BOJ Governor Kuroda's Press Conference January 18, 2023
G: BOJ Governor Kuroda
Q: Reporters

(0:05:11)
Q: (Asahi Shimbun, Tsuzaka): I am Tsuzaka from the Asahi Shimbun, the managing company for the month. We thank you for continuing to provide these press conferences. We appreciate your attendance today. Today's press conference is scheduled to last 45 minutes as is usual and will be extended at most to 1 hour. To enable as many participants as possible to ask questions, we would appreciate if you would keep the number of questions to a minimum and ensure the questions are concise. So, to the Governor, would you please tell us the details of the decisions made at today's Policy Board meeting as well as the details in the Outlook Report.

(0:05:38)
G: At the Monetary Policy Meeting held today, the Policy Board of the Bank of Japan (BOJ) decided by unanimous vote to maintain the existing policy for monetary market operations for the long- and short-term rates operations, or so-called "Yield Curve Control." We also decided by unanimous vote to maintain the existing guidelines for asset purchases.
The Policy Board also decided to (1) extend by one year the deadline for loan disbursement under the Fund-Provisioning Measure to Stimulate Bank Lending, (2) expand the range of eligible counterparties for the Funds-Supplying Operations to Support Financing for Climate Change Responses to include member financial institutions of central organizations of financial cooperatives, and (3) enhance the Funds-Supplying Operations against Pooled Collateral.

At today's Policy Board Meeting we also issued the Outlook for Economic Activity and Prices (Outlook Report), so I would like to explain about the current state and outlook for the economy and prices outlined in that report.
We have judged that Japan's economy, despite being affected by factors such as high commodity prices, has picked up as the resumption of economic activity has progressed while public health has been protected from the novel coronavirus (COVID-19). The pace of recovery in overseas economies has slowed. 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, and business sentiment has been more or less unchanged. In this situation, business fixed investment has increased moderately. The employment and income situation has improved moderately on the whole. Private consumption has increased moderately, despite being affected by COVID-19.
Financial conditions have been accommodative on the whole, although weakness in firms' financial positions has remained in some segments.
Japan's economy is likely to recover toward the middle of the projection period, with the impact of COVID-19 and supply-side constraints waning, although it is expected to be under downward pressure stemming from high commodity prices and slowdowns in overseas economies. 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.
On the price front, the year-on-year rate of change in the CPI (all items less fresh food) has been in the range of 3.5-4.0% due to rises in prices of such items as energy, food, and durable goods. Meanwhile, inflation expectations have risen
The year-on-year rate of increase in the consumer price index (CPI, all items less fresh food) is likely to be relatively high in the short run due to the effects of a pass-through to consumer prices of cost increases led by a rise in import prices. The rate of increase is then expected to decelerate toward the middle of fiscal 2023 due to a waning of these effects, as well as to the effects of pushing down energy prices from the government's economic measures. Thereafter, it is projected to accelerate again moderately on the back of improvement in the output gap, rises in medium- to long-term inflation expectations and in wage growth, and a waning of the effects of the economic measures pushing down energy

prices toward the middle of fiscal 2023.
Comparing the projections with those presented in the previous Outlook for Economic Activity and Prices (Outlook Report), the projected growth rates for fiscal 2022 and 2023 are somewhat lower, mainly due to overseas economies deviating downward from the previous baseline scenario, although the government's economic measures are likely to make a positive contribution to the growth rates. The projected growth rate for fiscal 2024 is somewhat lower due to a waning of the effects of those measures pushing up the economy of the previous year. The projected rates of increase in the CPI for fiscal 2022 and 2023 are more or less unchanged, as effects such as those of a pass-through to consumer prices of cost increases led by a rise in import prices are likely to offset the effects of pushing down energy prices from the economic measures. The projected rate of increase in the CPI for fiscal 2024 is somewhat higher due to a waning of the effects of those measures pushing down energy prices of the previous year.
Concerning risks to the outlook, there remain extremely high uncertainties for Japan's economy, including the following: developments in overseas economic activity and prices; developments in the situation surrounding Ukraine and in commodity prices; and the course of COVID-19 at home and abroad and its impact. 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.
With regard to the risk balance, risks to economic activity are skewed to the downside for fiscal 2022 and 2023 but are generally balanced for fiscal 2024. Risks to prices are skewed to the upside.
As for the conduct of monetary policy, the BOJ will continue with QQE with Yield Curve Control, aiming to achieve the price stability target of 2%, 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% and stays above the target in a stable manner. For the time being, while closely monitoring the impact of COVID-19, the BOJ 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.

(0:11:40)

Q: Thank you. As the Managing Company, I would like to ask two questions.
My first question concerns the rise in the outlook for prices. It appears that circumstances are very much approaching the achievement of the 2% price stability target with the sustained and stable rise in prices that you have previously talked about. On the other hand, higher prices are weighing heavily on households and businesses.
Would you once again explain to us the need for maintaining the accommodative monetary stance under such circumstances.
My next question concerns yield curve control.
At last month’s Policy Board meeting you expanded the range of yield fluctuations on 10-year JGBs. 10-year JGB yields subsequently rose above the upper limit of 0.5% and there has been no easing in the distortion of the yield curve, suggesting that the measures have not been effective. Some have even claimed that the unconventional YCC is perhaps reaching its limits. Would you please provide us with your views of these yield movements. Does the range of yield fluctuations need to be increased further?

(0:12:31)

G: First in relation to the first question, the year-on-year rate of change in the CPI (all items less fresh food) has recently been in the range of 3.5-4.0%, but we anticipate the rate of increase will decelerate to a level below 2% by the middle of fiscal 2023. The underlying CPI inflation is likely to increase gradually toward achieving the price stability target, mainly on the back of improvement in the output gap and rises in medium- to long-term inflation expectations and in wage growth. However, we think this will take further time and we do not believe that the circumstances would lead to an outlook for achievement of the target with a sustained and stable rise in prices. To provide more specific details, the median forecasts in the

Outlook Report for the year-on-year rate of change in the CPI (all items less fresh food) are 1.6% for fiscal 2023 and 1.8% for fiscal 2024. Comparing the projections with those presented in the previous Outlook Report, the projected rate for fiscal 2024 is somewhat higher, but this attributed to the government's measures to reduce the household burden of higher gasoline prices, electricity charges, and manufactured and piped gas charges, and the rebound that is likely to push up the rate due to a waning of the effects of those measures. In this regard, looking at the forecast for CPI (all items less fresh food and energy) -- which is not directly affected by fluctuations in energy prices -- the year-on-year rate of change is projected to be somewhat higher in the range of 1.5-2.0% for fiscal 2023 due to the effects of a pass-through to consumer prices of cost increases led by a rise in import prices, but the projection for fiscal 2024 is the same as the previous projections of mid 1.5% levels.

In addition, while Japan's economy is on its way to recovery from COVID-19, there remain extremely high uncertainties for Japan's economy, including the impact from the situation in overseas economic activities and prices, the impact of infections and the situation surrounding Ukraine. Considering this situation in economic activity and prices, it Is currently important to have a firm understanding of the economy and companies require circumstances that enable them to lift wages. From the BOJ's perspective, we will continue our accommodative monetary stance with the aim of achieving the target of a sustained and stable rise in prices accompanied by wage increases.

In regard to your second question, the BOJ continues to offer to purchase 10-year JGBs at 0.5% every business day through fixed-rate purchase operations. From an economic rationalist perspective, we do not anticipate ongoing transactions at yields above 0.5%. From the BOJ's perspective, we do not believe there is any need to expand the range of yield fluctuations. We will encourage the formation of a yield curve that is consistent with the guideline for market operations with nimble responses in conducting market operations, including the use of the Funds-Supplying Operations against Pooled Collateral that we amended today.

(0:15:50)

Q: Thank you. Now I turn it over to other companies to ask questions.

(0:16:00)

Q: (Jiji, Imachi) I would like to ask about yield curve control (YCC). At the previous policy meeting, you expanded the fluctuation range of long-term interest rates with the aim of improving the functionality of the Japanese government bond market. Although the distortion of the yield curve may be remaining, I would like to know of your evaluation on whether the improvement has been achieved to a certain extent. Moreover, today you expanded funds-supplying operations against pooled collateral. How long do you expect it will take to remove the yield curve distortion? This is my first question.

My second question: Regarding the upward revision to the price outlook, you said that the starting point is the rise in import prices. However, do you consider that demand-related factors are also boosting prices?

G: At the previous monetary policy meeting, the BOJ decided to partially revise the way it operates YCC to improve the functionality of the market function while maintaining the accommodative monetary environment. This was to expand the fluctuation range of long-term interest rates, while sharply increasing JGB purchases, further increasing the purchase amounts of JGBs with various maturities, and flexibly conducting fixed-rate operations, as needed. This time, we have expanded funds-supplying operations against pooled collateral. Not a long time has passed since we revised the way of operating YCC, so we will need further time to evaluate the effects of those measures. However, we expect that the market functions will improve with continuation of the flexible market operations. Regarding the price conditions, as I mentioned, in terms of the real economy, there are the effects of the government's comprehensive economic package to alleviate the burden due to the surge in energy prices on households and companies. The package is also expected to boost the entire economy. Anyway, partly due to the policy effects, Japan's economy will continue to grow more than its potential growth rate for three consecutive years in 2022, 2023, and 2024. As a matter of fact, there will be gradual effects of boosting wages and prices from the aspect of demand. In particular, the output gap is expected to be eliminated before long and turn positive. Moreover, due to the expansion of economic activities, there has been a remarkable turnaround in the labor shortage and wages will likely increase further at the regular Shunto (spring labor-management negotiations) and on other opportunities. In this sense, not only the rise in import prices, which is a cost-push factor, but also demand-related factors have had an impact of boosting prices. Meanwhile, the price-boosting effects from import prices have become huge, but they will wane gradually. On the other hand, wages and prices will rise moderately due to the strong demand and the entrenched labor shortage. These two aspects are offset. So, as shown in today's Outlook Report, the rise in the CPI (all items less fresh food) is expected to slow to 1.6% in 2023, but recover to around 1.8% in 2024.

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Q: (Yomiuri, Yamauchi) I also have a question about YCC. When you reviewed the way YCC is operated in December last year, you explained that you intend to enhance the durability of monetary easing policy with YCC as the starting point. I know that it takes time to confirm the effects of the policy review, but it is hard to foresee when the distortion of the yield curve will be eliminated. In addition, the BOJ's JGB holding ratio has exceeded 50% and you have further accelerated your pace of JGB purchases, so there are growing concerns about the effects of YCC. What do you think about the durability of YCC?

G: As I mentioned, we decided to partially revise the way YCC is operated while maintaining the accommodative monetary environment, from the standpoint of improving the functionality of the market. We also decided to sharply increase JGB purchases and make nimble responses for each maturity by increasing the amount of purchases even more and conducting fixed-rate purchase operations when deemed necessary. This time, we expanded funds-supplying operations against pooled collateral. Not a long time has passed since the review of the operations, so we are yet to confirm a clear correction to the distortion and improvement of the market functionality. However, we believe that the market functions will improve in the future by conducting flexible market operations. In this sense, I believe that YCC is sufficiently durable. There should also be discussions about how long it takes until the functions are improved, as I mentioned earlier. We only made this revision in December last year after having maintained the yield curve within the range of positive and negative 0.25% for a long time. Thus, I believe that it will take a certain time for the interest rate formation to be established under the new operating policy. However, due to the flexible market operations, there should be sufficient enhancement of the market functionality and the durability of YCC should be sufficiently secured.

(0:24:21)

Q: (Bloomberg, Ito) I have two questions. The first one is about today's expansion of funds-supplying operations against pooled collateral. As the purpose of the expansion, do you aim to guide interest rates lower in markets other than the JGB market, such as the swaps market? You also changed your policy about the interest rates for fixed-rate operations from 0% to "The Bank shall determine the interest rate of each loan in order to encourage the formation of a yield curve that is consistent with the guideline for market operations." Does that mean that you will not exclude loans at negative interest rates? This is my first question. My second question is about the fluctuation range of long-term interest rates again. You said that you aim to improve the market functionality. I believe that the distortion in the market is against the backdrop of the stronger pressure to boost interest rates due to the rise in prices. In this sense, I guess that YCC has a limit for an intrinsic rise in interest rates due to heightening inflation expectations and other factors. What do you think about this point?

G: First, the aim of the expansion of funds-supplying operations against pooled collateral is to enable more flexible fund supply in a bid to encourage the formation of a yield curve that is consistent with the guideline for market operations. We can expect that financial institutions that have used these operations will be affected by markets other than the cash bond market through various arbitrage activities for instruments like swaps, as you mentioned. Due to these activities, we can expect that long-term interest rates will be guided lower without giving a direct impact on the supply-demand situation of cash bonds. Accordingly, we plan to combine various methods or maturities in conducting funds-supplying operations against pooled collateral. As I said earlier, this afternoon, we will conduct an operation with a two-year maturity at a loan rate of 0% and next week, on January 23, we will conduct an operation with a five-year maturity under a tender scheme for interest rates. Accordingly, by conducting various ways of funds-supplying operations against pooled collateral, we would like to encourage the formation of a yield curve that is consistent with the guideline for market operations.

Regarding the rise in prices, as we stated in the Outlook Report, the year-on-year rate of change in the CPI (all items less fresh food) is expected to reach 3% in FY 2022. The CPI (all items less fresh food and energy) is expected to reach 2.1%. However, as I said earlier, the rise in the CPI (all items less fresh food) is expected to slow to 1.6% in FY 2023 and stand at 1.8% in FY2024. Based on these expectations, we will maintain YCC. We are not in a situation where inflation will reach 2% or we can achieve the 2% price target in a sustained and stable manner, so I don't believe there is a serious problem as you mentioned. Furthermore, negative interest rates are not eliminated under fund-supplying operations against pooled collateral. Anyway, we would like to conduct these operations within the expanded range in an appropriate and flexible manner.

(0:28:53)

Q: (TV Tokyo, Oe) After you maintained your monetary policy, long-term interest rates fell sharply in the market today. Considering the future situation, there should be battles around the 0.5% maximum level and the BOJ should continue buying JGBs. Recently, the BOJ bought more than 2 trillion yen's worth of JGBs in a single day. Do you recognize that such huge purchases will lead to problems? Next, do you have a plan to conduct a comprehensive review of the effects and side effects of the policy measures you took during your 10-year term as BOJ Governor?

G: First of all, I believe that YCC of maintaining the yield on 10-year JGBs at around 0% is sufficiently sustainable. Under these circumstances, we expanded the fluctuation range of long-term interest rates from positive and negative 0.25% to positive and negative 0.5% in a bid to improve the market functionality. That means that we have enhanced the sustainability of YCC. Of course, we should examine the effects and side effects of monetary policy measures and conduct policy appropriately. I don't see any specific problem in the increase in JGB purchases because YCC should be conducted depending on the market situation. Since the introduction of QQE in April 2013, we have maintained monetary easing policy on a huge scale until the current policy measure of YCC. By doing this, we succeeded getting out of deflation, which continued from 1998 through to 2012, and establishing a situation that is not deflation. The deflationary situation of continuous negative inflation, little economic growth, and few hikes in pay scales was overcome. The growth rate has recovered, employment has increased sharply, and wage hikes have also been restored. However, it is unfortunate that the rises in prices and wages have failed to form a situation where the 2% price target can be achieved in a sustained and stable manner. Even so, I believe that our monetary policy has had sufficient effects.

(0:32:53)

Q: (Mainichi, Oka) I have two questions. The first one: Looking at the markets for a few days before today's policy decisions, I believe there were moves that factored the expansion of the fluctuation range or some other changes in policy measures. By deciding to maintain the existing monetary easing policy, do you consider that the BOJ has successfully conveyed its intention to the markets?

The second question is about prices. Excluding the government's package, the expected rises in the CPI (all items less fresh food and energy) slow each year in your Outlook Report. If this outlook is right, do you consider it appropriate to maintain the current monetary easing framework?

G: As stated in the previous policy meeting's statement and at the press conference, we have decided to maintain the large-scale monetary easing policy. Under these circumstances, we are going to correct the dysfunction of the JGB and corporate bond markets. So, as a matter of fact, the BOJ has stated that it will not change, but it will maintain the accommodative stance, and this time we stated that again. In this sense, if the markets were moving in expectation of a change in our policy, these moves have been corrected.

Regarding prices, as I have mentioned, the recent rise in import prices has been converted into the rise in the CPI, but the surge in import prices has been slowing and its impact is going to wane. In the meantime, as economic growth beyond the potential growth rate continues, the output gap in GDP improves, there has been a remarkable turnaround in labor shortages, and wages keep rising, the CPI is expected to increase moderately. On the other hand, there are various other factors, so watching the price trend accurately is not easy. However, as stated in detail in the Outlook Report, as I mentioned earlier, in the process the path of gradual rises in wages and prices is emerging little by little. At present, however, we are not in a situation of being able to foresee that we can achieve the 2% price target in a sustained and stable manner. Accordingly, the Policy Board Members unanimously agreed to maintain the monetary easing policy at present.

(0:37:14)

Q: (Nikkei, Onozawa): I have two questions. First, although a reporter from another company has already asked, my question relates to the significant increase in JGB purchases. The BOJ already holds about half of all JGBs outstanding, and it is envisaged that the amount will continue to increase. Is there any risk in such situation? Second, the market was very volatile because there were heightened speculations that the monetary policy would be adjusted. That has also happened before and it is envisaged that there will be such battles in the market as the MPC approaches. I'm wondering if this is appropriate. I believe this time was particularly volatile because of a difference in thinking between the BOJ and the market. Please tell us how you will communicate with the market.

G: About the JGB purchases, it is linked to our operation under the YCC. I do not believe there are any particular risks posed by the BOJ increasing its JGB holdings. However, it would be problematic if the supply and demand of a particular issue becomes tight. So, to avoid that, we are taking measures, such as expanding the Securities Lending Facilities. How shall I say? I believe there aren't any big problems. On the other hand, the reason of enhancing the Funds-Supplying Operations against Pooled Collateral is to keep the long-term interest rate low in order to make the entire yield curve appropriate form, without impacting the supply-and-demand of JGBs.

As for the market movement at every MPC, what shall I say, I do not believe there are any particular problems. We are commenting very openly about our monetary policy; we show our specific outlook on economy and prices four times a year through the Outlook for Economic Activity and Prices, and we openly discuss and talk about our monetary policy based on those. Of course, under such circumstances, the same thing can happen in other countries. It is, in a way, natural that people in the market have various views on the future outlook. The monetary authorities and the markets do not necessarily have the same views. I believe that it is necessary for us that we always discuss openly about monetary policy and we make our thinking and outlook on monetary policy clear, then we decide the monetary policy at every MPC.

(0:41:28)

Q: (Reuters, Kihara): I have two questions. My first question is about the economy and prices. Looking at the latest Outlook Report, I believe there are relatively large downward revisions for the growth forecasts, particularly for 2024. In addition, the core-core prices, which I believe are closer to the underlying inflation, will not increase significantly in 2024, as was the case in October. Under the circumstance that overseas economic growth is slowing and with the downward revision of Japan's economic growth, or in another words, if Japan's

economic growth is not going to be strong, please tell us how this would affect wages. I'm wondering, as you do not have any confidence about wage increases, if this is reflected in the outlook for core-core prices. Please tell us about the risk relationship between the economy and prices.
Second, my understanding has become a lot better on the reason of enhancing the Funds-Supplying Operations against Pooled Collateral thanks to your explanation. Will it be incorporated as a new tool in the YCC? I believe the nature of the YCC is to encourage the formation of the yield curve through JGB purchases. If you add the new tool to the YCC, I believe we can say that the operation of the YCC is getting difficult. Please explain the positioning of the Funds-Supplying Operations against Pooled Collateral in the YCC framework.

G: In response to the first question, we note that overseas economies are slowing in the Outlook Report. The IMF's outlook is the same. Under these circumstances, it is true that the growth outlook was revised downward from the previous outlook. Despite that, Japan's economic growth is forecast to exceed the potential growth rate in 2022, 2023 and 2024. I believe that Japan's growth rate is relatively high among G7 countries. Although I believe there are various reasons, the background is the slower pace of recovery from the COVID-19 pandemic. On the other hand, the accommodative monetary policy remains and there is support from the government's economic policy. I believe those also contribute. Under these circumstances, I believe there will be a significant acceleration in the pace of wage increases, different from the past. At this moment, opinions from the business world and from the labor world are being expressed ahead of the Shunto (Spring wage negotiations). Bonuses were very strong in the summer and winter of 2022. Corporate earnings are at record highs. As Japan's economy grows at a higher pace than its potential growth rate, the GDP gap will improve and the labor shortage will become more apparent. We believe that the wage increase will accelerate, but we do not know the extent, because it is a new phenomenon. I mean that price increase of this magnitude are occurring for the first time in several decades, the historical level of corporate earnings is unprecedented, and so on. Although we cannot say precisely about the degree of future wage increases at this moment, we believe wage increases will accelerate.
As for the Funds-Supplying Operations against Pooled Collateral, we have being utilizing this. We enhanced the operations when we operated with negative interest rates and we have enhanced it again this time. It has been with us as a tool for monetary policy. As I said earlier, I believe it is effective. It is true that we have enhanced one of our tools, but I believe it is not indicative of any limit of YCC. Rather, we can use it as a tool to make YCC more effective, or make the yield curve more appropriate.

(0:47:31)
Q: (TBS TV, Shinada): I would like to ask this question because this is a precious opportunity to hear from you. Looking back on the past 10 years, how do you evaluate the decisions in December and this month? Do you have any intention of a smooth handover to the next governor?

G: (Laughing) As I have been saying, for the last 10 years, I have examined the situations of the economy and prices and have decided monetary policies at the MPC. Although I believe there were certain effects, the fact is that we have not reached the state of maintaining the target 2% price increase in a sustainable and stable manner. I'm going to put all my effort into achieving the 2% price stability target based on such thinking until the end of my term. I do not talk about my successor nor do I think that I am doing things "on behalf of my successor", because it is presumptuous.

(0:49:13)
Q: (Market News, Inoue): Interest rates rose following the December MPC, and the market has been volatile. Speculation has surfaced about unrealized losses at banks. I would like to

know what you think about this. In addition, I'm hearing some opinion that the JGBs are more attractive after the BOJ's December decision.

G: As I have been saying, the December decision was aimed at improving the functionality of the entire bond market. I'm going to watch the effects closely, as I believe those will not be apparent until sometime later. As for the status of the financial institutions, as you may know, it is true that the unrealized losses of the portfolios of the Japanese financial institutions are expanding, particularly for overseas bonds and funds of overseas interest rate related vehicles, following the large hikes in the overseas interest rates. In addition, overseas interest rates, mainly for 10 year issue, rose a little since the last MPC, and it may result in the expansion of unrealized losses on domestic bonds. Anyway, as I said earlier, following the large increases in overseas interest rates, the unrealized losses have expanded. Financial institutions, as a whole, have adequate capital and I see deterioration of securities-related earnings having limited impact on the financial intermediation function and the stability of the financial system. I'm not worried. However, as the BOJ, we will closely monitor interest rate dynamics and the portfolio investments and risks at financial institutions under such circumstances.

(From managing company of the meeting, notification of the time passed and request for simple question and answer)

(0:52:21)
Q: (Hokkaido Shimbun, Kousaka): You said that it will take some time until you arrive at the 2% price stability target. On the other hand, I believe it is true that the price outlook has been revised upward in every Outlook Report for the past year. I would like to hear what you think about this. Thinking about the exact timing to arrive at the 2% price stability target, do you think it is getting closer?

G: It is true that we have upwardly revised the outlook in the Outlook Report. We again upwardly revised this time and we admit that future risk is tilted to an upward revision, rather than downward. However, even under those circumstances, based on various data, I believe the median forecasts as shown in the table. It is because, as I have been saying, various factors are having an impact. As shown in the table, MPC members admit that the risk is tilted to an upward revision. The median is shown in the table.

(0:53:56)
Q: (Kyodo Tsushin, Kakimoto): I would like to ask two questions. The first question relates to mortgage interest rates, which have a large presence in people's daily lives. The level of the fixed 10-year interest rate applied by major financial institutions since January this year is higher than the rate applied in April 2013, just before the BOJ started its large-scale easing, making it difficult for the public to understand the significance of the benefits of the BOJ's continued strong large-scale easing. Please reiterate the significance of the BOJ's continued large-scale easing with the manipulation of long-term and short-term interest rates. Second, I would like to ask about the BOJ's approach to policy changes. You have reiterated your intention to continue the large-scale easing until the BOJ achieves its 2% price increase target in a stable and sustainable manner. With the BOJ lacking a clear outlook on achieving its price target, please tell us whether or not you think it is possible to lift the negative interest rate other than by through the achievement of the price target.

G: Regarding the first point, I have already mentioned it earlier. We have continued monetary easing with the goal of achieving a sustainable and stable rate of increase in the CPI of 2%. In terms of housing loan interest rates, they have been gradually rising since the beginning of last spring, and some financial institutions have also raised their interest rates based on the trend in government bond yields since the previous meeting. During this period, there seems to have been no change in the applicable interest rates for variable-rate loans, which account for the majority of home loans. In any case, we will continue to carefully monitor trends in mortgage interest rates and their effects.

As for yield curve control, the policy interest rate is set at minus 0.1 with a target of 0% for the 10-year JGB rate. Regarding the issue of this negative interest rate, as mentioned at the end of the commentary, the policy interest rate is assumed to remain at or below the current level of the short- and long-term interest rates.

(0:56:53)
Q: (Nikkin, Tada) I would like to ask you about the Special Deposit Facility to Enhance the Resilience of the Regional Financial System. Most of the regional banks and other financial institutions are eligible for the Special Deposit Facility, but what do you think about the current situation of financial institutions in strengthening their profitability and improving their management efficiency? Also, I believe that this is a time-limited measure that will last until the end of FY2022. I would like to know if there are any plans to extend the program.
G: We have published some analysis of the effects, and I believe that it has been reasonably effective. I believe that the earning power of regional financial institutions has been enhanced by expanding new sources of revenue, rather than simply saving on expenses. This will naturally have a positive effect on the local economy. We will continue to carefully evaluate the effects of this program. At this point, we have not yet decided what we will do after the expiry date.

(0:58:40)
Q: (Yomiuri Shimbun, Sekine) At the December meeting you expanded the yield fluctuation range to 0.5% in order to correct market distortions, but now you have decided to encourage interest rates to decline by expanding long- and short-term operations. Does this mean that you are concerned that the rise in interest rates in the financial markets, caused by the expansion of the fluctuation range in December, may weaken the effect of the easing?

G: Basically, the effect of monetary policy easing needs to be viewed in terms of real interest rates. As shown in the Outlook Report, real interest rates have been declining consistently. I do not believe that the expansion of the fluctuation range of the 10-year yields from 0.25% to 0.5% will have any serious impact on the significant decline in real interest rates and the very large effect of monetary easing on the economy. Therefore, it is not so much that we did something out of such concern, but rather from the viewpoint of improving the functioning of the bond market. However, there were aspects in which this intention was not fully reflected. So we are enhancing the means with which to adjust the market and correct the distortion of the yield curve in order to improve the market function to the fullest extent, and to help create an appropriate yield curve. We did not enhance the pooled collateral operation because the easing effect of the monetary policy has weakened.

(1:01:45)
Q: (Freelance, Hajime Yokota) At the last meeting in December, the measures resulted in making the yen stronger and reducing import price inflation, a positive direction. However, the continuation of the easing this time has made the yen weaker and increased import price inflation, a negative direction. Why did you not steer the course in a direction that would be positive for people's lives? I asked the same question last month, but you said that you would not comment on the outlook for price hikes of less than 2% for the next fiscal year or the impact of exchange rates. However, if the yen continues to depreciate further, it is quite possible that the rate will exceed 2%. Given the fact that you and Prime Minister Abe led the yen to excessive weakness under the Abenomics easing policy, I don't understand why you would not comment on exchange rate fluctuations. I have the feeling that you don't want to tarnish Prime Minister Abe's legacy, or that the lives of the people have become a secondary concern. Please give us a rational and persuasive answer.

G: I am not sure I understand the purpose of your question, but as I have said many times, through monetary easing, there will be economic growth, wages will rise, and prices will rise moderately, which is what is meant by a stable and sustainable increase in prices. The price stability target is set accordingly, and that is what we have been pursuing. As for fluctuations in exchange rates, as a central bank, we are not in a position to give specifics about the level, etc. Foreign exchange policy is under the authority and responsibility of the government which, in the case of Japan, is the Ministry of Finance.

(1:04:19)
Q: (Freelance, Goto): In the earlier questioning, you said that you had no special issues regarding dialogue with the market and that you would discuss and clarify monetary policy openly. However, in reality, if you look at the December meeting, the policy revision came as a very big surprise, as there was no prediction of a policy revision until then. Conversely, this time the market reacted greatly to the fact that the result was to maintain the status quo after earlier speculation of a policy revision. As you mentioned earlier, you say it is desirable for the exchange rate to remain stable, but in my opinion, the policy meeting itself has become a destabilizing event for the market. In light of this, do you think you are having a sincere dialogue with the market? Is it correct to say that your response was that there is absolutely nothing to reflect on or improve in terms of communication in the future?

G: As I have already mentioned, regarding monetary policy decisions, we discuss the economy, prices, and financial conditions at the Monetary Policy Meetings, which forms the basis for our discussion concerning the conduct of monetary policy up to the next meeting. No central bank of any country communicates to the market in advance what it will do at the next meeting. What all central banks, including ours, do is to present the outlook for the economy and prices and indicate the direction in which monetary policy will be conducted under such circumstances. We have consistently discussed and decided at each Monetary Policy Meeting on measures to achieve the 2% price stability target in a sustainable and stable manner and to continue monetary easing in order to achieve this target. As we have said in the past, we will consider the effects and side effects of monetary policy at each meeting and take appropriate measures as needed, particularly with respect to market functioning issues. It is not that we have done anything different from that direction. I do not think that any central bank is telling the market specifically what it will decide at the next monetary policy meeting.

(1:07:37)
Q: (Asahi Shimbun, Hara) It was seven years ago that the BOJ, which had previously said that long-term interest rates could not be controlled, switched its position to one that they could, and even after that, the consensus among central banks around the world is that long-term interest rates cannot be controlled. The recent turmoil in the government bond market and the Governor's misleading comments at the press conference last September regarding the outlook for policy revisions suggest that there may be a very structural problem with yield curve control. I believe that the BOJ has been complacent in its view that it can control the yield curve rather than presenting a target for it.

G: That is absolutely not our view. I have not stated that we can control all long-term interest rates, and in order to influence long-term interest rates, other countries have been easing their monetary policies by directly purchasing long-term government bonds and private-sector bonds. The argument that you have made may apply to the old business model of conducting monetary policy by discounting commercial bills and TBs or relying on adjusting the official discount rate alone. Today, central banks of not only developed countries but also developing countries are easing monetary policy through various means, including the purchase of long-term bonds and private-sector bonds, and in recent years, they have been normalizing monetary easing in response to inflation. I don't think any central bank or financial expert is saying what you are pointing out.

(1:09:55)
Q: (Nikkei, Shimizu) The BOJ has pledged to continue yield curve control until the point necessary to sustain a stable 2% price stability target. Is it correct to interpret this yield curve control to mean that it is not necessarily limited to the 10-year JGB yield, but may also switch to the 5-year or 2-year yield, for example?

G: Although the IMF at one time suggested that it may be preferable to target a shorter-term bond rate rather than the 10-year government bond rate, we believe that it is most appropriate to maintain the entire curve in an appropriate shape by targeting the shortest policy rate and the 10-year JGB rate, the most representative long-term interest rate. Of course, this does not mean that we will not consider any changes at all, but the current yield curve control is based on such an approach.