

Japan's Economy and Monetary Policy

Speech at a Meeting with Local Leaders in Yamanashi

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Introduction

I. Economic Activity and Prices

Comparison with the United States and the Euro Area

Wages and Consumption

II. Monetary Policy

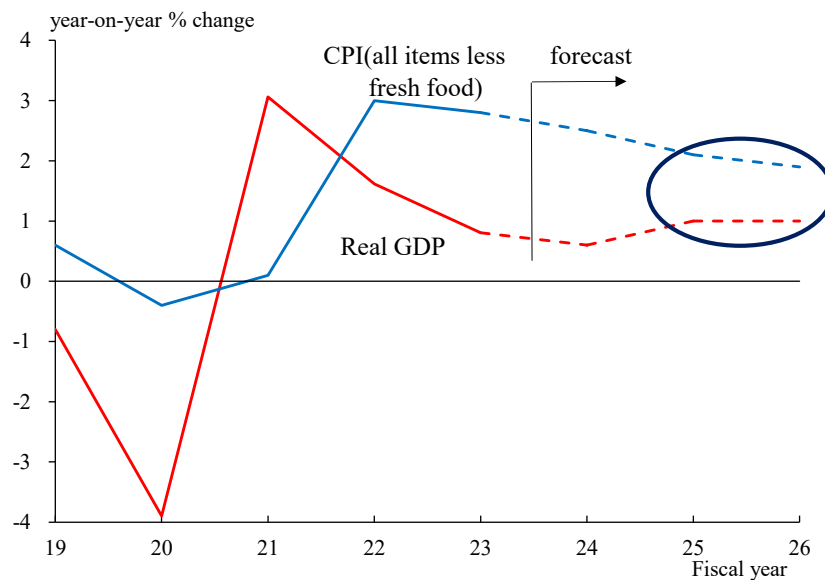
Reviewing the Experience with Unconventional Policy

Conduct of Monetary Policy

Neutral Rate of Interest

Conclusion

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

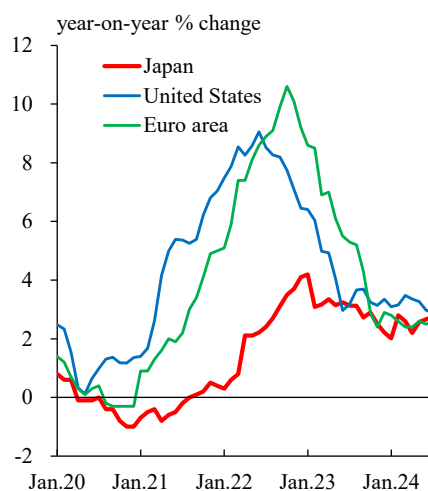


Note: The forecasts presented are the medians of the Policy Board members' forecasts.
Sources: Cabinet Office; Ministry of Internal Affairs and Communications; Bank of Japan.

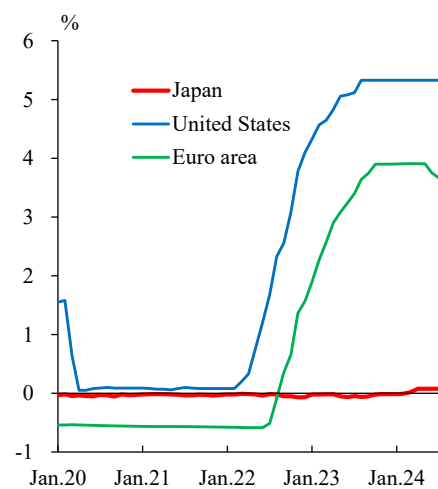
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Prices and Interest Rates in Japan, the United States, and the Euro Area

Consumer Prices



Short-Term Interest Rates

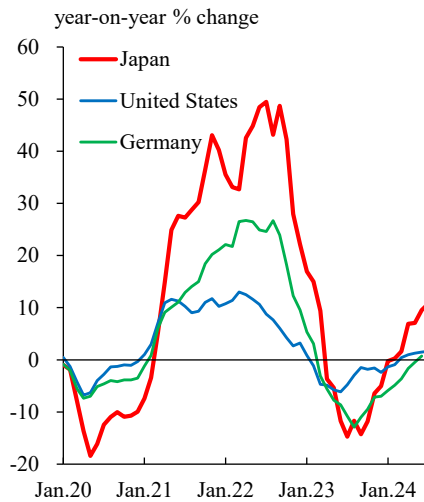
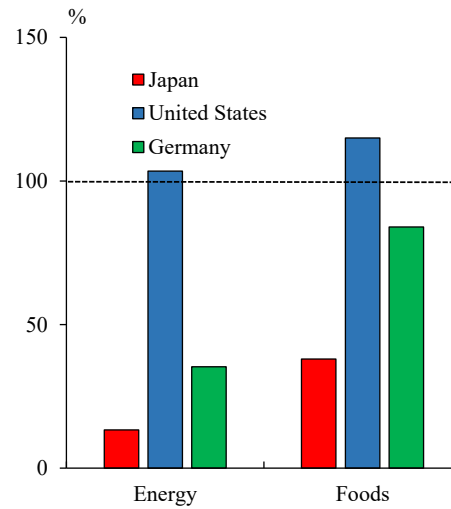


Note: In the left-hand chart, the latest figures are as of July 2024. Figures for Japan are the CPI for all items less fresh food, while those for the United States and the euro area are the CPI for all items.
In the right-hand chart, the latest figures are averages for August 1-23, 2024. Figures for each economy are as follows: for Japan, the uncollateralized overnight call rate; for the United States, the effective federal funds rate; for the euro area, €STR.
Sources: Ministry of Internal Affairs and Communications; Bank of Japan; FRB; BLS; ECB.

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Import Prices and Self-Sufficiency Rates in Japan, the United States, and Germany

Import Prices

Energy and Food
Self-Sufficiency Rates

Note: In the left-hand chart, the latest figures are as of July 2024 for Japan and United States, and as of June 2024 for Germany.

In the right-hand chart, figures for energy are as of 2021, while figures for foods are as of fiscal 2022 for Japan and as of 2020 for United States and Germany.

Sources: Bank of Japan; BEA; Federal Statistical Office of Germany; Agency for Natural Resources and Energy; Ministry of Agriculture, Forestry and Fisheries; Haver.

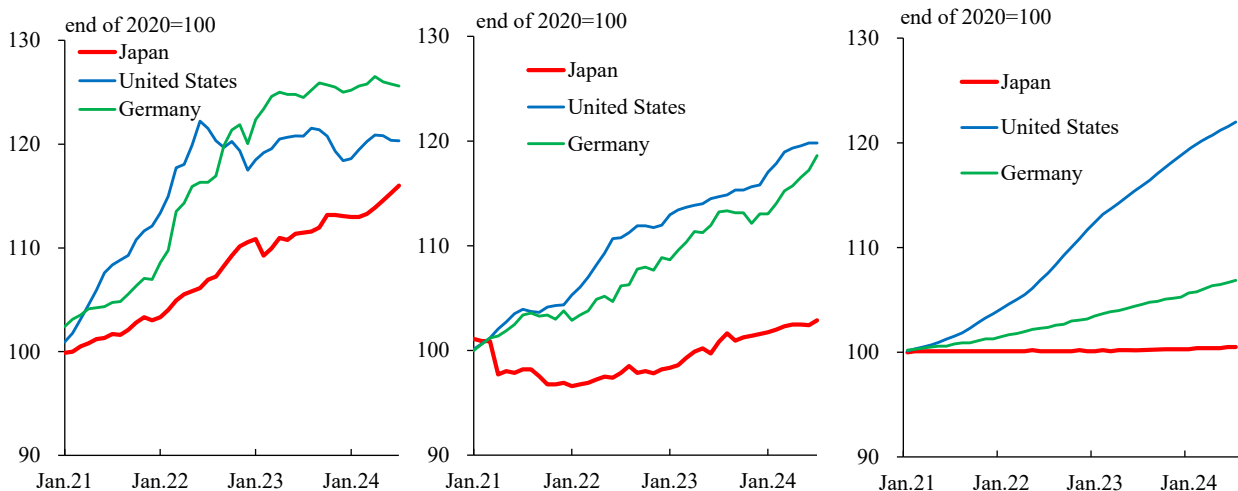
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Consumer Prices by Categories in Japan, the United States, and Germany

Goods

Services

Housing Rent



Note: The latest figures are as of July 2024. Figures for goods in Japan exclude fresh food.

Figures for services exclude housing rent. Figures for housing rent in Japan and the United States include imputed rent.

Sources: Ministry of Internal Affairs and Communications; BLS; Federal Statistical Office of Germany.

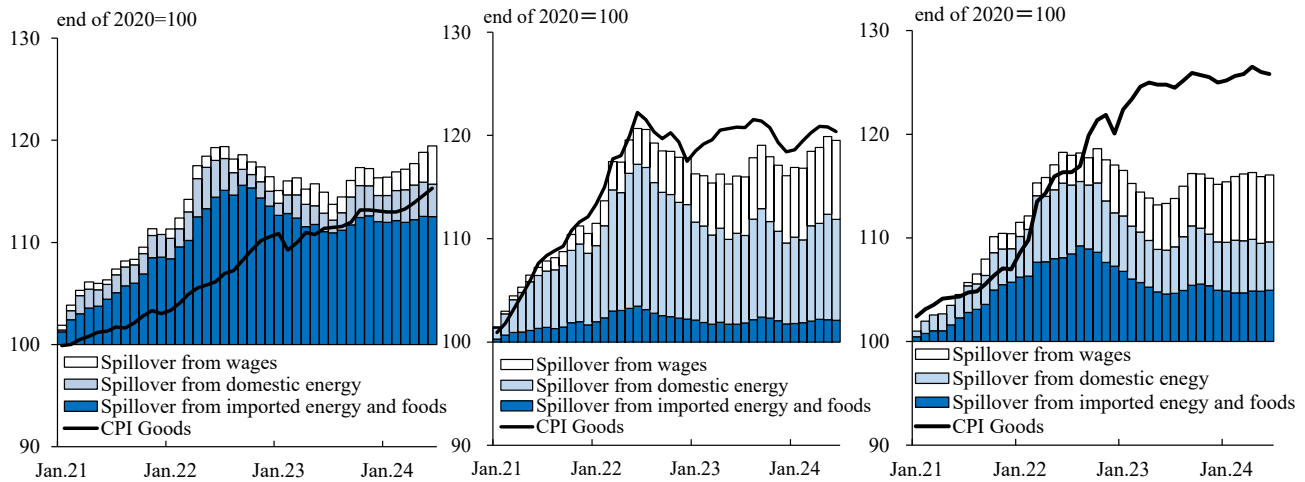
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Factors Affecting Goods Prices in Japan, the United States, and Germany

Japan

United States

Germany



Note: The latest figures are as of June 2024. Figures for Japan exclude fresh food. Spillover effects of imported energy and food products and of wages are estimated based on the input-output tables. The estimate assumes that prices of domestically produced energy move in line with imported energy prices.

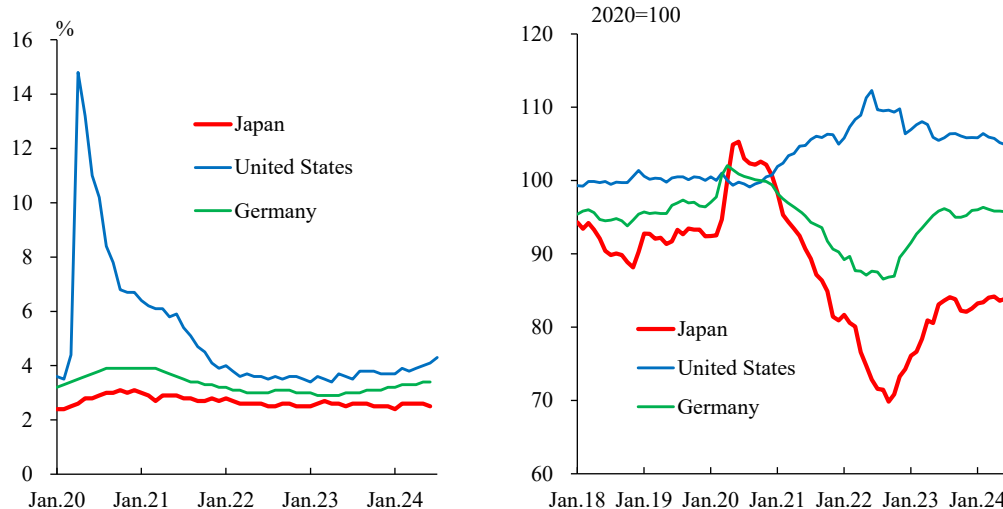
Sources: Bank of Japan; Ministry of Internal Affairs and Communications; BLS; BEA; OECD; Federal Statistical Office of Germany; Haver.

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Background to Developments in Wages in Japan, the United States, and Germany

Unemployment Rate

Terms of Trade



Note: In the left-hand chart, the latest figures are as of July 2024 for United States, and as of June 2024 for Japan and Germany. In the right-hand chart, the latest figures are as of July 2024 for Japan and United States, and as of June 2024 for Germany. The terms of trade are calculated by dividing export prices by import prices.

Sources: Bank of Japan; Ministry of Internal Affairs and Communications; BLS; Federal Statistical Office of Germany; Haver.

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History of Unconventional Monetary Policy

Instruments	First adopted by (year)
Zero interest rate policy (ZIRP)	Bank of Japan (1999)
Forward Guidance	Bank of Japan (1999, dubbed as policy duration effect)
Quantitative easing (mainly via purchase of short term bonds)	Bank of Japan (2001)
Quantitative easing (large scale purchase of long term bonds etc)	Federal Reserve (2009)
Negative interest rate policy (NIRP)	Danmarks Nationalbank (2012)
Yield curve control (YCC)	Bank of Japan (2016) <Federal Reserve (1942)>

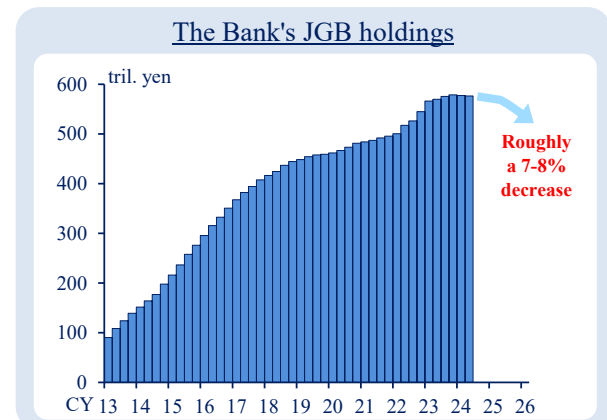
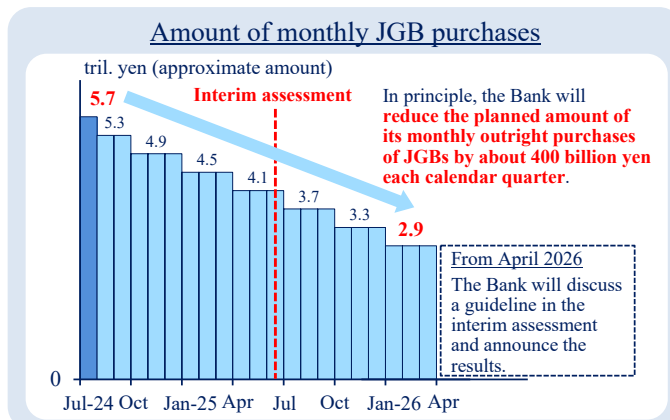
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Decisions at the July 2024 MPM (1): Plan for the Reduction of the Purchase Amount of JGBs

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



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.

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Decisions at the July 2024 MPM (2): Change in the Guideline for Money Market Operations

- Japan's economic activity and prices have been **developing generally in line with the Bank's outlook**. Moves to raise wages have been spreading.
- The year-on-year rate of change in import prices has turned positive again, and **upside risks to prices require attention**.

Medians of the Policy Board Members' forecasts (y/y % chg.)

	Fiscal 2024	Fiscal 2025	Fiscal 2026
Real GDP	0.6 (-0.2)	1.0 (—)	1.0 (—)
CPI (all items less fresh food)	2.5 (-0.3)	2.1 (+0.2)	1.9 (—)
CPI (all items less fresh food and energy)	1.9 (—)	1.9 (—)	2.1 (—)

Note: Figures in parentheses indicate changes from the April Outlook Report.

Risk balance assessments on prices

Fiscal 2024	Fiscal 2025	Fiscal 2026
↑	↑	→
Upside	Upside	Balanced

Adjusting the degree of monetary accommodation from the perspective of sustainable and stable achievement of the price stability target of 2 percent

Short-term interest rate : raised to "around 0.25 %" (previously "around 0 to 0.1%")
(uncollateralized overnight call rate)

- Real interest rates are expected to remain significantly negative, and accommodative financial conditions will continue to **firmly support economic activity**.
- If the outlook presented in the July Outlook Report will be realized, the Bank will accordingly continue to raise the policy interest rate and adjust the degree of monetary accommodation.

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Conclusion

Chart 10

Flood Control System Built by Takeda Shingen

