

Statement by KURODA Haruhiko, Governor of the Bank of Japan, concerning the Bank's *Semiannual Report on Currency and Monetary Control* before the Committee on Financial Affairs, House of Representatives, on March 5, 2021

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 present an overall review of 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 picked up as a trend, although it has remained in a severe situation due to the impact of the novel coronavirus (COVID-19). Exports and production have continued to increase, mainly on the back of a pick-up in overseas economies. Business fixed investment has stopped declining on the whole with machinery investment picking up due to increases in exports and production. On the other hand, due to the impact of COVID-19, downward pressure has increased on private consumption of services, such as eating and drinking as well as accommodations. With regard to the outlook, Japan's economy, with the impact of COVID-19 waning gradually, is likely to follow an improving trend, supported by a recovery in external demand, accommodative financial conditions, and the government's economic measures. However, the pace of improvement is expected to be only moderate while vigilance against COVID-19 continues.

As for prices, the year-on-year rate of change in the consumer price index (CPI) is likely to be negative for the time being, mainly affected by COVID-19 and the past decline in crude oil prices. Thereafter, it is expected to turn positive and then increase gradually along with the effects of such factors as the decline in crude oil prices dissipating and the economy improving.

Risks to both economic activity and prices are skewed to the downside. Although the start of the vaccination rollout is an encouraging step, the consequences of COVID-19 and their impact on domestic and overseas economies entail extremely high uncertainties and thus warrant continued attention. In addition, it is likely that growth expectations will not decline substantially and financial system stability will be maintained, but this outlook also entails uncertainties. Regarding financial risks from a longer-term perspective, there is a possibility that prolonged downward pressure on financial institutions' profits may lead to a gradual pullback in financial intermediation. Meanwhile, the vulnerability of the financial system could increase, mainly due to the search for yield behavior. Therefore, 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.

The Bank has been conducting the following three measures in response to COVID-19: (1) the Special Program to Support Financing in Response to the Novel Coronavirus (COVID-19); (2) an ample and flexible provision of yen and foreign currency funds; and (3) active purchases of assets such as exchange-traded funds (ETFs). These responses have had positive effects in supporting the economy, mainly by maintaining accommodative funding environment. The Bank decided at the end of last year to extend the duration of the Special Program until the end of this September, thereby continuing to provide financing support. It also will consider a further extension as necessary. The Bank will continue to closely monitor the impact of COVID-19 and will not hesitate to take additional easing measures if necessary.

Economic activity and prices are projected to remain under downward pressure for a prolonged period due to the impact of COVID-19. Given this situation, the Bank decided to conduct an assessment for further effective and sustainable monetary easing, with a view to supporting the economy and thereby achieving the price stability target of 2 percent. In doing so, since the framework of Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control has been working well to date, the Bank judges that there is no need to change it. Under this framework, it will assess the operation of yield curve control and

various measures such as asset purchases. The findings of the assessment will be made public, likely at the Monetary Policy Meeting to be held this month. The Bank will continue to conduct monetary policy appropriately while taking into account the findings of the assessment.

Thank you.