March 1, 2023
Bank of Japan

Economic Activity, Prices, and Monetary Policy in Japan

Speech at a Meeting with Local Leaders in Fukushima

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(English translation based on the Japanese original)

I. Current Situation of Economic Activity and Prices

A. Economic Developments Abroad

I would like to begin my speech by talking about the current situation of overseas economies.

The pace of recovery in overseas economies has slowed as the effects of rapid policy interest rate hikes that have been carried out by central banks since 2022 have gradually started to weigh on the real economy. In its January 2023 *World Economic Outlook* (WEO) *Update*, the International Monetary Fund (IMF) projected that the global economic growth rate would slow from an estimated 3.4 percent in 2022 to 2.9 percent in 2023. An indicator measuring business sentiment has stayed below 50, the break-even point between improvement and deterioration (Chart 1).

Let me take a look at developments in overseas economies by major region. In the United States, private consumption and the employment situation have been firm. However, a marked impact of policy interest rate hikes has been seen in housing investment, as evidenced by, for example, a decline in the number of housing starts. Production has remained more or less flat. In Europe, as the resumption of economic activity from the COVID-19 pandemic has run its course, signs of slowdowns are becoming clearer due to strong inflationary pressure stemming from the continued effects of the situation in Ukraine. In China, although private consumption and production have been weak, due in part to the surge in the number of COVID-19 cases at the end of 2022, there have been moves toward normalization of economic activity recently. Albeit with variation across countries and regions, as outlined earlier, signs of slowdowns in overseas economies are becoming clearer on the whole.

B. Economic Developments in Japan

Turning to the current situation of Japan's economy, the overall picture shows that it has picked up, particularly in terms of business fixed investment and private consumption, as the resumption of economic activity has progressed while public health has been protected from COVID-19. I would like to describe Japan's economic situation from two aspects: the corporate sector and the household sector.

1. Corporate sector

Let me start with the corporate sector.

Corporate profits have been at high levels on the whole, mainly reflecting the easing of supply-side constraints, although current profits for the July-September quarter of 2022 declined slightly from the previous quarter (Chart 2). Business sentiment is more or less unchanged on the whole. The Bank of Japan's December 2022 *Tankan* (Short-Term Economic Survey of Enterprises in Japan) showed that sentiment for nonmanufacturing has improved, mainly for private consumption-related industries such as eating and drinking services, accommodations, and retail. However, sentiment for manufacturing has been more or less flat due to the effects of high raw material costs and production adjustments for IT-related goods.

With corporate profits being at high levels, business fixed investment has continued to increase moderately. There is a view that this increase has been driven mainly by digital- and labor saving-related investments, investment intended for construction of logistics facilities on the back of an expansion in e-commerce, and investment related to urban redevelopment projects.

Production and exports have also continued on their uptrend, albeit with fluctuations, with the waning of supply-side constraints (Chart 3). Looking at industrial production by industry, that of transport equipment has returned to a moderate uptrend, as the effects of the global semiconductor shortage have gradually eased. Production of "electrical machinery, and information and communication electronics equipment" has increased for on-board equipment for motor vehicles, as has production of items used for personal computers and peripheral devices, partly due to renewal demand associated with the end of support for some operating systems. On the other hand, electronic parts and devices have been under stronger inventory adjustment pressure, particularly on memory for smartphones and personal computers. With respect to exports, those to advanced economies have increased as a trend, mainly for automobile-related and capital goods. As for exports to emerging economies, on the other hand, those to China as well as the NIEs and the ASEAN economies have been somewhat weak for intermediate and IT-related goods.

2. Household sector

Next, I would like to explain developments in the household sector from the aspects of private consumption and the employment and income situation.

Private consumption has increased moderately, as the resumption of consumption activities has progressed while public health has been protected (Chart 4). Breaking down household consumption by services and goods, services consumption as a whole has increased with a pick-up in travel and dining-out. Specifically, although overseas travel has remained at a low level, domestic travel has increased not only for short but also long distances, partly due to the positive contribution of the government's domestic travel discount program. Dining-out has shown signs of a pick-up from the plunge seen during the pandemic, albeit mainly in terms of small groups (Chart 5). As for goods consumption, that of durable goods has seen the following developments: while sales of new cars have increased on the back of a pick-up in production reflecting the waning of supply-side constraints, sales of household electrical appliances have declined for seasonal items in particular, presumably due in part to relatively higher temperatures in November than in normal years. When fluctuations are smoothed out, consumption of nondurable goods has increased, mainly for clothes, although the effects of high inflation have been seen for food.

The employment and income situation has improved moderately on the whole. Labor market conditions have been considerably tight, with various related indicators being at levels close to those observed prior to the pandemic and during the bubble economy of the late 1980s (Chart 6). Under these circumstances, the number of regular employees has increased moderately, mainly in the medical, healthcare, and welfare services industry as well as the information and communications industry, both of which have faced a severe labor shortage; the number of non-regular employees has also risen moderately, mainly in the medical, healthcare, and welfare services industry as well as the face-to-face services industry (Chart 7). Total employee income has continued to increase in nominal terms due to moderate rises in both the number of employees and total cash earnings per employee.

C. Price Developments in Japan

Next, I would like to talk about price developments in Japan.

Let me first touch on the price trend of goods and services traded within the domestic corporate sector. Reflecting the earlier raw material cost increases, the year-on-year rate of change in the producer price index (PPI), which covers goods prices, has remained high, marking 9.5 percent for January 2023 (Chart 8). That in the services producer price index (SPPI), which covers the price of services within the corporate sector, has also continued to see a moderate rise, although the rise has not been as steep as that of the PPI. Looking at the price indexes that divide demand into four stages of intermediate demand from the upstream to downstream stages of supply chains, the earlier raw material cost increases have continued to be passed on to selling prices at the midstream to downstream stages.

In this situation, the consumer price index (CPI) has continued to reflect a pass-through to selling prices of raw material cost increases. Looking at the most recent data available, the year-on-year rate of change in the CPI for all items excluding fresh food was 4.2 percent for January, in reflection of rises in the price of such items as energy, food, and durable goods (Chart 9). The pass-through of cost increases to prices has been observed for a wide range of goods and services: food, daily necessities, and durable goods for the former, and dining-out for the latter. This holds true even when excluding the effects of (1) items with significant price fluctuations, such as energy, and (2) temporary factors, including the domestic travel discount program.

In what follows, I would like to explain in detail the background to the recent price rises from the viewpoints of a change in firms' price-setting stance and the underlying trend in prices.

1. Firms' price-setting stance

Let me start with firms' price-setting stance. Firms have been increasingly passing on cost increases to selling prices.

According to an analysis based on the results of the Bank's *Tankan* surveys, firms that had not changed prices in the past have begun to change course toward raising prices. The diffusion index (DI) for output prices suggests that a significant number of these firms responded that output prices have changed to a "rise" for the first time in more than three decades (Chart 10).

What lies behind the change in their price-setting stance is the significant rise in raw material costs. Previously, amid the relatively small rise in such costs, many firms did not change prices for fear of losing their customers and barely withstood the increased costs by improving efficiency and reducing expenses. However, even they have been obliged to decide on raising their prices, as a broad range of firms -- including competitors -- have opted for price hikes in reflection of the considerable increase in raw material costs since 2022.

2. Underlying trend in prices

Next, I will explain the underlying trend in the CPI based on various indicators released by the Bank.

First, it can be pointed out that, as firms' price-setting stance has changed, prices have increased for a broad range of items. Of all items covered by the CPI, those for which the price has increased accounted for over 80 percent, whereas those for which the price has declined accounted for around 10 percent, both on a year-on-year basis as of January 2023 (Chart 11). Even compared with around 2008, when the CPI rose triggered by higher import prices of crude oil and other items, price hikes have spread across a wider range of items.

Let us also look at other indicators that take into consideration the price change distribution. In terms of both the trimmed mean -- calculated by excluding items that belong to the upper and lower 10 percent of the price change distribution -- and the mode -- which is the inflation rate with the highest density in the distribution -- the year-on-year rates of change in the CPI have increased to around 3 percent and around 1.5 percent, respectively (Chart 11). However, those increases have fallen short of a 4.3 percent rise in the headline CPI. One thing that is clear from those indicators is that, even though the pass-through of cost increases has been spreading to a wider range of items, the overall CPI has been significantly pushed up by a small group of items such as energy. As will be touched on again later when I explain the outlook for prices, the contribution made by items that have led CPI inflation is likely to become markedly smaller as the rise in import prices subsides. Consequently, the overall CPI inflation rate is expected to decelerate. While using the indicators that I just explained, the Bank will continue to examine the underlying trend in prices.

II. Outlook for and Risks to Economic Activity and Prices

A. Outlook

Next, I would like to turn to the outlook for Japan's economic activity and prices.

Japan's economy is likely to continue recovering with the impact of COVID-19 and supply-side constraints waning, although it is expected to be affected by slowdowns in overseas economies and high commodity prices. From a medium- to long-term perspective, the economy is projected to continue growing at a pace above its potential as a virtuous cycle from income to spending intensifies gradually.

As presented in the *Outlook for Economic Activity and Prices* (Outlook Report) decided by the Bank at the January 2023 Monetary Policy Meeting (MPM), the medians of the Policy Board members' forecasts for real GDP growth rates are 1.7 percent for FY2023 and 1.1 percent for FY2024 (Chart 12).

The rate of increase in consumer prices is expected to decelerate noticeably for the time being, given that (1) the contribution from higher import prices, which have been pushing up overall inflation thus far, is likely to dissipate, due in part to a decline in commodity prices, and (2) the government's economic measures to contain inflation will take effect. Under these circumstances, the medians of the Policy Board members' forecasts for the year-on-year rate of change in the CPI for all items excluding food are 1.6 percent for FY2023 and 1.8 percent for FY2024, down from the forecast of 3.0 percent for FY2022 (Chart 12).

B. Risks

The outlook for economic activity and prices that I just mentioned entails a range of uncertainties. In what follows, I will describe the risks that I am paying particular attention to.

First is developments in overseas economic activity and prices, and in global financial and capital markets. Central banks have made rapid policy interest rate hikes since 2022 in order to combat strong inflationary pressure. Owing in part to the effects of these rate hikes, global inflationary pressure has started to show signs of easing. The Bank's baseline scenario assumes that the pace of monetary tightening will become moderate and its effects on economic activity will be only relatively modest. However, given that the rate of increase in services prices has remained high in some advanced economies, there is a risk of continued uncertainty regarding how much monetary tightening will be needed before inflation abates. If stronger-than-expected monetary tightening will be required, this will accordingly exert a severe negative impact on economic activity. In that case, there is a possibility that sharp price fluctuations in financial markets and capital outflows from emerging economies will amplify the negative impact, and that this will lead to overseas economies deviating downward from the Bank's baseline scenario.

Second is geopolitical risks and developments in the price of commodities, including grain. More than a year has passed since the onset of Russia's invasion of Ukraine, and the situation is becoming more prolonged. It is difficult to predict at this point how it will evolve; however, depending on the course of this situation, overseas economies, particularly Europe, could be pushed down further. Furthermore, the price of grain and other commodities, which has been more stable than previously, may be adversely affected.

The third point that I am particularly attentive to is firms' and households' medium- to long-term growth expectations. Recently, firms have been actively making investment with a view to the post-COVID-19 era, digitalization, and decarbonization, and these initiatives are expected to enhance their growth potential in the long term. On the other hand, some firms have revised their strategies regarding supply chains. This is based on heightened concern over geopolitical risks, mainly reflecting the situation in Ukraine and the U.S.-China trade friction, and the experience of supply-side constraints caused by the pandemic. In doing so, they have reviewed so-called friend-shoring supply chains -- an approach of establishing trade networks mainly with allies and friendly nations. Since these actions are taken to prioritize stability even at the cost of sacrificing efficiency to some extent, they could induce upward pressure on prices. In the event of a change in the trend of globalization, which has supported the growth of the global economy to date, future developments in economic activity and prices may be affected through changes in firms' and households' medium- to long-term growth expectations.

Lastly, I would like to point out firms' price- and wage-setting behavior as a risk that may significantly affect overall inflation. As I mentioned earlier, firms that had not changed their selling prices before have decided to raise them in the face of steep increases in raw material costs. If firms' inflation expectations become higher, the pass-through of cost increases could accelerate further. Wages are expected to rise in line with improvement in economic conditions. However, uncertainty is high as to what extent wages will rise. If the behavior and mindset based on the assumption that wages will not increase easily remain deeply entrenched, there is a risk that moves to increase wages will not strengthen as much as expected and prices will in turn be under downward pressure. At present, large firms in particular hold a stance of increasing wages at a rate exceeding the inflation rate. I am paying close attention to the extent to which small and medium-sized firms will follow suit.

III. The Bank's Monetary Policy

Next, I would like to talk about the Bank's monetary policy conduct.

Since April 2013, the Bank has continued large-scale monetary easing with an unwavering commitment to achieving the price stability target of 2 percent at the earliest possible time. However, as it turned out, it has been taking time to achieve the target. In pursuing monetary easing over a long period, the Bank has been taking into consideration its side effects. An example of such side effects is the squeeze on financial institutions' profits under the low interest rate environment, which in turn may adversely affect the functioning of financial intermediation. Having said that, the Bank judges that, currently in Japan, financial institutions have sufficient capital bases and the financial intermediation function is being fulfilled smoothly. In addition, as the liquidity and functioning of bond markets have been deteriorating, the Bank, while taking measures to contain this side effect, has continued with its monetary easing.

Specifically, in March 2021, the Bank conducted an assessment of the measures taken until then in order to continue with monetary easing in a sustainable manner. The Bank had previously been conducting yield curve control in a way that kept 10-year Japanese government bond (JGB) yields at around 0 percent; following the assessment, however, it made clear that the range of 10-year JGB yield fluctuations would be between around plus and minus 0.25 percentage points from the target level. The Bank also decided to purchase exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) flexibly in a prioritized manner, as the findings of the assessment suggested that large-scale purchases of these instruments were effective during times of heightened market instability.

Subsequently, at the December 2022 MPM, the Bank decided that, while significantly increasing the amount of JGB purchases, it would expand the range of 10-year JGB yield fluctuations from the target level from between around plus and minus 0.25 percentage points to between around plus and minus 0.5 percentage points. The Bank also decided that it would make nimble responses by increasing the amount of JGB purchases even more and conducting fixed-rate purchase operations (Chart 13).

These decisions were made in order to facilitate the transmission of monetary easing effects generated under the framework of yield curve control -- such as through corporate financing -- by encouraging a smoother formation of the entire yield curve. While 10-year JGB yields had been hovering in the range of around plus and minus 0.25 percentage points from the target level, a distortion has occurred in the relative relationships between the interest rates of JGBs with 10-year maturity and those with other maturities. A large price gap has also been observed between spot and futures markets. Such market distortions have resulted in, for example, difficulty in the pricing of corporate bonds at the time of issuance. If these market conditions persist, this could have a negative impact on firms' financing environment, such as issuance conditions for corporate bonds. Therefore, in order to improve market functioning while maintaining accommodative financial conditions, the Bank decided to modify the conduct of yield curve control.

As the range of 10-year JGB yield fluctuations has been expanded, long-term interest rates have risen accordingly. However, in continuing with monetary easing under the framework of yield curve control going forward, the expansion has a greater merit of facilitating the transmission of monetary easing effects by improving the functioning of bond markets.

As I have explained thus far, Japan's economy has started to show signs of a virtuous cycle, as evidenced by the overall high levels of corporate profits and moves to increase wages.

However, it is premature to conclude that the price stability target has been achieved. Thus, I believe that, in its conduct of monetary policy for the time being, it is necessary for the Bank to maintain monetary easing and thereby support the economy.

Thank you.

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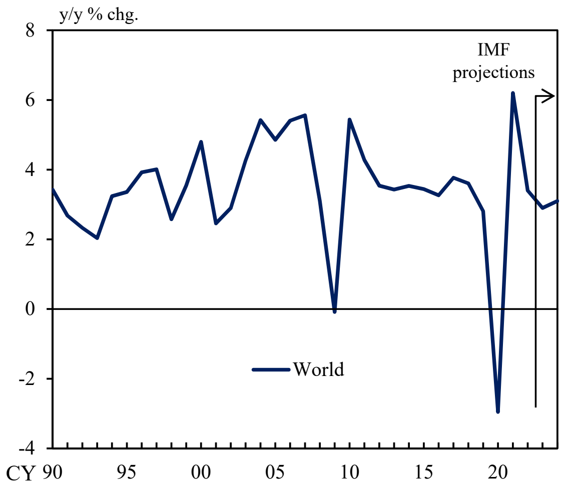
Chart 1

Overseas Economies

World Economic Outlook



Source: IMF.

Global PMI

Note: Figures for manufacturing are the J.P.Morgan Global Manufacturing PMI. Figures for services are the J.P.Morgan Global Services Business Activity Index.

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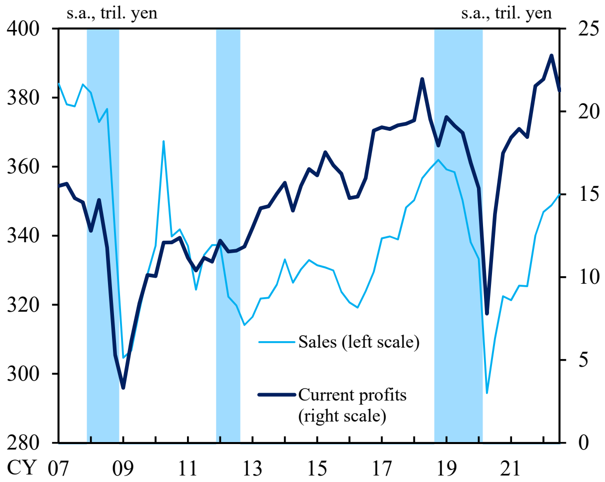
Chart 2

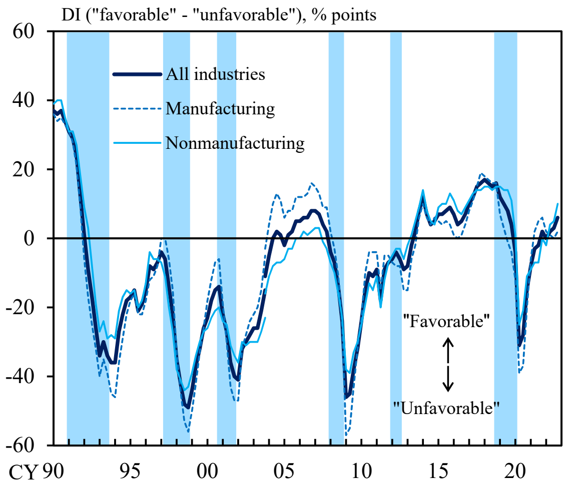
Corporate Sector in Japan

Corporate Profits



Notes: 1. Based on the *Financial Statements Statistics of Corporations by Industry, Quarterly*. Excluding "finance and insurance."
2. Figures from 2009/Q2 onward exclude pure holding companies.
3. Shaded areas denote recession periods.
Source: Ministry of Finance.

Business Conditions



Notes: 1. Based on the *Tankan*. All enterprises. There is a discontinuity in the data for December 2003 due to a change in the survey framework.
2. Shaded areas denote recession periods.
Source: Bank of Japan.
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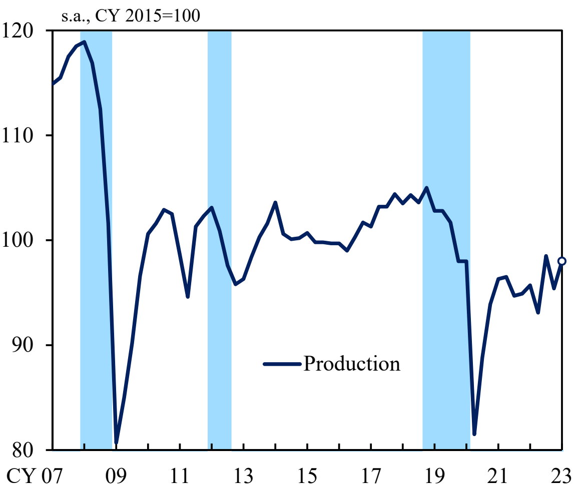
Chart 3

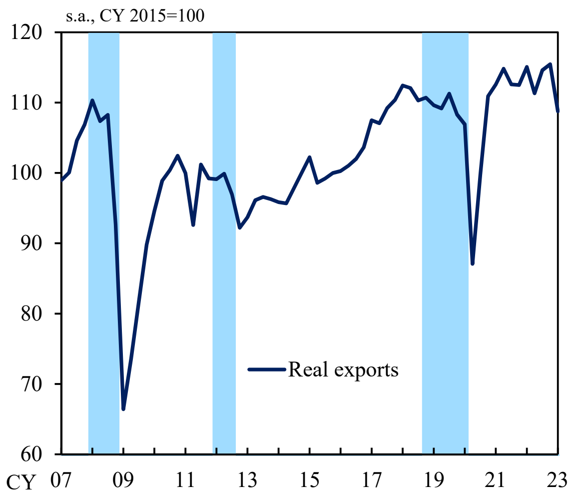
Corporate Sector in Japan

Industrial Production



Notes: 1. Shaded areas denote recession periods.
2. The figure denoted by the circle to the right is calculated using projections by the Ministry of Economy, Trade and Industry for January and February 2023.
Source: Ministry of Economy, Trade and Industry.

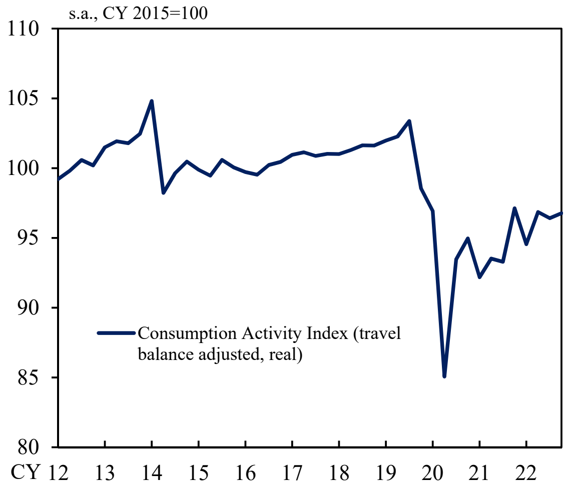
Real Exports



Notes: 1. Shaded areas denote recession periods.
2. Based on Bank staff calculations. The figure for 2023/Q1 is that for January.
Sources: Ministry of Finance; Bank of Japan.

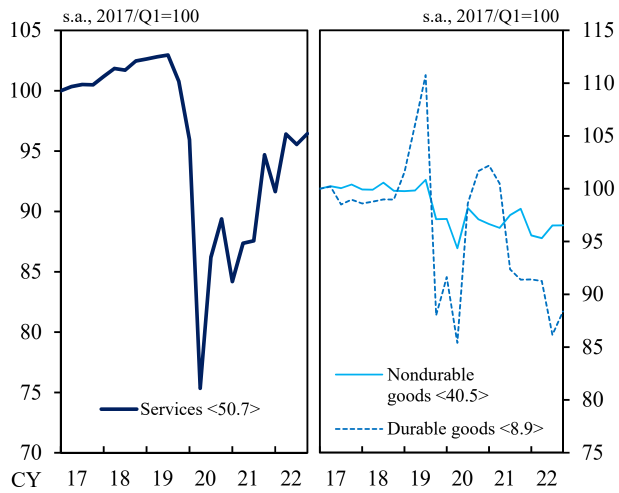
Household Sector in Japan

Private Consumption



Note: Figures for the Consumption Activity Index (CAI) are based on Bank staff calculations. The CAI figures (travel balance adjusted) exclude inbound tourism consumption and include outbound tourism consumption.
Source: Bank of Japan.

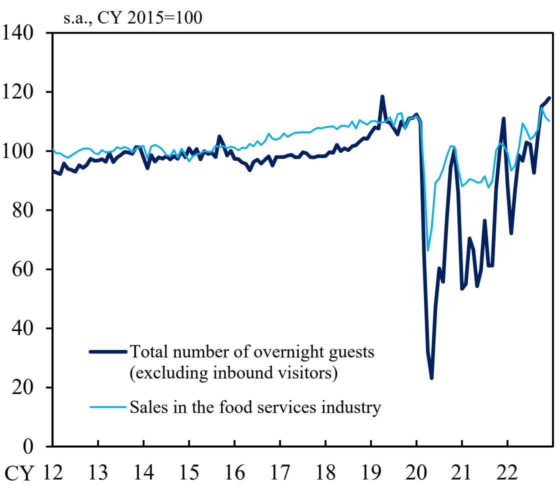
Consumption Activity Index (CAI, Real)



Notes: 1. Based on Bank staff calculations. Figures in angle brackets show the weights in the CAI.
2. Nondurable goods include goods classified as semi-durable goods in the SNA.
Sources: Bank of Japan, etc.

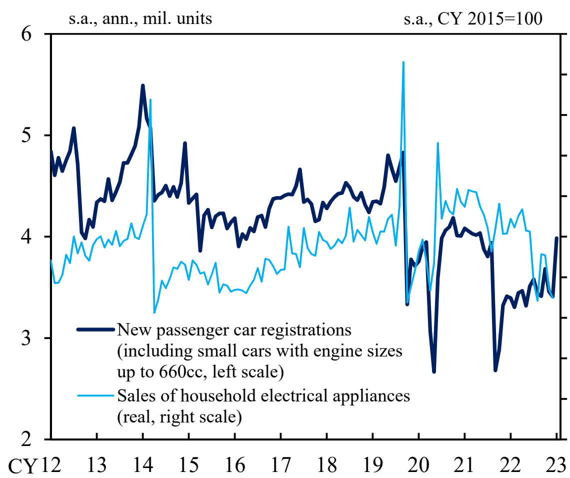
Household Sector in Japan

Consumption of Services



Sources: Japan Foodservice Association, *Market Trend Survey of the Food Services Industry*; Japan Tourism Agency.

Consumption of Durable Goods

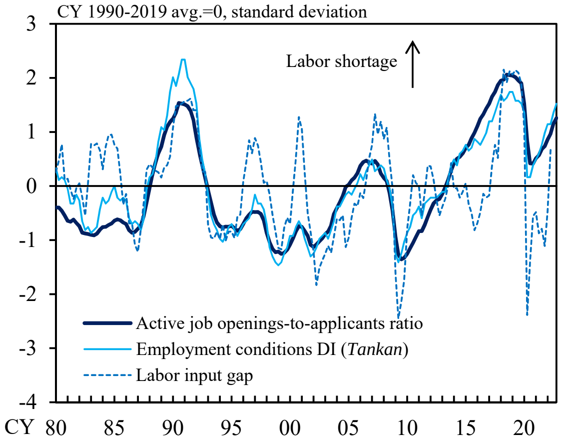


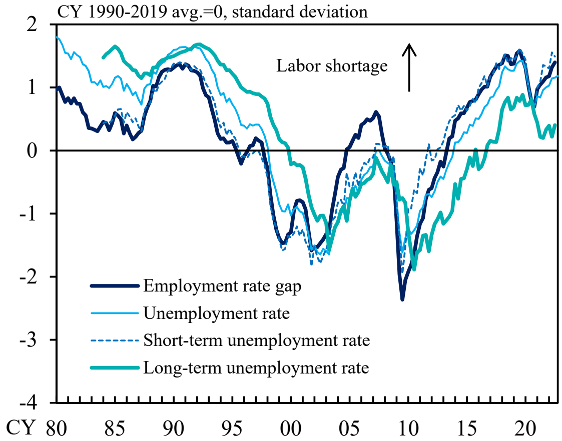
Note: Figures for real sales of household electrical appliances are based on Bank staff calculations using the retail sales index of machinery and equipment in the *Current Survey of Commerce* and the price index of related items in the CPI.
Sources: Japan Automobile Dealers Association; Japan Light Motor Vehicle and Motorcycle Association; Ministry of Economy, Trade and Industry; Ministry of Internal Affairs and Communications.

Chart 6

Employment and Income Situation in Japan

Various Measures of Labor Market Conditions





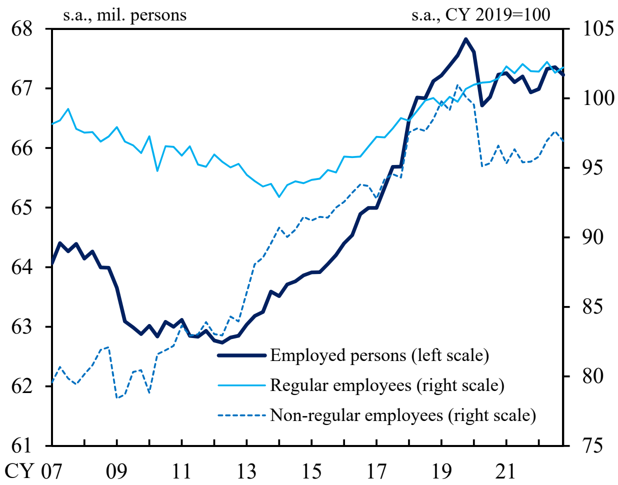
Notes: 1. Figures for each measure of labor market conditions are normalized by the standard deviation from 1990 to 2019.
2. Figures for the active job openings-to-applicants ratio and the unemployment rate for 2022/Q4 are October-November averages.
3. The labor input gap and the employment rate gap are Bank staff estimates.
4. Figures for the short- and long-term unemployment rates up through 2001 are on a semiannual or annual basis.

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

Chart 7

Employment and Income Situation in Japan

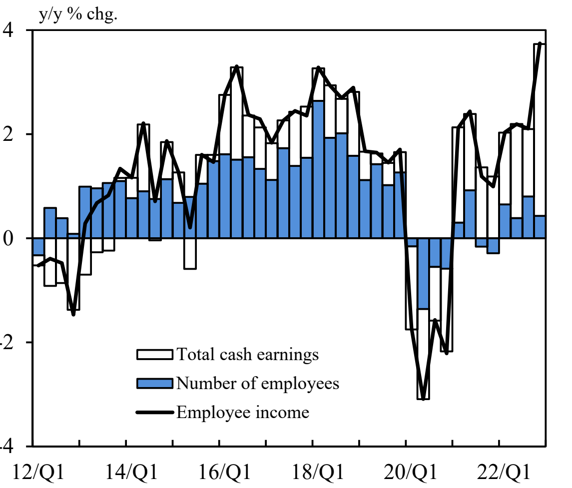
Number of Employed Persons



Note: Figures for regular employees and non-regular employees prior to 2013 are based on the "detailed tabulation" in the *Labour Force Survey*.

Source: Ministry of Internal Affairs and Communications.

Employee Income



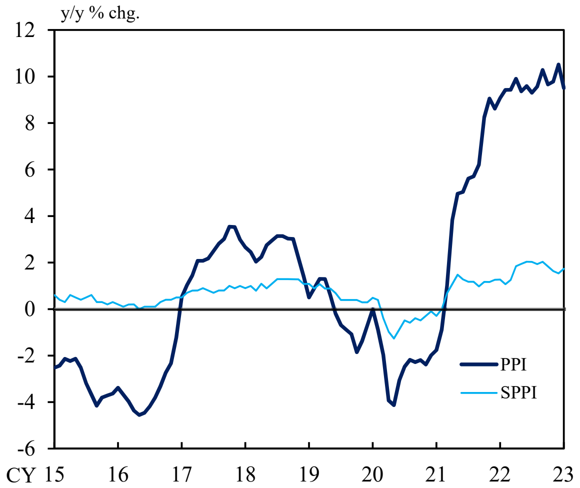
Notes: 1. Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February. The figure for 2022/Q4 is that for December.
2. Employee income = Total cash earnings (*Monthly Labour Survey*) × Number of employees (*Labour Force Survey*)
3. Figures from 2016/Q1 onward are based on continuing observations following the sample revisions of the *Monthly Labour Survey*.

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

Chart 8

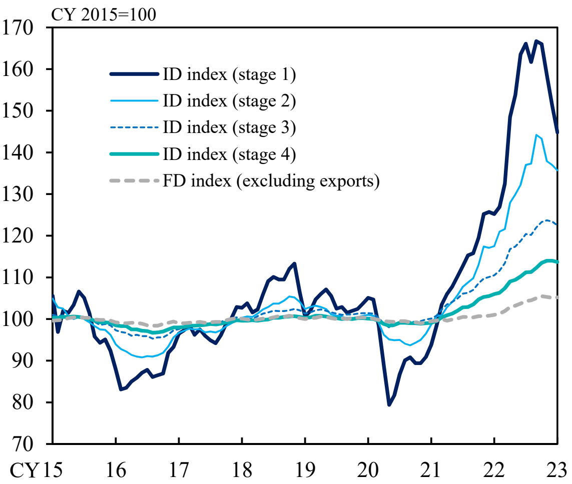
Producer Prices

Goods and Services Prices



Note: Figures exclude the effects of the consumption tax hike.
Source: Bank of Japan.

Final Demand-Intermediate Demand (FD-ID) Price Indexes (All Commodities)

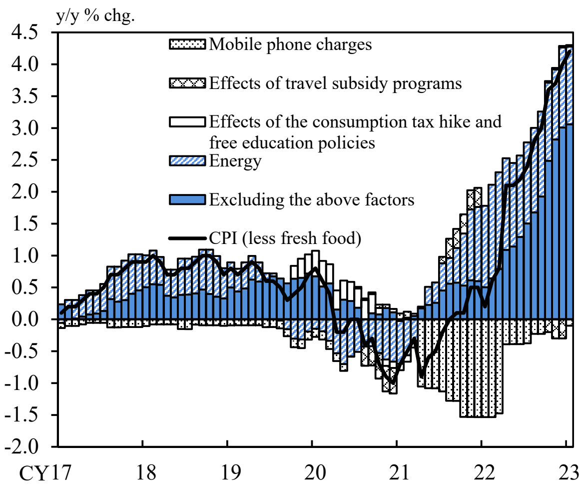


Note: The indexes divide demand into the final demand stage and four stages of intermediate demand based on the Input-Output Tables for Japan. Goods and services prices are then aggregated according to the stage to which they belong to compile the FD index and the ID indexes for stages 1 to 4, ranging from the upstream to downstream stages of the production process.
Source: Bank of Japan.

Chart 9

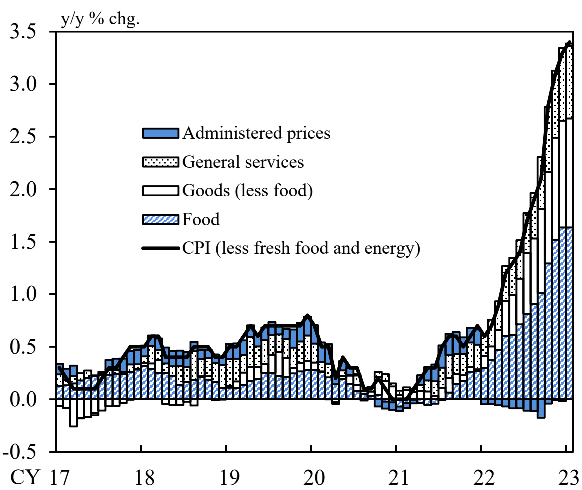
Consumer Prices

CPI (Less Fresh Food)



Notes: 1. Figures for "energy" consist of those for petroleum products, electricity, as well as manufactured and piped gas charges.
2. Figures for the "effects of the consumption tax hike and free education policies" from April 2020 onward are Bank staff estimates and include the effects of measures such as free higher education introduced in April 2020.
Source: Ministry of Internal Affairs and Communications.

CPI (Excluding Temporary Factors)

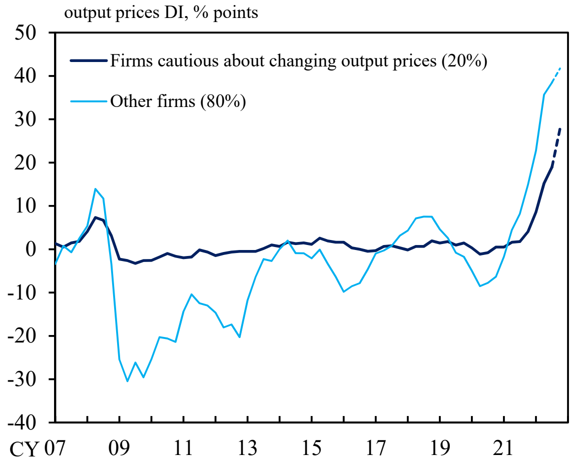


Notes: 1. "Food" consists of "food products" and "agricultural, aquatic, and livestock products."
2. "Administered prices" excludes energy prices and consists of public services and water charges.
3. The CPI figures are Bank staff estimates and exclude the effects of the consumption tax hike, free education policies, travel subsidy programs, and mobile phone charges.
Source: Ministry of Internal Affairs and Communications.

Chart 10

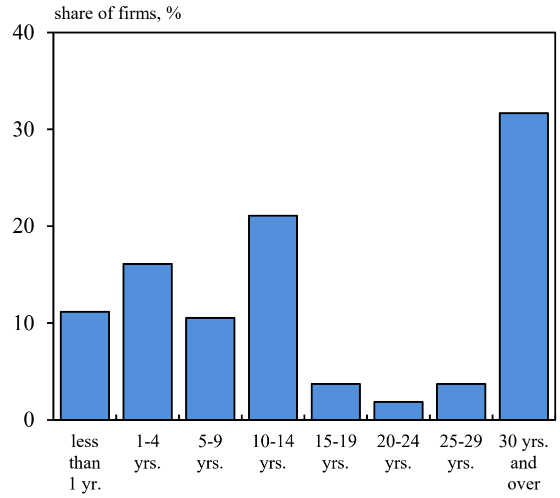
Consumer Prices

Change in Firms' Price-Setting Stance



Note: Figures are for all industries and enterprises in the *Tankan* survey. Figures for "firms cautious about changing output prices" are for firms that replied that their output prices were "unchanged" for at least about 95 percent of the period from 1991 to 2019. The dotted lines represent forecasts from the September 2022 survey.
Source: Ikeda, S. et al., "Firms' Recent Price-Setting Stance: Evidence from the *Tankan*," *Bank of Japan Review Series*, no. 23-E-2 (February 2023), https://www.boj.or.jp/en/research/wps_rev/rev_2023/data/rev23e02.pdf.

Number of Years between the Latest and Previous Price Rises

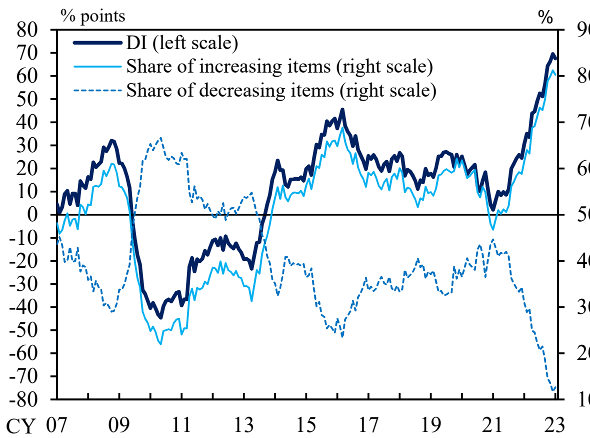


Note: The panel shows the distribution of firms that responded that they had raised their output prices since the September 2021 *Tankan* survey in terms of the number of years that had passed until the first price rise since that survey from the previous price rise. Firms are selected on the basis of being "cautious about changing output prices," having replied that their output prices were "unchanged" for at least about 95 percent of the period from 1991 to 2019.
Source: Ikeda, S. et al., "Firms' Recent Price-Setting Stance: Evidence from the *Tankan*," *Bank of Japan Review Series*, no. 23-E-2 (February 2023), https://www.boj.or.jp/en/research/wps_rev/rev_2023/data/rev23e02.pdf.

Chart 11

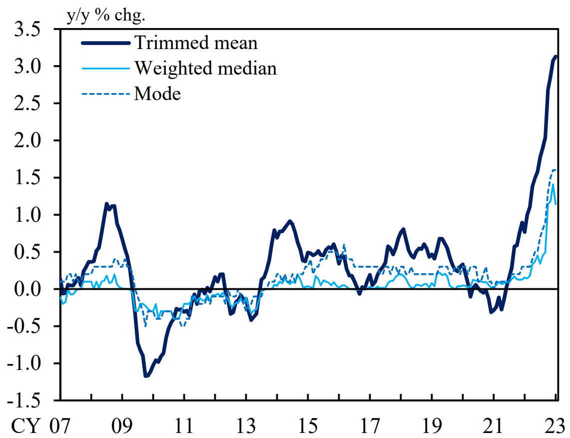
Consumer Prices

DI of Price Changes



Note: The diffusion index (DI) is defined as the share of increasing items minus the share of decreasing items. The share of increasing/decreasing items is the share of items for which price indices increased/decreased from a year earlier. Based on Bank staff calculations using the CPI (less fresh food) excluding the effects of the consumption tax hikes, free education policies, and travel subsidy programs. The CPI figures from April 2020 onward are Bank staff estimates and exclude the effects of measures such as free higher education introduced in April 2020.
Sources: Ministry of Internal Affairs and Communications; Bank of Japan.

Measures of Core Inflation



Note: All figures are based on Bank staff calculations using the CPI excluding the effects of the consumption tax hikes, free education policies, and travel subsidy programs. The CPI figures from April 2020 onward are Bank staff estimates and exclude the effects of measures such as free higher education introduced in April 2020.
Sources: Ministry of Internal Affairs and Communications; Bank of Japan.

Chart 12

Outlook for Economic Activity and Prices
(as of January 2023)

y/y % chg.

	Real GDP	CPI (all items less fresh food)	(Reference) CPI (all items less fresh food and energy)
FY2022	**+1.9 to +2.0 [+1.9]**	**+3.0 to +3.0 [+3.0]**	**+2.1 to +2.1 [+2.1]**
Forecasts made in Oct. 2022	+1.8 to +2.1 [+2.0]	+2.8 to +2.9 [+2.9]	+1.8 to +1.9 [+1.8]
FY2023	**+1.5 to +1.9 [+1.7]**	**+1.6 to +1.8 [+1.6]**	**+1.7 to +1.9 [+1.8]**
Forecasts made in Oct. 2022	+1.5 to +2.0 [+1.9]	+1.5 to +1.8 [+1.6]	+1.5 to +1.8 [+1.6]
FY2024	**+0.9 to +1.3 [+1.1]**	**+1.8 to +1.9 [+1.8]**	**+1.5 to +1.8 [+1.6]**
Forecasts made in Oct. 2022	+1.3 to +1.6 [+1.5]	+1.5 to +1.9 [+1.6]	+1.5 to +1.8 [+1.6]

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

Chart 13

Modification of the Conduct of Yield Curve Control (YCC)

Impact of Increased Volatility in Overseas Markets

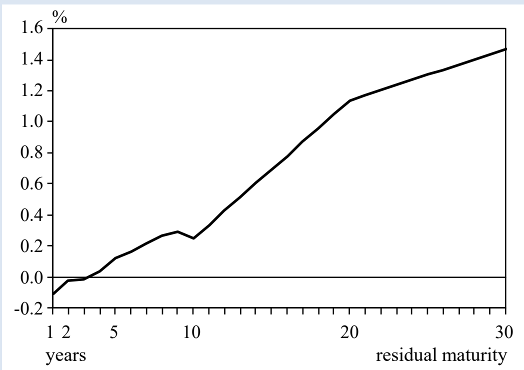
Deterioration in Japan's bond market functioning

- Relative relationships among interest rates of bonds with different maturities
- Arbitrage relationships between spot and futures markets

Possibility of a negative impact on financial conditions

Yields on Japanese government bonds (JGBs) are reference rates for corporate bond yields, bank lending rates, and other funding rates.

JGB Yield Curve (Before the December 2022 MPM)



Source: Bloomberg.

Measures Decided by the Bank of Japan

Conduct of YCC

Encourage a smoother formation of the entire yield curve

Significant increase in the amount of JGB purchases: from 7.3 trillion yen per month to about 9 trillion yen per month

Expansion of the range of 10-year JGB yield fluctuations from the target level: from between around ±0.25% pts to between around ±0.5% pts

Nimble responses for each maturity:

- Offer to purchase 10-year JGBs at 0.5% every business day through fixed-rate purchase operations
- Make nimble responses for each maturity by increasing the amount of JGB purchases even more and conducting fixed-rate purchase operations

In adjusting the amount outstanding of corporate bonds, the Bank will give due consideration to their issuance conditions.

Facilitate the transmission of monetary easing effects generated under the framework of YCC, such as through corporate financing

The Bank will aim to achieve the price stability target by **enhancing the sustainability of monetary easing**.