

Haruhiko Kuroda: The Bank's Semiannual Report on Currency and Monetary Control

Statement by Mr Haruhiko Kuroda, Governor of the Bank of Japan, before the Committee on Financial Affairs, House of Councillors, Tokyo, 6 December 2018.

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Introduction

The Bank of Japan submits to the Diet its *Semiannual Report on Currency and Monetary Control* every June and December. I am pleased to have this opportunity today to talk about developments in Japan's economy and present an overall review of the Bank's conduct of monetary policy.

I. Economic and Financial Developments in Japan

I will first explain economic and financial developments in Japan.

Japan's economy is expanding moderately, with a virtuous cycle from income to spending operating. Although the real GDP growth rate for the July-September quarter was slightly negative, this is likely to be mainly due to the effects of temporary factors such as natural disasters. Looking at this in more detail, exports have been on an increasing trend amid overseas economies continuing to grow firmly on the whole. Business fixed investment has continued on an increasing trend, with corporate profits following their improving trend and business sentiment staying at a favorable level. Private consumption has been increasing moderately, albeit with fluctuations, against the background of steady improvement in the employment and income situation. Going forward, Japan's economy is likely to continue its moderate expansion. Risks to the outlook are skewed to the downside, particularly regarding developments in overseas economies, including the consequences of protectionist moves and their effects.

On the price front, the year-on-year rate of change in the consumer price index (CPI) has been positive but has continued to show relatively weak developments compared to the economic expansion and the labor market tightening. This is largely attributable to the fact that firms' cautious wage- and price-setting stance as well as households' cautiousness toward price rises have been deeply entrenched, due mainly to the experience of prolonged low growth and deflation. In addition, such factors as the large room to raise productivity, mainly in the nonmanufacturing sector, and the technological progress in recent years have allowed firms to maintain their cautious stance toward raising prices, even amid the economic expansion. With regard to the outlook, however, the year-on-year rate of change in the CPI is likely to increase gradually toward 2 percent, mainly on the back of the output gap remaining positive and medium- to long-term inflation expectations rising. The momentum toward achieving the price stability target of 2 percent is maintained but is not yet sufficiently firm, and thus developments in prices continue to warrant careful attention.

II. Conduct of Monetary Policy

Next, I will explain the Bank's conduct of monetary policy.

The Bank has been conducting powerful monetary easing under the framework of "Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control" introduced in September 2016. In terms of yield curve control, with a view to facilitating the formation of the yield curve that is considered most appropriate for achieving the price stability target of 2 percent, the Bank has conducted purchases of Japanese government bonds (JGBs) under the guideline for market

operations, in which it sets the short-term policy interest rate at minus 0.1 percent and the target level of 10-year JGB yields at around zero percent.

At the July Monetary Policy Meeting (MPM), with a view to persistently continuing with such powerful monetary easing, the Bank decided to strengthen the current policy framework. First, the Bank introduced forward guidance for policy rates, with which it intended to maintain the current extremely low levels of short- and long-term interest rates for an extended period of time. This aims to clarify the policy stance of continuing with powerful monetary easing by making clear future policy rates in advance. Second, the Bank decided to conduct market operations and asset purchases in a more flexible manner. As the degree of market functioning consequently improves, such as through interest rate formation becoming more flexible, this likely will lead to enhancing the sustainability of the policy.

The Bank deems that such policy responses will lead to achieving 2 percent inflation at the earliest possible time while securing stability in economic and financial conditions. It will continue to examine the risks considered most relevant to the conduct of monetary policy and conduct its policy in an appropriate manner, taking account of developments in economic activity and prices as well as financial conditions.

Thank you.