

December 18, 2015

Bank of Japan

## Statement on Monetary Policy

1. At the Monetary Policy Meeting held today, the Policy Board of the Bank of Japan decided, by an 8-1 majority vote, to set the following guideline for money market operations for the intermeeting period:<sup>[Note 1]</sup>

The Bank of Japan will conduct money market operations so that the monetary base will increase at an annual pace of about 80 trillion yen.

2. With regard to the asset purchases, the Bank decided, by a 6-3 majority vote, to set the following guidelines:<sup>[Note 2]</sup>

- a) The Bank will purchase Japanese government bonds (JGBs) so that their amount outstanding will increase at an annual pace of about 80 trillion yen. With a view to encouraging a decline in interest rates across the entire yield curve, the Bank will conduct purchases in a flexible manner in accordance with financial market conditions. The average remaining maturity of the Bank's JGB purchases will be about 7-10 years until the end of this year and be extended to about 7-12 years from the beginning of next year.

- b) The Bank will purchase exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) so that their amounts outstanding will increase at annual paces of about 3 trillion yen and about 90 billion yen respectively.

- c) As for CP and corporate bonds, the Bank will maintain their amounts outstanding at about 2.2 trillion yen and about 3.2 trillion yen respectively.

3. Japan's economy has continued to recover moderately, although exports and production have been affected by the slowdown in emerging economies. Overseas economies -- mainly advanced economies -- have continued to grow at a moderate pace, despite the slowdown in emerging economies. In this situation, exports have been picking up, although sluggishness remains in some areas. On the domestic demand side, business fixed investment has been on a moderate increasing trend as corporate profits have continued to improve markedly. Against the background of steady improvement in the employment and income situation, private consumption has been resilient and housing investment has been picking up. Public

investment has been on a moderate declining trend, although it remains at a high level. Industrial production has continued to be more or less flat. Meanwhile, business sentiment has generally stayed at a favorable level, although somewhat cautious developments have been observed in some areas. Financial conditions are accommodative. On the price front, the year-on-year rate of change in the consumer price index (CPI, all items less fresh food) is about 0 percent. Inflation expectations appear to be rising on the whole from a somewhat longer-term perspective, although some indicators have recently shown relatively weak developments.

4. With regard to the outlook, Japan's economy is expected to continue recovering moderately. The year-on-year rate of change in the CPI is likely to be about 0 percent for the time being, due to the effects of the decline in energy prices.
5. Risks to the outlook include developments in the emerging and commodity-exporting economies, the prospects regarding the debt problem and the momentum of economic activity and prices in Europe, and the pace of recovery in the U.S. economy.
6. Quantitative and qualitative monetary easing (QQE) has been exerting its intended effects, and the Bank will continue with QQE, aiming to achieve the price stability target of 2 percent, as long as it is necessary for maintaining that target in a stable manner. It will examine both upside and downside risks to economic activity and prices, and make adjustments as appropriate.<sup>[Note 3]</sup>
7. In pursuing QQE according to the policy mentioned above, it is appropriate to encourage a smoother decline in interest rates across the entire yield curve taking into account developments in the JGB market and the situation in financial institutions' asset holdings. Moreover, as conversion of firms' and households' deflationary mindset has been progressing under QQE and many firms have become proactive in making investment in physical and human capital, it is desirable that these developments will become further widespread. From this perspective, the Bank decided to adopt supplementary measures for QQE (see Attachment for details).

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<sup>[Note 1]</sup> Voting for the action: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Ms. S. Shirai, Mr. K. Ishida, Mr. T. Sato, Mr. Y. Harada, and Mr. Y. Funo. Voting against the action: Mr. T. Kiuchi. Mr. T. Kiuchi proposed that the Bank will conduct money market operations so that the monetary base will increase at an annual pace of about 45 trillion yen. The proposal was defeated by a majority vote.

<sup>[Note 2]</sup> Voting for the action: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Ms. S. Shirai, Mr. Y. Harada, and Mr. Y. Funo. Voting against the action: Mr. K. Ishida, Mr. T. Sato, and Mr. T. Kiuchi. Mr. K. Ishida and Mr. T. Sato opposed to the extension of the average remaining maturity of the Bank's JGB purchases. Mr. T. Kiuchi proposed that the Bank will conduct asset purchases so that the amount outstanding of its JGB holdings will increase at an annual pace of about 45 trillion yen. The proposal was defeated by a majority vote.

<sup>[Note 3]</sup> Mr. T. Kiuchi proposed that the Bank will, with the aim to achieve the price stability target of 2 percent in the medium to long term, continue with asset purchases and a virtually zero interest rate policy as long as each of these policy measures is deemed appropriate under flexible policy conduct based on the examination from the two perspectives of the monetary policy framework. The proposal was defeated by an 8-1 majority vote. Voting for the proposal: Mr. T. Kiuchi. Voting against the proposal: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Ms. S. Shirai, Mr. K. Ishida, Mr. T. Sato, Mr. Y. Harada, and Mr. Y. Funo.

## **Introduction of Supplementary Measures for Quantitative and Qualitative Monetary Easing**

### 1. Measures to support firms' investment in physical and human capital

- A. Establishing a new program for purchases of exchange-traded funds (ETFs) by a 6-3 majority vote<sup>[Note 1]</sup>

The Bank will establish a new program for purchasing ETFs at an annual pace of about 300 billion yen, in addition to the current program of ETF purchases under which their amount outstanding will increase at an annual pace of about 3 trillion yen.<sup>1</sup> Under this new program, the Bank will purchase ETFs composed of stocks issued by firms that are proactively making investment in physical and human capital. The new program will start with purchases of ETFs which track the JPX-Nikkei Index 400. The Bank will start purchasing ETFs that are consistent with the objective of this measure when such ETFs are newly launched. The Bank will commence purchasing ETFs under the new program from April 2016 with a view to offsetting possible market impact stemming from the scheduled sales of stocks that the Bank had purchased from banks for financial stability purpose.<sup>2</sup>

- B. Enhancing the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth by a unanimous vote

The Bank will add a new category ("Firms that are proactively making investment in physical and human capital") to the current list of 18 possible areas to which financial

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<sup>1</sup> Currently, the Bank purchases ETFs that track one of the following three stock indices; the Tokyo Stock Price Index (TOPIX), the Nikkei 225 Stock Average, or the JPX-Nikkei Index 400 (JPX-Nikkei 400). The amount of each issue of ETF purchased by the Bank has been proportionate to the total market value of that issue.

<sup>2</sup> The Bank had purchased stocks held by financial institutions since November 2002 in order to enhance their efforts to reduce shareholdings. The Bank started selling these purchased stocks in the market in October 2007 for a while. The Bank has suspended its selling of the purchased stocks, by taking account of developments in financial markets at home and abroad, which is to be resumed from April 2016. With regard to the selling of the purchased stocks, the Policy Board decided at a regular meeting held yesterday to extend the length of time for selling stocks to ten years from previously planned five and a half years. The amount to be sold is projected to be about 300 billion yen annually based on the mark-to-market value at the end of November 2015.

institutions' investment or lending are recognized as eligible for the Bank's Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth. At the same time, the Bank will simplify procedures for eligibility assessment of financial institutions' investment or lending to the firms relevant to this category -- for example, investment or lending to firms receiving preferential treatments by the tax code can be applied for the Bank's simplified procedures.<sup>3</sup>

- C. Extending the application periods for the Loan Support Program and other measures by a unanimous vote

The Bank will extend by one year the deadlines for new applications for the Fund-Provisioning Measure to Stimulate Bank Lending, the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth, the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas affected by the Great East Japan Earthquake, and the Temporary Rules regarding the Eligibility Standards for Debt of Companies in Disaster Areas.

- 2. Measures to facilitate smooth implementation of Quantitative and Qualitative Monetary Easing (QQE)

- A. Expanding eligible collateral for the Bank's provision of credit by a unanimous vote

Financial institutions' holdings of eligible collateral have decreased as JGB purchases by the Bank have progressed under QQE. In light of this situation, the Bank decided to (1) accept foreign currency-denominated loans on deeds as eligible collateral and to (2) introduce a framework in which the Bank will accept financial institutions' housing loans portfolio as collateral through a trust scheme.<sup>3</sup>

- B. Extending the average remaining maturity of JGB purchases by a 6-3 majority vote<sup>[Note 2]</sup>

Considering that the gross amount of the Bank's JGB purchases is expected to increase,<sup>4</sup> the Bank will extend the average remaining maturity of its JGB purchases from about 7-10

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<sup>3</sup> Amendments to relevant principal terms and conditions will be decided at a future Monetary Policy Meeting. Thereafter, these measures will be implemented soon after necessary preparations are completed.

<sup>4</sup> Under the current guideline for asset purchases, the gross amount of the Bank's JGB purchases in 2016 is expected to increase to about 120 trillion yen from about 110 trillion yen in 2015, due to an increase in the redemption of government bonds held by the Bank at maturity.

years to about 7-12 years, in order to facilitate flexible and smooth purchase of JGBs. Moreover, in order to secure market liquidity of JGBs, the Bank will allow continuous use of its Securities Lending Facility for a longer period.<sup>5</sup> These measures will be put into effect in January 2016.

- C. Increasing the maximum amount of each issue of Japan real estate investment trust (J-REIT) to be purchased by a 6-3 majority vote<sup>[Note 3]</sup>

Since the amount outstanding of the Bank's holdings has been increasing in comparison with the total market value, the maximum amount of each issue of J-REIT to be purchased shall be increased from the current 5 percent to 10 percent of the total amount of that J-REIT issued.<sup>3</sup>

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<sup>[Note 1]</sup> Voting for the action: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Ms. S. Shirai, Mr. Y. Harada, and Mr. Y. Funo. Voting against the action: Mr. K. Ishida, Mr. T. Sato, and Mr. T. Kiuchi. The members voting against the action gave the following reasons: Mr. K. Ishida and Mr. T. Sato considered that newly proposed ETF purchases should be conducted within the current program so that an annual pace of increase in the Bank's ETF holdings will continue to be about 3 trillion yen; and Mr. T. Kiuchi considered it as inconsistent with his proposal, which includes a reduction in the amount of ETF purchases.

<sup>[Note 2]</sup> Voting for the proposal: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Ms. S. Shirai, Mr. Y. Harada, and Mr. Y. Funo. Voting against the proposal: Mr. K. Ishida, Mr. T. Sato, and Mr. T. Kiuchi. The members voting against the proposal gave the following reasons: Mr. K. Ishida and Mr. T. Sato considered that the Bank can manage its JGB purchases under the current average remaining maturity of about 7-10 years; and Mr. T. Kiuchi considered it as inconsistent with his proposal, which includes making the average remaining maturity of the Bank's JGB purchases about seven years.

<sup>[Note 3]</sup> Voting for the proposal: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Ms. S. Shirai, Mr. Y. Harada, and Mr. Y. Funo. Voting against the proposal: Mr. K. Ishida, Mr. T. Sato, and Mr. T. Kiuchi. The members voting against the proposal gave the following reasons: Mr. K. Ishida expressed a concern over an increase in the maximum amount of each issue of J-REIT to be purchased, which could be an inappropriate signal to the real estate market; Mr. T. Sato considered that the Bank should maintain the current maximum amount of each issue of J-REIT to be purchased; and Mr. T. Kiuchi considered that such an increase is unnecessary for his proposal, which includes a reduction in the amount of J-REIT purchases.

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<sup>5</sup> The Bank will increase the number of business days permitted for continuous use of this facility per issue of JGBs from the current 15 business days to 50 business days.

(Reference)

Meeting hours:

December 17 : 14:00-15:51

December 18 : 9:00-12:45

Policy Board members present:

Haruhiko Kuroda (Governor)  
Kikuo Iwata (Deputy Governor)  
Hiroshi Nakaso (Deputy Governor)  
Sayuri Shirai  
Koji Ishida  
Takehiro Sato  
Takahide Kiuchi  
Yutaka Harada  
Yukitoshi Funo

(Others present)

December 17

From the Ministry of Finance:

Mitsuru Ota, Deputy Vice Minister for Policy Planning and Co-ordination (14:00-15:51)

From the Cabinet Office:

Masao Nishikawa, Vice-Minister for Policy Coordination (14:00-15:51)

December 18

From the Ministry of Finance:

Naoki Okada, State Minister of Finance (9:00-12:17, 12:36-12:45)

From the Cabinet Office:

Shuichi Takatori, State Minister of Cabinet Office (9:00-12:17, 12:36-12:45)

Release of the *Monthly Report of Recent Economic and Financial Developments*:

14:00 on Monday, December 21 (Japanese)

16:30 on Tuesday, December 22 (English)

-- The English translation of the summary of the Monthly Report will be released at  
14:00 on Monday, December 21

Release of the *Summary of Opinions*:

8:50 on Friday, January 8

Release of the minutes:

8:50 on Wednesday, February 3