



August 28, 2024
Bank of Japan

Japan's Economy and Monetary Policy

Speech at a Meeting with Local Leaders in Yamanashi

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(English translation based on the Japanese original)

Introduction

Good morning, all. I am happy to be here in Kofu, a city surrounded by high mountains. I was born in Toyama and grew up gazing at the northern chain of the Japan Alps. Arriving here yesterday, I felt somewhat familiar with the sight of the southern chain.

One of the greatest 16th century warlords, Takeda Shingen, who was from this region, had the following poem on his banner:

Swift as the wind,
silent as forests,
ravaging as fire,
and still as mountains.

Does this banner describe the four different approaches to be used at different junctures of war? Perhaps not. Seeing the mountains Shingen himself saw in his days, I was reminded of the awe and respect that the stillness of the mountains evokes, a stillness that hides the swiftness of the wind and the relentlessness of fire within itself. The silence of the forests, it seems, is also filled with vigor.

I. Economic Activity and Prices

Hermeneutics aside, let us begin by looking at the outlook for Japan's growth and inflation.

First, about the growth. The Bank of Japan expects the real GDP to grow at a moderate rate of 0.6 percent this fiscal year, as the recovery process from the pandemic draws near to completion. We, however, expect that the ongoing wage hike will start boosting consumer spending and that the record-high corporate profits will sustain the strong growth of business fixed investment. According to our forecast, these developments will gain traction from the middle of the fiscal year, and the real GDP will grow at around 1 percent in fiscal 2025 and 2026, a level that is slightly above the potential growth rate (Chart 1). We estimate Japan's potential growth rate to be somewhere between 1/2 and 1 percent.

Let me turn to prices. Reflecting the global commodity price hike, the annual average consumer price inflation rate was around 3 percent in fiscal 2022 and 2023, exceeding the Bank's price stability target of 2 percent. Inflation rates for food and other daily necessities have been even higher than 3 percent, burdening households. We, however, expect that inflation will gradually decelerate and that the CPI inflation rate for fiscal 2025 and 2026 will be at around 2 percent, in line with the target.

In sum, our baseline scenario for fiscal 2025 and 2026 envisions a reasonably balanced state, where the inflation rate is consistent with the price stability target and the economic growth is slightly above cruising speed. To this day, Japan's economy has been characterized by a variety of excesses and shortfalls. The economy overheated during the bubble economy era, and a period of deflation ensued after the asset price bubbles collapsed. Although Japan subsequently made strides toward the goal of fully extricating itself from deflation, the economy slumped after the pandemic and was then hit by rising prices. The Bank, however, expects to see the long-awaited balanced state starting around next fiscal year.

Will that really happen?

So far, prices have moved in line with the expected path. Although economic activity earlier in the year was weaker than was previously expected, temporary factors, such as a suspension of auto production due to certification test issues, largely account for this.

I believe that the baseline scenario for the future remains that growth and inflation will develop in line with the Bank's outlook. That said, we should mind risk scenarios as well. Let us look at two of them: (1) the scenario of the current above-2-percent inflation not abating and (2) the scenario of the inflation rate sinking well below 2 percent and not reverting.

Comparison with the United States and the Euro Area

The first question is whether the inflation rate will really moderate and reach the 2 percent target. I occasionally hear the following question from those from the United States and the euro area: although the Federal Reserve and the European Central Bank have responded to

the import price shock with stringent monetary tightening, inflation has remained above the target; Japan has maintained accommodative financial conditions, but is a bout of inflation not forthcoming (Chart 2)?

The rise in the prices of products imported by Japan from mid-2020 to mid-2022 was, due to the depreciation of the yen and other factors, much higher than the import price hike experienced by Germany, and far more drastic than that experienced by the United States. On the other hand, the United States is almost self-sufficient in energy and is a food exporter. Germany depends on domestically produced energy and food much more than Japan does. Thus, the impact of rising international commodity prices on Japan must have been much greater than on the United States and the euro area. Yet, while the inflation rate was above 10 percent in the euro area and reached 9 percent in the United States, in Japan it was 4 percent at its peak. No wonder some people in the United States and the euro area question why this happened in the absence of monetary tightening (Chart 3).

What is the answer? The CPI consists of the prices of goods, services, and housing rent. I would first like to look at prices of goods, which tend to be more directly affected by higher import prices (Chart 4). Since the end of 2020, the prices of goods have risen cumulatively by 26 percent in Germany, 20 percent in the United States, and 16 percent in Japan. Why has Japan, which experienced the greatest import price shock, seen a less sharp rise?

To compare the actual cumulative increase in goods prices, I made a counter-factual estimation of what would have happened if firms had fully passed on input price changes successively to other firms and then to consumers and if such a pass-through had taken effect instantaneously. In doing so, I used the input-output tables to see what kind and how much of direct and indirect inputs are used to produce a particular item. The assumption may sound unrealistic or extreme, but we may be able to learn something by comparing the reality with the counter-factual.

I considered the impact of three types of input price changes. The first is the impact of the rise in prices of imported energy and food. Second, I added the impact that the rise in prices of domestically produced energy should have had if they had moved in line with global

market prices, to account for the difference between the United States, which is a major petroleum-producing country, and Japan and Germany, which are major importers. Lastly, I also looked at the impact of wage increases during this period to see the role of non-import price factors (Chart 5).

This is a static, simple, and rough estimate, and we should be careful when assessing the results, but let me outline them. For Japan, the impact of the import price increases accounted for bulk of the increase in the prices of goods, reflecting the sharp rise in import prices and low self-sufficiency rates. On the other hand, in the United States, the impact of the rise in the prices of domestically produced energy and in wages was much greater than the impact of import price increases. Germany lies somewhere between Japan and the United States.

Initially, the developments in the prices of goods in reality closely tracked the counter-factual estimate of the immediate and full pass-through in the United States and Germany. On the other hand, the pass-through was much more gradual in Japan. Japanese firms at the time were cautious about passing on cost increases to prices. I suppose the energy price measures taken by the Japanese government have worked to alleviate sudden price movements as well.

In Germany, the part of the actual price movements that the three factors do not account for also grew significantly afterward. I cannot tell what this part is, but one analysis argues that firms in the euro area expanded their profit margins and thereby pushed up prices further, and another indicates that the impact of supply bottlenecks was greater in Germany than in other advanced economies.¹

¹ See Box 3 "Features of and Reasons for Price Rises in the Current Phase: Comparison with the United States and Europe" in Bank of Japan, *Outlook for Economic Activity and Prices*, July 2023, for analysis on profit margins of firms in the euro area and their impact on prices. See also Figure 8 "Historical decompositions of inflation" in Bernanke, B., and Blanchard, O., "An Analysis of Pandemic-Era Inflation in 11 Economies," *Hutchins Center Working Paper #91*, May 2024, for a cross-country comparison of the impact of the supply bottlenecks.

In short, it may be argued as follows: while the price hike of imported energy and food had a large impact on Japan, the impact of other factors was much smaller, and the aggregate impact on the prices of goods was smaller than in the United States and Germany.

Next, let us look at developments in the prices of services excluding housing rent. The difference between Japan, the United States, and Germany has been much larger than for the prices of goods (Chart 4). The core cost of providing services is wages. In the United States, unemployment rose by nearly 20 million at the onset of the pandemic, and a sizable increase in wages has been necessary to encourage workers to return to the workforce after the pandemic (Chart 6). This may explain part of the large difference in services price developments.

Among the three types of input price changes I mentioned earlier in explaining the developments in prices of goods, the rise in prices of imported energy and food results in increased payments to overseas exporters. Meanwhile, the rise in prices of domestically produced energy and the wage increase result in increased payments to the energy industry and workers in that country. Due to commodity price hikes, Japan, a net commodity importer, has experienced a huge decline in national income, while the United States, a net exporter, has seen an increase in income. Japan's terms of trade deteriorated while those in the United States improved (Chart 6). Deterioration in the terms of trade tends to negatively affect wages. This may also explain part of the differences in the developments in wages and services prices in Japan, the United States, and Germany.

Lastly, developments in housing rent have differed greatly between these economies. In the United States, housing rent has accounted for more than 30 percent of the CPI, and rent levels have risen rapidly in the meantime. In Japan, the rise in rent levels has been minimal. Rent levels in Germany have risen more than in Japan, but not as much as in the United States. This difference should also have contributed to the difference in the overall consumer price developments (Chart 4).

These may be the reasons why Japan had a smaller CPI hike while being hit by a much bigger import price shock.

Wages and Consumption

That said, in Japan, a moderate increase in services prices has been observed since 2022 and the potential contribution of wage increases to goods prices is picking up recently (Charts 4 and 5). These developments along with other data show that the pass-through of the past import price hike is waning while a moderate and sustainable virtuous cycle between wages and prices is emerging.²

What about, then, the possibility that the virtuous cycle between wages and prices fails to grow further while the effects of the import price shock dissipate? Under that scenario, the inflation rate may sink well below the 2 percent target and stay there. In other words, what about the possibility of underlying inflation not reaching and remaining below 2 percent?

The future of the wage-price cycle will depend on both overseas and domestic factors. Key domestic factors include (1) whether wage hikes will continue, (2) whether consumer spending will stay unfaltering and thus firms will continue to be able to pass on wage increases to selling prices, and (3) how recent market volatilities including weaker stocks and the stronger yen affect the economy and prices. These three are intertwined, but let me look at them one by one.

The first factor is the outlook for wage hikes. The strong outcome of this year's annual spring wage negotiations is being reflected in monthly pay. Tighter labor market conditions and strong corporate profits have also supported wage increases. This is observed in wage statistics already.

The question is whether wage hikes will continue in fiscal 2025 and after. We often hear from small and medium-sized firms that, while they raised wages this year to retain personnel and support employees' living, they have not been able to pass on the labor cost increase to selling prices and that their profits are squeezed. We also hear often that many immediate challenges make it impossible to plan for next year's wages. On the other hand,

² See Ueda, K., "Virtuous Cycle between Wages and Prices and the Bank of Japan's Monetary Policy," speech at a meeting held by the Yomiuri International Economic Society in Tokyo, May 8, 2024.

an increasing number of firms argue that they see no alternative than to continue raising wages if they are to attract employees, particularly younger ones, and keep them well motivated. We increasingly hear that, since wages will rise every year anyway in these new stages of the economy and labor market, their strategic focus will be on pricing policy, productivity-enhancing investments, business portfolio restructuring, collaboration with other firms, and mergers and acquisitions.

These comments from small and medium-sized firms seem to show both the opportunities and the pains the structural changes in the economy and labor markets are bringing in. I had an opportunity to hear from CEOs of regional banks and noticed some common threads among some of their remarks: divergence between customer firms is growing, and overall trends are becoming less effective in describing the situation; business activities are recovering moderately, but there are stronger and weaker spots; and they -- the bankers -- need to customize approaches to support their customers in line with the different challenges they face.

The second question is if consumption will stay unfaltering so that firms will continue to pass on wage increases to selling prices. Households in general are increasingly keen to thrift and save, although some of them are becoming less sparing on "special day expenditures" and spending for their particular tastes and interests. Will thrift and save lead to inflection in consumption?

I believe that the baseline scenario is that this will not be the case. The strong results of the annual spring wage negotiations are being reflected in monthly pay, summer bonuses seem to be strong, income tax cuts will take effect, and inflation, which is one reason for the thrift and save behavior, is moderating. These will all support consumer spending, although we need to be mindful of the risks, such as that inflation will not moderate as expected and continue to push down real wages.

The third question is about the effects of recent market volatilities including weaker stocks and the stronger yen. As we have yet to hear fully from firms about the effects and statistics have yet to reflect them, we have to closely monitor developments here. That said, it may be

argued that the recent partial reversal of the yen's past depreciation can curb the upside risk to prices arising from higher import prices and thus the downside risk to consumer spending. It could also be argued, however, that the stronger yen may affect inbound tourism demand and weaker stocks may work to reduce the consumption of luxury products.

The yen's recent appreciation may alleviate the import cost hike and profit squeeze many small and medium-sized firms currently face. On the other hand, it may lower the yen-denominated profits of export industries and Japanese multinationals. However, the weaker yen was surely not the sole reason for these firms' record-high profits. There is not a wide gap between current yen rates and the rates assumed in their business plans. Stock price volatilities will affect business sentiment, but need not affect it too much: Japanese firms have transformed themselves and formed competitive edges, and such strengths will remain.

In the past, we often worried about the impact on banks when stock prices plunged. Today, however, banks hold much smaller amounts of stocks, and I do not anticipate a major impact on the overall soundness of the banking system. That said, we will closely monitor effects through various channels, including the effects through losses at overseas investment funds arising from unexpected market movements.

II. Monetary Policy

We looked at the baseline scenario of a waning pass-through of the past import price hike, an emerging virtuous cycle between wages and prices, and the underlying inflation rate gradually moving up toward the target rate of 2 percent. We also looked at several risk scenarios.

What should monetary policy do to realize the baseline scenario? The Bank is currently working on two areas: the unwinding of the unconventional measures that have been in place for many years, and adjustment to the short-term policy interest rate.

Reviewing the Experience with Unconventional Policy

Following the collapse of the asset price bubbles in the early 1990s and the financial crisis later in the decade, the traditional approach of raising and lowering the short-term interest rate within a positive range had become insufficient in addressing an economic slowdown or deflation.

For this reason, the Bank of Japan became the first central bank in the world to introduce an unconventional monetary policy in 1999, and has since added many more policy tools. While many other central banks rescinded their unconventional monetary policies in 2022, the Bank of Japan maintained its policy until this March. It carried out unconventional monetary policy for the longest period and with the widest range of measures in the world (Chart 7).

Since April 2023, the Bank has been reviewing Japan's experience with unconventional tools from a variety of perspectives. Empirical analyses conducted by the Bank's staff and by researchers at home and abroad generally confirmed certain levels of effectiveness unconventional policies had in supporting economic activity and prices.

Unconventional measures had side effects as well, including on the behavior of financial institutions and the functioning of financial markets. Moreover, some argue that the experience overseas suggests that some of the unconventional measures can cause policy shifts to be behind the curve or create excessive market volatility in the exit phase.

In conducting the review, the Bank has posted on its website papers on a wide range of issues written by its staff.³ It also held conferences with researchers and practitioners from home and abroad. The Bank plans to publish the summary results of the review by the end of the year. After all the efforts, however, there are issues which still remain unresolved.

One example is the issue of the long-term effects of the extended period of strong monetary easing on productivity. Some argue that this would distort resource allocation and push

³ For the review of monetary policy from a broad perspective, please refer to the following link: <https://www.boj.or.jp/en/mopo/outline/bpreview/index.htm>.

down productivity, while others maintain that it would have positive effects on productivity, such as through the accumulation of human capital. Empirical analysis on this issue has not progressed well enough, and further work may be warranted.

Another example is issues surrounding the transmission channels of unconventional monetary policy.

Before I joined the Bank, I imagined that the main transmission channel of monetary easing was the lowering of funding costs, which makes it easier for households and firms to borrow funds to spend and invest.

However, an assessment carried out by the Bank in 2021 found that various monetary policy measures taken after the policy interest rate reached zero boosted the economy not just by lowering funding costs but also significantly by affecting stock prices and exchange rates. Moreover, given that the majority of the increase in lending volume was related to real estate, it is likely that the impact from funding costs was closely related to the stabilization of land prices and the rise in condominium prices during the period. The study does not cover the period when the Bank raised and lowered the interest rate within a positive range, but, for the period facing the zero lower bound, changes in asset prices, such as stock prices, exchange rates, and real estate prices, seem to have had a significant role in the monetary policy transmission.

The key function of the asset markets is selecting viable projects and allocating resources to them, and the future of the economy depends on how well they carry out that role. If the key transmission channels of monetary easing under the zero lower bound include pushing the asset markets in a certain direction, the implications monetary easing has on the efficiency of resource allocation and long-term growth potential may depend on the asset price context in which monetary policy operates.

For instance, let us look at the asset price context in 2012, the year before quantitative and qualitative monetary easing (QQE) began. The Nikkei 225 Stock Average declined to 8,239 yen, the yen appreciated to 76 yen per dollar, and land prices were declining nationwide,

including in the 23 wards of Tokyo. The large-scale monetary easing that began in 2013 may have had the side benefit of helping to correct this rather extraordinary situation.

Since then, the asset price context in which monetary policy operates has evolved. Has the evolving context affected the implication of monetary easing? To answer this, further study on the relationship between asset prices and monetary policy may be warranted.

Some questions on the effectiveness and side effects of unconventional tools are reasonably well answered, but others are not yet. Nevertheless, I believe there is already a consensus in Japan and abroad that central banks should have unconventional tools in their toolbox to be prepared for the time when traditional tools reach their limits, but that they do not need to mobilize unconventional tools so long as traditional tools can do their job.

Conduct of Monetary Policy

This March, judging that it was within sight that the price stability target of 2 percent would be achieved in a sustainable and stable manner, and that the unconventional measures had fulfilled their roles, the Bank discontinued the negative interest rate policy and other unconventional measures. In July, it published a plan to reduce its purchase amount of Japanese government bonds (JGBs) in a predictable manner, to ensure that long-term interest rates would be formed more freely in financial markets (Chart 8). These decisions have made it clear that the Bank's primary policy tool will be the traditional tool of guiding the short-term interest rate.

At the July Monetary Policy Meeting (MPM), the Bank confirmed that Japan's economic activity and prices had been developing generally in line with its outlook, and raised the policy interest rate, the primary policy tool, from around 0-0.1 percent to around 0.25 percent (Chart 9). In its policy statement following the meeting, the Bank expressed that "real interest rates are expected to remain significantly negative after the change in the policy interest rate, and accommodative financial conditions will continue to firmly support economic activity."

Currently, the financial and capital markets remain unstable, and the Bank needs to monitor their developments with the utmost vigilance. The Bank also intends to carefully examine the impact these market developments at home and abroad have on the outlook for economic activity and prices, the risks surrounding the outlook, and the degree of confidence in the outlook.

The Bank's basic stance on the future conduct of monetary policy is that it will examine the impact of market developments and the July rate hike and that, if it has growing confidence that its outlook for economic activity and prices will be realized, it will adjust the degree of monetary accommodation.

The Bank will conduct monetary policy as appropriate to achieve the 2 percent price stability target in a sustainable and stable manner while closely communicating with market participants and other stakeholders.

Neutral Rate of Interest

Assuming that the economy and prices just continue to develop in line with the Bank's outlook, what will be the terminal policy rate? This is a question we are often asked. If the economy is growing at cruising speed and prices are in line with the price stability target, there would be no need to accelerate or curb the economy. Then the policy rate could be set at a level that is neither accommodative nor restrictive. Economists call this level the neutral rate of interest and have developed a range of economic models to estimate it. The Bank's staff have tried various approaches, including those that they developed themselves, to estimate the rate for Japan.

The neutral rate of interest is a valuable concept that helps us clarify our thinking. Some, however, even go so far as to imagine that a central bank sets the terminal policy rate at the estimated level of the neutral rate and infers the policy trajectory working backward from there. I do not think such an approach will work so well.

Can a central bank set the terminal policy rate at the estimated level of the neutral rate? Estimation approaches give different outcomes, and each outcome comes with an estimation

range. It is therefore impossible to pinpoint one specific number as the definitive answer. Furthermore, in Japan's case, the short-term interest rate has been almost zero for the past 30 years. Whether estimates based on the data from the period can tell the reaction of the economy to positive rate changes is an issue we should be especially cautious of.

Can a central bank infer the policy trajectory working backward from the neutral rate? The economy is subject to various shocks and is constantly transiting from one state of imbalance to another. The trajectory toward a steady state cannot be a straight line and should be changing all the time.

Moreover, even in situations where the policy interest rate is at the level of the neutral rate, the behavior of firms, households, and financial institutions could differ depending on whether the policy rate reached that level as a result of rate hikes or cuts, and on how rapidly the rate was raised or cut. A linear economic model often fails to describe path dependencies, but the outcome in the real world often depends on the timing and sequence of policy actions. It may also be that, while economic agents do not react to an interest rate change within a certain range, they have material reactions beyond certain thresholds.

In any case, estimation of the neutral rate of interest would not automatically show the right policy path for Japan, at least at the moment. I believe that the Bank should continue its efforts to refine its approaches to estimate the neutral rate for Japan and use the results as a useful point of reference. I suppose, however, the Bank has no other choice than to chart a way forward examining how the economy and prices respond as it conducts monetary policy.

Conclusion

Bewildered by the pace of changes in the world and feeling more squeezed day by day, we tend to become myopic and focus only on immediate tasks. The flood control system Takeda Shingen built 460 years ago in this region seems to signify an opposite attitude (Chart 10).

The power of the rapids of the Midai River was first diverted by a wall of stones, then divided in two by a wedge-like embankment, and held back by 16 rocks Shingen put in place and by a pre-existing high cliff. Five more dikes were built, so that even if the water overflowed, it would flow back into the river through the gaps between the dikes. Perhaps the design of the whole system resembles the way Shingen placed his troops in different parts of the battlefield taking advantage of existing rivers, cliffs, and other natural conditions. I imagine that his flood control system and military strategy both shared resilience-oriented thinking and preparedness for contingencies and unexpected scenarios.

Today, I talked about one baseline scenario and two risk scenarios. All of them just extrapolate the past and none of them involve unexpected elements. In designing the future of the regional and national economies, however, we may have a lot to learn from our predecessors who seem to have known how to think more strategically.

Thank you for your attention. Now I would like to open the floor and would appreciate it if you could share your views, not only on the topics I have mentioned, but more widely on the issues that you currently face and work on.

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Introduction

I. Economic Activity and Prices

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Wages and Consumption

II. Monetary Policy

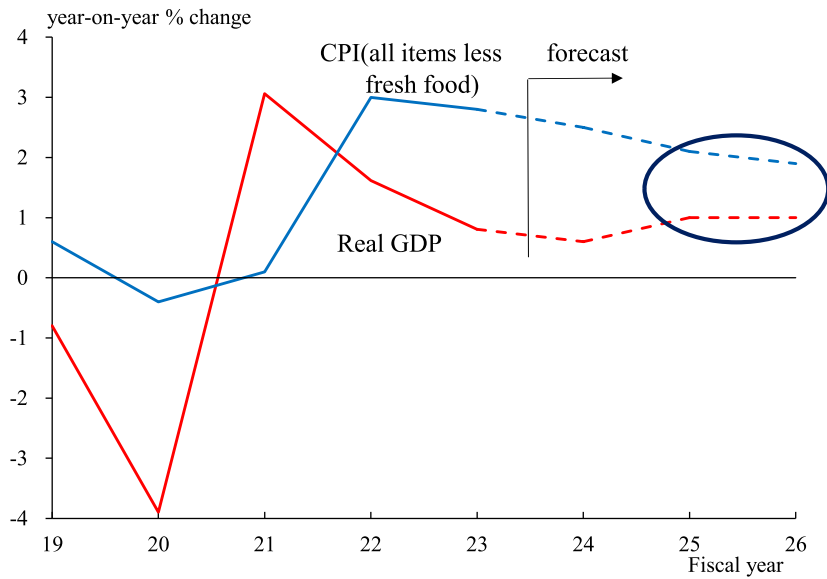
Reviewing the Experience with Unconventional Policy

Conduct of Monetary Policy

Neutral Rate of Interest

Conclusion

The BOJ's Forecasts for Real GDP and the CPI (July 2024 Outlook Report)

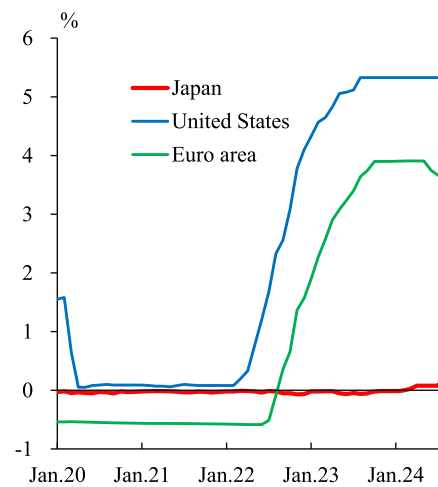
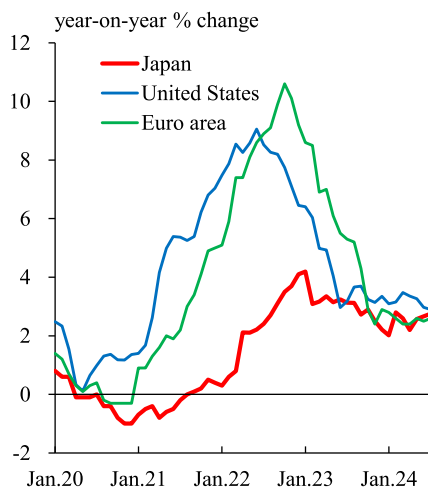


Note: The forecasts presented are the medians of the Policy Board members' forecasts.
Sources: Cabinet Office; Ministry of Internal Affairs and Communications; Bank of Japan.

Prices and Interest Rates in Japan, the United States, and the Euro Area

Consumer Prices

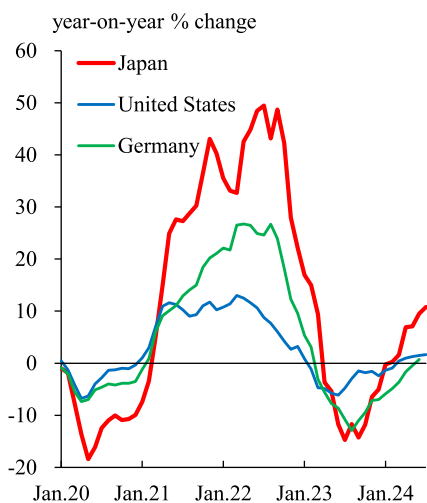
Short-Term Interest Rates



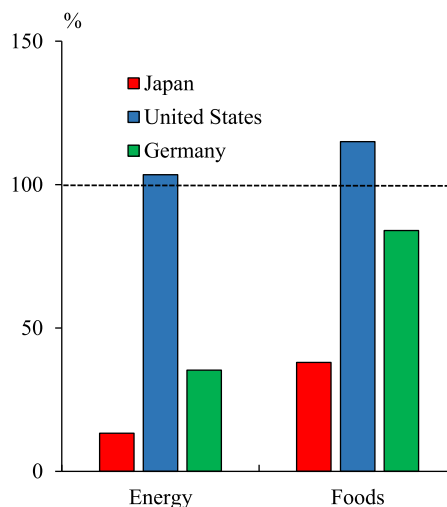
Note: In the left-hand chart, the latest figures are as of July 2024. Figures for Japan are the CPI for all items less fresh food, while those for the United States and the euro area are the CPI for all items.
In the right-hand chart, the latest figures are averages for August 1-23, 2024. Figures for each economy are as follows: for Japan, the uncollateralized overnight call rate; for the United States, the effective federal funds rate; for the euro area, ESTR.
Sources: Ministry of Internal Affairs and Communications; Bank of Japan; FRB; BLS; ECB.

Import Prices and Self-Sufficiency Rates in Japan, the United States, and Germany

Import Prices



Energy and Food Self-Sufficiency Rates



Note: In the left-hand chart, the latest figures are as of July 2024 for Japan and United States, and as of June 2024 for Germany.

In the right-hand chart, figures for energy are as of 2021, while figures for foods are as of fiscal 2022 for Japan and as of 2020 for United States and Germany.

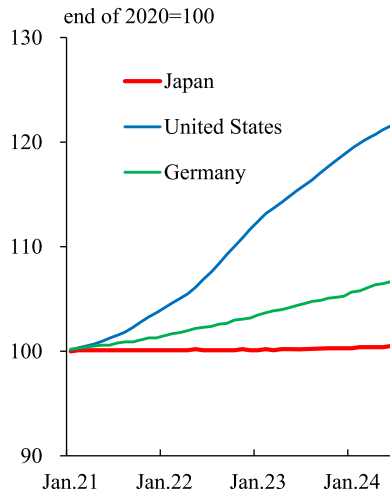
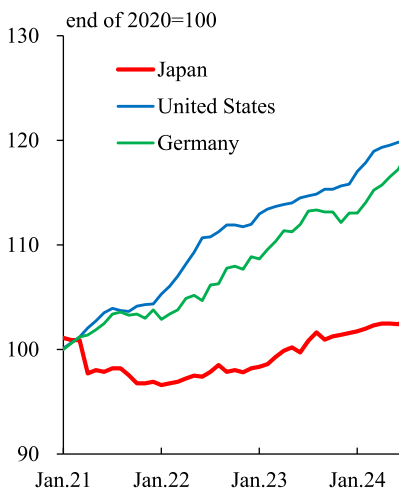
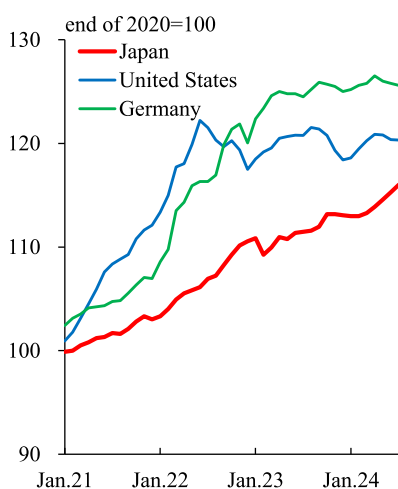
Sources: Bank of Japan; BEA; Federal Statistical Office of Germany; Agency for Natural Resources and Energy; Ministry of Agriculture, Forestry and Fisheries; Haver.

Consumer Prices by Categories in Japan, the United States, and Germany

Goods

Services

Housing Rent



Note: The latest figures are as of July 2024. Figures for goods in Japan exclude fresh food.

Figures for services exclude housing rent. Figures for housing rent in Japan and the United States include imputed rent.

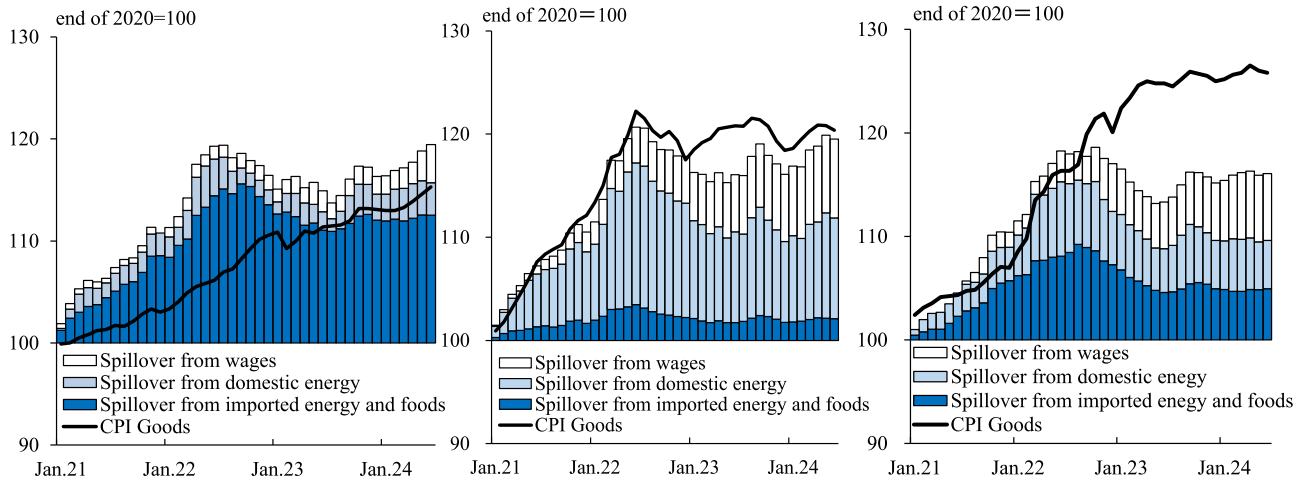
Sources: Ministry of Internal Affairs and Communications; BLS; Federal Statistical Office of Germany.

Factors Affecting Goods Prices in Japan, the United States, and Germany

Japan

United States

Germany

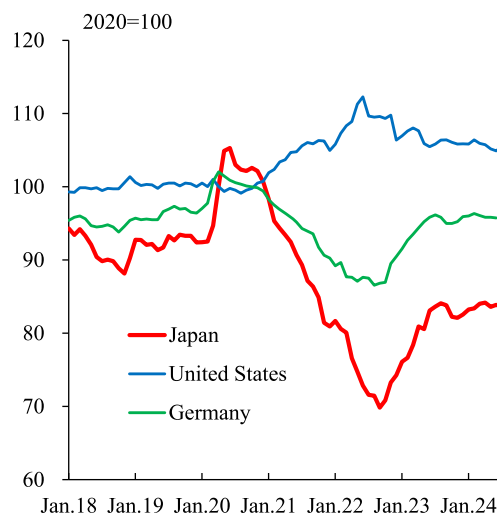
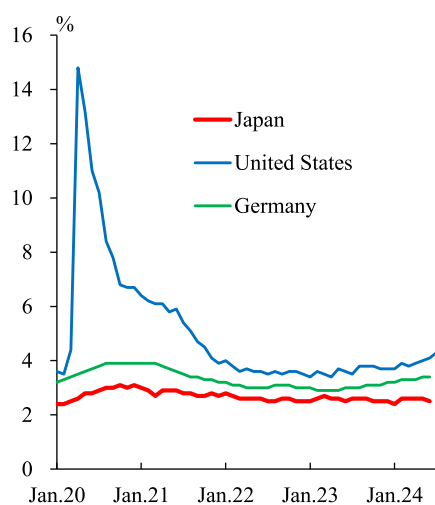


Note: The latest figures are as of June 2024. Figures for Japan exclude fresh food. Spillover effects of imported energy and food products and of wages are estimated based on the input-output tables. The estimate assumes that prices of domestically produced energy move in line with imported energy prices.
Sources: Bank of Japan; Ministry of Internal Affairs and Communications; BLS; BEA; OECD; Federal Statistical Office of Germany; Haver.

Background to Developments in Wages in Japan, the United States, and Germany

Unemployment Rate

Terms of Trade



Note: In the left-hand chart, the latest figures are as of July 2024 for United States, and as of June 2024 for Japan and Germany. In the right-hand chart, the latest figures are as of July 2024 for Japan and United States, and as of June 2024 for Germany. The terms of trade are calculated by dividing export prices by import prices.
Sources: Bank of Japan; Ministry of Internal Affairs and Communications; BLS; Federal Statistical Office of Germany; Haver.

History of Unconventional Monetary Policy

Instruments	First adopted by (year)
Zero interest rate policy (ZIRP)	Bank of Japan (1999)
Forward Guidance	Bank of Japan (1999, dubbed as policy duration effect)
Quantitative easing (mainly via purchase of short term bonds)	Bank of Japan (2001)
Quantitative easing (large scale purchase of long term bonds etc)	Federal Reserve (2009)
Negative interest rate policy (NIRP)	Danmarks Nationalbank (2012)
Yield curve control (YCC)	Bank of Japan (2016) <Federal Reserve (1942)>

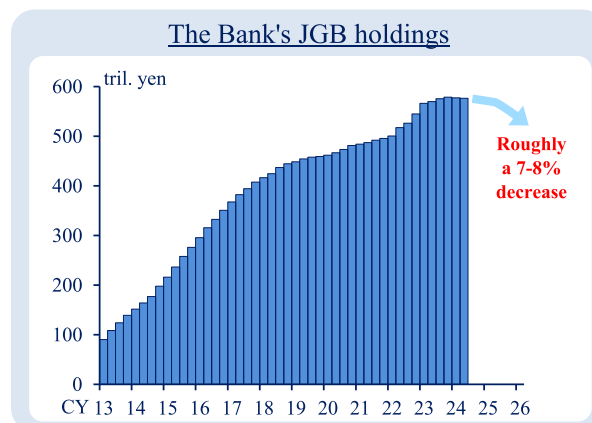
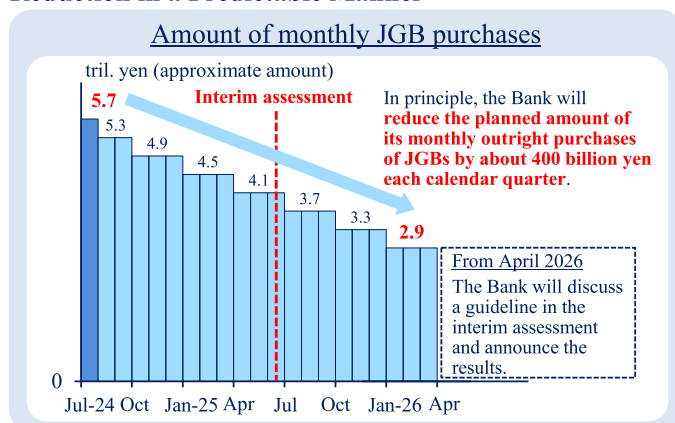
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Decisions at the July 2024 MPM (1): Plan for the Reduction of the Purchase Amount of JGBs

The concept of the plan for the reduction until March 2026

1. Long-term interest rates: to be formed in financial markets in principle
2. JGB purchases: appropriate for the Bank to **reduce its purchase amount of JGBs in a predictable manner**, while **allowing enough flexibility** to support stability in the JGB markets

Reduction in a Predictable Manner



Allowing Enough Flexibility

1. The Bank will **conduct an interim assessment of the plan at the June 2025 MPM.**
2. In the case of a rapid rise in long-term interest rates, the Bank will make nimble responses by, for example, increasing the amount of JGB purchases.
3. The Bank is prepared to amend the plan at the MPMs, if deemed necessary.

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II. Monetary Policy

Decisions at the July 2024 MPM (2): Change in the Guideline for Money Market Operations

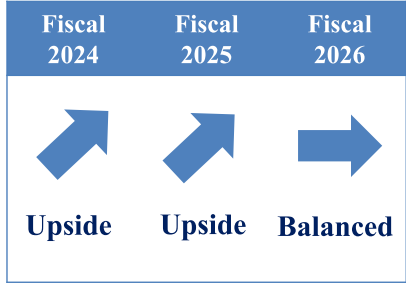
- Japan's economic activity and prices have been **developing generally in line with the Bank's outlook**. Moves to raise wages have been spreading.
- The year-on-year rate of change in import prices has turned positive again, and **upside risks to prices require attention**.

Medians of the Policy Board Members' forecasts (y/y % chg.)

	Fiscal 2024	Fiscal 2025	Fiscal 2026
Real GDP	0.6 (-0.2)	1.0 (-)	1.0 (-)
CPI (all items less fresh food)	2.5 (-0.3)	2.1 (+0.2)	1.9 (-)
CPI (all items less fresh food and energy)	1.9 (-)	1.9 (-)	2.1 (-)

Note: Figures in parentheses indicate changes from the April Outlook Report.

Risk balance assessments on prices



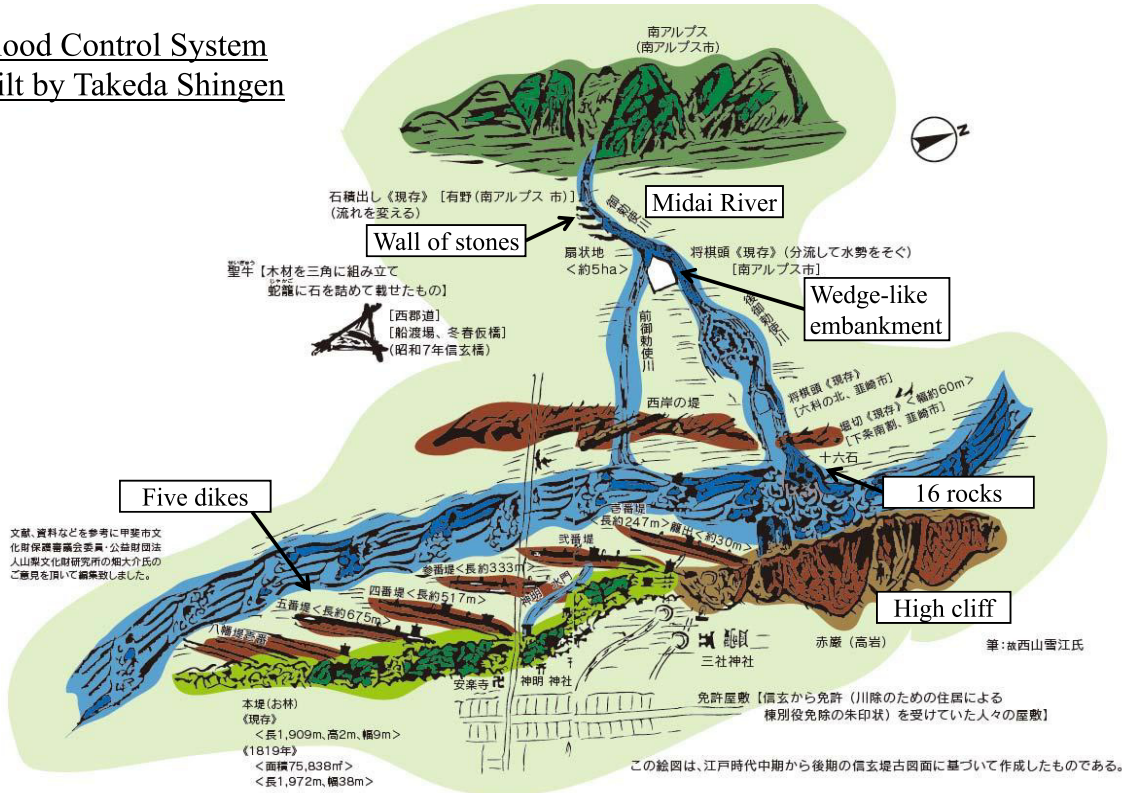
Adjusting the degree of monetary accommodation from the perspective of sustainable and stable achievement of the price stability target of 2 percent

Short-term interest rate : raised to "around 0.25 %"
 (uncollateralized overnight call rate) (previously "around 0 to 0.1%")

- Real interest rates are expected to remain significantly negative, and accommodative financial conditions will continue to **firmly support economic activity**.
- If the outlook presented in the July Outlook Report will be realized, the Bank will accordingly continue to raise the policy interest rate and adjust the degree of monetary accommodation.

Conclusion

Flood Control System Built by Takeda Shingen



Source: Kai City, Yamanashi Prefecture.