

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 June 16, 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 to recover moderately. In the corporate sector, exports and production have picked up and profits have increased to their highest level historically. In this situation, firms have maintained their positive investment stance and business fixed investment has been on a moderate increasing trend. In the household sector, the employment and income situation has continued to see steady improvement as many firms will increase wages, including base pay, which will be raised to a larger extent than last year in the annual labor-management wage negotiations in spring 2015. Consumer sentiment, which had become cautious since fall 2014, has recently shown clear signs of picking up. Against this backdrop, private consumption has been resilient and housing investment has shown some signs of picking up. As seen in these developments, a virtuous cycle from income to spending has been operating steadily in both the corporate and household sectors. Looking ahead, Japan's economy is expected to continue recovering moderately.

Financial conditions, which support such economic activity, are accommodative. Firms' funding costs have been hovering at low levels, and firms have continued to see financial institutions' lending attitudes as being on an improving trend. The amount outstanding of bank lending, including that to small firms, 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), excluding the direct effects of the consumption tax hike, is about 0 percent. Looking ahead, the year-on-year rate of increase is likely to be about 0 percent for the time being, due to the effects of the decline in energy prices. Nevertheless, as the underlying trend in inflation steadily rises -- against the background of an improvement in the output gap and a rise in medium- to long-term inflation expectations -- and as the effects of the decline in crude oil prices dissipate, the year-on-year rate of increase is projected to accelerate toward 2 percent -- the price stability target. Although the timing of reaching around 2 percent depends on developments in crude oil prices, it is projected to be around the first half of fiscal 2016, assuming that crude oil prices will rise moderately from the recent level. Thereafter, the year-on-year rate of increase in the CPI is likely to be around 2 percent on average.

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. 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.