Toshihiko Fukui: New framework for the conduct of monetary policy - toward achieving sustainable economic growth with price stability

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Introduction

At the Monetary Policy Meeting (MPM) held on March 8 and 9, 2006, the Bank of Japan decided to terminate the quantitative easing policy, which had been maintained during the five years since March 2001. The Bank shifted the operating target of money market operations from the outstanding balance of current accounts at the Bank to a short-term interest rate, namely, the uncollateralized overnight call rate. It also introduced a new framework for the monetary policy conduct, including clarification of its thinking on price stability.

Today, I will focus on the background to the termination of the quantitative easing policy by looking back on economic and financial developments during the past few years, and explain the Bank's future monetary policy conduct.

I. Embarking on a sustainable growth path

Japan's economy continues to recover steadily. The current economic expansion started in January 2002 and has lasted for more than four years, according to the Cabinet Office's reference dates of business cycles. The recent recovery is well balanced in terms of the balance between domestic and external demand, and also between the corporate and household sectors. Although the recovery is not accelerating, the foundation for economic growth is solid, and its resistance to various external shocks has been increasing. The present phase of the recovery is the third since the bursting of the economic bubble. Unlike the previous two phases, this time we may reasonably expect the current expansionary phase to last longer and to be more sustainable. Japan's economy has, at last, succeeded in emerging from its prolonged adjustment phase, which continued for more than a decade, and has embarked on a sustainable growth path with price stability.

Several factors support this view. In addition to external factors, such as the continuing expansion of overseas economies, on the domestic side structural reforms have made significant progress in both the business and financial sectors. Moreover, the positive effects of the recovery are spreading to the household sector. I will now discuss these contributing factors and then go into some detail regarding the sustainability of the current economic recovery.

A. Progress in structural reforms

The most important factor contributing to the achievement of sustained economic recovery has been the elimination of the burdens, or adjustment pressures, in the corporate sector and the financial system, which have hindered the Japanese economy's movement to a sustainable growth path ever since the bursting of the economic bubble.

As a result of stringent corporate restructuring efforts that lasted for more than a decade, the excesses in debt, employment, and production capacity -- the so-called "three excesses" -- have for the most part been dispelled and resolved. According to the latest *Tankan* (Short-Term Economic Survey of Enterprises in Japan), the number of firms perceiving their production capacity as excessive is almost equal to the number perceiving it as insufficient for the first time since the early 1990s. The number of firms perceiving their holdings of labor as insufficient has already exceeded the number perceiving them as excessive, indicating that firms perceive a tightening of the labor market. This tightness is also evidenced by the ratio of job offers to applicants, which has exceeded 1.00. Turning to firms' debt levels, the ratio of interest-bearing debt to sales peaked out around 1993, and is currently as low as that seen in the mid-1980s, before the bubble era.

While taking measures to resolve the "three excesses," firms have been reviewing their business lines based on the principle of "selection and concentration" in the face of intensified global competition. More specifically, firms have adopted an active management approach by concentrating on strategic areas of business and establishing business tie-ups to improve their ability to generate high-value-added products and services. As a result, firms have succeeded in substantially improving their profitability. Corporate profits have increased for the three consecutive years from fiscal 2002, and are expected to continue to increase in the current fiscal year. Firms' ratio of current profits to sales has already exceeded the peak marked during the bubble era. Using the high level of corporate profits, firms are actively investing in research and development and expanding production capacity in order to boost market competitiveness. These activities are evident in increases in business fixed investment, regardless of the type and size of firm.

Improvements are also notable in the financial system. The nonperforming-loan (NPL) problem that has plagued Japan's economy for so long has by and large been resolved, and the stability of the Japanese financial system has been restored. The lending attitude of financial institutions has become more active as a result of improvements in their profitability and capital adequacy ratios due to the decrease in the amount of NPLs. The amount outstanding of lending by private banks, which had long been on a downward trend, finally turned upward on a year-on-year basis in August 2005 after an adjustment for securitization of loans and loan write-offs. Since then, the pace of increase has been gradually accelerating. In the previous two recovery phases, weakness in the financial system hindered the economy from moving onto a sustainable growth path. At present, however, the financial system has recovered to a level of soundness sufficient to firmly support the achievement of sustained economic growth.

B. Spread of improvement in the corporate sector to the household sector

In order to realize a sustainable economic recovery, it is important for a virtuous cycle to operate in the economy, wherein the improvement in income of the corporate sector spreads to the household sector, and this in turn feeds back to the corporate sector. Unfortunately, in past recovery phases, such a virtuous cycle did not fully operate, as both the corporate sector and the financial system were subject to structural adjustment pressure. In contrast, in the current recovery phase, apparent improvement in the employment and income situation has been observed since the beginning of 2005, and a longer and more sustainable recovery is expected in the household sector.

Firms have been increasing their numbers of employees, as the adjustment in excessive holdings of labor has progressed. Initially, they relied mainly on part-time workers in order to restrain labor costs, but firms have begun to gradually increase their numbers of regular employees, as the labor market has tightened. Wages per worker have also been rising, reflecting such conditions in the labor market. Specifically, regular payments have recently begun to increase in addition to continuing growth in overtime payments and bonus payments. This improvement in the employment and income situation, coupled with a rise in stock prices and an increase in dividend income, has contributed to income growth in the household sector. With such income conditions, private consumption has been solid. It is expected to remain so, supported by the increase in household income. This development is expected to accelerate the virtuous cycle further as the firmness in private consumption feeds back to the corporate sector.

As seen from what I have described, Japan's economy continues its solid recovery, but this recovery is often said to not apply evenly across small firms and regional economies. In fact, the degree of recovery still varies according to size of firm and region.

The economic recovery has indeed been spreading steadily, with both domestic and external demand continuing to increase. The *Tankan* indicated that business conditions at not only large firms but also small and medium-sized ones have been improving. The Bank's branches conduct research and interviews so as to grasp the state of regional economies, and the results are presented at the meeting of general managers of the Bank's branches. The results show that, although there still is a difference in the degree of recovery, all regional economies are showing improvement. The Bank will continue to pay due attention to future developments in regional economies.

II. Improvement in the environment for prices

The environment for prices has become favorable reflecting the continuing economic recovery. The year-on-year rate of change in the consumer price index (CPI, excluding fresh food) had been negative since 1998, but returned to 0.0 percent in October 2005 and turned positive in November. According to the figure released on March 3, 2006, it rose further in January 2006, reaching 0.5 percent. This was partly attributable to the dissipation of temporary factors such as the reduction of telephone charges implemented in 2005 and also to high crude oil prices, but more importantly, fundamental factors that affect price developments clearly began to improve and started to exert upward pressure on prices.

First, the supply-demand balance is improving gradually and improvement is expected to continue, as the economy continues to recover at a pace slightly above its potential. Second, although unit labor costs continue to be driven down by the productivity increase, with wages beginning to rise, the rate of decline has been diminishing and this trend is expected to continue. And third, firms' and households' expectations of inflation have been gradually revised upward, as indicated by various surveys.

All of this indicates that the environment for prices has changed dramatically from the past, when a substantial output gap exerted downward pressure on prices. As the economy is expected to continue to recover steadily with a balance being maintained between domestic and external demand and between the corporate and household sectors, a positive trend in the year-on-year rate of change in consumer prices is projected to be established, albeit with some fluctuations.

As I have explained, Japan's economy has achieved substantial improvement, in terms of both economic activity and prices, and this implies that the Bank should respond to the improvement by changing its conduct of monetary policy.

III. Effects of the quantitative easing policy

The Bank displayed its resolve in continuing the quantitative easing policy for five years after introducing it in March 2001. At the time, Japan's economy was in a recessionary phase triggered by the collapse of the IT bubble around the globe. Financial institutions in Japan were also burdened by massive NPLs, and there was a high level of public anxiety concerning the stability of the financial system. In these circumstances, the economy faced a severe challenge, the potential risk of falling into a vicious cycle, or so-called deflationary spiral, in which a fall in demand reflecting deterioration of the economy causes a decline in prices and this in turn leads to a further fall in demand. To counter this situation, the Bank acted decisively and introduced the quantitative easing policy, which was unprecedented in the history of any central bank, with the aim of preventing a continuing fall in prices and establishing a foundation for achieving sustainable economic growth. I would like to elaborate on what the quantitative easing policy has contributed to Japan's economy over the past five years.

The quantitative easing policy consisted of two pillars: provision by the Bank of ample liquidity to raise the outstanding balance of current accounts at the Bank above the amount of reserves financial institutions are required to hold, namely, required reserves; and a commitment by the Bank to continue to provide ample liquidity until the year-on-year rate of change in the CPI (excluding fresh food) registered zero percent or higher on a sustainable basis.

Provision of ample liquidity exceeding required reserves reduced very short-term interest rates to effectively zero percent and dispelled financial institutions' liquidity concern. After the introduction of the quantitative easing policy, there was no occurrence of any large-scale credit crunch, such as was observed in 1997 and 1998, and stability in financial markets was maintained despite the materialization of various shocks, including the terrorist attacks in the United States and the Iraq war as well as the injection of public funds into a major Japanese bank when the financial system was fragile.

The Bank's commitment to continue the quantitative easing policy generated expectations that the zero interest rate environment would continue for a certain period of time while consumer prices continued to decline. This is referred to as the "duration effect," that is, the effect of the Bank's commitment regarding the duration of the policy. As a result of this duration effect, the Bank's commitment contributed to keeping short- to medium-term interest rates stable at low levels.

The policy effects of dispelling the liquidity concern as well as keeping interest rates low and stable have created an accommodative environment not only in the money market and capital markets but also in corporate finance activities. Bank lending rates, for example, have continued to decline partly reflecting the decrease in the credit premium, and are around historically low levels, despite the ongoing economic recovery.

As mentioned earlier, Japanese firms, after strenuous efforts, have tackled structural problems such as the "three excesses," and are becoming increasingly active in undertaking business fixed investment. The accommodative financial environment created by the quantitative easing policy has been firmly supporting such developments. It could be said that the policy has contributed to improving the rate of return on capital and to raising corporate profits, as it enabled lending rates to decline even while the economic outlook was gradually brightening. These improvements in the corporate sector have, with a certain lag, been exerting positive effects on the household sector, thereby supporting the continuing economic recovery and the favorable environment for price developments.

The Bank's quantitative easing policy played a significant role in the recovery of Japan's economy and in the improvement in price developments. However, amid recent economic and financial circumstances, both the effect of the quantity of liquidity to dispel liquidity concern and the duration effect through which the Bank's commitment influences interest rates are considered to have played themselves out. As the financial system has regained stability, liquidity demand at financial institutions has declined, reducing the need for the provision of funds at a level well over required reserves. In addition, the duration effect of the policy commitment has been gradually diminishing with the shortening of the expected duration of the quantitative easing policy in line with the improvement in price developments. Ultimately, the duration effect ceases to exist when the criterion that the year-on-year rate of change in the CPI is registering zero percent or higher on a sustainable basis is fulfilled. In short, the effects of the quantitative easing policy on economic activity and prices had already become essentially equivalent to those of an interest rate policy targeting a short-term interest rate of zero percent prior to the termination of the quantitative easing policy.

IV. Background to the termination of the quantitative easing policy

In this situation, the Bank decided to terminate the quantitative easing policy at the MPM held on March 8 and 9, 2006. The Bank decided to change the operating target of money market operations from the outstanding balance of current accounts at the Bank to the uncollateralized overnight call rate, and to set the guideline for money market operations for the intermeeting period as follows: "The Bank of Japan will encourage the uncollateralized overnight call rate to remain at effectively zero percent."

The year-on-year rate of change in the CPI has been registering zero percent or above for the four consecutive months since October 2005, and a positive trend in the rate of change in the CPI is projected to be established. Economic developments underlying the CPI also indicate that Japan's economy is likely to experience a sustained period of expansion with domestic and external demand well in balance. Based on these developments in economic activity and prices, the Bank judged that the commitment that it would continue the quantitative easing policy until the year-on-year rate of change in the CPI registers zero percent or higher on a sustainable basis had been fulfilled, and that it was therefore appropriate to terminate the unprecedented quantitative easing policy.

It must be stressed that the termination of the quantitative easing policy does not signify a tightening of monetary policy. As I have explained, the policy effects of the quantitative easing policy have already become essentially equivalent to those of an interest rate policy targeting a short-term interest rate of zero percent. Since the Bank will encourage the uncollateralized overnight call rate to remain at effectively zero percent based on the new guideline for money market operations, there will be no abrupt change in monetary policy in terms of the stimulative effects of the quantitative easing policy on economic activity and prices. The effects of short-term interest rates being at effectively zero percent have increased gradually with the upturn in economic activity and prices, and they are expected to become stronger while the current guideline is maintained. Although the level of interest rates depends on developments in economic activity and prices as well as in financial markets, if it is judged that inflationary pressures are restrained as the economy follows a balanced and sustainable growth path, then the accommodative monetary environment ensuing from very low interest rates will probably be maintained for some time. The Bank will continue to offer firm support to the economy by maintaining accommodative monetary conditions.

Some might question why the Bank should terminate the quantitative easing policy if the policy effects are equivalent to those of an interest rate policy targeting a short-term interest rate of zero percent. However, the Bank made a clear commitment when it introduced the quantitative easing policy that it would continue the policy until the year-on-year rate of change in the CPI registered zero percent or higher on a sustainable basis, and market participants have been conducting transactions on this premise. The duration effect of the policy commitment could not have been achieved without market participants' confidence in the commitment. In this regard, the termination of the quantitative easing policy once the Bank judged the commitment to have been fulfilled contributes to enhancing monetary policy transparency and in turn the effectiveness of monetary policy in the long term. Putting this another way, if the Bank had continued to conduct monetary policy in line with an operating target that had already essentially lost its effectiveness, this could well have caused not only increased uncertainty in financial markets but also damage to the transparency of monetary policy.

V. Conduct of money market operations for the immediate future

In conducting money market operations in the immediate future, the Bank will reduce the outstanding balance of current accounts toward a level in line with required reserves according to the new guideline for money market operations. It should be borne in mind, however, that as financial institutions have managed liquidity against the backdrop of large amounts of current account balances and extensive funds-supplying operations by the Bank for a prolonged period under the quantitative easing policy, the functioning of the money market has been somewhat impaired. As a result, financial institutions may have difficulties carrying out smooth fund management. Given these circumstances, the Bank's reduction of the current account balance will be implemented taking full account of conditions in the money market. How long it will take for the Bank to reduce the current account balance depends on the situation in the money market, but it is reasonable to expect the reduction to be carried out over a period of a few months. With respect to the complementary lending facility, which allows financial institutions to borrow short-term funds from the Bank at their request up to the amount of the collateral they pledged in advance, the Bank decided to keep the loan rate unchanged at 0.1 percent, its level prior to the termination of the quantitative easing policy. This means that the uncollateralized overnight call rate, which will be effectively zero percent in accordance with the new guideline for money market operations, will basically not exceed this ceiling of 0.1 percent even if it surges temporarily. Reduction of the outstanding balance of current accounts at the Bank will be managed through short-term money market operations. With respect to outright purchases of long-term Japanese government bonds, these will continue at the current amounts and frequency for some time, with due regard for the future condition of the Bank's balance sheet.

VI. Introduction of a new framework for the conduct of monetary policy

Following the latest MPM, the Bank announced the introduction of a new framework for the conduct of monetary policy, with a view to ensuring the transparency of its policy conduct given the shift from the quantitative easing policy to an interest rate policy.

Under the quantitative easing policy, the Bank conducted monetary policy in line with a commitment based on the CPI. The commitment was unprecedented in that it linked the conduct of monetary policy directly to a specific economic indicator, namely, the CPI. With the aim of generating monetary easing effects in a situation where there was no room to further reduce short-term interest rates, the Bank introduced this unprecedented policy to affect the formation of interest rates, in spite of acknowledging the concomitant sacrifice in the flexibility with which it would be able to conduct monetary policy. Such a policy measure had never previously been adopted by any central bank, and it may safely be seen as a monetary policy innovation designed by the Bank of Japan. As I explained earlier, the Bank's commitment regarding the duration of the policy had significant positive effects that operated by keeping short- to medium-term interest rates stable at low levels and maintaining an accommodative environment for corporate financing. However, at the same time, the policy to some extent undermined the pricing function of financial markets.

With the prospects for sustainable economic growth with long-term price stability, monetary policy in general should be conducted in a forward-looking manner -- in other words, it should be implemented taking future developments in economic activity and prices fully into consideration -- and it should be both flexible and timely. In the current situation where the economy is emerging from a prolonged period of structural adjustment and moving toward a path of sustainable growth, a new framework should be introduced to ensure that monetary policy is conducted both appropriately and with sufficient transparency. Given the Bank's thinking about the conduct of monetary policy, market participants, for their part, should have their own views on interest rate developments and thereby make decisions on financial transactions, by forecasting the future course of monetary policy based on their assessment of economic activity and prices. Such a process will facilitate the proper functioning of pricing mechanisms in financial markets and in turn generate economic dynamism through the efficient allocation of funds.

Three elements underlie the new framework for the conduct of monetary policy.

First, the Bank has clarified its thinking on price stability, which is a stated objective of monetary policy. Specifically, the Bank has made public its basic thinking on price stability, and, as regards the conduct of monetary policy, it has disclosed a level of the inflation rate that its Policy Board members currently understand as price stability from a medium- to long-term viewpoint.

Second, the Bank has explained the two perspectives from which it examines economic activity and prices in determining how to conduct monetary policy.

Third, the Bank has decided that, after deliberations from these two perspectives, it will outline its thinking on the conduct of monetary policy for the immediate future, and, as a rule, disclose it periodically in the *Outlook for Economic Activity and Prices* (hereafter the Outlook Report).

Now I will elaborate on these three elements.

A. Clarifying the Bank's thinking on price stability

The Bank of Japan Law stipulates the objective of monetary policy as "contributing to the sound development of the national economy" "through the pursuit of price stability." In accomplishing this stated objective, it is thus very important for the Bank to clearly indicate to the public its thinking on price stability.

Price stability can be defined as a state where various economic agents including households and firms are able to make decisions regarding economic activities such as consumption and investment without being concerned about fluctuation in the general price level. When considering what constitutes price stability for the purposes of conducting monetary policy, central banks should take full account of the distinctive features of their countries' economic structures and how these influence the public's view of prices. In the case of Japan, one noteworthy feature regards the average rate of inflation, which, over the last a few decades, has been lower than in major overseas economies. Specifically, average inflation rates for major countries from 1985 to 2005, measured by the CPI, are as follows: 3.2 percent for the United States, 2.9 percent for the United Kingdom, 1.8 percent for Germany, and 0.6 percent for Japan. As the Japanese economy has had a protracted experience of low inflation since the 1990s, the rate of inflation at which households and firms perceive price stability seems to be low, and economic decisions are likely to be made on the premise of a similarly low-inflation environment. These features should be taken duly into consideration when conducting monetary policy.

At the latest MPM, taking into account the points I have described, there was a discussion of the level of inflation that each Policy Board member, in conducting monetary policy, currently understands as price stability from a medium- to long-term viewpoint. Such a level is referred to as a member's "understanding of medium- to long-term price stability." There was a range of views among the Policy Board members, which seemed to reflect differences between their views on the Japanese economic structure, as well as differences in their assessments of the costs of inflation and deflation. They concurred, however, that, in the current situation, the level in Japan was somewhat lower than in major overseas economies. They also agreed that, by making use of the rate of year-on-year change in the CPI to describe the understanding, an approximate range between zero and 2 percent was generally consistent with the distribution of each member's understanding of medium- to long-term price stability. Most Policy Board members' median figures fell on both sides of 1 percent. Given that the "understanding of medium- to long-term price stability" may change gradually, reflecting changes in the economic structure such as further progress in globalization and innovations in information and communication technologies, as a rule, Policy Board members will review it annually.

B. Examining economic activity and prices from two perspectives

Having clarified its thinking on price stability, the Bank's next step was to decide how to examine economic activity and prices in light of such thinking, and then to devise ways to incorporate such analysis into its conduct of monetary policy. Although it is very important to clarify the Bank's thinking on price stability, this in itself is not sufficient to develop an actual policy guideline for conducting monetary policy. The most significant issue facing any central bank, regardless of whether it has adopted inflation targeting or not, is how to provide information that will make it easier for the public to predict the future course of monetary policy and so enhance its effectiveness. For instance, suppose a central bank conducts policy based on certain mechanical rules. Although such rules would in themselves enhance the transparency of the policy, they would be incapable of coping flexibly with the various economic shocks hitting the economy. They would therefore fail to meet the original purpose of enhancing transparency, which is to improve the effectiveness of monetary policy. To date, the Bank has released its assessment of the current state and outlook for economic activity and prices through the *Monthly Report of Recent Economic and Financial Developments* and the Outlook Report. Henceforth, the Bank has decided to supplement this assessment with additional examinations of economic activity and prices from the following two perspectives, which are of particular relevance to the conduct of monetary policy, and then to release them.

The first perspective involves examining, as regards economic activity and prices one to two years in the future, whether the outlook deemed most likely by the Bank follows a path of sustainable growth under price stability.

It should be added that, in order to implement the appropriate policy for achieving sustainable growth and price stability, it is not sufficient merely to assess the economic and price situation according to the first perspective. Needless to say, any forecast entails uncertainty. It is for this reason that the Bank's Outlook Report contains detailed descriptions with regard to upward and downward risks affecting the scenario deemed most likely by the Bank. Among risk factors, there are those that will have a significant impact on economic activity and prices should they materialize, even though the likelihood of materialization is low. Such risks include that of falling into a deflationary spiral, or conversely, the risk of sparking inflation or generating an asset price bubble. In conducting monetary policy, the Bank needs to do its utmost to prevent the materialization of such potential risks.

The economic projection described in the Outlook Report covers a period of about one and a half to two years. There could, however, be risk factors that might affect economic activity and price development in the medium to long term, beyond the Outlook Report's projection period. Experience inside and outside Japan shows that wide swings in asset prices and significant changes in the financial environment, including those affecting the intermediation function of financial institutions, may impact on economic activity and price development with a considerable lag. In addition, when the public's longer-term expectations of inflation change, this can have a significant impact on the existing relationship between economic activity and prices.

The second perspective, therefore, involves examining, over a longer horizon, the various risks that are most relevant to conducting monetary policy aimed at realizing sustainable growth under price stability. Major central banks seem to share the opinion that to conduct monetary policy putting too much emphasis on achieving price stability in the short term results in large swings in economic activity, and this in turn impedes long-term price stability and the sound development of the economy.

C. Conduct of monetary policy for the immediate future

Lastly, as the third element of the new framework for the conduct of monetary policy, the Bank will outline its current view on monetary policy in light of its deliberations from the two perspectives I have described, and disclose it periodically, as a rule in the Outlook Report. On the current occasion, the Bank decided to release the results of its deliberations ahead of the release of the April Outlook Report, to coincide with the timing of the termination of the quantitative easing policy.

Looking ahead, in considering the central scenario for economic activity and prices, there is a high probability of realizing sustainable growth under price stability. As I mentioned earlier, however, against the backdrop of improving corporate profitability and a positive turn in price developments, there is a possibility that the monetary policy stimulus to economic activity and prices could be amplified via, for example, a decline in real interest rates. If the stimulus becomes too strong, there is a risk that, even if current prices are stable, investment activity could become excessive, resulting in volatile economic fluctuations. Moreover, this could negatively affect the prospects for sustainable economic growth with long-term price stability. In its conduct of monetary policy, the Bank should pay attention to this as well as other long-term risks.

Bearing this in mind, I would now like to touch on the Bank's thinking regarding the future path of monetary policy. There will be a period in which the uncollateralized overnight call rate is at effectively zero percent, followed by a gradual adjustment in light of developments in economic activity and prices. In this process, if the risk I have described remains muted, in other words, if it is judged that inflationary pressures are restrained as the economy follows a balanced and sustainable growth path, an accommodative monetary environment ensuing from very low interest rates will probably be maintained for some time.

This completes my explanation of the new framework for conducting monetary policy introduced last week. The Bank and other central banks make continuous efforts to clearly explain their thinking on the conduct of monetary policy to market participants and the public. The specific method employed, however, differs according to their economic environment and institutional framework. At the Bank, in introducing a new framework we studied practices at other central banks and adopted the elements that were considered relevant, but most importantly we devised the most appropriate framework for clearly explaining the conduct of monetary policy in light of Japan's economic situation. Although the new framework is different from, for example, inflation targeting, where a numerical target for price stability is set and is to be achieved within a certain time frame, nevertheless the new framework improves the transparency of the Bank's monetary policy objective by indicating its thinking on what constitutes price stability. Taking this into account, the Bank will examine economic activity and prices from the two perspectives explained earlier, and will release its view on the conduct of monetary policy for the immediate future. For Japan's economy, which has emerged from a prolonged recession and is entering a new phase, the Bank believes that the new policy framework is the most suitable for enhancing transparency and conducting monetary policy appropriately. This new framework is also expected to contribute to smooth price formation in financial markets where participants find themselves in uncharted territory with the termination of the unprecedented quantitative easing policy.

Conclusion

Today, I have elaborated on the current state of Japan's economy, which is entering a new phase, as well as providing details about the new framework for conducting monetary policy introduced last week. Under the new framework, the Bank will continue to conduct monetary policy appropriately, responding flexibly to changes in economic activity and prices, and to contribute to sustainable economic growth and price stability.