



# Economic Activity, Prices, and Monetary Policy in Japan

*Speech at a Meeting with Local Leaders in Kagoshima*

June 21, 2023

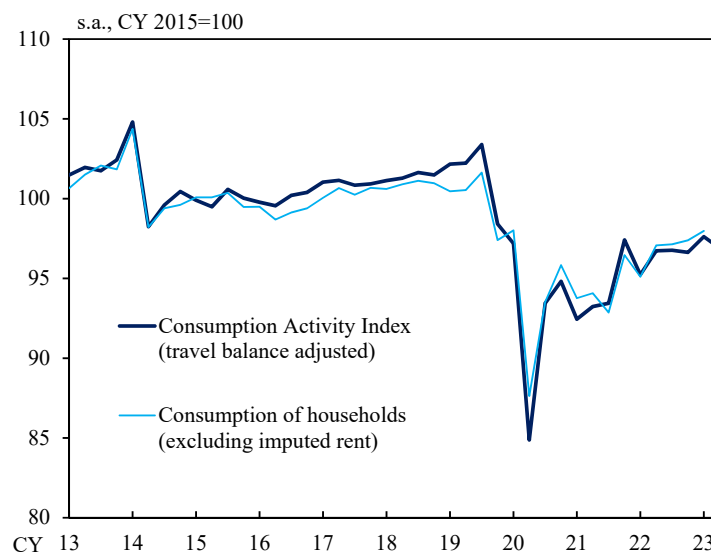
ADACHI Seiji

Member of the Policy Board

Bank of Japan

Chart 1

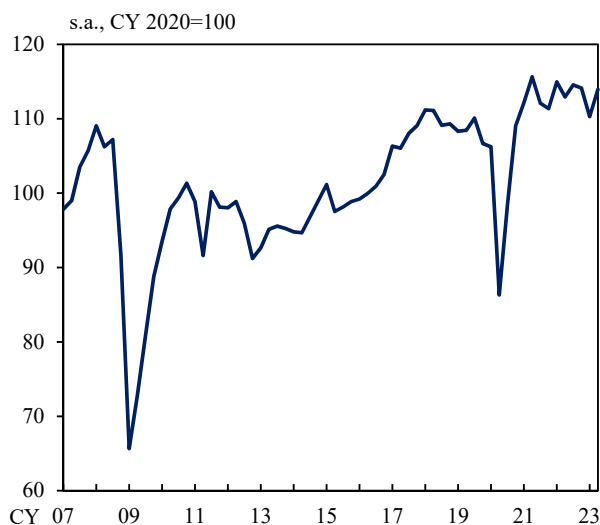
## Private Consumption



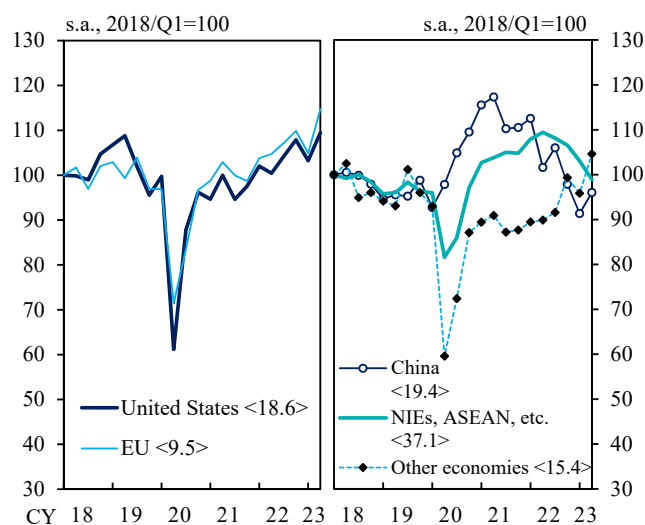
Note: Figures for the Consumption Activity Index (CAI) are based on Bank staff calculations. The CAI figures (travel balance adjusted) exclude inbound tourism consumption and include outbound tourism consumption. The figure for 2023/Q2 is that for April.  
Sources: Cabinet Office; Bank of Japan, etc.

# Exports

Total Real Exports

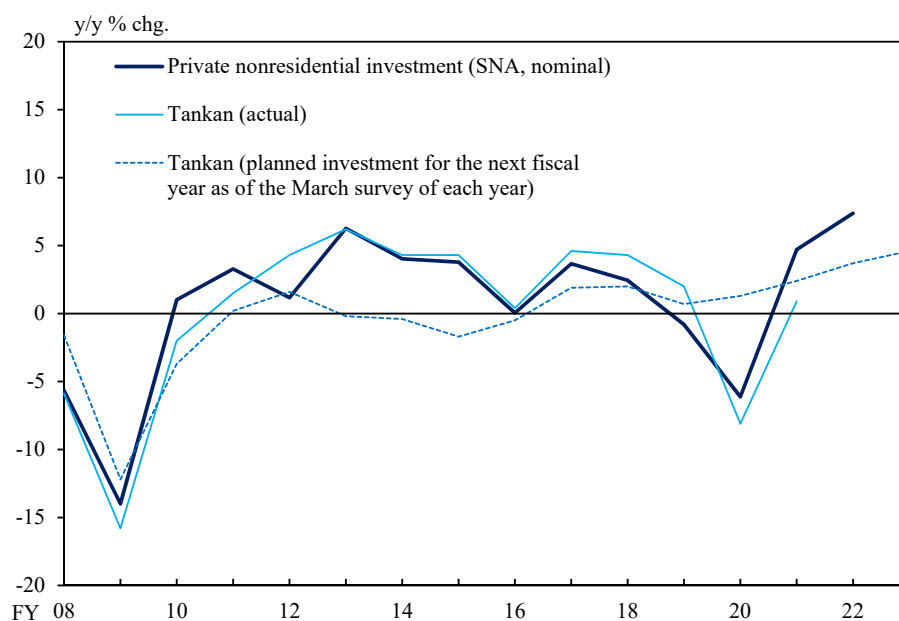


Real Exports by Region



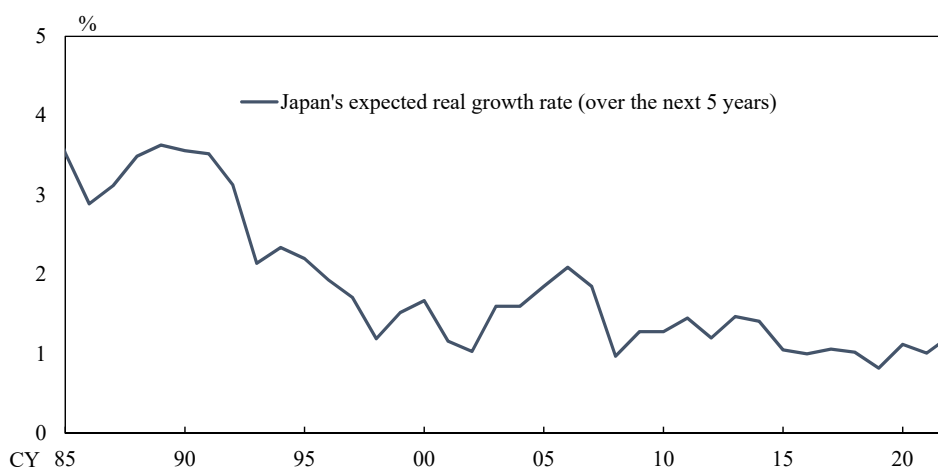
Note: Figures are based on Bank staff calculations. Figures for 2023/Q2 are those for April. In the right panel, figures in angle brackets show the share of each country or region in Japan's total exports in 2022. Figures for the EU exclude those for the United Kingdom for the entire period.  
 Sources: Ministry of Finance; Bank of Japan.

# Business Fixed Investment



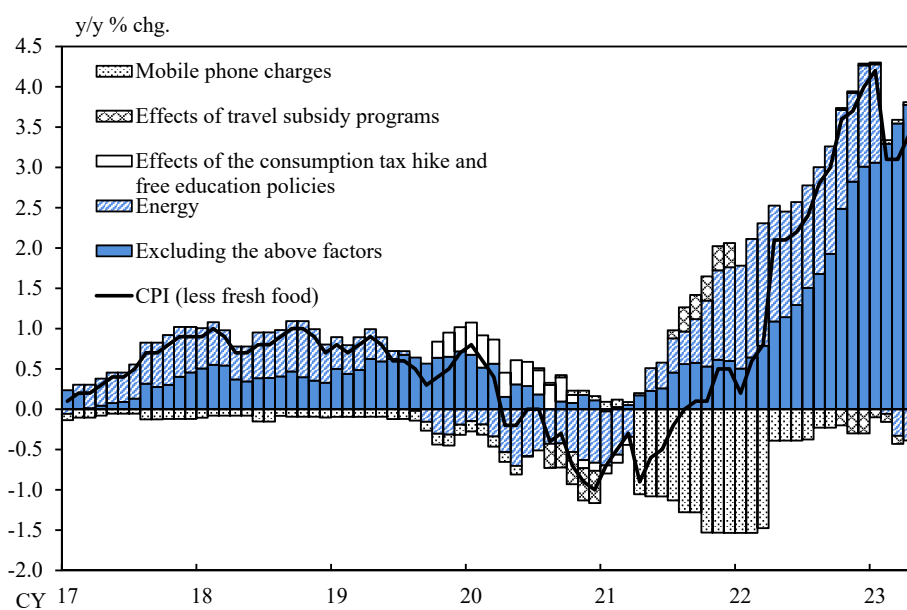
Note: Figures based on the *Tankan* include software and R&D investments but exclude land purchasing expenses. R&D investment is not covered as a survey item before the March 2017 survey. The figures are for all industries including financial institutions.  
 Sources: Cabinet Office; Bank of Japan.

## Expected Growth Rate



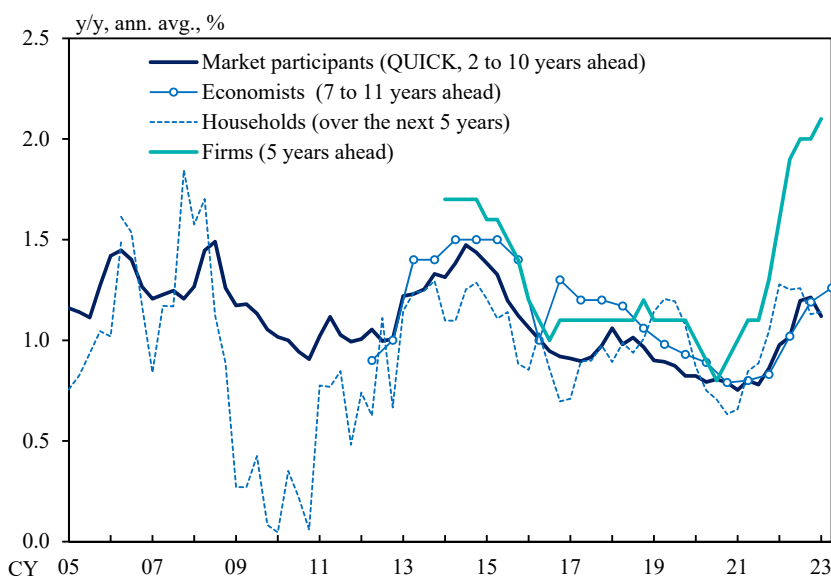
Note: Based on the *Annual Survey of Corporate Behavior*. Figures show the results for listed firms in a particular survey year for the next five years.  
Source: Cabinet Office.

## CPI for All Items Less Fresh Food



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.

# Inflation Expectations

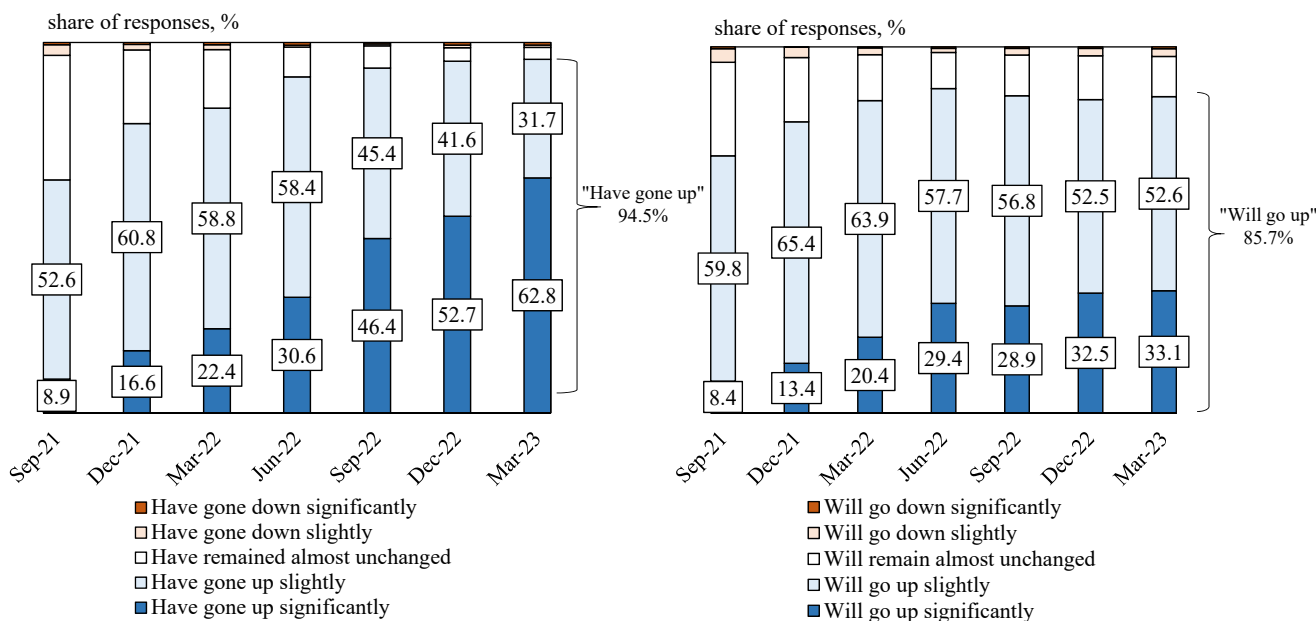


Notes: 1. Figures for economists are the forecasts of forecasters surveyed for the *ESP Forecast*.  
 2. Figures for households are from the *Opinion Survey on the General Public's Views and Behavior*, estimated using the modified Carlson-Parkin method for a 5-choice question.  
 3. Figures for firms show the inflation outlook of enterprises for general prices (all industries and enterprises, average) in the *Tankan*.  
 Sources: Japan Center for Economic Research (JCER), "ESP Forecast"; QUICK, "QUICK Monthly Market Survey <Bonds>"; Bank of Japan.

# Households' Current and Future Perception of Price Levels

Present Compared with One Year Ago

One Year Ahead Compared with the Present

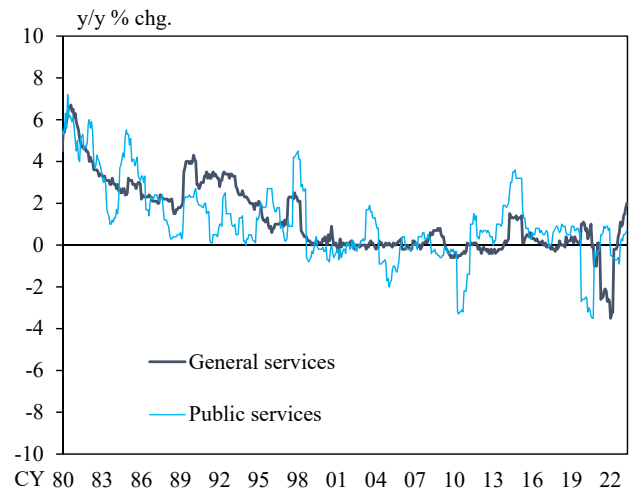
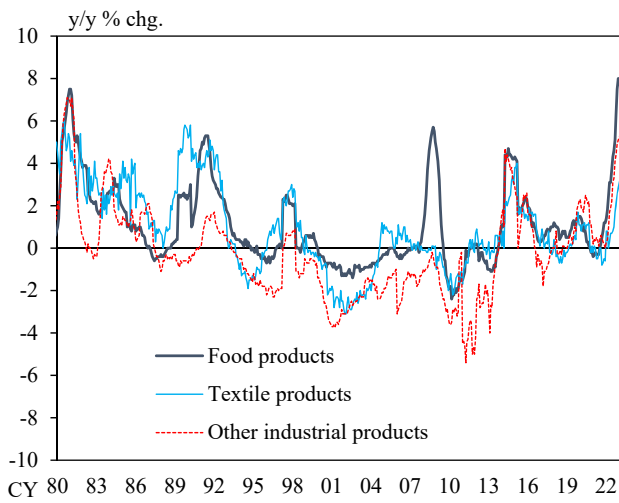


Note: "Have gone up" comprises "have gone up significantly" and "have gone up slightly." "Will go up" comprises "will go up significantly" and "will go up slightly."  
 Source: Bank of Japan.

# CPI for Goods and Services

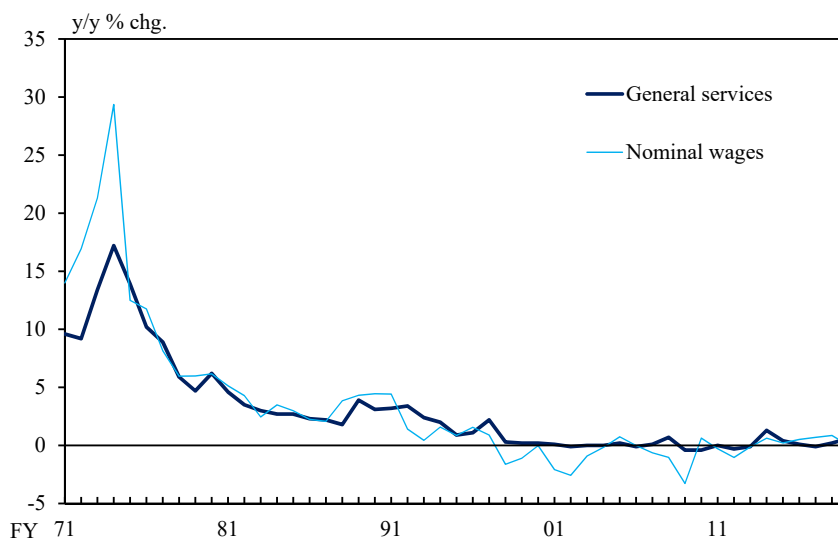
Goods

Services



Source: Ministry of Internal Affairs and Communications.

# Wages and Services Prices

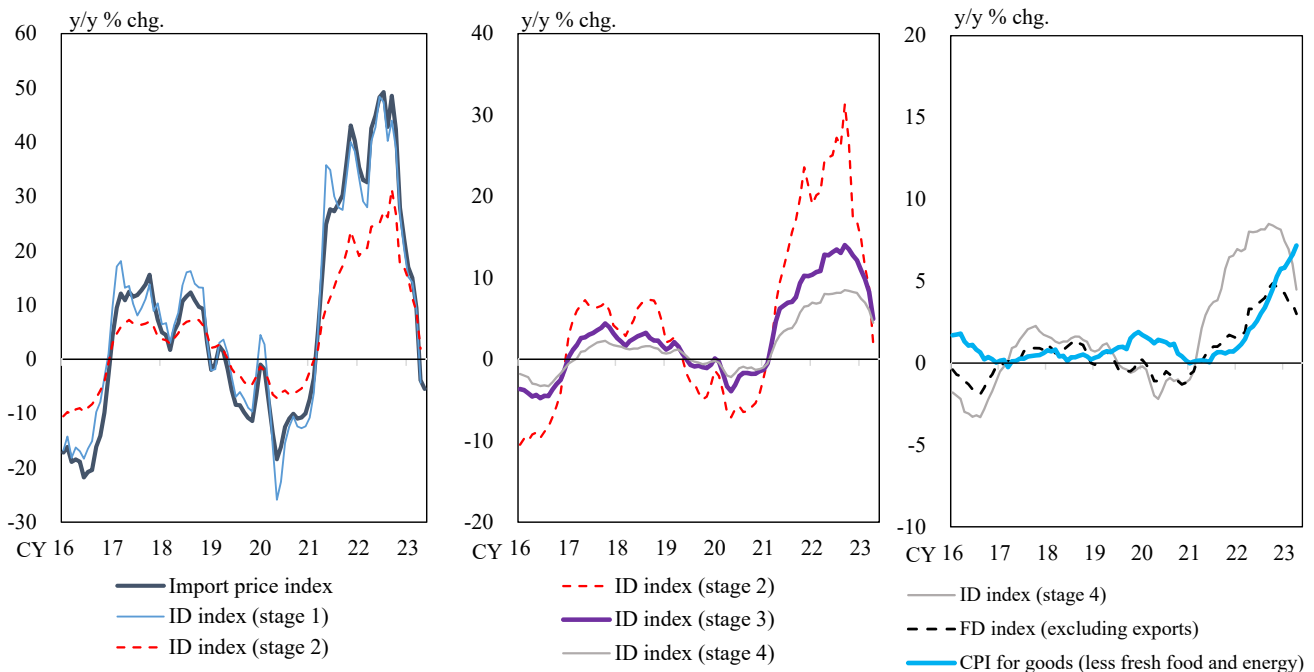


Note: Figures for nominal wages are for establishments with 30 or more employees up through fiscal 1990, and with 5 or more employees from fiscal 1991 onward.

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

Chart 10

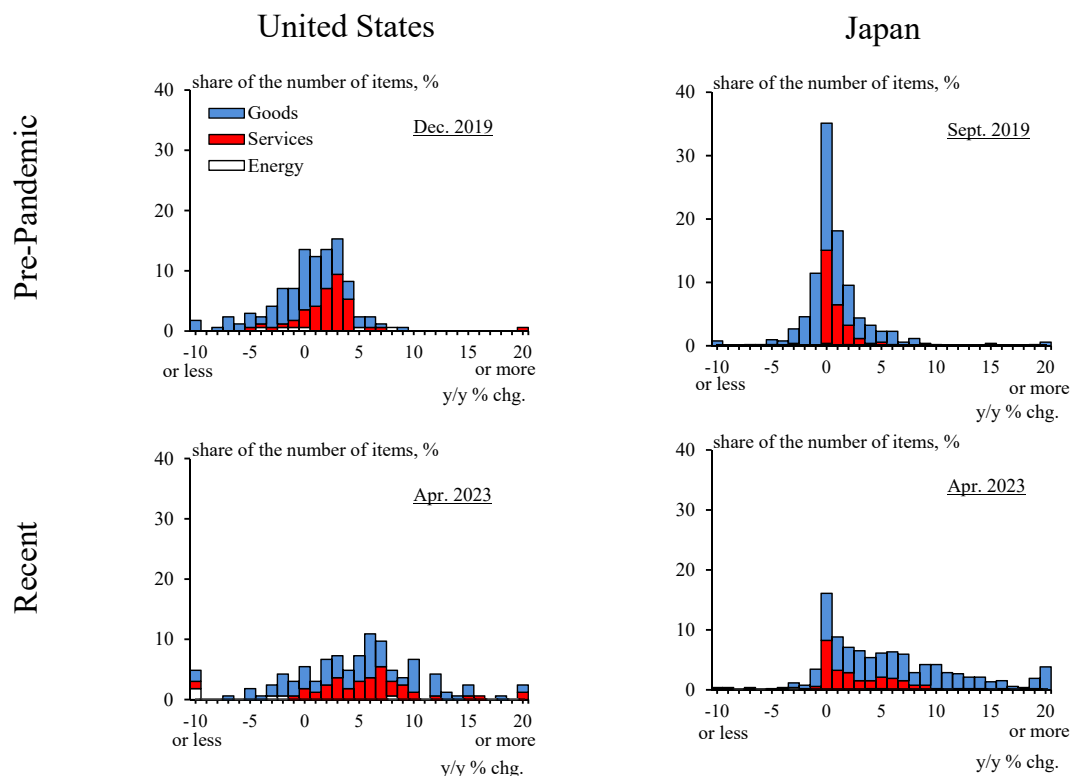
# Spillover Effects of Import Prices on the CPI for Goods



Note: The import price index is on a yen basis. The FD-ID price indexes divide demand into the final demand (FD) stage and four stages of intermediate demand (ID) based on the Input-Output Tables for Japan. Goods and services prices are then aggregated according to the stage to which they belong to compile the FD index and the ID indexes for stages 1 to 4, ranging from the upstream to downstream stages of the production process.  
 Sources: Ministry of Internal Affairs and Communications; Bank of Japan.

Chart 11

# Price Change Distributions



Note: Figures for the United States are for the CPI for all items, while those for Japan are for the CPI for all items excluding fresh food. The pre-pandemic distribution for Japan is based on data for September 2019, which was before the CPI developments were affected by the consumption tax hike.  
 Sources: Ministry of Internal Affairs and Communications; U.S. Bureau of Labor Statistics (BLS).

# Conduct of Monetary Policy

## Guideline for market operations under yield curve control

**The short-term policy interest rate:** Apply a negative interest rate of minus 0.1 percent to the Policy-Rate Balances in current accounts held by financial institutions at the Bank.

**The long-term interest rate:** Purchase a necessary amount of JGBs without setting an upper limit so that 10-year JGB yields will remain at around 0 percent.

The Bank will continue to allow 10-year JGB yields to fluctuate in the range of around plus and minus 0.5 percentage points from the target level, and will offer to purchase 10-year JGBs at 0.5 percent every business day through fixed-rate purchase operations, unless it is highly likely that no bids will be submitted. It will make nimble responses for each maturity by increasing the amount of JGB purchases and conducting fixed-rate purchase operations.

## Asset purchases (other than JGBs)

Purchase as necessary with following upper limits on annual paces of increase in their amounts outstanding

**ETFs:** About 12 trillion yen

**J-REITs:** About 180 billion yen

**CP:** Maintain the amount outstanding at about 2 trillion yen

**Corporate bonds:** Purchase at about the same pace as prior to the COVID-19 pandemic, so that their amount outstanding will gradually return to the pre-pandemic level of about 3 trillion yen.

## Stance on future conduct of monetary policy

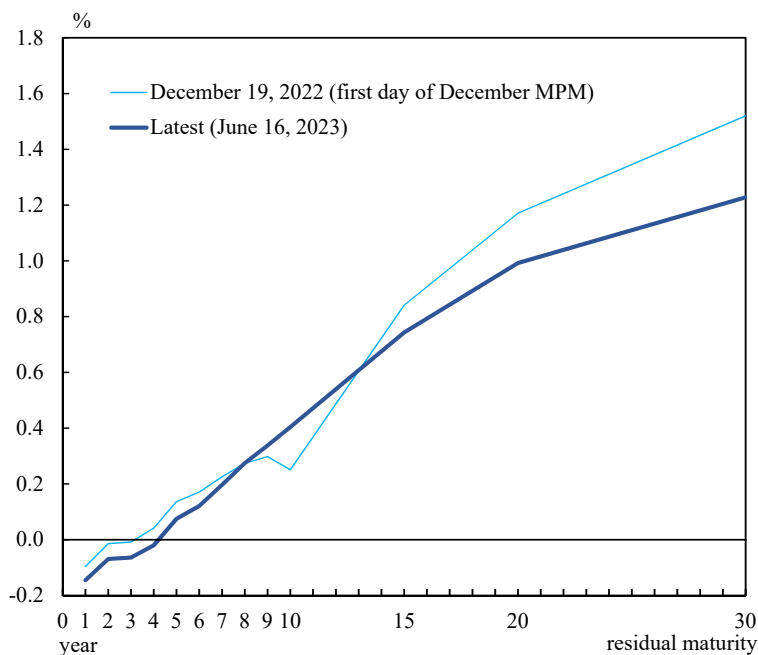
### Basic stance

With extremely high uncertainties surrounding economies and financial markets at home and abroad, the Bank will **patiently continue with monetary easing** while **nimbly responding** to developments in economic activity and prices as well as financial conditions. By doing so, it will aim to achieve the price stability target of 2 percent in a sustainable and stable manner, accompanied by wage increases.

### Future conduct of monetary policy

The Bank will continue with QQE with Yield Curve Control, aiming to achieve the price stability target, as long as it is necessary for maintaining that target in a stable manner. It will continue expanding the monetary base until the year-on-year rate of increase in the observed CPI (all items less fresh food) exceeds 2 percent and stays above the target in a stable manner. The Bank will continue to maintain stability of financing, mainly of firms, and financial markets, and **will not hesitate to take additional easing measures if necessary.**

# Yield Curve



Source: Bloomberg.