

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, 26 March 2025.

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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 and industrial production have been more or less flat. With an improving trend in corporate profits, business fixed investment has been on a moderate increasing trend. The employment and income situation has improved moderately. Private consumption has been on a moderate increasing trend despite the impact of price rises and other factors. With regard to the outlook, Japan's economy is likely to keep growing at a pace above its potential growth rate, with overseas economies continuing to grow moderately and as a virtuous cycle from income to spending gradually intensifies against the background of factors such as accommodative financial conditions.

The year-on-year rate of increase in the consumer price index (CPI) for all items excluding fresh food has been at around 3 percent recently, as services prices have continued to rise moderately, reflecting factors such as wage increases, and as the government's measures to reduce the household burden of higher energy prices have been scaled back, although the effects of a pass-through to consumer prices of cost increases led by the past rise in import prices have waned. Regarding the outlook, while the effects of the pass-through to consumer prices of cost increases led by the past rise in import prices are expected to wane, underlying CPI inflation is expected to increase gradually. In the second half of the projection period of the January 2025 Outlook for Economic Activity and Prices (Outlook 2 Report), underlying CPI inflation is likely to be at a level that is generally consistent with the price stability target of 2 percent.

Concerning risks to the outlook, there remain high uncertainties surrounding Japan's economic activity and prices, including the evolving situation regarding trade and other policies in each jurisdiction and developments in overseas economic activity and prices under such a situation, 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. In particular, with firms' behavior shifting more toward raising wages and prices recently, exchange rate developments are, compared

to the past, more likely to affect prices. Meanwhile, Japan's financial system has maintained stability on the whole. The Bank judges that, 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.

II. Conduct of Monetary Policy

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

At the Monetary Policy Meeting held last week, the Bank decided to maintain the guideline for money market operations, in which it would encourage the uncollateralized overnight call rate to remain at around 0.5 percent. As for the future conduct of monetary policy, while it will depend on developments in economic activity and prices as well as financial conditions going forward, given that real interest rates are at significantly low levels, if the outlook for economic activity and prices presented in the January Outlook Report is realized, the Bank will accordingly continue to raise the policy interest rate and adjust the degree of monetary accommodation. Regarding purchases of Japanese government bonds (JGBs), the Bank has been gradually reducing its purchase amount in accordance with the reduction plan decided in July 2024.

With the price stability target of 2 percent, the Bank will conduct monetary policy as appropriate, 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.

Thank you.