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March 20, 2019

Bank of Japan

Minutes of the Monetary Policy Meeting

on January 22 and 23, 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 Tuesday, January 22, 2019, from 2:00 p.m. to 3:26 p.m., and on Wednesday, January 23, from 9:00 a.m. to 11:52 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. E. Chatani, Deputy Vice Minister for Policy Planning and Coordination, Ministry of Finance[3]

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

Mr. A. Nakamura, Vice Minister for Policy Coordination, Cabinet Office[3]

Reporting Staff

Mr. E. Maeda, Executive Director

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

Mr. Y. Ikeda, Executive Director

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

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[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on March 14 and 15, 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 January 23.

[3] Messrs. E. Chatani and A. Nakamura were present on January 22.

Mr. Y. Nakaone, Deputy Director-General, Monetary Affairs Department[4]

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

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

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

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

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

Secretariat of the Monetary Policy Meeting

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

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

Mr. K. Iijima, Head of Policy Infrastructure Division, Monetary Affairs Department[4]

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

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

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

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[4] Messrs. Y. Nakaone and K. Iijima were present on January 22 from 2:47 p.m. to 3:26 p.m.

I. Summary of Staff Reports on Economic and Financial Developments[5]

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 December 19 and 20, 2018, the Bank had been providing funds through purchases of Japanese government bonds (JGBs) and other measures.[6] In this situation, 10-year JGB yields had been at around 0 percent, and the shape of the JGB yield curve had been consistent with the guideline for market operations.

B. Recent Developments in Financial Markets

In the money market, interest rates on both overnight and term instruments had been generally in negative territory. The uncollateralized overnight call rate had been in the range of around minus 0.06 to minus 0.07 percent. As for interest rates on term instruments, yields on three-month treasury discount bills (T-Bills) had risen, due partly to a decline in demand for T-Bills by foreign investors against the backdrop of an increase in short-term yen funding costs mainly through foreign exchange swaps.

The Nikkei 225 Stock Average had declined through the end of 2018 to around 19,000 yen, mainly against the background of a decline in U.S. stock prices and uncertainties over the U.S.-China trade friction, but rose thereafter, following the rises in U.S. and European stock prices, and was moving at around 20,500 yen recently. In the foreign exchange market, as investors' risk aversion had heightened, the yen had been appreciating against both the U.S. dollar and the euro since mid-December. In particular, in early January, when market liquidity was low, the yen appreciated temporarily in a somewhat significant manner in reaction to a U.S. firm's corporate results, which suggested a deceleration in the Chinese economy.

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

[6] 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.

C. Overseas Economic and Financial Developments

Overseas economies continued to grow firmly on the whole. With regard to the outlook, they were expected to continue doing so with domestic demand in both advanced and emerging economies remaining firm, although various developments of late warranted attention, such as the U.S.-China trade friction.

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

The European economy continued on a recovery trend, albeit at a slower pace. Exports had shown a pick-up. Private consumption had generally been on an increasing trend, partly supported by a favorable employment and income situation and consumer sentiment, and business fixed investment also had been on such a trend. 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 2 percent, and that for all items excluding energy, food, alcohol, and tobacco had been at around 1 percent. The European economy was likely to continue on its recovery trend. Meanwhile, economic activity in the United Kingdom had been on a moderate recovery trend, mainly against the background of improvement in the employment and income situation.

With regard to emerging economies, the Chinese economy continued to see stable growth on the whole. As for prices, the year-on-year rate of change in the consumer price index (CPI) had been in the range of 2.0-2.5 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 the ASEAN countries, domestic demand had been resilient, mainly on the back of favorable consumer sentiment and the effects of those economies' stimulus measures, with exports having been on a moderate increasing trend. Economic activity in Russia and Brazil had been recovering moderately, mainly on the back of stable inflation rates. In India, the economy had been recovering moderately, particularly in domestic demand.

With respect to overseas financial markets, investors' risk aversion had heightened mainly against the backdrop of uncertainties over the U.S.-China trade friction and the political situation in Europe, as well as relatively weak economic indicators in China; in this situation, U.S. and European long-term interest rates had declined. Stock markets had been showing large fluctuations, as seen, for example, in the significant decline mainly in U.S. stock prices. Meanwhile, currencies in emerging economies had been stable amid a prevalent view that the pace of U.S. policy rate hikes would decelerate. In the commodity market, crude oil prices had picked up against the background of oil-producing economies decreasing their production levels.

D. Economic and Financial Developments in Japan

1. Economic developments

Japan's economy was expanding moderately, with a virtuous cycle from income to spending operating, and was likely to continue its moderate expansion.

Exports had been on an increasing trend on the back of overseas economies continuing to grow firmly on the whole. Those to advanced economies continued on their increasing trend, and those to emerging economies had picked up overall. Exports likely would continue on their moderate increasing trend for the time being and were expected to continue to do so thereafter, with overseas economies growing firmly on the whole.

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

Business fixed investment continued on an increasing trend, with corporate profits having been at high levels and business sentiment staying at a favorable level. Machinery orders and construction starts in terms of planned expenses for private nonresidential construction -- both of which are leading indicators of business fixed investment -- continued on an increasing trend, albeit with monthly fluctuations. Business fixed investment was likely to continue increasing for the time being, mainly on the back of high levels of corporate profits, accommodative financial conditions, and moderate improvement in growth expectations. Thereafter, the pace of increase in business fixed investment was likely to decelerate gradually, as pressure stemming from cyclical adjustments in capital stock heightened.

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

Private consumption had been increasing moderately, albeit with fluctuations, against the background of steady improvement in the employment and income situation. The consumption activity index (CAI; real, travel balance adjusted) -- calculated by combining various sales and supply-side statistics -- had increased for the July-September quarter of 2018 on a quarter-on-quarter basis and also had risen for the October-November period relative to that quarter. Private consumption was expected to continue to increase moderately for the time being, supported by the increase in employee income and the wealth effects stemming from the past rise in stock prices. Thereafter, private consumption was projected to continue on a moderate increasing trend, although it was likely to be pushed down for some time due to the effects of the consumption tax hike scheduled for October 2019.

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

Industrial production had been on an increasing trend against the background of rises in demand at home and abroad. It likely would continue to increase for the time being on the back of these rises. Thereafter, it was projected to continue on a moderate increasing trend with overseas economies growing firmly on the whole.

As for prices, the producer price index (PPI) relative to three months earlier -- adjusted for the effects of seasonal changes in electricity rates -- had been declining, reflecting developments in international commodity prices and foreign exchange rates. The year-on-year rate of change in the CPI for all items less fresh food was in the range of

0.5-1.0 percent, and that for all items less fresh food and energy was in the range of 0.0-0.5 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 accelerated. Firms' financial positions had been favorable.

The year-on-year rate of increase in the monetary base had been at around 5 percent, and that in the money stock had been at around 2.5 percent.

II. Treatment of the Loan Support Program and Other Measures

A. Staff Reports

In order to continue to (1) encourage financial institutions' proactive efforts, as well as those of firms and households, with a view to stimulating bank lending and strengthening the foundations for economic growth, and (2) support financial institutions in disaster areas in their efforts to meet the demand for funds for rebuilding, the staff proposed that the Bank extend by one year the deadlines for new applications for such measures as the Fund-Provisioning Measure to Stimulate Bank Lending, the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth, and the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas affected by the Great East

Japan Earthquake and by the 2016 Kumamoto Earthquake. The staff therefore proposed that the Bank amend the Principal Terms and Conditions for the Loan Support Program and other related rules.

B. Discussion by the Policy Board and Vote

Members voted unanimously to approve the proposal. They agreed that an outline of the decision should be included in the Statement on Monetary Policy, and that the staff accordingly should make the details public after the meeting.

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

A. Economic Developments

Regarding global financial markets, many members shared the recognition that, against the backdrop of heightened uncertainties regarding overseas economies, financial markets at home and abroad remained unstable, as evidenced, for example, by the decline in stock prices during the period around the turn of the year and the progress in the yen's appreciation against the U.S. dollar. One member said that, while stock prices tended to reflect changes in the real economy in an amplified manner, the recent fall in stock prices to a certain extent indicated the anticipation of a global decline in the real economic growth rate, such as the deceleration in the Chinese economy. Meanwhile, some members pointed out that stock prices had recovered somewhat recently and the foreign exchange market had been regaining stability. They then expressed the recognition that, given, for example, that the fundamentals of major economies had not changed substantially, the market might have been reacting somewhat sensitively recently to uncertainties regarding the outlook. On this point, some members noted that close attention should be paid to whether or not recent fluctuations in stock markets would spread to the real economy through a worsening of investors' risk sentiment. Meanwhile, a few members pointed out that the deceleration in the pace of U.S. policy rate hikes might ease anxiety over capital outflows from emerging economies -- which had been a matter of concern a while ago -- and lead to stability of currencies and stock prices in those economies. One member said that, although crude oil prices had started to pick up somewhat recently due to the decrease in production levels by oil-producing economies, it might take time for these prices to resume their increasing trend.

With respect to overseas economies, members shared the recognition that they continued to grow firmly on the whole. Many members said that positive momentum in domestic demand was maintained in many economies, as evidenced, for example, by a moderate increase in business fixed investment and solid private consumption. Many members then pointed out that disparities in growth among regions were becoming clearer recently, as seen in the fact that, among others, while the U.S. economy had been expanding, signs of a slowdown were becoming more evident in the European and Chinese economies. A few members noted that the Global Purchasing Managers' Index (PMI) remained at a level above 50 points, but due attention needed to be paid to the fact that the index continued to be on a declining trend -- mainly for manufacturing -- due in part to concern about the U.S.-China trade friction. As for the outlook, members shared the view that overseas economies were likely to maintain their firm growth on the whole. Some members expressed the view that, although risks to these economies had been increasingly tilted to the downside recently, the main scenario at this point was still one in which the global economy was likely to continue on an expanding trend, and this was consistent with, for example, the most recent projection for global growth released by the International Monetary Fund (IMF).

With regard to the current situation of overseas economies by region and their outlook, members concurred that the U.S. economy had been expanding. Some members said that the economy continued to expand mainly in the household sector, as seen, for example, in solid Christmas sales results, with indicators relating to employment and income -- primarily the number of employees and hourly wages -- having been firm. One member noted that the Institute for Supply Management (ISM) indices for both manufacturing and nonmanufacturing for December 2018 maintained their favorable levels following November, and this was further evidence of the firm growth in the U.S. economy. Meanwhile, a few members pointed out that due attention needed to be paid to the fact that, amid a continued rise in interest rates, automobile sales and the housing market had been weakening recently and some indicators, such as those of firms' investment activity, had been showing signs of peaking out. As for the outlook, members shared the view that the economy was likely to maintain its expansion, underpinned by expansionary fiscal measures. Some members expressed the recognition that the U.S. economy likely would remain firm mainly in private consumption on the back of the favorable employment and income situation. Meanwhile, some members pointed out that it was necessary to pay close attention to, for example, the effects of unstable stock prices, the U.S.-China trade friction, and the prolonged partial government shutdown on consumer sentiment and corporate activity.

Members shared the recognition that the European economy continued on a recovery trend, albeit at a slower pace. A few members expressed the recognition that, although such developments as a weakening in production stemming from the tightening of gas emission regulations on automobiles had been observed, domestic demand such as business fixed investment and private consumption remained more or less firm. As for the outlook, members concurred that the European economy was likely to continue on its recovery trend. Some members pointed out that negotiations on the United Kingdom's exit from the European Union (EU) had not yet reached a compromise and uncertainties surrounding political situations in such countries as France had been prolonged. These members then said that, amid heightening uncertainties regarding the outlook, it was necessary to closely monitor whether the recovery trend in the European economy would be maintained.

Members shared the recognition that emerging economies had been recovering moderately overall. They agreed that the Chinese economy continued to see stable growth on the whole. Some members pointed out that, although relatively weak developments had been observed in some recent indicators, due in part to the effects of authorities' measures to push forward with deleveraging that had been implemented to date, private consumption had been resilient on the whole on the back of a favorable employment and income situation. Members concurred that, in the NIEs and the ASEAN countries, with exports having been on a moderate increasing trend, domestic demand had been resilient, mainly against the background of favorable consumer sentiment and the effects of economic stimulus measures. They shared the recognition that commodity-exporting economies had been recovering moderately, mainly on the back of stable inflation rates. As for the outlook, members agreed that emerging economies were likely to continue their moderate recovery overall. Many members shared the view that the Chinese economy was likely to broadly follow a stable growth path as authorities conducted fiscal and monetary policies in a timely manner, although it would be affected to some extent by the U.S.-China trade friction and authorities' measures to push forward with deleveraging. Meanwhile, one member pointed out that global demand for semiconductors had been sluggish of late, due partly to the maturity of demand for smartphones, and that it was necessary to pay close attention to the impact of such developments on production and exports in Asian 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 was expanding moderately, with a virtuous cycle from income to spending operating. Many members expressed the recognition that, although real GDP for the July-September quarter of 2018 had registered negative growth, due mainly to the effects of the natural disasters in summer, that for the October-December quarter was likely to revert to positive growth owing to, for example, restoration-related demand and recovery in production following those disasters; thus, their effects had mostly dissipated. One member pointed out that Japan's economy continued to expand, particularly in the corporate sector, but some market participants held pessimistic views on the outlook, as evidenced, for example, by the decline in stock prices since autumn 2018.

Regarding recent developments in exports, members shared the recognition that they had been on an increasing trend in a situation where the effects of the natural disasters had dissipated and overseas economies continued to grow firmly on the whole. Many members expressed the recognition that the effects of the U.S.-China trade friction and the deceleration in the Chinese economy on Japan's exports remained limited so far, judging from, for example, developments in various indicators and interviews with firms. As for the outlook, members concurred that exports were likely to continue on their moderate increasing trend on the back of overseas economies growing firmly on the whole. Many members then said that, as suggested by the reports at the January 2019 meeting of general managers of the Bank's branches, an increasing number of firms were concerned about a decrease in orders, such as for capital goods and electronic parts, particularly from China, and therefore it was necessary to continue to closely monitor developments in external demand.

Members agreed that public investment had been more or less flat, remaining at a relatively high level. They shared the recognition that it was likely to increase reflecting Olympic Games-related demand, the implementation of the supplementary budgets in response to natural disasters, and expansion in expenditure such as for national resilience.

Members concurred that business fixed investment continued on an increasing trend, with corporate profits having been at high levels and business sentiment staying at a favorable level. Many members expressed the recognition that, at the January 2019 meeting of general managers of the Bank's branches, most of these managers reported that many firms -- while paying attention to uncertainties over the outlook for the global economy -- maintained their positive fixed investment stance. Regarding the outlook, members agreed that business fixed investment -- including that aimed at saving labor against the background of labor shortage -- was likely to continue increasing, mainly on the back of high levels of corporate profits and accommodative financial conditions. One member pointed out that attention needed to be paid to the fact that, possibly due to the effects of the deceleration in the Chinese economy, somewhat weak developments had been observed recently, such as in machinery orders and construction starts -- both of which are leading indicators of business fixed investment.

As for the employment and income situation, members shared the recognition that supply-demand conditions in the labor market continued to tighten steadily, and that the pace of increase in employee income had been relatively high. Many members noted that labor market conditions remained tight, as evidenced, for example, by the fact that the active job openings-to-applicants ratio maintained the high level that exceeded the peak marked during the bubble period while the unemployment rate remained at a low level of around 2.5 percent. One member pointed out that, in a situation where many small and medium-sized firms were struggling to secure employees, upward pressure on wages had been rising steadily, and that, recently, there also had been increasing moves to raise wages of new graduates and younger employees.

Members shared the recognition that private consumption had been increasing moderately, albeit with fluctuations, against the background of improvement in the employment and income situation. As for the outlook, they concurred that it was likely to continue increasing moderately, supported by the increase in employee income and the wealth effects stemming from the past rise in stock prices. Many members expressed the recognition that (1) considering, for example, that measures such as those concerning the provision of free education were scheduled to be implemented in line with the consumption tax hike in October 2019, the net burden on households around the time of the hike was likely to be smaller than that of the hike in 2014 and (2) various measures to smooth out demand fluctuations expected to occur around the time of the tax hike were likely to mitigate the effects on the economy. Meanwhile, one member expressed concern that, with the consumption tax hike being scheduled, consumption of nondurable goods had not moved off its bottom and indicators of consumer sentiment such as the consumer confidence index had weakened somewhat.

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

Members shared the recognition that, partly due to recovery in production from the drop during summer 2018 accompanying natural disasters, industrial production had been on an increasing trend amid rises in demand at home and abroad. Regarding the outlook, they agreed that it was likely to continue increasing for the time being on the back of these rises.

As for prices, members concurred that the year-on-year rate of change in the CPI for all items less fresh food was in the range of 0.5-1.0 percent, and the rate of increase in the CPI for all items less fresh food and energy remained in the range of 0.0-0.5 percent, due partly to firms' cautious wage- and price-setting stance. On this basis, they shared the recognition that the year-on-year rate of change in the CPI had been positive but continued to show relatively weak developments compared to the economic expansion and the labor market tightening. One member pointed out that, based on the information obtained from, for example, reports by the Bank's branches at the January 2019 meeting of general managers, households' tolerance of price rises had not shown clear improvement and services prices in such sectors as dining-out had not risen as much as expected. A different member expressed the recognition that a rise in inflation had been delayed, partly due to the effects of the decline in crude oil prices, with downward pressure on inflation accompanying rises in productivity. Meanwhile, most members shared the recognition that medium- to long-term inflation expectations were more or less unchanged. One member expressed the view that, considering such developments, despite the moderate rise in observed prices, there was a high possibility that inflation expectations in Japan were more sticky than expected.

B. Outlook for Economic Activity and Prices

In formulating the January 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 2020. They agreed that overseas economies continued to grow firmly on the whole, with domestic demand in both advanced and emerging economies remaining firm, although various developments of late warranted attention, such as the U.S.-China trade friction, and added that Japan's exports were likely to continue on their moderate increasing trend. They shared the recognition that domestic demand was likely to follow an uptrend, with a virtuous cycle from income to spending being maintained in both the corporate and household sectors, mainly against the background of highly accommodative financial conditions and the underpinnings through government spending, despite being affected by a cyclical slowdown in business fixed investment and 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 this basis, members agreed that the projected growth rate for fiscal 2018 was lower than those presented in the October 2018 Outlook Report, due mainly to the effects of the natural disasters in summer, but the projections for fiscal 2019 and 2020 were more or less unchanged.

Members then discussed Japan's price developments. They shared the recognition that, basically, the continued relatively weak developments in prices compared to the economic expansion and the labor market tightening largely had been affected by the deeply entrenched mindset and behavior -- based on the assumption that wages and prices would not increase easily -- that had resulted mainly from the experience of prolonged low growth and deflation. In addition, members agreed that such factors as the large room to raise productivity, mainly in the nonmanufacturing sector, the technological progress in recent years, and the high wage elasticity of the labor supply among women and seniors had allowed firms to maintain their cautious stance toward raising prices, even amid the economic expansion. One member said that, although firms had been absorbing the increase in labor costs by raising productivity and thereby avoiding passing increased costs on to sales prices as much as possible, room to absorb upward pressure of costs had been decreasing steadily against the background of heightening labor shortages and the hike in expenses for raw materials. In relation to this point, a few members said that developments in the foreign exchange market and demand could be viewed as factors exerting more of an impact on prices than firms' moves to raise productivity in a phase of weak prices, according to the analysis of factors affecting price movements over the past few years.

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 current projections with those presented in the October 2018 Outlook Report, the projected rates of increase in the CPI were lower, mainly for fiscal 2019, due primarily to the decline in crude oil prices.

Members then outlined the mechanism through which the year-on-year rate of change in the CPI would increase gradually toward 2 percent, based on the main factors that determine general price inflation. With regard to the output gap, most members agreed that it had widened within positive territory on average against the background of the steady tightening of labor market conditions and a rise in capital utilization rates. As for the outlook, most members shared the view that the output gap would remain substantially positive. Most members then shared the recognition that medium- to long-term inflation expectations were likely to follow an increasing trend and gradually converge to 2 percent. As background to this, these members pointed to the following: (1) in terms of the adaptive component, a rise in the observed inflation rate accompanying, for example, the improvement in the output gap was likely to push up inflation expectations, and (2) in terms of the forward-looking component, the Bank would pursue monetary easing through its strong commitment to achieving the price stability target, which would be effective in pushing up inflation expectations. Some members expressed the recognition that there had been no change in the direction of prices rising gradually toward 2 percent inflation, although it would still take some time for inflation expectations to rise. Meanwhile, a different member said that -- given, for example, that it might have become difficult for the widening of the output gap to push up prices, and that inflation expectations continued to show relatively weak developments -- it could not be judged at present that the inflation rate would increase toward 2 percent.

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

Members also discussed upside and downside risk factors to the baseline scenario of the outlook for economic activity and prices. Regarding the outlook for economic activity, they noted the following four upside and downside risk factors: (1) developments in overseas economies; (2) the effects of the scheduled consumption tax hike; (3) firms' and households' medium- to long-term growth expectations; and (4) fiscal sustainability in the medium to long term. Members shared the recognition that downside risks concerning overseas economies, such as the U.S.-China trade friction and deceleration in the Chinese economy, had been heightening recently. Many members said that the effects of the U.S.-China trade friction on Japan's economy had been limited so far, but if the friction persisted for a prolonged period, the effects could spread through such channels as the deterioration in business sentiment and the turbulence in financial markets, in addition to the direct downward pressure on Japan's trade activity. With regard to the Chinese economy, some members pointed out that, although it was encouraging that authorities had made clear their stance of supporting the economy through the timely conduct of policies, attention needed to be paid to the risks that would further decelerate the economy, including the effects of the U.S.-China trade friction and authorities' measures to push forward with deleveraging. One member commented that, as the supply chains supporting the automobile market in China -- which was the world's largest -- involved various industries, such as electronic parts, iron and steel, and chemicals, in a wide range of areas, the peaking out of China's automobile sales might significantly affect Asian economies, including Japan's, and the European economy. Moreover, many members said that the impact of U.S. macroeconomic policies on global financial markets and emerging economies, together with the possibility that difficulties surrounding negotiations on the United Kingdom's exit from the EU could end up with a no-deal Brexit and various geopolitical risks, also could be considered risks concerning overseas economies. One member expressed the view that, if the downside risks to the global economy materialized, fiscal and monetary policies in each economy would become important but it could take some time for the policy effects to emerge. Based on this discussion, members concurred that, with regard to the outlook for economic activity, risks were skewed to the downside, particularly regarding developments in overseas economies.

As for upside and downside risks to prices, members pointed to the following three factors: (1) developments in medium- to long-term inflation expectations; (2) the responsiveness of prices to the output gap; and (3) developments in foreign exchange rates and international commodity prices. With regard to the first factor, they agreed that, although medium- to long-term inflation expectations were likely to follow an increasing trend, there was a risk that such a rise would be delayed through the adaptive formation mechanism if it took longer than projected for firms' stance to shift toward further raising wages and prices and the observed inflation rate consequently remained relatively sluggish. One member said that, considering the possibility that inflation expectations were more sticky than expected, it could still take more time for the rates of increase in wages and prices to rise and inflation expectations to be anchored at 2 percent. Based on this discussion, members shared the recognition that, regarding the outlook for prices, risks were skewed to the downside, especially concerning developments in medium- to long-term inflation expectations.

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

Members then discussed the Bank's basic stance on conducting monetary policy. Most members shared the recognition that, although it would take time to achieve the 2 percent price stability target, it was appropriate to persistently continue with the powerful monetary easing under the current guideline for market operations as the momentum toward achieving 2 percent inflation was being maintained. One member commented that, with the aim of achieving the price stability target, the Bank should continue with the current monetary policy stance and persistently encourage the virtuous cycle of the economy to take hold. Many members said that it was necessary to persistently continue with the current monetary easing policy while taking account of developments in economic activity and prices as well as financial conditions in a balanced manner, so that the positive output gap -- a driver for a rise in inflation -- would be maintained for as long as possible. One member expressed the view that vigilance was required against downside risks to the economy. However, this member continued that, in a situation where a virtuous cycle from income to spending was being maintained, the Bank should persistently continue with the current monetary easing to underpin sustainable improvement in economic activity and wait for the inflation rate to rise. On this point, one member noted that, with a view to demonstrating the Bank's accommodative policy stance, communicating to the public that it would persistently continue with the current monetary easing was important. However, this member continued that, at the same time, it also was necessary to devise ways to avoid a situation where an expectation that no policy change would occur for the time being would be fixed to an excessive degree in financial markets. A different member commented that, given that the timing of achieving the price stability target had been delayed, it was not desirable to adopt a stance of not taking action until a serious crisis occurred. This member continued that, rather, it was necessary to emphasize the Bank's stance of taking swift, flexible, and decisive actions, including additional easing, in response to changes in the situation, and to oppose the view that there was a limit to monetary easing -- which some people had expressed. On this point, one member expressed the recognition that hastily changing policy amid a situation of high uncertainties would instead entail risks of inducing accumulation of financial imbalances and increasing swings in economic activity, and therefore it was important for the Bank to take appropriate action in light of the prevailing conditions by adequately collecting and analyzing information. Meanwhile, a few members expressed the view that policy coordination with the government would become more important in a case where downside risks to overseas economies materialized and developments in economic activity and prices deteriorated significantly.

Members also discussed the effects of monetary easing, including those of the measure to strengthen the framework for continuous powerful monetary easing decided in July 2018. Many members expressed the recognition that it was important to continue to consider the positive effects and side effects of monetary policy in a balanced manner in order for the Bank to continue with the powerful monetary easing policy, and the positive effects outweighed the side effects at this point. One member pointed out that, while the policy decision in July 2018 to conduct market operations and asset purchases in a flexible manner was aimed at addressing the side effects accompanying monetary easing -- that is, the decline in market functioning -- such conduct also had played a role in alleviating instability in financial markets since autumn 2018. Meanwhile, one member expressed the recognition that, although yield curve control had contributed to the expansion of economic activity to a certain extent by maintaining real interest rates at low levels, its effects on prices and inflation expectations had been limited so far. On this basis, the member pointed out that further analysis and consideration were needed regarding the relationships between factors such as the inflation rate and the levels of short- and long-term interest rates or the monetary base.

Members also deliberated over points to take into account in conducting monetary policy in the future. One member, noting that the amount outstanding of JGBs held by financial institutions had been close to the minimum level needed as collateral, such as for funding, pointed out that there seemed to be some room for the current conduct of JGB purchase operation to be revised, taking account of the large stock of JGBs already purchased by the Bank. Some members expressed the recognition that, under the prolonged low interest rate environment, there was a possibility that, going forward, an increasing number of financial institutions -- mainly regional ones -- would attempt to secure profits by taking excessive risks. One member said that, in a situation where financial institutions' lending rates to firms were low, there was a risk that, if financial situations at small and medium-sized firms worsened, corporate profits of regional financial institutions would be affected due to an increase in credit costs. On this basis, the member noted that it was necessary to pay close attention to whether regional financial institutions secured returns in line with risks in their lending operations. Meanwhile, one member expressed the recognition that, although financial institutions' loans had turned toward an increase in recent years as a result of the introduction of QQE, profit margins of financial institutions had decreased because the increase in deposits had exceeded that in loans. This member then said that a decrease in deposits was necessary for improving profit margins.

Moreover, members discussed the Bank's strategy for communication to the public regarding the outlook for prices. Many members noted that, in fiscal 2019, several factors that could affect price movements in Japan to a large extent were anticipated; those included the effects of the decline in crude oil prices, the scheduled consumption tax hike and the provision of free education, as well as a reduction in charges for mobile phone services. On this point, some members pointed out that, as long as factors affecting price movements were contained as only temporary shocks, their impact on the underlying trend in prices and monetary policy conduct would be small, since it was developments in the underlying trend that were considered most relevant to assessing the momentum toward achieving the 2 percent price stability target, and continued that this point must be explained thoroughly to the public. Nevertheless, a few members noted that, even if price declines were due to individual factors, people's inflation expectations might fall through the adaptive formation mechanism of inflation expectations and affect the underlying trend in prices, depending on how wide the declines would spread across items. Some members expressed the recognition that the decline in crude oil prices, among others, would exert downward pressure on price rises temporarily, but in the medium to long term, it likely would be a factor that would push up prices through an increase in real income. One member then pointed out that, in order to curb a possible decline in inflation expectations, it was important for the Bank to thoroughly explain these positive effects that were envisioned for the medium to long term. Meanwhile, one member said that the following points needed to be taken into account in presenting the Bank's outlook for prices: (1) when considering the scheduled consumption tax hike and the provision of free education -- which were institutional changes -- as one policy measure, effects on prices were expected to be relatively small, and (2) it was desirable to essentially minimize exclusions of particular factors from the Bank's forecasts as much as possible. Members then shared the recognition that, basically, the Bank should mainly explain the forecasts incorporating the effects of both of these points from now on.

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

Based on the above discussions, regarding the guideline for market operations for the intermeeting period, most members expressed the view that it was appropriate for the Bank to maintain the following guideline. First, as for the short-term policy interest rate, it would apply a negative interest rate of minus 0.1 percent to the Policy-Rate Balances in current accounts held by financial institutions at the Bank. Second, as for the long-term interest rate, the Bank would purchase JGBs so that 10-year JGB yields would remain at around 0 percent. While doing so, the yields might move upward and downward to some extent mainly depending on developments in economic activity and prices. With regard to the amount of JGBs to be purchased, it would conduct purchases in a flexible manner so that their amount outstanding would increase at an annual pace of about 80 trillion yen.

On this point, one member expressed the opinion that, since allowing the long-term yields to move to some extent was ambiguous as the guideline for market operations decided by the Policy Board, these yields could rise more than necessary, depending on the Bank's conduct of market operations, which could hamper the intended effects of the current yield curve control. A different member was of the opinion that it was necessary for yields on JGBs with maturities of 10 years and longer to be broadly lowered further in order to exert a stronger influence, for example, on the output gap, taking account of, for instance, the low possibility that the output gap would continue to widen within positive territory, in a situation where uncertainties regarding domestic and overseas economies had heightened, and such factors as the decline in crude oil prices and the provision of free education also contributing to further delaying the achievement of the price stability target of 2 percent.

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

With respect to the Bank's thinking behind its future conduct of monetary policy, most members shared the view that it would (1) continue with QQE with Yield Curve Control, aiming to achieve the price stability target of 2 percent, as long as it was necessary for maintaining that target in a stable manner; (2) continue expanding the monetary base until the year-on-year rate of increase in the observed CPI (all items less fresh food) exceeded 2 percent and stayed above the target in a stable manner; (3) as for policy rates, maintain the current extremely low levels of short- and long-term interest rates for an extended period of time, taking into account uncertainties regarding economic activity and prices, including the effects of the consumption tax hike scheduled to take place in October 2019; and (4) examine the risks considered most relevant to the conduct of monetary policy and make policy adjustments as appropriate, taking account of developments in economic activity and prices as well as financial conditions, with a view to maintaining the momentum toward achieving the price stability target.

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

V. Remarks by Government Representatives

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

(1) The budget for fiscal 2019 aimed at achieving both economic revitalization and fiscal consolidation. Specifically, taking account of the consumption tax hike scheduled for this October, the government would implement measures such as the provision of free

early childhood education by making use of the incremental revenue from the tax hike, as well as those to smooth out the economic impacts caused by the hike. Meanwhile, the government would continue to undertake expenditure reforms and reduce the amount of newly issued government bonds for fiscal 2019 by about 1 trillion yen compared to that for fiscal 2018. As for the correction of data for the *Monthly Labour Survey*, the government would make additional payment of employment and other benefits to compensate the people who consequently had been underpaid. In this regard, the Cabinet decision on the budget for fiscal 2019 had been changed to include necessary expenditures.

(2) The second supplementary budget for fiscal 2018 included expenditures amounting to 3 trillion yen in order to address urgent issues such as disaster prevention, disaster mitigation, and building national resilience. In an effort to do its utmost with regard to economic and fiscal management, the government would work to obtain approval from the Diet at the earliest possible time, together with the budget for fiscal 2019.

(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. As for the outlook, it was expected to continue doing so, supported partly by the effects of the government's policies, while the employment and income situation continued to improve. However, attention should be paid to factors such as the effects on the world economy of developments in the trade friction, the uncertainties regarding overseas economies, and the effects of volatility in financial markets.

(2) As the impact of the scheduled consumption tax hike on the economy was expected to be around 2 trillion yen, the government had formulated the countermeasures to fully offset such impact through implementing new budgetary and tax measures amounting to around 2.3 trillion yen in total. It would take all possible measures with regard to economic management so that the recovery trend in the economy would not be affected by the hike.

(3) At the Meeting of the Council on Economic and Fiscal Policy held last week, the following three challenges were presented in view of further strengthening Abenomics: expanding the virtuous economic cycle, dealing with internal and external risks and fluctuations, and creating institutions suitable for Society 5.0. Going forward, the government would discuss intensively the means and priorities relevant to resolving these challenges at the subsequent meetings.

(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.

VI. Votes

A. Vote on the Guideline for Market Operations

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

The Policy Board decided the proposal by a majority vote.

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

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

1. The Bank will apply a negative interest rate of minus 0.1 percent to the Policy-Rate Balances in current accounts held by financial institutions at the Bank.

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

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

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

Mr. Y. Harada dissented, considering that allowing the long-term yields to move upward and downward to some extent was too ambiguous as the guideline for market operations decided by the Policy Board. Mr. G. Kataoka dissented, considering that, with heightening uncertainties regarding developments in economic activity and prices going forward, it was desirable to strengthen monetary easing so that yields on JGBs with maturities of 10 years and longer would broadly be lowered further.

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 further coordination of fiscal and monetary policy was important in order to achieve the price stability target of 2 percent at the earliest possible time, and that it was necessary for the Bank to make a commitment to taking additional easing measures if it revised downward its assessment of medium- to long-term inflation expectations.

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

VII. Discussion regarding the Outlook Report

Members discussed the draft of "The Bank's View" in the January 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 January 24. 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.

VIII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of December 19 and 20, 2018 for release on January 28, 2019.

Attachment

January 23, 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.[7] 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.

[7] 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 Policy Board decided, by a unanimous vote, to extend by one year the deadlines for new applications for such measures as the Fund-Provisioning Measure to Stimulate Bank Lending, the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth, and the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas affected by the Great East Japan Earthquake and by the Kumamoto Earthquake.

3. The Bank will continue with "Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control," aiming to achieve the price stability target of 2 percent, as long as it is necessary for maintaining that target in a stable manner. It will continue expanding the monetary base until the year-on-year rate of increase in the observed consumer price index (CPI, all items less fresh food) exceeds 2 percent and stays above the target in a stable manner. As for policy rates, the Bank intends to maintain the current extremely low levels of short- and long-term interest rates for an extended period of time, taking into account uncertainties regarding economic activity and prices including the effects of the consumption tax hike scheduled to take place in October 2019. It will examine the risks considered most relevant to the conduct of monetary policy and make policy adjustments as appropriate, taking account of developments in economic activity and prices as well as financial conditions, with a view to maintaining the momentum toward achieving the price stability target. [Note 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, with heightening uncertainties regarding developments in economic activity and prices going forward, it was desirable to strengthen monetary easing so that yields on JGBs with maturities of 10 years and longer would broadly be lowered further.

[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 necessary for the Bank to make a commitment to taking additional easing measures if it revised downward its assessment of medium- to long-term inflation expectations.