

Statement by Haruhiko Kuroda, Governor of the Bank of Japan, concerning the Bank's *Semiannual Report on Currency and Monetary Control* before the Committee on Financial Affairs, House of Representatives, on April 20, 2016

Introduction

The Bank of Japan submits to the Diet its *Semiannual Report on Currency and Monetary Control* in June and December. I am pleased to have this opportunity today to talk about developments in Japan's economy and present an overall review of the Bank's conduct of monetary policy.

I. Economic and Financial Developments in Japan

First, I will explain economic and financial developments in Japan.

Japan's economy has continued its moderate recovery trend, with a virtuous cycle from income to spending operating in both the household and corporate sectors, although exports and production have been sluggish due mainly to the effects of the slowdown in emerging economies. With regard to the outlook, although sluggishness is expected to remain in exports and production for the time being, domestic demand is likely to follow an uptrend, and exports are expected to increase moderately on the back of emerging economies moving out of their deceleration phase. Thus, Japan's economy is likely to be on a moderate expanding trend.

On the price front, the year-on-year rate of change in the consumer price index (CPI) for all items less fresh food is about 0 percent. The year-on-year rate of change in the CPI for all items less fresh food and energy has remained positive for 29 consecutive months and has been at a level above 1 percent recently; this suggests that the underlying trend in inflation has been improving steadily. The year-on-year rate of change in the CPI for all items less fresh food is likely to be about 0 percent for the time being, due to the effects of the decline in energy prices, and, as the underlying trend in inflation steadily rises -- on the back of an improvement in the output gap and of an increase in medium- to long-term inflation expectations -- accelerate toward the price stability target of 2 percent. Assuming that crude oil prices will rise moderately from the recent level, the timing of the year-on-year rate of

change in the CPI reaching around 2 percent is projected to be around the first half of fiscal 2017.

II. Conduct of Monetary Policy

As explained, the baseline scenario assumes that Japan's economy is likely to be on a moderate expanding trend and the year-on-year rate of change in the CPI is likely to accelerate toward 2 percent. However, since the turn of the year, global financial markets have been volatile against the backdrop of the further decline in crude oil prices and uncertainty such as over future developments in emerging and commodity-exporting economies, particularly the Chinese economy. Meanwhile, there was an increasing risk that an improvement in the business confidence of Japanese firms and conversion of the deflationary mindset might be delayed and that the underlying trend in inflation might be negatively affected.

In order to preempt the manifestation of this risk and to maintain momentum toward achieving the price stability target of 2 percent, the Bank introduced "Quantitative and Qualitative Monetary Easing (QQE) with a Negative Interest Rate" at the January 2016 Monetary Policy Meeting. The main transmission mechanism of "QQE with a Negative Interest Rate" is to lower the short end of the yield curve by slashing its deposit rate on current accounts into negative territory and to exert further downward pressure on interest rates across the entire yield curve, in combination with continued large-scale purchases of Japanese government bonds (JGBs). The policy effects on interest rates already have been seen; namely, a substantial decline in the JGB yield curve after the introduction of "QQE with a Negative Interest Rate" and resulting declines in benchmark rates for business lending and in interest rates on housing loans. Going forward, these effects are likely to steadily spread to both the real economy and the price front.

The Bank will continue with "QQE with a Negative Interest Rate," aiming to achieve the price stability target of 2 percent, as long as it is necessary for maintaining that target in a stable manner. It will examine risks to economic activity and prices, and will not hesitate to take additional easing measures in terms of three dimensions -- quantity, quality, and the interest rate -- if it is judged necessary for achieving the price stability target.

Global financial markets have remained volatile since investors' risk aversion has been heightening, mainly due to uncertainty over future developments in emerging and commodity-exporting economies. The Bank will pay due attention to these developments and their effects on Japan's economy and prices.

Thank you.