

Statement by UEDA Kazuo, 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 Councillors, on June 3, 2025

Introduction

The Bank of Japan submits to the Diet its *Semiannual Report on Currency and Monetary Control* every June and December. I am pleased to have this opportunity today to talk about recent economic and financial developments and about the Bank's conduct of monetary policy.

I. Economic and Financial Developments

I will first explain recent economic and financial developments.

Japan's economy has recovered moderately, although some weakness has been seen in part. Exports and industrial production have continued to be more or less flat as a trend, although there has been some front-loading due to the increase in U.S. tariffs. Corporate profits have been on an improving trend and business sentiment has stayed at a favorable level. In this situation, business fixed investment has been on a moderate increasing trend. Private consumption has maintained its moderate increasing trend against the background of an improvement in the employment and income situation, despite weakness in consumer sentiment due to the impact of price rises and other factors. With regard to the outlook, Japan's economic growth is likely to moderate, as trade and other policies in each jurisdiction lead to a slowdown in overseas economies and to a decline in domestic corporate profits and other factors, although factors such as accommodative financial conditions are expected to provide support. Thereafter, Japan's economic growth rate is likely to rise, with overseas economies returning to a moderate growth path.

The year-on-year rate of increase in the consumer price index (CPI) for all items excluding fresh food has been at around 3.5 percent recently, as moves to pass on wage increases to selling prices have continued, and as there have been effects of the past rise in import prices and of the rise in food prices, such as rice prices. Regarding the outlook, the effects of the past rise in import prices and of the recent rise in food prices such as rice prices -- these

factors have pushed up the inflation rate so far -- are expected to wane. Meanwhile, underlying CPI inflation is likely to be sluggish, mainly due to the deceleration in the economy. Thereafter, however, underlying CPI inflation is expected to increase gradually, since it is projected that a sense of labor shortage will grow as the economic growth rate rises, and that medium- to long-term inflation expectations will rise. In the second half of the projection period of the April 2025 *Outlook for Economic Activity and Prices* (Outlook Report), underlying CPI inflation is likely to be at a level that is generally consistent with the price stability target.

There are various risks to the outlook. In particular, it is extremely uncertain how trade and other policies in each jurisdiction will evolve and how overseas economic activity and prices will react to them. It is therefore necessary to pay due attention to the impact of these developments on financial and foreign exchange markets and on Japan's economic activity and prices. Meanwhile, Japan's financial system has maintained stability on the whole. The Bank judges that, even in the case of an adjustment in the real economy at home and abroad and in global financial markets, the financial system is likely to remain highly robust on the whole, mainly because Japanese financial institutions have sufficient capital bases.

II. Conduct of Monetary Policy

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

At the May Monetary Policy Meeting, the Bank decided to maintain the guideline for money market operations, in which it would encourage the uncollateralized overnight call rate to remain at around 0.5 percent. As for the future conduct of monetary policy, given that real interest rates are at significantly low levels, if the outlook for economic activity and prices presented in the April Outlook Report is realized, the Bank, in accordance with improvement in economic activity and prices, will continue to raise the policy interest rate and adjust the degree of monetary accommodation. In this regard, considering the extremely high uncertainties regarding the future course of trade and other policies in each jurisdiction and the impact of these policies, it is important for the Bank to carefully examine factors such as developments in economic activity and prices as well as in financial markets at

home and abroad, and judge whether the outlook will be realized, without any preconceptions.

With the price stability target of 2 percent, the Bank will conduct monetary policy as appropriate, 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.

Thank you.