

Kazuo Ueda: The Bank's Semiannual Report on Currency and Monetary Control

Statement by Mr Kazuo Ueda, Governor of the Bank of Japan, before the Committee on Financial Affairs, House of Councillors, Tokyo, 18 June 2024.

* * *

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 have been more or less flat. With corporate profits improving, business fixed investment has been on a moderate increasing trend. The employment and income situation has improved moderately. Private consumption has been resilient, although the impact of price rises has remained and automobile sales have continued to be pushed down by a suspension of shipment at some automakers. With regard to the outlook, Japan's economy is likely to keep growing at a pace above its potential growth rate, with overseas economies continuing to grow moderately and as a virtuous cycle from income to spending gradually intensifies against the background of factors such as accommodative financial conditions.

The year-on-year rate of increase in the consumer price index (CPI) for all items excluding fresh food has been in the range of 2.0-2.5 percent recently, as services prices have continued to rise moderately, reflecting factors such as wage increases, although the effects of a pass-through to consumer prices of cost increases led by the past rise in import prices have waned. Regarding the outlook, while the effects of the pass-through to consumer prices of cost increases led by the past rise in import prices are expected to wane, the rate of increase is projected to be pushed up through fiscal 2025 by factors such as a waning of the effects of the government's economic measures pushing down CPI inflation. Meanwhile, underlying CPI inflation is expected to increase gradually and, in the second half of the projection period of the April 2024 Outlook for Economic Activity and Prices, it is likely to be at a level that is generally consistent with the price stability target of 2 percent.

Concerning risks to the outlook, there remain high uncertainties surrounding Japan's economic activity and prices, including developments in overseas economic activity and prices, developments in commodity prices, and domestic firms' wage- and price-setting behavior. Under these circumstances, it is necessary to pay due attention to developments in financial and foreign exchange markets and their impact on Japan's economic activity and prices. Meanwhile, Japan's financial system has maintained

stability on the whole. 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. Regarding financial risks from a longer-term perspective, while there is a possibility that prolonged downward pressure on financial institutions' profits may lead to a gradual pullback in financial intermediation, the vulnerability of the financial system could increase, mainly due to the search for yield behavior. Although these risks are judged as not significant at this point, it is necessary to pay close attention to future developments.

II. Conduct of Monetary Policy

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

At the Monetary Policy Meeting (MPM) held last week, the Bank decided to maintain the current guideline for money market operations during the intermeeting period, in which it would encourage the uncollateralized overnight call rate to remain at around 0 to 0.1 percent. Regarding purchases of Japanese government bonds (JGBs), CP, and corporate bonds for the intermeeting period, it will conduct the purchases in accordance with the decisions made at the March 2024 MPM. The Bank also decided that it would reduce its purchase amount of JGBs thereafter to ensure that long-term interest rates would be formed more freely in financial markets. It will collect views from market participants and, at the next MPM, will decide on a detailed plan for the reduction of its purchase amount during the next one to two years or so.

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.