

# Japan's Economy and Monetary Policy

*Speech at a Meeting with Business Leaders in Osaka*

September 24, 2024

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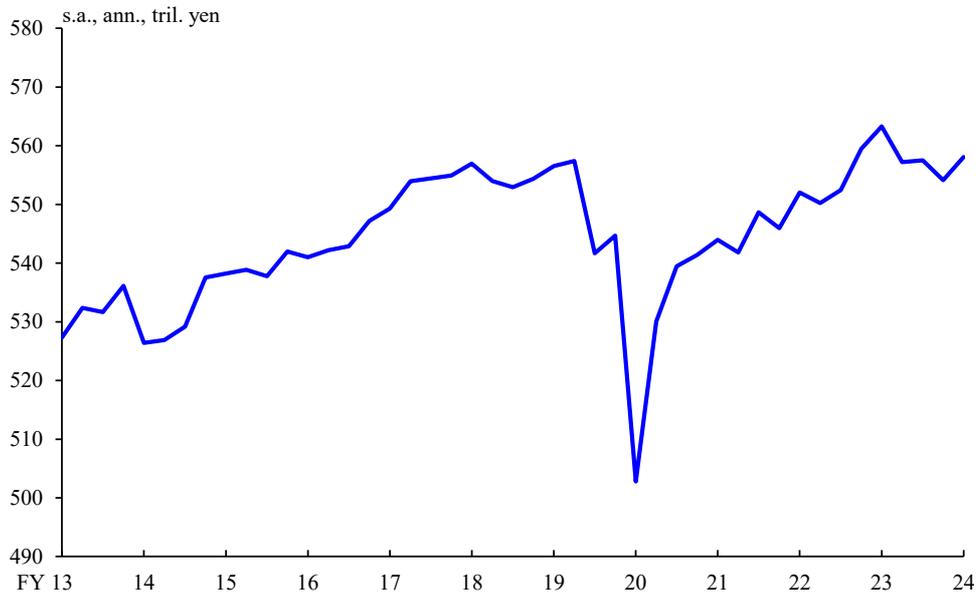
Introduction

I. Economic Activity and Prices

II. The Bank's Conduct of Monetary Policy

Concluding Remarks

# Real GDP

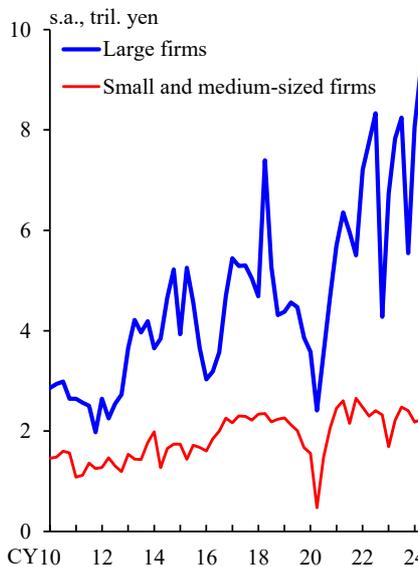


Source: Cabinet Office.

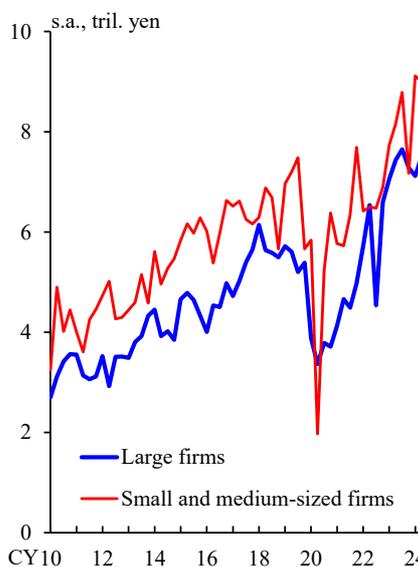
# Corporate Sector

## Current Profits

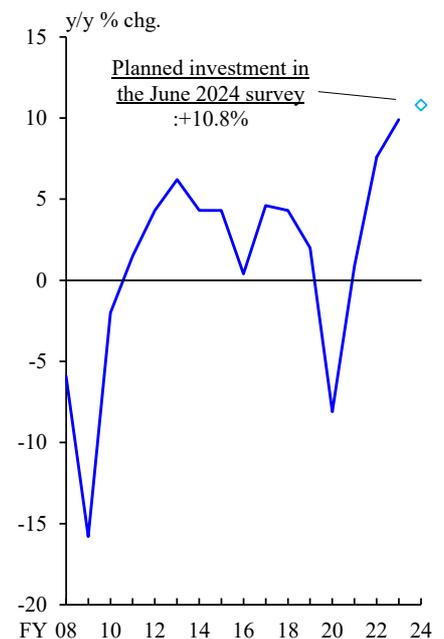
### Manufacturing



### Non-manufacturing



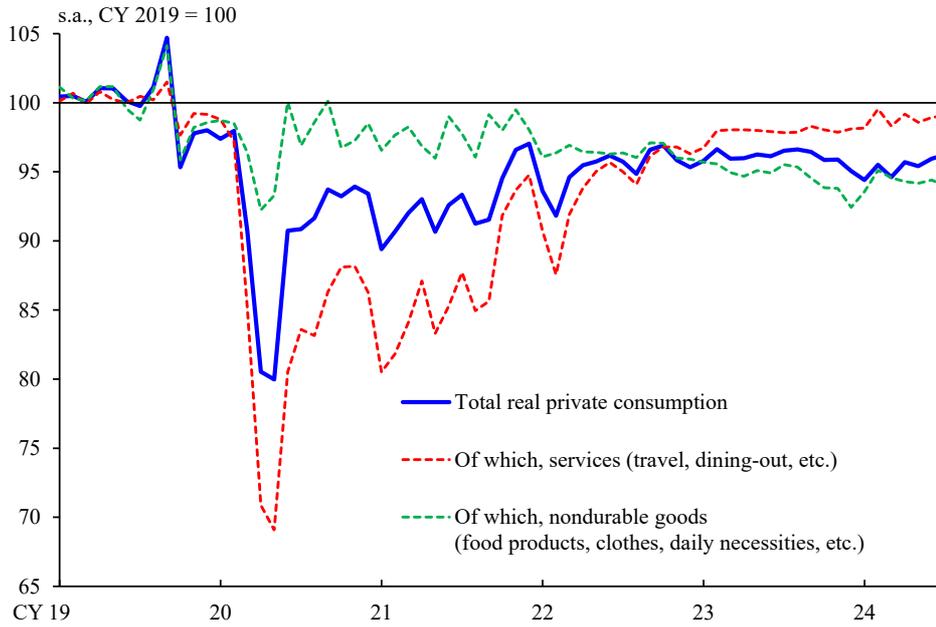
## Business Fixed Investment



Notes: 1. Figures for current profits are based on the *Financial Statements Statistics of Corporations by Industry, Quarterly* and exclude "finance and insurance" and pure holding companies.  
 2. 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: Ministry of Finance; Bank of Japan.

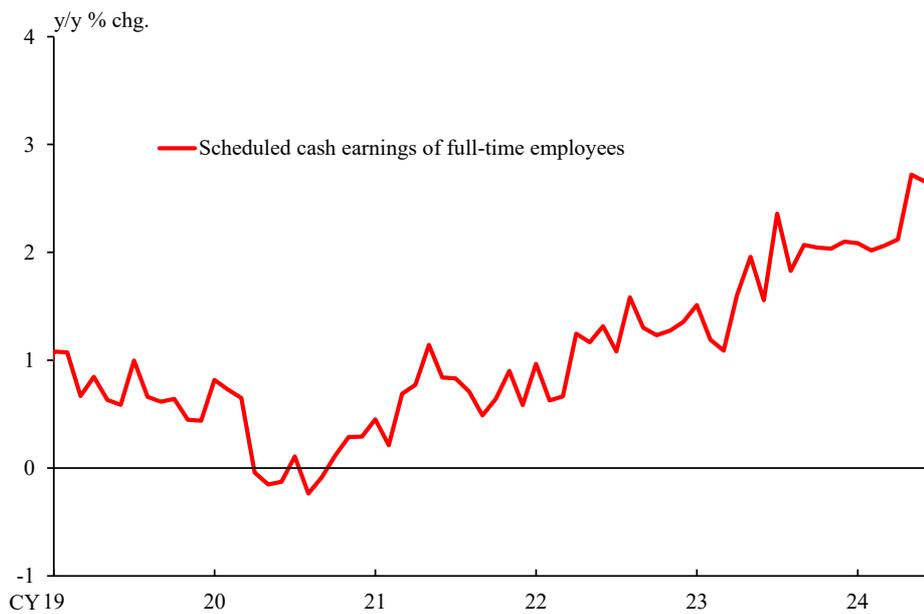
# Household Sector

## Real Private Consumption



Note: 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.  
Source: Bank of Japan.

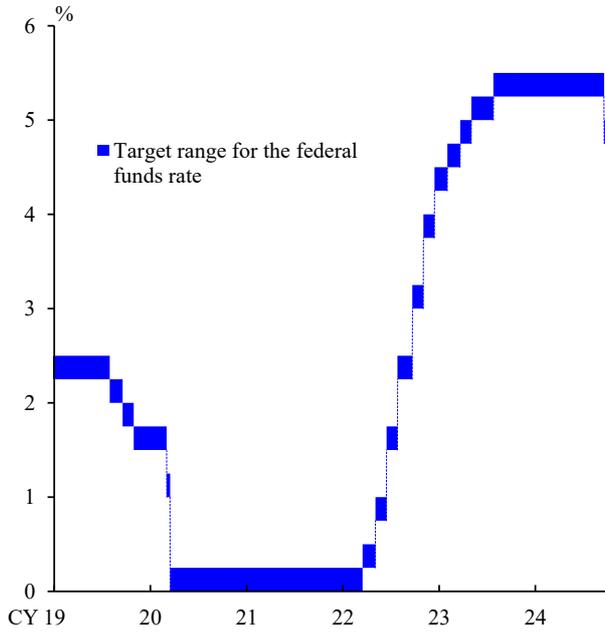
# Nominal Wages



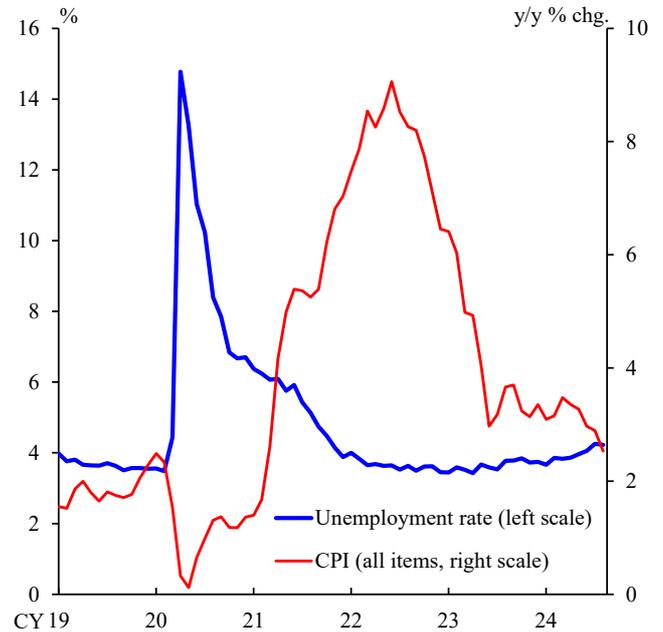
Note: Figures are based on continuing observations following the sample revisions.  
Source: Ministry of Health, Labour and Welfare.

# U.S. Economy

*Policy Interest Rate*



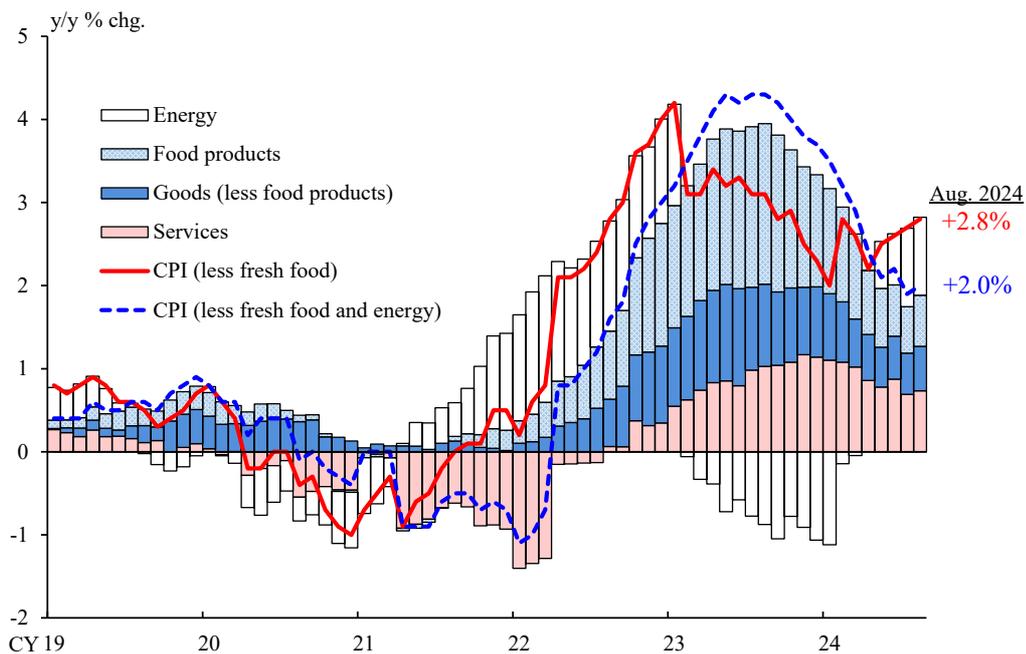
*Employment and Prices*



Sources: Bloomberg; Haver.

# Price Developments

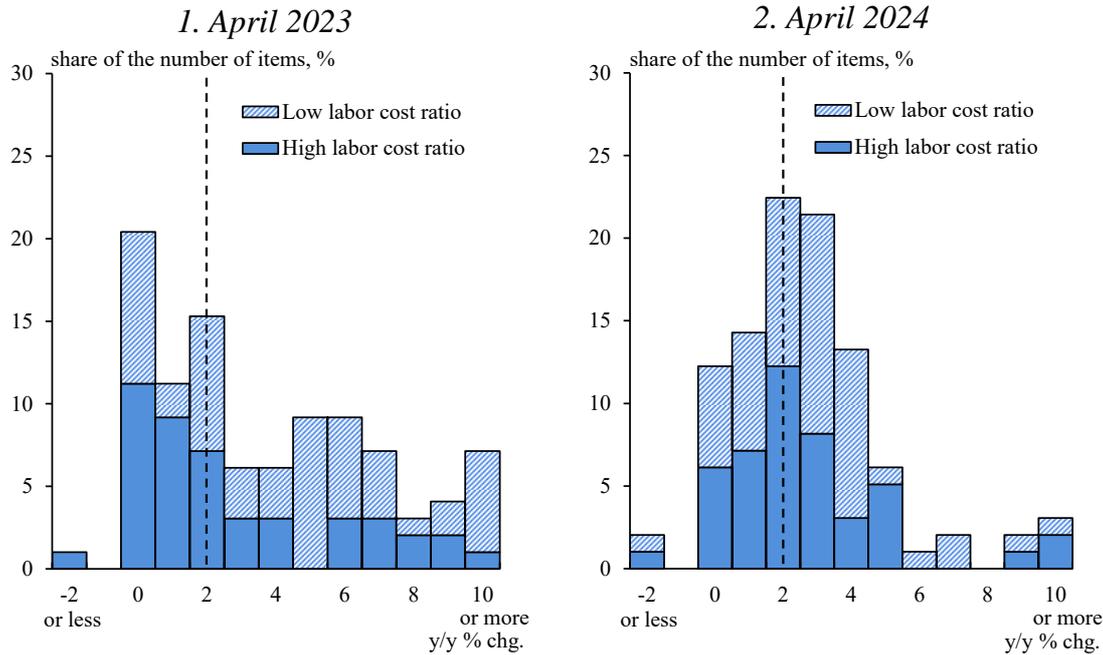
*CPI*



Source: Ministry of Internal Affairs and Communications.

# Developments in Services Prices

## Price Change Distribution of General Services



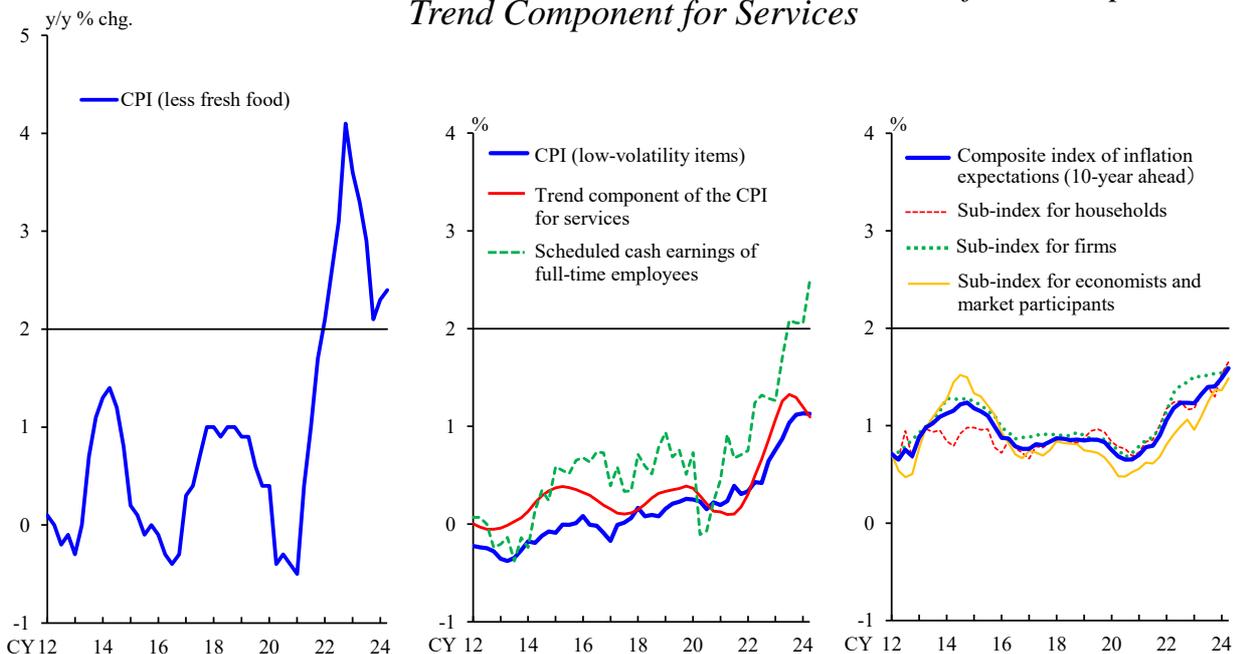
Notes: 1. Figures show the CPI for general services (less housing rent). Figures are staff estimates and exclude the effects of policies concerning the provision of free education and the effects of travel subsidy programs.  
 2. CPI items are matched to the items in the 2015 *Input-Output Tables for 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.

# Developments in Underlying Inflation

## (Reference) CPI

## 1. Low-Volatility Items and Trend Component for Services

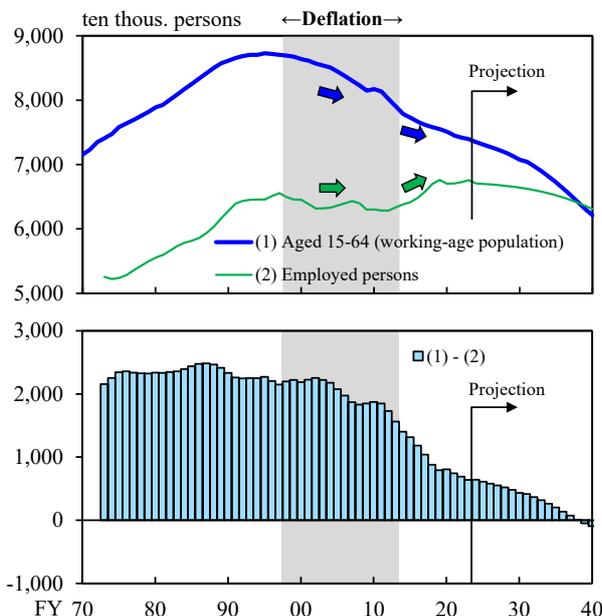
## 2. Inflation Expectations



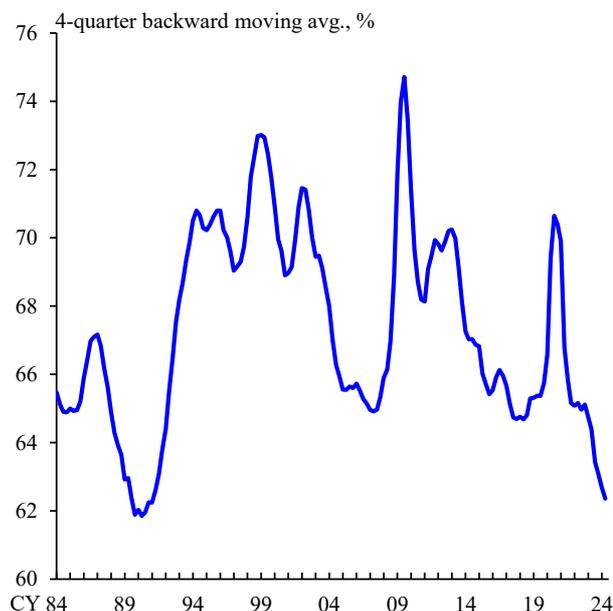
Notes: 1. In the left-hand chart, figures are staff estimates and exclude mobile phone charges and the effects of the consumption tax hikes, policies concerning the provision of free education, and travel subsidy programs.  
 2. For details of the approaches on which the middle and right-hand charts are based, see Box 4 of the April 2024 Outlook Report. In the middle chart, figures for scheduled cash earnings of full-time employees from 2016 onward are based on continuing observations following the sample revisions.  
 Sources: Bank of Japan; Ministry of Internal Affairs and Communications; Ministry of Health, Labour and Welfare; QUICK, "QUICK Monthly Market Survey <Bonds>"; Consensus Economics Inc., "Consensus Forecasts"; Bloomberg.

# Labor Market

## Working-Age Population and Number of Employed Persons



## Labor Share



Notes: 1. In the left-hand chart, 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.  
2. In the right-hand chart, figures are based on the *Financial Statements Statistics of Corporations by Industry, Quarterly*. Figures exclude "finance and insurance" and those for 2009/Q2 onward also exclude pure holding companies.  
Labor share = Personnel expenses / Value-added, and Value-added = Operation profits + Personnel expenses + Depreciation expenses.

Sources: Ministry of Internal Affairs and Communications; National Institute of Population and Social Security Research; Japan Institute for Labour Policy and Training; Ministry of Finance. 9

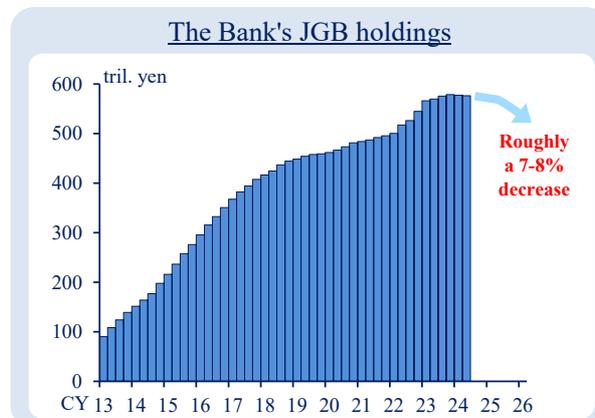
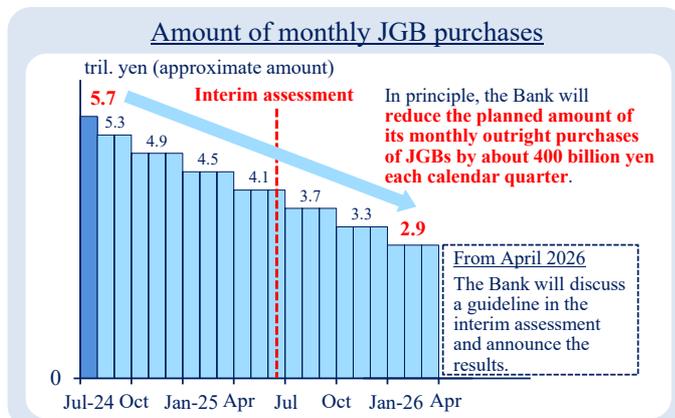
## II. The Bank's Conduct of Monetary Policy

### 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.

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

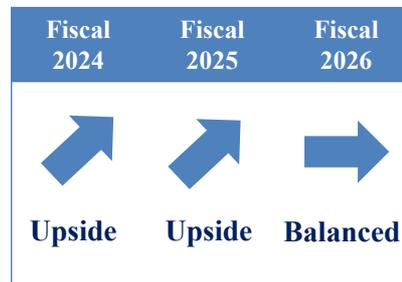
- Japan's economic activity and prices have been **developing generally in line with the Bank's outlook**. Moves to raise wages have been spreading.
- The year-on-year rate of change in import prices has turned positive again, and **upside risks to prices require attention**.

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



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.