

Japan's Economy: Achieving 2 Percent Inflation

*Speech at a Meeting Held by the Naigai Josei Chosa Kai
(Research Institute of Japan) in Tokyo*

August 1, 2014

Haruhiko Kuroda
Governor of the Bank of Japan

Chart 1

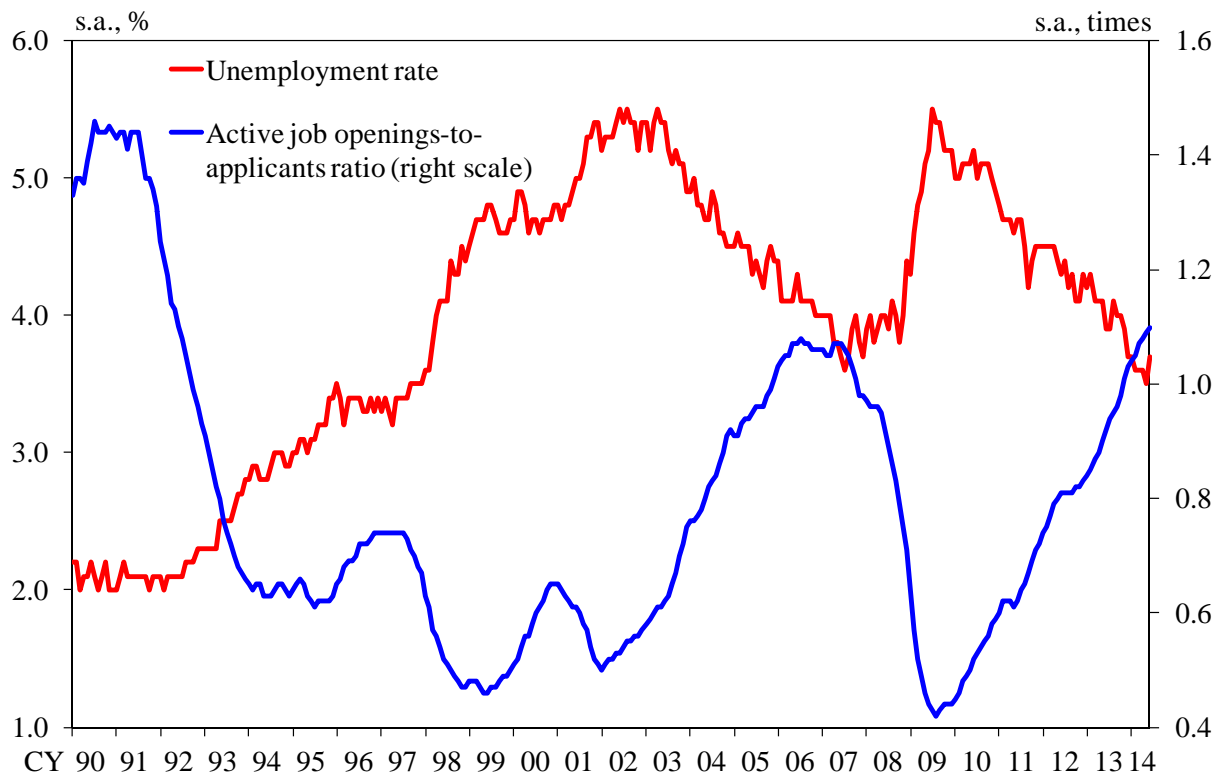
Outlook for Economic Activity and Prices (as of July 2014)

y/y % chg.

	Real GDP	CPI (all items less fresh food)	Excluding the effects of the consumption tax hikes
Fiscal 2014	+1.0	+3.3	+1.3
Forecasts made in April 2014	+1.1	+3.3	+1.3
Fiscal 2015	+1.5	+2.6	+1.9
Forecasts made in April 2014	+1.5	+2.6	+1.9
Fiscal 2016	+1.3	+2.8	+2.1
Forecasts made in April 2014	+1.3	+2.8	+2.1

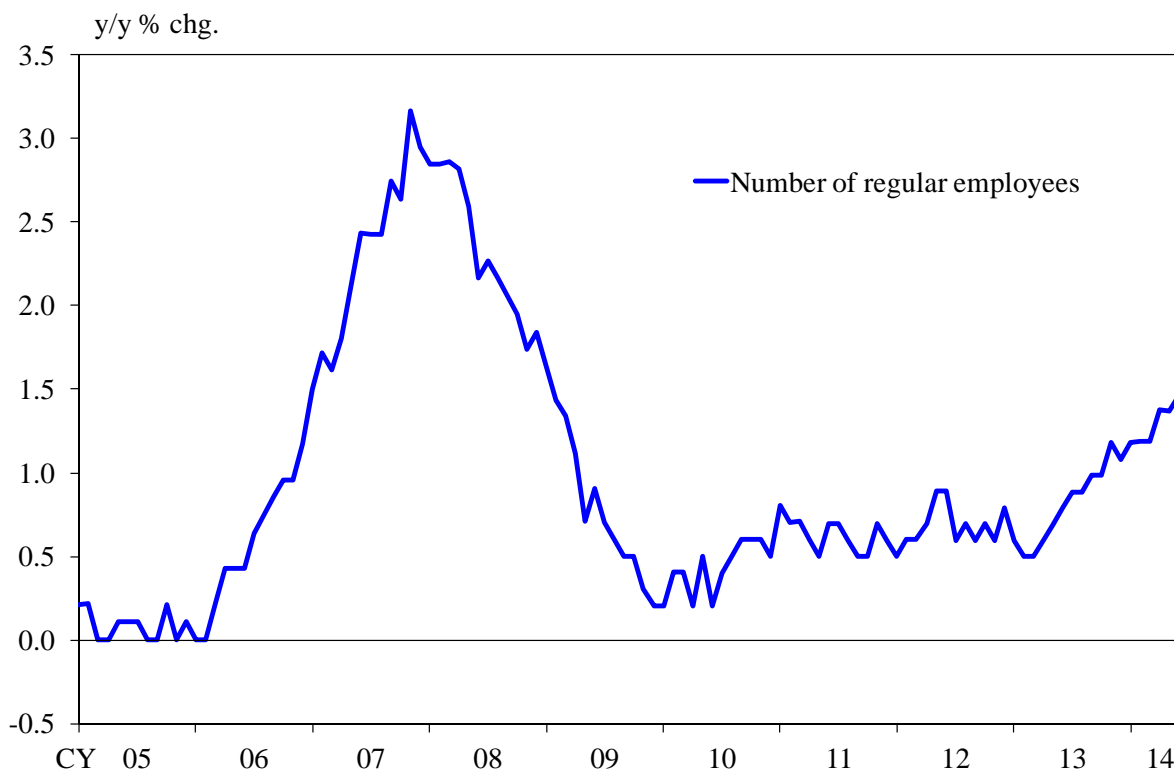
Note: Figures indicate the median of the Policy Board members' forecasts (point estimates).
Source: Bank of Japan.

Labor Supply and Demand (1)



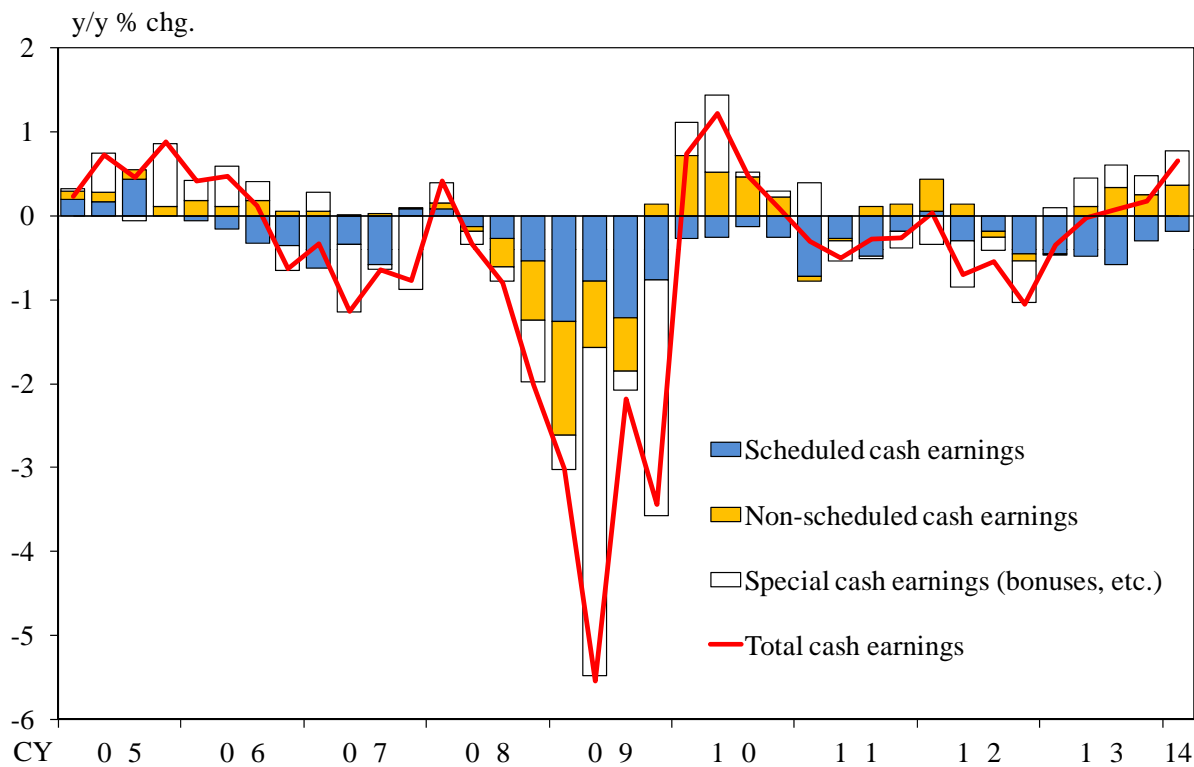
Sources: Ministry of Health, Labour and Welfare; Ministry of Internal Affairs and Communications.

Labor Supply and Demand (2)



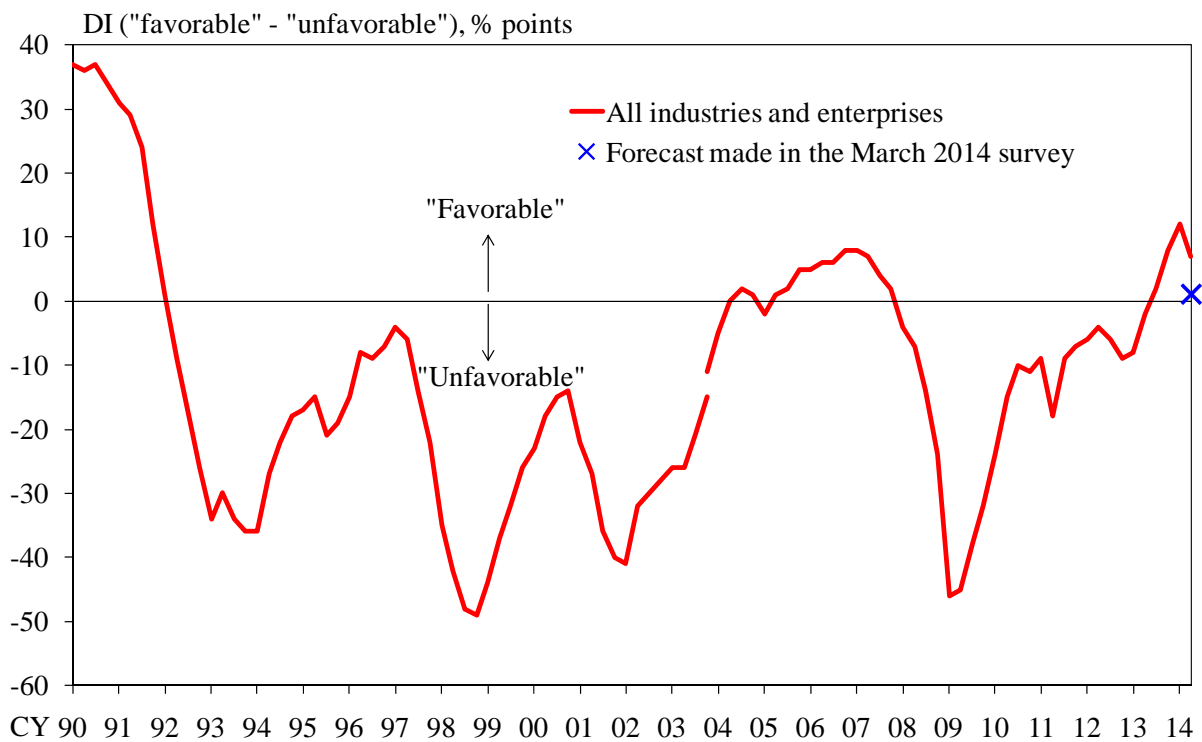
Source: Ministry of Health, Labour and Welfare.

Cash Earnings



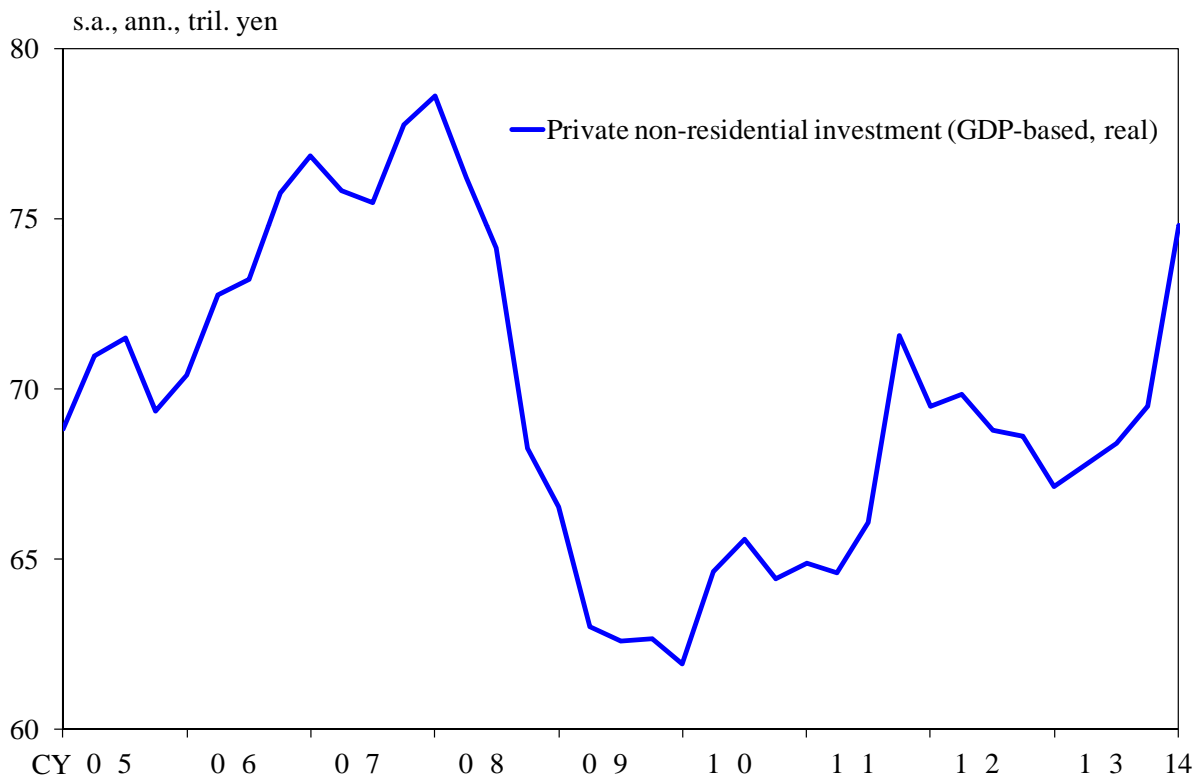
Note: Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February.
 Source: Ministry of Health, Labour and Welfare.

Tankan: DI for Business Conditions



Source: Bank of Japan.

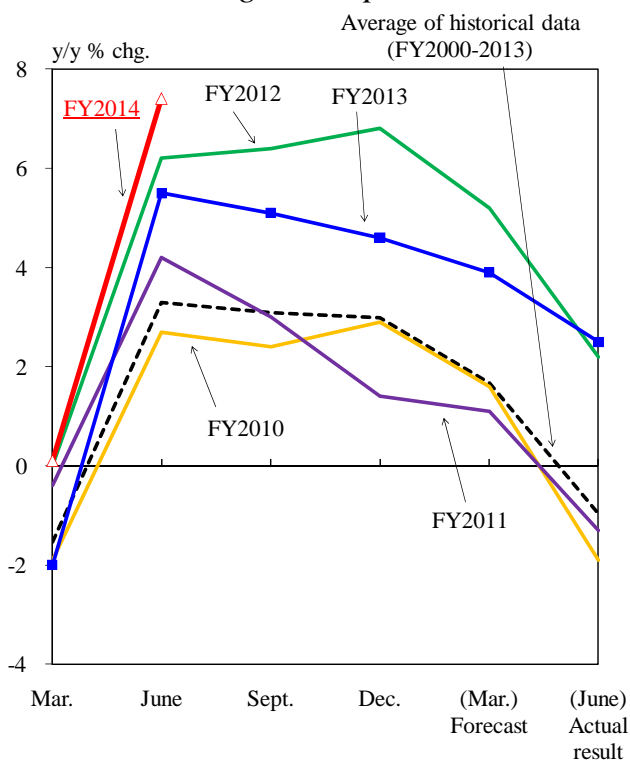
Business Fixed Investment



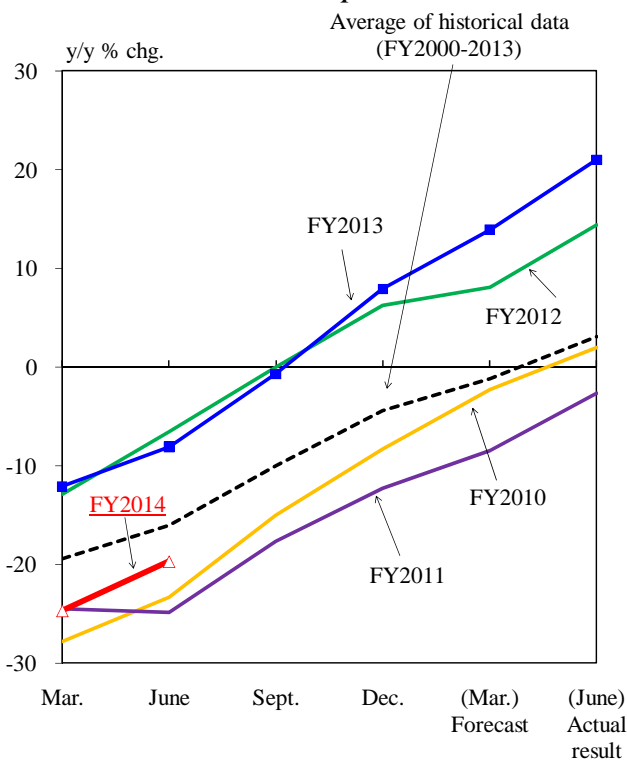
Source: Cabinet Office.

Tankan: Business Fixed Investment Plans

Large Enterprises

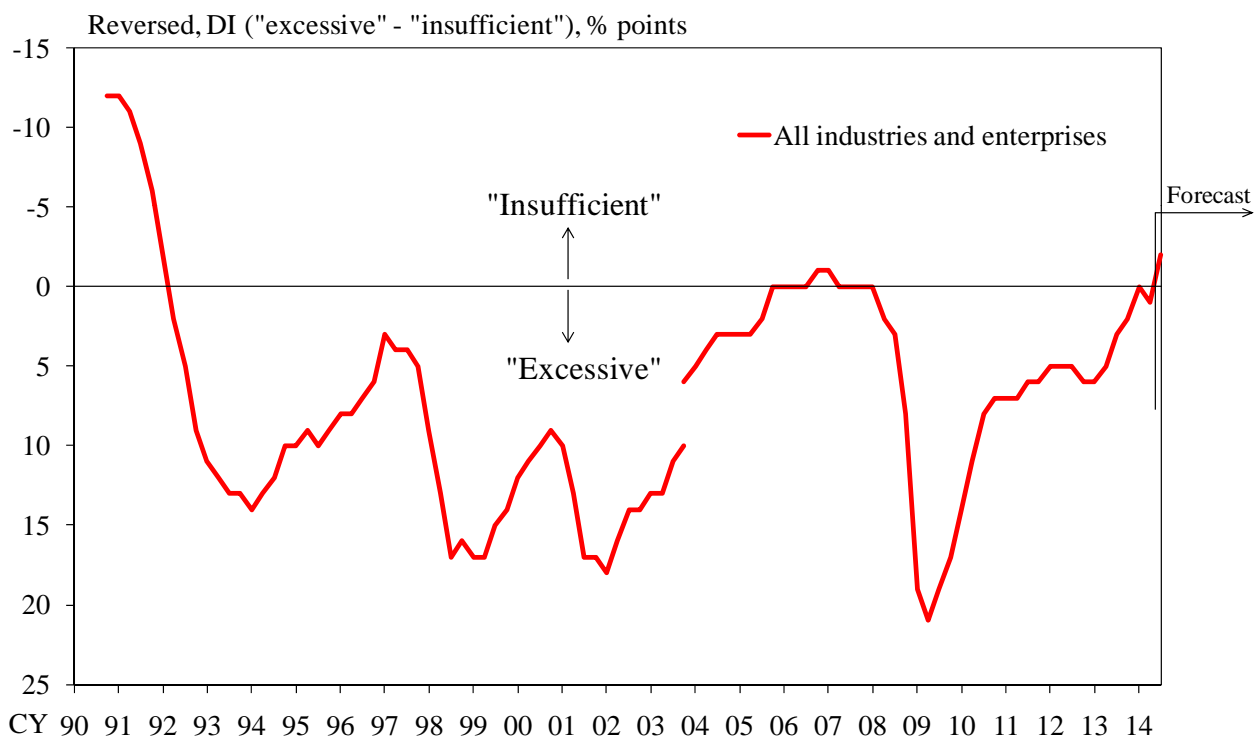


Small Enterprises



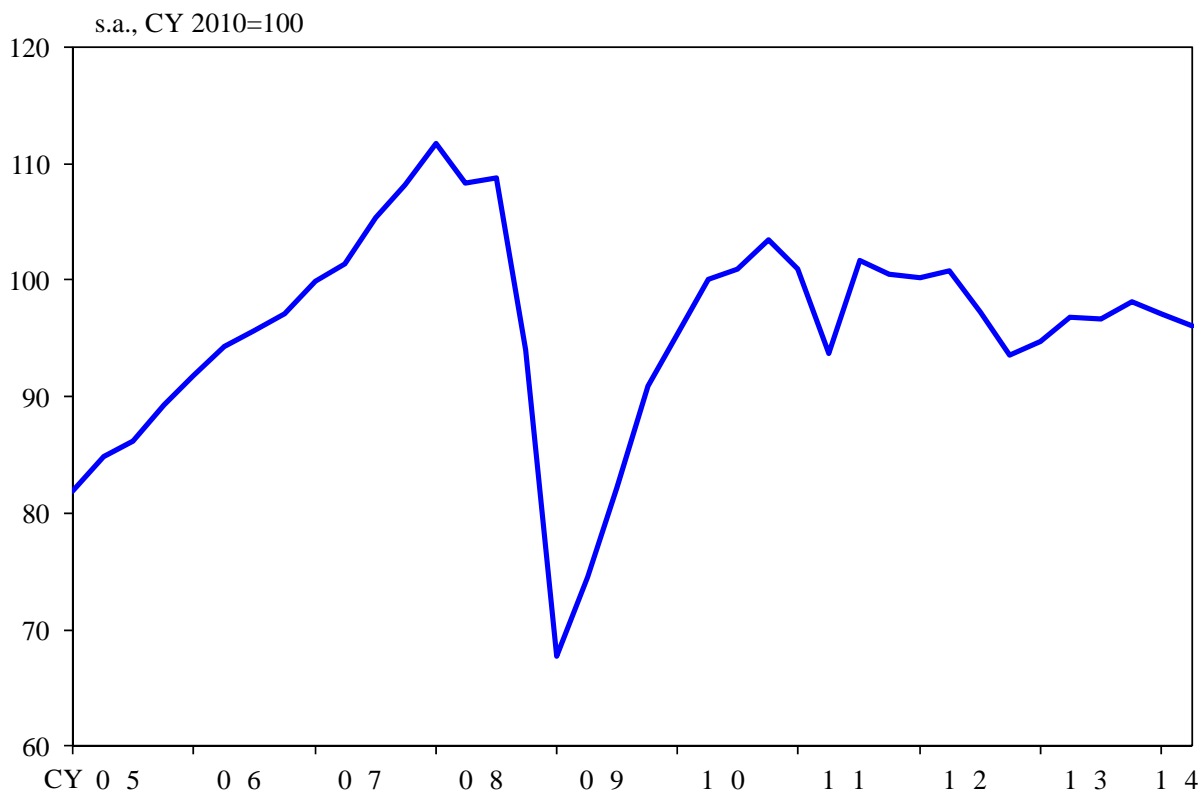
Note: Figures include land purchasing expenses but exclude software investment.
Source: Bank of Japan.

Tankan: DI for Production Capacity



Source: Bank of Japan.

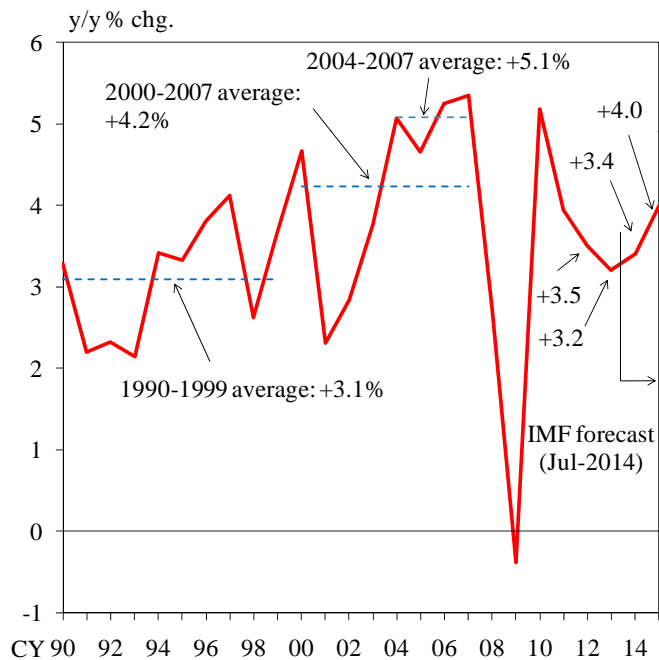
Real Exports



Sources: Ministry of Finance; Bank of Japan.

World Economy

Real GDP Growth Rate

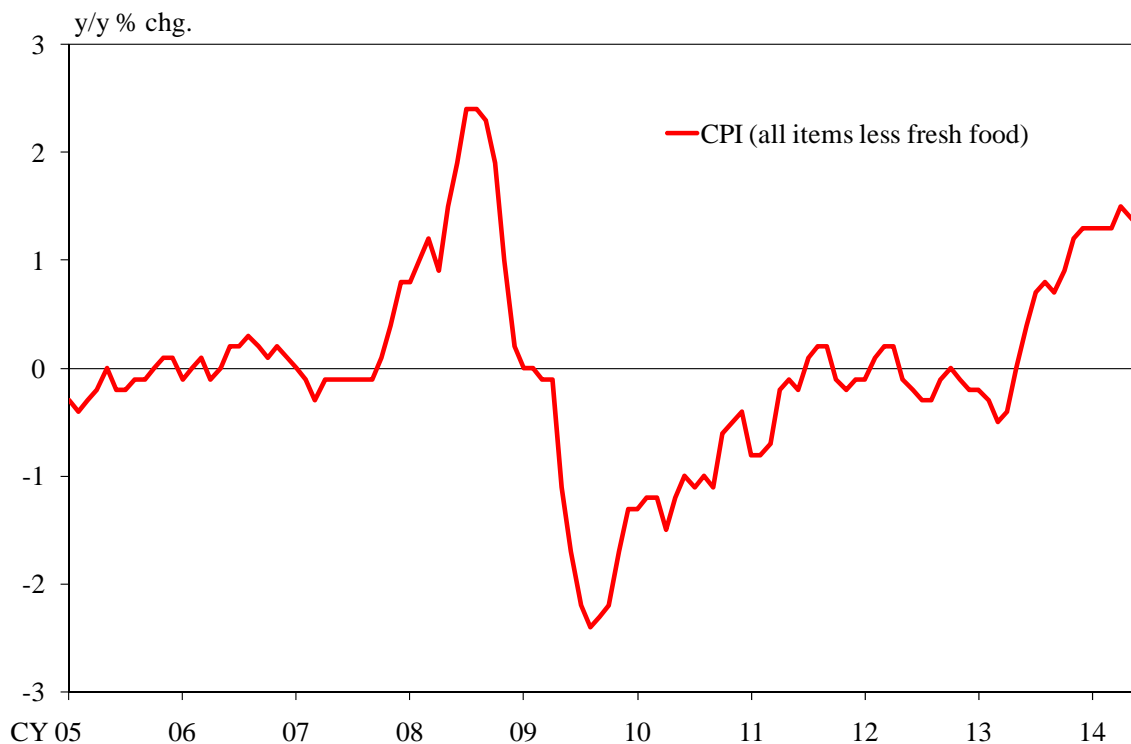


Projections for Major Economies

	2012	2013	Projections	
			2014	2015
World	3.5	3.2	3.4 (-0.3)	4.0 (0.0)
Advanced Economies	1.4	1.3	1.8 (-0.4)	2.4 (0.1)
United States	2.8	1.9	1.7 (-1.1)	3.0 (0.1)
Euro Area	-0.7	-0.4	1.1 (0.0)	1.5 (0.1)
Japan	1.4	1.5	1.6 (0.3)	1.1 (0.1)
Emerging Market and Developing Economies	5.1	4.7	4.6 (-0.2)	5.2 (-0.1)
Developing Asia	6.7	6.6	6.4 (-0.2)	6.7 (-0.1)
China	7.7	7.7	7.4 (-0.2)	7.1 (-0.2)
ASEAN	6.2	5.2	4.6 (-0.4)	5.6 (0.2)
Latin America and the Caribbean	2.9	2.6	2.0 (-0.5)	2.6 (-0.3)

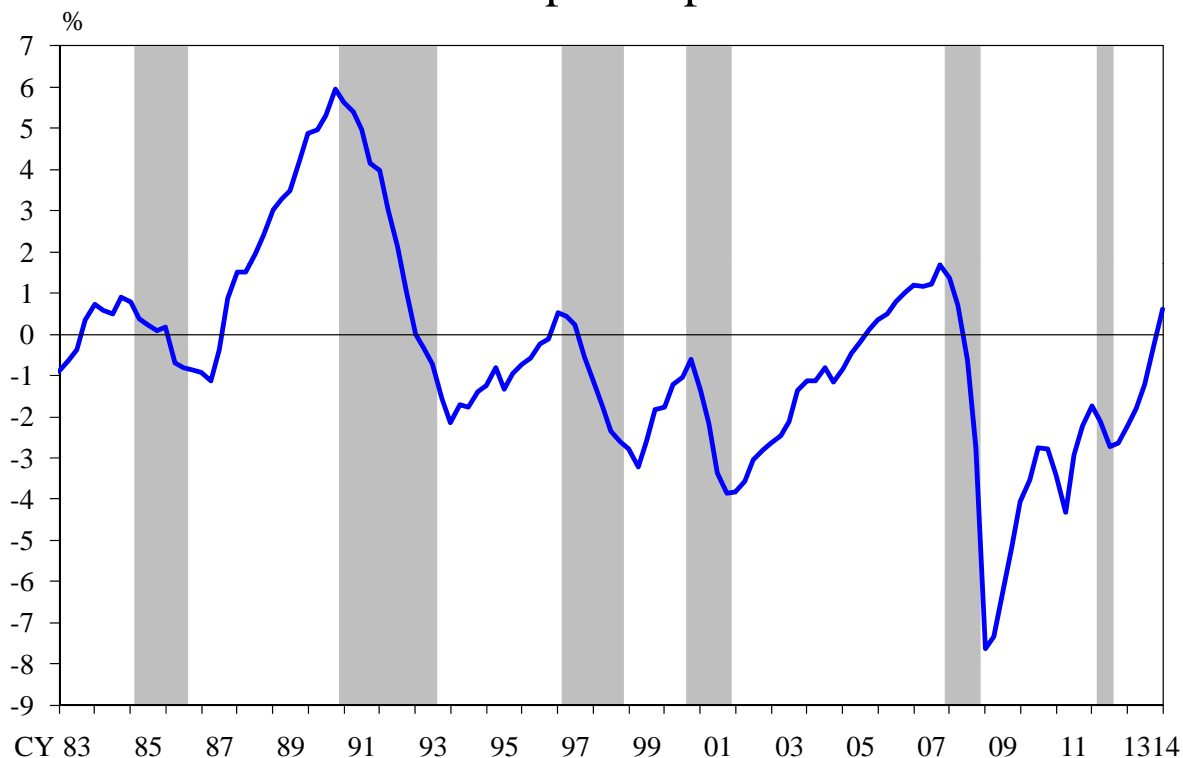
Note: Figures in parentheses are the difference from the April 2014 WEO.
Source: IMF

Consumer Prices



Note: Figures from April 2014 onward are calculated to adjust the direct effects of the consumption tax hike.
Source: Ministry of Internal Affairs and Communications.

Output Gap



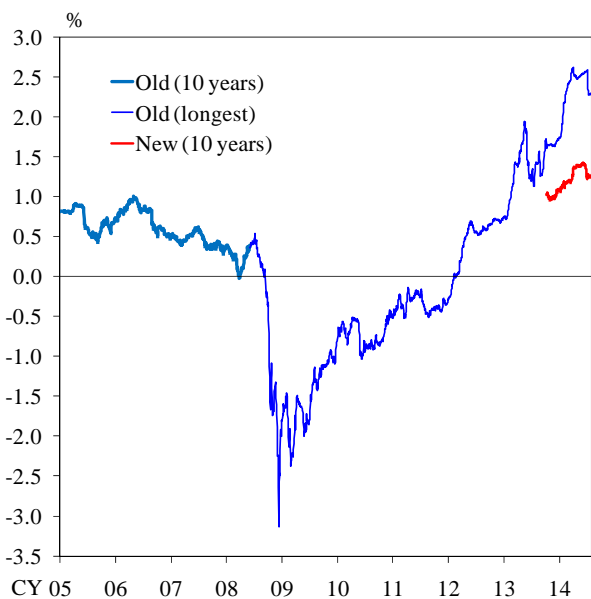
Notes: 1. The output gap is estimated by the Research and Statistics Department, Bank of Japan. For the estimation procedures, see "The New Estimates of Output Gap and Potential Growth Rate," Bank of Japan Review Series, 2006-E-3.

2. Shaded areas indicate recession periods.

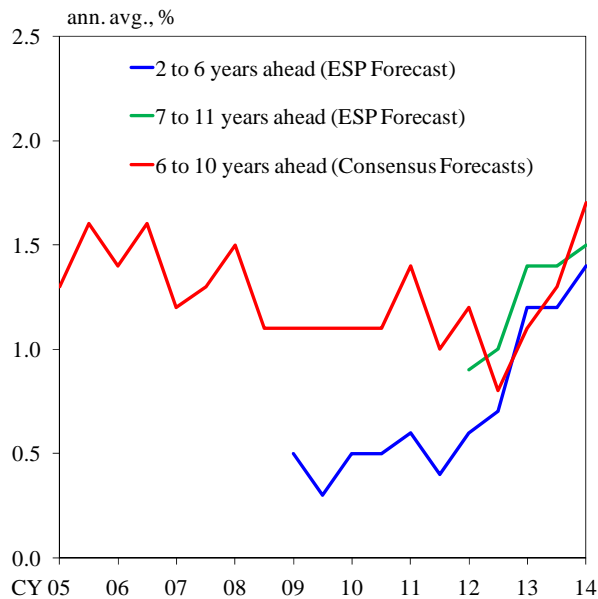
Sources: Cabinet Office; Bank of Japan, etc.

Inflation Expectations

Market Participants
(BEI for Inflation-Indexed JGBs)



Economists

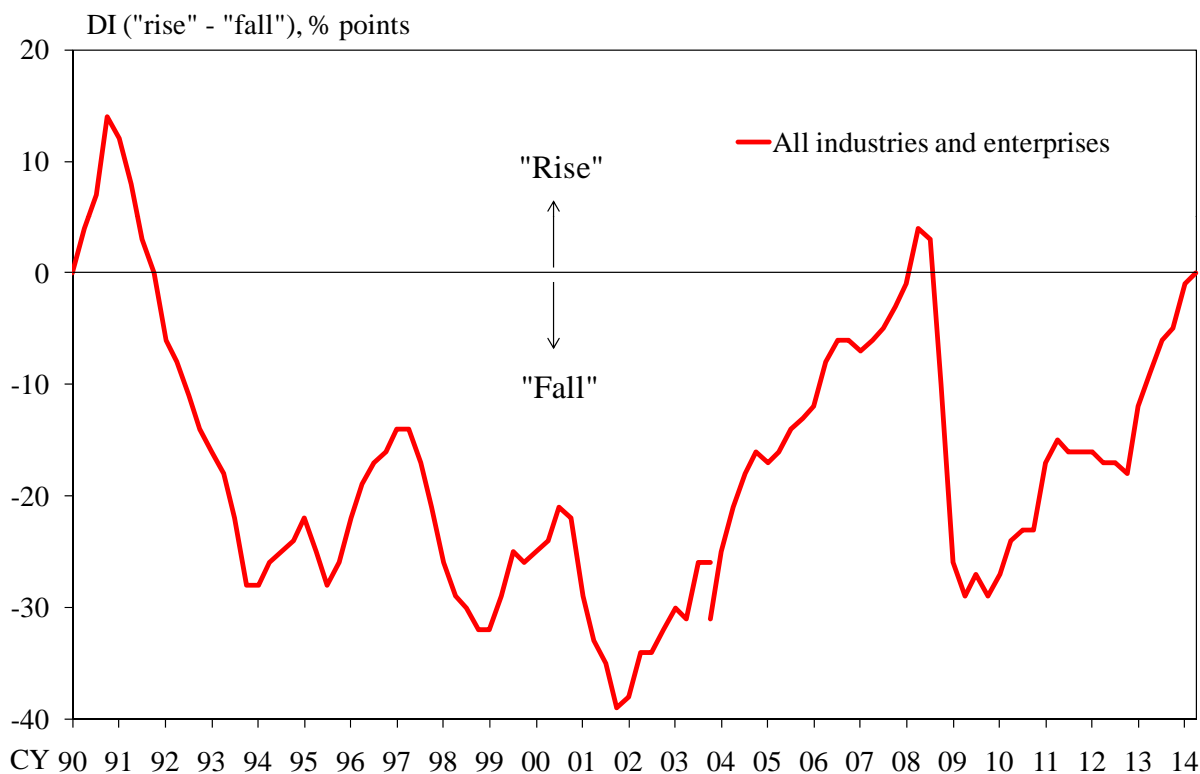


Notes: 1. BEI (break-even inflation) rates are yield spreads between fixed-rate coupon-bearing JGBs and inflation-indexed JGBs. Inflation-indexed JGBs issued since October 2013 are designated as "new," while the rest are designated as "old." Figures for "old (longest)" are calculated using yield data for issue No.16 of the inflation-indexed JGBs, which matures in June 2018.

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

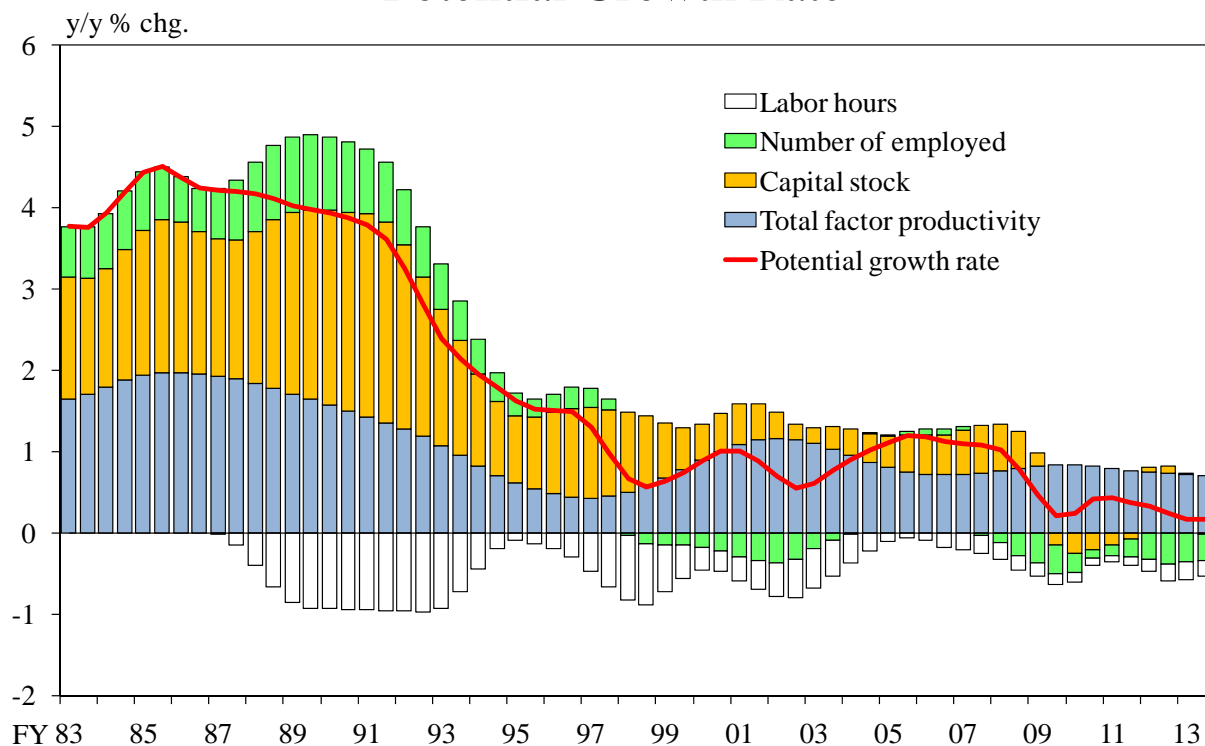
Sources: Bloomberg; Consensus Economics Inc.; JCER.

Tankan: DI for Change in Output Prices



Source: Bank of Japan.

Potential Growth Rate



Note: The potential growth rate 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. Figures for the second half of fiscal 2013 are those of 2013/Q4.

Sources: Cabinet Office; Bank of Japan; Ministry of Internal Affairs and Communications; Ministry of Health, Labour and Welfare; Ministry of Economy, Trade and Industry, etc.