

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, 19 November 2019.

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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 has been on a moderate expanding trend, with a virtuous cycle from income to spending operating, although exports, production, and business sentiment have continued to be affected by the slowdown in overseas economies. Looking at this in more detail, Japan's exports have continued to show some weakness amid continuing slowdowns in overseas economies. On the other hand, domestic demand has increased. Specifically, with corporate profits staying at high levels on the whole, business fixed investment has continued on an increasing trend. Private consumption has been increasing moderately, albeit with fluctuations due to such effects as of the consumption tax hike. As for the outlook, Japan's economy is likely to continue on an expanding trend, as the impact of the slowdown in overseas economies on domestic demand is expected to be limited, although the economy is likely to continue to be affected by the slowdown for the time being.

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 tight labor market conditions. With regard to the outlook, although the year-on-year rate of change in the CPI is expected to be affected by such factors as the decline in crude oil prices for the time being, medium- to long-term inflation expectations are projected to rise with the output gap remaining positive. Thus, as the momentum toward achieving the price stability target is maintained, the year-on-year rate of change in the CPI is likely to increase gradually toward 2 percent.

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." 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, 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.

Although it is likely that Japan's economy will continue on an expanding trend and the year-on-year rate of change in the CPI will increase gradually toward 2 percent, the Bank considers it necessary to continue to pay close attention to downside risks, particularly regarding

developments in overseas economies. Based on this recognition, the Bank deems it appropriate to take the policy stance of being tilted toward monetary accommodation. At the Monetary Policy Meeting held in October, the Bank decided on a new forward guidance for the policy rates and clarified its stance to maintain the present levels of the policy rates or, depending on the situation, lower them from the present levels, as long as it is necessary to pay close attention to the possibility that the momentum toward achieving the price stability target will be lost.

Under this policy stance, the Bank will continue to pursue powerful monetary easing toward achieving the price stability target. In doing so, the Bank considers it important to take into account both the effects and side effects of monetary policy, including those on financial markets and the functioning of financial intermediation.

On this point, the Bank recognizes that prolonged downward pressure on financial institutions' profits, with the low interest rate environment and severe competition among financial institutions continuing, could create risks of a gradual pullback in financial intermediation and of destabilizing the financial system. Although these risks are judged as not significant at this point, mainly because financial institutions have sufficient capital bases, the Bank will continue to examine these risks as well as those 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.