

Further Effective and Sustainable Monetary Easing: Policy Actions

To achieve the price stability target of 2 percent, the Bank will (1) continue with monetary easing in a sustainable manner and (2) make nimble and effective responses without hesitation to counter changes in the situation.

Conduct of Yield Curve Control

Establishment of the Interest Scheme to Promote Lending (see the box on the right)

Clarification of the range of fluctuations in long-term interest rates

Expect long-term interest rates to move within the range of around $\pm 0.25\%$ from the target level

Introduction of "fixed-rate purchase operations for consecutive days"

Strengthen the fixed-rate purchase operations, which stop a significant rise in interest rates

Conduct for the time being

Prioritize stabilizing the entire yield curve at a low level under the continuing impact of COVID-19 in particular

ETF and J-REIT Purchases

Purchase as necessary with upper limits* on the annual paces of increase, and maintain these limits even after COVID-19 subsides

* ETFs: about 12 tril. yen J-REITs: about 180 bil. yen

Purchase only ETFs tracking the TOPIX

Financial System and Bank Examination Dept. staff will make a briefing at the MPMs when the Outlook Report is decided (four times a year).

<Interest Scheme to Promote Lending>

- Apply incentives (linked to the short-term policy interest rate) to FIs' current account balances, corresponding to the amount outstanding of funds provided through fund-provisioning measures to promote lending
 - Mitigate the impact on financial institutions' profits at the time of rate cuts depending on the amount of lending
 - The applied interest rates and the eligible fund-provisioning measures for each category will be changed as necessary at MPMs depending on the situation.

<Today's Decision>

	Applied interest rate	Eligible fund-provisioning measure
Category I	0.2% Higher than the rate for Category II	<ul style="list-style-type: none"> • Special Operations in Response to COVID-19, when funds are provided against loans made by FIs on their own
Category II	0.1% Absolute value of the short-term policy interest rate	<ul style="list-style-type: none"> • Special Operations in Response to COVID-19, when funds are provided against loans other than those for Category I and against private debt pledged as collateral
Category III	0% Lower than the rate for Category II	<ul style="list-style-type: none"> • Loan Support Program • Operation to Support FIs in Disaster Areas

⇒ **Enable the Bank to cut short- and long-term interest rates more nimbly** while considering the impact on the functioning of financial intermediation

In addition, adjustments to the Complementary Deposit Facility will be made to narrow the gap between the actual Policy-Rate Balances and the "hypothetical" Policy-Rate Balances.

(Reference) Assessment for Further Effective and Sustainable Monetary Easing

QQE with Yield Curve Control has had positive effects in line with the intended mechanism

- Economic activity, employment, and profits have improved, and the economy is no longer in deflation. Positive moves toward addressing the medium- to long-term challenges facing Japan's economy have been observed.
- That said, changing people's mindset and behavior based on the assumption that prices will not increase easily, which have become deeply entrenched because of the experience of prolonged deflation, will take time.

⇒ **The Bank judges it appropriate to continue with QQE with Yield Curve Control with a view to achieving the price stability target of 2 percent.**

Yield Curve Control (YCC)

- YCC has been effective in pushing up economic activity and prices through a decline in funding costs and favorable conditions in financial and capital markets.
- Yield fluctuations within a certain range have positive effects on the functioning of the JGB market without impairing the effects of monetary easing.
- An excessive decline in super-long-term yields could have a negative impact on economic activity by, for example, undermining people's sentiment.

ETF and J-REIT Purchases

- Large-scale purchases during times of heightened market instability are effective.

Inflation-Overshooting Commitment

- The "makeup strategy," which this commitment is implementing, is appropriate.

Effects on the Functioning of Financial Intermediation

- Financial institutions' core profitability has declined due to prolonged low interest rates and structural factors.
- It is necessary to pay attention to both overheating and pullback risks to the financial system.