

Enhancement of Monetary Easing

1. Against the backdrop of the United Kingdom's vote to leave the European Union and the slowdown in emerging economies, uncertainties surrounding overseas economies have increased and volatile developments have continued in the global financial markets. In order to prevent these uncertainties from leading to a deterioration in business confidence and consumer sentiment as well as to ensure smooth funding in foreign currencies by Japanese firms and financial institutions, thereby supporting their proactive economic activities, at the Monetary Policy Meeting (MPM) held today, the Policy Board of the Bank of Japan decided upon the following.

(1) An increase in purchases of exchange-traded funds (ETFs) by a 7-2 majority vote^[Note 1]

The Bank will purchase ETFs so that their amount outstanding will increase at an annual pace of about 6 trillion yen¹ (almost double the previous pace of about 3.3 trillion yen).

(2) Measures to ensure smooth funding in foreign currencies by Japanese firms and financial institutions by a unanimous vote

a) Increasing the size of the Bank's lending program to support growth in U.S. dollars

The Bank will increase the size of its lending program to support growth in U.S. dollars (the Special Rules for the U.S. Dollar Lending Arrangement to Enhance the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth Conducted through the Loan Support Program) to 24 billion USD (about 2.5 trillion yen; double the previous size of 12 billion USD). Under this lending program, the Bank provides its U.S. dollar funds for a period of up to 4 years to support Japanese firms' overseas activities through financial institutions.

¹ Of about 6 trillion yen, 300 billion yen is used in line with the implementation of a program for purchasing ETFs composed of stocks issued by firms that are proactively investing in physical and human capital, as decided at the MPM held in December 2015.

- b) Establishing a new facility for lending securities to be pledged as collateral for the U.S. Dollar Funds-Supplying Operations

The Bank will establish a new facility in which it lends Japanese government securities (JGSs) to financial institutions against their current account balances with the Bank so that these JGSs can be pledged as collateral for the U.S. Dollar Funds-Supplying Operations.

- 2. With regard to the guideline for money market operations, the guidelines for asset purchases except for ETF purchases, and the policy rate, the Bank decided to leave these unchanged.

(1) Quantity Dimension: The guideline for money market operations

The Bank decided, by an 8-1 majority vote, to set the following guideline for money market operations for the intermeeting period:^[Note 2]

The Bank of Japan will conduct money market operations so that the monetary base will increase at an annual pace of about 80 trillion yen.

(2) Quality Dimension: The guidelines for asset purchases

With regard to the asset purchases, the Bank decided, by an 8-1 majority vote, to set the following guidelines:^[Note 2]

- a) The Bank will purchase Japanese government bonds (JGBs) so that their amount outstanding will increase at an annual pace of about 80 trillion yen. With a view to encouraging a decline in interest rates across the entire yield curve, the Bank will conduct purchases in a flexible manner in accordance with financial market conditions. The average remaining maturity of the Bank's JGB purchases will be about 7-12 years.
- b) The Bank will purchase Japan real estate investment trusts (J-REITs) so that their amount outstanding will increase at an annual pace of about 90 billion yen.
- c) 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) Interest-Rate Dimension: The policy rate

The Bank decided, by a 7-2 majority vote, to continue applying a negative interest rate of minus 0.1 percent to the Policy-Rate Balances in current accounts held by financial institutions at the Bank.^[Note 3]

3. The Government is undertaking fiscal and structural policy initiatives, including a large-scale "stimulus package," which is currently being compiled. The Bank will pursue "Quantitative and Qualitative Monetary Easing (QQE) with a Negative Interest Rate" including measures decided today and provide highly accommodative financial conditions. The Bank believes that these monetary policy measures and the Government's initiatives will produce synergy effects on the economy.
4. The Bank will continue with "QQE with a Negative Interest Rate," 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 examine risks to economic activity and prices, and take additional easing measures in terms of three dimensions -- quantity, quality, and the interest rate -- if it is judged necessary for achieving the price stability target.^[Note 4]
5. As shown in the July 2016 *Outlook for Economic Activity and Prices* (Outlook Report) released today, there is considerable uncertainty over the outlook for prices against the background of uncertainties surrounding overseas economies and global financial markets. Against this backdrop, with a view to achieving the price stability target of 2 percent at the earliest possible time, the Bank will conduct a comprehensive assessment of the developments in economic activity and prices under "QQE" and "QQE with a Negative Interest Rate" as well as these policy effects at the next MPM. The Chairman instructed the staff to prepare for deliberations at the next meeting.

^[Note 1] Voting for the action: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Mr. Y. Harada, Mr. Y. Funo, Mr. M. Sakurai, and Ms. T. Masai. Voting against the action: Mr. T. Sato and Mr. T. Kiuchi. Mr. T. Sato dissented considering that ETF purchases of about 6 trillion yen annually would be excessive in light of their adverse impact on the price mechanism in the stock market and the Bank's financial soundness. Mr. T. Kiuchi dissented because an increase in ETF purchases would (1) impair the Bank's financial soundness, (2) lead to a rise in volatility in the stock market, and (3) give a wrong impression that the Bank targeted stock prices.

^[Note 2] Voting for the action: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Mr. T. Sato, Mr. Y. Harada, Mr. Y. Funo, Mr. M. Sakurai, and Ms. T. Masai. Voting against the action: Mr. T. Kiuchi. Mr. T. Kiuchi proposed that the Bank conduct money market operations and asset purchases so that the monetary base and the amount outstanding of its JGB holdings increase at an annual pace of about 45 trillion yen, respectively. The proposal was defeated by a majority vote.

^[Note 3] Voting for the action: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Mr. Y. Harada, Mr. Y. Funo, Mr. M. Sakurai, and Ms. T. Masai. Voting against the action: Mr. T. Sato and Mr. T. Kiuchi. Mr. T. Sato and Mr. T. Kiuchi dissented considering that an interest rate of 0.1 percent should be applied to current account balances excluding the amount outstanding of the required reserves held by financial institutions at the Bank, because negative interest rates would impair the functioning of financial markets and financial intermediation as well as the stability of the JGB market.

^[Note 4] Mr. T. Kiuchi proposed that the Bank, with the aim to achieve the price stability target of 2 percent in the medium to long term, continue with asset purchases and a virtually zero interest rate policy as long as each of these policy measures was deemed appropriate under flexible policy conduct based on the examination from the two perspectives of the monetary policy framework. The proposal was defeated by an 8-1 majority vote. Voting for the proposal: Mr. T. Kiuchi. Voting against the proposal: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Mr. T. Sato, Mr. Y. Harada, Mr. Y. Funo, Mr. M. Sakurai, and Ms. T. Masai.

(Reference)

Meeting hours:

Thursday, July 28: 14:00-15:32

Friday, July 29: 9:00-12:37

Policy Board members present:

Haruhiko Kuroda (Governor)

Kikuo Iwata (Deputy Governor)

Hiroshi Nakaso (Deputy Governor)

Takehiro Sato

Takahide Kiuchi

Yutaka Harada

Yukitoshi Funo

Makoto Sakurai

Takako Masai

(Others present)

July 28

From the Ministry of Finance:

Mitsuru Ota, Deputy Vice Minister for Policy Planning and Co-ordination (14:00-15:32)

From the Cabinet Office:

Shigeki Habuka, Vice-Minister for Policy Coordination (14:00-15:32)

July 29

From the Ministry of Finance:

Manabu Sakai, State Minister of Finance (9:00-11:58, 12:16-12:37)

From the Cabinet Office:

Shuichi Takatori, State Minister of Cabinet Office (9:00-11:58, 12:16-12:37)

Release Dates and Time:

Enhancement of Monetary Easing -- Friday, July 29 at 12:44

Outlook for Economic Activity and Prices (The Bank's View) -- Friday, July 29 at 12:44

Release Schedule:

Outlook for Economic Activity and Prices (Outlook Report, full text including The Background) -- Saturday, July 30 at 14:00

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

Minutes -- Tuesday, September 27 at 8:50