

## Statement on Monetary Policy

1. At the Monetary Policy Meeting (MPM) held today, the Policy Board of the Bank of Japan judged that, although there had been no further increase in the possibility that the momentum toward achieving the price stability target would be lost, it was necessary to continue to pay close attention to the possibility.<sup>1</sup> With a view to clarifying this recognition, it decided on a new forward guidance for the policy rates as follows.<sup>[Note 1]</sup>

As for the policy rates, the Bank expects short- and long-term interest rates to remain at their present or lower levels as long as it is necessary to pay close attention to the possibility that the momentum toward achieving the price stability target will be lost.

2. As for the guidelines for market operations and asset purchases, the Bank decided upon the following.

- (1) Yield curve control

The Bank decided, by a 7-2 majority vote, to set the following guideline for market operations for the intermeeting period.<sup>[Note 2]</sup>

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 Japanese government bonds (JGBs) so that 10-year JGB yields will remain at around zero percent. While doing so, the yields may move upward and downward to some extent mainly depending on developments in economic activity and prices.<sup>2</sup> With regard to the amount of JGBs to be purchased, the Bank will conduct purchases in a flexible manner so that their amount outstanding will increase at an annual pace of about 80 trillion yen.

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<sup>1</sup> At the MPM held today, the Bank reexamined economic and price developments as presented in the policy statement of the previous MPM and assessed the momentum toward achieving the price stability target. The results are shown in the Attachment.

<sup>2</sup> In case of a rapid increase in the yields, the Bank will purchase JGBs promptly and appropriately.

(2) Guidelines for asset purchases

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

- a) 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 6 trillion yen and about 90 billion yen, respectively. With a view to lowering risk premia of asset prices in an appropriate manner, the Bank may increase or decrease the amount of purchases depending on market conditions.
  - b) 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. 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 consumer price index (CPI, all items less fresh food) exceeds 2 percent and stays above the target in a stable manner. The Bank will examine the risks considered most relevant to the conduct of monetary policy and make policy adjustments as appropriate, taking account of developments in economic activity and prices as well as financial conditions, with a view to maintaining the momentum toward achieving the price stability target. In particular, in a situation where downside risks to economic activity and prices, mainly regarding developments in overseas economies, are significant, the Bank will not hesitate to take additional easing measures if there is a greater possibility that the momentum toward achieving the price stability target will be lost.

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<sup>[Note 1]</sup> In order to achieve the price stability target of 2 percent at the earliest possible time, Mr. G. Kataoka dissented, considering that further coordination of fiscal and monetary policy was necessary, and that it was appropriate for the Bank to revise the forward guidance for the policy rates to make it a powerful one that specifically relates to the price stability target.

<sup>[Note 2]</sup> Voting for the action: Mr. H. Kuroda, Mr. M. Amamiya, Mr. M. Wakatabe, Mr. Y. Funo, Mr. M. Sakurai, Ms. T. Masai, and Mr. H. Suzuki. Voting against the action: Mr. Y. Harada and Mr. G. Kataoka. Mr. Y. Harada dissented, considering that allowing the long-term yields to move upward and downward to some extent was too ambiguous as the guideline for market operations decided by the Policy Board. Mr. G. Kataoka dissented, considering that it was desirable to strengthen monetary easing by lowering the short-term policy interest rate.

**Assessment of the Momentum toward Achieving the Price Stability Target** <sup>[Note 3]</sup>

The Bank of Japan judged, at the previous Monetary Policy Meeting (MPM), that it was becoming necessary to pay closer attention to the possibility that the momentum toward achieving the price stability target would be lost, given that, recently, slowdowns in overseas economies had continued to be observed and their downside risks seemed to be increasing. Taking this situation into account, at this MPM, the Bank examined such factors as the output gap and medium- to long-term inflation expectations, which are the main elements of the assessment of the momentum toward achieving the price stability target. On this basis, the Bank judged that, although there had been no further increase in the possibility that the momentum toward achieving the price stability target would be lost, it was necessary to continue to pay close attention to the possibility.

**I. Output Gap**

The output gap is likely to narrow temporarily within positive territory. However, throughout the projection period, it is expected to remain at around the current level on average with the economy continuing on an expanding trend.

As for overseas economies, the timing of a pick-up in the growth pace is likely to be delayed for longer than expected, mainly due to the intensified and prolonged U.S.-China trade friction as well as slowdowns continuing in emerging and commodity-exporting economies, such as China. Under these circumstances, Japan's economy is expected to grow temporarily at a somewhat slower pace than its potential, mainly reflecting the effects of continuing relatively weak developments in exports and of the consumption tax hike, and the output gap is likely to narrow temporarily within positive territory.

However, throughout the projection period -- that is, through fiscal 2021 -- business fixed investment -- mainly investment related to urban redevelopment projects, labor-saving investment, and research and development (R&D) investment -- is likely to continue increasing moderately, although the pace of increase is expected to decelerate temporarily, mainly for manufacturing, due to the effects of the slowdown in overseas economies. Private consumption is expected to follow a moderate increasing trend, mainly because the employment and income situation is likely to continue improving, with the effects of the consumption tax hike remaining

small. Thus, domestic demand is likely to follow an uptrend, as the impact of the slowdown in overseas economies is expected to be limited. With regard to overseas economies, the growth rates are expected to rise, partly backed by the materialization of the effects of macroeconomic policies in each country as well as the progress in global adjustments in IT-related goods. In this situation, Japan's economy is likely to continue on an expanding trend throughout the projection period. On average, it is expected that the economy will continue growing at about the same pace as its potential, and the positive output gap will remain at around the current level.

## **II. Medium- to Long-Term Inflation Expectations**

Medium- to long-term inflation expectations have been more or less unchanged on the whole, although they have shown somewhat different developments depending on indicators. As for the outlook, such expectations are likely to follow an increasing trend, with the output gap remaining positive.

Medium- to long-term inflation expectations have been more or less unchanged on the whole, although each indicator has shown somewhat different developments, in that some have indicated relatively weak developments while others have shown an increase. In addition, there have been signs that households' tolerance of price rises will increase and firms' stance will shift toward further raising prices, although both have remained cautious.

Regarding the outlook, it is expected that households' tolerance of price rises will increase steadily and firms' stance gradually will shift toward further raising prices as the employment and income situation is likely to continue improving with the economy maintaining an expanding trend and the output gap remaining positive. If households' and firms' stances toward prices become more active, in terms of the adaptive component, medium- to long-term inflation expectations are likely to be pushed up through a rise in the observed inflation rate. In addition, in terms of the forward-looking component, the Bank will pursue monetary easing through its strong commitment to achieving the price stability target, which will be effective in pushing up medium- to long-term inflation expectations.

Under these circumstances, medium- to long-term inflation expectations are likely to follow an increasing trend and gradually converge to 2 percent.

### **III. Factors such as Developments in Crude Oil Prices and Global Financial Markets**

Looking at developments in crude oil prices and global financial markets, which affect overall prices including import prices, crude oil prices have been more or less flat -- albeit with fluctuations -- since around this summer, although they have been lower compared to the level seen around spring. With regard to global financial markets, investors' risk aversion had continued to be observed, mainly against the background of the U.S.-China trade friction and concern over the slowdown in the global economy, but the markets recently have been calm compared to a while ago.

### **IV. Points to Take into Account**

With regard to price developments, uncertainties over both the output gap and medium- to long-term inflation expectations remain significant. In particular, close attention should be paid to the possibility that, in a situation where downside risks concerning overseas economies seem to be increasing, if they materialize, such as in the form of a further delay in the timing of a pick-up or a further deceleration in the growth pace of overseas economies, prices will be affected to some extent, mainly through the output gap. In addition, it is necessary to closely monitor future developments in crude oil prices and global financial markets because they also could affect prices.

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<sup>[Note 3]</sup> Voting for the action: Mr. H. Kuroda, Mr. M. Amamiya, Mr. M. Wakatabe, Mr. Y. Harada, Mr. Y. Funo, Mr. M. Sakurai, Ms. T. Masai, and Mr. H. Suzuki. Voting against the action: Mr. G. Kataoka. Mr. G. Kataoka dissented, considering that the momentum toward achieving the price stability target had already been lost, given developments in the observed inflation rate, the output gap, and inflation expectations.

## Reference

### Meeting hours:

Wednesday, October 30: 14:00-15:52

Thursday, October 31: 9:00-12:25

### Policy Board members present:

Haruhiko Kuroda, Chairman (Governor)

Masayoshi Amamiya (Deputy Governor)

Masazumi Wakatabe (Deputy Governor)

Yutaka Harada

Yukitoshi Funo

Makoto Sakurai

Takako Masai

Hitoshi Suzuki

Goushi Kataoka

[Others present]

### October 30

From the Ministry of Finance:

Masato Kanda, Deputy Vice-Minister for Policy Planning and Coordination (14:00-15:52)

From the Cabinet Office:

Hiroshi Tawa, Vice-Minister for Policy Coordination (14:00-15:52)

### October 31

From the Ministry of Finance:

Kiyohiko Toyama, State Minister of Finance (9:00-11:58, 12:07-12:25)

From the Cabinet Office:

Ichiro Miyashita, State Minister of Cabinet Office (9:00-11:58, 12:07-12:25)

### Release dates and times:

Statement on Monetary Policy -- Thursday, October 31 at 12:32

Outlook for Economic Activity and Prices (Outlook Report)

The Bank's View -- Thursday, October 31 at 12:32

Full text -- Friday, November 1 at 14:00

Summary of Opinions -- Monday, November 11 at 8:50

Minutes of the Monetary Policy Meeting -- Tuesday, December 24 at 8:50