

"Comprehensive Assessment" of the Monetary Easing and "QQE with Yield Curve Control"

Speech at a Meeting with Business Leaders in Osaka

September 26, 2016

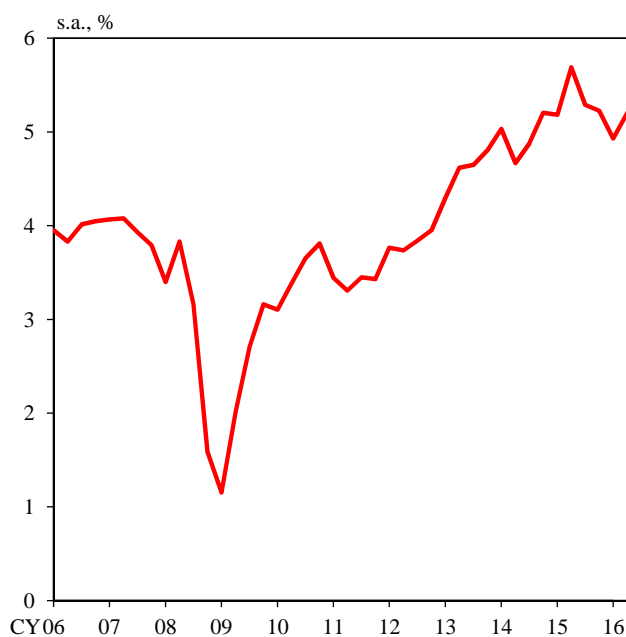
Haruhiko Kuroda

Governor of the Bank of Japan

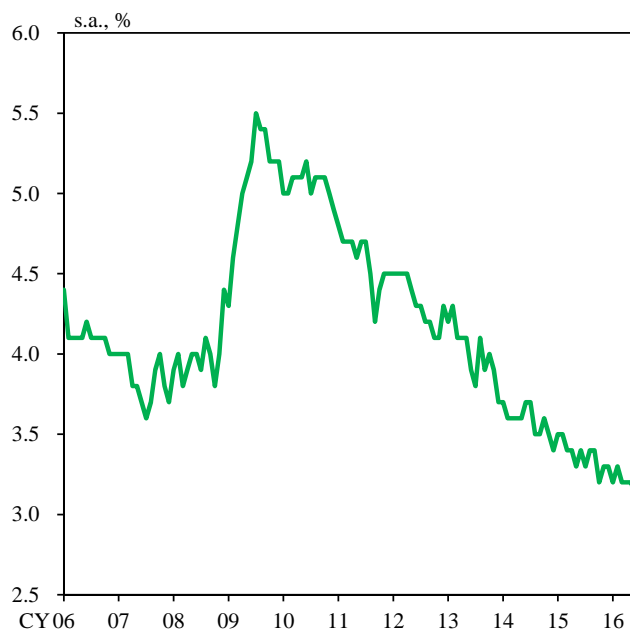
Chart 1

Corporate Profits and Labor Market Conditions

Ratio of Current Profits to Sales

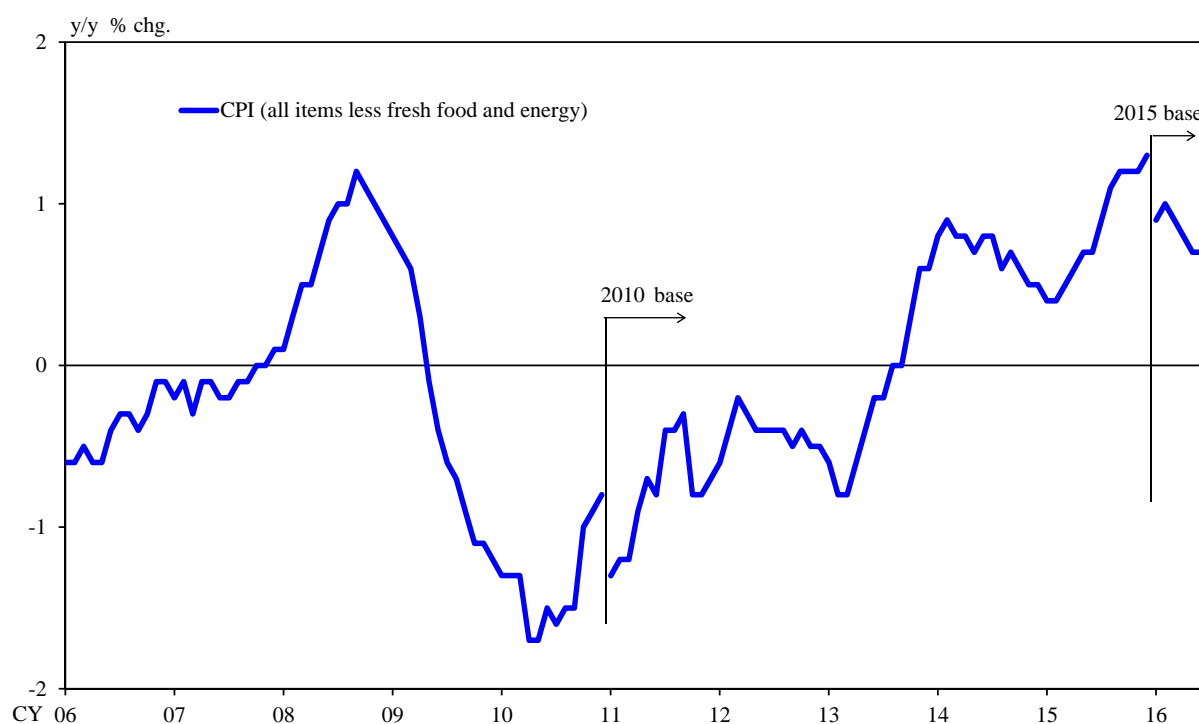


Unemployment Rate



Note: Figures for the ratio of current profits to sales exclude "Finance and Insurance."
Sources: Ministry of Finance; Ministry of Internal Affairs and Communications.

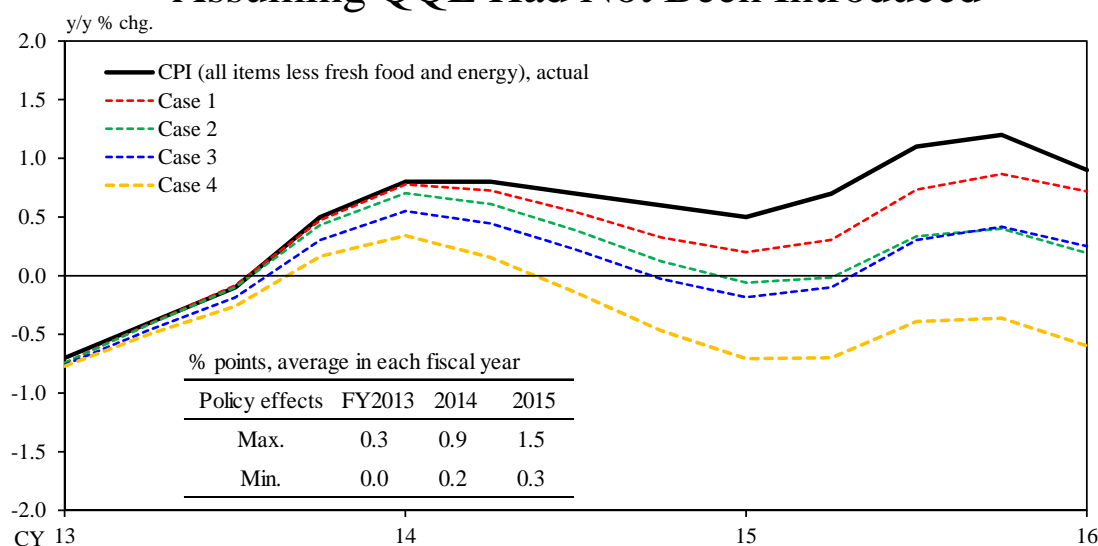
Consumer Prices



Note: Figures for the CPI (all items less fresh food and energy) are calculated by the Research and Statistics Department, Bank of Japan, and are adjusted to exclude the estimated effects of changes in the consumption tax rate.

Source: Ministry of Internal Affairs and Communications.

Simulated Developments in Consumer Prices Assuming QQE Had Not Been Introduced



Assumptions for each counterfactual simulation

Case 1: The decline in the real interest rate from 2013/Q2 onward is regarded as a policy effect.

Case 2: The decline in the real interest rate, the depreciation of the yen, and the increase in stock prices from 2013/Q2 onward are regarded as policy effects.

Case 3: The decline in the real interest rate from 2013/Q1 onward is regarded as a policy effect.

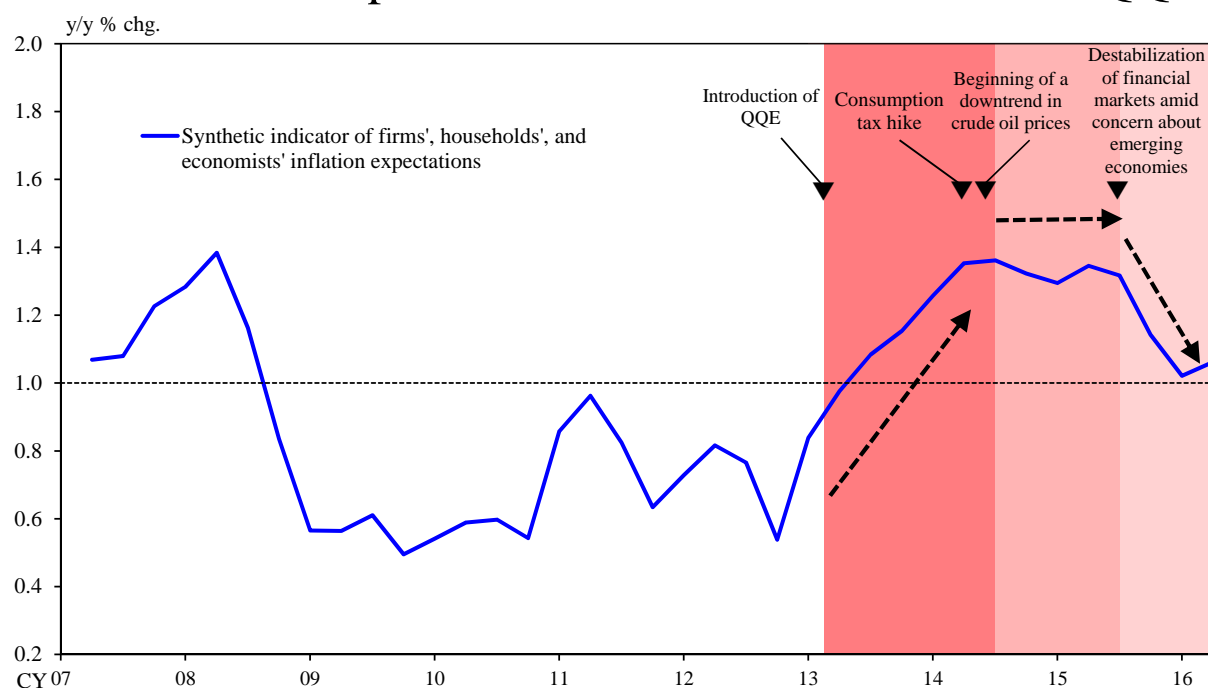
Case 4: The decline in the real interest rate, the depreciation of the yen, and the increase in stock prices from 2013/Q1 onward are regarded as policy effects.

Notes: 1. The policy effects are calculated as the difference between the simulation results and actual values.

2. Figures for the CPI (all items less fresh food and energy) are calculated by the Research and Statistics Department, Bank of Japan, and are adjusted to exclude the estimated effects of changes in the consumption tax rate.

Sources: Ministry of Internal Affairs and Communications; Bloomberg, etc.

Inflation Expectations after the Introduction of QQE

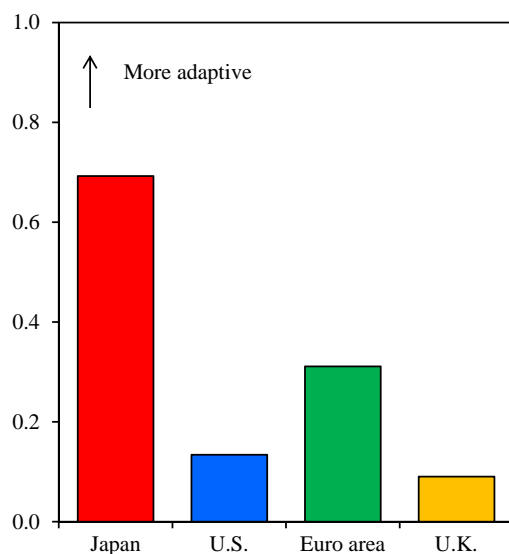


Notes: 1. Inflation expectations of firms, households, and economists are represented by the *Tankan*, the "Opinion Survey," and the "Consensus Forecasts," respectively.
 2. Semiannual data from the "Consensus Forecasts" up through 2014/Q2 are linearly interpolated. "Opinion Survey" figures exclude inflation expectations by respondents whose annual inflation expectations were +5% percent or greater and -5% percent or smaller. The output prices DI in the *Tankan* represents the difference between the share of firms that raised prices in the preceding three months and the share of firms that lowered prices.

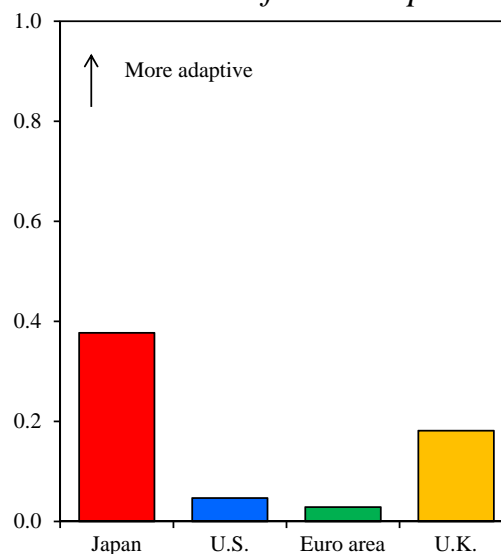
Sources: Consensus Economics Inc., "Consensus Forecasts"; Bank of Japan.

The Importance of "Adaptive" Mechanism of Inflation Expectations Formation

Contribution of Observed Inflation to 1-Year-Ahead Inflation Expectations



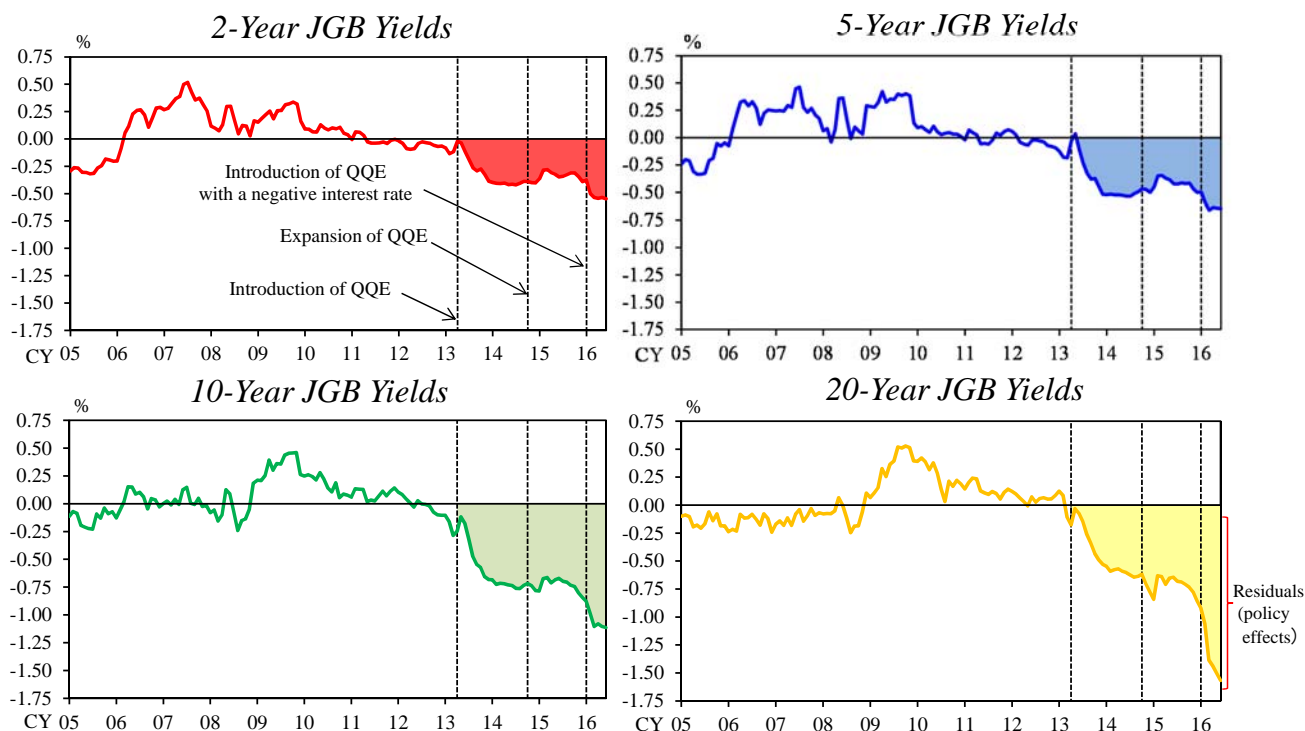
Contribution of Observed Inflation to 6-10 Years Ahead Inflation Expectations



Notes: 1. The estimation periods are as follows: 2000/Q1-2016/Q3 for Japan and the United States; 2003/Q2-2016/Q3 for the euro area; and 2005/Q1-2016/Q3 for the United Kingdom.
 2. The observed inflation rate and inflation expectations in Japan are adjusted to exclude the estimated effects of changes in the consumption tax rate.
 3. The observed inflation rates used in the estimation are CPI (all items).

Sources: Consensus Economics Inc., "Consensus Forecasts"; Ministry of Internal Affairs and Communications; BLS; Eurostat; ONS.

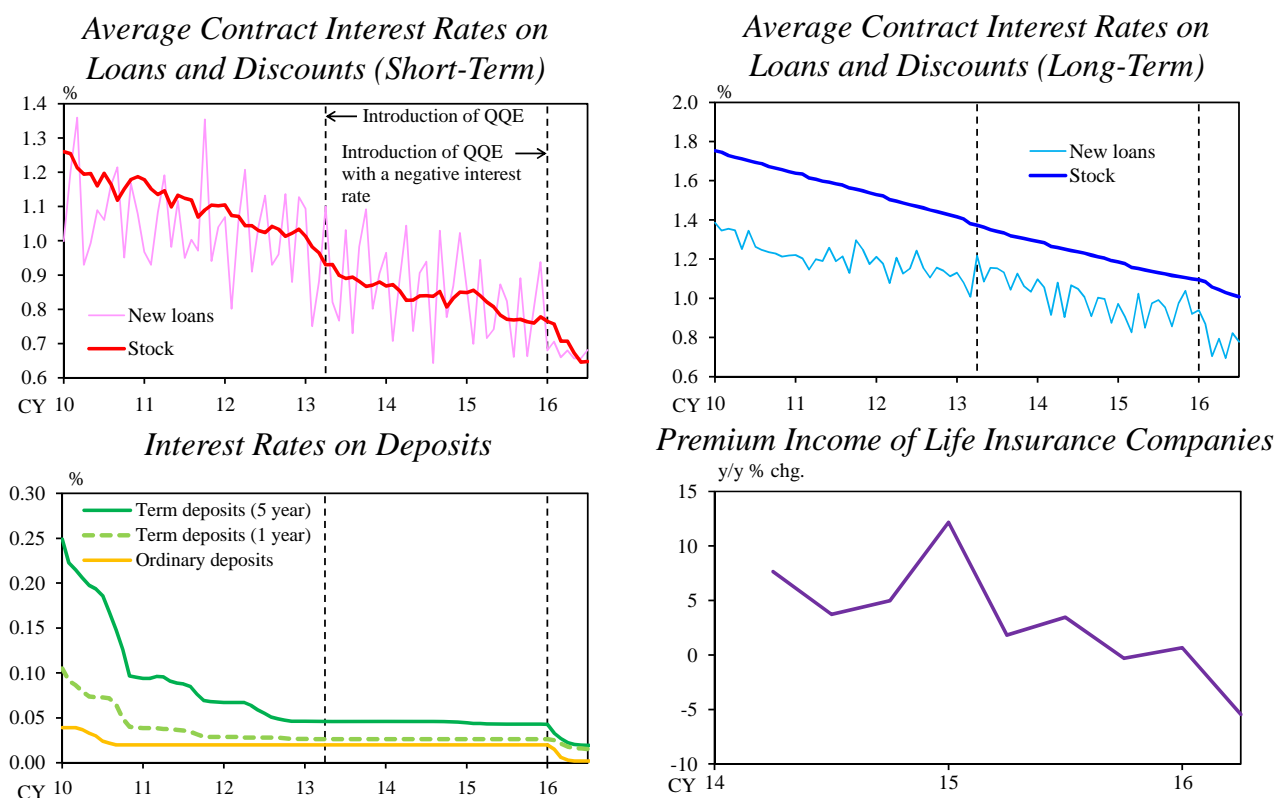
The Impact of JGB Purchases and the Negative Interest Rate Policy on Long-Term Interest Rates



Note: The graphs show the residuals obtained when regressing JGB yields (for 2 years, 5 years, 10 years, and 20 years) on 10-year U.S. Treasury bond yields, the year-on-year rate of change in the CPI (all items less fresh food), and the active job openings-to-applicants ratio as a proxy for the output gap. The estimation period is from January 1997 to March 2013. The data end in June 2016.

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

The Impact of the Negative Interest Rate Policy on Financial Institutions' Profits

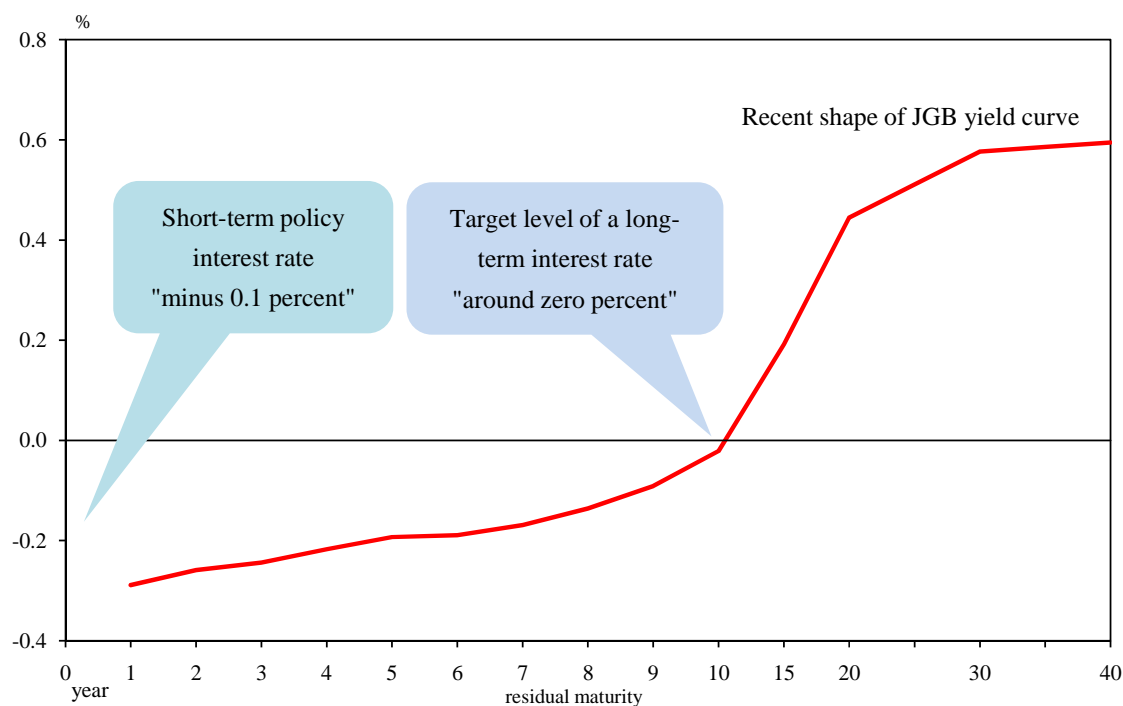


Notes: 1. Figures for average contract interest rates on loans and discounts exclude the Resolution and Collection Corporation and the Japan Post Bank.

2. Interest rates on term deposits are the simple averages of interest rates posted by financial institutions. Data cover domestically licensed banks (excluding several banks), all correspondent *shinkin* banks and the Shoko Chukin Bank.

Sources: The Life Insurance Association of Japan; Bank of Japan.

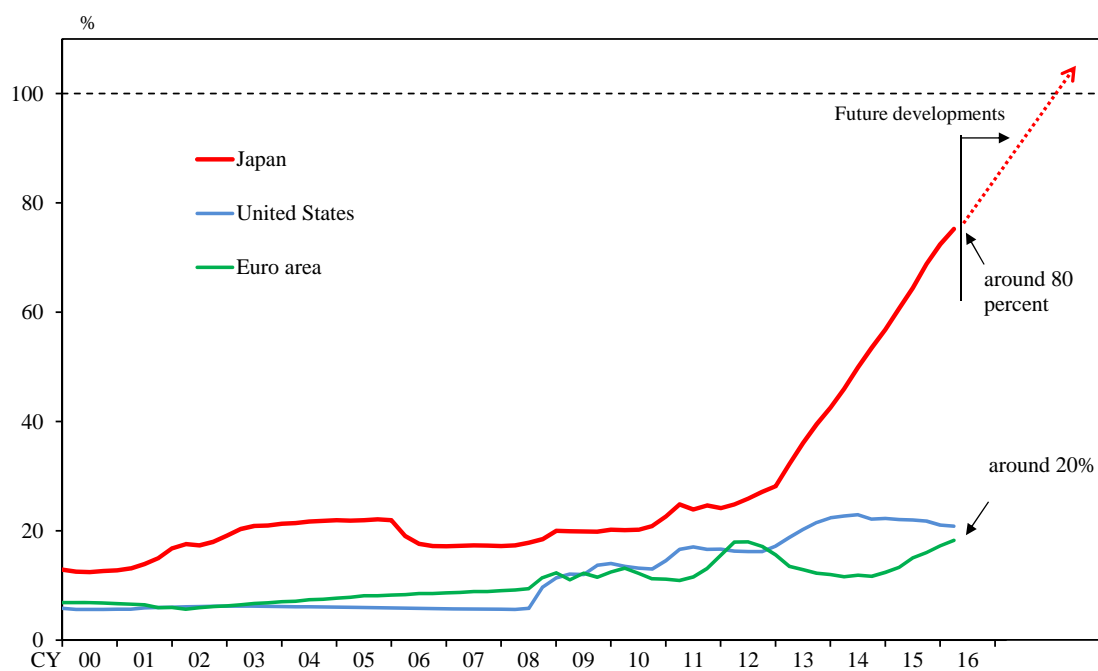
Yield Curve Control



Source: Bloomberg.

8

Ratio of Monetary Base to Nominal GDP



Sources: Cabinet Office; Bank of Japan; Federal Reserve; BEA; ECB; Eurostat.

9