

September 19, 2018

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. While doing so, the yields may move upward and downward to some extent mainly depending on developments in economic activity and prices.<sup>1</sup> With regard to the amount of JGBs to be purchased, the Bank will conduct purchases in a flexible manner so that their amount outstanding will increase at an annual pace of about 80 trillion yen.

(2) Guidelines for asset purchases

With regard to asset purchases other than JGB purchases, the Bank decided, by a unanimous vote, to set the following guidelines.

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. With a view to lowering risk premia of asset prices in an appropriate manner, the Bank may increase or decrease the amount of purchases depending on market conditions.

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<sup>1</sup> In case of a rapid increase in the yields, the Bank will purchase JGBs promptly and appropriately.

- 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 is expanding moderately, with a virtuous cycle from income to spending operating. Overseas economies have continued to grow firmly on the whole. In this situation, exports have been on an increasing trend. On the domestic demand side, business fixed investment has continued on an increasing trend with corporate profits and business sentiment maintaining their improving trend. Private consumption has been increasing moderately, albeit with fluctuations, against the background of steady improvement in the employment and income situation. Meanwhile, housing investment has been more or less flat. Public investment also has been more or less flat, remaining at a relatively high level. Reflecting these increases in demand both at home and abroad, industrial production has been on an increasing trend, and labor market conditions have continued to tighten steadily. 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) is in the range of 0.5-1.0 percent. Inflation expectations have been more or less unchanged.
  3. With regard to the outlook, Japan's economy is likely to continue its 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, mainly against the background of highly accommodative financial conditions and the underpinnings through government spending. Exports are expected to continue their moderate increasing trend on the back of the firm growth in overseas economies. The year-on-year rate of change in the CPI is likely to increase gradually toward 2 percent, mainly on the back of the output gap remaining positive and medium- to long-term inflation expectations rising.<sup>[Note 2]</sup>
  4. Risks to the outlook include the following: the U.S. macroeconomic policies and their impact on global financial markets; the consequences of protectionist moves and their effects; developments in emerging and commodity-exporting economies including the effects of the two aforementioned factors; negotiations on the United Kingdom's exit from the European Union (EU) and their effects; 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. As for policy rates, the Bank intends to maintain the current extremely low levels of short- and long-term interest rates for an extended period of time, taking into account uncertainties regarding economic activity and prices including the effects of the consumption tax hike scheduled to take place in October 2019.<sup>[Note 3]</sup> It will examine the risks considered most relevant to the conduct of monetary policy and 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.

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<sup>[Note 1]</sup> Voting for the action: Mr. H. Kuroda, Mr. M. Amamiya, Mr. M. Wakatabe, Mr. Y. Funo, Mr. M. Sakurai, Ms. T. Masai, and Mr. H. Suzuki. Voting against the action: Mr. Y. Harada and Mr. G. Kataoka. Mr. Y. Harada dissented, considering that allowing the long-term yields to move upward and downward to some extent was too ambiguous as the guideline for market operations decided by the Policy Board. Mr. G. Kataoka dissented, considering that, taking account of the current sluggishness in prices and risk factors going forward, it was desirable to strengthen monetary easing so that yields on JGBs with maturities of 10 years and longer would broadly be lowered further.

<sup>[Note 2]</sup> Mr. G. Kataoka dissented, considering that the possibility of the year-on-year rate of change in the CPI increasing toward 2 percent going forward was low at this point.

<sup>[Note 3]</sup> Mr. Y. Harada dissented, considering that it was appropriate to introduce forward guidance that would further clarify its relationship with the price stability target. With a view to achieving the price stability target of 2 percent at the earliest possible time, Mr. G. Kataoka dissented, considering that it was appropriate for the Bank to make a commitment to taking additional easing measures if it revised downward its assessment of medium- to long-term inflation expectations, rather than to make the commitment to maintaining the levels of short- and long-term interest rates.

(Reference)

Meeting hours:

Tuesday, September 18: 14:00-15:36

Wednesday, September 19: 9:00-11:40

Policy Board members present:

Haruhiko Kuroda (Governor)

Masayoshi Amamiya (Deputy Governor)

Masazumi Wakatabe (Deputy Governor)

Yutaka Harada

Yukitoshi Funo

Makoto Sakurai

Takako Masai

Hitoshi Suzuki

Goushi Kataoka

(Others present)

September 18

From the Ministry of Finance:

Eiji Chatani, Deputy Vice Minister for Policy Planning and Co-ordination (14:00-15:36)

From the Cabinet Office:

Akihiro Nakamura, Vice-Minister for Policy Coordination (14:00-15:36)

September 19

From the Ministry of Finance:

Minoru Kihara, State Minister of Finance (9:00-11:25, 11:33-11:40)

From the Cabinet Office:

Takao Ochi, State Minister of Cabinet Office (9:00-11:25, 11:33-11:40)

Release Dates and Time:

Statement on Monetary Policy -- Wednesday, September 19 at 11:47

Release Schedule:

Summary of Opinions -- Friday, September 28 at 8:50

Minutes -- Monday, November 5 at 8:50