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September 24, 2020

Bank of Japan

Minutes of the Monetary Policy Meeting

on July 14 and 15, 2020

(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 Tuesday, July 14, 2020, from 2:00 p.m. to 3:31 p.m., and on Wednesday, July 15, from 9:00 a.m. to 11:50 a.m.[1]

Policy Board Members Present

Mr. KURODA Haruhiko, Chairman, Governor of the Bank of Japan

Mr. AMAMIYA Masayoshi, Deputy Governor of the Bank of Japan

Mr. WAKATABE Masazumi, Deputy Governor of the Bank of Japan

Mr. SAKURAI Makoto

Ms. MASAI Takako

Mr. SUZUKI Hitoshi

Mr. KATAOKA Goushi

Mr. ADACHI Seiji

Mr. NAKAMURA Toyoaki

Government Representatives Present

Mr. TOYAMA Kiyohiko, State Minister of Finance, Ministry of Finance[2]

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

Mr. MIYASHITA Ichiro, State Minister of Cabinet Office, Cabinet Office[2]

Mr. TAWA Hiroshi, Vice-Minister for Policy Coordination, Cabinet Office[3]

Reporting Staff

Mr. ETOH Kimihiro, Executive Director

Mr. UCHIDA Shinichi, Executive Director (Assistant Governor)

Mr. KATO Takeshi, Director-General, Monetary Affairs Department

Mr. IIJIMA Kota, Head of Policy Planning Division, 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 September 16 and 17, 2020, 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. Toyama and Miyashita were present on July 15.

[3] Messrs. Kanda and Tawa were present on July 14.

Mr. SHIMIZU Seiichi, Director-General, Financial Markets Department

Mr. KAMIYAMA Kazushige, Director-General, Research and Statistics Department

Mr. KAWAMOTO Takuji, Head of Economic Research Division, Research and Statistics Department

Mr. FUKUMOTO Tomoyuki, Director-General, International Department

Secretariat of the Monetary Policy Meeting

Mr. MATSUSHITA Ken, Director-General, Secretariat of the Policy Board

Mr. HONDA Hisashi, Director, Deputy Head of Planning and Coordination Division, Secretariat of the Policy Board

Mr. YAMASHIRO Yoshimichi, Director, Deputy Head of Planning and Coordination Division, Secretariat of the Policy Board

Mr. HIGASHI Masato, Senior Economist, Monetary Affairs Department

Mr. NAGAE Shinichiro, Senior Economist, Monetary Affairs Department

Mr. INABA Hiroki, 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 15 and 16, 2020, the Bank had been conducting purchases of Japanese government bonds (JGBs).[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.

The Bank had conducted purchases of CP and corporate bonds and the Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus (COVID-19) to support financing, mainly of firms, under the Special Program to Support Financing in Response to the Novel Coronavirus (COVID-19). In addition, the Bank had provided ample yen and foreign currency funds, mainly through purchases of JGBs and the conduct of the U.S. dollar funds-supplying operations, and had actively purchased exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs).

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) had been at around minus 0.1 percent.

The Nikkei 225 Stock Average had risen somewhat, mainly driven by IT-related stocks. Long-term interest rates temporarily had risen somewhat on the back of an increase in JGB issuance; however, they had been at around 0 percent throughout the intermeeting period, due mainly to the Bank's active JGB purchases. After the state of emergency was lifted, liquidity in the JGB market had shown some improvement, such as in trading volume, but remained at a low level in a situation where interest rates had been stable. In the foreign exchange market, the yen had been more or less flat against both the U.S. dollar and the euro.

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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 a necessary amount of JGBs without setting an upper limit 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.

C. Overseas Economic and Financial Developments

Overseas economies had been depressed significantly, reflecting the impact of the COVID-19 pandemic, although they had shown signs of heading toward a pick-up. In many economies, economic activity had resumed since strict public health measures, such as restrictions on going outside and suspension in business and production activities, had been eased gradually. However, economic activities of households and firms remained constrained due to vigilance against COVID-19, as well as to a deterioration in the employment situation and a decline in corporate profits, both of which had been seen on a global basis. With regard to the outlook, as the impact of COVID-19 waned, overseas economies were likely to recover from being depressed significantly, partly supported by aggressive macroeconomic policies, but the pace was expected to be only moderate. Nevertheless, a brake was not put yet on the increasing number of confirmed cases worldwide and there were extremely high uncertainties over the consequences of COVID-19 and the magnitude of their impact on overseas economies.

With regard to developments in overseas economies by region, the U.S. economy had been depressed significantly, although there had been some signs of heading toward a pick-up. Such signs had been seen in private consumption and housing investment, mainly because the strict public health measures had been lifted gradually; however, they had been at substantially low levels on the whole due to the continued severe employment situation, as well as to vigilance against COVID-19 reflecting such factors as the recent surge in the number of confirmed cases, particularly in the southern and western states. Business fixed investment had been depressed substantially, mainly reflecting the decline in corporate profits.

The European economy had been depressed significantly, although there had been some signs of heading toward a pick-up. In the euro area, such signs had been seen in private consumption, mainly because the strict public health measures had been lifted gradually; however, it had been at a substantially low level on the whole, due in part to vigilance against COVID-19 and deterioration in the employment situation to date. Business fixed investment had been depressed substantially, mainly reflecting the decline in corporate profits.

The Chinese economy had picked up due to the emergence of the effects of aggressive macroeconomic policies and the materialization of pent-up demand. Exports had increased, partly backed by a significant rise in those related to textile products, including masks, and to personal computers. Private consumption had picked up on the whole owing to the materialization of pent-up demand, although the impact of COVID-19 remained in part. Fixed asset investment had picked up due to the emergence of the effects of aggressive macroeconomic policies.

Emerging economies other than China had plunged due to the impact of COVID-19. The NIEs and the ASEAN countries had been depressed significantly on the whole, although there had been some signs of heading toward a pick-up. The economies of India, Brazil, and Russia also had been depressed significantly amid the rapid spread of COVID-19.

With respect to overseas financial markets, stock prices in the United States and Europe had risen somewhat, mainly driven by IT-related stocks, and those in China also had increased, reflecting expectations for a pick-up in economic activity. Currencies had been depreciating, such as in Central and South America, where COVID-19 continued to spread. Long-term interest rates in the United States had declined somewhat due to vigilance against COVID-19, while those in Europe had been flat. Meanwhile, crude oil prices were more or less unchanged.

D. Economic and Financial Developments in Japan

1. Economic developments

Japan's economy had been in an extremely severe situation with the impact of COVID-19 remaining at home and abroad, although economic activity had resumed gradually. With this resumption, it was likely to improve gradually from the second half of this year through the materialization of pent-up demand and supported by accommodative financial conditions and the government's economic measures.

Exports and industrial production had declined substantially with overseas economies being depressed significantly. Looking at real exports by goods, automobile-related exports had declined substantially, mainly against the background of a rapid decline in global automobile sales, particularly in the United States and Europe. Capital goods exports also continued to decline clearly, reflecting a global postponement of business fixed investment. On the other hand, the decline in IT-related exports had been relatively small, supported by firm developments in parts for data centers and in those related to personal computers. As entry restrictions remained in place, there continued to be almost no visitors to Japan. As for the outlook, exports and production were likely to be at low levels for the time being, due mainly to the depression in overseas economies stemming from the impact of COVID-19; however, they were projected to stop declining and then head toward a pick-up as the impact waned worldwide.

Although private consumption had decreased significantly, mainly in services such as eating and drinking as well as accommodations, it had shown signs of a pick-up recently. Services consumption had declined substantially, mainly for selective expenditures such as dining-out and travel. This reflected self-restraint from going outside, temporary store closures, and shorter operating hours, all of which were due to the impact of COVID-19. Looking at data for May, with the state of emergency lifted, dining-out had turned to a slight pick-up while both domestic and overseas travel remained weak to a considerable degree. Meanwhile, high-frequency data suggested that the number of people going out, which is strongly correlated with developments in selective expenditures for services, had picked up moderately since the start of June. As for consumption of goods, selling of automobiles had turned to a pick-up in June, and that of household electrical appliances continued to do so, partly due to the provision of special cash payments. On the other hand, the rates of increase in food and daily necessities -- which had remained firm owing to an expansion in stay-at-home consumption -- had decelerated to date, due partly to the shift to dining-out. Regarding the outlook, private consumption was likely to remain at a low level for the time being, mainly for services consumption, primarily reflecting vigilance against COVID-19. However, along with a phased reopening of businesses, it was expected to pick up moderately, supported by various income support measures and demand stimulus measures.

Corporate profits and business sentiment had deteriorated due to the impact of COVID-19. The diffusion index (DI) for business conditions in the June 2020 *Tankan* (Short-Term Economic Survey of Enterprises in Japan) had worsened significantly regardless of industry and size; the DI had declined substantially, as seen, for example, in a record plunge in that for all industries and enterprises from the previous survey. Business fixed investment had been more or less flat. Looking at business fixed investment plans in the June *Tankan*, such investment in all industries and enterprises including financial institutions and holding companies at this point was expected to remain positive on an annual basis, partly backed by firm software investment. However, the rate of increase was the lowest since fiscal 2009 among past figures for the June surveys. Construction starts -- a leading indicator of construction investment, of which many projects are medium- to long-term ones -- had been more or less flat, while a declining trend had become evident recently in machinery orders --

a leading indicator of machinery investment, which can be postponed relatively easily. Regarding the outlook, business fixed investment was expected to decrease, mainly in industries affected strongly by substantial declines in exports and consumption. Thereafter, it was likely to pick up as the impact of COVID-19 waned.

With the continuing impact of COVID-19, the employment and income situation had been weak. The employment conditions DI in the June *Tankan* showed that the perception of labor shortage had diminished substantially for both manufacturing and nonmanufacturing. According to the *Labour Force Survey*, the year-on-year rate of change in the number of employees for May had moved into further negative territory from the previous month, registering minus 1.2 percent, as the number of non-regular employees such as part-time workers had declined clearly due to the impact of COVID-19. The year-on-year rate of change in nominal wages for May had fallen into further negative territory from the previous month, marking about minus 3 percent, due mainly to the rate of decline in non-scheduled cash earnings having accelerated. Employee income was projected to decline clearly for the time being, affected by the depressed economic activity and a fall in corporate profits, both reflecting the impact of COVID-19.

As for prices, the year-on-year rate of change in the consumer price index (CPI, all items less fresh food) was at around 0 percent, and that in the CPI (all items less fresh food and energy) was at around 0.5 percent. With regard to the outlook, the year-on-year rate of change in the CPI (all items less fresh food) was likely to be negative for the time being, mainly affected by COVID-19 and the past decline in crude oil prices.

2. Financial environment

Financial conditions had been accommodative on the whole but those for corporate financing remained less so, as seen in deterioration in firms' financial positions.

Inflation expectations had weakened somewhat.

Firms' financial positions had deteriorated, mainly reflecting a decline in sales due to the impact of COVID-19. However, the environment for external funding remained accommodative owing to the Bank's and the government's measures, as well as efforts made by financial institutions. In this situation, the DI for financial positions of small enterprises had shown signs of a pick-up recently. Firms' funding costs had been hovering at low levels. With regard to credit supply, financial institutions' lending attitudes as perceived by firms had been accommodative. Issuing conditions for CP and corporate bonds had been favorable on the whole. Firms' demand for funds had increased, mainly reflecting a decline in sales and an increase in precautionary demand, both of which were due to the impact of COVID-19. Looking at developments in corporate financing, the year-on-year rate of increase in the amount outstanding of bank lending had been at around 6.5 percent, and that in the amount outstanding of CP and corporate bonds had been at a relatively high level that exceeded 10 percent.

The year-on-year rate of increase in the monetary base had been at around 6 percent, and that in the money stock had been in the range of 7.0-7.5 percent.

II. Summary of Discussions by the Policy Board on Economic and Financial Developments and the July 2020 *Outlook for Economic Activity and Prices*

A. Economic Developments

Members agreed that the tension in global financial markets had eased, mainly due to aggressive fiscal and monetary policies taken by each country and region as well as resumption of economic activity. However, they shared the view that, amid a situation of high uncertainty regarding domestic and overseas economies, the markets continued to be nervous, as evidenced, for example, by volatility in the stock market remaining at a relatively high level. Some of these members pointed out that it was necessary to closely monitor future developments in global financial markets to see whether there would be a correction in asset prices, given, for example, that signs of overheating had been noted regarding stock prices in advanced economies, and that the markets were focusing on the downside tail risk of a significant plunge in stock prices, as the Cboe SKEW index -- which captures the skew of U.S. stock market participants' recognition of risks -- was at a high level. Meanwhile, one member said that, although foreign exchange markets had been stable recently, it was a matter of concern that market liquidity had been declining, as suggested by the decrease in trading volume.

Members concurred that overseas economies had been depressed significantly, reflecting the impact of the COVID-19 pandemic, although they had shown signs of heading toward a pick-up. Many members expressed the recognition that economic activity had resumed in many economies, since the strict public health measures had been eased gradually.

With regard to overseas economies by region, members shared the recognition that the U.S. economy had been depressed significantly, although there had been some signs of heading toward a pick-up. Some members pointed out that, although economic indicators confirmed that it had bottomed out and started to pick up, firms were maintaining their cautious stance toward business fixed investment, and such figures as high-frequency data implied that the economy recently had shown signs of leveling off, with the resurgence of COVID-19 in the southern and western states. In addition, a few members pointed out that consumption, particularly by high-income households, had decreased significantly and its subsequent recovery had been weak. These members then noted that, in order for consumption to recover, it was necessary to dispel concerns over COVID-19, which were behind these developments.

Members shared the view that the European economy had been depressed significantly, although there had been some signs of heading toward a pick-up. One member noted that, although economic activity had started to resume with the spread of COVID-19 subsiding, as seen in movement restrictions beginning to be eased, it had been depressed significantly, as suggested, for example, by the Purchasing Managers' Index remaining at a low level. One member expressed the view that the pace of recovery could vary by country depending on whether there was room for further policy actions such as tax cuts.

Members concurred that the Chinese economy had picked up due to the emergence of the effects of aggressive macroeconomic policies and the materialization of pent-up demand. Many members expressed the view that, relatively speaking, China was successful in containing COVID-19 and its economy had been recovering steadily. Nevertheless, a few members pointed out that, although private consumption, particularly selling of new cars, had started to pick up, the recovery in services consumption had been weak, as seen, for example, in the year-on-year rate of change in consumption of travel-related services remaining negative. These members continued that the pace of recovery in private consumption therefore had been only moderate on the whole.

Members shared the recognition that emerging economies had plunged due to the impact of COVID-19. A few members said that COVID-19 had been spreading, particularly in such countries as Brazil and India, and thus the negative impact on their economies was of concern.

Members concurred that financial conditions in Japan had been accommodative on the whole but those for corporate financing remained less so, as seen in deterioration in firms' financial positions. Some members pointed out that corporate financing had been under strong stress -- namely, a sharp decline in sales -- as evidenced, for example, by a significant deterioration in the DI for firms' financial positions in the June *Tankan*. On this basis, these members expressed the recognition that, with the implementation of measures to support financing, mainly of firms, the environment for external funding remained accommodative, as seen, for example, in the DI for financial institutions' lending attitudes maintaining its accommodative level. Some members pointed out that a significant increase in the number of corporate bankruptcies had not been observed thus far.

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 concurred that the economy had been in an extremely severe situation with the impact of COVID-19 remaining at home and abroad, although economic activity had resumed gradually. A few members pointed out that private consumption remained in a severe situation, mainly for services consumption; demand had disappeared in some sectors such as those related to travel, although selling of household electrical appliances and consumption of some services such as dining-out had shown signs of a pick-up, reflecting, for example, the lift of the state of emergency. One member expressed the view that business fixed investment somehow remained firm at this point, mainly in terms of labor-saving investment and research and development (R&D) investment. One member pointed out, however, that a declining trend in machinery orders had been observed. In addition, some members noted that, with overseas economies being depressed significantly, exports and production had declined substantially, mainly for automobile-related goods and general machinery. As for the employment and income situation, one member said that deterioration in the employment situation had been evident, as seen, for example, in the number of employed persons not at work remaining high and a rise in the unemployment rate. However, one member expressed the view that deterioration in employment had been constrained compared with the depressed economic activity, partly owing to measures implemented by the government such as the employment adjustment subsidies. Meanwhile, a few members pointed out that business sentiment in the June *Tankan* had deteriorated significantly but seemed to have bottomed out, as it was expected to be almost unchanged in enterprises' forecasts for the next quarter. These members continued that economic activity therefore seemed to be undergoing a phase shift -- namely, from a phase in which it had been depressed significantly due to strict preventive measures against COVID-19, to a transition phase toward recovery.

As for prices, members shared the recognition that the year-on-year rate of change in the CPI (all items less fresh food) was at around 0 percent, and that in the CPI (all items less fresh food and energy) was at around 0.5 percent, while inflation expectations had weakened somewhat. A few members noted that households' and firms' medium- to long-term inflation expectations had been declining, but only to a small degree, and thus it could not be said that they had decreased sharply. In addition, these members expressed the view that deflation-oriented price-setting behavior by firms had not spread at this point, as the output prices DI in the June *Tankan* had not shown a substantial fall, such as those observed during past periods of being under stress, and as measures of underlying inflation, including the mode, had been firm. In relation to this, one member commented that firms had prioritized preventing their profits from falling below the break-even level in a situation where it was difficult for them to expect stimulation of demand through reducing their prices. Meanwhile, one member noted that some weakness observed in services prices, which are usually sticky, as well as their high correlation with wages, warranted concern. One member expressed the view that wages -- which are strongly correlated with overall prices -- were likely to remain under downward pressure for the time being given that the base pay increase for fiscal 2020, although secured, was small and that the impact of COVID-19 was expected to be prolonged.

B. Outlook for Economic Activity and Prices

In formulating the July 2020 *Outlook for Economic Activity and Prices* (hereafter the Outlook Report), members agreed that -- regarding the baseline scenario of the outlook for Japan's economic activity -- the economy, with economic activity resuming, was likely to improve gradually from the second half of this year; however, the pace of improvement was expected to be only moderate while the impact of COVID-19 remained worldwide. In addition, they expressed the view that thereafter, as the impact subsided, the economy was projected to keep improving further with overseas economies returning to a steady growth path. Members shared the recognition that, while there were extremely high uncertainties over the outlook for economic activity, it was appropriate in the July Outlook Report to assume that a second wave of COVID-19 would not occur on a large scale. On this basis, they concurred that it was expected that, until COVID-19 subsided globally, precautionary efforts made voluntarily by firms and households would continue to act as a force constraining economic activity, although such force would wane gradually.

Members agreed that, as the impact of COVID-19 waned, overseas economies were likely to recover from being depressed significantly, partly supported by aggressive macroeconomic policies, but the pace was expected to be only moderate. Some members pointed out that it was necessary to carefully monitor the pace of recovery in overseas economies, given, for example, that many regions in emerging economies remained under severe downward pressure as the spread of COVID-19 had not subsided, while the U.S. economy had experienced ups and downs with the resurgence of COVID-19.

Members shared the view that domestic demand was likely to see an increase in its level as the impact of COVID-19 waned but be only at a low level while it remained. They expressed the recognition that, along with a resumption of economic activity, household spending such as private consumption was expected to pick up from a state of significant decline through the materialization of pent-up demand as well as supported by the government's economic measures and accommodative financial conditions. Members agreed, however, that the spending was likely to remain constrained while people continued to be vigilant against COVID-19. They shared the recognition that business spending, such as business fixed investment, was expected to decrease, mainly in industries affected strongly by substantial declines in exports and consumption, and that thereafter it was likely to pick up as the impact of COVID-19 waned.

Meanwhile, members shared the view that it was expected that the government's economic measures and accommodative financial conditions would contribute to sustaining businesses and retaining employees, thereby preventing firms' and households' medium- to long-term growth expectations in Japan from declining substantially. On this basis, they agreed that, as the impact of COVID-19 subsided globally thereafter, it was likely that exports would continue to increase on the back of growth in overseas economies and that household and business spending would return to a stable increasing trend.

Based on this discussion, members concurred that the projected growth rates in the July Outlook Report were broadly within the range of the forecasts in the previous report. Meanwhile, one member said that, even in fiscal 2022, Japan's economy was unlikely to return to the level reached before the outbreak of COVID-19, since it would take time for a structural change through which the economy could overcome the impact of COVID-19.

Members then discussed the baseline scenario of the outlook for Japan's price developments. They agreed that the year-on-year rate of change in the CPI (all items less fresh food) was likely to be negative for the time being, mainly affected by COVID-19 and the past decline in crude oil prices. Members shared the recognition that, with economic activity remaining at a low level due to the impact of COVID-19, it was expected that prices of goods and services that are sensitive to economic activity would be pushed down. They continued that crude oil prices, which had declined significantly compared to a while ago, were projected to push down the CPI through energy prices. Members concurred that, under these circumstances, medium- to long-term inflation expectations were likely to continue weakening somewhat.

Members agreed that, thereafter, the year-on-year rate of change in the CPI was expected to turn positive and then increase gradually, as downward pressure on prices was projected to wane gradually along with economic improvement and the effects of the decline in energy prices were likely to dissipate. In addition, they shared the recognition that medium- to long-term inflation expectations also were expected to rise again. On this basis, members expressed the view that the year-on-year rate of change in the CPI was likely to increase toward achieving the price stability target, although it would take time. However, a few members noted that, with the pace of economic recovery being moderate, it was unlikely that prices would regain the momentum toward 2 percent inflation within the projection period.

Based on this discussion, members agreed that the projected rates of increase in the CPI in the July Outlook Report were broadly within the range of the forecasts in the previous report.

Members then exchanged views regarding the financial conditions on which the above outlook was based. They concurred that, although corporate financing had been under stress, mainly against the background of a decline in sales due to the impact of COVID-19, the environment for external funding remained accommodative owing to measures taken by the Bank and the government, as well as private financial institutions' efforts together with those measures. Regarding the outlook, members shared the view that, with the Bank's and the government's measures, as well as efforts made by private financial institutions, it was expected that financial conditions would remain accommodative and further downward pressure on the real economy from the financial side would be avoided.

On this basis, as for upside and downside risks to economic activity and prices, members discussed those that required particular attention while the impact of the spread of COVID-19 remained.

First, with regard to risks to economic activity, members shared the view that the outlook was extremely unclear, since it could change depending on the consequences of COVID-19 and the magnitude of their impact on domestic and overseas economies. In addition, they shared the recognition that households' and firms' future behavior at home and abroad was also uncertain, with people continuing to voluntarily make precautionary efforts until COVID-19 subsided. Some members pointed out that it was necessary to be vigilant with regard to the fact that COVID-19 had been spreading globally at a faster pace and that a risk of its resurgence had arisen, including in Japan. One member said that the Bank could not be optimistic about the timing of an economic recovery since it would be delayed further if COVID-19 spread again. In addition, some members noted that, while the impact of COVID-19 remained, future developments in economic activity would be determined by the balance between the consequences of COVID-19, macroeconomic measures, and public health measures, and there was a possibility of trade-offs among them. One of these members said that economic recovery depended not only on fiscal and monetary policies but also on public health measures, and therefore the recovery path varied among countries or sectors. Meanwhile, a different member expressed the view that, if the impact of COVID-19 was prolonged, there was a possibility that downward pressure on economic activity would continue to be exerted and a vicious cycle from unemployment to less income and spending would emerge, mainly through materialization of solvency problems as well as employed persons not at work becoming unemployed.

Members also agreed that this outlook for economic activity and prices was based mainly on the assumption that, while the impact of COVID-19 remained, firms' and households' medium- to long-term growth expectations would not decline substantially and the smooth functioning of financial intermediation would be ensured with financial system stability being maintained, although this assumption entailed high uncertainties. A few members pointed out that, according to information obtained from interviews with firms, many of them still appeared to be taking an active stance toward R&D investment and investment related to digitalization, and business fixed investment plans in the June *Tankan* showed that fixed investment was expected to remain positive. These members continued that, taking this into account, firms' growth expectations did not seem to have declined sharply at present. One of these members expressed the view that adjustments in business fixed investment and employment would only last in the short run. However, a different member noted that the impact of COVID-19 on people's mindset and developments in firms' medium- to long-term growth expectations continued to warrant close monitoring. In addition, one member pointed out that uncertainties stemming from changes in the industrial structure that might occur due to the impact of COVID-19 would also make firms and households cautious about their consumption and investment.

Regarding risks to the financial system, members shared the recognition that, if COVID-19 had a larger impact than expected, there was a risk that deterioration in the real economy would affect financial system stability, thereby exerting further downward pressure on the real economy. Some members noted that, if the real economy deteriorated for a prolonged period due to the impact of COVID-19, the issue could shift from a liquidity problem to a solvency one and financial system stability could be affected through an increase in credit costs. These members continued that it was therefore necessary for the Bank to carefully examine the situation while fully making use of opportunities to communicate with financial institutions. Members agreed that the aforementioned risks were judged as not significant at this point because the Bank and the government had taken measures aggressively, with a view to supporting financing, mainly of firms, as well as to maintaining stability in financial markets, and financial institutions had considerable resilience in terms of both capital and liquidity. They continued, however, that it was necessary to pay close attention to future developments.

In addition to the above, a few members expressed the view that risks to overseas economies included geopolitical risks, political events, and whether the government's support in each country would continue even after this summer, and they entailed high uncertainties. These members continued that such risks were likely to remain skewed to the downside throughout the projection period. One member said that there were high uncertainties over future developments, mainly in external demand, and the pace of recovery was expected to be only moderate. This member continued that it was therefore essential to carefully examine economic indicators at home and abroad.

Regarding risks to prices, members shared the recognition that, if risks to economic activity materialized, prices also were likely to be affected accordingly. In addition, they concurred that risks that were specific to prices entailed uncertainties over firms' price-setting behavior amid the impact of COVID-19 on both the demand and supply sides of economic activity. One member pointed out that it was difficult to assess the effects on prices of changes in the supply and demand conditions due to the impact of COVID-19, since they could exert upward and downward pressure on prices and there were risks that were specific to prices in Japan, including the mechanism of inflation expectation formation. In response, one member, while noting that the impact of COVID-19 seemed to be largely attributable to a negative demand shock, expressed the view that downward pressure would likely be exerted on prices for the time being, given that the pace of improvement in the output gap was likely to be only moderate and there were signs that a decline in short-term inflation expectations was affecting medium- to long-term ones. A few members noted that the impact of COVID-19 should be examined in a prudent and careful manner, including the second-round effects from a somewhat long-term perspective, such as on firms' price-setting behavior and developments in inflation expectations. In addition, members shared the recognition that it was necessary to pay attention to developments in international commodity prices, including those of crude oil, and to the effects of future fluctuations in foreign exchange rates on prices.

Based on this discussion, members shared the view that, with regard to the risk balance, risks to both economic activity and prices were skewed to the downside, mainly due to the impact of COVID-19.

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.

Regarding the Bank's basic stance on conducting monetary policy, most members shared the recognition that the three monetary easing measures -- namely, (1) the Special Program to Support Financing in Response to the Novel Coronavirus (COVID-19), (2) an ample provision of yen and foreign currency funds without setting upper limits, and (3) active purchases of assets such as ETFs -- had been exerting their intended effects. These members then noted that it was appropriate for the Bank to continue to support financing, mainly of firms, and maintain stability in financial markets through the three monetary easing measures.

One member emphasized that this was because, for the time being, corporate financing was likely to remain under stress with economic activity improving only moderately, and financial markets were expected to continue to be nervous. A few members pointed out that, for the time being, it was important to examine in a careful and prudent manner the effects of the Bank's policy responses through the three monetary easing measures. One of these members said that the top priority for monetary policy for the time being was to contribute to sustaining businesses and employment by continuing to support corporate financing. Another member expressed the view that downward pressure on prices was likely to intensify in the short run, but medium- to long-term inflation expectations had been generally maintained to this point. The member continued that it was appropriate to consider the policy responses for achieving the price stability target of 2 percent when the impact of COVID-19 had almost subsided. One member, while noting that the Bank's responses through the three monetary easing measures had been exerting positive effects, said that it was desirable to further strengthen monetary easing by lowering short- and long-term interest rates, in response to a possible increase in downward pressure on prices and with the aim of alleviating firms' and households' interest burden.

On this basis, members concurred that, for the time being, the Bank would closely monitor the impact of COVID-19 and not hesitate to take additional easing measures if necessary. One member said that it was important for the time being to continue to closely share information between the government and the central bank as well as among major central banks, assess the adequacy of the existing monetary policy framework, and swiftly make policy responses when necessary. In addition, one member expressed the view that, at the time of an economic crisis, it was necessary for fiscal and monetary policies to closely cooperate in an appropriate manner. One member commented that, while pursuing their respective roles, it was important for the Bank to cooperate with the government in terms of not only fiscal policy but also policies concerning structural reforms that aimed at responding to the "new normal."

Members then discussed financial imbalances from a longer-term perspective, which was one of the risks considered most relevant to the conduct of monetary policy. They shared the recognition that prolonged downward pressure on financial institutions' profits could create a risk of a gradual pullback in financial intermediation, given the existing factors -- such as the prolonged low interest rate environment, the declining population, and excess savings in the corporate sector -- as well as the recent impact of COVID-19. One member noted that effectively interest-free loans might exert downward pressure on lending margins on ordinary loans. This member then stated that attention should be paid to an accumulation of side effects on the functioning of financial intermediation, including a decline in financial institutions' return on equity in the low interest rate environment. On the other hand, members shared the recognition that, under the current circumstances, the vulnerability of the financial system could increase, mainly due to the search for yield behavior. On this basis, they agreed that, although these risks were judged as not significant at this point, mainly because financial institutions had sufficient capital bases, it was necessary to pay close attention to future developments.

Members also deliberated over points to take into account in conducting monetary policy in the future. One member expressed the view that, taking into account the experience of the current crisis, the Bank should further examine appropriate monetary policy conduct during the COVID-19 era. The member continued that it was necessary to examine the transmission channels and effects of policy measures while paying attention to risks that inflation expectations and growth expectations would decline further and that such situation would last for a protracted period. Meanwhile, one member noted that, to ensure that the economy would follow a recovery path, it was necessary for firms to swiftly regain their motivation to plan and conduct growth strategies. This member continued that, considering this point, the Bank should carefully examine the effects that monetary policy would have on business management from a medium-term perspective.

With respect to yield curve control, members shared the recognition that 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 a necessary amount of JGBs without setting an upper limit 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.

On this point, one member expressed the opinion that it was desirable to further strengthen monetary easing by lowering short- and long-term interest rates, in response to a possible increase in downward pressure on prices and with the aim of alleviating firms' and households' interest burden.

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. First, it would 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. For the time being, it would actively purchase ETFs and J-REITs so that their amounts outstanding would increase at annual paces with the upper limit of about 12 trillion yen and about 180 billion yen, respectively. Second, as for CP and corporate bonds, the Bank would maintain their amounts outstanding at about 2 trillion yen and about 3 trillion yen, respectively. In addition, until the end of March 2021, it would conduct additional purchases with the upper limit of the amounts outstanding of 7.5 trillion yen for each asset.

With respect to the Bank's thinking behind its future conduct of monetary policy, members shared the view that it would (1) continue with Quantitative and Qualitative Monetary Easing 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, and (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.

With regard to the measures that the Bank had introduced and strengthened since March in response to the impact of COVID-19, members concurred that the Bank would continue to support financing, mainly of firms, and maintain stability in financial markets through (1) the Special Program to Support Financing in Response to the Novel Coronavirus (COVID-19), (2) an ample provision of yen and foreign currency funds without setting upper limits mainly by purchasing JGBs and conducting the U.S. dollar funds-supplying operations, and (3) active purchases of ETFs and J-REITs.

Regarding its policy stance for the time being, members agreed that the Bank would closely monitor the impact of COVID-19 and not hesitate to take additional easing measures if necessary. Based on this, most members shared the view that, as for policy rates, it would expect short- and long-term interest rates to remain at their present or lower levels.

On this point, one member was of the opinion that, given the severe impact of COVID-19, further coordination of fiscal and monetary policy was necessary and it was appropriate for the Bank to revise the forward guidance for the policy rates to relate it to the price stability target, with a view to not allowing deflation to take hold as well as committing itself to conducting monetary policy based on concrete conditions.

IV. Remarks by Government Representatives

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

(1) The government, in coordination with the ruling parties, was proceeding with discussions that mainly regarded the Basic Policy on Economic and Fiscal Management and Reform 2020 (hereafter the Basic Policy) and the growth strategy in order to obtain Cabinet decisions on these policies. As confirmed in the draft of the Basic Policy, the government would consider without delay implementing what had been decided by the Cabinet and addressing challenges to the reform, in accordance with the policies decided to date, thereby steadily working toward achieving both economic revitalization and fiscal soundness.

(2) The government expected that the Bank would contribute to supporting economic and financial activities by continuing to do its utmost, mainly to ensure smooth corporate financing and maintain stability in financial markets.

The representative from the Cabinet Office made the following remarks.

(1) The Japanese economy was still in an extremely severe situation due to the impact of COVID-19, as seen in such developments as exports and production being in a state of decline, but it had almost stopped deteriorating, as suggested, for example, by private consumption showing movements of picking up. As for the outlook, the economy was expected to move toward picking up from the extremely severe situation, with economic activities resuming gradually. With a view to bringing the economy back onto a growth path, the government would firmly support it by sustaining businesses and retaining

employees through conducting the emergency economic measures and the supplementary budgets as soon as possible. In addition, it would work toward achieving socio-economic activities as well as prevention of the spread of COVID-19.

(2) The government proposed the draft of the Basic Policy on July 8. Under the policy, it aimed at fully protecting people's lives, livelihoods, employment, and businesses by taking measures against COVID-19 and making responses to natural disasters, which were becoming more frequent and devastating. The government had compiled measures to be taken as five pillars, aiming at overcoming challenges that had become distinct in the face of the spread of COVID-19 -- such as falling behind in digitalization in the administrative area and a risk of centralization in Tokyo in terms of crisis management -- and also at realizing a society under the "new normal" at the earliest possible time.

(3) The government would respond flexibly depending on changes in circumstances in view of a possible long-term battle against COVID-19. It expected the Bank to continue conducting appropriate monetary policy while closely monitoring current and future developments. It also expected that the Bank would continue to cooperate closely with the government while sharing a sense of crisis, in order to bring about an early recovery of the Japanese economy from the impact of COVID-19.

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 on the guideline for market operations 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 a necessary amount of JGBs without setting an upper limit 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.

Votes for the proposal: Mr. KURODA Haruhiko, Mr. AMAMIYA Masayoshi, Mr. WAKATABE Masazumi, Mr. SAKURAI Makoto, Ms. MASAI Takako, Mr. SUZUKI Hitoshi, Mr. ADACHI Seiji, and Mr. NAKAMURA Toyoaki.
Votes against the proposal: Mr. KATAOKA Goushi.

Mr. Kataoka dissented, considering that it was desirable to further strengthen monetary easing by lowering short- and long-term interest rates, in response to a possible increase in downward pressure on prices and with the aim of alleviating firms' and households' interest burden.

B. Vote on the Guideline for Asset Purchases

To reflect the view of the members, the chairman formulated the following proposal on the guideline for asset purchases and put it to a vote.

The Policy Board decided the proposal by a unanimous vote.

The Chairman's Policy Proposal on the Guideline for Asset Purchases:
The guideline for asset purchases other than JGB purchases will be as follows.

1. In principle, the Bank will purchase ETFs and 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, it may increase or decrease the amount of purchases depending on market conditions. For the time being, the Bank will actively purchase these assets so that their amounts outstanding will increase at annual paces with the upper limit of about 12 trillion yen and about 180 billion yen, respectively.

2. As for CP and corporate bonds, the Bank will maintain their amounts outstanding at about 2 trillion yen and about 3 trillion yen, respectively. In addition, until the end of March 2021, it will conduct additional purchases with the upper limit of the amounts outstanding of 7.5 trillion yen for each asset.

Votes for the proposal: Mr. KURODA Haruhiko, Mr. AMAMIYA Masayoshi, Mr. WAKATABE Masazumi, Mr. SAKURAI Makoto, Ms. MASAI Takako, Mr. SUZUKI Hitoshi, Mr. KATAOKA Goushi, Mr. ADACHI Seiji, and Mr. NAKAMURA Toyoaki.

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. Kataoka expressed the opinion that, given the severe impact of COVID-19, further coordination of fiscal and monetary policy was necessary and 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 2020 Outlook Report (consisting of "The Bank's View" and "The Background"). To reflect the view of the members, 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 unanimous 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 16.

VII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of June 15 and 16, 2020, for release on July 20.

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 2021 and agreed to make this public after the meeting.

Attachment
July 15, 2020
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 an 8-1 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 a necessary amount of Japanese government bonds (JGBs) without setting an upper limit 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]

   (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 actively purchase exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) for the time being so that their amounts outstanding will increase at annual paces with the upper limit of about 12 trillion yen and about 180 billion yen, respectively.[7]

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

[7] As for the guideline for purchases of ETFs and J-REITs, in principle, "the Bank will purchase these assets 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 trillion yen and about 3 trillion yen, respectively. In addition, until the end of March 2021, it will conduct additional purchases with the upper limit of the amounts outstanding of 7.5 trillion yen for each asset.

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.

   The Bank will continue to support financing mainly of firms and maintain stability in financial markets through (1) the Special Program to Support Financing in Response to the Novel Coronavirus (COVID-19), (2) an ample provision of yen and foreign currency funds without setting upper limits mainly by purchasing JGBs and conducting the U.S. dollar funds-supplying operations, and (3) active purchases of ETFs and J-REITs.

   For the time being, the Bank will closely monitor the impact of the novel coronavirus (COVID-19) and will not hesitate to take additional easing measures if necessary, and also it expects short- and long-term policy interest rates to remain at their present or lower levels. [Note 2]

[Note 1] Voting for the action: Mr. KURODA Haruhiko, Mr. AMAMIYA Masayoshi, Mr. WAKATABE Masazumi, Mr. SAKURAI Makoto, Ms. MASAI Takako, Mr. SUZUKI Hitoshi, Mr. ADACHI Seiji, and Mr. NAKAMURA Toyoaki. Voting against the action: Mr. KATAOKA Goushi. Mr. Kataoka dissented, considering that it was desirable to further strengthen monetary easing by lowering short- and long-term interest rates, in response to a possible increase in downward pressure on prices and with the aim of alleviating firms' and households' interest burden.

[Note 2] Mr. Kataoka dissented, considering that, given the severe impact of COVID-19, further coordination of fiscal and monetary policy was necessary and it was appropriate for the Bank to revise the forward guidance for the policy rates to relate it to the price stability target.