

July 28, 2023

Bank of Japan

Statement on Monetary Policy

1. At the Monetary Policy Meeting held today, the Policy Board of the Bank of Japan decided to conduct yield curve control with greater flexibility. The July 2023 *Outlook for Economic Activity and Prices* (Outlook Report) shows that sustainable and stable achievement of the price stability target of 2 percent, accompanied by wage increases, has not yet come in sight, and thus the Bank needs to patiently continue with monetary easing under Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control. In this context, taking account of extremely high uncertainties for economic activity and prices, it is appropriate for the Bank to enhance the sustainability of monetary easing under the current framework by conducting yield curve control with greater flexibility and nimbly responding to both upside and downside risks to Japan's economic activity and prices.

The Bank decided on the following regarding yield curve control and the guidelines for asset purchases.

(1) Yield curve control

- a) The Bank decided, by a unanimous vote, 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 Japanese government bonds (JGBs) without setting an upper limit so that 10-year JGB yields will remain at around zero percent.

- b) Conduct of yield curve control (an 8-1 majority vote)^[Note]

The Bank will continue to allow 10-year JGB yields to fluctuate in the range of around plus and minus 0.5 percentage points from the target level, while it will conduct yield curve control with greater flexibility, regarding the upper and lower bounds of the range

as references, not as rigid limits, in its market operations. The Bank will offer to purchase 10-year JGBs at 1.0 percent every business day through fixed-rate purchase operations, unless it is highly likely that no bids will be submitted.¹ In order to encourage the formation of a yield curve that is consistent with the above guideline for market operations, the Bank will continue with large-scale JGB purchases and make nimble responses for each maturity by, for example, increasing the amount of JGB purchases and conducting fixed-rate purchase operations and the Funds-Supplying Operations against Pooled Collateral.

(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 maintain the amount outstanding of CP at about 2 trillion yen. It will purchase corporate bonds at about the same pace as prior to the COVID-19 pandemic, so that their amount outstanding will gradually return to the pre-pandemic level of about 3 trillion yen. In adjusting the amount outstanding of corporate bonds, the Bank will give due consideration to their issuance conditions.
2. There are extremely high uncertainties for Japan's economic activity and prices, including developments in overseas economic activity and prices, developments in commodity prices, and domestic firms' wage- and price-setting behavior. Under these circumstances, 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.

Japan's recent inflation rates, as measured by the consumer price index (CPI), are higher than projected in the April 2023 Outlook Report, and wage growth has risen, partly on the back of this year's annual spring labor-management wage negotiations. Signs of change have been seen in firms' wage- and price-setting behavior, and inflation expectations have shown some upward movements again. If upward movements in prices continue, the effects of monetary easing will strengthen through a decline in real interest rates, while on the other hand, strictly capping

¹ Although no bids are expected to be submitted under the current interest rate environment, the Bank will offer fixed-rate purchase operations every business day for the time being.

long-term interest rates could affect the functioning of bond markets and the volatility in other financial markets. Such effects are expected to be mitigated by conducting yield curve control with greater flexibility.

Meanwhile, there are also significant downside risks to Japan's economic activity and prices, including the impact of a tightening of global financial conditions on overseas economies. If such downside risks materialize, the effects of monetary easing will be maintained through a decline in long-term interest rates under the framework of yield curve control.

3. With extremely high uncertainties surrounding economies and financial markets at home and abroad, the Bank will patiently continue with monetary easing while nimbly responding to developments in economic activity and prices as well as financial conditions. By doing so, it will aim to achieve the price stability target of 2 percent in a sustainable and stable manner, accompanied by wage increases.

The Bank will continue with QQE with Yield Curve Control, aiming to achieve the price stability target, 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 maintain the stability of financing, mainly of firms, and financial markets, and will not hesitate to take additional easing measures if necessary.

^[Note] Voting for the action: UEDA Kazuo, HIMINO Ryoza, UCHIDA Shinichi, ADACHI Seiji, NOGUCHI Asahi, NAKAGAWA Junko, TAKATA Hajime, and TAMURA Naoki. Voting against the action: NAKAMURA Toyoaki. While Nakamura Toyoaki was in favor of the idea of conducting yield curve control with greater flexibility, he dissented, considering that it was more desirable to allow greater flexibility after confirming a rise in firms' earning power from sources such as the *Financial Statements Statistics of Corporations by Industry*.

Reference

Meeting hours:

Thursday, July 27: 14:00-16:06

Friday, July 28: 9:00-12:21

Policy Board members present:

UEDA Kazuo, Chairman (Governor)

HIMINO Ryoza (Deputy Governor)

UCHIDA Shinichi (Deputy Governor)

ADACHI Seiji

NAKAMURA Toyoaki

NOGUCHI Asahi

NAKAGAWA Junko

TAKATA Hajime

TAMURA Naoki

[Others present]

July 27

From the Ministry of Finance:

SAKAMOTO Motoru, Deputy Vice-Minister for Policy Planning and Coordination
(14:00-16:06)

From the Cabinet Office:

INOUE Hiroyuki, Vice-Minister for Policy Coordination (14:00-16:06)

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From the Ministry of Finance:

AKINO Kozo, State Minister of Finance (9:00-11:55, 12:03-12:21)

From the Cabinet Office:

FUJIMARU Satoshi, State Minister of Cabinet Office (9:00-11:55, 12:03-12:21)

Release dates and times:

Statement on Monetary Policy -- Friday, July 28 at 12:28

Outlook for Economic Activity and Prices (Outlook Report)

The Bank's View -- Friday, July 28 at 12:28

Full text -- Monday, July 31 at 14:00

Summary of Opinions -- Monday, August 7 at 8:50

Minutes of the Monetary Policy Meeting -- Wednesday, September 27 at 8:50