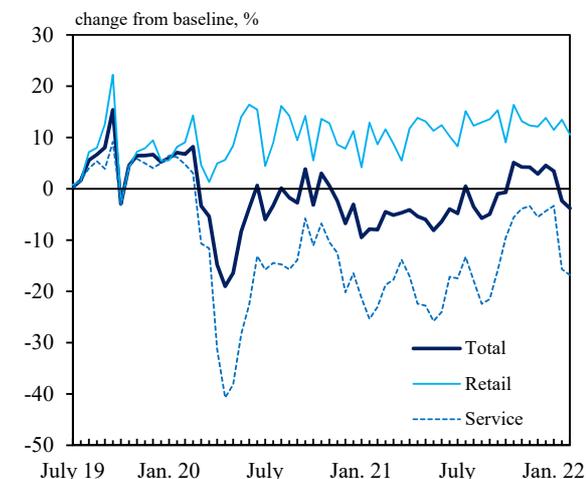
(9) Private Consumption



CY 09 10 11 12 13 14 15 16 17 18 19 20 21

Notes: 1. Figures for the Consumption Activity Index (CAI) are based on Bank staff calculations. The CAI figures (travel balance adjusted) exclude inbound tourism consumption and include outbound tourism consumption.  
2. "Disposable income, etc." consists of disposable income and adjustment for the change in pension entitlements. Real values are obtained using the household consumption deflator.  
Sources: Cabinet Office; Bank of Japan, etc.

(10) Consumption Developments Based on Credit Card Spending

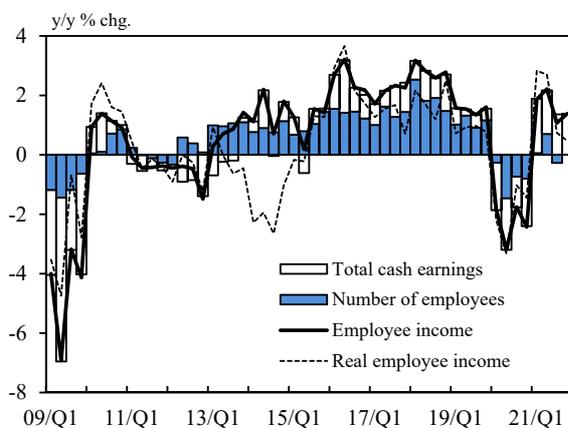


July 19 Jan. 20 July Jan. 21 July Jan. 22

Notes: 1. Figures are from the reference series in *JCB Consumption NOW*, taking into account changes in the number of consumers.  
2. The baseline is the average for the corresponding half of the month for FY2016 through FY2018.  
Source: Nowcast Inc./ JCB, Co., Ltd., "JCB Consumption NOW."

## Employment and Income Situation in Japan

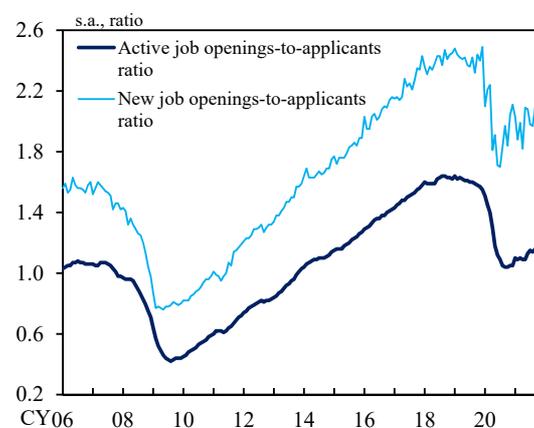
(11) Employee Income



09/Q1 11/Q1 13/Q1 15/Q1 17/Q1 19/Q1 21/Q1

Notes: 1. Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February. Figures for 2021/Q4 are those for December.  
2. Employee income = total cash earnings (*Monthly Labour Survey*) × number of employees (*Labour Force Survey*)  
3. Figures from 2016/Q1 onward are based on continuing observations following the sample revisions of the *Monthly Labour Survey*.  
4. Figures for real employee income are based on Bank staff calculations using the CPI (less imputed rent).  
Sources: Ministry of Health, Labour and Welfare; Ministry of Internal Affairs and Communications.

(12) Job Openings-to-Applicants Ratio



Source: Ministry of Health, Labour and Welfare.

## Outlook for Economic Activity and Prices (as of January 2022)

	Real GDP	CPI (all items less fresh food)
<b>FY2021</b>	<b>+2.7 to +2.9</b> <b>[+2.8]</b>	<b>0.0 to +0.1</b> <b>[0.0]</b>
Forecasts made in Oct. 2021	+3.0 to +3.6 [+3.4]	0.0 to +0.2 [0.0]
<b>FY2022</b>	<b>+3.3 to +4.1</b> <b>[+3.8]</b>	<b>+1.0 to +1.2</b> <b>[+1.1]</b>
Forecasts made in Oct. 2021	+2.7 to +3.0 [+2.9]	+0.8 to +1.0 [+0.9]
<b>FY2023</b>	<b>+1.0 to +1.4</b> <b>[+1.1]</b>	<b>+1.0 to +1.3</b> <b>[+1.1]</b>
Forecasts made in Oct. 2021	+1.2 to +1.4 [+1.3]	+0.9 to +1.2 [+1.0]

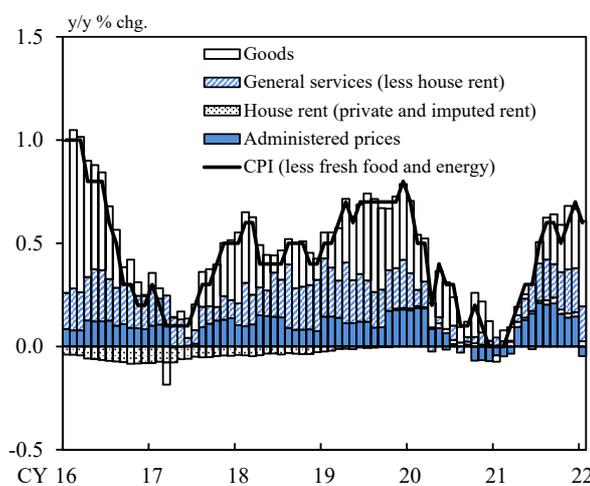
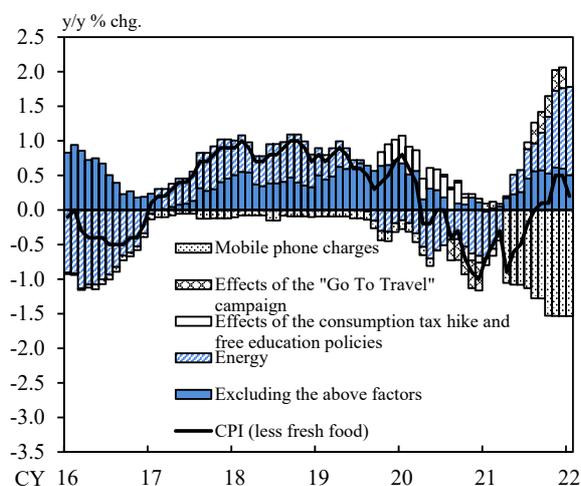
y/y % chg.

Note: Figures in brackets indicate the medians of the Policy Board members' forecasts (point estimates).  
Source: Bank of Japan.

## CPI

(1) Less Fresh Food

(2) Excluding Temporary Factors



Notes: 1. Figures for "energy" consist of those for petroleum products, electricity, as well as manufactured and piped gas charges.  
2. Figures for the "effects of the consumption tax hike and free education policies" from April 2020 onward are Bank staff estimates and include the effects of measures such as free higher education introduced in April 2020.  
Source: Ministry of Internal Affairs and Communications.

Notes: 1. "Administered prices" excludes energy prices and consists of public services fees and water charges.  
2. The CPI figures are Bank staff estimates and exclude the effects of the consumption tax hike, free education policies, the "Go To Travel" campaign, and mobile phone charges.  
Source: Ministry of Internal Affairs and Communications.

## The Bank's Measures in Response to COVID-19 (from March 2020)

### Supporting Corporate Financing

#### Special Program

- Purchases of CP and corporate bonds: amount outstanding of about 20 tril. yen at maximum (previous amount outstanding of about 5 tril. yen)
- Special Operations to Facilitate Financing

### Stabilizing Financial Markets

#### Flexible Provision of Ample Yen and Foreign Currency Funds

- Active purchases of JGBs and T-Bills
- U.S. Dollar Funds-Supplying Operations

### Lowering Risk Premia in Asset Markets

#### Purchases of ETFs and J-REITs

- ETFs: annual pace with an upper limit of about 12 tril. yen
- J-REITs: annual pace with an upper limit of about 180 bil. yen

## The Bank's Measures to Support Corporate Financing

		Special Program			
		Special Operations to Facilitate Financing			
		Purchases of CP and corporate bonds	Against private debt pledged as collateral	Loans in response to COVID-19	
				Against government-supported loans	Against non-government-supported loans
Until end-March 2022	Up to an amount outstanding of about 20 tril. yen (previous amount outstanding of about 5 tril. yen)	Fund-provisioning on favorable terms to financial institutions against private debt pledged as collateral and eligible loans in response to COVID-19	To be completed	Fund-provisioning to financial institutions against their loans extended until end-September 2022	Extended until end-September 2022
	Additional purchases to be completed				
From April 2022 (Decided in December 2021)	Continue purchasing the same amount as prior to the COVID-19 pandemic				
		Mainly for large firms and housing loans		Mainly for SMEs	

## Climate Response Financing Operations (Loan Disbursement from Dec. 2021)

**From a central bank standpoint, the Bank provides funds to financial institutions for investment or loans they make to address climate change based on their own decisions.**

➔ Amid the uncertain external environment, it can respond flexibly to changes in circumstances while avoiding direct involvement in micro-level resource allocation as much as possible.

### Eligible Counterparties Eligible Investment/Loans



Counterparties make investments/loans based on their own decisions. Discipline will be exercised through a certain level of disclosure.

- **Financial institutions that disclose a certain level of information** on their efforts to address climate change.
- Of the investment/loans made by counterparties as part of their efforts, **those that contribute to Japan's actions to address climate change**

### Terms and Conditions



Long-term support for financial institutions' efforts

- Interest rate: **0%** -- The measure will fall under Category III (applied interest rate: 0%) in the Interest Scheme to Promote Lending
- **Twice as much as the amount outstanding of funds that counterparties receive will be added to the Macro Add-on Balances in their current accounts at the Bank**
- Duration of fund-provisioning: 1 year, rollovers can be made until the end of the implementation period  
→ **Effectively, counterparties can receive long-term financing from the Bank**
- Implementation period: in principle, **until the end of FY2030**

## Policy Actions to Conduct Further Effective and Sustainable Monetary Easing (from March 2021)

To achieve the price stability target of 2 percent, it is important to (1) continue with monetary easing in a sustainable manner and (2) make nimble and effective responses without hesitation to counter changes in the situation.

### Conduct of Yield Curve Control

#### Establishment of the Interest Scheme to Promote Lending

- Apply incentives (linked to the short-term policy interest rate) to financial institutions' current account balances, corresponding to the amount outstanding of funds provided through fund-provisioning measures to promote lending  
⇒ Enable the Bank to cut short- and long-term interest rates more nimbly while considering the impact on the functioning of financial intermediation

#### Clarification of the range of fluctuations in long-term interest rates ( $\pm 0.25\%$ from the target level)

- Strike a balance between securing effects of monetary easing and maintaining market functioning

#### Introduction of "fixed-rate purchase operations for consecutive days"

- Strengthen the fixed-rate purchase operations to stop a significant rise in interest rates

#### Conduct of yield curve control for the time being

- Prioritize stabilizing the entire yield curve at a low level under the continuing impact of COVID-19 in particular

### Purchases of ETFs and J-REITs

**Purchase ETFs and J-REITs as necessary with upper limits of about 12 tril. yen and about 180 bil. yen, respectively, on the annual paces of increase in their amounts outstanding, and maintain these limits even after COVID-19 subsides**

**Purchase only ETFs tracking the TOPIX**