

**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 Councillors, on February 26, 2015**

**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 regard to the corporate sector, production has been picking up on the back of a pick-up in exports and the progress in inventory adjustments. Corporate profits have continued to improve, and firms have maintained their positive investment stance. As for the household sector, private consumption as a whole has remained resilient while the employment and income situation has continued to improve steadily. As seen in these developments, a virtuous cycle from income to spending has been operating steadily in both the corporate and household sectors. Japan's economy is expected to continue its moderate recovery trend.

Financial conditions, which support such economic activity, are accommodative. Firms' funding costs have been hovering at low levels, and the amount outstanding of bank lending has been rising moderately.

On the price front, the year-on-year rate of increase in the consumer price index (CPI, all items less fresh food) has been slowing, reflecting the fall in crude oil prices, and the rate, excluding the direct effects of the consumption tax hike, is around 0.5 percent. Looking ahead, trend inflation is likely to rise steadily against the background of an improvement in the output gap and a rise in medium- to long-term inflation expectations. Moreover, a decline in crude oil prices, from a longer-term perspective, will have a favorable impact on

economic activity and thus put upward pressure on prices. Based on the assumption that crude oil prices are expected to rise moderately from the recent level, the year-on-year rate of increase in the CPI is likely to accelerate as the effects of the decline in crude oil prices dissipate, and reach around 2 percent in or around fiscal 2015. It should be noted, however, that the timing of achieving the 2 percent price stability target could be either earlier or later to some extent, depending on developments in crude oil prices.

## **II. Conduct of Monetary Policy**

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

In April 2013, the Bank introduced quantitative and qualitative monetary easing (QQE) to achieve the price stability target of 2 percent at the earliest possible time, with a time horizon of about two years. In October last year, the Bank further decided to expand QQE. The decision -- taking into consideration a risk that conversion of the deflationary mindset might be delayed while somewhat weak developments in demand following the consumption tax hike and a substantial decline in crude oil prices have been exerting downward pressure on prices -- aims to pre-empt manifestation of such risk and to maintain the improving momentum of expectation formation.

In this situation, QQE has been exerting its intended effects, and conversion of the deflationary mindset has been progressing steadily.

The Bank will continue with QQE, 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 both upside and downside risks to economic activity and prices, and make adjustments as appropriate.

Thank you.