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 22, 2018

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 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

I will first explain economic and financial developments in Japan.

Japan's economy is expanding moderately, with a virtuous cycle from income to spending operating. In the corporate sector, exports and production have been on an increasing trend, mainly on the back of firm growth in overseas economies. In this situation, corporate profits and business sentiment have maintained their improving trend, and business fixed investment also has continued on an increasing trend. 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 around 2.5 percent; wages have been rising moderately, as seen in the fact that many firms have raised their base pay for the fifth consecutive year in the annual labor-management wage negotiations this spring. Against this background, private consumption has been increasing moderately, albeit with fluctuations.

Going forward, Japan's economy is likely to continue growing at a pace above its potential in fiscal 2018, mainly against the background of highly accommodative financial conditions and the underpinnings through government spending, with overseas economies continuing to grow firmly. From fiscal 2019 through fiscal 2020, the economy is expected to continue on an expanding trend supported by external demand, 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. As for risks to this baseline scenario of the outlook for economic activity, upside and downside risks are generally balanced in fiscal 2018, but risks are skewed to the downside for fiscal 2019 onward, mainly due to uncertainties over developments in overseas economies.

On the price front, the year-on-year rate of change in the consumer price index (CPI, all items less fresh food) has continued to show relatively weak developments when excluding the effects of energy prices compared to the economic expansion and the labor market tightening, mainly against the background that firms' wage- and price-setting stance has remained cautious. Nonetheless, medium- to long-term inflation expectations are projected to rise as firms' stance gradually shifts toward raising wages and prices with an improvement in the output gap continuing. As a consequence, the year-on-year rate of change in the CPI is likely to continue on an uptrend and increase toward 2 percent. The momentum toward achieving the price stability target of 2 percent is maintained but is not yet sufficiently firm. Regarding the outlook for prices, risks are skewed to the downside, especially concerning developments in medium- to long-term inflation expectations.

II. Conduct of Monetary Policy

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

Under the framework of "Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control" introduced in September 2016, 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 Monetary Policy Meeting (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 zero percent. Looking at developments in the short- and long-term interest rates in Japan, the yield curve has been formed in a manner consistent with the guideline for market operations.

Japan's economy has continued its long-lasting recovery, with both external and domestic demand following an uptrend. However, there is still a long way to go to achieve the price stability target of 2 percent. In addition, uncertainties concerning the outlook for economic activity and prices warrant careful attention. Under such circumstances, it is appropriate for the Bank to pursue the current powerful monetary easing with persistence in order to achieve the price stability target at the earliest possible time.

Thank you.