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September 25, 2019

Bank of Japan

Minutes of the Monetary Policy Meeting

on July 29 and 30, 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 Monday, July 29, 2019, from 2:00 p.m. to 3:10 p.m., and on Tuesday, July 30, from 9:00 a.m. to 11:48 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. Ueno, State Minister of Finance, Ministry of Finance[2]

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

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

Mr. H. Ibaragi, Deputy Director General for Economic and Fiscal Management, Cabinet Office[3]

Reporting Staff

Mr. E. Maeda, Executive Director

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

Mr. Y. Ikeda, Executive Director

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

[2] Messrs. K. Ueno and R. Tanaka were present on July 30.

[3] Messrs. M. Kanda and H. Ibaragi were present on July 29.

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

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

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

Secretariat of the Monetary Policy Meeting

Mr. 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. Nagano, Senior Economist, Monetary Affairs Department

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

Mr. S. Nagae, 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 June 19 and 20, 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 0.06 to minus 0.08 percent. As for interest rates on term instruments, yields on three-month treasury discount bills (T-Bills) generally were more or less unchanged in the range of minus 0.10 to minus 0.15 percent.

The Nikkei 225 Stock Average had risen somewhat, albeit with fluctuations that reflected movements in overseas stock prices, and it recently was moving in the range of 21,500-22,000 yen. Looking at the foreign exchange market, the yen was more or less flat against both the U.S. dollar and the euro.

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; however, such economies were likely to grow moderately on the whole thereafter with the growth rates rising somewhat, partly due to the materialization

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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.

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

The U.S. economy had been expanding moderately. Private consumption had been increasing, supported in part by a favorable employment and income situation and consumer sentiment. The increasing trend in exports had come to a halt, and the pace of increase in business fixed investment had been decelerating, mainly because the improving trend in business sentiment had weakened. As for prices, both the year-on-year rate of change in the personal consumption expenditure (PCE) deflator for all items and that for all items excluding food and energy had been at around 1.5 percent. The economy was likely to maintain its moderate expansion, partly underpinned by expansionary fiscal measures.

The European economy had been decelerating. Exports had been more or less flat on the whole. The pace of increase in business fixed investment had been decelerating, mainly against the backdrop of a deterioration in business sentiment of manufacturing firms. Private consumption generally had been on an increasing trend, partly supported by a favorable employment and income situation and consumer sentiment. With regard to prices, 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 for the April-May period had dipped into negative territory due to such factors as the effects of automakers' planned temporary production shutdowns at their plants in the United Kingdom in view of the first scheduled date for a no-deal Brexit around end-March.

With regard to emerging economies, the Chinese economy continued to see stable growth on the whole, but some weakness had been observed in the manufacturing sector. As for prices, the year-on-year rate of change in the consumer price index (CPI) had been at around 2.5 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 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, albeit with fluctuations, mainly on the back of stable inflation rates. In India, the economy had been recovering moderately, particularly in private consumption.

With respect to overseas financial markets, stock prices had risen somewhat, particularly in advanced economies, mainly against the backdrop of anticipated progress in U.S.-China trade negotiations reflecting the outcome of the summit meeting between the two countries and increasing market expectations of monetary easing in the United States and Europe. U.S. and European long-term interest rates were more or less unchanged when fluctuations were smoothed out, due in part to speculation about monetary easing in these economies. In the commodity market, crude oil prices had been showing large fluctuations, with upward pressure from such factors as heightened geopolitical risks surrounding the situation in the Middle East on the one hand and prospects of weakening demand on the other.

D. Economic and Financial Developments in Japan

1. Economic developments

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

Exports had shown some weakness. While those to advanced economies continued on their increasing trend, those to emerging economies had shown weakness. Although exports overall were projected to remain somewhat weak for the time being, as they were likely to be affected by the slowdown in overseas economies, they were expected to return to their moderate increasing trend thereafter with the growth rates of overseas economies rising.

Public investment had been more or less flat. The value of public works contracted as well as orders received for public construction -- both of which are leading indicators -- had been increasing recently. As for the outlook, public investment was likely to increase, mainly reflecting Olympic Games-related construction, the implementation of the supplementary budget for fiscal 2018, and the policy measures for national resilience.

Corporate profits had been at high levels on the whole, albeit with some weakness observed in part. Business sentiment stayed at a favorable level from a relatively longer-term perspective, but recently was weakening somewhat, mainly in the manufacturing sector. Business fixed investment continued on an increasing trend. The aggregate supply of capital goods declined somewhat significantly for the January-March quarter but picked up for the April-May period. Private construction completed (nonresidential) continued on an uptrend, although its pace of increase had begun to decelerate. With regard to the outlook, business fixed investment was likely to increase moderately, mainly on the back of accommodative financial conditions.

As for the employment and income situation, supply-demand conditions in the labor market remained tight and employee income had been increasing. 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 against the background of steady improvement in the employment and income situation. In addition, an increase in demand prior to the consumption tax hike scheduled for October 2019 had started to be seen in part, albeit to a marginal extent compared with that of the previous hike. Looking at the consumption activity index (CAI; real, travel balance adjusted) -- calculated by combining various sales and supply-side statistics -- by type, the pace of increase in durable goods recently had accelerated somewhat, mainly led by automobiles and white goods. This seemed to be partly attributable to the increase in demand prior to the tax hike. Private consumption, although likely to be pushed down for some time due to the effects of the tax hike, was expected to continue on a moderate increasing trend, supported mainly by the increase in employee income and the wealth effects stemming from a rise in stock prices.

Housing investment had been more or less flat. Looking at the number of housing starts, those for owner-occupied houses and detached houses built for sale had been increasing, although that for housing for rent had been decreasing, mainly reflecting waning demand for tax saving and asset management.

Although exports had shown some weakness, industrial production had been more or less flat, reflecting the increase in domestic demand. It was highly likely to be more or less flat on the whole for the time being, with the weakness in exports and the increase in domestic demand offsetting each other. Thereafter, industrial production was projected to turn to a moderate increase with the growth rates of overseas economies rising, despite being pushed down for some time due to the effects of the tax hike.

As for prices, the producer price index (PPI) relative to three months earlier -- adjusted for the effects of seasonal changes in electricity rates -- had been decreasing, reflecting developments in international commodity prices and foreign exchange rates. The year-on-year rate of change in the CPI for all items less fresh food was at around 0.5 percent, and that for all items less fresh food and energy also 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 3-4 percent, and that in the money stock had been in the range of 2.0-2.5 percent.

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

A. Economic Developments

Regarding global financial markets, members shared the recognition that stock prices had risen somewhat, particularly in advanced economies -- as market sentiment had improved against the background of such factors as anticipated progress in U.S.-China trade negotiations, market expectations of a federal funds rate cut in the United States, and speculation over additional monetary easing in the euro area -- and that the foreign exchange market and long-term interest rates generally had been stable. A few members noted that, although the markets gradually had been growing stable, uncertainty regarding the outlook remained high, and some developments that suggested investors' cautious risk sentiment had been observed. A few other members pointed out that, while U.S. stock prices recently had been rising further on the back of market expectations of monetary easing, attention should be paid to signs of overheating. One member commented that the member was paying attention to whether Japanese investors would take excessive risks amid the ongoing global decline in interest rates.

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. Many members pointed out that signs of a further slowdown in overseas economies had become evident, referring to, for example, the fact that the Global Purchasing Managers' Index (PMI) for manufacturing had declined below the 50 mark and that the projection for global growth by the International Monetary Fund (IMF) had been revised downward. A few of these members said that the prolonged uncertainty regarding overseas economies was gradually starting to affect firms' behavior, including investment activities, and this was a cause for concern. One member pointed out that, while some positive developments regarding the materialization of the effects of stimulus measures in China and progress in adjustments in IT-related goods had been observed, these were not significant enough at the moment to be regarded as evidence of moves toward a recovery. Meanwhile, a different member noted that, as the fundamentals of overseas economies had not weakened to the extent that they would decelerate even further, it was appropriate at this stage to carefully examine how the effects of their economic stimulus measures would materialize. As for the outlook for overseas economies, members shared the recognition that slowdowns were likely to continue for the time being; however, such economies were likely to grow moderately on the whole thereafter, partly reflecting the materialization of the effects of stimulus measures in China and the progress in global adjustments in IT-related goods. On this point, a few members pointed out that, taking into account that signs of a further slowdown had become evident recently, the timing of a pick-up in overseas economies might be delayed. One of these members expressed the view that the pick-up in the economies likely would not materialize in time for the scheduled consumption tax hike in Japan. Based on this discussion, members agreed that downside risks to overseas economies remained considerable, with uncertainty regarding the effects of protectionist moves heightening in particular.

With regard to the current situation of overseas economies by region and their outlook, members concurred that the U.S. economy continued its moderate expansion. Many members noted that the economy had been resilient, as evidenced by a favorable employment and income situation and firm private consumption. Nevertheless, some members said that attention needed to be paid to the fact that indicators related to business fixed investment had been somewhat weak, mainly against the background that uncertainty regarding the global economy remained high over a prolonged period. Meanwhile, some members pointed out that a federal funds rate cut at the Federal Open Market Committee (FOMC) meeting to be made at the end of July had been almost completely factored in by the market. As for the outlook, members shared the view that the economy was likely to maintain its expansion, partly underpinned by expansionary fiscal measures in a situation where the Federal Reserve conducted monetary policy while taking account of downside risks to economic activity and prices.

Members shared the recognition that the European economy had been decelerating. Some members expressed the recognition that 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. Some members said that a delay in the recovery of the European economy continued to be a matter of concern as there remained considerable uncertainties regarding negotiations on the United Kingdom's exit from the European Union (EU), including the possibility of a no-deal Brexit.

Members agreed that the Chinese economy continued to see stable growth on the whole, but relatively weak developments had been observed in the manufacturing sector. Some members pointed out that the effects of the government's stimulus measures had started to emerge gradually, as seen, for example, in the increase in bond issuance by local governments, which could finance infrastructure assets. 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. On this basis, one member noted that it was necessary to carefully monitor the effects of the stimulus measures implemented in the current phase, since they needed to be consistent with regulations on shadow banking in the face of high levels of debt in the private sector.

Members shared the recognition that emerging economies had been recovering moderately overall, due partly to the effects of stimulus measures in those economies. 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 adjustments in IT-related goods. One member pointed out that increasing market expectations of monetary easing in the United States and Europe would stabilize the flow of funds in emerging economies, thereby resulting in greater room for monetary easing in those economies.

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

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

With regard to economic activity, members agreed that the economy had been on a moderate expanding trend, with a virtuous cycle from income to spending operating, although exports, production, and business sentiment had been affected by the slowdown in overseas economies. A few members pointed to the possibility that the effects of the slowdown in overseas economies had started to spread to other areas, such as business fixed investment and employment. 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. On this basis, these members said that the basic mechanism for economic expansion, in which a virtuous cycle from income to spending operated, was maintained.

Regarding recent developments in exports, members concurred that they had shown some weakness. They shared the recognition that, while decreasing for the January-March quarter and being flat for the subsequent quarter, exports as a whole had shown some weakness, with those of capital goods and IT-related goods to Asia, particularly China, continuing to decrease. As for the outlook, many members shared the view that, judging, for example, from developments in new export orders of the manufacturing PMI, 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. They shared the recognition that it was likely to increase, mainly reflecting Olympic Games-related construction, the implementation of the supplementary budget for fiscal 2018, and the policy measures for national resilience.

Members concurred that business fixed investment continued on an increasing trend. Some members pointed out that firmness was seen in business fixed investment plans for fiscal 2019 in the June *Tankan* (Short-Term Economic Survey of Enterprises in Japan). These members continued that, according to reports at the July 2019 meeting of general managers of the Bank's branches, for example, business fixed investment had been underpinned by demand for medium- to long-term strategic investment and for investment by the nonmanufacturing sector, both of which are relatively unsusceptible to changes in overseas demand and the business cycle. However, one of these members said that indicators related to business fixed investment in the manufacturing sector had shown some weakness in China and the United States, and that attention needed to be paid to the possibility that heightening uncertainties also would affect fixed investment in Japan, which had maintained its firmness thus far. In addition, a different member pointed out that business fixed investment plans of processing industries, which are largely dependent on exports, had been affected by developments in overseas economies. One member noted that the actual performance of business fixed investment tended to lag behind overall economic developments, and that firmness in investment might be a mere reflection of the technical difficulties involved in suspending projects once they had been launched. Regarding the outlook, members concurred that, based on developments in leading indicators such as machinery orders, business fixed investment -- such as that intended for domestic capacity expansion, that related to urban redevelopment projects, labor-saving investment, and investment in research and development for growth areas -- was likely to be on a moderate increasing trend amid accommodative financial conditions, although such investment could decelerate somewhat for the time being due to the effects of the slowdown in overseas economies.

As for the employment and income situation, members shared the recognition that supply-demand conditions in the labor market remained tight, and that employee income had been increasing. A few members said that, if the rise in the labor force participation rate peaked out at some point, factors that had been easing upward pressure on wages would subside, leading to a further heightening of such pressure. These members continued that future developments in the labor force participation rate therefore warranted attention. A few other members pointed out that attention needed to be paid to the declines in the diffusion index of employment-related conditions in the *Economy Watchers Survey* and in the number of new active job openings, as these might be signs of a change in the employment situation. One of these members noted that the decrease in the number of job openings was largely attributable to the manufacturing sector, and there was a possibility that the effects of the slowdown in overseas economies were spreading.

Members agreed that private consumption had been increasing moderately against the background of improvement in the employment and income situation. They also shared the recognition that the increase in demand prior to the scheduled consumption tax hike had started to be seen in part, such as in sales of automobiles and household electrical appliances, albeit to a marginal extent compared with that of the previous hike. As for the outlook, members concurred that, although private consumption was likely to be pushed down for some time due to the effects of the tax hike, it was expected to remain on a moderate increasing trend as the employment and income situation continued to improve, and also partly owing to the wealth effects stemming from the rise in stock prices. A few members noted that it would be necessary to carefully monitor developments in consumption prior to and after the tax hike, including the effects of measures to reduce the household burden of the hike and the impact on consumer sentiment.

Members agreed that housing investment had been more or less flat. They also shared the recognition that, looking at the number of housing starts -- a leading indicator of housing investment -- those for owner-occupied houses and detached houses built for sale had been increasing recently, although that for housing for rent had been decreasing.

Members shared the recognition that, although exports had shown some weakness, industrial production had been more or less flat, reflecting the increase in domestic demand. Regarding the outlook, they concurred that production was likely to be more or less flat on the whole for the time being, with the weakness in exports and the increase in domestic demand offsetting each other. Members continued that, thereafter, it was projected to turn to a moderate increase with the growth rates of overseas economies rising, despite being pushed down for some time due to the effects of the tax hike.

As for prices, members concurred that the year-on-year rate of change in the CPI for all items less fresh food was at around 0.5 percent while that for all items less fresh food and energy remained within positive territory, also 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 tight labor market conditions. One member noted that the year-on-year rate of change in the PPI had turned negative, pointing to the possibility that the weakness in overseas economies had been affecting producer prices. However, most 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 of these members pointed out that price rises, such as in food products, had been spreading on the back of increases in, for example, personnel expenses.

B. Outlook for Economic Activity and Prices

In formulating the July 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 likely to be on a moderate increasing trend, with overseas economies growing moderately on the whole. 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 2021 were more or less unchanged from those presented in the April 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 tight labor market conditions largely had been affected by the deeply entrenched mindset and behavior based on the assumption that wages and prices would not increase easily. Regarding this point, a few members said that resistance to wage increases had been deeply rooted in Japan, mainly because both labor and management took a firm stance of prioritizing employment stability. In addition, members agreed that such factors as firms' efforts to absorb upward pressure of costs on prices by raising productivity, technological progress in recent years, and high wage elasticity of labor supply had allowed firms to maintain their cautious stance toward raising prices, even amid the economic expansion. In relation to this point, one member noted that attempts to improve working conditions and raise occupancy rates in the accommodation sector were being observed, including moves to designate some days for closure spreading across the country. The member also pointed out that such efforts played a role in consequently constraining price rises through an increase in labor 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 2021 with those presented in the April

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 shared the view that it had been substantially positive, reflecting tight labor market conditions and high levels of capital utilization rates, and was likely to remain so. One of these members said that, despite a continuous reasonably tight output gap, the acceleration in the year-on-year rate of increase in the CPI was projected to be only moderate, and achieving the price stability target was expected to take some time. A different member stated that the situation in which prices did not rise easily would likely continue given prospects for continuous investment aimed at raising productivity. Most members then shared the recognition that medium- to long-term inflation expectations were likely to follow an increasing trend and gradually converge to 2 percent. As background to this, these members pointed to the following: (1) in terms of the adaptive component, a rise in the observed inflation rate was likely to push up inflation expectations, and (2) in terms of the forward-looking component, the Bank would pursue monetary easing through its strong commitment to achieving the price stability target, which would be effective in pushing up inflation expectations. One of these members commented that the underlying momentum of inflation was increasing gradually, as supported by the fact that households' inflation expectations and tolerance of price rises had started to increase, and now was the crucial phase in which it was extremely important to carefully support such developments. Counter to this, one member said that, given, for example, that the output gap might not widen further and that inflation expectations continued to show relatively weak developments, it could not be judged that the inflation rate would increase toward 2 percent.

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. Members agreed that downside risks concerning overseas economies were significant, such as (1) the consequences of protectionist moves -- including the

U.S.-China trade friction -- and their effects, as well as (2) developments in the Chinese economy, including the effects of the aforementioned factor and (3) the possibility that the progress in adjustments in the global cycle for IT-related goods might take longer than expected. They concurred that uncertainties regarding the effects of protectionist moves in particular had been heightening. Members then shared the view that it was necessary to pay close attention to the impact of such uncertainties regarding overseas economies on firms' and households' sentiment in Japan. Some members commented that risks were skewed to the downside, particularly regarding developments in overseas economies, and therefore attention should be paid to the possibility that the resultant negative impact on Japan's economy would be even more pronounced if the materialization of such risks coincided with the tax hike. One of these members said that, if such risks materialized, there was some possibility that the economy would head toward a downturn. Many members noted that the impact of the U.S. macroeconomic policies on global financial markets and emerging economies, developments in negotiations on the United Kingdom's exit from the EU, and various geopolitical risks also were risk factors concerning overseas economies. 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 agreed that, as discussed earlier, with regard to risks to economic activity, the downside risks concerning overseas economies in particular were significant, and if these risks materialized, there was a possibility that prices also would be affected to some extent. They also pointed to the following three specific factors that could exert upside and downside risks to prices: (1) developments in medium- to long-term inflation expectations; (2) the responsiveness of prices to the output gap; and (3) developments in foreign exchange rates and international commodity prices. With regard to the first factor, members agreed that, although medium- to long-term inflation expectations were likely to follow an increasing trend, there was a risk that such a rise would be delayed through the adaptive formation mechanism if it took longer than projected for firms' stance to shift toward further raising wages and prices and the observed inflation rate consequently remained relatively sluggish. Based on this discussion, they shared the recognition that, regarding the outlook for prices, risks to prices were skewed to the downside, mainly due to the downside risks to economic activity and uncertainties over developments in medium- to long-term inflation expectations.

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

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 downside risks to economic activity and prices warranted attention, and 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 view that the degree of monetary accommodation in Japan -- taking into consideration the effects of quantitative easing and forward guidance, in addition to the policy interest rate -- already seemed greater than that in the United States and Europe, and that it was necessary to examine carefully whether there was a need for further monetary easing. This member continued that, at least for now, it was important to persistently continue with the current extremely powerful monetary easing for as long as possible. A different member said that it was important to continue with the current monetary easing policy for the time being while paying attention to the side effects on the financial system, although, if overseas economies deteriorated further and this had a negative impact on Japan's economic activity and prices, the Bank should respond swiftly while a monetary and fiscal policy mix was being pursued. Meanwhile, one member noted that, in a situation where early achievement of the 2 percent target could not be envisaged, there was a growing risk that the strengthening of the monetary easing stance by central banks in the United States and Europe would exert downward pressure on Japan's prices, mainly through foreign exchange rates. This member continued that, at this point, it was necessary to make a preventive and preemptive policy response to downside risks to prices. In response, a different member pointed out that, since the effects of the monetary policy conduct of other economies were subject to change depending on developments in economic activity and markets, it was important to make a comprehensive judgment without being influenced by temporary developments. One member said that, since Japan's economy was susceptible to the U.S.-China trade friction and its inflation rate was far from 2 percent, it would be necessary for the Bank to consider the claims for conducting so-called preventive monetary easing against downside risks to economic activity and prices. This member continued that the effects of the scheduled consumption tax hike and sudden market changes warranted careful vigilance so that the Bank's monetary policy would not fall behind the curve. Based on this discussion, many members expressed the recognition that (1) it was appropriate that the Bank would not hesitate to take additional easing measures if there was a greater possibility that the momentum toward achieving the price stability target would be lost, particularly in a situation where downside risks to economic activity and prices, mainly regarding overseas economies, were significant, and (2) it was desirable that the Bank communicate to the public in such a way that clarified this policy stance. A few of these members pointed out that it was necessary to examine various possible easing measures in advance, including their pros and cons.

In addition, members deliberated over points to take into account in conducting monetary policy in the future. One member said that, given the time frame in which the side effects of monetary easing would accumulate for a long time, it was necessary to consider monetary policy measures more carefully with a view to preventing financial instability while examining changes in financial institutions' risk-taking stance and the effects of a decline in interest rates on their profits and lending attitudes. One member expressed the view that, in order to continue with the current monetary easing, further attention should be paid to developments in the overall financial system. A few members noted that the Bank needed to constantly consider methods to alleviate policy side effects. One member pointed out that, if side effects materialized as a result of additional easing, it was necessary to consider methods to mitigate them. A different member noted that, while the Bank should firmly maintain its stance of making policy judgments, taking full account of possible side effects observed in financial markets and the financial system, it also needed to communicate carefully with the markets so as not to be taken as saying that there was no room for additional easing. Meanwhile, a few members said that it was difficult and inappropriate for macroeconomic monetary policy to resolve the structural problems and business challenges of individual financial institutions behind the decline in their 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 it was desirable for the Bank to strengthen monetary easing by lowering the short-term policy interest rate.

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

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

On this point, one member said that, as for policy rates, it was appropriate to introduce forward guidance that would further clarify its relationship with the price stability target. A different member was of the opinion that, in order to achieve the price stability target of 2 percent at the earliest possible time, further coordination of fiscal and monetary policy was important, and that it was appropriate for the Bank to revise the forward guidance for the policy rates to relate it to the price stability target.

IV. Remarks by Government Representatives

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

(1) At the Group of Twenty (G20) Osaka Summit held on June 28 and 29 under Japan's presidency, where leaders from major countries had gathered, participants found common ground and successfully set out their stance to make a unified effort in addressing major challenges facing the global economy. Also, at the Group of Seven (G7) meeting held in France on July 17 and 18, it was confirmed that the basic assessment of the global economy -- a consensus reached at the G20 meetings held

earlier in Fukuoka and Osaka that the economy was projected to recover moderately toward 2020 -- was more or less unchanged.

(2) The guidelines for budget requests for fiscal 2020 had been discussed at the meeting of the Council on Economic and Fiscal Policy held on July 29. Regarding the budget for fiscal 2020, the government needed to continue to firmly undertake full-fledged expenditure reforms under the framework of the New Plan to Advance Economic and Fiscal Revitalization, based on the Basic Policy on Economic and Fiscal Management and Reform 2019, and would proceed with budget formulation in this respect.

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

The representative from the Cabinet Office made the following remarks.

(1) The Japanese economy was recovering at a moderate pace, while weakness continued to be seen, mainly in exports. As for the outlook, weakness likely would remain for the time being, but the economy was expected to continue recovering at a moderate pace, supported partly by the effects of the government's policies, while the employment and income situation continued to improve. However, further attention should be paid to the effects on the world economy of developments in the trade friction. In addition, other factors such as the prospects for the Chinese economy, uncertainties regarding developments in overseas economies and their policies, and volatility in financial markets warranted attention.

(2) The Cabinet Office submitted its mid-year economic projection to the Council on Economic and Fiscal Policy on July 29. In the projection, Japan's economy was expected to recover, driven by the growth in domestic demand, supported partly by the effects of the government's policies while the employment and income situation continued to improve. The real GDP growth rates for fiscal 2019 and 2020 were projected to be approximately 0.9 percent and 1.2 percent, respectively.

(3) The Basic Policy on Economic and Fiscal Management and Reform 2019 -- A New Era of Reiwa: Challenges toward Society 5.0 -- and the Action Plan of the Growth Strategy were decided by the Cabinet. Based on these, the government aimed to expand the virtuous cycle of growth and distribution while working on strengthening Japan's

growth potential and boosting the potential growth rate. It also would provide a social security system for all generations to create a society in which everyone could play an active role and feel secure. In addition, the government would do its utmost with regard to economic and fiscal management in view of the consumption tax hike scheduled for October 2019.

(4) 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 it was desirable to strengthen monetary easing by lowering the short-term policy interest rate.

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 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 opinion that, in order to achieve the price stability target of 2 percent at the earliest possible time, further coordination of fiscal and monetary policy was important, and that it was appropriate for the Bank to revise the forward guidance for the policy rates to relate it to the price stability target.

Based on this discussion, the chairman formulated the Statement on Monetary Policy and put it to a vote. The Policy Board decided the text by a unanimous vote. It was confirmed that the statement would be released immediately after the meeting (see Attachment).

VI. Discussion regarding the Outlook Report

Members discussed the draft of "The Bank's View" in the July 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 July 31. 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 June 19 and 20, 2019 for release on August 2.

VIII. Approval of the Scheduled Dates of the Monetary Policy Meetings

The Policy Board approved unanimously the dates of the Monetary Policy Meetings to be held in 2020 and agreed to make this public after the meeting.

Attachment
July 30, 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. The Bank will continue with "Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control," aiming to achieve the price stability target of 2 percent, as long as it is necessary for maintaining that target in a stable manner. It will continue expanding the monetary base until the year-on-year rate of increase in the observed consumer price index (CPI, all items less fresh food) exceeds 2 percent and stays above the target in a stable manner. 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, 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. 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. In particular, in a situation where downside risks to economic activity and prices, mainly regarding developments in overseas economies, are significant, the Bank will not hesitate to take additional easing measures if there is a greater possibility that the momentum toward achieving the price stability target will be lost. [Note 2]

[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 it was desirable to strengthen monetary easing by lowering the short-term policy interest rate.

[Note 2] 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 appropriate for the Bank to revise the forward guidance for the policy rates to relate it to the price stability target.