

December 18, 2020

Bank of Japan

## Statement on Monetary Policy

1. Japan's economy has picked up, but the pace of improvement is expected to be only moderate while vigilance against the novel coronavirus (COVID-19) continues (see Attachment). In this situation, financing, mainly of firms, is likely to remain under stress for the time being. Given these circumstances, the Bank of Japan judged it appropriate to extend the duration of the Special Program to Support Financing in Response to the Novel Coronavirus (COVID-19) by 6 months and make adjustments to the program, with a view to continuing to support financing, mainly of firms. To this end, at the Monetary Policy Meeting (MPM) held today, the Policy Board of the Bank decided upon the following. Depending on the future impact of COVID-19, the Bank will consider further extension of the program if necessary.

(1) Additional purchases of CP and corporate bonds (a unanimous vote)

The Bank will extend the duration of additional purchases of CP and corporate bonds by 6 months until the end of September 2021. It will continue conducting purchases of these assets with an upper limit on the amount outstanding of about 20 trillion yen in total. Out of 20 trillion yen, 15 trillion yen will be for the additional purchases of CP and corporate bonds and it will be distributed between each asset depending on market conditions.<sup>1</sup>

(2) Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus (COVID-19) (a unanimous vote)

The Bank will extend the duration of the Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus (COVID-19) by 6 months until the end of September 2021. In addition, in order to further actively encourage private financial institutions to make loans on their own in response to COVID-19 mainly to small and medium-sized firms, the Bank will remove the upper limit of funds it provides to each eligible counterparty (i.e., 100 billion yen) against loans that private financial institutions make on their own, which are part of eligible loans under this operation.

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<sup>1</sup> The maximum amount of additional purchases of CP and corporate bonds used to be 7.5 trillion yen for each asset. Aside from the additional purchases, the amounts outstanding of CP and corporate bonds will be maintained at about 2 trillion yen and about 3 trillion yen, respectively.

2. The Bank decided to set the following guidelines for market operations as well as for purchases of exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs).

- (1) Yield curve control (an 8-1 majority vote)<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 a necessary amount of Japanese government bonds (JGBs) without setting an upper limit 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>2</sup>

- (2) Purchases of ETFs and J-REITs (a unanimous vote)

The Bank will 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>

3. 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.

The Bank will continue to support financing mainly of firms and maintain stability in financial markets through (1) the Special Program to Support Financing in Response to the Novel Coronavirus (COVID-19), (2) an ample provision of yen and foreign currency funds without setting upper limits mainly by purchasing JGBs and conducting the U.S. dollar funds-supplying operations, and (3) active purchases of ETFs and J-REITs.

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<sup>2</sup> In case of a rapid increase in the yields, the Bank will purchase JGBs promptly and appropriately.

<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."

For the time being, the Bank will closely monitor the impact of COVID-19 and will not hesitate to take additional easing measures if necessary, and also it expects short- and long-term policy interest rates to remain at their present or lower levels.<sup>[Note 2]</sup>

4. Given that economic activity and prices are projected to remain under downward pressure for a prolonged period due to the impact of COVID-19, the Bank will conduct an assessment for further effective and sustainable monetary easing, with a view to supporting the economy and thereby achieving the price stability target of 2 percent. In doing so, since the framework of "QQE with Yield Curve Control" has been working well to date, the Bank judges that there is no need to change it. The Bank will assess various measures conducted under this framework and make public its findings, likely at the March 2021 MPM.

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<sup>[Note 1]</sup> Voting for the action: Mr. KURODA Haruhiko, Mr. AMAMIYA Masayoshi, Mr. WAKATABE Masazumi, Mr. SAKURAI Makoto, Ms. MASAI Takako, Mr. SUZUKI Hitoshi, Mr. ADACHI Seiji, and Mr. NAKAMURA Toyoaki. Voting against the action: Mr. KATAOKA Goushi. Mr. Kataoka dissented, considering that it was desirable to further strengthen monetary easing by lowering short- and long-term interest rates, with a view to responding to an increase in downward pressure on prices and encouraging firms to make active business fixed investment for the post-COVID-19 era.

<sup>[Note 2]</sup> Mr. Kataoka dissented, considering that, in order to avoid Japan's economy returning to deflation, further coordination of fiscal and monetary policy was necessary and it was appropriate for the Bank to revise the forward guidance for the policy rates to relate it to the price stability target.

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

1. Japan's economy has picked up, although it has remained in a severe situation due to the impact of the novel coronavirus (COVID-19) at home and abroad. Overseas economies also have picked up, although the impact of a resurgence of COVID-19 has been seen in part. In this situation, exports and industrial production have continued to increase. In addition, corporate profits and business sentiment deteriorated significantly but subsequently have improved gradually. Business fixed investment has been on a declining trend. With the continuing impact of COVID-19, the employment and income situation has been weak. Private consumption has picked up gradually on the whole, although consumption of services, such as eating and drinking as well as accommodations, has remained at a low level. Housing investment has declined moderately. Public investment has continued to increase moderately. Financial conditions have been accommodative on the whole but those for corporate financing have remained less so, as seen in weakness in firms' financial positions. On the price front, the year-on-year rate of change in the consumer price index (CPI, all items less fresh food) has been negative, mainly affected by COVID-19, the past decline in crude oil prices, and the "Go To Travel" campaign. Inflation expectations have weakened somewhat.
2. Japan's economy, with the impact of COVID-19 waning gradually, is likely to follow an improving trend, supported by accommodative financial conditions and the government's economic measures. However, the pace of improvement is expected to be only moderate while vigilance against COVID-19 continues. Thereafter, as the impact subsides globally, the economy is projected to keep improving further with overseas economies returning to a steady growth path. The year-on-year rate of change in the CPI (all items less fresh food) is likely to be negative for the time being, mainly affected by COVID-19, the past decline in crude oil prices, and the "Go To Travel" campaign. Thereafter, it is expected to turn positive and then increase gradually, since downward pressure on prices is projected to wane gradually along with economic improvement, and the effects of such factors as the decline in crude oil prices are likely to dissipate.
3. With regard to risks to the outlook, there have been extremely high uncertainties over the consequences of COVID-19 and the magnitude of their impact on domestic and overseas economies. In particular, the impact of the recent resurgence of COVID-19 at home and abroad

should be carefully monitored. In addition, it is necessary to pay close attention to whether, while the impact of COVID-19 remains, firms' and households' medium- to long-term growth expectations will not decline substantially and the smooth functioning of financial intermediation will be ensured with financial system stability being maintained.

## Reference

### Meeting hours:

Thursday, December 17: 14:00-15:59

Friday, December 18: 9:00-12:06

### Policy Board members present:

Mr. KURODA Haruhiko, Chairman (Governor)

Mr. AMAMIYA Masayoshi (Deputy Governor)

Mr. WAKATABE Masazumi (Deputy Governor)

Mr. SAKURAI Makoto

Ms. MASAI Takako

Mr. SUZUKI Hitoshi

Mr. KATAOKA Goushi

Mr. ADACHI Seiji

Mr. NAKAMURA Toyoaki

[Others present]

### December 17

From the Ministry of Finance:

Mr. SHINKAWA Hirotsugu, Deputy Vice-Minister for Policy Planning and Coordination  
(14:00-15:59)

From the Cabinet Office:

Mr. TAWA Hiroshi, Vice-Minister for Policy Coordination (14:00-15:59)

### December 18

From the Ministry of Finance:

Mr. SHINKAWA Hirotsugu, Deputy Vice-Minister for Policy Planning and Coordination  
(9:00-11:50, 12:00-12:06)

From the Cabinet Office:

Mr. AKAZAWA Ryosei, State Minister of Cabinet Office (9:00-11:50, 12:00-12:06)

### Release dates and times:

Statement on Monetary Policy -- Friday, December 18, 2020 at 12:13

Summary of Opinions -- Monday, December 28, 2020 at 8:50

Minutes of the Monetary Policy Meeting -- Tuesday, January 26, 2021 at 8:50