Statement on Monetary Policy

At the Monetary Policy Meeting held today, the Policy Board of the Bank of Japan decided to
modify the conduct of yield curve control in order to improve market functioning and
encourage a smoother formation of the entire yield curve, while maintaining accommodative
financial conditions.

Since early spring this year, volatility in overseas financial and capital markets has increased and this has significantly affected these markets in Japan. The functioning of bond markets has deteriorated, particularly in terms of relative relationships among interest rates of bonds with different maturities and arbitrage relationships between spot and futures markets. Yields on Japanese government bonds (JGBs) are reference rates for corporate bond yields, bank lending rates, and other funding rates. If these market conditions persist, this could have a negative impact on financial conditions such as issuance conditions for corporate bonds. The Bank expects that the measures decided today will facilitate the transmission of monetary easing effects generated under the framework of yield curve control, such as through corporate financing. The Bank will aim to achieve the price stability target by enhancing the sustainability of monetary easing under this framework through implementing these measures.

- 2. The Bank decided to set the guidelines for market operations and asset purchases as follows.
 - (1) Yield curve control (a unanimous vote)
 - a) The Bank decided to set the following guideline for market operations for the intermeeting period.

The short-term policy interest rate:

The Bank will apply a negative interest rate of minus 0.1 percent to the Policy-Rate Balances in current accounts held by financial institutions at the Bank.

The long-term interest rate:

The Bank will purchase a necessary amount of JGBs without setting an upper limit so that 10-year JGB yields will remain at around zero percent.

b) Conduct of yield curve control

While significantly increasing the amount of JGB purchases,¹ the Bank will expand the range of 10-year JGB yield fluctuations from the target level: from between around plus and minus 0.25 percentage points to between around plus and minus 0.5 percentage points.

The Bank will offer to purchase 10-year JGBs at 0.5 percent every business day through fixed-rate purchase operations, unless it is highly likely that no bids will be submitted. In order to encourage the formation of a yield curve that is consistent with the above guideline for market operations, the Bank will make nimble responses for each maturity by increasing the amount of JGB purchases even more and conducting fixed-rate purchase operations.

(2) Guidelines for asset purchases (a unanimous vote)

With regard to asset purchases other than JGB purchases, the Bank decided to set the following guidelines.

- a) The Bank will purchase exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) as necessary with upper limits of about 12 trillion yen and about 180 billion yen, respectively, on annual paces of increase in their amounts outstanding.
- b) The Bank will purchase CP and corporate bonds at about the same pace as prior to the novel coronavirus (COVID-19) pandemic, so that their amounts outstanding will gradually return to pre-pandemic levels, namely, about 2 trillion yen for CP and about 3 trillion yen for corporate bonds. In adjusting the amount outstanding of corporate bonds, the Bank will give due consideration to their issuance conditions.
- 3. 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 COVID-19. The pace of recovery in overseas economies has slowed. 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 increased moderately. The employment and income situation has improved moderately on the whole.

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¹ The Bank will release "Quarterly Schedule of Outright Purchases of Japanese Government Bonds (Competitive Auction Method)" today, in which the amount of monthly JGB purchases will be increased from 7.3 trillion yen to about 9 trillion yen.

Private consumption has increased moderately, despite being affected by COVID-19. Housing investment has been relatively weak. Public investment has been more or less flat. Financial conditions have been accommodative on the whole, although weakness in firms' financial positions has remained in some segments. On the price front, the year-on-year rate of change in the consumer price index (CPI, all items less fresh food) has been at around 3.5 percent due to rises in prices of such items as energy, food, and durable goods. Meanwhile, inflation expectations have risen.

- 4. Japan's economy is likely to recover, with the impact of COVID-19 and supply-side constraints waning, although it is expected to be under downward pressure stemming from high commodity prices and slowdowns in overseas economies. Thereafter, as a virtuous cycle from income to spending intensifies gradually, Japan's economy is projected to continue growing at a pace above its potential growth rate. The year-on-year rate of change in the CPI (all items less fresh food) is likely to increase toward the end of this year due to rises in prices of such items as energy, food, and durable goods. 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.
- 5. Concerning risks to the outlook, there remain 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.
- 6. The Bank will continue with Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control, 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 continue expanding the monetary base until the year-on-year rate of increase in the observed CPI (all items less fresh food) exceeds 2 percent and stays above the target in a stable manner.

For the time being, while closely monitoring the impact of COVID-19, the Bank will support financing, mainly of firms, and maintain stability in financial markets, and will not hesitate to take additional easing measures if necessary; it also expects short- and long-term policy interest rates to remain at their present or lower levels.

Reference

Meeting hours:

Monday, December 19: 14:00-15:50 Tuesday, December 20: 9:00-11:54

Policy Board members present:

Mr. KURODA Haruhiko, Chairman (Governor)

Mr. AMAMIYA Masayoshi (Deputy Governor)

Mr. WAKATABE Masazumi (Deputy Governor)

Mr. ADACHI Seiji

Mr. NAKAMURA Toyoaki

Mr. NOGUCHI Asahi

Ms. NAKAGAWA Junko

Mr. TAKATA Hajime

Mr. TAMURA Naoki

[Others present]

December 19

From the Ministry of Finance:

Mr. OKU Tatsuo, Deputy Vice-Minister for Policy Planning and Coordination (14:00-15:50)

From the Cabinet Office:

Mr. MORO Kengo, Deputy Director General for Economic and Fiscal Management (14:00-15:50)

December 20

From the Ministry of Finance:

Mr. AKINO Kozo, State Minister of Finance (9:00-11:35, 11:42-11:54)

From the Cabinet Office:

Mr. FUJIMARU Satoshi, State Minister of Cabinet Office (9:00-11:35, 11:42-11:54)

Release dates and times:

Statement on Monetary Policy -- Tuesday, December 20, 2022 at 12:01

Summary of Opinions -- Wednesday, December 28, 2022 at 8:50

Minutes of the Monetary Policy Meeting -- Monday, January 23, 2023 at 8:50