



# Economic Activity, Prices, and Monetary Policy in Japan

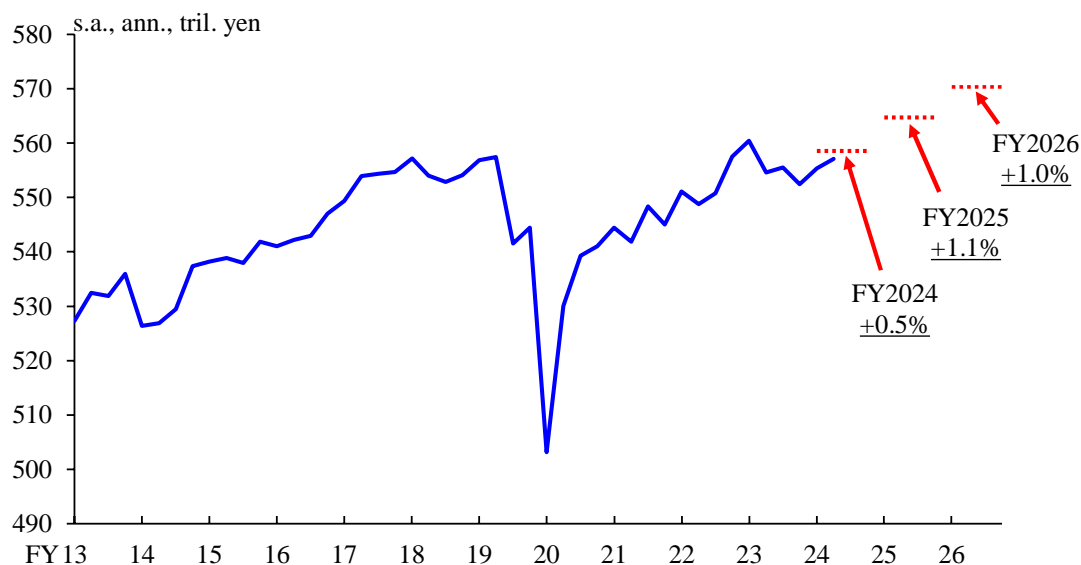
*Speech at a Meeting with Local Leaders in Nagano*

February 6, 2025

TAMURA Naoki  
Member of the Policy Board  
Bank of Japan

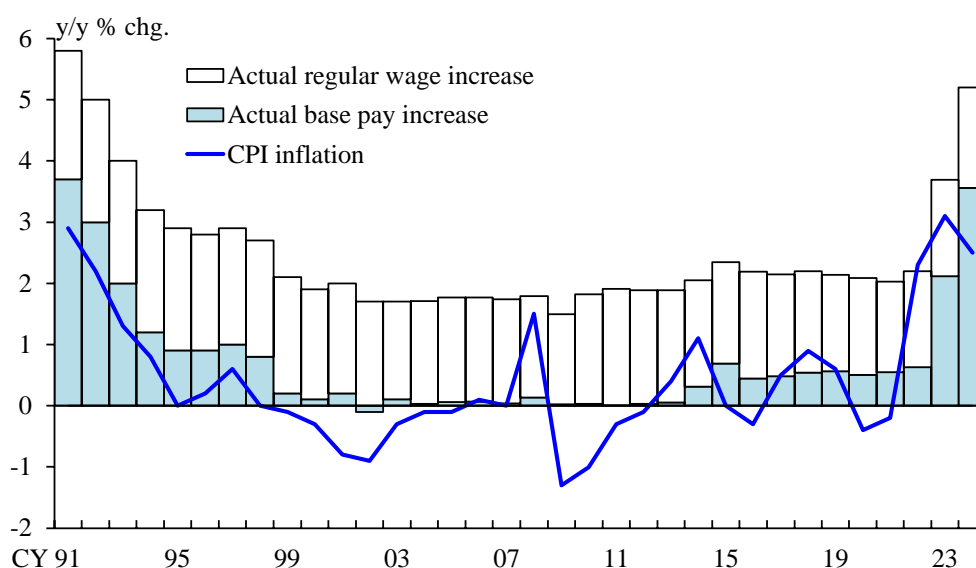
Chart 1

## The Bank's Forecasts for Real GDP



Note: Forecasts are medians of the Policy Board members' forecasts in the January 2025 Outlook Report. Real GDP values for fiscal 2024 onward are calculated by multiplying the actual figure for fiscal 2023 by all successive projected growth rates for each year.  
Sources: Cabinet Office; Bank of Japan.

## Results of the Annual Spring Labor-Management Wage Negotiations

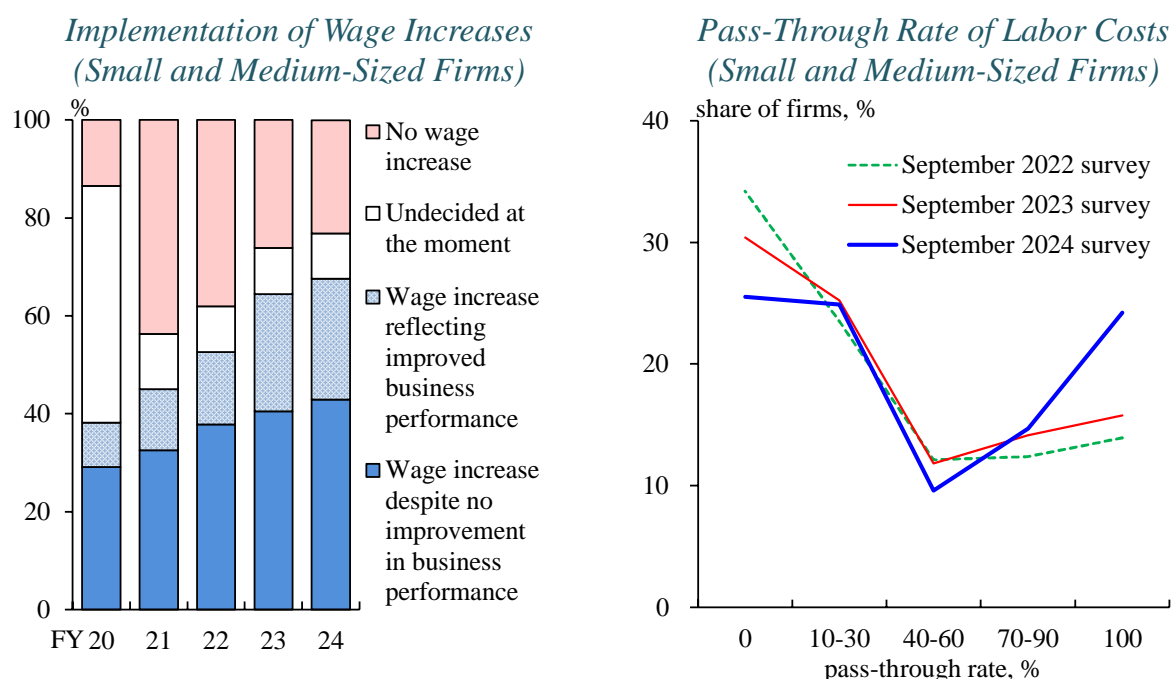


Notes: 1. Figures for "CPI inflation" are for all items less fresh food, excluding the effects of the consumption tax hikes.

2. Figures for "actual base pay increase" and "actual regular wage increase" from 1991 to 2014 are those published by the Central Labour Relations Commission, while those from 2015 to 2024 are figures released by the Japanese Trade Union Confederation (Rengo). Figures are based on the wage negotiation results of labor unions for which the base pay increase is clear.

Sources: Central Labour Relations Commission; Ministry of Internal Affairs and Communications; Rengo.

## Factors regarding Wage Hikes by Firms



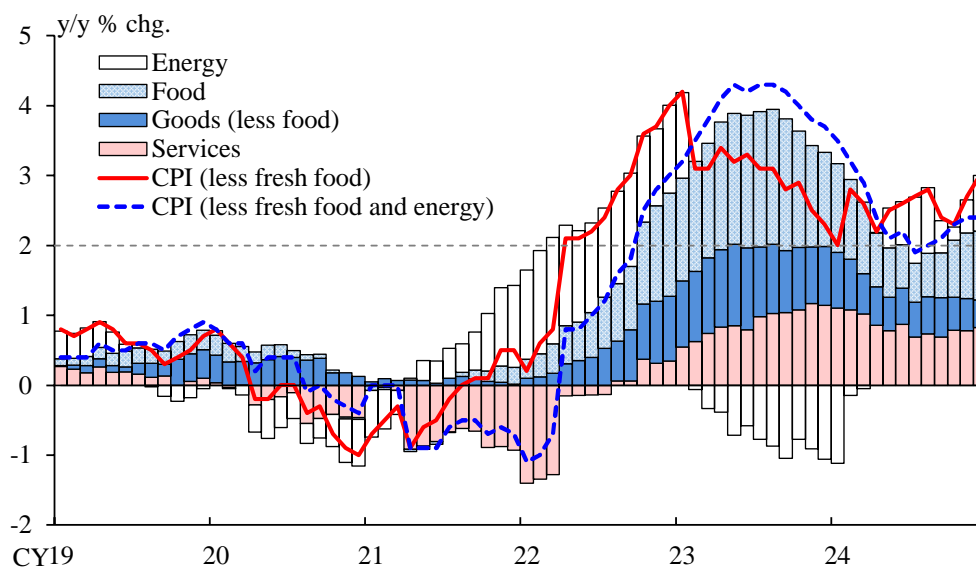
Notes: 1. In the left panel, figures are based on the LOBO survey by the Japan Chamber of Commerce and Industry, and show trends in raising scheduled cash earnings. Figures up through fiscal 2023 are as of December of each fiscal year, while those for fiscal 2024 are as of September.

2. In the right panel, figures are based on a follow-up survey on the Price Negotiation Promotion Month organized by the Small and Medium Enterprise Agency. The pass-through rate in the panel refers to the proportion of labor cost increases incurred during six months prior to each survey, and passed on to prices.

Sources: Japan Chamber of Commerce and Industry; Small and Medium Enterprise Agency.

Chart 4

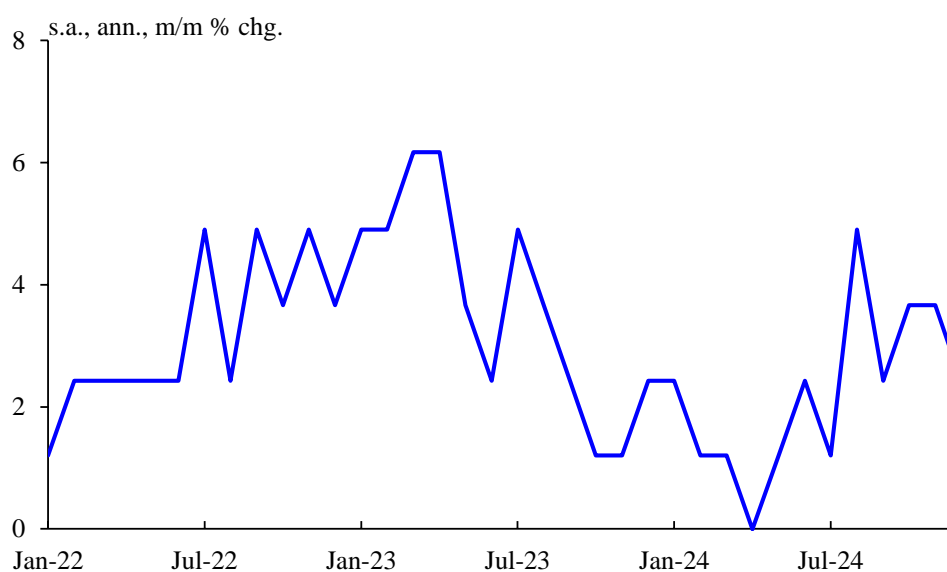
## Consumer Prices



Source: Ministry of Internal Affairs and Communications.

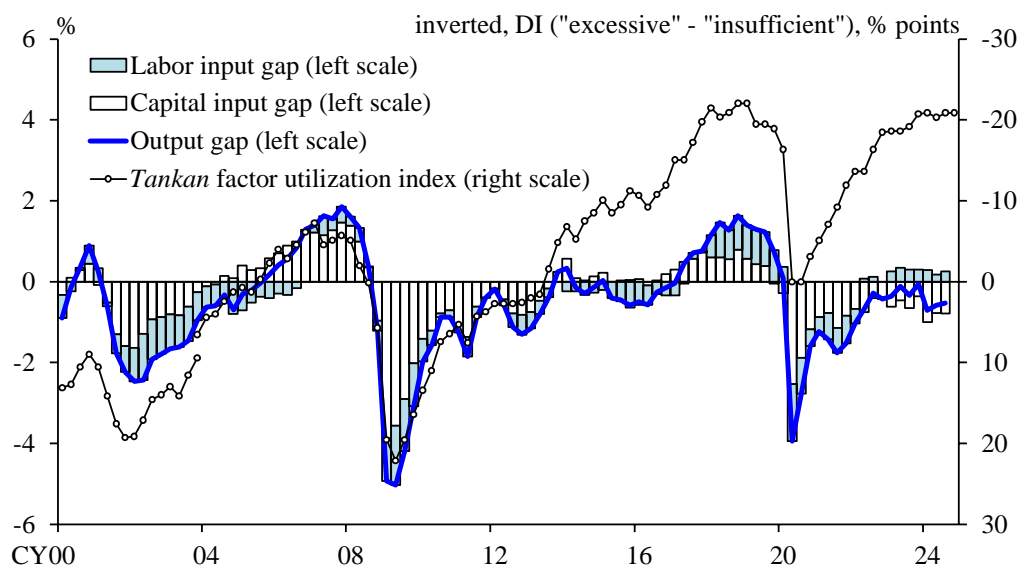
Chart 5

## Consumer Prices (Annualized Month-on-Month Rate of Change)



Note: Figures are the CPI for all items less fresh food and energy.  
Source: Ministry of Internal Affairs and Communications.

## Output Gap

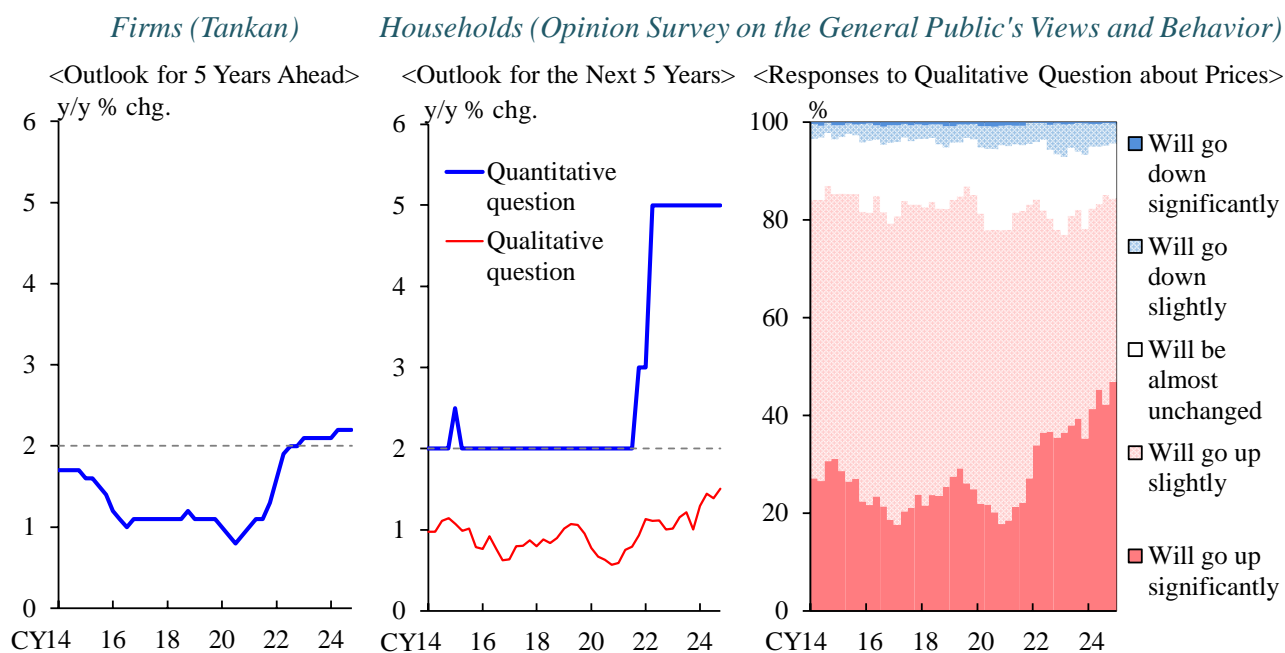


Notes: 1. Figures for the output gap are Bank staff estimates.

2. The Takan factor utilization index is calculated as the weighted average of the production capacity DI and the employment conditions DI for all industries and enterprises. 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.

Source: Bank of Japan.

## Inflation Expectations



Notes: 1. Figures for firms in the left panel are averages of all industries and enterprises.

2. Regarding figures for households in the middle panel, figures for the quantitative question are medians of numerical values for expected inflation rates provided by respondents. Figures for the qualitative question are estimated using the modified Carlson-Parkin method, quantifying the results of the 5-choice question shown in the right panel, asking respondents their expectations for whether and to what degree prices will go up or down.

Source: Bank of Japan.

## The Bank's Forecasts for the CPI



Notes: 1. Figures are the CPI for all items less fresh food, excluding the effects of the consumption tax hikes.

2. The locations of ●, △, and ▼ in the chart indicate figures for each Policy Board member's forecasts. The risk balance assessed by each Policy Board member is shown by the following shapes: ● indicates that a member assesses "upside and downside risks as being generally balanced," △ indicates that a member assesses "risks are skewed to the upside," and ▼ indicates that a member assesses "risks are skewed to the downside." The dotted red lines show the medians of the Policy Board members' forecasts presented in the January 2025 Outlook Report.

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

## Guideline for Market Operations

	Short-term interest rate	Other operating targets
Oct. 2010-	Around 0 to 0.1% (uncollateralized overnight call rate)	—
Apr. 2013-	—	Monetary base: annual pace of increase of about 60-70 trillion yen
Oct. 2014-	—	Monetary base: annual pace of increase of about 80 trillion yen
	Yield curve control	
Sep. 2016-	-0.1% (rate on the Policy-Rate Balances in current accounts held by financial institutions at the Bank)	10-year JGB yields: around 0%
Mar. 2024-	Around 0 to 0.1% (uncollateralized overnight call rate)	—
Jul. 2024-	Around 0.25% (uncollateralized overnight call rate)	—
Jan. 2025-	Around 0.5% (uncollateralized overnight call rate)	—

## Decision at the January 2025 MPM

Japan's economic activity and prices have been **developing generally in line with the Bank's outlook**, and **the likelihood of realizing the outlook has been rising**.

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

	Fiscal 2024	Fiscal 2025	Fiscal 2026
Real GDP	0.5 (-0.1)	1.1 (—)	1.0 (—)
CPI (all items less fresh food)	2.7 (+0.2)	2.4 (+0.5)	2.0 (+0.1)
CPI (all items less fresh food and energy)	2.2 (+0.2)	2.1 (+0.2)	2.1 (—)

Note: Figures in parentheses indicate changes from the October 2024 Outlook Report.

### Wages

- Firms have expressed the view that they will **continue to raise wages steadily**, following the solid wage increases last year.

### Prices

- With wages continuing to rise, **underlying CPI inflation has been increasing gradually toward 2 percent**.
- CPI inflation is likely to be at around 2.5 percent for fiscal 2025, due to the higher import prices stemming from the yen's depreciation etc.

### Overseas economies

- Global financial and capital markets have been **stable on the whole**, while attention has been drawn to various uncertainties.

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 0.5%"

(uncollateralized overnight call rate)

(previously "around 0.25%")

- 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 January Outlook Report will be realized, the Bank will accordingly continue to raise the policy interest rate and adjust the degree of monetary accommodation.

## Positive Effects and Side Effects of Large-Scale Monetary Easing since 2013

### Impact on Economic Activity and Prices

- Large-scale monetary easing pushed up economic activity and prices.**
- However, mainly due to the difficulties of influencing expectations, **the effect was not as large as expected at the time when it was introduced.**

### Side Effects of Large-Scale Monetary Easing etc.

Functioning of financial markets	Negative impact on the functioning of the JGB market
Functioning of financial intermediation	Downward pressure on financial institutions' interest margins on loans and other assets but no evidence of financial intermediation activities being impeded
Supply side of the economy	<b>No clear conclusion reached, either positive or negative</b>

### Assessment of the Effects and Side Effects of Large-Scale Monetary Easing

- Although there have been certain side effects** on financial markets and financial institutions' profits, **the overall effect on the Japanese economy so far appears to have been positive.**
- However, **attention should be paid to the possibility that the negative effects may become larger in the future**, such as the possibility that the functioning of the JGB market does not fully recover or possible side effects of large-scale monetary easing materialize at a later date.

## Implications for the Future Conduct of Monetary Policy (1)

### The Bank's Thinking on Unconventional Monetary Policy

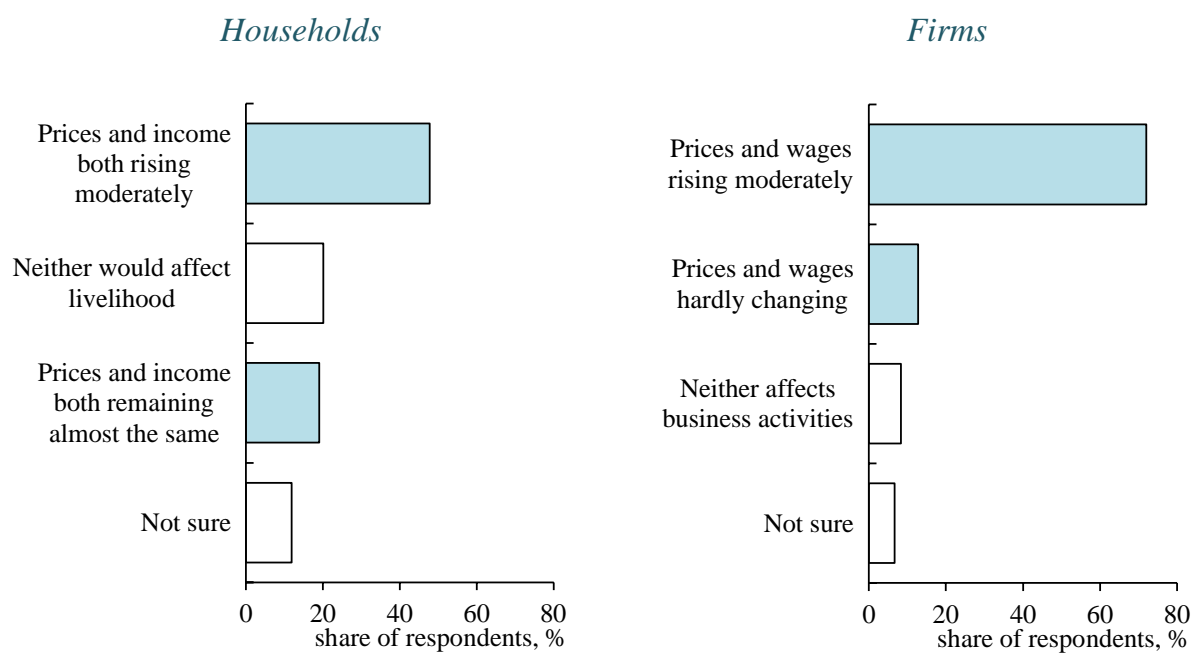
- **Unconventional monetary policy measures were effective in pushing up Japan's economic activity and prices.** However, **the quantitative degree of their effects is uncertain compared with conventional monetary policy measures (guiding short-term interest rates).** When unconventional monetary policy measures are **implemented at a large scale for a long period of time, they can bring about side effects.**
- Going forward, **if it becomes necessary to implement unconventional monetary policy measures,** it will be important to **weigh the benefits and costs, while taking account of the developments in economic activity and prices as well as financial conditions at that point in time.**
- The Bank should not exclude at this point any specific measures when considering the future conduct of monetary policy. Looking ahead, in considering the implementation of each measure, it will be necessary for the Bank to design policy measures that can exert positive effects while minimizing side effects as much as possible, taking account of the findings of the Review.

## Implications for the Future Conduct of Monetary Policy (2)

### Price Stability Target of 2 Percent

- It is appropriate for the Bank to continue to **conduct monetary policy from the perspective of sustainable and stable achievement of the price stability target of 2 percent.**
  - ✓ Unconventional monetary policy measures cannot fully substitute for short-term interest rate control, and it is desirable to conduct monetary policy so that the zero lower bound would not be reached. It is important to maintain a moderate positive inflation rate in a stable manner so that **real interest rates can be lowered in the case of an economic downturn.**
  - ✓ **Bias in the CPI** serves as supporting evidence.
  - ✓ **Many central banks in major advanced economies have set their inflation targets at 2 percent.**
  - ✓ When Japan was under the prolonged deflation, or in a low-inflation environment, **prices of individual items became more rigid and the regular pay tended to be unchanged, and this may have distorted resource allocation or have constrained proactive investment by firms.**
- In conducting monetary policy, it is important **not to focus on the inflation rate at each point in time, but rather to capture the underlying trend of inflation by analyzing a variety of factors affecting the price changes.**

## Preferences regarding Prices, Income, and Wages



Note: Figures for households are based on the *Opinion Survey on the General Public's Views and Behavior* (September 2024 Survey). Those for firms are based on the *Survey regarding Corporate Behavior since the Mid-1990s*.

Source: Bank of Japan.