

December 17, 2021

Bank of Japan

Statement on Monetary Policy

1. Financial conditions in Japan have improved on the whole, despite the continued significant impact of the novel coronavirus (COVID-19) on domestic and overseas economies. With regard to financial conditions surrounding large firms, issuance conditions for CP and corporate bonds have been favorable, and precautionary demand for liquidity has subsided in the loan market. Regarding small and medium-sized firms, their financial positions have been on an improving trend on the whole, but weakness has remained in some segments, such as the face-to-face services industry. Given these developments, the Policy Board of the Bank of Japan, at the Monetary Policy Meeting held today, decided to extend the Special Program to Support Financing in Response to the Novel Coronavirus (COVID-19) in part by six months until the end of September 2022, with a view to continuing to support financing, mainly of small and medium-sized firms. The details of the decisions are as follows.

(1) Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus (COVID-19) (a unanimous vote)

a) Regarding the fund-provisioning against loans that financial institutions make on their own ("non-government-supported loans") in response to COVID-19, mainly to small and medium-sized firms, the Bank will extend the implementation period by six months under the current terms and conditions.

b) Regarding the fund-provisioning against loans that financial institutions make on the back of government support ("government-supported loans") in response to COVID-19, mainly to small and medium-sized firms, the Bank will extend the implementation period by six months under the revised terms and conditions. Specifically, from April 2022 onward, this fund-provisioning will fall under Category III in the Interest Scheme to Promote Lending, for which the applied interest rate is 0 percent, and the amount to be added to the Macro Add-on Balances in current accounts held by financial institutions at the Bank will be the amount outstanding of funds they receive. In accordance with the revised terms and conditions, the Bank will continue to provide funds to financial institutions against government-supported loans they make.

- c) The Bank will complete the fund-provisioning against private debt pledged as collateral, which mainly consists of debt issued by large firms and housing loans, at the end of March 2022 as scheduled.

(2) Purchases of CP and corporate bonds

The Bank will complete its additional purchases of CP and corporate bonds at the end of March 2022 as scheduled. From April 2022 onward, it will purchase about the same amount of CP and corporate bonds as prior to the COVID-19 pandemic, so that the amounts outstanding of these assets will decrease gradually to the pre-pandemic levels, namely, about 2 trillion yen for CP and about 3 trillion yen for corporate bonds.

2. The Bank decided to set the guidelines for market operations and purchases of assets other than Japanese government bonds (JGBs) as follows.

(1) Yield curve control (an 8-1 majority vote)^[Note 1]

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.

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

- 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 with an upper limit on the amount outstanding of about 20 trillion yen in total until the end of March 2022.

3. Japan's economy has picked up as a trend, although it has remained in a severe situation due to the impact of COVID-19 at home and abroad. Overseas economies have recovered on the whole, albeit with variation across countries and regions. In this situation, exports and industrial production have continued to increase as a trend, despite remaining weak due to the effects of supply-side constraints. In addition, corporate profits and business sentiment have continued to improve on the whole. Business fixed investment has picked up, although

weakness has been seen in some industries. The employment and income situation has remained weak due to the impact of COVID-19. Private consumption has picked up gradually, with downward pressure stemming from COVID-19, particularly on services consumption, waning somewhat. Housing investment has picked up. Public investment has been relatively weak, albeit at a high level. 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 0 percent, mainly due to a rise in energy prices, despite being affected by a reduction in mobile phone charges. Meanwhile, inflation expectations have picked up.

4. Japan's economy is likely to recover as downward pressure stemming from COVID-19 on services consumption and the effects of supply-side constraints wane, while being supported by an increase in external demand, accommodative financial conditions, and the government's economic measures. Thereafter, as a virtuous cycle from income to spending intensifies in the overall economy, including the household sector, Japan's economy is projected to continue growing at a pace, albeit slower, above its potential growth rate. The year-on-year rate of change in the CPI (all items less fresh food) is likely to increase moderately in positive territory in the short run, reflecting the rise in energy prices. Thereafter, albeit with fluctuations due to temporary factors, it is projected to increase gradually as a trend, mainly on the back of improvement in the output gap and a rise in medium- to long-term inflation expectations.
5. Concerning risks to the outlook, the course of COVID-19 and its impact on domestic and overseas economies continue to warrant attention. In particular, there are high uncertainties over whether the resumption of economic activity can progress smoothly while public health is being protected. Attention also should be paid to a risk that the effects of supply-side constraints seen in some areas will be amplified or prolonged.
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.

The Bank will continue to support financing mainly of firms and maintain stability in financial markets through (1) the Special Program to Support Financing in Response to the Novel Coronavirus (COVID-19), (2) an ample provision of yen and foreign currency funds without setting upper limits mainly by purchasing JGBs and conducting the U.S. dollar funds-supplying

operations, and (3) purchases of ETFs and J-REITs with upper limits of about 12 trillion yen and about 180 billion yen, respectively, on annual paces of increase in their amounts outstanding.

For the time being, the Bank will closely monitor the impact of COVID-19 and will not hesitate to take additional easing measures if necessary, and also it expects short- and long-term policy interest rates to remain at their present or lower levels. ^[Note 2]

^[Note 1] Voting for the action: Mr. KURODA Haruhiko, Mr. AMAMIYA Masayoshi, Mr. WAKATABE Masazumi, Mr. SUZUKI Hitoshi, Mr. ADACHI Seiji, Mr. NAKAMURA Toyoaki, Mr. NOGUCHI Asahi, and Ms. NAKAGAWA Junko. Voting against the action: Mr. KATAOKA Goushi. Mr. Kataoka dissented, considering that it was desirable to further strengthen monetary easing by lowering short- and long-term interest rates, with a view to encouraging firms to make active business fixed investment for the post-COVID-19 era.

^[Note 2] Mr. Kataoka dissented, considering that further coordination of fiscal and monetary policy was necessary and it was appropriate for the Bank to revise the forward guidance for the policy rates to relate it to the price stability target.

Reference

Meeting hours:

Thursday, December 16: 14:00-15:50

Friday, December 17: 9:00-11:50

Policy Board members present:

Mr. KURODA Haruhiko, Chairman (Governor)

Mr. AMAMIYA Masayoshi (Deputy Governor)

Mr. WAKATABE Masazumi (Deputy Governor)

Mr. SUZUKI Hitoshi

Mr. KATAOKA Goushi

Mr. ADACHI Seiji

Mr. NAKAMURA Toyoaki

Mr. NOGUCHI Asahi

Ms. NAKAGAWA Junko

[Others present]

December 16

From the Ministry of Finance:

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

From the Cabinet Office:

Mr. INOUE Hiroyuki, Vice-Minister for Policy Coordination (14:00-15:50)

December 17

From the Ministry of Finance:

Mr. OIE Satoshi, State Minister of Finance (9:00-11:33, 11:42-11:50)

From the Cabinet Office:

Mr. KIKAWADA Hitoshi, State Minister of Cabinet Office (9:00-11:33, 11:42-11:50)

Release dates and times:

Statement on Monetary Policy -- Friday, December 17, 2021 at 11:57

Summary of Opinions -- Monday, December 27, 2021 at 8:50

Minutes of the Monetary Policy Meeting -- Friday, January 21, 2022 at 8:50