

Welcome to the "2 Percent" Club

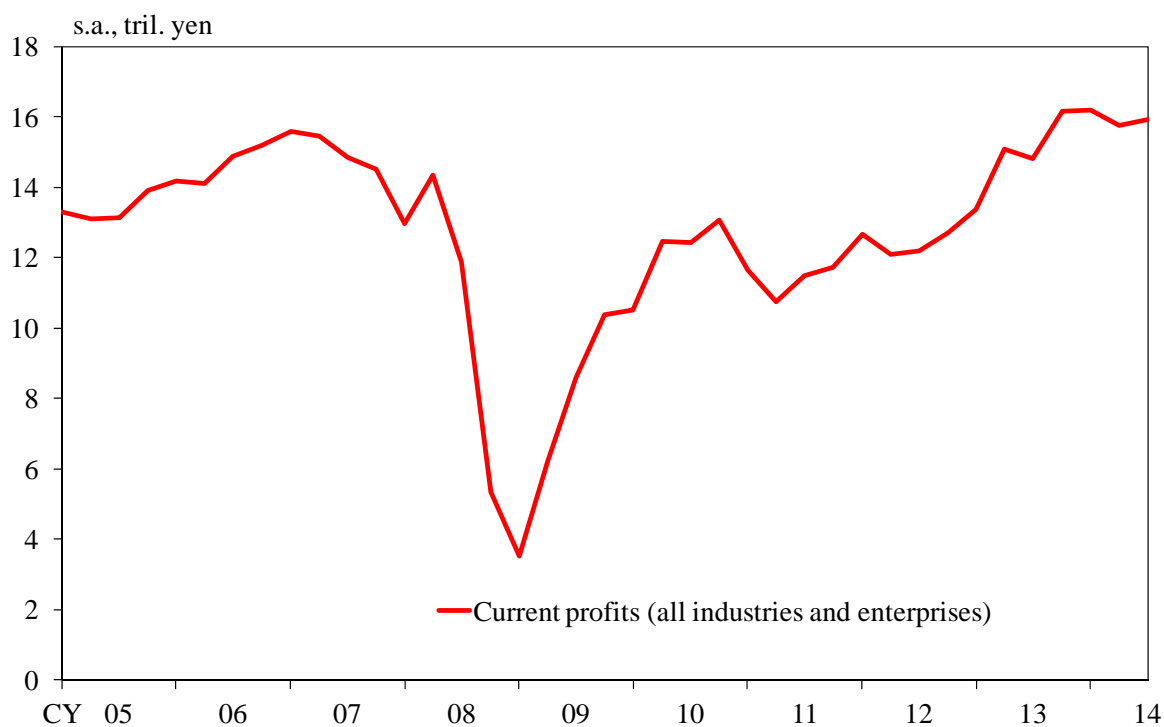
*Speech at the Meeting of Councillors of Nippon Keidanren
(Japan Business Federation) in Tokyo*

December 25, 2014

Haruhiko Kuroda
Governor of the Bank of Japan

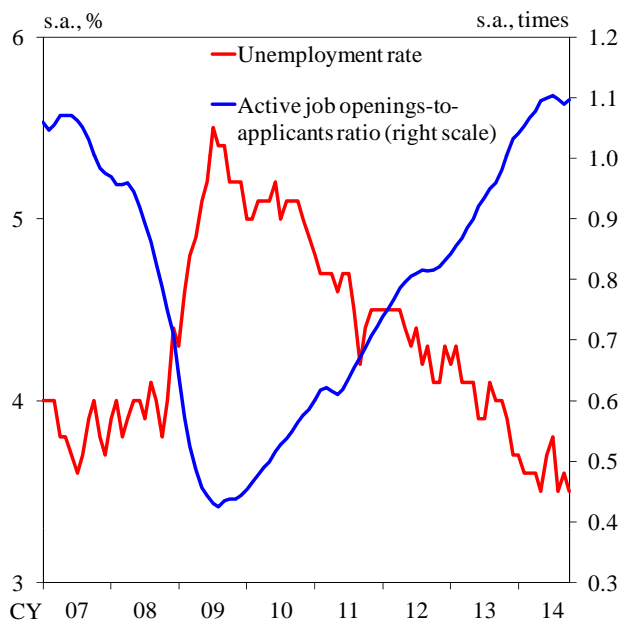
Chart 1

Corporate Profits

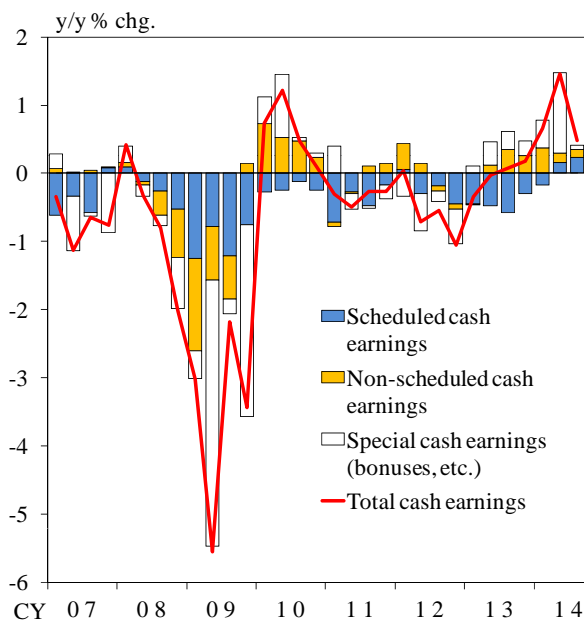


Employment and Income Situation

Labor Market Conditions



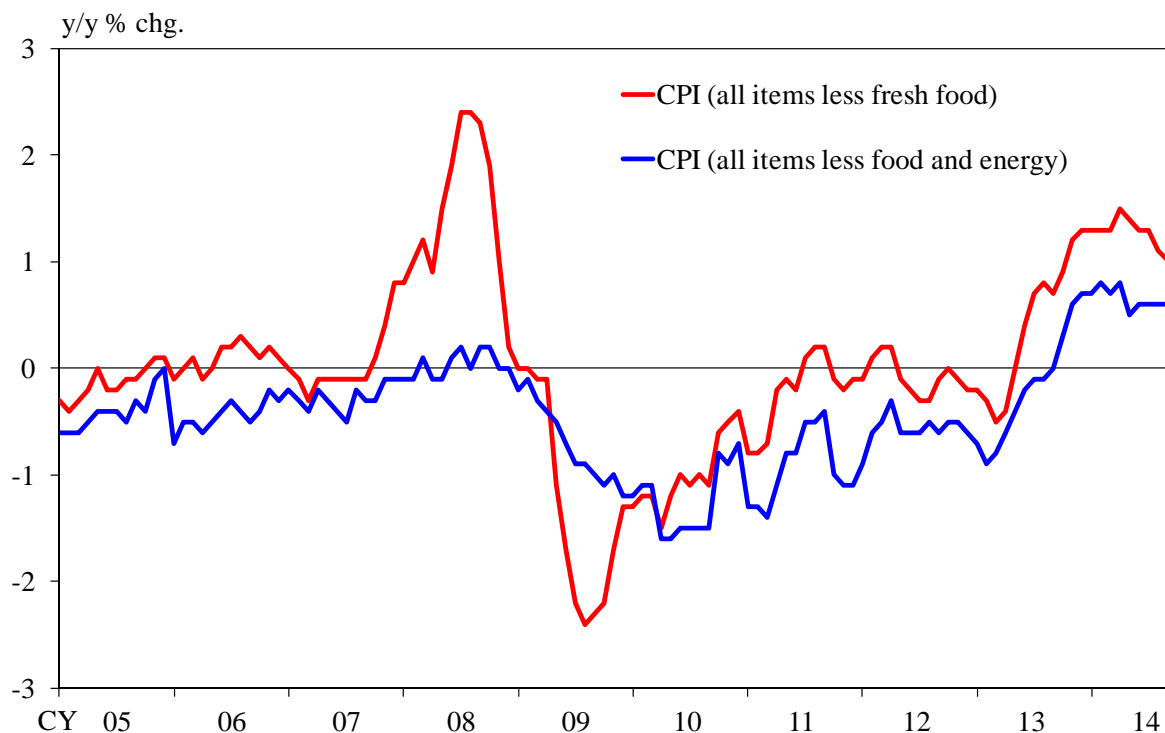
Cash Earnings



Note: The followings apply to cash earnings: Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February. Figures for 2014/Q3 are those of September-October averages.

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

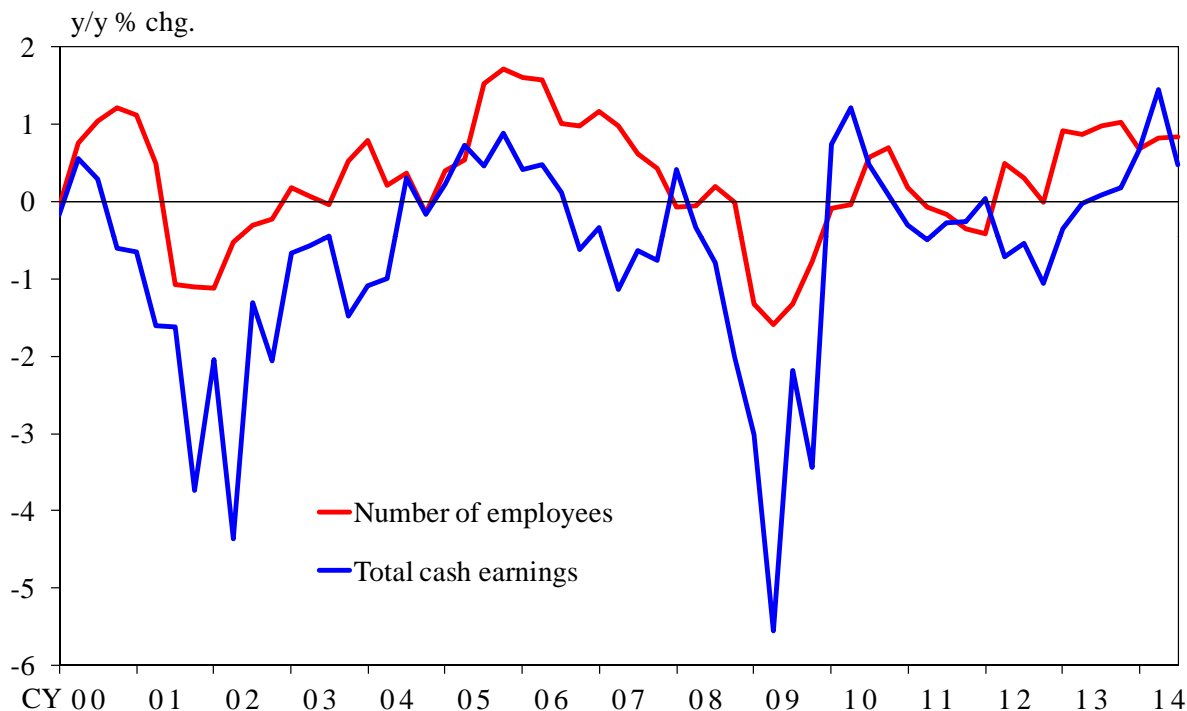
Consumer Prices



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.

Employment and Wages



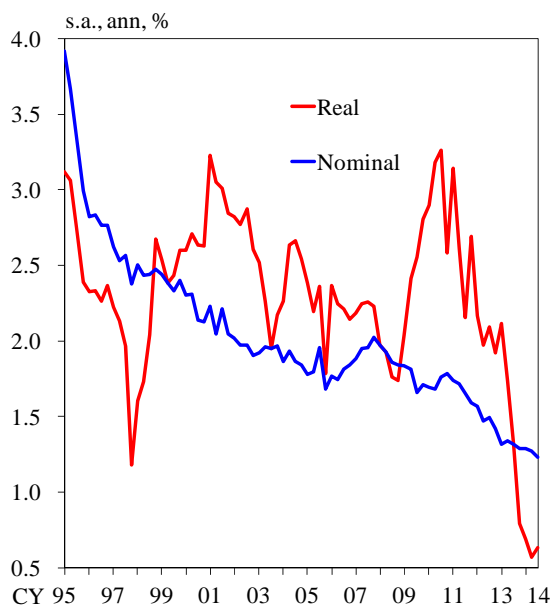
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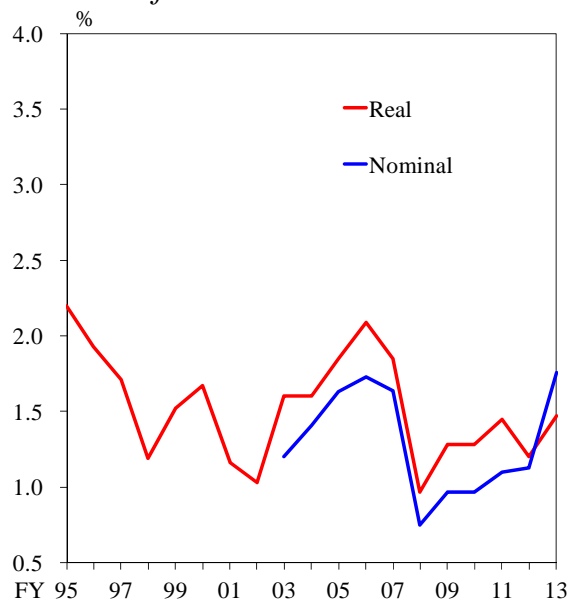
Sources: Ministry of Health, Labour and Welfare; Ministry of Internal Affairs and Communications.

Firms' Funding Costs and Growth Expectations

Interest Rates for Firms' Funding



Expected Growth Rates for the Next 5 Years



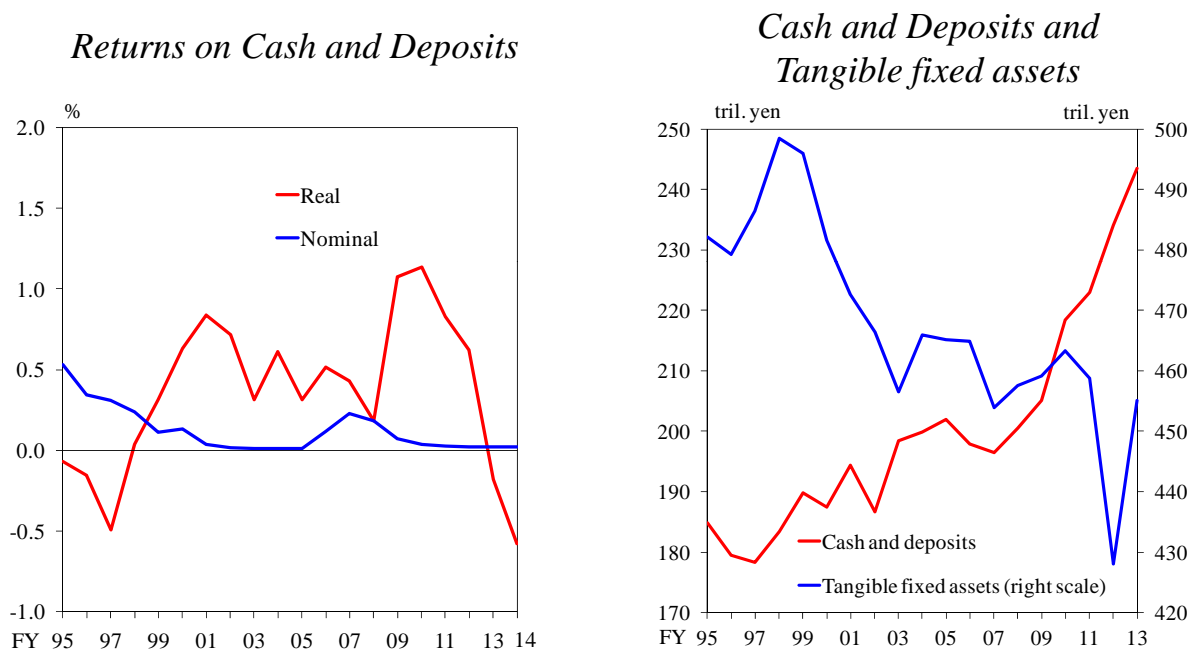
Notes: 1. Nominal interest rate = interest expense / interest-bearing debt. Interest-bearing debt is the sum of long- and short-term borrowings, corporate bonds, and bills receivable discounted outstanding.

2. Figures for the real interest rate are calculated by subtracting the year-on-year rate of change in the CPI (all items less food and energy), adjusting the direct effects of the consumption tax hike, from the nominal interest rate.

3. Expected growth rates are taken from "Annual Survey of Corporate Behavior."

Sources: Ministry of Finance; Ministry of Internal Affairs and Communications; Cabinet Office.

Cash Hoarding by the Corporate Sector



Notes: 1. Nominal returns on cash and deposits are the weighted averages of interest rates on deposits (that on cash is regarded as zero) by amounts outstanding of cash and deposits of nonfinancial corporations in the "Flow of Funds." Figures for real returns are calculated by subtracting the year-on-year rate of change in the CPI (all items less food and energy), adjusting the direct effects of the consumption tax hike, from nominal returns. Returns for fiscal 2014 are calculated using data for the April-September period.

2. Figures for the amount outstanding of cash and deposits are based on nonfinancial corporations in the "Flow of Funds." Figures for tangible fixed assets are based on all industries and enterprises excluding finance and insurance in the "Financial Statements Statistics of Corporations by Industry, Annually."

Sources: Bank of Japan; Ministry of Finance.

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Price Stability in Various Economies

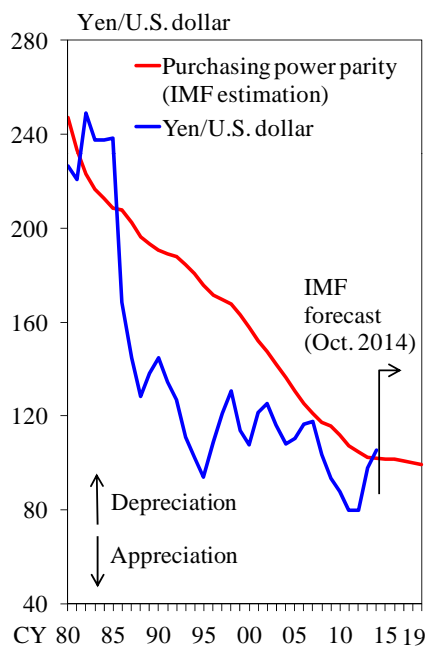
Country/Region	Expression	Reference Indicator	Numerical Definition
Japan	Price stability target	CPI (all items)	2%
United States	Longer-run goal	PCE inflation (all items)	2%
Euro area	Quantitative definition	HICP (all items)	Below, but close to, 2%
United Kingdom	Target	CPI (all items)	2%
Canada	Target	CPI (all items)	2% (midpoint of 1-3%)
Australia	Target	CPI (all items)	2-3%
New Zealand	Target	CPI (all items)	Near 2% (midpoint of 1-3%)
Sweden	Target	CPI (all items)	2%
Switzerland	Definition	CPI (all items)	Less than 2%

Note: "PCE" stands for Personal Consumption Expenditures, and "HICP" stands for Harmonized Index of Consumer Prices.

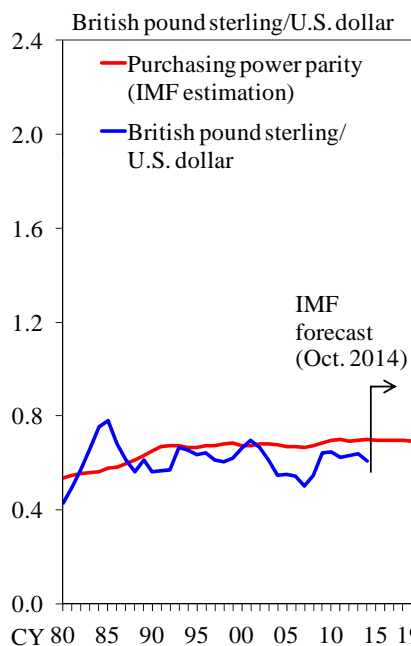
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Foreign Exchange Rates and Purchasing Power Parity

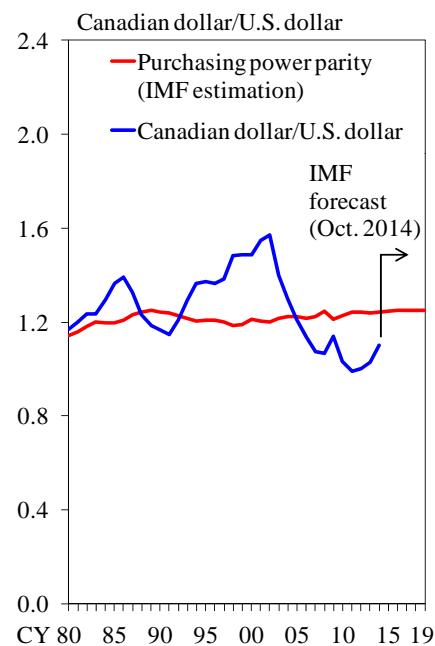
Japan



United Kingdom



Canada



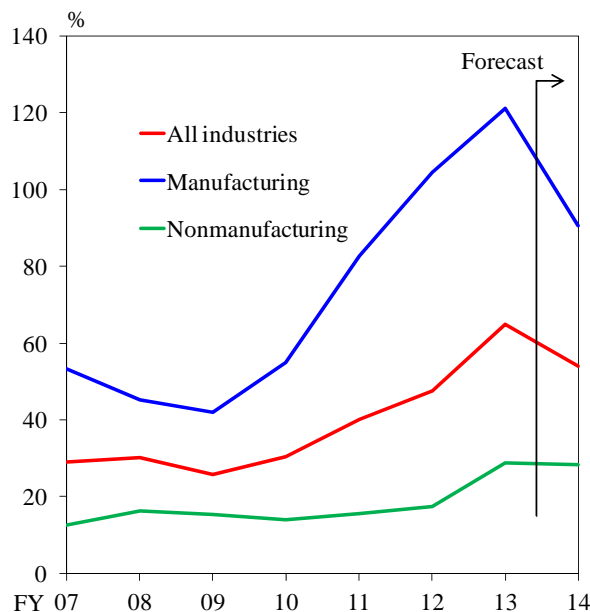
Sources: IMF; Bloomberg.

Business Fixed Investment

Tankan: Business Fixed Investment Plans

		y/y % chg.	
		FY2013	FY2014 (Forecast)
Large Enterprises	Manufacturing	- 0.8	+ 12.2
	Nonmanufacturing	+ 4.4	+ 6.3
	All industries	+ 2.6	+ 8.3
Small Enterprises	Manufacturing	+ 17.1	+ 10.2
	Nonmanufacturing	+ 19.6	- 6.5
	All industries	+ 18.7	- 0.9
All Enterprises	Manufacturing	+ 1.1	+ 12.9
	Nonmanufacturing	+ 7.7	+ 3.2
	All industries	+ 5.3	+ 6.5

Overseas/Domestic Ratio



Notes: 1. Figures for business fixed investment plans of the *Tankan* include software investment but exclude land purchasing expenses.
 2. Figures for overseas/domestic ratio are the ratio of overseas business fixed investment on a consolidated basis to domestic business fixed investment on a non-consolidated base.

Sources: Bank of Japan; Development Bank of Japan.

Expansion of the Quantitative and Qualitative Monetary Easing

Accelerating the annual pace of increase in the monetary base
from about 60-70 trillion yen to

" 80 trillion yen "

Increasing the Bank's JGB holdings at an annual pace of
about **80 trillion yen**:

" + 30 trillion yen "

Extending the average remaining maturity of JGB purchases
to **about 7-10 years**:

" + 3 years "

Accelerating the pace of purchases of ETFs and J-REITs:

" Tripled "



- Pre-empt manifestation of a risk that conversion of deflationary mindset, which has so far been progressing steadily, might be delayed
- Maintain the improving **momentum of expectation formation**