



October 3, 2024  
Bank of Japan

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**Economic Activity, Prices,  
and Monetary Policy in Japan**

*Speech at a Meeting with Local Leaders in Nagasaki*

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*Member of the Policy Board*

(English translation based on the Japanese original)

## **I. Economic Activity and Prices**

### **A. Economic Developments at Home and Abroad**

I will begin my speech by talking about recent economic developments at home and abroad.

In the wake of global inflation following the COVID-19 pandemic, Japan's economy has been steadily shifting away from the deflation, or low inflation, that had continued from the late 1990s. It is approaching an extremely crucial turning point, in terms of whether the Bank of Japan's price stability target of 2 percent will be achieved in a sustainable and stable manner. This depends on future economic developments at home and abroad and the underlying developments in policy conduct among the various authorities.

Turning to overseas economies, many countries and regions have been increasingly shifting the focus of their policy conduct to maintaining economic growth, as the high inflation caused by the post-pandemic reopening of the economies has begun to subside. Major central banks in the United States and Europe maintained high policy interest rates until recently in order to contain inflation. Meanwhile, as their economies have started out on a slowing trend because of this sustained monetary tightening, some of the central banks have gradually begun to reduce their policy interest rates. That said, the degree of economic slowdown in many countries and regions is quite mild, excluding China, which is undergoing real estate adjustments, and high inflation has started to be subdued without an accompanying significant rise in the unemployment rate (Chart 1). In that sense, these countries and regions have come close to containing inflation with a very soft landing.

In the United States, the July results of the *Current Employment Statistics* released in early August were weaker than market expectations, causing an acute increase in concerns over economic deterioration, immediately followed by the sudden depreciation of the U.S. dollar and a fall in stock prices. Nonetheless, many indicators released thereafter showed robustness in the economy, and market disruptions turned out to be only temporary. Despite the temporary or region-specific market disruptions, the global economy as a whole has grown moderately, and is expected to continue to move in line with its potential growth path from 2025 onward, underpinned by stable inflation and declining interest rates (Chart 2).

Japan's economy seems to have started out on a moderate uptrend. The GDP for the April-June quarter of 2024 rose by 2.9 percent on an annualized quarter-on-quarter basis, after having hovered for some time at a somewhat low level: the GDP for the July-September quarter of 2023 decreased by 4.3 percent, that for the October-December quarter rose by 0.2 percent, and that for the January-March quarter of 2024 decreased by 2.4 percent (Chart 3). In particular, private consumption, which had continued to record negative growth from the April-June quarter of 2023, grew at a relatively high rate. Although this can be mainly explained by the rebound from the previous quarter, it suggests that downward pressure on real consumption from the decline in real wages has finally started to wane. Since the growth rate for real wages at present is heading toward an increasing trend, I personally think that private consumption is likely to be on a clearer expanding trend (Chart 4).

## **B. Price Developments**

Turning to Japan's price developments, Japan faced typical cost-push inflation in the post-pandemic period, due to higher imported goods prices brought about by the impact of global inflation. This was especially evident in the fact that prices of energy and food accounted for a sizable contribution to rises in consumer prices. However, the rate of increase in imported goods prices has become moderate, in line with subsiding global inflation, and the pace of increase in the prices of energy and food has started to regain stability. As a result, the year-on-year rate of increase in the consumer price index (CPI) for all items excluding fresh food has been in the range of 2.5-3.0 percent and that for all items excluding fresh food and energy has been at around 2 percent (Chart 5).

While the impact of higher imported goods prices has started to diminish, it is services prices that have been steadily rising as a trend. This uptrend is noteworthy, given that services prices tended to decline or barely rise from the 1990s in Japan. Simply put, the reason why services prices did not rise in Japan until recently was that wages, which account for a large share of costs for services, did not rise. The recent rise in services prices is mainly attributable to a rise in the price of dining-out due to higher imported food prices. Nevertheless, the large wage increases observed for the first time in more than three decades are also being gradually

reflected in services prices.<sup>1</sup> Recent developments in the services producer price index (SPPI) -- in which higher wages are more easily reflected compared with consumer services prices -- signifies such a trend even more clearly (Chart 6). This suggests, in reality, that the factor pushing up prices is gradually shifting from inflationary pressure resulting from a pass-through of the rise in import prices to consumer prices, or what we call the "first force," to inflationary pressure stemming from wage increases, or the "second force" (Chart 7).

## **II. Monetary Policy**

### **A. Shifting Away from Large-Scale Monetary Easing and Its Significance**

Next, I will discuss the Bank of Japan's policy conduct. From the late 1990s, Japan's economy suffered from what later came to be called the "Japan disease," in which economic and employment growth remained sluggish while prices and nominal wages continued to decline. To overcome this prolonged deflation and achieve its 2 percent price stability target, the Bank in April 2013 introduced quantitative and qualitative monetary easing (QQE) as a large-scale monetary easing policy. Subsequently, to enhance monetary easing in response to developments in economic activity and prices, the Bank decided to implement QQE with a Negative Interest Rate in January 2016 and QQE with Yield Curve Control in September of the same year. As a result, the positive output gap widened, and the employment situation improved substantially before the COVID-19 pandemic (Chart 8). Moreover, although the year-on-year rate of increase in the CPI was still lower than the 2 percent price stability target, it was at least no longer continuously negative.

At the Monetary Policy Meeting (MPM) held in March 2024, the Bank judged it was now within sight that the price stability target of 2 percent would be achieved in a sustainable and stable manner. It thus decided to discontinue its unconventional monetary easing policies and shift back to a conventional policy framework, in which the degree of monetary accommodation is adjusted by guiding the money market rate (Chart 9). The Bank made this shift for the following reasons. First, due to the impact of global inflation following the pandemic, Japan's inflation rate continued to exceed 2 percent, which also began to raise the

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<sup>1</sup> See the Bank's research paper on the effect on firms' recent price-setting behavior for services prices in the consumer prices (available only in Japanese, forthcoming in English): Ozaki, T., Yagi, T., and Yoshii A., *Bank of Japan Review*, no. 2024-J-11 (August 2024).

underlying inflation trend. Second, in the process of economic recovery from the pandemic, the tightness in the labor market that had already materialized before the pandemic became even more pronounced, leading to a distinct rise in nominal wages. This means that Japan's economy has finally started to move away from an economy with a "zero norm," in which inflation and wage growth rates of virtually zero become the norm. I will elaborate on this point later.

The Bank will gradually adjust its current monetary accommodation, while carefully monitoring price developments to make sure that the year-on-year rate of increase in the CPI stabilizes at around 2 percent, accompanied by wage increases. The primary objective is to reach a potential growth path, in which inflation of around 2 percent is achieved in a stable manner, on as smooth a trajectory as possible. The Bank's March 2024 decision means that the role of such adjustments to monetary accommodation falls exclusively to the money market rate as the policy interest rate.

The shift away from large-scale monetary easing also has a secondary effect. It restores a degree of freedom to financial markets, which had been under significant constraint due to the monetary easing policy, in a manner that avoids market disruption. The Bank had increased its involvement in the Japanese government bond (JGB) market through policies such as QQE, the negative interest rate policy, and yield curve control. The reason for this was that, with money market rates -- the target for conventional monetary policy -- having almost reached the lower bound, the Bank had sought to employ long-term interest rates as the main channel for influencing financial conditions. The upshot was that the Bank came to hold a large amount of JGBs on the asset side of its balance sheet. Since the policy shift in March 2024, the Bank has left the formation of long-term interest rates and the yield curve entirely to the market. It therefore needs to reduce its JGB purchases, albeit at a gradual pace, to ensure that there is sufficient depth in the market for JGB transactions, involving a large number of market participants.

What I would like to emphasize is that the purpose of reducing JGB purchases is solely to restore market depth, and not to shrink the Bank's balance sheet or adjust monetary accommodation. This entails two aspects. First, unlike the period of scarce reserve balances

prior to the global financial crisis in 2008, when the Bank guided and maintained money market rates exclusively through money market operations, the Bank now controls short-term interest rates through the interest rate it applies to current account balances held by financial institutions at the Bank. Thus, monetary policy conduct is essentially independent of the Bank's balance sheet. Second, even if the extent of the reduction in the Bank's JGB purchases leads to some degree of monetary tightening or easing, these effects will ultimately be absorbed by an adjustment in money market rates. In other words, it can be said that, in terms of this policy tool, the exit from large-scale monetary easing has already been completed.

### **B. Reduction of the Purchase Amount of JGBs and the Bank's Basic Thinking behind the Reduction**

At the July 2024 MPM, the Bank decided on a plan for the reduction of its purchase amount of JGBs for the period until March 2026, taking into account discussions with market participants (Chart 10). The Bank's basic principle here is to achieve both the predictability and the flexibility of its market operations. This predictability is embodied in the plan itself, which states that the planned amount of monthly purchases of JGBs will be reduced by about 400 billion yen each calendar quarter in principle. This means that, since the formation of long-term interest rates is left to the market, there will be no policy-driven changes in the Bank's JGB purchases. On the other hand, the plan also ensures a certain degree of flexibility in market operations, in that it allows for making flexible changes to the amount of JGB purchases in the case of sudden market swings. The reason is that, even though recovery in market functioning is important, this would be meaningless if it ended up fostering or disregarding market turmoil.

Another point to note about this plan is its tentative nature, which reflects the difficulty of determining the optimal size of the Bank's balance sheet at this point. Whatever the optimal size is, it is unlikely to be reached by March 2026. Thus, the current reduction plan is inevitably tentative, with a possible extension beyond March 2026. As I mentioned earlier, under the current policy regime, which is premised on ample reserve balances, there are no constraints or obstacles to monetary policy conduct, even if the size of the Bank's balance sheet remains as is. Therefore, the Bank is able to take sufficient time and consideration in

reducing the size of the balance sheet. This is also desirable in terms of maintaining market stability.

### **C. Policy Interest Rate Adjustments and Issues regarding Their Implementation**

At the July 2024 MPM, the Bank decided to raise its policy interest rate by around 0.15 percentage points and encourage the uncollateralized overnight call rate to remain at around 0.25 percent. At the meeting, I voted against the proposal to raise the policy interest rate. I will return to the reason why shortly.

Following this decision, the yen appreciated and stock prices fell. These developments further accelerated due to the deterioration in the U.S. employment situation that became apparent immediately thereafter (Chart 11). The July policy interest rate hike turned out to be one of the factors behind the sharp decline in Japan's stock prices, reminiscent of Black Monday in October 1987. Although there is already much debate as to the cause of the market turmoil, I personally believe that there was a discrepancy between the Bank's actual view of the current economic situation and the market's perception of that view, and that this was at the root of the problem.

The July policy decision implies that the general consensus at the Bank at that point -- despite some minor disagreement, including my own -- was that Japan's economic activity and prices had been developing in line with the Bank's outlook, and that a slight reduction in monetary accommodation was appropriate in light of the upside risks to prices in the face of rising import prices. I opposed the policy interest rate hike from the standpoint that it was necessary to more carefully assess how the economic situation had improved with wage hikes becoming widespread, based on relevant data. My idea behind this was that Japan's economy was still more vulnerable to downside risks, as underlying inflation had not yet reached 2 percent and inflation expectations were not anchored at 2 percent either. On the other hand, I also thought that, because the economic and price situation was steadily improving, it would not be too long before the Bank needed to make adjustments to its policy interest rate, depending on future data.

The market turmoil following the July decision suggests that the Bank's consensus view had not necessarily been sufficiently understood by the market. The market had likely assumed that the Bank had a more cautious view on economic conditions and that it would therefore proceed with policy interest rate hikes at a very slow pace. The market took the Bank's July decision and the presentation of its outlook as a matter of concern because they differed substantially from what it had assumed the Bank's view was.

Two main issues can be derived from this experience. First, in its policy conduct, the Bank needs to adequately understand how the market perceives the Bank's thinking behind its policy conduct. Second, if the Bank's consensus view changes mainly due to improvement in economic conditions, and as a consequence a large discrepancy could arise with the market's perception of the Bank's consensus view, then the Bank needs to communicate its view with the utmost care to fill the gap. I believe that such communication efforts are essential to prevent future policy changes from leading to unnecessary market turmoil.

### **III. Moving Away from the Economy with the "Zero Norm"**

#### **A. Low Nominal Growth and the "Zero Norm" with regard to Prices and Wages**

From the collapse of the bubble economy in the early 1990s until around 2021, when recovery from the COVID-19 pandemic began, Japan's economy was in a state of low nominal growth, with prices, wages, and nominal GDP barely rising (Chart 12). Indeed, prior to the pandemic, the large-scale monetary easing implemented from spring 2013 brought down the unemployment rate to a level close to full employment. Nonetheless, nominal wages never returned to the clear uptrend observed in the pre-bubble period, and neither did inflation ever reach the 2 percent price stability target. This was probably because, as a result of the prolonged deflation that started in the second half of the 1990s, the widespread belief that prices and wages do not rise -- the so-called "zero norm" -- had become deeply entrenched among firms and households.

The price and wage norm refers to the implicit beliefs people have about how prices and wages evolve. The concept was first proposed in the early 1980s by the American economist



Arthur Okun.<sup>2</sup> The heart of the idea is that people's perceptions on prices and wages exert a significant influence on their developments. From this perspective, prices and wages in Japan did not rise because people simply took it for granted that no such rises occur. This implies that, in order for Japan's economy to overcome low nominal growth through achievement of the 2 percent price stability target, it is necessary above all to move away from the zero norm with regard to prices and wages.

### **B. Relationship between Inflation and Price Rigidity**

Prices and nominal wages are inherently characterized by so-called rigidity or stickiness, meaning that they are less likely to move either upward or downward. On the other hand, changes in demand and supply factors in the market constantly act to cause prices to change. Therefore, the degree to which the prices of individual goods and services are rigid or change in practice depends on the strength or weakness of the relationship between the factors that make prices rigid and those that cause them to change. This implies that price rigidity is generally stronger in an economy with lower inflation, since higher inflation means that the factors that cause prices to move upward, such as rising incomes, are stronger.

This relationship between inflation and price rigidity can easily be observed by comparing the situation in Japan with other advanced economies, where consumer price inflation has trended higher. For example, when comparing the price change distribution by item between Japan and the United States, there is a significant difference in both the position of the peak of the distribution and its dispersion, particularly for the pre-pandemic period in September 2019 (Chart 13). Specifically, in Japan, many items cluster around the point where the rate of change in prices is 0 percent, and the degree of concentration is high. By contrast, in the United States, the largest number of items cluster around the rate of increase in prices of about 2 percent, but the degree of concentration is low, and the overall dispersion of price changes is significant.

The price change distribution in the post-pandemic period in December 2023 shows a shift to the right for both Japan and the United States, reflecting higher inflation. What is of particular

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<sup>2</sup> Arthur M. Okun, *Prices and Quantities: A Macroeconomic Analysis*, The Brookings Institution (1981).

note is that, in Japan, the shape of the distribution has also changed significantly. In other words, compared with the pre-pandemic period, there is far less clustering around 0 percent, while a new peak has begun to form in the range of a 2-4 percent price change. This suggests that global inflationary pressure in the post-pandemic period has acted to weaken the price rigidity of goods and services, which grew stronger during Japan's deflationary recession period. In fact, after the pandemic, the share of items falling in the 0 percent price change category declined, while the frequency of price revisions increased for both goods and services (Chart 14). This indicates that the persistent zero norm in Japan's economy may be on the verge of dissipating.

As Japan's experience shows, rigidity in the prices of goods and services is stronger in economies with lower average rates of inflation.<sup>3</sup> However, even in the United States, where the underlying inflation rate is higher than in Japan, the peak at 0 percent in the price change distribution is quite high (Chart 13). This shows that factors that make prices rigid are universal, regardless of the level of inflation. Such factors may include menu costs (i.e., costs associated with changing prices), firms' strategic complementarity with competitors in setting prices, and adherence to reasonable standards with regard to pricing for customers.<sup>4</sup> Increases in the prices of goods and services indicate that the advantages for firms when they raise prices to an appropriate level outweigh the disadvantages of such price increases.

### **C. Why It Is Necessary to Move Away from the Zero Norm**

Economic sluggishness coupled with ongoing deflation or low inflation has often been referred to as the "Japan disease." Japan's experience may indeed be the archetypical instance

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<sup>3</sup> The following working paper on causes and implications of increased price rigidity during the deflationary period was the first to point this out in the context of the deflationary period in Japan (available only in Japanese): Watanabe, T. and Watanabe, K., *Bank of Japan Working Paper Series*, no. 16-J-2 (February 2016).

<sup>4</sup> The fact that firms' price-setting behavior often involves incentives to avoid raising prices as much as possible has long been explained using the concept of a kinked demand curve. The reason behind the kinked demand curve is usually thought to be a so-called strategic complementarity, or the strategy of firms vis-à-vis their competitors. Okun, on the other hand, argues that the reason why firms are more averse to raising prices than lowering them is the fear of damaging the relationship of trust with customers as a result of raising prices. Meanwhile, Takashi Negishi attributes kinked demand to asymmetry in the communication of information to customers. See Okun, op. cit, ch. 4, and Negishi, T., *Microeconomic Foundations of Keynesian Macroeconomics*, North-Holland Publishing Co. (1979).

of this situation, in that the economy saw increasing price rigidity under the trend of low inflation and this led to a kind of norm in which people took it for granted that prices do not rise. Simply put, in an economy with such a zero norm, in which prices are seen not to change, prices are less likely to be able to play their primary role of facilitating the more appropriate allocation of resources across the economy overall, through the incentives they provide.

In a market economy, cost structures are changing constantly as a result of increased productivity, and the effects of such changes are usually adjusted through changes in prices. For example, the prices of goods whose production costs decline as a result of improvements in labor-saving technology will fall relative to those of products for which labor-saving advances are less prevalent. In fact, in many countries and regions, the rate of increase in the prices of services almost always exceeds the rate of increase in those of goods (Chart 15). This is because the relative prices of services have to rise in order to attract labor and other factors of production to the services sector, where labor-saving advances are less prevalent.

However, after deflation and low inflation took hold in Japan's economy, because of the higher price rigidity, especially in the services sector, such relative price adjustments did not function well (Chart 14). The reason for this was that firms made every effort to avoid raising prices and sought to secure profits by suppressing wages and other variable costs. This tendency to keep wages down is known as "wage markdowns."<sup>5</sup> The kind of economy that subsequently took hold in the country came to be referred to as a "cost-cutting economy."

In the second half of the 2010s, labor market conditions in Japan grew increasingly tight and labor shortages became a major issue. Despite this, the economy failed to see either a smooth rise in wages or a sufficient increase in the prices of labor-intensive services. This was probably due to the fact that, amid ongoing deflation and low inflation, the belief that prices and wages do not rise had become firmly ingrained in the minds of consumers and corporate managers.

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<sup>5</sup> See Aoki, K., Hogen, Y., and Takatomi, K., "Price Markups and Wage Setting Behavior of Japanese Firms," *Bank of Japan Working Paper Series*, no. 23-E-5 (April 2023).

This zero norm with regard to prices and wages likely had a negative impact on the supply side of Japan's economy. The reason is that, although higher wages indeed mean higher costs for firms, they also impel firms to develop new technologies and make fixed investments aimed at labor-saving and productivity improvements. Conversely, the more firms suppress wages, the less incentive they have to enhance productivity. This may be one of the reasons for the stagnation in technological advances in Japan, once known as a technological superpower.

#### **D. Toward the Establishment of a New Perception with regard to Prices and Wages**

As I mentioned, the zero norm with regard to prices and wages became deeply entrenched in Japan's economy amid deflation and low inflation. This prevented the country from achieving the kind of growth it had undeniably enjoyed until the 1980s, during which people's real income rose steadily on the back of increased productivity. Turning this situation around will probably require the establishment of a new perception among households and firms regarding how prices and wages should be.

As the widespread perception that prices and wages do not rise strengthened amid Japan's prolonged period of deflation and low inflation, consumers more strongly rejected price hikes and hence corporate managers avoided raising wages as well. Such responses served to make prices and wages even more rigid. This, in essence, is the zero norm. Conversely, when prices and wages actually start to change and perceptions adapt to this situation, the economy becomes more flexible, which in turn gives increasing impetus to improving resource allocation and productivity.

Due to the impact of global inflation, CPI inflation in Japan has already exceeded 2 percent for more than two years. Against this background, nominal wages, which had hardly risen for nearly three decades, have also started to move on a clear upward trajectory. Although temporary factors such as an increase in special cash earnings have played a part, positive real wage growth was finally achieved in June 2024 (Chart 4). In this situation, the perceptions of corporate managers in Japan have started to shift, from thinking that they cannot raise wages because raising prices is impossible to thinking that they will raise prices and wages when necessary. They seem to be taking a positive view of this development in

the wage trend (Chart 16). However, as suggested by the ongoing stagnation of real consumption during the recent period of inflation, the belief that prices do not rise still appears to be entrenched among some consumers. I personally consider that it will take more time for such a belief to dissipate and for society as a whole to reach a perception consistent with the 2 percent price stability target. Until then, it is of utmost importance to continue to patiently maintain accommodative financial conditions.

Thank you.



# Economic Activity, Prices, and Monetary Policy in Japan

*Speech at a Meeting with Local Leaders in Nagasaki*

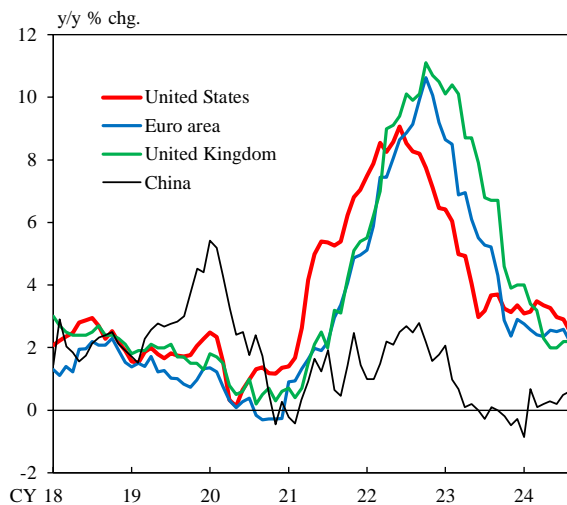
October 3, 2024

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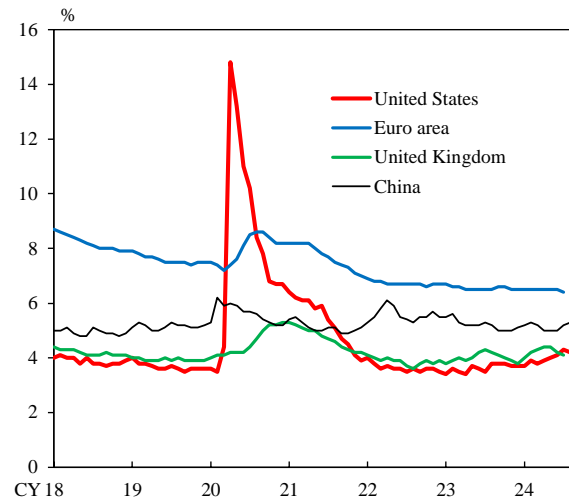
Chart 1

## Overseas Economies

CPI



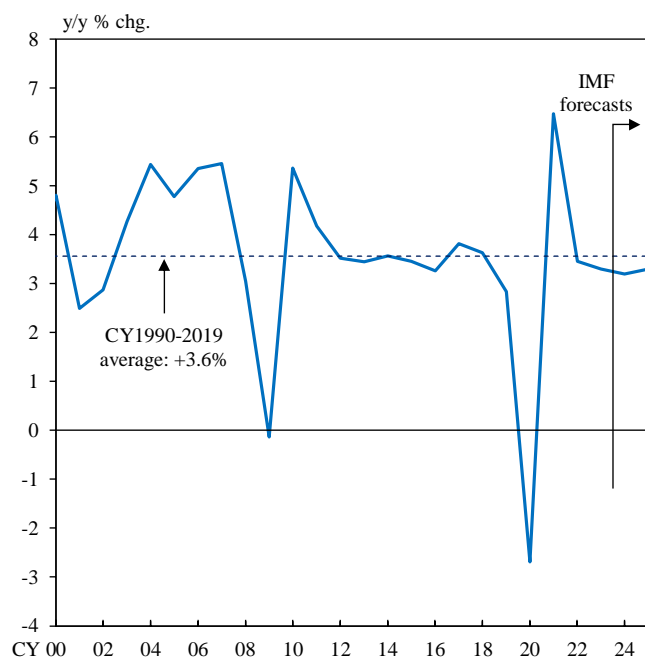
Unemployment Rate



Note: Figures for the CPI are for all items.  
Sources: BLS; Eurostat; NBSC; ONS.

# IMF Forecasts for Global Growth

## Global Growth Rate



Note: Figures are as of July 2024.

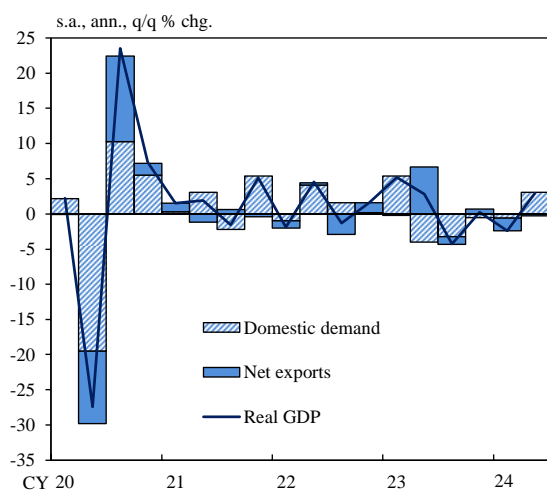
Source: IMF.

## Major Economies' Growth Rates

	y/y % chg.		
	CY 2023	CY 2024 [Forecast]	CY 2025 [Forecast]
World	3.3	3.2	3.3
Advanced economies	1.7	1.7	1.8
United States	2.5	2.6	1.9
Euro area	0.5	0.9	1.5
United Kingdom	0.1	0.7	1.5
Japan	1.9	0.7	1.0
Emerging market and developing economies	4.4	4.3	4.3
China	5.2	5.0	4.5
India	8.2	7.0	6.5
ASEAN-5	4.1	4.5	4.6

# Real GDP

## Annualized Quarterly Growth Rate



## Quarter-on-Quarter Changes

	2023			2024	
	Apr.-Jun.	Jul.-Sep.	Oct.-Dec.	Jan.-Mar.	Apr.-Jun.
GDP	0.7	-1.1	0.1	-0.6	0.7
Domestic demand	-1.0	-0.8	-0.1	-0.1	0.8
Private demand	-1.0	-1.1	0.0	-0.2	0.7
Private consumption	-0.8	-0.3	-0.3	-0.6	0.9
Private residential investment	1.4	-1.2	-1.1	-2.6	1.7
Private non-resi. investment	-2.0	-0.2	2.1	-0.5	0.8
Public demand	-0.9	0.1	-0.4	0.1	0.8
Exports of goods & services	3.2	0.1	3.0	-4.6	1.5
Imports of goods & services	-4.1	1.3	2.0	-2.5	1.7

Source: Cabinet Office.

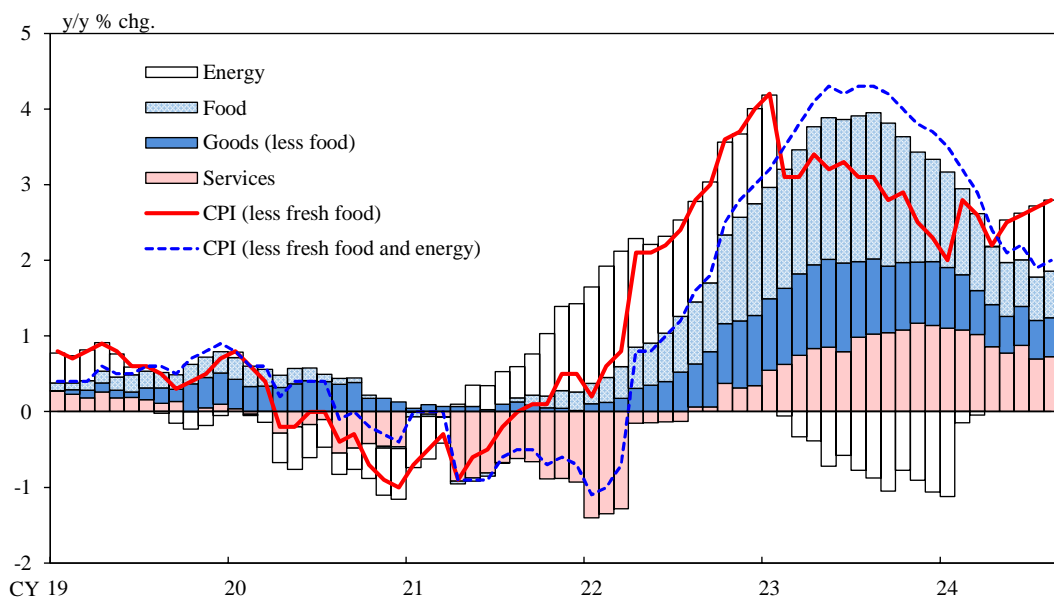
# Wage Growth



Note: Figures for the CPI are for all items excluding imputed rent.

Sources: Ministry of Health, Labour and Welfare; Ministry of Internal Affairs and Communications.

# Consumer Prices



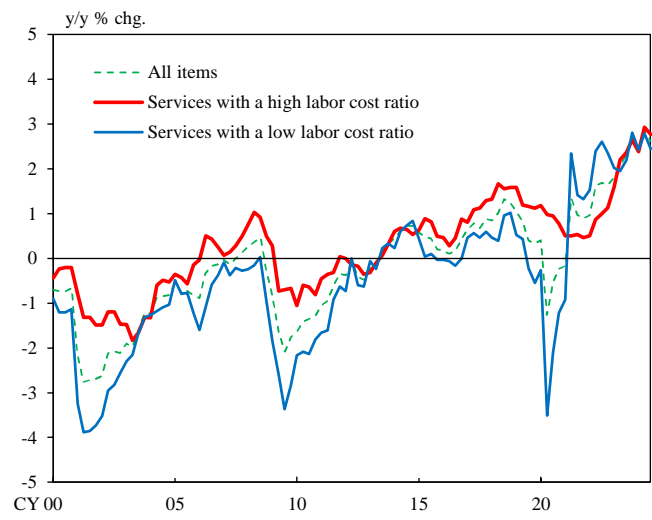
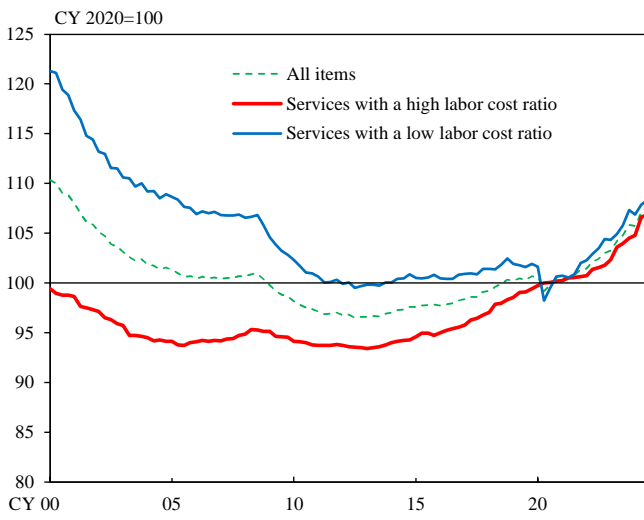
Source: Ministry of Internal Affairs and Communications.



# Services Producer Prices

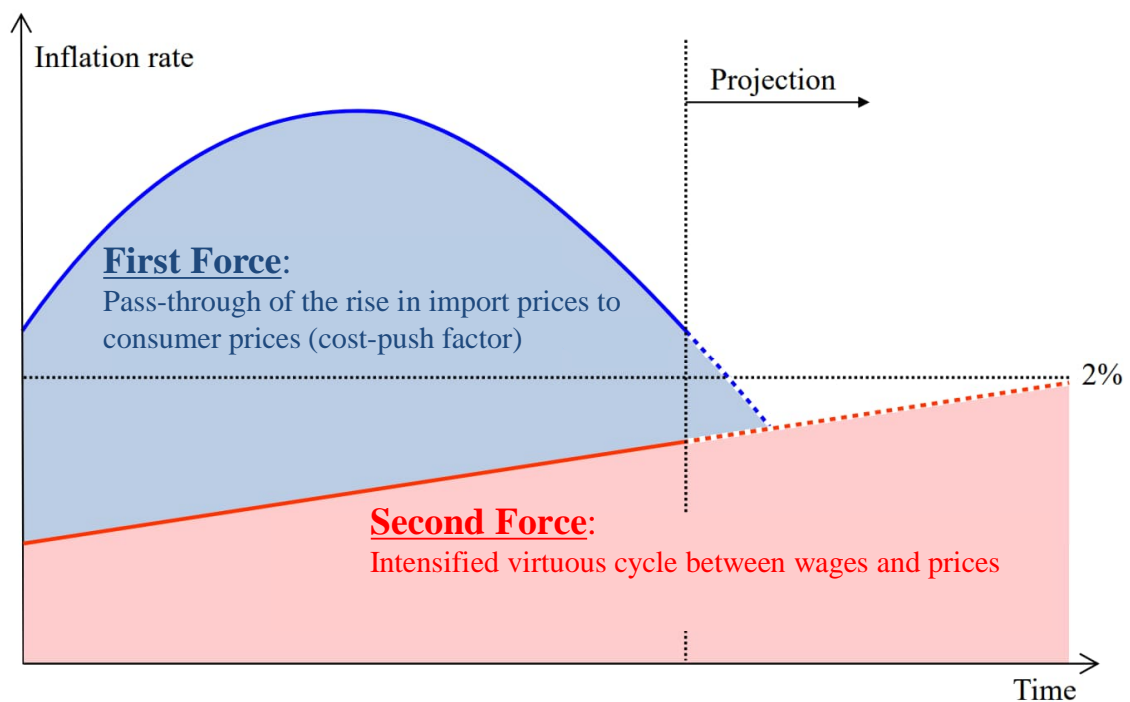
Index

Year-on-Year Changes



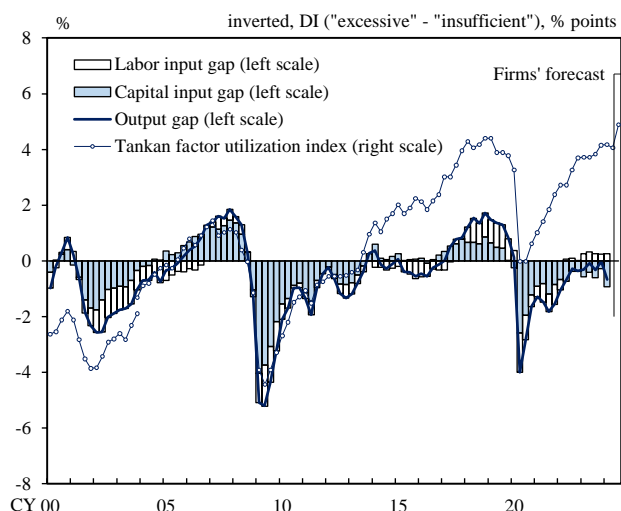
Note: Figures exclude the effects of consumption tax hikes.  
Source: Bank of Japan.

# Two Forces Acting to Raise Inflation

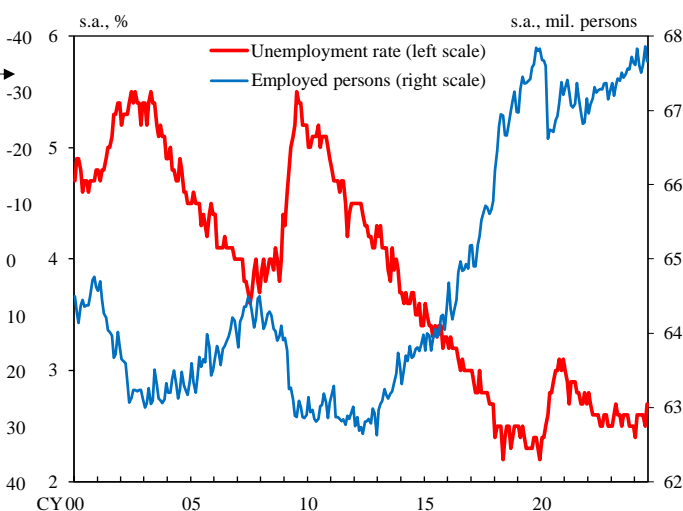


# Domestic Economy

## Output Gap



## Unemployment Rate and Number of Employed Persons



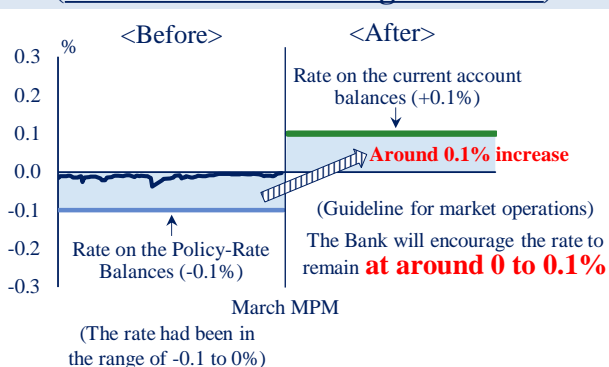
Note: Figures for the output gap are Bank staff estimates. The *Tankan* factor utilization index is calculated as the weighted average of the production capacity DI and the employment conditions DI for all industries and enterprises. The capital and labor shares are used as weights. There is a discontinuity in the data for December 2003 due to a change in the survey framework.

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

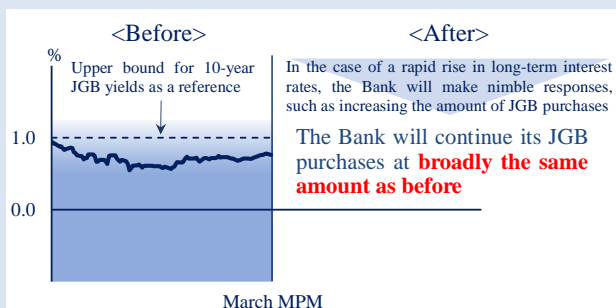
# Changes in the Monetary Policy Framework (March 2024)

- As recent data and anecdotal information have gradually shown that the virtuous cycle between wages and prices has become more solid, the Bank judged **it was now within sight that the price stability target of 2 percent would be achieved in a sustainable and stable manner** toward the end of the projection period of the January 2024 Outlook Report. It considers that **its large-scale monetary easing measures have fulfilled their roles**, including the negative interest rate policy and the yield curve control.
- With the price stability target, the Bank will conduct monetary policy as appropriate, **guiding the short-term interest rate as a primary policy tool**, in response to developments in economic activity and prices as well as financial conditions, from the perspective of sustainable and stable achievement of the target.

### Short-term interest rate (uncollateralized overnight call rate)



### Long-term interest rates



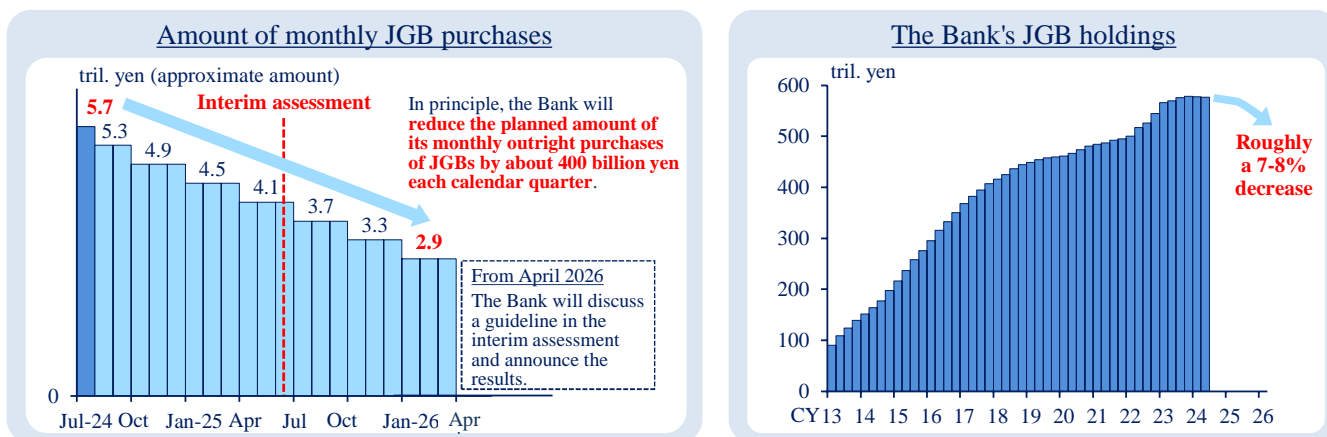
**ETFs and J-REITs** The Bank will discontinue purchases

## Plan for Reduction of Purchase Amount of JGBs (July 2024)

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

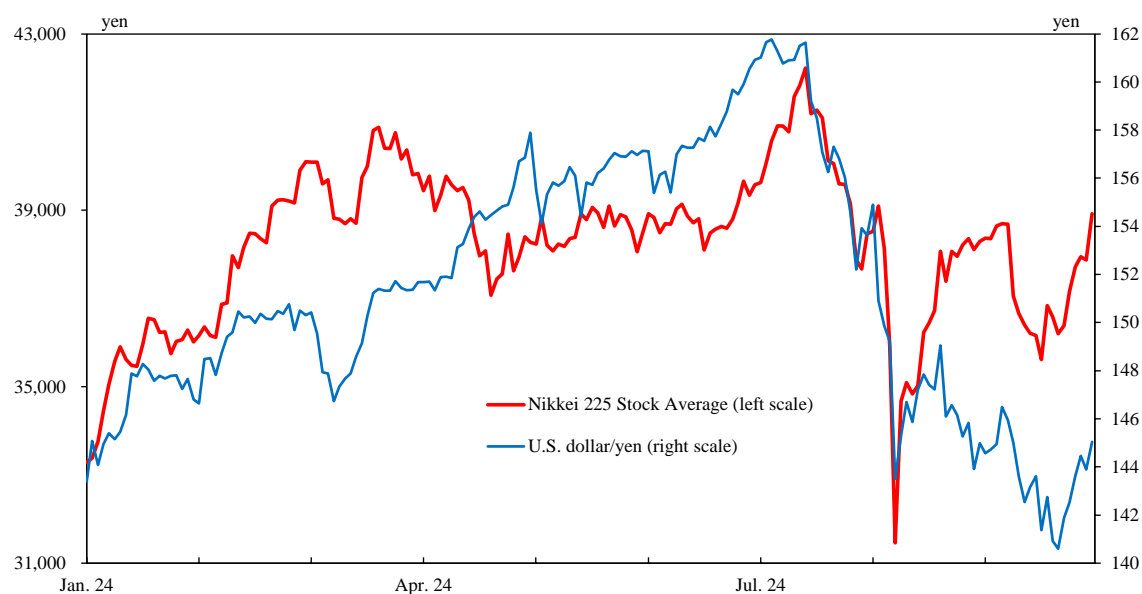
### Reduction in a Predictable Manner



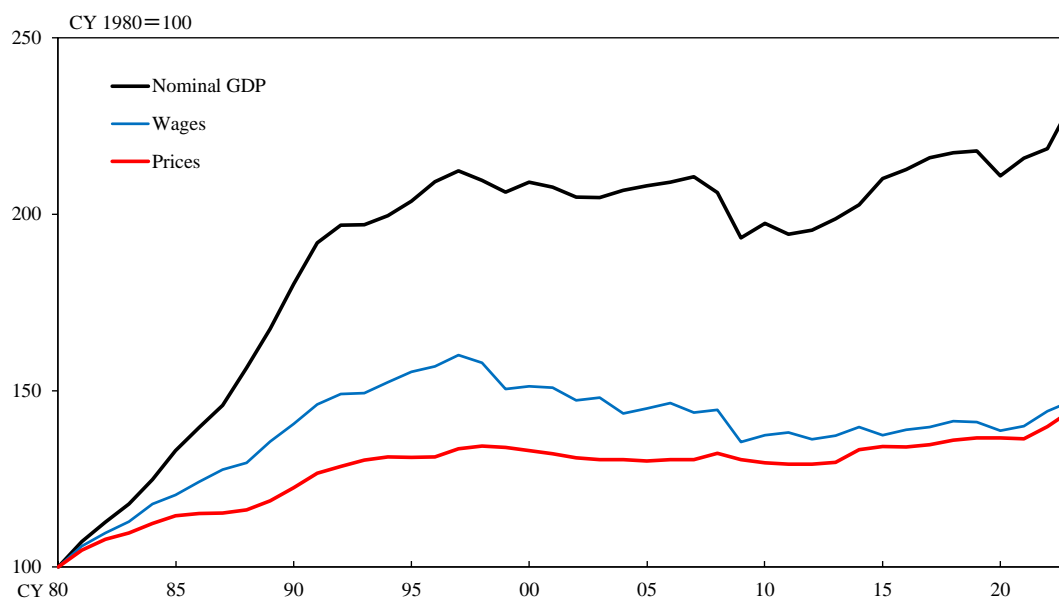
### Allowing Enough Flexibility

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.

## Nikkei 225 Stock Average and U.S. Dollar/Yen Exchange Rates

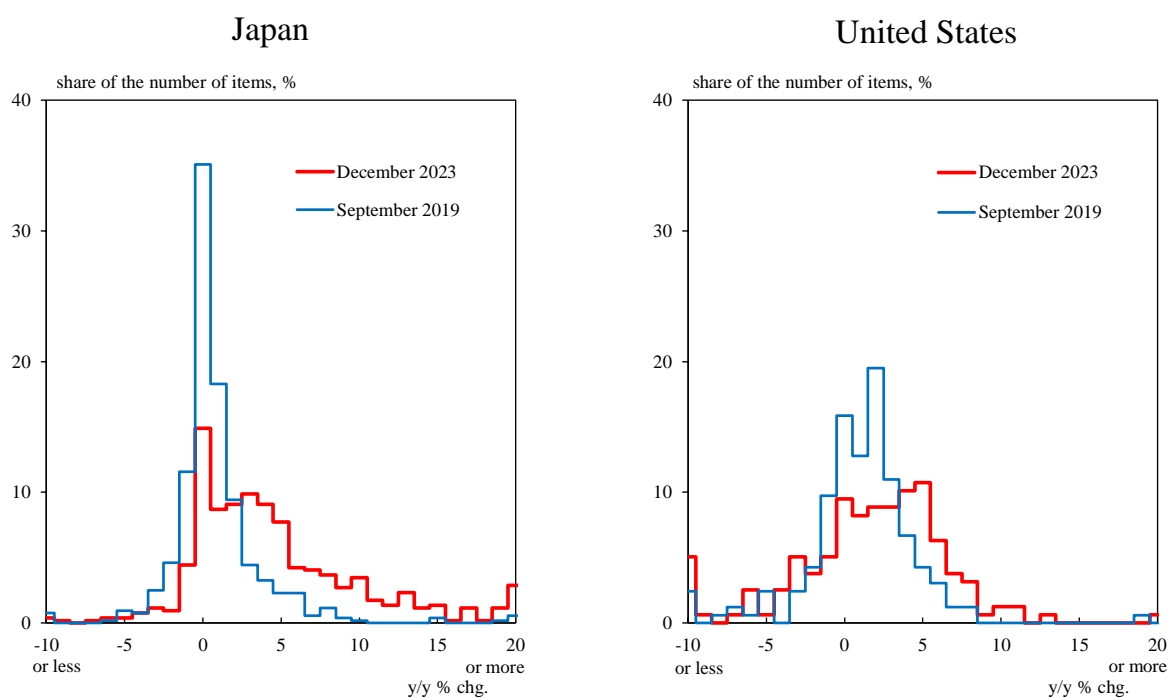


# Nominal GDP, Wages, and Prices



Notes: 1. Figures for wages are based on average monthly cash earnings per regular employee (establishments with 30 employees or more).  
2. Figures for prices are the CPI for all items.  
Sources: Cabinet Office; Ministry of Health, Labour and Welfare; Ministry of Internal Affairs and Communications.

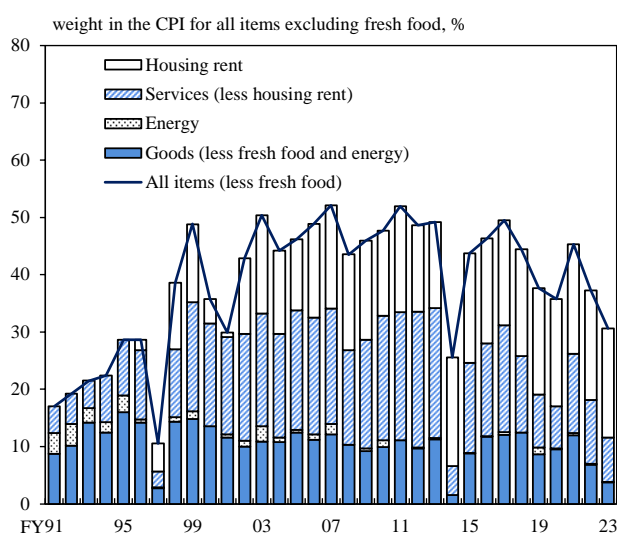
# Distribution of Consumer Price Changes



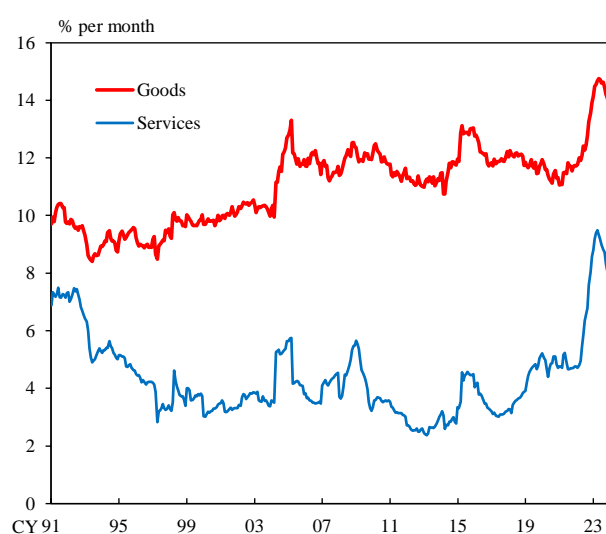
Note: Figures for Japan are based on items excluding fresh food and energy. Those for the United States are based on items excluding energy.  
Sources: BLS; Ministry of Internal Affairs and Communications.

## Price Revisions

### Share of Items for Which Prices Were Unchanged



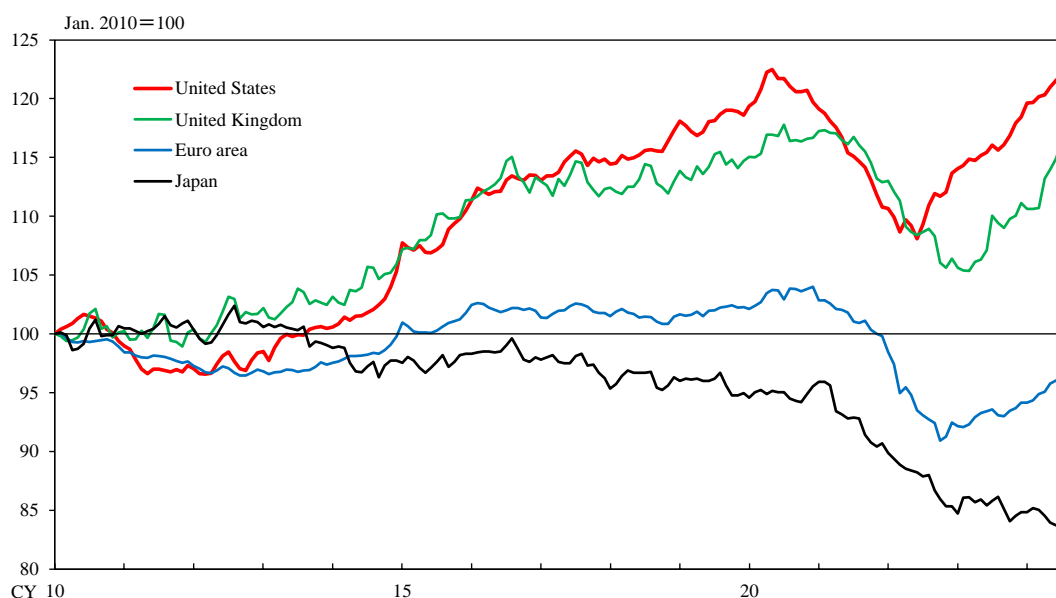
### Frequency of Price Revisions



- Notes: 1. In the left panel, figures are the share of items for which year-on-year price changes were within plus or minus 0.5 percent.  
 2. In the right panel, figures are calculated based on the proportion of cities where the average price of individual items changed from the previous month (12-month backward moving averages). Data exclude fresh food, electricity, manufactured and piped gas, water charges, and housing rent. Temporary price changes due to, for example, consumption tax hikes and special sales are not incorporated.

Source: Ministry of Internal Affairs and Communications.

## Ratio of Services Prices to Goods Prices

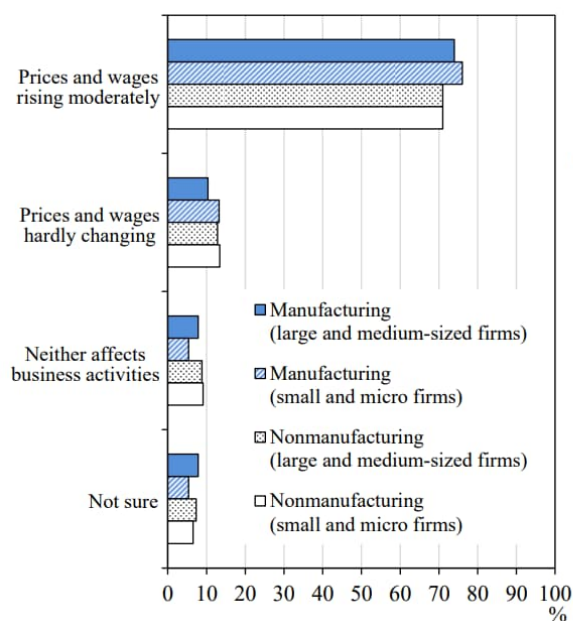


Note: Figures for the euro area exclude owner-occupied housing costs.

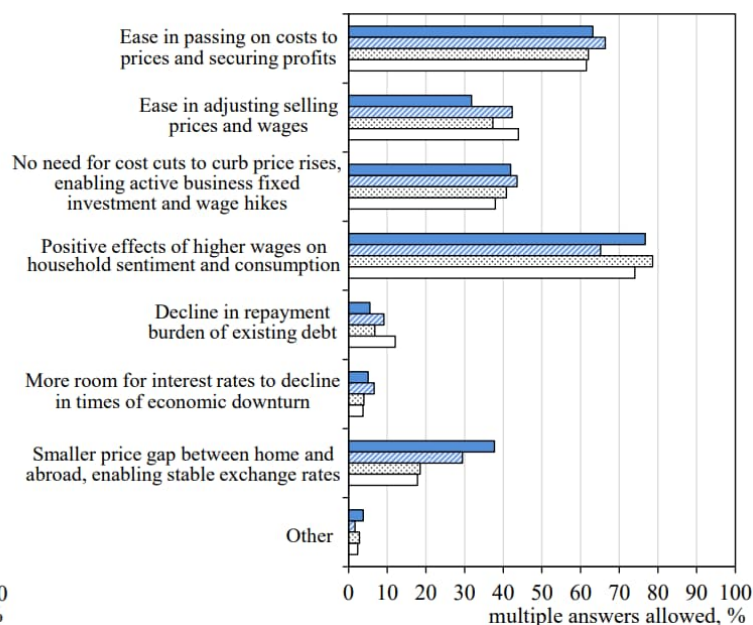
Sources: BLS; Eurostat; Ministry of Internal Affairs and Communications; ONS.

## Firms' Views on Price and Wage Increases: *Survey regarding Corporate Behavior since the Mid-1990s*

Preferable State of Prices and Wages for Business Activities



Reasons for Preferring a Moderate Rise in Prices and Wages



Note: In the right panel, figures are ratios among firms that responded "prices and wages rising moderately" as a preferable state in the left panel.

Source: Bank of Japan.