

March 16, 2020

Bank of Japan

**Enhancement of Monetary Easing in Light of the Impact of the Outbreak of the Novel  
Coronavirus (COVID-19)**

1. Global financial and capital markets have been unstable, with growing uncertainties over the global economy due mainly to the impact of the outbreak of COVID-19. Under the circumstances, Japan's economic activity has been weak recently (see Attachment). In addition, financial conditions have become less accommodative, as seen partly in corporate financing such as the financial positions of small and medium-sized firms.
2. Given these developments, the Bank of Japan judged it appropriate to enhance monetary easing through (1) the further ample supply of funds by conducting various operations including purchases of Japanese government bonds (JGBs) and the U.S. dollar funds-supplying operations, (2) measures to facilitate corporate financing including the introduction of a new operation, and (3) active purchases of exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs). The Bank will take these measures with a view to doing its utmost to ensure smooth corporate financing and maintaining stability in financial markets, thereby preventing firms' and households' sentiment from deteriorating.
3. To this end, at the Monetary Policy Meeting held today, the Policy Board of the Bank decided upon the following.

(1) Further ample supply of funds

The Bank will provide more ample yen funds for the time being by making use of active purchases of JGBs and other operations as well as measures in (2) and (3) below.

As for U.S. dollar liquidity, coordinated with the Bank of Canada (BOC), the Bank of England (BOE), the European Central Bank (ECB), the Federal Reserve, and the Swiss National Bank (SNB), regarding the U.S. dollar funds-supplying operations, the Bank made public today to lower the loan rate by 0.25 percent and offer U.S. dollars weekly

with an 84-day maturity, in addition to the 1-week maturity operations currently offered. Thereby, the Bank will do its utmost to provide U.S. dollar liquidity.<sup>1</sup>

(2) Measures to facilitate corporate financing

a) Introduction of the Special Funds-Supplying Operations to Facilitate Corporate Financing regarding the Novel Coronavirus (COVID-19)

The Bank decided, by a unanimous vote, to introduce a new operation to provide loans against corporate debt (of about 8 trillion yen as of end-February 2020) as collateral at the interest rate of 0 percent with maturity up to one year. Twice as much as the amount outstanding of the loans will be included in the Macro Add-on Balances in current accounts held by financial institutions at the Bank. This operation will be conducted until the end of September 2020.

b) Increase in purchases of CP and corporate bonds

The Bank decided, by a unanimous vote, to increase the upper limit to purchase CP and corporate bonds by 2 trillion yen in total and conduct purchases with the upper limit of their amounts outstanding of about 3.2 trillion yen and about 4.2 trillion yen, respectively.<sup>2</sup> The additional purchases will continue until the end of September 2020.

(3) Active purchases of ETFs and J-REITs

The Bank decided, by a unanimous vote, to actively purchase ETFs and J-REITs for the time being so that their amounts outstanding will increase at annual paces with the upper limit of about 12 trillion yen and about 180 billion yen, respectively.<sup>3</sup>

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<sup>1</sup> "Coordinated Central Bank Action to Enhance the Provision of Global U.S. Dollar Liquidity" (March 15, 2020).

<sup>2</sup> With regard to CP and corporate bonds that are currently purchased other than those to be purchased additionally, their amounts outstanding will be maintained at about 2.2 trillion yen and about 3.2 trillion yen, respectively.

<sup>3</sup> As for the guideline for purchases of ETFs and J-REITs, in principle, "the Bank will purchase these assets 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."

4. The Bank decided, by a 7-2 majority vote, to maintain the following guideline for market operations for the intermeeting period under yield curve control. <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 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>4</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.

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 consumer price index (CPI, all items less fresh food) exceeds 2 percent and stays above the target in a stable manner. As for the policy rates, the Bank expects short- and long-term interest rates to remain at their present or lower levels as long as it is necessary to pay close attention to the possibility that the momentum toward achieving the price stability target will be lost. The Bank will closely monitor the impact of COVID-19 for the time being and will not hesitate to take additional easing measures if necessary. <sup>[Note 2]</sup>
6. The Bank recognizes that monetary easing measures decided today will contribute to supporting economic and financial activities, coupled with various measures by the Japanese government as well as those by the government and the central bank of each country in response to the outbreak of COVID-19.

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<sup>4</sup> In case of a rapid increase in the yields, the Bank will purchase JGBs promptly and appropriately.

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[Note 1] Voting for the action: Mr. KURODA Haruhiko, Mr. AMAMIYA Masayoshi, Mr. WAKATABE Masazumi, Mr. FUNO Yukitoshi, Mr. SAKURAI Makoto, Ms. MASAI Takako, and Mr. SUZUKI Hitoshi. Voting against the action: Mr. HARADA Yutaka and Mr. KATAOKA Goushi. Mr. 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. Kataoka dissented, considering that it was desirable to strengthen monetary easing by lowering the short-term policy interest rate.

[Note 2] In order to achieve the price stability target of 2 percent at the earliest possible time, Mr. Kataoka dissented, considering that further coordination of fiscal and monetary policy was necessary, and that it was appropriate for the Bank to revise the forward guidance for the policy rates to make it a powerful one that specifically relates to the price stability target.

## **Economic Activity and Prices in Japan: Current Situation and Outlook**

1. Japan's economic activity has been weak recently due mainly to the impact of the outbreak of the novel coronavirus (COVID-19). Specifically, exports and production have declined due to the slowdown in overseas economies since last year as well as the decrease in external demand mainly from China and the effects on the global supply chain of stopping production, also mainly in China. In addition, the number of inbound tourists has decreased and there have been self-restraints on holding domestic events and going outside. These developments have brought about deterioration in business conditions of related industries. Although financial conditions are accommodative on the whole, they have become less accommodative, as seen partly in corporate financing such as the financial positions of small and medium-sized firms. 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 from a somewhat longer-term perspective, but somewhat weak indicators have been observed recently.
2. With regard to the outlook, Japan's economic activity is likely to remain weak for the time being, mainly affected by the outbreak of COVID-19. Thereafter, it is expected to return to a moderate expanding trend, supported by a virtuous cycle from income to spending, with the impact of the outbreak of COVID-19 waning mainly owing to measures taken by each country. The year-on-year rate of change in the CPI is likely to be somewhat weak for the time being, partly due to the effects of the decline in crude oil prices. Thereafter, it is expected to increase gradually with the economy returning to a moderate expanding trend.
3. With regard to risks to the outlook, there have been significant uncertainties over the consequences of the outbreak of COVID-19 and over the size and the persistence of their impact on domestic and overseas economies. In addition, there remain other risks such as protectionist moves and their effects as well as geopolitical risks. Furthermore, the effects of recent developments in crude oil prices on economic activity and prices also warrant attention. Downside risks seem to have been increasing, and it also is necessary to pay close attention to their impact on developments in global financial markets as well as on firms' and households' sentiment in Japan.

## Reference

Meeting hours:

Monday, March 16: 12:00-13:59

Policy Board members present:

Mr. KURODA Haruhiko, Chairman (Governor)  
Mr. AMAMIYA Masayoshi (Deputy Governor)  
Mr. WAKATABE Masazumi (Deputy Governor)  
Mr. HARADA Yutaka  
Mr. FUNO Yukitoshi  
Mr. SAKURAI Makoto  
Ms. MASAI Takako  
Mr. SUZUKI Hitoshi  
Mr. KATAOKA Goushi

[Others present]

From the Ministry of Finance:

Mr. KANDA Masato, Deputy Vice-Minister for Policy Planning and Coordination (12:00-13:41, 13:49-13:59)

From the Cabinet Office:

Mr. NISHIMURA Yasutoshi, Minister of State for Economic and Fiscal Policy (12:00-13:41, 13:49-13:59)

Release dates and times:

Enhancement of Monetary Easing in Light of the Impact of the Outbreak of the Novel Coronavirus (COVID-19) -- Monday, March 16 at 14:06

Summary of Opinions -- Wednesday, March 25 at 8:50

Minutes of the Monetary Policy Meeting -- Thursday, May 7 at 8:50