

# Kazuo Ueda: The Bank's Semiannual Report on Currency and Monetary Control

Statement by Mr Kazuo Ueda, Governor of the Bank of Japan, before the Committee on Financial Affairs, House of Representatives, Tokyo, 10 April 2024.

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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 recent economic and financial developments and about the Bank's conduct of monetary policy.

## I. Economic and Financial Developments

I will first explain recent economic and financial developments.

Japan's economy has recovered moderately, although some weakness has been seen in part. Exports have been more or less flat. With corporate profits improving, business fixed investment has been on a moderate increasing trend. The employment and income situation has improved moderately. It is becoming increasingly likely that wages will continue to increase steadily this year, following the firm wage increase last year, reflecting this year's annual spring labor-management wage negotiations. Private consumption has been resilient, although the impact of price rises and developments such as a decline in automobile sales due to a suspension of shipment at some automakers have been observed. With regard to the outlook, Japan's economy is likely to continue recovering moderately, supported by factors such as the materialization of pent-up demand, although it is expected to be under downward pressure stemming from a slowdown in the pace of recovery in overseas economies.

The year-on-year rate of increase in the consumer price index (CPI) for all items excluding fresh food has been in the range of 2.5-3.0 percent recently, mainly on the back of the fact that, despite waning, the effects of a pass-through to consumer prices of cost increases led by the past rise in import prices have remained, and services prices have increased moderately. Regarding the outlook, it is likely to be above 2 percent in fiscal 2024 and decelerate thereafter. Meanwhile, toward the end of the projection period of the January 2024 Outlook Report (*Outlook for Economic Activity and Prices*), the Bank projects that underlying CPI inflation will increase gradually toward achieving the price stability target of 2 percent.

Concerning risks to the outlook, there are extremely high uncertainties surrounding Japan's economic activity and prices, including developments in overseas economic activity and prices, developments in commodity prices, and domestic firms' wage- and price-setting behavior. Under these circumstances, it is necessary to pay due attention to developments in financial and foreign exchange markets and their impact on Japan's economic activity and prices. Meanwhile, Japan's financial system has maintained stability on the whole. Even in the case of an adjustment in the real economy at home

and abroad and in global financial markets, the financial system is likely to remain highly robust on the whole, mainly because Japanese financial institutions have sufficient capital bases. Regarding financial risks from a longer-term perspective, while there is a possibility that prolonged downward pressure on financial institutions' profits may lead to a gradual pullback in financial intermediation, the vulnerability of the financial system could increase, mainly due to the search for yield behavior. Although these risks are judged as not significant at this point, it is necessary to pay close attention to future developments.

## **II. Conduct of Monetary Policy**

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

At the Monetary Policy Meeting held last month, the Bank judged it was now within sight that the price stability target of 2 percent would be achieved in a sustainable and stable manner toward the end of the projection period of the January 2024 Outlook Report, as various data and anecdotal information from firms had gradually shown that the virtuous cycle between wages and prices had become more solid. On this basis, the Bank considered that the policy framework of Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control and the negative interest rate policy to date had fulfilled their roles, and it therefore changed the monetary policy framework. Specifically, the Bank decided, among other measures, to set the uncollateralized overnight call rate as the policy interest rate and encourage that rate to remain at around 0 to 0.1 percent.

With the price stability target of 2 percent, the Bank will conduct monetary policy as appropriate, guiding the short-term interest rate as a primary policy tool, in response to developments in economic activity and prices as well as financial conditions from the perspective of sustainable and stable achievement of the target. Given the current outlook for economic activity and prices, it anticipates that accommodative financial conditions will be maintained for the time being.

Thank you.