September 11, 2024

Bank of Japan

Economic Activity, Prices, and Monetary Policy in Japan

Speech at a Meeting with Local Leaders in Akita

NAKAGAWA Junko

Member of the Policy Board

(English translation based on the Japanese original)

I. Current Situation of Economic Activity and Prices

A. Current Economic Developments Abroad

I would like to begin my speech by talking about the current situation of overseas economies (Chart 1). As for global business sentiment, the Purchasing Managers' Index (PMI) for the manufacturing industry, after exceeding 50 -- the break-even point between improvement and deterioration -- recently dropped slightly below 50, and has then been hovering around the 50 level, supported by a pick-up in IT-related demand, particularly in demand related to artificial intelligence. Business sentiment for the services industry has improved. The International Monetary Fund (IMF) projects that the global economy will grow at 3.2 percent for 2024 and 3.3 percent for 2025. Although the growth rate is not as high as pre-pandemic levels, the projection is broadly in line with the average growth rate since 1980.

Let me briefly explain developments in major overseas economies. Overseas economies have grown moderately on the whole, while the pace of improvement differs to some extent across countries and regions as well as industries. The U.S. economy has grown moderately, mainly led by private consumption, although it has been affected by past policy interest rate hikes by the Federal Reserve. The Chinese economy has improved moderately, partly due to government support, despite the continued effects of real estate market conditions. Emerging and commodity-exporting economies other than China have improved moderately on the whole, as signs of a pick-up have been seen in exports.

B. Current Economic Developments in Japan

I will now turn to the current situation of Japan's economy. The Bank of Japan judges that the economy has recovered moderately, although some weakness has been seen in part. Exports and industrial production have been more or less flat, as the effects of the suspension of production and shipment at some automakers have been dissipating. In what follows, I would like to explain developments in Japan's economy from two aspects: the corporate sector and the household sector.

1. Corporate sector

Let me start with the corporate sector (Chart 2). Corporate profits have improved. The *Financial Statements Statistics of Corporations by Industry, Quarterly* showed that current profits for all industries and enterprises for the April-June quarter of 2024 rose, reaching the highest level since the April-June quarter of 1985, from when comparable data are available. This mainly reflects progress in the pass-through of cost increases to prices and the increase in non-operating profits due to the yen's depreciation, as production and shipment at some automakers began to resume after the suspension. Business sentiment has stayed at a favorable level. The Bank's June 2024 *Tankan* (Short-Term Economic Survey of Enterprises in Japan) showed that the diffusion index (DI) for business conditions has generally been maintained for both manufacturing and nonmanufacturing: firms have been increasingly passing on cost increases to prices and have benefited from an increase in profits brought about by the yen's depreciation, although they have faced not only a rise in raw material and input prices but also labor shortages, a rise in personnel expenses, and consumers' increased thriftiness owing to higher prices.

With corporate profits improving, business fixed investment has continued on a moderate increasing trend, mainly led by digital- and labor saving-related investments at home (Chart 3). Construction investment has been flat recently, with some firms postponing their investment plans due to high construction material prices. That said, a leading indicator of such investment has been on an uptrend, partly due to the establishment of new factories and the extension of existing ones. In addition, construction of logistics facilities has been undertaken in response to the so-called 2024 problem, which refers to issues arising from a reduction in the statutory limit on annual overtime, and relatively large-scale urban redevelopment projects have been set in place. Under these circumstances, business fixed investment plans in the June *Tankan* indicated a year-on-year rate of increase of 10.8 percent for fiscal 2024, suggesting a high increase compared with past June surveys.

Exports and industrial production have been more or less flat (Chart 4). Let us take a look at their latest developments. After having declined for the January-March quarter of 2024, affected mainly by the suspension of production and shipment at some automakers, exports and production have been increasing recently, as the effects of these suspensions have been dissipating. I will outline developments in real exports by region and by type of goods (Chart 5). By region, exports to the United States have been at relatively high levels, albeit with fluctuations. Those to Europe, particularly of automobiles and capital goods, decreased until recently, but automobile exports have recently been rebounding. Exports to China seem to have picked up moderately, but exports of semiconductor production equipment and other goods have recently been declining. Those to the NIEs, the ASEAN economies, and some other Asian economies have increased recently, with progress in global inventory adjustments for IT-related goods. By type of goods, exports of automobile-related goods have picked up, as the effects of the suspension of production and shipment at some automakers have been dissipating. Exports of capital goods have been more or less flat, after bottoming out. Exports of IT-related goods have been affected by the progress in inventory adjustments. Meanwhile, exports of intermediate goods, including chemicals, have been at relatively low levels, mainly reflecting firms' perception of excessive supply, primarily among Asian economies.

2. Household sector

I now turn to the household sector, focusing on private consumption and the employment and income situation.

Let us first look at private consumption (Chart 6). Consumer confidence indicators had continued to improve, reflecting expectations for an increase in income, but they have recently deteriorated somewhat, mainly reflecting an increase in consumers' thriftiness owing to higher prices and concern over future price rises. The Consumption Activity Index, which is calculated by combining various sales and supply-side statistics, has been resilient: although sales of food and clothes have been affected by high prices, automobile sales have picked up, sales of air conditioners have been favorable reflecting the extremely hot weather, and consumption of high-end goods by the wealthy has remained robust.

The employment and income situation has improved moderately. After the pandemic, the number of employed persons, both regular and non-regular employees, has been on a moderate uptrend, albeit with fluctuations (Chart 7). The employment growth is led mainly by industries facing a severe labor shortage: the information and communications industry for regular employees, and industries such as wholesale and retail trade as well as face-to-face services for non-regular employees. There has been a clear increase in nominal wages, reflecting the results of this year's annual spring labor-management wage negotiations and an increase in special cash earnings. In particular, the year-on-year rate of change in real wages has turned positive recently, reflecting high growth in special cash earnings. Likewise, the rate of increase in scheduled cash earnings has continued to show high growth, due to a reflection of the results of the annual spring labor-management wage negotiations -- in which the rate of increase in base pay significantly exceeded last year's high rate -- and also due to last year's increase in the minimum wage.

Meanwhile, potential additional labor supply -- i.e., the difference between the working-age population and the number of employed persons -- is likely to shrink (Chart 8). This is because of demographic changes and because labor force participation of women and seniors has already advanced to a high degree. Therefore, with labor market conditions becoming increasingly tight, wages will likely become more susceptible to upward pressure. To understand how much capacity firms have for raising wages, I would like to point to labor share, which shows the ratio of labor costs to value-added. Labor share is higher at small and medium-sized firms than at large firms, suggesting that their capacity for raising wages is limited. However, looking at wage growth at firms with a high labor share, even small and medium-sized firms tend to have a positive stance toward raising wages if they expect to raise selling prices. With a view to realizing a virtuous cycle between income and spending, I believe it is important to continue to pay careful attention as to whether improving profits, resulting from the pass-through of cost increases to prices, and sustained increases in wages, will spread to micro, small, and medium-sized firms.

C. Current Price Developments in Japan

Next, I would like to talk about prices in Japan (Chart 9). The year-on-year rate of increase in the consumer price index (CPI) for all items excluding fresh food is above 2.5 percent. The year-on-year rate of change in the producer price index (PPI), adjusted for the effects of seasonal changes in electricity rates, has risen. This reflects firms' moves to pass on increases in raw material costs, personnel expenses, and other costs to prices, as well as a scaling back of the government's measures to reduce the household burden of higher electricity and gas charges. The year-on-year rate of increase in the services producer price index (SPPI) has remained relatively high recently at around 2.5-3.0 percent, mainly on the back of the rise in personnel expenses. The rate of increase in the CPI (all items less fresh food and energy, excluding the effects of temporary factors) has been on a decelerating trend on the whole.

Specifically, with respect to general services prices, firms' moves to pass on personnel expenses have been widely observed; in contrast, particularly for goods prices, the pressure on firms to pass on raw material cost increases has waned. If we focus on factors affecting future price developments, possible upswings in the CPI, led by higher import prices, require attention (Chart 10). The rise in import prices to date could affect the CPI with a time lag, although commodity prices have declined and the excessive depreciation of the yen has subsided. As upward pressure on wages due to tight labor market conditions remains in overseas economies, inflation abroad could persist, exerting upward pressure on import prices. There are also uncertainties stemming from geopolitical risks. On this basis, as I will mention later, it is necessary to closely monitor how developments in financial and capital markets at home and abroad affect prices.

II. Outlook for and Risks to Economic Activity and Prices

A. Outlook

I would like to turn to the outlook for Japan's economic activity and prices (Chart 11).

As presented in the *Outlook for Economic Activity and Prices* (Outlook Report) decided by the Bank at the July 2024 Monetary Policy Meeting (MPM), the real GDP growth rate is projected to be 0.6 percent for fiscal 2024, and 1.0 percent for both fiscal 2025 and fiscal 2026, in terms of the median of the Policy Board members' forecasts.

Japan's economy is likely to keep growing at a pace above its potential growth rate, with overseas economies continuing to grow moderately and as a virtuous cycle from income to spending gradually intensifies against the background of factors such as accommodative financial conditions.

In the corporate sector, exports and production are likely to return to an uptrend, as overseas economies continue to grow moderately. In the household sector, employment is likely to continue rising during the course of economic recovery. However, as I mentioned earlier, since it becomes more difficult for labor supply to increase and labor market conditions tighten, wage growth will increase as a trend, which also reflects price rises. In this situation, for the time being, although private consumption is expected to be affected by the price rises, it is projected to increase moderately on the back of higher wage increases. Private consumption is also projected to be underpinned, for the time being, by government support measures, such as the continuation of measures to reduce the household burden of higher gasoline prices, emergency measures against higher electricity and gas charges, and cuts in income tax and inhabitant tax.

In terms of the median of the Policy Board members' forecasts in the July 2024 Outlook Report, the year-on-year rate of change in the CPI (all items less fresh food) is projected to be 2.5 percent for fiscal 2024, 2.1 percent for fiscal 2025, and 1.9 percent for fiscal 2026. Likewise, the rate of change in the CPI (all items less fresh food and energy) is projected to be 1.9 percent for both fiscal 2024 and fiscal 2025, and 2.1 percent for fiscal 2026.

While the effects of the pass-through to consumer prices of cost increases led by the past rise in import prices are expected to wane, the rate of increase in the CPI (all items less fresh food) is projected to be affected by factors such as the government's measures and the dissipation of their effects through fiscal 2025. Underlying CPI inflation is expected to increase gradually. This is because the output gap will improve as the economy recovers, and medium- to long-term inflation expectations will rise as the virtuous cycle between wages and prices intensifies. Then, in the second half of the projection period, underlying CPI inflation is likely to be around the 2 percent level, which is generally consistent with the price stability target.

B. Risks

As I have outlined, I believe that Japan's economy is likely to achieve a virtuous cycle between wages and prices, supported by high levels of corporate profits. Of course, the outlook for economic activity and prices that I mentioned entails a range of uncertainties. In what follows, I will describe three risk factors to the outlook that I am paying particular attention to.

The first is upside risks to prices. I explained earlier that the impact of both the significant inflation that has occurred to date overseas and the higher import prices due to the yen's depreciation was expected to wane gradually. However, if the year-on-year rate of change in import prices turns positive again, due mainly to the factors I mentioned earlier, firms may become more aggressive in passing on cost increases to prices. Tight labor market conditions may also cause wages to rise, and the risk that wages and prices will rise beyond the price stability target warrants attention.

The second is downside risks to overseas economies. Inflation rates in the United States and Europe, which were at high levels, have been steadily declining recently. However, there are uncertainties as to how the past policy interest rate hikes by overseas central banks will affect the real economy and financial activity over time. Moreover, at the beginning of August 2024, data suggesting a possible slowdown in the U.S. economy triggered market developments over concerns of a sharp economic downturn, or a hard landing. Attention is warranted over the risk of continued excessive movements and adjustments in financial markets -- stemming from these concerns over a slowdown in overseas economies -- exerting further downward pressure on overseas economies and eventually spreading to Japan's economy.

The third risk is that delayed improvement in consumer sentiment will disrupt the virtuous cycle from income to spending. Households have so far been defensive about spending, mainly because the rate of increase in the price of everyday goods such as food and daily necessities has been relatively high and growth in real income has been negative. It is true that private consumption has shown resilience thanks to improvement in the income situation, with the year-on-year rate of change in real wages turning positive recently, together with firms' initiatives and the effects of various government measures. However, I believe it is still necessary to monitor this situation carefully, as the previous prolonged negative growth in real income may hamper future improvement in consumer sentiment.

III. The Bank's Conduct of Monetary Policy

Next, I would like to talk about the Bank's decisions made at the July 2024 MPM and share my views in this regard.

The first point concerns the change in the Bank's guideline for money market operations (Chart 12). Specifically, the Bank decided to raise the target for its policy interest rate, the uncollateralized overnight call rate, from the previous level of "around 0 to 0.1 percent" to "around 0.25 percent." At the July MPM, the Bank assessed that, while Japan's economic activity and prices had been developing generally in line with its outlook presented in the Outlook Report, upside risks to prices required attention given that, for example, the year-on-year rate of change in import prices had recently turned positive again. In view of these circumstances, the Bank judged it appropriate to raise the policy interest rate and adjust the degree of monetary accommodation from the perspective of sustainable and stable achievement of the 2 percent price stability target. Meanwhile, real interest rates are expected to remain significantly negative even after the change in the policy interest rate, and accommodative financial conditions will continue to firmly support Japan's economic activity.

The second point concerns the plan for a reduction of the Bank's purchase amount of Japanese government bonds (JGBs) (Chart 13). With respect to the monthly JGB purchase amount -- which had been about 6 trillion yen per month -- the Bank decided on a plan to reduce the purchase amount by about 400 billion yen each calendar quarter in principle, to about 3 trillion yen in January-March 2026. The Bank considers that long-term interest rates are to be formed in financial markets in principle and finds it appropriate to reduce its purchase amount of JGBs in a predictable manner, while allowing enough flexibility to support stability in the JGB markets. At the June 2025 MPM, the Bank will conduct an interim assessment of the plan for the reduction of its JGB purchases; in principle, it intends to maintain the current reduction plan, while it may modify the plan if deemed necessary after reviewing the developments in and functioning of the JGB markets. At that MPM, the Bank will also discuss a guideline for its JGB purchases from April 2026 and announce the results. In the case of a rapid rise in long-term interest rates, the Bank -- as it has done to date -- will make nimble responses by, for example, increasing the amount of JGB purchases and conducting fixed-rate purchase operations of JGBs, both of which can be done regardless of the monthly schedule of JGB purchases, in addition to conducting the Funds-Supplying Operations against Pooled Collateral. The Bank is also prepared to amend the reduction plan at MPMs, if deemed necessary.

While the future conduct of monetary policy will depend on developments in economic activity and prices as well as financial conditions, given that real interest rates are at significantly low levels, if the Bank's outlook for economic activity and prices is realized, the

Bank will adjust the degree of monetary accommodation with a view to achieving the price stability target of 2 percent in a sustainable and stable manner.

Let me note market developments following the July 2024 MPM. U.S. employment statistics released in early August indicated a rise in the unemployment rate. Along with other factors, this triggered growing concerns over a slowdown in the U.S. economy, leading to a rapid weakening of the U.S. dollar and a decline in stock prices worldwide.

I do not believe there have been significant changes in economic fundamentals in Japan since the July MPM, as seen in corporate profits being at historically high levels, as I mentioned earlier. However, I think it is necessary to look back at market developments in the wake of July's policy change when considering further adjustments to the degree of monetary accommodation. In the course of this consideration, the Bank should, as it has done to date, base its decisions on a careful assessment of how changes in financial markets are affecting the outlook for economic activity and prices -- for example, how changes in market functioning and firms' fund-raising behavior are affecting the likelihood of realizing the outlook and the speed at which it is realized.

Thank you.

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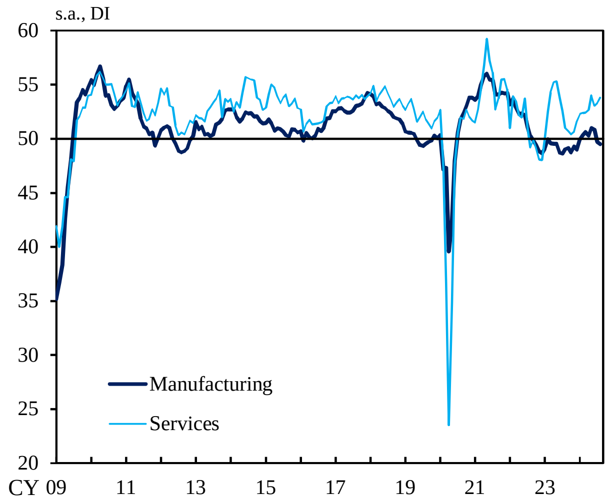
NAKAGAWA Junko
Member of the Policy Board
Bank of Japan

Chart 1

Overseas Economies

Global PMI



Note: Figures for manufacturing are the J.P.Morgan Global Manufacturing PMI.
Figures for services are the J.P.Morgan Global Services PMI Business Activity Index.
Source: Copyright © 2024 by S&P Global Market Intelligence, a division of S&P Global Inc.
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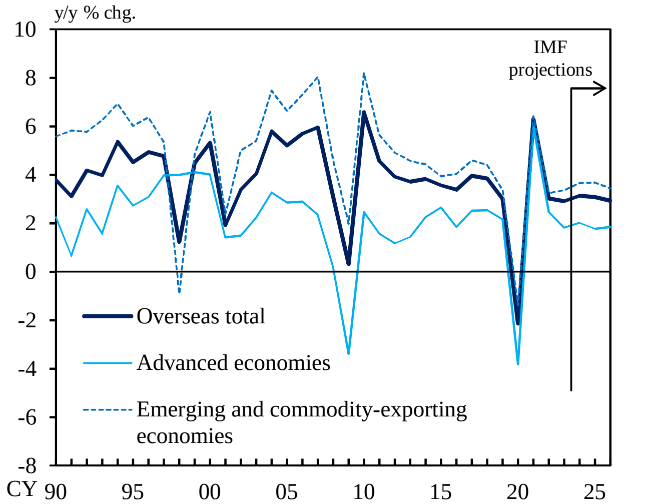
Outlook

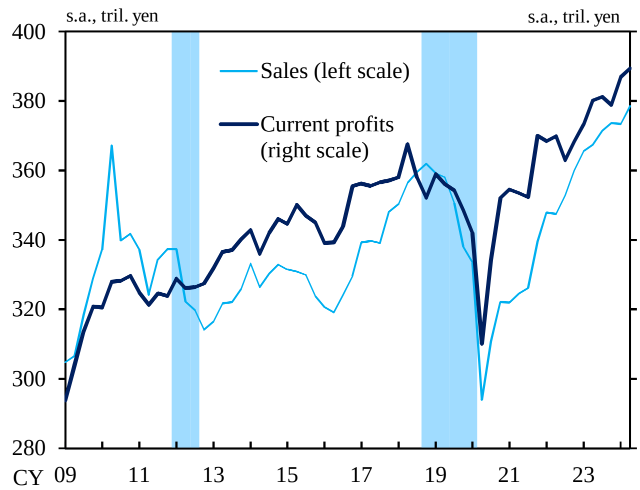


Note: Figures are the weighted averages of real GDP growth rates using countries' share in Japan's exports as weights. The real GDP growth rates are compiled by the IMF, and the rates from 2024 onward are its projections in the April 2024 *World Economic Outlook* (WEO) and the July 2024 WEO *Update*.
Figures for advanced economies are those for the United States, the euro area, and the United Kingdom.
Figures for emerging and commodity-exporting economies are those for the rest of the world.
Sources: IMF; Ministry of Finance.

Chart 2

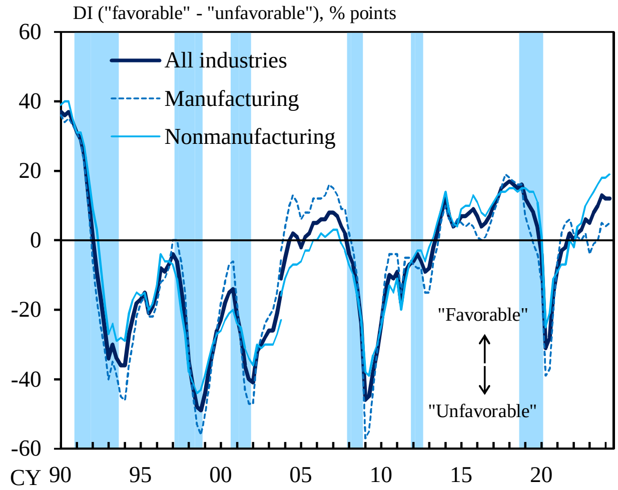
Corporate Sector in Japan

Corporate Profits



Notes: 1. Based on the *Financial Statements Statistics of Corporations by Industry, Quarterly*. Excluding the finance and insurance industries.
2. Figures from 2009/Q2 onward exclude pure holding companies.
3. Shaded areas denote recession periods.
Source: Ministry of Finance.

Business Conditions

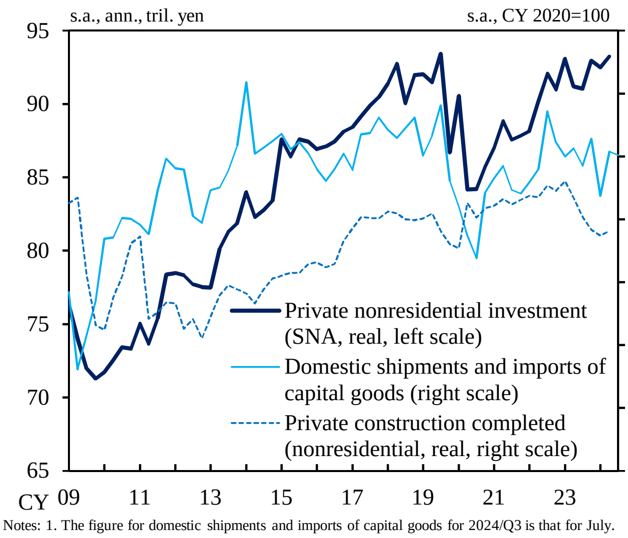


Notes: 1. Based on the *Tankan*. All enterprises. There is a discontinuity in the data for December 2003 due to a change in the survey framework.
2. Shaded areas denote recession periods.
Source: Bank of Japan.

Chart 3

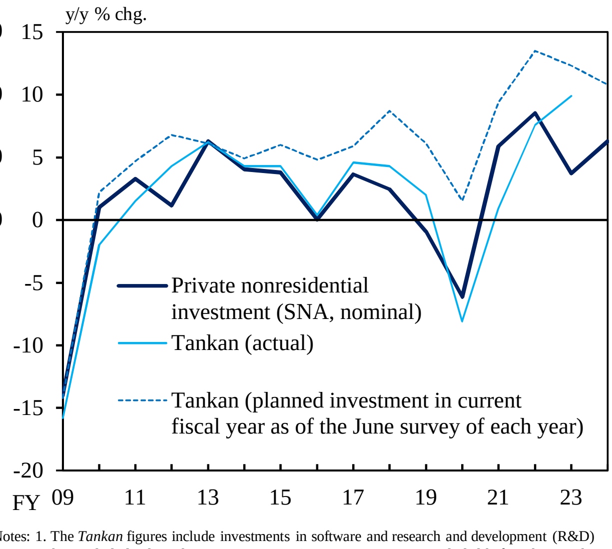
Corporate Sector in Japan

Coincident Indicators of Business Fixed Investment



Notes: 1. The figure for domestic shipments and imports of capital goods for 2024/Q3 is that for July.
2. Figures for real private construction completed are based on Bank staff calculations using the construction cost deflators.
Sources: Cabinet Office; Ministry of Economy, Trade and Industry; Ministry of Land, Infrastructure, Transport and Tourism.

Planned and Actual Business Fixed Investment

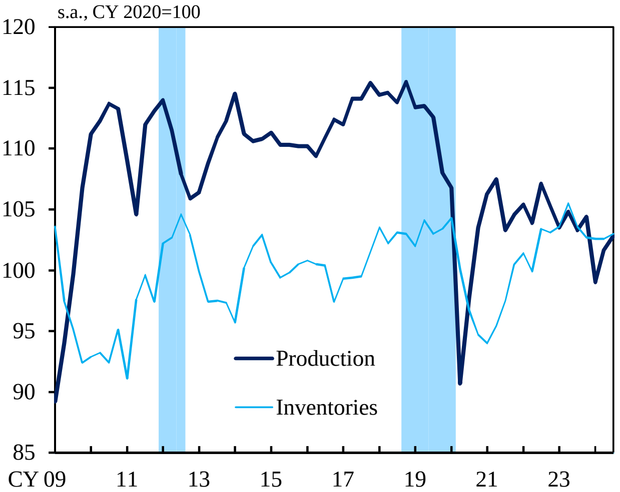


Notes: 1. The *Tankan* figures include investments in software and research and development (R&D) but exclude land purchasing expenses. R&D investment is not included before the March 2017 survey. The figures are for all industries including financial institutions.
2. The figure for private nonresidential investment for fiscal 2024 is that for 2024/Q2.
Sources: Cabinet Office; Bank of Japan.

Chart 4

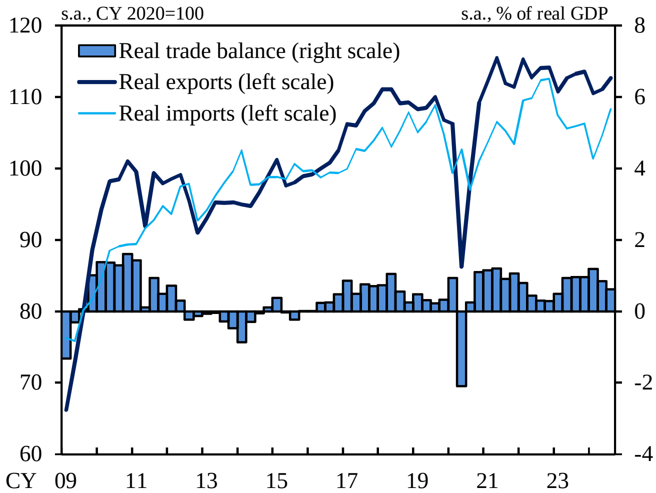
Corporate Sector in Japan

Industrial Production



Notes: 1. Shaded areas denote recession periods.
2. Figures for 2024/Q3 are those for July.
Source: Ministry of Economy, Trade and Industry.

Real Exports and Imports

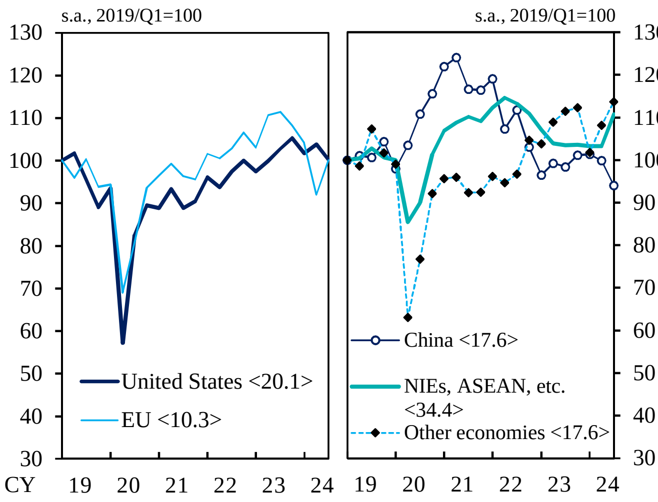


Note: Based on Bank staff calculations. Figures for 2024/Q3 are those for July.
Sources: Cabinet Office; Ministry of Finance; Bank of Japan.

Chart 5

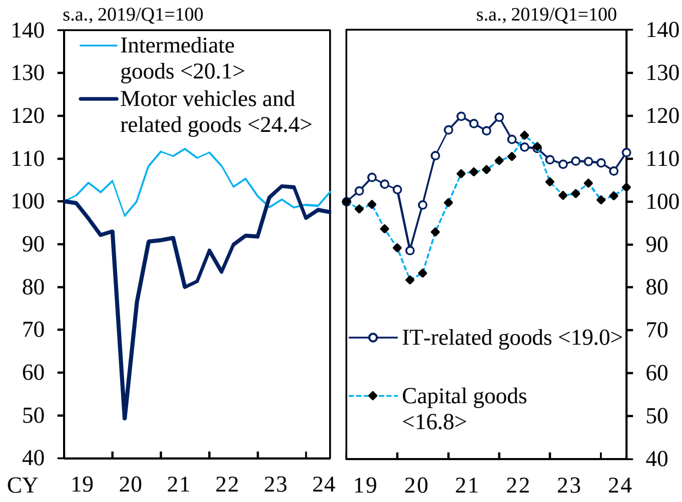
Corporate Sector in Japan

Real Exports by Region



Notes: 1. Based on Bank staff calculations. Figures in angular brackets show the share of each country or region in Japan's total exports in 2023. Figures for 2024/Q3 are those for July.
2. Figures for the EU exclude those for the United Kingdom for the entire period.
Sources: Ministry of Finance; Bank of Japan.

Real Exports by Type of Goods

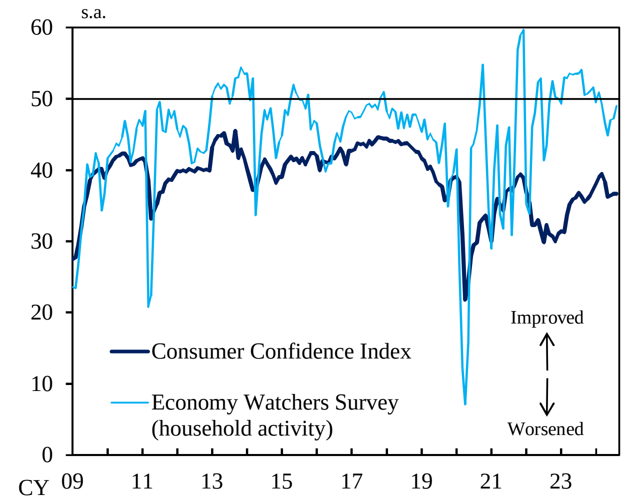


Note: Based on Bank staff calculations. Figures in angular brackets show the share of each type of goods in Japan's total exports in 2023. Figures for 2024/Q3 are those for July.
Sources: Ministry of Finance; Bank of Japan.

Chart 6

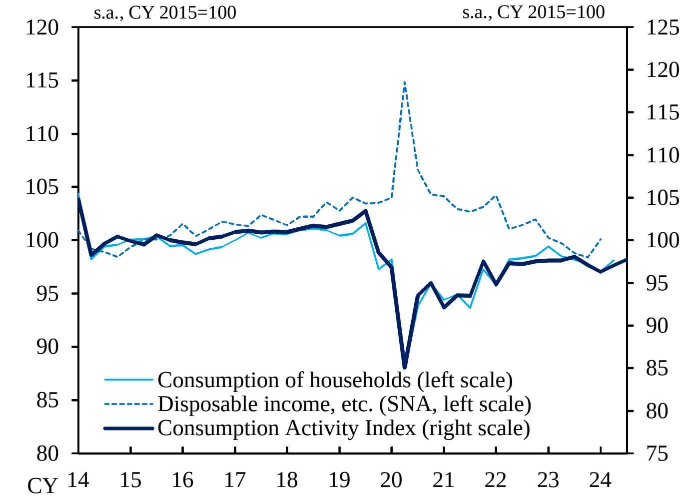
Private Consumption in Japan

Confidence Indicators



Note: Figures for the *Economy Watchers Survey* are those for the current economic conditions DI.
Source: Cabinet Office.

Real Private Consumption

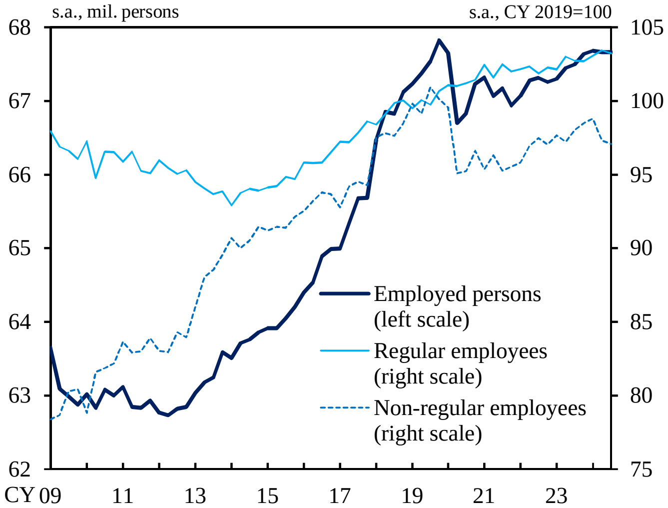


Notes: 1. Figures for the Consumption Activity Index (CAI) are based on Bank staff calculations. The CAI figures are travel balance adjusted; i.e., they exclude inbound tourism consumption and include outbound tourism consumption. The figure for 2024/Q3 is that for July.
2. Figures for consumption of households exclude imputed rent.
3. "Disposable income, etc." consists of disposable income and adjustment for the change in pension entitlements, and real values are obtained using the deflator of consumption of households.
Sources: Cabinet Office; Bank of Japan, etc.

Chart 7

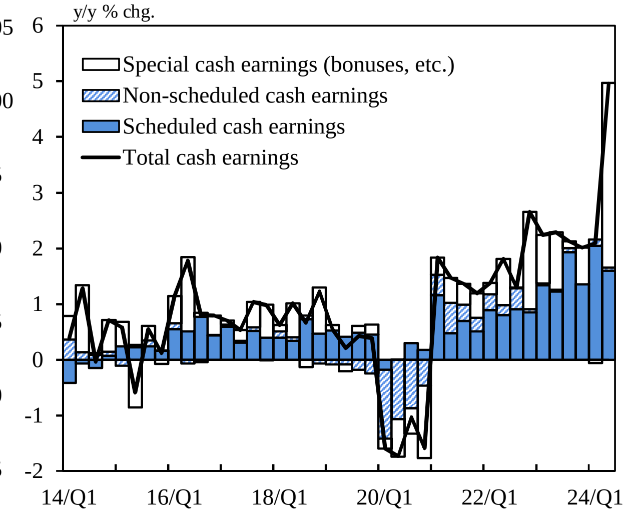
Employment and Income Situation in Japan

Number of Employed Persons



Note: Figures for regular employees and non-regular employees prior to 2013 are based on the "detailed tabulation" in the *Labour Force Survey*. Figures for 2024/Q3 are those for July.
Source: Ministry of Internal Affairs and Communications.

Nominal Wages per Employee

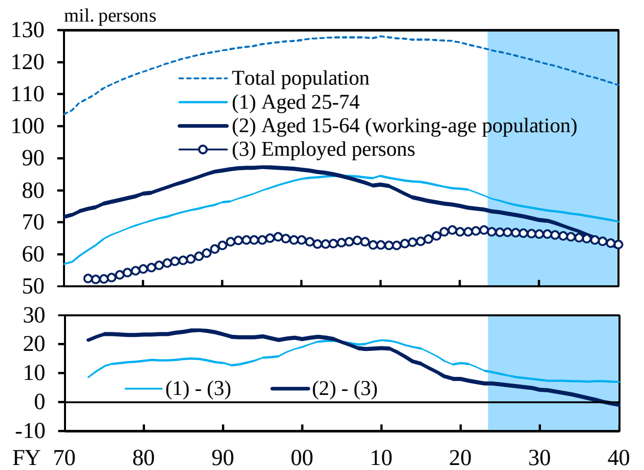


Notes: 1. Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February. Figures for 2024/Q2 are June-July averages.
2. Figures from 2016/Q1 onward are based on continuing observations following the sample revisions.
Source: Ministry of Health, Labour and Welfare.

Chart 8

Employment and Income Situation in Japan

Potential Additional Labor Supply

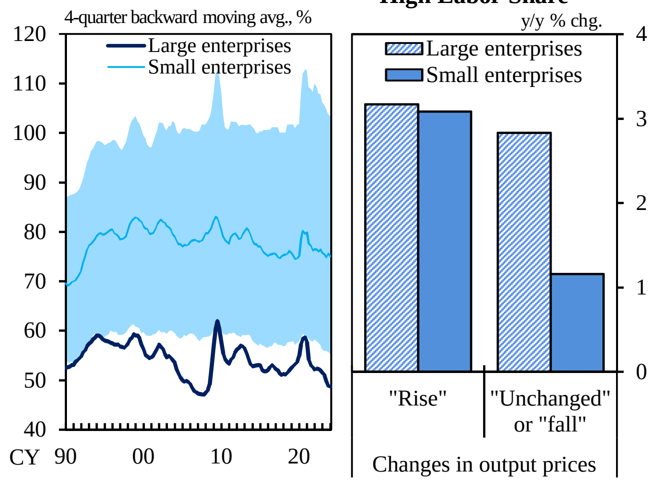


Note: The shaded areas denote projection periods. The population projections are by the National Institute of Population and Social Security Research. The projection for the number of employed persons is calculated based on projections by the Japan Institute for Labour Policy and Training.
Sources: Japan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

Labor Share and Wage Increases

Labor Share

Enterprises with a High Labor Share



Notes: 1. Large enterprises are enterprises with a capitalization of 1 billion yen or more. In the left panel, small enterprises are enterprises with a capitalization of 10 million yen or more but less than 100 million yen. In the right panel, small enterprises are enterprises with a capitalization of 20 million yen or more but less than 100 million yen.
2. In the left panel, the shaded area denotes the 25th-75th percentile distribution for small enterprises, based on Bank staff calculations using microdata from the *Financial Statements Statistics of Corporations by Industry, Quarterly*. Figures exclude the finance and insurance industries and those for 2009/Q2 onward also exclude pure holding companies.
3. In the right panel, figures show the year-on-year percentage changes in labor costs per employee in 2023/Q4. Figures are the medians of wage increases at enterprises with a high labor share and are calculated by matching microdata for enterprises that responded to both the survey for the *Financial Statements Statistics of Corporations by Industry, Quarterly* (wage increases) and the *Tankan* survey (the output prices DI). Enterprises with a high labor share are enterprises whose labor share falls into the top 50 percent in their size group.
Sources: Ministry of Finance; Bank of Japan.

Chart 9

Inflation Indicators

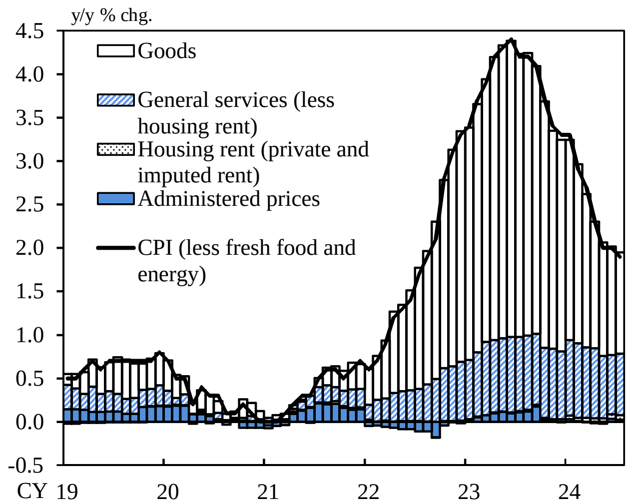
Inflation Indicators

y/y % chg.

	23/Q4	24/Q1	24/Q2	24/Q3
CPI				
Less fresh food	2.5	2.5	2.4	2.7
Excluding temporary factors	2.1	2.3	2.4	2.7
Less fresh food and energy	3.8	3.2	2.2	1.9
Excluding temporary factors	3.4	3.0	2.1	1.9
PPI	0.6	0.7	2.3	3.0
SPPI	2.7	2.4	2.9	2.7
GDP Deflator	3.9	3.4	3.2	
Domestic demand deflator	2.1	2.3	2.6	

Notes: 1. Figures for the PPI are adjusted for the hike in electric power charges during the summer season. Figures for the SPPI exclude international transportation.
2. The CPI figures excluding temporary factors are Bank staff estimates and exclude the effects of free education policies, travel subsidy programs, and mobile phone charges.
3. Figures for 2024/Q3 are those for July.
Sources: Cabinet Office; Ministry of Internal Affairs and Communications; Bank of Japan.

CPI (Excluding Temporary Factors)

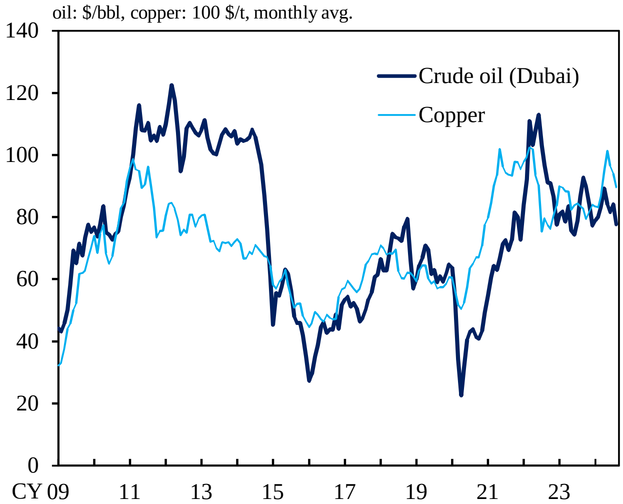


Notes: 1. "Administered prices" excludes energy prices and consists of public services and water charges.
2. The CPI figures are Bank staff estimates and exclude the effects of the consumption tax hike, free education policies, travel subsidy programs, and mobile phone charges.
Source: Ministry of Internal Affairs and Communications.

Chart 10

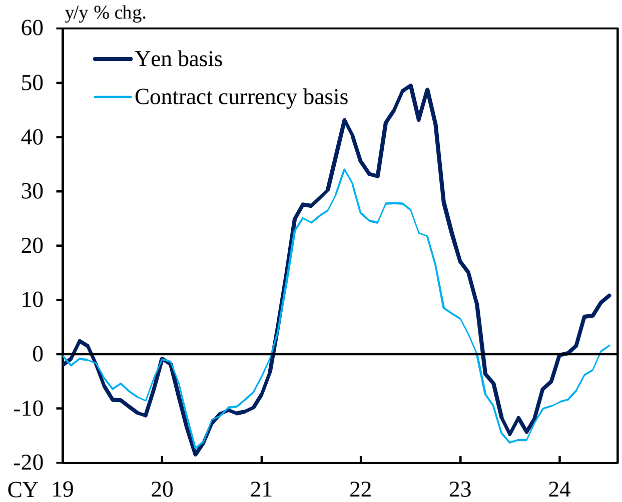
Factors Affecting Consumer Prices

International Commodity Prices



Sources: Bloomberg; Nikkei Inc.

Import Price Index



Source: Bank of Japan.

Chart 11

Outlook for Economic Activity and Prices
(as of July 2024)

y/y % chg.

	Real GDP	CPI (all items less fresh food)	(Reference) CPI (all items less fresh food and energy)
Fiscal 2024	**+0.5 to +0.7 [+0.6]**	**+2.5 to +2.6 [+2.5]**	**+1.8 to +2.0 [+1.9]**
Forecasts made in April 2024	+0.7 to +1.0 [+0.8]	+2.6 to +3.0 [+2.8]	+1.7 to +2.1 [+1.9]
Fiscal 2025	**+0.9 to +1.1 [+1.0]**	**+2.0 to +2.3 [+2.1]**	**+1.8 to +2.0 [+1.9]**
Forecasts made in April 2024	+0.8 to +1.1 [+1.0]	+1.7 to +2.1 [+1.9]	+1.8 to +2.0 [+1.9]
Fiscal 2026	**+0.8 to +1.0 [+1.0]**	**+1.8 to +2.0 [+1.9]**	**+1.9 to +2.2 [+2.1]**
Forecasts made in April 2024	+0.8 to +1.0 [+1.0]	+1.6 to +2.0 [+1.9]	+1.9 to +2.1 [+2.1]

Note: Figures in brackets indicate the medians of the Policy Board members' forecasts (point estimates).
Source: Bank of Japan.

Chart 12

Decisions at the July 2024 MPM (1): 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 %"
(uncollateralized overnight call rate) (previously "around 0 to 0.1%")

- 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.

Chart 13

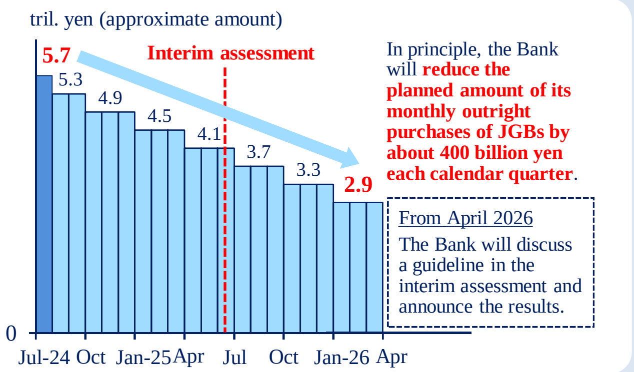
Decisions at the July 2024 MPM (2): Plan for the Reduction of the Purchase Amount of JGBs

The concept of the plan for the reduction until March 2026

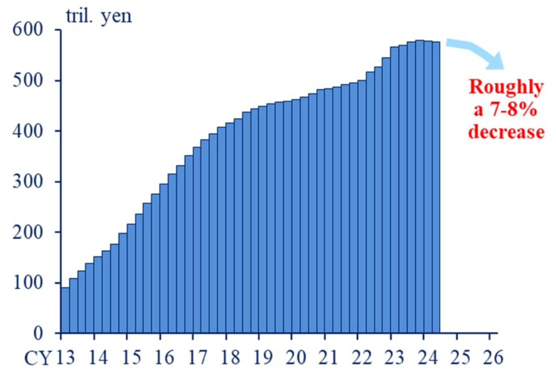
1. Long-term interest rates: to be formed in financial markets in principle
2. JGB purchases: appropriate for the Bank to reduce its purchase amount of JGBs in a predictable manner, while allowing enough flexibility to support stability in the JGB markets

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.