

March 19, 2021

Bank of Japan

## **Further Effective and Sustainable Monetary Easing**

### 1. Assessment for Further Effective and Sustainable Monetary Easing

At the Monetary Policy Meeting held today, the Bank of Japan conducted an assessment for further effective and sustainable monetary easing (see Attachment 1). Based on the findings, the Bank judged that the following basic stance on monetary policy was important: with a view to achieving the price stability target of 2 percent, the Bank will continue with monetary easing in a sustainable manner and make nimble and effective responses without hesitation to counter changes in developments in economic activity and prices, as well as in financial conditions.

In this regard, the Bank will take the following actions.

- (1) With a view to enabling the Bank to cut short- and long-term interest rates nimbly while considering the impact on the functioning of financial intermediation, the Bank will establish the Interest Scheme to Promote Lending. In this scheme, interest rates, which will be linked to the short-term policy interest rate, will be applied to a certain amount of financial institutions' current account balances (see Attachment 2).
- (2) In order to conduct yield curve control flexibly during normal times, the Bank will make clear that the range of 10-year Japanese government bond (JGB) yield fluctuations would be between around plus and minus 0.25 percent from the target level. At the same time, it will introduce "fixed-rate purchase operations for consecutive days" as a powerful tool to set an upper limit on interest rates when necessary.
- (3) 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. While these upper limits were originally set as a temporary measure in response to the impact of the novel coronavirus (COVID-19), the Bank will maintain them even after COVID-19 subsides.

## 2. Conduct of Monetary Policy for the Intermeeting Period

Given the current situation of and the outlook for economic activity and prices, which are described in Attachment 3, the Policy Board of the Bank decided upon the following with regard to the conduct of monetary policy.

### (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 a necessary amount of JGBs without setting an upper limit so that 10-year JGB yields will remain at around zero percent.

### (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 ETFs and 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 purchase CP and corporate bonds with an upper limit on the amount outstanding of about 20 trillion yen in total until the end of September 2021.

## 3. Future Conduct of Monetary Policy

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) purchases of ETFs and J-REITs with upper limits of about 12 trillion yen and about 180 billion yen, respectively, on annual paces of increase in their amounts outstanding.

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>

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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.

## **Assessment for Further Effective and Sustainable Monetary Easing**

### **The Bank's View**

#### **I. Findings of the Assessment**

##### **A. Developments in Economic Activity and Prices under Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control**

QQE with Yield Curve Control, which the Bank introduced in September 2016 based on the findings of the Comprehensive Assessment, has the following three aims. The first, with a view to achieving the price stability target of 2 percent, is to maintain the output gap in positive territory for as long as possible, given that the mechanism of inflation expectations formation in Japan is largely adaptive. The second is to introduce a framework in which the Bank controls interest rates to appropriate levels while taking into consideration both the positive and side effects of monetary easing, with the expectation that monetary easing will be prolonged. The third is to strengthen the forward-looking element of inflation expectations formation with the inflation-overshooting commitment.

Following the Comprehensive Assessment, the situation where the inflation rate does not rise easily has continued, mainly because (1) the mechanism of adaptive inflation expectations formation in Japan is complex and sticky, (2) elastic labor supply has constrained wage increases, and (3) a rise in firms' labor productivity has absorbed upward pressure on costs. The impact of the novel coronavirus (COVID-19) has put downward pressure on prices recently. Under these circumstances, QQE with Yield Curve Control has kept real interest rates at low levels and improved financial conditions through a decline in funding costs as well as favorable conditions in financial and capital markets. As a result, the output gap has expanded in positive territory and positive inflation has taken hold with improvement in the employment and income situation. In addition, due to the improved output gap and tightened labor market conditions, labor force participation of women and seniors has increased and firms have improved their labor productivity. This shows that favorable economic developments have continued under the Bank's large-scale monetary easing. Against this background, positive moves toward addressing the medium- to long-term challenges facing Japan's economy have been observed.

With a view to achieving the price stability target of 2 percent, it is appropriate for the Bank to continue with QQE with Yield Curve Control, which has been effective in pushing up economic activity and prices.

### **B. Policy Effects of QQE with Yield Curve Control**

QQE with Yield Curve Control has been effective in pushing up economic activity and prices through a decline in interest rates. Specifically, the Bank found the following: (1) the policy effects have been transmitted mainly through a decline in funding costs and favorable conditions in financial and capital markets; (2) the effects of the decline in interest rates on economic activity and prices are relatively large for short- and medium-term interest rates; and (3) an excessive decline in super-long-term interest rates could lead to anxiety about the future sustainability of the functioning of financial activities in a broader sense and have a negative impact on economic activity by, for example, undermining people's sentiment.

### **C. Effects on the Functioning of the Japanese Government Bond (JGB) Market and Financial Intermediation**

Under yield curve control, the Bank controls short- and long-term interest rates to appropriate levels. That said, if fluctuations in interest rates stay within a certain range, they will have positive effects on market functioning without impairing the effects of monetary easing. It is important to strike an appropriate balance between maintaining market functioning and controlling interest rates by allowing interest rates to fluctuate to a certain degree, mainly in response to developments in economic activity and prices. From this perspective, as a measure to strengthen the framework for continuous powerful monetary easing, the Bank decided in July 2018 to conduct yield curve control flexibly, and such flexible conduct has been effective in terms of maintaining the functioning of the JGB market.

Due to prolonged low interest rates and structural factors such as the declining population, financial institutions' core profitability has remained on a downtrend and is likely to continue to do so. In the *Outlook for Economic Activity and Prices*, the Bank, based on the *Financial System Report*, has been examining financial imbalances from a longer-term perspective. It was found that prolonged downward pressure on financial institutions' profits may (1) lead to a gradual pullback in financial intermediation and, on the other hand, (2) increase the vulnerability of the financial system, mainly as a result of financial institutions' search for yield behavior.

## **D. Effects of Exchange-Traded Fund (ETF) and Japan Real Estate Investment Trust (J-REIT) Purchases**

ETF and J-REIT purchases have been containing instability in the market by lowering risk premia. In addition, the effects of purchases tend to be greater the higher the instability in financial markets and the larger the size of purchases. This suggests that large-scale purchases during times of heightened market instability are effective.

## **E. Inflation-Overshooting Commitment**

Given that the mechanism of adaptive inflation expectations formation in Japan is complex and sticky, it is necessary to push up inflation under QQE with Yield Curve Control through improvement in the output gap. At the same time, the forward-looking element of inflation expectations formation is important, and in order to strengthen this, the Bank in September 2016 adopted the inflation-overshooting commitment. Through this commitment, the Bank commits to continuing to expand the monetary base until the year-on-year rate of increase in the observed consumer price index (CPI, all items less fresh food) exceeds the price stability target of 2 percent and stays above the target in a stable manner. With this extremely strong commitment, in that the Bank promises to continue with monetary easing based on observed CPI inflation rather than the outlook for CPI inflation, it aims to strengthen people's confidence that the price stability target of 2 percent will be achieved. The "makeup strategy," which is the strategy this commitment is implementing, was examined in this assessment using an economic model. The results of simulations reconfirmed that it was appropriate to employ this strategy as the Bank's monetary policy conduct. Thus, the Bank will continue to pursue the inflation-overshooting commitment.

## **II. Policy Actions**

### **A. Conduct of Yield Curve Control**

#### **1. Establishment of the Interest Scheme to Promote Lending**

Cutting short- and long-term interest rates is an important option as a nimble and effective additional easing measure. It is appropriate to cut those rates while considering the impact on the functioning of financial intermediation. With this in mind, the Bank will introduce a scheme which mitigates the impact on financial institutions' profits to a certain degree at the time of rate cuts depending on the amount of their lending. In this scheme, the Bank will apply certain interest rates as an incentive to financial institutions' current account balances, corresponding to the amount outstanding of funds that have been provided through its various fund-provisioning measures to promote financial

institutions' lending. The applied interest rates will be linked to the short-term policy interest rate (see Attachment 2).

The eligible fund-provisioning measures and the incentives will be categorized into three groups. As for now, funds provided through the Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus (COVID-19) against loans that financial institutions make on their own will fall under Category I and an interest rate of 0.2 percent will be applied; funds provided through the Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus (COVID-19) against loans other than those for Category I and against private debt pledged as collateral will fall under Category II and an interest rate of 0.1 percent will be applied; and funds provided through the Loan Support Program and the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas will fall under Category III and an interest rate of 0 percent will be applied. Depending on the situation, the interest rates and the eligible fund-provisioning measures for each category will be changed as necessary at the Monetary Policy Meetings (MPMs).

This scheme will also contribute to enhancing the effectiveness of the additional easing measure of cutting short- and long-term interest rates. Market participants who are not expecting short- and long-term interest rate cuts as an option for additional easing tend to point to the impact on the functioning of financial intermediation. The scheme will enable the Bank to cut those rates more nimbly while considering such impact.

In addition, given developments in financial institutions' current account balances at the Bank since the introduction of the negative interest rate policy, the Bank will modify the method to calculate the Macro Add-on Balances under the Complementary Deposit Facility in order to narrow the gap between the actual Policy-Rate Balances and the "hypothetical" Policy-Rate Balances, which are calculated based on the assumption that arbitrage transactions fully take place.

## 2. Clarification of the range of fluctuations in long-term interest rates

When the framework for continuous powerful monetary easing was strengthened in July 2018, the Bank, with a view to striking an appropriate balance between maintaining market functioning and controlling interest rates, announced to allow long-term interest rates (10-year JGB yields) to move upward and downward in about double the range, which was previously between around plus and minus 0.1 percent from the target level. Given that there have been times when the range of actual fluctuations in interest rates has become narrow, the Bank considers it appropriate to make clear

that the range of 10-year JGB yield fluctuations would be between around plus and minus 0.25 percent. That said, when, in particular, the yields temporarily fall below the lower limit in day-to-day movements, the Bank will not strictly respond to such developments.

### 3. Introduction of "fixed-rate purchase operations for consecutive days"

One measure to stop a significant rise in interest rates is the fixed-rate purchase operations, through which the Bank purchases an unlimited amount of JGBs with certain maturities at fixed rates. With a view to further strengthening this operation, the Bank will introduce "fixed-rate purchase operations for consecutive days," through which it will conduct the fixed-rate purchase operations consecutively for a certain period of time.

### 4. Conduct of yield curve control for the time being

The Bank expects 10-year JGB yields to move within the range of around plus and minus 0.25 percent from the target level. An excessive decline in super-long-term JGB yields could have a negative impact on economic activity from a long-term perspective. That said, under the continuing impact of COVID-19 in particular, the Bank will conduct yield curve control with a priority on stabilizing the entire yield curve at a low level.

## **B. Asset Purchases and Others**

### 1. Purchases of ETFs and J-REITs

The Bank will purchase ETFs and 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. While these upper limits were originally set as a temporary measure in response to the impact of COVID-19, the Bank will maintain them even after COVID-19 subsides. When a purchase is made, it shall be immediately reported to the members of the Policy Board.

With regard to ETF purchases, the Bank will only purchase ETFs tracking the Tokyo Stock Price Index (TOPIX), which is an index with the largest number of component stocks.<sup>1</sup>

### 2. Purchases of CP and corporate bonds

The Bank will purchase CP and corporate bonds with an upper limit on the amount outstanding of about 20 trillion yen in total until the end of September 2021. A certain amount will continue to be

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<sup>1</sup> As for ETFs composed of stocks issued by firms that actively invest in physical and human capital, the Bank will only continue to purchase those that are "managed so that they track the indices the Bank deems eligible in accordance with the eligibility criteria for indices."

purchased even after the purchases in response to the impact of COVID-19 end.

### 3. Participation of the Financial System and Bank Examination Department at the MPMs

At the MPMs when *the Outlook for Economic Activity and Prices* is decided (four times a year), staff of the Financial System and Bank Examination Department will attend the meeting and explain developments in the financial system to the Policy Board.

### Outline of the Interest Scheme to Promote Lending

#### 1. Purpose

The Bank will establish a scheme to apply certain interest rates as an incentive to financial institutions' current account balances, corresponding to the amount outstanding of funds that have been provided through its various fund-provisioning measures to promote financial institutions' lending. The applied interest rates will be linked to the short-term policy interest rate. This scheme will enable the Bank to cut short- and long-term interest rates more nimbly while considering the impact on the functioning of financial intermediation.

#### 2. Eligible Fund-Provisioning Measures and Incentives

The eligible fund-provisioning measures and the incentives will be categorized into three groups as described below. The applied interest rate for Category II will be the absolute value of the short-term policy interest rate, and a higher rate will be applied for Category I and a lower rate for Category III.

[Today's Decision]

	Applied interest rate (incentive)	Eligible fund-provisioning measure
Category I	0.2%	➤ Special Funds-Supplying Operations to Facilitate Financing in Response to COVID-19, when funds are provided against loans made by financial institutions on their own
Category II	0.1%	➤ Special Funds-Supplying Operations to Facilitate Financing 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%	<ul style="list-style-type: none"> <li>➤ Loan Support Program</li> <li>➤ Funds-Supplying Operation to Support Financial Institutions in Disaster Areas</li> </ul>

Note: For all categories, twice as much as the amount of increase in loans will be included in the Macro Add-on Balances in current accounts held by financial institutions at the Bank.

(Reference) Hypothetical example of the short-term policy interest rate being minus 0.2 percent

	Applied interest rate (incentive)	Eligible fund-provisioning measure
Category I	Higher than 0.2%	To be decided in line with the purpose of this scheme
Category II	0.2%	
Category III	Lower than 0.2%	

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

1. Japan's economy has picked up as a trend, 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 remained in part. In this situation, exports and industrial production have continued to increase. In addition, corporate profits and business sentiment have improved on the whole. Business fixed investment has picked up, although weakness has been seen in some industries. The employment and income situation has remained weak due to the impact of COVID-19. A pick-up in private consumption has paused recently due to increased downward pressure on consumption of services, such as eating and drinking as well as accommodations. 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 and the past decline in crude oil prices. 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 a recovery in external demand, 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. Specifically, downward pressure on face-to-face services consumption is likely to remain in the short run due to the impact of the resurgence of COVID-19 since last autumn. Thereafter, as the impact of COVID-19 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 and the past decline in crude oil prices. 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 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, March 18: 14:00-15:46

Friday, March 19: 9:00-12:32

### 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]

### March 18

From the Ministry of Finance:

Mr. SHINKAWA Hirotosugu, Deputy Vice-Minister for Policy Planning and Coordination  
(14:00-15:46)

From the Cabinet Office:

Mr. TAWA Hiroshi, Vice-Minister for Policy Coordination (14:00-15:46)

### March 19

From the Ministry of Finance:

Mr. NAKANISHI Kenji, State Minister of Finance (9:00-12:12, 12:22-12:32)

From the Cabinet Office:

Mr. AKAZAWA Ryosei, State Minister of Cabinet Office (9:00-12:12, 12:22-12:32)

### Release dates and times:

Further Effective and Sustainable Monetary Easing -- Friday, March 19 at 12:39

Summary of Opinions -- Monday, March 29 at 8:50

Minutes of the Monetary Policy Meeting -- Thursday, May 6 at 8:50