

December 21, 2017

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 an 8-1 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 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.

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 at a moderate pace 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 improving. Private consumption has been increasing moderately, albeit with fluctuations, against the background of steady improvement in the employment and income situation. Housing investment has been more or less flat. Meanwhile, public investment 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 remained in a weakening phase.

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, on the back of highly accommodative financial conditions and underpinnings through the government's past stimulus measures. Exports are expected to continue their moderate increasing trend on the back of the growth in overseas economies. The year-on-year rate of change in the CPI is likely to continue on an uptrend and increase toward 2 percent, mainly on the back of an improvement in the output gap and a rise in medium- to long-term inflation expectations.<sup>[Note 2]</sup>
4. Risks to the outlook include the following: the U.S. economic policies and their impact on global financial markets; developments in emerging and commodity-exporting economies; negotiations on the United Kingdom's exit from 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 3]</sup>

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[Note 1] Voting for the action: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Mr. Y. Harada, Mr. Y. Funo, Mr. M. Sakurai, Ms. T. Masai, and Mr. H. Suzuki. Voting against the action: Mr. G. Kataoka. Mr. G. Kataoka dissented, considering that, taking account of risk factors such as the consumption tax hike and a possible economic downturn in the United States, it was desirable to achieve the price stability target in fiscal 2018, and that it was appropriate for the Bank to purchase JGBs so that yields on JGBs with maturities of 10 years and longer would be broadly lowered.

[Note 2] Mr. G. Kataoka opposed the description, 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.

[Note 3] With a view to reinforcing the inflation-overshooting commitment, Mr. G. Kataoka opposed the description, considering that, if there was a delay in the timing of achieving the price stability target due to domestic factors, the Bank should take additional easing measures and that it was necessary to include that in the text.

(Reference)

Meeting hours:

Wednesday, December 20: 14:00-15:27

Thursday, December 21: 9:00-11:39

Policy Board members present:

Haruhiko Kuroda (Governor)

Kikuo Iwata (Deputy Governor)

Hiroshi Nakaso (Deputy Governor)

Yutaka Harada

Yukitoshi Funo

Makoto Sakurai

Takako Masai

Hitoshi Suzuki

Goushi Kataoka

(Others present)

December 20

From the Ministry of Finance:

Tetsuo Kabe, Deputy Vice Minister for Policy Planning and Co-ordination (14:00-15:27)

From the Cabinet Office:

Mamoru Maekawa, Vice-Minister for Policy Coordination (14:00-15:27)

December 21

From the Ministry of Finance:

Minoru Kihara, State Minister of Finance (9:00-11:23, 11:31-11:39)

From the Cabinet Office:

Takao Ochi, State Minister of Cabinet Office (9:00-11:23, 11:31-11:39)

Release Dates and Time:

Statement on Monetary Policy -- Thursday, December 21 at 11:46

Release Schedule:

Summary of Opinions -- Thursday, December 28 at 8:50

Minutes -- Friday, January 26 at 8:50