

Statement by KURODA Haruhiko, 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 November 10, 2022

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, despite being affected by factors such as high commodity prices, has picked up as the resumption of economic activity has progressed while public health has been protected from the novel coronavirus (COVID-19). Overseas economies have recovered moderately on the whole, but slowdowns have been observed, mainly in advanced economies. Exports and industrial production have increased as a trend, with the effects of supply-side constraints waning. Corporate profits have been at high levels on the whole, and business sentiment has been more or less unchanged. In this situation, business fixed investment has picked up, although weakness has been seen in some industries. The employment and income situation has improved moderately on the whole. Private consumption has increased moderately, despite being affected by COVID-19. With regard to the outlook, Japan's economy is likely to recover, with the impact of COVID-19 and supply-side constraints waning and with support from accommodative financial conditions and the government's economic measures, although it is expected to be under downward pressure stemming from high commodity prices and the slowdowns in overseas economies.

The year-on-year rate of change in the consumer price index (CPI) for all items excluding fresh food has been at around 3 percent due to rises in prices of such items as energy, food, and durable goods. Regarding the outlook, it is likely to increase toward the end of this year due to such price rises. The rate of increase is then expected to decelerate toward the middle of fiscal 2023 because the contribution of such price rises to this CPI is likely to wane.

Thereafter, it is projected to accelerate again moderately on the back of improvement in the output gap and rises in medium- to long-term inflation expectations and in wage growth.

Concerning risks to the outlook, there have been extremely high uncertainties for Japan's economy, including the following: developments in overseas economic activity and prices; developments in the situation surrounding Ukraine and in commodity prices; and the course of COVID-19 at home and abroad and its impact. In this situation, 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. Although attention is warranted on, for example, the impact of the tightening of global financial conditions, the financial system is likely to remain highly robust on the whole, mainly because 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.

Japan's economy is on its way to recovery from a downturn caused by COVID-19 and uncertainties for the economy have been extremely high. On the price front, the year-on-year rate of increase in the CPI is projected to decelerate to a level below 2 percent from fiscal 2023.

Given such developments in economic activity and prices, the Bank will continue with monetary easing, aiming to firmly support Japan's economy and thereby achieve the price stability target of 2 percent in a sustainable and stable manner, accompanied by wage increases.

Thank you.