

Toward Overcoming Deflation

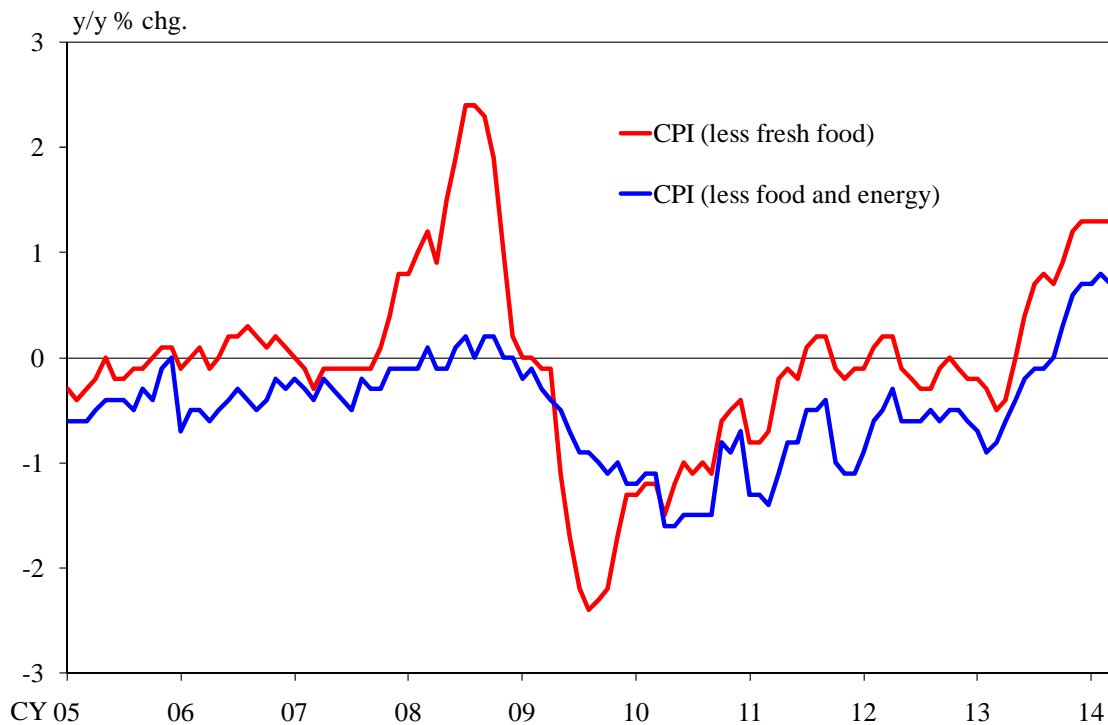
*Speech at the Annual Tokyo Conference Hosted by
the Center on Japanese Economy and Business (CJEB),
Columbia Business School*

May 15, 2014

Haruhiko Kuroda
Governor of the Bank of Japan

Chart 1

Consumer Prices

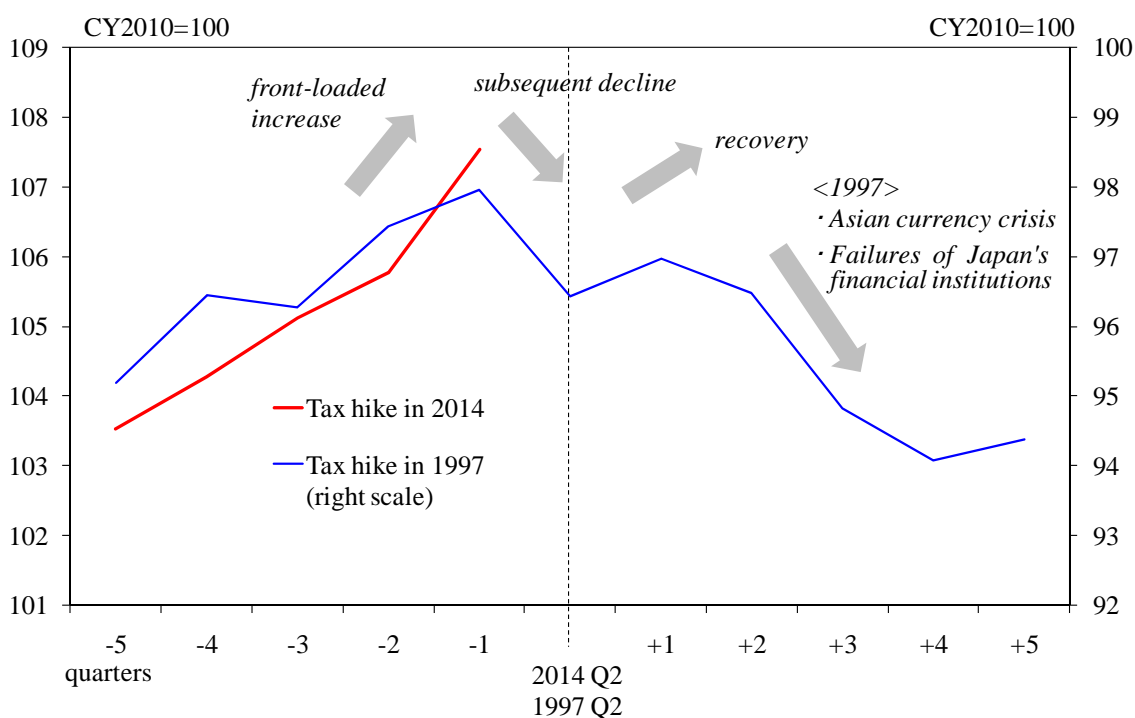


Outlook for Economic Activity and Prices (as of April 2014)

		y/y % chg.		
		Real GDP	CPI (all items less fresh food)	Excluding the effects of the consumption tax
Fiscal 2013 (Actual)		+2.3	+0.8	/
	Forecasts made in January 2014	+2.7	+0.7	
Fiscal 2014		+1.1	+3.3	+1.3
	Forecasts made in January 2014	+1.4	+3.3	+1.3
Fiscal 2015		+1.5	+2.6	+1.9
	Forecasts made in January 2014	+1.5	+2.6	+1.9
Fiscal 2016		+1.3	+2.8	+2.1

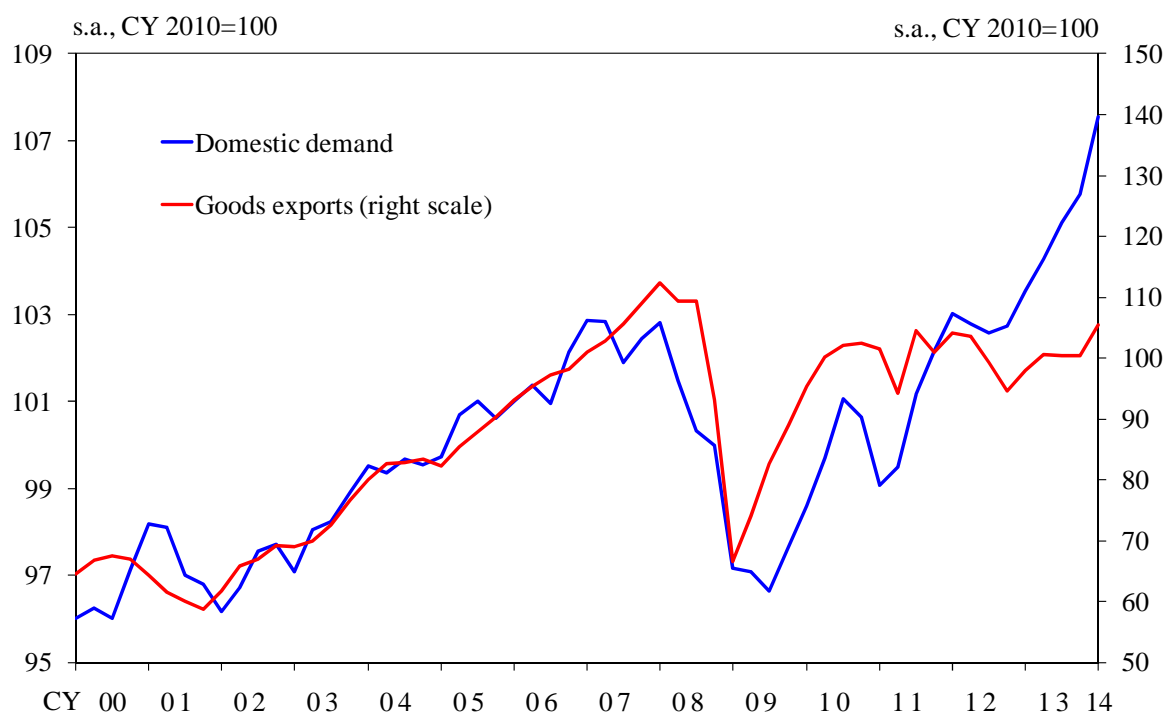
Note: Figures indicate the median of the Policy Board members' forecasts (point estimates).
Source: Bank of Japan.

Domestic Demand prior to and after the Consumption Tax Hikes



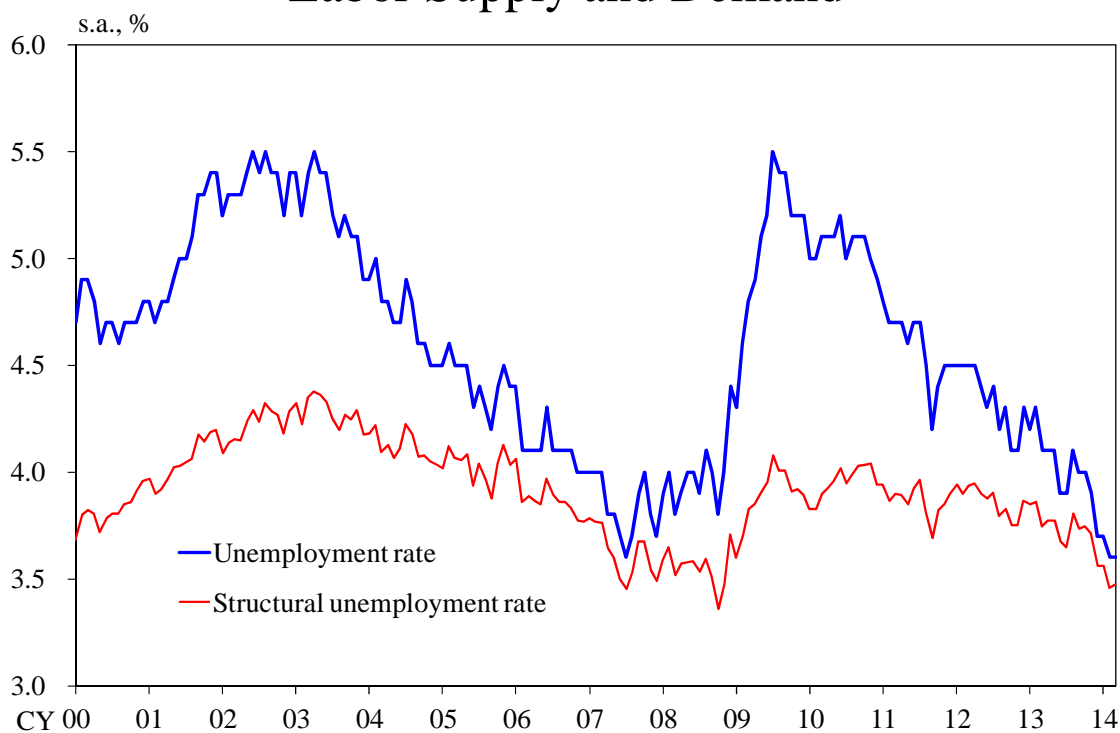
Note: Figures are based on real GDP.
Source: Cabinet Office.

Domestic Demand and Exports



Note: Figures are based on real GDP.
Source: Cabinet Office.

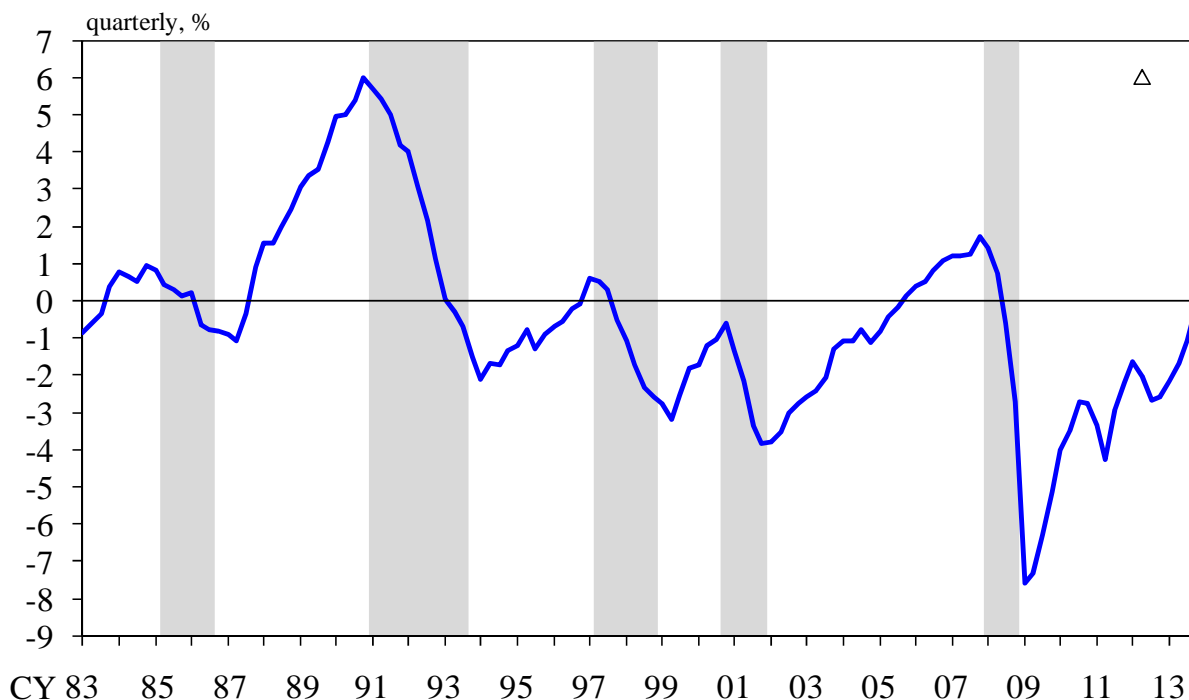
Labor Supply and Demand



Note: The structural unemployment rate is defined as the level of the unemployment rate where the number of vacancies equals that of the unemployed, given the empirical relationship between job vacancies and unemployment (estimation by the Research and Statistics Department, Bank of Japan). It captures frictional unemployment and unemployment caused by the mismatch between supply and demand in the labor market.

Source: Ministry of Internal Affairs and Communications.

Output Gap



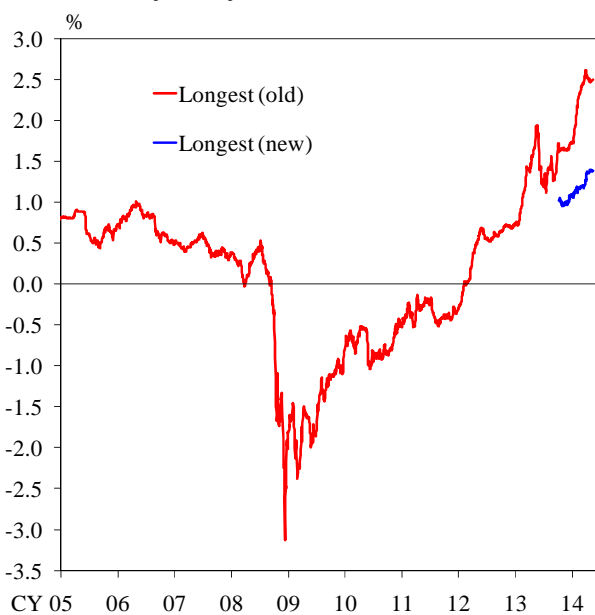
Notes: 1. For the estimation procedures of the output gap estimated by Bank of Japan, see "The New Estimates of Output Gap and Potential Growth Rate," Bank of Japan Review Series, 2006-E-3.

2. Shaded areas indicate recession periods. Triangle shows the latest peak.

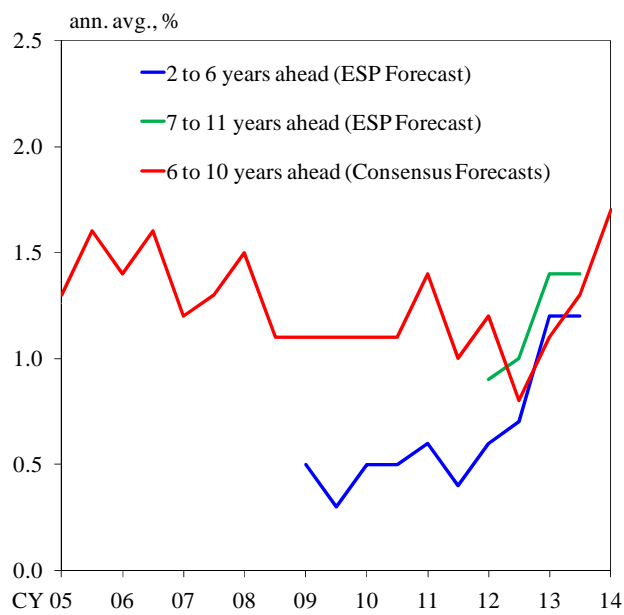
Source: Bank of Japan, etc.

Inflation Expectations

Market Participants
(BEI for Inflation-Indexed JGBs)



Economists

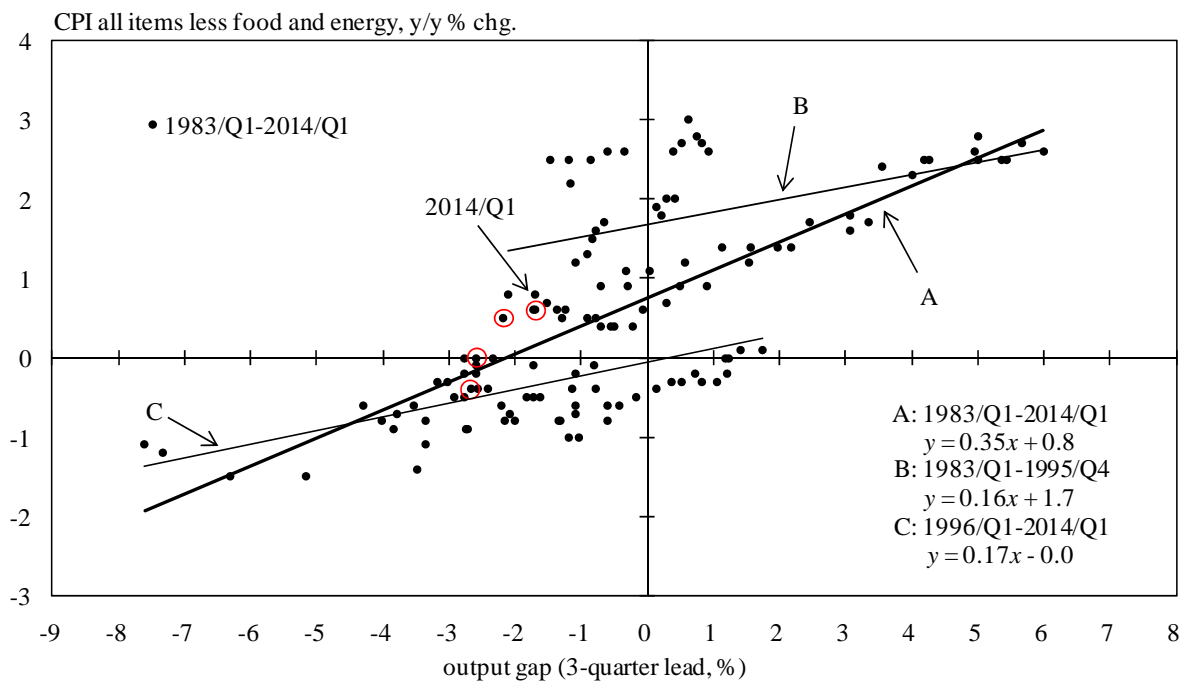


Notes: 1. BEI (break-even inflation) rates are yield spreads between fixed-rate coupon-bearing JGBs and inflation indexed JGBs. Inflation-indexed JGBs issued since October 2013 are designated as "new," while the rest of them are designated as "old." Figures for "longest" are calculated using yield data for the inflation-indexed JGBs that have the longest maturity at each period, which currently correspond to those maturing in June 2018 for "old" and March 2024 for "new."

2. Figures for the ESP Forecast exclude the effects of the consumption tax hikes.

Sources: Bloomberg; Consensus Economics Inc.; JCER.

Phillips Curve



- Notes: 1. The red circled marks are the latest four positions.
 2. Figures for the CPI are adjusted to exclude the effect of changes in the consumption tax rate.
 3. The output gap is estimated by the Research and Statistics Department, Bank of Japan. For the estimation procedures, see "The New Estimates of Output Gap and Potential Growth Rate," Bank of Japan Review Series, 2006-E-3.
 4. The number of lags is chosen so that the cross-correlation between the output gap and the CPI is maximized.
- Sources: Ministry of Internal Affairs and Communications; Cabinet Office; Bank of Japan, etc.