Not to be released until 8:50 a.m. Japan Standard Time on Tuesday, June 25, 2019.

June 25, 2019

Bank of Japan

# Minutes of the Monetary Policy Meeting

## on April 24 and 25, 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, April 24, 2019, from 2:00 p.m. to 3:58 p.m., and on Thursday, April 25, from 9:00 a.m. to 12:20 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. Ueno, State Minister of Finance, Ministry of Finance[2]

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

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

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[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on June 19 and 20, 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. Ueno and R. Tanaka were present on April 25.

[3] Messrs. E. Chatani and A. Nakamura were present on April 24.

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

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

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. T. Nagahata, Senior Economist, Monetary Affairs Department

Mr. T. Nagano, 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 March 14 and 15, 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 0.02 to minus 0.07 percent. As for interest rates on term instruments, yields on three-month treasury discount bills (T-Bills) generally had been more or less unchanged in the range of minus 0.15 to minus 0.20 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 22,000 yen recently. The foreign exchange market had been relatively stable, and the yen had been more or less flat against both the U.S. dollar and the euro since the previous meeting.

### 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, slowdowns were likely to continue for the time being; thereafter, however, such economies were likely to grow moderately on the whole with the growth rates rising somewhat, partly due to the

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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.

materialization of the effects of stimulus measures, such as in China, and the progress in global adjustments in IT-related goods.

The U.S. economy continued its expansion. Exports had been on a moderate increasing trend. Private consumption had been on an increasing trend, supported in part by a favorable employment and income situation and consumer sentiment. Business fixed investment also had been on an increasing trend, mainly reflecting the fact that business sentiment -- although worsening recently -- stayed at a favorable level. As for prices, the year-on-year rate of change in the personal consumption expenditure (PCE) deflator for all items had been at around 1.5 percent and that for all items excluding food and energy had been at around 2 percent. The economy was likely to maintain its expansion, partly underpinned by expansionary fiscal measures.

The European economy had been decelerating. Exports had been more or less flat. While private consumption generally had 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 with the progress in adjustments in the manufacturing sector. Meanwhile, the growth rate of the U.K. economy had risen temporarily due to a front-loaded increase in demand to prepare for possible confusion stemming from the United Kingdom's exit from the European Union (EU).

With regard to emerging economies, the Chinese economy continued to see stable growth on the whole, but relatively weak developments had been observed. As for prices, the year-on-year rate of change in the consumer price index (CPI) had been in the range of 1.5-2.0 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 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 advanced economies showed some signs of adjustments through end-March, partly reflecting relatively weak economic indicators in Europe. However, stock prices in many economies had risen thereafter, mainly against the background of Chinese economic indicators that were stronger than market expectations and anticipated progress in U.S.-China trade negotiations. U.S. and European long-term interest rates had declined temporarily, due mainly to a waning of expectations for a policy rate hike in the United States; they had turned to an increase since the beginning of April, however, mainly against the background of abatement of investors' risk aversion. 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 had been on a moderate expanding trend, 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 on a moderate expanding trend, 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, the supplementary budgets in response to natural disasters, and the policy measures for national resilience.

Business fixed investment continued on an increasing trend. Looking at its leading indicators, machinery orders had declined for the January-February period of 2019 compared with the October-December quarter of 2018, but construction starts in terms of planned expenses for private nonresidential construction continued on an increasing trend, albeit with monthly fluctuations. Business fixed investment was likely to decelerate somewhat for the time being, reflecting the effects of the slowdown in overseas economies. Thereafter, it was likely to increase moderately, mainly on the back of accommodative financial conditions and moderate improvement in growth expectations, despite downward pressure resulting mainly from cyclical adjustments in capital stock.

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 continued to rise for the January-February period of 2019 relative to that quarter. Private consumption was likely to continue to increase moderately for the time being, supported mainly by the increase in employee income and the wealth effects stemming from the rise in stock prices. Thereafter, it was likely to follow a moderate increasing trend, although it also was likely to be pushed down for some time due to the effects of the scheduled consumption tax hike.

Housing investment had been more or less flat overall, mainly because the number of housing starts in terms of owner-occupied houses had been increasing 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 shown some weakness recently. Although it was likely to be affected by the slowdown in overseas economies for the time being, it was projected to continue on a moderate increasing trend thereafter, with overseas economies growing moderately on the whole.

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 flat, 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 at 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 and the April 2019 *Outlook for Economic Activity and Prices*

### A. Economic Developments

Regarding global financial markets, members shared the recognition that stock prices in many economies had been rising recently -- as market sentiment had improved, mainly against the background of Chinese economic indicators that were stronger than market expectations and anticipated progress in U.S.-China trade negotiations -- and that the foreign exchange market and long-term interest rates generally had been stable. A few members said that the current stable financial markets were partly attributable to the fact that the United Kingdom's exit from the EU had been postponed again and that central banks maintained their accommodative stance, in addition to some economic indicators in major economies having shown developments suggesting materialization of the effects of economic stimulus measures. As for the yen's exchange rate against the U.S. dollar, a few members expressed the view that improvement in risk sentiment had restrained upward pressure on the yen stemming, for example, from the narrowed interest rate differentials between Japan and the United States. One member said that, although financial markets had been calm recently, uncertainties regarding the global economy were high and it was necessary to be vigilant about the possibility that both the real economy and financial markets would deteriorate through an adverse feedback loop. Meanwhile, one member pointed out that, although crude oil prices had been recovering somewhat due to the decrease in production levels by oil-producing economies, they had not returned to the rising path observed in and before autumn 2018.

With respect to overseas economies, members shared the recognition that they had been growing moderately on the whole, although slowdowns had been observed, particularly in China and Europe. A few members said that due attention needed to be paid to the fact that the Global Purchasing Managers' Index (PMI) for manufacturing had declined to close to 50, and the world trade volume had shown some weakness. However, some members pointed out that domestic demand in many economies remained firm, partly supported by a favorable employment and income situation, and this had been underpinning the moderate growth in overseas economies. As for the outlook for overseas economies, members shared the recognition that slowdowns were likely to continue for the time being; thereafter, however, such economies were likely to grow moderately on the whole, partly reflecting the materialization of the effects of stimulus measures in China and the progress in global adjustments in IT-related goods. Some members said that, while downside risks continued to warrant attention, the view that a pick-up in the global economy was expected in the second half of 2019 was appropriate at this point, as shown in the forecasts by the International Monetary Fund (IMF).

With regard to the current situation of overseas economies by region and their outlook, members concurred that the U.S. economy continued its expansion. Many members noted that consumer sentiment had improved recently, partly on the back of a favorable employment and income situation and a recovery in stock prices, adding that private consumption remained on an increasing trend. As for the outlook, members shared the view that the economy was likely to maintain its expansion, partly underpinned by expansionary fiscal measures. One member noted that attention needed to be paid to the possibility that the effects of such fiscal measures would dissipate gradually through the second half of 2019. A different member pointed out that, since corporate debt relative to GDP had been at a record high level and there were many triple-B-rated corporate bonds in the United States, there was a risk of the market environment deteriorating rapidly if such bonds were downgraded during an economic downturn.

Members shared the recognition that the European economy had been decelerating. Some members expressed the recognition that, while private consumption generally had been on an increasing trend, production and exports had shown relatively weak developments, particularly in Germany, mainly due to the tightening of gas emission regulations on automobiles and the effects of the slowdown in the Chinese economy. As for the outlook, members concurred that the European economy was likely to gradually move out of its deceleration phase with a recovery in the manufacturing sector. A few members commented that there remained high uncertainties regarding whether the European economy would be able to return to a recovery path swiftly given, for example, that the final outcome of negotiations on the United Kingdom's exit from the EU was still unclear and uncertainties regarding the German economy were high.

Members agreed that the Chinese economy continued to see stable growth on the whole, but relatively weak developments had been observed. Many members pointed out that, although the U.S.-China trade friction and adjustments in the IT sector had been exerting downward pressure on production, exports, and imports, developments suggesting an improvement in the economy had begun to be observed recently, partly due to the effects of stimulus measures. 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 expected to be affected to some extent by the U.S.-China trade friction and authorities' measures to push forward with deleveraging. Some members said that the pace of economic growth was highly likely to recover through the second half of 2019, partly because the effects of stimulus measures gradually would materialize and progress in adjustments in IT-related goods was anticipated.

Members shared the recognition that emerging economies had been recovering moderately overall, despite partly being affected by the slowdown in the Chinese economy. They concurred that, in the NIEs and 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 on the whole, mainly reflecting the effects of those economies' stimulus measures, despite being affected by the slowdown in the Chinese economy and adjustments in IT-related goods.

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 and production had been affected by the slowdown in overseas economies. Some members pointed out that rebounds in exports and production -- which had declined significantly for January -- had been somewhat weak recently, and that the March 2019 *Tankan* (Short-Term Economic Survey of Enterprises in Japan) showed that business sentiment of large manufacturing firms, which are susceptible to overseas economies, had deteriorated. Nevertheless, many members expressed the view that the weakness in exports and production had not spread clearly to business fixed investment or private consumption so far, and the basic mechanism for economic expansion, in which a virtuous cycle from income to spending operated, was maintained. On this basis, some members pointed out that how the decreases in exports and production affected domestic demand as well as the employment and income situation would be the key in assessing future economic developments.

Regarding recent developments in exports, members shared the recognition that they had shown some weakness recently. Some members pointed out that exports of capital goods and IT-related goods to China had declined remarkably, mainly against the background of the slowdown in the Chinese economy and the global weakening of demand for IT-related goods. As for the outlook, many members shared the view that, judging, for example, from developments in new export orders of the manufacturing PMIs, exports were expected to show some weakness for the time being but return to their moderate increasing trend thereafter as overseas economies were likely to grow moderately on the whole.

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.

Members concurred that business fixed investment continued on an increasing trend. A few members said that, according to reports at the April 2019 meeting of general managers of the Bank's branches, for example, business fixed investment had been firm and spreading to a wider range of industries, as seen in an increase in labor-saving and efficiency-improving investment, particularly in the nonmanufacturing sector. Many members pointed out that the rates of increase in business fixed investment plans for fiscal 2019 in the March *Tankan* -- including those of the manufacturing sector -- had turned out to be relatively high for this time of year, despite the weakness in exports and production. Nevertheless, one of these members added that attention needed to be paid to the fact that business fixed investment plans at this time of year tended to be based on preliminary estimates. Regarding the outlook, many members expressed the view that, given the developments in leading indicators of business fixed investment, such as machinery orders, there was a possibility that such investment would decelerate somewhat for the time being due to the effects of the slowdown in overseas economies. Members concurred that, thereafter, business fixed investment was likely to increase moderately, mainly on the back of favorable corporate profits and accommodative financial conditions, despite downward pressure resulting mainly from cyclical adjustments in capital stock accompanying the prolonged economic expansion.

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. A few members said that, although this year's rate of base pay increase had dipped somewhat below last year's level in early spring, particularly for large firms, the rate thereafter for small firms -- which had a strong sense of labor shortage -- had turned out to be relatively high; therefore, this year's rate as a whole had been at a level somewhat above that of last year at this time. One member -- while noting that slack in Japan's labor market seemed to have remained, mainly for men -- said that it was necessary for the improvement in the labor market to continue until such slack was completely resolved and tight labor market conditions led to a clear acceleration in wage growth rates.

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, although private consumption was likely to be pushed down for some time due to the effects of the scheduled consumption tax hike, it was expected to follow a moderate increasing trend, supported in part by the wealth effects stemming from the rise in stock prices amid continued improvement in the employment and income situation. One member noted that, considering that a significant amount of the increase in employee income had been allocated to savings, it seemed to take some time for the recent decrease in production to lead to that in consumption; on the other hand, there was a possibility that the scheduled consumption tax hike would bring forward the decline in consumption. This member added that a rise in the savings rate for households amid a decrease in the fiscal deficit suggested room for fiscal expansion.

Members shared the recognition that housing investment had been more or less flat overall, mainly because the number of housing starts in terms of owner-occupied houses had been increasing recently, although the number in terms of housing for rent had been on a decreasing trend.

Members shared the recognition that industrial production had shown some weakness recently, with slowdowns having been observed in overseas economies. Regarding the outlook, they concurred that it was likely to be affected by the slowdown in overseas economies for the time being but was projected to continue on a moderate increasing trend thereafter, with overseas economies growing moderately on the whole.

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. In relation to this point, some members pointed out that daily and weekly price data also confirmed that price rises -- for example, in food products -- had been spreading recently on the back of rises in labor costs and prices of raw materials. Meanwhile, members shared the recognition that inflation expectations were more or less unchanged. One member pointed out that households' inflation expectations recently had been rising somewhat, due mainly to price increases in food products.

**B. Outlook for Economic Activity and Prices**

In formulating the April 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 -- despite being affected by the slowdown in overseas economies for the time being. They agreed that, although Japan's exports were projected to show some weakness for the time being, they were expected to return to their moderate increasing trend thereafter, mainly on the back of overseas economies growing moderately. Members shared the recognition that business fixed investment was projected to decelerate somewhat for the time being, but thereafter 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 the scheduled consumption tax hike. Based on this discussion, they shared the view that Japan's 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 2020 were more or less unchanged from those presented in the January 2019 Outlook Report.

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 the labor market tightening largely had been affected by the deeply entrenched mindset and behavior -- based on the assumption that wages and prices would not increase easily -- that had resulted mainly from the experience of prolonged low growth and deflation. In addition, members agreed that such factors as the large room to raise firms' productivity, technological progress in recent years, and high wage elasticity of labor supply among women and seniors had allowed firms to maintain their cautious stance toward raising prices, even amid the economic expansion. In relation to this point, one member expressed the recognition that business fixed investment remained firm as it spread to the nonmanufacturing sector, and that this indicated that there was still considerable room to absorb upward pressure of costs on prices with improvement in productivity.

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. These members agreed that, comparing the projections through fiscal 2020 with those presented in the January 2019 Outlook Report, the projected rates of increase in the CPI were more or less unchanged.

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. With regard to the output gap, most members agreed that it had widened within positive territory on average against the background of the steady tightening of labor market conditions and a rise in capital utilization rates. As for the outlook, most members shared the view that the output gap would remain substantially positive. 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 accompanying, for example, the improvement in the output gap 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. Some members expressed the recognition that, although the output gap remained positive, firms' stance had not shifted toward further raising prices to a level that would cause increases in prices of many goods and services, and that it was expected to take some time to achieve the price stability target through such effects as the adaptive inflation expectation formation mechanism. One member noted that assessment of the current situation was needed as to whether prices had stalled, in the sense that inflation expectations did not rise due to a lack of increase in observed prices and observed prices also did not rise because of a lack of increase in inflation expectations. Meanwhile, a different member said that -- given, for example, that it might have become difficult for the widening of the output gap to push up prices, and that inflation expectations continued to show relatively weak developments -- it could not be judged at present that the inflation rate would increase toward 2 percent.

In addition, with regard to the long-term relationship between the growth potential of Japan's economy and price developments, members concurred that the recent increase in labor participation of women and seniors, as well as firms' efforts toward raising productivity, were likely to weaken upward pressure on wages and prices in the short term but possibly would strengthen the economy's growth potential and increase upward pressure on wages and prices from a longer-term perspective.

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 scheduled consumption tax hike; (3) firms' and households' medium- to long-term growth expectations; and (4) fiscal sustainability in the medium to long term. One member expressed the view that, in fiscal 2019, attention needed to be paid to such factors as the slowdown in overseas economies and the effects of the scheduled consumption tax hike, and from fiscal 2020 onward, to such factors as a peaking-out of Olympic Games-related demand and developments in the IT sector. Many members said that downside risks concerning overseas economies seemed to be significant, such as the consequences of protectionist moves -- including the U.S.-China trade friction -- and their effects as well as developments in the Chinese economy, including the effects of the aforementioned factor. These members also mentioned the possibility that the progress in adjustments in the global cycle for IT-related goods might take longer than expected, and it was necessary to pay close attention to their impact on firms' and households' sentiment in Japan. With regard to the Chinese economy, one member expressed the view that, although the effects of authorities' stimulus measures were expected to materialize in the second half of 2019, authorities had become more cautious about implementing these measures in a situation where the corporate sector had been facing a high level of debt outstanding. The member added that there were considerable uncertainties as to what extent the measures' effects would emerge. Many members noted that the impact of the U.S. macroeconomic policies on global financial markets and emerging economies, negotiations on the United Kingdom's exit from the EU, and various geopolitical risks also were risk factors concerning overseas economies. Regarding the effects of the scheduled consumption tax hike, a few members said that, although the net burden on households was likely to be smaller than that of the hike in 2014, attention should be paid to the fact that such effects on the economy might vary depending on, for example, consumer sentiment and the employment and income situation at that time. Based on this discussion, members 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 pointed to the following three factors: (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, they 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. One member expressed the view that, with regard to prices in Japan, upward pressure of a sustained positive output gap and constraining factors, such as a rise in firms' productivity, had been existing at the same time, and uncertainties were expected to remain high. Based on this discussion, members shared the recognition that, regarding the outlook for prices, risks were skewed to the downside, especially concerning developments in medium- to long-term inflation expectations.

## 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 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 current powerful monetary easing as the momentum toward achieving 2 percent inflation was being maintained with the output gap remaining positive. 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 expressed the recognition that it was necessary to maintain the current monetary easing policy for an extended period of time, paying more attention than before to the side effects on financial institutions and market functioning while examining developments in the global economy and the effects of the scheduled consumption tax hike. On this basis, this member added that it was important that a policy mix of monetary and fiscal policies continue to be sustained. One member pointed out that the current policy framework had a certain degree of flexibility to respond to market conditions and could be considered as a framework that allowed accommodative financial conditions to be maintained relatively easily -- even amid changes in the market environment -- while alleviating the side effects. Meanwhile, one member -- noting that the deflationary recession experienced during the Heisei era (January 1989 through April 2019) should not be repeated in the new era starting May 2019 -- pointed out that, in the current situation where there was still a long way to go to achieve the price stability target, claims for additional easing seemed to be relatively reasonable. On this basis, the member expressed the recognition that, if the inflation momentum was lost, the Bank should flexibly and decisively conduct additional easing. A different member said that it was necessary to strengthen monetary easing at this point toward achieving the 2 percent target at the earliest possible time, given that (1) it was difficult to precisely forecast a phase shift in economic activity in advance by examining developments in employment and wages, which lagged behind other indicators of such activity, and (2) the side effects of monetary easing accumulated over time. One member expressed the recognition that the Bank needed to constantly consider measures that could lead to enhancing the sustainability of the current policy framework, given that it was likely to still take time to achieve 2 percent inflation. A different member said that it was important that the Bank maintain its policy stance of adjusting the monetary policy framework in an appropriate manner while taking account of developments in economic activity and prices as well as financial conditions and thereby enhancing its sustainability, with the aim of persistently encouraging the virtuous cycle of the economy to take hold and achieving the price stability target.

Following the above discussion, members deliberated over issues to be examined when continuing with powerful monetary easing. Many members expressed the recognition that, given that there were high uncertainties regarding the outlook for economic activity and prices and that it was likely to still take time to achieve 2 percent inflation, it was important to make clearer the Bank's policy stance that it would persistently continue with the current powerful monetary easing toward achieving the price stability target. On this basis, some members expressed the opinion that the Bank -- with the aim of strengthening public confidence in its monetary easing stance -- could consider clarifying forward guidance for policy rates introduced last year at this particular timing; that is, when the projection period of the outlook for economic activity and prices would be extended by one year. Some members pointed out that, given the recent heightening uncertainties regarding overseas economies, it was appropriate to take into account developments in these economies as an additional factor in decision making with regard to forward guidance. One member said that, in order to clarify the current description of forward guidance "for an extended period of time" as one that implied a fairly long period of time, an option would be to refer in some way to a specific period for which interest rate levels would be maintained, with reference to examples of such guidance adopted by overseas central banks. In addition, many members expressed the recognition that, in order to ensure the continuation of powerful monetary easing, it was necessary to consider introducing measures that would contribute to smooth fund-provisioning as well as to securing market functioning. On this point, some members commented that expansion of eligible collateral for the Bank's provision of credit as well as effective use of the Japanese government securities (JGSs) and exchange-traded funds (ETFs) held by the Bank could be considered as possible measures, taking account of the expected effects of such measures, requests from financial institutions, and other factors.

Based on the members' views, the chairman requested that the staff explain what measures could be considered from the perspective of making clearer the Bank's policy stance to persistently continue with the current powerful monetary easing.

First, with regard to the clarification of forward guidance for policy rates, to which many members referred, the staff said that one option would be to partially change the current description to "the Bank intends to maintain the current extremely low levels of short- and long-term interest rates for an extended period of time, at least through around spring 2020, taking into account uncertainties regarding economic activity and prices including developments in overseas economies and the effects of the scheduled consumption tax hike." Regarding the specific time frame of "at least through around spring 2020," the staff explained that this took into consideration, for example, the timing at which pick-ups in overseas economies and the global cycle for IT-related goods were expected to be seen, and the period required for examining the effects of the scheduled consumption tax hike after its implementation. In addition, the staff said that the description "at least" would indicate the possibility that the current extremely low interest rates would be maintained beyond "around spring 2020," with the effect of clarifying the description "for an extended period of time" as one that implied a fairly long period of time.

Next, the staff, while taking into account requests from financial institutions and other factors, proposed measures that would contribute to the continuation of powerful monetary easing, mainly consisting of the following.

(1) The Bank would expand the scope of eligible collateral for its provision of credit by, for example, relaxing the eligibility standards of debt of companies, municipal governments, and other borrowers, as well as accepting loans on deeds to the government that financial institutions had acquired in the secondary market as eligible collateral.
(2) In order to improve the use of the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth, the Bank would provide funds within the limit set for each financial institution based on the amount of fund-provisioning in the past.
(3) The Bank would relax the terms and conditions for the Securities Lending Facility (SLF), mainly through a reduction of the minimum fee rate and abolition of the upper limit on the amount of sales per issue.
(4) The Bank would consider the introduction of an ETF lending facility, which would make it possible to lend its ETFs to market participants on a temporary basis, on the condition that authorization be obtained in accordance with the Bank of Japan Act.

On the timing of implementation, the staff explained that, while these measures -- with the exception of the ETF lending facility -- were intended to be implemented promptly, as soon as the necessary preparations were completed, amendments to the relevant principal terms and conditions would need to be made at a future Monetary Policy Meeting.

Regarding the staff's proposal on forward guidance, many members expressed the recognition that it was appropriate as it would contribute to strengthening market and public confidence in the Bank's monetary easing stance. One member noted that this guidance, with the description "at least through around spring 2020," provided information about a specific time frame and continued to incorporate open-ended elements. The member continued that, therefore, the proposal was well-balanced considering the two requirements for forward guidance: ensuring the effectiveness of the Bank's commitment and the flexibility in its policy conduct. Meanwhile, one member agreed to the clarification of forward guidance itself, adding that, in doing so, it would be desirable to further clarify its relationship with the price stability target, which would make it a so-called data-dependent forward guidance. On this point, one member commented that the current forward guidance also could be understood as data dependent, in that uncertainties regarding economic activity and prices were assessed based on data and other information available at each point in time. The member expressed the recognition that, therefore, this revision was intended to provide a clear time frame for such assessments. One member was of the view that, given the current situation in which signs of acceleration in inflation had not been observed, there was little significance in clarifying the Bank's intention to persistently continue with its current monetary easing. On this basis, the 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. Some members pointed to the risk that the time frame indicated by the description "for an extended period of time" would become increasingly difficult to interpret as October, the timing of the scheduled consumption tax hike, approached, and thus market participants would start to perceive it as shorter in length than the Bank had intended. These members said that, therefore, clarifying at this stage that the description "for an extended period of time" implied a fairly long period of time was necessary in order to sustain the monetary easing effects.

Many members then expressed the recognition that it was desirable to proceed with discussions on the measures that would contribute to the continuation of powerful monetary easing in line with the staff's proposal. Some members noted that efforts to expand eligible collateral for the Bank's provision of credit and to improve the use of the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth could be regarded as a positive development, in that they would support the smooth implementation of fund-provisioning by the Bank. One member pointed out that, taking into account that the amount outstanding of JGBs held by financial institutions had been close to the minimum level needed as collateral, such as for funding, expanding the scope of assets eligible as collateral was important from the viewpoint of ensuring the Bank's smooth JGB purchases in the future. Some members said that some market participants had pointed out that, in the JGB and ETF markets, there was an increasing number of issues for which amounts outstanding in circulation were small, leaving less room for market participants' risk hedging or market-making activities. These members continued that, taking this into consideration, relaxation of the terms and conditions for the SLF and the introduction of an ETF lending facility could alleviate this problem, leading to the securing of and improvement in market functioning.

One member expressed the recognition that, overall, these measures -- including the clarification of forward guidance -- would bolster confidence in the Bank's continuation of powerful monetary easing and further ensure achievement of the price stability target while bringing about stability in financial markets. A few members said that the Bank needed to thoroughly communicate to the public that the proposed measures were necessary responses for continuing with the current powerful monetary easing, and that it would make policy adjustments without hesitation if judged necessary going forward with a view to maintaining the momentum toward achieving the price stability target.

Members also deliberated over points to take into account in conducting monetary policy in the future. One member expressed the recognition that, looking at recent economic and financial developments, it was becoming increasingly necessary for the Bank to (1) pay attention to the time frame in which monetary policy effects spread to the real economy and to that in which their side effects strengthened in a cumulative manner and (2) cautiously weigh the positive effects and side effects. This member also pointed out that there was a possibility that a further decline in interest rates would result in a greater risk of inducing side effects on the real economy, rather than positive effects, considering (1) that there likely was a zero lower bound -- contractually and operationally -- on financial institutions' interest rates on deposits and loans and (2) the investment and funding structures of the private sector. One member noted that the argument that QQE had led to a deterioration in banks' profitability disregarded the fact that monetary easing had brought about economic improvement, an increase in lending, a decline in credit costs, and an increase in profits stemming from stocks and bonds. On this basis, the member pointed out that such argument was based on the assumption that banks would have gained more profits if lending rates had not declined, without taking account of the positive effects of the low interest rate policy on banks' profitability.

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, given that the side effects of monetary easing would accumulate as economic activity recently had been showing signs of a phase shift, it was necessary to strengthen monetary easing in order to achieve the price stability target of 2 percent at the earliest possible time.

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 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, at least through around spring 2020, taking into account uncertainties regarding economic activity and prices including developments in overseas economies and the effects of the scheduled consumption tax hike; 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.

## IV. Remarks by Government Representatives

Based on the discussions on the continuation of powerful monetary easing, 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 11:36 a.m. and reconvened at 11:50 a.m.)

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

(1) The government considered the proposals presented as necessary measures for continuing with powerful monetary easing 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 these proposals.

(2) The budget for fiscal 2019 was approved by the Diet on March 27. The government would smoothly and steadily implement it in order to overcome the national hardships of the declining birthrate and aging population as well as to achieve both economic revitalization and fiscal consolidation.

(3) The Group of Twenty (G20) meeting held on April 11 and 12 in the United States was the first Finance Ministers and Central Bank Governors Meeting under Japan's presidency. At the meeting, the government shared its recognition with other countries that the global economy was projected to pick up in the second half of 2019 despite various downside risks, and discussed priorities under Japan's presidency for the G20 meeting to be held in June in Fukuoka.

(4) 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, while weakness in exports and industrial production in some sectors was seen recently. As for the outlook, weakness likely would remain for the time being in some sectors, 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 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.

(2) The budget for fiscal 2019 was approved by the Diet on March 27. Amid heightening uncertainties in the global economy, the government would take all possible measures to

manage the economy by swiftly executing the budget and taking countermeasures worth 2.3 trillion yen pursuant to the consumption tax increase. At the Meeting of the Council on Economic and Fiscal Policy, initiatives regarding a variety of sectors were being discussed -- such as next-generation administrative services, regional revitalization, and human capital investment -- in view of the formulation of the basic policies on economic and fiscal management and reform to be completed this summer. Regarding human capital investment in particular, the government would compile an intensive program for the "employment ice-age generation."

(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.

(4) The government recognized that the clarification of forward guidance was proposed at this meeting in order to make clearer the Bank's intention to continue with monetary easing. The government deemed it important that the Bank thoroughly explain its intention to the public, so as to gain the full understanding of market participants.

(5) The government also expected the Bank to be fully prepared for responses accompanying the 10-day holiday period.

## 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.

### C. 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, in revising forward guidance for policy rates, it was appropriate to further clarify its relationship with the price stability target. Mr. G. Kataoka expressed the opinion that 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 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.

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).

## VI. Discussion regarding the Outlook Report

Members discussed the draft of "The Bank's View" in the April 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 April 26. 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 March 14 and 15, 2019 for release on May 8.

Attachment 1
April 25, 2019
Bank of Japan

**Statement on Monetary Policy**

1. At the Monetary Policy Meeting held today, with a view to making clearer its policy stance to persistently continue with powerful monetary easing, the Policy Board of the Bank of Japan decided upon the following.

   (1) Clarification of forward guidance for policy rates [Note 1]

   The Bank intends to maintain the current extremely low levels of short- and long-term interest rates for an extended period of time, at least through around spring 2020, taking into account uncertainties regarding economic activity and prices including developments in overseas economies and the effects of the scheduled consumption tax hike.

   (2) Implementation of measures contributing to the continuation of powerful monetary easing

   The Bank will implement the measures shown in Attachment 2, including the expansion of eligible collateral for the Bank's provision of credit.

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.[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.

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. Japan's economy is likely to continue on a moderate expanding trend, despite being affected by the slowdown in overseas economies for the time being. Although the year-on-year rate of change in the consumer price index (CPI) has continued to show relatively weak developments compared to the economic expansion and the labor market tightening, it is likely to increase gradually toward 2 percent, mainly due to the output gap remaining positive. However, there are high uncertainties regarding the outlook for economic activity and prices including developments in overseas economies. In addition, it is likely to still take time to achieve the price stability target.

4. Based on the above recognition, the Bank decided to make clearer its stance to persistently continue with powerful monetary easing while examining uncertainties regarding economic activity and prices including the effects of the scheduled consumption tax hike and developments in overseas economies. Also, the Bank judged it appropriate to take such measures as the expansion of eligible collateral for the Bank's provision of credit, thereby contributing to smooth implementation of fund-provisioning and asset purchases as well as to securing market functioning. By continuing with powerful monetary easing and thereby maintaining the output gap within positive territory, the Bank will aim to achieve the price

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

stability target at the earliest possible time, while securing stability in economic and financial conditions.

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. 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.

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[Note 1] Mr. Y. Harada dissented, considering that, in revising forward guidance for policy rates, it was appropriate to 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.

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

Attachment 2

**Measures Contributing to the Continuation of Powerful Monetary Easing[7]**

1. Expanding eligible collateral for the Bank's provision of credit

   (1) The Bank will relax the eligibility standards concerning creditworthiness regarding debt of companies based on the following principal policy.

      a) With regard to debt of companies that have obtained an external credit rating, the companies should be rated BBB or higher by an eligible rating agency.

      b) With regard to debt of companies that have not obtained an external credit rating, the companies should be classified as "normal" borrowers in the self-assessment by financial institutions.

   (2) With respect to loans on deeds to municipal governments, the Bank will not require any procedures such as auction as the method of determining lending conditions. Regarding privately-placed municipal bonds, the Bank will not impose spread requirements on the coupon rates and issue prices in terms of differences from those of publicly-offered municipal bonds.

   (3) The Bank will accept collateral such as loans on deeds to the government that financial institutions have acquired in the secondary market as eligible collateral.

2. Improving and promoting the use of the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth

   (1) Regarding the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth, financial institutions will be able to receive the yen fund-provisioning within the limit set for each financial institution based on the amount of fund-provisioning in the past.

   (2) Regarding the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth and the Fund-Provisioning Measure to Stimulate Bank Lending, the deadline for new loan disbursements will be extended to June 30, 2021.

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[7] The above measures 1. through 3. will be implemented soon after necessary preparations are completed. As for measures 1. (1), (2), and 2., amendments to relevant principal terms and conditions will be necessary at a future Monetary Policy Meeting.

3. Relaxation of the terms and conditions for the Securities Lending Facility (SLF)

   The Bank will relax the terms and conditions for the SLF, including the reduction of the minimum fee rate and abolition of the upper limit on the amount of sales per issue.

4. Introduction of Exchange-Traded Fund (ETF) Lending Facility

   The Bank will consider the introduction of ETF Lending Facility, which will make it possible to temporarily lend ETFs that the Bank holds to market participants.