Not to be released until 8:50 a.m. Japan Standard Time on Tuesday, December 24, 2019.

December 24, 2019

Bank of Japan

Minutes of the Monetary Policy Meeting

on October 30 and 31, 2019

(English translation prepared by the Bank's staff based on the Japanese original)

A Monetary Policy Meeting of the Bank of Japan Policy Board was held in the Head Office of the Bank of Japan in Tokyo on Wednesday, October 30, 2019, from 2:00 p.m. to 3:52 p.m., and on Thursday, October 31, from 9:00 a.m. to 12:25 p.m.[1]

Policy Board Members Present

Mr. H. Kuroda, Chairman, Governor of the Bank of Japan

Mr. M. Amamiya, Deputy Governor of the Bank of Japan

Mr. M. Wakatabe, Deputy Governor of the Bank of Japan

Mr. Y. Harada

Mr. Y. Funo

Mr. M. Sakurai

Ms. T. Masai

Mr. H. Suzuki

Mr. G. Kataoka

Government Representatives Present

Mr. K. Toyama, State Minister of Finance, Ministry of Finance[2]

Mr. M. Kanda, Deputy Vice-Minister for Policy Planning and Coordination, Ministry of Finance[3]

Mr. I. Miyashita, State Minister of Cabinet Office, Cabinet Office[2]

Mr. H. Tawa, Vice-Minister for Policy Coordination, Cabinet Office[3]

Reporting Staff

Mr. E. Maeda, Executive Director

Mr. S. Uchida, Executive Director (Assistant Governor)

Mr. Y. Ikeda, Executive Director

Mr. T. Kato, Director-General, Monetary Affairs Department

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[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on December 18 and 19, 2019, as "a document describing an outline of the discussion at the meeting" stipulated in Article 20, paragraph 1 of the Bank of Japan Act of 1997. Those present are referred to by their titles at the time of the meeting.

[2] Messrs. K. Toyama and I. Miyashita were present on October 31.

[3] Messrs. M. Kanda and H. Tawa were present on October 30.

Mr. K. Iijima, Head of Policy Planning Division, Monetary Affairs Department

Mr. S. Shimizu, Director-General, Financial Markets Department

Mr. K. Kamiyama, Director-General, Research and Statistics Department

Mr. T. Kawamoto, Head of Economic Research Division, Research and Statistics Department

Mr. Y. Nakata, Director-General, International Department

Secretariat of the Monetary Policy Meeting

Mr. K. Matsushita, Director-General, Secretariat of the Policy Board

Mr. Y. Yamashiro, Director, Deputy Head of Planning and Coordination Division, Secretariat of the Policy Board

Mr. T. Nagano, Senior Economist, Monetary Affairs Department

Mr. M. Higashi, Senior Economist, Monetary Affairs Department

Mr. Y. Hogen, Senior Economist, Monetary Affairs Department

I. Summary of Staff Reports on Economic and Financial Developments[4]

A. Market Operations in the Intermeeting Period

In accordance with the short-term policy interest rate of minus 0.1 percent and the target level of the long-term interest rate, both of which were decided at the previous meeting on September 18 and 19, 2019, the Bank had been providing funds through purchases of Japanese government bonds (JGBs) and other measures.[5] In this situation, 10-year JGB yields had been at around 0 percent, and the shape of the JGB yield curve had been consistent with the guideline for market operations.

B. Recent Developments in Financial Markets

In the money market, interest rates on both overnight and term instruments generally had been in negative territory. The uncollateralized overnight call rate had been in the range of around minus 0.01 to minus 0.07 percent. As for interest rates on term instruments, yields on three-month treasury discount bills (T-Bills) had declined, mainly due to an increase in demand from foreign investors.

The Nikkei 225 Stock Average had risen somewhat, albeit with fluctuations that reflected movements in overseas stock prices, and it recently was moving in the range of 22,500-23,000 yen. In the foreign exchange market, the yen against the U.S. dollar was at almost the same level as at the time of the previous meeting, and the yen against the euro had depreciated somewhat, mainly reflecting developments in negotiations on the United Kingdom's exit from the European Union (EU).

C. Overseas Economic and Financial Developments

Overseas economies had been growing moderately on the whole, albeit with slowdowns continuing to be observed. With regard to the outlook, although a pick-up in the growth pace of these economies was likely to be delayed, their growth rates were projected

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[4] Reports were made based on information available at the time of the meeting.

[5] The target level of the long-term interest rate was as follows:

The Bank will purchase JGBs so that 10-year JGB yields will remain at around zero percent. While doing so, the yields may move upward and downward to some extent mainly depending on developments in economic activity and prices. With regard to the amount of JGBs to be purchased, the Bank will conduct purchases in a flexible manner so that their amount outstanding will increase at an annual pace of about 80 trillion yen.

to rise thereafter, partly backed by the materialization of the effects of macroeconomic policies in each country as well as the progress in global adjustments in IT-related goods, and these economies were likely to grow moderately on the whole.

The U.S. economy had been expanding moderately, although some weakness had been seen in the manufacturing sector. Private consumption had been increasing, supported in part by a favorable employment and income situation and consumer sentiment. On the other hand, exports remained more or less flat, mainly due to the intensified and prolonged U.S.-China trade friction, and business fixed investment continued to show relatively weak developments, mainly against the backdrop of a deterioration in business sentiment of manufacturing firms. As for prices, both the year-on-year rate of change in the personal consumption expenditure (PCE) deflator for all items and that for all items excluding food and energy had been at around 1.5 percent. The economy was likely to maintain its moderate expansion, partly underpinned by accommodative financial conditions, despite being affected by the U.S.-China trade friction.

The European economy remained in the deceleration phase. Exports continued to show relatively weak developments. Business fixed investment remained more or less flat, mainly against the background of a further deterioration in business sentiment of manufacturing firms. Private consumption generally had been on an increasing trend, partly supported by a favorable employment and income situation and consumer sentiment. With regard to prices, both the year-on-year rate of change in the Harmonized Index of Consumer Prices (HICP) for all items and that for all items excluding energy, food, alcohol, and tobacco had been at around 1 percent. The European economy was likely to gradually move out of its deceleration phase with the progress in adjustments in the manufacturing sector. Meanwhile, the U.K. economy had weakened somewhat, due in part to the effects of movements ahead of the United Kingdom's possible exit from the EU.

With regard to emerging economies, the Chinese economy continued to see stable growth on the whole, but some weakness remained in the manufacturing sector. As for prices, the year-on-year rate of change in the consumer price index (CPI) had been at around 3 percent. The economy was likely to broadly follow a stable growth path with the authorities implementing macroeconomic policies in an incremental manner, despite being affected to some extent by the trade friction with the United States and the authorities' measures to push forward with deleveraging. In the NIEs and ASEAN economies, while exports had been relatively weak, especially to China, domestic demand had been resilient, mainly on the back of favorable consumer sentiment and the effects of those economies' macroeconomic policies. Economic activity in Russia and Brazil had been recovering moderately, albeit with fluctuations, mainly on the back of stable inflation rates. In India, the economy had been decelerating, with relatively weak developments observed mainly in private consumption and business fixed investment.

With respect to overseas financial markets, although U.S. stock prices had declined temporarily, mainly against the background of economic indicators that had turned out to be weaker than market expectations, they rose thereafter -- with the improvement in risk sentiment that mainly reflected expectations for progress in U.S.-China trade negotiations -- and more recently were at almost the same levels as at the time of the previous meeting. U.S. long-term interest rates also were at nearly the same levels as at the time of the previous meeting, amid fluctuations that reflected investors' risk sentiment. In Europe, meanwhile, stock prices and long-term interest rates had risen somewhat compared with the levels observed at the time of the previous meeting, mainly reflecting expectations for progress in the United Kingdom's exit from the EU. Crude oil prices had risen reflecting the heightening of geopolitical risks in the Middle East, but had returned to the same levels observed before the rise.

D. Economic and Financial Developments in Japan

1. Economic developments

Japan's economy had been on a moderate expanding trend, with a virtuous cycle from income to spending operating, although exports, production, and business sentiment continued to be affected by the slowdown in overseas economies. With regard to the outlook, it was likely to continue on that trend as the impact of the slowdown in overseas economies on domestic demand was expected to be limited, although the economy was likely to continue to be affected by the slowdown for the time being.

Exports continued to show some weakness. While those to advanced economies maintained their increasing trend on the whole, those to emerging economies continued to exhibit some weakness. Although exports overall were projected to continue showing some weakness for the time being, with a pick-up in the growth pace of overseas economies being delayed, they were expected to return to their moderate increasing trend thereafter with the growth rates of overseas economies rising.

Public investment had been more or less flat from a somewhat longer-term perspective. Regarding the value of public works contracted as well as orders received for public construction -- both of which are leading indicators -- the uptrend had been evident recently. As for the outlook, public investment was likely to increase, mainly for construction related to national resilience and the Olympic Games.

Corporate profits had been at high levels on the whole, albeit with some weakness observed in part. Although business sentiment of manufacturing firms had become clearly cautious, that of nonmanufacturing firms stayed at a favorable level on the whole. Business fixed investment continued on an increasing trend. The aggregate supply of capital goods had been on a moderate uptrend, albeit with fluctuations. Private construction completed (nonresidential) continued on an uptrend from a relatively long-term perspective, although its pace of increase had temporarily decelerated. With regard to the outlook, business fixed investment was likely to decelerate somewhat for the time being, mainly for machinery investment by manufacturing firms, due to the effects of the slowdown in overseas economies. However, it was expected to increase moderately from a somewhat longer-term perspective, mainly on the back of accommodative financial conditions.

As for the employment and income situation, supply-demand conditions in the labor market remained tight and employee income had increased. The diffusion index for employment conditions in the September 2019 *Tankan* (Short-term Economic Survey of Enterprises in Japan) showed that a perception of labor shortage remained quite strong, and the unemployment rate had been at a low level. The active job openings-to-applicants ratio had been at a high level that exceeded the peak marked during the bubble period, although it had declined slightly recently, due in part to the effects of the slowdown in overseas economies.

Private consumption had been increasing moderately, albeit with fluctuations due to such effects as of the October 2019 consumption tax hike, against the background of steady improvement in the employment and income situation. The rate of increase in the consumption activity index (CAI; real, travel balance adjusted) -- calculated by combining various sales and supply-side statistics -- had accelerated of late. In the outlook, private consumption was likely to decline temporarily, due in part to the effects of the tax hike.

However, compared with the previous tax hike in 2014, the decline since October was likely to be small as the degree of increase in demand prior to the hike this time had been constrained and the increase in the net burden on households was small. Thereafter, private consumption was expected to continue on a moderate increasing trend, supported by the increase in employee income and the wealth effects stemming from a rise in stock prices.

Housing investment had been more or less flat. Looking at the number of housing starts, owned houses and detached houses built for sale had increased through around June due to the effects of the increase in demand prior to the tax hike, but there already had been a reactionary decline recently. Meanwhile, housing for rent continued on a downtrend, mainly against the background of waning demand for tax saving and asset management as well as cautious lending attitudes of financial institutions.

Industrial production had been more or less flat, reflecting the situation where exports continued to show some weakness on the one hand, but domestic demand had increased on the other hand. From a somewhat longer-term perspective, it was likely to gradually turn to a moderate increase with the growth rates of overseas economies rising, despite being pushed down for the time being due to weakness in exports and the effects of the tax hike.

As for prices, the producer price index (PPI) relative to three months earlier -- adjusted for the effects of seasonal changes in electricity rates -- had been decreasing, reflecting developments in international commodity prices and foreign exchange rates. The year-on-year rate of change in the CPI for all items less fresh food was in the range of 0.0-0.5 percent, and that for all items less fresh food and energy was at around 0.5 percent. With regard to the outlook, despite such effects as of the decline in crude oil prices for the time being, the year-on-year rate of change in the CPI for all items less fresh food was likely to increase gradually toward 2 percent, mainly on the back of the output gap remaining positive and medium- to long-term inflation expectations rising, both in a situation where the economy continued on an expanding trend.

2. Financial environment

Financial conditions were highly accommodative.

Inflation expectations were more or less unchanged. Long-term real interest rates -- calculated as long-term interest rates minus medium- to long-term inflation expectations -- had been negative.

Firms' funding costs had been hovering at extremely low levels. With regard to credit supply, financial institutions' lending attitudes -- as perceived by firms -- had been highly accommodative. Issuing conditions for CP and corporate bonds had been favorable. Firms' credit demand had been increasing, such as for funds for business fixed investment and for those related to mergers and acquisitions. Against this backdrop, the year-on-year rate of increase in the amount outstanding of bank lending had been in the range of 2.0-2.5 percent. That in the amount outstanding of CP and corporate bonds had exceeded 10 percent, being at a relatively high level. Firms' financial positions had been favorable.

The year-on-year rate of increase in the monetary base had been at around 3 percent, and that in the money stock had been at around 2.5 percent.

II. Summary of Discussions by the Policy Board on Economic and Financial Developments and the October 2019 *Outlook for Economic Activity and Prices*

A. Economic Developments

Regarding global financial markets, members shared the recognition that market participants' risk sentiment had improved, mainly against the background of growing expectations for progress in U.S.-China trade negotiations and the United Kingdom's exit from the EU, and that the markets recently were stable compared with some time ago. On this basis, they agreed that uncertainty remained high, and it was necessary to closely monitor factors including the consequences of U.S.-China trade negotiations and the United Kingdom's exit from the EU. Meanwhile, one member pointed out that the situation where foreign exchange rates and other market indicators had been moving within a certain range over the past few years reflected, for example, the fact that accommodative financial conditions were maintained in major advanced countries and that long-term adjustment pressure brought about by purchasing power parity had been changing in a situation where Japan's economy was no longer in deflation. One member said that interest rates were globally susceptible to downward pressure since investors in various countries were increasing purchases of bonds with relatively high yields on a global basis, and thus the declining trend in interest rates was likely to continue.

Members shared the recognition that overseas economies had been growing moderately on the whole, although slowdowns continued to be observed. Many members expressed the recognition that overseas economies remained in the deceleration phase, referring to, for example, the fact that, amid the heightening of uncertainties regarding both political and economic situations, the Global Purchasing Managers' Index (PMI) for manufacturing had been below 50 and the projection for global growth by the International Monetary Fund (IMF) had been revised downward. A few members said that sentiment of manufacturing firms had become more cautious and such cautiousness was beginning to spread to business fixed investment, particularly in the United States, Europe, and China. However, some members pointed out that positive developments had started to be observed; for example, the balance between orders and inventories of IT-related goods had begun to improve in Asian countries. As for the outlook for overseas economies, members shared the recognition that, although a pick-up in the growth pace was likely to be delayed, these economies were expected to grow moderately on the whole thereafter, partly backed by the materialization of the effects of macroeconomic policies in each country as well as the progress in global adjustments in IT-related goods. Many members shared the view that a pick-up in the growth pace of overseas economies was likely to be delayed for about six months longer than previously expected, mainly due to the intensified and prolonged U.S.-China trade friction as well as slowdowns in emerging economies.

With regard to the current situation of overseas economies by region and their outlook, members concurred that the U.S. economy had been expanding moderately, although some weakness had been seen in the manufacturing sector. Some members pointed out that a decline in business sentiment had started to spread, as evidenced, for example, by the continued deterioration in business sentiment of manufacturing firms and by the Institute for Supply Management (ISM) index for nonmanufacturing, which was below market expectations. Nevertheless, many members expressed the recognition that private consumption had been firm, supported by a favorable employment and income situation, and the economy maintained its resilience on the whole. As for the outlook, members shared the view that the economy was likely to maintain its moderate expansion, partly underpinned by accommodative financial conditions, despite being affected by the U.S.-China trade friction. On this basis, some members said that it was necessary to pay close attention, for example, to the consequence of the U.S.-China trade negotiations, developments in year-end sales, and the future conduct of monetary policy.

Members shared the recognition that the European economy remained in the deceleration phase. Some members pointed out that, although the employment and income situation and consumer sentiment remained favorable, production and exports continued to show relatively weak developments, particularly in Germany. As for the outlook, members concurred that the European economy was likely to gradually move out of its deceleration phase, as the manufacturing sector was likely to recover. A few members noted that business sentiment of nonmanufacturing firms was becoming cautious, and attention was warranted on whether the deceleration in the manufacturing sector would spread to the nonmanufacturing sector in earnest. Some members said that there was a possibility that a recovery in the European economy would be delayed given the uncertainty regarding the consequence of the United Kingdom's exit from the EU and developments in fiscal stimulus measures in Germany.

Members agreed that the Chinese economy continued to see stable growth on the whole, but some weakness remained in the manufacturing sector. Some members pointed out that, while the effects of the authorities' stimulus measures had not been clearly confirmed, the economy had decelerated, mainly in the manufacturing sector, due to such effects as of the intensified and prolonged U.S.-China trade friction. As for the outlook, members shared the view that the economy was likely to broadly follow a stable growth path with the authorities implementing macroeconomic policies in an incremental manner, despite being affected to some extent by the trade friction with the United States and the authorities' measures to push forward with deleveraging. On this basis, some members expressed the recognition that a recovery in the pace of economic growth in China would be delayed since it was expected to take some time for the effects of the Chinese authorities' stimulus measures to materialize.

Members concurred that emerging economies as a whole maintained their moderate recovery trend, but some had decelerated due to country-specific factors, and the NIEs and ASEAN economies were under downward pressure, as evidenced by such factors as weak exports to China. As for the outlook, they agreed that the growth rates of emerging economies were likely to increase on the whole, reflecting a dissipation of downward pressure in some economies and the materialization of the effects of macroeconomic policies in each country. A few members noted that future developments in these economies warranted attention, because even if the downward pressure in some economies were to dissipate, it was highly uncertain whether the pace of economic growth would accelerate.

Members concurred that financial conditions in Japan were highly accommodative. They shared the view that, under Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control, firms' funding costs had been hovering at extremely low levels, and financial institutions' lending attitudes, as perceived by both large and small firms, continued to be active.

Based on the above deliberations on economic and financial conditions abroad and financial conditions in Japan, members discussed the state of Japan's economy.

With regard to economic activity, members agreed that the economy had been on a moderate expanding trend, with a virtuous cycle from income to spending operating, although exports, production, and business sentiment continued to be affected by the slowdown in overseas economies. Many members pointed out that the impact of the slowdown in overseas economies had been limited thus far on the back of steady domestic demand. On this basis, these members expressed the recognition that the basic mechanism for economic expansion, in which a virtuous cycle from income to spending operated, was maintained. A few members said that, amid such effects as of the slowdown in overseas economies and the consumption tax hike, it was a matter of concern that households' and firms' sentiment had become cautious. Some members pointed out that it was necessary to pay close attention to the effects of the successive irregular weather conditions, including the 2019 Typhoon No. 19, on distribution and tourism.

Regarding recent developments in exports, members agreed that they continued to show some weakness. Some members expressed the recognition that, although real exports for the July-September quarter increased relative to the April-June quarter due to special factors such as the contribution of ships, which showed large fluctuations, there was no change to the overall picture that exports continued to exhibit some weakness, mainly reflecting the slowdown in business fixed investment in Asia. Members shared the view that, although exports overall were projected to continue showing some weakness for the time being, with a pick-up in the growth pace of overseas economies being delayed, they were expected to return to their moderate increasing trend thereafter with the growth rates of overseas economies rising. Some members said that, while exports of IT-related goods had exhibited signs of a pick-up owing to the progress in global adjustments in such goods, those of automobile-related goods were likely to continue showing some weakness for the time being, due primarily to a slump in global sales of automobiles.

Members agreed that public investment had been more or less flat from a somewhat longer-term perspective. They shared the recognition that it was likely to increase, mainly for construction related to national resilience and the Olympic Games.

Members concurred that business fixed investment continued on an increasing trend. Many members pointed out that firmness was seen in business fixed investment plans for fiscal 2019 in the September *Tankan*, and that firms maintained their proactive stance on investment mainly in the fields that are relatively unsusceptible to changes in overseas demand, such as labor-saving investment, research and development investment, and investment related to urban redevelopment projects, according to, for example, reports at the October meeting of general managers of the Bank's branches. However, one member expressed the view that the firmness in investment could be a mere reflection of difficulties involved in suspending projects once they had been launched, and therefore such firmness might lack strength that reflected demand increases. Regarding the outlook, most members concurred that, based on developments in leading indicators such as machinery orders, business fixed investment was likely to decelerate somewhat for the time being, mainly for machinery investment by manufacturing firms, due to the effects of the slowdown in overseas economies; however, it was expected to increase moderately from a somewhat longer-term perspective, mainly on the back of accommodative financial conditions. In response, one member expressed the view that there was a possibility that business fixed investment, mainly in the manufacturing sector, would peak out given the fact that -- coupled with the weakness in exports -- shortages in production equipment and facilities as perceived by firms in the recent *Tankan* surveys had been easing somewhat.

As for the employment and income situation, members shared the recognition that supply-demand conditions in the labor market remained tight, and that employee income had increased. On this basis, a few members said that, as the rates of increase in nominal wages and employee income had decreased, it was necessary to examine whether the employment and income situation had changed. One of these members noted that attention should be paid to the leveling-off of the new job openings-to-applicants ratio with the continued slowdown in overseas economies.

Members concurred that private consumption had been increasing moderately, albeit with fluctuations due to such effects as of the consumption tax hike, against the background of steady improvement in the employment and income situation. Many members said that, looking at data available at this point, including daily sales figures of supermarkets and information obtained from interviews with firms, the effects of the tax hike were smaller than those of the previous tax hike. In relation to this point, a few members noted that the underlying trend in consumption was difficult to gauge at present, and it was necessary to wait some time for data to accumulate and to pay close attention to whether sluggishness in consumption would become prolonged, as was the case seen after the previous tax hike. As for the outlook, members concurred that, although private consumption was likely to decline temporarily, due in part to the effects of the tax hike, it was expected to continue on a moderate increasing trend thereafter, supported by the increase in employee income and the wealth effects stemming from a rise in stock prices. One member said that matters of concern regarding the outlook for consumption included the following: the effects of the consumption tax hike; the weak uptrend in consumption; consumer sentiment having rapidly become cautious; and the effects of the natural disasters.

Members agreed that housing investment had been more or less flat. As for the outlook, they shared the recognition that, although housing investment was projected to decline temporarily in the short run due to the effects of the consumption tax hike, it was expected to remain more or less flat when fluctuations were smoothed out, underpinned by such factors as the improvement in the employment and income situation as well as low housing loan rates.

Members shared the recognition that, although exports continued to show some weakness, industrial production had been more or less flat, reflecting the increase in domestic demand. Regarding the outlook, they concurred that, from a somewhat longer-term perspective, it was likely to gradually turn to a moderate increase with the growth rates of overseas economies rising, despite being pushed down for the time being due to weakness in exports and the effects of the tax hike.

As for prices, members agreed that the year-on-year rate of change in the CPI for all items less fresh food was in the range of 0.0-0.5 percent, and that for all items less fresh food and energy remained within positive territory, at around 0.5 percent, due partly to firms' cautious wage- and price-setting stance. They shared the recognition that the year-on-year rate of change in the CPI had been positive but continued to show relatively weak developments compared with the economic expansion and tight labor market conditions. A few members pointed out that, partly because business sentiment had become cautious, it was necessary to pay attention to the declines in the year-on-year rates of change in the PPI and the services producer price index. However, most members shared the recognition that the basic mechanism in which a positive output gap resulted in moderate increases in wages and prices continued to operate, with domestic demand remaining firm and labor shortage continuing. As for price developments prior to and after the consumption tax hike, some members said that, according to indicators including daily prices at supermarkets, selling prices had been lowered temporarily just before the tax hike in order to capture demand, but such prices -- adjusted for changes in the consumption tax rate -- subsequently recovered generally to the levels seen before the tax hike. Based on such developments, these members noted that no significant change had been observed in the underlying trend in prices.

B. Outlook for Economic Activity and Prices

In formulating the October 2019 *Outlook for Economic Activity and Prices* (hereafter the Outlook Report), with regard to the baseline scenario of the outlook for Japan's economic activity, members shared the view that the economy was likely to continue on an expanding trend throughout the projection period -- namely, through fiscal 2021 -- as the impact of the slowdown in overseas economies on domestic demand was expected to be limited, although the economy was likely to continue to be affected by the slowdown for the time being. They agreed that Japan's exports were projected to continue showing some weakness for the time being as a pick-up in the growth pace of overseas economies was likely to be delayed for longer than expected. However, members were of the view that exports would return to their moderate increasing trend as the growth rates of overseas economies were projected to rise, partly backed by the materialization of the effects of macroeconomic policies in each country as well as the progress in global adjustments in IT-related goods. They shared the recognition that domestic demand was likely to follow an uptrend, with a virtuous cycle from income to spending being maintained in both the corporate and household sectors, despite being affected by such factors as the consumption tax hike. On this basis, members concurred that the impact of the slowdown in overseas economies on domestic demand was expected to be limited. Based on this discussion, they shared the view that Japan's economy was expected to grow temporarily at a somewhat slower pace than its potential, but moderately accelerate its growth pace thereafter, and thus the economy was likely to continue growing at about the same pace as its potential on average. On this basis, members agreed that the projected growth rates through fiscal 2021 were somewhat lower than those presented in the July 2019 Outlook Report due to the delay in a pick-up in the growth pace of overseas economies.

Members then discussed Japan's price developments. They shared the recognition that, basically, the continued relatively weak developments in prices compared to the economic expansion and tight labor market conditions largely had been affected by the deeply entrenched mindset and behavior based on the assumption that wages and prices would not increase easily. In addition, members agreed that such factors as firms' efforts to absorb upward pressure of costs on prices by raising productivity, technological progress in recent years, and high wage elasticity of labor supply had allowed firms to maintain their cautious stance toward raising prices, even amid the economic expansion. Meanwhile, one member noted that, partly because firms' investment stance had become proactive, the resilience of Japan's economy against external shocks increased, and the economic structure was beginning to change to one in which prices were less likely to fluctuate.

Following this discussion, members exchanged views regarding the outlook for prices. Most members shared the view that the year-on-year rate of change in the CPI was likely to increase gradually toward 2 percent, mainly on the back of the output gap remaining positive and medium- to long-term inflation expectations rising throughout the projection period, despite such effects as of the decline in crude oil prices for the time being. These members agreed that, comparing the projections through fiscal 2021 with those presented in the July 2019 Outlook Report, the projected rates of increase in the CPI were lower, mainly for the first half of the projection period, reflecting such factors as the decline in crude oil prices.

Members then outlined the mechanism through which the year-on-year rate of change in the CPI would increase gradually toward 2 percent, based on the main factors that determine general price inflation. Most members shared the view that, although the output gap was likely to narrow for some time due to such effects as of the slowdown in overseas economies and the consumption tax hike, it was expected to remain substantially positive at around the current level on average with the economy continuing on an expanding trend. Most members then shared the recognition that medium- to long-term inflation expectations were likely to follow an increasing trend and gradually converge to 2 percent. As background to this, these members pointed to the following: (1) in terms of the adaptive component, a rise in the observed inflation rate was likely to push up inflation expectations, and (2) in terms of the forward-looking component, the Bank would pursue monetary easing through its strong commitment to achieving the price stability target, which would be effective in pushing up inflation expectations.

Members also discussed upside and downside risk factors to the baseline scenario of the outlook for economic activity and prices. Regarding the outlook for economic activity, they noted the following four upside and downside risk factors: (1) developments in overseas economies; (2) the effects of the consumption tax hike; (3) firms' and households' medium- to long-term growth expectations; and (4) fiscal sustainability in the medium to long term. Members judged that downside risks concerning overseas economies were significant -- such as (1) the consequences of U.S.-China trade negotiations and the United Kingdom's exit from the EU and their effects, (2) developments in emerging economies, (3) the pace of pick-up in the cycle for IT-related goods, (4) various geopolitical risks, and (5) developments in global financial markets under these circumstances -- and these risks seemed to be increasing compared to the time when the July 2019 Outlook Report was published. They then shared the recognition that it also was necessary to pay close attention to their impact on firms' and households' sentiment in Japan. Some members said that attention should be paid to the prolonged uncertainties regarding overseas economies. One member expressed the view that, in a case where firms' and households' sentiment became more cautious and firmly fixed, there was a possibility that this would bring about a self-fulfilling economic downturn. Members shared the recognition that the effects of the consumption tax hike were expected to be smaller than those of the previous tax hike; however, these continued to warrant attention as they might vary depending on consumer sentiment and developments in prices. Based on this discussion, they concurred that, with regard to the outlook for economic activity, risks were skewed to the downside, particularly regarding developments in overseas economies.

As for upside and downside risks to prices, members agreed that, as discussed earlier, with regard to risks to economic activity, the downside risks concerning overseas economies in particular seemed to be increasing, and if these risks materialized, there was a possibility that prices also would be affected to some extent. They also pointed to the following three specific factors that could exert upside and downside risks to prices: (1) developments in medium- to long-term inflation expectations; (2) the responsiveness of prices to the output gap; and (3) developments in foreign exchange rates and international commodity prices. With regard to the first factor, members agreed that, although medium- to long-term inflation expectations were likely to follow an increasing trend, there was a risk that such a rise would be delayed through the adaptive formation mechanism if it took longer than projected for firms' stance to shift toward further raising wages and prices and the observed inflation rate consequently remained relatively sluggish. Based on this discussion, they shared the recognition that, regarding the outlook for prices, risks to prices were skewed to the downside, mainly due to the downside risks to economic activity and uncertainties over developments in medium- to long-term inflation expectations.

III. Summary of Discussions on Monetary Policy for the Immediate Future

Before deliberating on the conduct of monetary policy, members assessed the momentum toward achieving the price stability target, mainly taking account of various economic indicators released after the previous meeting, including the September *Tankan*, and developments in global financial markets. First, most members shared the recognition that the output gap, one of the main elements of the assessment of the momentum toward achieving the price stability target, had been substantially positive, reflecting tight labor market conditions and high levels of capital utilization rates. On this basis, these members shared the view that, throughout the projection period, the output gap was likely to remain at around the current level on average with the economy continuing on an expanding trend, although it was likely to narrow temporarily within positive territory, mainly reflecting the effects of continuing relatively weak developments in exports and of the consumption tax hike. Next, these members -- noting that medium- to long-term inflation expectations were more or less unchanged on the whole, although they had shown somewhat different developments depending on indicators -- agreed that such expectations were likely to follow an increasing trend, with the output gap remaining positive. One member expressed the view that there were signs that firms' and households' stances toward prices were becoming more positive, as exemplified by surveys on inflation expectations such as the *Tankan*, and that if the actual inflation rates continued to rise, medium- to long-term inflation expectations also would rise accordingly. Some members commented that the ongoing improving trend in households' tolerance of price rises as well as in the diffusion index for output prices in consumption-related sectors also supported the projection that inflation rates would rise. Furthermore, some members pointed out the following as other factors considered when assessing the momentum toward achieving the price stability target: crude oil prices and global financial markets had been stable since the previous meeting, with the risk sentiment improving against the background of increased expectations for progress in U.S.-China trade negotiations. Meanwhile, one member expressed the view that, given that the sentiment of firms, mainly in the manufacturing sector, and of households had become cautious, reflecting a heightening of risks regarding economic activity both at home and abroad as well as of policy uncertainties, there was some possibility that the momentum toward achieving the price stability target would be lost. In addition, one member was of the view that, after the introduction of yield curve control, the inflation momentum was maintained in the sense that the economy would not fall into deflation, but the momentum toward achieving the price stability target of 2 percent was not maintained. Based on these discussions, most members shared the recognition that, regarding the outlook for prices, despite such effects as of the decline in crude oil prices for the time being, there had been no further increase in the possibility that the momentum toward achieving the price stability target would be lost, mainly taking account of developments in the output gap and medium- to long-term inflation expectations. These members continued that downside risks to overseas economies remained significant, and if they materialized, economic activity and prices in Japan could be affected to some extent, and thus it was necessary to continue to pay close attention to the possibility that the inflation momentum would be lost. On this basis, members concurred that it was appropriate to make public the results of the assessment as the "Assessment of the Momentum toward Achieving the Price Stability Target."

Based on the above deliberations, members discussed the Bank's basic stance on conducting monetary policy. Most members shared the recognition that, since there had been no further increase in the possibility that the momentum toward achieving the price stability target would be lost, it was appropriate to maintain the current guidelines for market operations and asset purchases. Many members said that it was necessary to maintain the highly accommodative financial conditions under the current policy while taking account of developments in economic activity and prices as well as financial conditions, so that the positive output gap would be maintained for as long as possible. One member commented that, given that it would still take time to achieve the price stability target, the Bank should communicate clearly to the public its stance of continuing with powerful monetary easing. A different member pointed out that, taking into account the current situation in which downside risks to economic activity and prices were significant, the Bank should continue to examine whether additional monetary easing would be necessary. The member then commented that conducting preventive monetary easing would be most appropriate in the case of Japan, considering that its economy was susceptible to developments in overseas economies, inflation expectations were not anchored to the price stability target of 2 percent, and the observed inflation rate was far from the target. In response to this, some members pointed out that, while it was appropriate for the Bank to maintain the current monetary easing policy at this meeting, it was necessary for the Bank not to hesitate to take additional easing measures if there was a greater possibility that the momentum toward achieving the price stability target would be lost. A few members expressed the view that the Bank should prepare for the next economic downturn as one of the risk scenarios, and that, in doing so, it would become more important not only to conduct monetary policy but also enhance cooperation with the government in terms of economic policies; namely, fiscal and other policies.

Members then discussed forward guidance for policy rates. Many members pointed out that, considering that a pick-up in overseas economies would be delayed, it was necessary for the time being to continue to pay close attention to the possibility that the momentum toward achieving the price stability target would be lost. On this basis, these members said that it was appropriate for the Bank to consider revising the current forward guidance at this meeting, taking into account what had been confirmed: the Bank needed to maintain a policy stance that was tilted toward monetary accommodation for a fairly long period of time. In relation to this revision, some members expressed the view that, from the viewpoint of consistency with previous communications, it was appropriate to relate the forward guidance to the momentum toward achieving the price stability target as well as make it clear that there would be a downward bias in the policy rates. These members continued that, by doing so, the Bank could clarify its policy stance, which had been further tilted toward monetary accommodation since the Monetary Policy Meeting held in July. In response to this, one member noted that it was desirable that the forward guidance would be a powerful one that incorporated the following three points: (1) it showed the Bank's stance that a decline in the inflation rate was not acceptable; (2) its context was specific; and (3) the Bank had committed itself to conducting monetary policy based on concrete conditions.

Members also deliberated over points to take into account in conducting monetary policy in the future. A few members pointed out that, while financial institutions' financial soundness was ensured for the moment, the cumulative side effects of the prolonged low interest rate environment warranted vigilance. One member noted that monetary policy should be considered in terms of the relationship with the economy as a whole rather than banks' business conditions. The member continued that, while some banks had increased the number of employees, partly reflecting an overall increase in banks' net income following the introduction of QQE, this rise in profits was not attributable to the increase in the number of employees but to an increase in sales gains on bonds and stocks as well as a decrease in credit costs; therefore, how to use those employed to increase profits was important. One member commented that, if long-term yields remained at around current levels for a long period, the life insurance industry could face difficulties in maintaining the provision of insurance products such as whole life insurance and annuity insurance, for both of which there is strong public demand, and thereby might not fulfill its social responsibility. The member then expressed the view that (1) regarding investment in yen-denominated bonds, if interest rates were lowered by 0.1 percentage point, pension funds and investment trusts could lose profits of tens of billions of yen and (2) half of the amount outstanding of the Policy-Rate Balance, to which a negative interest rate is applied, was trust banks' assets entrusted by pension funds and investment trusts, and thus it could be said that pension funds and investment trusts effectively bore the cost of the negative interest rate.

With respect to yield curve control, members shared the recognition that, since the previous meeting, the JGB yield curve had been formed smoothly in a manner consistent with the guideline for market operations.

Based on the above discussions, regarding the guideline for market operations for the intermeeting period, most members expressed the view that it was appropriate for the Bank to maintain the following guideline. First, as for the short-term policy interest rate, it would 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. Second, as for the long-term interest rate, the Bank would purchase JGBs so that 10-year JGB yields would remain at around 0 percent. While doing so, the yields might move upward and downward to some extent mainly depending on developments in economic activity and prices. With regard to the amount of JGBs to be purchased, it would conduct purchases in a flexible manner so that their amount outstanding would increase at an annual pace of about 80 trillion yen.

On this point, one member expressed the opinion that, since allowing the long-term yields to move to some extent was ambiguous as the guideline for market operations decided by the Policy Board, these yields could rise more than necessary, depending on the Bank's conduct of market operations, which could hamper the intended effects of the current yield curve control. A different member was of the opinion that it was desirable for the Bank to strengthen monetary easing by lowering the short-term policy interest rate.

With regard to asset purchases other than JGB purchases, members shared the recognition that it was appropriate for the Bank to implement the following guideline for the intermeeting period. First, it would purchase exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) so that their amounts outstanding would increase at annual paces of about 6 trillion yen and about 90 billion yen, respectively. With a view to lowering risk premia of asset prices in an appropriate manner, the Bank might increase or decrease the amount of purchases depending on market conditions. Second, as for CP and corporate bonds, it would maintain their amounts outstanding at about 2.2 trillion yen and about 3.2 trillion yen, respectively.

With respect to the Bank's thinking behind its future conduct of monetary policy, most members shared the view that it would (1) continue with QQE with Yield Curve Control, aiming to achieve the price stability target of 2 percent, as long as it was necessary for maintaining that target in a stable manner; (2) continue expanding the monetary base until the year-on-year rate of increase in the observed CPI (all items less fresh food) exceeded 2 percent and stayed above the target in a stable manner; (3) as for policy rates, expect short- and long-term interest rates to remain at their present or lower levels as long as it was necessary to pay close attention to the possibility that the momentum toward achieving the price stability target would be lost; (4) examine the risks considered most relevant to the conduct of monetary policy and make policy adjustments as appropriate, taking account of developments in economic activity and prices as well as financial conditions, with a view to maintaining the momentum toward achieving the price stability target; and (5) in particular, in a situation where downside risks to economic activity and prices, mainly regarding developments in overseas economies, were significant, not hesitate to take additional easing measures if there was a greater possibility that the momentum toward achieving the price stability target would be lost.

On this point, one member was of the opinion that, in order to achieve the price stability target of 2 percent at the earliest possible time, further coordination of fiscal and monetary policy was necessary, and that it was appropriate for the Bank to revise the forward guidance for the policy rates to make it a powerful one that specifically relates to the price stability target.

IV. Remarks by Government Representatives

Based on the discussions on the forward guidance for the policy rates, the government representatives requested that the chairman adjourn the meeting because they needed to contact the Minister of Finance and the Minister of State for Economic and Fiscal Policy. The chairman approved the request. (The meeting adjourned at 11:32 a.m. and reconvened at 11:51 a.m.)

The representative from the Ministry of Finance made the following remarks.

(1) The government recognized the Bank's proposal as showing its stance of continuing with powerful monetary easing toward achieving the price stability target and expected the Bank to make an appropriate judgment at this meeting. It also expected the Bank to continue to thoroughly and actively explain developments in its conduct of monetary policy, including the proposal, to the public.

(2) In response to the damage caused by the recent 2019 Typhoon No. 19, the government approved the use of emergency funds. It would continue to push forward with various measures in an integrated manner for the restoration of the affected areas with a sense of urgency. With regard to the consumption tax hike, a large front-loaded increase in demand, such as that of the previous tax hike in 2014, had not been observed, partly owing to the positive effects resulting from the government's policy responses. It would continue to conduct a detailed analysis of developments in economic activity and do its utmost with regard to economic management.

(3) The government expected the Bank to continue to work toward achieving the price stability target under QQE with Yield Curve Control, taking account of developments in economic activity and prices as well as financial conditions.

The representative from the Cabinet Office made the following remarks.

(1) The Japanese economy was recovering at a moderate pace, albeit with some prolonged weakness, mainly in exports. The government considered that the effects of the consumption tax hike were not as significant as those of the previous tax hike. As for the outlook, weakness likely would remain for the time being, but the economy was expected to continue recovering at a moderate pace, supported partly by the effects of the government's policies, while the employment and income situation continued to improve. However, attention should be paid to developments in overseas economies -- including the tension over trade friction, prospects for the Chinese economy, and the consequence of the United Kingdom's exit from the EU -- volatility in financial markets, developments in consumer sentiment after the tax hike, and the impact of the successive natural disasters.

(2) The government would continue to steadily push forward with various countermeasures for the consumption tax hike so that their effects would be fully realized. On this basis, the government would pay close attention to developments in the global economy, solidly grasp economic developments in Japan after the tax hike, and implement macroeconomic measures flexibly when necessary. Also, the government would accelerate the provision of support for the daily lives of those impacted by the successive natural disasters and work to swiftly advance the restoration and reconstruction of the affected areas.

(3) The government expected the Bank to steadily pursue monetary easing toward achieving the price stability target, taking account of developments in economic activity and prices as well as financial conditions. It recognized that the change to the forward guidance had been proposed at this meeting in order to clarify the Bank's policy responses in case there was a possibility that the momentum toward achieving the price stability target would be lost. The government deemed it important that the Bank thoroughly explain its intentions to the public.

V. Votes

A. Assessment of the Momentum toward Achieving the Price Stability Target

Members discussed the draft of "Assessment of the Momentum toward Achieving the Price Stability Target" and formed a majority view.

To reflect the majority view, the chairman formulated a proposal on "Assessment of the Momentum toward Achieving the Price Stability Target" and put it to a vote.

The Policy Board decided the proposal by a majority vote.

Votes for the proposal: Mr. H. Kuroda, Mr. M. Amamiya, Mr. M. Wakatabe, Mr. Y. Harada, Mr. Y. Funo, Mr. M. Sakurai, Ms. T. Masai, and Mr. H. Suzuki.

Votes against the proposal: Mr. G. Kataoka.

Mr. G. Kataoka dissented, considering that the momentum toward achieving the price stability target had already been lost, given developments in the observed inflation rate, the output gap, and inflation expectations.

B. Vote on the Guideline for Market Operations

Based on the above discussions, to reflect the majority view of the members, the chairman formulated the following proposal and put it to a vote.

The Policy Board decided the proposal by a majority vote.

The Chairman's Policy Proposal on the Guideline for Market Operations:

The guideline for market operations for the intermeeting period will be as follows.

1. 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.

2. The Bank will purchase JGBs so that 10-year JGB yields will remain at around zero percent. While doing so, the yields may move upward and downward to some extent mainly depending on developments in economic activity and prices. With regard to the amount of JGBs to be purchased, the

Bank will conduct purchases in a flexible manner so that their amount outstanding will increase at an annual pace of about 80 trillion yen.

Votes for the proposal: Mr. H. Kuroda, Mr. M. Amamiya, Mr. M. Wakatabe, Mr. Y. Funo, Mr. M. Sakurai, Ms. T. Masai, and Mr. H. Suzuki.

Votes against the proposal: Mr. Y. Harada and Mr. G. Kataoka.

Mr. Y. Harada dissented, considering that allowing the long-term yields to move upward and downward to some extent was too ambiguous as the guideline for market operations decided by the Policy Board. Mr. G. Kataoka dissented, considering that it was desirable to strengthen monetary easing by lowering the short-term policy interest rate.

C. Vote on the Guideline for Asset Purchases

To reflect the view of the members, the chairman formulated the following proposal to implement the guideline for asset purchases for the intermeeting period and put it to a vote: (1) to purchase ETFs and J-REITs so that their amounts outstanding would increase at annual paces of about 6 trillion yen and about 90 billion yen, respectively. With a view to lowering risk premia of asset prices in an appropriate manner, the Bank might increase or decrease the amount of purchases depending on market conditions, and (2) to maintain the amounts outstanding of CP and corporate bonds at about 2.2 trillion yen and about 3.2 trillion yen, respectively.

The Policy Board decided the proposal by a unanimous vote.

Votes for the proposal: Mr. H. Kuroda, Mr. M. Amamiya, Mr. M. Wakatabe, Mr. Y. Harada, Mr. Y. Funo, Mr. M. Sakurai, Ms. T. Masai, Mr. H. Suzuki, and Mr. G. Kataoka.

Votes against the proposal: None.

D. Discussion on the Statement on Monetary Policy

On the basis of the above discussions, members discussed the Statement on Monetary Policy. Mr. G. Kataoka expressed the opinion that, in order to achieve the price stability target of 2 percent at the earliest possible time, further coordination of fiscal and monetary policy was necessary, and that it was appropriate for the Bank to revise the forward guidance for the policy rates to make it a powerful one that specifically relates to the price stability target.

Based on this discussion, the chairman formulated the Statement on Monetary Policy and put it to a vote. The Policy Board decided the text by a unanimous vote. It was confirmed that the statement would be released immediately after the meeting (see Attachment 1). It also was confirmed that a series of background analyses -- conducted in order to decide the "Assessment of the Momentum toward Achieving the Price Stability Target" -- would be made public immediately after the meeting.

VI. Discussion regarding the Outlook Report

Members discussed the draft of "The Bank's View" in the October 2019 Outlook Report (consisting of "The Bank's View" and "The Background") and formed a majority view.

To reflect the majority view, the chairman formulated a proposal on "The Bank's View" and put it to a vote.

The Policy Board decided the text of "The Bank's View" by a majority vote. It was confirmed that "The Bank's View" would be released immediately after the meeting. It also was confirmed that the full text of the Outlook Report would be made public on November 1. Mr. G. Kataoka opposed the description on the outlook for the CPI, considering that the possibility of the year-on-year rate of change increasing toward 2 percent going forward was low at this point.

Votes for the proposal: Mr. H. Kuroda, Mr. M. Amamiya, Mr. M. Wakatabe, Mr. Y. Harada, Mr. Y. Funo, Mr. M. Sakurai, Ms. T. Masai, and Mr. H. Suzuki.

Votes against the proposal: Mr. G. Kataoka.

VII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of September 18 and 19, 2019, for release on November 6.

Attachment 1

October 31, 2019

Bank of Japan

Statement on Monetary Policy

1. At the Monetary Policy Meeting (MPM) held today, the Policy Board of the Bank of Japan judged that, although there had been no further increase in the possibility that the momentum toward achieving the price stability target would be lost, it was necessary to continue to pay close attention to the possibility.[6] With a view to clarifying this recognition, it decided on a new forward guidance for the policy rates as follows. [Note 1]

   As for the policy rates, the Bank expects short- and long-term interest rates to remain at their present or lower levels as long as it is necessary to pay close attention to the possibility that the momentum toward achieving the price stability target will be lost.

2. As for the guidelines for market operations and asset purchases, the Bank decided upon the following.

   (1) Yield curve control

   The Bank decided, by a 7-2 majority vote, to set the following guideline for market operations for the intermeeting period. [Note 2]

   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 Japanese government bonds (JGBs) so that 10-year JGB yields will remain at around zero percent. While doing so, the yields may move upward and downward to some extent mainly depending on developments in economic activity and prices.[7] With regard to the amount of JGBs to be purchased, the Bank will conduct

[6] At the MPM held today, the Bank reexamined economic and price developments as presented in the policy statement of the previous MPM and assessed the momentum toward achieving the price stability target. The results are shown in Attachment 2.

[7] In case of a rapid increase in the yields, the Bank will purchase JGBs promptly and appropriately.

purchases in a flexible manner so that their amount outstanding will increase at an annual pace of about 80 trillion yen.

(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 exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) so that their amounts outstanding will increase at annual paces of about 6 trillion yen and about 90 billion yen, respectively. With a view to lowering risk premia of asset prices in an appropriate manner, the Bank may increase or decrease the amount of purchases depending on market conditions.

b) As for CP and corporate bonds, the Bank will maintain their amounts outstanding at about 2.2 trillion yen and about 3.2 trillion yen, respectively.

3. 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 examine the risks considered most relevant to the conduct of monetary policy and make policy adjustments as appropriate, taking account of developments in economic activity and prices as well as financial conditions, with a view to maintaining the momentum toward achieving the price stability target. In particular, in a situation where downside risks to economic activity and prices, mainly regarding developments in overseas economies, are significant, the Bank will not hesitate to take additional easing measures if there is a greater possibility that the momentum toward achieving the price stability target will be lost.

[Note 1] In order to achieve the price stability target of 2 percent at the earliest possible time, Mr. G. Kataoka dissented, considering that further coordination of fiscal and monetary policy was necessary, and that it was appropriate for the Bank to revise the forward guidance for the policy rates to make it a powerful one that specifically relates to the price stability target.

[Note 2] Voting for the action: Mr. H. Kuroda, Mr. M. Amamiya, Mr. M. Wakatabe, Mr. Y. Funo, Mr. M. Sakurai, Ms. T. Masai, and Mr. H. Suzuki. Voting against the action: Mr. Y. Harada and Mr. G. Kataoka. Mr. Y. Harada dissented, considering that allowing the long-term yields to move upward and downward to some extent was too ambiguous as the guideline for market operations decided by the Policy Board. Mr. G. Kataoka dissented, considering that it was desirable to strengthen monetary easing by lowering the short-term policy interest rate.

Attachment 2

Assessment of the Momentum toward Achieving the Price Stability Target [Note 3]

The Bank of Japan judged, at the previous Monetary Policy Meeting (MPM), that it was becoming necessary to pay closer attention to the possibility that the momentum toward achieving the price stability target would be lost, given that, recently, slowdowns in overseas economies had continued to be observed and their downside risks seemed to be increasing. Taking this situation into account, at this MPM, the Bank examined such factors as the output gap and medium- to long-term inflation expectations, which are the main elements of the assessment of the momentum toward achieving the price stability target. On this basis, the Bank judged that, although there had been no further increase in the possibility that the momentum toward achieving the price stability target would be lost, it was necessary to continue to pay close attention to the possibility.

I. Output Gap

The output gap is likely to narrow temporarily within positive territory. However, throughout the projection period, it is expected to remain at around the current level on average with the economy continuing on an expanding trend.

As for overseas economies, the timing of a pick-up in the growth pace is likely to be delayed for longer than expected, mainly due to the intensified and prolonged U.S.-China trade friction as well as slowdowns continuing in emerging and commodity-exporting economies, such as China. Under these circumstances, Japan's economy is expected to grow temporarily at a somewhat slower pace than its potential, mainly reflecting the effects of continuing relatively weak developments in exports and of the consumption tax hike, and the output gap is likely to narrow temporarily within positive territory.

However, throughout the projection period -- that is, through fiscal 2021 -- business fixed investment -- mainly investment related to urban redevelopment projects, labor-saving investment, and research and development (R&D) investment -- is likely to continue increasing moderately, although the pace of increase is expected to decelerate temporarily, mainly for manufacturing, due to the effects of the slowdown in overseas economies. Private consumption is expected to follow a moderate increasing trend, mainly because the employment and income situation is likely to continue improving, with the effects of the consumption tax hike remaining small. Thus, domestic demand is likely to follow an uptrend, as the impact of the slowdown in overseas economies is expected to be limited. With regard to overseas economies, the growth rates are expected to rise, partly backed by the materialization of the effects of macroeconomic policies in each country as well as the progress in global adjustments in IT-related goods. In this situation, Japan's economy is likely to continue on an expanding trend throughout the projection period. On average, it is expected that the economy will continue growing at about the same pace as its potential, and the positive output gap will remain at around the current level.

II. Medium- to Long-Term Inflation Expectations

Medium- to long-term inflation expectations have been more or less unchanged on the whole, although they have shown somewhat different developments depending on indicators. As for the outlook, such expectations are likely to follow an increasing trend, with the output gap remaining positive.

Medium- to long-term inflation expectations have been more or less unchanged on the whole, although each indicator has shown somewhat different developments, in that some have indicated relatively weak developments while others have shown an increase. In addition, there have been signs that households' tolerance of price rises will increase and firms' stance will shift toward further raising prices, although both have remained cautious.

Regarding the outlook, it is expected that households' tolerance of price rises will increase steadily and firms' stance gradually will shift toward further raising prices as the employment and income situation is likely to continue improving with the economy maintaining an expanding trend and the output gap remaining positive. If households' and firms' stances toward prices become more active, in terms of the adaptive component, medium- to long-term inflation expectations are likely to be pushed up through a rise in the observed inflation rate. In addition, in terms of the forward-looking component, the Bank will pursue monetary easing through its strong commitment to achieving the price stability target, which will be effective in pushing up medium- to long-term inflation expectations.

Under these circumstances, medium- to long-term inflation expectations are likely to follow an increasing trend and gradually converge to 2 percent.

III. Factors such as Developments in Crude Oil Prices and Global Financial Markets

Looking at developments in crude oil prices and global financial markets, which affect overall prices including import prices, crude oil prices have been more or less flat -- albeit with fluctuations -- since around this summer, although they have been lower compared to the level seen around spring. With regard to global financial markets, investors' risk aversion had continued to be observed, mainly against the background of the U.S.-China trade friction and concern over the slowdown in the global economy, but the markets recently have been calm compared to a while ago.

IV. Points to Take into Account

With regard to price developments, uncertainties over both the output gap and medium- to long-term inflation expectations remain significant. In particular, close attention should be paid to the possibility that, in a situation where downside risks concerning overseas economies seem to be increasing, if they materialize, such as in the form of a further delay in the timing of a pick-up or a further deceleration in the growth pace of overseas economies, prices will be affected to some extent, mainly through the output gap. In addition, it is necessary to closely monitor future developments in crude oil prices and global financial markets because they also could affect prices.

[Note 3] Voting for the action: Mr. H. Kuroda, Mr. M. Amamiya, Mr. M. Wakatabe, Mr. Y. Harada, Mr. Y. Funo, Mr. M. Sakurai, Ms. T. Masai, and Mr. H. Suzuki. Voting against the action: Mr. G. Kataoka. Mr. G. Kataoka dissented, considering that the momentum toward achieving the price stability target had already been lost, given developments in the observed inflation rate, the output gap, and inflation expectations.