

March 15, 2016

Bank of Japan

## Statement on Monetary Policy

1. At the Monetary Policy Meeting (MPM) held today, the Policy Board of the Bank of Japan decided upon the following.

(1) Quantity Dimension: The guideline for money market operations

The Bank 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) Quality Dimension: The guidelines for asset purchases

With regard to the asset purchases, the Bank decided, by an 8-1 majority vote, to set the following guidelines:<sup>[Note 1]</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 7-12 years.
- b) The Bank will purchase exchange-traded funds (ETFs) so that their amount outstanding will increase at an annual pace of about 3 trillion yen until the end of March 2016 and, from April, at an annual pace of about 3.3 trillion yen.<sup>1</sup> It will also purchase Japan real estate investment trusts (J-REITs) so that their amount outstanding will increase at an annual pace of about 90 billion yen.
- 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.

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<sup>1</sup> Of about 3.3 trillion yen, 300 billion yen will be used in line with the implementation of a new program for purchasing ETFs composed of stocks issued by firms that are proactively investing in physical and human capital, which was decided at the MPM held in December 2015.

(3) Interest-Rate Dimension: The policy rate

The Bank decided, by a 7-2 majority vote, to continue applying a negative interest rate of minus 0.1 percent to the Policy-Rate Balances in current accounts held by financial institutions at the Bank.<sup>[Note 2]</sup>

2. Japan's economy has continued its moderate recovery trend, although exports and production have been sluggish due mainly to the effects of the slowdown in emerging economies. Overseas economies have continued to grow at a moderate pace, but the pace of growth has somewhat decelerated mainly in emerging economies. In this situation, the pick-up in exports has recently paused. On the domestic demand side, business fixed investment has been on a moderate increasing trend as corporate profits have been at high levels. Against the background of steady improvement in the employment and income situation, private consumption has been resilient. Meanwhile, the pick-up in housing investment has recently paused and public investment has been on a moderate declining trend, albeit remaining at a high level. Reflecting these developments in demand both at home and abroad, industrial production has continued to be more or less flat. Financial conditions are highly 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. Although inflation expectations appear to be rising on the whole from a somewhat longer-term perspective, they have recently weakened.
3. With regard to the outlook, although sluggishness is expected to remain in exports and production for the time being, domestic demand is likely to follow an uptrend, with a virtuous cycle from income to spending being maintained in both the household and corporate sectors, and exports are expected to increase moderately on the back of emerging economies moving out of their deceleration phase. Thus, Japan's economy is likely to be on a moderate expanding trend. 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, and, as the underlying trend in inflation steadily rises, accelerate toward 2 percent.<sup>[Note 3]</sup>
4. Risks to the outlook include uncertainties surrounding emerging and commodity-exporting economies, particularly China, developments in the U.S. economy and the influences of its monetary policy response to them on the global financial markets, prospects regarding the European debt problem and the momentum of economic activity and prices in Europe, and geopolitical risks. Against this backdrop, global financial markets have remained volatile. Therefore, due attention still needs to be paid to a risk that an improvement in the business

confidence of Japanese firms and conversion of the deflationary mindset might be delayed and that the underlying trend in inflation might be negatively affected.

5. The Bank will continue with "Quantitative and Qualitative Monetary Easing (QQE) with a Negative Interest Rate," 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 risks to economic activity and prices, and take additional easing measures in terms of three dimensions -- quantity, quality, and the interest rate -- if it is judged necessary for achieving the price stability target.<sup>[Note 4]</sup>
6. With a view to implementing "QQE with a Negative Interest Rate" smoothly, the Bank decided on operational details. Namely, (1) each financial institution's "Macro Add-on Balance," to which a zero interest rate is applied, will be reviewed every three months in principle; (2) in light of the role of money reserve funds (MRFs) in fund settlement for securities transactions, the amount outstanding of MRFs entrusted to a trust bank will be added to its Macro Add-on Balance (up to the amount outstanding of MRFs entrusted to this trust bank during the previous year); and (3) with the aim of further supporting financial institutions' efforts to increase lending, in case where a financial institution increases the amount outstanding of borrowing from the Bank through the Loan Support Program and the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas affected by the Great East Japan Earthquake, twice as much as the amount of increase will be added to this financial institution's Macro Add-on Balance.<sup>2</sup>

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<sup>2</sup> For details on (1) and (2), see "Amendment to 'Principal Terms and Conditions of Complementary Deposit Facility'" released today. An amendment to the Principal Terms and Conditions in relation to (3) will be made at the next MPM, and it will take effect from the May 2016 reserve maintenance period. As decided at the MPM held last January, with regard to the existing amount of borrowing from the Bank through these facilities, the corresponding amount of current account balance will be added to the Macro Add-on Balance. In case where a financial institution decreases the amount outstanding of such borrowing, an amount equivalent to the decrease will be deducted from that Balance.

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[Note 1] 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 and asset purchases so that the monetary base and the amount outstanding of its JGB holdings will increase at an annual pace of about 45 trillion yen, respectively. The proposal was defeated by a majority vote.

[Note 2] Voting for the action: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Ms. S. Shirai, Mr. K. Ishida, Mr. Y. Harada, and Mr. Y. Funo. Voting against the action: Mr. T. Sato and Mr. T. Kiuchi. Mr. T. Kiuchi dissented considering that an interest rate of 0.1 percent should be applied to current account balances excluding the amount outstanding of the required reserves held by financial institutions at the Bank, because negative interest rates would impair the functioning of financial markets and financial intermediation as well as the stability in the JGB market. Mr. T. Sato proposed that the Bank will apply an interest rate of 0.1 percent to current account balances excluding the amount outstanding of the required reserves held by financial institutions at the Bank while maintaining the three-tier system and that it will carry out the Loan Support Program and other funds-supplying operations at an interest rate of 0.1 percent. The proposal was defeated by a majority vote.

[Note 3] Mr. T. Kiuchi submitted a proposal concerning an outlook that the year-on-year rate of change in the CPI is likely to be about 0 percent for the time being, and thereafter accelerate very moderately. 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.

[Note 4] 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.

(Reference)

Meeting hours:

Monday, March 14: 14:00-16:16

Tuesday, March 15: 9:00-12:28

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)

March 14

From the Ministry of Finance:

Mitsuru Ota, Deputy Vice Minister for Policy Planning and Co-ordination (14:00-16:16)

From the Cabinet Office:

Masao Nishikawa, Vice-Minister for Policy Coordination (14:00-16:16)

March 15

From the Ministry of Finance:

Manabu Sakai, State Minister of Finance (9:00-12:01, 12:17-12:28)

From the Cabinet Office:

Shuichi Takatori, State Minister of Cabinet Office (9:00-12:01, 12:17-12:28)

Release Dates and Time:

Statement on Monetary Policy -- Tuesday, March 15 at 12:35

Release Schedule:

Summary of Opinions -- Thursday, March 24 at 8:50

Minutes -- Monday, May 9 at 8:50