

Toward Achieving the Price Stability Target in a Sustainable and Stable Manner, Accompanied by Wage Increases

*Speech at the Meeting of Councillors of Keidanren
(Japan Business Federation) in Tokyo*

December 26, 2022

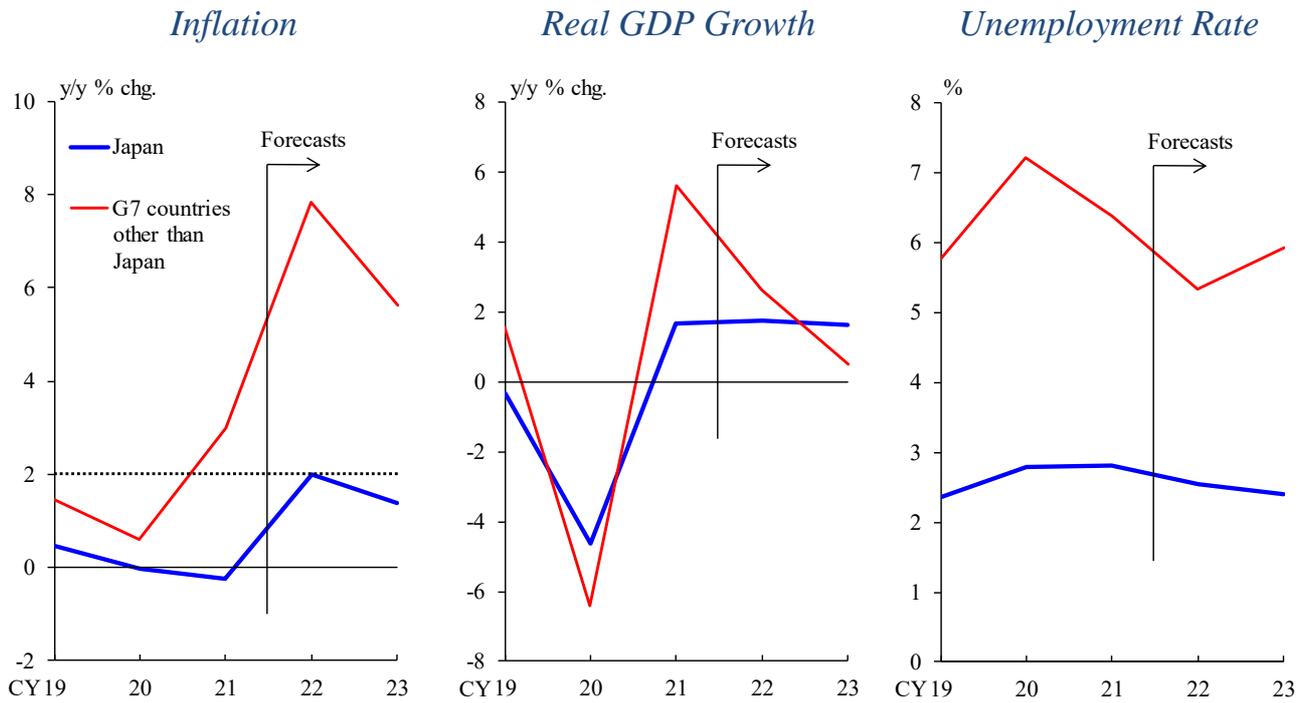
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Governor of the Bank of Japan

Introduction

- I. Recent Economic and Price Developments and the Bank's Conduct of Monetary Policy
- II. Characteristics of the Labor Market and Wage Formation in Japan

Concluding Remarks

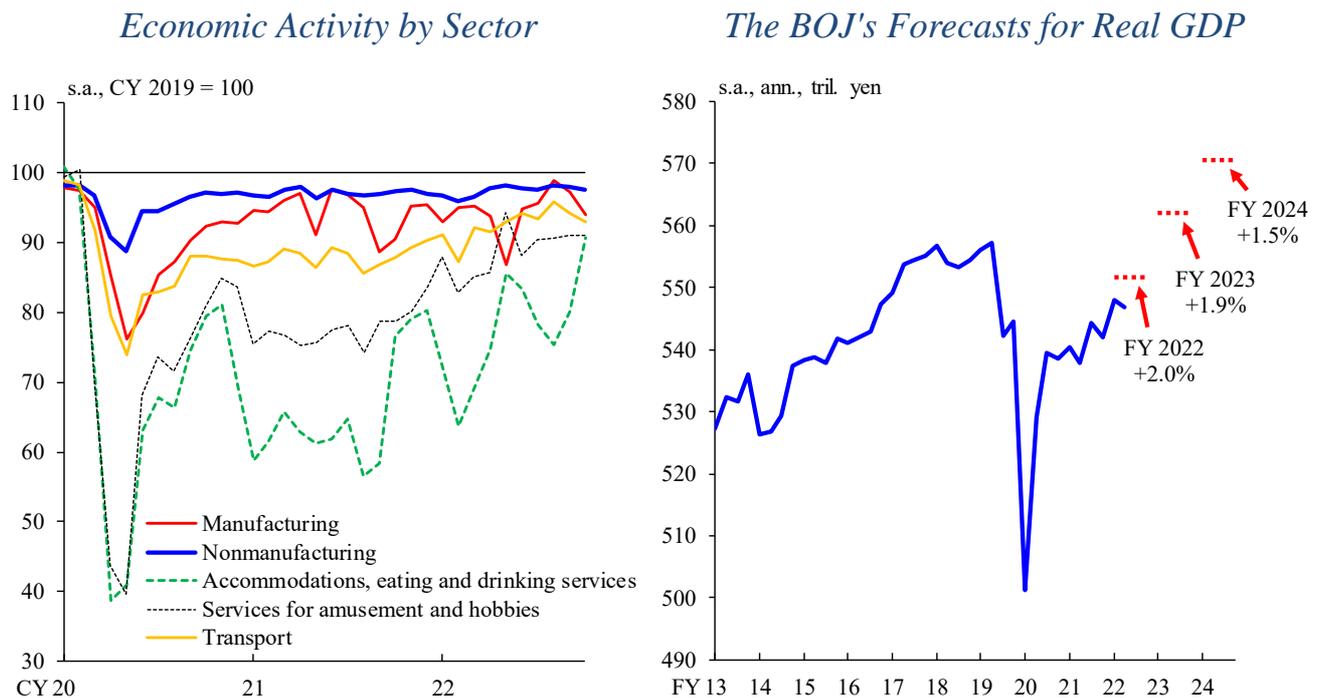
Forecasts for Economic Activity and Prices in Major Advanced Countries (IMF)



Note: The forecasts presented are those as of October 2022. Figures for the Group of Seven (G7) countries other than Japan are the arithmetic averages of figures for Canada, France, Germany, Italy, the United Kingdom, and the United States.
Source: IMF.

I. Recent Economic and Price Developments and the Bank's Conduct of Monetary Policy

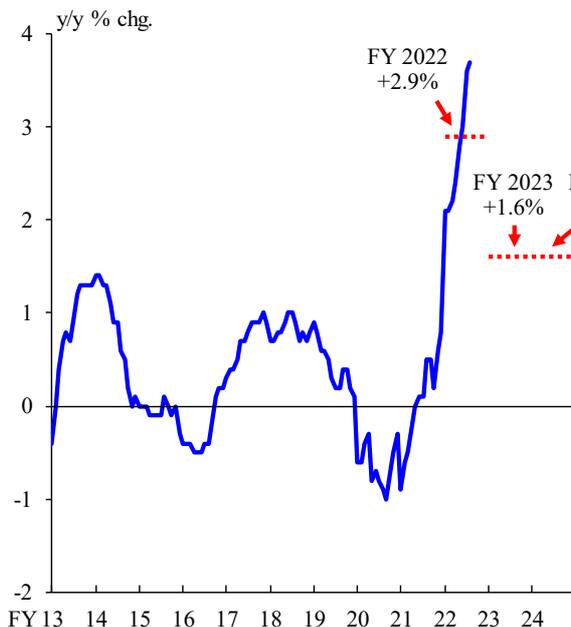
Japan's Economy



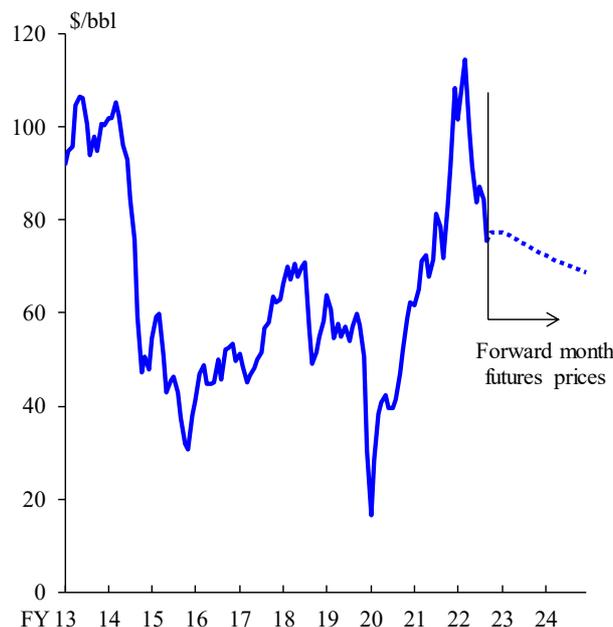
Notes: 1. In the left-hand chart, figures for manufacturing are from the Indices of Industrial Production, while those for the other sectors are from the Indices of Tertiary Industry Activity. Figures for nonmanufacturing exclude accommodations, eating and drinking services, services for amusement and hobbies, and transport.
2. In the right-hand chart, the forecasts presented are the medians of the Policy Board members' forecasts in the October 2022 *Outlook for Economic Activity and Prices* (Outlook Report). The values of real GDP for fiscal 2022 onward are calculated by multiplying the actual figure for fiscal 2021 by all successive projected growth rates for each year.
Sources: Ministry of Economy, Trade and Industry; Cabinet Office; Bank of Japan.

Prices

The BOJ's Forecasts for the CPI



Crude Oil Prices



Notes: 1. In the left-hand chart, figures are the CPI for all items less fresh food, excluding the effects of the consumption tax hikes, etc. The forecasts presented are the medians of the Policy Board members' forecasts in the October 2022 Outlook Report.
 2. In the right-hand chart, figures are futures prices of West Texas Intermediate (WTI). Figures through November 2022 are monthly averages, while the figure for December 2022 is the average for December 1-22. Figures for forward month futures prices are those as of December 22, 2022.
 Sources: Ministry of Internal Affairs and Communications; Bank of Japan; Bloomberg.

Modification of the Conduct of Yield Curve Control (YCC)

Impact of Increased Volatility in Overseas Markets

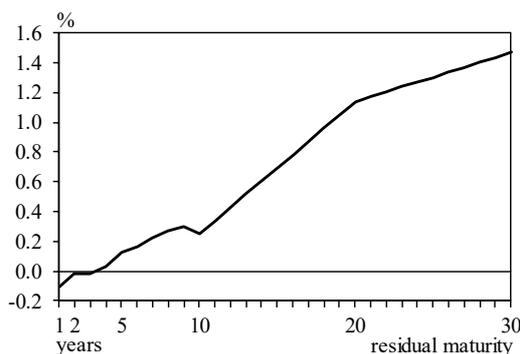
Deterioration in Japan's bond market functioning

- 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

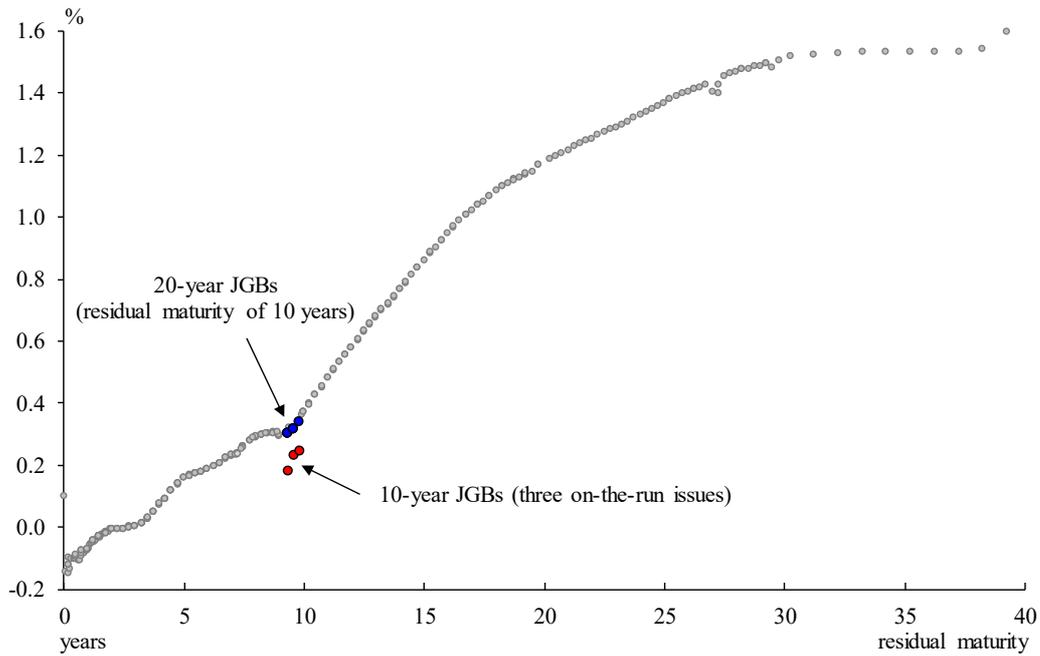
- Significant increase in the amount of JGB purchases:** from 7.3 trillion yen per month to about 9 trillion yen per month
- Expansion of the range of 10-year JGB yield fluctuations from the target level:** from between around $\pm 0.25\%$ pts to between around $\pm 0.5\%$ pts
- Nimble responses for 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

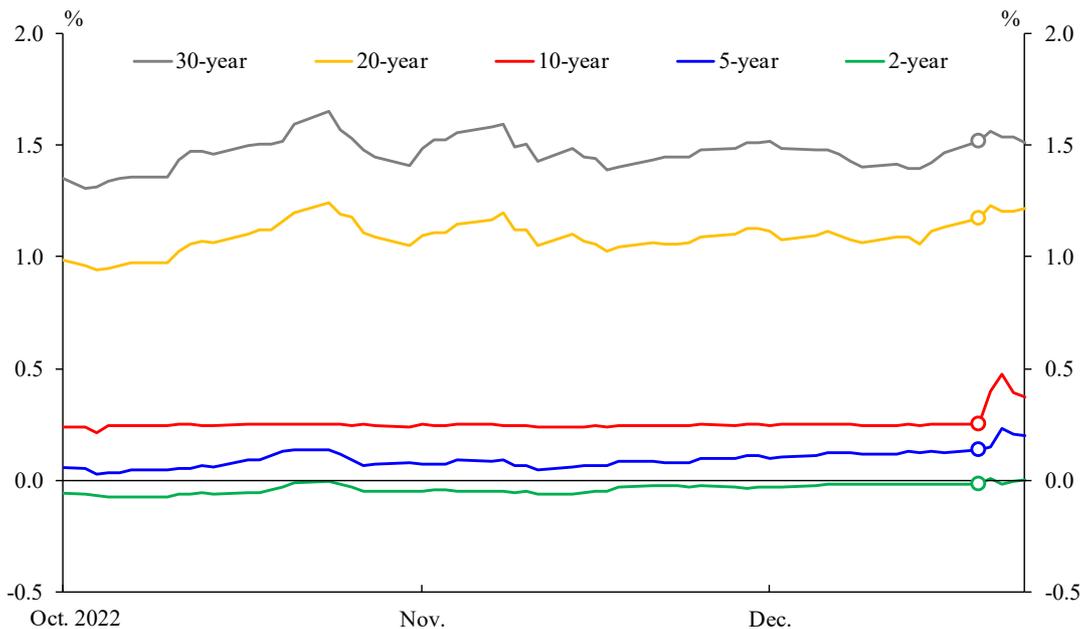
The Bank will aim to achieve the price stability target by **enhancing the sustainability of monetary easing.**

Yield Curve by JGB Issue



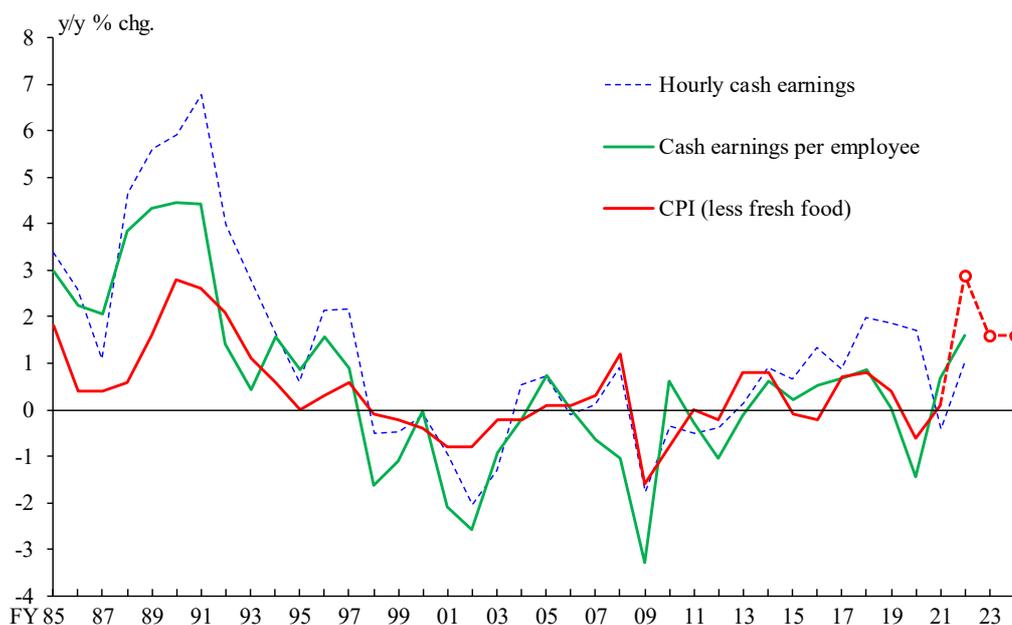
Note: Figures are those as of the day before modification of the conduct of yield curve control (December 19, 2022).
 Source: Japan Securities Dealers Association.

JGB Yields



Note: Figures denoted by circles are for the day before modification of the conduct of yield curve control (December 19, 2022).
 Source: Bloomberg.

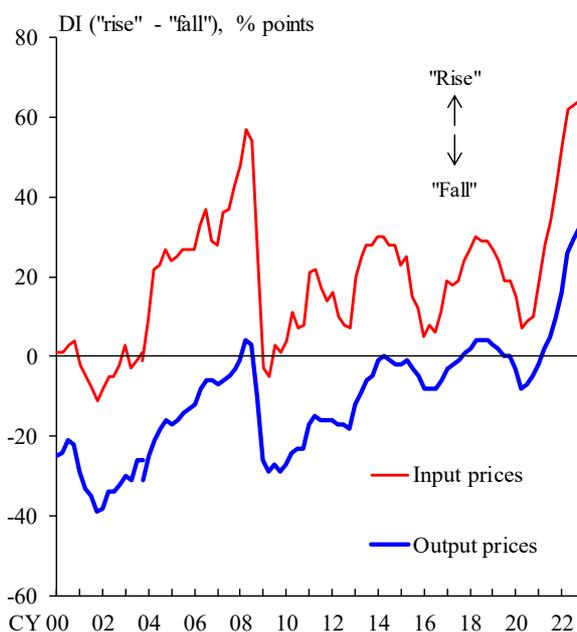
Wages and Prices



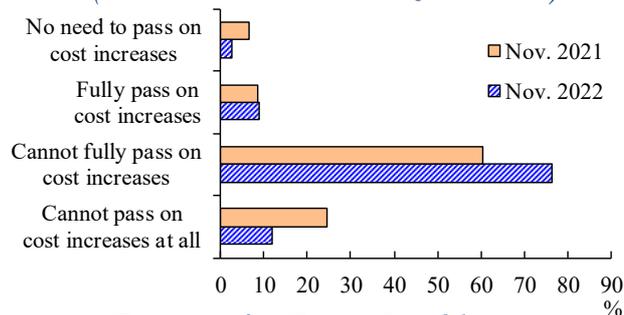
Notes: 1. Figures for cash earnings before fiscal 1991 are for establishments with 30 or more employees, while those from fiscal 1991 onward are for establishments with 5 or more employees. Figures for cash earnings for fiscal 2022 are April-October averages.
 2. Figures for the CPI exclude the effects of the consumption tax hikes, etc. Those from fiscal 2022 onward are the medians of the Policy Board members' forecasts in the October 2022 Outlook Report.
 Sources: Ministry of Health, Labour and Welfare; Ministry of Internal Affairs and Communications; Bank of Japan.

Changes in Firms' Behavior: Price Setting

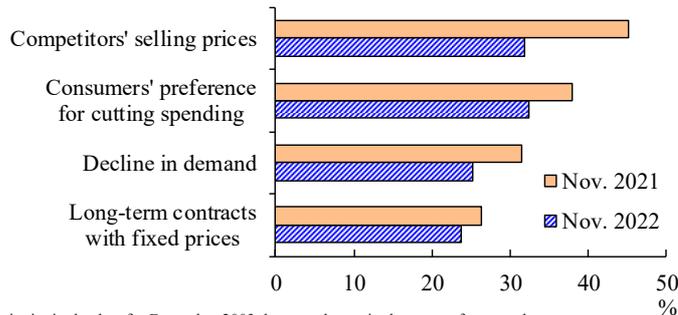
DI for Prices in the Tankan



Passing on Cost Increases (Small and Medium-Sized Firms)



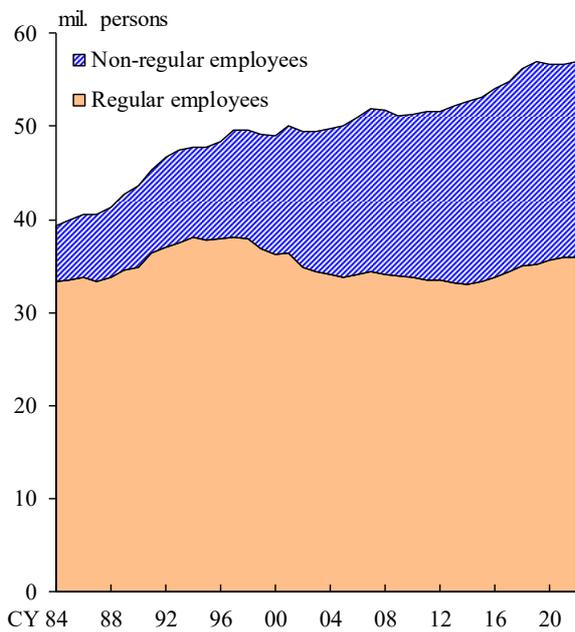
Reasons for Being Unable to Pass on Cost Increases



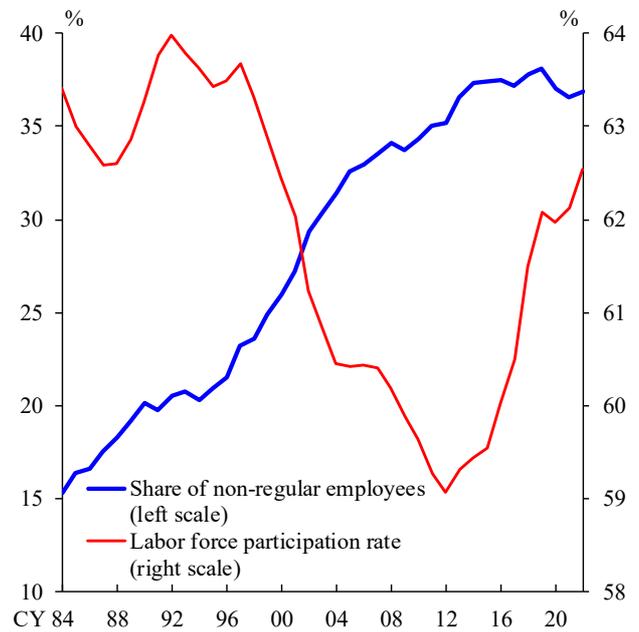
Notes: 1. In the left-hand chart, figures are for all industries and enterprises. There is a discontinuity in the data for December 2003 due to a change in the survey framework.
 2. In the right-hand charts, figures are based on the LOBO survey, which surveys developments in the pass-through of increases in goods and services prices in business-to-business transactions.
 Sources: Bank of Japan; Japan Chamber of Commerce and Industry.

Dual Structure in the Labor Market

Number of Regular and Non-regular Employees



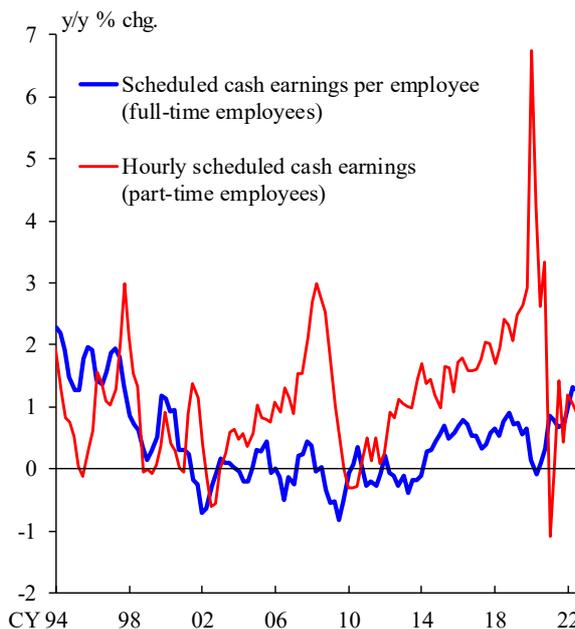
Share of Non-regular Employees and Labor Force Participation Rate



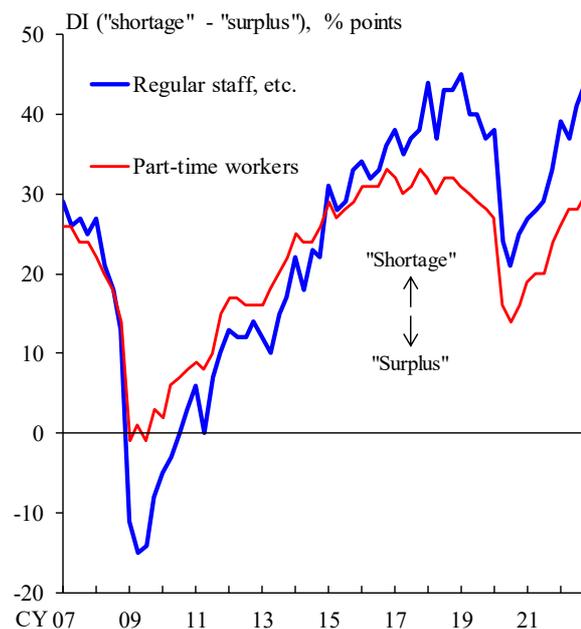
Note: Figures for the number of employees and the share of non-regular employees prior to 2002 are based on the February *Special Survey of the Labour Force Survey*, those for 2002-2012 are annual averages from the "detailed tabulations" in the *Labour Force Survey*, and those thereafter are annual averages from the "basic tabulations." All figures for 2022 are January-October averages.
Sources: Ministry of Internal Affairs and Communications; Haver.

Wages and Labor Market Conditions by Employment Type

Wages



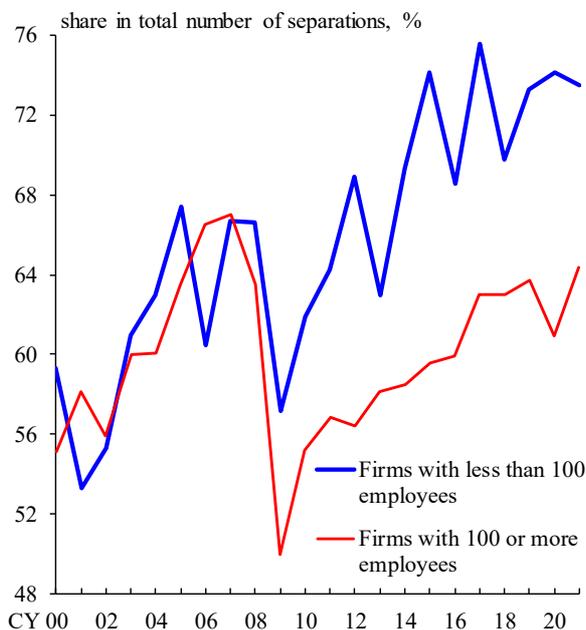
Labor Surplus/Shortage



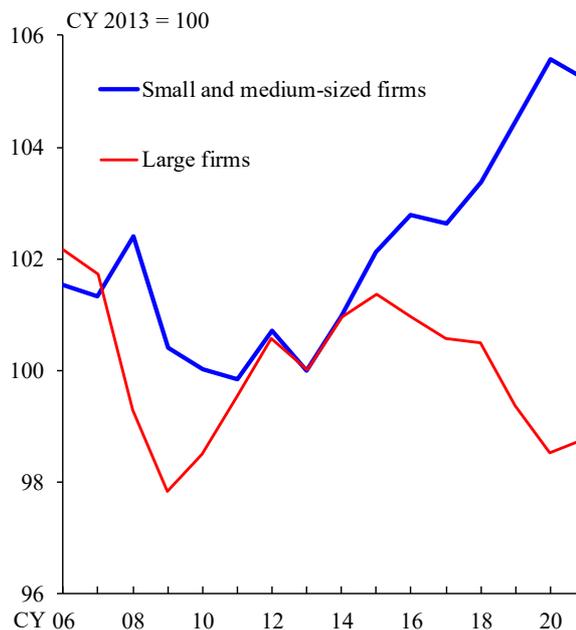
Notes: 1. In the left-hand chart, quarters are defined as follows: Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February. Figures from 2016/Q1 onward are based on continuing observations following the sample revisions. Figures for 2022/Q3 are September-October averages. The rise in the year-on-year rate of change in hourly cash earnings of part-time employees to around 7 percent in 2020/Q1 is mainly due to the suspension of business activities during the pandemic.
2. In the right-hand chart, figures are based on the *Survey on Labour Economy Trend*.
Source: Ministry of Health, Labour and Welfare.

Developments in Wages of Regular Employees

Voluntary Separation Rate



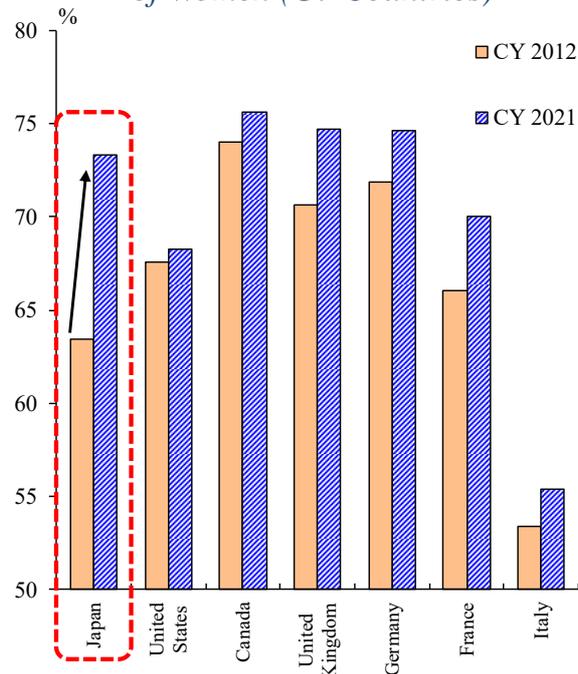
Scheduled Cash Earnings of Regular Employees



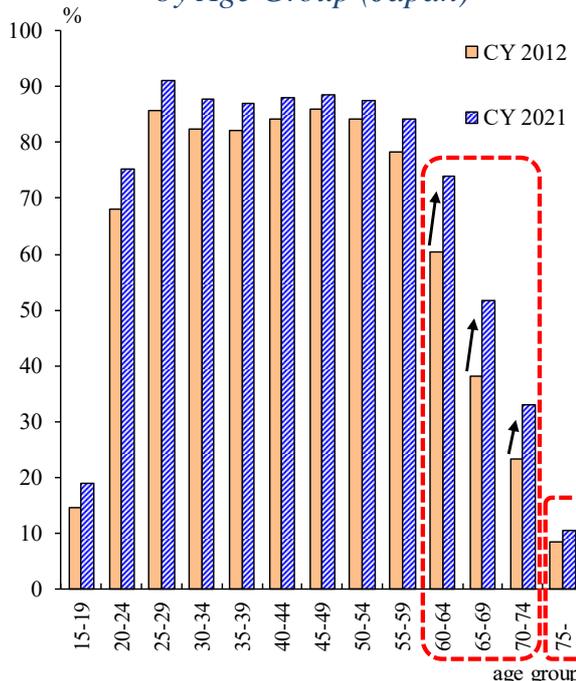
Notes: 1. In the left-hand chart, figures are based on full-time employees in the *Survey on Employment Trends*. Figures are the share of those leaving their job for personal reasons (excluding family reasons).
 2. In the right-hand chart, figures are based on the *Basic Survey on Wage Structure*. Figures cover full-time regular staff in private establishments. Small and medium-sized firms are those employing 10 to 999 regular employees, while large firms are those employing 1,000 or more regular employees.
 Source: Ministry of Health, Labour and Welfare.

Changes in Labor Market Structure: Labor Force Participation of Women and Seniors

Labor Force Participation Rate of Women (G7 Countries)



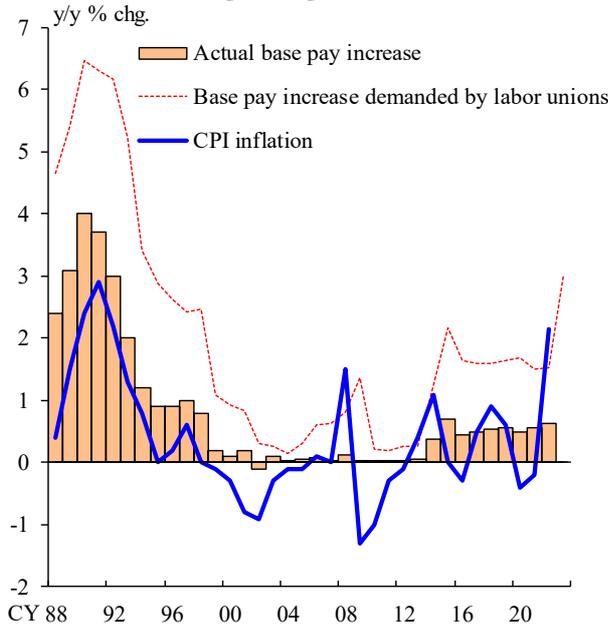
Labor Force Participation Rate by Age Group (Japan)



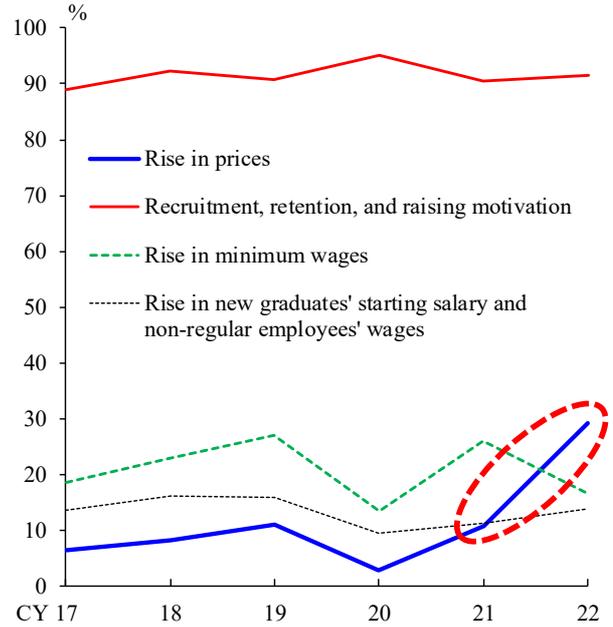
Note: The left-hand chart is based on OECD statistics for those aged 15-64, while the right-hand chart is based on the *Labour Force Survey*.
 Sources: Haver; Ministry of Internal Affairs and Communications.

Changes in Firms' Behavior: Wage Setting

*Prices and Labor-Management
Wage Negotiations*



*Reasons for Wage Increase
(Small and Medium-Sized Firms)*

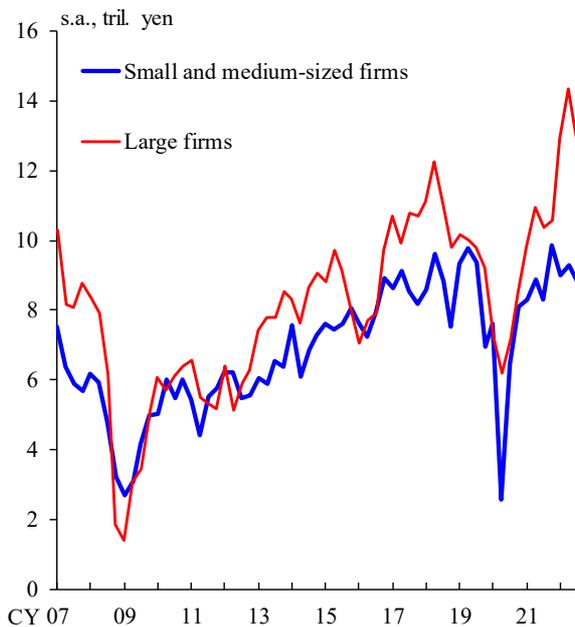


Notes: 1. In the left-hand chart, the figures for CPI inflation are for all items less fresh food, excluding the effects of the consumption tax hikes, etc. The figure for 2022 is the January-November average. The figures for the base pay increase demanded by labor unions before 2023 are calculated by subtracting seniority- and performance-related wage increases, which are assumed to be equal to the actual figures, from the total increase in wages (the sum of seniority- and performance-related wage increases and the increase in base pay) demanded by unions. The figure for 2023 is from Rengo's policy for the spring 2023 labor-management wage negotiations.

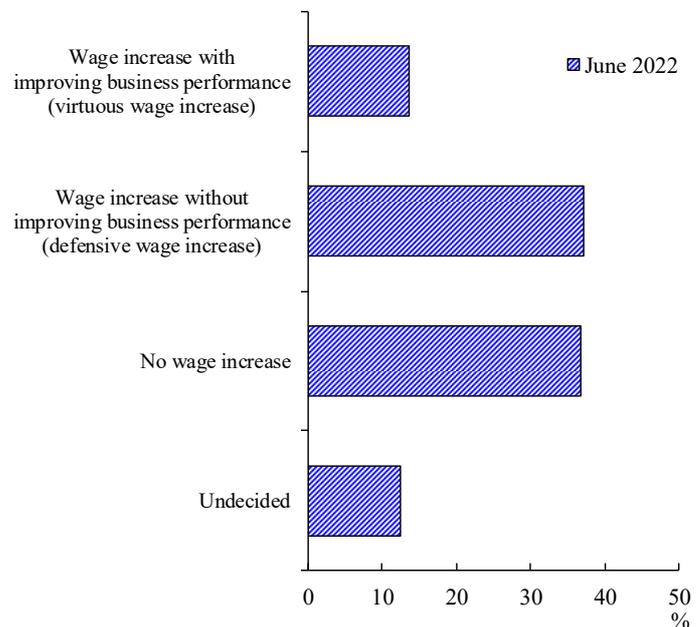
2. In the right-hand chart, figures are based on the LOBO survey. Figures before 2022 are from the December survey, while those for 2022 are from the June survey.
Sources: Japanese Trade Union Confederation (Rengo); Central Labour Relations Commission; Institute of Labour Administration; Ministry of Internal Affairs and Communications; Japan Chamber of Commerce and Industry.

Corporate Profits and Wage-Setting Behavior

Corporate Profits



*Plans for Raising Scheduled Cash Earnings
(Small and Medium-Sized Firms)*



Notes: 1. In the left-hand chart, figures are current profits based on the *Financial Statements Statistics of Corporations by Industry, Quarterly*, and exclude "finance and insurance." Figures from 2009/Q2 onward exclude pure holding companies. Small and medium-sized firms are firms with a capitalization of 10 million yen or more but less than 1 billion yen, while large firms are firms with a capitalization of 1 billion yen or more.

2. In the right-hand chart, figures are based on the LOBO survey.
Sources: Ministry of Finance; Japan Chamber of Commerce and Industry.