

March 19, 2024

Bank of Japan

Changes in the Monetary Policy Framework

1. At the Monetary Policy Meeting held today, the Policy Board of the Bank of Japan assessed the virtuous cycle between wages and prices, and judged it came in sight that the price stability target of 2 percent would be achieved in a sustainable and stable manner toward the end of the projection period of the January 2024 Outlook Report (*Outlook for Economic Activity and Prices*). The Bank considers that the policy framework of Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control and the negative interest rate policy to date have fulfilled their roles. With the price stability target of 2 percent, it will conduct monetary policy as appropriate, guiding the short-term interest rate as a primary policy tool, in response to developments in economic activity and prices as well as financial conditions from the perspective of sustainable and stable achievement of the target.¹ Given the current outlook for economic activity and prices, the Bank anticipates that accommodative financial conditions will be maintained for the time being.

On this basis, the Bank made the following decisions, including that on the guideline for market operations.

(1) Guideline for market operations (a 7-2 majority vote)^[Note 1]

The Bank decided to set the following guideline for market operations for the intermeeting period.

The Bank will encourage the uncollateralized overnight call rate to remain at around 0 to 0.1 percent.²

¹ The Bank judged that the inflation-overshooting commitment regarding the monetary base had fulfilled the conditions for its achievement.

² In order to achieve this guideline, the Bank will apply an interest rate of 0.1 percent to current account balances held by financial institutions at the Bank (excluding required reserve balances). The new guideline for market operations and the new interest rate on the current account balances will be effective from March 21, 2024.

(2) Purchase of Japanese government bonds (JGBs) (an 8-1 majority vote) ^[Note 2]

The Bank will continue its JGB purchases with broadly the same amount as before.³ In case of a rapid rise in long-term interest rates, it will make nimble responses by, for example, increasing the amount of JGB purchases and conducting fixed-rate purchase operations of JGBs -- both of which can be done so regardless of the monthly schedule of JGB purchases -- and the Funds-Supplying Operations against Pooled Collateral.

(3) Asset purchases other than JGB purchases (a unanimous vote)

a) The Bank will discontinue purchases of exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs).

b) The Bank will gradually reduce the amount of purchases of CP and corporate bonds and will discontinue the purchases in about one year.

(4) Treatment of new loan disbursements under the Fund-Provisioning Measure to Stimulate Bank Lending etc. (a unanimous vote)

The Bank will provide loans under the Fund-Provisioning Measure to Stimulate Bank Lending, the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas, and the Funds-Supplying Operations to Support Financing for Climate Change Responses with an interest rate of 0.1 percent and a duration of one year. With regard to the Fund-Provisioning Measure to Stimulate Bank Lending, the maximum amount of funds that each eligible counterparty can borrow will be equivalent to the net increase in its amount outstanding of loans.

2. Japan's economy has recovered moderately, although some weakness has been seen in part (see Attachment). Looking at the background conditions of wage developments, corporate profits have continued to improve and labor market conditions have been tight. In this situation, as indicated by the results of this year's annual spring labor-management wage negotiations to date, it is highly likely that wages will continue to increase steadily this year, following the firm wage increase last year. Moreover, anecdotal information from firms -- which is gathered through the Bank's Head Office and branches -- suggests that a wide range of firms have maintained their stance of raising wages. On the price front, while the effects of a pass-through

³ The amount of JGB purchases is currently about 6 trillion yen per month. The Bank will continue to announce the planned amount of JGB purchases with a range and will conduct the purchases while taking account of factors such as market developments and supply and demand conditions for JGBs.

to consumer prices of cost increases led by the past rise in import prices have waned, services prices have continued to increase moderately, partly due to the moderate wage increases seen thus far. As these recent data and anecdotal information have gradually shown that the virtuous cycle between wages and prices has become more solid, the Bank judged it came in sight that the price stability target would be achieved in a sustainable and stable manner toward the end of the projection period of the January 2024 Outlook Report.

[Note 1] Voting for the action: UEDA Kazuo, HIMINO Ryozo, UCHIDA Shinichi, ADACHI Seiji, NAKAGAWA Junko, TAKATA Hajime, and TAMURA Naoki. Voting against the action: NAKAMURA Toyoaki and NOGUCHI Asahi. While Nakamura Toyoaki was in favor of discontinuing purchases of ETFs and other assets, which were mainly related to large firms, he dissented, considering that the Bank should continue with the negative interest rate policy until it confirmed that the capacity of small and medium-sized firms -- whose recovery in business performance was delayed -- to raise wages would likely increase. Noguchi Asahi dissented, considering that terminating the yield curve control framework and the negative interest rate policy simultaneously should be avoided from the perspective that the Bank should more carefully assess whether the virtuous cycle between wages and prices had become more solid and avoid the risk of bringing about discontinuous changes in financial conditions.

[Note 2] Voting for the action: UEDA Kazuo, HIMINO Ryozo, UCHIDA Shinichi, ADACHI Seiji, NOGUCHI Asahi, NAKAGAWA Junko, TAKATA Hajime, and TAMURA Naoki. Voting against the action: NAKAMURA Toyoaki. Nakamura Toyoaki dissented for the same reason as he opposed the proposal regarding the guideline for market operations.

Economic Activity and Prices in Japan: Current Situation and Outlook

1. Japan's economy has recovered moderately, although some weakness has been seen in part. The pace of recovery in overseas economies has slowed. Although exports have been affected by the developments in overseas economies, they have been more or less flat. Industrial production has been more or less flat as a trend, but it has declined recently, partly due to the effects of a suspension of production and shipment at some automakers. With corporate profits improving, business fixed investment has been on a moderate increasing trend. The employment and income situation has improved moderately. Private consumption has been resilient, although the impact of price rises and developments such as a decline in automobile sales due to the suspension of shipment at some automakers have been observed. Housing investment has been relatively weak. Public investment has been more or less flat. Financial conditions have been accommodative. On the price front, the negative contribution of energy prices to the year-on-year rate of increase in the consumer price index (CPI, all items less fresh food) has been relatively large, partly due to the government's economic measures. That said, the rate of increase in the CPI has been at around 2 percent recently, mainly on the back of the fact that, despite waning, the effects of a pass-through to consumer prices of cost increases led by the past rise in import prices have remained, and services prices have increased moderately. Inflation expectations have risen moderately.
2. Japan's economy is likely to continue recovering moderately for the time being, supported by factors such as the materialization of pent-up demand, although it is expected to be under downward pressure stemming from a slowdown in the pace of recovery in overseas economies. Thereafter, as a virtuous cycle from income to spending gradually intensifies, Japan's economy is projected to continue growing at a pace above its potential growth rate. The year-on-year rate of increase in the CPI (all items less fresh food) is likely to be above 2 percent through fiscal 2024, due to factors such as the effects, albeit waning, of the pass-through to consumer prices of cost increases led by the past rise in import prices and a waning of the effects of the government's economic measures pushing down CPI inflation of the previous year. Thereafter, the rate of increase is projected to decelerate owing to dissipation of these factors. Meanwhile, underlying CPI inflation is likely to increase gradually toward achieving the price stability target, as the output gap turns positive and as medium- to long-term inflation expectations and wage growth rise.

3. Concerning risks to the outlook, there are extremely high uncertainties surrounding Japan's economic activity and prices, including developments in overseas economic activity and prices, developments in commodity prices, and domestic firms' wage- and price-setting behavior. Under these circumstances, 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.