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May 8, 2019

Bank of Japan

Minutes of the Monetary Policy Meeting

on March 14 and 15, 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 Thursday, March 14, 2019, from 2:00 p.m. to 4:00 p.m., and on Friday, March 15, from 9:00 a.m. to 11:32 a.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. Yano, Director-General of the Minister's Secretariat, Ministry of Finance

Mr. R. Tanaka, State Minister of Cabinet Office, Cabinet Office[2]

Mr. A. Nakamura, 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

Mr. A. Okuno, Head of Policy Planning Division, Monetary Affairs Department

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

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[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on April 24 and 25, 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] Mr. R. Tanaka was present on March 15.

[3] Mr. A. Nakamura was present on March 14.

Mr. T. Sekine, Director-General, Research and Statistics Department

Mr. H. Ichiue, Head of Economic Research Division, Research and Statistics Department

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

Secretariat of the Monetary Policy Meeting

Mr. Y. Onozawa, Director-General, Secretariat of the Policy Board

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

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

Mr. H. Inaba, 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 January 22 and 23, 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 had been generally in negative territory. The uncollateralized overnight call rate had been in the range of around minus 0.02 to minus 0.07 percent. As for interest rates on term instruments, yields on three-month treasury discount bills (T-Bills) had declined to around minus 0.3 percent through end-January, due mainly to an increase in demand for collateral, but had risen thereafter; recently, they had been at around minus 0.14 percent.

The Nikkei 225 Stock Average had risen, mainly against the background of a rise in U.S. stock prices and anticipated progress in U.S.-China trade negotiations, and was moving at around 21,000 yen recently. In the foreign exchange market, the yen had been depreciating somewhat against the U.S. dollar as investors' risk aversion had waned. The yen had been more or less flat against the euro amid concern over uncertainties regarding the outlook for the European economy.

C. Overseas Economic and Financial Developments

Overseas economies had been growing moderately on the whole, although slowdowns had been observed. With regard to the outlook, they were expected to continue

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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.

doing so with domestic demand in both advanced and emerging economies remaining firm, due mainly to the effects of stimulus measures in some of those economies.

The U.S. economy continued its expansion. Exports had been on a moderate increasing trend. Private consumption had been increasing, supported in part by a favorable employment and income situation and consumer sentiment. Business fixed investment had been on an increasing trend, mainly reflecting the fact that business sentiment -- although worsening recently -- continued to improve. 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 2 percent. The economy was likely to maintain its expansion, underpinned by expansionary fiscal measures.

The European economy had been decelerating. Growth in exports had been slowing. While private consumption had generally been on an increasing trend, partly supported by a favorable employment and income situation and consumer sentiment, the pace of increase in business fixed investment had been decelerating, mainly against the backdrop of a deterioration in business sentiment of manufacturing firms. With regard to prices, the year-on-year rate of change in the Harmonized Index of Consumer Prices (HICP) for all items had been at around 1.5 percent, 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 as adjustments in the manufacturing sector, which had shown some weakness, progressed. Meanwhile, economic activity in the United Kingdom had been decelerating, mainly against the background of uncertainties regarding its exit from the European Union (EU).

With regard to emerging economies, the Chinese economy continued to see stable growth on the whole, but some weakness had been spreading. As for prices, the year-on-year rate of change in the consumer price index (CPI) had been at around 1.5 percent. The economy was likely to broadly follow a stable growth path as authorities conducted fiscal and monetary policies in a timely manner, although it was expected to be affected to some extent by the U.S.-China trade friction and authorities' measures to push forward with deleveraging. In the NIEs and the ASEAN countries, domestic demand had been resilient, mainly on the back of favorable consumer sentiment and the effects of those economies' stimulus measures, although the increasing trend in exports had come to a pause. Economic activity in Russia and Brazil had been recovering moderately, mainly on the back of stable inflation rates. In India, the economy had been recovering moderately, particularly in domestic demand.

With respect to overseas financial markets, stock prices in many economies had risen, due mainly to a waning of expectations for a policy rate hike in the United States and to anticipated progress in U.S.-China trade negotiations. However, since the beginning of March, stock prices had been rising at a slower pace, reflecting the weaker outlook for the European economy and relatively weak economic indicators in China. U.S. and European long-term interest rates had been declining moderately, due mainly to a waning of expectations for a policy rate hike in the United States and concern regarding a possible slowdown in the European economy. In the commodity market, crude oil prices had been rising against the background of oil-producing economies continuing to decrease their production levels.

D. Economic and Financial Developments in Japan

1. Economic developments

Japan's economy was expanding moderately, with a virtuous cycle from income to spending operating, although exports and production had been affected by the slowdown in overseas economies. With regard to the outlook, it was likely to continue its moderate expansion, despite being affected by the slowdown in overseas economies for the time being.

Exports had shown some weakness recently. While those to advanced economies continued on their increasing trend, those to emerging economies had been relatively weak recently. Although exports were projected to show some weakness for the time being, they were expected to be on a moderate increasing trend on the back of overseas economies growing moderately on the whole.

Public investment had been more or less flat, remaining at a relatively high level. As for the outlook, it was likely to increase, mainly reflecting Olympic Games-related construction as well as the supplementary budgets in response to natural disasters and the policy measures for national resilience.

Business fixed investment continued on an increasing trend, with corporate profits and business sentiment staying at favorable levels on the whole. Looking at the *Financial Statements Statistics of Corporations by Industry, Quarterly*, the ratio of current profits to sales for the October-December quarter of 2018 had declined for two consecutive quarters but remained at a high level on the whole. Machinery orders and construction starts in terms of planned expenses for private nonresidential construction -- both of which are leading indicators of business fixed investment -- continued on an increasing trend, albeit with monthly fluctuations. Business fixed investment was likely to continue increasing, mainly on the back of generally favorable corporate profits and accommodative financial conditions.

As for the employment and income situation, supply-demand conditions in the labor market continued to tighten steadily, and the pace of increase in employee income had been relatively high. The active job openings-to-applicants ratio had been at a high level that exceeded the peak marked during the bubble period, and the unemployment rate remained at a low level.

Private consumption had been increasing moderately, albeit with fluctuations, against the background of steady improvement in the employment and income situation. The consumption activity index (CAI; real, travel balance adjusted) -- calculated by combining various sales and supply-side statistics -- had increased for the October-December quarter of 2018 on a quarter-on-quarter basis and also had risen for January 2019 relative to that quarter. Private consumption was expected to continue to increase moderately, supported by the increase in employee income and the wealth effects stemming from the rise in stock prices.

Housing investment had been more or less flat overall, as the numbers of housing starts in terms of owner-occupied houses and housing for sale had started to increase recently, although the number in terms of housing for rent had been on a decreasing trend, mainly reflecting a peaking-out in demand for tax saving.

Industrial production had been on a moderate increasing trend, although it had shown some weakness recently. It was projected to increase moderately on the back of developments in demand at home and abroad.

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 declining, 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 0.5-1.0 percent, and that for all items less fresh food and energy was at around 0.5 percent recently. With regard to the outlook, 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.

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 at around 2.5 percent. That in the amount outstanding of CP and corporate bonds had been at a relatively high level. Firms' financial positions had been favorable.

The year-on-year rate of increase in the monetary base had been in the range of around 4-5 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

A. Economic Developments

Regarding global financial markets, members shared the recognition that, since the previous meeting, stock prices in many economies had risen and foreign exchange and bond markets had generally been stable, mainly against the backdrop of a waning of expectations for a policy rate hike in the United States and anticipated progress in U.S.-China trade negotiations. However, some members pointed out that, since the beginning of March, the paces of stock price rises in major economies had been decelerating and U.S. and European long-term interest rates had been declining somewhat, reflecting the weaker outlook for the European economy and relatively weak economic indicators in China. As for the yen's exchange rate against the U.S. dollar, a few members expressed the recognition that, although some people were vigilant regarding such developments as the narrowed interest rate differentials between Japan and the United States as factors inducing the yen's appreciation, the yen generally remained stable thus far against the U.S. dollar on the back of improvement in market participants' risk sentiment. Meanwhile, one member said that the recent sluggishness in Japanese stock prices compared to overseas stock prices might be partly attributable to concern over a potential appreciation of the yen, in addition to the weakness in China-related stocks. Many members noted that, considering high uncertainties regarding the global economy, attention also needed to be paid to the possibility that investors' risk aversion would heighten and the markets would become unstable. In addition, one member said that, although crude oil prices -- after having declined sharply last year -- had been rising somewhat due to the decrease in production levels by oil-producing economies, it might take some time for these prices to return to past levels.

With respect to overseas economies, members shared the recognition that they had been growing moderately on the whole, although slowdowns had been observed. Some members expressed the recognition that, while uncertainties regarding overseas economies had started to become apparent around last autumn, a deceleration in their growth pace was becoming clear recently, as evidenced, for example, by relatively weak economic indicators in China and Europe, as well as by a pause in the increase in IT-related goods production on a global basis. Meanwhile, some members expressed the view that there was no change to the overall picture that overseas economies continued to grow, albeit moderately, taking account of the fact that domestic demand in many economies, including the U.S. economy, generally remained firm. A few members added that the following fact provided evidence of the firmness in domestic demand worldwide: while the Global Purchasing Managers' Index (PMI) for manufacturing was approaching 50 points, that for services remained at a high level. As for the outlook, members shared the view that overseas economies were likely to grow moderately on the whole, with domestic demand in both advanced and emerging economies remaining firm. Many members expressed the recognition that it was highly likely that overseas economies would continue to see a slowdown for the time being, but that they would pick up gradually thereafter as the effects of stimulus measures in China, as well as cyclical improvement in demand for IT-related goods, among other aspects, were anticipated. Some of these members pointed out that -- while the widely held view, such as at international meetings, was that the global economy would pick up through the second half of 2019 -- there were considerable uncertainties in this regard, including with respect to cyclical developments in demand for IT-related goods. In addition, members shared the recognition that it was necessary to continue paying attention to risks including (1) the consequences of the U.S.-China trade friction, (2) negotiations on the United Kingdom's exit from the EU, and (3) geopolitical risks, and that risks to overseas economies continued to be tilted to the downside.

With regard to the current situation of overseas economies by region and their outlook, members concurred that the U.S. economy continued its expansion. Some members expressed the view that the economy continued to expand mainly in the household sector amid a favorable employment and income situation, and the effects on consumption of the unusually severe winter weather this past winter and of the partial government shutdown generally remained limited. In response to this, a different member said that, although the U.S. economy continued on an expanding trend, the fact that the growth in production and business fixed investment had come to a halt, mainly due to a substantial decrease in exports to China, was of concern. As for the outlook, many members shared the view that the economy was likely to maintain its expansion, underpinned by expansionary fiscal measures. Some members expressed the recognition that the Federal Reserve's cautious stance on raising its policy rate would underpin U.S. economic growth. Meanwhile, a few members noted that attention needed to be paid to the possibility that the effects of the expansionary fiscal measures, which had underpinned the economy to date, would gradually dissipate from around the second half of this year.

Members shared the recognition that the European economy had been decelerating. Some members pointed out that, while private consumption continued on an increasing trend, growth in exports and production had been slowing, mainly due to the effects of the slowdown in the Chinese economy. One member commented that developments in the European economy since last year had been accompanied by a series of factors exerting downward pressure, including the production decline in Germany stemming from the tightening of gas emission regulations on automobiles and the fiscal problem in Italy. This member continued that the slowdown in the economy had become evident recently, as seen in the significant downward revision in growth projections for 2019 by the European Central Bank. As for the outlook, members concurred that, with the effects of temporary factors including the gas emission regulations dissipating, the European economy was likely to gradually move out of its deceleration phase as adjustments in the manufacturing sector progressed. Some members said that it was necessary to closely monitor whether a further increase in uncertainties surrounding political situations, such as negotiations on the United Kingdom's exit from the EU, would lead to changing the trend in financial markets and exerting downward pressure on the European economy.

Members agreed that the Chinese economy continued to see stable growth on the whole, but some weakness had been spreading. Some members pointed out that the U.S.-China trade friction and adjustments in the IT sector had been exerting downward pressure on the PMI for manufacturing, as well as on export and import figures, and that relatively weak developments had been observed in some indicators of private consumption including sales of passenger cars. As for the outlook, members shared the view that the economy was likely to broadly follow a stable growth path as authorities conducted fiscal and monetary policies in a timely manner, although it was likely to be affected to some extent by the U.S.-China trade friction and authorities' measures to push forward with deleveraging. Many members said that the pace of growth in the economy was highly likely to recover through the second half of 2019, as the effects of stimulus measures that authorities already had been proceeding with would gradually materialize and a pick-up in IT-related demand was anticipated. Some members, however, pointed out that, in a situation where the corporate sector had been facing a high level of debt outstanding, implementing stimulus measures was a challenging policy conduct for authorities, and that there were considerable uncertainties as to when and to what extent the measures' effects would emerge.

Members shared the recognition that emerging economies had been recovering moderately overall. They concurred that, in the NIEs and the ASEAN countries, domestic demand had been resilient, mainly on the back of favorable consumer sentiment and the effects of those economies' stimulus measures, although the increasing trend in exports had come to a pause. As for the outlook, members agreed that emerging economies were likely to continue their moderate recovery overall mainly on the back of the effects of their economies' stimulus measures, despite being affected by the slowdown in the Chinese economy. A few members expressed the view that the Federal Reserve's cautious stance on raising its policy rate would underpin emerging economies through the stabilization of global capital flows.

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

With regard to economic activity, members agreed that the economy was expanding moderately, with a virtuous cycle from income to spending operating, although exports and production had been affected by the slowdown in overseas economies. Many members pointed out that real GDP for the October-December quarter of 2018 had registered clearly positive growth, owing to, for example, restoration-related demand and recovery in production following the natural disasters, but hard data since the start of 2019, such as for exports and production, had started to show some weakness due to the effects of the slowdown in overseas economies. Some members said that, while the coincident composite index in the Indexes of Business Conditions released by the Cabinet Office had declined substantially for January, this owed mainly to a fall in production-related indicators, which comprise part of the index. Meanwhile, many members expressed the view that, as domestic demand -- such as business fixed investment and private consumption -- had been firm, there was no change in the basic mechanism for economic expansion, in which a virtuous cycle from income to spending operated. Based on this discussion, members shared the recognition that, although some weakness had been observed in exports and production, it was appropriate to maintain the overall assessment that the economy was expanding moderately.

As for the outlook for the economy, members concurred that it was likely to continue its moderate expansion, despite being affected by the slowdown in overseas economies for the time being. On a more specific note, 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, mainly against the background of highly accommodative financial conditions and the underpinnings through government spending. Many members then noted that it was necessary to closely monitor how the recent weakness in exports and production would affect firms' fixed investment plans as well as the employment and income situation taking into consideration, for example, the results of the March *Tankan* (Short-Term Economic Survey of Enterprises in Japan) and anecdotal information obtained from interviews with firms to be reported at the April meeting of general managers of the Bank's branches. Meanwhile, one member pointed out that, in a situation where some of the downside risks to overseas economies had materialized, a downward shift in Japan's economic phase had begun to progress, and, depending on developments in overseas economies and the effects of the scheduled consumption tax hike, movement toward an economic downturn could heighten going forward. Regarding the consumption tax hike scheduled to take place in October 2019, a different member noted that, with the slowdown in overseas economies exerting downward pressure on Japan's economy, there was a risk that the hike would have negative effects on future consumption. Counter to this, some members expressed the recognition that (1) the net burden on households around the time of the hike was likely to be smaller than that of the hike in 2014 and (2) various measures to smooth out demand fluctuations expected to occur around the time of the tax hike might mitigate the effects on the economy. One member pointed out that it was necessary to monitor how the following matters would affect future consumption activity: (1) the provision of free education was a measure through which income would be repatriated to generations with a relatively low propensity to consume and (2) there was a difference between the timing of tax collection and of people reaping the benefits of the various measures.

Regarding recent developments in exports, members shared the recognition that they had shown some weakness recently. Some members pointed out that real exports for January had decreased significantly mainly against the background of the slowdown in the Chinese economy and the global weakening of demand for IT-related goods, and that, among these exports, the decline was remarkable in terms of capital goods and IT-related goods to China. As for the outlook, members concurred that exports, while showing some weakness for the time being, were likely to be on a moderate increasing trend on the back of overseas economies growing moderately on the whole. One member said that, depending on developments regarding the effects of stimulus measures in China and the U.S.-China trade friction, such effects were likely to spill over to not only exports of products and parts to China, but also external demand in a wide range of fields, such as inbound tourism, and therefore it was necessary to closely monitor developments in external demand.

Members agreed that public investment had been more or less flat, remaining at a relatively high level. They shared the recognition that it was likely to increase reflecting Olympic Games-related demand, the implementation of the supplementary budgets in response to natural disasters, and expansion in expenditure such as for national resilience. A few members said that, while some people previously had pointed out that construction works had not been progressing enough relative to the budgetary measures, orders received for public construction -- a leading indicator of public investment -- had shown a significant increase recently. These members continued that this, among other developments, suggested that public investment was likely to expand as the implementation of such items as the supplementary budgets progressed.

Members concurred that business fixed investment continued on an increasing trend, with corporate profits and business sentiment staying at favorable levels on the whole. A few members said that, although attention needed to be paid to somewhat weak figures of late for machinery orders and construction starts, business fixed investment that mainly reflected labor shortage remained firm. Regarding the outlook, members agreed that business fixed investment -- including that aimed at saving labor against the background of the labor shortage -- was likely to continue increasing, mainly on the back of generally favorable corporate profits and accommodative financial conditions. A few members pointed out that, with corporate profits peaking out, if relatively weak developments in exports and production became prolonged, this might exert downward pressure on business fixed investment. Counter to this, one member -- referring to corporate managers' views that, once investment intended for domestic capacity expansion took place, it would become necessary for firms to also make investment to renew other obsolete plant equipment -- said that, even if growth in the global economy decelerated somewhat, it was unlikely that business fixed investment in Japan would decline significantly.

As for the employment and income situation, members shared the recognition that supply-demand conditions in the labor market continued to tighten steadily, and that the pace of increase in employee income had been relatively high. Many members noted that labor market conditions remained tight, as evidenced, for example, by the fact that the unemployment rate remained at a low level of around 2.5 percent and the active job openings-to-applicants ratio maintained the high level that exceeded the peak marked during the bubble period. One member added that, although the slowdown in the global economy had been exerting downward pressure on Japan's economy, employment continued to grow so far. A different member pointed out that there was a possibility that the pace of expansion in wages would decelerate amid corporate profits peaking out.

Members shared the recognition that private consumption had been increasing moderately, albeit with fluctuations, against the background of improvement in the employment and income situation. As for the outlook, they concurred that it was likely to continue increasing moderately, supported by the increase in employee income and the wealth effects stemming from the rise in stock prices. One member expressed the view that, although attention should be paid to, for example, the effects of the recent slowdown in overseas economies on consumer sentiment and other aspects, private consumption was highly likely to be firm for the time being, due mainly to steady improvement in the employment and income situation as well as to an increase in demand prior to the scheduled consumption tax hike.

Members shared the recognition that housing investment had been more or less flat overall, as the numbers of housing starts in terms of owner-occupied houses and housing for sale had started to increase recently, although the number in terms of housing for rent had been on a decreasing trend.

Members shared the recognition that industrial production had been on a moderate increasing trend, although it had shown some weakness recently. Some members pointed out that, although a decline in exports, mainly of capital goods and IT-related goods, had pushed down production for January, firm domestic demand had been underpinning production as a whole. Regarding the outlook, many members expressed the view that production was likely to increase moderately on the back of developments in demand at home and abroad.

As for prices, members concurred that the year-on-year rate of change in the CPI for all items less fresh food was in the range of 0.5-1.0 percent, while 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. On this basis, 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 to the economic expansion and the labor market tightening. However, many members expressed 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. One member said that media reports on price rises, mainly in food products, had been increasing recently, and that services prices remained relatively firm when excluding items that tend to fluctuate significantly, such as accommodation fees.

In terms of 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. One member expressed the view that, although price rises were likely to continue accelerating moderately with the output gap tightening somewhat, it was likely to take some time to achieve the price stability target as wage increases had been moderate and crude oil prices had been sluggish. A few members pointed out that firms' wage-setting stance seemed to be cautious, as seen, for example, in the fact that the rate of base pay increase among large firms resulting from this spring's annual labor-management wage negotiations had been at a somewhat lower level than that of last year. In response to this, a few other members said that the rate had not decreased significantly relative to last year. These members then pointed out that, as negotiation results for small firms -- which faced severer labor shortage -- would be available from now on, it was necessary to make an assessment in terms of the overall base pay increase. A different member noted that, with regard to prices, upward pressure of a positive output gap and constraining factors, such as households' persistent deflationary mindset and a rise in productivity, continued to exist at the same time, and the outlook was highly uncertain. A few members expressed the recognition that the Bank should be more vigilant than before about whether the decreases in exports and production would spread to employment and domestic demand, thereby weakening the inflation momentum.

Members agreed that inflation expectations were more or less unchanged. A few members pointed out that, if further price rises came to be observed widely due to firms' efforts to raise their prices -- as in the case of food products, for example -- firms' and households' inflation expectations likely would rise. One member said that it was necessary to carefully monitor the impact that the scheduled consumption tax hike would have on economic activity and prices, such as through inflation expectations.

B. Financial Developments

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.

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

Based on the above assessment of economic and financial developments, members discussed monetary policy for the immediate future.

With regard to conducting monetary policy, most members shared the recognition that, although it was necessary to carefully examine the fact that firms' cautious wage- and price-setting stance and households' cautiousness toward price rises had been persistent, the momentum toward achieving 2 percent inflation was being maintained. As background to this, most members noted that (1) firms' stance was likely to gradually shift toward further raising wages and prices with the output gap remaining positive, and (2) medium- to long-term inflation expectations, which were more or less unchanged recently, were likely to rise gradually as further price rises came to be observed widely.

Members discussed the Bank's basic stance on conducting monetary policy. Most members shared the recognition that, although it would take time to achieve the 2 percent price stability target, it was appropriate to persistently continue with the powerful monetary easing under the current guideline for market operations as the momentum toward achieving 2 percent inflation was being maintained. One member commented that, with the aim of achieving the price stability target, the Bank should persistently continue with the current monetary policy stance and continuously encourage the virtuous cycle of the economy to take hold. 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 in a balanced manner, so that the positive output gap -- a driver for a rise in inflation -- would be maintained for as long as possible. One member expressed the view that it was necessary to maintain the current monetary easing policy, paying more attention than before to the side effects on financial institutions and market functioning while cautiously examining economic developments for the time being. One member pointed out that QQE with Yield Curve Control, currently in place, had a certain degree of flexibility to respond to market conditions and was a policy framework that allowed accommodative financial conditions to be maintained easily even amid changes in the market environment while alleviating the side effects of monetary easing on market functioning. Meanwhile, one member expressed the recognition that, at this moment, it was necessary to wait for data on economic developments at home and abroad to accumulate, and therefore appropriate to continue with the current policy, but that if it was the case that downside risks to economic activity and prices were materializing, the Bank should be prepared to make policy responses. Moreover, one member said that, considering, for example, the difficulty in reverting inflation expectations toward an increase after falling, it was important to make preemptive policy responses in the event of a phase shift in developments in economic activity and prices. In response to this, one member -- noting that, at this point, the main scenario regarding developments in economic activity and prices toward achieving 2 percent inflation was unchanged -- expressed the recognition that monetary policy was not something that should automatically respond to every short-term fluctuation in economic indicators, and it needed to be conducted based on the assessment of the underlying trend in these developments. A different member expressed the opinion that, in a situation where there was no change in the trend of the positive output gap, it was appropriate that the Bank maintain the current monetary easing policy and carefully monitor economic developments. In addition, one member noted that, taking account of current developments in economic activity and prices, there was some risk that the scheduled consumption tax hike would exert downward pressure on them. The member then pointed out that it was important for fiscal and monetary policies to further coordinate and stimulate aggregate demand in a situation where early achievement of the price stability target could not be envisaged. A different member noted that the fact that Japan's economy had been able to maintain its moderate expanding trend in recent years was largely attributable to monetary and fiscal policies having served to underpin the economy. This member then commented that it was important that the macroeconomic policy framework -- a policy mix of monetary and fiscal policies -- continue to be sustained.

Members then discussed the Bank's strategy for communication to the public in conducting monetary policy. Many members shared the recognition that, amid heightening uncertainties associated with the outlook for the global economy, market participants had become more sensitive to messages conveyed by central banks, and thus the Bank also needed to give due consideration to its strategy for communication to the public. One member noted that the Bank should emphasize that, if there emerged concerns that the inflation momentum would be lost, it would decisively conduct additional easing. This member continued that the Bank also should clearly argue against claims, which some people had pointed out, that there was a limit to monetary easing. In relation to this, one member said that the Bank thus far had explicitly stated that it might take various easing measures, if needed, in order to maintain the momentum toward achieving 2 percent inflation, and that it was important for the Bank to continue to explain this in a thorough manner. On this basis, the member expressed the recognition that the momentum toward achieving the price stability target had been maintained thus far, and that it was necessary for the Bank to engage in communication with a focus on this basic assessment so as not to intensify market speculation or destabilize the market. A different member noted that it was important for the Bank to explicitly convey to the market that it was not different from other central banks in terms of the direction of monetary policy by presenting its determination that it would persistently continue with the powerful monetary easing.

Members also deliberated over points to take into account in conducting monetary policy in the future. One member pointed out that, although interest rates on corporate bonds had been decided thus far by adding spreads to JGB yields in the corporate bond market, such pricing was not being conducted amid negative JGB yields, and pricing was starting to be based on a positive fixed value of interest rates. On this basis, the member pointed out that, in a situation where a virtually zero lower bound existed, even if JGB yields saw an additional decrease, there was a possibility that monetary easing effects would be limited compared to before. A few members expressed the recognition that, under the prolonged low interest rate environment, it was necessary to pay attention to the following possibilities regarding developments at financial institutions -- mainly regional ones -- going forward: (1) that the negative effects on their profits and equity capital would gradually materialize, and (2) that an increasing number of them would take excessive risks to secure profits. On this point, one member pointed out that it was necessary to raise the inflation rate in order to increase nominal interest rates in the long run, and achieving 2 percent inflation at the earliest possible time was a quicker way to this end. On this basis, the member added that stopping monetary easing before completely overcoming deflation would instead result in continuous low interest rates. One member said that there was room for the conduct of JGB purchase operations to be revised, taking account of (1) the fact that foreign investors' money had flowed into the JGB market and thus the supply-demand conditions in the JGB market had tightened further, and (2) the possibility that the amount of JGBs held by financial institutions had been close to the minimum level needed, for example, as collateral for funding. Meanwhile, one member noted that, in order to raise the productivity of Japan's economy, it was necessary to encourage labor transfers among firms in every industry, including the financial industry, so as to realize the entry of firms with high productivity and the exit of those with low productivity, thereby promoting a turnover of firms in the economy. On this basis, the member pointed out that the pressure of long-lasting monetary easing had been breaking down the rigidity of Japan's labor market -- which had been hindering such labor transfers -- and that this was an example of monetary policy promoting structural reforms.

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 necessary for the Bank to implement more powerful easing measures instead of persistently continuing with the current policy, taking account of, for instance, the low possibility that the output gap would continue to widen within positive territory, amid a further heightening of uncertainties regarding domestic and overseas economies.

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, maintain the current extremely low levels of short- and long-term interest rates for an extended period of time, taking into account uncertainties regarding economic activity and prices, including the effects of the consumption tax hike scheduled to take place in October 2019; and (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.

In response, one member commented on the forward guidance for policy rates that, although the guideline itself -- that is, to maintain the current extremely low short- and long-term interest rates -- should be maintained as a matter of course, it was more desirable to introduce forward guidance for policy rates that further clarified its relationship with the price stability target. A different member was of the opinion that, in order to achieve the price stability target at the earliest possible time, it was important to influence inflation expectations directly and that, from this perspective, it was necessary for the Bank to strengthen its commitment by promising to implement additional easing measures if it revised downward its assessment of medium- to long-term inflation expectations.

IV. Remarks by Government Representatives

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

(1) The second supplementary budget for fiscal 2018 was approved by the Diet recently. The government would swiftly implement this supplementary budget to address urgent issues such as disaster prevention and mitigation, building national resilience, and implementing measures in response to the early effectuation of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

(2) The budget for fiscal 2019 was approved by the House of Representatives and being deliberated in the House of Councillors. It addressed current important issues such as transforming Japan's social security system to one for people across all generations by making use of the incremental revenue from the scheduled consumption tax hike, smoothing out the economic impacts caused by the hike, disaster prevention and mitigation, and building national resilience. The government would maintain a sense of urgency and work toward obtaining the Diet's approval at the earliest possible time. While the labor market was close to full employment, Japan was in a severe fiscal situation, far from achieving a fiscal surplus. The Ministry of Finance, while remaining attentive, would work to steadily achieve fiscal soundness and to conduct fiscal management in a prudent manner, based on the government's principal stance of giving highest priority to the economy.

(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) Although the second preliminary estimate of real GDP for the October-December quarter of 2018 registered positive growth supported by an increase in private demand, it was necessary to pay attention to the fact that the contribution of external demand had been negative for three consecutive quarters with the Chinese economy decelerating.

(2) The Japanese 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 factors such as the effects on the world economy of developments in the trade friction,

prospects for the Chinese economy, uncertainties regarding developments in overseas economies and their policies, and the effects of volatility in financial markets.

(3) Firms' efforts to raise wages had been observed amid risks such as those regarding overseas economies. In the annual spring labor-management wage negotiations, some firms had decided to conduct base pay increases for a sixth consecutive year, while those in industries with acute labor shortages, including transport, had decided to substantially increase wages.

(4) The government had been working toward promptly obtaining the Diet's approval of the budget for fiscal 2019 and related bills, which currently were being deliberated. With regard to the countermeasures for the scheduled consumption tax hike, it would take every necessary step in an integrated manner by, for example, considering further details of the measures. Meanwhile, the government expected that the Japan-EU Economic Partnership Agreement (EPA), which came into force recently, together with the CPTPP would serve as new engines of growth for the Japanese economy.

(5) 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.

V. Votes

A. 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, with a further heightening of uncertainties regarding developments in economic activity and prices going forward, it was desirable to strengthen monetary easing.

B. 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.

VI. Discussion on the Statement on Monetary Policy

On the basis of the above discussions, members discussed the Statement on Monetary Policy. Mr. Y. Harada expressed the opinion that it was appropriate to introduce forward guidance for policy rates that would further clarify its relationship with the price stability target. Mr. G. Kataoka expressed the following opinions: (1) the possibility of the year-on-year rate of change in the CPI increasing toward 2 percent going forward was low at this point, and (2) further coordination of fiscal and monetary policy was important in order to achieve the price stability target of 2 percent at the earliest possible time, and it was necessary for the Bank to make a commitment to taking additional easing measures if it revised downward its assessment of medium- to long-term inflation expectations.

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).

VII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of January 22 and 23, 2019 for release on March 20.

Attachment

March 15, 2019

Bank of Japan

Statement on Monetary Policy

1. At the Monetary Policy Meeting held today, the Policy Board of the Bank of Japan 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 1]

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.[6] 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.

(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.

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

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.

2. Japan's economy is expanding moderately, with a virtuous cycle from income to spending operating, although exports and production have been affected by the slowdown in overseas economies. Overseas economies have been growing moderately on the whole, although slowdowns have been observed. In this situation, exports have shown some weakness recently. On the domestic demand side, business fixed investment has continued on an increasing trend, with corporate profits and business sentiment staying at favorable levels on the whole. Private consumption has been increasing moderately, albeit with fluctuations, against the background of steady improvement in the employment and income situation. Meanwhile, housing investment has been more or less flat. Public investment also has been more or less flat, remaining at a relatively high level. Reflecting these developments in demand both at home and abroad, industrial production has been on a moderate increasing trend, although it has shown some weakness recently. Labor market conditions have continued to tighten steadily. Financial conditions are highly accommodative. On the price front, the year-on-year rate of change in the consumer price index (CPI, all items less fresh food) is in the range of 0.5-1.0 percent. Inflation expectations have been more or less unchanged.

3. With regard to the outlook, Japan's economy is likely to continue its moderate expansion, despite being affected by the slowdown in overseas economies for the time being. Domestic demand is likely to follow an uptrend, with a virtuous cycle from income to spending being maintained in both the corporate and household sectors, mainly against the background of highly accommodative financial conditions and the underpinnings through government spending. Although exports are projected to show some weakness for the time being, they are expected to be on a moderate increasing trend on the back of overseas economies growing moderately on the whole. The year-on-year rate of change in the CPI is 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. [Note 2]

4. Risks to the outlook include the following: the U.S. macroeconomic policies and their impact on global financial markets; the consequences of protectionist moves and their effects; developments in emerging and commodity-exporting economies including the effects of the two aforementioned factors; negotiations on the United Kingdom's exit from the European Union (EU) and their effects; and geopolitical risks.

5. The Bank will continue with "Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control," aiming to achieve the price stability target of 2 percent, as long as it is necessary for maintaining that target in a stable manner. It will continue expanding the monetary base until the year-on-year rate of increase in the observed CPI (all items less fresh food) exceeds 2 percent and stays above the target in a stable manner. As for policy rates, the Bank intends to maintain the current extremely low levels of short- and long-term interest rates for an extended period of time, taking into account uncertainties regarding economic activity and prices including the effects of the consumption tax hike scheduled to take place in October 2019. It 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. [Note 3]

[Note 1] 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, with a further heightening of uncertainties regarding developments in economic activity and prices going forward, it was desirable to strengthen monetary easing.

[Note 2] Mr. G. Kataoka dissented, considering that the possibility of the year-on-year rate of change in the CPI increasing toward 2 percent going forward was low at this point.

[Note 3] Mr. Y. Harada dissented, considering that, as for policy rates, it was appropriate to introduce forward guidance that would further clarify its relationship with the price stability target. 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 important, and that it was necessary for the Bank to make a commitment to taking additional easing measures if it revised downward its assessment of medium- to long-term inflation expectations.