

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 May 12, 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. Response to the Kumamoto Earthquake

First of all, I would like to express my sincere condolences to the victims of the Kumamoto Earthquake and offer my heartfelt sympathies to those who are suffering. The Bank of Japan's Kumamoto Branch -- together with its neighboring branches and Head Office -- is making efforts to maintain the payment and settlement infrastructure, including the smooth supply of cash. At the Monetary Policy Meeting held at the end of April 2016, the Bank decided to introduce a funds-supplying operation for financial institutions in disaster areas affected by the Kumamoto Earthquake at a total loan amount set at 300 billion yen, with a view to supporting them in their efforts toward meeting demand for funds for restoration and rebuilding. This operation will surely contribute to backing the restoration and rebuilding.

II. Economic and Financial Developments in Japan

Now, 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 30 consecutive months and has been 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 during fiscal 2017.

III. Conduct of Monetary Policy

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

The Bank introduced "Quantitative and Qualitative Monetary Easing (QQE) with a Negative Interest Rate" at the January 2016 Monetary Policy Meeting. Since the turn of the year, global financial markets had 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. Under this situation, 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 "QQE with a Negative Interest Rate." As a result, the policy effects on interest rates already have been seen; namely, a substantial decline in the JGB yield curve and resultant clear 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. Nevertheless, it takes some time to see the penetration of

monetary policy effects. In circumstances such as those in evidence today, where global financial markets remain volatile, partly due to uncertainties regarding the outlook for emerging economies and commodity-exporting economies, it could be even more difficult for positive changes to emerge. Against this backdrop, at the Monetary Policy Meeting held at the end of April, the Bank judged that it would be appropriate at present to examine the extent of the penetration of policy effects, and decided to maintain its current monetary policy.

Risks to Japan's economic activity and prices remain skewed to the downside, with high uncertainty over the global economy and continuing volatile developments in financial markets. The Bank will examine risks to economic activity and prices at each monetary policy meeting, 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. By making full use of "QQE with a Negative Interest Rate," the Bank will achieve the price stability target of 2 percent at the earliest possible time.

Thank you.