

Further Effective and Sustainable Monetary Easing

*Speech at the Kisaragi-kai Meeting in Tokyo
(via webcast)*

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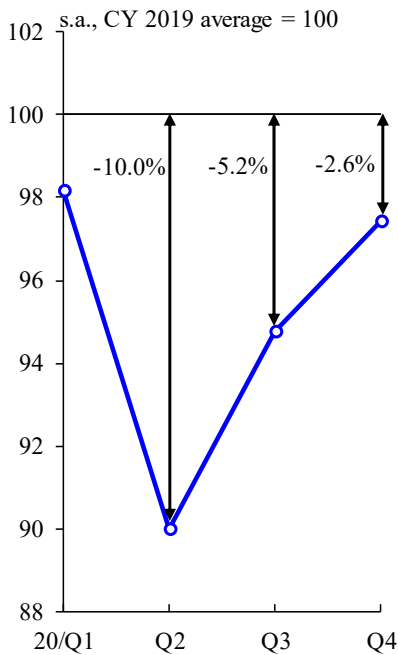
Introduction

- I. Developments in Economic Activity and Prices and the Bank's Policy Responses to the Impact of COVID-19
- II. Continuation of Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control
- III. Policy Actions to Conduct Further Effective and Sustainable Monetary Easing

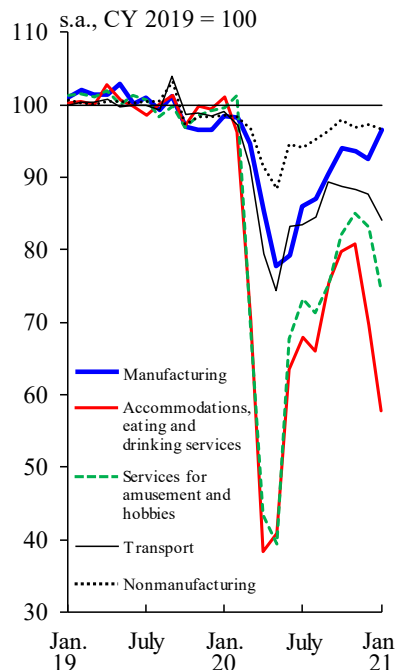
Conclusion

Recent Developments in Economic Activity and Prices

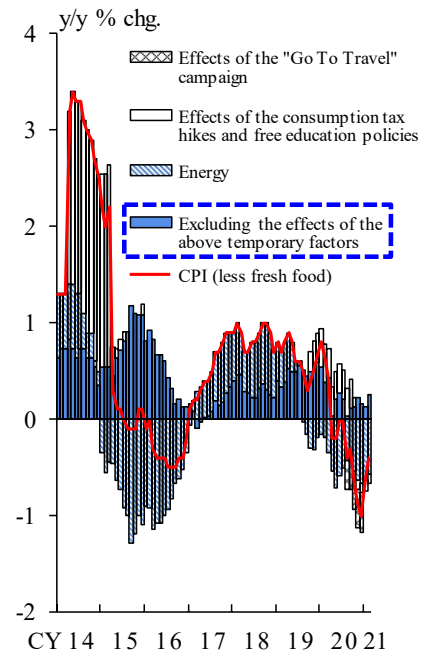
Pace of Economic Recovery (Real GDP, Level)



Economic Activity by Sector



Consumer Price Index (CPI)



Notes: 1. In the middle chart, figures for manufacturing are the "Indices of Industrial Production" and those for other sectors are the "Indices of Tertiary Industry Activity." Figures for nonmanufacturing exclude accommodations, eating and drinking services, services for amusement and hobbies, and transport.
 2. In the right-hand chart, energy consists of petroleum products, electricity, and gas, manufactured & piped. Figures for "effects of the consumption tax hikes and free education policies" from April 2020 onward are based on staff estimations and include the effects of measures such as free higher education introduced in April 2020.

Sources: Cabinet Office; Ministry of Economy, Trade and Industry; Ministry of Internal Affairs and Communications; Bank of Japan.

The Bank's Measures in Response to COVID-19

Supporting Corporate Financing

Special Program to Support Financing in Response to COVID-19

Purchases of CP and corporate bonds: amount outstanding of about 20 tril. yen at maximum (previous amount outstanding of about 5 tril. yen)

Special Funds-Supplying Operations to Facilitate Financing in Response to COVID-19

Stabilizing Financial Markets

Ample and Flexible Provision of Yen and Foreign Currency Funds

Further active purchases of JGBs and T-Bills

Enhancement of the U.S. Dollar Funds-Supplying Operations

Purchases of ETFs and J-REITs

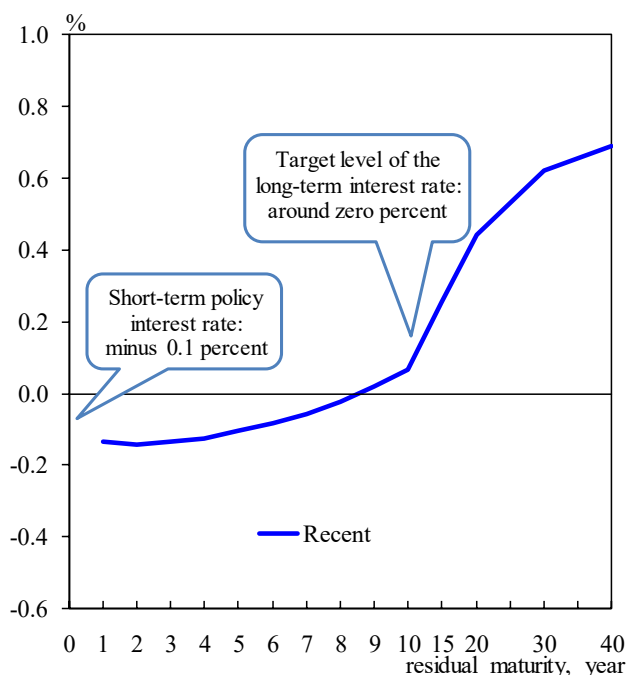
ETFs: annual pace with an upper limit of about 12 tril. yen

J-REITs: annual pace with an upper limit of about 180 bil. yen

II. Continuation of QQE with Yield Curve Control

QQE with Yield Curve Control

Yield Curve Control



Inflation-Overshooting Commitment

"The Bank will continue expanding the monetary base until the year-on-year rate of increase in the observed CPI (all items less fresh food) exceeds the price stability target of 2 percent and stays above the target in a stable manner."

"Achieving the price stability target means attaining a situation where the inflation rate is 2 percent on average over the business cycle."

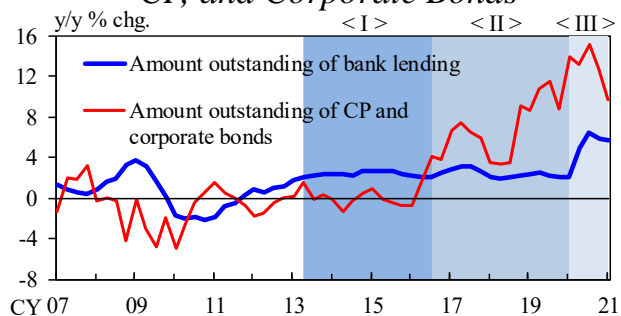
Source: Bank of Japan, policy statement (Sept. 2016 MPM)

Sources: Bank of Japan; Bloomberg.

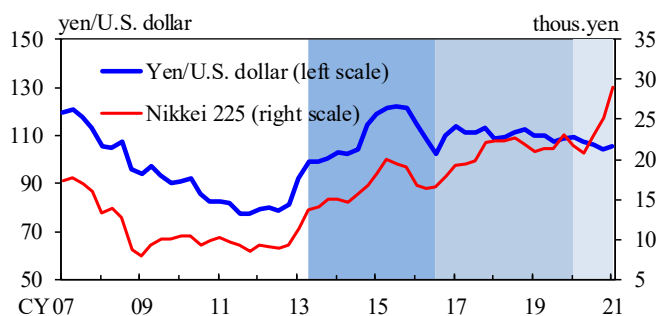
II. Continuation of QQE with Yield Curve Control

Economic and Financial Developments since the Introduction of QQE with Yield Curve Control

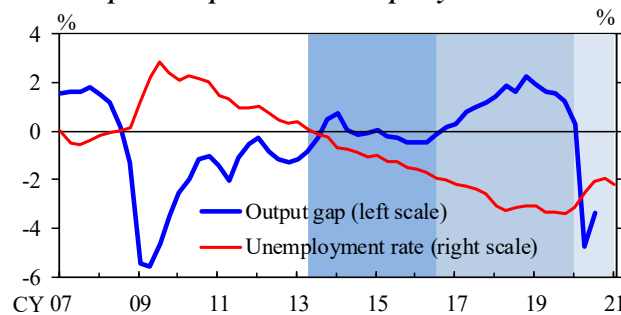
Amounts Outstanding of Bank Lending, CP, and Corporate Bonds



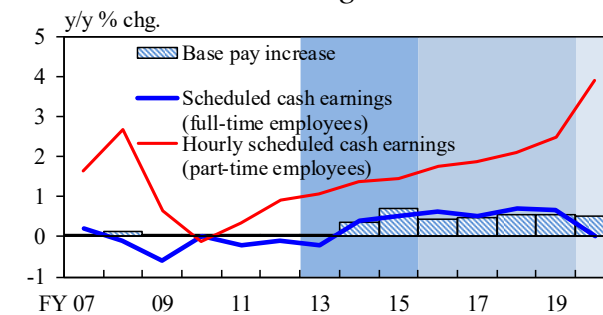
Foreign Exchange Rate and Stock Prices



Output Gap and Unemployment Rate



Wages

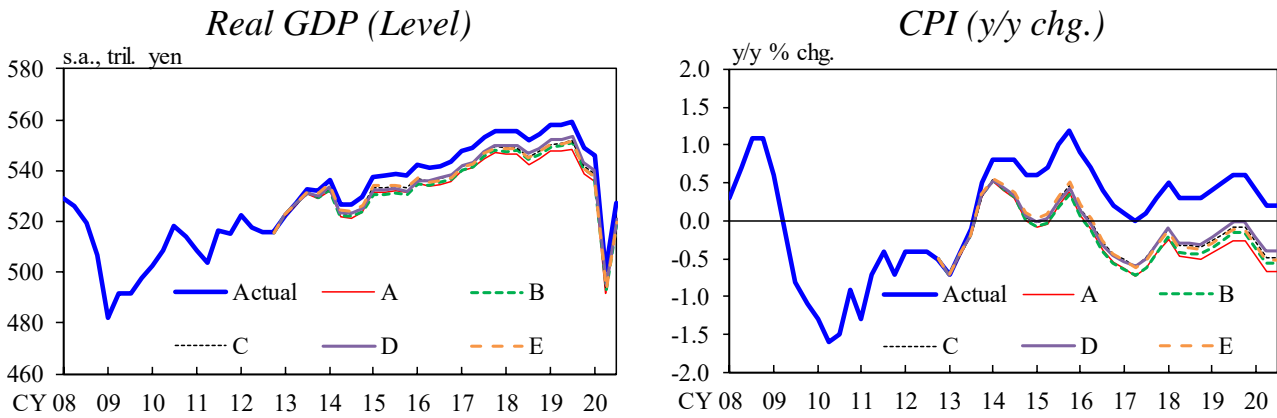


Note: Shaded area <I> denotes the period since the introduction of QQE (2013/Q2), <II> denotes the period since the introduction of QQE with Yield Curve Control (2016/Q3), and <III> denotes the period since the outbreak of COVID-19 (2020/Q1).

Sources: Bank of Japan; Japan Securities Depository Center; Japan Securities Dealers Association; I-N Information Systems; Bloomberg; Ministry of Internal Affairs and Communications; Ministry of Health, Labour and Welfare; Japanese Trade Union Confederation (Rengo).

Examination on Policy Effects

➤ The Bank conducted an analysis using a macroeconomic model to estimate simulated developments in real GDP and the CPI assuming QQE had not been introduced. The differences between the counterfactual figures (A to E) and actual figures are regarded as the policy effects.



Policy Effects (Average since the Introduction of QQE)

	A	B	C	D	E
Real GDP Level (rate of deviation between counterfactual and actual figures, %)	+1.3	+1.2	+1.0	+0.9	+1.0

	A	B	C	D	E
CPI y/y chg. (less fresh food and energy, deviation between counterfactual and actual figures, % points)	+0.7	+0.6	+0.6	+0.6	+0.6

Note: Five types of counterfactual figures (A to E) were estimated based on different counterfactual paths of economic activity and prices. For details of simulations, see Appendix 2 in the Assessment for Further Effective and Sustainable Monetary Easing released in March 2021.
Sources: Cabinet Office; Ministry of Internal Affairs and Communications, etc.

Policy Actions to Conduct Further Effective and Sustainable Monetary Easing

Aim: Further Effective and Sustainable Monetary Easing
"enhancing sustainability of monetary easing"
& "nimble responses to counter changes in the situation"

1. Establishment of the Interest Scheme to Promote Lending

➤ Enable the Bank to cut short- and long-term interest rates more nimbly while considering the impact on the functioning of financial intermediation

2. Clarification of the range of fluctuations in long-term interest rates ($\pm 0.25\%$)

➤ Strike a balance between securing effects of monetary easing and maintaining market functioning
 ➤ Introduction of "fixed-rate purchase operations for consecutive days"

3. New guideline for ETF and J-REIT purchases

➤ Purchase ETFs and J-REITs as necessary with upper limits of about 12 tril. yen and about 180 bil. yen, respectively, on annual paces of increase in their amounts outstanding (abolish the guideline for purchasing these assets, in principle, at annual paces of increase in their amount outstanding of about 6 tril. yen and about 90 bil. yen, respectively)
 ➤ Purchase only ETFs tracking the TOPIX

<Interest Scheme to Promote Lending>

➤ Apply incentives (linked to the short-term policy interest rate) to financial institutions' (FIs') current account balances, corresponding to the amount outstanding of funds provided through fund-provisioning measures to promote lending

- Mitigate the impact on FIs' profits at the time of rate cuts depending on the amount of lending
- The applied interest rates and the eligible fund-provisioning measures for each category will be changed as necessary at MPMs depending on the situation.

<Decision at the March 2021 MPM>

	Applied interest rate	Eligible fund-provisioning measure
Category I	0.2% Higher than the rate for Category II	• Special Operations in Response to COVID-19, when funds are provided against loans made by FIs on their own
Category II	0.1% Absolute value of the short-term policy interest rate	• Special Operations in Response to COVID-19, when funds are provided against loans other than those for Category I and against private debt pledged as collateral
Category III	0% Lower than the rate for Category II	• Loan Support Program • Operation to Support FIs in Disaster Areas