

# Aiming at 2 Percent Inflation. Why?

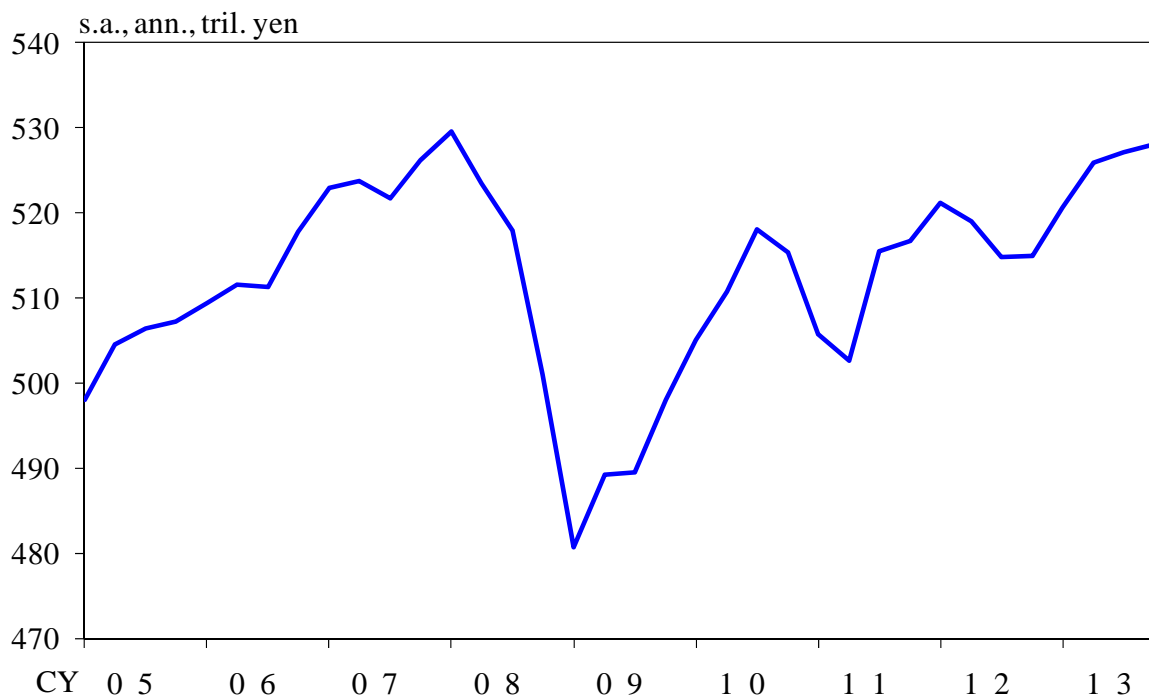
*Speech at the Japan Chamber of Commerce and Industry*

March 20, 2014

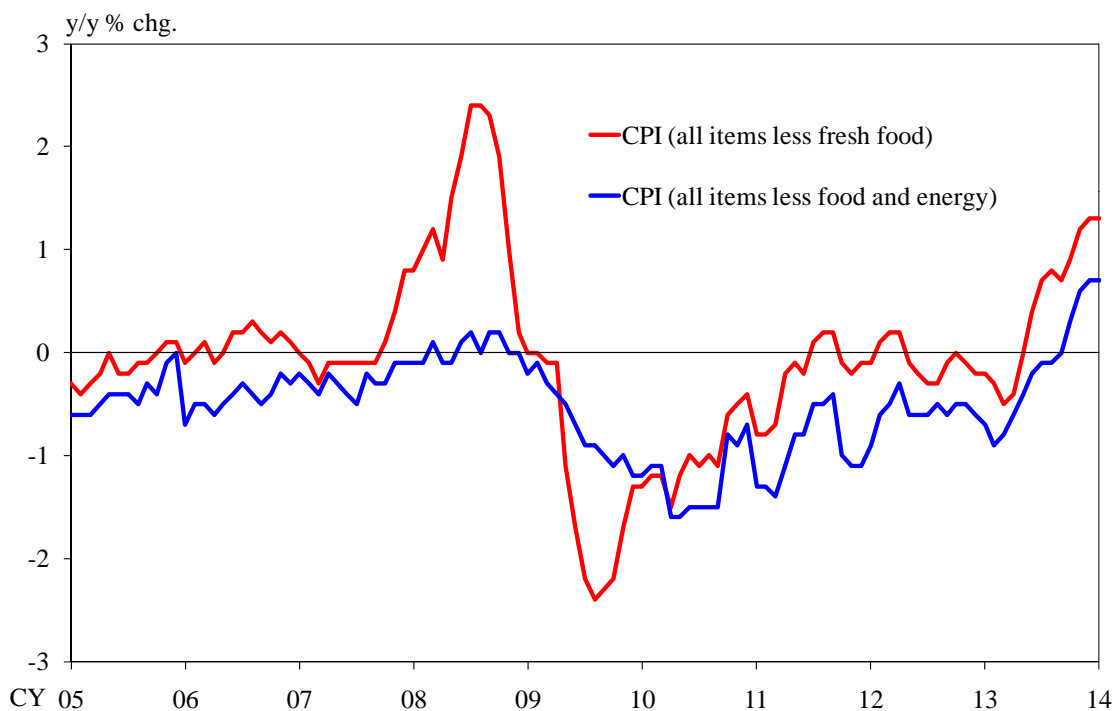
Haruhiko Kuroda  
*Governor of the Bank of Japan*

Chart 1

## Real GDP

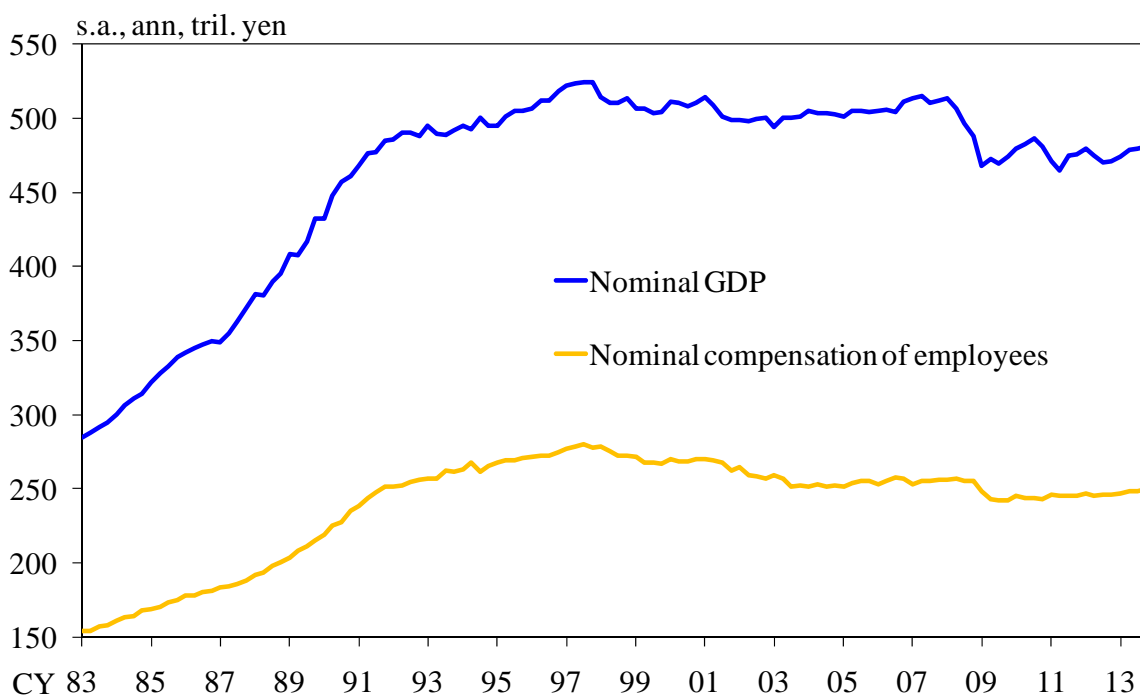


## Consumer Prices



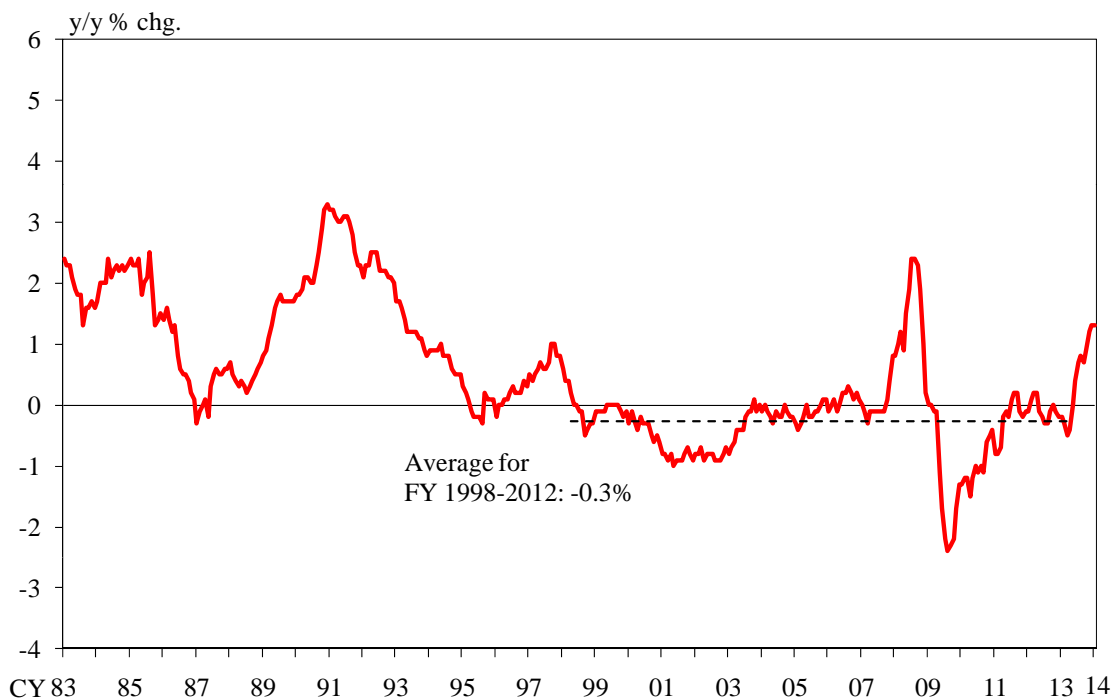
Source: Ministry of Internal Affairs and Communications.

## GDP and Employee Income (Nominal)



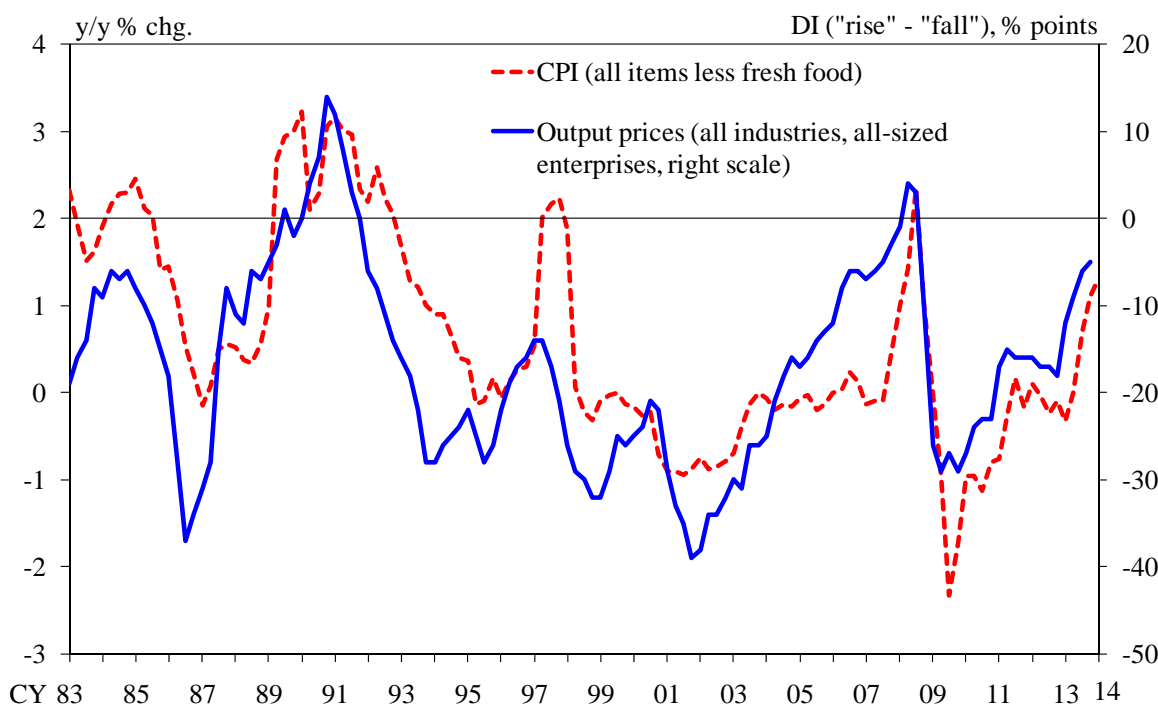
Source: Cabinet Office.

## Consumer Prices (All Items Less Fresh Food) under Deflation



Note: Figures for the CPI are adjusted to exclude the effects of changes in the consumption tax rate.  
Source: Ministry of Internal Affairs and Communications.

## Change in Output Prices and Consumer Prices

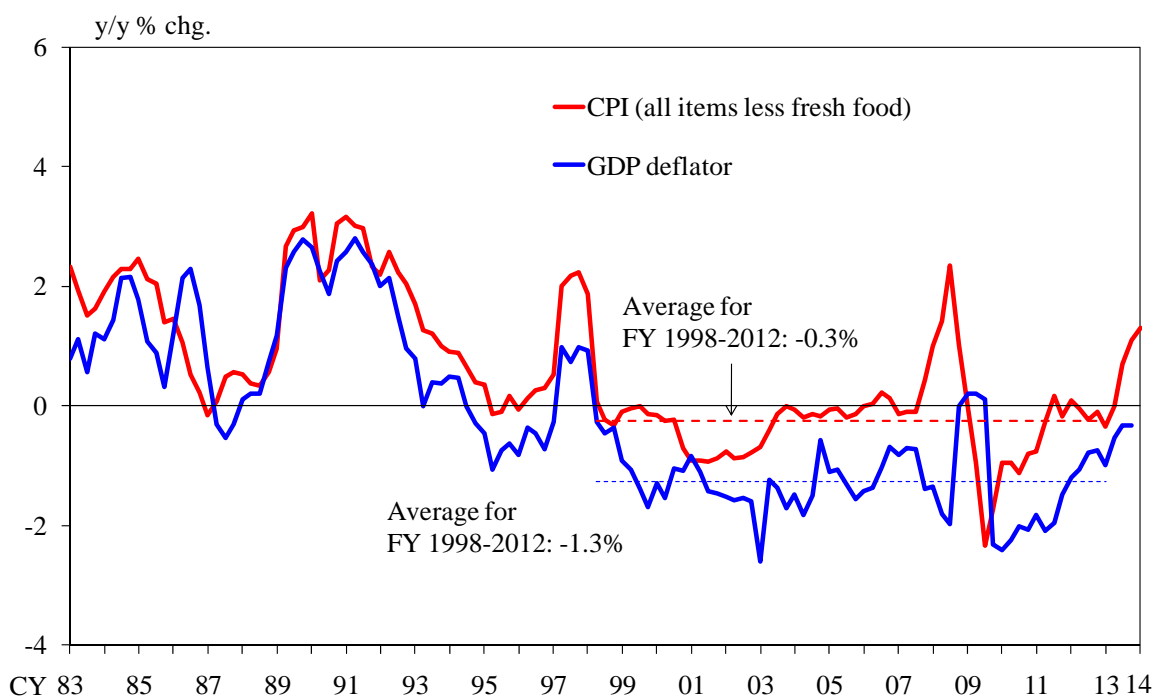


Note: The CPI for 2014/Q1 is that of January.  
Sources: Ministry of Internal Affairs and Communications; Bank of Japan.

## Reasons for Aiming at 2 Percent Inflation

- Upward bias in the CPI
- Ensuring room to reduce interest rates: the so-called buffer
- 2 percent as a global standard

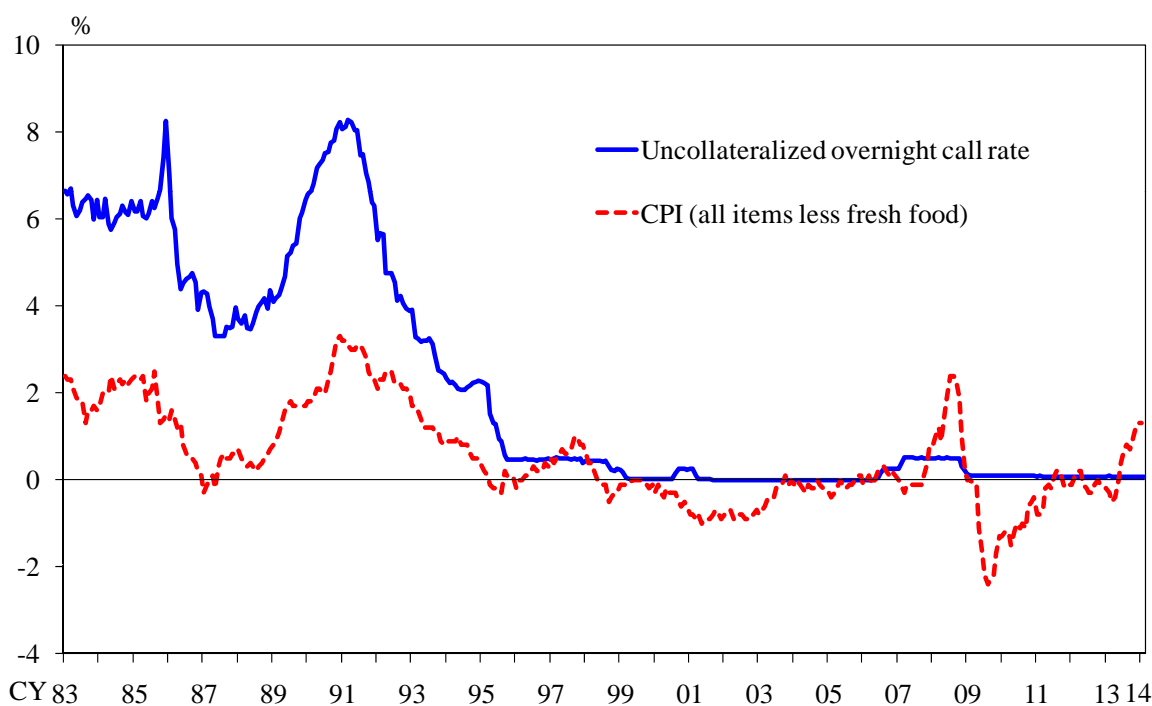
## Consumer Prices and GDP Deflator



Note: The CPI for 2014/Q1 is that of January.

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

## Money Market Rates and Consumer Prices



Notes: 1. Figures for the CPI are adjusted to exclude the effects of changes in the consumption tax rate.

2. The uncollateralized overnight call rate is substituted by the collateralized overnight call rate for figures until June 1985.

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

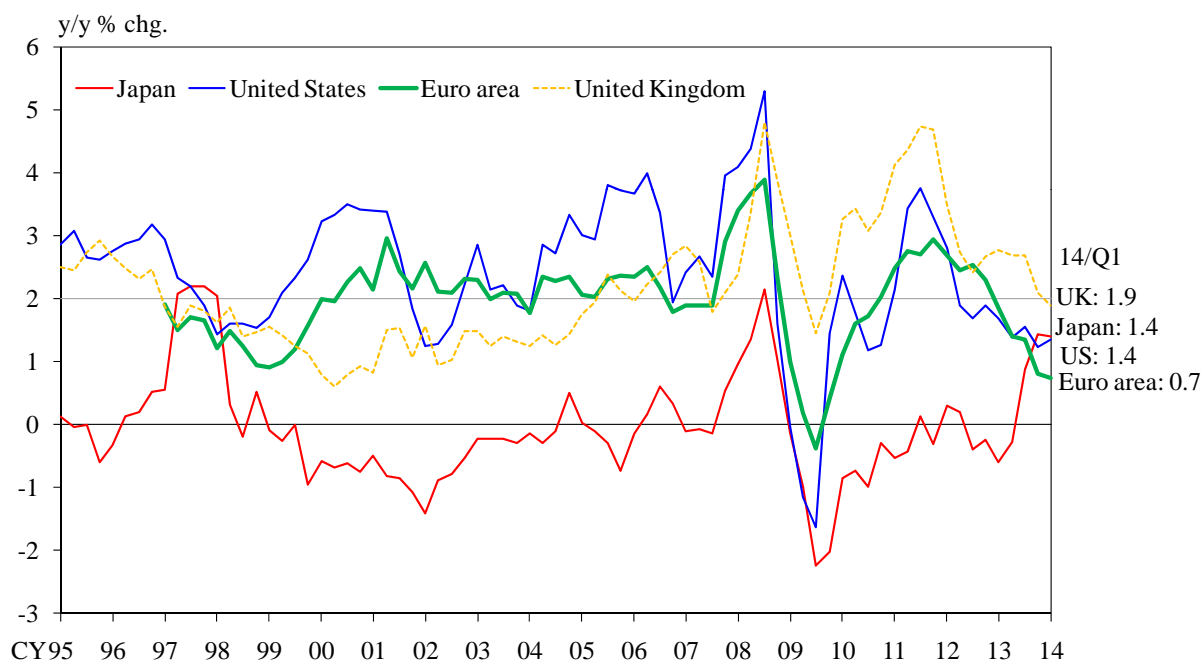
## Price Stability in Various Economies

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

Notes: 1. Reference indicators refer to CPI, PCE inflation, and HICP for all items.

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

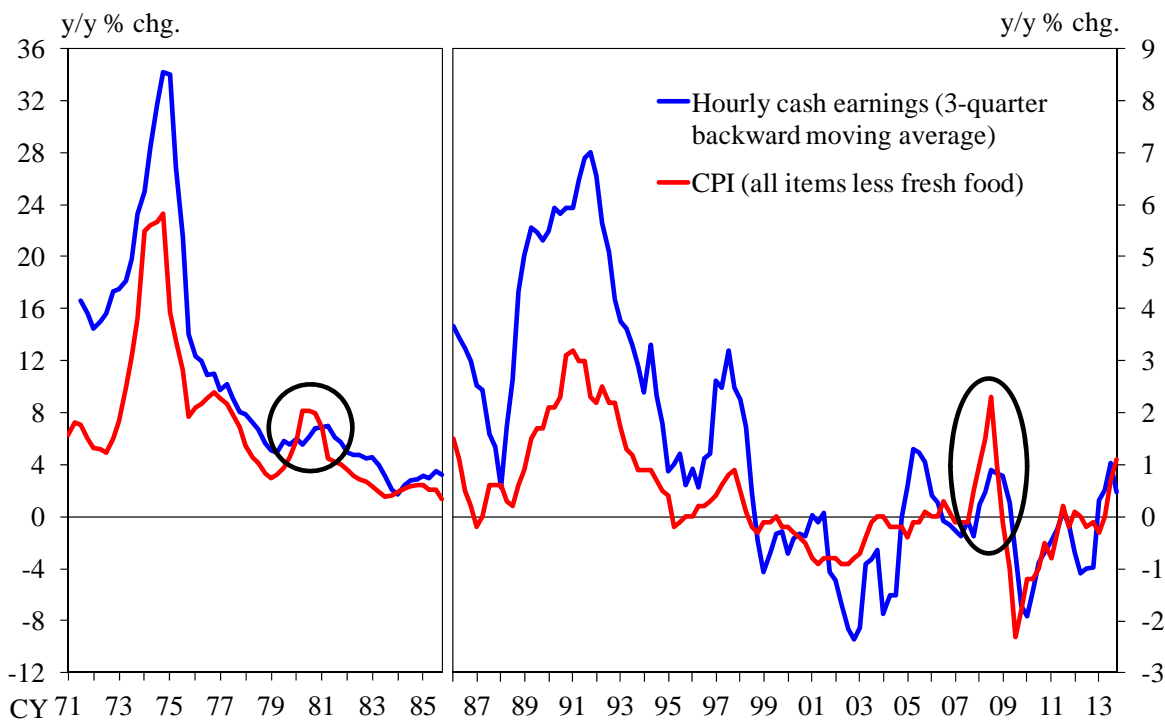
## Consumer Prices (All Items)



Note: Figures for Japan and the United Kingdom for 2014/Q1 are those of January. Figures for the United States and the euro area for 2014/Q1 are January-February averages.

Sources: Ministry of Internal Affairs and Communications; Bureau of Labor Statistics; Eurostat; Office for National Statistics.

## Wages and Consumer Prices

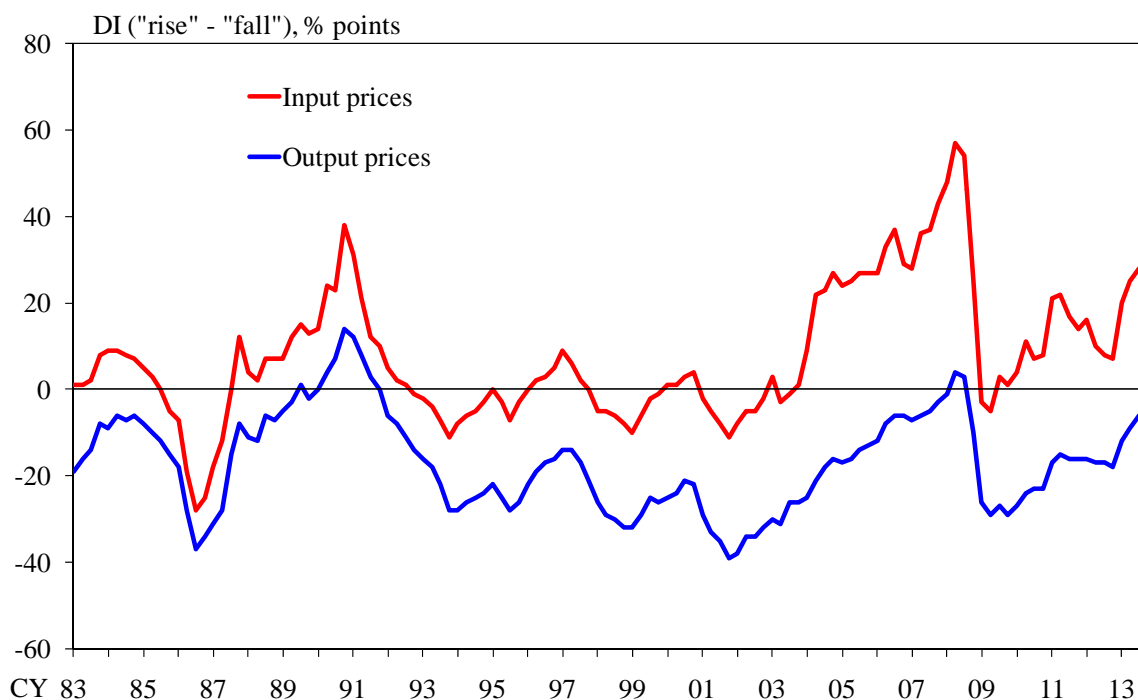


Notes: 1. Figures for the CPI are adjusted to exclude the effects of changes in the consumption tax rate.

2. Figures for hourly cash earnings up through 1990 are those for establishments with 30 or more employees.

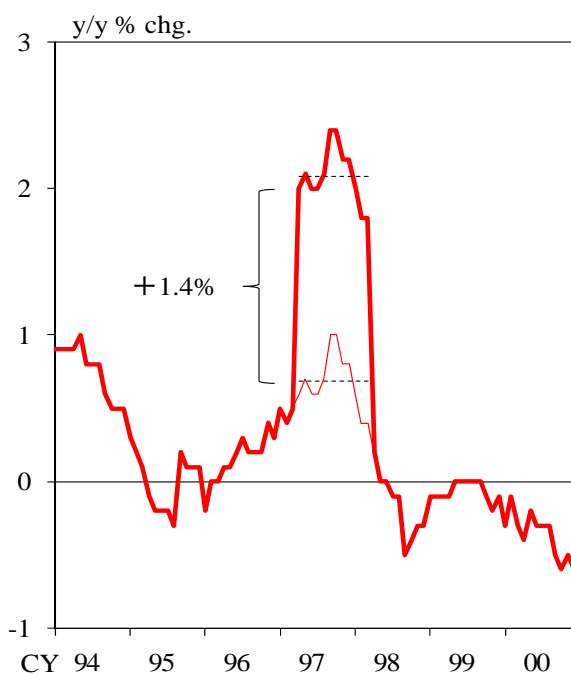
Sources: Ministry of Internal Affairs and Communications; Ministry of Health, Labour and Welfare.

## Changes in Output and Input Prices (*Tankan*, All Industries and All-Sized Enterprises)



Source: Bank of Japan.

## Effects of the Consumption Tax Hike on the CPI -The case of the tax hike in 1997-



	y/y % chg.		
	(A) CPI (including the effects of the consumption tax hike)	(B) CPI (excluding the effects of the consumption tax hike)	(A) - (B)
Jan-97	0.5	0.5	0.0
Feb	0.4	0.4	0.0
Mar	0.5	0.5	0.0
Apr	2.0	0.6	+1.4
May	2.1	0.7	+1.4
Jun	2.0	0.6	+1.4
Jul	2.0	0.6	+1.4
Aug	2.1	0.7	+1.4
Sep	2.4	1.0	+1.4
Oct	2.4	1.0	+1.4
Nov	2.2	0.8	+1.4
Dec	2.2	0.8	+1.4
Jan-98	2.0	0.6	+1.4
Feb	1.8	0.4	+1.4
Mar	1.8	0.4	+1.4
Apr	0.2	0.2	0.0
May	0.0	0.0	0.0
Jun	0.0	0.0	0.0

Notes: 1. "CPI" refers to CPI for all items less fresh food.

2. The contribution to prices from the tax hike is computed on the assumption that the tax increase was fully passed on for all taxable items.

Source: Ministry of Internal Affairs and Communications.