August 7, 2024

Bank of Japan

Japan's Economy and Monetary Policy

Speech at a Meeting with Local Leaders in Hakodate

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Deputy Governor of the Bank of Japan

(English translation based on the Japanese original)

Introduction

It is my pleasure to have the opportunity today to exchange views with leaders in administrative, economic, and financial areas in southern Hokkaido. I would like to take this chance to express my sincere gratitude for your cooperation with the activities of the Bank of Japan's Hakodate Branch. Before hearing from you, I will explain Japan's economic activity and prices, as well as the Bank's conduct of monetary policy.

I. Economic Developments

Please take a look at Chart 1. I will start by talking about Japan's economic developments. Japan's economy has recovered moderately, although some weakness has been seen in part. Looking back, the economy continued to grow at a relatively high rate through the first half of 2023, reflecting the normalization of economic activity following the COVID-19 pandemic. Subsequently, the growth rate temporarily turned negative, partly due to a suspension of production at some automakers, but the economy has remained on an improving trend. It is expected to keep growing at a pace above its potential growth rate.

Let me move on to Chart 2. In the corporate sector, business sentiment has stayed at a favorable level and corporate profits have been at record-high levels. In this situation, business fixed investment plans in the June 2024 *Tankan* (Short-Term Economic Survey of Enterprises in Japan) indicate that the year-on-year rate of increase in investment for fiscal 2023 was 9.9 percent and that the rate of increase in planned investment for fiscal 2024 is over 10 percent. Software investment has increased, mainly reflecting a rise in investment to address labor shortages, while moves to further increase research and development (R&D) investment have been noticeable. Business fixed investment is likely to remain at a high level, since projects for future growth, such as the ones I just mentioned, will continue to push up investment, and there has been an accumulation of projects that had to be postponed due to factors such as labor shortages in construction.

Turning to Chart 3, private consumption has been resilient. As the red line in the left-hand graph shows, consumption of "services" such as travel and dining-out has increased moderately, approaching the pre-pandemic level. On the other hand, the impact of price rises has been particularly notable for goods such as food products and daily necessities, which have seen large price increases, and consumption of "nondurable goods," including food products and daily necessities, has declined, as shown by the green line. Households' defensive attitudes toward spending have been observed, such as a shift toward inexpensive products. Consumer sentiment has also become cautious, as seen in the right-hand graph.

Regarding the outlook for private consumption, it is necessary to continue to pay close attention to the impact of price rises. Meanwhile, in this year's annual spring labor-management wage negotiations, the highest level of wage growth in around three decades was achieved across a wide range of firms, and the effects of this have gradually been reflected in actual wages. Various survey results indicate that this year's summer bonus payments are likely to exceed those of last year. The baseline scenario is that private consumption will remain resilient.

Please take a look at Chart 4. Risks to the outlook for Japan's economy include developments in overseas economic activity and prices and in global financial and capital markets. Overseas economies have grown moderately on the whole, and the baseline scenario is that they will keep growing moderately. As the left-hand graph shows, the International Monetary Fund (IMF) projects that the global economy will grow at 3.2 percent for 2024 and 3.3 percent for 2025, which is broadly in line with past average growth rates. That said, adjustment pressure has remained in the labor and real estate markets in China, and there are also geopolitical risks such as the situation surrounding Ukraine and the Middle East.

Inflation rates in Europe and the United States have followed a declining trend, albeit with fluctuations, and some central banks have started to lower their policy interest rates. It should be noted, however, that inflationary pressure has remained in these economies, and there are uncertainties over how past policy interest rate hikes by overseas central banks will affect their real economies and financial systems given the significant degree of these hikes. As shown in the upper right-hand graph, the U.S. economy has continued to grow at a relatively high rate despite the high policy interest rate of over 5 percent. As the lower right-hand graph indicates, the U.S. labor market has also remained tight, but the tightness has waned recently, broadly returning to the pre-pandemic level. Meanwhile, employment-related statistics released last week indicate, for example, a rise in the unemployment rate, raising some concerns of an economic slowdown.

I believe that the U.S. economy will most likely have a soft landing, for the following reasons. First, it seems that productivity in the United States has increased due to such factors as the movement of labor resulting from the pandemic. Second, since change in the real economy, including labor market conditions, occurs in moderation, it is possible to address developments through policy interest rate cuts or other policy actions. If the U.S. real economy heads toward a soft landing, this will likely be reflected in financial and capital markets, including stock prices. However, since market developments are naturally more rapid than real economic developments, attention is warranted on the risk of current developments in financial and capital markets feeding into the real economy. I will refer to developments in financial and capital markets later, in relation to the conduct of monetary policy.

II. Price Developments and Structural Changes in the Labor Market

Current Situation of and Outlook for Prices

Next, I will move on to price developments. Please take a look at Chart 5. As shown by the red line, the year-on-year rate of increase in the consumer price index (CPI) for all items excluding fresh food has decelerated moderately, albeit with fluctuations. The latest figure, which is for June, stands at 2.6 percent. Looking at the breakdown, the contribution of food products, shown by light blue bars, and that of other goods, shown by dark blue bars, have continued to be affected by a pass-through to consumer prices of cost increases led by the past rise in import prices. With these pass-through effects waning, however, the positive contributions of food products and other goods have decreased moderately.

The pink bars show that the positive contribution of services has also decreased to some extent. Taking a closer look at developments in services prices, however, a mechanism whereby wage increases moderately push up services prices is gradually becoming evident. Chart 6 shows the distribution of the year-on-year rates of change in prices of individual items that make up the CPI for services. Please take a look at the left-hand graph. For April 2023, the distribution had a large peak at around 0 percent. While there was another peak at around 10 percent, this peak comprised dining-out and other items for which prices were affected by the rise in raw material costs, meaning that their high rates of increase were due to cost-push factors. Services items with a high ratio of labor costs, shown by dark blue bars, were concentrated at around 0 percent. On the other hand, as the right-hand graph shows, the peak of the price change distribution for April 2024 is centered on 2 percent, including items with a high ratio of labor costs.

In sum, while price increases led by the rise in import prices have waned, wage increases have been increasingly reflected in prices. Please take a look at Chart 7. As for the outlook, the year-on-year rate of increase in the CPI for all items excluding fresh food is likely to be 2.5 percent for fiscal 2024 and thereafter is projected to remain at around 2 percent for fiscal 2025 and 2026.

Now, please turn to Chart 8. As seen in the left-hand graph, when households were asked a question focusing solely on inflation, the majority of respondents answered that it is unfavorable. However, as the right-hand graphs show, when firms and households were asked a question that compares a situation in which neither prices nor wages (or household income) rise -- the economy in a deflationary period -- with a situation in which both rise moderately -- similar to the case in economies such as Japan up until the 1980s and Europe and the United States before they experienced high inflation -- about 70 percent of firms responded that a moderate rise is preferable, and the proportion of households preferring a moderate rise was higher than that of households preferring no rise. While the Bank sets the price stability target at 2 percent in terms of the year-on-year rate of increase in the CPI, what it aims at is achieving an economy in which both wages and prices rise moderately.

Firms have also taken into consideration a situation in which both wages and prices rise moderately when deciding their pricing strategies. Please take a look at Chart 9. While firms' outlook for output prices for one year ahead, shown by the blue line, has settled down somewhat, the outlook for five years ahead, shown by the red line, has continued to rise moderately. Since it is hard to imagine that firms foresee the sizable increase in raw material costs continuing for five years, it is likely that they are considering setting prices on the assumption that wages will continue to increase.

Structural Changes in the Labor Market

Now, please take a look at Chart 10. Given factors such as demographic changes in Japan, it is likely that labor shortages will persist, leading to a rise in wages. As shown by the blue line, the working-age population started declining 30 years ago, in the mid-1990s. However, during the period of deflation, indicated by the shaded areas in the chart, the number of employed persons remained flat or decreased slightly, as the green line indicates. Consequently, the difference between this and the working-age population, shown by the light blue bar graph, remained broadly unchanged at about 20 million. During this period, demand was sluggish. Although firms actually had a perception of excess employment, they managed to sustain existing employment amid expectations from society to do so, supported by various government subsidies. This was a very tough situation for people trying to newly enter the labor market, giving rise to the phrase "employment ice age generation."

Under the large-scale monetary easing that began in 2013, coupled with various government measures and other factors, the economy subsequently improved, resulting in an increase in employment of over 5 million people. With the working-age population remaining on a downtrend, the gap between the working-age population and the number of employed persons, shown by the light blue bar graph, has since narrowed rapidly and now stands at around 6.5 million. From this point on, the room for additional labor supply will be further limited. This change in the labor market is structural and irreversible.

For the past 10 years or so, I have been arguing that the only plausible driving force for change in Japan's economy is labor shortages. Friction is inevitable during a period of change, but as long as Japanese society shows strong resistance to an increase in unemployment, it is unrealistic for Japan to adopt a process of change such as that seen in the United States, which involves going through a temporary increase in bankruptcies and a rise in unemployment while hoping for the next stage of recovery. I fully agree that strengthening growth potential should be the main focus for Japan's economic growth, but the question is how. It is true that more than a decade of large-scale monetary easing gave rise to various side effects, and I take them seriously. However, I do believe that monetary easing has created the current labor market situation. As the graphs in Chart 10 also make clear, it is impossible to explain the situation solely in terms of demographic changes.

Moreover, after experiencing labor shortages, firms and society had to change. Economic metabolism will accelerate in a way that is acceptable to Japanese society, in other words, in a way that does not result in a large increase in unemployment. I expect Japan's growth potential to strengthen through firms' concrete actions. The only way to become a firm that working people choose is to boost profits, and individual firms' actions will bring about growth in the overall economy. The main player in a capitalist economy is certainly the private sector, and the direction of growth is determined by the market mechanism. The significance of growth strategies lies in their role in creating a favorable environment for the private sector and supporting their activities.

Of course, even if triggering a rise in unemployment is less likely, change is accompanied by friction. Moreover, the benefits and impacts differ depending on the firm, the individual, and the region. Services that have been available due to a surplus of labor will not be provided within the market mechanism. It is sometimes said that, as in the case of urban areas, taxis used to be waiting when you came out of a station in nonurban areas, but it is now hard to get a taxi in these areas even if you call for one. However, this is a natural development if supply and demand conditions in urban areas have changed, making it easier for taxi drivers to find customers in these areas. I think that the following issues need to be considered under the assumption that labor shortages will persist: how to maintain the functions of the regions; how to build relationships between urban areas and surrounding areas; and how to make up for needs that cannot be met within the market mechanism. The various changes going on around you may be the outcome of what is shown by the light blue bars. At the very least, things will not change for the better if nothing is done.

III. The Bank's Conduct of Monetary Policy

Next, I will explain the Bank's conduct of monetary policy. At the Monetary Policy Meeting (MPM) held last week, the Bank decided to raise its short-term policy interest rate by 0.15 percentage points. It will encourage the uncollateralized overnight call rate to remain at around 0.25 percent. The Bank also decided on the plan for the reduction of its purchase amount of Japanese government bonds (JGBs) until the end of fiscal 2025.

Reduction of the Purchase Amount of JGBs

First, I will outline the Bank's decision to reduce its purchase amount of JGBs. Please take a look at Chart 11. The Bank's JGB holdings account for roughly half of the total outstanding JGBs, and until July, the Bank purchased JGBs at about 6 trillion yen per month, which is broadly equivalent to the monthly redemption amount of JGBs it holds. At the July MPM, the Bank decided on a plan to gradually reduce the amount of its monthly purchases of JGBs so that it would be halved to about 3 trillion yen per month at the end of fiscal 2025.

Please turn to Chart 12. Under the large scale monetary easing that began in 2013, the role of the Bank's JGB purchases was to stimulate the economy by pushing down medium- to long-term interest rates. As the left-hand graph shows, the effects of these purchases derived mainly from the stock effect -- that is, the impact that corresponds to the amount outstanding of JGBs held by the Bank. It is estimated that this stock effect pushed down 10-year JGB yields by about 1 percentage point, and that it also lowered other yields to a degree corresponding to the length of their maturities. The stock effect will decrease as the Bank reduces its purchase amount of JGBs. However, at the pace decided at the July MPM, I believe that the reduction of the amount of JGBs purchases will not change significantly the effects of monetary easing, as the reduction in the Bank's JGB holdings will be limited to roughly 7-8 percent over 18 months. Meanwhile, it should be noted that the impact of reducing JGB holdings is not necessarily proportionate to the impact of increasing JGB holdings, as their effects can be asymmetric. Please take a look at the right-hand graph. The stimulus effects of a decline in interest rates on the economy are larger for shorter maturities than for longer maturities.

Given these factors, although the reduction of the purchase amount of JGBs will have some impact on overall monetary easing effects, the impact is likely to be smaller than that of the short-term interest rate. The Bank therefore decided to reduce its purchase amount of JGBs at the planned pace, thereby letting long-term interest rates be formed more freely in the market. On this basis, the Bank will adjust its policy stance in response to developments in economic activity and prices, using the short-term interest rate as a primary policy tool, while taking into account the effects of long-term interest rates formed in the market.

The Bank's Decision to Raise the Short-Term Policy Interest Rate

Next, I will outline the Bank's decision to raise the short-term policy interest rate. Please take a look at Chart 13. Japan's economy has recovered moderately, and is likely to keep growing at a pace above its potential growth rate. Meanwhile, some weak developments have been observed: for example, private consumption has been affected by higher prices, and the real GDP growth rate for the January-March quarter of 2024 was negative, partly due to the effects of the suspension of production at some automakers. These developments are one of the main reasons that the Bank maintained the short-term policy interest rate, shown by the red line, at a low level of around 0 to 0.1 percent, even after terminating the negative interest rate policy in March. Given that actual inflation and inflation expectations have risen, this rate is very low in real terms, as shown by the blue line, and implies highly accommodative financial conditions. If economic activity and prices develop in line with the Bank's outlook, it would be appropriate for the Bank to accordingly adjust the degree of monetary accommodation. At the MPM held last week, the Bank judged that developments in economic activity and prices, which I explained in the first half of this speech, were in line with its outlook, as seen in the results of this year's annual spring labor-management wage negotiations being reflected in wages.

Please turn to Chart 14. As shown by the left-hand graph, actual inflation has been above 2 percent for more than two years and is projected to continue doing so for fiscal 2024. The rise in actual inflation has had a direct impact on Japan's economy and the daily lives of all of you gathered here, and this is a key factor when making policy decisions. In this situation, as the right-hand graph shows, the year-on-year rate of change in import prices, which had once settled down, has turned positive again, due to the effects of the yen's depreciation. It is necessary to examine the impact of the rise in import prices on consumer prices, while taking account of the fact that Japanese firms' behavior is diverging from what it was during the period of deflation. During that period, firms tended to avoid passing on cost increases to prices as much as possible. As a result, the degree to which rises in import costs were passed on to consumer prices was moderate. Over the past few years, the pass-through of higher import costs to consumer prices has been evident, partly since the degree of the rise in import costs was significant. In addition, amid labor shortages, this pass-through has led to wage increases, thereby pushing up underlying inflation. Given that firms' behavior has shifted more toward raising wages and prices, it is likely that movements in foreign exchange rates are affecting prices to a larger degree and at a more rapid pace. Although the rate of increase in import prices is not as large as 50 percent -- as was the case two years ago -- the yen's depreciation and the consequent rise in import prices are upside risks to consumer prices.

As mentioned above, the Bank confirmed that developments in economic activity and prices were in line with its outlook. Concerning risks, with CPI inflation having been above 2 percent for more than two years, the year-on-year rate of change in import prices has turned positive again, reflecting the yen's depreciation. Given these factors, the Bank assessed that a policy interest rate of around 0.25 percent would be more appropriate than one of around 0 to 0.1 percent in terms of balancing upside and downside risks. Needless to say, a policy interest rate of around 0.25 percent is significantly low, not only in nominal terms but especially in real terms. The Bank will therefore continue to support the economy by maintaining highly accommodative financial conditions.

As for the future conduct of monetary policy, in a nutshell, I believe that the Bank needs to maintain monetary easing with the current policy interest rate for the time being, with developments in financial and capital markets at home and abroad being extremely volatile.

In this regard, the Bank explained its thinking in the July 2024 *Outlook for Economic Activity and Prices* (Outlook Report) that "as for the conduct of monetary policy, while it will depend on developments in economic activity and prices as well as financial conditions going forward, . . . if the aforementioned outlook for economic activity and prices will be realized, the Bank will accordingly continue to raise the policy interest rate and adjust the degree of monetary accommodation." It should be noted that this approach is conditioned by the phrase "if the outlook for economic activity and prices will be realized." On this point, the significant movements in stock prices and foreign exchange rates since last week would be relevant.

Financial and capital markets have seen a rapid weakening of the U.S. dollar and a decline in stock prices worldwide, triggered by the growing concern over a slowdown in the U.S.

economy that I referred to earlier. In particular, the yen has appreciated significantly against the U.S. dollar, since large positions that had been built up on a weaker yen are being unwound. Moreover, partly due to the correction of the yen's depreciation, stock prices in Japan have declined to a greater extent than other economies.

Basically, stock prices reflect corporate profits and the economic outlook. On this point, corporate profits in Japan have been at historically high levels. This is not simply the result of a weak yen, but of a fundamental improvement in profitability. Of course, movements in stock prices affect corporate investment and private consumption, through factors such the wealth effect, and ultimately the outlook for economic activity and prices, and they are therefore a key factor in determining the conduct of monetary policy.

Furthermore, regarding foreign exchange rates, as a result of the correction of the yen's depreciation, the upside risk to prices arising from higher import prices has decreased accordingly. As indicated by the green line in Chart 14, since the year-on-year rate of increase in import prices has been at around 0 percent on a contract currency basis, the rise in import prices on a yen basis is mostly due to the yen's depreciation to date. In this context, the correction of the yen's depreciation affects the conduct of monetary policy.

If the outlook, the upside and downside risks to the outlook, or the likelihood of realizing the outlook change as a result of these market developments, the path of the policy interest rate will certainly change. In fact, in contrast to the process of policy interest rate hikes in Europe and the United States, Japan's economy is not in a situation where the Bank may fall behind the curve if it does not raise the policy interest rate at a certain pace. Therefore, the Bank will not raise its policy interest rate when financial and capital markets are unstable.

As I mentioned, I believe that the U.S. economy will most likely have a soft landing, and that the rise in Japanese stock prices is attributable to the improvement in corporate profitability. Since it is unlikely that there have been significant changes in economic fundamentals in both countries, the reaction to the U.S. economic indicators for a particular month seems too large.

However, since recent developments in financial and capital markets at home and abroad have been extremely volatile, the Bank is monitoring developments in these markets and their impact on economic activity and prices with utmost vigilance, and it will conduct monetary policy as appropriate. Let me reiterate my view that the Bank needs to maintain monetary easing with the current policy interest rate for the time being.

IV. Recent and Future Economic Activity in Southern Hokkaido

Lastly, I would like to talk about the economy of southern Hokkaido, centered around Hakodate. Established in 1893, the Hakodate Branch is the Bank's third oldest existing site in Japan. We have been operating at this historic location for over 130 years. We intend to continue contributing to the region through our operations, including the provision of central banking services and information that will benefit the regional economy. In doing so, we would like to ask for your continued support and cooperation.

The Bank assesses that the economy of southern Hokkaido has picked up. Tourism, which is a major industry in the region, has been partly constrained by labor shortages. However, the regional economy has been boosted by significant numbers of tourists brought in by events such as the premiere of a popular animated movie that is set in the region, the arrival of cruise ships, the Hakodate Marathon, and large-scale conventions. On the other hand, the economy faces serious structural issues. The fishing-related industry, which along with tourism has been a driver of the regional economy, has remained in an extremely severe situation, due to a prolonged downturn in catches, especially of Japanese flying squid. Moreover, the region's workforce, which is essential to revitalizing industries and fostering a new economy, has continued to decline at a faster pace than in other regions across Japan. In particular, the outflow of young people is an issue weighing heavily on the economy of southern Hokkaido.

Even amid such adversities, being blessed with a wealth of tourism resources, southern Hokkaido has seen the steady emergence of new and promising developments that take advantage of its natural features. In the agricultural sector, while the region already boasts local specialties such as potatoes, leeks, and pumpkins, it has seen an expansion in the production of wine and *sake* (rice wine). In the fishing sector, where scallops, sea cucumbers, sea urchins, and kelp are well-known, operators of salmon farms have been trying to promote their salmon through the building of brand recognition. In the energy sector, plans are moving ahead for large-scale offshore wind power generation plants on the Sea of Japan. I hope that the region will develop its local industries into even larger ones using the resources its natural features have blessed it with.

As shown by Chart 15, Hakodate ranks consistently high among "places to visit." While regions across Japan face structural issues, including those relating to demographic developments, I believe that solutions to these issues differ by region. If regional economies compete with economies in major urban areas by the same standards, this will inevitably put them at a disadvantage in terms of economies of scale and profits due to agglomeration. Just as what individuals value is diverse, so is what they find attractive about a particular region. With this in mind, if a region can find ways to compensate for its weaker points, it will be able to persuade more people to live in the region. From now on, the most effective prescription for issues facing regions across Japan is to attract residents. Let me conclude by offering my hope that Hakodate will make great strides as a "place to live in." Thank you very much for your attention.

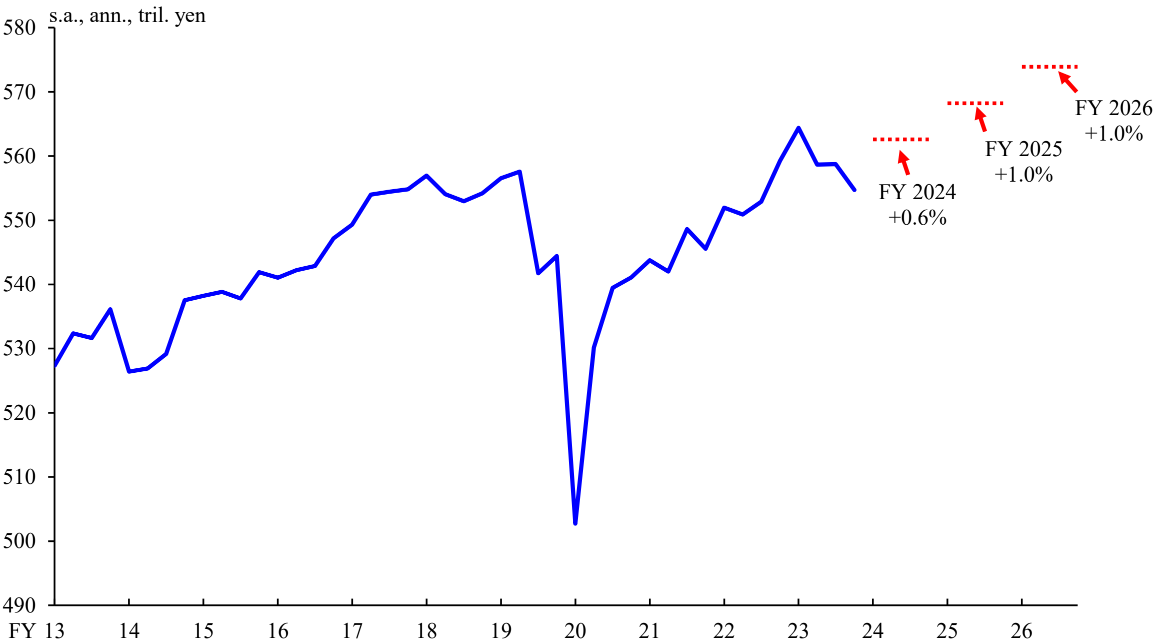
Japan's Economy and Monetary Policy

Speech at a Meeting with Local Leaders in Hakodate

August 7, 2024

UCHIDA Shinichi
Deputy Governor of the Bank of Japan

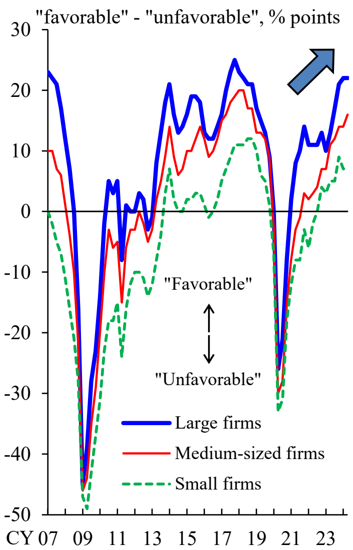
The BOJ's Forecasts for Real GDP (July 2024 Outlook Report)



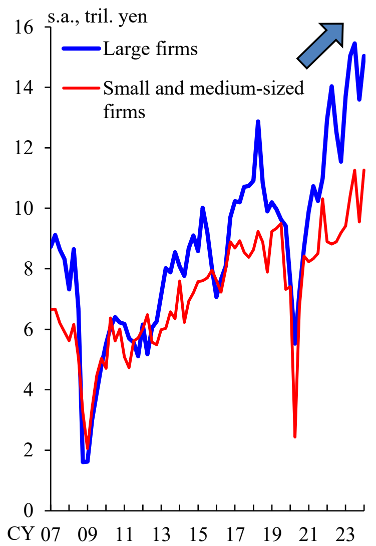
Note: The forecasts presented are the medians of the Policy Board members' forecasts. The values of real GDP for fiscal 2024 onward are calculated by multiplying the actual figure for fiscal 2023 by all successive projected growth rates for each year.
Sources: Cabinet Office; Bank of Japan.

Corporate Sector

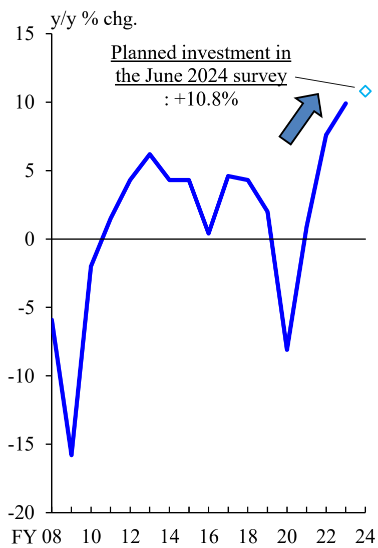
Business Conditions DI



Corporate Profits



Business Fixed Investment

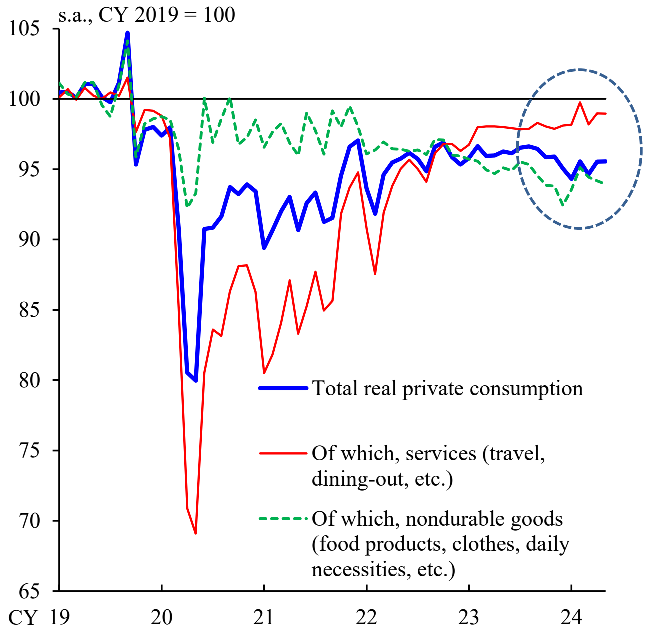


Notes: 1. In the left-hand chart, figures are based on the *Tankan*.
2. In the middle chart, figures are current profits based on the *Financial Statements Statistics of Corporations by Industry, Quarterly* and exclude "finance and insurance." Figures from 2009/Q2 onward exclude pure holding companies.
3. In the right-hand chart, figures are based on the *Tankan*, including software and R&D investments and excluding land purchasing expenses. R&D investment is not included before the March 2017 survey. Figures are for all industries including financial institutions.
Sources: Bank of Japan; Ministry of Finance.

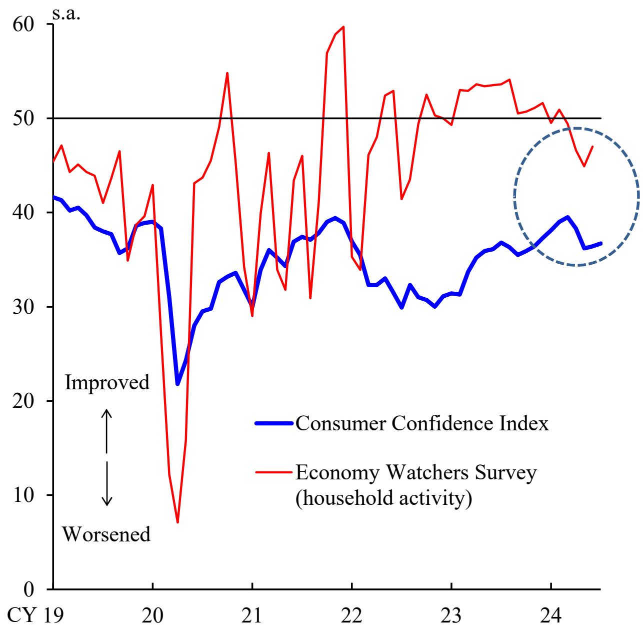
Chart 3

Household Sector

Private Consumption



Confidence Indicators



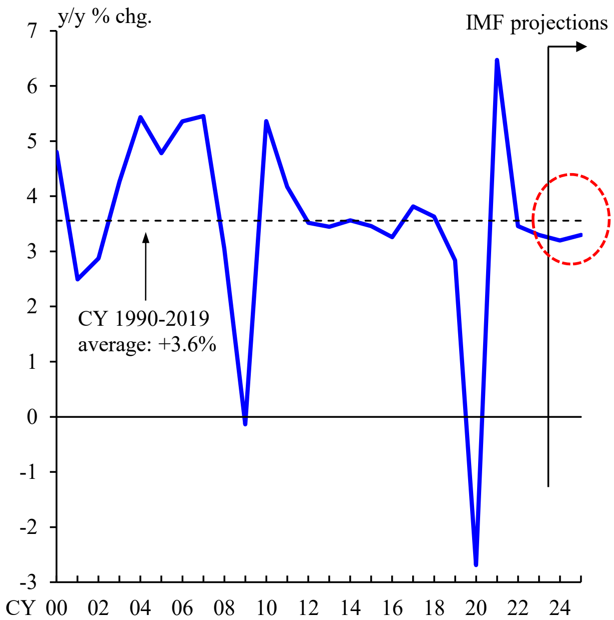
Notes: 1. In the left-hand chart, figures for total real private consumption are the real Consumption Activity Index (travel balance adjusted) based on staff calculations, which exclude inbound tourism consumption and include outbound tourism consumption.
2. In the right-hand chart, figures for the *Economy Watchers Survey* are those for the current economic conditions DI.
Sources: Bank of Japan; Cabinet Office.

I. Economic Developments

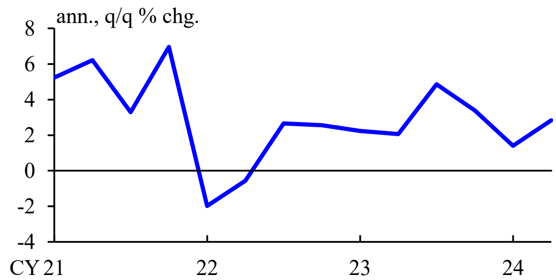
Chart 4

Overseas Economies

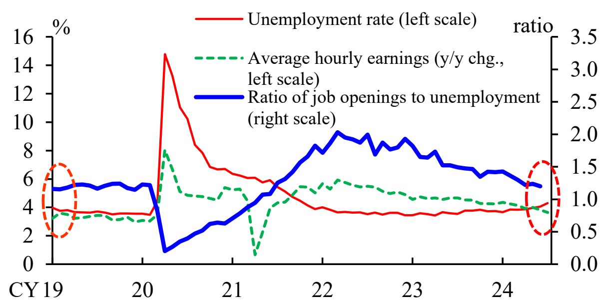
IMF Projections in the World Economic Outlook Update



Real GDP Growth in the United States



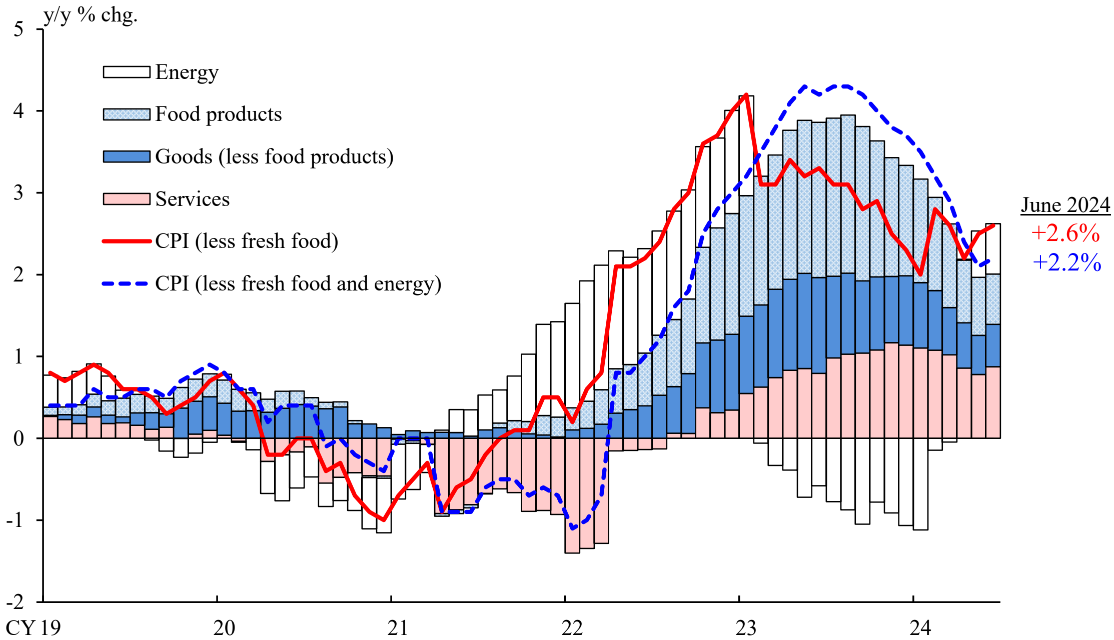
Labor Market in the United States



Note: In the left-hand chart, IMF projections are those as of July 2024.
Sources: IMF; Haver.

Chart 5

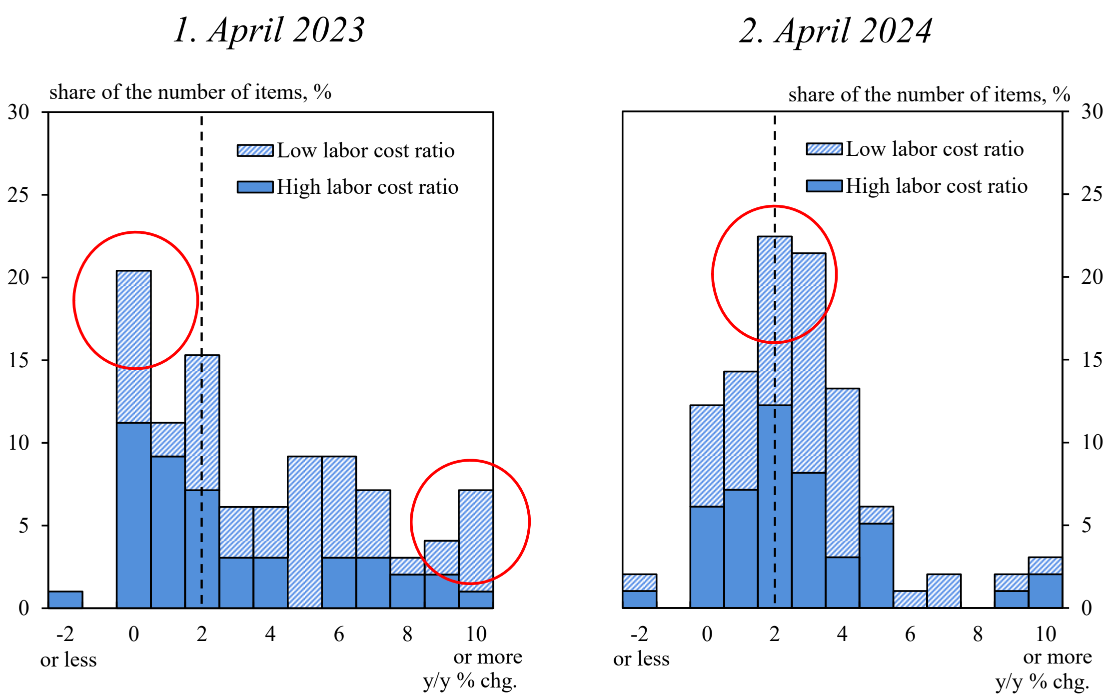
Consumer Prices



Source: Ministry of Internal Affairs and Communications.

Chart 6

Services Prices by Item



Notes: 1. Figures show the CPI for general services (less housing rent). Figures are staff estimates and exclude the effects of policies concerning the provision of free education and the effects of travel subsidy programs.
2. CPI items are matched to the items in the *2015 Input-Output Tables for Japan* and grouped in terms of the share of "wages and salaries" and other labor costs in the domestic output of those items. Figures for items with a high (low) labor cost ratio are for items that fall into the top (bottom) 50 percent in general services (less housing rent).
Source: Ministry of Internal Affairs and Communications.

Forecasts for the CPI

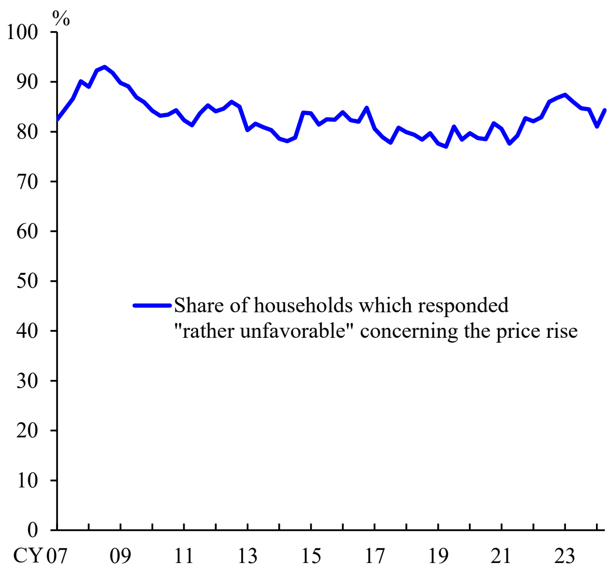
y/y chg.

	FY 2024	FY 2025	FY 2026
All items less fresh food	+2.5%	+2.1%	+1.9%
(Reference) All items less fresh food and energy	+1.9%	+1.9%	+2.1%

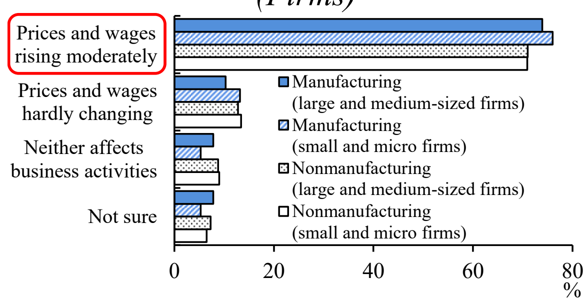
Note: Figures are the medians of the Policy Board members' forecasts in the July 2024 Outlook Report.
Source: Bank of Japan.

Perception of Wages and Prices

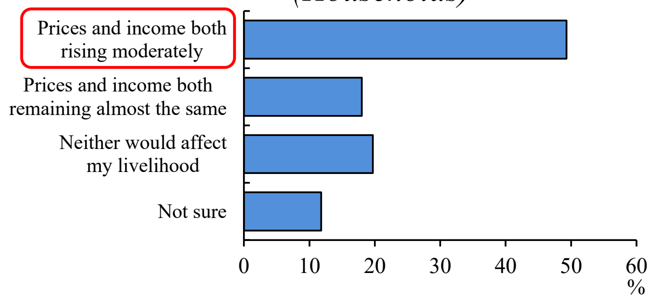
Opinions of the Current Price Rise (Households)



Preferred State for Prices and Wages (Firms)



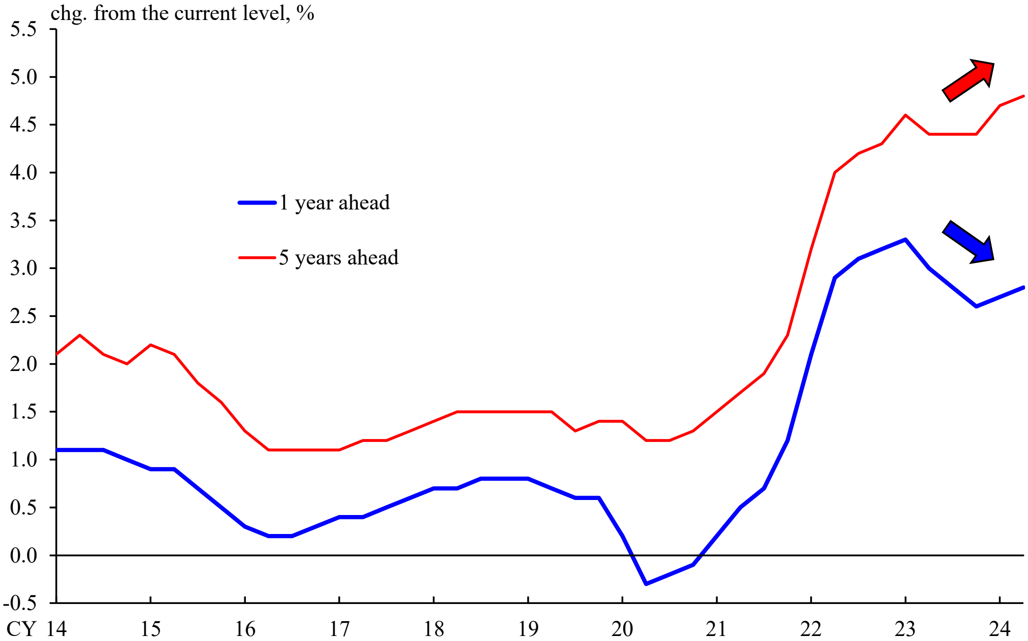
Preferred State for Prices and Income (Households)



Note: In the left-hand and lower right-hand charts, figures are from the *Opinion Survey on the General Public's Views and Behavior* (those in the lower right-hand chart are from the March 2024 survey). In the upper right-hand chart, figures are from the annex paper to the *Regional Economic Report*, "Results of the *Survey regarding Corporate Behavior since the Mid-1990s*."
Source: Bank of Japan.

Chart 9

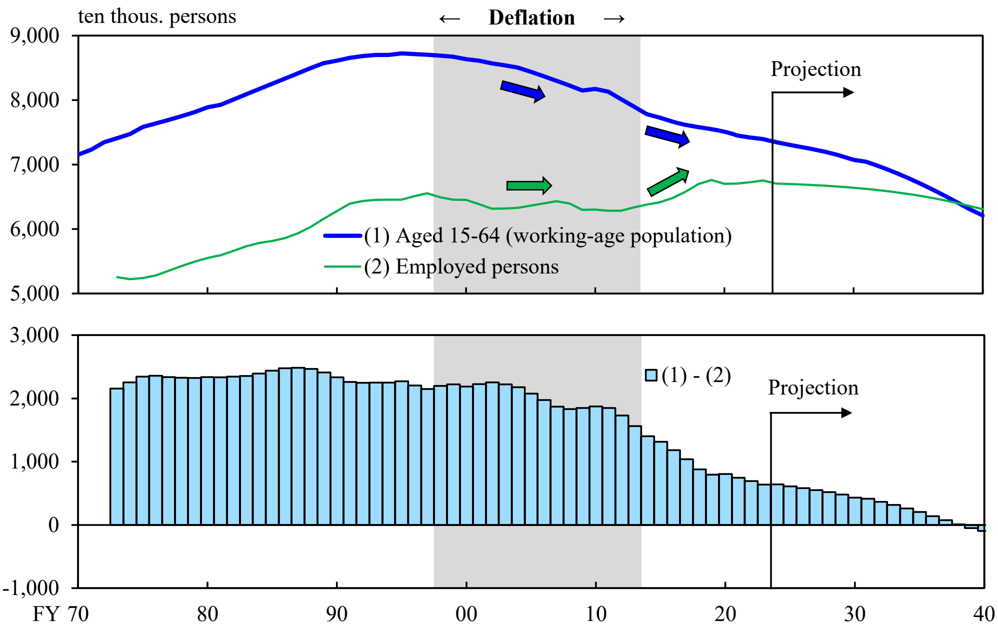
Firms' Outlook for Output Prices



Note: Based on the *Tankan*.
Source: Bank of Japan.

Chart 10

Labor Market



Note: The projection for the working-age population is by the National Institute of Population and Social Security Research. The projection for the number of employed persons is calculated based on projections by the Japan Institute for Labour Policy and Training.
Sources: Ministry of Internal Affairs and Communications; National Institute of Population and Social Security Research; Japan Institute for Labour Policy and Training.

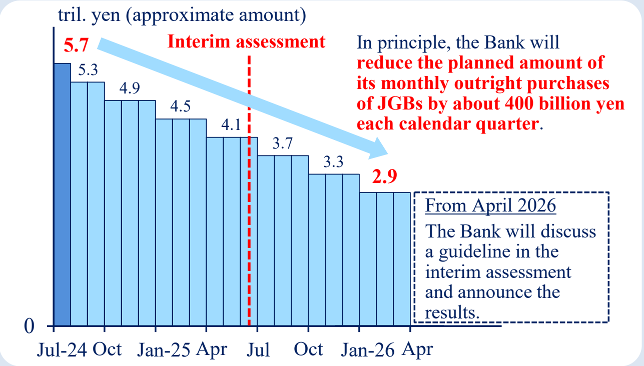
Plan for the Reduction of the Purchase Amount of JGBs

The concept of the plan for the reduction until March 2026

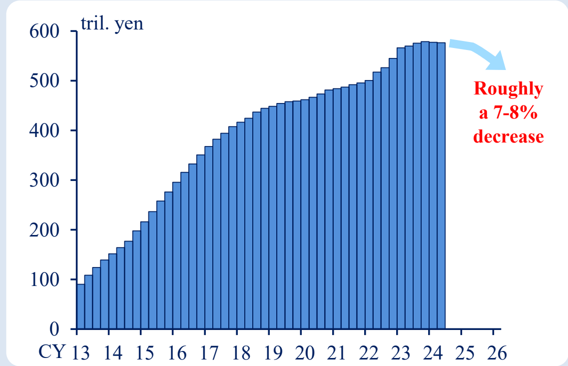
1. Long-term interest rates: to be formed in financial markets in principle
2. JGB purchases: appropriate for the Bank to reduce its purchase amount of JGBs in a predictable manner, while allowing enough flexibility to support stability in the JGB markets

Reduction in a Predictable Manner

Amount of monthly JGB purchases



The Bank's JGB holdings

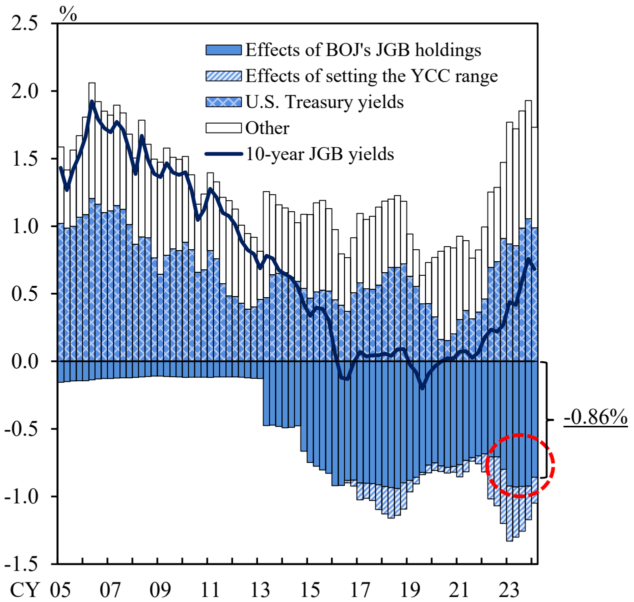


Allowing Enough Flexibility

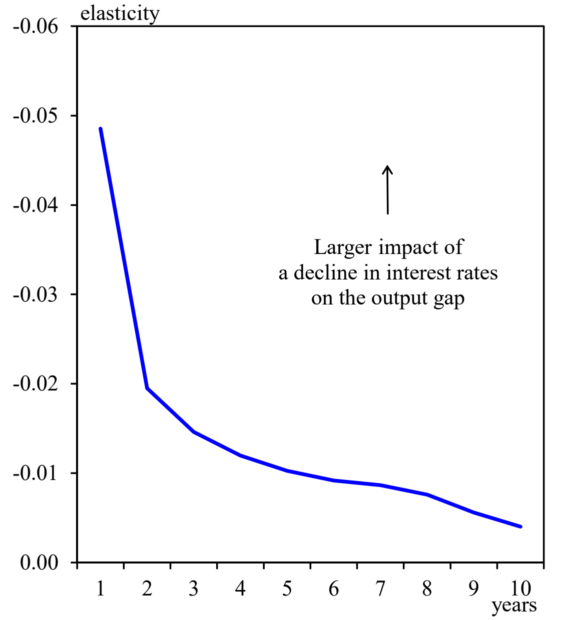
1. The Bank will **conduct an interim assessment of the plan at the June 2025 MPM**.
2. In the case of a rapid rise in long-term interest rates, the Bank will make nimble responses by, for example, increasing the amount of JGB purchases.
3. The Bank is prepared to amend the plan at the MPMs, if deemed necessary.

Effects of the BOJ's JGB Purchases

Sources of Changes in 10-Year JGB Yields



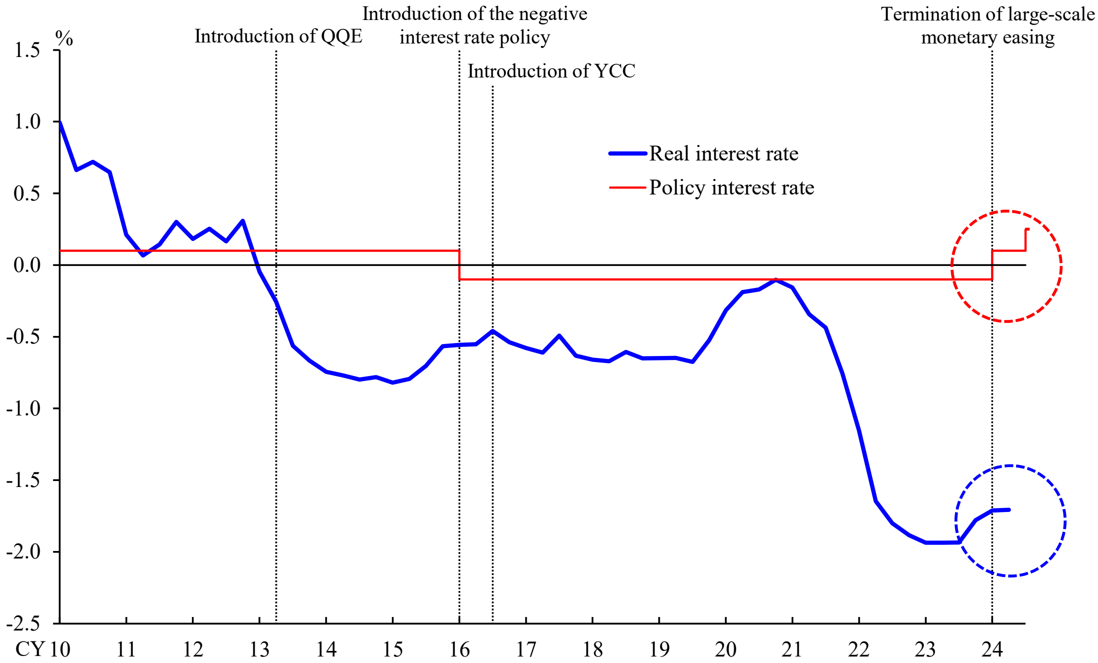
Effects of a Decline in Interest Rates on the Output Gap, by Maturity



Notes: 1. For details of the methodology, see Box 6 of the April 2024 Outlook Report.
2. For details of the methodology, see Appendix 8 in the *Comprehensive Assessment* released in September 2016. The chart shows the updated results in the April 2024 Outlook Report.
Source: Bank of Japan, "Outlook for Economic Activity and Prices (April 2024)."

Chart 13

Real Short-Term Interest Rate (1-Year)



Notes: 1. Figures for the policy interest rate are the target level (or the upper bound of the target range) of the uncollateralized overnight call rate, except for the period when this rate was not an operating target. For the period from the introduction of QQE to the introduction of the negative interest rate policy, figures are for the interest rate applied to excess reserves. For the period from the introduction of the negative interest rate policy to the termination of large-scale monetary easing, figures are for the interest rate applied to the Policy-Rate Balances.

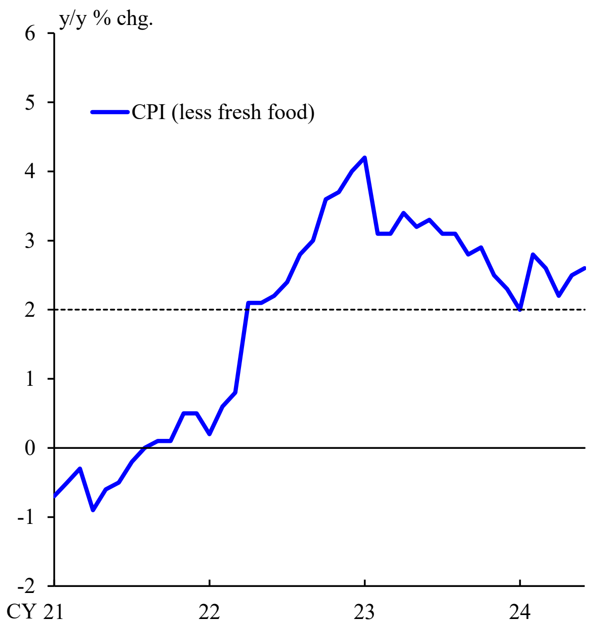
2. Figures for the real interest rate are calculated as government bond yields (1-year) minus the composite index of inflation expectations (staff estimates).

Sources: Bank of Japan; QUICK, "QUICK Monthly Market Survey <Bonds>"; Consensus Economics Inc., "Consensus Forecasts"; Bloomberg.

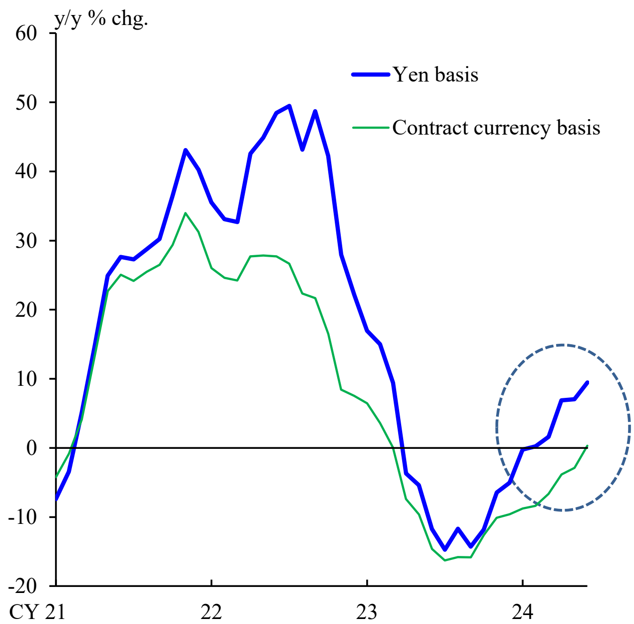
Chart 14

Consumer Prices and Import Prices

CPI



Import Price Index

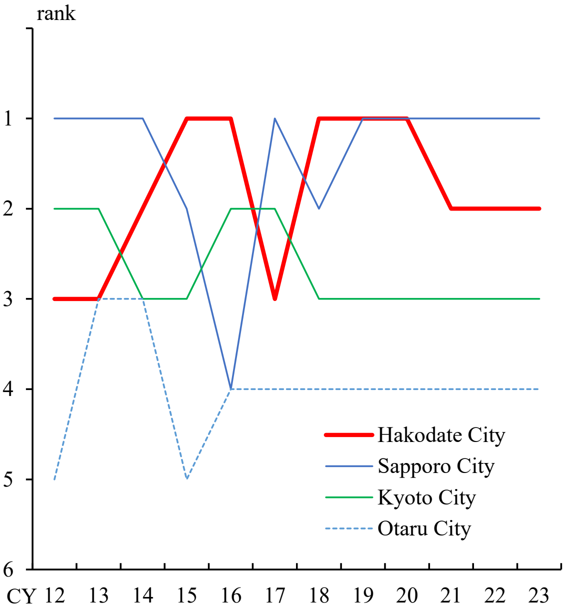


Sources: Ministry of Internal Affairs and Communications; Bank of Japan.

Chart 15

Economic Activity in Hakodate City

Places to Visit



Sightseeing Spots in Hakodate

Hachiman-Zaka Slope

Goryokaku Park

Night View from Mt. Hakodate

Note: In the left-hand chart, figures indicate the tourism attractiveness ranking by municipality in the *Chiiki burando chōsa*, a survey by the Brand Research Institute, Inc.
Sources: Brand Research Institute, Inc.; Travel Hakodate.