

October 31, 2023

Bank of Japan

Statement on Monetary Policy

1. At the Monetary Policy Meeting held today, the Policy Board of the Bank of Japan decided to further increase the flexibility in the conduct of yield curve control. Specifically, while the Bank will maintain the target level of 10-year Japanese government bond (JGB) yields at around zero percent, it will conduct yield curve control with the upper bound of 1.0 percent for these yields as a reference and will control the yields mainly through large-scale JGB purchases and nimble market operations. In this manner, the Bank will patiently continue with monetary easing.

The Bank decided on the following regarding yield curve control and the guidelines for asset purchases.

(1) Yield curve control

- a) The Bank decided, by a unanimous vote, to set the following guideline for market operations for the intermeeting period.

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 JGBs without setting an upper limit so that 10-year JGB yields will remain at around zero percent.

- b) Conduct of yield curve control (an 8-1 majority vote)^[Note]

The Bank will regard the upper bound of 1.0 percent for 10-year JGB yields as a reference in its market operations, and in order to encourage the formation of a yield curve that is consistent with the above guideline for market operations, it will continue with large-scale JGB purchases and make nimble responses for each maturity by, for

example, increasing the amount of JGB purchases and conducting fixed-rate purchase operations and the Funds-Supplying Operations against Pooled Collateral.¹

(2) Guidelines for asset purchases (a unanimous vote)

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

- a) The Bank will purchase exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) as necessary with upper limits of about 12 trillion yen and about 180 billion yen, respectively, on annual paces of increase in their amounts outstanding.
- b) The Bank will maintain the amount outstanding of CP at about 2 trillion yen. It will purchase corporate bonds at about the same pace as prior to the COVID-19 pandemic, so that their amount outstanding will gradually return to the pre-pandemic level of about 3 trillion yen. In adjusting the amount outstanding of corporate bonds, the Bank will give due consideration to their issuance conditions.

2. The outlook for Japan's inflation rate, measured in terms of the consumer price index (CPI), has been revised upward from the July 2023 *Outlook for Economic Activity and Prices*. This is mainly due to the prolonged effects of a pass-through to consumer prices of cost increases led by the past rise in import prices and the recent rise in crude oil prices. Toward the end of the projection period, the Bank expects that underlying CPI inflation will increase gradually toward achieving the price stability target of 2 percent, while this increase needs to be accompanied by an intensified virtuous cycle between wages and prices. The Bank will patiently continue with monetary easing under Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control, aiming to support Japan's economic activity and thereby facilitate a favorable environment for wage increases. It will continue to closely examine developments in economic activity and prices, including the virtuous cycle between wages and prices, from the perspective of sustainable and stable achievement of the price stability target.

Meanwhile, with extremely high uncertainties surrounding economies and financial markets at home and abroad, it is appropriate for the Bank to increase the flexibility in the conduct of yield curve control, so that long-term interest rates will be formed smoothly in financial markets in response to future developments. In this regard, currently, the Bank considers that strictly capping long-term interest rates by fixed-rate purchase operations at 1.0 percent for consecutive

¹ The Bank will determine the offer rate for fixed-rate purchase operations each time, taking account of market rates and other factors.

days, which it has offered every business day in principle, will have strong positive effects, but could also entail large side effects. Given this, it decided to conduct yield curve control mainly through large-scale JGB purchases and nimble market operations.

3. With extremely high uncertainties surrounding economies and financial markets at home and abroad, the Bank will patiently continue with monetary easing while nimbly responding to developments in economic activity and prices as well as financial conditions. By doing so, it will aim to achieve the price stability target of 2 percent in a sustainable and stable manner, accompanied by wage increases.

The Bank will continue with QQE with Yield Curve Control, aiming to achieve the price stability target, 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 continue to maintain the stability of financing, mainly of firms, and financial markets, and will not hesitate to take additional easing measures if necessary.

^[Note] Voting for the action: UEDA Kazuo, HIMINO Ryoza, UCHIDA Shinichi, ADACHI Seiji, NOGUCHI Asahi, NAKAGAWA Junko, TAKATA Hajime, and TAMURA Naoki. Voting against the action: NAKAMURA Toyoaki. While Nakamura Toyoaki was in favor of the idea of further increasing the flexibility in the conduct of yield curve control, he dissented, considering that it was more desirable to increase the flexibility after confirming a rise in firms' earning power from sources such as the *Financial Statements Statistics of Corporations by Industry*.

Reference

Meeting hours:

Monday, October 30: 14:00-15:54

Tuesday, October 31: 9:00-12:20

Policy Board members present:

UEDA Kazuo, Chairman (Governor)

HIMINO Ryoza (Deputy Governor)

UCHIDA Shinichi (Deputy Governor)

ADACHI Seiji

NAKAMURA Toyoaki

NOGUCHI Asahi

NAKAGAWA Junko

TAKATA Hajime

TAMURA Naoki

[Others present]

October 30

From the Ministry of Finance:

SAKAMOTO Motoru, Deputy Vice-Minister for Policy Planning and Coordination
(14:00-15:54)

From the Cabinet Office:

INOUE Hiroyuki, Vice-Minister for Policy Coordination (14:00-15:54)

October 31

From the Ministry of Finance:

SAKAMOTO Motoru, Deputy Vice-Minister for Policy Planning and Coordination
(9:00-11:54, 12:01-12:20)

From the Cabinet Office:

INOUE Hiroyuki, Vice-Minister for Policy Coordination (9:00-11:54, 12:01-12:20)

Release dates and times:

Statement on Monetary Policy -- Tuesday, October 31 at 12:27

Outlook for Economic Activity and Prices (Outlook Report)

The Bank's View -- Tuesday, October 31 at 12:27

Full text -- Wednesday, November 1 at 14:00

Summary of Opinions -- Thursday, November 9 at 8:50

Minutes of the Monetary Policy Meeting -- Friday, December 22 at 8:50