

Statement on Monetary Policy

1. Financial conditions in Japan have been accommodative on the whole. Although the impact of the novel coronavirus (COVID-19) has remained in some segments of small and medium-sized firms in particular, financial positions, including of these firms, have been on an improving trend. Given these developments, the Policy Board of the Bank of Japan, at the Monetary Policy Meeting held today, decided to phase out the Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus (COVID-19) and shift to fund-provisioning that would meet a wide range of financing needs (a unanimous vote).

(1) Treatment of the Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus (COVID-19)

a) Regarding the fund-provisioning against loans that financial institutions make on their own ("non-government-supported loans") in response to COVID-19, mainly to small and medium-sized firms, the Bank will extend the implementation period by six months and complete the fund-provisioning at the end of March 2023. During the extended implementation period, it will provide three-month funds once a month.

b) Regarding the fund-provisioning against loans that financial institutions make on the back of government support ("government-supported loans") in response to COVID-19, mainly to small and medium-sized firms, the Bank will extend the implementation period by three months and complete the fund-provisioning at the end of December 2022. During the extended implementation period, it will provide three-month funds once a month.

(2) Provision of an Unlimited Amount of Funds under the Funds-Supplying Operations against Pooled Collateral

In order to support financing, mainly of small and medium-sized firms, even after the expiration of the above special operations, and with a view to meeting a wider range of financing needs, the Bank will set no upper limit on the amount of fund-provisioning under the Funds-Supplying Operations against Pooled Collateral, for which various types of

collateral are accepted. This change will be applied from the next fund-provisioning scheduled on September 27.

2. The Bank decided to set the guidelines for market operations and asset purchases as follows.

(1) Yield curve control (a unanimous vote)

a) The Bank decided 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 Japanese government bonds (JGBs) without setting an upper limit so that 10-year JGB yields will remain at around zero percent.

b) Conduct of fixed-rate purchase operations for consecutive days

In order to implement the above guideline for market operations, the Bank will offer to purchase 10-year JGBs at 0.25 percent every business day through fixed-rate purchase operations, unless it is highly likely that no bids will be submitted.

(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 purchase CP and corporate bonds at about the same pace as prior to the COVID-19 pandemic, so that their amounts outstanding will gradually return to pre-pandemic levels, namely, about 2 trillion yen for CP and about 3 trillion yen for corporate bonds.

3. Japan's economy has picked up as the resumption of economic activity has progressed while public health has been protected from COVID-19, despite being affected by factors such as a

rise in commodity prices. Overseas economies have recovered moderately on the whole, but slowdowns have been observed, mainly in advanced economies. Exports and industrial production have increased as a trend, with the effects of supply-side constraints waning. Corporate profits have been at high levels on the whole. In this situation, business fixed investment has picked up, although weakness has been seen in some industries. The employment and income situation has improved moderately on the whole, although some weakness has been seen in part. Private consumption has increased moderately, despite being affected by COVID-19. Housing investment has been relatively weak. Public investment has been more or less flat. Financial conditions have been accommodative on the whole, although weakness in firms' financial positions has remained in some segments. On the price front, the year-on-year rate of change in the consumer price index (CPI, all items less fresh food) has been in the range of 2.5-3.0 percent due to rises in prices of such items as energy, food, and durable goods. Meanwhile, inflation expectations have risen.

4. Japan's economy is likely to recover, with the impact of COVID-19 and supply-side constraints waning, although it is expected to be under downward pressure stemming from a rise in commodity prices due to factors such as the situation surrounding Ukraine. Thereafter, as a virtuous cycle from income to spending intensifies gradually, Japan's economy is projected to continue growing at a pace above its potential growth rate. The year-on-year rate of change in the CPI (all items less fresh food) is likely to increase toward the end of this year due to rises in prices of such items as energy, food, and durable goods. Thereafter, the rate of increase is expected to decelerate because the contribution of such price rises to the CPI is likely to wane. Meanwhile, the underlying inflationary pressure is projected to increase on the back of improvement in the output gap and rises in medium- to long-term inflation expectations and in wage growth.
5. Concerning risks to the outlook, there remain extremely high uncertainties for Japan's economy, including the course of COVID-19 at home and abroad and its impact, developments in the situation surrounding Ukraine, and developments in commodity prices and in overseas economic activity and prices. In this situation, it is necessary to pay due attention to developments in financial and foreign exchange markets and their impact on Japan's economic activity and prices.
6. 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.

For the time being, while closely monitoring the impact of COVID-19, the Bank will support financing, mainly of firms, and maintain stability in financial markets, and will not hesitate to take additional easing measures if necessary; it also expects short- and long-term policy interest rates to remain at their present or lower levels.

Reference

Meeting hours:

Wednesday, September 21: 14:00-15:59

Thursday, September 22: 9:00-11:44

Policy Board members present:

Mr. KURODA Haruhiko, Chairman (Governor)

Mr. AMAMIYA Masayoshi (Deputy Governor)

Mr. WAKATABE Masazumi (Deputy Governor)

Mr. ADACHI Seiji

Mr. NAKAMURA Toyoaki

Mr. NOGUCHI Asahi

Ms. NAKAGAWA Junko

Mr. TAKATA Hajime

Mr. TAMURA Naoki

[Others present]

September 21

From the Ministry of Finance:

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

From the Cabinet Office:

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

September 22

From the Ministry of Finance:

Mr. AKINO Kozo, State Minister of Finance (9:00-11:30, 11:39-11:44)

From the Cabinet Office:

Mr. FUJIMARU Satoshi, State Minister of Cabinet Office (9:00-11:30, 11:39-11:44)

Release dates and times:

Statement on Monetary Policy -- Thursday, September 22 at 11:51

Summary of Opinions -- Monday, October 3 at 8:50

Minutes of the Monetary Policy Meeting -- Wednesday, November 2 at 8:50