

Japan's Economy and Monetary Policy: Toward Overcoming Deflation

*Speech at a Meeting Held by the Naigai Josei Chousa Kai
(Research Institute of Japan) in Tokyo*

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Haruhiko Kuroda
Governor of the Bank of Japan

Chart 1

Quantitative and Qualitative Monetary Easing

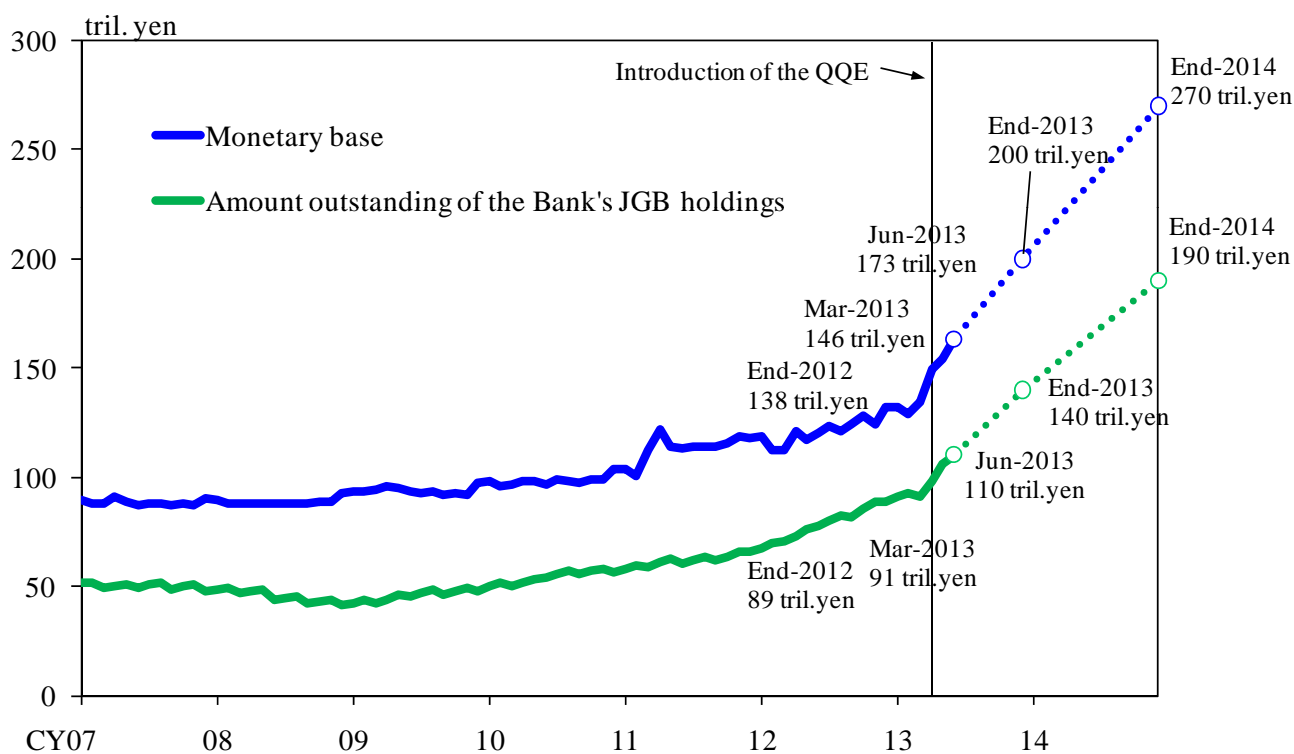
Strong and Clear Commitment

- Achieve the price stability target of 2%, with a time horizon of about 2 years.

New Phase of Monetary Easing Both in Terms of Quantity and Quality

- Monetary base: Annual increase of about 60-70 tril. yen (x2 in 2 years).
- Amount outstanding of the Bank's JGB holdings: Annual increase of about 50 tril. yen (more than x2 in 2 years).
- Average remaining maturity of the Bank's JGB purchases: Extended to about 7 years (more than x2).
- Amount outstanding of ETF holdings: Annual increase of about 1 tril. yen (more than x2 in 2 years).

Expansion in the Monetary Base and JGB Holdings



Source: Bank of Japan.

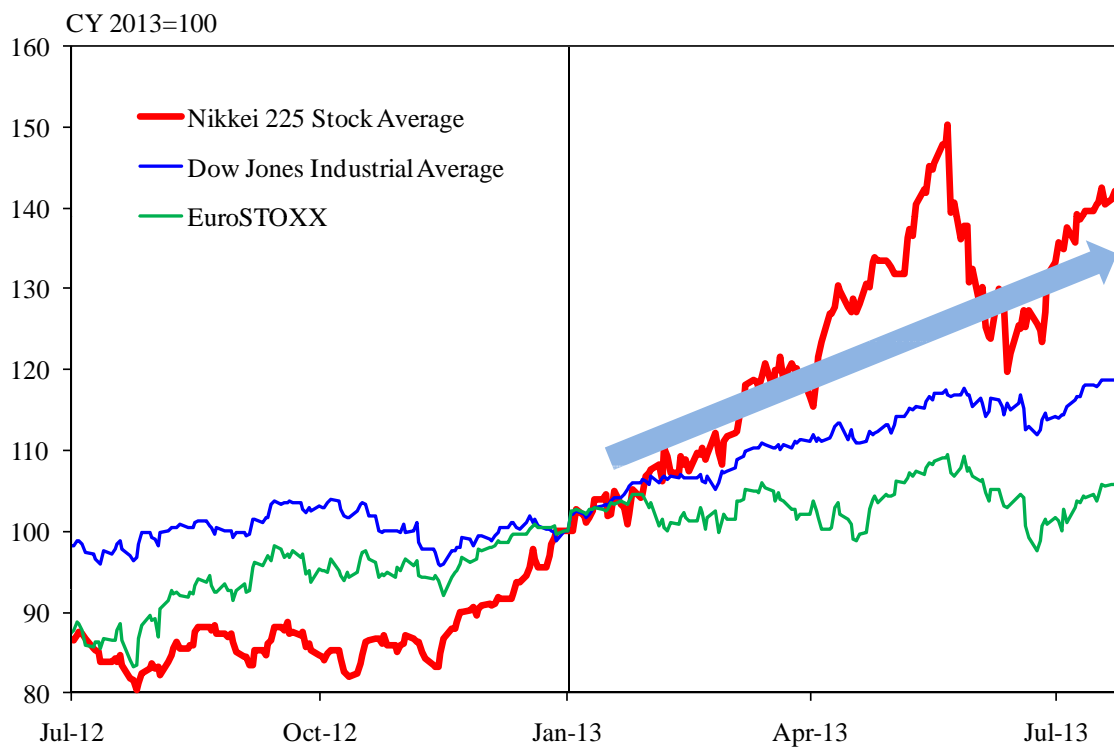
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Effects of the QE after 3 Months from Introduction

3 Positive Developments

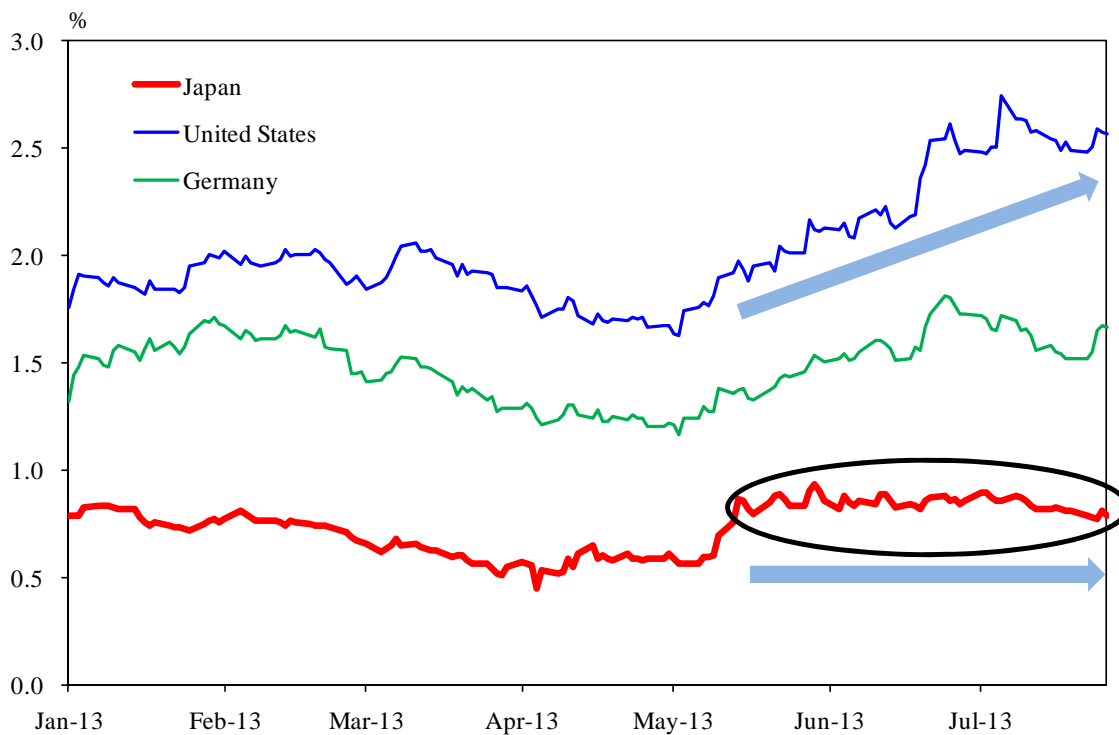
- Favorable Turn in Financial Conditions
- Favorable Turn in Expectations
- Favorable Turn in Economic Activity and Prices

Stock Prices



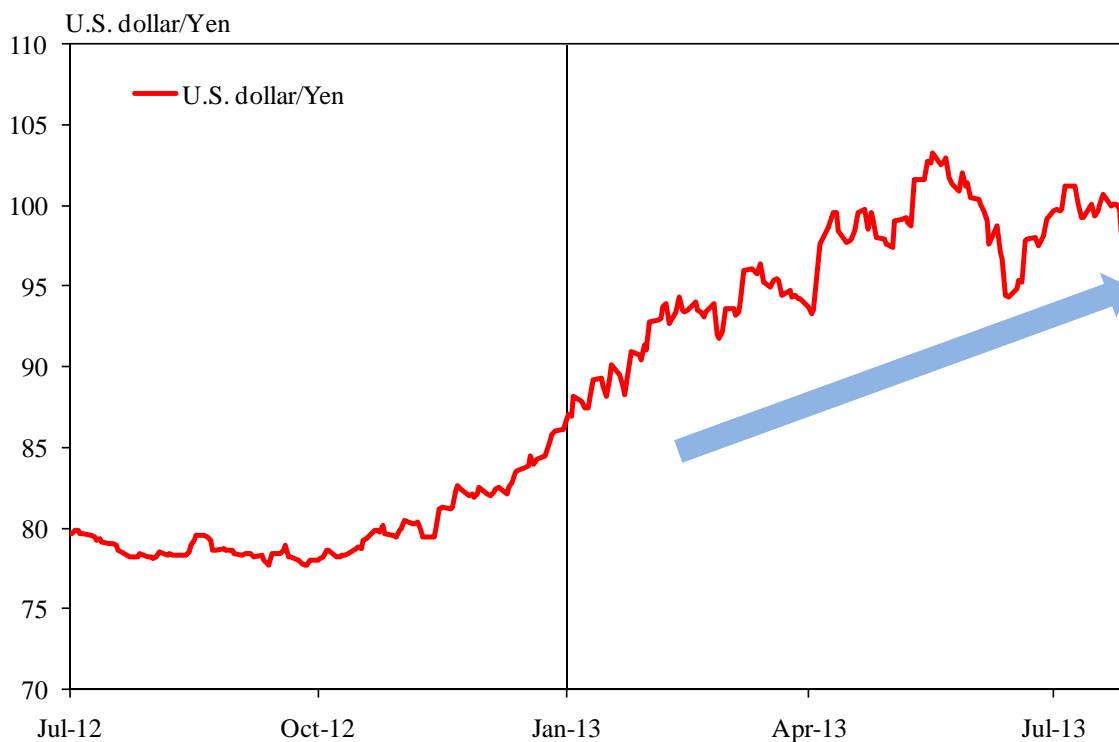
Source: Bloomberg.

Long-Term Interest Rates



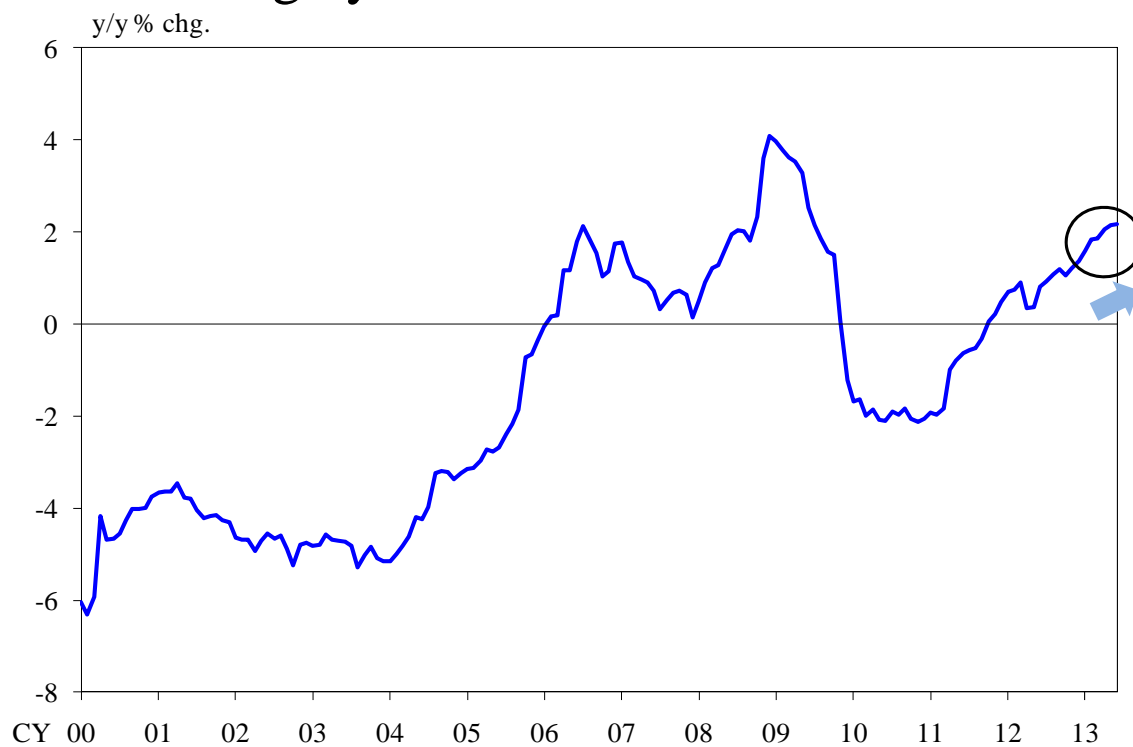
Source: Bloomberg.

Exchange Rates



Source: Bloomberg.

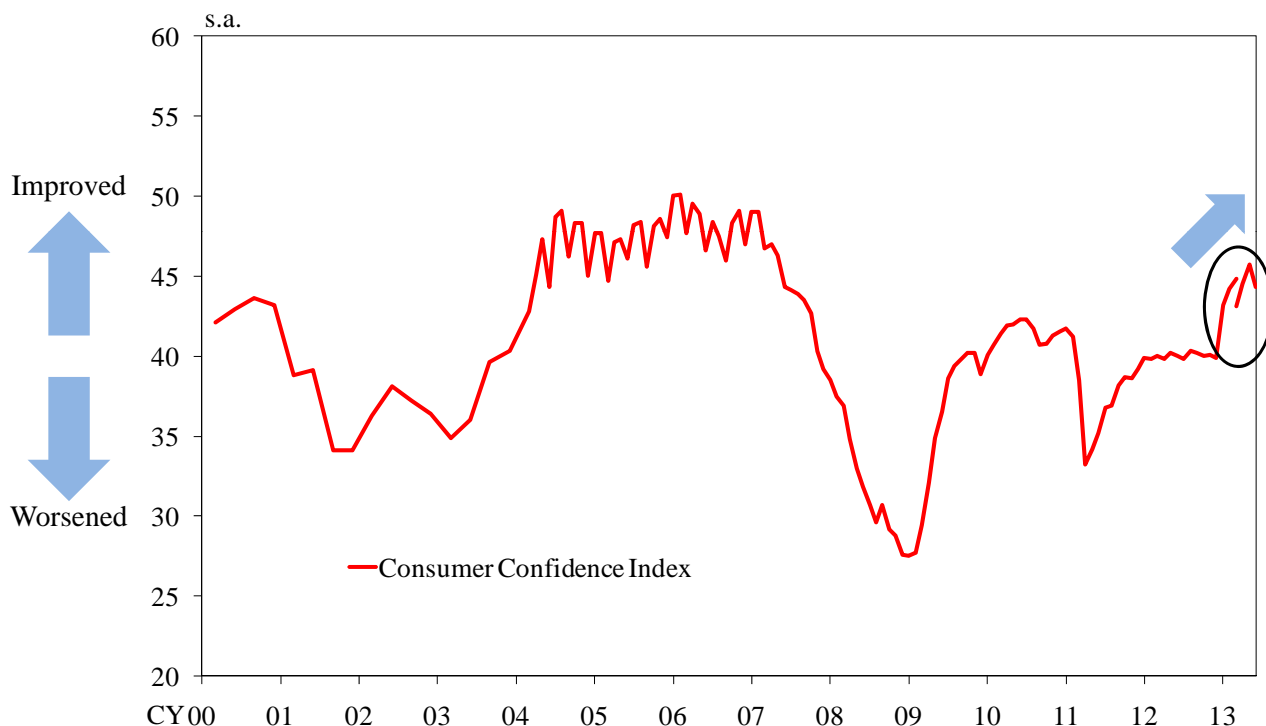
Lending by Domestic Commercial Banks



Note: "Domestic Commercial Banks" refers to major banks, regional banks I, and regional banks II.

Source: Bank of Japan.

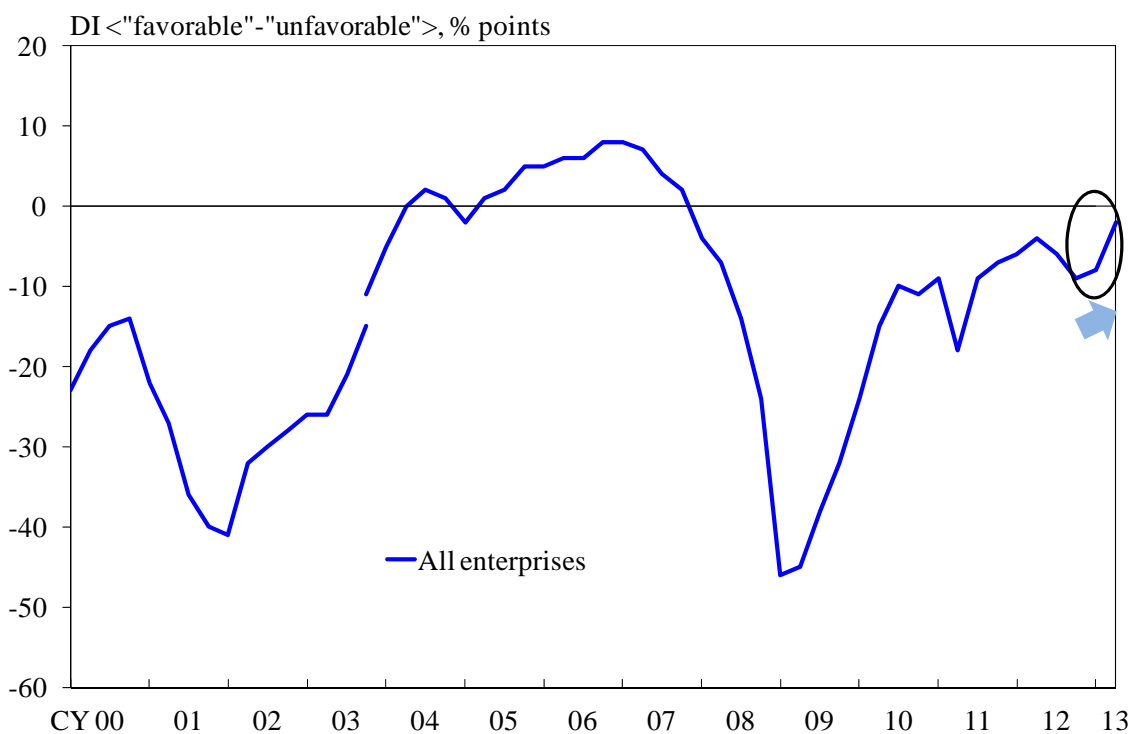
Consumer Confidence



Notes: 1. The Consumer Confidence Index is calculated by simply averaging four consumer perception indexes; "overall livelihood," "income growth," "employment," and "willingness to buy durable goods."
 2. Surveys were conducted on a quarterly basis until March 2004.

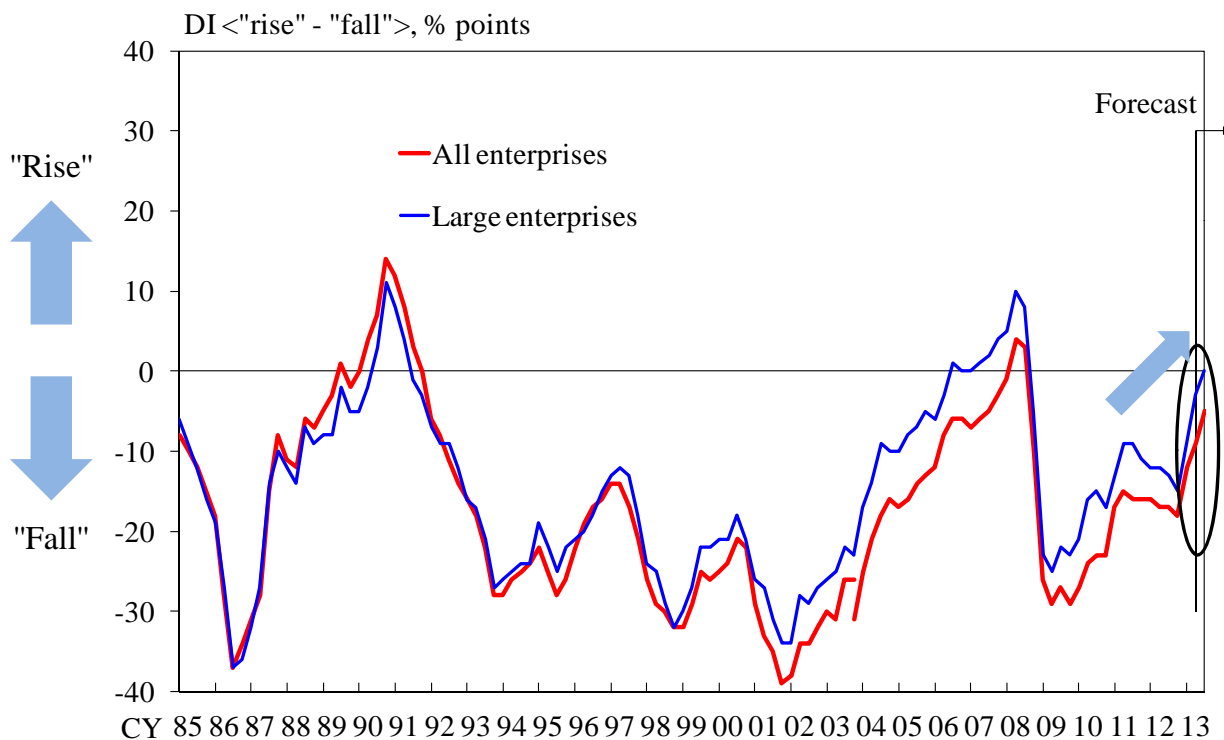
Source: Cabinet Office.

Tankan: DI for Business Conditions



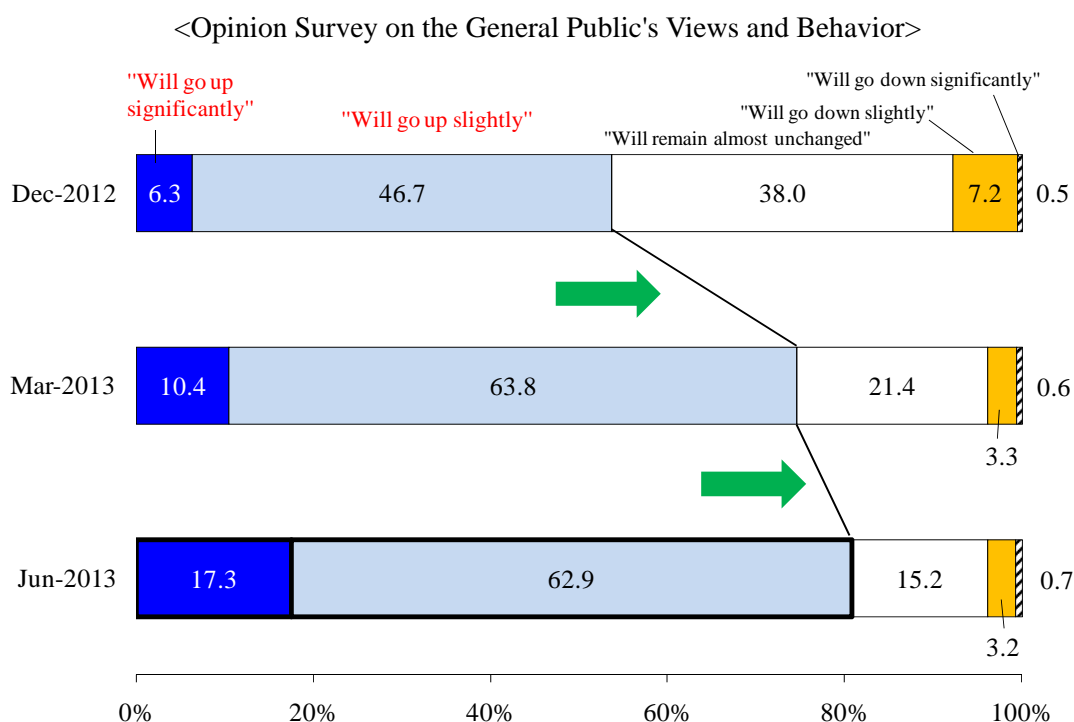
Source: Bank of Japan.

Tankan: DI for Change in Output Prices



Source: Bank of Japan.

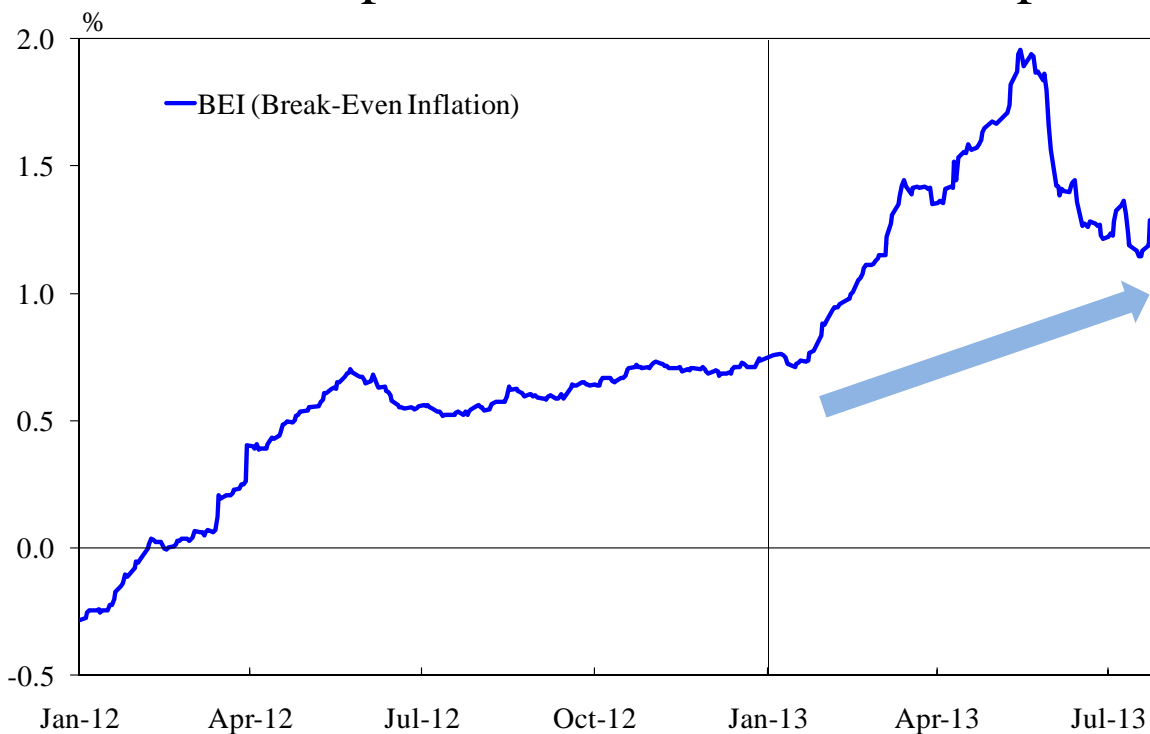
Outlook for Price Levels One Year from Now: Households' Views



Note: Outlook for price levels one year from now excludes the effects of the consumption tax hike.

Source: Bank of Japan.

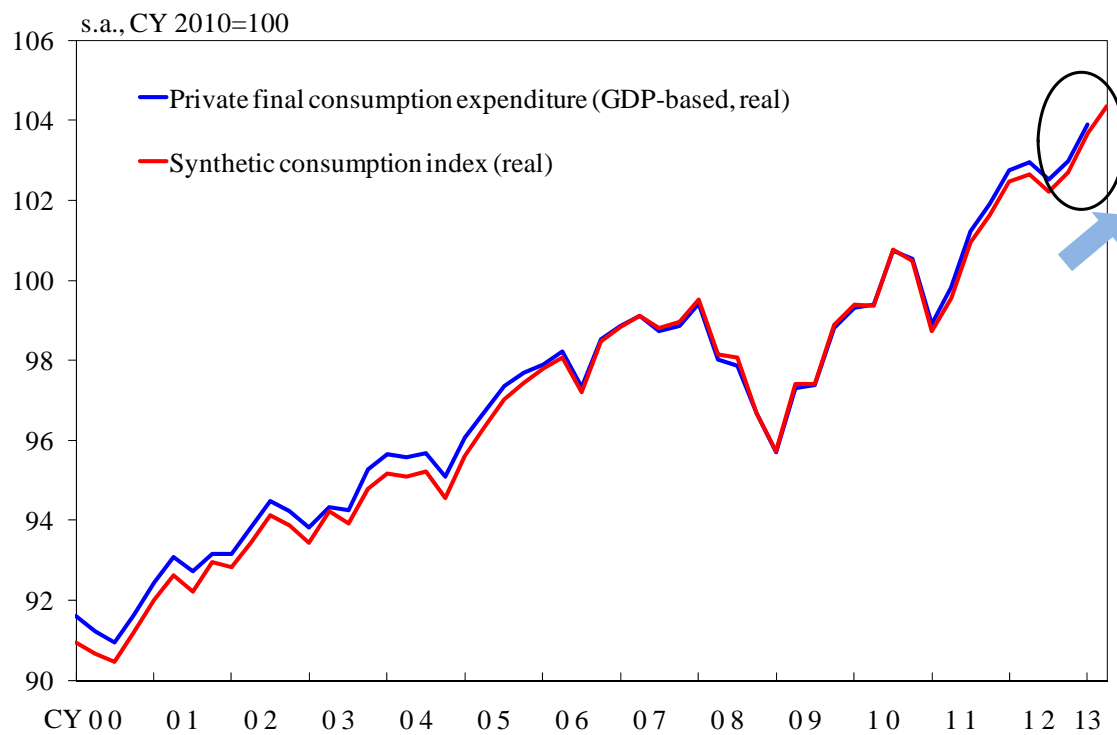
Inflation Expectations of Market Participants



Note: BEI is the yield spread between fixed-rate coupon-bearing JGBs and inflation-indexed JGBs. Figures are calculated using yield data for the inflation-indexed JGBs with the longest maturity at each period that corresponds to 5 years recently.

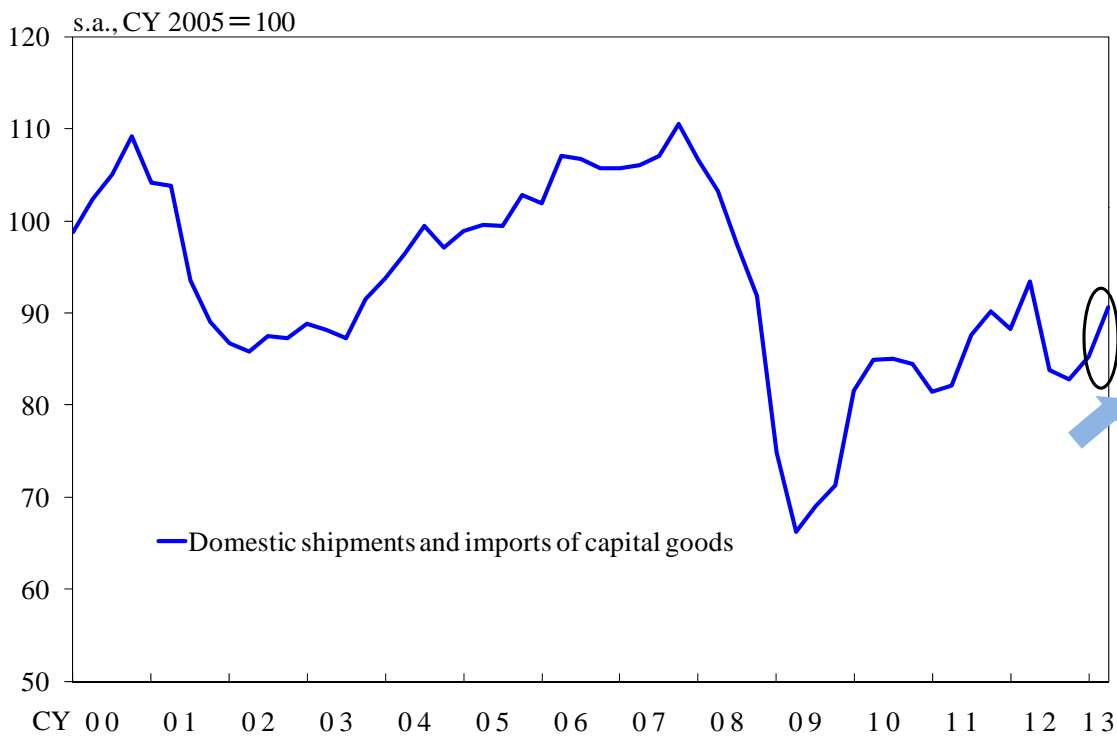
Source: Bloomberg.

Private Consumption



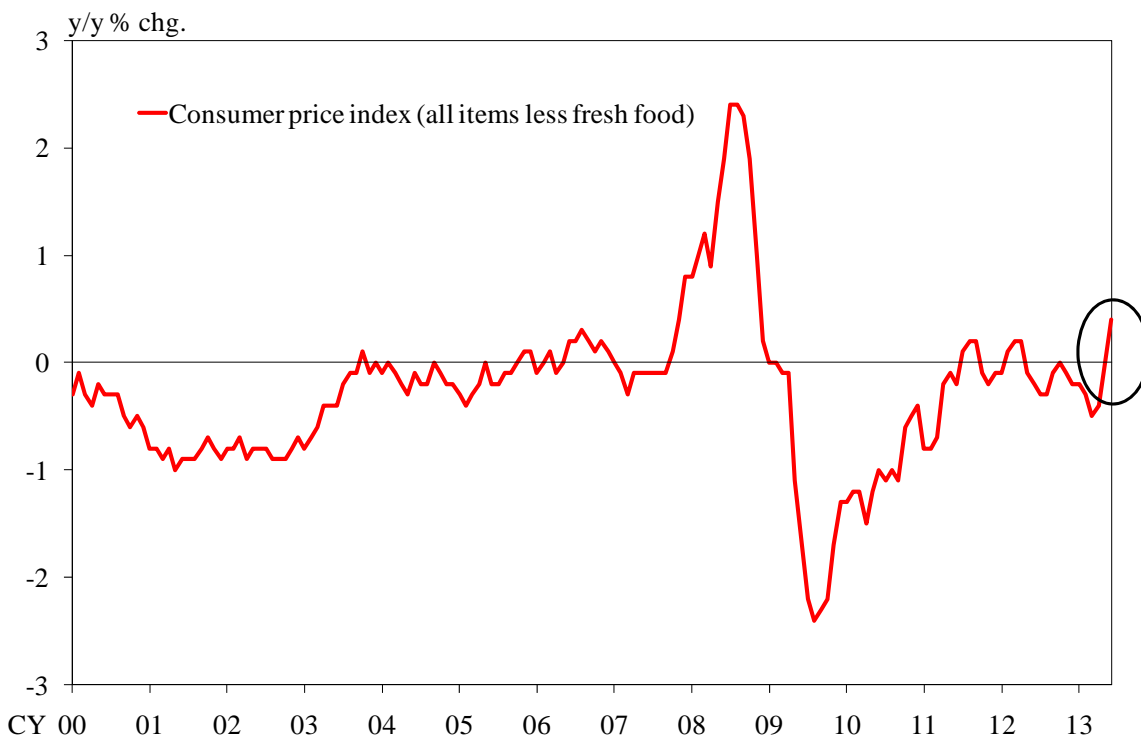
Source: Cabinet Office.

Business Fixed Investment



Source: Ministry of Economy.

Consumer Prices



Source: Ministry of Internal Affairs and Communications.

Forecasts of Policy Board Members (Interim Assessment, July 2013)

	Real GDP	CPI (all items less fresh food)
Fiscal 2013	+2.8	+0.6
Fiscal 2014	+1.3	+1.3
Fiscal 2015	+1.5	+1.9

Notes: 1. Above figures are the median of the Policy Board members' forecasts (point estimates).
2. Forecasts for fiscal 2014 and fiscal 2015 exclude the effects of the consumption tax hikes.

Source: Bank of Japan.

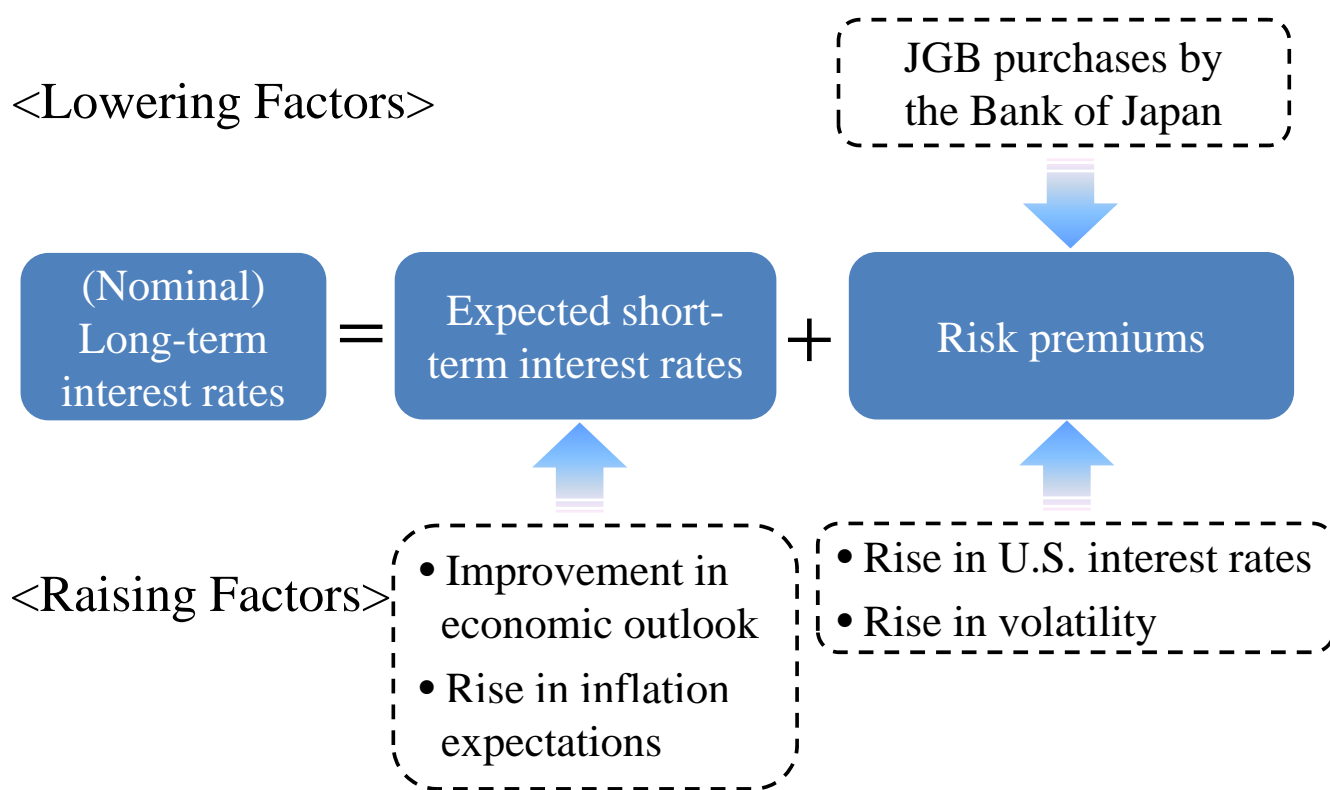
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3 Key Factors toward Realizing the Outlook for Economic Activity and Prices

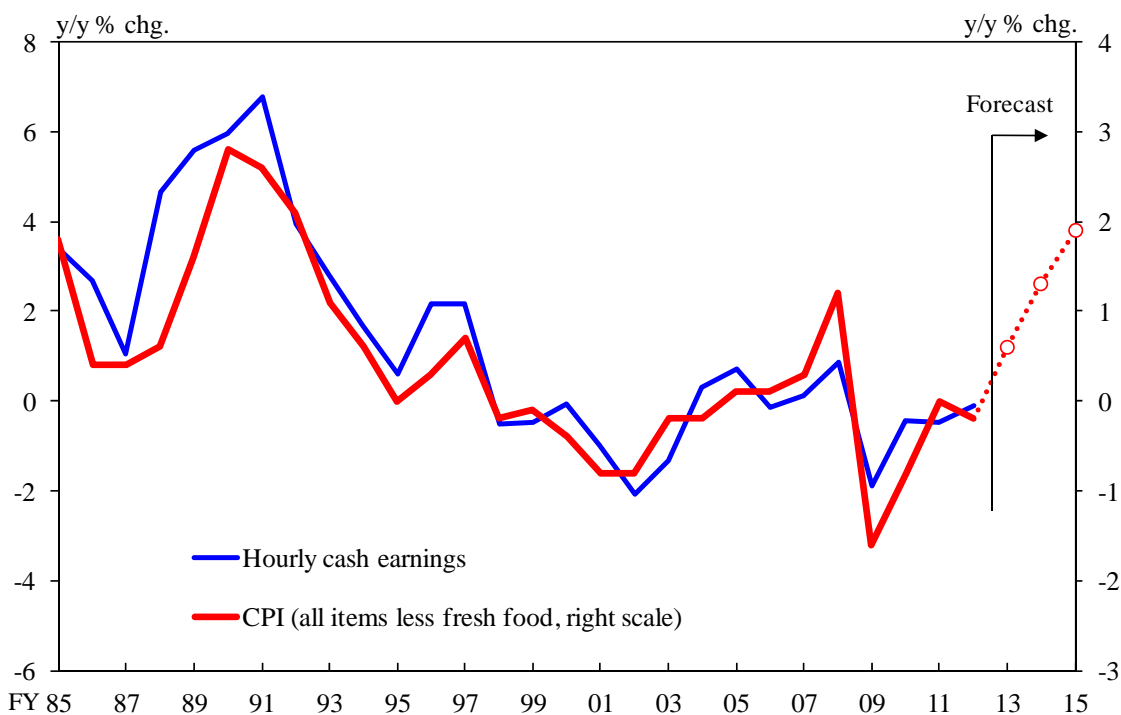
- Sustained spending of firms and households.
- Rise in inflation expectations.
- Developments in overseas economies.

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Factors Affecting Long-Term Interest Rates



Prices and Wages



Notes: 1. "Forecast" refers to the median of the Policy Board member's forecasts (point estimates).
 2. Figures for CPI are adjusted to exclude the effects of the consumption tax hikes.
 3. Figures for hourly cash earnings up through FY 1990 are those for establishments with 30 or more employees.

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