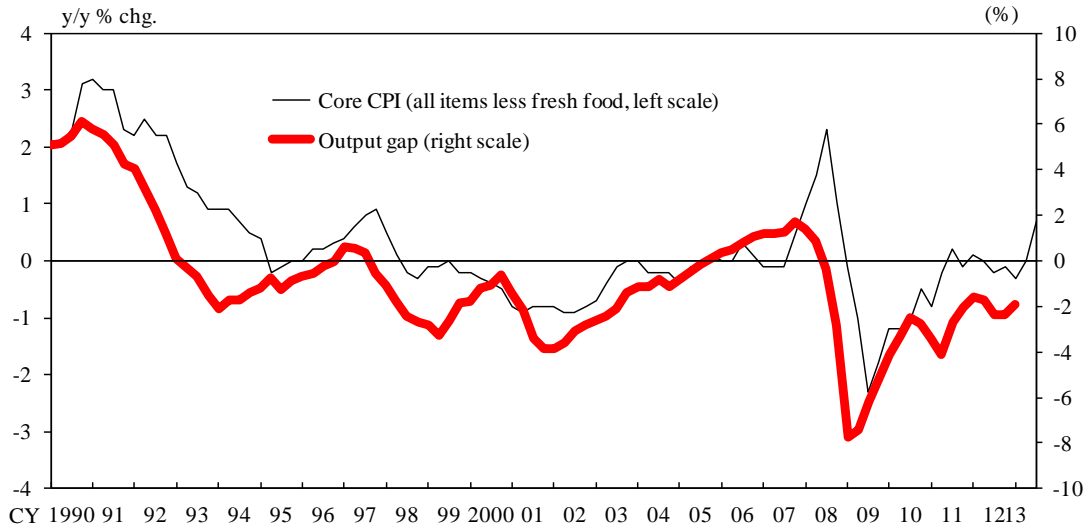


Chart 1

### Core CPI and the Output Gap



Sources: Cabinet Office; Bank of Japan.

Chart 2

### Upward Shift of the Phillips Curve

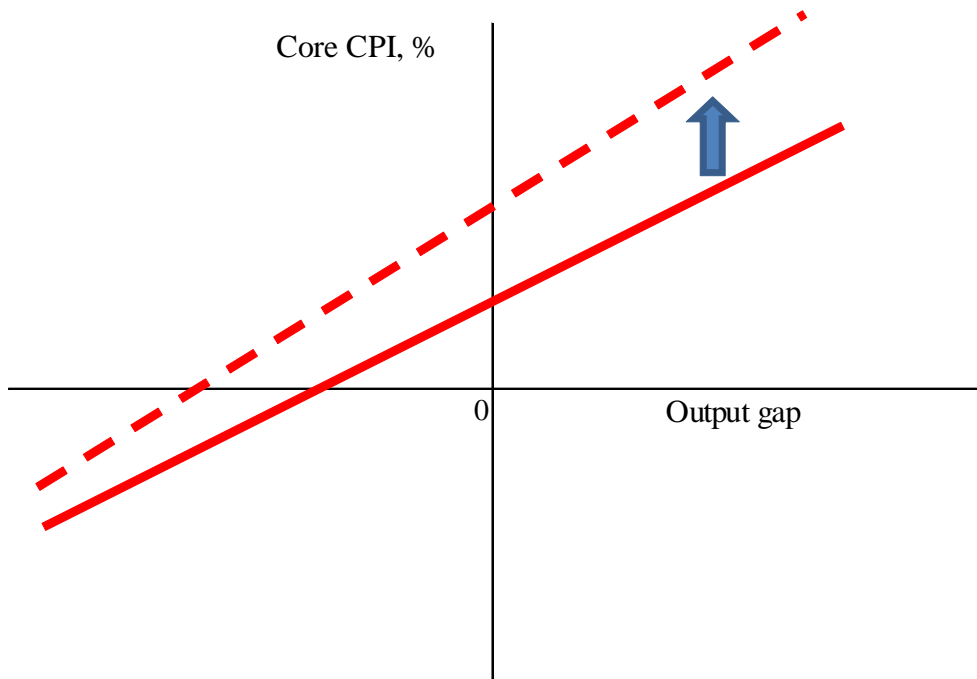
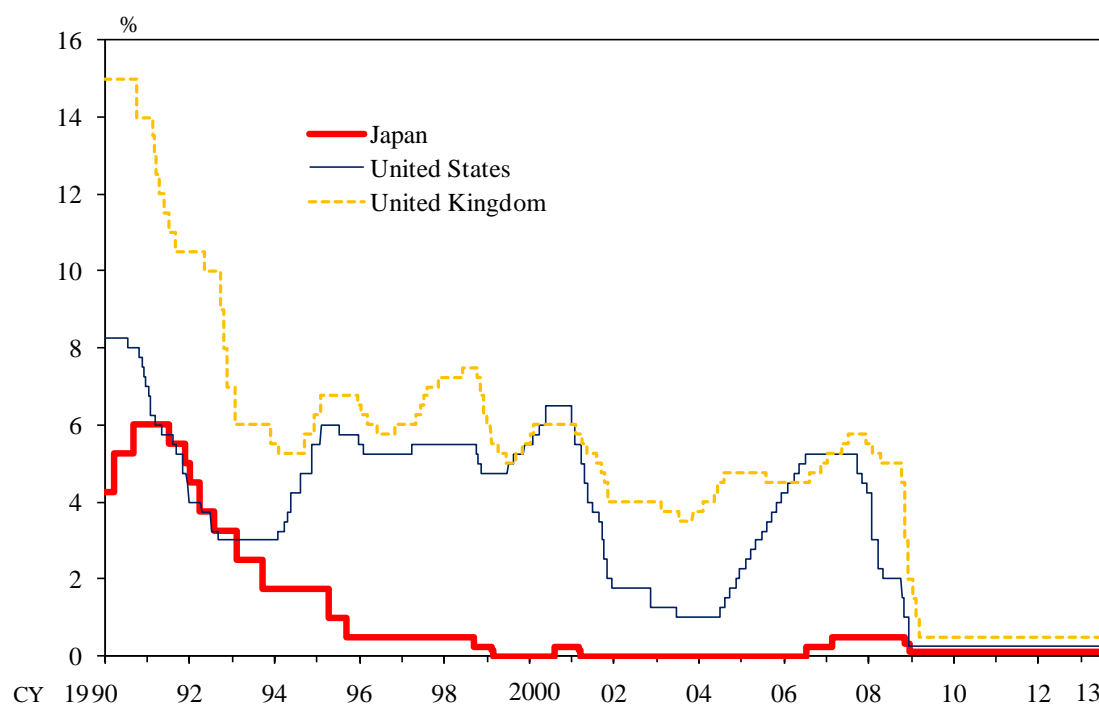


Chart 3

### Policy Interest Rates: Japan, the United States, and the United Kingdom



Sources: Bank of England; Bank of Japan; Federal Reserve.

Chart 4

### Current Monetary Policy Forward Guidance in Japan

#### The first set of forward guidance

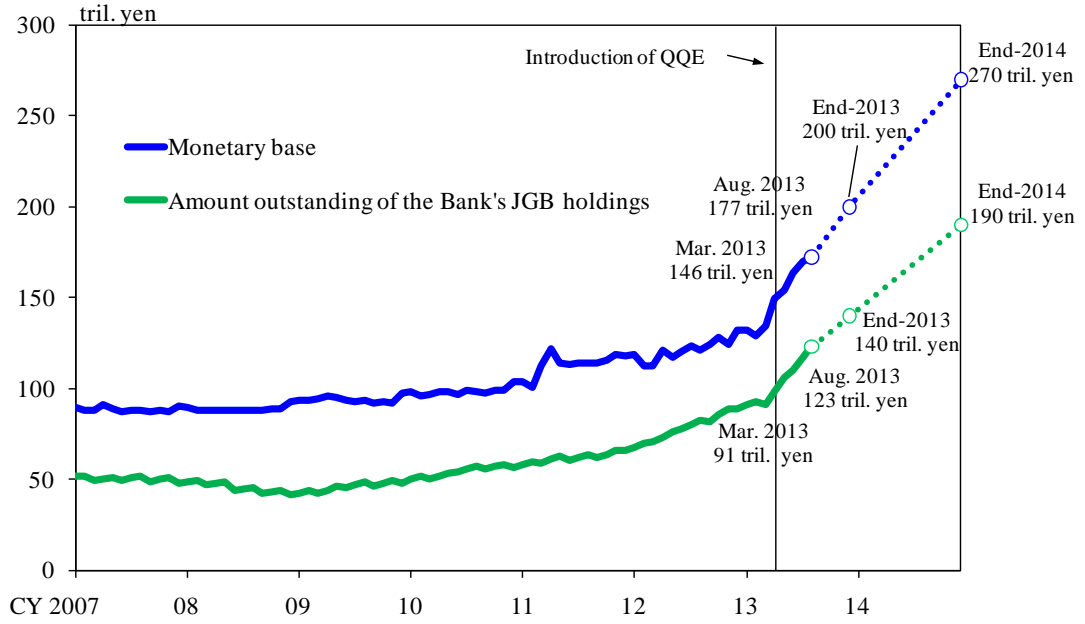
**The Bank will achieve the 2 percent target at the earliest possible time, with a time horizon of about two years.**

#### The second set of forward guidance

**The Bank will continue with QQE, aiming to achieve the 2 percent target, as long as it is necessary for maintaining it in a stable manner (based on an examination of risks to economic activity and prices).**

Chart 5

### Monetary Base and JGB Holdings



Source: Bank of Japan.

**Present and Past Monetary Policy Forward Guidance in Japan**

Policy phase	Date of statement	Summary of forward guidance in place	Features of forward guidance
<b>Zero interest rate policy (ZIRP)</b> (Feb. 1999-Aug. 2000)	Apr. 1999: Initial Statement	<p><i>I think that the Bank will maintain the zero interest rate policy <u>until deflationary concerns are dispelled</u> (remarks at a press conference by the then Governor Masaru Hayami).*</i></p> <p><i>* Since the text is available only in Japanese, the English translation was made by the author.</i></p>	<ul style="list-style-type: none"> <li>• Open-ended</li> <li>• Linked to the zero interest rate policy</li> </ul>
<b>Quantitative easing policy (QE)</b> (Mar. 2001-Mar. 2006)	Mar. 2001: Initial Statement	<p><i>The quantitative easing policy continues to be in place <u>until the core CPI registers stably zero percent or an increase year on year.</u>*</i></p> <p><i>* The core CPI is the consumer price index for all items less fresh food.</i></p>	<ul style="list-style-type: none"> <li>• State-contingent</li> <li>• Linked to the quantitative easing policy</li> </ul>
	Oct. 2003: <b>Enhancement of Monetary Policy Transparency</b>	<p><i>The Bank is currently committed to maintaining the quantitative easing policy <u>until the core CPI registers stably zero percent or an increase.</u> Such commitment is underpinned by the following two conditions.</i></p> <p><i>(1) Not only that the most recently published <u>core CPI should register zero percent or above</u>, but also that such tendency should be <u>confirmed over a few months.</u></i></p> <p><i>(2) The prospective <u>core CPI will not be expected to register below zero percent.</u></i></p> <p><i>The above conditions are the necessary condition. There may be cases that the Bank will continue with quantitative easing even if these two conditions are fulfilled.</i></p>	<ul style="list-style-type: none"> <li>• State-contingent</li> <li>• Linked to the quantitative easing policy</li> <li>• Provision of further clarification on the expression "stably zero percent or an increase"</li> </ul>
<b>Comprehensive monetary easing (CME)</b> (Oct. 2010-Mar. 2013)	Oct. 2010: Initial Statement	<p><i>The Bank will maintain the virtually zero interest rate policy <u>until price stability is in sight, based on the "understanding of medium- to long-term price stability," on the condition that problem will not be identified in examining risk factors, including the accumulation of financial imbalances.</u>*</i></p> <p><i>* "Understanding of medium- to long-term price stability" refers to a positive range of 2 percent or lower, with the midpoints of most members' "understanding" being around 1 percent.</i></p>	<ul style="list-style-type: none"> <li>• State-contingent</li> <li>• Linked to the zero interest rate policy</li> <li>• Introduction of conditional commitment</li> </ul>
	Feb. 2012: <b>Enhancement of Monetary Easing</b>	<p><u>Replacement of "understanding" with "goal":</u></p> <p><i>The Bank judges the "price stability goal in the medium to long term" to be within a positive range of 2 percent or lower in terms of the year-on-year rate of change in the CPI, and <u>sets a goal at 1 percent for the time being.</u></i></p>	<ul style="list-style-type: none"> <li>• Replacing "understanding" (a collection of different member views) with "goal" (the consensus of all members)</li> </ul>

		<p><u>Forward guidance:</u></p> <p><i>For the time being, the Bank will pursue the powerful easing by conducting its virtually zero interest rate policy and by implementing the Asset Purchase Program, <u>with the aim of achieving the goal of 1 percent.</u></i></p> <p><i>The monetary easing will be continued <u>until the Bank judges that the 1 percent goal is in sight</u> on the condition of identifying no significant risk, including the accumulation of financial imbalance.</i></p>	<ul style="list-style-type: none"> <li>• State contingent</li> <li>• Linked to the zero interest rate policy and the Asset Purchase Program</li> <li>• Conditional commitment</li> </ul>
	<p>Jan. 2013: <b>Introduction of the "Price Stability Target"</b></p>	<p><u>Introduction of the price stability target:</u></p> <p><i>The Bank <u>sets the price stability target at 2 percent.</u></i></p> <p><i>The Bank will pursue monetary easing and aim <u>to achieve the 2 percent target at the earliest possible time</u>, on the condition that there is no significant risk to the sustainability of economic growth, including from the accumulation of financial imbalances.</i></p> <p><u>Forward guidance:</u></p> <p><i>The Bank will pursue aggressive monetary easing, aiming <u>to achieve the 2 percent target</u>, through a virtually zero interest rate policy and purchases of financial assets, <u>as long as the Bank judges it appropriate to continue</u> with each policy measure respectively.</i></p>	<ul style="list-style-type: none"> <li>• Introduction of the 2 percent price stability target</li> <li>• State-contingent</li> <li>• Linked to the zero interest rate policy and the Asset Purchase Program</li> <li>• Conditional commitment</li> </ul>
<p><b>Quantitative and qualitative monetary easing (QQE)</b> (Apr. 2013-present)</p>	<p>Apr. 2013: <b>Introduction of "Quantitative and Qualitative Monetary Easing"</b></p>	<p><u>First set of forward guidance:</u></p> <p><i>The Bank will <u>achieve the price stability target of 2 percent at the earliest possible time</u>, with a time horizon of about two years.</i></p> <p><u>Second set of forward guidance:</u></p> <p><i>The Bank will continue with quantitative and qualitative monetary easing, aiming <u>to achieve the 2 percent target</u>, as long as it is necessary for maintaining <u>the target in a stable manner</u>. It will examine both upside and downside risks to economic activity and prices, and make adjustments as appropriate.</i></p>	<ul style="list-style-type: none"> <li>• State-contingent (2 percent target) and calendar-based (two years)</li> <li>• Necessary condition for the second set of forward guidance</li> <li>• State-contingent (2 percent in a stable manner)</li> <li>• Linked to the quantitative and qualitative monetary easing policy</li> <li>• Conditional commitment</li> </ul>

Chart 7

### Evolution of Monetary Policy Forward Guidance in Japan

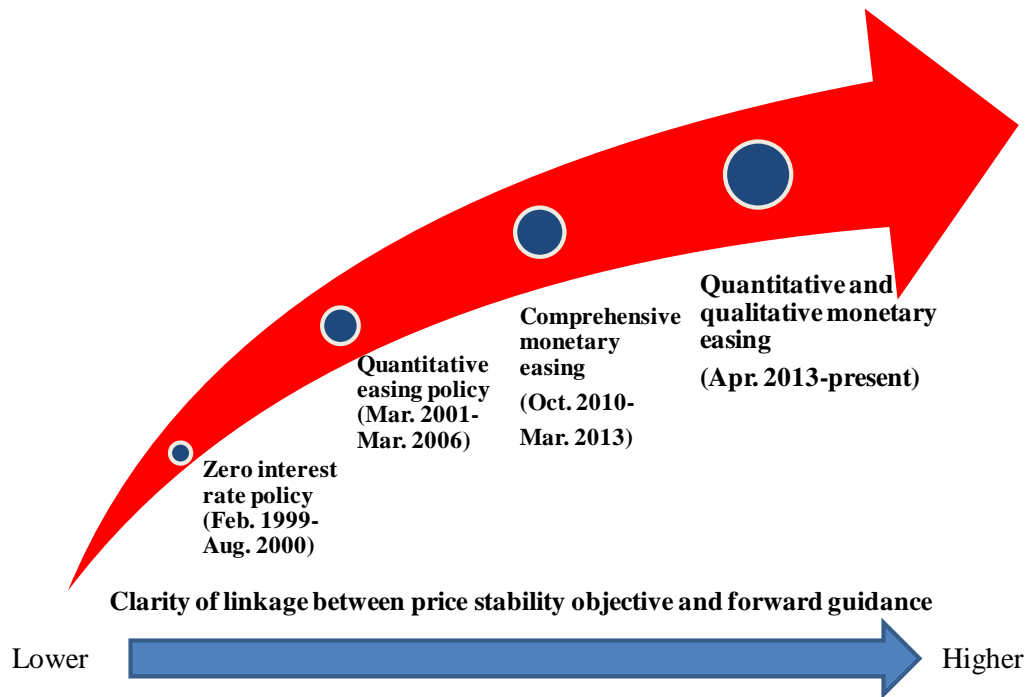
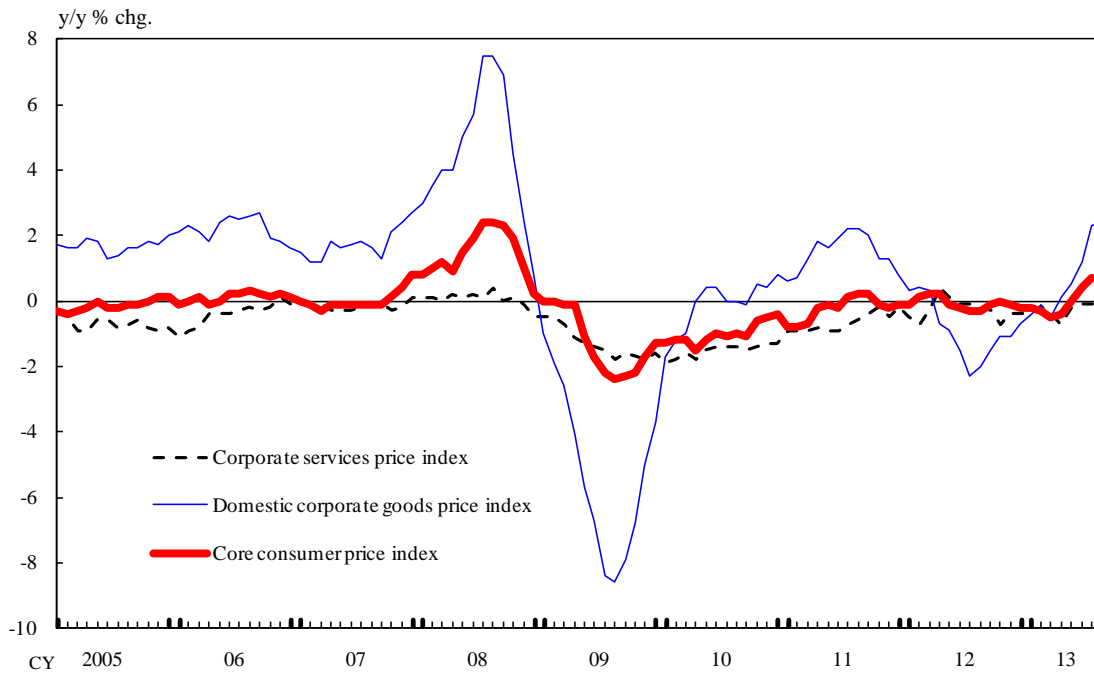


Chart 8

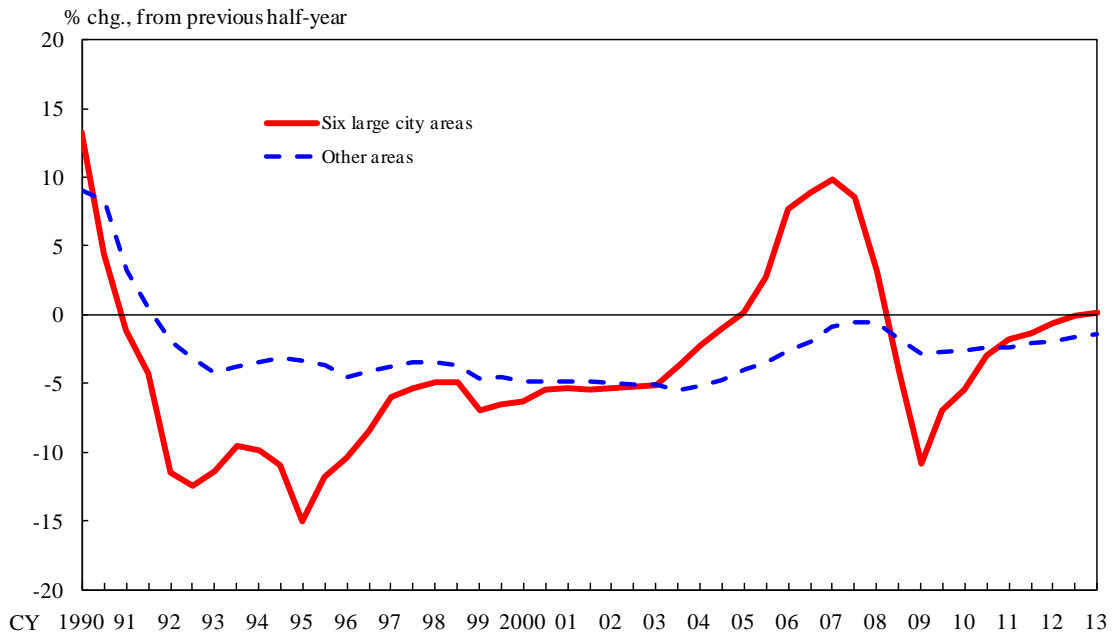
### Price Developments



Note: The core CPI excludes fresh food. Corporate services price index excludes international transportation.  
Sources: Ministry of Internal Affairs and Communications; Bank of Japan.

Chart 9

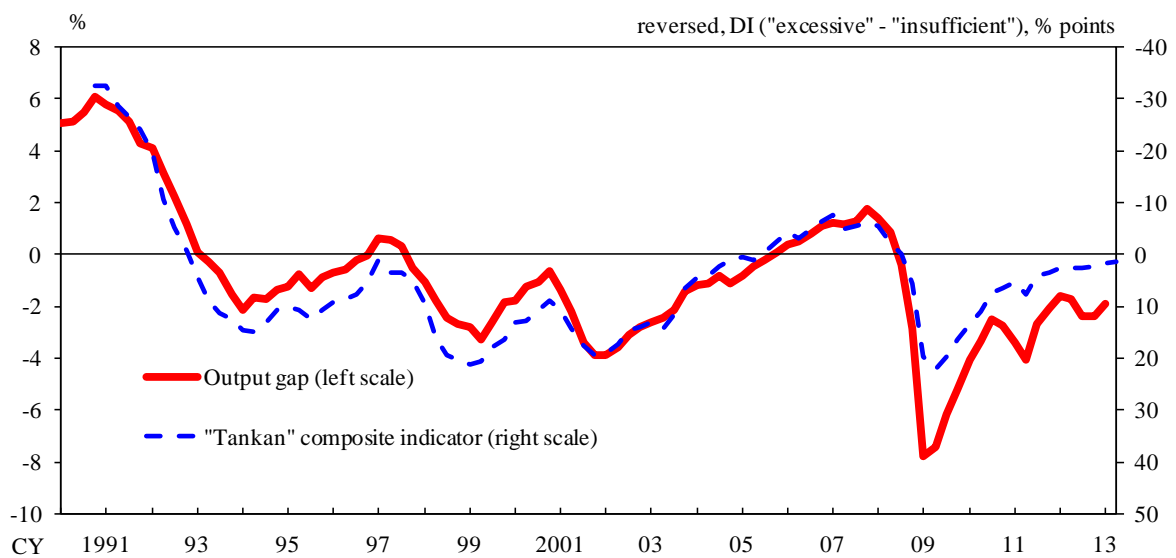
### Commercial Land Prices



Note: Six large city areas are Tokyo Metropolitan wards, Yokohama, Nagoya, Kyoto, Osaka, and Kobe.  
 Source: Japan Real Estate Institute.

Chart 10

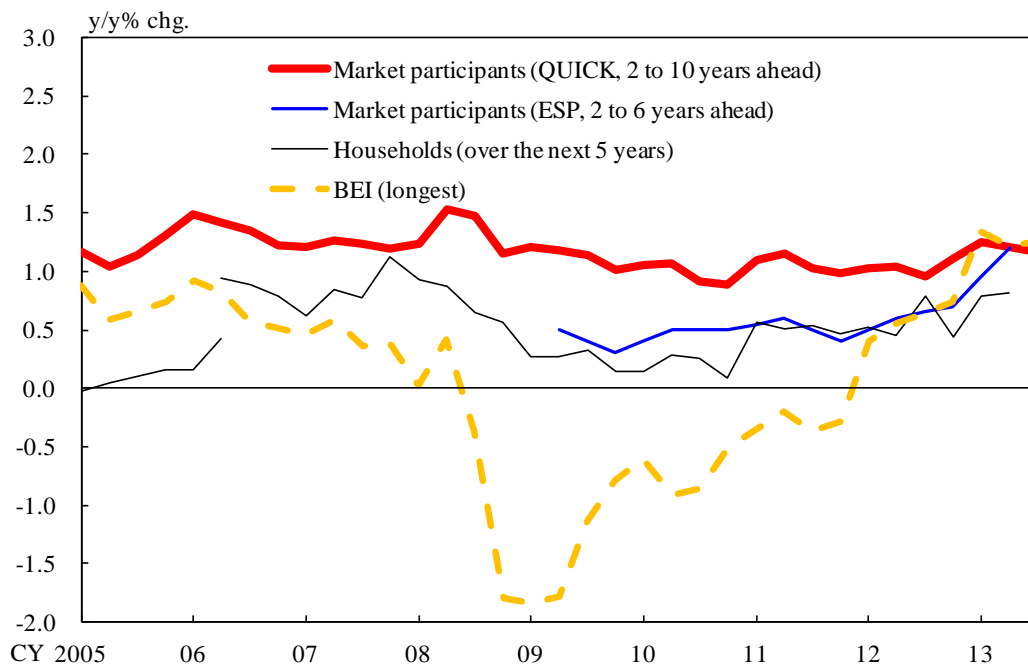
### Output Gap and the *Tankan* Composite Indicator



Note: Figures for the *Tankan* composite indicator are weighted averages of the production capacity DI and employment conditions DI. Fiscal 1990-2011 averages of capital and labor shares in "National Accounts" are used as the weight.  
 Sources: Cabinet Office; Bank of Japan.

Chart 11

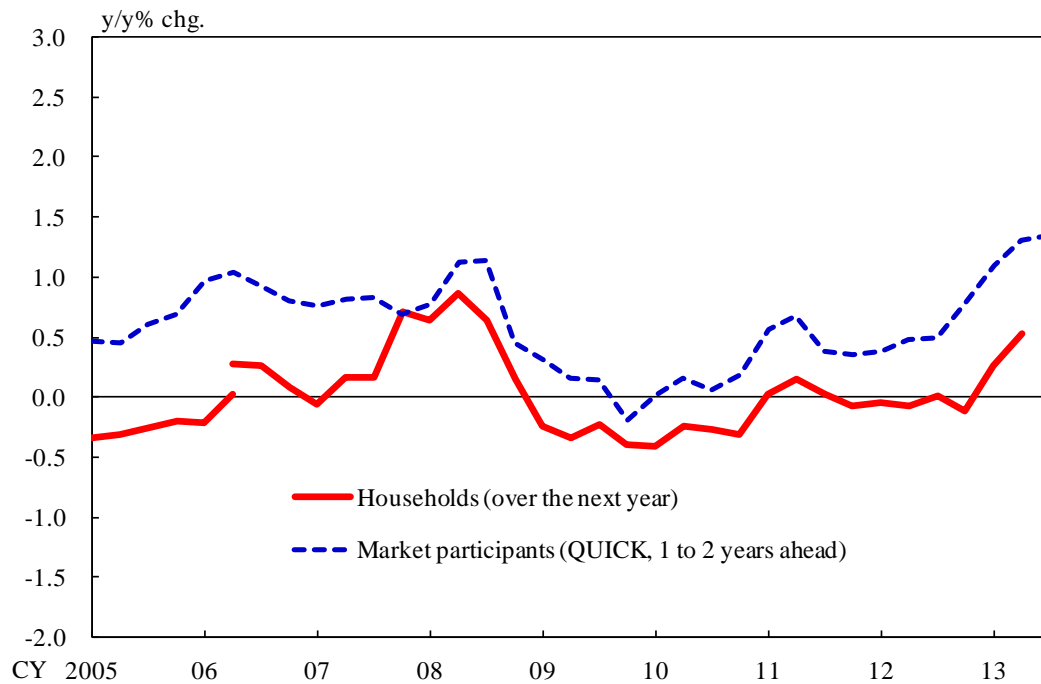
### Medium- to Long-Term Inflation Expectations



Note: Figures for households' inflation expectations are estimated using the modified Carlson-Parkin method.  
Sources: Bank of Japan; Japan Center for Economic Research (JCER); QUICK; Bloomberg.

Chart 12

### Shorter-Term Inflation Expectations

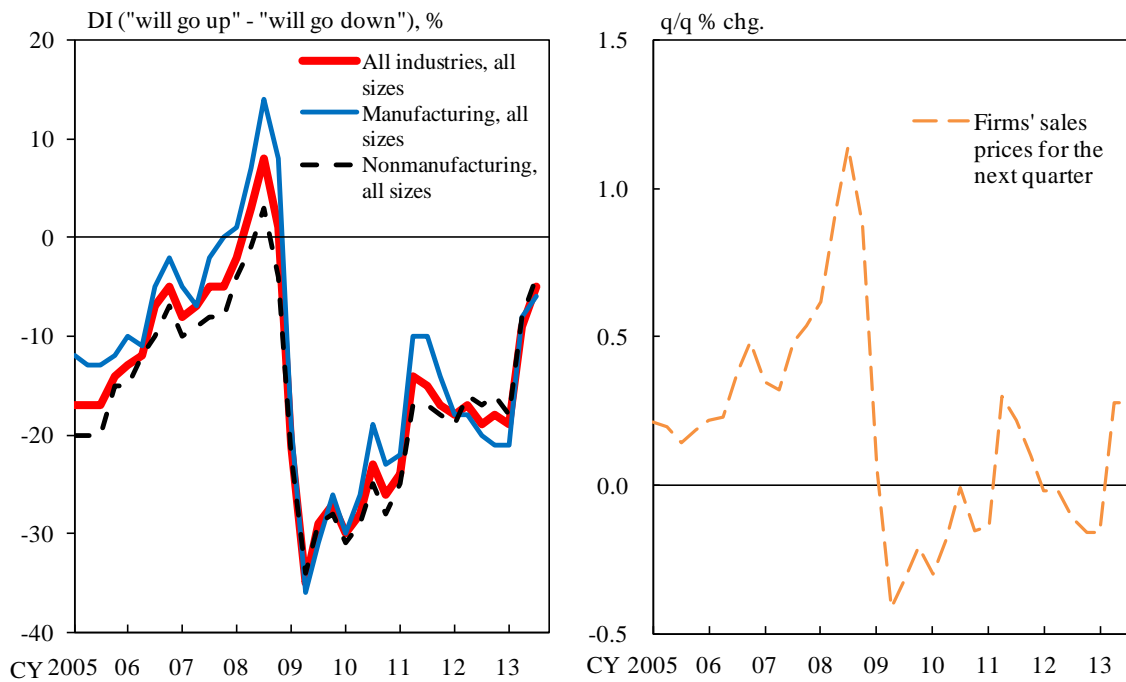


Note: Figures for households' inflation expectations are estimated using the modified Carlson-Parkin method.  
Sources: Bank of Japan; QUICK.



Chart 13

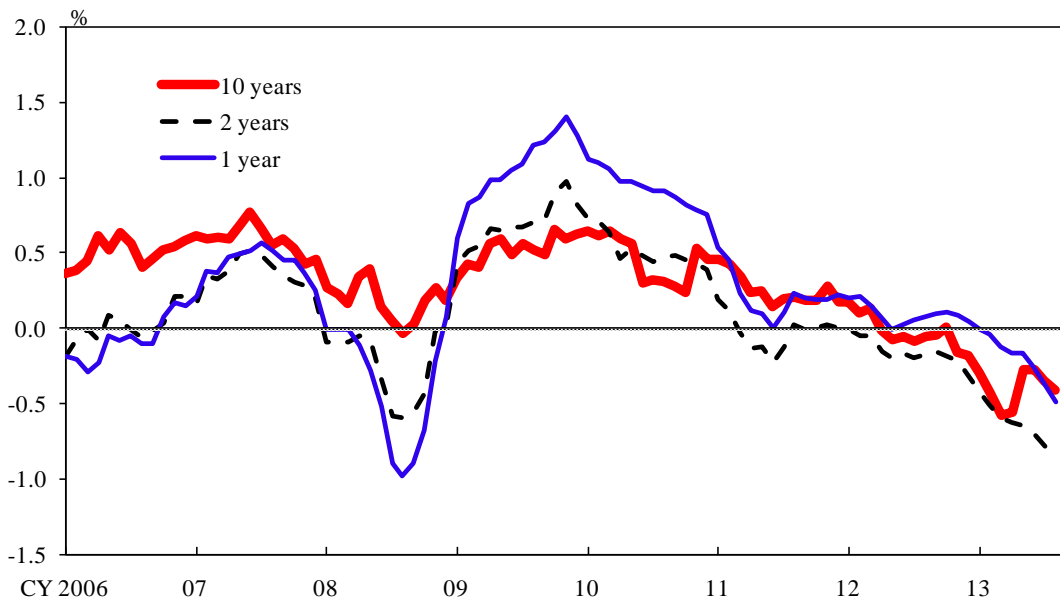
**Firms' Sales Price DI and Inflation Expectations (Three Months Ahead)**



Note: Figures for firms' inflation expectations are estimated using the modified Carlson-Parkin method.  
Source: Bank of Japan.

Chart 14

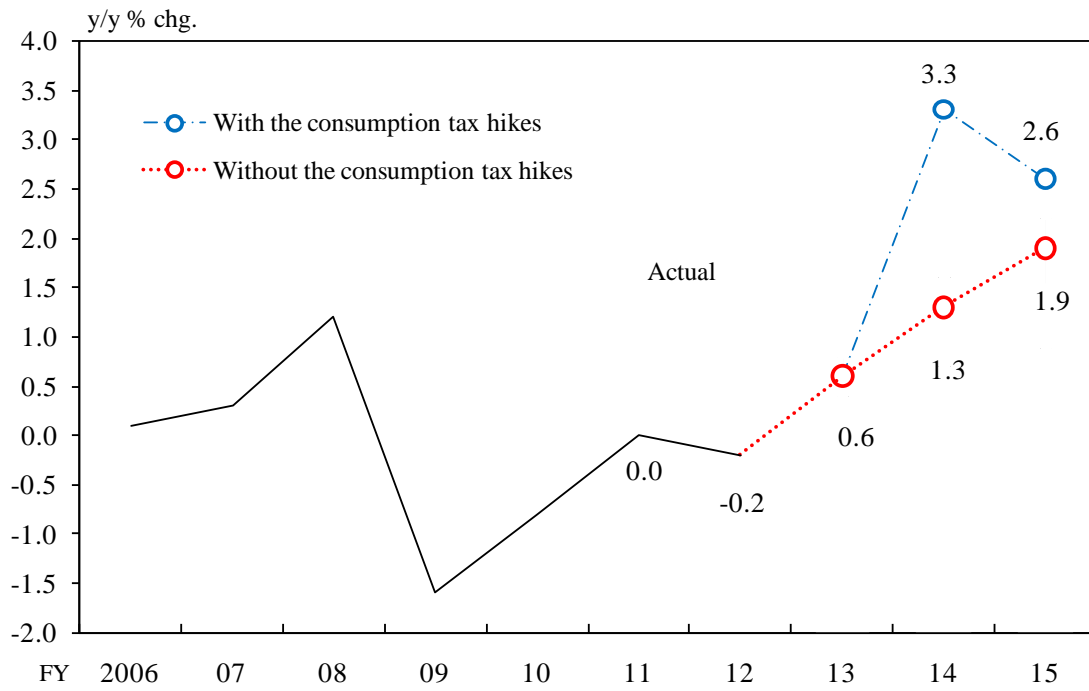
**Interest Rates in Real Terms**



Note: Figures are estimates using bond yields and market participants' inflation expectations.  
Sources: Bank of Japan; Bloomberg; QUICK.

Chart 15

The Bank's Outlook for Prices (Core CPI)

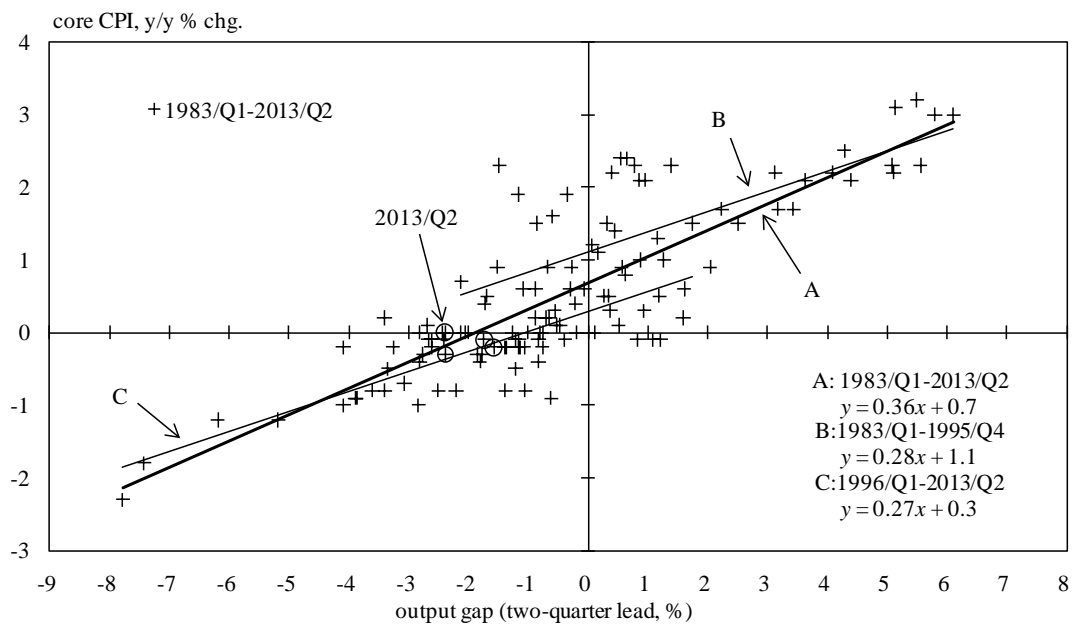


Note: The circles in the chart indicate the median of the Policy Board members' forecasts (point estimates).

Source: Bank of Japan.

Chart 16

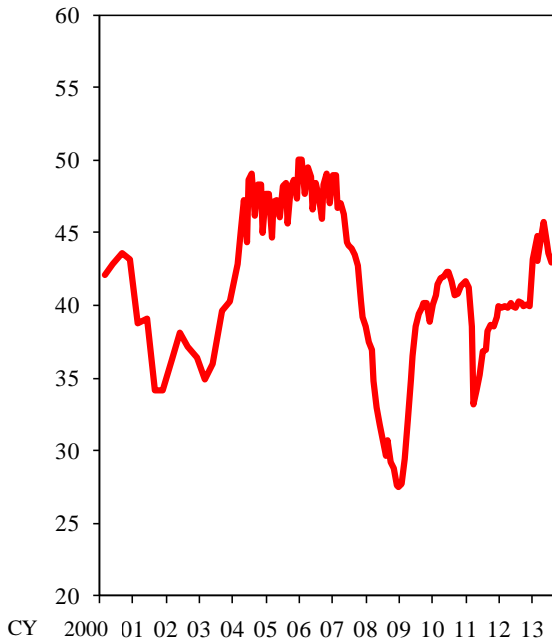
Estimated Phillips Curves



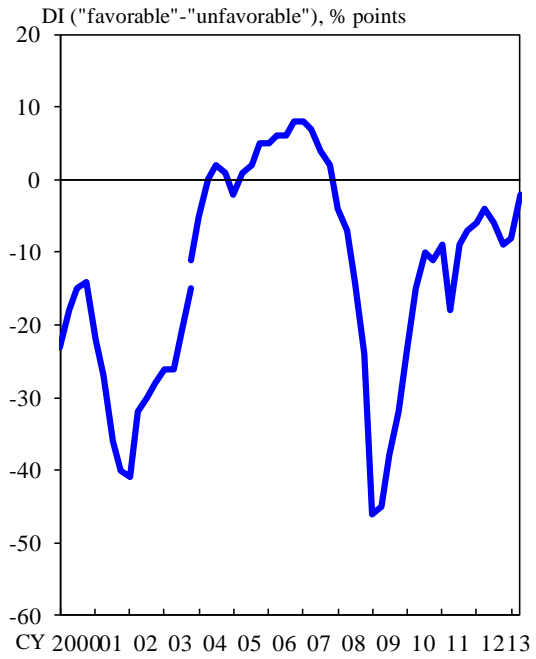
Sources: Bank of Japan; Ministry of Internal Affairs and Communications; Cabinet Office.

Consumer and Business Confidence

(1) Consumer Confidence



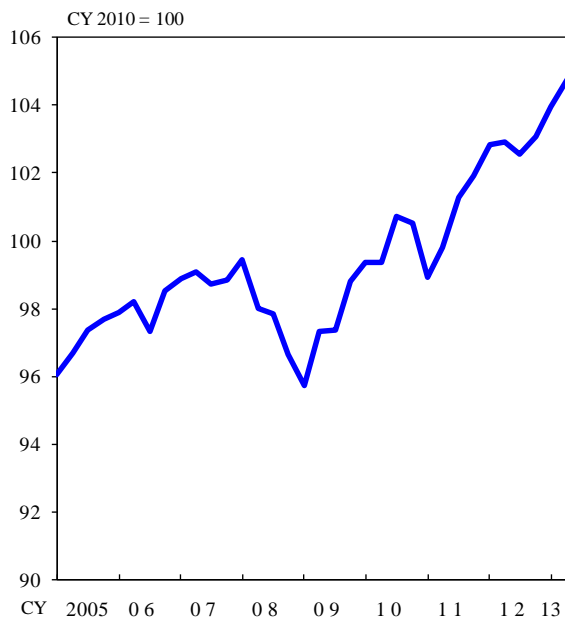
(2) *Tankan*: DI for Business Conditions



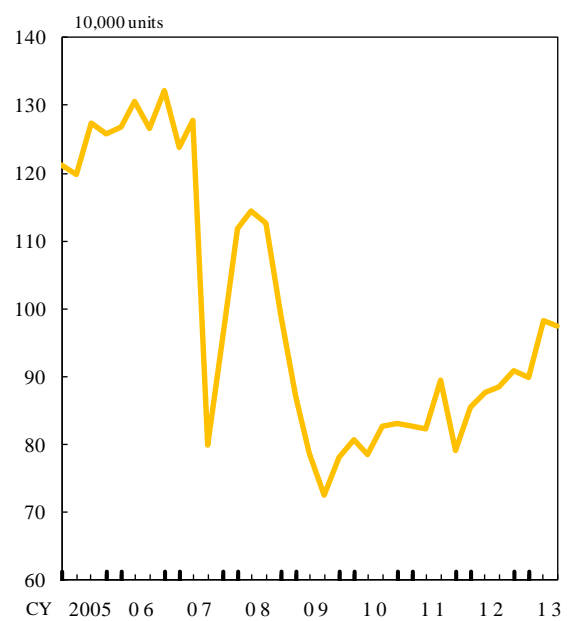
Sources: Cabinet Office; Bank of Japan.

Private Consumption and Housing Investment

(1) Real Private Consumption Expenditures



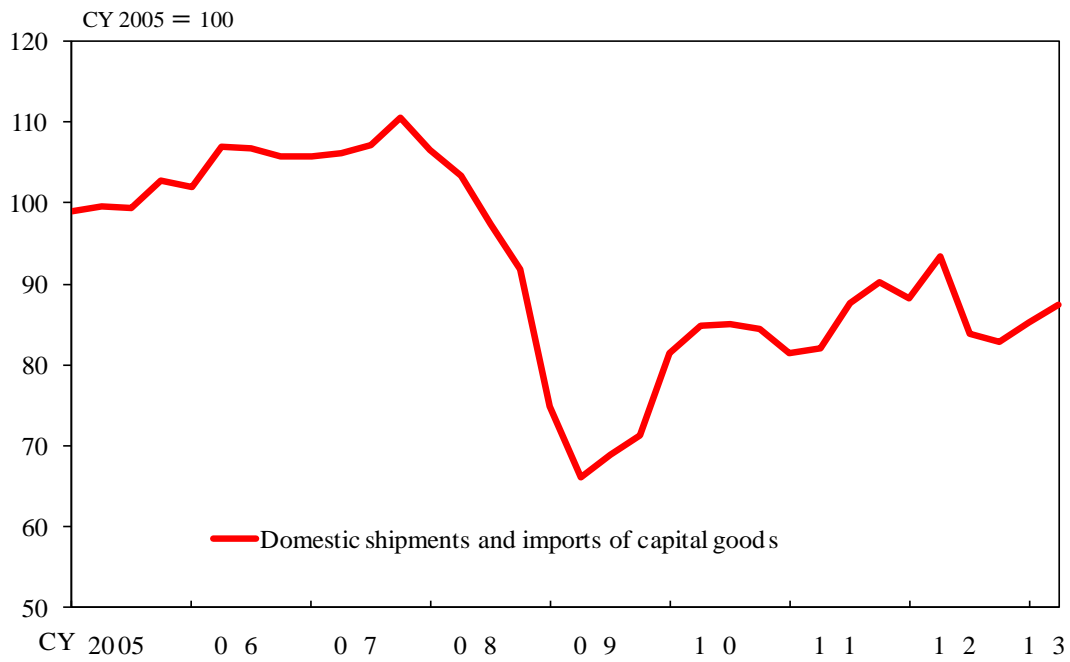
(2) Housing Starts (Annualized)



Sources: Cabinet Office; Ministry of Land, Infrastructure, Transport and Tourism.

Chart 19

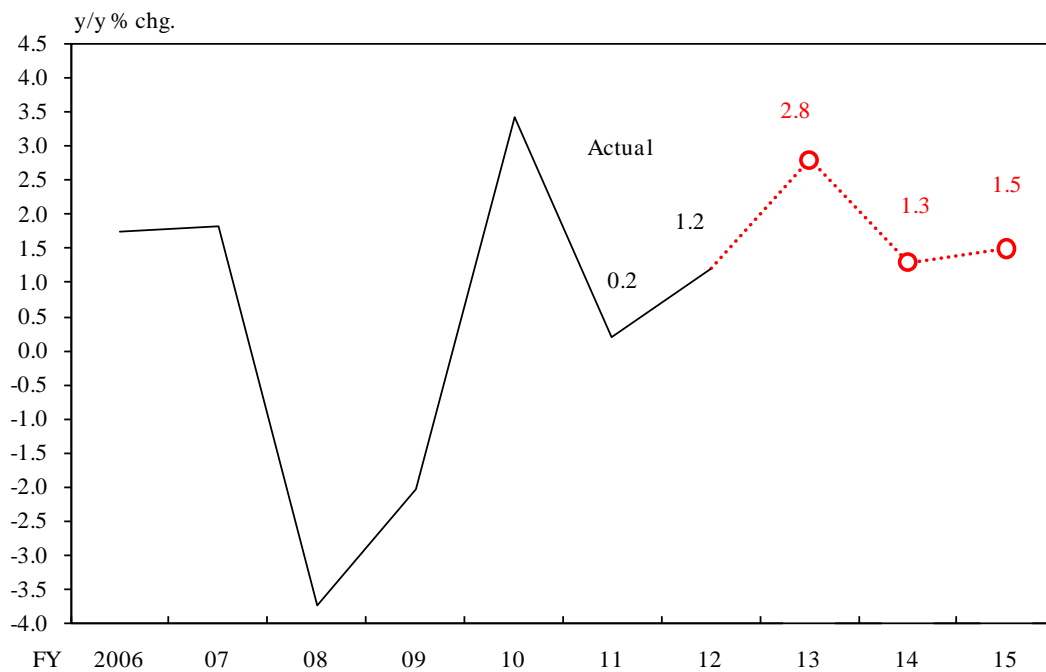
Business Fixed Investment



Source: Ministry of Economy, Trade and Industry.

Chart 20

The Bank's Outlook for Economic Activity (Real GDP)



Note: The circles in the chart indicate the median of the Policy Board members' forecasts (point estimates).

Source: Bank of Japan.