

December 20, 2016

Bank of Japan

## Statement on Monetary Policy

1. At the Monetary Policy Meeting held today, the Policy Board of the Bank of Japan 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 1]</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. With regard to the amount of JGBs to be purchased, the Bank will conduct purchases at more or less the current pace -- an annual pace of increase in the amount outstanding of its JGB holdings of about 80 trillion yen -- aiming to achieve the target level of the long-term interest rate specified by the guideline.

(2) Guidelines for asset purchases

With regard to asset purchases other than JGB purchases, the Bank decided, by a 7-2 majority vote, to set the following guidelines. <sup>[Note 2]</sup>

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.

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.

2. Japan's economy has continued its moderate recovery trend. Overseas economies have continued to grow at a moderate pace, although emerging economies remain sluggish in part. In this situation, exports have picked up. On the domestic demand side, business fixed

investment has been on a moderate increasing trend as corporate profits have been at high levels and business sentiment has improved somewhat. Against the background of steady improvement in the employment and income situation, private consumption has been resilient, and housing investment has continued its pick-up. In the meantime, public investment has been more or less flat. Reflecting these moderate increases in demand both at home and abroad and the progress in inventory adjustments, industrial production has picked up. Financial conditions are highly accommodative. On the price front, the year-on-year rate of change in the consumer price index (CPI, all items less fresh food) has been slightly negative. Inflation expectations have remained in a weakening phase.

3. With regard to the outlook, Japan's economy is likely to turn to a moderate expansion. Domestic demand is likely to follow an uptrend, with a virtuous cycle from income to spending being maintained in both the corporate and household sectors, on the back of highly accommodative financial conditions and fiscal spending through the government's large-scale stimulus measures. Exports are expected to follow a moderate increasing trend on the back of an improvement in overseas economies. The year-on-year rate of change in the CPI is likely to be slightly negative or about 0 percent for the time being, due to the effects of the decline in energy prices, and as the output gap improves and medium- to long-term inflation expectations rise, it is expected to increase toward 2 percent. <sup>[Note 3]</sup>
4. Risks to the outlook include the following: developments in emerging and commodity-exporting economies, particularly China; developments in the U.S. economy and the impact of its monetary policy on global financial markets; the consequences stemming from the United Kingdom's vote to leave the European Union (EU) and their effects; prospects regarding the European debt problem, including the financial sector; and geopolitical risks.
5. 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 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. <sup>[Note 4]</sup>

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<sup>[Note 1]</sup> 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 setting the short-term policy interest rate at minus 0.1 percent and the target level of 10-year JGB yields at around 0 percent could lead to holding JGB yields in negative territory up to a maturity of 10 years and thus could have an adverse impact on the functioning of financial intermediation. Mr. T. Kiuchi dissented considering that, with a view to maintaining the stability of the JGB market and the functioning of financial intermediation, (1) the short-term policy interest rate should be set at 0.1 percent and (2) the adoption of a target level for a long-term interest rate was not appropriate because it would entail a risk that the Bank might need to further increase the pace of its JGB purchases.

<sup>[Note 2]</sup> 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 pricing mechanism in the stock market and the Bank's financial soundness. Mr. T. Kiuchi proposed that the Bank continue to use amounts of asset purchases as its operating targets and set the guidelines for asset purchases as follows: the Bank would purchase JGBs so that their amount outstanding would increase at an annual pace of about 45 trillion yen, purchase ETFs so that their amount outstanding would increase at an annual pace of about 1 trillion yen, and so on. The proposal was defeated by a majority vote.

<sup>[Note 3]</sup> Mr. T. Kiuchi proposed, concerning the year-on-year rate of change in the CPI, that it was likely to be slightly negative or about 0 percent for the time being, and would thereafter increase very moderately. 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.

<sup>[Note 4]</sup> Mr. T. Sato opposed the commitment to expanding the monetary base, considering that this was neither realistic nor effective. 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 short-term interest rate policy as long as each of these policy measures was deemed appropriate. 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:

Monday, December 19: 14:00-15:31

Tuesday, December 20: 9:00-11:44

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)

December 19

From the Ministry of Finance:

Mitsuru Ota, Deputy Vice Minister for Policy Planning and Co-ordination (14:00-15:31)

From the Cabinet Office:

Shigeki Habuka, Vice-Minister for Policy Coordination (14:00-15:31)

December 20

From the Ministry of Finance:

Minoru Kihara, State Minister of Finance (9:00-11:19, 11:34-11:44)

From the Cabinet Office:

Takao Ochi, State Minister of Cabinet Office (9:00-11:19, 11:34-11:44)

Release Dates and Time:

Statement on Monetary Policy -- Tuesday, December 20 at 11:51

Release Schedule:

Summary of Opinions -- Thursday, December 29 at 8:50

Minutes -- Friday, February 3 at 8:50