



# **Japan's Economy and Monetary Policy**

*Speech at a Meeting with Business Leaders in Miyagi*

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Chart 1

# World Economy and Exports

## Projections for Major Economies

y/y % chg.

	2013	2014	Projections	
			2015	2016
World	3.3	3.3	3.5 (-0.3)	3.7 (-0.3)
Advanced Economies	1.3	1.8	2.4 (0.1)	2.4 (0.0)
United States	2.2	2.4	3.6 (0.5)	3.3 (0.3)
Euro Area	-0.5	0.8	1.2 (-0.2)	1.4 (-0.3)
Japan	1.6	0.1	0.6 (-0.2)	0.8 (-0.1)
Emerging Market and Developing Economies	4.7	4.4	4.3 (-0.6)	4.7 (-0.5)
Developing Asia	6.6	6.5	6.4 (-0.2)	6.2 (-0.3)
China	7.8	7.4	6.8 (-0.3)	6.3 (-0.5)
ASEAN	5.2	4.5	5.2 (-0.2)	5.3 (-0.1)
Latin America and the Caribbean	2.8	1.2	1.3 (-0.9)	2.3 (-0.5)

## Real Exports by Region

y/y % chg.

s.a., q/q % chg.

	2012	2013	2014				
			Q4	Q1	Q2	Q3	Q4
United States <18.5>	13.0	2.8	-0.4	0.9	-2.3	-0.0	5.9
EU <10.0>	-13.0	-3.6	2.2	0.6	0.5	-0.1	-4.2
East Asia <50.9>	-2.6	-3.0	2.5	-1.5	-1.5	1.9	4.2
China <18.1>	-8.1	-1.7	5.7	-3.9	-0.7	1.2	3.2
NIEs <21.9>	-4.7	-1.0	1.1	1.0	-3.1	3.8	6.9
ASEAN4 <10.9>	12.5	-8.5	-0.0	-2.1	0.3	-0.9	0.4
Others <20.6>	1.7	-5.0	-2.0	0.2	1.4	2.4	1.2
Real Exports	-1.0	-1.9	1.5	-1.0	-1.2	1.6	4.0

Notes: 1. Projections for major economies are made by the IMF as of January 2015. Figures in parentheses are the difference from the October 2014 WEO projections.

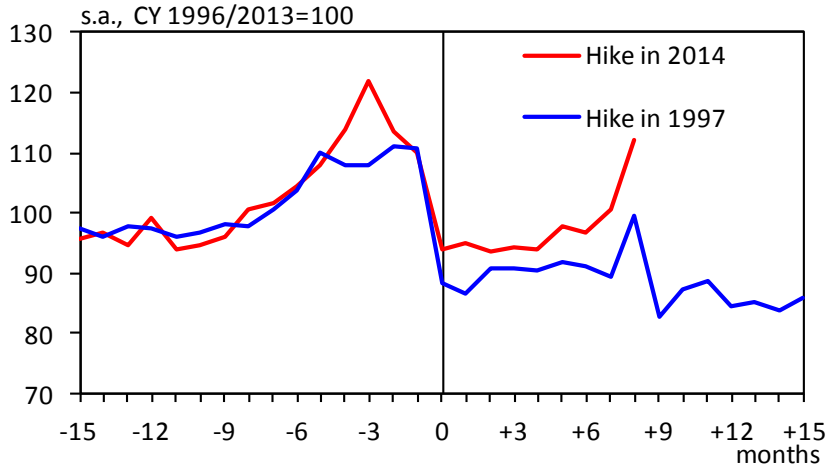
2. Figures in angular brackets for real exports are shares of each region in 2013. NIEs consist of Korea, Taiwan, Hong Kong, and Singapore. ASEAN4 consists of Thailand, Indonesia, Malaysia, and the Philippines. Figures for 2014/Q4 are those of October-November averages converted into quarterly amount.

Sources: IMF, "World Economic Outlook"; Ministry of Finance, "Trade Statistics"; Bank of Japan, "Corporate Goods Price Index."

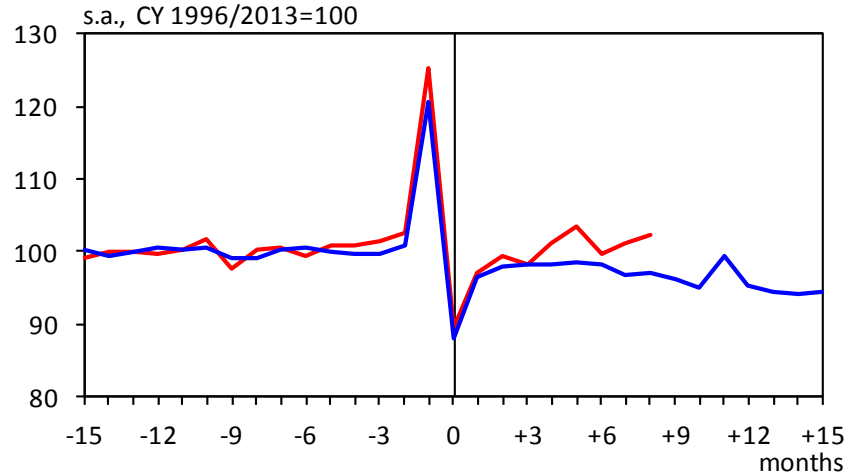
Chart 2

# Effects of the Consumption Tax Hikes

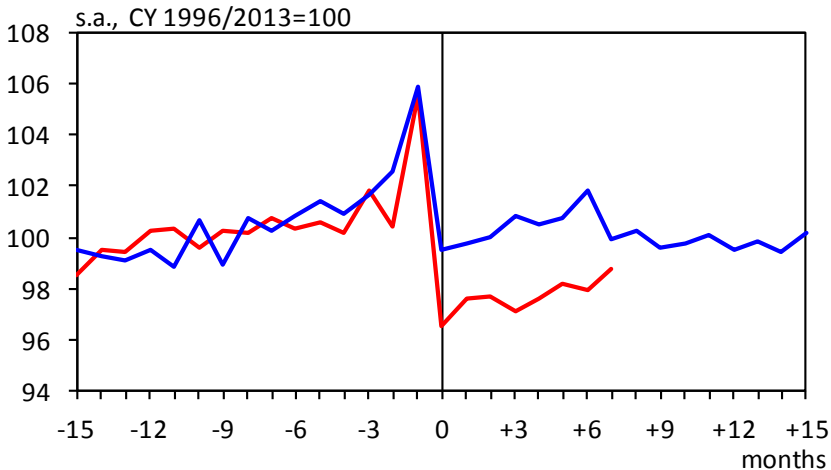
### New Passenger-Car Registrations



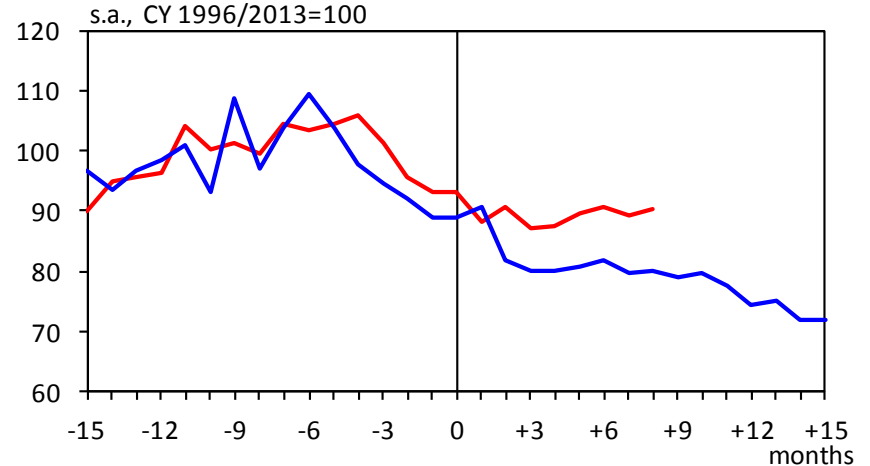
### Sales of Department Stores (Nominal)



### Synthetic Consumption Index



### Housing Starts



Notes: 1. Month 0 represents April 1997/2014, concurrent with the rise in the consumption tax rate.

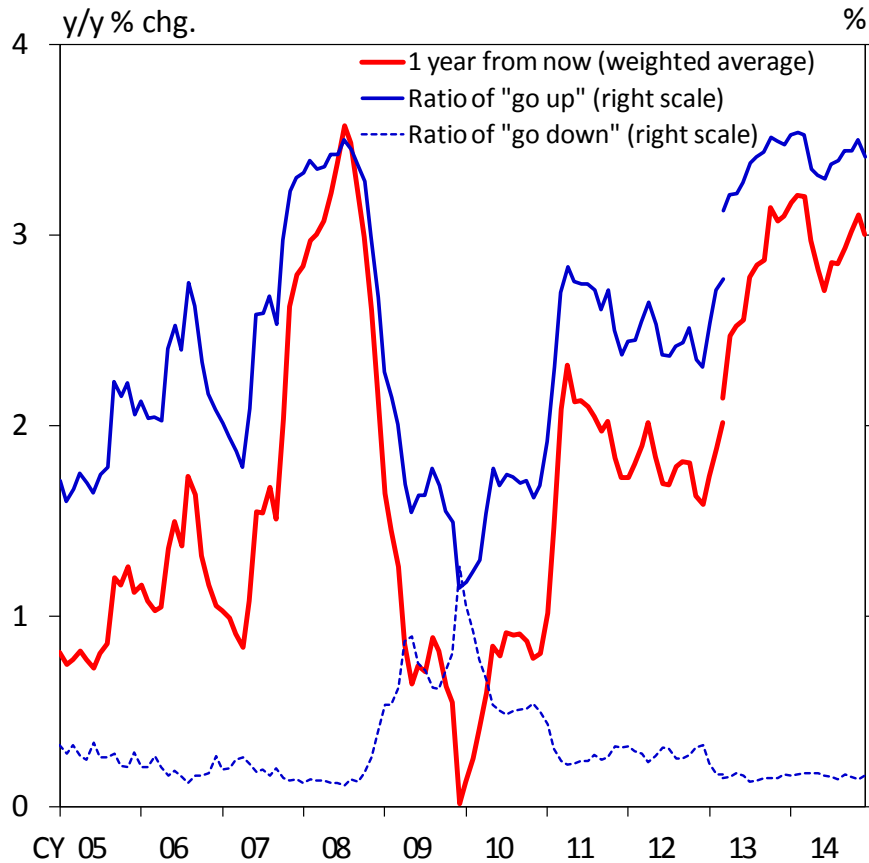
2. Figures for new passenger-car registrations include small cars with engine sizes of 660cc or less.

Sources: Japan Automobile Dealers Association, "Domestic Sales of Automobiles"; Ministry of Economy, Trade and Industry, "Current Survey of Commerce"; Cabinet Office, "Synthetic Consumption Index"; Ministry of Land, Infrastructure, Transport and Tourism, "Statistics on Building Construction Starts," etc.

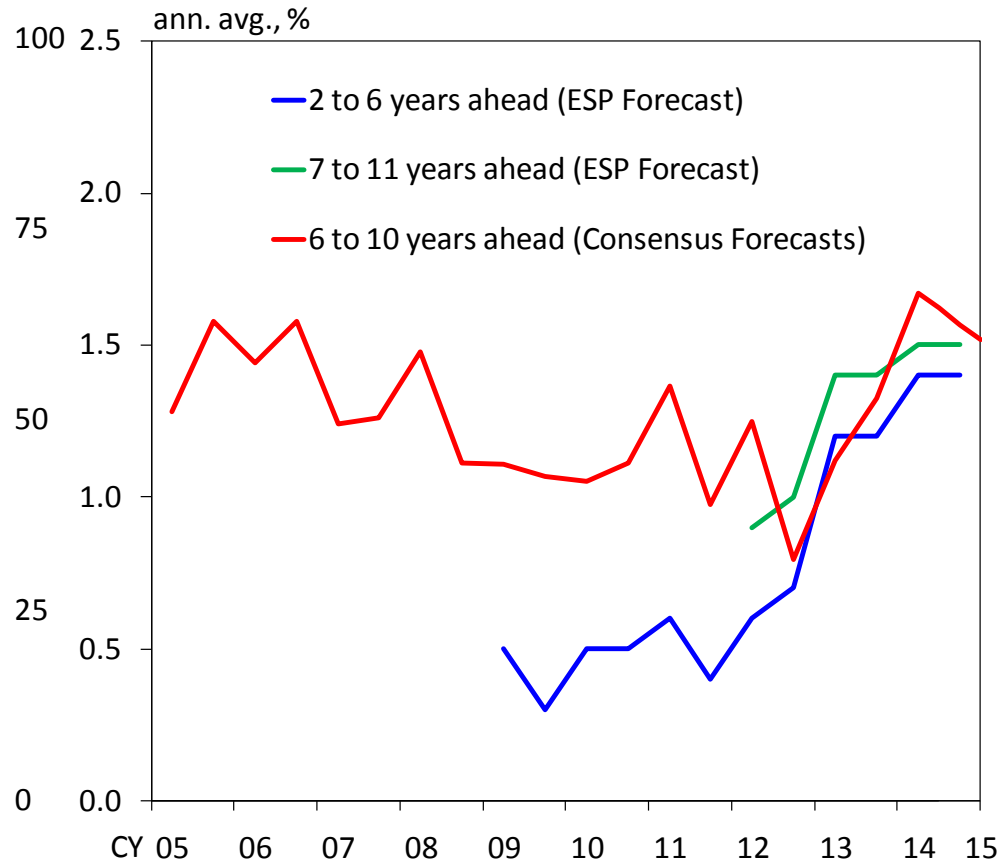
Chart 3

# Inflation Expectations

## Households (Consumer Confidence Survey)



## Economists



Notes : 1. Figures for the Consumer Confidence Survey are for all households. The weighted average is calculated based on the following assumption: survey responses chosen by households as their expected inflation rates -- "-5% or below," "from -5% to -2%," "from -2% to 0%," "from 0% to +2%," "from +2% to +5%," and "+5% or above" -- indicate inflation rates of -5%, -3.5%, -1%, +1%, +3.5%, and +5%, respectively.

2. Figures for the Consensus Forecasts are compiled every January, April, July, and October. Those up through April 2014 are compiled every April and October. Figures for the ESP Forecast are compiled every June and December, and exclude the effects of the consumption tax hikes.

Sources: Cabinet Office, "Consumer Confidence Survey"; Consensus Economics Inc., "Consensus Forecasts"; JCER, "ESP Forecast."

Chart 4

# Outlook for Economic Activity and Prices (as of January 2015)

y/y % chg.

	Real GDP	CPI (all items less fresh food)	Excluding the effects of the consumption tax hikes
Fiscal 2014	-0.5	+2.9	+0.9
Forecasts made in October 2014	+0.5	+3.2	+1.2
Fiscal 2015	+2.1	+1.0	
Forecasts made in October 2014	+1.5	+2.4	+1.7
Fiscal 2016	+1.6	+2.2	
Forecasts made in October 2014	+1.2	+2.8	+2.1

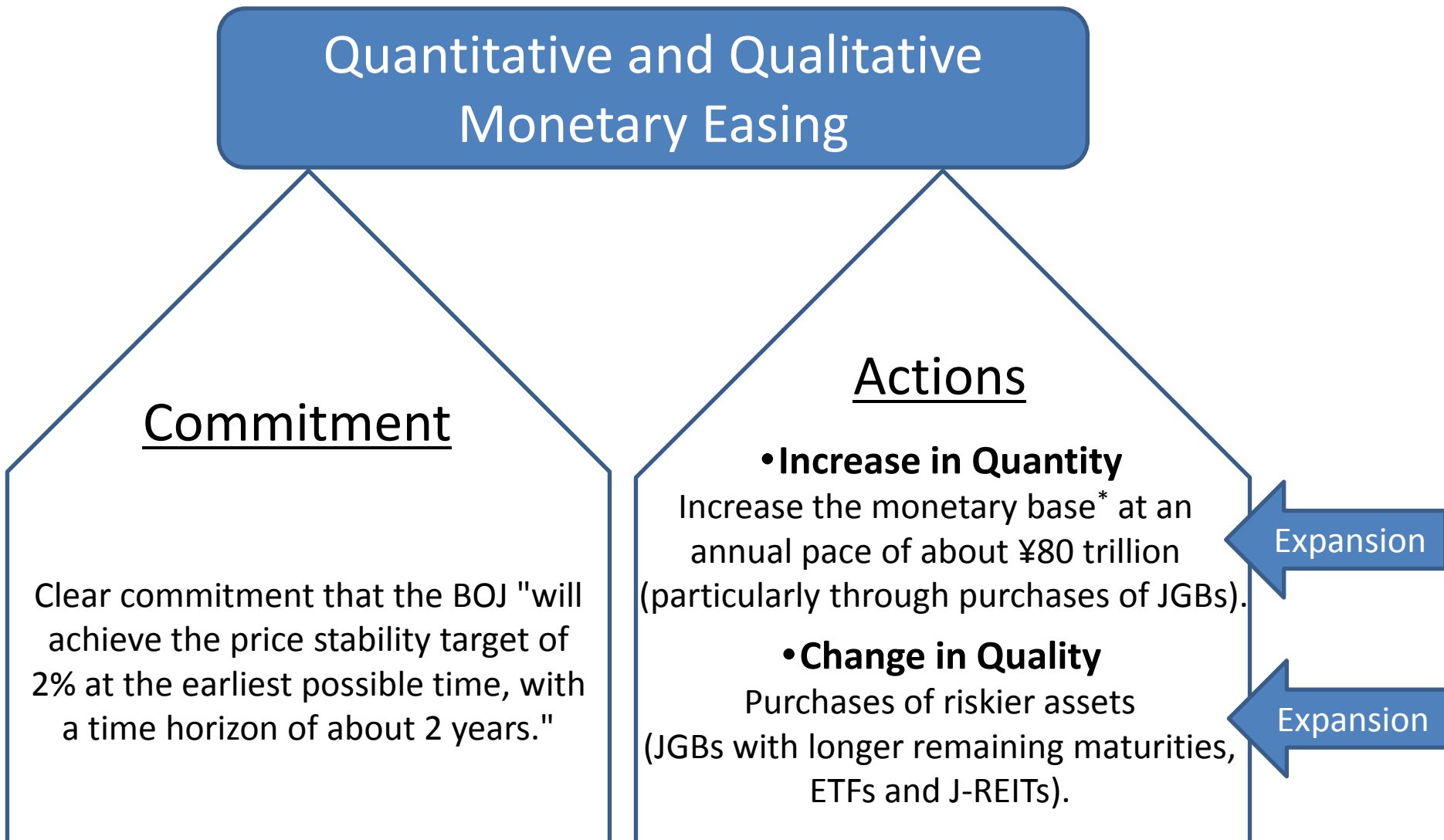
Note: Figures indicate the median of the Policy Board members' forecasts (point estimates).

Source: Bank of Japan.

## Regime Change to Inflation Targeting

- What does the term "regime" mean in economic policy?
- Inflation and deflation are ultimately "monetary phenomena"
  - ⇒ Price stability can be achieved through monetary policy
- Setting the price stability target
  - "2 percent in terms of the year-on-year rate of change in the consumer price index (CPI)"

# Tangibility of "Policy Regime Change"



\* Money supplied directly from the central bank to the financial system.

Chart 7

# Lowering Expected Real Interest Rates through Working on Inflation Expectations

Real costs of borrowing,  
taking into account price changes  
(Borrowers' subjective expectations)

Subjective forecast  
based on respective  
price projections

Visible in financial  
markets or over the  
counter

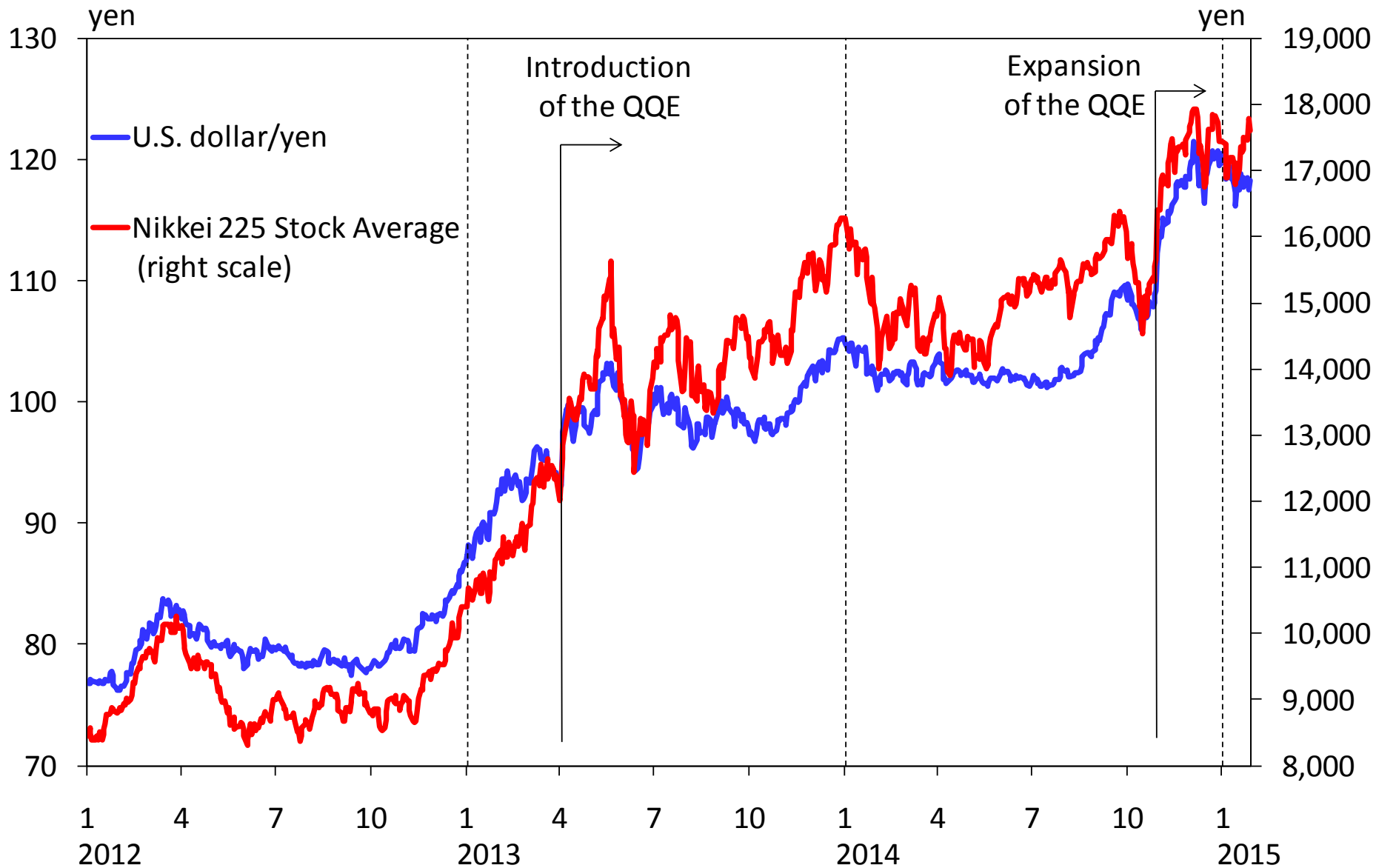
Expected real interest rates = Nominal interest rates  
— Expected rates of inflation

Downward  
pressure  
by the QQE



Chart 8

# Stock Prices and U.S. Dollar/Yen Exchange Rate



Source: Bloomberg.

## Expansion of the Quantitative and Qualitative Monetary Easing

Accelerating the annual pace of increase in the monetary base  
from about 60-70 trillion yen to **" 80 trillion yen "**

Increasing the Bank's JGB holdings at an annual pace of  
about **80 trillion yen:** **" + 30 trillion yen "**

Extending the average remaining maturity of JGB purchases  
to **about 7-10 years:** **" + 3 years "**

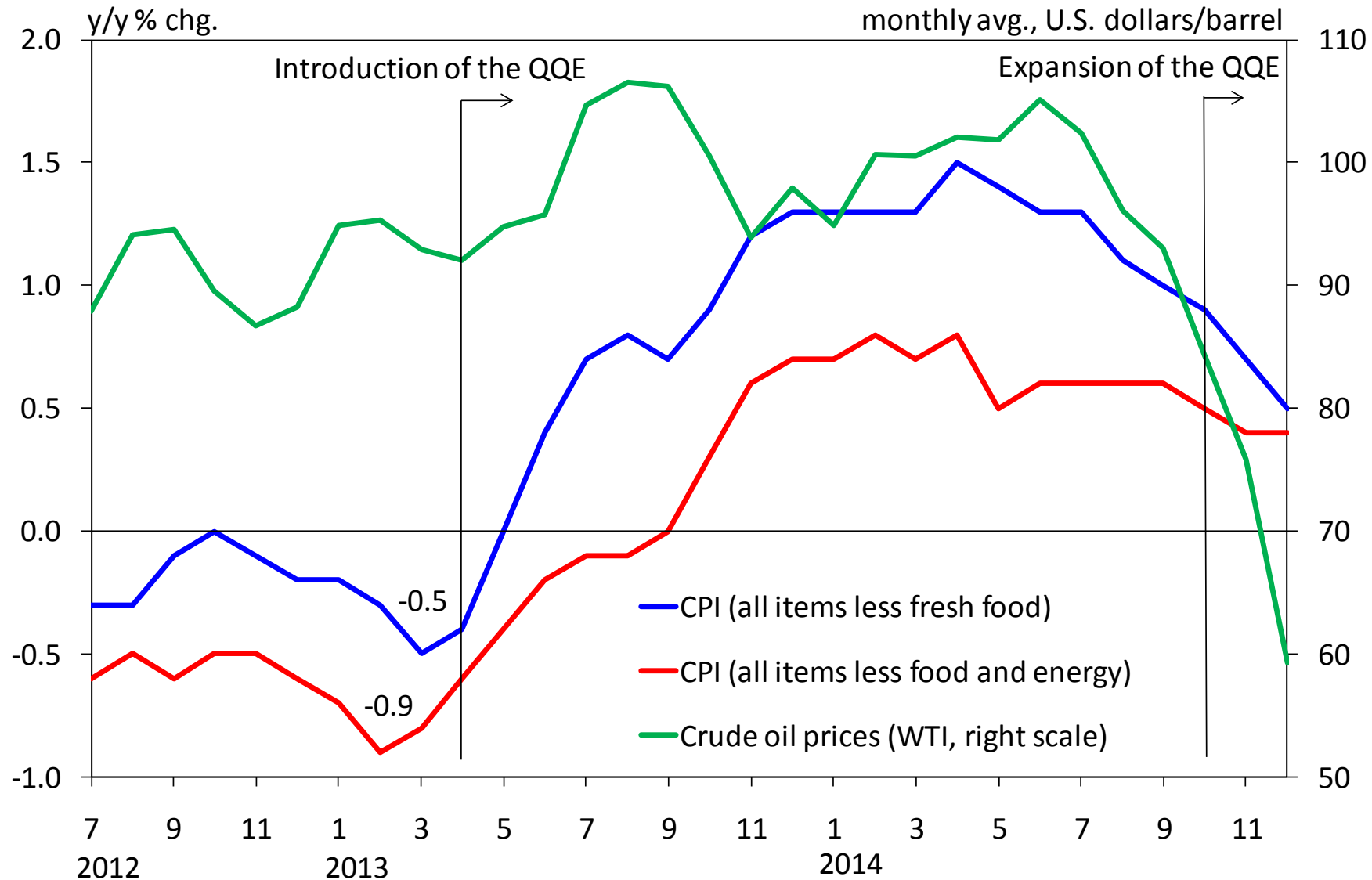
Accelerating the pace of purchases of ETFs and J-REITs:  
**" Tripled "**



- Pre-empt manifestation of a risk that conversion of deflationary mindset, which has so far been progressing steadily, might be delayed
- Maintain the improving **momentum of expectation formation**

Chart 10

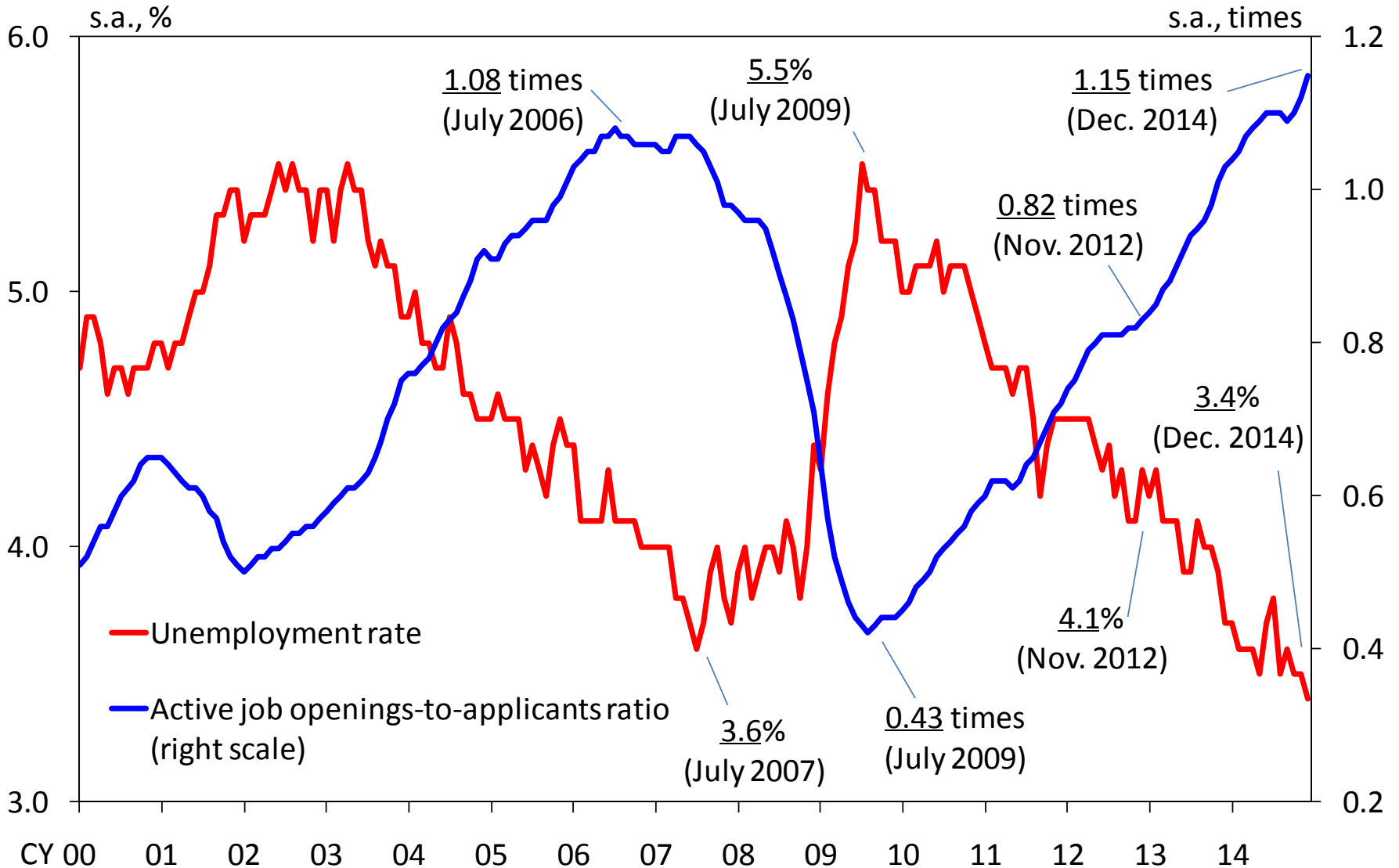
# Consumer Prices and Crude Oil Prices



Note: Figures for the CPI from April 2014 onward are calculated to adjust the direct effects of the consumption tax hike.  
 Sources: Ministry of Internal Affairs and Communications, "Consumer Price Index"; Bloomberg.

Chart 11

# Labor Market Conditions



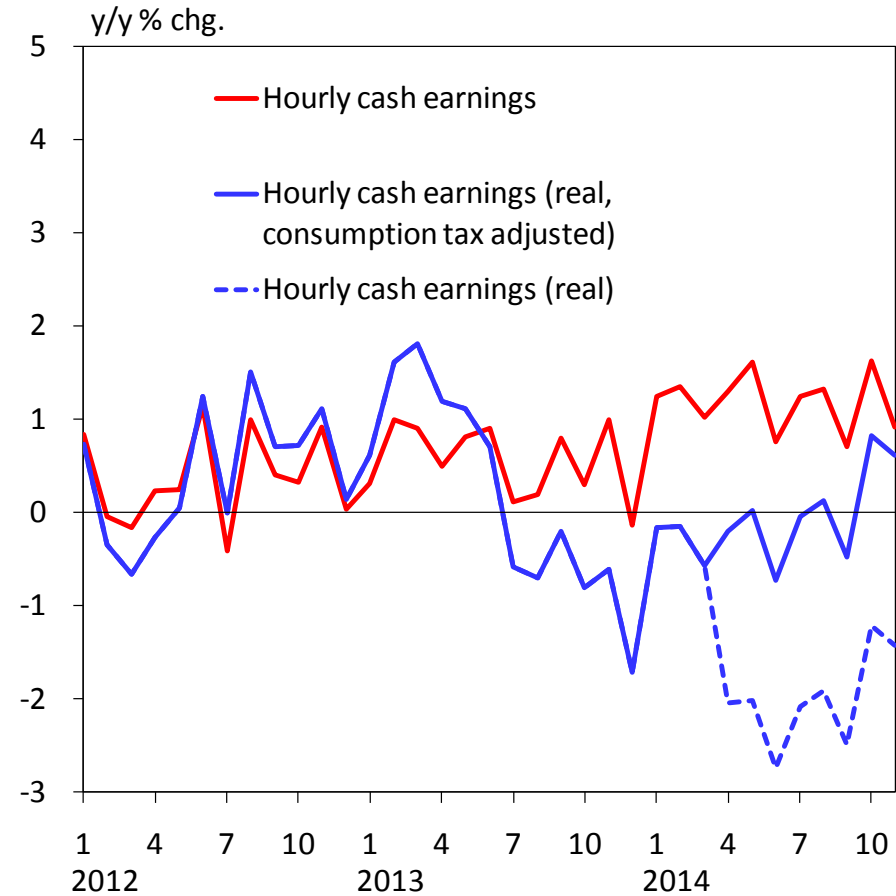
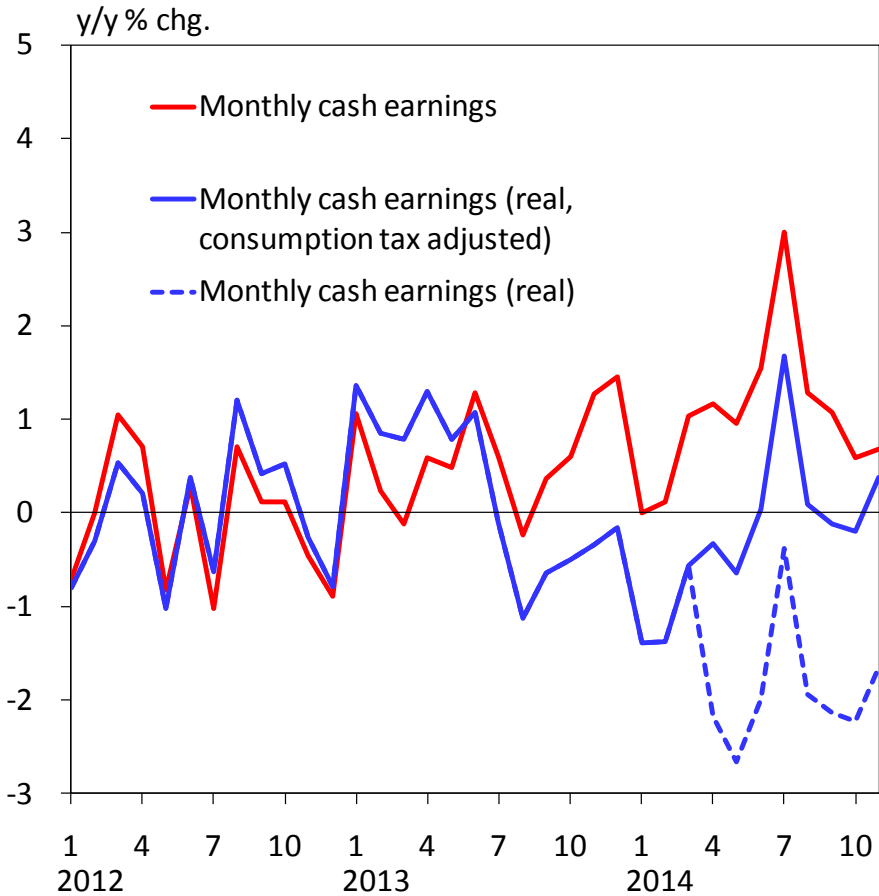
Sources: Ministry of Internal Affairs and Communications, "Labour Force Survey"; Ministry of Health, Labour and Welfare, "Report on Employment Service."

Chart 12

# Real Wages and Hourly Wages

*Full-Time Employees*

*Part-Time Employees*

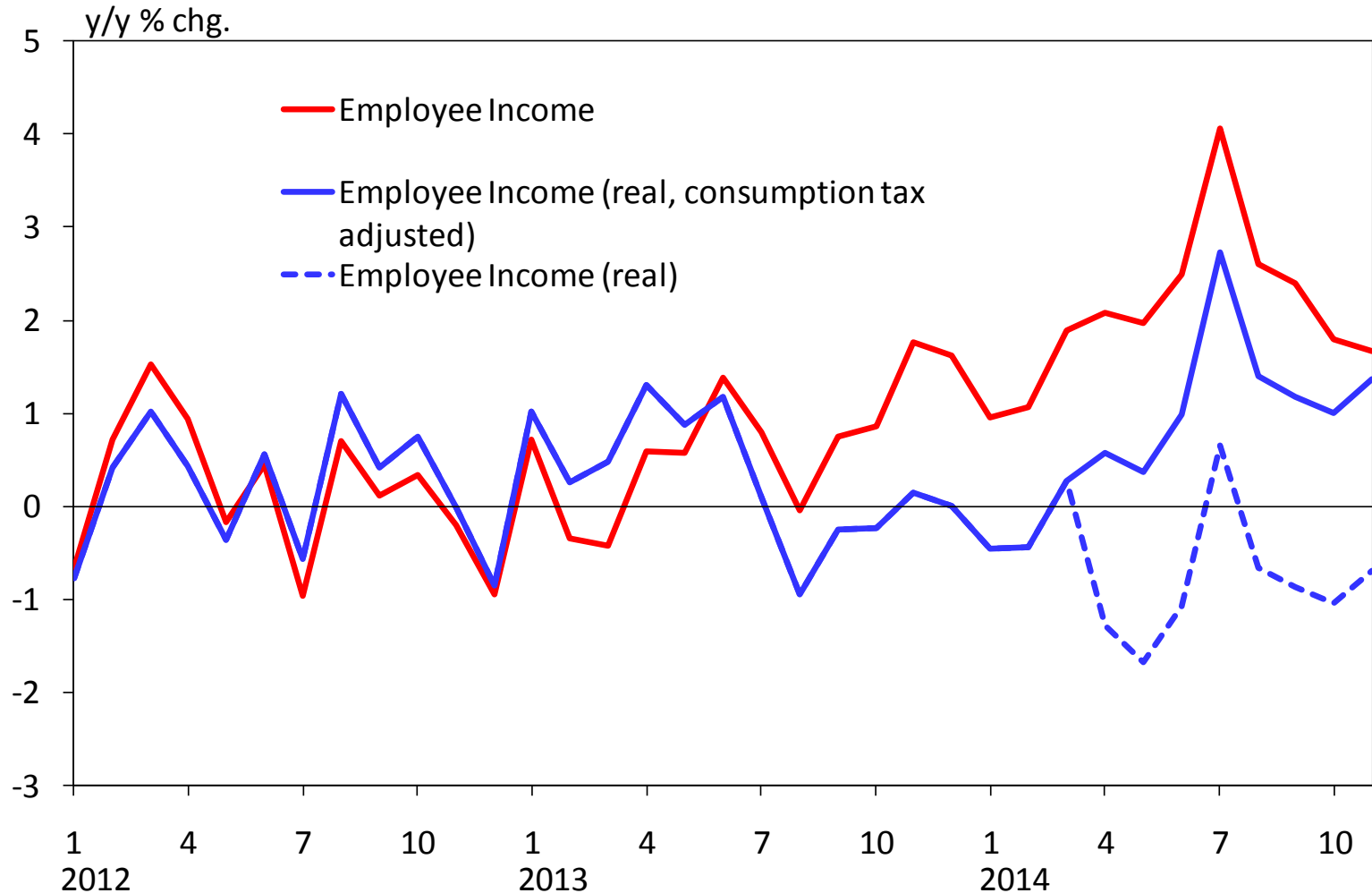


Note: Figures for real wages are nominal wages deflated by the CPI (all items). Those after adjusting consumption tax are nominal wages deflated by the CPI (all items), which was calculated to adjust the direct effects of the consumption tax hike.

Sources: Ministry of Health, Labour and Welfare, "Monthly Labour Survey"; Ministry of Internal Affairs and Communications, "Consumer Price Index."

Chart 13

# Real Employee Income



Notes: 1. Figures for "employee income" are calculated as the "number of regular employees" times "total cash earnings."  
 2. Figures for real employee income are nominal employee income deflated by the CPI (all items). Those after adjusting consumption tax are nominal employee income deflated by the CPI (all items), which was calculated to adjust the direct effects of the consumption tax hike.

Sources: Ministry of Health, Labour and Welfare, "Monthly Labour Survey"; Ministry of Internal Affairs and Communications, "Consumer Price Index."

