

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 May 10, 2017

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

At the Monetary Policy Meeting (MPM) held at end-April, the Bank released the *Outlook for Economic Activity and Prices* (Outlook Report), which presents its projections for Japan's economic activity and prices through fiscal 2019. Based on this, I will first explain economic and financial developments in Japan.

Japan's economy has been turning toward a moderate expansion. In the corporate sector, exports and production have been on an increasing trend on the back of a global improvement in the manufacturing sector and trade activity. In this situation, corporate profits have been at high levels and business sentiment has improved in a wider range of industries. In the household sector, the employment and income situation has continued to improve steadily. The labor market conditions have continued to tighten, as evidenced by the unemployment rate having declined to the range of 2.5-3.0 percent; wages have been rising moderately, as seen in the fact that many firms are expected to raise their base pay for the fourth consecutive year in the annual labor-management wage negotiations this spring. Against this background, private consumption has been resilient.

Going forward, Japan's economy is likely to continue expanding and maintain growth at a pace above its potential, mainly through fiscal 2018, on the back of highly accommodative financial conditions and the effects of the government's large-scale stimulus measures, with the growth rates in overseas economies increasing moderately. In fiscal 2019, the economy is expected to continue expanding, although the growth pace is projected to decelerate due

to a cyclical slowdown in business fixed investment and the effects of the scheduled consumption tax hike.

On the price front, the year-on-year rate of change in the consumer price index (CPI, all items less fresh food) has been about 0 percent recently. As for the outlook, it is likely to continue on an uptrend and increase toward 2 percent, mainly on the back of an improvement in the output gap and a rise in medium- to long-term inflation expectations. The timing of the rate of change in the CPI reaching around 2 percent will likely be around the middle of the projection period -- that is, around fiscal 2018. Thereafter, the rate of change is expected to remain at around 2 percent. The momentum toward achieving the price stability target of 2 percent is maintained, but is not yet sufficiently firm, and thus developments in prices continue to warrant careful attention.

II. Conduct of Monetary Policy

Next, I will explain the Bank's conduct of monetary policy.

At the September 2016 MPM, the Bank introduced "Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control." Under this framework, the Bank facilitates the formation of the yield curve that is deemed most appropriate for maintaining the momentum toward achieving the price stability target of 2 percent, taking account of developments in economic activity and prices as well as financial conditions. At the MPM held at end-April, it decided to maintain the guideline for market operations, in which the short-term policy interest rate is set at minus 0.1 percent and the target level of 10-year Japanese government bond (JGB) yields is around 0 percent. Looking at developments in the short- and long-term interest rates in Japan, the yield curve has been formed smoothly in a manner consistent with the guideline for market operations.

The economic growth in Japan has taken hold more firmly with the improvement in the global economy. However, there is still a long way to go to achieve the price stability target of 2 percent, and it is appropriate for the Bank to pursue powerful monetary easing under the current guideline for market operations in order to achieve the target at the earliest possible time.

Thank you.