

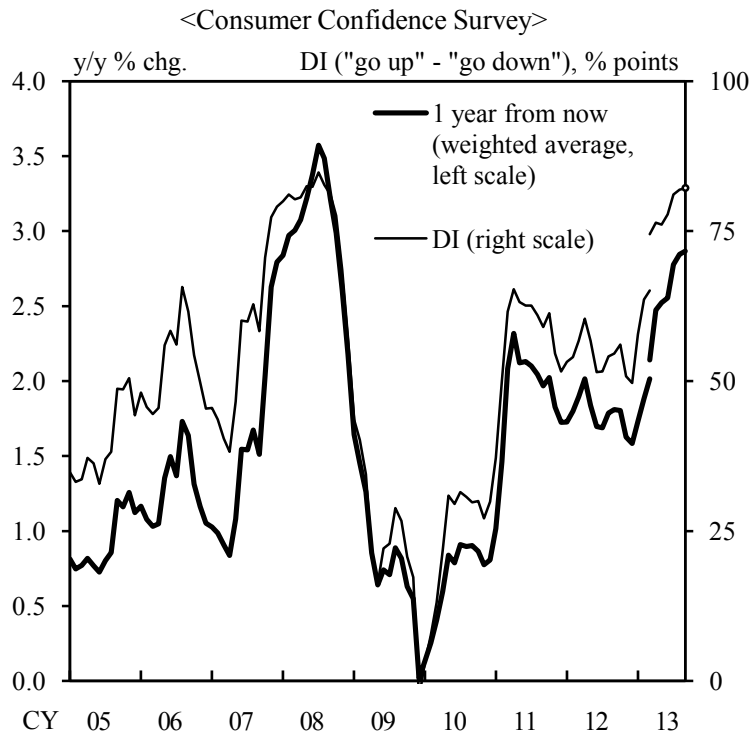
Purpose and Mechanism of Quantitative and Qualitative Monetary Easing

*Special Lecture Commemorating the 50th
Anniversary of the Institute of Economic Research,
Chuo University*

Kikuo Iwata
Deputy Governor of the Bank of Japan

Chart 1

Inflation Expectations



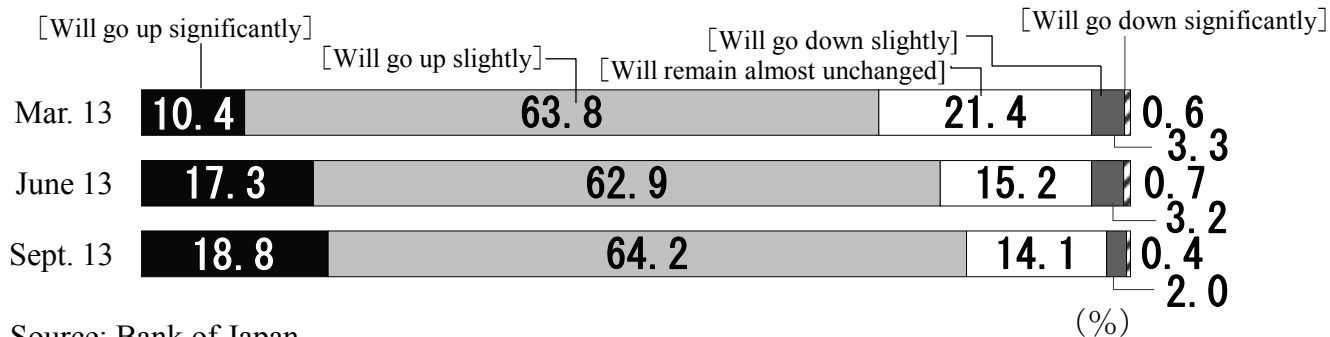
Source: Cabinet Office.

<ESP Forecast>

	FY2013	FY2014	FY2015
Feb-13	0.17	2.45	—
Mar-13	0.25	2.47	—
Apr-13	0.27	2.47	—
May-13	0.32	2.61	—
Jun-13	0.33	2.70	<1.00>
Jul-13	0.36	2.71	<0.95>
Aug-13	0.43	2.73	<0.97>
Sep-13	0.52	2.75	<1.03>
Oct-13	0.59	2.78 <0.76>	1.60 <0.91>

Source: JCER. Note: Figures in brackets exclude the effects of the consumption tax hikes.

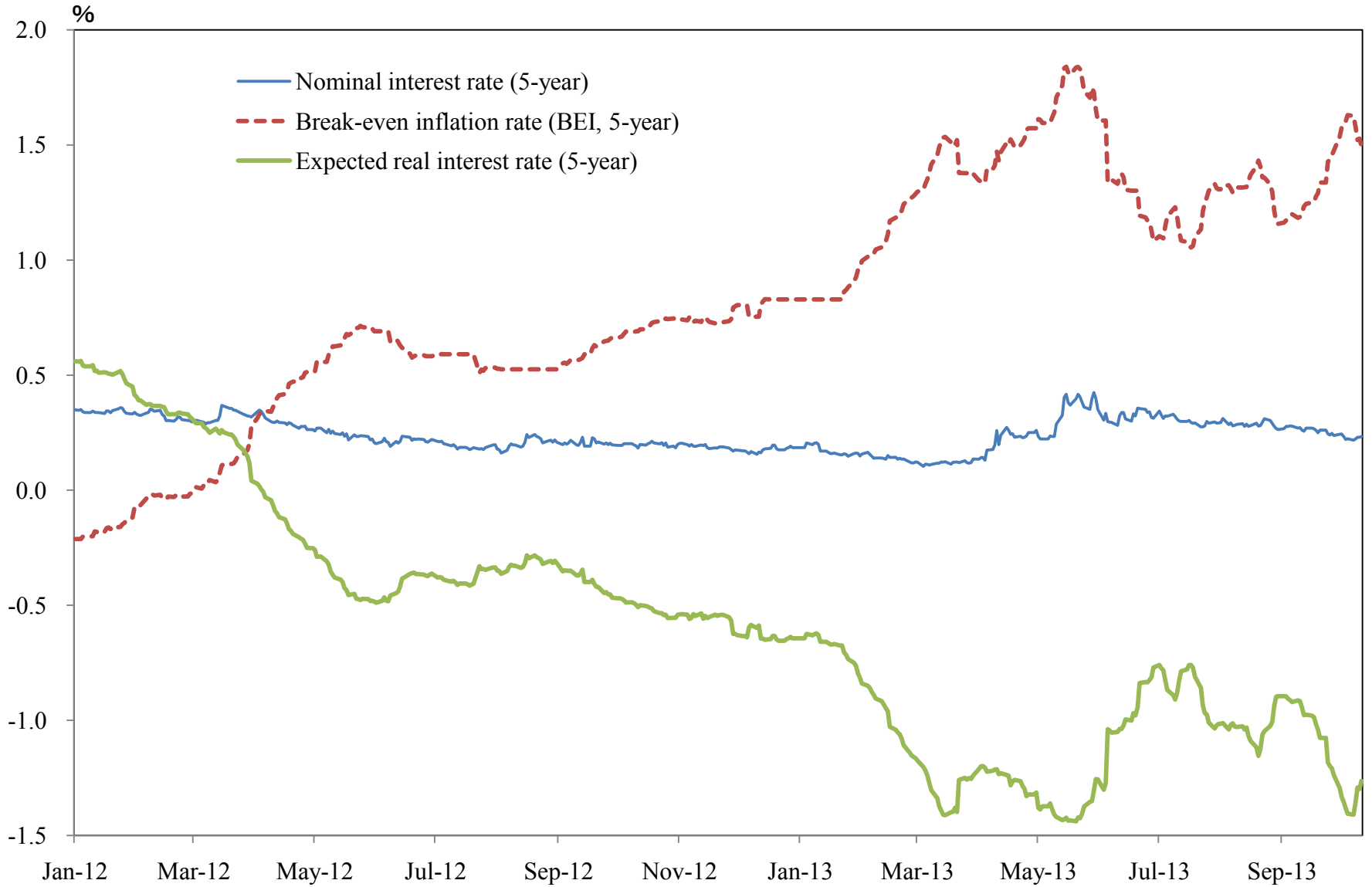
<Opinion Survey>



Source: Bank of Japan.

Chart 2

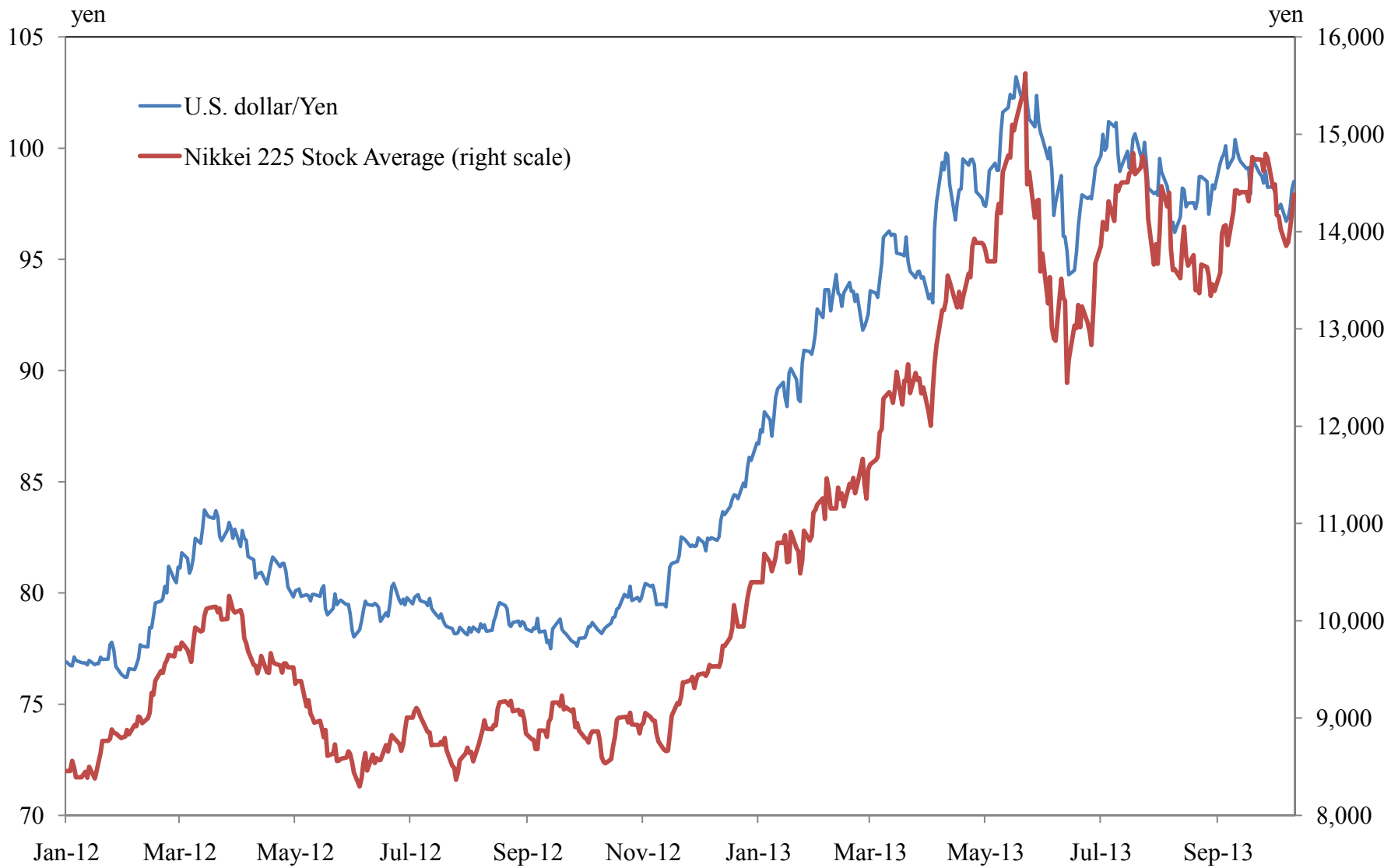
Interest Rates and Inflation Expectations



Source: Bloomberg.

Chart 3

Stock Price and Exchange Rate



Source: Bloomberg.

Chart 4

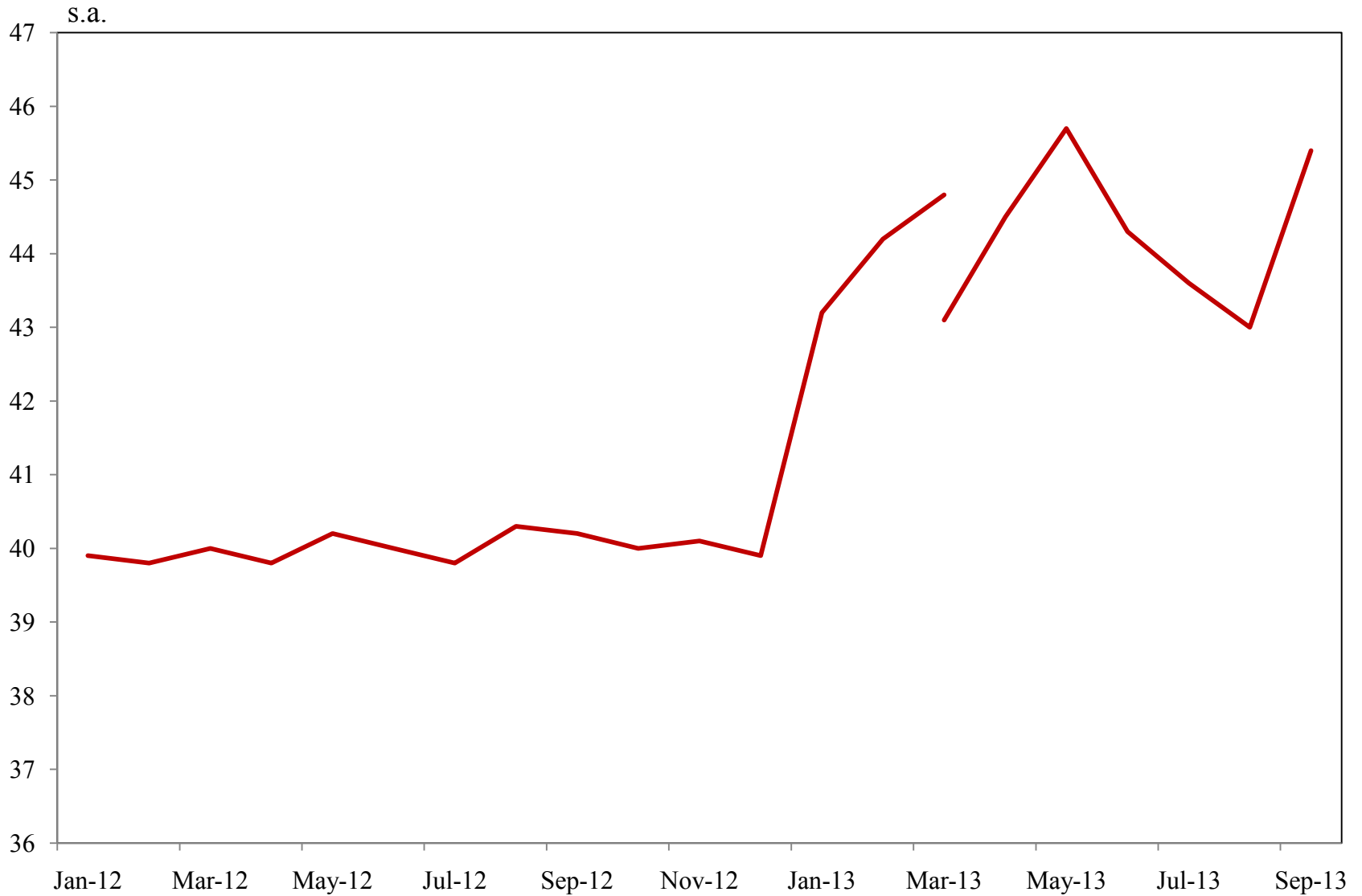
Household Assets

		2011		2012				2013		Amounts outstanding in June-end 2013 in trillion yen (percentage ratio in parentheses)
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	
Amounts outstanding (End of period, trillion yen)		1,486	1,500	1,517	1,514	1,509	1,544	1,568	1,590	
C h a n g e s () %	Total assets	0.6	-0.1	1.1	0.2	1.5	2.9	3.4	5.0	1,590 (100.0)
	Currency and deposits	1.9	2.0	2.2	1.8	1.9	2.0	1.7	2.0	860 (54.1)
	Bonds	-12.6	-12.0	-8.4	-7.9	-8.7	-9.3	-8.0	-9.0	31 (2.0)
	Investment trust beneficiary certificates	-7.0	-10.7	-4.9	-11.3	2.0	13.3	20.1	29.0	72 (4.5)
	Shares and other equities	6.8	-6.3	0.9	-5.4	-1.4	11.3	15.1	31.4	129 (8.1)
	Insurance and pension reserves	-0.1	0.2	0.9	1.1	1.8	2.5	2.4	2.6	434 (27.3)
	Others	-4.3	-2.1	-0.4	-1.0	3.6	4.0	3.6	6.3	65 (4.1)

Source: Bank of Japan, "Flow of Funds."

Chart 5

Consumer Confidence



Source: Cabinet Office.

Chart 6

Exports of Goods and Services

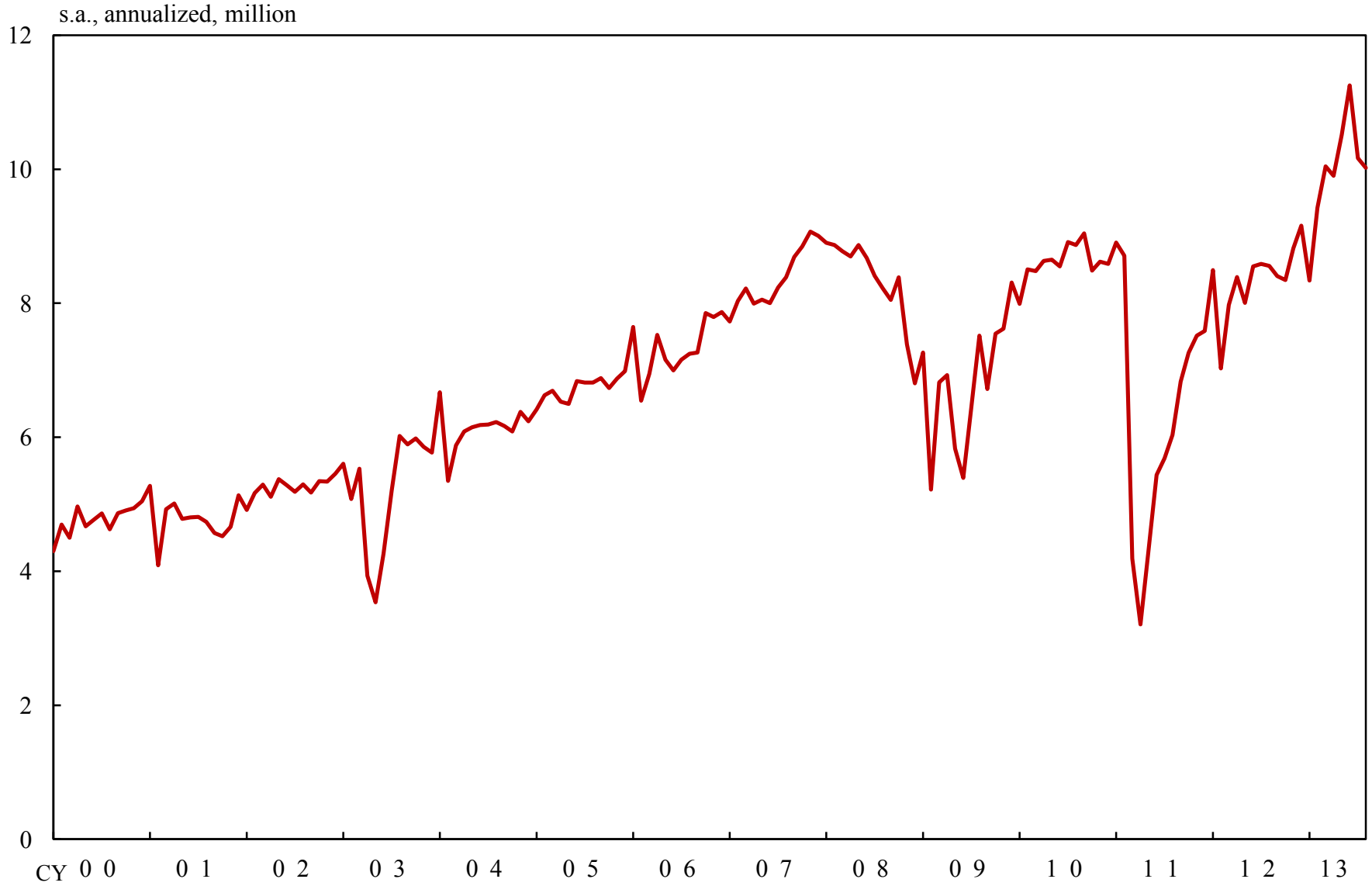
s.a., q/q % chg.

2012			2013	
Q2	Q3	Q4	Q1	Q2
-0.2	-4.5	-2.7	4.0	3.0

Source: Cabinet Office, "National Accounts."

Chart 7

Foreign Tourists



Source: Japan National Tourist Organization.

Chart 8

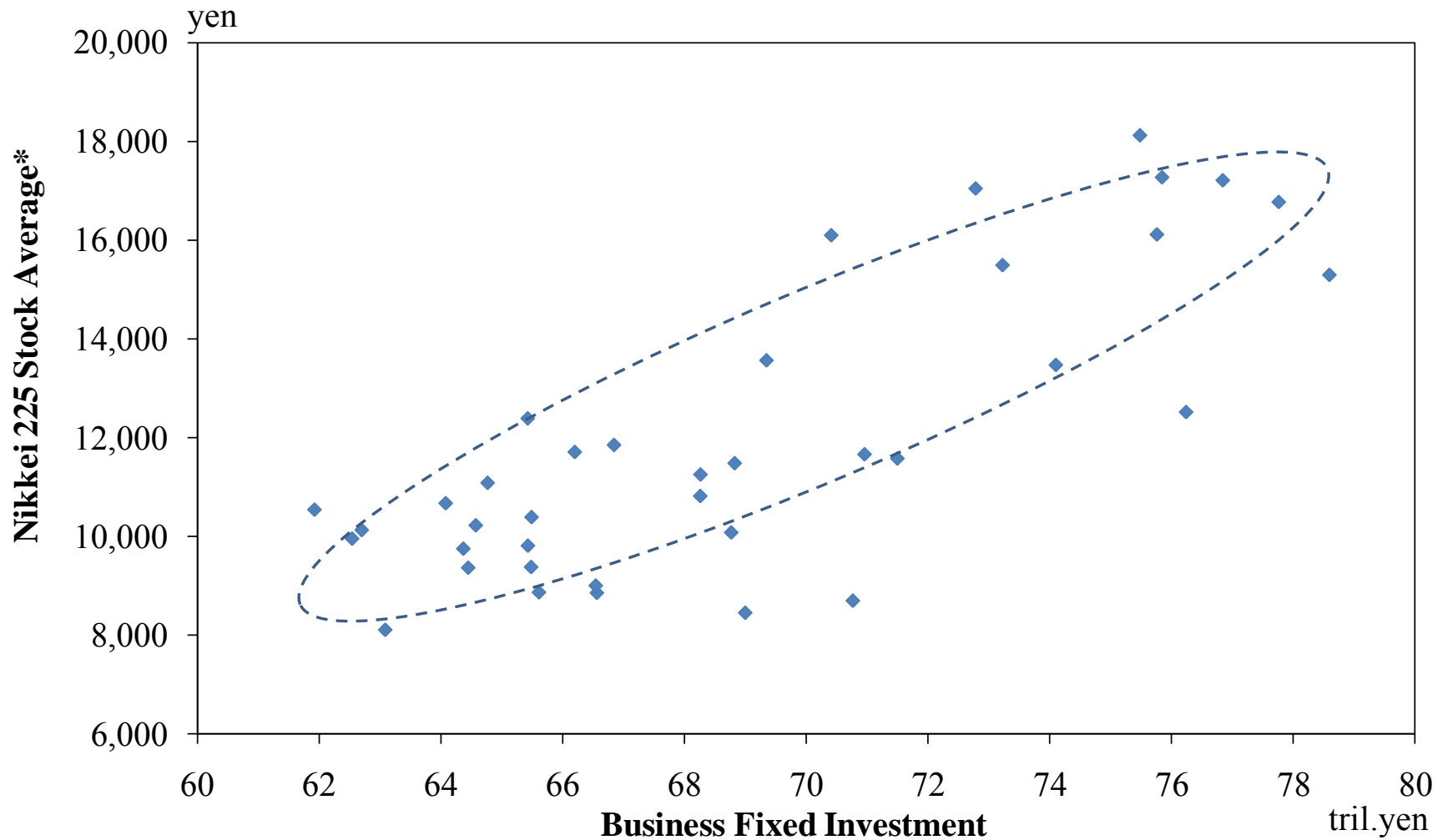
Financial Assets Held by Private Nonfinancial Corporations

		2011		2012				2013		Amounts outstanding in June-end 2013 in trillion yen (percentage ratio in parentheses)	
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2		
Amounts outstanding (End of period, trillion yen)		743	764	811	760	763	785	841	845		
C h a n g e s (%) (Total assets	1.8	0.1	3.9	0.8	2.7	2.6	3.6	11.2	845	(100.0)
	Currency and deposits	2.9	3.9	2.4	2.7	4.8	3.5	5.4	6.9	220	(26.0)
	Securities other than shares	2.1	-0.6	-0.6	-4.7	-8.8	-7.7	-19.0	-0.0	34	(4.0)
	Shares and other equities	11.9	-5.7	-0.0	-6.2	-1.5	8.0	20.1	40.0	184	(21.7)
	Trade credits and foreign trade credits	-3.3	-2.5	4.3	-1.0	-1.8	-6.8	-8.0	-1.7	192	(22.7)
	Outward direct investment	5.9	11.9	20.2	14.9	22.6	23.7	22.0	36.6	60	(7.1)
	Outward investments in securities	1.9	4.4	11.4	18.0	15.9	9.1	-3.8	-11.2	46	(5.4)
	Others	-3.5	0.3	4.1	-0.5	3.7	6.6	6.3	11.8	111	(13.1)

Source: Bank of Japan, "Flow of Funds."

Chart 9

Stock Price and Business Fixed Investment



Data: 2003/4Q-2013/2Q.

Sources: Cabinet Office, "National Accounts"; Bloomberg.

Chart 10

Ratio of Current Profits to Sales

s.a., %

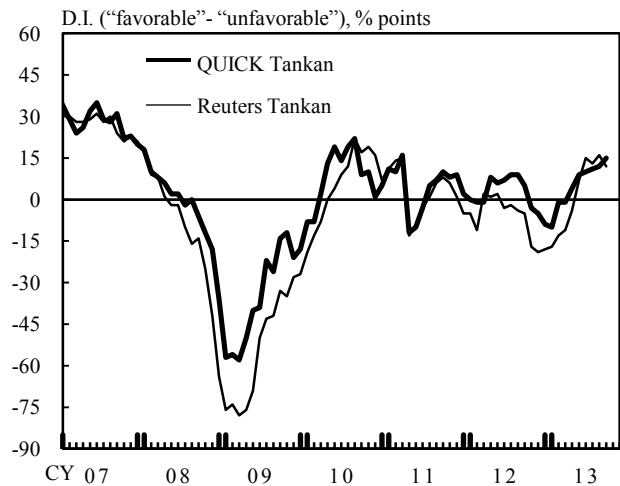
		2012			2013	
		2Q	3Q	4Q	1Q	2Q
All Industries	All Classes	3.75	3.77	4.01	4.28	4.70
Manufacturing	Large	3.79	4.24	5.06	5.97	7.39
	Small	3.65	3.35	3.22	4.18	3.79
Nonmanufacturing	Large	4.52	5.46	5.15	5.13	5.88
	Small	3.33	3.01	3.07	3.13	2.97

Source: Ministry of Finance.

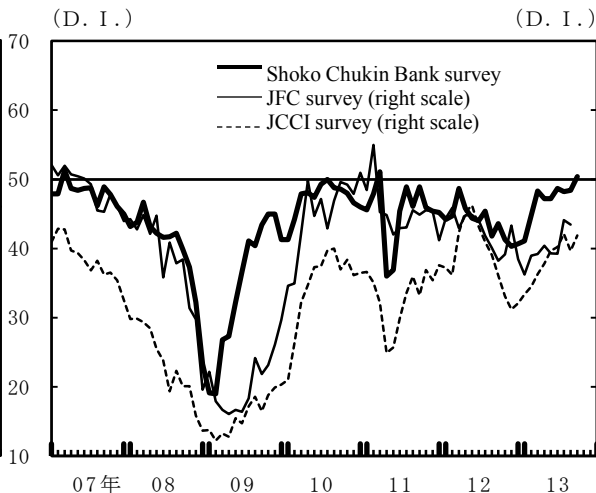
Chart 11

Business Sentiment

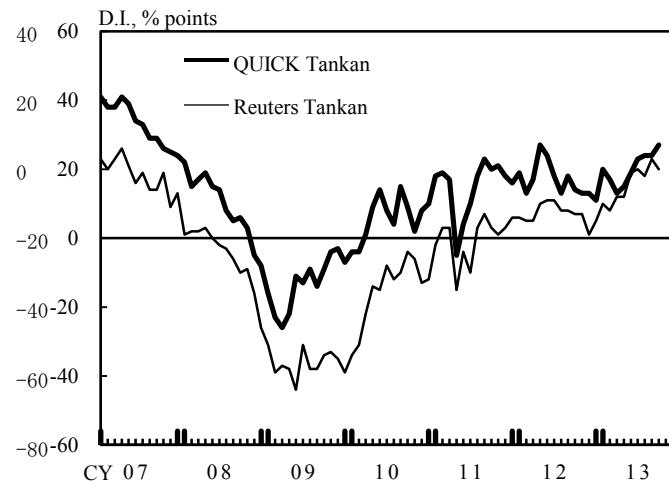
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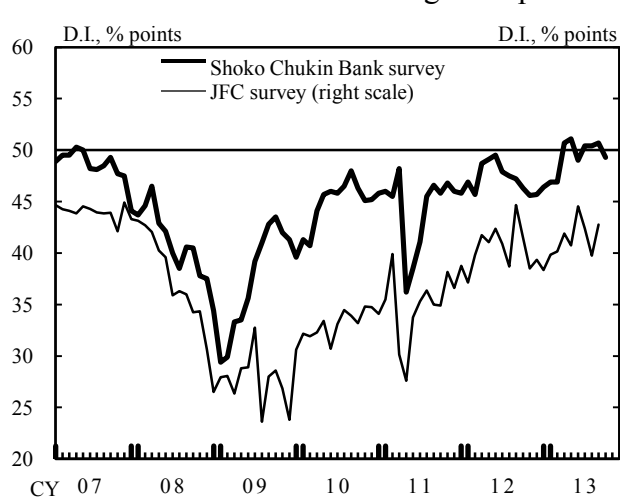
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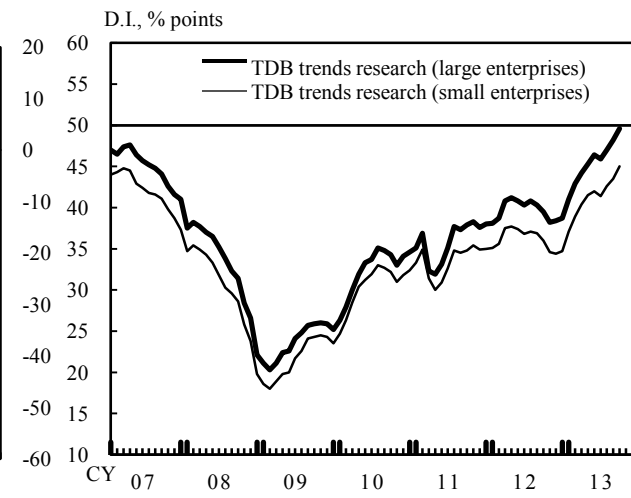
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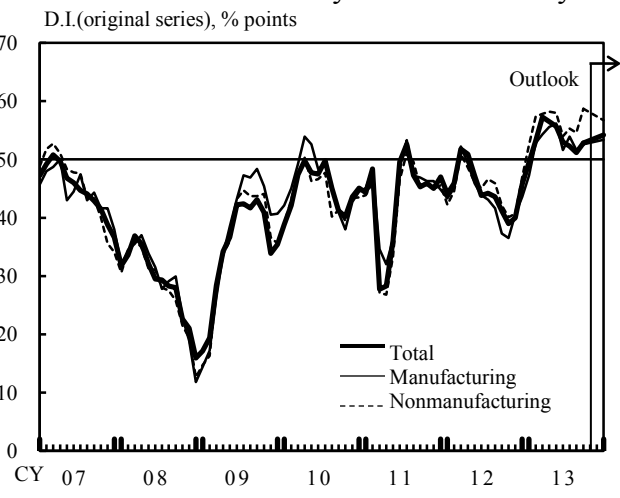
< Small Nonmanufacturing Enterprises >



< All Industries >



< Reference: Economy Watchers Survey >



Sources: QUICK, "QUICK Tankan"; Thomson Reuters, "Reuters Tankan"; Teikoku Databank; JCCI; JFC; Shoko Chukin Bank; Cabinet Office.

Chart 12

Business Fixed Investment

< Private Sector Capital Investment (SNA) >

s.a., q/q % chg.

2012			2013	
2Q	3Q	4Q	1Q	2Q
-0.7	-3.2	-1.2	-0.0	1.3

Source: Cabinet Office, "National Accounts."

< Capital Investment >

s.a., q/q % chg.

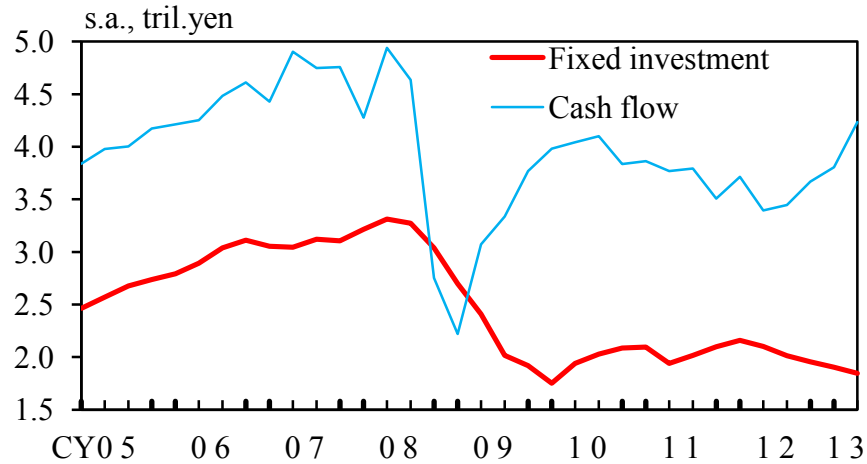
	2012			2013	
	2Q	3Q	4Q	1Q	2Q
All Industries	-3.6	-2.4	0.6	0.3	2.9
Manufacturing	-2.3	-4.1	-3.7	-0.9	-0.6
Nonmanufacturing	-4.3	-1.5	3.1	0.9	4.7

Source: Ministry of Finance.

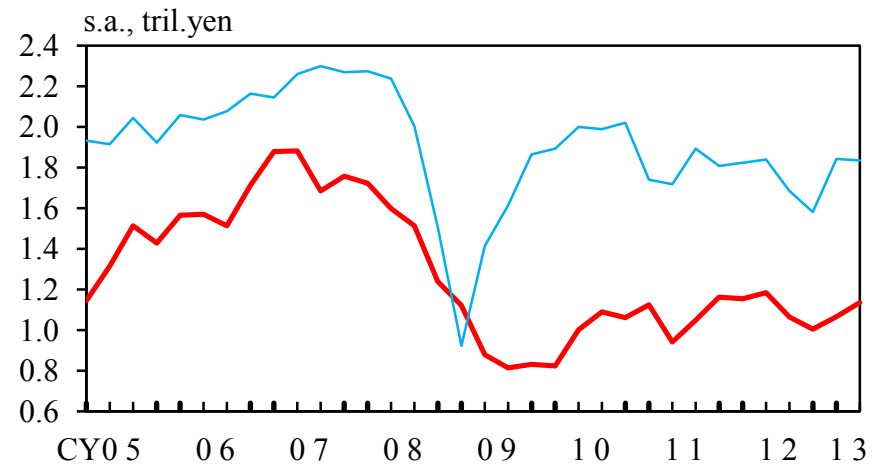
Chart 13

Cash Flow and Business Fixed Investment

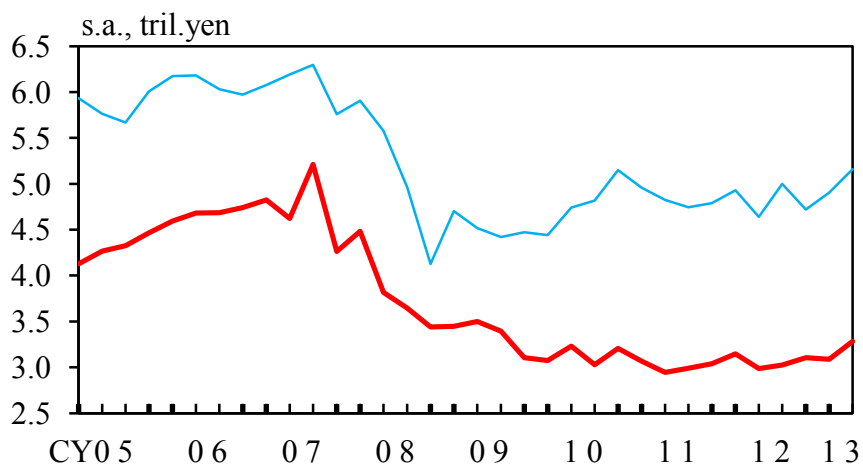
< Large Manufacturing Enterprises >



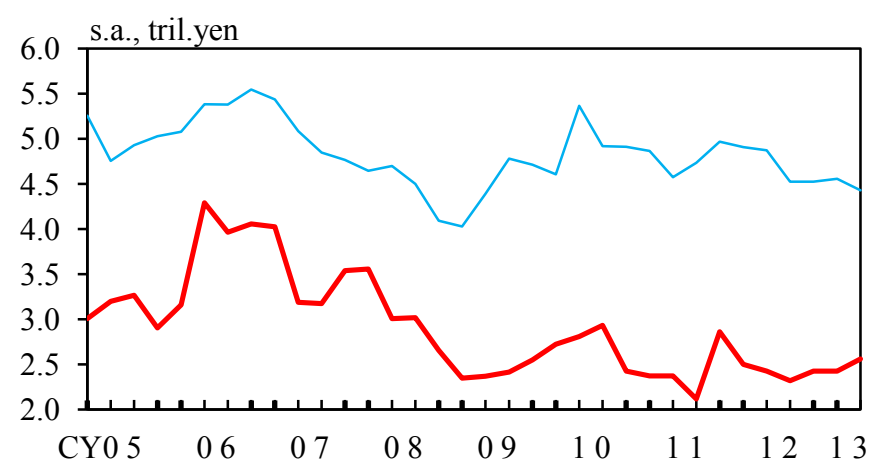
< Small Manufacturing Enterprises >



< Large Nonmanufacturing Enterprises >



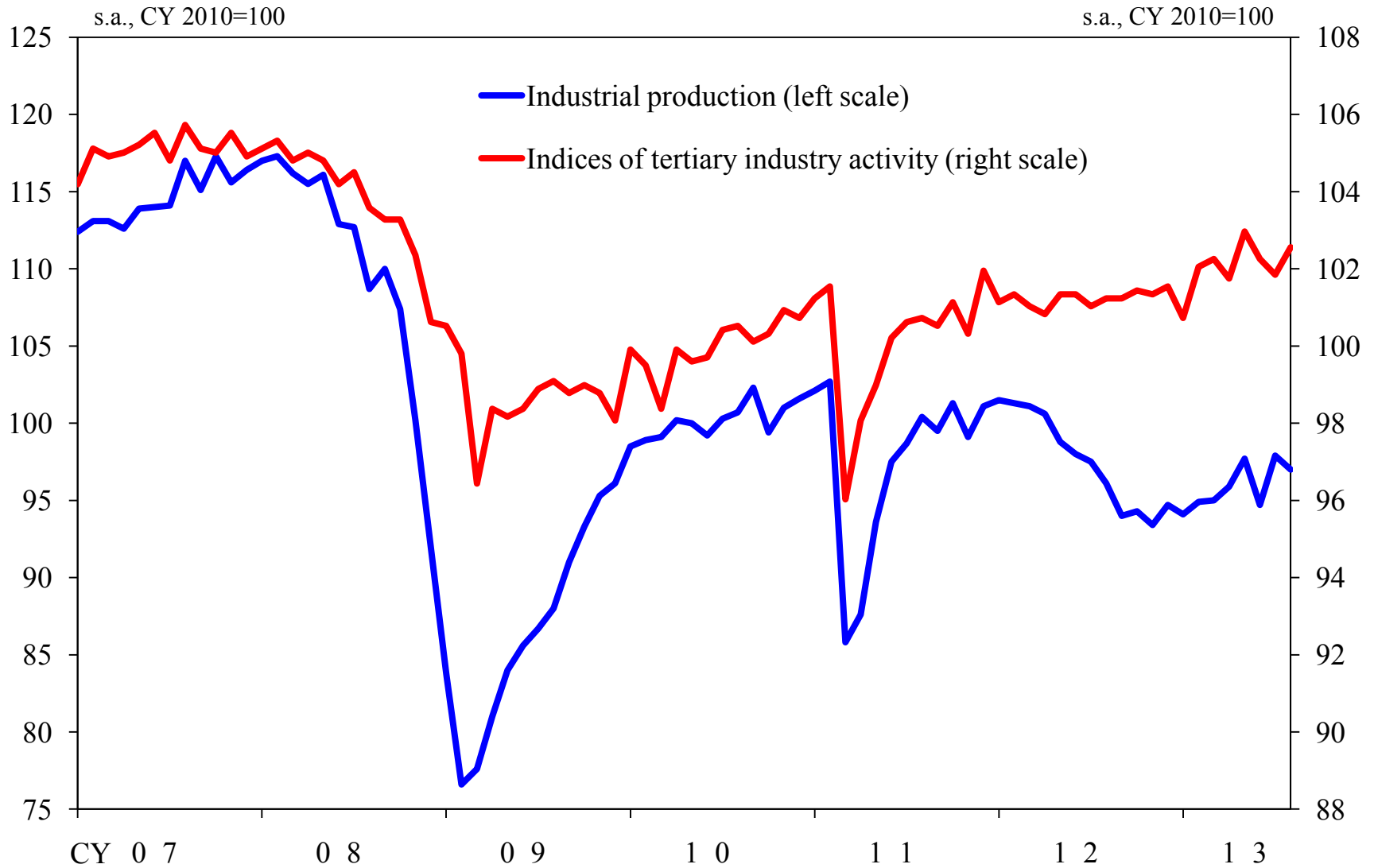
< Small Nonmanufacturing Enterprises >



Source: Ministry of Finance.

Chart 14

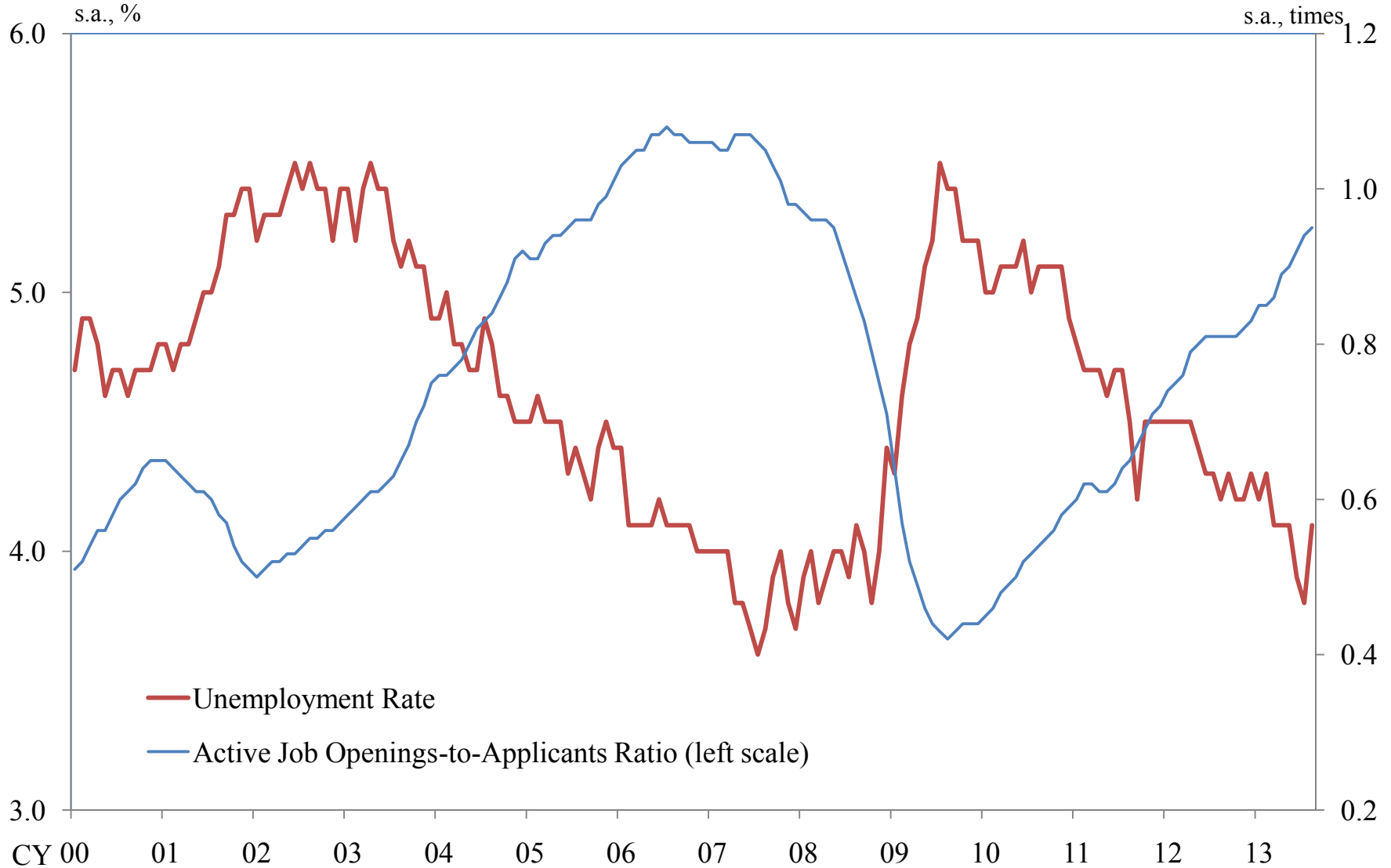
Production and Industrial Activity



Source: Ministry of Economy, Trade and Industry.

Chart 15

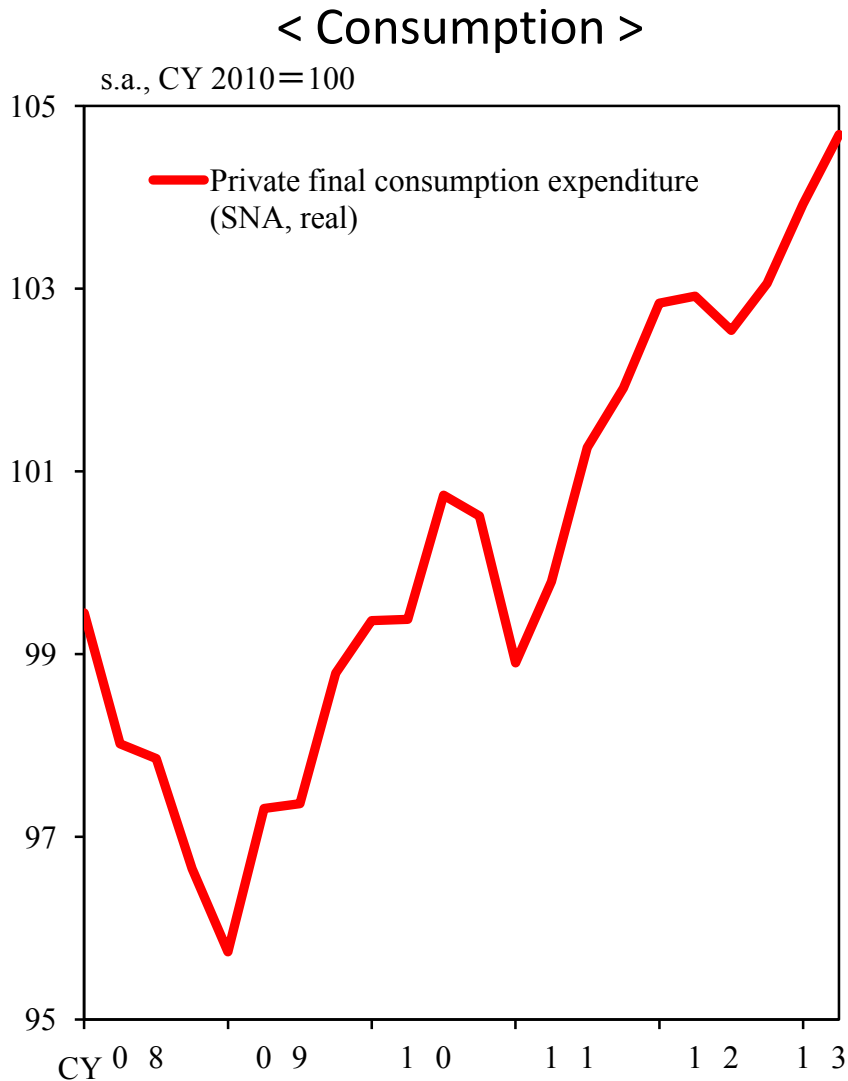
Employment Conditions



Sources: Ministry of Internal Affairs and Communications, "Labour Force Survey";
Ministry of Health, Labor and Welfare, "Report on Employment Service."

Chart 16

Consumption and Employee Income



< Employee Income >

y/y % chg.

	2012 3Q	4Q	2013 1Q	2Q	July	Aug. (preliminary)
Total cash earnings (W)	-0.7	-1.1	-0.6	0.3	-0.1	-0.6
Scheduled	-0.4	-0.2	-0.7	-0.4	-0.9	-0.4
Non-scheduled	1.3	-1.2	-1.9	0.6	2.5	3.1
Special (Bonuses, etc.)	-3.7	-3.0	9.6	2.4	1.4	-9.4
# of regular employees (L)	0.6	0.7	0.5	0.7	0.9	0.8
Employee income (W*L)	-0.1	-0.4	-0.0	0.9	0.8	0.2

Sources: Cabinet Office, "National Accounts";
Ministry of Health, Labor and Welfare, "Monthly Labour Survey."

Real Employee Income

s.a., q/q % chg.

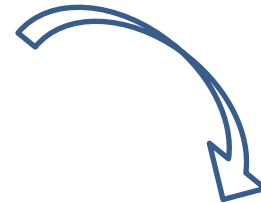
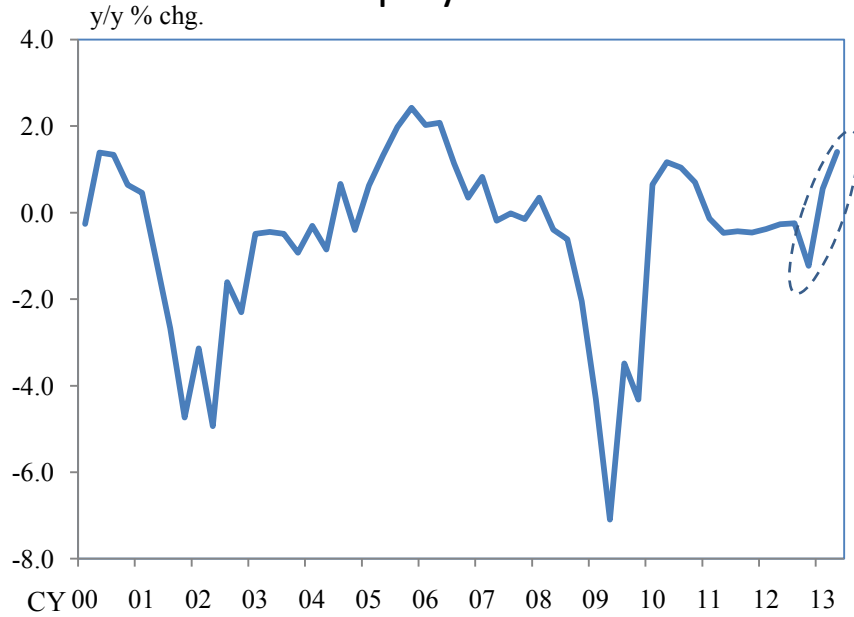
2012			2013	
2Q	3Q	4Q	1Q	2Q
-0.3	0.7	-0.4	0.7	0.5

Source: Cabinet Office, "National Accounts."

Chart 18

Consumption and Employee Income

Employee Income



Private Final Consumption Expenditure

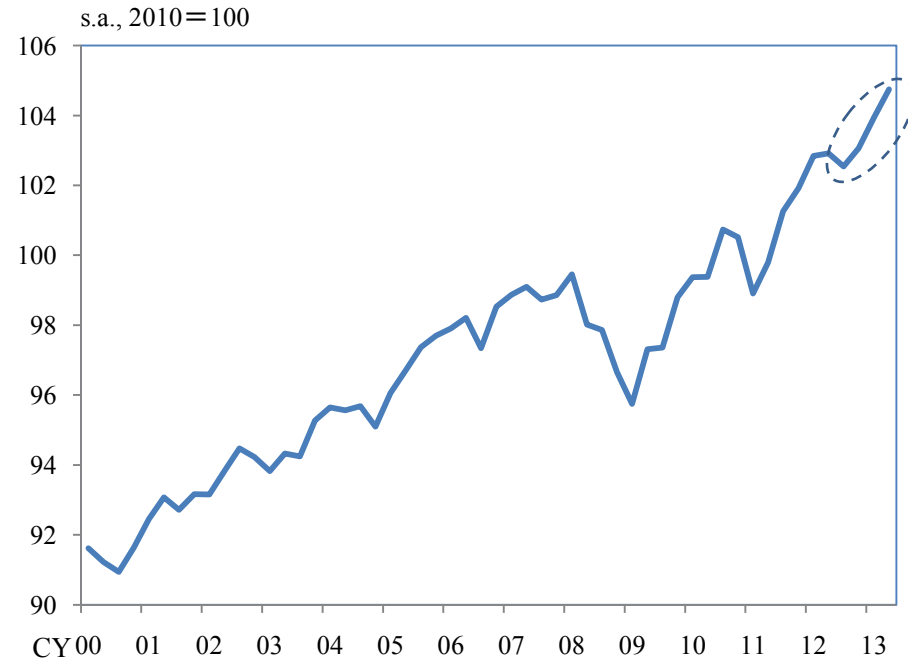
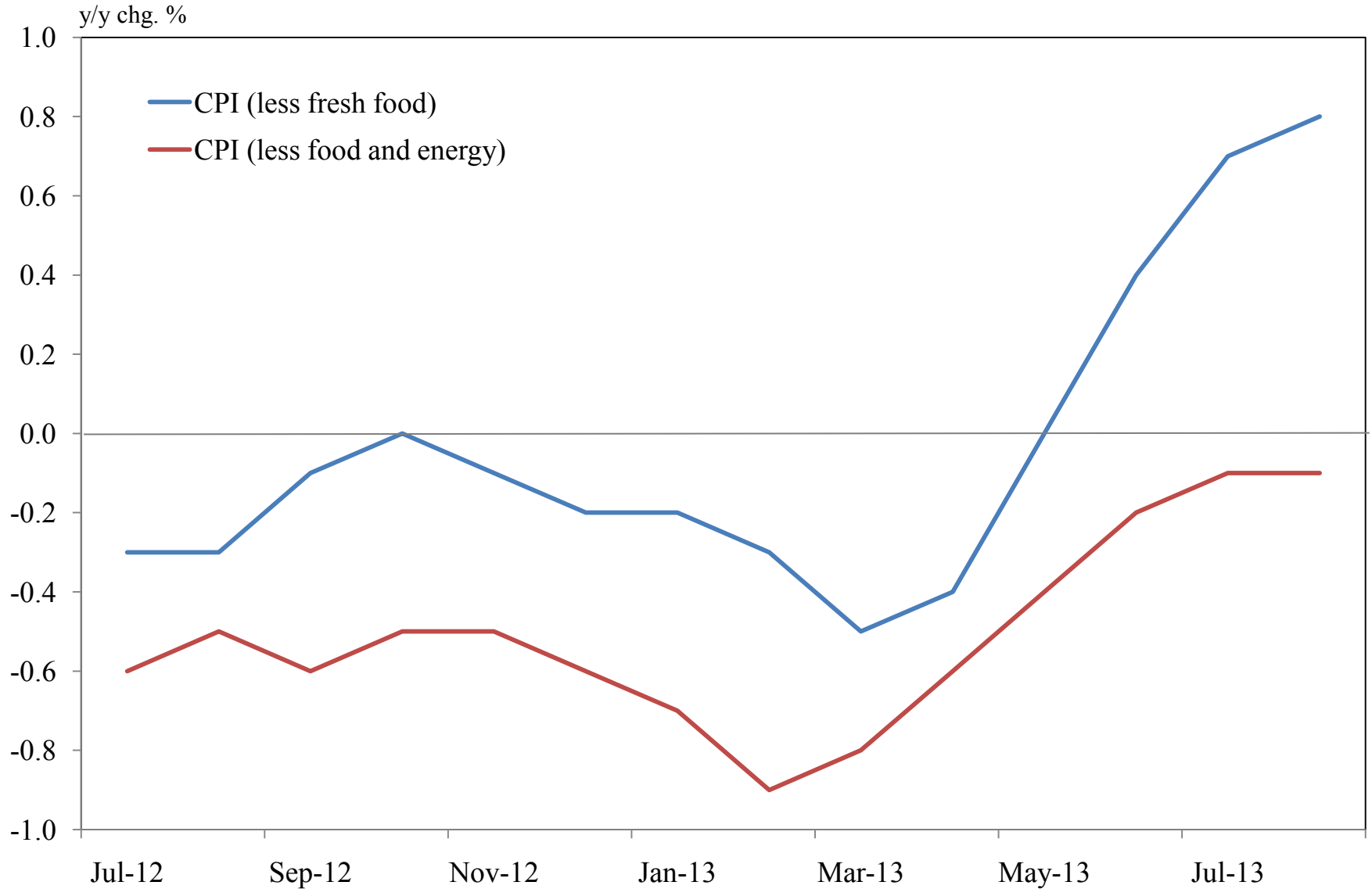


Chart 19

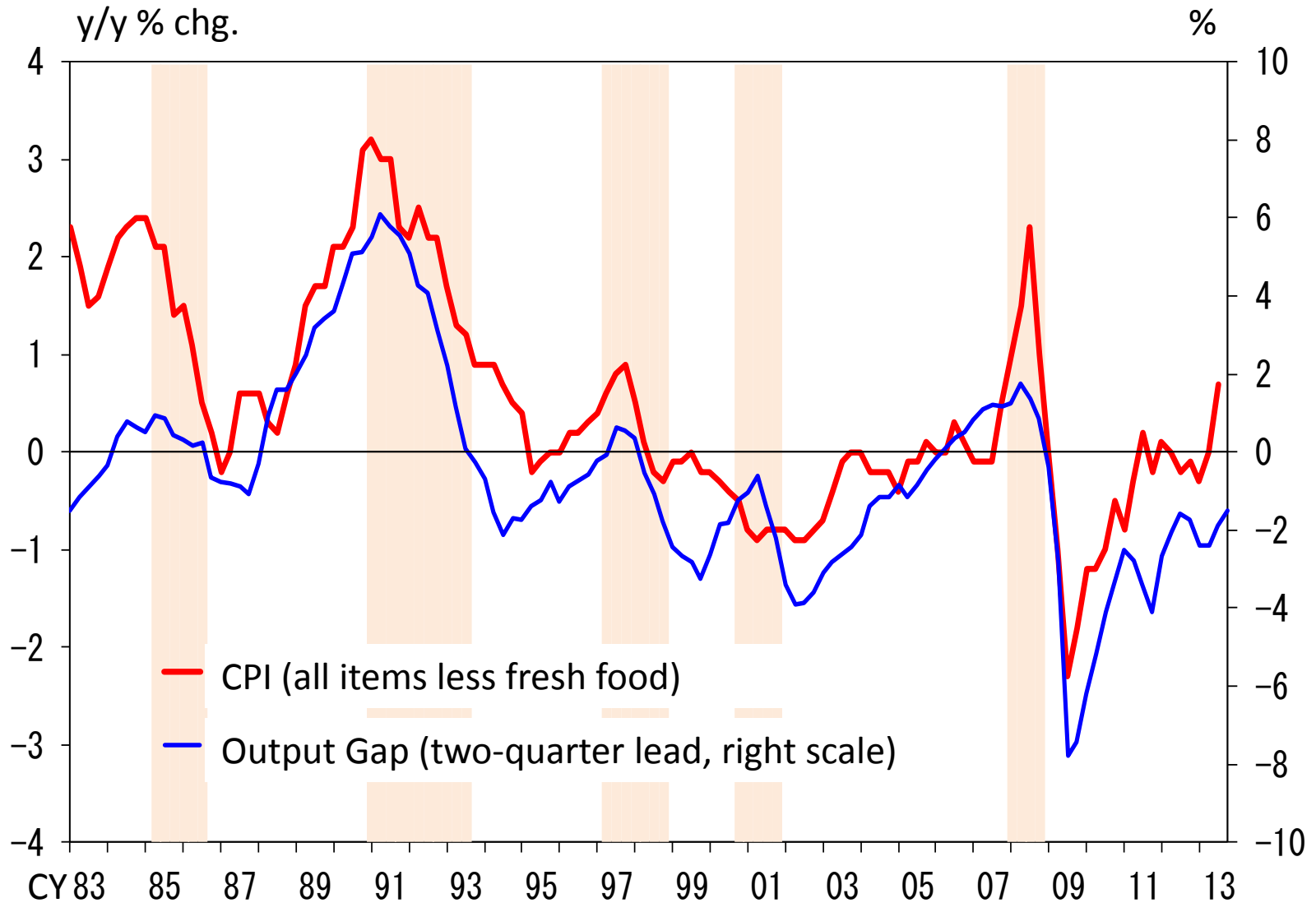
Consumer Prices



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

Chart 20

Consumer Price and Output Gap



Sources: Ministry of Internal Affairs and Communications; Cabinet Office; etc.

Notes: 1. Shaded areas indicate recession periods.

2. Figures for CPI are adjusted to exclude the effects of the consumption tax hikes. CPI for 2013/3Q is that of July-August average.

Chart 21

Upward Shifting of the Phillips Curve

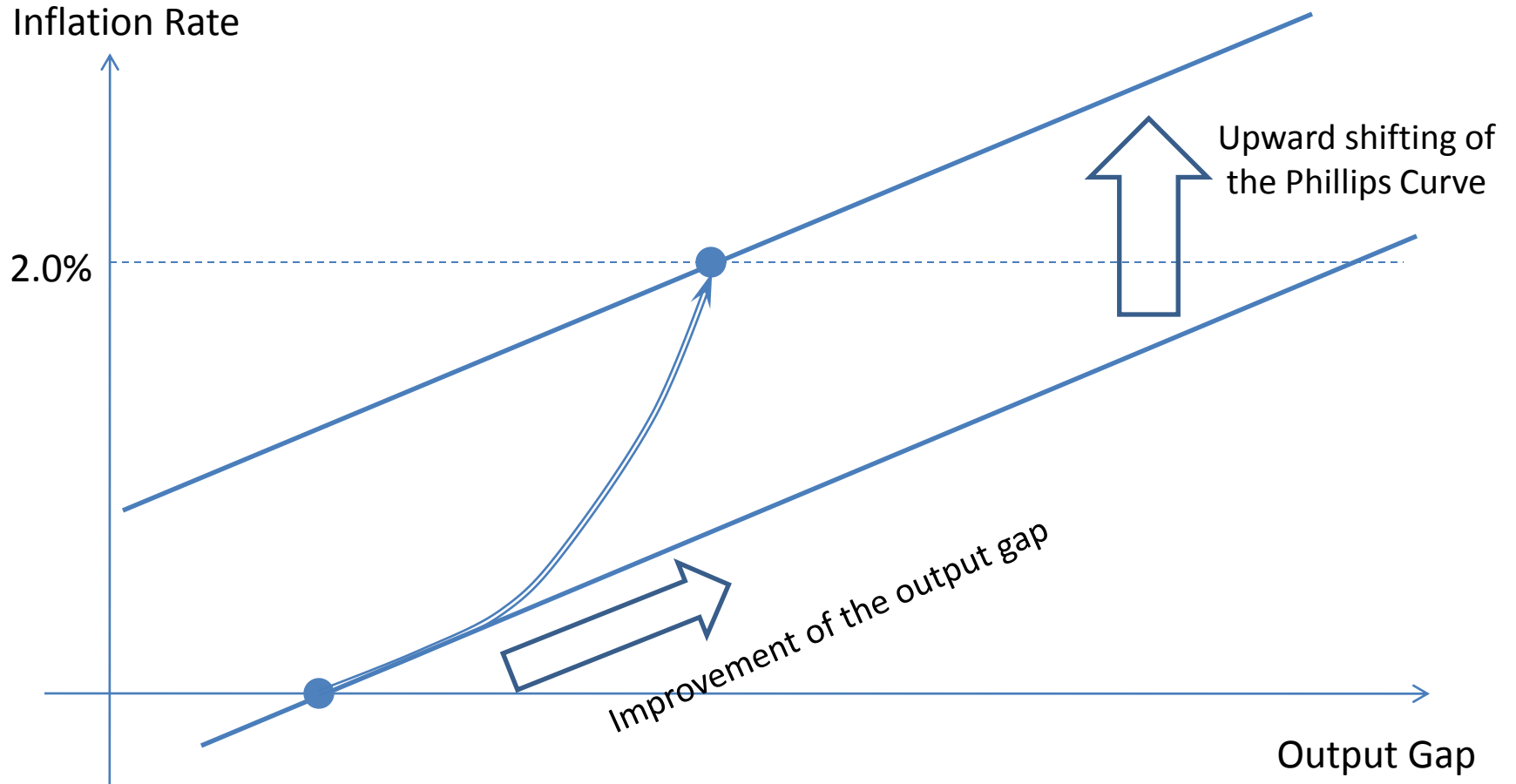
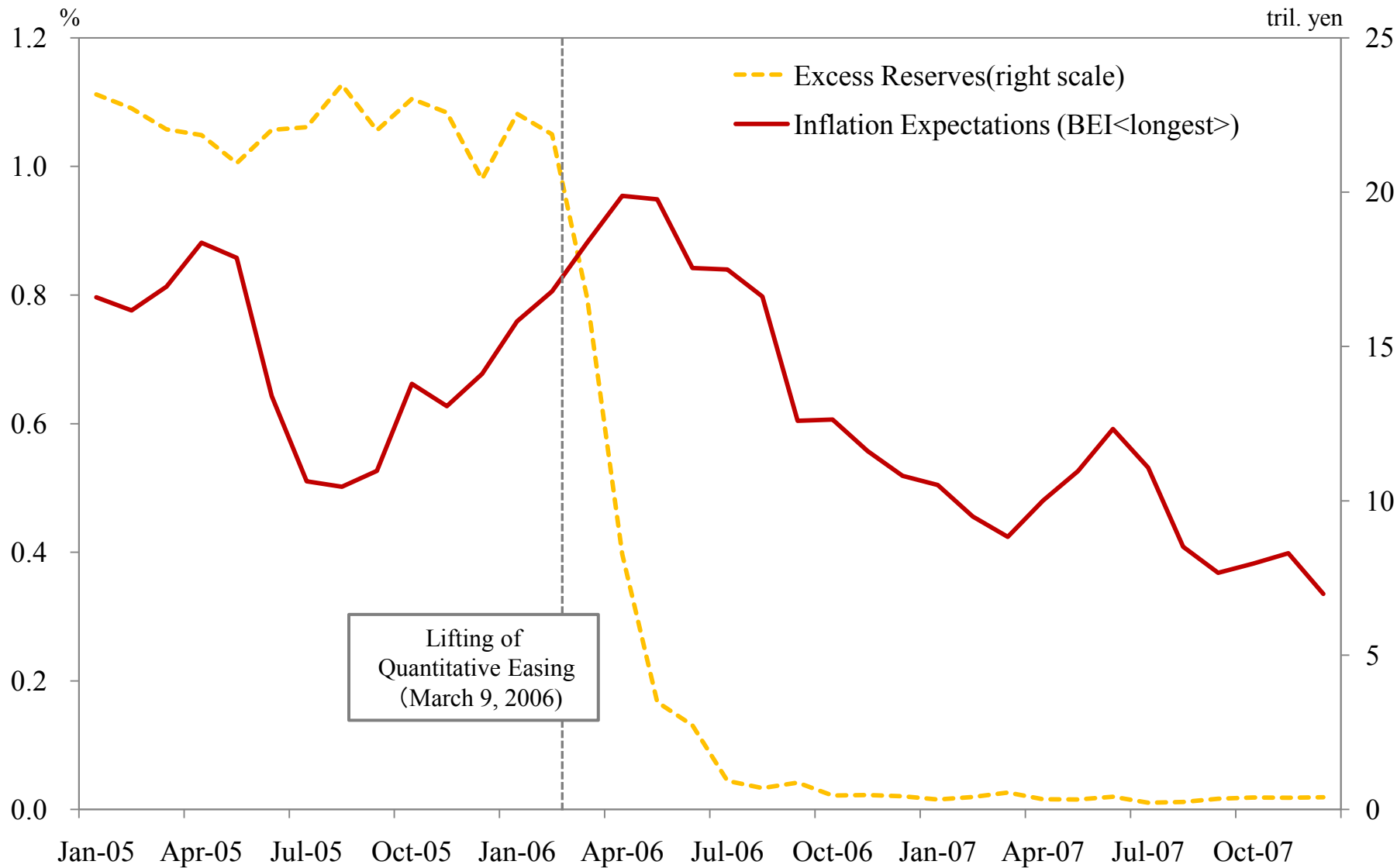
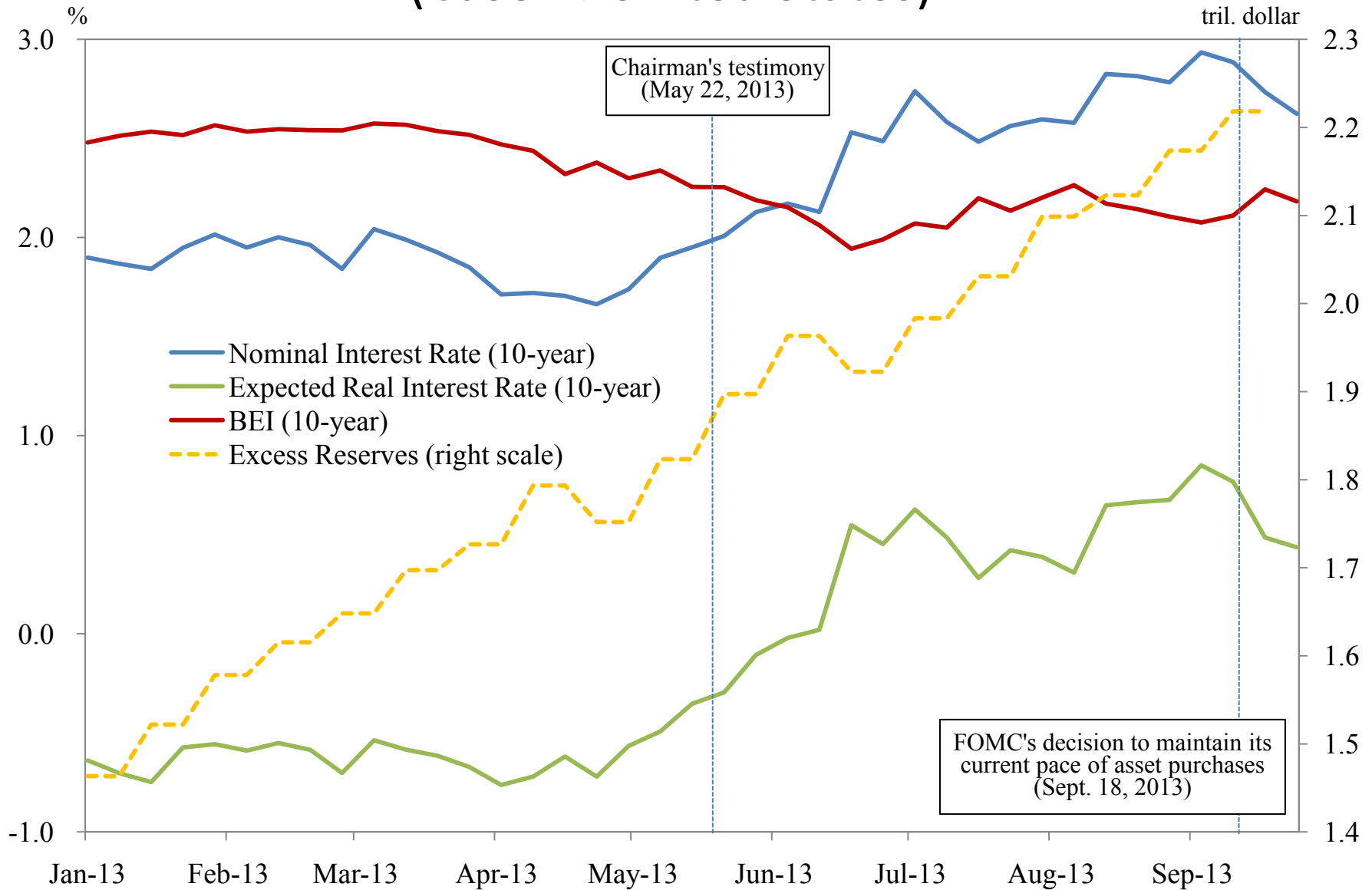


Chart 22 Excess Reserves and Inflation Expectations (Case 1: Japan)



Sources: Bank of Japan; Bloomberg.

Chart 23 Excess Reserves and Inflation Expectations (Case 2: United States)



Sources: FRB; Bloomberg.